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Macro Weekly

Week 10/2022

Harald Magnus Andreassen
Phone : (+47) 24 13 36 21
Mobile : (+47) 91 14 88 31
E-mail : hma@sb1markets.no

Tina Norden
Phone : (+47) 24 13 37 48
Mobile : (+47) 93 22 62 24
E-mail : tina.norden@sb1markets.no

SpareBank 1 Markets
Phone : (+47) 24 14 74 00
Visit address : Olav Vs gate 5, 0161 Oslo
Post address : PO Box 1398 Vika, 0114 Oslo

Highlights

The world around us

The Norwegian economy

Market charts & comments

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War & sanctions: A new world?

- **The sanction regime is heavy, will hurt the Russian economy badly – and will be felt many other places as well**
  - The **Russians & Russian companies** will be locked into their territory, in a way we have not seen vs a large country since WWII.
  - **Airline traffic, shipping** to and from the West close down. Limited scope **for x-border financial transactions. Restriction** vs a lot of exports to Russia
  - The official sanction regime may be tightened further, like an **embargo on Russian oil**, which was widely discussed during the weekend (and the oil price rose further this morning
  - More **self-sanctioning** by the day, from all sorts of Western companies/institutions. Other countries, even China, seems to be reluctant to do business with the Russians
  - We have not yet seen the **Russian counter-measures**!
  - A **refugee crises** not seen since WWII
  - And there are some other risk we would rather not think about…

- **More inflation, less growth – and not higher interest rates (now). And not a 'risk on' environment (in financial markets, that is)**
  - **Our analysis is the same as one week ago:** *Our main idea is that new* ***supply shocks will lift inflation, but also reduce growth*** *– and that the growth impact is more important for central banks than a new 'transitory' increase in headline inflation, at least in Europe. If* ***wage inflation*** *is not pushed up by a continued elevated headline inflation rate, central banks should not tighten monetary policy, at least not faster than assumed before the Russian-Ukrainian war. Higher energy/raw material prices will support Norwegian assets relative to others (and the NOK rose 2% last week)*
    - Inflation expectations in bond yield curves have climbed, while real rates have 'collapsed' – and nominal yields have fallen sharply
    - OSEBX rose last week – while all other stock markets fell
    - The NOK gained 1%

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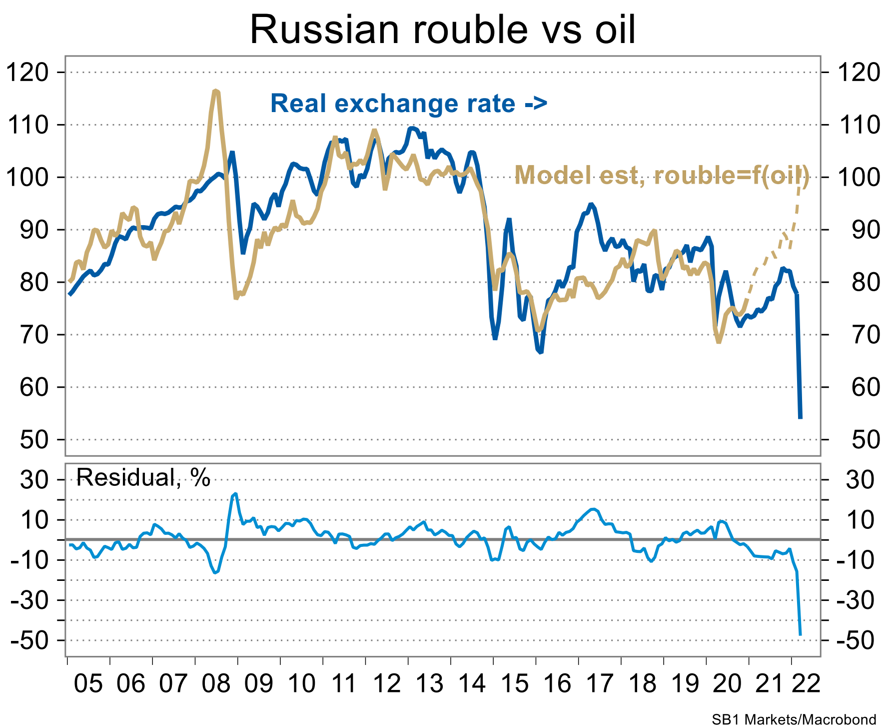
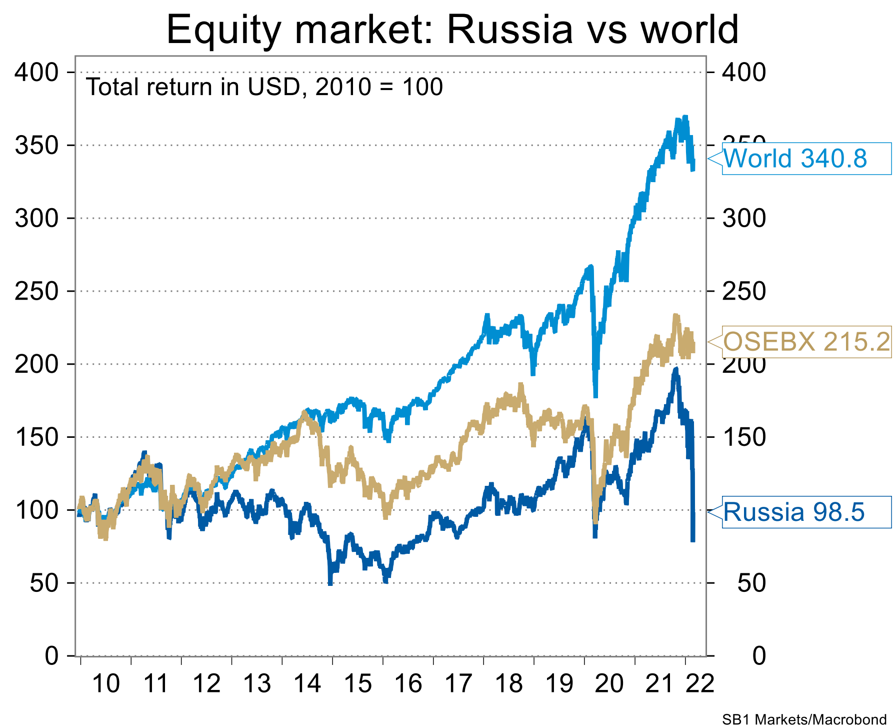
War & sanctions: More on the outlook

- **Short term economic risks: Energy shock, inflation, lower growth. <u>Rates will be kept lower than so far assumed, for a while?</u>**
  - » **Uncertainty:** The sanction regime is not written is stone, we do not know Russia's counter actions
  - » Will Russia be allowed/able/willing to continue **exporting oil and natural gas**, especially gas to Europe? The debate on sanctions on Russia oil exploded at Sunday, as did oil prices. Russia supplies almost 20% of EU's energy demand, and more than 10% of global oil and gas exports, equalling 6.5% of global oil consumption
    - Energy prices soared last week, gas up to ATH, 12 x the average
    - Should Russia be forced out of (or withdraws from) the petroleum market, it is impossible to estimate the upside price risk
    - Russia probably want to keep oil and gas exports up, to get access to f/x. Short to medium term, gas cannot be sold to any others than the Europeans
  - » **An energy shock** will as usual lower growth
    - Consumers will face higher cost and reduced disposable income, both due to the initial lift in energy prices, secondary impacts due to higher production costs. Normally real wages declines – but nominal wage inflation could accelerate which could which would leave central banks between a rock an a hard plate
    - Short term, higher energy cost/inflation/uncertainty may reduce business investments
    - **The impact on global GDP growth could easily be 1 – 1.5 pp – and substantially more if Russian energy could not be exported at all. Corporate earnings will be hit, (outside the energy sector)**
  - » **On grains,** the fears may be exaggerated, Russia and Ukraine are 'just' exporting some 4 – 6% of total world demand for grain. Should these exports disappear, not an impossible challenge. Inventories are not that low, some 27 – 27%, not far below the 28% average
  - » Much more focus on **Russia/Ukraine in the supply chains** on other areas
    - The two countries are not that important trade wise from a macro perspective, expect for energy, grains and some metals/minerals. However, withing some sectors, the two countries are critical suppliers of intermediate goods, and factories abroad will soon run out of these supplies. An example: Ukraine produces 50% of neon gas, and substantial quantity of krypton, both gases essential in production of semiconductors! <u>Another semiconductor shortage is not unlikely</u>
    - Ukraine has become an integrated part of the global supply chain in some industries, like in the auto industry – which already is badly hurt by lack of semiconductors
  - » **EU is much more exposed growth wise** than the US, due to its dependence on imported energy in general and especially from Russia. Norway is to large extent sheltered due to energy exports
- **Possible longer term impacts: More public spending, more energy investments, reconstruction of supply chains. <u>And higher rates?</u>**
  - » **Defence spending** in Europe will gain speed the coming years
  - » Extreme efforts to **increase energy production** in the West, especially in Europe in order to replace dependence on import from Russia. Both other gas sources, renewable, nuclear even coal
  - » If so, **private demand will have to be kept in check** in order to mobilise resources to the most prioritised areas. Higher taxes and/or higher interest rates will be needed

The rouble is down 50% (vs the oil price)

The stock market was closed last week. When it opens, the distance to the 0-line will not be that long



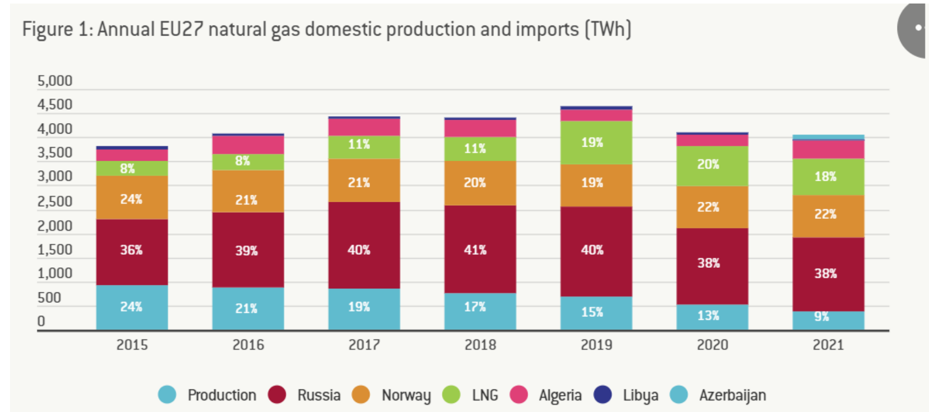


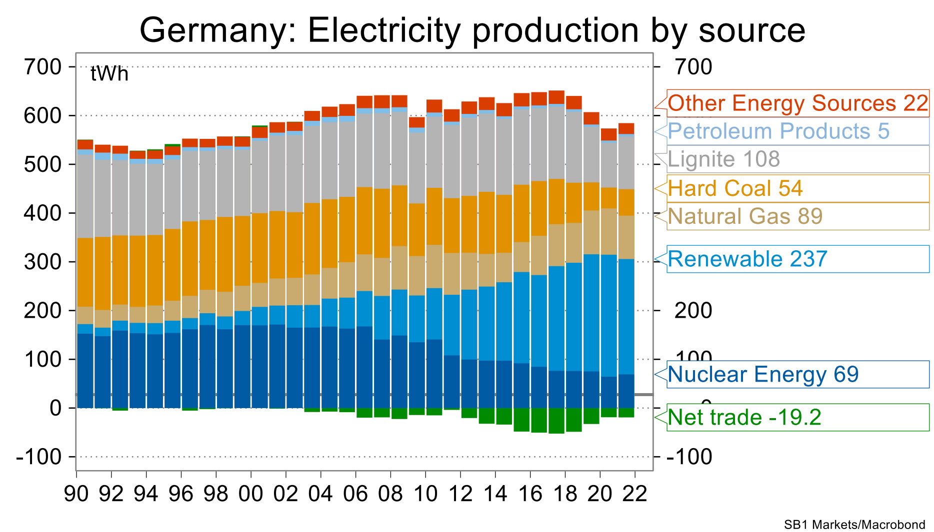
- These markets probably pretty well reflect Russia's economic outlook, at least short to medium term

Russia supplies almost 1/5 of total EU consumption of energy

Dependence on Russian imports would have been smaller if nuclear plants had not been closed down

EU consumption of energy From:	Share of total energy production	Share of total imported from Russia	Share of total energy imported from Russia
Gas	22	38	8
Oil	33	25	8
Coal	12	20	2
Sum above	65		18
Nuclear	13		
Renewable	16		
Other sources	6		

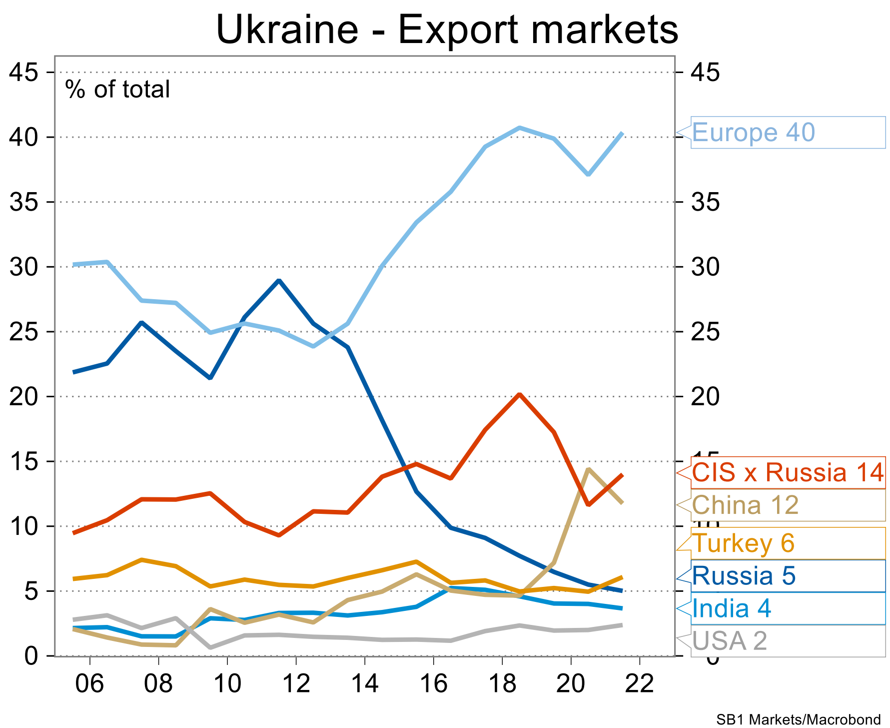




Sources: EU energy stats, Macrobond

Ukraine has turned westward

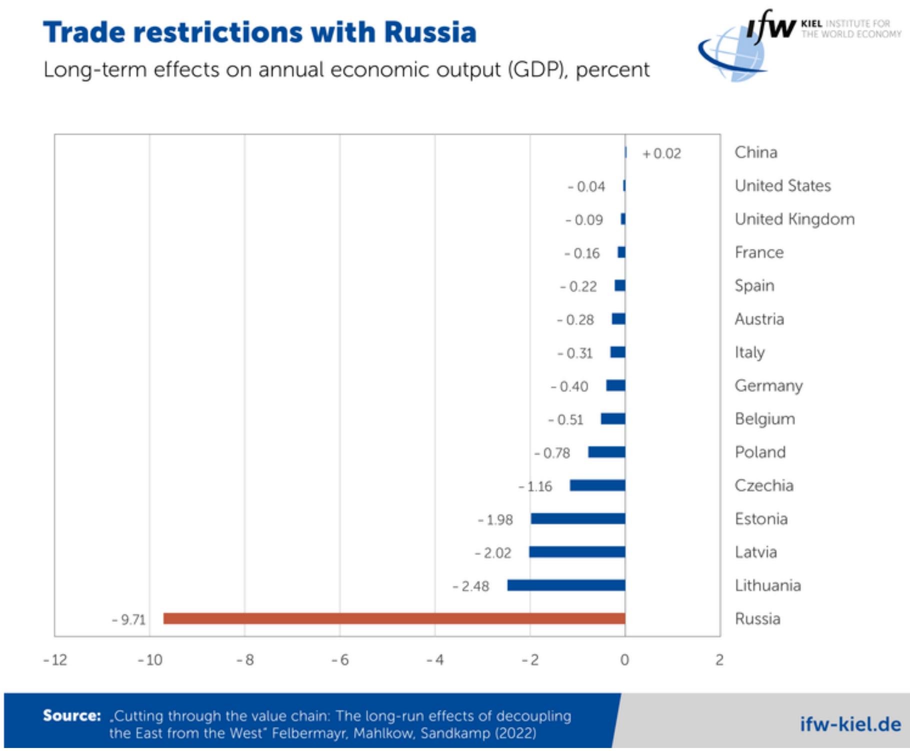
Some 40% of exports towards Europe, 5% vs. Russia



- They were equal before the Crimean expectations
- ... And now Europe may run into some trouble due to lack of supplies of more than lack of Russian gas (and oil)

Trade restrictions vs GDP

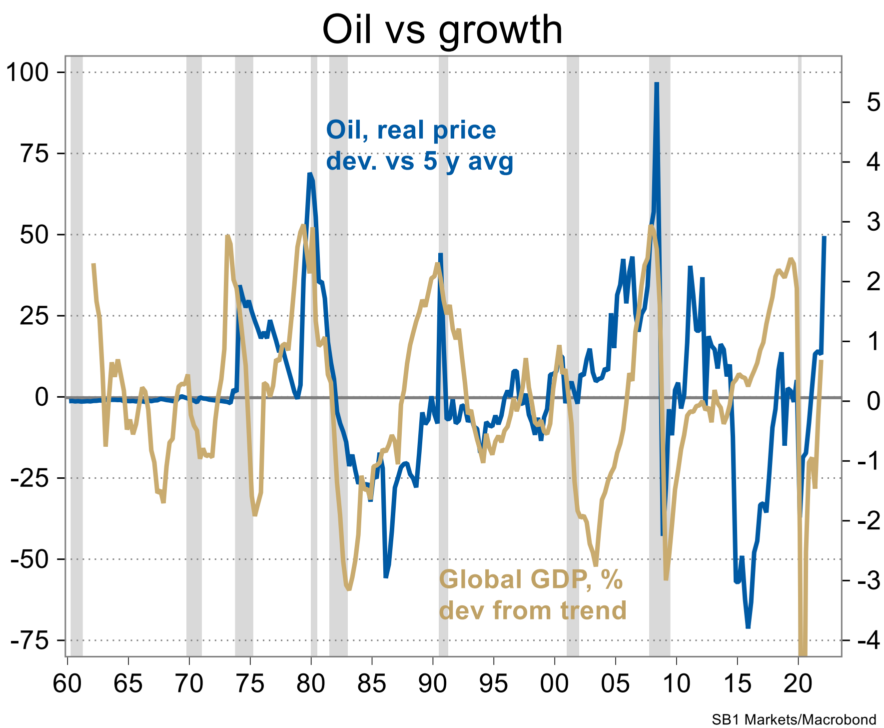
Rather limited in the West, according to the Kiel Institute, even if it will be felt in Eastern Europe



- Russia is of course the big loser
- However: An energy shock is is not included in the calculus…

The oil price vs the global economy

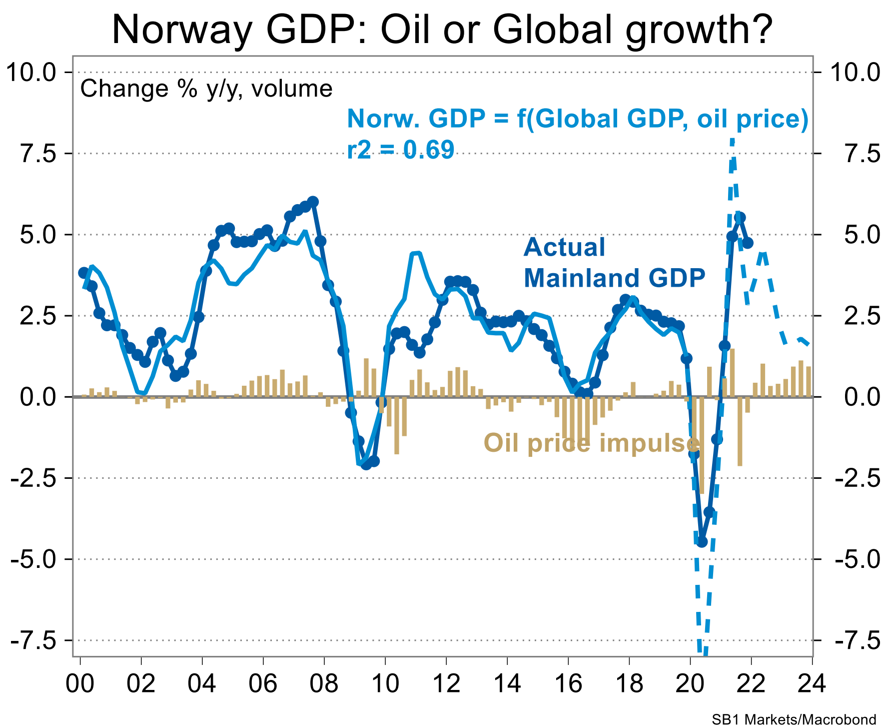
It depends – but often a rapid increase in oil prices are not good news



- … especially if it is reduced supply that lifts the price sharply
- 1973: A supply shock that hit a booming economy with wages and prices on the way up. A deep downturn
- 1979/80: A supply shock – and an unprecedented interest rate shock – needed to fight inflation. A deep slump
- 1990: A supply shock, a mature cycle and some banking problems. Growth came down
- 2008: Strong demand in a boom – followed by a financial crisis. Growth fell sharply
- 2010: The oil price up – the economy in a recovery. No problem
- Now: A sharp increase in prices, and the economy pretty strong, with inflationary pressures in many rich countries. *A growth downturn not unlikely at all*

Norwegian GDP = f(Global GDP, oil price)

And nothing but these two factors explains the Norwegian business cycle



- If global GDP growth is lowered by 1 pp, Norwegian GDP growth is cut back by 1 pp (or slightly more)
- If the oil price increases by US 50/b, Norwegian GDP is lifted by approx 1 pp
- We expect the impact from lower growth to be slightly larger than the impact of a higher oil price the coming quarters (and oil works with a lag as well)

- At the chart above, a USD 130/b is assumed and for illstrating the impact of lift in the oil price so far. A 1.5 pp decline i global GDP growth is assumed.

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Last week, the economy

- **PMI/ISMs**
  - As signalled by the preliminary PMIs from the rich part of the world, the **global PMI** recovered most of the January decline in February – and the index signals 3.5% global GDP growth. The swing component was the service sector, very likely due to the Omicron variant. Delivery times fell further, or at least the index did but price indices are still stubborn and most rose a tad in February! Both EMU and US is reporting growth above trend, China and other EMs below, some obviously due to the fight against the Omicron virus. The ISM were mixed, services surprised at the downside but the level is still OK
- **Auto sales**
  - **US sales** fell in February, while **sales in EMU** probably remained unchanged at a low level. **Norwegian sales** fell further in Feb, very likely due to lack of supply, like elsewhere. Too few EMs have reported sales in order to make a global estimate
- **China**
  - Both **exports and imports** grew further in Jan/Feb
- **USA**
  - **Employment** rose more than expected in February, and unemployment fell more than expected, down to 3.8%, even if the participation rate gained 0.1 pp, and is trending slowly upwards. Wages were unchanged m/m, but underlying trend is still at 6%. Small companies are still not able to fill vacancies but they revised their plans for lifting compensation slightly down
  - **Fed's Powell** 'confirmed' at March hike – and promised more to come, even more than a 25 bps hike at every second meeting (in sum 4 in 2022), if the inflation risk rose further
- **EMU**
  - **Unemployment** fell to the lowest level since 1981 (calculated by member state data, the EMU was established Jan 1 2000)
  - **Inflation** rose further, and again more than expected, the total up to 5.8%, the core up to 2.7%. Measured over 2 years, the core is still below 2%, but if not for the war and new uncertainty, the ECB would have started to talk even tougher at these week's board meeting
- **Norway**
  - **Retail sales** recovered less than we expected in January, as sales of sport equipment collapsed – due to bad winter weather?
  - **Household's saving rate** fell in Q4, if extraordinary dividends are excluded
  - Norway ran a 34% of GDP surplus at the **current account** in Q4, an ATH. Regrettably (at least the reason for it), Q1 may become even better

This week: The War, Sanctions, new Supply Chains Challenges & Commodity Prices in the focus

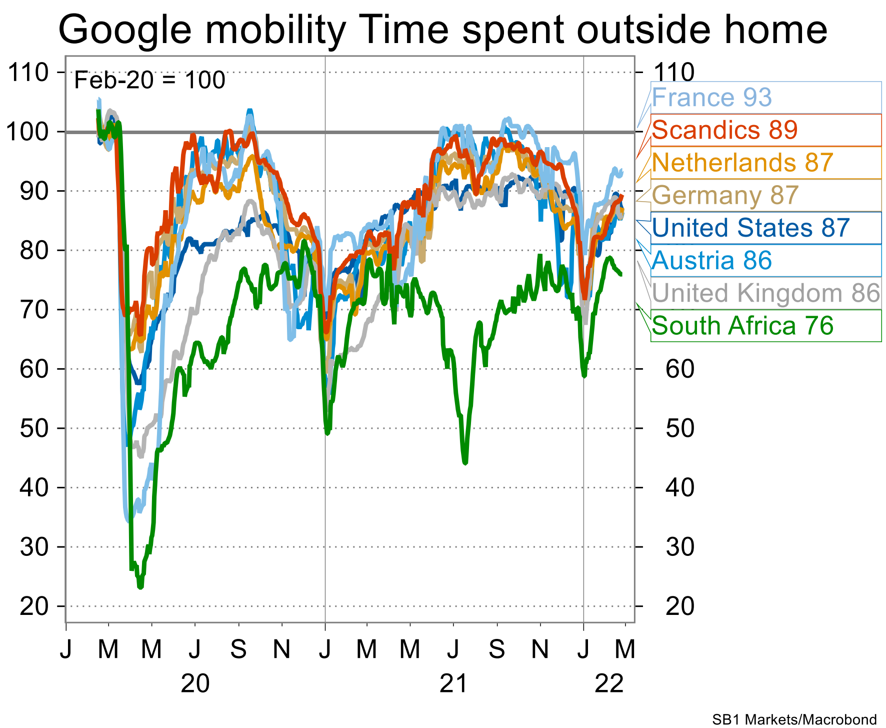
Time	Count.	Indicator	Period	Forecast	Prior
Monday March 7					
08:00	NO	Manufacturing Production MoM	Jan	(1.5)	-1.6%
Tuesday March 8					
08:00	GE	Industrial Production SA MoM	Jan	0.5%	-0.3%
08:00	NO	GDP MoM	Jan	(-0.2)	0.2%
08:00	NO	GDP Mainland MoM	Jan	-0.2%(-.3)	-0.4%
11:00	EU	GDP QoQ, details	4Q F	0.3%	0.3%
12:00	US	NFIB Small Business Optimism	Feb	97.4	97.1
14:30	US	Trade Balance	Jan	-$87.1b	-$80.7b
Wednesday March 9					
02:30	CH	PPI YoY	Feb	8.6%	9.1%
02:30	CH	CPI YoY	Feb	0.9%	0.9%
08:00	SW	GDP MoM	Jan		0.3%
16:00	**US**	**JOLTS Job Openings**	**Jan**	**10968k**	**10925k**
Thursday March 10					
08:00	**NO**	**CPI YoY**	**Feb**	**3.3%(3.1)**	**3.2%**
08:00	**NO**	**CPI Underlying YoY**	**Feb**	**1.7%(1.9)**	**1.3%**
13:45	**EU**	**ECB Deposit Facility Rate**	**Mar-10**	**-0.5%**	**-0.5%**
14:30	US	CPI Ex Food and Energy MoM	Feb	0.5%	0.6%
14:30	**US**	**CPI Ex Food and Energy YoY**	**Feb**	**6.4%**	**6.0%**
14:30	**US**	**CPI YoY**	**Feb**	**7.9%**	**7.5%**
14:30	US	Initial Jobless Claims	Mar-05	220k	215k
18:00	US	Household Change in Net Worth	4Q		$2362b
20:00	US	Budget Statement	Feb		$119b
Friday March 11					
08:00	UK	GDP (MoM)	Jan	0.2%	-0.2%
08:00	UK	Manufacturing Production MoM	Jan	0.3%	0.2%
16:00	US	U. of Mich. Sentiment	Mar P	62.5	62.8
During the week					
	CH	**Aggregate Financing CNY**	**Feb**	**2200b**	**6170b**
	CH	New Yuan Loans CNY	Feb	1425b	3980b

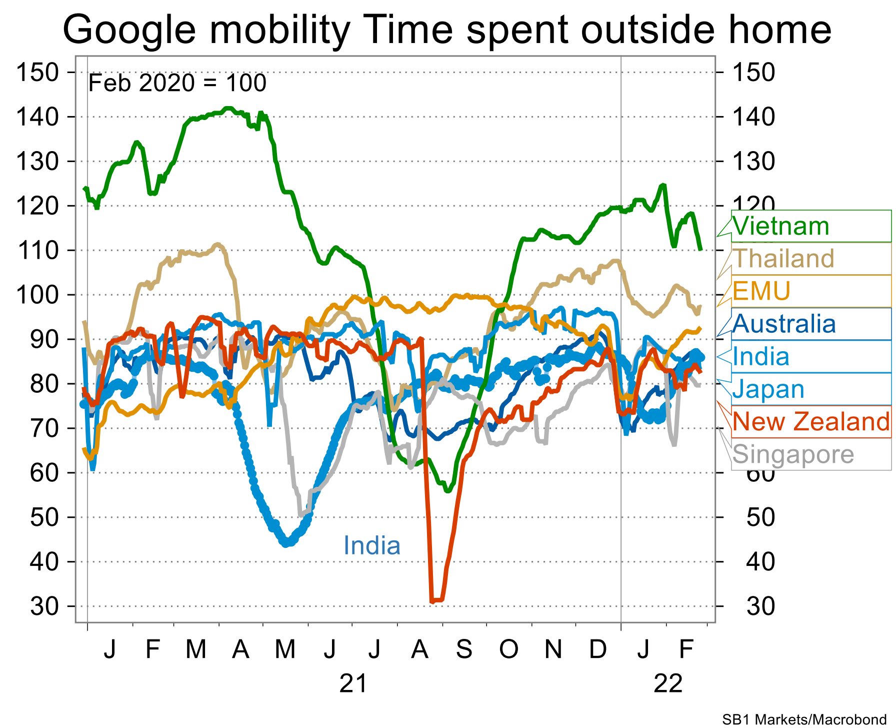
… and perhaps some few economic data?

