February 7 2022

Macro Weekly

Week 6/2022

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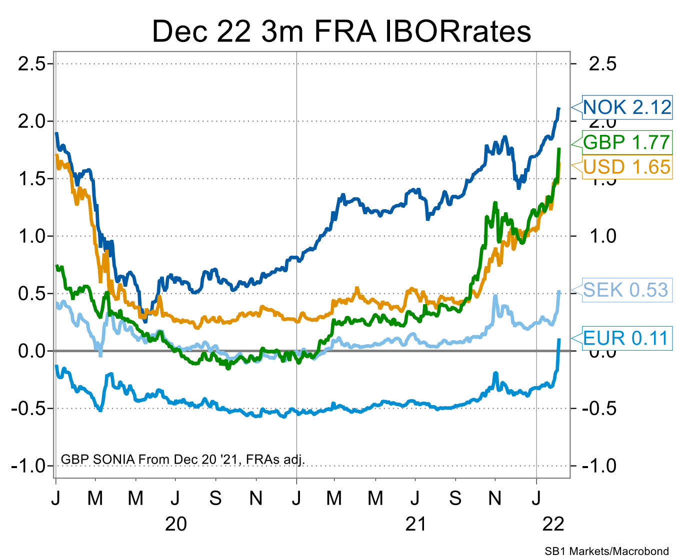
Highlights
The world around us
The Norwegian economy
Market charts & comments

Last week, part I

- **The virus**
  - » Omicron is brought under control in Western countries with high vaccination rates. The pressure on the hospital sector is declining in countries who were hit by the Omicron variant first. Denmark has many hospitalised patients (more than 1000) but 'none' need an ICU, and they stay at hospitals for just few days (some 4 in average). Restrictions are eased or totally lifted, mobility is on the way up – and services will return to a normal activity level. Problems may remain for a while in other parts of the world but the Omicron wave will anyway be short lived
- **January PMIs**
  - » **The January global composite PMI** fell 2.9 p to 51.3 p, in line with our estimate based on the preliminary indices, implying a 2% growth pace in global GDP. Services reported a sharp slowdown, we think Omicron should be blamed, perhaps also energy prices/high inflation. Both rich countries and Emerging markets reported sharply slower growth. Markit's US index fell sharply, but the ISMs kept far better up, in sum these and other surveys points towards continued but slower US growth. Delivery times have peaked, as have prices increases – but delivery times are stretched and prices are still rising rapidly
- **USA**
  - » **Nonfarm payrolls** rose more than expected in January, and the growth in H2 last year was revised sharply up (but H1 down). Still unemployment unexpectedly rose 0.1 pp to 4%. The **participation rate** was reported up by 0.3 pp but just to a revision of population stats, the real rate was flat – and is still not impressive. **Wage inflation** is accelerating, rose more than expected in Jan (0.7%), and the trend since last spring is 6%.
  - » **National accounts** report an even higher growth in compensation, and a **productivity growth** has not accelerated, unit labour cost inflation accelerating sharply too. So far companies have 'solved' the problem by hiking their selling prices (at a 8% pace).
  - » The number of **unfilled vacancies** rose in December but SMEs (NFIB) reported slightly less problems **filling vacancies**. The **unexpectedly** remains close to record high. All in all, the labour market is extremely tight, and wage inflation has climbed to a level not consistent with 2% inflation over time.
  - » The **short end of the yield curve** is still climbing rapidly, and the probability for 6 or more hikes in 2022 is suddenly more likely than 5 or less! The 10 y bond rate rose 15 bps to 1.93%, the highest since Dec-19. The real rate took all of the beating, but is still at -0.48%. The upside risk is still huge! Which implies some downside risk for other markets…
- **EMU**
  - » **Et tu, Christine!** Neither we nor the market expected ECB and Christine Lagarde to signal a possible rate hike in 2022, after having strongly rejected this option. But she did! Much higher than expected January inflation data published two days before the meeting may have tilted the balance. Inflation risk were tilted to the upside, and a hike in the signal rate in 2022 could not be ruled out. Markets went ballistic (at least yields), and the short end rose more than since 2008, almost 2 hikes are priced into the 2022 curve, and an additional 2 – 3 in 2023. The 1y 1 y fwd swap rate rose 51 bps last week! The 10 y German gov bond yield rose 25 bps to 0.21%, and it is from -0.39%, by 60 bps, since before X-mas!
  - » **The annual CPI (HICP)** did not collapse as expected in January, as prices rose by 0.7% m/m (core, seas. adj), due to higher goods prices. The headline rate to 5.1% rose due to another lift in energy prices (was expected down to 4.4%)
  - » **Q4 GDP** rose 0.3% (1.2% annualised), 0.1 pp less than expected
  - » **Unemployment** fell faster than 'normal' in December, in the midst of the Omicron wave, by 0.2 pp to 7.0%
  - » Retail sales fell 3% in December, much weaker than expected, as have been the case in US, UK, Norway and Sweden. Omicron, energy prices? Or just a normalisation of the level?

Last week, part II

- **UK**
  - » **Bank of England** also scared markets, as 4 of 9 members of the MPC voted in favour of hiking the bank rate 0.5 pp to 0.75%. The slim majority thought a 25 bps hike was sufficient. However, the majority also acknowledged the need for further – and rapid tightening. Following a steep rise in the short end of the curve, the market expects 4 – 5 more hikes in in 2022 – but not further hikes in 2023.
- **Norway**
  - » Out of the blue, **house prices** rose 2.1% m/m in January, we expected 0.2% (and NoBa 0.3%). New document requirements have slowed the sales process, without hurting demand (probably the opposite). The impact of the new regulation will most likely be temporary,. However, the inventory of unsold homes is record low, and a normal flow model suggests 1% price appreciation per month. Still, we think the housing market will struggle with a row of interest rates hikes in 2022:
  - » The FRA-curve is now discounting two more hikes in 2022 than NoBa signalled in December (3.5 hikes), following a lift in FRA by close to 20 bps last week
  - » Credit growth was softer than we expected in December. The annual rate fell 0.1 pp to 5.0%, we expected 5.2%
  - » Covid restrictions were eased but not totally lifted. Mobility is on the way up



The Calendar: PMIs, US labour market, ECB, BoE, EMU inflation, growth. Norw. house prices

Time	Count.	Indicator	Period	Forecast	Prior
Monday Jan 7					
08:00	GE	Industrial Production SA MoM	Dec	0.5%	-0.2%
08:00	NO	Ind Prod Manufacturing MoM	Dec		0.0%
Tuesday Jan 8					
08:00	NO	Jobs & wages	Q4		
12:00	US	NFIB Small Business Optimism	Jan	97.5	98.9
14:30	US	Trade Balance	Dec	-$83.0b	-$80.2b
Wednesday Jan 9					
	CH	**Aggregate Financing CNY**	**Jan**	**5420b**	**2370b**
	CH	New Yuan Loans CNY	Jan	3700b	1130b
08:00	GE	Trade Balance	Dec	11.0b	12.0b
08:00	NO	Vacancies	Q4		
Thursday Jan 10					
06:00	SW	PES Unemployment Rate	Jan		3.5%
08:00	**NO**	**CPI YoY**	**Jan**	**4.7% (3.0)**	**5.3%**
08:00	**NO**	**CPI Underlying YoY**	**Jan**	**1.8% (1.5)**	**1.8%**
09:30	**SW**	**Riksbank Interest Rate**	**Feb-10**	**0.0%**	**0.0%**
14:30	**US**	**CPI YoY**	**Jan**	**7.3%**	**7.0%**
14:30	**US**	**CPI Ex Food and Energy YoY**	**Jan**	**5.9%**	**5.5%**
14:30	US	Initial Jobless Claims	Feb-05	235k	238k
20:00	US	Monthly Budget Statement	Jan		-$21.3b
Friday Jan 11					
08:00	UK	GDP QoQ	4Q P	1.1%	1.1%
08:00	UK	Monthly GDP (MoM)	Dec	-0.5%	0.9%
16:00	US	U. of Mich. Sentiment	Feb P	67.5	67.2

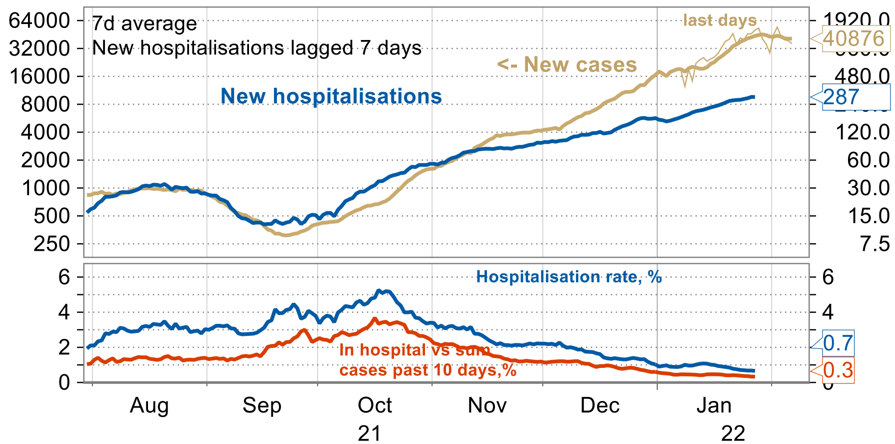
- **Global auto sales**
  - » So far on the positive side, thanks to the US (and some Emerging Markets)
- **USA**
  - » **CPI further up**: At least, that's expected. The core rate is approaching 6%
  - » **The SME (NFIB) survey** will probably confirm continued supply side challenges, not any problems at all on the demand side – and plans for further price hikes
- **EMU**
  - » **Industrial production** from several countries. A small uptick is expected
- **UK**
  - » **GDP** probably gained 1.1% in Q4, as the Omicron measured reduced activity in December by 0.5%
- **Sweden**
  - » And now, over to **the Riksbank:** Do Yngves & Co the stamina to be the odd man out? Even ECB and the über-dowe Lagarde suddenly changed tack last week – and the market expect the Rix rhetoric to follow suit at Thursday. However, inflation is less of a problem in Sweden, at that is important for the Rix. A compromise: The first hike in 2023 (and not in Q4 2024, which so far has been the precise estimate. In the end, the Rix will hike this year, if most others do it
- **Norway**
  - » **The headline CPI** will collapse as electricity inflation 'collapsed' in January**. Electricity prices** fell sharply in January, especially for households due to the increase in the state subsidy. The total bill (distribution incl, the electricity component in the CPI) fell approx. 20%. One year ago, the bill rose by 33%. So while prices were up 105% y/y in December, in January the annual increase will just 20%. In addition, we expect a slight slowdown in the **core inflation** rate, following the surprising lift in December. Thus, headline inflation will decline substantially, we assume down to close to 3%, from 5.3% in December (there are some quirks with weights etc, so we do not have full confidence in our estimate, which is 1.7 pp (!) below consensus)
  - » Manufacturing production, vacancy and payrolls stats are on the offer this week as well

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

Case counting has become less relevant & realiable: But they are heading down

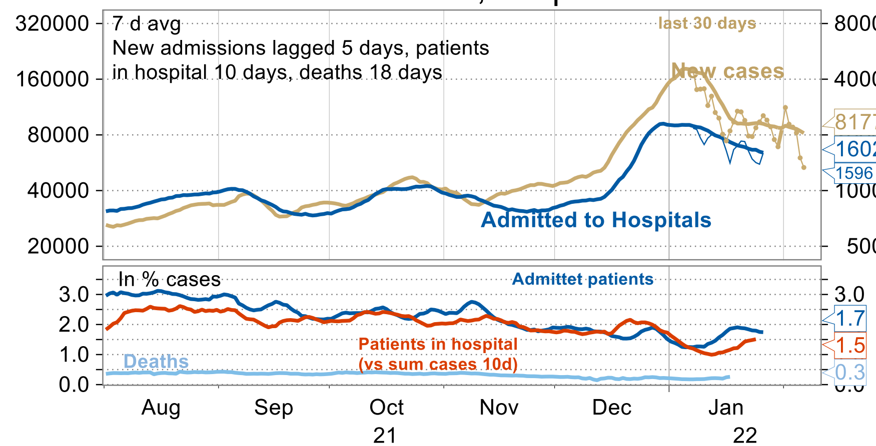
More new hospital admissions in Denmark but the peak is near? Still a very low level in Norway

Denmark New Covid cases



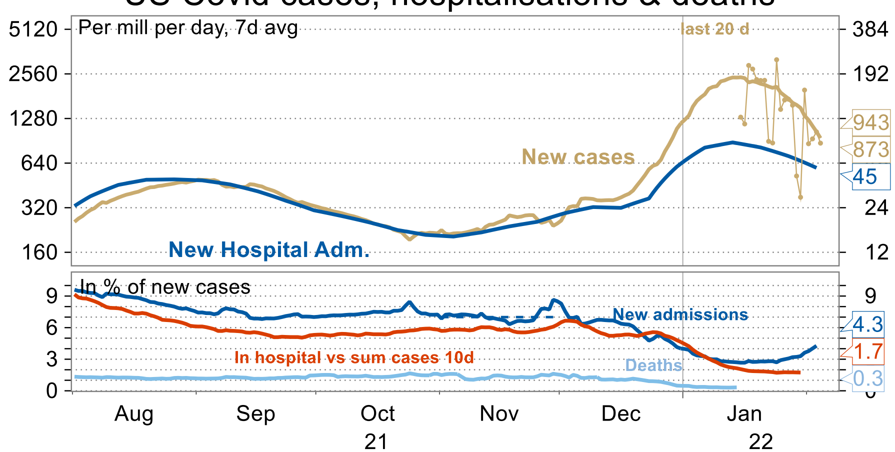
SB1 Markets/Macrobond

UK Covid-10 cases, hospitalisations



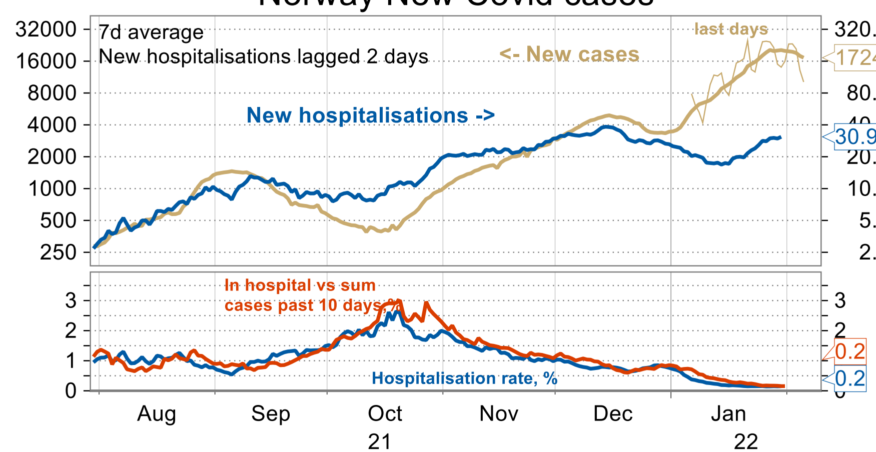
SB1 Markets/Macrobond

US Covid cases, hospitalisations & deaths



SB1 Markets/Macrobond

Norway New Covid cases



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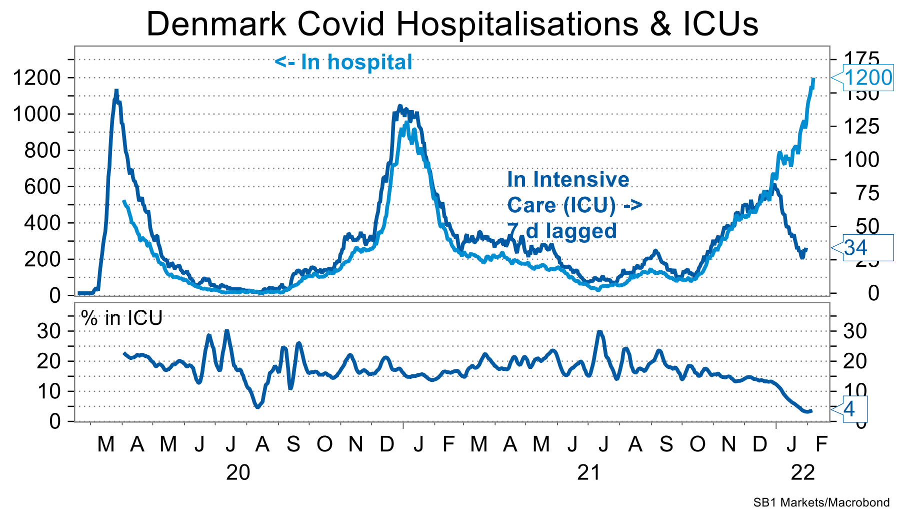
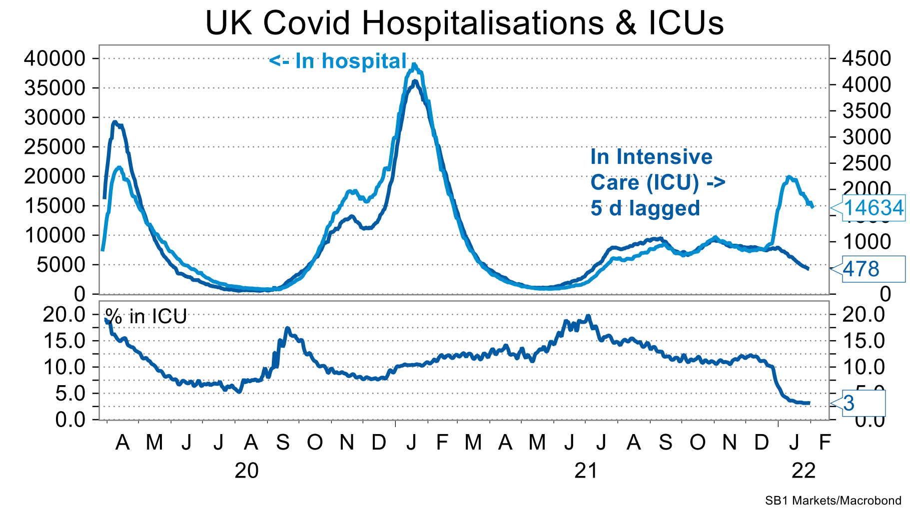
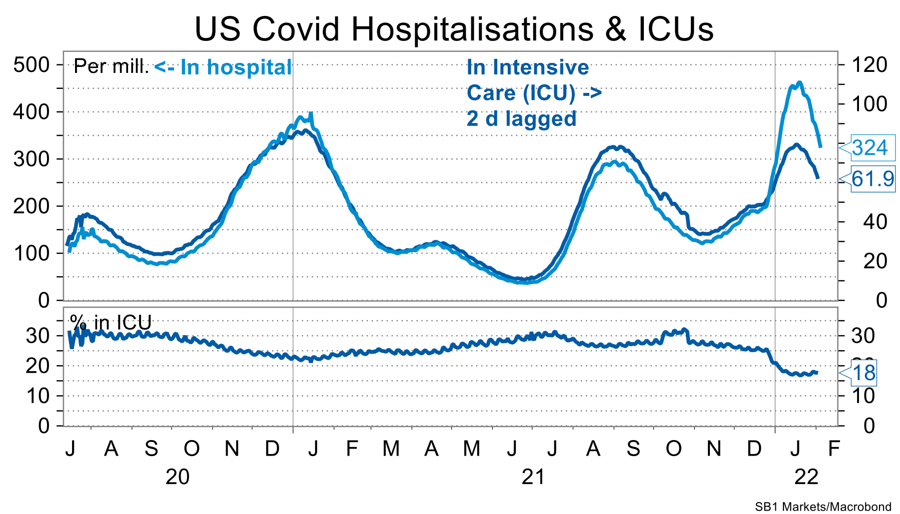
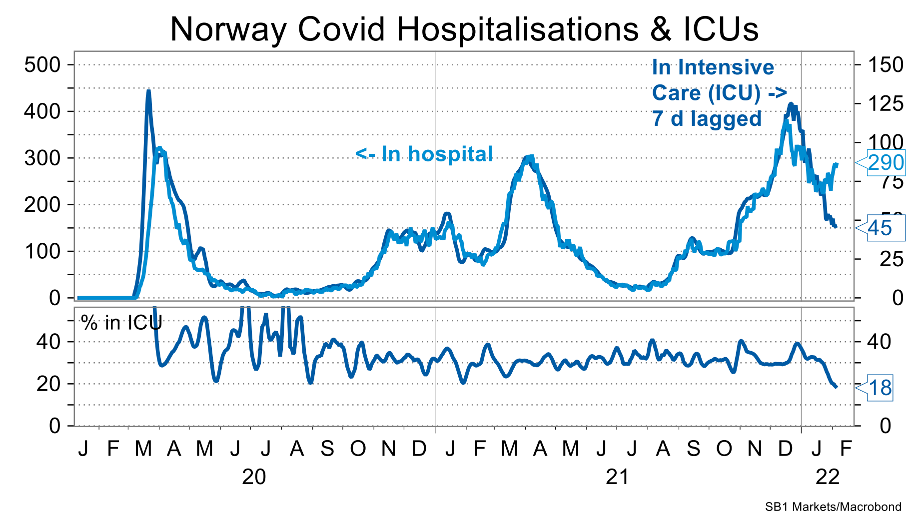
Hospital beds are filled up in Denmark but not in the ICUs

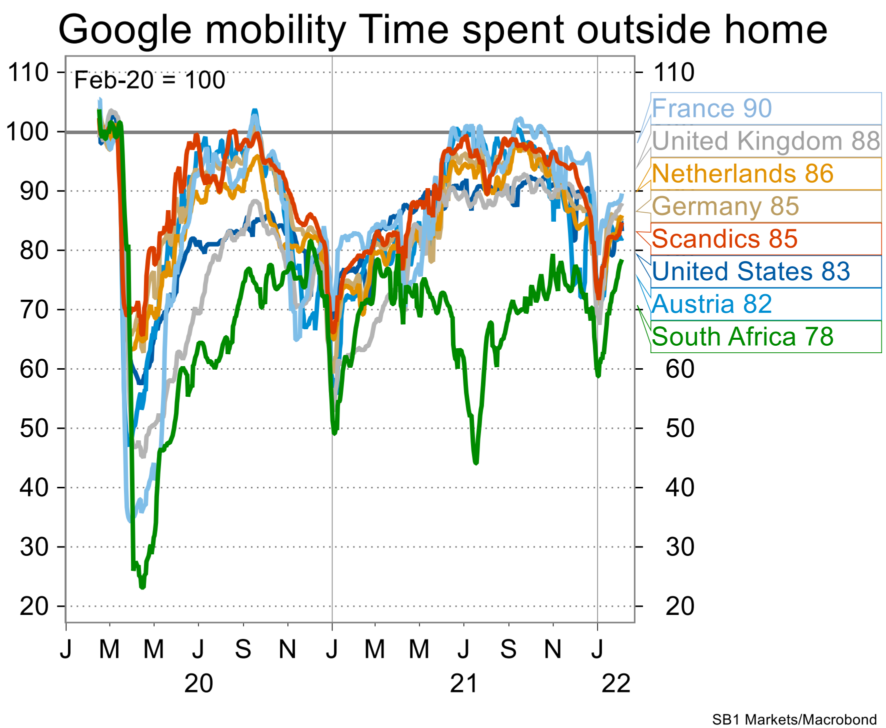


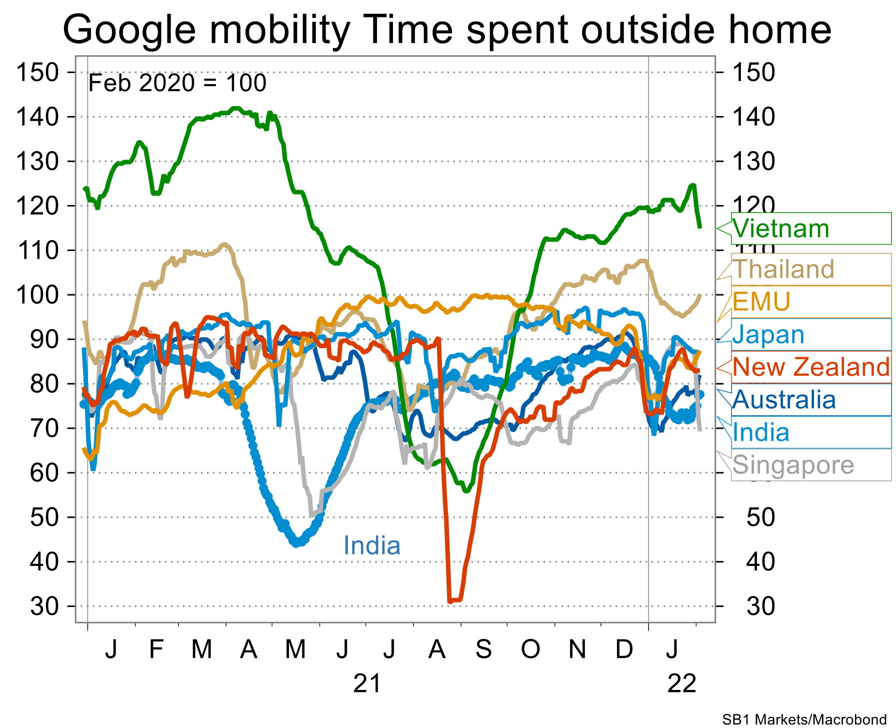






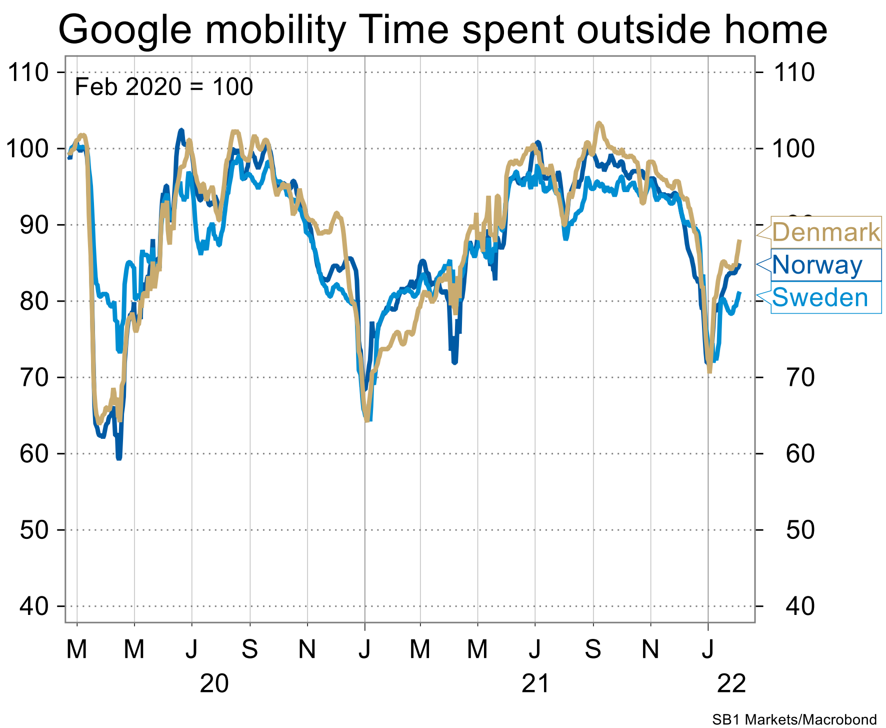
Mobility on the way up in the West, some challenges in the East?

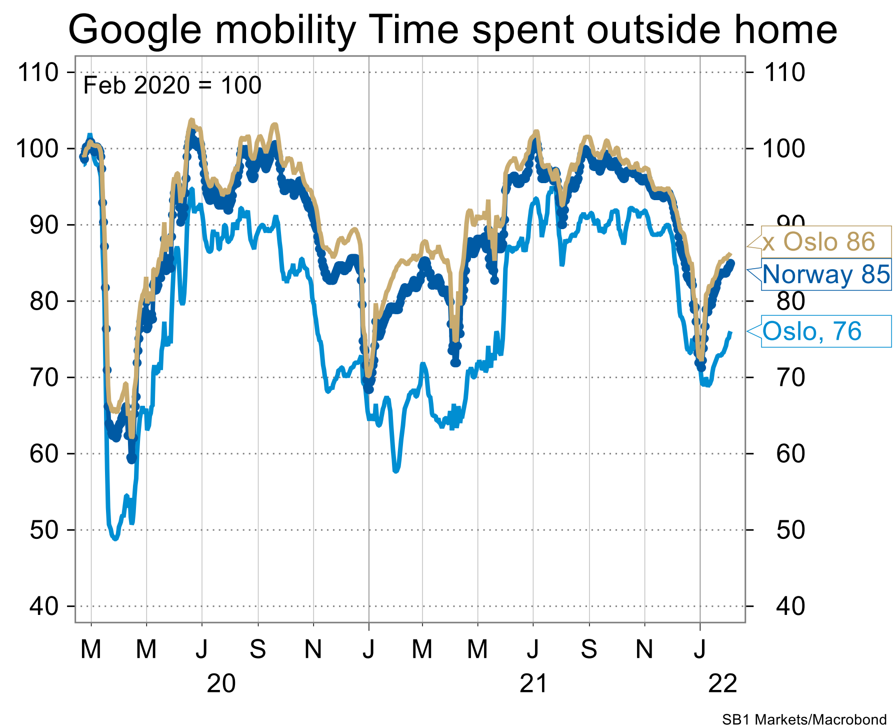




Mobility is on the way up in the Scandics, and in all parts of Norway

For good reasons





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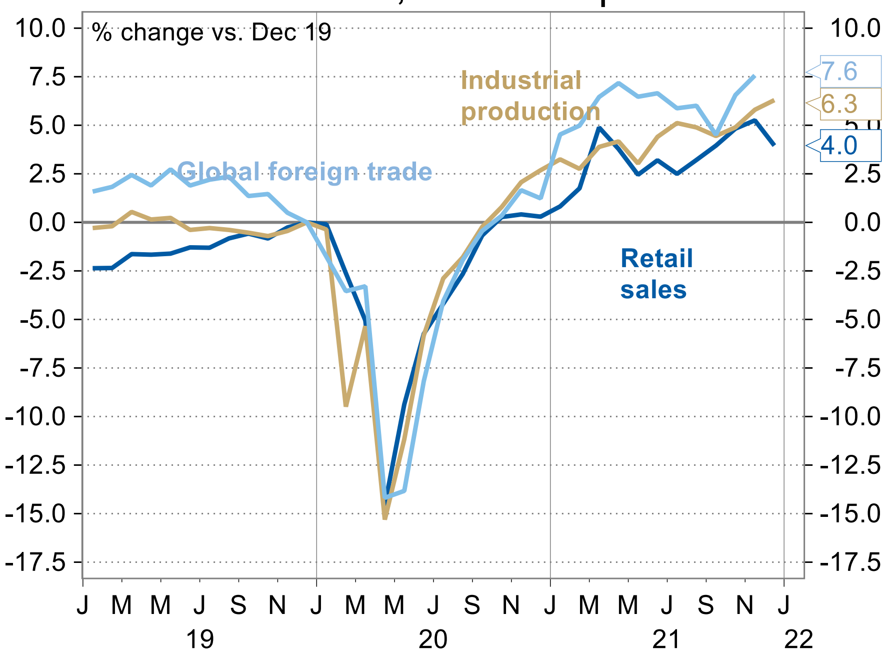
Global retail retail sales fell (at least) 1.2% in Dec, rich countries down 3%

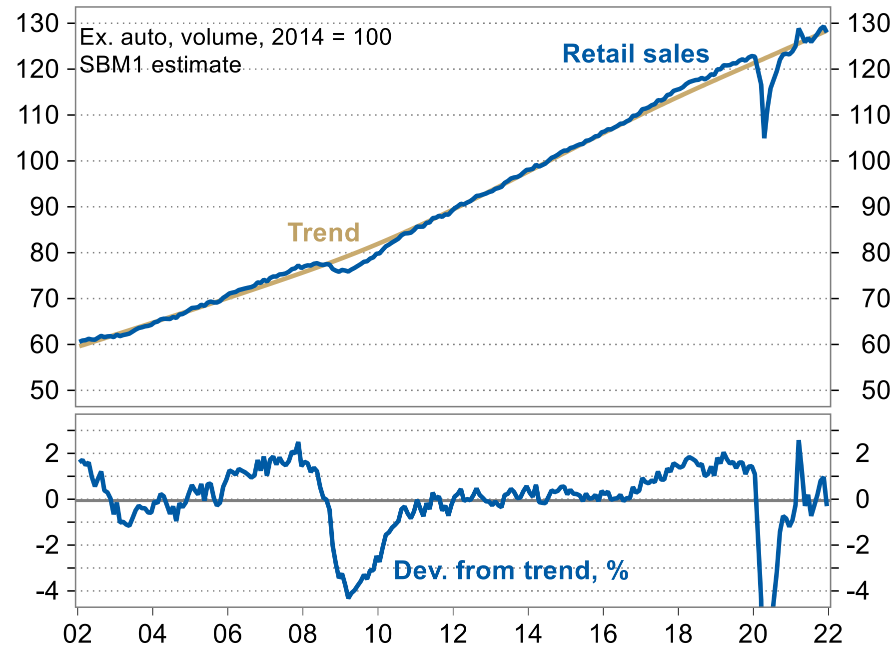
Covid & high energy prices to blame? Manufacturing production kept up well

Global Retail sales, industrial prod. & trade



SB1 Markets/Macrobond/CPB

Global retail sales volume

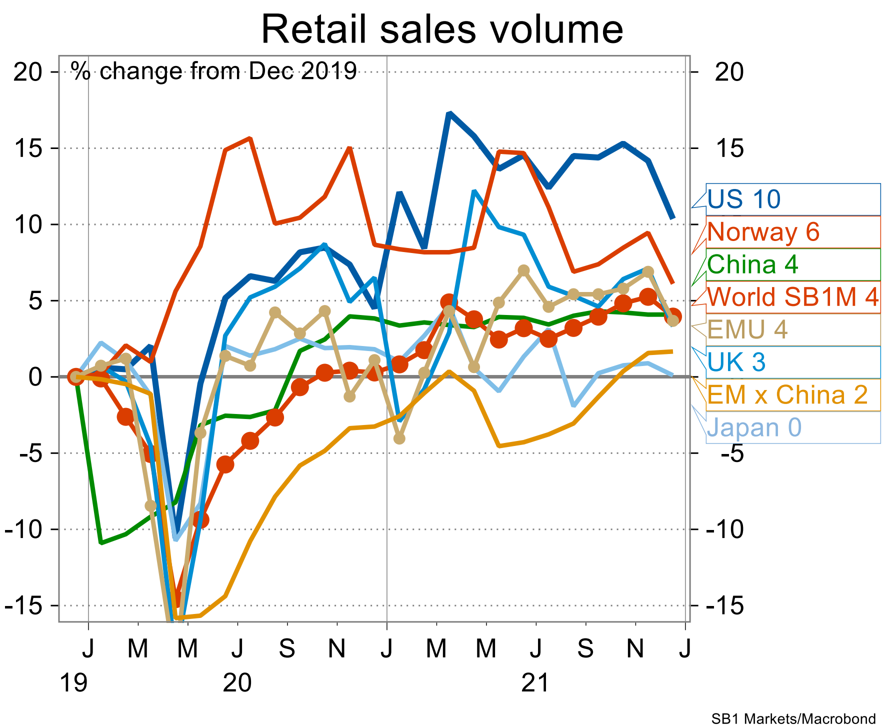


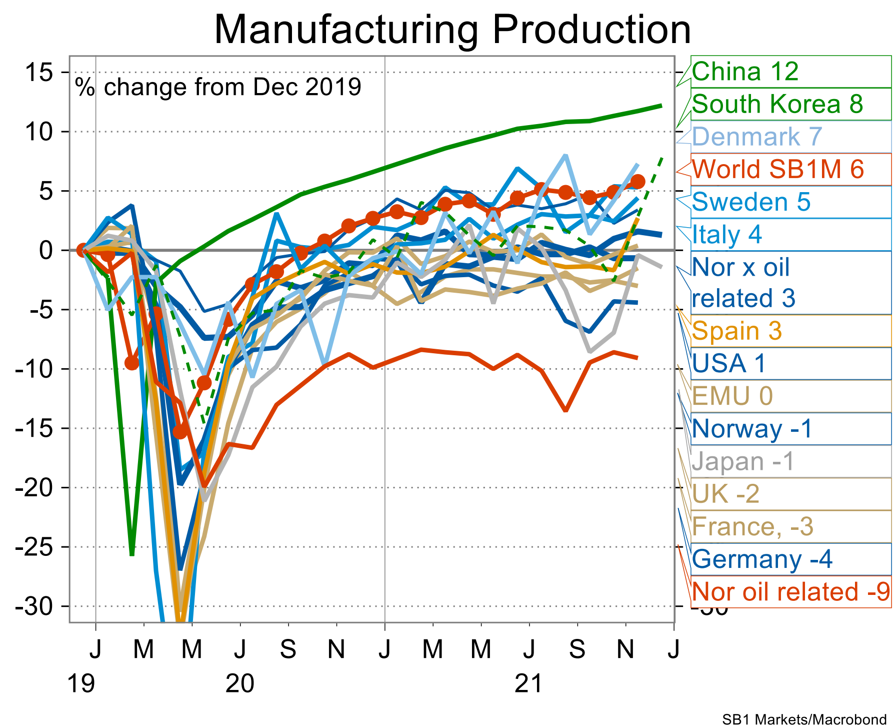
SB1 Markets/Macrobond

- **Global retail sales** very likely fell sharply in December, as sales fell some 3% in the rich part of the world – and seldomly broadly. Omicron may explain some of the weakness, so may energy prices. However, the level has been too high as well, and one day sales will come back to earth. The global estimate is still uncertain as too few emerging markets have reported yet
- **Global manufacturing production** has recovered since the summer, and growth was through Q4
- **Global foreign trade** rose sharply in Oct/Nov, following the setback in September (and several weak months since last May). Trade is up 7.6% vs. Dec-19

DM demand for consumer down in Dec – sales in EM are on the way up

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

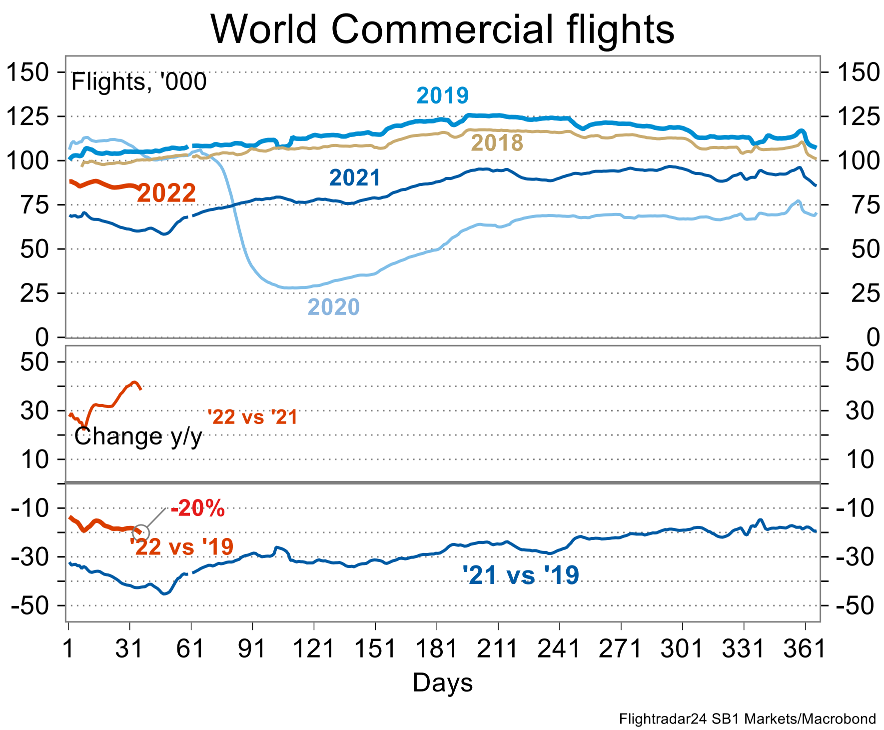


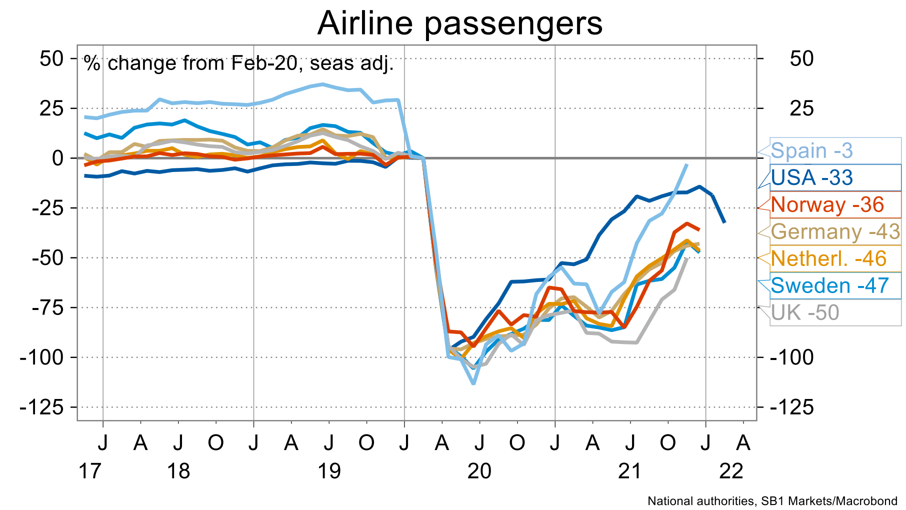


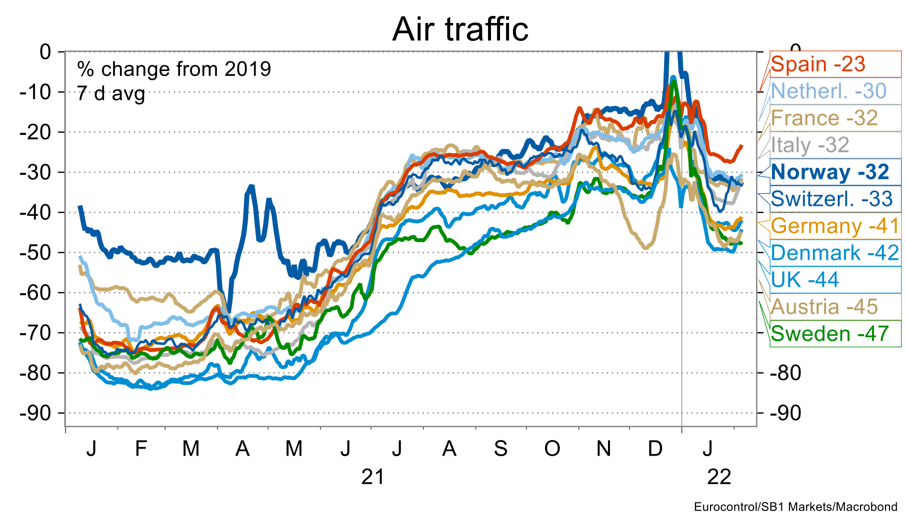
- **Retail sales** in Emerging Markets x China are recovering but is far below pre-pandemic trends. The Dec estimate is rather uncertain
- **Manufacturing production** has been hampered by a deep decline in auto production, but this sector is now recovering. The manufacturing PMIs are still strong, and delivery times very likely easing

Global airline traffic sagging again, down 20% vs 2019 (was -15% at the 'best')

Omicron may have some impact both on the supply (crews are sick) and demand. US sharply down







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

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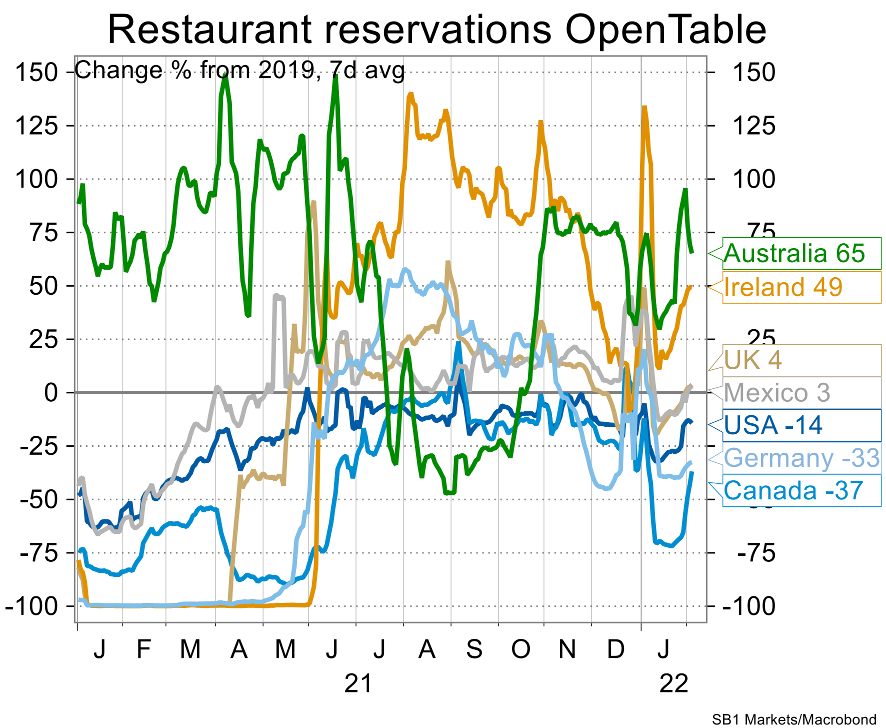
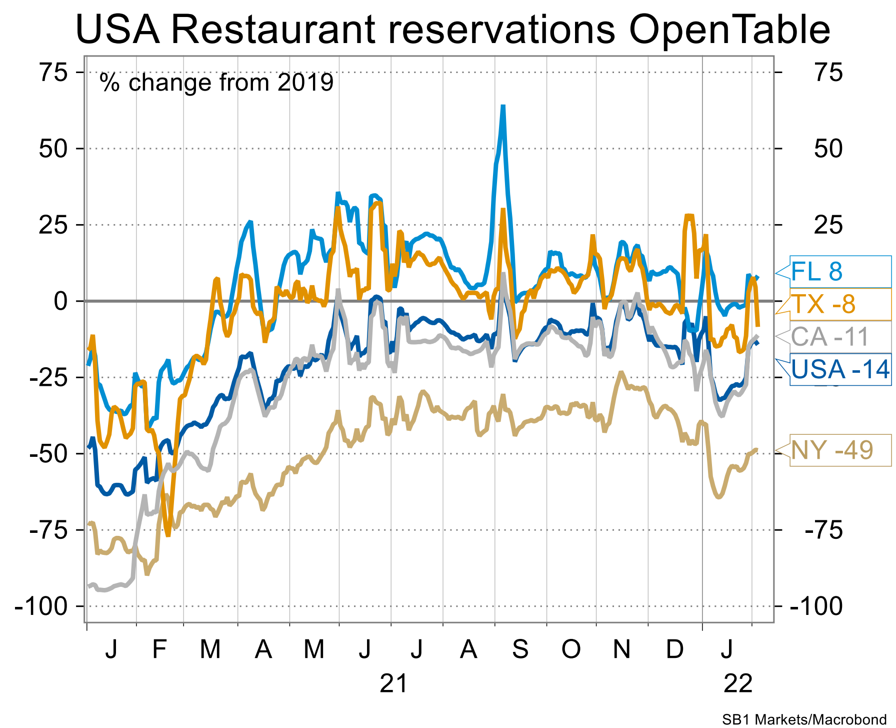
More restaurant guests most places?

Data were volatile during the Christmans/New Year holidays but is the recent uptick for real?





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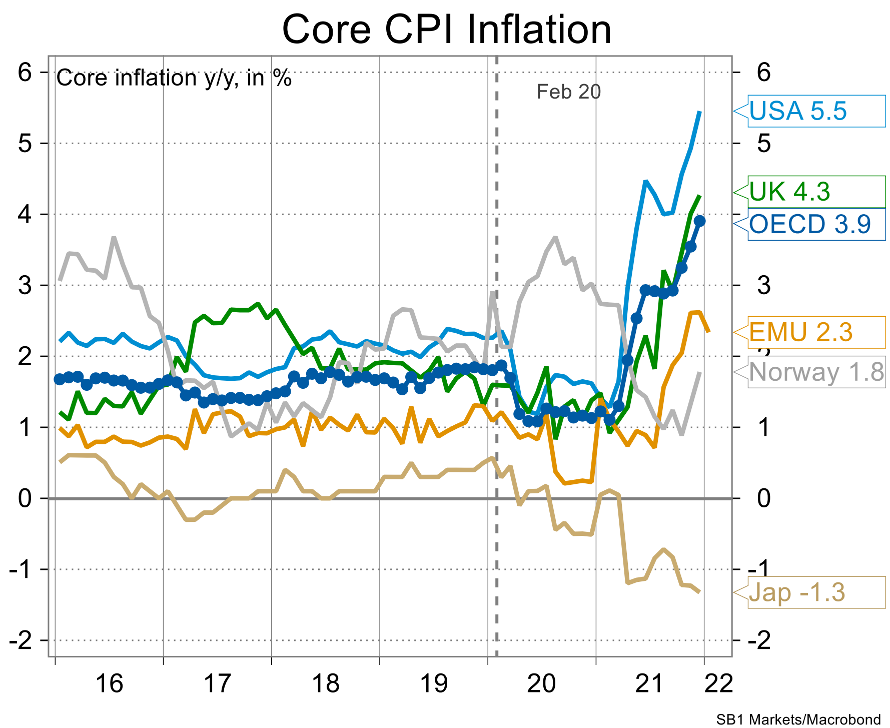
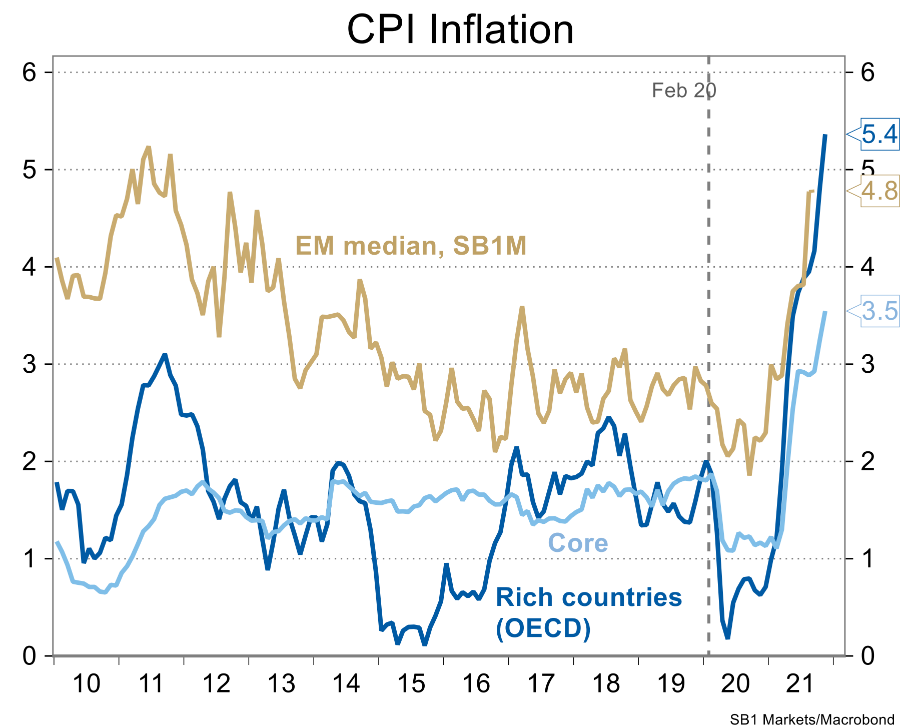
Inflation may be peaking ~~now~~ soon – at a high level

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





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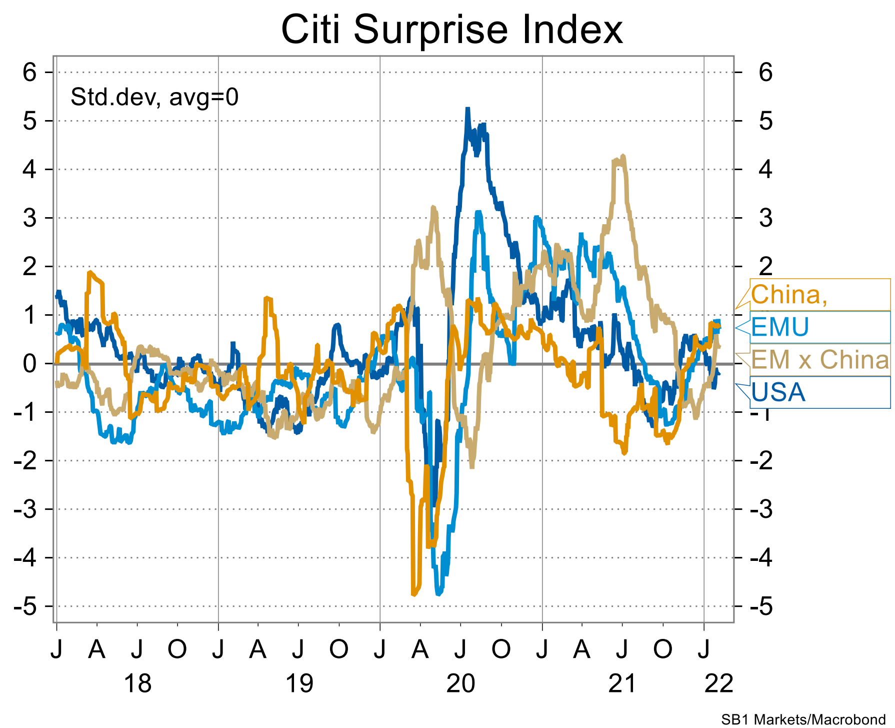
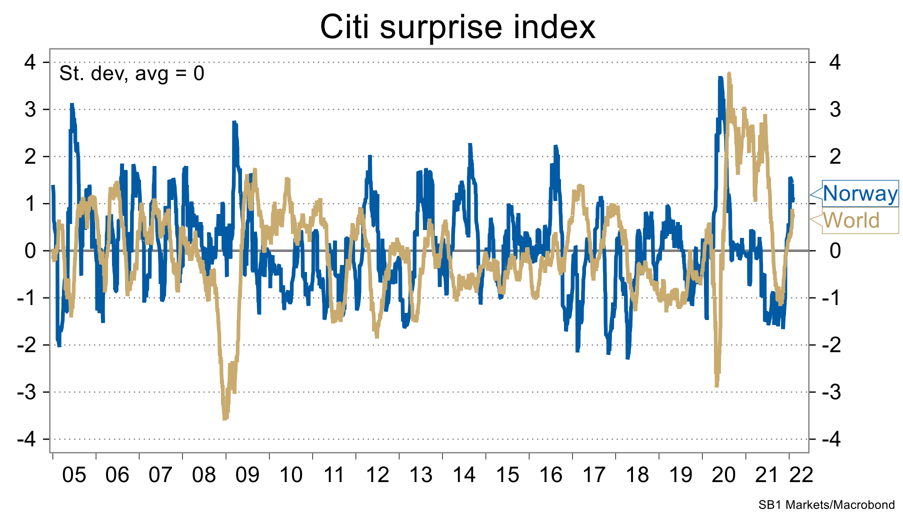
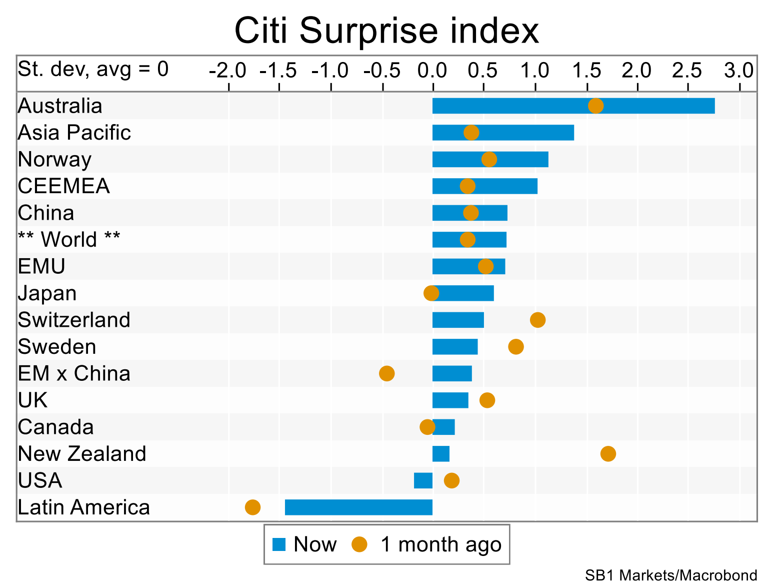
Even with weak PMIs and other mixed data: Surprises now on the upside…

… almost everyhere!







- **Norway** was surprising sharply on the downside through most of 2021, according to Citi. But in early December we crossed the zero line, and now we have suddenly moved up to the very upper part of the list

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

Highlights

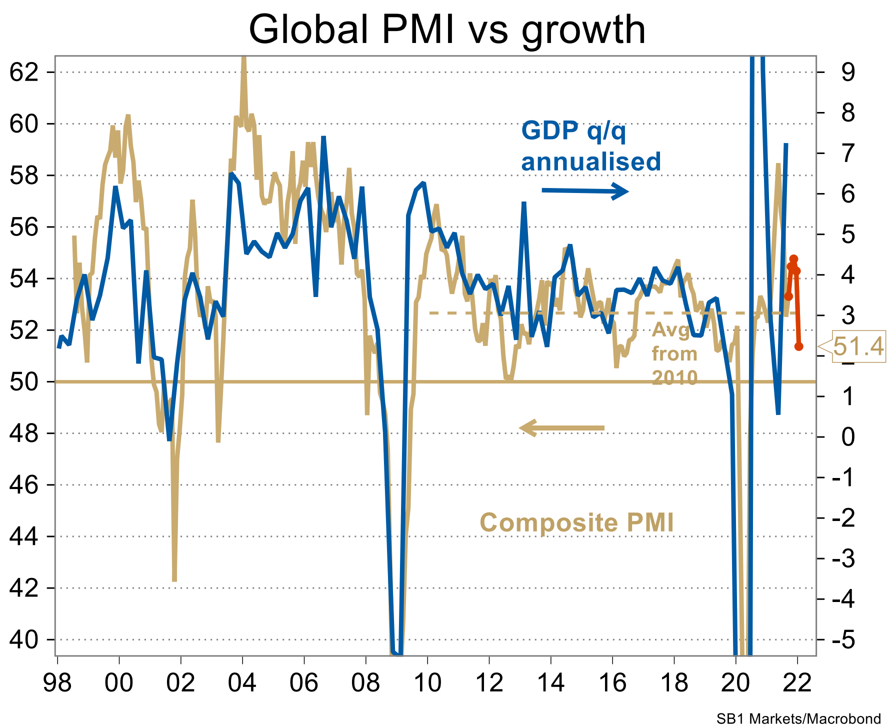
The world around us

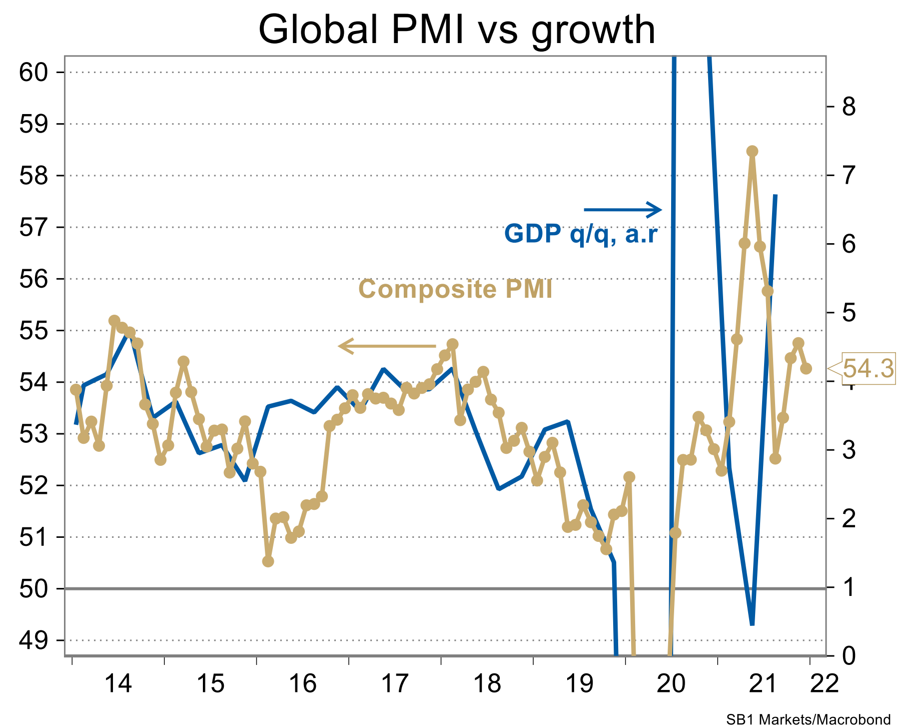
The Norwegian economy

Market charts & comments

The global economy hit at air pocket in January, or it is heading into the storm?

