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# Macro Weekly

## Week 2/2022

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Highlights

The world around us

The Norwegian economy

Market charts & comments

# Last week: The virus, part I

## Omicron is no doubt far less harmfull than the Delta variant, and soon we are all infected (and immune?)

**Data: Cases/Hospitalisations & deaths**

- **South Africa**
  - **The Omicron wave** has been on the retreat the past week, and the **number of new** hospitalisations have fallen too, and last week the no. of occupied beds fell to, at a level well below the Delta peak. The risk for hospitalisation is down almost 2/3, and of those admitted 40% less need a ICU bed and the risk for ending up in a ventilator is even smaller (1/3) - in sum a huge risk reduction
  - **Official South-African Covid death stats** confirm that Omicron is a milder variant even if the observed rate rose sharply last week, as 150 persons died per day
    - However, the **number of South African excess deaths** was almost 1.400 persons/day last week, according to The Economists stats, 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. Some official sources report lower excess deaths data
- **Denmark**
  - **Growth in new cases** is slowing rapidly, at very high level – 2.5% were infected last week. The real rate is very likely even higher, and herd immunity is rapidly build. Omicron has a 97% market share
  - **The number of new hospital admissions** is climbing, but at a lower rate than new cases, and the Omicron hospitalisation rate is less than 1% vs the Delta at 2% in November. Growth in occupied ICU beds have slowed more, to 11% from 15% of those hospitalised
- **UK**
  - **Growth in new cases** is slowing rapidly, at a high level. Omicron is totally dominant.
  - **The hospitalisation rate** has not fallen significantly but the share of patients transferred to an ICU is now falling rapidly, so far by ½ to 6%. The number of occupied ICU beds are down 80% vs the peak one year ago. The still high hospitalisation rate indicate a large no. of hidden, and not serious cases
- **US**
  - **Growth in new cases** is slowing slightly but remains high – and the no. of new infections is almost 3 x the previous peak. Omicron is totally dominant
  - The **hospitalisation rate for Omicron** is approx. 3%, cs. 7% for Delta in November. The number of new admissions is well above previous peaks, and the no. of patients is on par with previous peak. However, the rate of hospitalised in need of he ICU bed has fallen to 17% from 25%, or by 1/3! And the CFR death rate is

# Last week: The virus, part II

- **Norway**
  - » Omicron rules, **cases sharply up last week,** following the decline during the Christmas holiday
  - » **The no. hospitalised persons** fell in line with the decline in new cases during X-mas (but the hospitalisation rate has fallen somewhat, to 0.7% from 1.2% in November). This week will give the real answer on risk for hospitalisation following the surge in Omicron cases last week. So far, verbal reports from hospitals have not indicated any increase – at least they all say that Omicron is less harmful, especially for the fully vaccinated. For the unvaccinated, the risk for hospitalisation due to a Covid infection is 18 x higher for those unvaccinated!

- **DISCLAIMER: Who are hospitalised?**
  - » Hospitals in many countries have reported than a substantial share of patients that are **hospitalised with Covid** recent weeks, and **not due to Covid, but due to other symptoms/diagnoses**. Two large New York hospitals reported that 60 – 65 of Coved patients were admitted to hospital for other reasons. In Demark separate reporting systems have given very different estimates for the no. of 'real' Covid patients. <u>This uncertainty makes our analysis of hospital data less relevant, to put it mildly, but with the uncertainty just on the "upside", Omicron is less harmful, also for the health system</u>
- **So what?**
  - » Omicron is probably the final solution, at least in well vaccinated populations, and not another virus crisis. The risk is rather that a more lethal variant turns up.
  - » Omicron burns rapidly through the un-immune part of the population, and is building herd immunity with limited health consequences.
  - » However, neither Denmark, UK or US report really negligible hospitalisation rates, and the next very few weeks may become troublesome in some countries

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# Last week: The economy, part I

- **Global PMI/ISM**
  - » The global composite PMI fell by 0.5 p to 54.3 in December, above our estimate (53.9) signalling a 4% growth pace – as China saved the day with a strong data set (at least from Markit), signalling growth at trend there
    - The manufacturing output index rose and the level signals growth above trend in the goods sector
    - The service sector PMIs fell more, especially in Europe, very likely due to the new Covid restrictions & changed behaviour. Still, services in EMU reported growth at trend! ISM services 'collapsed', though from the highest level by far in November – and the 62 print in Dec is still very strong, which together with Markit's indices and ISM manufacturing signals growth well above trend in US
    - The delivery times index fell sharply in the manufacturing survey, as did price indices. Supply chain trouble is easing, as the sector is accommodating to a continued strong demand for goods in the rich part of the world. Growth in demand has slowed somewhat too, confirmed by the order index
    - The PMIs confirm a recovery in Emerging Markets, but not a further acceleration in Dec
    - The Norwegian manufacturing PMI fell more than any other PMI in December but remains at a high level, even adj. for the delivery times index
- **Global Auto Sales**
  - » No global sales estimate yet, too many EMs have not yet reported. Sales surprisingly fell in the **US** but rose in the **EMU**, both are down 27% vs. the 2019 level. Japan better as well. **German auto production** rose sharply in Dec too, to just 4% below the '19 level, from more than -40% a few months ago. And BTW, **Norwegian auto sales** were record high last year, why are 'all' cars sent to us??
- **USA**
  - » **The minutes from the FOMC Dec meeting** were once again more hawkish than the impression we (and markets) had of FOMC's stance following Powell's press conference – even if the story of Powell's turnaround (to a hawkish position) was remarkable, and the lift in FOMC members interest rate paths (dot plot) was the largest ever, and the bond buying in the QE program should be tapered much faster. **The minutes** revealed that the FOMC recognised that <u>inflation was higher and the labour market tighter</u> (some said that maximum employment was reached) than at the beginning at the previous normalisation – and that participants <u>expected to stop reinvesting proceeds</u> (coupons, maturing bonds; a 'rundown') far earlier after the first hike than last time. <u>Thus, the QE machine may soon turn into reverse</u>, especially for mortgage backed bonds! And a March hike is now very likely, barring a deep and lasting Omicron crisis
  - » **Nonfarm payrolls** (employees in the business survey) rose less than expected (199' vs 450') but all other indicators signal a very tight labour market. **Total employment** in the household survey rose >3 x more, and the **unemployment rate** fell 0.3 pp to 3.9%, expected 4.1% - and to below FOMC's estimate of the long term equilibrium rate (NAIRU). The **participation rate** may now be drifting upwards, but very slowly. **Wage inflation** is far above a level consistent with 2% inflation over time, since April wages have increased at a 5.7% pace, and at 0.6% in Dec, 0.2 pp more than expected. The **JOLTS** reported a small decline in **unfilled vacancies** in Nov but the level is still way above anything seen before. The no. of hires rose, but so did also voluntarily quits, to a record high level (3.5% of the no. of employees walked out during Dec). SMBs (NIFB) reported more trouble filling openings again in Dec, and even more companies said they planned to increase wages (new records every months, far above anything seen before, data since 1985). In general, the outlook for **GDP growth, corporate earnings or stock market returns** are not the best after the labour market has become tight, check our charts

# Last week: The economy, part II

- **EMU**
  - » **Inflation** was a tad higher than expected in December, the total up 0.1 pp to 5%, the core unch at 2.6%. However, the underlying cost and price pressures are muted vs. the US experience. 2 y avg inflation is 2.3% (total) and 1.4% (core), and wage inflation has not yet accelerated
  - » **Retail sales** rose 1% in November, expected down 0.5%. Growth most places
- **Norway**
  - » **House prices** fell 0.2% in December, we expected a 0.2% gain. Prices are still trending up at a 3% pace (3m/3m), however down from 13% last spring. Prices are up 5.2% y/y. Prices fell m/m in most cities but not along the coast to Tromsø from Ålesund (via Bodø and Trondheim). A lot of transactions, and the inventory of unsold homes fell again, down to ATL. Our short term models suggest a 1%-ish price lift per month. Very likely, higher mortgage rates and perhaps NoBa's signals on further hikes explain the differential to the actual, more modest upward trend
  - » Annual **credit growth (C2)** slowed to 5.1% in November, from 5.3% in October, as we expected. No real credit boom to be seen. However, debt ratios are high!
  - » **Manufacturing production** was flat in November (we expected +1%), and the trend is flat too – even if surveys are still strong
  - » **Hotels** thrived in November too, with close to record high no. of rooms sold. December was probably not that good, neither will probably January turn out to be either. But then?
  - » **Wage growth** is still kept in check, monthly stats still at a 3.25% path
  - » The government has decided to make the **electricity bill support program** better. In Q1, the government will cover 80% of electricity prices above NOK 0,70 per kWH for households, up from the 55% subsidy ratio for the December bill

# The Calendar: China, China & China. +7% US CPI inflation. But below 5% again in Norway?

| Time | Count. | Indicator | Period | Forecast | Prior |
|---|---|---|---|---|---|
| **Monday Jan 10** | | | | | |
| **08:00** | **NO** | **CPI YoY** | **Dec** | **5.1%(4.7)** | **5.1%** |
| 08:00 | NO | CPI Underlying MoM | Dec | | 0.1% |
| **08:00** | **NO** | **CPI Underlying YoY** | **Dec** | **1.4%(1.3)** | **1.3%** |
| 09:30 | SW | GDP Indicator SA MoM | Nov | | 1.2% |
| 11:00 | EMU | Unemployment Rate | Nov | 7.2% | 7.3% |
| **Tuesday Jan 11** | | | | | |
| 08:00 | NO | Construction cost, houses | Dec | | 14.6% |
| 12:00 | US | NFIB Small Business Optimism | Dec | 98.5 | 98.4 |
| **Wednesday Jan 12** | | | | | |
| 02:30 | CN | PPI YoY | Dec | 11.3% | 12.9% |
| 02:30 | CN | CPI YoY | Dec | 1.7% | 2.3% |
| 08:00 | NO | GDP MoM | Nov | | -1.8% |
| **08:00** | **NO** | **GDP Mainland MoM** | **Nov** | **0.5%** | **0.0%** |
| 11:00 | EMU | Industrial Production SA MoM | Nov | 0.5% | 1.1% |
| **14:30** | **US** | **CPI Ex Food and Energy MoM** | **Dec** | **0.5%** | **0.5%** |
| **14:30** | **US** | **CPI Ex Food and Energy YoY** | **Dec** | **5.4%** | **4.9%** |
| **14:30** | **US** | **CPI YoY** | **Dec** | **7.1%** | **6.8%** |
| 20:00 | US | Monthly Budget Statement | Dec | | -$191.3b |
| 20:00 | US | Federal Reserve Beige Book | | | |
| **Thursday Jan 13** | | | | | |
| 14:30 | US | PPI Final Demand YoY | Dec | 9.80% | 9.60% |
| 14:30 | US | Initial Jobless Claims | Jan-08 | 208k | 207k |
| **Friday Jan 14** | | | | | |
| | CN | Trade Balance | Dec | $73.40b | $71.72b |
| | **CN** | **Exports YoY** | **Dec** | **20.0%** | **22.0%** |
| | **CN** | **Imports YoY** | **Dec** | **28.0%** | **31.7%** |
| 08:00 | UK | Monthly GDP (MoM) | Nov | 0.4% | 0.1% |
| 08:00 | UK | Manufacturing Production MoM | Nov | 0.2% | 0.0% |
| 09:30 | SW | CPIF YoY | Dec | 4.2% | 3.6% |
| 09:30 | SW | CPIF Excl. Energy YoY | Dec | 1.8% | 1.9% |
| **14:30** | **US** | **Retail Sales Advance MoM** | **Dec** | **-0.1%** | **0.3%** |
| 14:30 | US | Retail Sales Control Group | Dec | 0.3% | -0.1% |
| 15:15 | US | Manufacturing (SIC) Production | Dec | 0.5% | 0.7% |
| 16:00 | US | U. of Mich. Sentiment | Jan P | 70 | 70.6 |
| **Saturday Jan 15** | | | | | |
| 02:30 | CN | New Home Prices MoM | Dec | -- | -0.3% |
| **Monday** | | | | | |
| 03:00 | CN | Industrial Production YoY | Dec | 3.7% | 3.8% |
| 03:00 | CN | Fixed Assets Ex Rural YTD YoY | Dec | 4.8% | 5.2% |
| **03:00** | **CN** | **GDP SA QoQ** | **4Q** | **1.2%** | **0.2%** |
| 03:00 | CN | GDP YoY | 4Q | 3.6% | 4.9% |
| 03:00 | CN | Retail Sales YoY | Dec | 3.8% | 3.9% |
| **During the week** | | | | | |
| | **CN** | **Aggregate Financing CNY** | **Dec** | **2450b** | **2610b** |
| | CN | New Yuan Loans CNY | Dec | 1250b | 1270b |

- **Global Auto Sales**
  - More countries will report Dec auto sales during the week. Sales are up in EMU but down in the US and UK. Global sales probably close to unchanged, Norway is the only star, sales are record high
- **China**
  - A full Dec/Q4 check next Monday morning: **GDP** growth is expected to accelerate sharply q/q to 1.2% from the slow 0.2% growth pace in Q3, when the Delta virus created problems. The annual rate will still decline substantially, expected down to 3.6% from 4.9%. **Retail sales** have stagnated, and growth in **investments** are well below pre-pandemic rates. **Construction starts/sales** have fallen more than 20%, and **house prices** are slightly down. Will housing 'investors' throw in the towel? Underlying growth in **industrial production** is still ok, supported by strong **export volumes**. **Import volumes** have recovered recent months, signalling some strength in domestic demand. Authorities are now trying to push **credit growth** up, to prevent the downturn in construction (and the unavoidable restructuring of building companies) to spiral out of control. So far, local governments have responded but most likely because they have lost revenues from sale of land
- **USA**
  - **7.1%! Headline CPI** is expected to accelerate 0.3 pp y/y, while the core CPI is assumed +0.5 pp to 5.4%. Well, it is expected, and may not have any market implications. Still, these are remarkable numbers, and underscores Fed's unfavourable position (and Biden's, they are both responsible, at least partly)
  - **Retail sales** has slowed and weak December numbers are expected, even in nominal terms (after deducting for inflation, even weaker). However, sales are extremely lofty vs the pre pandemic level. **Manufacturing production** is in the way up, perhaps supported by the auto industry in December. Surveys are still strong, and supply chain trouble is easing
- **EMU**
  - **Industrial production** probably rose in November – and the **unemployment rate** fell further
- **Norway**
  - **CPI out this morning:** We expect a decline in the headline annual rate to 4.7% from 5.1%, as the surge in electricity prices was dampened by government subsidies – and el prices rose sharply m/m in Dec-20. The coming months the subsidy will be further increased. The core rate was probably unch at 1.3%.
  - We expect **Mainland GDP** growth kept up well in November. Employment rose, unemployment fell. Most monthly indicators are positive, including electricity production. **Total GDP** probably fell some 0.5%, due to a substantial decline in oil & gas production

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

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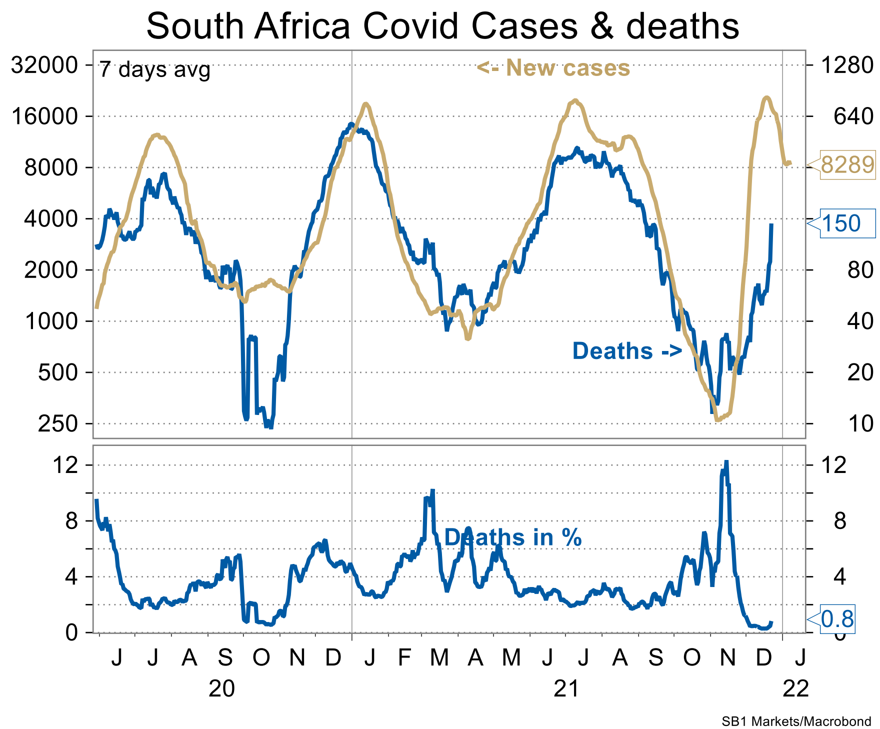
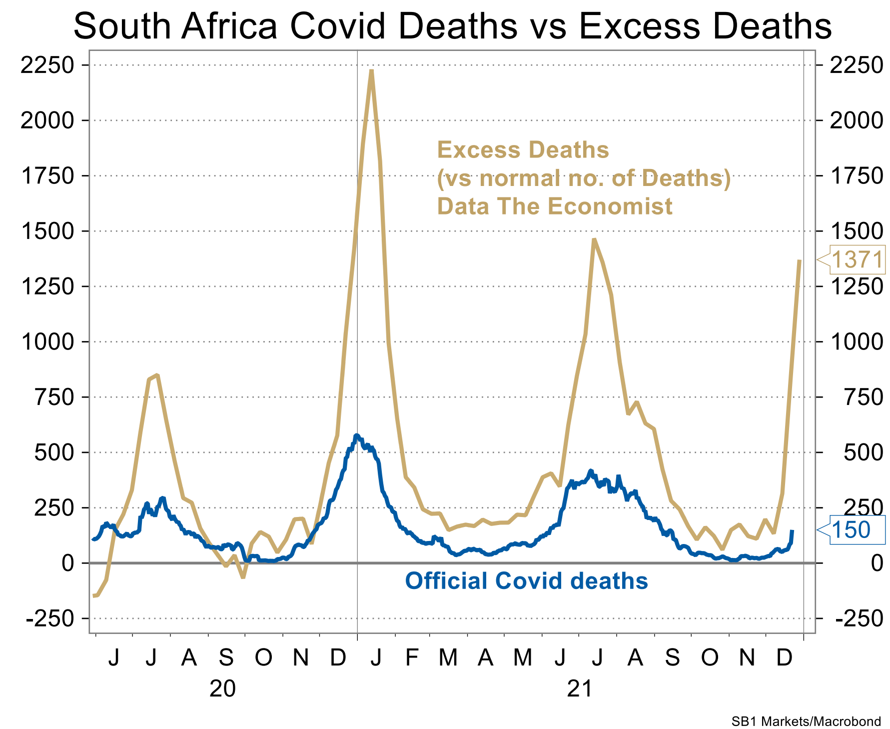
# South Africa: The official Covid deaths up but still very low

The only problem, excess deaths are running at 100% of a normal no. of daily deaths

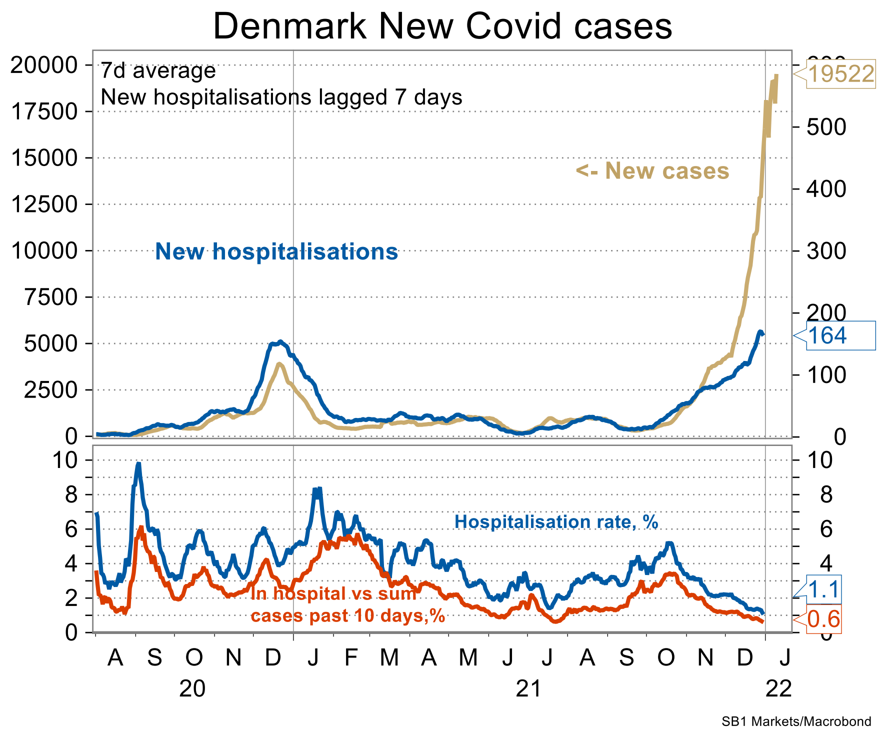


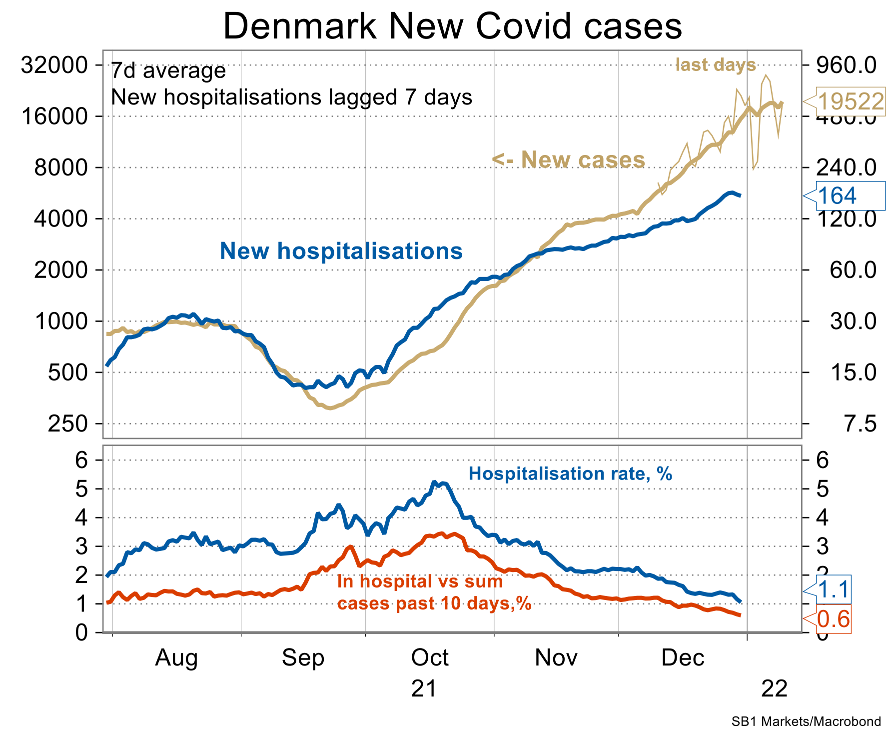




- The **number of South African excess deaths** was 1371 persons/day last week (up from 740 the previous week), vs the 1.500/day excess deaths recorded when the Delta variant hit during last summer (The Economist's calc., national data have been in line, until last week where the national data are way lower)
- Normally, less then 1.500 persons are dying per day in S-A. The current very high excess death rate is not easily explainable, given the low hospitalisation rate

# Denmark: Omicron 97% of cases but growth is slowing, even new hospitalisations

The hospitalisation rate has fallen to 1.1% from close to 2% for the Delta variant




- 2.5% of the population was infected last week – and immunity is increasing rapidly. Growth in cases has slowed substantially
  - » 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 1.1% 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 165 persons are hospitalised daily (vs. less than 30 in Norway)
- The no. new hospitalisations are growing 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

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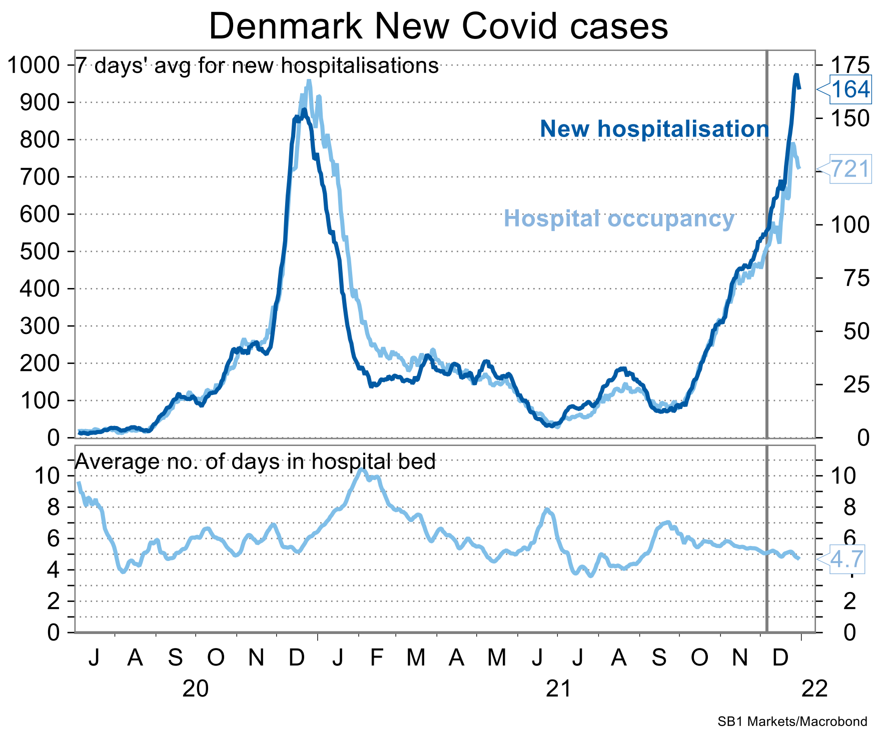
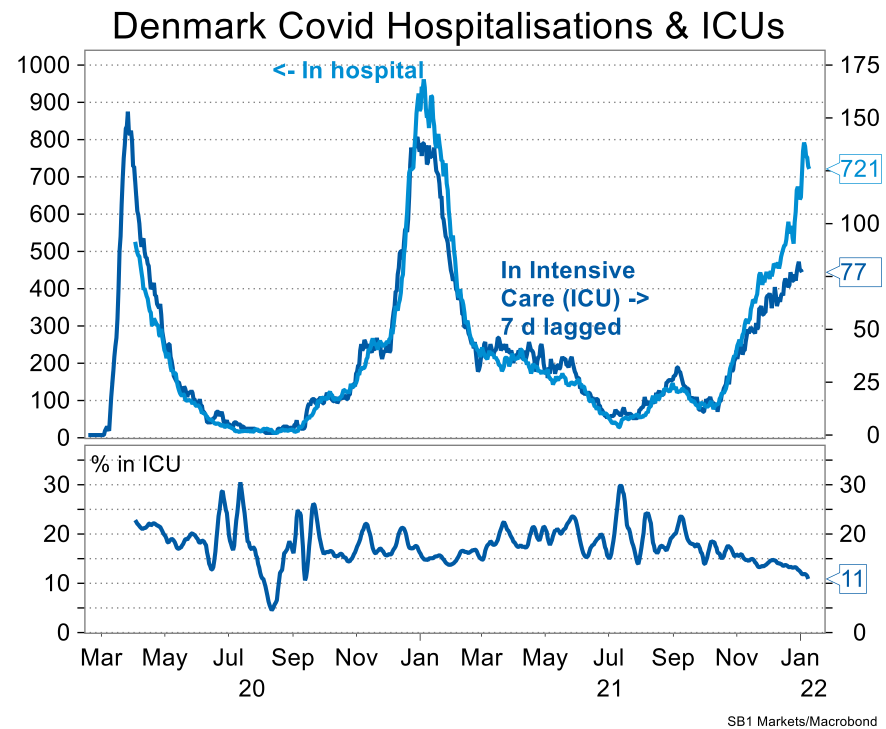
# Denmark: If hospitalised, not many fewer days in hospital – but a lower ICU risk

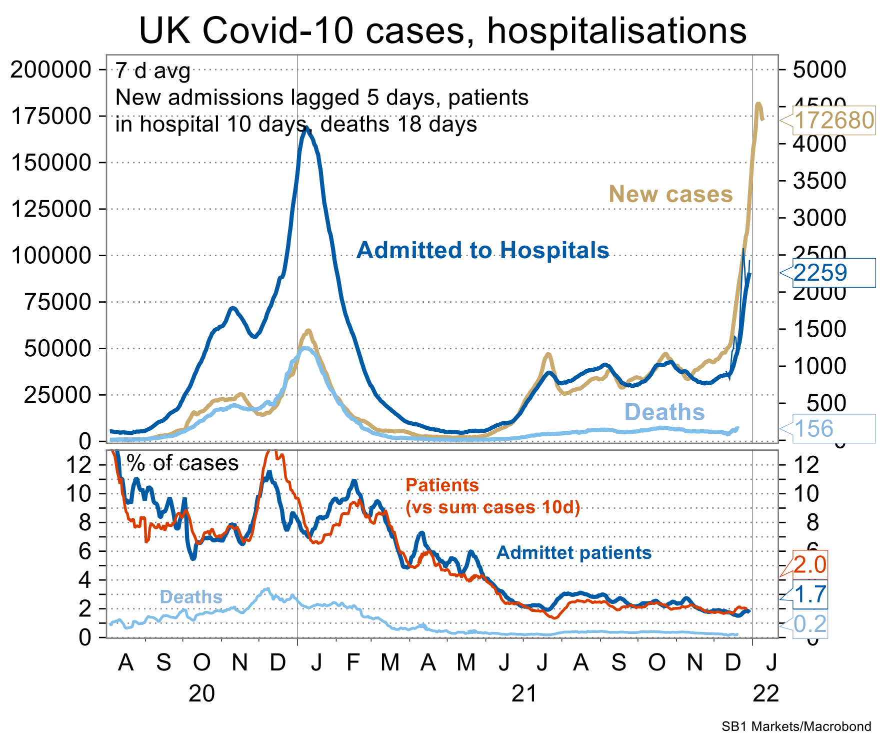
ICU usage are lagging but so far a 25% reduction in ICU risk, to 11% from 15%, if hospitalised

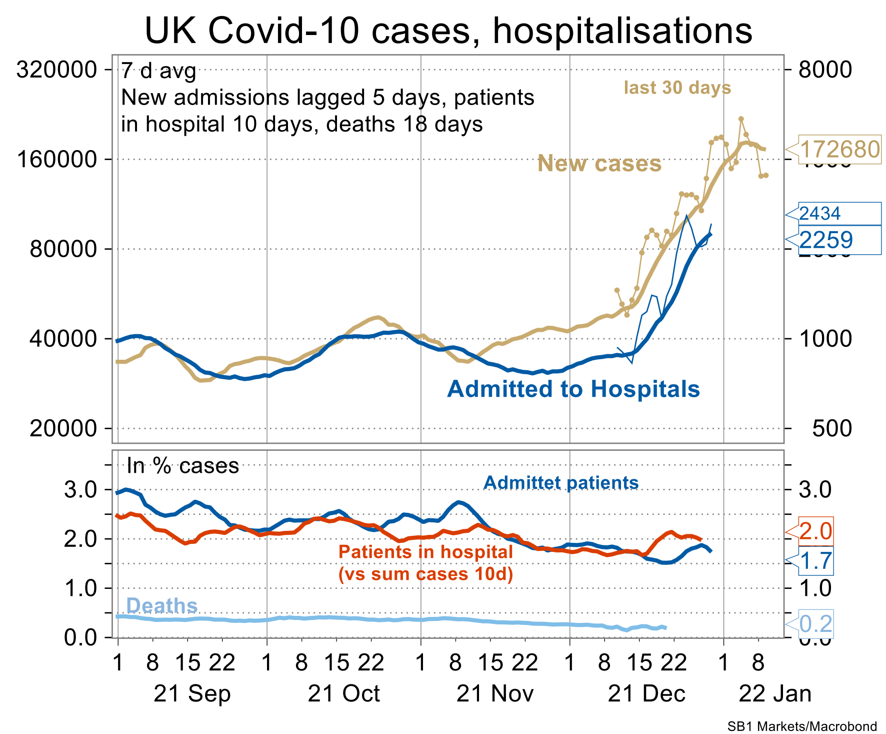


# UK: Has the no. of infection peaked – or is it changes in the testing regime?

## Hospital data will tell the coming days. The ICU usage very likely sharply down!

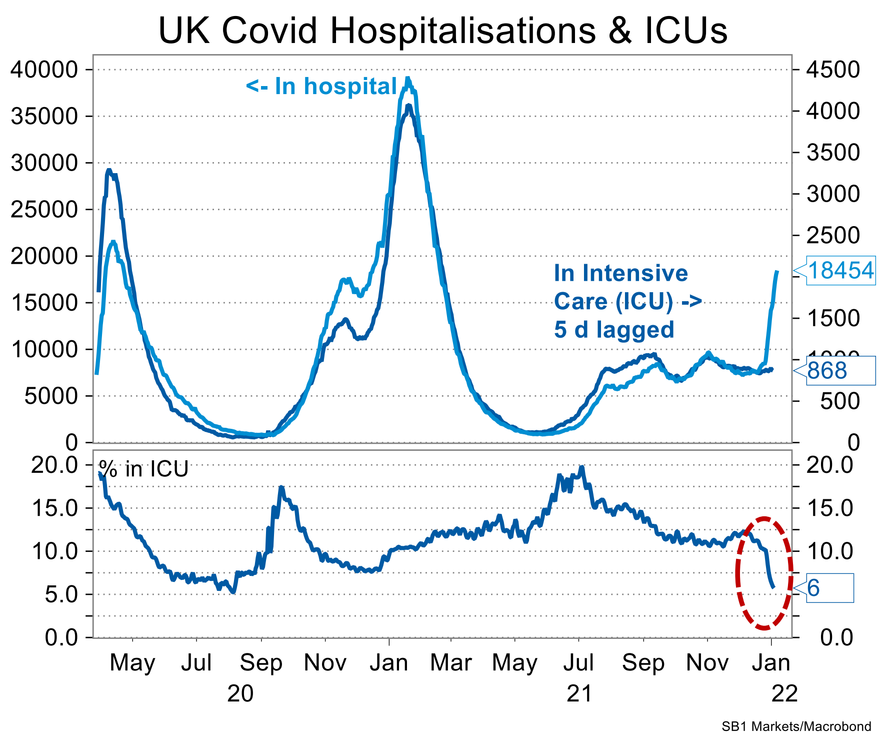



- **New cases** are 3 times higher than the previous peak one year ago, after an explosion through December. Now, the no. of cases may have peaked – or is it just limitations in the testing regime or changes in testing behaviour (we are using personal tests, not the PCRs, results not reported). London may be a frontrunner, cases peaked here first (but reported data are subject to heavy revisions)
- **The hospitalisation rate** has fallen but just marginally, to 1.6 – 1.7% from 1.8% in late November, before the Omicron variant arrived. The no. of new admissions has so far been growing at the same speed as new cases, and will very likely climb further the coming week. The still rather high hospitalisation rate indicates that much higher rate of hidden infections than before – and thus a rapid build up of herd immunity, without taking the hospital system down, as all indications are than the real risk for hospitalisation is far lower with Omicron compared to Delta. *On the ICU usage, check next page*
- **The CFR** has fallen to 0.2%, from 0.4% in November, and 0.2% rate is far from a 'clean' Omicron rate – plenty of unvaccinated Delta patients are still dying! (average lag 18 days vs positive test)

# UK: No increase in number of occupied ICU beds!

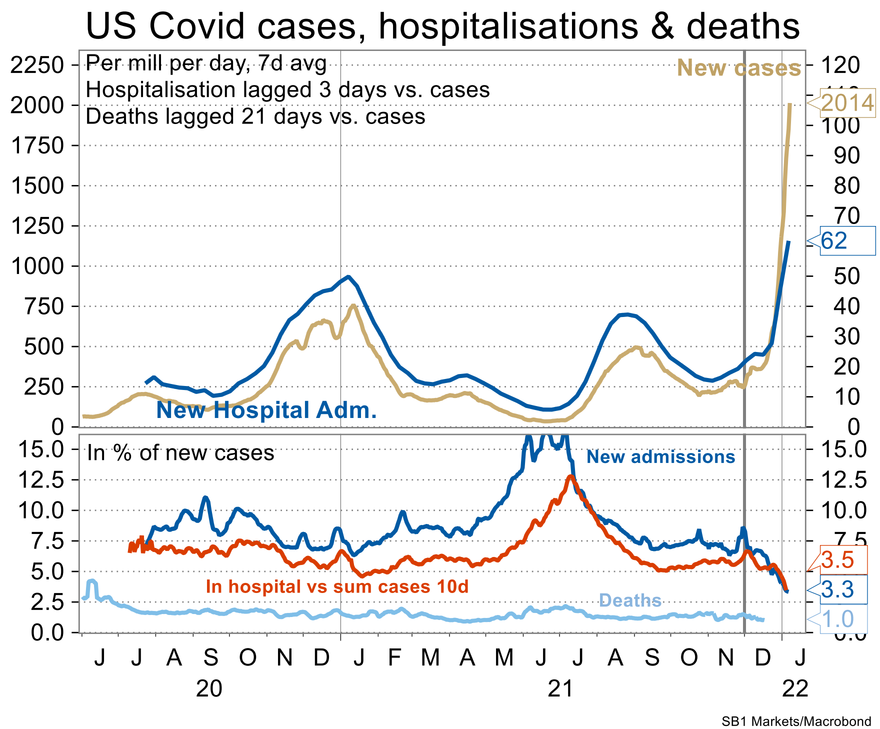
A small wonder happened last week: the share of hospitalised patients in need of a ICU bed fell 50%

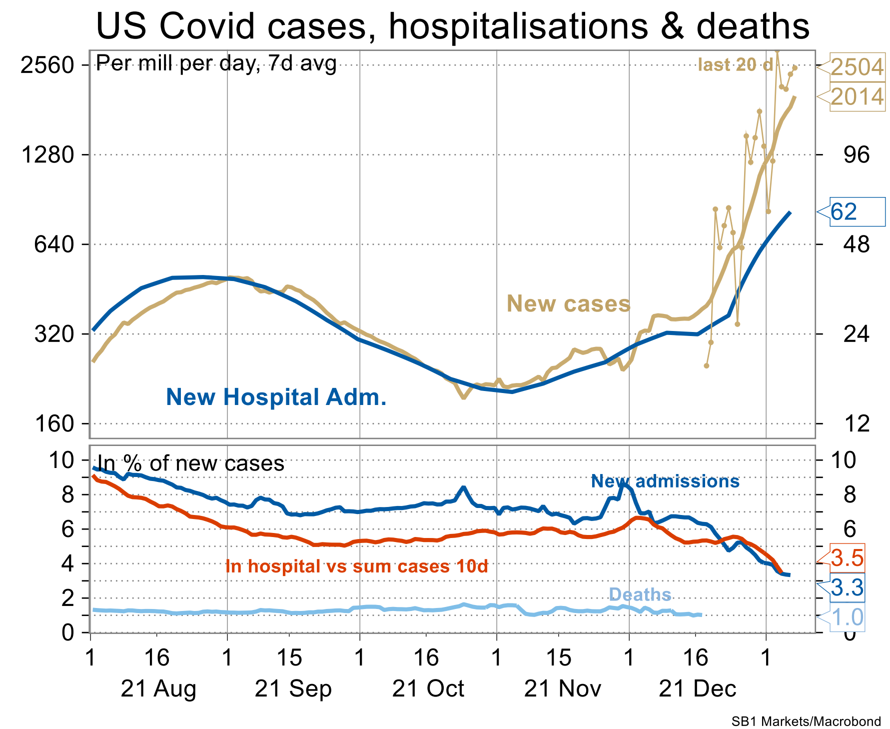



- The no. ICU patients is 80% down vs the peak 1 year ago, the no, of patients are down 'just' 50%
- The time lag is still crucial, check the chart to the left. A 5 day's between admission and ICU (if needed) has been the norm.
- <u>Most likely is lag has not grown longer, but we still do not know for sure. This week will give a definitive answer?</u>

# US: New cases straight up, growth is hospitalisations slow (but level >>prev ATHs)

In the US, the Delta hospitalisation rate was 7%, Omicron is at 3%. The problem: 3 x as many cases

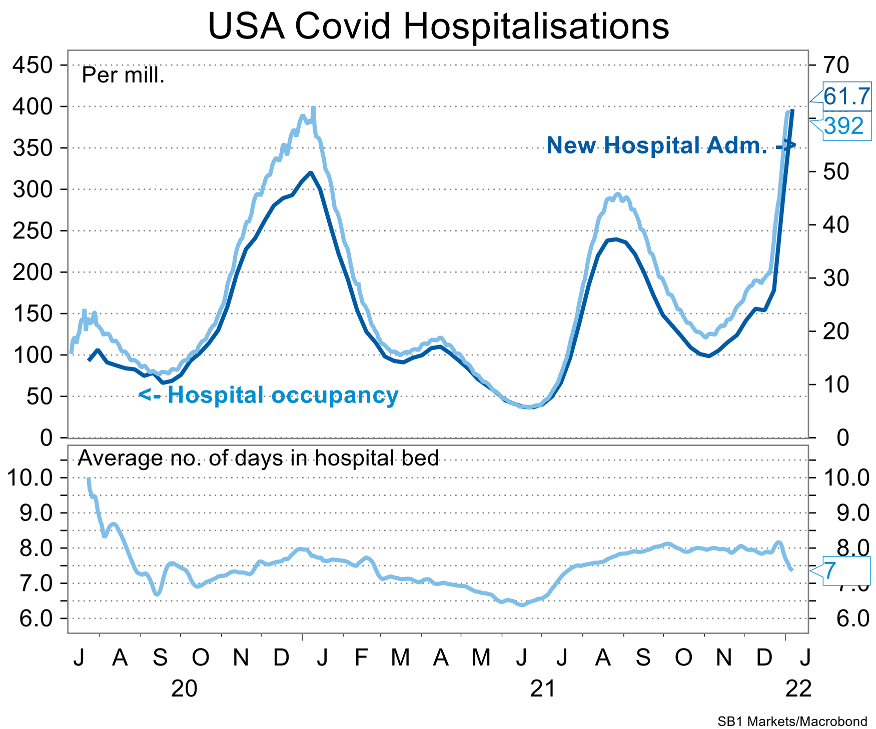


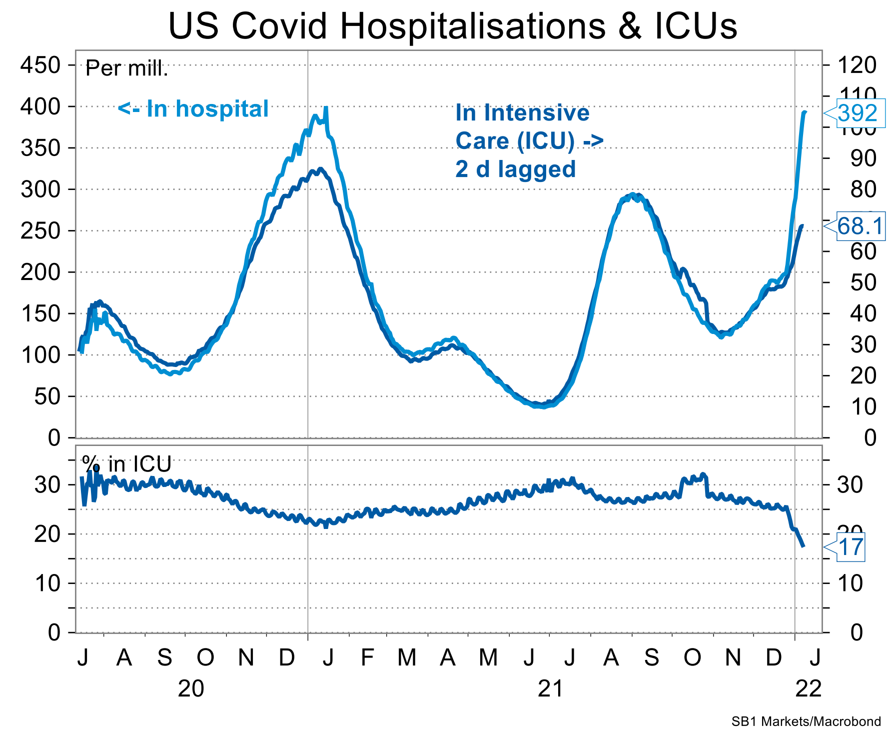




- **New cases:** 3 times more than anytime before, up 10 x up since early December. However, growth is slowly slowing. Behaviour or herd immunity? The number of hidden cases is probably very high (which of course is very good news, herd immunity is build up more rapidly!)
- **The hospitalisation rate** has clearly fallen as Omicron is less harmful, but not more than to 3% for Omicron, half the Delta rate at 7% (ICU, see next page)
- **Problem with hospital data:** Two large hospitals in New York have reported that 60 – 65% of Covid patients have not been admitted to hospital due to Covid, but for other reasons/symptoms, and with a Covid infection in addition. <u>If so, the real hospitalisation rate may be ¼ vs. Delta's</u>

# US: Hospital admission record high, and the no. of occupied beds back to ATH

However, the no. of ICU patients is still lagging, usage down 1/3, so far, to 17% from 25%

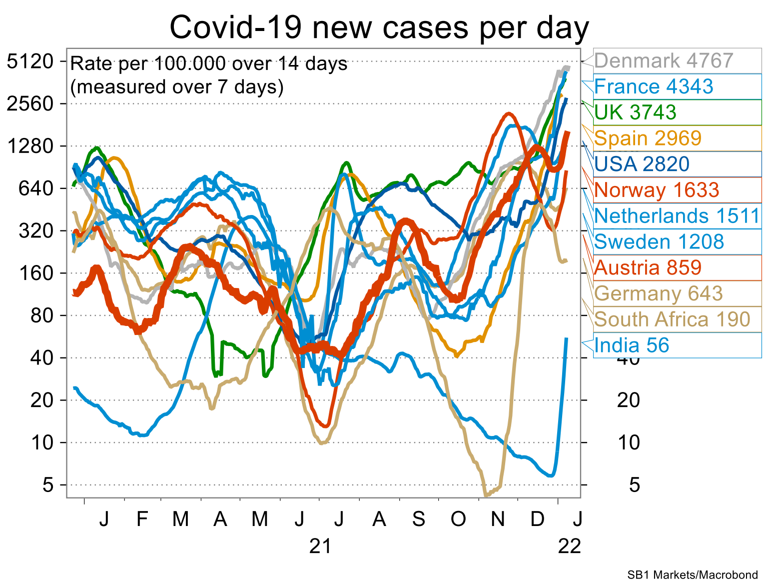


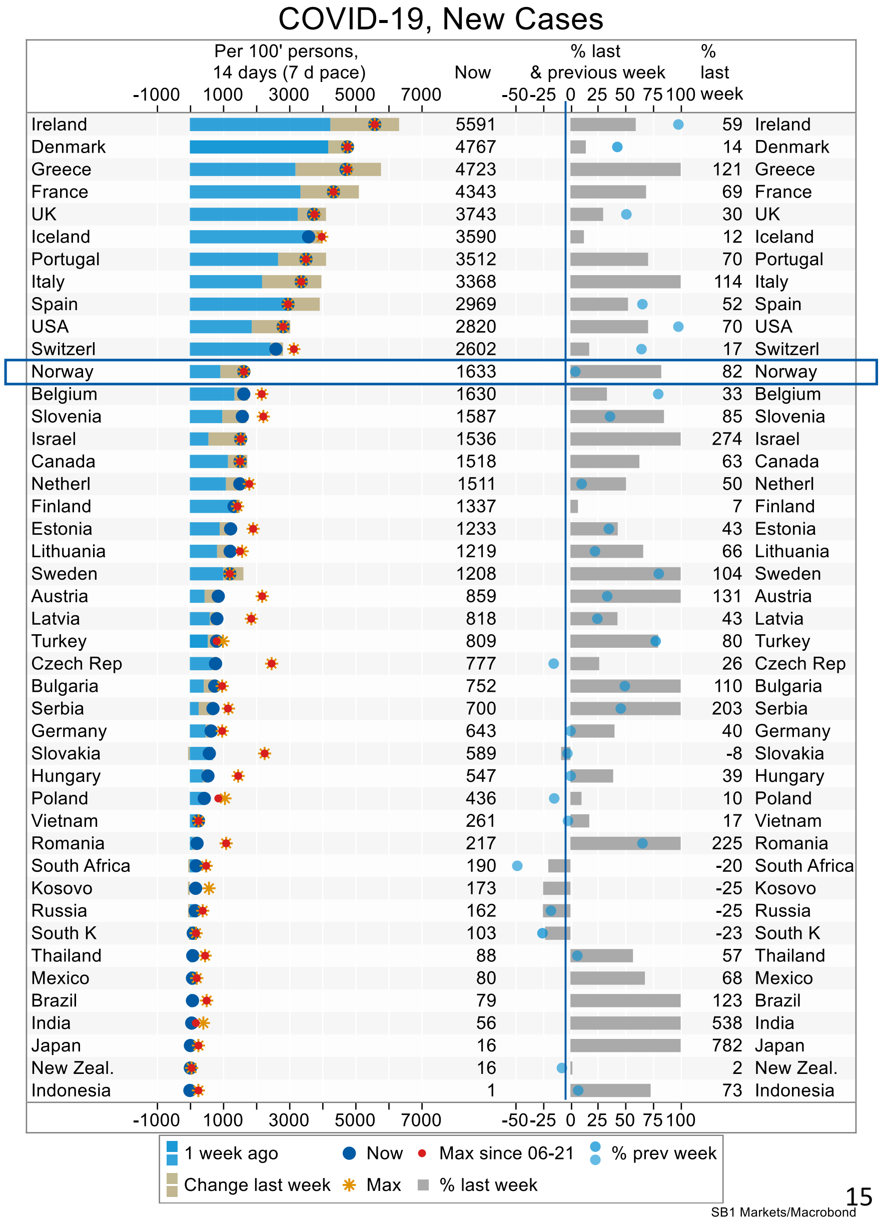



# Suddenly, the Omicron is everywhere, a record high growth in infections

## Testing regimes are probably cracking most places

- Almost all countries reported more cases last week, a huge change from the previous week. The scale for weekly growth at the chart to the right is far too narrow (grey bars). Emerging markets are now joining the party, check India at the chart below, up >6 x in one week
- In Denmark, almost 2.5% of the population is testing positive per week, immunity is build very rapidly up, even among the unvaccinated. Here, growth in new cases is sharply down. Ireland, Greece, France and UK high up at the list as well
- Now, the no. of hospitalisations/ICU/ventilator demand is the real question, not the no. of cases



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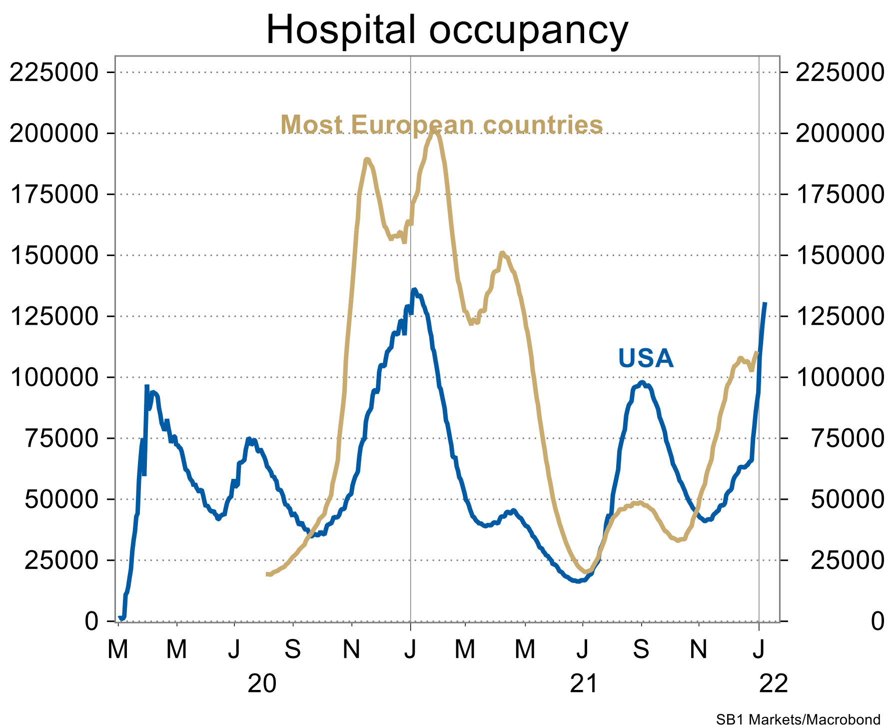
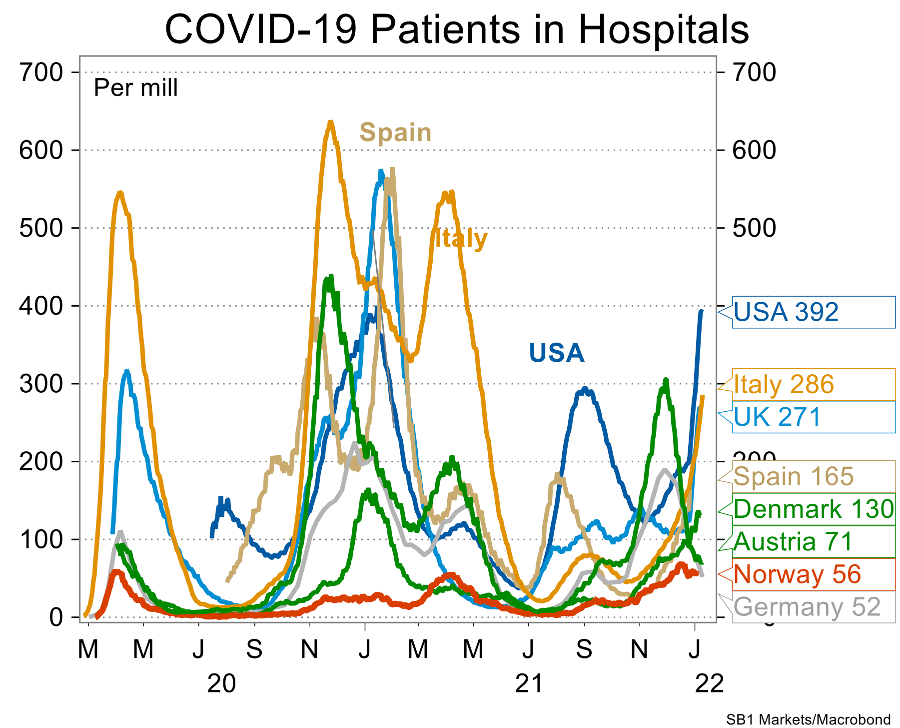
# More hospitalisations in most of Europe, and the is close to record high

Germany and Austria are still on the way down

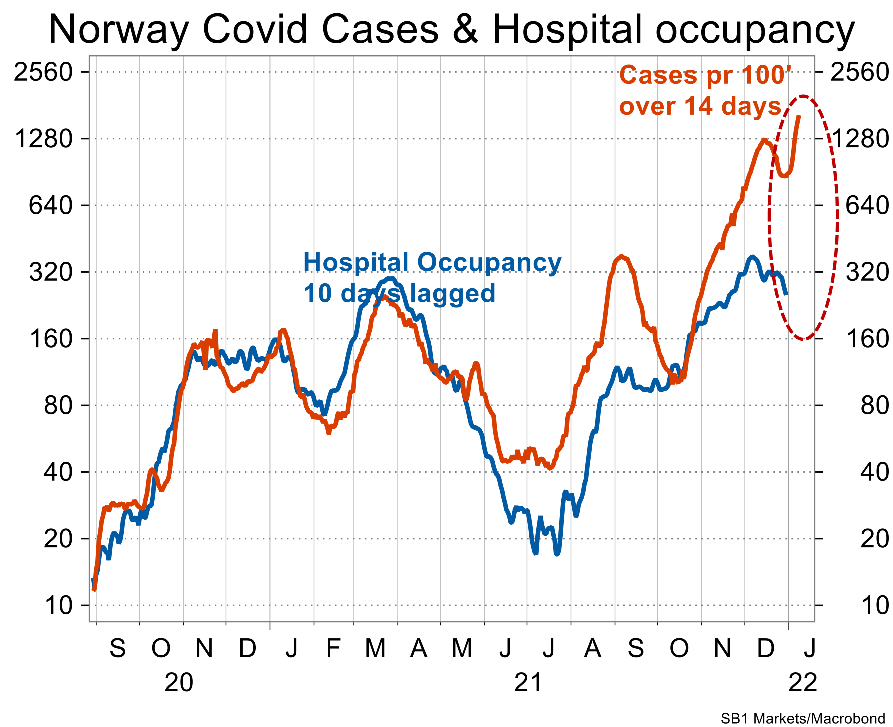


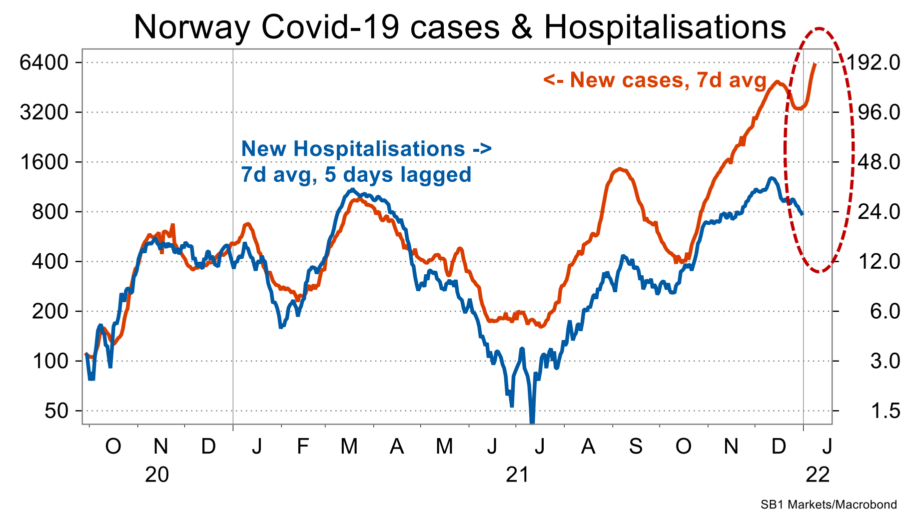



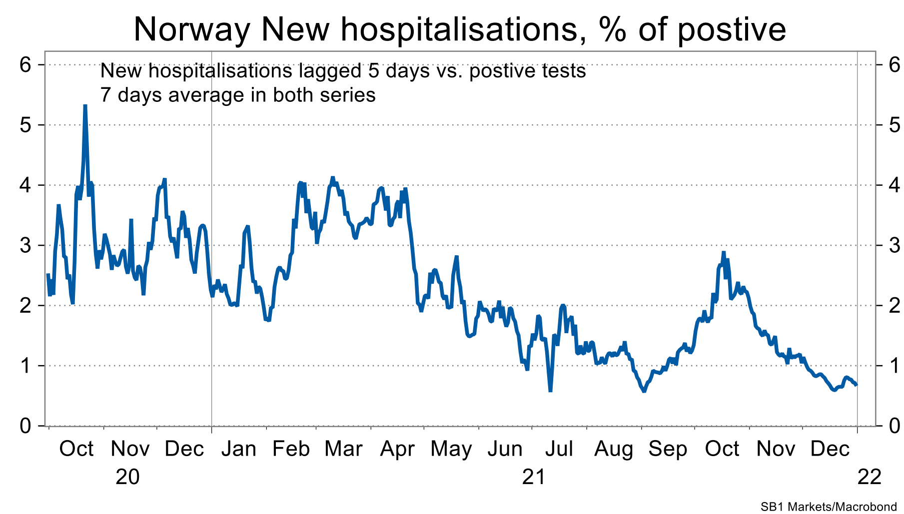

- Norway has still a very low number of hospitalised patients, and few in ICU beds. You just would not know if just listened to representatives from the health sector

# Norway: A surge in new cases, but the hospitalisation rate has fallen too

## Omicron is less harmful and the vaccinated just have 1/18 risk for hospitalisation vs the unvaccinated

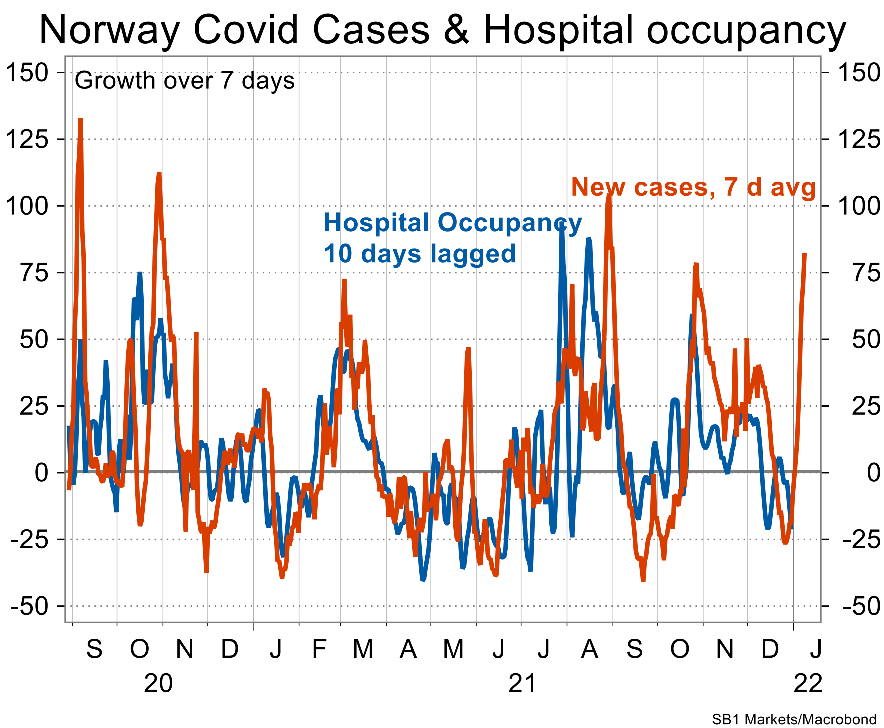


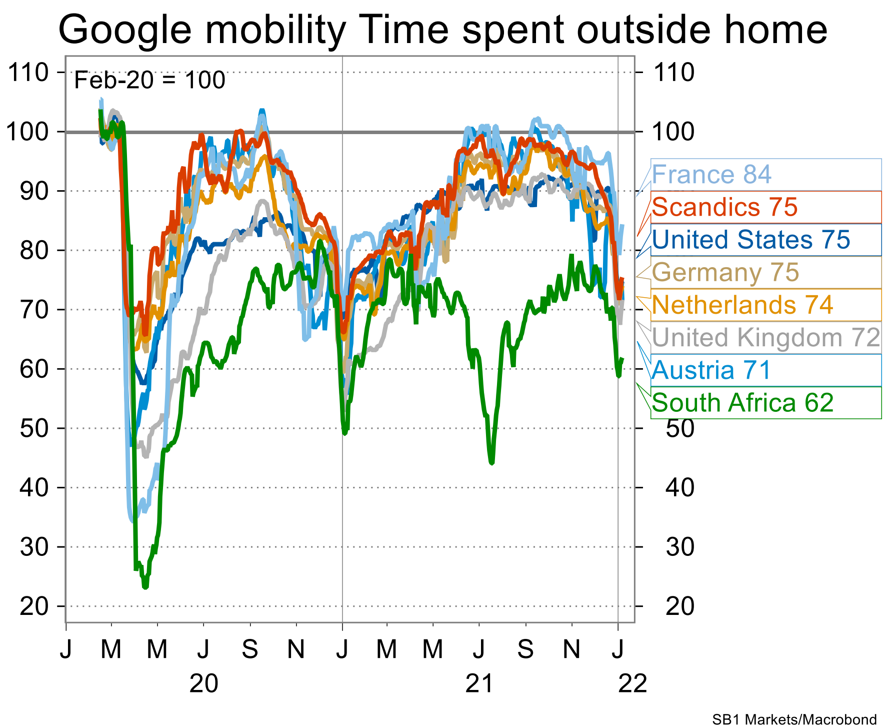



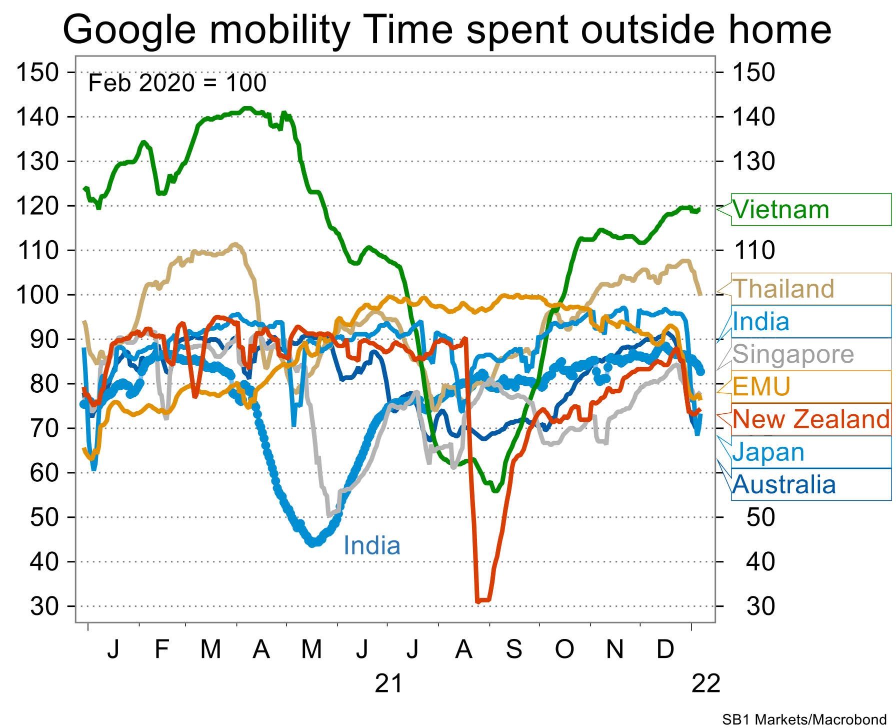

- Omicron has overtaken the market completely
- Last weeks surge in new cases has not yet been led to more hospitalisations. However, that's to early to tell, check the time lags at the charts above
- Anyway, **the hospitalisation rate** has no doubt fallen substantially compared to the Delta variant, perhaps by 50% - but the rate has been far from stable through the pandemic

# The next few days will be very important: More hospitalisations, or not?

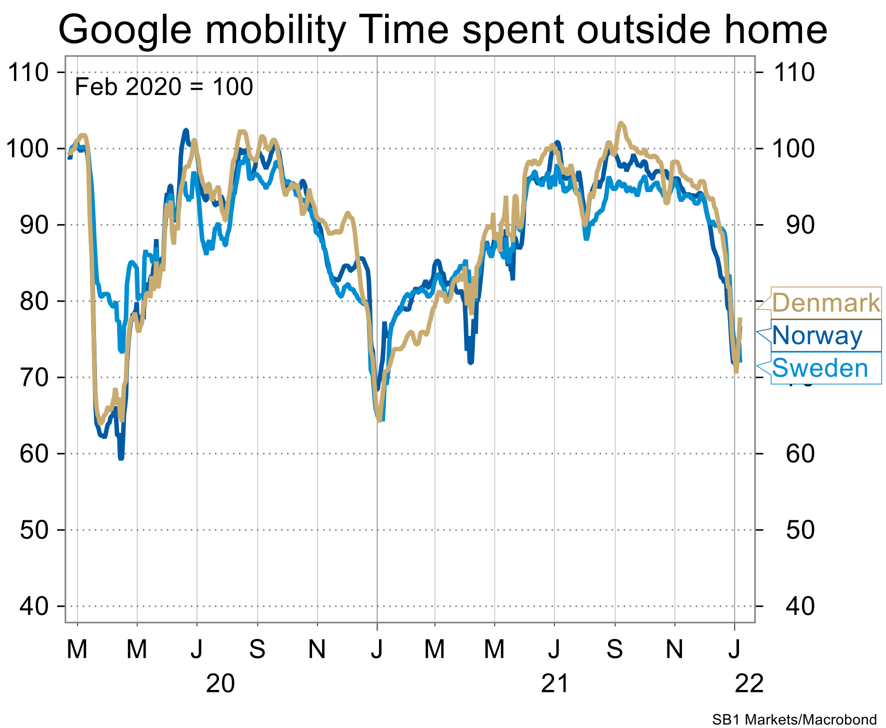


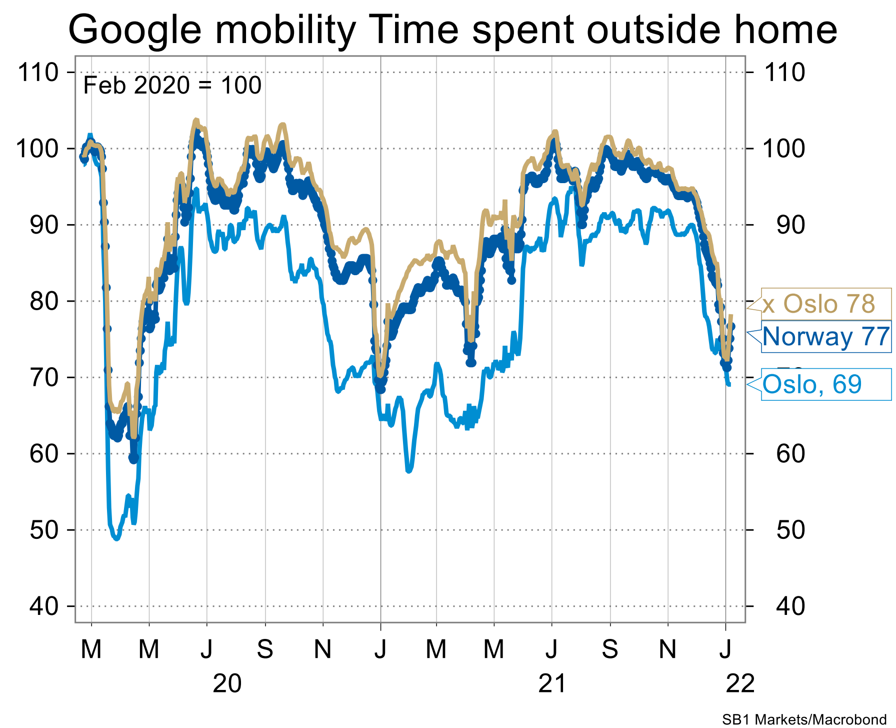
# Mobility 'hit' by the Christmas holiday – and some Omicron measures



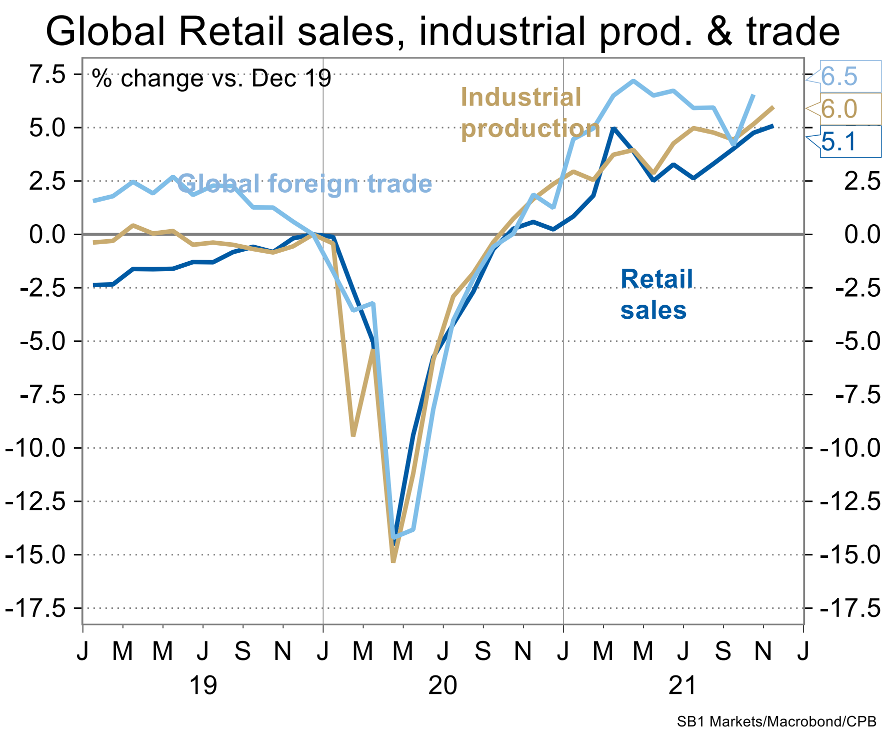
# Mobility very likely up after the X-mas holiday season

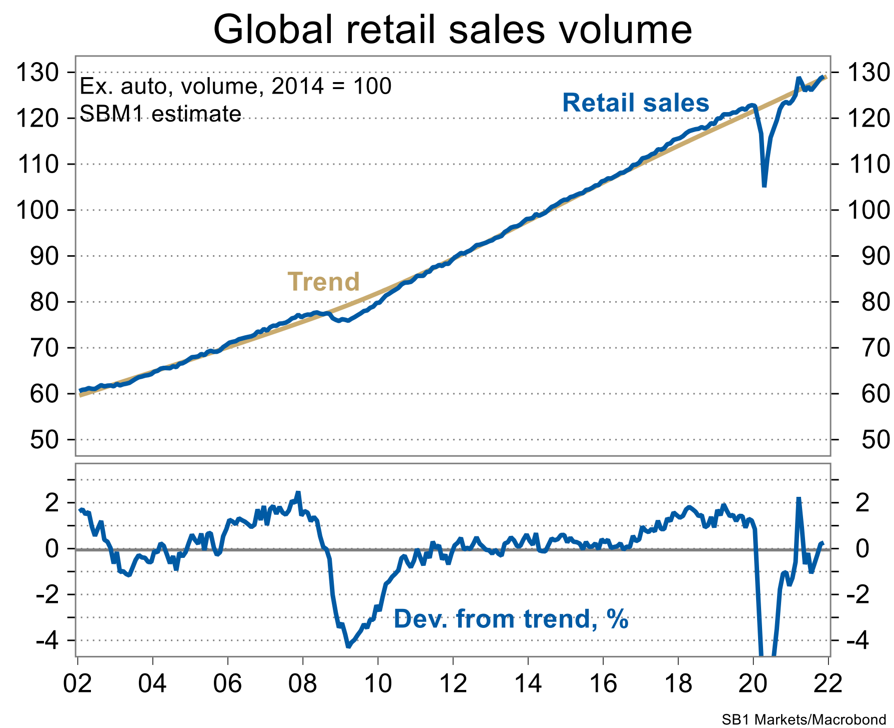


# Global retail, industrial production has strengthened recent months

## Global trade has flattened

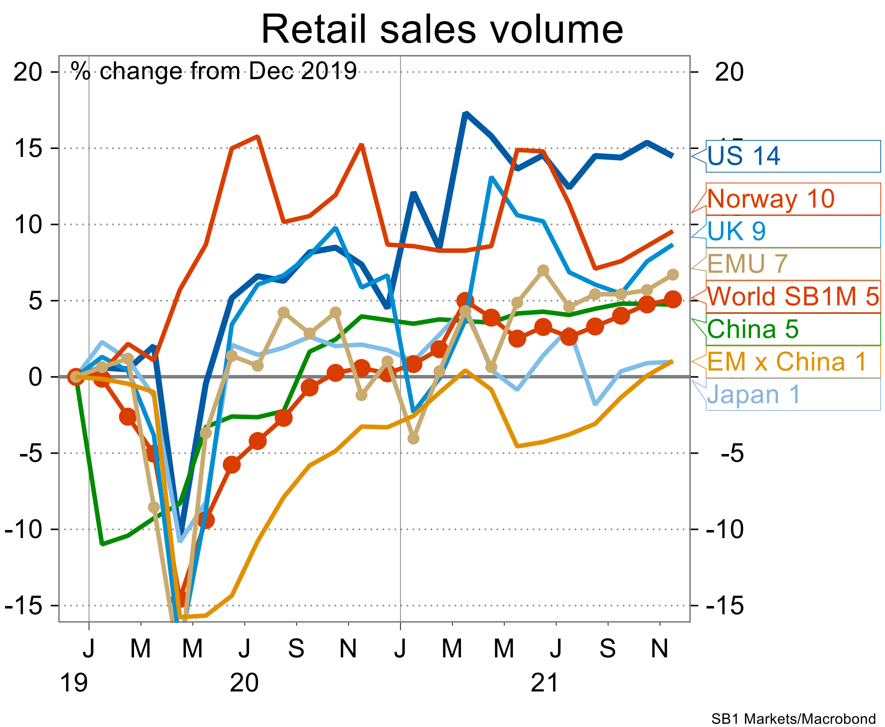


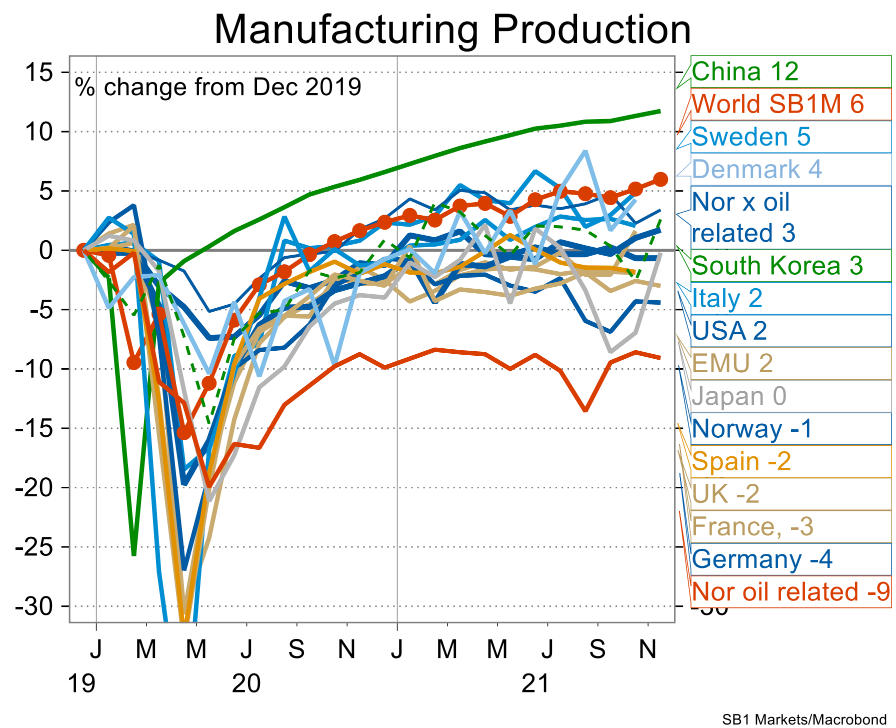




- **Global retail sales** rose at slower pace November, with slow/no growth. China & US on the downside, EMU surprised at the upside. Global sales (mostly excluding autos) are 5% above the pre-pandemic level
- **Global manufacturing production** has recovered since the summer, and growth was strong in 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)

# 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 – at least until Omicron eventually creates problems
- **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, but this sector is now recovering. The manufacturing PMIs are still strong, and delivery times very likely easing

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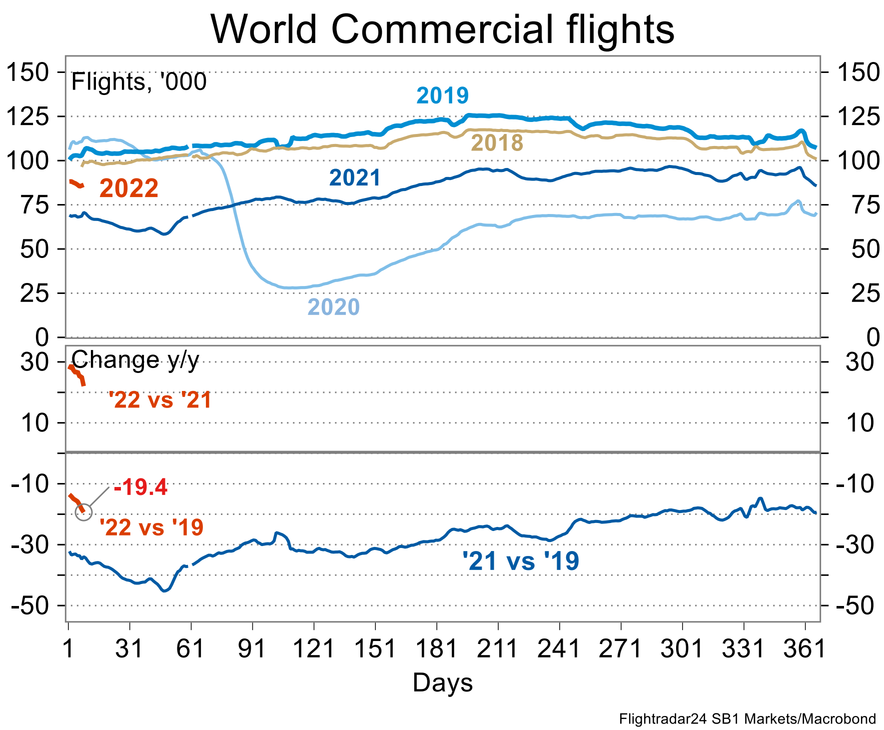
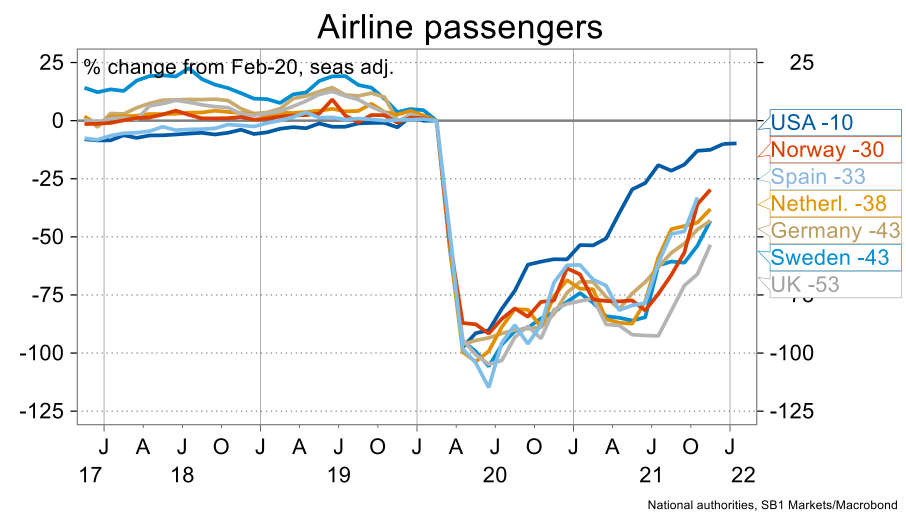
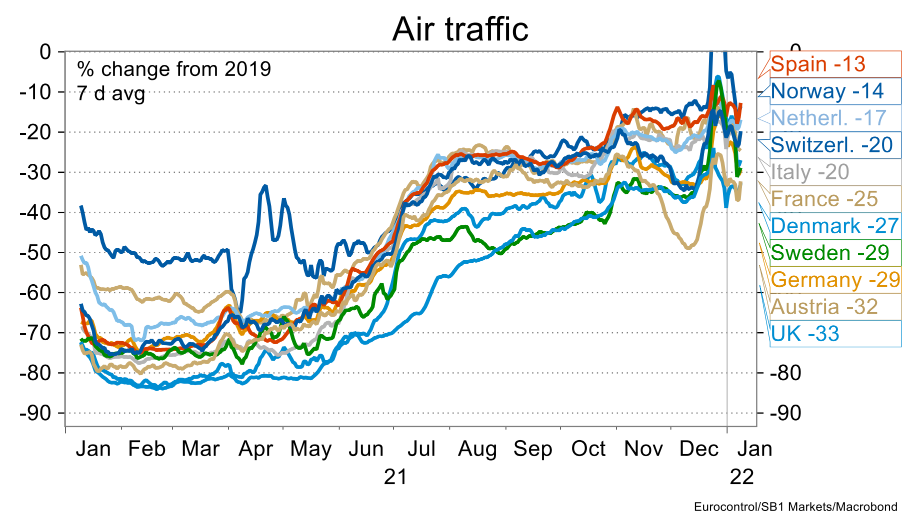
# Global airline traffic still down 19% vs the 2019 level

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



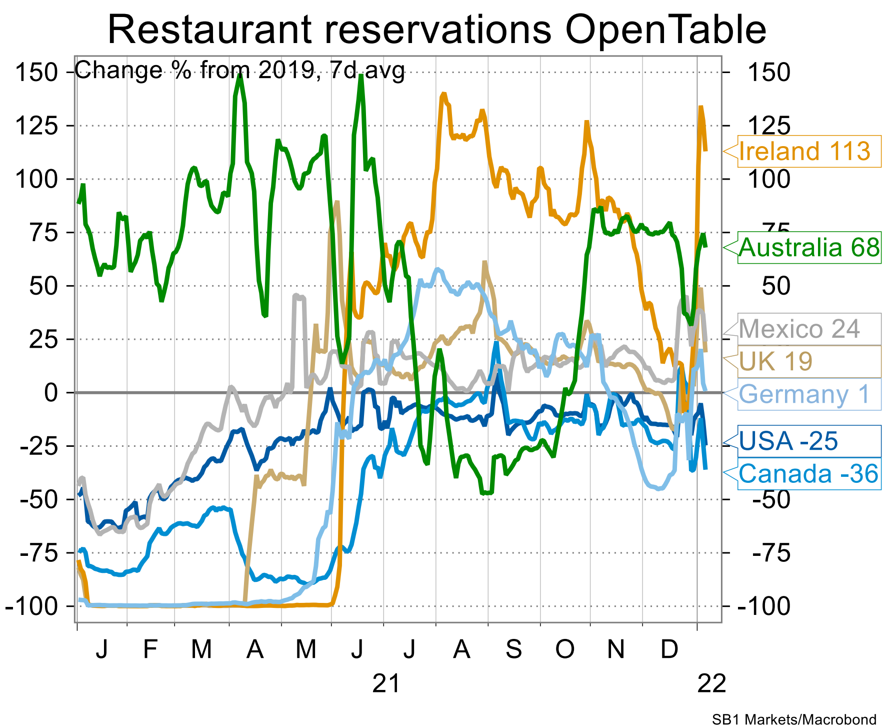



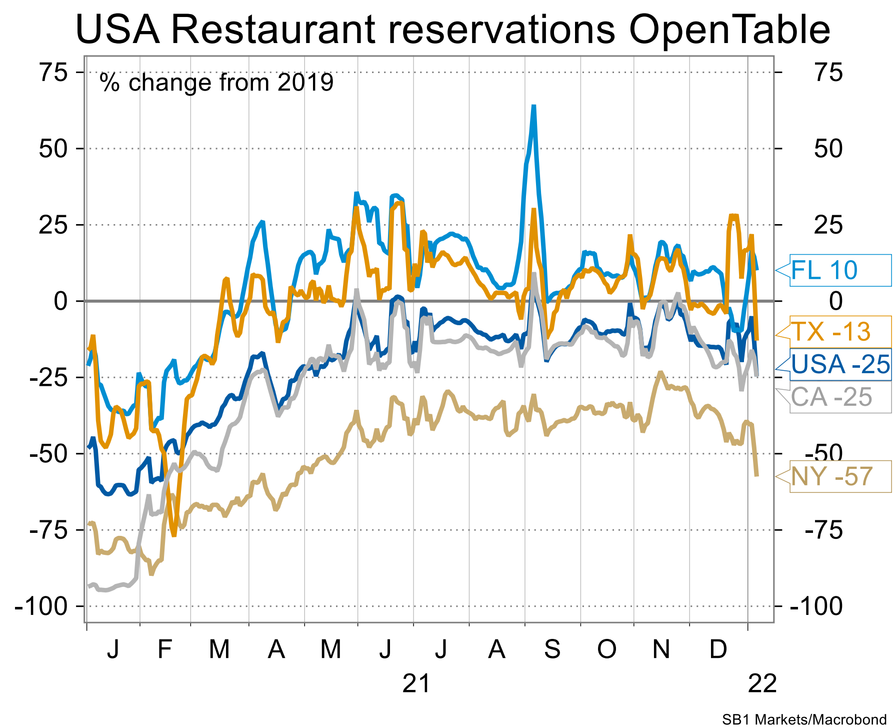




- Until November, strong growth in no. of passengers in Europe, and the gap vs the US was reduced
- The fight against the Delta has reduced aircraft movements in Europe somewhat, and the Omicron may create more havoc for a while

# Delta & Omicron create new challenges for the restaurant industry

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

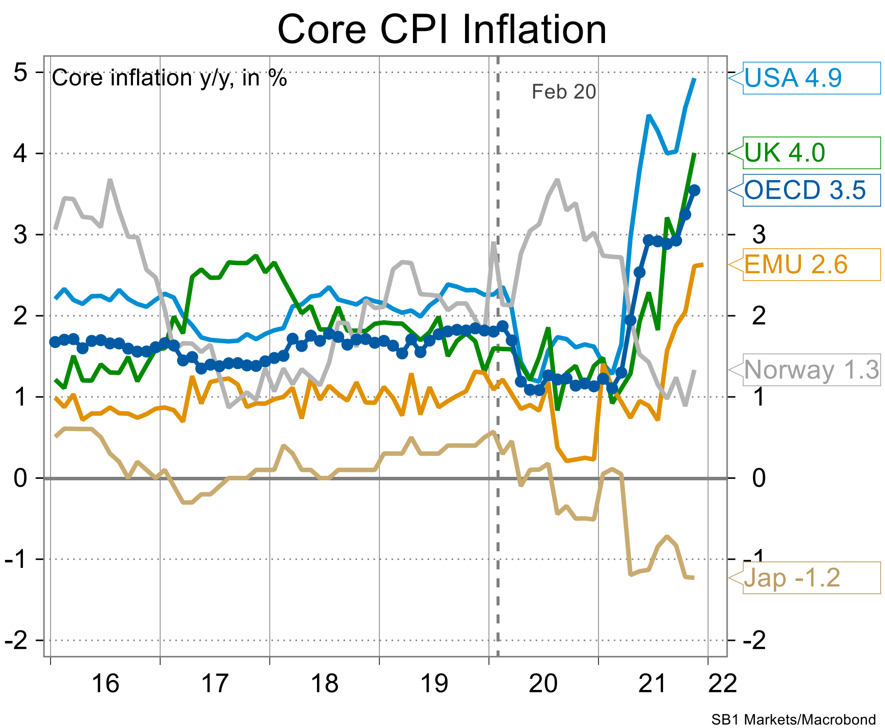


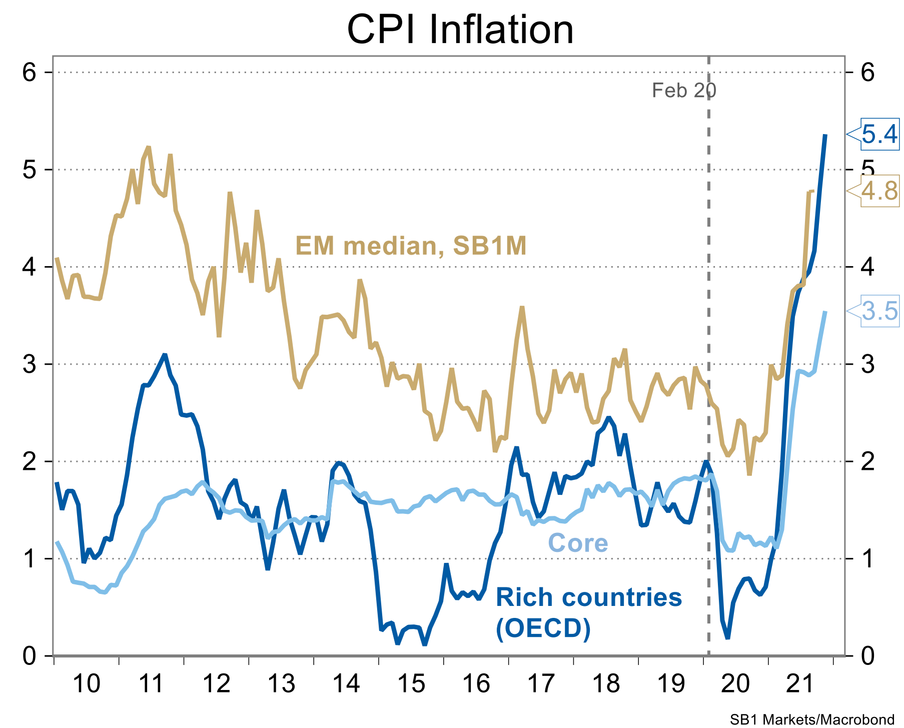




- Still, no country is locked down (at least not yet)

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

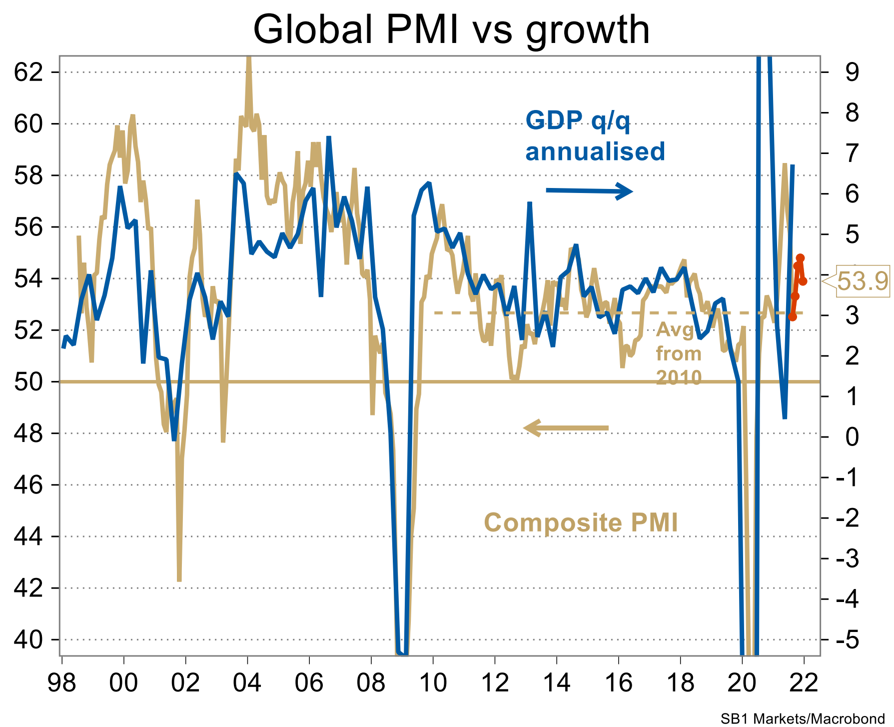
Energy prices the main culprit, but core inflation has turned up more places