- **China**
  - » **Credit growth** is accelerating again as the authorities recognised they (once more) had tighten too much (for they own comfort). So far, demand for credit seems to be intact
- **USA**
  - » **CPI inflation** is expected to climb further, both the headline & the core rate in February. And March will very likely be even worse, at least regarding the headline rate
  - » The number of **unfilled vacancies** is expected to remain at an extremely elevated level
- **EMU**
  - » **The ECB** has of course recognised which fight suddenly became the important one, how to best support the economy as the war destroys Ukraine, supply chains and possibly energy supplies – and several member states will have to mobilise extreme resources to handle the refugee crisis. Inflation could increase substantially due to higher energy prices, possibly also due to other supply constraints. If wage inflation should also accelerate, higher interest rates would at one stage will be appropriate, even in 'war' time (the Russian central bank has shown the way…) but the ECB will very likely wait until it is unavoidable
- **Norway**
  - » We expect **core inflation** to accelerate substantially in February (to 1.9%), partly due a higher increase in food prices than normal. Airline ticket prices probably rose as well, following the large Jan drop. At the other hand, electricity prices fell further in February, and we expect the headline annual rate to decline by 0.1 pp to 3.1%, following the 2.1 pp decline in January
  - » **Mainland GDP** probably contracted marginally in January, following the 0.4% decline in December – due to a full month with Covid restrictions. In February, we expect some better figures

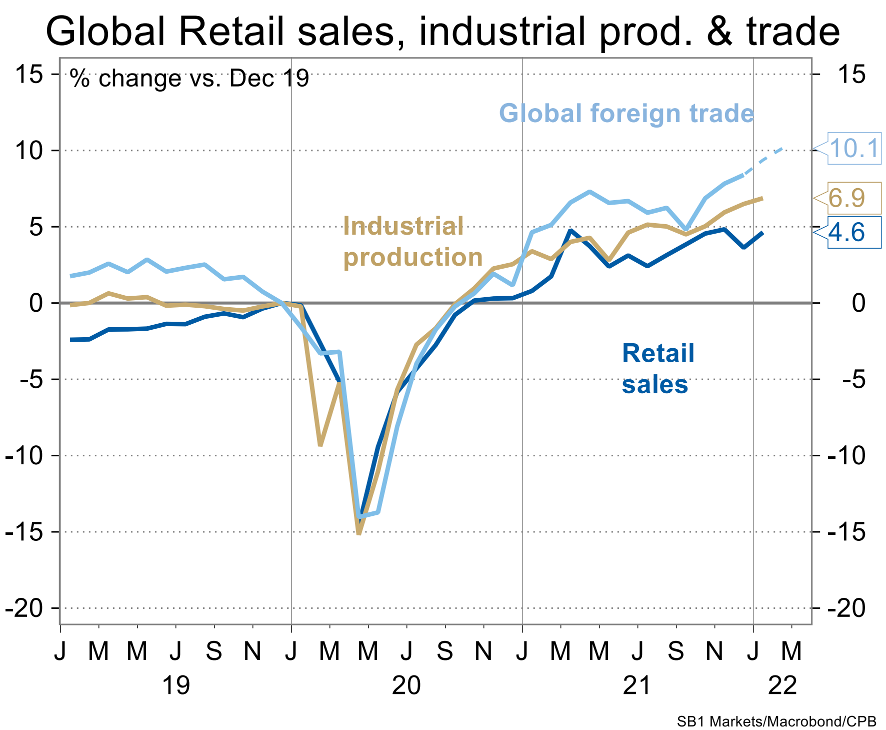
Sources: Bloomberg. SB1M est. in brackets. Key data are highlighted, **the most important in bold**

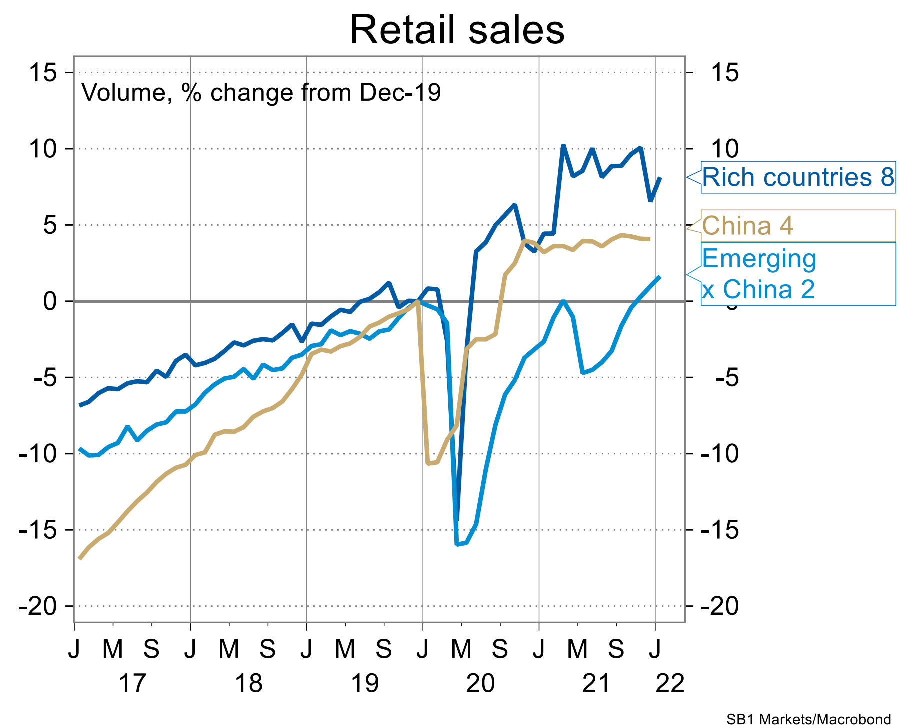
Mobility on the way up in the West, still some challenges in the East?





Global retail sales recovered in January. Global trade OK

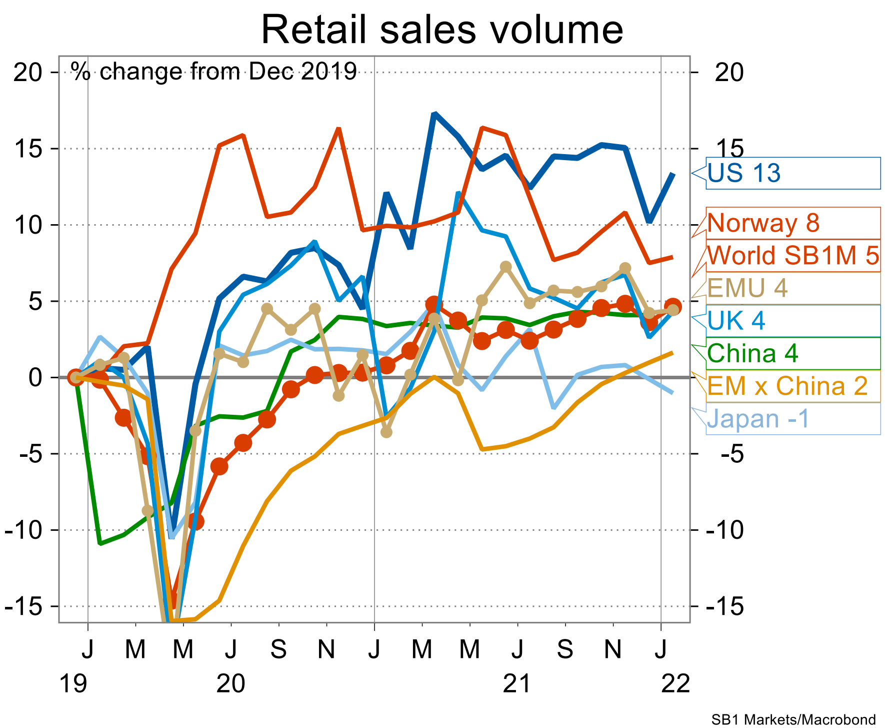


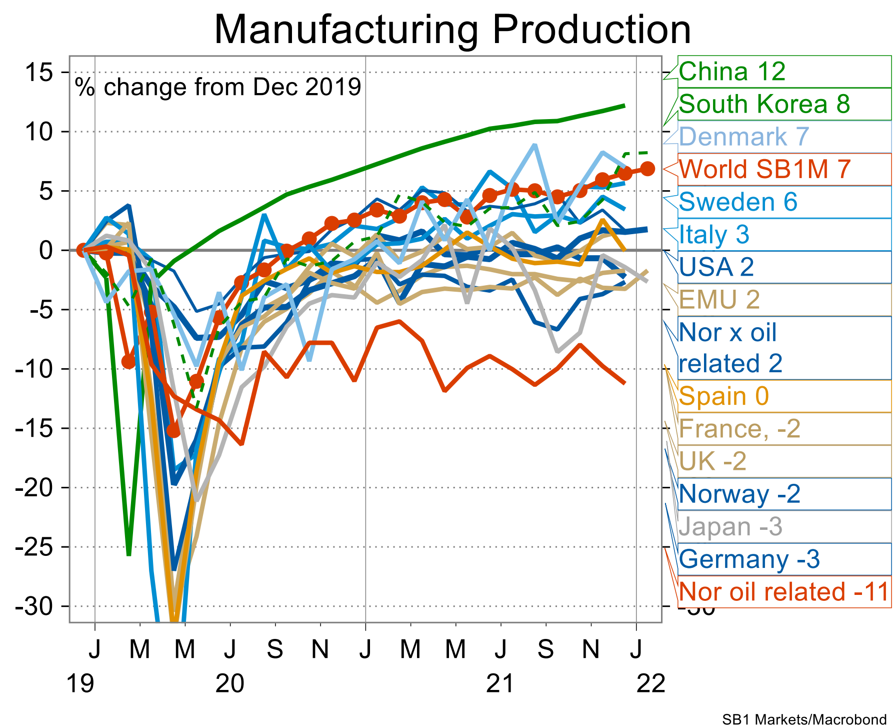


- **Global retail sales** recovered most of the December loss in January, but probably not all
- **Global manufacturing production** has recovered since the autumn, and growth continued into Q1
- **Global foreign trade** is still on the way up (the two last data point are estimates from Kiel Institute)

Retail sales very likely recovered in January, from a weak December

Still, the trend is very likely down in the rich part of the world? Manufacturing prod. still OK

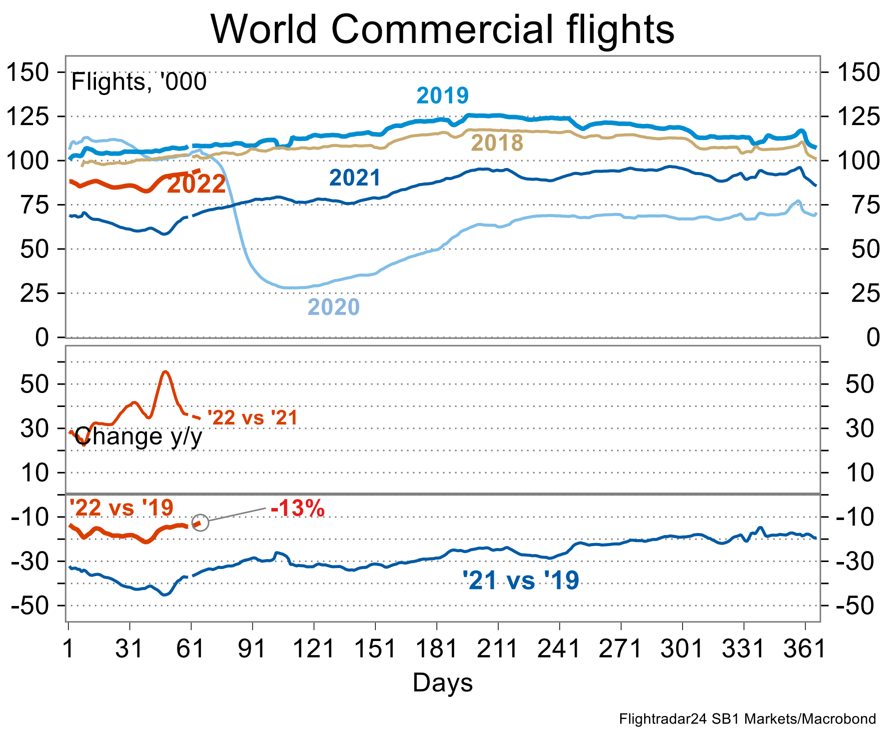


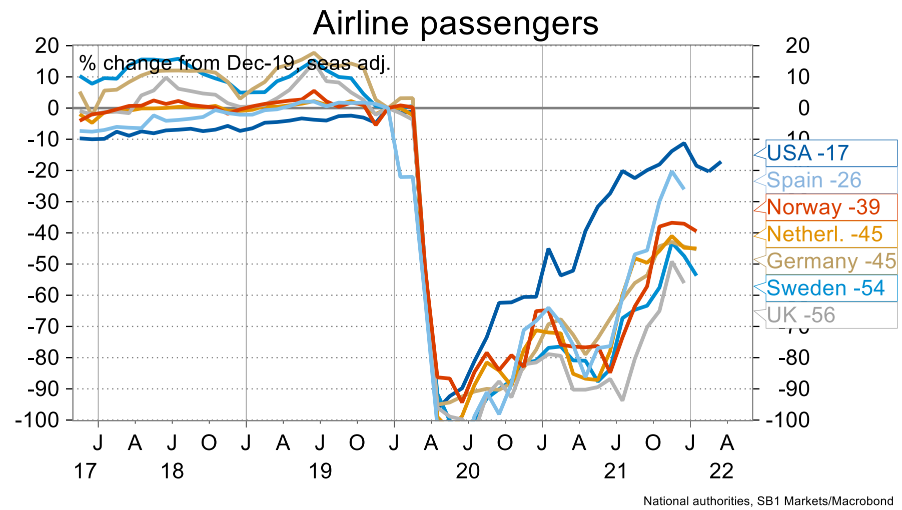


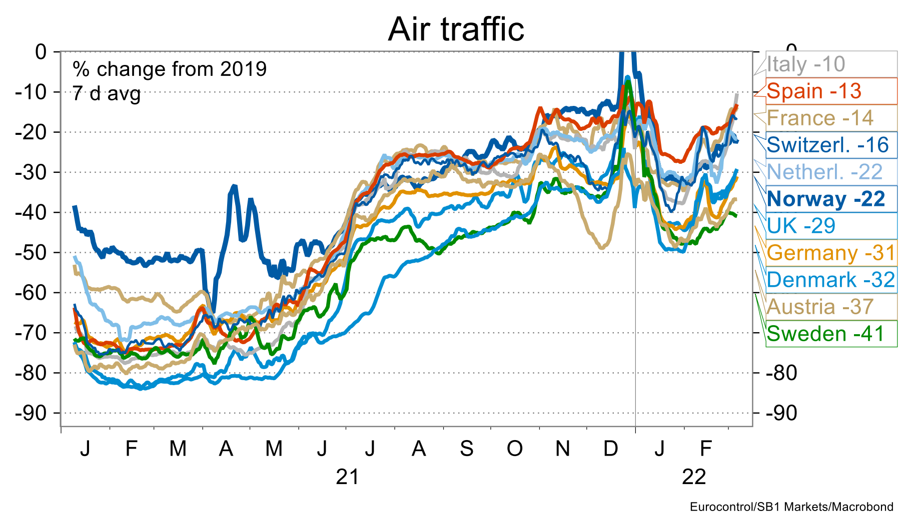
- **Retail sales** in Emerging Markets x China are recovering but is far below pre-pandemic trends. The Dec estimate is rather uncertain
- **Manufacturing production** has been hampered by a deep decline in auto production, but this sector is now recovering. The manufacturing PMIs are still strong, and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

Global airline traffic further up last week, now down 'just' 13% vs. 2019

The fight against Omicron is won? And then something else turned up, of course

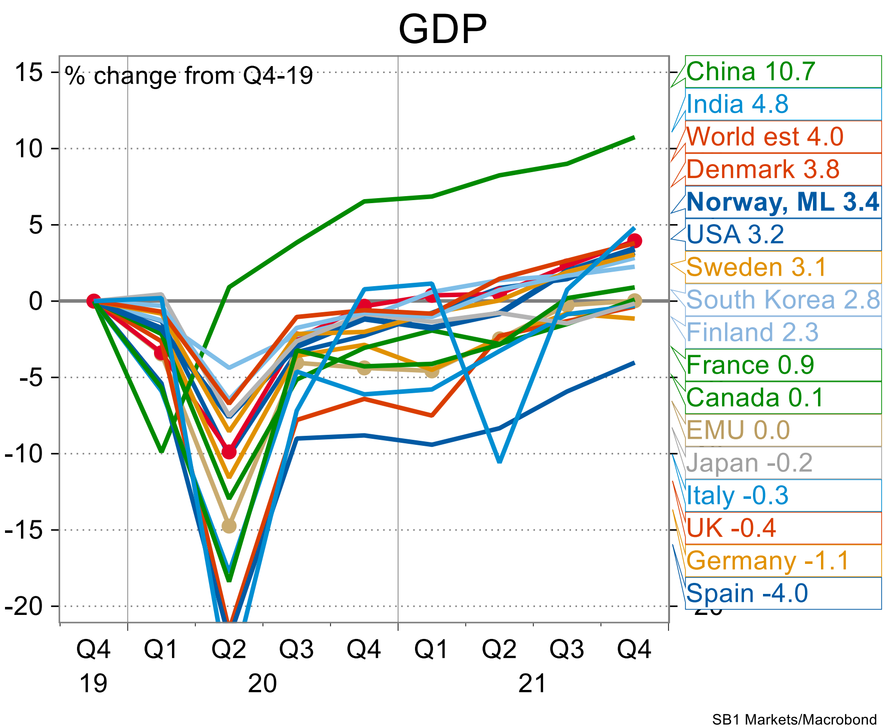


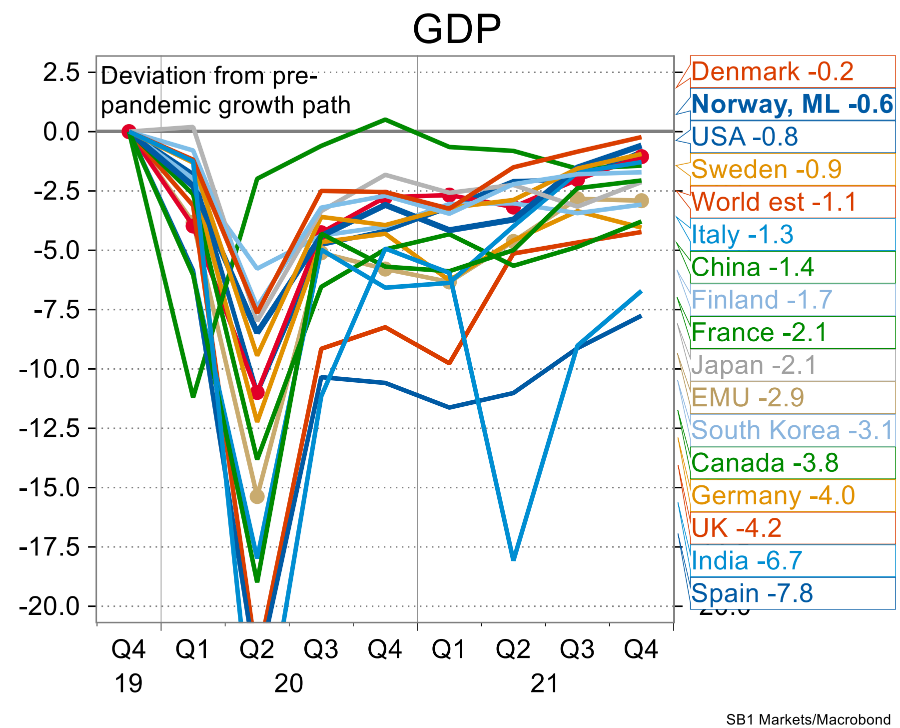




Strong growth in Q4 too, GDP is up 4.0% vs the pre-pandemic level

.. But still 1.1% below the p-p trend growth path

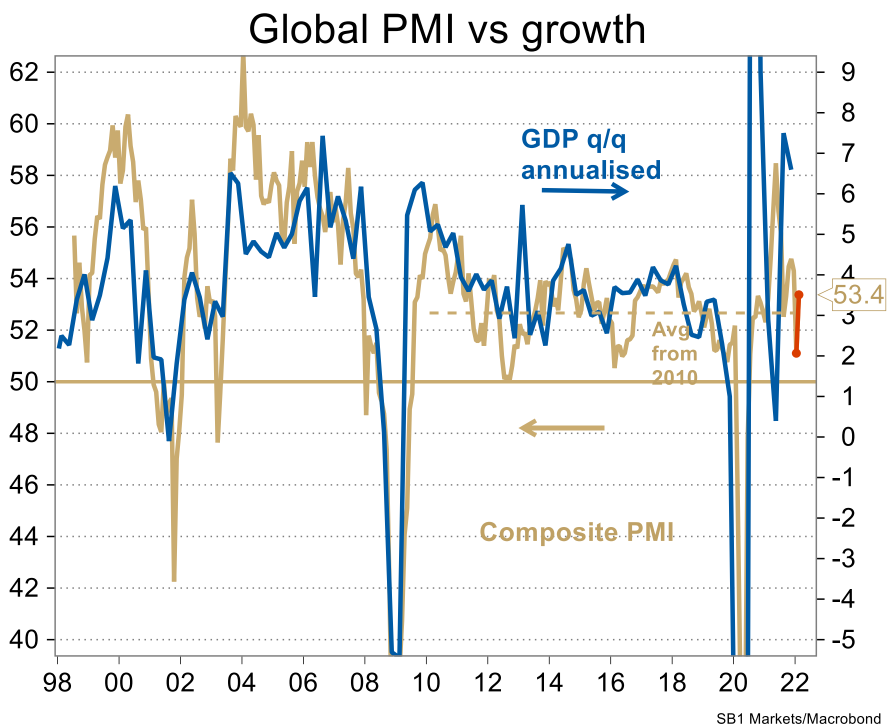


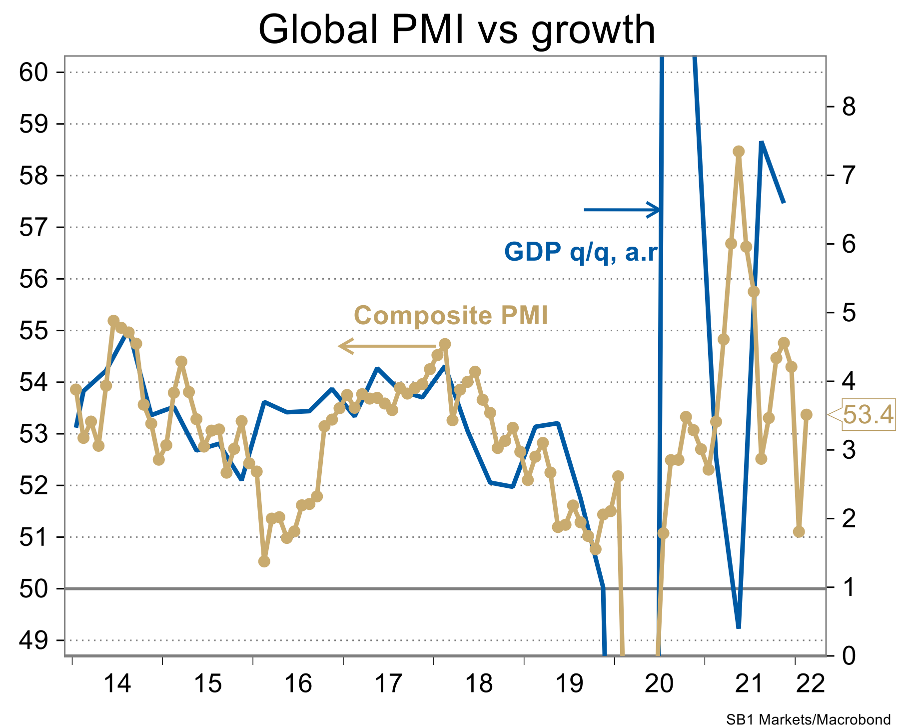


- Most countries have reported decent growth in Q4

The global economy gained speed in February

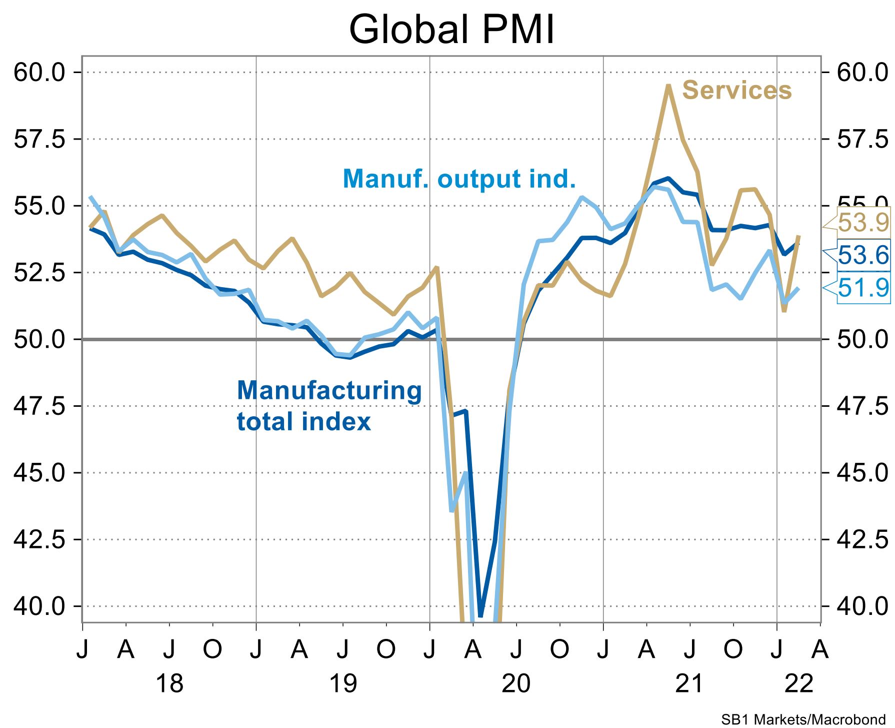
The composite PMI gained 2.3, and at 53.4 signals a 3.5% growth pace, up from 2%

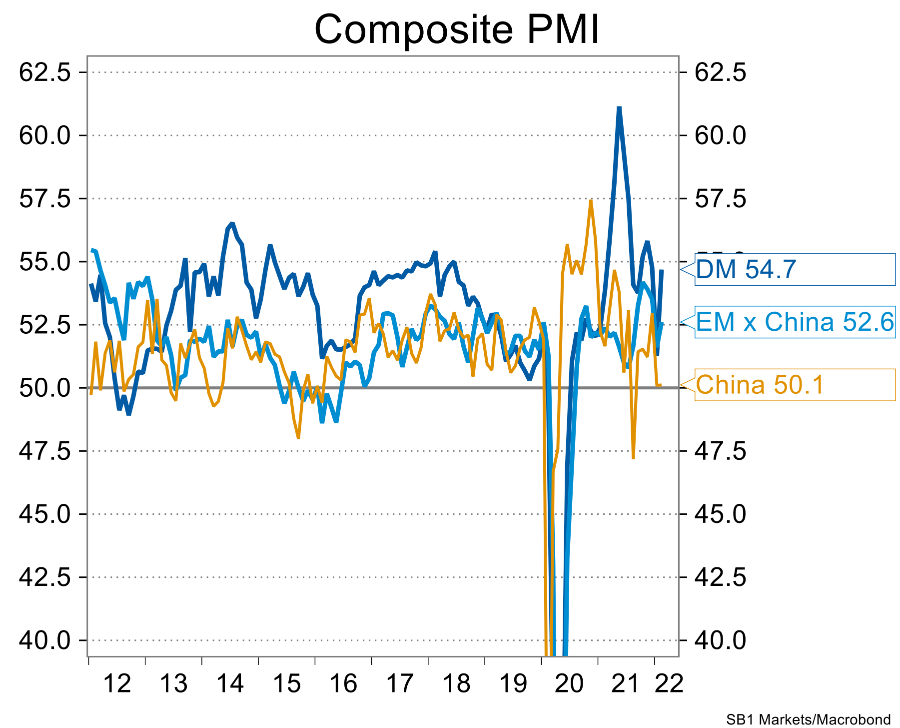




- The **global PMI** rose as we assumed after the preliminary indices were published (the outcome was 0.1 p lower than we estimated)
- **The service sector in DM** contributed to almost all of the lift in the global composite PMI
- **The EM PMI** rose 0.5 p, to 51.3. The Chinese index was unchanged

