February 14 2022

Macro Weekly

Week 7/2022

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Last week

- **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 1300) but 'none' are in a need of an ICU bed, and they stay at hospitals for just few days (some 4 in average). In the Scandics all restrictions are eased, like in the UK. Mobility is on the way up everywhere – 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
- **Global auto sales**
  - » **Sales** rose by some 7% m/m in January, and sale are 'just' 7% below the 2019 level, according to our preliminary data. Sales rose sharply in the US (down 11% vs. 2019), probably in China (up 9%), and surely in EM x China (down 8%). EMU was weak, and is down 31% vs. 2019
- **China**
  - » **Credit growth** accelerated in January and the credit cycle has turned upwards. The authorities have so far succeeded in preventing the trouble in the building sector to spread to the rest of the credit market
- **USA**
  - » **CPI further up**: Further up, and more than expected. Energy and cars are still the main culprits, but more an more prices are rising at a faster pace. A comment from FOMC's Bullard made things worse, a 50 bps March hike could not be ruled out – and interest rates shot up. The 20 y bond yield reached 2.06%. Fear of a war in Ukraine brought both yields and the stock market down at Friday. Still, 7 or more hikes (25 bps each) in 2022 are now more likely than 6 or fewer, according to the market
  - » Atlanta Feds median wage tracker was up 6.1% y/y in January. It has been higher (6.2%) just once since 1983, and we have never before seen such a lift vs. the 10 y average as we do now – perfectly explained by the tight labour market (the vacancy rate) – and a further acceleration is not unlikely. (The 3 m average at 5.1% is also well above a sustainable level
  - » **The SME (NFIB) survey** still reports no problems at the demand side, just at the supply side (labour), and they still plan to lift wages faster than ever before (except for last month)
  - » **In sum: Demand is too strong vs. available supply, especially of labour.** Growth must be dampened to get wage inflation under control
- **EMU**
  - » **Industrial production** varied between the main countries in December. In sum, a small uptick is likely (and expected)
- **UK**
  - » **GDP** fell 0.2% in December as hotels/restaurants etc was hurt by the Covid measures. Still, GDP rose 1% in Q4. And now restrictions are lifted
- **Sweden**
  - » **The Riksbank yielded:** The first hike may come in H2 2024, and not in Q4 2024 ☺. The bank believes inflation will return to 2%, without hikes. The market still expect the bank to start hiking in Q4 2022
- **Norway**
  - » **The headline CPI** fell sharply in January, down to 3.2% from 5.3%, close to our forecast. Consensus was for a decline to 4.2%. Electricity prices fell sharply, and both due to lower market prices, and the large lift in government's subsidies. The core rate declined 0.5 pp to 1.3%, even below our forecast at 1.5% (consensus 1.7%), as airfare prices fell sharply, and food prices also declined (and they are down y/y)
  - » **Wages** rose 3.5% last year, 0.4 pp higher than Norges Bank assumed in December, up from 3.1% in 2020. Some public sectors are lagging, which may create challenges in the wage negotiations this spring – even if the 'official' 2022 inflation forecast easily could come down to 2.5% (the TBU will start reporting at Friday)
  - » The no. of **unfilled vacancies** fell slightly in Q4, mostly due a sharp drop in vacancies in the agricultural sector. The level is still very high
  - » **Manufacturing production** was once more weaker than we expected, both oil related and non-oil related production

The Calendar: US Retail sales, FOMC minutes, Norwegian GDP, TBU, expectation survey

Time	Count.	Indicator	Period	Forecast	Prior
Tuesday Feb 15					
00:50	JN	GDP Annualized SA QoQ	4Q P	6.0%	-3.6%
06:30	NO	Consumer Confidence	1Q		13.7
08:00	NO	Trade Balance	Jan		106.0b
08:00	UK	Weekly Earnings ex Bonus	Dec	3.6%	3.8%
08:00	UK	Payrolled Employees Monthly	Jan	135k	184k
11:00	GE	ZEW Survey Expectations	Feb	55	51.7
11:00	EU	Trade Balance SA	Dec	-4.7b	-1.3b
11:00	EU	Employment QoQ	4Q P		0.9%
11:00	EU	GDP SA QoQ	4Q P	0.3%	0.3%
14:30	US	PPI Final Demand YoY	Jan	9.0%	9.7%
14:30	US	Empire Manufacturing	Feb	12	-0.7
Wednesday Feb 16					
02:30	CN	PPI YoY	Jan	9.5%	10.3%
02:30	CN	CPI YoY	Jan	1.0%	1.5%
08:00	UK	CPI YoY	Jan	5.4%	5.4%
08:00	UK	CPI Core YoY	Jan	4.3%	4.2%
08:00	**NO**	**GDP Mainland MoM**	**Dec**	**-0.2% (-0.3)**	**0.7%**
08:00	NO	GDP Mainland QoQ	4Q	1.3%	2.6%
11:00	EU	Industrial Production SA MoM	Dec	0.3%	2.3%
14:30	US	Retail Sales Advance MoM	Jan	1.8%	-1.9%
14:30	**US**	**Retail Sales Control Group**	**Jan**	**1.0%**	**-3.1%**
15:15	US	Manufacturing (SIC) Production	Jan	0.3%	-0.3%
16:00	US	Business Inventories	Dec	2.0%	1.3%
16:00	US	NAHB Housing Market Index	Feb	83	83
20:00	**US**	**FOMC Meeting Minutes**	**Jan-26**		
Thursday Feb 17					
10:00	**NO**	**Norges Bank expectation survey**	**Q1**		
14:30	US	Building Permits	Jan	1750k	1873k
14:30	US	Housing Starts	Jan	1700k	1702k
14:30	US	Initial Jobless Claims	Feb-12	218k	223k
14:30	US	Philadelphia Fed Business	Feb	20.4	23.2
08:00	SW	CPI YoY	Jan	3.6%	3.9%
08:00	SW	CPIF Excl. Energy YoY	Jan	2.0%	1.7%
18:00	**NO**	**Gov. Olsen, Norges Bank, speech**			
Friday Feb 18					
	NO	**Wage data, CPI f'casts. TBU**	**2022**		
08:00	UK	Retail Sales Inc Auto Fuel MoM	Jan	0.9%	-3.7%
16:00	US	Existing Home Sales	Jan	6.10m	6.18m
16:00	US	Leading Index	Jan	0.2%	0.8%
16:00	EU	Consumer Confidence	Feb A	-8	-8.5
Monday Feb 21					
01:30	JN	Jibun Bank Japan PMI Mfg	Feb P		55.4
01:30	JN	Jibun Bank Japan PMI Services	Feb P		47.6
02:30	CN	New Home Prices MoM	Jan		-0.28%

- **USA**
  - » **FOMC minutes** can not impossible be even more hawkish than markets are now? At the press conference, Powell probably gave a balanced picture of FOMC's stance, so this time, no surprise?
  - » **Retail sales** 'collapsed' in December, to a large extent due to a setback in net sales. A partial recovery is expected in January, which seems likely
  - » Will housing starts and existing home sales give any hint that the increase in mortgage rates through January has hurt demand? We think not
  - » **Manufacturing production** has not been impressive, a reversal of the Dec decline is expected in January. The first February **manuf. surveys** are also published
- **UK**
  - » Core inflation is expected slightly up in January – and far less than BoE fear for the coming months
- **Sweden**
  - » Core inflation is expected up in January, to 2%, close to the Riksbank's forecast. The bank expect a further increase to almost 2.5% during the spring
- **Norway**
  - » We expect **Mainland GDP** to contract by 0.3%, even if electricity production rose in December. Hotels & restaurants, transport & culture were hurt by Covid restrictions – which are now finally lifted
  - » **Norges Bank's expectation survey** (not the Network) will probably report higher inflation expectations
  - » We expect the **TBU** (Technical committee on wage formation) to report a 3.5% growth in wages in 2021, and to assume a 2.5% average 2022 inflation rate (of course depending on the chosen path for electricity prices). If so, not an 'impossible' starting point for the wage negotiations later in the spring
  - » **Norge Bank's** outgoing governor Olsen will deliver his last annual address at Thursday. Do not expect any new policy signals
- **And (hopefully not) Ukraine**

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

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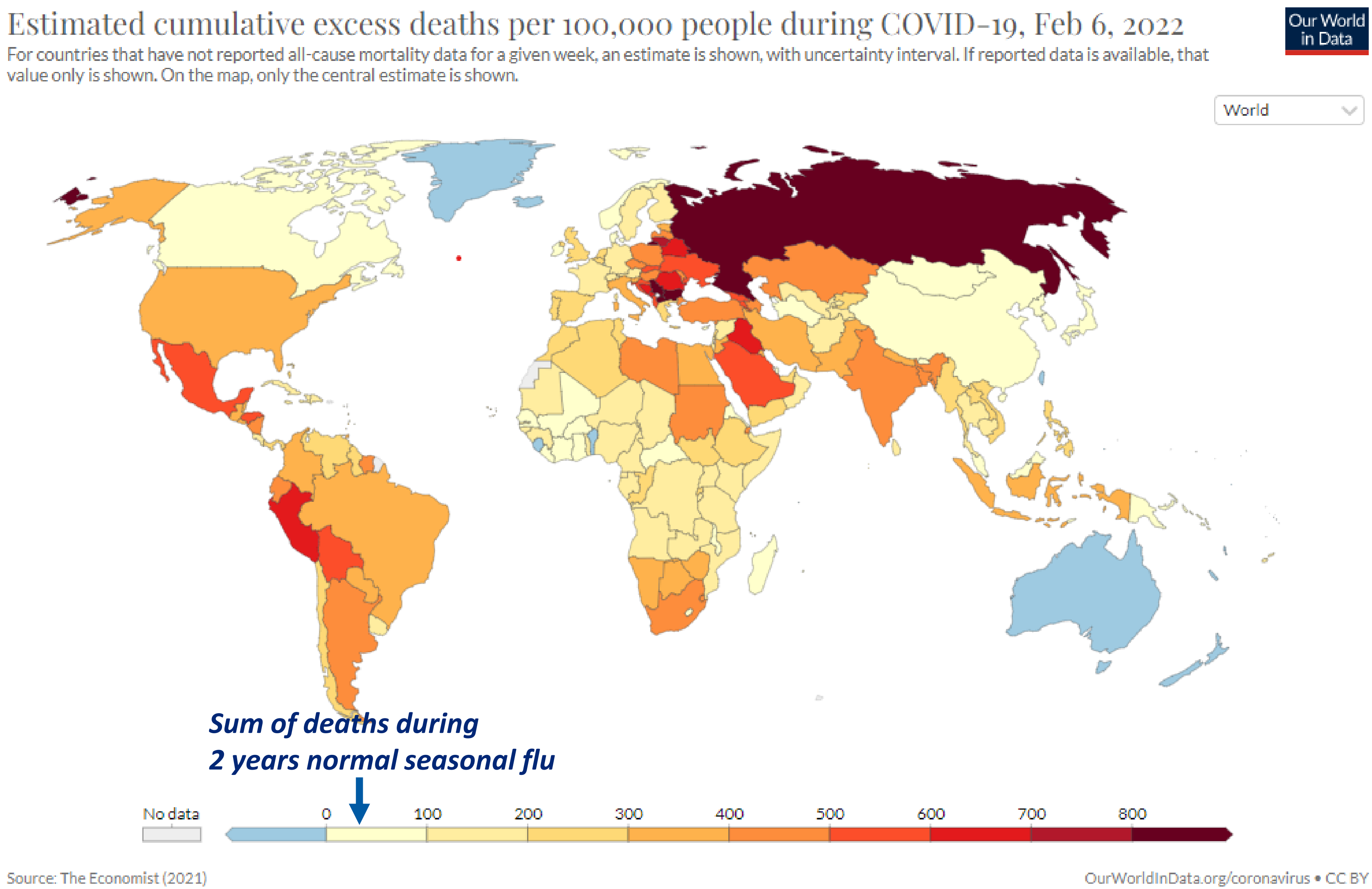
This was not an ordinary flu. It was a real, rather deadly pandemic



Our World in Data

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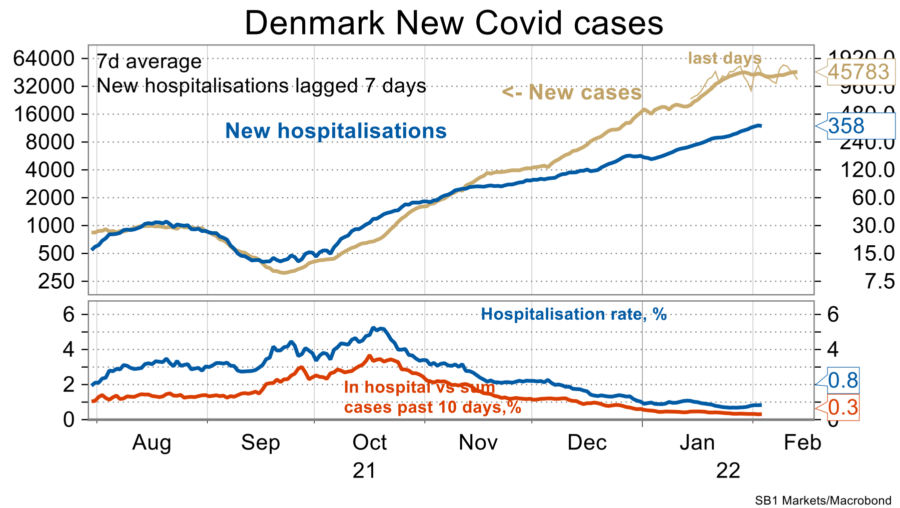
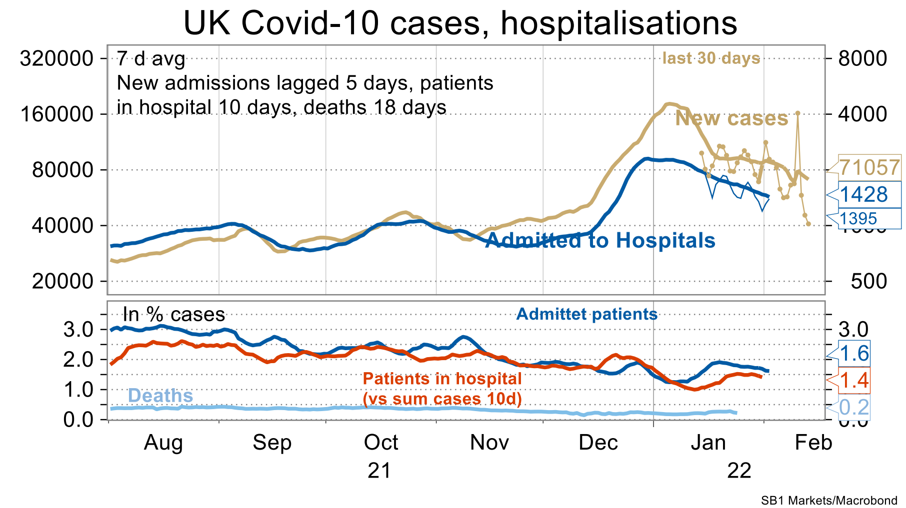
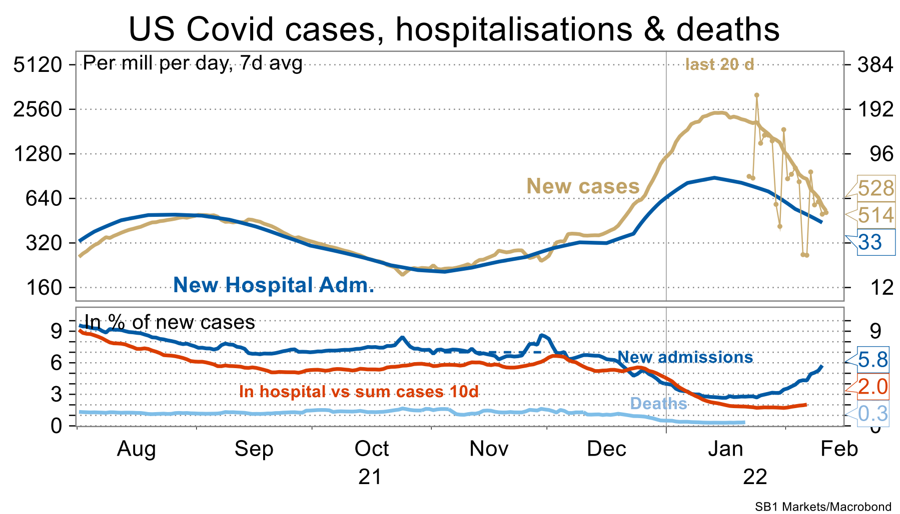
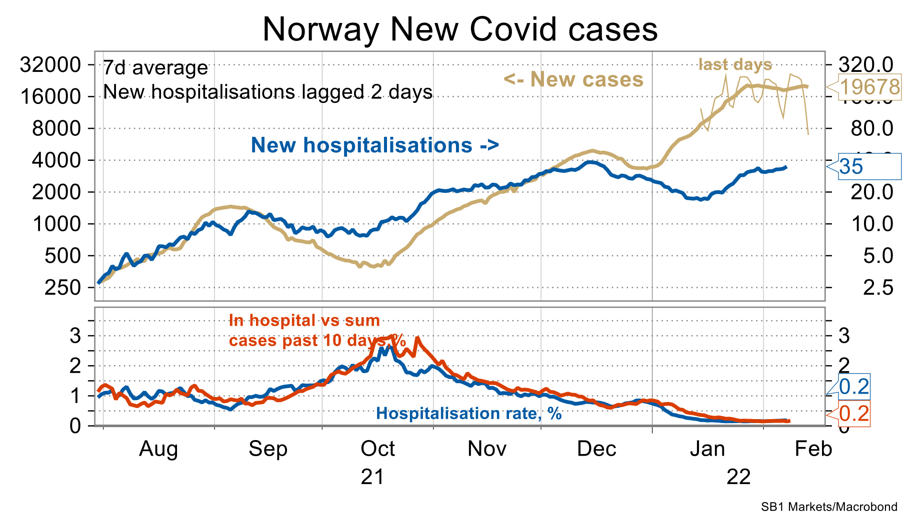
Case counting has become less relevant & realiable: But they are heading down

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









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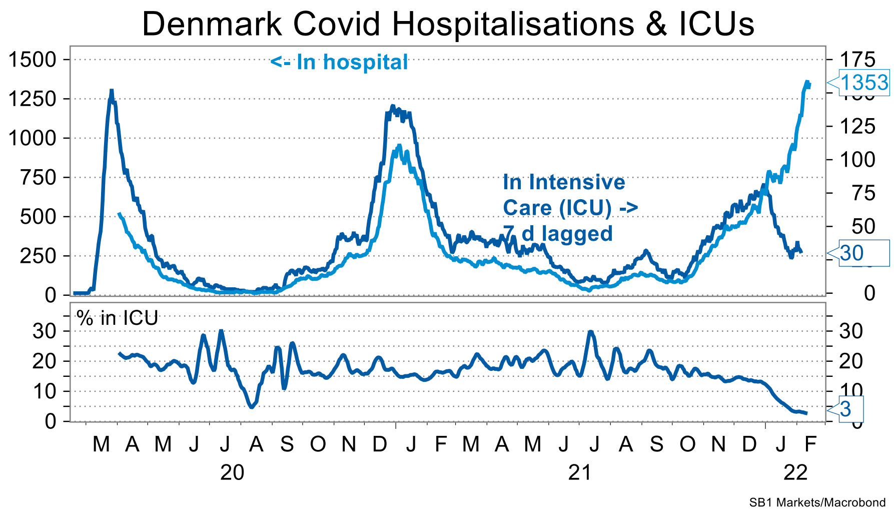
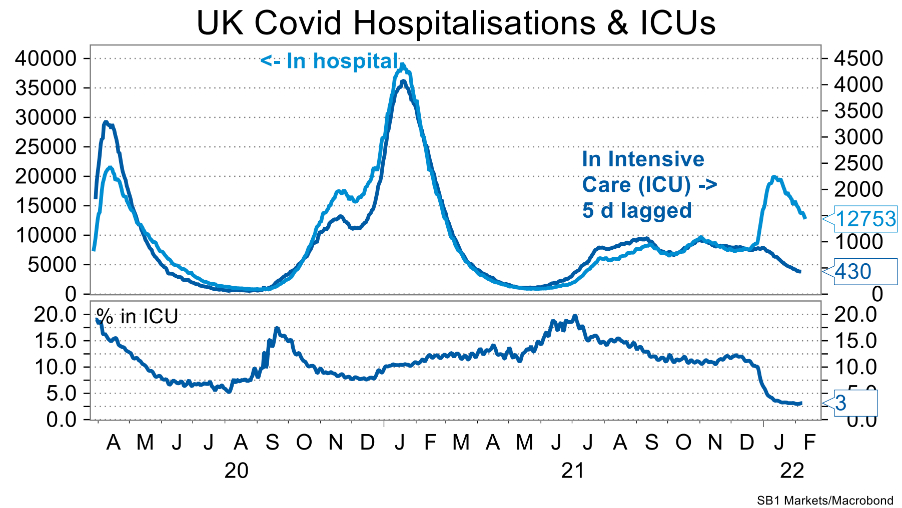
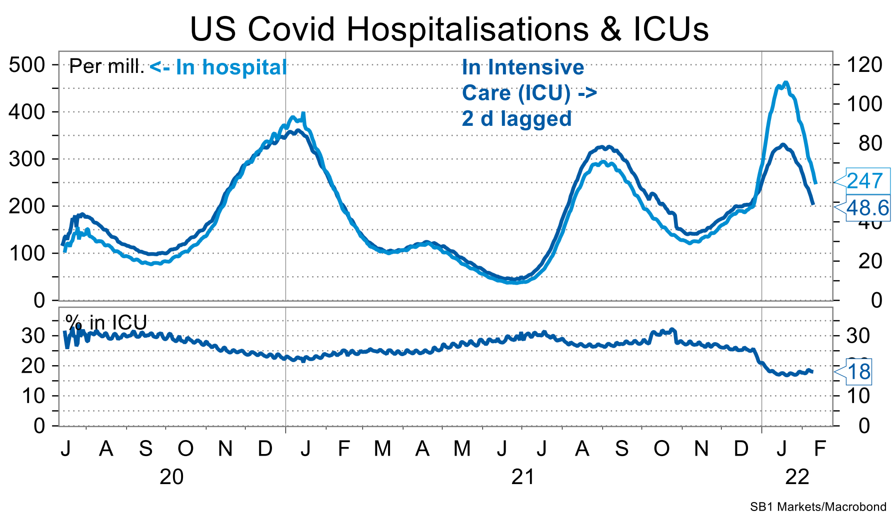
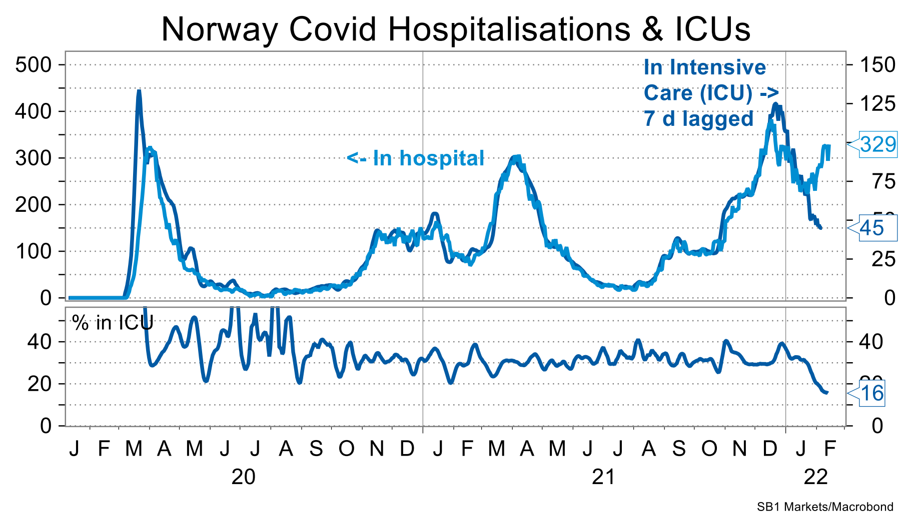
Hospital beds are filled up in Denmark but not in the ICUs

A steady decline in hospitalisations and ICU beds in UK & US. More patients in Norway, but ICUs down

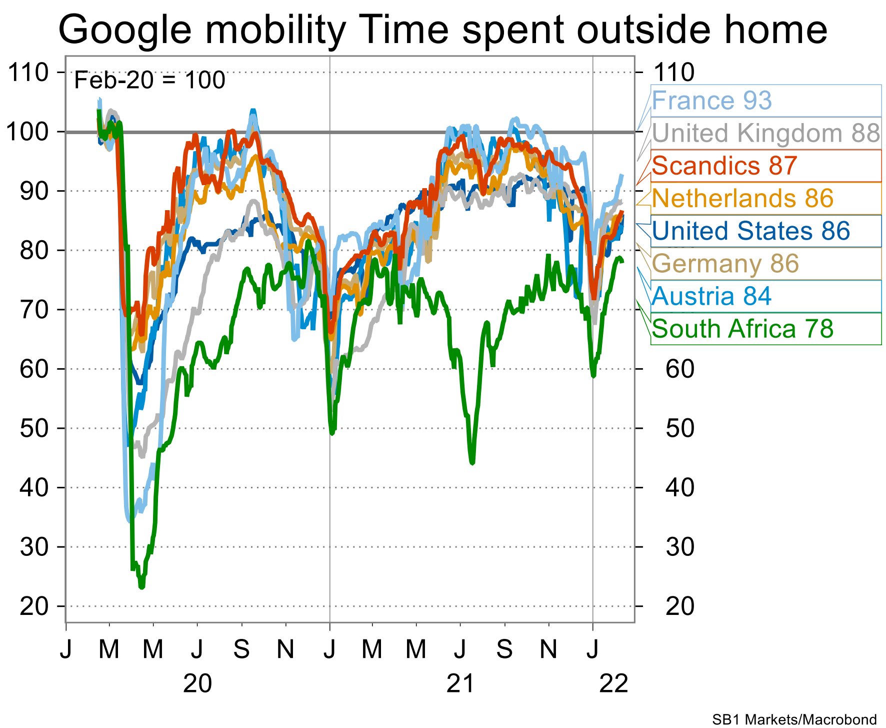


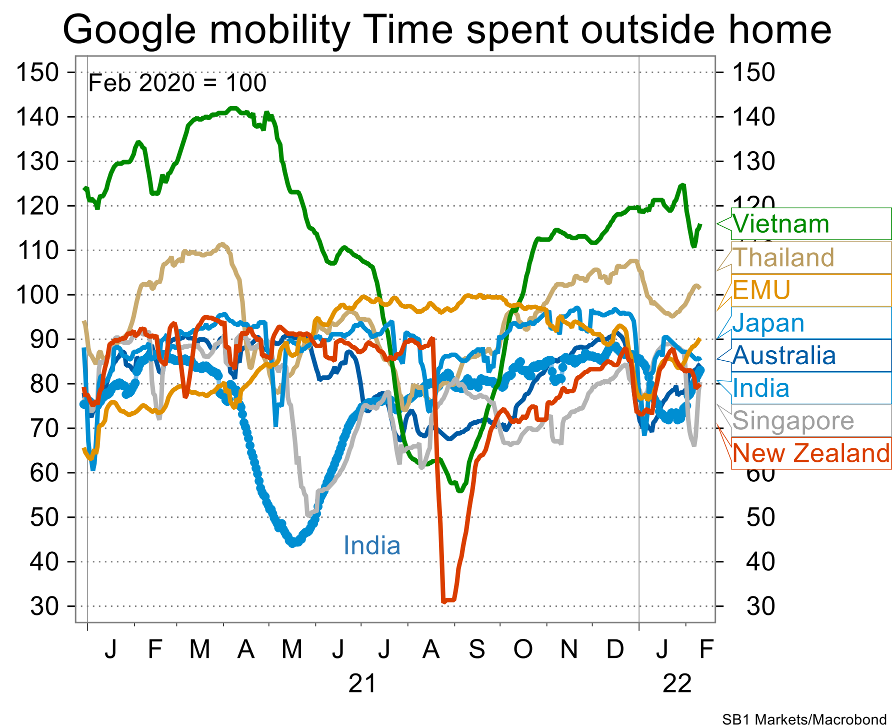






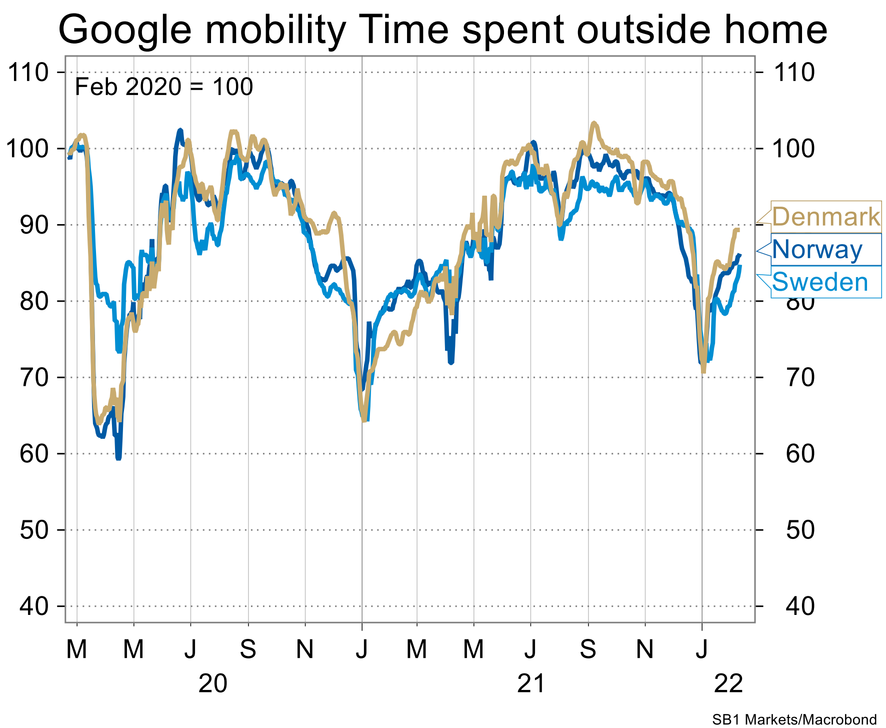
Mobility on the way up in the West, some challenges in the East?

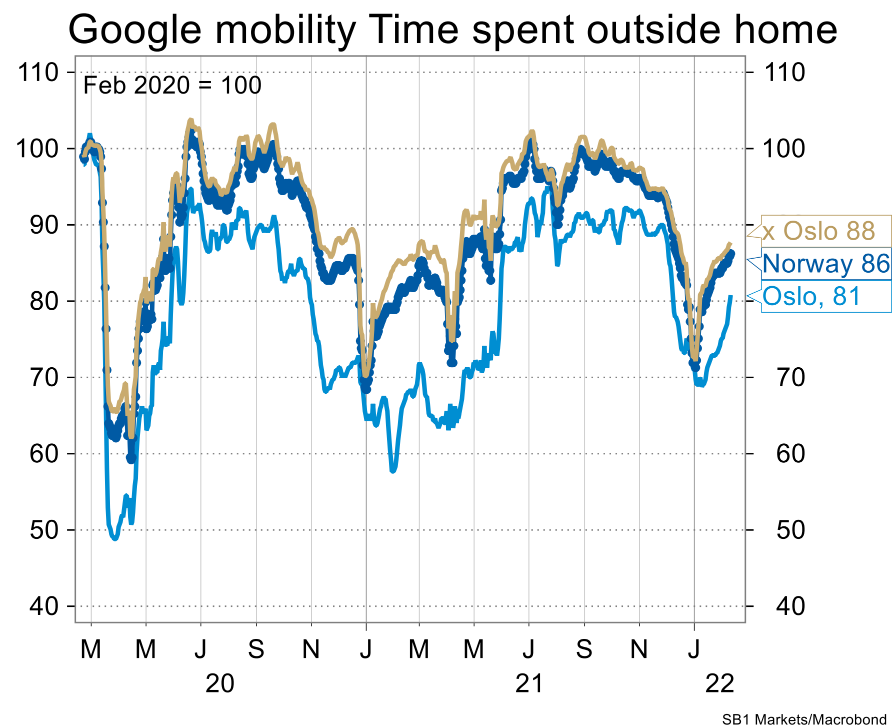




Mobility is on the way up in the Scandics, and in all parts of Norway

For good reasons





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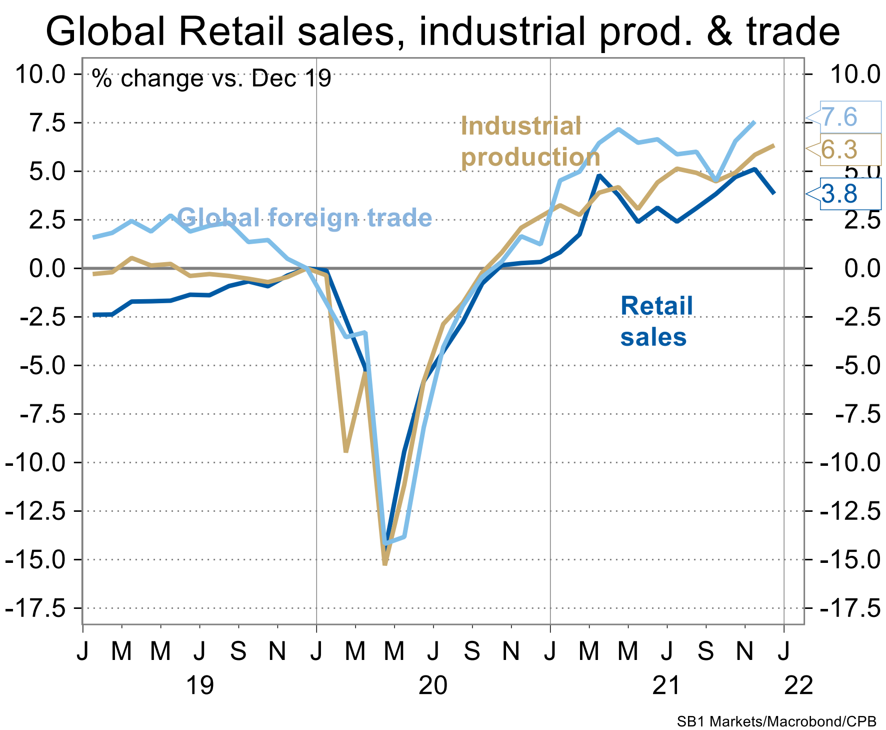
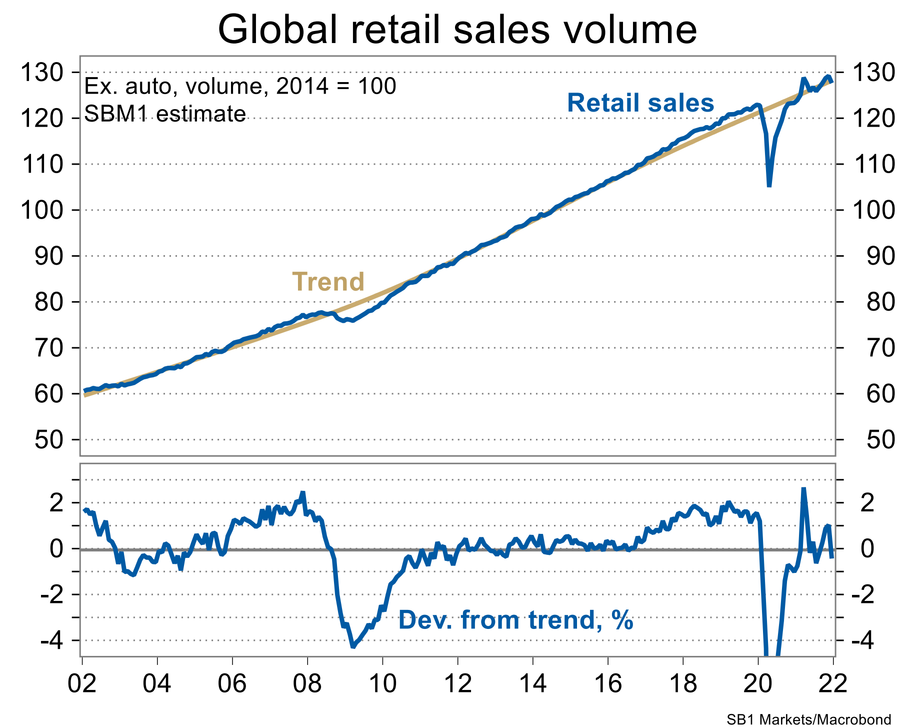
Global retail sales fell (at least) 1.2% in Dec, rich countries down 3%

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





- **Global retail sales** very likely fell sharply in December, as sales fell some 3% in the rich part of the world – and unusually 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

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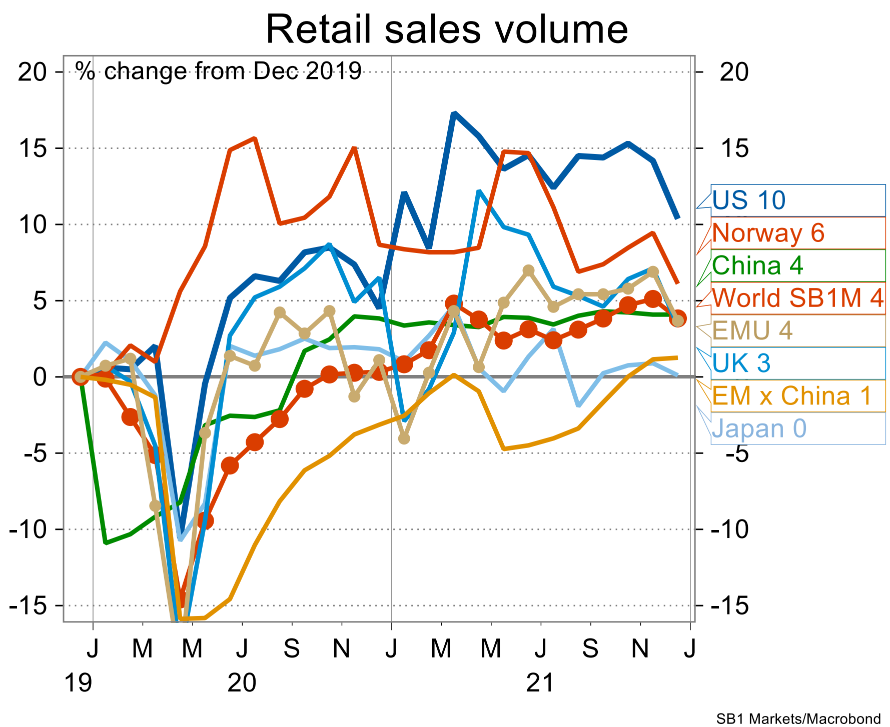
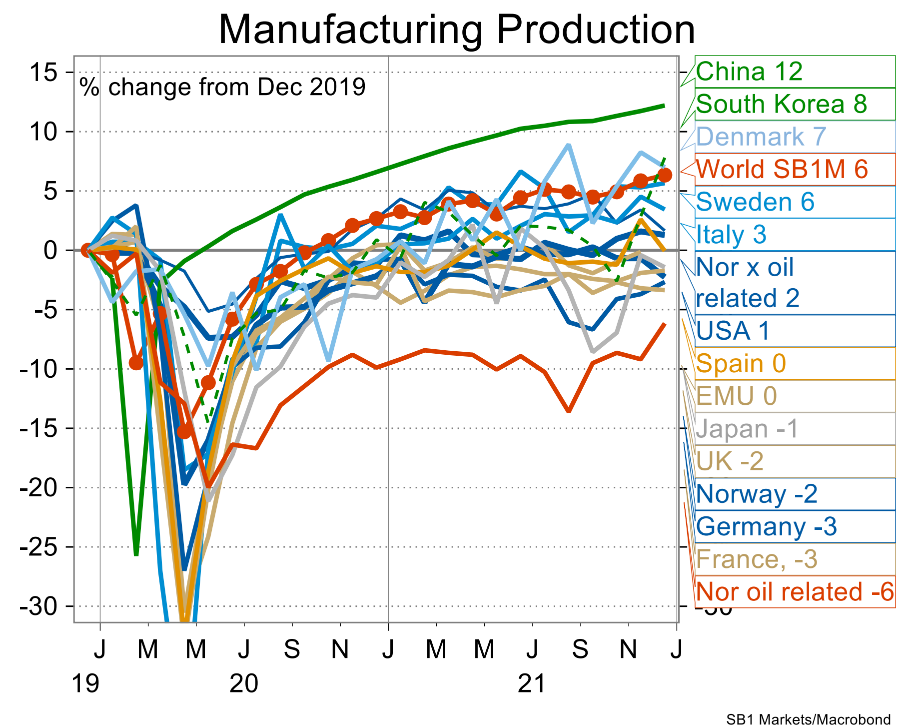
DM demand for consumer down in Dec – sales in EM are on the way up

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

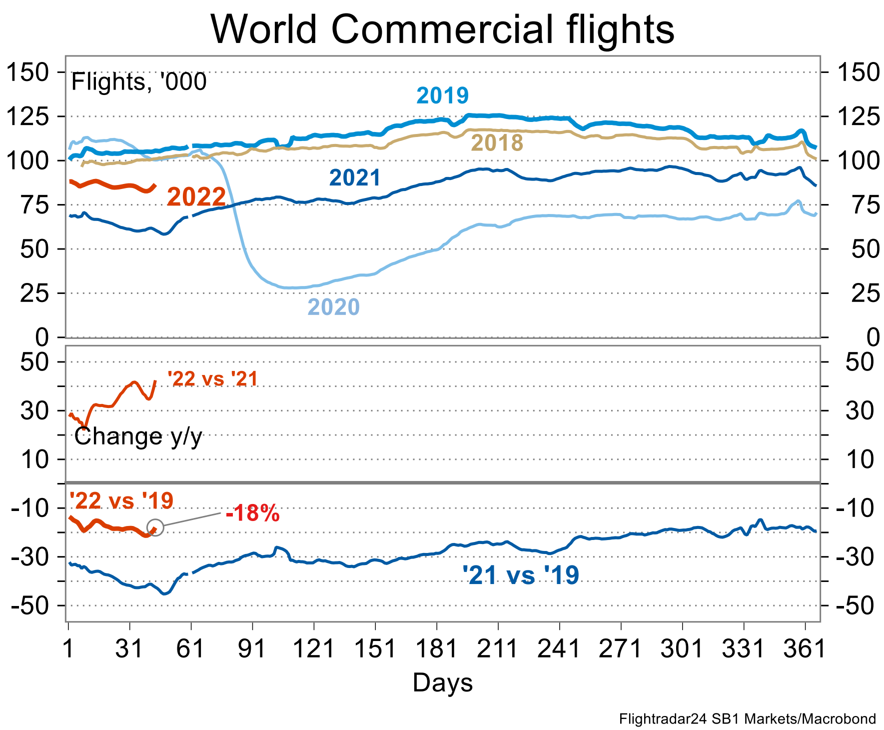


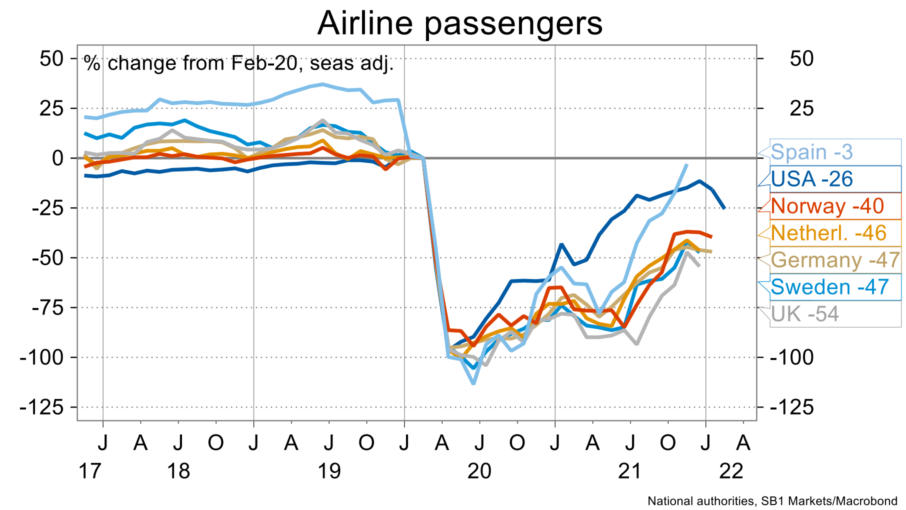


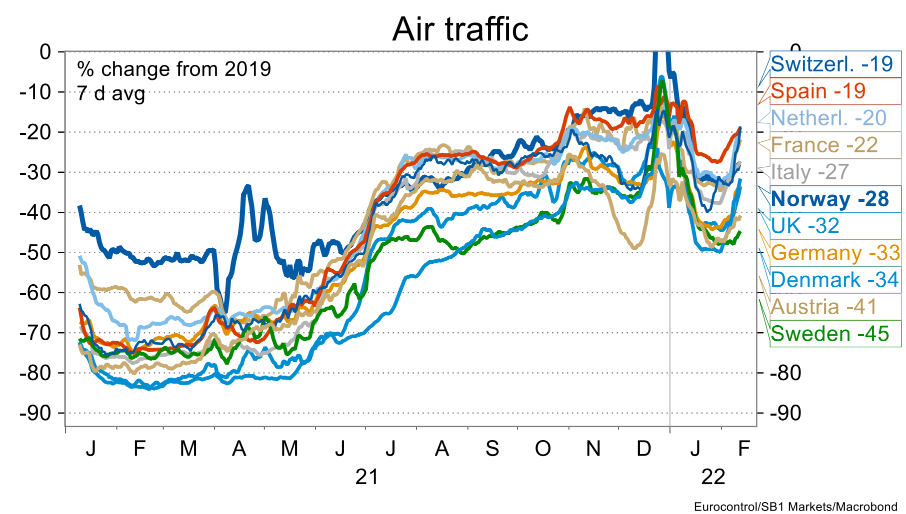
- **Retail sales** in Emerging Markets x China are recovering but is far below pre-pandemic trends. The Dec estimate is rather uncertain
- **Manufacturing production** has been hampered by a deep decline in auto production, but this sector is now recovering. The manufacturing PMIs are still strong, and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

Global airline traffic slightly up last week, still down 18% vs 2019

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

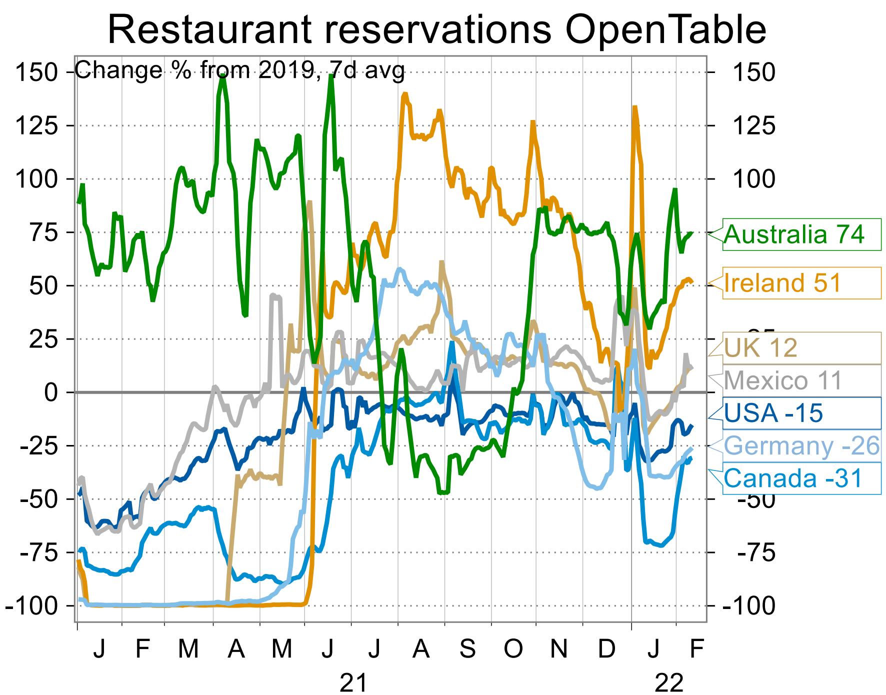


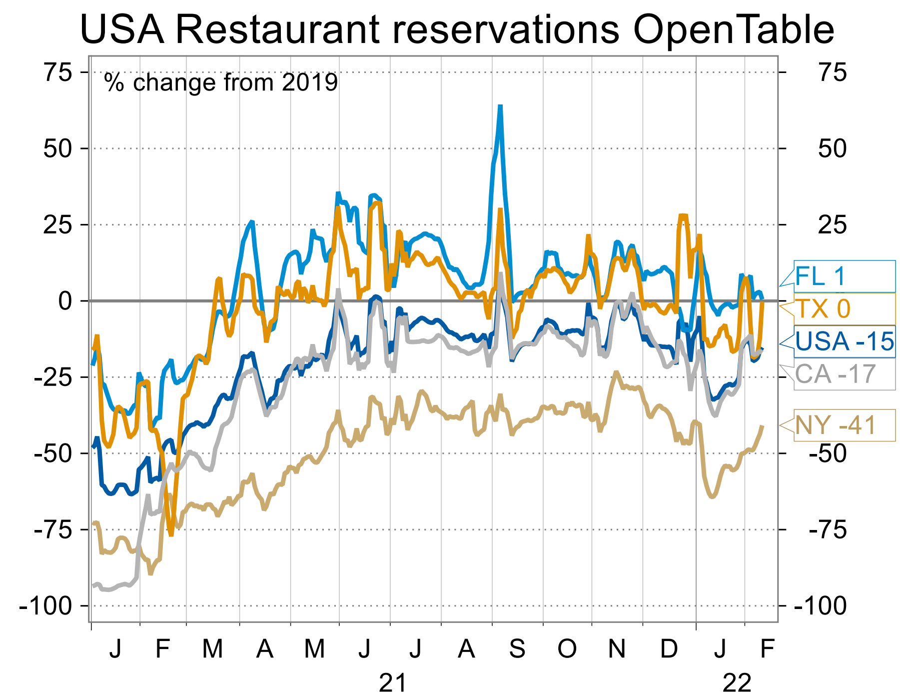




- Until November, strong growth in no. of passengers in Europe, and the gap vs the US was reduced
- The fight against the Delta reduced aircraft movements in Europe somewhat, and the Omicron may create more havoc for a while

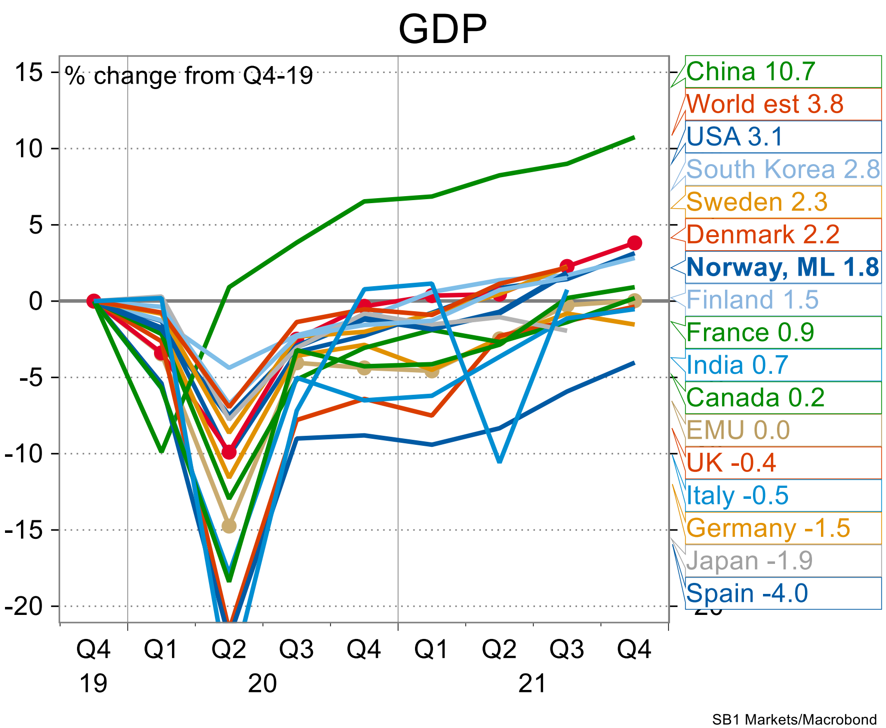
More restaurant guests most places?

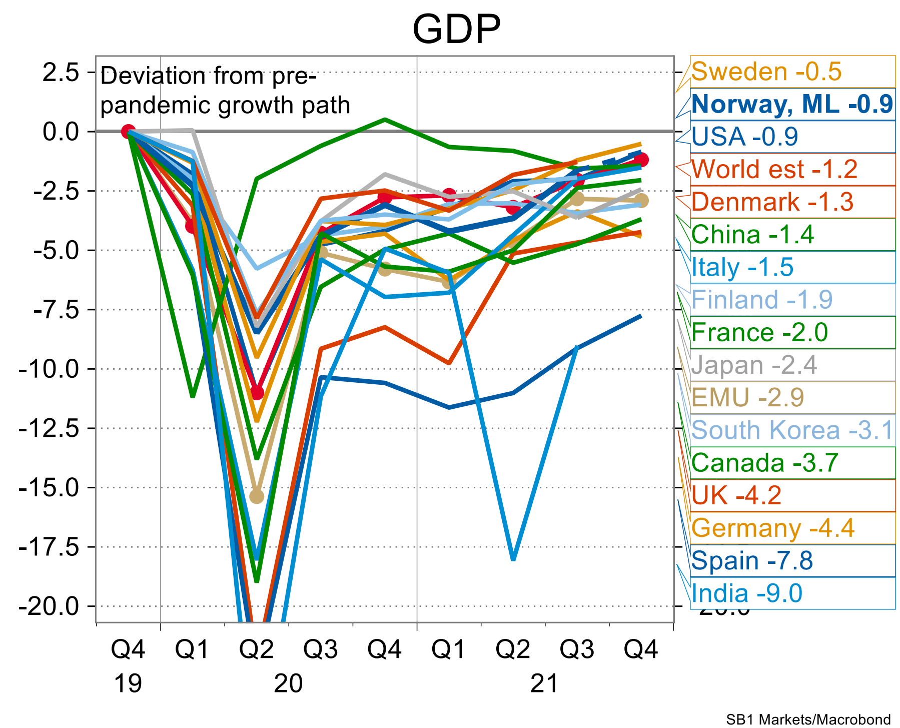




Strong growth in Q4 too, GDP is up 3.8% vs the pre-pandemic level

.. But still 1.2% below the p-p trend growth path

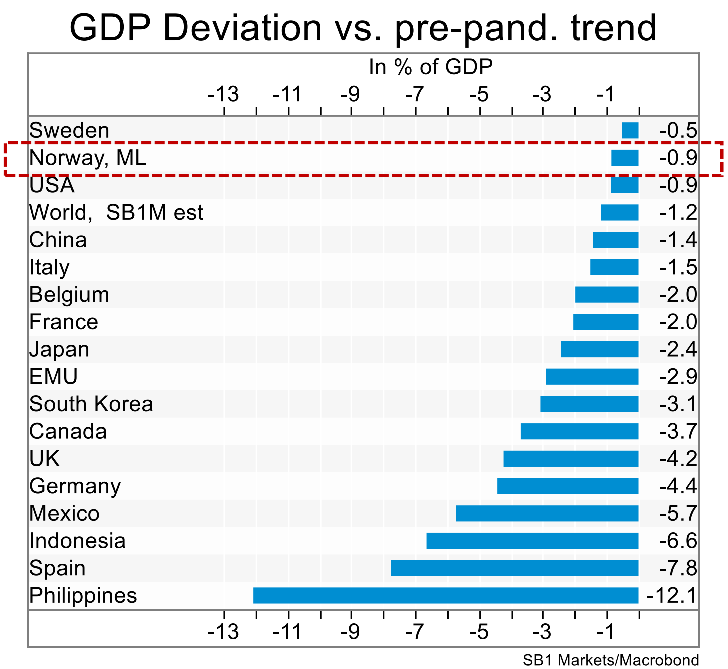


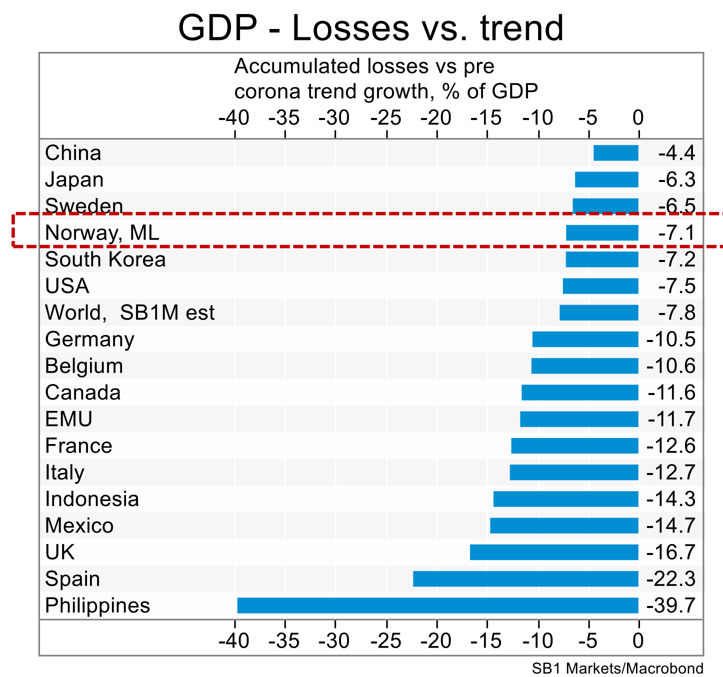


- Most countries have reported decent growth in Q4
- Some estimates are included at the charts above (but both Denmark and Finland are represented with their Q3 GDP data)

GDP still below the pre-pandemic trend growth paths everywhere (with Q4 data)

… and accumulated losses are substantial in most countries





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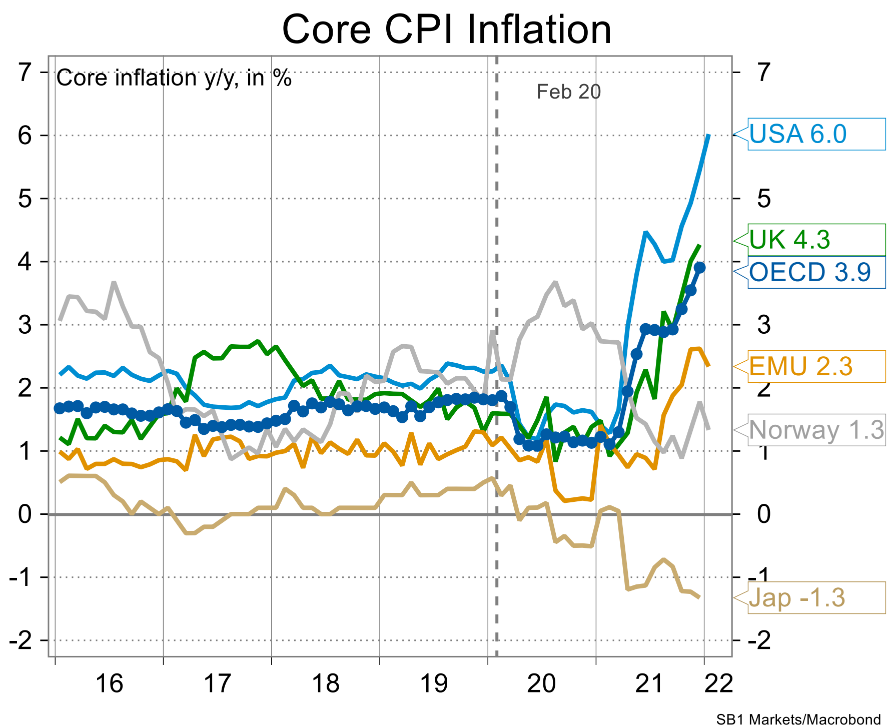
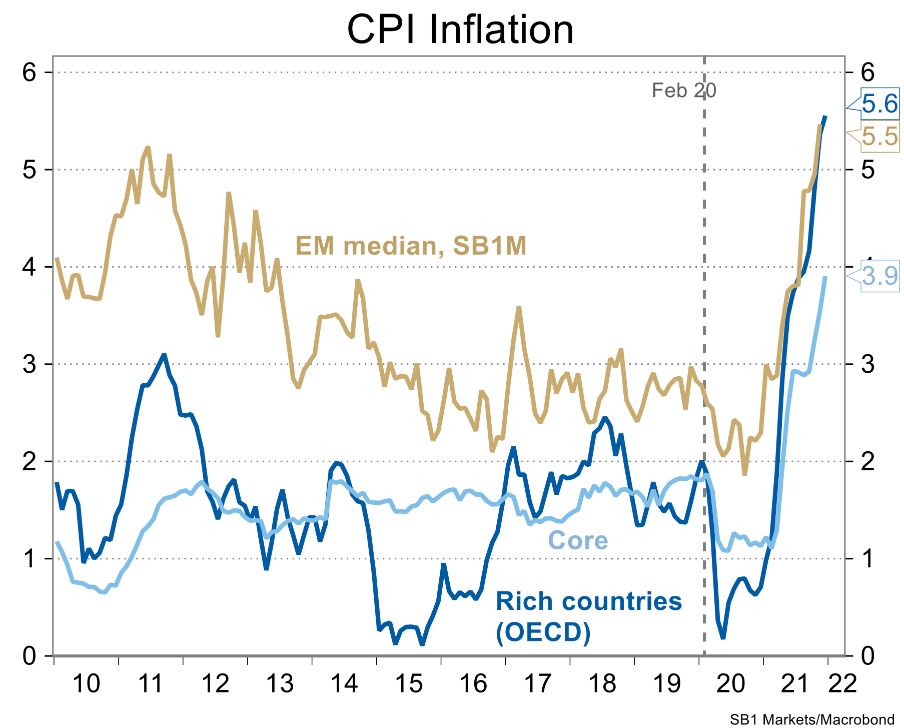
Inflation may be peaking ~~now~~ soon – at a high level

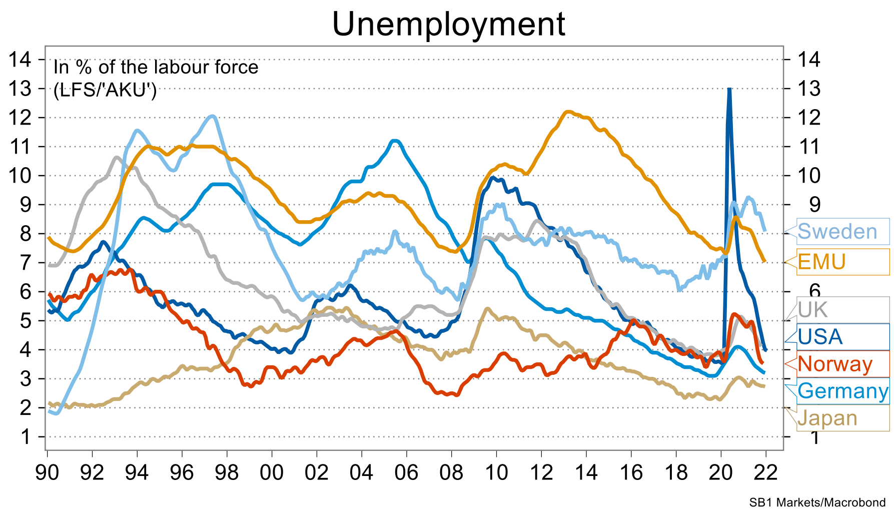
Energy prices the main culprit, but core inflation has turned up most places

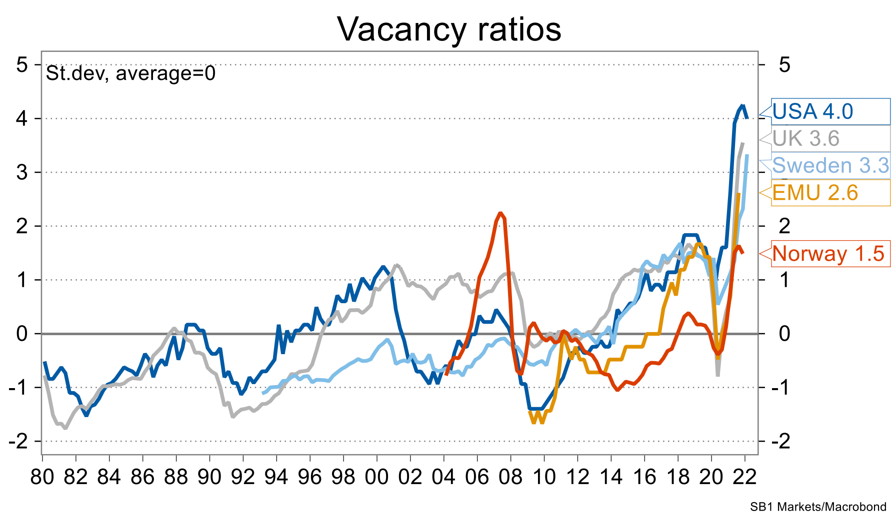


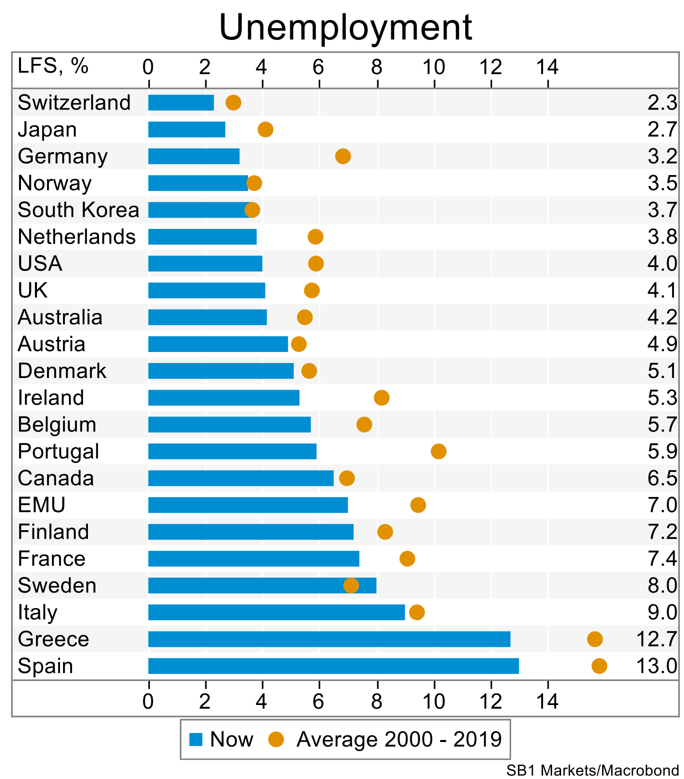


Unemployment on the way down everywhere, as unfilled vacancies soar

Unemployment is on par or lower than average since 2000 in 21 out of rich 22 countries!



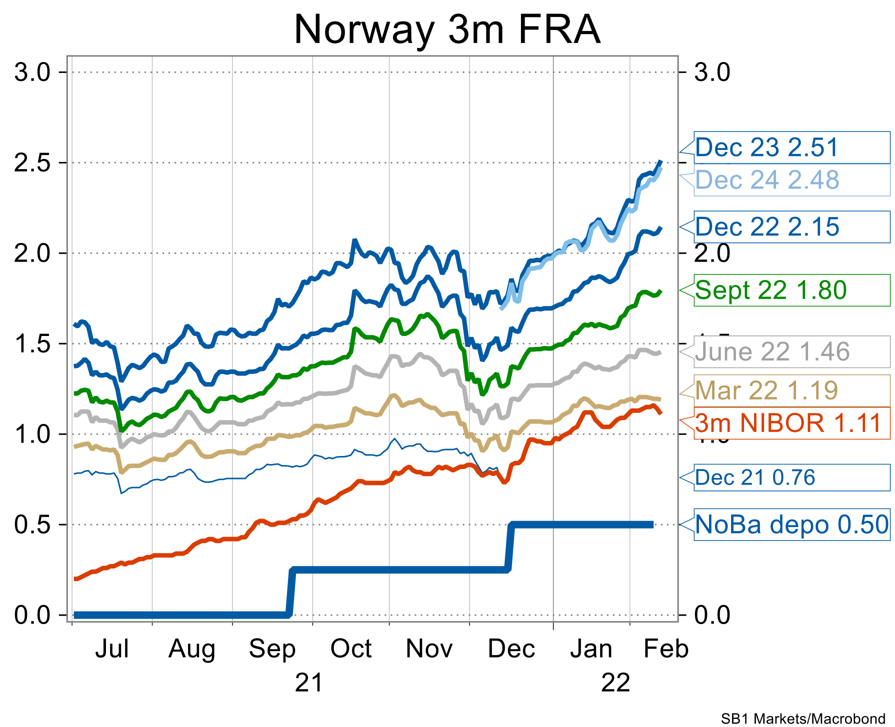


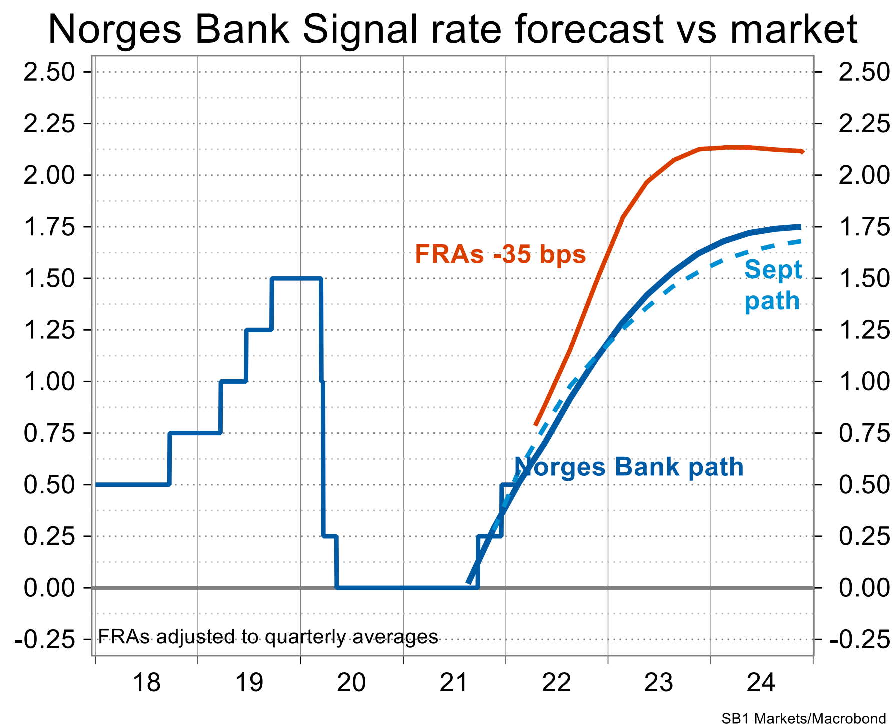


- Almost all countries report lower **unemployment rates** than the 2000 – 2019 average – with Sweden as the only exception
- At the same time, **vacancy rates** are record high or among the highest ever ‘everywhere’

FRAs up by up to 10 bps last week, the more than 50 bpd above NoBa's Dec path

Can Norges Bank afford to be more patient than the Federal Reserve? Check next page!