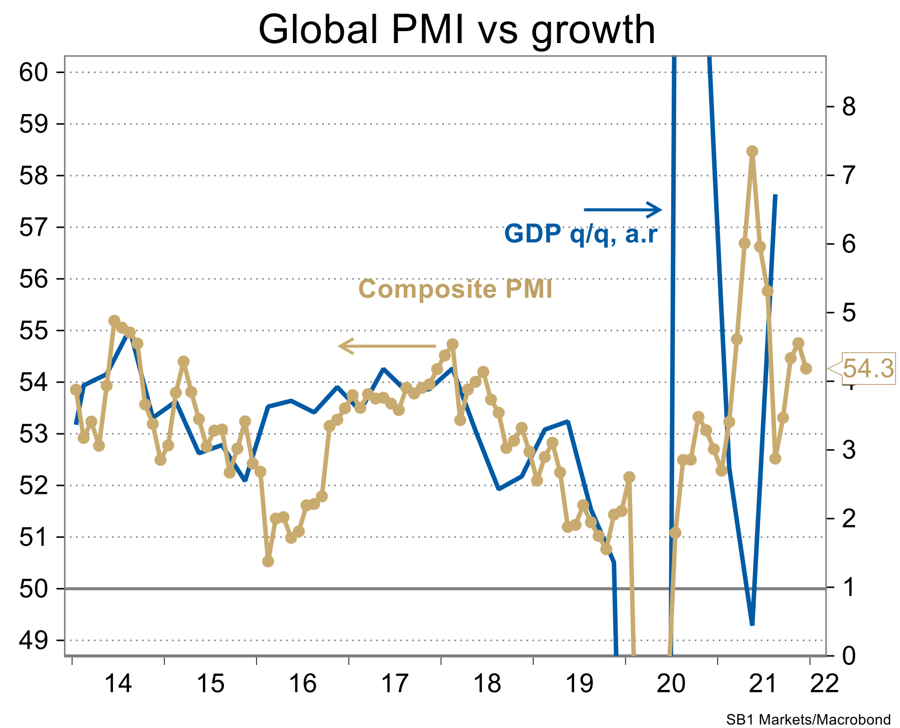


# The global PMI down in December, still strong

## The composite PMI fell 0.5 p to 54.3, signals a 4% global above growth pace, well above trend

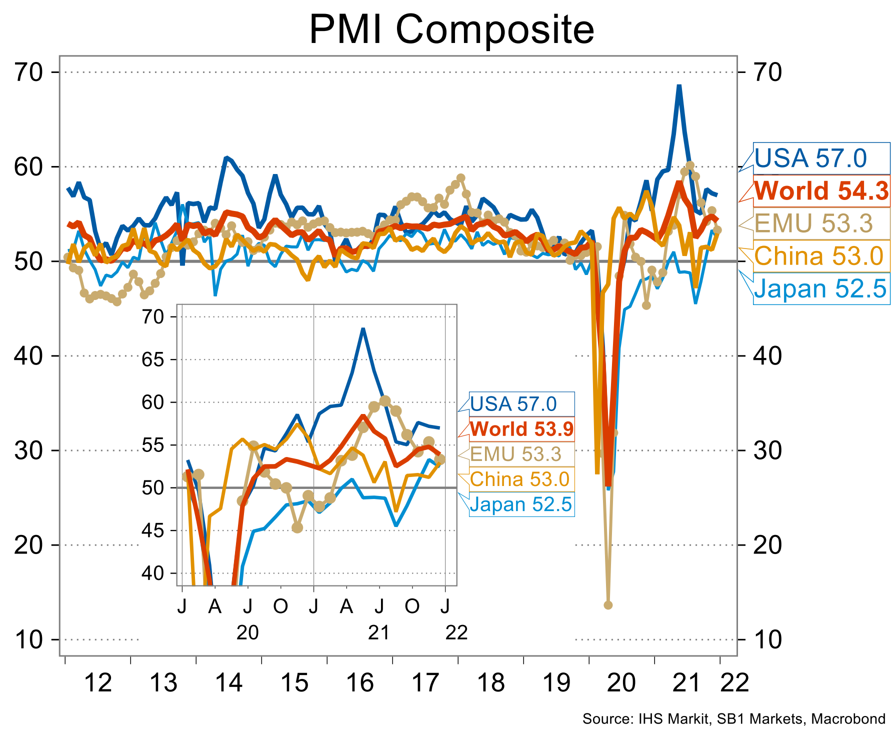


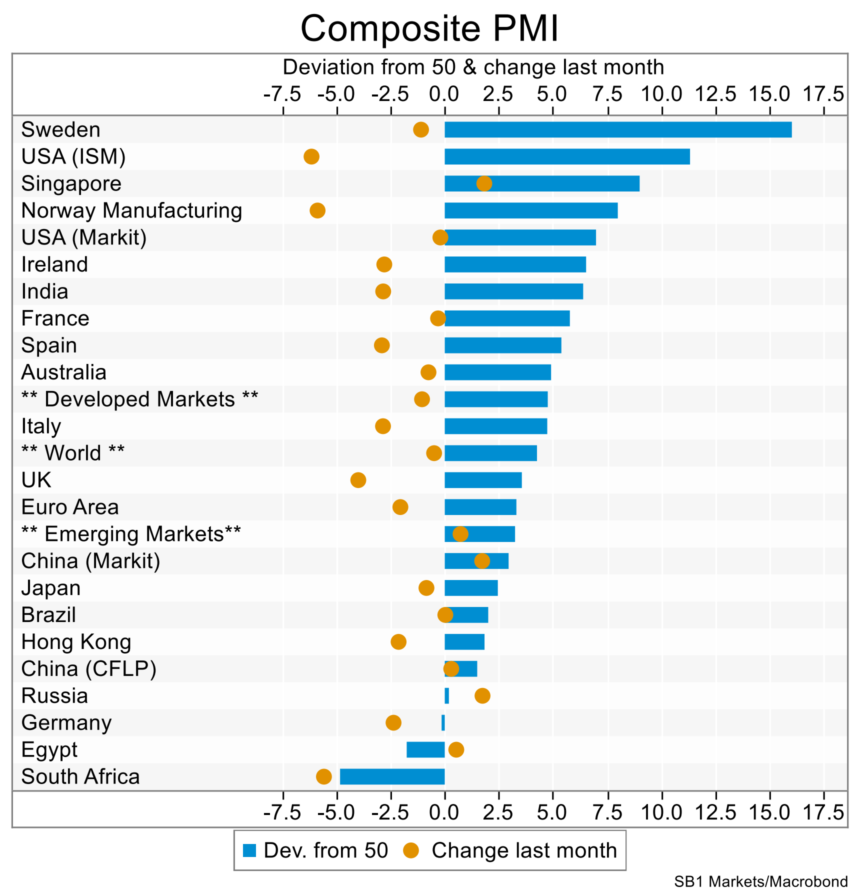




- The **global PMI** was 0.4 pp above our forecast, which was based on the flash estimates from the rich part of the world
- **Manufacturing** output grew faster in December, while output growth in **services** slowed

# Rich countries slowed; China surprised at the upside, lifted the Emerging M avg

## Just 3 countries report PMIs below 50 but many more countries down than up in December

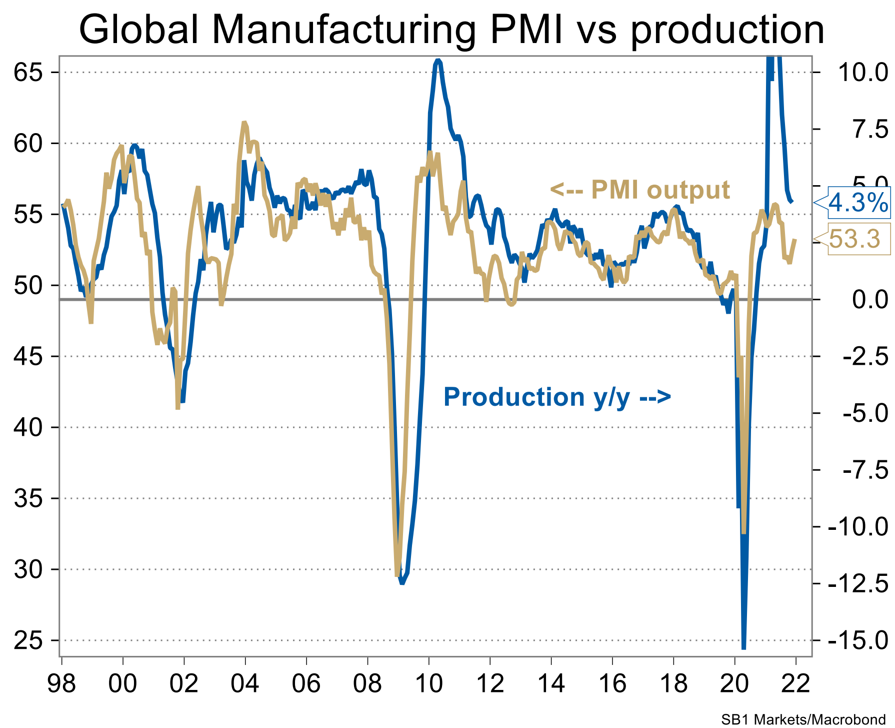


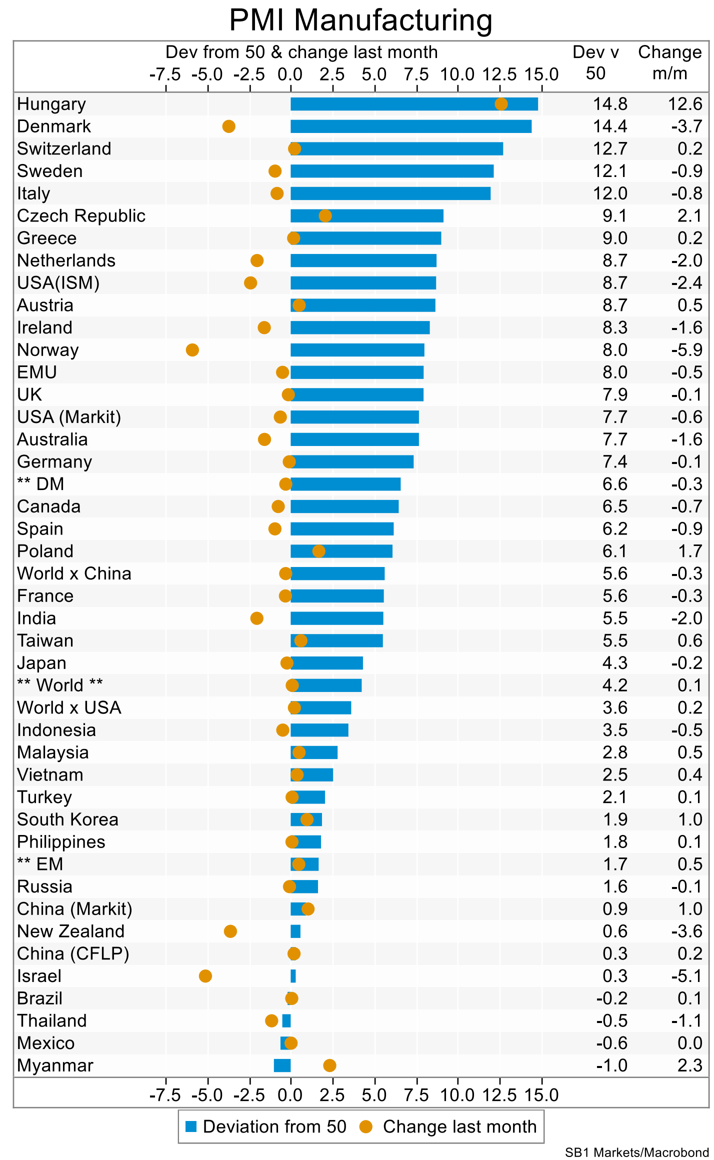




- 17 countries/regions up in December (up from 13), 8 down (from 13), and just 2 below the 50-line (from 3)
- Sweden back up to the pole position, ISM downgraded to no. 2, due to a steep setback in the service sector ISM – to still a very strong level
- The Chinese PMIs rose sharply (Markit's data)
- Other EMs mixed, and in sum marginally down, as the Indian PMI fell (but it is still at high level)

# Manufacturing headline PMI slightly up in December (and details even better)

## Still just 4 of 43 surveys below the 50 line. Europe at the top

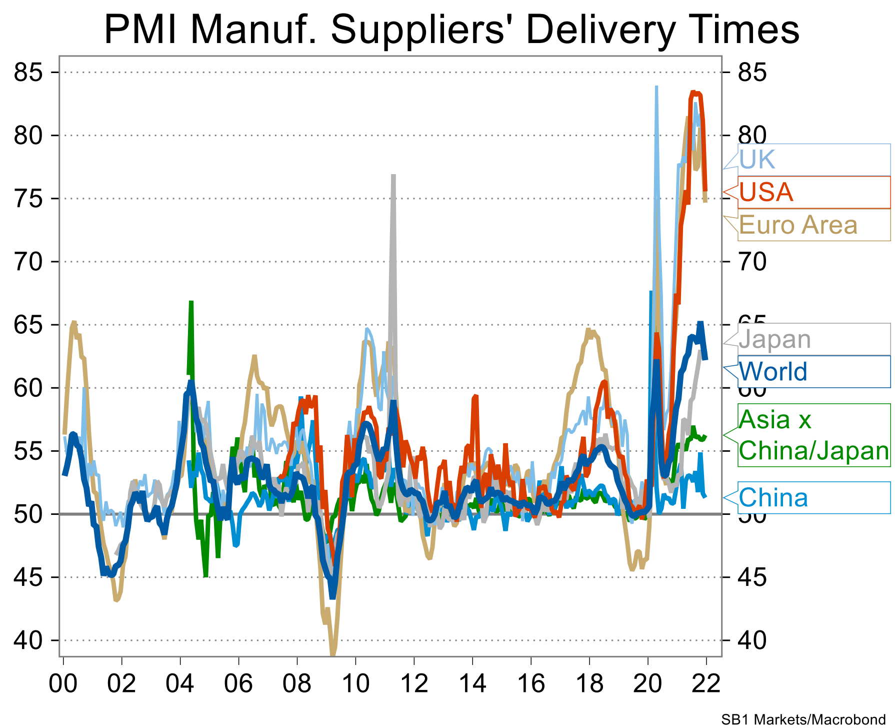


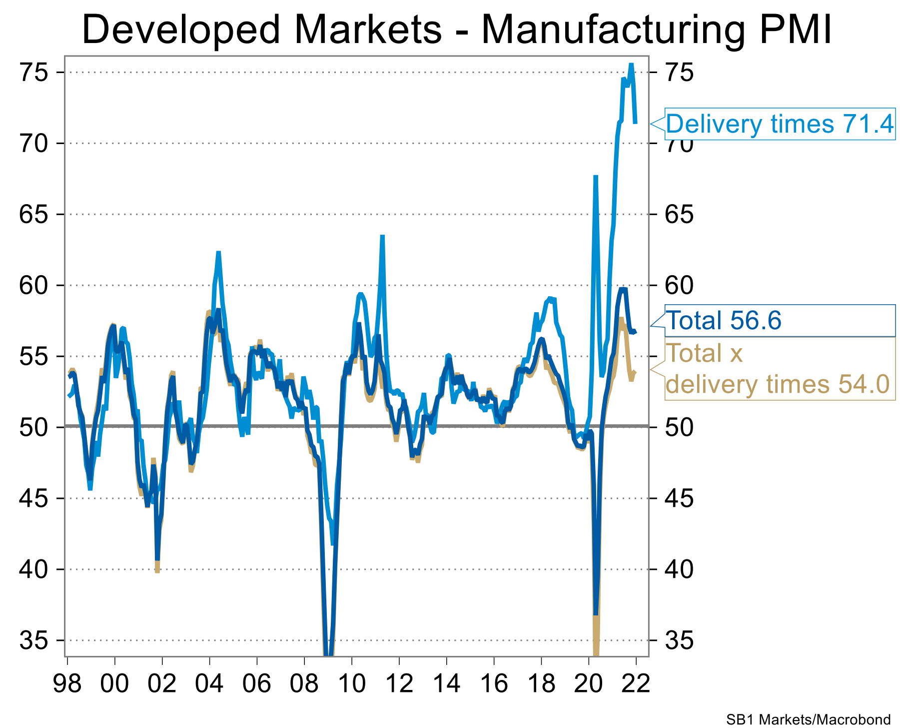




- The **global total manufacturing PMI** was unch at 54.3 in December (but gained 0.09 at the 2nd decimal. The output index rose rose 0.8p to 53.3
  - » 49% of countries/regions reported higher total PMIs last month, down from 51%
  - » **European countries** dominate the top of the list – but US PMI & ISM are up there too
  - » Both of the **Chinese PMIs** rose, Markit's the most. The **Indian PMI** fell but remained strong
  - » **EMs** are still far weaker than DM, but the gap closed marginally in Dec
  - » **Norway** reported the largest decline, but remained at the upper part of the ranking

# Some easing in the supply chains: The delivery index sharply down

## Slower growth or a decline in delivery times? Probably the latter

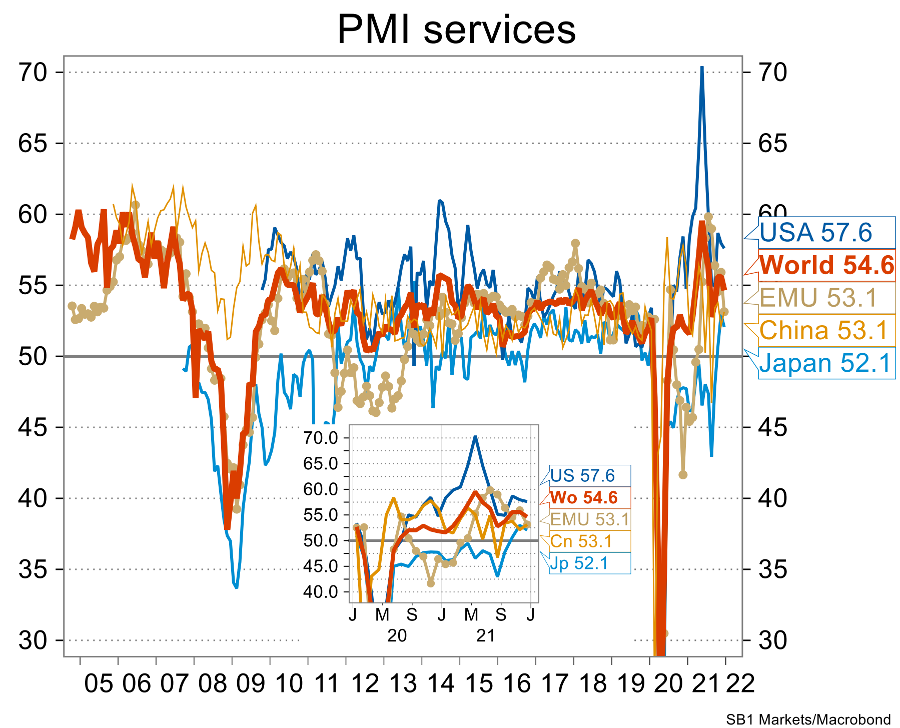


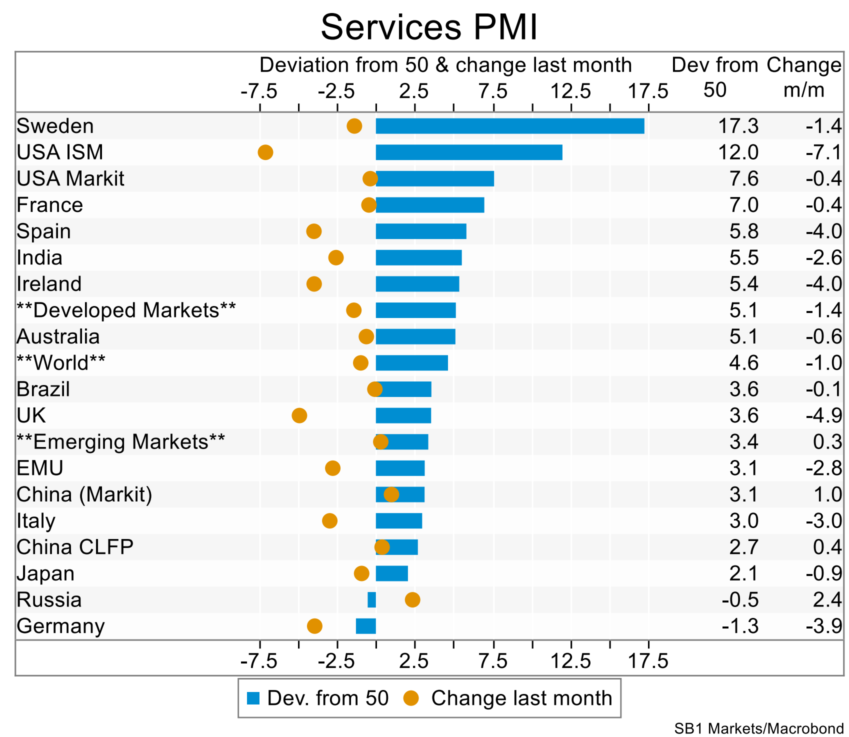




- The unprecedented increase in delivery times index in the rich part of the world ended in October (it was almost entirely rich man's problem). It remains at a high level and formally signals a continued rapid rise in delivery times – just a tad slower than at the peak
  - However, this index has never been significantly below 50, and delivery times can impossibly not always have been increasing. Still, the current print is far above any reasonable "real" 50-line (which would have been around 53 vs the current 62.5 level and 71 in the rich part of the world), and signalling a further very rapid increase in delivery times.
  - We suspect many respondents rather than reporting if delivery times are increasing or decreasing (which they are asked to do), report if delivery times are 'long' or 'short'. If so, delivery times are now declining
- A total PMI manufacturing index excluding the delivery times index rose in December – but the 'core' has also weakened recent months, mostly due to lower growth in new orders

# The service sector PMI weaker in December, Omicron is at least partly to blame

## Sweden up in the lead (as normal) as the US ISM retreated sharply (but remains at 62!!)

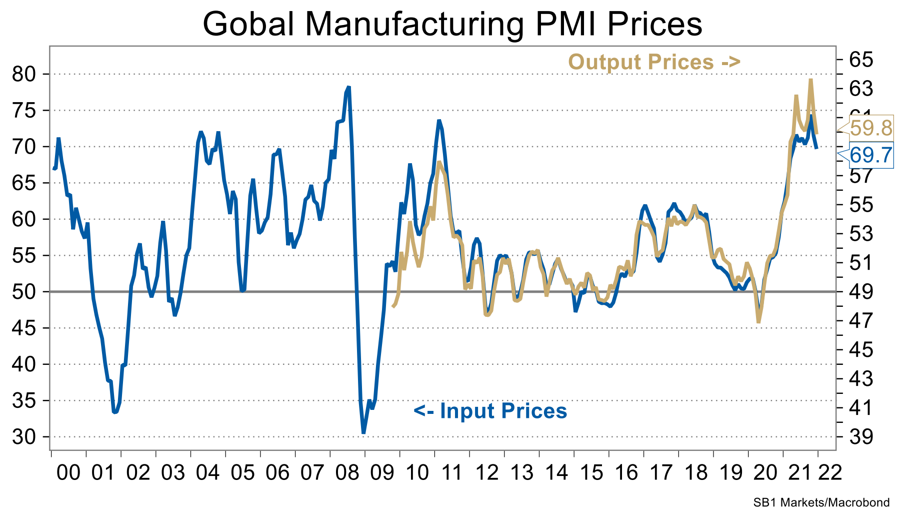


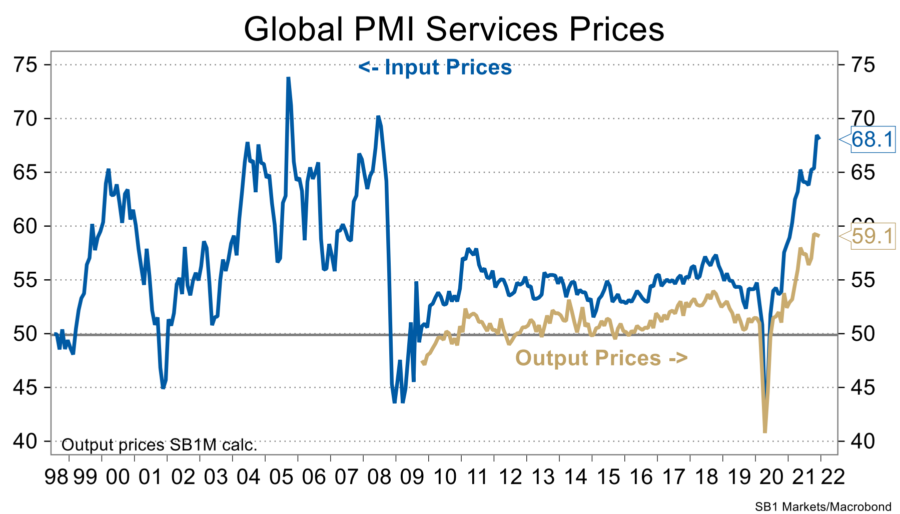



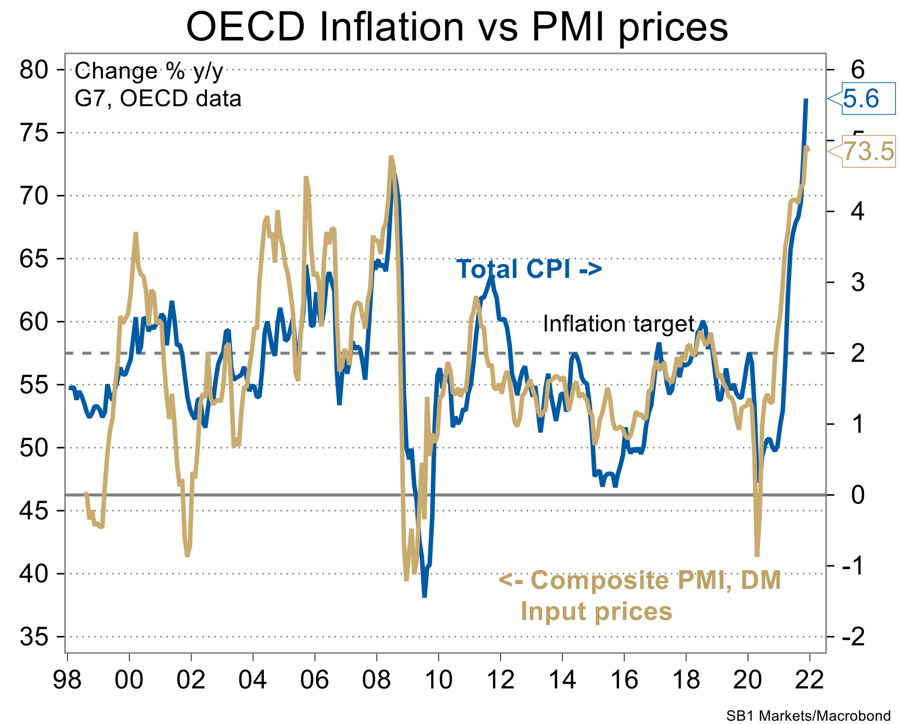

- **The global service sector PMI** fell 1 p to 54.6 in December – still signalling growth well above trend in services
  - Just 4 countries/regions up (from 10 in Nov), 15 down (from 8); still only Russia and Germany below the 50-line
- **Rich countries** down in average, the EM's services PMI rose marginally – but remains well below DMs
- Both **Markit's PMI and ISMs US services index** declined, the ISM unusually sharply – but both remains at the top (just behind Sweden, which regained its lead position)
- Mixed outcomes in EMU, France and Spain services PMIs almost unch, at the level is strong, while the German PMI fell sharply, to below 50, at the bottom of the ranking!
- The **Indian** service sector has recovered sharply but retreated somewhat in December

# Businesses still report rapid price increases but not faster in December

We think the peak inflation is near. But the real challenge has anyway always been wage cost inflation

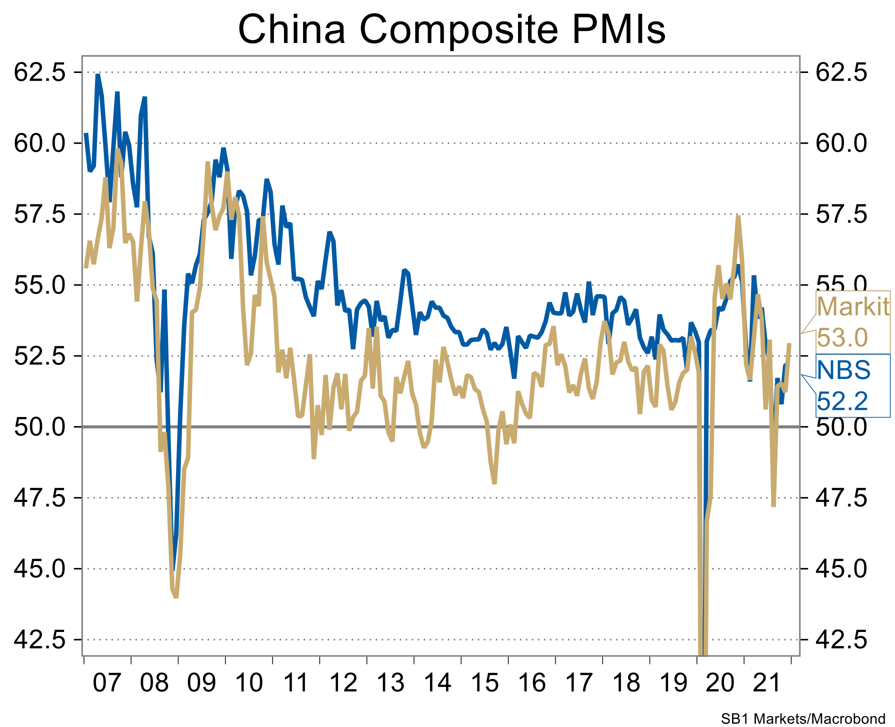


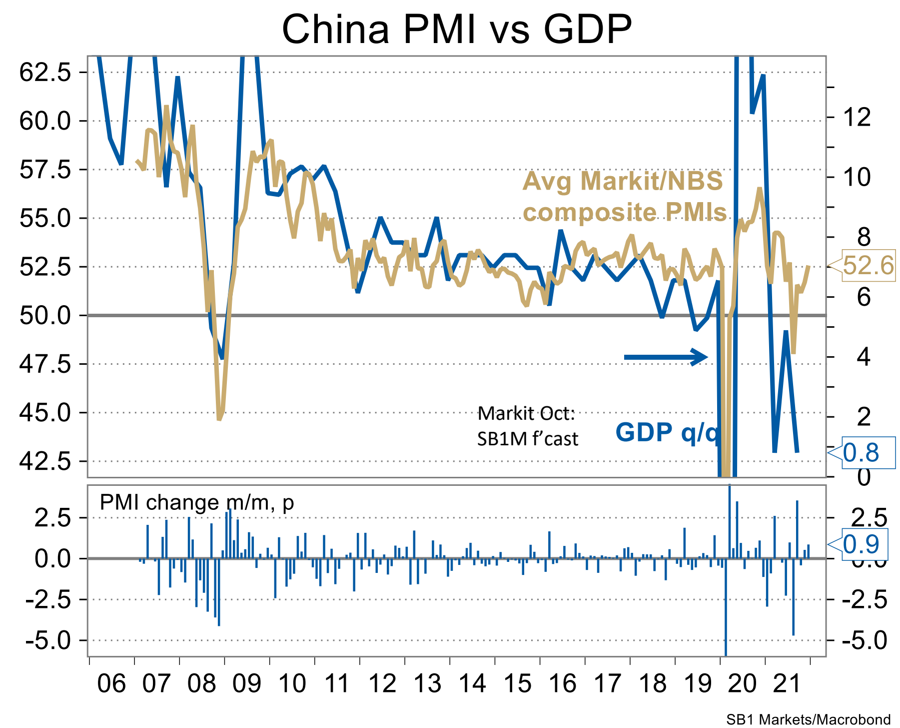



# Markit's PMIs up, NBS' flat in December, the average at the average level since '12

## The average of the two PMI data sets rose 0.9 p to 52.6, a perfectly normal level

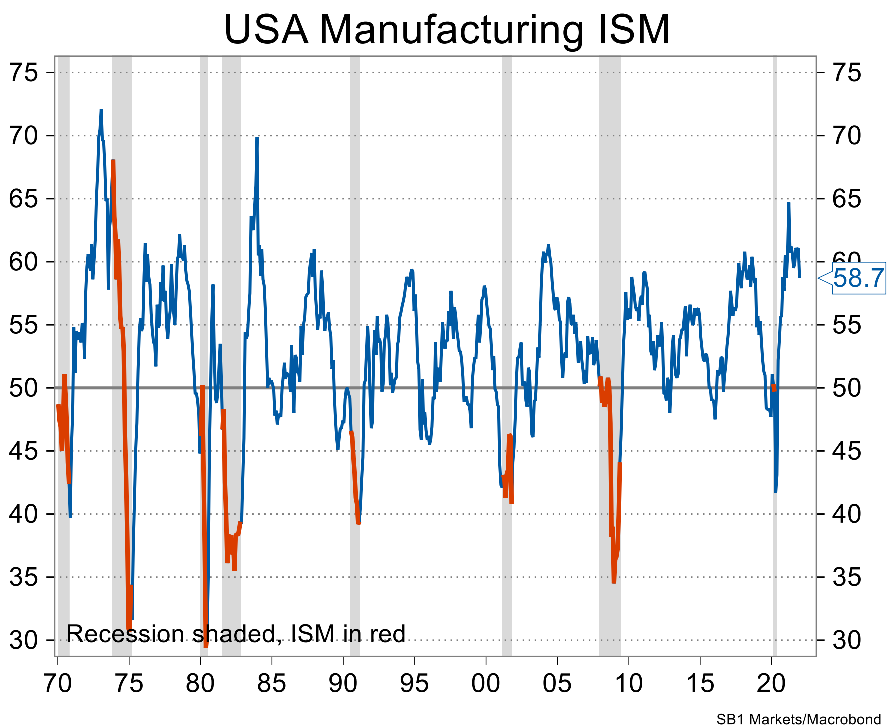


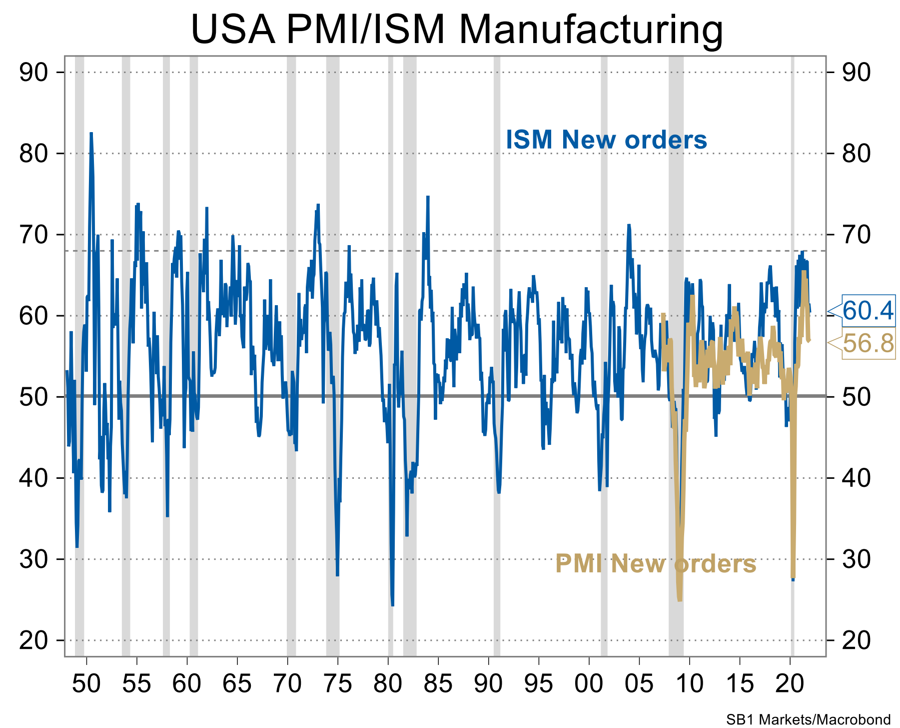




- The **NBS composite PMI rose** was unch. at 52.2. The level is 1.6 p <u>below</u> average since 2012
- **Markit's composite** gained 1.7 p to 53, which is 1.6 <u>above</u> average.
- **In sum,** the two PMIs signal an average GDP growth – far better than over the 3 past quarters
  - However, the PMIs have been to optimistic so far in 2021, and growth may well remain below the level signalled by these surveys

# Manufacturing ISM down in December, delivery times index on the way down

Prices are increasing at a slower pace too. The headline index down 2.4 p to 58.7, expected 60.6

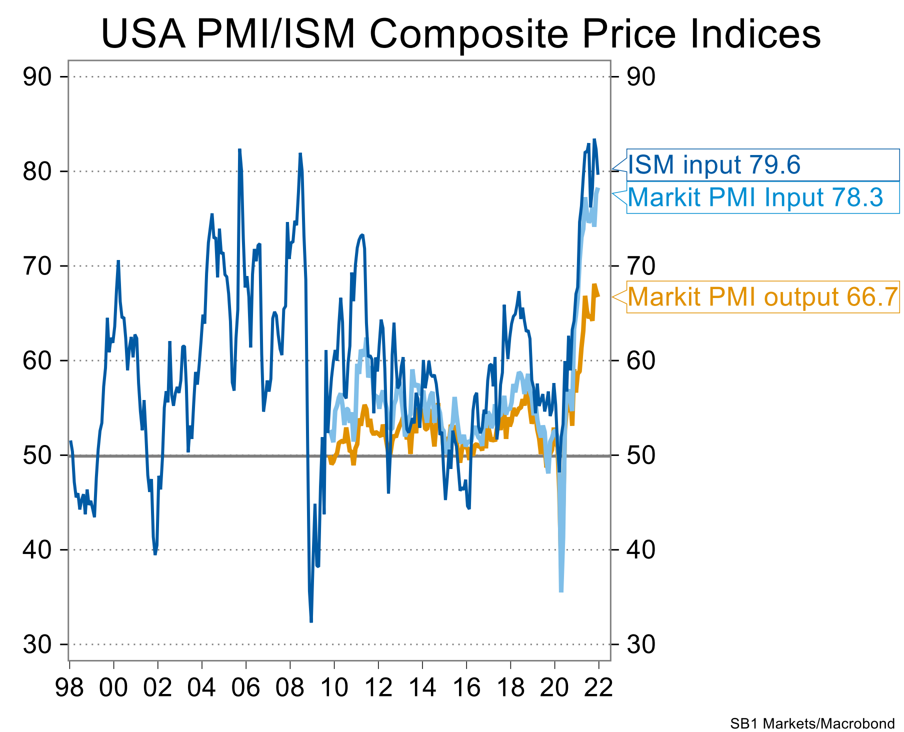


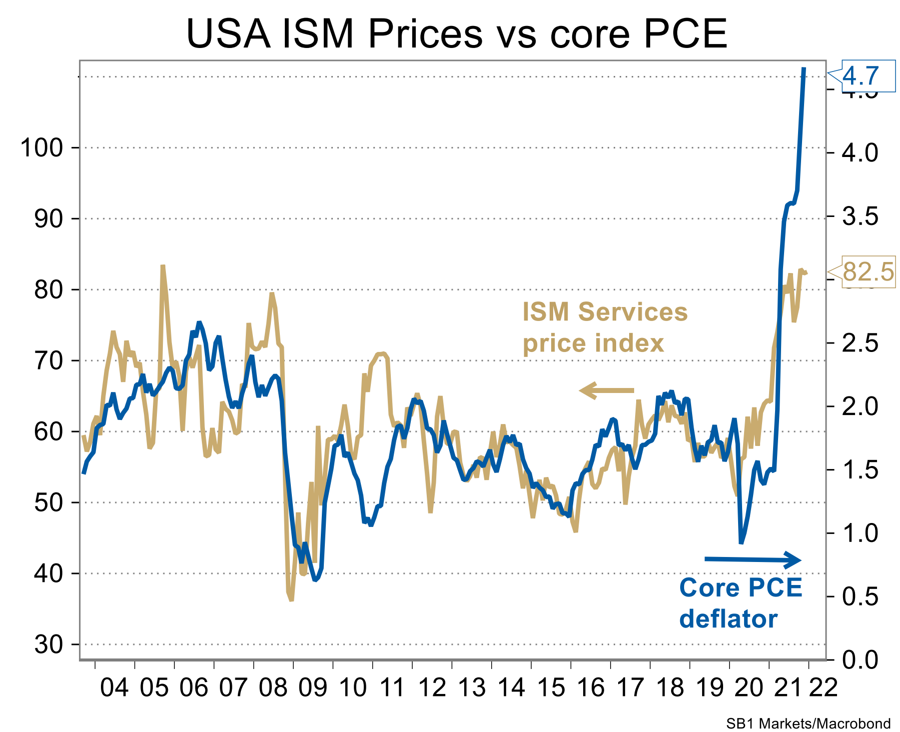




- The **ISM manufacturing** has been at a very high level for months, in fact through the entire 2021, and the best 12 avg since 1984, when the US economy recovered from the deep double recession (BTW last time the Fed had to play really hard to get inflation down, under governor Volcker). Actual growth in manufacturing production has been rather slow, but it has gained speed the recent months
  - Last month, 15 of 18 manufacturing sectors reported growth (13 the prev. month), 3 sectors reported a decline (printing, wood products and primary metals) (from 2)
  - The **new orders** index fell 1.1 p to 60.4
- 28 commodities were up in **price** (from 37, at the peak 56 commodities). 8 were down in price (from 5), including aluminium, oil (in early Dec), natural gas, and steel
- Just 10 commodities were reported in **short supply** down from 20 (and more than 50 (!!) commodities a few months ago). Thus, the supplier deliveries index fell sharply in December
- **In their comments**, companies are still reporting labour shortages but fewer complain about lack of supplies

# Price indices are not yielding by much

… but prices are climbed more than the PMI/ISMs have told us they would (at least the core)



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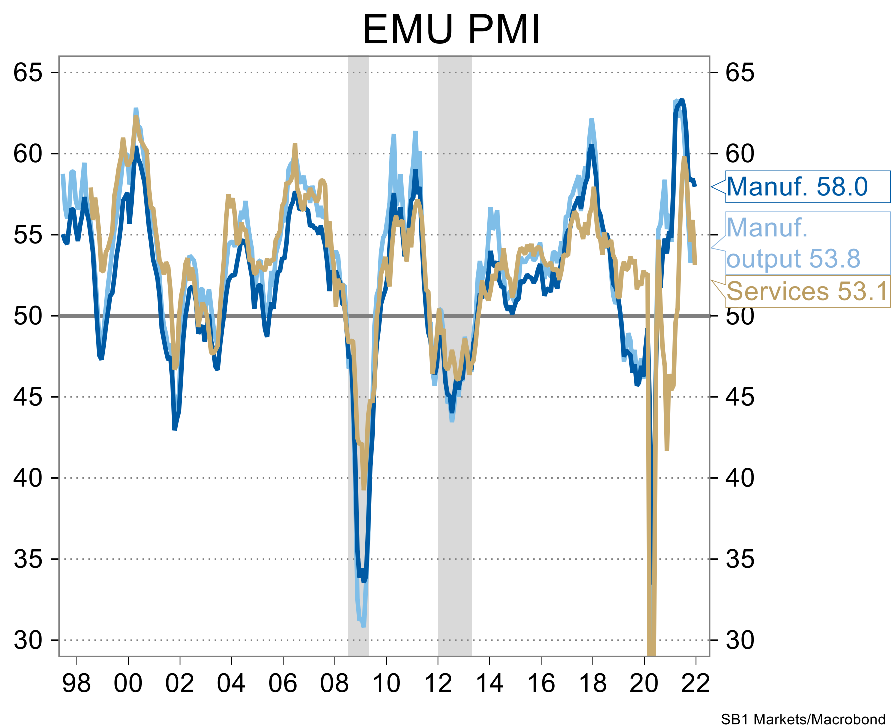
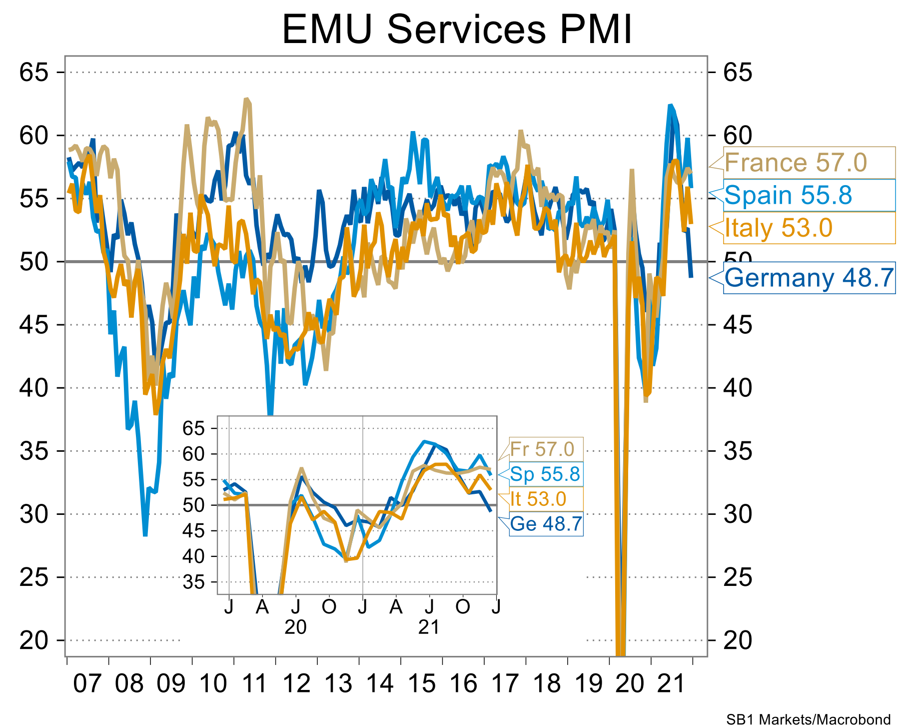
# The manufacturing sector report strong growth (58), services hurt in Dec (53.1)

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

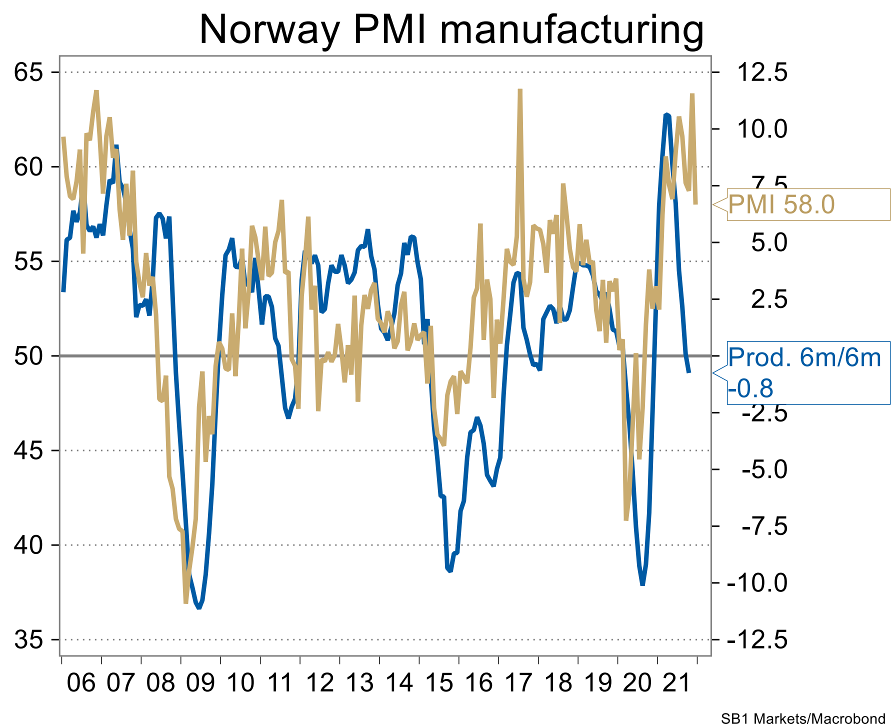


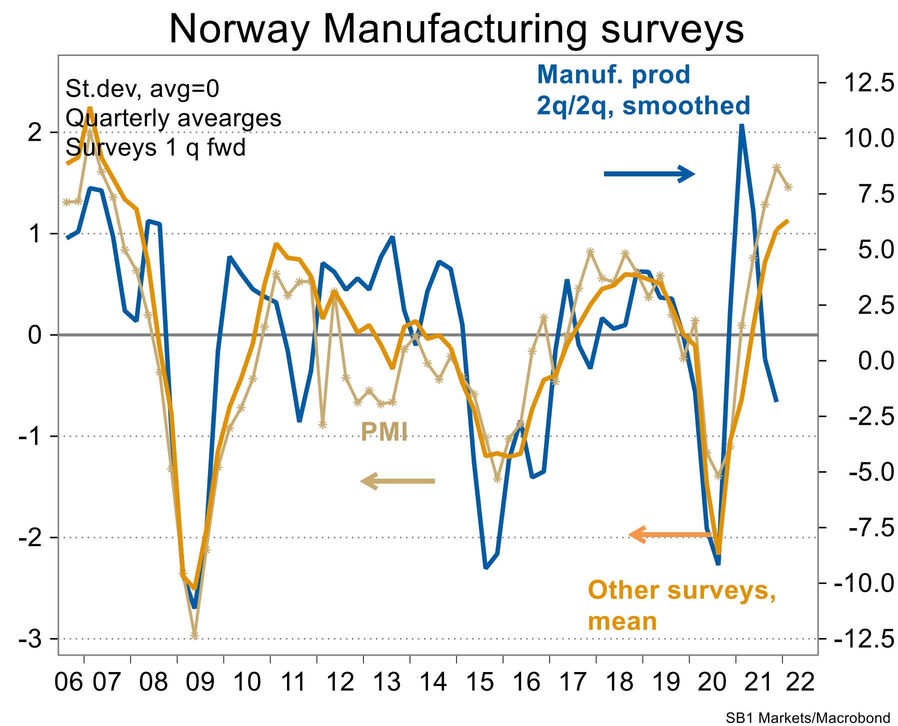




- German services were the weak link in December, very likely due to Covid measures implemented (before and 'after' Omicron)
- France and Spain still report strong growth in services – while Italy is placed in middle

# The manufacturing PMI down 5.3 p to 58, still a decent level

## Delivery times and prices are still increasing rapidly, order inflow grew slower

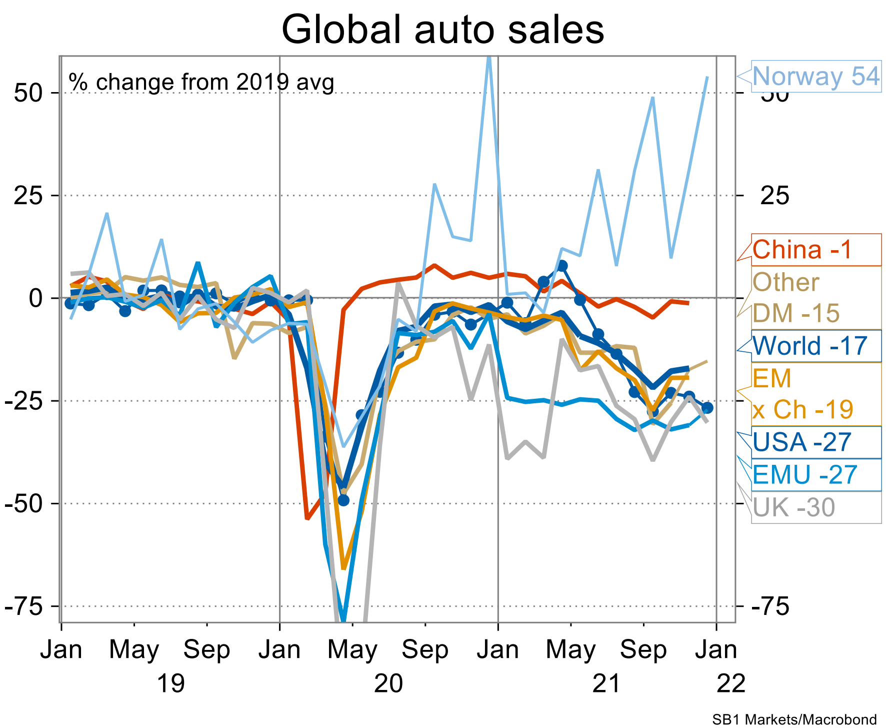


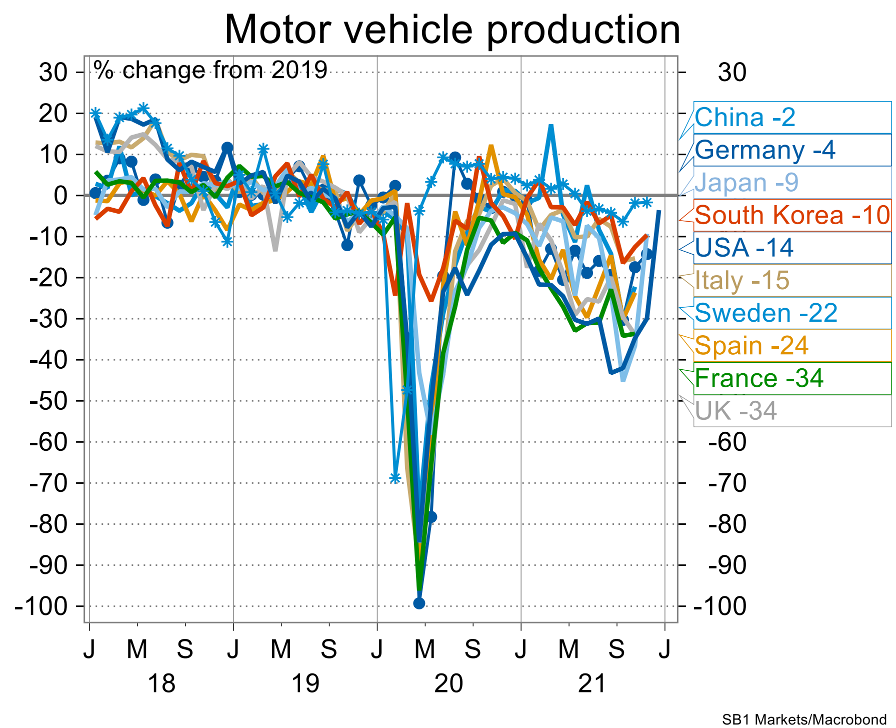




- **All sub-indices** in the total index contributed at the upside. Orders were the most sober – and export orders are just in the balance
- Businesses in Norway, as in other rich countries, are reporting of bottlenecks and increased input prices (check next page). We doubt the record high delivery times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

# Global auto sales probably close to flat in Dec, production sharply up in Oct-Dec

<u>Auto production sharply up recent months</u> – Germany just 4% below the '19 level, was down 43%!

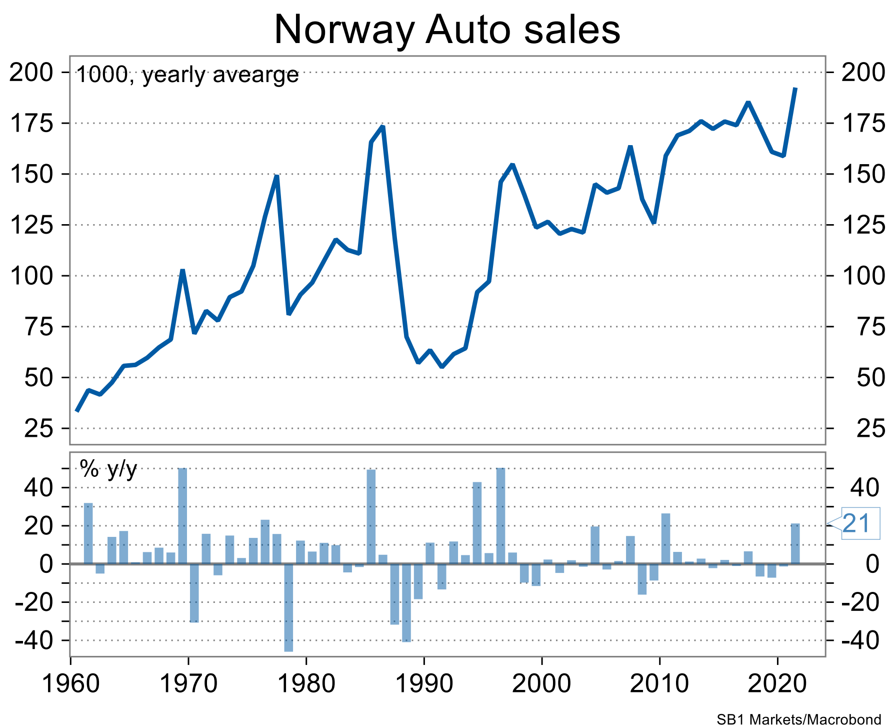


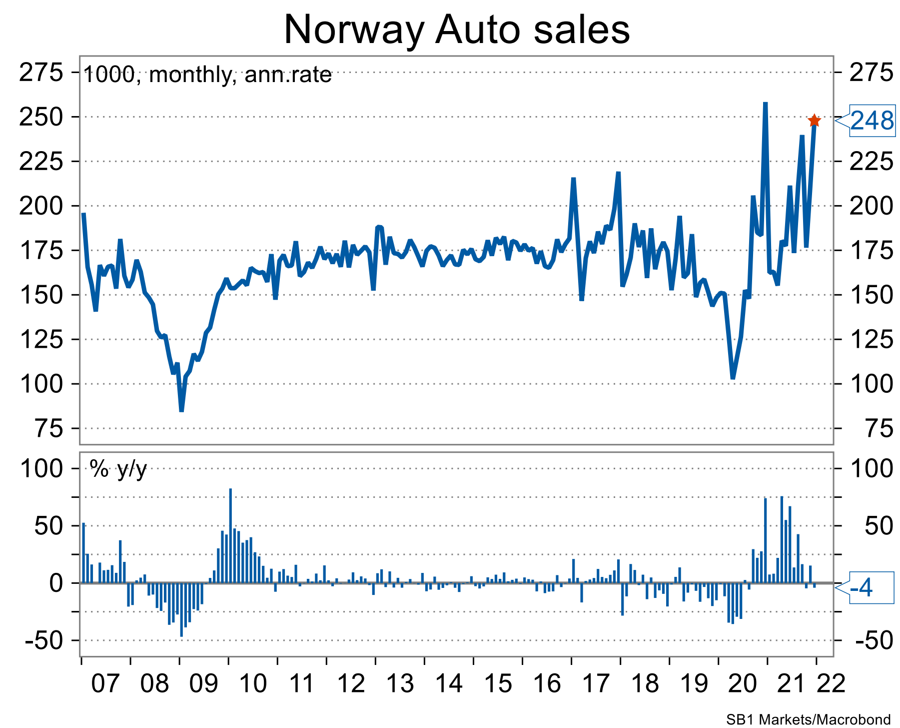




- Too many countries have not reported sales data yet, and we have not calculated global estimate. Some data points at the chart above
  - » **US** down, **EMU** up. Both down 27% vs. the 2019 average
  - » **Norwegian** sales rose to the 2nd highest level ever, 54% above 2019 average sales!

# Norway: Record high auto sales last year – and Dec the 2nd best month last year

Cars are directed here because we pay far better than others?? Sales are up 30% vs the 2019 average!

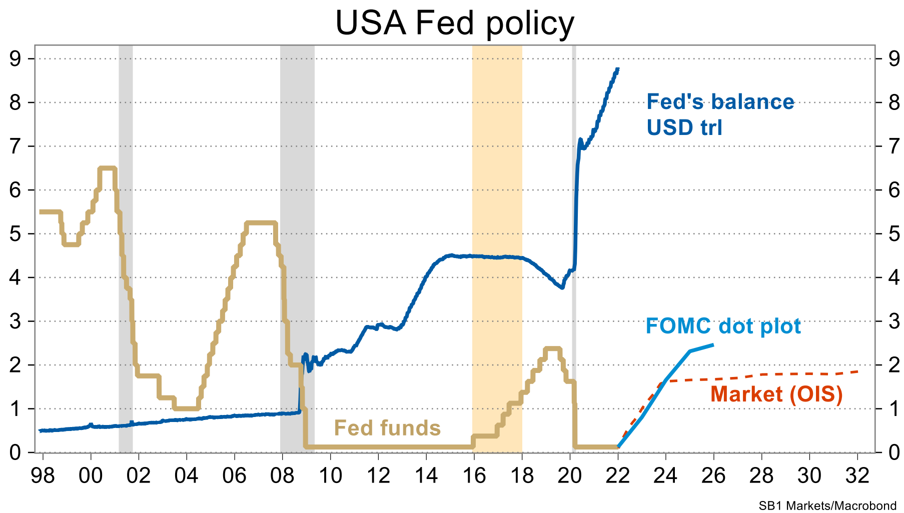


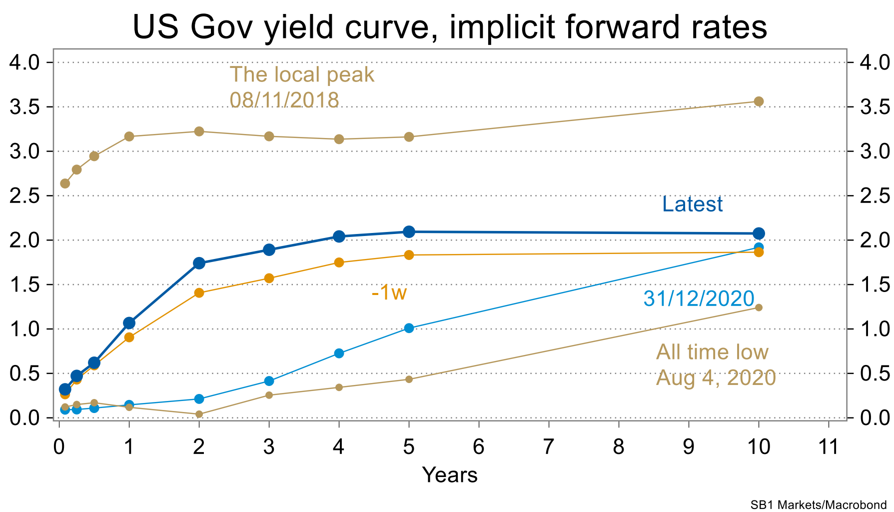




- Sales (first time registrations) rose to 248' in December from 211' in November. Just Dec 2021 has been better!
- Last year, 192' autos were first time registered –above the previous ATH at 185' in 2017 – and before that 173' in 2006!
  - » Sales rose 21% from 2020 – in a year where global production and sales fell

# FOMC minutes: WTF, they meant it! And even more than Powell told us, once again

## Markets were surprised by the hawkish messages in the minutes. QE program soon in reverse?

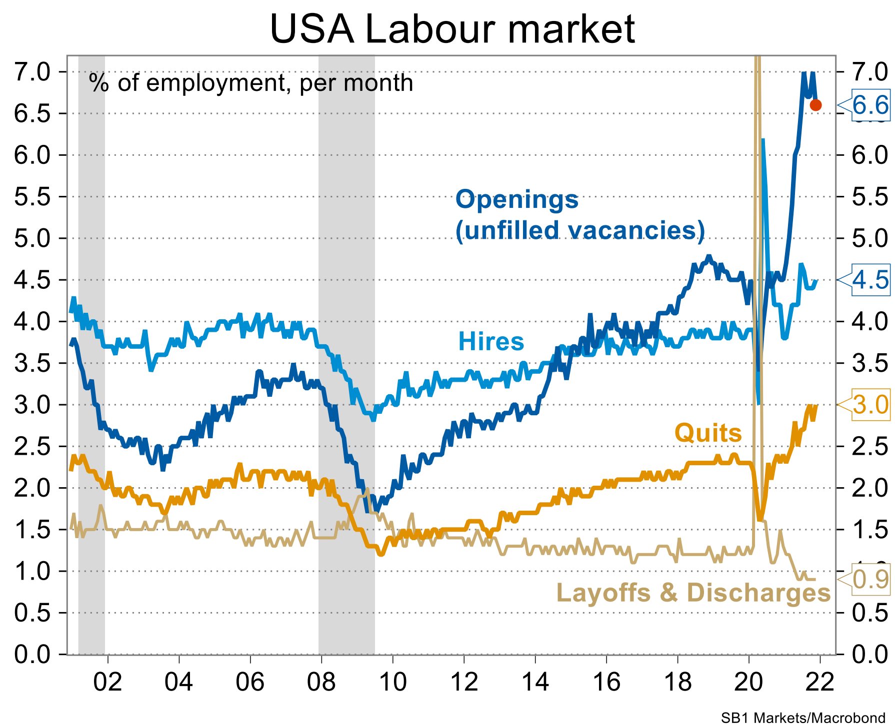



- We can not remember that minutes from a FOMC meeting have created such havoc in markets like we saw at Wednesday
  - » In November, we commented that the minutes from the FOMC meeting (published 3 weeks after the meeting) was significantly more hawkish than Powell's comments at the press conference (just after the meeting).
  - » In December, we learned the implications: The pace of tapering of the QE program was doubled, and the dot plot (FOMC's members interest rate paths) was in average lifted by up to 70 bps, more than ever before
- Minutes from the December 15 meeting were also more hawkish than the impression Powell left at the presser. Even if the story of his 180 degree personal turn-around on policy was impressive – and the change in analysis and the policy signal from the FOMC was unprecedented, the minutes revealed an even more hawkish stance: In a lengthy '*Discussion of Policy Normalization Considerations*' at the start of the meeting, the FOMC members debate the policy outlook:
  - » *That the current economic outlook was much stronger, with* ***higher inflation and a tighter labor market*** *than at the beginning of the previous normalization episode. … the Federal Reserve's balance sheet was much larger, both in dollar terms and relative to nominal gross domestic product (GDP), than it was at the end of the third large-scale asset purchase program in late 2014*
  - » *Many participants judged that, if the current pace of improvement continued, labor markets would fast approach* ***maximum employment****. Several participants remarked that they viewed labor market conditions as already largely consistent with maximum employment*
  - » *Almost all participants agreed that it would likely be appropriate to* ***initiate balance sheet runoff*** *at some point after the first increase in the target range for the federal funds rate. However, participants judged that the appropriate timing of balance sheet runoff would likely be closer to that of policy rate liftoff than in the Committee's previous experience* (2y lag last time, yellow bar)
- A March hike was discounted before the minutes (by XX%) now it has become even more likely (XX %). So far in 2022, the 10 y gov bond rate is up by 24 bps to 1.76%. The TIPS real rate is up by 32 bps – to -0.74%. More to go?

# Some fewer unfilled vacancies in Nov, still an extremely tight labour market

## A record high no. of voluntary quits confirm a very tight labour market




- The no. of **unfilled vacancies** fell by 0.5 mill to 10.6 mill in November, according to the JOLTS report. The vacancy rate was 6.6%, down 0.4 pp
  - » The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit.
  - » The decline in November was broad based, and by the most in leisure/hospitality and construction
  - » **The SMBs (NFIB survey)** reported marginally more trouble filling positions December. These two series are very closely correlated – and the level for both unprecedented
- **New hires rose by 0.2 mill to 6.7 mil or by 0.1 pp to 4.5%** of the no. of employed persons, an unusual high level
- The rate of **voluntary quits** shot up 0.4 mill to 4.5 mill, another ATH. As per cent of employment, a 0.2 pp to 3.0% lift in Nov, back to the per cent ATH level reached in Sep, signalling a very strong labour market. As with unfilled vacancies, quits are closely correlated to wage inflation – for obvious reasons
- **Layoffs** were unch at the lowest level ever, 0.9% in Nov
- **In sum:** The report data confirm an extremely tight labour market – **but also that the balance** is not worsening, even if the unemployment rate has nosedived – which could indicate somewhat less aggressive demand for labour from businesses

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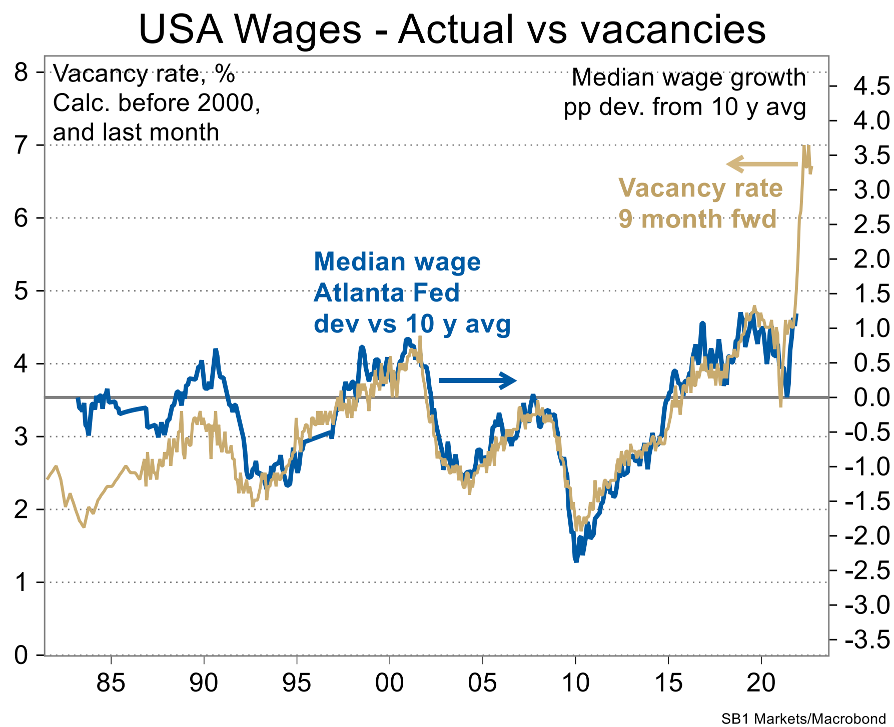
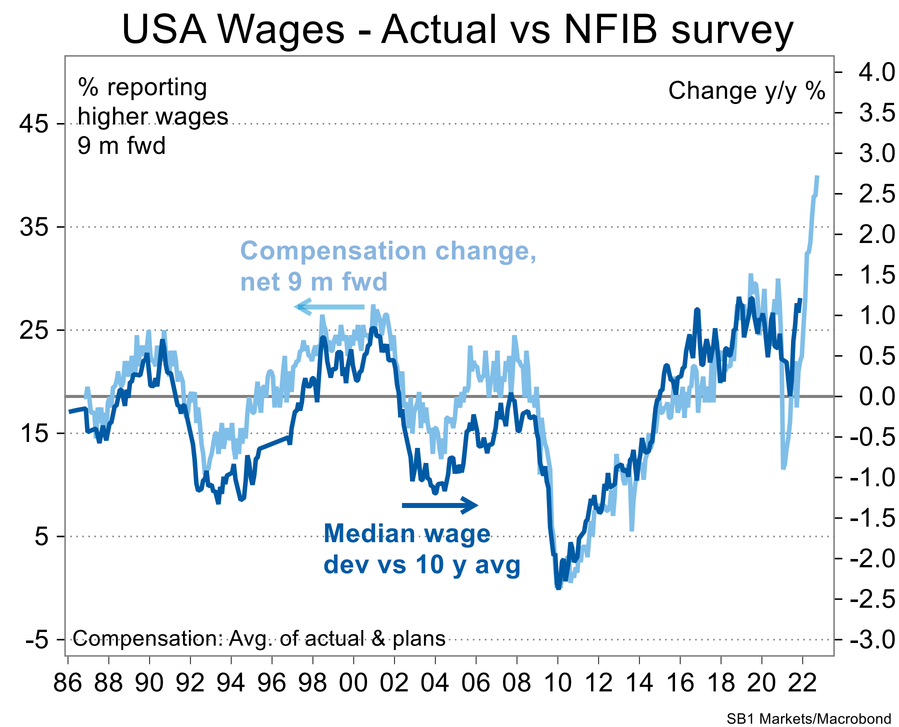
# Vacancies, wage plans signal risk for substantially higher wage inflation

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

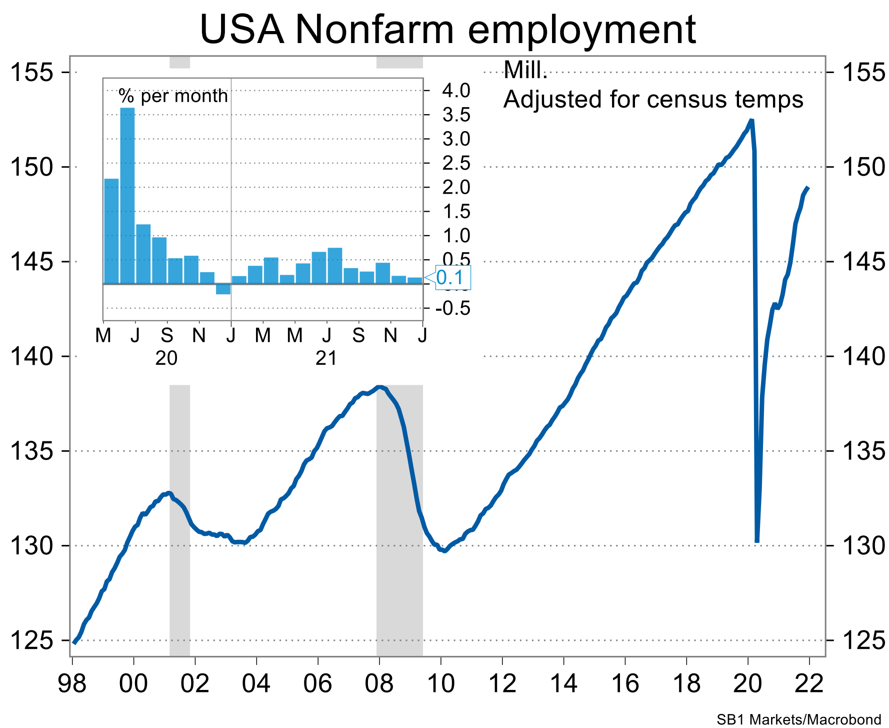


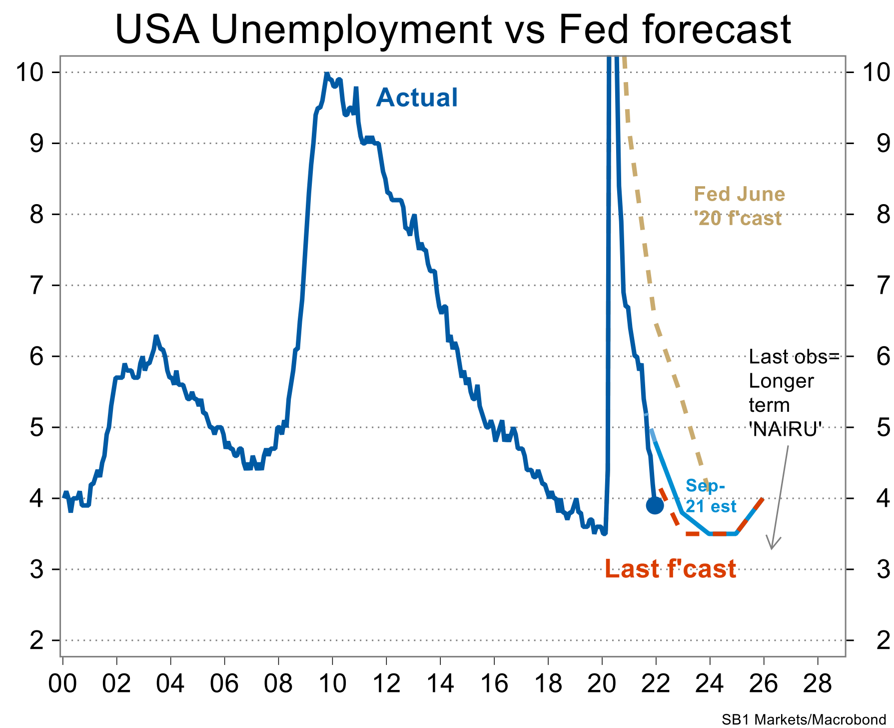




- FOMC members referred to these two surveys/data in the minutes from the December meeting – for good reasons (we have shown them to you for many months)

# Slow growth in payrolls but unemployment fell to 3.9%

## Wages growth higher than expected – and far faster than before the pandemic

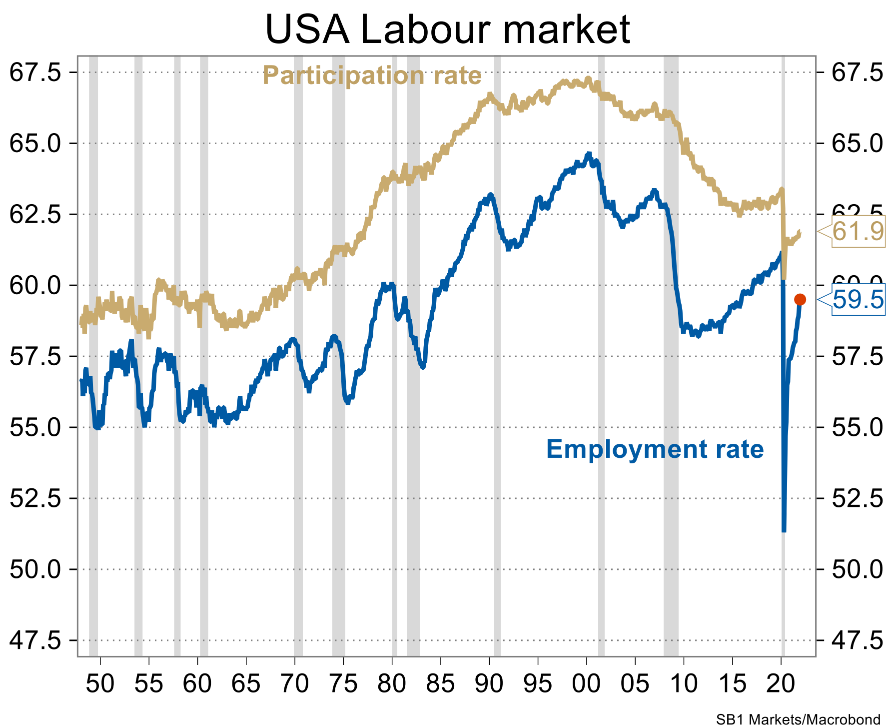


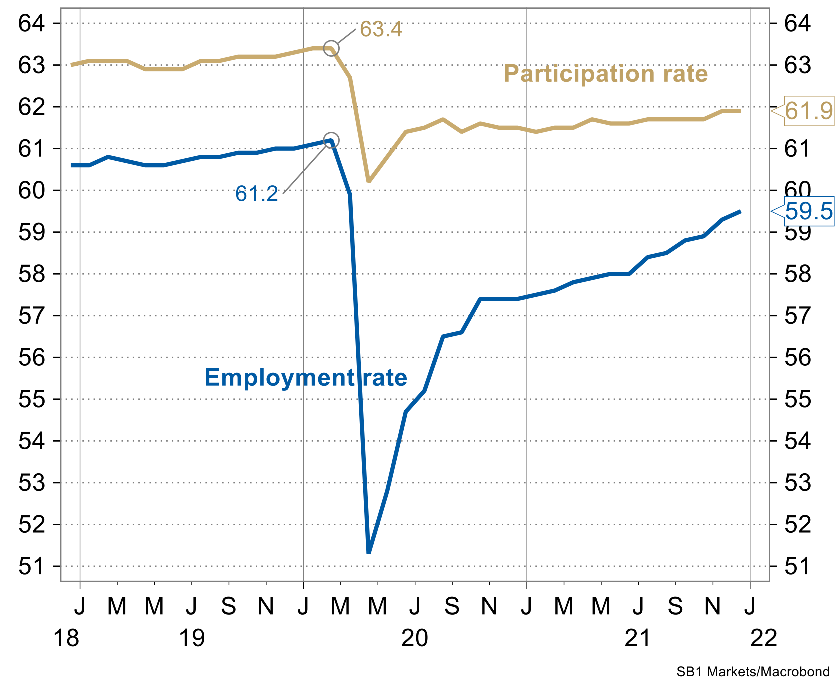




- **Nonfarm payrolls** rose by 199' in December, far less than the expected 450', and way below ADP's 807' estimate. The previous two months were revised up. Data are more uncertain than normal as fewer companies contributes to the report. Payrolls are still down 3.3 mill vs. Feb-20 or by 2.3%. No main sector is above the Feb-20 level. **The employment rate** rose 0.2 pp (0.3%) but is still down 1.7 pp or 2.8% vs Feb-20 - equalling 4.5 mill persons (that is, adjusted for growth in the working age population)
- **The participation rate** was unch at an 0.1 pp upward revised 61.9%, ant it is finally trending slowly upwards. The rate is still down 1.5 pp or 2.4% vs Feb-20 – equalling 3.8 mill persons
- **The unemployment rate** fell 0.3 pp to 3.9%, expected 4.1%, to below FOMCs NAIRU estimate. The decline past 6 is the fastest ever before (barring last summer)
- **Average wages** rose by 0.6%, 0.2 pp more than expected, and the history was revised up 0.2%. The annual rate fell 0.4 pp to 4.7%, expected 4.2%. Wage growth is accelerating in almost all sectors, and the underlying growth rate since the spring is 5.7%, even if low paid workers have returned to their jobs
- **Maximum employment:** Even if the participation now may be trending slowly up, the supply side is obviously the bottleneck at the labour market. The tight labour market signals continued wage inflation at a level which is not consistent with CPI inflation at 2% over time (barring a substantial productivity shock, or a crash in corp. earnings). The Fed is now recognising that the maximum employment target is (or very soon will be) met – as wage inflation in the end is the final criterium

# The participation rate unch. in Dec, but revised up 0.1 pp, trending slowly up?

Still, the supply side response to the strong demand for labour is very disappointing




- **The labour force participation rate** was unch at 61.9% (of the working age population, 16 y +), following an 0.1 pp upward revision of November, expected one tick up (to 61.9%). The trend is slightly positive but far less than normal during economic recoveries
  - » The participation rate is down 1.5 pp (vs the working age population) vs the pre pandemic level, equalling 2.4% or almost 3.8 mill persons
  - » In December, 1.1 mill persons (-0.2 mill) responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons. Thus, most of those who have 'not returned' do not blame the coronavirus pandemic. Of the 1.1 mill, just 0.4 mill say they want a job
- **The employment rate** climbed 0.2 pp to 59.2% (or by 0.3%), and the unemployment rate fell by 0.3 pp to 3.9%. Employment grew by 0.4% or by 651', more than 3 more than the increase in non-farm payrolls. Over time, these two measures are reporting the same growth rates, but they may differ substantially from month to month. The employment rate is still down 1.7 pp vs. Feb 20, equalling 2.8% or 4.5 mill persons

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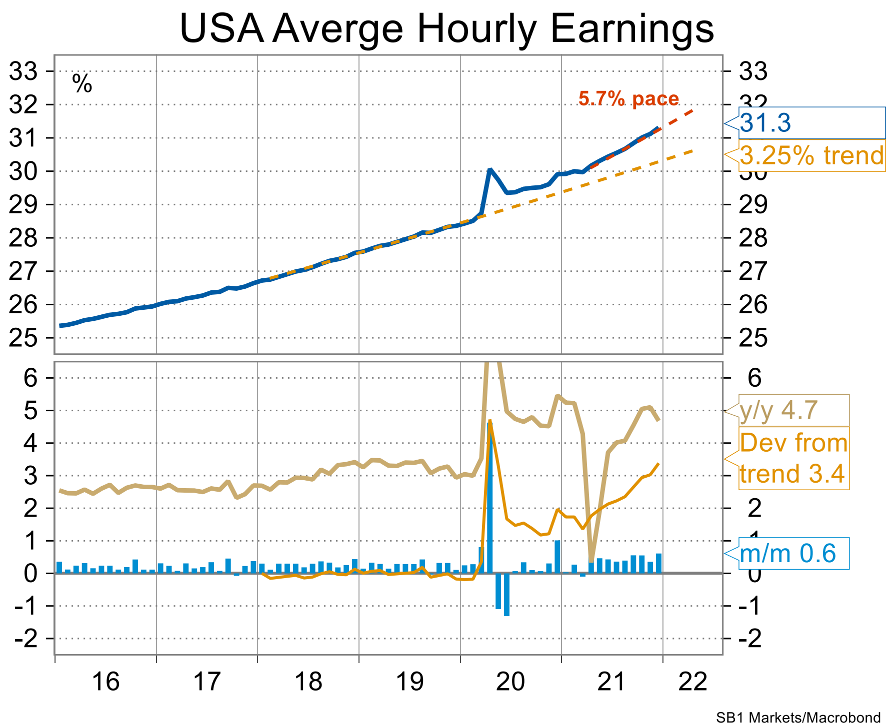
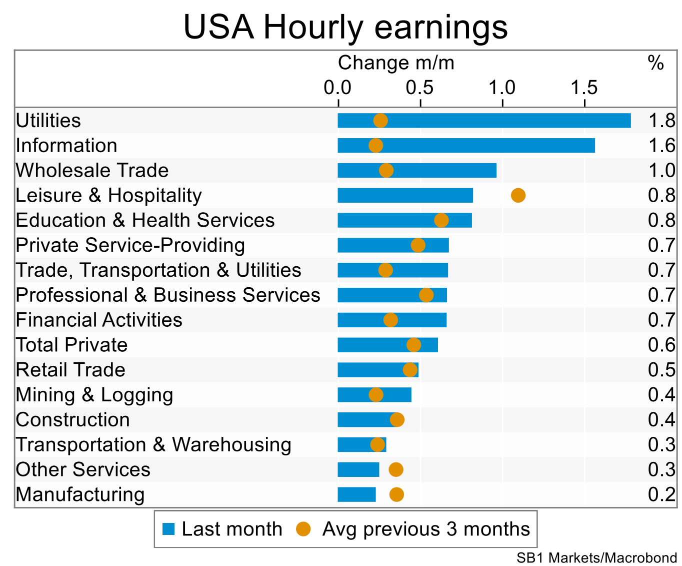
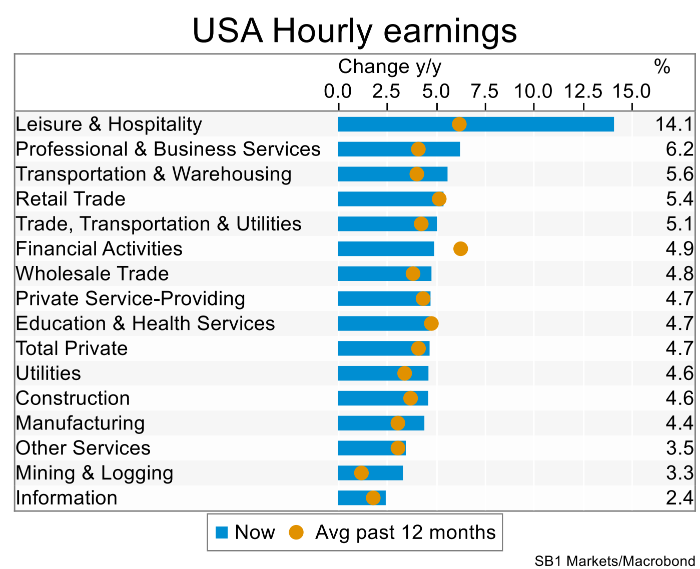
# The average wage up 0.6% in Dec, the pace since the spring at 5.7%

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



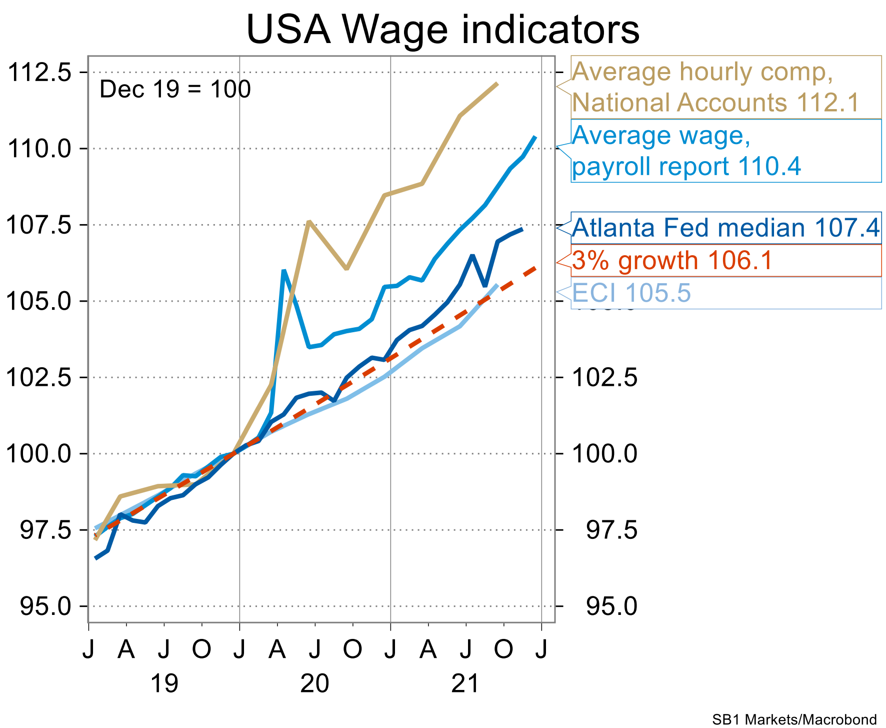

- The **average wage rose 0.6% m/m,** 0.2 pp more than expected. History has been revised significantly up. Annual growth in Nov was 5.1%, revised from 4.8%. The 4.7% y/y Dec outcome was 0.5 pp higher than expected
- Since April, the underlying growth has equalled 5.7%. It is not possible to blame the employment mix, the low paid has returned to their jobs
- Wages in leisure, hotels & restaurants rose by 0.8% m/m, and are up 14.1% y/y! Wage inflation is accelerating in a large majority if sectors

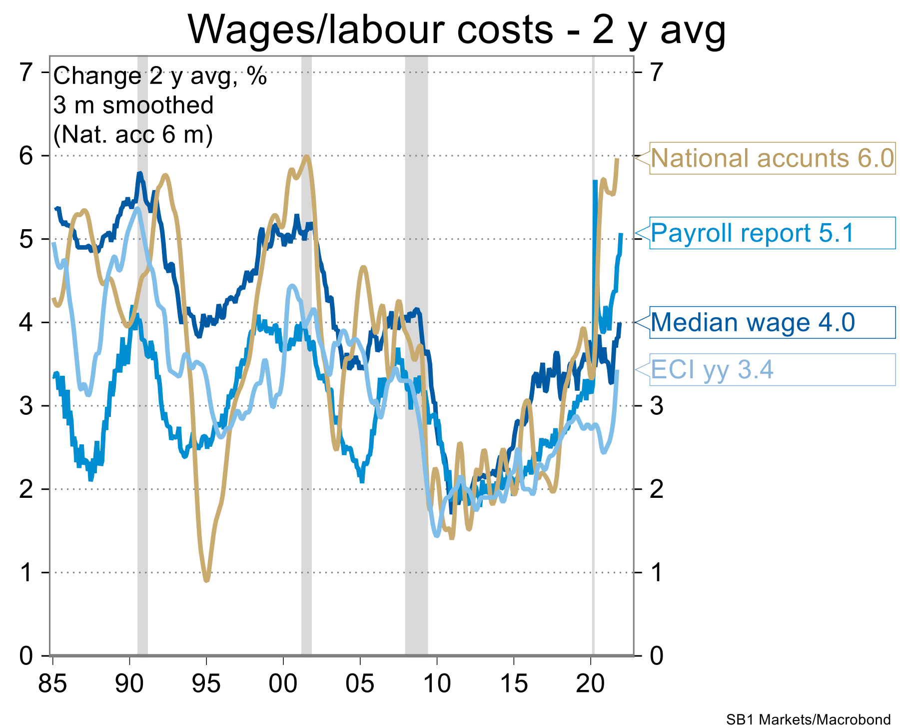


# All wage indicators are reporting higher wage inflation

## … also measured over the 2 past year to remove the base effect of the early pandemic period

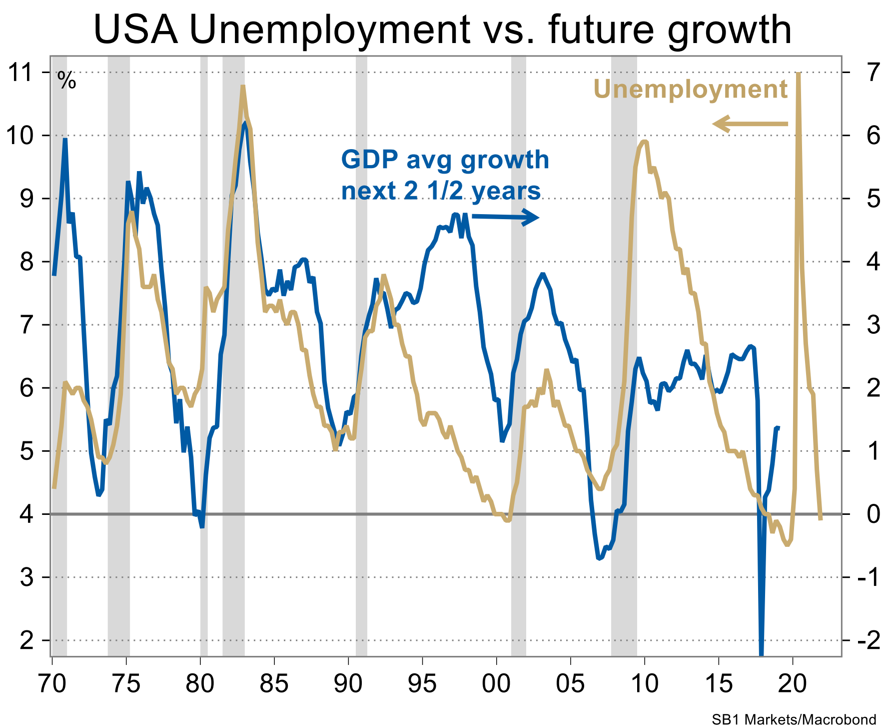



- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years, also if we apply a 2-year average growth rate, to exclude the impact of changes in the first part of the pandemic (chart to the right)
- Wage/earnings/compensation is at least 1 pp above the 10 y average, some 2 – 3 pp higher. There is an obvious risk that wage inflation will accelerate further – probably until the next recession hits as the labour market is extremely tight
- Over the past 10 years, inflation has been close to 2%, and well above 2% if calculated over a shorter period
- It will be a challenge to keep inflation at 2% if wage inflation remains at 4% or above. However, profit margins will probably decline substantially from the present very high level, leaving room for somewhat higher wage inflation without higher price inflation. Probably we will get some of both – and a tighter monetary policy

# If unemployment is low now, what's the outlook?

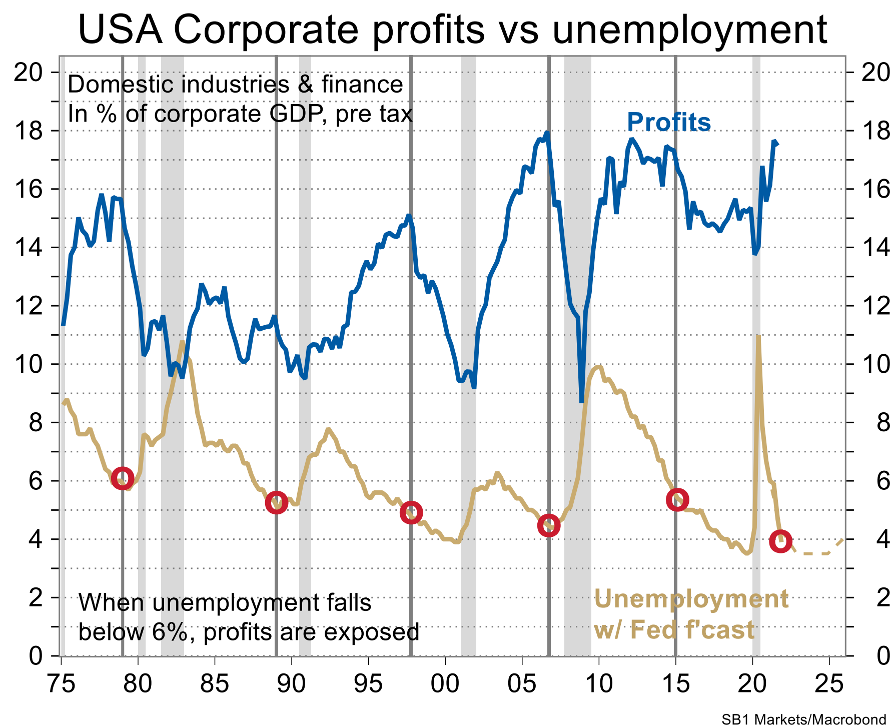
## Normally, not that good for growth




- GDP growth the next years (here 2½ years), is negatively correlated to the current unemployment rate – for obvious reasons

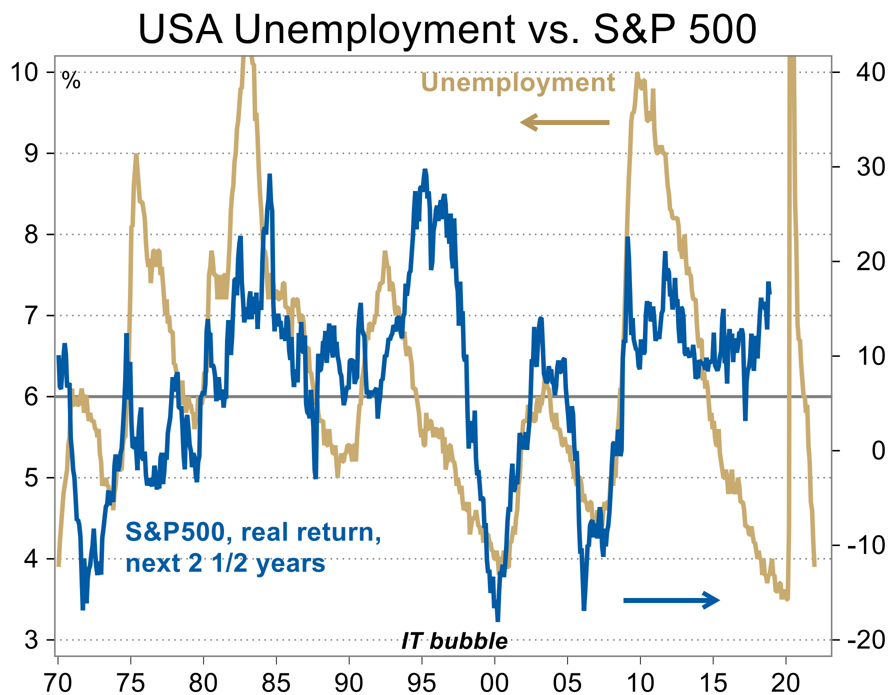
# If unemployment is low now, what's the outlook?