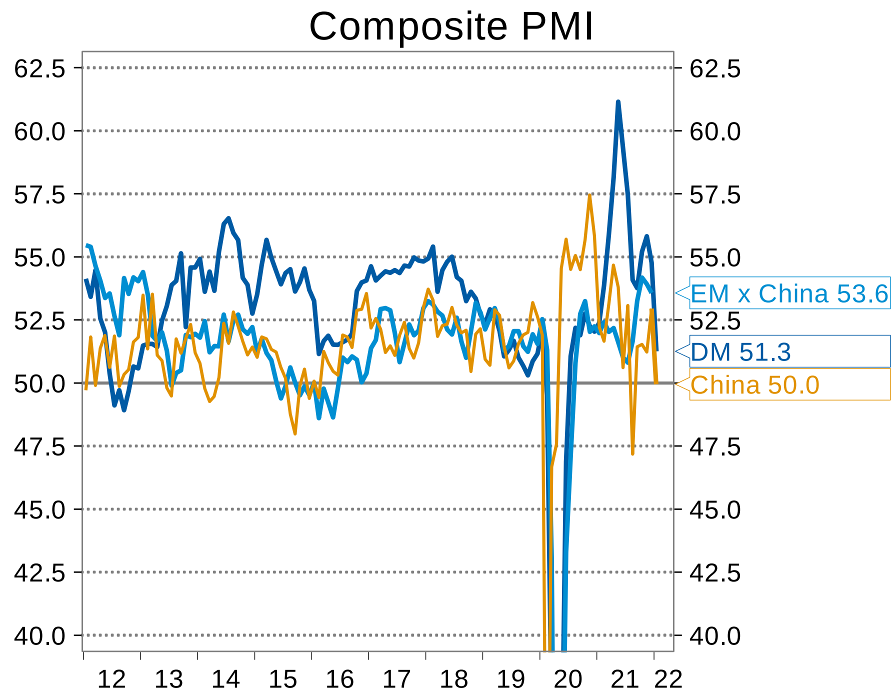
The composite PMI fell 2.9 p to 54.4 in Jan, signals a 2% global growth rate (vs 4% in Dec)





- The **global PMI** fell as we assumed following the preliminary estimates from the rich part of the world because activity slowed in Emerging markets as well
- All main regions reported lower growth, the US the most, at least according to Markit's PMIs. The ISMs fell less, and remain at high level
- **The service sector** slowed the most, and more than expected. Just Germany surprised at the upside

Both the rich part of the world and Emerging Markets down in January



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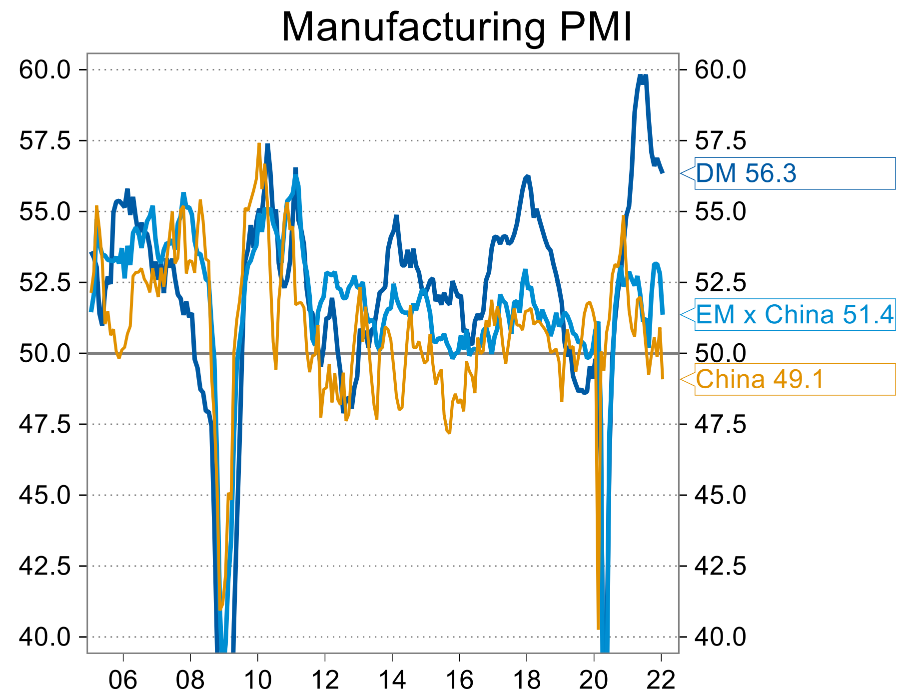

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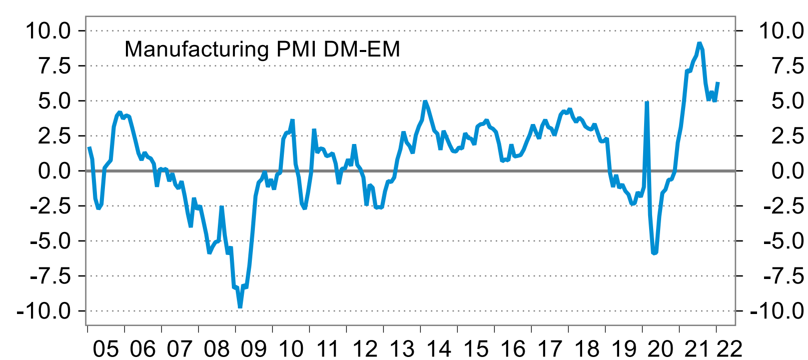

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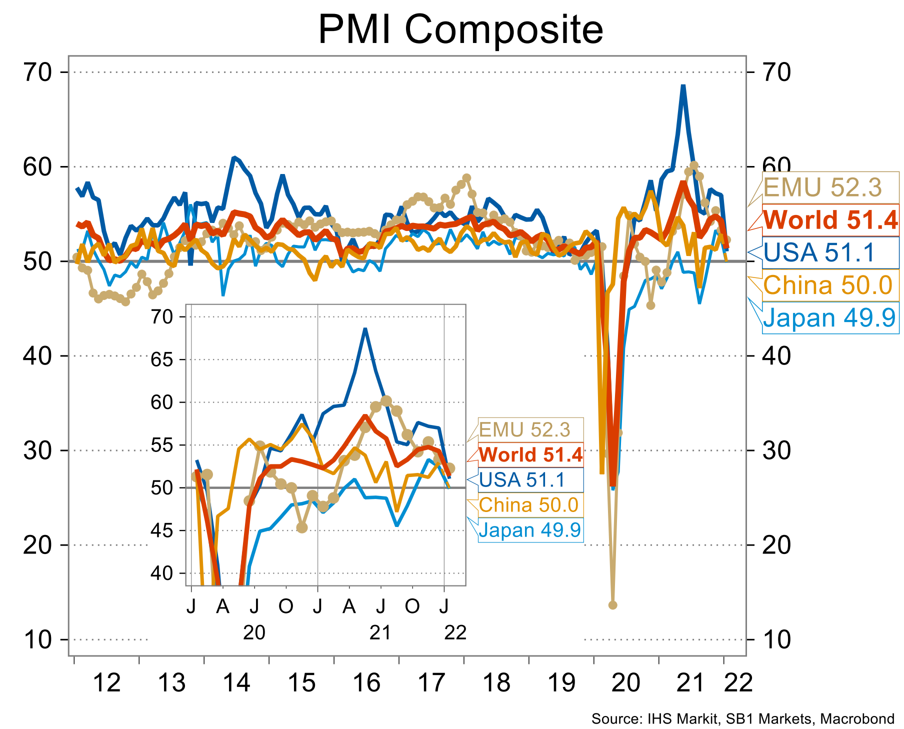
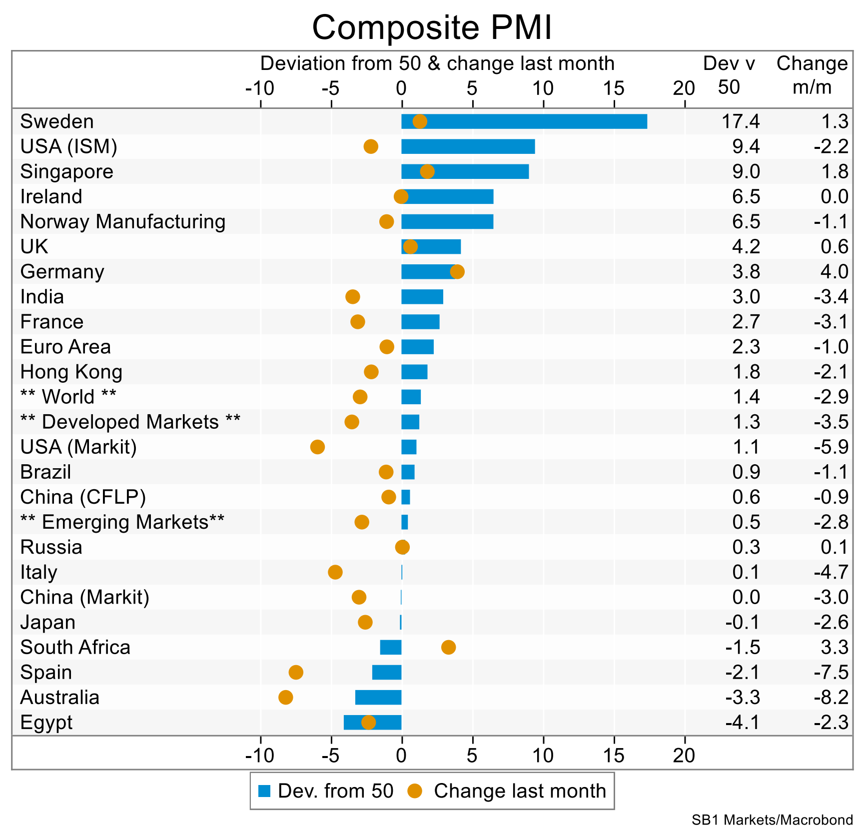
A rather broad decline, and just Germany significantly up, from a low level

5 countries report PMIs below 50 but many more countries down than up in December

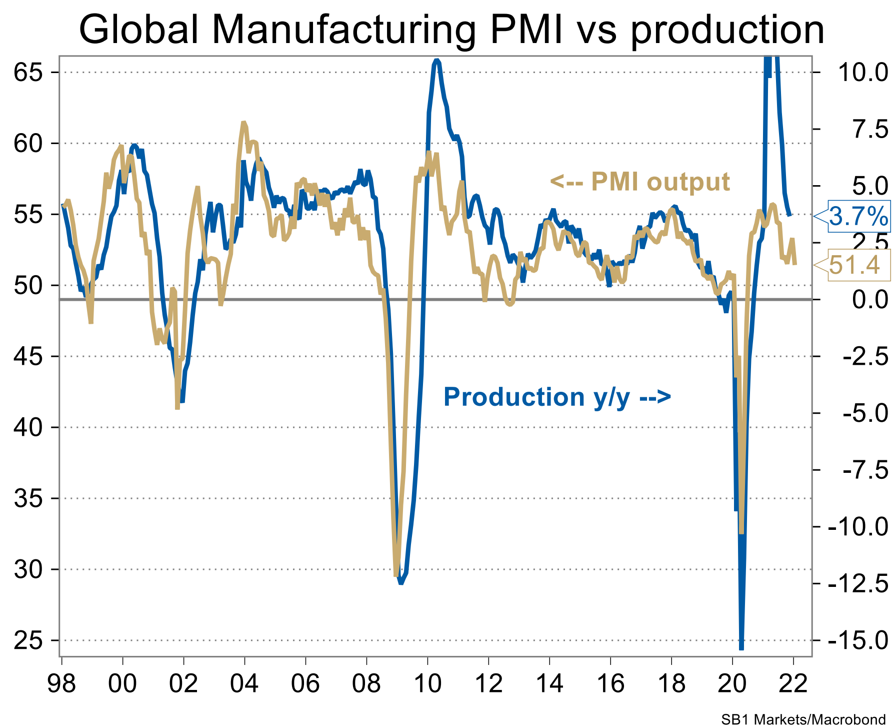


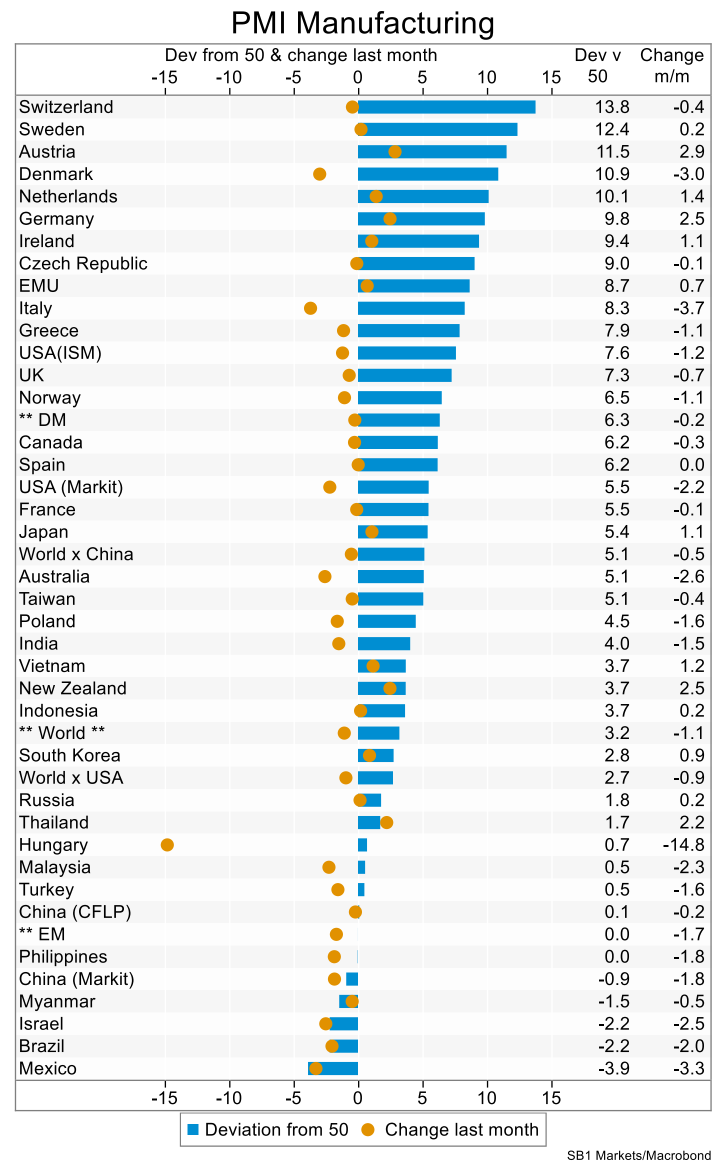


- 18 countries/regions down in January (up from 8), from 13), and just 5 up
- Sweden remains at the pole position, and the ISM at the 2nd place, down just 2.2 p – to 59.4. However, Markit's composite PMI was down 5.9 p to 51.1 – an unusual discrepancy vs. the ISM indices
- EMU down just 1 p – supported by a strong (4 p) and unexpected gain in Germany
- The Chinese PMIs fell, Markit's the most
- Other EMs mostly down too

Manufacturing headline PMI down 1.1 p to 53.2

Still just 5 of 43 surveys below the 50 line. <u>Europe at the top</u>

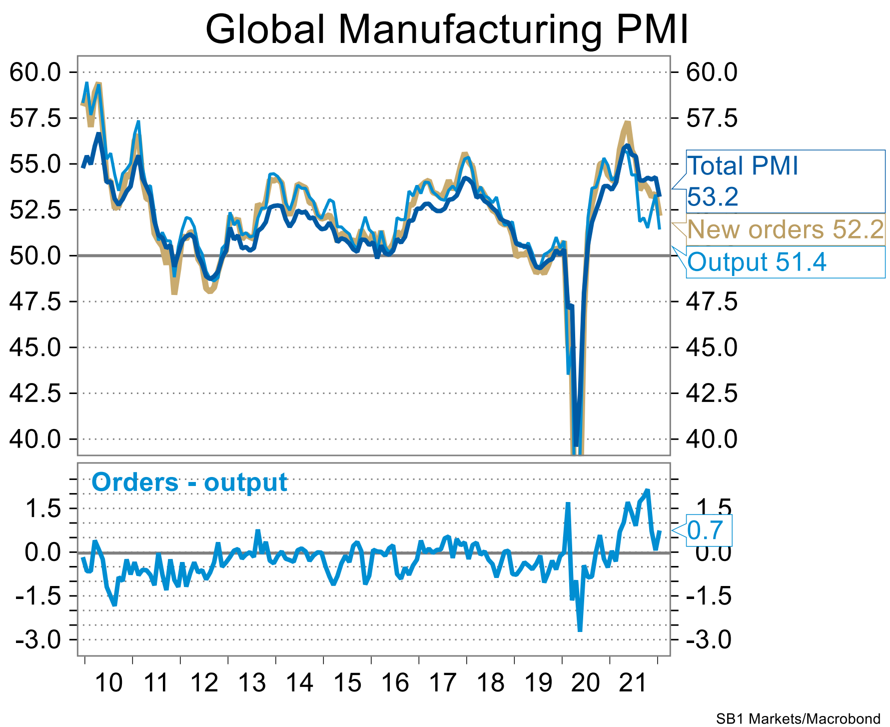


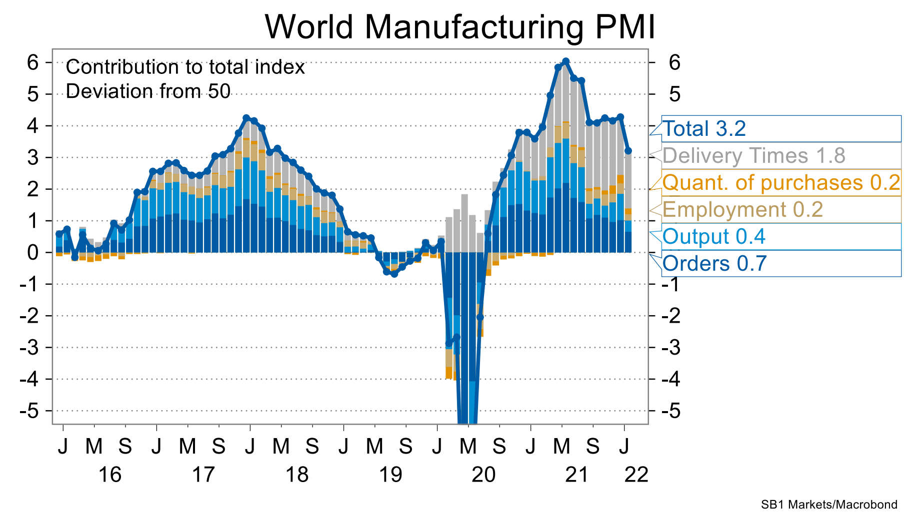


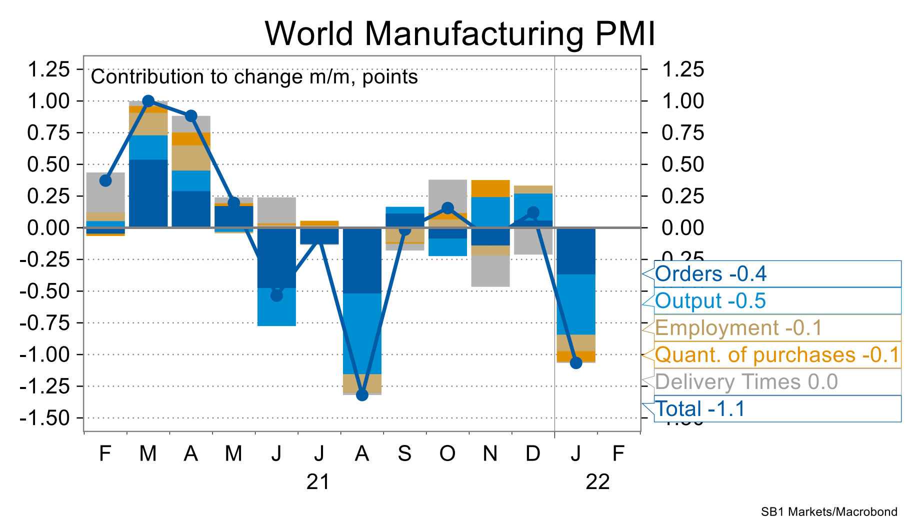
- The **global total manufacturing PMI** fell as we assumed in Jan. The output index fell 1.9 p to 51.4, 0.4 pp weaker that our forecast
  - 34% of countries/regions reported higher total PMIs last month, down from 49%
  - **European countries** dominate the top of the list, 13 of the 14 top positions!
  - Both of the **Chinese PMIs** declined, Markit's the most. The **Indian PMI** fell further but is still at an OK level
  - **EMs** fell more then DM
  - **Norway** reported a minor decline – and the level is well above average

The decline in the PMI is for real: orders and output took the total index down

and not the delivery index

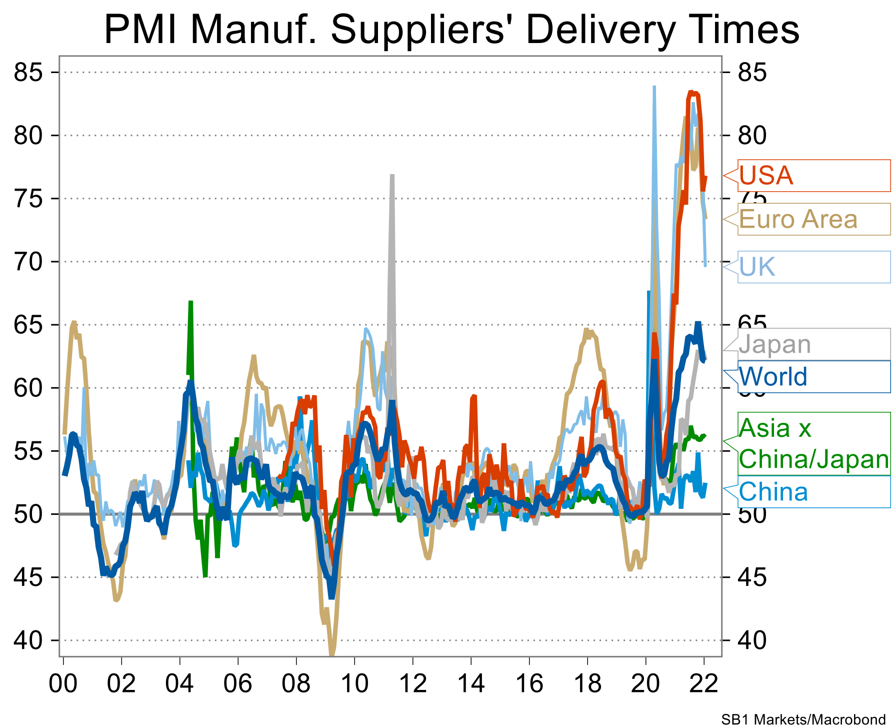


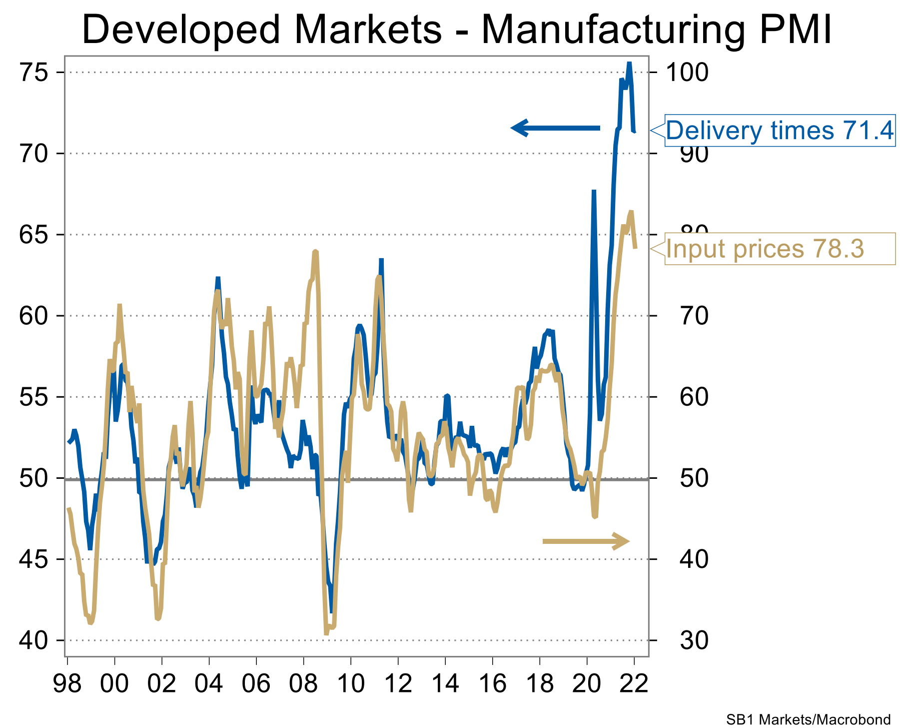




Some easing in the supply chains: The delivery times indices down from the peak

However, no further decline in January





- 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

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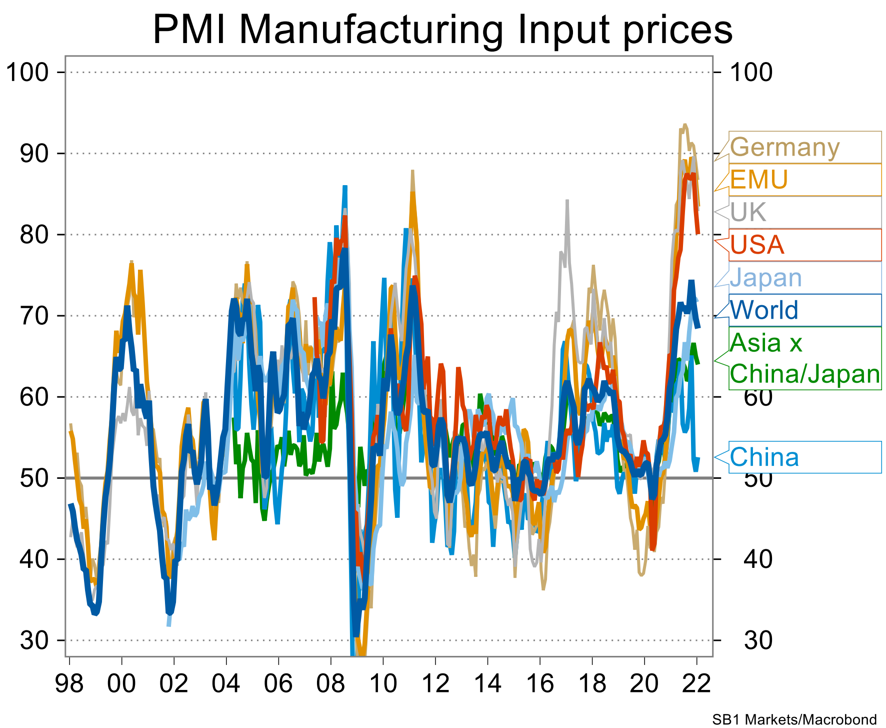
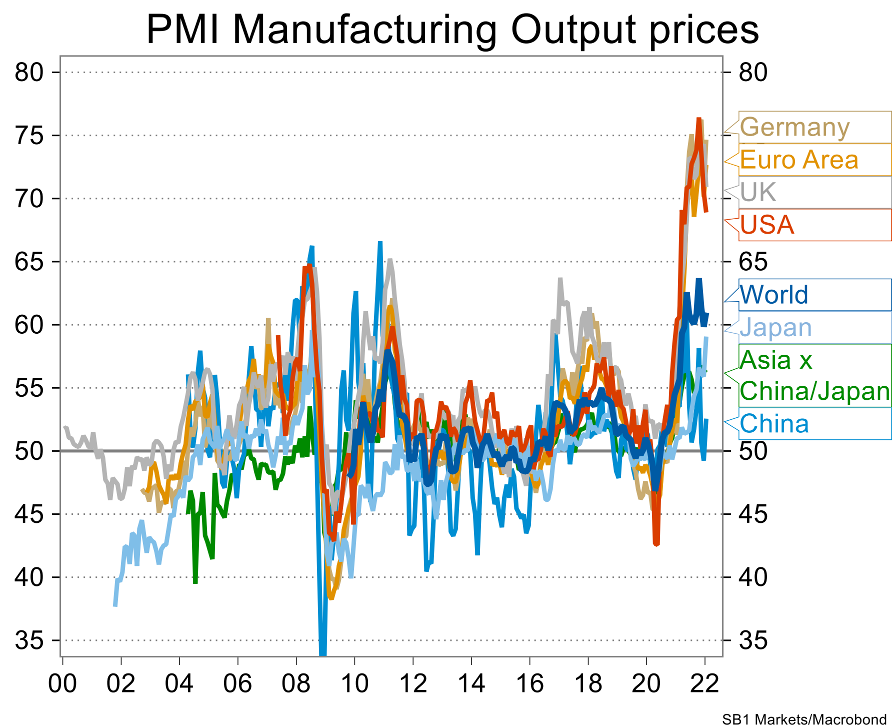
Manufacturing input prices are easing somewhat

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

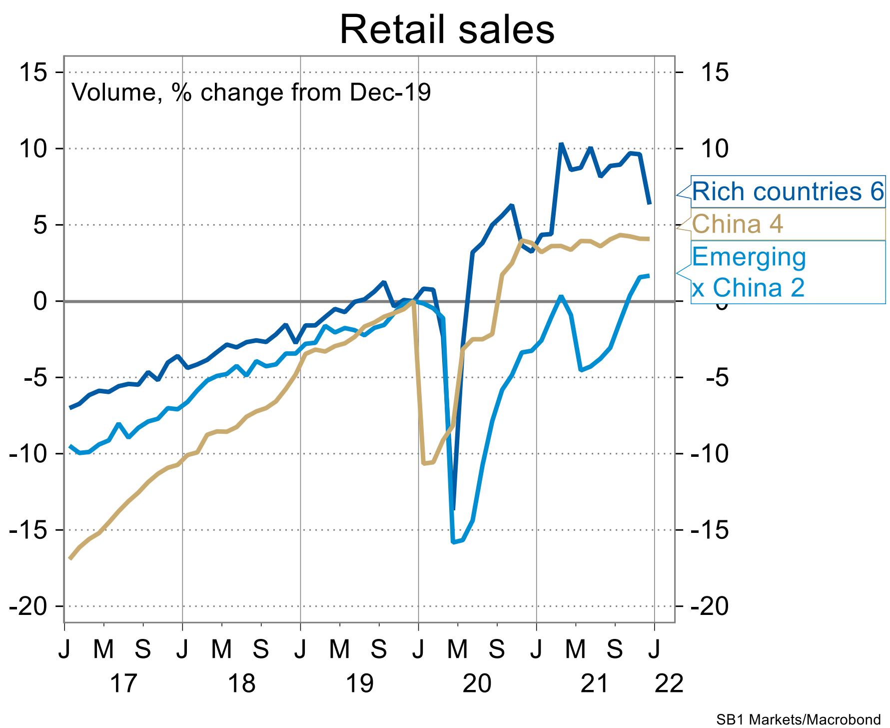


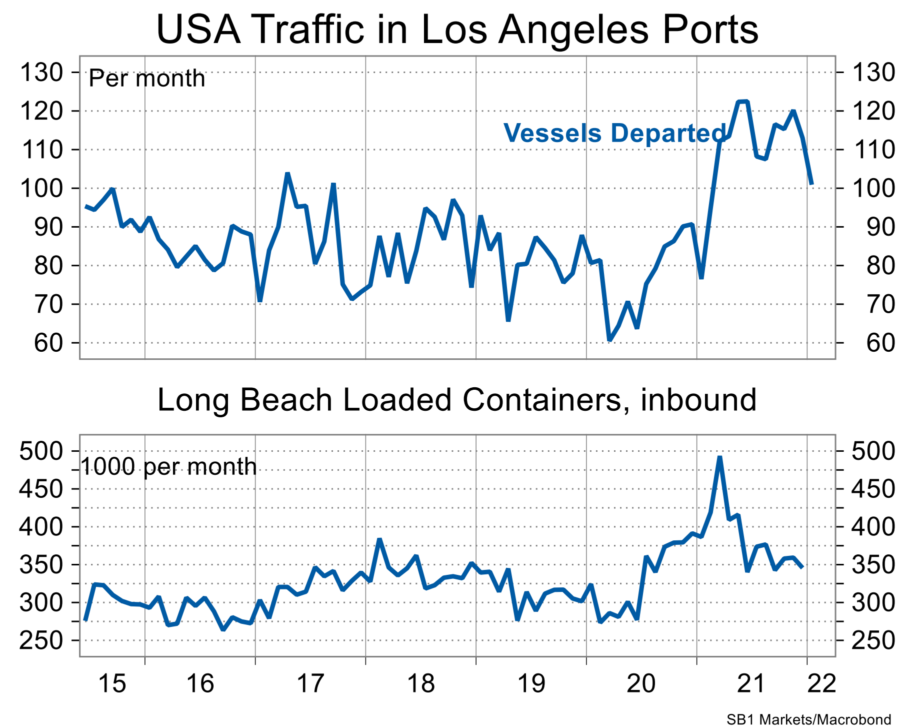


- In January, **output prices** rose slightly faster than in December, with contributions from Germany, Japan and China (but Chinese manufacturers are not reporting much growt in neither input nor output prices (even if producer prices are soaring…)

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

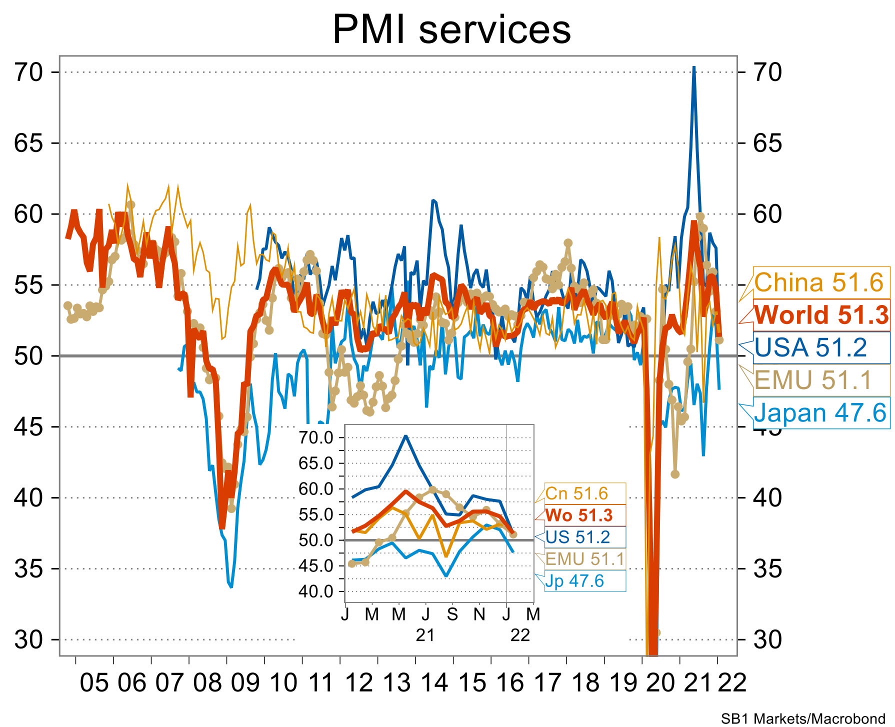
Because demand has been so strong in DM, not in EM? However, the worst is behind us now?

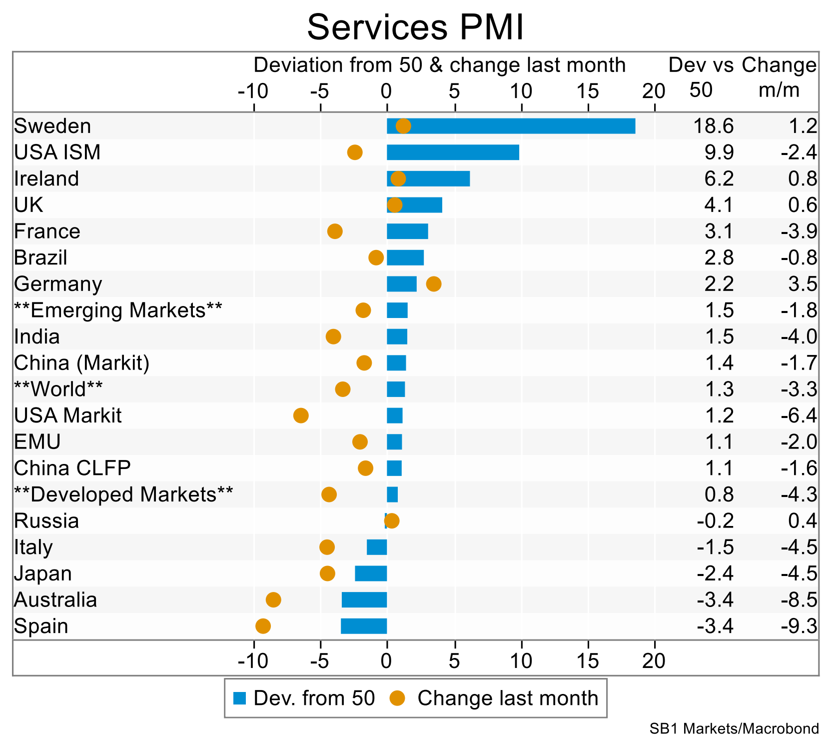




The service sector PMI down 3.3 p and broadly. Omicron must be to blame?

13 countries down, 7 up (and not by much, except for Germany)

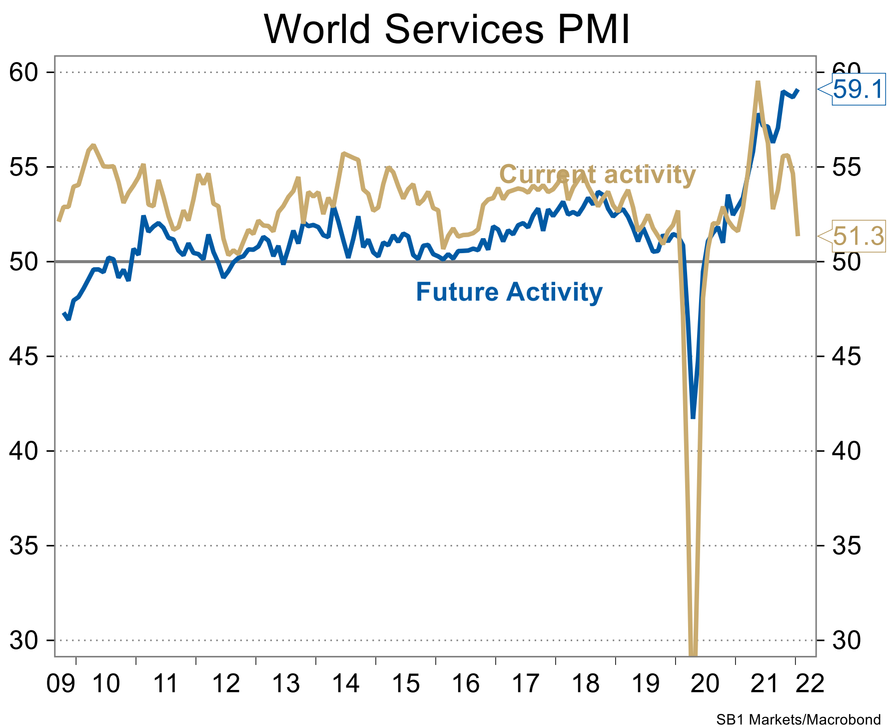


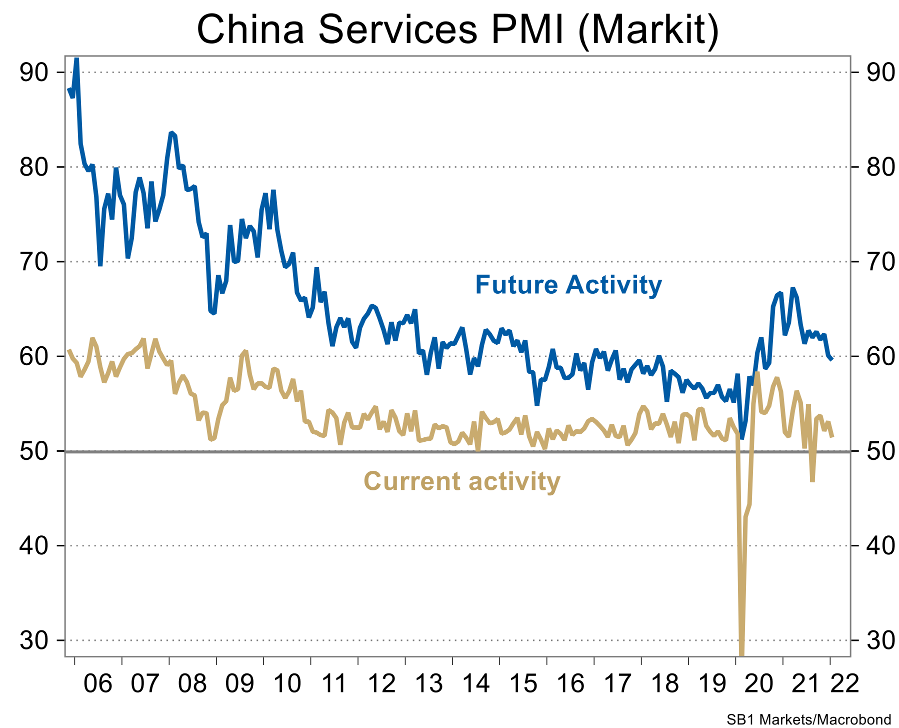


- **The global service sector PMI** fell 3.3 p to 51.3 in January, and is now signalling growth below trend
  - » 6 countries/regions up (from 4 in Dec), 13 down (from 13); 4 are below the 50 line (from 2)
- **Rich countries** down in average, the EM's services PMI rose marginally due to surprising gain in Markit's Chinese service sector PMI
- Both **Markit's PMI and ISMs US services index** declined in January but this time just Markit's index fell sharply, and to a 'low' level. The ISM services index is still no. 2 at the list (just behind Sweden)
- Mixed outcomes in EMU, the German PMI rose to above 50, while the indices from the other big 4 contracted

The service sector expects better times the ever before

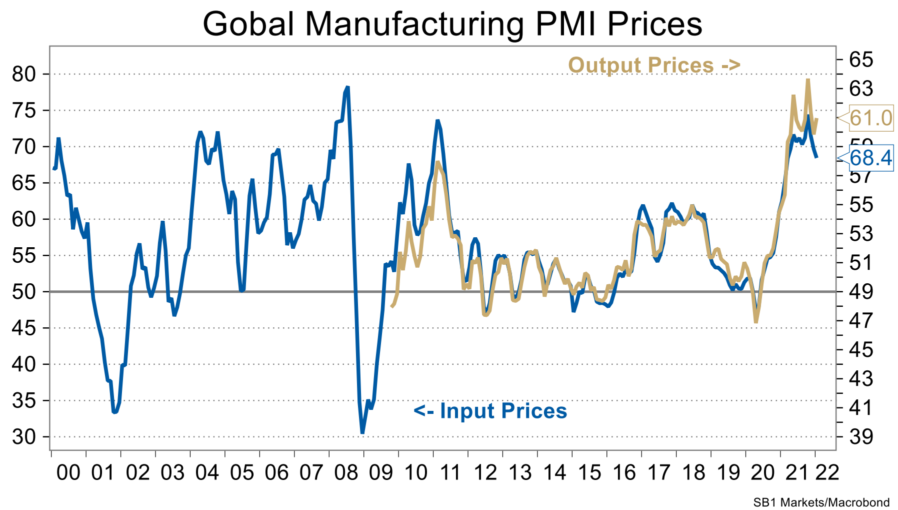
At least outside China

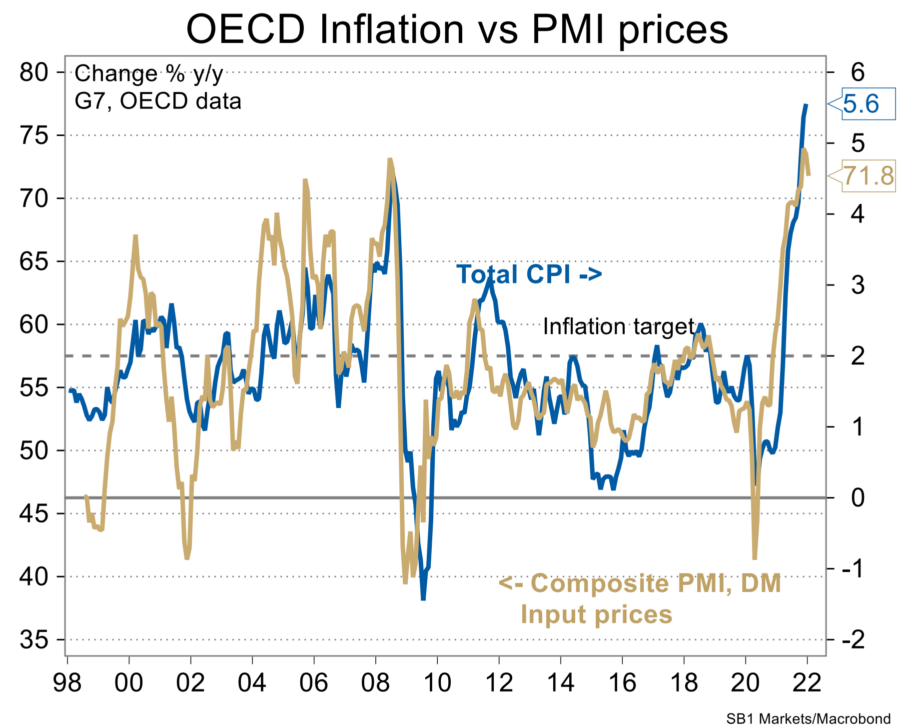


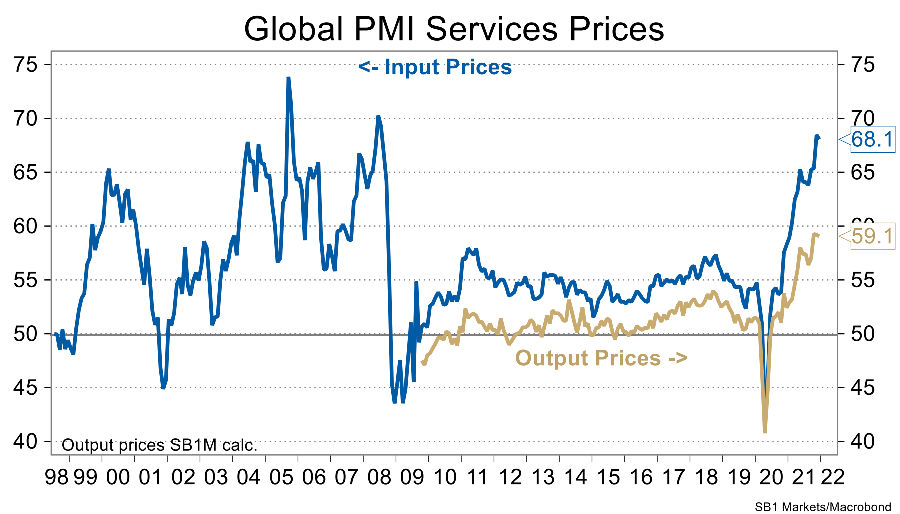


Peak inflation around the corner – but price increases are still hefty

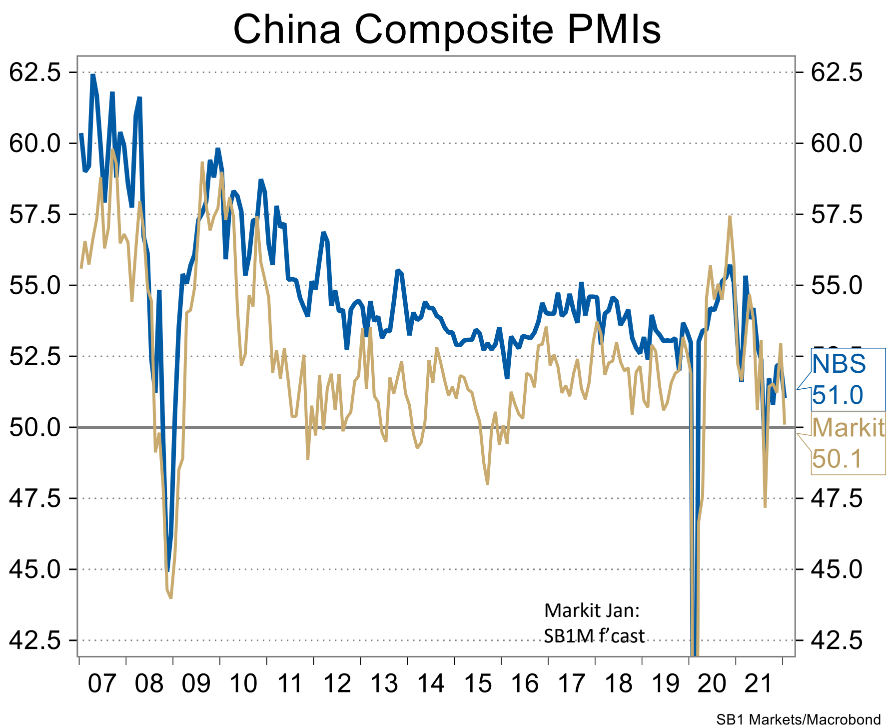
In total, as small decline in the price indices in the PMIs in January

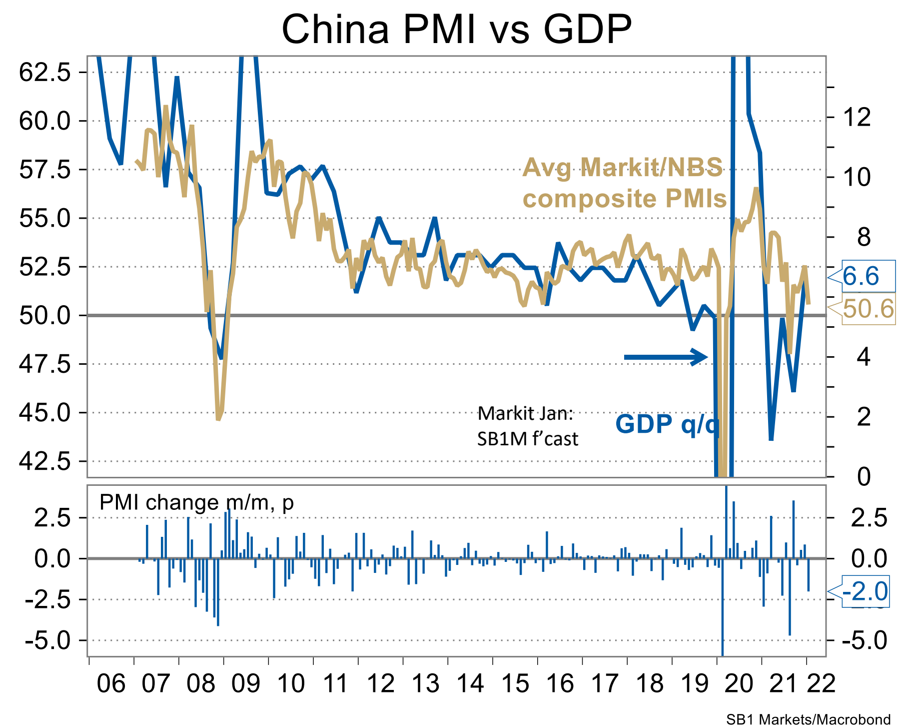






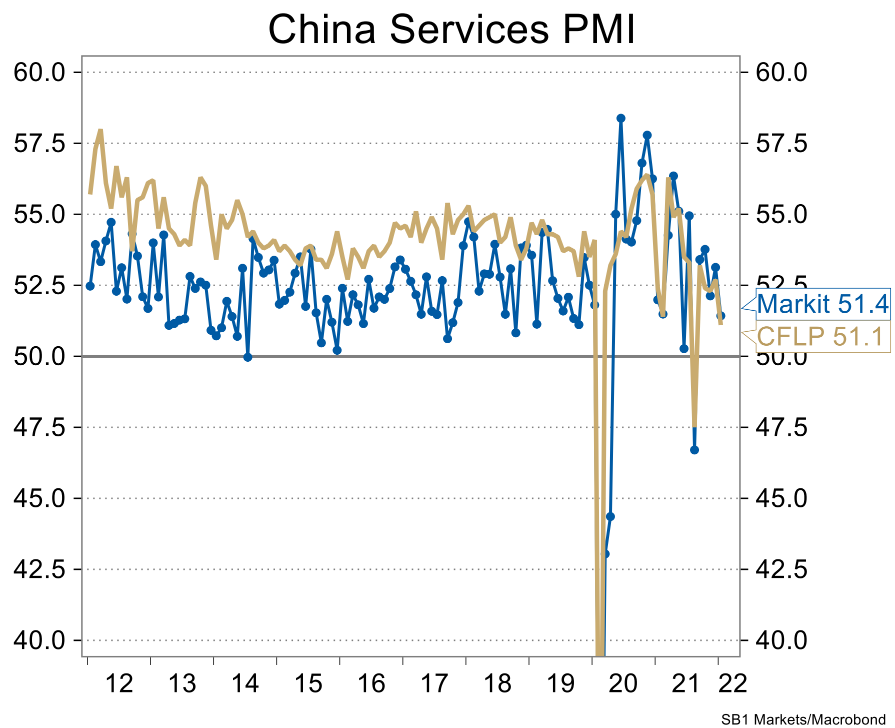
Both PMIs down in January, and both are at the low side





- The **CFLP/NBS composite PMI** fell by 1.2 p in January, due to a 1.6 p decline in the service sector PMI (close to the expected 1.7 p drop) to 51.1 – very likely due to the impact of the fight against the Omicron variant. The manufacturing index was close to unch, and at tad better than expected
- **Markit's composite PMI** index fell 2.9 to 50.1. Markit's service sector PMI declined 1.6 p, while the NBS lost 1.7 p. The output component in the manufacturing also fell sharply (reported last week)
- **The average of the two PMI data sets** fell by 1.9 p, to 50.6, to well below and average level. <u>This level signals a growth rate clearly below trend into Q1</u>

Services PMIs down in January, and somewhat below average



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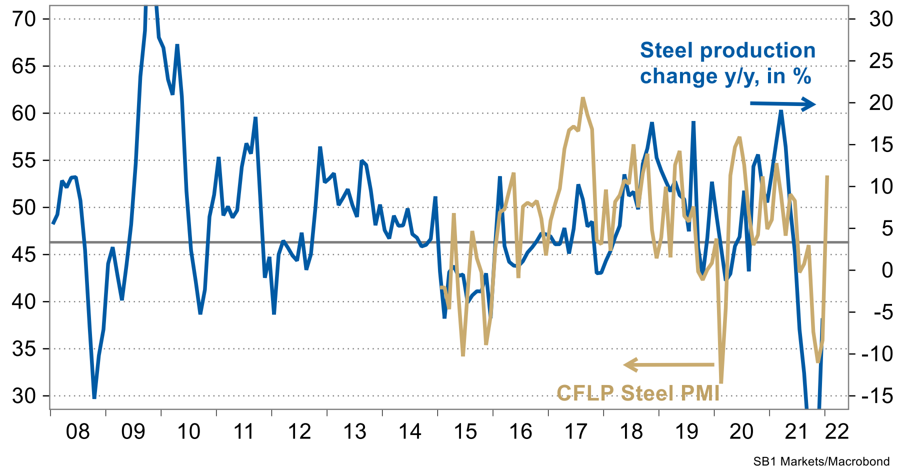
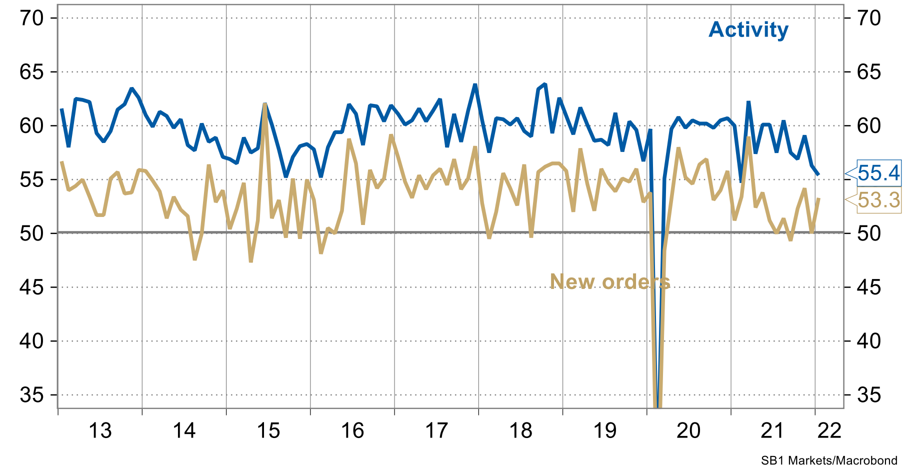
The steel PMI confirms the sharp rise in Dec steel production. Constr. up too

The steel sector PMI shot up to 53 from 34 in Jan, following the 21% surge in production in Dec

China Steel Production vs PMI

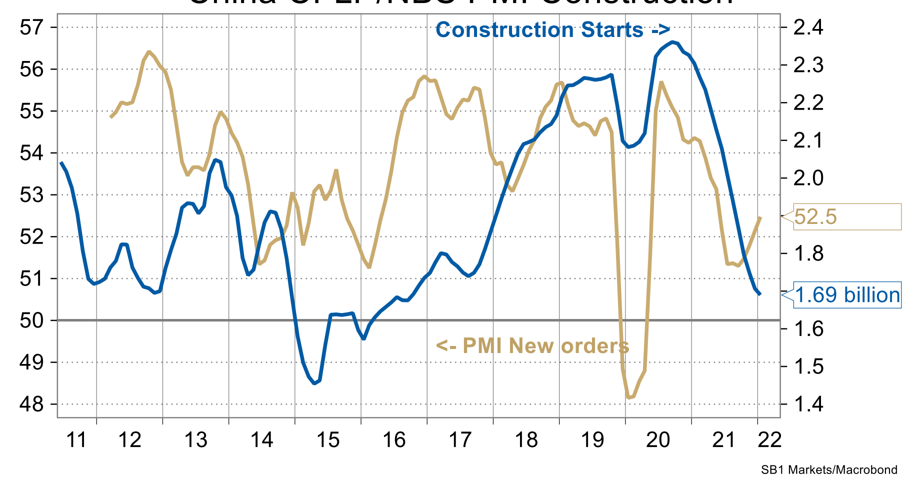


China CFLP/NBS PMI Construction



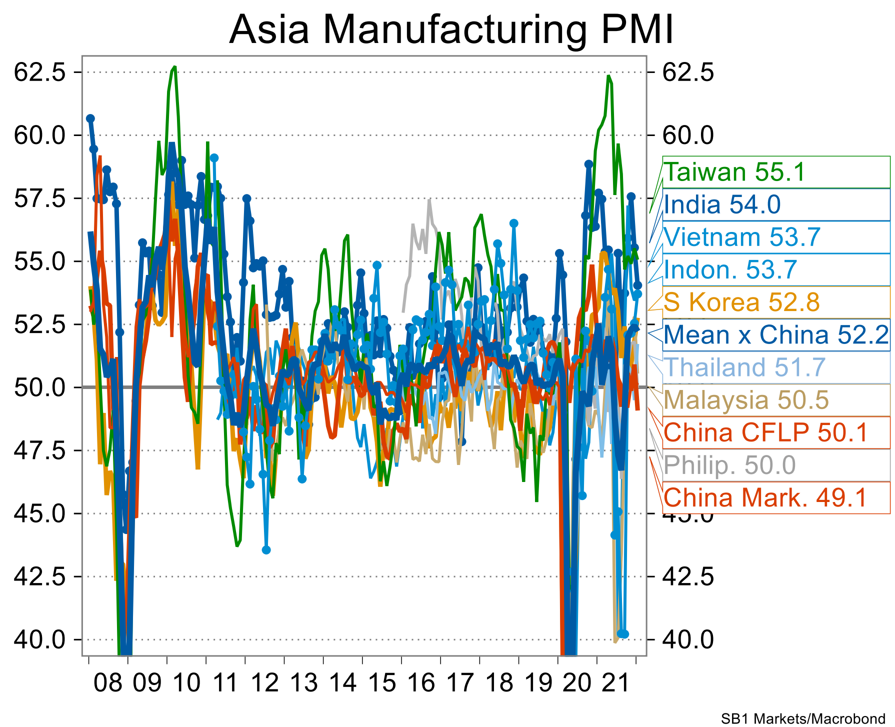
- The sudden lift in steel production was surprising – and the Dec PMI for the sector did not reveal anything on beforehand (or rather, mostly after the fact, as these PMI data are gathered during the 2nd half of the month)
- The **Evergrande++** debacle (several builders are now struggling) has so far not led to a harsh setback in the overall Chinese construction industry, according to the construction PMI. Orders have slowed but not dramatically – and in January the order index recovered visibly
  - » Regrettably, the correlation between PMI and actual construction starts is rather weak

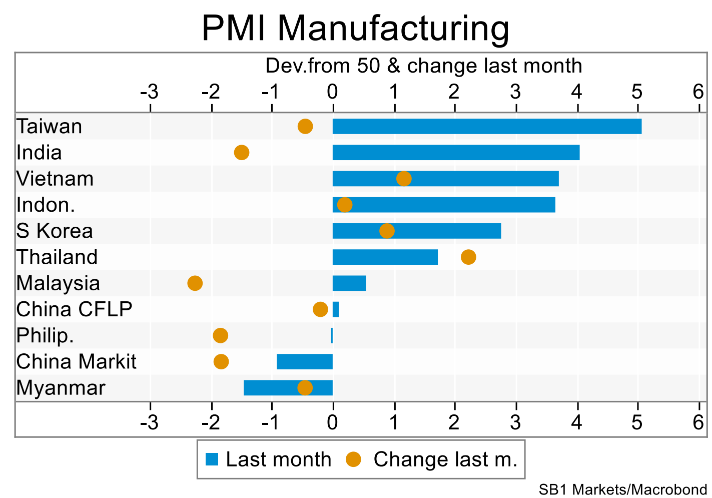
China CFLP/NBS PMI Construction

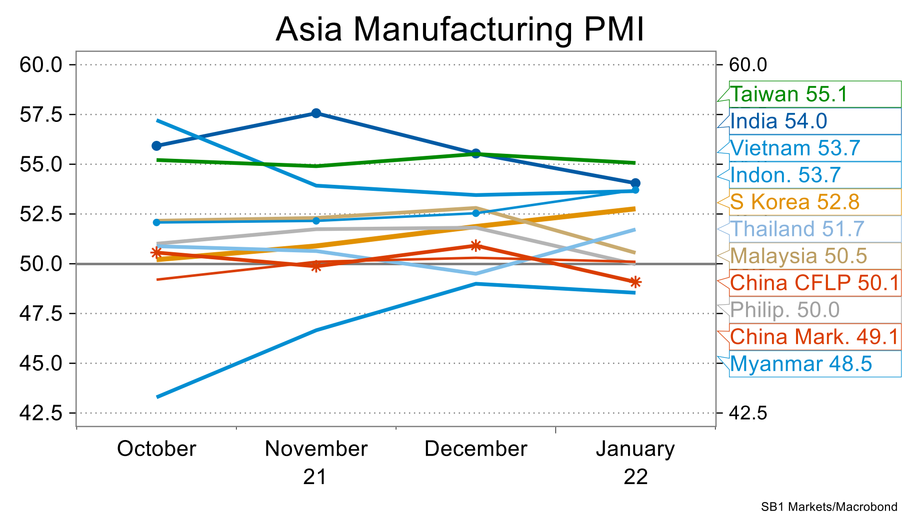


Asia x China/Japan: Mixed but more down than up

Still, 8 manufacturing PMIs are above the 50-line (from 8), just 2 are below







- India is slowing but is still reporting decent growth, and South Korea is accelerating. Growth in Taiwan has stabilised – at a rather high level

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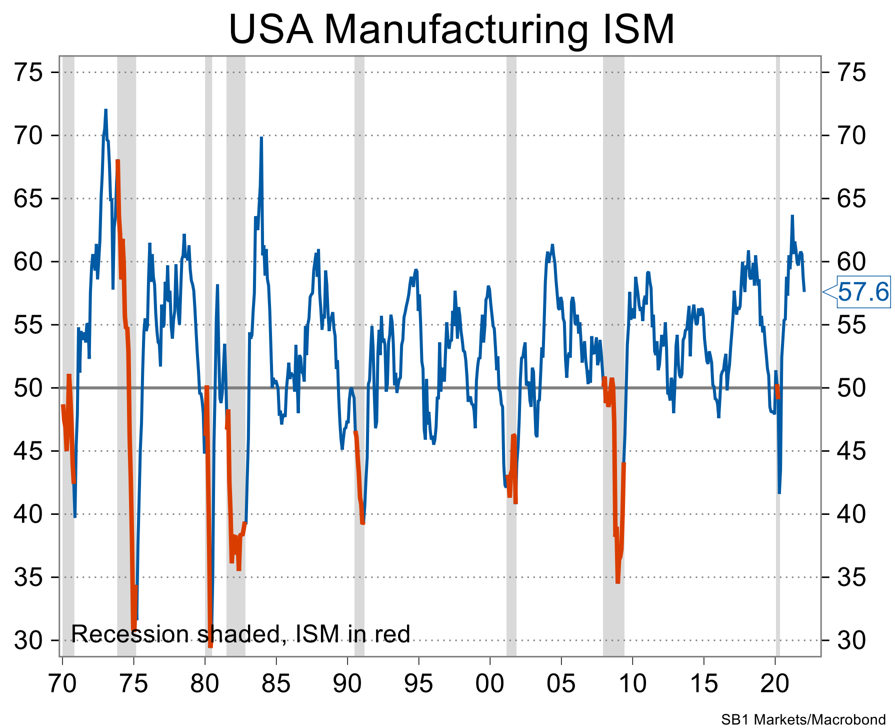
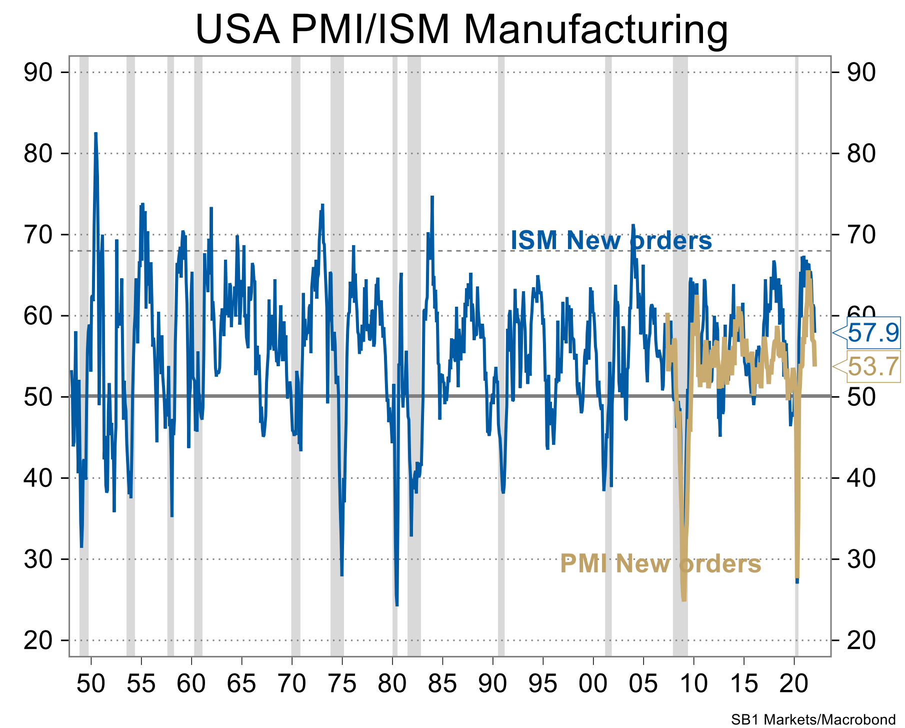
Manufacturing ISM down in December, delivery times index on the way down

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

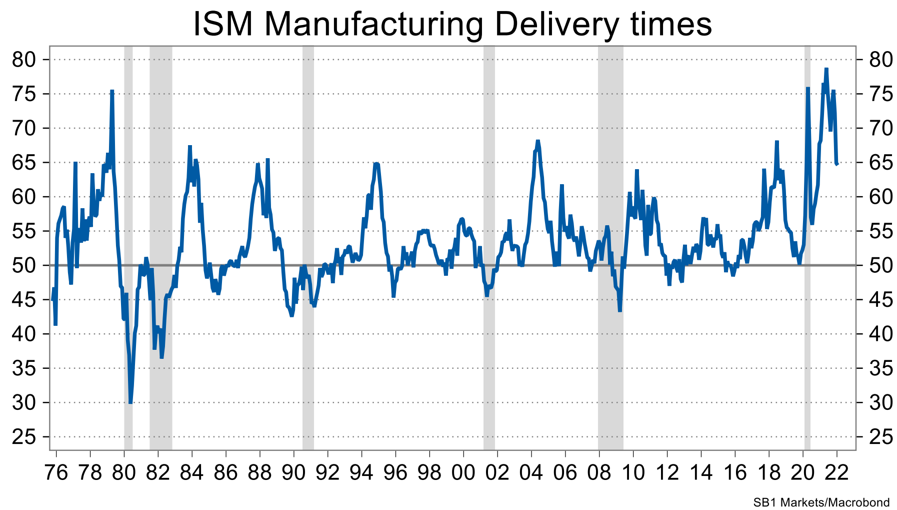


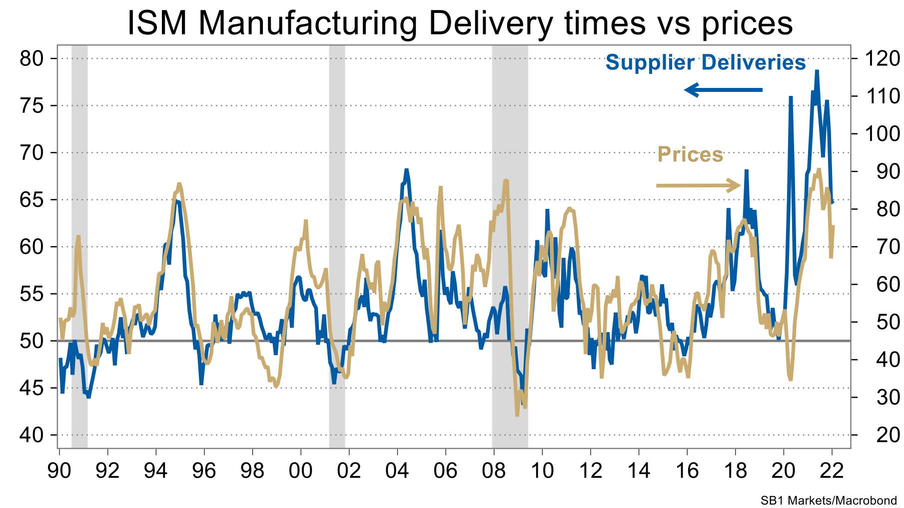


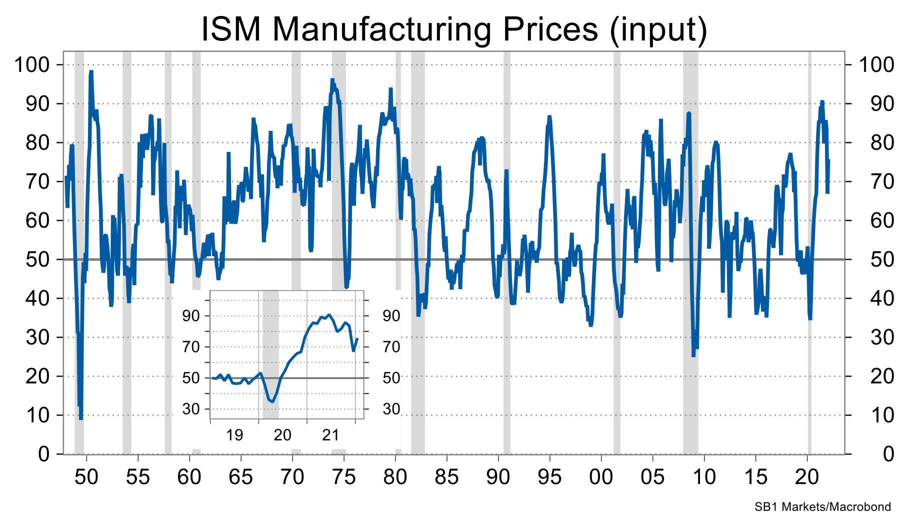
- The **ISM manufacturing** has been at a very high level for months, in fact through the entire 2021, and the best 12 avg since 1984, when the US economy recovered from the deep double recession (BTW last time the Fed had to play really hard to get inflation down, under governor Volcker). Actual growth in manufacturing production has been rather slow, but it has gained speed the recent months
  - » Last month, 14 of 18 manufacturing sectors reported growth (15 the prev. month), 1 sectors reported a decline (paper products, from 3)
  - » The **new orders** index fell 3.1 p to 57.9, still far above an average level
- 36 commodities were up in **price** (from 28, at the peak 56 commodities). 7 were down in price (from 8), including oil, natural gas, and steel. The price index rose – which was a but surprising – and the bond market reacted
- 16 commodities were reported in **short supply,** up from 10 (but still way below the peak at 50 commodities a few months ago)
- **In their comments**, <u>fewer</u> companies are complaining about labour shortages and lack of supplies. Comments are generally very positive vs the growth outlook