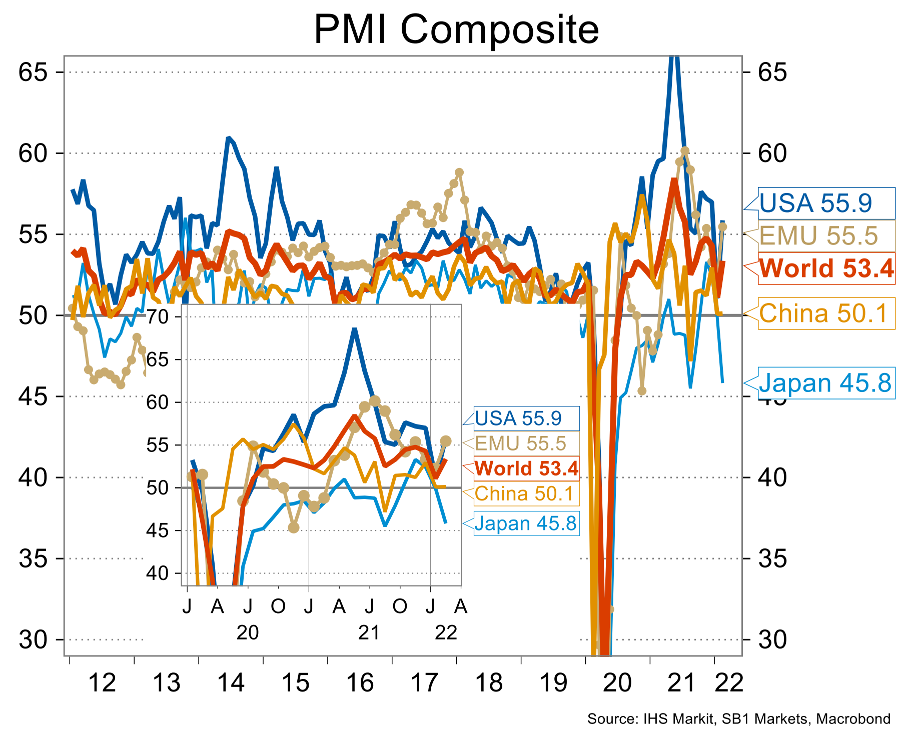
A sharp recovery in services in DM, following the January weakness

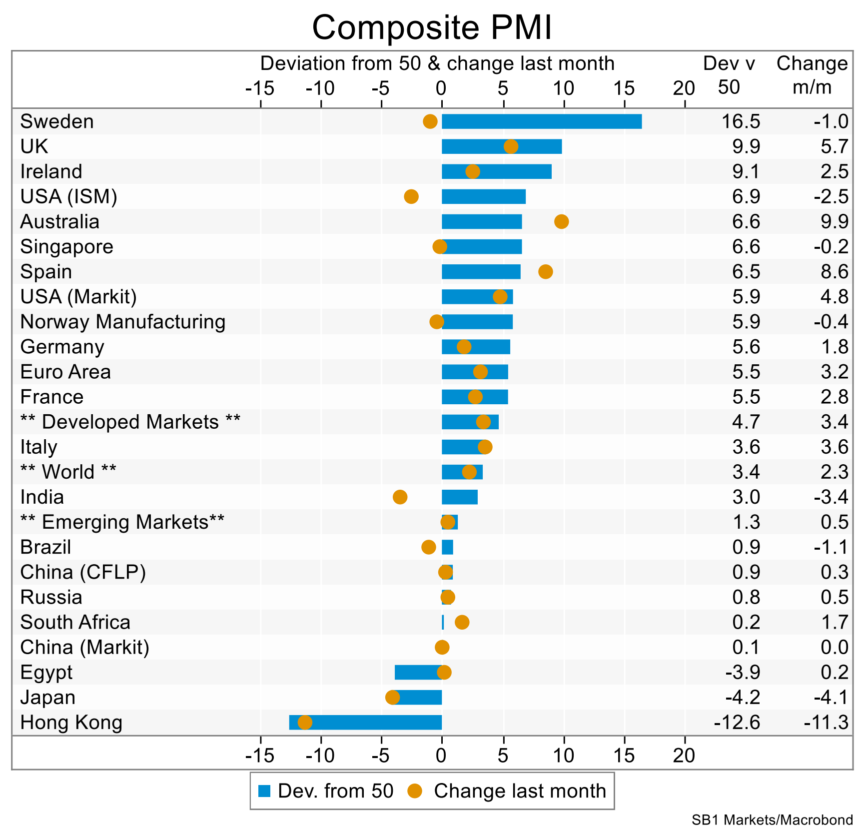




A rather broad decline, and just Germany significantly up, from a low level

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



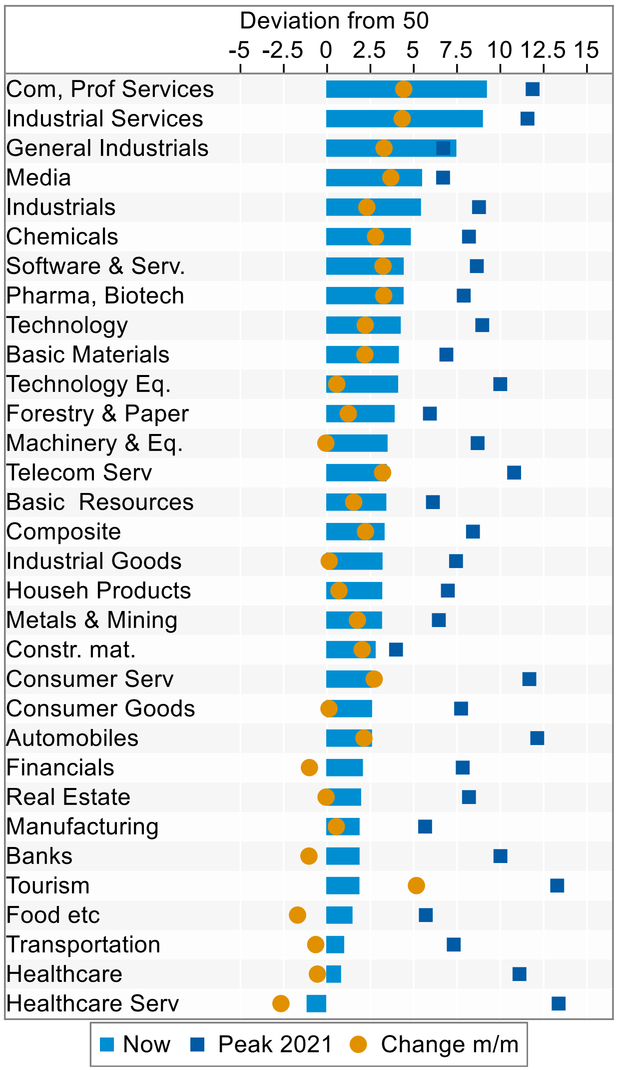


- 17 countries/regions up in February (up from 5), and 8 down (from 18)
- **Sweden** still at the pole position, and UK at the 2nd place
- **Markit's PMI index** rose sharply, and recovered from the January slump. **ISM index** fell due to a further decline in service sector, but the level is still OK
- EMU reported a sharp increase, much more than initially expected
- The Chinese PMIs were close to unchanged
- Mixed among other EMs but in average a gain. Hong Kong was knocked down by Omicron. China to follow?

Most sectors reported stronger growth in February

… all sectors barring health services are above the 50-line

World PMI sectors



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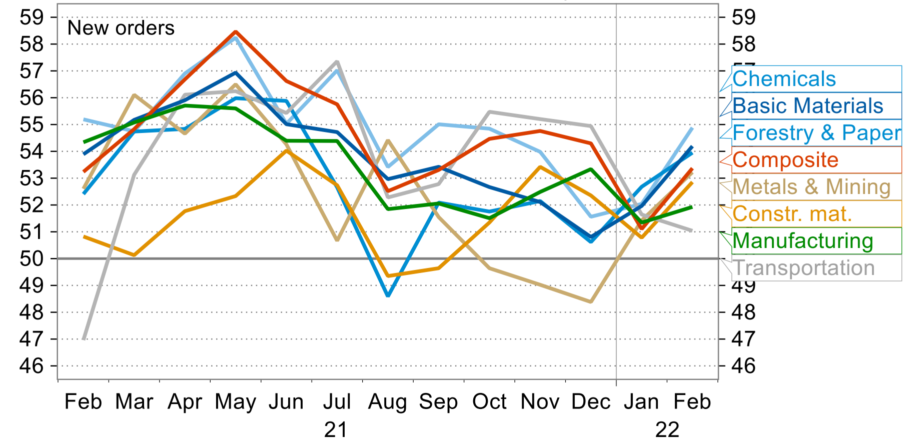
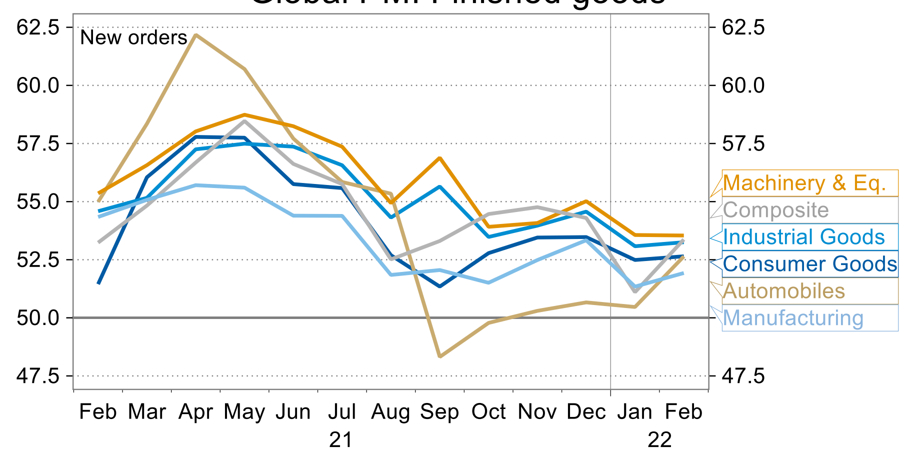
Global PMI Commodity sectors



SB1 Markets/Macrobond

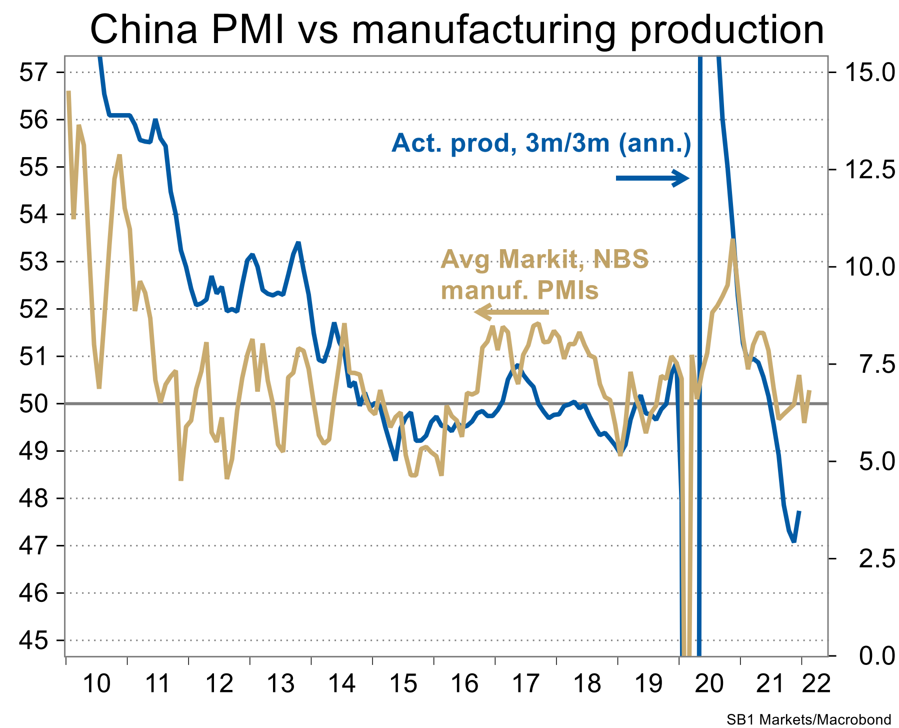
Global PMI Finished goods



SB1 Markets/Macrobond

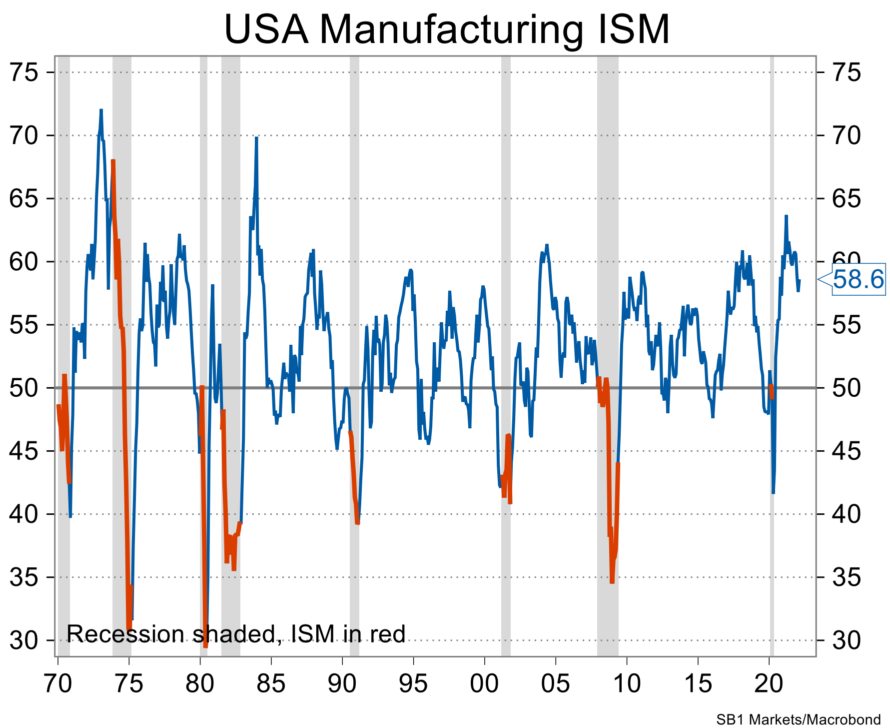
Both manufacturing PMIs up in February, Markit's the most, to above average

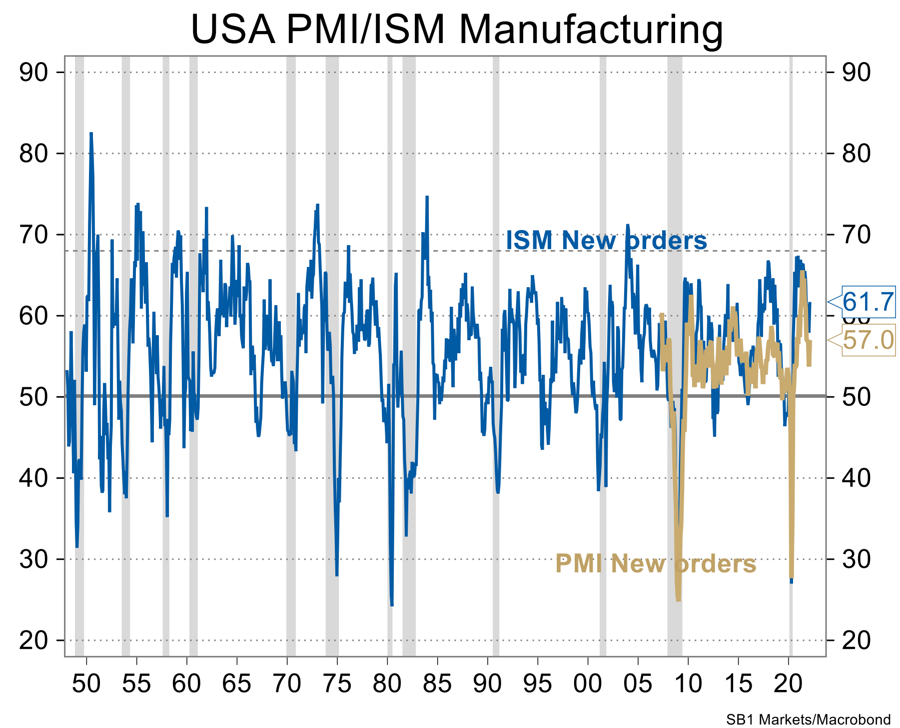
Trend growth is signalled, the PMIs are close to an average level (in average)



- The **NBS/CFLP manufacturing PMI** added 0.1 p to 50.2, while **Markit's PMI** gained 1.3 p to 50.4
  - » In sum, the two indices were better than expected – in average up to an average level (vs the past 10 years)
  - » The NBS survey is more concentrated vs large state-owned companies, Markit's vs 'smaller' private-owned companies

Manufacturing ISM up in January – and the level remains high

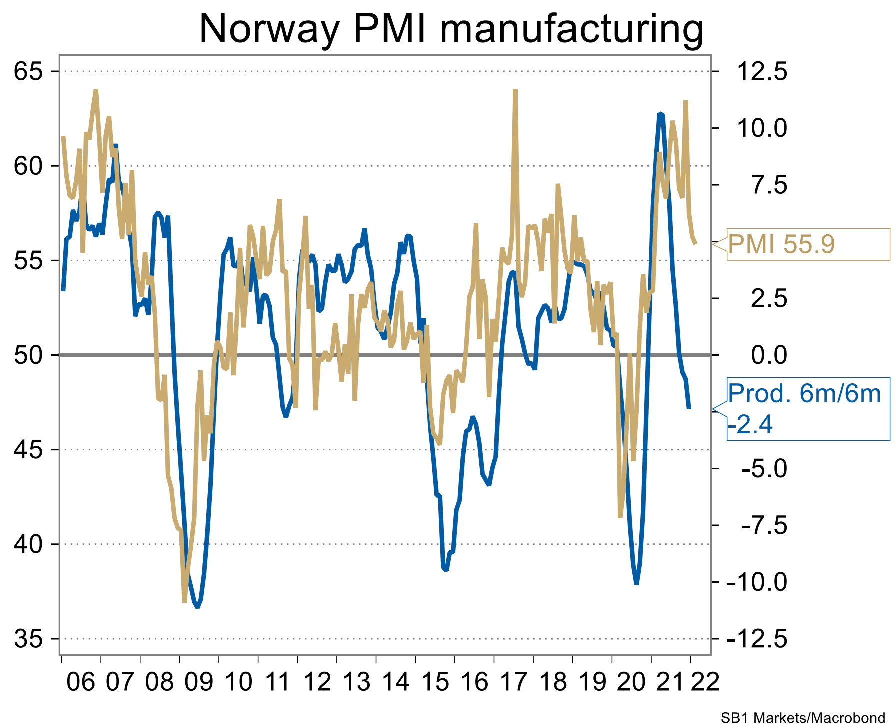


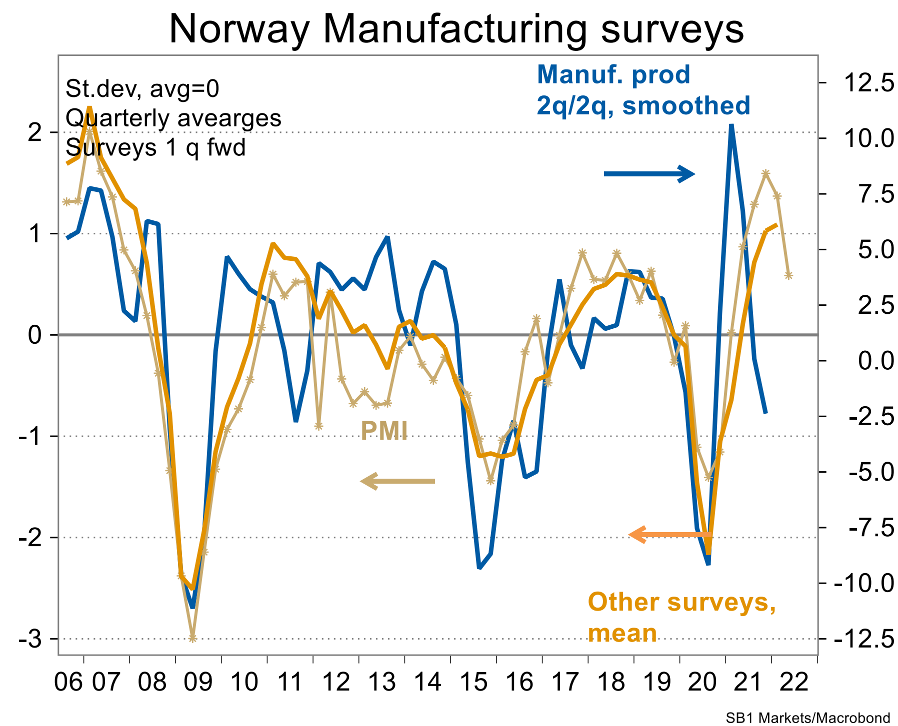


- The **ISM manufacturing index is trending down but the level remains far above average levels**
- Last month, 16 of 18 manufacturing sectors reported growth (14 the prev. month), 1 sector reported a decline (wood products)
  - » The **new orders** index gained 3.8 p to 61.7, far above an average level
- 33 commodities were up in **price** (from 36, at the peak 56 commodities). 6 were down in price (from 7), mostly steel products. The price index fell marginally
- 11 commodities were reported in **short supply,** down from 16 (and way below the peak at 50 commodities a few months ago)
- **In their comments**, companies were not are complaining about labour shortages anymore. Comments are generally very positive vs the growth outlook

The manufacturing PMI down 0.4 p to 55.9, still well above an average level

Delivery times and prices are easing somewhat. However, the order index fell too



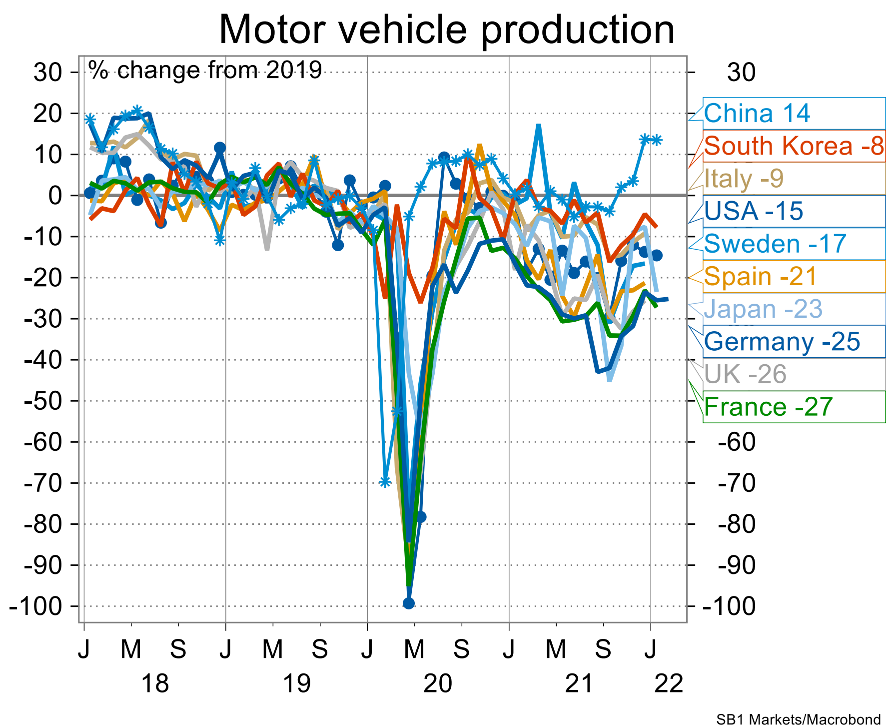


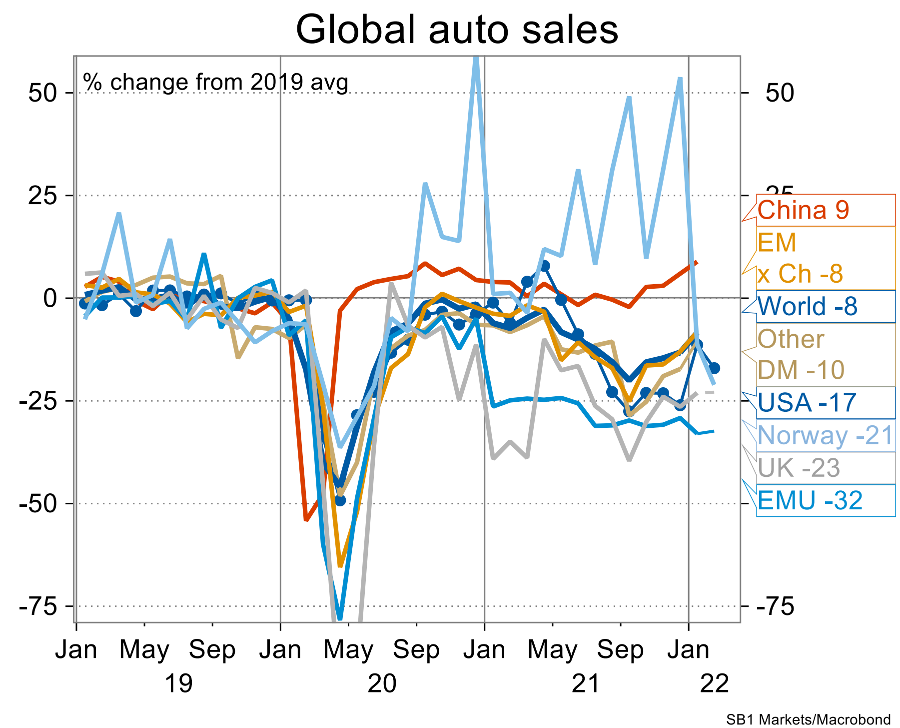
- The **manufacturing PMI index** fell for the 3rd month in row, though from the 3rd highest level ever, and the February index is still 0.7 st.dev above average. We expected an uptick to 57, consensus was for 56.5, above the outcome at 55.9
- The **delivery times** index fell further, and contributed by 0.5 p at the downside in the headline index, so did an usual decline in the index for **inventory of purchased goods**. However, the **new order index** fell slightly too. The production index rose sharply
- Other manufacturing **surveys** have not turned south yet, at least not in average
- Even if surveys have been reporting growth, **actual production** has fallen slightly since last April

SpareBank 1 MARKETS

Auto production on the way up!