Normally, not that good for profits



# If unemployment is low now, what's the outlook?

Normally, not that good for the stock market either

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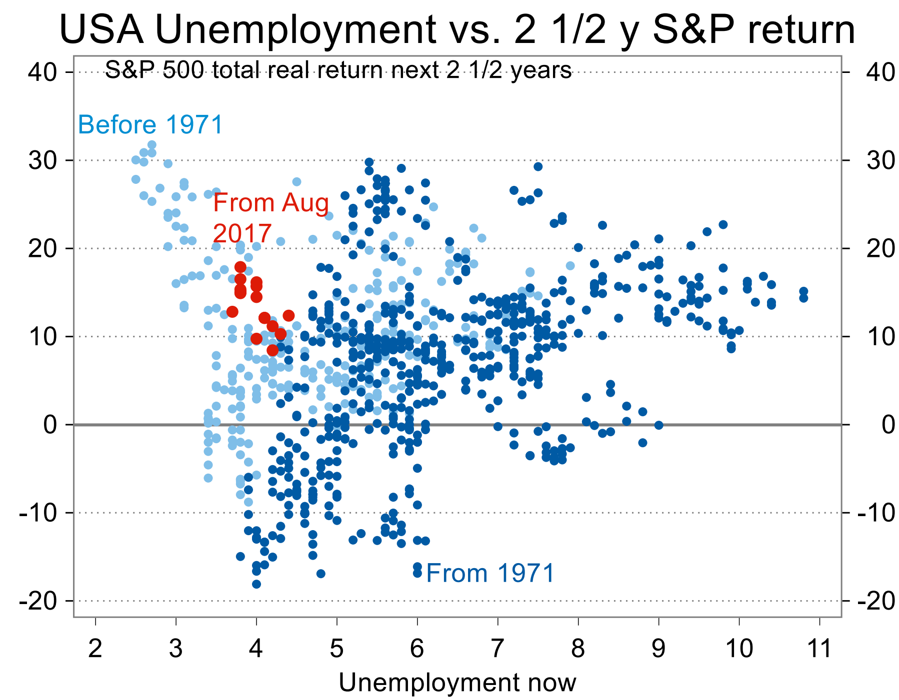
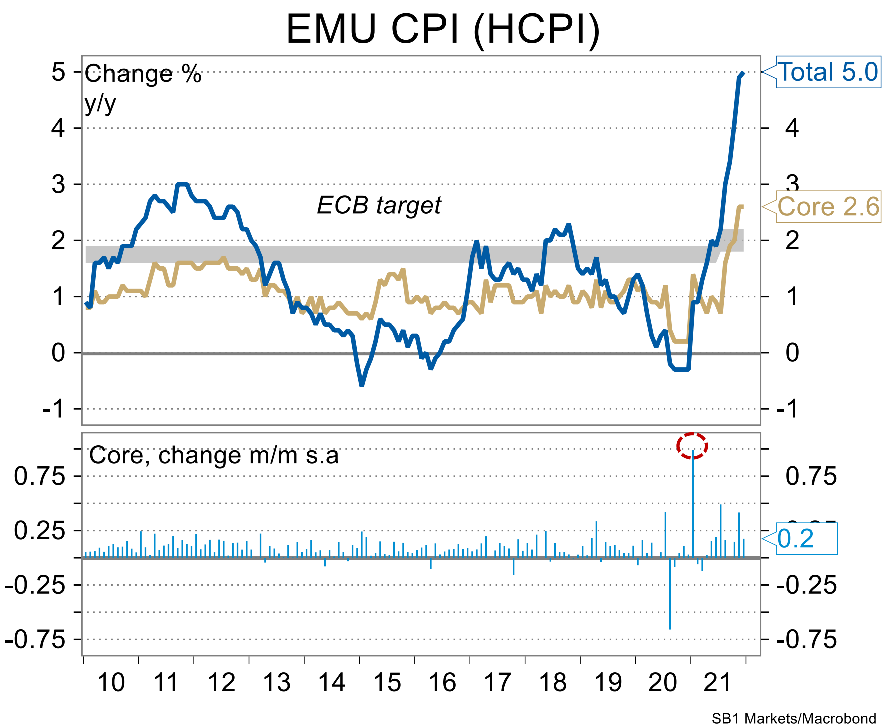
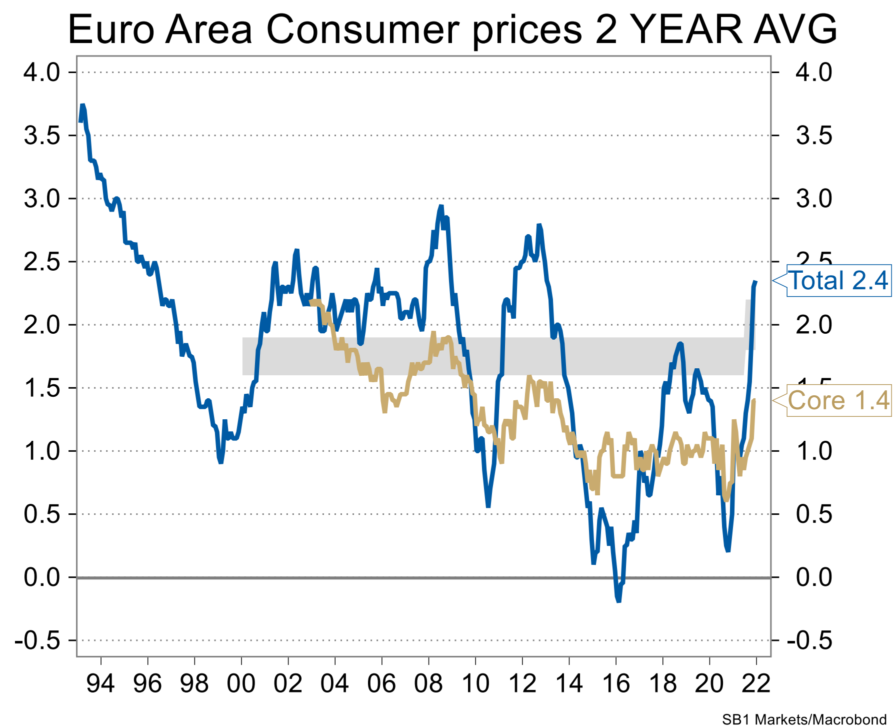



SB1 Markets/Macrobond

# Inflation up 0.1 pp to 5.0% in Nov, core flat at 2.6% - 0.2% & 0.1 pp above expext.

Headline inflation over the past 2 years is 2.3%, the core ex food & energy at 1.4%

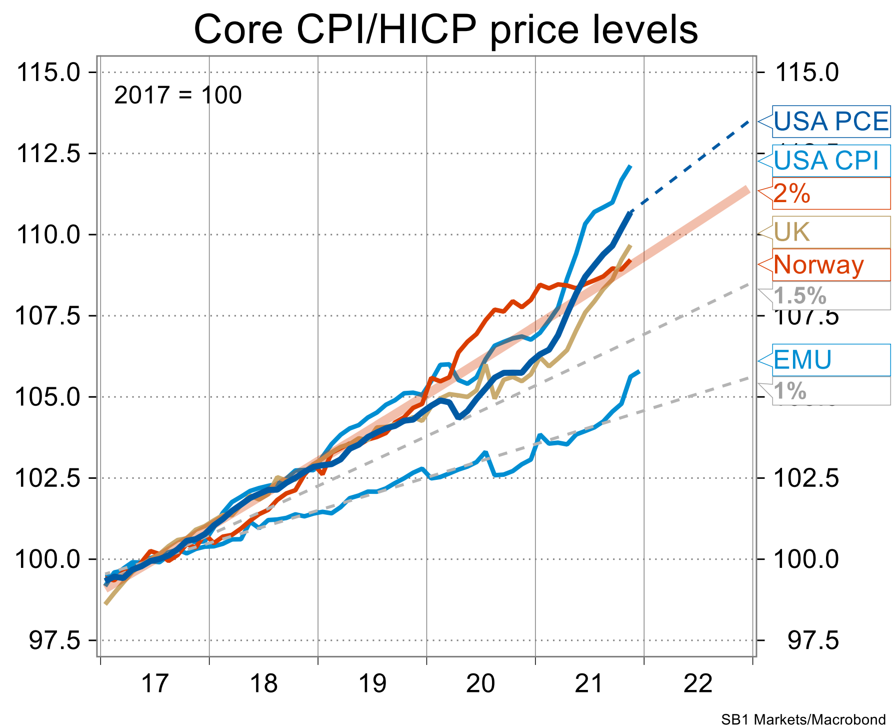



- **The headline HICP** rose 0.3% m/m in December, down to 0.7%. Energy prices fell marginally – but they are still up 26% y/y (but still 'just' up 17% above the avg 2019 level, not that dramatic). Food prices rose by 0.5% m/m, and they are up 3.2% y/y
- The annual rate at 5.0% is far above ECB's inflation target – but prices are just up 2.3% over the past 2 years (in avg), even with highly unusual surge in energy prices
- **Core prices** rose 0.2% m/m, and the annual rate was unch at 2.6%. Again, one year ago, annual inflation was just 0.2%, and the avg over the past 24 months is just 1.4%. The core CPI y/y growth rate will very decline substantially in January, as prices rose 1% m/m in Jan-21 (right chart, red circle)
- **Wage inflation** is still modest, but more unions are requesting compensation for the hike in consumer prices…

# US inflation is still a rather special case

## UK prices are accelerating – and are above a long term growth path




- EMU core CPI has shot up past two months but is still at 'at low level'

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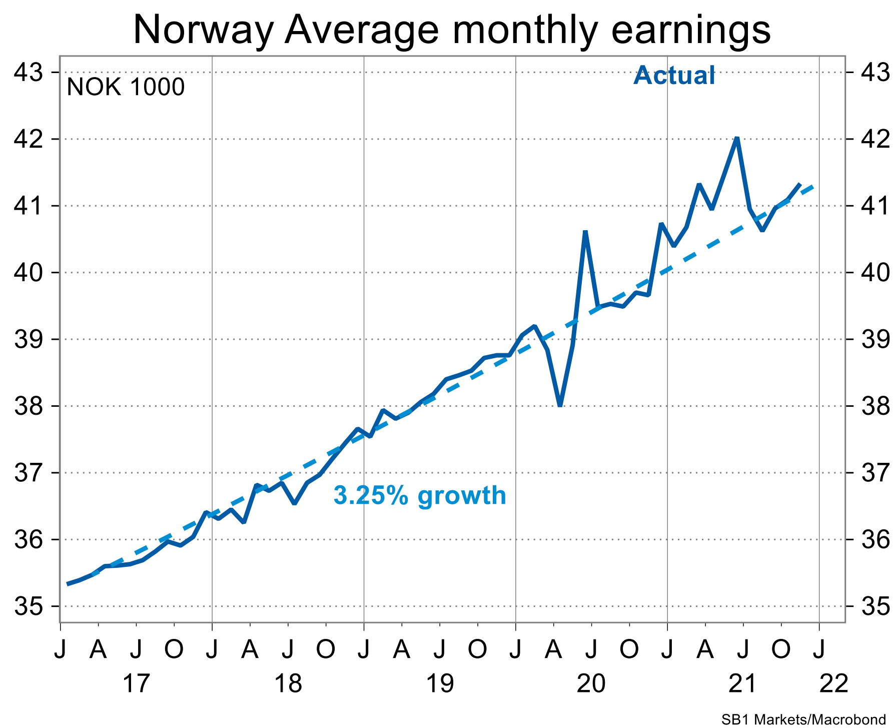
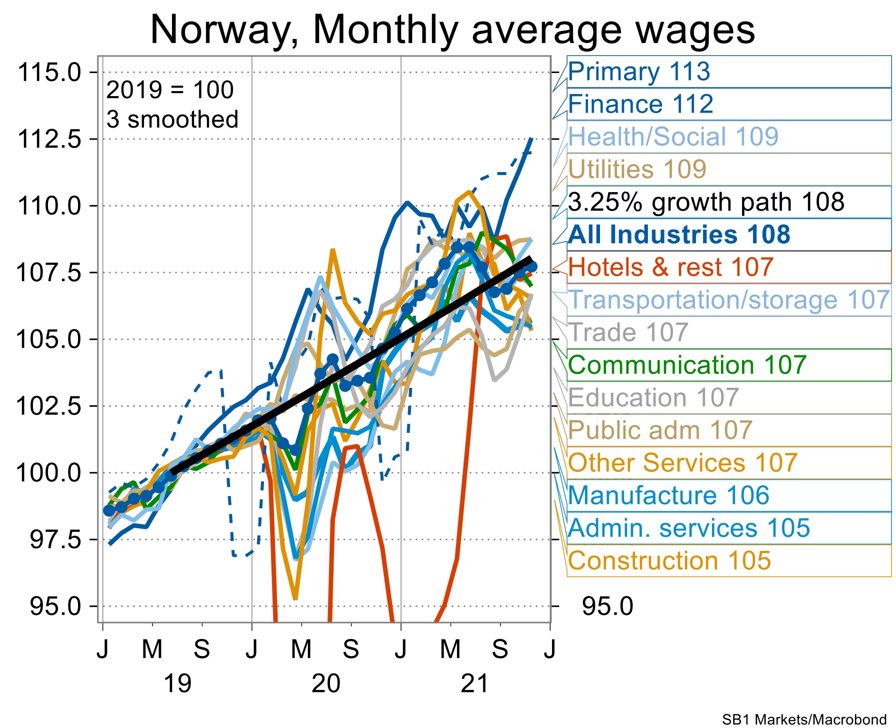
# Wage growth still in check – it is still at a 3.25% growth track

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

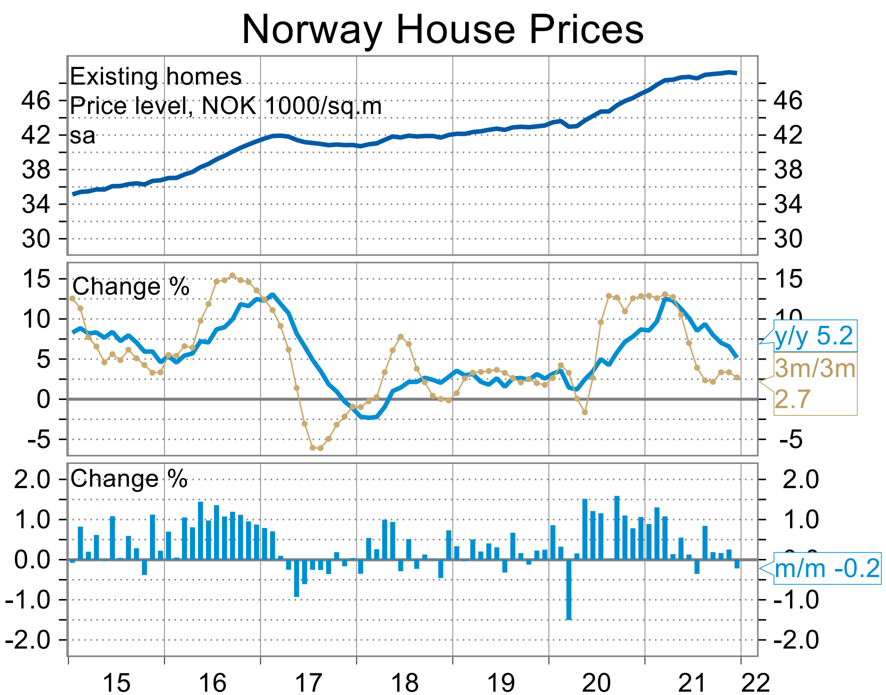



- Monthly average cash earnings are rather volatile, also depending on hours worked, bonuses
- Earnings have been above the 3.25% growth path from the start of the pandemic until June. The return of low paid service sector workers took the average down

# House price inflation has slowed – down 0.2% in December

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



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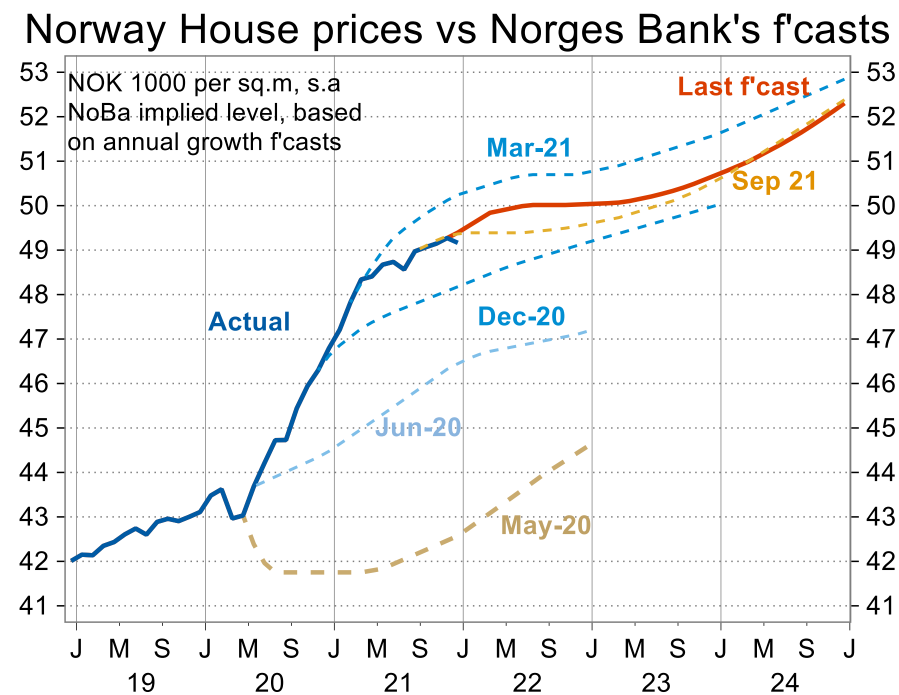

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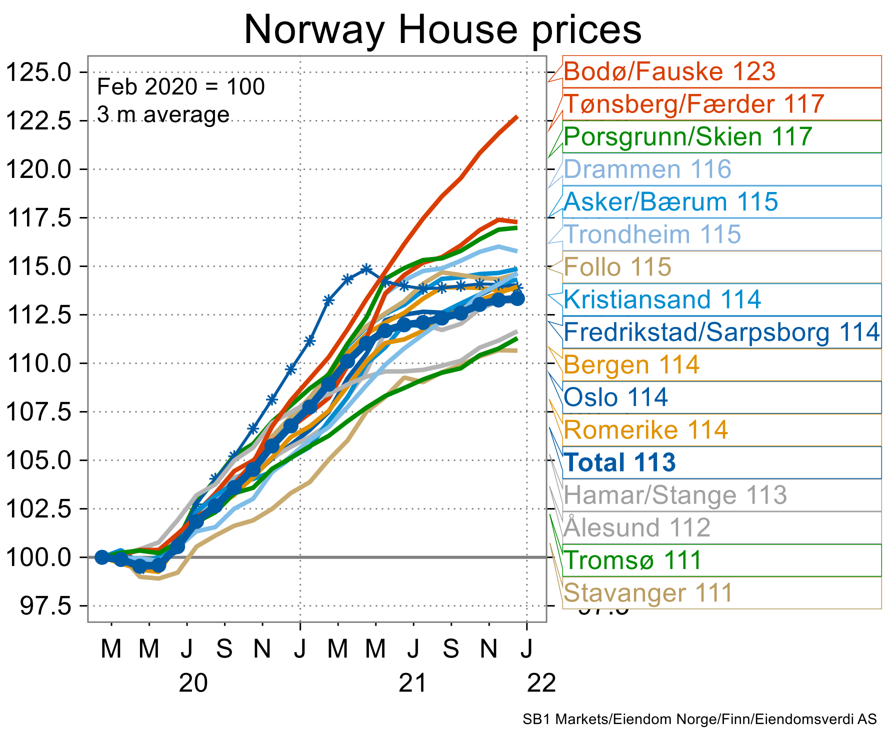
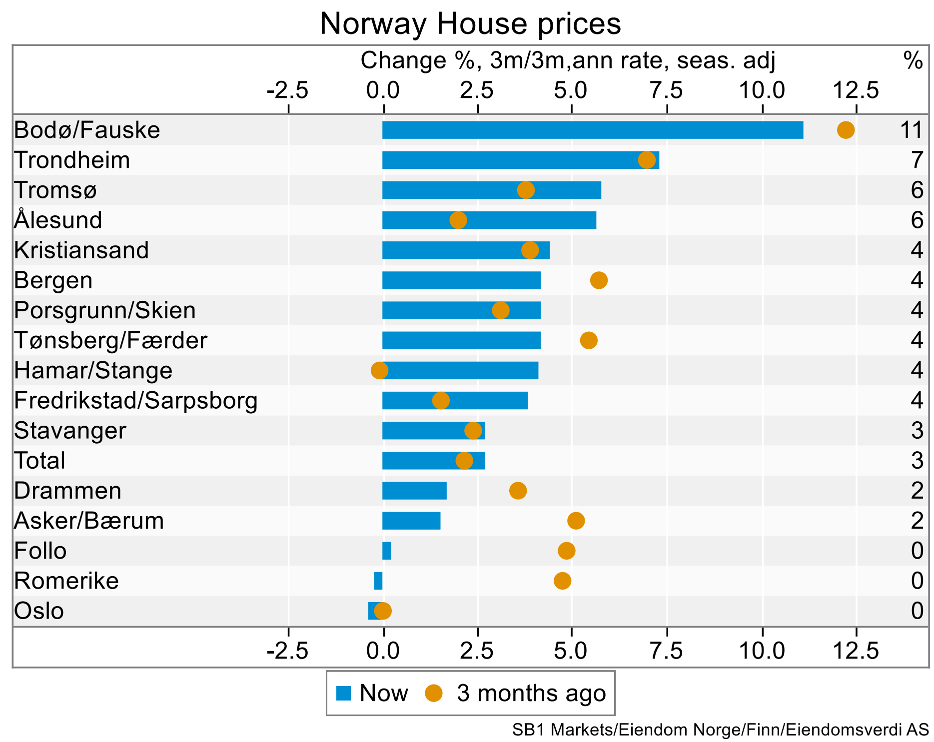
- **House prices** declined 0.2% (seas adj, -1.3% unadjusted) last month, following the 0.3% lift in Nov, we expected +0.2%. Prices are up by 2.7% 3m/3m (annualised), down from >12% in March. Prices are up 5.2% y/y, down from the peak at 12.5%. The decline could have been explained by Omicron angst, but the no. of sales rose sharply to the 2nd highest level ever
- Prices fell in 10 cities (from 5) and rose in 5 (11). Prices fell the most in Eastern cites around Oslo (Drammen at the bottom). Along the coast up to Tromsø from Ålesund prices rose 0.6 – 0.8%. Prices fell by 0.2% in Oslo, and they are down almost 2% from the peak last February
- The **inventory of unsold homes** fell sharply, back to the ATL level in September. The inventory outside Oslo/Viken is falling rapidly
- Our Norway x Oslo **flow based price model** signals a 0.75% m/m price growth, our Oslo model almost +1%, from zero 6 months ago. Very likely, the outlook for higher rates is dampening willingness to pay, perhaps by 0.5 – 1 pp/month
- **Norges Bank** expects a 0.3% m/m appreciation in Q1, as slowdown in Q2, and flat in H2.  Our forecast is marginally weaker

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

## Oslo and surrounding Eastern 'towns' have been the laggards recent months

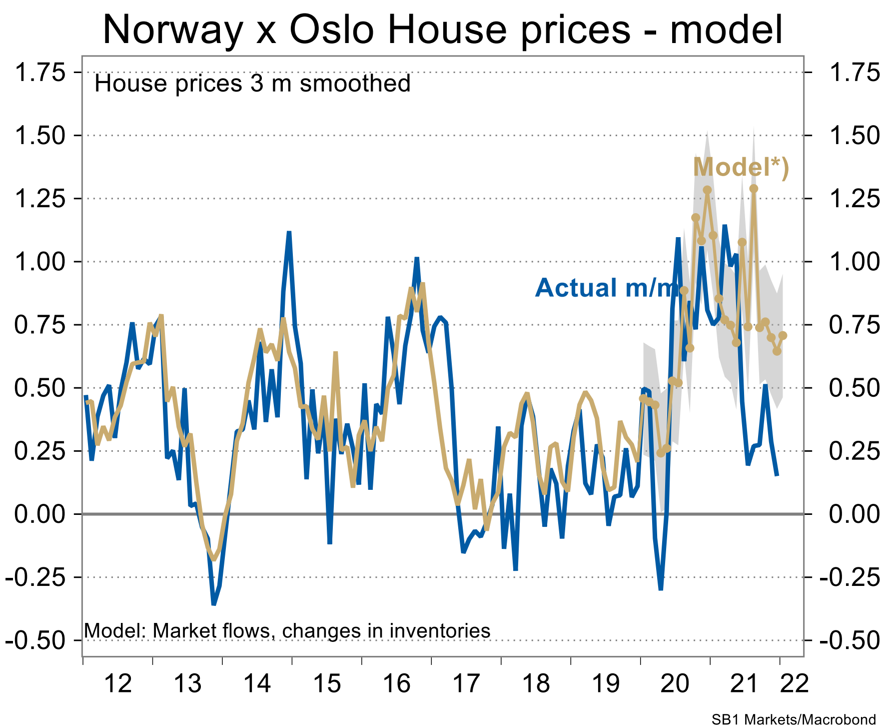


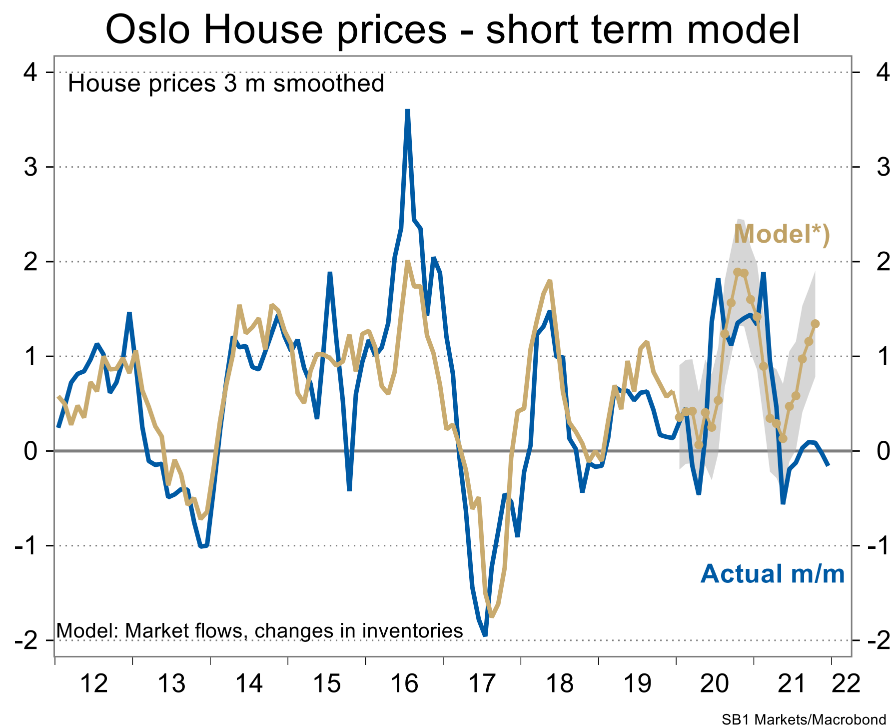




- Bodø the winner the past few months (3m/3m) as well
- No clear pattern in changes in house prices during the pandemic or over the recent months but the 4 biggest cities have been somewhat on the weak side since before the pandemic. However, recent months both Trondheim and Bergen has been on the upper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

# Short term market flows suggest decent price growth

## Are higher mortgage rates dampening prices ½ - 1 pp/month?

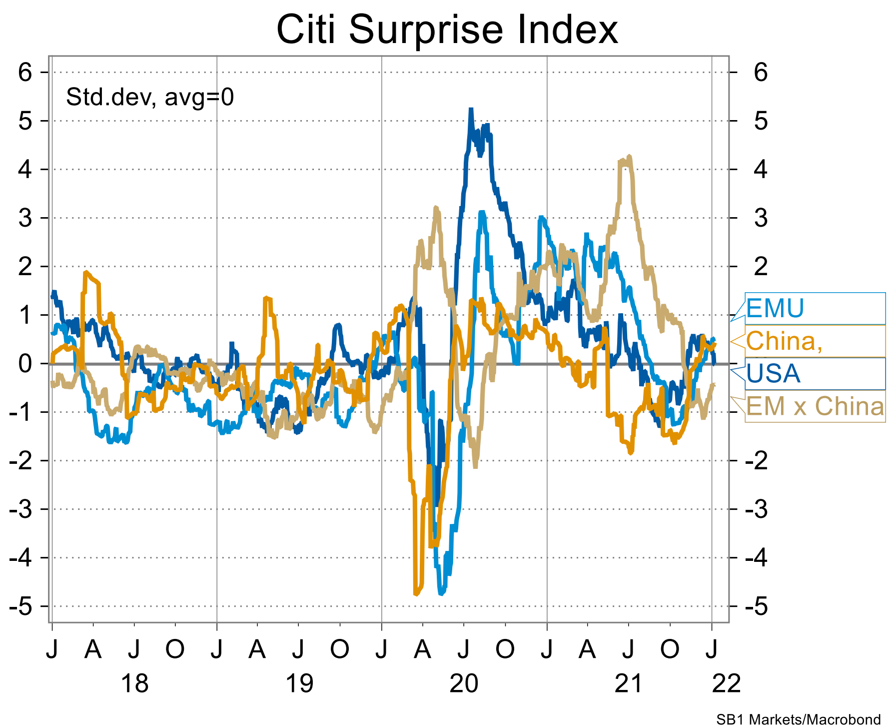


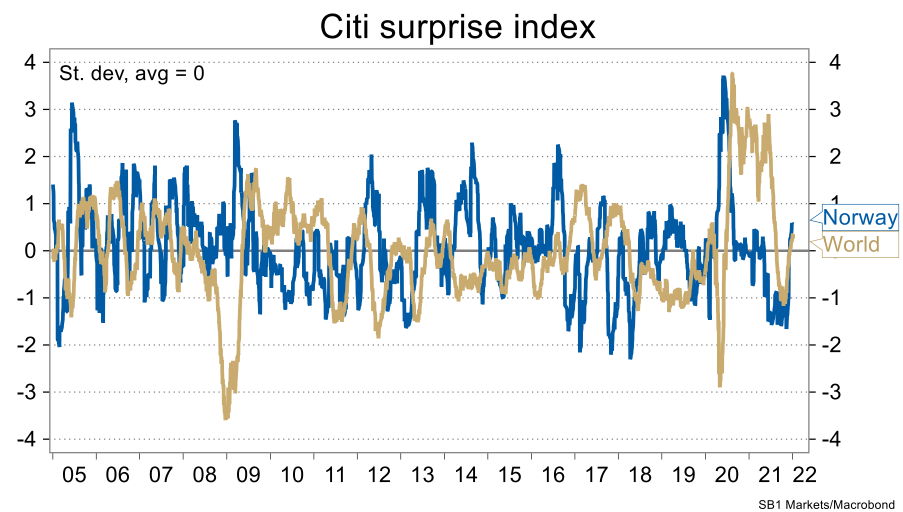




- Our **national x Oslo model** based on flows and the inventory signals a 0.7% growth in house prices per month, vs the 0.2% average growth recent months
- Our **Oslo model** signals a 1 – 1.5% growth (up from zero 6 months ago), vs a actual moderate decline
- **Mortgage rates** are not included in these short term market models, because they have not consistently added to the models performance. Still, we can possibly address the gap between actual price growth and the model forecasts as an impact of Norges Bank's campaign to normalise interest rates. If so, a ½ - 1 pp/month impact – and the most in Oslo
- *These models are not long term price models, just short term price models based on flows of (existing) houses approved for sale actual sales & changes in inventories*

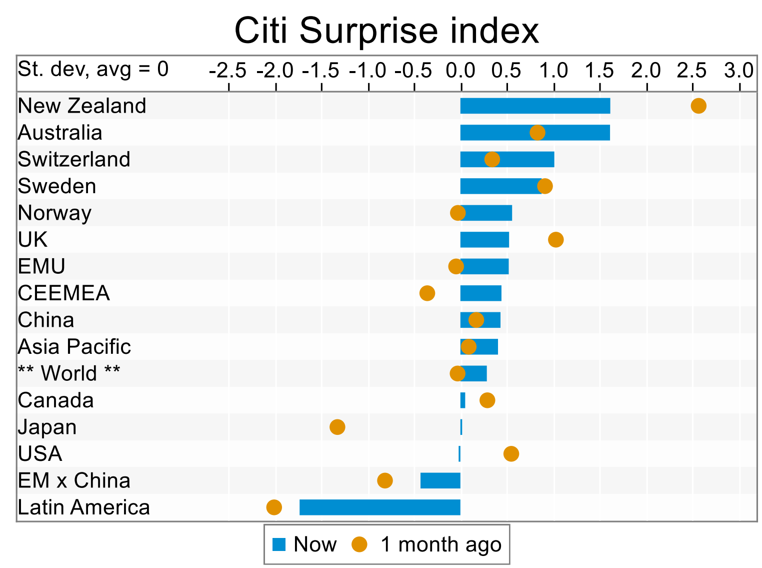
# The global surprise index further up and slightly above par

## Both EMU, China above. US down to par, EM x China still below but less recent weeks




- **Norway** was surprising sharply on the downside through most of 2021, 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

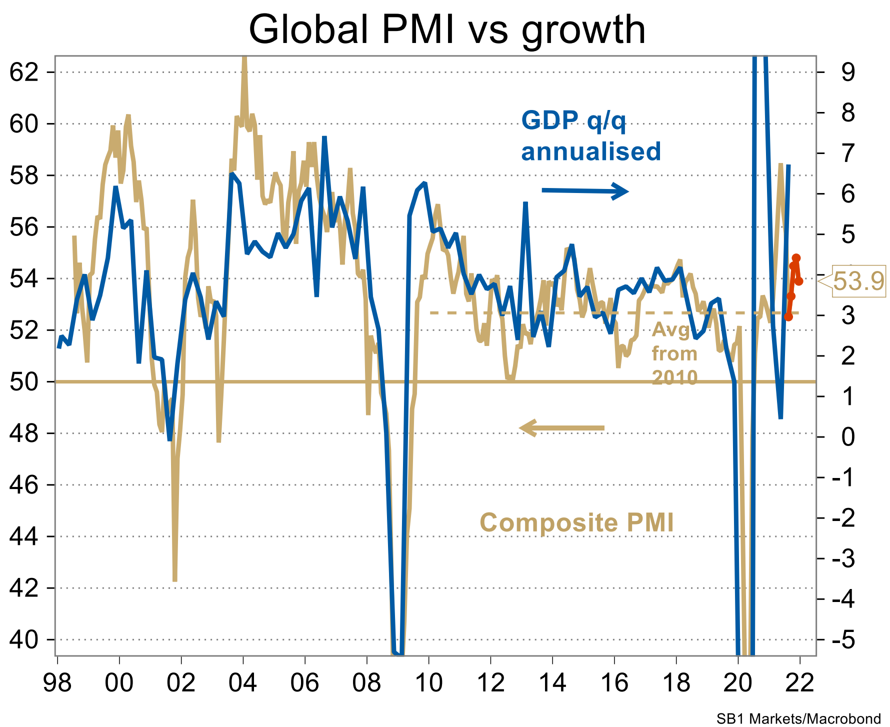
The world around us

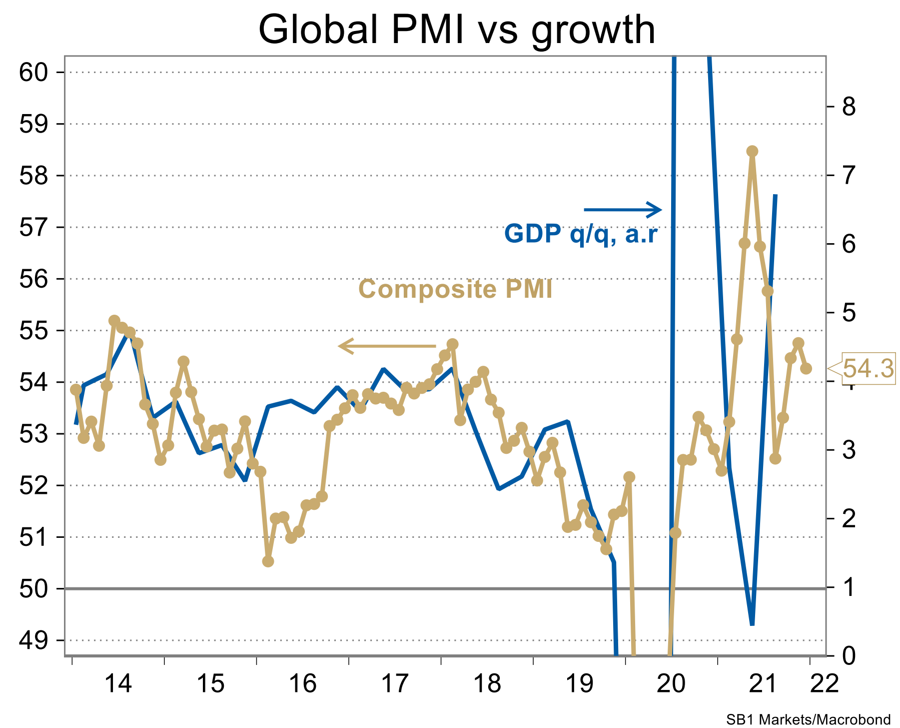
The Norwegian economy

Market charts & comments

# The global PMI down in December, still strong

The composite PMI fell 0.5 p to 54.3, signals a 4% global above growth pace, well above trend

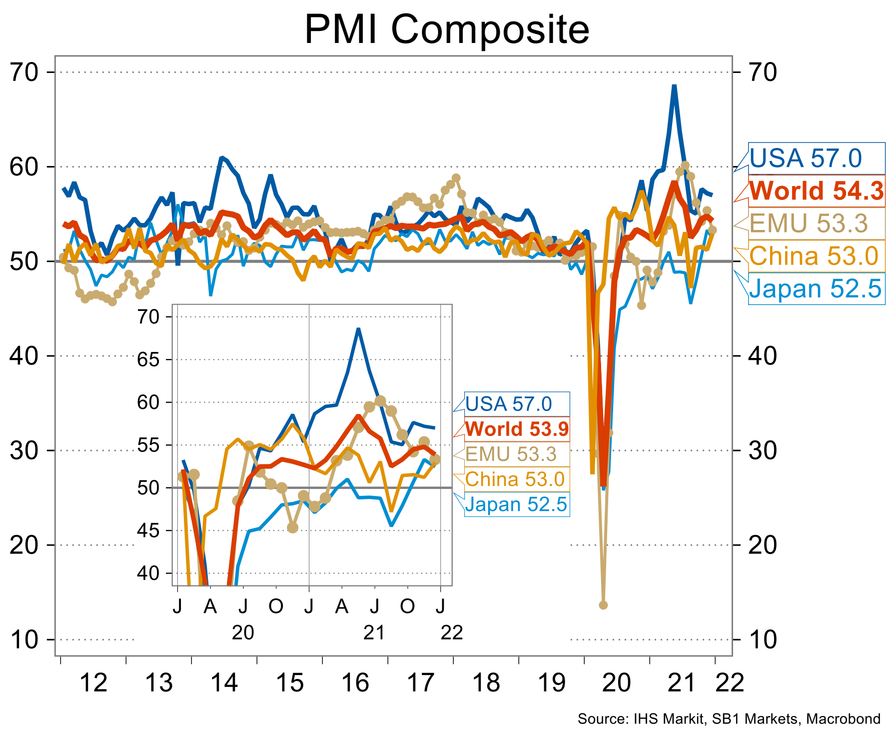


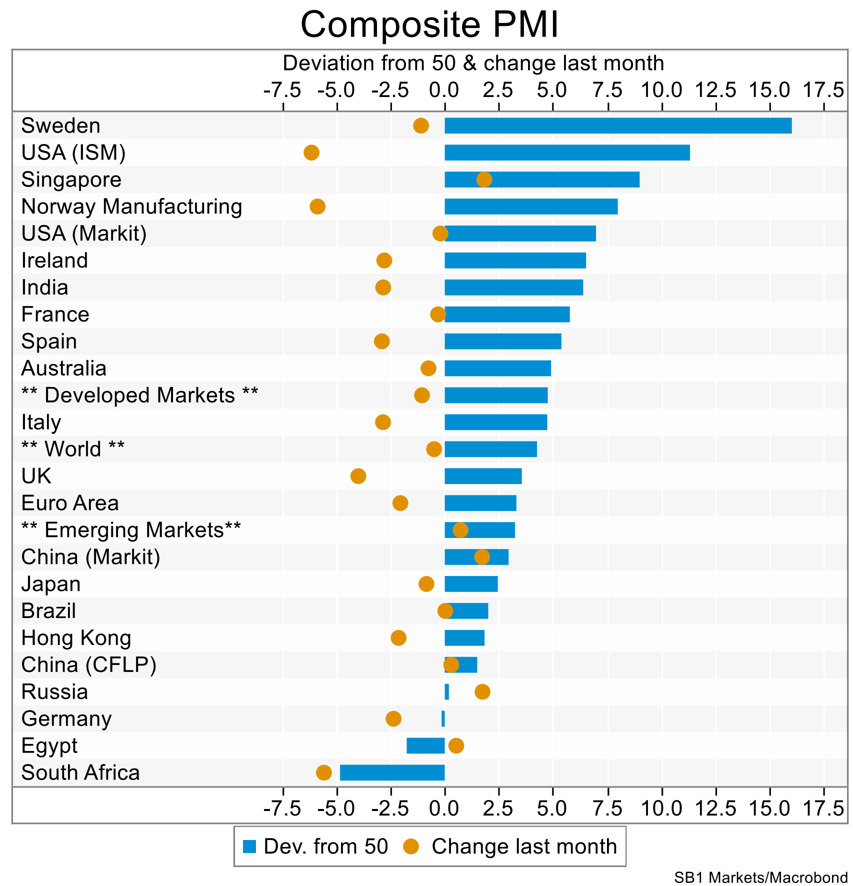




- The **global PMI** was 0.4 pp above our forecast, which was based on the flash estimates from the rich part of the world
- **Manufacturing** output grew faster in December, while output growth in **services** slowed

# Rich countries slowed; China surprised at the upside, lifted the Emerging M avg

## Just 3 countries report PMIs below 50 but many more countries down than up in December

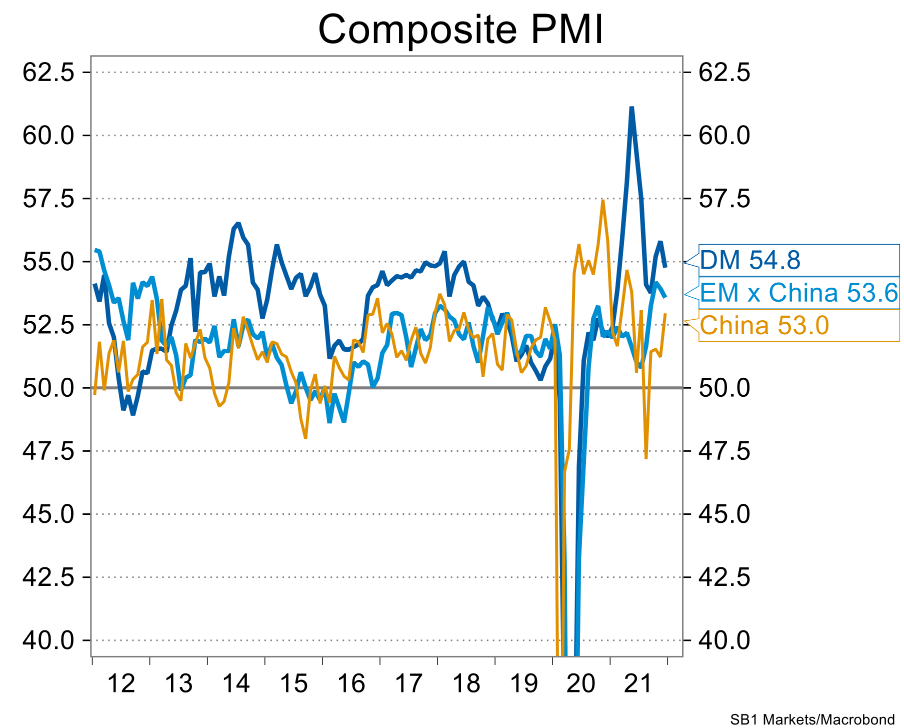


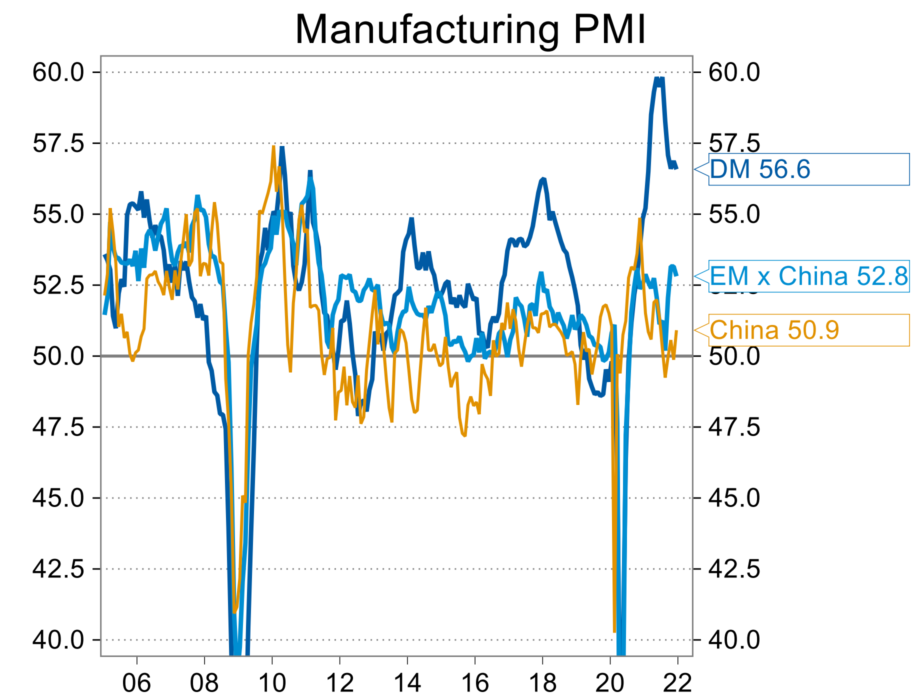



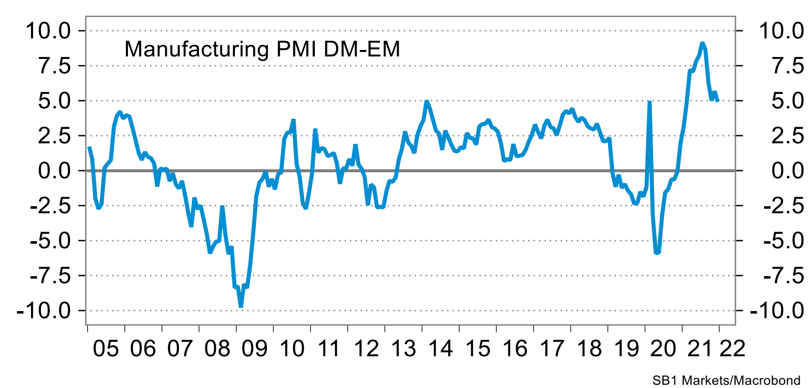

- 17 countries/regions up in December (up from 13), 8 down (from 13), and just 2 below the 50-line (from 3)
- Sweden back up to the pole position, ISM downgraded to no. 2, due to a steep setback in the service sector ISM – to still a very strong level
- The Chinese PMIs rose sharply (Markit's data)
- Other EMs mixed, and in sum marginally down, as the Indian PMI fell (but it is still at high level)

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

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



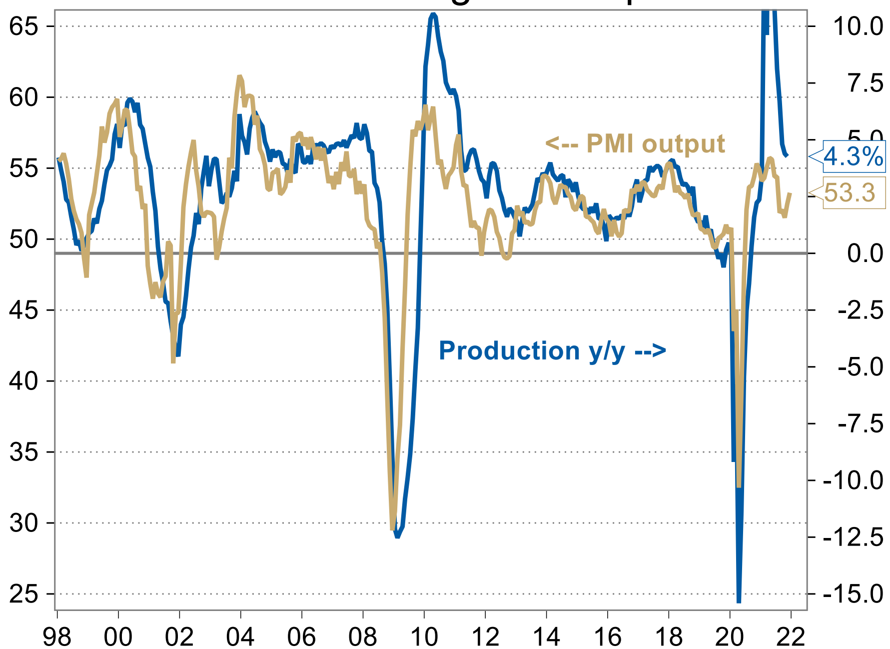



# Manufacturing headline PMI slightly up in December (and details even better)

Still just 4 of 43 surveys below the 50 line. Europe at the top

Global Manufacturing PMI vs production

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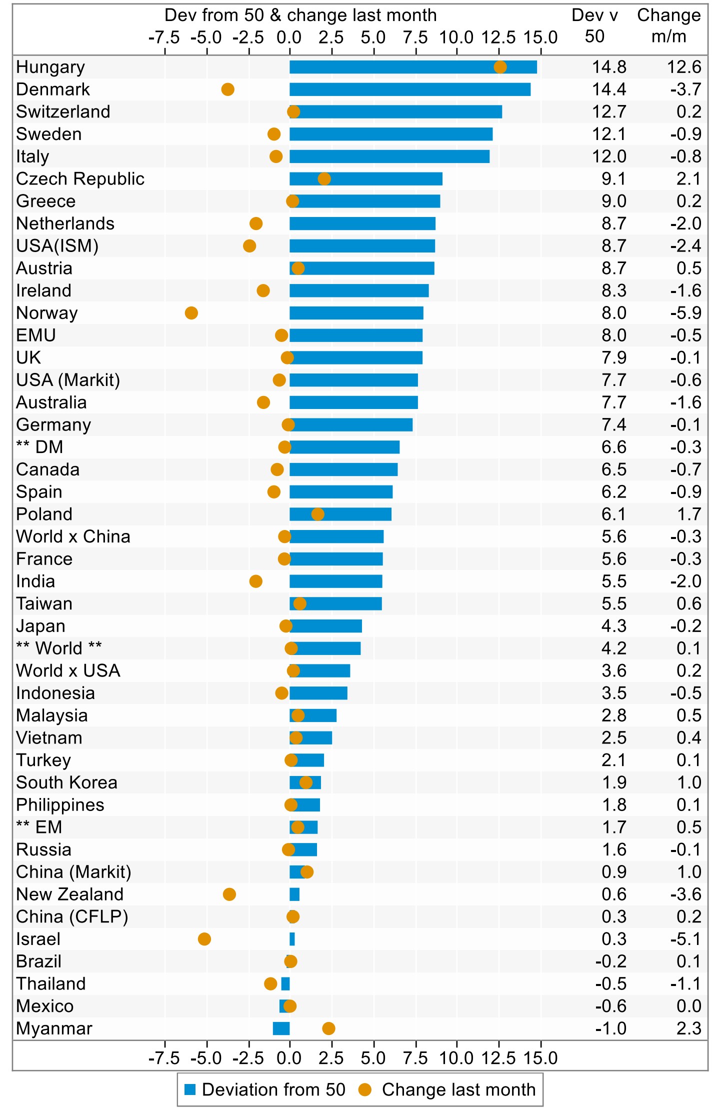
PMI Manufacturing

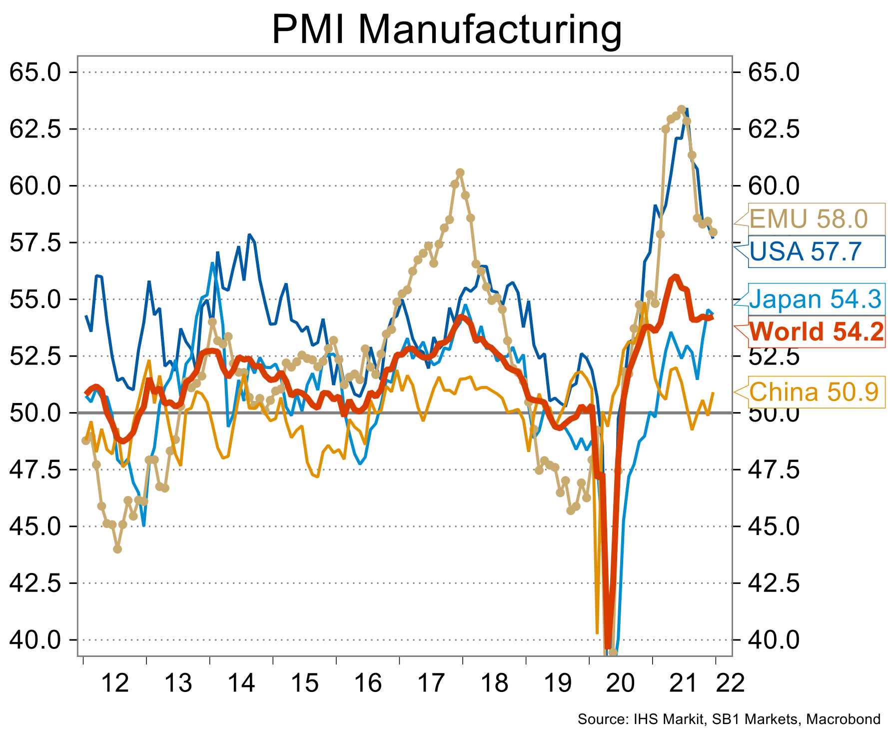


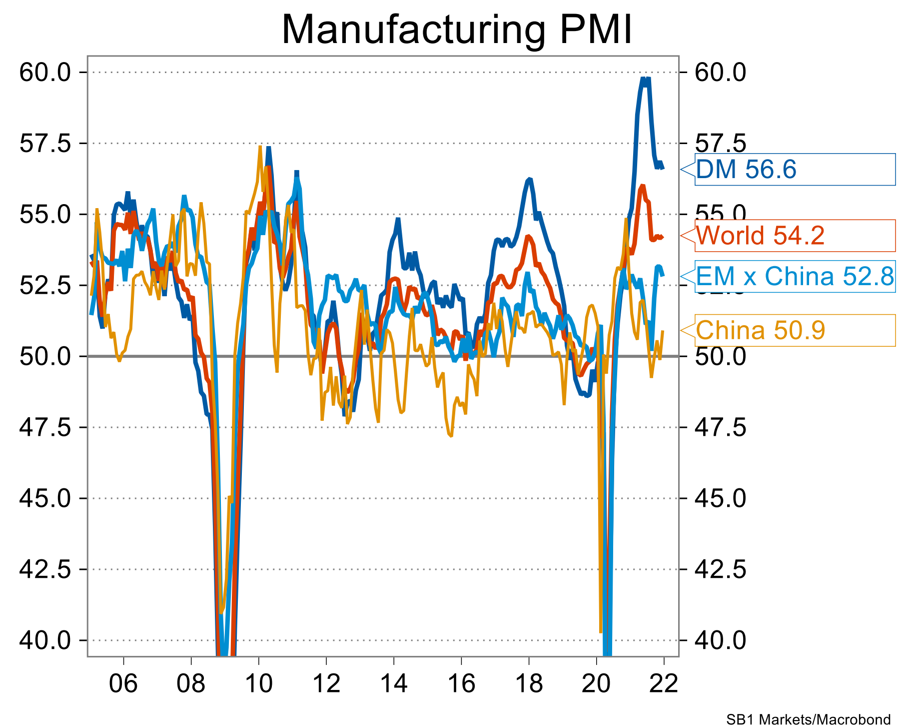

SB1 Markets/Macrobond

- The **global total manufacturing PMI** was unch at 54.3 in December (but gained 0.09 at the 2nd decimal. The output index rose rose 0.8p to 53.3
  - » 49% of countries/regions reported higher total PMIs last month, down from 51%
  - » **European countries** dominate the top of the list – but US PMI & ISM are up there too
  - » Both of the **Chinese PMIs** rose, Markit's the most. The **Indian PMI** fell but remained strong
  - » **EMs** are still far weaker than DM, but the gap closed marginally in Dec
  - » **Norway** reported the largest decline, but remained at the upper part of the ranking

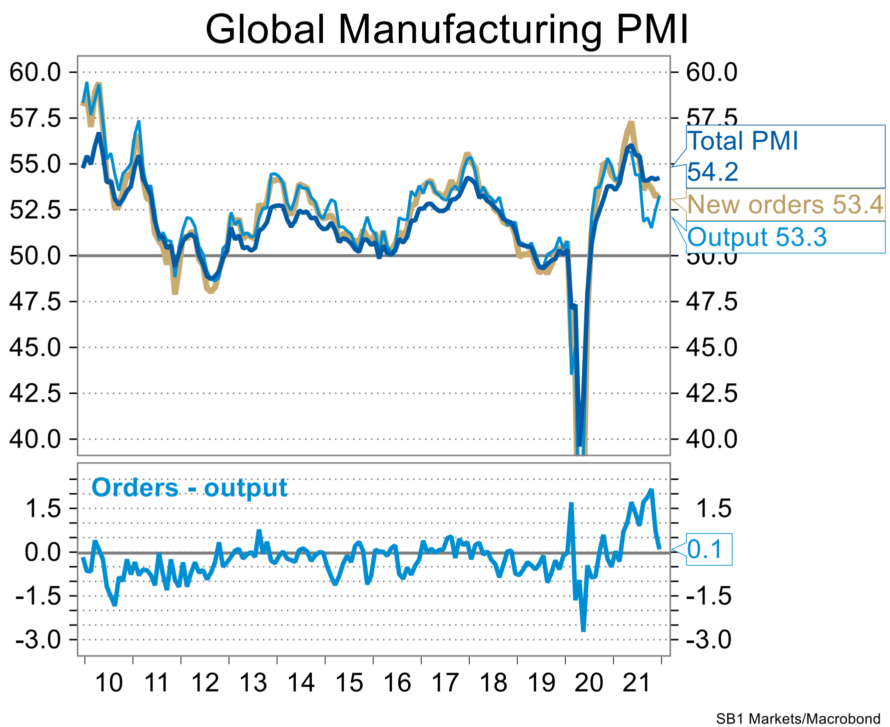
# The boom in the manufacturing in DMs is still broad, even Japan joins

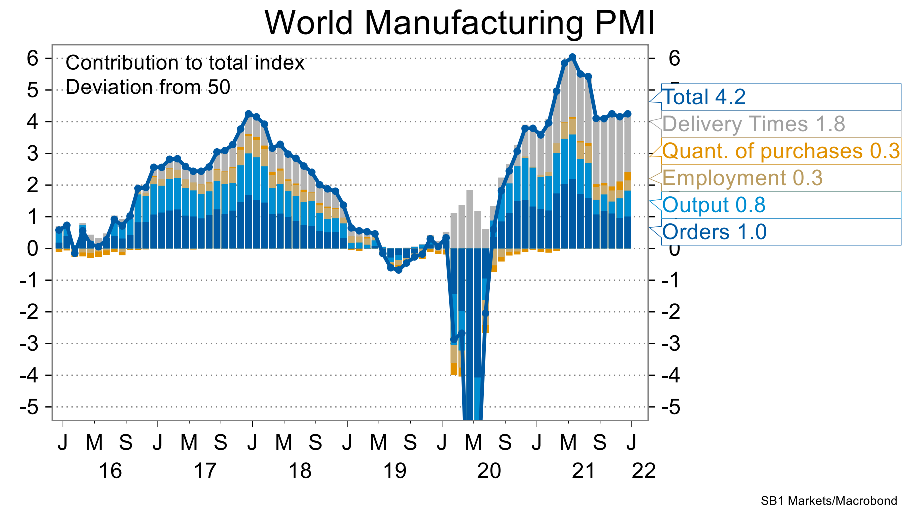
Emerging markets are lagging – but have strengthened recent months – and China recovered in Dec

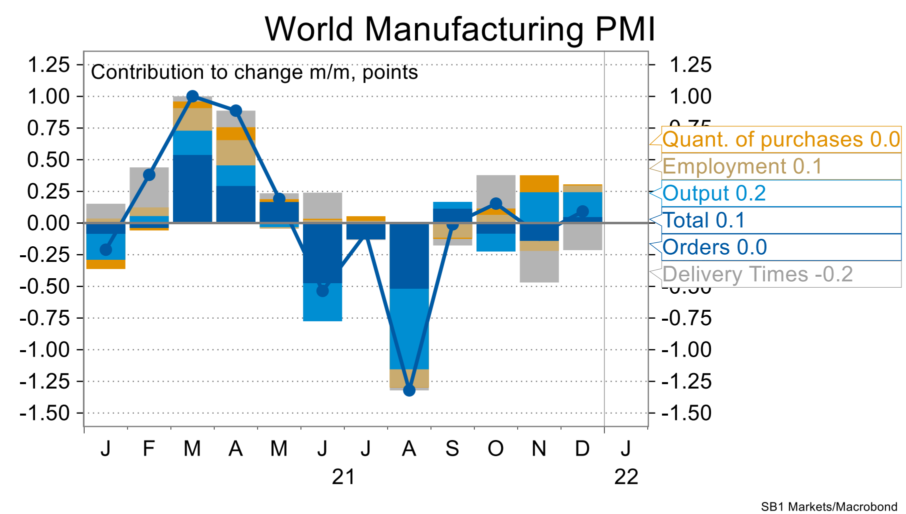


# Order growth has slowed but not further in Dec, delivery times the only drag

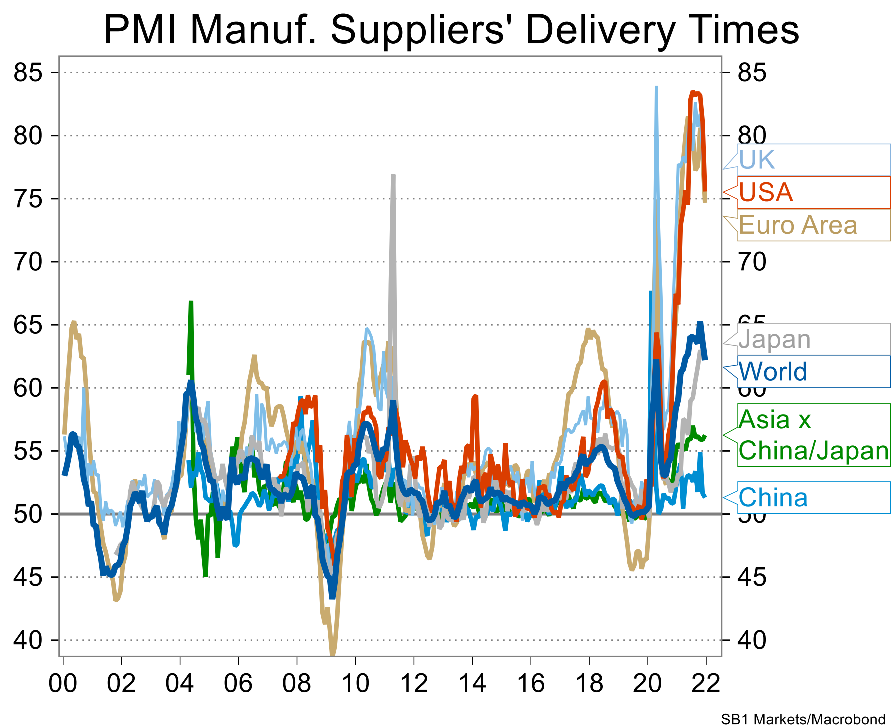


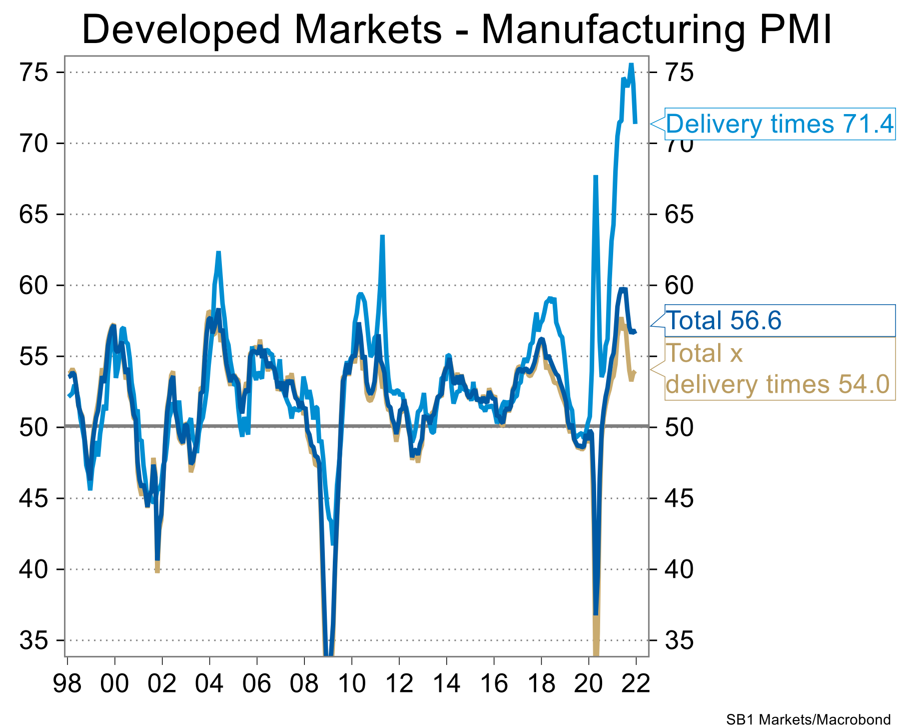



# Some easing in the supply chains: The delivery index sharply down

## Slower growth or a decline in delivery times? Probably the latter

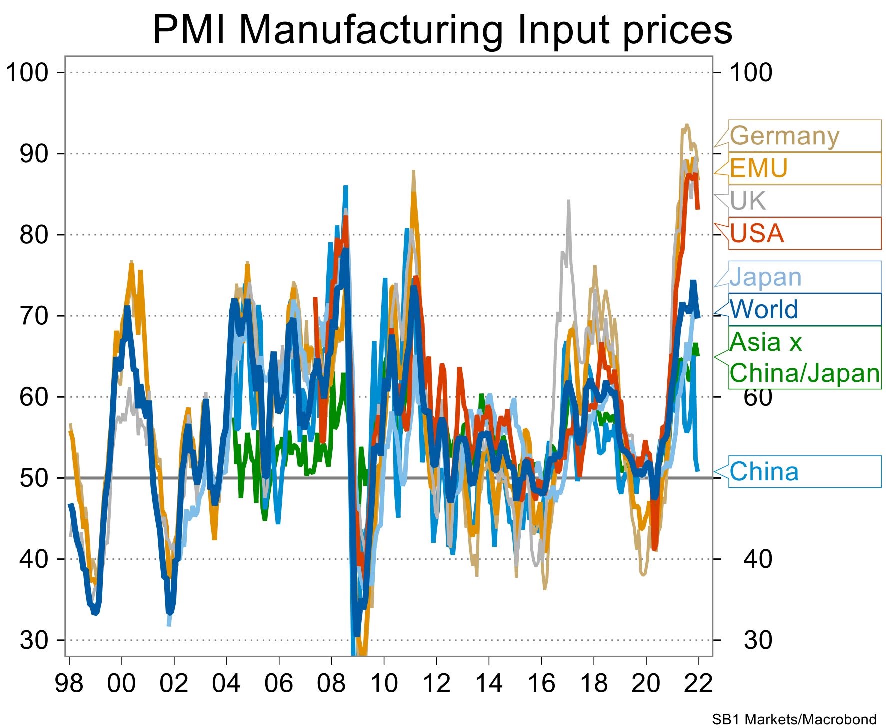


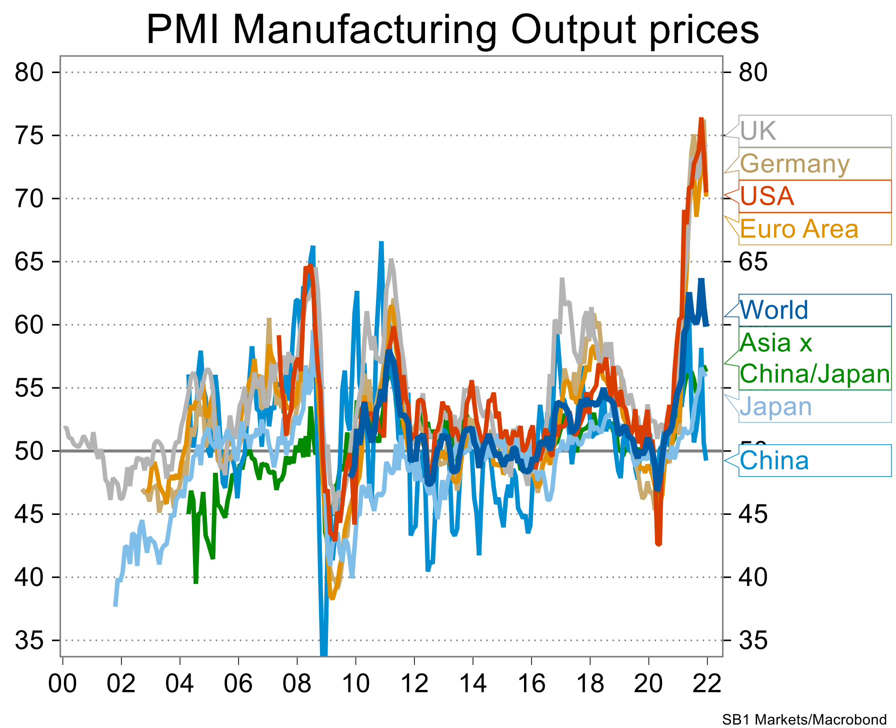




- The unprecedented increase in delivery times index in the rich part of the world ended in October (it was almost entirely rich man's problem). It remains at a high level and formally signals a continued rapid rise in delivery times – just a tad slower than at the peak
  - » However, this index has never been significantly below 50, and delivery times can impossibly not always have been increasing. Still, the current print is far above any reasonable "real" 50-line (which would have been around 53 vs the current 62.5 level and 71 in the rich part of the world), and signalling a further very rapid increase in delivery times.
  - » We suspect many respondents rather than reporting if delivery times are increasing or decreasing (which they are asked to do), report if delivery times are 'long' or 'short'. If so, delivery times are now declining
- A total PMI manufacturing index excluding the delivery times index rose in December – but the 'core' has also weakened recent months, mostly due to lower growth in new orders

# Manufacturing input & output price increases slowed somewhat

… but prices are still climbing extremely fast in the rich part of the world

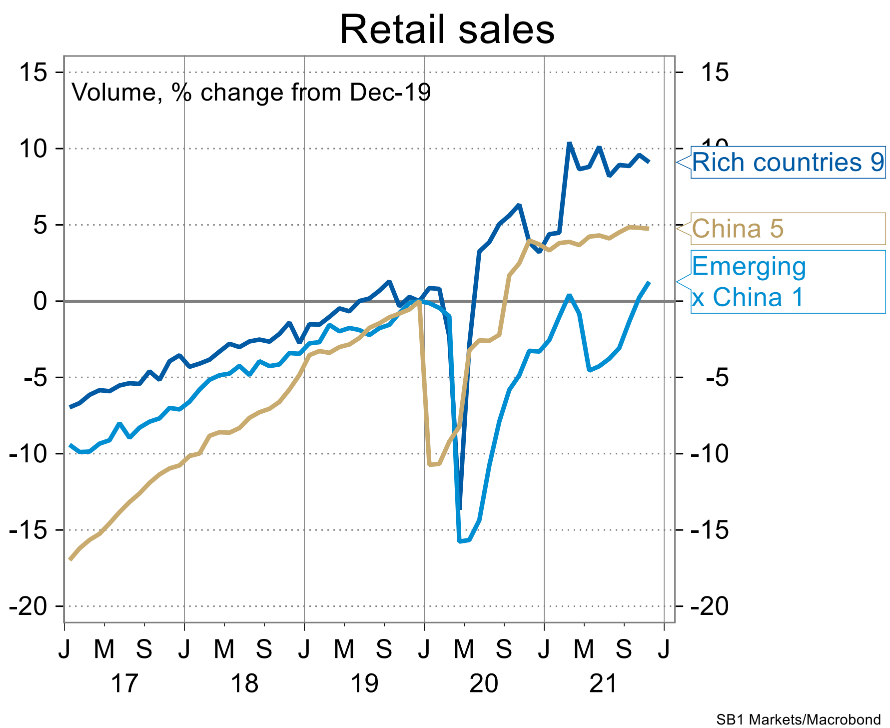


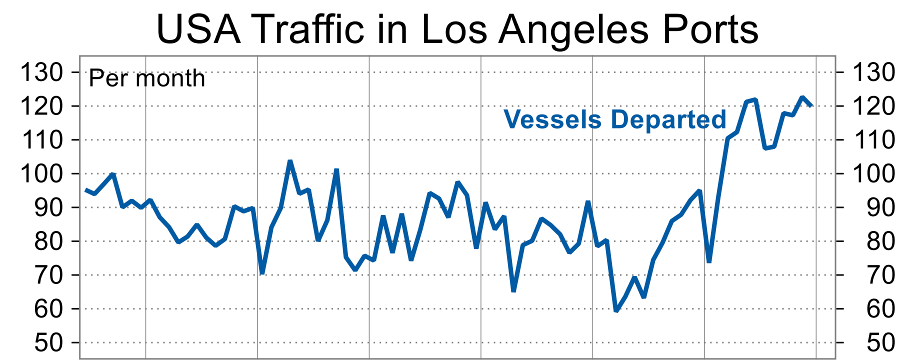



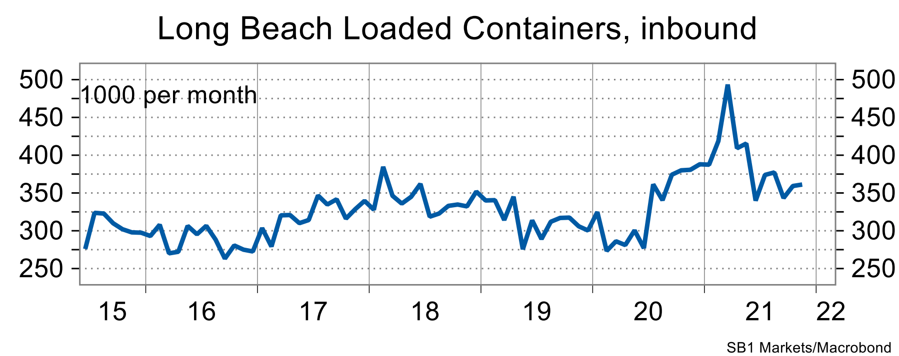

- In China, both input and output prices have stabilised! Some weakness in domestic demand? Steel and construction PMIs have fallen recent months (more some pages forward)

# Delivery times/price increases a problem just in the rich part of the world?

Because demand has been so strong in DM, not in EM? However, the worst is behind us now?

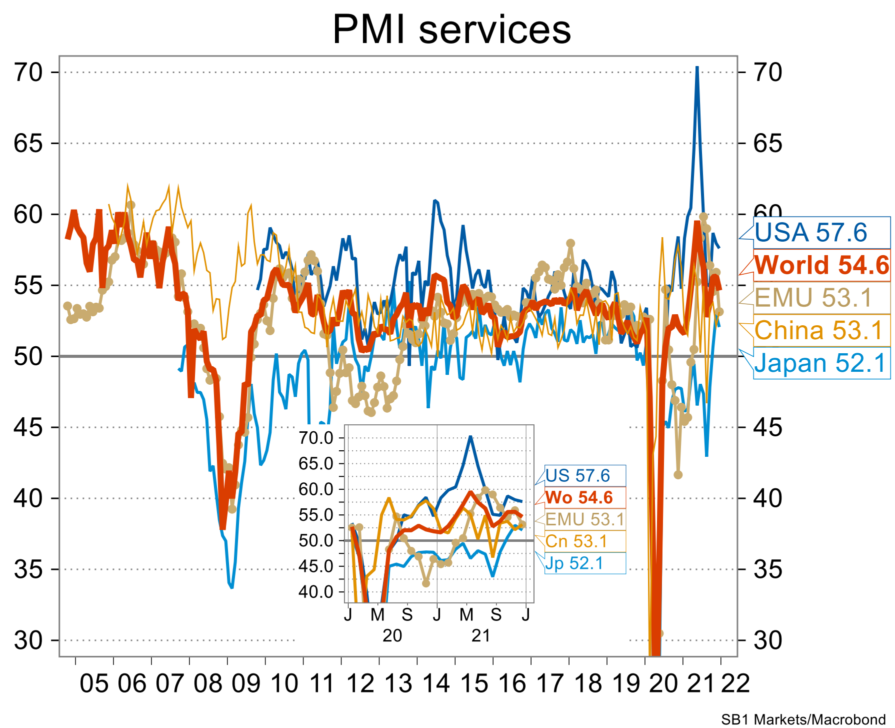


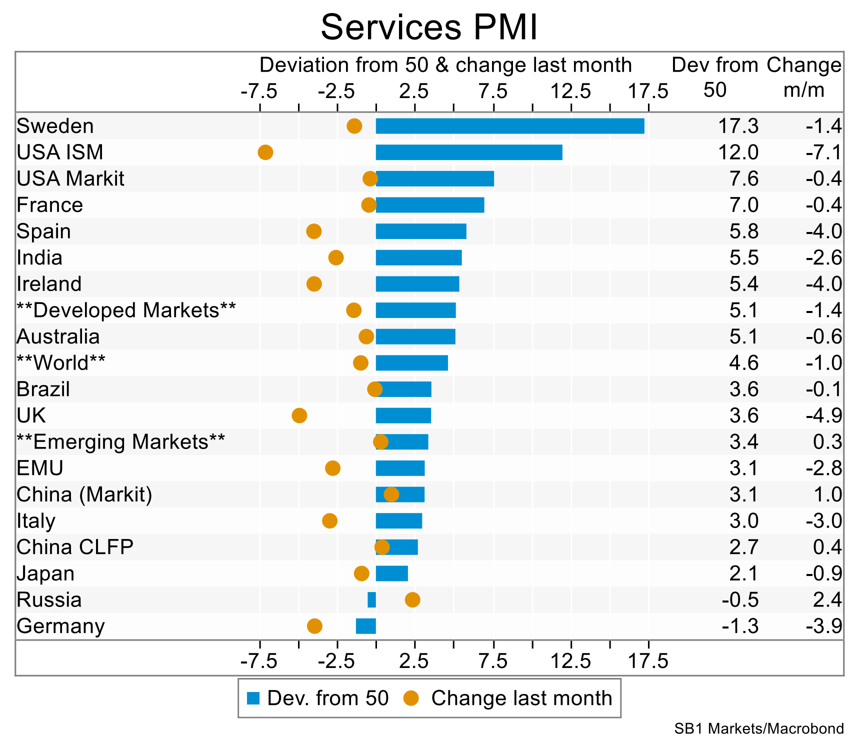



# The service sector PMI weaker in December, Omicron is at least partly to blame

## Sweden up in the lead (as normal) as the US ISM retreated sharply (but remains at 62!!)

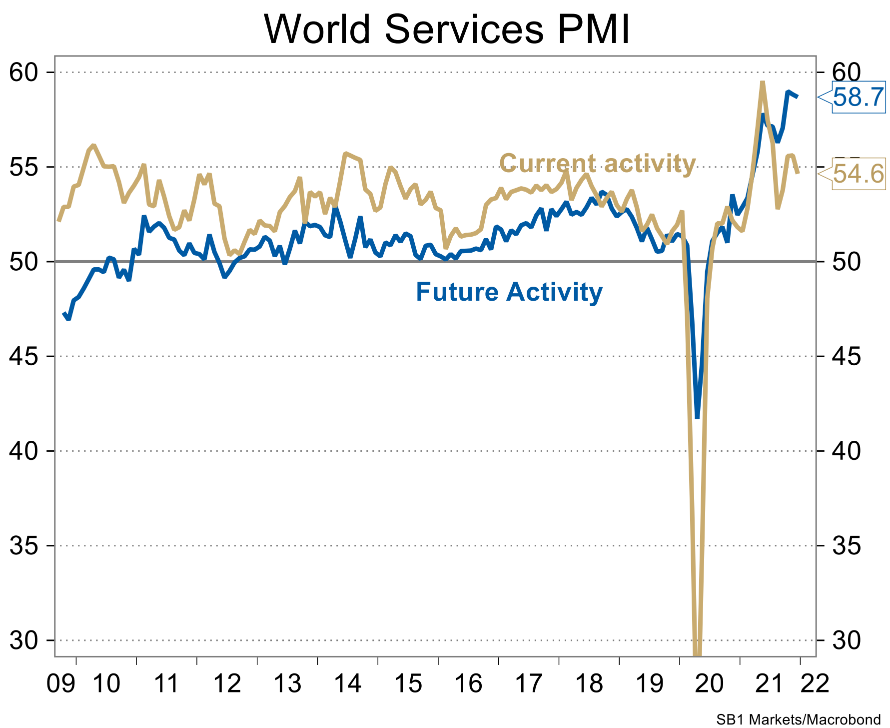


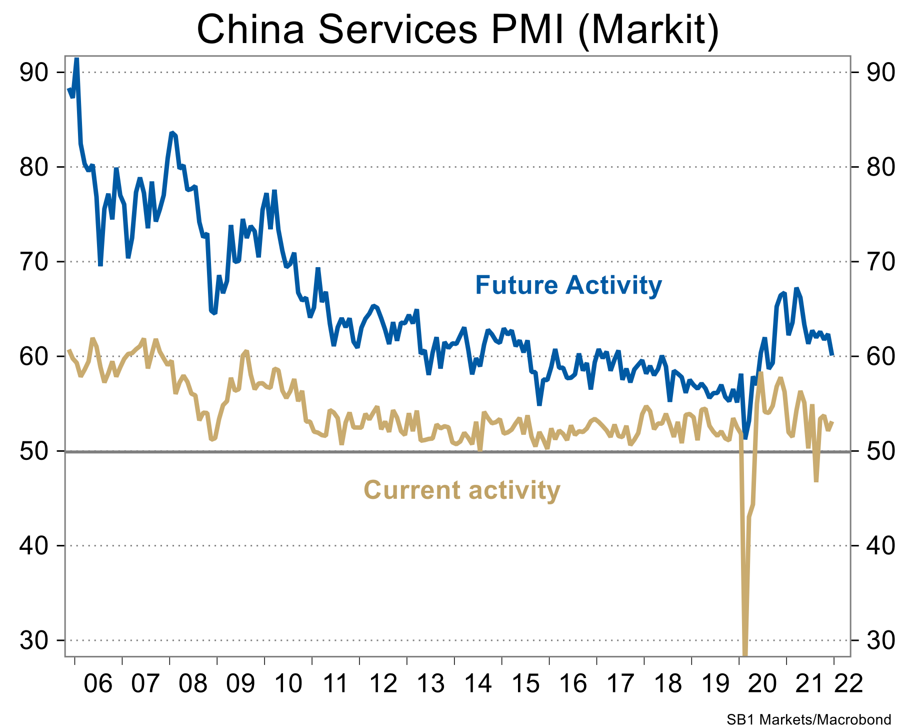




- **The global service sector PMI** fell 1 p to 54.6 in December – still signalling growth well above trend in services
  - » Just 4 countries/regions up (from 10 in Nov), 15 down (from 8); still only Russia and Germany below the 50-line
- **Rich countries** down in average, the EM's services PMI rose marginally – but remains well below DMs
- Both **Markit's PMI and ISMs US services index** declined, the ISM unusually sharply – but both remains at the top (just behind Sweden, which regained its lead position)
- Mixed outcomes in EMU, France and Spain services PMIs almost unch, at the level is strong, while the German PMI fell sharply, to below 50, at the bottom of the ranking!
- The **Indian** service sector has recovered sharply but retreated somewhat in December

# The service sector expects the good times to last, even in December

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

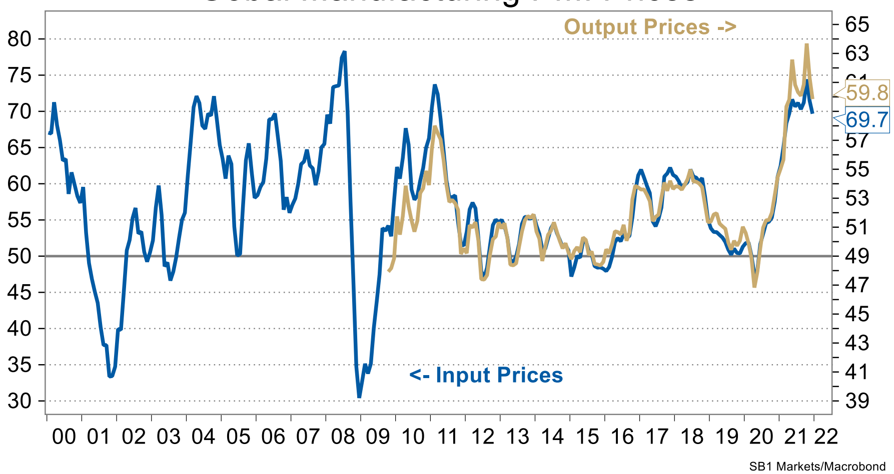


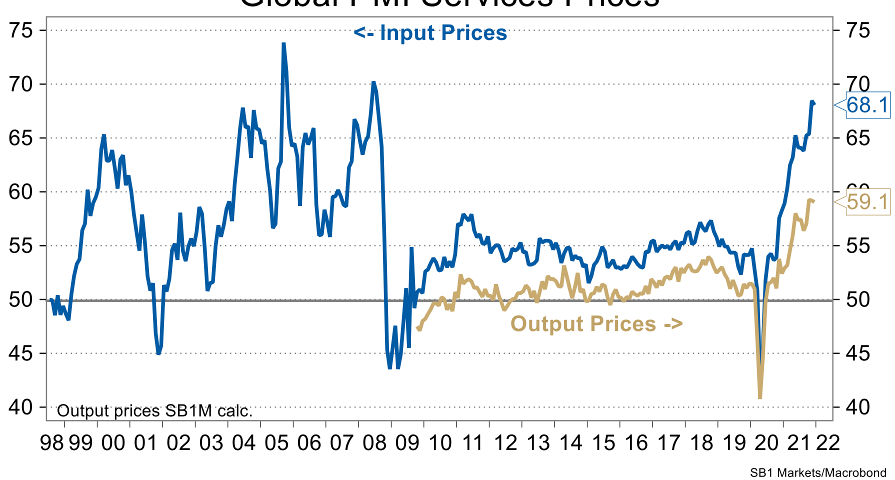
# Businesses still report rapid price increases but not faster in December

We think the peak inflation is near. But the real challenge has anyway always been wage cost inflation

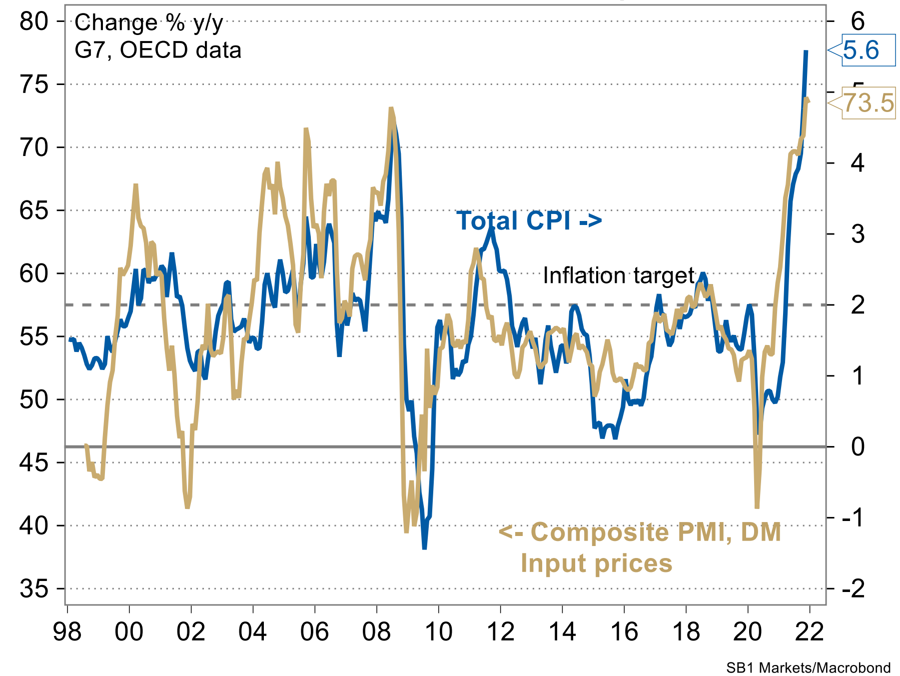
Gobal Manufacturing PMI Prices




Global PMI Services Prices

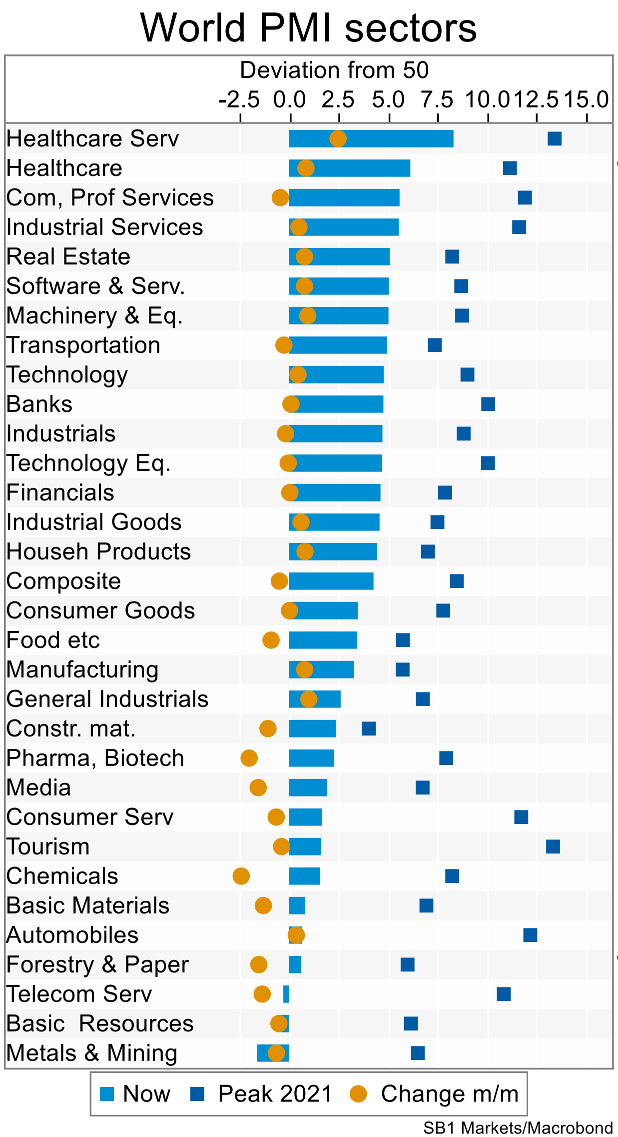



OECD Inflation vs PMI prices

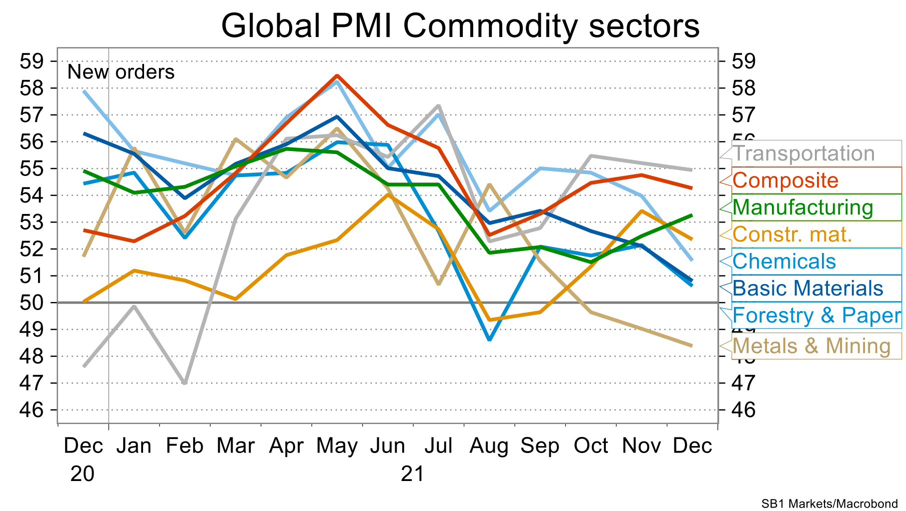


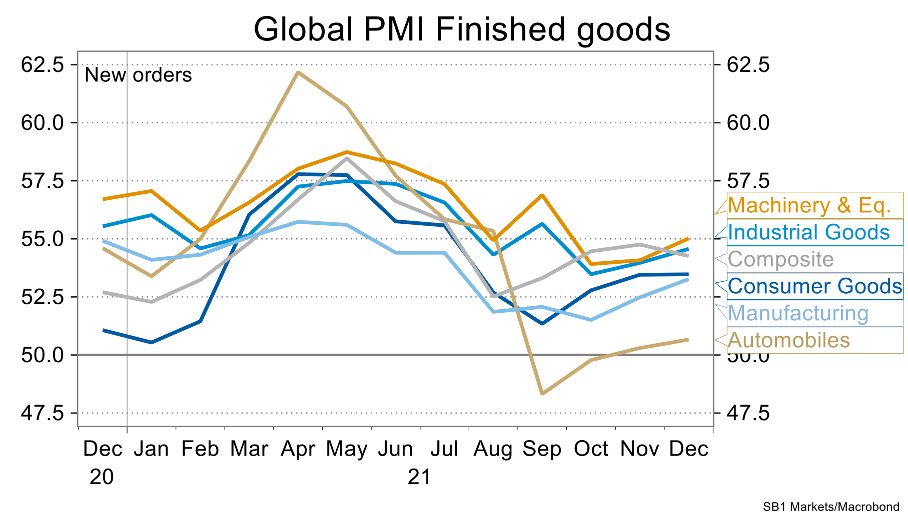
# All sectors down from 2021 peaks, few are week

## – but basic resources, metals are. Most other sectors stabilised in H2



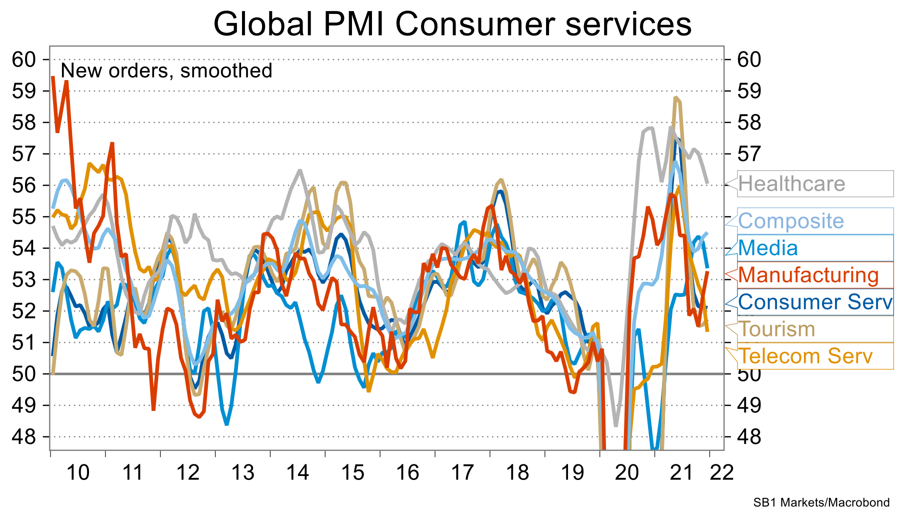

- Health at the top of the list
- Metals and mining has slowed substantially

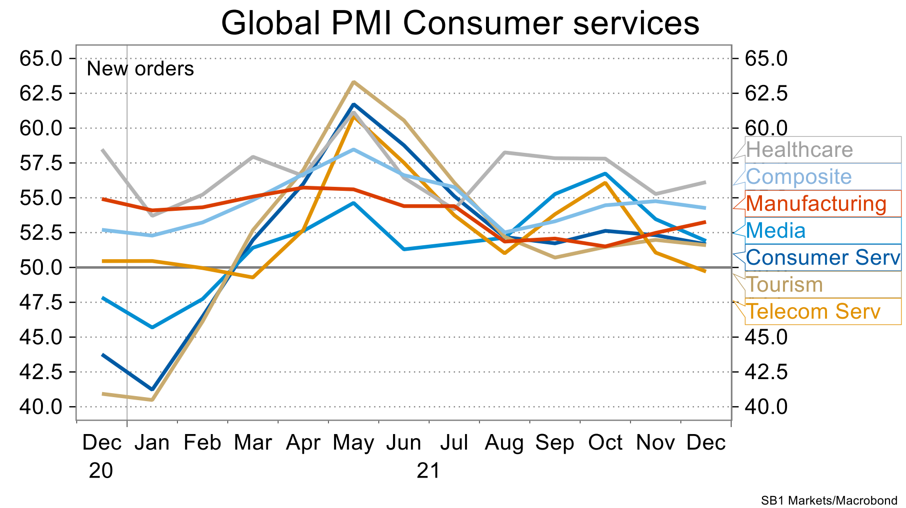


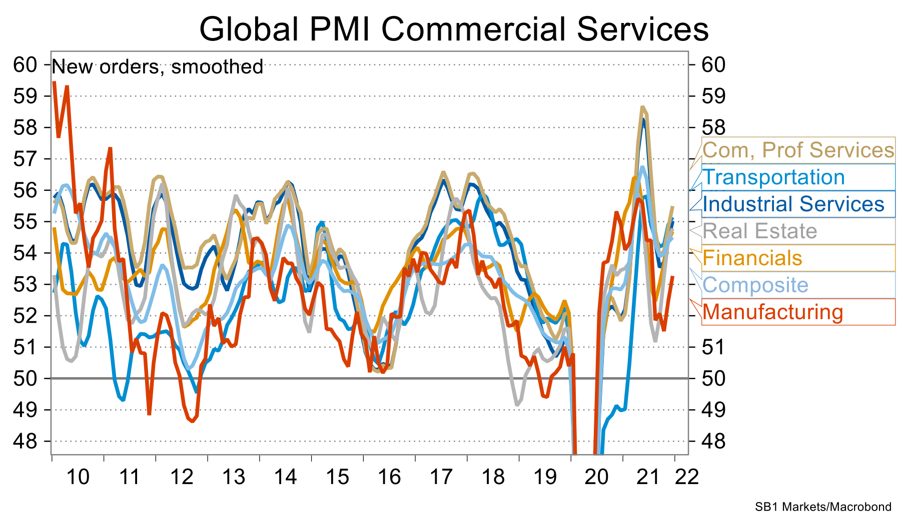



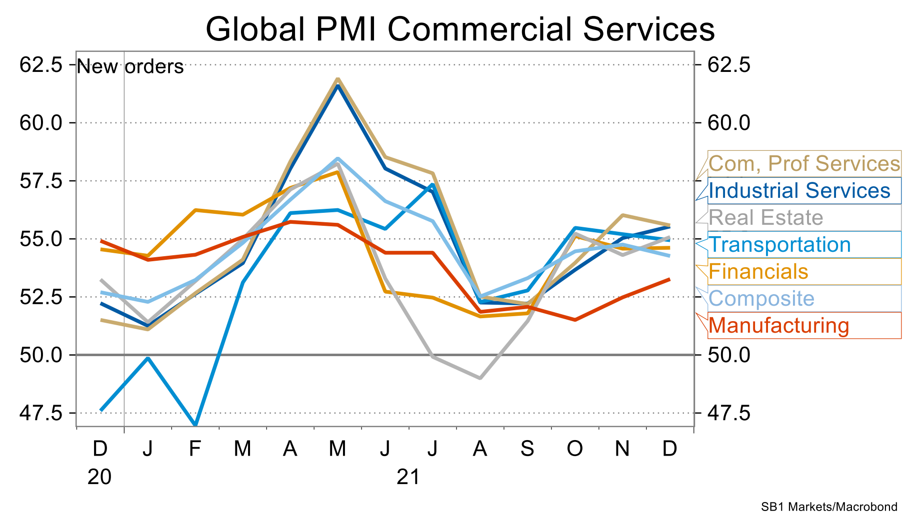
# Services are reporting slower growth but far from slow