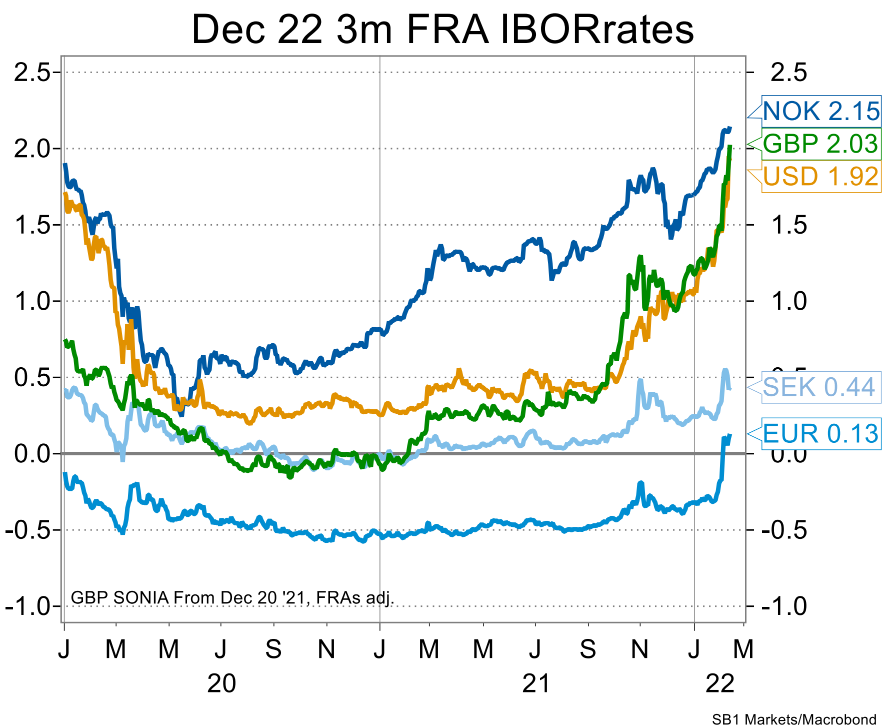


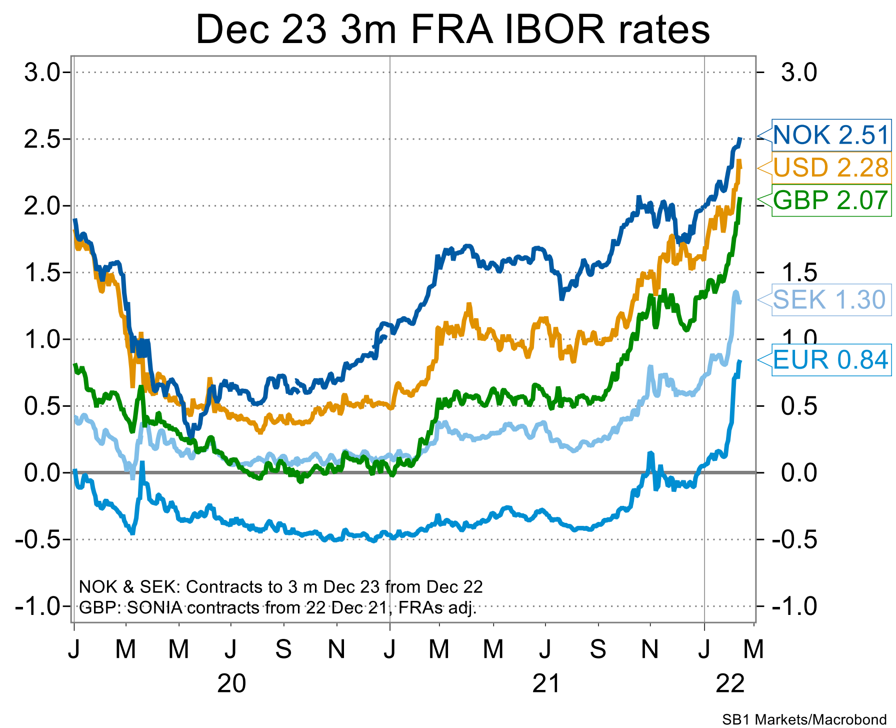


- Market FRAs are now discounting a much steeper interest rate path than NoBa presented in December – or the expected NIBOR spread widened substantially – which we deem unlikely
- If NoBa hikes March 24 (by 25 bps, and not in May), the average NoBa rate will be 0.73% in the March FRA period
- Thus, the **March-22 3 m** contract at 1.19% implies 100% probability for a 25 hike with a 46 bps NIBOR spread.
  - If a 35 bps spread is assumed, almost a 50% probability for a 50 bps hike or if 25 bps in March, an even higher probability for a May hike
  - Most likely, the NIBOR spreads is expected be higher than 35 bps, but below 46 bps – and a the probability for a 50 bps March/25 May hike is well below 50%
- The June contract at 1.46% captures a lot of scenarios, in sum a material – but well below 50% probability for a June signal rate at 1.25%
- The market expects 1.5 – 1.75 bps signal rate in December, at a peak at 2-2.25% in late 2023

Norway's pole position is threatened!

In reality UK is ahead of us, and US close, adjusted for respective normal money market spreads





- FRA rates rose by up to 30 bps in both UK and US last week, in the US mostly due to the CPI report – and some bearish comments from FOMC's Bullard
  - » In UK, we are graphing the SONIA rate, which is 5 bps below BoE's Bank rate The USD LIBOR OIS spread is volatile but has been at some 10 bps the recent few years. In Norway the NIBOR/FRA rates are some 35 above NoBa's deposit rate. The UK signal rate is now expected above NoBa's rate, and the US is just marginally behind

SpareBank 1 MARKETS

US vs. Norway: The need for as monetary policy tightening

Less need for tightening in Norway, and households' response to higher short term rates far stronger

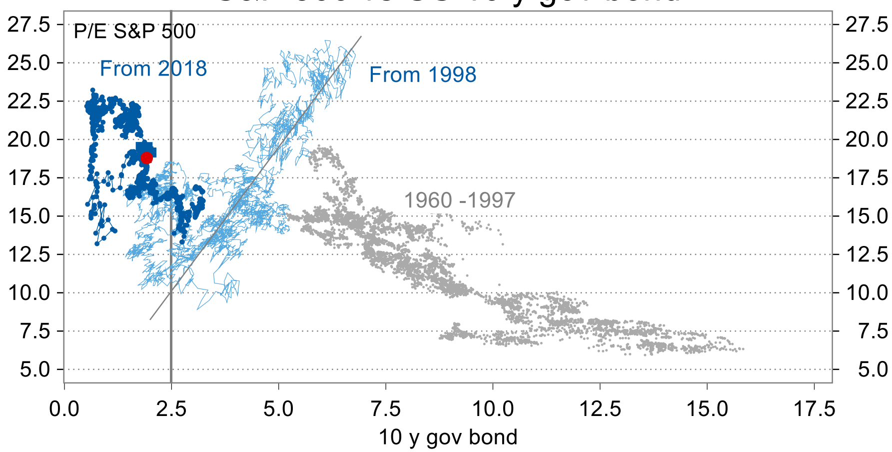
	USA	Norway
Inflation	Total 7.5%/core 6%	Total 3.1%, core 1.3%
Inflation expectations	Market 2,4%, households 3%+	Very likely not higher
Employment rate	Still below par	Well above the p-p level
Unemployment	Close to record low	Below average
Vacancies	Record high	High
Wage inflation	Accelerating rapidly	Accelerating slowly
House prices	Up 30% from Q4-19 Up 18% y/y now	Up 16% from Q4-19 Up 6% y/y now
Household debt	To 7% y/y from 3%	Unch at 5%
Househ. debt/inc. Ratio (vs. impact of higher short term rates)	>100%, from 135% in '08	246%, from 196% in '08
Floating or fixed mortgage rates	Fixed	Floating

- US has a majority of the 'red' cells – in favour of a faster monetary thightening
  - » The economy is 'hotter'
  - » The impact of higher rates will be stronger in Norway than in the US

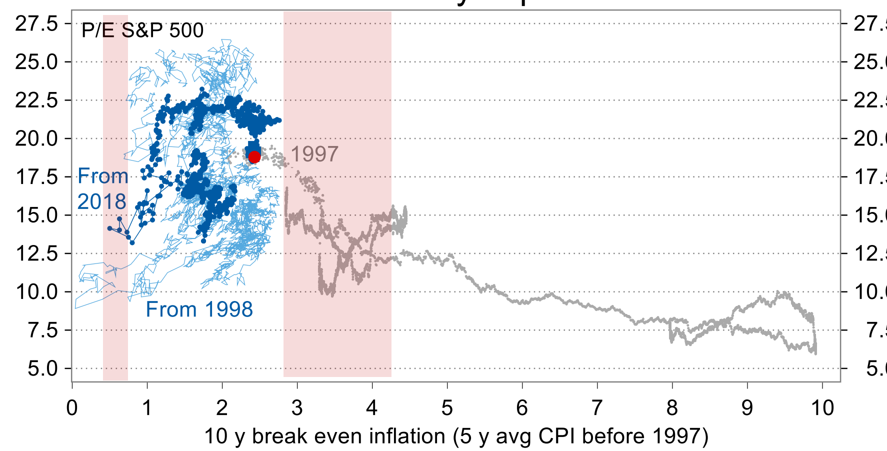
Bonds vs. equities: What's next?

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

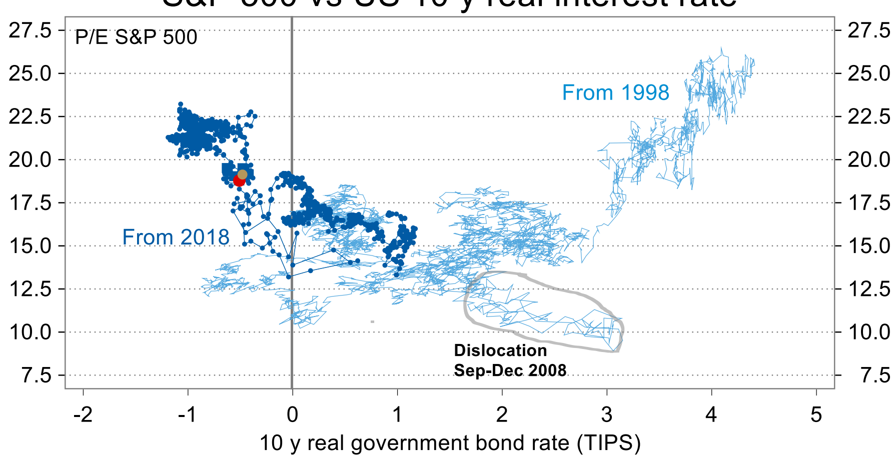
S&P 500 vs US 10 y gov bond



S&P 500 vs US 10 y expected inflation



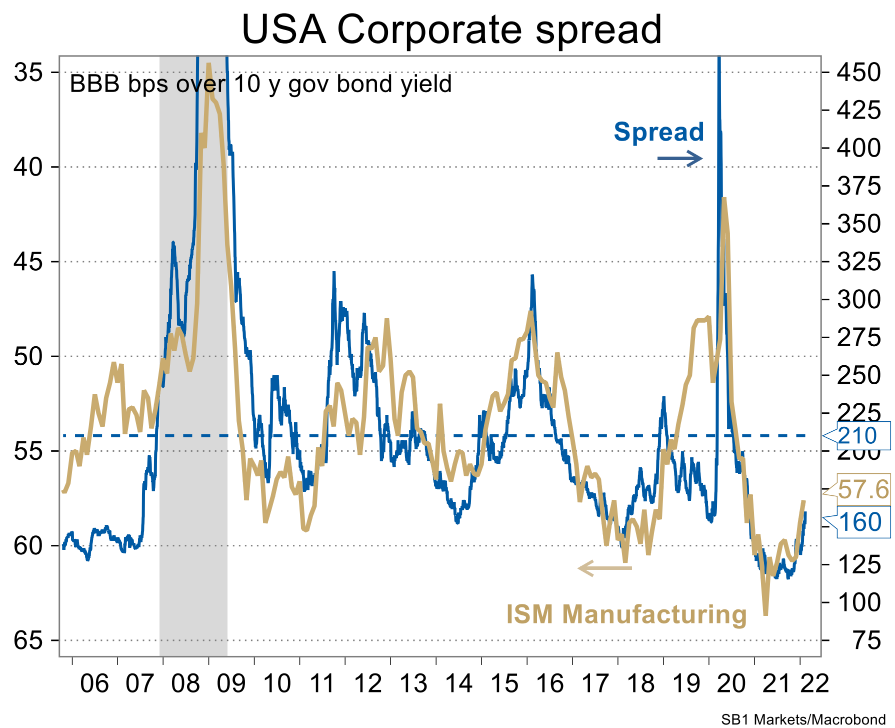
S&P 500 vs US 10 y real interest rate



- **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? Luckily, multiples has come down quite a lot

It could be the economy, stupid

Growth has to be slowed to get inflation under control. If that happens…

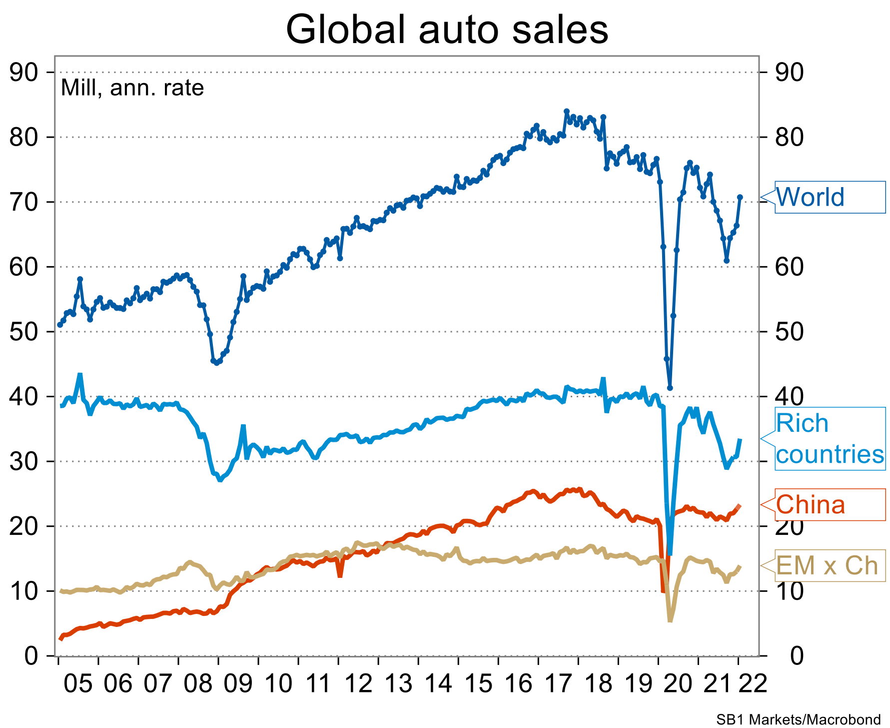


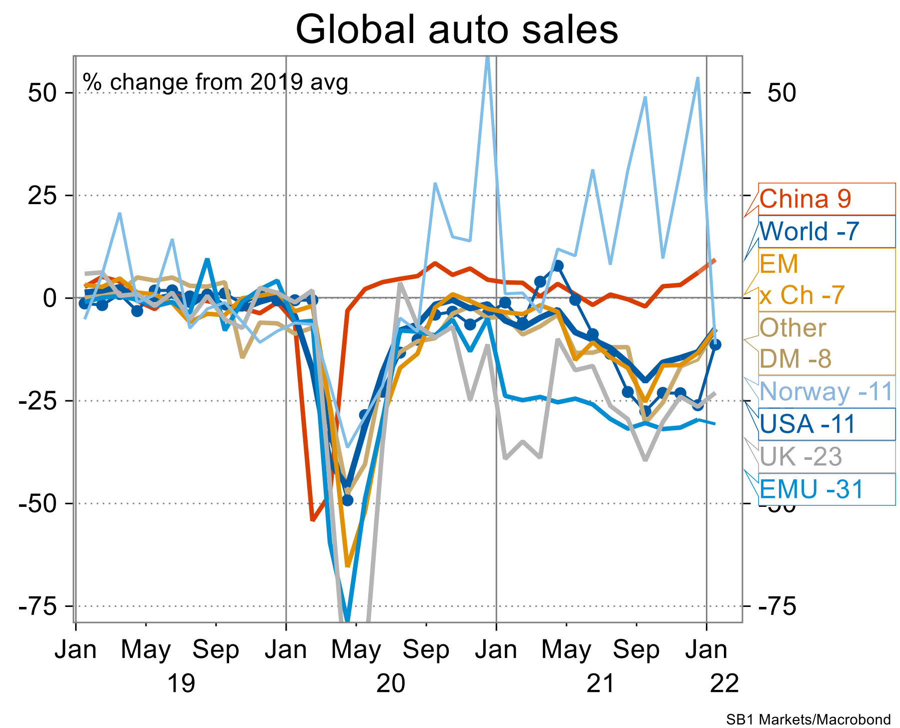
- Growth has already slowed somewhat, according to the US manufacturing ISM

SpareBank 1 MARKETS

Auto sales are recovering, are 'just' 7% below the 2019 level

Sales rose sharply in the US, in EM x China, and probably in China as well

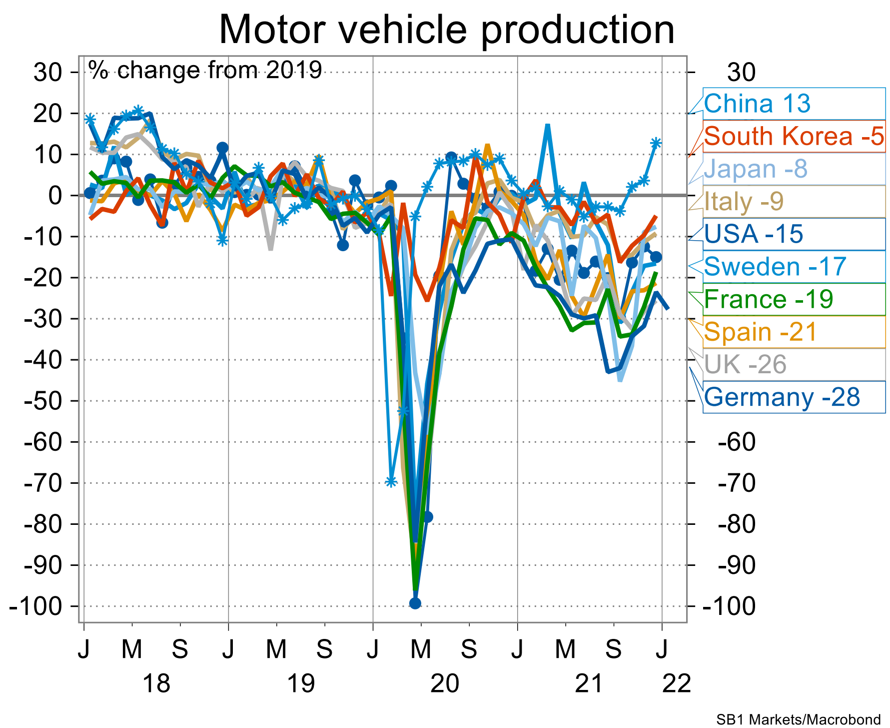




- **Global sales** rose by almost 7% m/m, according to our initial calculations (some countries have not yet reported, among them China). Sales are down 7% vs. the average 2019 level, up from -21% at the bottom last September
- **US** contributed most at the upside, up to -11% vs. the '19 level. Sales in **EMU** probably declined slightly, down 31%
- Sales in **China** are trending slightly upwards, and preliminary data suggest a further increase in January – and sales may be 9% above the 2019 level
- Several other **Emerging markets** also reported stronger sales in January, we estimate 8% shortfall vs. '19
- **Norwegian** sales fell sharply following the record high level in December
- **Auto production** is now recovering, especially in Germany

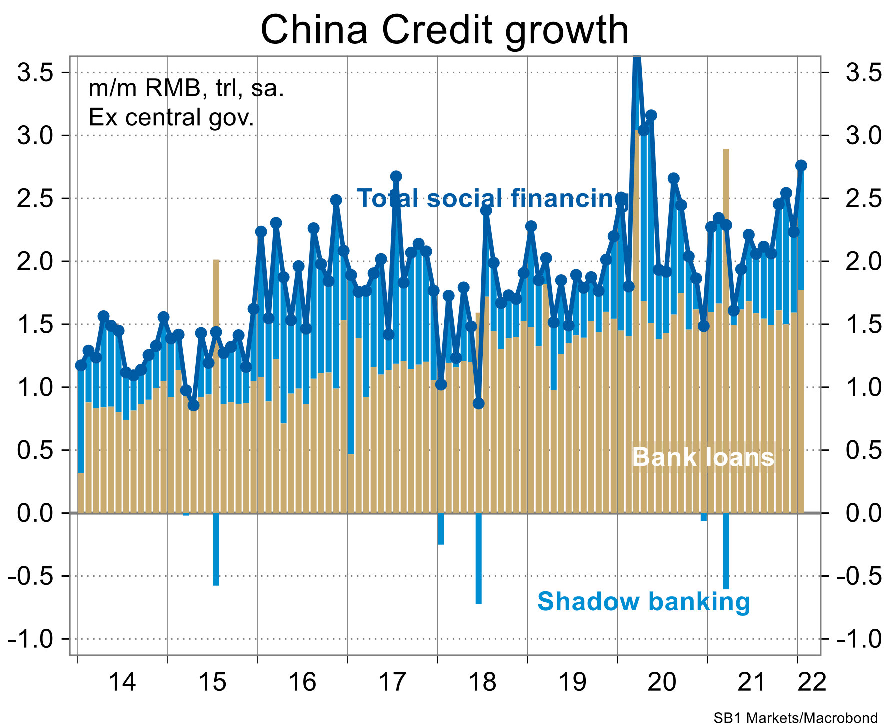
Auto production on the way up!

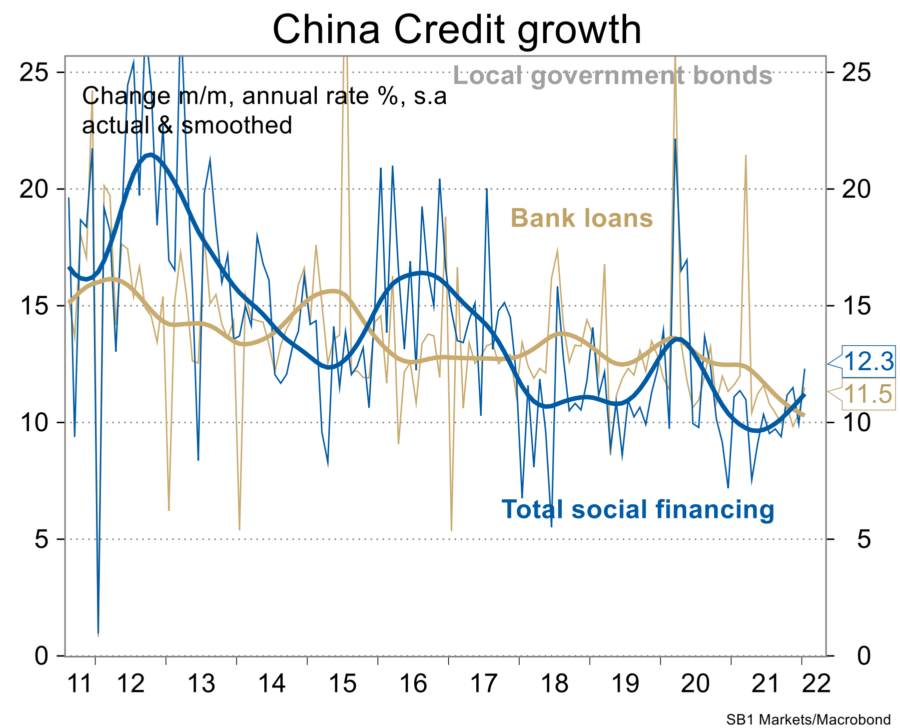
Germany just 4% below the '19 level, was down 43%! China is 13% above, from -4%



Credit growth is accelerating, somebody must have done something

Local gov. are issuing more bonds to compensate for slower land sales? 2 more signal rates cut today

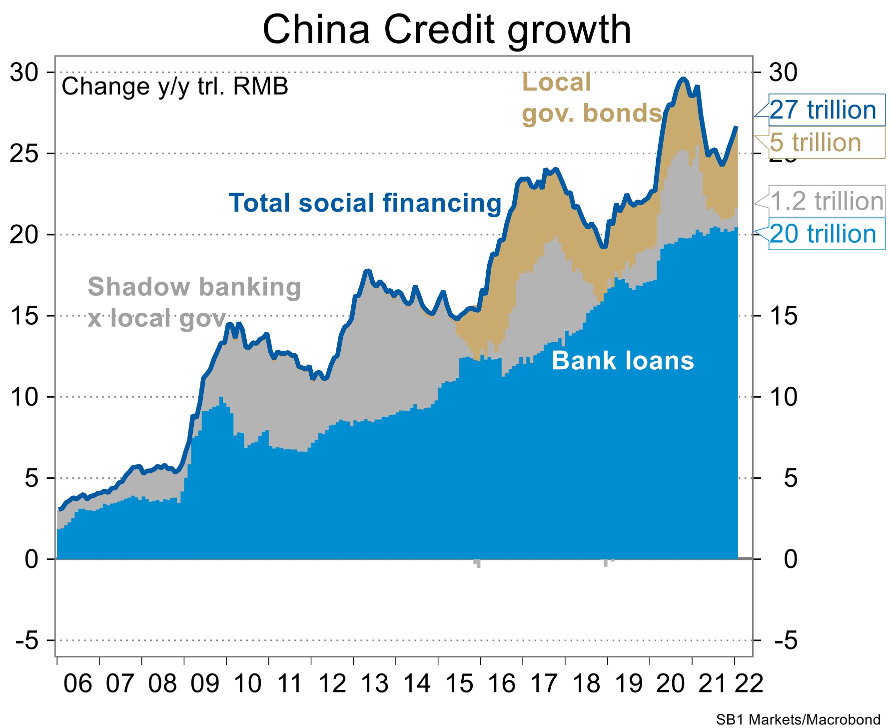


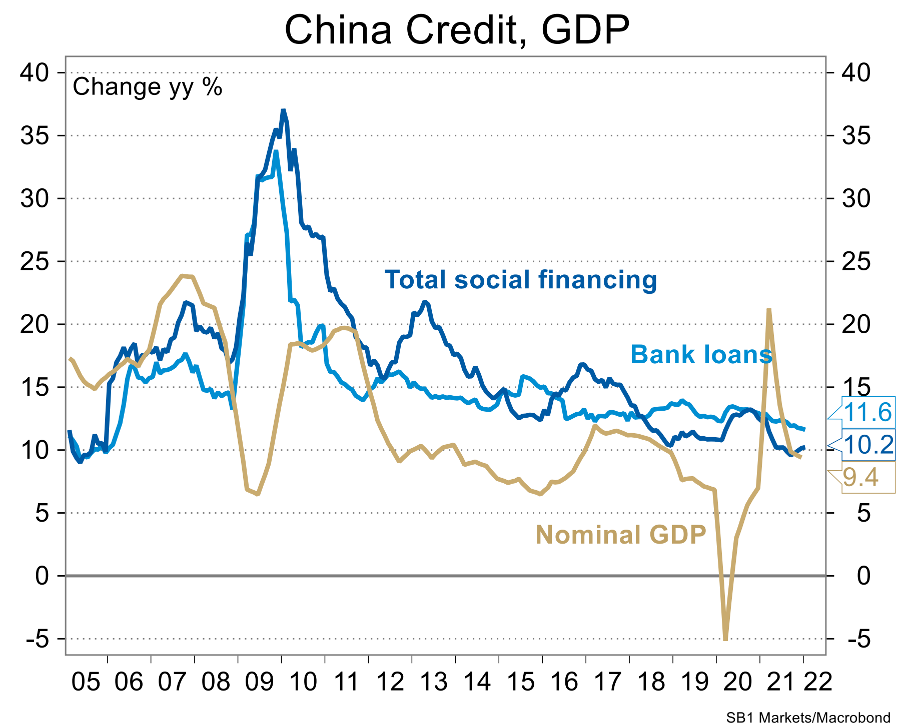


- **Total credit** grew at a 12.4% rate in Jan (m/m, seas. adj. annualised), up from 10% in Dec. The underlying growth at some 11% is above the trend growth in nominal GDP (say 5.5% real growth, 2% price inflation). The annual rate was unchanged at 10.2%
- **Total credit** rose by RMB 6.2 trl, expected 5.4 trl (not seas. adj). The 'core' total social credit (total ex central gov bonds & corporate equites) grew by 2.8 trl (seas adj), the highest since April 20, up from from 2.2 trl in Dec. The problems in the building sector has not so far created problems at rest of the credit market – at least after measured have been taken by the authorities
  - » **Bank loans** rose by RMB 1.7 trl, s.a, or at a 11.5% annualised pace – above expectations. Loans are up 11.6% y/y, higher than the growth rate the previous months
  - » **Shadow banking credit** rose by RMB 1 trl, well above the average growth rate through 2021. **Local governments** were responsible half of the (net) uptake, and they have been borrowing more than normal recent months, very likely to compensate for the decline in revenues from sale of land to builders - or in order to finance unfinished building projects
- Annual credit growth rates have not turned up but the 'underlying' credit cycle has – credit growth has accelerated recent months, primarily outside ordinary banks
- Reserve requirements and some signal rates have been cut, and central authorities have 'encouraged' lenders to support the economy, to reduce the risk for bad vibes in parts of the construction sector to spread to the overall credit market. So far, it seems like they have survived

Credit growth on the way up again, mostly due to more local gov. bond borrowing

But now other parts of the 'shadow' credit market are expanding too



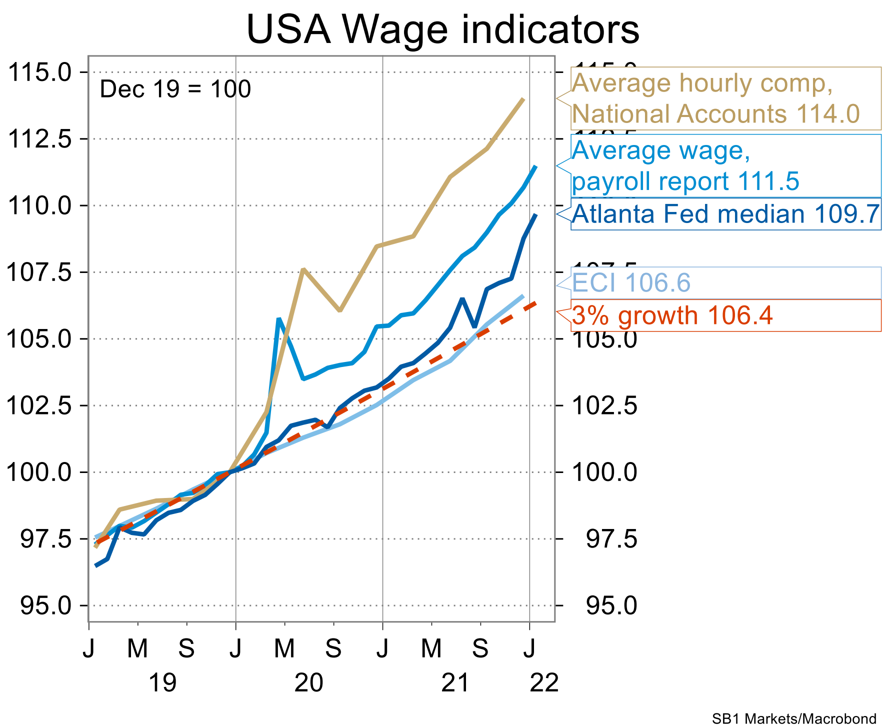


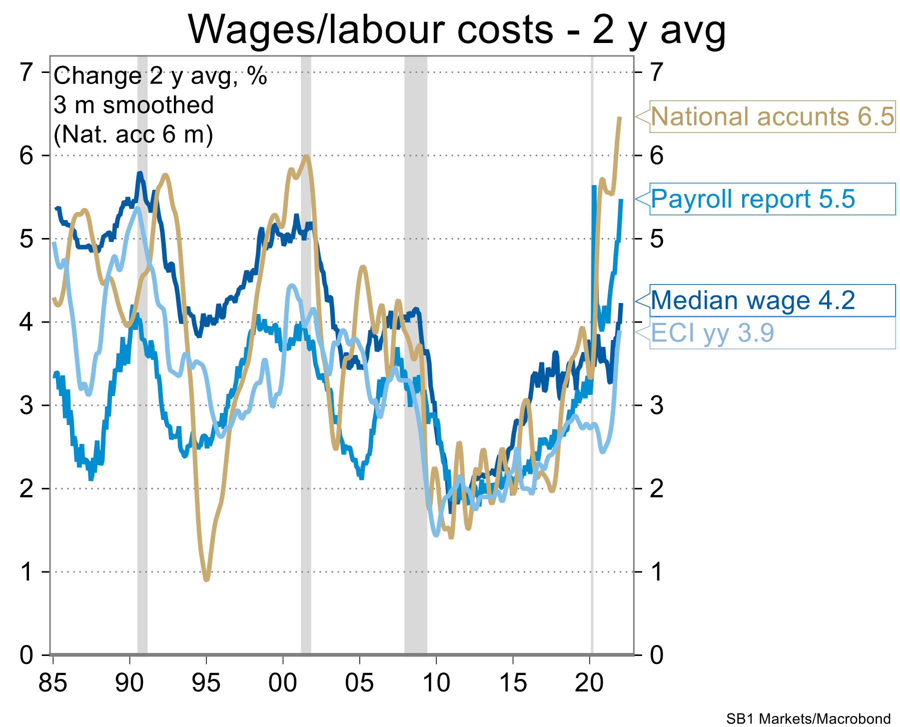
- Over the past year, **total credit** has expanded by RMB 27 trl, equalling more than 24% of annual GDP, up from the 24 trl at the bottom last September, (but still down from RMB 30 trl at the peak in 2020)
- **Banks** supplied RMB 20 trl of the y/y increase – and the rate has been flat since early last year
- **Local governments** have accelerated their credit growth, now up 5 trl – to 19.5% y/y from 13% y/y back in last September
- Growth in other credit – via the **shadow credit market x local gov bonds** –slowed to RMB 1 trl from 5 trl last year (a dramatic slowdown, like many times before…). In January growth picked up somewhat
- **Total credit** growth was unchanged at 10.2% y/y, still above nominal GDP growth before the pandemic, and above our estimate of 5.5% potential GDP growth + a 2% rate of inflation

SpareBank 1 MARKETS

The Atlanta Fed median wage tracker straight up in Dec/Jan

Wages are up 5.1% y/y 2 pp above the 10 y avg (3 m avg, 6.1% not smoothed, 2nd highest since '83)

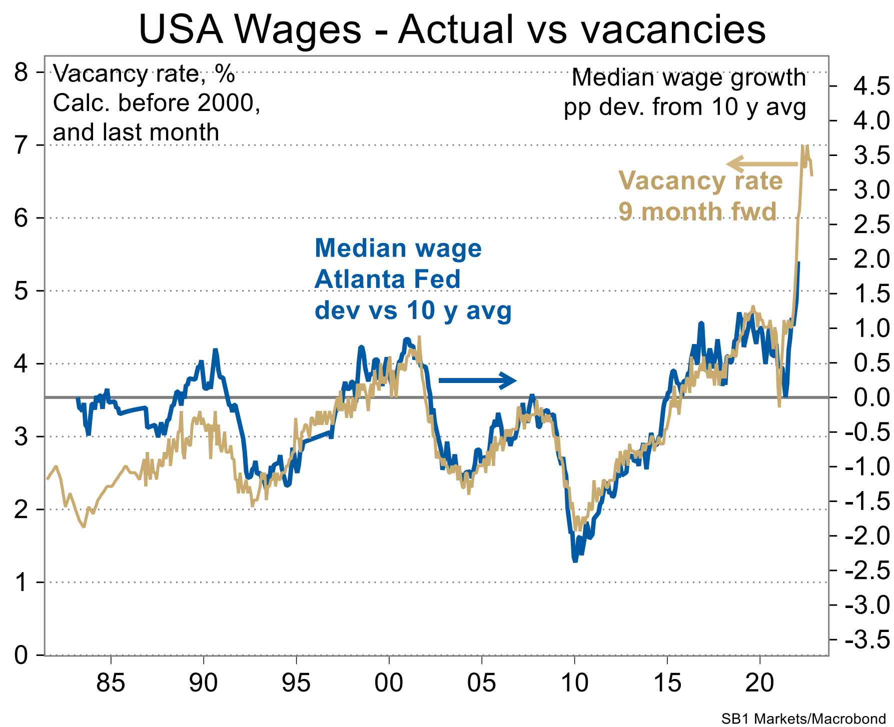


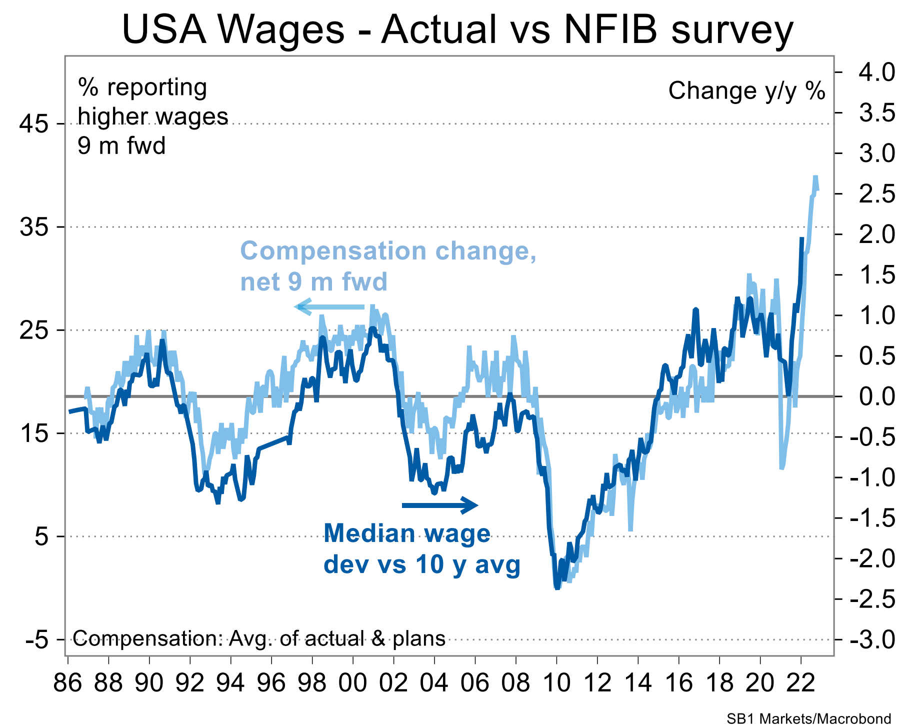


- **Atlanta Fed** reported a steep increase in the median wage in January, as in December. The annual rate accelerated to 6.1%, the 2. highest print since 1983. Measured over 3 months, the y/y growth is 5.1%, the highest since the 2000 boom
  - » Wages are rising the fastest among the lower paid – but the total is anyway high
- **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 impacts of changes during the first part of the pandemic (chart to the right)
- The current wage inflation is not compatible with 2% inflation over time, if not profits are scaled rapidly down

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

The correlation to changes in Atlanta Fed median wage growth is <u>very tight</u>

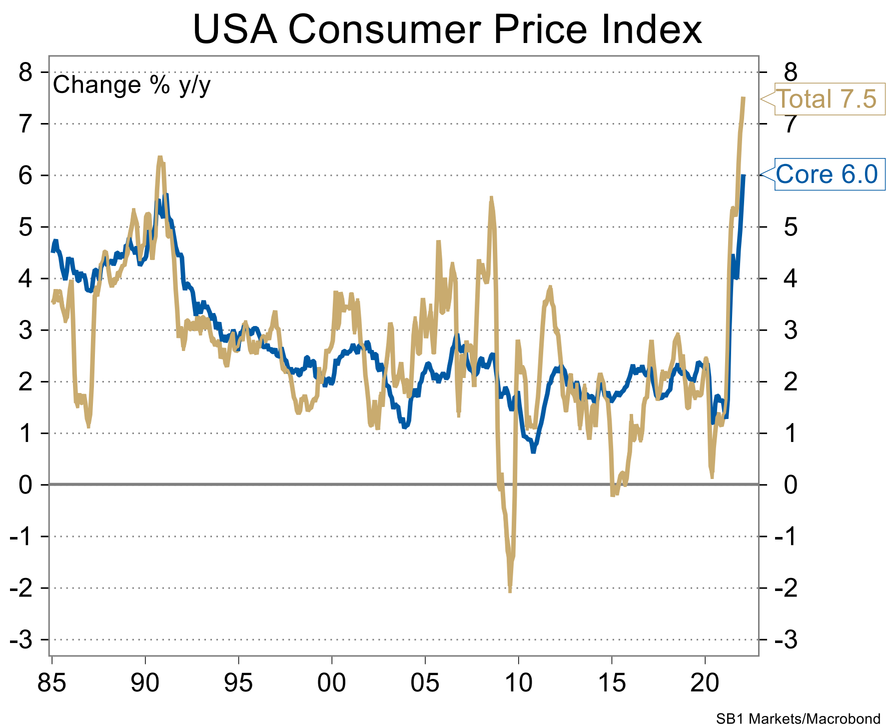


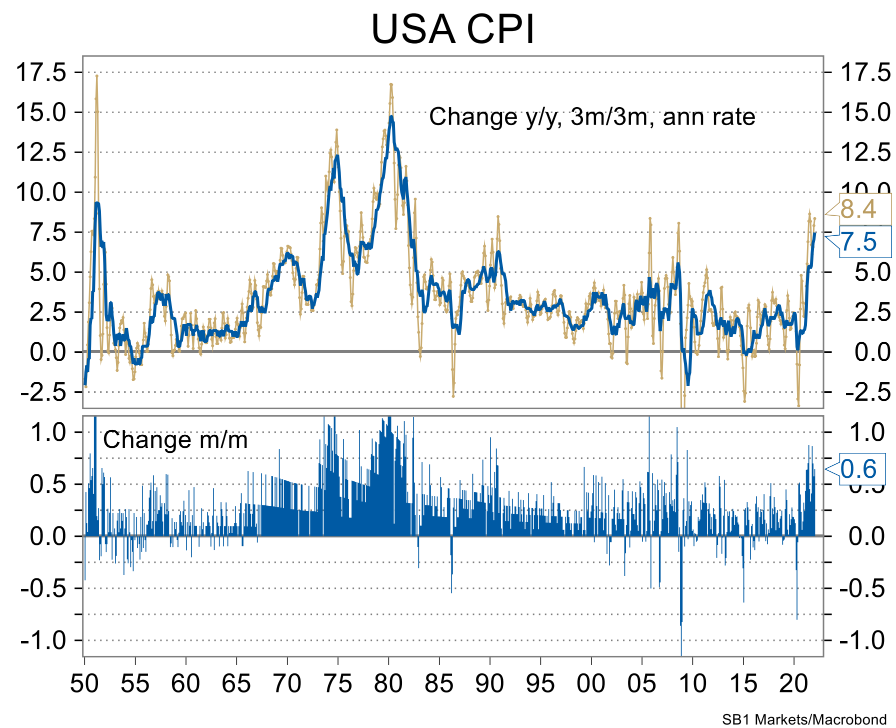


- More companies than ever before (data from 1986) are reporting that they have lifted compensation and that they plan to do so the over next months as well
- The correlation vs changes in actual wage growth some months later (6 – 12 months) is pretty strong
- The correlation between unfilled vacancies and actual wage growth is even tighter, with the same lag
- These data are among the most important – if not the most important – for the Federal Reserve. <u>In the end, wage inflation decides if maximum employment is reached or not</u>. Now it seems to be more than reached

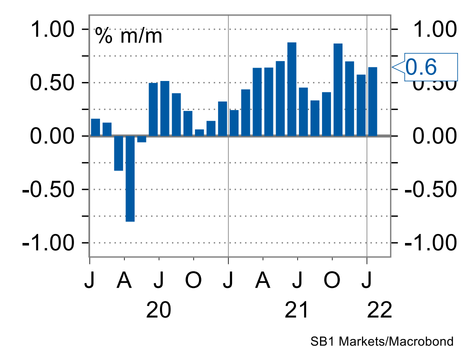
7.5%!

0.2 pp above expectations – up from 7.0% .Inflation is broadening further. Because demand >> supply



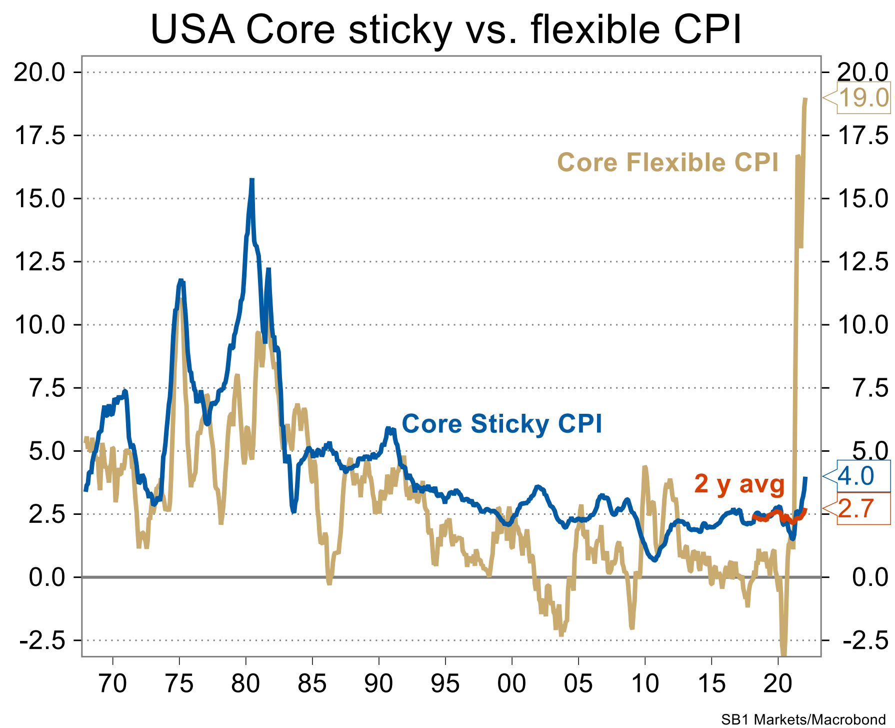


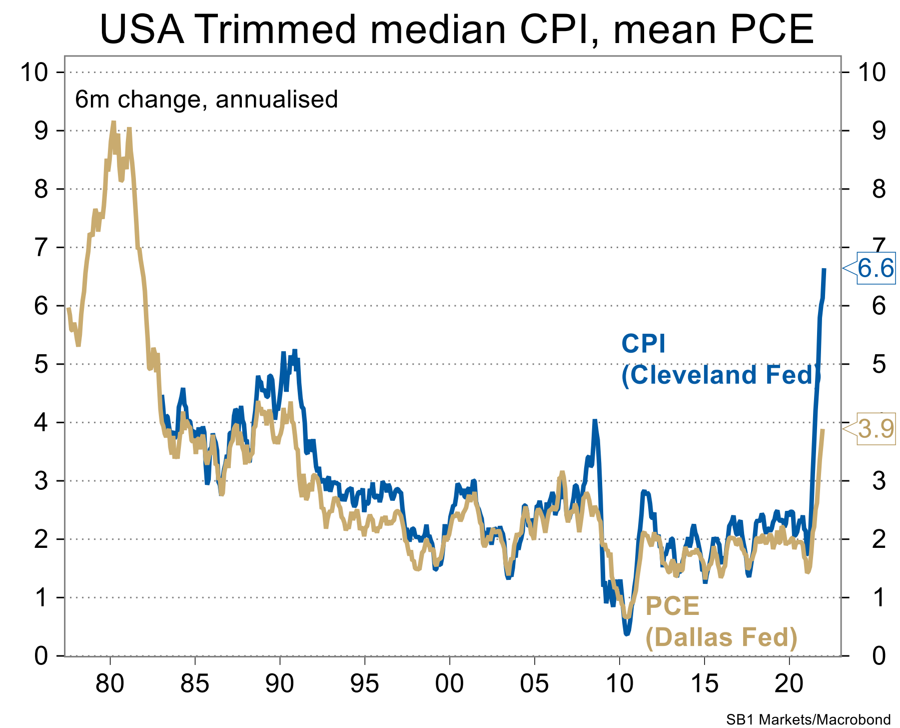
- **Headline CPI rose** 0.6% m/m in Jan, 0.1 pp more than expected. The annual rate accelerated 0.5 pp to 7.5%, the highest since 1982. The 3m/3m rate is at 8.4%
- **Energy prices** rose slightly in Jan, and are 27% up y/y, contributing 1.7 pp to the headline growth, 0.1 pp less than in Dec
- Both new and used **auto prices** climbed further, and explains 1.7 pp of the annual rate too
- However, **other prices** are climbing faster as price inflation broadened further. Cleveland Fed's **trimmed median CPI** accelerated 0.4 pp to 6.6% (6 m pace), another ATH (with data from 1983). Other breadth measures confirm
- **Surveys** signal a further increase in prices the coming months. The base effect may soon become hard to beat vs the annual rate, as prices rose rapidly during the spring last year – and the annual rate will very likely soon peak
- The **Federal Reserve has** now finally changed tack. Just after the CPI report, FOMC voting member James Bullard proclaimed that he was in favour a 50 bps hike at the March meeting. Market rates shot up – and only partially reversed Friday in the short end



Fewer excuses left, more prices are rising faster

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

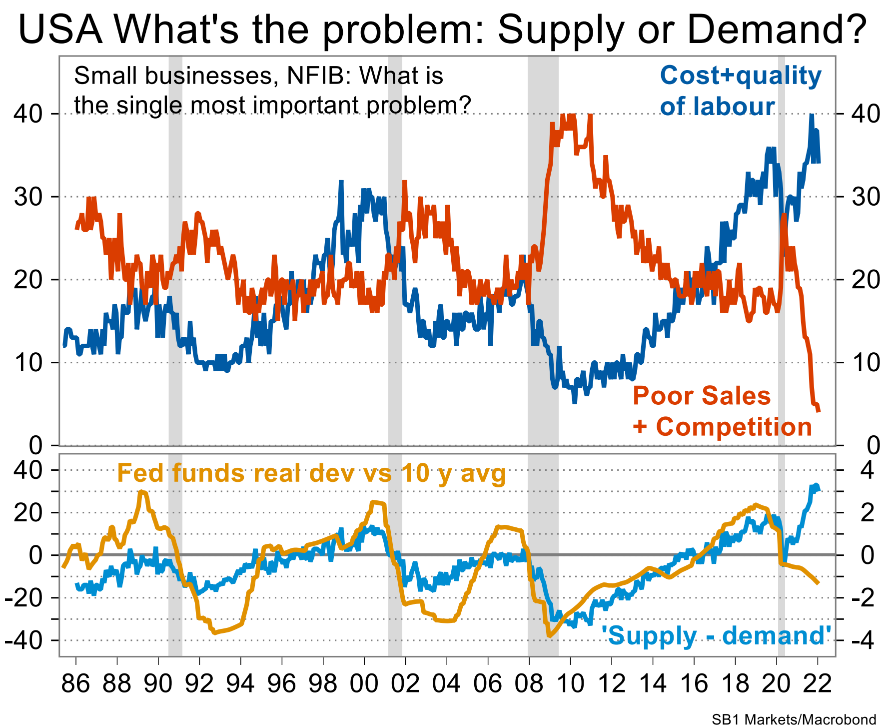


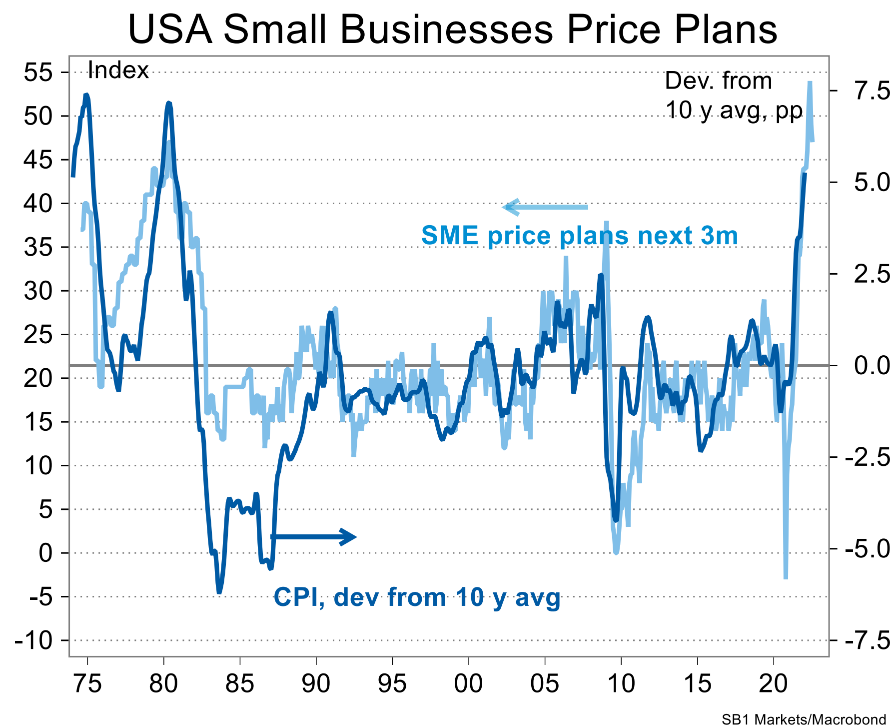


- The Cleveland Fed **trimmed median CPI** is up at a 6.6% pace over the past six months, up from 6.2% in Dec – and miles above anything seen before (data from 1983). Dallas Fed's **trimmed mean PCE** was up 3.9% in Nov, the highest since 1990
- In the CPI, almost all of the initial lift in core CPI was due to prices of good & services that often fluctuate, with rapid price increases followed by deep price cuts – these prices are **flexible** and represent some 10% of the core CPI. These prices are up 19%, with a substantial contribution from 2nd hand auto prices. However, these prices are flexible both ways, and the cycles are normally short lived
- The **sticky components** (90 % of the core CPI) are up 4% y/y, the highest levels since 2001 – but as prices fell last year, the 2 y average is still at 2.7%, not a disastrous print - but well above 2%

Sales are fantastic, labour supply is still the challenge

Even so, some fewer companies report that they plan to lift their selling prices

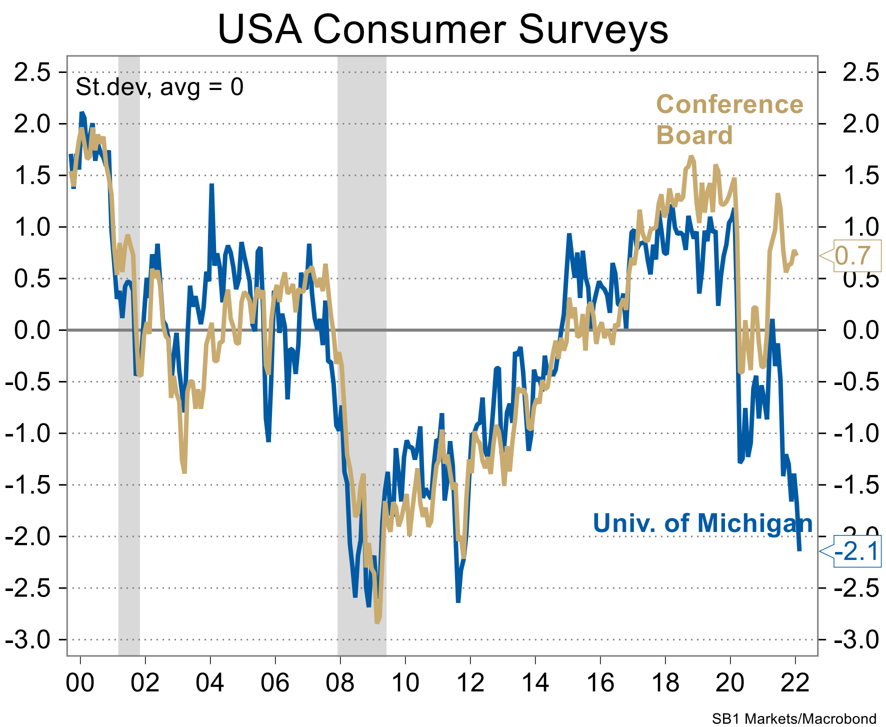




- The share of SMEs that plan to hike their **selling prices** fell 2 pp, but 47% is an extreme print, check the chart to the right
- This survey has been mentioned by Powell, as one of several data points that finally made him change his mind
- Still, Fed's problem is that the demand surplus has been widening from a high level since early 2021 –and the policy is tightened far later than normal vs the cycle – and they have barely started!

Univ. of Mich. consumer sentiment sharply down in early February

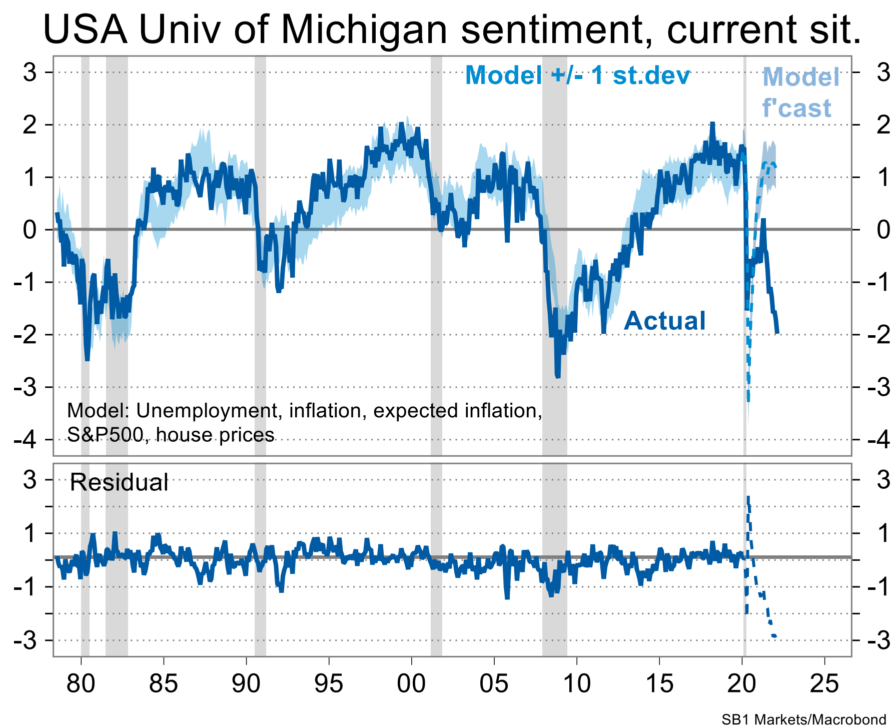
Inflation is a major concern, for good reasons. Still, sentiment is far below any fair ‘model estimate’

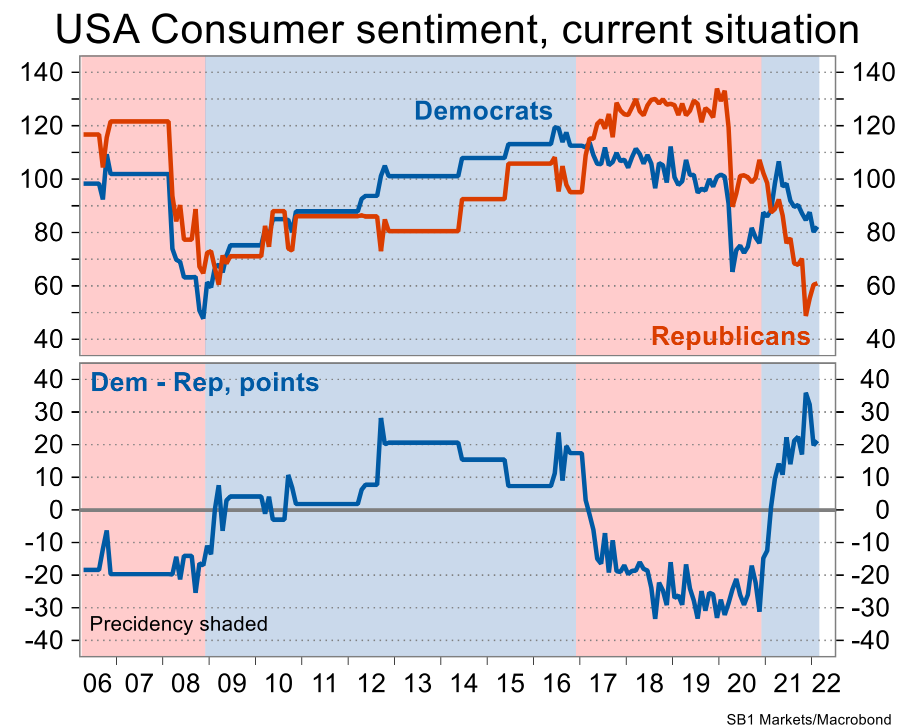


- **University of Michigan’s consumer sentiment** index plunged by 5.5 p to 61.7, or by 0.4 st.dev to -2.1, expected close to unchanged
  - » The level is the lowest since 2011- and among the weakest prints in decades – while unemployment is close to the lowest level in decades – and while Covid cases are falling rapidly
  - » But households’ assessment of the current situation, and their expectations declined, and are at very low levels
- **2 of the other 3 consumer surveys** we are following report consumer confidence far below average levels, and was the the ‘UM-level’ in January. Just Conference Boards measure is still above average (at +0.7 st.dev)
- Sure, inflation is a worry, the stock market is wobbling (but still at a high level), and mortgage rates are on the way up (but are still at a low level). Even if some flags are red, it is not possible to explain the current extremely bad mood among households by any standard model
  - » Unemployment is close to record low, and the housing market is going strong. Covid is not included in the model, but the pandemic is on a rapid retreat in the US
- The risk: The UM survey often has been an early bird in the cycle, and the survey may be ‘right’

Households should have been quite happy by now, even if inflation is high

Outside the model: The pandemic – but that treat faded in early February

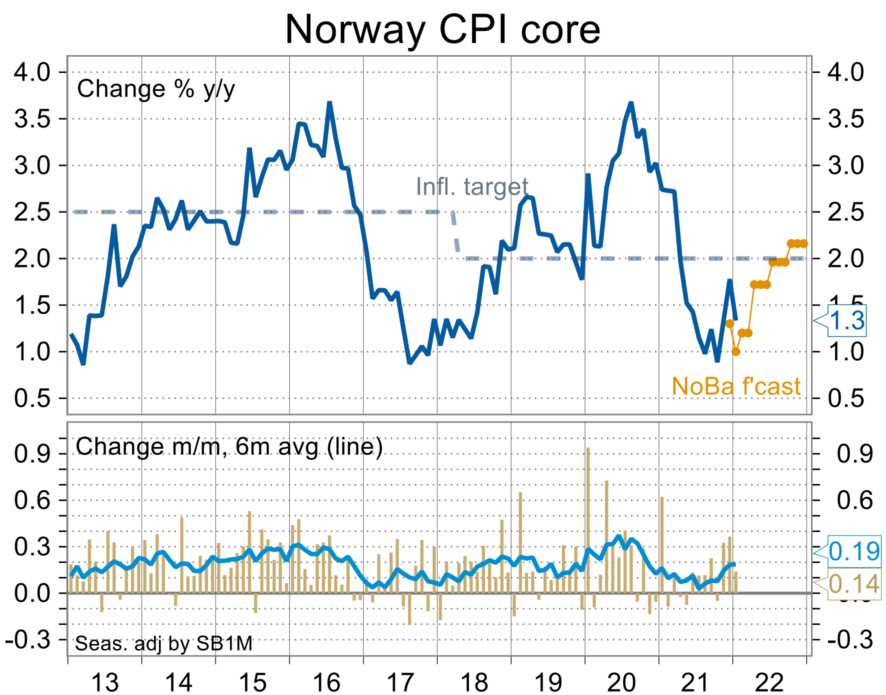




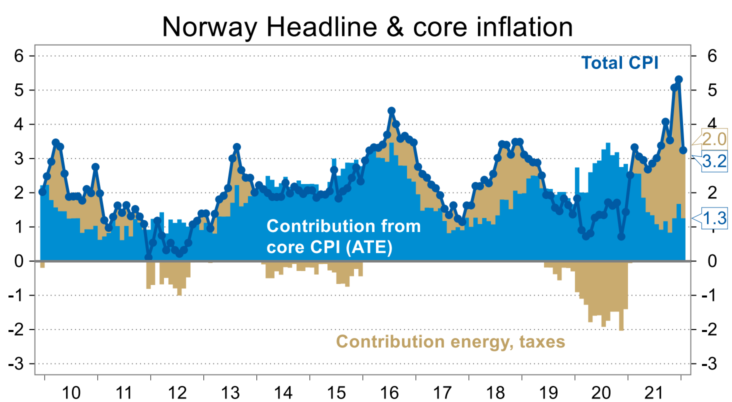
- **Our simple model** explaining the current situation part of UM's sentiment survey has worked pretty well, explaining all important ups and downs by standard economic indicators
  - » Unemployment, inflation w/expectations, growth (ISM), the stock & housing markets, all contributing significantly with the 'right' signs. The deviation in the early phase of the pandemic is due to the unusual developments in markets/in the economy
- However, given the normal drivers, and even if inflation is high, <u>the UM sentiment should have far above an average level now</u> – even if both actual and expected inflation is far above normal – the other drivers should have more than compensated for the drag from inflation
  - » We can not blame overly pessimistic Republicans too much either (they are very negative but not more so the recent months)

Inflation slowed substantially in January, and far more than (the others) expected

Electricity prices fell sharply, and core inflation was lower than expected



kets/Macrobond

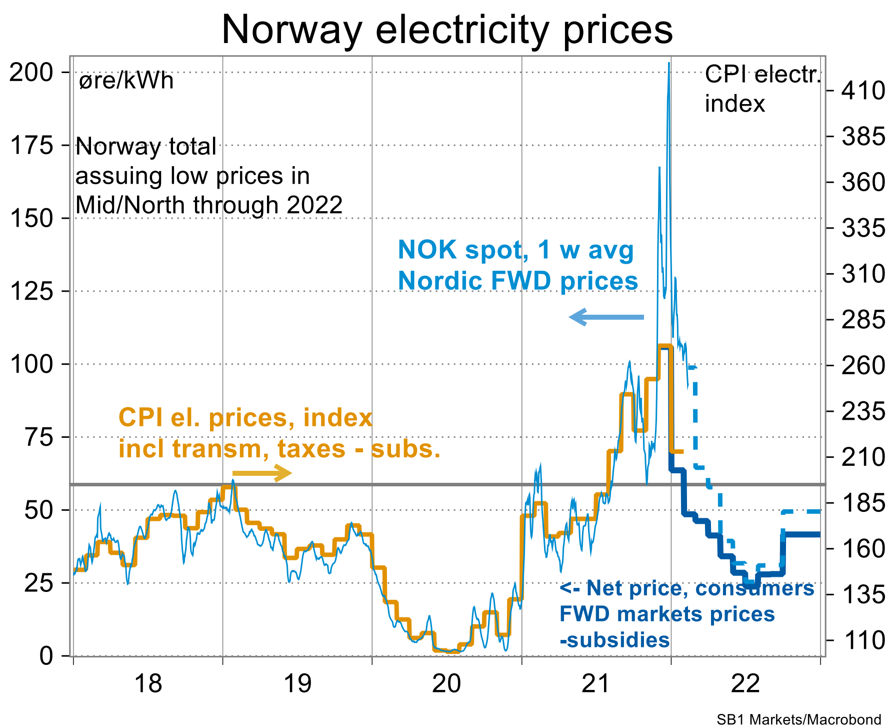


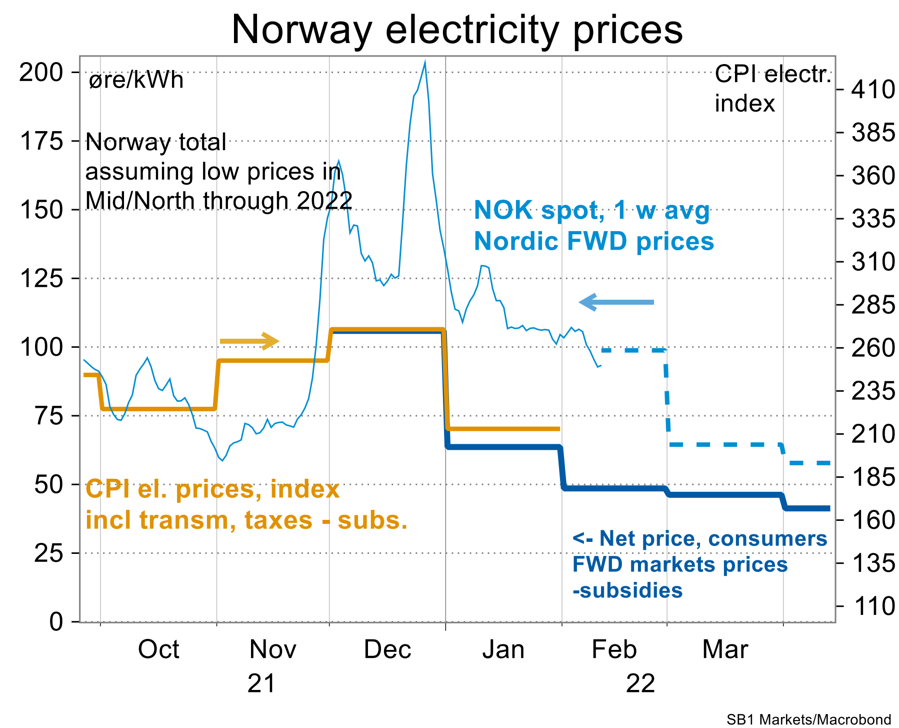
- **Total inflation** slowed to 3.2% in January, from 5.3% in December. Consensus was for a 4.2% growth rate, we expected 3.0%
  - » **Electricity prices** fell almost 20%, in line with our estimate. The annual rate fell by 80 pp to just 20%. In February, the annual inflation rate will decline further, to close to zero! The government subsidy reduced prices by 30%, and inflation would have been some 4.5%
  - » Energy prices (and taxes) contributed to 2 pp of the 3.2% headline rate
- **CPI-ATE** (ex. energy and taxes) inflation slowed to 1.3% from 1.8%, and to below our below consensus 1.5% estimate. Still, the core inflation rate was higher than NoBa assumed (1.0%), following a 0.6 pp miss in December
  - » Prices were flat m/m (seas adj), after a 0.45% 'shock' in December
  - » Airline ticket prices fell sharply, and food prices were far lower than we expected. Food prices are down y/y
  - » Core inflation is running above 2% in just 4 sectors, and is below 2% in 9 sectors
  - » Prices on imported goods rose 0.2% in Jan as we expected, while domestically produced goods & services were up just 0.1%
- **The outlook**
  - » **The electricity bill** will decline some further 10% in February, taking headline inflation down, probably to below 3.0%
  - » **Core inflation** surprised at the downside in January. Media report suggests that food prices rose sharply in February, following the negotiations between the main suppliers and the main retail chains. These reports are normally far from representative – but there surely is a risk here
  - » We still expect **average inflation** at some 2.5% in 2022, and assume that the TBU (technical committee on wage formation) at Friday to suggest a similar estimate for headline CPI growth rate in 2022, following the 3.5% lift last year
- **So what?**
  - » **Norges Bank** will have to lift it's core CPI forecast by some 0.2 – 0.4 pp, given the starting point
  - » The **wage negotiations** this spring are challenging, as some public sector groups received a significant slower wage growth than the average 3.5% wage inflation rate in 2021. In the private sector, a 3.5 – 3.75% outcome will lift real wages by 1% or more
  - » Even so, **Norges Bank** will once more have to revise its wage growth estimate upwards, we expect by 0.3 – 0.5 pp vs. the Dec forecast