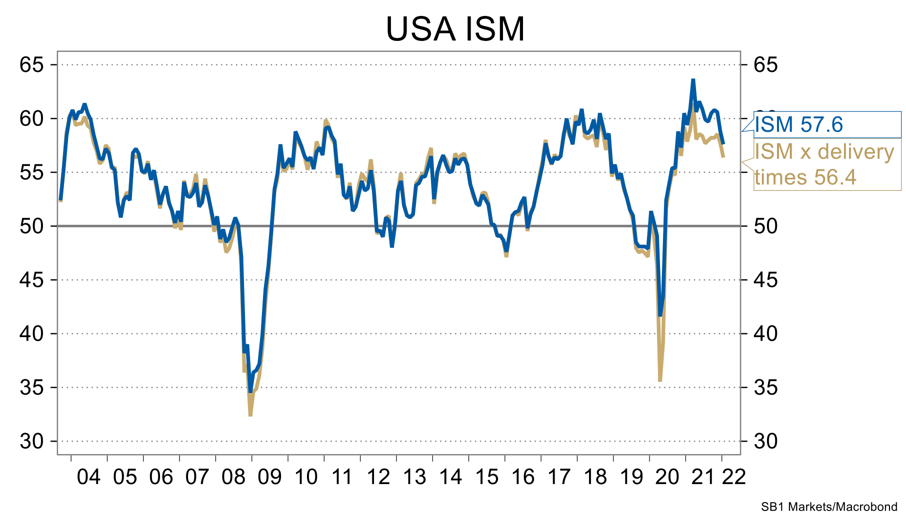
The delivery index not further down in Jan, and the input price index rose

Still, both indices are down from H2 peaks









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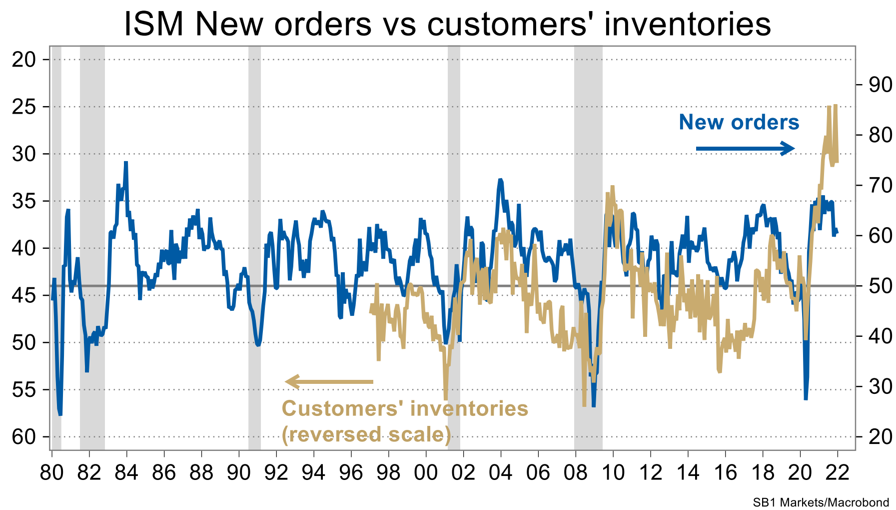
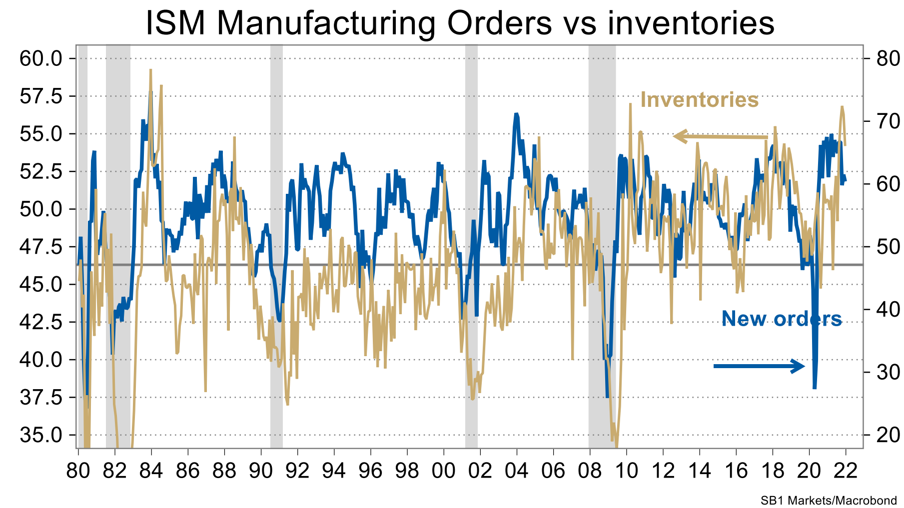
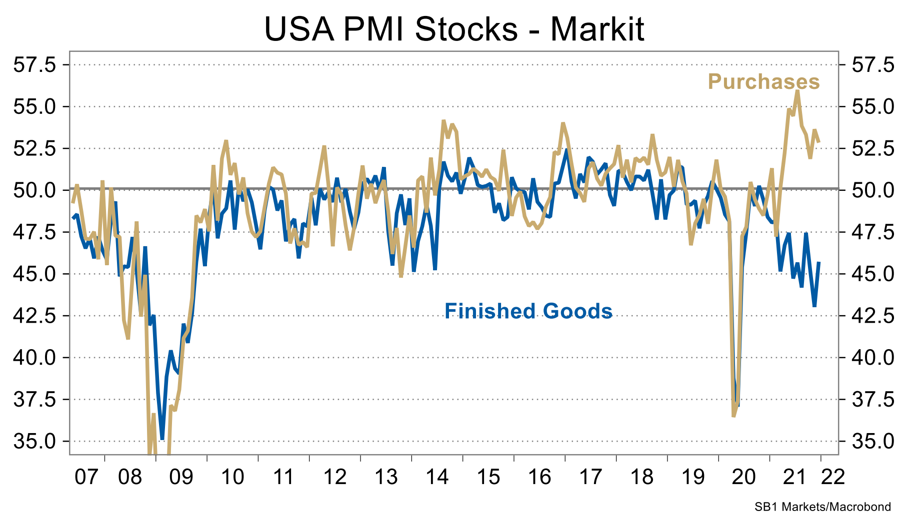
New orders still going strong, customers' & finished goods are very low

Signals further growth in activity in the manufacturing sector



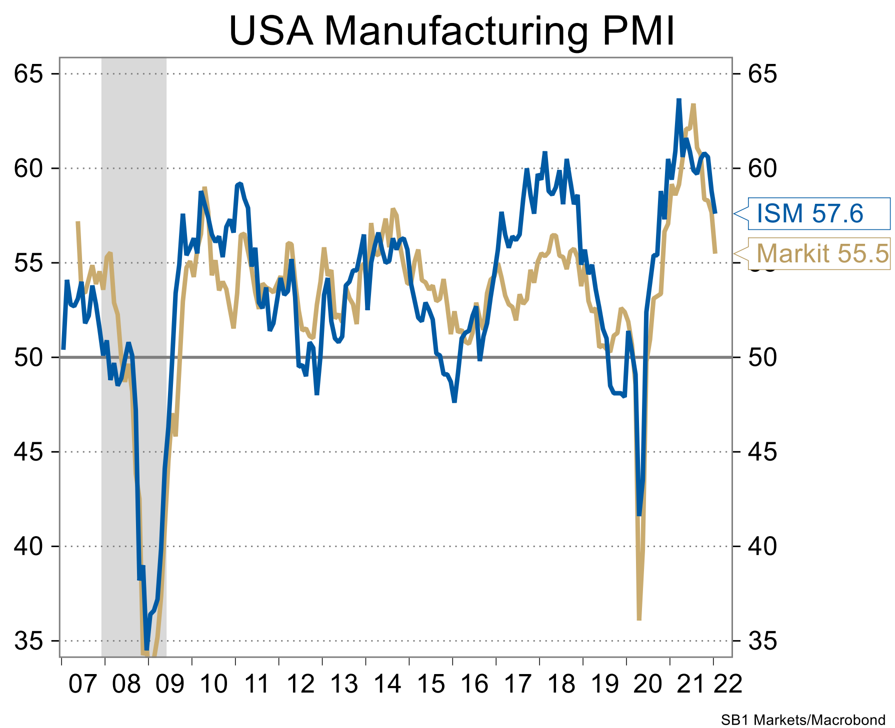


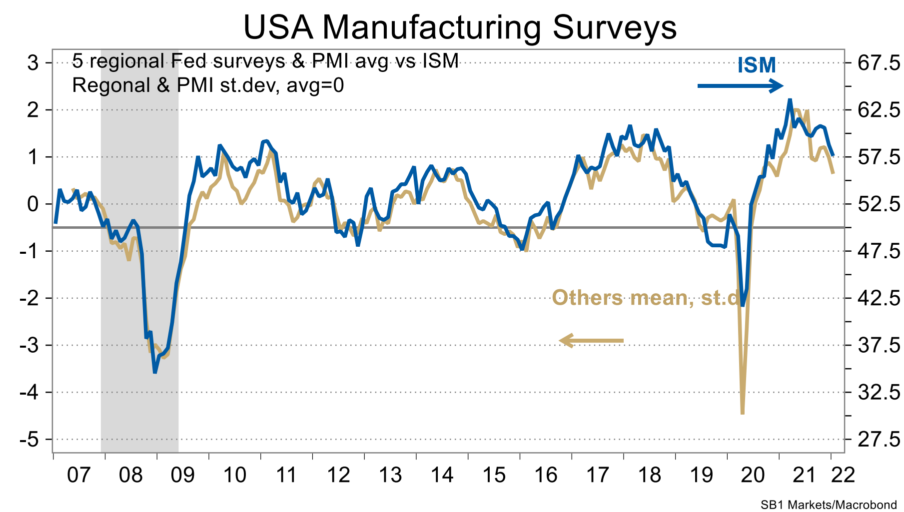


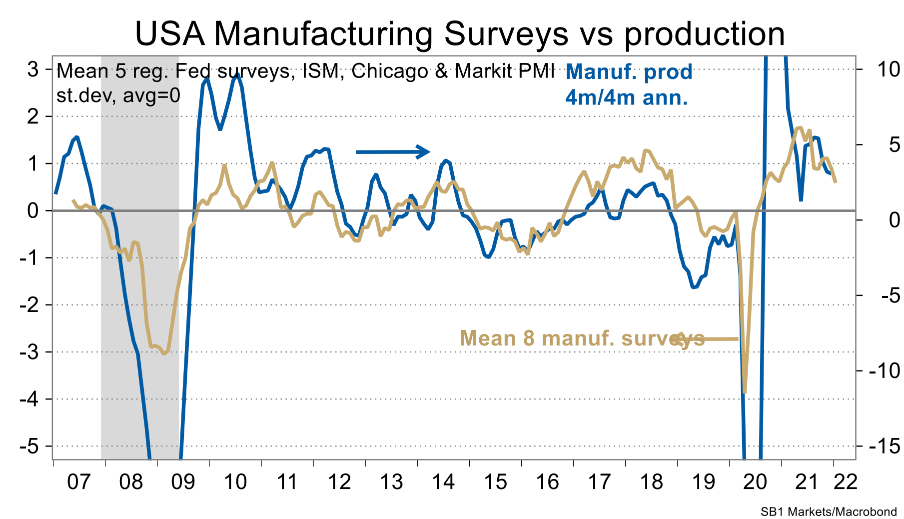
- Growth in manufacturers' **own inventories** (of purchases, not finished goods) are still higher than normal. Inventories must be pretty rich:
  1) Production is running slower than expected, due to weaker demand or due lack of some components, labour, transport services etc.
  2) Companies have been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

  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 January, still above an average level



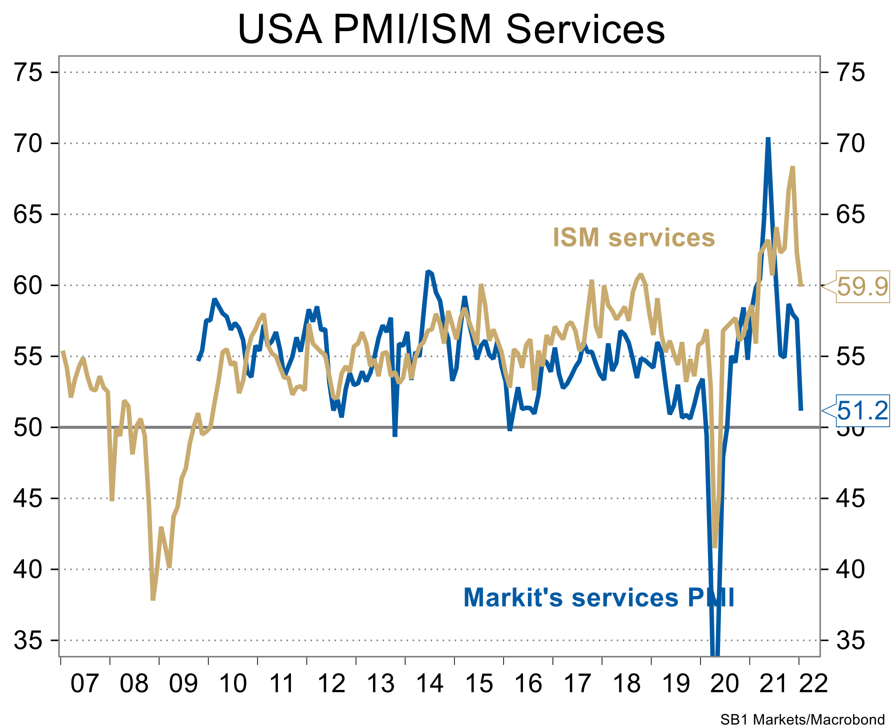


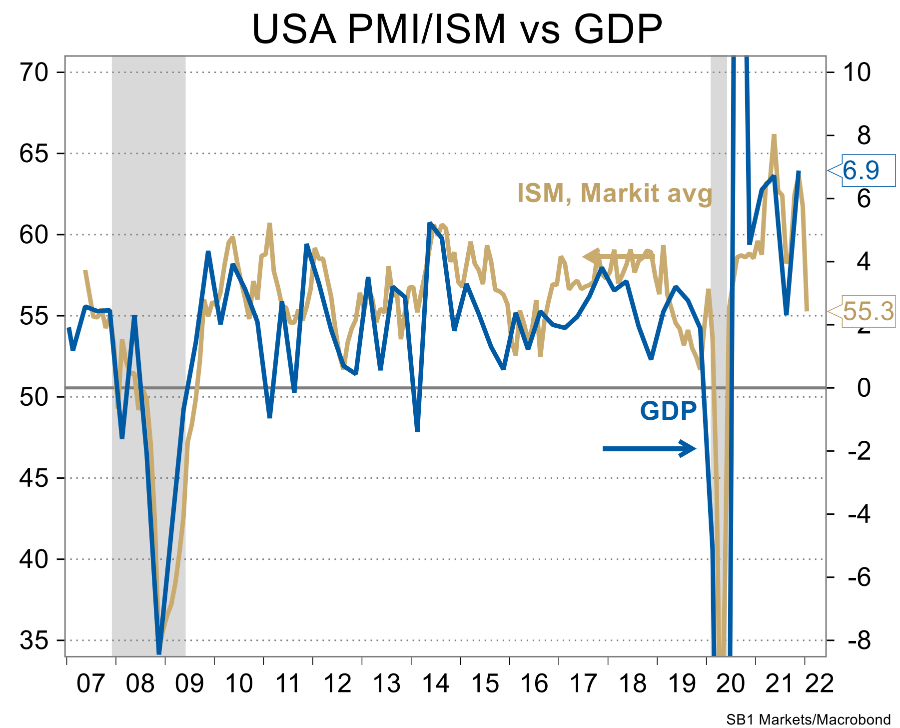


- Actual manufacturing production is on the recovery track and it is finally above the pre-pandemic level
- We expect a continued growth the coming months. The inflow of core durable goods orders are well above the pre-corona level
  - » Both exports and investments will probably climb further while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

Services ISM down 2.4 p – and the level is sky high, at 59.9

Markit's service sector index fell by 6.4 p to 51.2, a record large differential



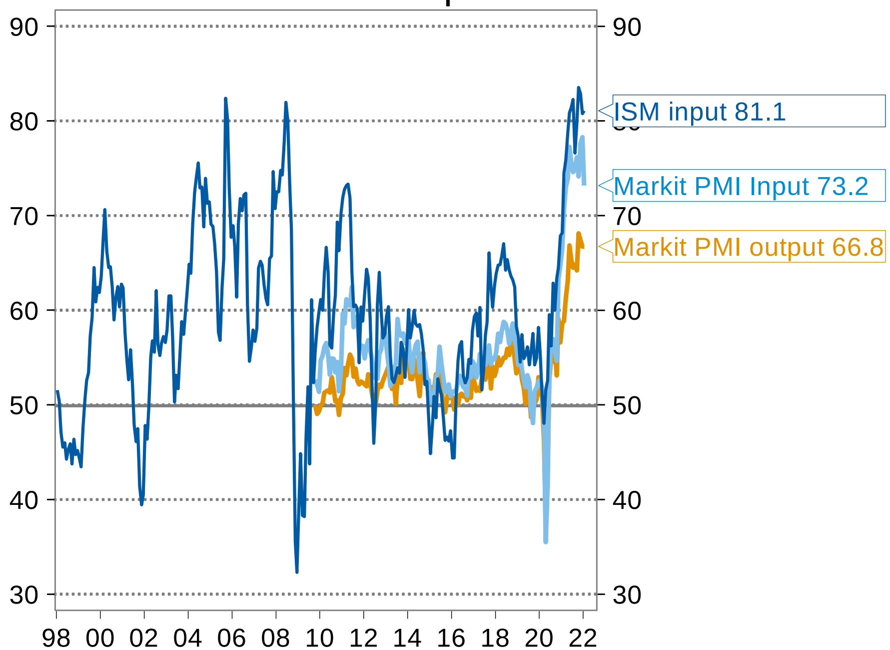


- The decline in the **ISM services index** from an incredible ATH in November was due to a broad decline in all sub indices; The most in delivery times – which by itself is goods news. New orders and business activity slowed too – but levels are still very high
- **Markit's service PMI fell slightly** (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

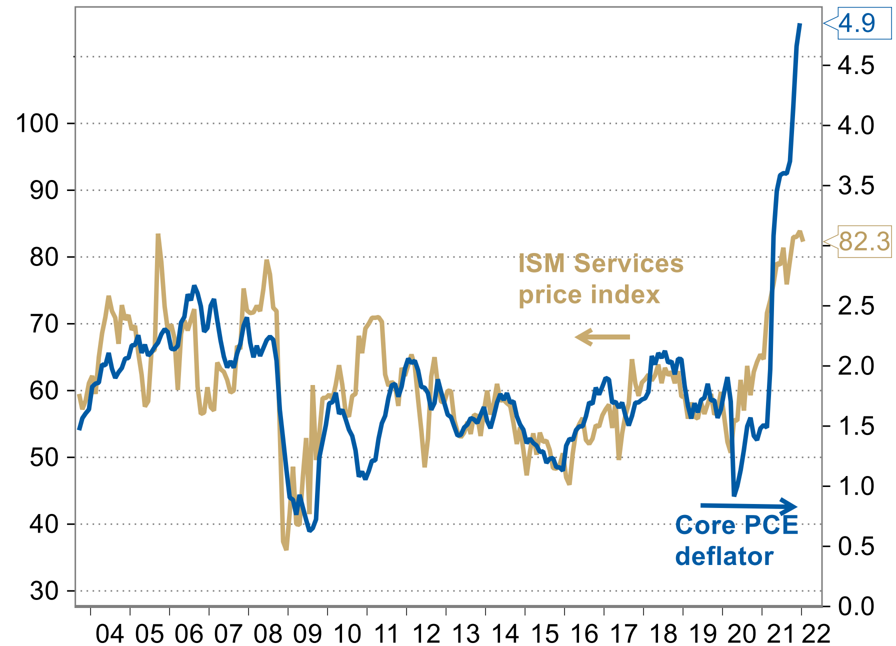
… but actual prices are climbed more than the PMI/ISMs have told us they would (at least the core)

USA PMI/ISM Composite Price Indices



SB1 Markets/Macrobond

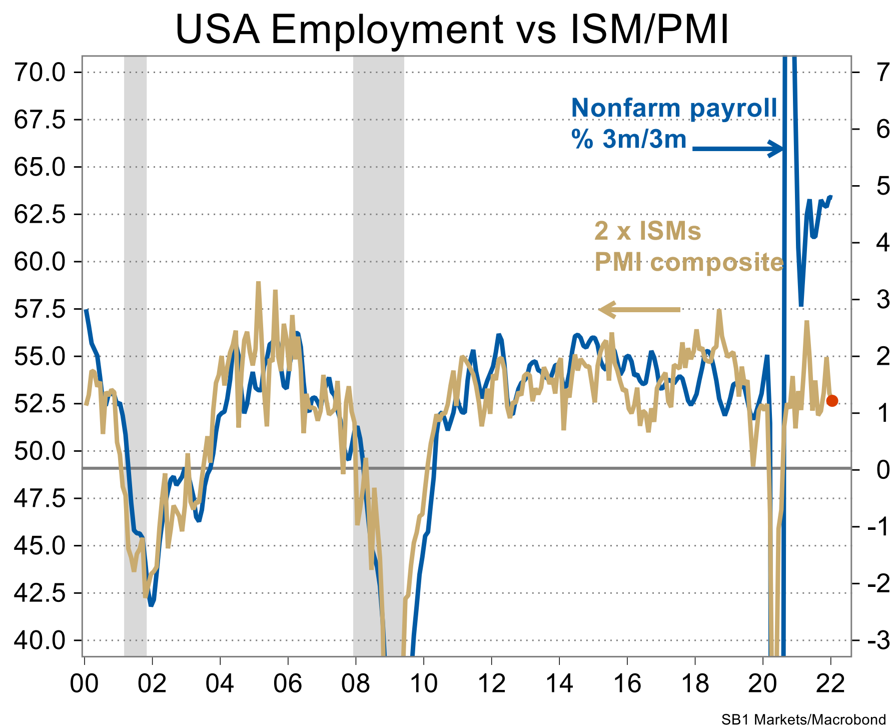
USA ISM Prices vs core PCE



SB1 Markets/Macrobond

PMI/ISM: The employment indices signals modest employment growth

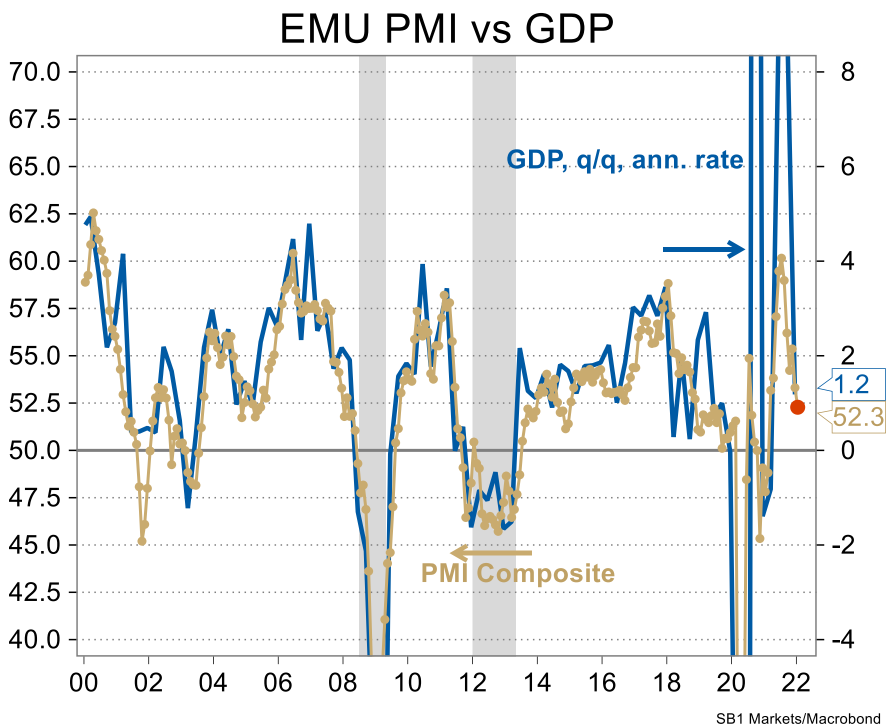
.. And well below the 5% pace over the past 6 months (which is not sustainable anyway)

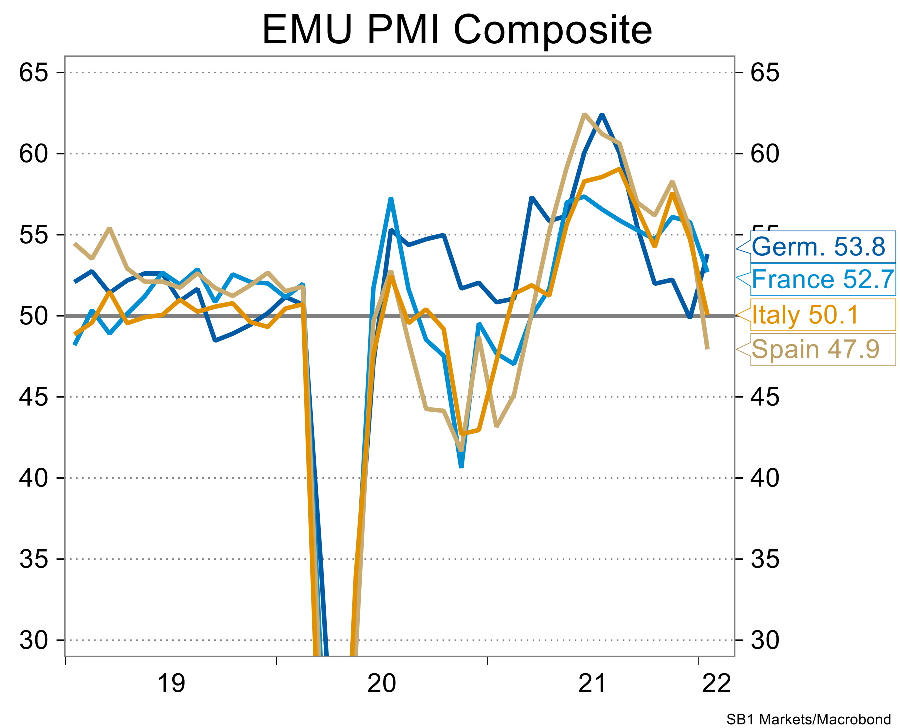


- **Actual employment** growth measured 3m/3m is strong, especially following the upwards revisions in the January report
- The average of PMI & ISM employment indices signals close to a 1.5% growth pace
  - » Because they to not need/want to hire – or because they are not able? Probably mostly due to the latter

The January PMIs forther down – just Germanys surprised at the upside

The composite PMI fell by 1.0 p to 52.3, 0.1 pp weaker than the prelim. est. Signals 1% growth





- The final **composite PMI** at 52.3 in Dec signals growth marginally below trend, at a 1% pace
- Germany surprised at the upside, mostly due to the service sector – but the manufacturing index rose as well
- Both France, Italy and Spain reported far weaker PMIs, and the Spanish index fell to well below 50, to 47.9

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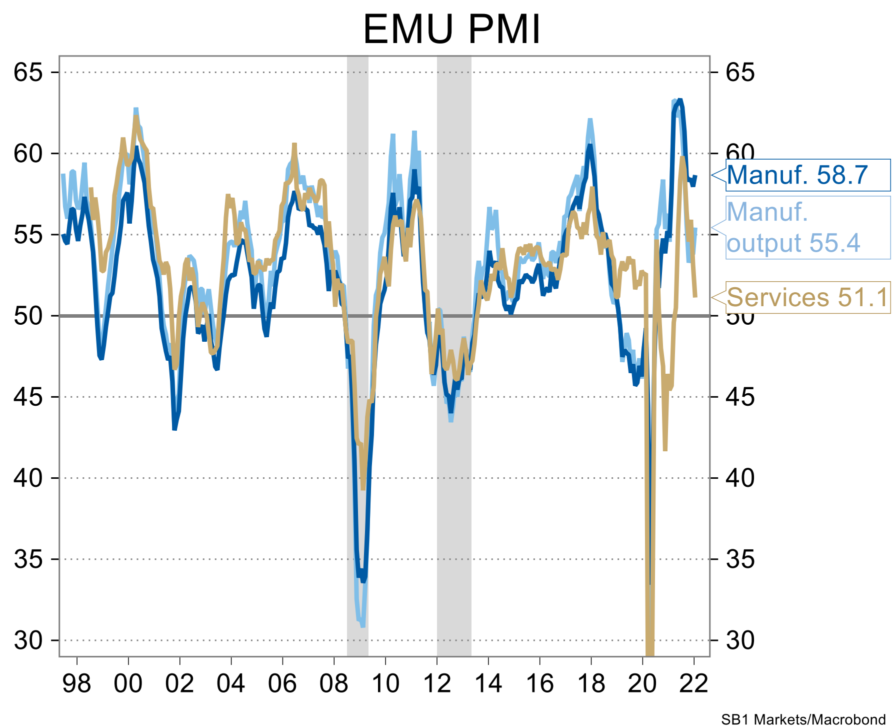
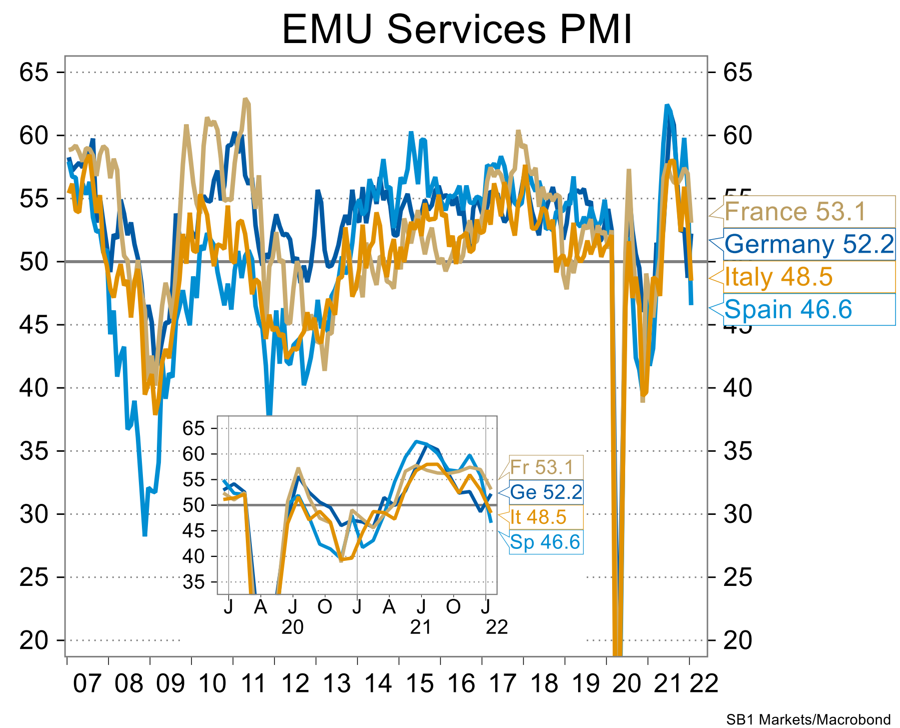
The manufacturing sector report strong growth (58.7), services hurt in Jan (51.1)

The manuf. Output index rose to 55.4. The decline in services is very likely due to the virus

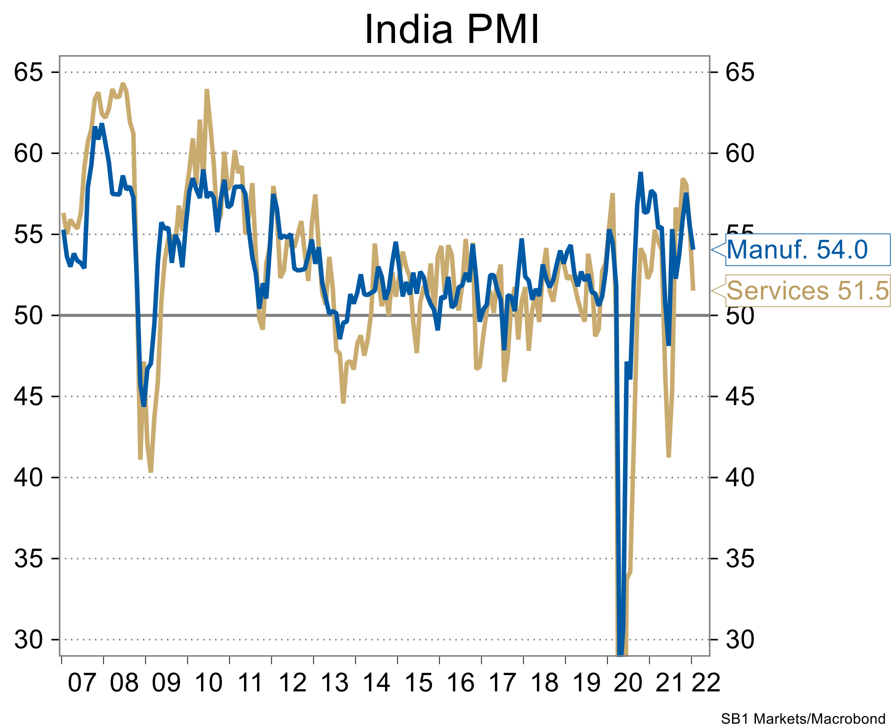


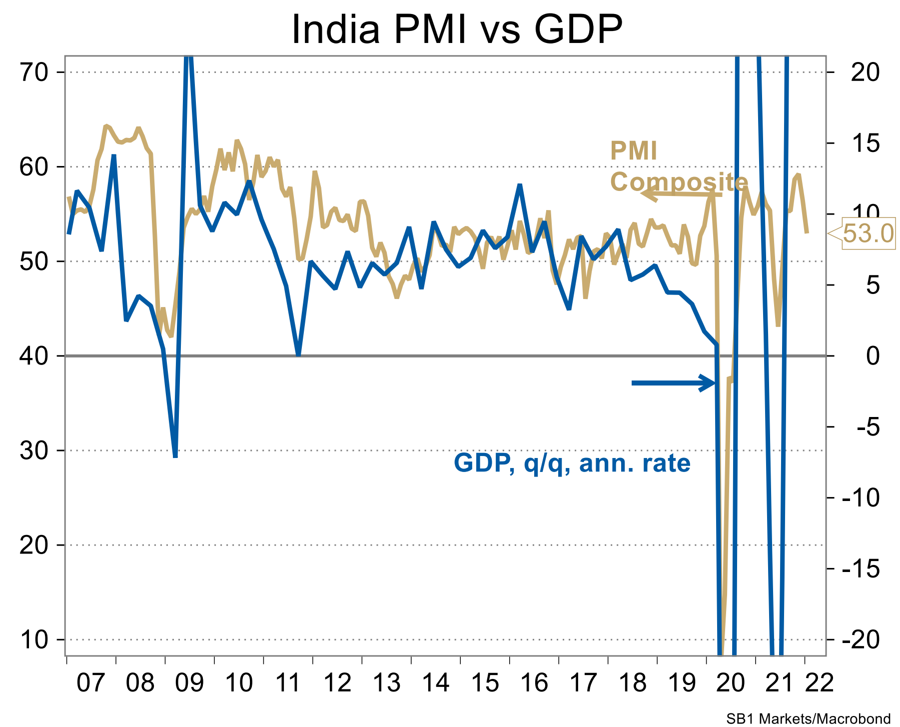


- German services surprised at the upside, 4 p lift to 52.2 (but France is still at 53.1)
- Italy and Spain at the bottom in services, well below the 50 line

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

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

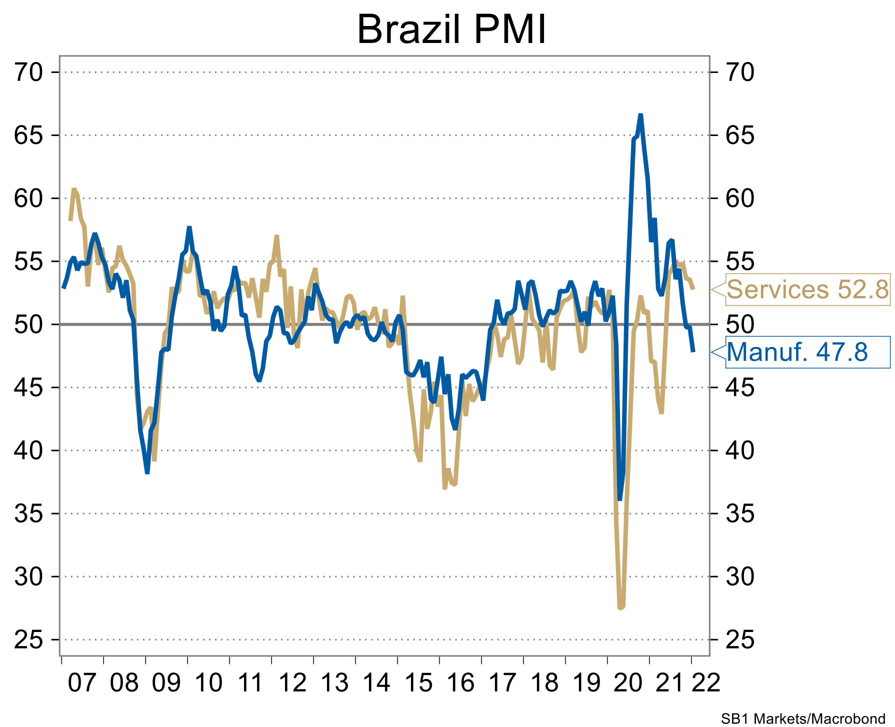


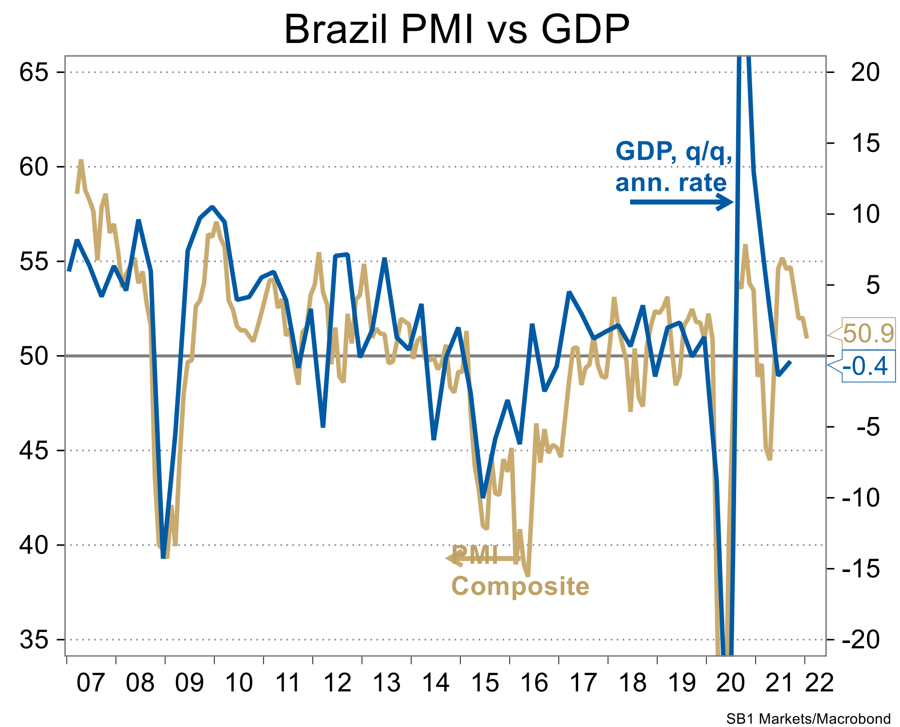


- **The services PMI** subtracted 2.5 p in Dec but at 55.5 it is still at an unusual high level. The fight against Delta was won. And now??
- **The manufacturing PMI** declined by 2 p to 55.5, also a decent print. New orders are still growing rapdily, and not due to export orders. Delivery times are 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 3.4 p to 53.0. The Jan print is still far above an average level but not by much
- **In Q3, Indian GDP** grew by 12.2% (or 61% at annualised pace ☺) as the economy recovered from the Delta outbreak in Q2, and the activity level was still down almost 2% from Q1. Growth was probably impressive in Q4 too but the PMIs signal some moderation into Q1. The Omicron has arrived there too

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

A further decline in both sectors in January – and the composite fell 1.1 p to 50.9

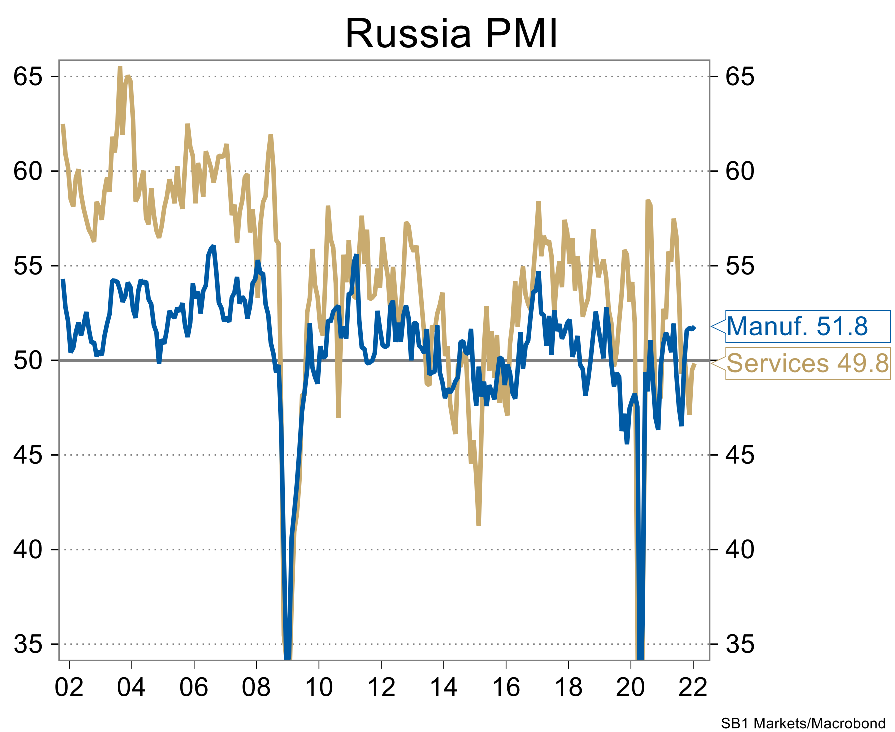


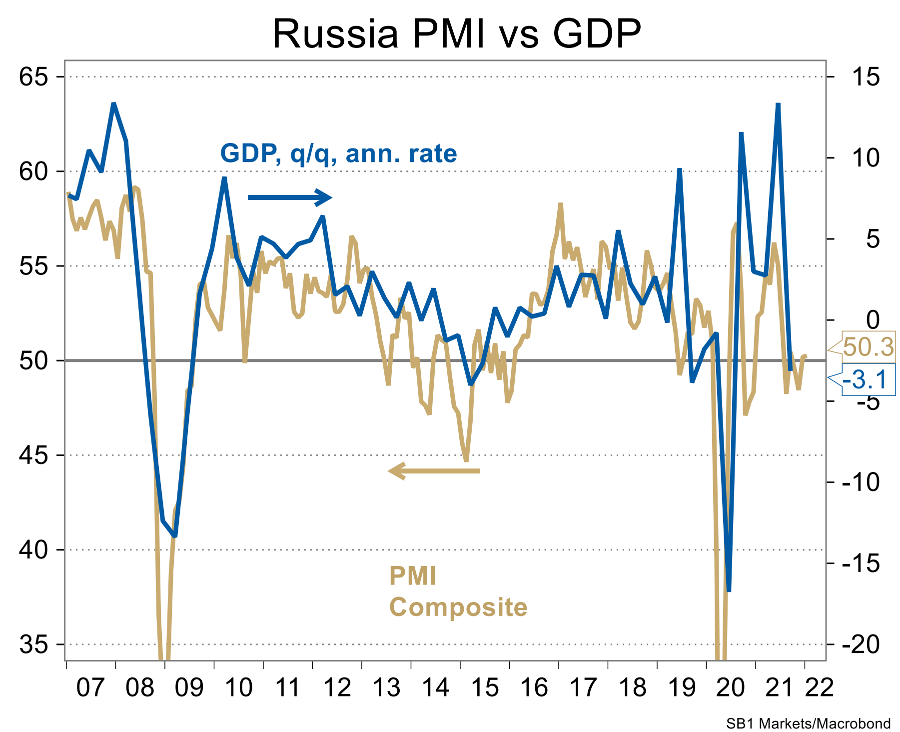


- **Manufacturing PMI** –2 p to 49.8, well below an average level
- **The service sector PMI fell 0.8 p to** 52.8, which is still far <u>above</u> an average level. Barring the 3 previous months, the level is the best level since 2011
- **The composite PMIs** was declined 1.1 p to 52.0. The level is close to an average level – signalling growth at. However, the trend is far from impressive! (And 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?
- The central bank last week lifted the signal rate 1.5 to 10.75%, and rate is now up by 4.25 pp from the pandemic through. BWT, CPI inflation is at 10.1, far above the 5.6% 15 y avg (and 2% at the outset of the pandemic)

Still slow growth reported, both in manufacturing & services

Some virus, and perhaps some political challenges?

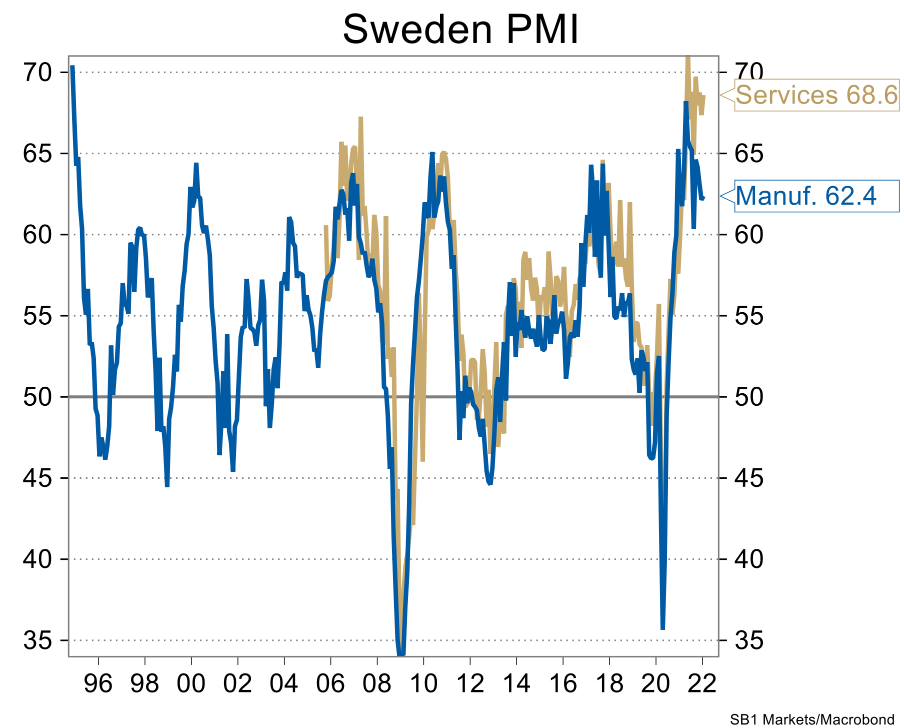


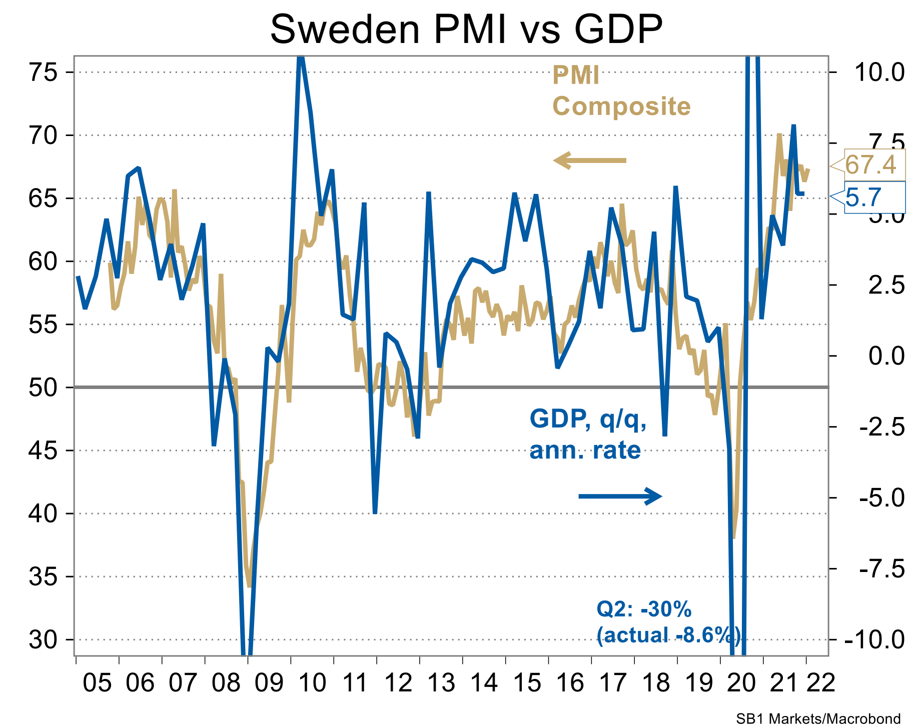


- **The composite PMI** added 0.1 p to 50.3 in Jan. A PMI at this level normal signals a 3% contraction in GDP but the correlation has not been that tight during the pandemic
- Anyway, **GDP** fell at 3% pace in Q3, following a brisk recovery in Q2
- The **central bank** has lifted the signal rate by 425 bps to 8.5% (the last hike in December)

The Swedish composite PMI up 0.8 p. To 67.4! Signals continued brisk growth

Both manufacturing and services reported faster – and very fast – growth!

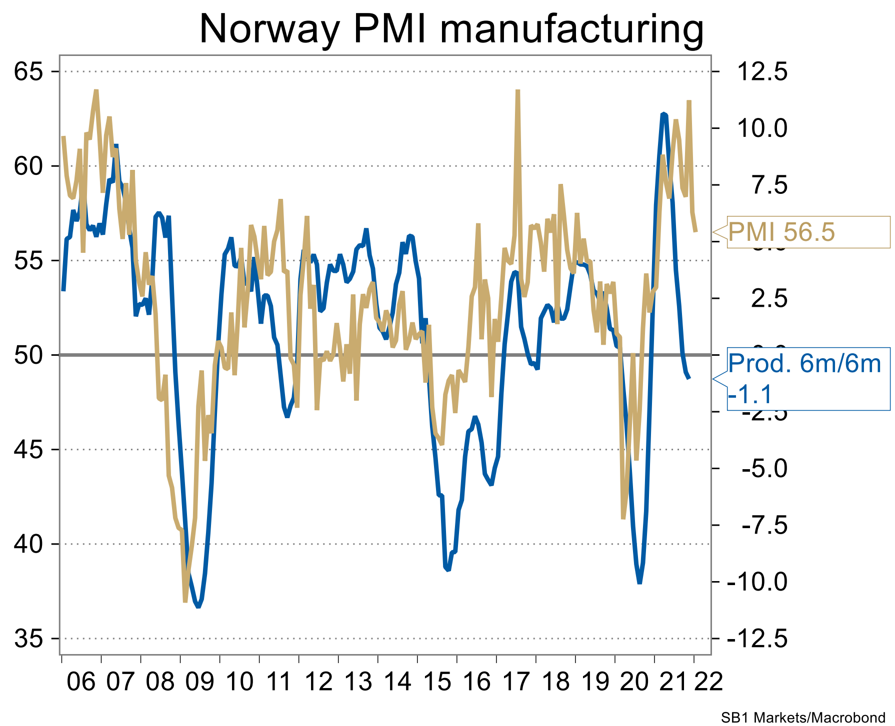


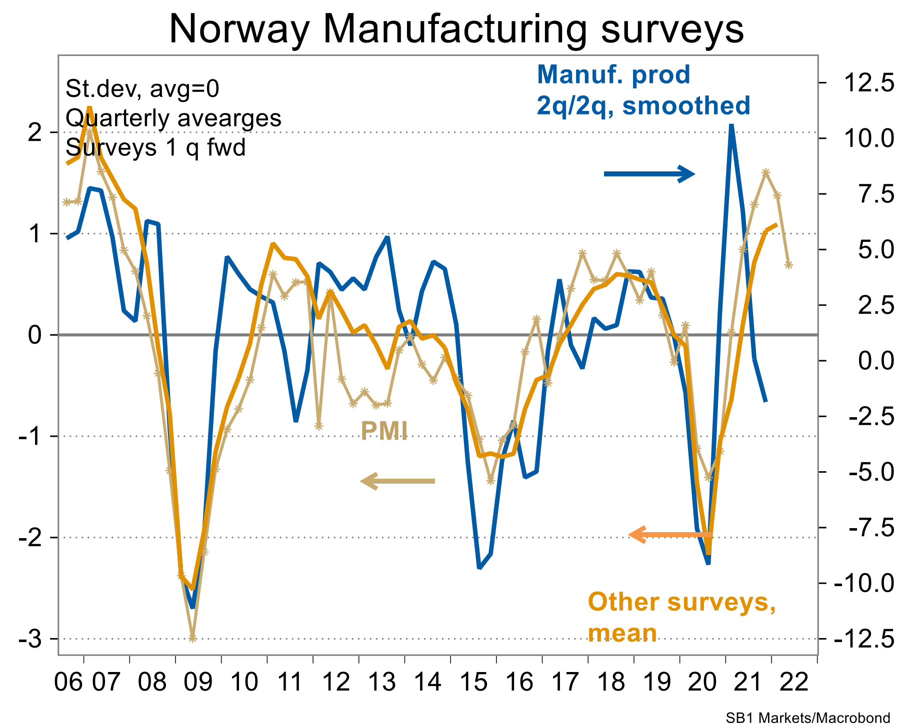


- The **composite PMI** indicates a 6% GDP growth rate
  - » In Q4, GDP grew at a 5.7% pace
- The **Riksbank** has so far not yielded, it promises to keep the exchange rate at 0 until Q4 2024

The manufacturing PMI down 1.1 p to 56.5, still well above an average level

Delivery times and prices are easing somewhat. The new order index rose marginally

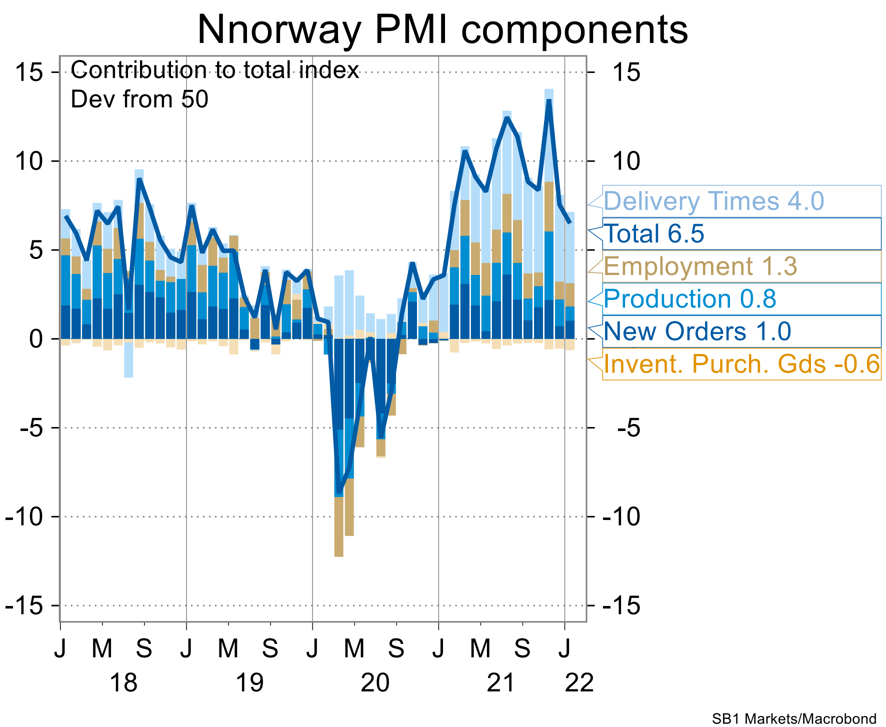


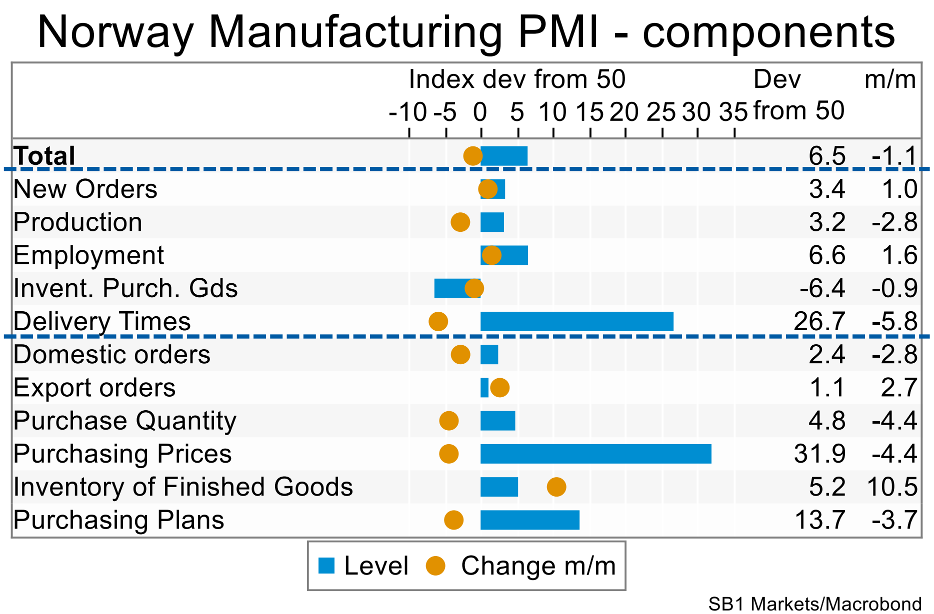


- The **manufacturing PMI index** fell for the 2nd month in row, though from the 3rd highest level ever, and the January index is still 0.7 st.dev above average. We expected a decline to 56
- The **delivery times** index fell further, and explained most of the decline in the headline index (0.9 p of the 1.1)
- Other manufacturing **surveys** have not turned south yet, at least not in average
- Even if surveys have been reporting growth, **actual production** has fallen slightly since last April

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

The new order index rose 1 p, and signals growth at least at an average level



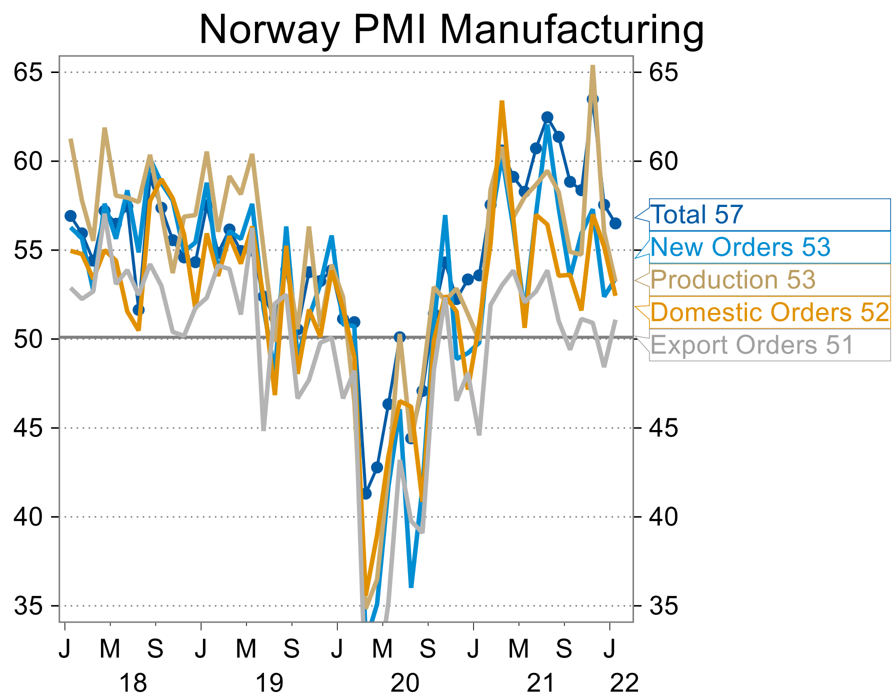


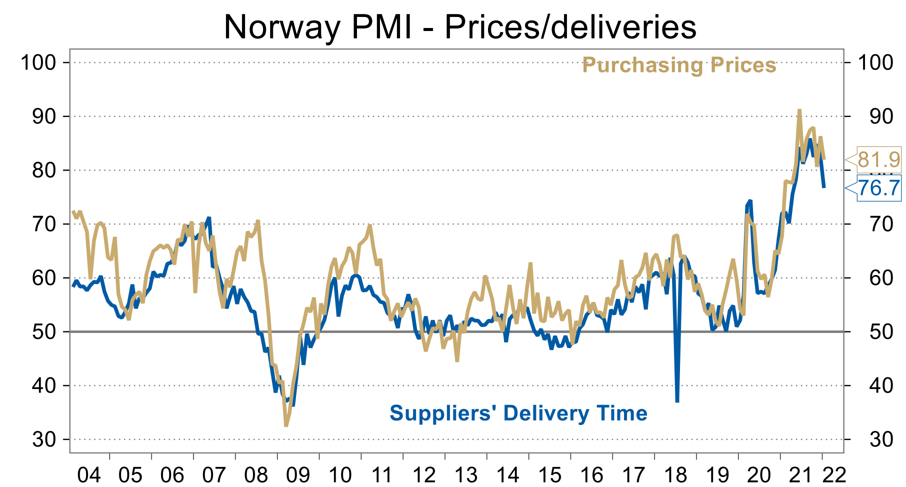
- Normally, the **delivery times index** has not had any sigificant impact on the total PMI index as the delivery times index has been quite closely correlated other components in the headline index. Now, it makes a substantial difference, by 4 pp to the total index
- **Prices** are still rising at a fast pace, albeit slower in Jan – the index declined 4.4 p to 82.9

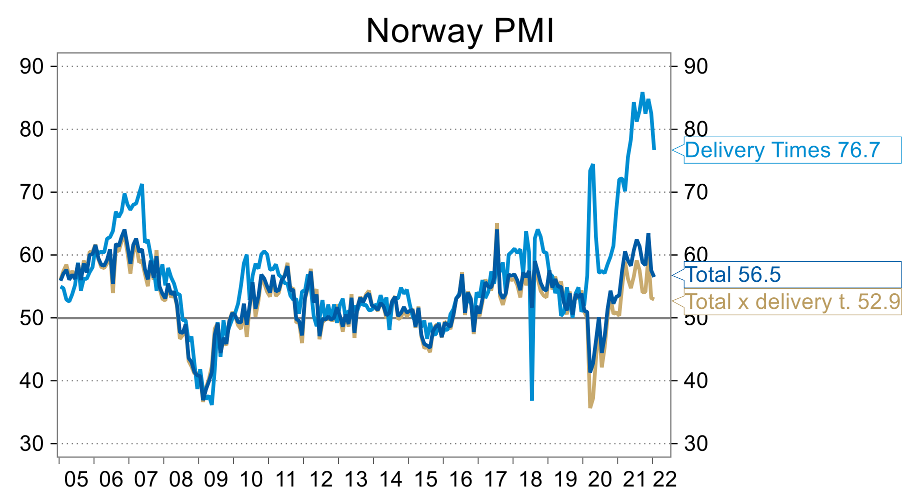
The total PMI index is a weighted index of new orders, production, employment, inventory of purchased goods, and delivery time. The 6 next sub indices at the table to the right are not included in the total index calculus

The production index has fallen sharply since November, still above par

A total index ex. delivery times fell 0.2 p to 52.9 in Jan, after the 6 p drop in Dec





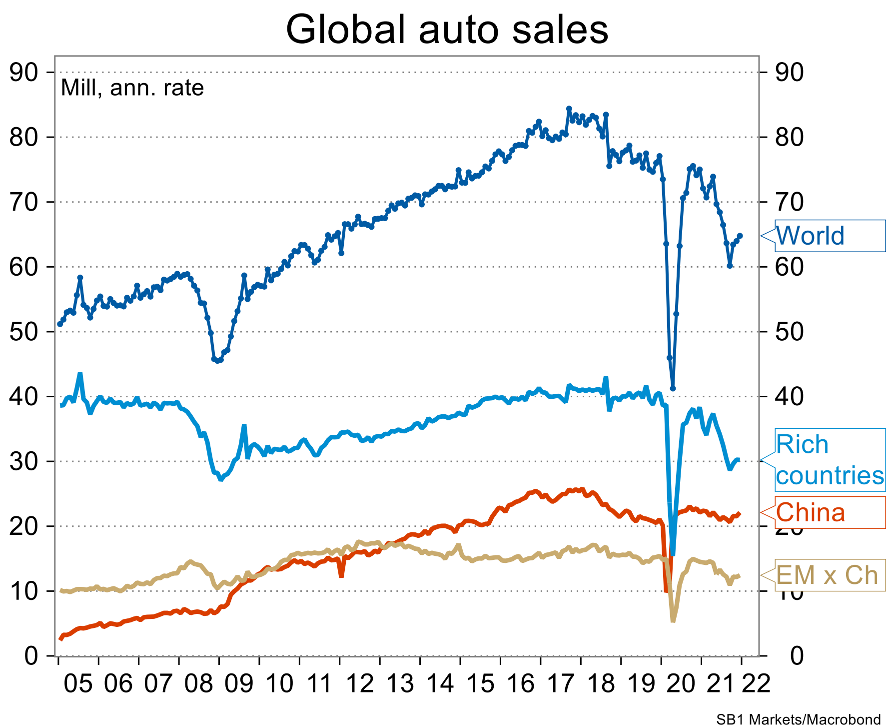


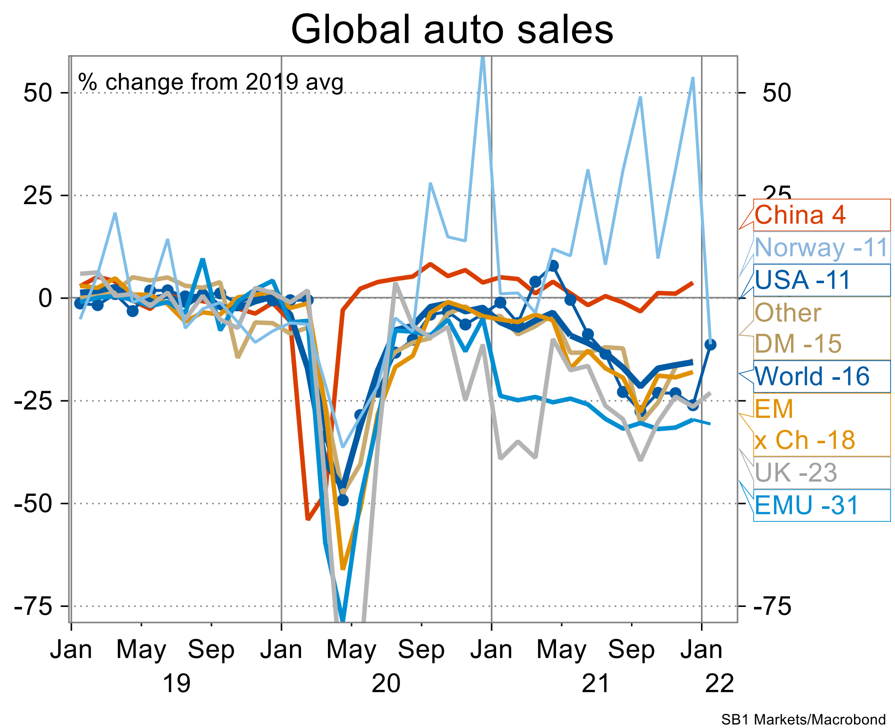
- **Prices** are still rising at a fast pace, albeit marginally slower in Jan

SpareBank 1 MARKETS

Auto sales slowly on the way up, still down 15% vs. 2019. A huge upside potential

Sales fell in the US in Dec but rose most other places. Chinese sales are 4% up vs. the 2019 level



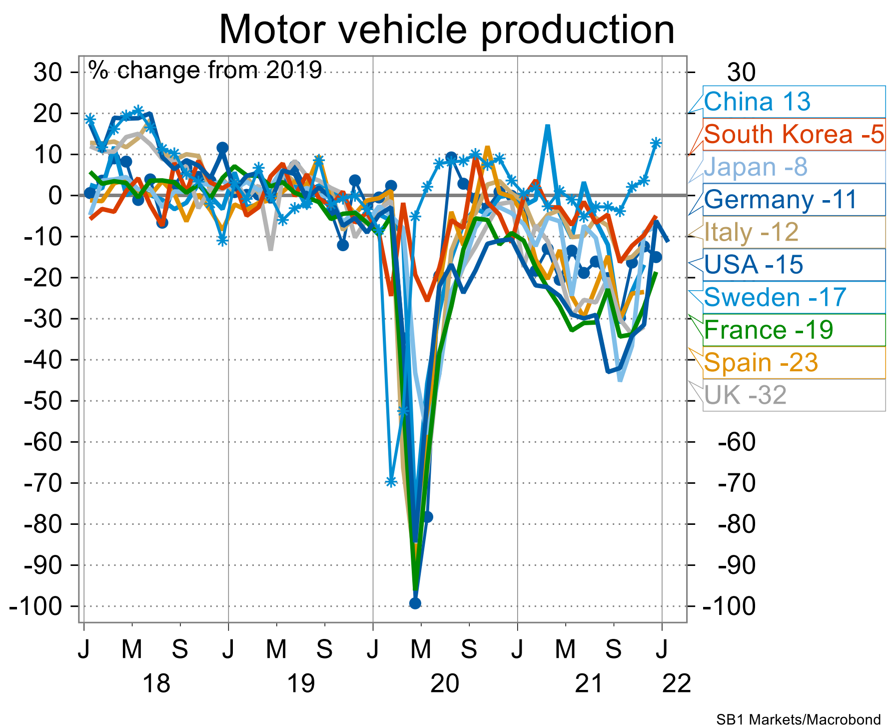


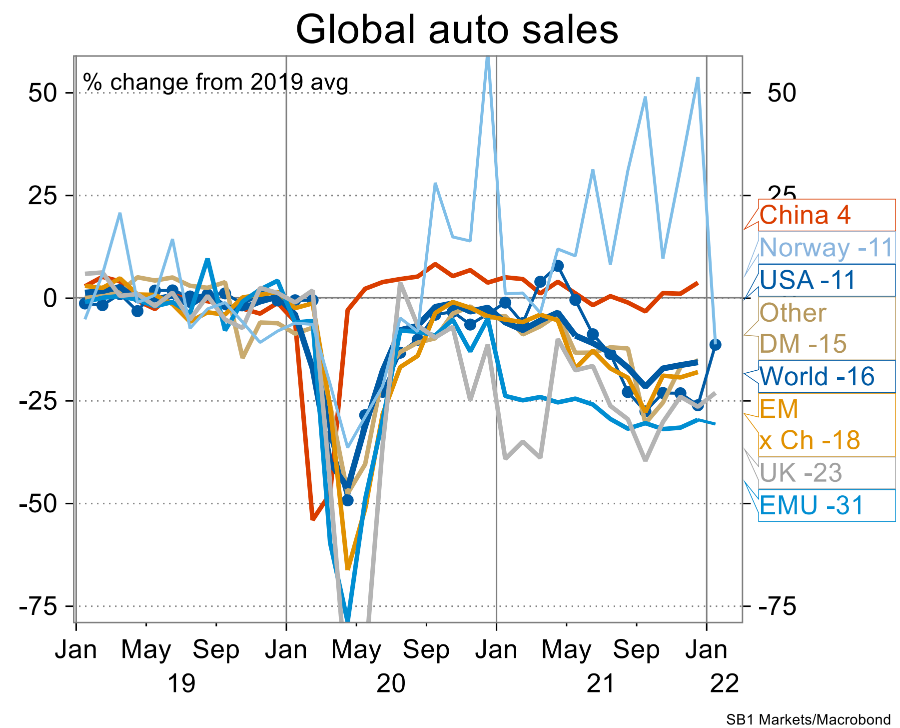
- Global sales rose by 1%, according to our calculations (some countries have not yet reported). Sales are down 15% vs. the average 2019 level, from -21% at the bottom in September
- Sales in **China** are trending slightly upwards, and are now 4% above sales in 2019 average – but are at the same level as first reached in 2015 (and sales are down almost 20% from the 2017 peak, not a the mainstream scenario at that time!) Sales in **other Emerging Markets rose too**, but are down 18 % vs. 2019. The trend was down before the pandemic – and sales are below the peak in 2012!
- **Sales in the US** fell but very likely rose in the EMU. Both are down 27% vs. 2019
- **Norwegian** sales were up 54% vs 2019 and sales in 2021 were the highest ever!
- **Auto production** is now recovering, especially in Germany

SpareBank 1 MARKETS

Auto production on the way up!