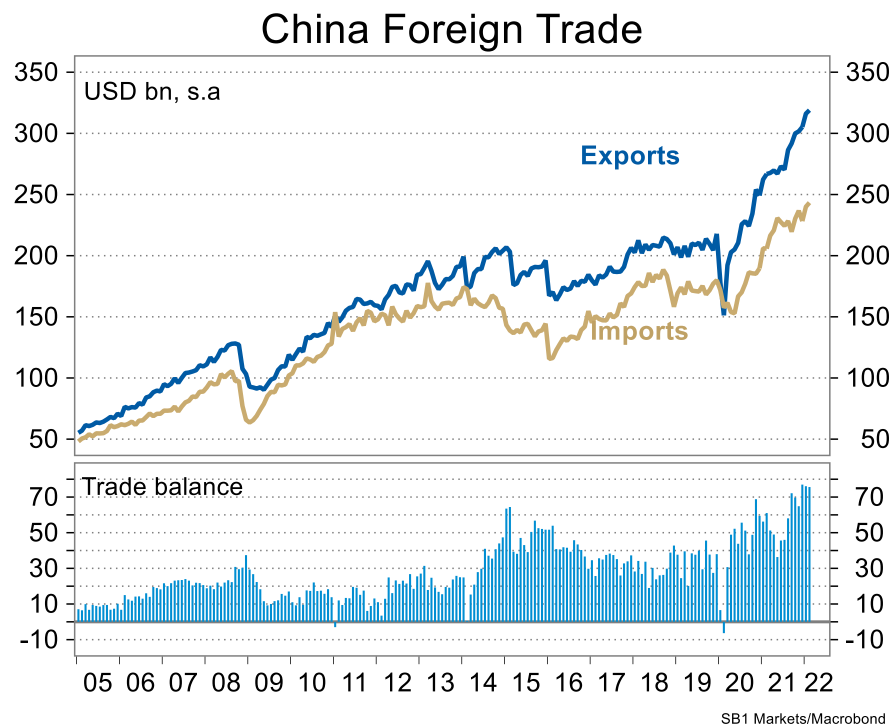
Germany production fell in Jan but is ‘just’ 11% below the ‘19 level, was down 43%! China is up 13%





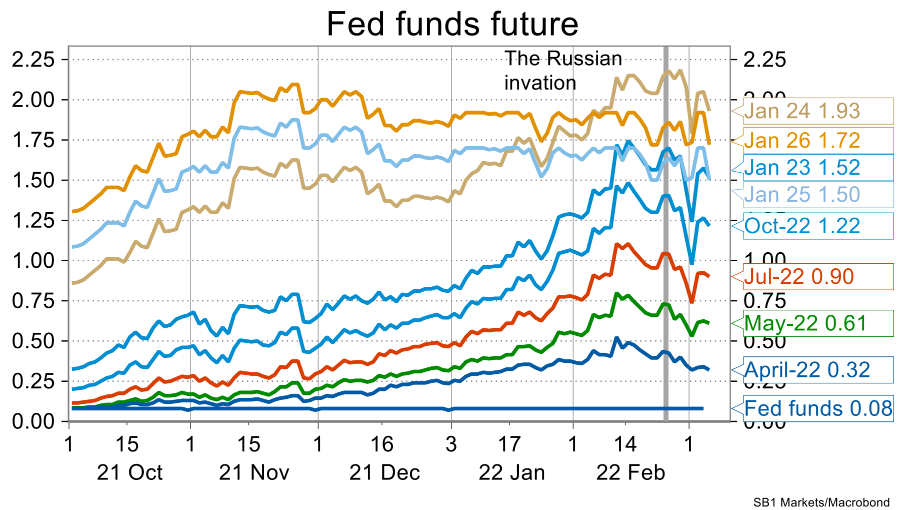
Exports further up in Jan/Feb, imports too

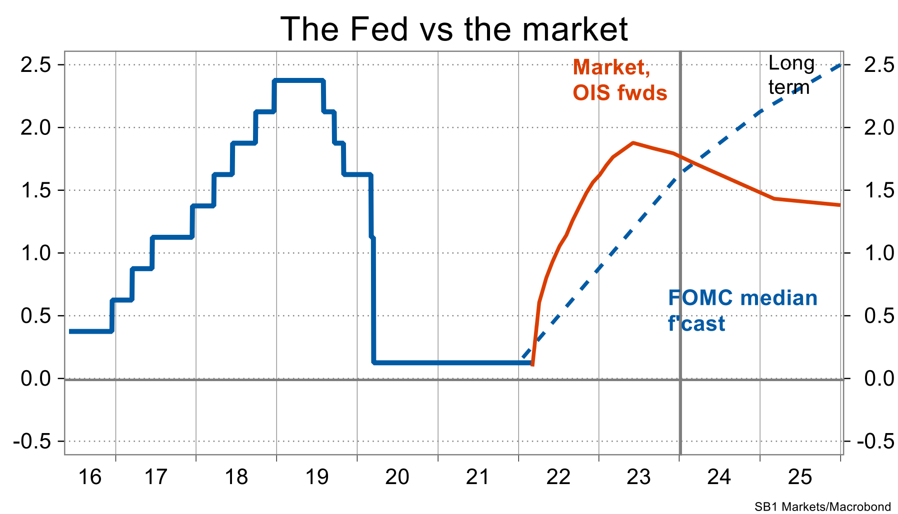
The trade surplus has been at ATH the past 3 months



- **Exports** probably grew in both January and February, both in value and volume terms. Export values are up 10% in average in Jan/Feb, expected 15%
- Imports also grew m/m, and are up some 17%, as expected
- More details in next weeks report

Powell: Ukraine is a worry but inflation is far larger concern

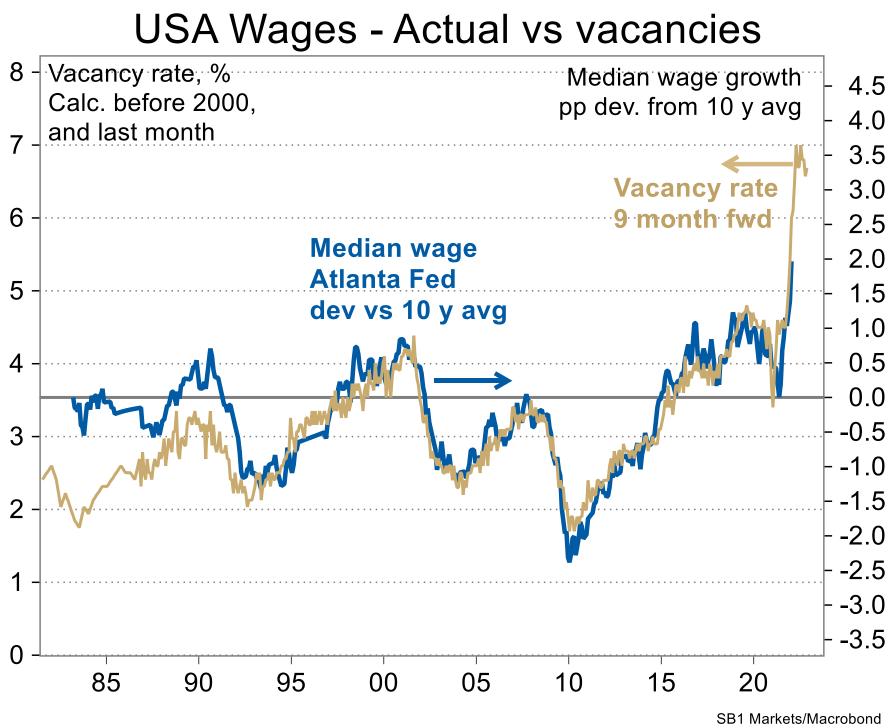


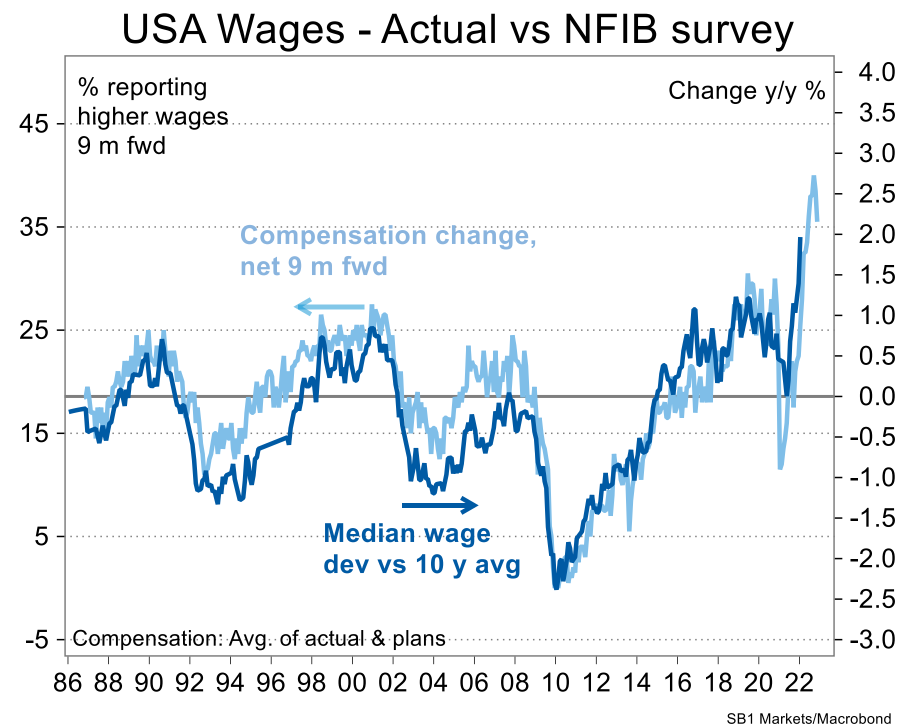


- At the **hearing at the Congress** last week, **Fed's Powell** confirmed that he was in favour of a March hike, and a further tightening through the rest of 2022 – and even more than by 25 bps at remaining 3 ('main') FOMC meeting in 2022
- **Fed's Beige book**, its 'Reginal Network' report modest to moderate growth through the 6 weeks to mid February, as the Omicron variant held back consumer spending (even if Jan retail trade was much stronger than expected), increased sickness leave. In addition, the winter weather have been tougher than normal some places
- Reports on lack of labour, further wage and price increases are still wide spread – but some respondents reported some signs of cost pressures to flatten out through the year
- Interest rate expectations have come down even in the US (but not as in the EMU, which is far more exposed to the Ukraine crisis)

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

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

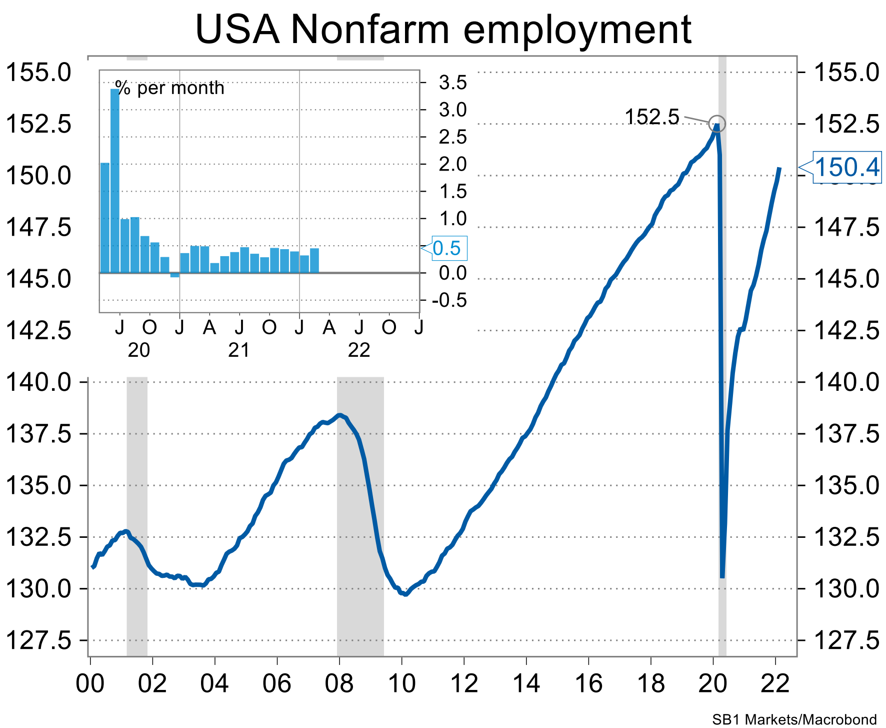


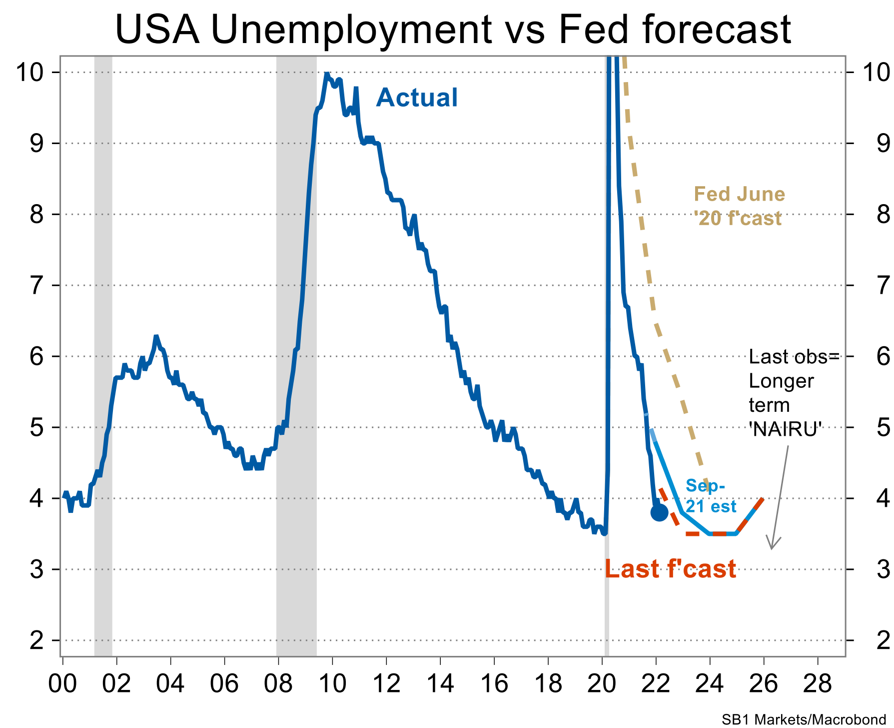


- .. Both vs the vacancy rate and the SMEs’ compensation plans

Steady growth in payrolls, unemployment down 0.2 pp to 3.8%

Wages flattened but is still trending rapidly upwards

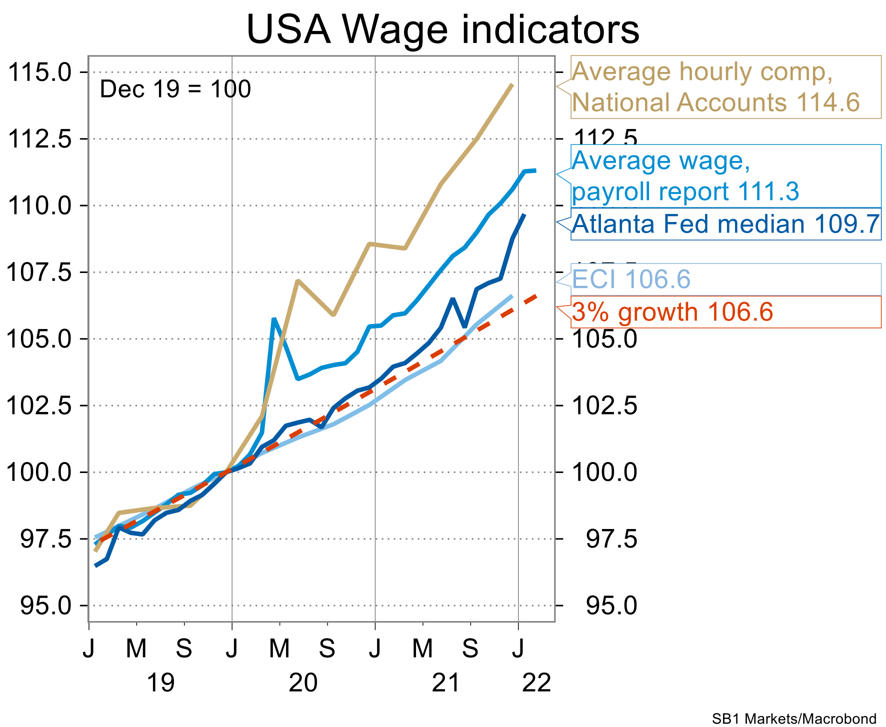


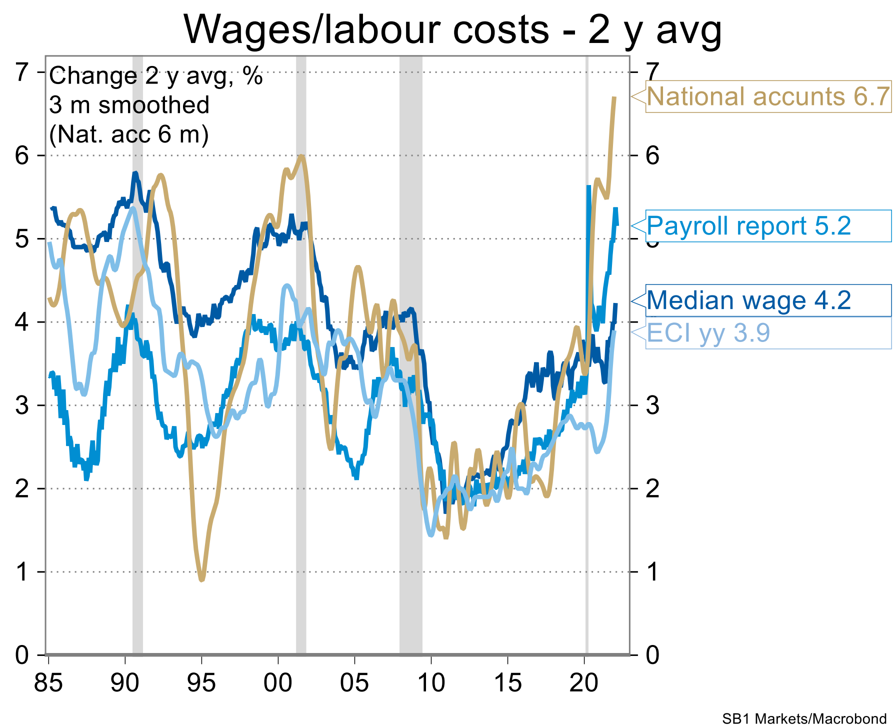


- **Nonfarm payrolls** rose by 678’ in February, well above the expected 423’. The past 2 months were revised up by 92’, a rather small revision these days .Payrolls are still down 2.1 mill vs. Feb-20 or by 1.3%.
- **The participation rate** rose 0.1 pp to 62.3%, highest level since before the pandemic – a positive sign. The employment rate rose by 0.2%. Both remains below the pre-pandemic levels
- **The unemployment rate** fell 0.2 p to 3.8%, 0.1 pp lower than expected. The trend i steeply down
- **The average wage** was unch m/m, expected up 0.5% - finally a ‘positive’ surprise. However the underlying trend is still some 6%
- **Maximum employment:** Even if the participation now may be trending slowly up, the supply side is obviously the bottleneck at the labour market. The tight labour market signals continued wage inflation at a level which is not consistent with CPI inflation at 2% over time (barring a substantial productivity shock, or a crash in corp. profit margins/earnings). The Fed is now recognising that the maximum employment target is met – as wage inflation in the end is the final criterium

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

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





- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years, also if we apply a 2-year average growth rate, to exclude the impact of changes during the first part of the pandemic (chart to the right)
- Growth in wage/earnings/compensation indicators are up 1.5 – 3.5 pp vs the their respective 10 y averages. There is an obvious risk that wage inflation will accelerate further (check the following pages) – probably until the next recession hits as the labour market is extremely tight
- Over the past 10 years, inflation has been close to 2%, and well above 2% if calculated over a shorter period
- It will be a 'challenge' to keep inflation at 2% if wage inflation remains at 5- 6 %. Productivity growth has not accelerated by much. Profit margins may take a beating – and they very likely will – but probably not sufficient to bring inflation down.

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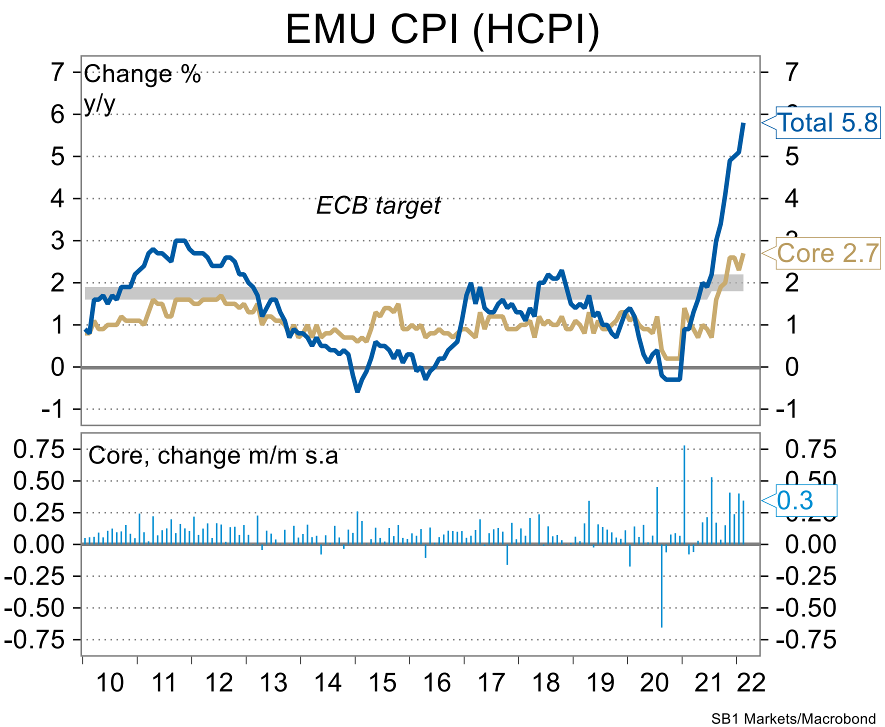
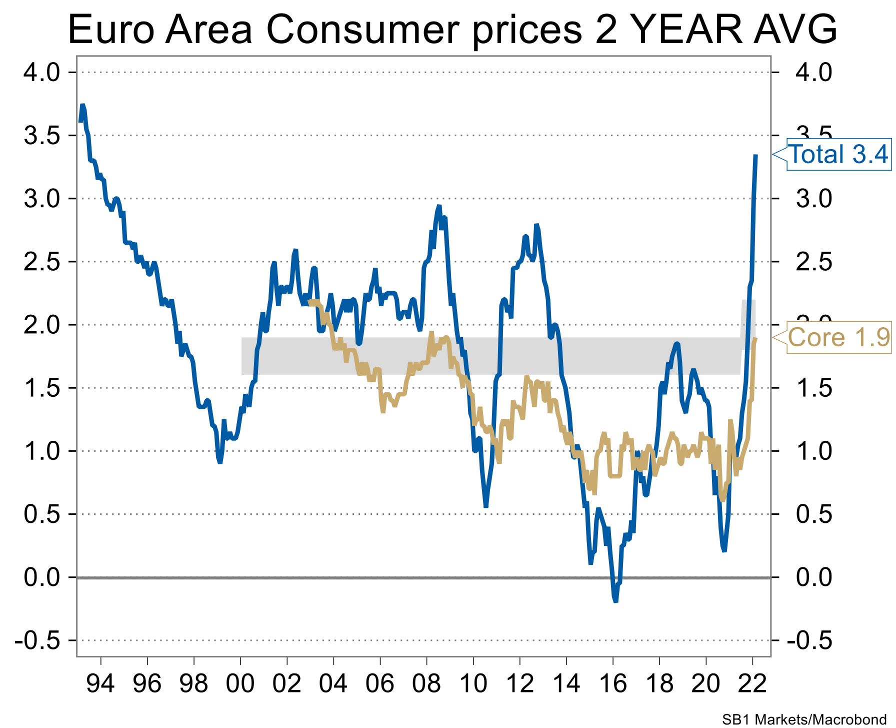
Inflation still surprises on the upside, headline towards 6%, core towards 3%

.. 0.1 – 0.2 pp above revised expectations. And more may come. Still the focus is not here anymore



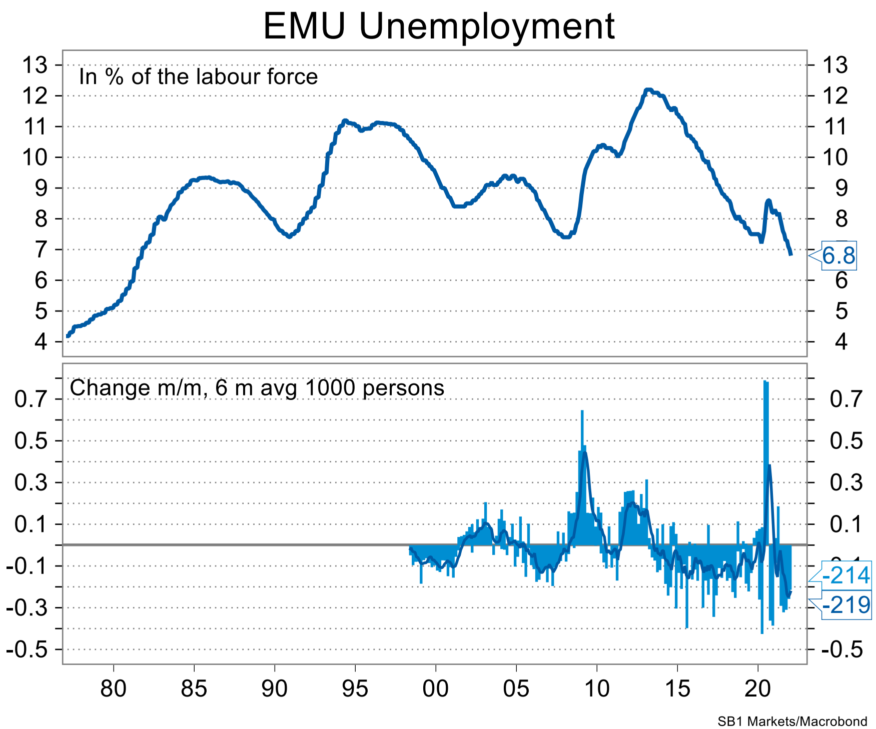


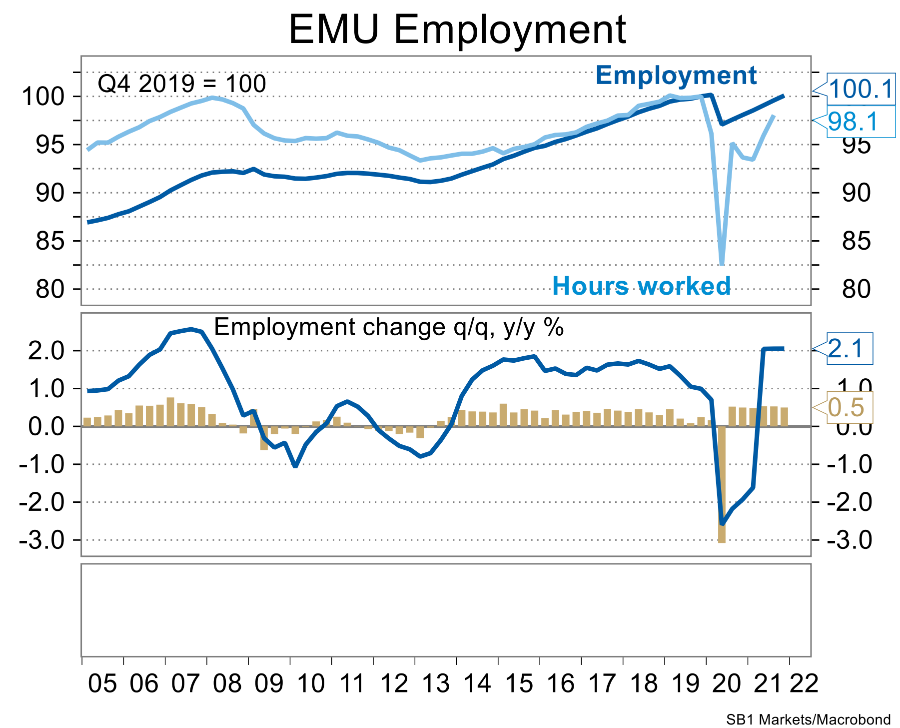
- … The potential huge energy supply shock following the Russian invasion will not be met with higher interest rates – as is very likely lowers growth. As long as wage inflation does not accelerate, not reason for the ECB to fight an eventual energy shock
- **The headline HICP** rose 0.7% m/m in February, pushing the annual rate up by 0.7 pp to 5.8%, expected 5.6% (one week ago, 5.4% was expected)
- **Core prices** rose 0.3% m/m, and the annual rate accelerated 0.4 pp to 2.7%, expected 2.6%. Over the past 2 years, the core is up just 1.9%. However, underlying inflation the past 4 months is above 3% (annualised)
- **Wage inflation** is still modest, but more unions are requesting compensation for the hike in consumer prices…

SpareBank 1 MARKETS

Unemployment fell further in December, by 0.2 pp to 6.8%

Unemployment is the lowest in the region since 1981, well below the pre-pandemic level



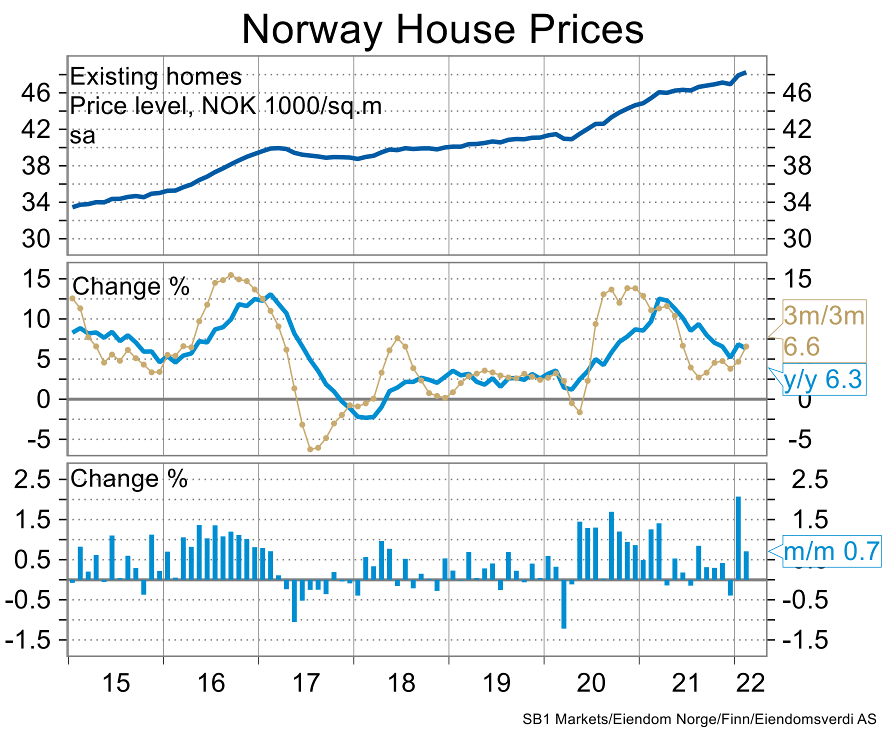


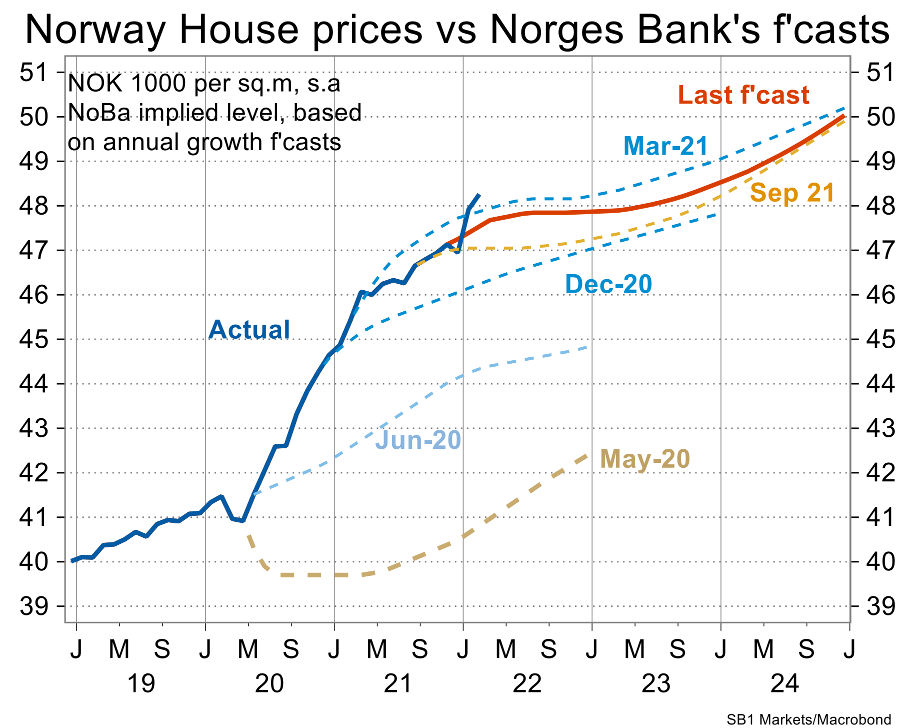
- **Unemployment** has been falling rapidly since last spring. In January, the unemployment rate 0.2 pp, expected unchanged
- **Employment** rose by 0.5% in Q4, as in the previous 4 quarters, and the level is 0.1% above the pre-pandemic level
  - » However, the best proxy for the real unemployment rate, at least vs. **demand for labour**, is the number of **hours worked**. In Q3, hours worked were down 1.9% vs the pre-pandemic level, as average working hours have fallen – but working hours grew rapidly in both Q2 and Q3
- The number of **unfilled vacancies** has soared to the highest level ever, by far

SpareBank 1 MARKETS

A 'technical' house price appreciation in ~~January~~ February too?