SpareBank 1 MARKETS

A huge drop in the electricity bill in Jan – and market expects more of the same

Market prices are down, and substantial contribution from the enhanced subsidy scheme



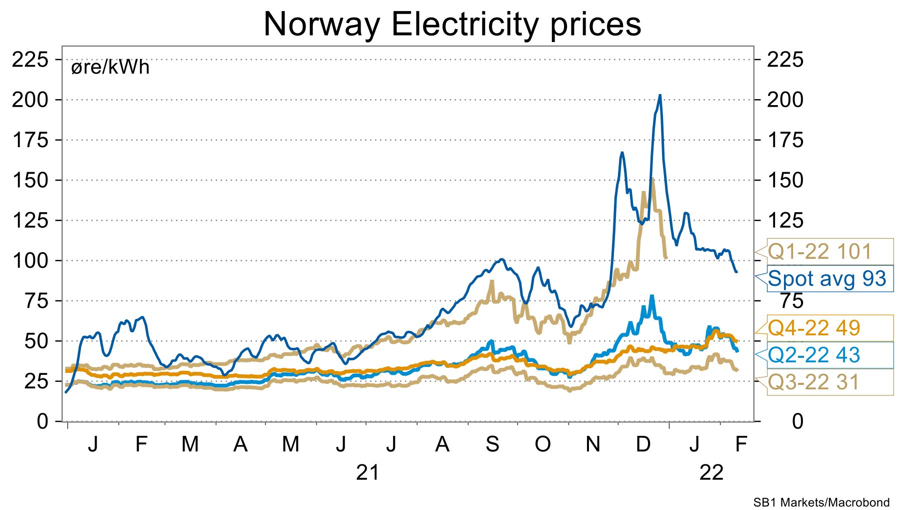


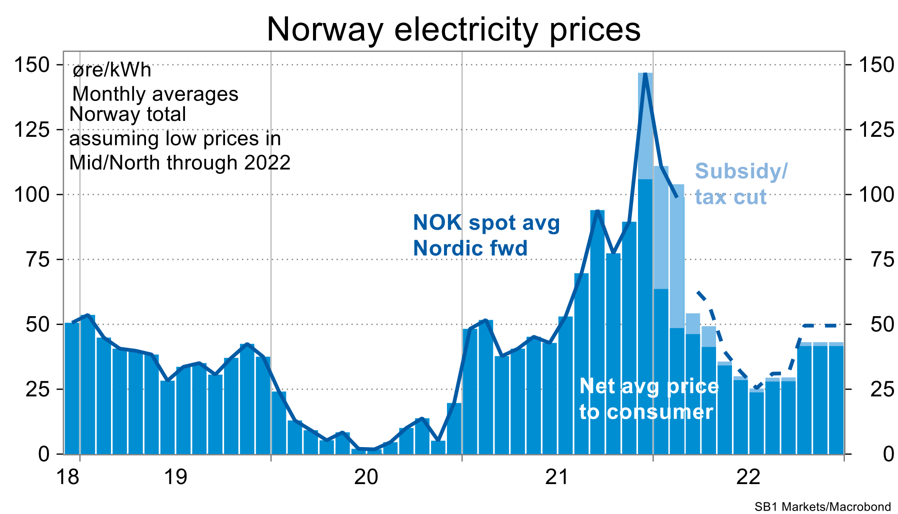
- The average net price to consumers fell to approx 64 øre/kWh in January, from 1060 øre in December
- In February, the price may drop to below 50 øre/kWh
- We assume prices in Mid/Northern Norway to remain low (25 – 30 øre/kWh) through the year

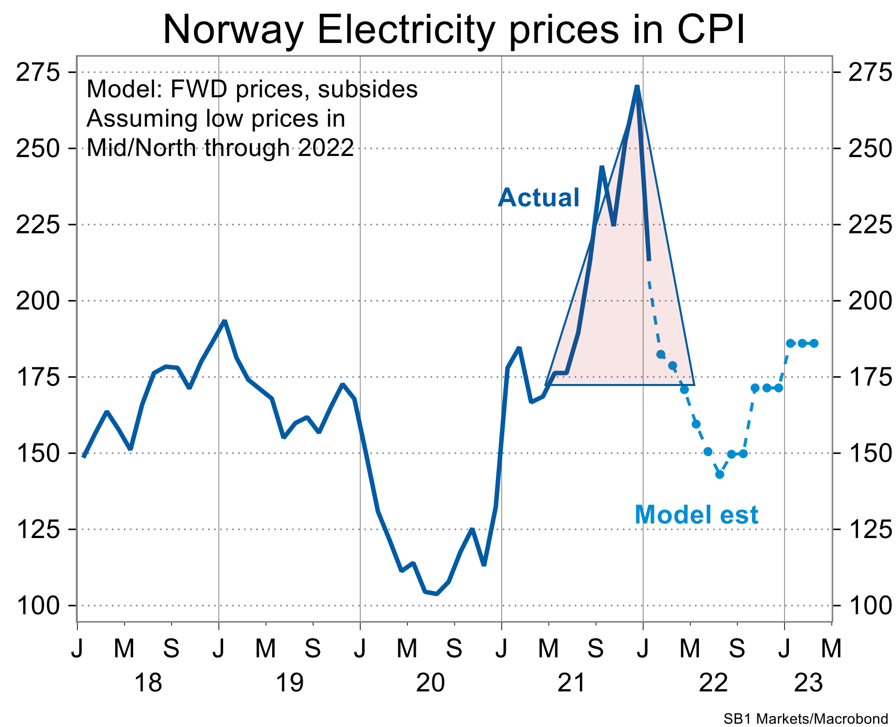
SpareBank 1 MARKETS

IF the future market is right (you never know), the electricy bill will decline further

Future prices fell further last week – and electricy prices will soon be down y/y



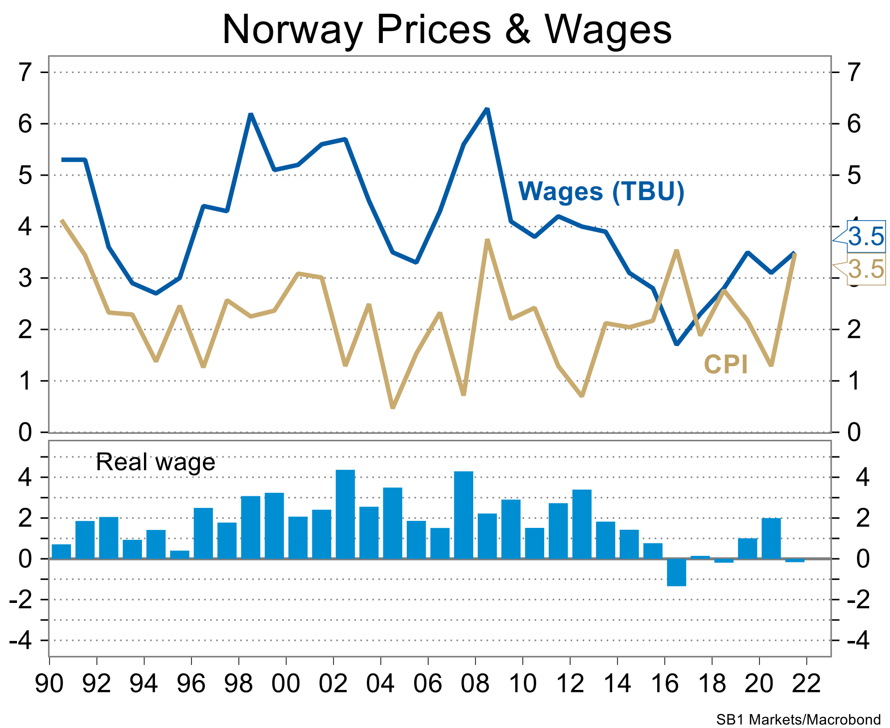


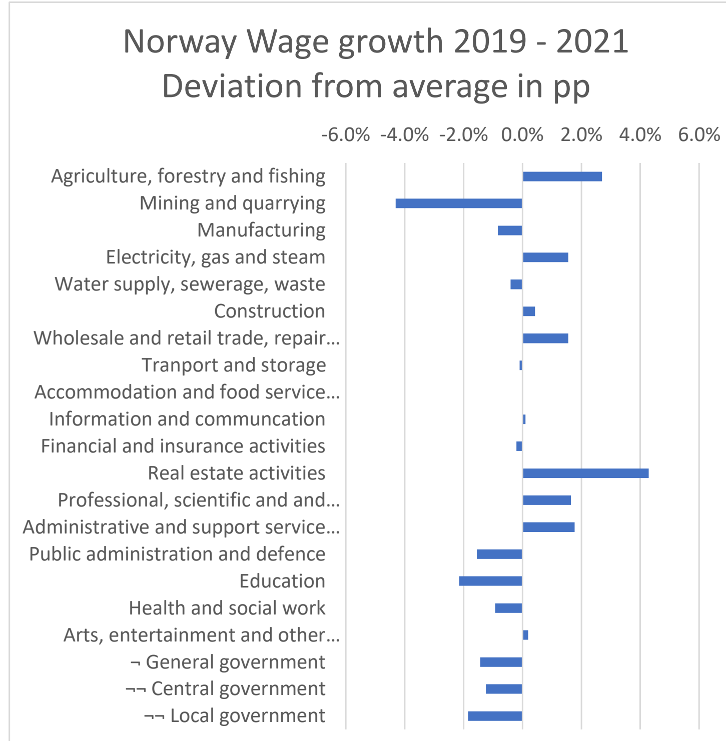


- The 'unprecedented surge' in electricity prices, represented by the area of the triangular above, equals some 35% of a normal annual electricity bill, <u>or less than 1¼ % of the annual disposable income</u>

What a shock: Prices up 3.5% and wages were up just 3.5%, in average, that is

Annual wage statistics indicate that the the 'official' (TBU) wage growth last year will be 3.5%

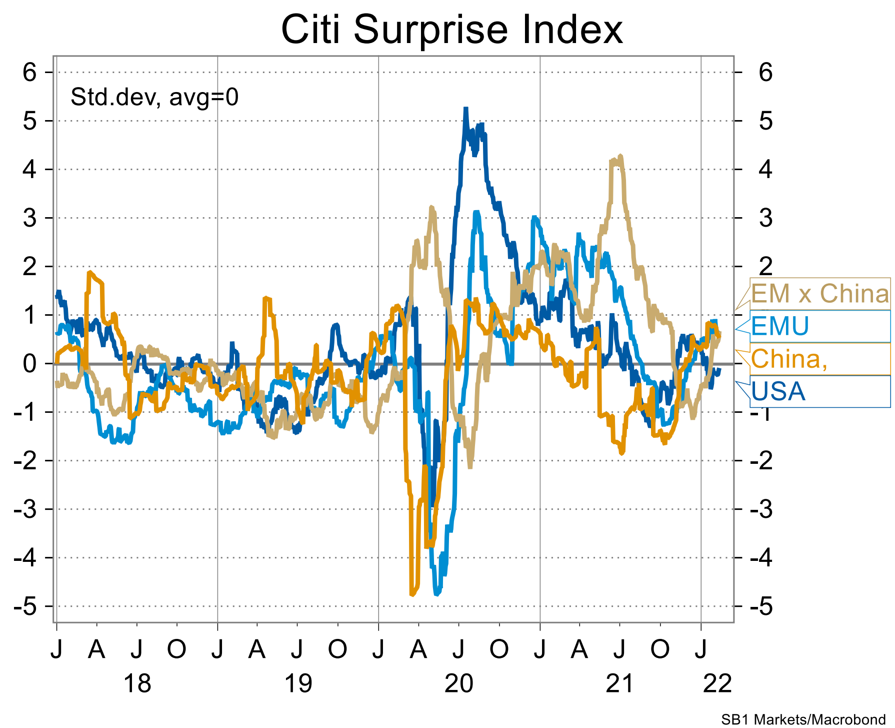


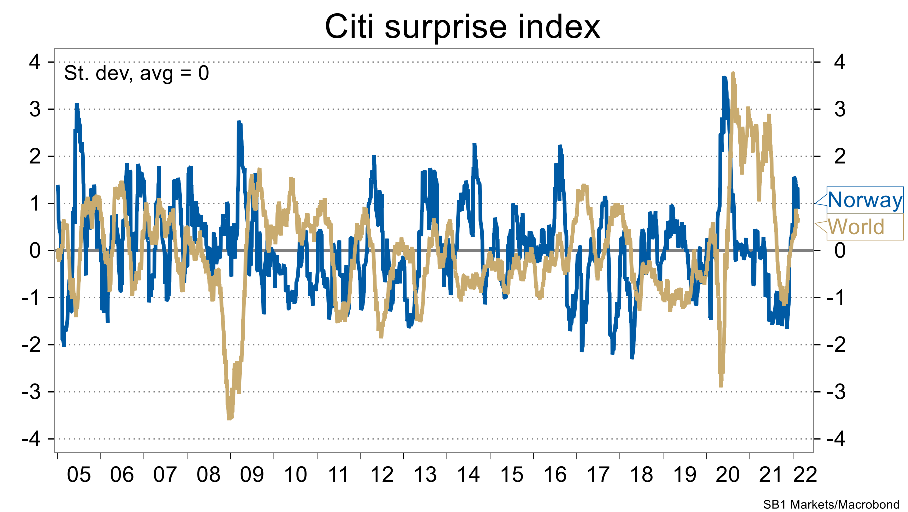


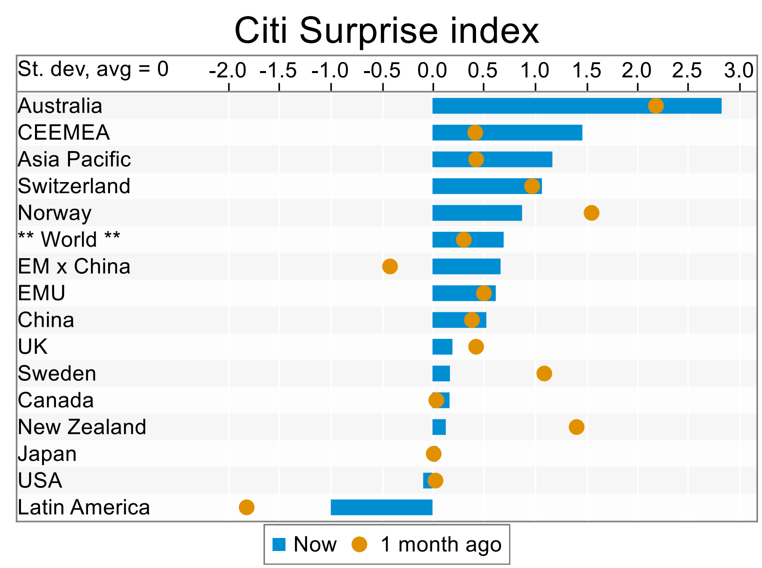
- In December 2020, NoBa assumed a 2.0% wage growth in 2021, and in December 2021 3.1%. The outcome was probably 3.5%, 0.25 pp higher than we assume
  - » No real wage growth in 2021 – but not a large decline either, as has been the story, at least in media
  - » In 2020, real wages gained 2%, and in 2019 by 1% (though following 3 unusual weak years, in sum down by 1.2%)
- Some sectors report growth below average (as always, of course). Over the 2 past years: Oil, public admin, education and health is on the downside. Expect some claims for compensation (which may not be that unreasonable either)

Even with weak PMIs and other mixed data: Surprises are 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

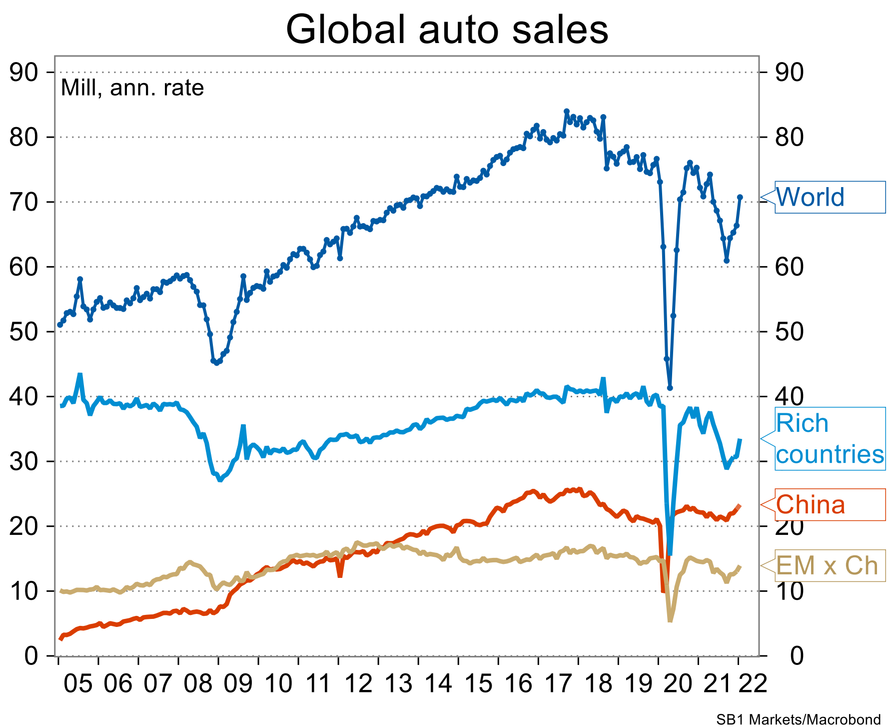
The Norwegian economy

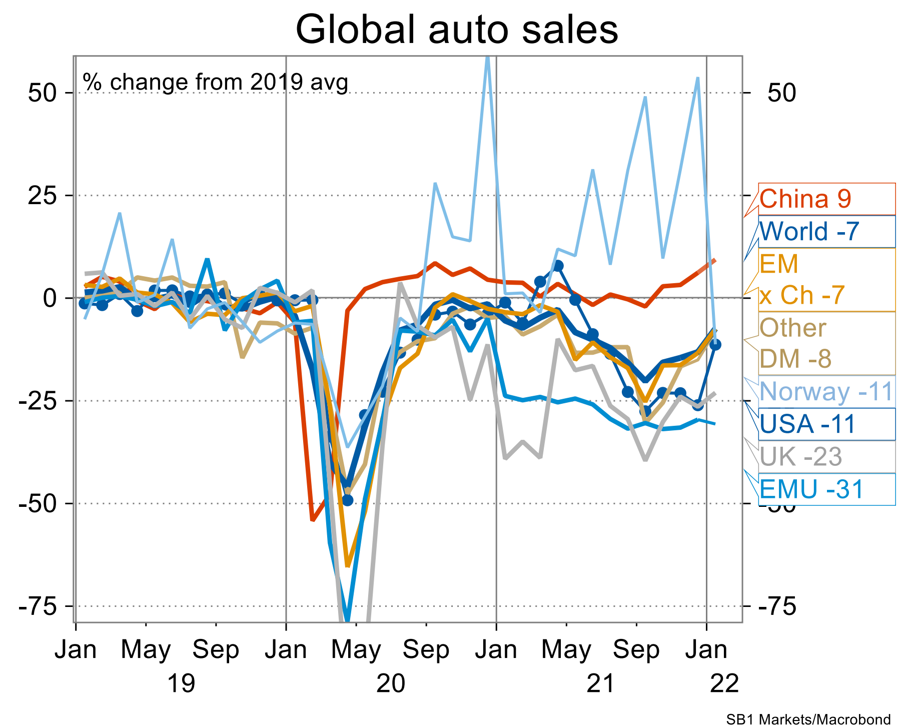
Market charts & comments

SpareBank 1 MARKETS

Auto sales are recovering, are 'just' 7% below the 2019 level

Sales rose sharply in the US, in EM x China, and probably in China as well

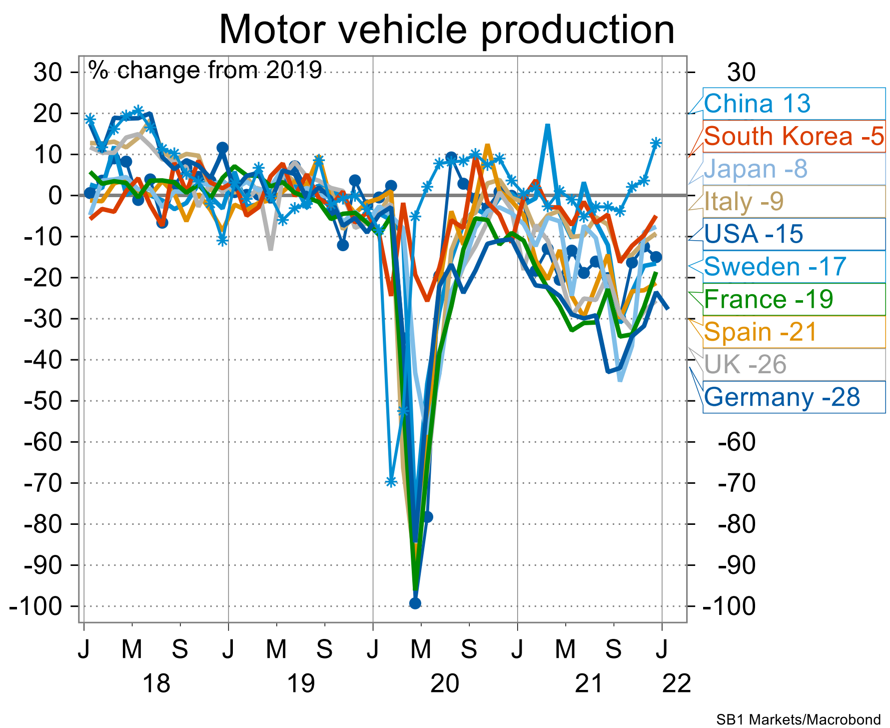




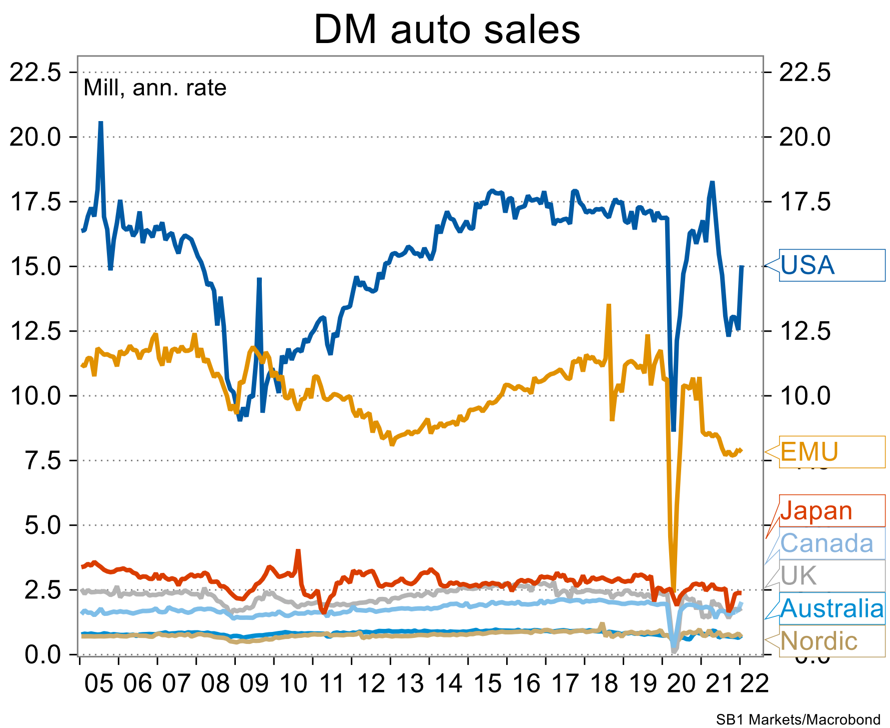
- **Global sales** rose by almost 7% m/m, according to our initial calculations (some countries have not yet reported, among them China). Sales are down 7% vs. the average 2019 level, up from -21% at the bottom last September
- **US** contributed most at the upside, up to -11% vs. the '19 level. Sales in **EMU** probably declined slightly, down 31%
- Sales in **China** are trending slightly upwards, and preliminary data suggest a further increase in January – and sales may be 9% above the 2019 level
- Several other **Emerging markets** also reported stronger sales in January, we estimate 8% shortfall vs. '19
- **Norwegian** sales fell sharply following the record high level in December
- **Auto production** is now recovering, especially in Germany

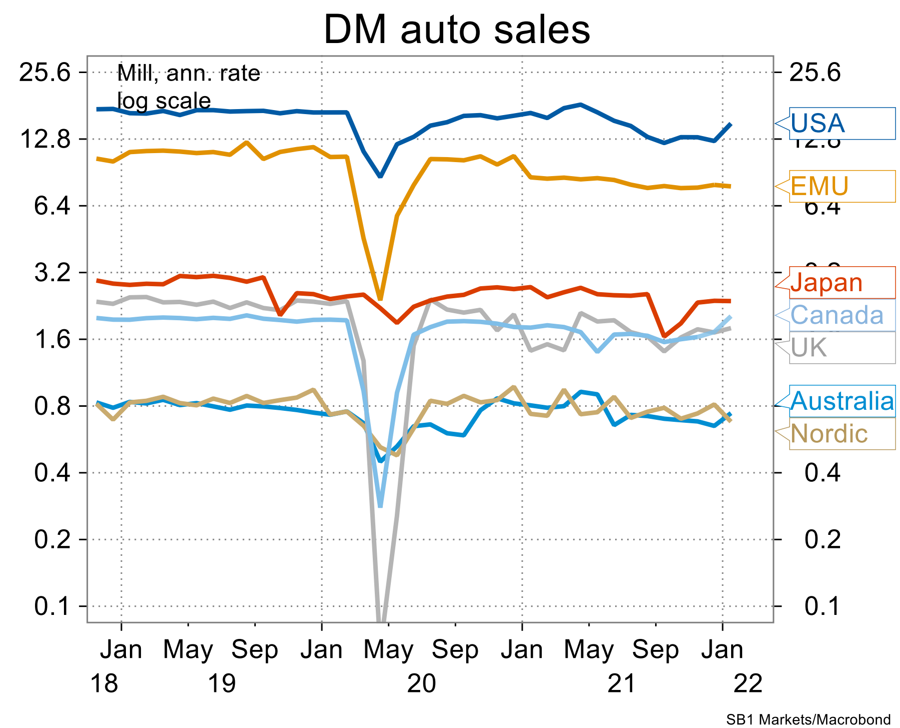
Auto production on the way up!

Germany just 4% below the '19 level, was down 43%! China is 13% above, from -4%



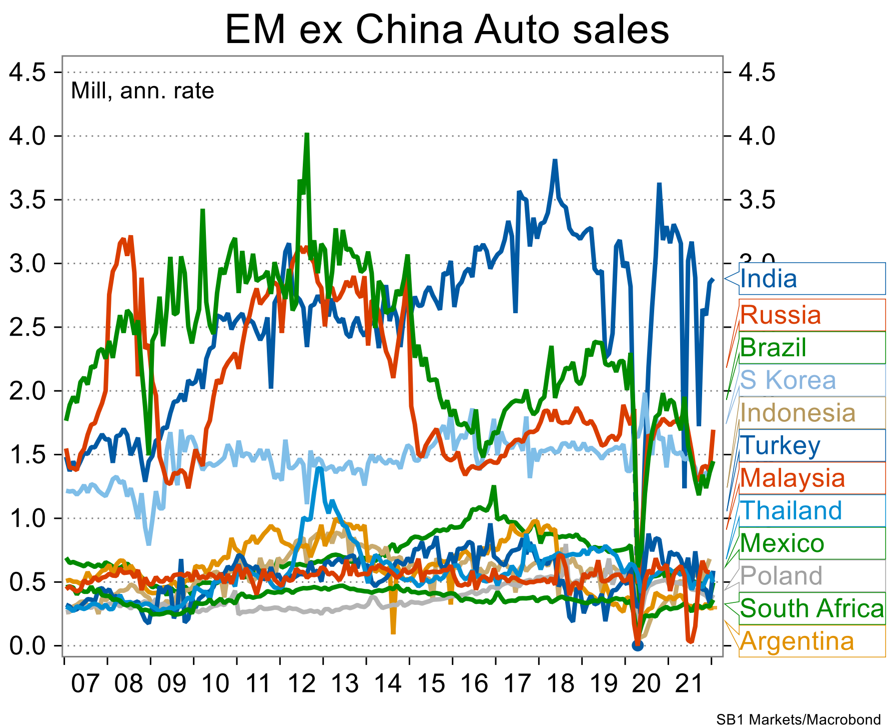
DM sales: The worst is behind us?

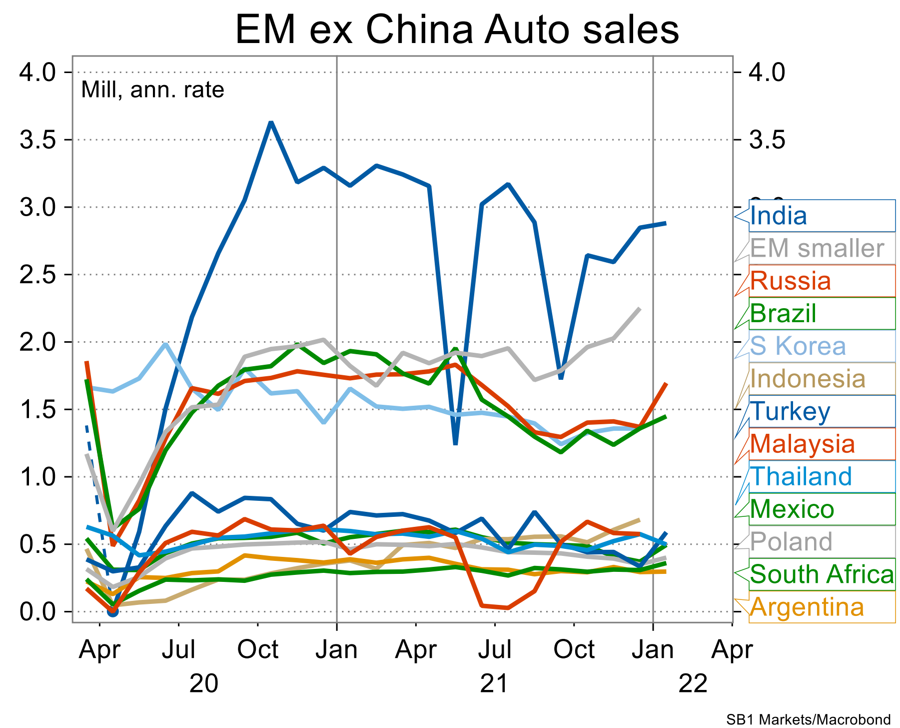




EM: Mostly up in January but most are still below normal levels

No Omicron hit to be seen?



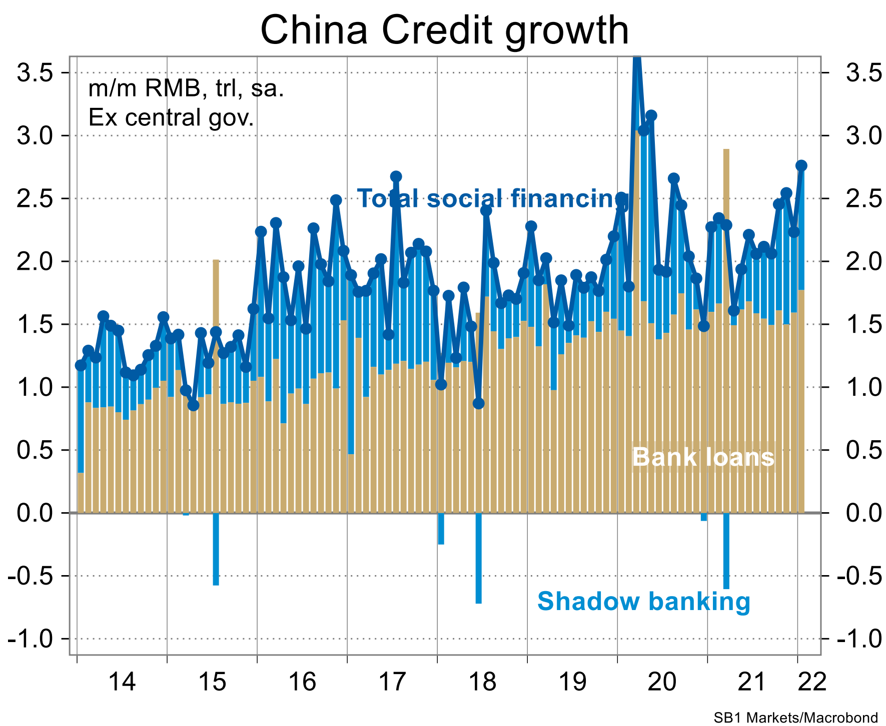


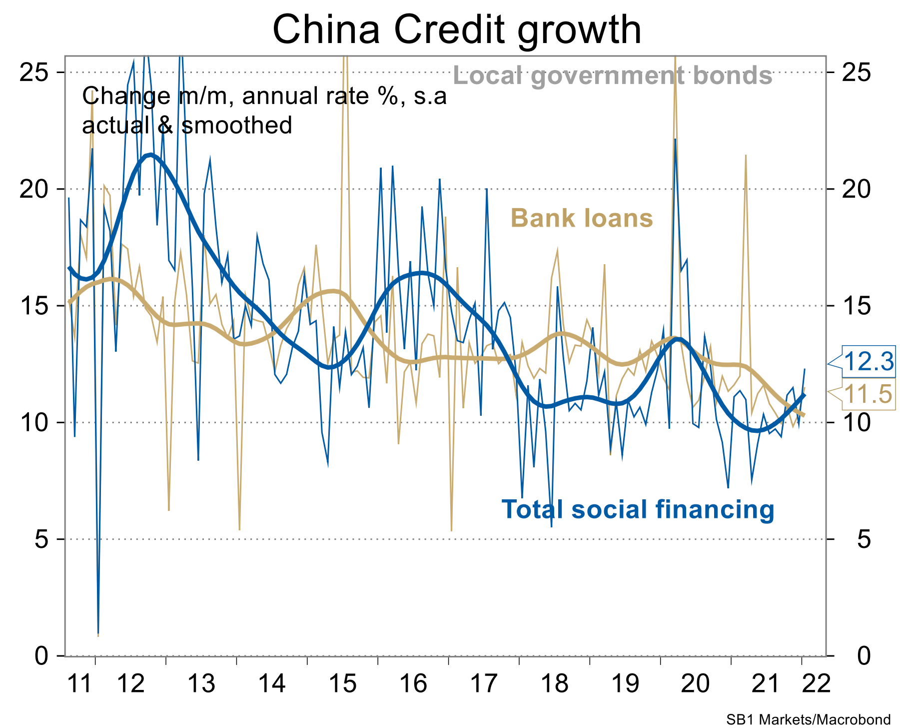
Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

SpareBank 1 MARKETS

Credit growth is accelerating, somebody must have done something

Local gov. are issuing more bonds to compensate for slower land sales? <u>2 more signal rates cut today</u>

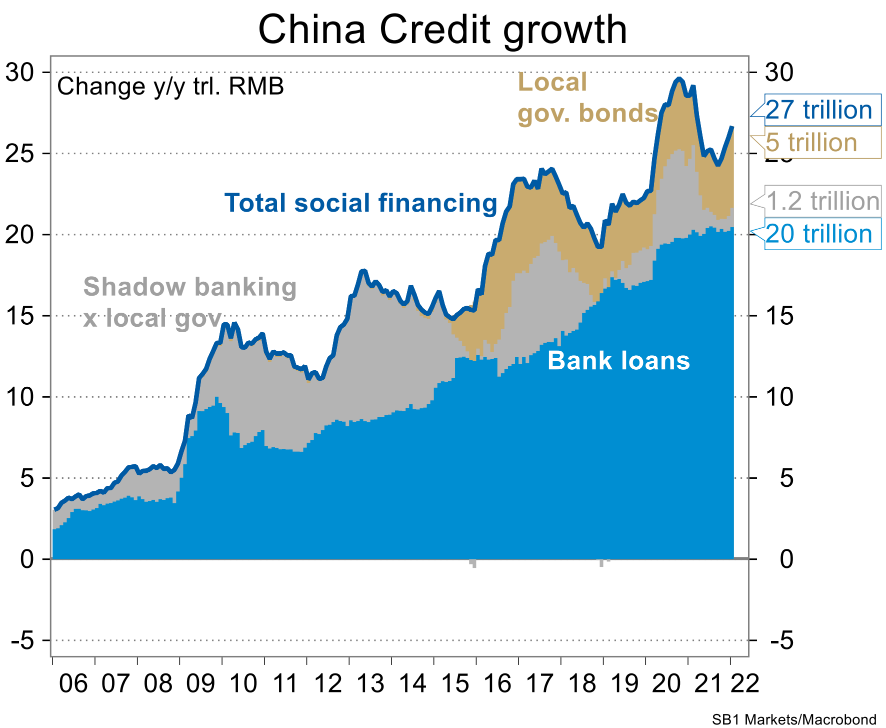


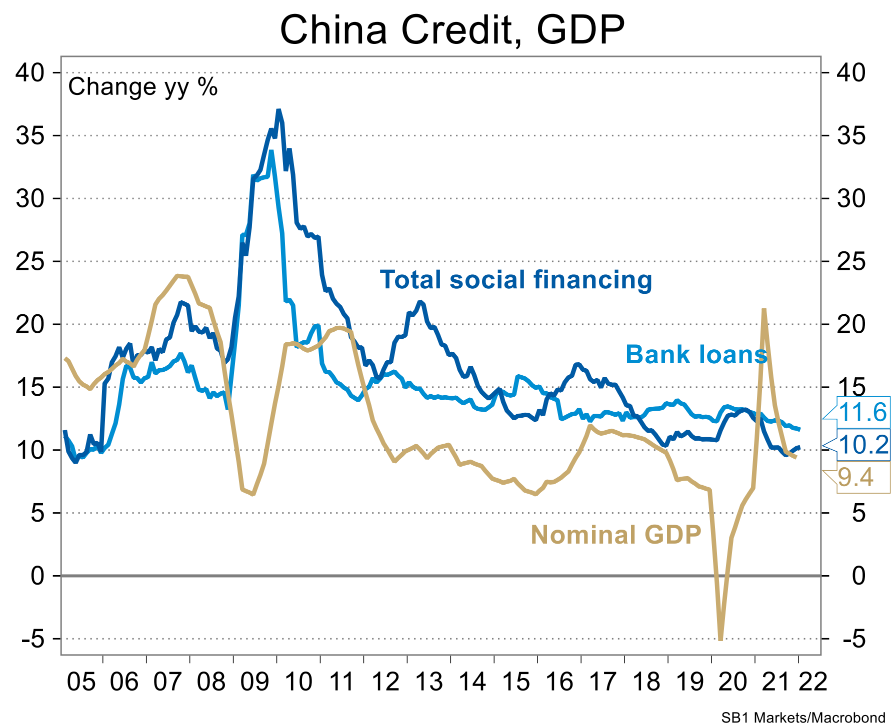


- **Total credit** grew at a 12.4% rate in Jan (m/m, seas. adj. annualised), up from 10% in Dec. The underlying growth at some 11% is <u>above the trend growth in nominal</u> GDP (say 5.5% real growth, 2% price inflation). The annual rate was unchanged at 10.2%
- **Total credit** rose by RMB 6.2 trl, expected 5.4 trl (not seas. adj). The 'core' total social credit (total ex central gov bonds & corporate equites) grew by 2.8 trl (seas adj), the highest since April 20, up from from 2.2 trl in Dec. The problems in the building sector has not so far created problems at rest of the credit market – at least after measured have been taken by the authorities
  - » **Bank loans** rose by RMB 1.7 trl, s.a, or at a 11.5% annualised pace – above expectations. Loans are up 11.6% y/y, higher than the growth rate the previous months
  - » **Shadow banking credit** rose by RMB 1 trl, well above the average growth rate through 2021. **Local governments** were responsible half of the (net) uptake, and they have been borrowing more than normal recent months, very likely to compensate for the decline in revenues from sale of land to builders - or in order to finance unfinished building projects
- Annual credit growth rates have not turned up but the 'underlying' credit cycle has – credit growth has accelerated recent months, primarily outside ordinary banks
- Reserve requirements and some signal rates have been cut, and central authorities have 'encouraged' lenders to support the economy, to reduce the risk for bad vibes in parts of the construction sector to spread to the overall credit market. So far, it seems like they have survived

Credit growth on the way up again, mostly due to more local gov. bond borrowing

But now other parts of the 'shadow' credit market is expanding too

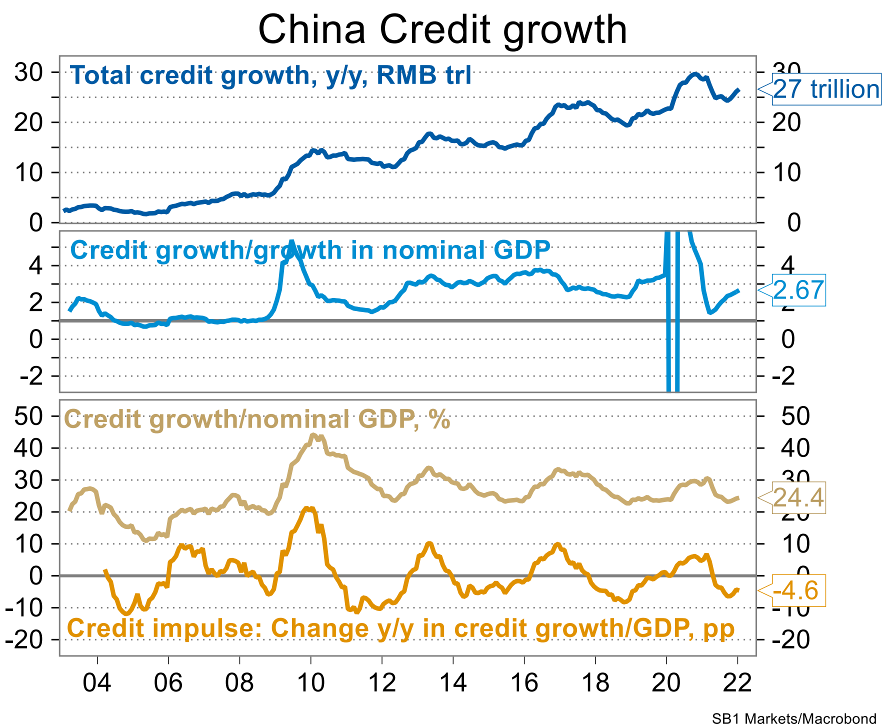


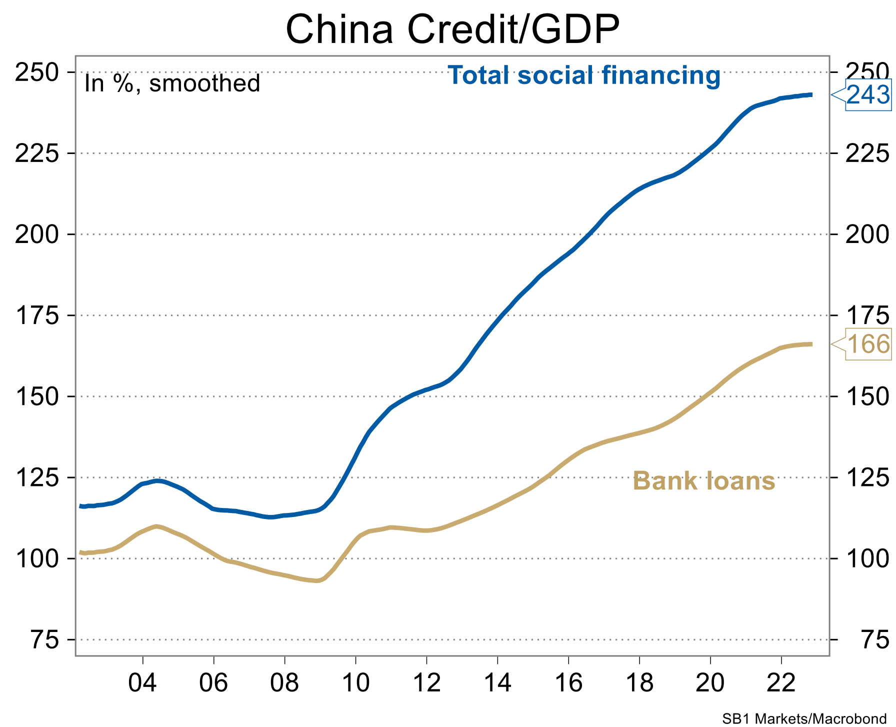


- Over the past year, **total credit** has expanded by RMB 27 trl, equalling more than 24% of annual GDP, up from the 24 trl at the bottom last September, (but still down from RMB 30 trl at the peak in 2020)
- **Banks** supplied RMB 20 trl of the y/y increase – and the rate has been flat since early last year
- **Local governments** have accelerated their credit growth, now up 5 trl – to 19.5% y/y from 13% y/y back in last September
- Growth in other credit – via the **shadow credit market x local gov bonds** –slowed to RMB 1 trl from 5 trl last year (a dramatic slowdown, like many times before…). In January growth picked up somewhat
- **Total credit** growth was unchanged at 10.2% y/y, still above nominal GDP growth before the pandemic, and above our estimate of 5.5% potential GDP growth + a 2% rate of inflation

The credit impulse has bottom (and in reality it is positive already)

Credit growth (in per cent) never slowed to below underlying nominal GDP growth



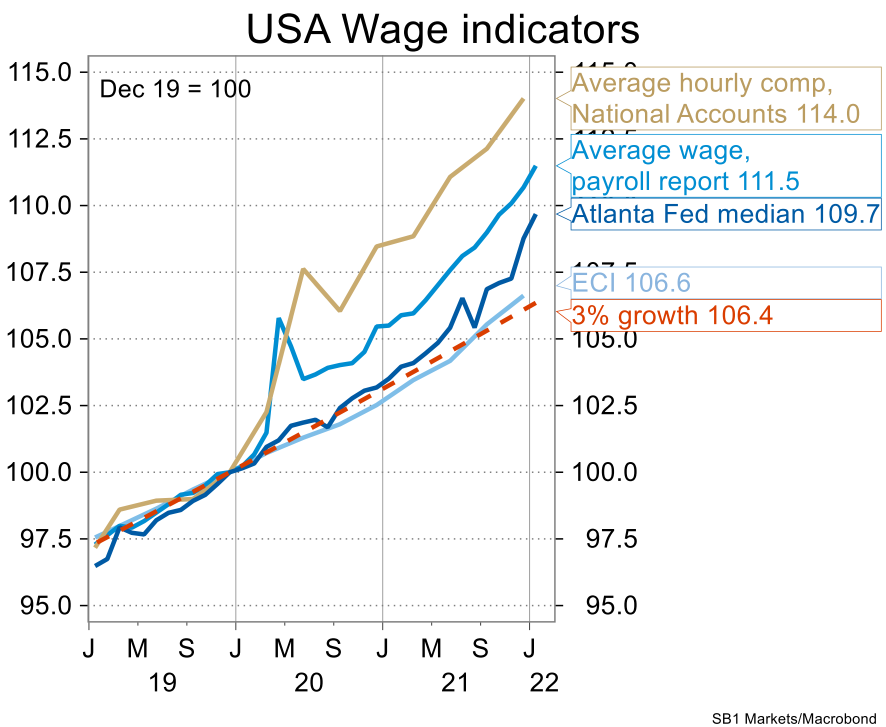


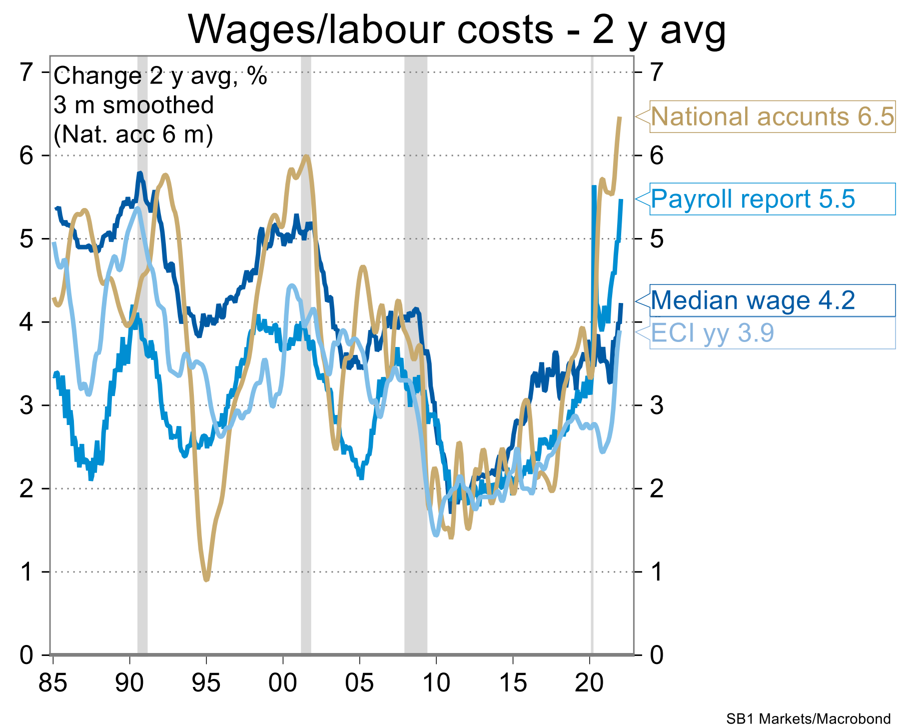
- A positive **credit impulse** implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy, which have had impacts at other markets
- The **credit impulse** (here measured as the 12 m change in the 12 m credit growth/GDP ratio) bottomed in late 2018, turned positive one year later, peaked last autumn, fell into negative territory in May last year, bottomed at -6.5% in October, and is now at -4.6%
- The **authorities** seem to have succeeded in preventing the trouble in in parts of the building sector to spread to the overall credit market

GDP is smoothed in the calculations in the charts above

The Atlanta Fed median wage tracker straight up in Dec/Jan

Wages are up 5.1% y/y 2 pp above the 10 y avg (3 m avg, 6.1% not smoothed, 2nd highest since ‘83)

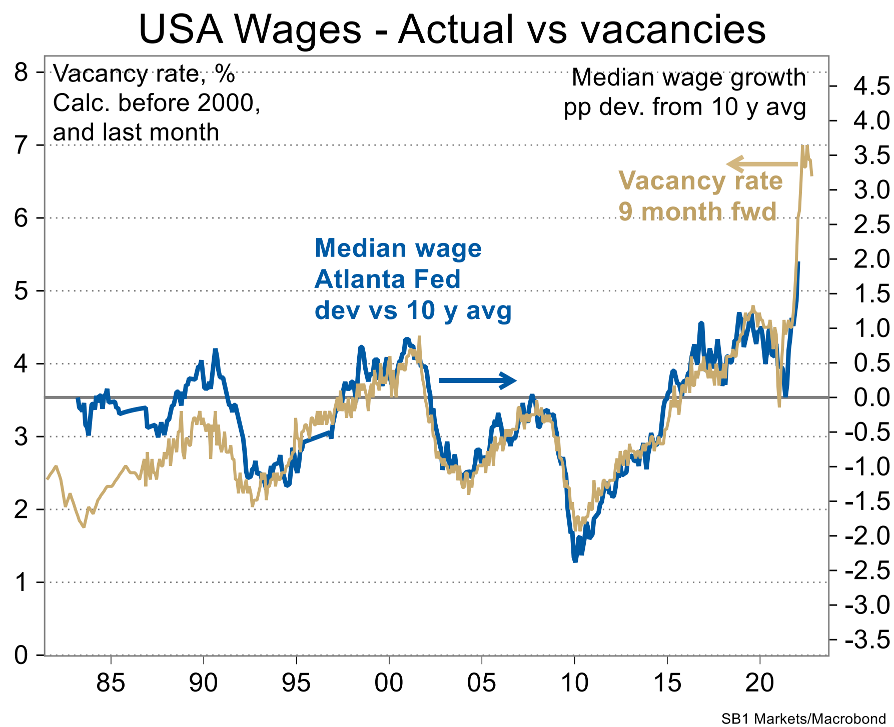


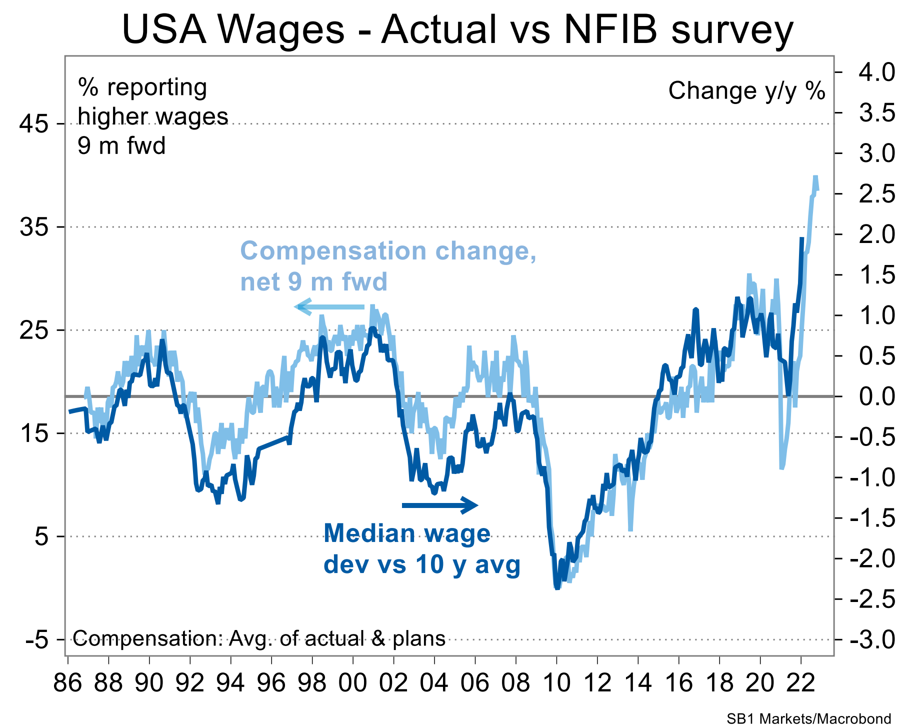


- **Atlanta Fed** reported a steep increase in the median wage in January, as in December. The annual rate accelerated to 6.1%, the 2. highest print since 1983. Measured over 3 months, the y/y growth is 5.1%, the highest since the 2000 boom
  - » Wages are rising the fastest among the lower paid – but the total is anyway high
- **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 impacts of changes during the first part of the pandemic (chart to the right)
- The current wage inflation is not compatible with 2% inflation over time, if not profits are scaled rapidly down

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

The correlation to changes in Atlanta Fed median wage growth is <u>very tight</u>

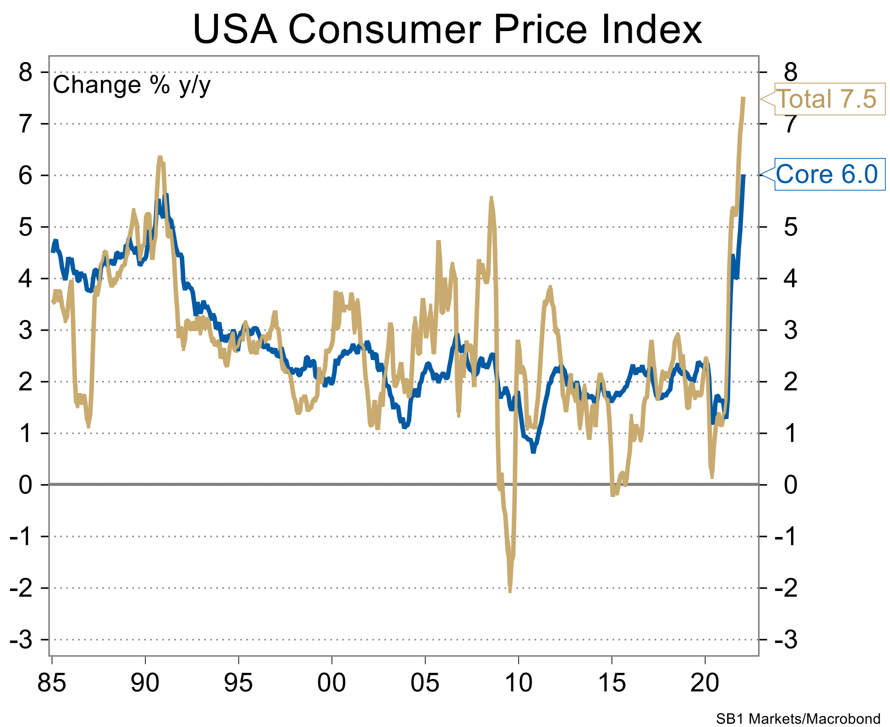


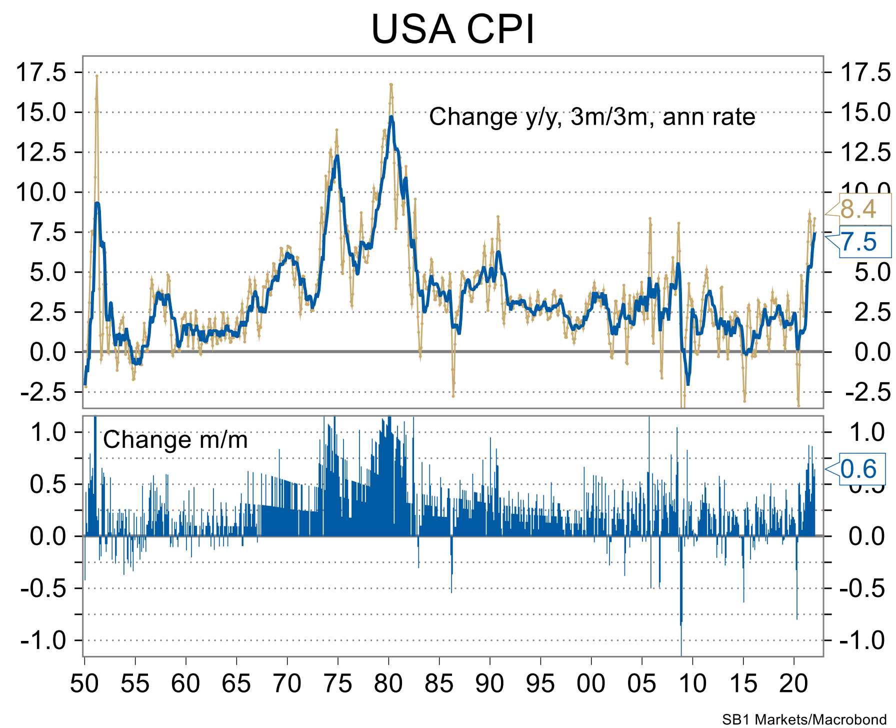


- More companies than ever before (data from 1986) are reporting that they have lifted compensation and that they plan to do so the over next months as well
- The correlation vs changes in actual wage growth some months later (6 – 12 months) is pretty strong
- The correlation between unfilled vacancies and actual wage growth is even tighter, with the same lag
- These data are among the most important – if not the most important – for the Federal Reserve. <u>In the end, wage inflation decides if maximum employment is reached or not</u>. Now it seems to be more than reached

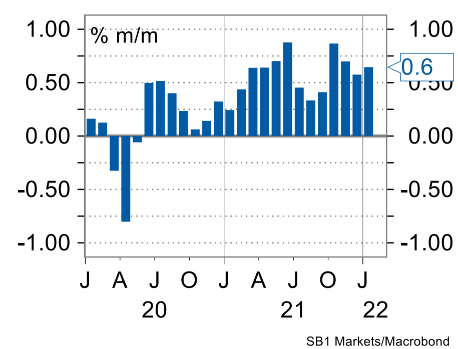
7.5%!

0.2 pp above expectations – up from 7.0% .Inflation is broadening further. Because demand >> supply



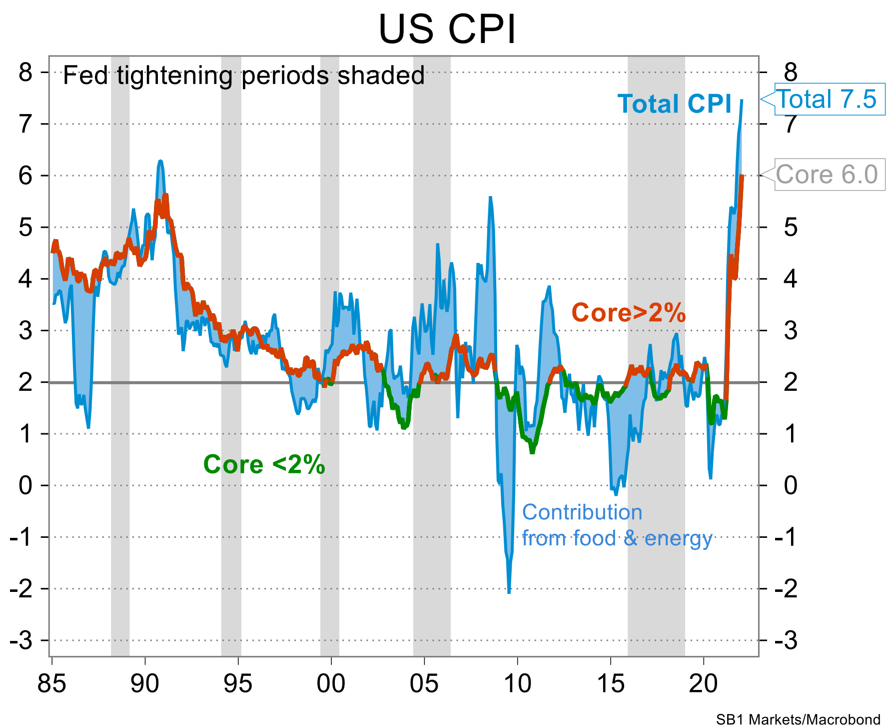


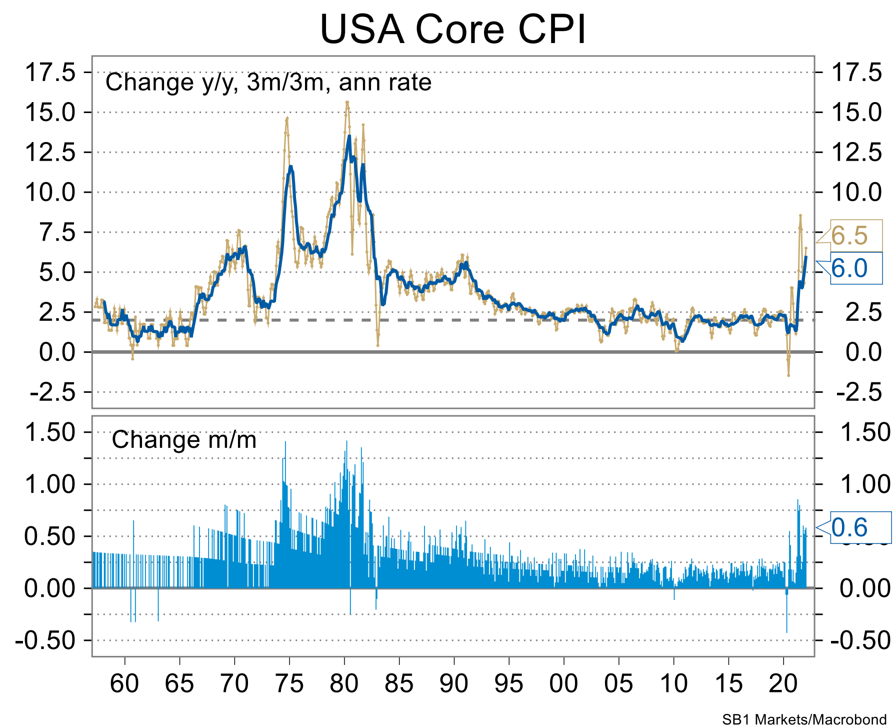
- **Headline CPI rose** 0.6% m/m in Jan, 0.1 pp more than expected. The annual rate accelerated 0.5 pp to 7.5%, the highest since 1982. The 3m/3m rate is at 8.4%
- **Energy prices** rose slightly in Jan, and are 27% up y/y, contributing 1.7 pp to the headline growth, 0.1 pp less than in Dec
- Both new and used **auto prices** climbed further, and explains 1.7 pp of the annual rate too
- However, **other prices** are climbing faster as price inflation broadened further. Cleveland Fed's **trimmed median CPI** accelerated 0.4 pp to 6.6% (6 m pace), another ATH (with data from 1983). Other breadth measures confirm
- **Surveys** signal a further increase in prices the coming months. The base effect may soon become hard to beat vs the annual rate, as prices rose rapidly during the spring last year – and the annual rate will very likely soon peak
- The **Federal Reserve has** now finally changed tack. Just after the CPI report, FOMC voting member James Bullard proclaimed that he was in favour a 50 bps hike at the March meeting. Market rates shot up – and only partially reversed Friday in the short end



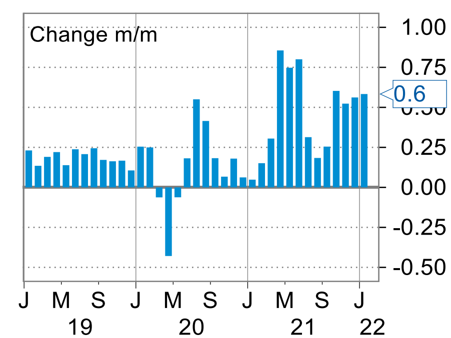
Core inflation up too, annual rate up 0.5 pp to 6.0%!!