## And the uptick in September and October was rather broad



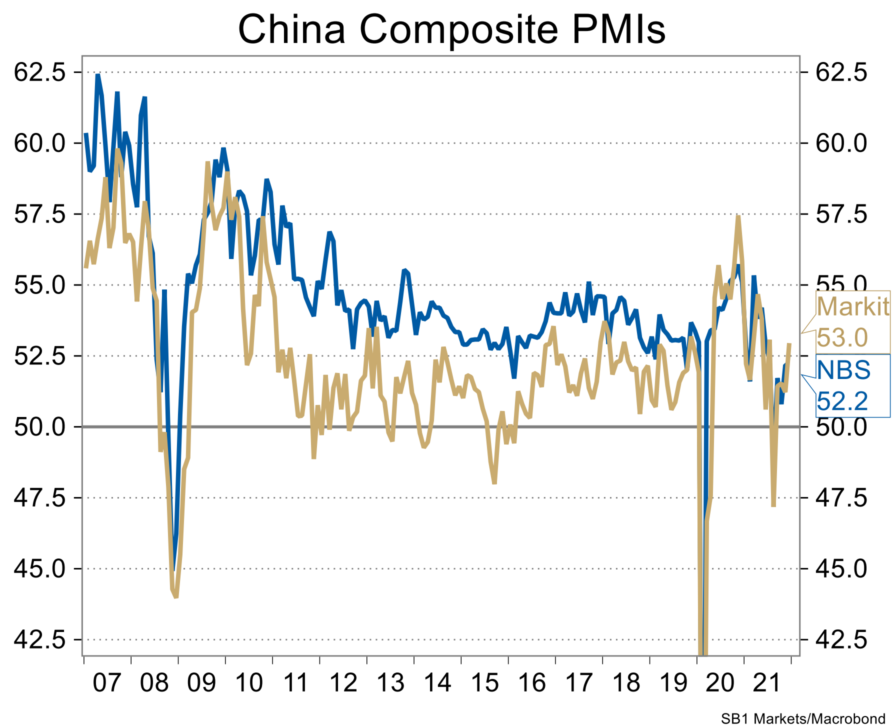



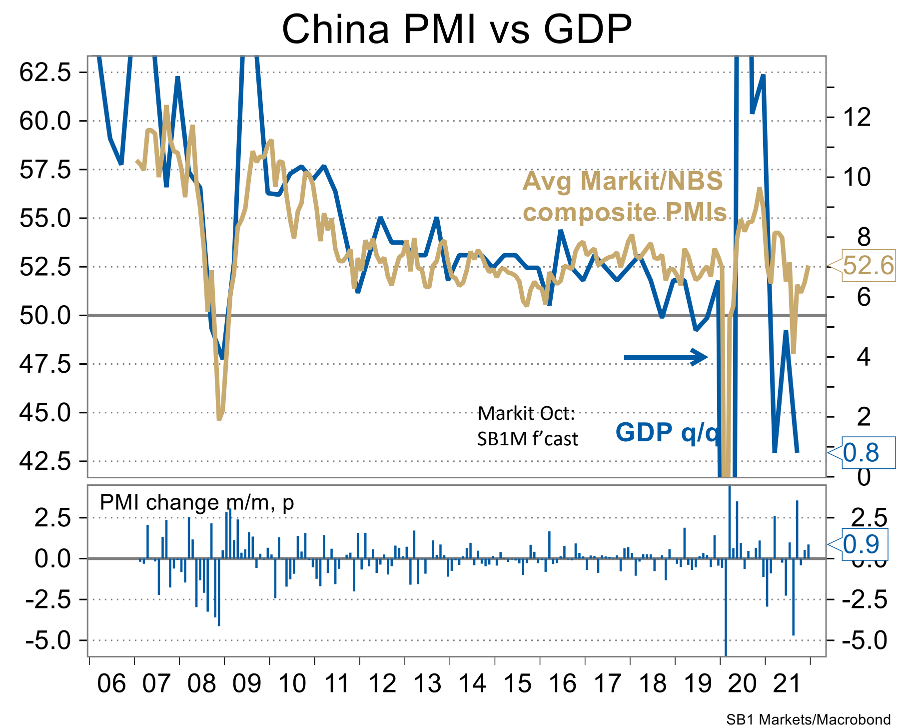



# Markit's PMIs up, NBS' flat in December, the average at the average level since '12

The average of the two PMI data sets rose 0.9 p to 52.6, a perfectly normal level




- The **NBS composite PMI rose** was unch. at 52.2. The level is 1.6 p <u>below</u> average since 2012
- **Markit's composite** gained 1.7 p to 53, which is 1.6 <u>above</u> average.
- **In sum,** the two PMIs signal an average GDP growth – far better than over the 3 past quarters
  - » However, the PMIs have been to optimistic so far in 2021, and growth may well remain below the level signalled by these surveys

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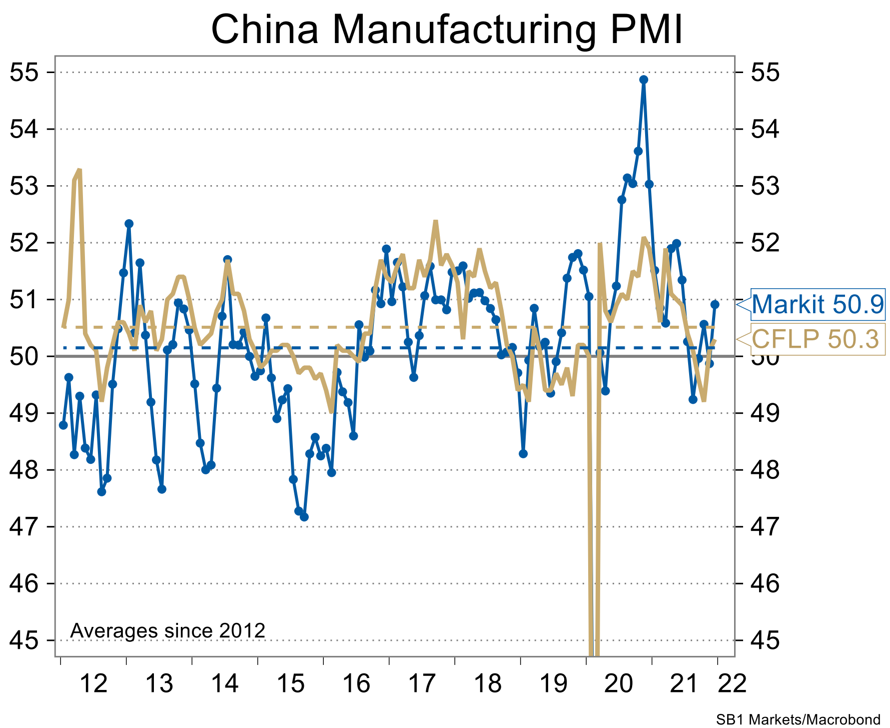
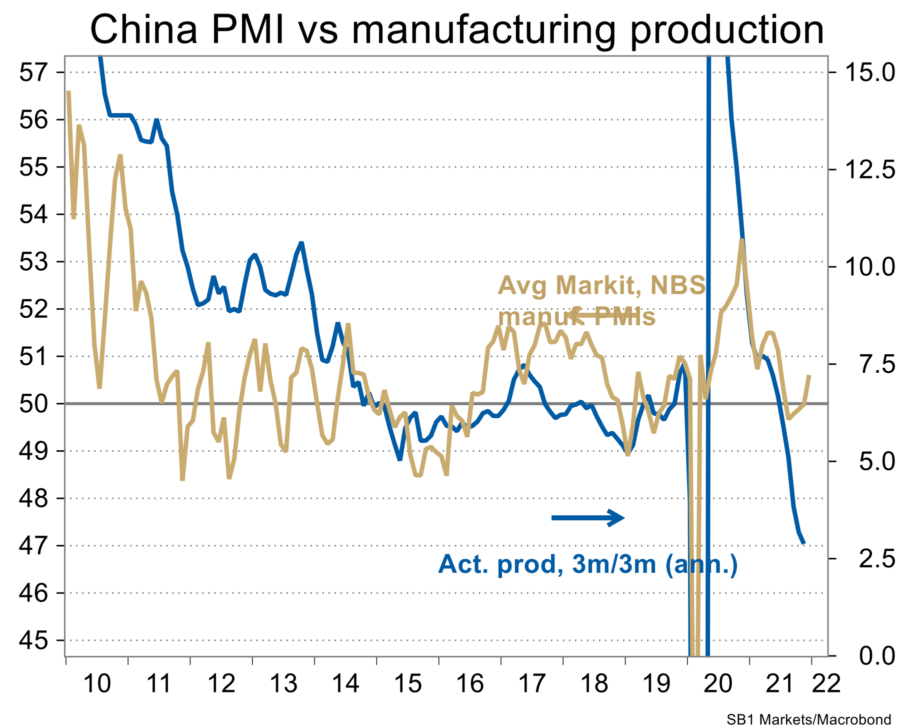
# The manufacturing sector has recovered, according to the PMIs

## Trend growth is signalled, the PMIs are at average level

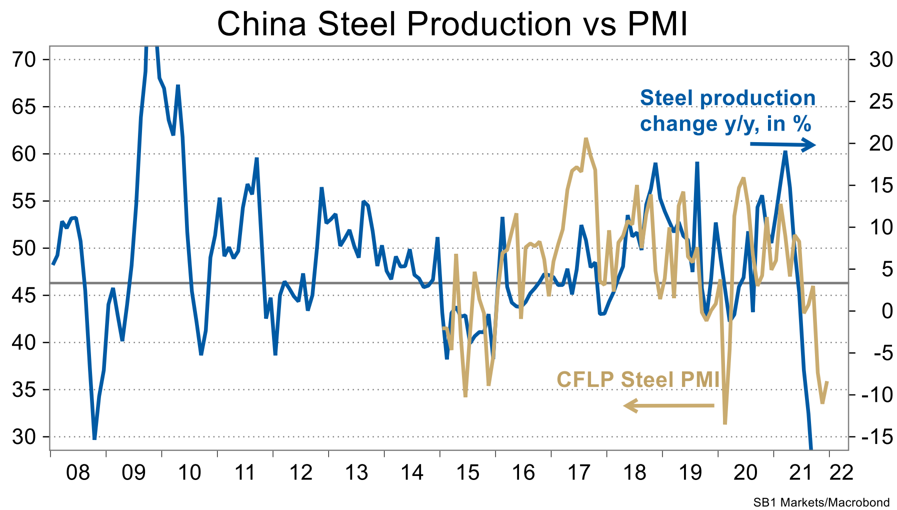


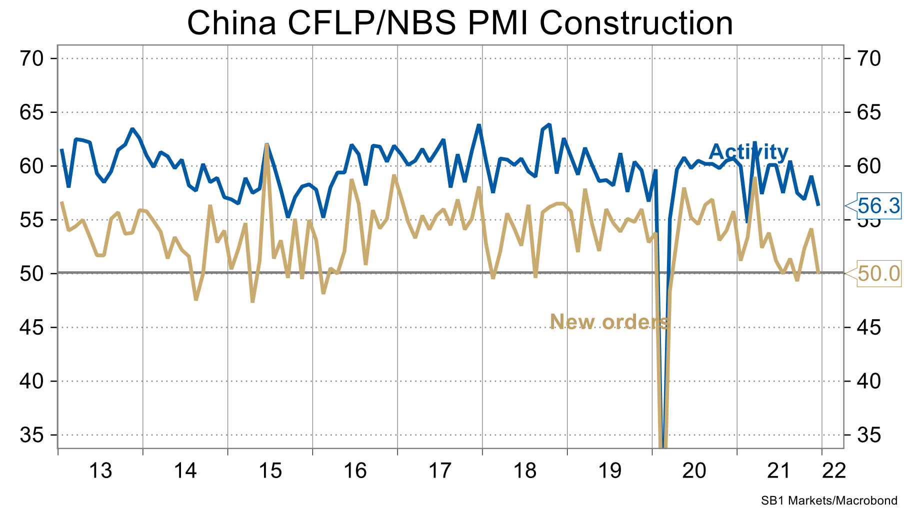




- The **NBS/CFLP manufacturing PMI** added 0.2 p to 50.3, while **Markit's PMI** gained 1.8 p to 50.9
  - » In sum, the two indices were better than expected – in average up to an average level (vs the past 10 years)
  - » The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

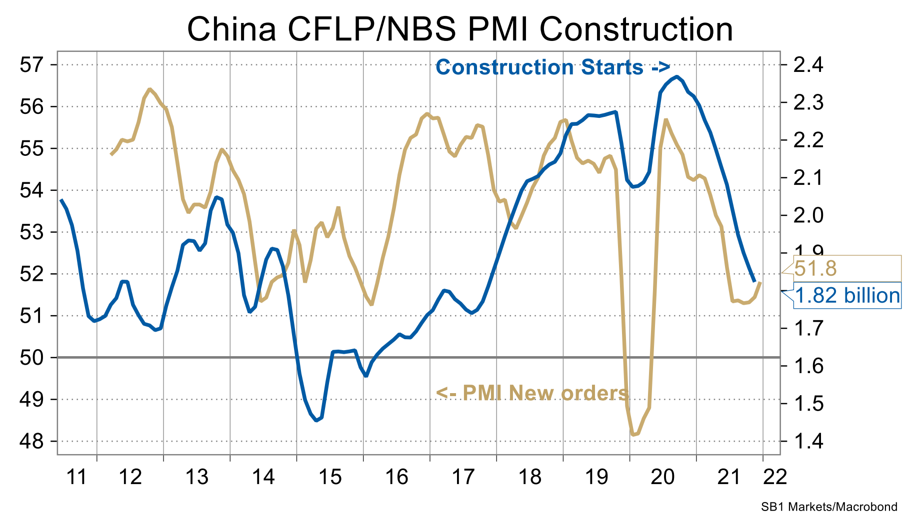
# The steel PMI up but very weak, construction PMI down to 50, no disaster

## Growth in construction orders have stabilised, at a low level, according to the PMI



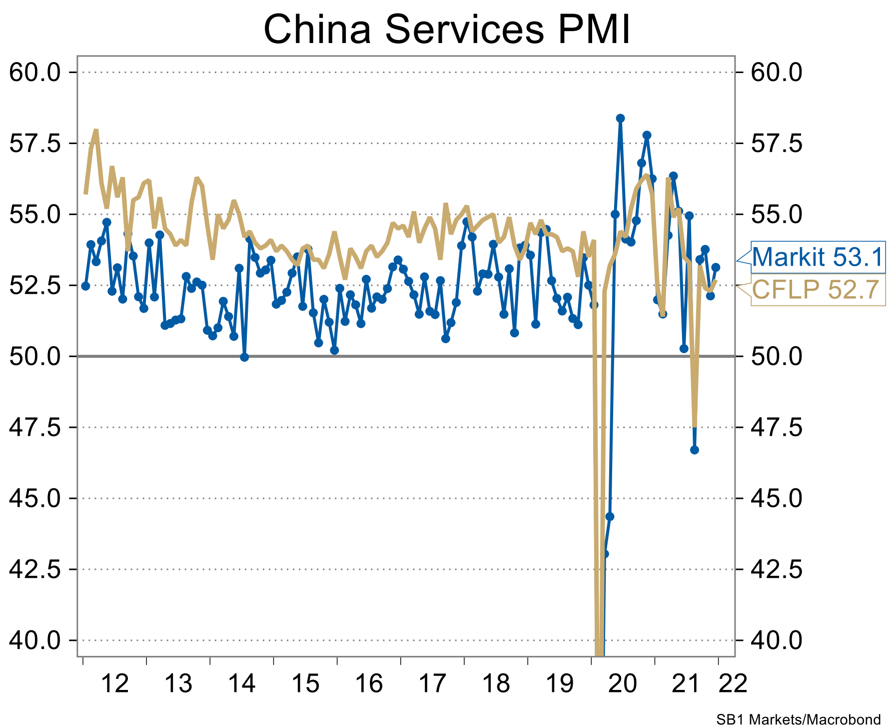




- The **Evergrande++** debacle (several builders are now struggling) has so far not led to a harsh setback in the overall Chinese construction industry, according to the construction PMI. Orders have slowed but not dramatically
  - » Regrettably, the correlation between PMI and actual construction starts is rather weak
  - » During the recent months, actual construction starts have fallen by 15% – 20%, though from a high level – alongside the decline in the new orders index
  - » This decline in construction starts have not yet created any crisis in the overall Chinese economy – or elsewhere (even if some sectors are hurt)
- Steel producers are still reporting a rapid contraction in activity, probably more due to less demand from the construction sector than authorities' measures to cut production and CO2 emissions



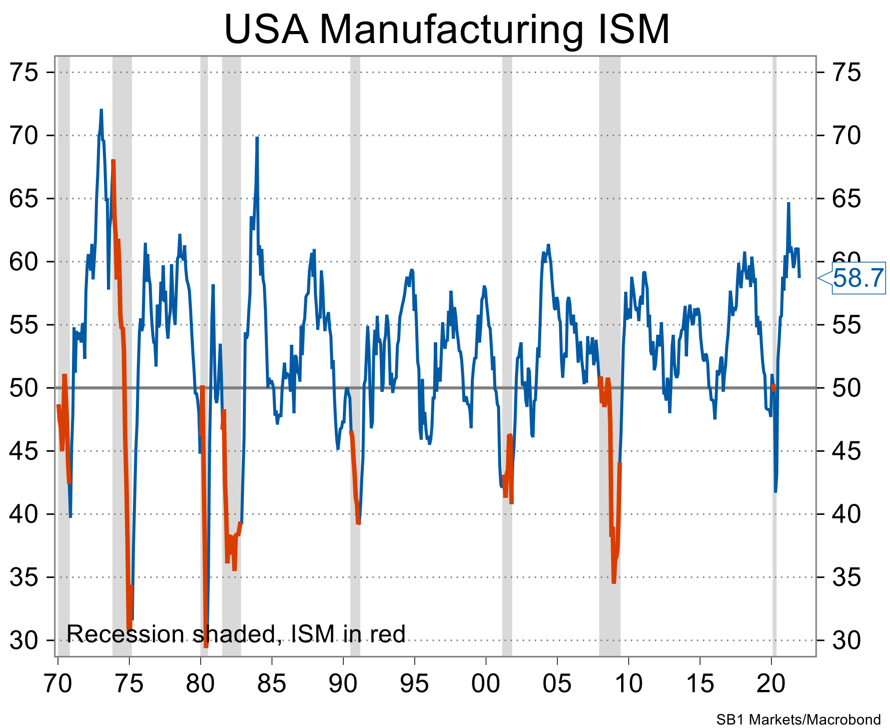
# Services PMIs up in December, no specific weakness signalled

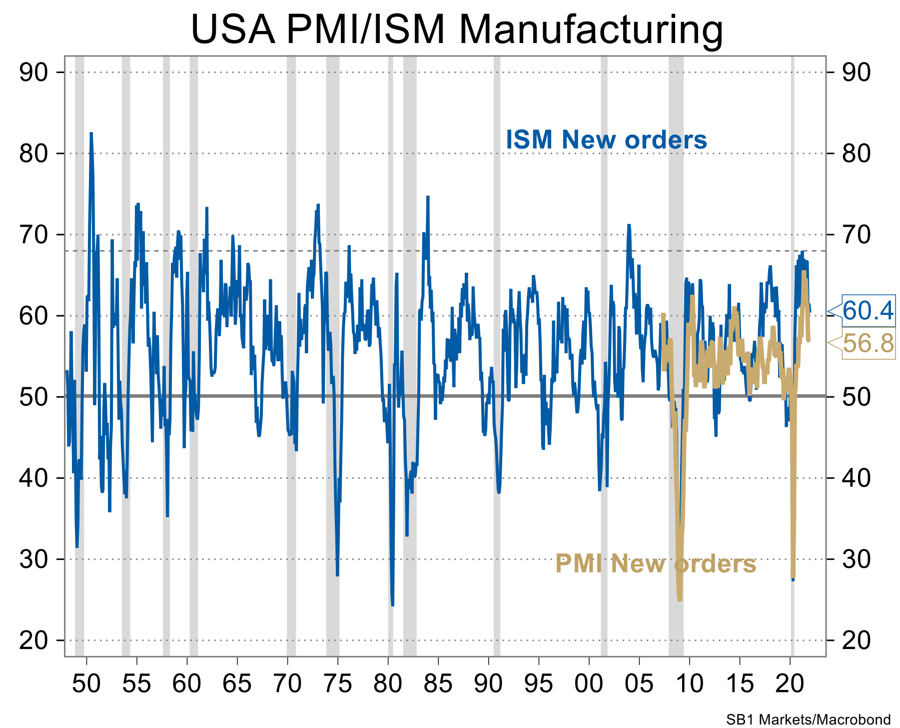
Both surveys up, Markit's the most (and more than expected). Average level slightly below par




# Manufacturing ISM down in December, delivery times index on the way down

Prices are increasing at a slower pace too. The headline index down 2.4 p to 58.7, expected 60.6

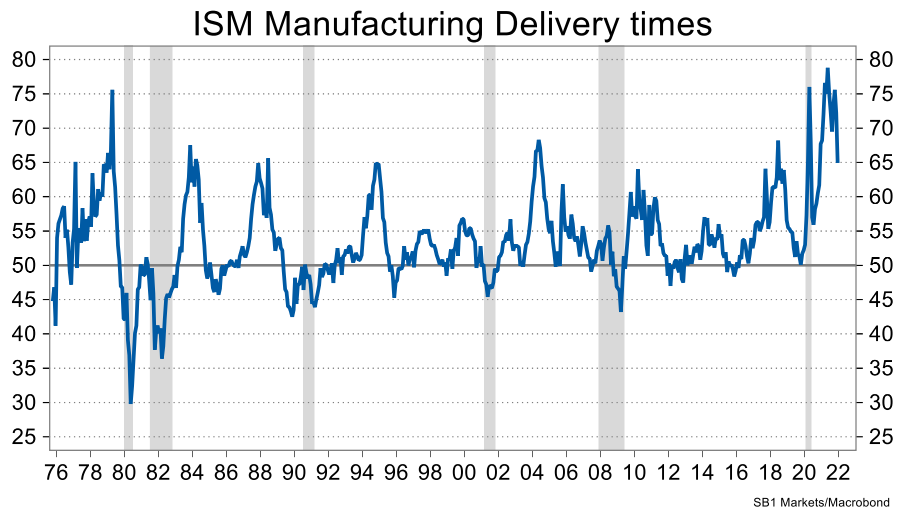


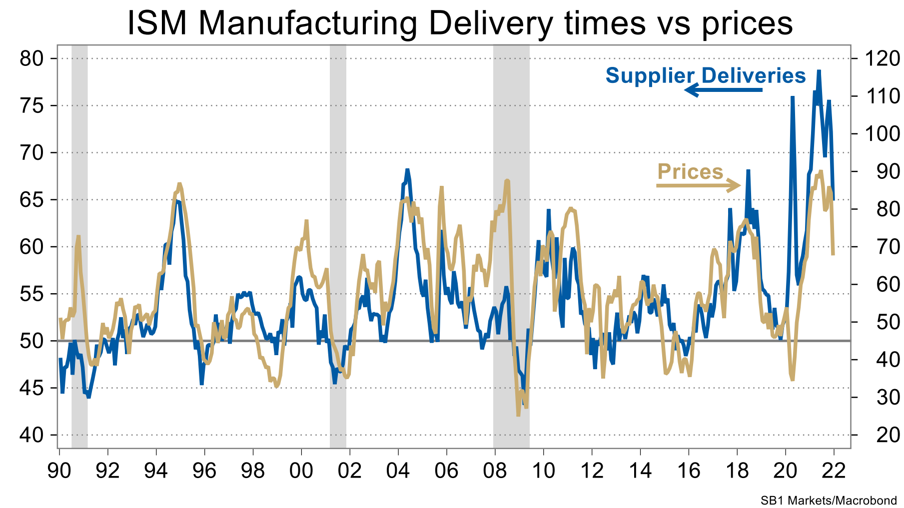



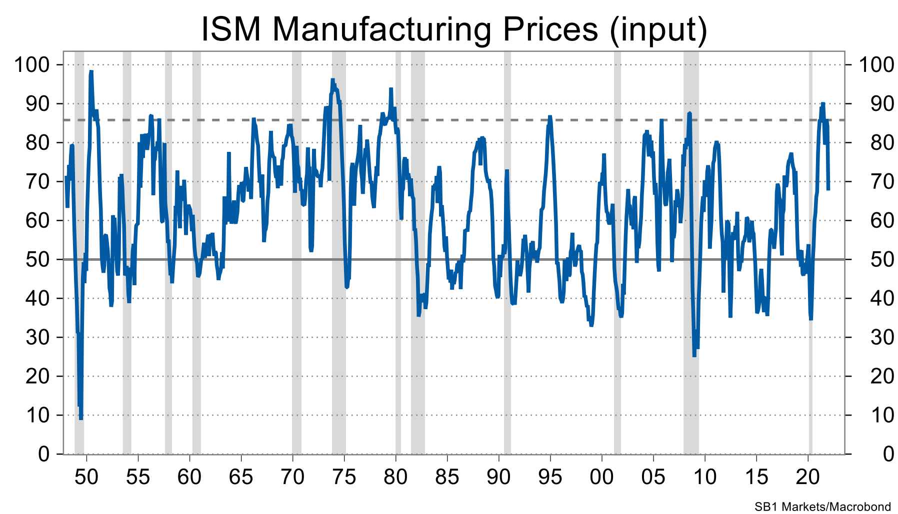

- The **ISM manufacturing** has been at a very high level for months, in fact through the entire 2021, and the best 12 avg since 1984, when the US economy recovered from the deep double recession (BTW last time the Fed had to play really hard to get inflation down, under governor Volcker). Actual growth in manufacturing production has been rather slow, but it has gained speed the recent months
  - » Last month, 15 of 18 manufacturing sectors reported growth (13 the prev. month), 3 sectors reported a decline (printing, wood products and primary metals) (from 2)
  - » The **new orders** index fell 1.1 p to 60.4
- 28 commodities were up in **price** (from 37, at the peak 56 commodities). 8 were down in price (from 5), including aluminium, oil (in early Dec), natural gas, and steel
- Just 10 commodities were reported in **short supply** down from 20 (and more than 50 (!!) commodities a few months ago). Thus, the supplier deliveries index fell sharply in December
- **In their comments**, companies are still reporting labour shortages but fewer complain about lack of supplies

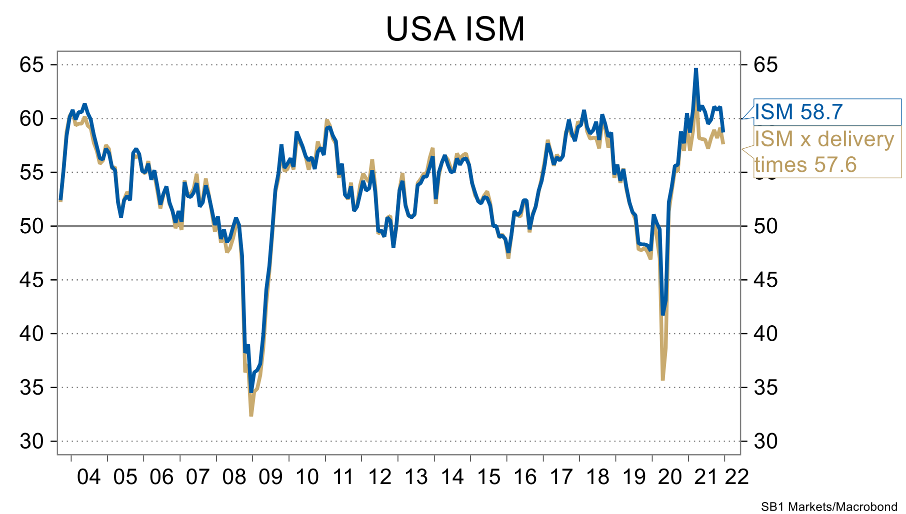
# Delivery times index down (and delivery times in sum probably down)

The total ISM x delivery times index fell too but not by much. Price pressures are easing sharply



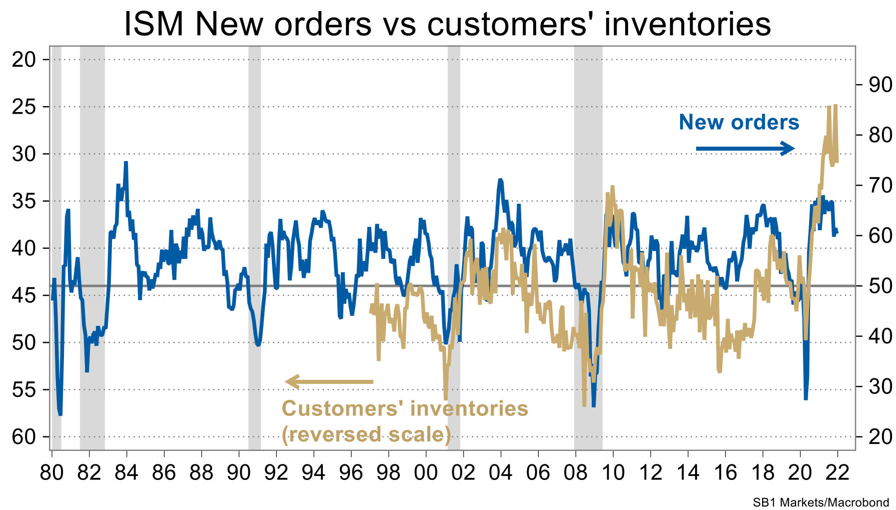



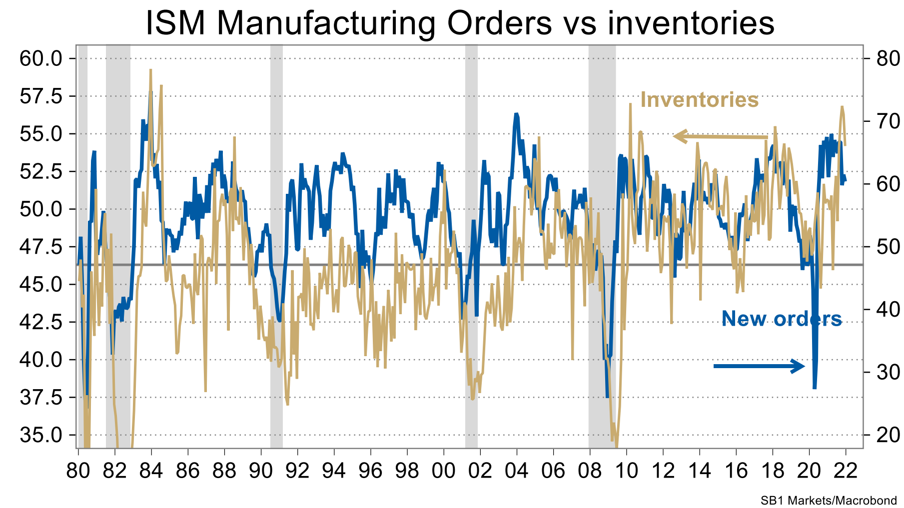



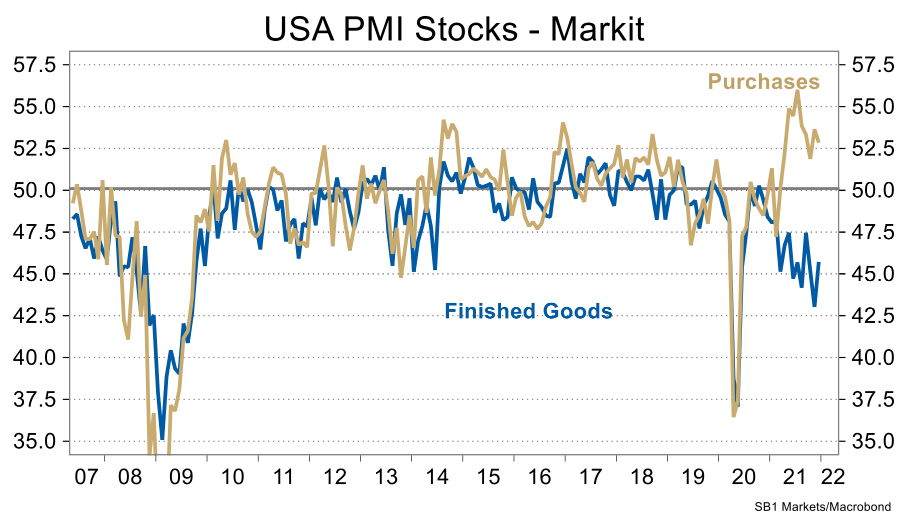



# New orders still going strong, customers' & finished goods are very low

## Signals further growth in activity in the manufacturing sector



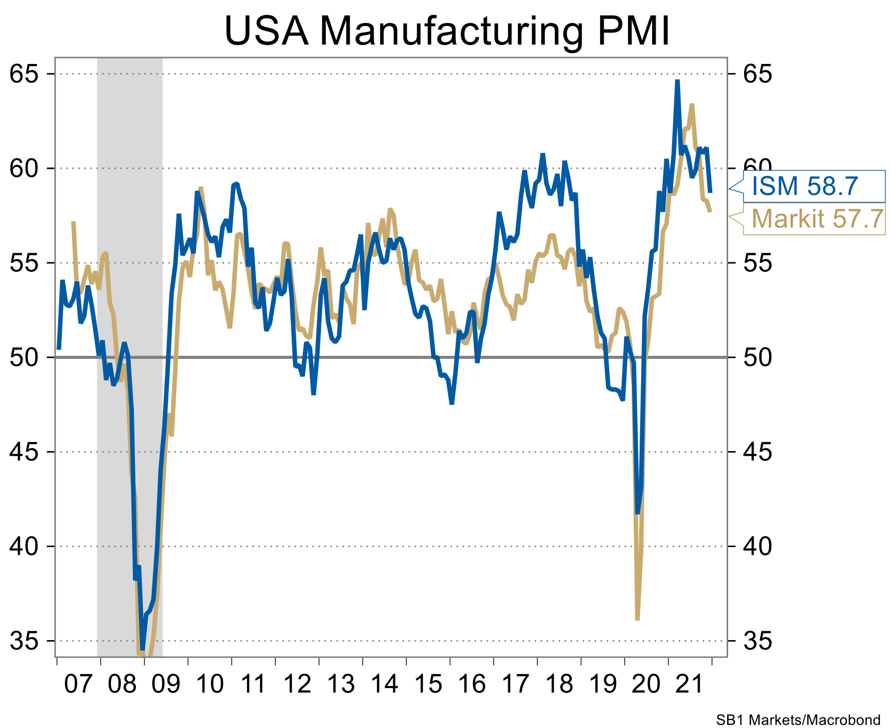



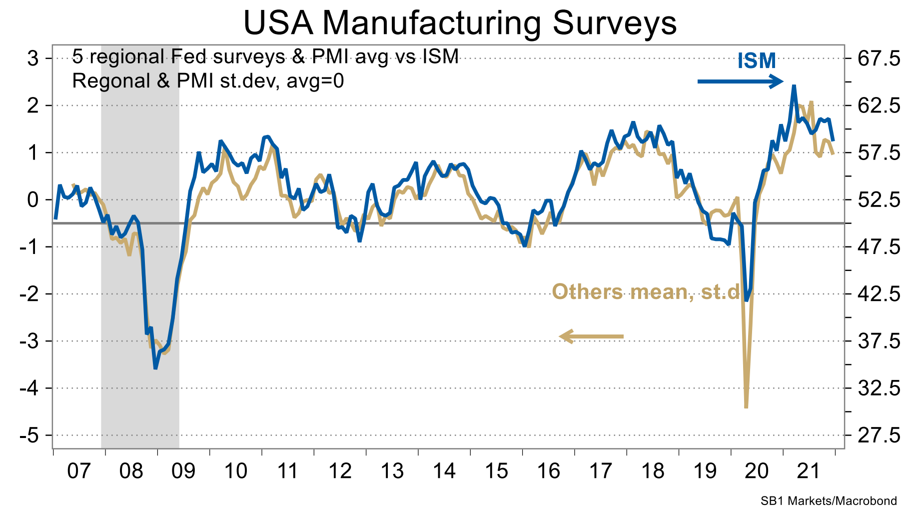



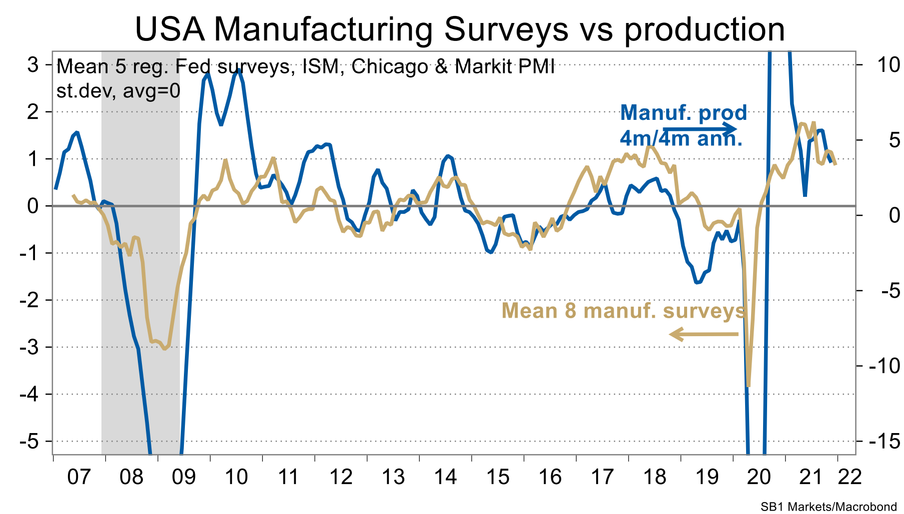

- Growth in manufacturers' **own inventories** (of purchases, <u>not</u> finished goods) are still higher than normal. Inventories must be pretty rich:
  1) Production is running slower than expected, due to weaker demand or due lack of <u>some</u> components, labour, transport services etc.
  2) <u>Companies have been hoarding materials</u>, just to be sure to have them at hand (and they will stop doing it soon)

  Probably elements of both – but hoarding has probably been an element in the supply chain stress
- The rapid decline in **inventories of finished goods** (in Markit's report) implies strong demand – which make the hoarding hypothesis more likely as explanation for the rapid increase in inventories of purchases

# Sum of manufacturing surveys: Down in December but still at high level



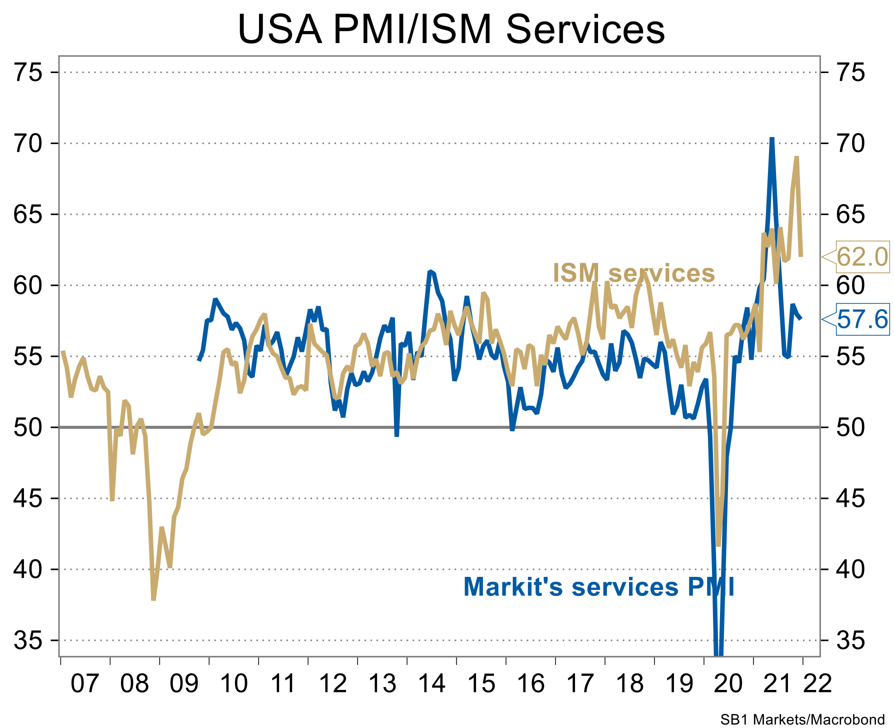



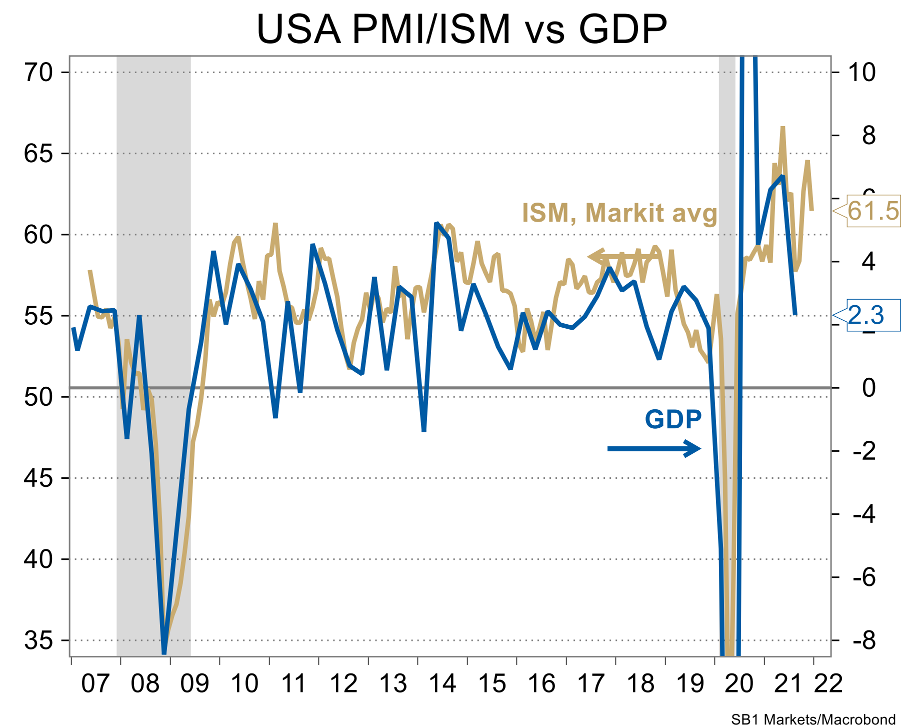




- Actual manufacturing production is on the recovery track and it is finally above the pre-pandemic level
- We expect a continued growth the coming months. The inflow of core durable goods orders are well above the pre-corona level
  - » Both exports and investments will probably climb further while goods consumption in the US will have to normalise at a lower level than the current

# Services ISM sharply down, still very strong. PMI services OK too

ISM services down 7p, 3rd largest drop ever – but at a level at 62 still among the best prints ever

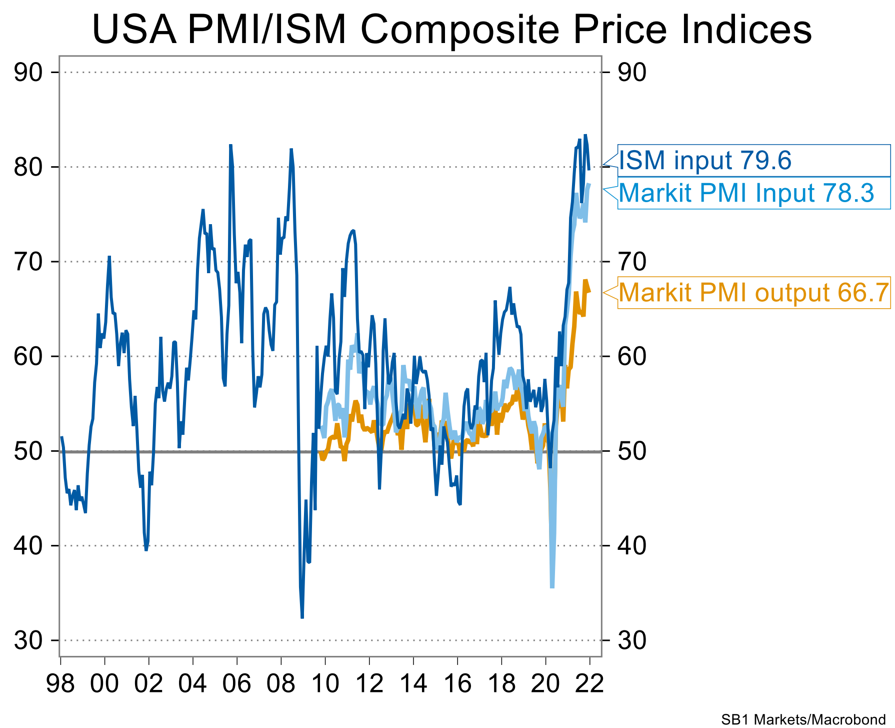


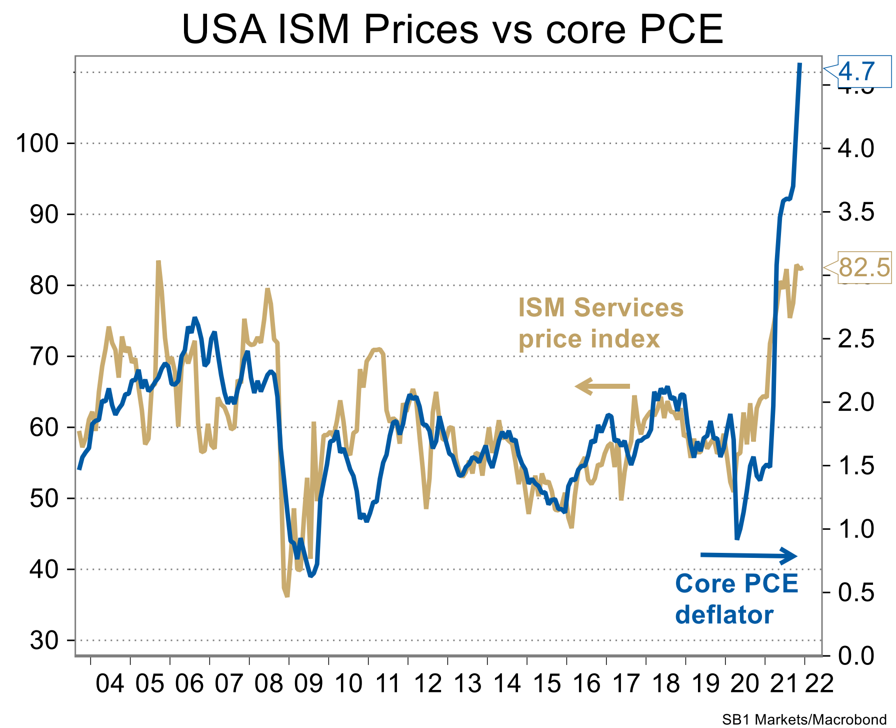




- The decline in the **ISM services index** from an incredible ATH in November was due to a broad decline in all sub indices; The most in delivery times – which by itself is goods news. New orders and business activity slowed too – but levels are still very high
- **Markit's service PMI fell slightly** (but 0.4 p less than the preliminary estimate). The index is at 57.6
- Together with their manufacturing indices, the **PMI/ISMs** signal 5 - 6% GDP growth rate, well above the actual growth in Q3 (2.1% - but Q4 likely almost 4 times better)
- **Prices indices** are still signalling rapid price growth (check next page), for input prices as well as output prices (in Markit's PMI)

# Price indices are not yielding by much

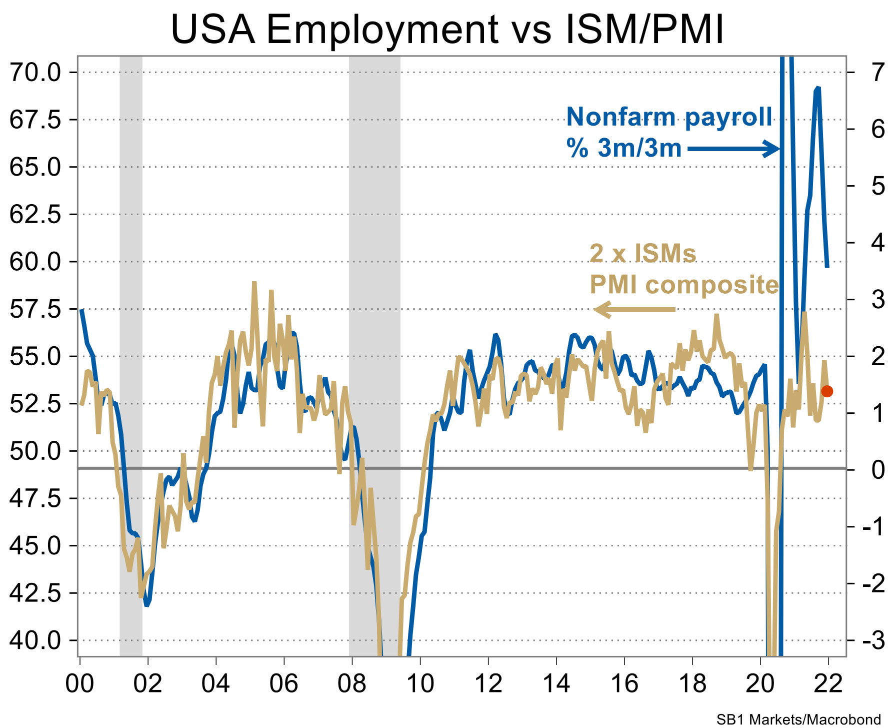
… but prices are climbed more than the PMI/ISMs have told us they would (at least the core)



# PMI/ISM: The employment indices signals modest employment growth

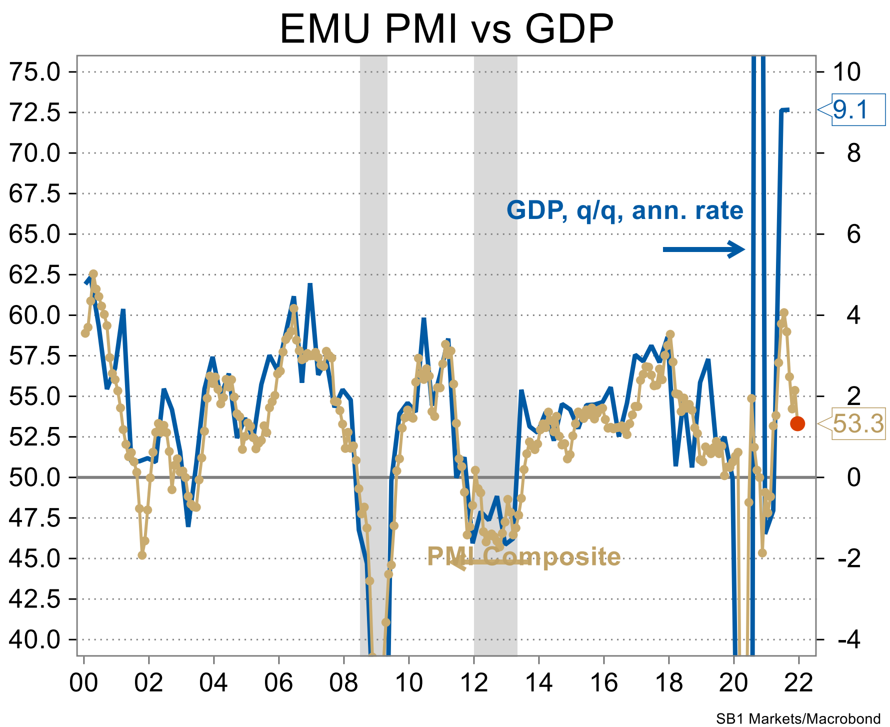
.. And well below the pace over the past 6 months (but like in Nov & December)

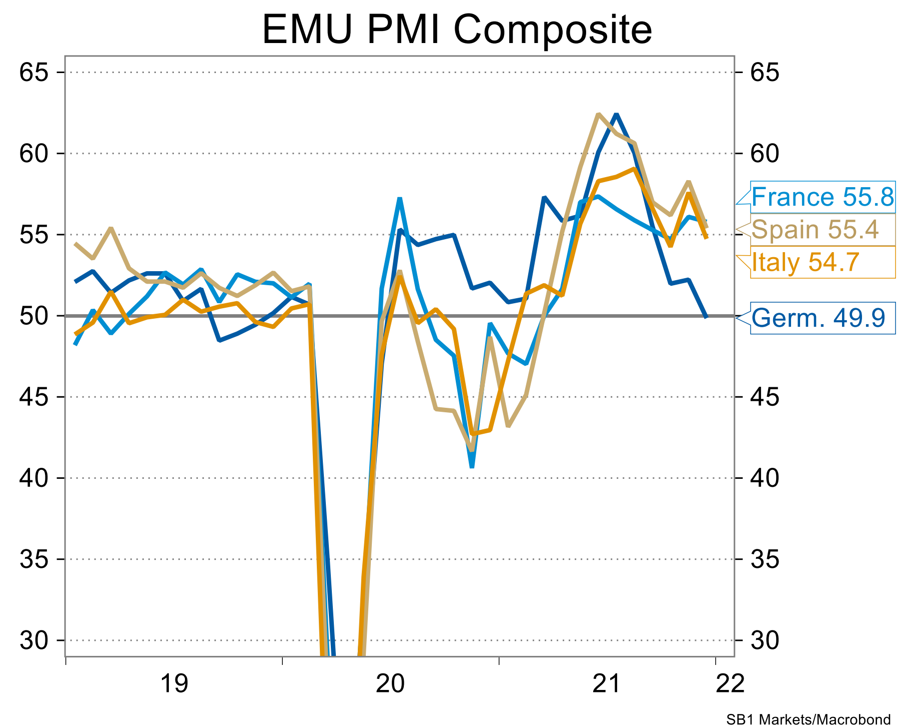



- **Actual employment** growth measured 3m/3m is still strong, almost 4% pace, even if the past two months have been weaker than expected
- The average of PMI & ISM employment indices signals less than a 1.5% growth pace

# A broad decline in December PMIs confirmed but not worse than the 1st estimate

The composite PMI fell by 2.1 p to 53.3, 0.1 pp weaker than the prelim. est. Level still not low

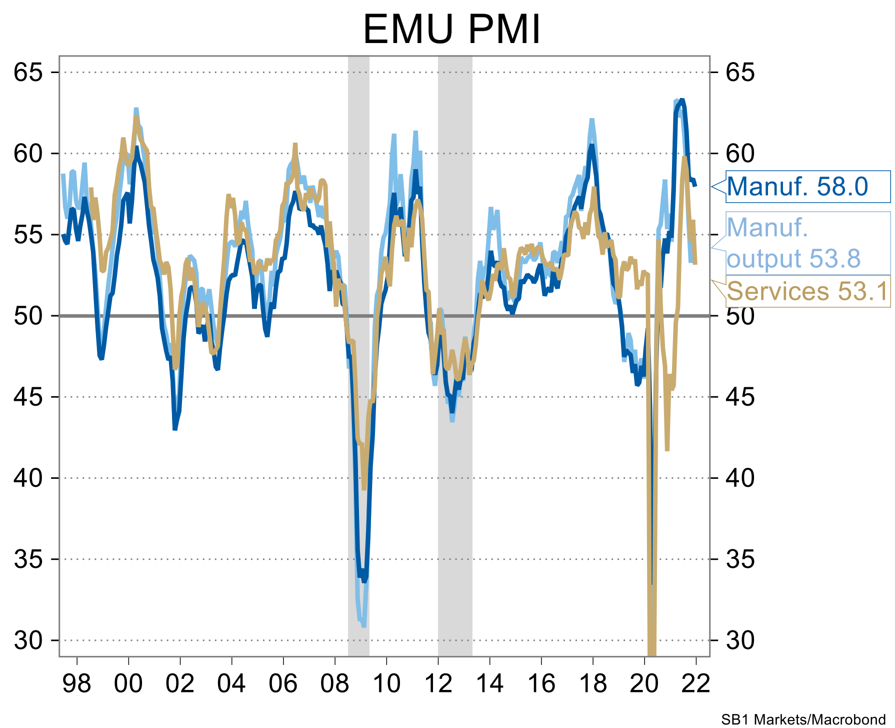


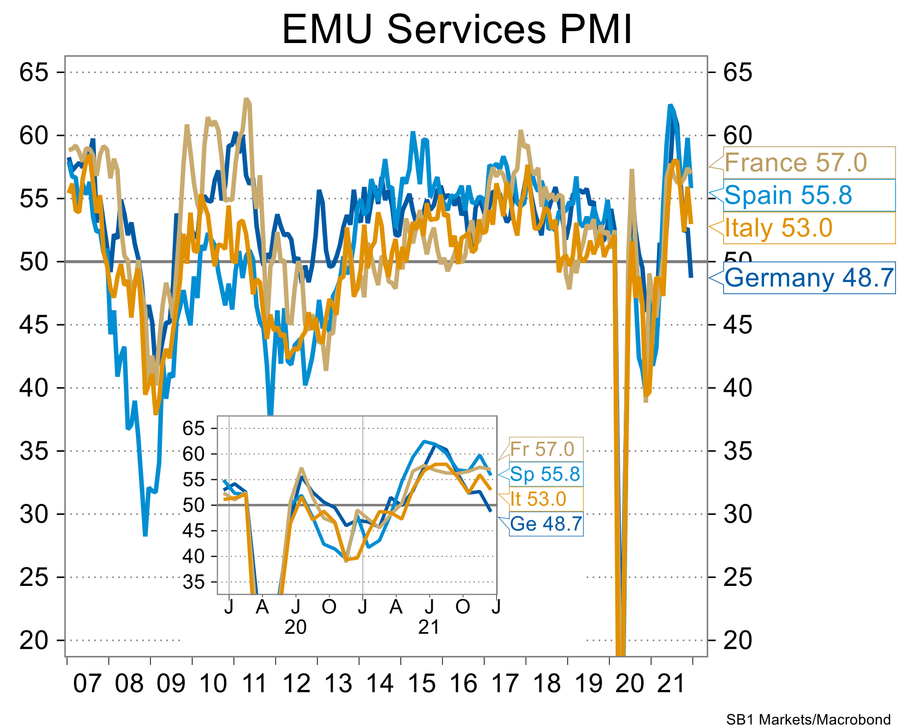




- The final **composite PMI** at 53.3 in Dec signals growth at close to trend, say at a 1.5% pace (or marginally lower)
- Germany fell to below the 50-line, due to a setback in the service sector (Omicron)
- Others are still reporting decent growth

# The manufacturing sector report strong growth (58), services hurt in Dec (53.1)

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




- German services were the weak link in December, very likely due to Covid measures implemented (before and 'after' Omicron)
- France and Spain still report strong growth in services – while Italy is placed in middle

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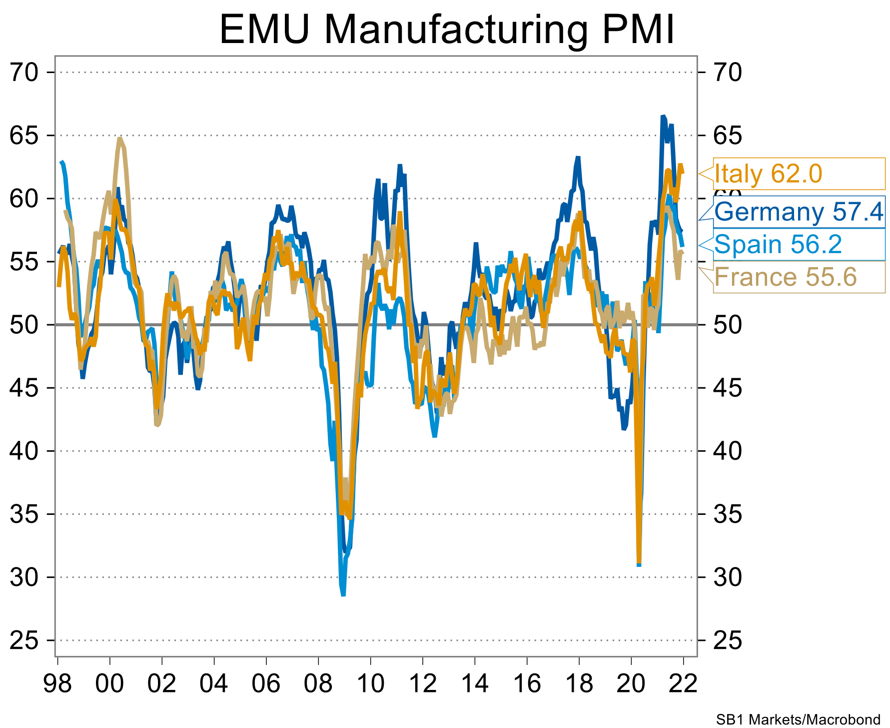
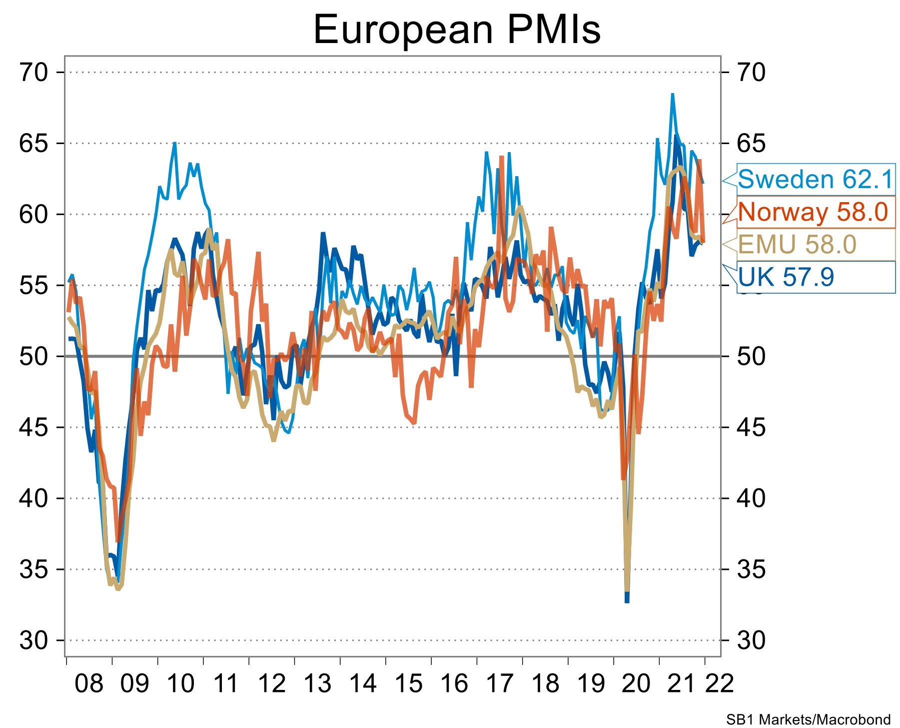
# Eurozone manufacturing PMIs all down, all are still well above normal levels

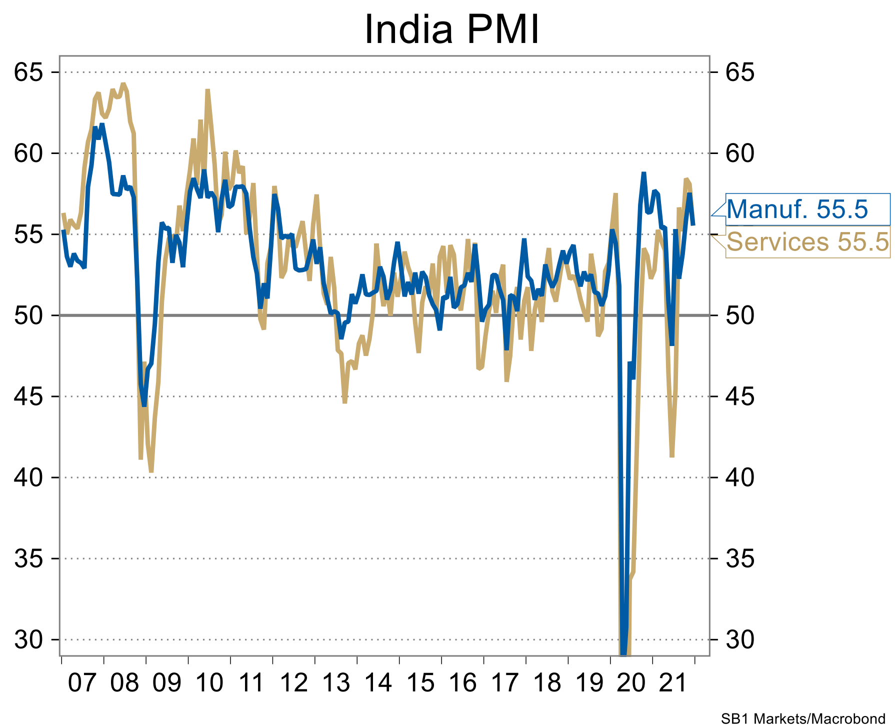
The Norwegian PMI is strongly correlated to the PMI cycle abroad

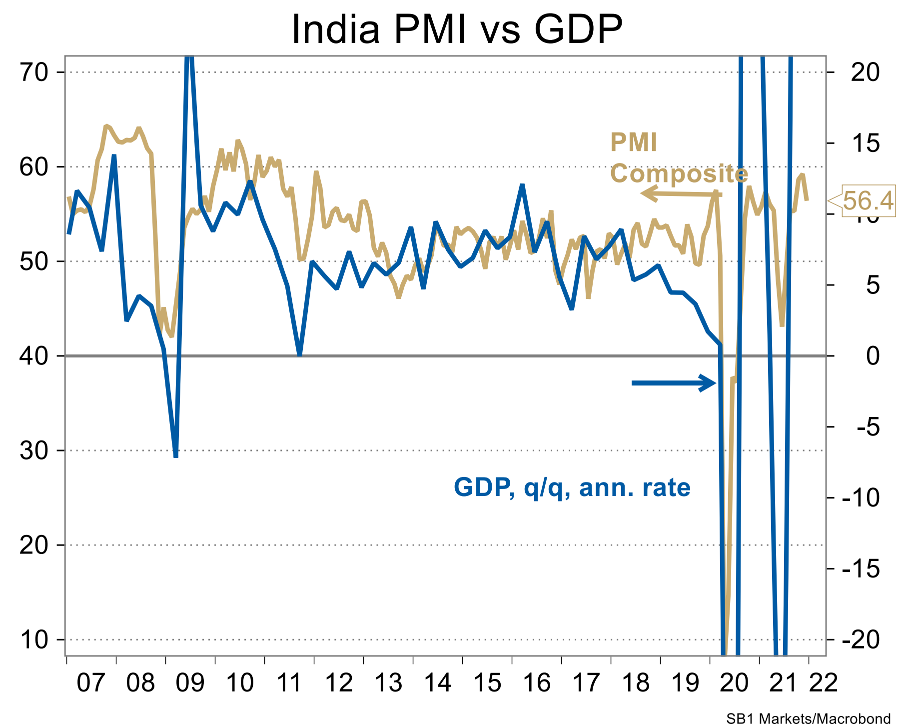


# The Indian PMIs down but remain at high levels – signalling growth well > trend

## Both manufacturing and services down in December – but far from out

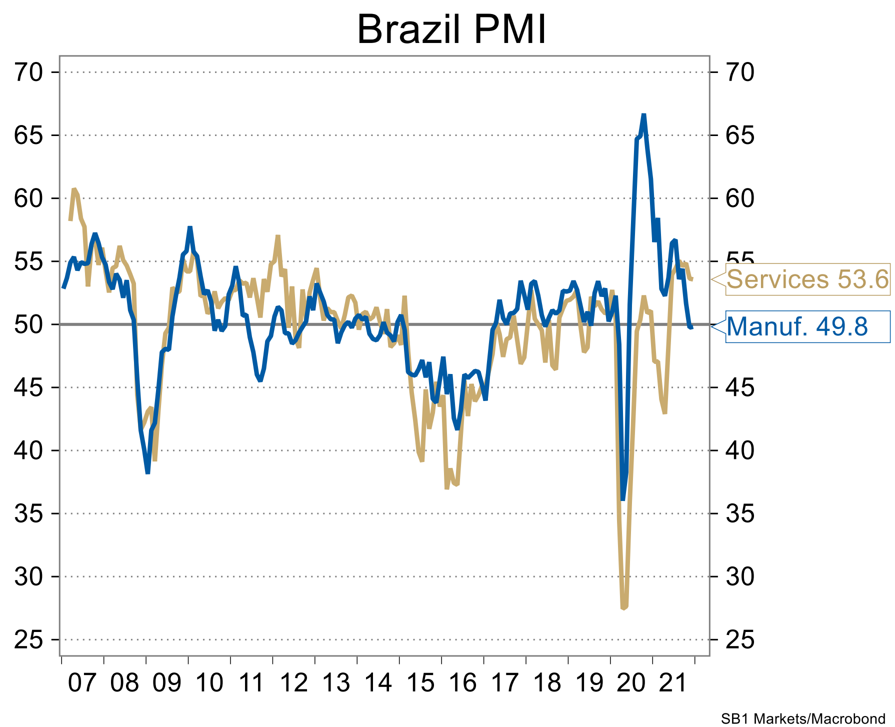


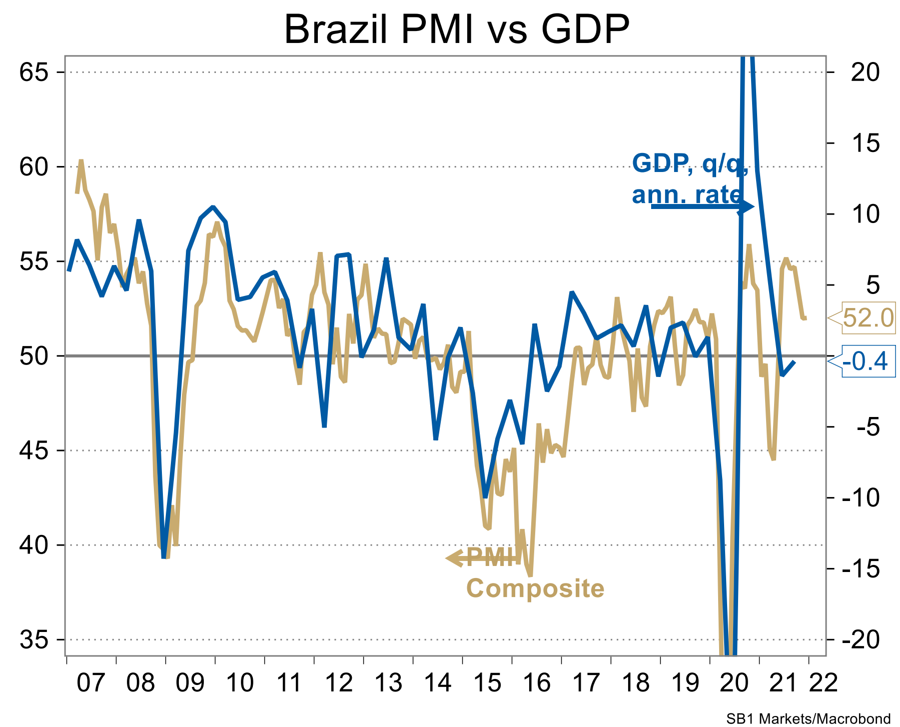




- **The services PMI** subtracted 2.5 p in Dec but at 55.5 it is still at an unusual high level. The fight against Delta was won. And now??
- **The manufacturing PMI** declined by 2 p to 55.5, also a decent print. New orders are still growing rapdily, and not due to export orders. Delivery times are not increasing (but the index look suspicious). Input prices are sharply up but nothing compared to what manufacturers in the rich part of the world are reporting, and output prices are just increasing slowly
- **The composite index** fell by to 2.8 p to 56.4 – from the best level in 10 years. The Dec print is still far above an average level
- **In Q3, Indian GDP** grew by 12.2% (or 61% at annualised pace ☺) – still down almost 2% from the Q1 level. Growth will be impressive in Q4 too

# The growth has come to an halt in manufacturing, services still above par

## No changes in December

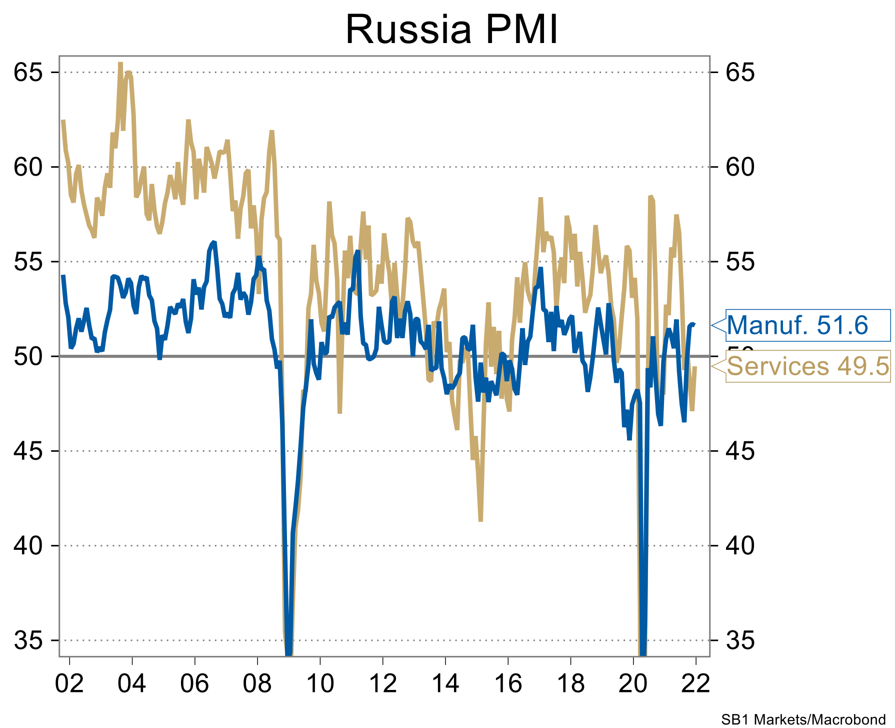


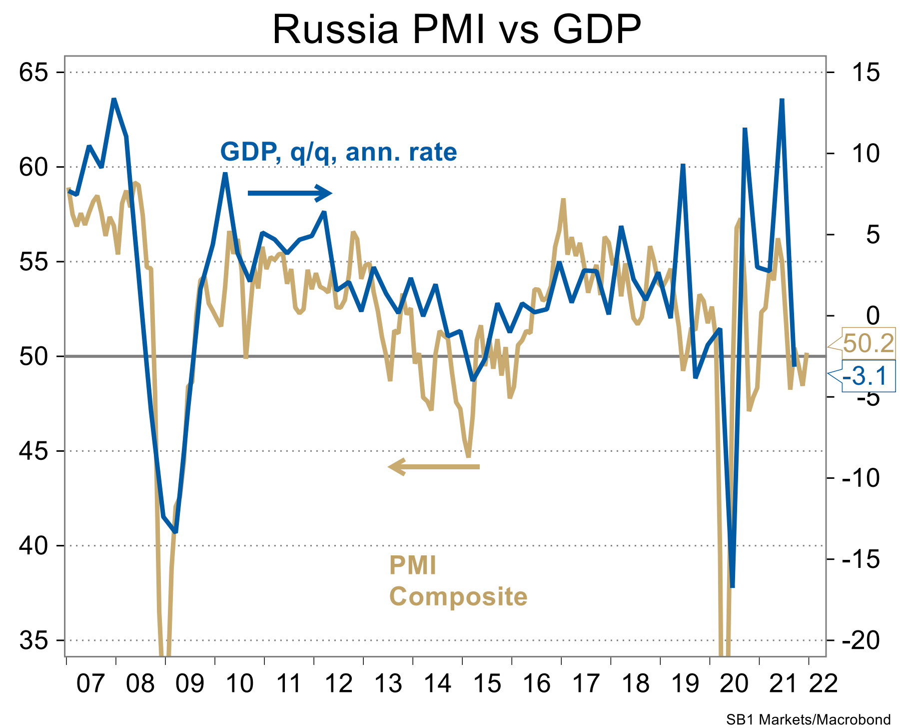




- **Manufacturing PMI** was unchanged at 49.8, which is not than low in a Brazilian context – the index is still signalling some growth
- **The service sector PMI** unchanged 53.6, still far above a average level. Barring the two past months, the level is the best level since 2011
- **The composite PMIs** was unch at 52.0. The level is above an average level – signalling growth above trend. However, the trend is far from impressive! (neither is the correlation between the PMI and GDP
  - » In Q3 GDP fell 0.4%,the 2. decline in row, very likely due to the struggle against the virus. As soon as Omicron is consumed, some hope?

# No virus relief in Russia – the service sector a further (but slower) contraction

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

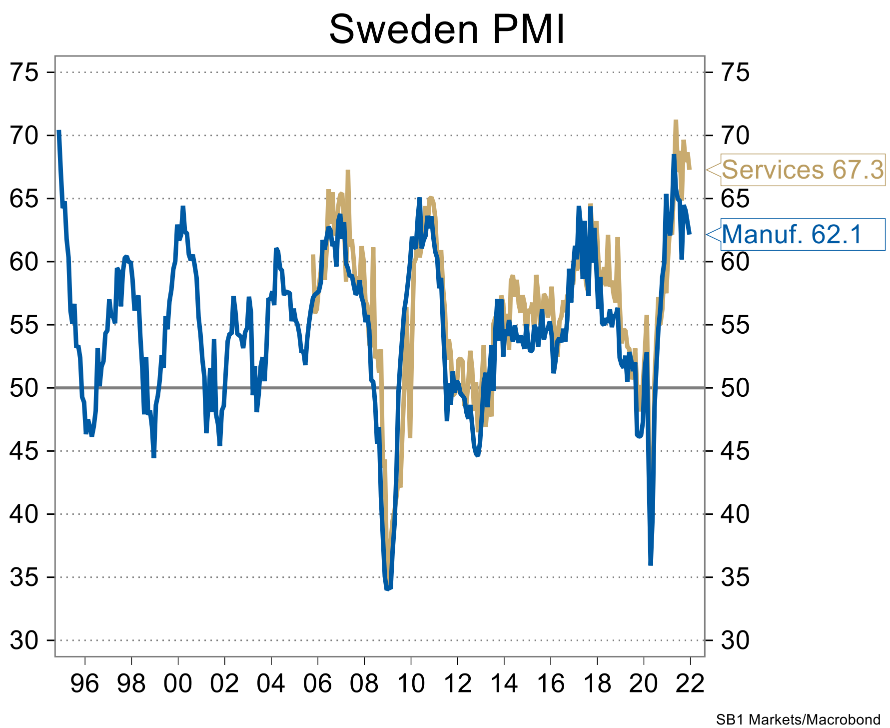


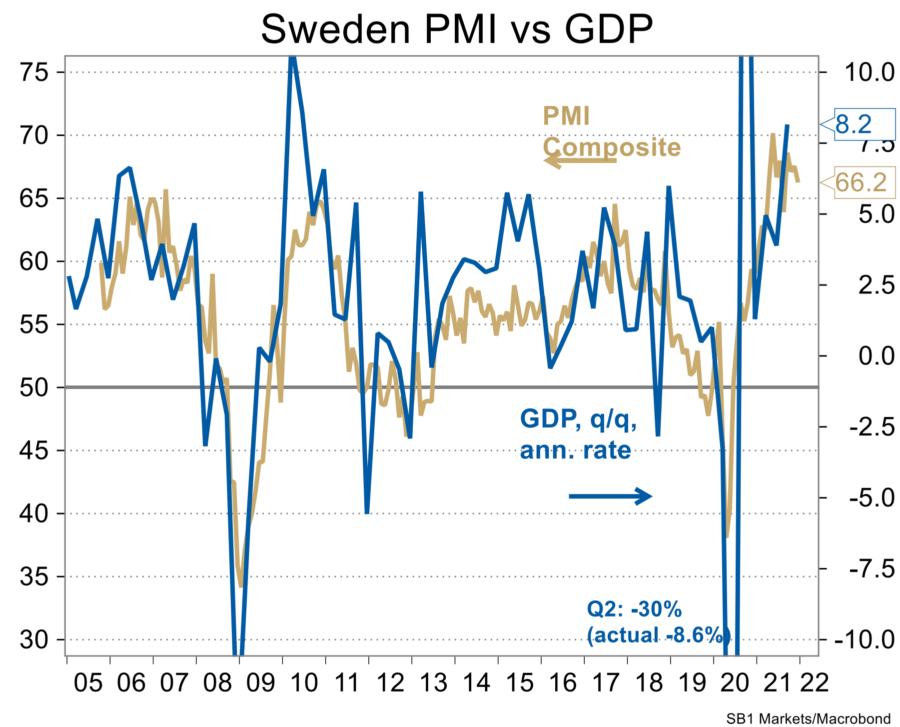




- **The composite PMI** climbed 1.7 p to 50.2 in Dec. A PMI at this level normal signals a 3% contraction in GDP but the correlation has not been that tight during the pandemic
- However, **GDP** fell at 3% pace in Q3, following a brisk recovery in Q2
- The **central bank** has lifted the signal rate by 425 bps to 8.5% (100 bps were delivered last week)

# The Swedish composite PMI down 1.4 p. To 66.2! Signals continued strong growth

Both manufacturing & services contributed at the downside – but both are at very high levels

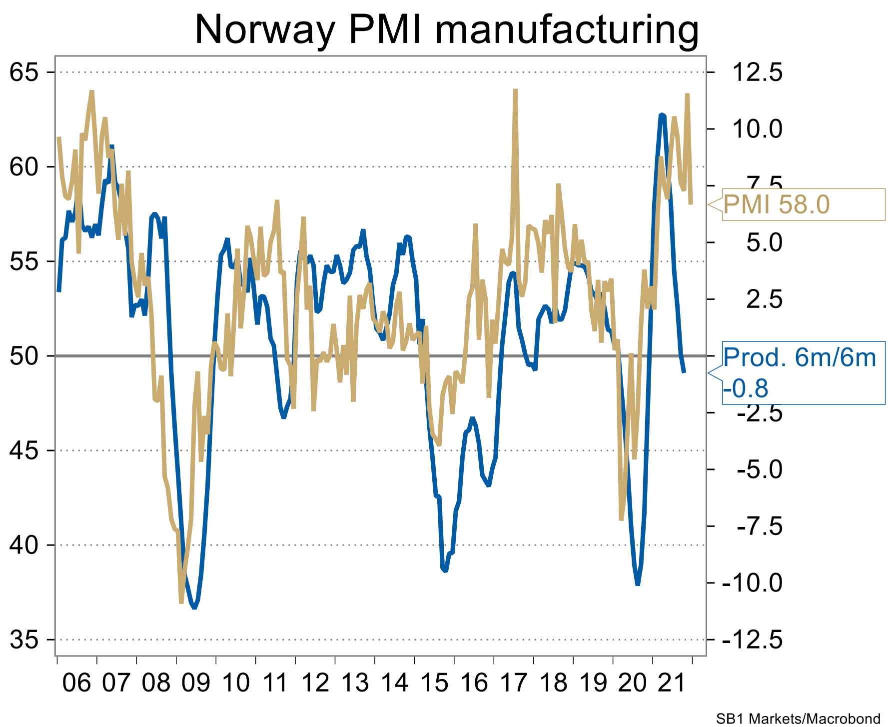


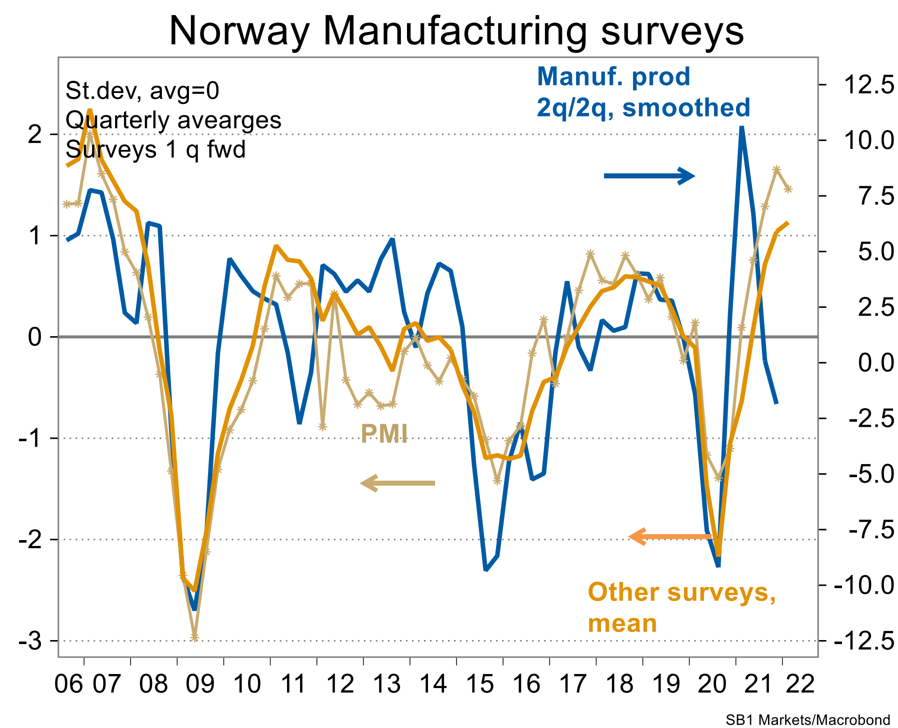




- The **composite PMI indicates a 6% GDP growth**
  - » In Q3, GDP grew at a 8.2% pace!
- The **Riksbank** has so far not yielded, it promises to keep the exchange rate at 0 until Q4 2024

# The manufacturing PMI down 5.3 p to 58, still a decent level

## Delivery times and prices are still increasing rapidly, order inflow grew slower

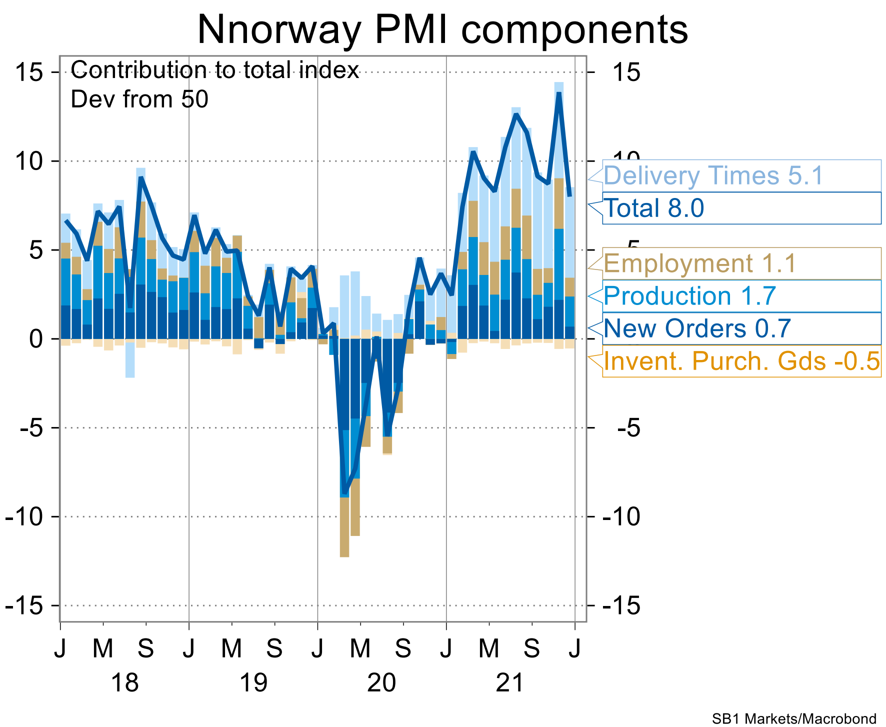


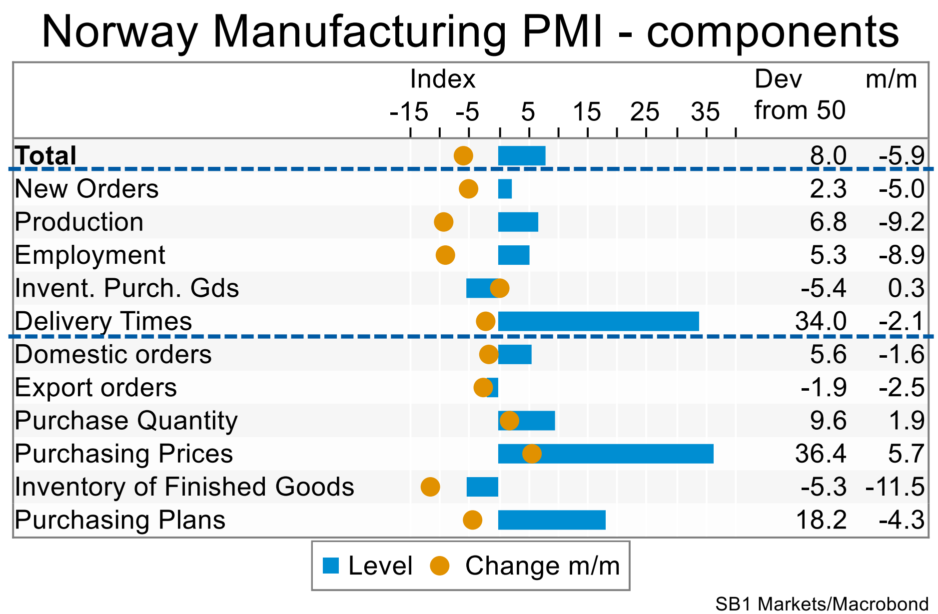




- **All sub-indices** in the total index contributed at the upside. Orders were the most sober – and export orders are just in the balance
- Businesses in Norway, as in other rich countries, are reporting of bottlenecks and increased input prices (check next page). We doubt the record high delivery times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

# The delivery times index still lifts the headline PMI ‘artificially’

## Most components contributed at the downside in December



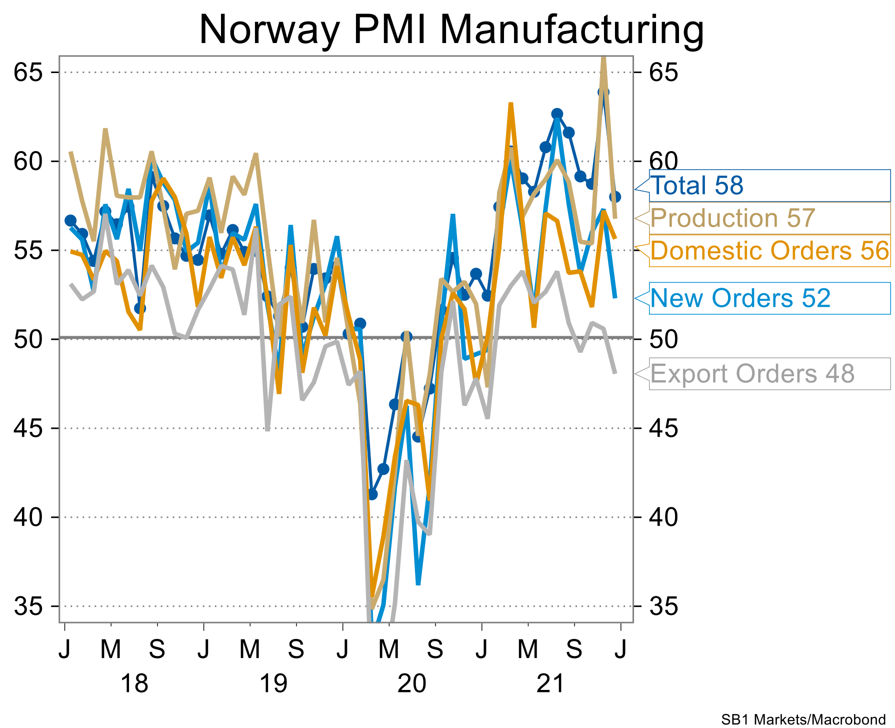



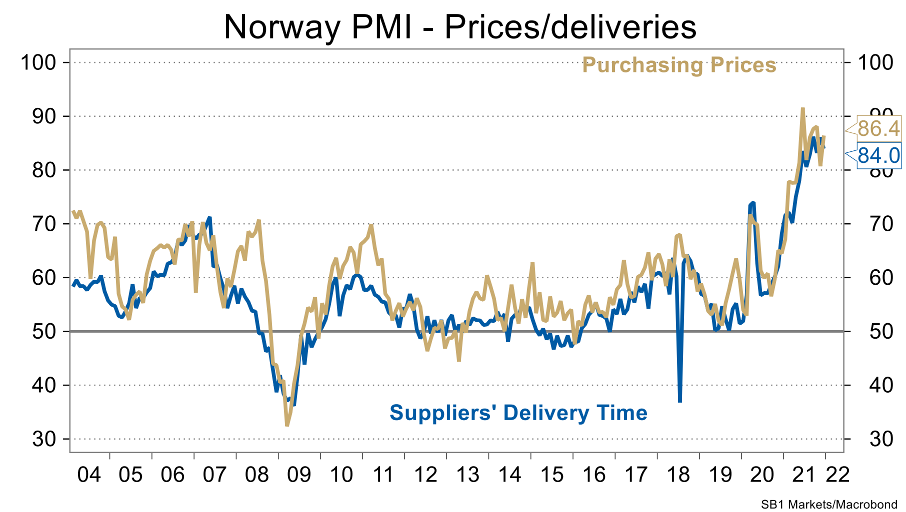

- Normally, the **delivery times index** has not had any sigificant impact on the total PMI index as the delivery times index has been quite closely correlated other components in the headline index. Now, it makes a substantial difference, by 5 pp to the total index
- **Prices** are still rising at a fast pace, and faster in Dec than in Now

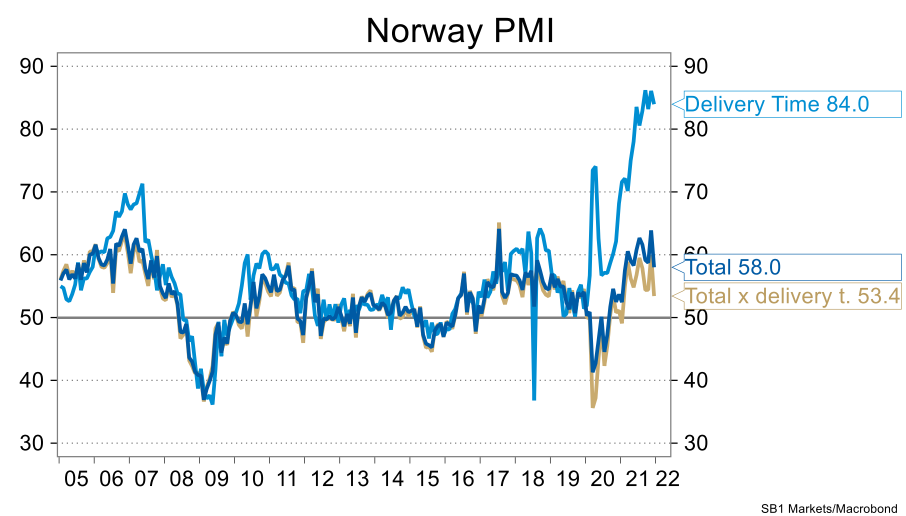
The total PMI index is a weighted index of new orders, production, employment, inventory of purchased goods, and delivery time. The 6 next sub indices at the table to the right are not included in the total index calculus

# Growth in new orders slowed in December, and export orders contracted

## A total index ex. delivery times fell 6 p to 53.4 in December. Above par but not by that much



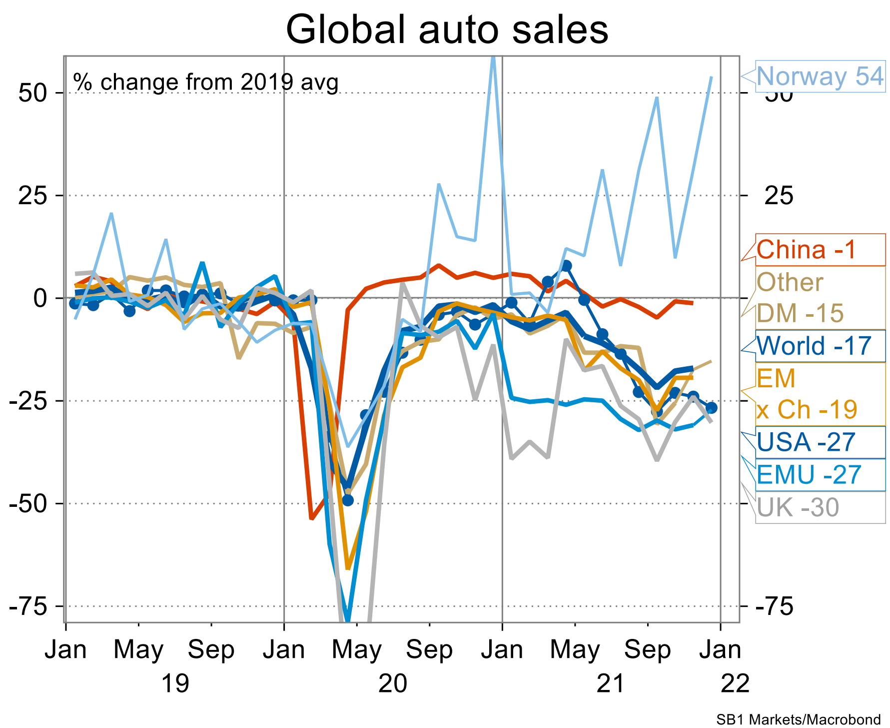



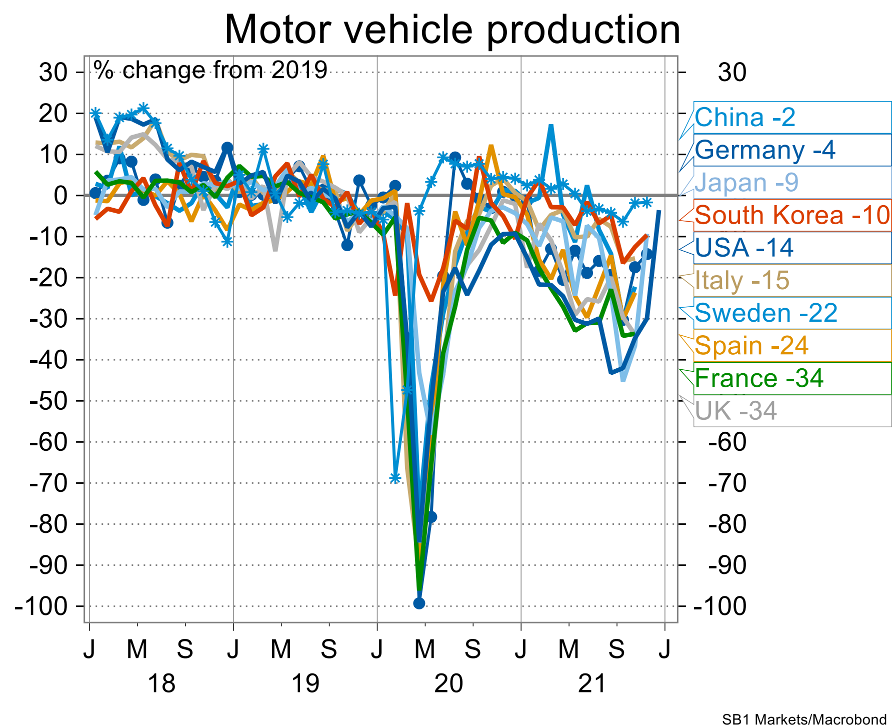




- **Prices** are still rising at a fast pace, and faster in Dec than in Now

# Global auto sales probably close to flat in Dec, production sharply up in Oct-Dec

Auto production sharply up recent months – Germany just 4% below the '19 level, was down 43%!