A further 0.7% price hike may be due to new paperwork requirements, the supply side is curbed

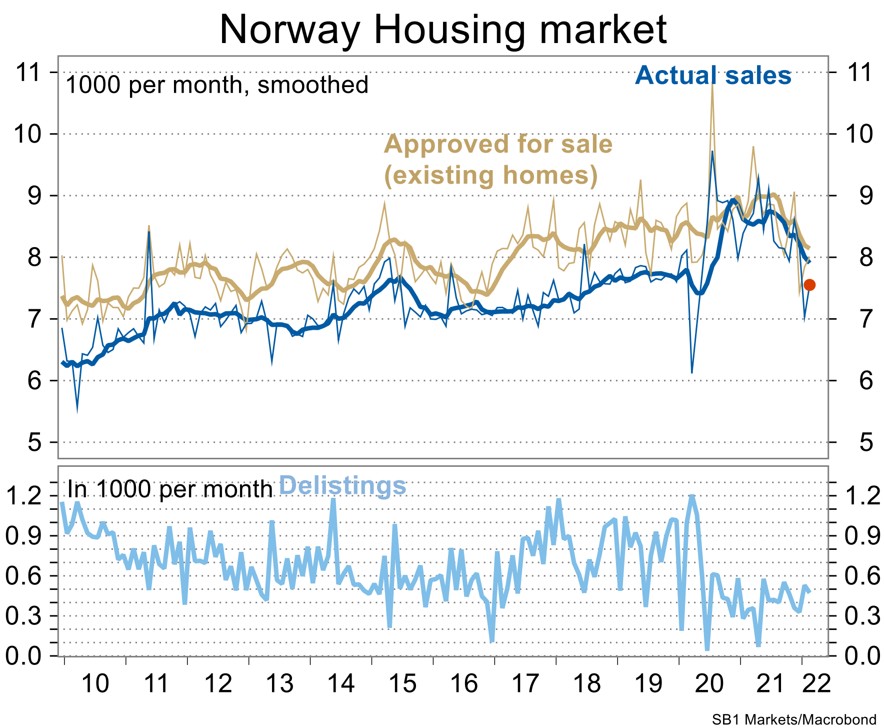


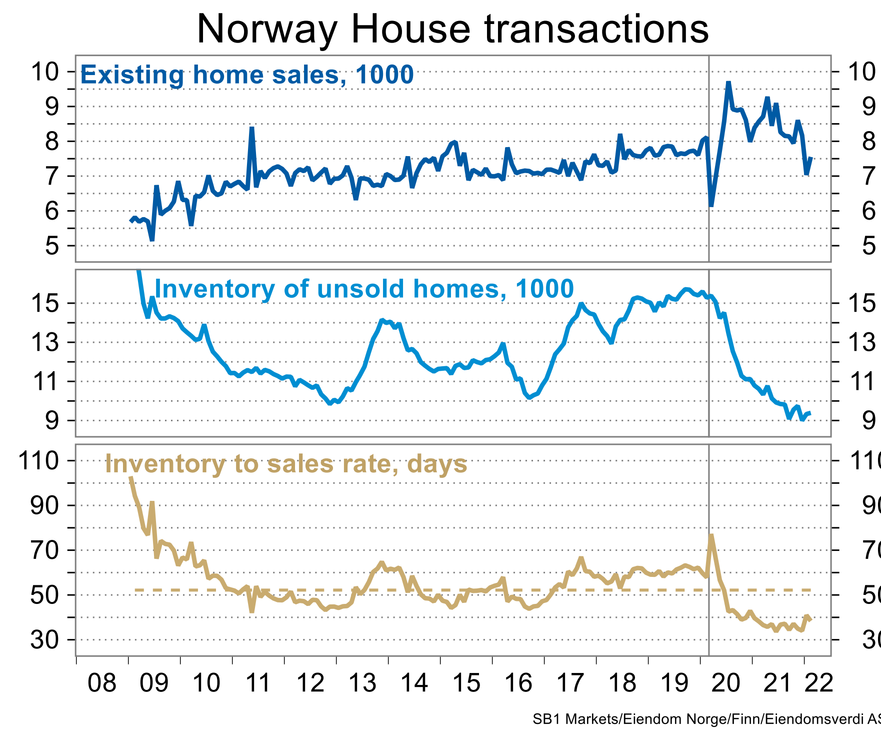


- **House prices** rose 0.7% m/m in February (+1.5% not adjusted), we expected unch, following the 2.1% hike in January. Norges Bank expected 0.3% in both of these months in the Dec MPR, but as prices fell 0.4% in December (NoBa +0.3%), prices are 'just' 2.3% above NoBa's path
  - » The surge in prices in Jan/Feb is probably mostly due to lack of supply as a new law put up stricter requirements for technical valuation reports etc and thus fewer new homes for sale reached the market. Most likely, the congestion will we eased the coming months, bringing supply back up to a 'normal' level
- If prices climb at a fast pace the coming months too – which we think is rather unlikely – it will have some impact on NoBa's tightening pace

The number of transactions remained at a low level in February

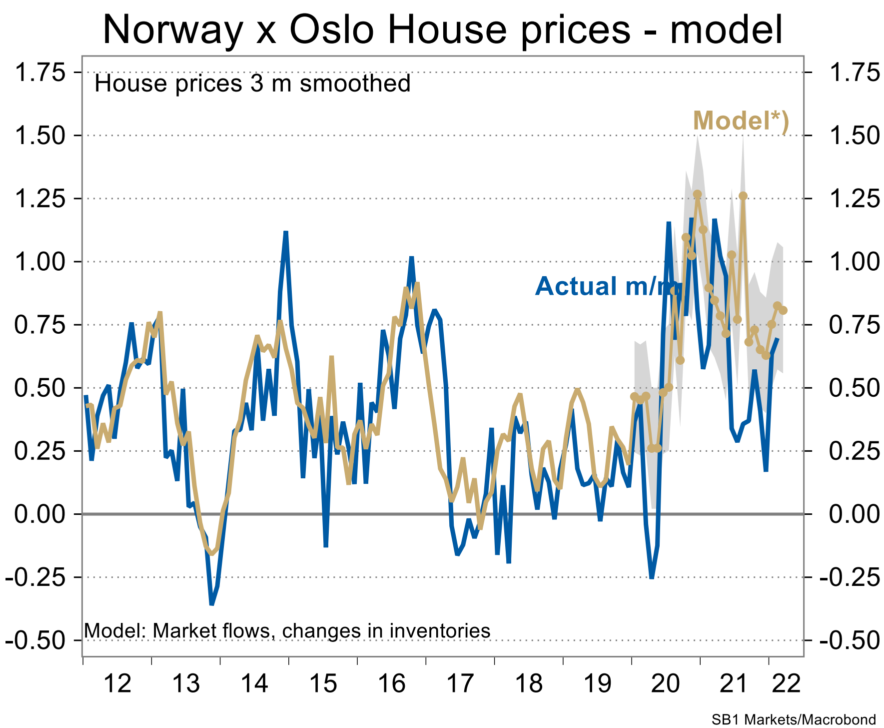
Few homes were approved for sale too – and the inventory is at a record low level

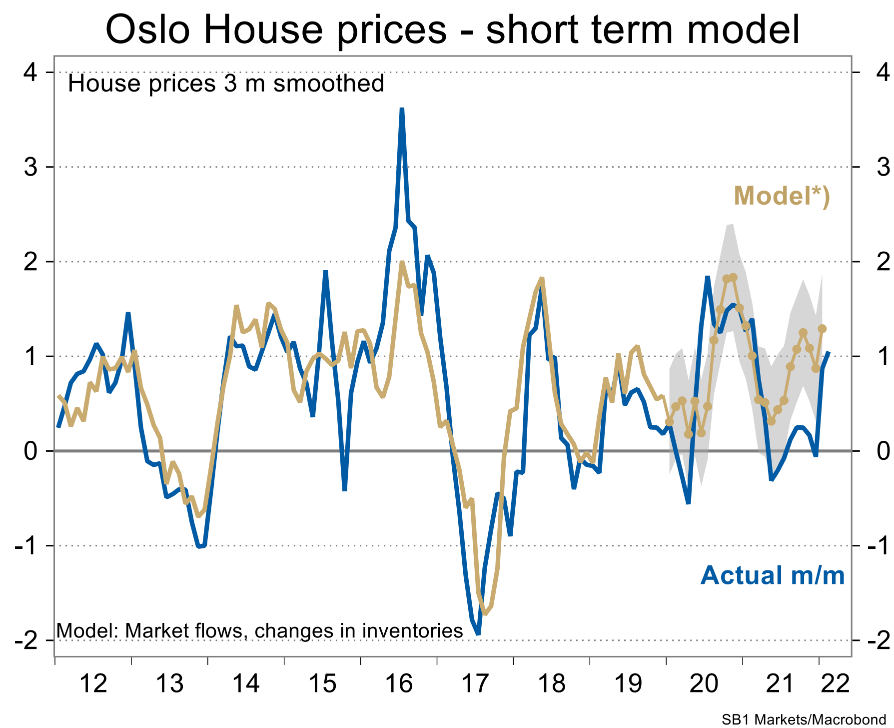




- **The number of transactions** recovered somewhat following the large decline in January but the level is still far below normal, at least the normal since the before the pandemic. However, the trend has been down since last summer
- The **supply of new existing homes for sale (approvals)** also rose somewhat but the level remains low
- The **inventory of unsold homes** was close to unchanged at a record low level in February
- The **inventory/sales ratio** declined 3 days to 38 days, vs an average at 52 days
- The **actual time on market** for those homes sold was unch was 34 days, the fastest pace in 5 years

Short term market flows suggest decent price growth



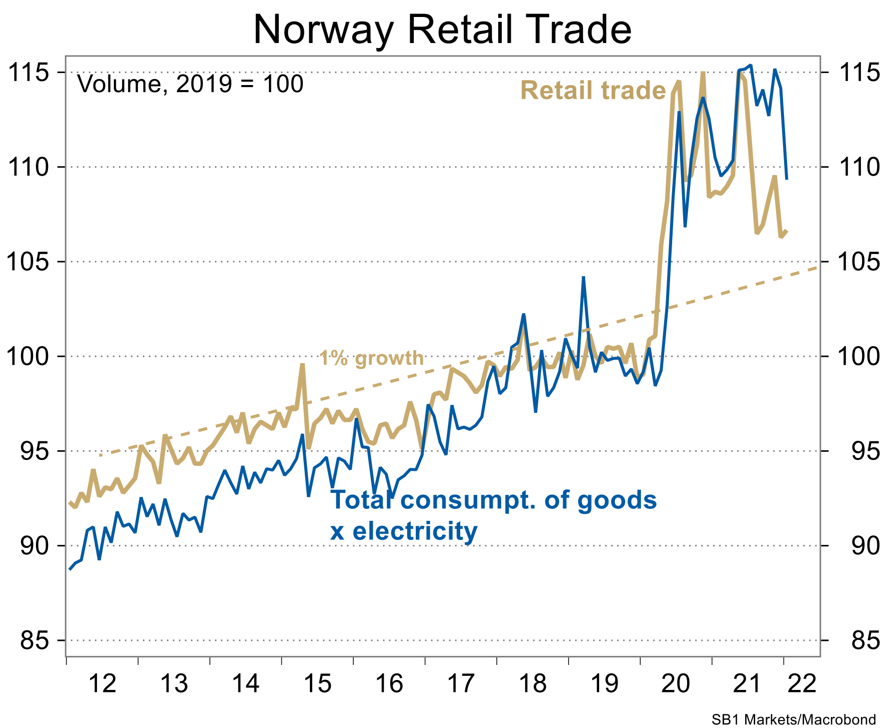


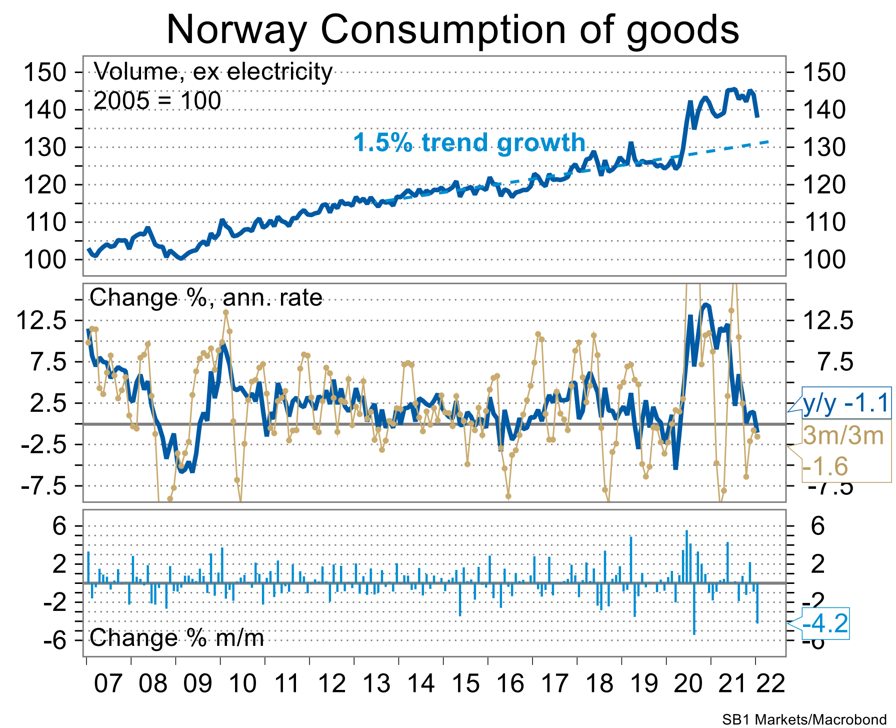
- Our **national x Oslo model** based on flows and the inventory signals a 0.8% growth in house prices per month, well above the actual price appreciation until the January take-off
- Our **Oslo model** signals a 1 – 1.5% growth
- **Mortgage rates** are not included in these short term market models, because they have not consistently added to the models performance. Still, we may possibly address the gap between actual price growth until January and the model forecasts as an impact of Norges Bank's campaign to normalise interest rates. If so, a ½ - 1 pp/month impact – and the most in Oslo
- *These models are not long term price models, just short term price models based on flows of (existing) houses approved for sale actual sales & changes in inventories*

SpareBank 1 MARKETS

Retail sales just marginally up in January, the trend is down

Sales +0.4%, we expected 2%, consensus 1.5%. Sport/clothing down. Auto sales lowered goods cons.

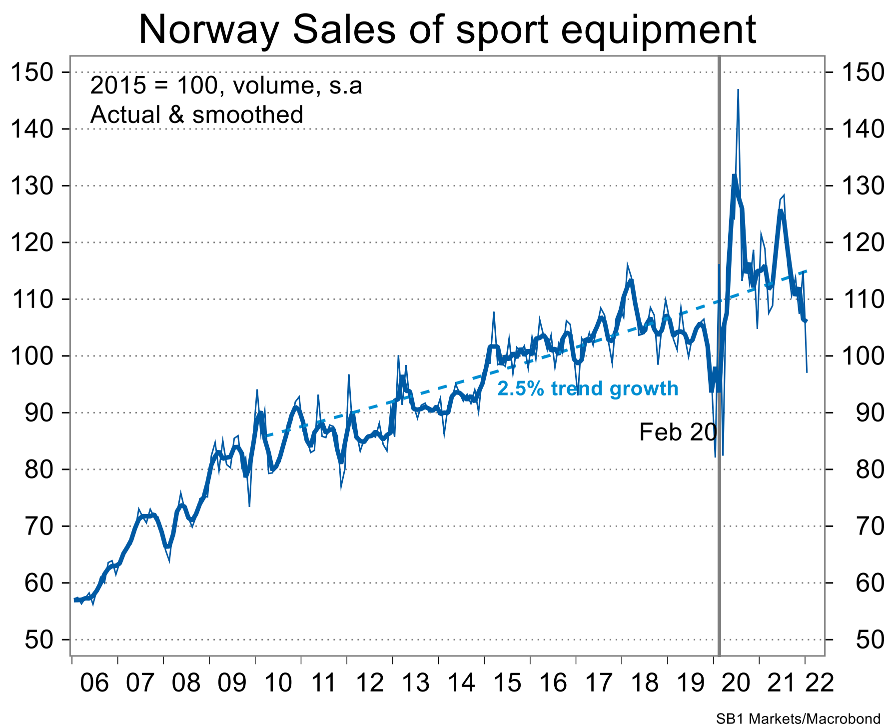




- Retail sales have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down through last year, from a very high level – and is now approaching the pre-pandemic trend, which was rather modest
- **In January**, sales of sport equipment fell 16%, and clothing 7%. Sport eq. is now well below the pre-p trend. Too little snow?
- **Total household consumption of goods** (x electricity) fell 4.2%, as auto sales fell sharply (as the decline first time registrations suggested). In February, auto sales fell further

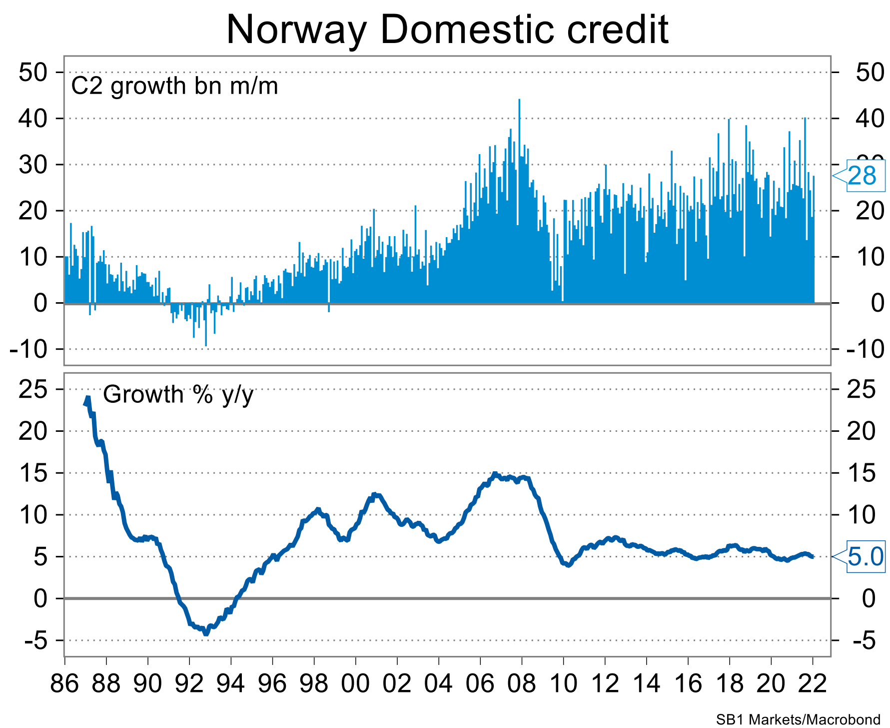
Sport equipment: No snow! Sales sharply down in Jan (and history revised down)

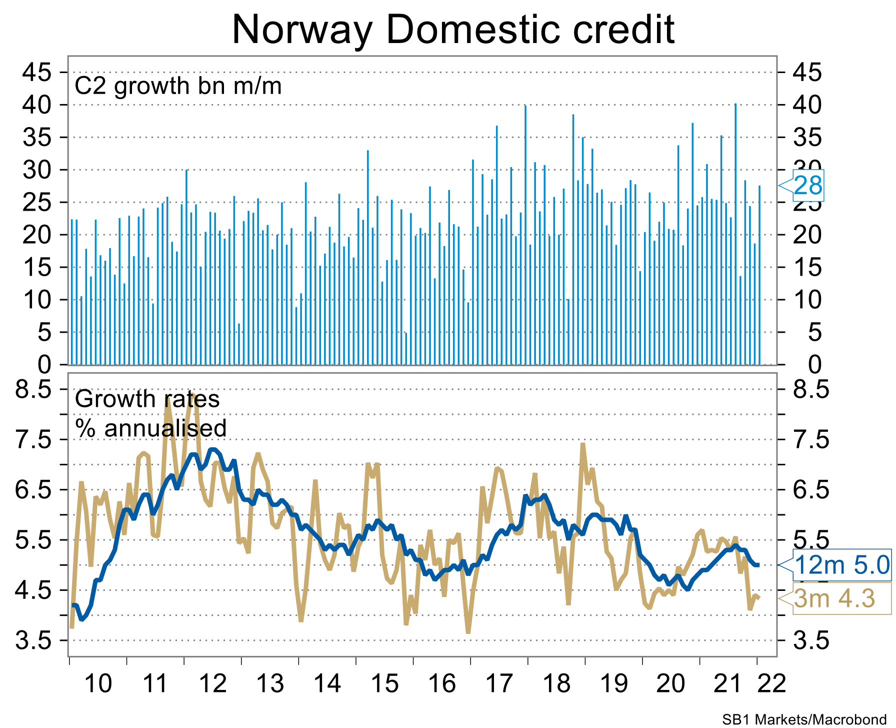
Sales are down almost 25% (in volume terms) since the local peak during last summer's staycation



Norway

Domestic credit growth (C2) flat at 5% in January





- **Total domestic debt** (C2) rose by NOK 28 bn in Jan, up from 21 bn in Dec, as we expected. However, growth in Dec was revised down, and the annual rate remained at 5.0%, we expected 5.1%. The 3m/3m growth rate is at 4.3%. <u>We are not witnessing any credit boom. However, debt levels are high, especially for the household sector</u>
- **Household credit** <u>rose by NOK 15 bn</u> in Dec, as in Dec, we expected NOK 16 bn. The annual rate fell by 0.1 p to 4.9%, we expected unch
- **Corporate C2 credit**, <u>rose by NOK 9 bn</u>, 4 bn more than in Nov (we expected 8 bn). The annual growth rate was unch at 4.9%, we expected 5.0%. **Mainland corporations** increased their debt by 6.1% y/y (-0.1 pp from Dec)
- **Local governments** added NOK 4 bn to their debt burden in Dec, as we expected. The annual growth rate accelerated to 6.0% from 5.3%

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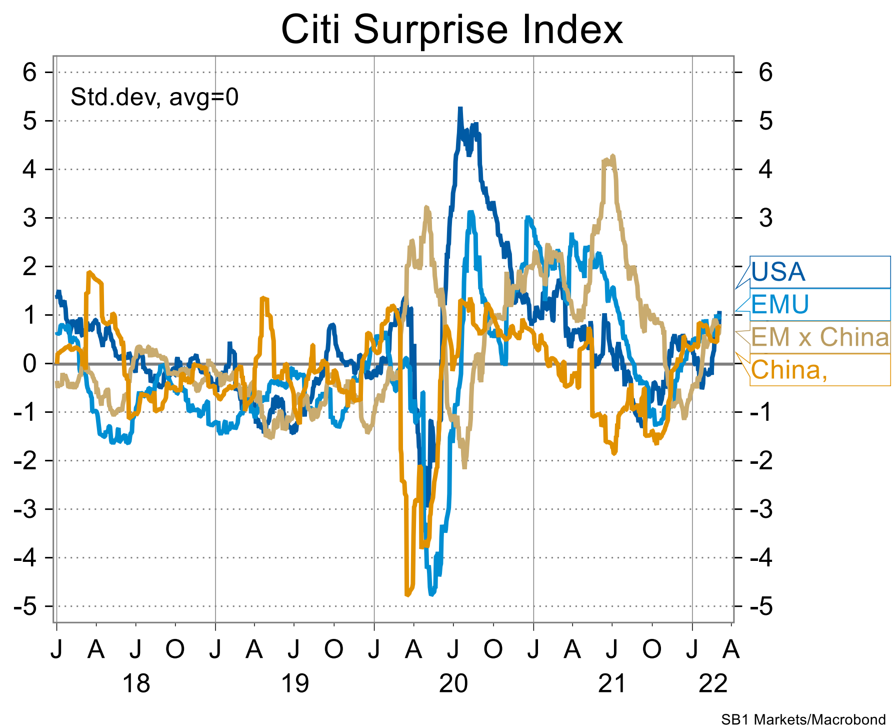
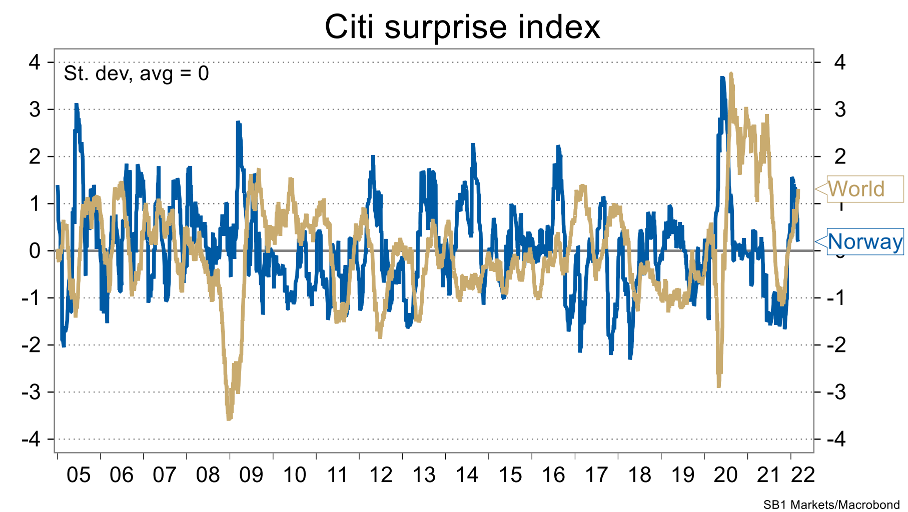
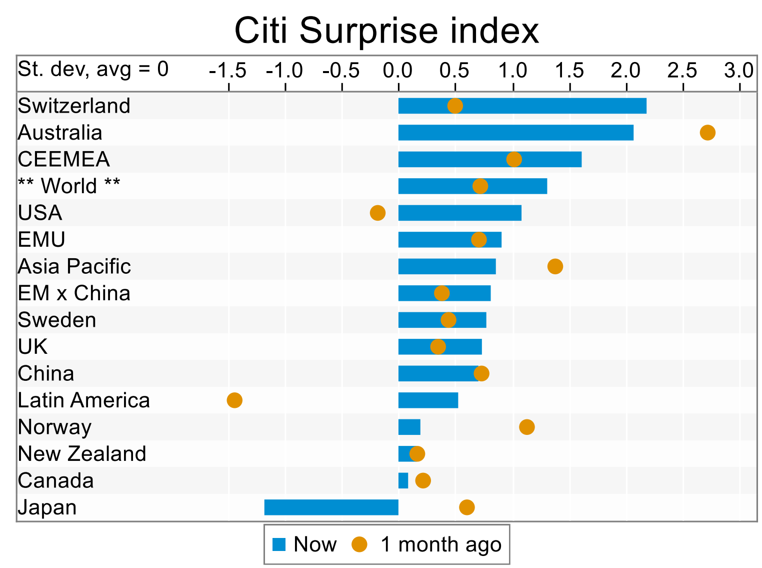
The world is surprising even more at the upside. At least so far…