Core prices +0.6% m/m in January, 0.1 pp higher than expected. Prices inflation is broadening





- **The 3rd wave: Core prices** rose rapidly during the summer of 2020, during last spring and now for the 3rd time
- There are still some few 'base effects' left – inflation was low one year ago. As these prices are normalising, the annual growth rate is pushed up transitory (yes, transitory!)
- However, prices are up at a 6.5% clip measured 3m/3m – and more prices are climbing faster



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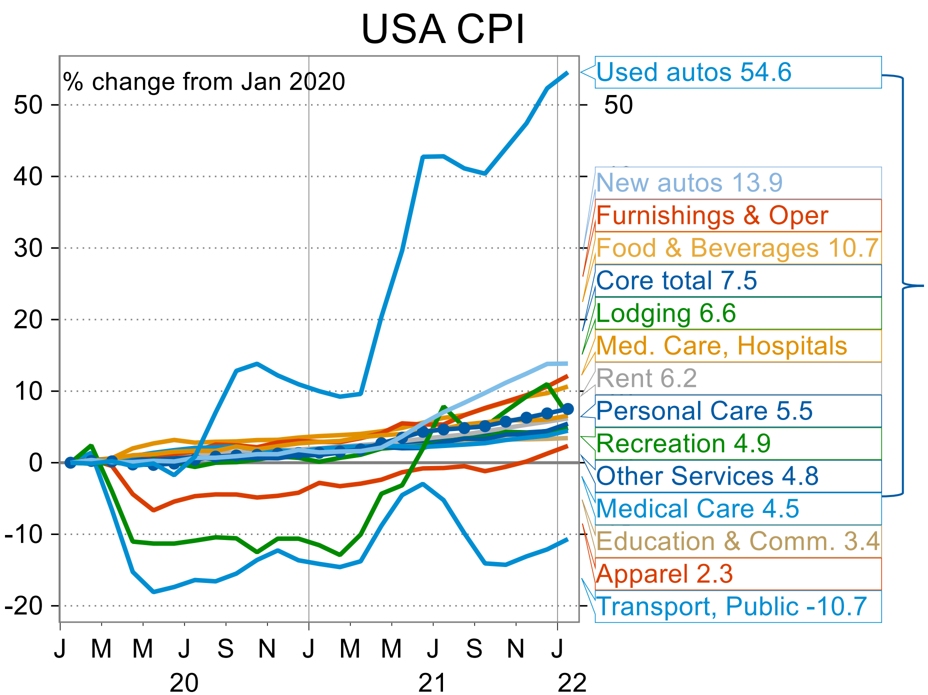
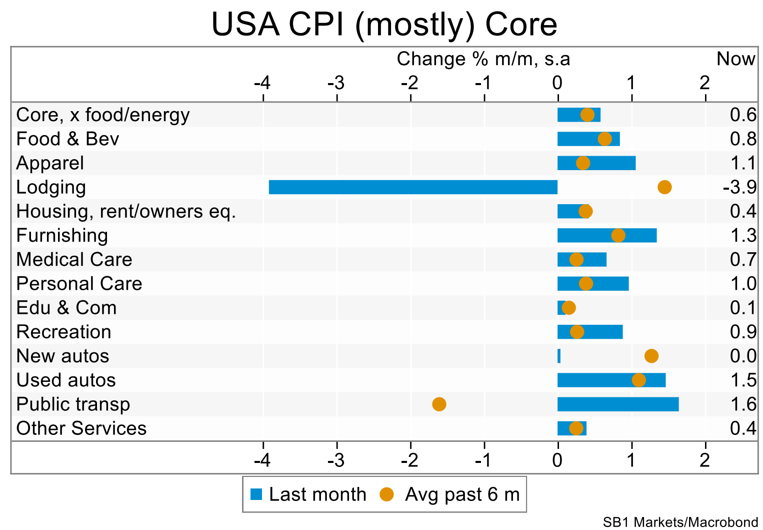
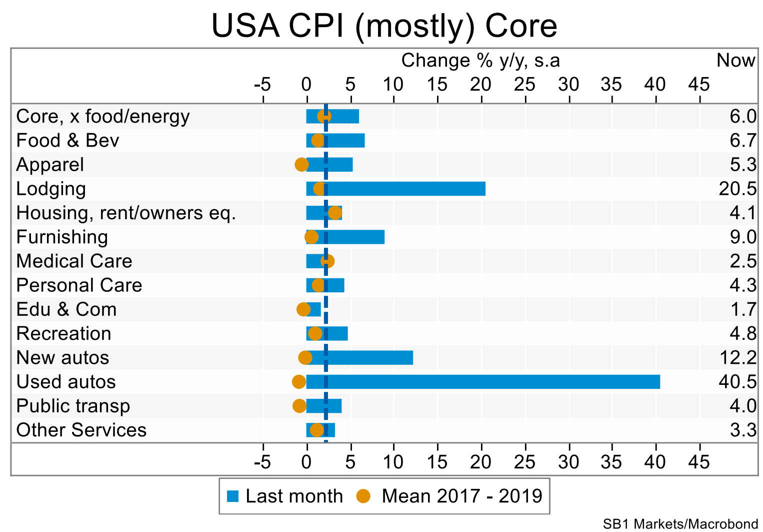
Lodging prices down, probably due to Omicron (less travel/hotel stays)

ALL other prices rose in Janyary. Some will slow sharply measured y/y soon: Lodging & used autos







- Most sectors report growth above 2% from before the pandemic
  - » All sectors but education and communication are up more than 2% y/y
- One day: A huge downside for used auto prices, some for new autos & furnishings as well. But not in December

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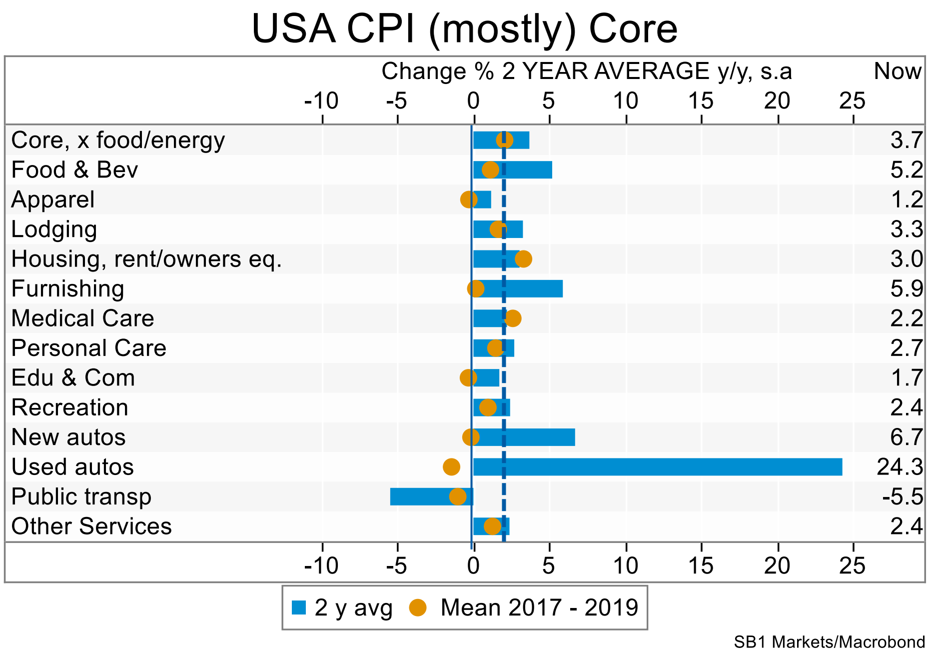
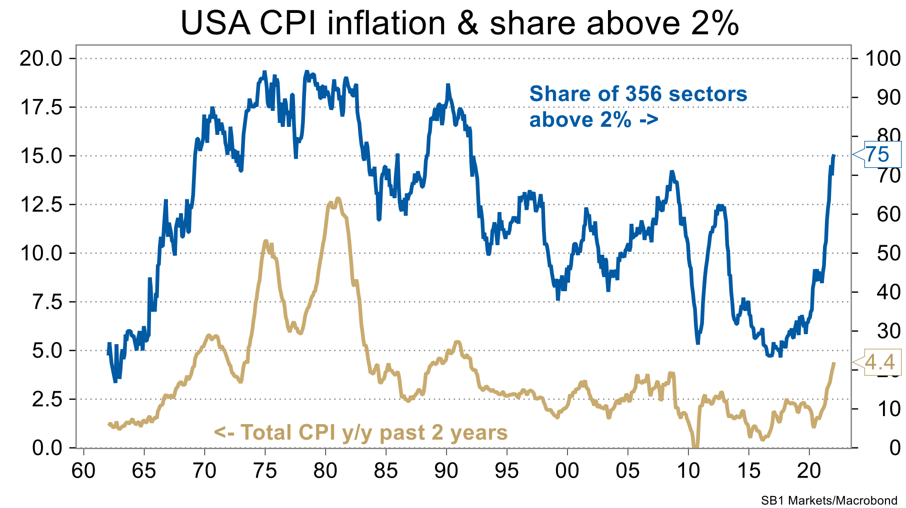
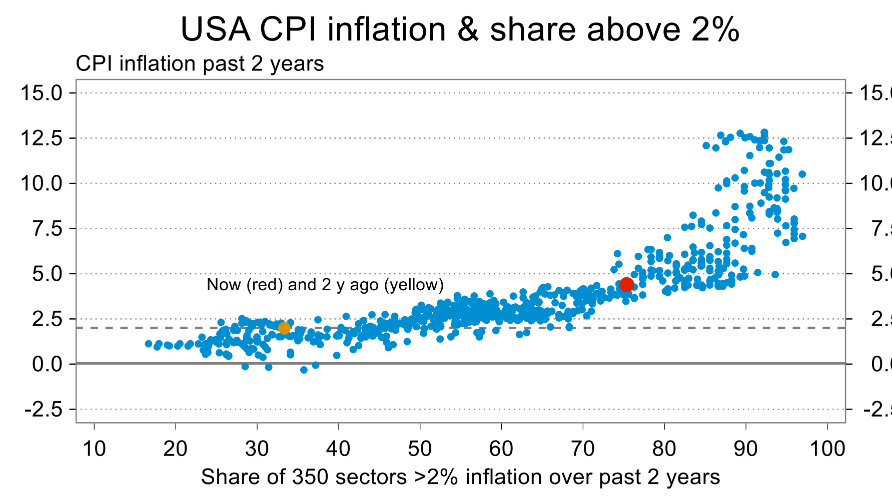
Inflation over the past 2 years: 11 sectors >2%, 3 up <2%

2 y avg core inflation 4.2%, up from a 2.1% average in 2017 – 2019 – and broadening, 70% up >2%



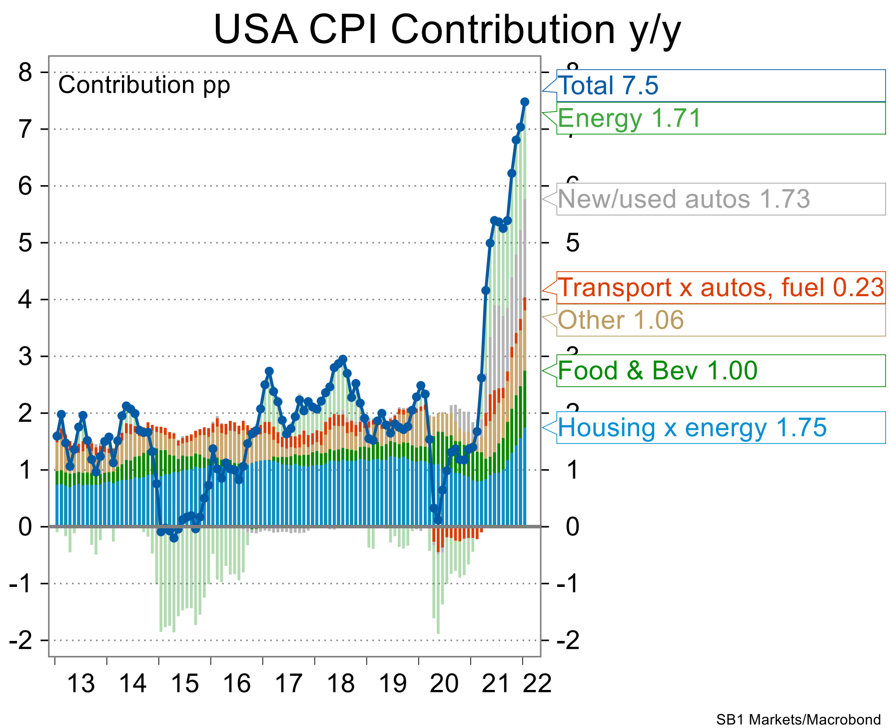


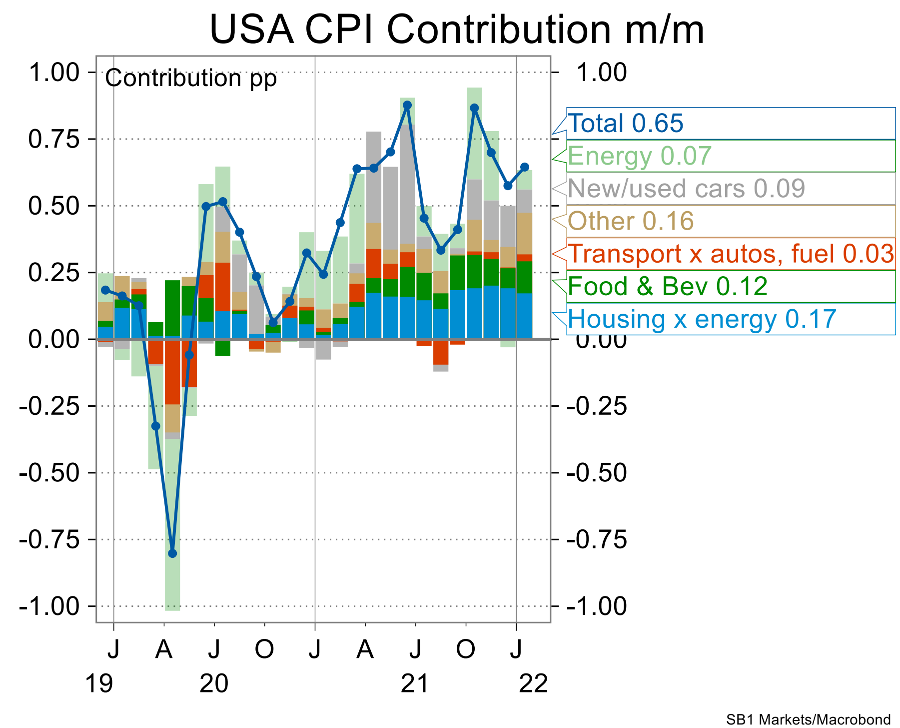


- Measured over the past 2 years vs the 2017-19 average, inflation has accelerated in 11 sectors, and slowed in 1 sectors (public transport, airline traffic has not fully recovered)
- Of 350 sub-sectors, 75% are up more than 2% over the 2 past years, normally signalling an inflation rate at 4% - where we now are

Transport (incl. used cars) & energy explain 3.7 pp of the 7.5% lift in total CPI

The rest is up by more than 4% y/y – and rapidly accelerating





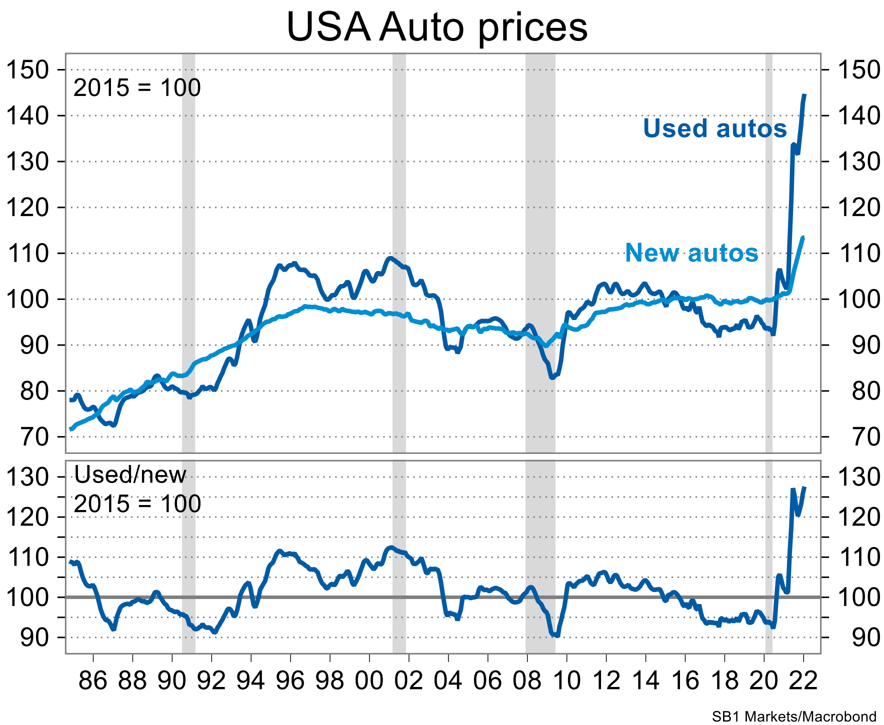
- **Energy** rose slightly in January, and more than in the same month last year
- As **used car prices** once more in January, as did new auto prices – in sum a 0.09 pp contribution to the monthly 0.6% total gain
- However, **excluding** the 3.9 pp contribution the headline CPI from energy & transport, **“remaining” inflation** has accelerating rapidly
- **Housing x energy** (and x lodging) is contributing by 1.8 pp, the highest rate in many years, though partly due to a low base. Rents are up almost 4% y/y, but the upside is probably now limited

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

SpareBank 1 MARKETS

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

The downside for both is substantial as soon as new car production recovers



- Used car prices rose by 1.5% m/m in January while new prices were unch. - and prices are up 41% and 12% y/y resp.
- Production of new cars is still way below demand – but prices are more up in the US than elsewhere
- At one stage at least used auto prices will 'collapse', down to a normal level vs new car prices – and there is a substantial downside for new cars as well

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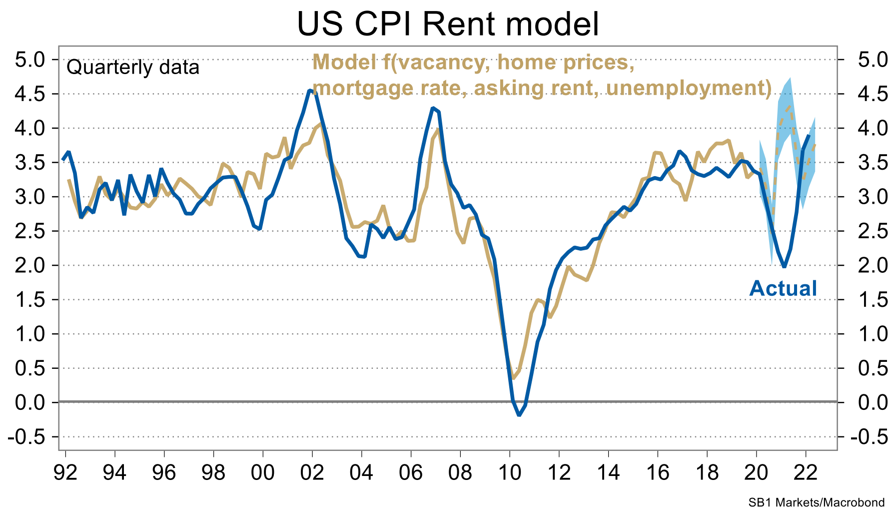
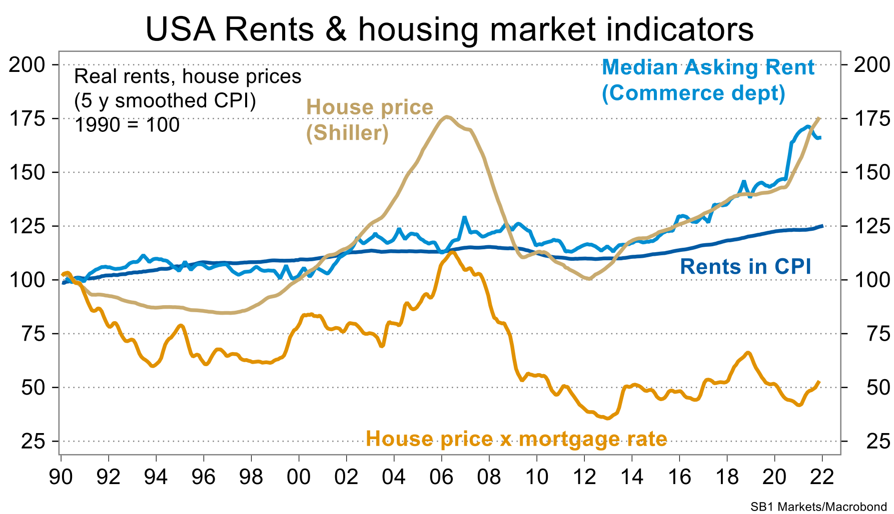
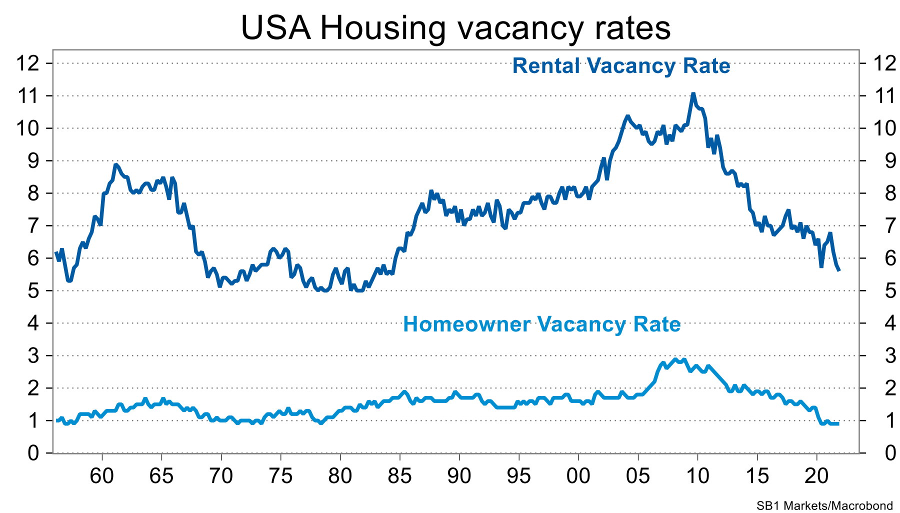
Rents are on the way up – but the upside from here is limited?

Rents are up almost 4% y/y and our model does not a further acceleration



- **The official (Commerce dept) rental asking price** has flattened recent months and rents have been reported down since last autumn. Other rental surveys are still reporting higher rent inflation but from a lower level.
- **House prices** are up some 18% y/y
- **The rental vacancy rate** fell further in Q4, and it is very low. **The homeowner vacancy rate** is trending down, and at a record low level
- **Rent inflation measured in the CPI** has accelerated to 3.9% from 2%, to above the pre-pandemic rate at some 3.5%
- **Our model**, even assuming a market slowdown in rental asking price inflation and in house price inflation but adding a modest increase in mortgage rates, do not signal a further increase in rent inflation, as measured in the CPI

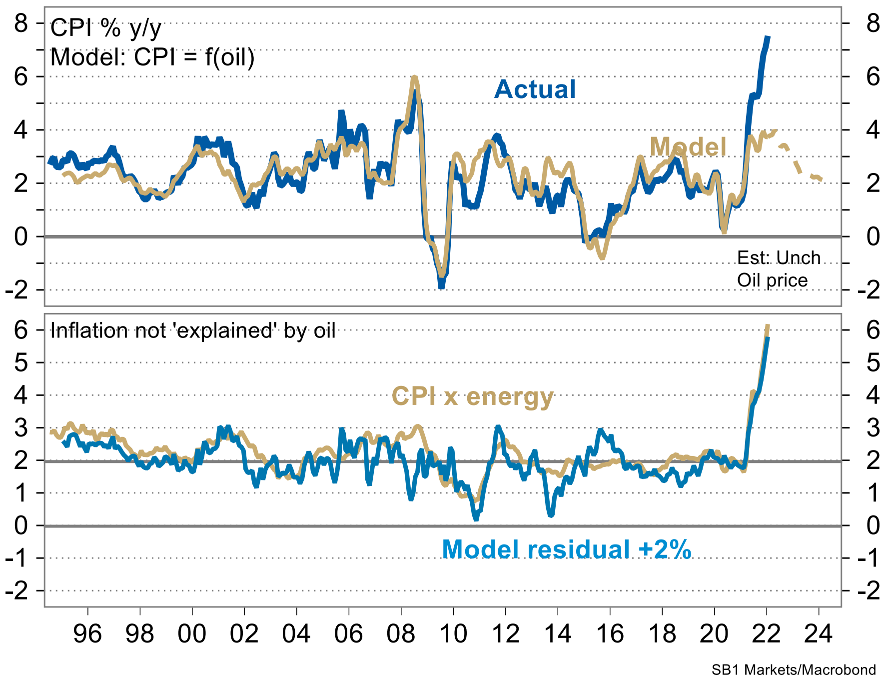




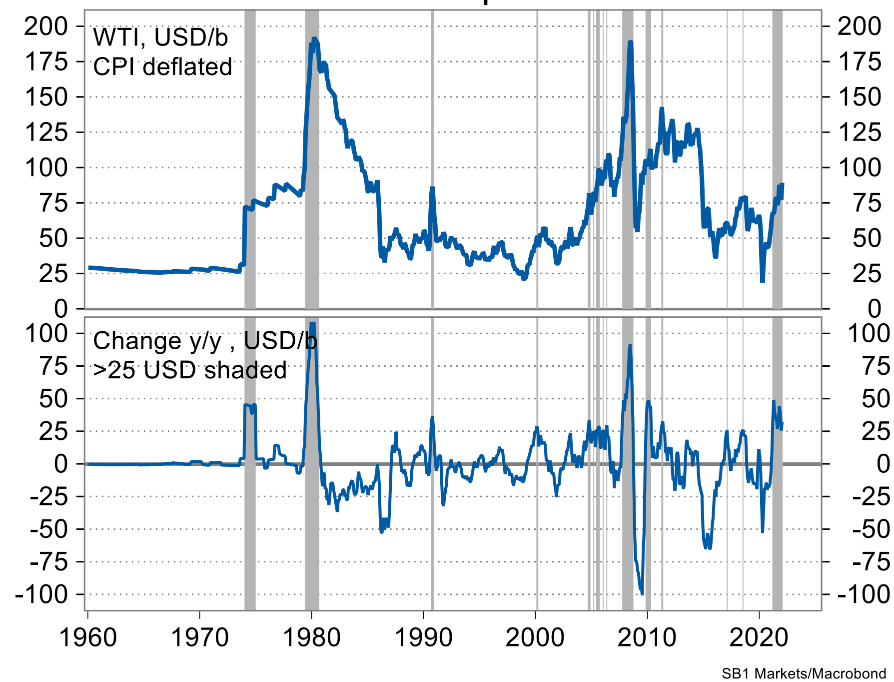
The oil price moves the CPI as usual – but now there is a lot of other prices too

CPI is up almost 4 pp more than explained by the oil price, unprecedented

USA CPI vs Oil



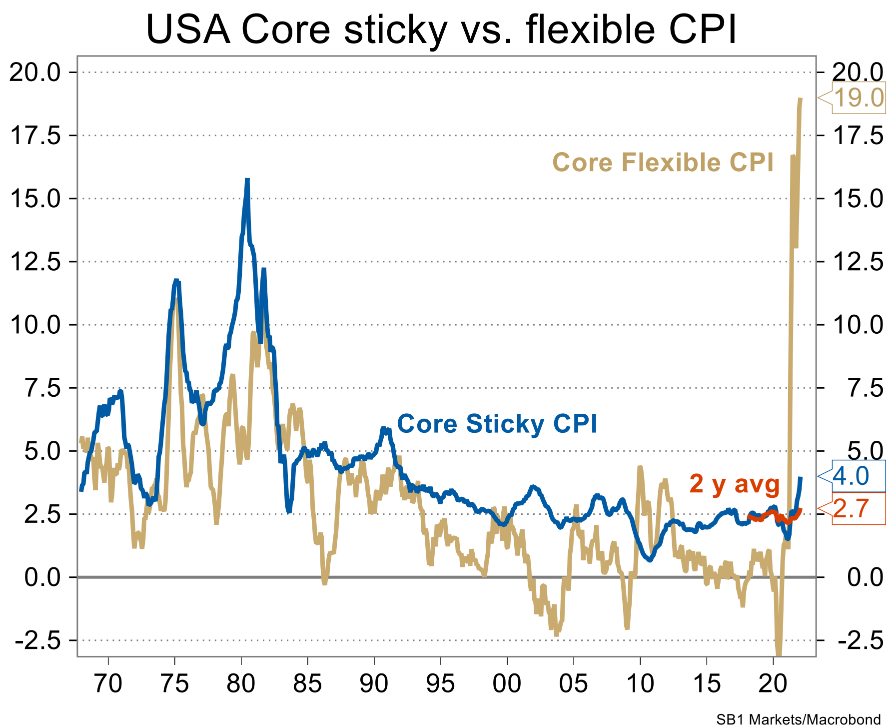
The Oil price

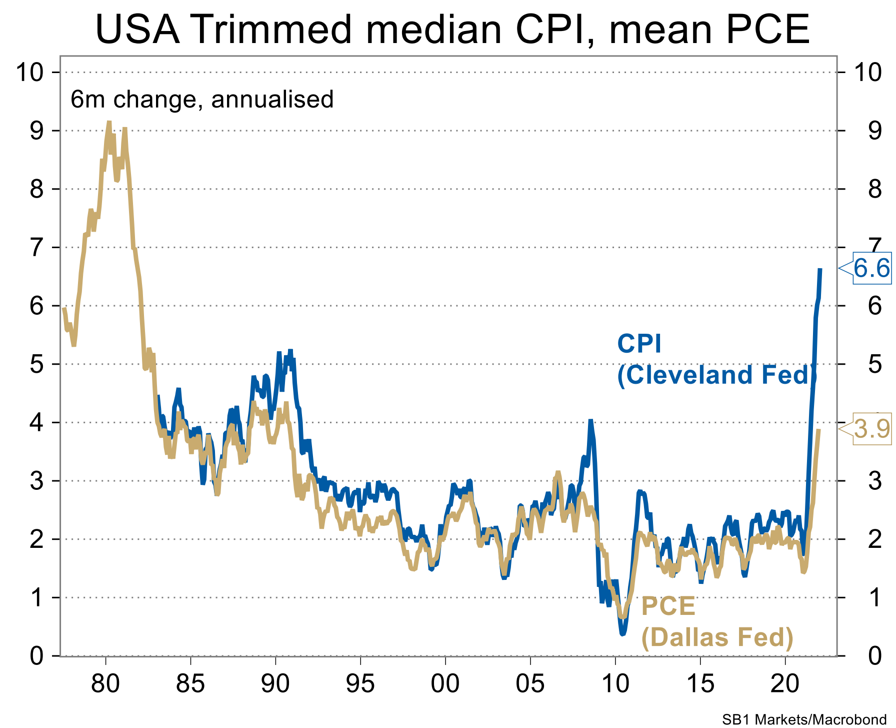


- **Oil price cycles** have explained some 80% of the changes in CPI growth the past 30 years
  - » In our model we incorporate all direct impacts from changes in the oil price – as well as the impact from other factors that influenced inflation which correlates to the oil price
  - » <u>If the oil price stabilises at the current level, the impact on the CPI will gradually fade the coming quarters</u>
- From time to time, there are **substantial residuals**, but not like we are witnessing now: Headline inflation is almost 4% above the model forecast, and the CPI x energy index (which is close to the core CPI) has climbed by 3 pp too

Fewer excuses left, more prices are rising faster

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

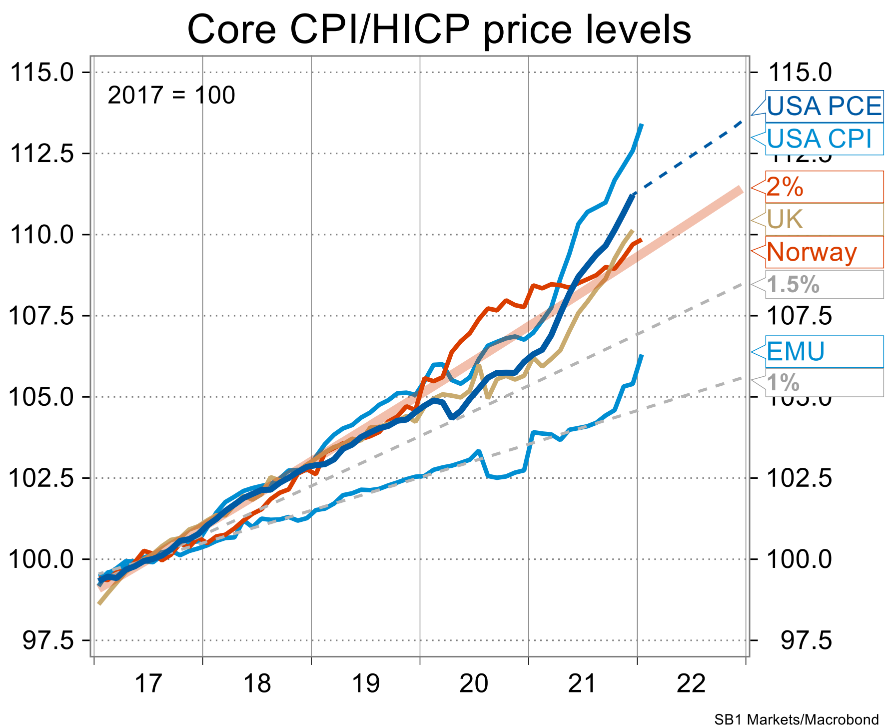




- The Cleveland Fed **trimmed median CPI** is up at a 6.6% pace over the past six months, up from 6.2% in Dec – and miles above anything seen before (data from 1983). Dallas Fed's **trimmed mean PCE** was up 3.9% in Nov, the highest since 1990
- In the CPI, almost all of the initial lift in core CPI was due to prices of good & services that often fluctuate, with rapid price increases followed by deep price cuts – these prices are **flexible**, and represent some 10% of the core CPI. These prices are up 19%, with a substantial contribution from 2nd hand auto prices. However, these prices are flexible both ways, and the cycles are normally short lived
- The **sticky components** (90 % of the core CPI) are up 4% y/y, the highest levels since 2001 – but as prices fell last year, the 2 y average is still at 2.7%, not a disasterous print - but well above 2%

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

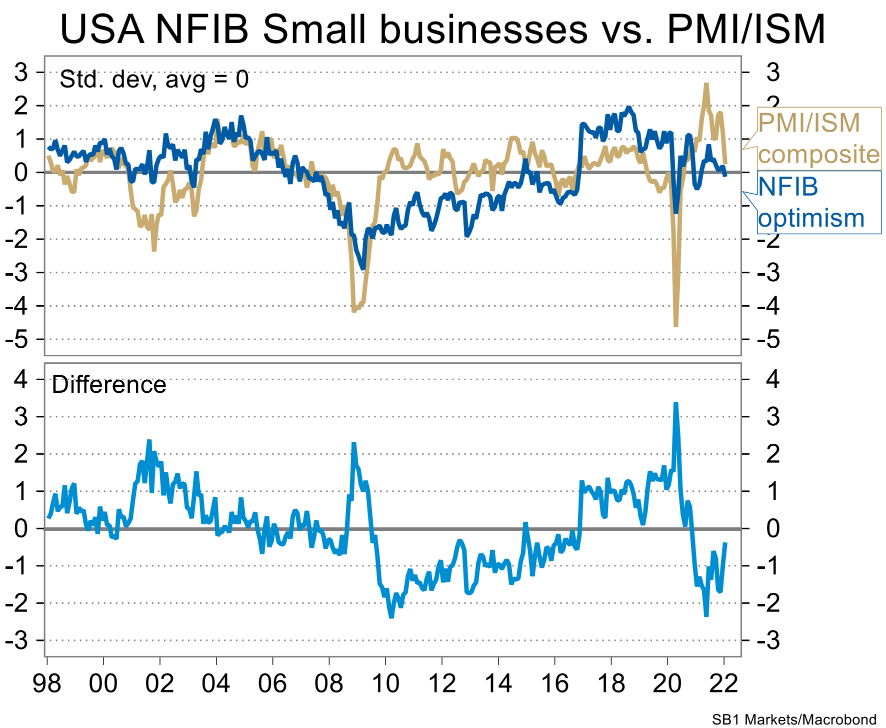
UK is also reporting high core inflation rates

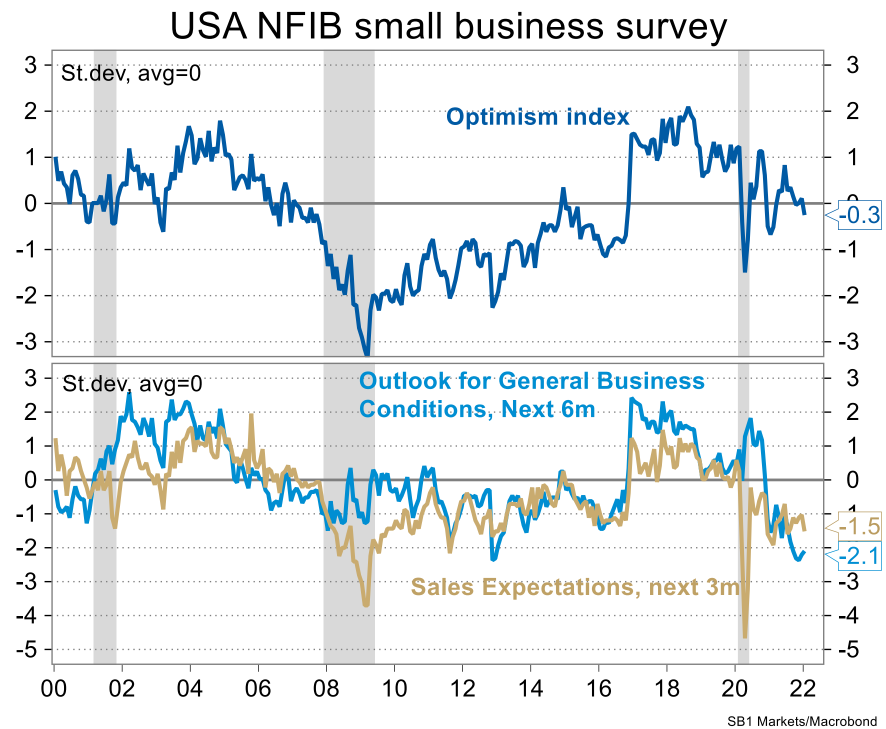


- UK is still quite close to a longer term 2% trajectory, while the US is well above
- The EMU price level has climbed… somewhat the past 3 months – but the price level is not 'high'

Small businesses optimism down to below par in January

Somewhat less aggressive price plans, hiring marginally less difficult

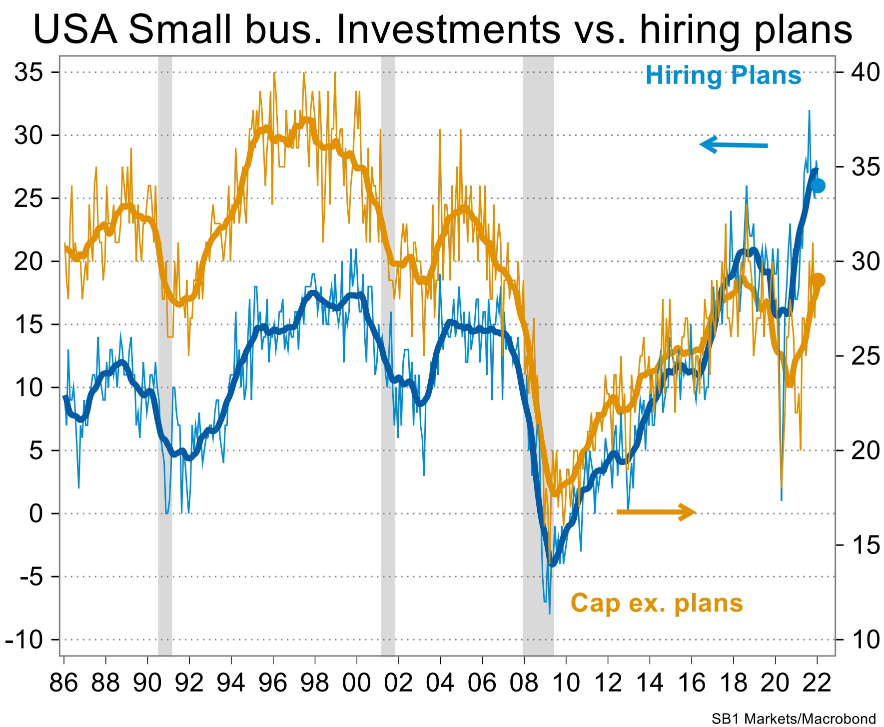


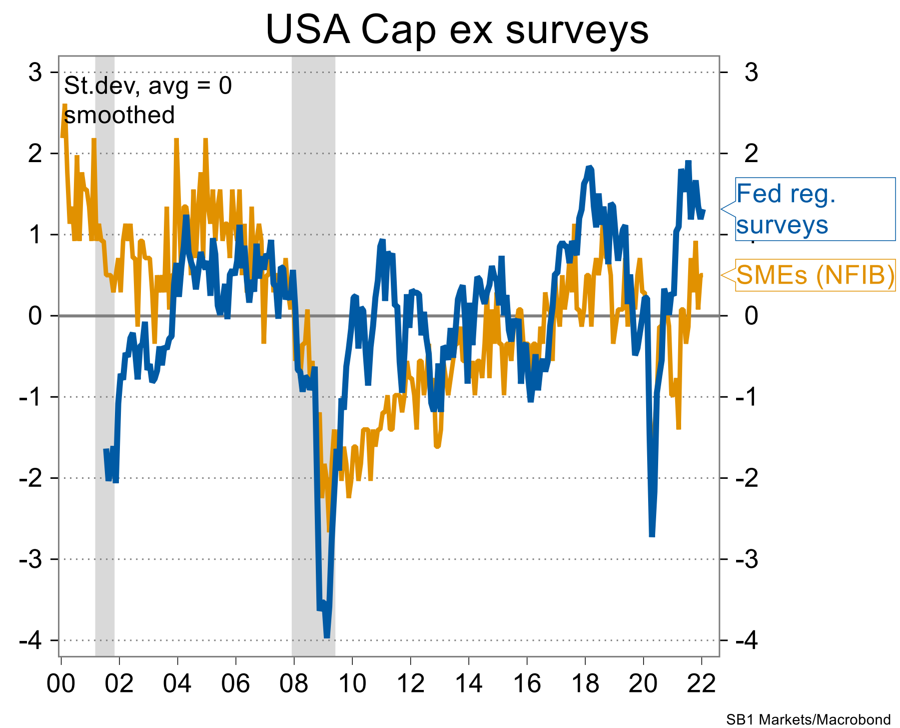


- The **NFIB optimism** index declined 1.8 p to 97.1 in January, expected down to 97.5. The index 0.3 st.dev below average. The distance up to the average of PMI/ISMs has been reduced, as the latter have fallen faster than NFIB optimism
- **The outlook for the next 6 months** rose slightly, like in December, but it remains incredible weak, at 2.1 st.dev below par, close to all-time low, and well below the dark days of the Financial crisis. Lack of qualified labour, labour costs, inflation worries. 'Nobody' is complaining about current sales, and close to a record companies report they plan to lift prices further. **Investment plans** were revised up and 0.5 st.dev above an average level
- **Hiring plans** were still very high in Jan, just somewhat down from the ATH level last Aug. Somewhat fewer SMEs were not able to **fill their vacancies,** but still many more than ever before, barring the previous few months**.** More companies report planned **compensation increases** than ever before
- The share of companies planning to lift prices rose further, to ATH (data from 1974). And they have usually done what they say they plan to do

The SMEs plan to hire more than almost ever before

In addition, they plan to invest more than normal





- Other investment surveys are still more upbeat than the small business survey – and they were – in average – strong in January

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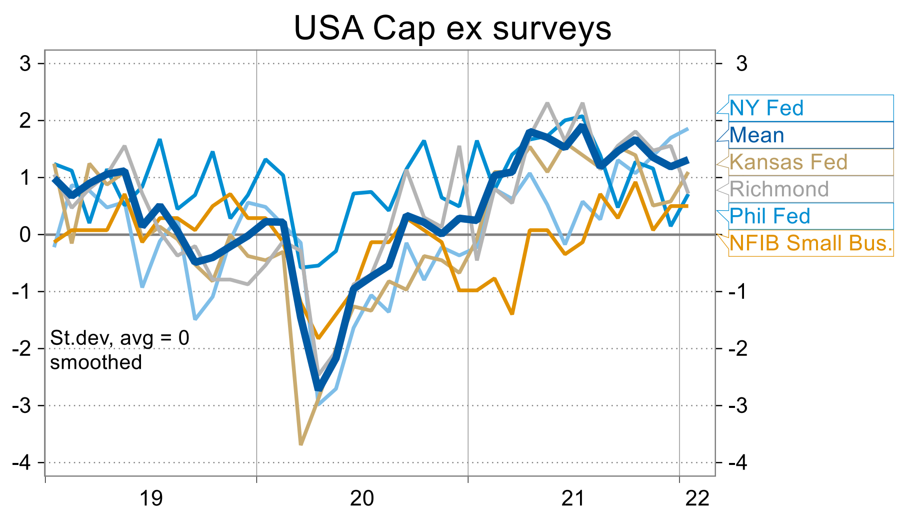
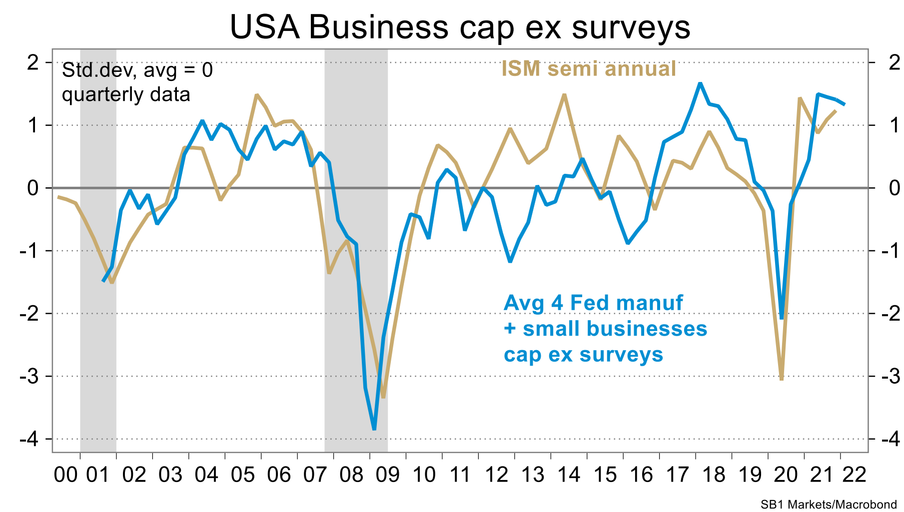
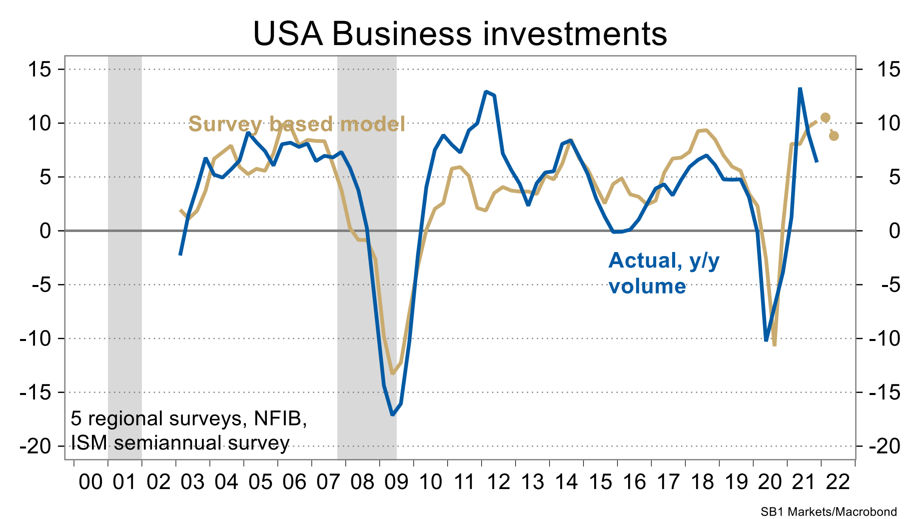
Investment surveys signal continued solid growth in business investments

Taken together, very aggressive investment plans – signaling 8 - 10% actual growth!

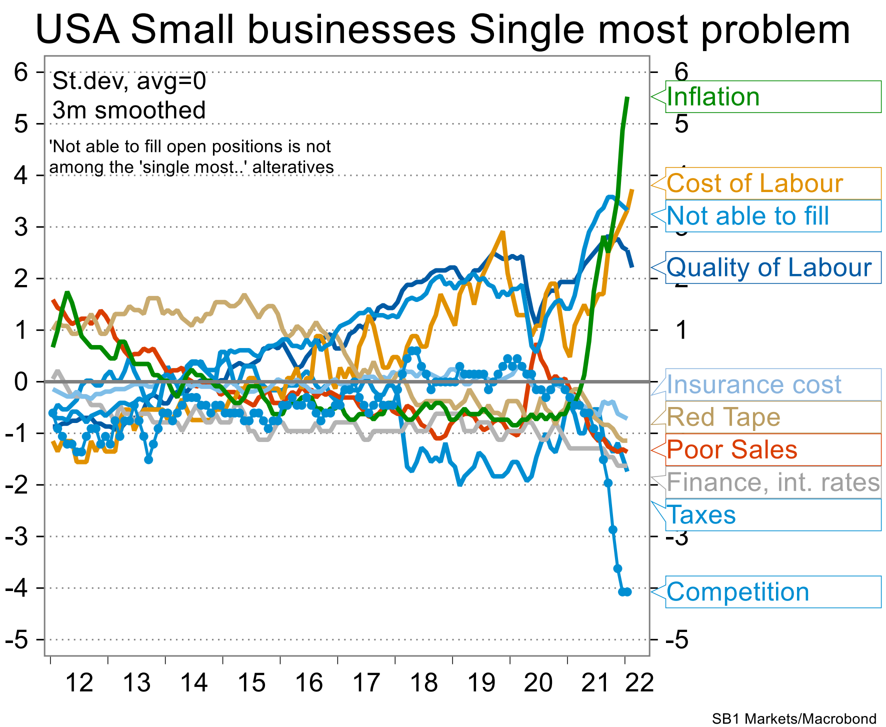


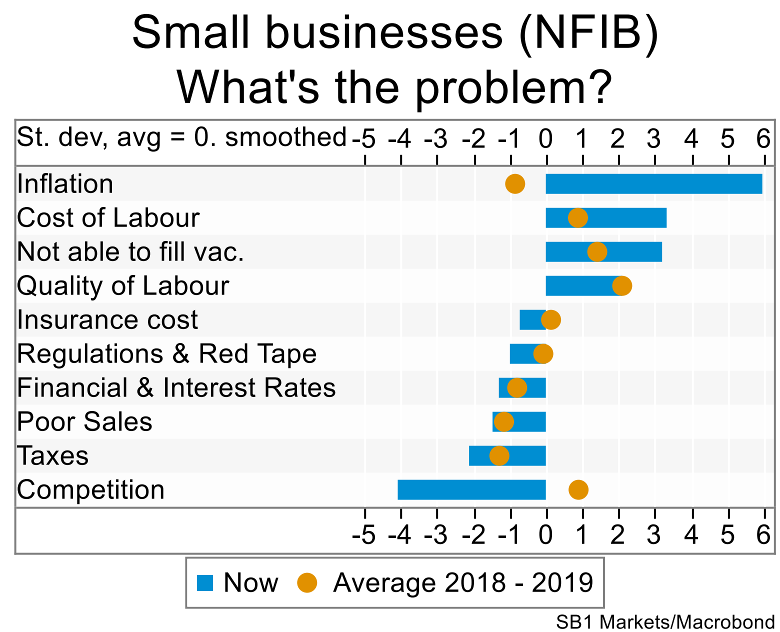




Record few companies complain about poor sales & competition from large companies

Record many complain about cost/quality of labour. And inflation, even if they are 'selling it'



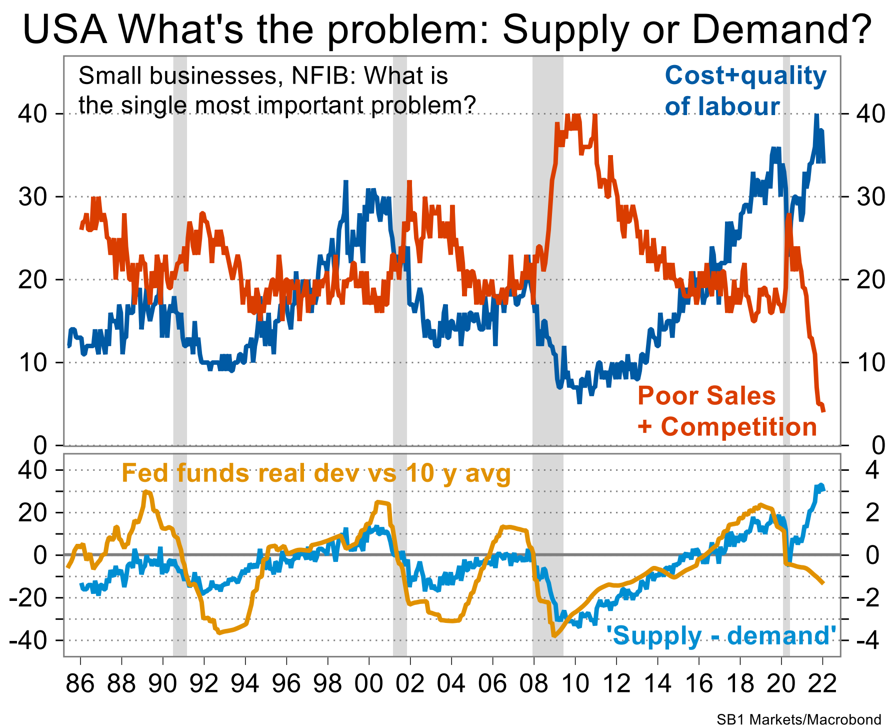


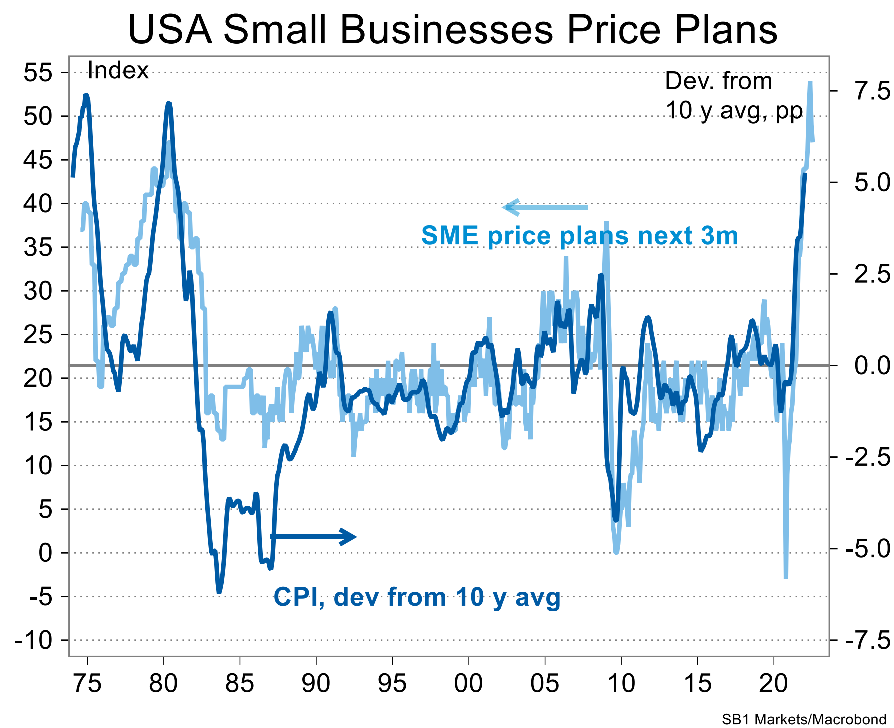
- Thus, companies report they are constrained from the **supply side**, not from the **demand side**
- In addition, **inflation** is now quoted as the most important problem for the SMBs. However, the SMBs themselves are making the problem even larger – more companies than ever before plan to increase their selling prices ☺
- These data are really incredible, at least vs the monetary policy stance that has ruled until now. *Check next page*

In the charts above, we have included the 'Not able to fill open positions' data from the survey, but this is (rather strangely) not an alternative in the single-most-problem question in the survey. We still show it at the chart

Sales are fantastic, labour supply is still the challenge

Even so, some fewer companies report that they plan to lift their selling prices

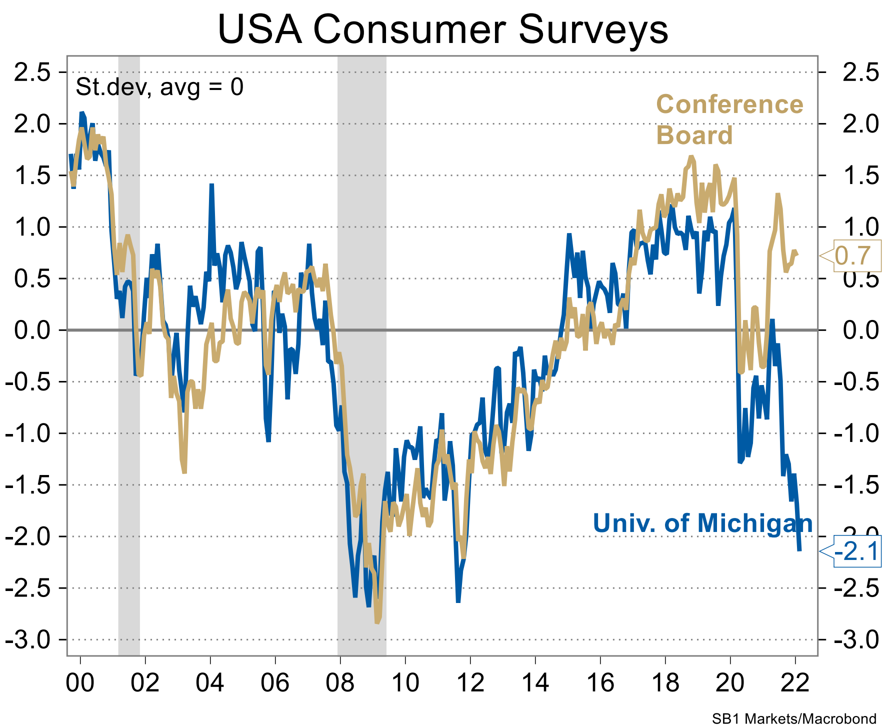




- The share of SMEs that plan to hike their **selling prices** fell 2 pp, but 47% is an extreme print, check the chart to the right
- This survey has been mentioned by Powell, as one of several data points that finally made him change his mind
- Still, Fed's problem is that the demand surplus has been widening from a high level since early 2021 –and the policy is tightened far later than normal vs the cycle – and they have barely started!

Univ. of Mich. consumer sentiment sharply down in early February

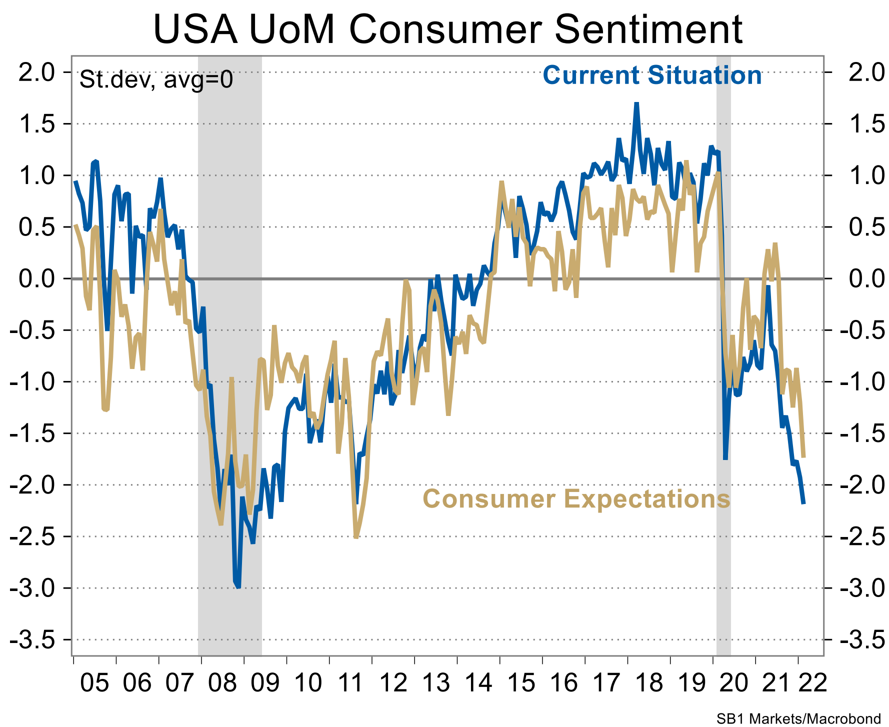
Inflation is a major concern, for good reasons. Still, sentiment is far below any fair 'model estimate'

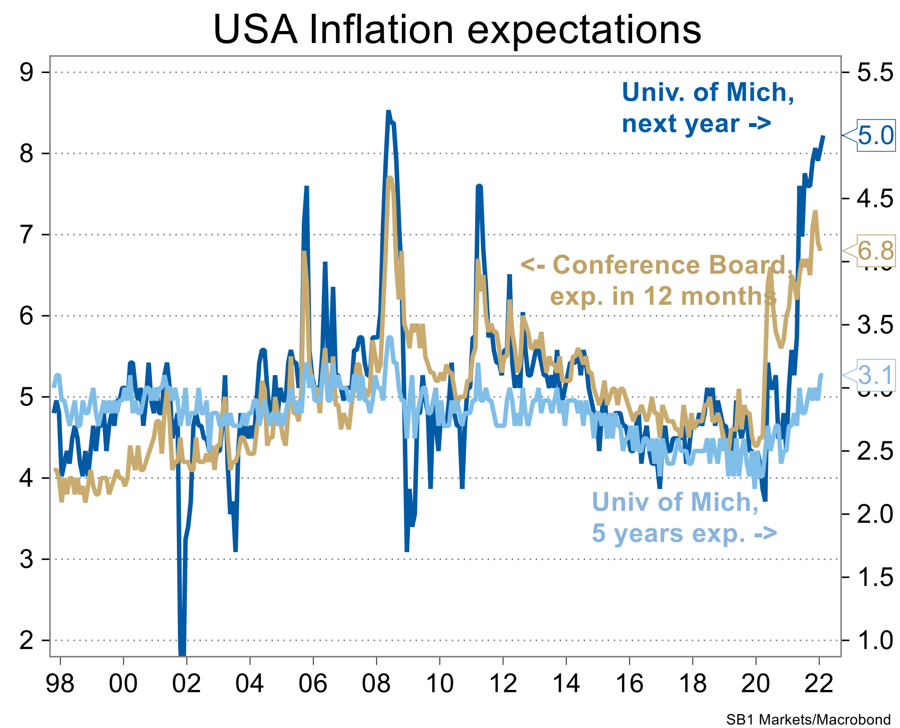


- **University of Michigan's consumer sentiment** index plunged by 5.5 p to 61.7, or by 0.4 st.dev to -2.1, expected close to unchanged
  - » The level is the lowest since 2011- and among the weakest prints in decades – while unemployment is close to the lowest level in decades – and while Covid cases are falling rapidly
  - » But households' assessment of the current situation, and their expectations declined, and are at very low levels
- **2 of the other 3 consumer surveys** we are following report consumer confidence far below average levels, and was the the 'UM-level' in January. Just Conference Boards measure is still above average (at +0.7 st.dev)
- Sure, inflation is a worry, the stock market is wobbling (but still at a high level), and mortgage rates are on the way up (but are still at a low level). Even if some flags are red, it is not possible to explain the current extremely bad mood among households by any standard model
  - » Unemployment is close to record low, and the housing market is going strong. Covid is not included in the model, but the pandemic is on a rapid retreat in the US
- The risk: The UM survey often has been an early bird in the cycle, and the survey may be 'right'

Univ of M: The current situation is really bad. Really? Expectations weak too

Inflation expectations are still inching upwards, now on the 5 y horizon





- The 12 m inflation f'cast rose one tenth to 5.0%, the highest level since 2008. The 5 y inflation expectation was stable at 3.1%, well above the average over the past 10 years – but not much higher than several times during the 2005 – 2012 period

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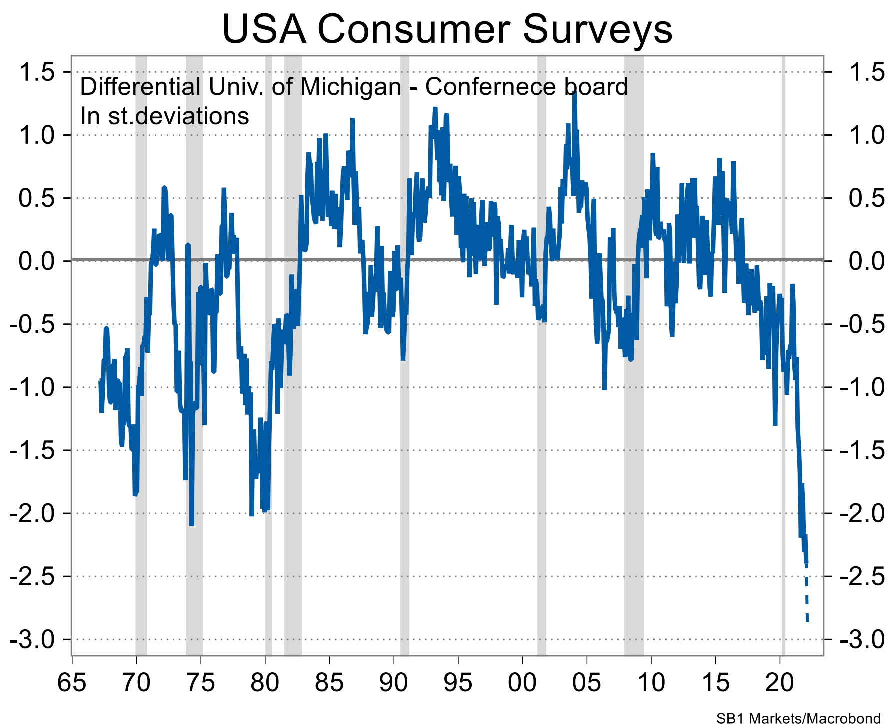
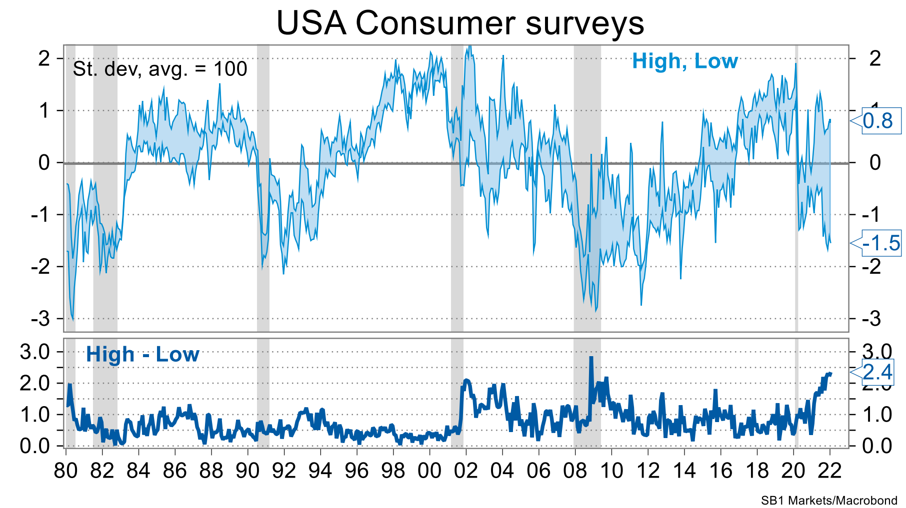
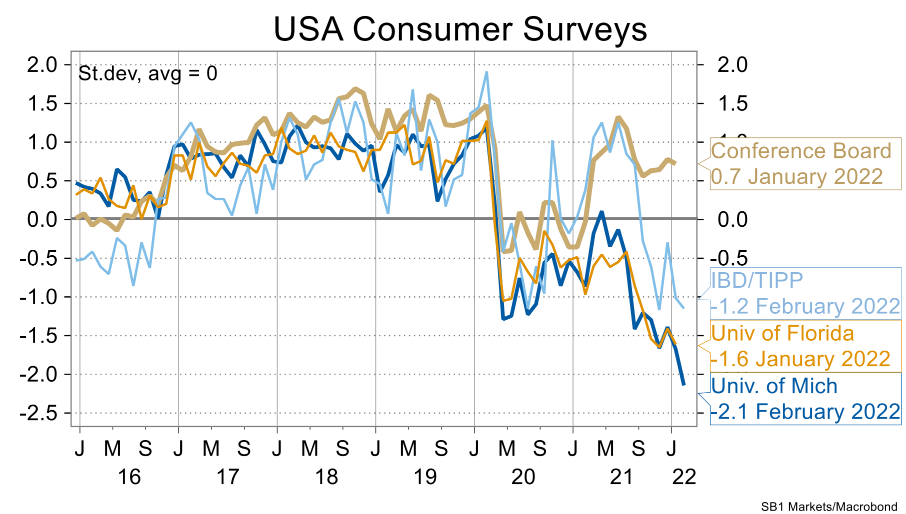
The gap between consumer surveys is unusual – but 3 out of 4 are downbeat

Just Conference Boards Consumer Confidence remains in positive territory (at least until January)



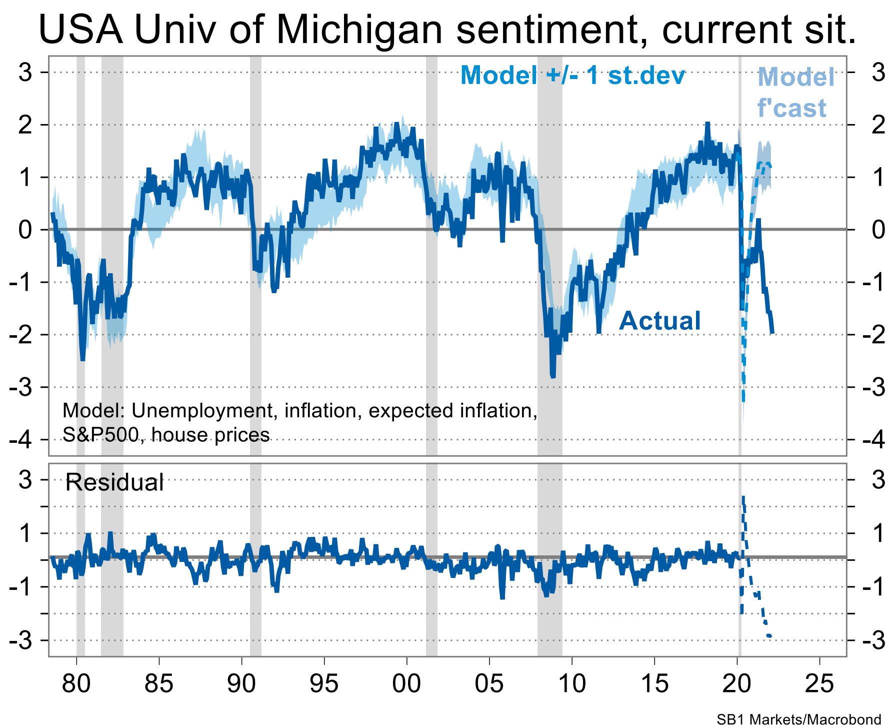


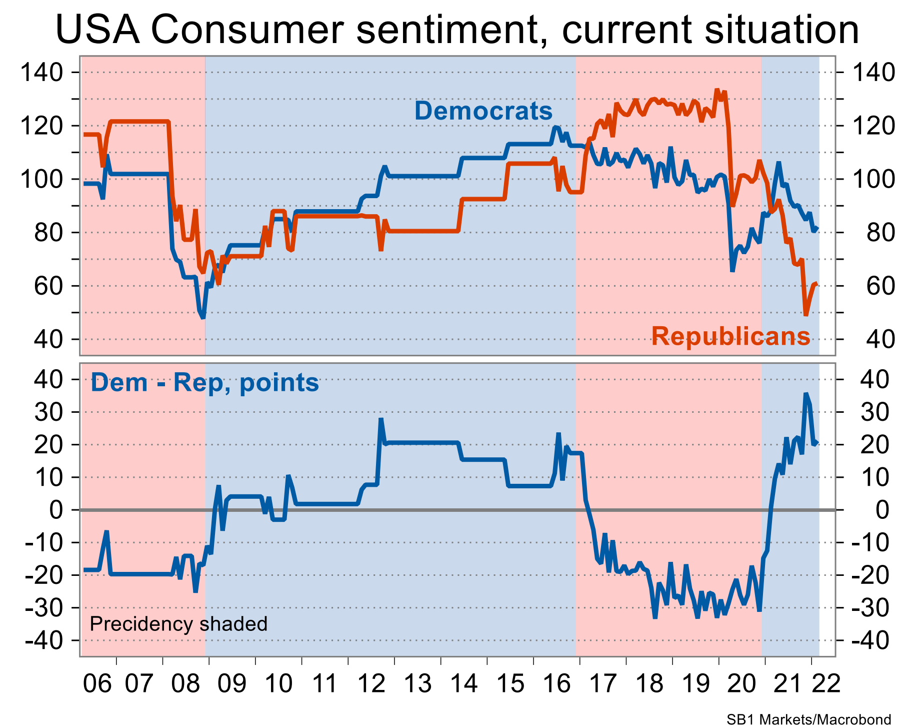


- Quite often, the UM survey the canary in the mine vs. recessions, it yields earlier than Conference Board's survey, and the current stance in not a good warning!
- Still, there are not many other arguments for an <u>imminent</u> recession, and it will take time for the Federal Reserve to create on
- Both the IBD/TIPP, and the Univ. of Florida surveys were 1.2 – 1.6 st.dev below par in January. The Conference Board survey was 0.7 st.dev above

Households should have been quite happy by now, even if inflation is high

Outside the model: The pandemic – but that treat faded in early February





- **Our simple model** explaining the current situation part of UM's sentiment survey has worked pretty well, explaining all important ups and downs by standard economic indicators
  - » Unemployment, inflation w/expectations, growth (ISM), the stock & housing markets, all contributing significantly with the 'right' signs. The deviation in the early phase of the pandemic is due to the unusual developments in markets/in the economy
- However, given the normal drivers, and even if inflation is high, the UM sentiment should have far above an average level now – even if both actual and expected inflation is far above normal – the other drivers should have more than compensated for the drag from inflation
  - » We can not blame overly pessimistic Republicans too much either (they are very negative but not more so the recent months)

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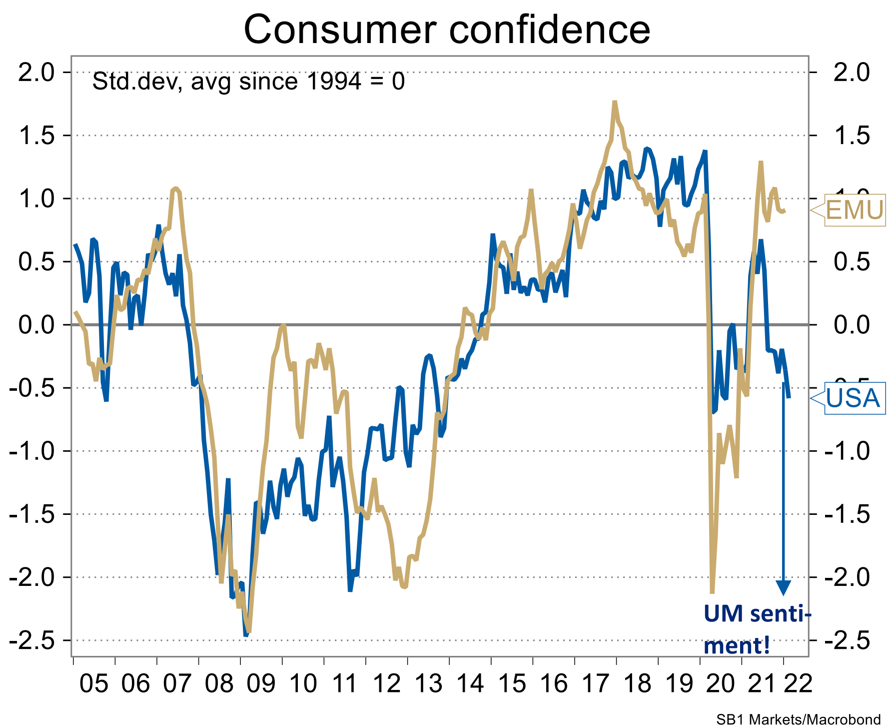
… and why are the (Continental) Europeans so happy??