Germany production fell in Jan but is ‘just’ 11% below the ‘19 level, was down 43%! China is up 13%

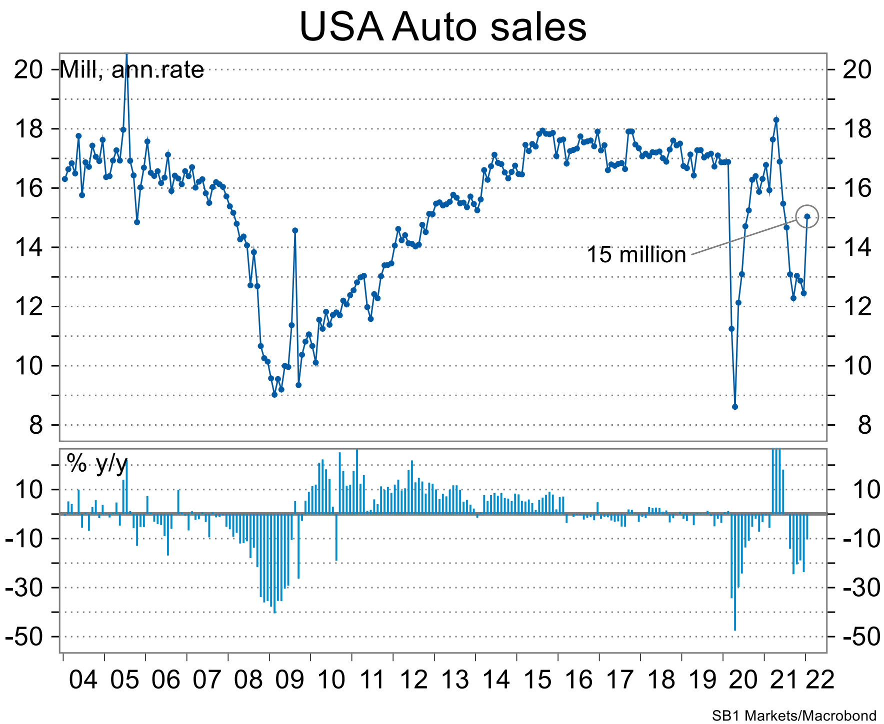


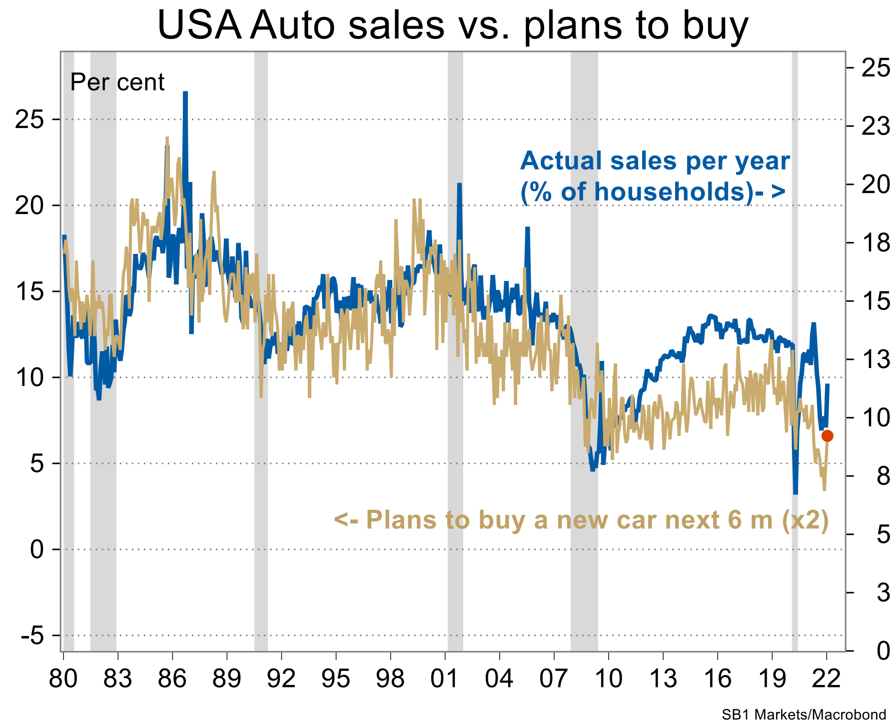


SpareBank 1 MARKETS

US auto sales shot up in January, are 'just' 11% below the 2019 level

Sales up to 15.0 mill, from 12.4, expected 13 mill

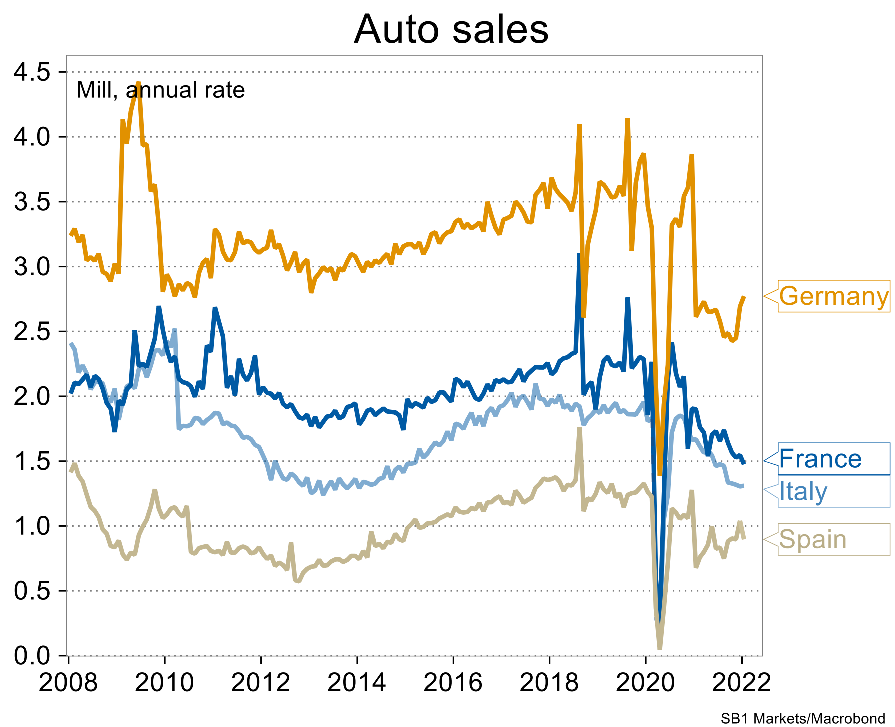


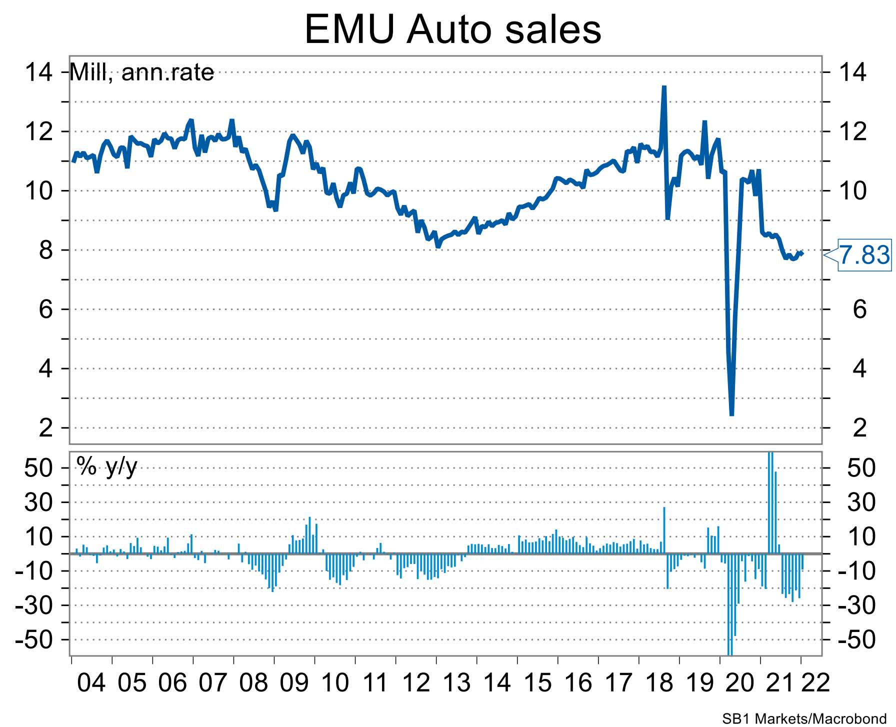


- **Sales** suddenly gained more than 20% m/m in January, and more than half of the gap to a normal level was closed in one go. We do not have no indications that 0.6 mill to 12.4 mill (annual rate) in December, expected up to 13.1 mill. Sales are 27% below the 2019 level. Last year, sales still rose 9.9% vs. 2020, to 15.0 mill. In 2009, sales fell to 10.4 mill
- Households revised down their **plans for buying a new car** substantially during last year as they probably have observed that there are delivery 'challenges'. In addition, prices are rising sharply (for identical cars), and more expensive models are prioritised by car producers (or rather cars with the highest margins). In January though, more households reported buying plans!
- **Demand for cars** is still strong, as the 2nd hand market is 'emptied', and used car prices have soared >>40%

EMU: auto sales probably down in January, due to Spain and France

Sales rose further in Germany but fell more in Spain and France

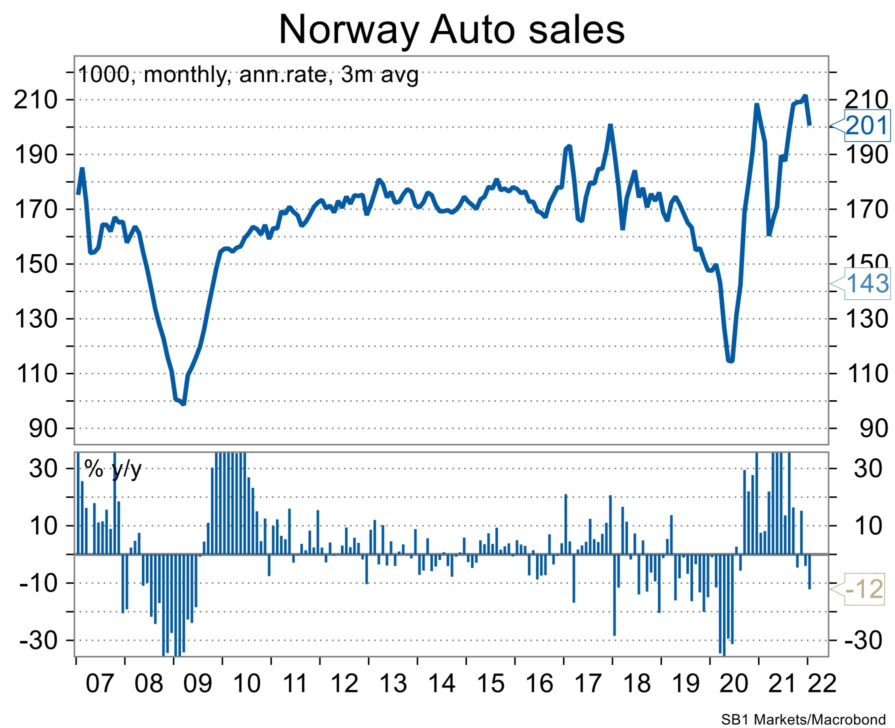


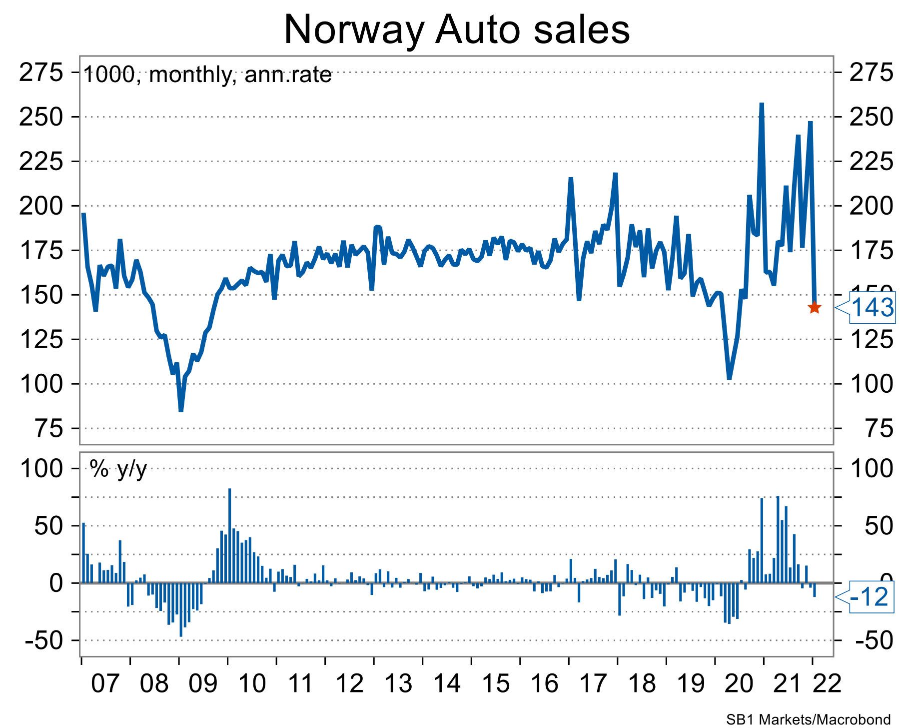


- Our estimate: EMU Jan sales at 7.8 mill (annual rate), down 31% vs. the 2019 level. Last year sales fell by 6% to the lowest level in modern times

Norway: Record ~~high~~ low auto sales ~~last year~~ in January

After a blistering Q4 – and from the 2. highest level ever in Dec, sales fell more than 40% m/m in Jan

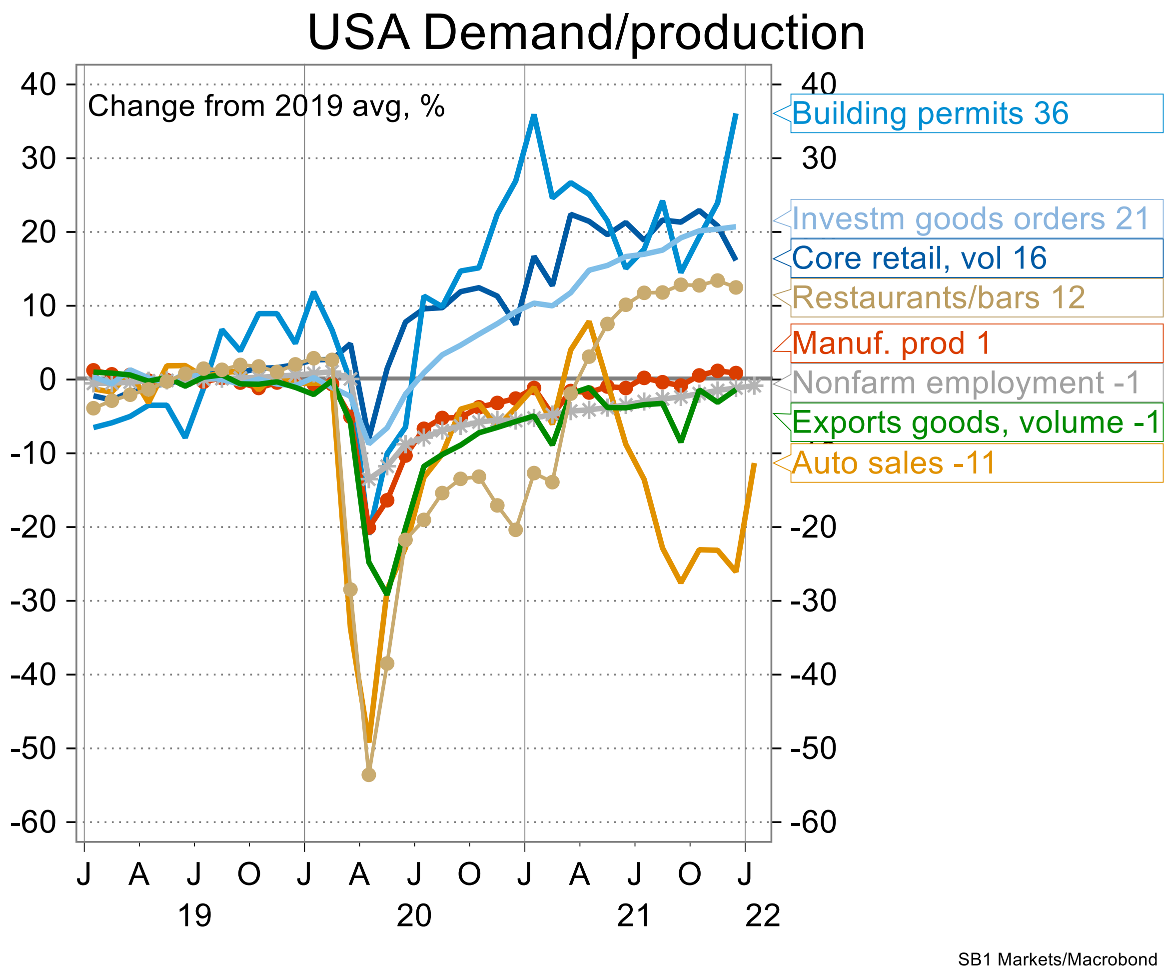




- A smoothing seems reasonable – over the past 3 months sales are among the highest on record and far better than in any other country vs. the pre-pandemic.
- Sales (first time registrations) rose to 248’ in December from 211’ in November. Just Dec 2021 has been better!
- Last year, 192’ autos were first 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

Big picture: Growth is slowing as the economy is 'normalising'

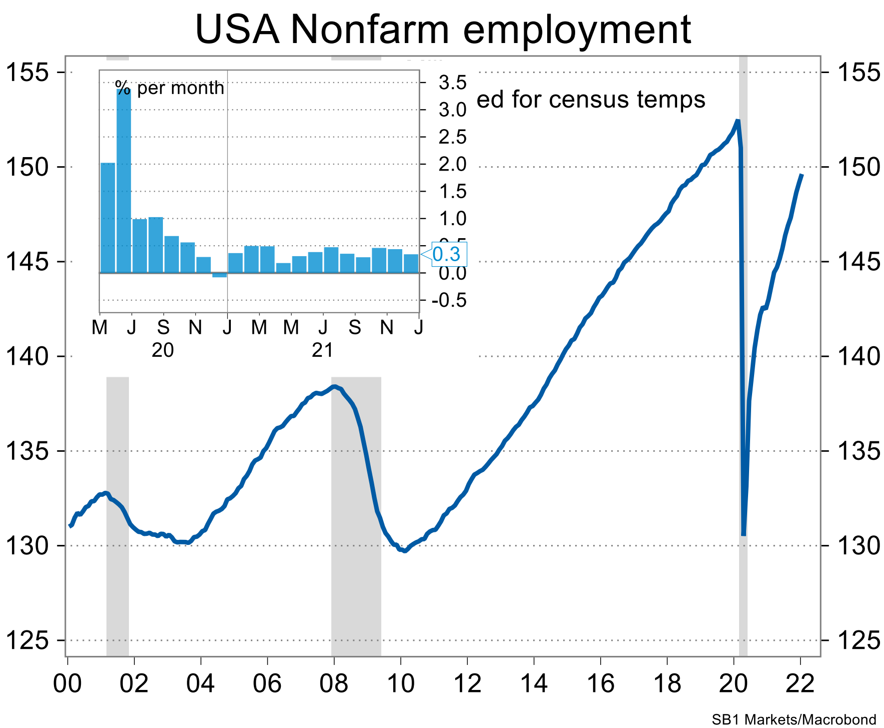
The upside now: Auto production & exports

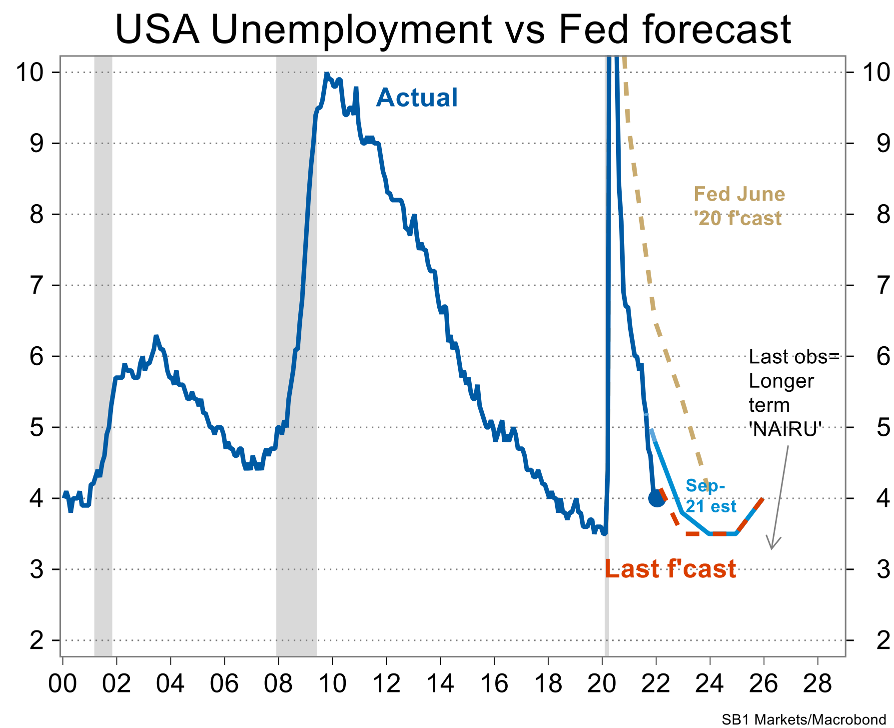


- Retail sales have peaked, but is still at a high level (and Dec was likely artificially weak)
- Restaurants have recovered, at least nominally (prices are sharply up)
- Home building strengtened the last 2 months last year
- Manufacturing production is 'too weak' but supply constraints, exports have kept production in check
  - » Auto sales rose sharply in Februar, but the level is low, and the production way below normal level

Steady (and upward revised) growth in payrolls, unemployment up 0.1 pp

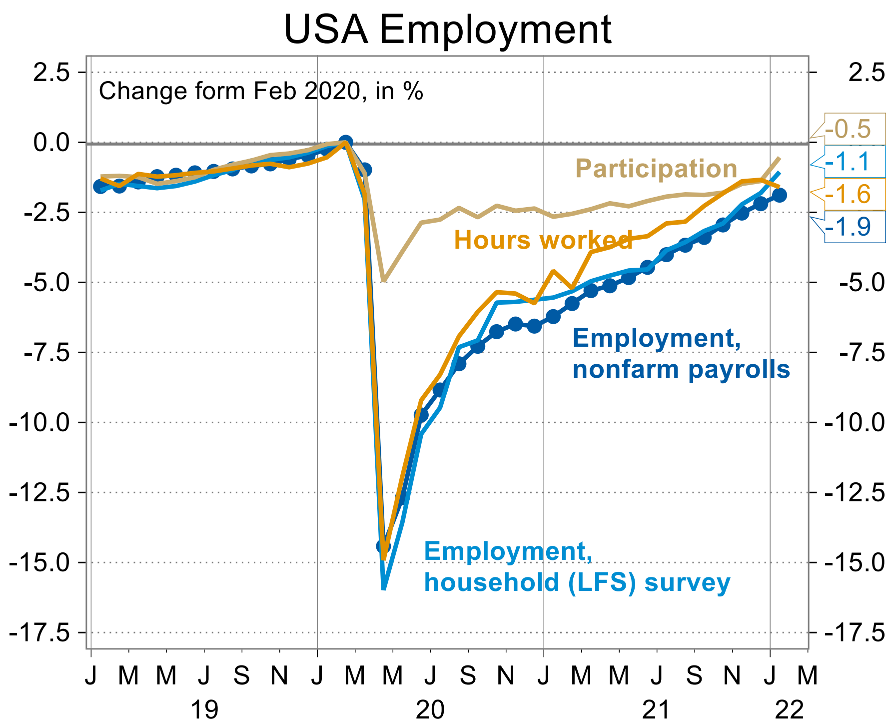
Wages growth once again higher than expected – and far faster than before the pandemic



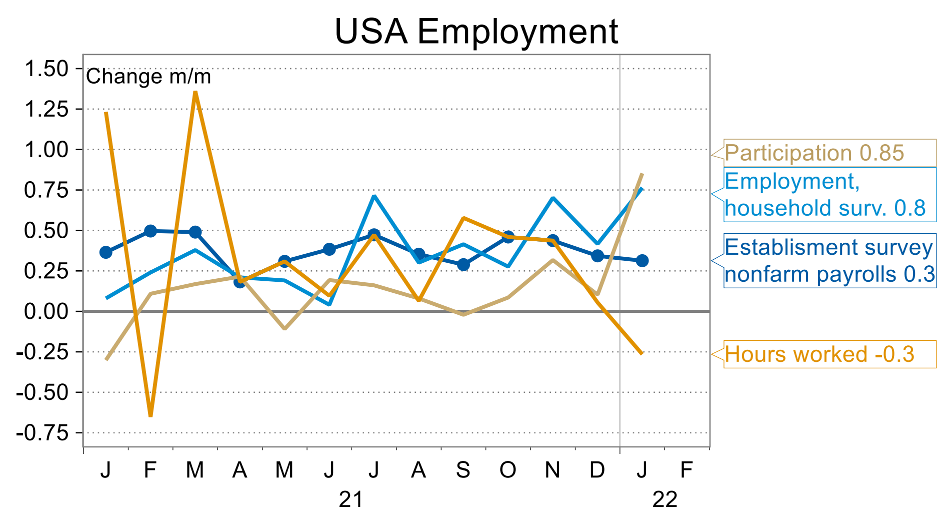


- **Nonfarm payrolls** rose by 467' in January, well above the expected 125', and far better than the ADP report indicated. The past 2 months were revised up by 709' !!. Data quality has been weakened by low participation from companies. Payrolls are still down 2.9 mill vs. Feb-20 or by 1.9%.
- The published **employment & participation rates** rose – and participation the most, by 0.3 pp to 62.1. However, the annual population revision following the 2020 census was larger than normal. Both the participation and the employment rate were lifted by 0.3 pp due to this revision (equalling some 1.5 mill. persons). We have revised historical data, to make then comparable with the actual January data. After this revision, the participation rate was flat in January, and the employment rate fell by 0.1 pp.
- **The unemployment rate** rose by 0.1 pp to 4.0%, expected unchanged. The decline past 6 is still the fastest ever (barring 2020)
- **Average wages** rose by 0.7%, 0.2 pp more than expected. The history was once more revised, and the annual rate rose to 5.7%, expected 5.2%! Wage growth is accelerating in almost all sectors, and the underlying growth rate since last spring is 6%, even if low paid workers have returned to their jobs
- **Maximum employment:** Even if the participation now may be trending slowly up (even if it was flat in Jan), 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

Steady growth in payrolls



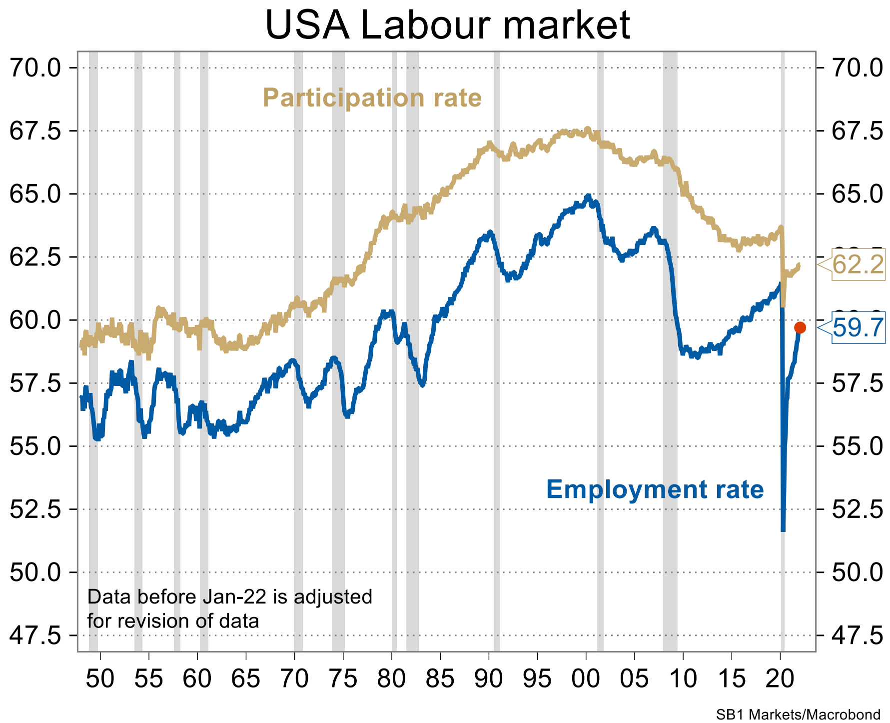
- **Nonfarm payrolls** (employees) are down 1.9% vs Feb '20, while **total employment** measured by the **household survey** (LFS/'AKU') is down 1.1% - however partly lifted by changes in population estimates. The survey data are anyway more volatile the payrolls stats but the two measures are quite similar over time. The adjusted **employment <u>rate</u>** is 2.9% below the pre-pandemic level (1.8 pp, equalling 4.7 mill persons)
- **Labour market participation** is just 0.5% below the Feb-20 level, following the steep lift in 0.5%. **The participation rate** was reported up by 0.3 pp to 62.1, however just due to a change in the population estimate in the annual revision
- **Aggregate hours worked in private sector** fell by 0.3% in Jan, due to the reduction in average weekly hours, probably Omicron related. The level is down 1.6% vs. Feb-20

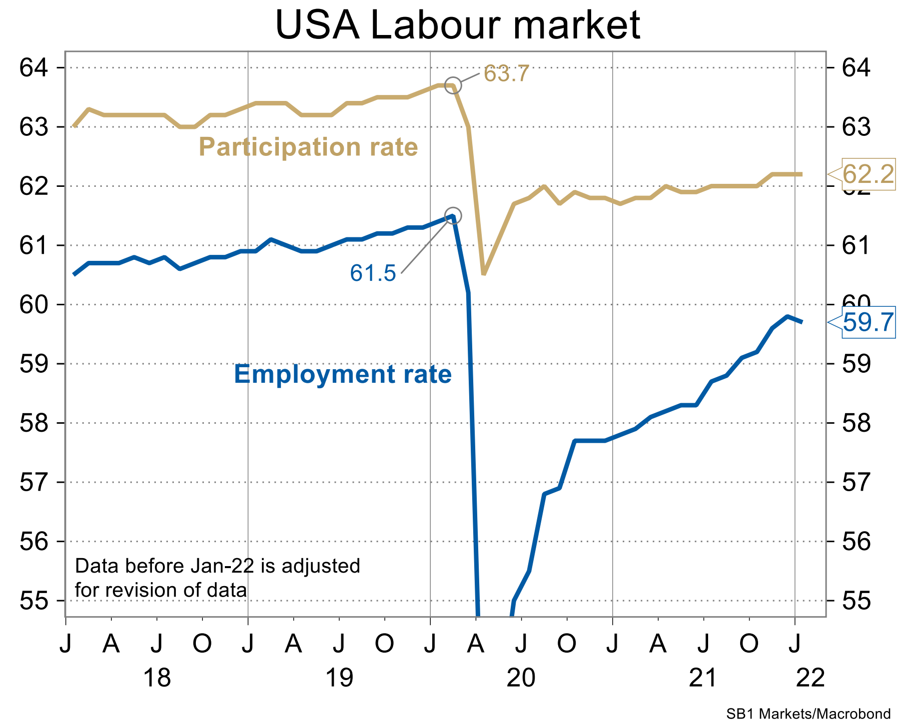


SB1 Markets/Macrobond

The participation rate reported up by 0.3 pp – but just to data revisions

The 'real' rate was flat at 62.2%, and the trend is still not impressive



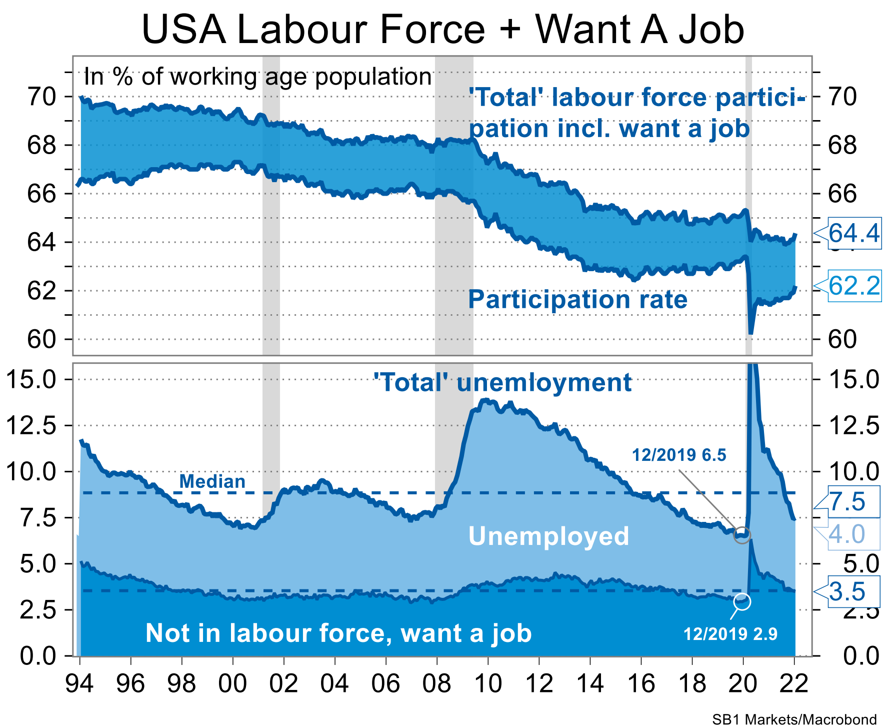


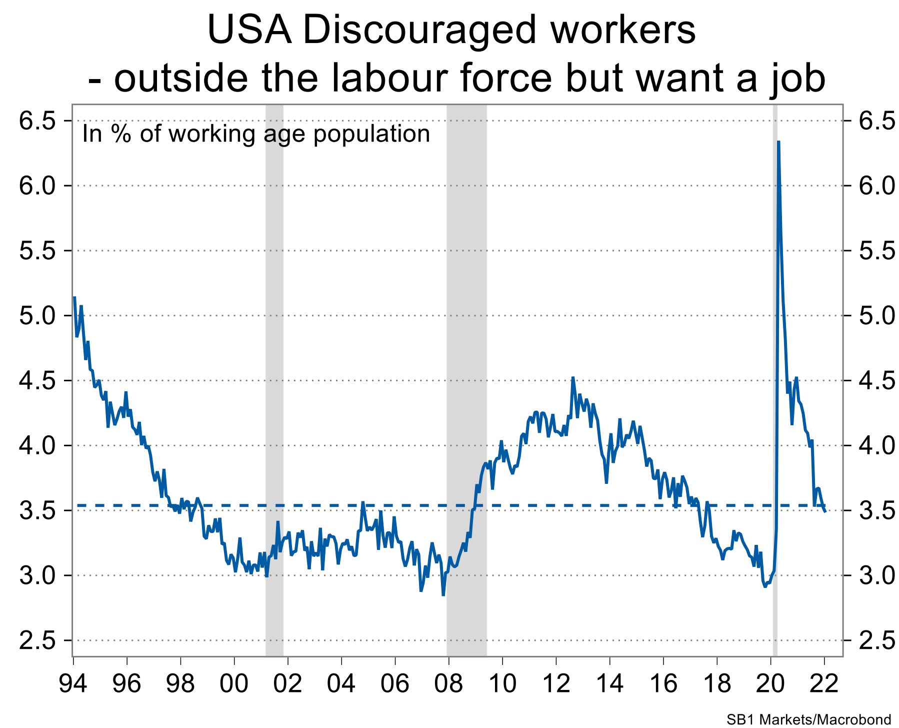
- **The labour force participation rate** was unch at 62.2% (of the working age population, 16 y +), after an 0.3 pp adjustment for the impact of the annual population revision (December was initially reported to 61.9%, now the 'real' level is 62.2%). The revision was larger than normal as data from the 2020 census was utilised. 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, 1.8 mill persons responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons, up from 1.1 mill in Dec – as Omicron created problems. Now, Omicron is rapidly on the way down
- **The employment rate** declined 0.1 pp to 59.7% (adjusted for the annual revision described above – and other revisions. LFS employment fell by 272', after adjustments. 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 1.8 pp vs. Feb 20, equalling 2.9% or 4.7 mill persons

SpareBank 1 MARKETS

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

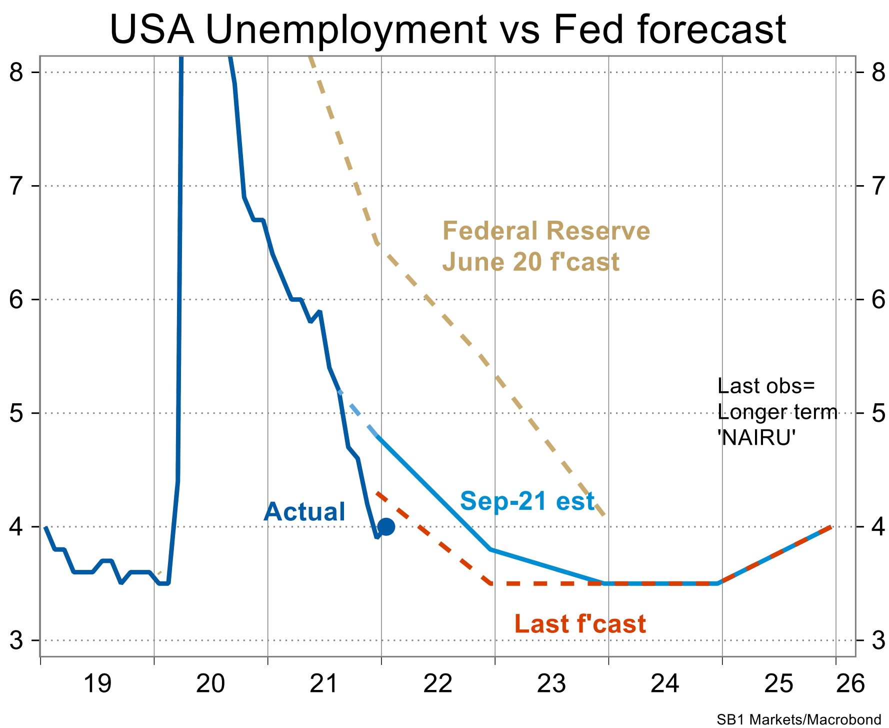


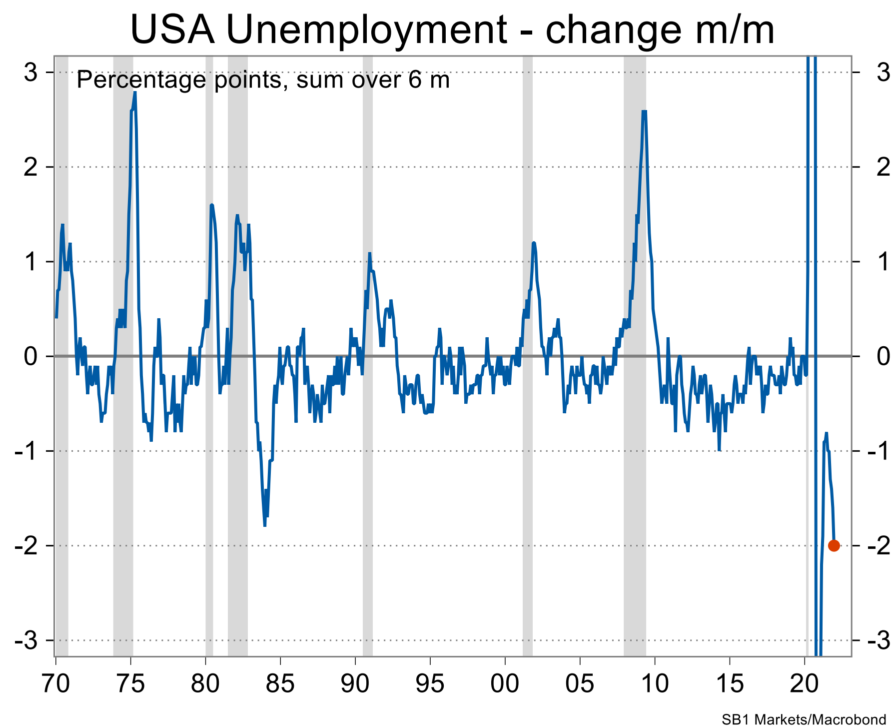


- Covid related outsiders that say they want a job are included in these discouraged workers data

Unemployment up 0.1 pp in January, to 4%, the trend is still steeply down

The FOMC expect a decline to 3.5% during 2022, not a very aggressive estimate?

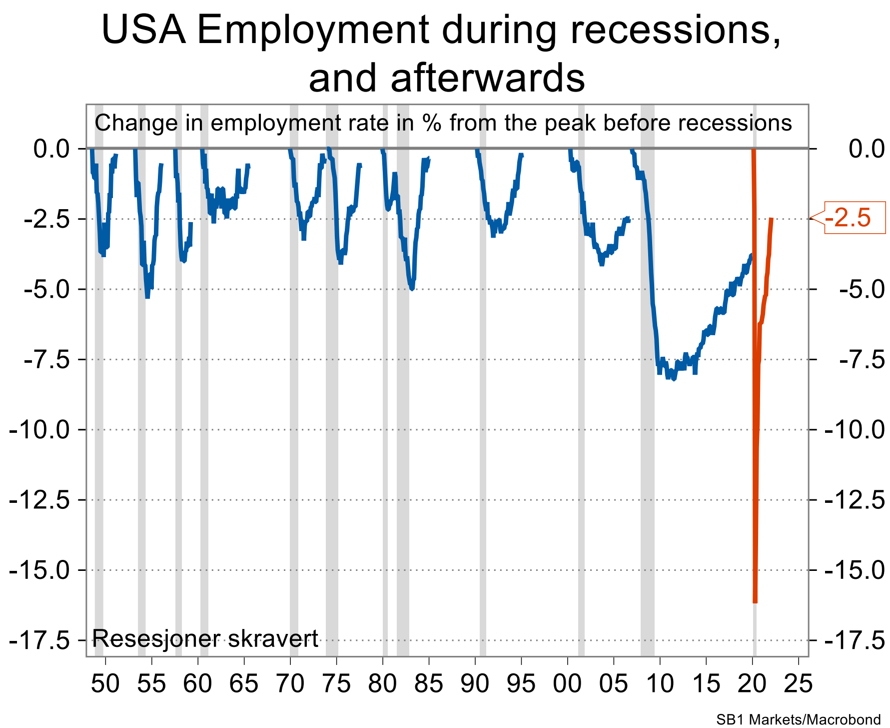


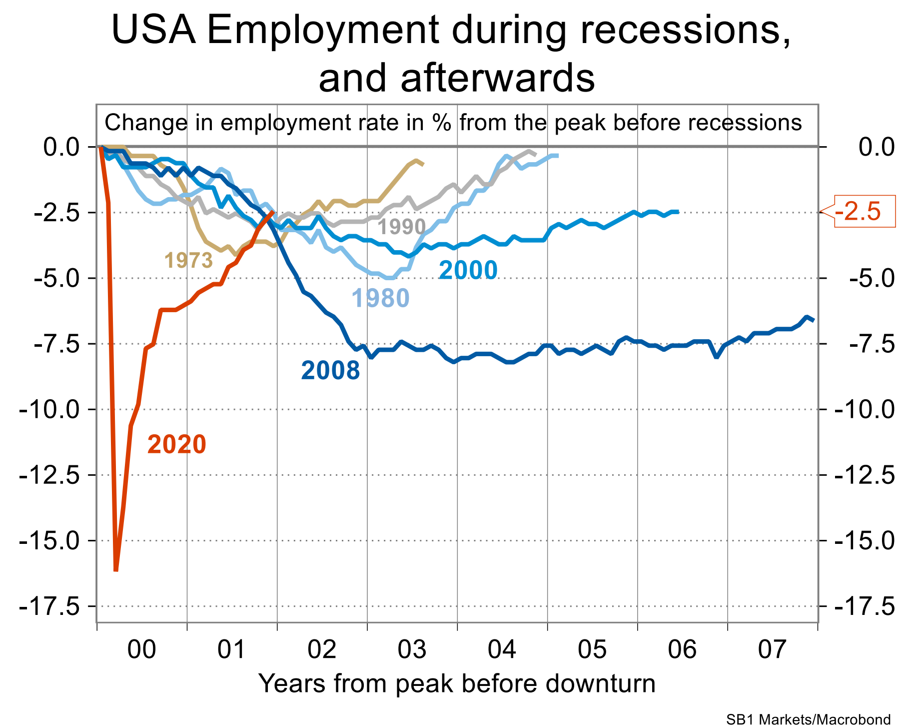


- The recent six months (as over the past 12 months), the unemployment rate has fallen at the fastest pace ever, barring the initial decline in the unemployment rate after the first Covid-19 shock last spring/summer
- The 4% rate is equal to the FOMC members' median 4% NAIRU estimate
- All other labour market indicators signal that US is very close or at maximum employment

This was a special downturn

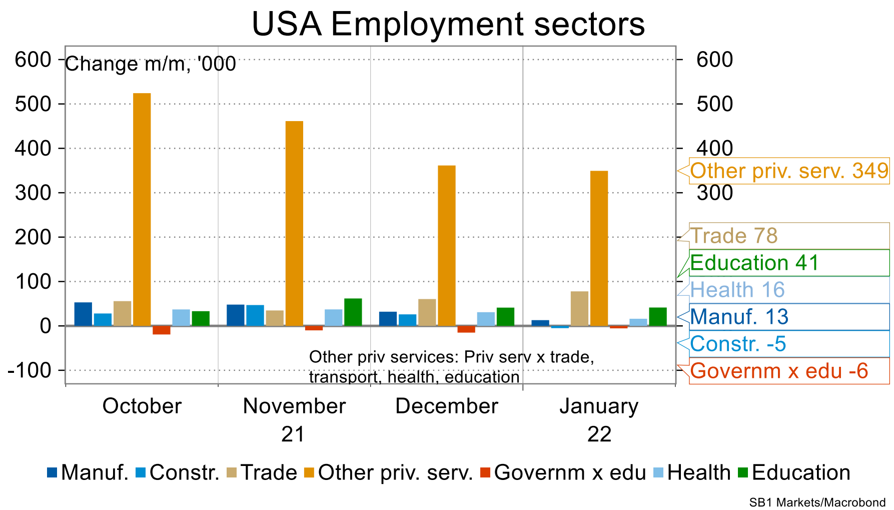
The employment rate is below the pre-pand. level but all other indicators signal a tight labour market

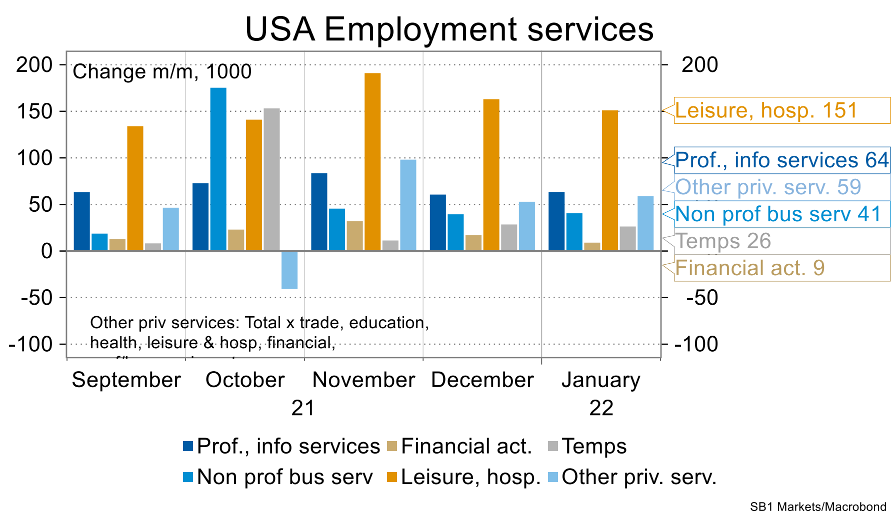




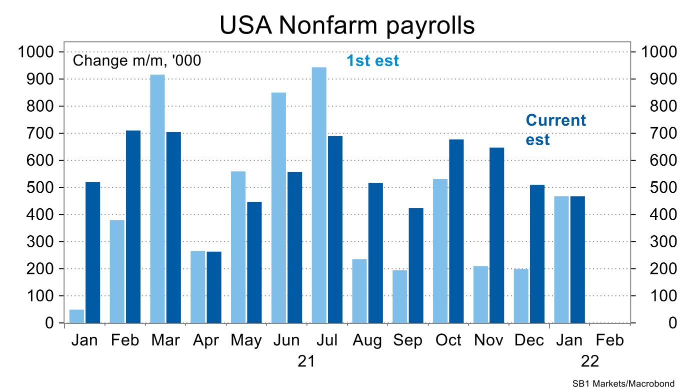
In Jan: Growth almost everywhere, services in the lead, as normal

Leisure/hospitality not hurt by the Omicron wave, at least not vs. no. of employees



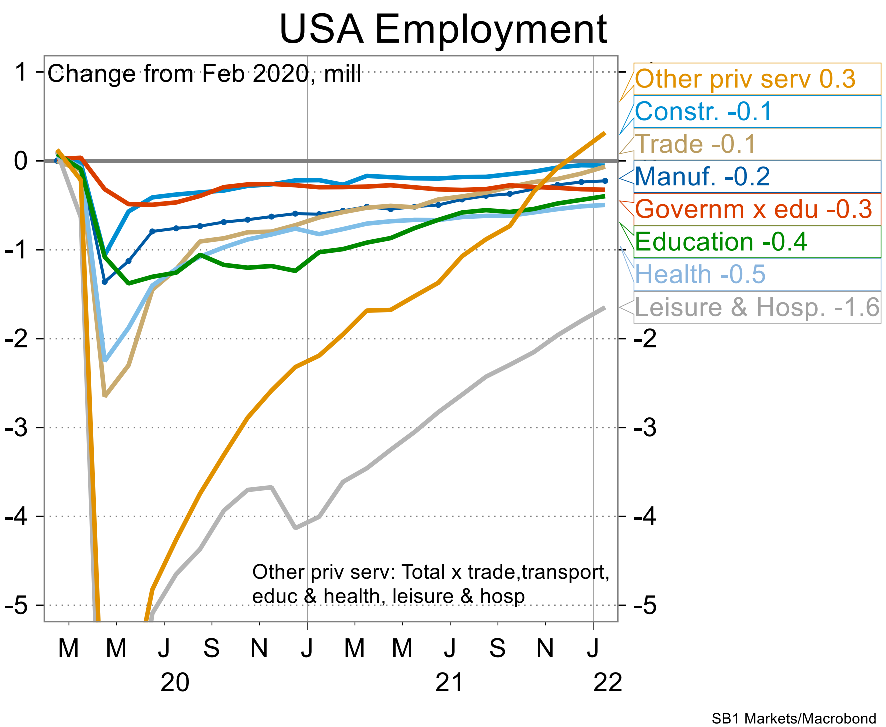


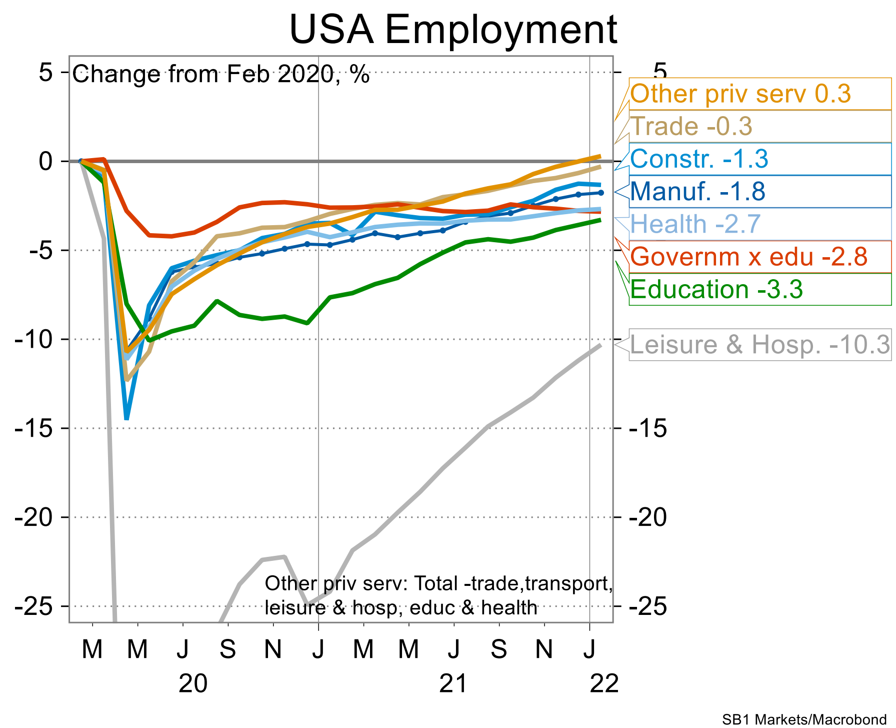
- **Last month:**
  - **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 151' jobs – and history was revised sharply upwards
  - **Trade** added 78' jobs – and the trend is steady upwards
  - A broad increase in payrolls in other **private services**
  - **Manufacturing** added 13', below par
  - **Construction** sector employment fell by 5'
  - **Education** (private & public) up by 41' (seas. adj.), and a previously reported decline is turned to steady growth!
  - Employment in **government** (ex education) fell by 6'
- Employment growth in H2 last year has been revised sharply up, while H1 has been revised down. Will Jan be revised up too?



Vs. Feb-20: The gap is tightening, several private services above the starting point

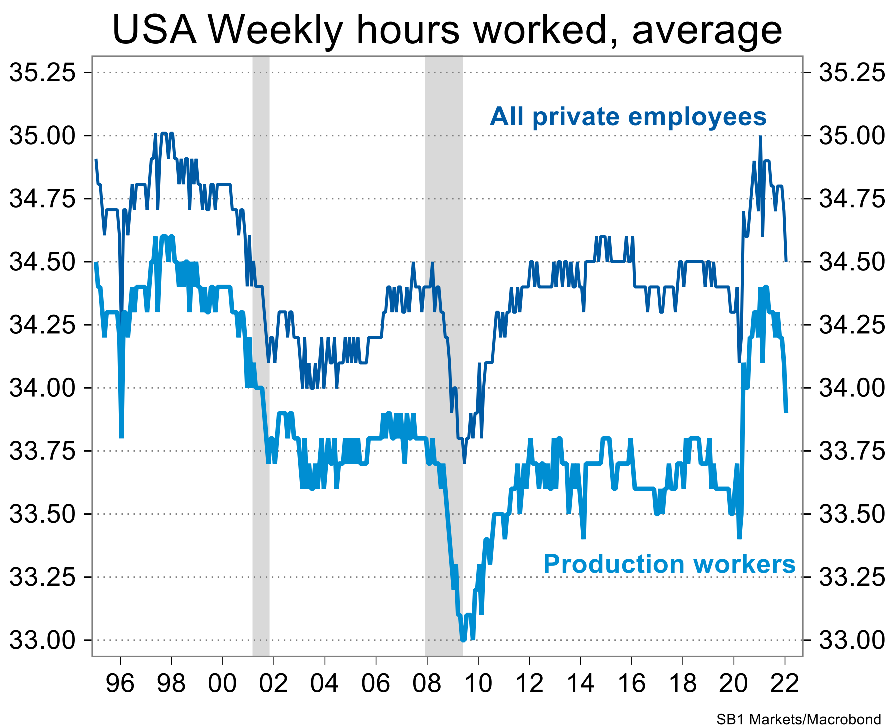
Leisure & hospitality still down 10.2%, much weaker than previously reported

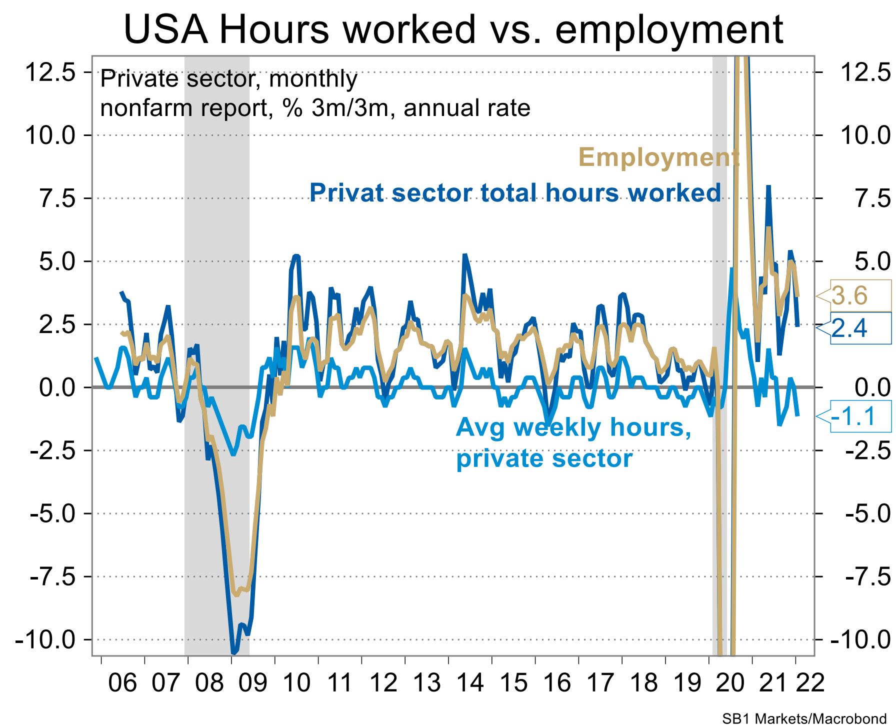




Average weekly hours sharply down in Jan, due to Omicron related absence?

The average working time fell by 0.6% m/m, probably not due to lack of demand from employers

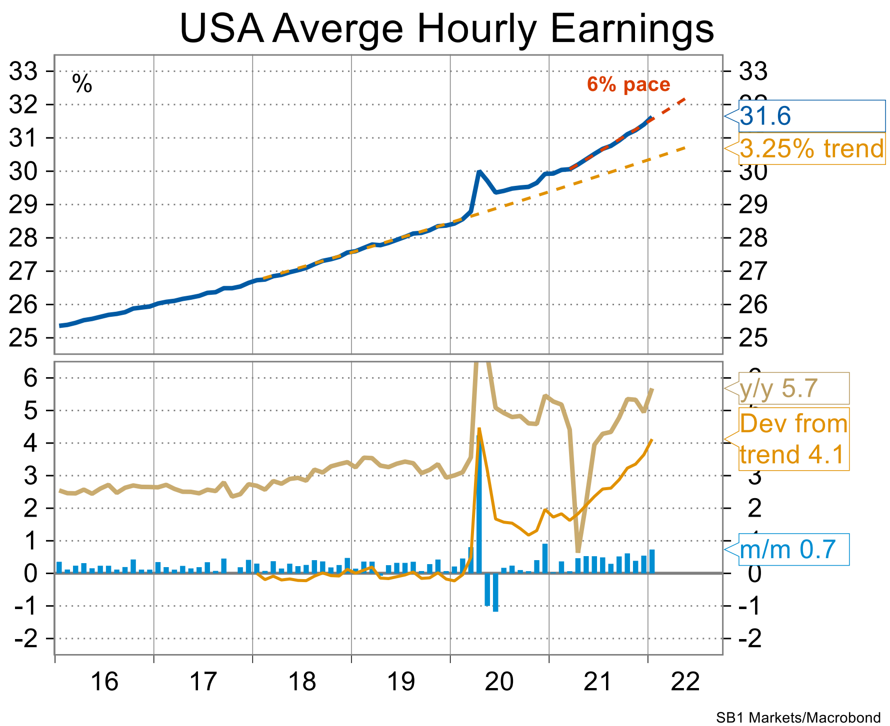


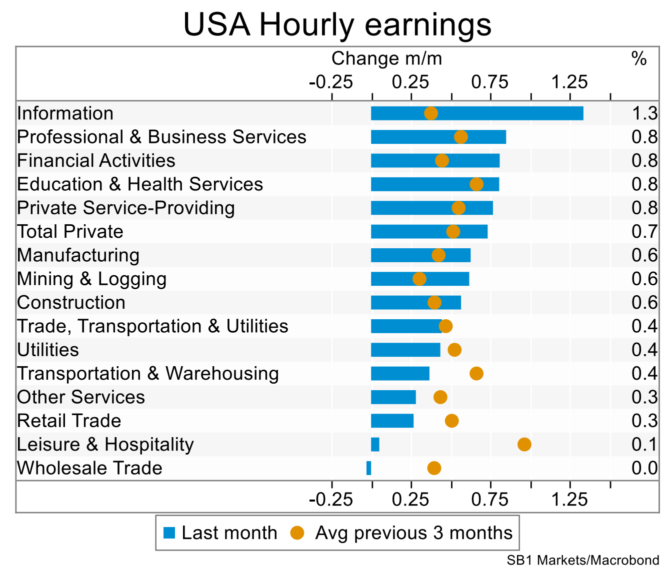


- 6 mill workers in the LFS reported that they have been unable to work or have worked fewer hours because the employer closed or lost business due to the pandemic – up from 3.1 mill in December. This may explain some of the decline in hours worked

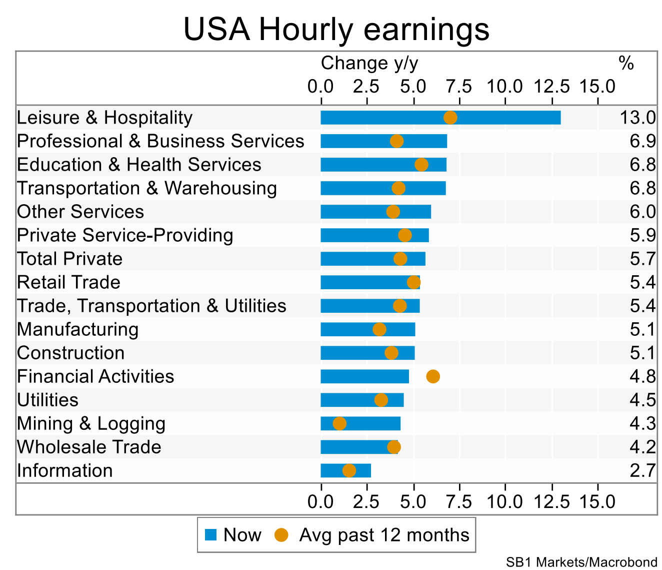
The average wage up 0.7% in Jan, the pace since the spring at 6%!