- Too many countries have not reported sales data yet, and we have not calculated global estimate. Some data points at the chart above
  - » **US** down, **EMU** up. Both down 27% vs. the 2019 average
  - » **Norwegian** sales rose to the 2nd highest level ever, 54% above 2019 average sales!

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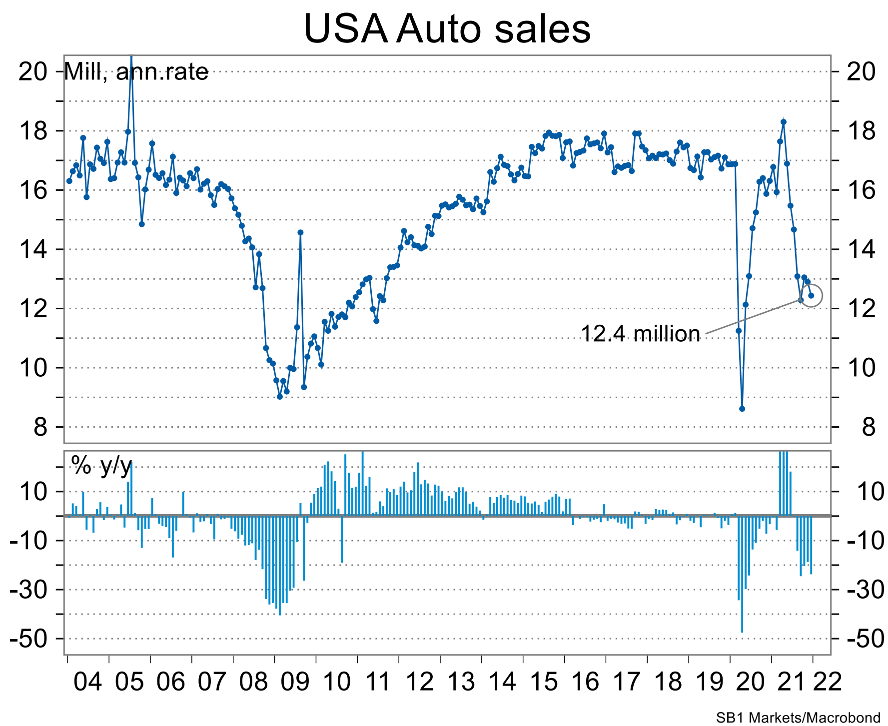
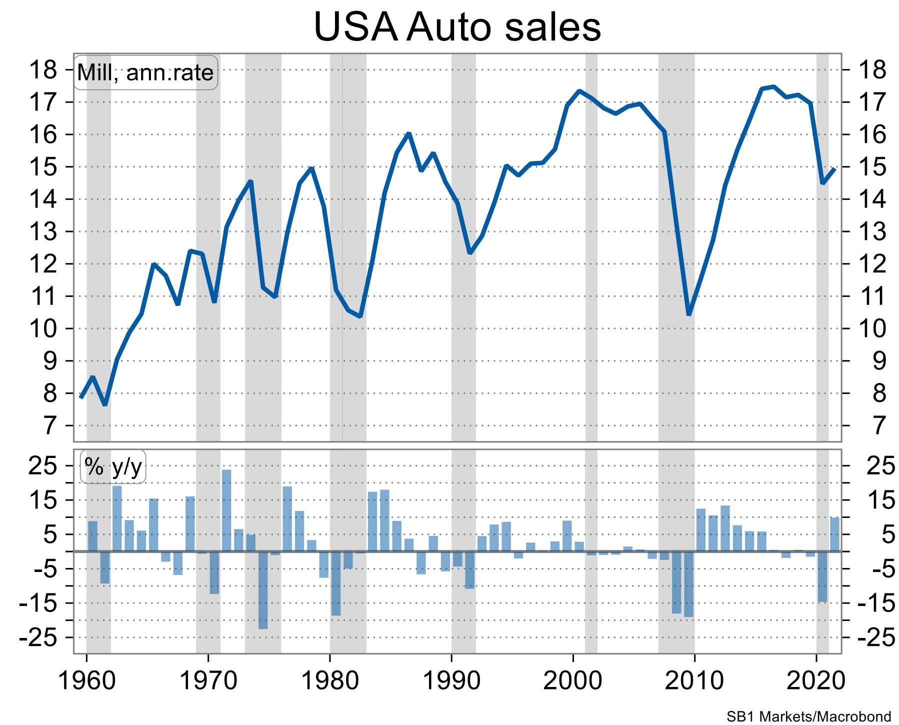
# US auto sales down in December, to 27% below the pre-pandemic level

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

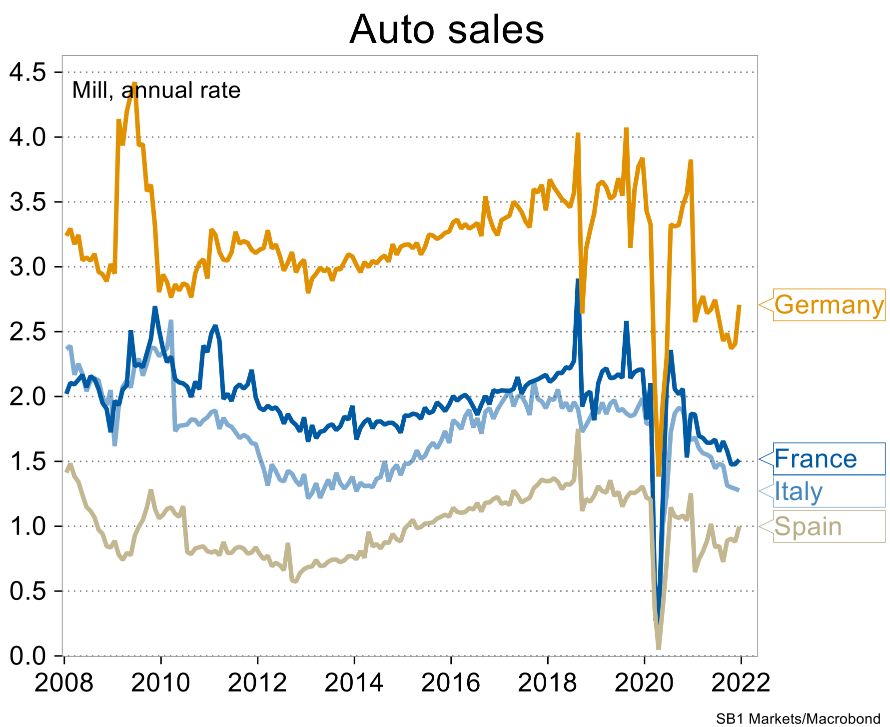


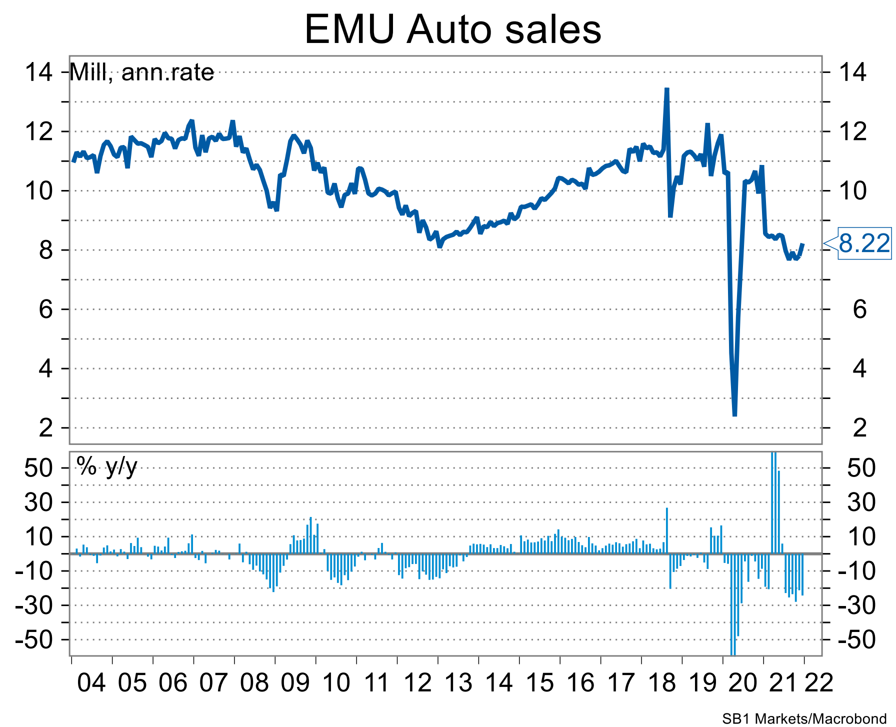




- **Sales** contracted 0.6 mill to 12.4 mill (annual rate) in December, expected up to 13.1 mill. Sales are 27% below the 2019 level. Last year, sales still rose 9.9% vs. 2020, to 15.0 mill. In 2009, sales fell to 10.4 mill
- **Demand for cars** is still strong, as the 2$^{nd}$ hand market is 'emptied', and used car prices have soared >40%

# EMU: auto sales up in December, to 27% below the pre-pandemic level

German & Spanish sales sharply up, French sales marginally up, Italian sales further down

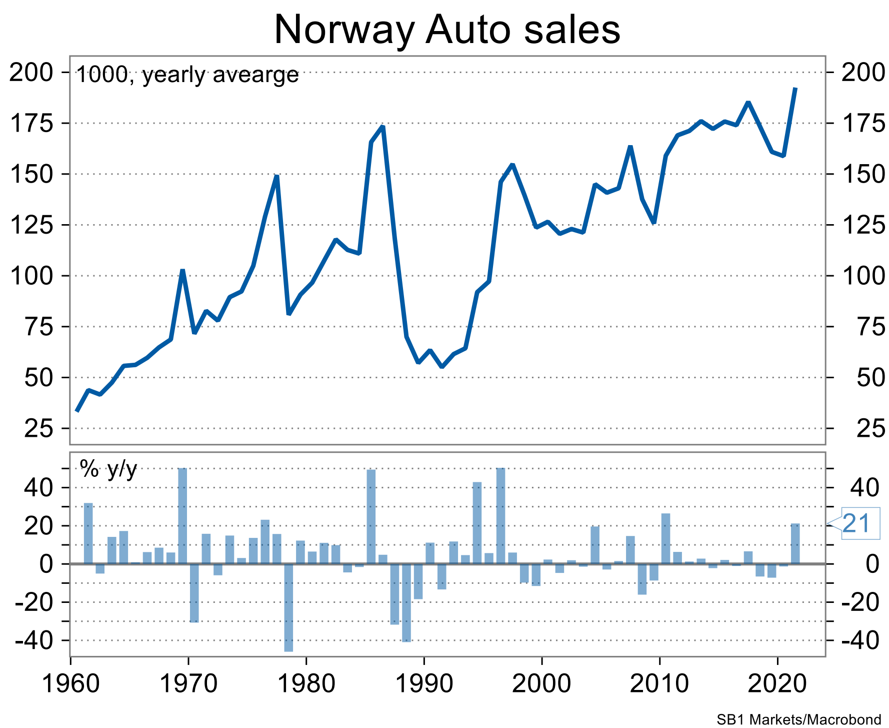


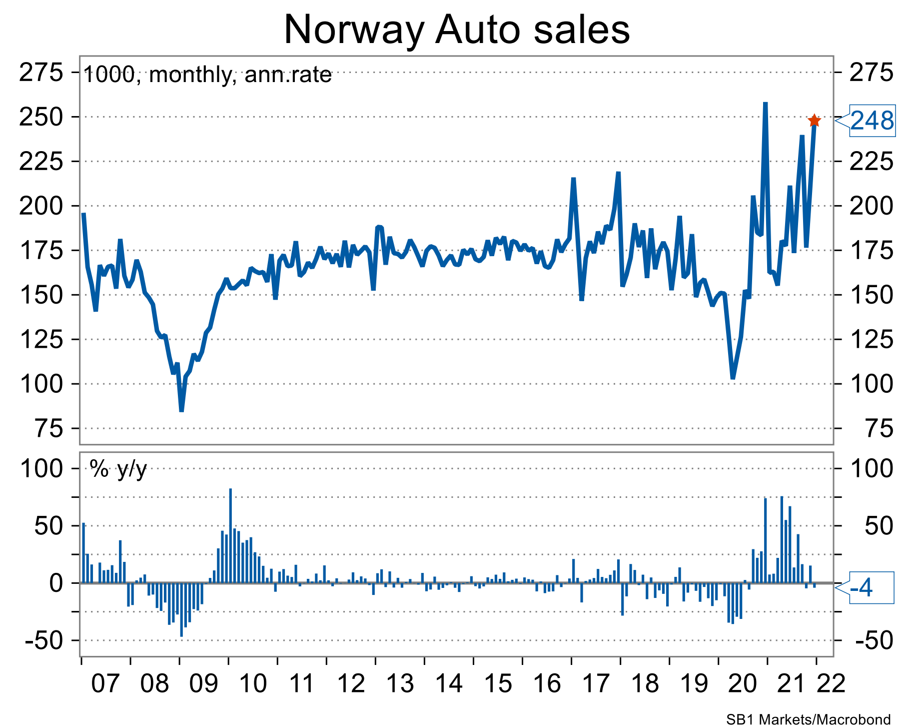




- Our estimates: EMU Dec sales at 8.2 mill (annual rate) are down 27% vs. the 2019 level. Last year sales fell by 6% to the lowest level in modern times

# Norway: Record high auto sales last year – and Dec the 2nd best month last year

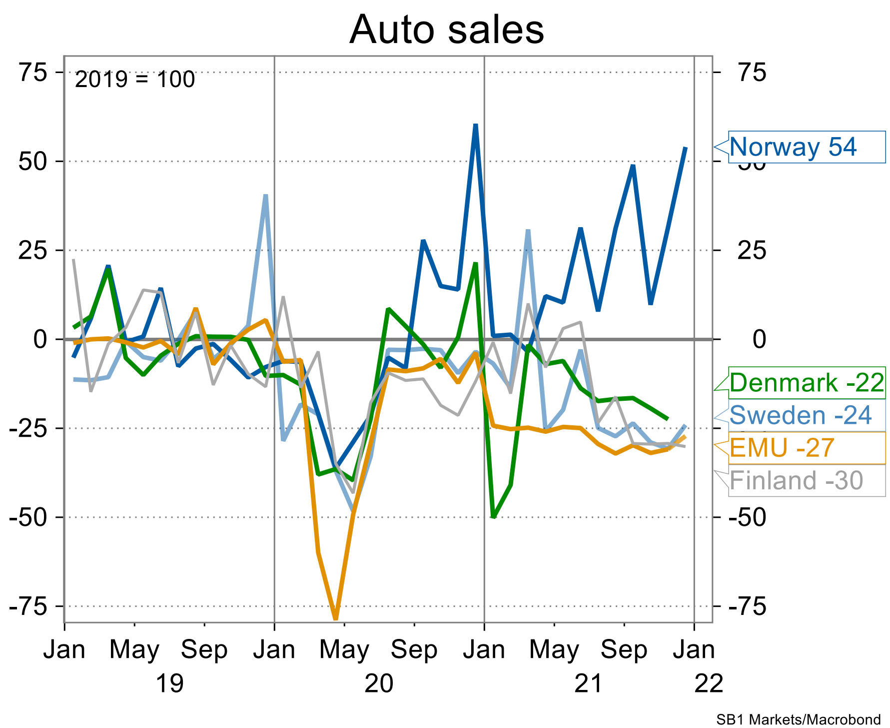
Cars are directed here because we pay far better than others?? Sales are up 30% vs the 2019 average!

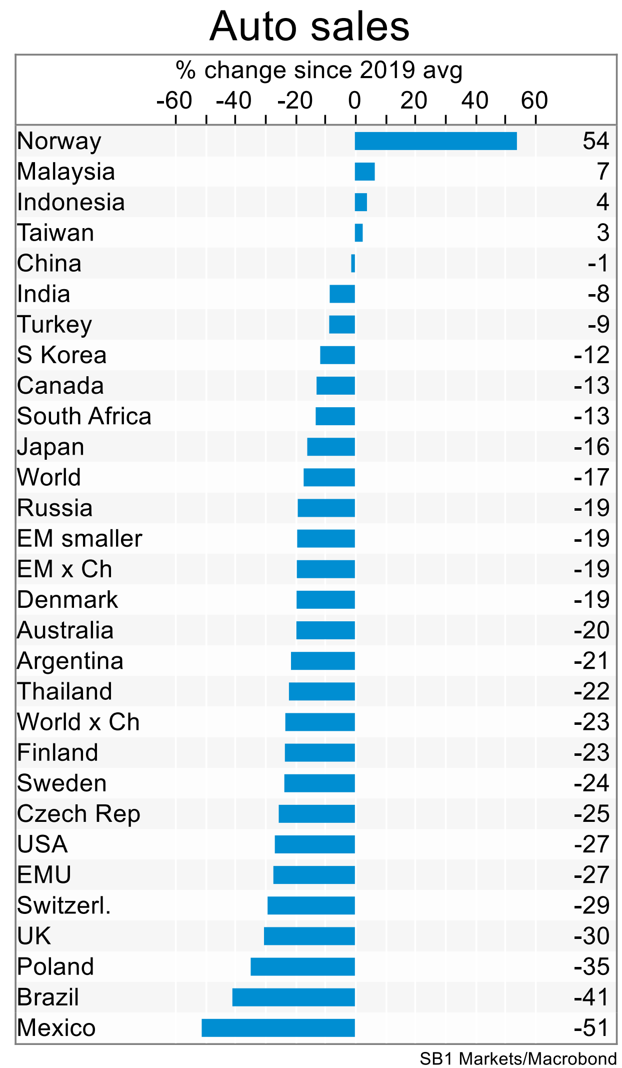



- Sales (first time registrations) rose to 248' in December from 211' in November. Just Dec 2021 has been better!
- Last year, 192' autos were first time registered –above the previous ATH at 185' in 2017 – and before that 173' in 2006!
  - » Sales rose 21% from 2020 – in a year where global production and sales fell

# The Nordics: Norway a very special case (and not just among the Nordics ☺)

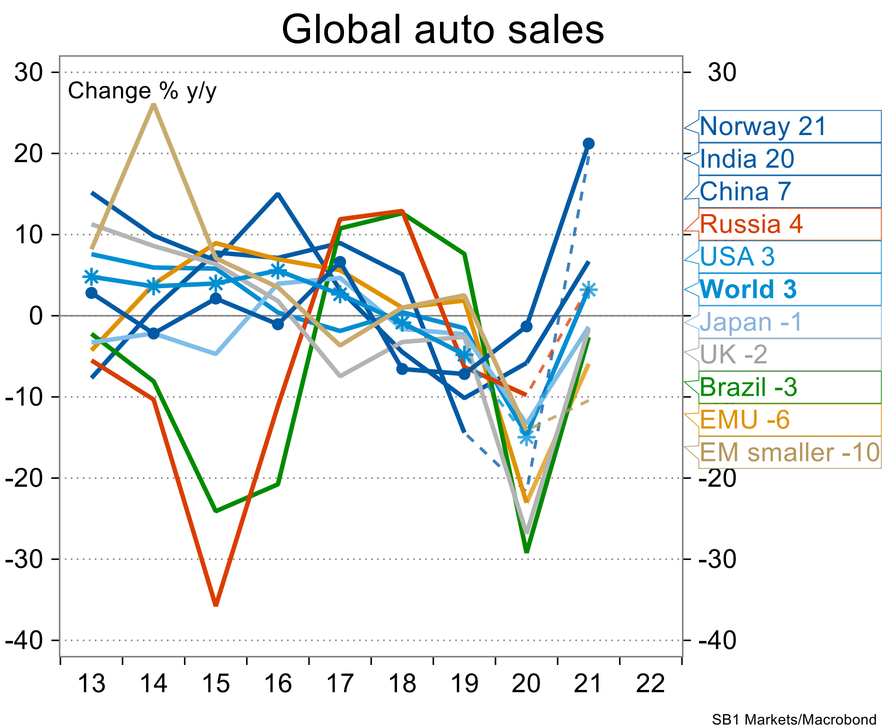


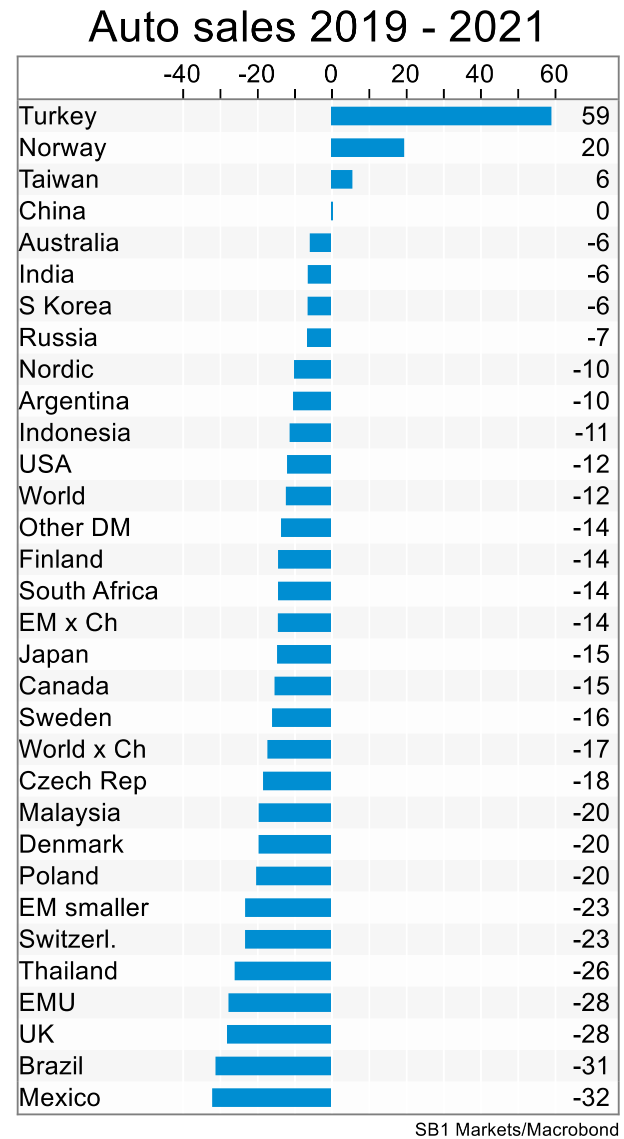




- Not all countries have yet reported December sales

# 2 years of Covid: What happened to auto sales? Not one story, it seems

## Norway close to the top

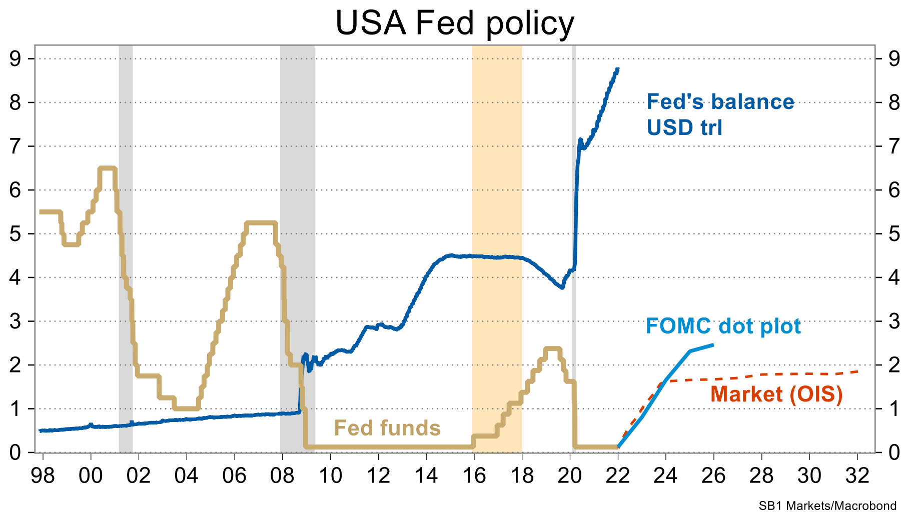


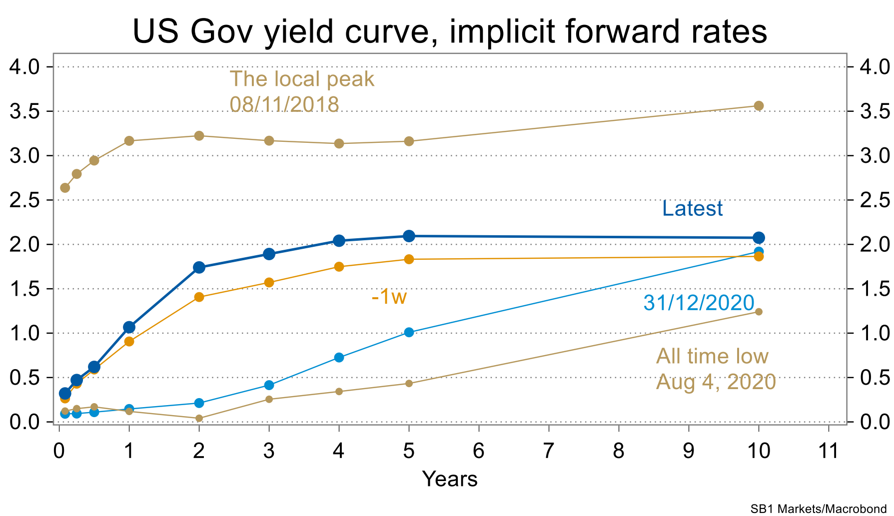




- Global sales down 12% vs. 2019, even if sales rose 3% last year
- Turkey at the top vs a 2019 disaster. Norway at the top, ‘for real’
- Sales in China flat over the past 2 years
- Others are down by up to 32% (Mexico), EMU & UK down 28%. US down just 12%

# FOMC minutes: WTF, they meant it! And even more than Powell told us, once again

Markets were surprised by the hawkish messages in the minutes. QE program soon in reverse?

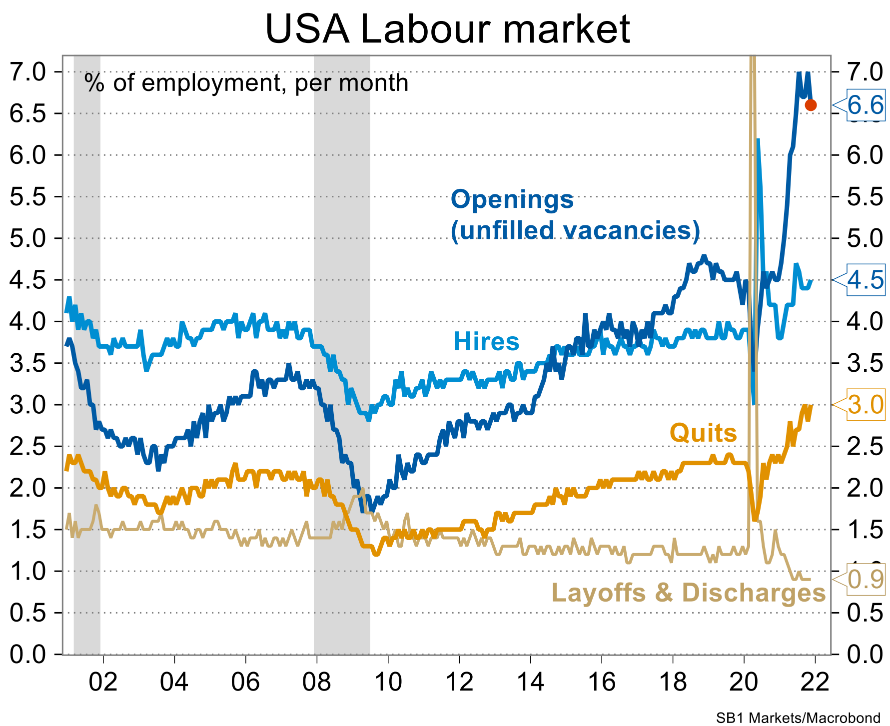



- We can not remember that minutes from a FOMC meeting have created such havoc in markets like we saw at Wednesday
  - » In November, we commented that the minutes from the FOMC meeting (published 3 weeks after the meeting) was significantly more hawkish than Powell's comments at the press conference (just after the meeting).
  - » In December, we learned the implications: The pace of tapering of the QE program was doubled, and the dot plot (FOMC's members interest rate paths) was in average lifted by up to 70 bps, more than ever before
- Minutes from the December 15 meeting were also more hawkish than the impression Powell left at the presser. Even if the story of his 180 degree personal turn-around on policy was impressive – and the change in analysis and the policy signal from the FOMC was unprecedented, the minutes revealed an even more hawkish stance: In a lengthy '*Discussion of Policy Normalization Considerations*' at the start of the meeting, the FOMC members debate the policy outlook:
  - » *That the current economic outlook was much stronger, with **higher inflation and a tighter labor market** than at the beginning of the previous normalization episode. … the Federal Reserve's balance sheet was much larger, both in dollar terms and relative to nominal gross domestic product (GDP), than it was at the end of the third large-scale asset purchase program in late 2014*
  - » *Many participants judged that, if the current pace of improvement continued, labor markets would fast approach **maximum employment**. Several participants remarked that they viewed labor market conditions as already largely consistent with maximum employment*
  - » *Almost all participants agreed that it would likely be appropriate to **initiate balance sheet runoff** at some point after the first increase in the target range for the federal funds rate. However, participants judged that the appropriate timing of balance sheet runoff would likely be closer to that of policy rate liftoff than in the Committee's previous experience* (2y lag last time, yellow bar)
- A March hike was discounted before the minutes (by XX%) now it has become even more likely (XX %). So far in 2022, the 10 y gov bond rate is up by 24 bps to 1.76%. The TIPS real rate is up by 32 bps – to -0.74%. More to go?

# Some fewer unfilled vacancies in Nov, still an extremely tight labour market

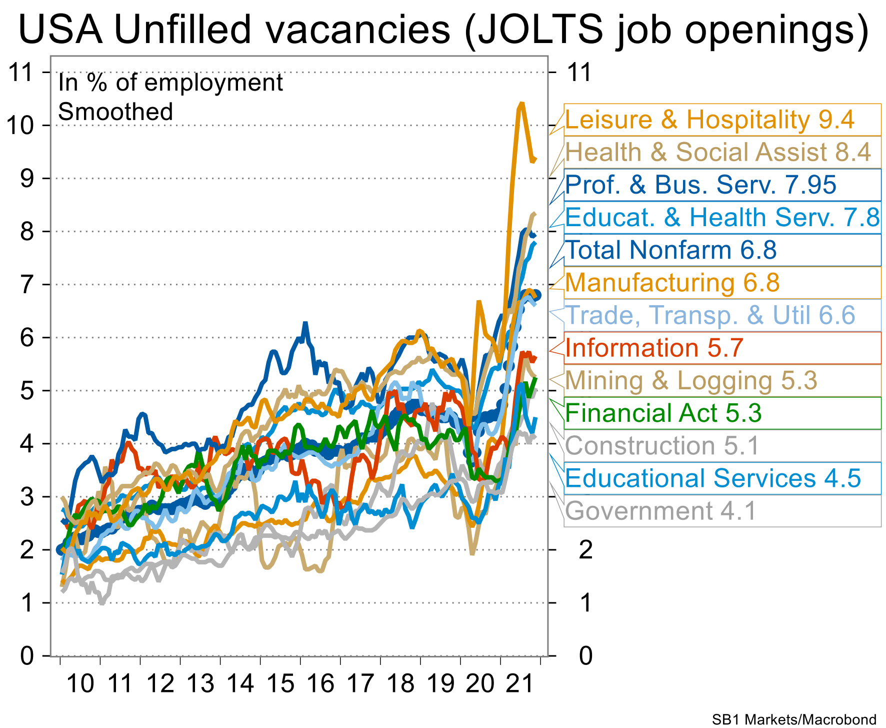
## A record high no. of voluntary quits confirm a very tight labour market

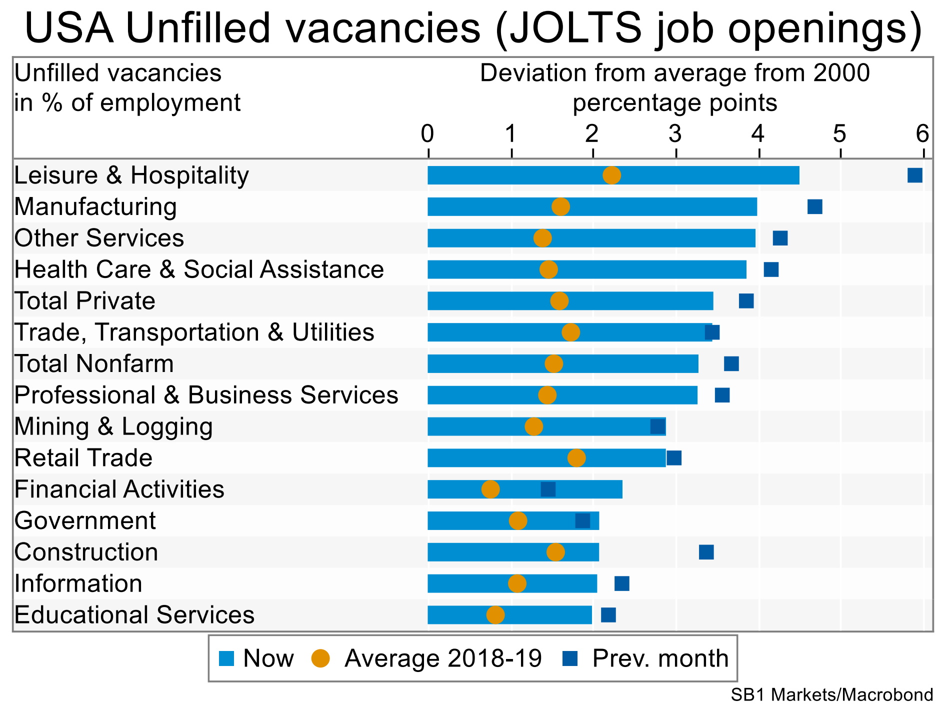



- The no. of **unfilled vacancies** fell by 0.5 mill to 10.6 mill in November, according to the JOLTS report. The vacancy rate was 6.6%, down 0.4 pp
  - » The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit.
  - » The decline in November was broad based, and by the most in leisure/hospitality and construction
  - » **The SMBs (NFIB survey)** reported marginally <u>more</u> trouble filling positions <u>December</u>. These two series are very closely correlated – and the level for both unprecedented
- **New hires rose by 0.2 mill to 6.7 mil or by 0.1 pp to 4.5%** of the no. of employed persons, an unusual high level
- The rate of **voluntary quits** shot up 0.4 mill to 4.5 mill, another ATH. As per cent of employment, a 0.2 pp to 3.0% lift in Nov, back to the per cent ATH level reached in Sep, signalling a very strong labour market. As with unfilled vacancies, quits are closely correlated to wage inflation – for obvious reasons
- **Layoffs** were unch at the lowest level ever, 0.9% in Nov
- **In sum:** The report data <u>confirm an extremely tight labour market – **but also that the balance** is not worsening</u>, even if the unemployment rate has nosedived – which could indicate <u>somewhat less aggressive demand for labour</u> from businesses

# All sectors are reporting more vacancies than before the pandemic

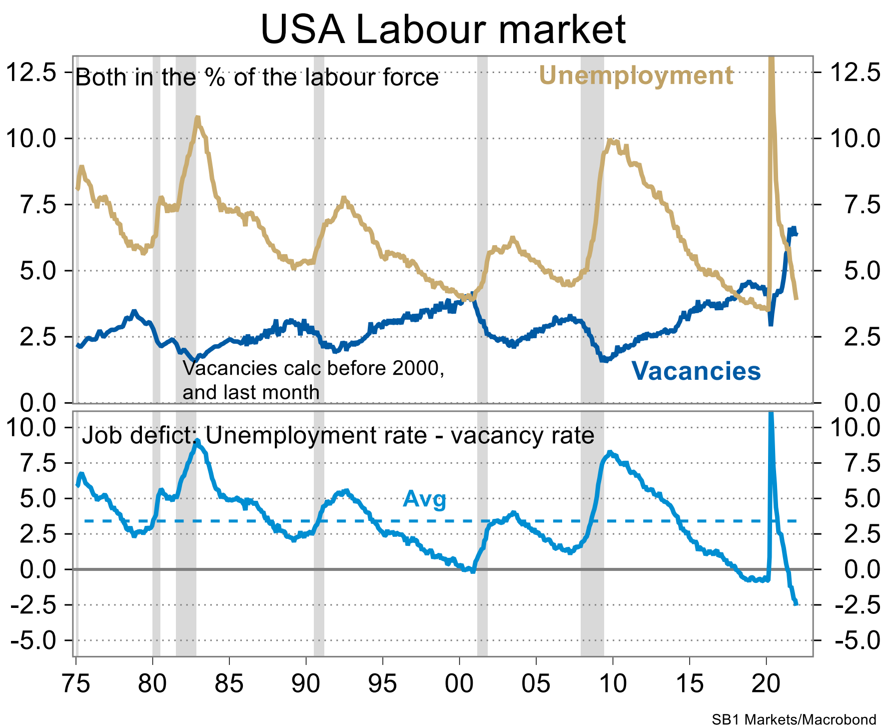
## 11 sectors reported fewer unfilled vacancies in November, just 3 more

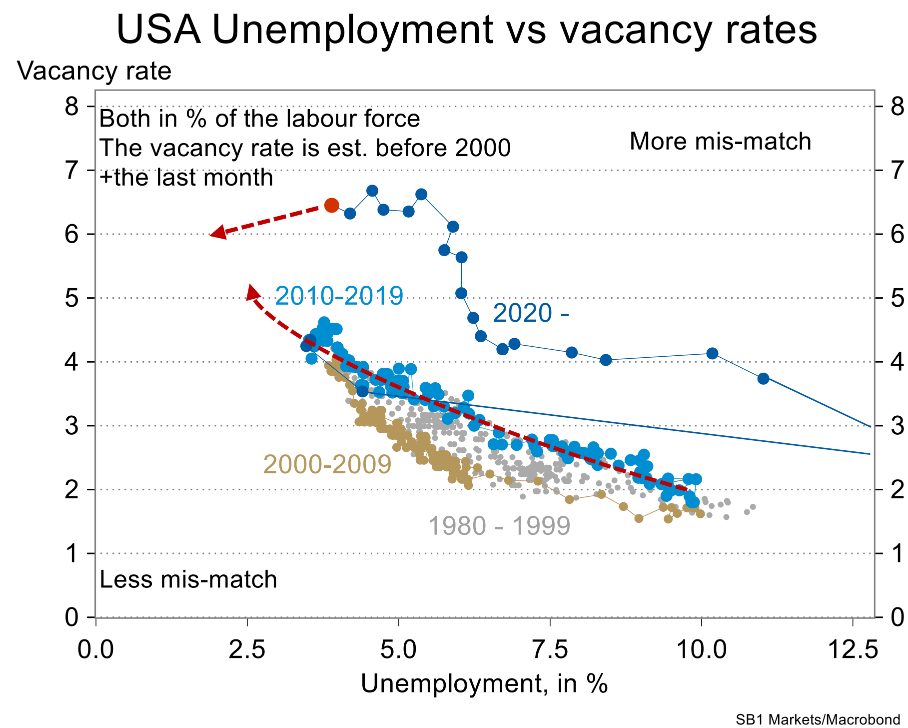


# An unprecedented tight labour market – and still a large mis-match

## 6.9 mill were unemployed in November – and there are 10.6 mill unfilled job openings!

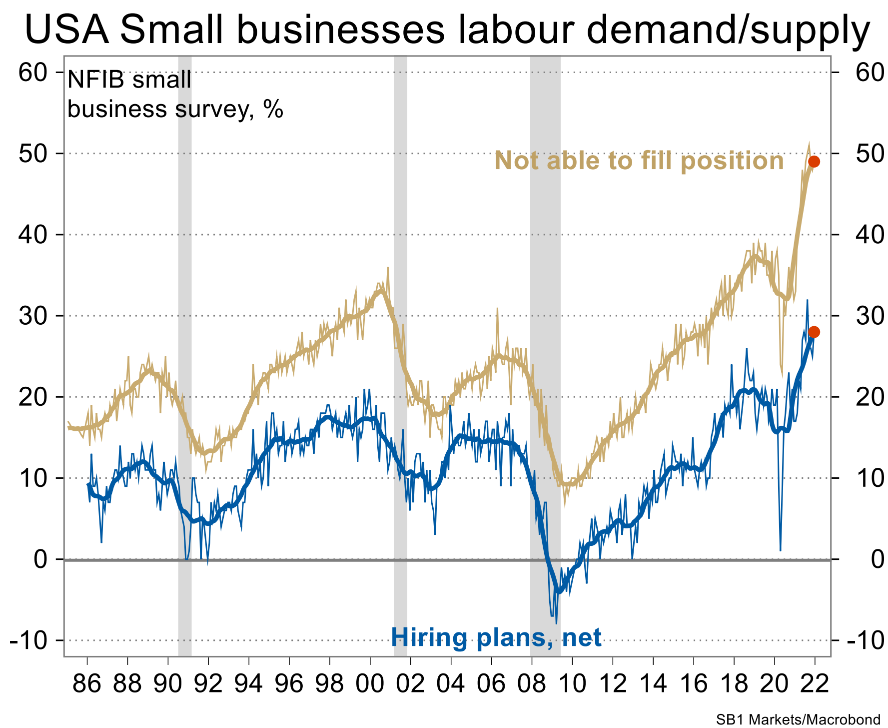


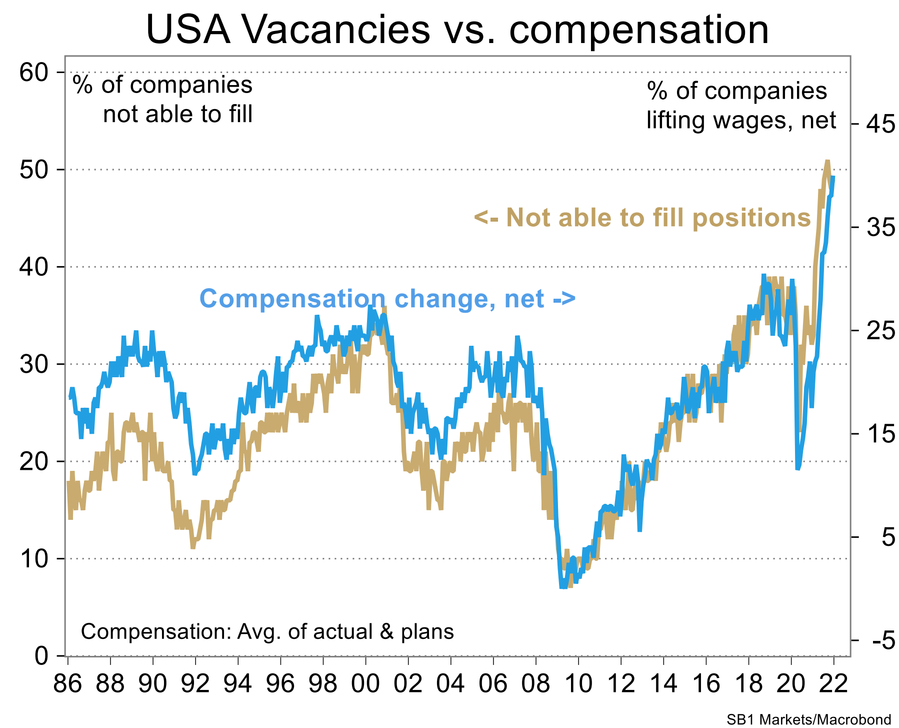




- 6.9 mill persons were **unemployed** in Nov (and 6.3 mill in Dec) - that is, they say they want a job and are actively searching but have not got a job
- At the same time, 10.6 mill v**acant positions are unfilled**. The record high gap equals 2.5% of the labour force (if all vacant positions were filled, unemployment would have been -2.5%, not that easy). In average, the unemployment rate has been almost 3.5% higher than the vacancy rate. The difference vs an 'average labour market' is 6 pp!
- Over the past 5 months, **the UV-curve** (Beveridge curve) has moved to the left, as unemployment has fallen, while the vacancy has been close to unch, signalling somewhat declining mis-match. As unemployment is declining rapidly, the labour market may 'hit' the old (extended tough) UV-curve sometime in 2022, however at a position where the labour market is tighter than ever (low employment, still many vacancies (red arrows, up left at the extended UV-curve)

# More SMBs reported they were less able to fill open positions in December

## The share is close to ATH, and a record share of companies reported plans to increase wages

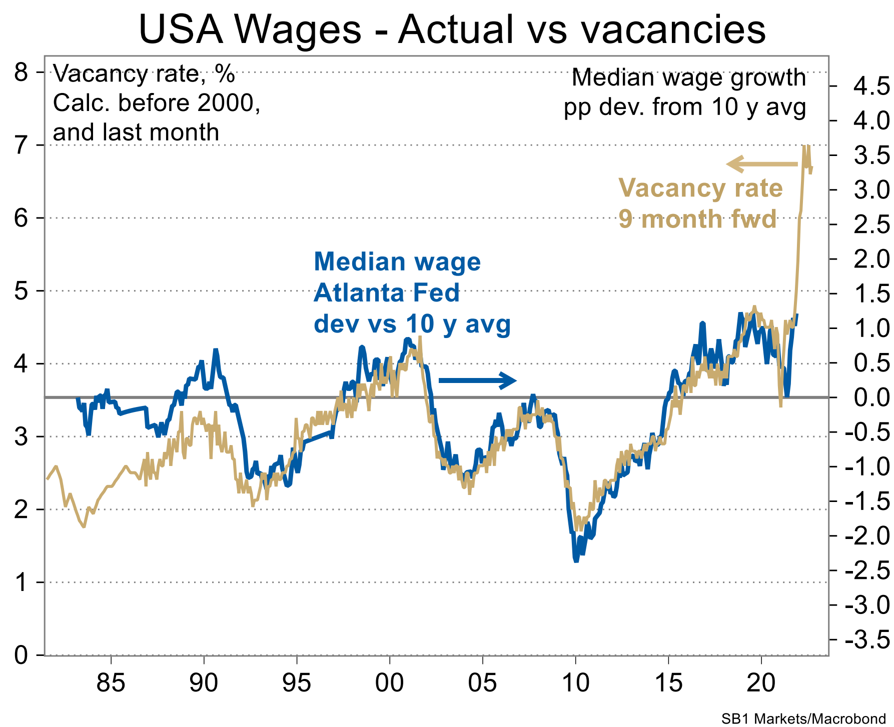


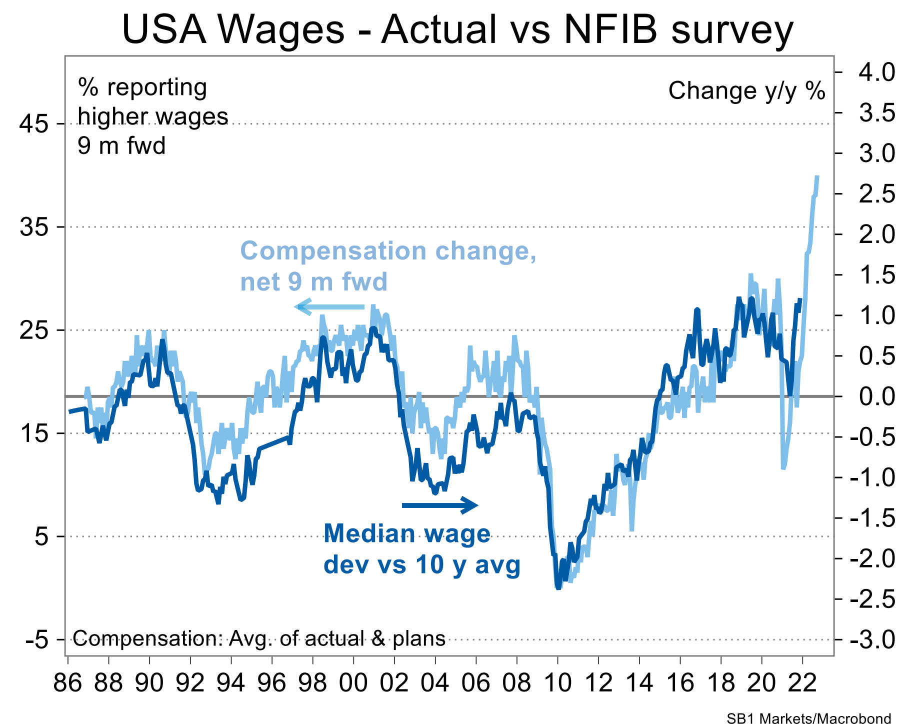




- **SMB's hiring plans** also rose marginally in December – and the level is close to record high
- Ambitions hiring plans, not able to fill existing vacancies: No surprise that an even higher proportion of companies reported they plan to lift **labour compensation**
  - » The share of companies that reported plans to lift compensation rose to another ATH, at 40%
  - » Until 2021, the max level was 30%, and the average level is below 20%
  - » The correlation between plans to hike wages and actual wage growth some 9 months later is pretty close, check the next page

# Vacancies, wage plans signal risk for substantially higher wage inflation

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

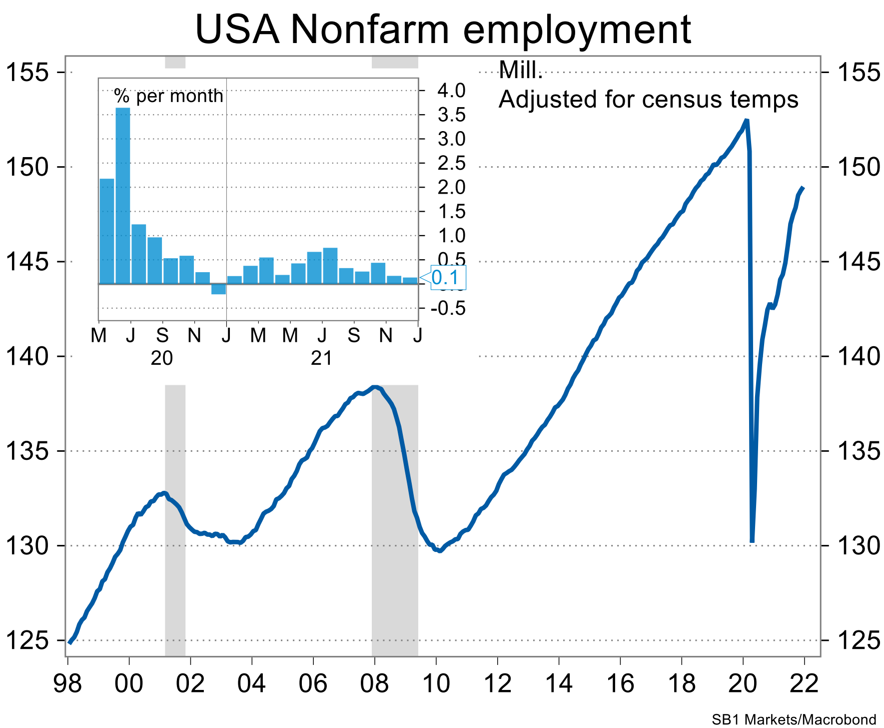


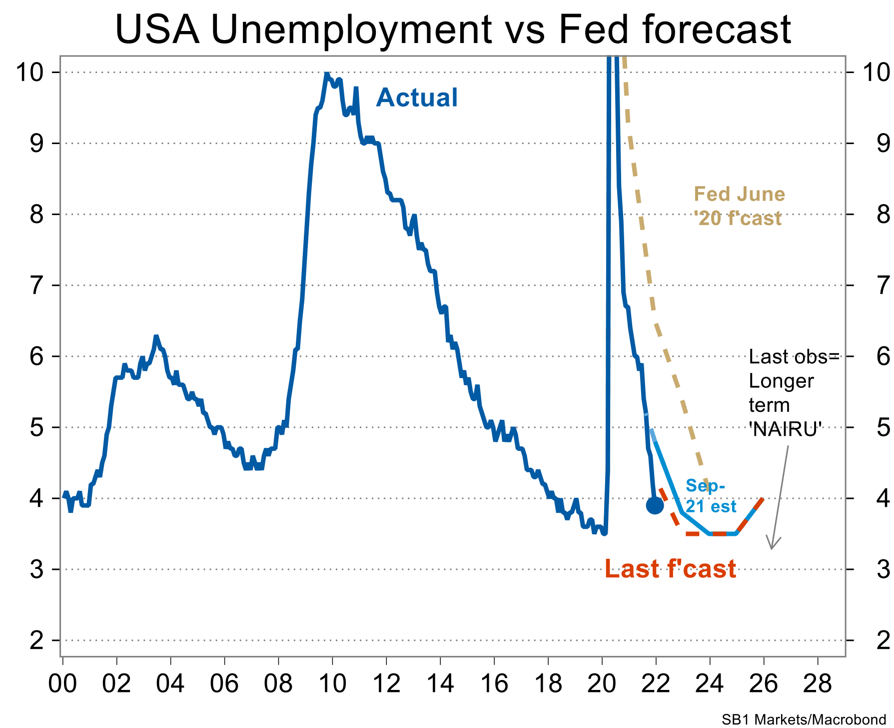




- FOMC members referred to these two surveys/data in the minutes from the December meeting – for good reasons (we have shown them to you for many months)

# Slow growth in payrolls but unemployment fell to 3.9%

## Wages growth higher than expected – and far faster than before the pandemic

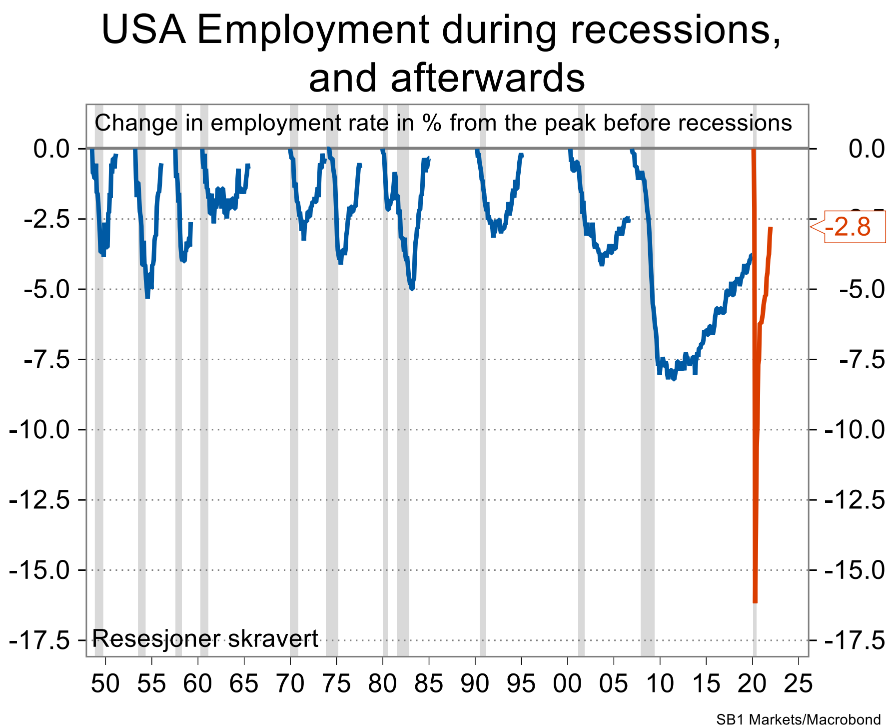


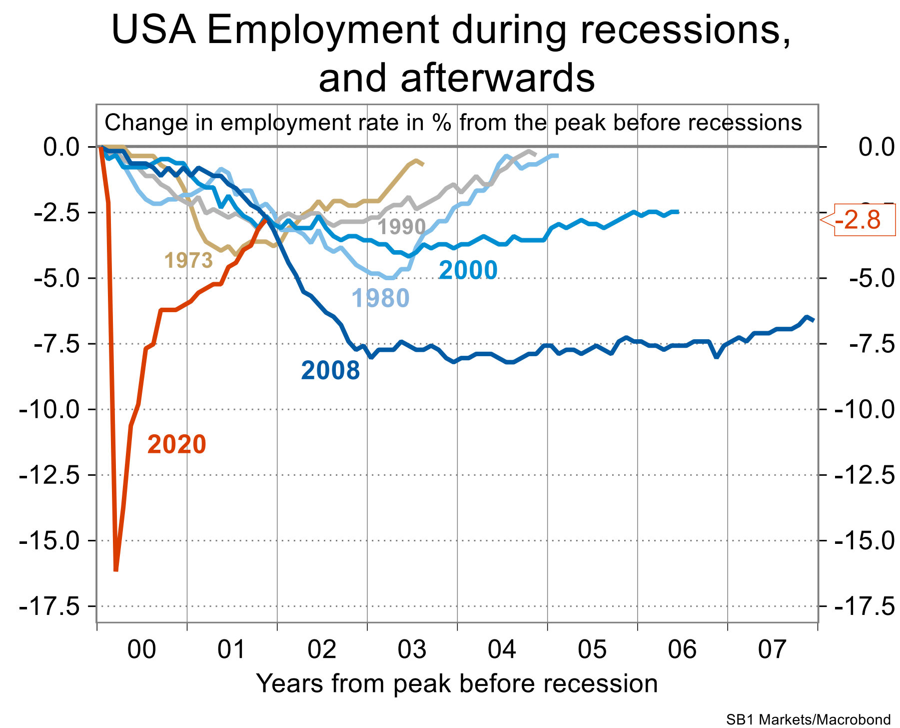




- **Nonfarm payrolls** rose by 199' in December, far less than the expected 450', and way below ADP's 807' estimate. The previous two months were revised up. Data are more uncertain than normal as fewer companies contributes to the report. Payrolls are still down 3.3 mill vs. Feb-20 or by 2.3%. No main sector is above the Feb-20 level. **The employment rate** rose 0.2 pp (0.3%) but is still down 1.7 pp or 2.8% vs Feb-20 - equalling 4.5 mill persons (that is, adjusted for growth in the working age population)
- **The participation rate** was unch at an 0.1 pp upward revised 61.9%, ant it is finally trending slowly upwards. The rate is still down 1.5 pp or 2.4% vs Feb-20 – equalling 3.8 mill persons
- **The unemployment rate** fell 0.3 pp to 3.9%, expected 4.1%, to below FOMCs NAIRU estimate. The decline past 6 is the fastest ever before (barring last summer)
- **Average wages** rose by 0.6%, 0.2 pp more than expected, and the history was revised up 0.2%. The annual rate fell 0.4 pp to 4.7%, expected 4.2%. Wage growth is accelerating in almost all sectors, and the underlying growth rate since the spring is 5.7%, even if low paid workers have returned to their jobs
- **Maximum employment:** Even if the participation now may be trending slowly up, the supply side is obviously the bottleneck at the labour market. The tight labour market signals continued wage inflation at a level which is not consistent with CPI inflation at 2% over time (barring a substantial productivity shock, or a crash in corp. earnings). The Fed is now recognising that the maximum employment target is (or very soon will be) met – as wage inflation in the end is the final criterium

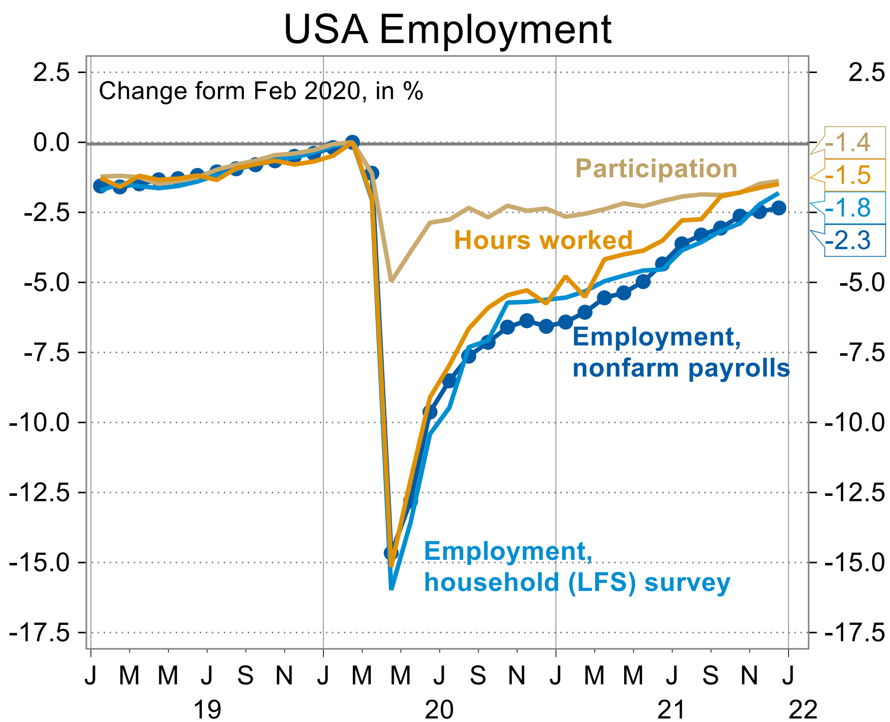
# This was a special downturn

The employment rate is below the pre-pand. level but all other indicators signal a tight labour market

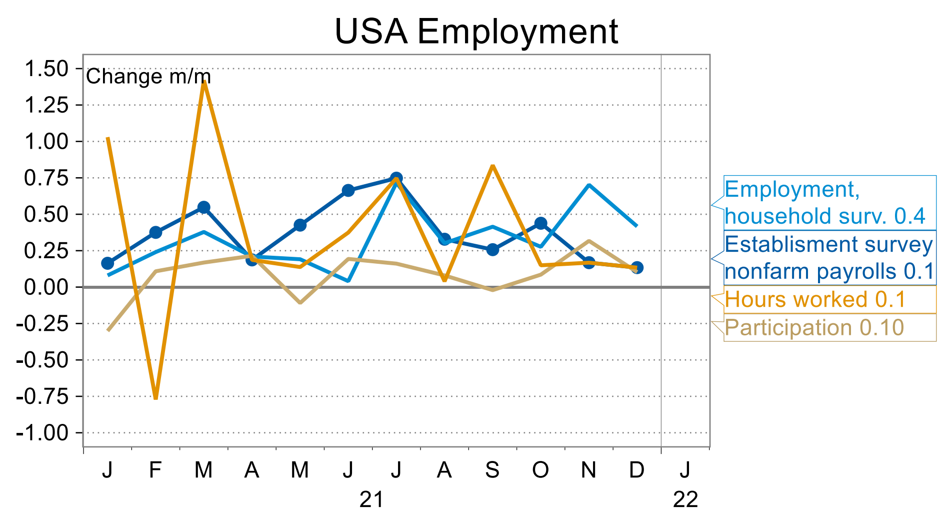


# Modest growth in payrolls but the directions is still upwards



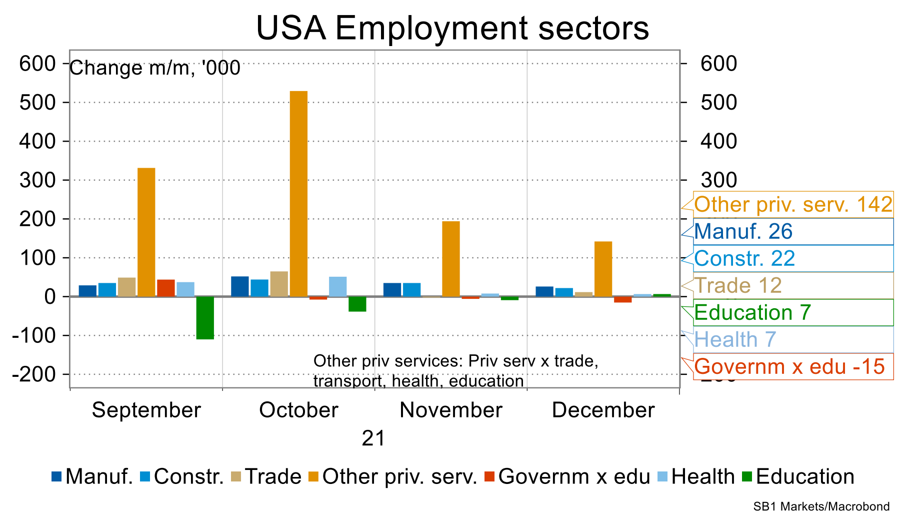

- **Nonfarm payrolls** (employees) are down 2.3% vs Feb '20, while **total employment** measured by the **household survey** (LFS/'AKU') is down 1.8%. The survey data are more volatile the payrolls stats but the two measures are quite similar over time. The **employment rate** is 2.8% below the pre-pandemic level (1.7 pp, equalling 4.5 mill persons)
- **Labour market participation** rose by 0.2 mill, and it is 1.4% below the Feb-20 level. **The participation rate** was unch at an 0.1 pp upward revised 61.9% level, which is the highest since before the pandemic – but it is still 1.5 pp (2.4%, equalling 3.8 mill persons) below the pre-corona level
- **Aggregate hours worked in private sector** rose by 0.1%. The level is 'just' down 1.5% vs. Feb-20, as average working hours have increased

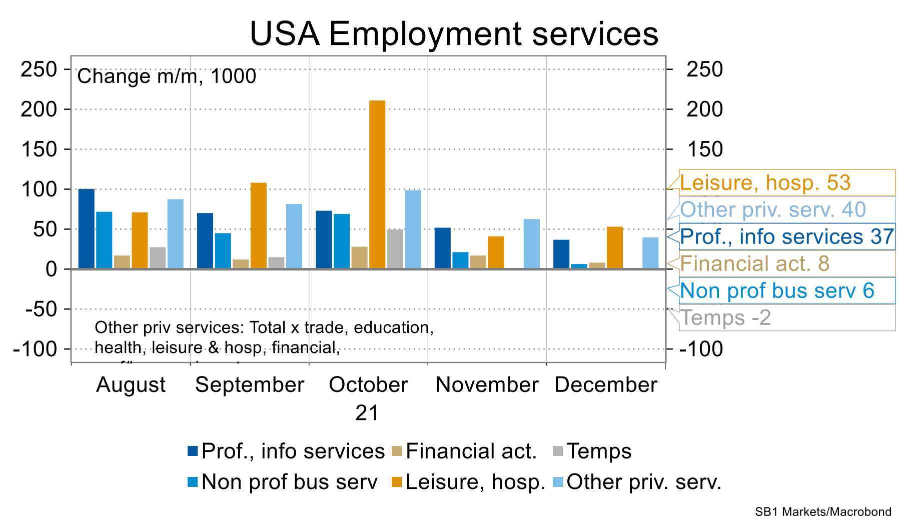



SB1 Markets/Macrobond

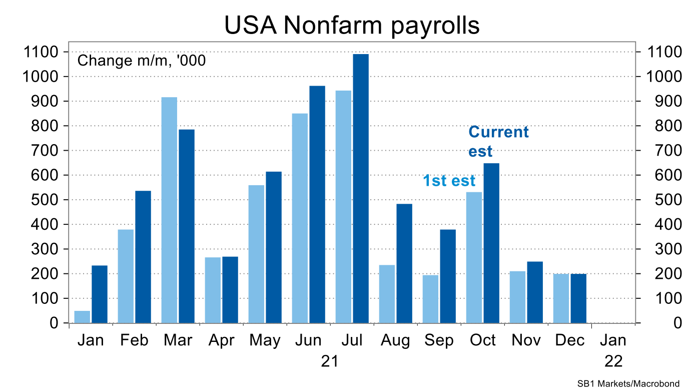
# In Dec: 'Moderate' growth everywhere, at least vs. compared to prev. months

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



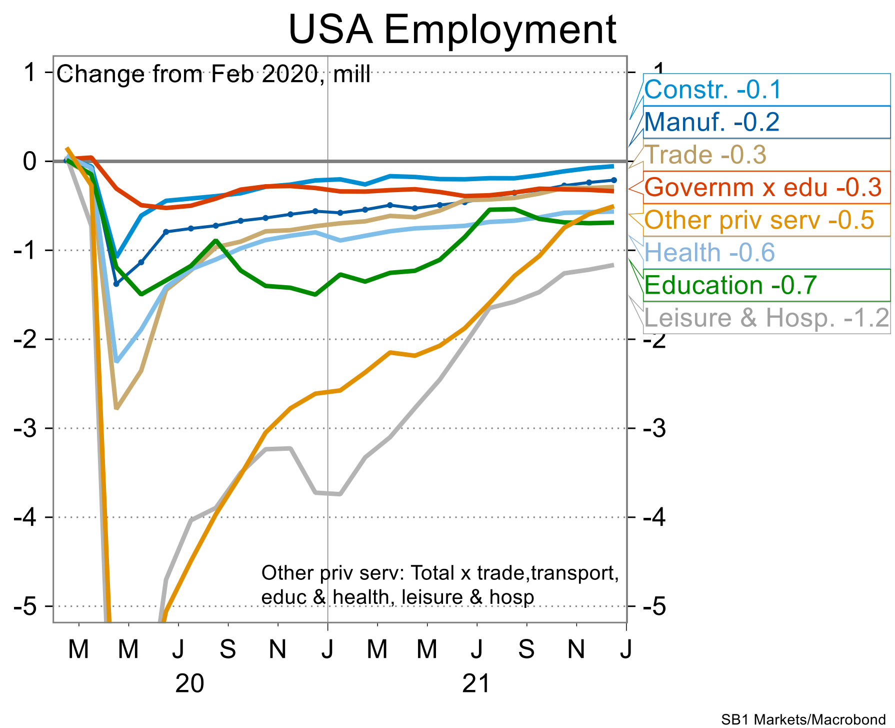



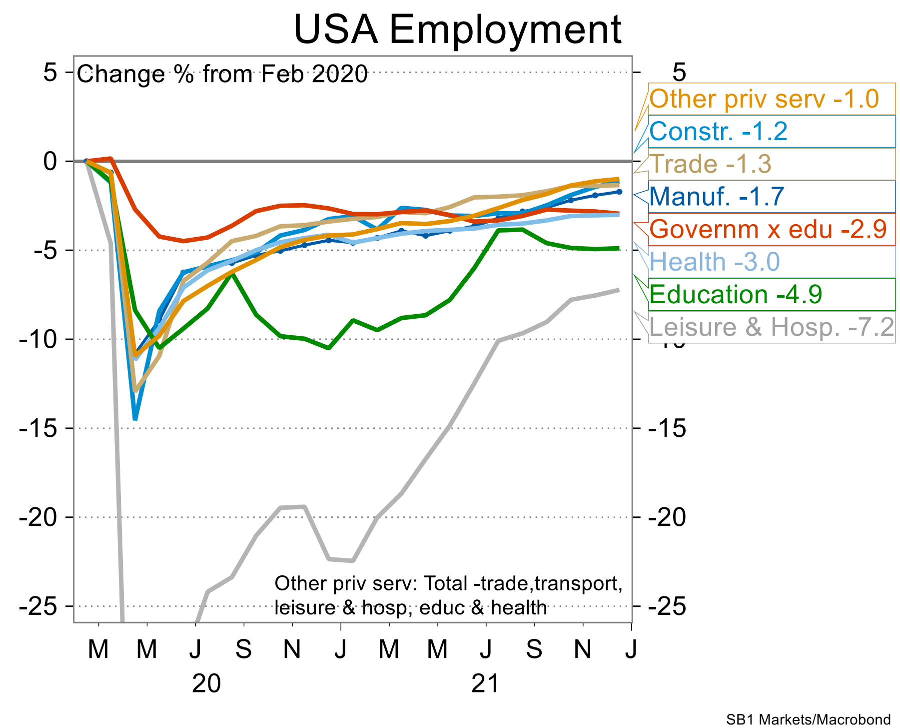

- **Last month:**
  - » **Education** (private & public) just up 15' (seas. adj.), following 3 months decline! Still virus trouble
  - » **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 53' jobs – growth has been unstable recent months, at least partly virus related. Omicron entered the scene to late to have any impact at Dec employment data
  - » **Trade** added 12' jobs – and growth has been slow recent months
  - » **Business services** up just 6'
  - » **Other private services** added fewer jobs than over the past past months
  - » **Manufacturing** added 26', not that bad
  - » **Construction** sector employment is growing faster than normal, + 22'
  - » Employment in **government** (ex education) fell by 15'
- Fewer businesses than normal are contributing to the first estimate of payroll growth, which makes the figure more uncertain. Through 2021 the final outcome has been significantly better that the first estimate



# Vs. Feb-20: No sector is back yet, not even trade!

Leisure & hospitality still down 7.2%, education 4.9%, government ex. education 2.9%!

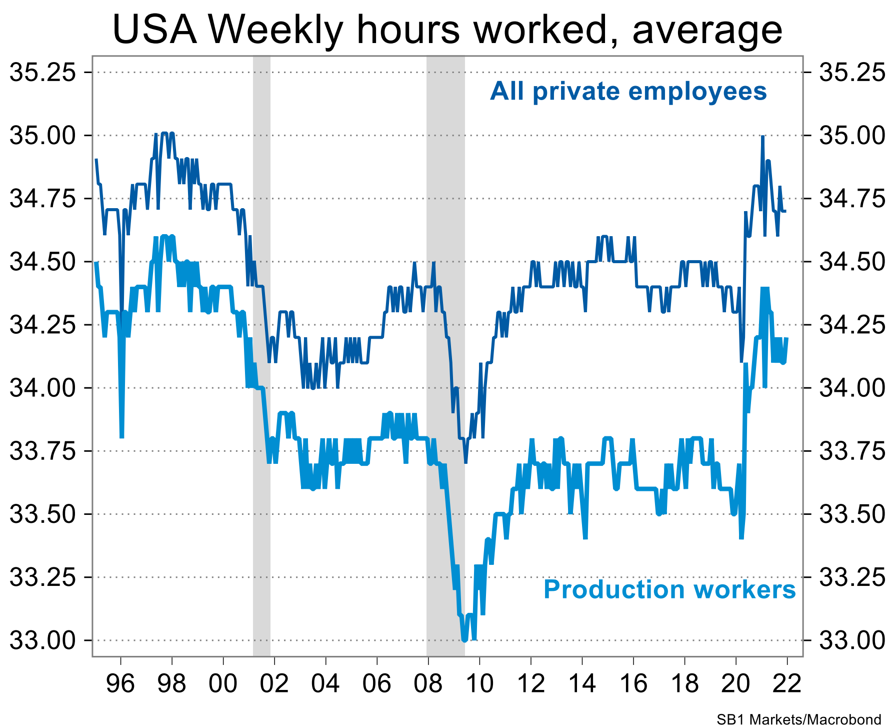


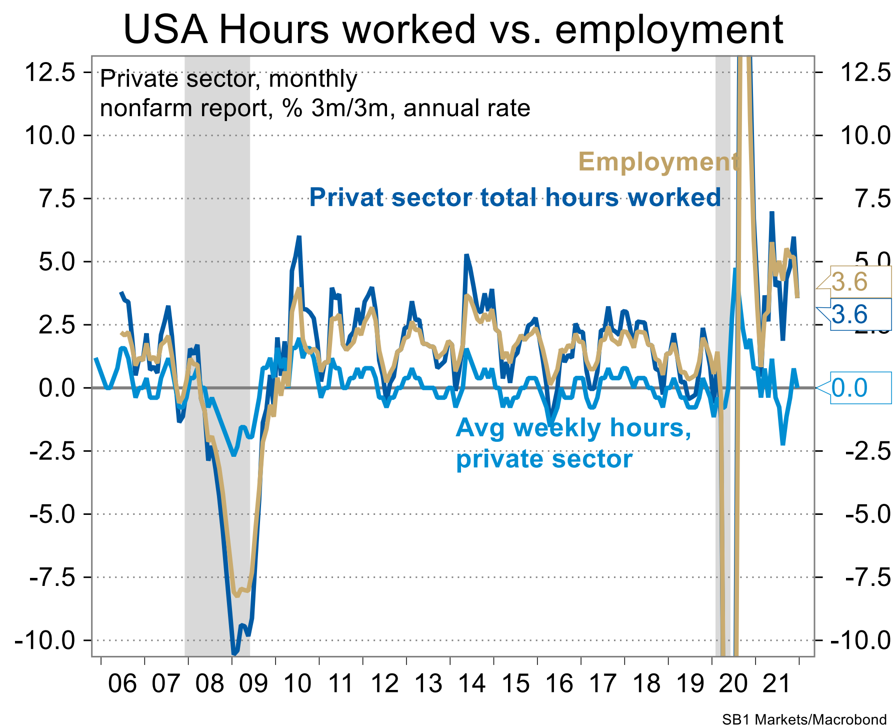




- No main sector is reporting employment above the pre-pandemic level, not even retail trade, even if sales are up double digits, in volume terms
- At the same time, some 10.6 mil jobs are **vacant**, and employers complain like never before than they are **not able to fill positions**
- Employment is below the pre pandemic level, due to lack of supply of labour, not lack of demand, the employers want to hire at an even faster pace!

# Average weekly hours unch in Nov, level far above normal

## Employment up 3.6% 3m/3m, as are total hours worked in the private sector

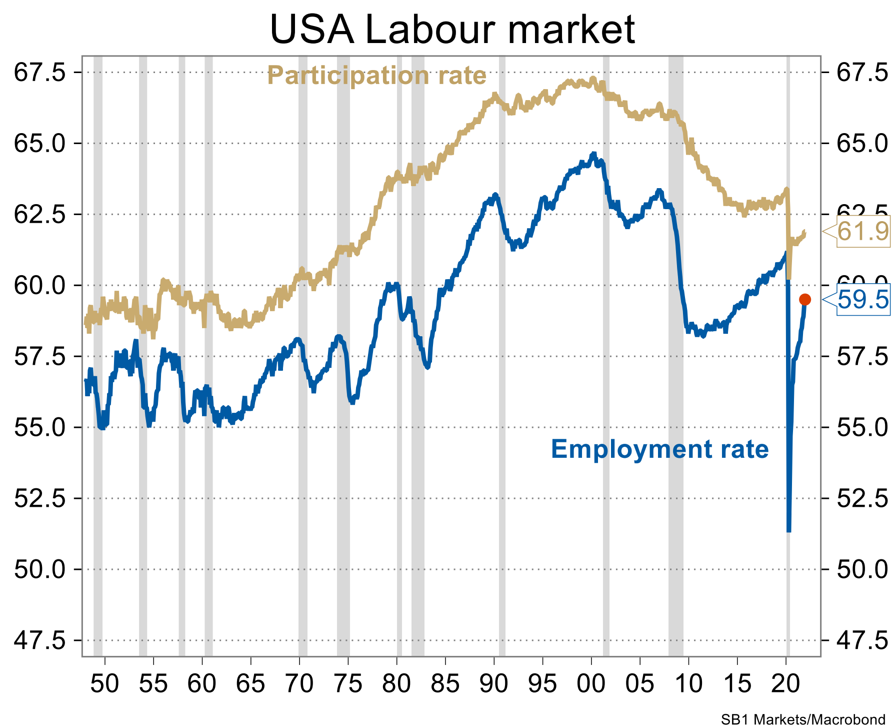


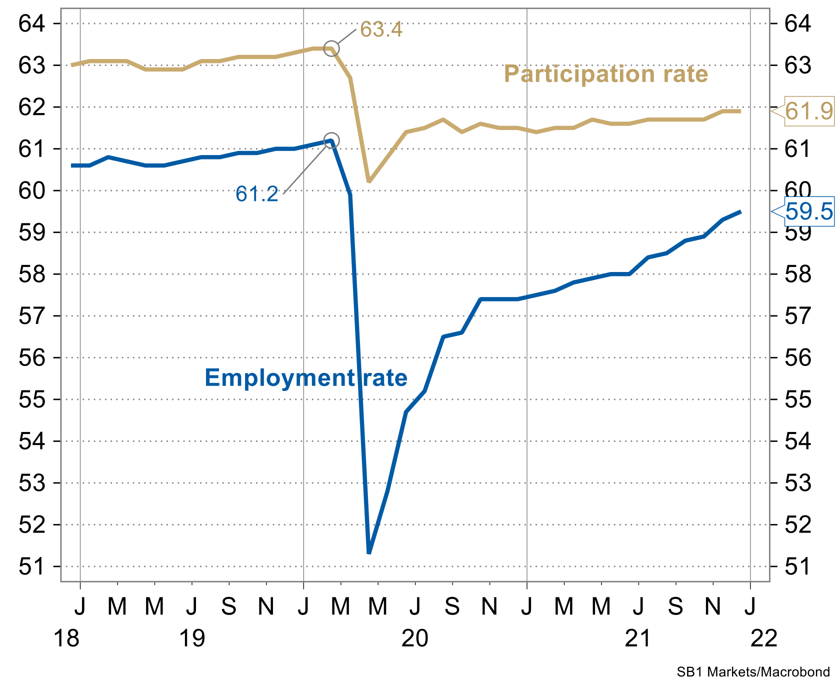




- Q4 GDP growth will be substantially higher than the 3.6% growth rate in hours worked, signalling a reversal of the decline in productivity in Q3, and very likely lowering growth in Unit Labour Costs

# The participation rate unch. in Dec, but revised up 0.1 pp, trending slowly up?

## Still, the supply side response to the strong demand for labour is very disappointing

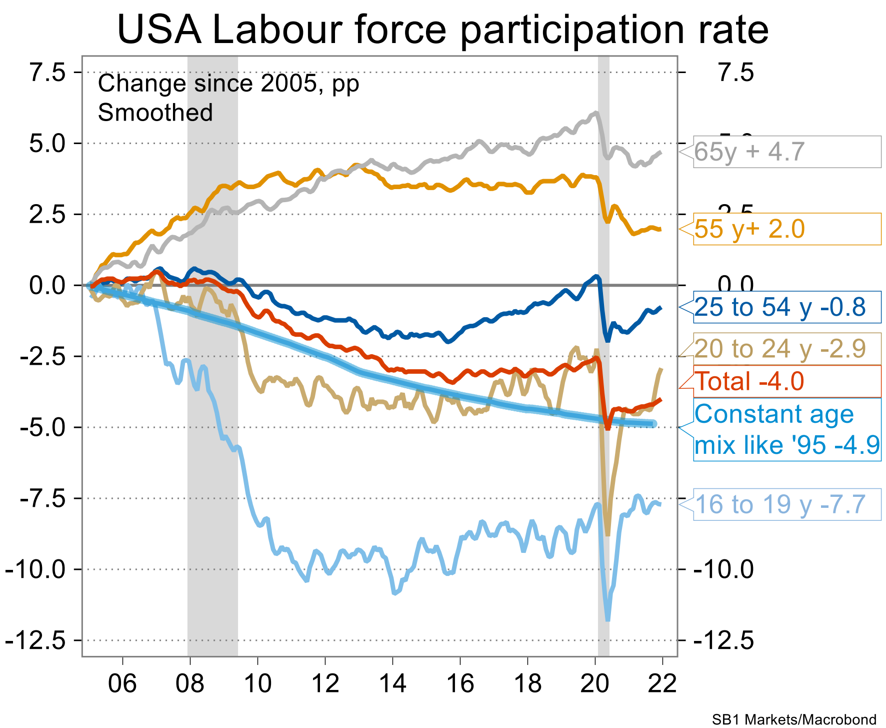


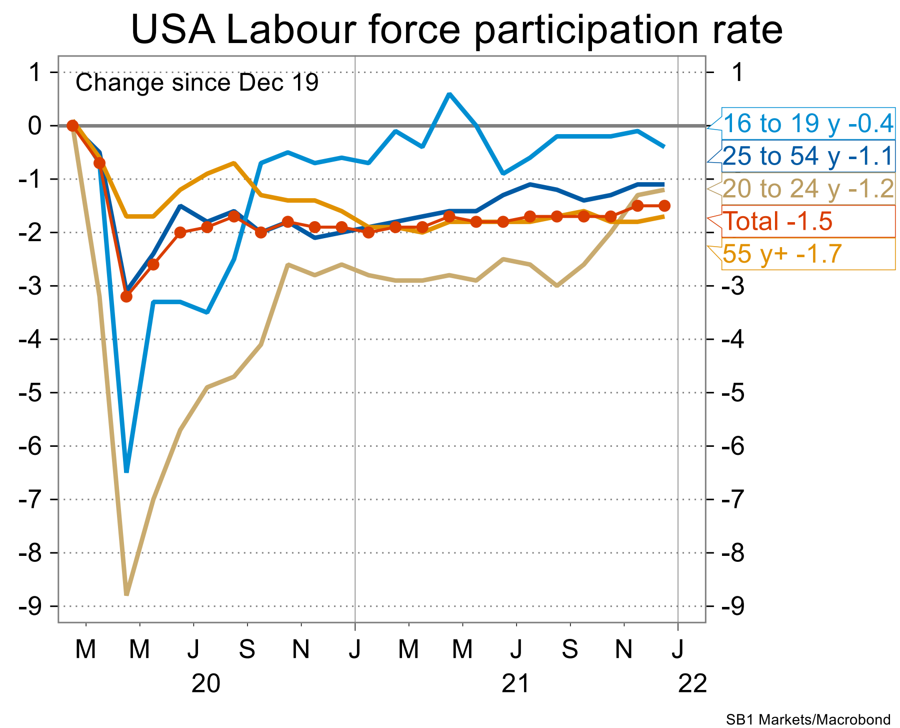




- **The labour force participation rate** was unch at 61.9% (of the working age population, 16 y +), following an 0.1 pp upward revision of November, expected one tick up (to 61.9%). The trend is slightly positive but far less than normal during economic recoveries
  - » The participation rate is down 1.5 pp (vs the working age population) vs the pre pandemic level, equalling 2.4% or almost 3.8 mill persons
  - » In December, 1.1 mill persons (-0.2 mill) responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons. Thus, most of those who have 'not returned' do not blame the coronavirus pandemic. Of the 1.1 mill, just 0.4 mill say they want a job
- **The employment rate** climbed 0.2 pp to 59.2% (or by 0.3%), and the unemployment rate fell by 0.3 pp to 3.9%. Employment grew by 0.4% or by 651', more than 3 more than the increase in non-farm payrolls. Over time, these two measures are reporting the same growth rates, but they may differ substantially from month to month. The employment rate is still down 1.7 pp vs. Feb 20, equalling 2.8% or 4.5 mill persons

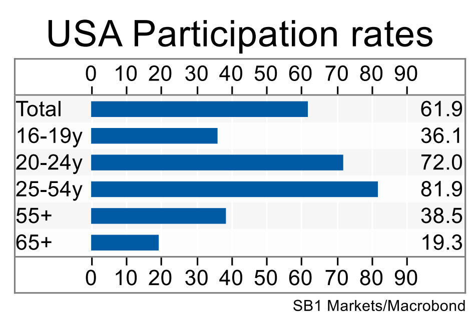
# The potential: Participation among the core 25y -54y group could increase further

## The oldies (55+, especially 65+) are probably lost, and the below 25' are back already



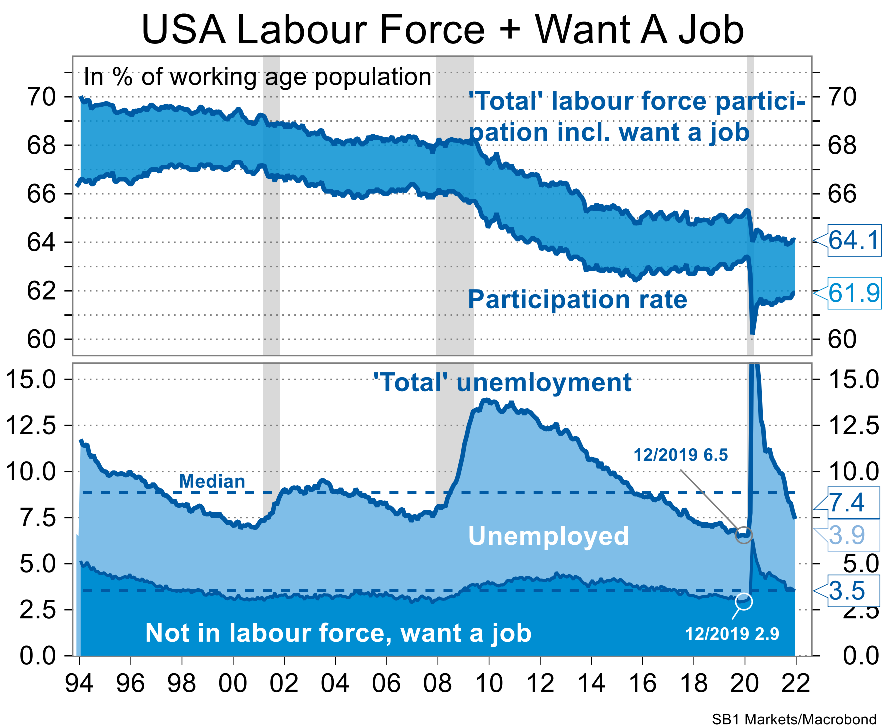



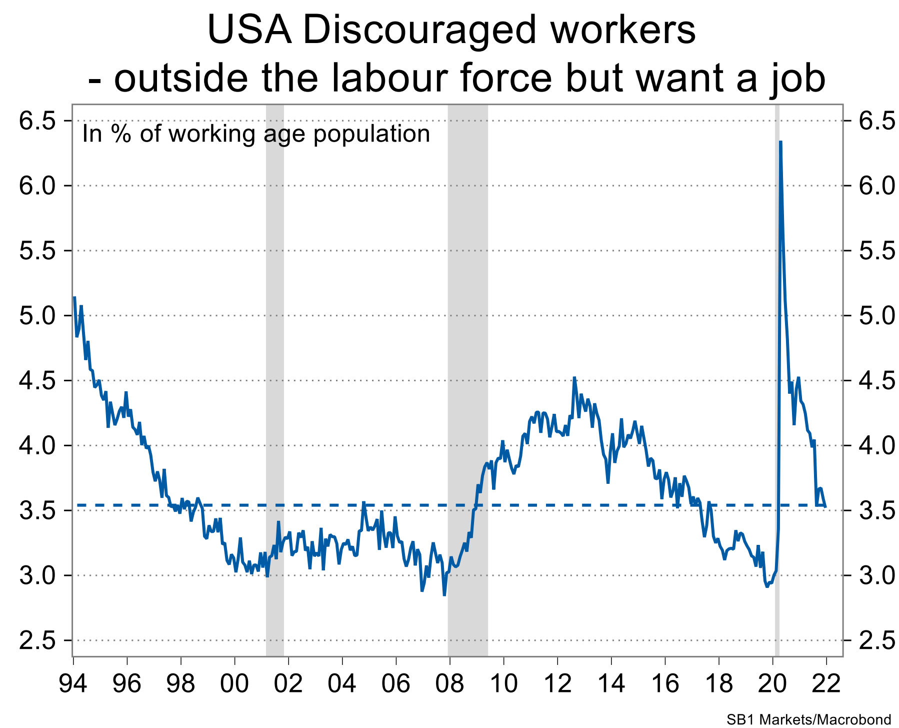

- A huge increase in participation (and employment) in the 20 – 24 y group past 3 months (half of the 0.2 pp lift in the overall rate in Nov/Dec. was due to this cohort)
- Since the summer, the trend has flattened among the core 25 – 54 y group. Both men & women are still participating less than before the pandemic. However, the longer term is still upwards
- As the US population is aging, a decline in the average participation rate over time is no surprise. The chart above illustrates the impact. The thick light blue line illustrates the participation rate if each group kept their participation rate at the 2005 level. The decline is due to the larger old cohorts



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

A small reserve is still left – perhaps the end of the pandemic will lure them out

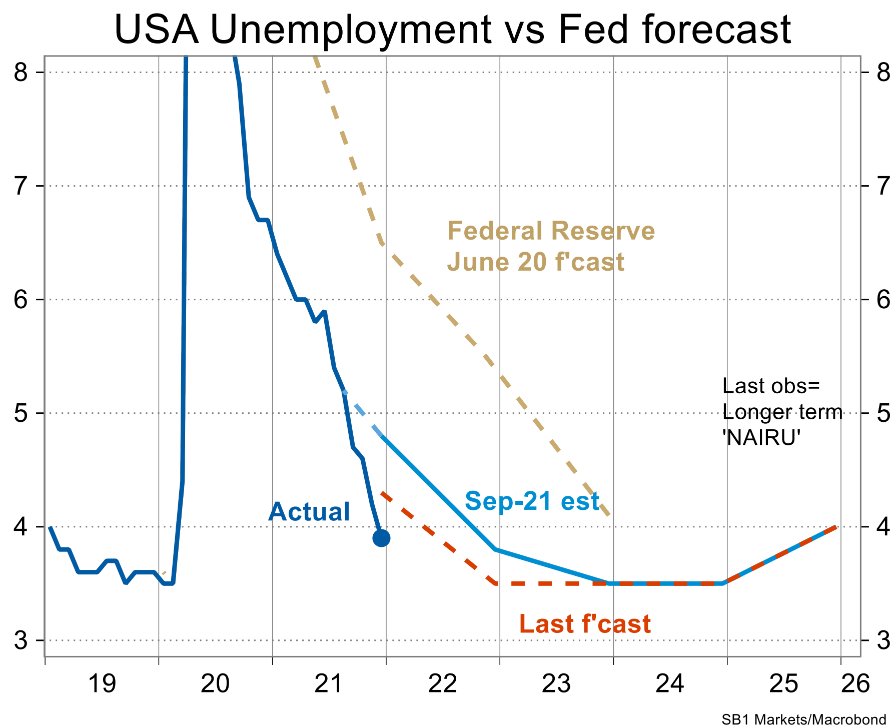


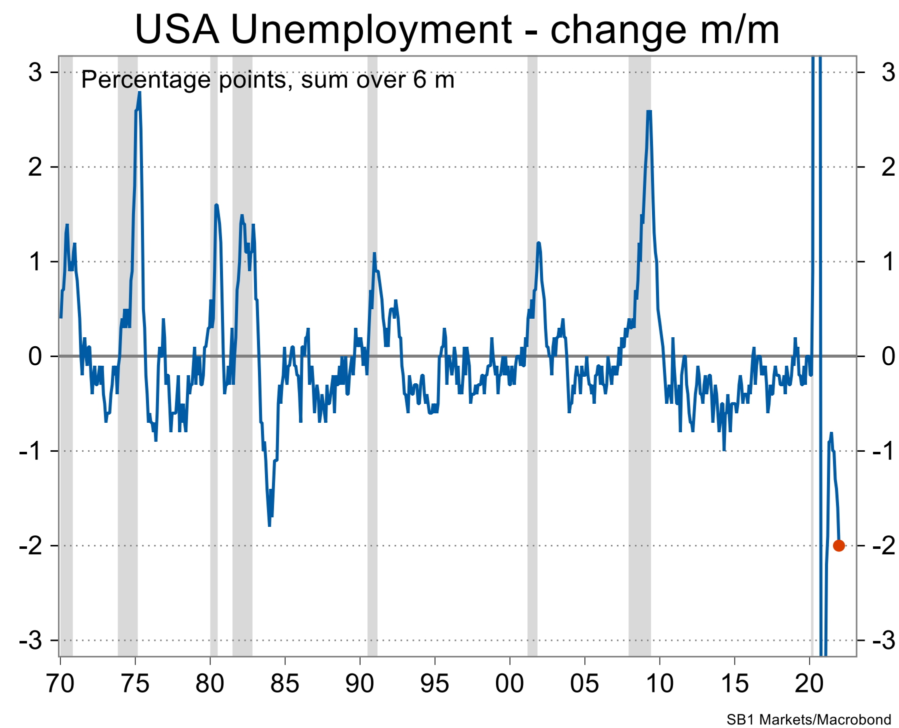




- Covid related outsiders that say they want a job are included in these discouraged workers data

# Unemployment is falling at a record pace, by 2 pp over the past 6 months

At 3.9% in December, below the FOMC estimate for the long term equilibrium rate (NAIRU)