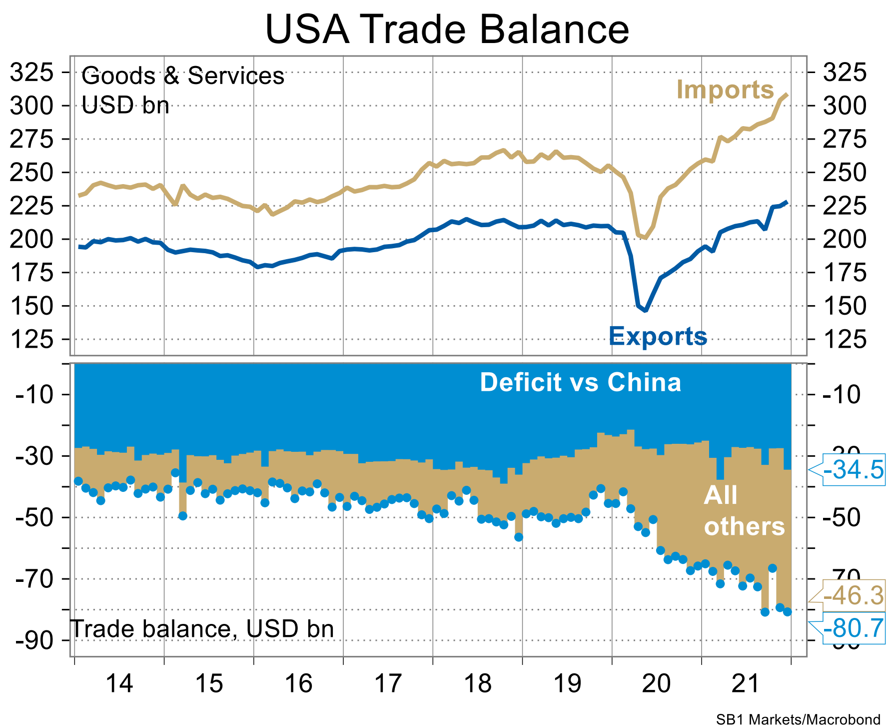
The gap between consumer confidence in Europe and the US UM survey is unprecedented, by far

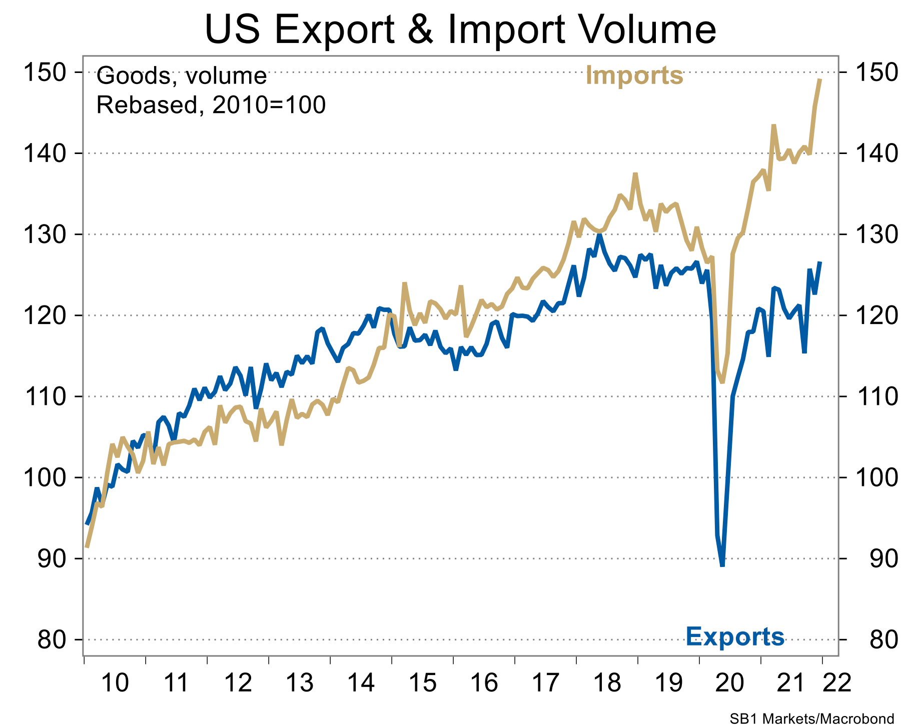


- **Inflation** is sharply up in the Euro zone too
- **Unemployment** is falling in the EMU but it is much higher than in the US
- **House prices** are up in the EMU, but far less than in the US
- **Stock markets** have been less upbeat in Europe than in the US
- *Still, the **Americans** are in a much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

A record high trade close to record high even if exports are climbing rapidly

Imports are even stronger, especially in volume terms. Export volumes finally back to the pre-p. level

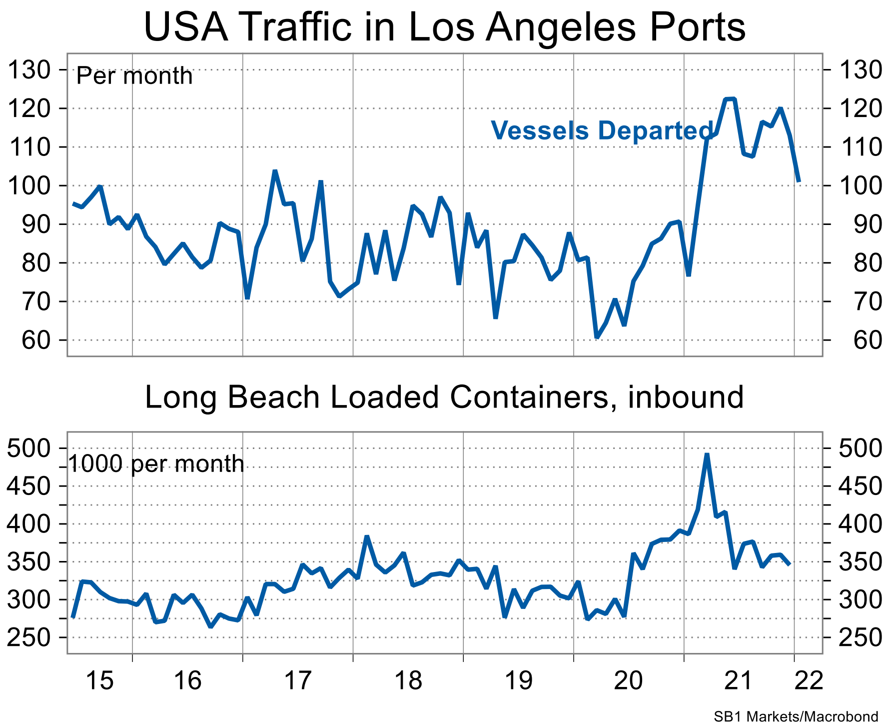




- **Exports** fell 3% m/m in Sept, and is close to unch since before the pandemic level (in value terms). In volume terms, exports of goods fell by 5%, and are down 7% from Feb 2020. We expect many of US' trading partners to increase their demand for US goods, and one day even for services (like travelling into US)
- **Imports** rose by 0.6% m/m, and is 15% above the Feb 2020 level. In volume terms, the imports of goods are 11% above! Demand for goods has been strong during the pandemic, driving imports – even if auto imports have been low. We expect US households' demand for goods to slow the coming quarters, from the present very high level – dampening demand for imports too
- **The trade deficit rose 1.4 bn to USD 80.7 bn, expected up to 83 bn, from prev. reported 80.3 bn**
- **For the year, the trade deficit was the largest ever by a wide margin - but not in measured in % of GDP**
  - **The deficit vs China** is almost at the same level as when Trump became president in 2016. However, the total deficit vs. other countries has increased, also before corona

BTW, why are US harbours so crowded?

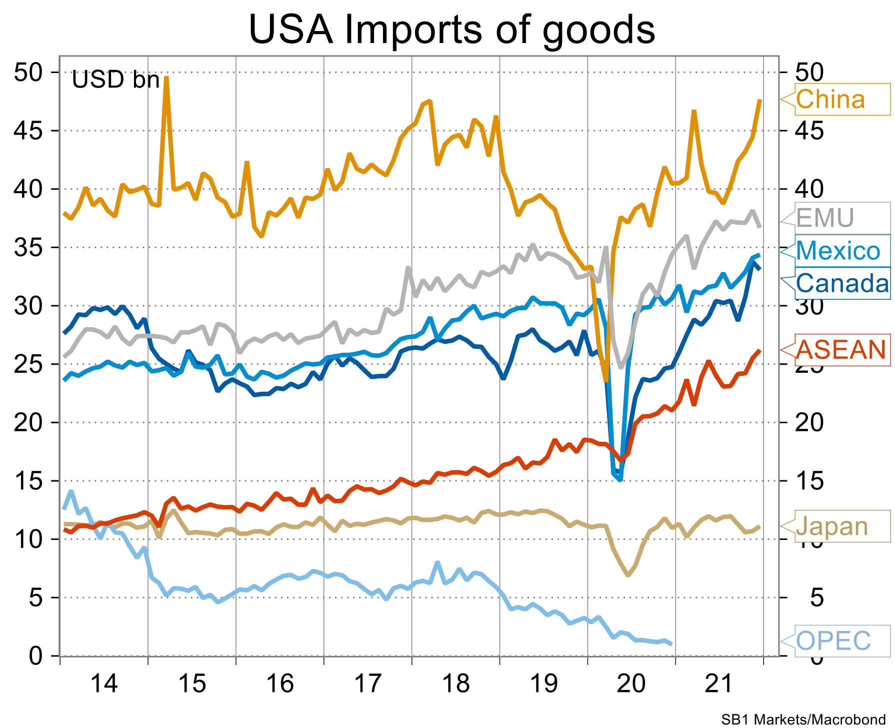
Because (inbound, of course) traffic is much higher than ever before

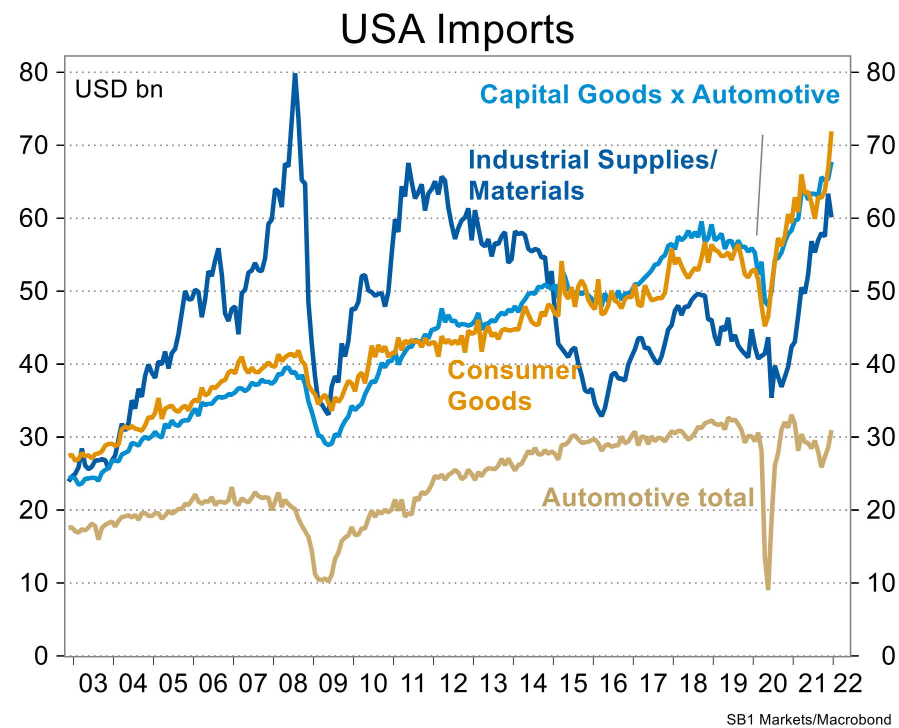


- Sure, there have surely been some capacity problems due to the pandemic but the main challenges have been that harbours have been overwhelmed by many more ship arrivals and much more (inbound) cargo than normal!
- ... Because demand for goods has been much higher than normal during the pandemic
- Now: In January fewer wessels departed, signalling a decline in inbound traffic

Higher imports driven by everything, and now even autos!

Consumer goods are up 36% (in value) from before the pandemic!

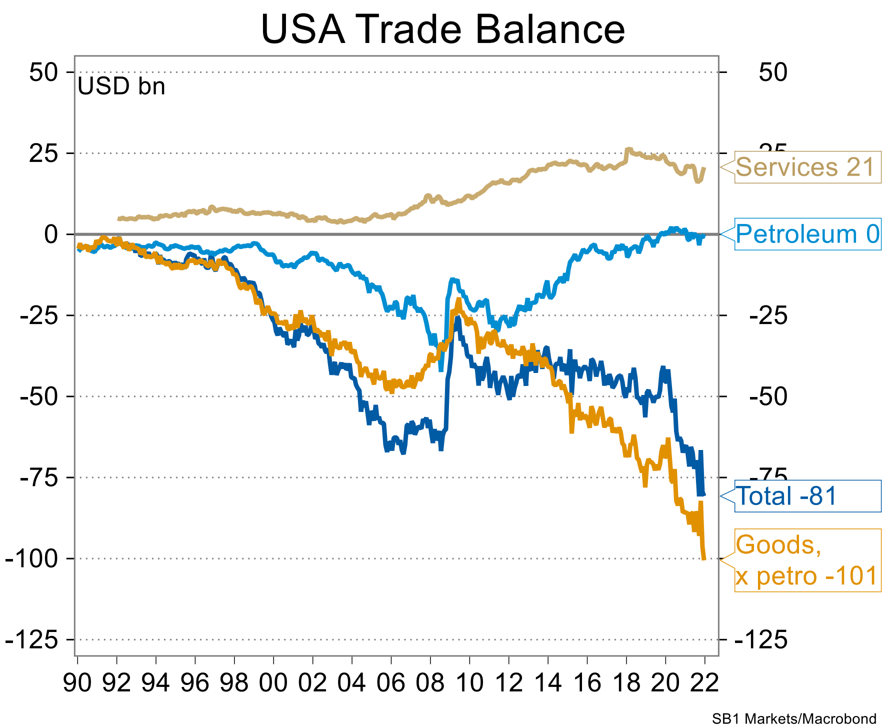


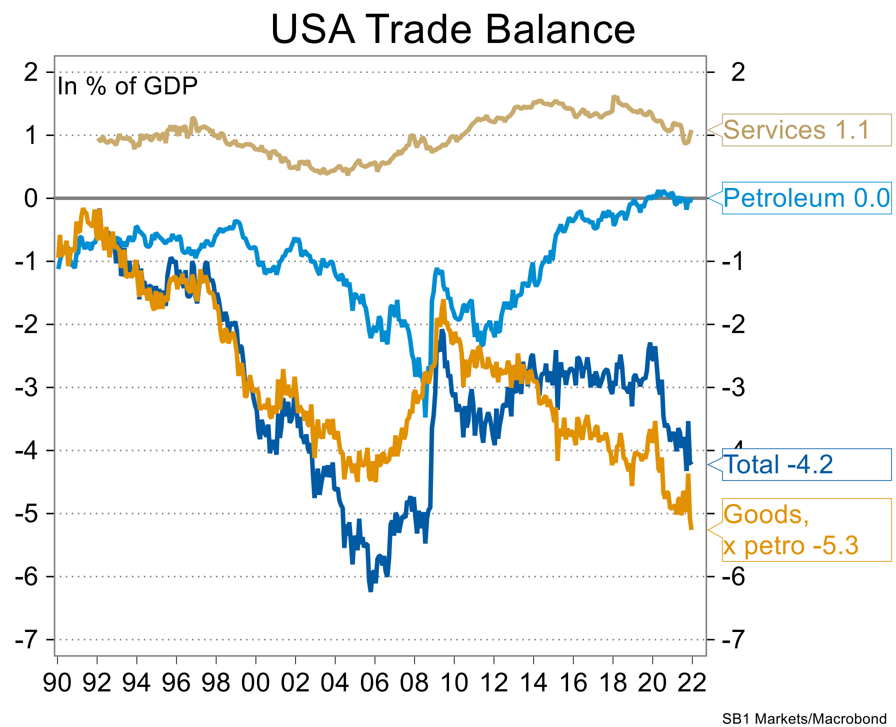


- **Imports from regions:**
  - » Imports from China are ATH (barring a one month's spike in 2015) – and is the largest counterpart vs. imports into the US
  - » Imports from ASEAN (the minor Asians) are trending sharply up – as are imports from Canada
  - » Imports from the EMU has been growing rapidly during the pandemic, but has flattened recently
- **Imports by type of goods:**
  - » Consumer goods imports are surging, but so is imports of capital goods (up 20% vs the pre-pandemic level, and industrial supplies are up more than 40% (all figures in value terms)

Goods x petroleum deficit very high, even in % of GDP

Surplus in services keeps narrowing

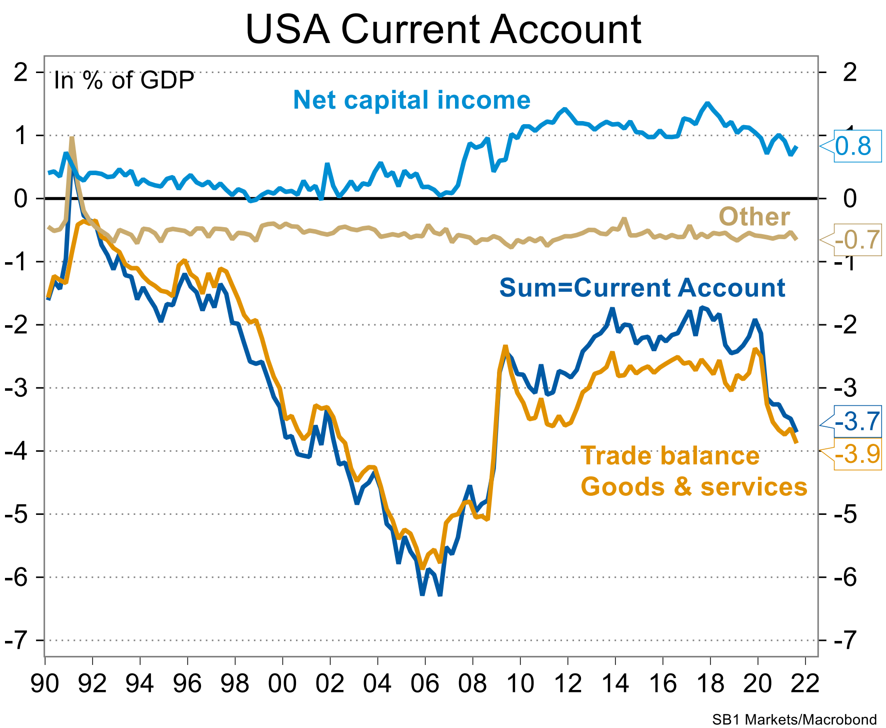


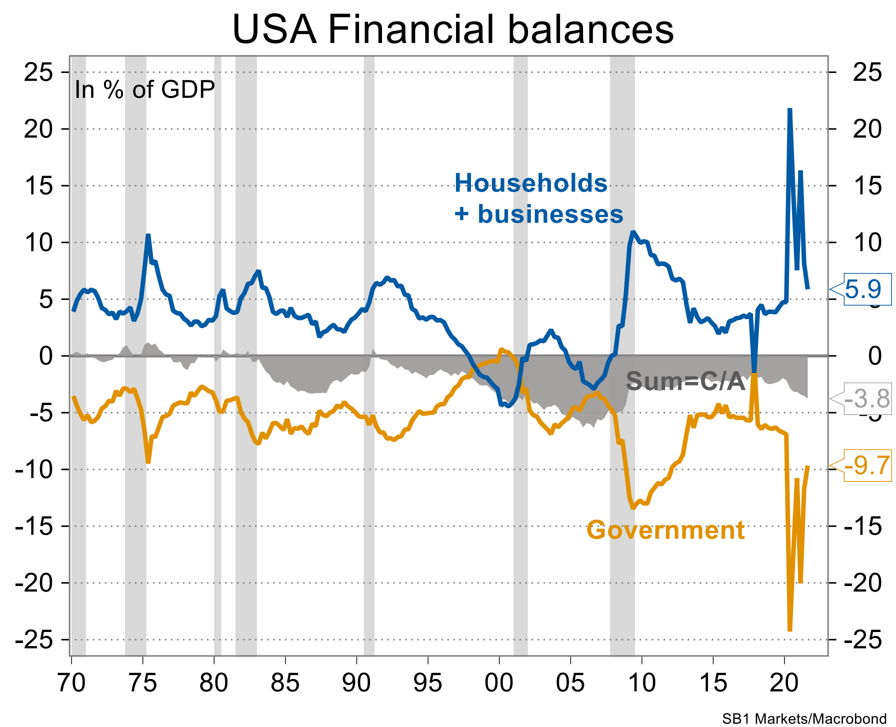


- **The goods** deficit was USD -101 bn in December. The deficit equals 5.3% of GDP, up from 4% before the pandemic
  - » Before the corona virus hit, the trade deficit in goods was narrowing, as growth in the US slowed (and imports fell, which is normal)
  - » The petroleum trade balance is in, well, balance
- **The US runs a surplus in services** at USD 21 bn, equalling 1.1% of GDP, but it is trending down (and the downturn started well before corona)
- The total trade deficit equals 4.2% of GDP, well below the record at 6.2% in late 2005, thanks to the shale oil revolution. The deficit has widened from 2.5% in early 2020 – as domestic demand has been stronger in the US than abroad

The current account deficit has been on the way south during the pandemic

Deficit in goods & services rose further. Net capital income is trending down

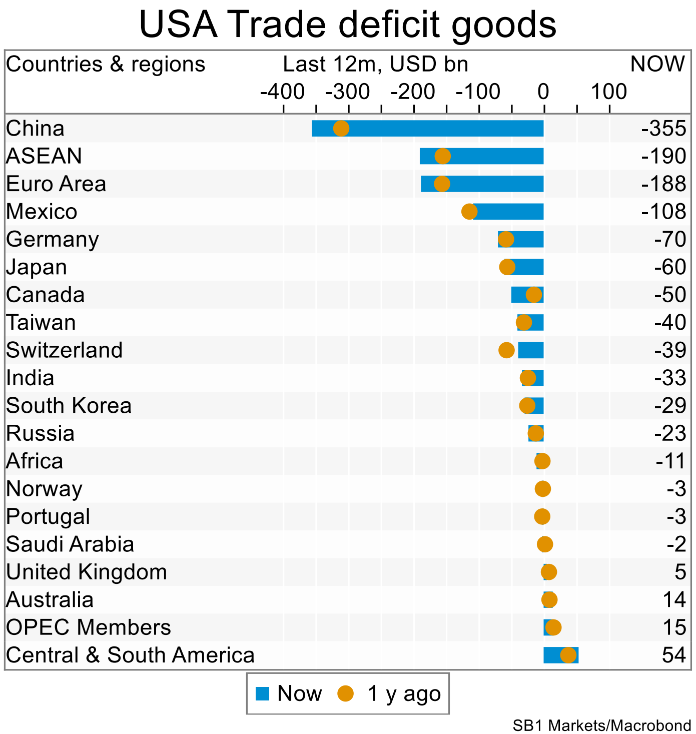


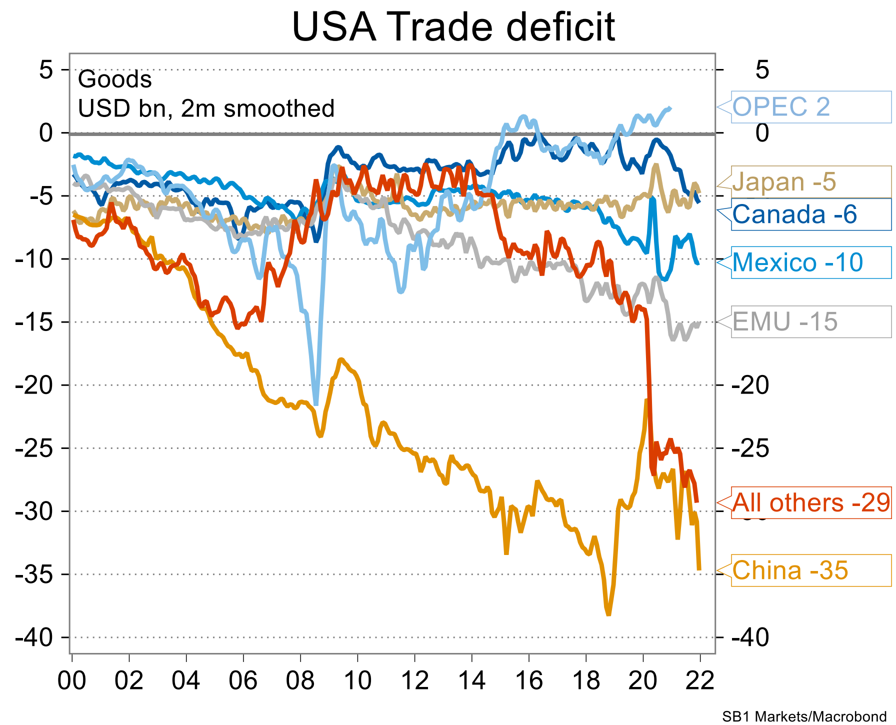


- The CA deficit widened to 3.9% of GDP in Q3, the highest since 2008, from less than 3% before the pandemic. Net capital income is declining but the main contributor is the widening of the trade deficit in goods & services
- The private sector cash surplus is shrinking, but is still somewhat above the pre-pandemic level
- The government's deficit has fallen to below 10% of GDP - it was at almost 25% in Q2-20. Before the pandemic, the deficit was close to 7% of GDP, even if economy was strong, and the unemployment rate was low. Probably not a sustainable position

The deficit vs. China is widening rapidly again, soon to ALH?

The deficit is increasing in most directions

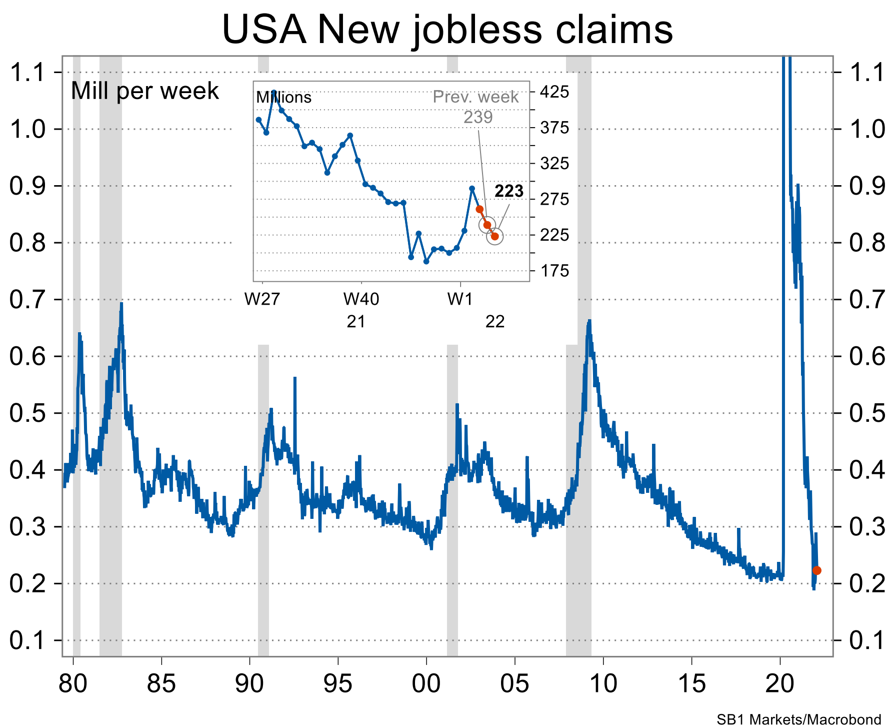


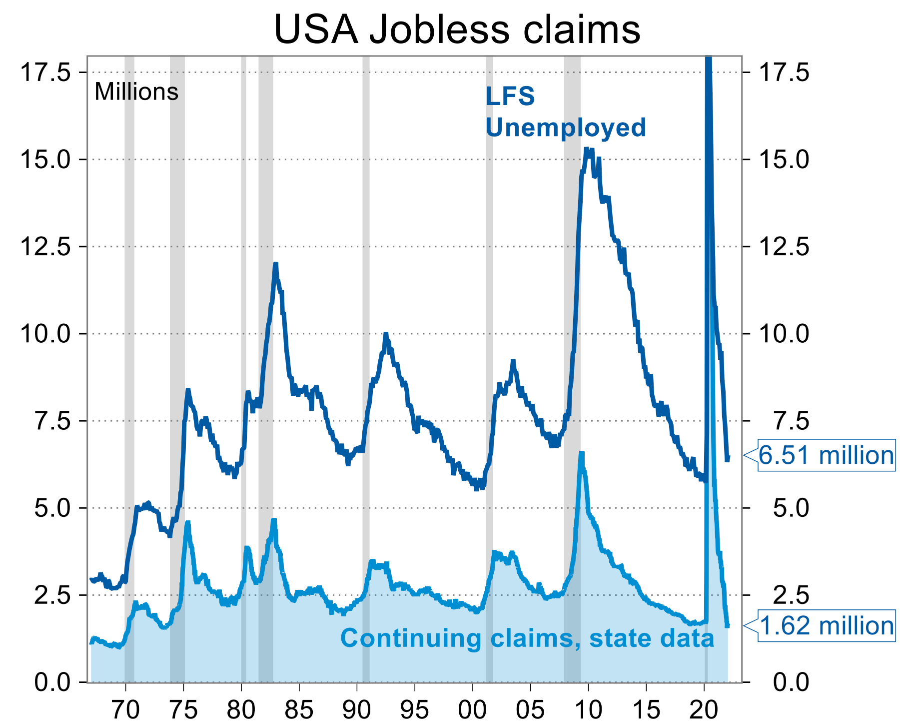


- The US deficit in goods (no services in these country stats) vs China now equals 43% of the total deficit in goods, still lower than before the trade war started
- The deficits vs Mexico and Canada have widened markedly since 2018.
- The deficit vs EMU has flattened during the pandemic – at a record high level
- The balance vs 'others' rose sharply in 2020

New jobless claims further down – to a very low level

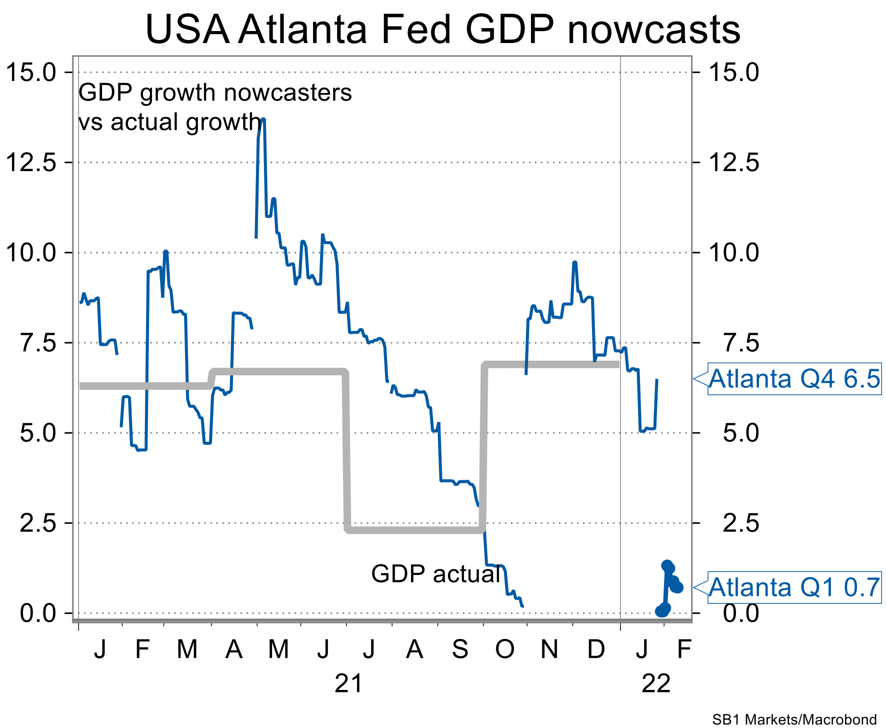
Most of the lift some weeks ago is reversed

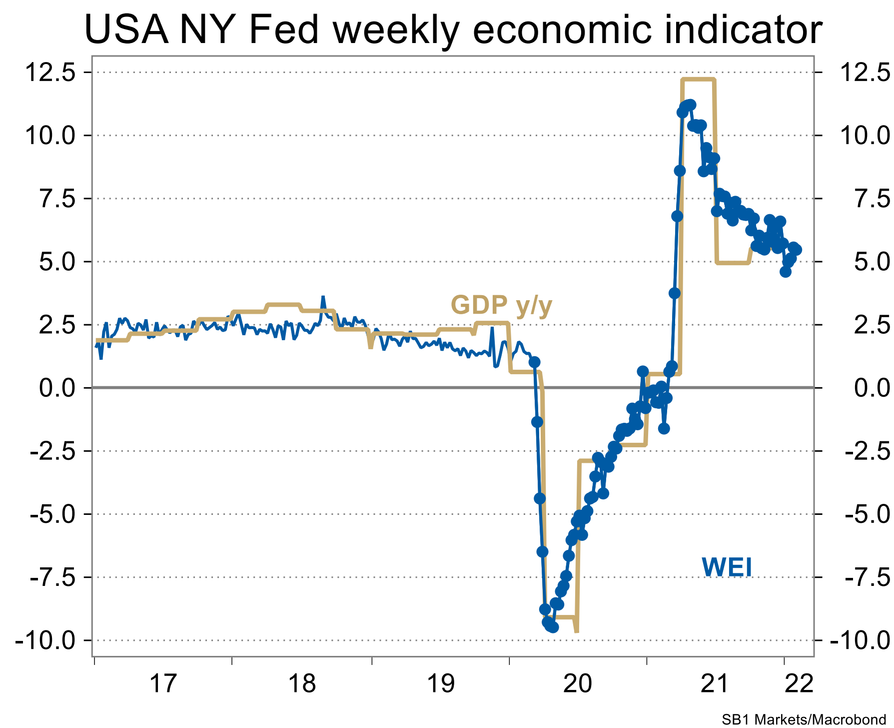




- **New jobless claims** declined to 223' in week 5 from 239' the previous week. Most of the lift in early January is reversed – and the inflow is extremely low
- **Ordinary continuing claims** was unchanged at a slightly downward revised level – and the lowest since 1973!

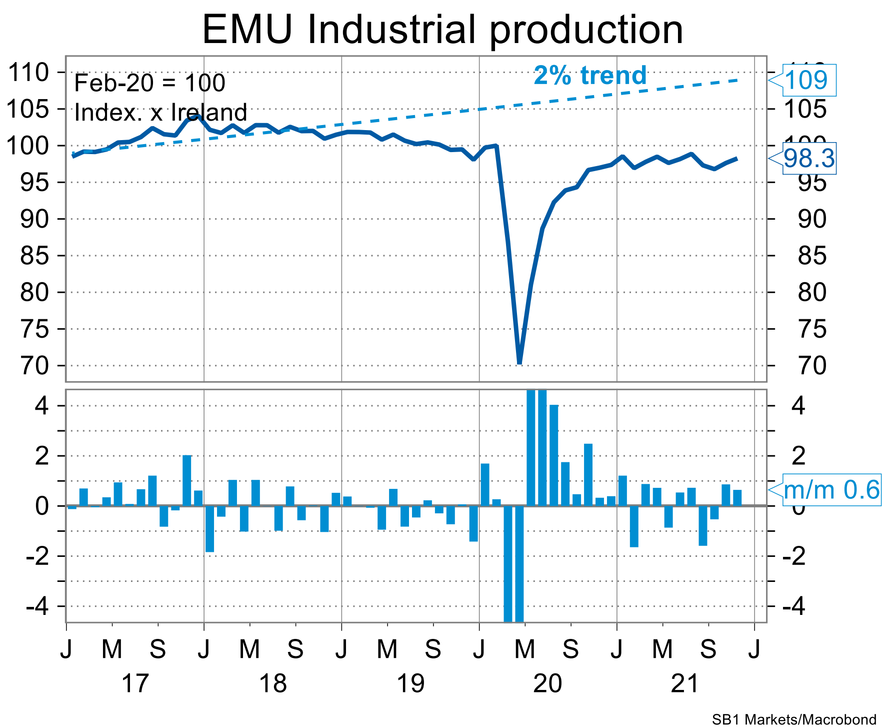
Atlanta Fed's nowcaster suggests less than 1% growth in Q1

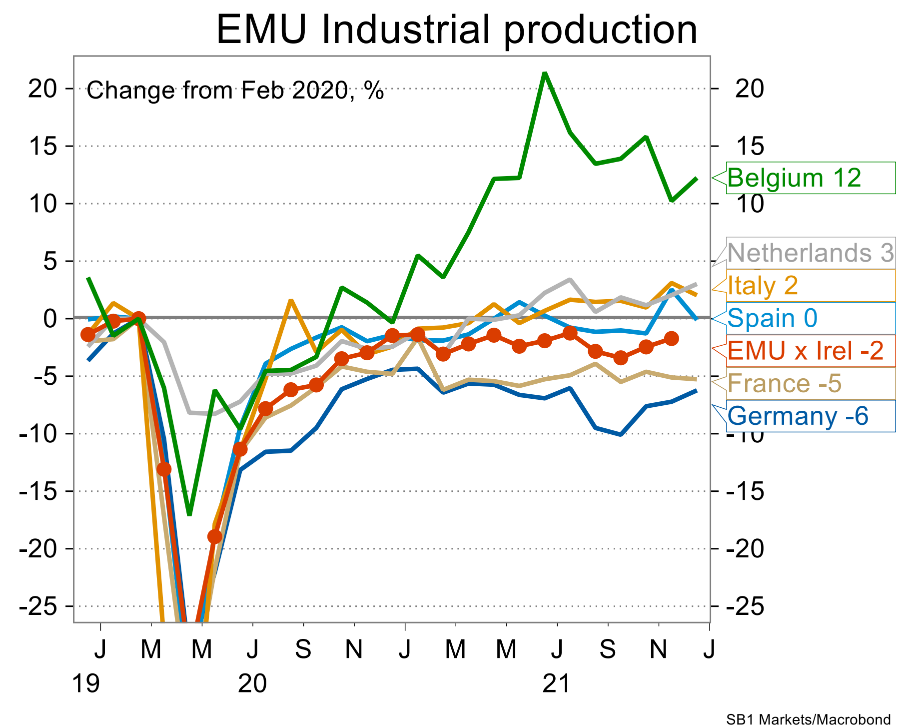




Industrial production probably just marginally up in December

Germany reported a small uptick, while production fell in France, Italy & Spain

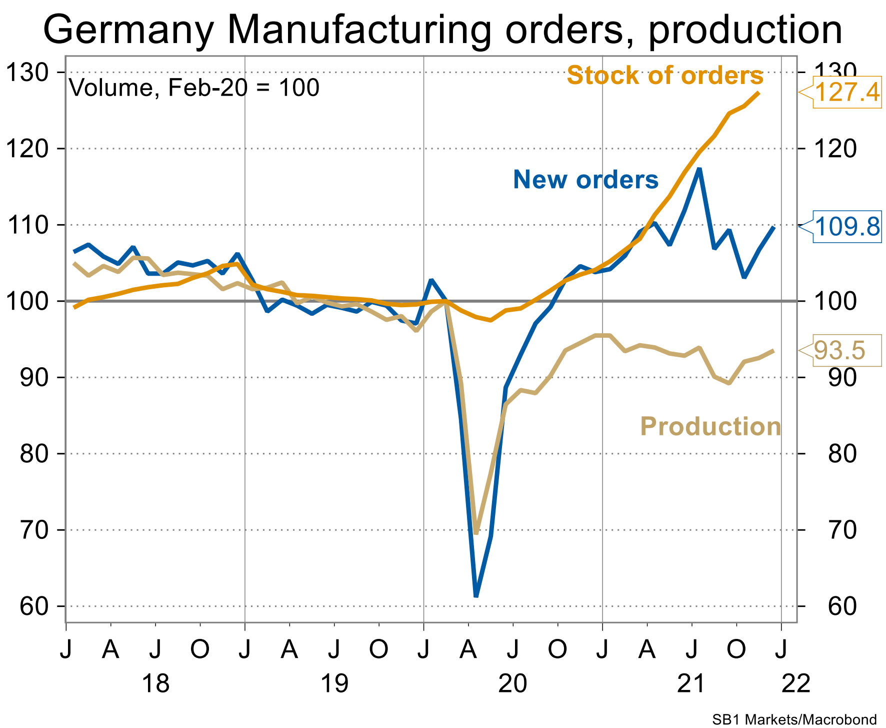


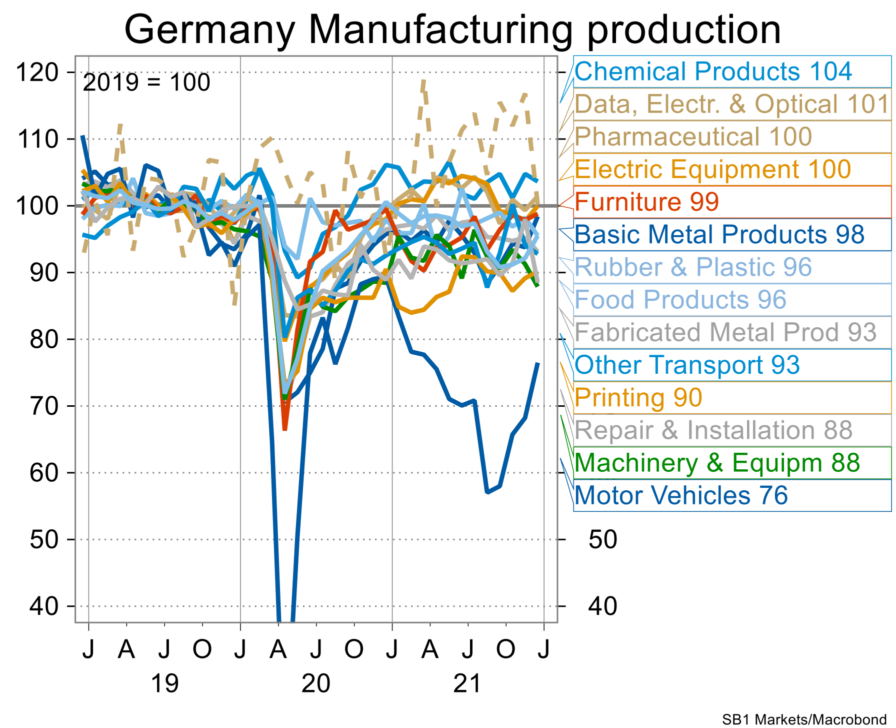


- **Germany** is still the laggard in EMU, due to the disastrous cut in auto production
- **Production in the EMU** has trended flat so far in 2021, even if surveys and new orders have signaled more than decent growth. The sharp setback in auto production explains much of the overall 'weakness'

German order books are filled up – new orders are strong too

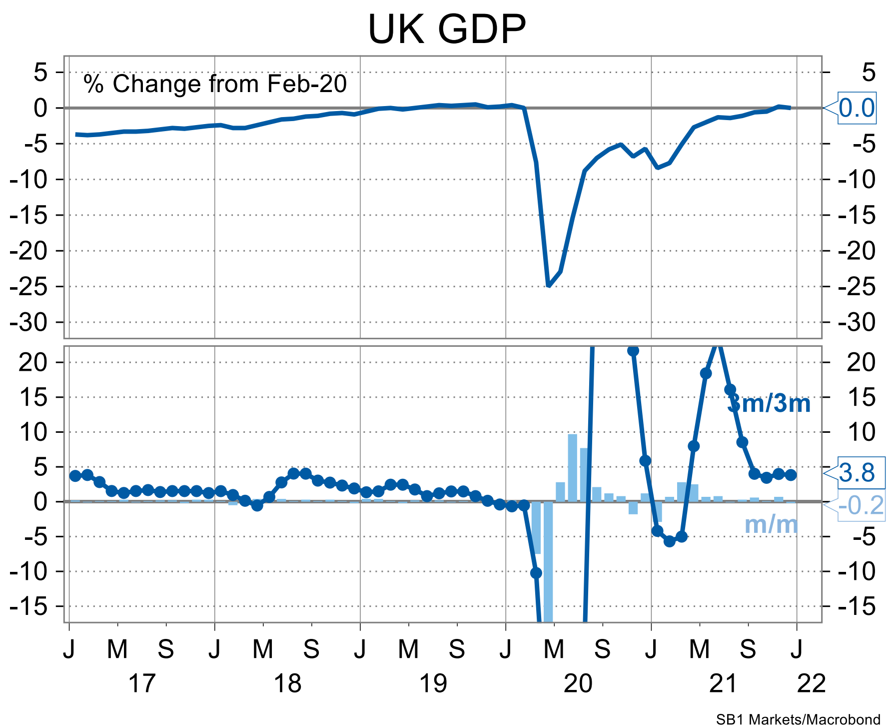
… and businesses are very upbeat, as auto production has recovered sharply. Some hope?

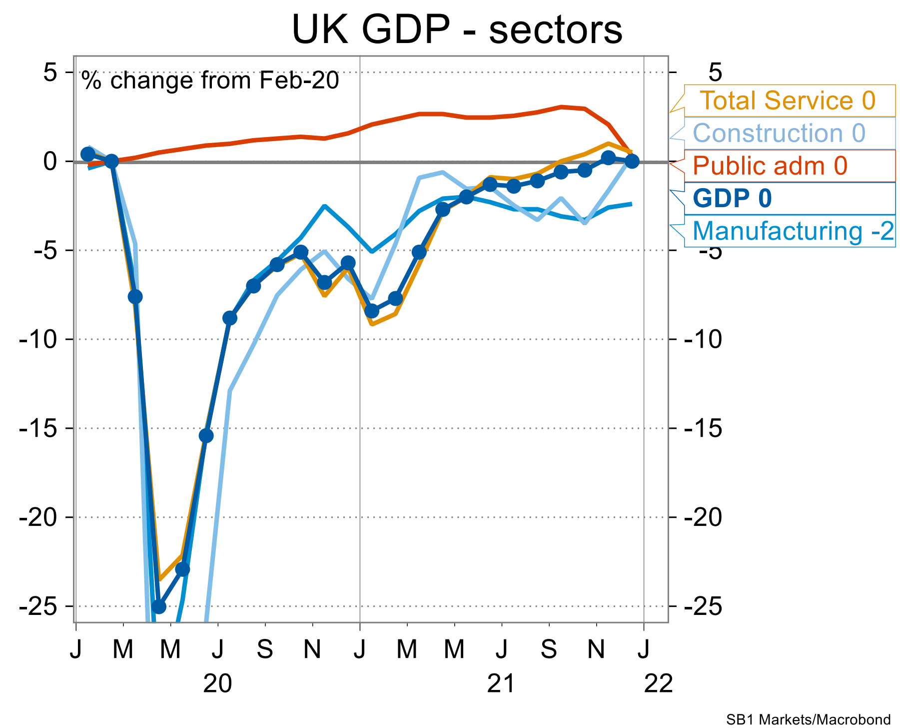




GDP down 0.2% in December, less than the expected -0.5%, up 1.0% in Q4

GDP is back to the Feb-20 level – and far below a reasonable trend path (but GDP was flat during '19)





- **GDP growth** has been modest since June but finally the GDP level rose to above the Feb-20 level. The accumulated losses through the pandemic has been larger than almost all other rich countries, as GDP initially fell by 25% (vs. 10% in Norway)
- **Service production** added 0.8% in November, and **manufacturing production** 1.0%. Services in total is back to the pre pandemic level, manufacturing is still below. Construction activity rose sharply in Nov, and is above the p-p level too
- **Public demand** has been the main growth engine through the pandemic but is now slowing. **Household demand** is now recovering but are still well below the pre-pandemic level. **Business investments** may have bottomed but remains well below par. Exports are down, but so are imports, and net trade is close to neutral

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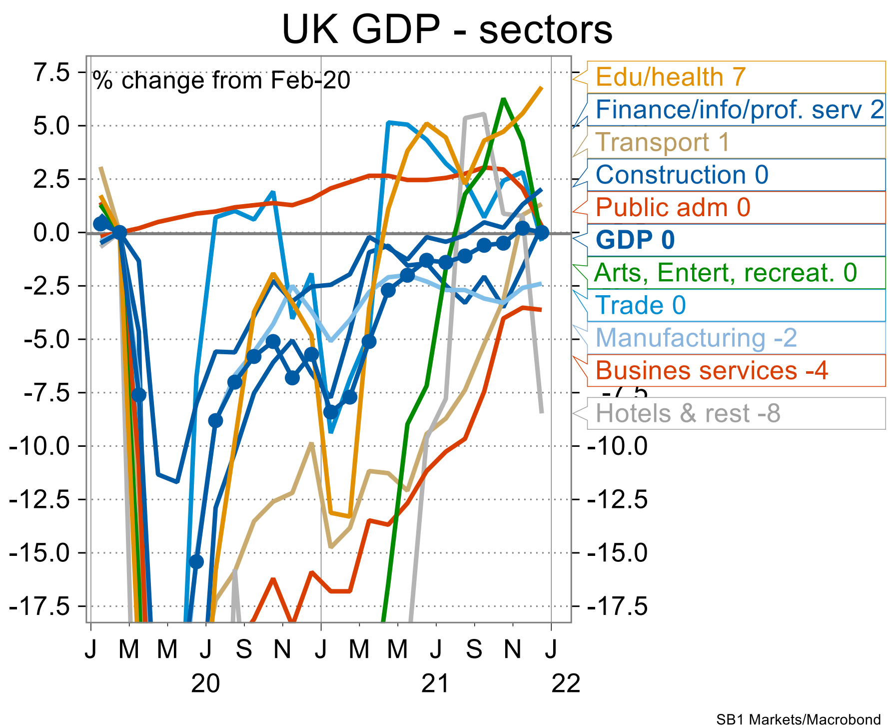
Hotels & restaurant, recreation down in Omicron December – will come back

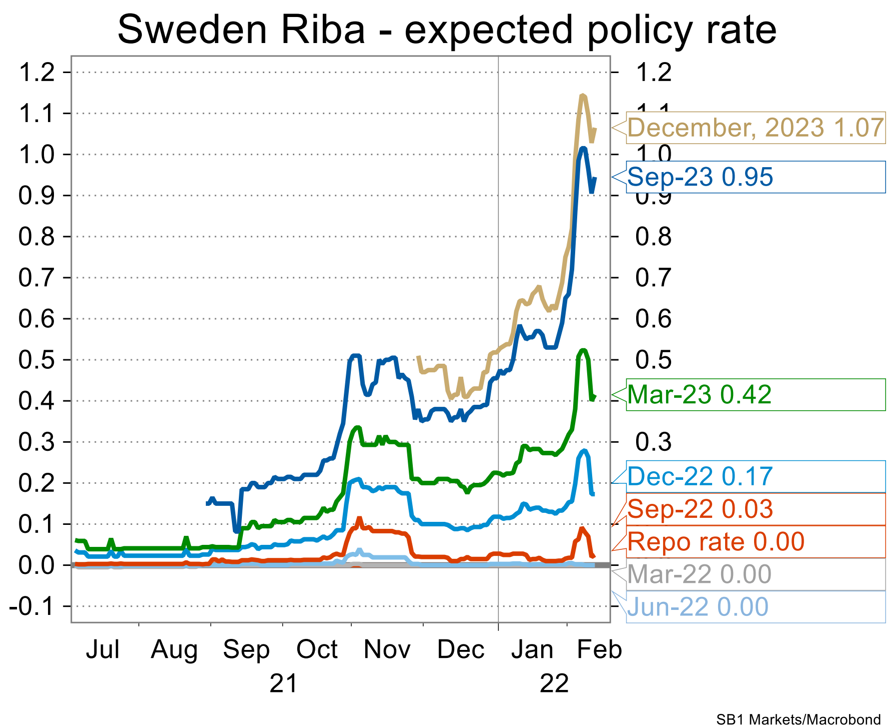
Professional services/finance, construction, manufacturing, education/health up



- Activity in hotels/restaurants down 9% in December

The Riksbank acknowledged that rates will have to be lifted earlier than assumed

That is, in H2 2024, not in Q4 2024! Market expectations fell, but a Q4-22 hike is still discounted



- **The Riksbank** stick to its analysis: Inflation will return to below 2%, as growth moderates, and the LFS (AKU) unemployment remains above 7%
- **The Bank** expect the repo rate to be lifted in H2 2024, marginally earlier than the Q4 2024 message in November
- **The market** still have a significant 'trust' in the bank, the Rix will hike its signal rate in Q4 2022 – even if FRA-rates fell 10 bps on the surprisingly dovish message from the bank

Table 1. Forecast for Swedish inflation, GDP, unemployment and the repo rate

Annual percentage change, annual and quarterly averages respectively

	2021	2022	2023	2024	2025 Q1*
CPI	2.2 (2.1)	2.9 (2.3)	2.0 (1.9)	2.4 (2.2)	2.8
CPIF	2.4 (2.3)	2.9 (2.2)	1.9 (1.8)	2.2 (2.1)	2.3
GDP	5.2 (4.7)	3.6 (3.8)	2.0 (2.0)	1.7 (1.5)	1.7
Unemployment	8.8 (8.9)	7.7 (7.7)	7.2 (7.2)	7.0 (7.1)	7.0
Repo rate	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.2 (0.1)	0.3

Note. Assessment in the Monetary Policy Report in November 2021 in brackets. *Percentage change in calendar-adjusted GDP compared with the corresponding quarter in the previous year and seasonally-adjusted LFS unemployment.
Sources: Statistics Sweden and the Riksbank

Highlights

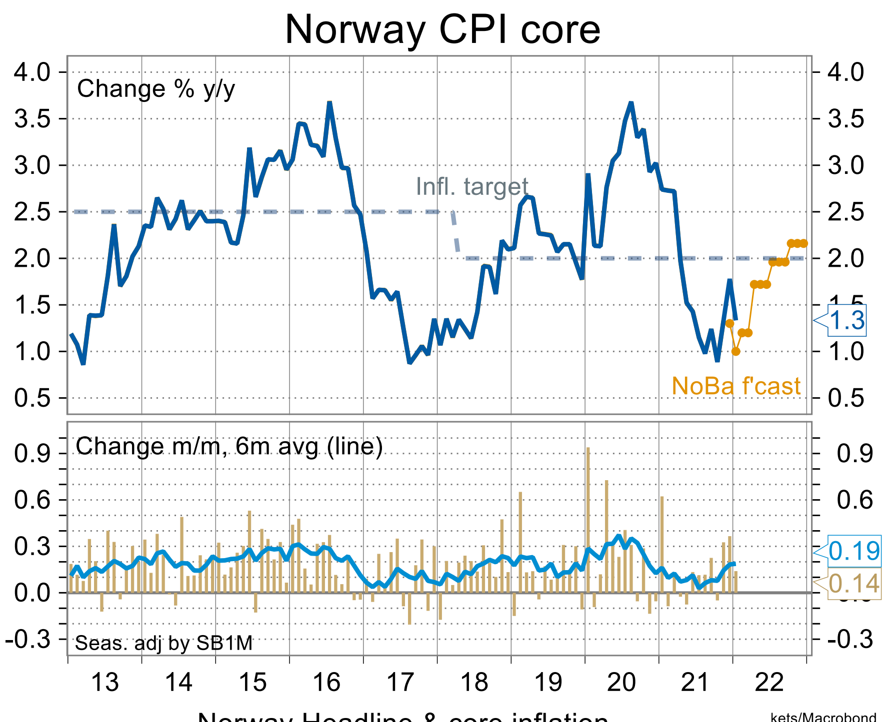
The world around us

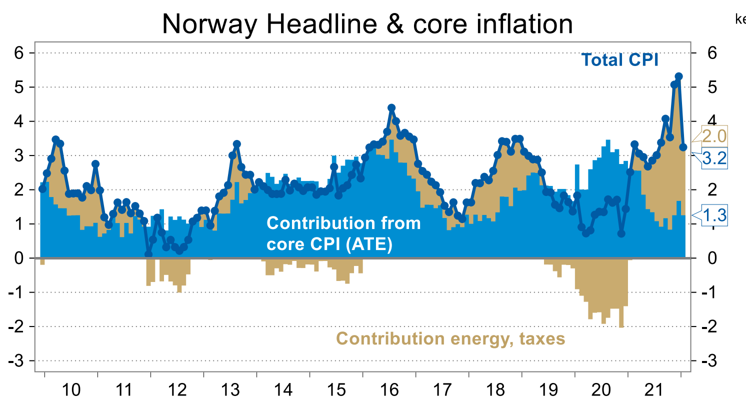
The Norwegian economy

Market charts & comments

Inflation slowed substantially in January, and far more than (the others) expected

Electricity prices fell sharply, and core inflation was lower than expected

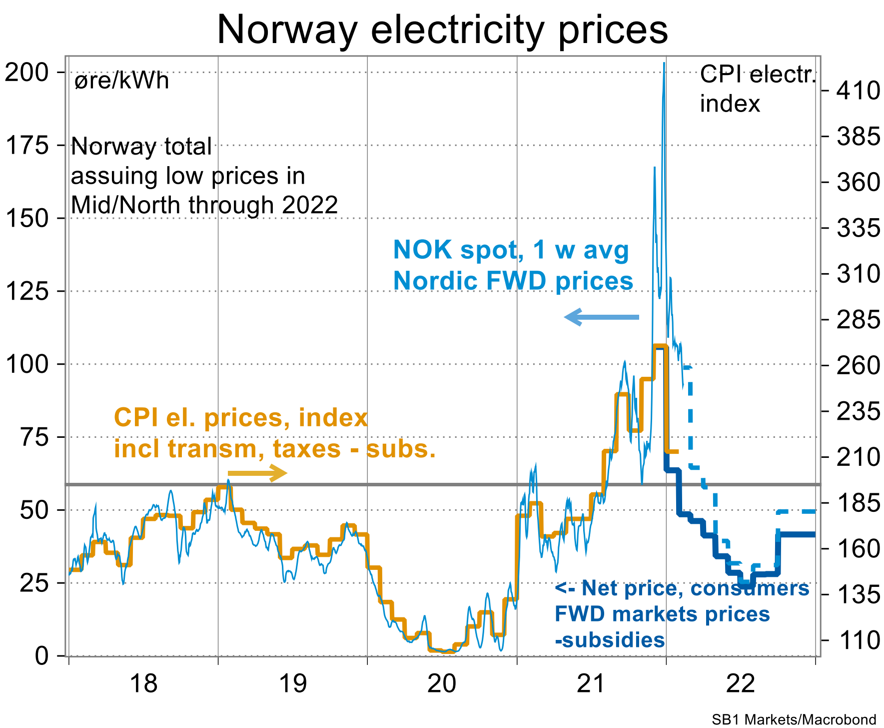


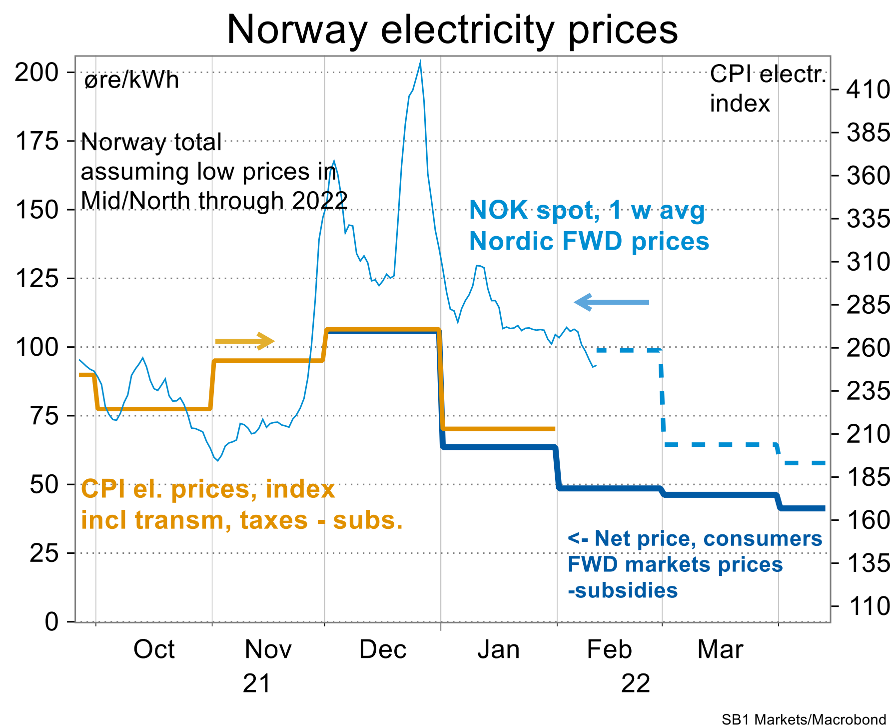


- **Total inflation** slowed to 3.2% in January, from 5.3% in December. Consensus was for a 4.2% growth rate, we expected 3.0%
  - » **Electricity prices** fell almost 20%, in line with our estimate. The annual rate fell by 80 pp to just 20%. In February, the annual inflation rate will decline further, to close to zero! The government subsidy reduced prices by 30%, and inflation would have been some 4.5%
  - » Energy prices (and taxes) contributed to 2 pp of the 3.2% headline rate
- **CPI-ATE** (ex. energy and taxes) inflation slowed to 1.3% from 1.8%, and to below our below consensus 1.5% estimate. Still, the core inflation rate was higher than NoBa assumed (1.0%), following a 0.6 pp miss in December
  - » Prices were flat m/m (seas adj), after a 0.45% 'shock' in December
  - » Airline ticket prices fell sharply, and food prices were far lower than we expected. Food prices are down y/y
  - » Core inflation is running above 2% in just 4 sectors, and is below 2% in 9 sectors
  - » Prices on imported goods rose 0.2% in Jan as we expected, while domestically produced goods & services were up just 0.1%
- **The outlook**
  - » **The electricity bill** will decline some further 10% in February, taking headline inflation down, probably to below 3.0%
  - » **Core inflation** surprised at the downside in January. Media report suggests that food prices rose sharply in February, following the negotiations between the main suppliers and the main retail chains. These reports are normally far from representative – but there surely is a risk here
  - » We still expect **average inflation** at some 2.5% in 2022, and assume that the TBU (technical committee on wage formation) at Friday to suggest a similar estimate for headline CPI growth rate in 2022, following the 3.5% lift last year
- **So what?**
  - » **Norges Bank** will have to lift it's core CPI forecast by some 0.2 – 0.4 pp, given the starting point
  - » The **wage negotiations** this spring are challenging, as some public sector groups received a significant slower wage growth than the average 3.5% wage inflation rate in 2021. In the private sector, a 3.5 – 3.75% outcome will lift real wages by 1% or more
  - » Even so, **Norges Bank** will once more have to revise its wage growth estimate upwards, we expect by 0.3 – 0.5 pp vs. the Dec forecast

A huge drop in the electricity bill in Jan – and market expects more of the same

Market prices are down, and substantial contribution from the enhanced subsidy scheme