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



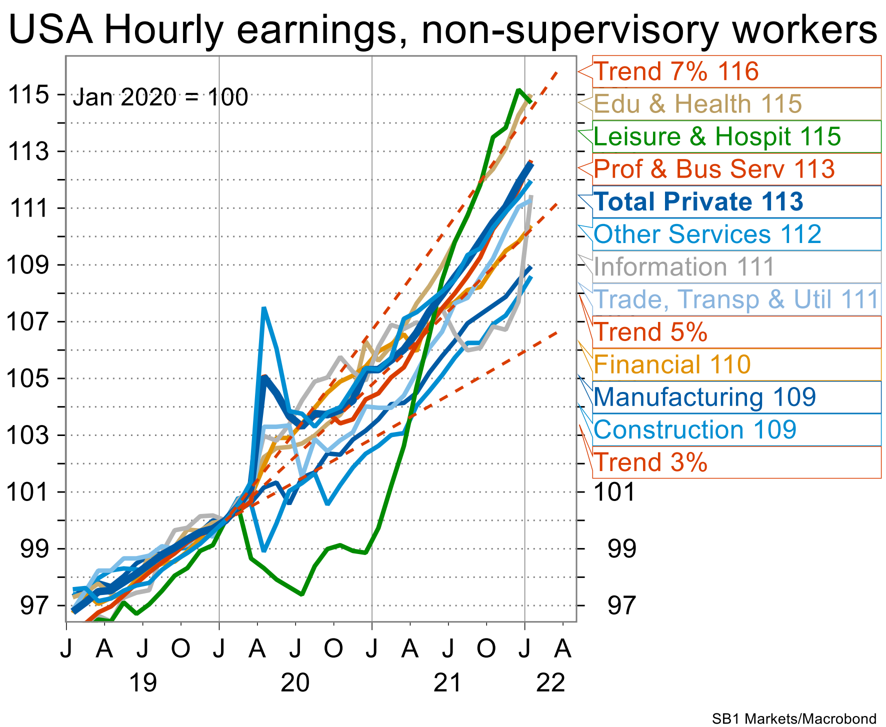


- The **average wage rose 0.7% m/m,** 0.2 pp more than expected, up from 0.5% in Dec. History has (in total) been revised significantly up – once more. Wages are up 5.7% y/y, 0.5 pp above expectations at 5.2%, up from 4.9% in Dec (revised from 4.7%)
- Since April, the underlying growth has equalled 6%. It is not possible to blame the employment mix, as the low paid have returned to their jobs
- A **majority of sectors** report higher wage increases in January than over the previous 3 months, and annual growth rates are accelerating in all sectors, barring finance!



Wages are climbing at 4 – 7% growth pace, the average at 6%

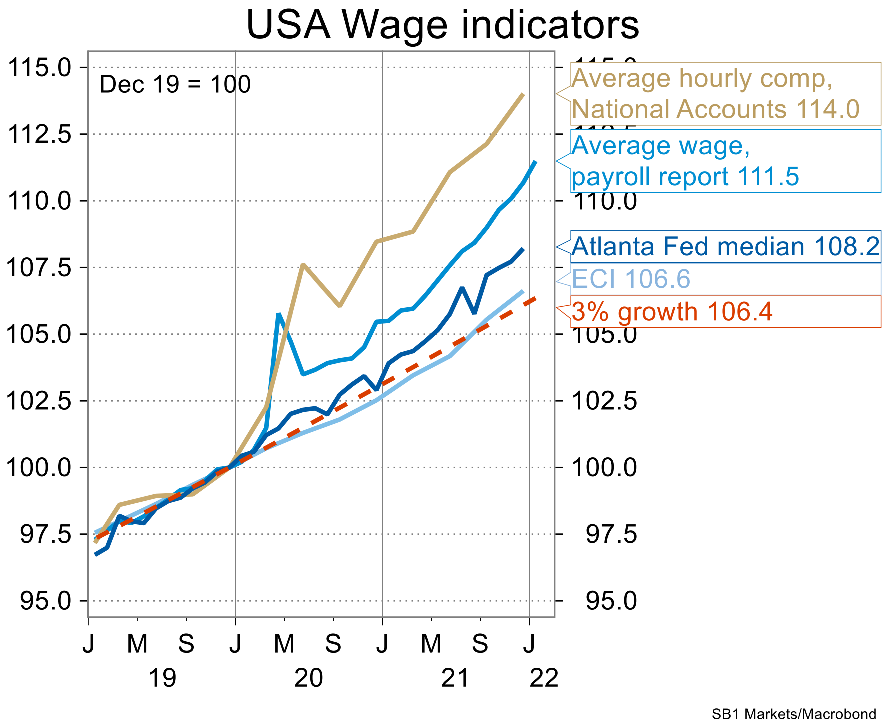
... And well above the pre-pandemic growth path <u>in all sectors</u>

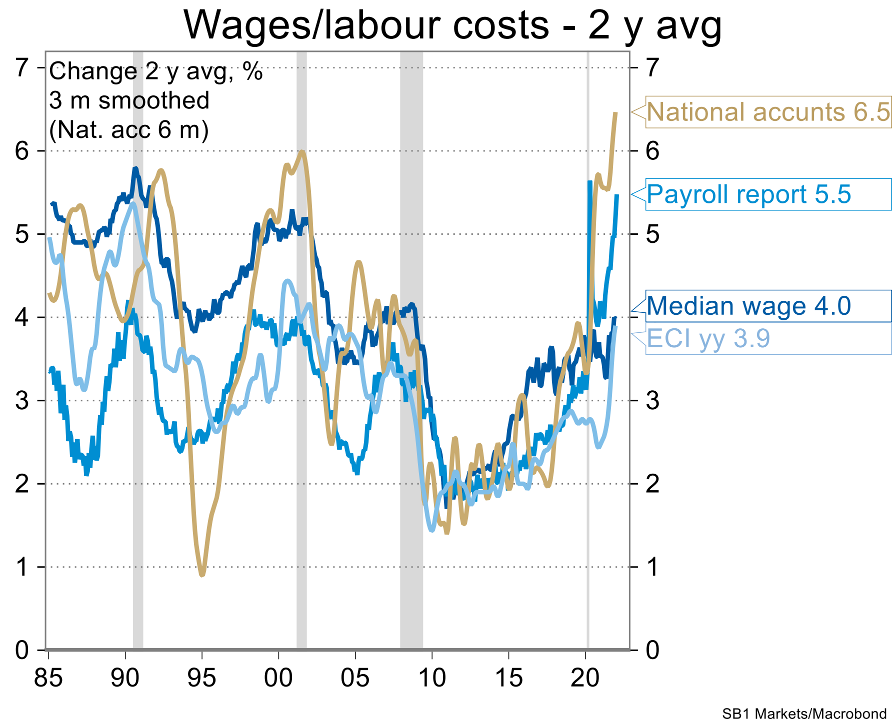


Memo: On the chart to the left above, wages for non-supervisory workers are shown. When all employees are included, growth is slightly lower in most sectors

Wage indicators agree: Growth has accelerated, to substantially above the 10 y av

… which yielded 2% inflation (or more). Productivity may have accelerated, but just margianally

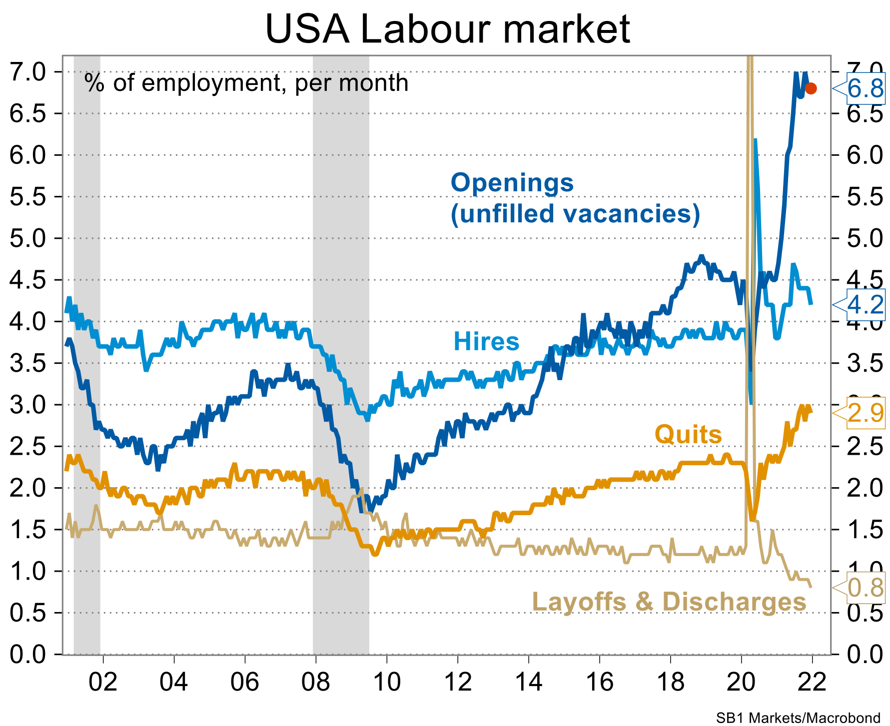




- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years, also if we apply a 2-year average growth rate, to exclude the impact of changes during the first part of the pandemic (chart to the right)
- Growth in wage/earnings/compensation indicators are up 1.5 – 3.5 pp vs the their respective 10 y averages. There is an obvious risk that wage inflation will accelerate further (check the following pages) – probably until the next recession hits as the labour market is extremely tight
- Over the past 10 years, inflation has been close to 2%, and well above 2% if calculated over a shorter period
- It will be a challenge to keep inflation at 2% if wage inflation remains at 5- 6 %. Productivity growth has not accelerated by much, check here. Profit margins may take a beating – and they very likely will – but probably not sufficient to bring inflation down. (BTW, Powell is no denying that the 'average over time 2% inflation target implies that inflation has to be brought down to below 2% for a while if the price level has climbed to above the 2% path – like it has down now)

More unfilled vacancies in December, the quits rate close to record high

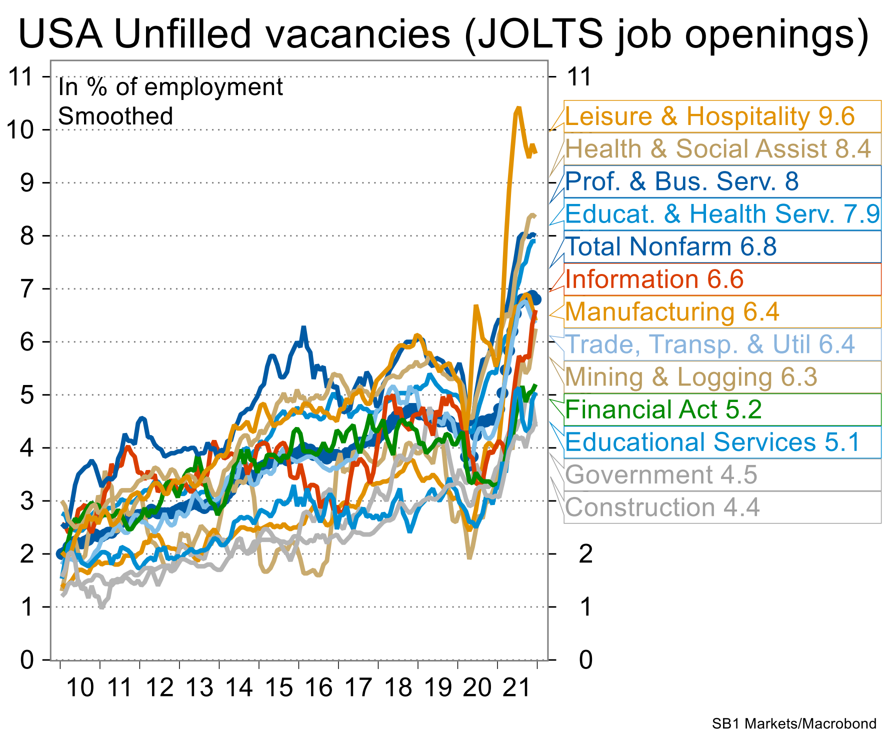
And record few are laid off

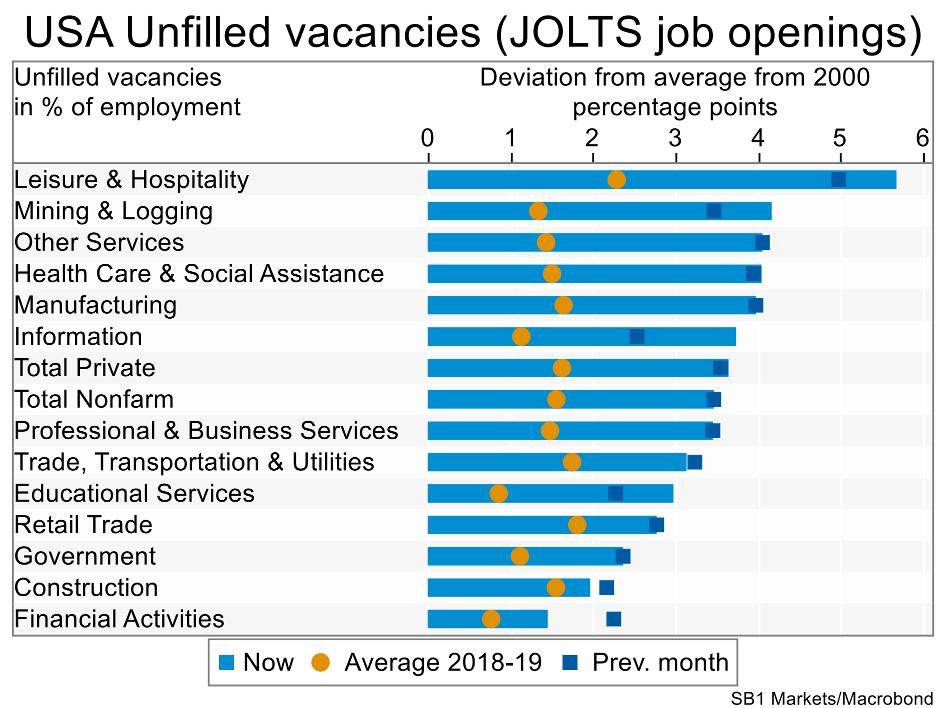


- The no. of **unfilled vacancies** was close to unch. at an upward revised 10.9 mill in Dec, equalling 6.8%, 0.2 pp blow the ATL level two months earlier
  - » The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit.
  - » **The SMBs (NFIB survey)** reported marginally <u>less</u> trouble filling positions <u>January</u>. These two series are very closely correlated – and the level for both have been at levels never seen before since early last year
- **New hires declined by 0.3 mill to 6.3 mil or by 0.3 pp to 4.2%** of the no. of employed persons, still an unusual high level
- The rate of **voluntary quits** fell 0.2 mill to 4.3 mill, or down 0.1 pp to 2.9% of the no. of employed. As with unfilled vacancies, quits are closely correlated to wage inflation – for obvious reasons
- **Layoffs** were unch fell 0.1 pp to 08% - a record low level
- **In sum:** The report data <u>confirm a very 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

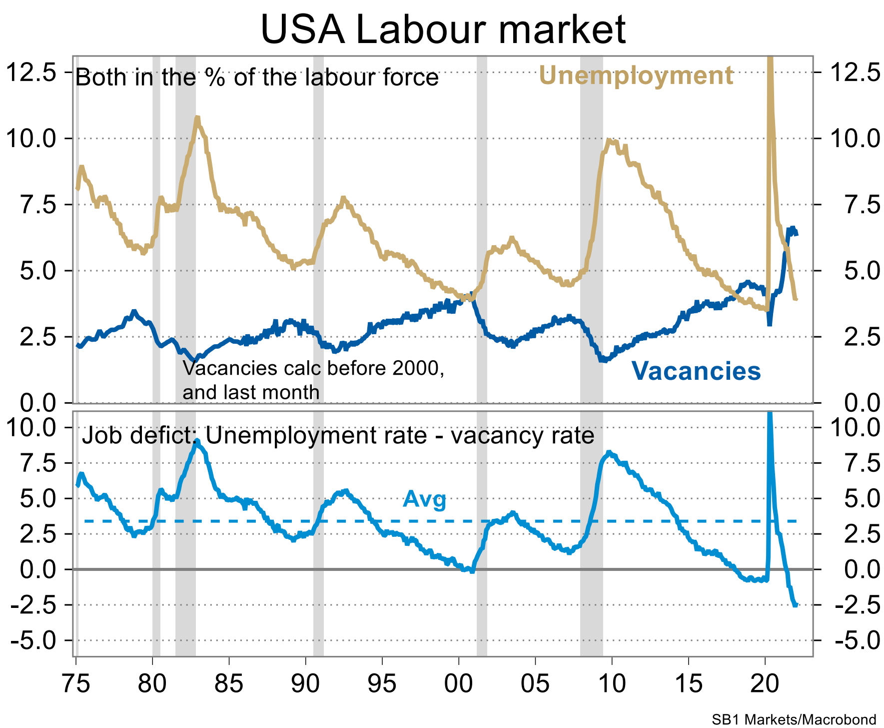
Mostly small changes in the vacancy rates sector wise in December

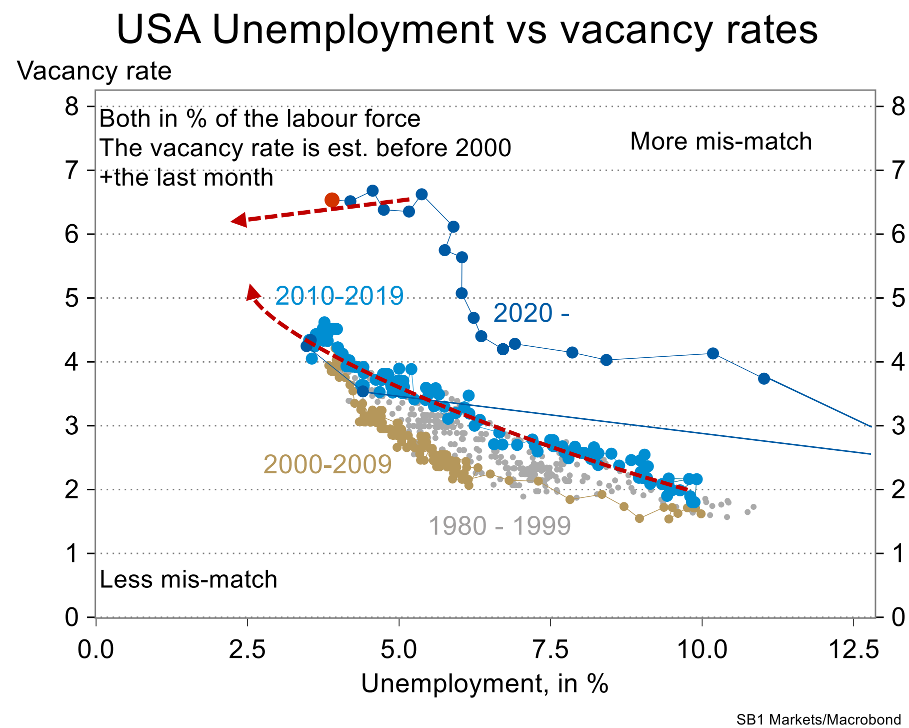




An unprecedented tight labour market – and still a large mis-match

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

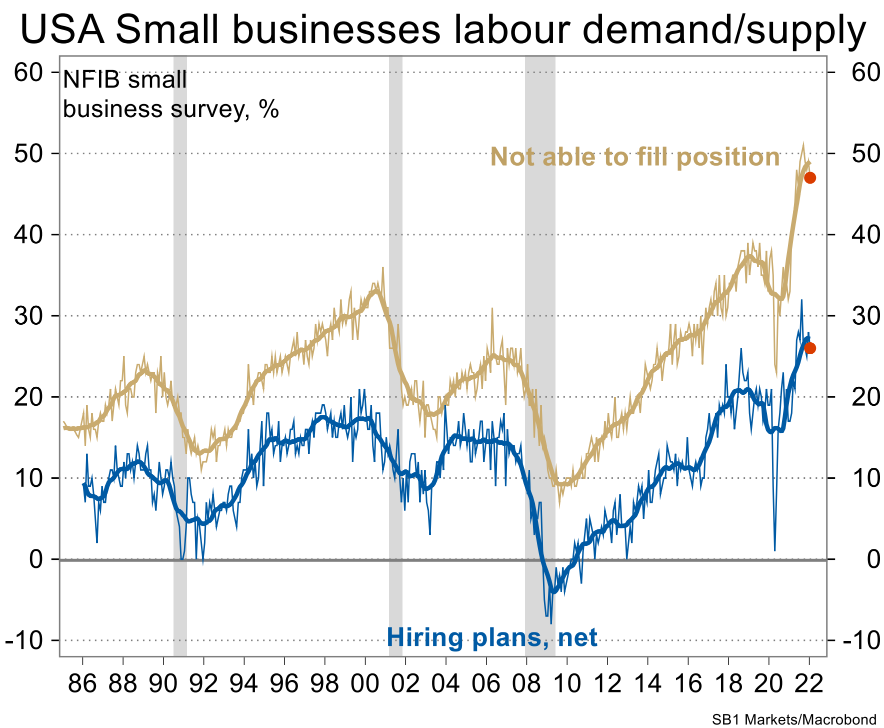


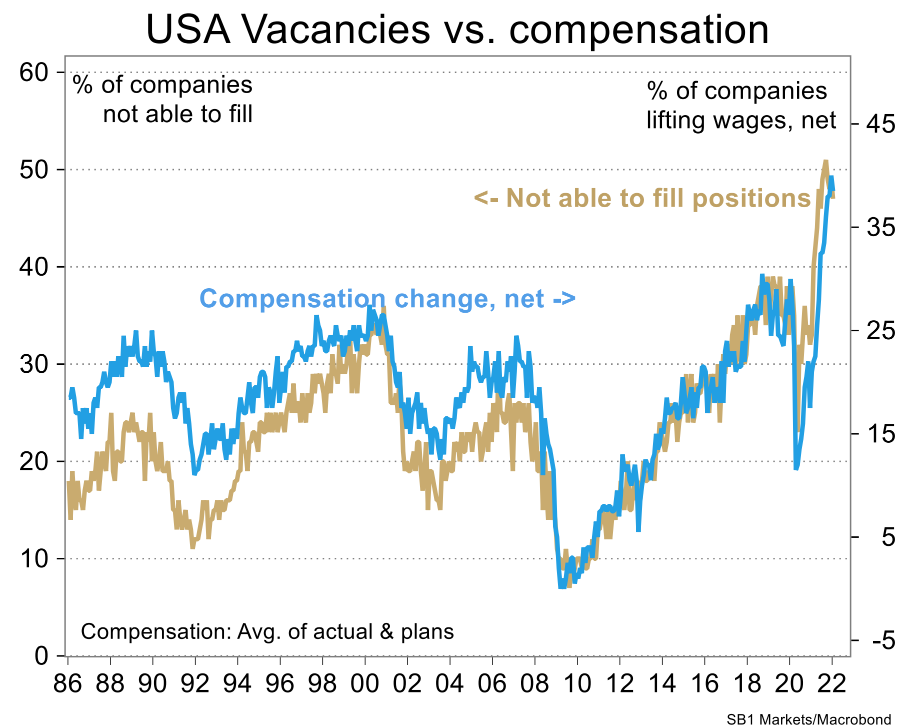


- 6.3 mill persons were **unemployed** in Dec (and 6.5 mill in Jan) - that is, they say they want a job, and are actively searching but have not got a job
- At the same time, 10.9 mill v**acant positions are unfilled**. The record high gap equals 2.5% of the labour force (if all vacant positions were 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 6 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)

A tad fewer SMBs reported they were not able to fill open positions in Jan

A slightly smaller share of companies report plans to lift compensation. Still, both are close to ATH

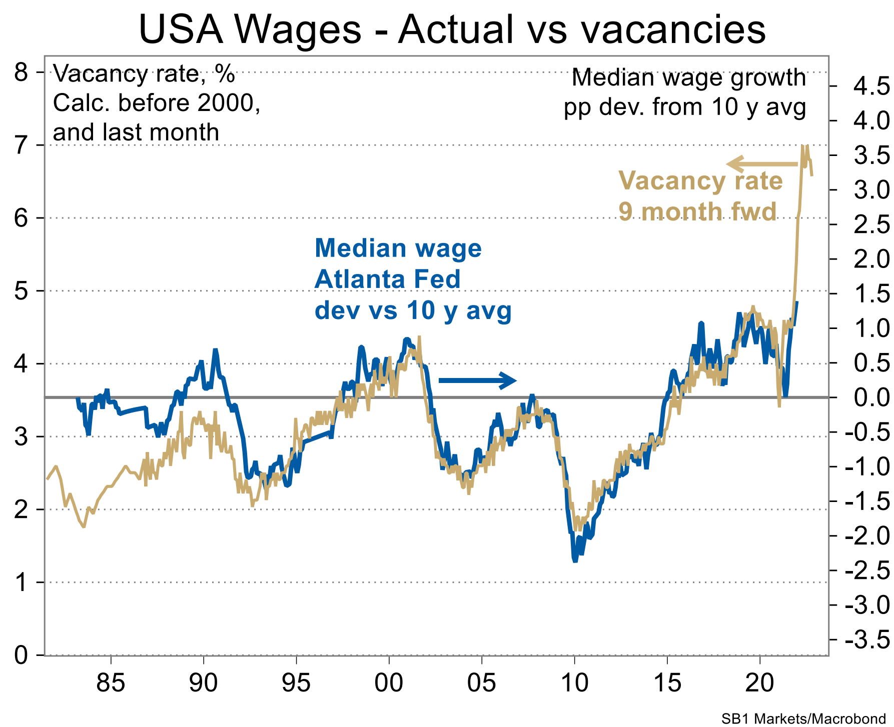


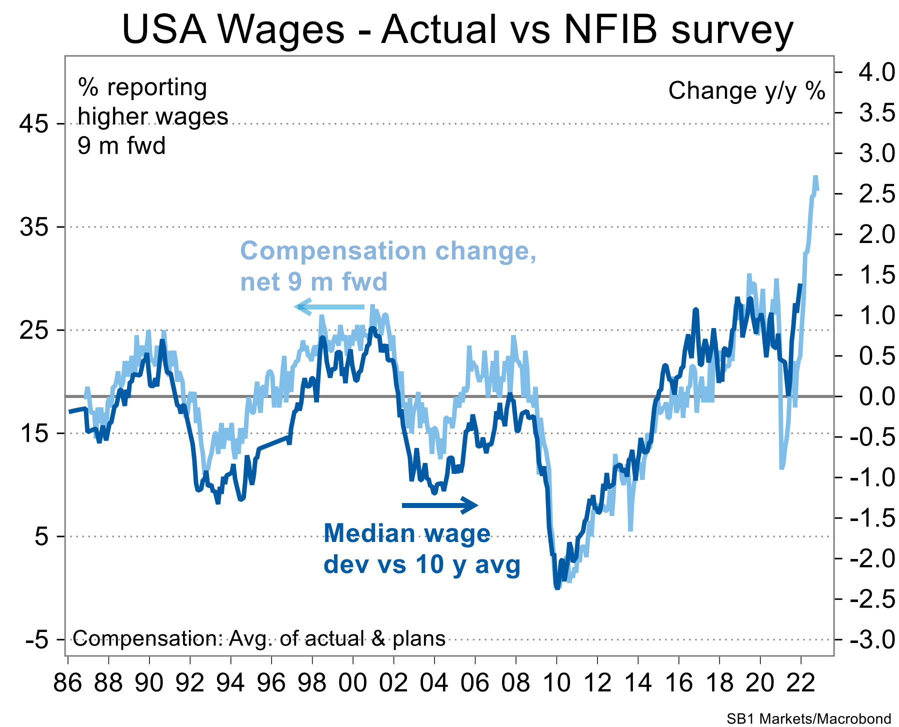


- **SMB's hiring plans** also declined marginally in January, but remains close to record high
- The share of companies that reported **plans to lift compensation** fell 1 pp to from the record high level at 38% in December. Until 2021, the max level was 30%, and the average level is below 20%
  - » The correlation to actual wage growth is pretty close, check the next page

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

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

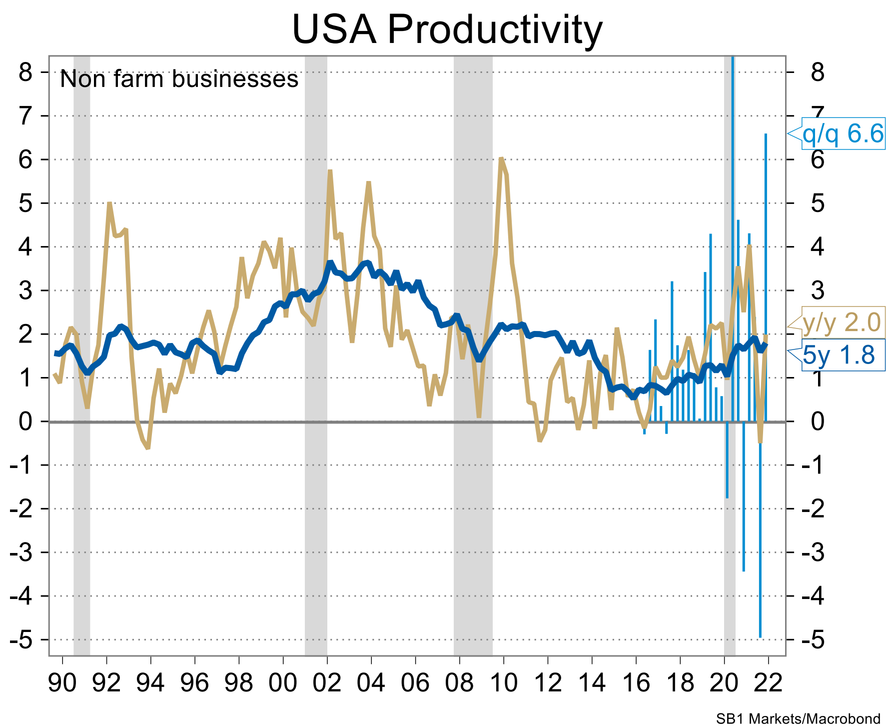


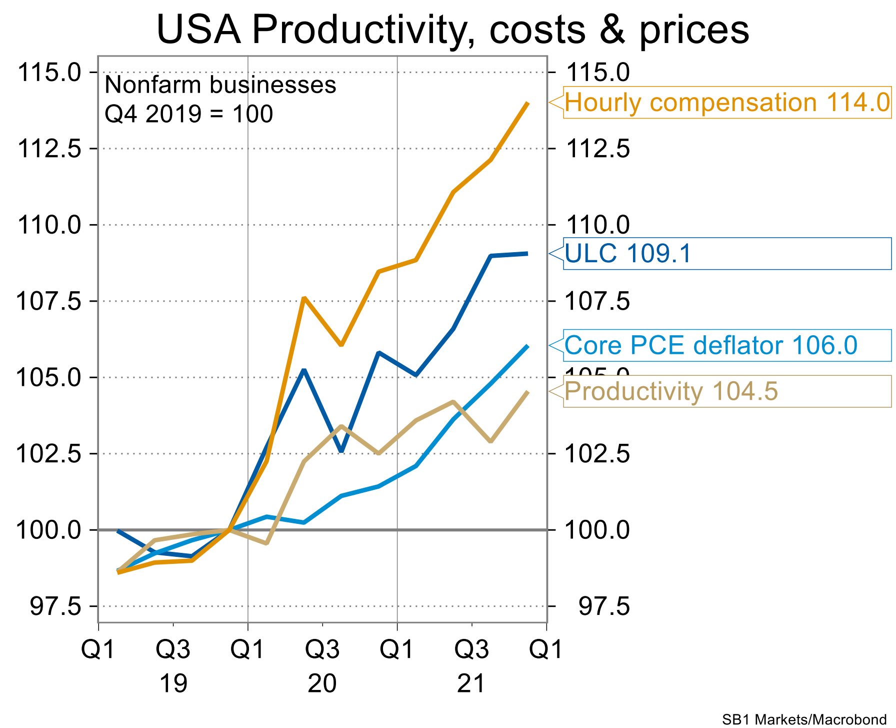


- More companies than ever before (data from 1986) are reporting that they have lifted compensation and that they plan to do so the over next months as well
- The correlation vs changes in actual wage growth some months later (6 – 12 months) is pretty strong
- The correlation between unfilled vacancies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

Quarterly productivity and cost data still all over the place. Trends not assuring

Since before the pandemic: Compensation +6.8%, productivity 2.2%, unit labour cost 4.5%!

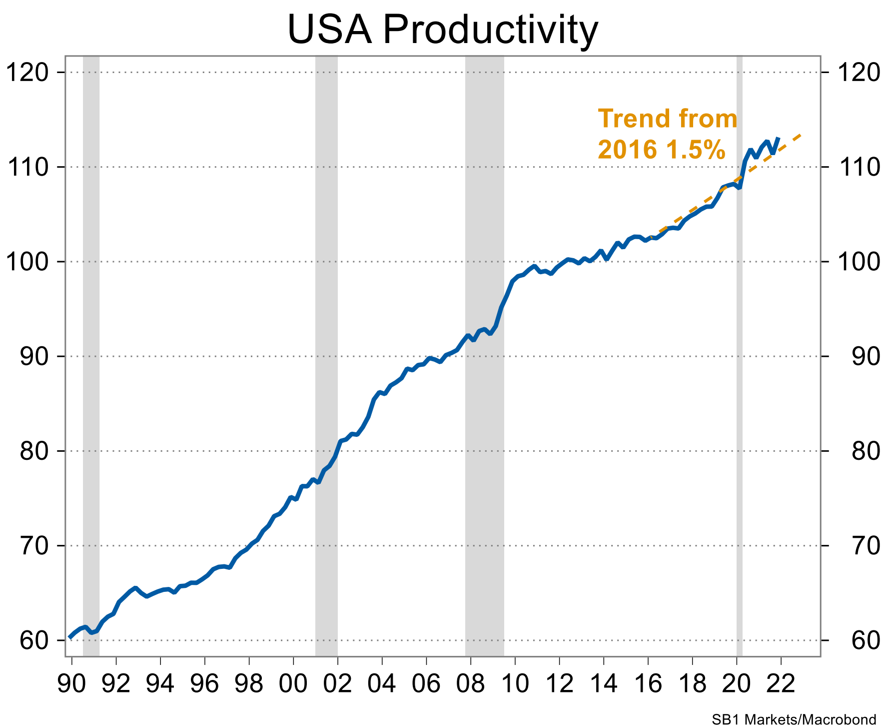


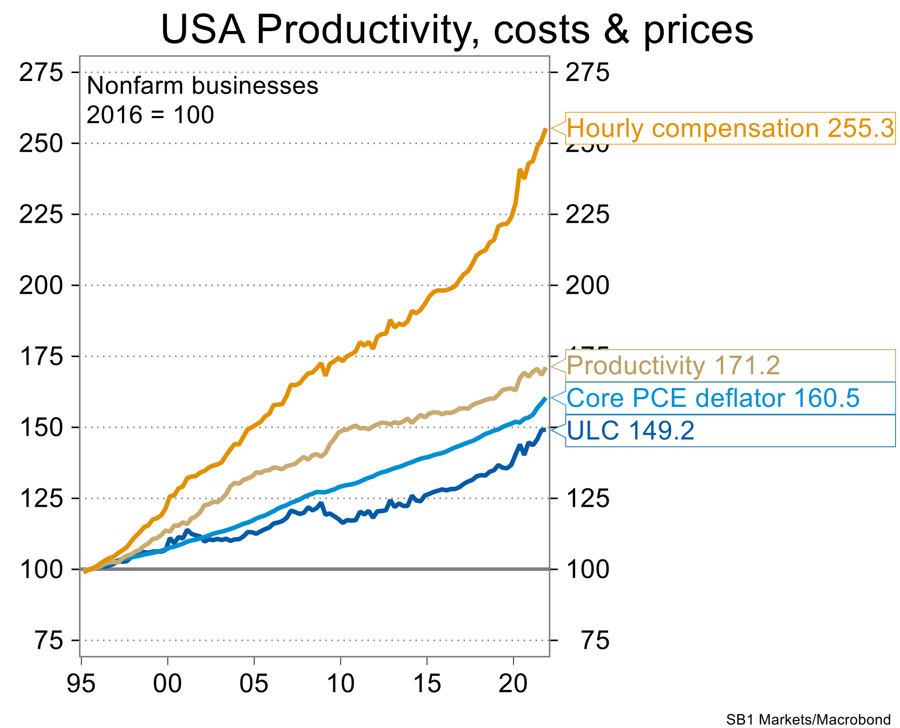


- **Productivity surged 6.6% in Q4, better than the expected 3.0%, following the 5% drop in Q3.** Through the pandemic, productivity is up at a 2.2% pace. The underlying trend is probably lower, but well above the lows during 2011 – 2016. There is not clear acceleration vs the 2016 – 2019 growth at 1.5% per year
- **Hourly compensation (wages ++)** grew at a 6.9% pace in Q4. The annual rate was at 5.1%. Since Q4-19 hourly compensation has grown at a 6.8% pace, way above the pre-pandemic level
- **Unit labour costs** (hourly compensation – productivity) grew just 0.3% in Q4, down from +9.3% (!) in Q3, less than expected (1.5%). Since Q4-19, ULC has grown at a 4.5% pace, far above a normal level – which is incompatible vs the 2% inflation target

No impressive lift in productivity during the pandemic

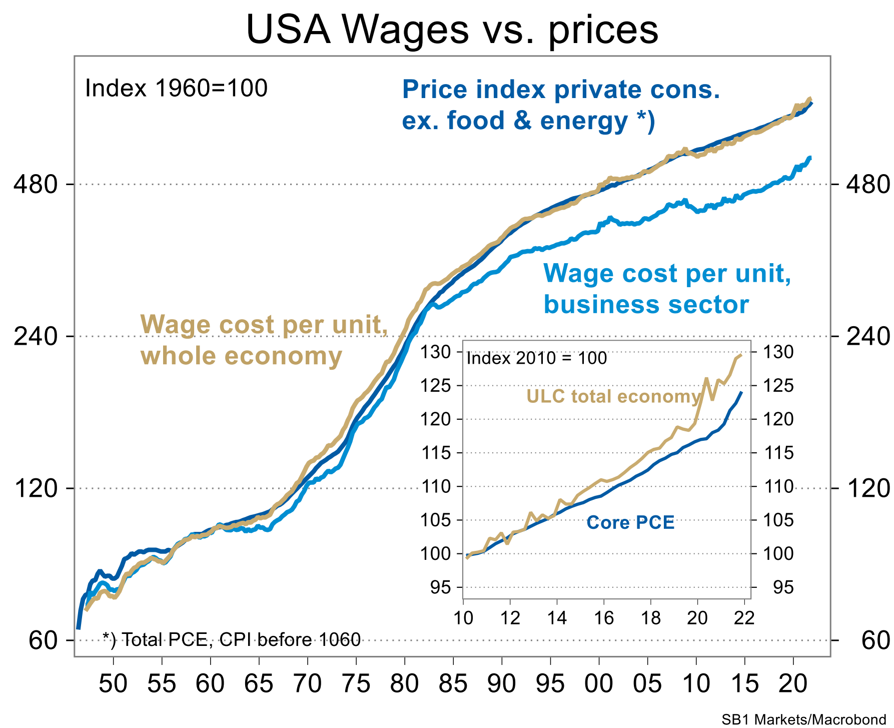
However, a more impressive lift in hourly compensation…

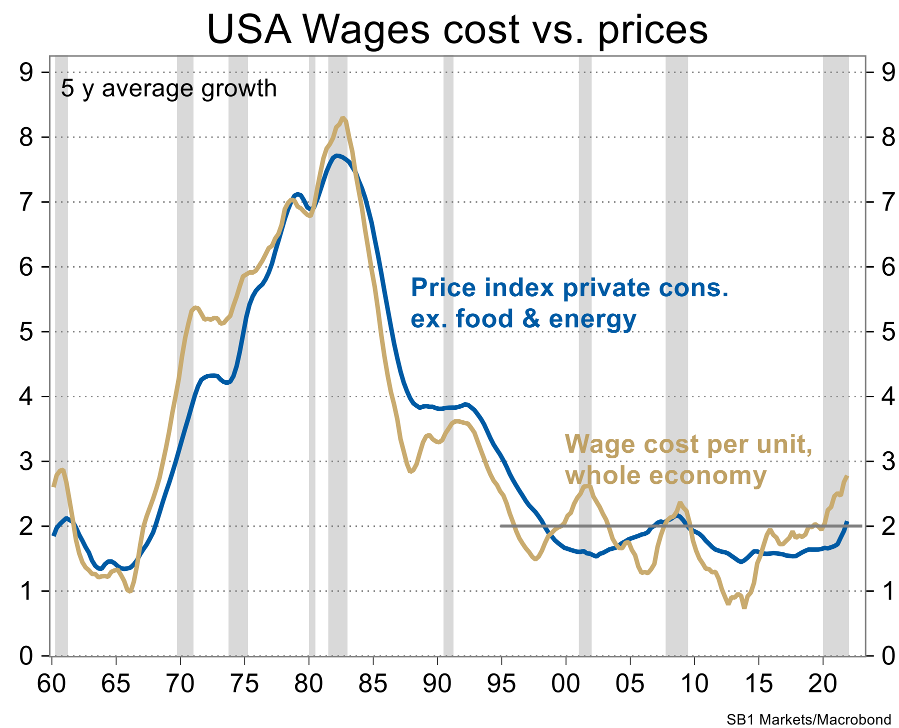




The real, and troublesome inflation risk: Unit labour costs are accelerating

There wasn't cost inflation before the pandemic. Now the cost level has increased more than prices

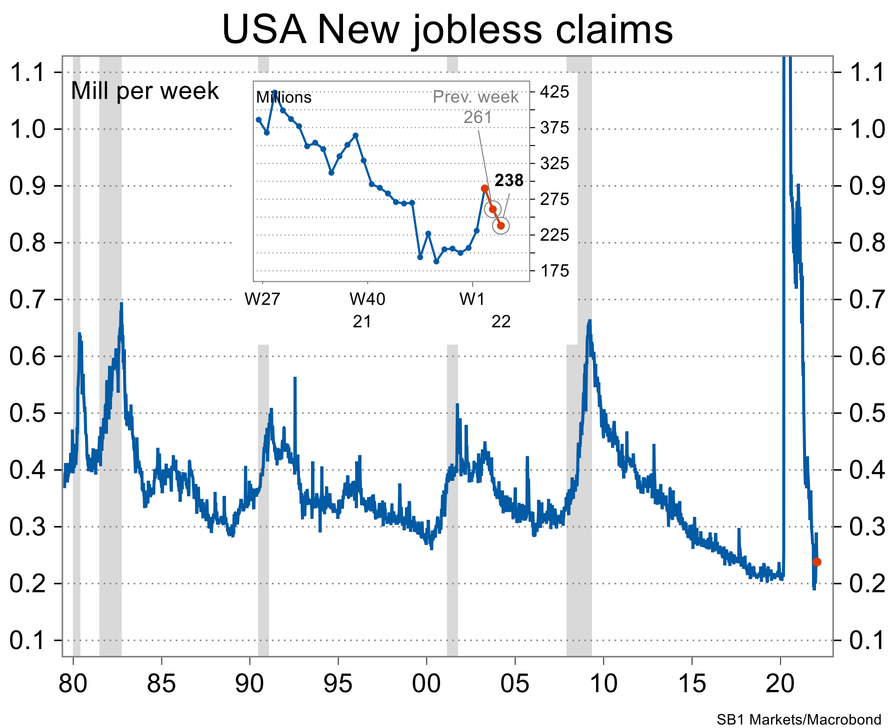


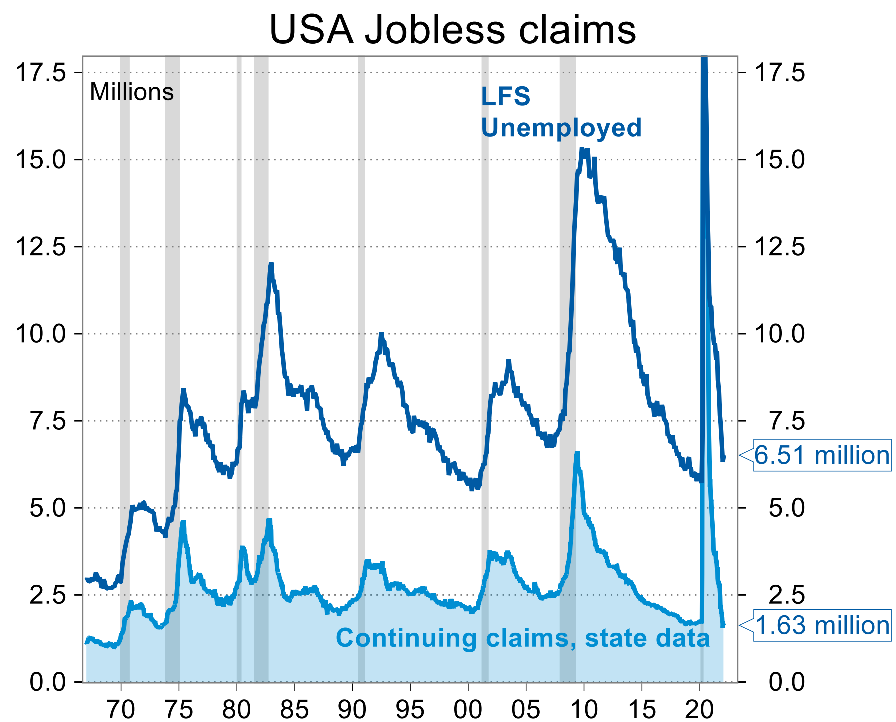


- **Unit labour cost (ULC)** is the main driver for inflation long term but is very volatile, short term
  - » Short term, the price level is far more stable than the labour cost per unit produced
  - » Over time however, they are close to equal (barring changes in direct taxes/subsidies, import/export prices). They have to – if not, operating profits would become 'too' high or 'too' low
- **The recent lift in ULC poses a risk** vs. further price increases – that so far have been partially kept in check due to large government support to the corporate sector during the pandemic

Jobless claims down last week, still slightly higher than late last year

Some more are staying in dole too. Even so, the level for both is low

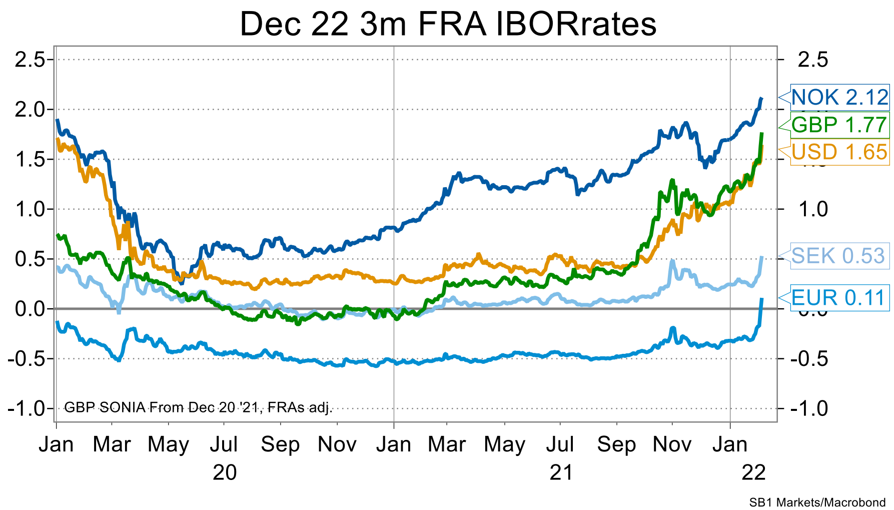


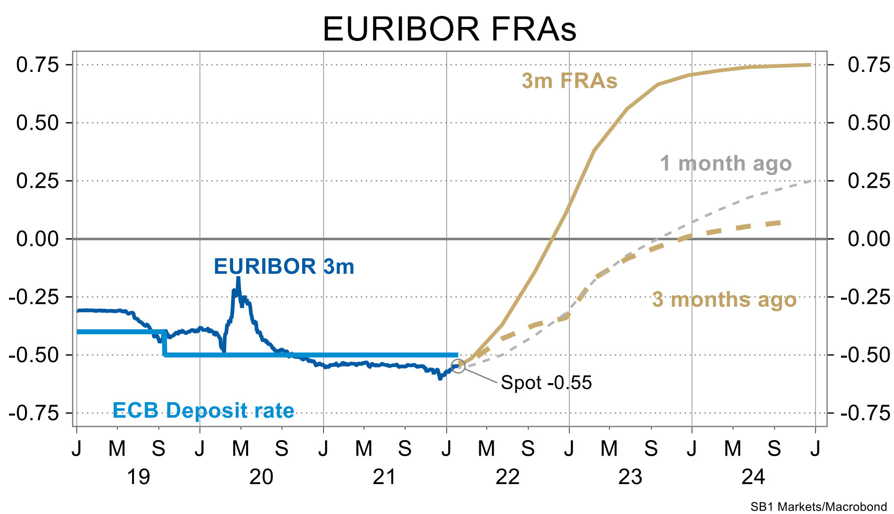


- **New jobless claims** declined to 238’ in week 4 from 261’ the previous week. Half of the lift the in early January is reversed – and the inflow is extremely low
- **Ordinary continuing claims** fell by 44’ in week 3, to 1.63 mill. The level is just marginally above the lowest since 1973!
- Another evidence: The labour market is tight

Et tu, Christine? An ECB hike in 2022? Or 2? Or…?

The (almost*) last soft central bank governor yielded – as inflation risk now are tilted to the upside





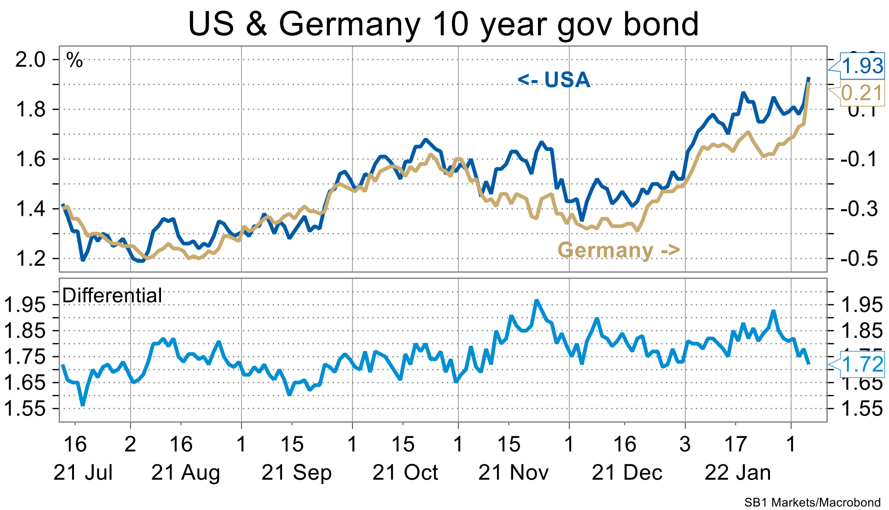
- **No policy decisions**
  - » The repo rate remains at -0.5%. The main QE program, the Pandemic Emergency Purchase Programme (PEPP) will stop buying bond in March, as decided in December.
  - » The Asset Purchase Programme (APP) will increase its bond buying in Q2 and Q3, and return to the 'normal' EUR 20 bn/month pace from Q4 (vs. the EUR 70 bn pace in the PEPP program).
  - » The ECB do not plan to stop reinvesting principal payments before 2024 (the Fed will probably stop reinvesting before the summer)
- **Still, a major surprise: Lagarde turned 'hawkish'**
  - » The ECB lifted it risk assessment vs inflation ahead of the quarterly report to be published in March
  - » She was – as at every meeting these days – asked about the possibility for a hike the signal rate: then the bomb exploded, and she would not rule out a hike in 2022!
  - » The market responded immediately, the whole yield curve shot up 10 – 15 bps – and continued up in sympathy with the US curve at Friday, in sum 35 bp in the short end (and by 50 bpd for the 1y 1 y fwd. Taken together, the largest weekly lift in European interest rates/yields since June 2008. The 10 y German Bund now yields +0.21%. 6 weeks ago it yielded -0.39%. Real rates are soaring but remains very low
  - » The market is down discounting slightly more than two hikes in 2022 – and 2 – 3 more hikes in 2023.

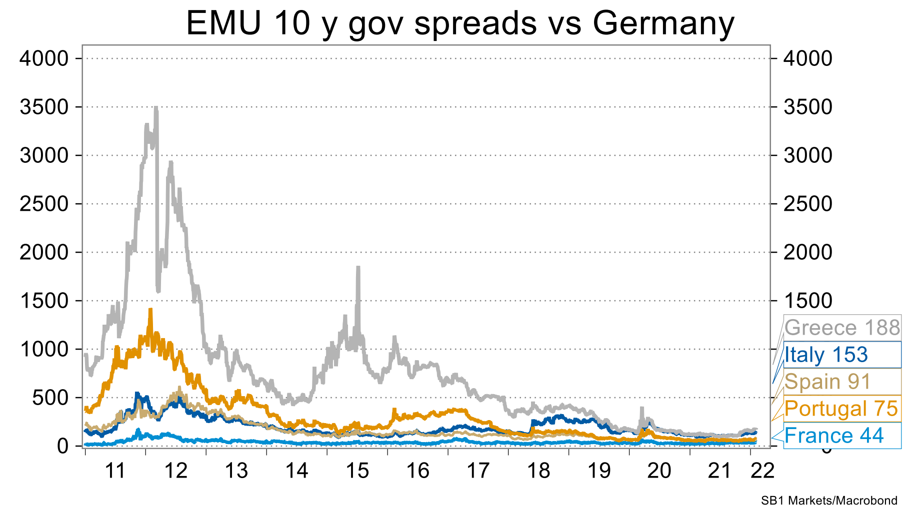
*) Swedens' Riksbank is still on the dovish line. At least until this weeks's board meeting

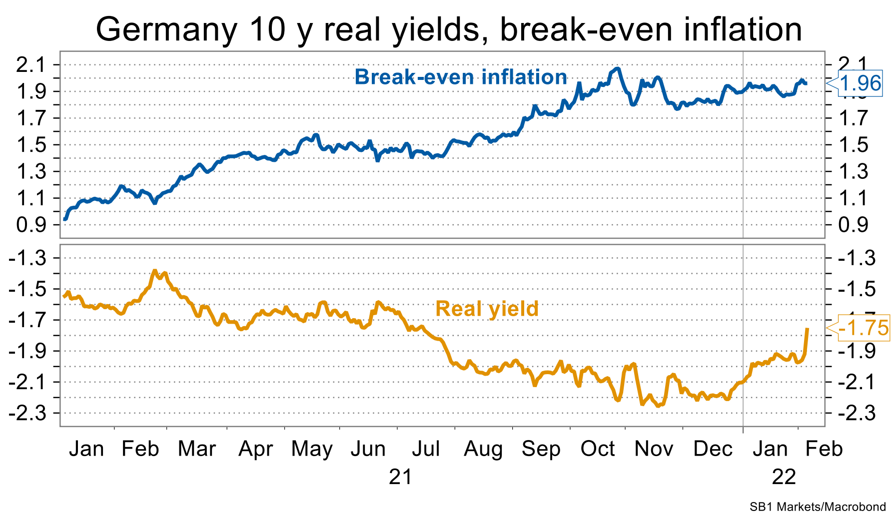
SpareBank 1 MARKETS

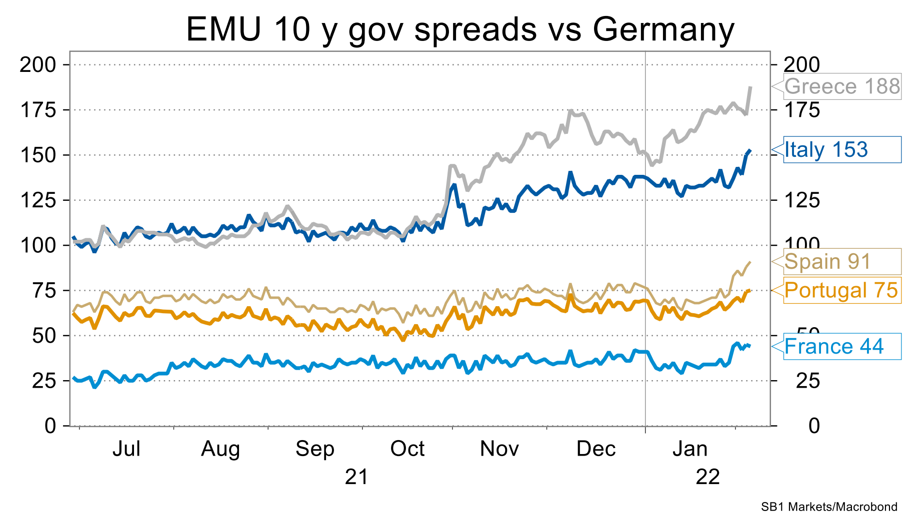
Nominal European yields sharply up – mostly due to higher German real yields

The market was not at all prepared for the ECB policy shift



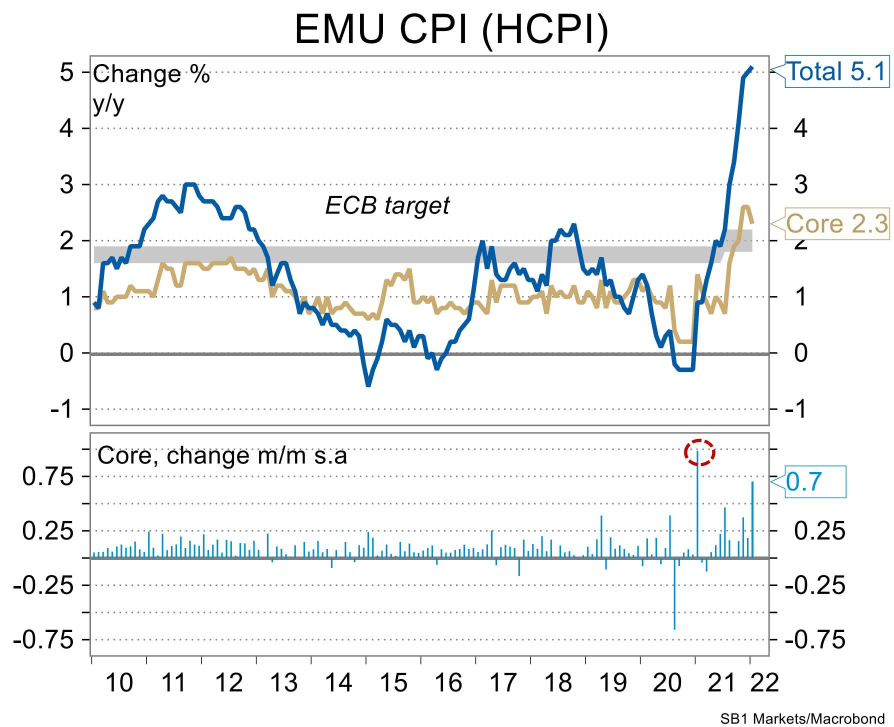


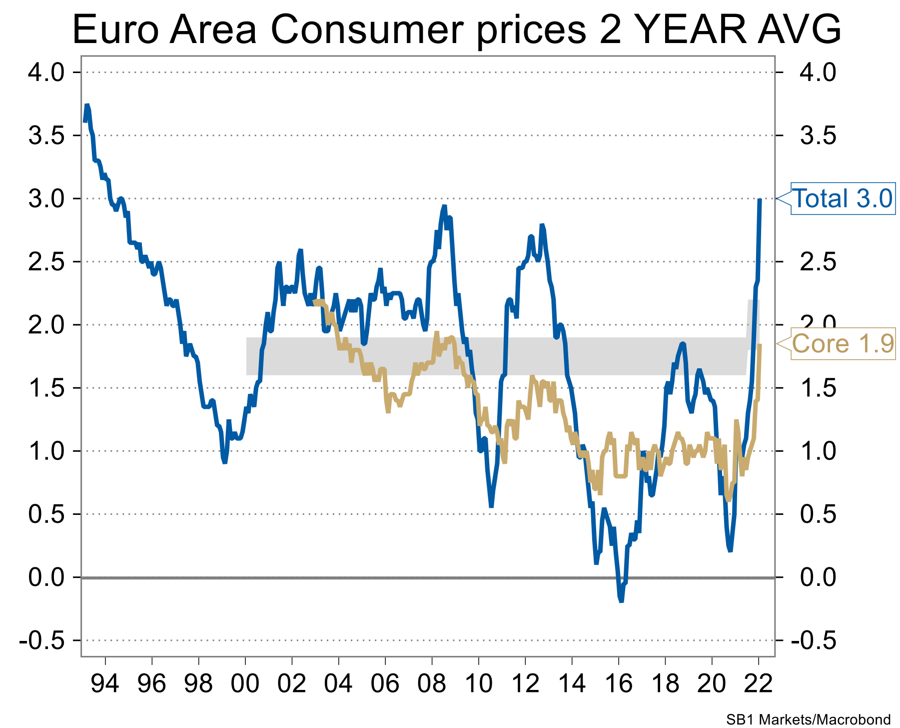




A huge inflation surprise in Jan-22 – as in Jan-21. An no decline in the annual rate!