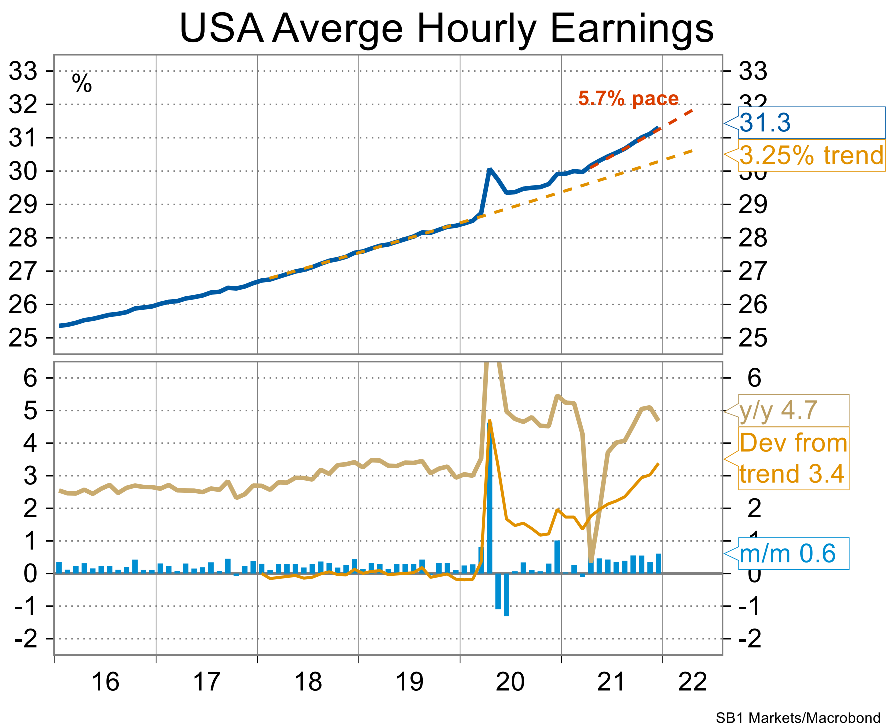




- The recent six months (as over the past 12 months), the unemployment rate has fallen at the fastest pace ever, barring the initial decline in the unemployment rate after the first Covid-19 shock last spring/summer
- In September, the FOMC members expected that the unemployment rate would decline to 4.8% in Q4. It fell to 4.2% in Q4 avg, and to 3.9% in Dec. In Dec, the Fed assumed the unemployment would bottom 3.5%, at the same level as before the pandemic
  - » The 3.9% rate is below the FOMC members' median 4% NAIRU estimate
- All other labour market indicator signal that US is very close or at maximum employment

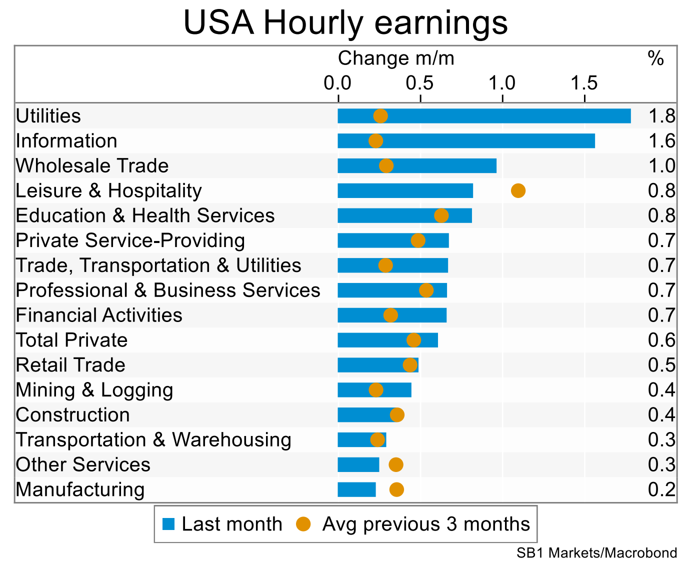
SpareBank 1 MARKETS

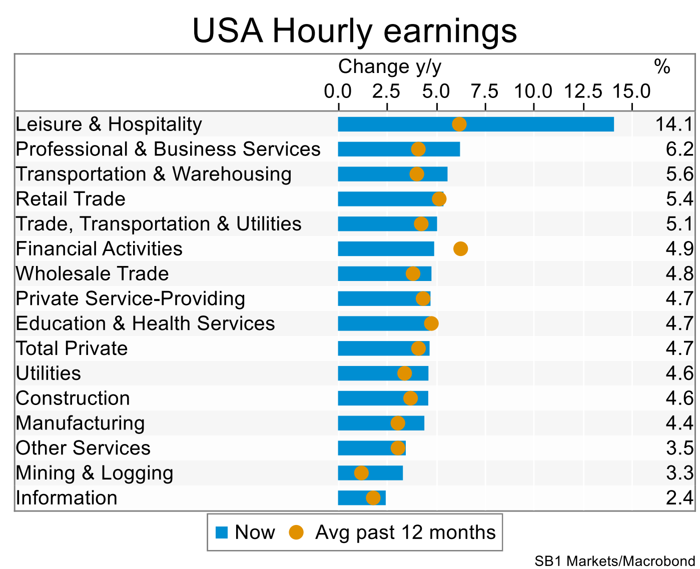
# The average wage up 0.6% in Dec, the pace since the spring at 5.7%

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



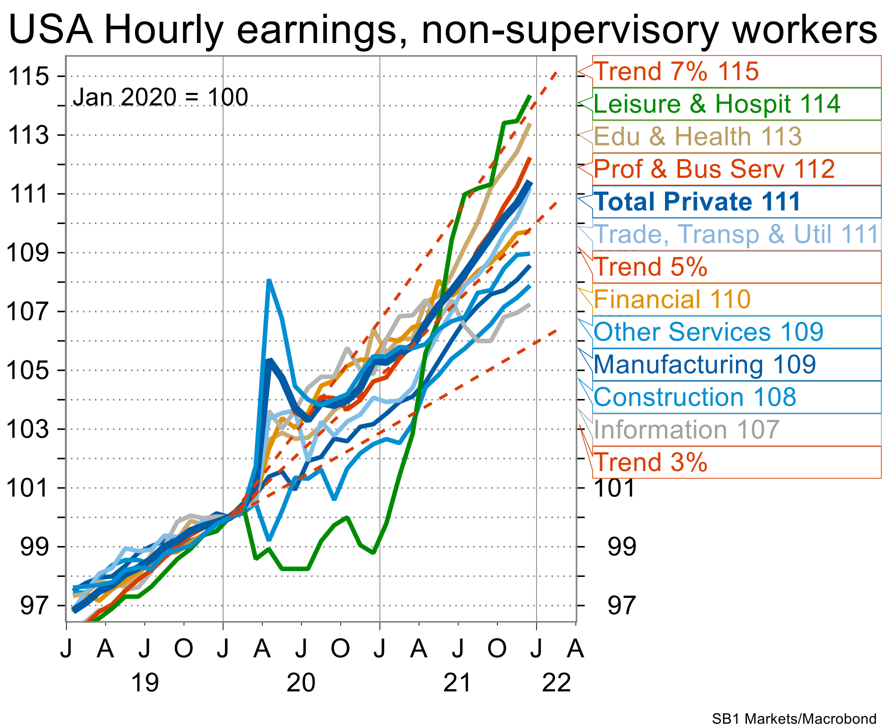

- The **average wage rose 0.6% m/m,** 0.2 pp more than expected. History has been revised significantly up. Annual growth in Nov was 5.1%, revised from 4.8%. <u>The 4.7% y/y Dec outcome was 0.5 pp higher than expected</u>
- Since April, the <u>underlying growth has equalled 5.7%</u>. It is not possible to blame the employment mix, the low paid has returned to their jobs
- Wages in leisure, hotels & restaurants rose by 0.8% m/m, and are up 14.1% y/y! Wage inflation is accelerating in a large majority if sectors



# Wages are climbing at 4 – 7% growth pace, avg almost 6%

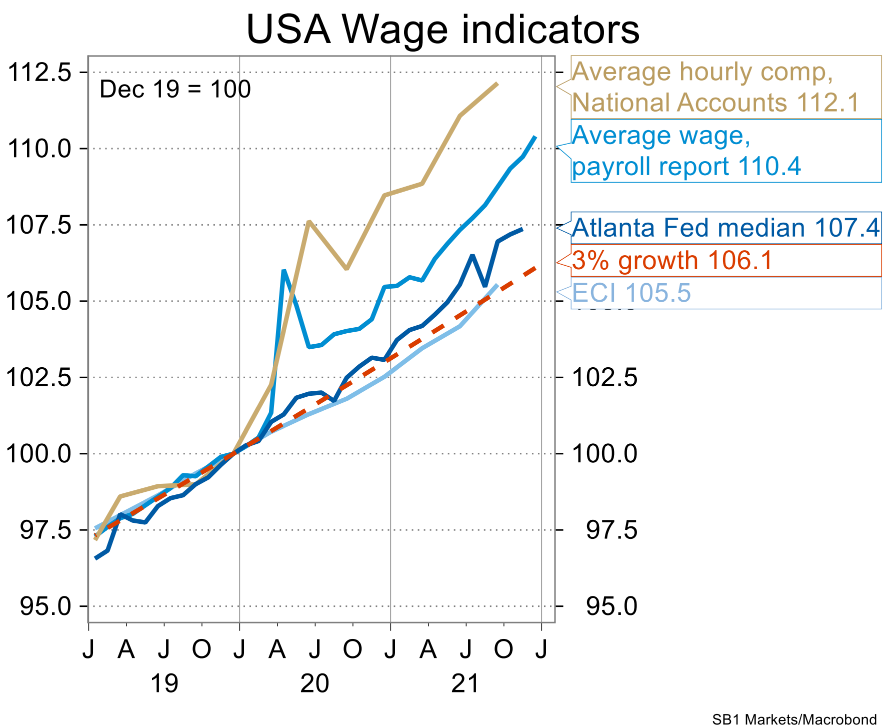
… And well above the pre-pandemic growth path in all sectors

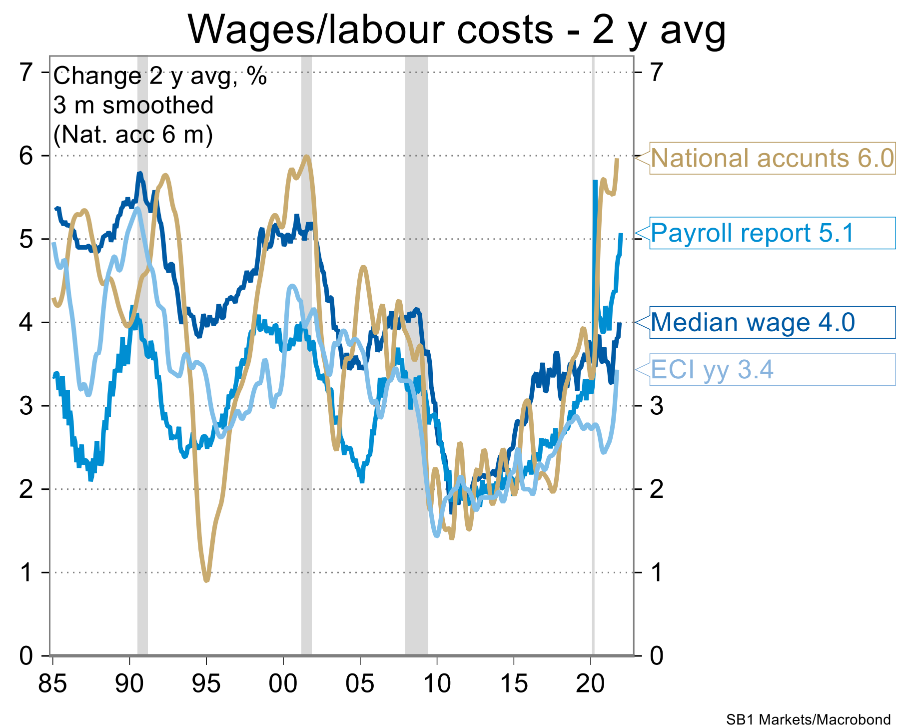



Memo: On the chart to the left above, wages for non-supervisory workers are shown. When all employees are included, growth is slightly lower in most sectors

# All wage indicators are reporting higher wage inflation

## … also measured over the 2 past year to remove the base effect of the early pandemic period

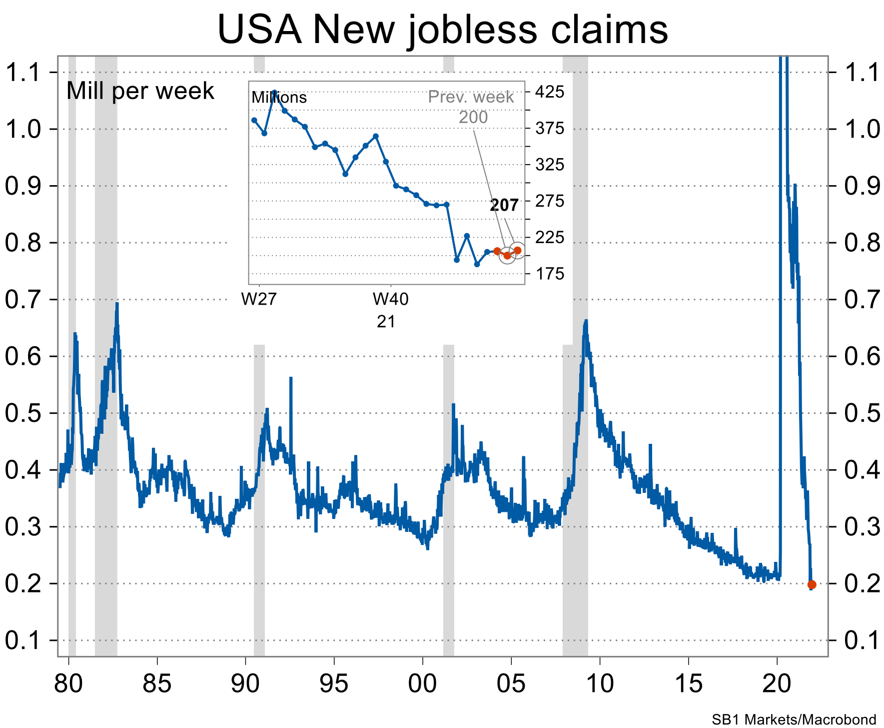


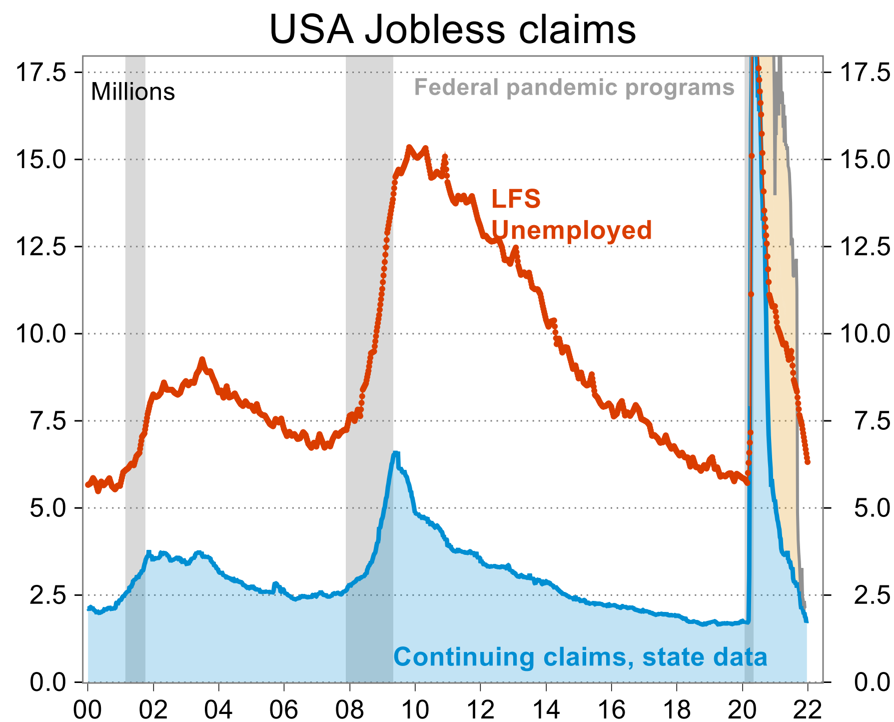




- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years, also if we apply a 2-year average growth rate, to exclude the impact of changes in the first part of the pandemic (chart to the right)
- Wage/earnings/compensation is at least 1 pp above the 10 y average, some 2 – 3 pp higher. There is an obvious risk that wage inflation will accelerate further – probably until the next recession hits as the labour market is extremely tight
- Over the past 10 years, inflation has been close to 2%, and well above 2% if calculated over a shorter period
- It will be a challenge to keep inflation at 2% if wage inflation remains at 4% or above. However, profit margins will probably decline substantially from the present very high level, leaving room for somewhat higher wage inflation without higher price inflation. Probably we will get some of both – and a tighter monetary policy

# New jobless claims has flattened at ATL levels

## A huge decline in continued claims over the recent weeks too

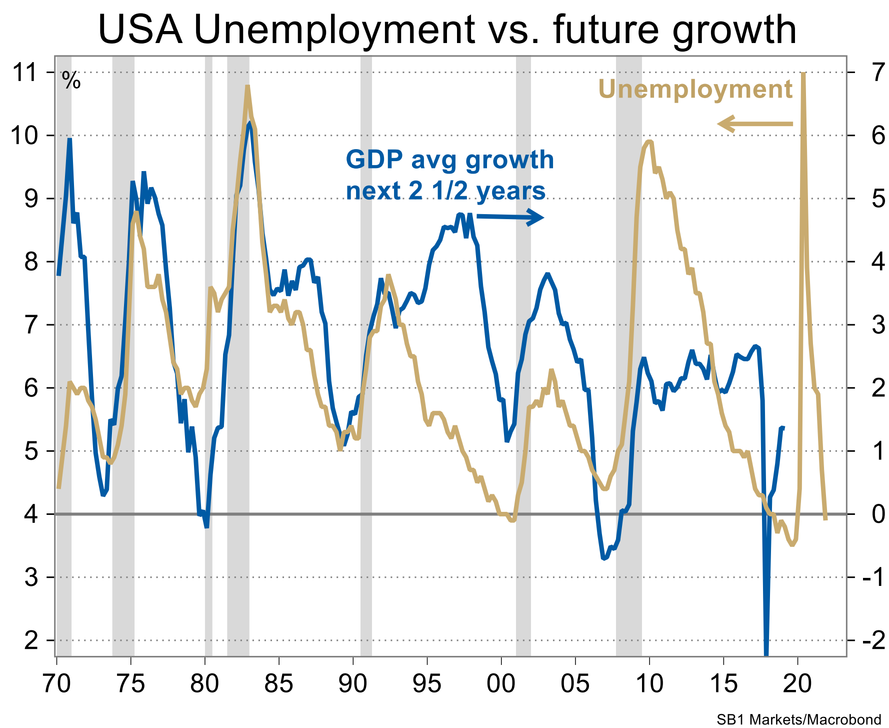



- **New jobless claims** rose to 207' last week
- **Ordinary continuing claims** rose 36' in week 51, following a 280' decline the previous 3 weeks. The level 1.75 mill, is the same as before the pandemic, in February 2020
- This report surely confirms a **very tight labour market**

# If unemployment is low now, what's the outlook?

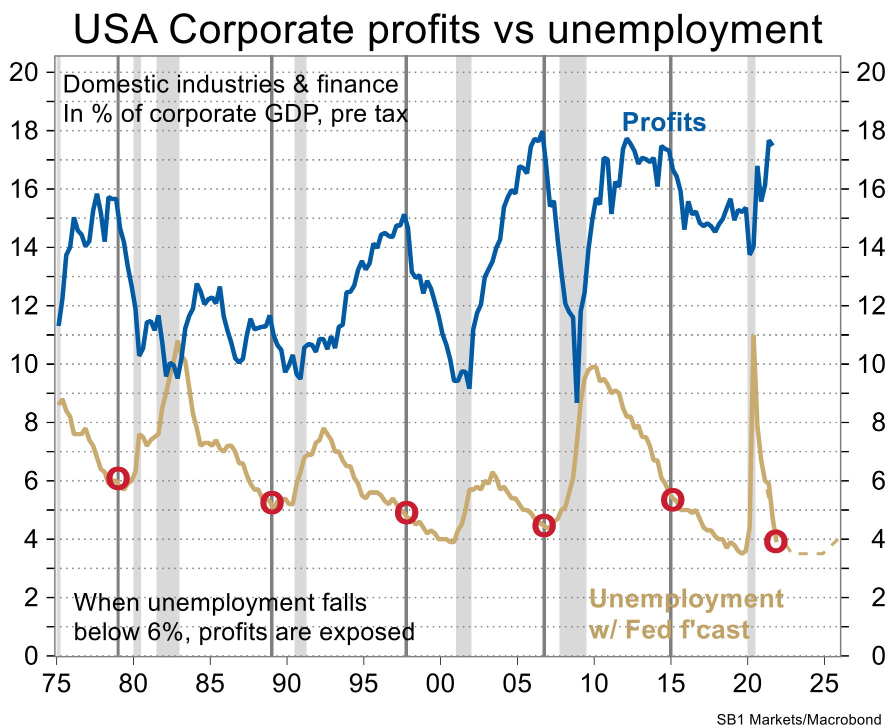
## Normally, not that good for growth




- GDP growth the next years (here 2½ years), is negatively correlated to the current unemployment rate – for obvious reasons

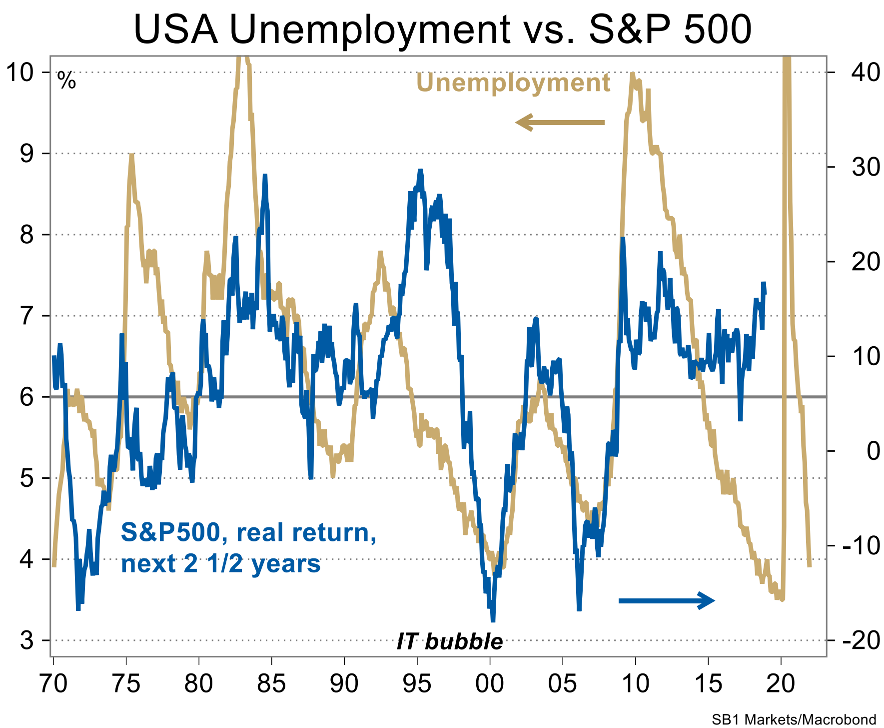
# If unemployment is low now, what's the outlook?

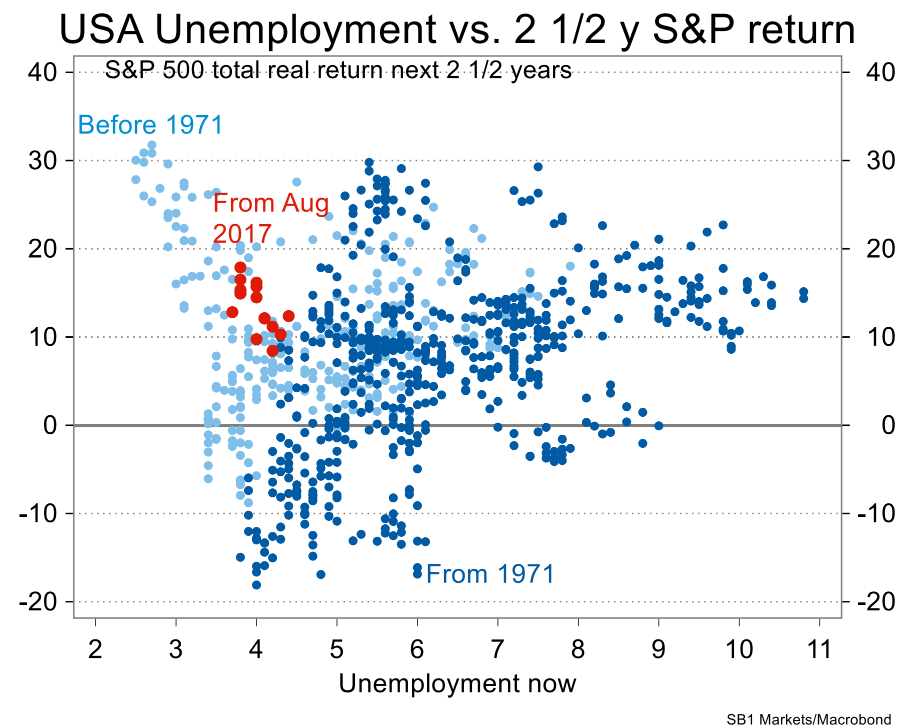
Normally, not that good for profits



# If unemployment is low now, what's the outlook?

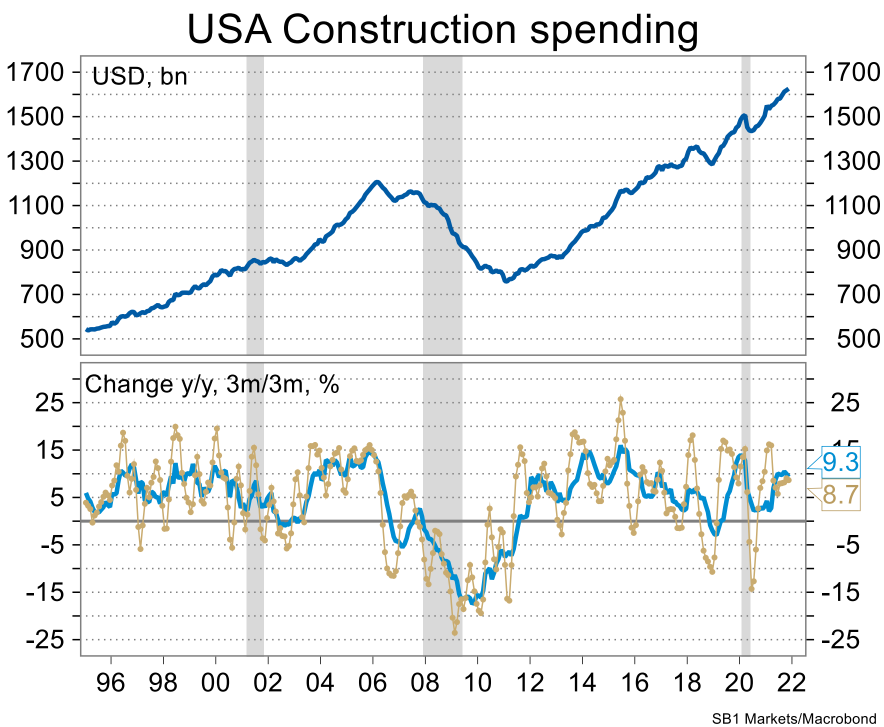
## Normally, not that good for the stock market either

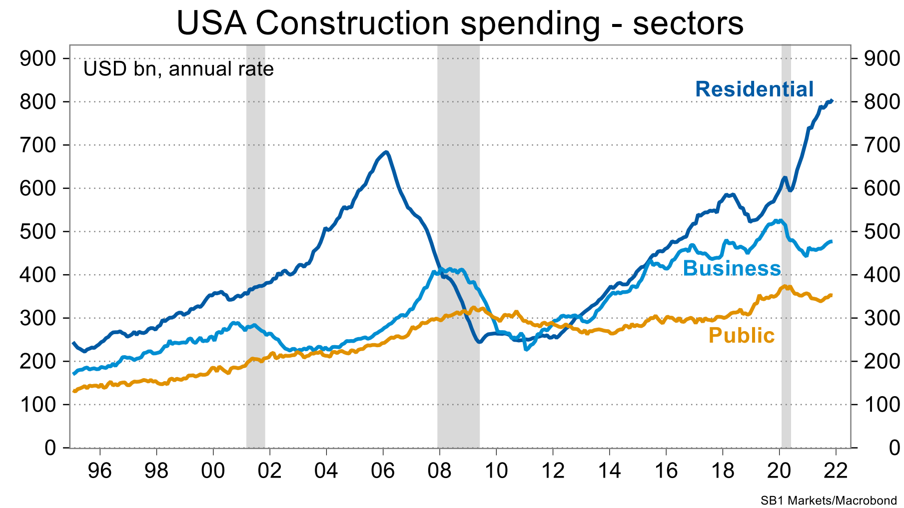


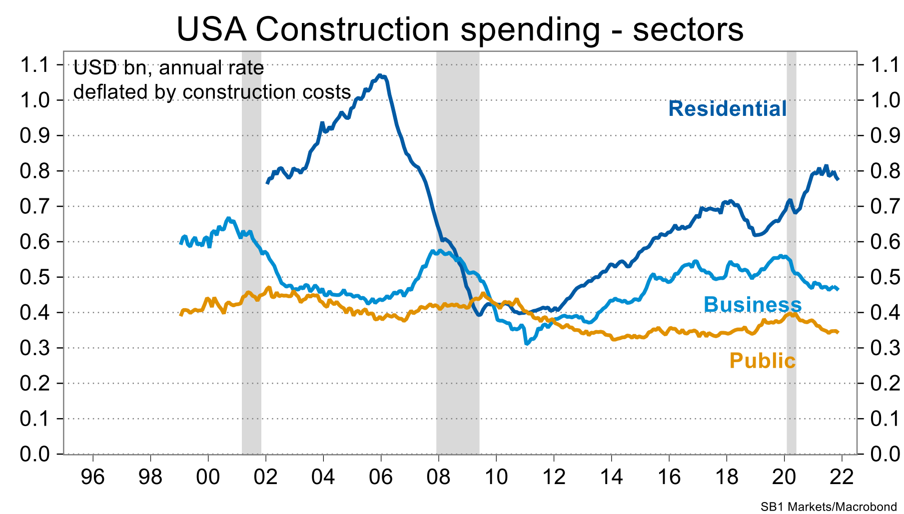



# USA construction spending is growing steadily, at least in nominal terms

## Construction costs are climbing rapidly, construction volumes are declining



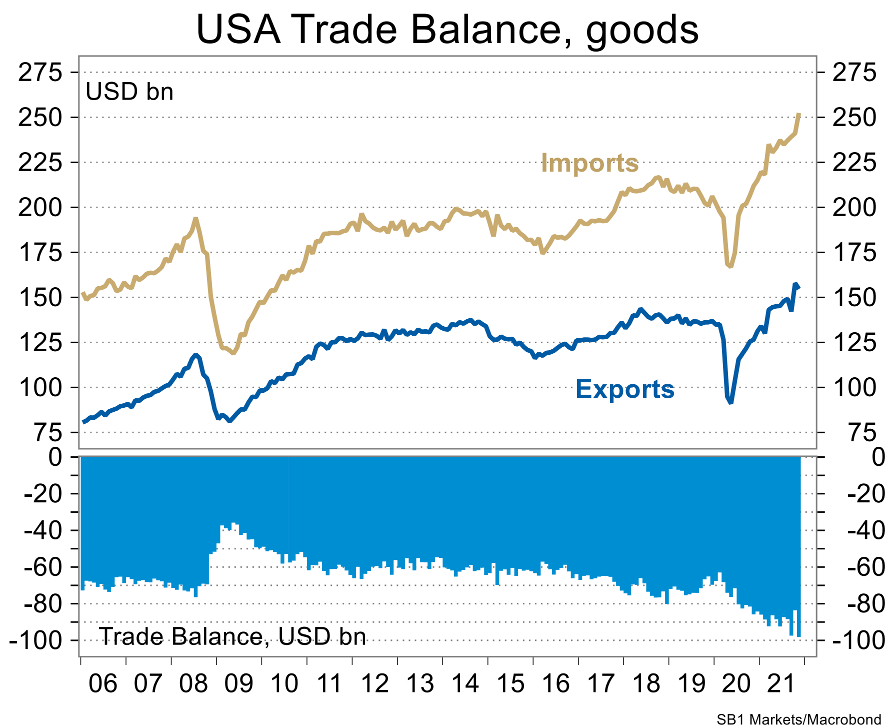



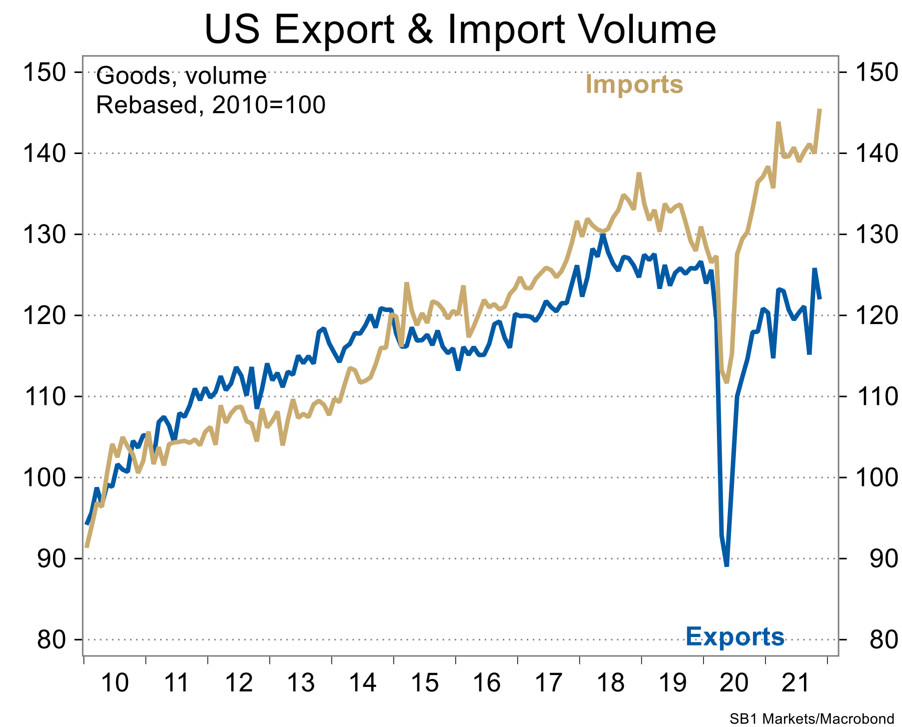




- Nominal spending rose by 0.4% in November, expected 0.5%
- Nominal spending is up 9% y/y, close to the underlying growth recent months
- However, given cost inflation volumes are clearly down, even for housing investments

# Imports are surging, the trade deficit in goods up to USD 98 bn, ATH

## Imports rose in both nominal and real terms in November, exports fell following the Oct surge

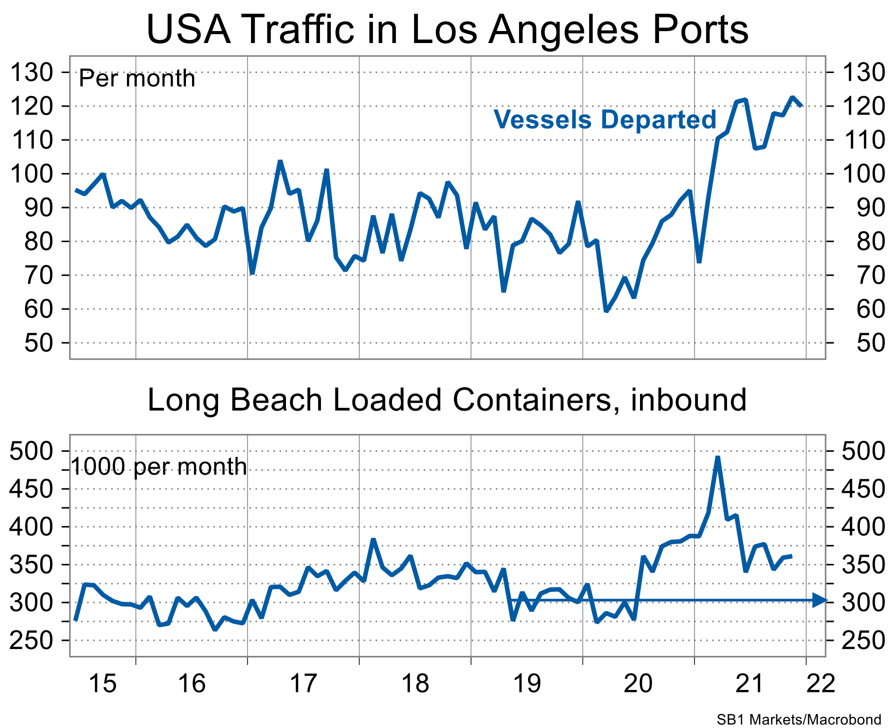



- **Imports** of goods rose by almost 5% m/m in value terms in November, and is 25% above the Feb 2020 level, according to the advanced data
  - » In volume terms imports rose too, and are up 13% above the pre-pandemic level! Demand for goods has been strong during the pandemic, driving imports – even if auto imports have been low. We expect US households' demand for goods to slow the coming quarters, from the present very high level – dampening demand for imports too
- **Exports** of goods fell 2%, following the 10.7% m/m hike in October. This advanced report does not give any details.
  - » Export volumes are still below the pre-pandemic level (in value terms exports are well above)
- **The trade deficit** in goods shot up to USD 98 bn, the largest ever

# BTW, why are US harbours so crowded?

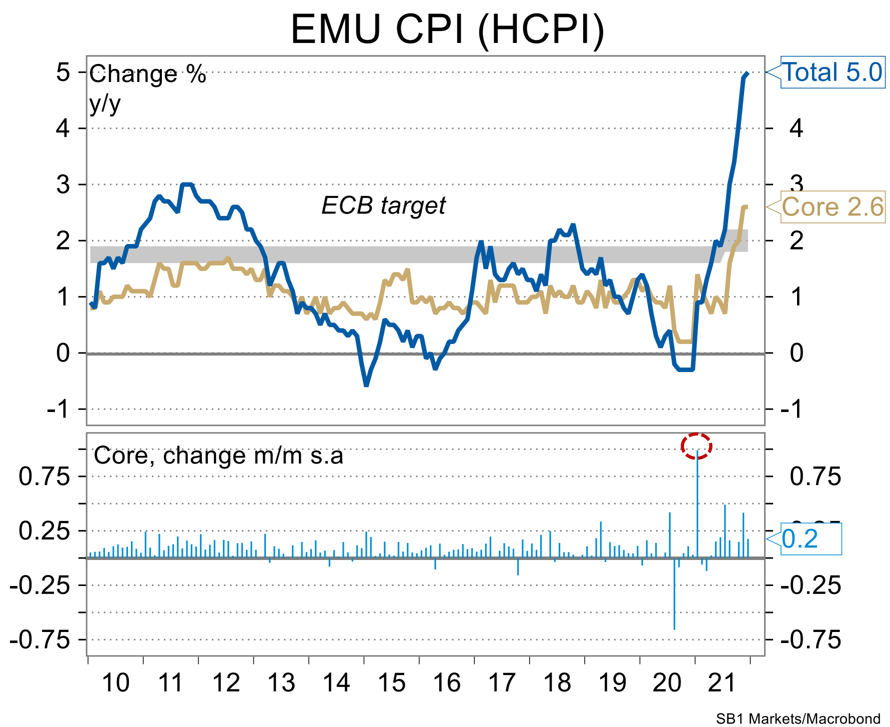
Because (inbound, of course) traffic is much higher than ever before

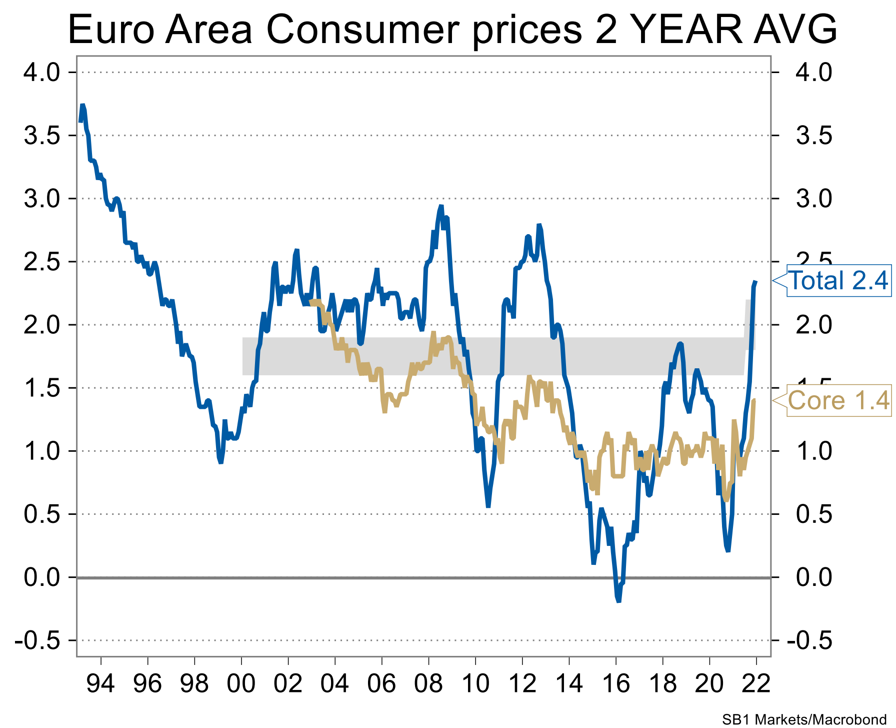



- Sure, there have been some capacity problems due to the pandemic but the main challenge has been that harbours have been overwhelmed by many more ship arrivals and much more (inbound) cargo than normal!
- ... Because demand for goods has far above a normal level through the pandemic

# Inflation up 0.1 pp to 5.0% in Nov, core flat at 2.6% - 0.2% & 0.1 pp above expext.

## Headline inflation over the past 2 years is 2.3%, the core ex food & energy at 1.4%

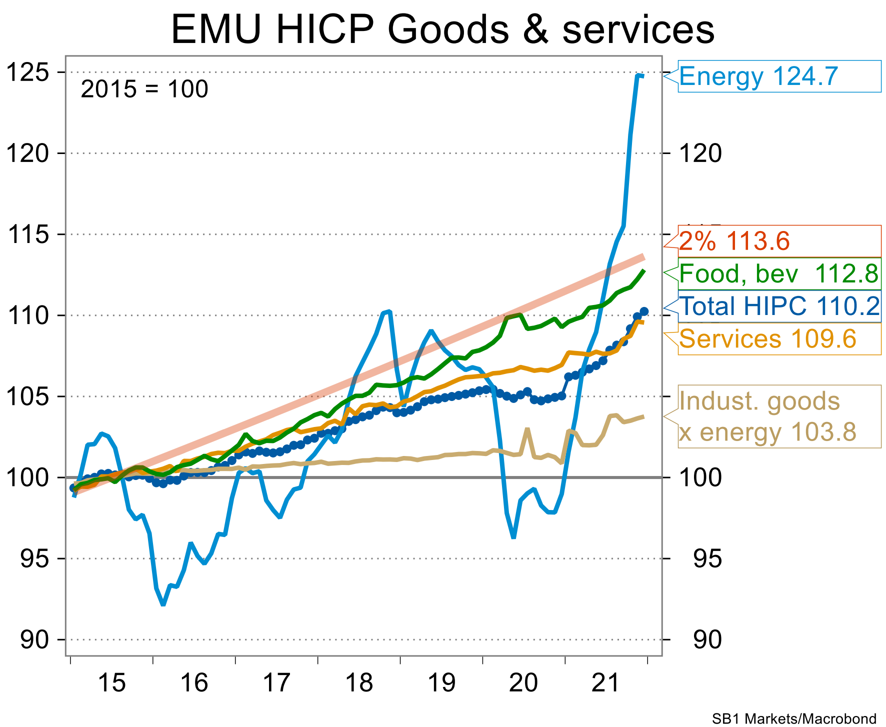


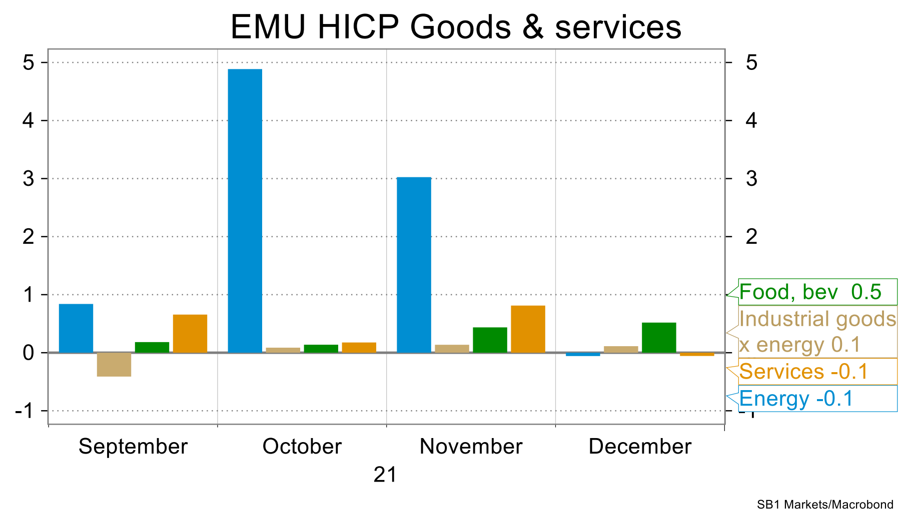



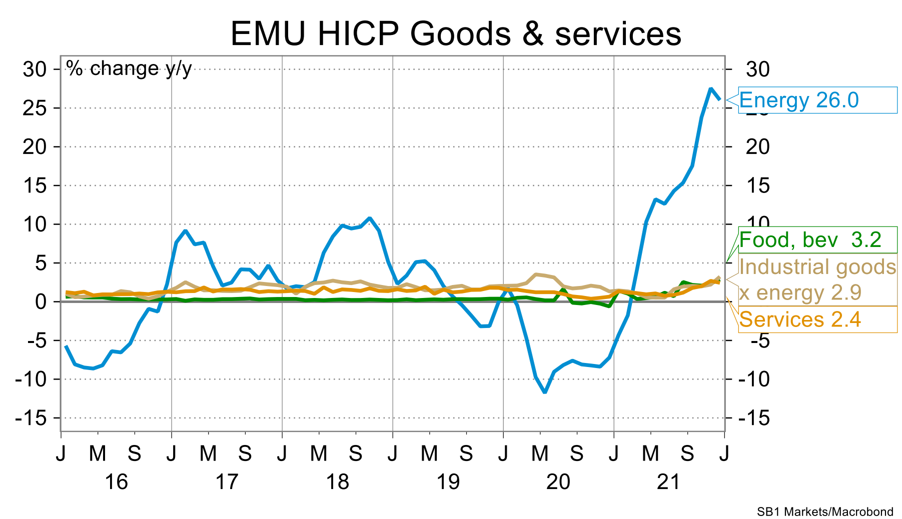

- **The headline HICP** rose 0.3% m/m in December, down to 0.7%. Energy prices fell marginally – but they are still up 26% y/y (but still 'just' up 17% above the avg 2019 level, not that dramatic). Food prices rose by 0.5% m/m, and they are up 3.2% y/y
- The annual rate at 5.0% is far above ECB's inflation target – but prices are just up 2.3% over the past 2 years (in avg), even with highly unusual surge in energy prices
- **Core prices** rose 0.2% m/m, and the annual rate was unch at 2.6%. Again, one year ago, annual inflation was just 0.2%, and the avg over the past 24 months is just 1.4%. The core CPI y/y growth rate will very decline substantially in January, as prices rose 1% m/m in Jan-21 (right chart, red circle)
- **Wage inflation** is still modest, but more unions are requesting compensation for the hike in consumer prices…

# Inflation: It is (somewhat) more than energy

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



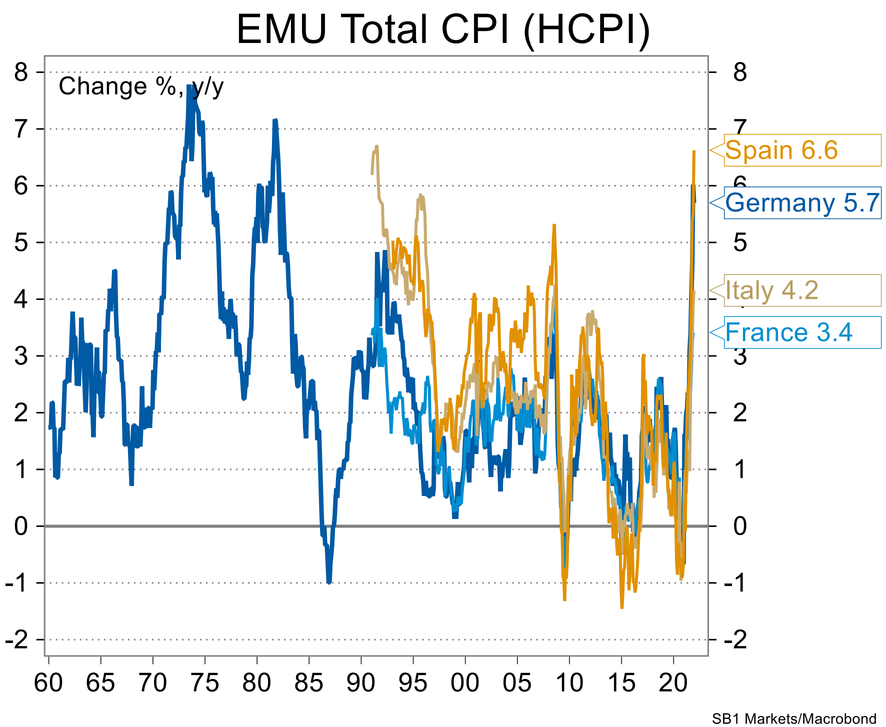



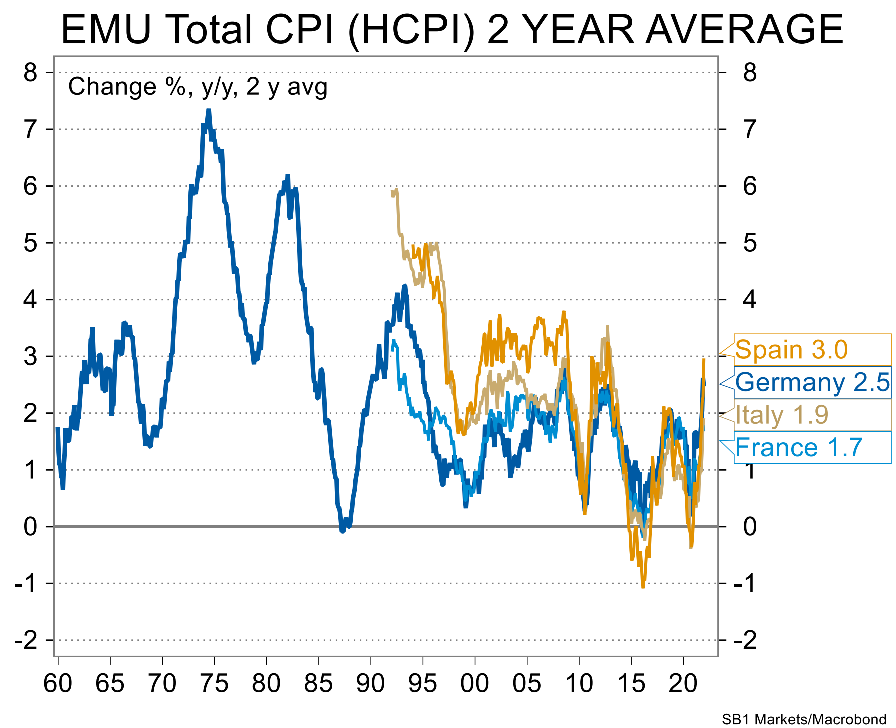




- Food prices are up 3.2% y/y, and have been accelerating recent months but they are still close to a 2% underlying growth path
- Industrial goods are up 2.9%, higher than normal
- Services prices have increased sharply recent months, mostly due to transport (at least partly a 2nd round impact of higher energy prices), and hotels & package holidays
- Few details in the flash HICP estimate, more details in the full report in a couple of weeks time

# German HICP inflation slightly down but 5.7% is still the 2nd highest since 1980

## However, the 2 year average is not that frightening, even not for the total HICP

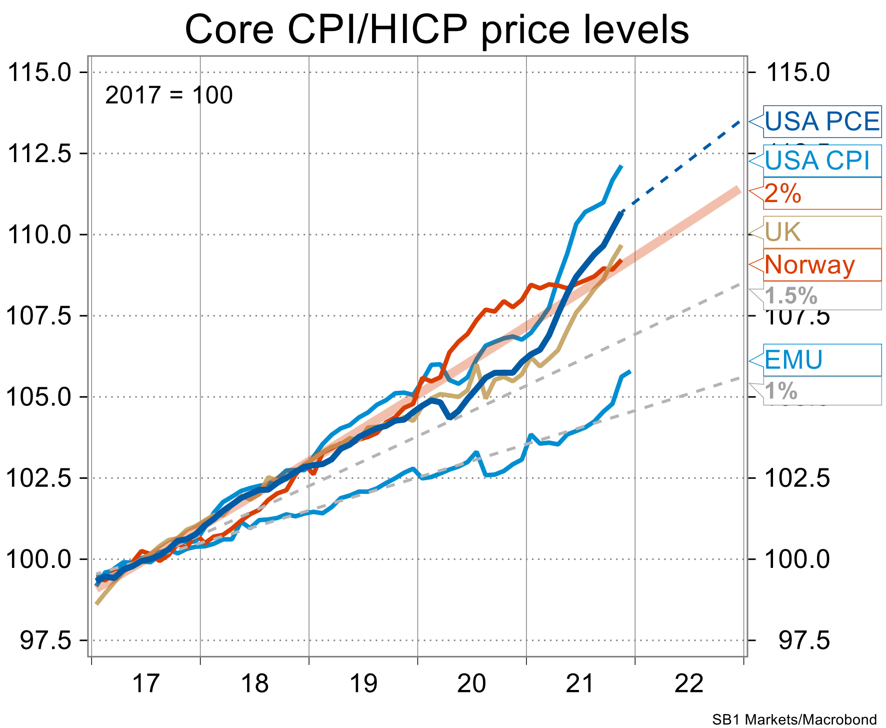



- Core data not available for December but most contries will report core inflation far below 2% measured over the past 2 years

# US inflation is still a rather special case

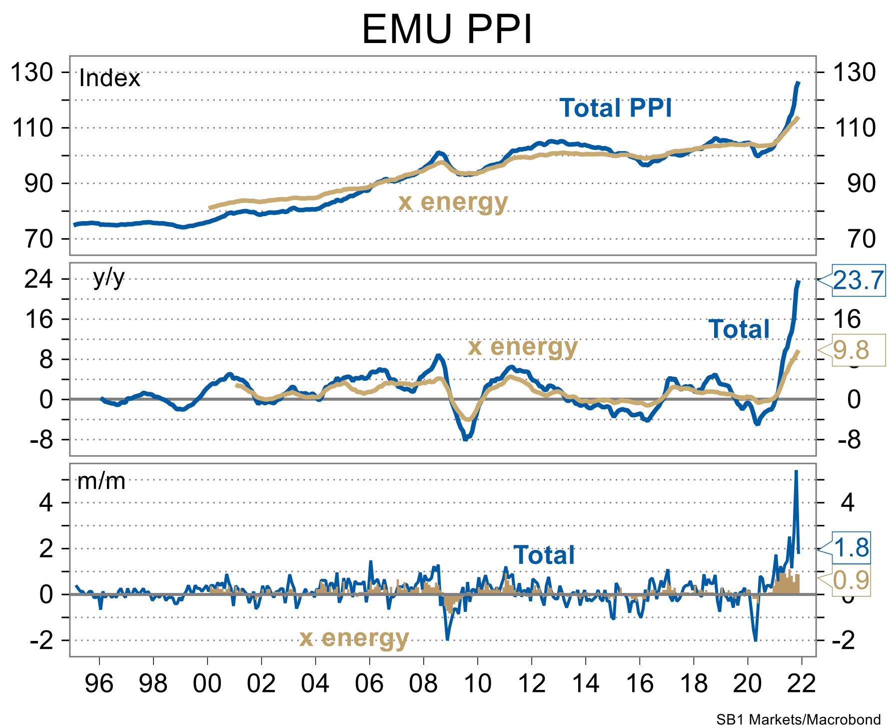
## UK prices are accelerating – and are above a long term growth path

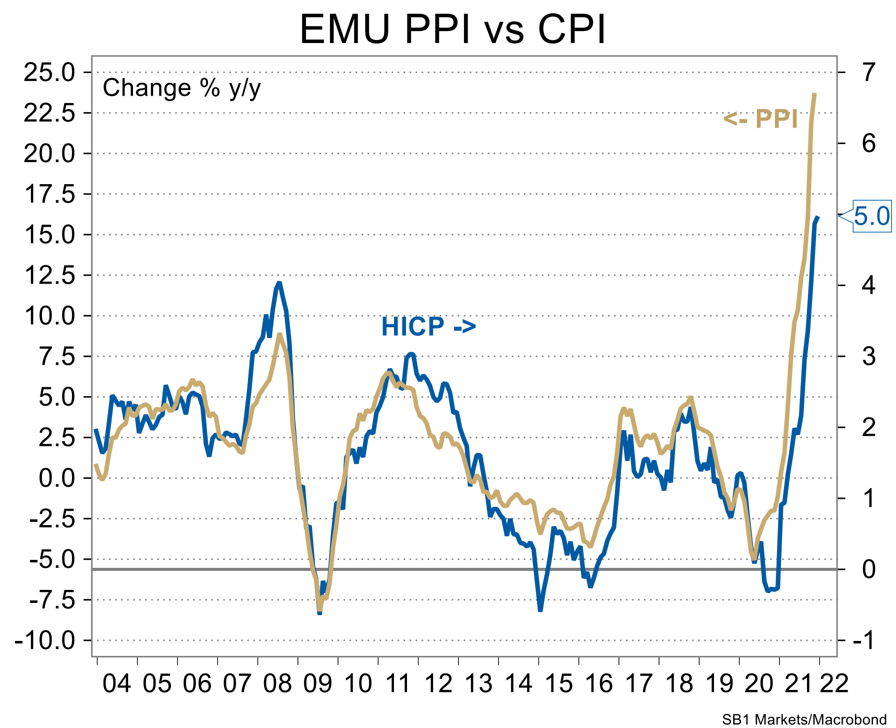



- EMU core CPI has shot up past two months but is still at 'at low level'

# Producer prices up 23.7%, all included. And 9.8% x energy

## The CPI further up?

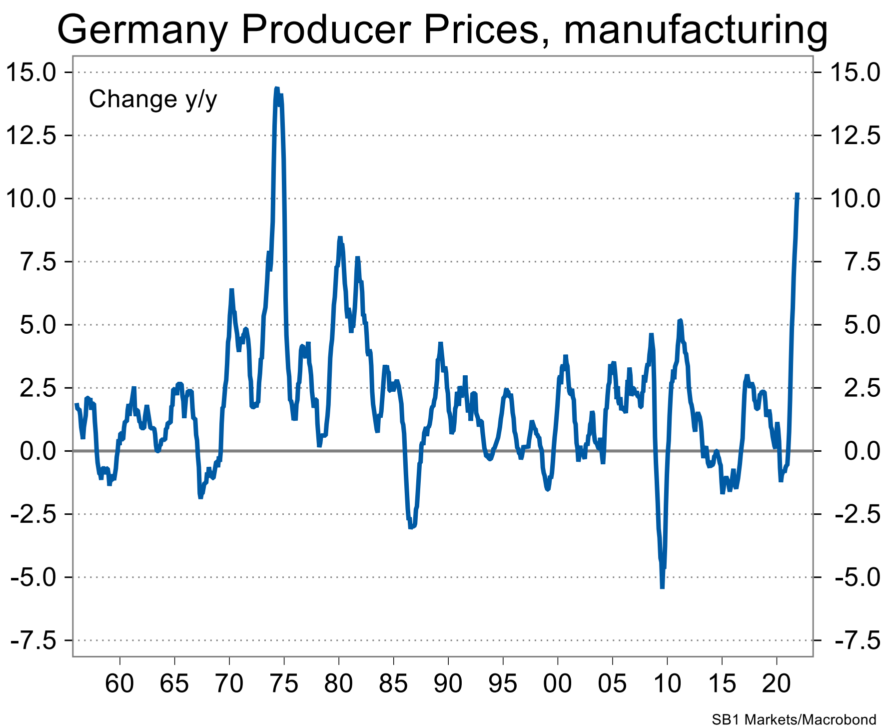



- Total PPI rose 1.8% m/m, and the annual rate rose to an incredible level – 23.7%
- The PPI ex energy added 0.9% in November, and is up 9.8% y/y, the **highest level on record** – data from 2000
  - » Energy explains more than half of the lift in the total PPI. Still the 'core' is also up more than ever before (data though just back to 1995). Germany has not seen a manufacturing PPI up by more than 10% since 1980
- Luckily, most of it is transitory… ☺
  - » And in fact, we believe it is! Raw material/logistics cycles have never lasted for long!

# Just for the record: German producer prices, ex energy

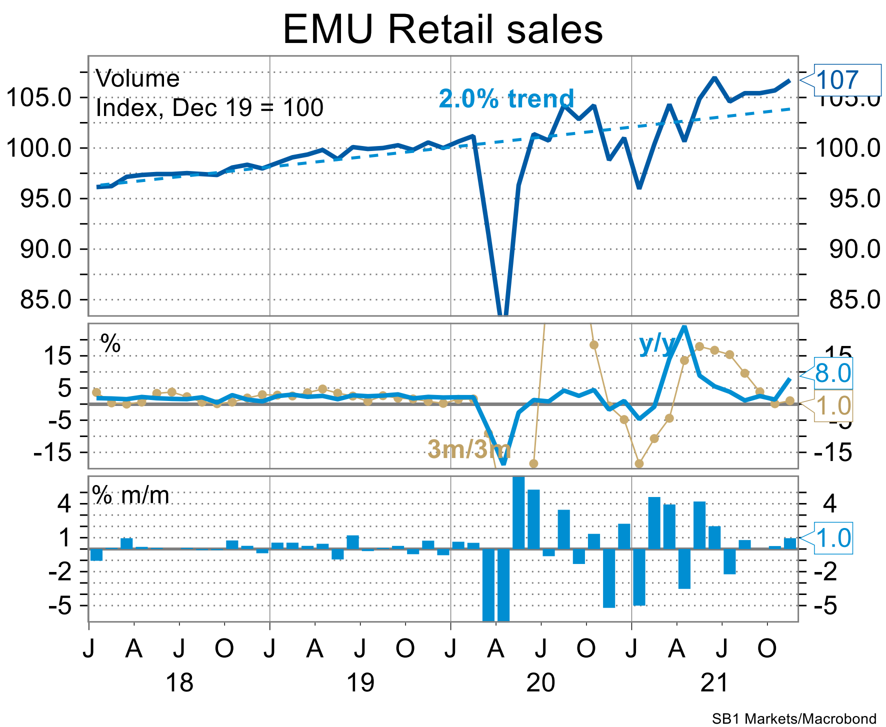
Up more than 10% y/y, has been higher only once, in 1973

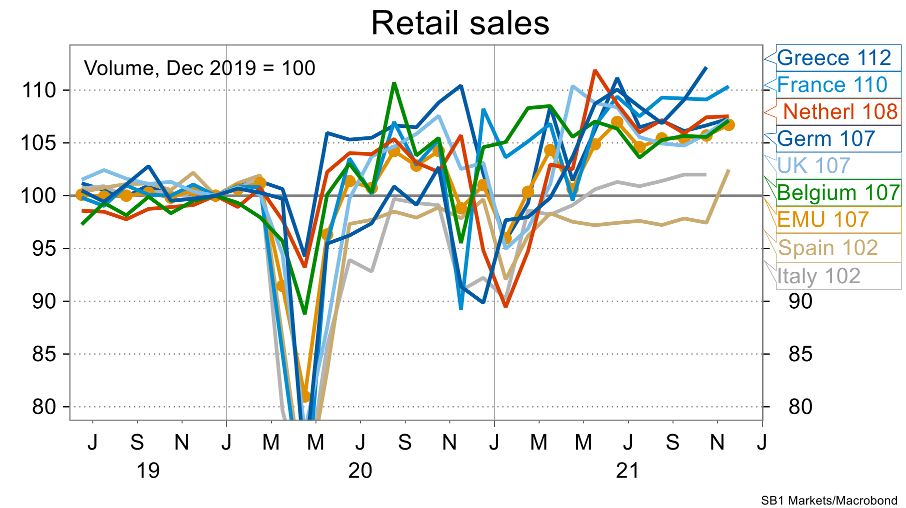


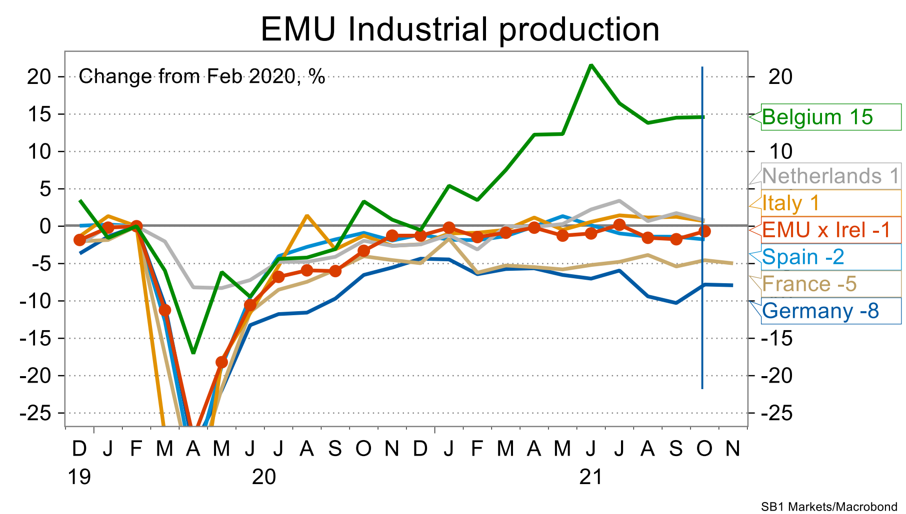

- Energy prices are not included

# Retail sales up 1% in Nov (exp. -0.5%), 7% above the pre-pandemic level

Sales flat or up everywhere: Spain in the lead m/m (+5%). France up 1.1%, and Germany 1%



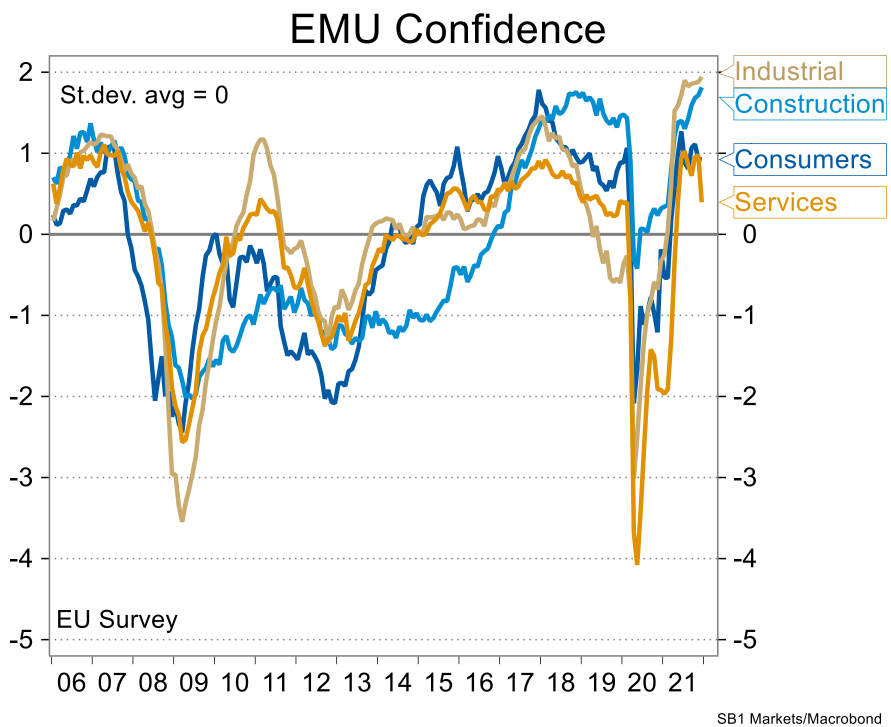



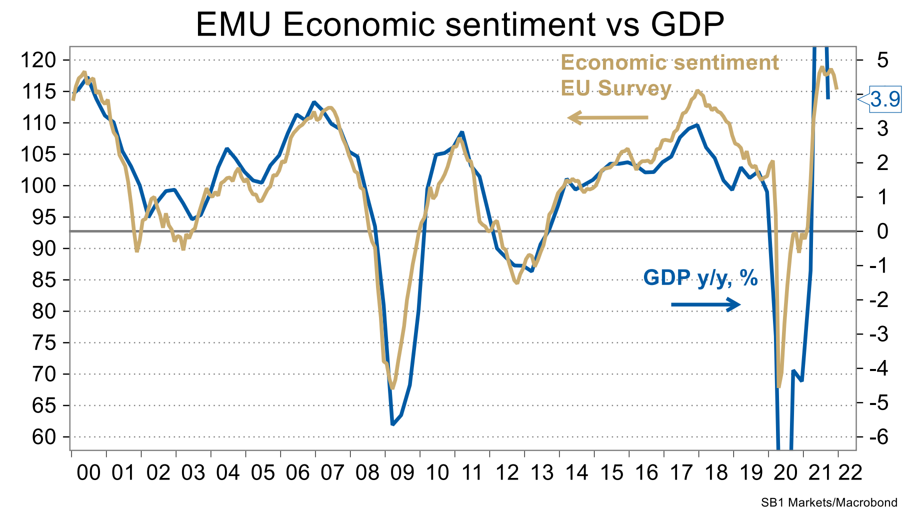



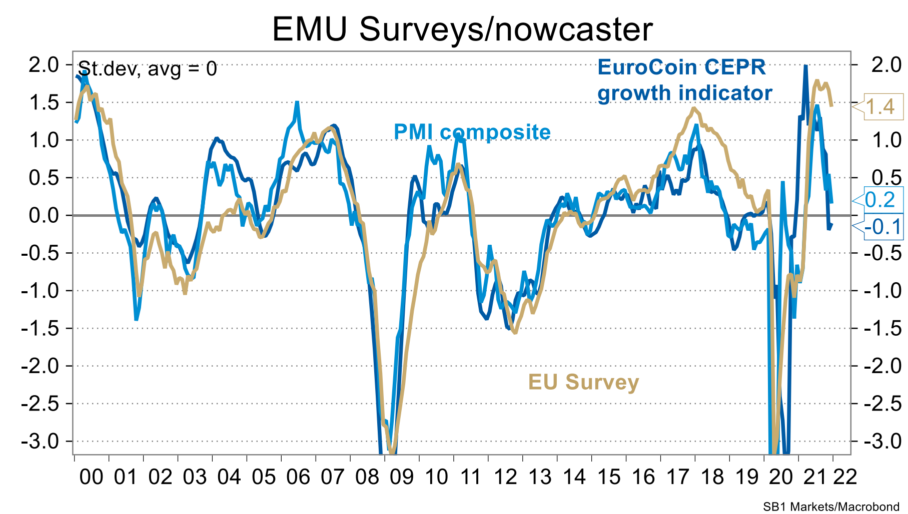

- High inflation has not yet hurt demand materially, even if sales are up just 1% 3m/3m (annualised), signalling lower GDP growth in Q4
- Since before the pandemic: All countries are up, as even Spain crossed the line in November
  - » EMU sales are some 3% above the pre-pandemic trend
- **Industrial production:** Germany reported flat, France a tad down in November – data for the region out this week

# Services hit by the virus, still reporting growth above par. Manuf., constr. at ATH

## In sum, EMU economic sentiment fell 0.3 st.dev, but remains 1.4 above avg, signalling 4% growth



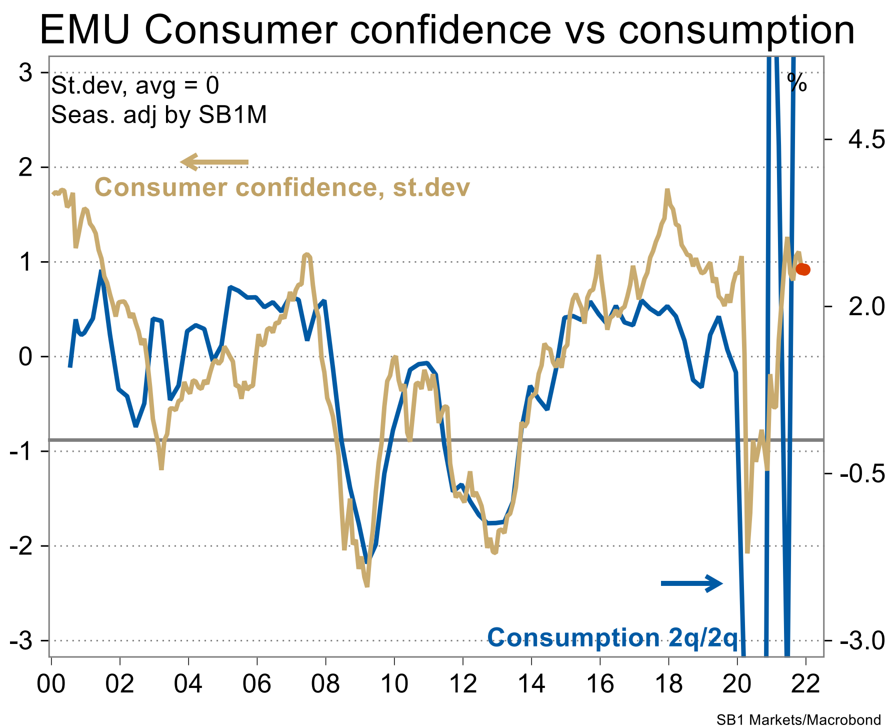



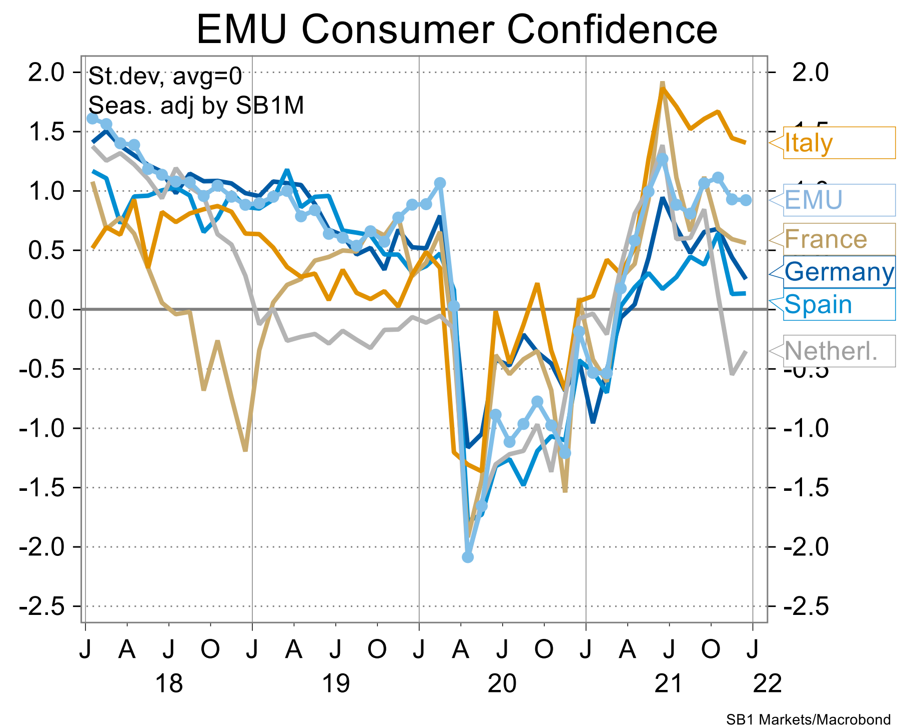




- **EU's confidence survey for the Euro area** declined 2.3 p to 115.3 in Dec, expected 116. The level equals 1.4 st.dev above average, signalling an GDP growth well above average – at 4%
  - **All sectors** are signalling above average growth, even if the
  - **Service sector** index lost almost half of the hight vs. an average level
  - **Industry and construction** confidence both rose to ATHs
- The **EuroCOIN GDP nowcaster** signals far slower growth than EUs survey, as do the PMI reports – in average trend growth (1 – 1.5%)

# The fight against the virus has not brought consumer confidence down

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

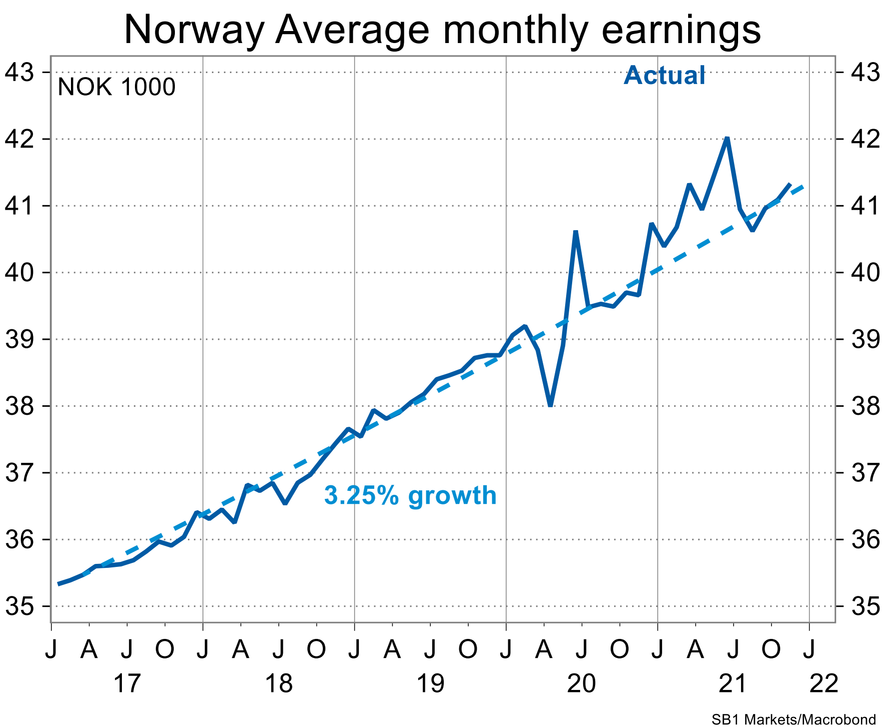


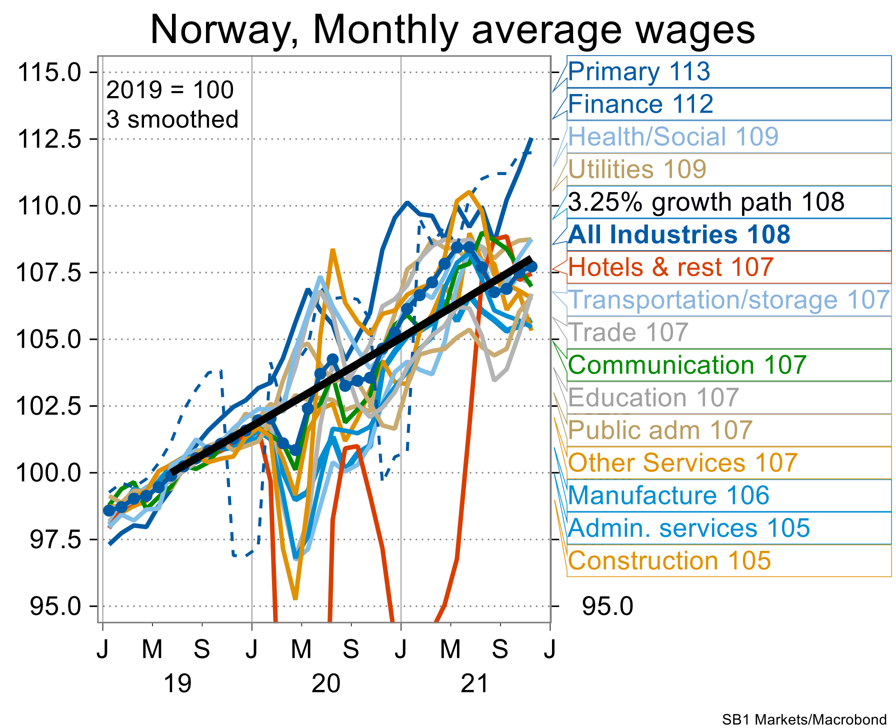




- **The consumer confidence index** was confirmed close to unch in December (after our seasonal adj).

# Wage growth still in check – it is still at a 3.25% growth track

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

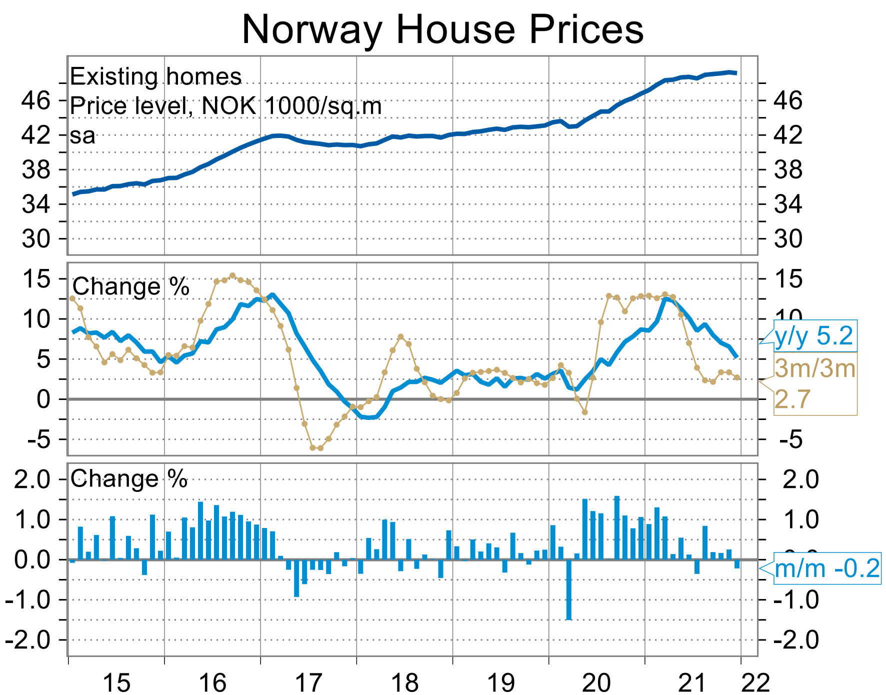


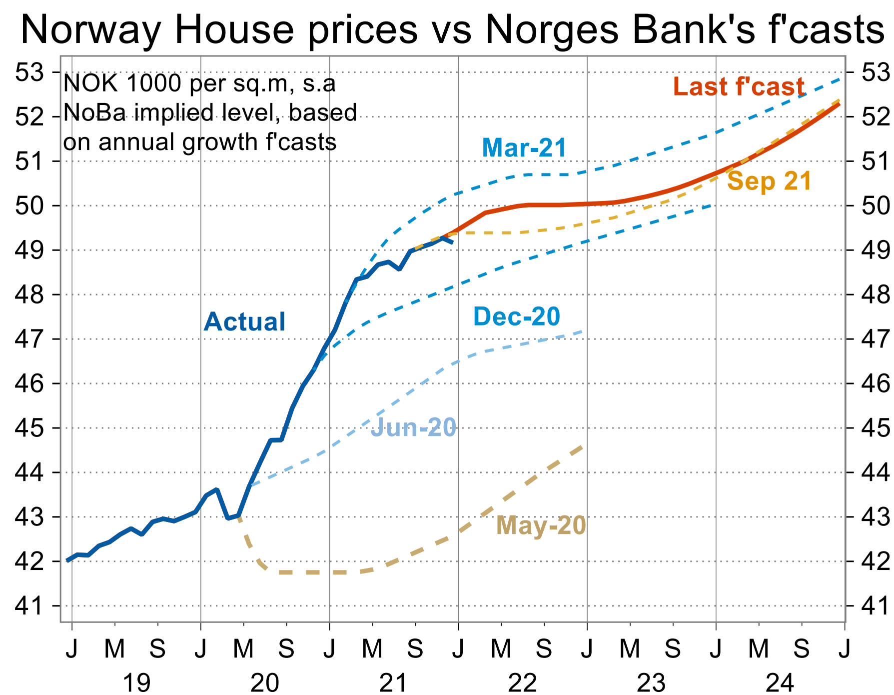




- Monthly average cash earnings are rather volatile, also depending on hours worked, bonuses
- Earnings have been above the 3.25% growth path from the start of the pandemic until June. The return of low paid service sector workers took the average down

# House price inflation has slowed – down 0.2% in December

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

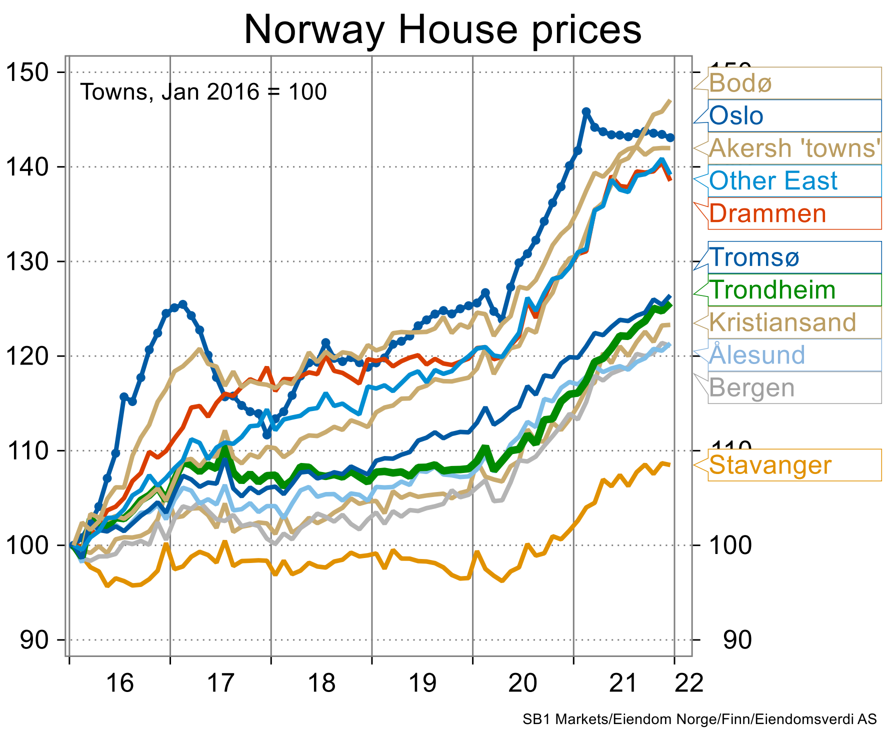


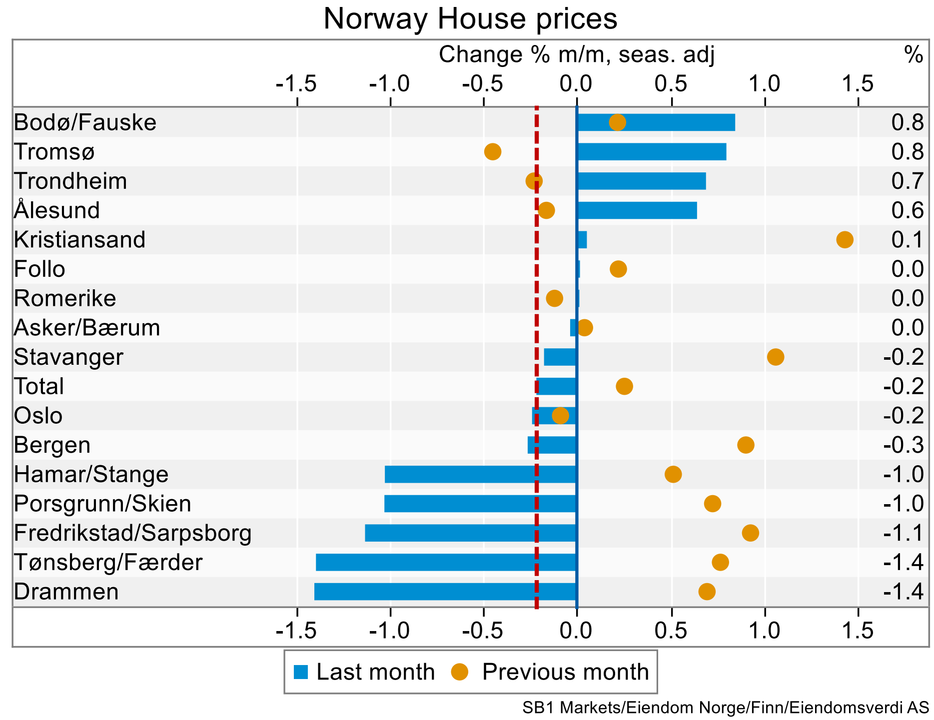




- **House prices** declined 0.2% (seas adj, -1.3% unadjusted) last month, following the 0.3% lift in Nov, we expected +0.2%. Prices are up by 2.7% 3m/3m (annualised), down from >12% in March. Prices are up 5.2% y/y, down from the peak at 12.5%. The decline could have been explained by Omicron angst, but the no. of sales rose sharply to the 2nd highest level ever
- Prices fell in 10 cities (from 5) and rose in 5 (11). Prices fell the most in Eastern cites around Oslo (Drammen at the bottom). Along the coast up to Tromsø from Ålesund prices rose 0.6 – 0.8%. Prices fell by 0.2% in Oslo, and they are down almost 2% from the peak last February
- The **inventory of unsold homes** fell sharply, back to the ATL level in September. The inventory outside Oslo/Viken is falling rapidly
- Our Norway x Oslo **flow based price model** signals a 0.75% m/m price growth, our Oslo model almost +1%, from zero 6 months ago. Very likely, the outlook for higher rates is dampening willingness to pay, perhaps by 0.5 – 1 pp/month
- **Norges Bank** expects a 0.3% m/m appreciation in Q1, as slowdown in Q2, and flat in H2. Our forecast is marginally weaker

# Mixed between cities in December, partly reversing November changes

A 1 – 1.4% decline in prices in several 'Eastern' towns. Oslo down 0.2%. Ålesund – Tromsø up 0.6-0.8%




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

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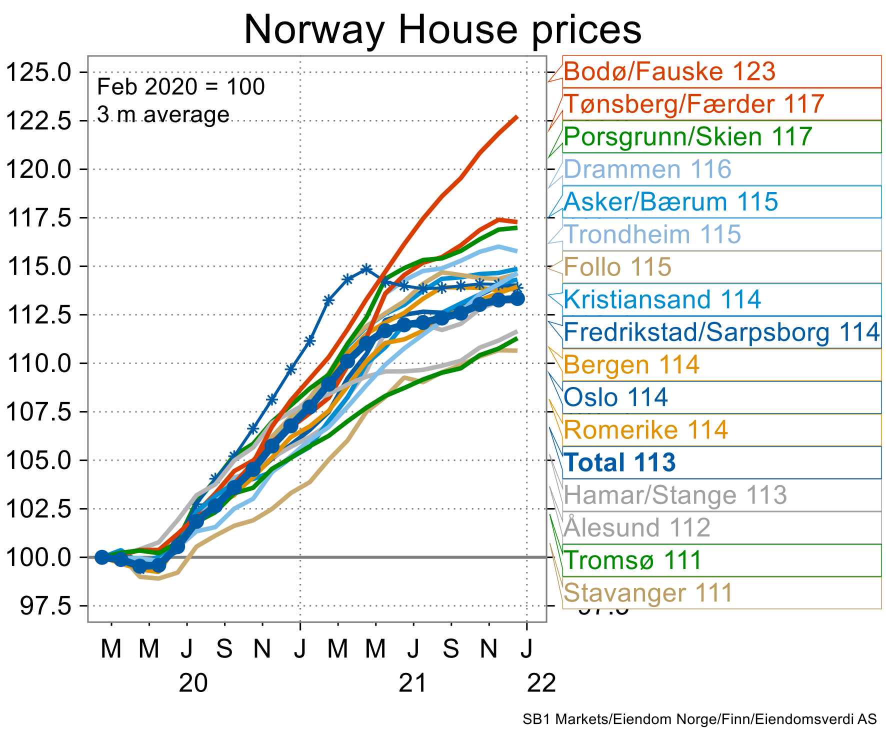
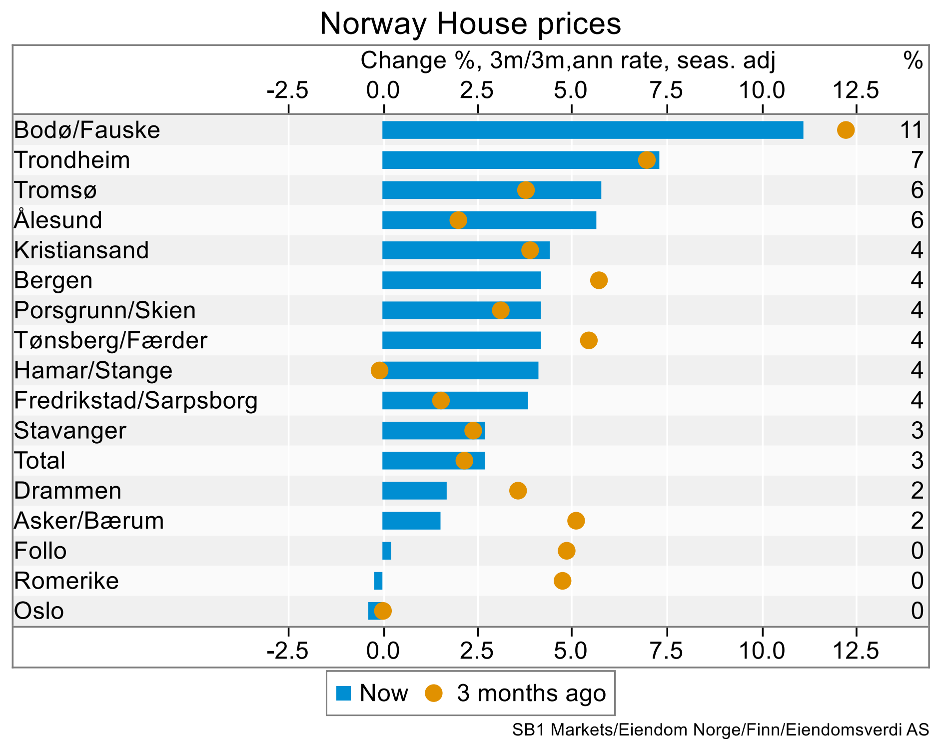
# During the pandemic: Bodø/Fauske the winner, Tromsø and Stavanger the losers

Oslo and surrounding Eastern 'towns' have been the laggards recent months




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

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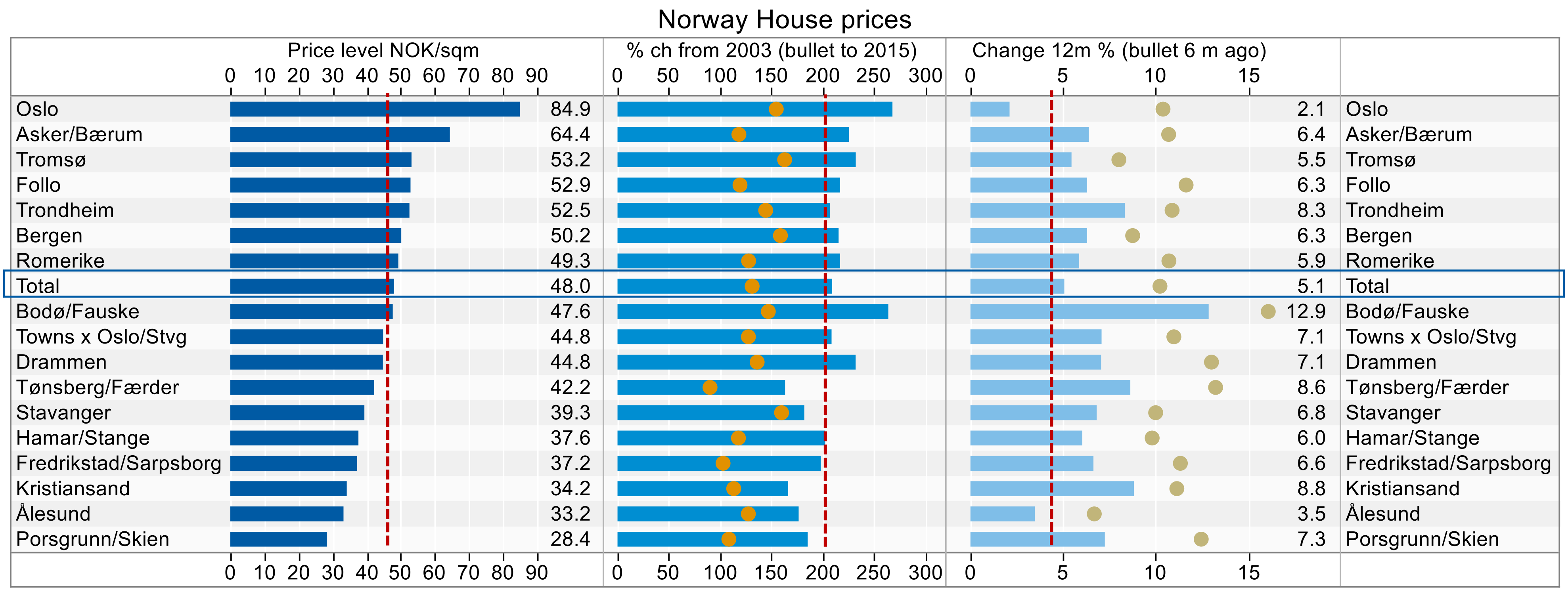
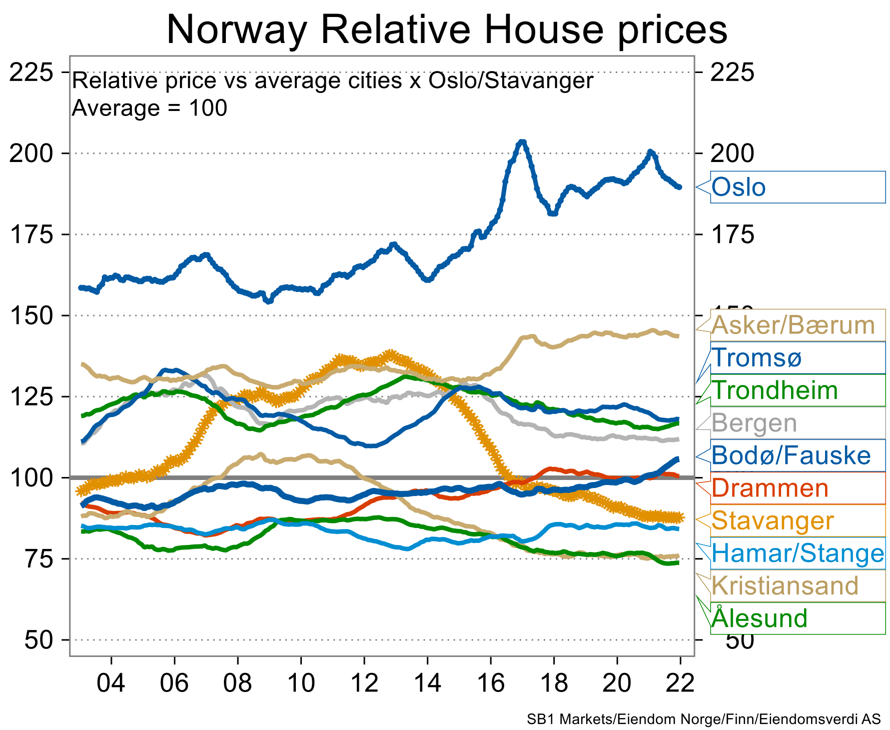
# Oslo the weakest through 2021, up just 2.1%. Bodø at the top +12.9%

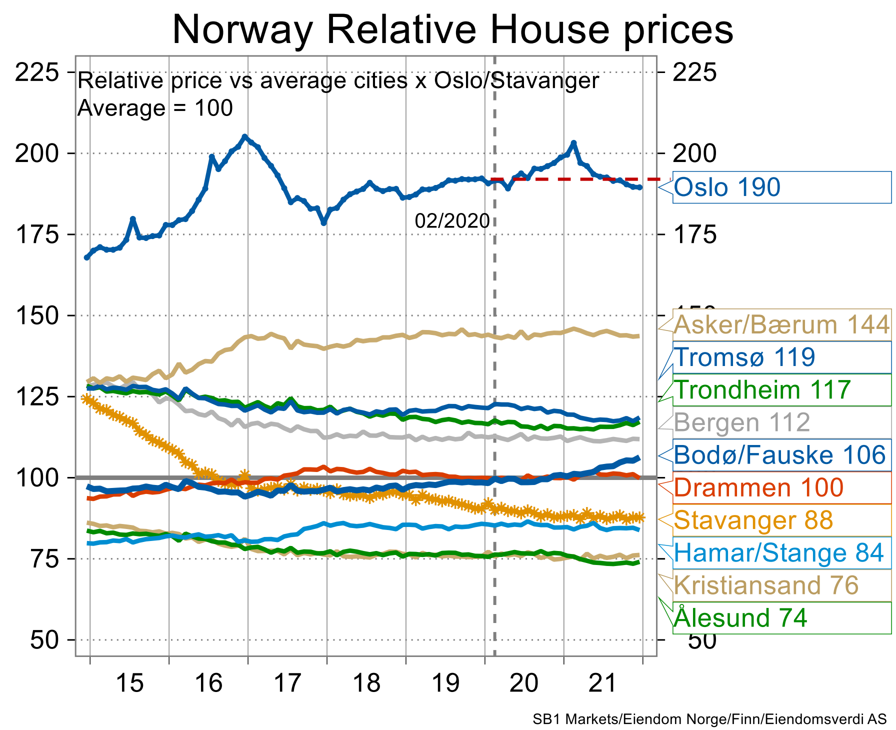
Bodø is almost the winner since 2003 as well (but Oslo marginally – 1.5% – ahead




SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

# Oslo relative prices slightly below the pre-pandemic level

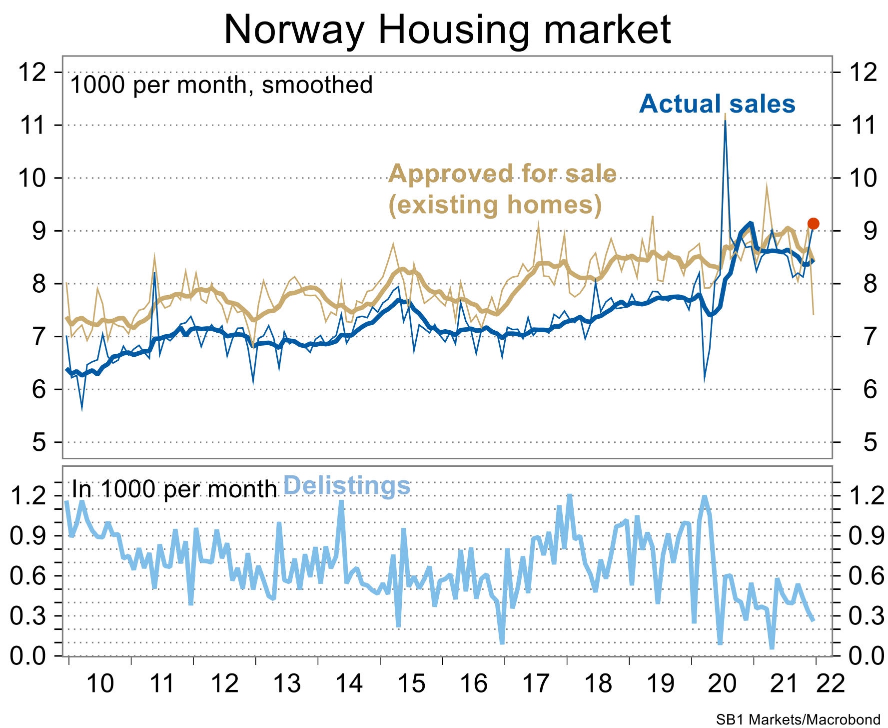


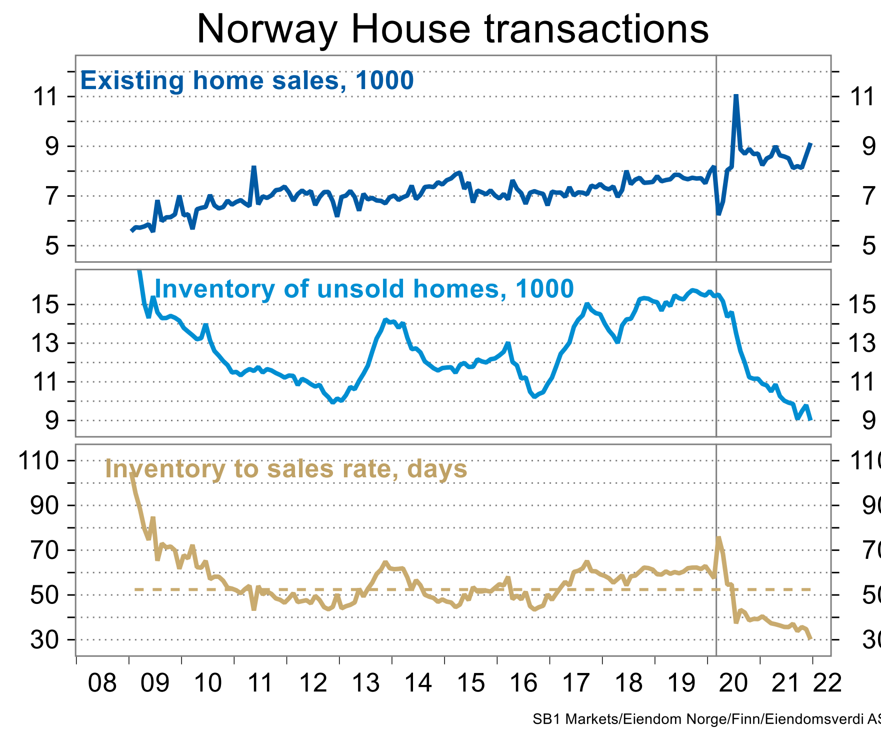




- Housing starts in Stavanger/Rogaland are still not lower than normal. It is still profitable to build, even at 'Hamar/Stange' prices! And why shouldn't it??