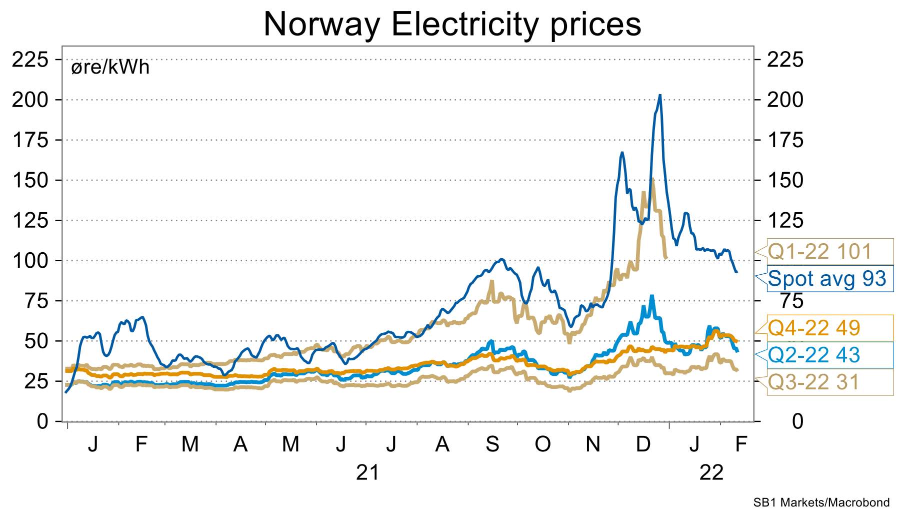


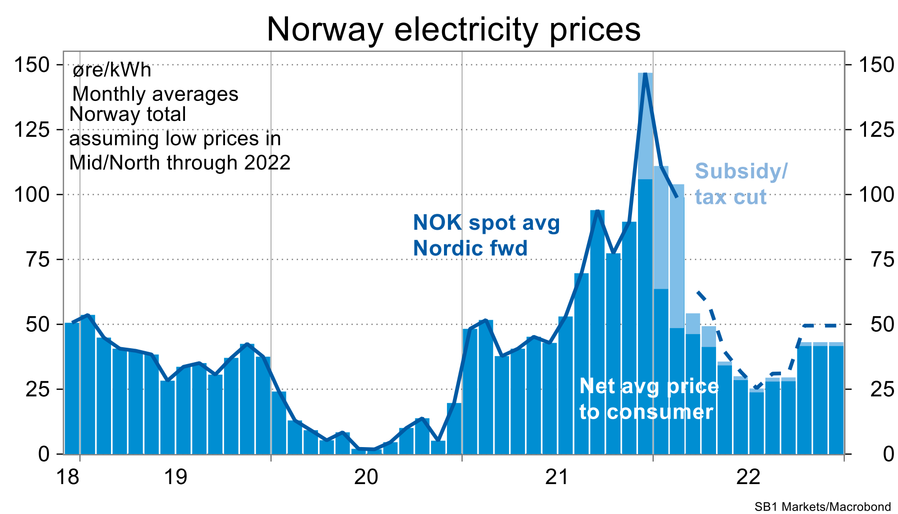


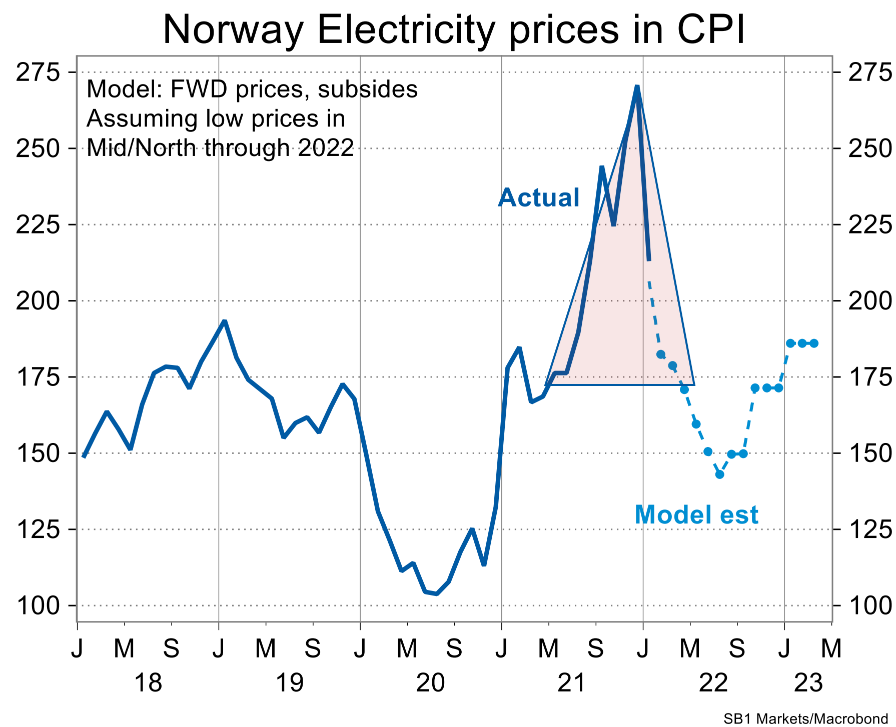
- The average net price to consumers fell to approx 64 øre/kWh in January, from 1060 øre in December
- In February, the price may drop to below 50 øre/kWh
- We assume prices in Mid/Northern Norway to remain low (25 – 30 øre/kWh) through the year

IF the future market is right (you never know), the electricity bill will decline further

Future prices fell further last week – and electricity prices will soon be down y/y



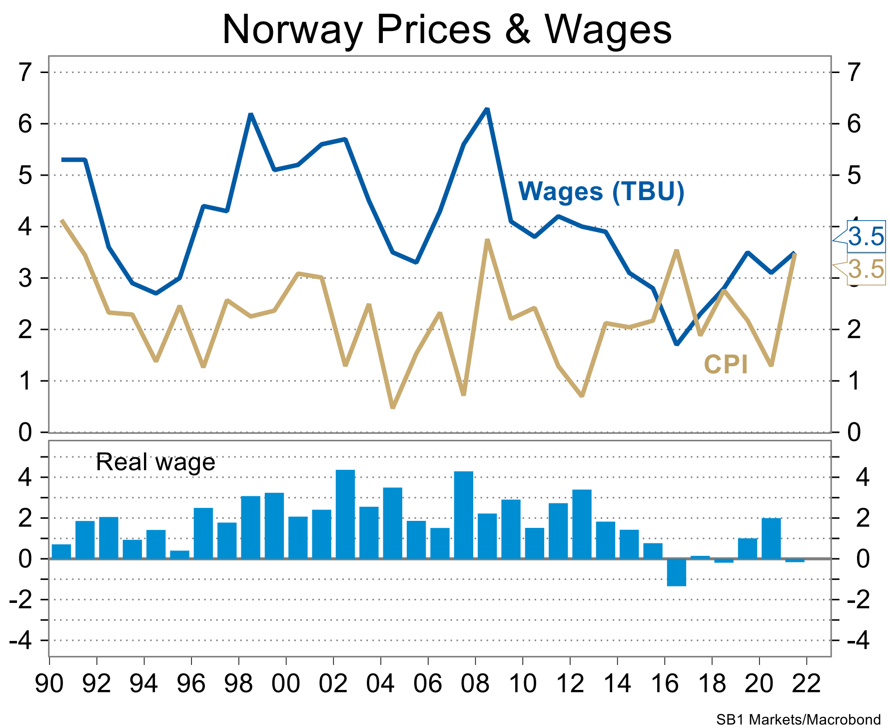


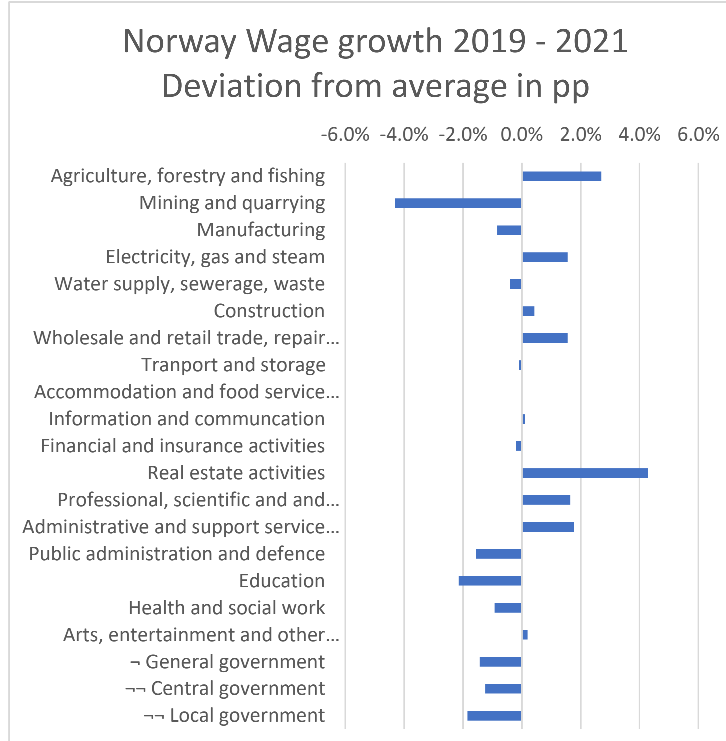


- The 'unprecedented surge' in electricity prices, represented by the area of the triangular above, equals some 35% of a normal annual electricity bill, <u>or less than 1¼ % of the annual disposable income</u>

What a shock: Prices up 3.5% and wages were up just 3.5%, in average, that is

Annual wage statistics indicate that the the 'official' (TBU) wage growth last year will be 3.5%





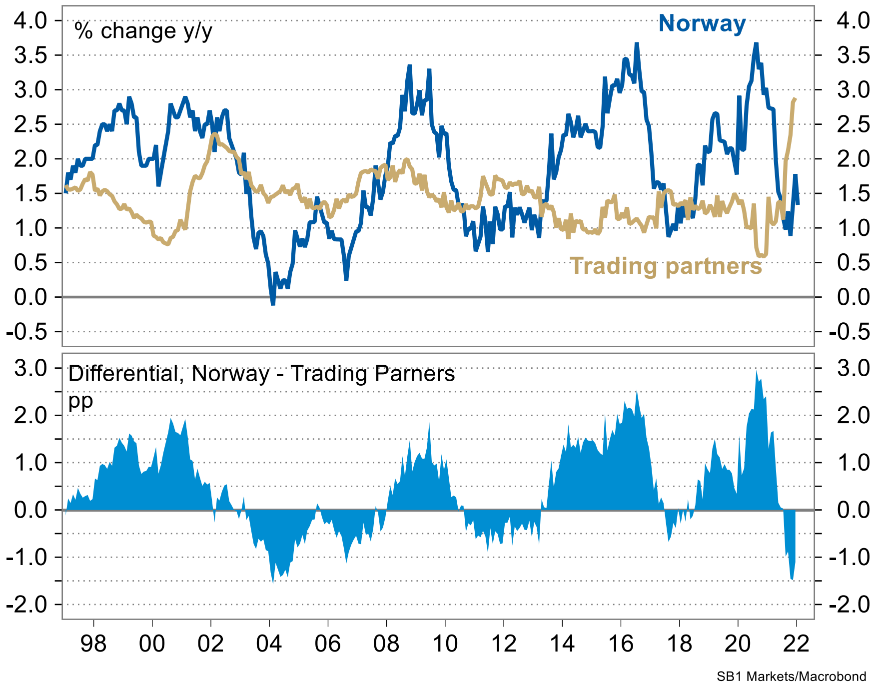
- In December 2020, NoBa assumed a 2.0% wage growth in 2021, and in December 2021 3.1%. The outcome was probably 3.5%, 0.25 pp higher than we assume
  - » No real wage growth in 2021 – but not a large decline either, as has been the story, at least in media
  - » In 2020, real wages gained 2%, and in 2019 by 1% (though following 3 unusual weak years, in sum down by 1.2%)
- Some sectors report growth below average (as always, of course). Over the 2 past years: Oil, public admin, education and health is on the downside. Expect some claims for compensation (which may not be that unreasonable either)

SpareBank 1 MARKETS

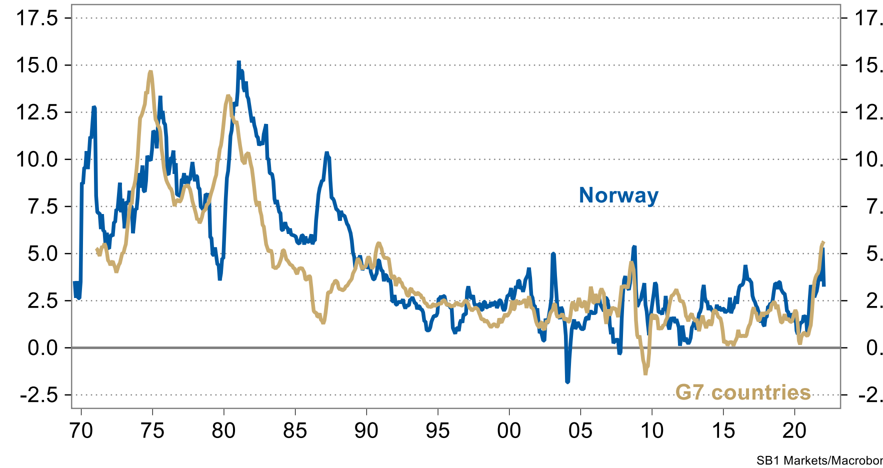
Norway vs ROW: Long term CPI 'regimes' have been correlated

But limited short term correlations, at least in the 'low inflation regime'

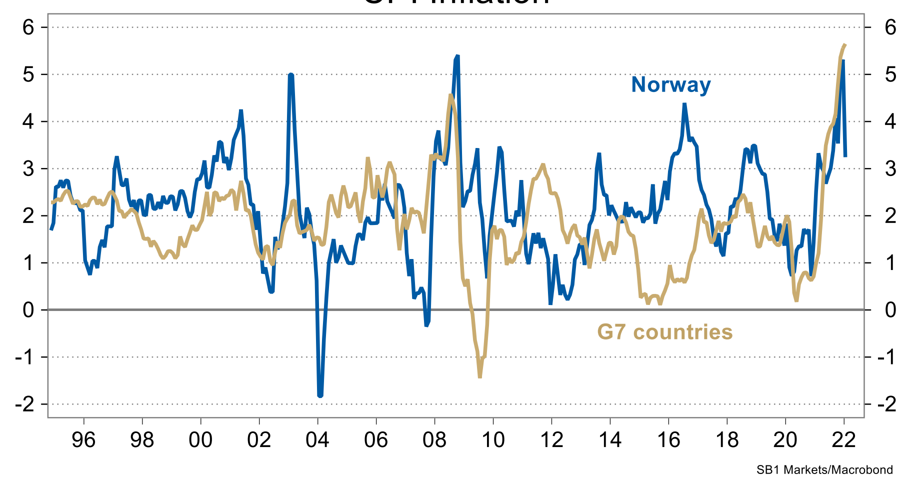
Core CPI



CPI Inflation



CPI Inflation



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

SpareBank 1 MARKETS

Most core elements surprised at the upside

Electricity prices up, but not by much (as we assumed), and annual inflation down. More to come!

		Change m/m, seas. adj			Change y/y			Contribution, pp		
Jan-22	Weight	Out-	SB1M	Dev.	Prev.	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	12.9	-1.0	0.4	-1.4	0.4	-1.2	0.2	-0.12	-0.15	-0.17
Alcohol, tobacco	4.2	0.2	0.2	0.0	1.6	2.1	2.0	0.01	0.09	0.00
Clothing, footwear	5.1	-0.1	0.2	-0.3	-1.2	-2.3	-2.1	-0.01	-0.12	-0.02
Housing x. energy	20.2	0.2	0.2	0.0	1.5	1.7	1.7	0.04	0.35	0.01
Furnishing	6.9	0.8	0.5	0.3	2.8	3.6	2.6	0.05	0.25	0.02
Health	3.4	-0.1	0.3	-0.3	3.2	2.3	2.9	-0.00	0.08	-0.01
Transp. ex. gas, airl. tick	12.2	1.1	0.2	0.9	0.6	1.5	0.6	0.13	0.18	0.11
Airline tickets	0.8	-20.8	3.0	-23.8	21.4	-6.7	22.3	-0.16	-0.05	-0.19
Communication	2.4	0.1	0.1	0.0	0.3	0.3	0.3	0.00	0.01	0.00
Recreation, culture	10.8	-0.0	0.2	-0.2	1.8	1.3	1.6	-0.00	0.14	-0.02
Education	0.5	-	-	-	1.7	2.0	1.7		0.01	0.00
Restaurants, hotels	5.6	0.2	0.1	0.1	5.0	4.5	4.5	0.01	0.25	0.01
Other	8.7	-0.4	0.4	-0.8	2.3	1.7	2.5	-0.03	0.15	-0.07
CPI-ATE	93.7	**0.1**	**0.3**	-0.1	**1.8**	**1.3**	**1.5**			-0.12
Norges Bank est.			**0.3**		**1.3**		***1.0***			
Imported	36	0.2	0.2	0.0	1.1	1.2	1.1	0.08	0.43	0.01
Domestic	57	0.1	0.3	-0.2	1.8	1.3	1.5	0.05	0.76	-0.13
Energy, housing	4.4	-18.1	10.0	-28.1	103.3	19.1	19.2	-0.79	0.84	-1.23
Energy, transport	2.0	-0.3	2.5	-2.8	21.2	16.8	20.6	-0.01	0.33	-0.05
CPI Total	100	**-0.5**	**0.7**	-1.2	**5.3**	**3.2**	**3.0**	-0.51	3.24	-1.25

Change m/m, seasonally adjusted (calc by SB1M)
Sum of parts does not necessarily add up to totals
Norges Bank m/m s.a. estimate is implied, calc by SB1M

- **Food** prices fell 1% m/m, and down 1.2% y/y, well above our est. Several sub comp. contributed
- **Clothing** prices fell slightly, m/m down 2.4% y/y
- **Furniture/hardware/equipm** prices up further by 0.8% m/m, up 3.6% y/y – trend still not aggressive
- **Transport ex. gas/airfare tickets** up 1.1% m/m and are up just 1.5% y/y! Auto prices are up just 1.5%!
- **Airline ticket** prices fell by 21% in Jan, we have not been able to observe that. Down 6.7% y/y. Look up for a reversal during the spring!
- **Recreation** prices unch, up 1.3% y/y
- **Restaurant/hotel** down 0.1% m/m, up 2.3% y/y

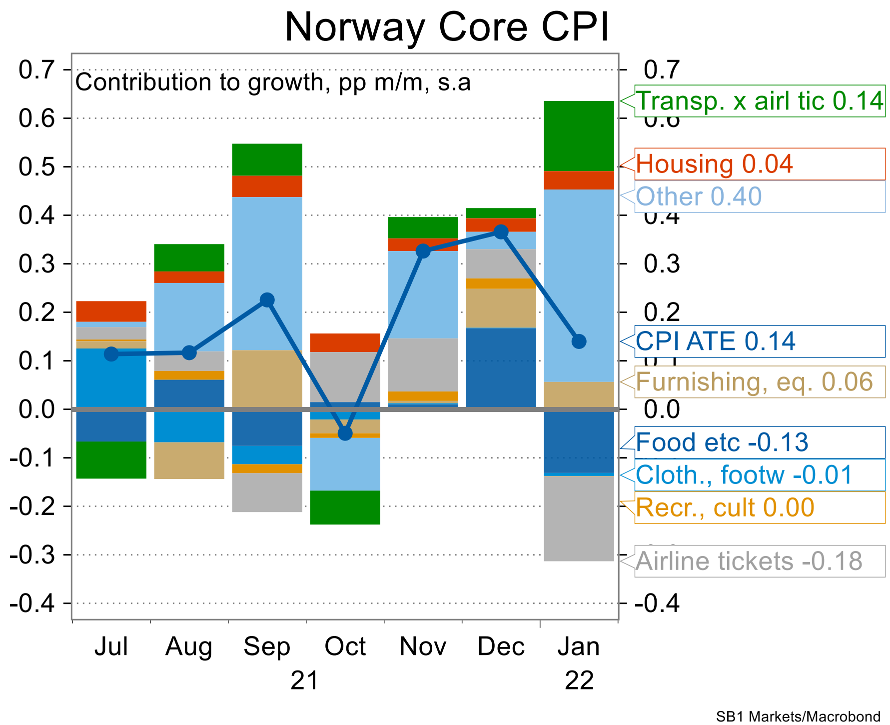
- **CPI-ATE** up 0.1% m/m, 1.3% y/y, far below consensus at 1.7%, and our 1.5% f'cast – but above NoBa's 1.9% estimate
- Prices on **imported goods** rose 0.2%
- Prices on **domestically produced** goods & services were up just 0.1%, kept in check by airfare tickets. The annual rate down 0.5 pp to 1.3%
- **Electricity** prices fell sharply, as we assumed
- … **headline inflation** nosedived to 3.2%, we expected 3%, way below consensus

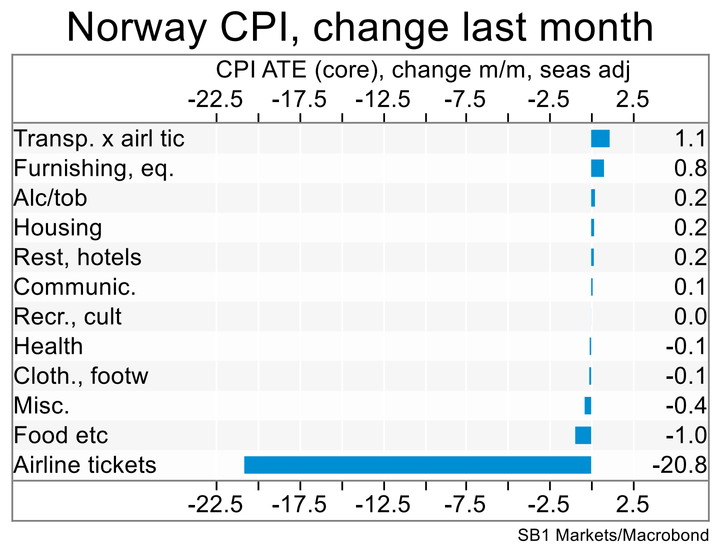
Monthly changes are seasonally adjusted by SB1 Markets. The weighted sum of the components does not necessarily sum exactly up to the total, and deviations m/m and y/y do not necessarily add up. Norges Bank m/m s.a. estimate is implied, calculated by us. Sources: SSB, Norges Bank, SB1 Markets calculations

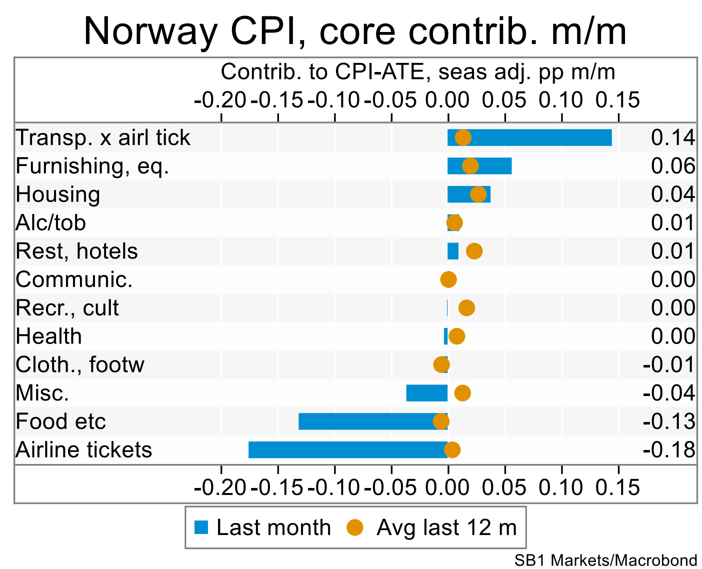
SpareBank 1 MARKETS

Airline tickets, food prices on the downside, other transport at the upside

Airline ticket prices fell sharply – we assumed close to unchanged

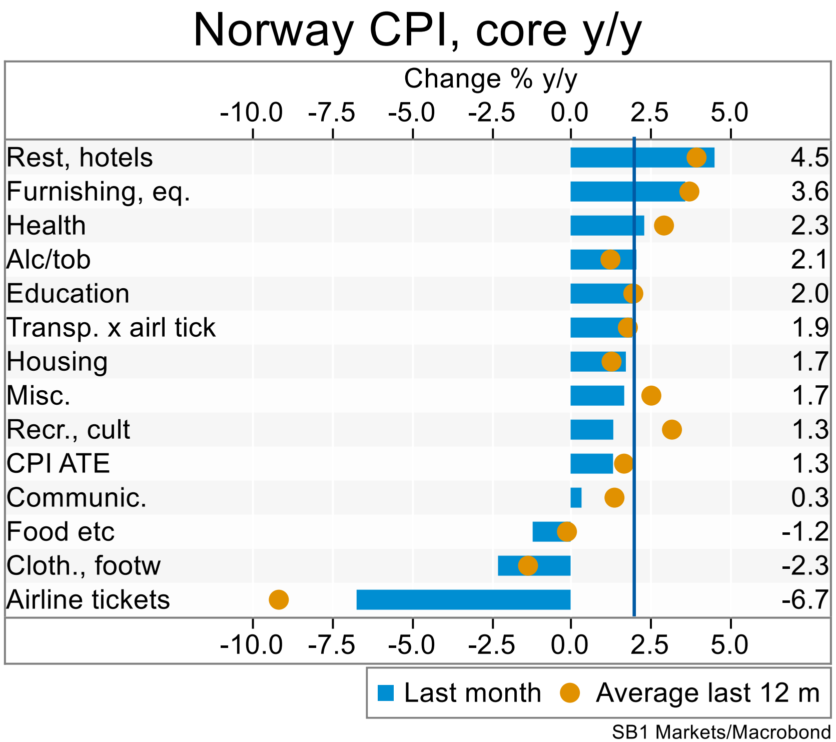


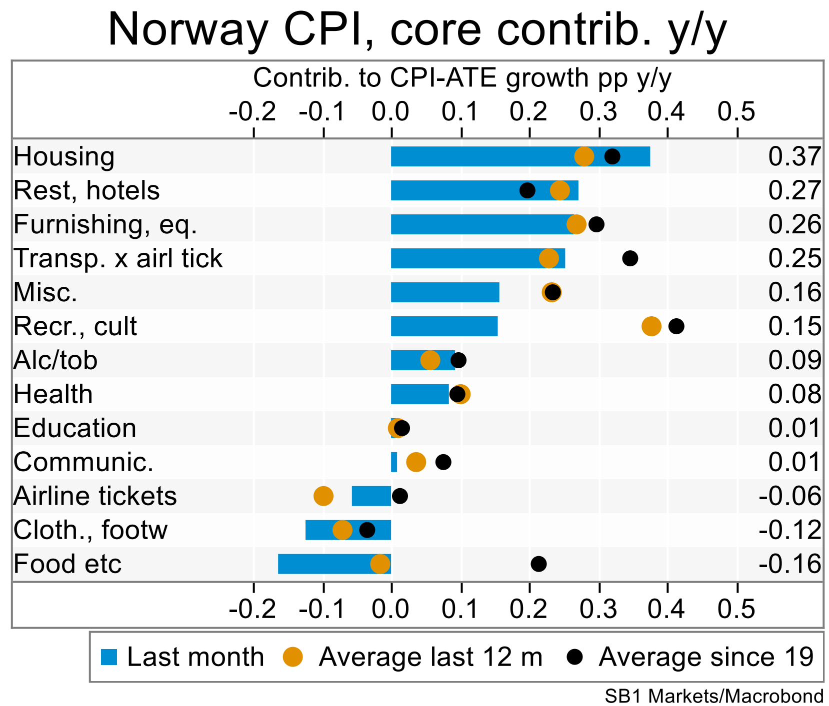




4 sectors report core inflation above 2%, 9 are still below!

Housing ,restaurants/hotels, furnishing, transport x airline tickets have done the heavy lifting last year

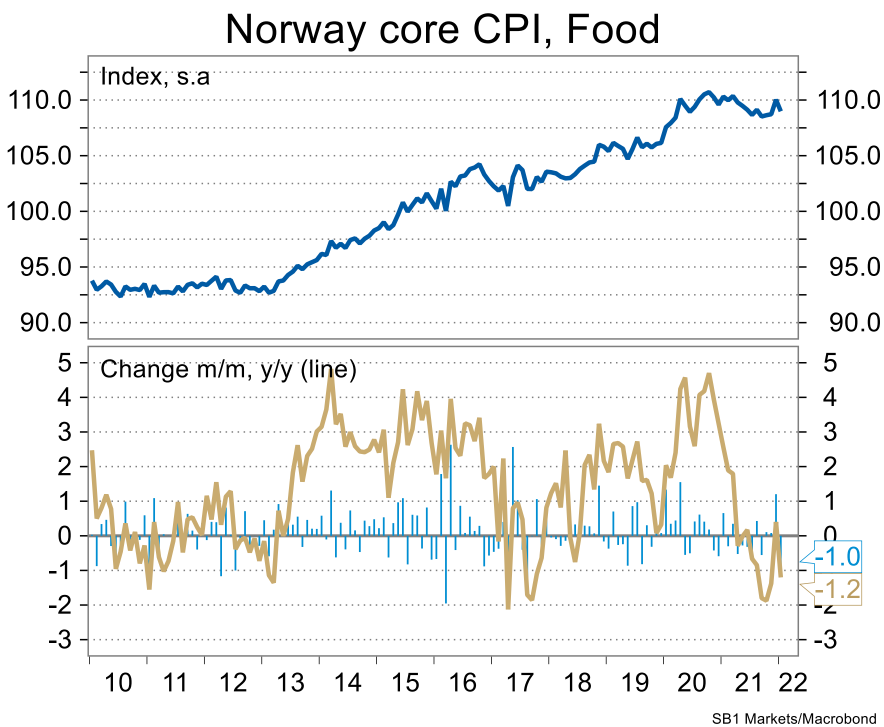


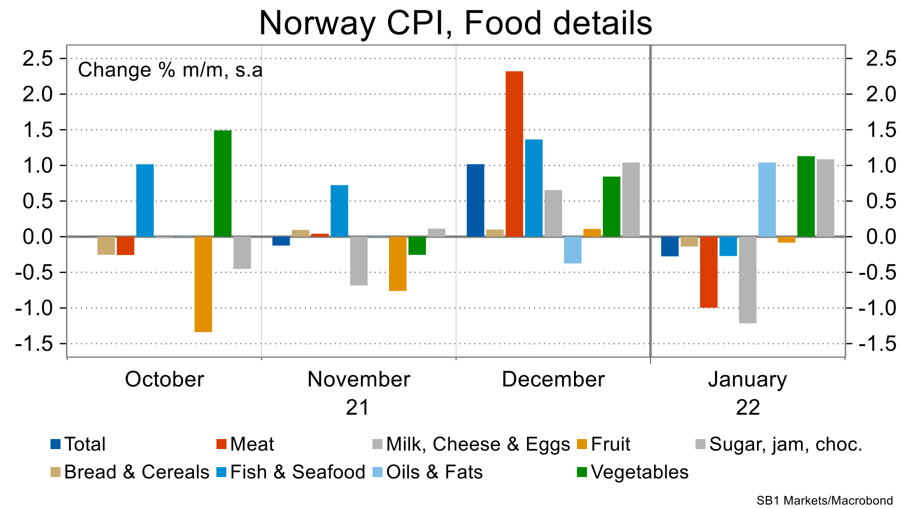


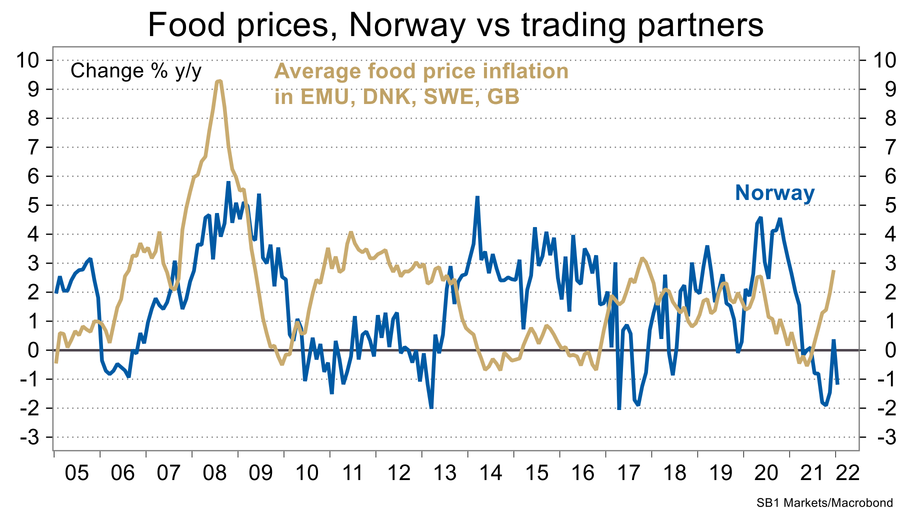
- Food prices have contributed to sharply on the downside, as have clothing/footwear

Food prices down, following the December lift

Mixed between groups, meat and milk/cheese on the downside; Oils, vegetables & jam etc at the ups.



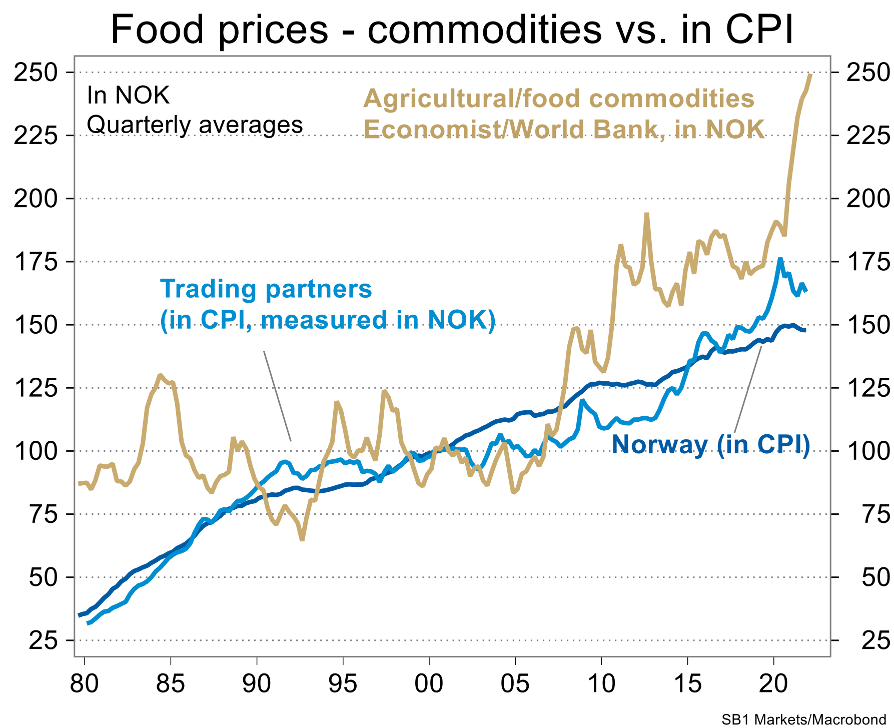


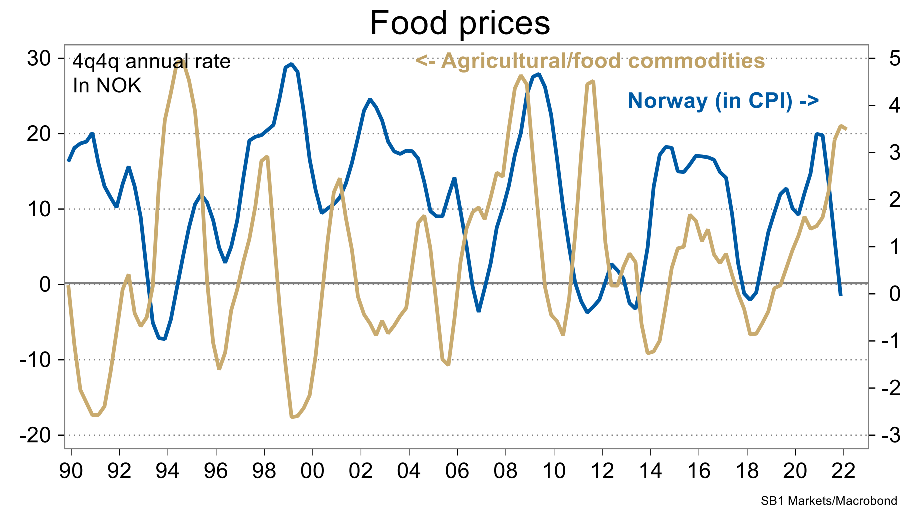


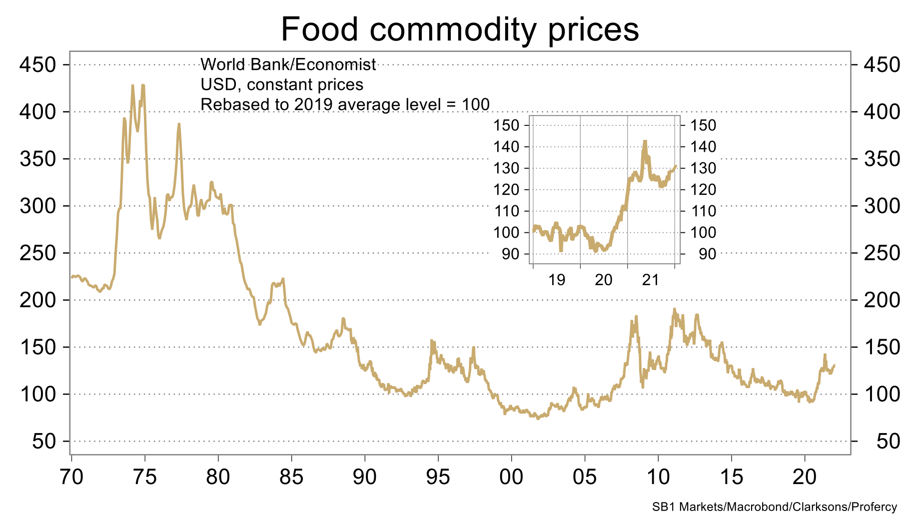
- **Norwegian food prices** have been trending <u>down</u> since October 2020, at least until last December
- **Food prices** have been kept in check among our European peers too, at least until some months ago, <u>despite the lift in global food commodity prices (check next page too)</u>
- **Norwegian CP food prices** are not correlated with food prices among our European neighbours. <u>The NOK exchange rate explains quite a lot</u>, which is picked up in our analysis on imported goods inflation

Food commodity prices: Very limited correlation to trading partners food prices

… And no stable correlation at all to Norwegian food prices (in the CPI)



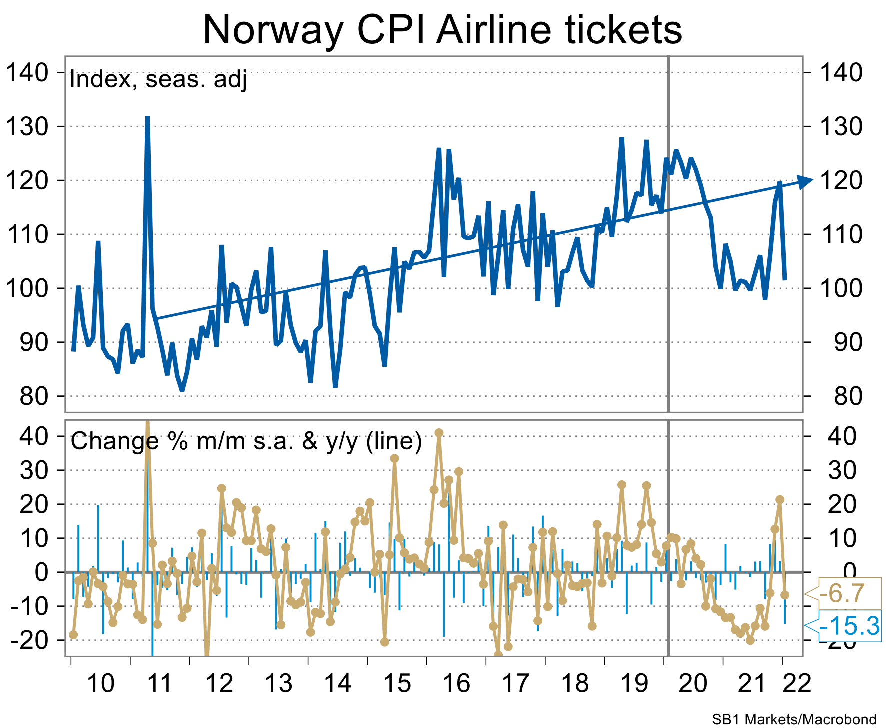




- Try to find a close, and stable correlation on the chart above to the right – there are some, over short periods but no consistency at all
- Agricultural/food commodity prices are sharply up from mid 2020 but far from dramatic vs. previous hikes, and the level is not high, in real terms, check the chart to the right. Prices are lower today than last spring

Airfare ticket prices: Another collapse. The future is bright, at least brighter

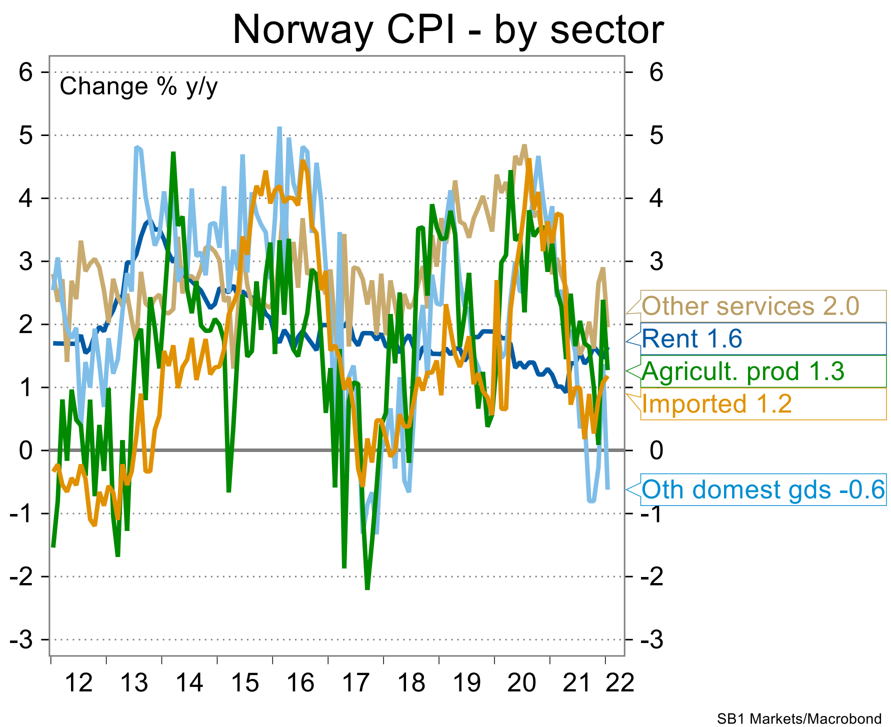
Ticket prices will return to the 'normal' path? The current price level is anyway too low

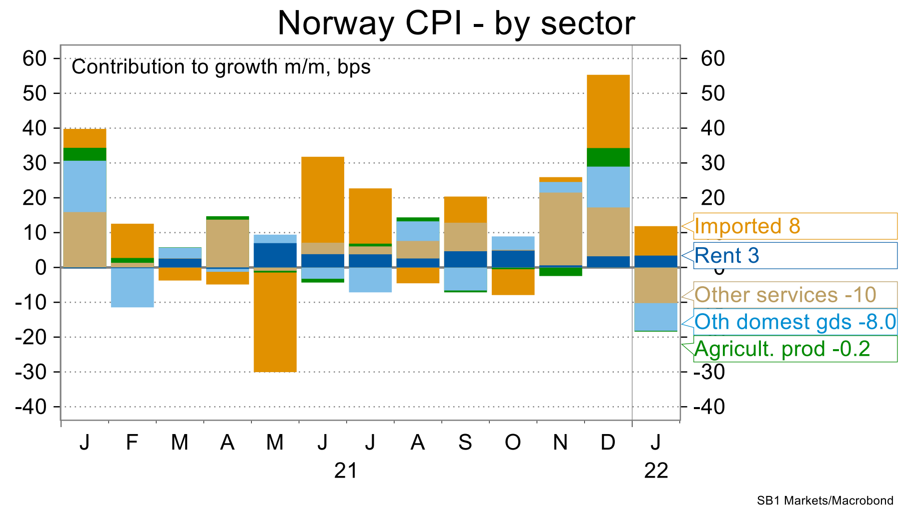


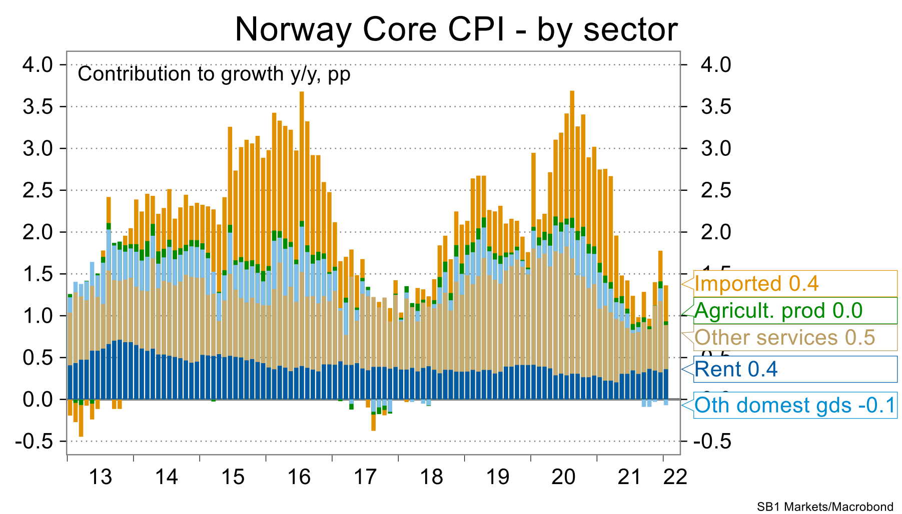
- **Airfare ticket prices** fell sharply in January, reversing the substantial lift the previous two months
- If not in February, then in March or April: Airlines will be able to lift their prices again

Imported prices contributed at the upside in Jan, the major domestic groups not

The contribution from rents is still low, while services on the way up



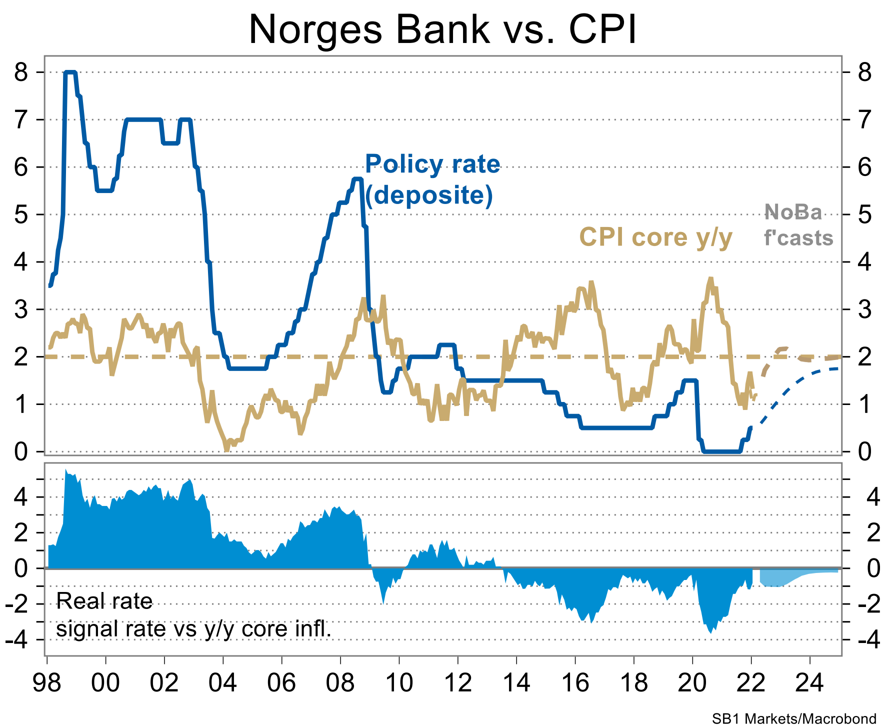


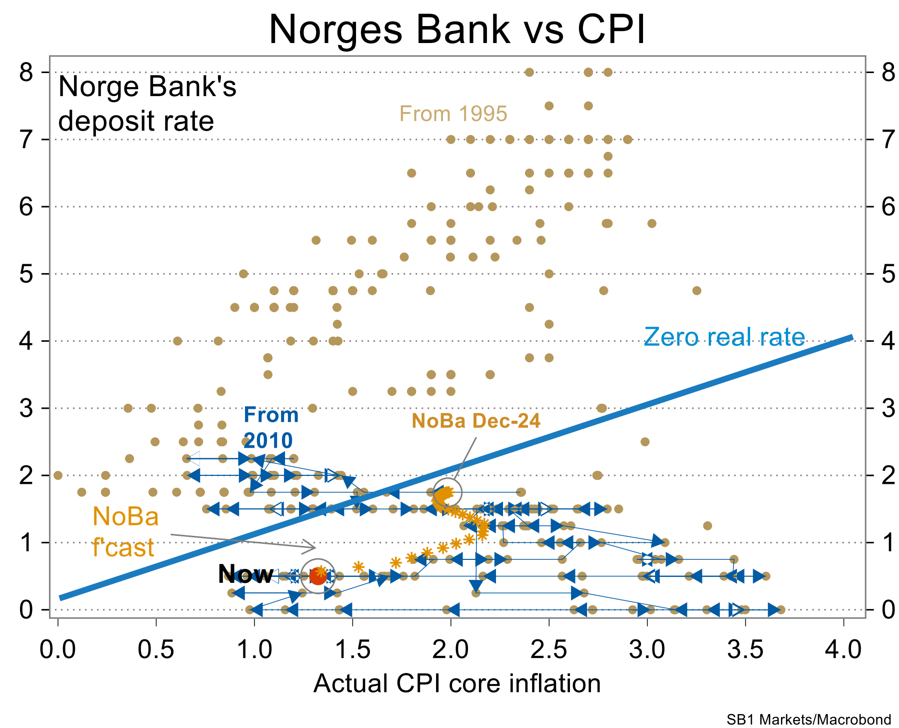


- **Domestic services inflation ex rents** slowed sharply during the corona crisis, and not just only due to cheaper airline tickets, other non-labour-intensive services have contributed as well
  - » Now, price inflation is gaining some speed again, and services are up 2.9% y/y
- **Rent inflation** has accelerated to 1.6% from 1% in early 2021 but is still lower than the 1.7% – 2% rate before corona
- **Other goods** than agricultural & imported products are up 1.4% y/y, and contributed substantially m/m in Dec

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

Actual inflation has not at all been correlated to interest rates – for good reasons

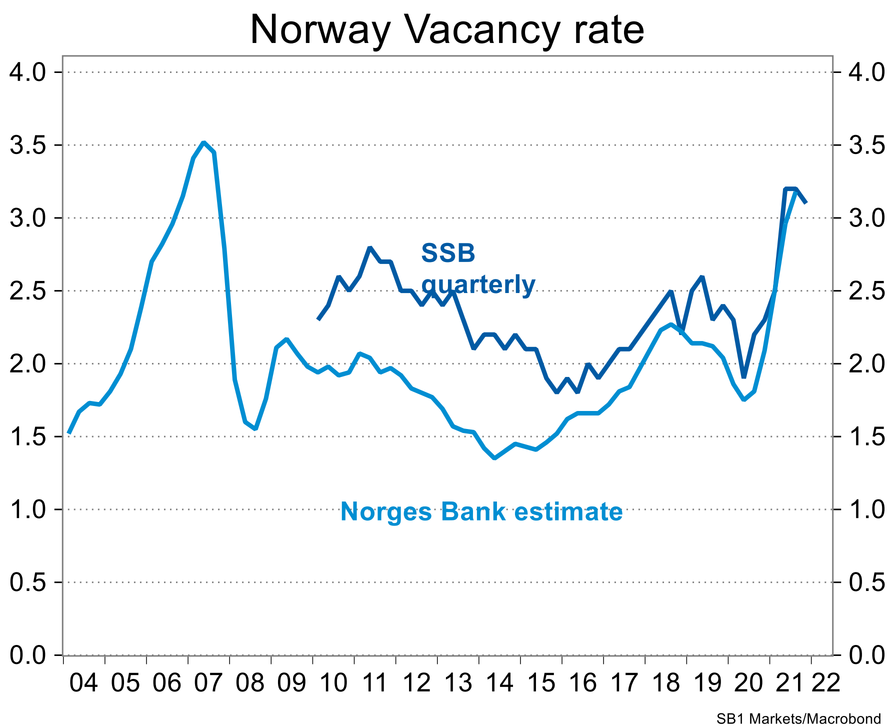


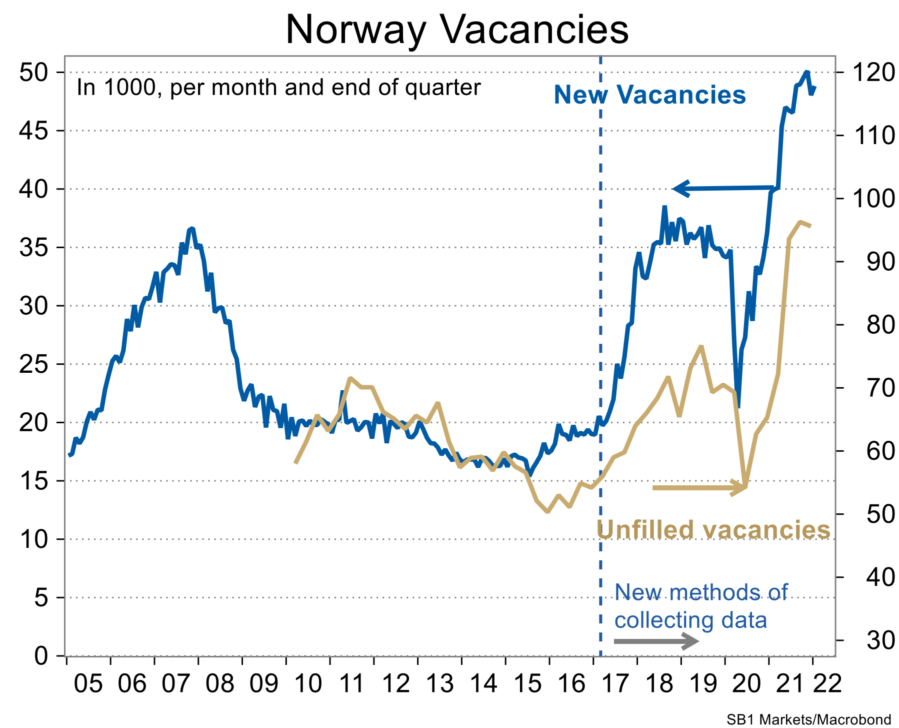


- In December, the Bank assumed the signal rate would be hiked gradually to approx 1.75%, while core inflation was expected to drift slowly up from the present level to slightly above 2% in 2023 and then return to the 2% target in 2024
- Thus, the bank expected a continued negative real siganal rate vs core inflation the coming four years – and at best a zero 3 m NIBOR real rate

The vacancy rate down in Q4, still at a high level

The vacancy rate fell 0.1 p to 3.1% - due to a decline in vacancies in agriculture/fishing





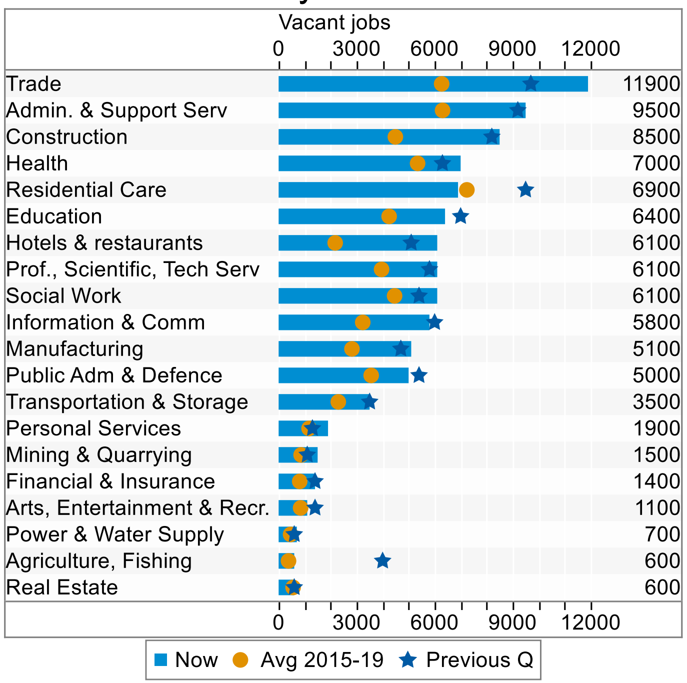
- Lack of access to foreign workers may partly explain a high number of unfilled vacancies. The no. foreign workers on short-term stay is down approx. 20’ vs the pre-pandemic level, equalling 0.8 pp of the no. of employees. If all came back, and found a job, the vacancy rate would have been 2.3% - still slightly above average

SpareBank 1 MARKETS

Primary industries and residential care report substantially fewer vacancies in Q4

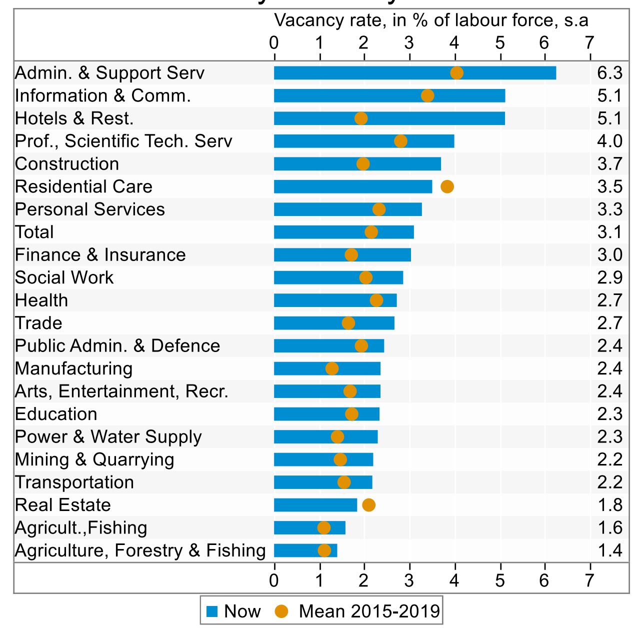
Most other sectors report more

Norway Vacancies



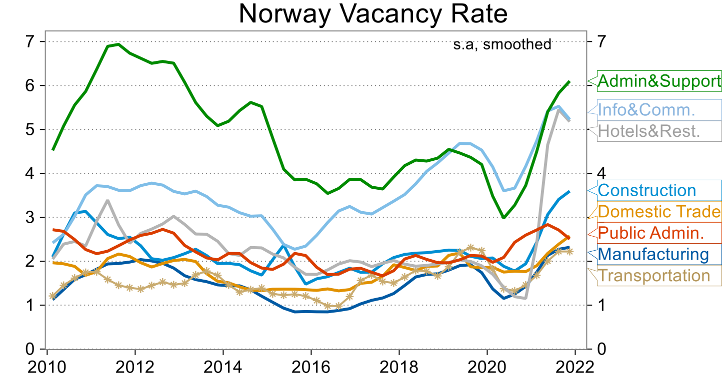
SB1 Markets/Macrobond

Norway Vacancy Rate



SB1 Markets/Macrobond

Norway Vacancy Rate

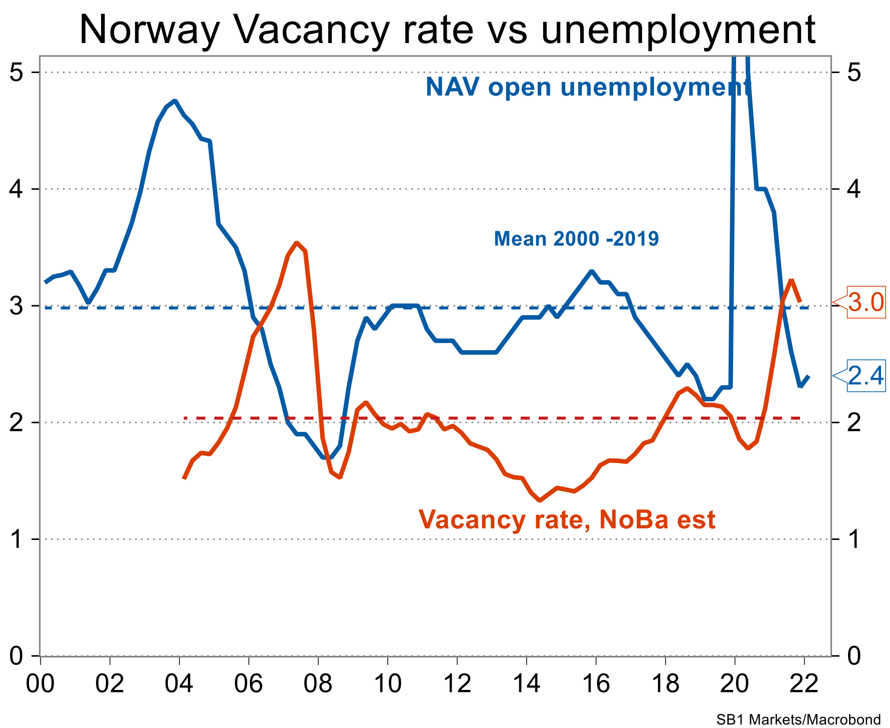


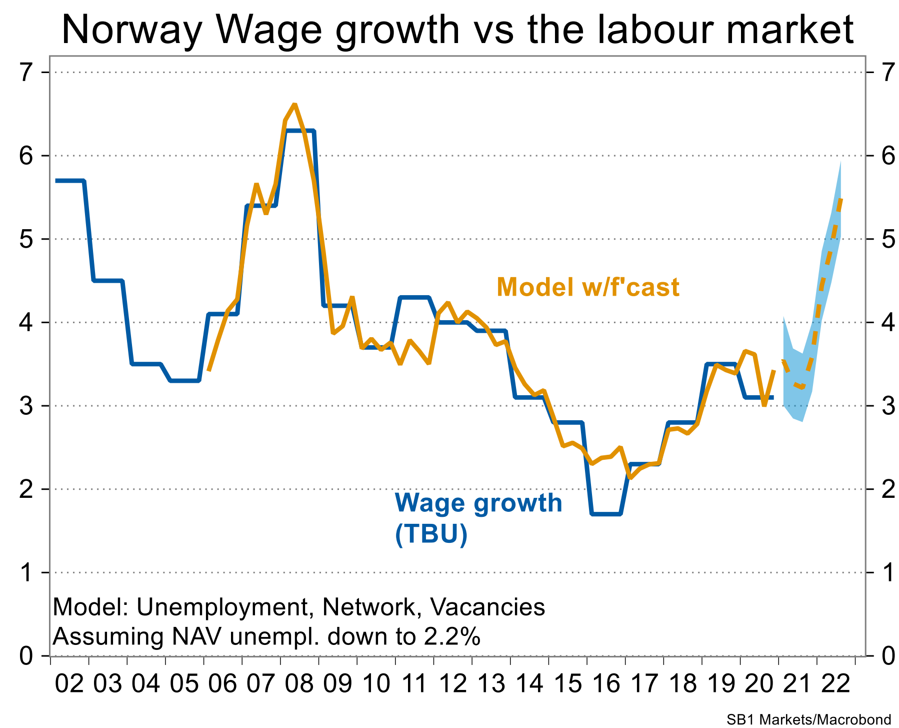
SB1 Markets/Macrobond

- The highest **no. of vacancies** are found in trade and admin. & supportive services, even if activity in the latter is still lower than before the pandemic
- The **vacancy rate** is the highest admin. & supportive services and info/communication
  - » The vacancy rate in agriculture/fisheries fell to 1.6% in Q3, from 8.3% in Q3

Normally, a tighter labour market implies higher wage inflation

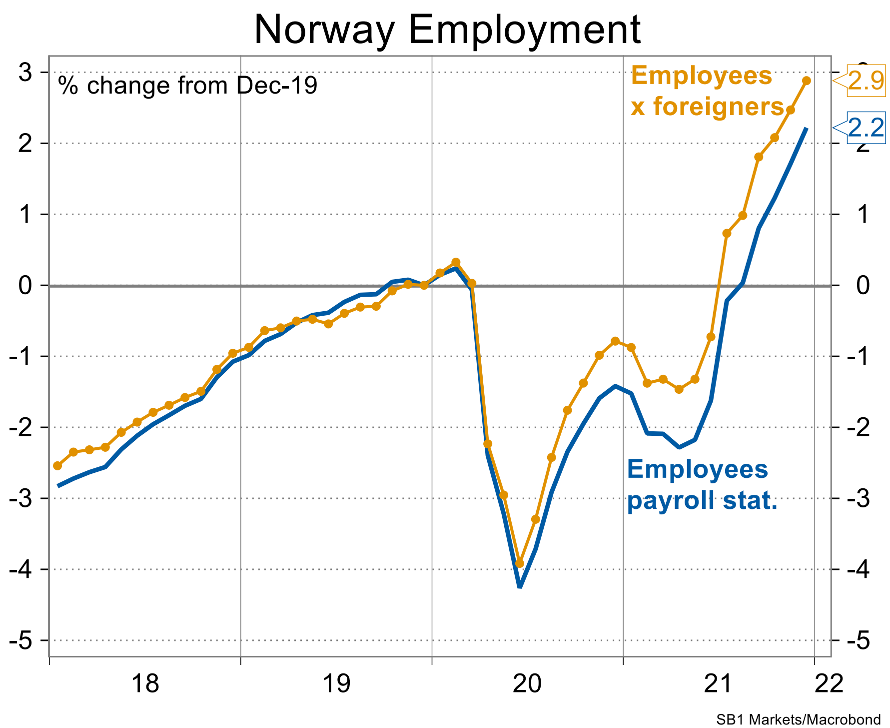
Even in the 'organised' Norwegian labour market

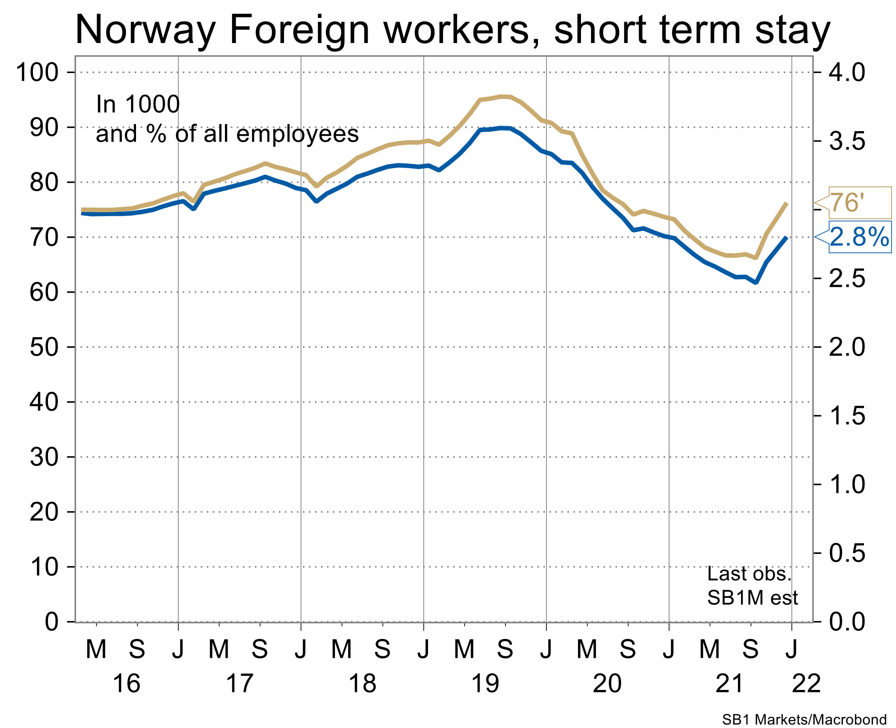




Employment confirmed sharply up in Q4

Payroll statistics report more foreign workers on short term stay, still 20' down vs pp (0.8% of empl)

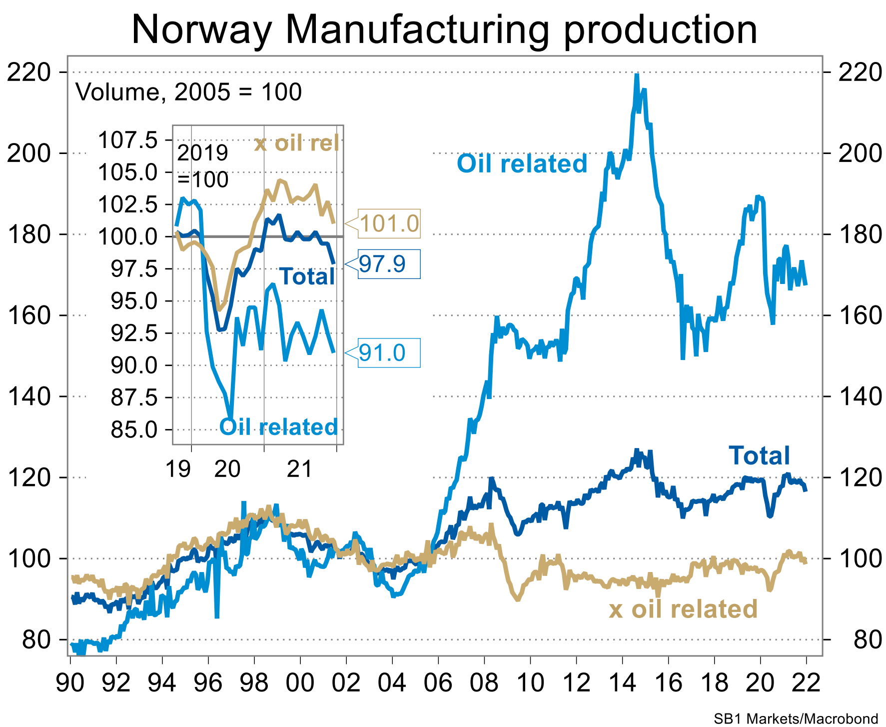


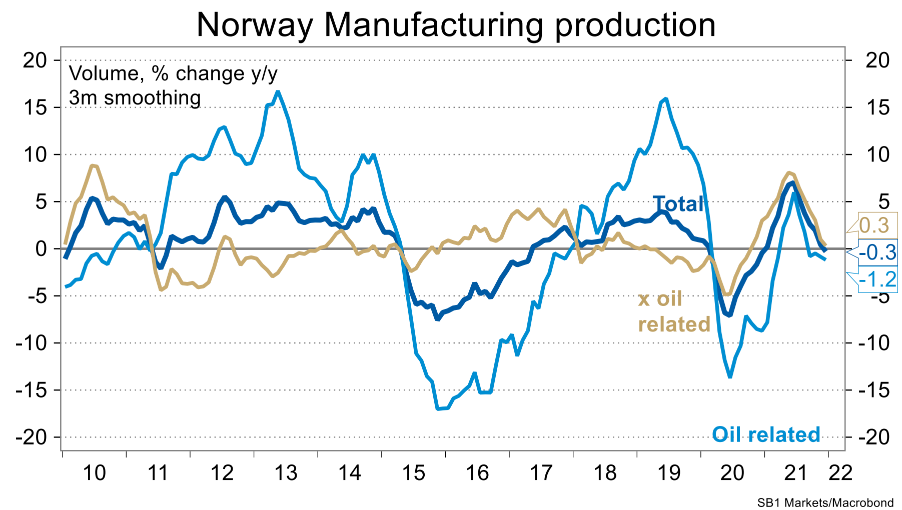


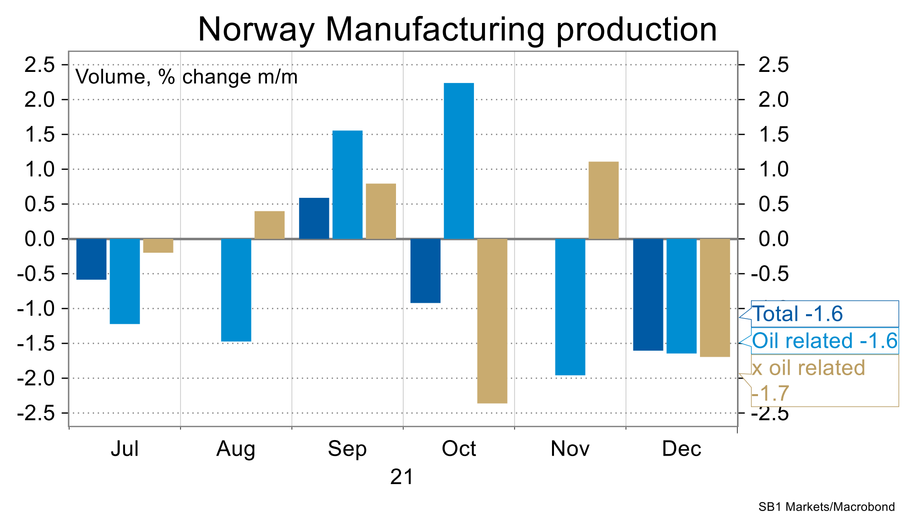
SpareBank 1 MARKETS

Manufacturing production down 1.6% in December, we expected a small raise

Both oil related and x oil related down at the same pace



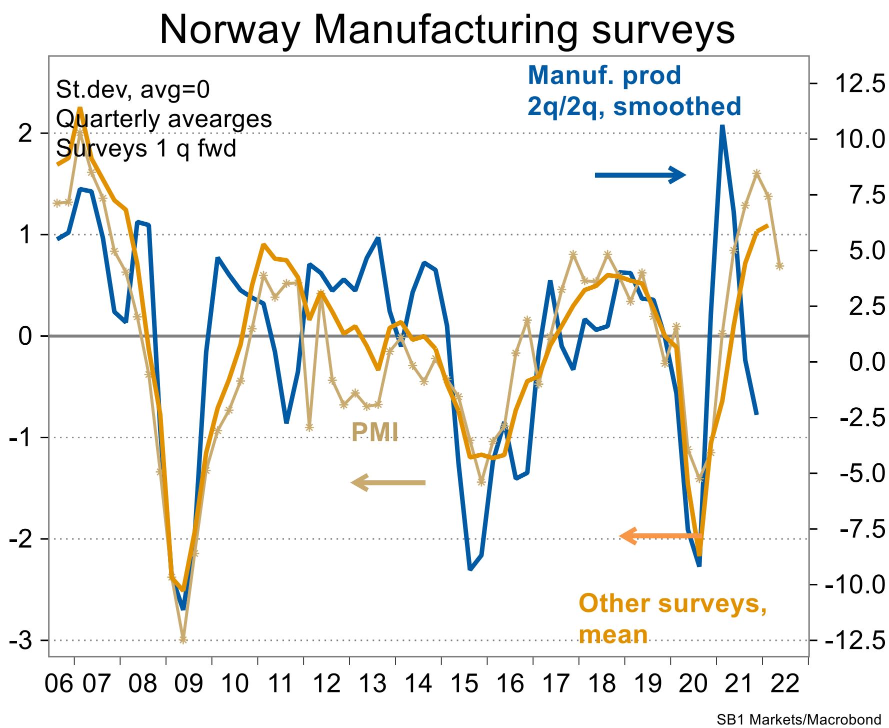




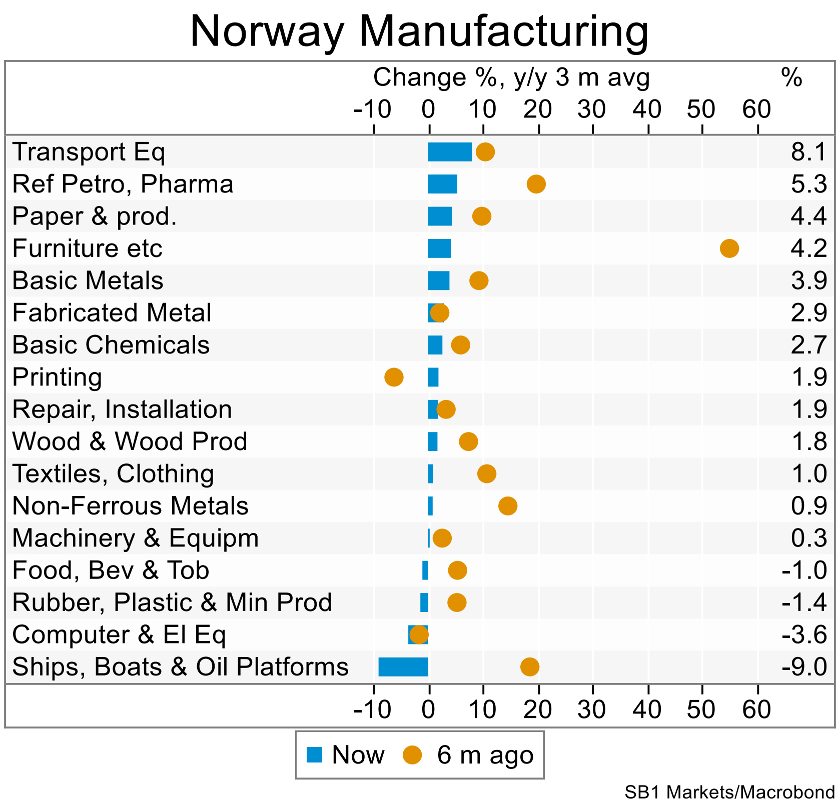
- Production fell, rather broad based
  - » Oil related manufacturing production fell 1.6%
  - » Other sectors cut back production by 1.7%
- Manufacturing surveys are signalling strong growth in activity, but actual production has been flat since April, and it is flat vs. the 2019 avg.
- However, production x oil related sectors is 1% above 2019 level, while oil related is down 9 – nine – per cent!