The annual rate was expected sharply down, due the base effect. But prices rose sharply, once more

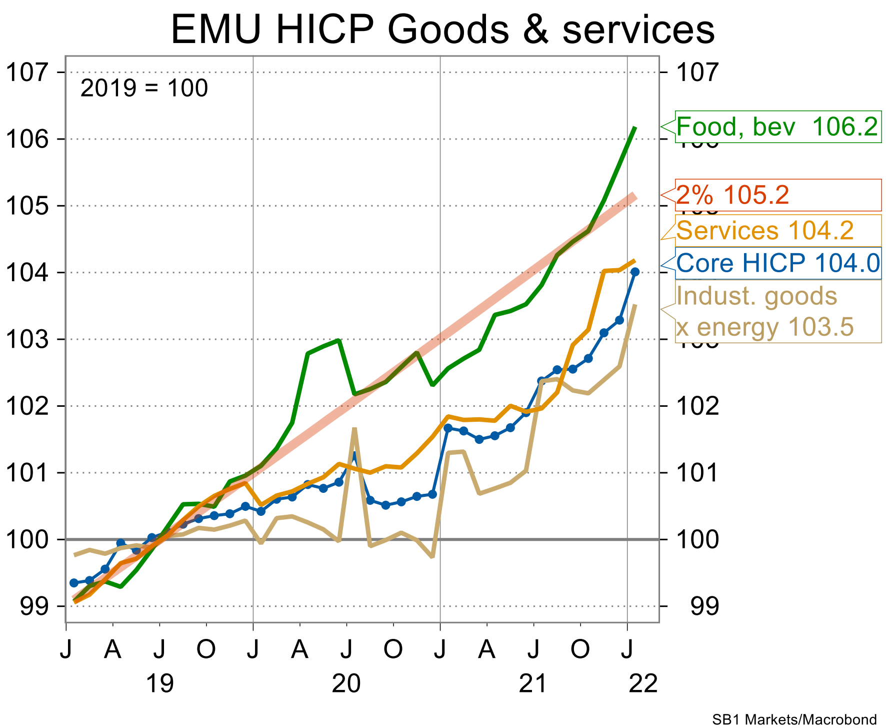


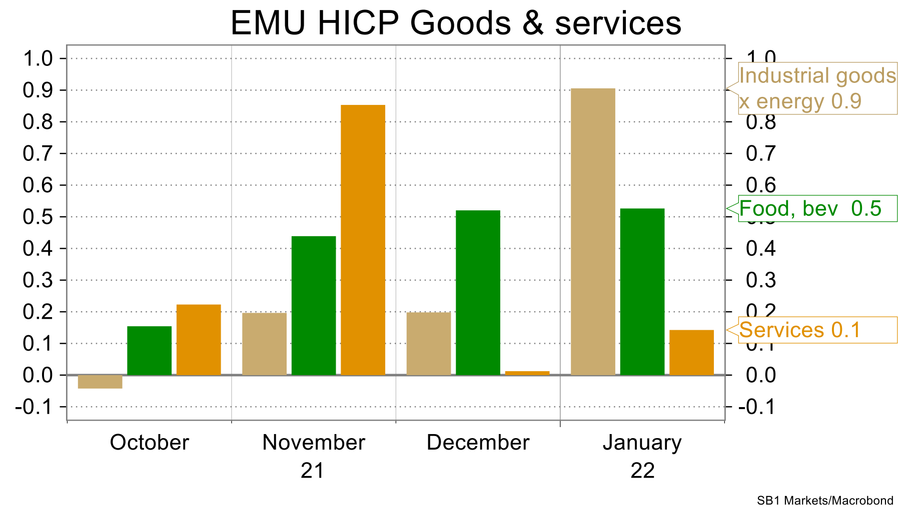


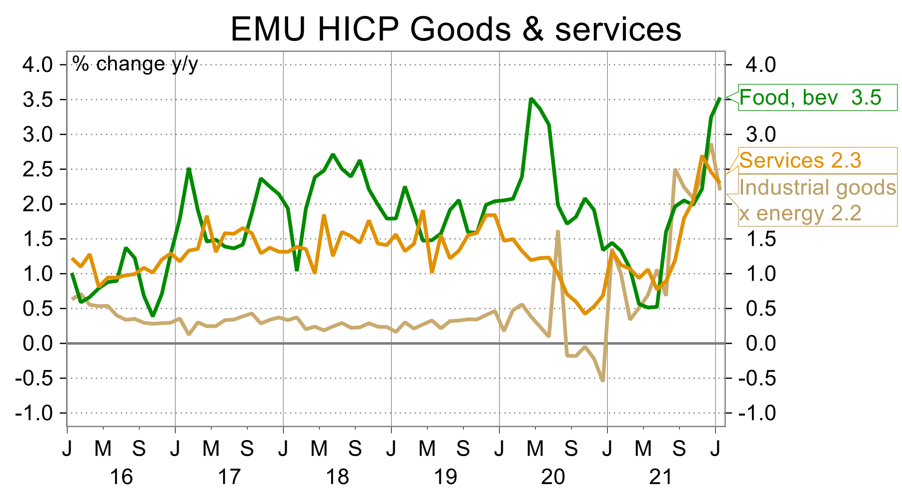
- **The headline HICP** rose 1.3% m/m in January, even higher than the spike one year ago where prices 1.1%. Thus, the annual rate accelerated 0.2 pp to 5.1% from 5.0%, expected down to 4.4% - a 0.7 pp miss!!! (Details next page)
- **Core prices** rose 0.7% m/m, and the annual rate fell just 0.3 pp to 2.3%, expected down to 1.8%! Over the past 2 years, the core is up 1.9% (tot. 3%)
- **Wage inflation** is still modest, but more unions are requesting compensation for the hike in consumer prices…
- The ECB changed tack last week, no doubt partly to this report

Inflation: It is ~~(somewhat)~~ more than energy

Food inflation at 3.5%, services 2.3% and industrial goods x energy at 2.2%



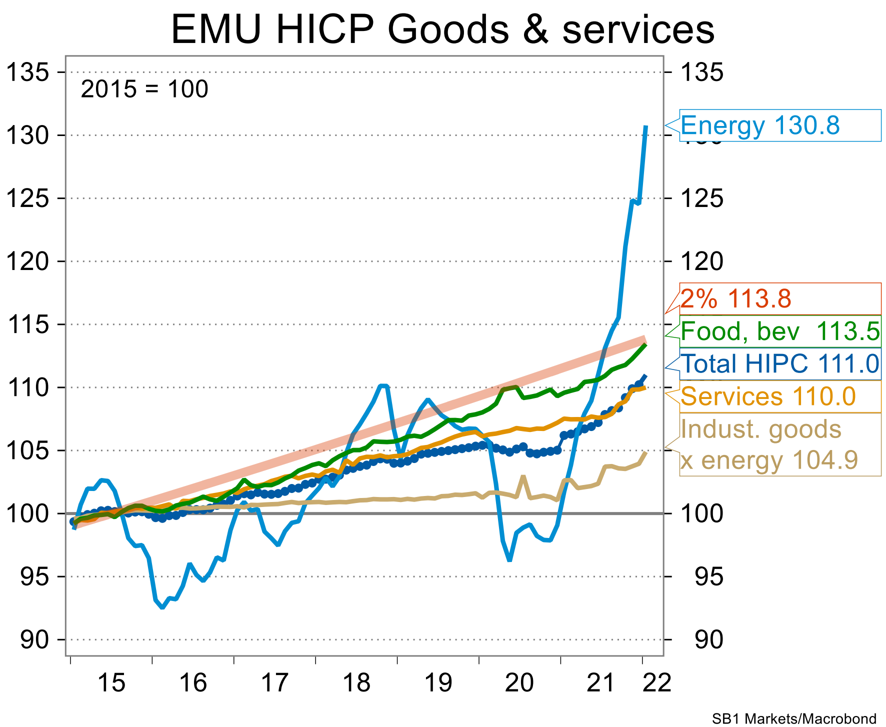


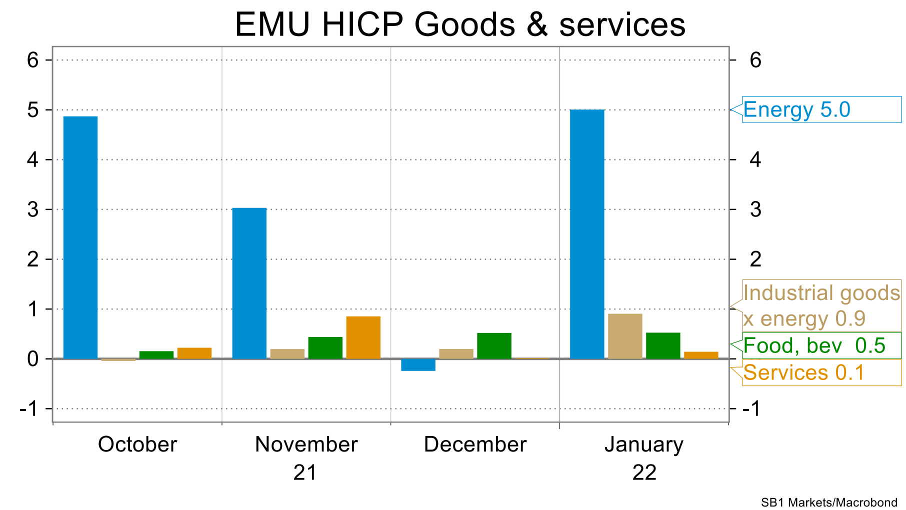


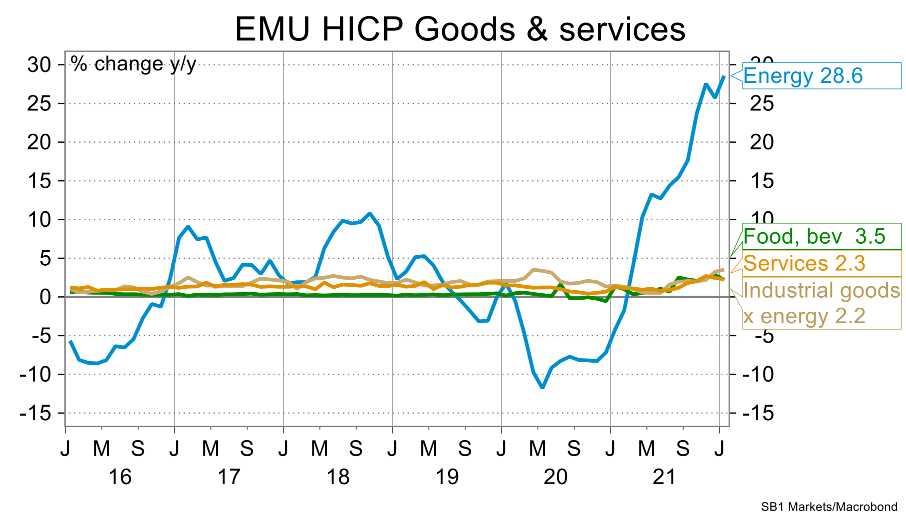
- Industrial goods rose 0.9% m/m in January, a remarkable high figure – but these prices have been very volatile during the pandemic. They are still below a 2% path since before the pandemic but prices are up 2.2% y/y (down from 2.9% in Dec)
  - » Until Dec, clothing, autos, furnishing have all contributed at the upside – Clothing the most – like the spike in Jan last year, and many of the other abrupt monthly changes
- Services prices rose 0.1% in Jan, and these prices are also below a 2% path vs the 2019 level. Transport and hotels/restaurants have contributed on the upside last year (but no data for Jan yet)
- More details in the full report in a couple of weeks time

Inflation: It is ~~(somewhat)~~ more than energy

But inflation is still the BIG story – and prices rose 5% m/m in January – and are up 29% y/y



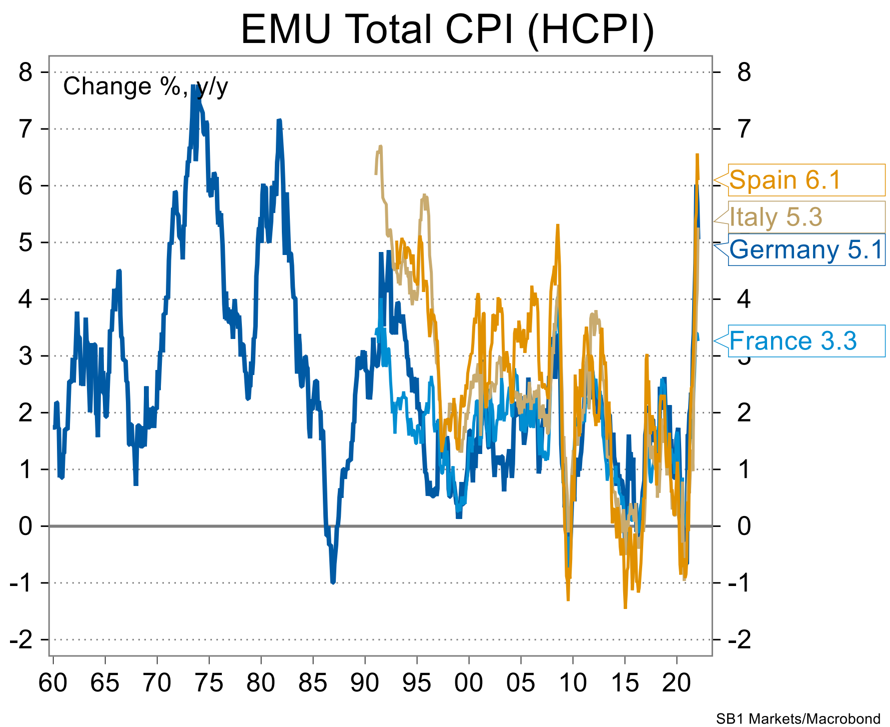


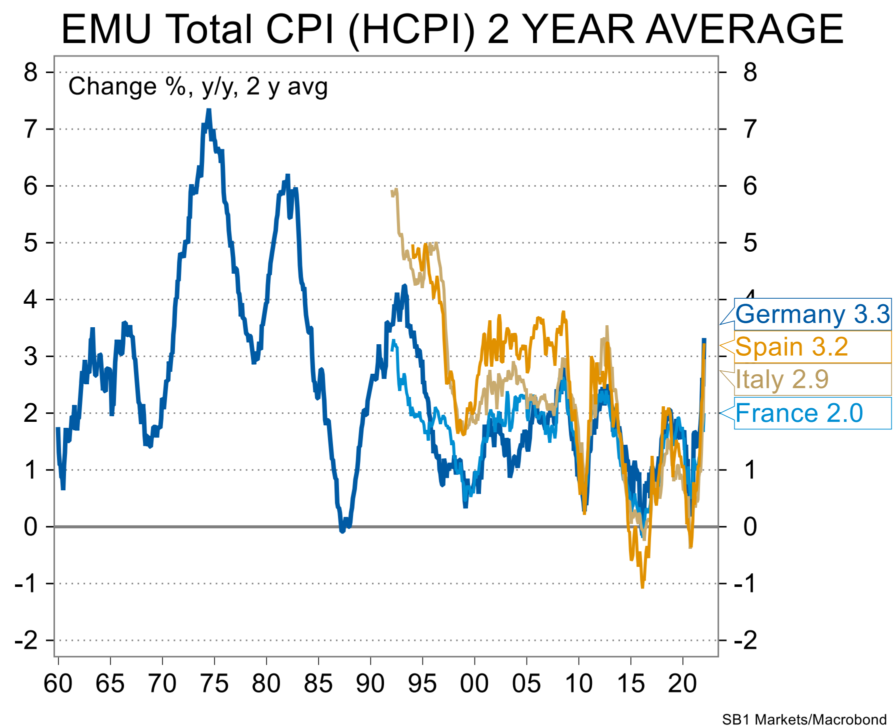


- At one stage, energy prices will turn south again

Now even 2 year's inflation rates are becoming more troublesome

Mostly due to energy

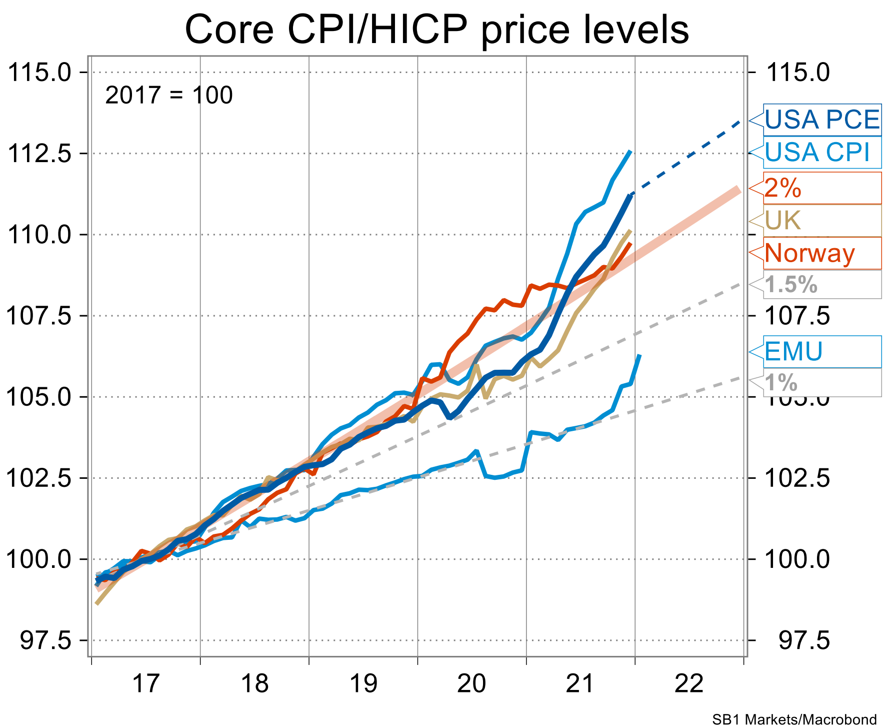




- Core data not available for January. In Dec, most countries reported 2 y avg core inflation below 2%

US inflation is still a rather special case

However, more countries are joining – even EMU prices have acclerated sharply past 3

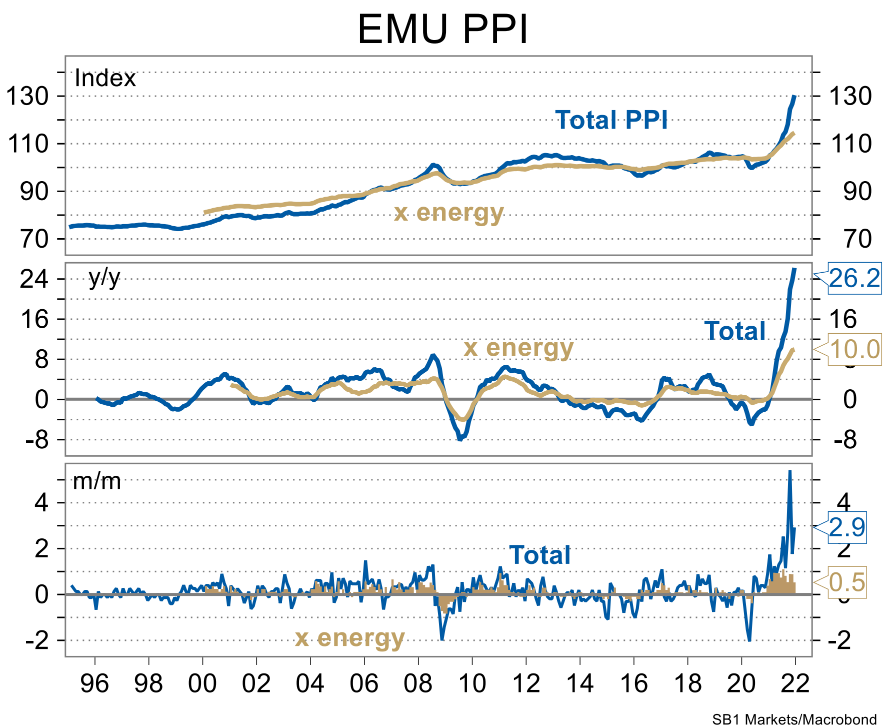


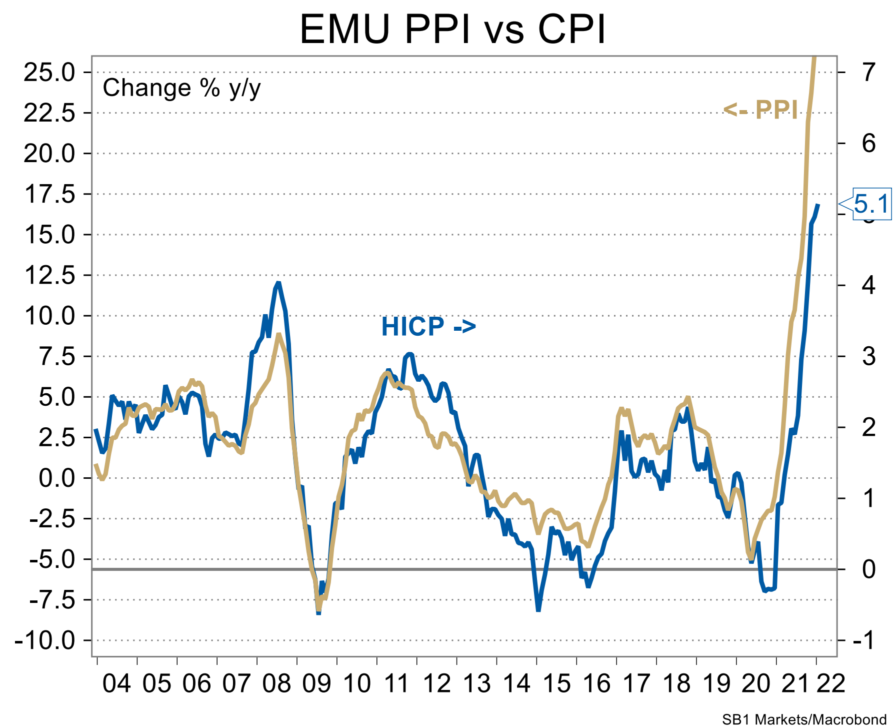
- EMU core CPI has shot up past 3 months but is still at ‘at low level’

SpareBank 1 MARKETS

Producer prices up 26% y/y, all included. And 10% x energy

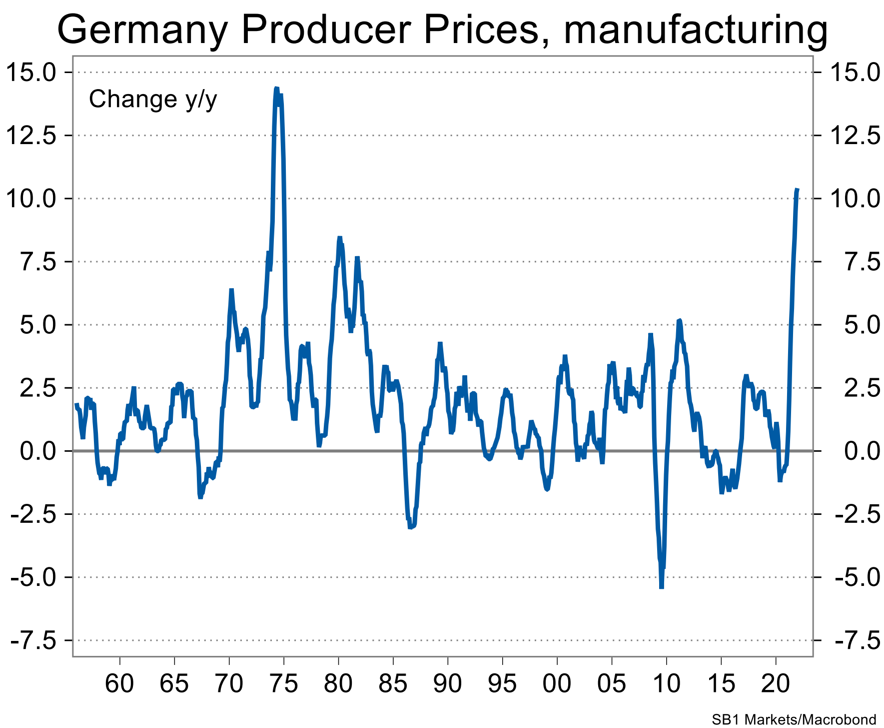
The total PPI rose 2.9% m/m in December, the core index added 0.5% - and may be slowing





Just for the record: German producer prices, ex energy

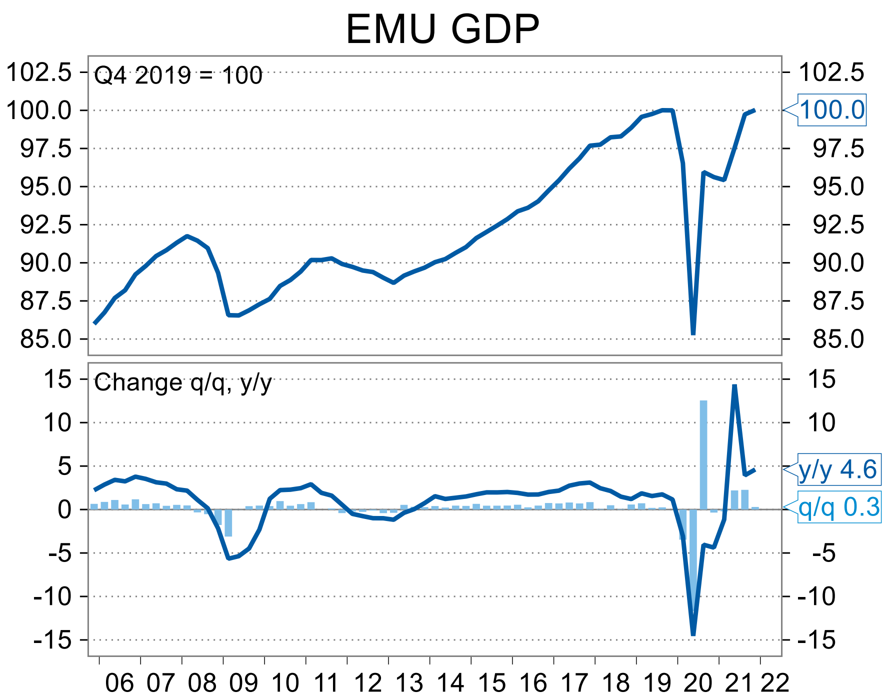
Up more than 10% y/y, has been higher only once, in 1973



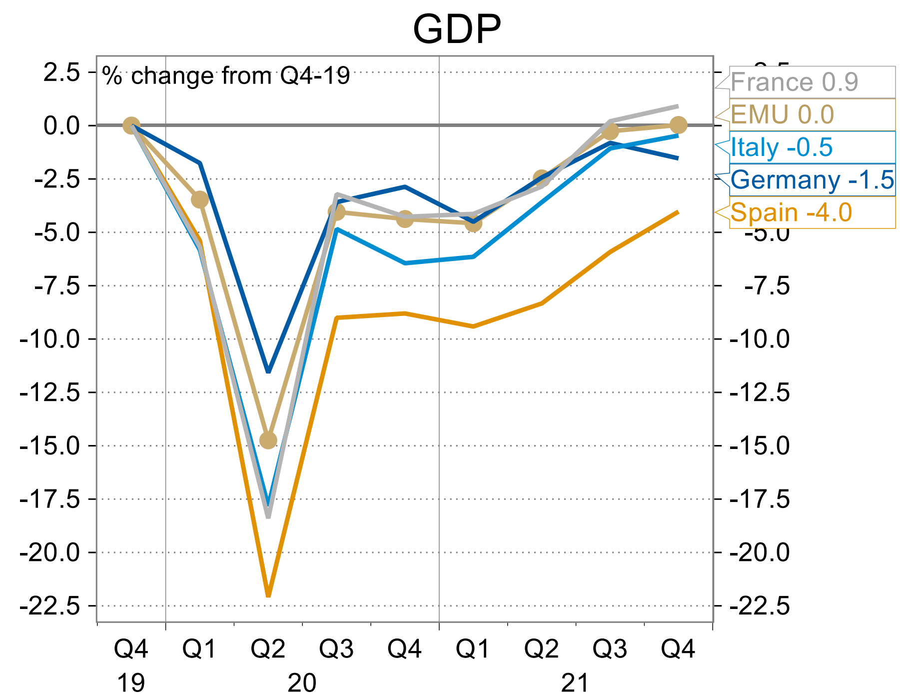
- Energy prices are <u>not</u> included

GDP up 0.3% (1.2% annualised) in Q4, finally back to the pre-pandemic level

German GDP contracted, the other big 3 reported growth.



SB1 Markets/Macrobond

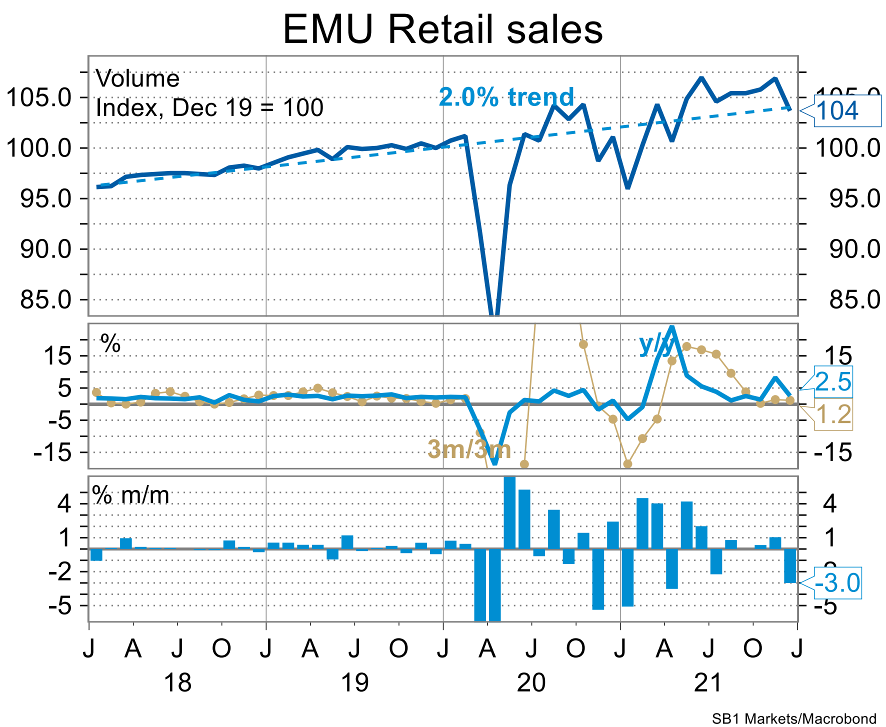


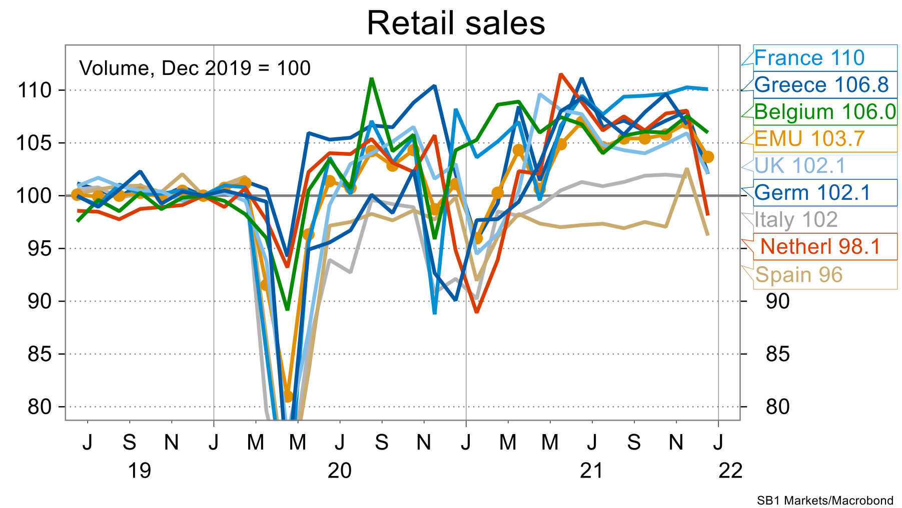
SB1 Markets/Macrobond

- The consensus forecast was for a 0.4% growth rate, we assumed 0.2%
- German GDP was very likely hit by Covids measures in Q4. In January the PMIs soared ☺
- No details vs sectors or demand components are published yet

Retail sales down 3% in December, expected -0.8%

Another December retail sale disappointment – very likely due to Omicron & high energy prices

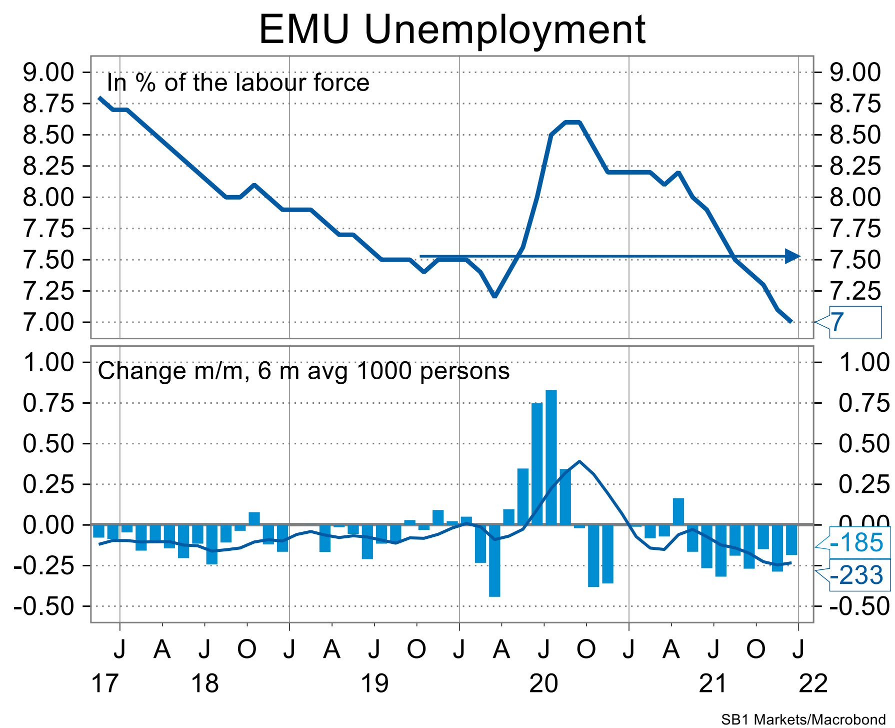


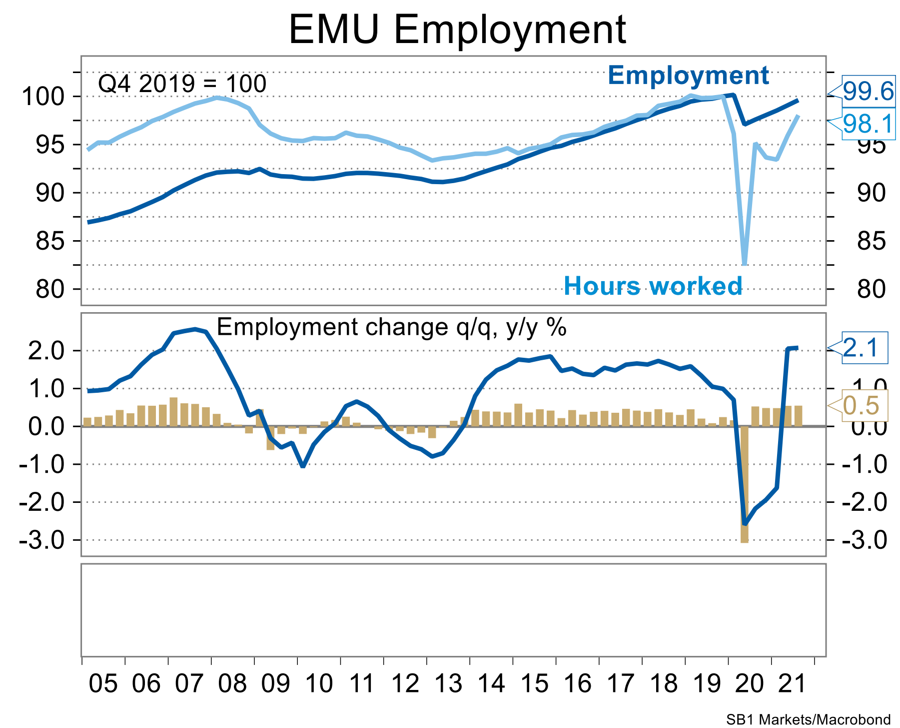


- Sales – in volume terms – fell 5 – 6% in Spain & Germany but just 0.2% in France
  - » Sales in the Netherlands fell 10%, during the 'real' lockdown
  - » Prices did not climb m/m in December in Spain and Germany but over the last year inflation in these two countries are much higher than in France (5 – 6% vs 3%)
- Since before the pandemic: Sales are up 4%, and returned to the pre-pandemic growth path

Unemployment fell further in December, by 0.2 pp to 7.0%

Unemployment is 0.5 pp below the pre-pandemic level





- **Unemployment** has been falling rapidly since last spring. In Dec, the unemployment rate fell 0.1 pp more than expected
- **Employment** rose by 0.5% in Q3, as in the previous 4 quarters but the level is still 0.4% below the pre-pandemic activity
  - » However, the best proxy for the real unemployment rate, at least vs. **demand for labour**, is the number of **hours worked**. In Q3, hours worked were down 2% vs the pre-pandemic level, as average working hours have fallen – but working hours grew rapidly in both Q2 and Q3
- The no. of **unfilled vacancies** rose sharply in Q3, to the highest level ever (chart 2 pages fwd)

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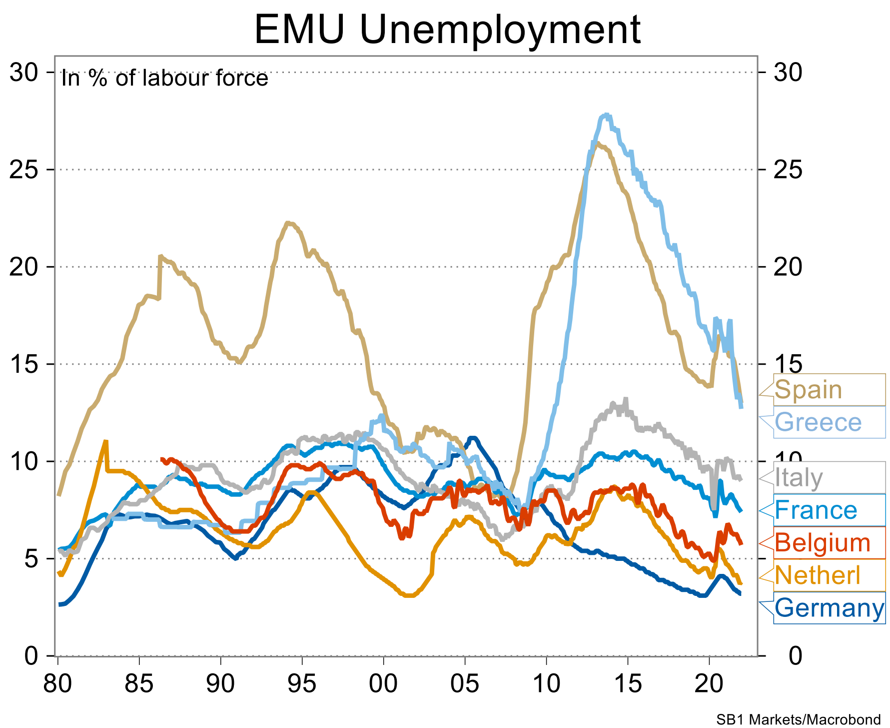
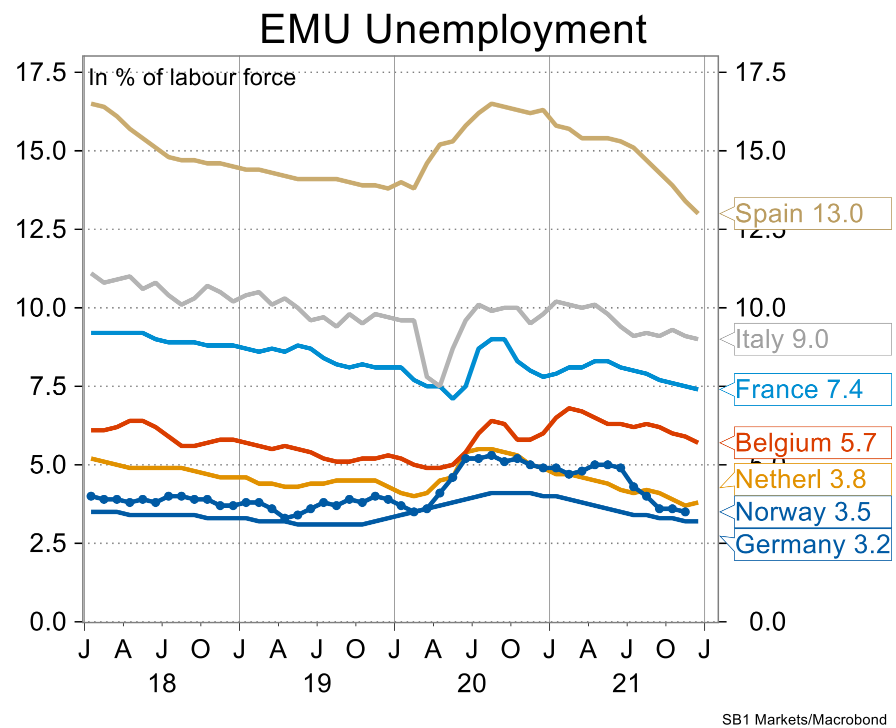
Unemployment is falling all over the region





Highlights

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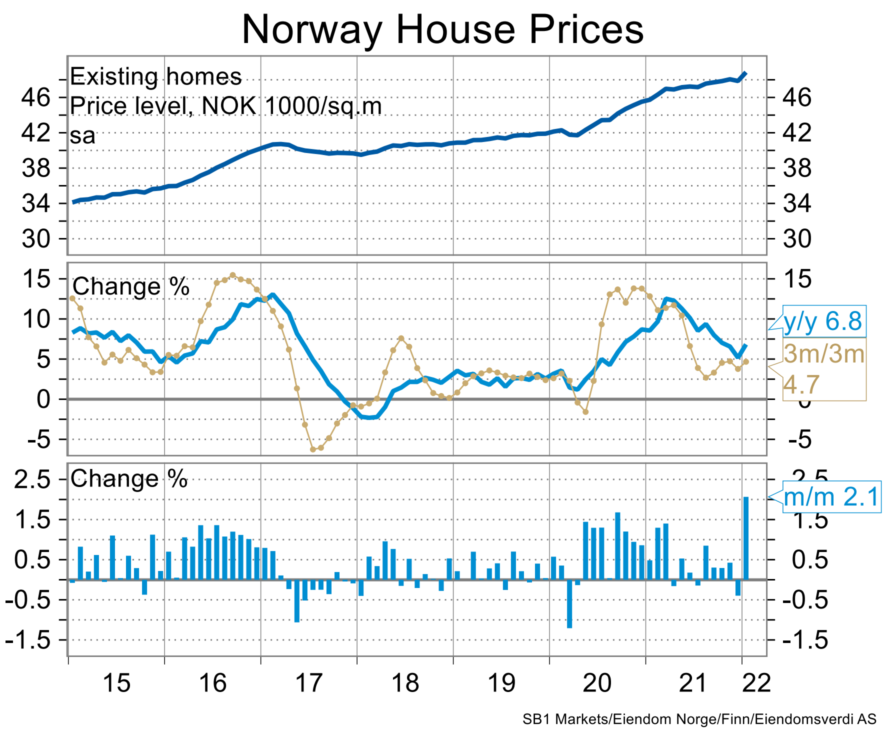
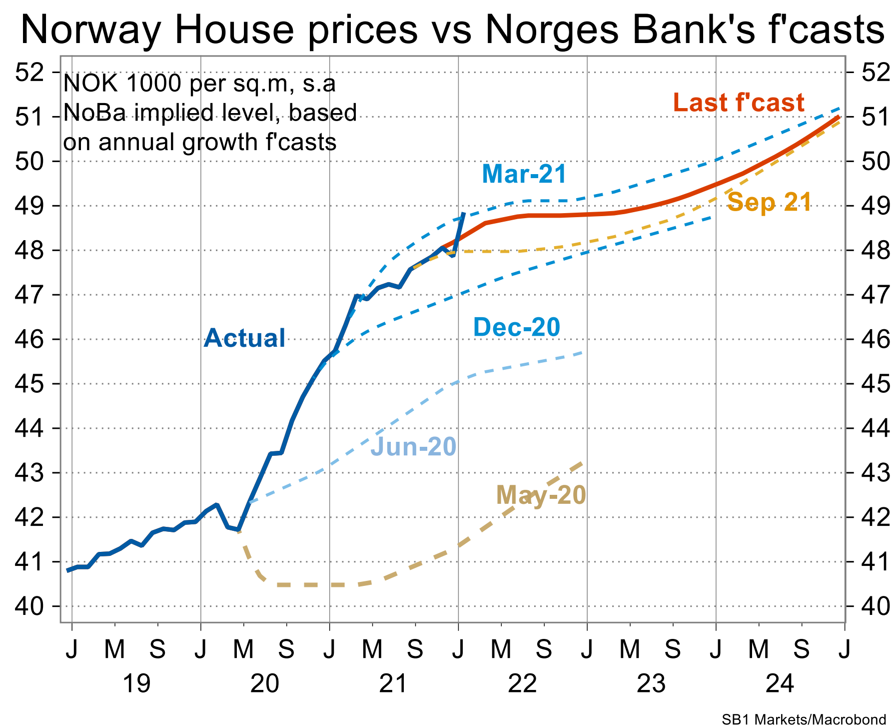
SpareBank 1 MARKETS

A 'technical' house price appreciation in January?

A 2.1% price hike probably mostly due to lack of new supply due to new paperwork requirements

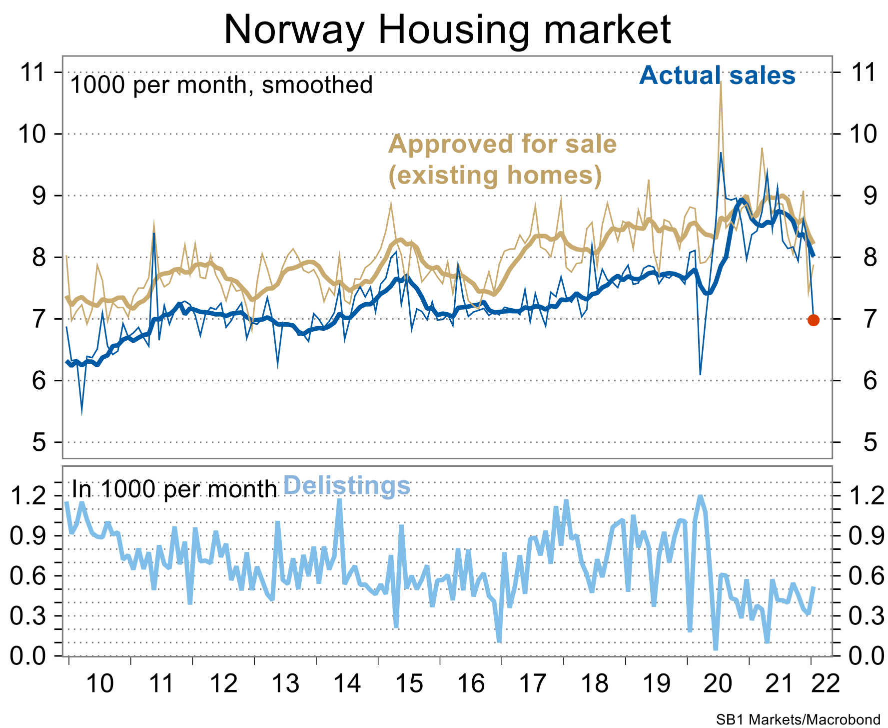


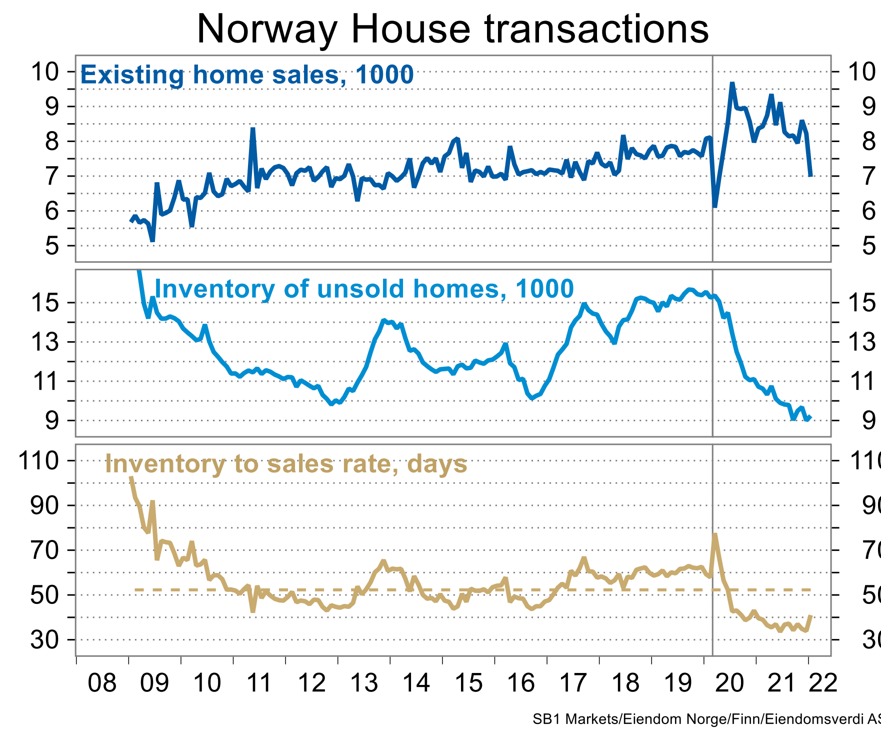


- **House prices** rose 2.1% m/m in January (+4.8% not adjusted), we expected 0.2%, Norges Bank 0.3% in the Dec MPR
  - » The surge was probably due to lack of supply as a new law put up stricter requirements for technical valuation reports etc and fewer homes for sale reached the market. Most likely, the congestion will we eased the coming months, bringing supply back up to a 'normal' level. Thus, we not conduct the normal detailed analysis of the last month's data, as even differences between cities may be due to local conditions
- I prices climb at a fast pace the coming months too – which we think is rather unlikely – it will have some impact on the tightening pace

The number of transactions fell sharply in January

Few homes were approved for sale too – and the inventory remained at a level low



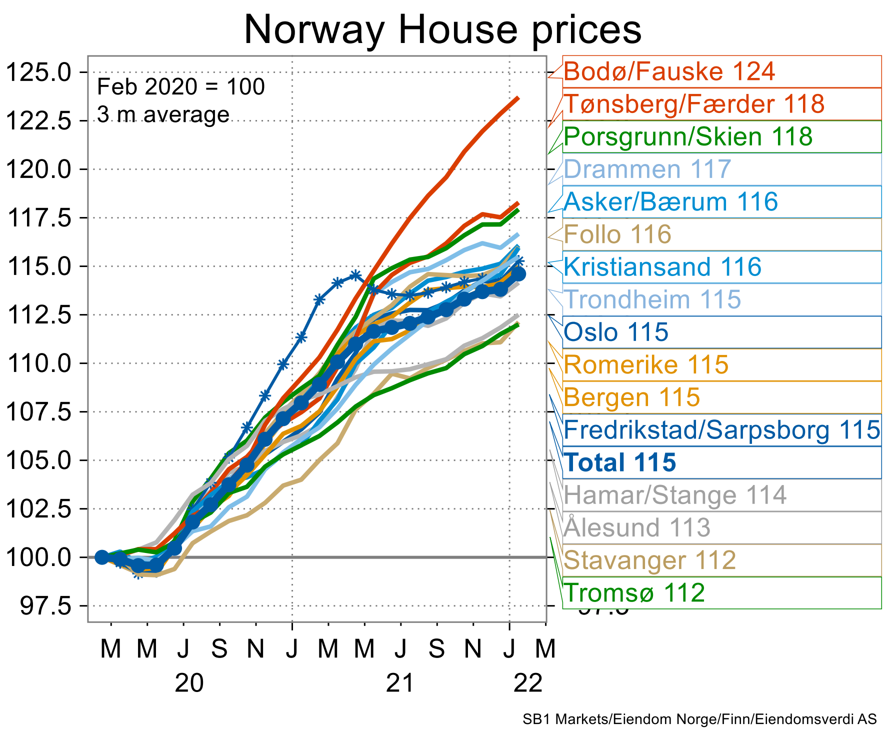


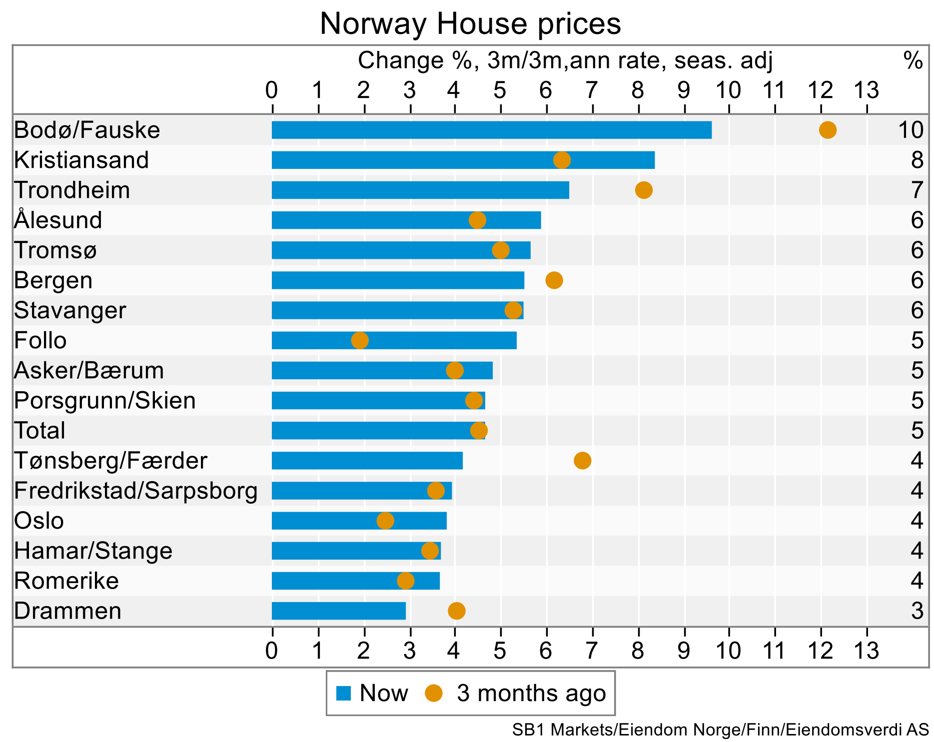
- **The number of transactions** fell to the lowest level in 5 years, barring the sudden halt in March/April 2020
- The **supply of new existing homes for sale (approvals)** has been low in both December and January, very likely due to the new paperwork requirements
- The **inventory of unsold homes** was close to unchanged at a record low level in January
- 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 fell to the lowest level in 5 years

SpareBank 1 MARKETS

The big picture: Bodø in the lead, Oslo/Eastern towns at the lower

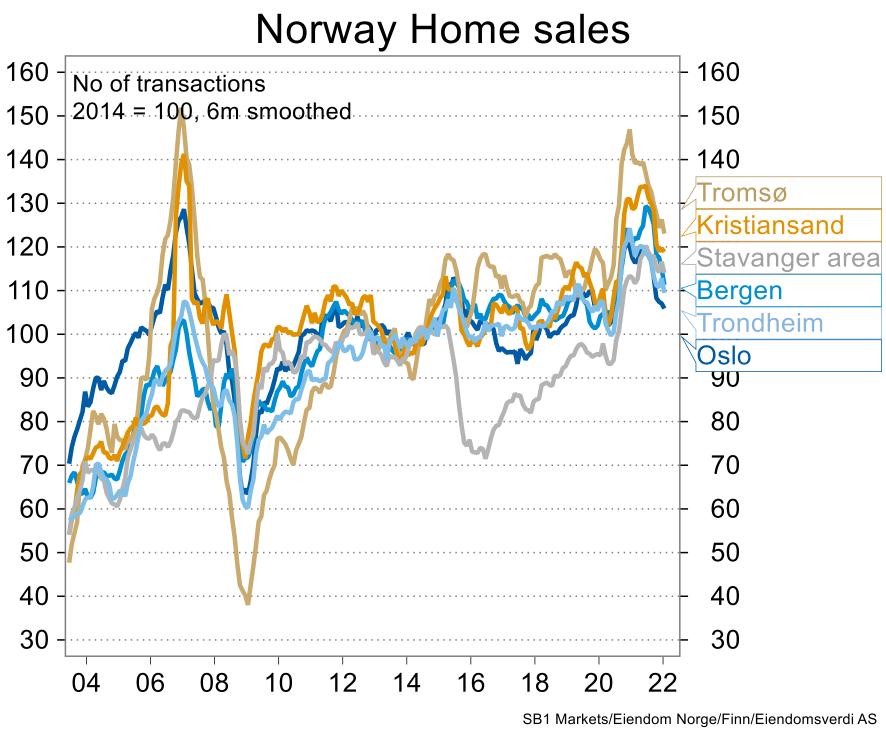
Even the 3m/3m growth rates influenced by the January hike

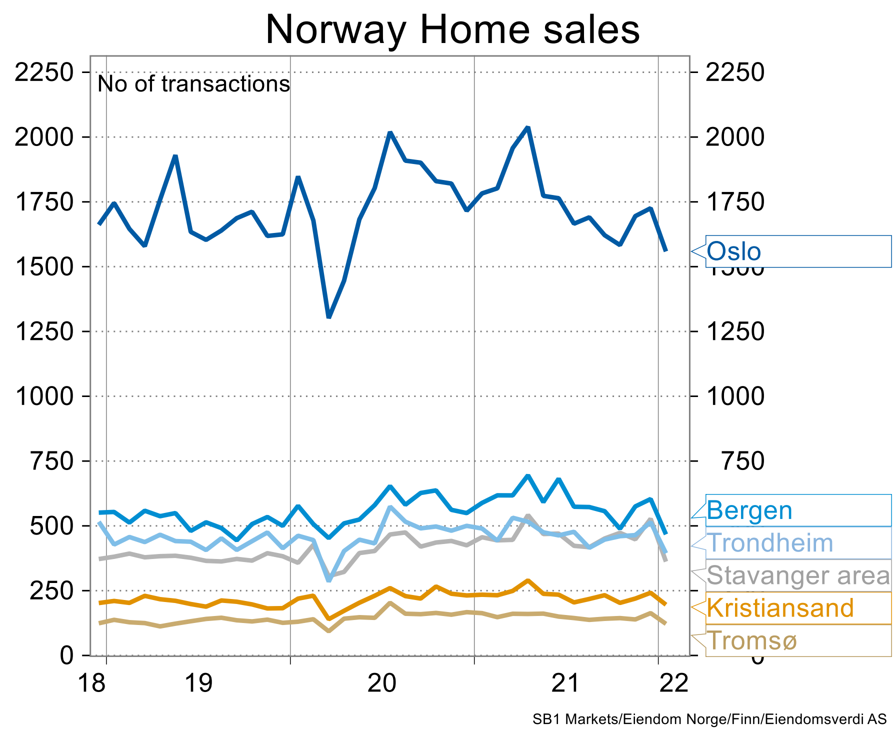




- Bodø the winner the past few months (3m/3m) as well
- No clear pattern in changes in house prices during the pandemic or over the recent months but the 4 biggest cities have been somewhat on the weak side since before the pandemic. However, recent months both Trondheim and Bergen has been on the upper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

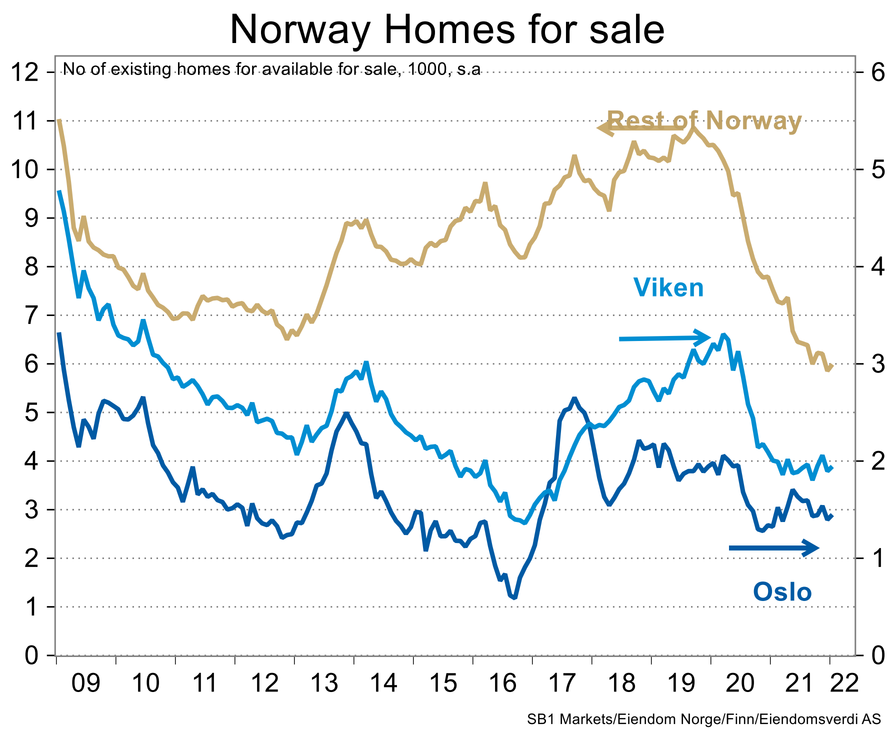
Number of transactions fell everywhere in January

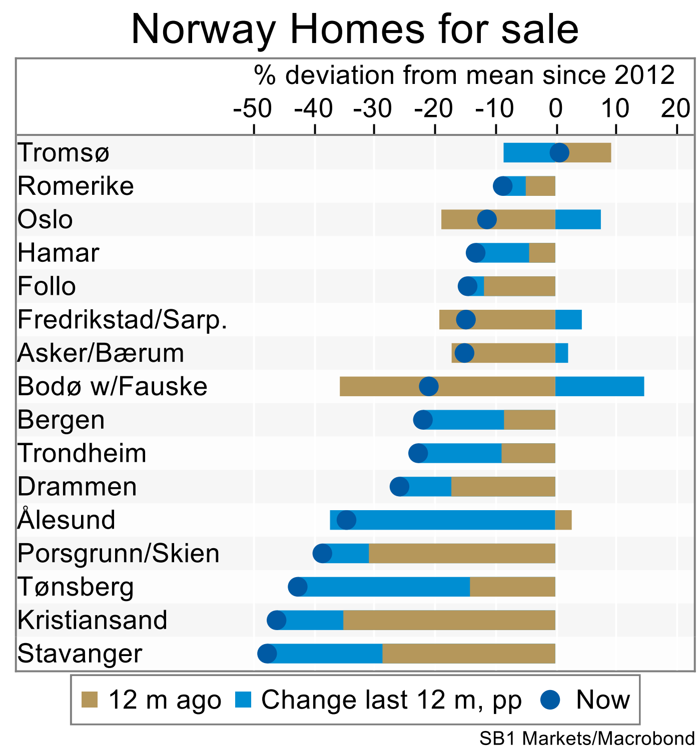




The inventory is lower than normal everywhere (except in Tromsø)

The no. unsold homes is falling most places too



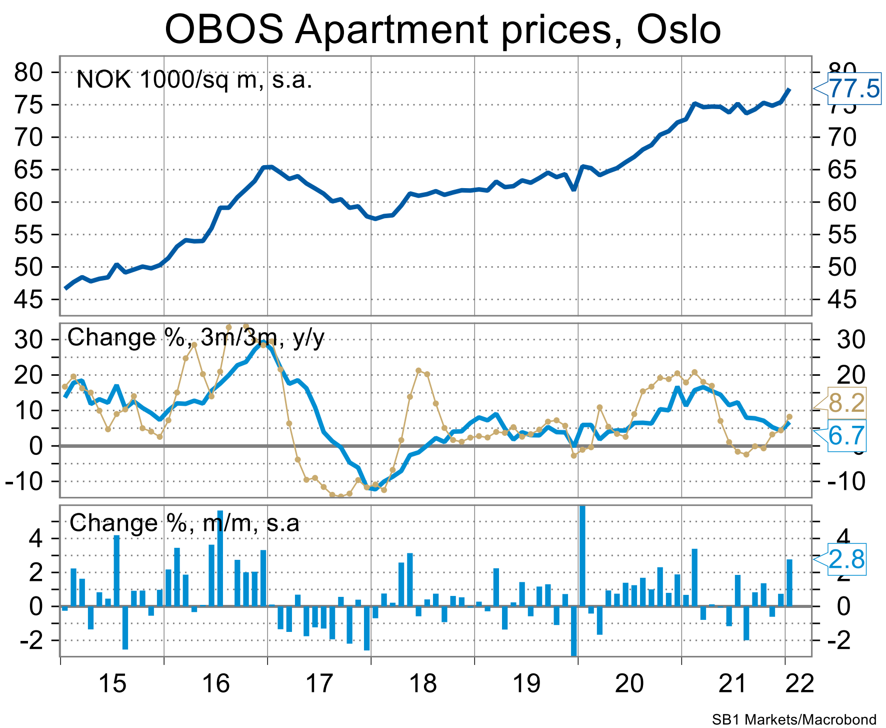


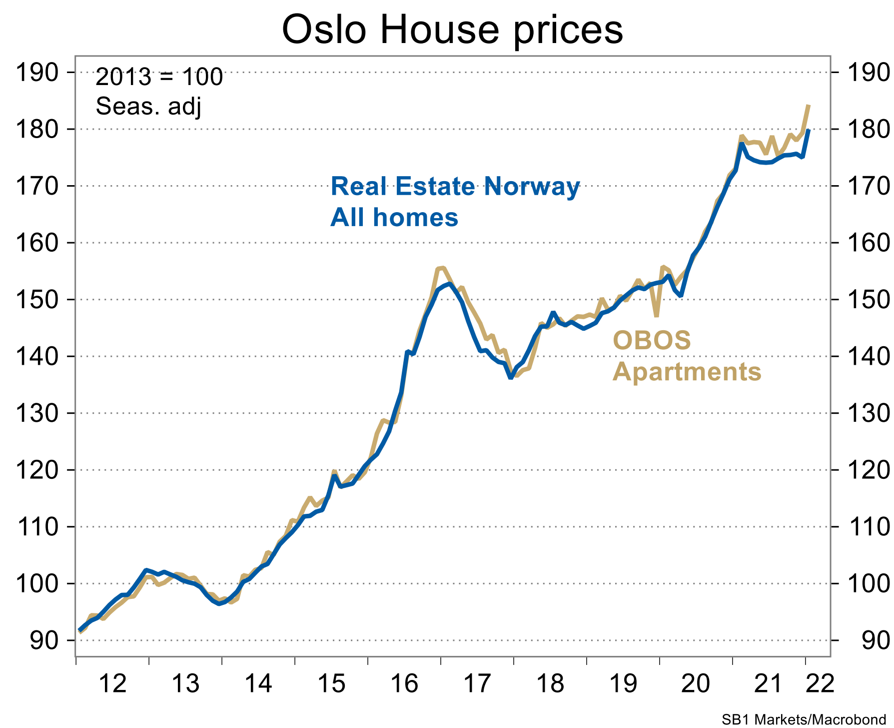
- Over the last year, the inventory has fallen most places, except for Oslo, Fredrikstad/Sarpsborg and Bodø/Fauske
- The steepest declines have been seen in Ålesund and Tønsberg

SpareBank 1 MARKETS

OBOS apartment prices up 2.8% in January, up to a new ATH

The fastest m/m increase since Feb-20 – and the annual growth rate rose to 6.7%



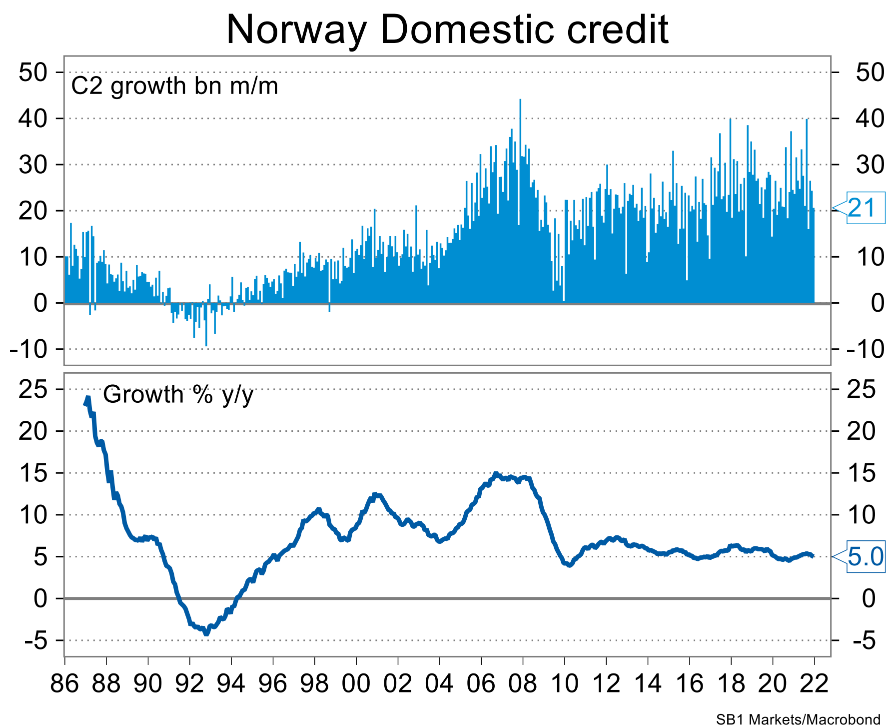


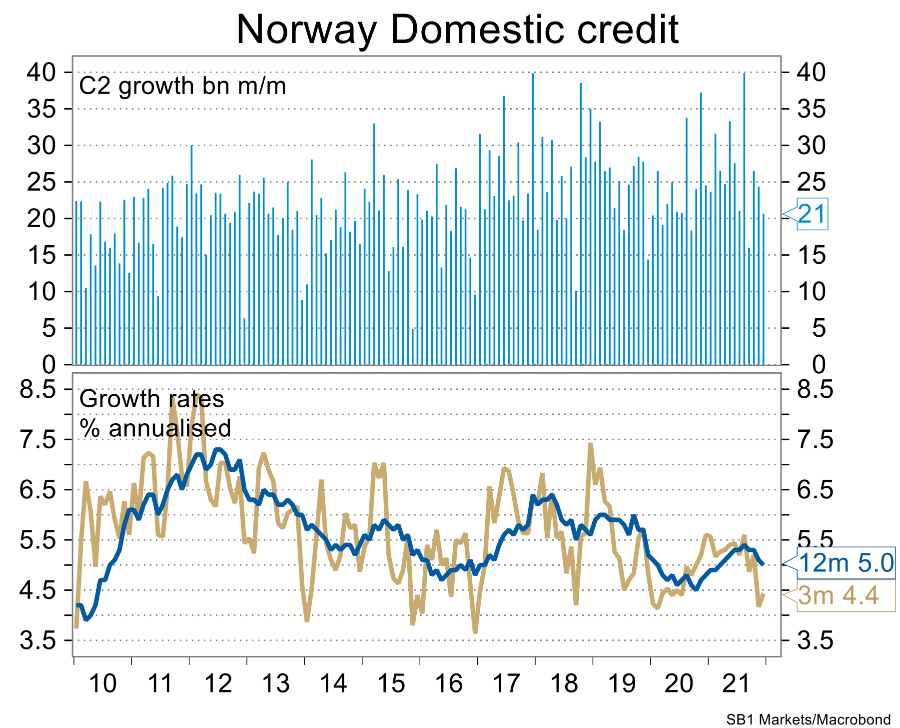
- The parallel change in both co-op & total house prices in Oslo signal a turning point in the Oslo housing market in early 2021, the peak for both indices was in last February, and prices are down 1 – 2% since then. That is, until the 'special' January data

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 5.0% in Dec, underlying at 4%

Both households, businesses and local government borrowed less than we assumed

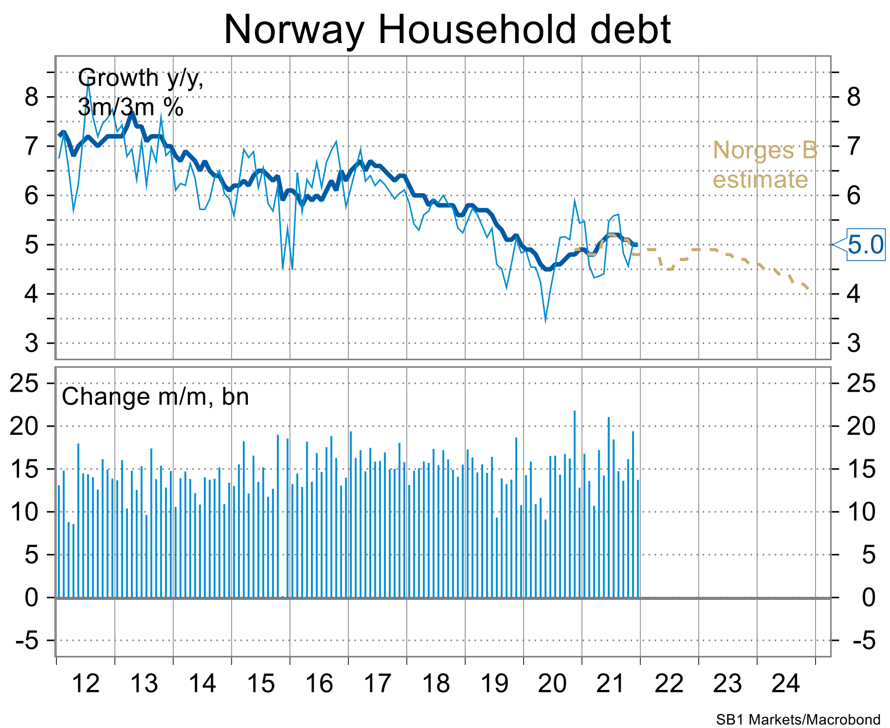


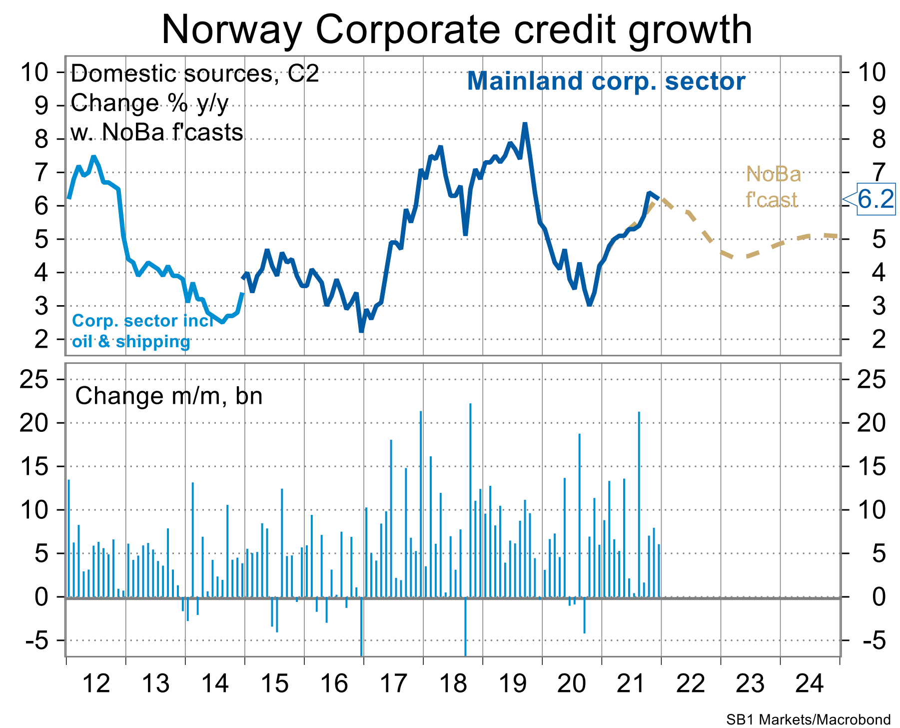


- **Total domestic debt** (C2) rose by NOK 21 bn in Dec, down from 24 bn in Nov, we expected NOK 28 bn. The annual growth rate declined 0.1 pp to 5.0%, we expected an uptick to 5.2%. The 3m/3m growth rate still rose to 4.4%. We are not witnessing any credit boom. However, debt levels are high, especially for the household sector
- **Household credit** rose by NOK 14 bn in Dec, up from NOK 16 bn in Nov, we expected NOK 16 bn. The annual rate was unch at 5.0%, we expected 5.1%
- **Corporate C2 credit**, rose by NOK 6 bn, 2 bn less than in Nov (we expected 8 bn). The annual growth rate was unch at 4.9%, we expected 5.0%. **Mainland corporations** increased their debt by 6.2% y/y (-0.1 pp from Nov)
- **Local governments** added just NOK 1 bn to their debt burden in Dec, we expected 3 bn. The annual growth rate was cut to 5.4% from 6,5%, and debt growth has slowed to something close to their income growth

Corporate credit growth has been accelerating – but no more now?