… almost everyhere! Just Japanat the downside vs expectations







- **Norway** was surprising sharply on the downside through most of 2021, according to Citi. But in early December we crossed the zero line, and shot up in January. Now, we come somewhat down

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

Highlights

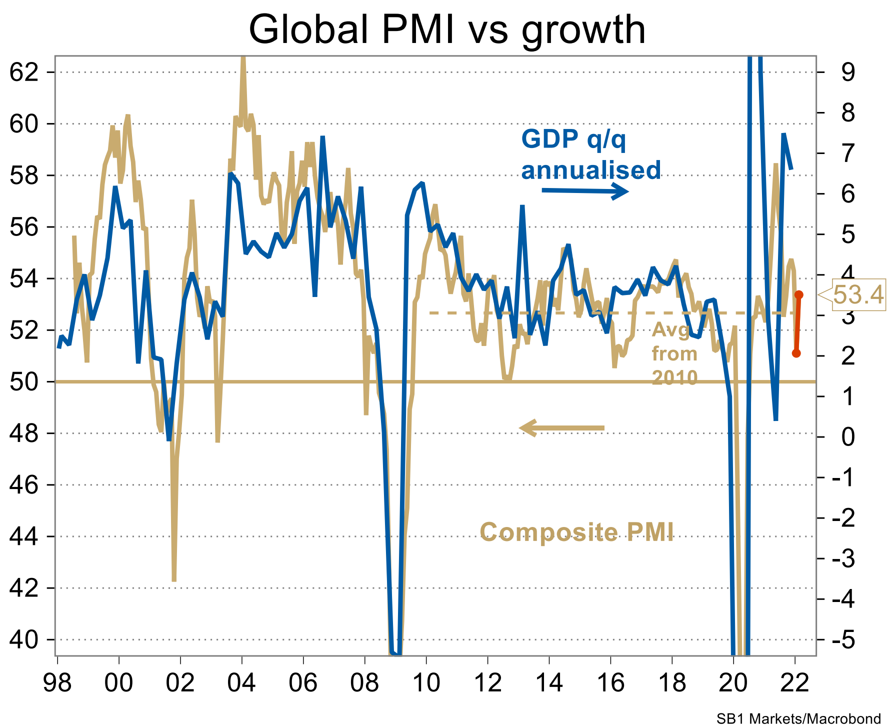
The world around us

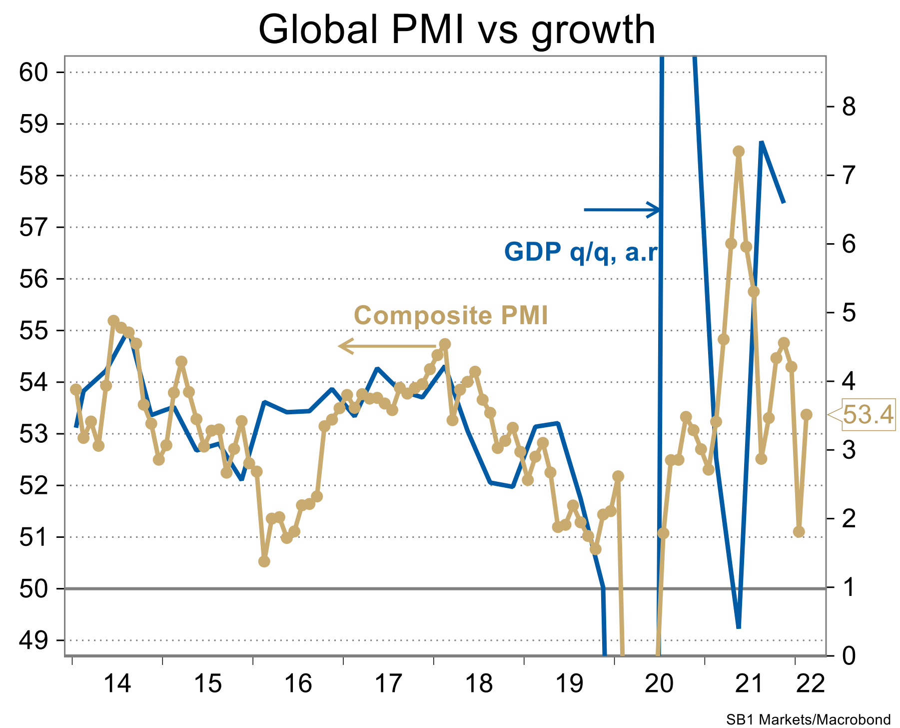
The Norwegian economy

Market charts & comments

The global economy gained speed in February

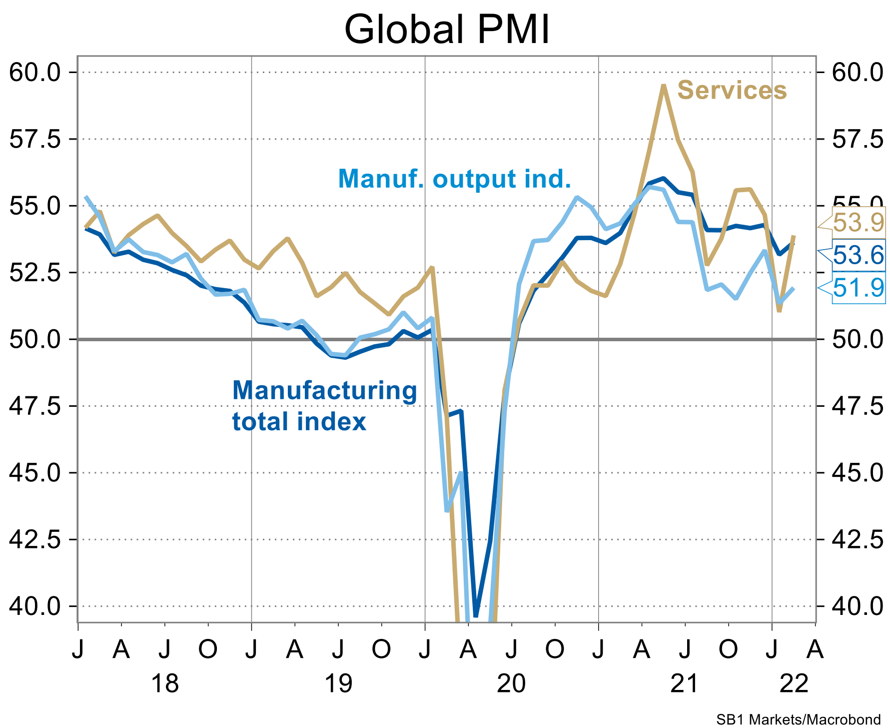
The composite PMI gained 2.3, and at 53.4 signals a 3.5% growth pace, up from 2%

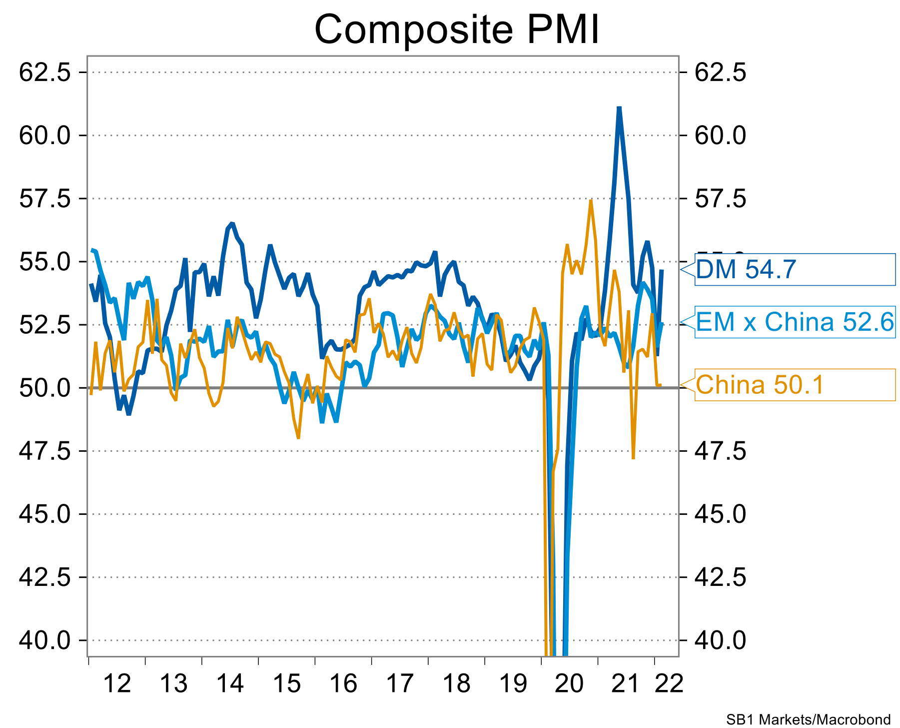




- The **global PMI** rose as we assumed after the preliminary indices were published (the outcome was 0.1 p lower than we estimated)
- **The service sector in DM** contributed to almost all of the lift in the global composite PMI
- **The EM PMI** rose 0.5 p, to 51.3. The Chinese index was unchanged

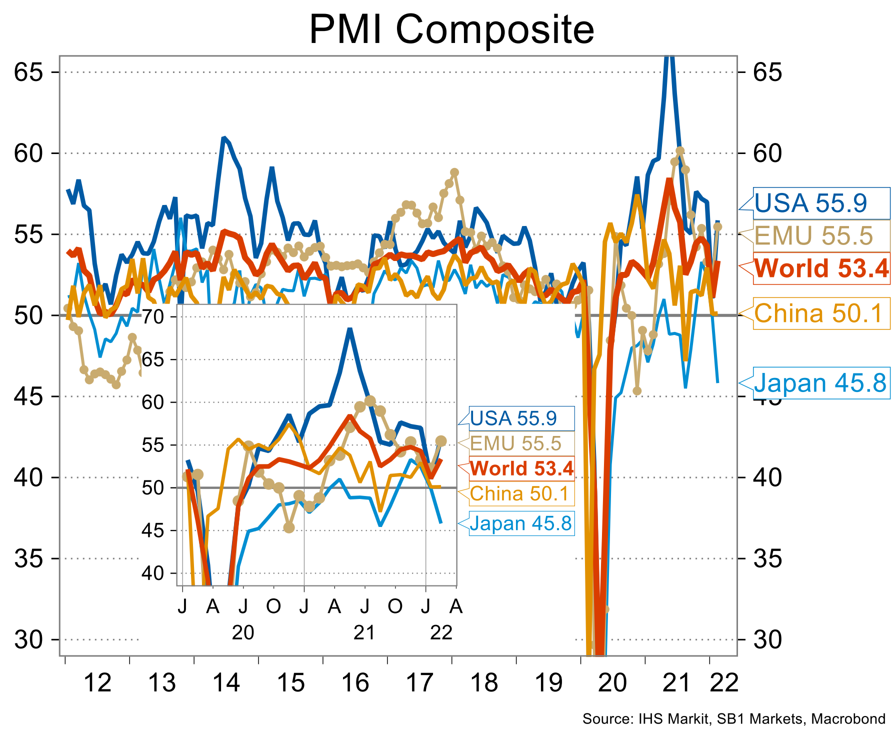
A sharp recovery in services in DM, following the January weakness

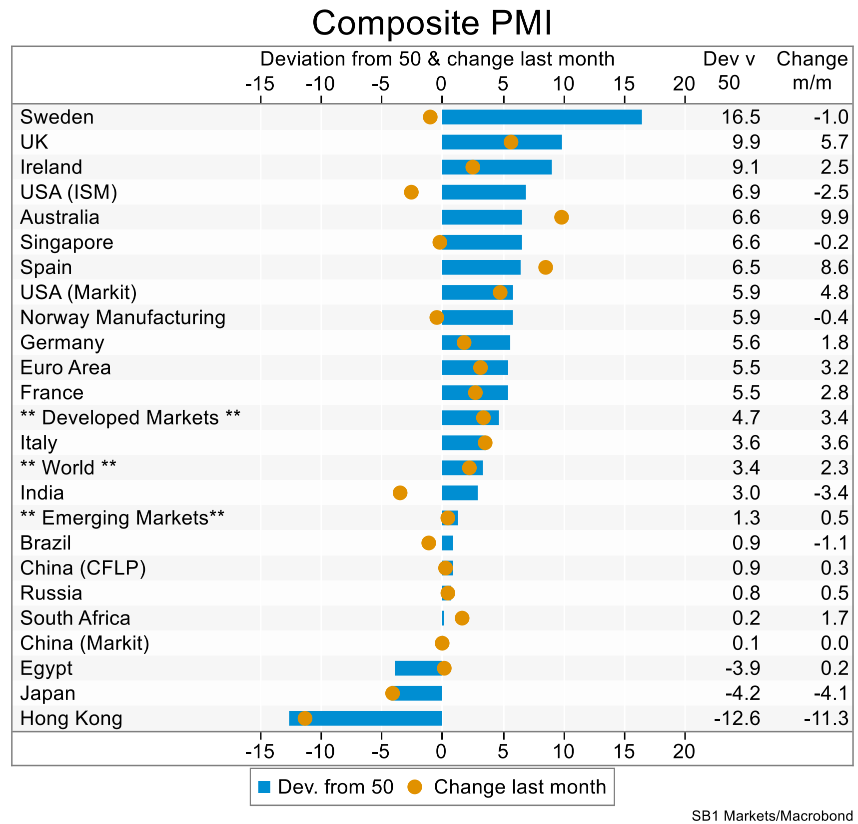




A rather broad decline, and just Germany significantly up, from a low level

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





- 17 countries/regions up in February (up from 5), and 8 down (from 18)
- **Sweden** still at the pole position, and UK at the 2nd place
- **Markit's PMI index** rose sharply, and recovered from the January slump. **ISM index** fell due to a further decline in service sector, but the level is still OK
- EMU reported a sharp increase, much more than initially expected
- The Chinese PMIs were close to unchanged
- Mixed among other EMs but in average a gain. Hong Kong was knocked down by Omicron. China to follow?

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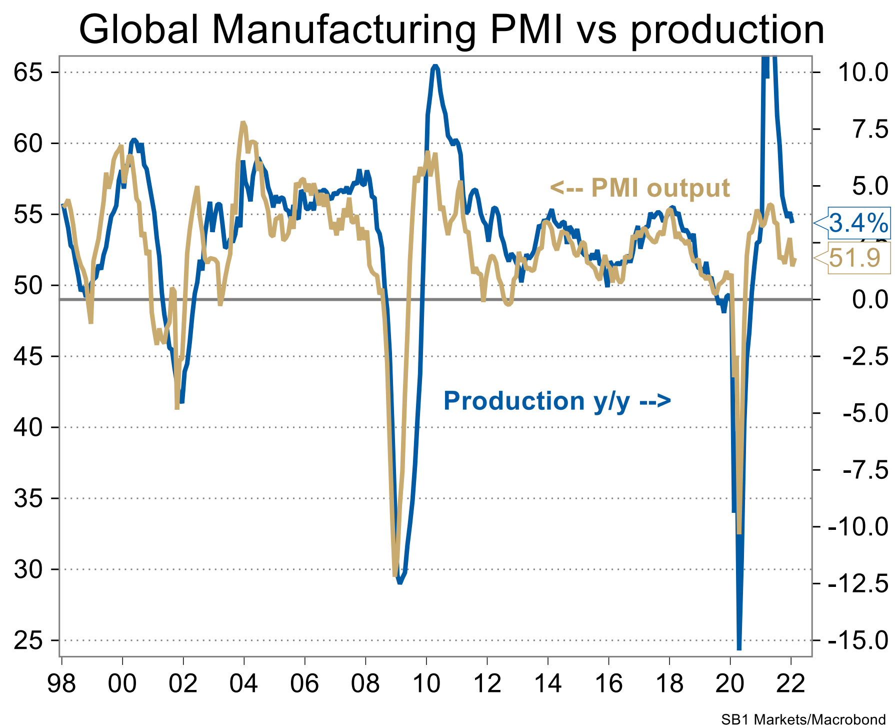
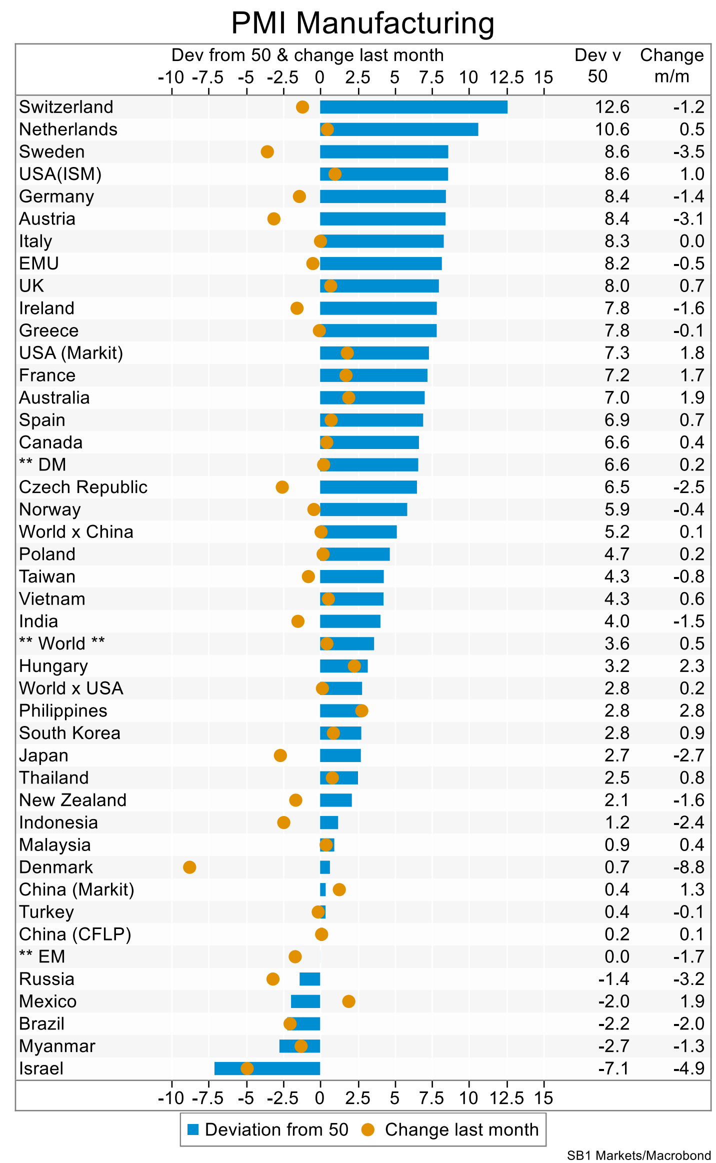
Manufacturing headline PMI up 0.4 to 53.6

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

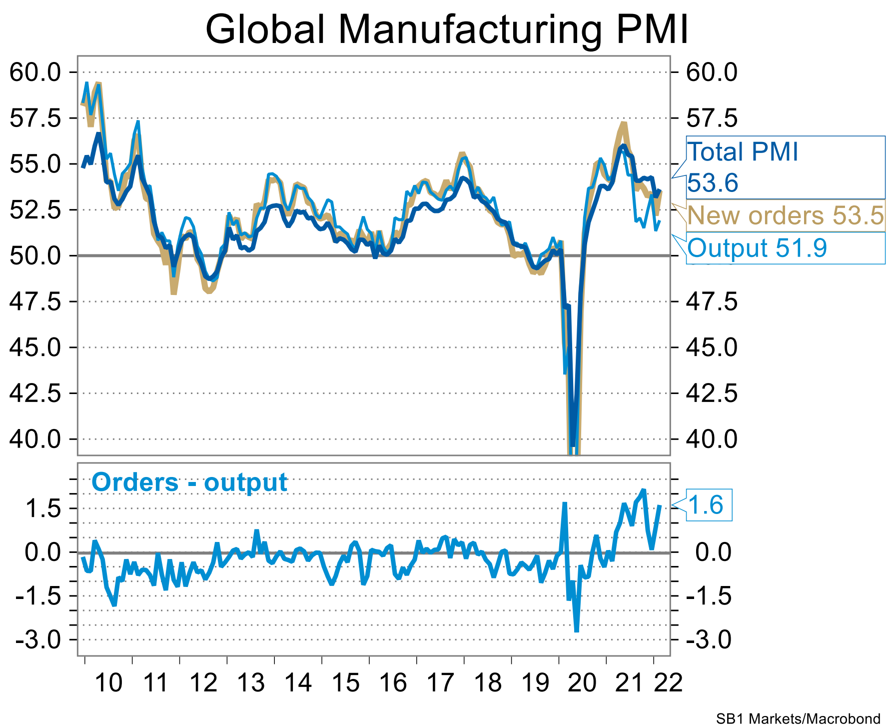


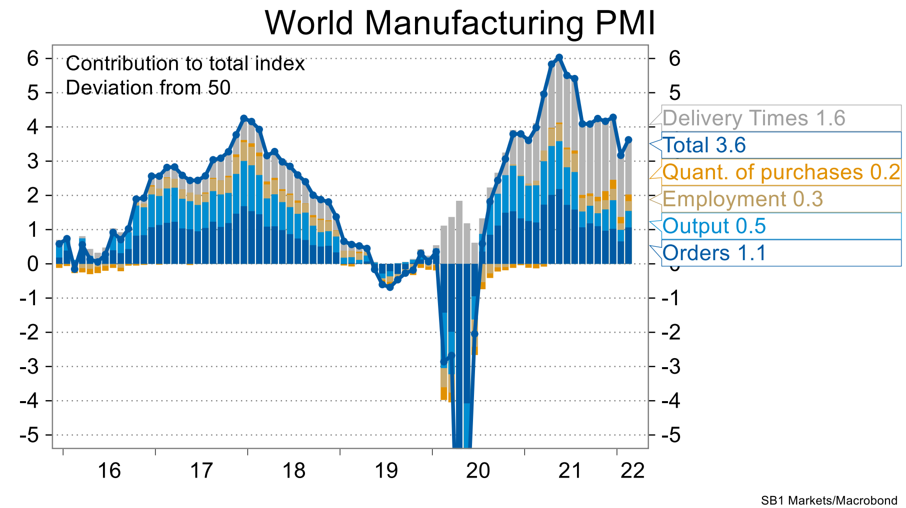


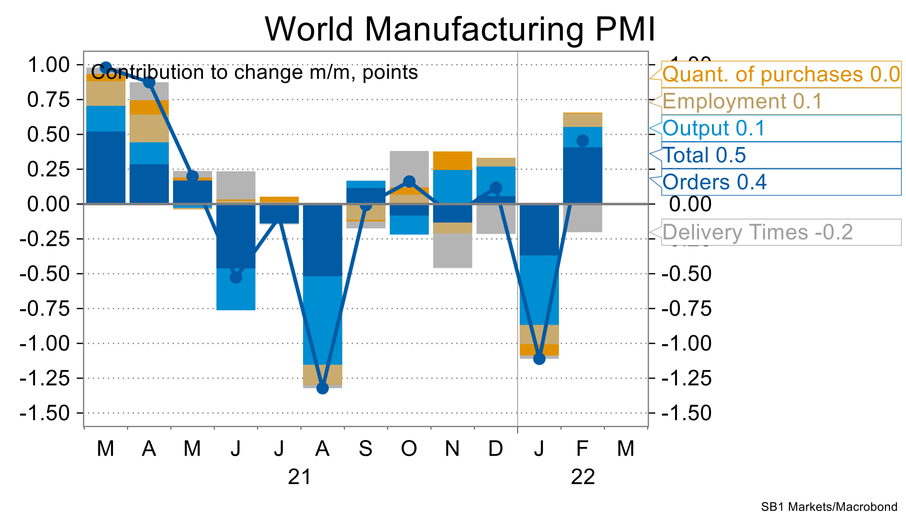
- The **global total manufacturing PMI** rose as we assumed in Feb. The output index gained 0.5 p to 51.9, 0.4 pp below that our forecast
  - » 54% of countries/regions reported higher total PMIs last month, up from 33%
  - » **European countries** dominate the top of the list, 10 of the 11 top positions!
  - » Both of the **Chinese PMIs** rose, but just Markit's with a significant figure
  - » **EMs** in average was unchanged. The Russian PMI fell, and is below 50
  - » **Norway** reported a minor decline – and the level is well above average

Delivery times index down, other components up

A positive mix

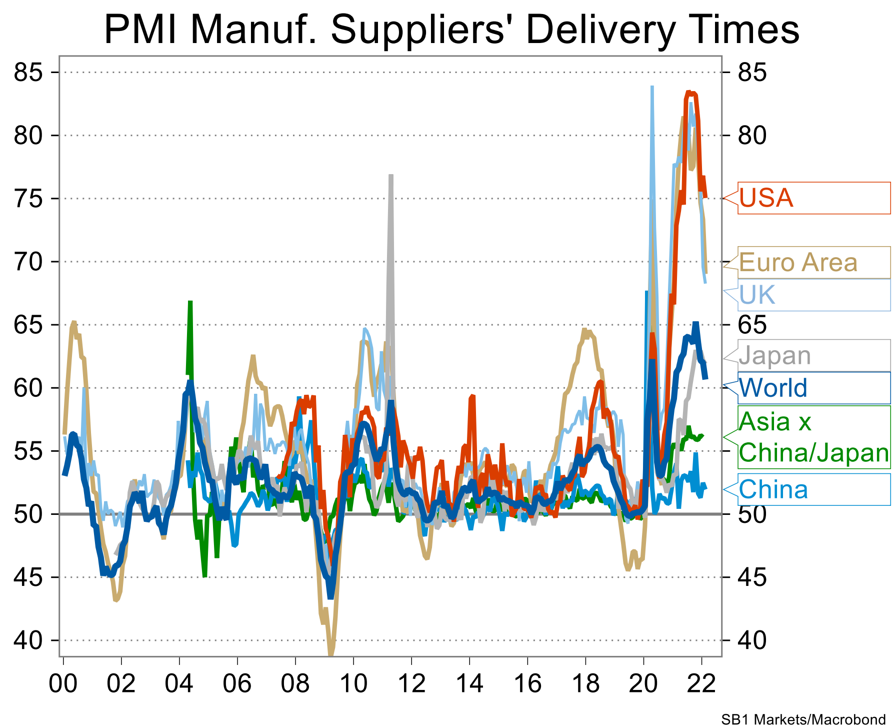


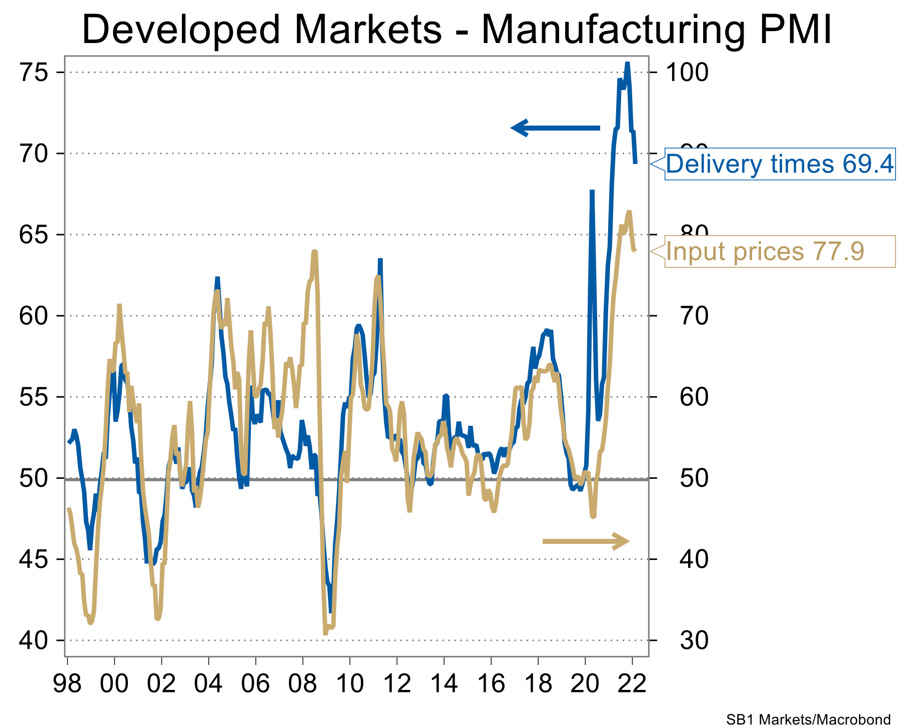




Some easing in the supply chains: The delivery times indices down from the peak

… but the delivery time index in the rich part of the world is still very high

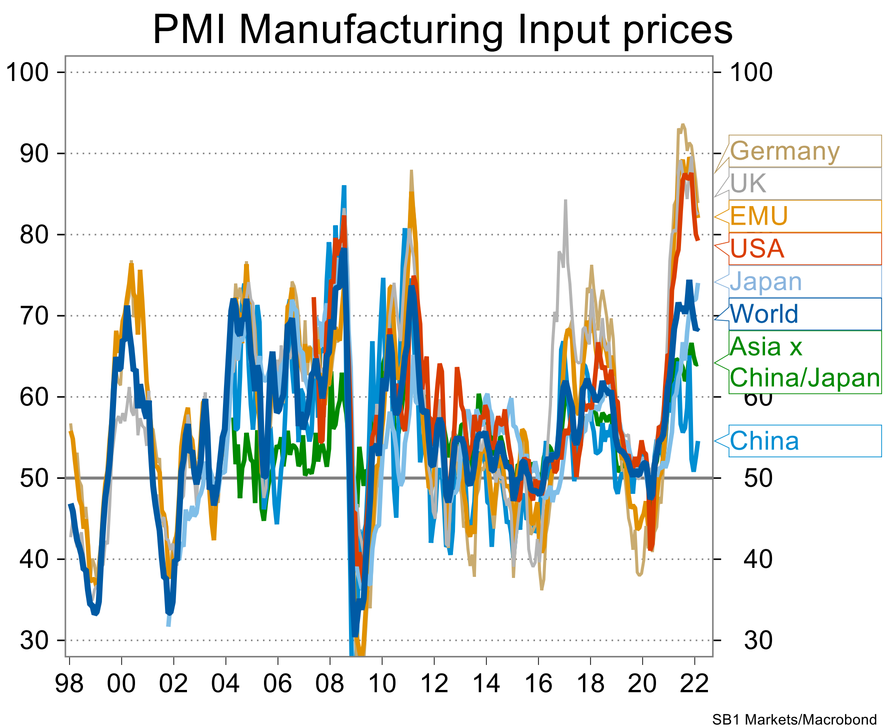


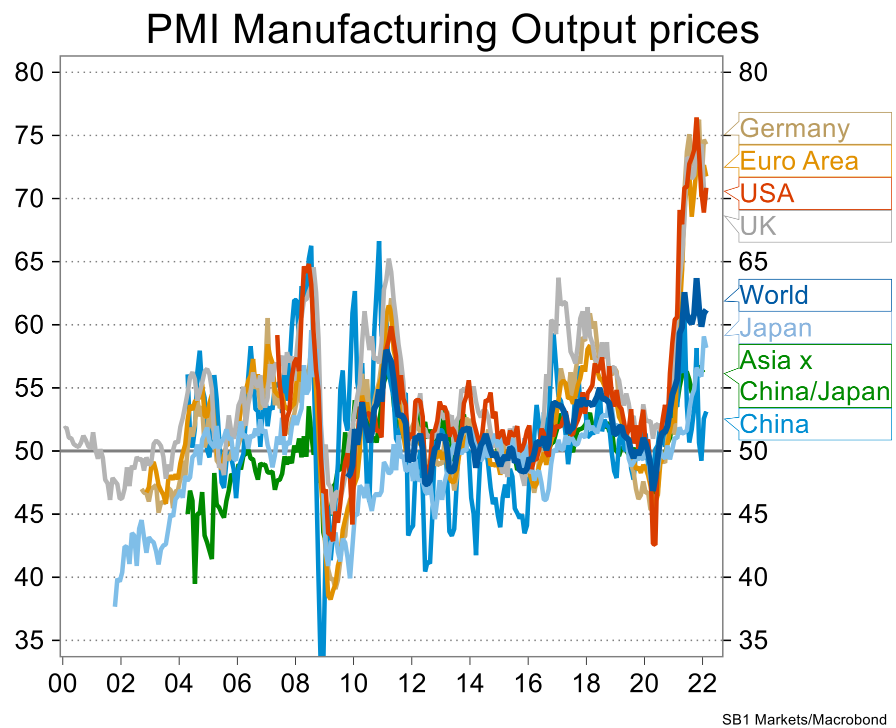


- The unprecedented increase in delivery times index in the rich part of the world ended in October (it was almost entirely rich man's problem). It remains at a high level and formally signals a continued rapid rise in delivery times – just a tad slower than at the peak
  - » However, this index has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