# Many more transactions than normal, the inventory back to ATL

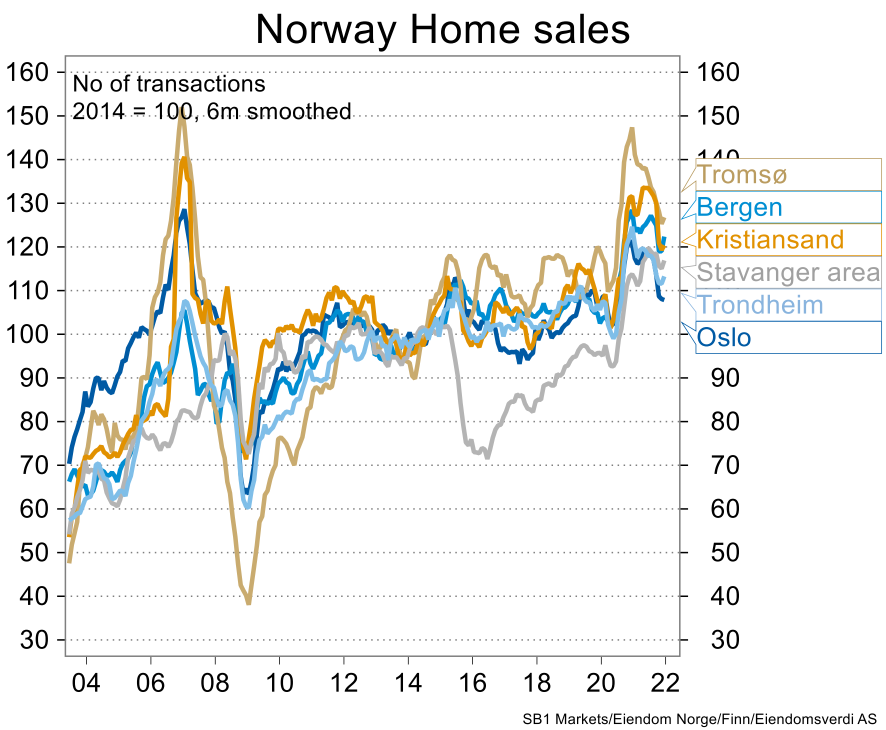
## Few homes were approved for sale

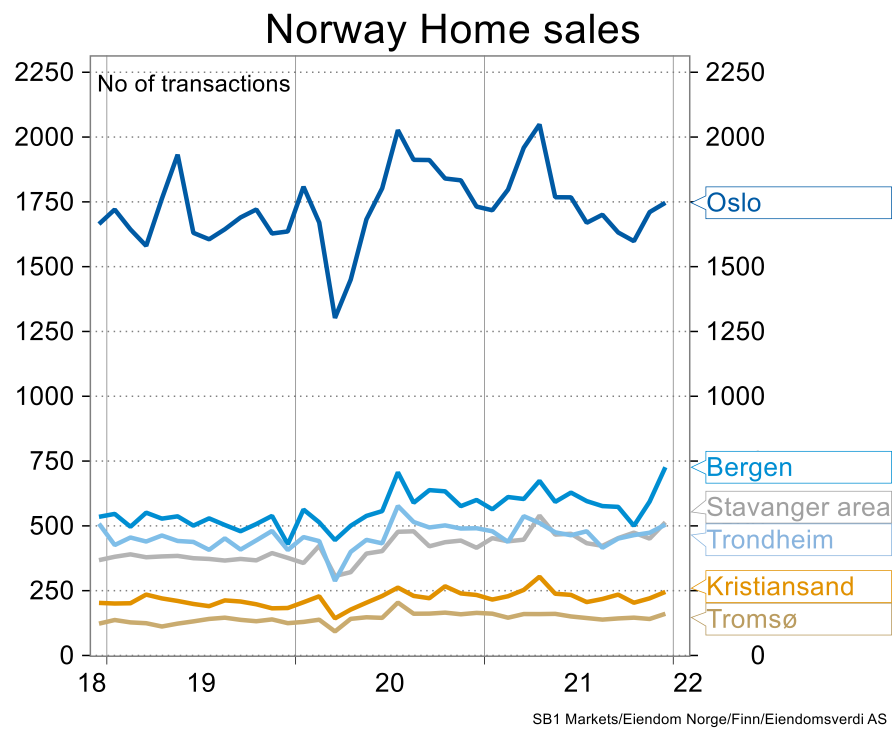



- **The number of transactions** rose to the 2. highest ever, seasonally adjusted (sales are normally low in Dec, now they less weaker than normal)
- The **supply of new existing homes for sale (approvals)** fell sharply, but these data are volatile
- **The number of delistings** fell further
- The **inventory of unsold homes** fell sharply, to the ATL level reached in September
- The **inventory/sales ratio** declined 5 days to 30 days, vs an average at 53 days
- The **actual time on market** for those homes sold rose 3 days to 40 days, well down from more than 60 days last spring (the avg. is at 42 days)

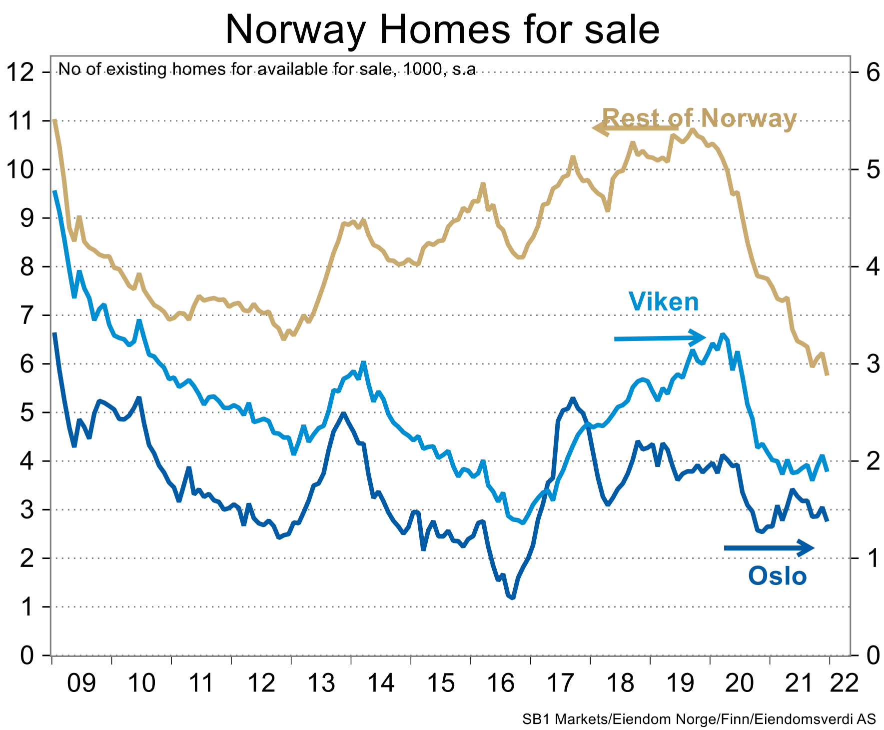
# Number of transactions up everywhere in Nov/December

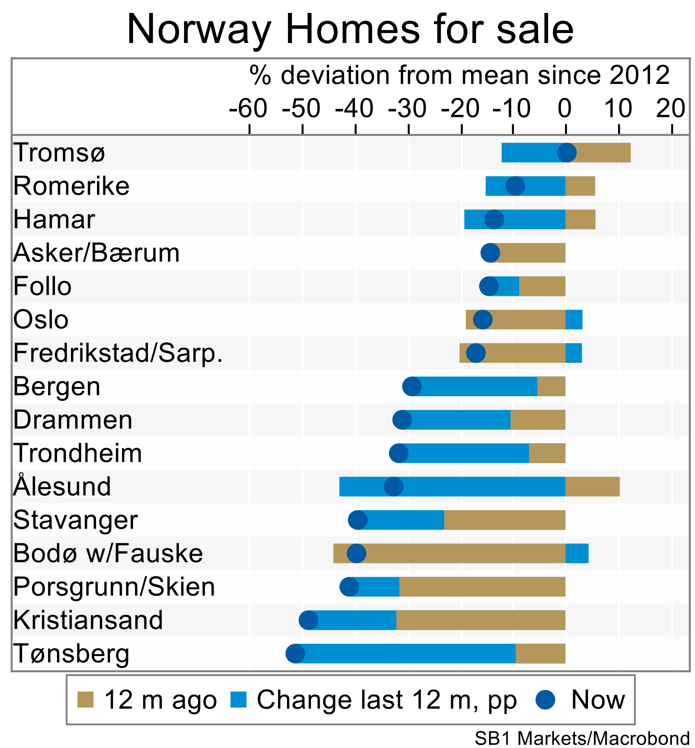


# The inventory of unsold homes outside Oslo and Viken is falling rapidly

## The no. unsold homes have flattened in Oslo and Viken – but is falling somewhat again in Oslo




- Over the last year, the inventory has fallen most places, except for Oslo, Fredrikstad/Sarpsborg and Bodø/Fauske
- The steepest decline has been seen in Ålesund and Tønsberg

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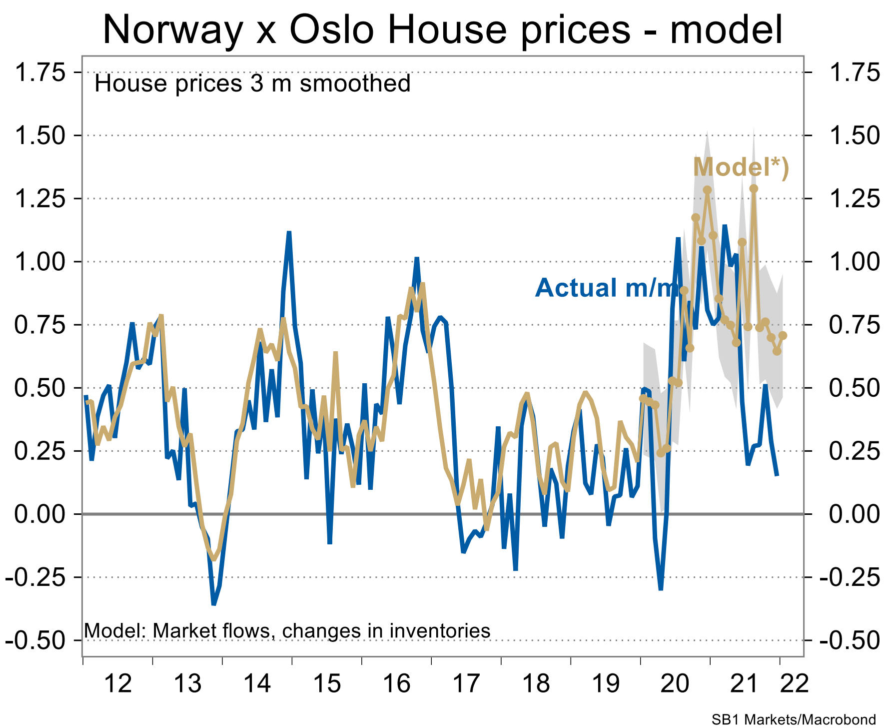
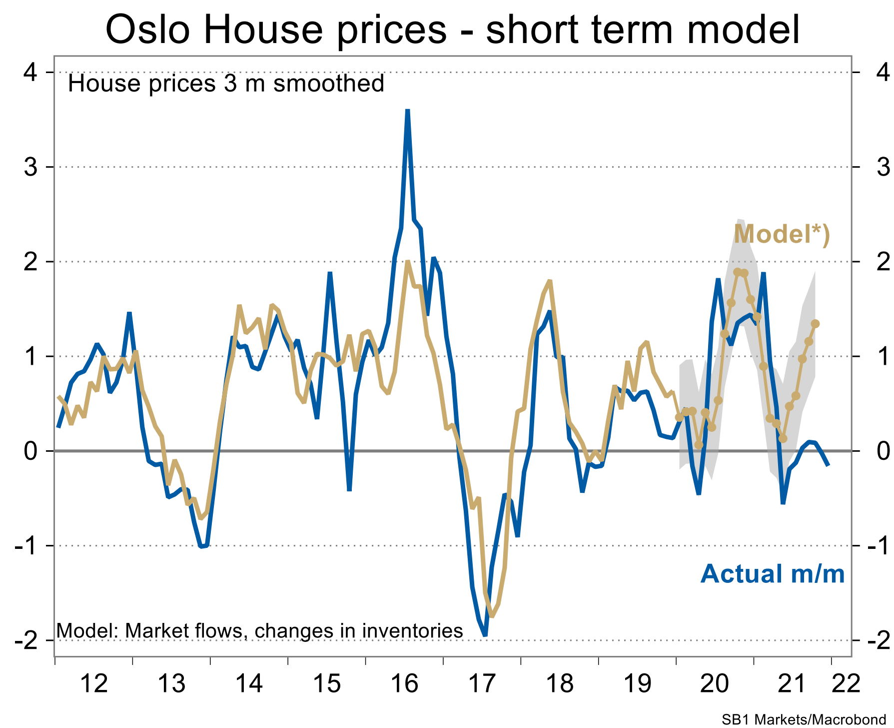
# Short term market flows suggest decent price growth

## Are higher mortgage rates dampening prices ½ - 1 pp/month?

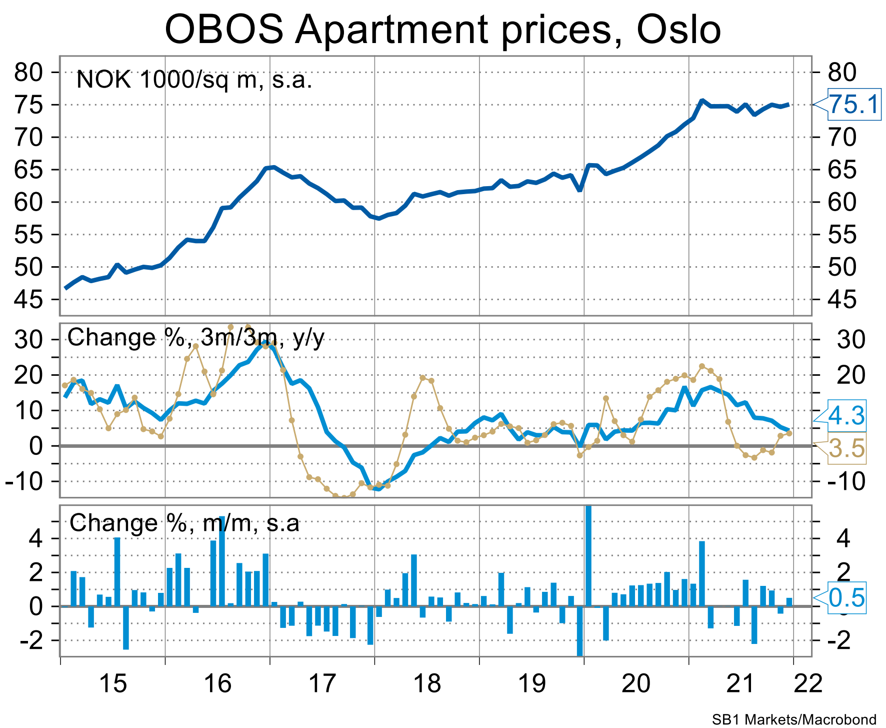


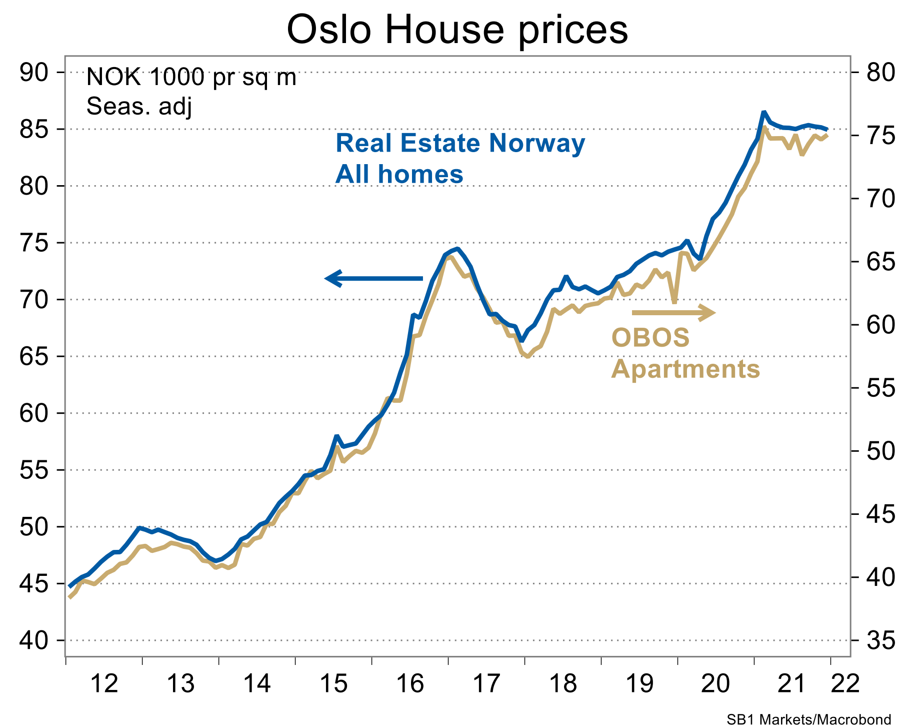




- Our **national x Oslo model** based on flows and the inventory signals a 0.7% growth in house prices per month, vs the 0.2% average growth recent months
- Our **Oslo model** signals a 1 – 1.5% growth (up from zero 6 months ago), vs a actual moderate decline
- **Mortgage rates** are not included in these short term market models, because they have not consistently added to the models performance. Still, we can possibly address the gap between actual price growth and the model forecasts as an impact of Norges Bank's campaign to normalise interest rates. If so, a ½ - 1 pp/month impact – and the most in Oslo
- *These models are not long term price models, just short term price models based on flows of (existing) houses approved for sale actual sales & changes in inventories*

# OBOS apartment prices rose 0.5% in December – up 4.3% y/y

## Before seasonal adjustment, prices fell by 0.8%



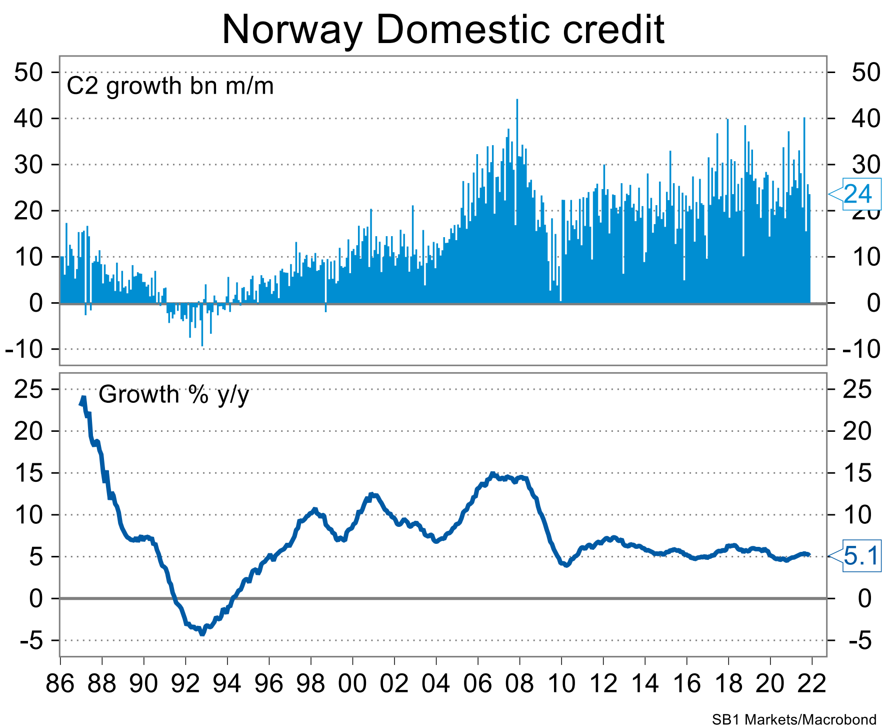



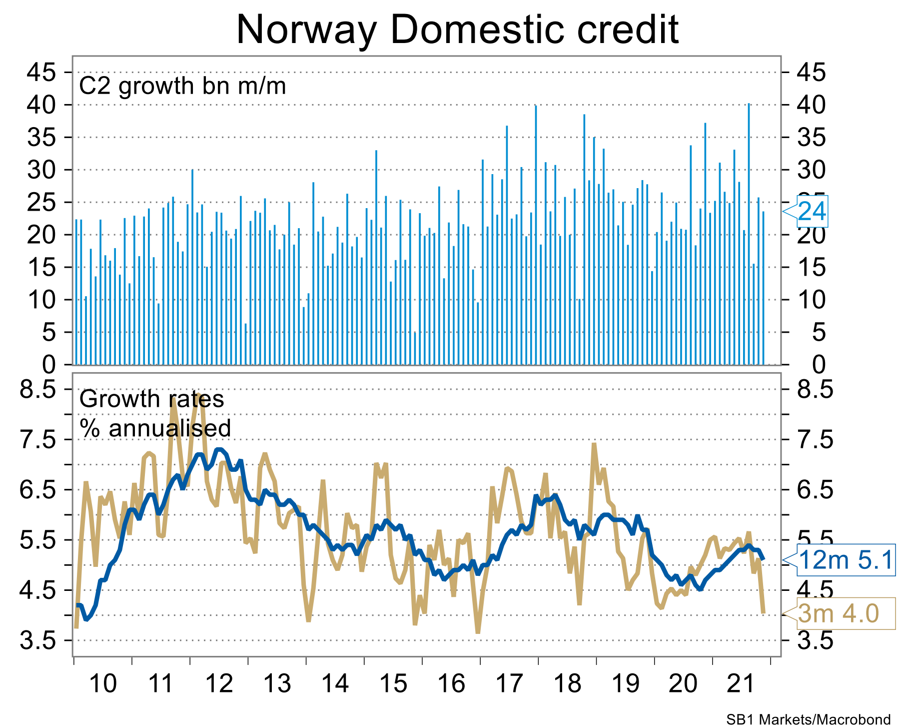

- The parallel change in both co-op & total house prices in Oslo signal a turning point in the Oslo housing market in early 2021, the peak for both indices was in last February, and prices are down 1 – 2% since then

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

# Domestic credit growth (C2) still modest, down to 5.1% in Nov, underl. growth 4%

Households borrowed more, local governments far less than we expected – in sum as expected

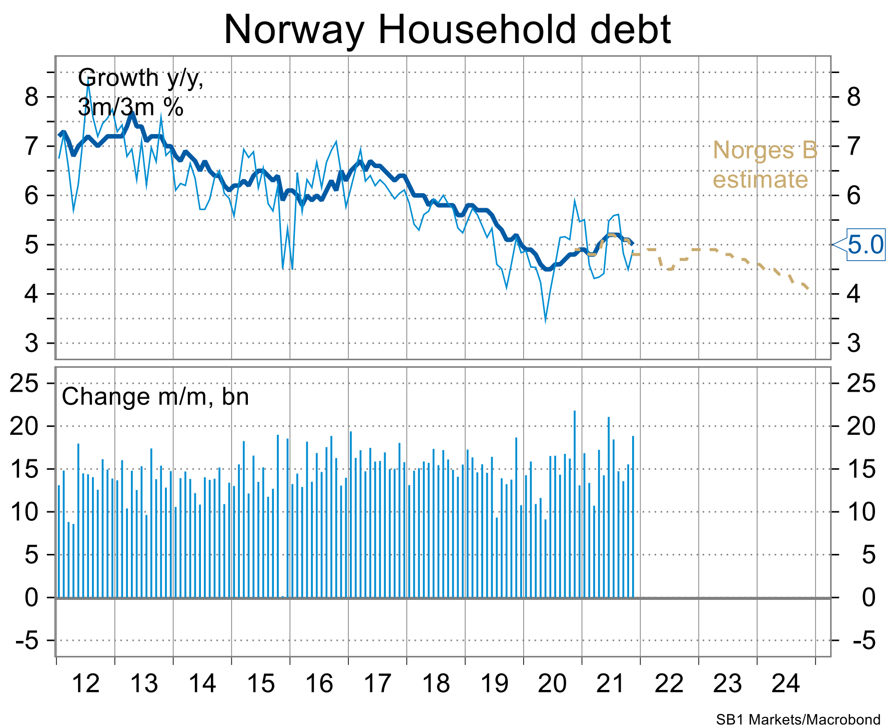


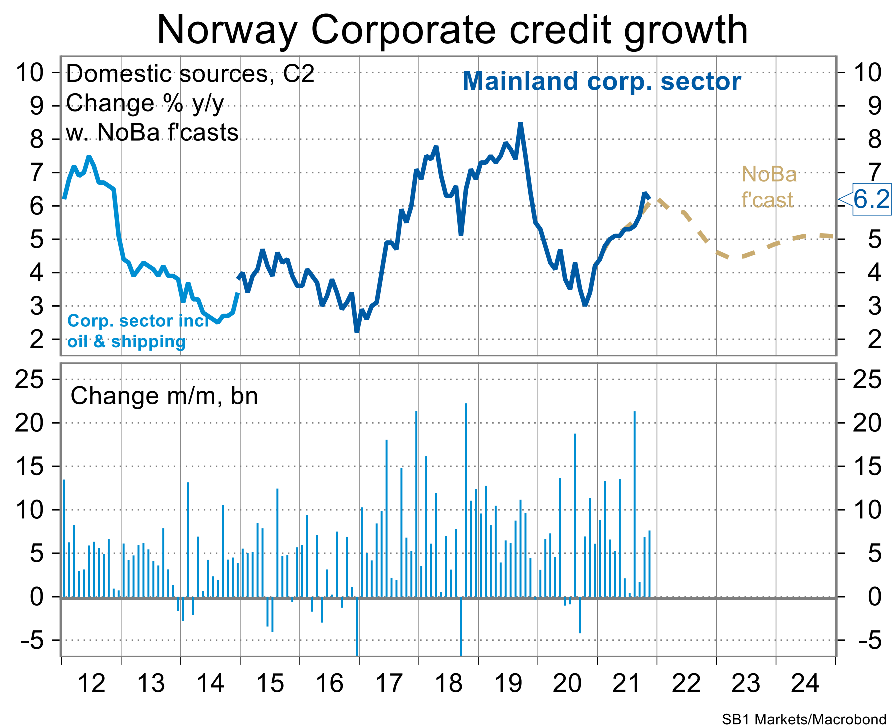




- **Total domestic debt** (C2) rose by NOK 24 bn in Nov, down from 26 bn in Oct, we expected NOK 28 bn. The annual growth rate declined 0.2 pp to 5.1%, in line with our estimate. The 3m/3m growth rate fell to 4%. We are not witnessing any credit boom. However, debt levels are high, especially for the household sector, and the debt/income level is still drifting upwards, from the highest level in any country
- **Household credit** rose by NOK 19 bn in Oct, up from 16 bn in Sept, we expected 16 bn. The annual rate fell 0.1 pp to 5.0%, we expected 4.9%
- **Corporate C2 credit**, rose by NOK 8 bn, 1 bn more than in Oct. The annual growth rate declined by 0.2 pp to 4.9%, both as we expected. **Mainland corporations** increased their debt by 6.2% y/y (-0.2 pp from Oct)
- **Local governments** out of the blue cut their debts by NOK 3 bn, we expected +4 bn. The annual growth rate was cut to 6.3% from 7.5%, still far above their income growth, as usual

# Corporate credit growth is accelerating

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




- **Household credit** growth accelerated somewhat from the through in H1-20, not by much. The annual rate was 5.0% in November, as is the underlying 3m/3m. Norges Bank expect growth to slow gradually in 2022, and over the coming years
- Monthly growth in **corporate domestic credit** slowed through most of 2020 but accelerated during last year. The annual rate has climbed to 6.2% from 3.0% at the bottom. Norges Bank expects growth to slow (and the bank has done so as long as we can remember)

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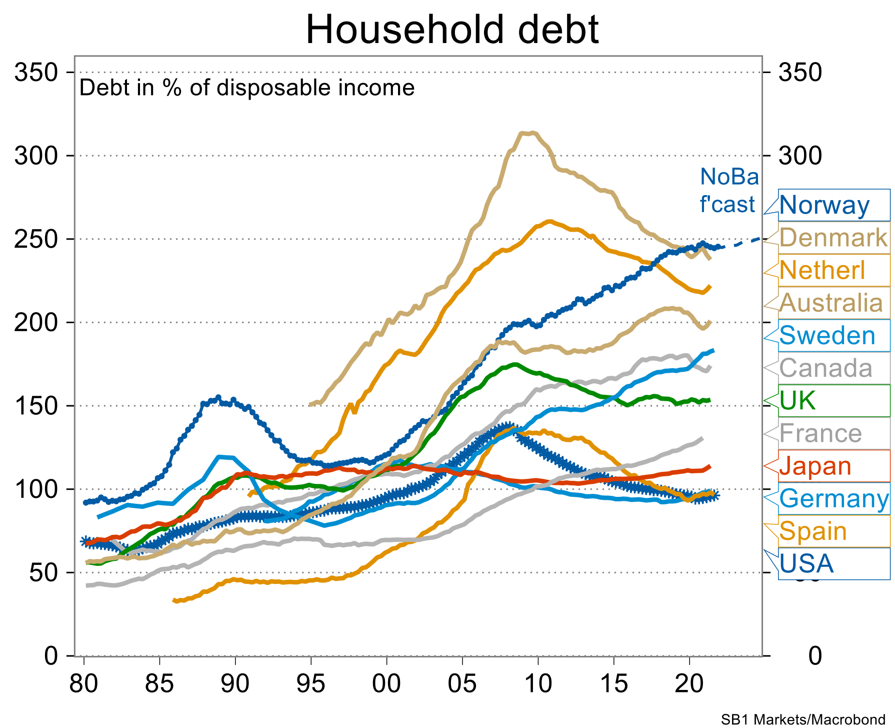
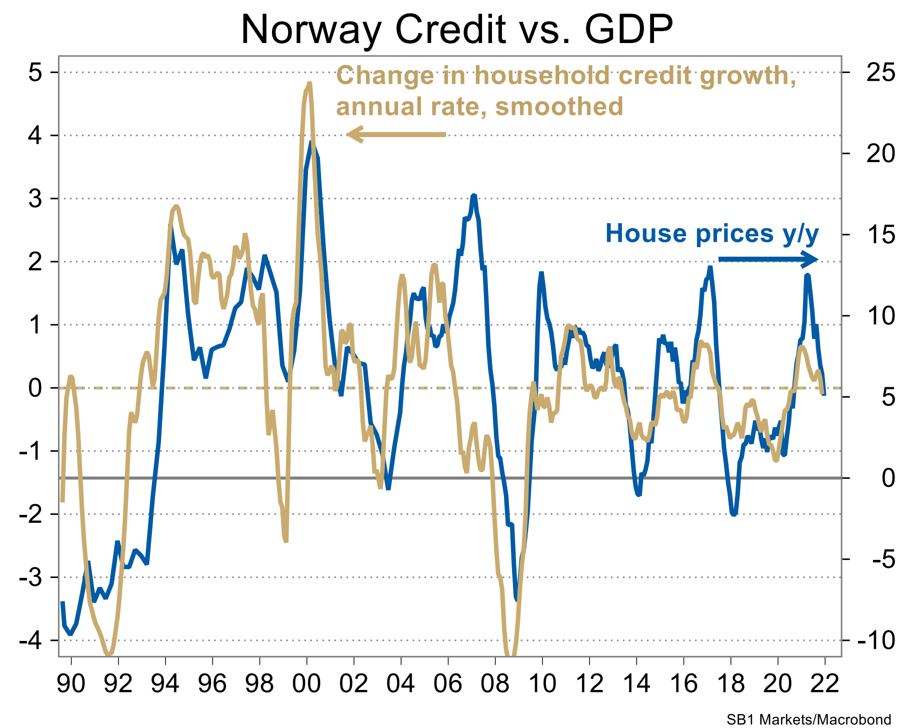
# The household debt/income at ATH. We are no. 1!

*What if the housing market slows?*

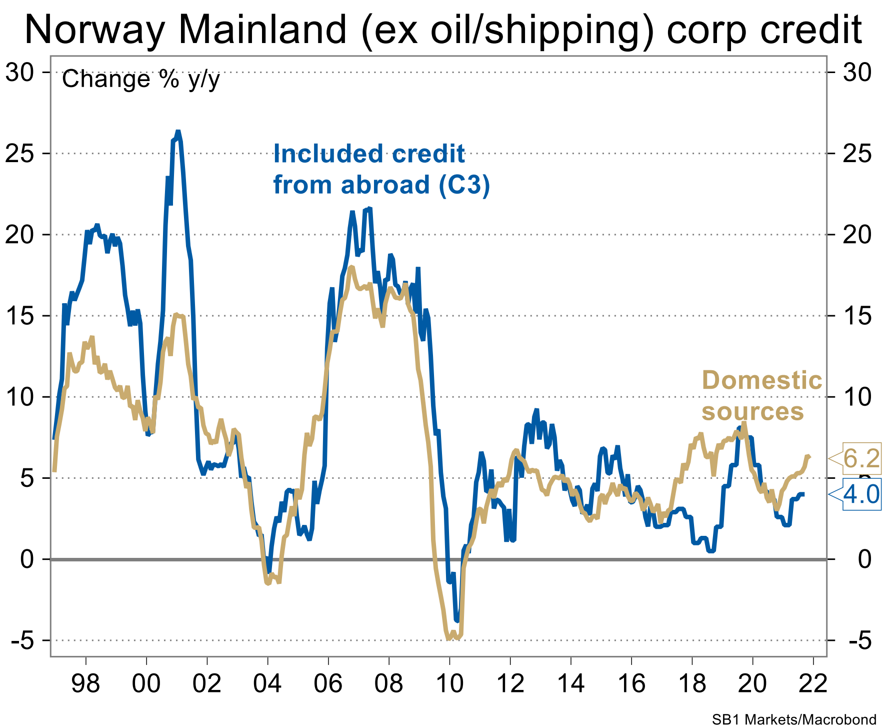


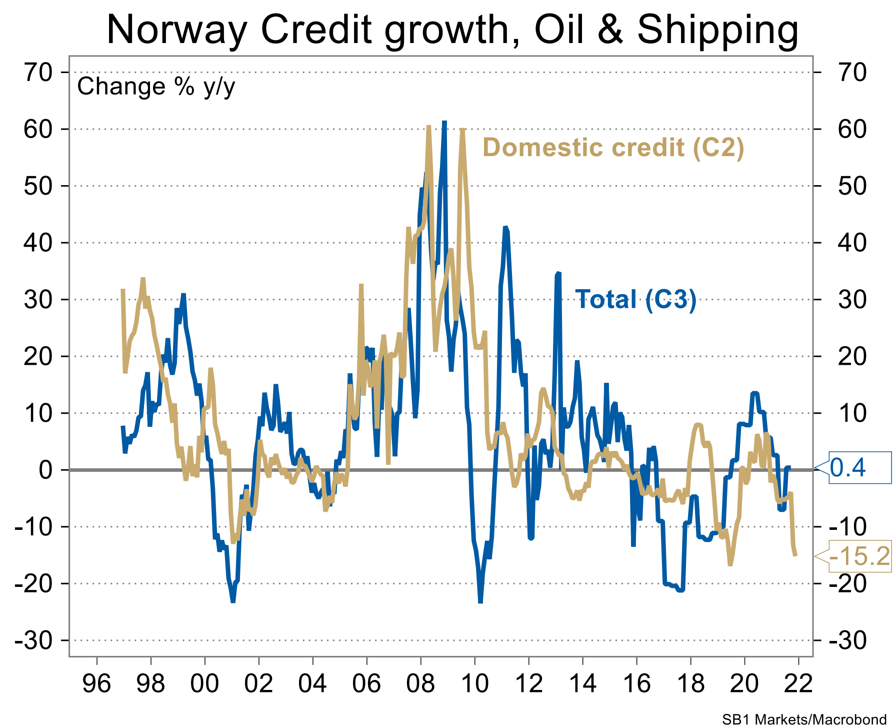




- **Norwegians households' debt** steady been growing faster than income but just marginally since early 2018
  - » Debt/income ratios in many countries have been influenced policy measures vs. households during the pandemic
- **Changes** in credit **growth** (the 2nd derivative) is usually correlated to economic growth and asset markets – including growth (1st derivative) in house prices
  - » A slow retreat in the debt ratio will probably be healthy in the long run, and if it is gradual, it will not be too painful - even not for the housing market
  - » If credit growth slows less than 1 pp per year, that is – say from a 5% growth rate to 4% next year, and then down to 3% etc, house prices should just flatten

# Mainland corporates are increasing total debt 4% (in C3)

… but by 6.2% from domestic sources (in C2)

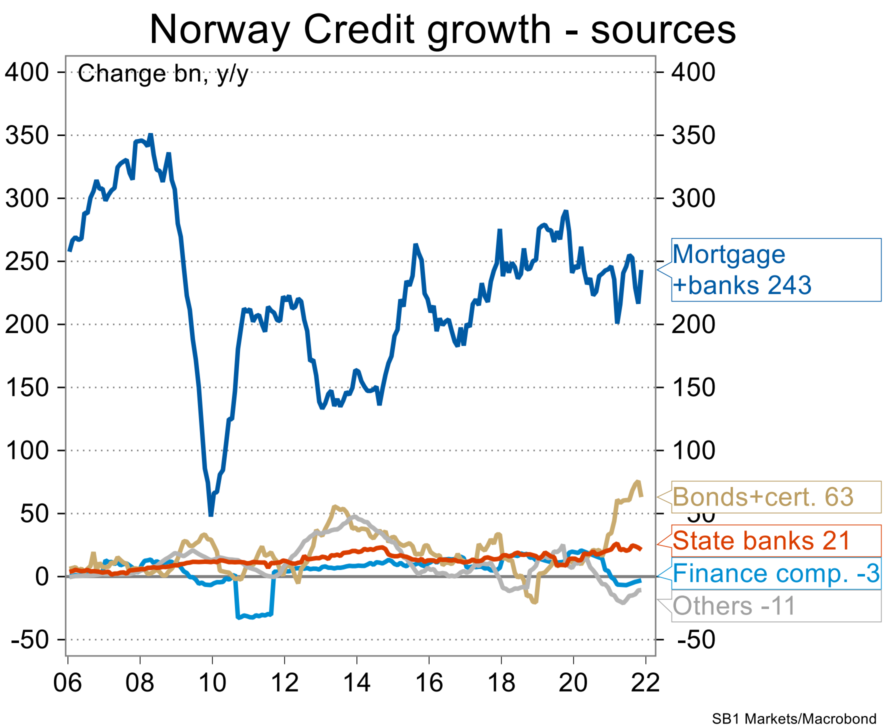


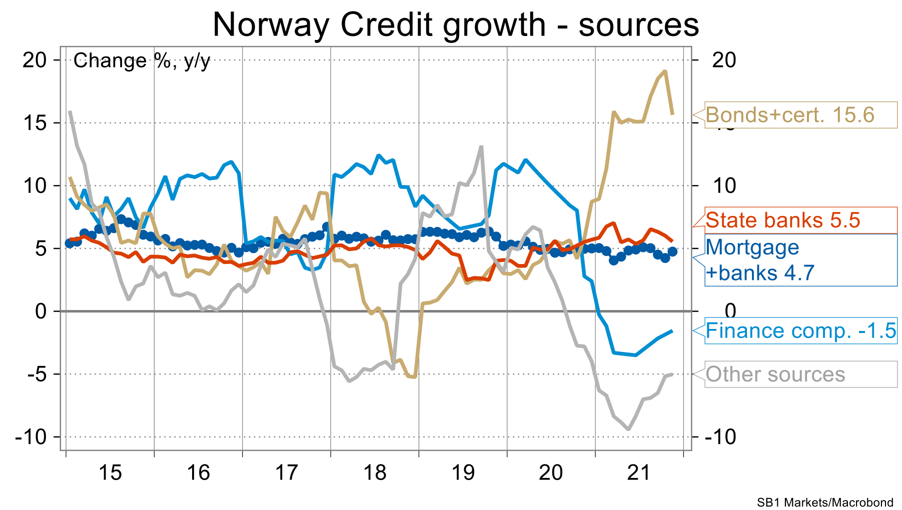



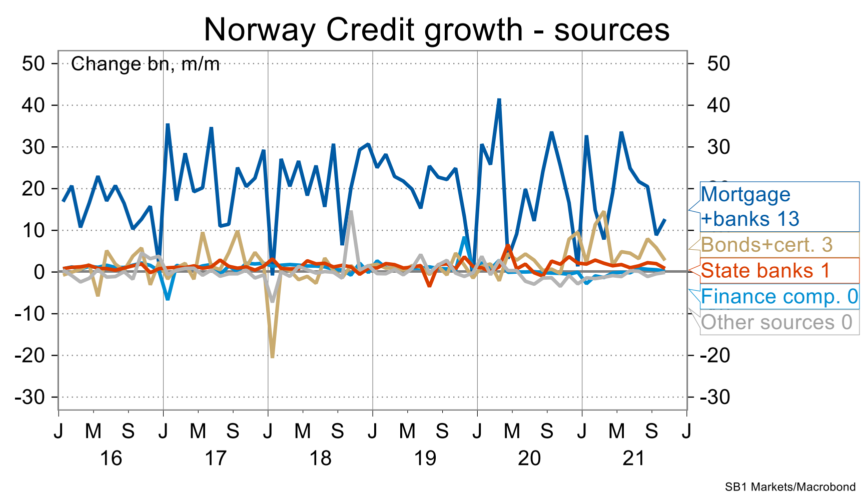

- Domestic credit supply to **Mainland businesses** has accelerated faster than their total debt, including credit from foreign sources
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway. The sum is now stable, even if domestic debt is down 15% (via transactions, not including write-downs

# Bond borrowing has peaked, steady growth in bank lending

## And bank (including mortgage institutions) loans are totally dominating the domestic credit market



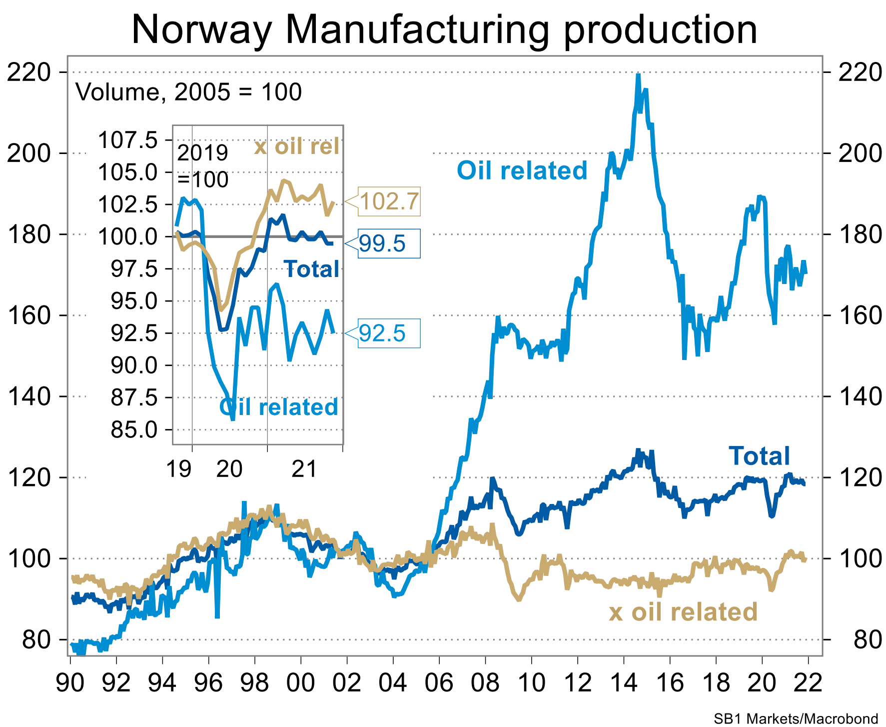



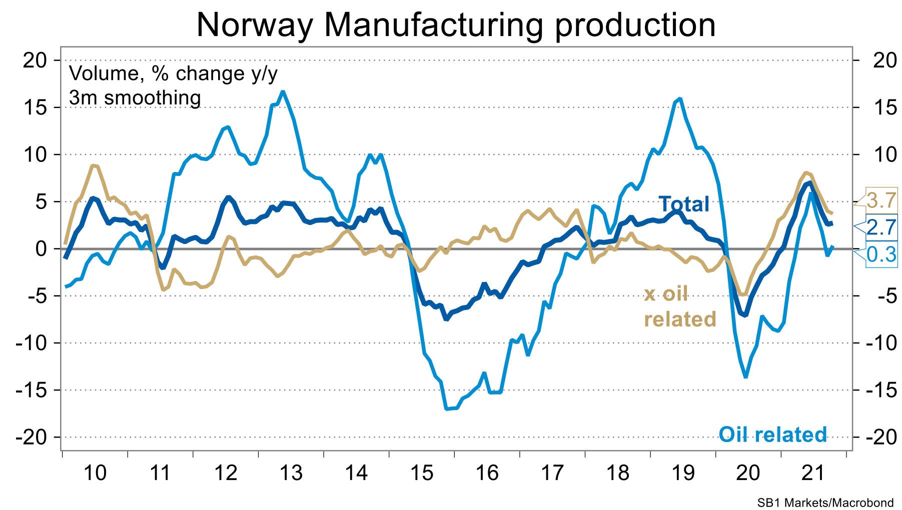

- Net issuance of bonds (to non-financial sector) is up NOK 63 bn (16%) y/y, unusual higher growth rates both down from the peak
- Banks/mortgage companies are up NOK 243 bn (4.7%) y/y
- Finance companies and 'others' have reduced their lending
  - » Both insurance/pension funds as well as Statens Lånekasse, Eksportkreditt are included in our residual 'others', but just the sum of SL & Eksportkreditt is down

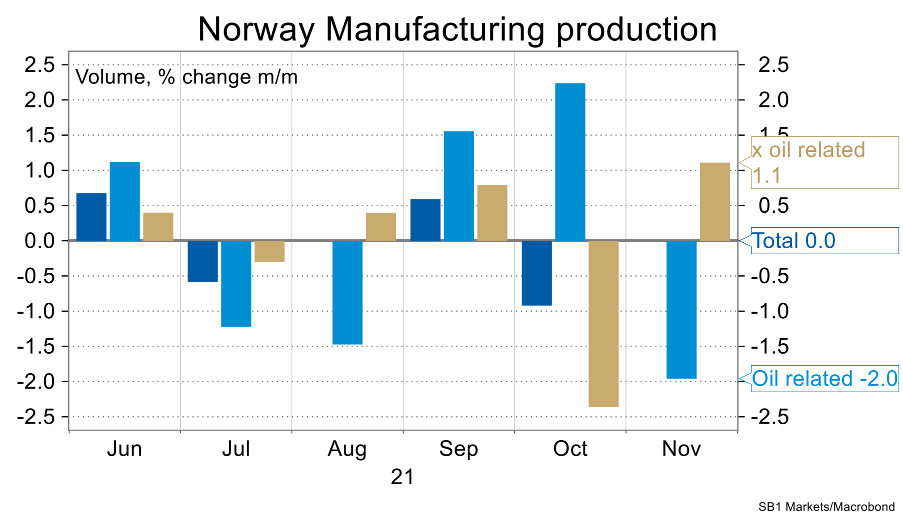
The seasonally adjusted 'sum of the parts' credit supply do not exactly equal changes in the total C2 seasonally adjusted. Consumer banks are included in 'banks and mortgage companies'

# Manufacturing production flat in November, we expected +1%

## Oil related down, others up 1.1%, trend flattish for both – weaker than surveys suggest



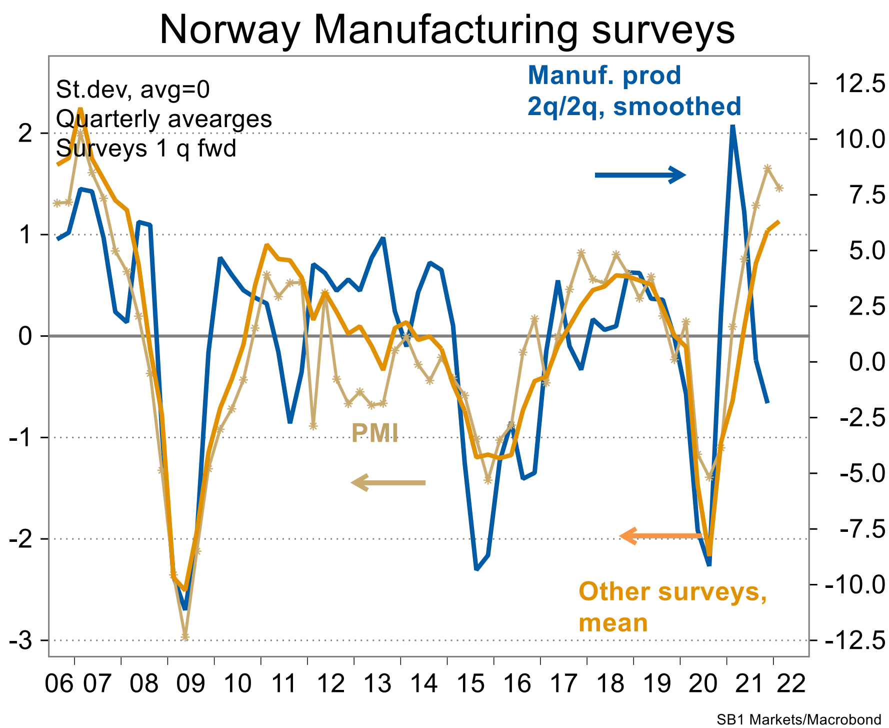



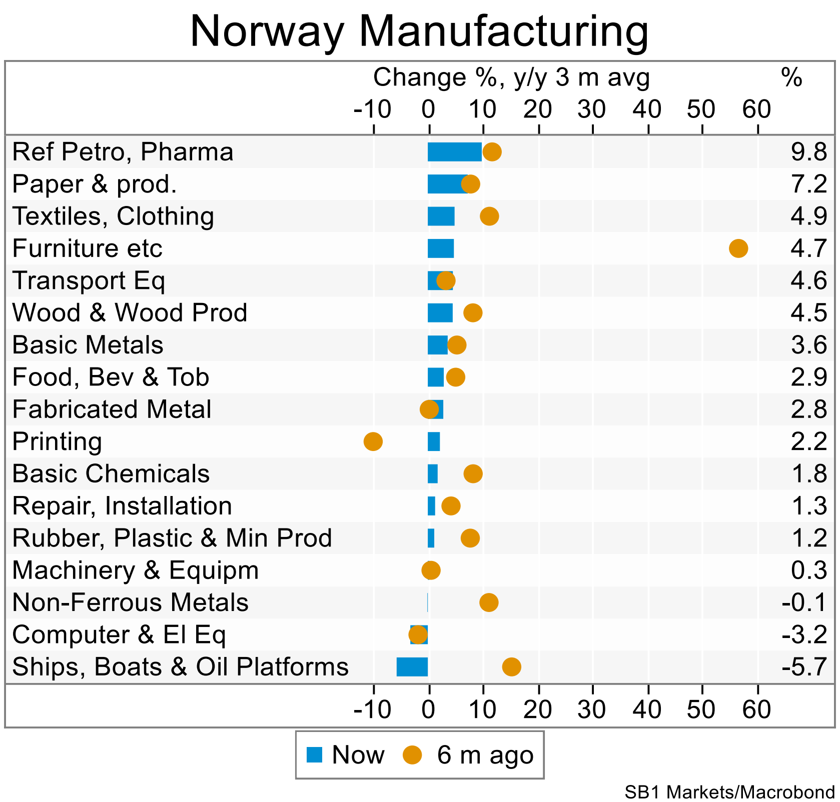

- Production flat following the 0.9% decline in October
  - » Oil related manufacturing production fell 2%
  - » Other sectors were up 1.1%, after the 2.4% setback last month
- Manufacturing surveys are signalling strong growth in activity, but actual production has been flat since April, and it is flat vs. the 2019 avg.
- However, production x oil related sectors is 1.6% above 2019 level, while oil related is down 6%!

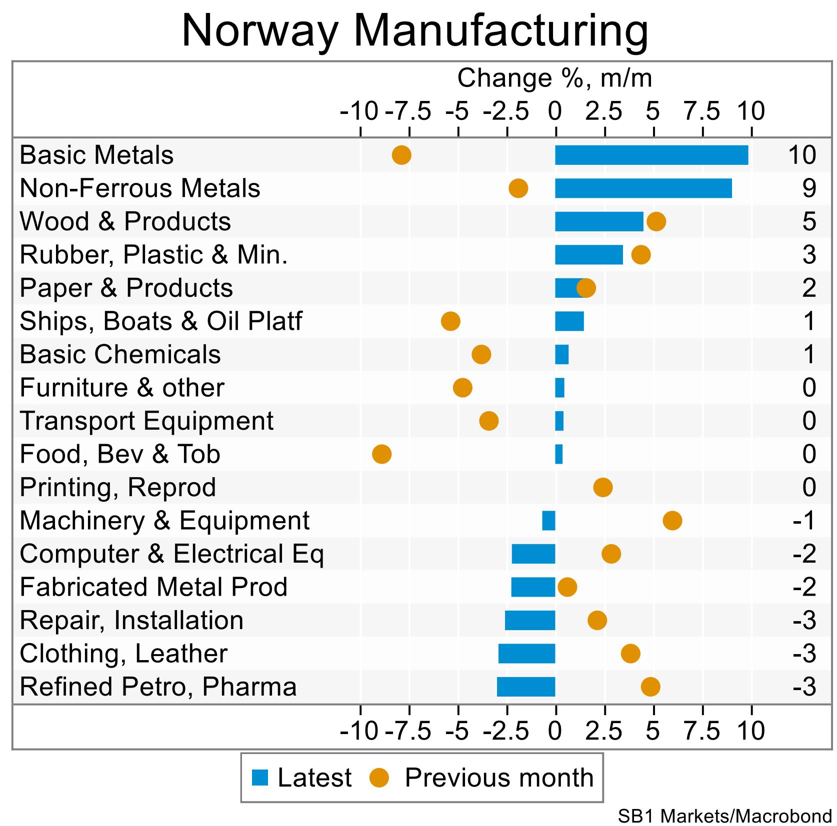
# Surveys are signalling growth (like elsewhere)

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



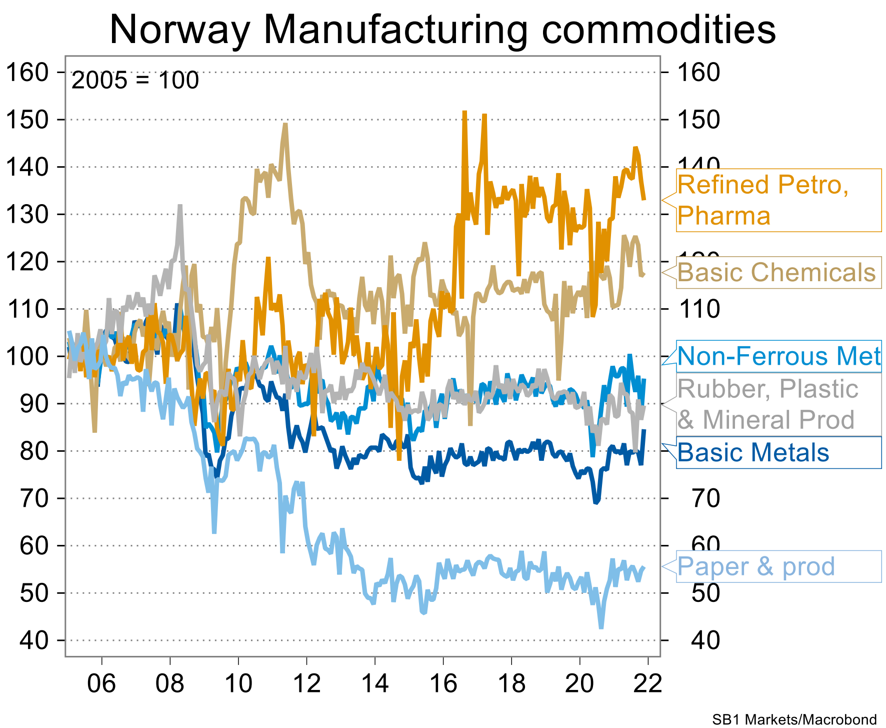
# A majority of sectors are up y/y – almost 2/3 up m/m

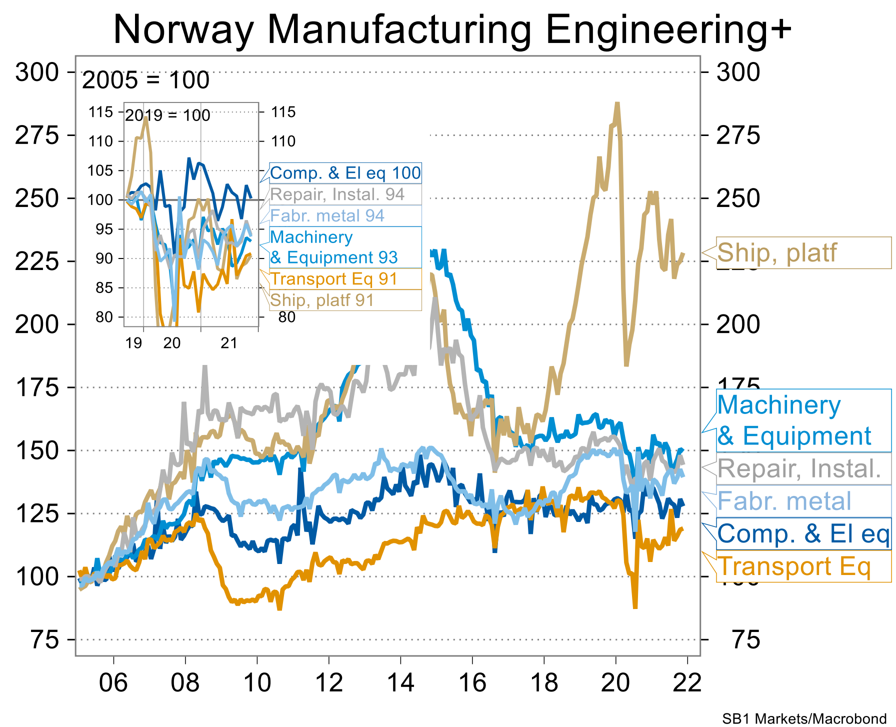


# Engineering still hurt by lower demand form the oil sector

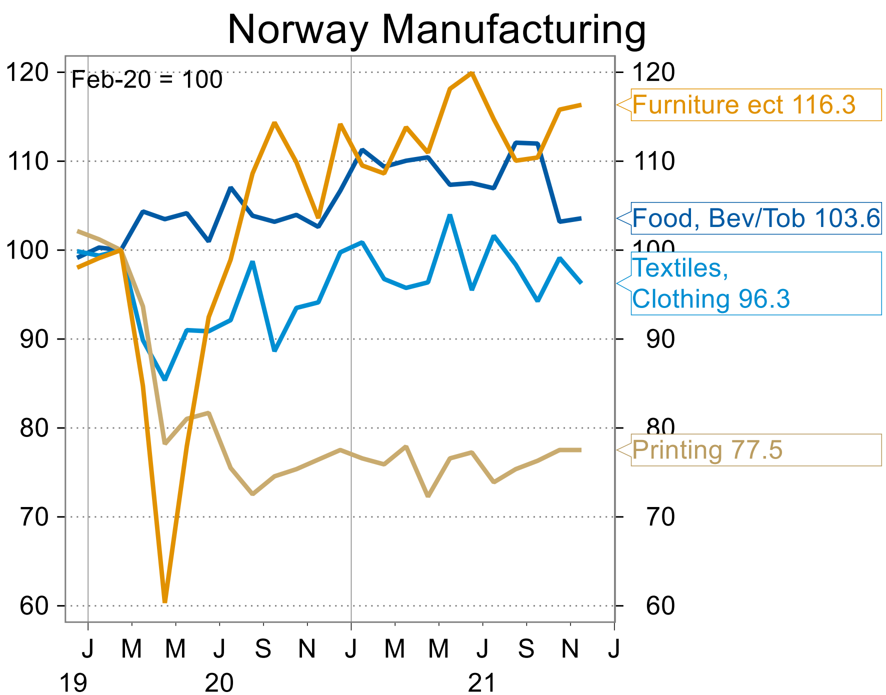
## Some weakness in commodities, possibly due to high energy costs – but basic metals up in Nov




- **Production of ships & platforms** has been heading down in 2021
  - » **Corona measures** (lack of foreign labor, contacts with foreign vendors/customers), supply chain challenges probably explained parts of the decline in the early phase of the pandemic, while demand has slowed as well – but oil investments is now covering (at least for a while)
- **Commodities** have been on the way up, but some branches have reported lower production recent months

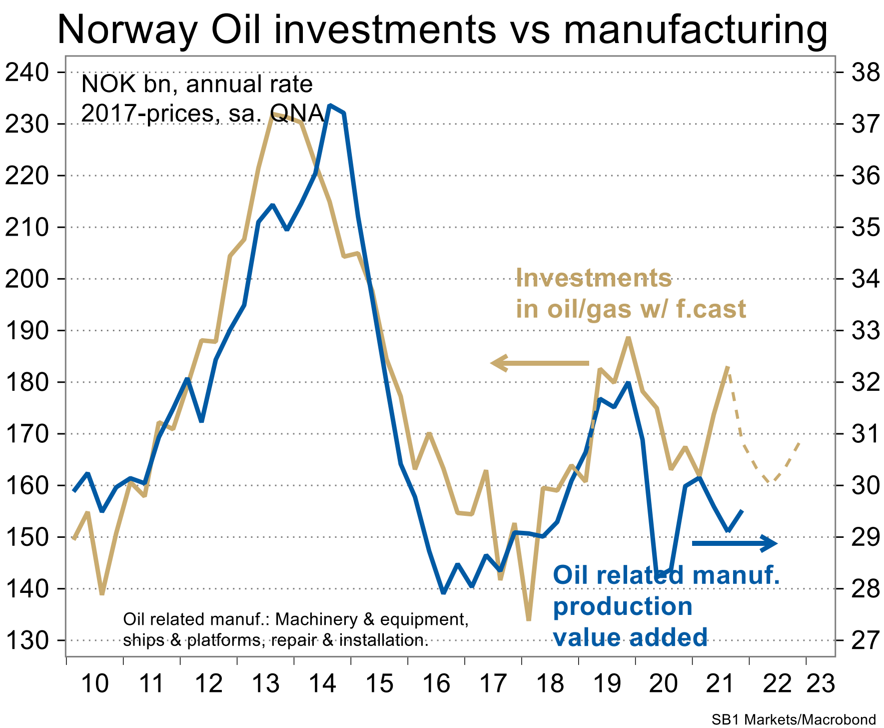
# Food production remained at ‘low’ level

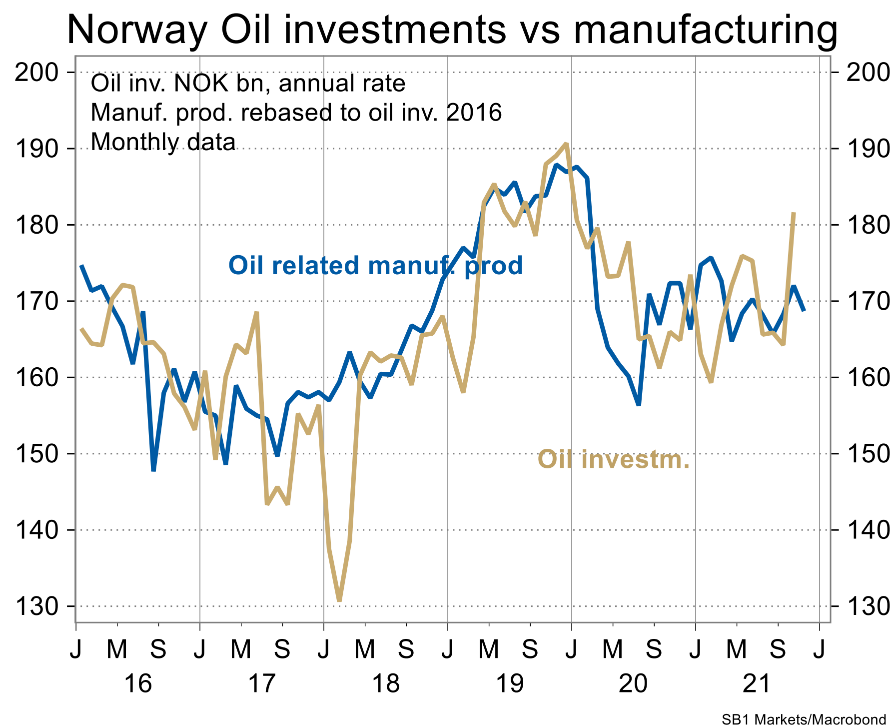



SB1 Markets/Macrobond

# No more upside for oil related manufacturing production?

… We have said for the past two months – as production had recovered, and needed more 'demand'

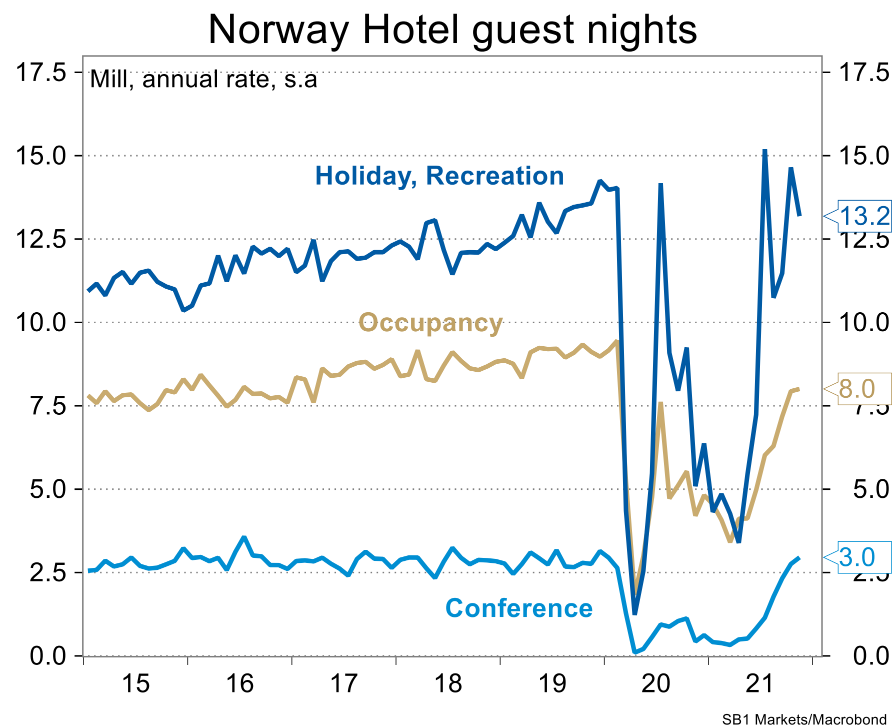



- **Oil investments** are down 11% from Q4 '19, and we expect another downturn through next year. However, tax cuts and recent surge in the oil price has reduced the downside risk – and we may have to revise our forecast upwards
- Even so, given the recovery since the summer, we think the outlook for oil related manufacturing production is rather muted – and which have been reported both in Norges Bank's Regional Network and in SSB's quarterly manufacturing survey

# Before arrival of the Omicron: The hotels had little to complain about!

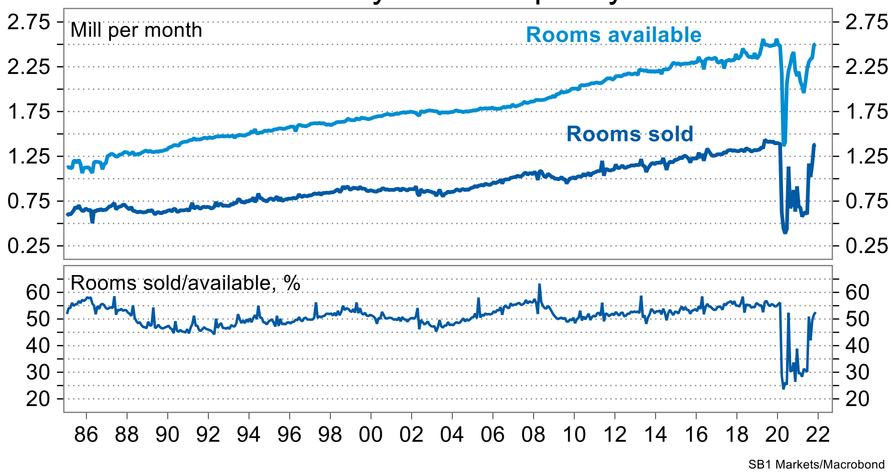
## Guest nights back at normal level, due to domestic demand – both recreation & business

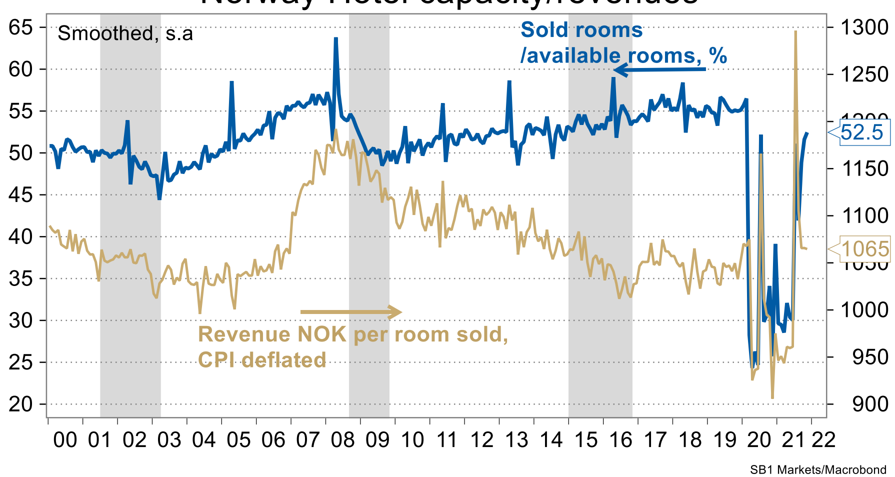

- **The no. of guest nights** fell marginally m/m in November – from one of the best month ever, October! More Norwegian guest nights than normal , +10%, fully compensates for a 20% reduction in foreigners demand
- **Business guest nights** (sum occupation & conferences) was down less than 10% vs the 2019 average, with conferences alone above!
- **Recreational traffic** was equal to the 2019 average. As foreigners in total are down 20%, we <u>Norwegian recreational demand is far above the 2019 level</u>

# Room prices up 9% vs. the pre-pandemic level, total revenues are up 3%!

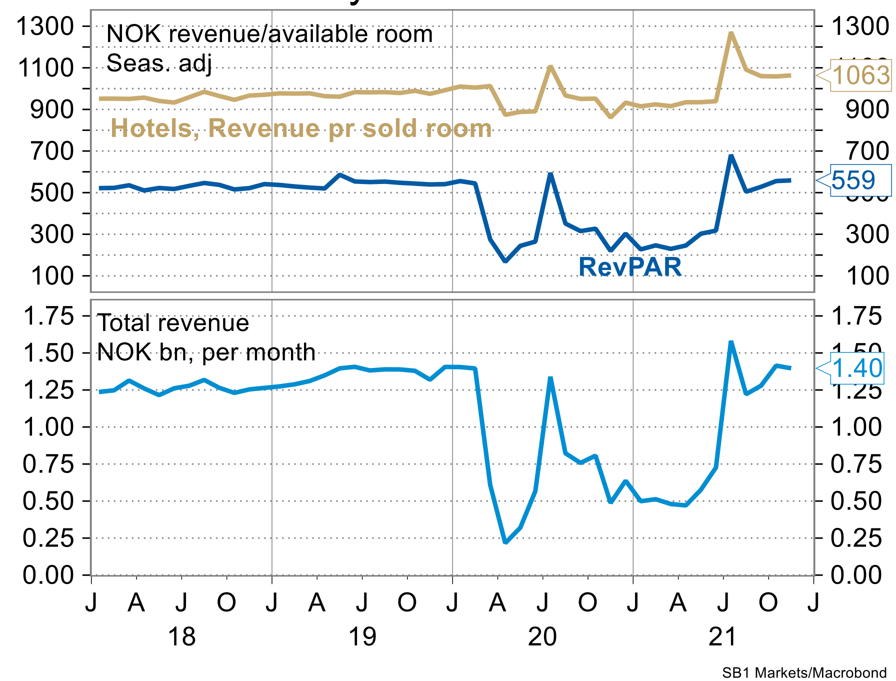
Norway Hotel Capacity




Norway Hotel capacity/revenues



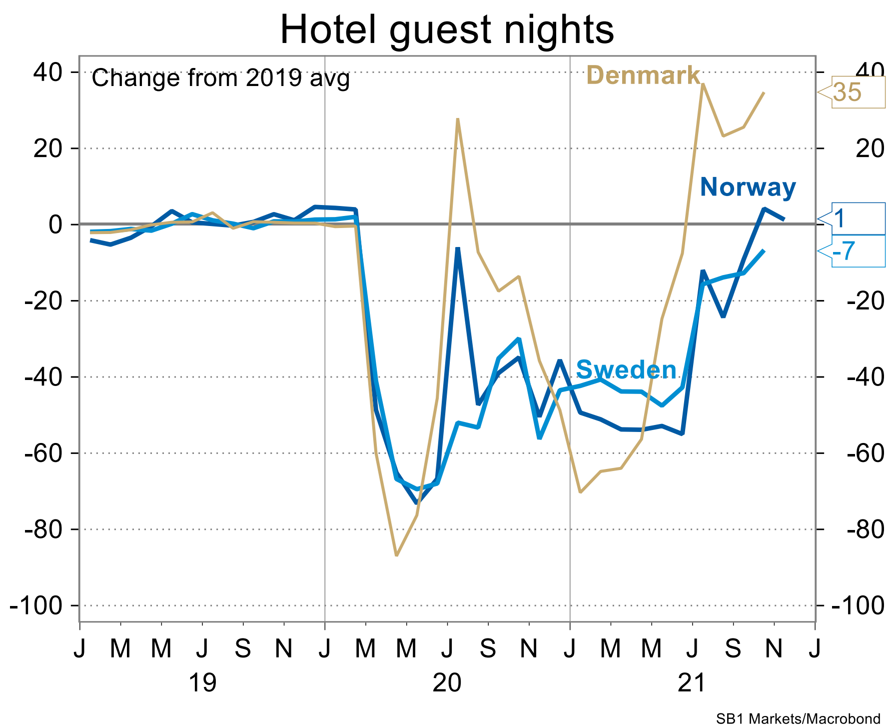

Norway Hotel Revenues




- **Capacity utilisation** (room sold vs. rooms available) was 52.6% in November, down 4% vs. the 2019 average level
- **Revenue per sold room** was extremely high in July, 30% higher than normal. Prices have since fallen, but are still up 9% vs. the 2019 level
- **RevPAR** (revenue pre available room) is up 3% vs the 2019 level
- **Total revenues** are up 3% vs. the 2019 average

# The same story in Sweden but Denmark is still ahead

Hotel nights in Norway and Sweden have been very closely correlated during the pandemic



SpareBank 1 MARKETS

Highlights

The world around us

The Norwegian economy

Market charts & comments

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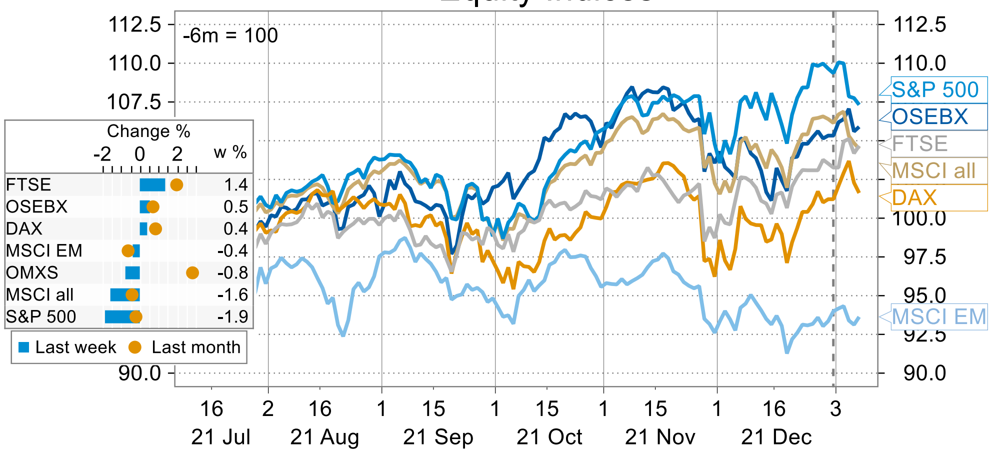
# Risk markets hit by a more aggressive Federal Reserve, bond yields up

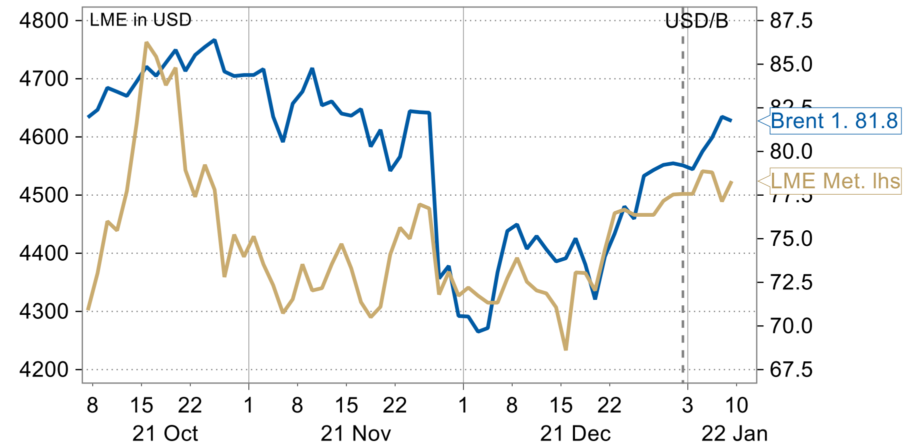
## However, commodities were OK, oil prices rose further (which lifted oil companies & the FTSE)

### Equity Indices



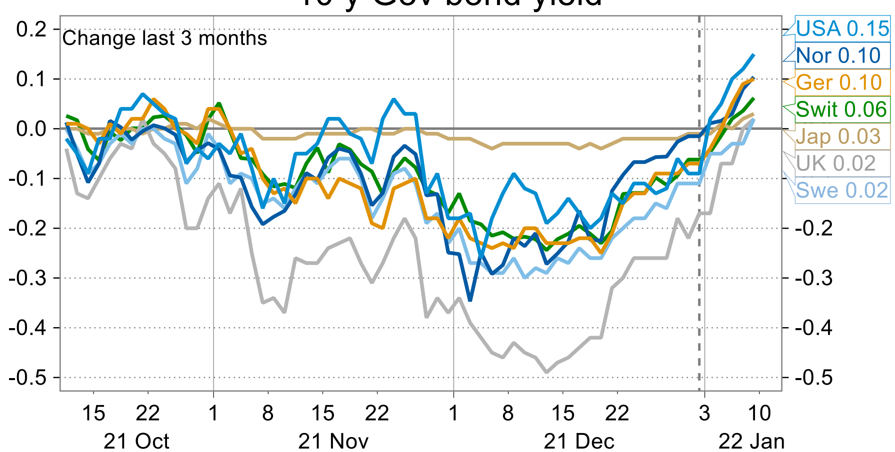

SB1 Markets/Macrobond

### Oil vs. metals



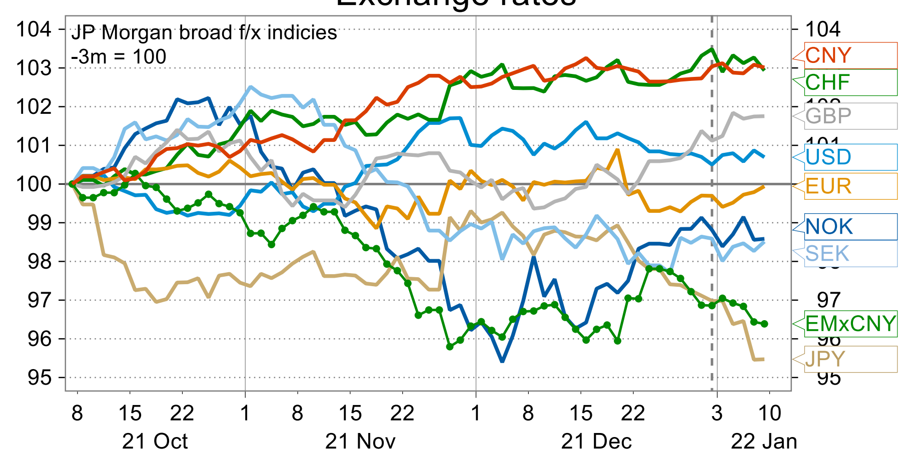

SB1 Markets/Macrobond

### 10 y Gov bond yield




SB1 Markets/Macrobond

### Exchange rates

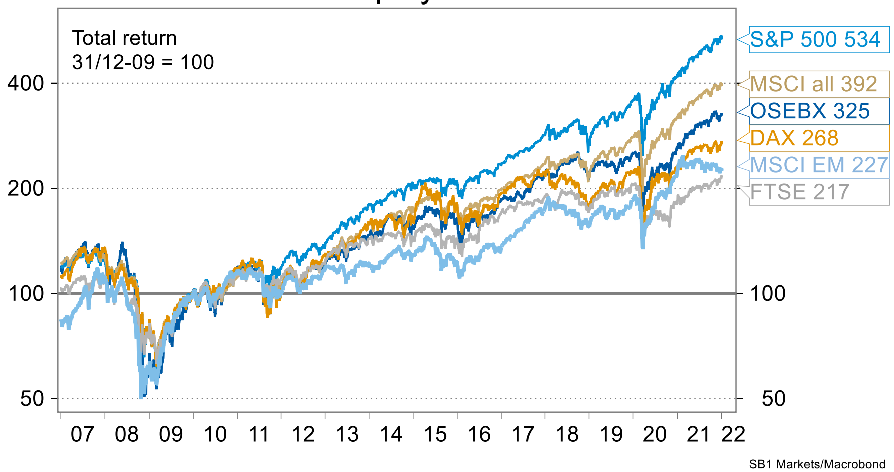



SB1 Markets/Macrobond

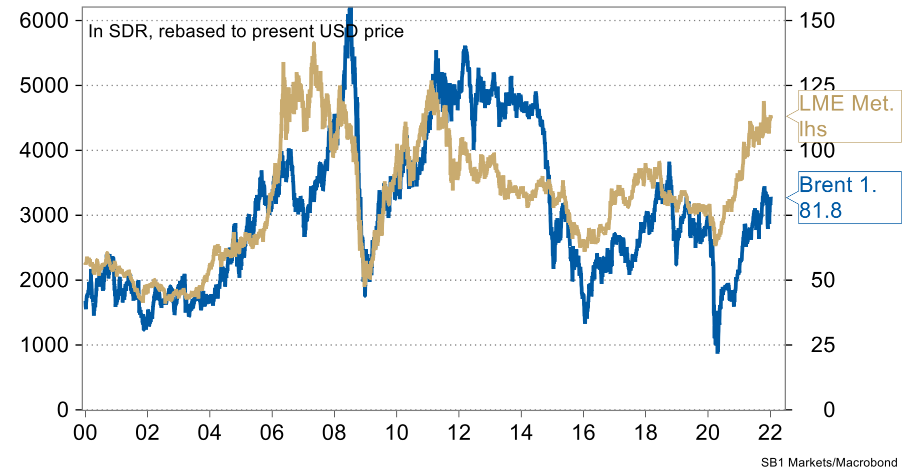
# The big picture: The bull market is intact, if not in EM

## Bond yields sharply up but still not high

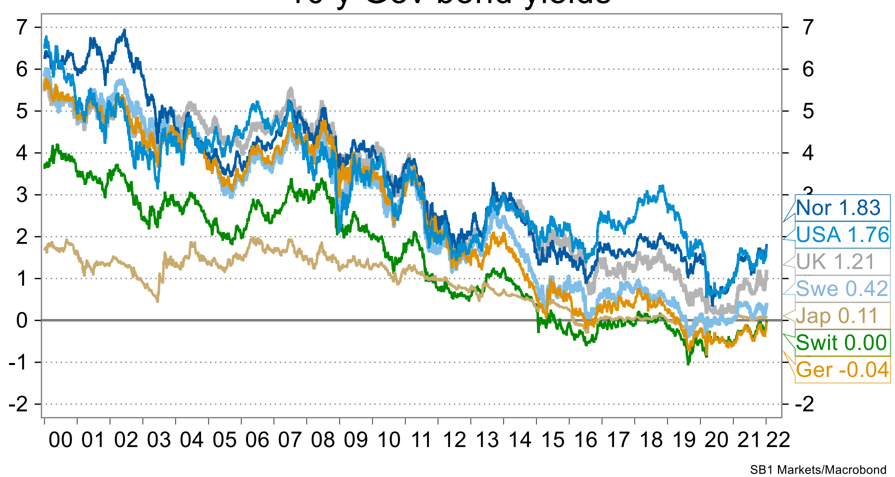
Equity Indices



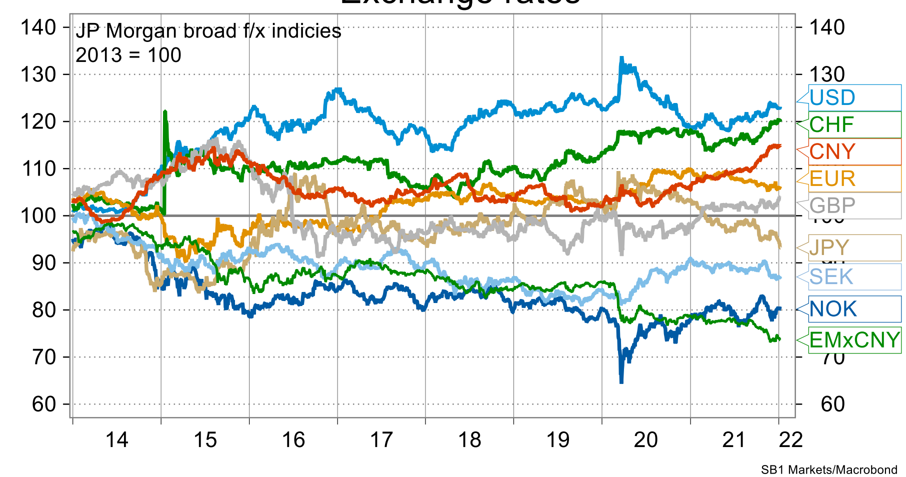

Oil vs. metals




10 y Gov bond yields

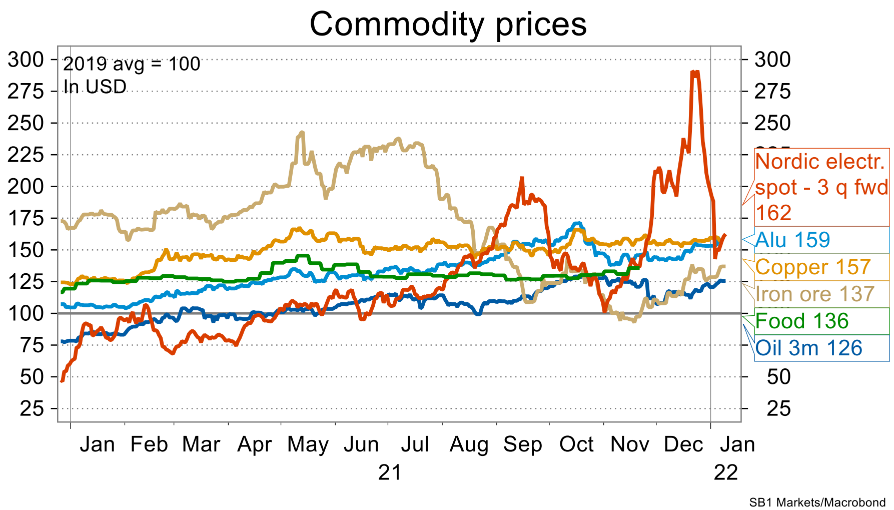


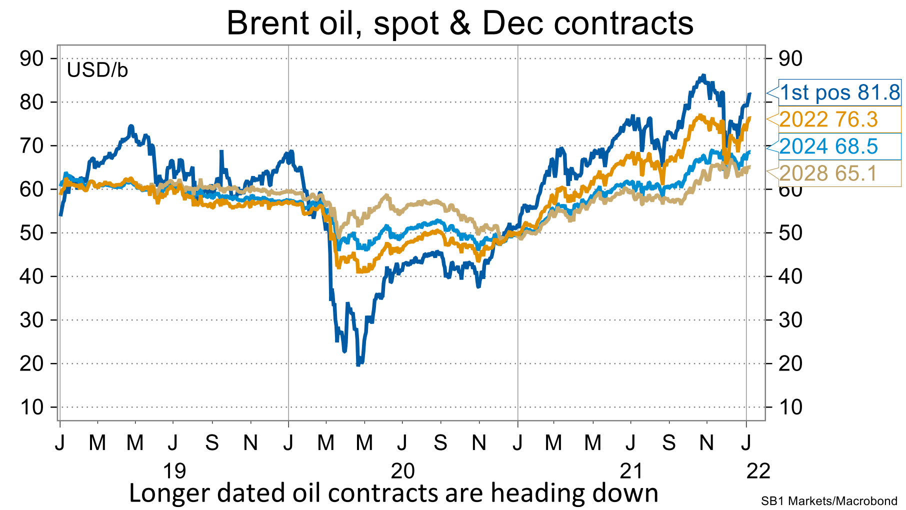

Exchange rates



# Metals in sum up, iron ore up 40% since mid Nov, electricity prices are yielding

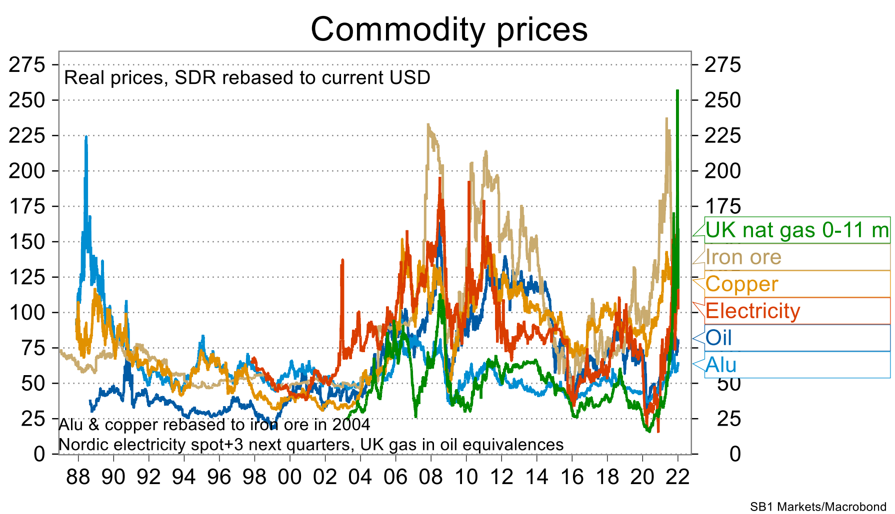
## The oil up all over the curve but the forward curve is still down up to 20% vs. spot prices