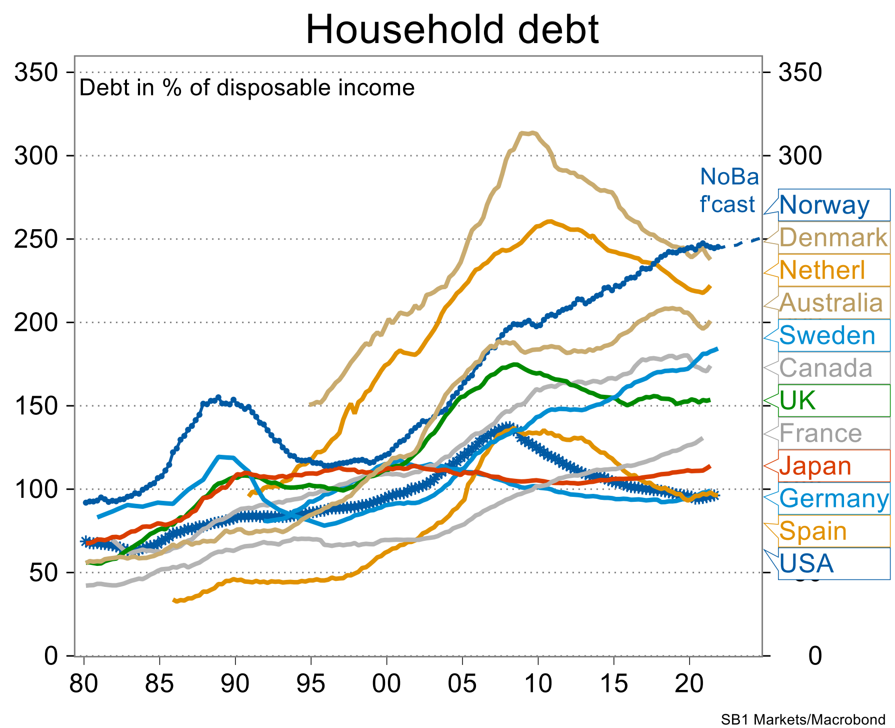
Household debt -0.1 pp to 5.0%. Have households started accounting for the coming rate hikes?

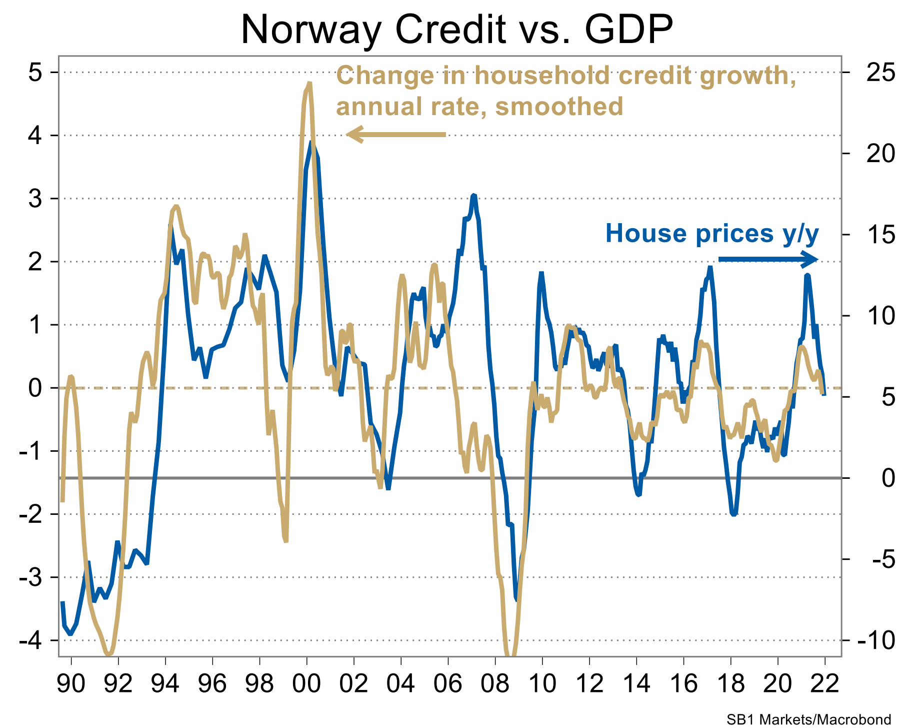




- **Household credit** growth has accelerated somewhat from the through in H1-20, though not by much. The annual rate was 5.0% in December, as is the underlying 3m/3m rate. Norges Bank expect growth to slow gradually in 2022, and over the coming years
- Monthly growth in **corporate domestic credit** slowed through most of 2020 but accelerated during last year. The annual rate has climbed to 6.3% from 3.0% at the bottom – and retreated to 6.2 % in Dec. Norges Bank expects growth to slow (and the bank has done so as long as we can remember)

Household debt/income: We are no. 1!

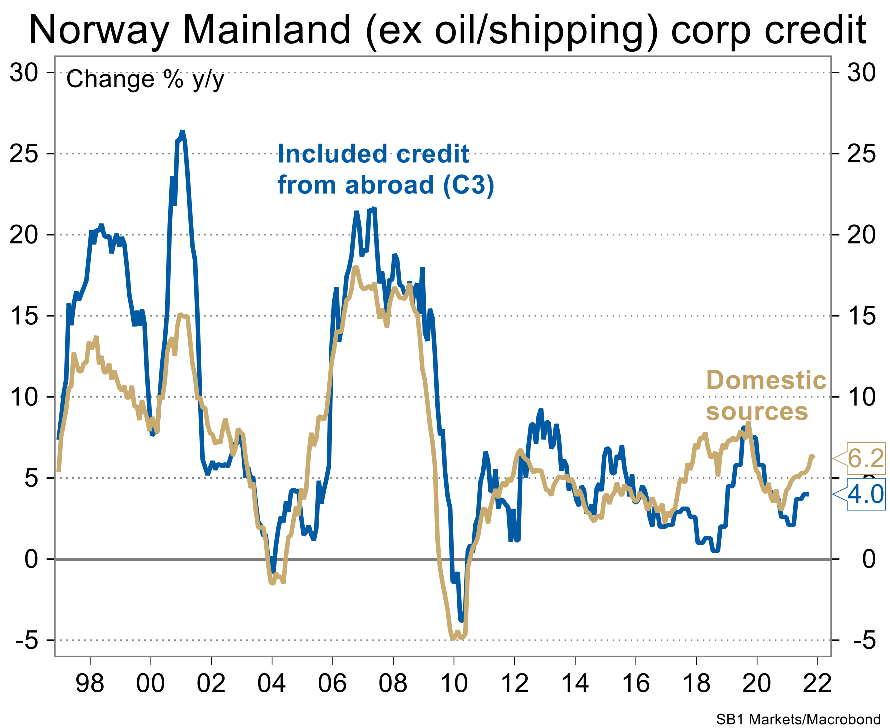


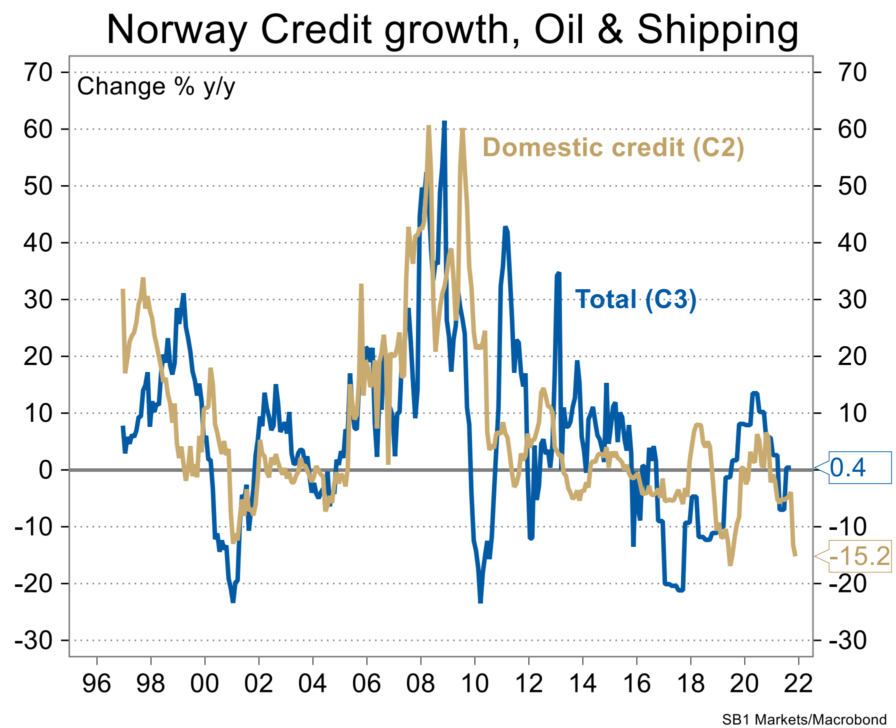


- **Norwegians households' debt** steady been growing faster than income but just marginally since early 2018
  - » Debt/income ratios in many countries have been influenced policy measures vs. households during the pandemic
- **Changes** in credit **growth** (the 2nd derivative) is usually correlated 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)

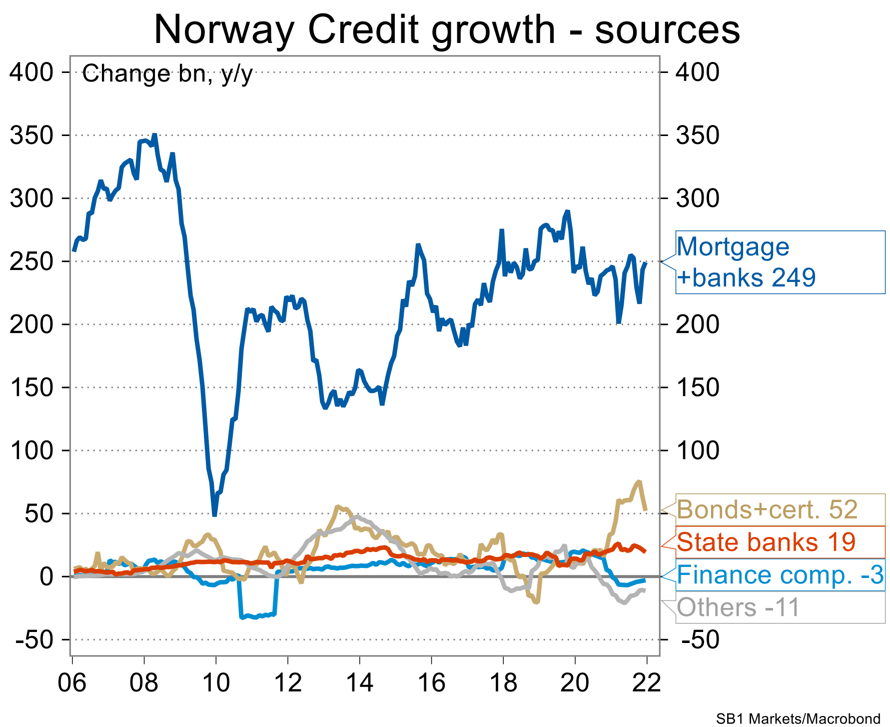


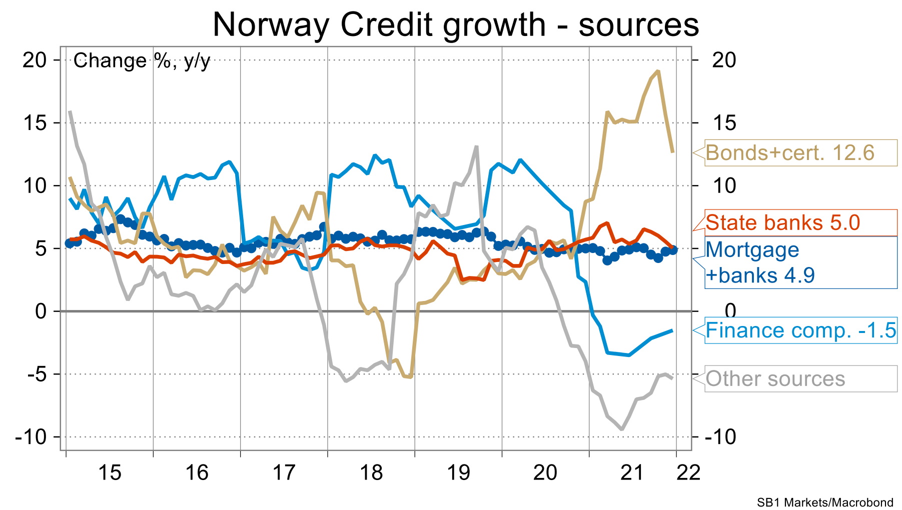


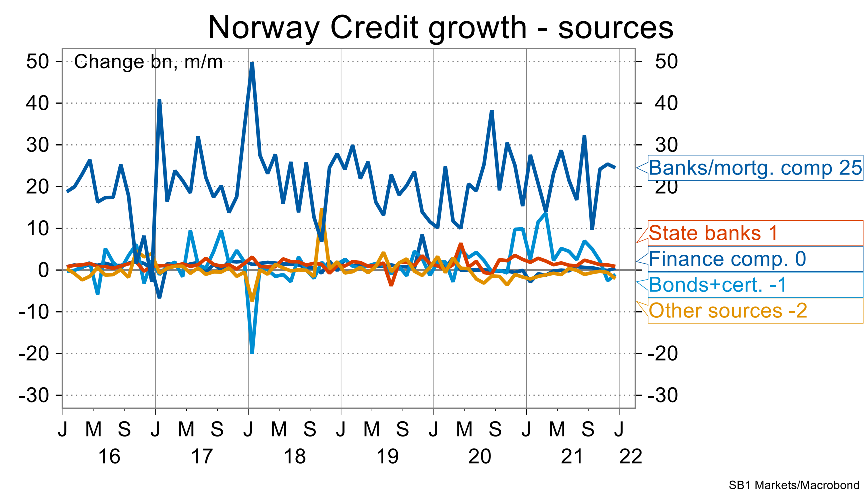
- Domestic credit supply to **Mainland businesses** has accelerated faster than their total debt, including credit from foreign sources
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway. The sum is now stable, even if domestic debt is 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 52 bn (13%) y/y, unusual higher growth rates but down from the peak
- Banks/mortgage companies are up NOK 249 bn (4.9%) 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'

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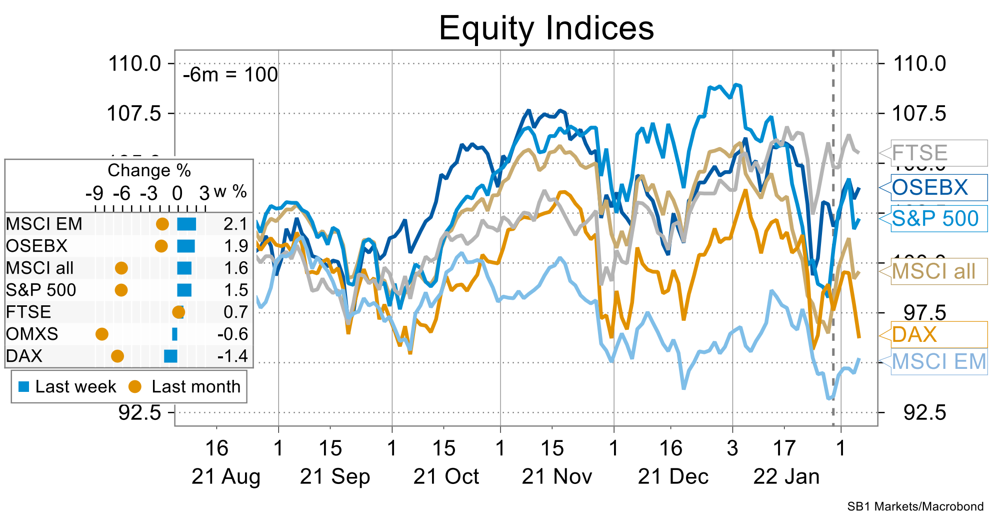
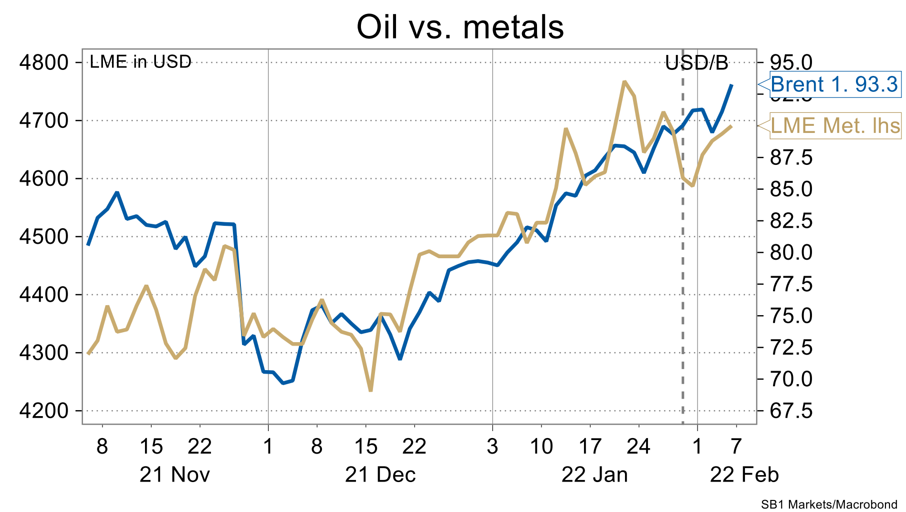
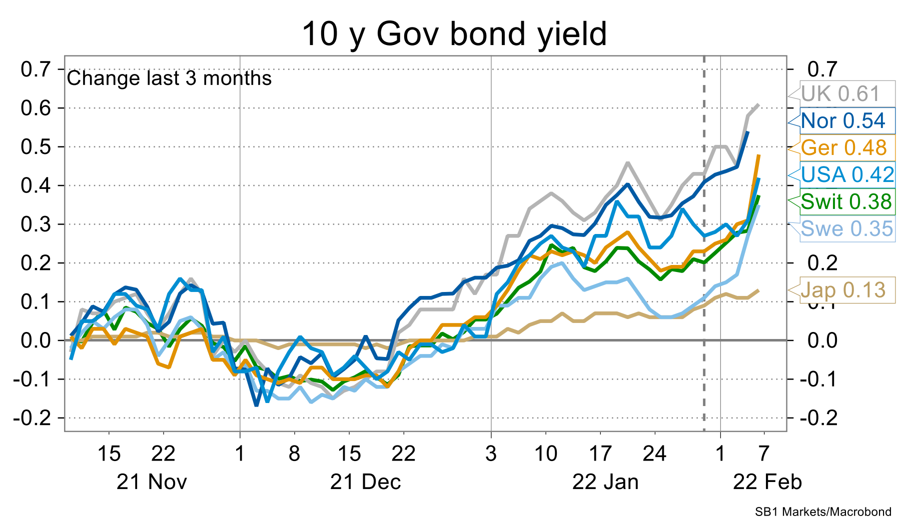
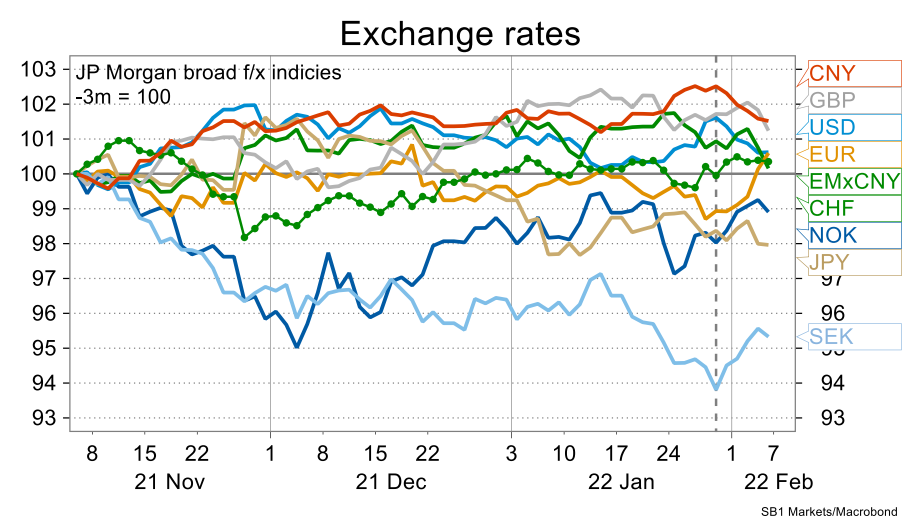
Very volatile markets, the OSEBX, S&P up, the DAX down on higher rates

A huge lift in bond yields following bearish signals from ECB, BoE. Most stock markets still up last week



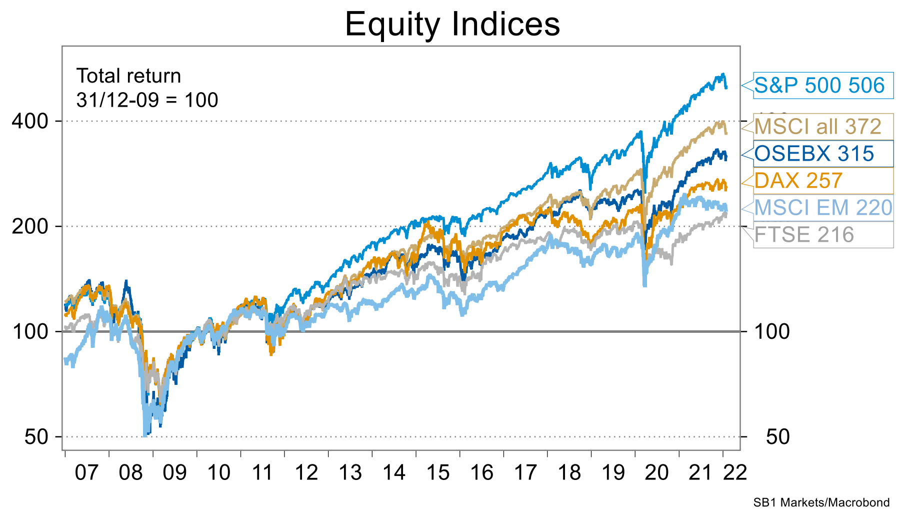


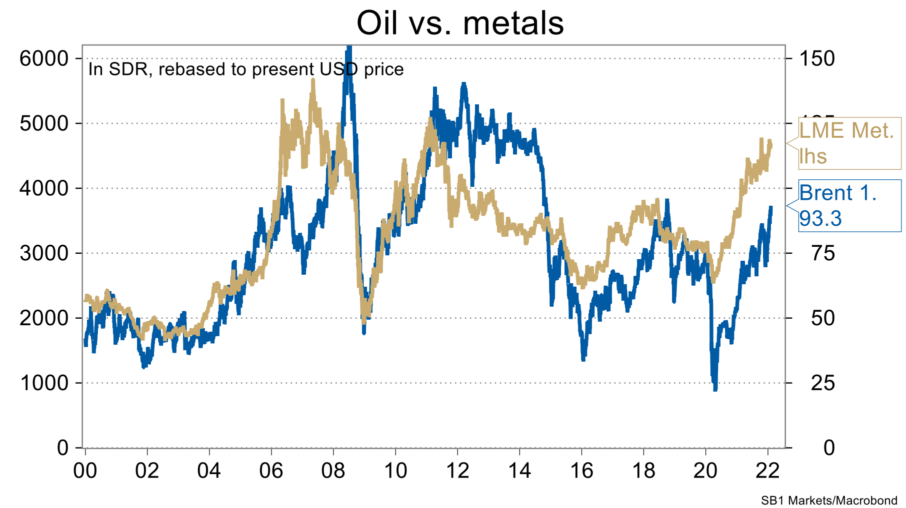


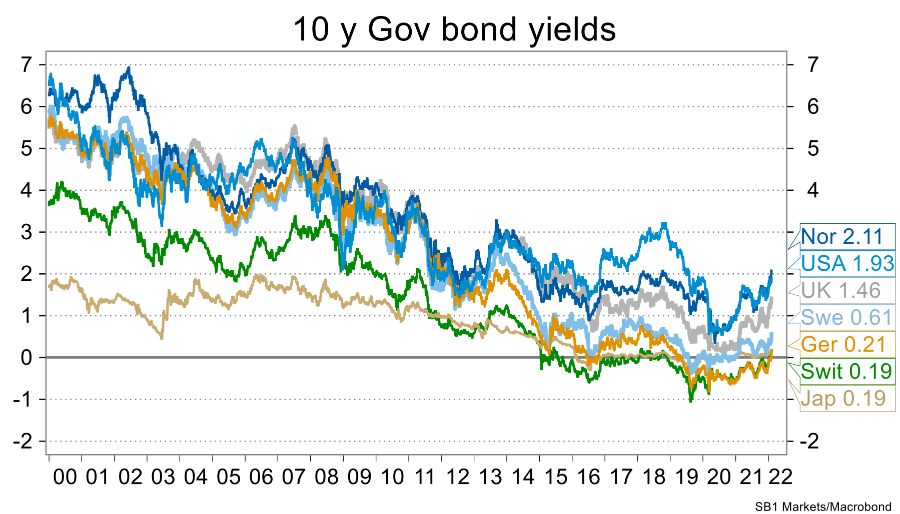


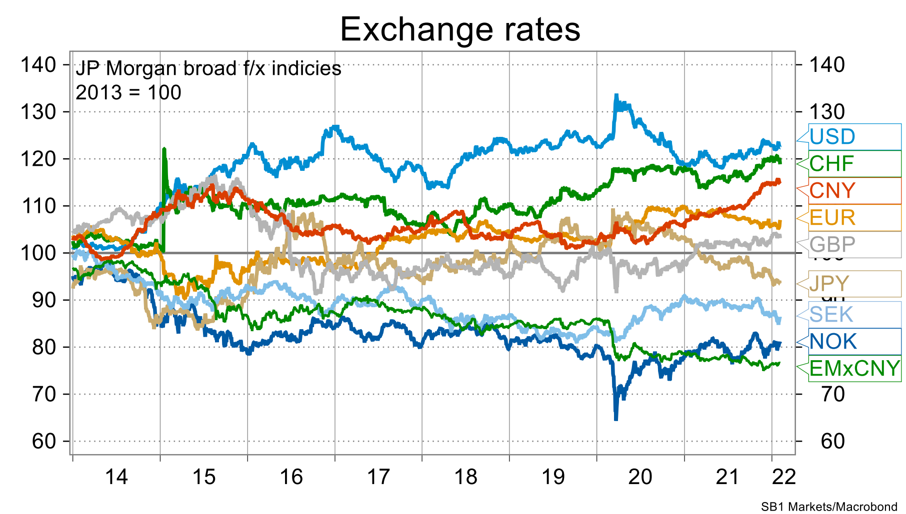
The big picture: Who is flying the highest?

Some drama at bond markets last week. Can you spot it at the bottom right chart? (That is, still some risks?)







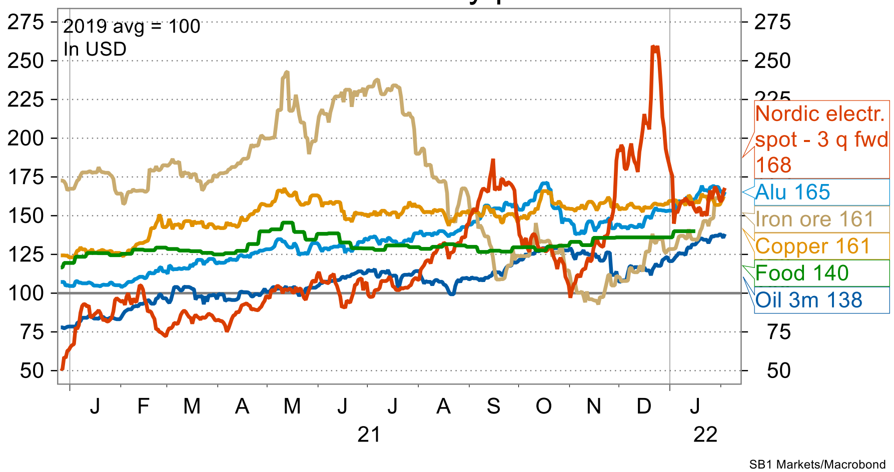


SpareBank 1 MARKETS

Commodities up last week, including the whole oil curve

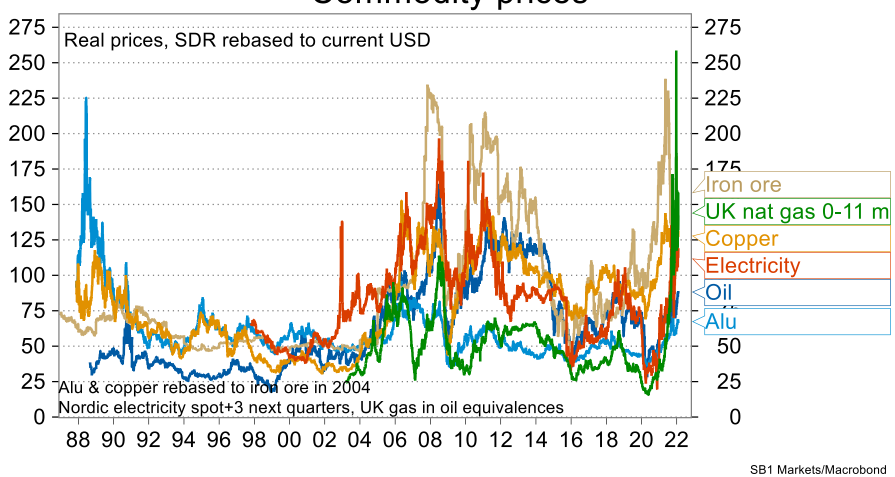
Brent up to USD 93/b – partly supported by the Ukrainian situation. Iron ore prices further up!

Commodity prices

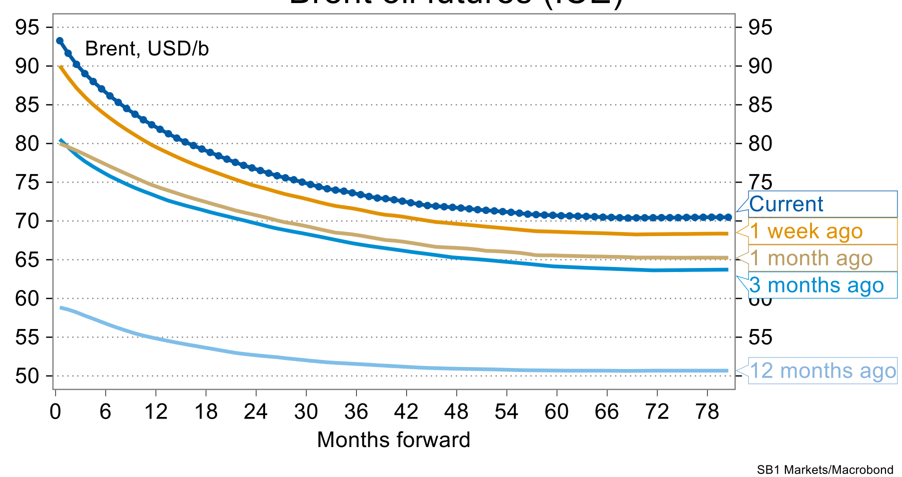


Brent oil, spot & Dec contracts

Commodity prices

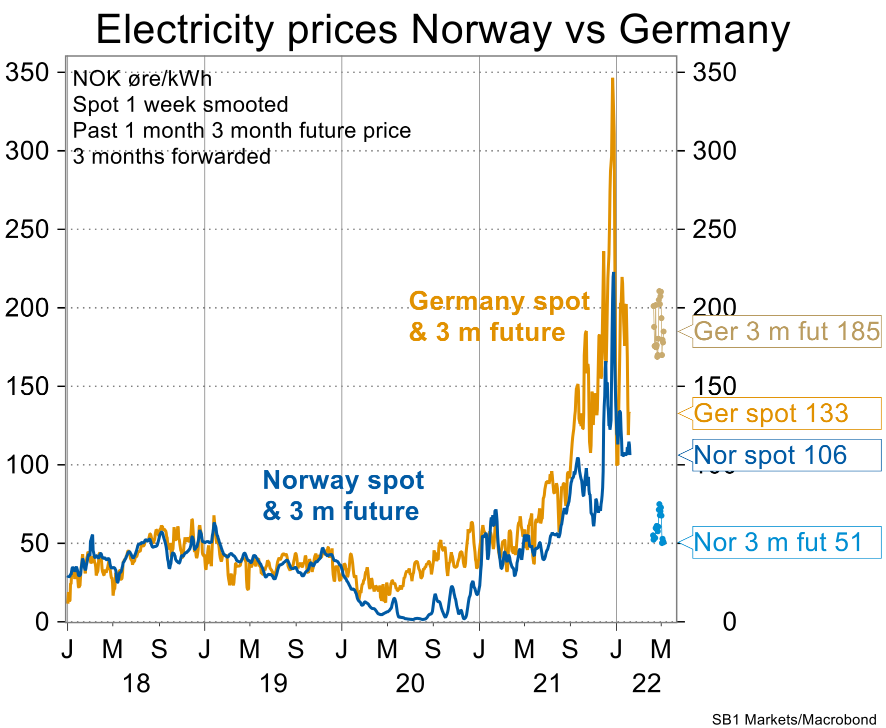


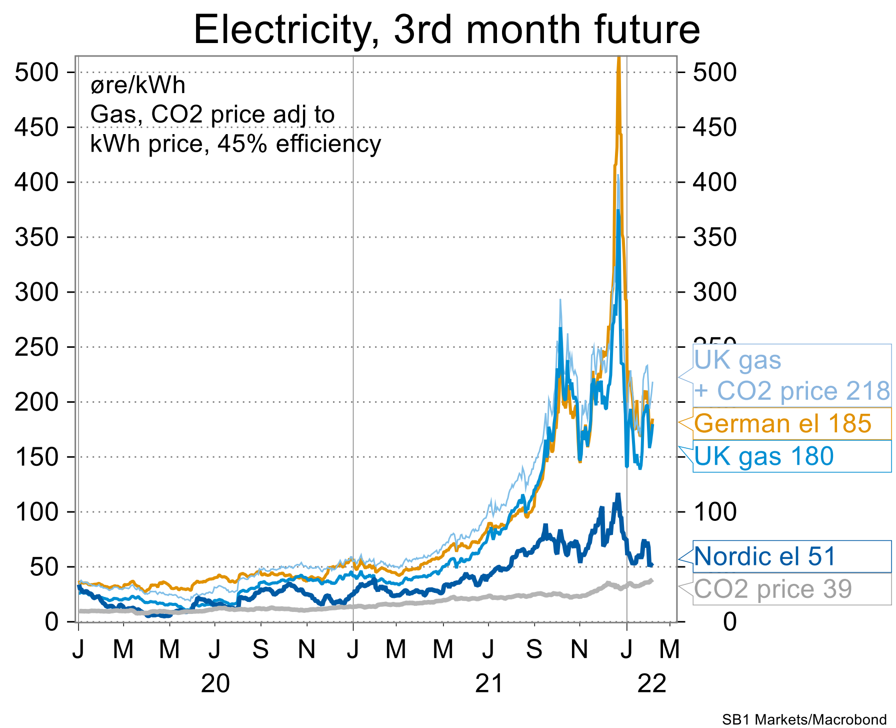
Brent oil futures (ICE)



SpareBank 1 MARKETS

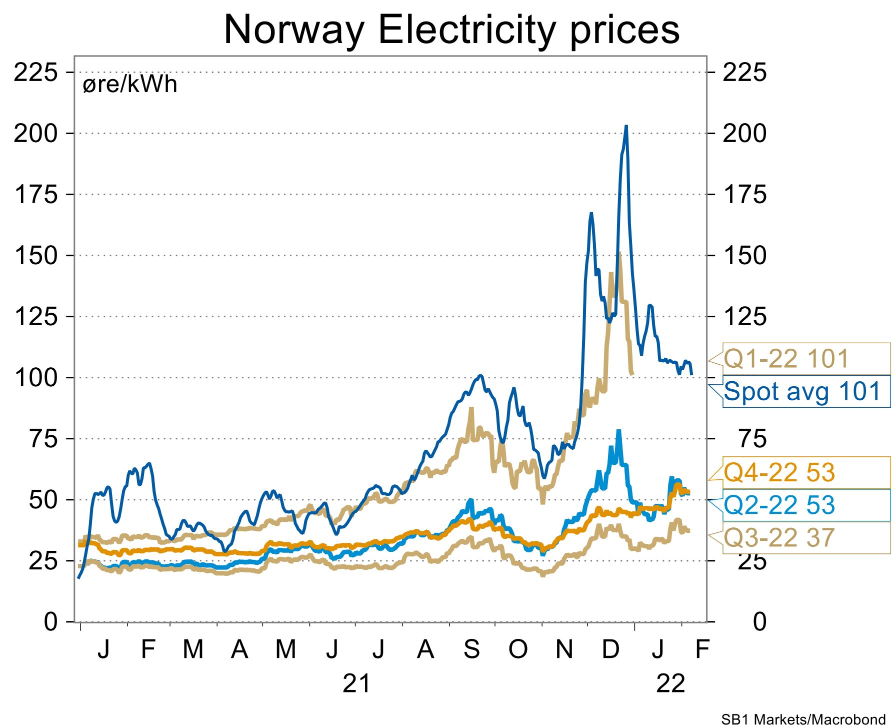
European energy markets are still volatile, prices fell last week

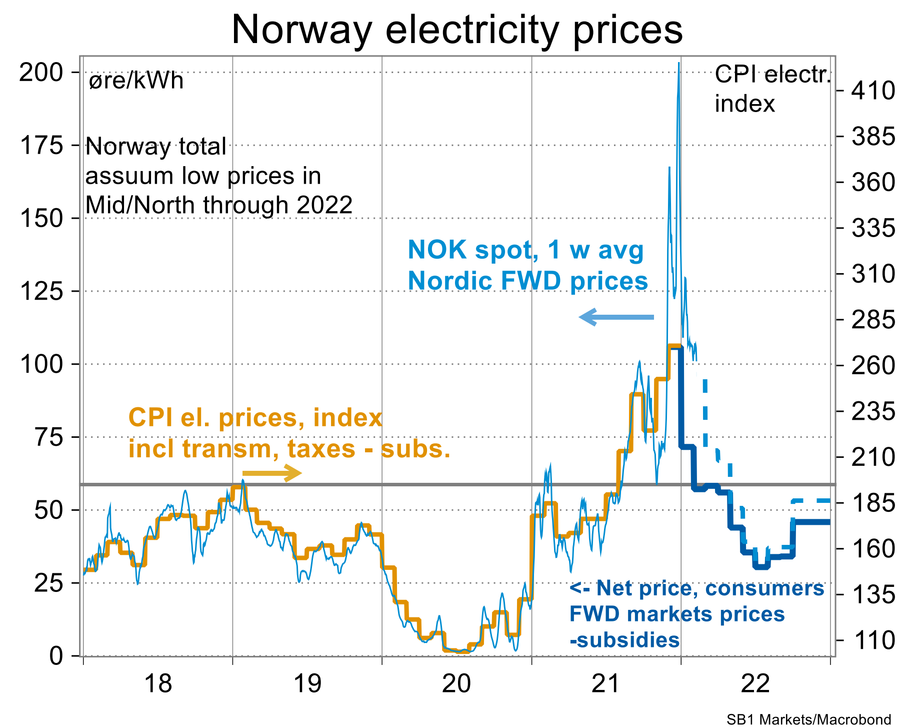




- Future European prices remain far above normal levels – and far above Nordic prices (which are too low??)

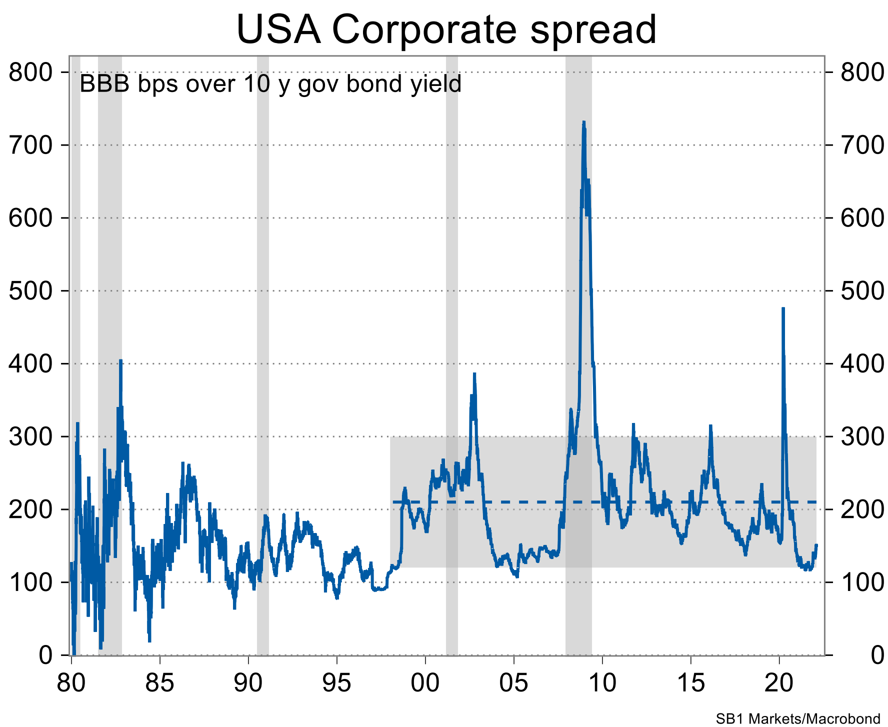
Norwegian electricity prices are sliding down the spot market still at a high level



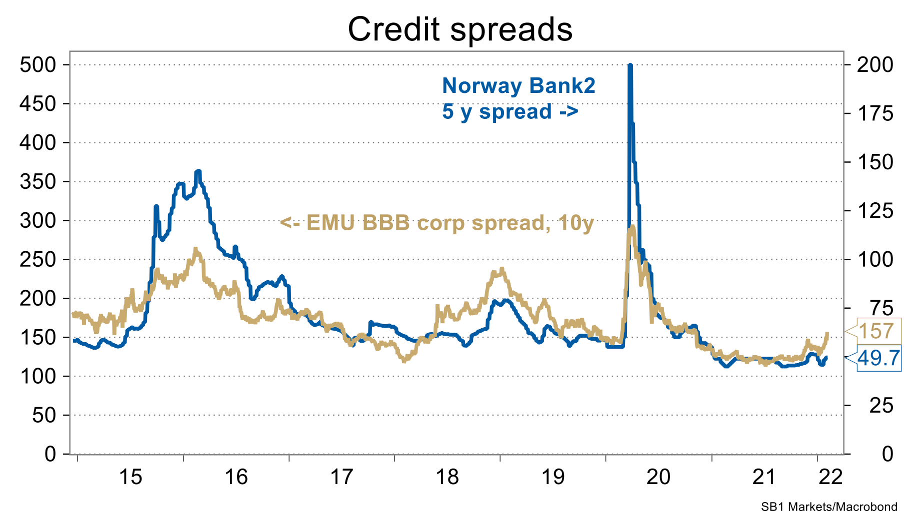


Credit spreads abroad on the way up

Norwegian spreads widened last week. The next leg is further upwards?



The NOK Bank 2, 5y spread widened 1 bps to 49.7



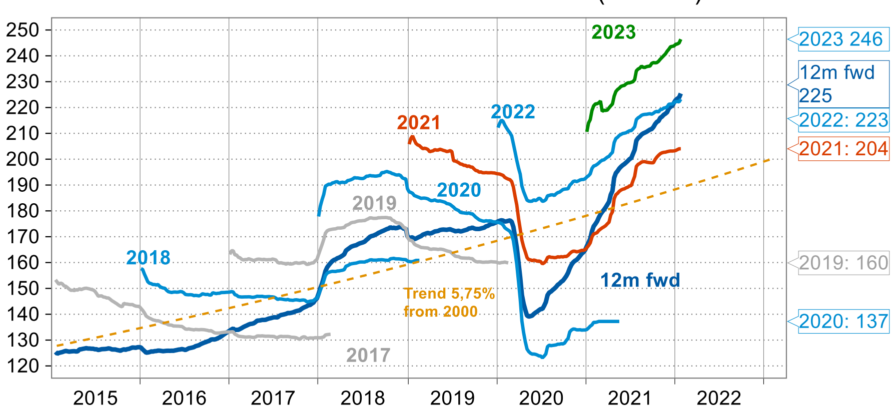
SpareBank 1 MARKETS

S&P 500 up 1.6%, the 10 y bond yield +15 bps to 1.93%, highest since Dec-19

So far in 2022: Yields up, stocks down. We think because the real rate takes the beating

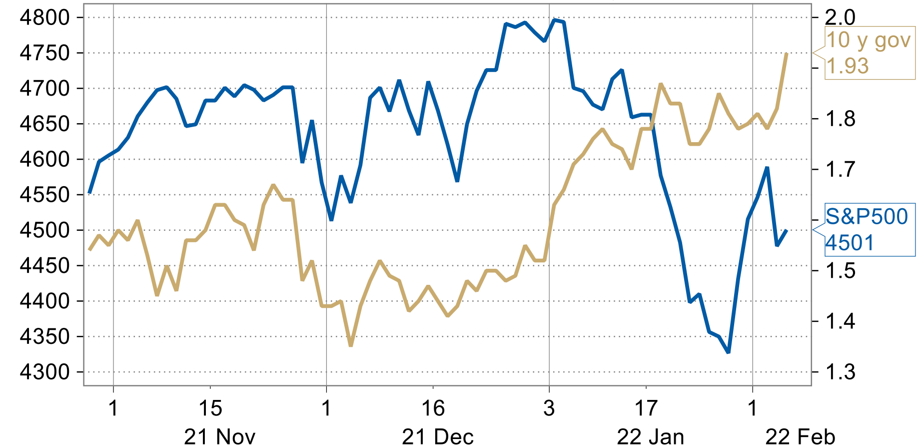
USA S&P 500 vs. bond yields

Annual S&P 500 EPS consensus (Factset)



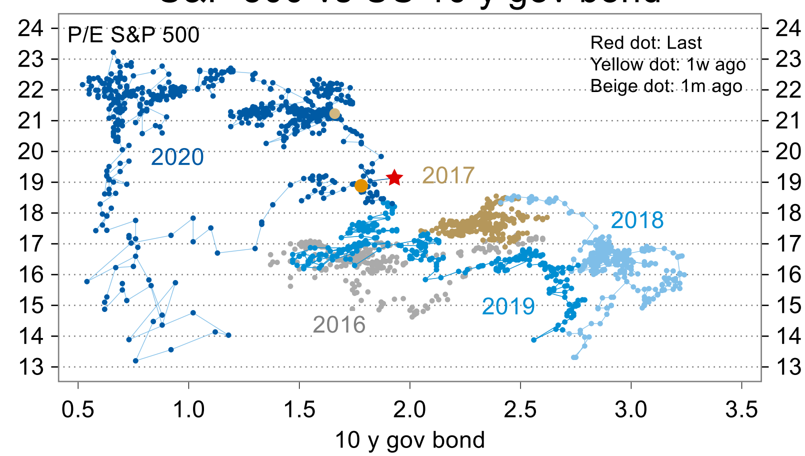
SB1 Markets/Macrobond

USA S&P 500 vs. bond yields



SB1 Markets/Macrobond

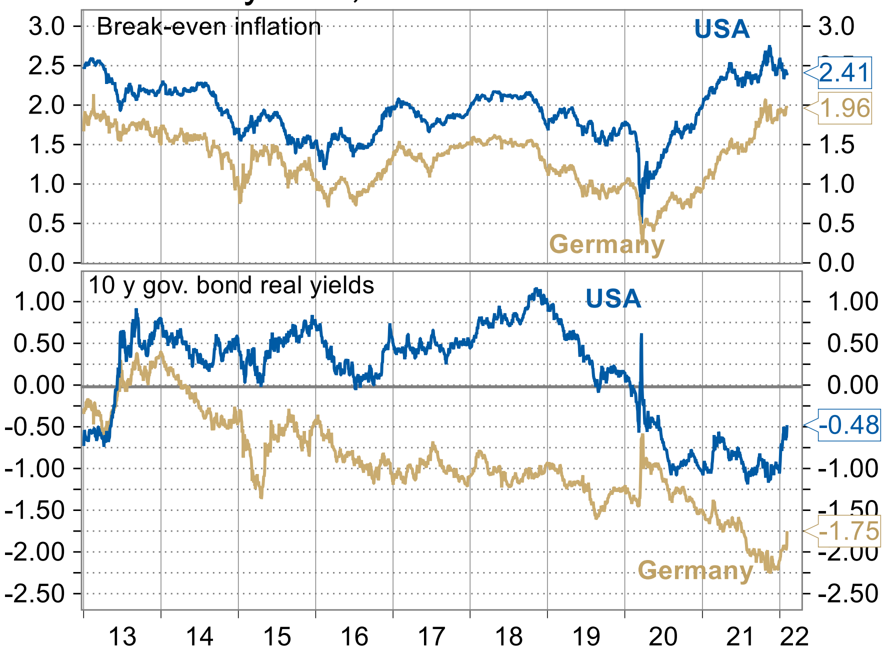
S&P 500 vs US 10 y gov bond

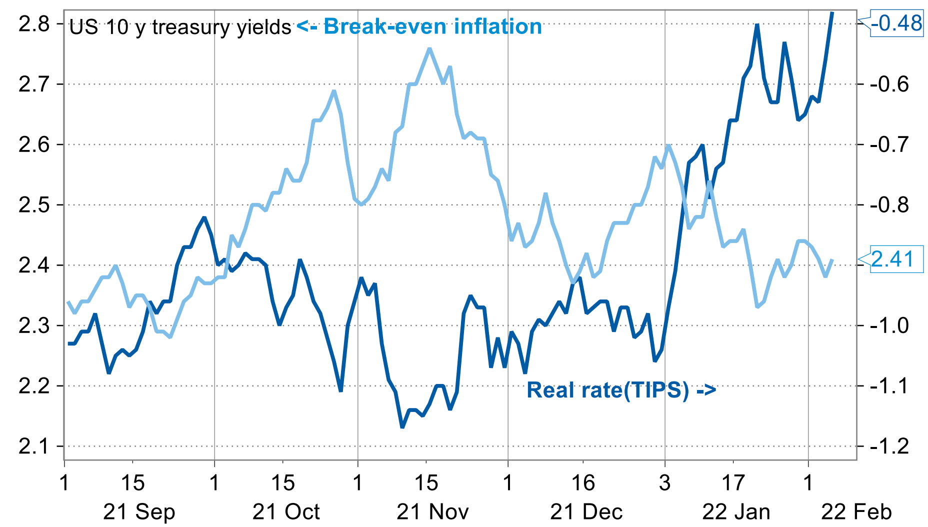


SB1 Markets/Macrobond

Real rates up 17-18 bps in US & Germany last week!

Still, inflation expectations rose in Germany (but they fell in the US)





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.93	0.15	0.27	0.52
.. break-even inflation	2.41	-0.03	-0.16	1.06
.. TIPS real rate	-0.48	0.18	0.43	-1.19
Germany nominal bund	0.21	0.25	0.35	-0.65
.. break-even inflation	1.96	0.08	0.03	0.40
.. real rate	-1.75	0.17	0.32	-2.26

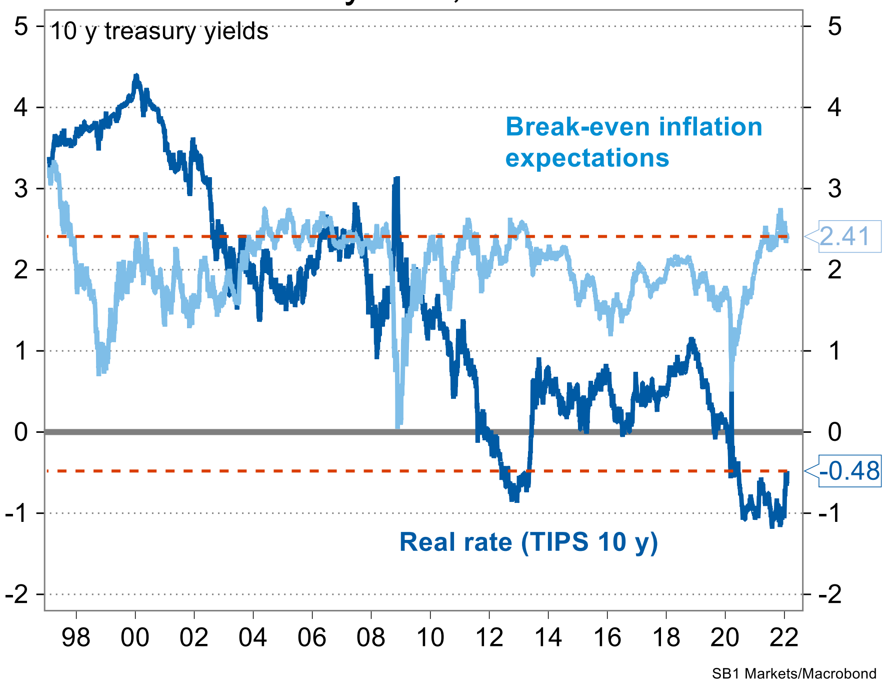
SB1 Markets/Macrobond

- **The US 10 y TIPS real rate** has climbed 67 bps from the ATL last year
- 10 y inflation expectations have fallen by 30 bps past 3 months
- The 10 y German real rate as gained 51 bps, while inflation expectations have been close to unchanged at just below 2% - which is a rather high level in low inflation Germany

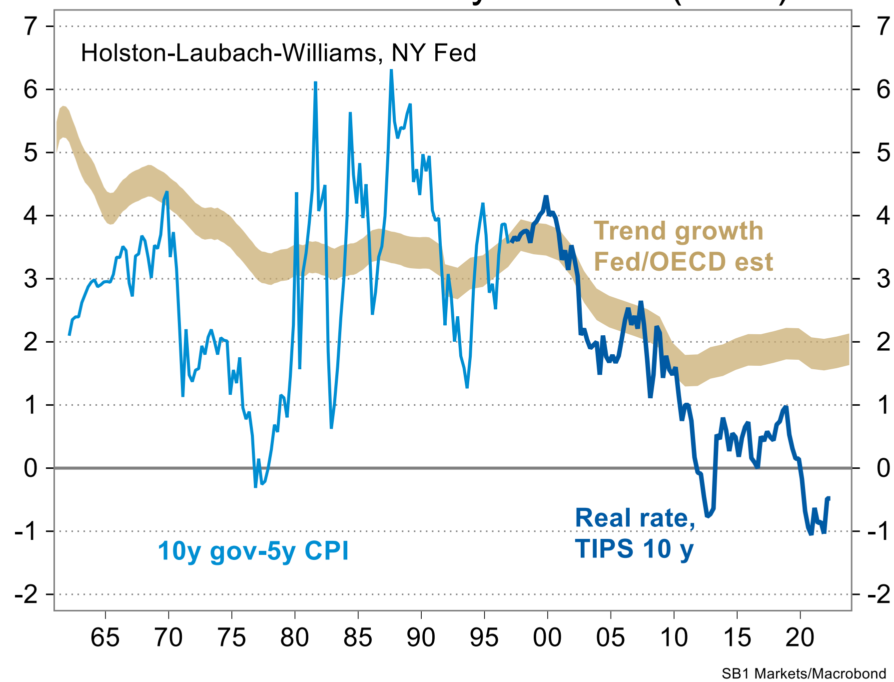
What if the gap between growth expectations and the real rate narrows further?

Well, now it is happening – but the 'spread' is still far too large?

USA TIPS Real yields, break-even inflation



USA Growth vs 10 y real rate (TIPS)

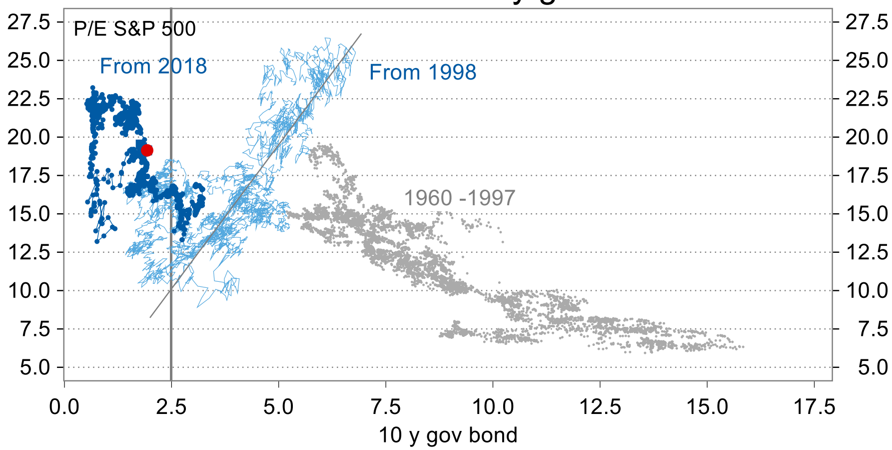


- Something is happening: The 10 y real TIPS rate is on the way up, now by almost 70 bps from the ATL last year

Bonds vs. equities: What's next?

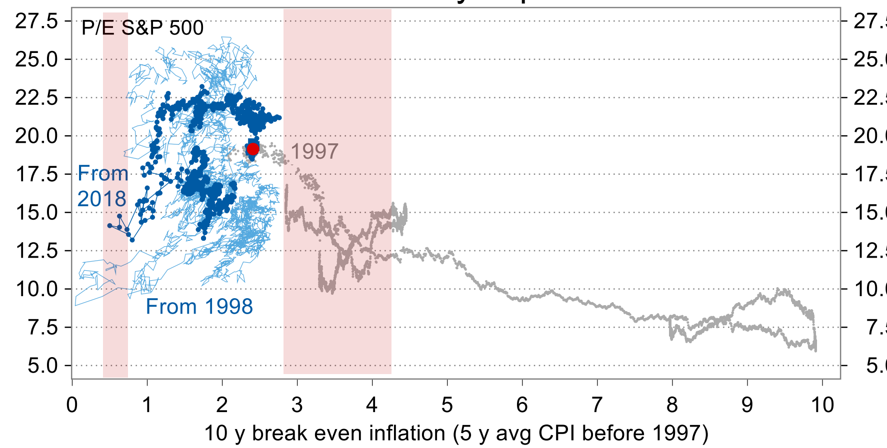
Are we leaving the Goldilocks corner for the real (and much tougher) world?

S&P 500 vs US 10 y gov bond



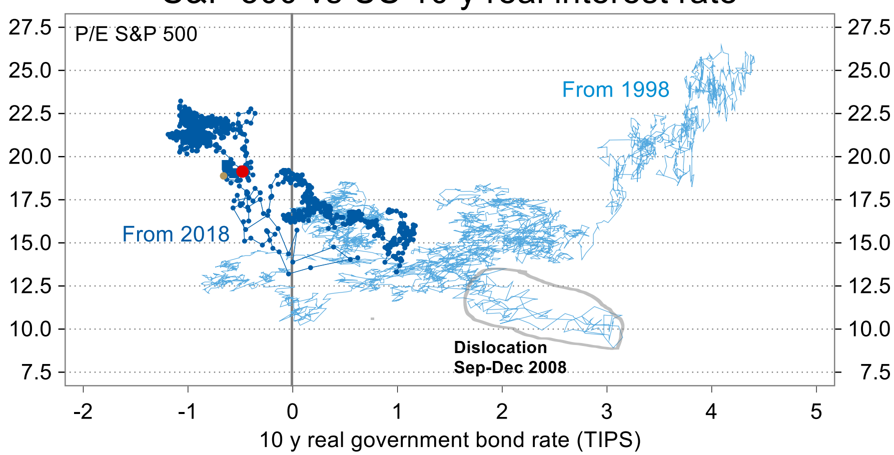
SB1 Markets/Macrobond

S&P 500 vs US 10 y expected inflation



SB1 Markets/Macrobond

S&P 500 vs US 10 y real interest rate



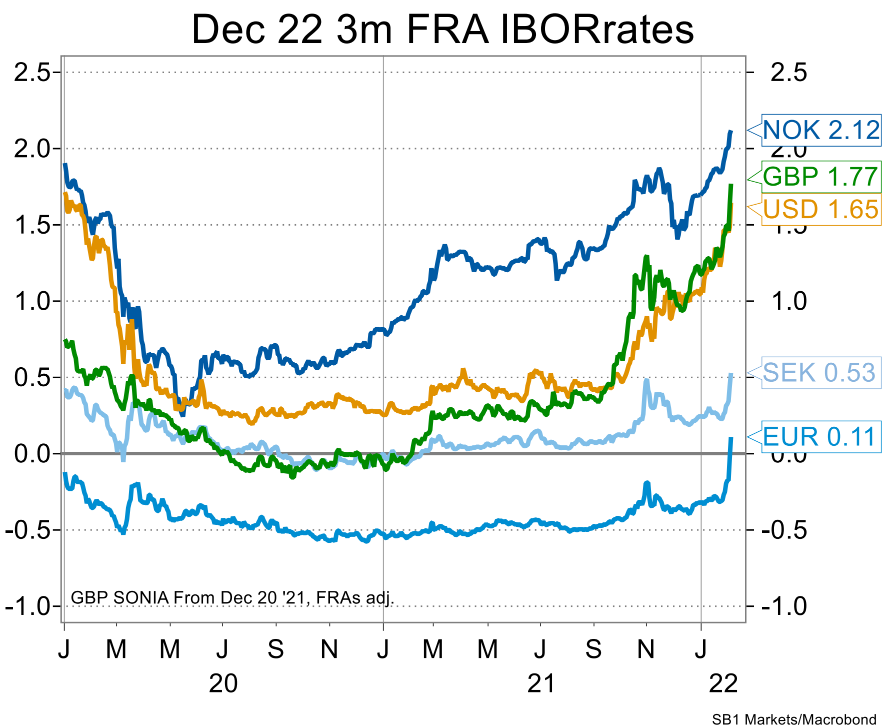
SB1 Markets/Macrobond

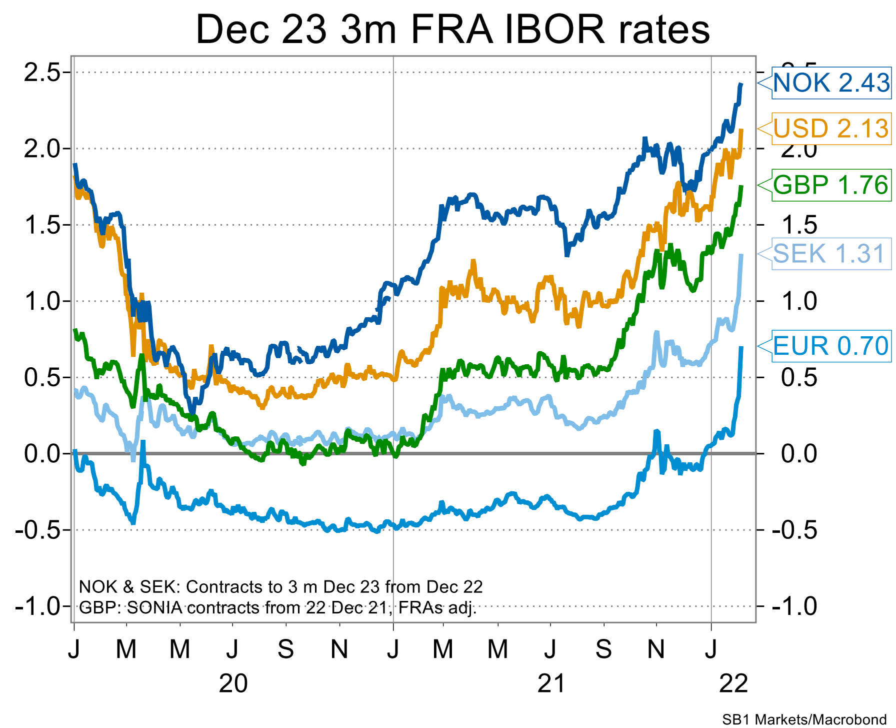
- **Expected inflation**
  - » ***If its not too low or too high: No problem***
    - 'Real' expected earnings are unaffected, higher inflation implies stronger growth in earnings, and vice versa
  - » ***If its too low or too high: A problem***
    - Something is rotten: Deflation or far too high inflation. The economy is not stable. Risk are increasing, earnings are exposed
- **Expected long term real interest rates**
  - » ***Low real rates normally not good news, high rates were OK***
    - Real rates were low when the economy was weak, the outlook uncertain
    - High real rates when the economy was booming, with high P/Es
  - » **Since 2018:** real rates have been low (and falling sharply) even if the economic outlook has been OK
    - Central banks wanted to lift growth, inflation was anyway not a problem – we entered the 'Goldilocks' corner'
    - The RISK now: Very low real rates may not stabilise the economy, and inflation has become too high
    - . WHERE IS THE WAY OUT?? Higher real rates, lower growth expectations and lower multiples?