Manufacturing prices rose faster in February but slowed in DM (from a high level)

Price increases have been the rich man's problem – because demand has been strong here

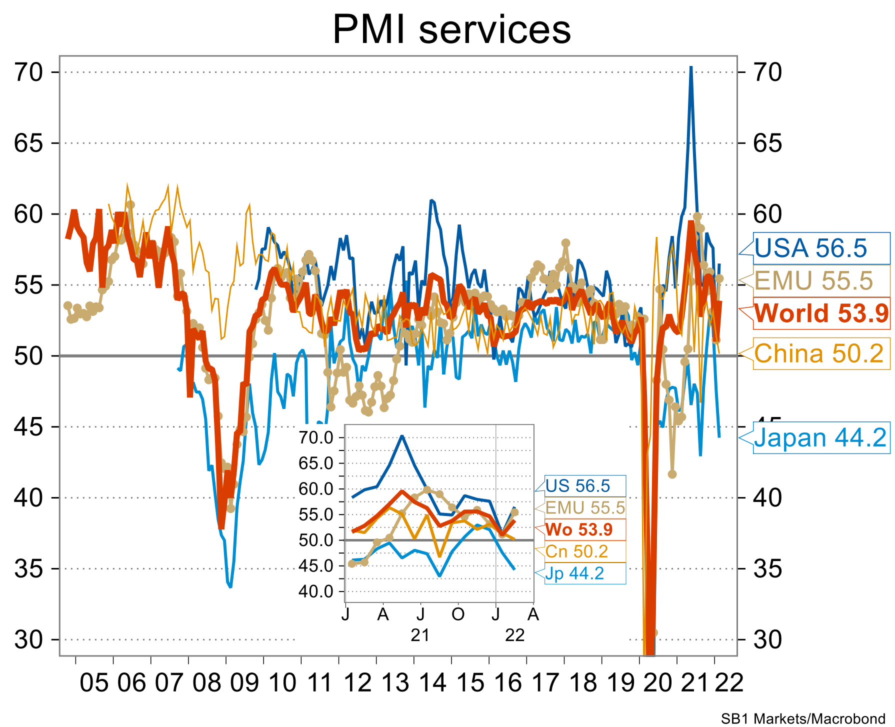


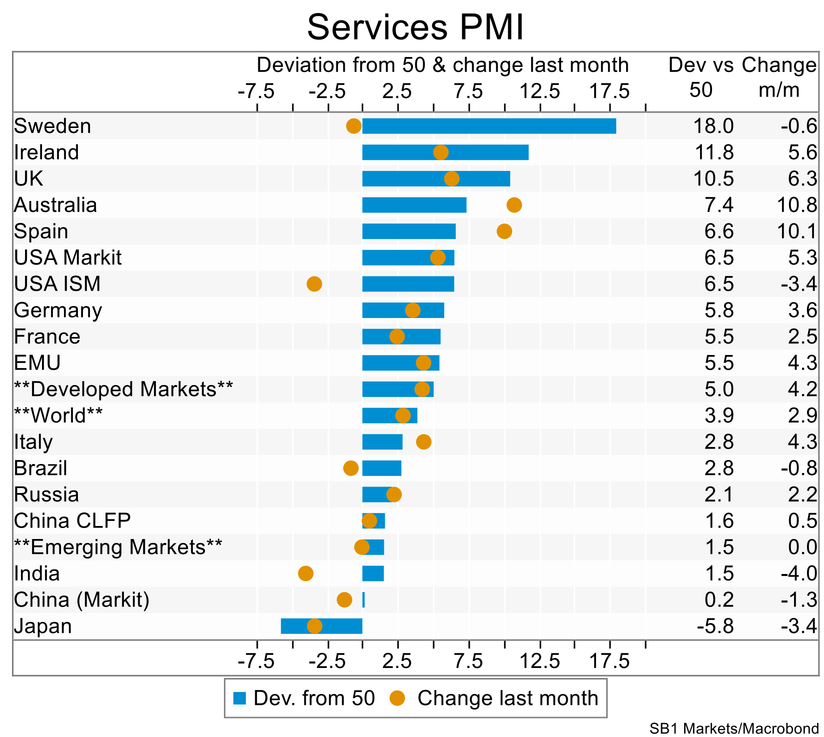


- Output prices rose faster in February

The service sector PMI regained 2.9 p of the 3.4 drop in January, up to 53.9

13 countries up, just Japan below the 50 line

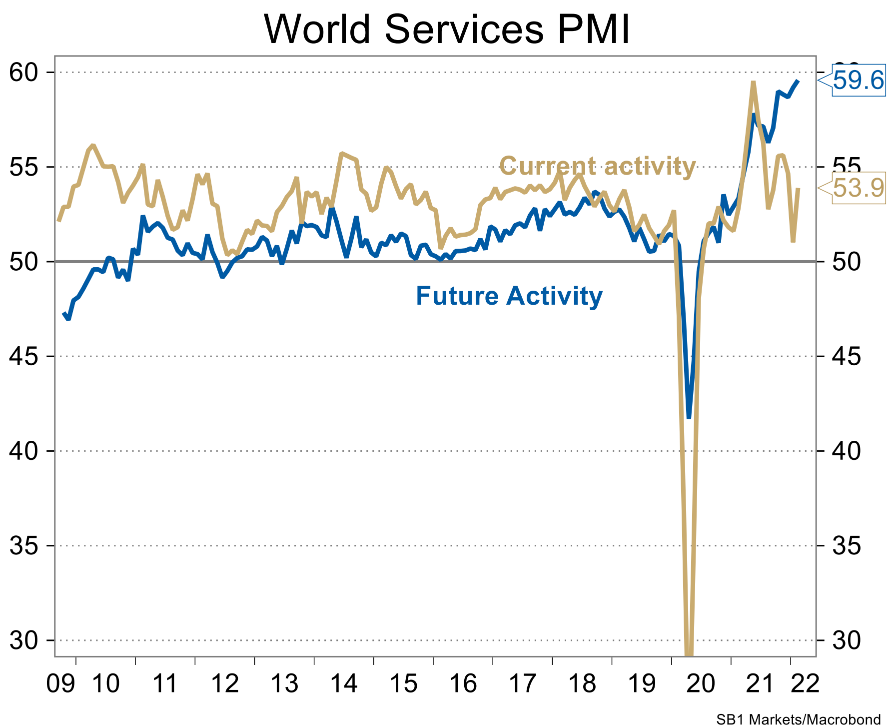


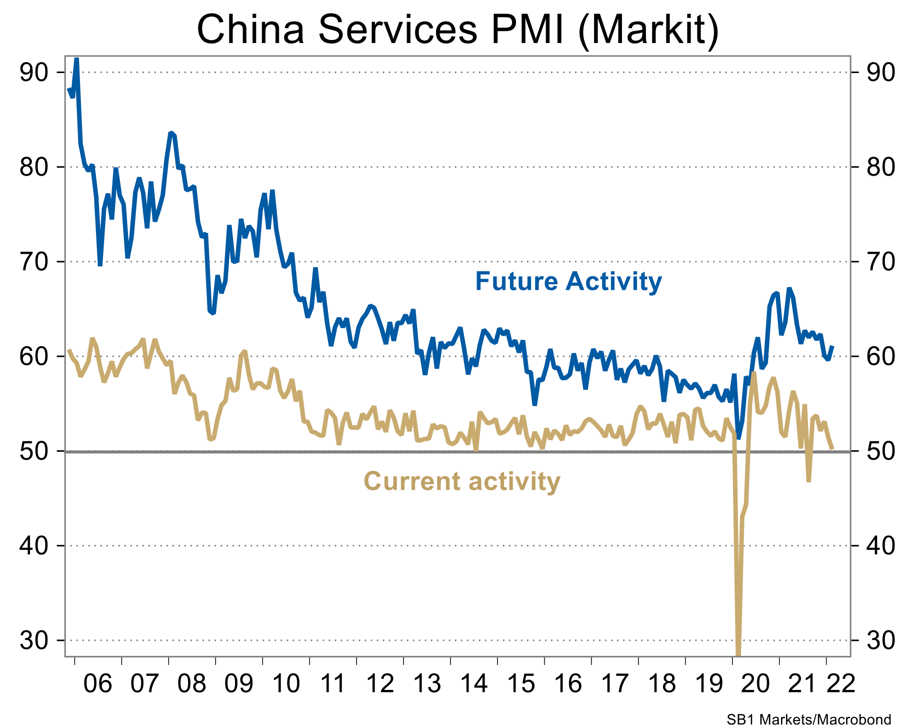


- **The global service sector PMI** rose to somewhat above the average level since 2010
- **Just Japan** reported a decline among **DMs**, while India reported a sharp drop, to a below par level
- The US services surveys converged to the same level, as Markit's index rose, and the ISM index declined

The service sector expects better times the ever before

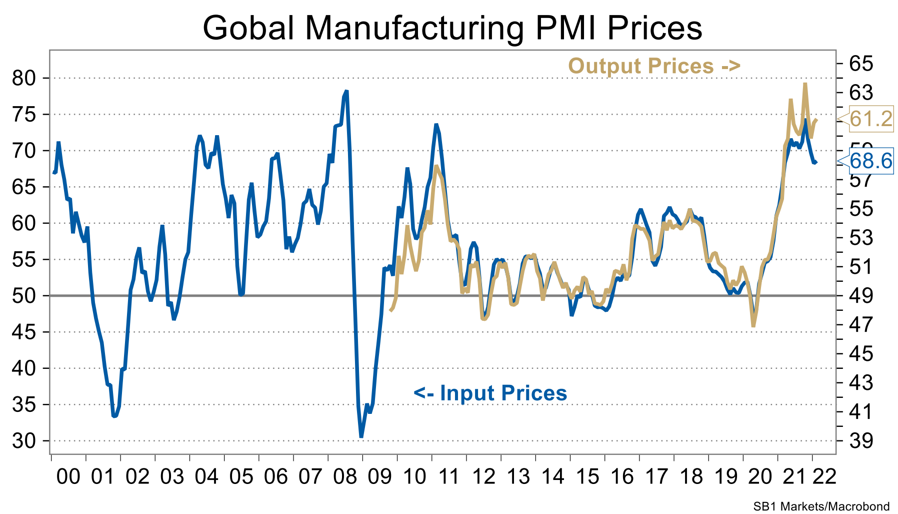
At least outside China – but even services in China are still rather upbeat

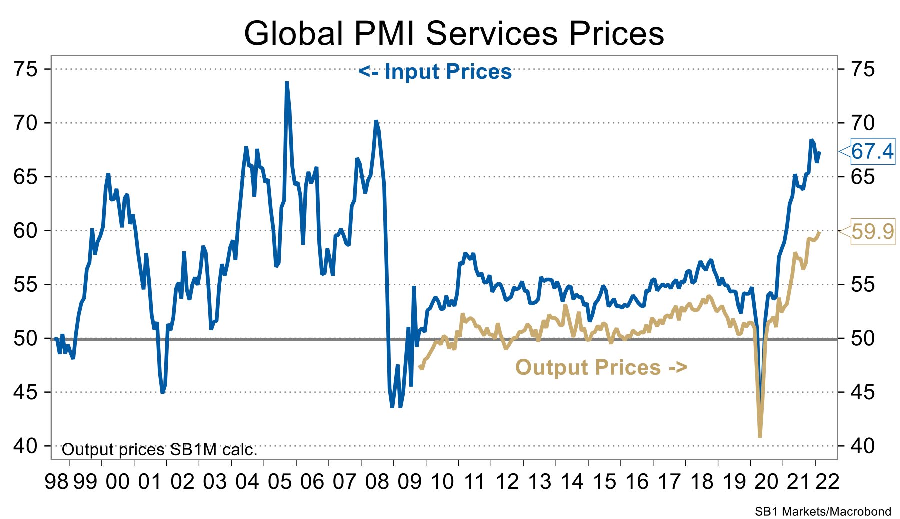


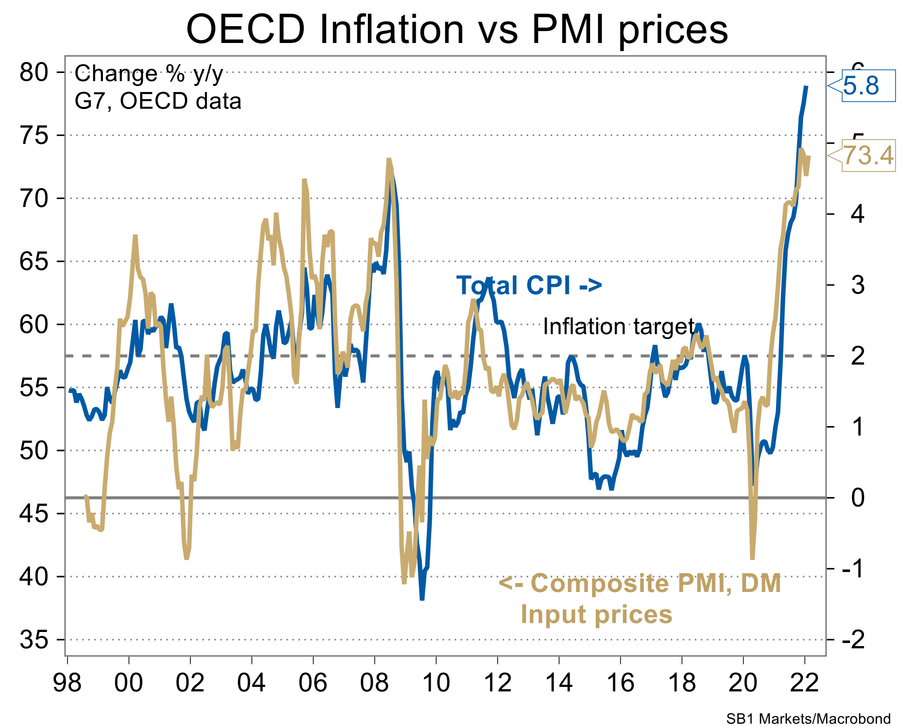


All aggregated price indices up in February

Still, in sum price increases have slowed somewhat since October. And then came the war…

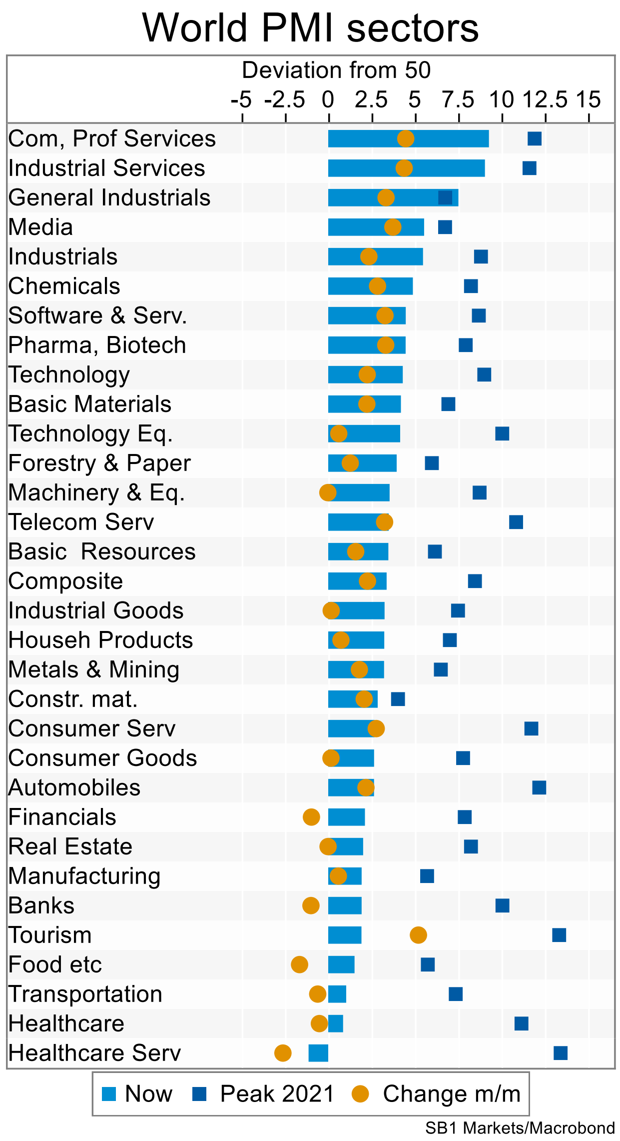


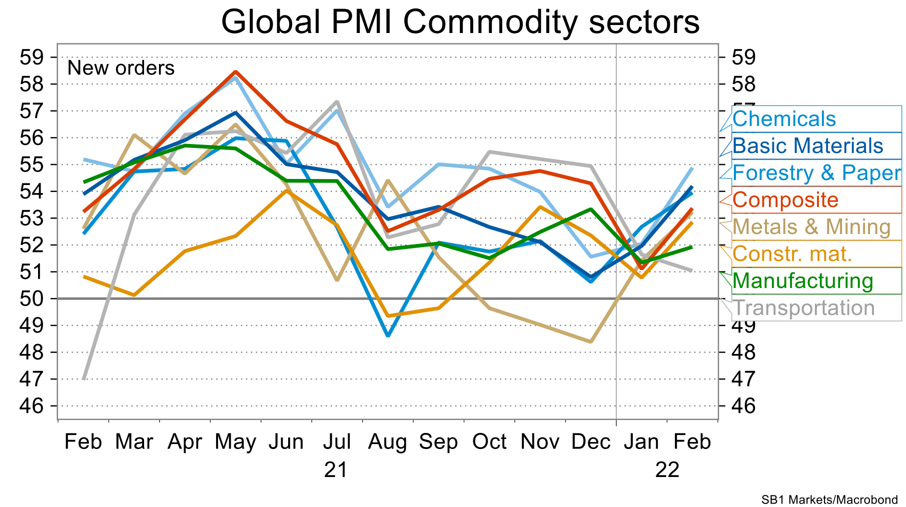


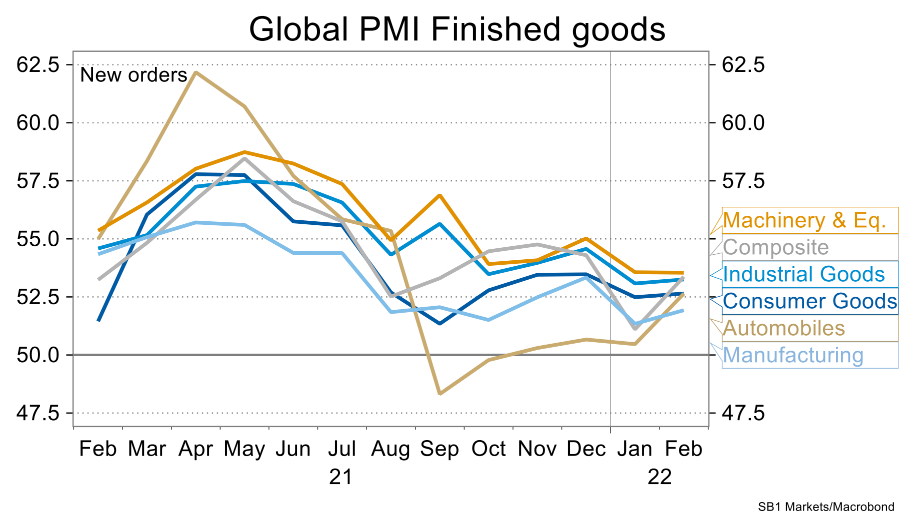


Most sectors reported stronger growth in February

… all sectors barring health services are above the 50-line

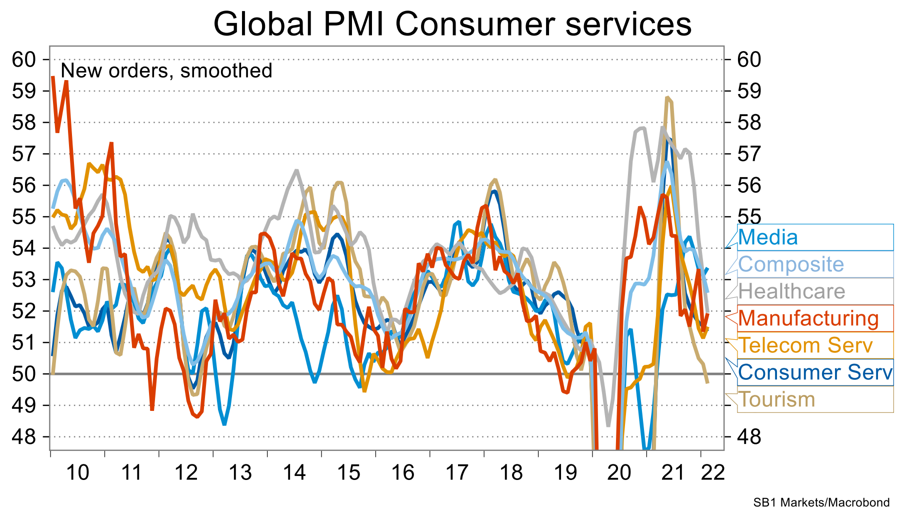


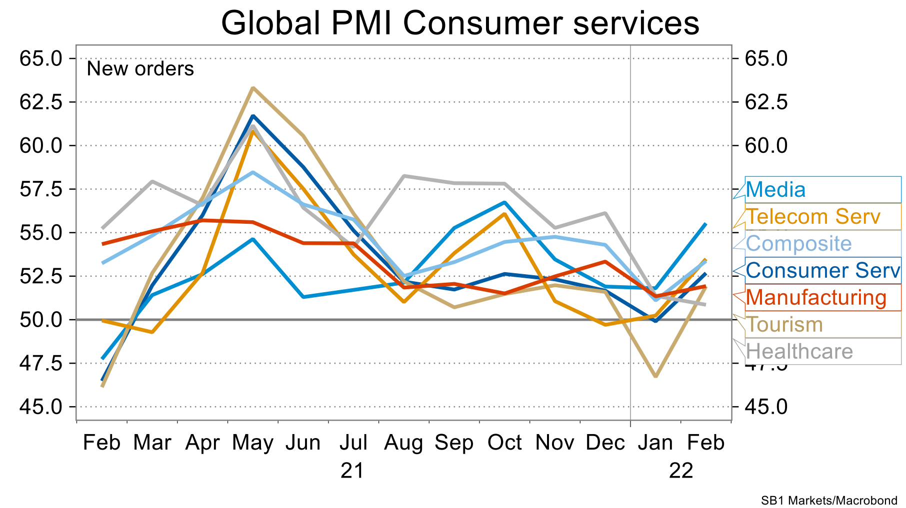


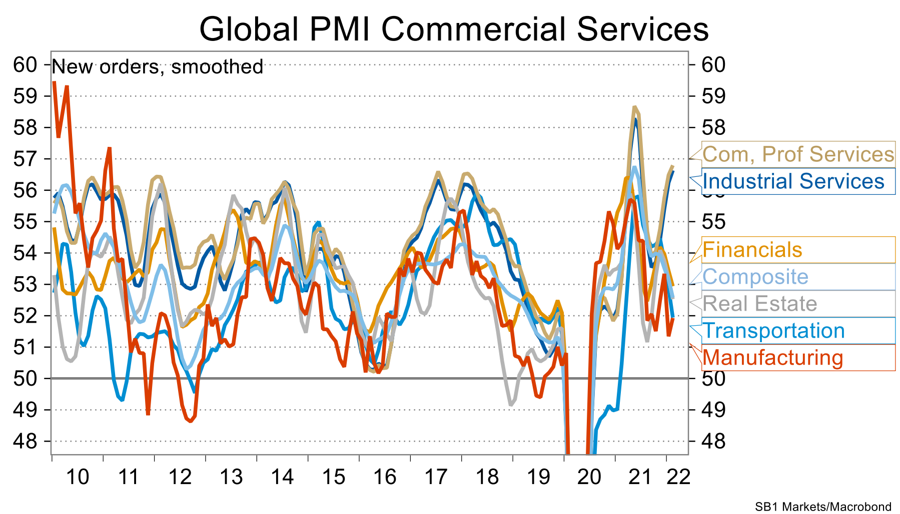


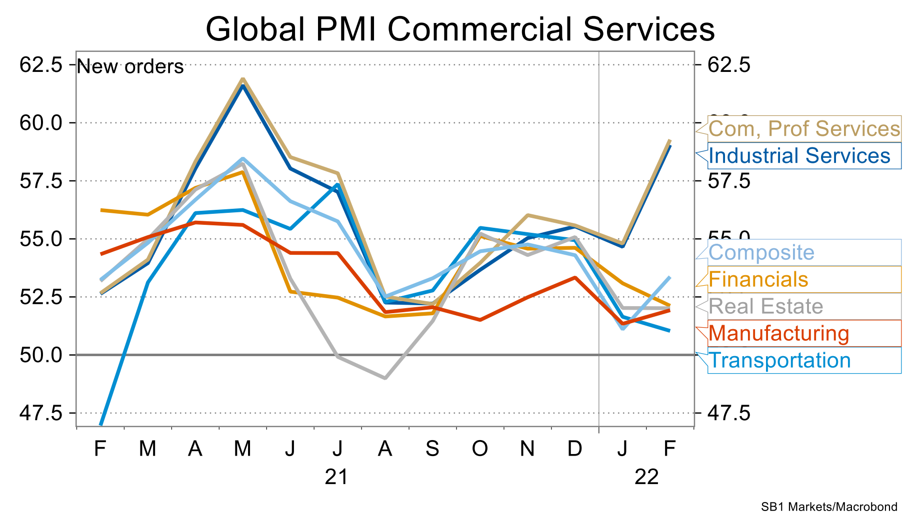
Services turned up in February, all of them – ex healthcare