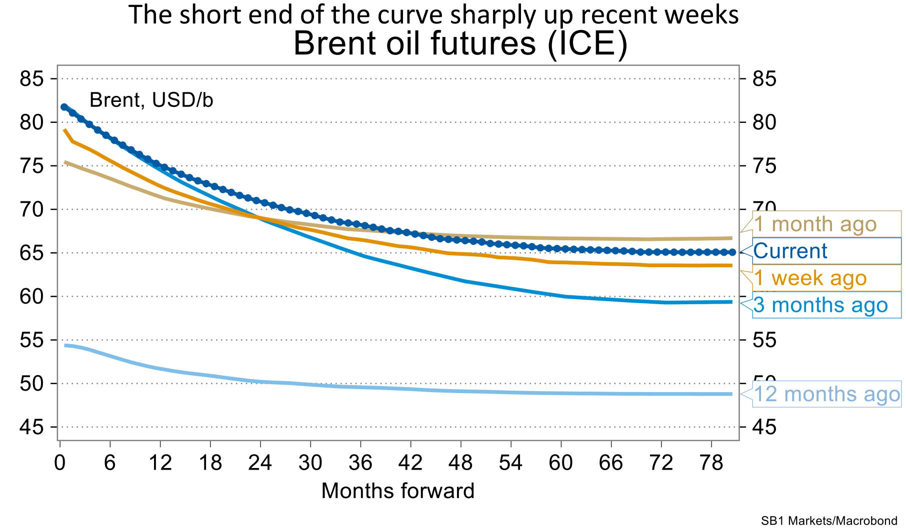



Longer dated oil contracts are heading down

The short end of the curve sharply up recent weeks



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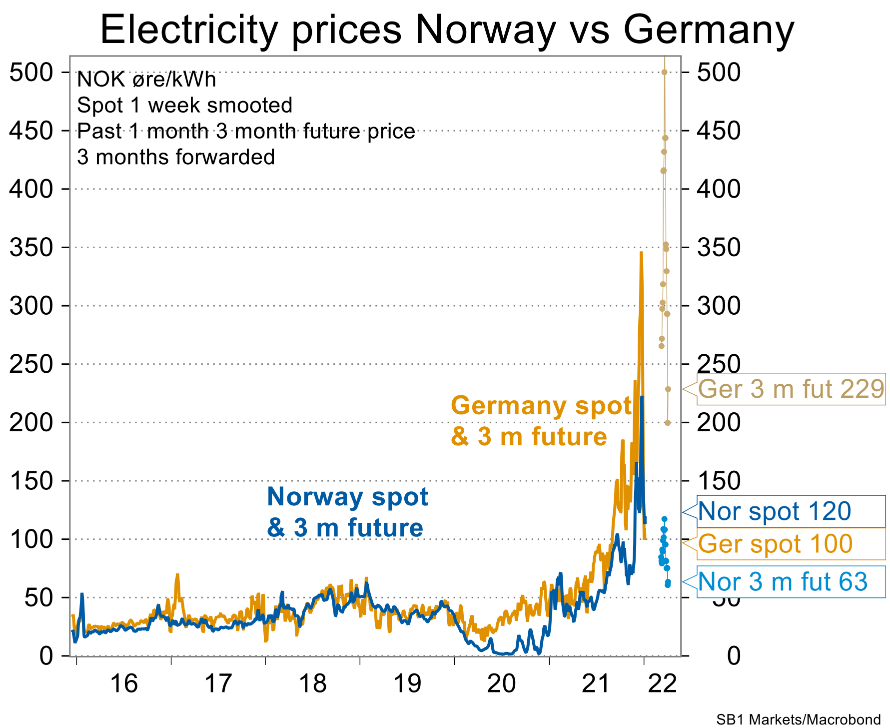
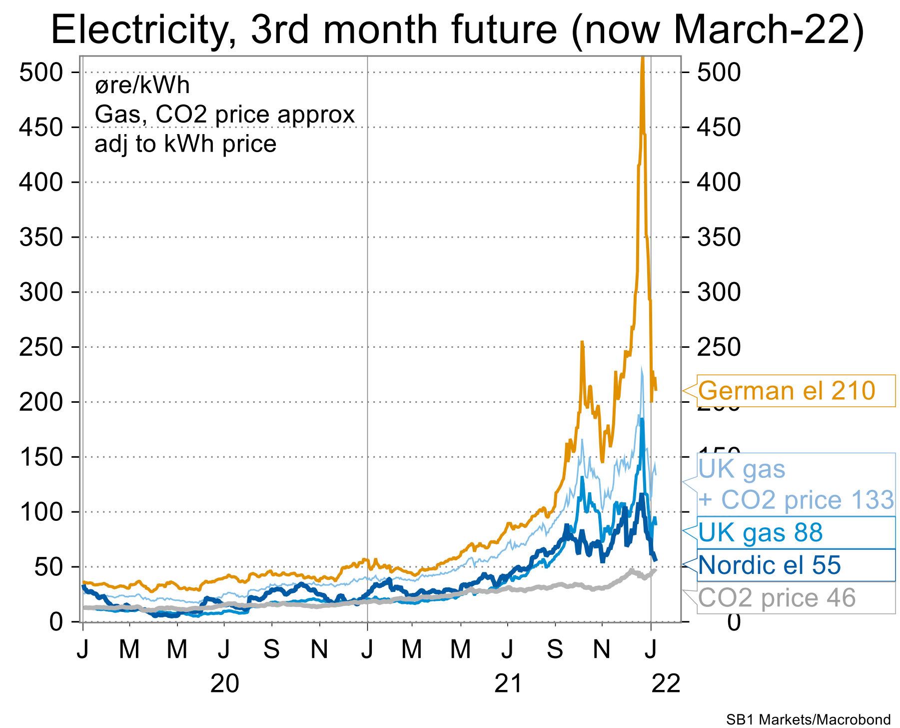
# European energy markets are still struggling with unprecedented volatility

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




- Some few days, spot prices in Europe have to below Nordic prices (we are importing electricity)
- Future European prices have fallen sharply recently but remains far above normal levels – and far above Nordic prices

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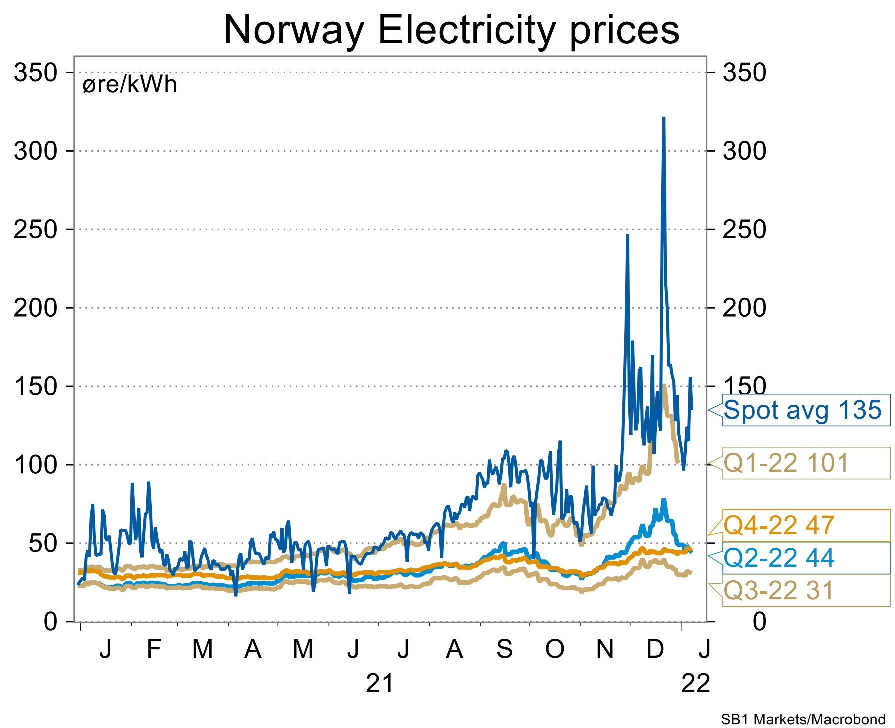
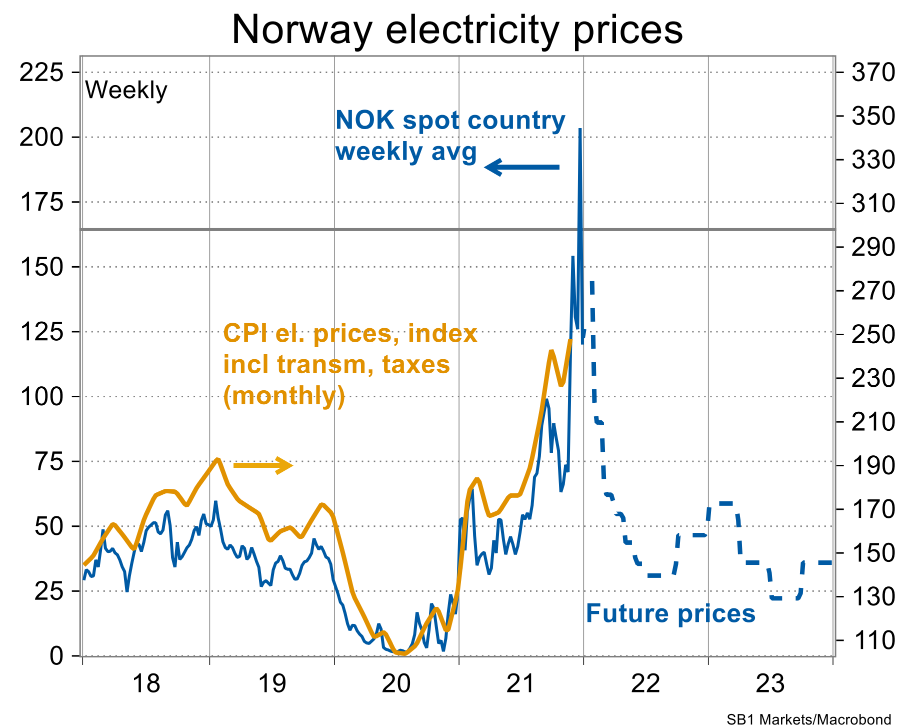
# Norwegian electricity prices have come down, and future prices are falling as well

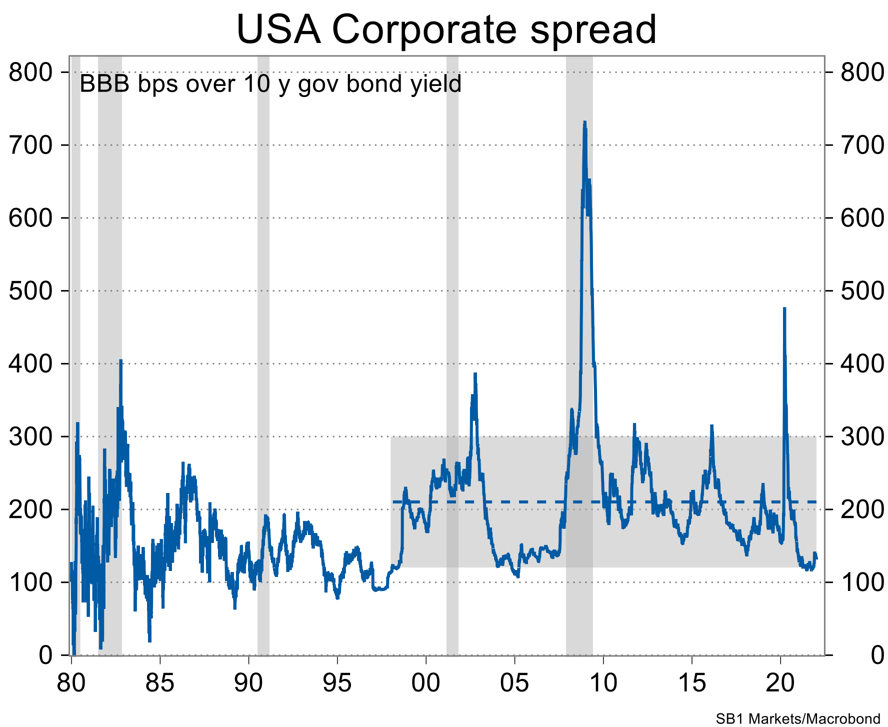
But given recent volatility: the outcome is quite uncertain

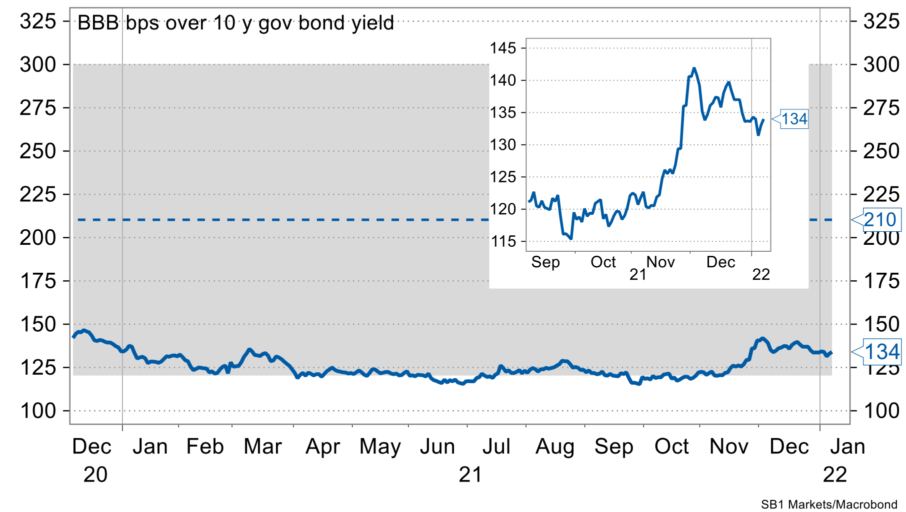


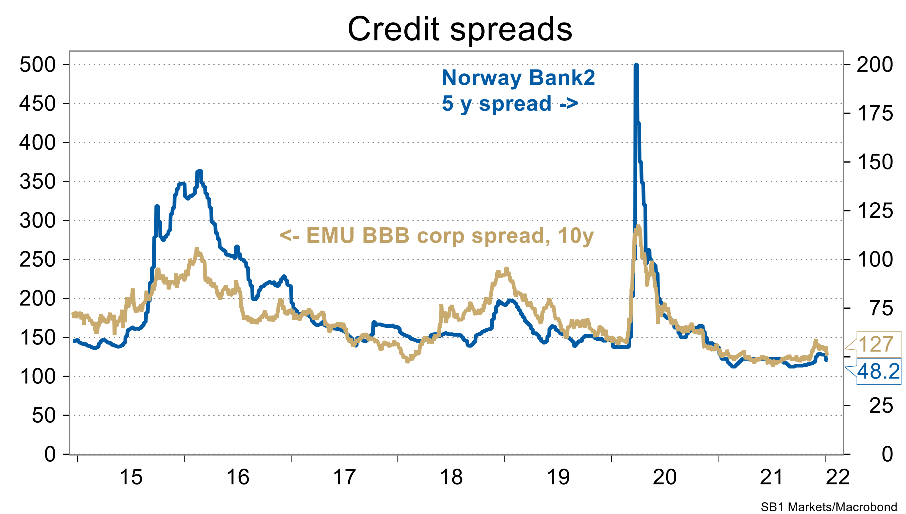
# Credit spreads abroad slightly up abroad but the trend since early Dec is down

Spreads are still up from the Sept/Oct troughs




The NOK Bank2, 5y spread narrowed 2 bps to 48 bps



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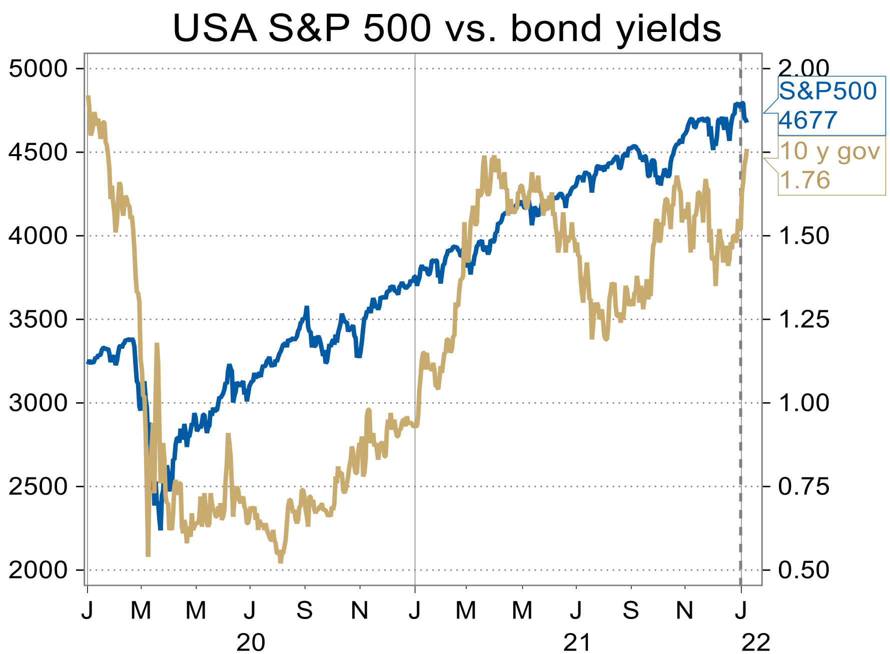
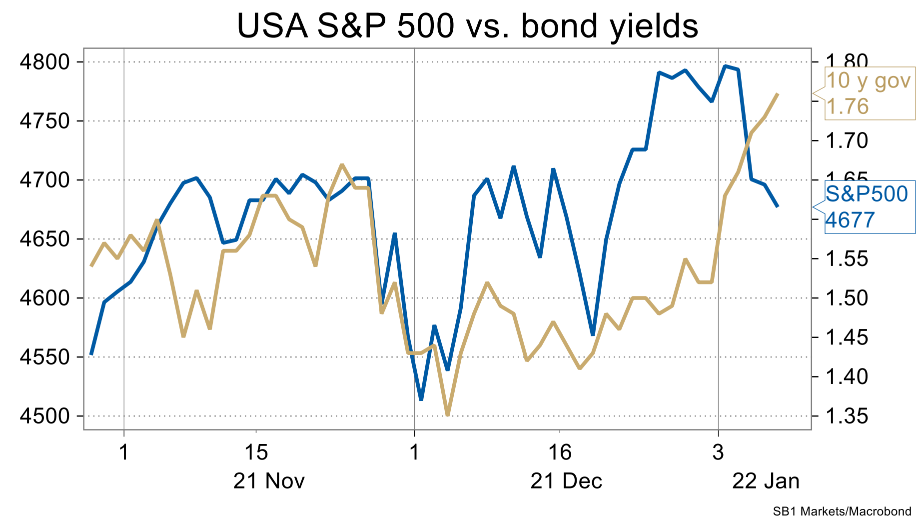
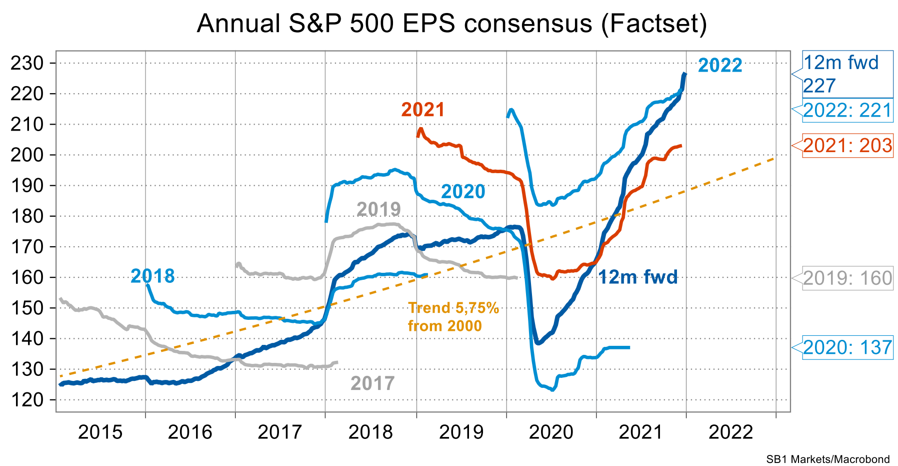
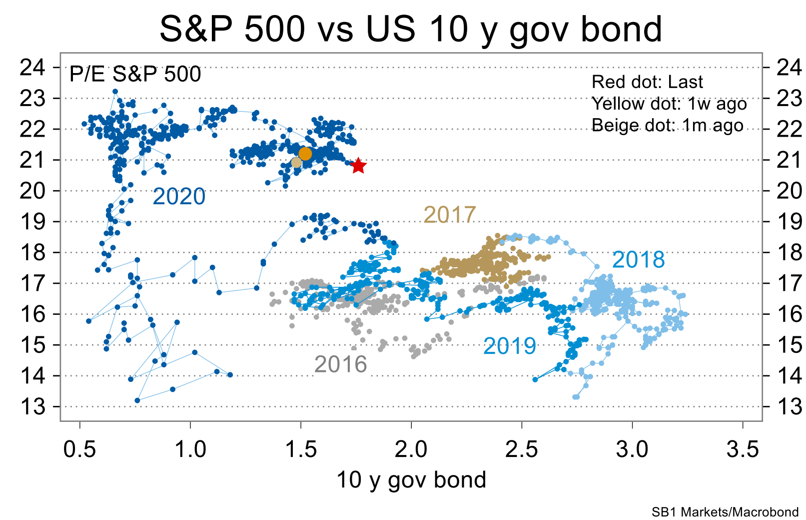
# The 10y treasury bond rate up 24 bps to 1.76%, S&P500 down 1.9%

## Yields up the the highest level since the pandemic started



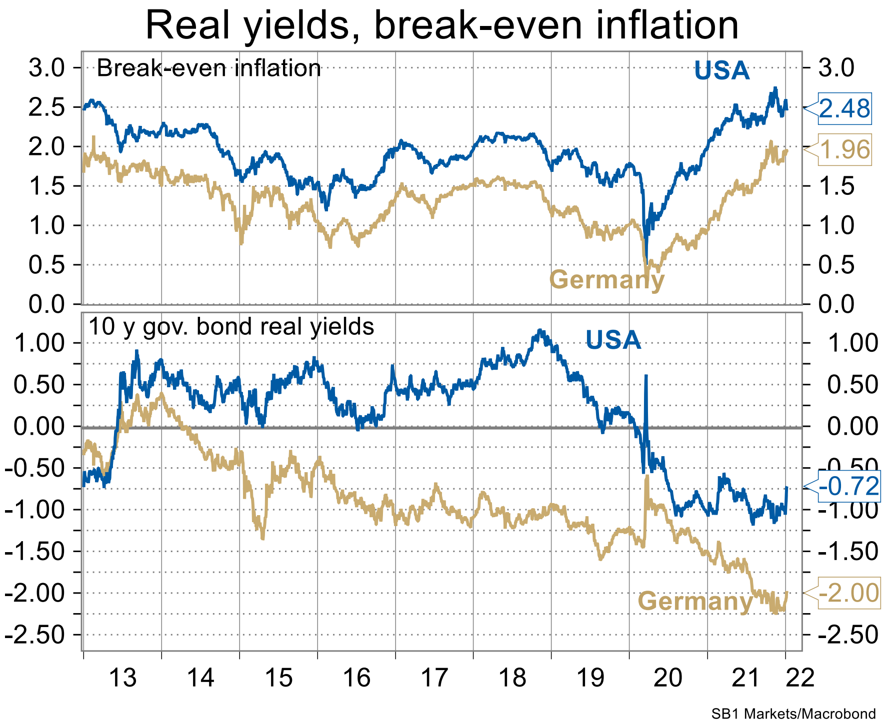



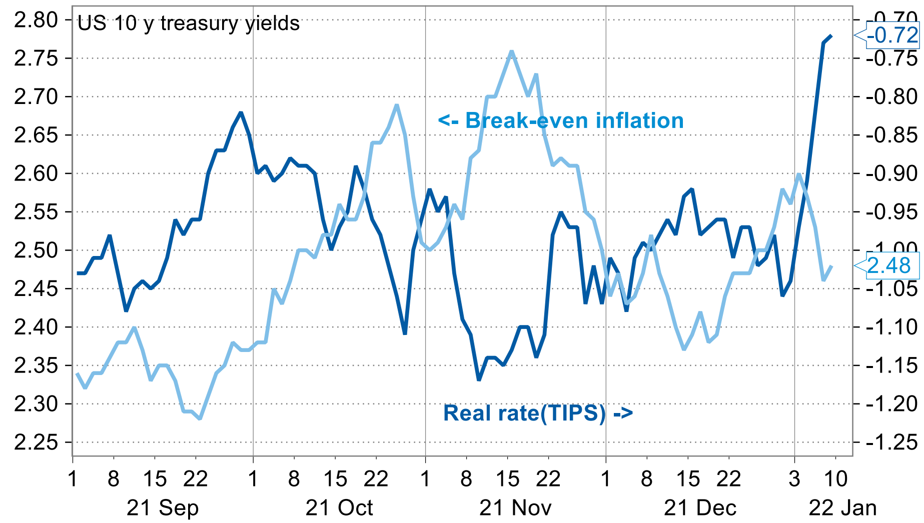



# Finally, a visible lift in US real rates, up 32 bps last week – the 10 y still at -.72%

## Inflation expectations down 8 bps, on a more hawkish Fed. Both real rates, break-evens up in Germany




US & Germany 10 y Gov bond yield

| | Yield | Change 1w | Change 1m | Min since April-20 |
|---|---|---|---|---|
| **USA nominal treasury** | 1.76 | 0.24 | 0.28 | 0.52 |
| .. break-even inflation | 2.48 | -0.08 | 0.01 | 1.06 |
| .. TIPS real rate | -0.72 | 0.32 | 0.27 | -1.19 |
| | | | | |
| **Germany nominal bund** | -0.04 | 0.17 | 0.33 | -0.65 |
| .. break-even inflation | 1.96 | 0.07 | 0.14 | 0.40 |
| .. real rate | -2.00 | 0.10 | 0.19 | -2.26 |

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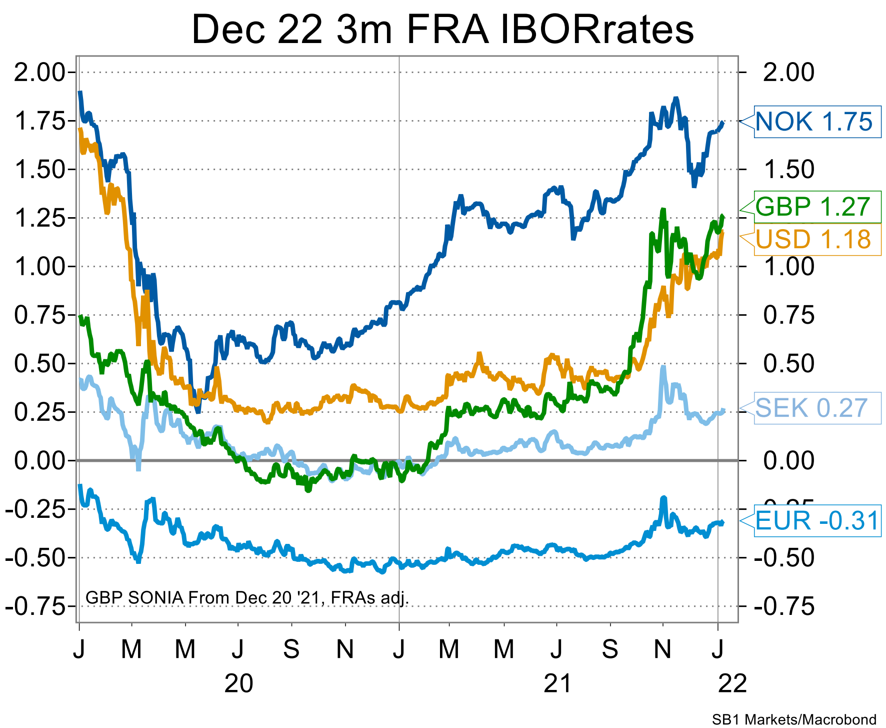
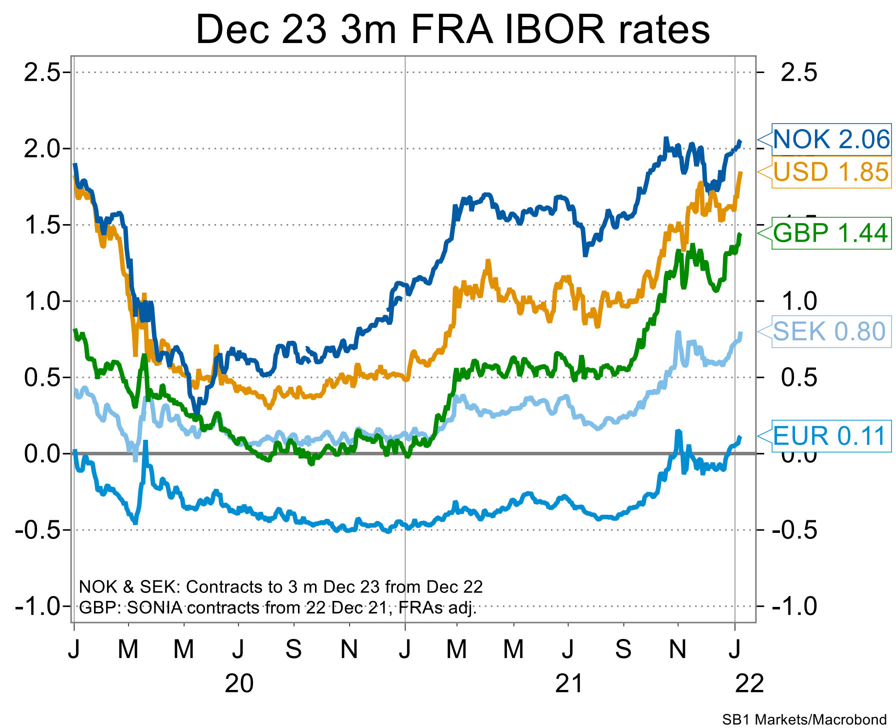
- The 10 y TIPS real rate has climbed 44 bps from the November bottom
- Long term inflation expectations, 5y 5y fwd break-evens at 2.18% , measured vs. the CPI, is close to Fed's 2% PCE-deflator target

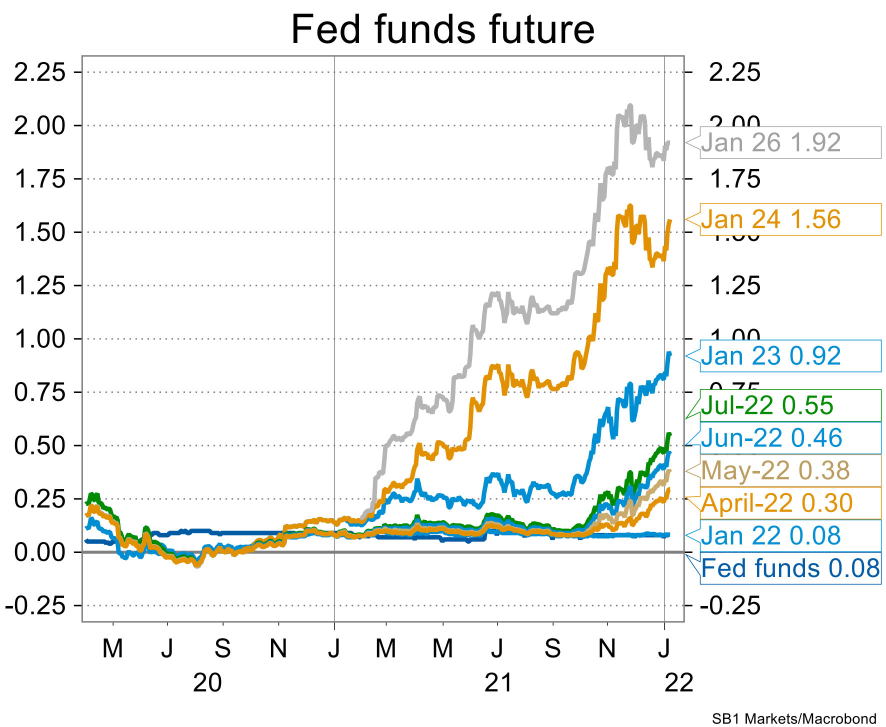
# FRAs: Another steep week - upwards

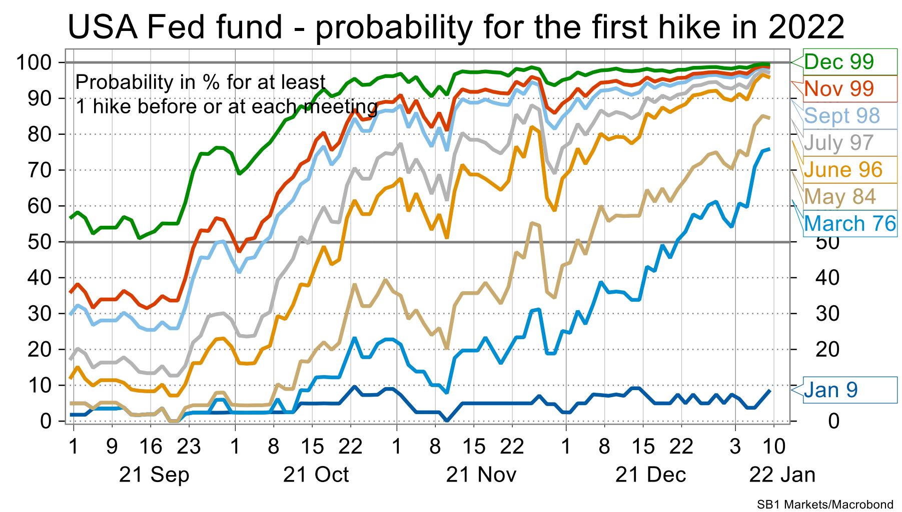


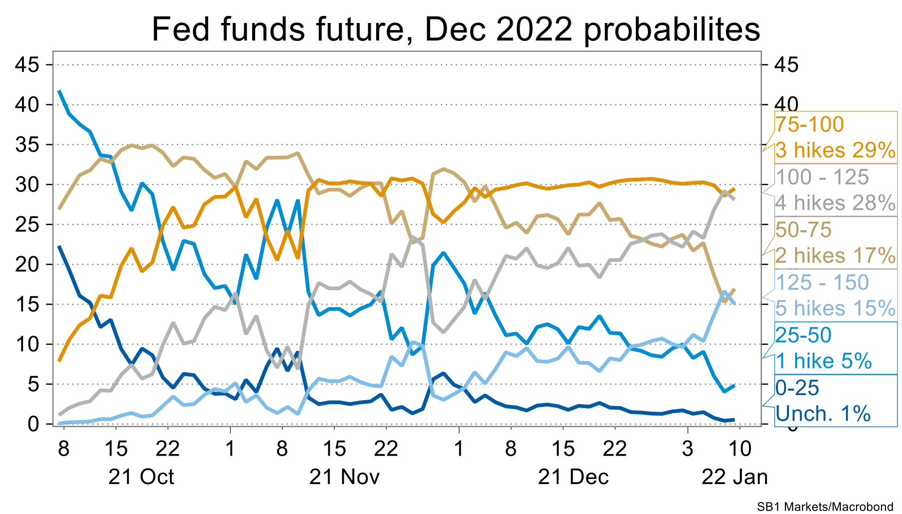



# A March hike has become very likely

## The whole curve up last week



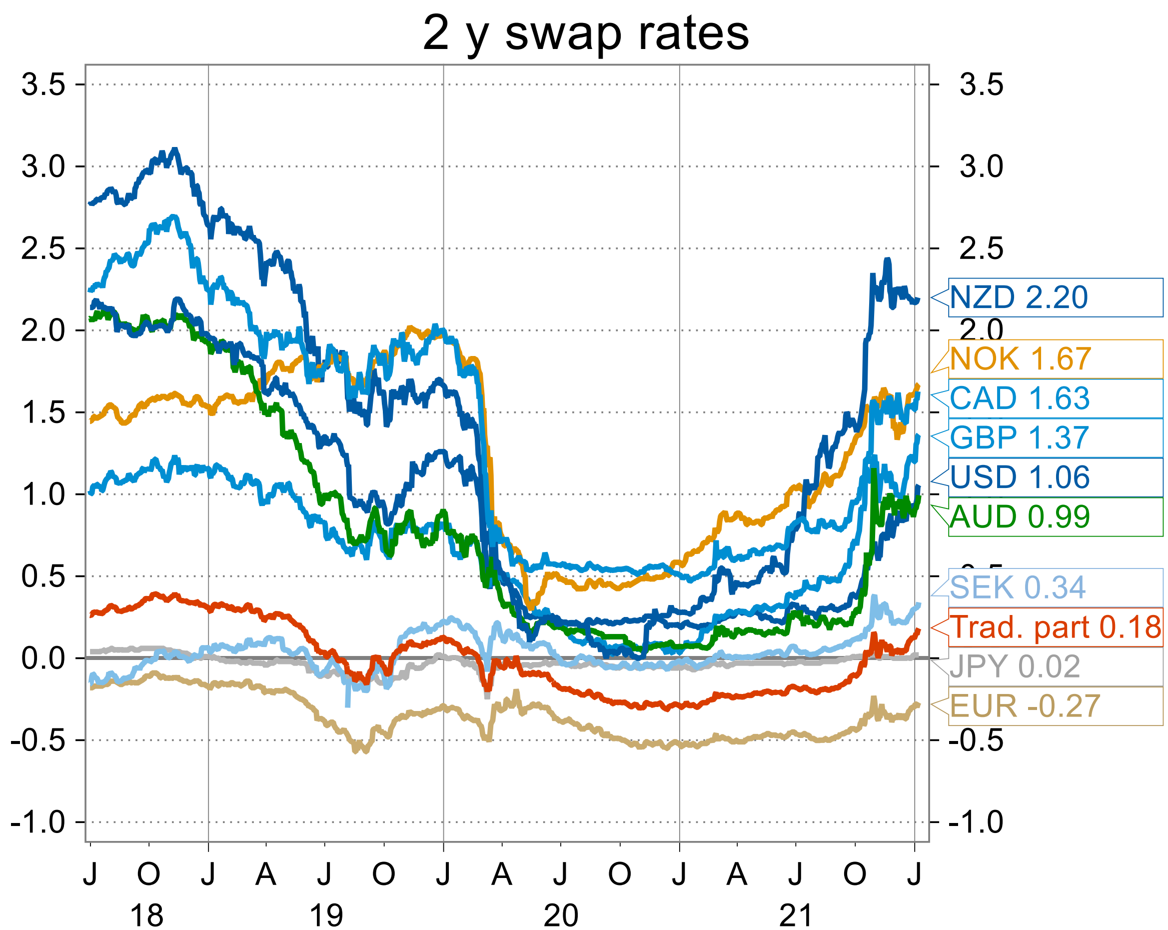




- 3 – 4 hikes are discounted this year

# Short term rates up everywhere (x Japan)

Hawkish Fed signals, a tight US labour market, high EMU inflation

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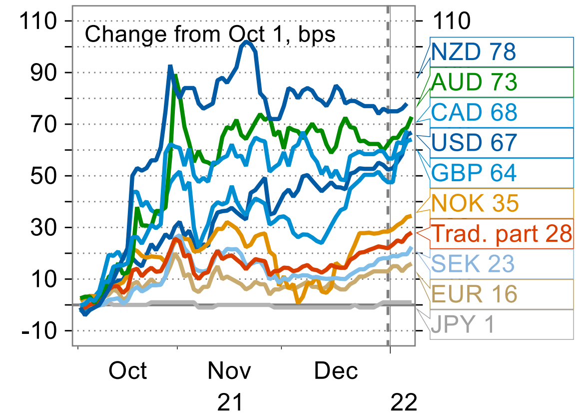


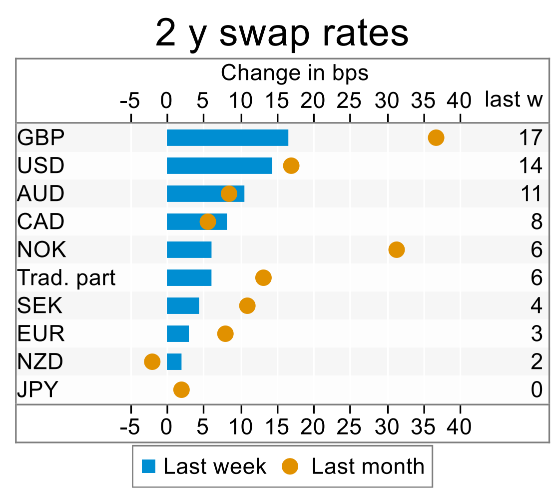


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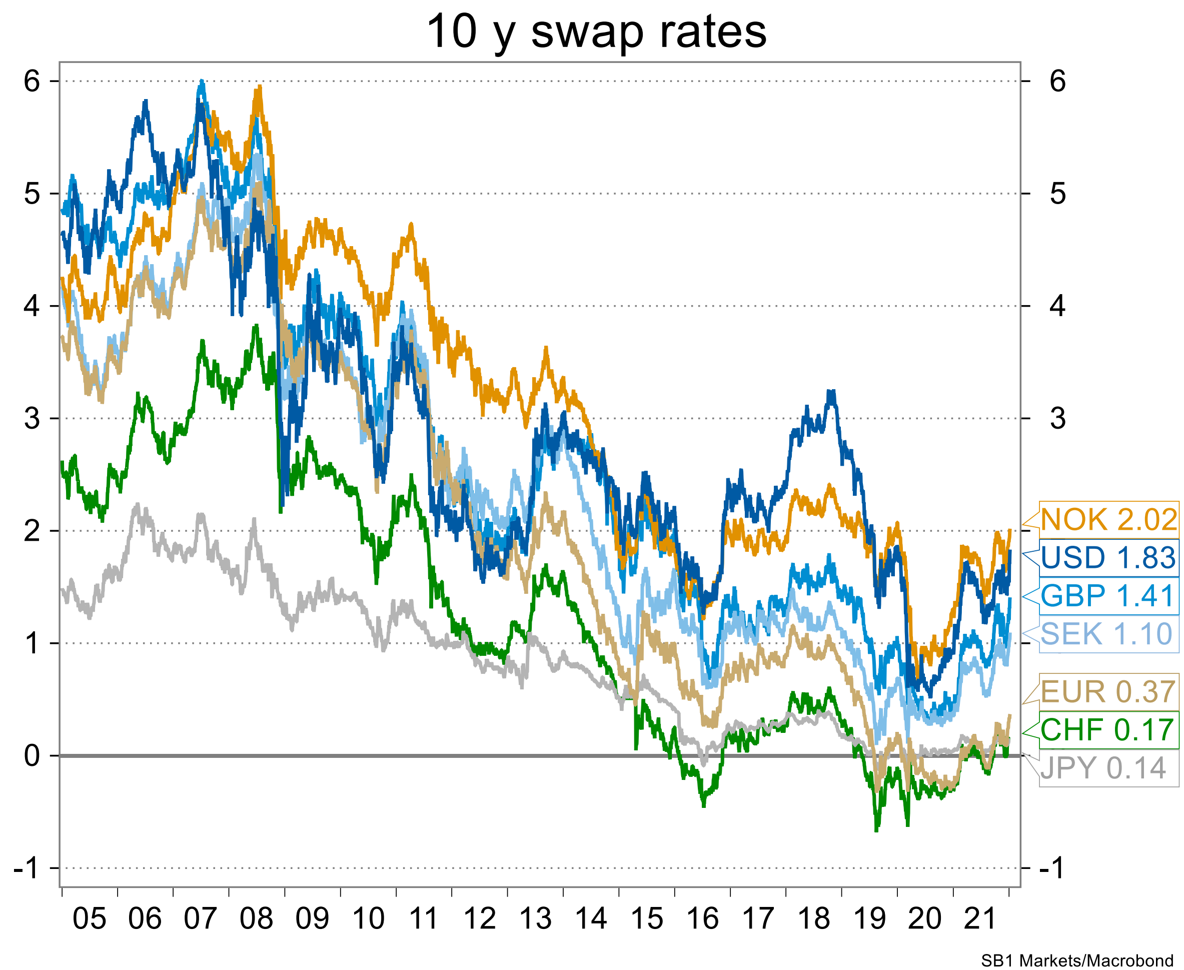
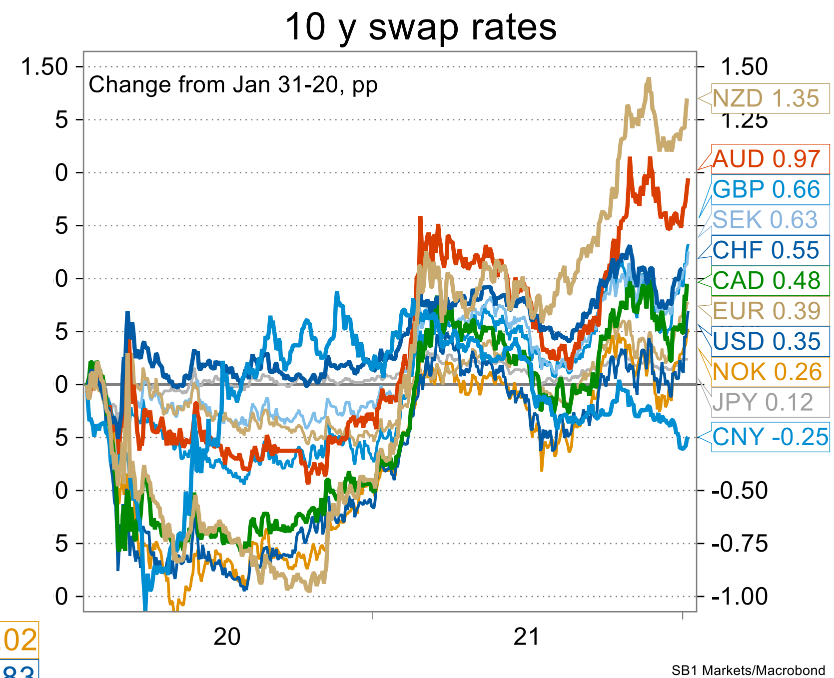
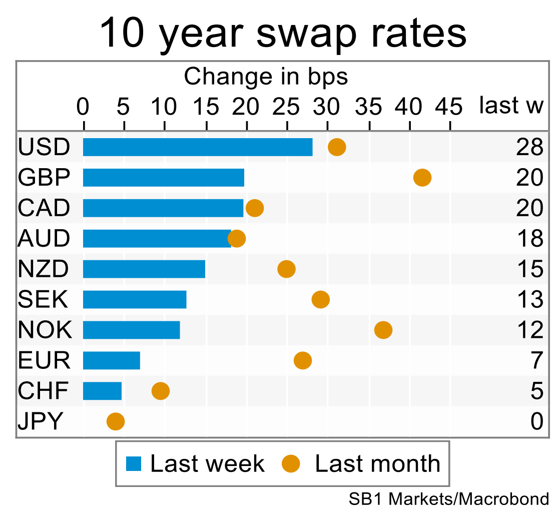
# A huge lift in long term swap rates, all at pandemic peaks

And all (but China) are higher than before the pandemic

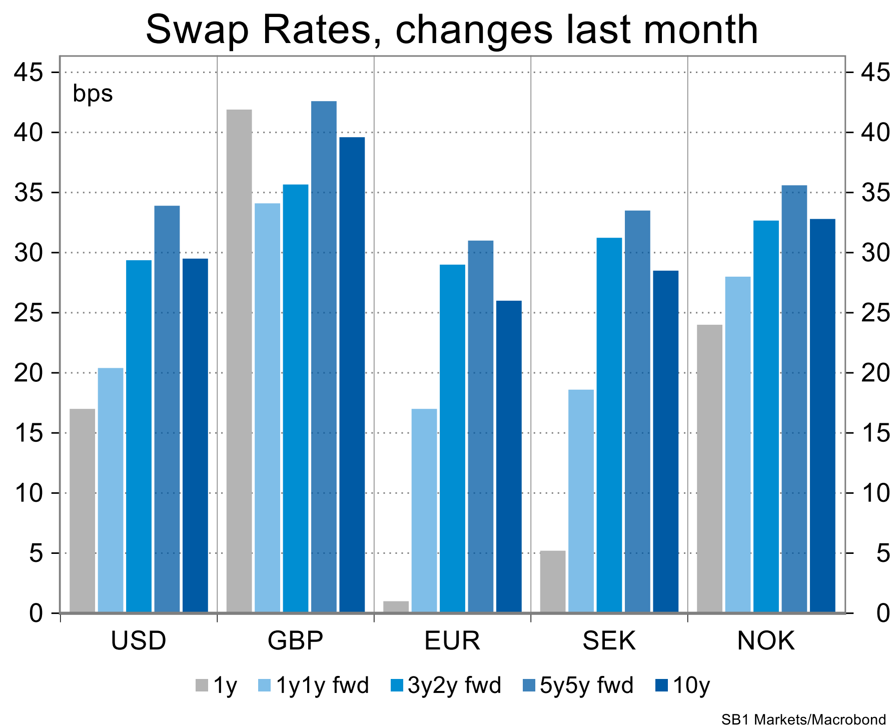


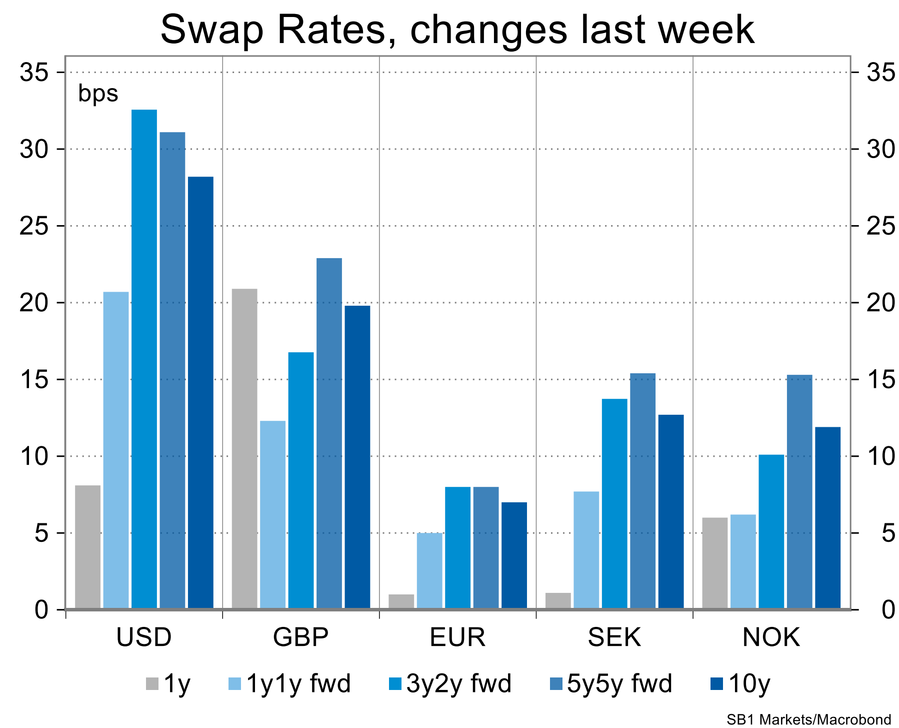



# A major repricing of the US curve, due to hawkish Fed signals, a tight labour mkt.

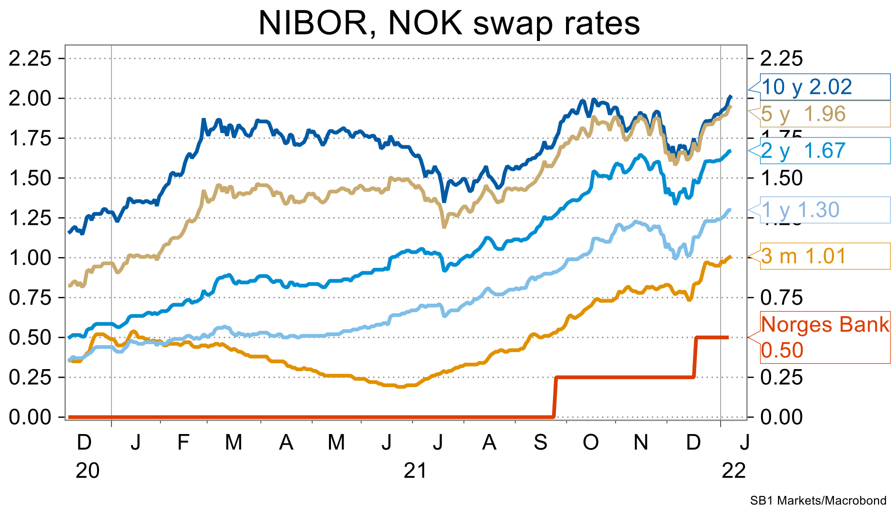
Rates up by up to 30 bps since end od last year. Rates up in Europe/Norway as well

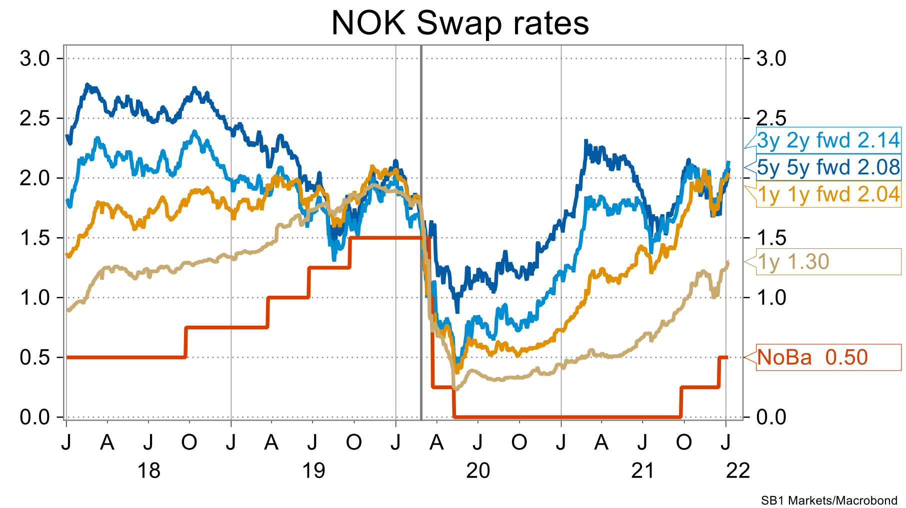


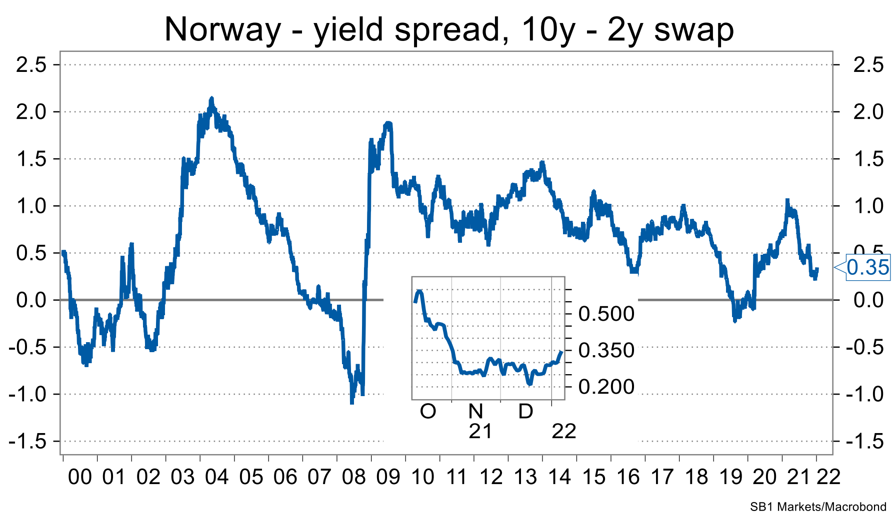



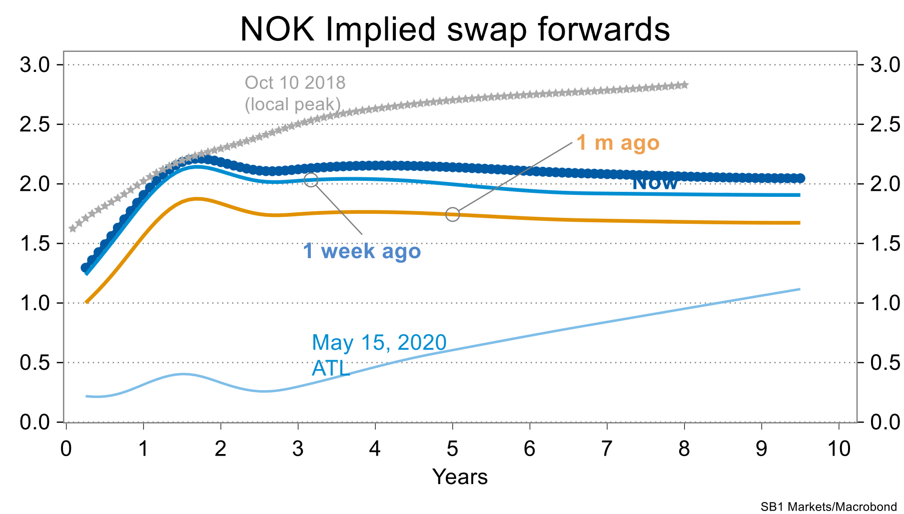
# Rates further up all over the curve, most in the long end

## Still, the implied forward curve peaks at 1.5 – 2 year

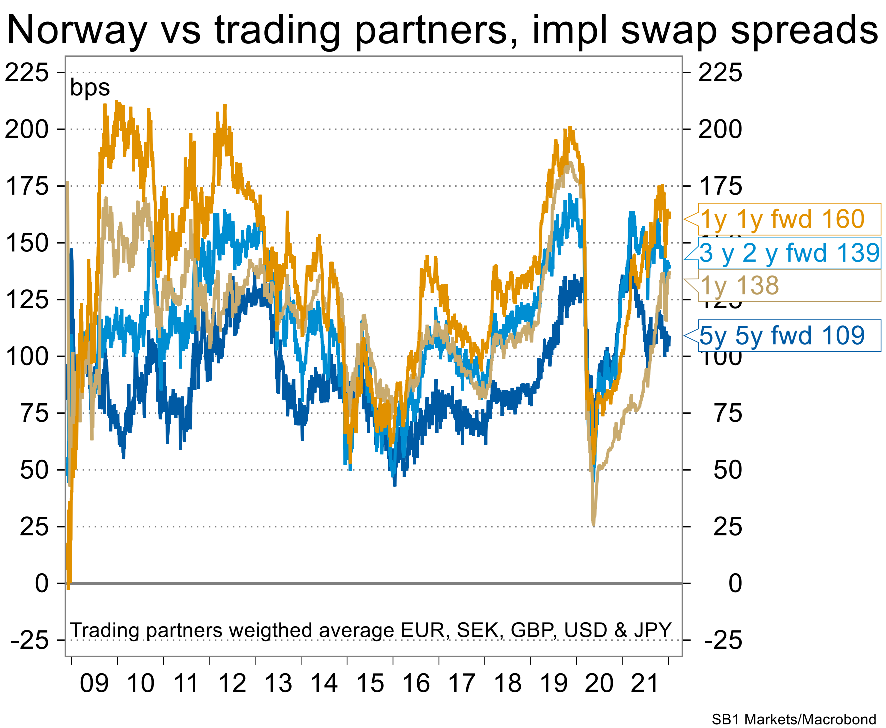


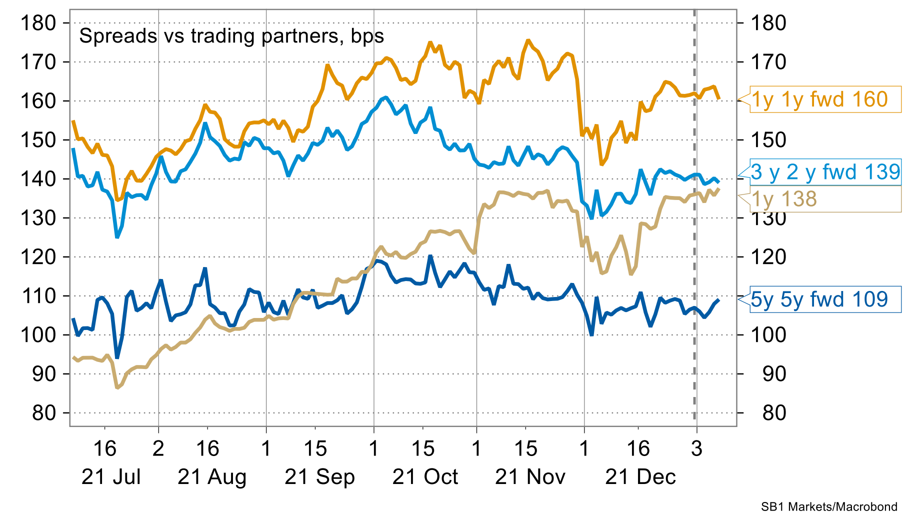



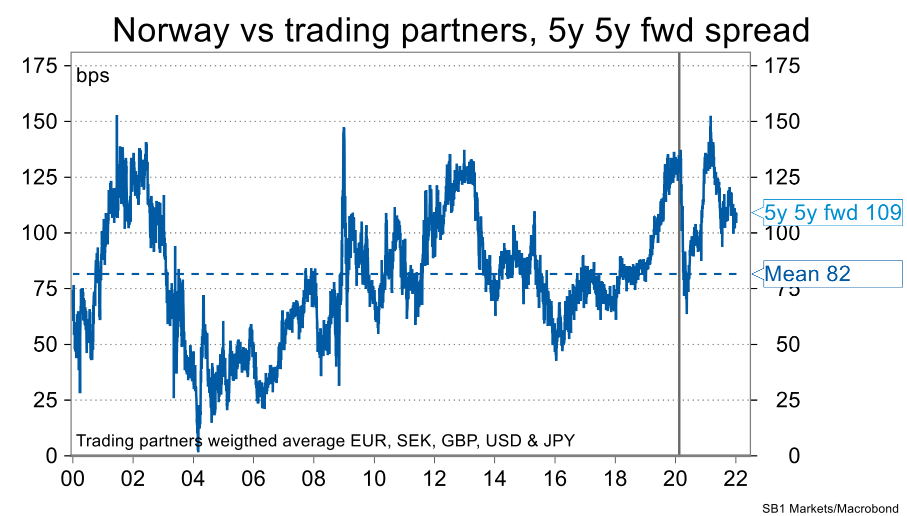



# Small changes in spreads last week

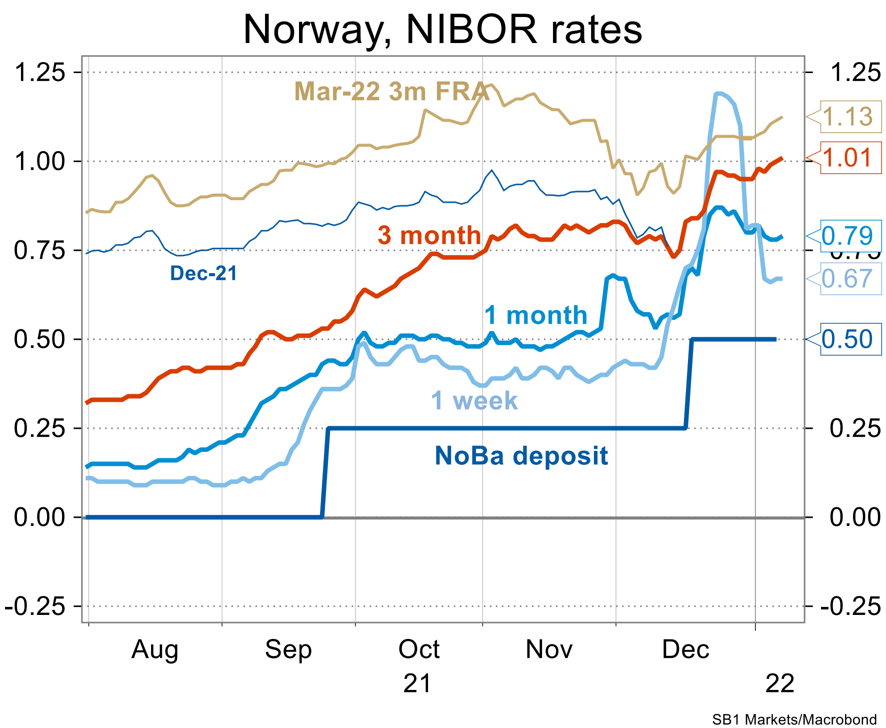


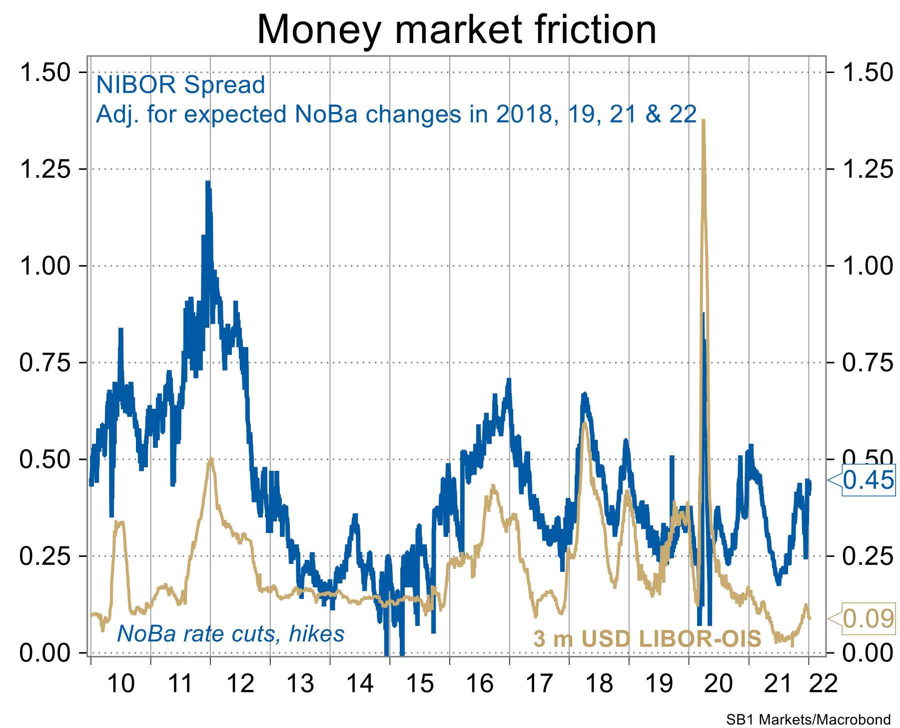



# The 3m NIBOR up another 6 bps to 1.01

## The NIBOR spread at 45 bps, even if we take a NoBa March hike for granted




- The **3 m NIBOR** gained 7 bps 1.01% last week, following the 21 bps lift from after NoBa's Dec hike
  - » Shorter dated NIBOR rate have come down, the 1 m contract to 0.79, yielding a 29 bps spread vs. NoBa's deposit rate, still some 10 – 15 bps above a normal, low level
- The **USD LIBOR-OIS spread** rose to 13 bps from 4 bps from October to end of December. During last week, the spread narrowed ot 9 bps
- We still assume the **NIBOR spread** will narrow the coming months, and stick to our 35 bps forecaset

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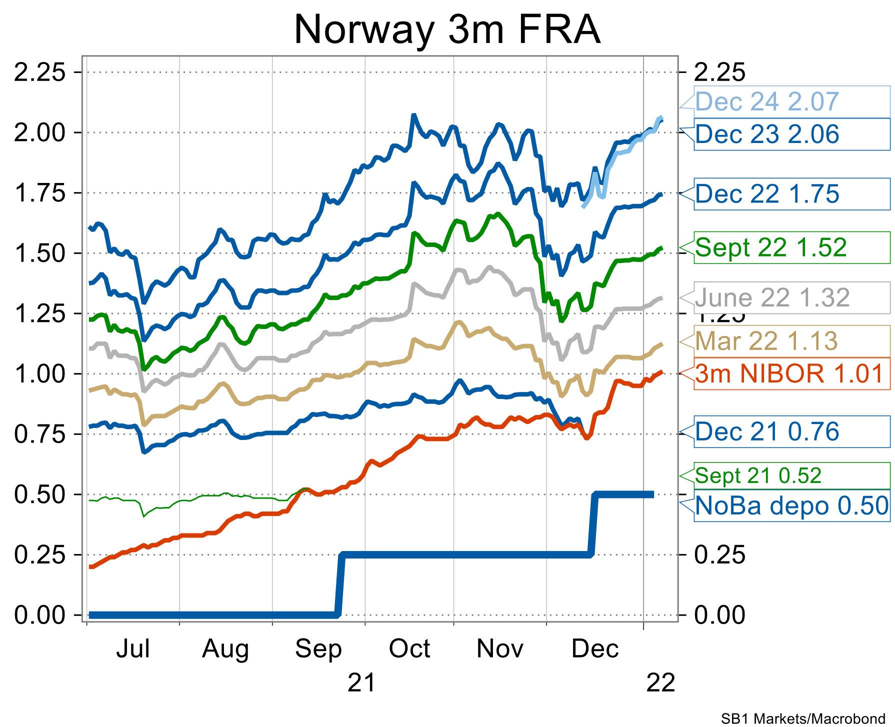
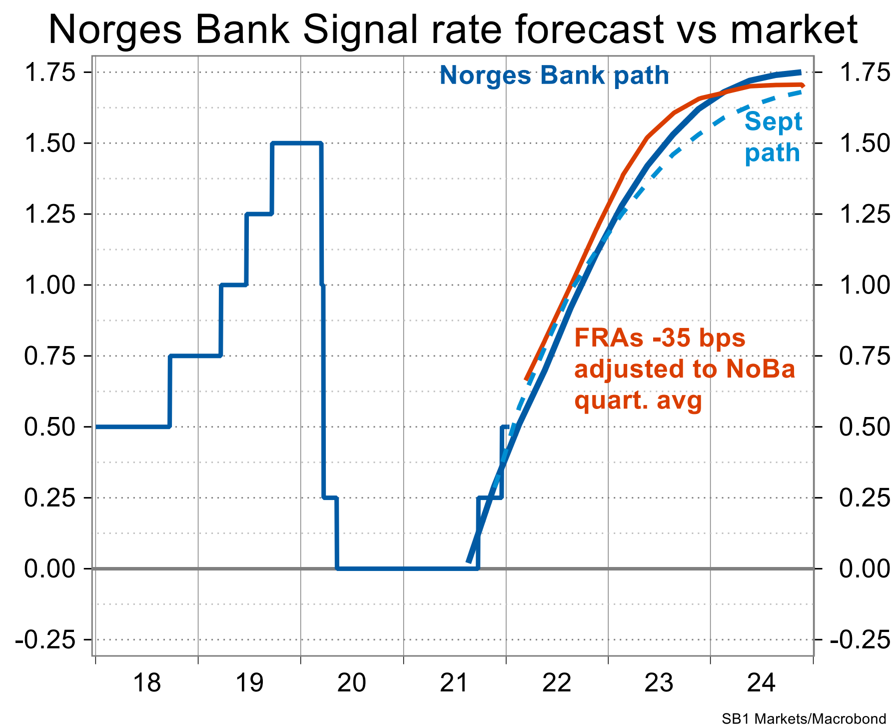
# FRAs further up, by up to 10 bps – to clearly above NoBa's Dec path

## The FRA-rates are still below the November peaks




- Market FRAs are now discounting a slightly more aggressive interest rate path than NoBa presented in December
- 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 1.13% implies 100% probability with a 40 bps NIBOR spread – or less than 100% of the expected spread is higher. We assume the expected spread is slightly above 40 bps – something could turn up that prevented NoBa from hiking further – and a 50 bps hike does not seem very likely
- NoBa's path implied a 75% probability for a March hike.

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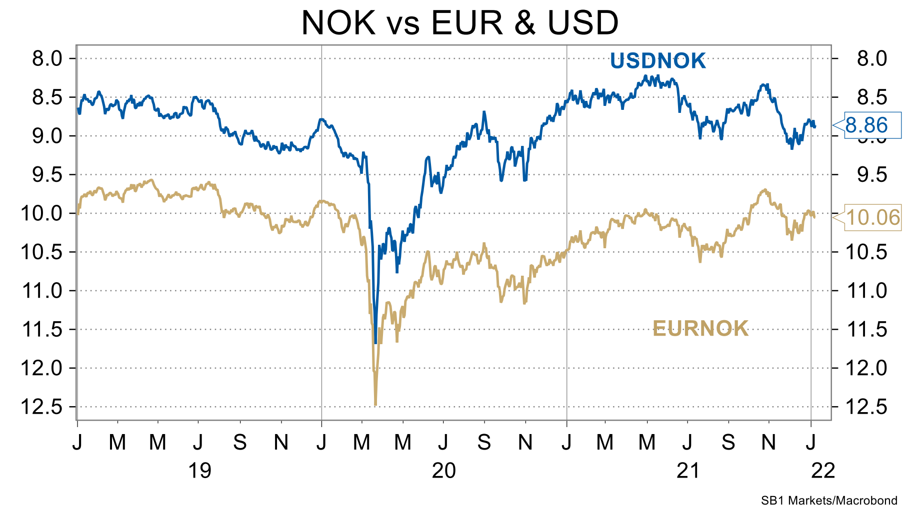
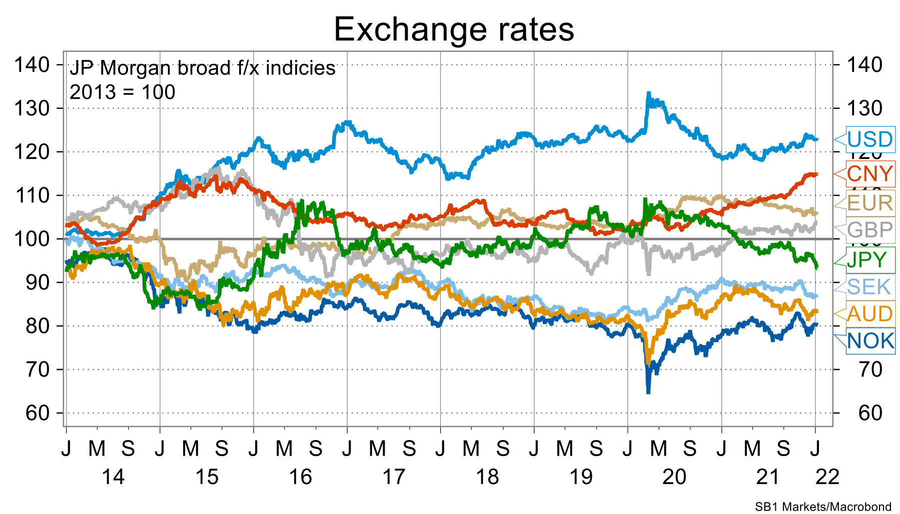
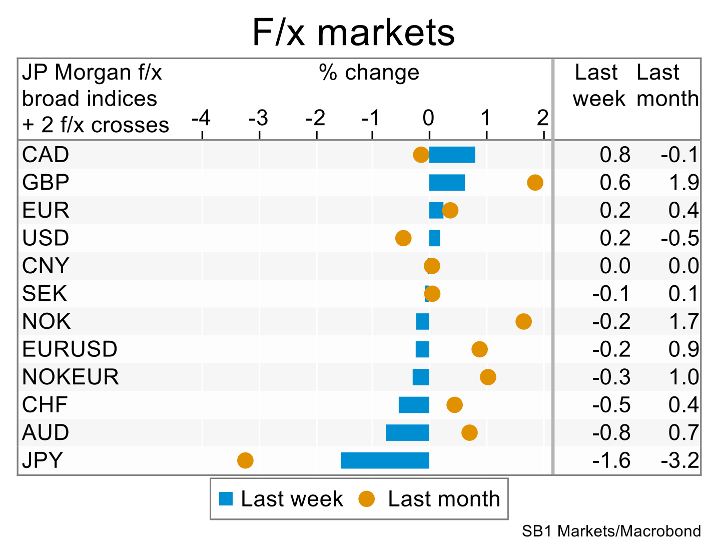
# CAD, GBP, EUR & the USD up last week, the JPY is declining further

## The EURNOK up 0.03 to 10.06 last week, even if the oil price rose

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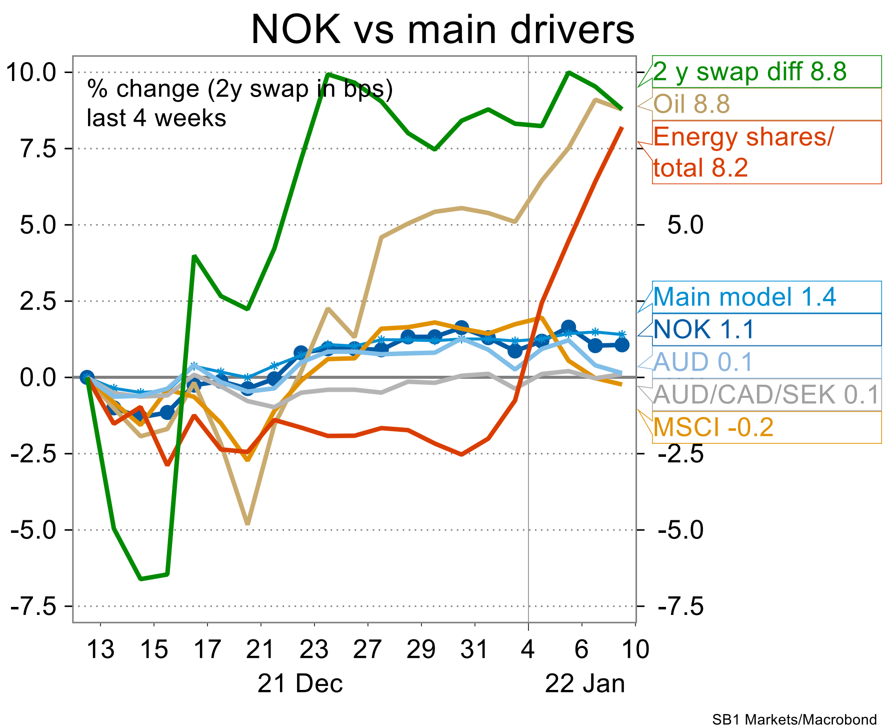
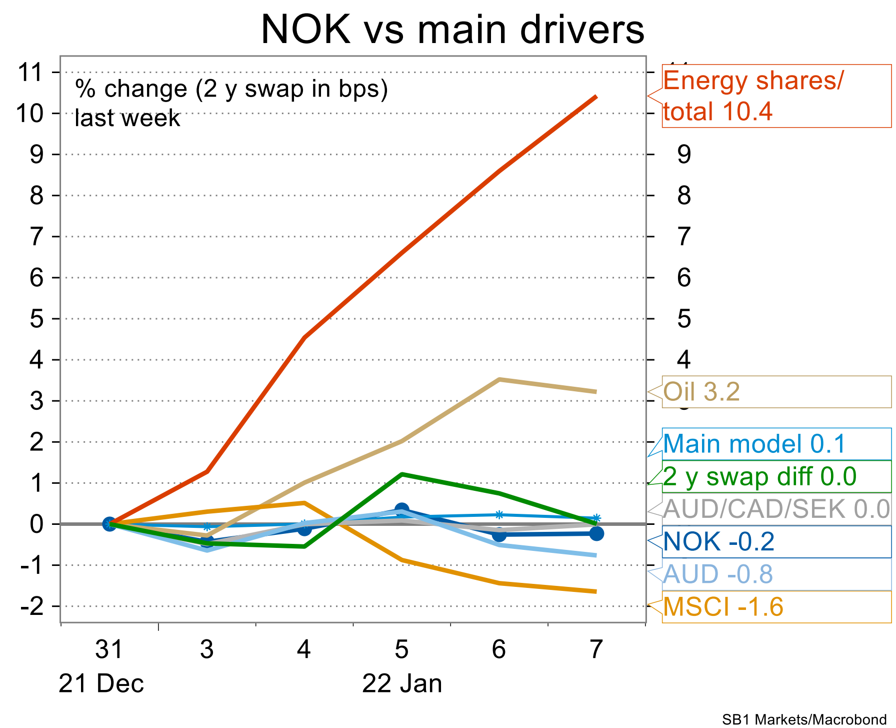
# NOK down 0.2% last week, even if oil prices, oil equities rise sharply

## Our model recommended a 0.1% appreciation



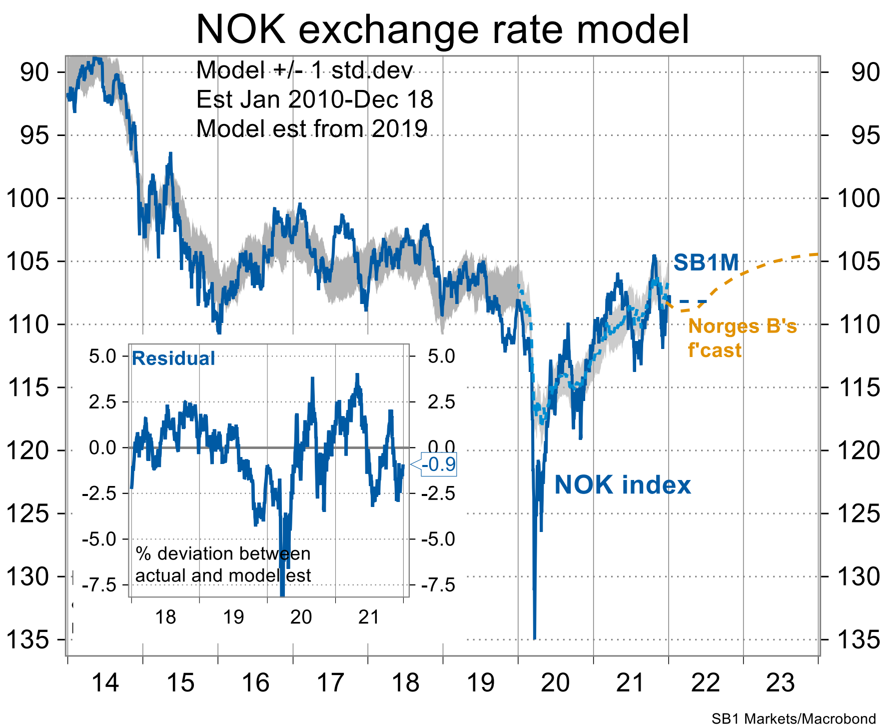



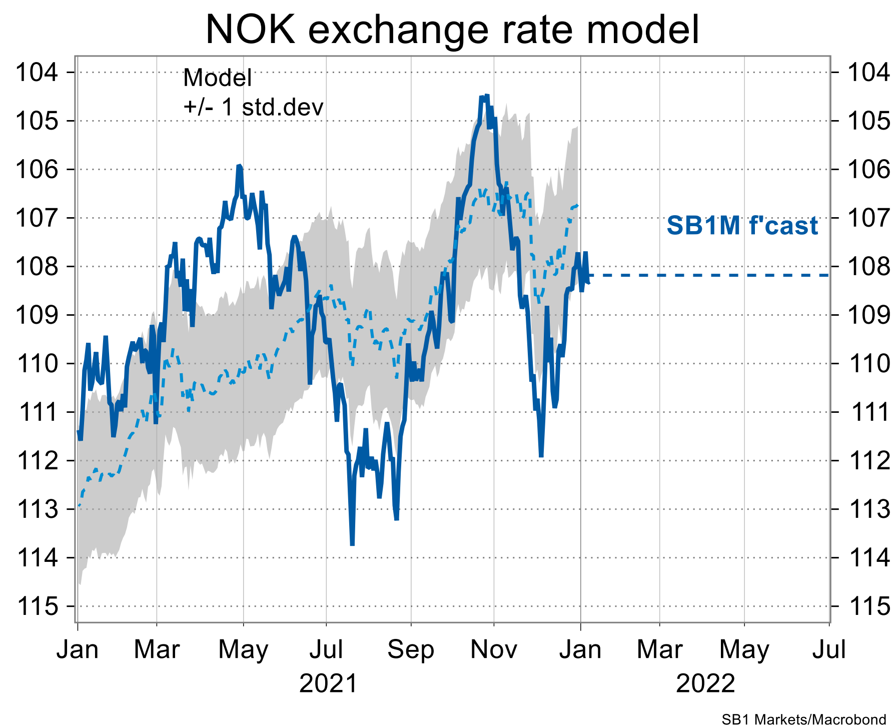

The status vs. the normal drivers:

- ***The NOK depreciated 0.2%, our model estimated +0.1%. The level less then 1% below the model est (unch)***
- The NOK is 5% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -4%). The AUD fell 0.8% last week
- NOK is (6%) <u>stronger</u> than a model which includes global energy companies equity prices (vs the global stock market), but less than last week (9%)

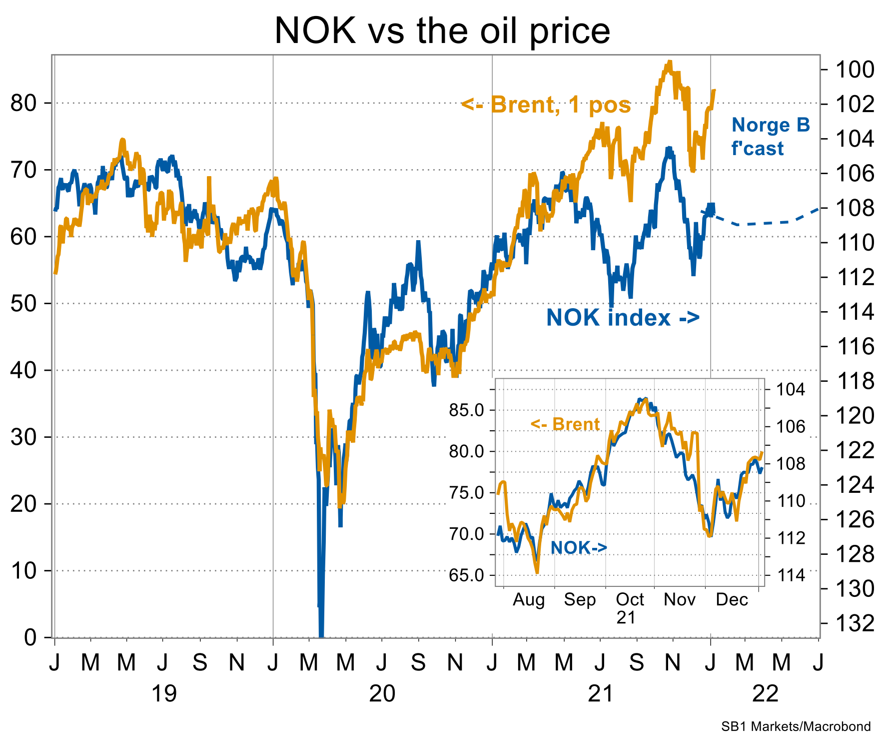
At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for f/x crosses. There are no substantial difference between these two indices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

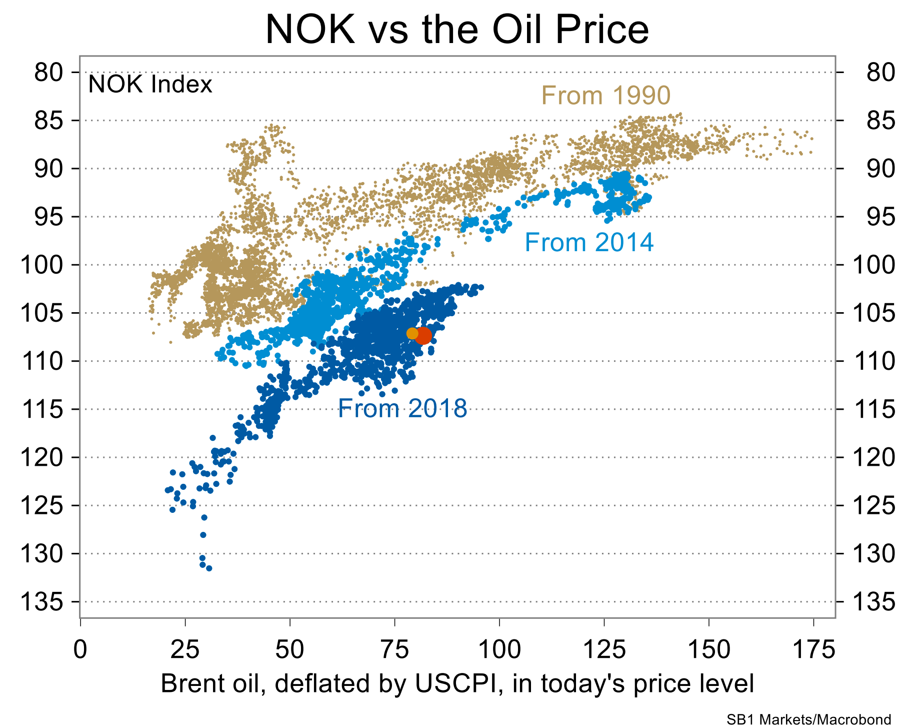
# NOK still less than 1% below our model estimate



# Oil up, NOK down last week




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

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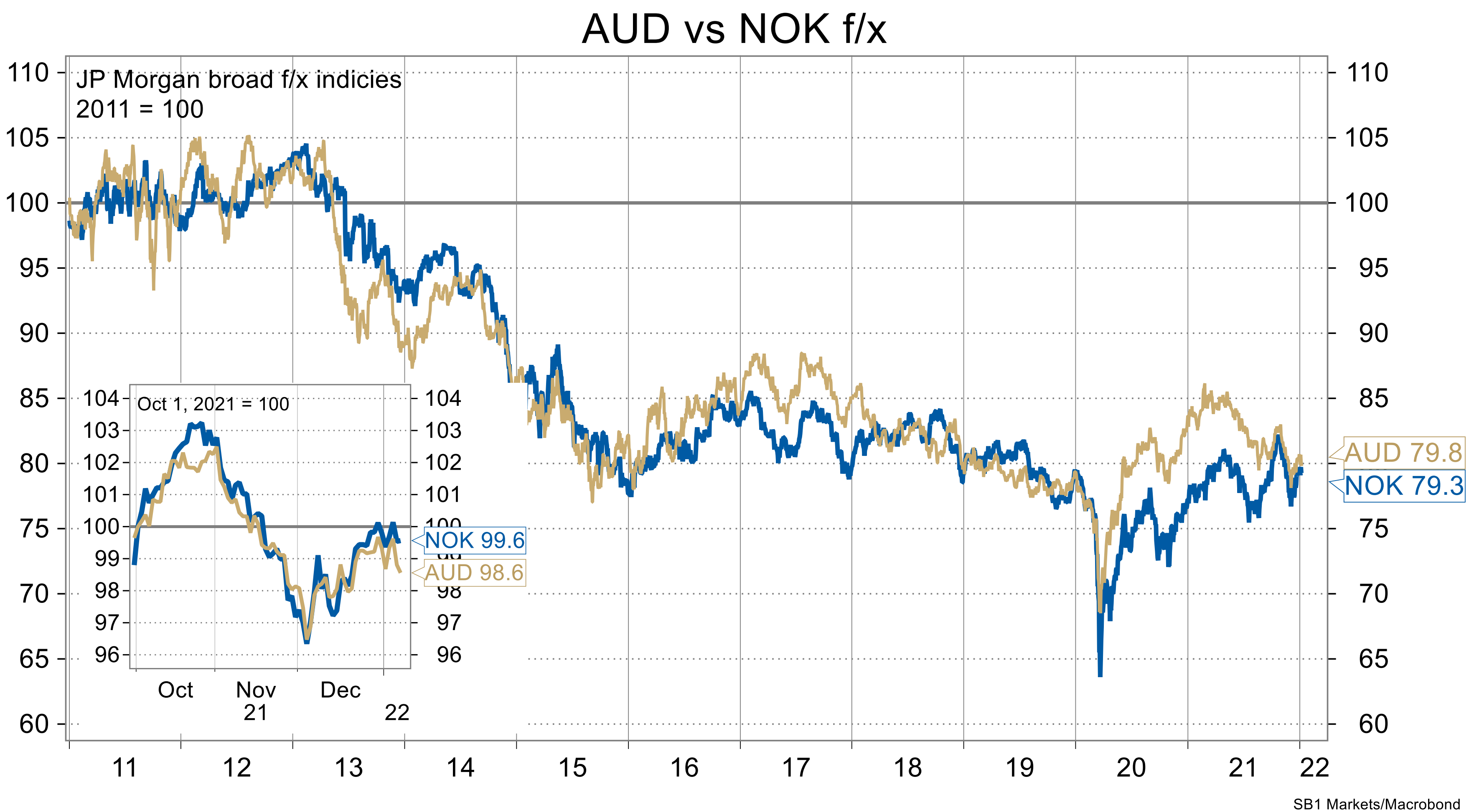
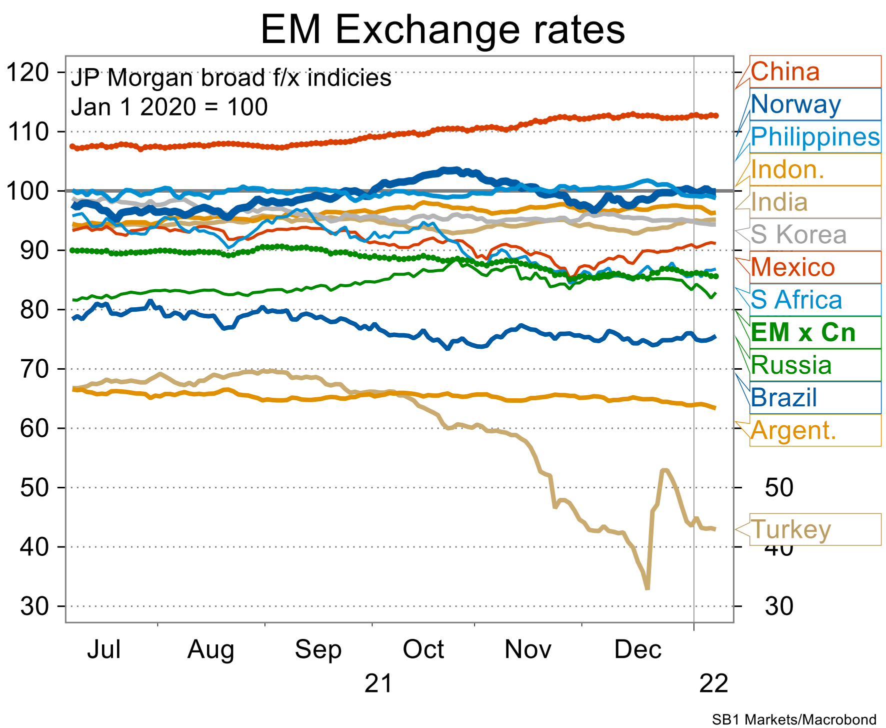
# NOK and AUD are still walking hand in hand

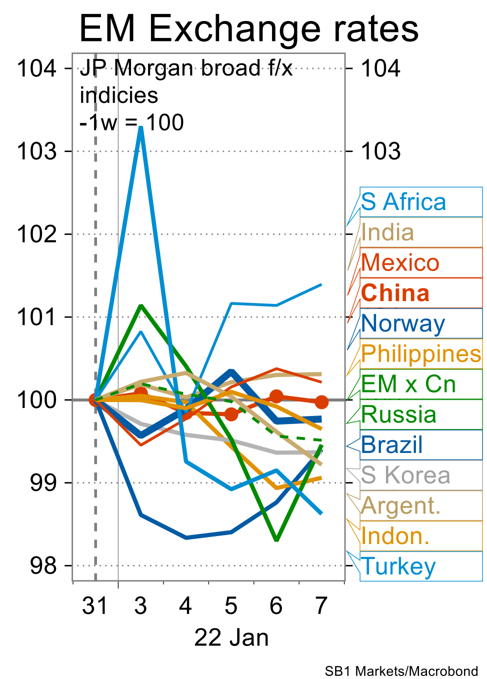


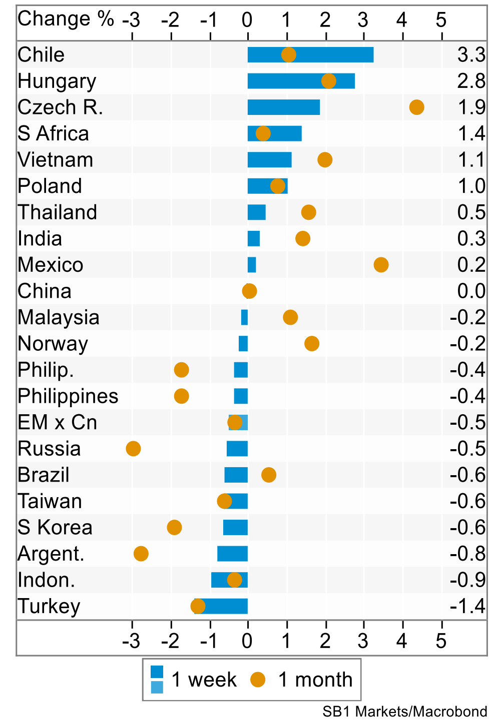

The two f/x indices are back to the 2011 parity (vs each other, from which they never since have deviated much)

# Volatile & mixed f/x-markets last week – EM x China down 0.5%

The Turkish lira stabilised, short of.



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