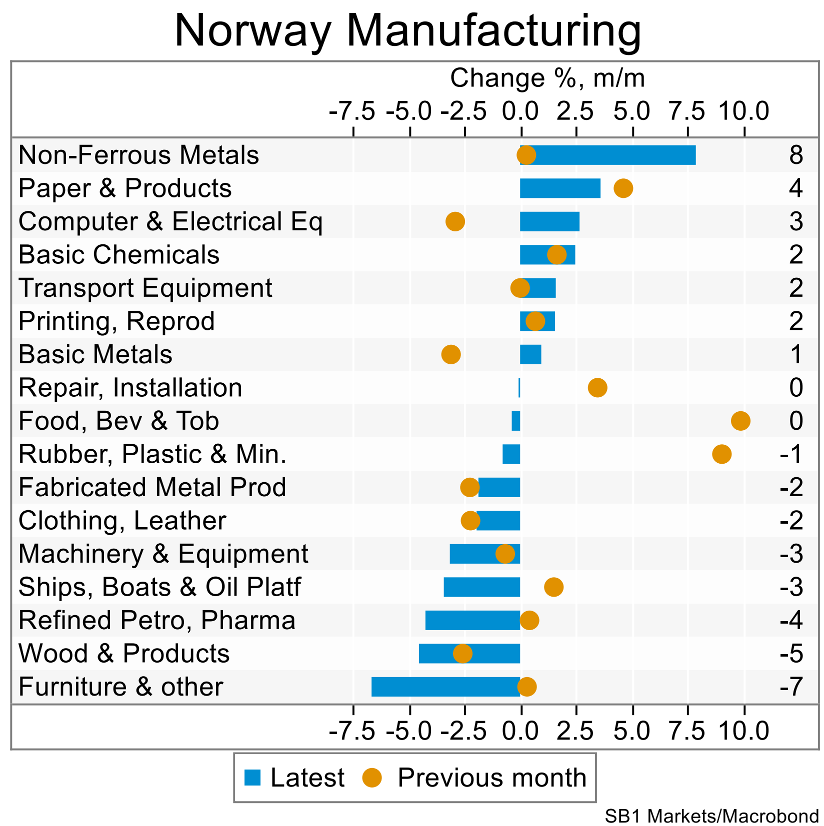
Surveys are signalling growth (like elsewhere)

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

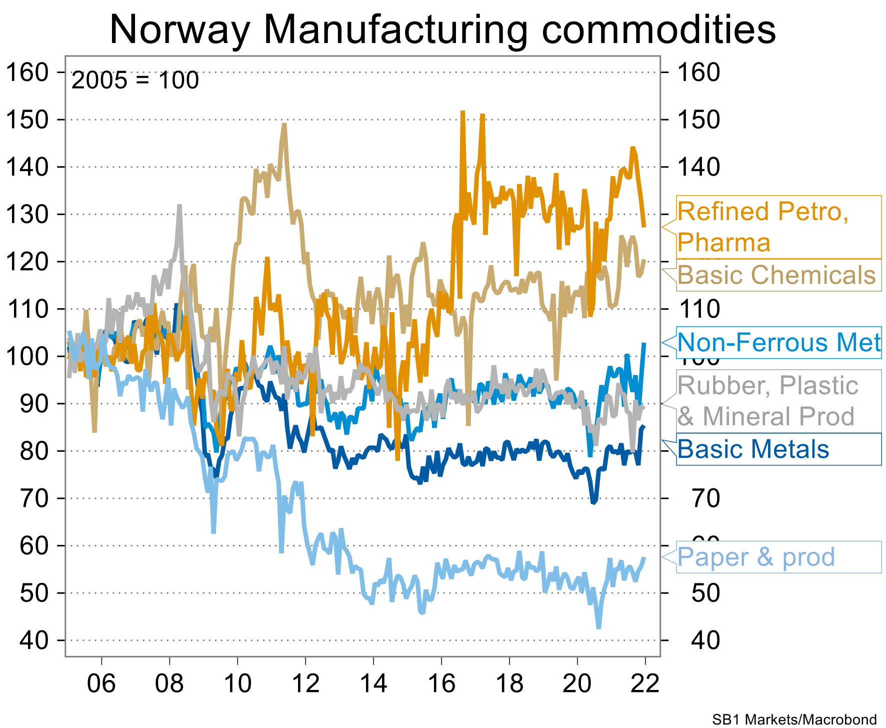


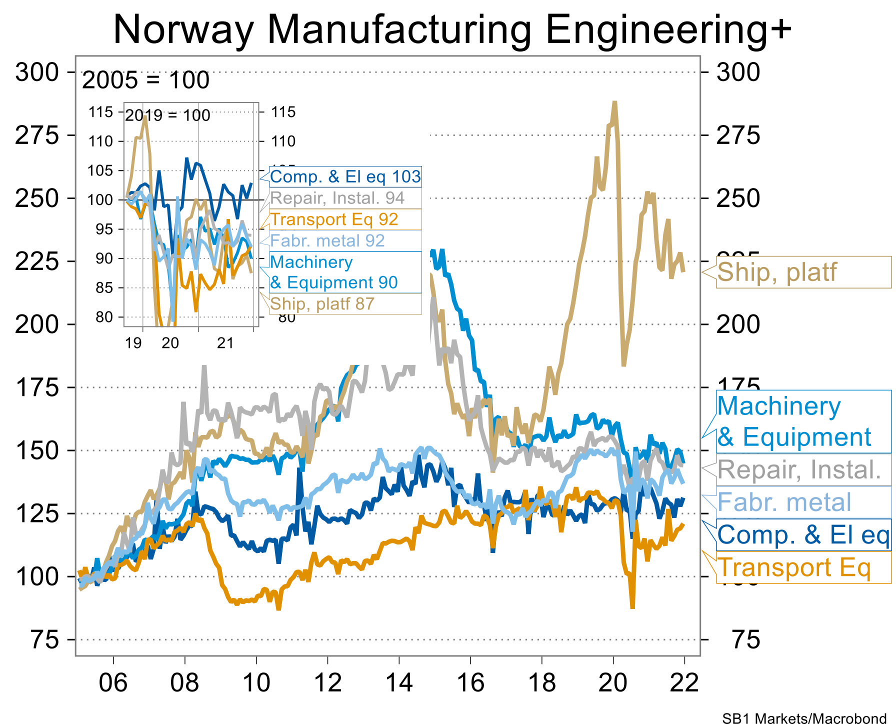
A majority of sectors are up y/y – but more down than up m/m





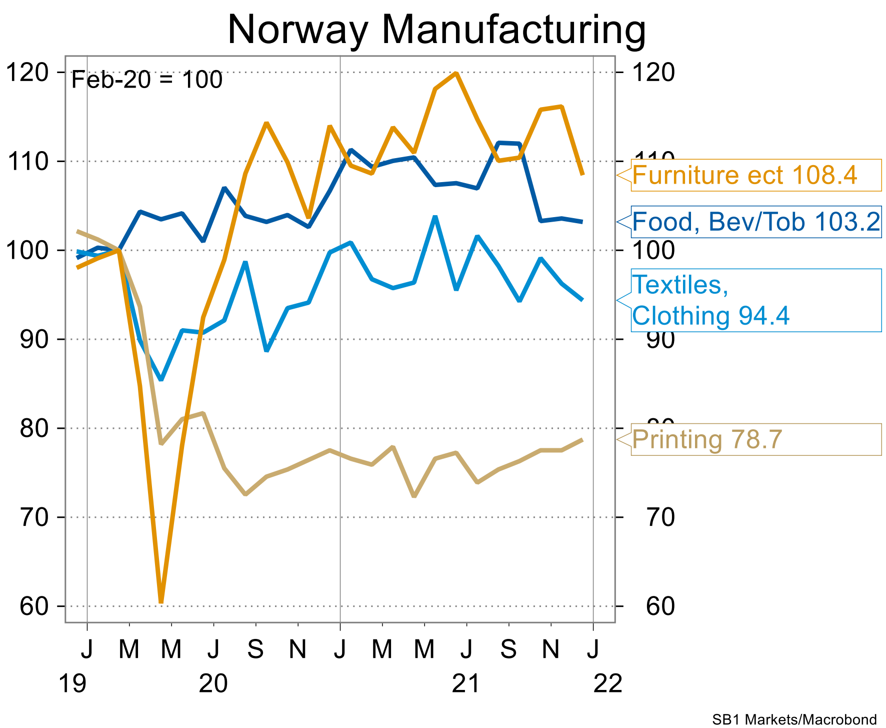
Metals up but engineering still on the weak side





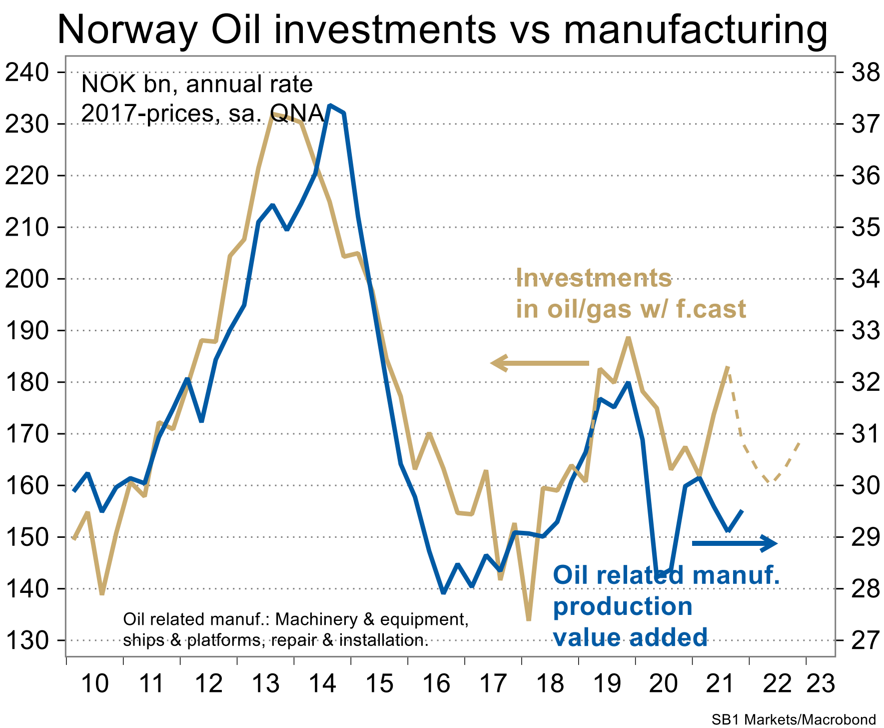
- **Production of ships & platforms** has been heading down in 2021
  - » **Corona measures** (lack of foreign labor, contacts with foreign vendors/customers), supply chain challenges probably explained parts of the decline in the early phase of the pandemic, while demand has slowed as well – but oil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

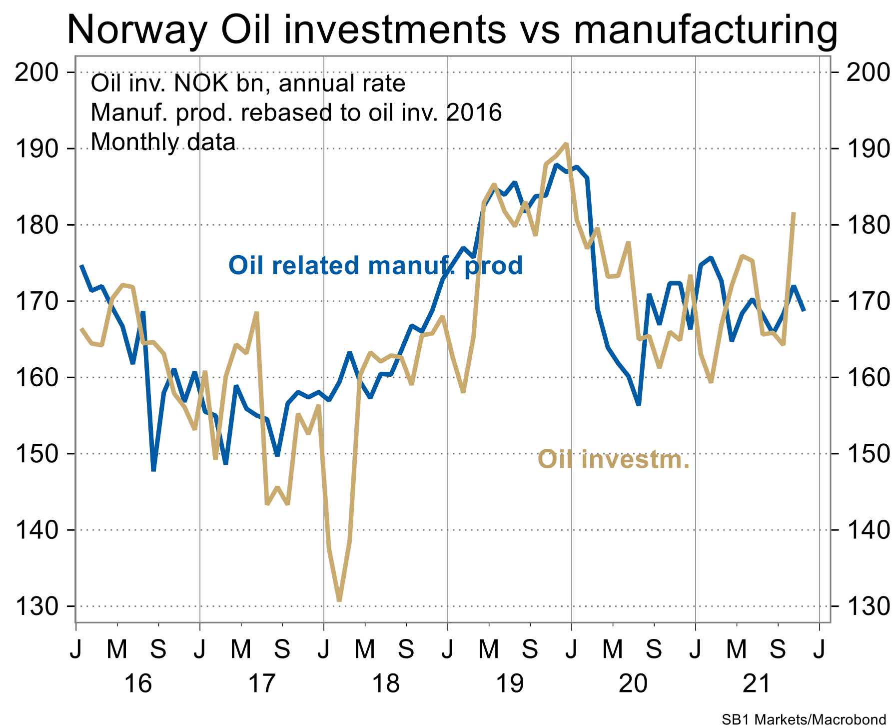
Food production remained at ‘low’ level



No more upside for oil related manufacturing production?

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





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

Highlights

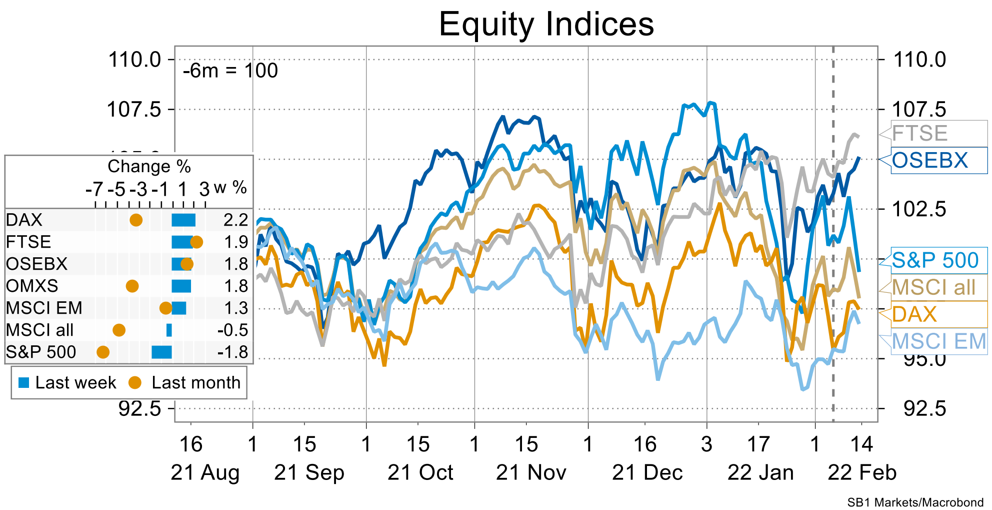
The world around us

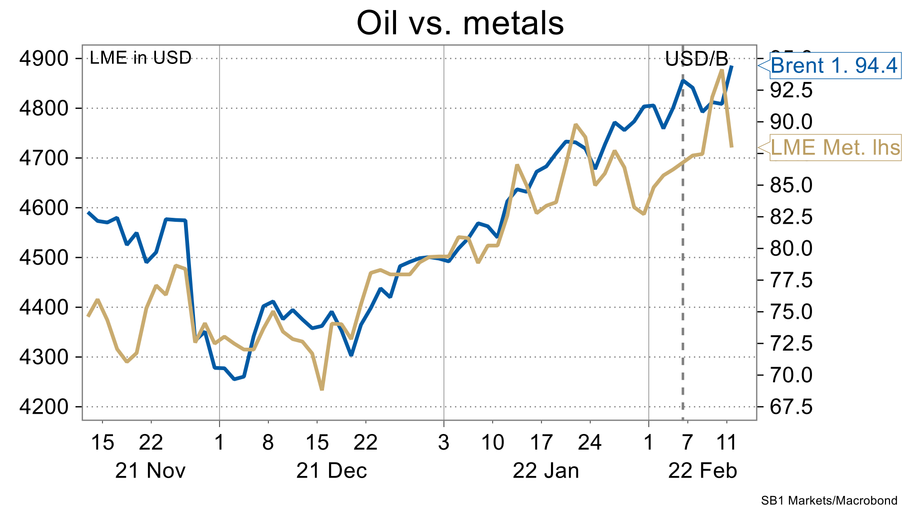
The Norwegian economy

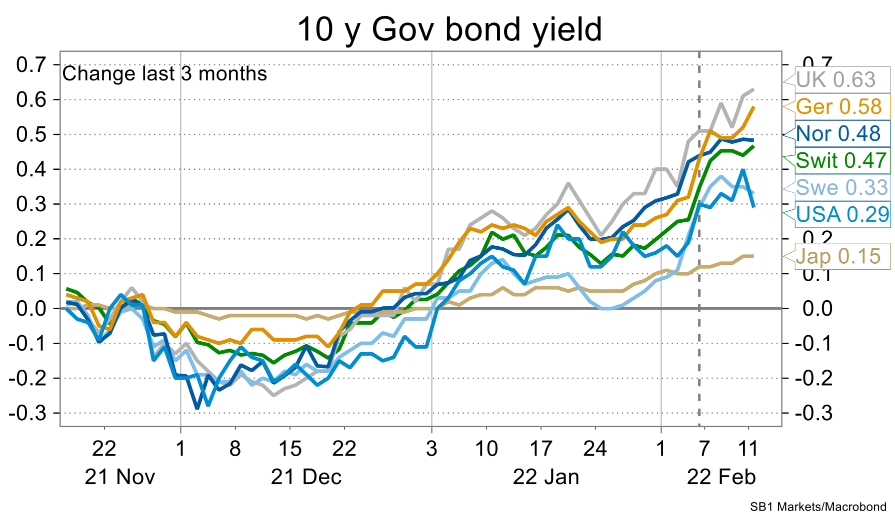
Market charts & comments

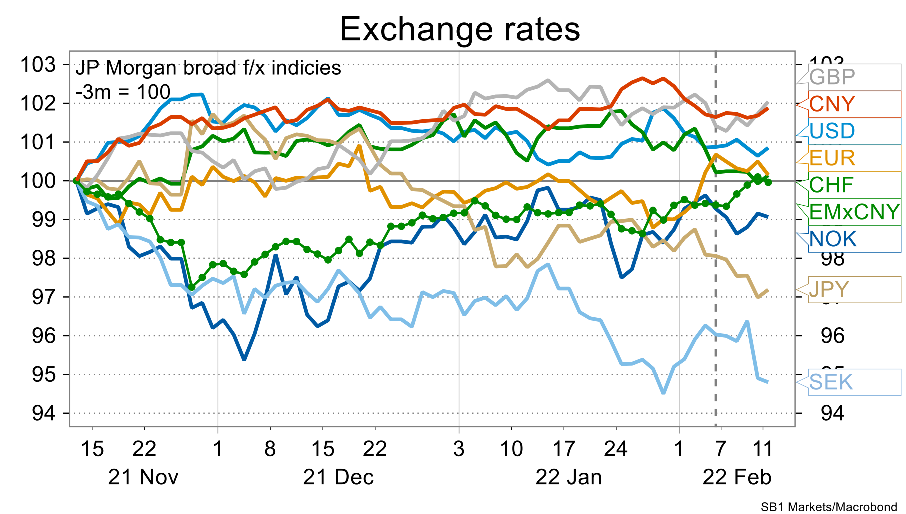
Markets still volatile, the S&P500 ended down, perhaps on war angst

However, bond yields (initially) rose sharply in the US, and they were up everywhere else







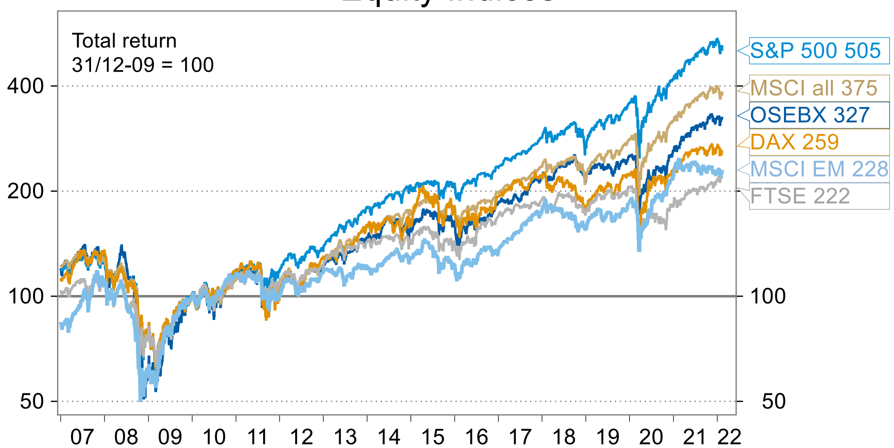


SpareBank 1 MARKETS

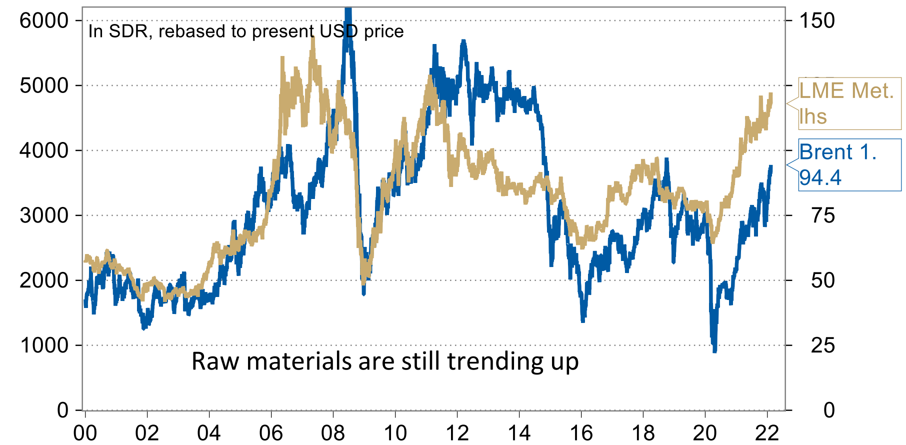
The big picture: Who is flying the highest?

Bond yields are climbing rapidly everywhere. German Bunds up to +0.3%, highest since late 2018

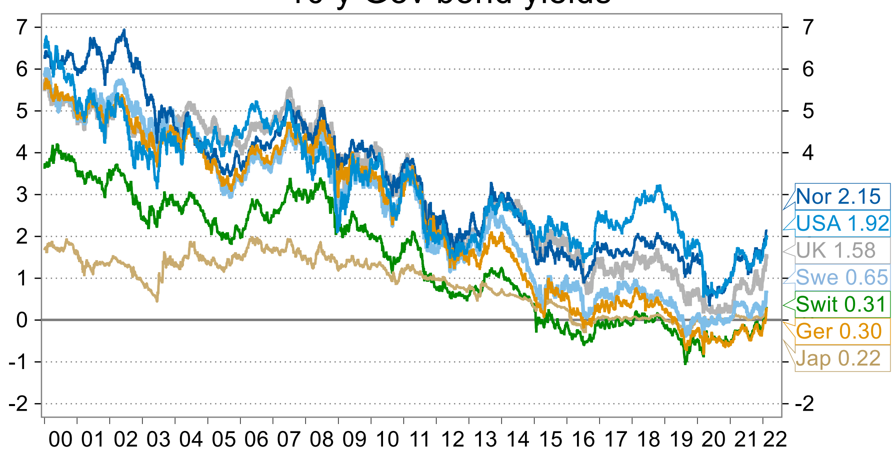
Equity Indices



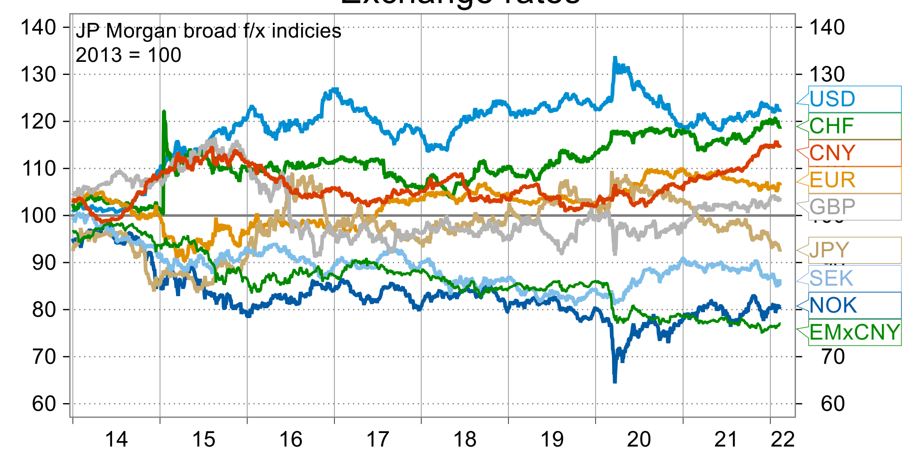
Oil vs. metals



10 y Gov bond yields



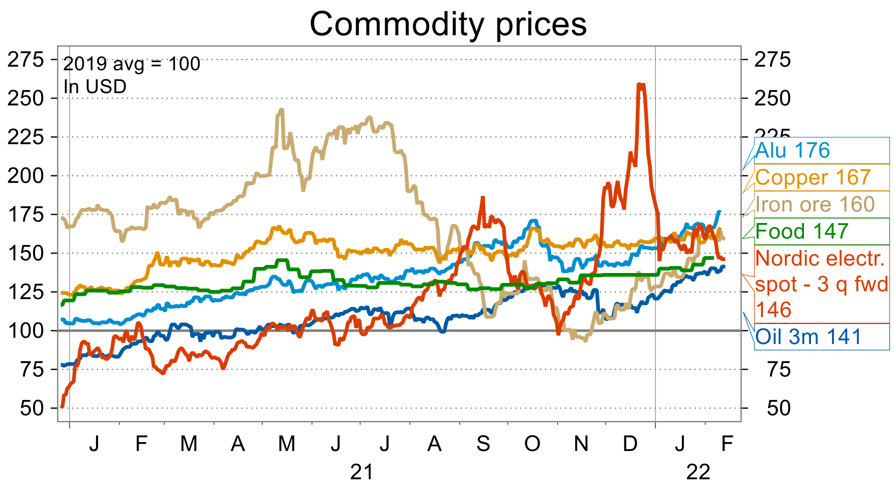
Exchange rates

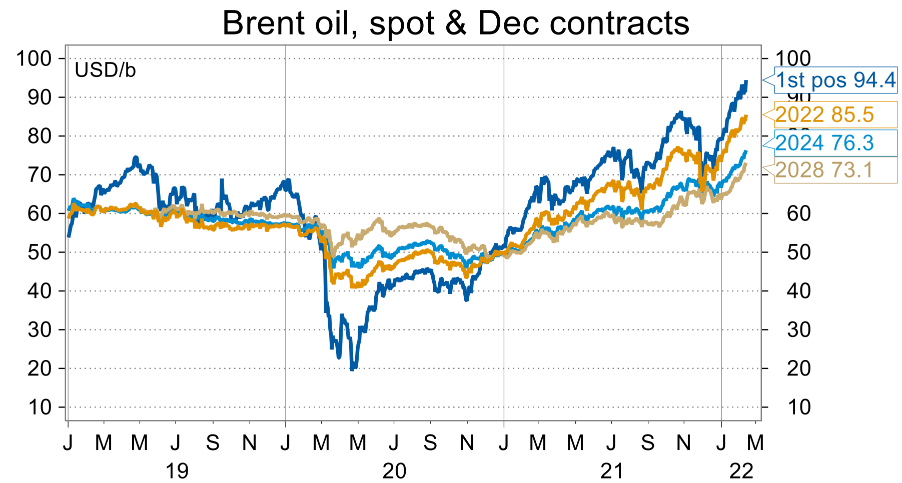


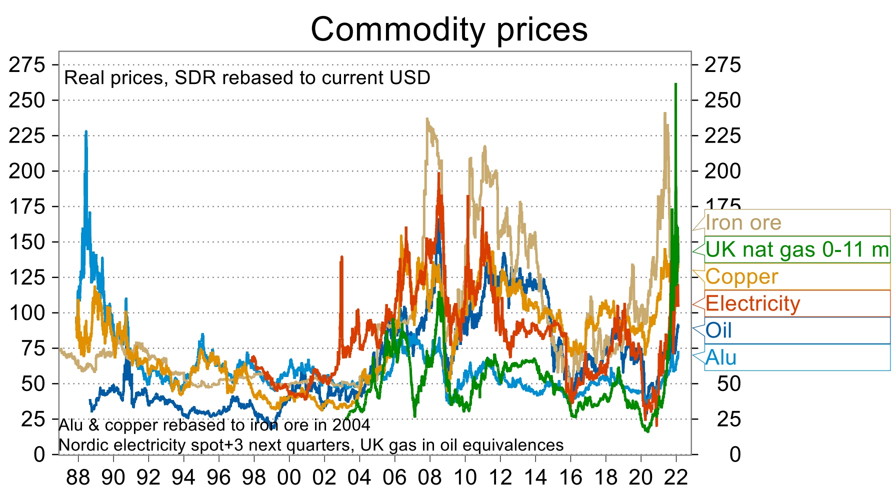
SpareBank 1 MARKETS

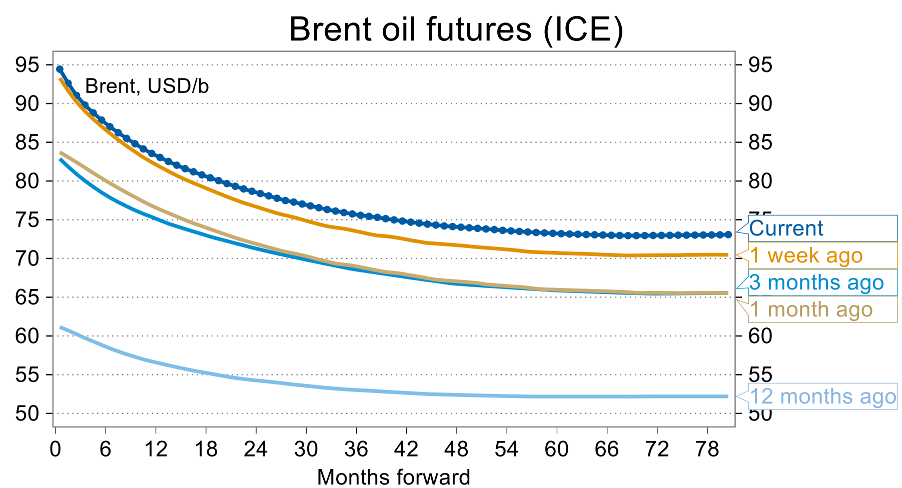
Commodities mostly up last week, including the whole oil curve (again)

Brent up to USD 94/b – partly supported by the Ukrainian situation





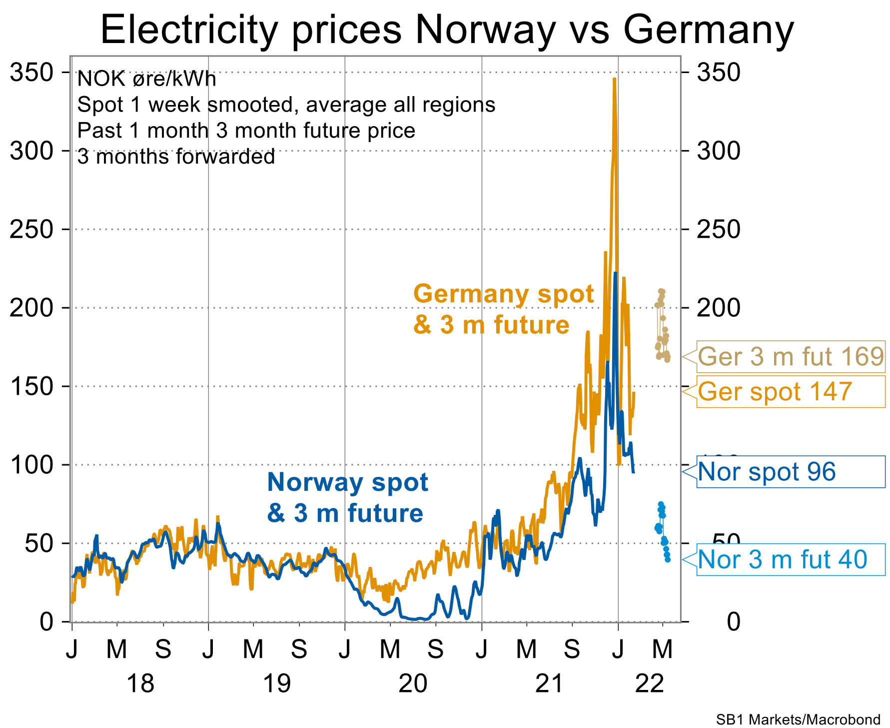


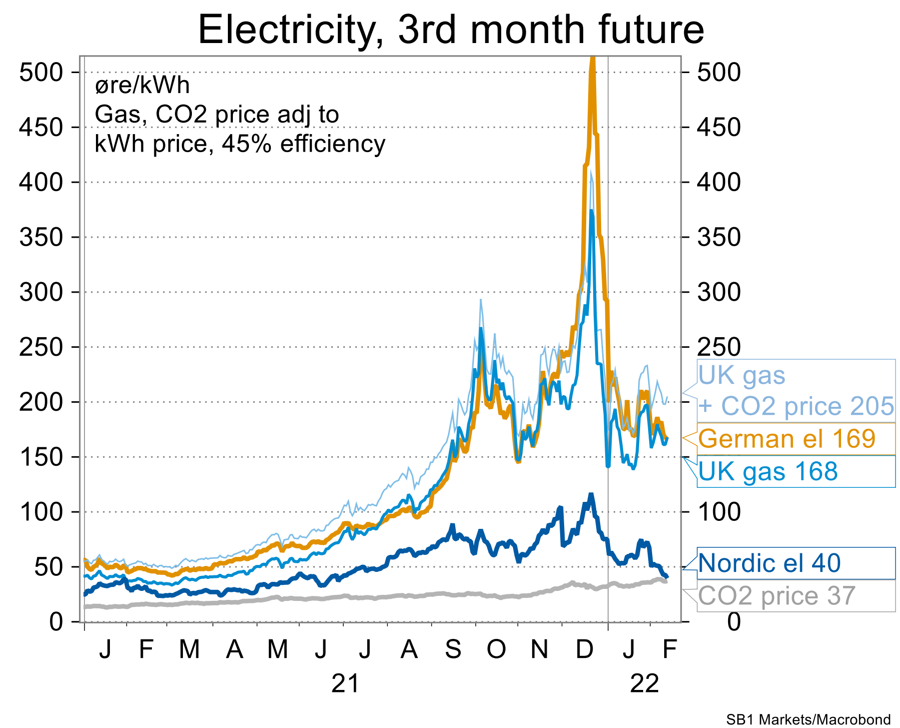


SpareBank 1 MARKETS

European energy markets are still volatile, prices fell last week

However, future prices remain far above Nordic prices



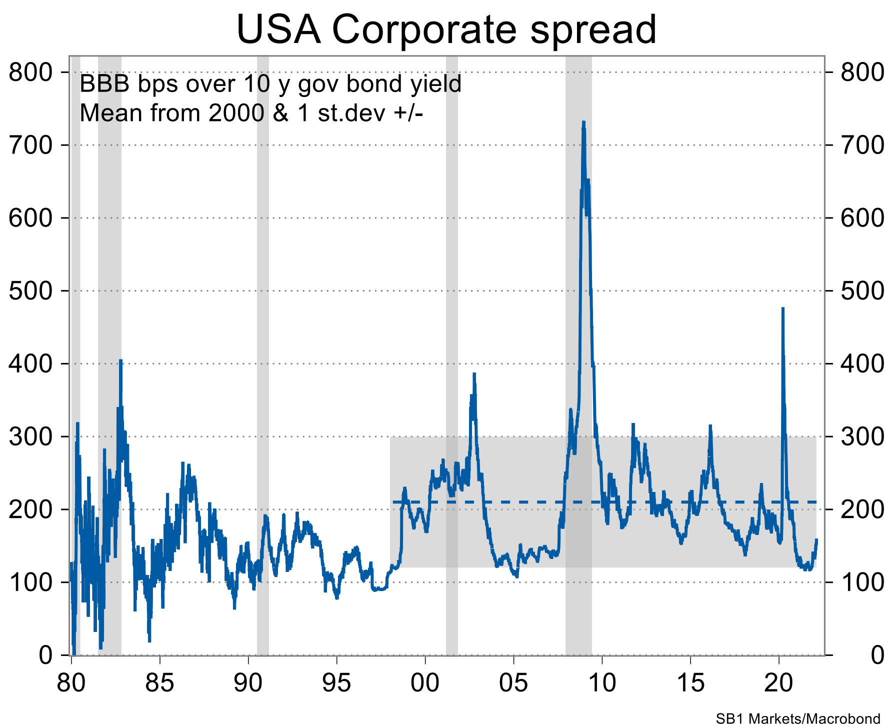


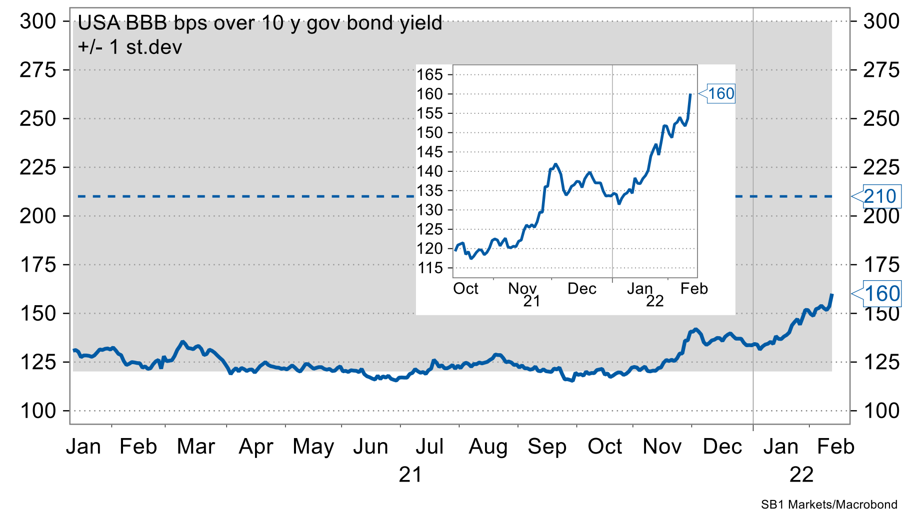
- Future European prices remain far above normal levels – and far above Nordic prices (which are too low??)

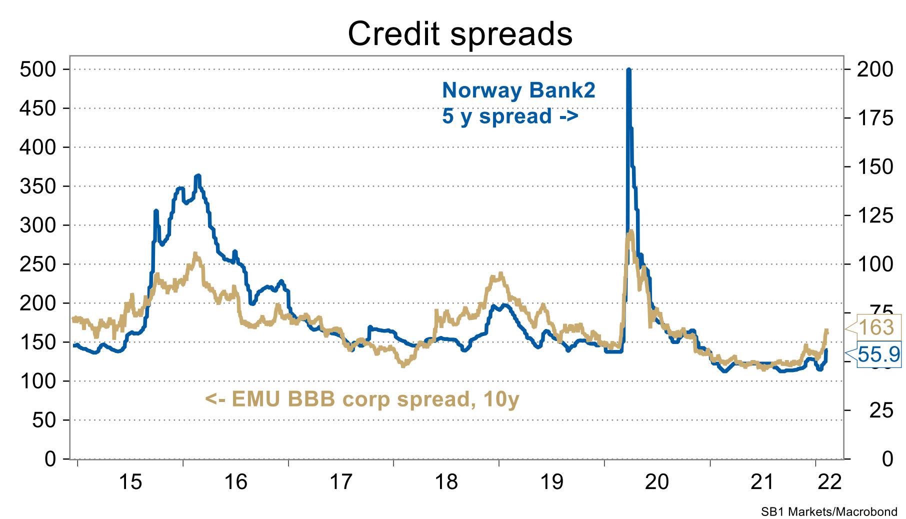
SpareBank 1 MARKETS

The credit cycle has turned – and now even Norwegian banks have to pay more!

Higher bond yields, lower equity pricing is not the best environment for credit spreads





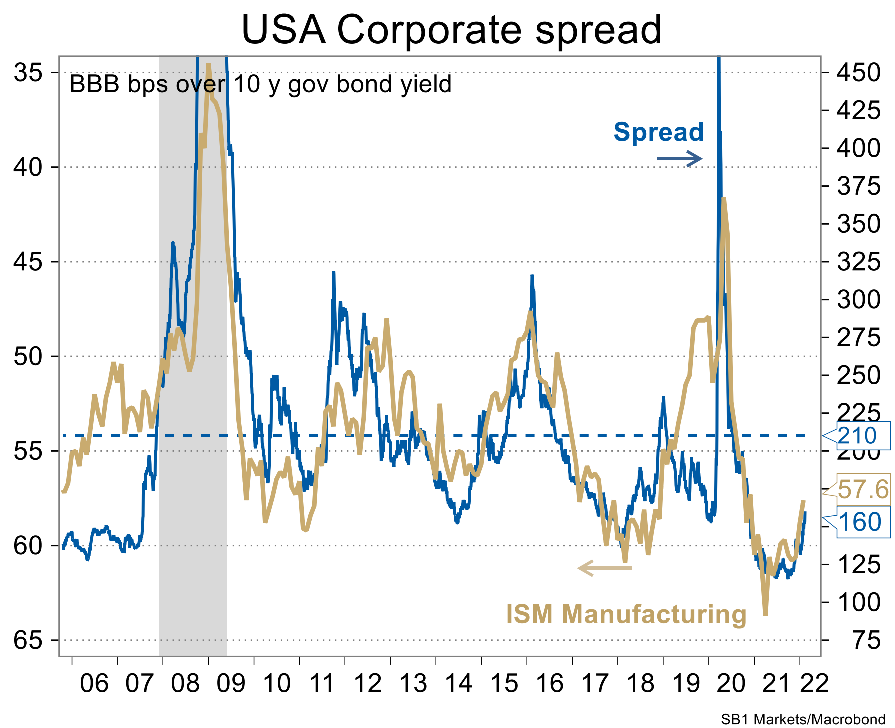


- The increase in US Corporate BBB spread now equals 0.5 st.dev, still a moderate of a normal full credit cycle
  - » The credit cycle is often closely correlated to the economic cycle, check next page
- The NOK Bank 2, 5y spread widened 6 bps to 55.9 bp, the highest spread in more than one year

SpareBank 1 MARKETS

It could be the economy, stupid

Growth has to be slowed to get inflation under control. If that happens…

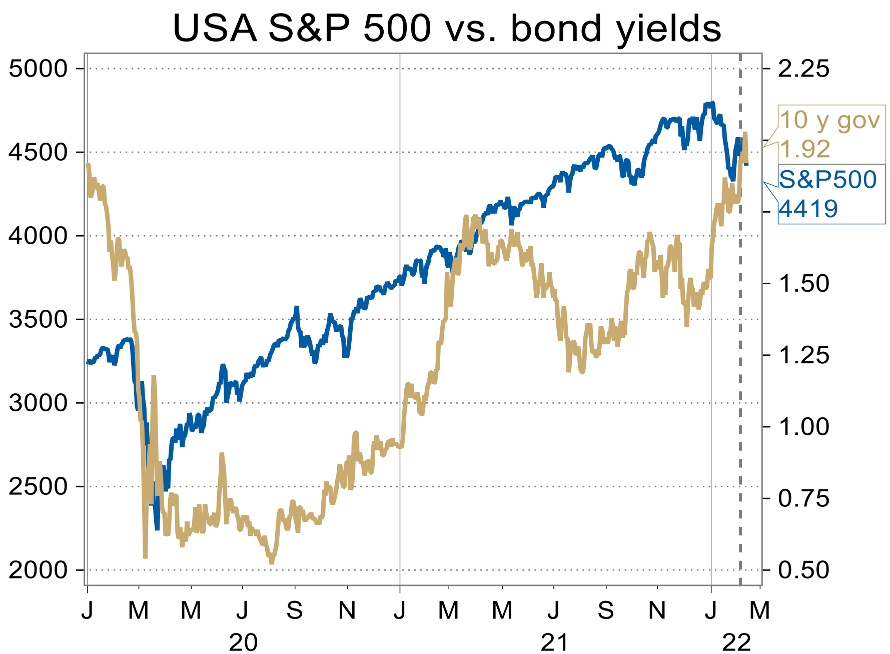


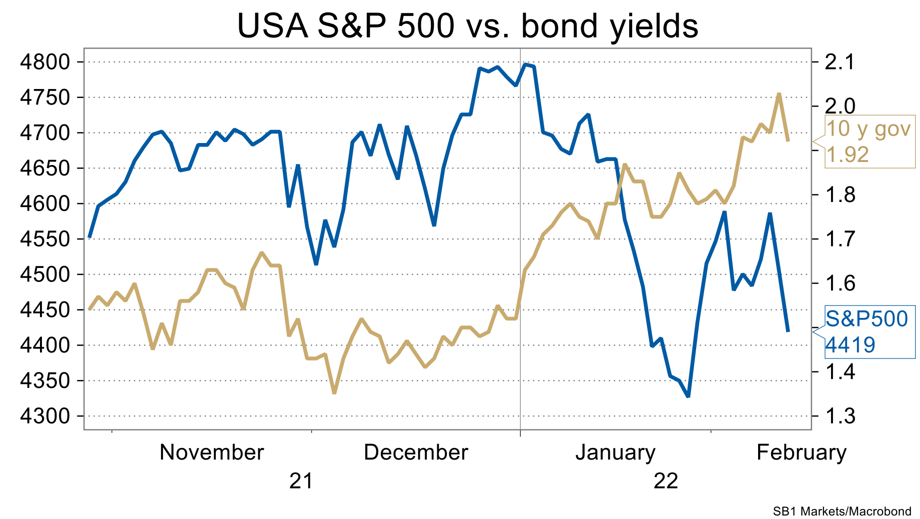
- Growth has already slowed somewhat, according to the US manufacturing ISM

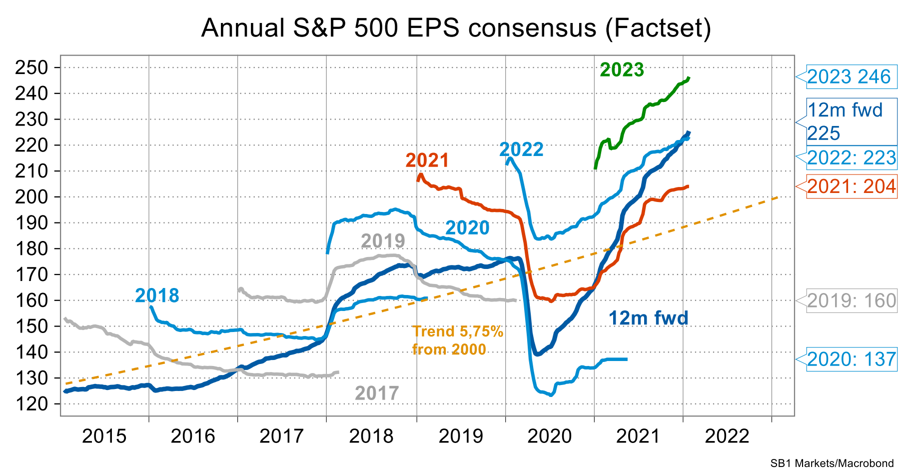
SpareBank 1 MARKETS

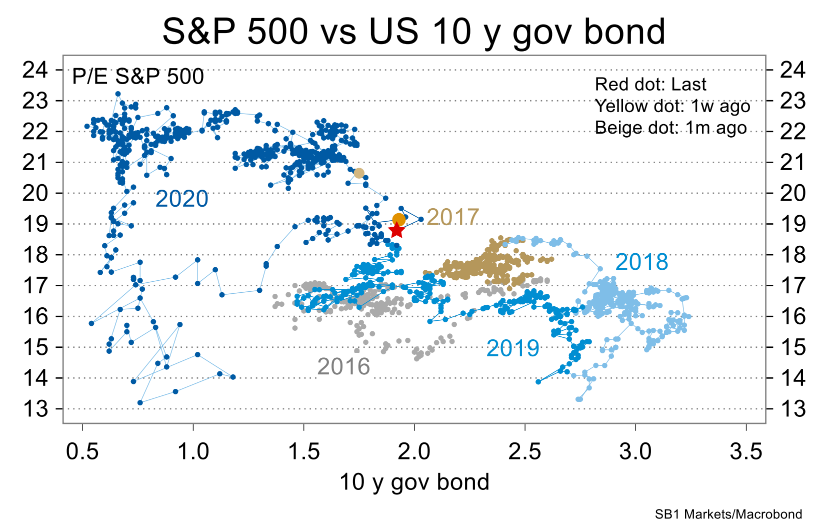
S&P 500 down 1.8%, due the Friday setback – which was due to war angst?

The 10 y was up 13 bps to 2.05% at Thursday but closed 1 pb down on the week, at 1.92%



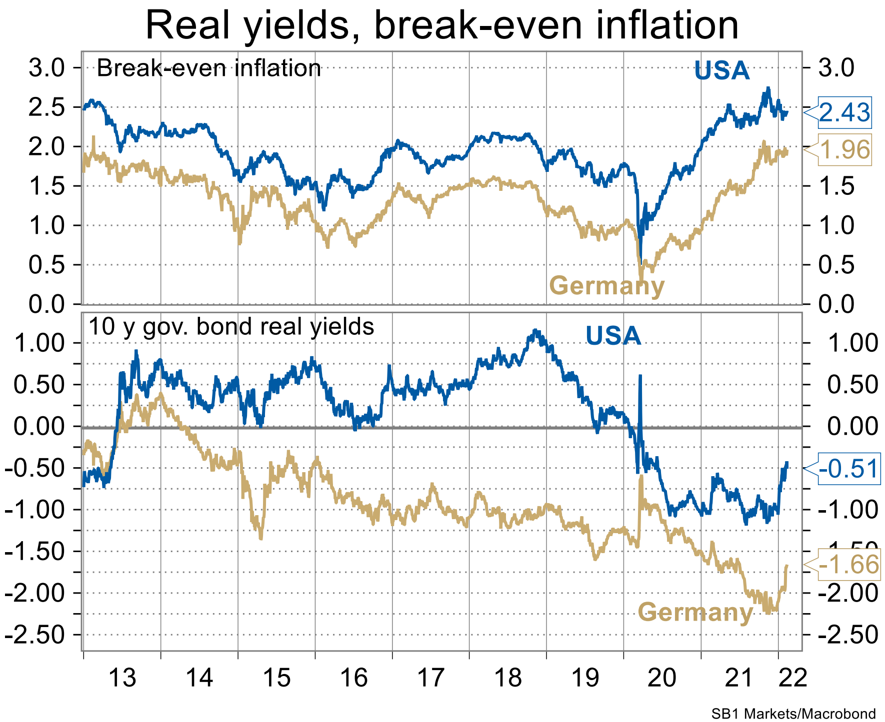


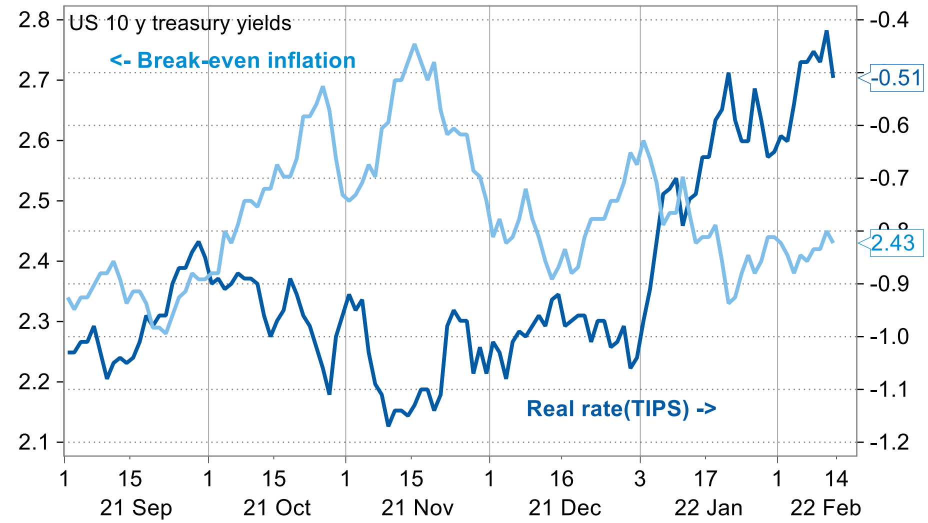




US yields 'saved' by fear of war in Ukraine at Friday, and real rates fell w/w

Yields are climbing rapidly in Europe, the 10 by German 'Bund' to 0.3%





US & Germany 10 y Gov bond yield

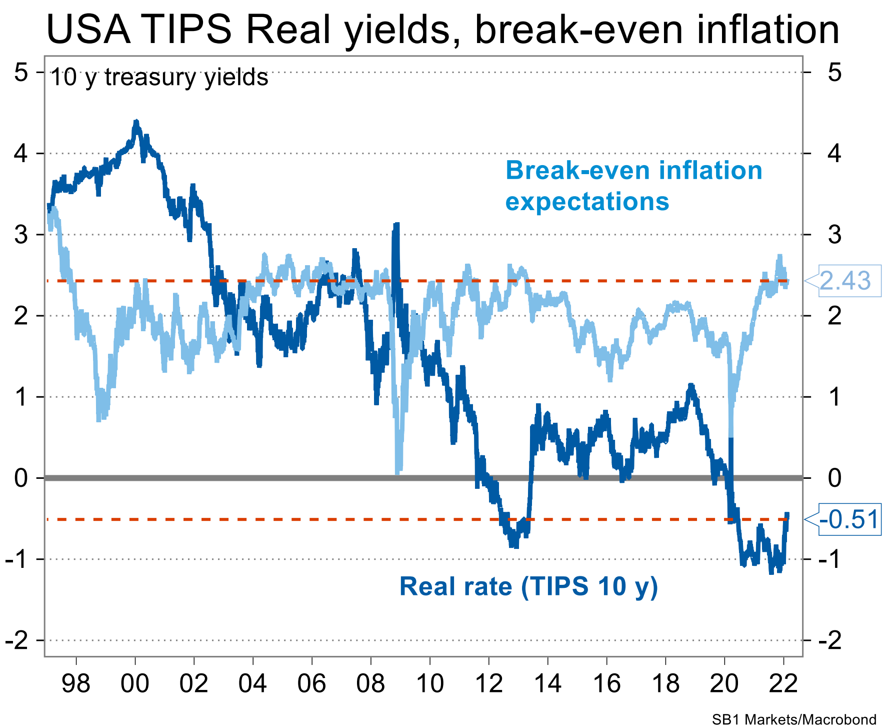
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.92	-0.01	0.17	0.52
.. break-even inflation	2.43	0.02	-0.11	1.06
.. TIPS real rate	-0.51	-0.03	0.28	-1.19
Germany nominal bund	0.30	0.15	0.35	-0.65
.. break-even inflation	1.96	0.06	0.03	0.40
.. real rate	-1.66	0.09	0.32	-2.26

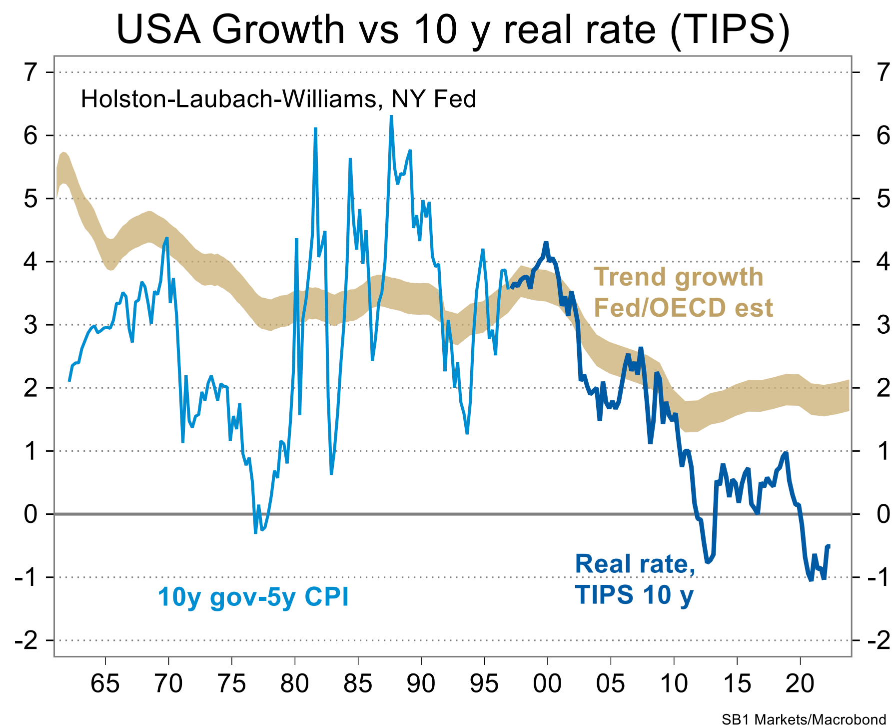
SB1 Markets/Macrobond

- **The US 10 y TIPS real rate** has climbed 68 bps from the ATL last year
- 10 y US inflation expectations have fallen by 30 bps past 3 months
- The 10 y German real rate as gained 60 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?





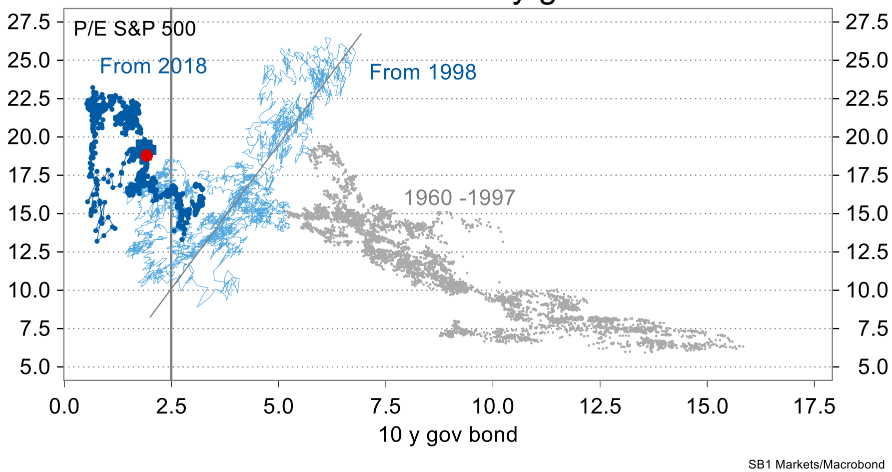
- Something is happening: The 10 y real TIPS rate is on the way up, now by almost 70 bps from the ATL last year

SpareBank 1 MARKETS

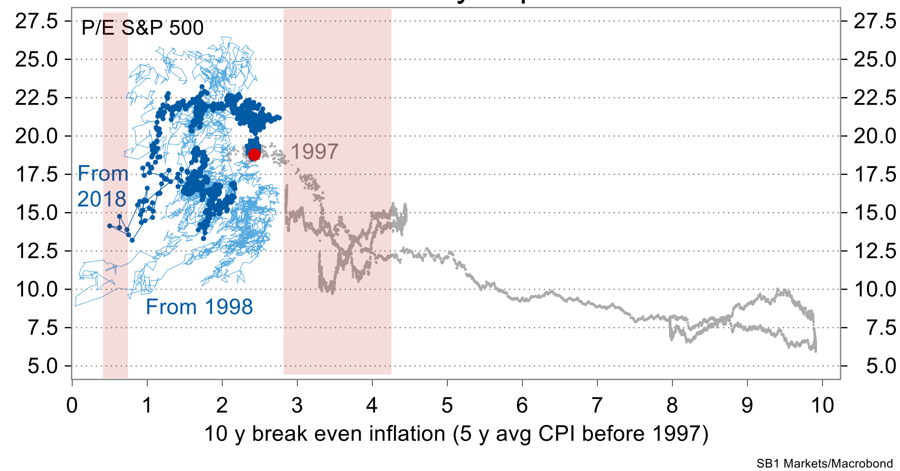
Bonds vs. equities: What's next?

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

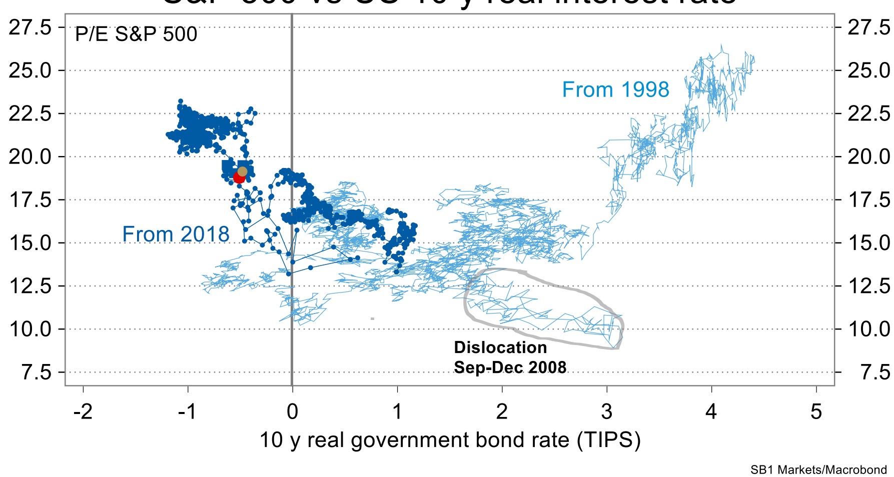
S&P 500 vs US 10 y gov bond



S&P 500 vs US 10 y expected inflation



S&P 500 vs US 10 y real interest rate

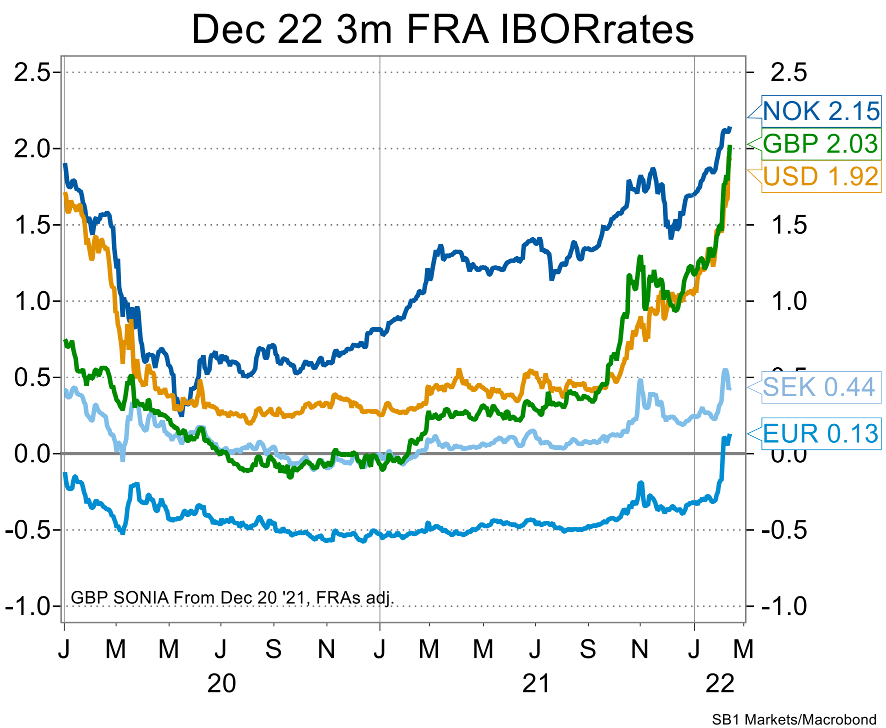


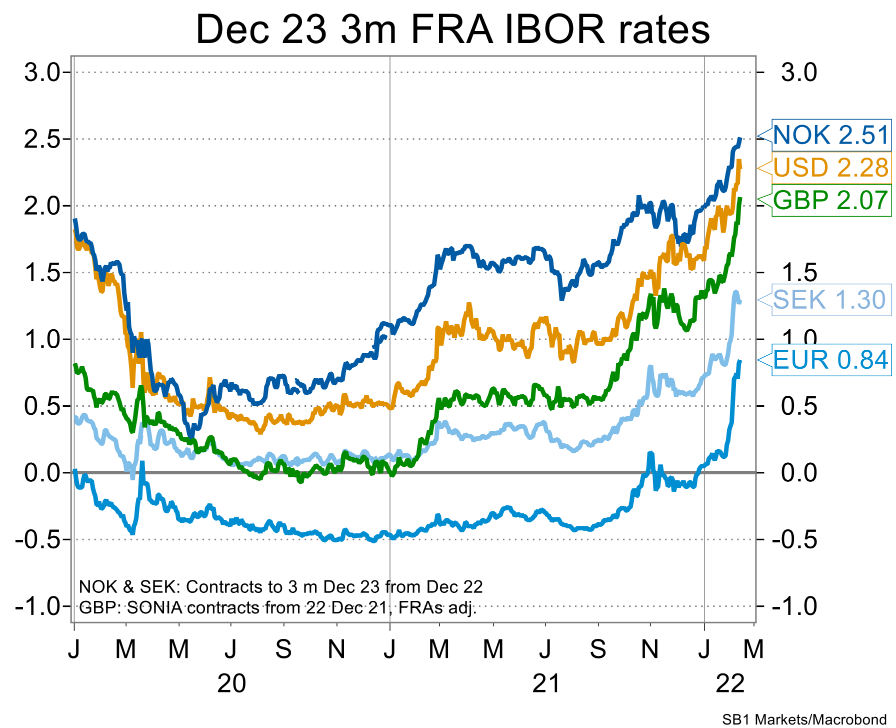
- **Expected inflation**
  - » ***If its not too low or too high: No problem***
    - 'Real' expected earnings are unaffected, higher inflation implies stronger growth in earnings, and vice versa
  - » ***If its too low or too high: A problem***
    - Something is rotten: Deflation or far too high inflation. 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? Luckily, multiples has come down quite a lot

SpareBank 1 MARKETS

Norway's pole position is threatened!