SpareBank 1 MARKETS

ECB and BoE really did it! FRA rates straight up

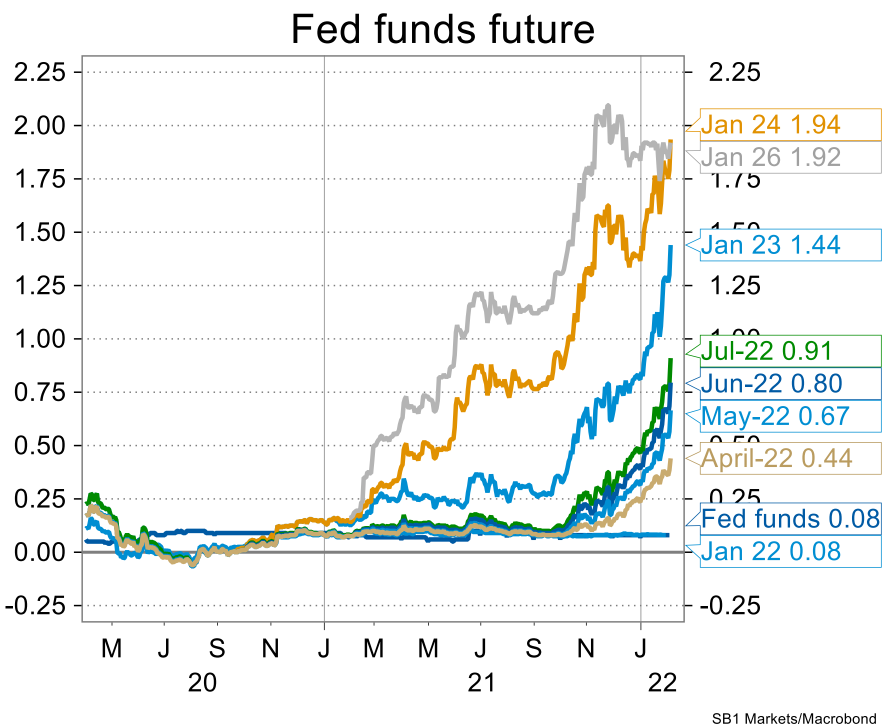
The market expect almost 2 ECB hikes in 2022 – and 4-5 hikes before end of 2023?

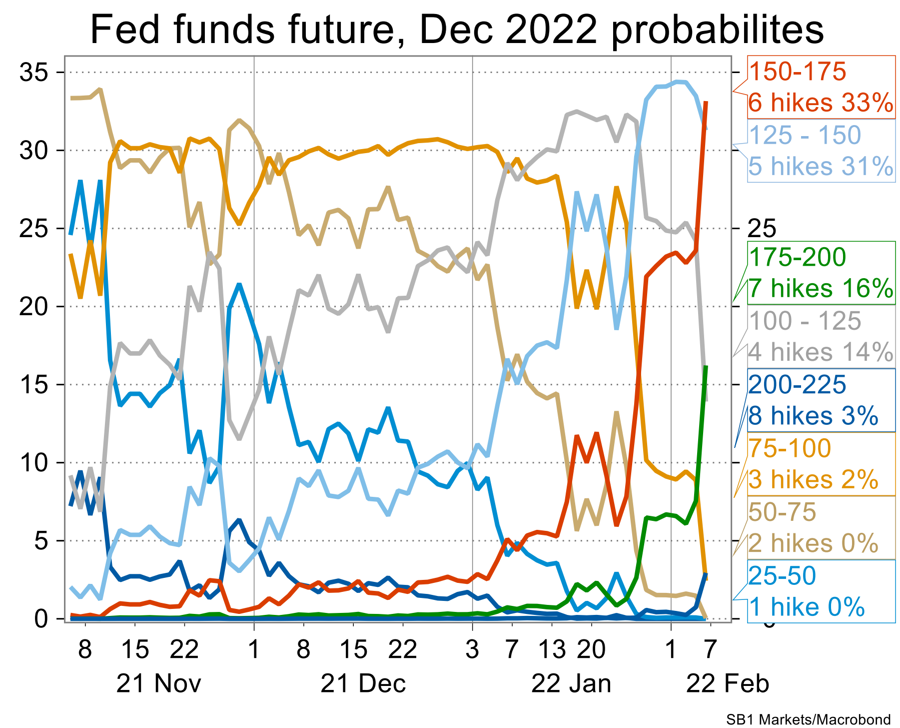




52% probability for 6, 7 or 8 hikes in 2022, 31% for 5 hikes (and 17% for 4 or less)

… if 25 bps hikes each time are assumed. (but 8 'hikes' requires 50 bps at one meeting)



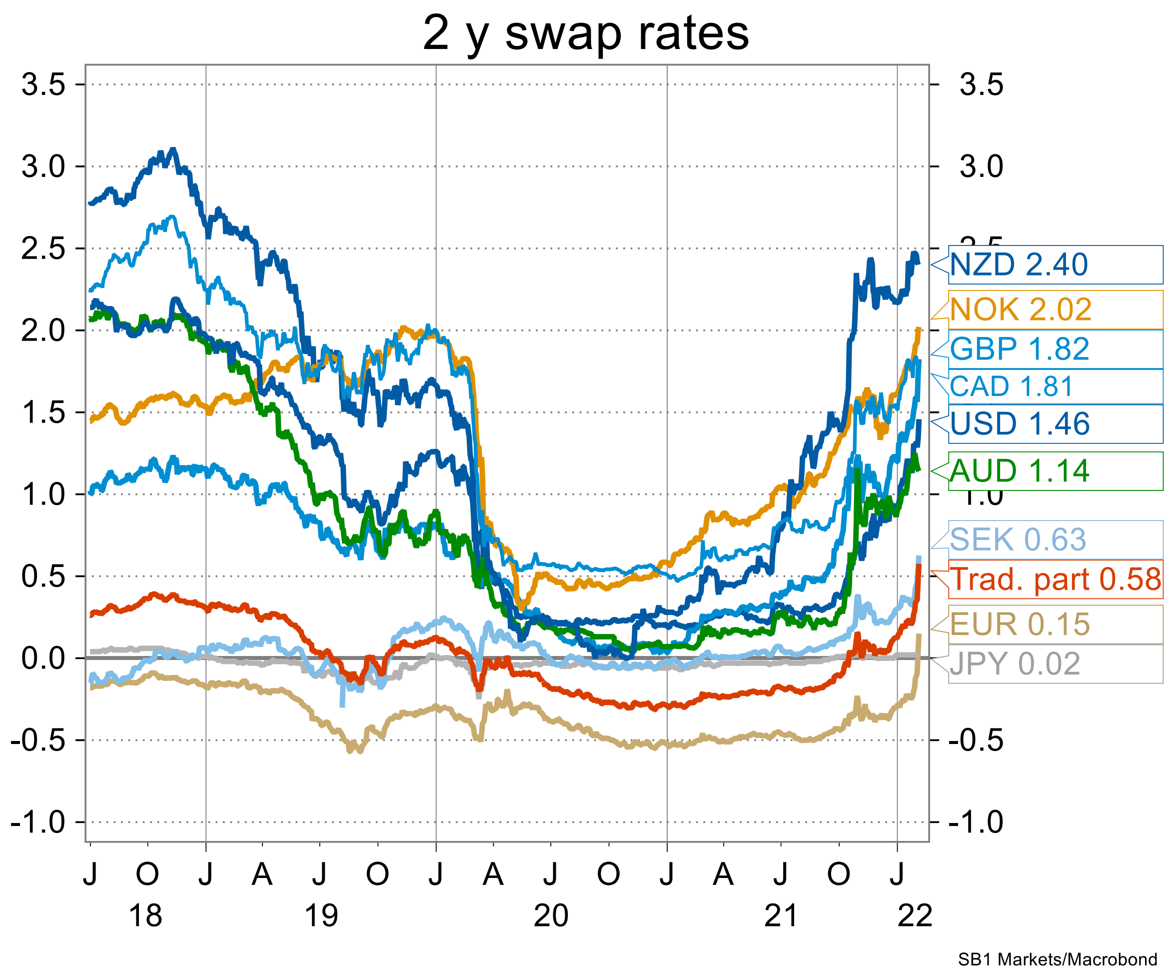


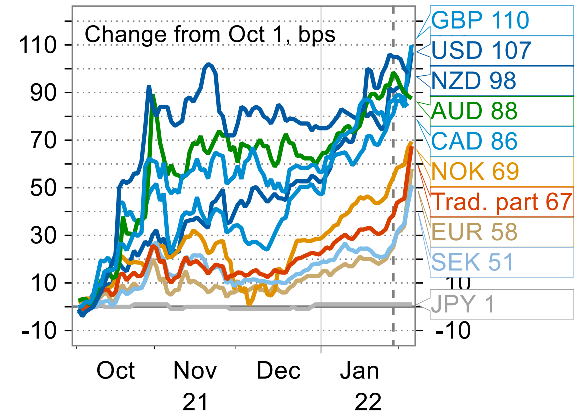
- 2 months ago, the market though 2 hikes were most likely, and 4 or more rather unlikely (21%)
- This is really fascinating!

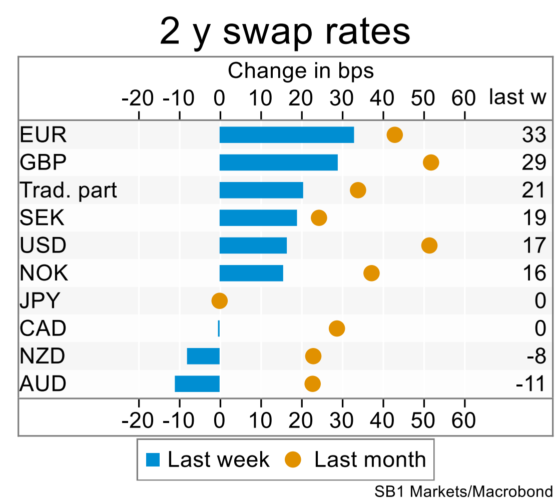
SpareBank 1 MARKETS

Central banks rocking the short end: 2 y EUR swaps up 33 bps, GBP 29 bps!

The average 2 y swap rate among our trading partners up by 50 bps since late December!

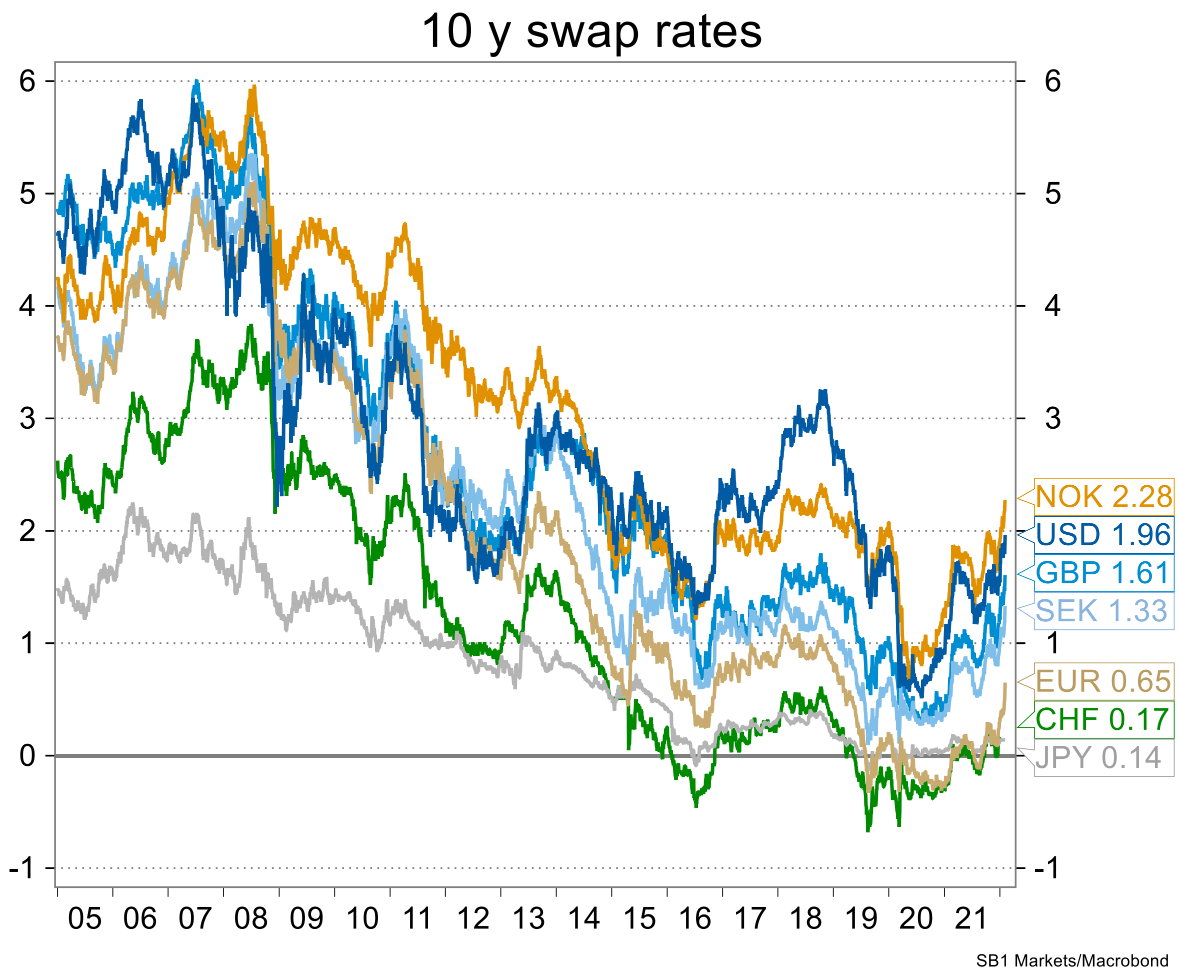


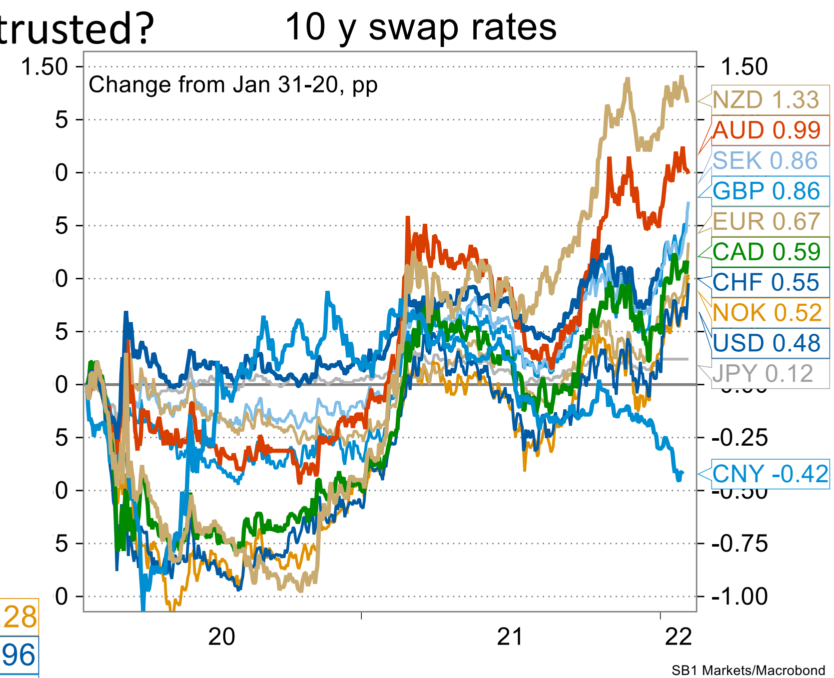


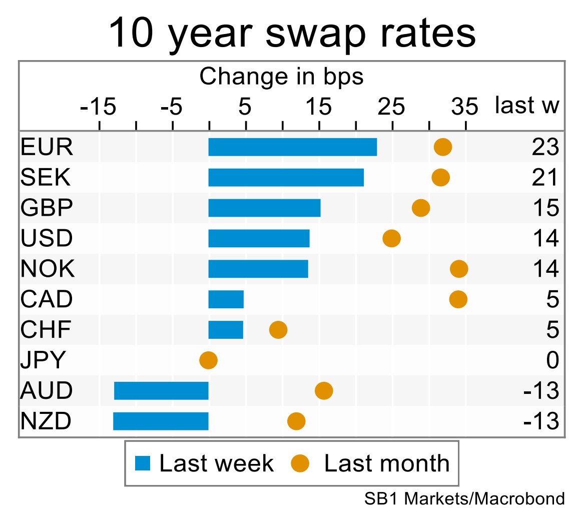


Even the EUR 10 y swap rate shot up by 23 bps!

And SEK rates by 21. The Rix is not believed anymore. But trusted?

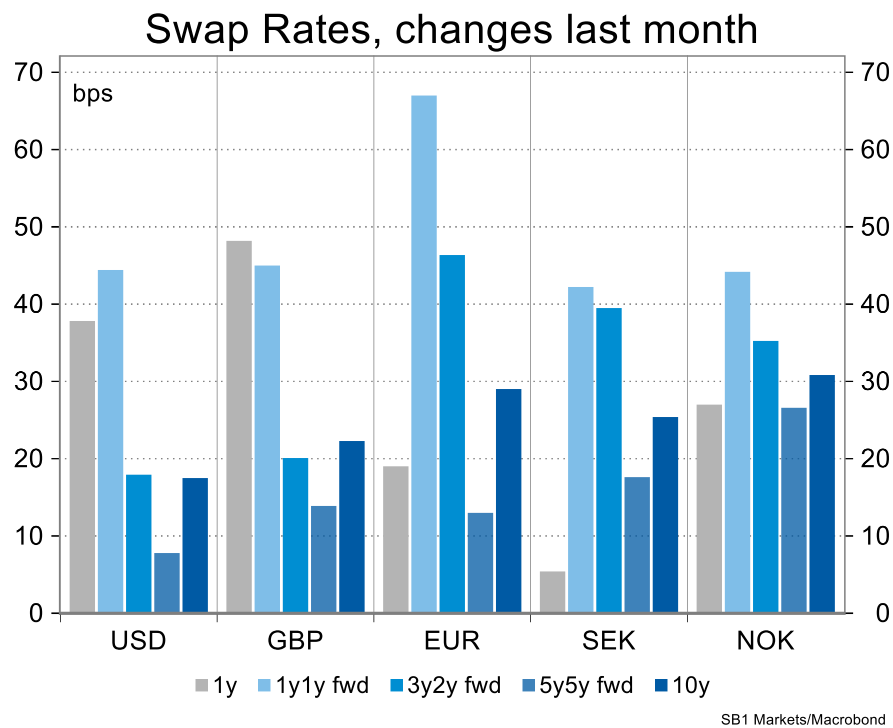


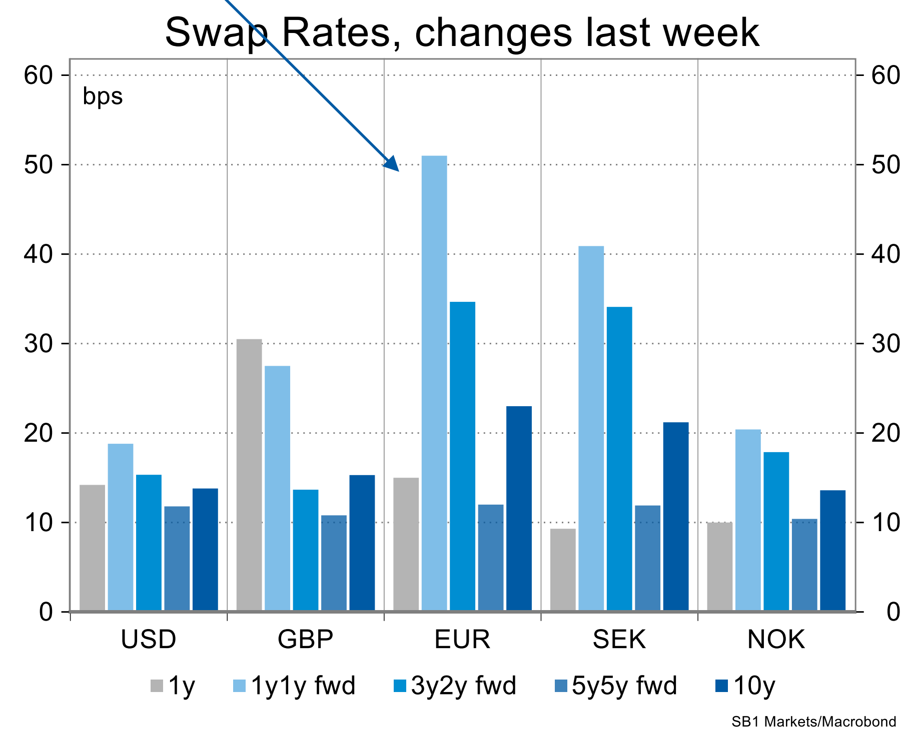




You will probably never see something like this again – due to the ECB policy shift

EUR 1 y 1 y fed up 50 bps in one week. A substantial repricing of the short end of the GBP curve too

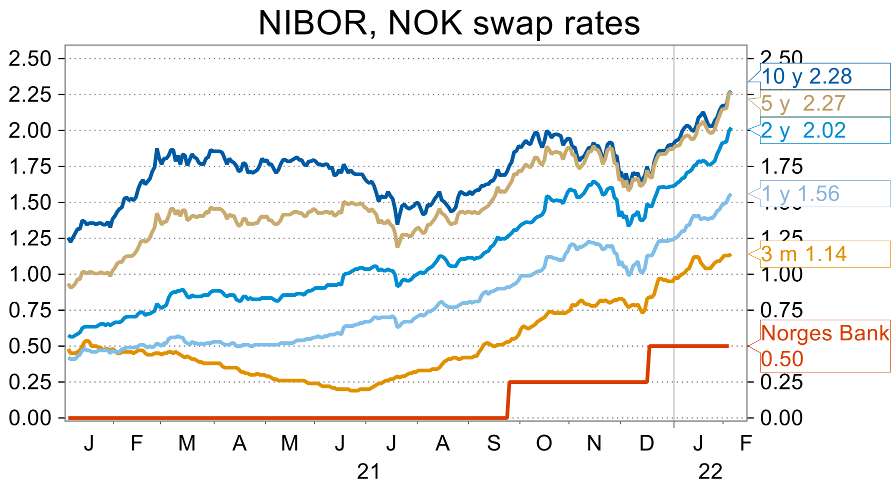


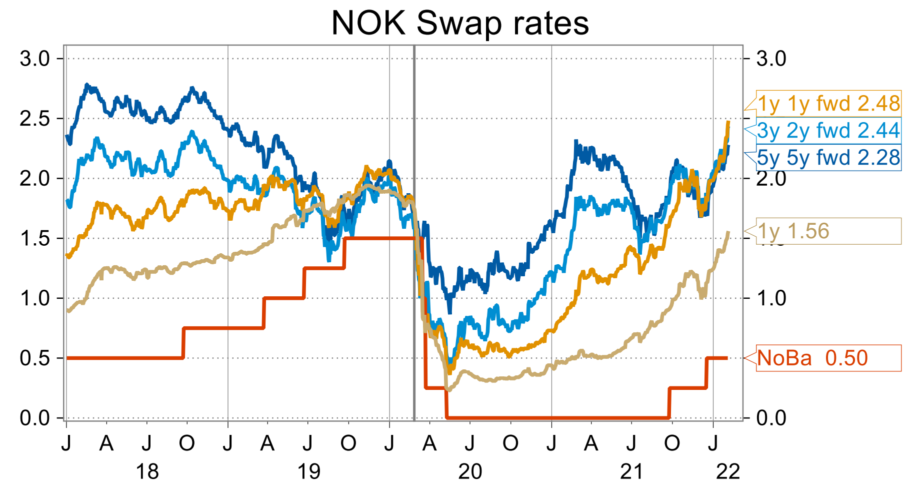


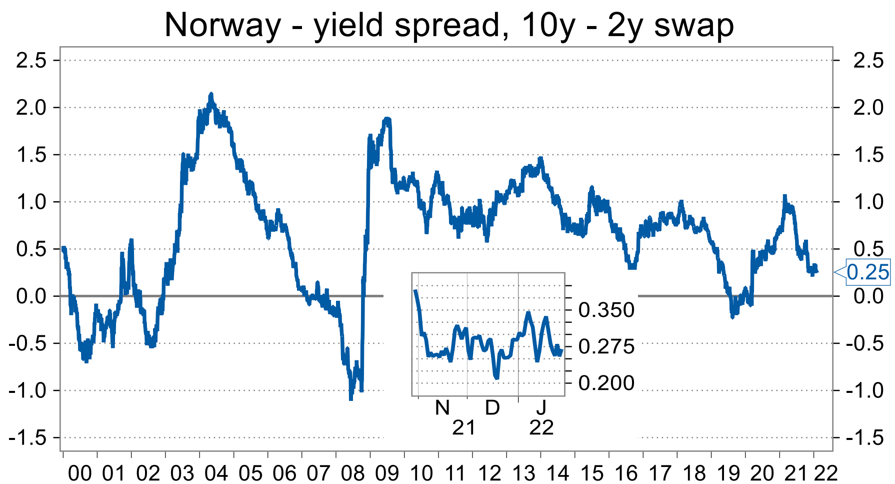
- … as the BoE MPC was close to the hike the bank rate by 50 bps!

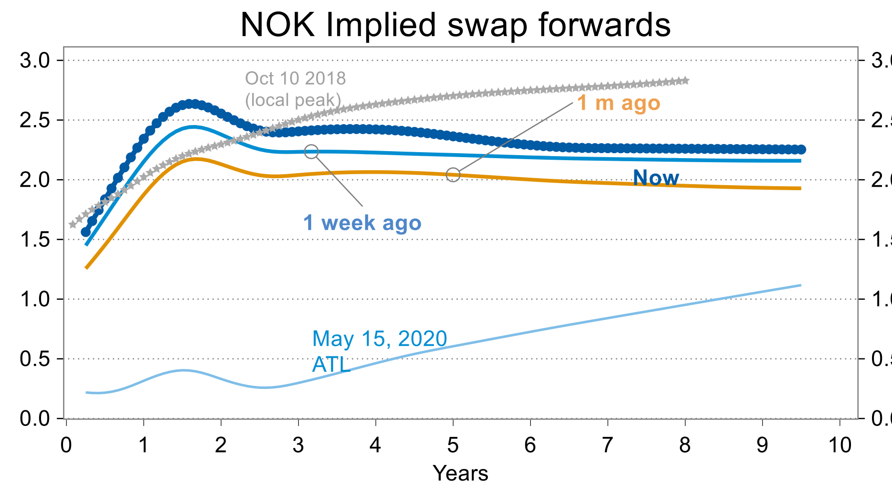
Up all along the curve last week, the 10 y up 14 bps to 2.28%!

The implied forward curve peaks at 1.5 – 2 year – but whole fwd-curve now stays above 2.25%





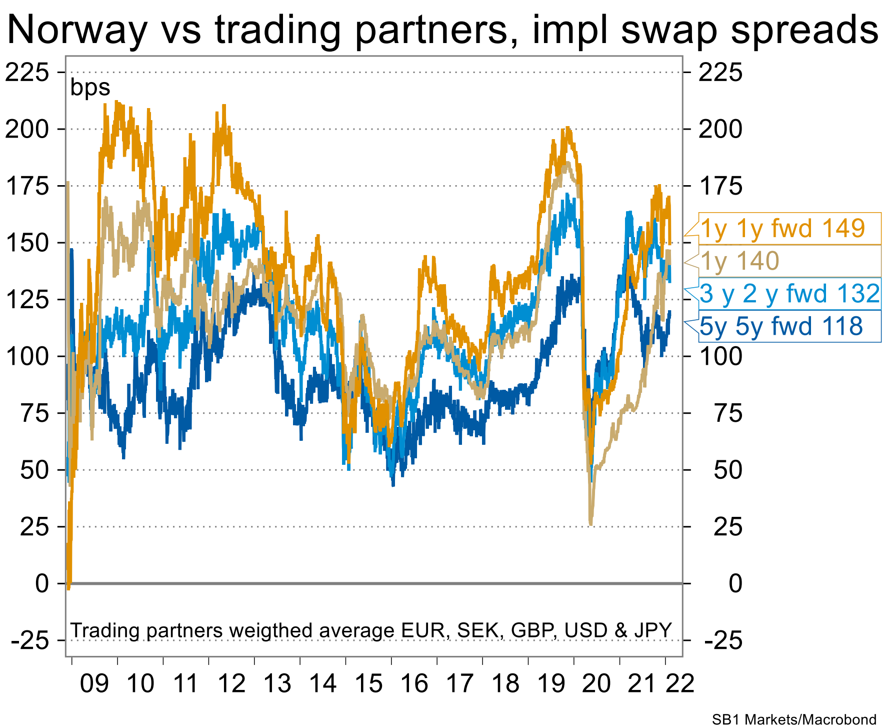


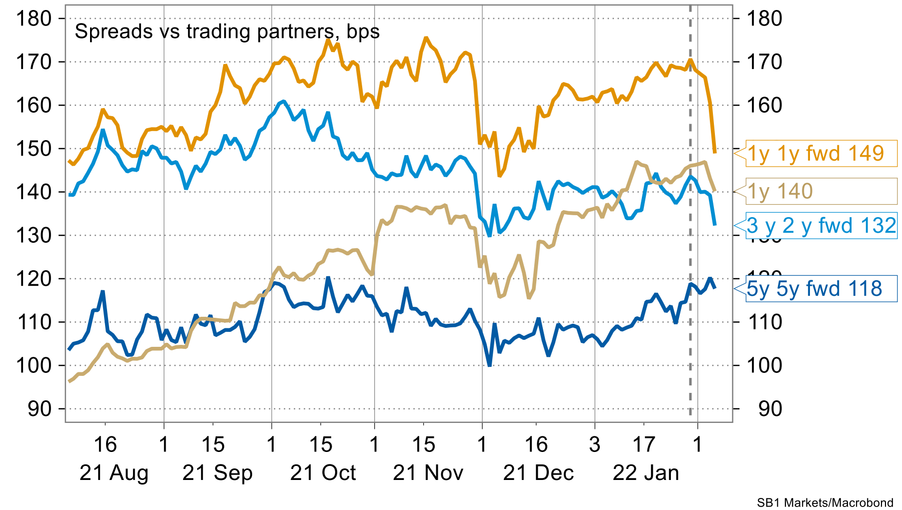


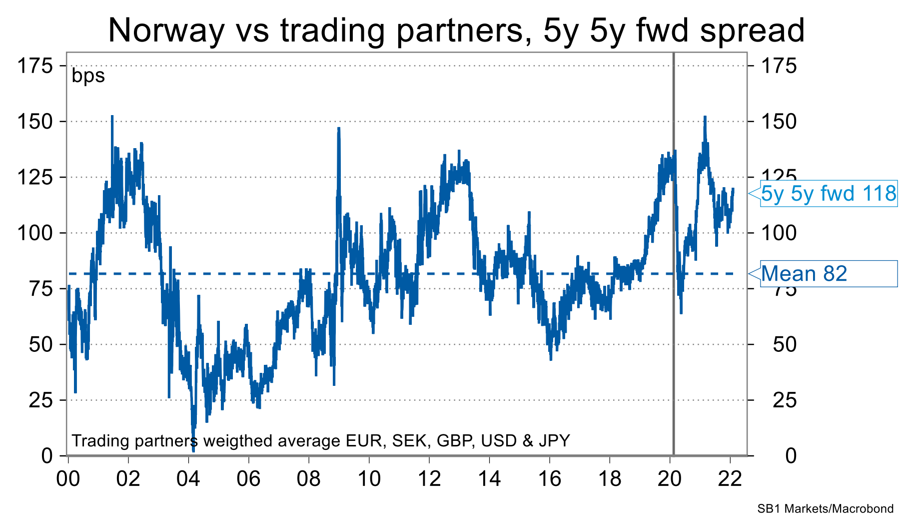
SpareBank 1 MARKETS

Spreads further out last week

Spreads are at the high side – but we do not have a short term narrowing case

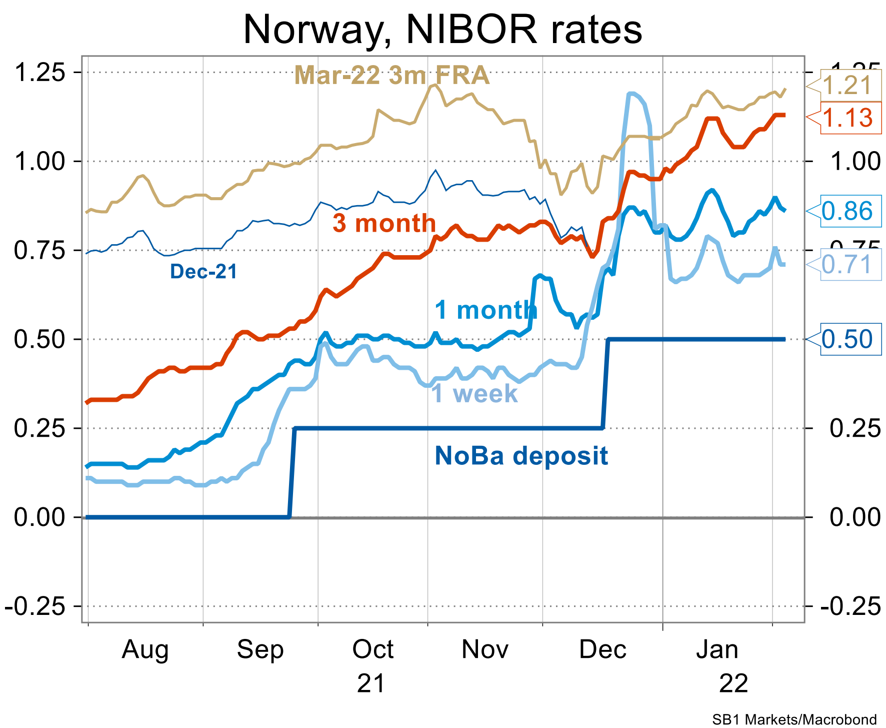


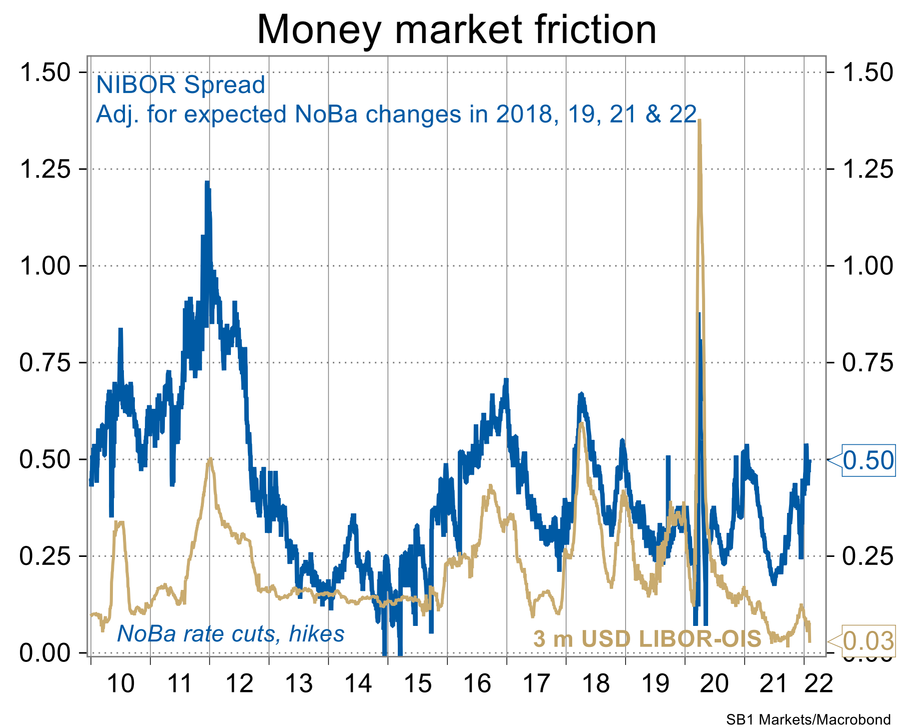




The 3m NIBOR up again, + 5bps to 1.13%

The NIBOR spread +3 bps to 50 bps, if NoBa March hikes by 25 bps hike (and no May hike)

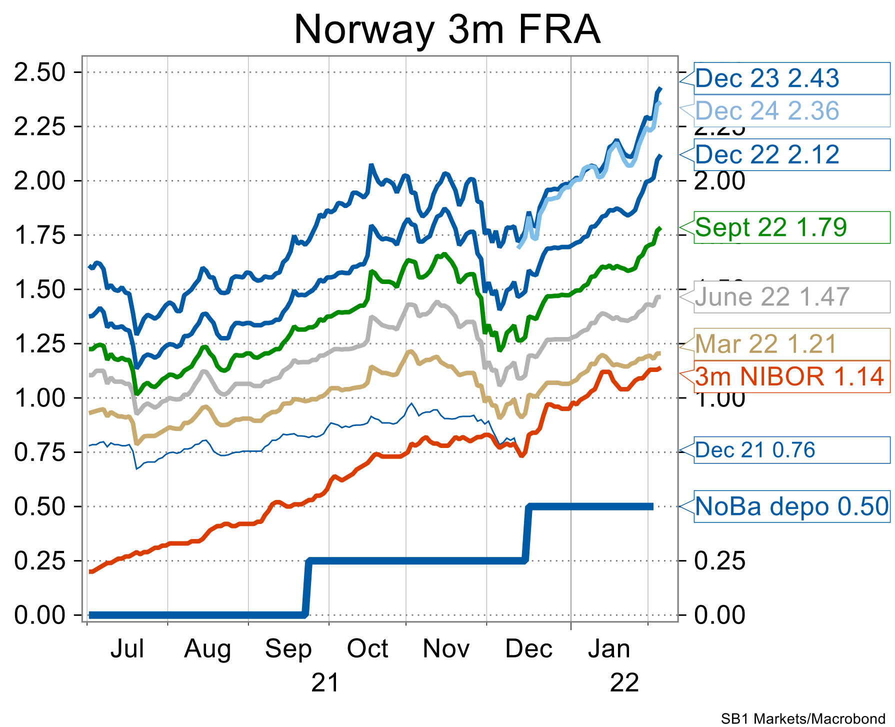


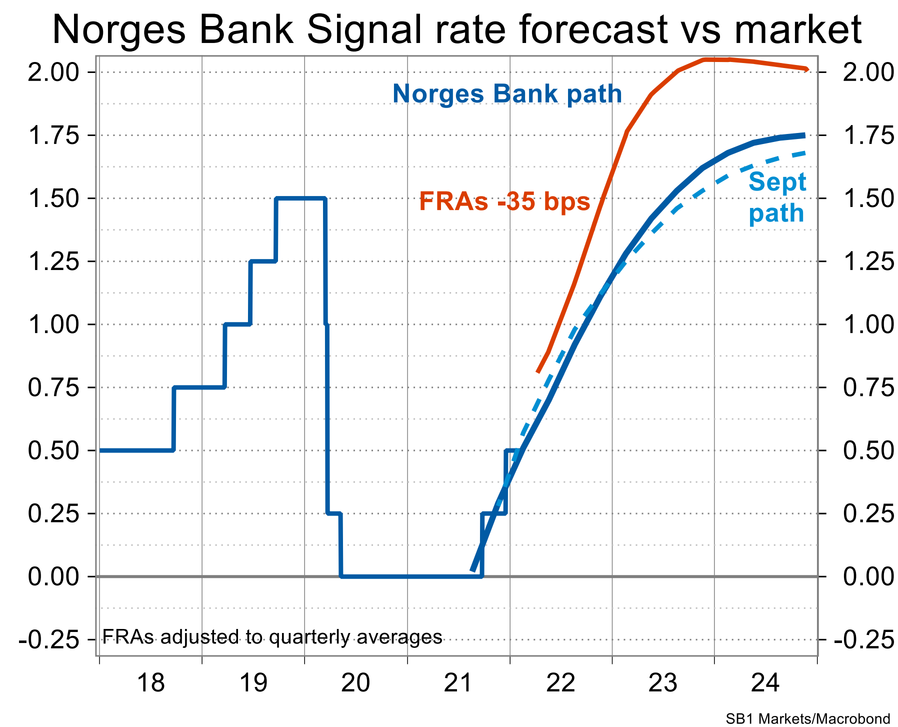


- The **3 m NIBOR** has been at elevated level recent weeks and the F-loan 2 weeks ago offered just a temporary relief
- The **USD LIBOR-OIS spread** has 'collapsed' to 3 bps, close to ATL - so we can not blame the US market for the elevated NIBOR spread

FRAs up by up to 20 bps last week, the curve is FAR above NoBa's

A substantial change in the interest rate climate abroad (and the Norw. economy is OK too)



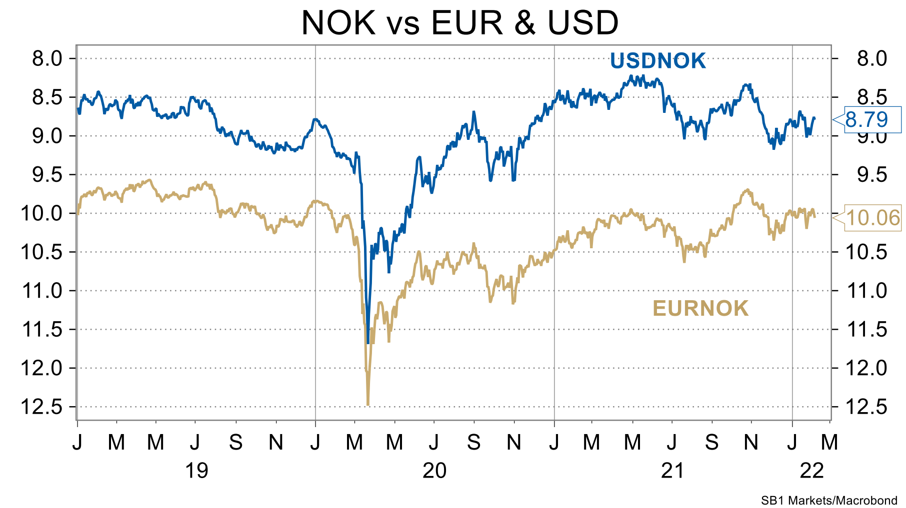


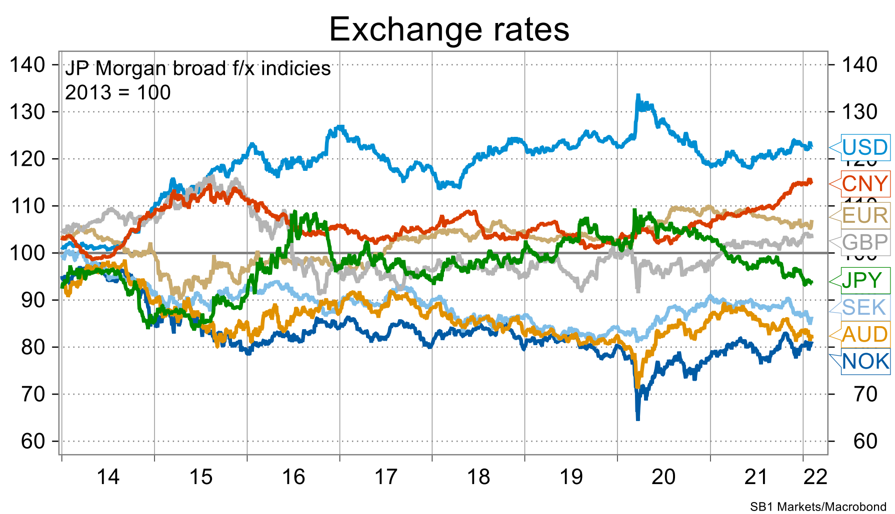
- Market FRAs are now discounting a much steeper interest rate path than NoBa presented in December – or the expected NIBOR spread widened substantially – which we deem unlikely
- If NoBa hikes March 24 (by 25 bps, and not in May), the average NoBa rate will be 0.73% in the March FRA period
- Thus, the **March-22 3 m** contract at 1.21% implies 100% probability with a 48 bps NIBOR spread – or a small likelihood for at hike at the 'mid'-meeting in May. The June contract at 1.47% implies the same, eventually a hike in August (or a small likelihood for a 50 bp hike in June)

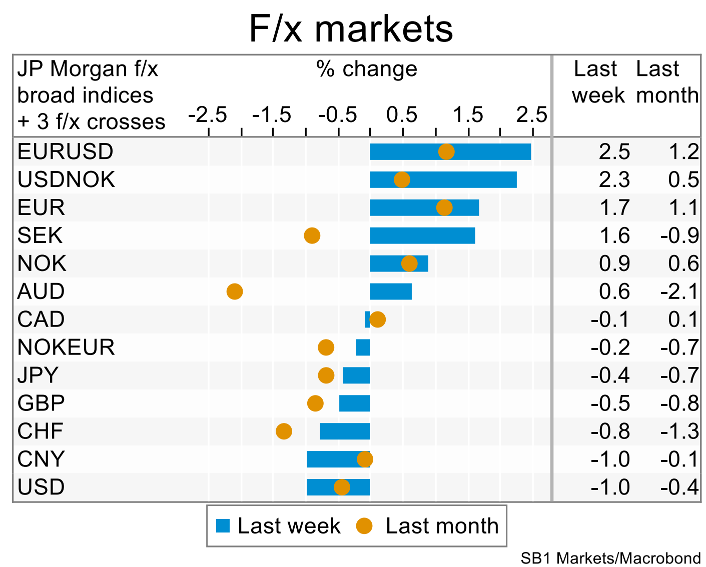
SpareBank 1 MARKETS

The ECB lifted the EUR

NOK flat, even if CAD, SEK and AUD fell significantly. An oil price at USD 90 helps?



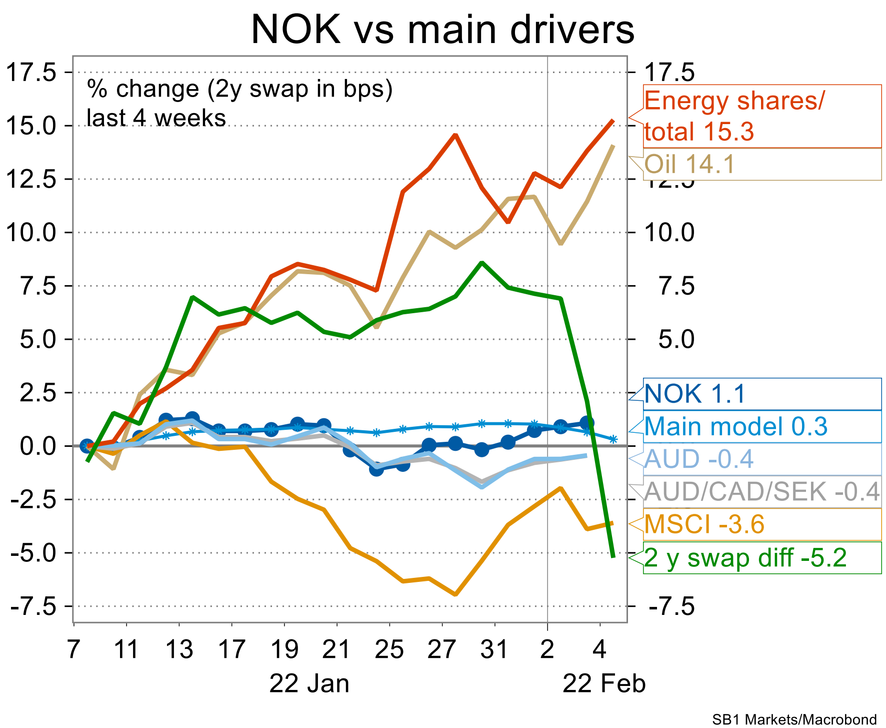


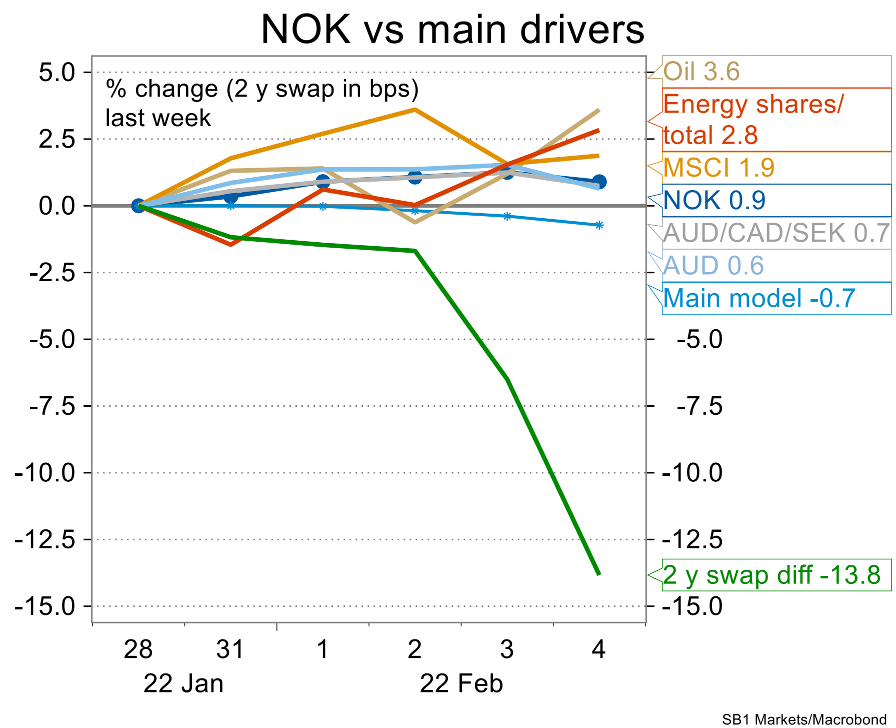


JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
EURUSD	2.5	1.2
USDNOK	2.3	0.5
EUR	1.7	1.1
SEK	1.6	-0.9
NOK	0.9	0.6
AUD	0.6	-2.1
CAD	-0.1	0.1
NOKEUR	-0.2	-0.7
JPY	-0.4	-0.7
GBP	-0.5	-0.8
CHF	-0.8	-1.3
CNY	-1.0	-0.1
USD	-1.0	-0.4

NOK up 0.9% last week, just the lower int. rate spread contrib. at the downside

The oil price rose further, and our f/x peers strengthened too



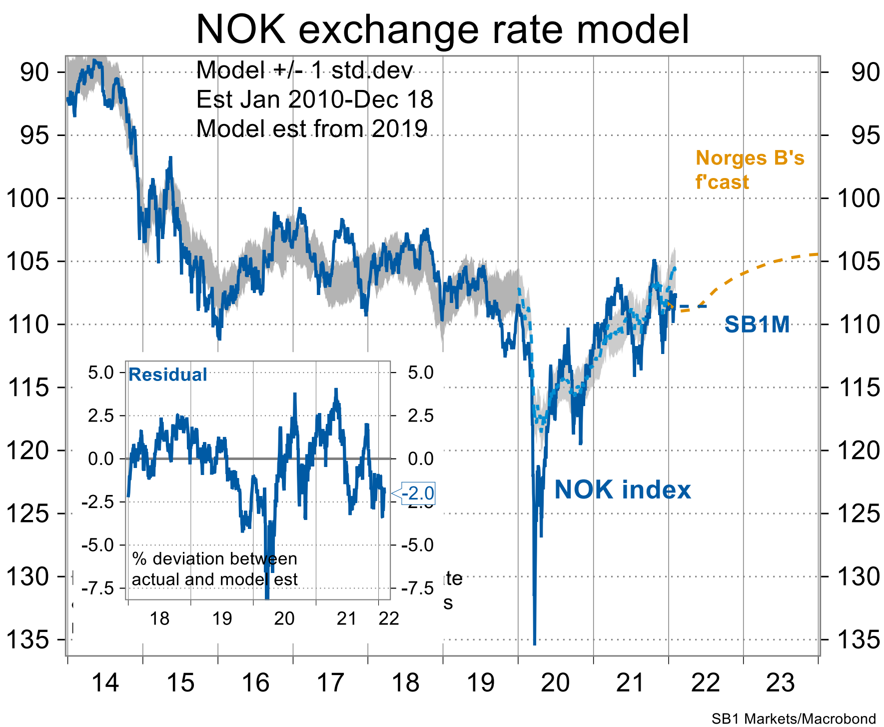


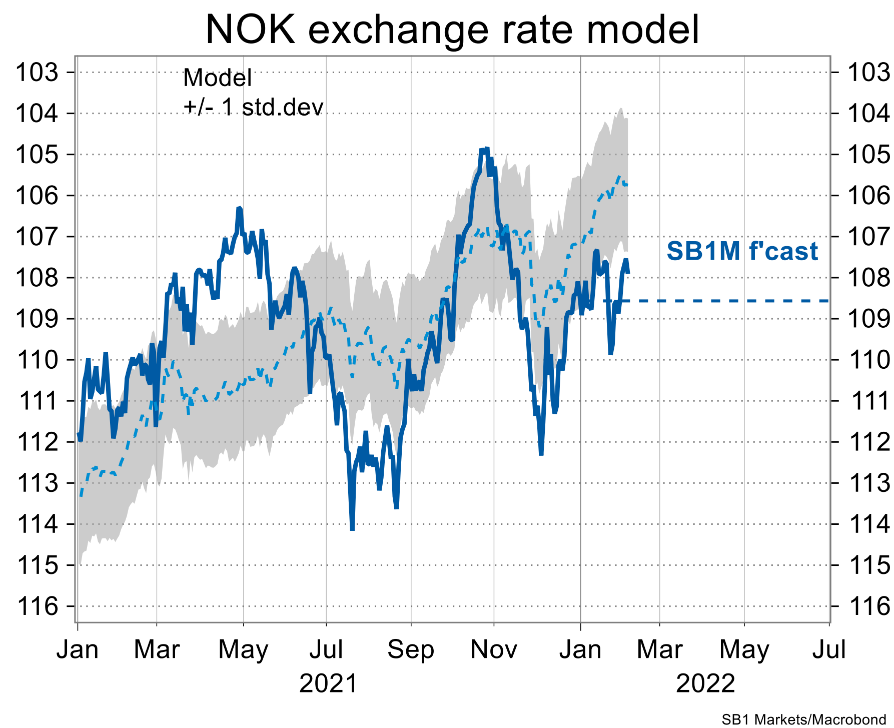
The status vs. the normal drivers:

- ***The NOK unch- The level 2.0% below the model est (from -3.1%)***
- The NOK is 3.6% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (unch)
- NOK is 4% stronger than a model which includes global energy companies equity prices (vs the global stock market), but less than last week (from 5%)

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 lags our model by 2%, from 3% the previous week





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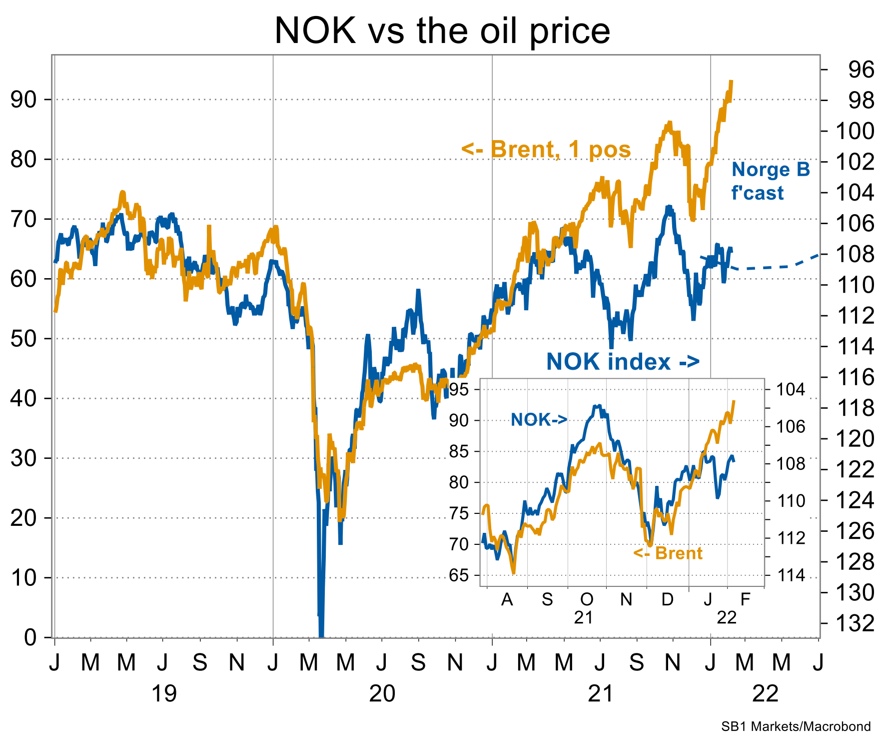
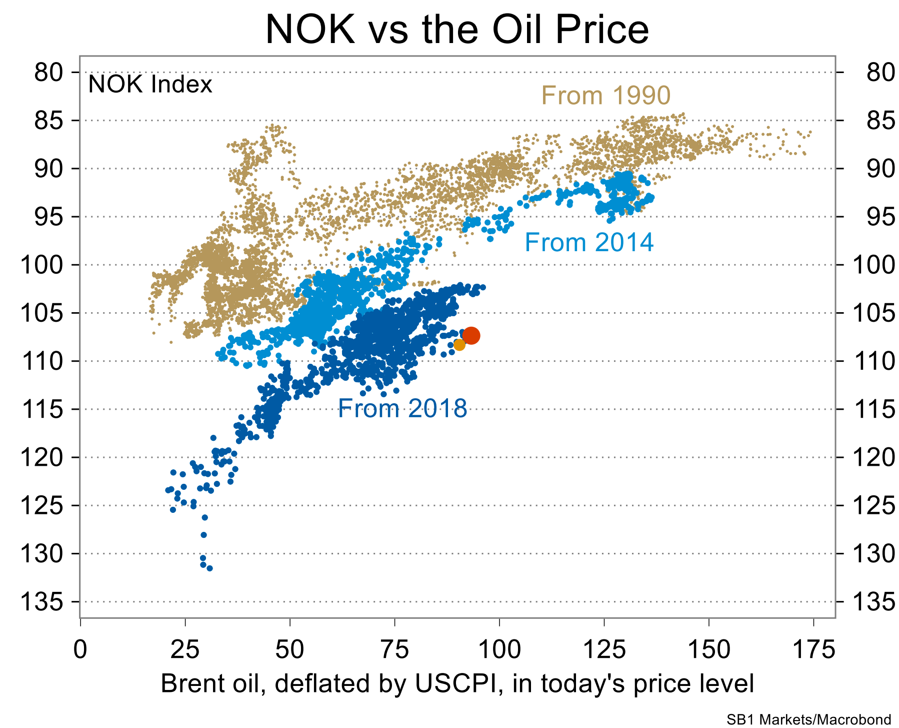
The gap to the oil prices widened further last week

But the NOK did not decline, like our f/x peers



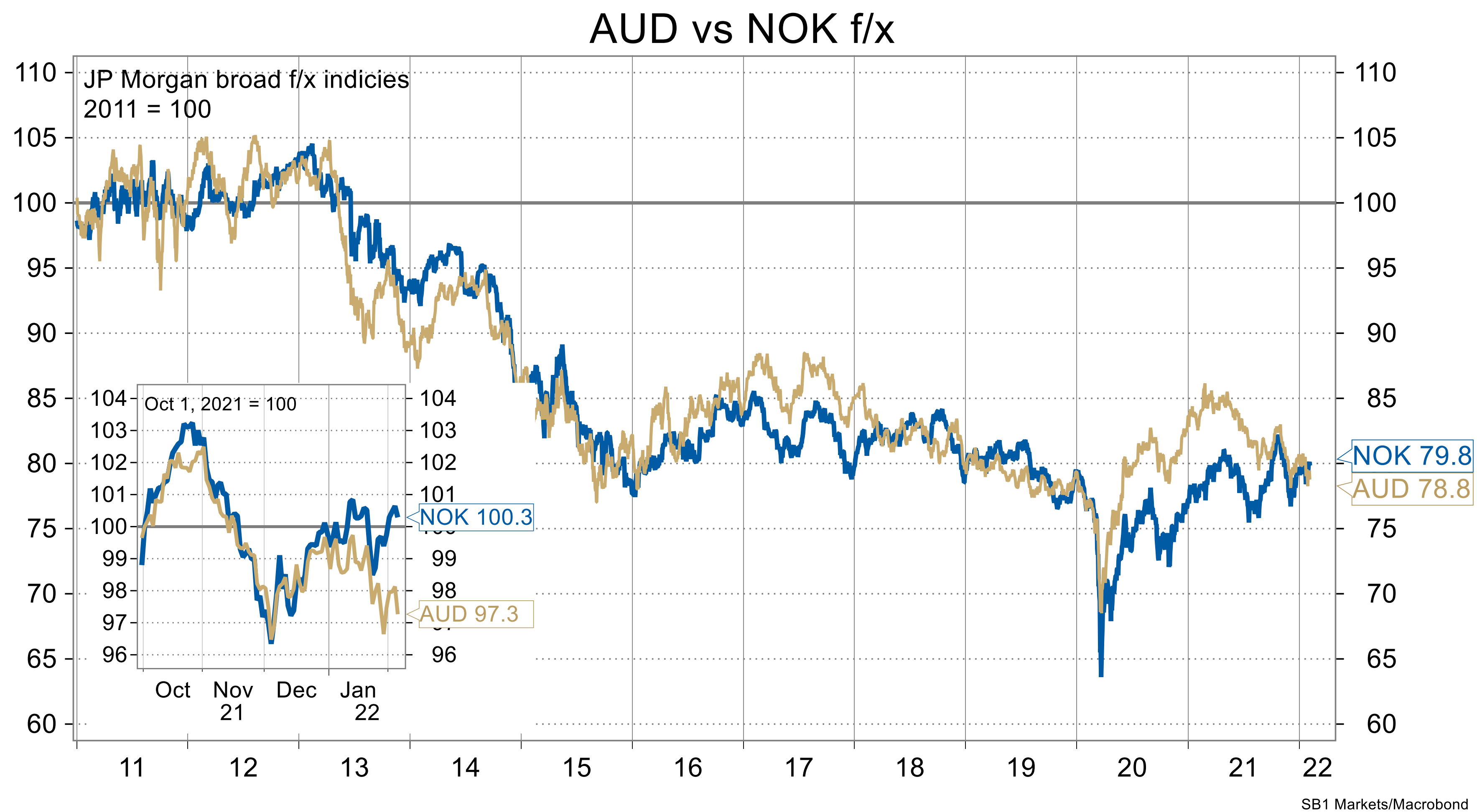


- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 4%, as a partial effect.
  Within a broader model, the impact is smaller

SpareBank 1 MARKETS

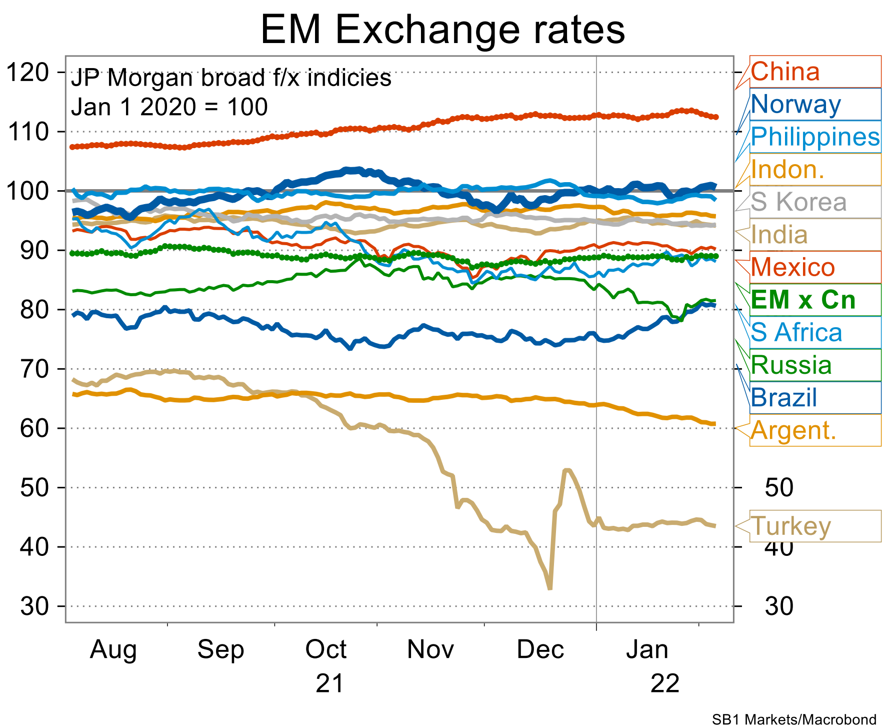
The AUD has left us? Iron ore prices are strong

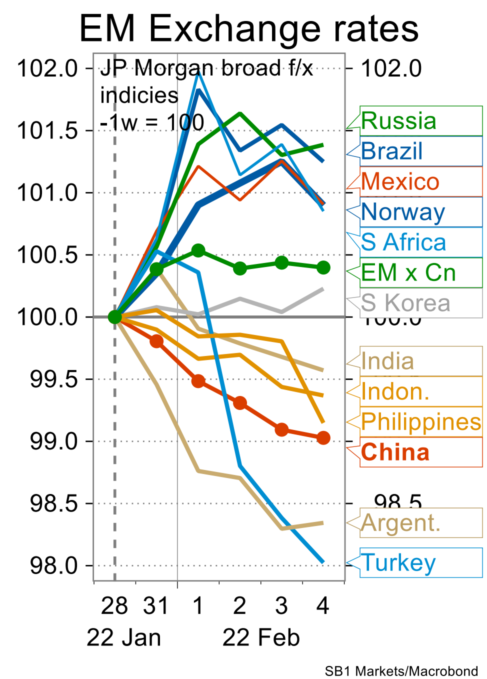
But Australia struggles with the virus?

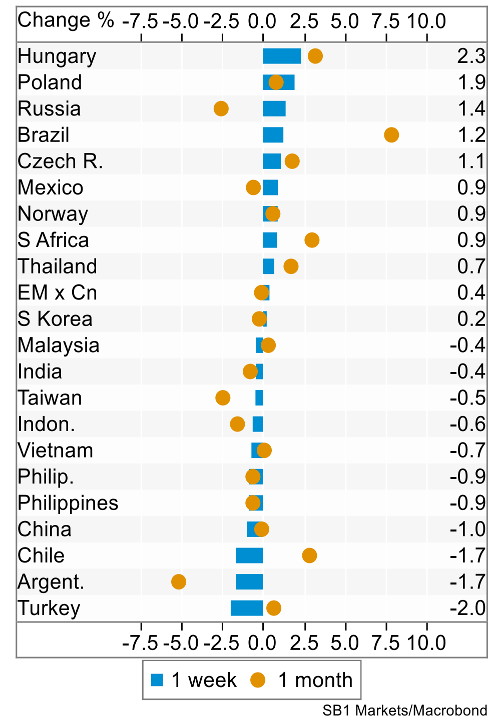


The two f/x indices are back to the 2011 parity (vs each other, from which they never since have deviated much)

CNY down. Many other EMs f/x up (but Asia down)







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