In reality UK is ahead of us, and US close, adjusted for respective normal money market spreads

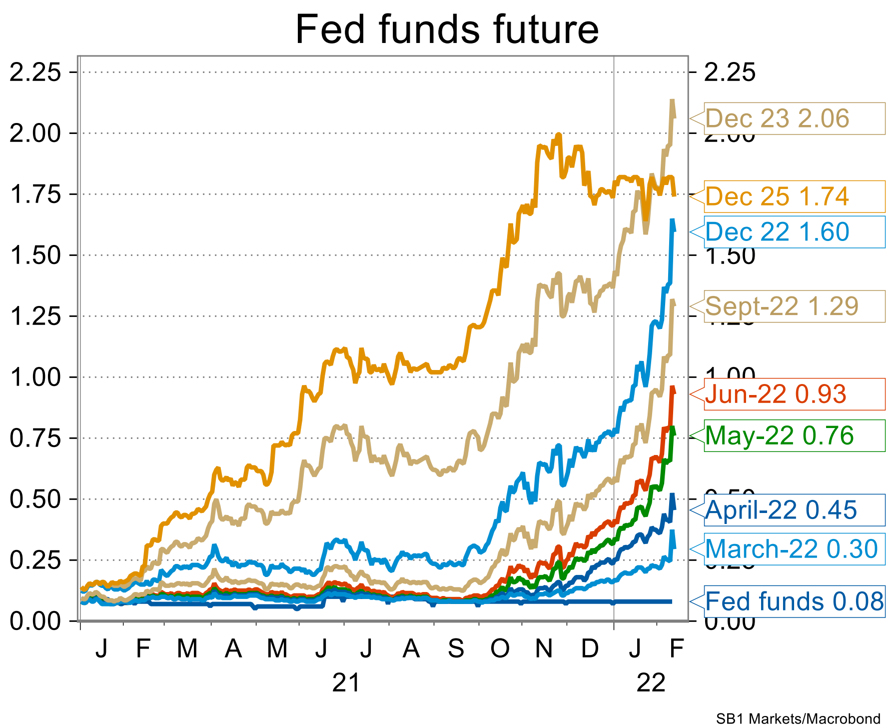


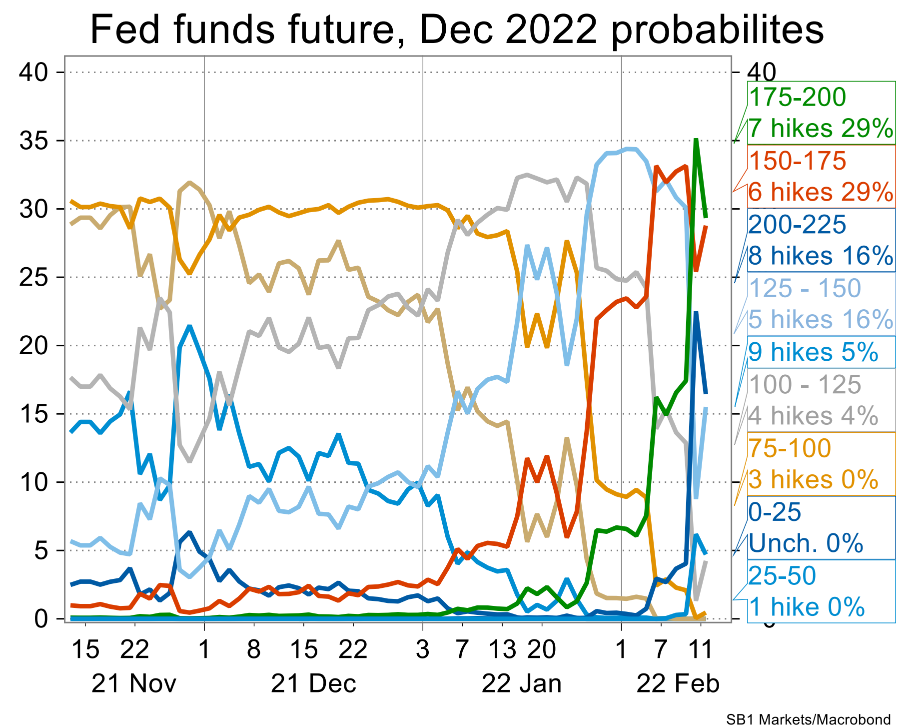


- FRA rates rose by up to 30 bps in both UK and US last week, in the US mostly due to the CPI report – and some bearish comments from FOMC's Bullard
  - » In UK, we are graphing the SONIA rate, which is 5 bps below BoE's Bank rate The USD LIBOR OIS spread is volatile but has been at some 10 bps the recent few years. In Norway the NIBOR/FRA rates are some 35 above NoBa's deposit rate. The UK signal rate is now expected above NoBa's rate, and the US is just marginally behind

79% probability for 6, 7, 8 or 9 hikes in 2022 – and 7 most likely

… if 25 bps hikes each time are assumed. (but 8 or more 'hikes' requires 1 more 50 bps hikes)

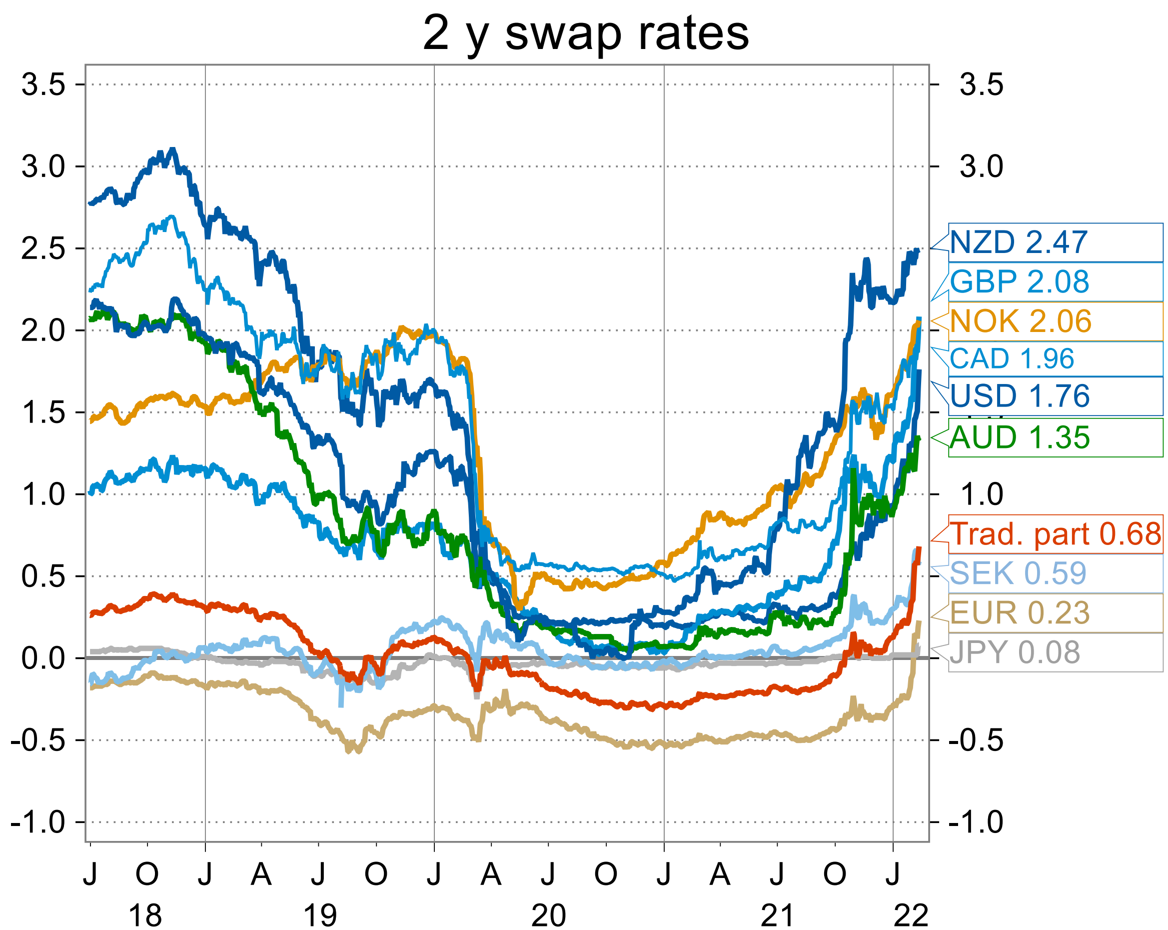




- 2 months ago, the market though 2 hikes were most likely, and 4 or more rather unlikely (21%)
- Now, it's 50/50 for a 25 or 50 bps hike in March. At Thursday, the market priced a 50 bps hike with a 93% probability – shell shocked by the CPI report and FOMC's Bullard's comment. Markets calmed somewhat down at Friday
- This is really fascinating!
- **Our assessment:** A 50 bps hike in March is rather likely – and then the bank will hike at every meeting (every 6th week) until the economy slows significantly. Demand is far too strong, and the labour market is too tight

SEK rates in the very short end, but that'a all. A steep rise most places

The average 2 y swap rate among our trading partners up by almost 70 bps since late December!



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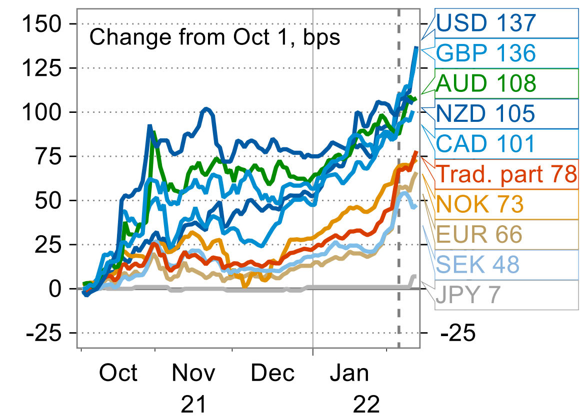
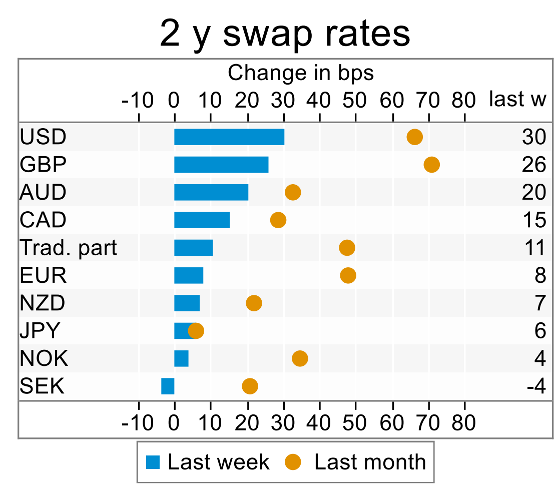
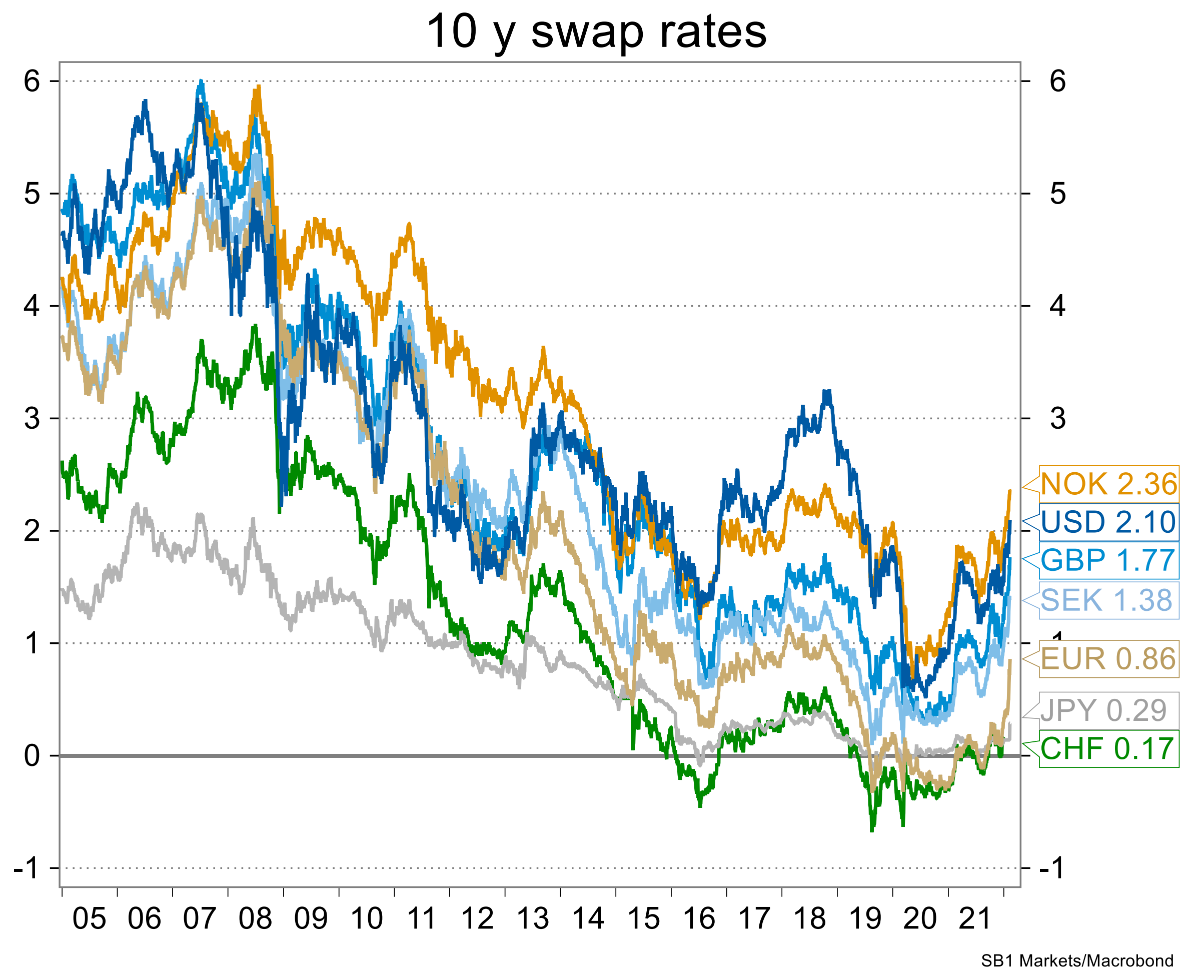


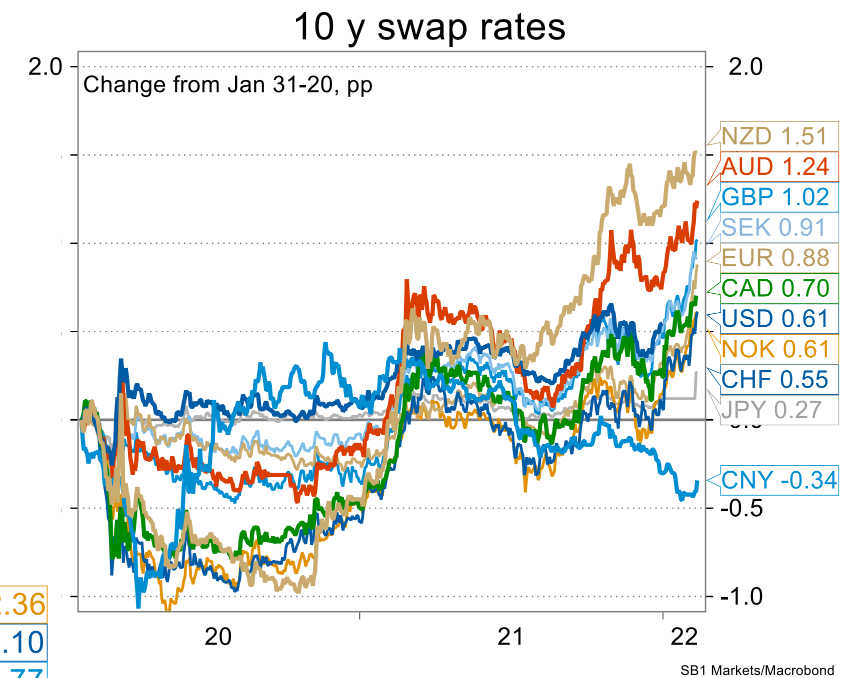


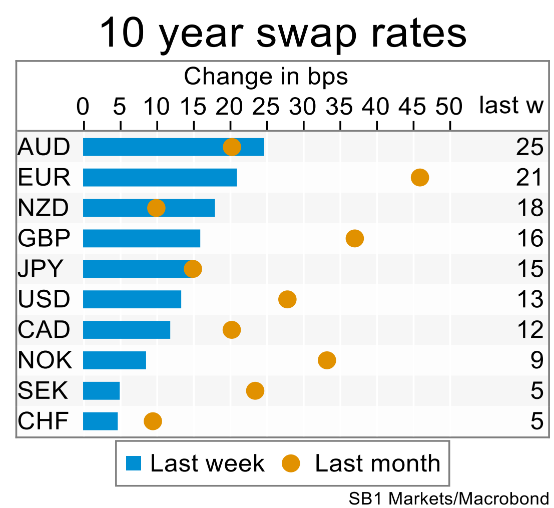
SB1 Markets/Macrobond

The trend seems to be up ☺.

... everywhere

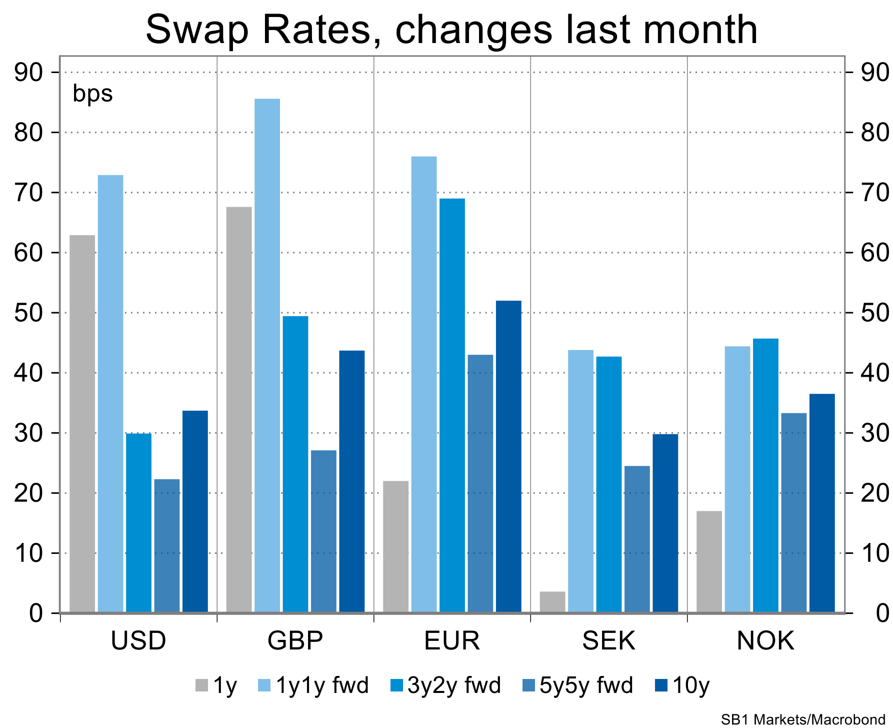


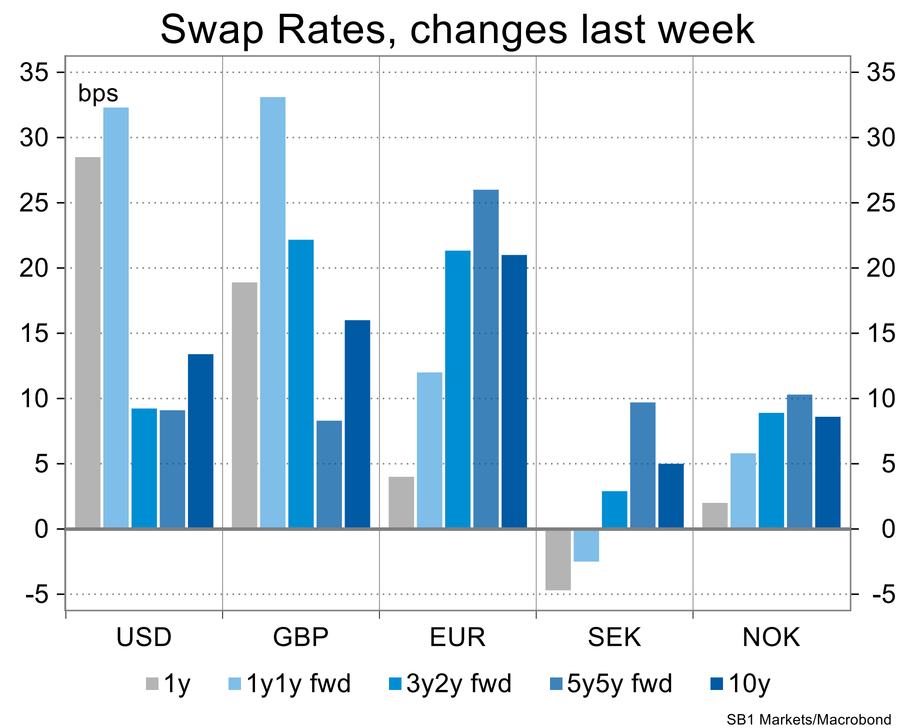




Still extreme curve movements, especially in USD, GBP & EUR

EUR 1 y 1 y fed up another 20 bps last week, up 75 bps last month – and even more in GBP

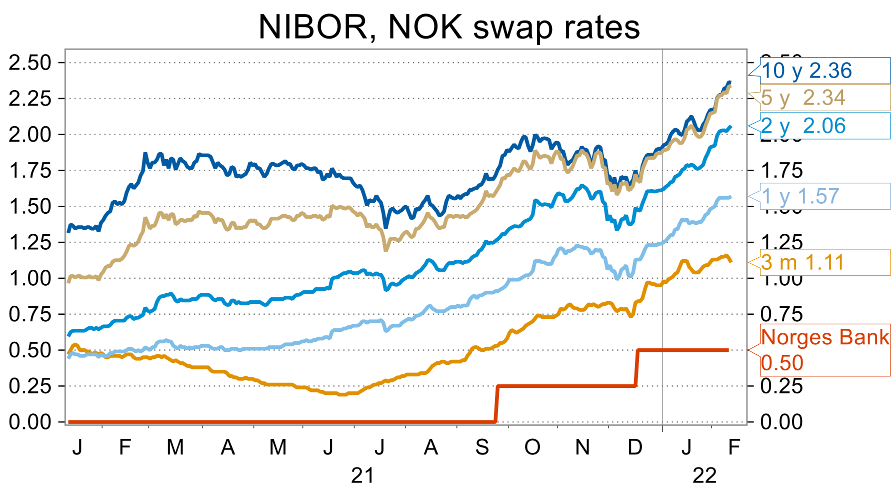


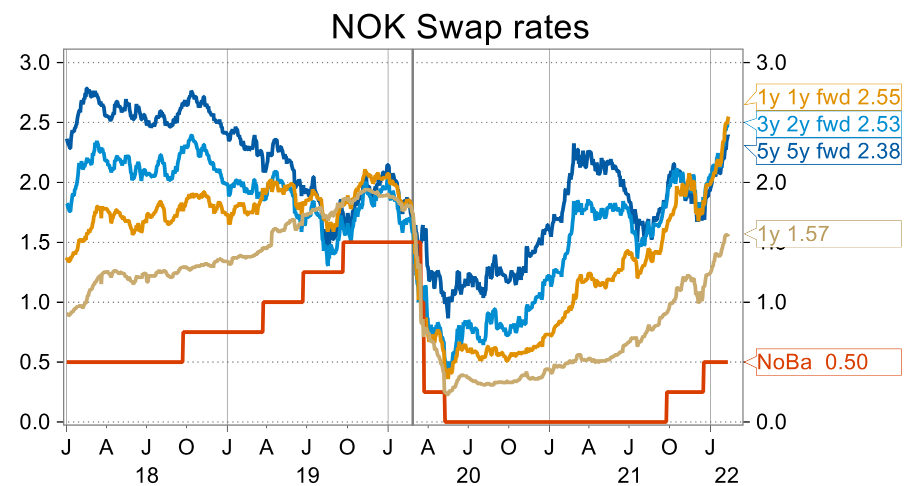


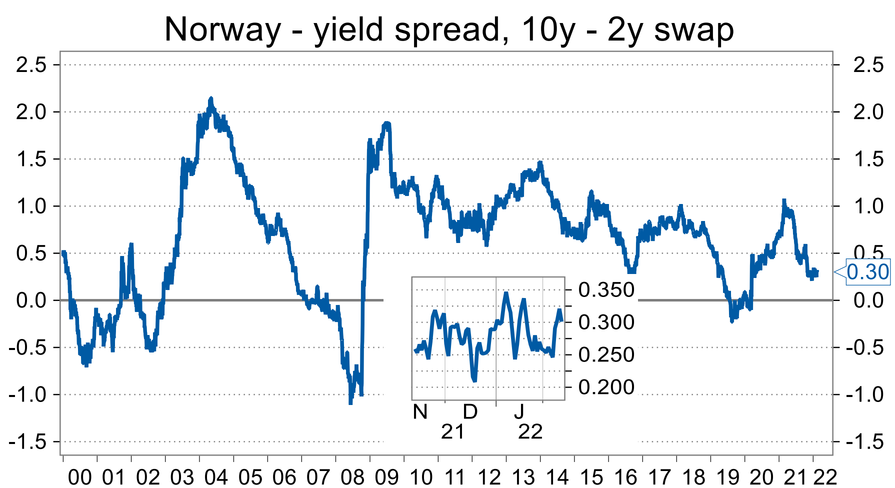
- Just the short end of the SEK curve down last week

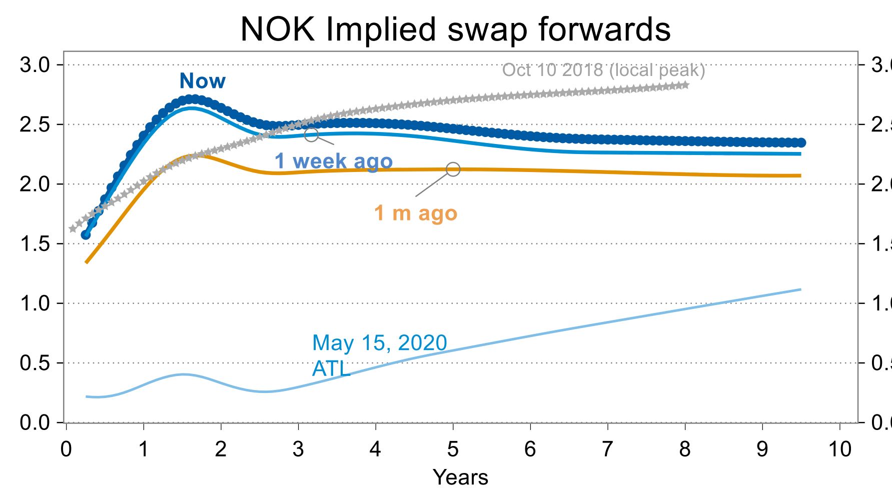
Up all along the curve last week, the 10 y up 8 bps to 2.36%!

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









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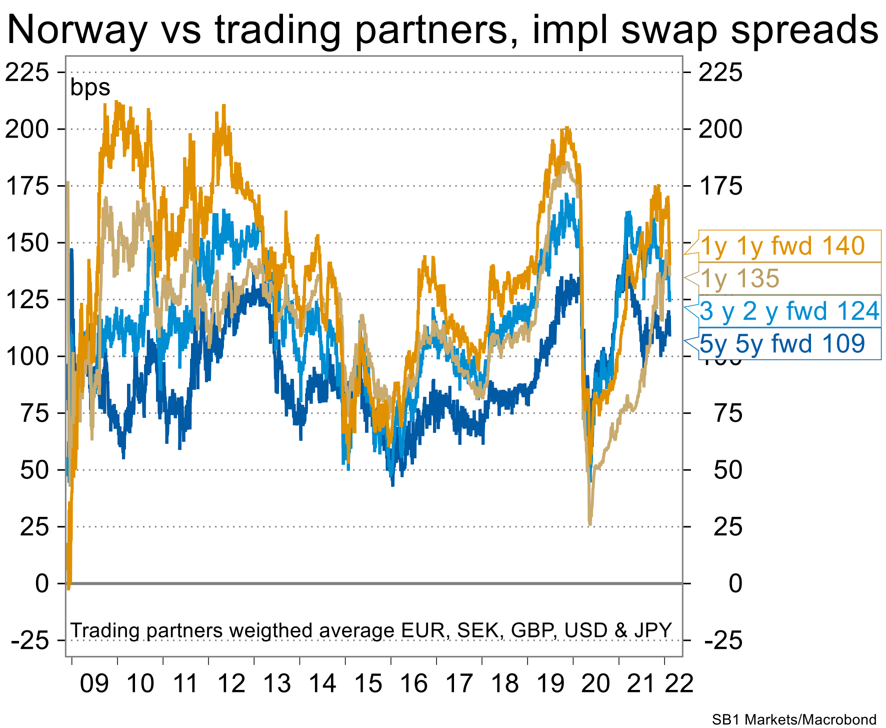
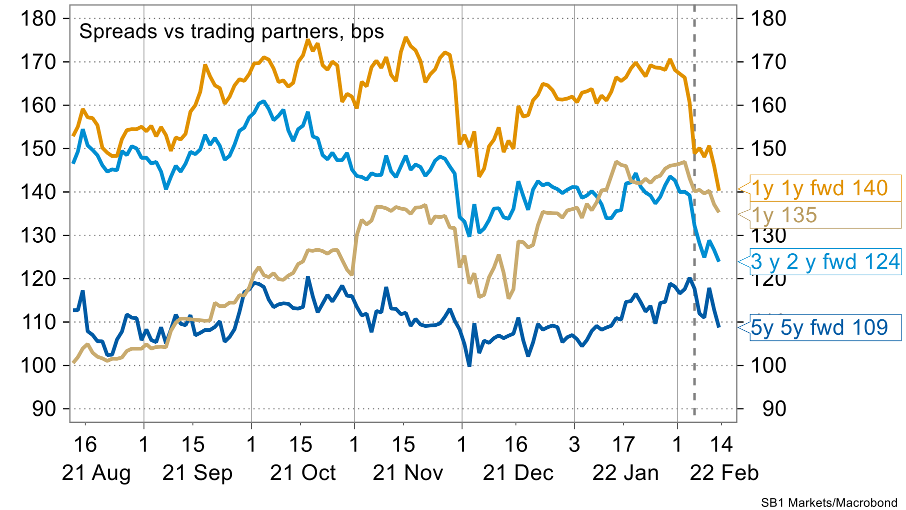
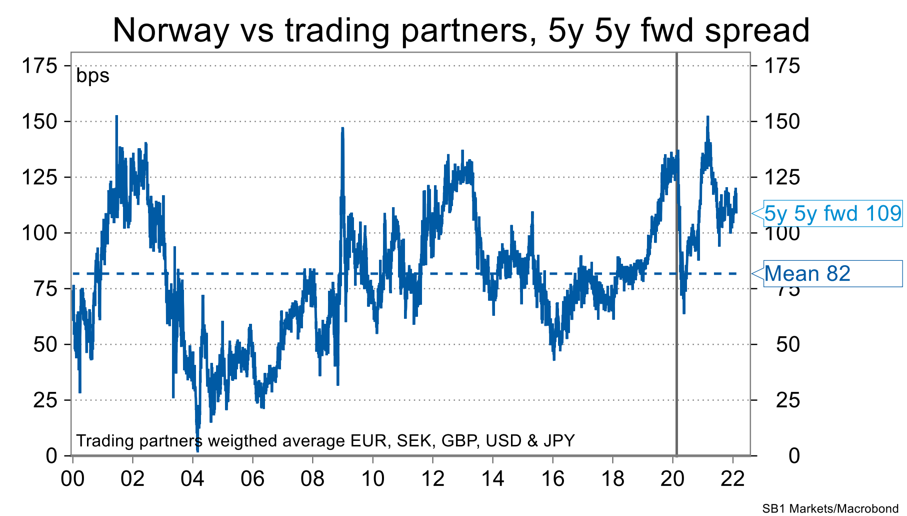
Spreads sharply reduced last week too, even slightly 5 y 5 y fwd

Spreads are still at the high side

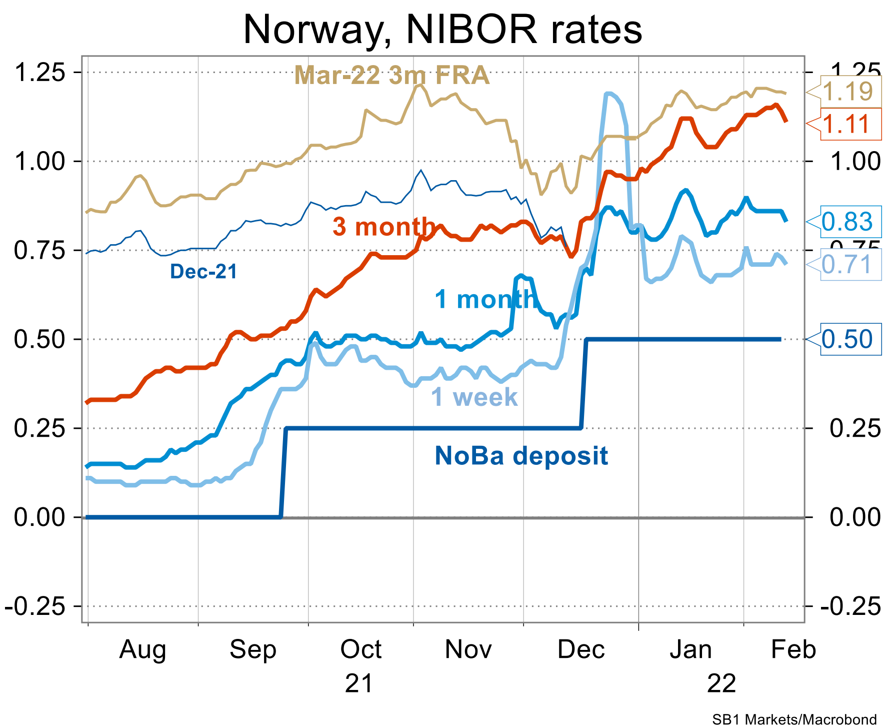


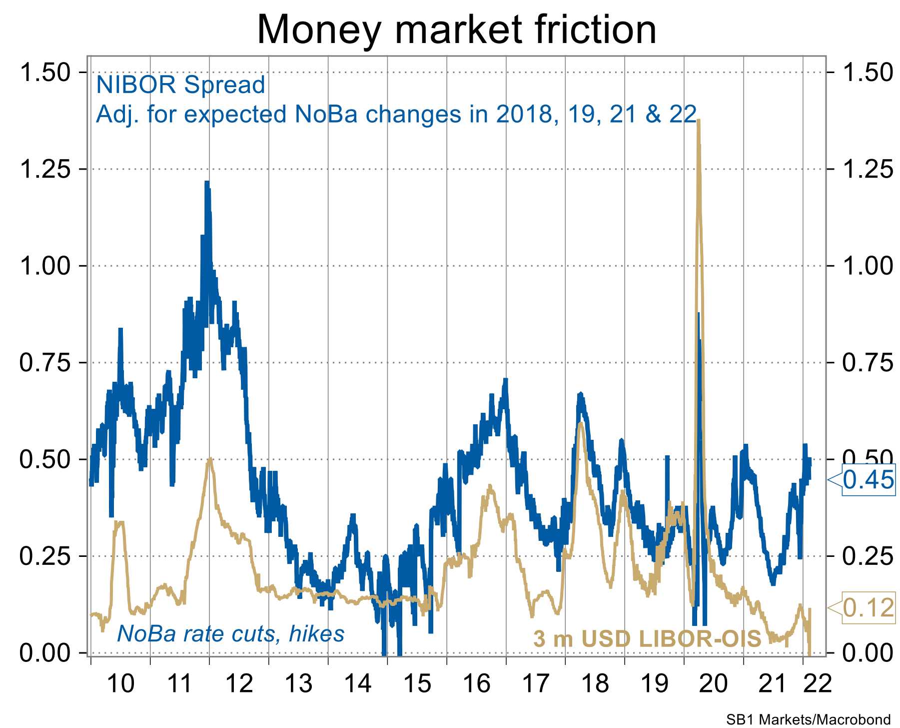




The 3m NIBOR down 2 bps to 1.11%, short term FRAs flattened

The NIBOR spread down 5 bps to 45 bps (if NoBa hikes ‘just’ 25 bps in March, and not further in May)





- The **3 m NIBOR** has been at elevated level recent weeks but the spread is narrowing somewhat
- The **USD LIBOR-OIS spread** rose last week, according to out data. However, both the OIS and the LIBOR rates were very volatile at Thursday and Friday (and the 3 m LIBOR closed below the 3 m OIS, for the first time ever, then 12 bps above at Friday)

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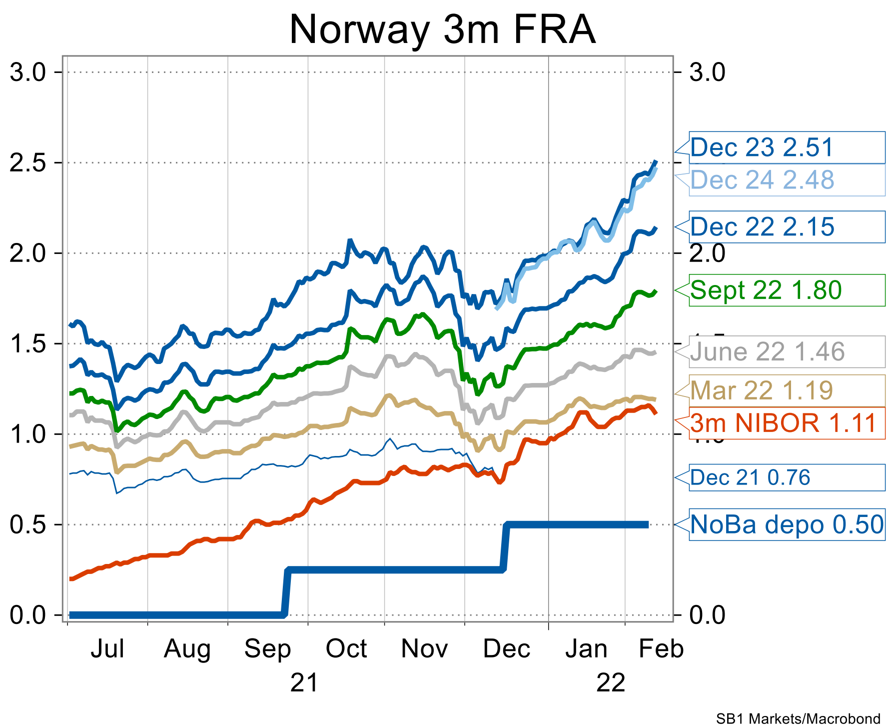
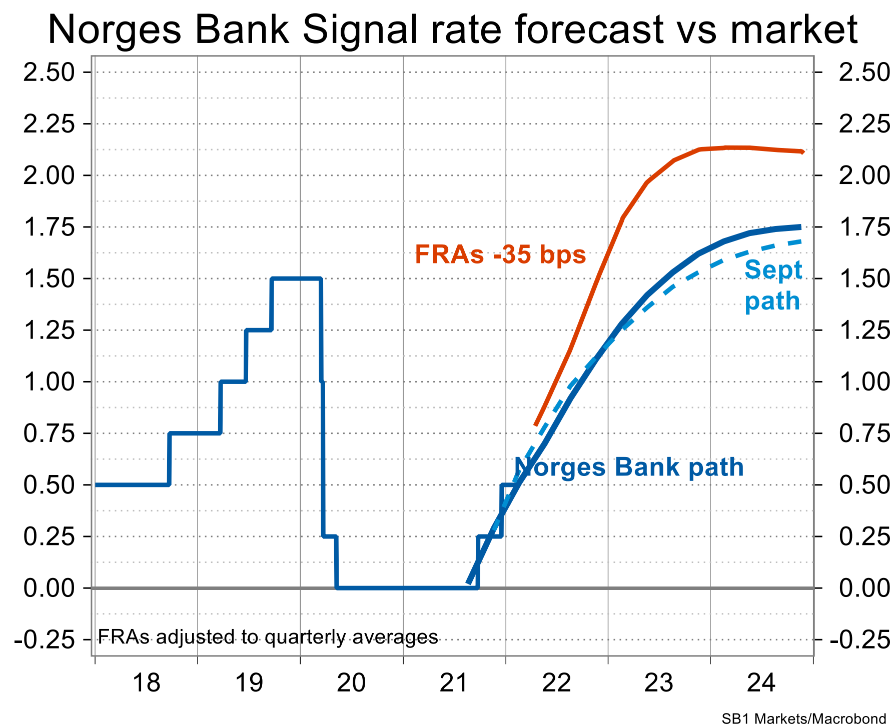
FRAs up by up to 10 bps last week, the more than 50 bpd above NoBa's Dec path

Can Norges Bank afford to be more patient than the Federal Reserve? Check next page!





- Market FRAs are now discounting a much steeper interest rate path than NoBa presented in December – <u>or the expected NIBOR spread widened substantially – which we deem unlikely</u>
- 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 1.19% implies 100% probability for a 25 hike with a 46 bps NIBOR spread.
  - » If a 35 bps spread is assumed, almost a 50% probability for a 50 bps hike or if 25 bps in March, an even higher probability for a May hike
  - » Most likely, the NIBOR spreads is expected be higher than 35 bps, but below 46 bps – and a the probability for a 50 bps March/25 May hike is well below 50%
- The June contract at 1.46% captures a lot of scenarios, in sum a material – but well below 50% probability for a June signal rate at 1.25%
- The market expects 1.5 – 1.75 bps signal rate in December, at a peak at 2-2.25% in late 2023

US vs. Norway: The need for as monetary policy tightening

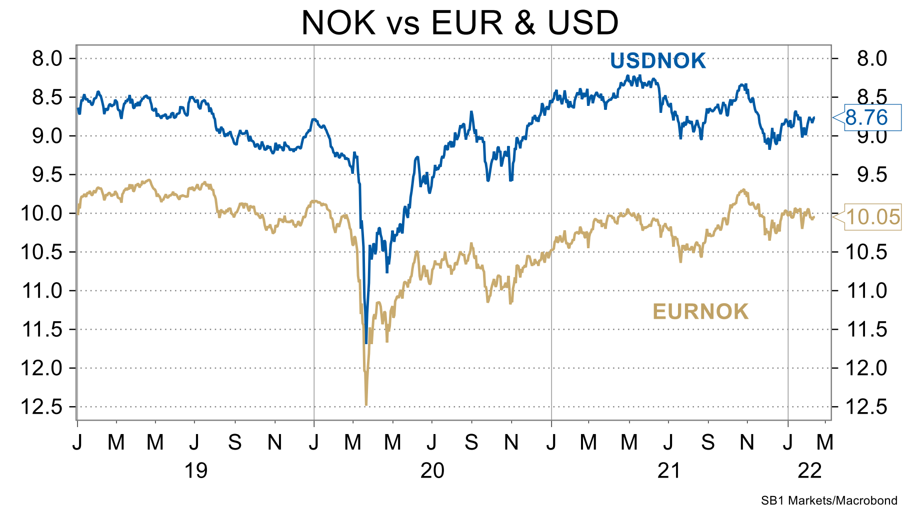
Less need for tightening in Norway, and households' response to higher short term rates far stronger

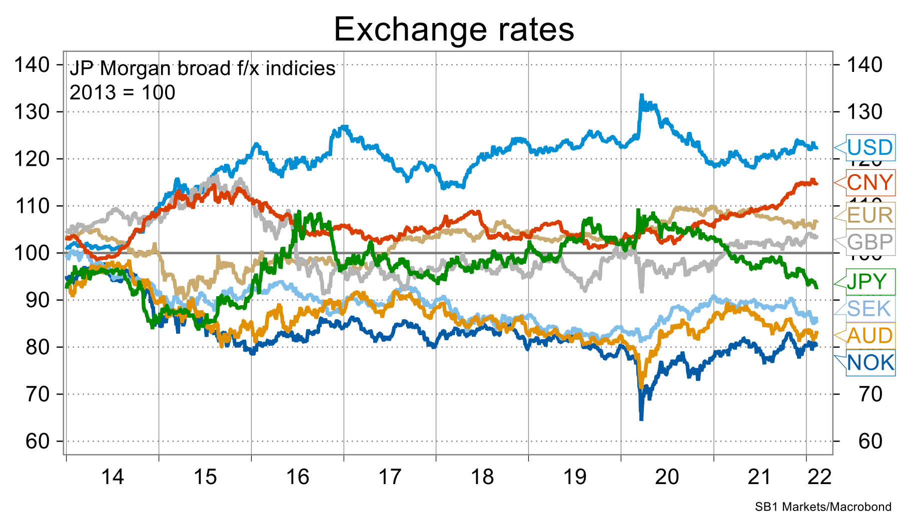
	USA	Norway
Inflation	Total 7.5%/core 6%	Total 3.1%, core 1.3%
Inflation expectations	Market 2,4%, households 3%+	Very likely not higher
Employment rate	Still below par	Well above the p-p level
Unemployment	Close to record low	Below average
Vacancies	Record high	High
Wage inflation	Accelerating rapidly	Accelerating slowly
House prices	Up 30% from Q4-19 Up 18% y/y now	Up 16% from Q4-19 Up 6% y/y now
Household debt	To 7% y/y from 3%	Unch at 5%
Househ. debt/inc. Ratio (vs. impact of higher short term rates)	>100%, from 135% in '08	246%, from 196% in '08
Floating or fixed mortgage rates	Fixed	Floating

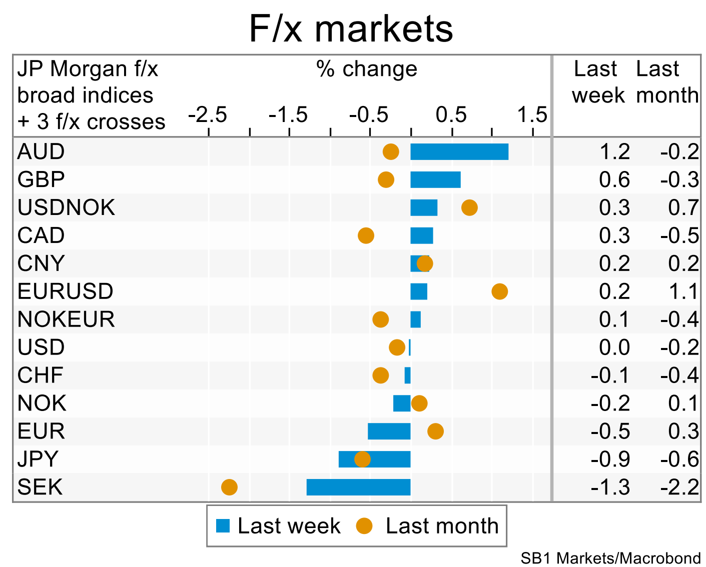
- US has a majority of the 'red' cells – in favour of a faster monetary thightening
  - » The economy is 'hotter'
  - » The impact of higher rates will be stronger in Norway than in the US

The Riksbank lowered the SEK, while the AUD was last week's winner

The USD unch, the EUR down (but still the EURUSD still stronger). NOK close to unch







JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
AUD	1.2	-0.2
GBP	0.6	-0.3
USDNOK	0.3	0.7
CAD	0.3	-0.5
CNY	0.2	0.2
EURUSD	0.2	1.1
NOKEUR	0.1	-0.4
USD	0.0	-0.2
CHF	-0.1	-0.4
NOK	-0.2	0.1
EUR	-0.5	0.3
JPY	-0.9	-0.6
SEK	-1.3	-2.2

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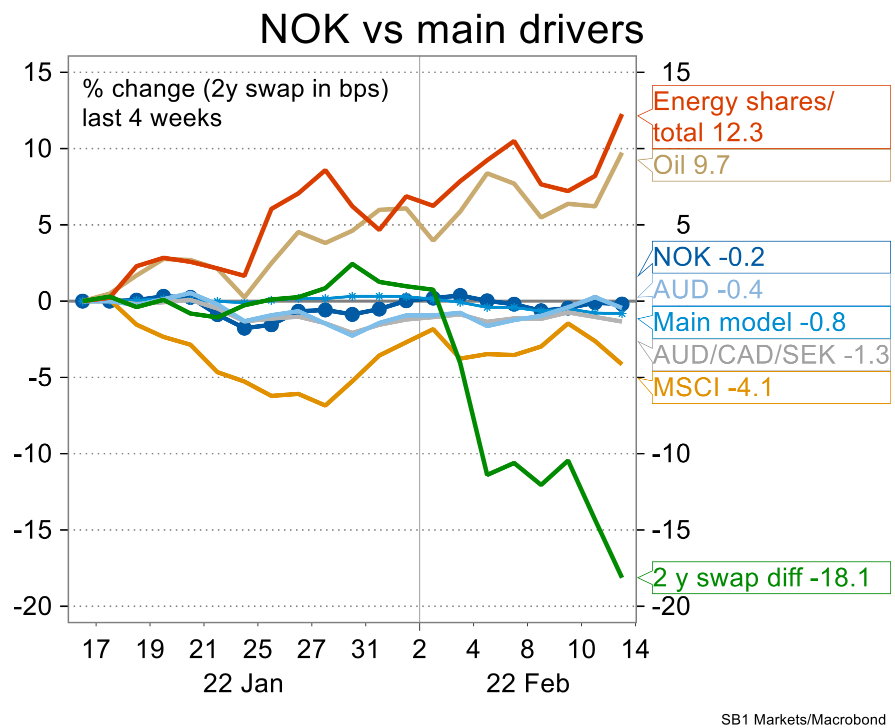
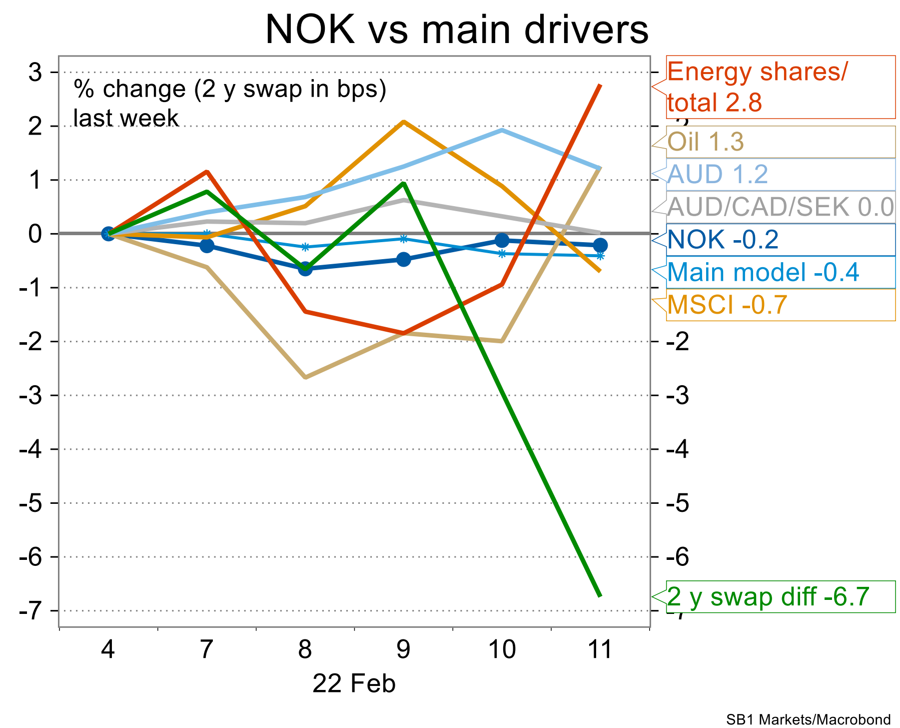
NOK down 0.2% last week, the oil price rose just marginally

NOK rates are still lagging our trading partners', the spread has narrowed sharply





The status vs. the normal drivers:

- ***The NOK unch - the level 2.0% below the model est (unch)***
- The NOK is 4% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (unch)
- NOK is 3.5% stronger than a model which includes global energy companies equity prices (vs the global stock market), but less than last week (from 4.2%)

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

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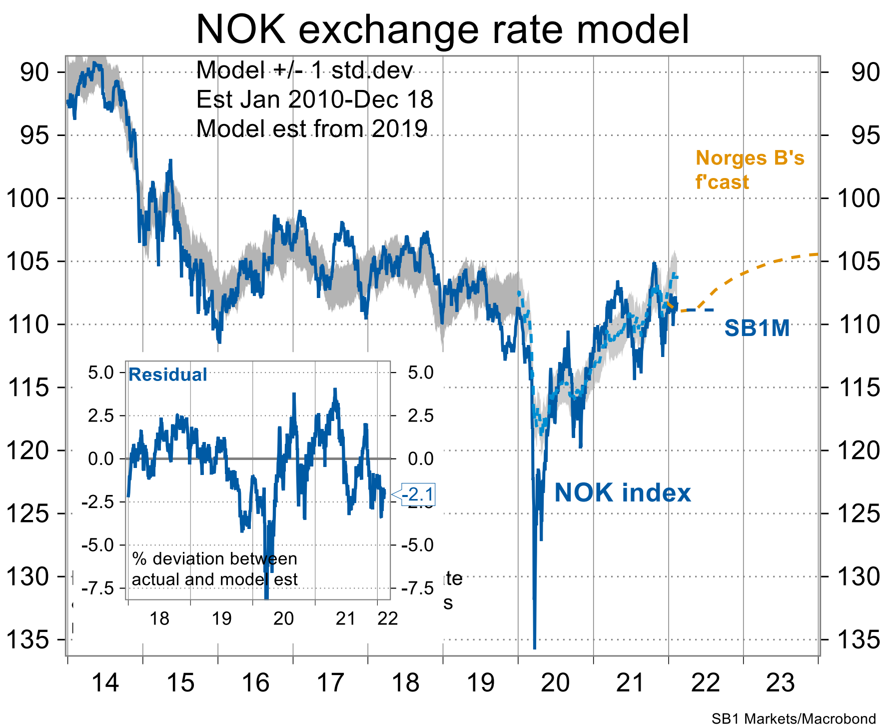
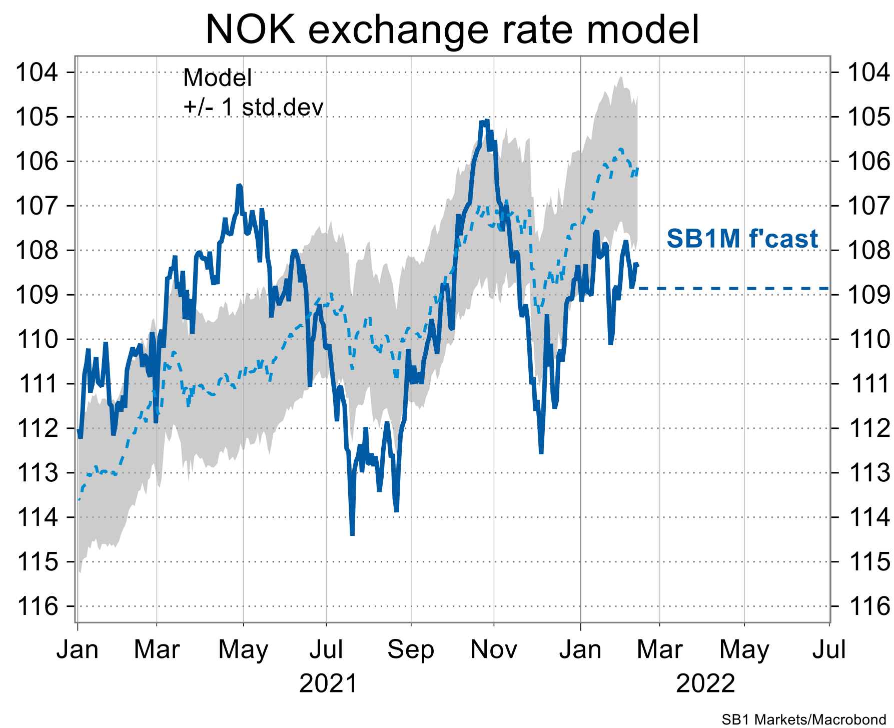
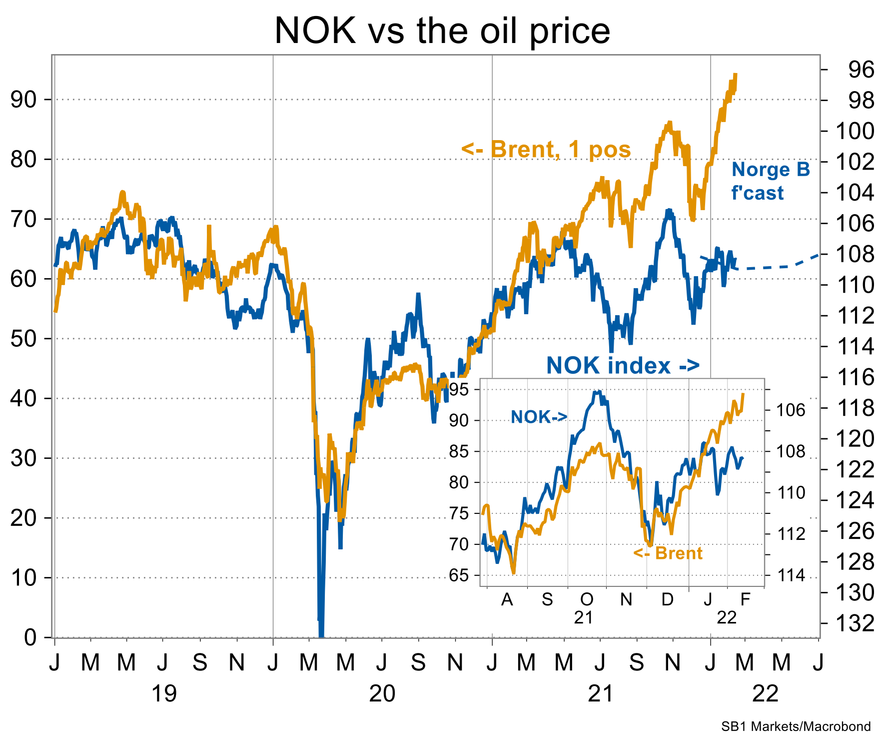
NOK lags our model by 2%

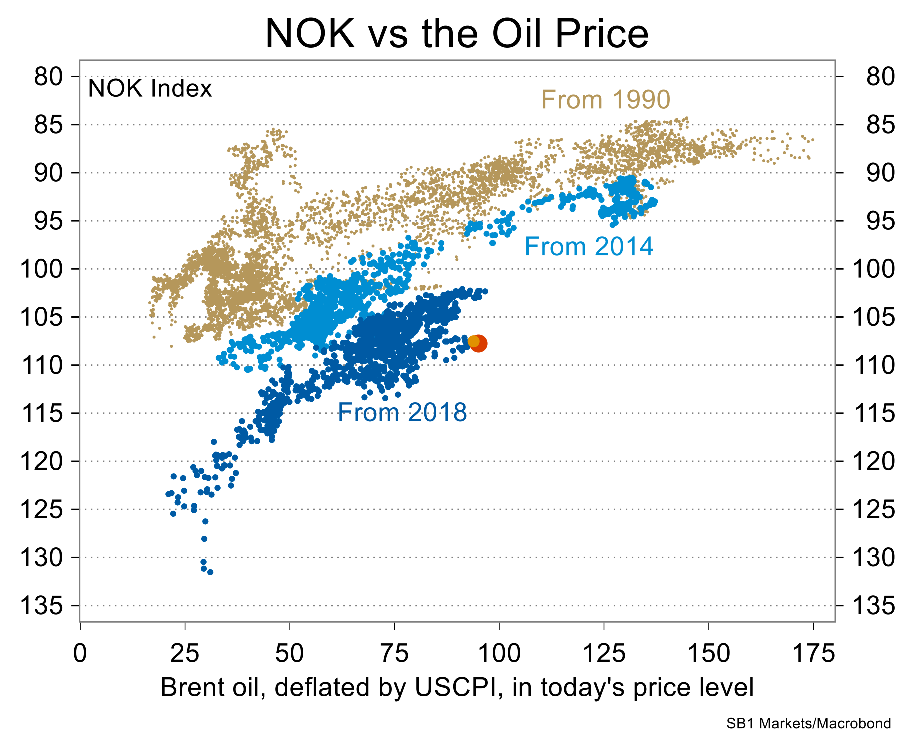




The gap to the oil prices widened further last week

NOK marginally down, the oil price climbed further





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

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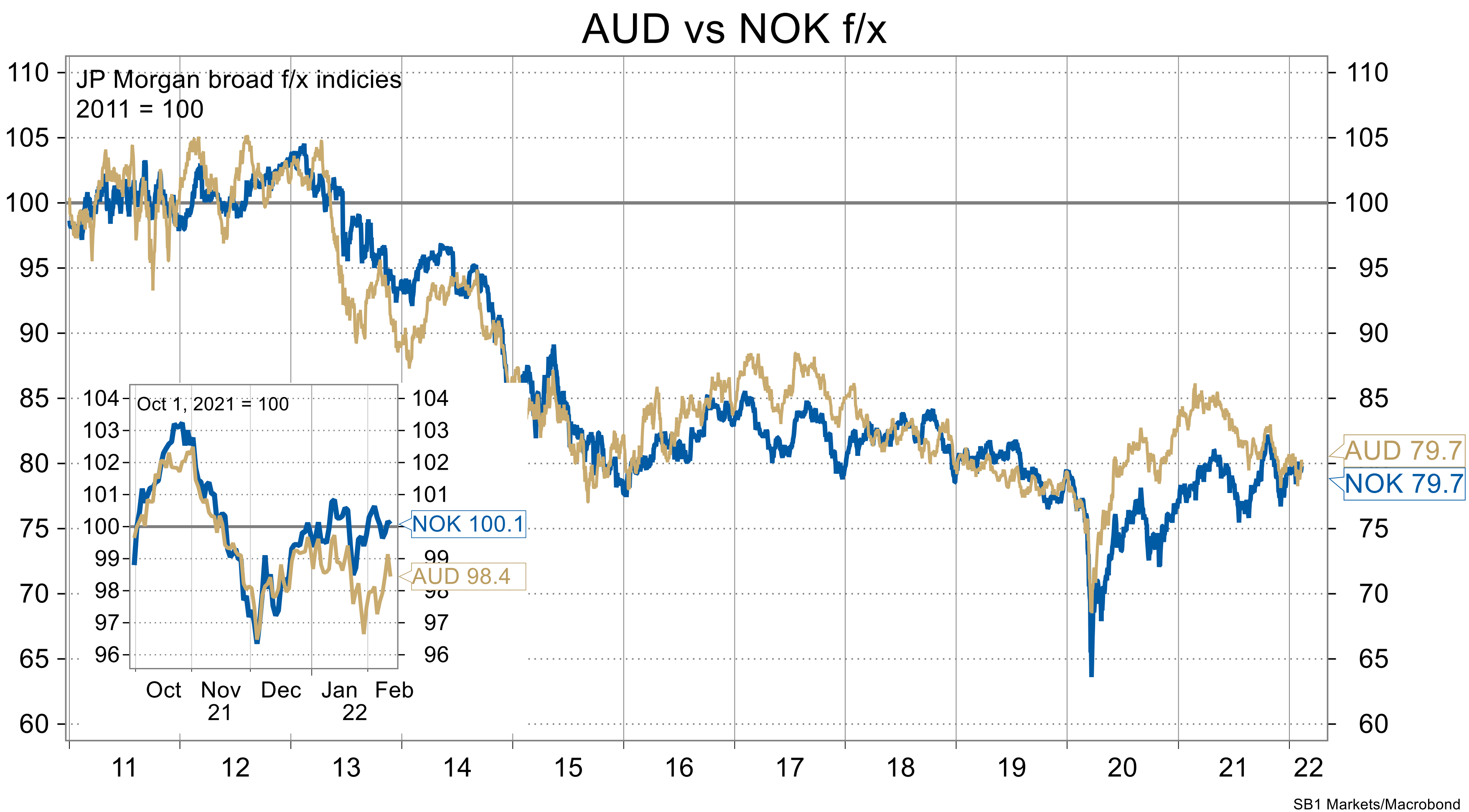
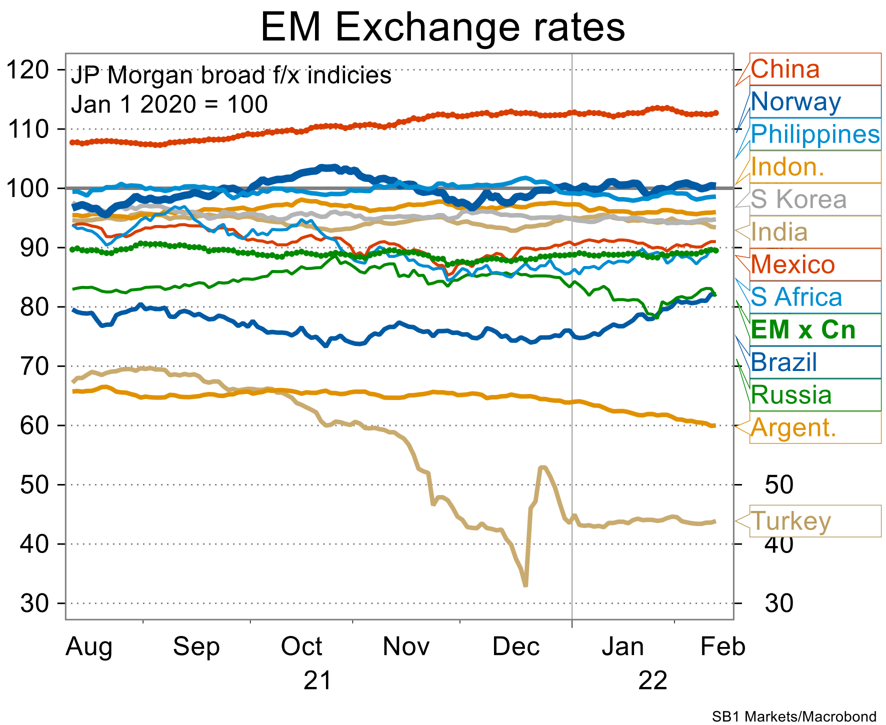
AUD vs. NOK: Spot the difference over the past 11 years

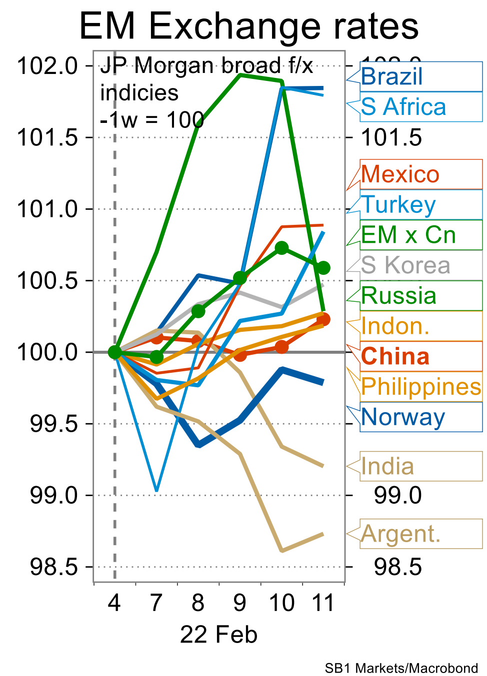


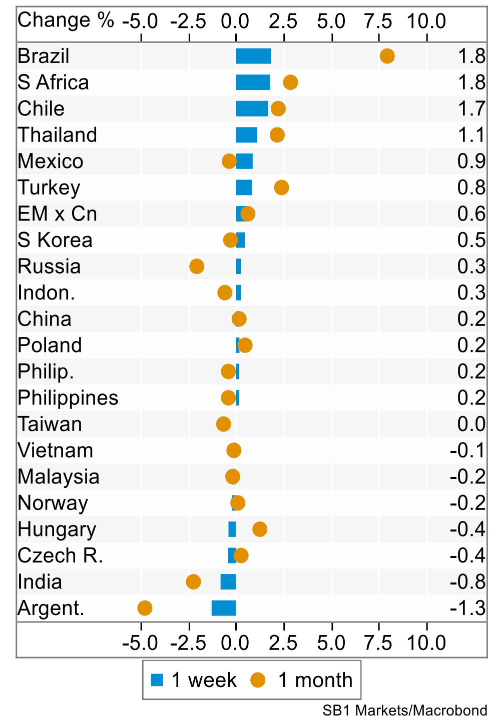
The two f/x indices are back to the 2011 parity (vs each other, from which they never since have deviated much)

The Russian rouble sharply down Friday but up w/w

Most other EM f/x at the upside too







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