And the uptick in September and October was rather broad









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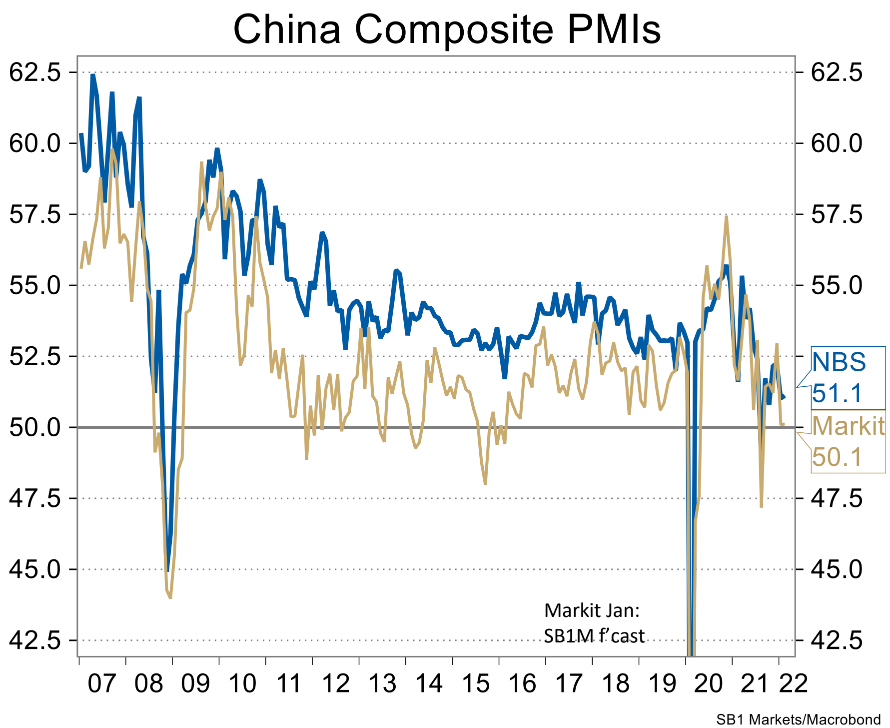
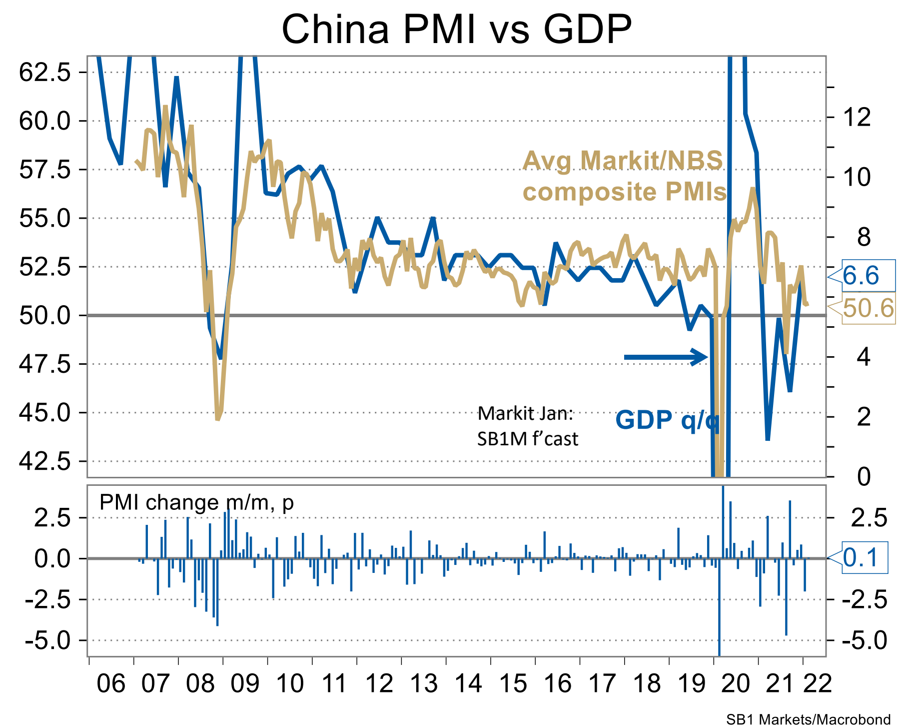
Both PMIs close to unchanged in February, level well below par

… but a sharp slowdown vs. growth recent quarters is not signalled

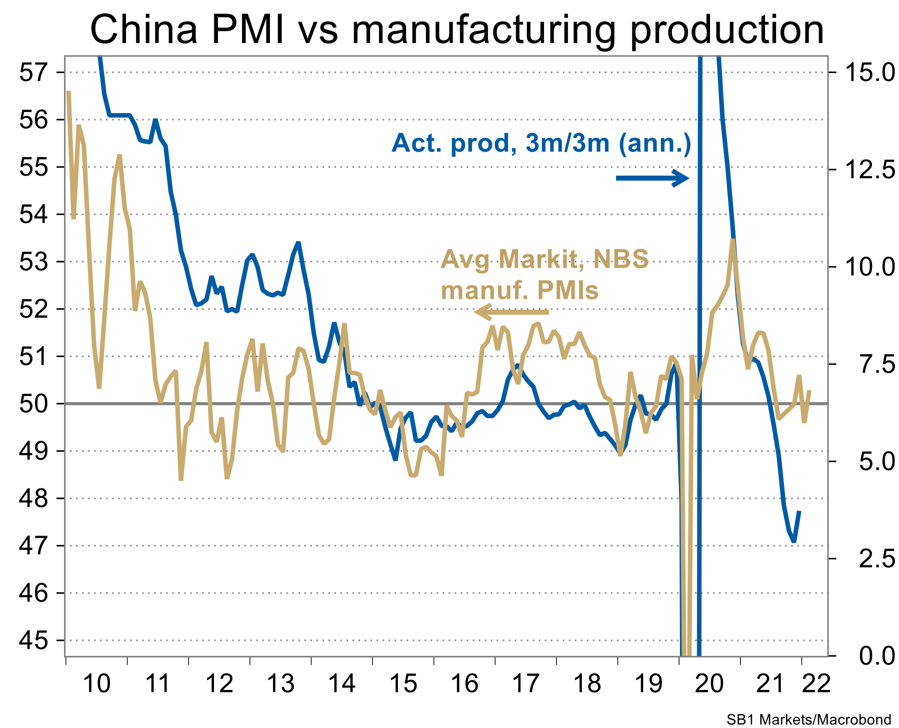




- The **CFLP/NBS composite PMI** rose 0.1 p to 51.1
- **Markit's composite PMI** was unchanged at 50.1. The service sector reported much slower growth, while the manufacturing sector reported higher growth
- **The average of the two PMI data sets** was unchanged at 50.6, well below an average level – which signals growth below trend in Q1

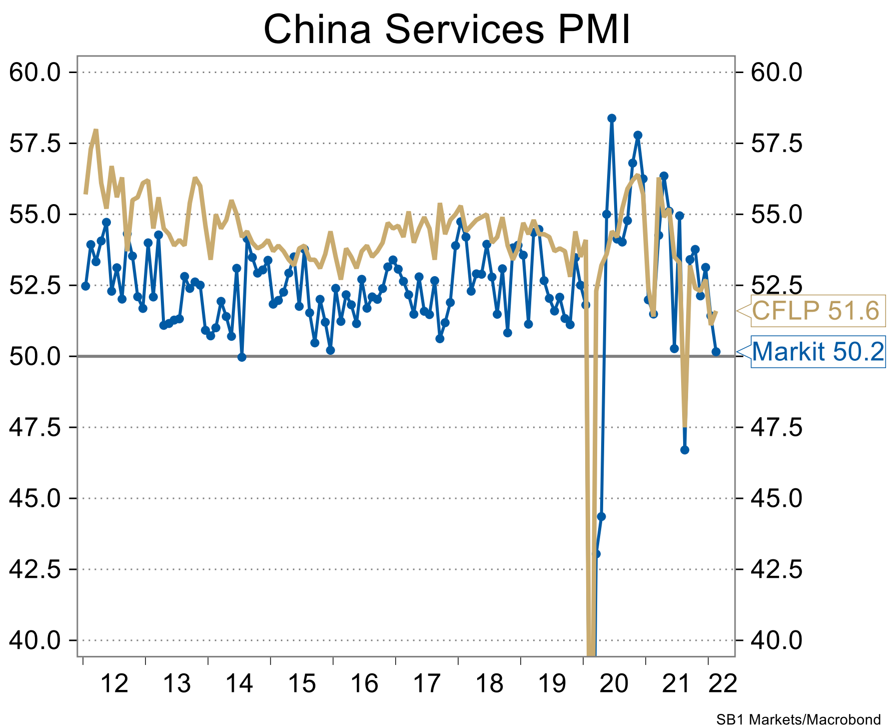
Both manufacturing PMIs up in February, Markit's the most, to above average

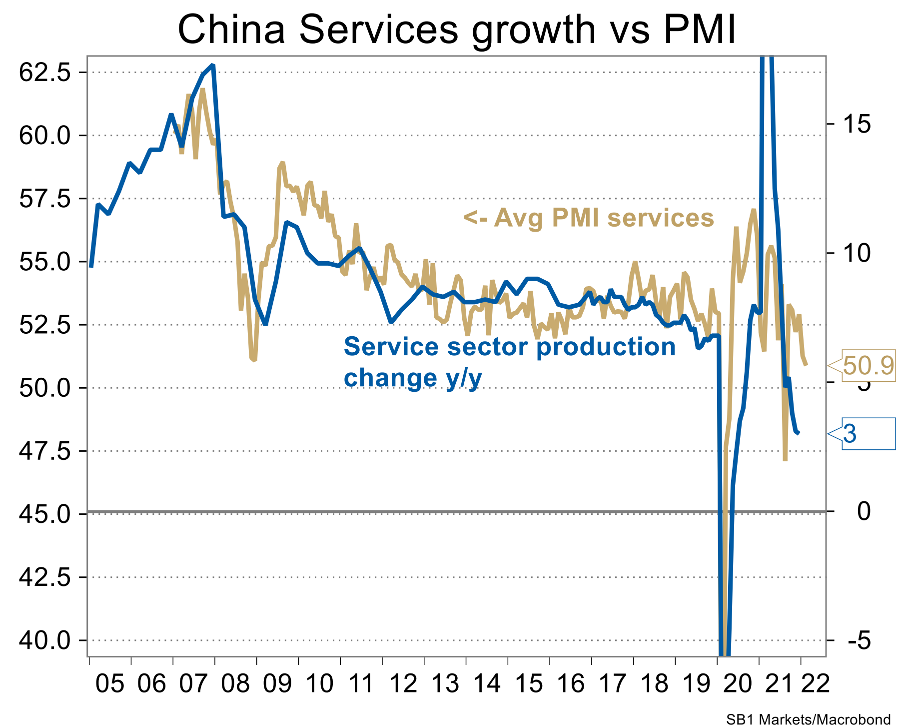
Trend growth is signalled, the PMIs are close to an average level (in average)



- The **NBS/CFLP manufacturing PMI** added 0.1 p to 50.2, while **Markit's PMI** gained 1.3 p to 50.4
  - » In sum, the two indices were better than expected – in average up to an average level (vs the past 10 years)
  - » The NBS survey is more concentrated vs large state-owned companies, Markit's vs 'smaller' private-owned companies

Markit's services sharply down in February as China fights a contagious variant

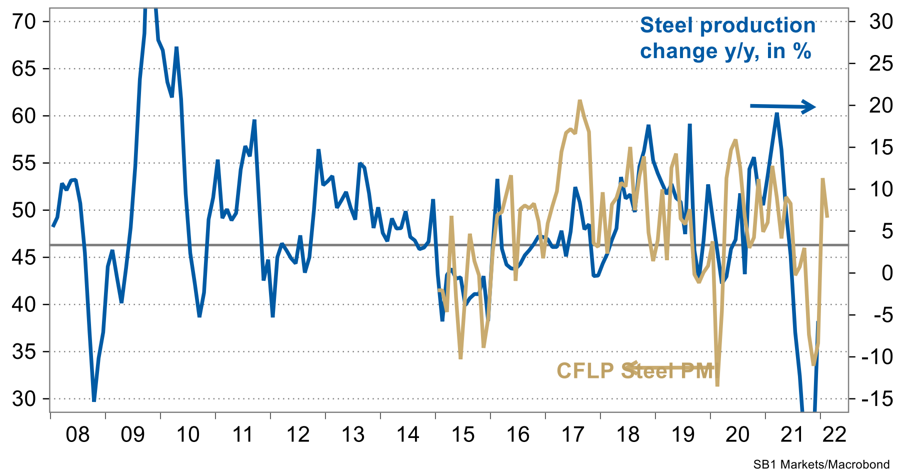




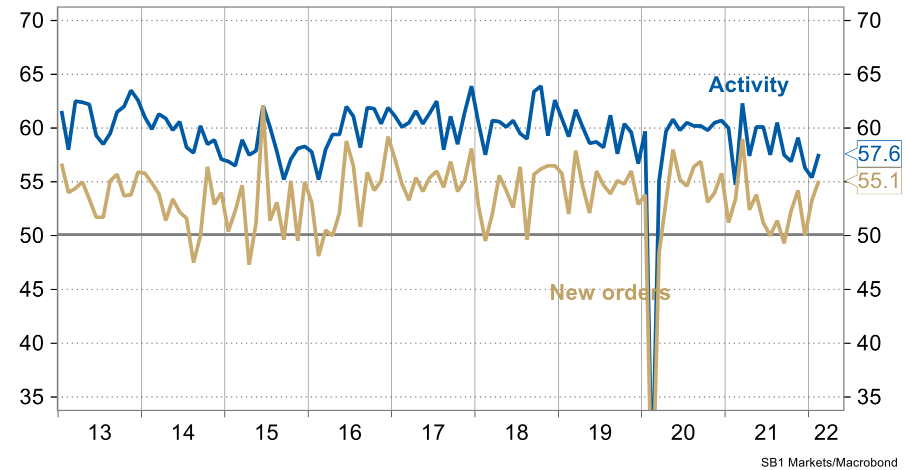
The steel PMI confirms the sharp rise in Dec steel production. Constr. up too

The steel sector PMI down in Feb but still at an OK level. No signs of weakness in construction either

China Steel Production vs PMI

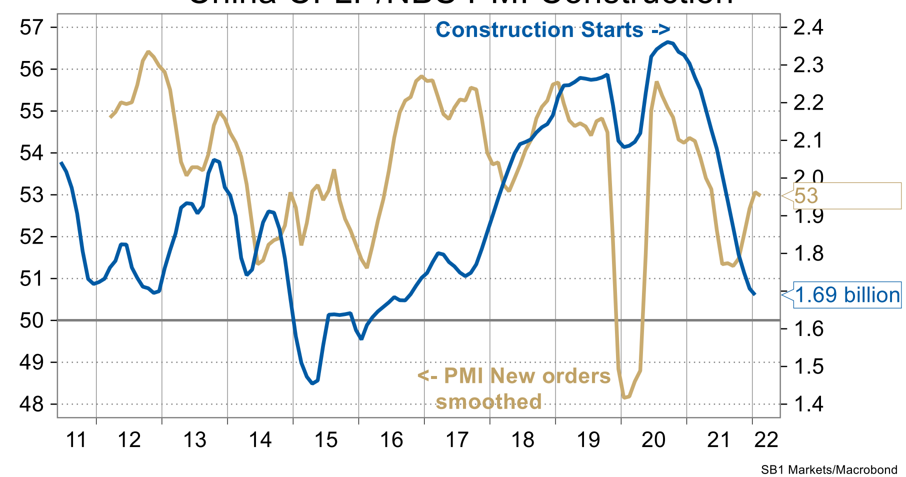


China CFLP/NBS PMI Construction



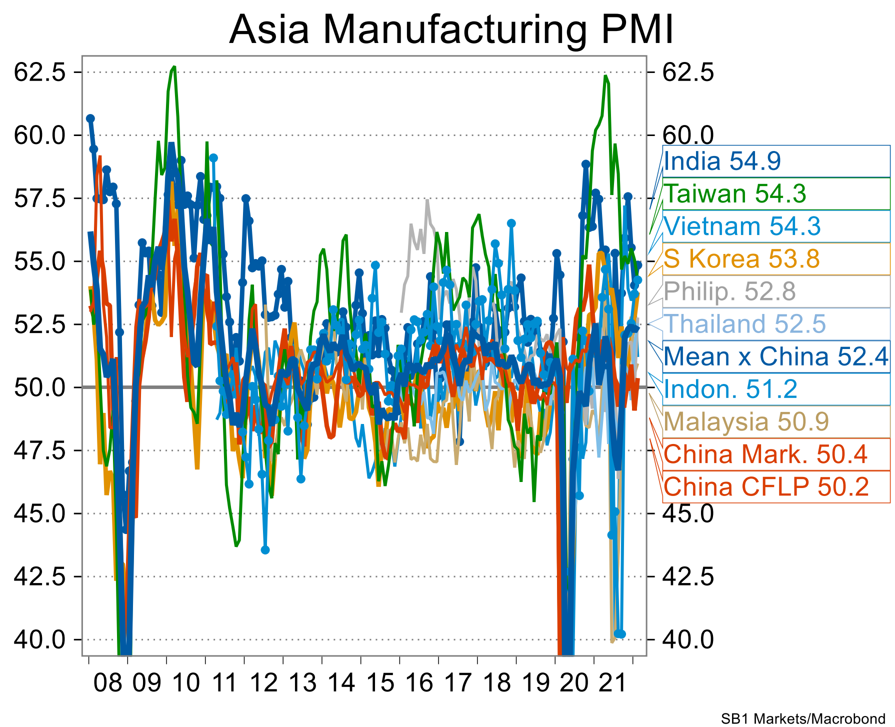
- The sudden lift in steel production in December was surprising. However, the PMIs confirmed that something probably happened, after the fact
- The **Evergrande++** debacle (several builders are now struggling) has so far not led to a harsh setback in the overall Chinese construction industry, according to the construction PMI. Growth in orders slowed during H1 but gained pace again in H2, and into Q1
  - » Regrettably, the correlation between PMI and actual construction starts is rather weak

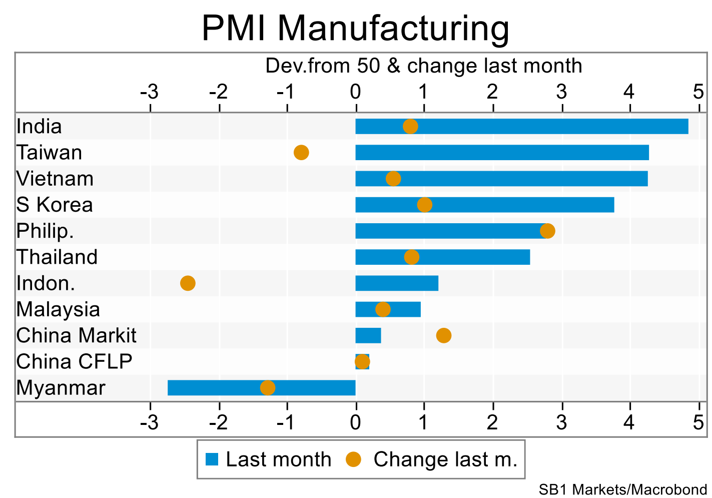
China CFLP/NBS PMI Construction

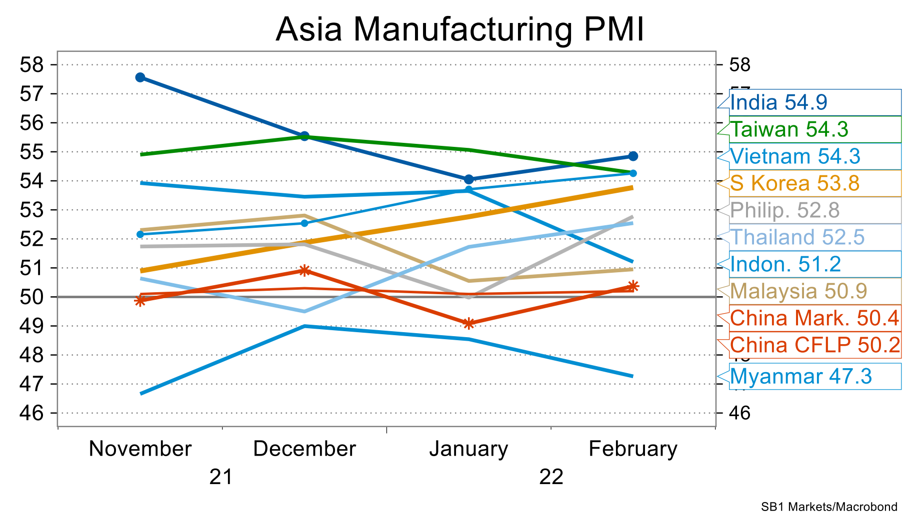


Asia x China/Japan: Most moved up in February, just Myanmar below the 50 line

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







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

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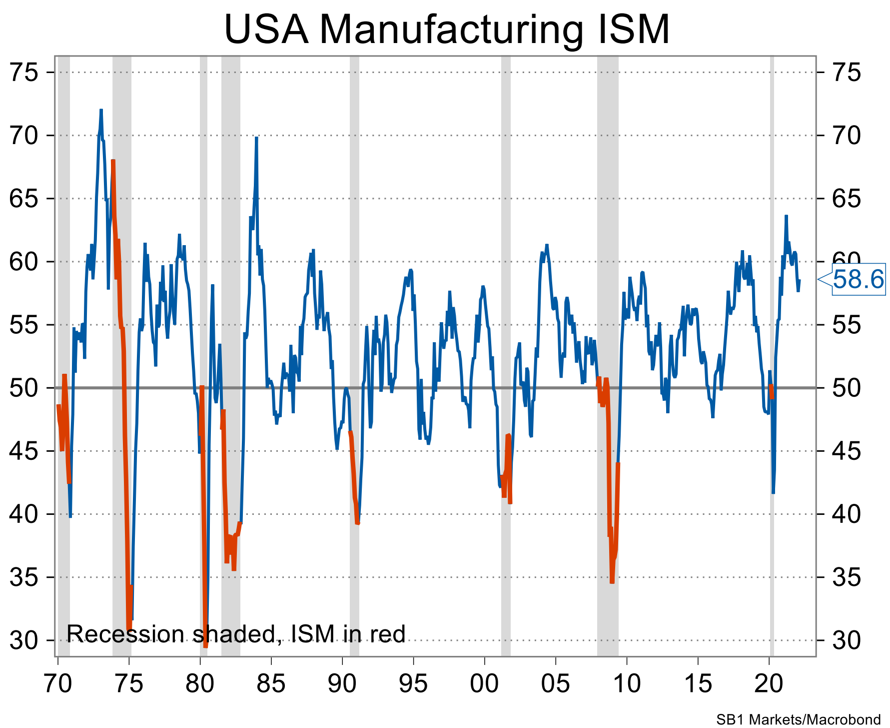
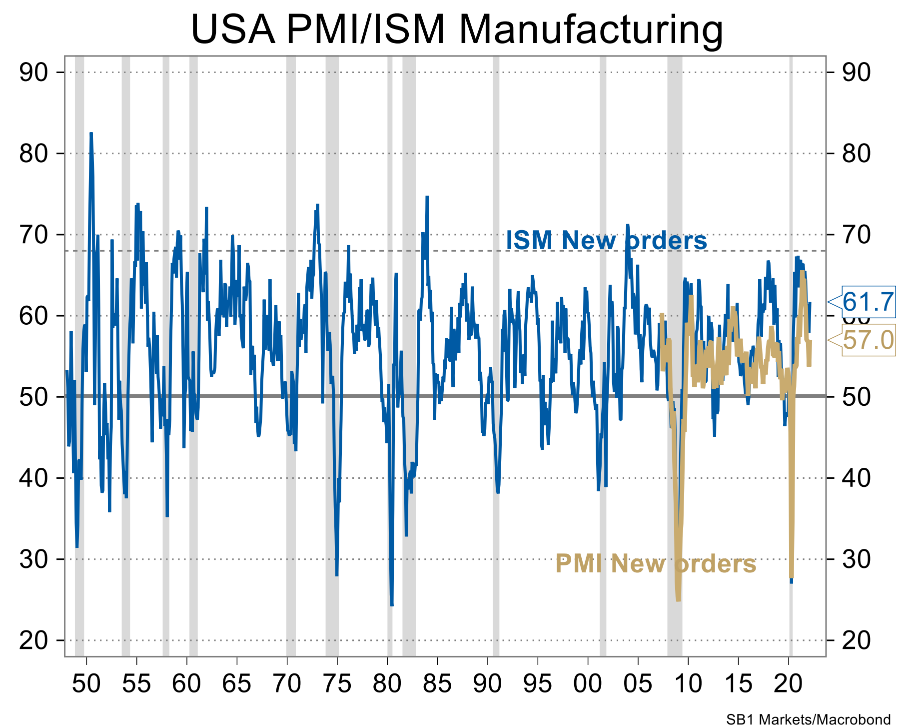
Manufacturing ISM up in January – and the level remains high

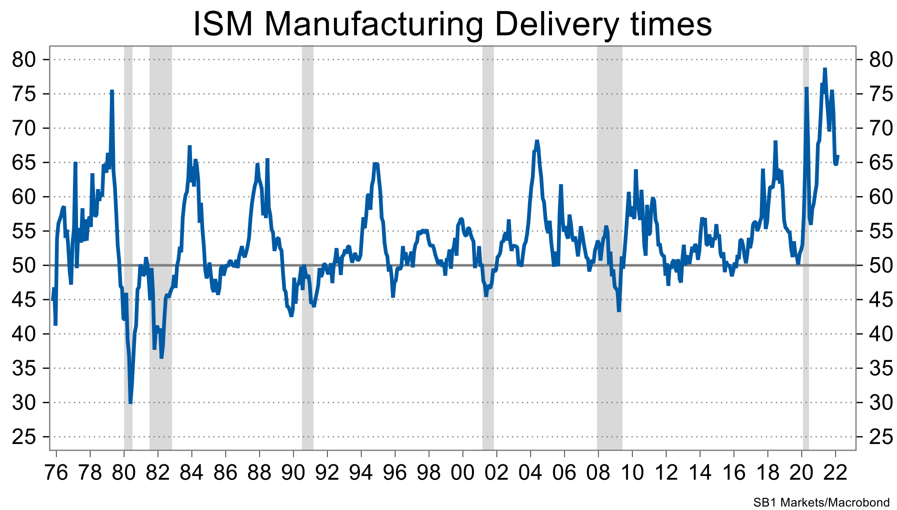


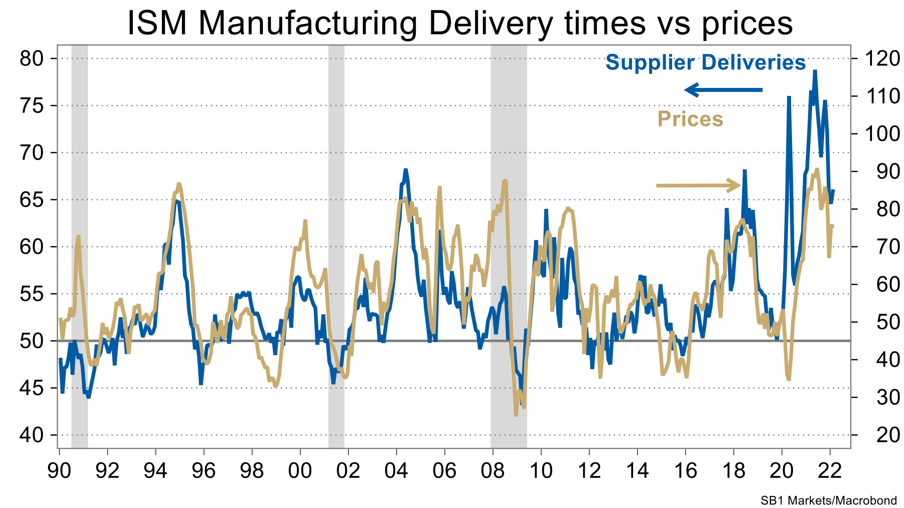


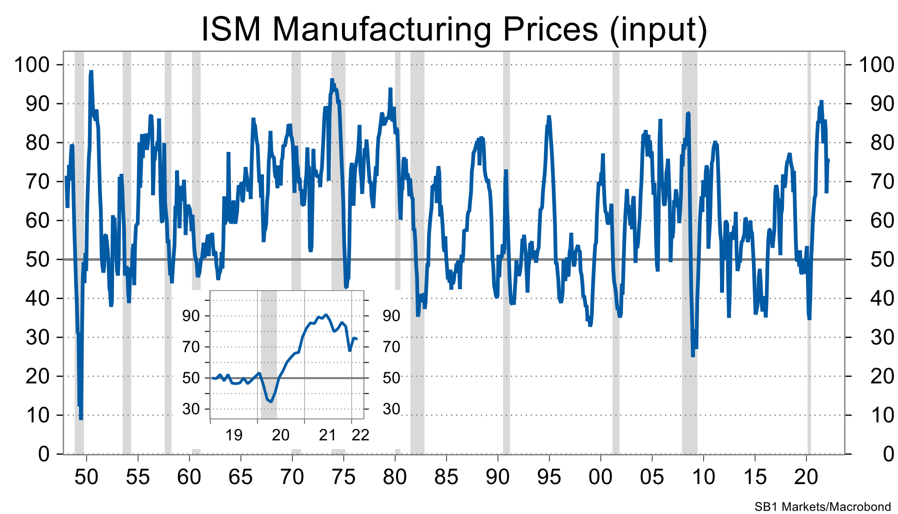
- The **ISM manufacturing index is trending down but the level remains far above average levels**
- Last month, 16 of 18 manufacturing sectors reported growth (14 the prev. month), 1 sector reported a decline (wood products)
  - » The **new orders** index gained 3.8 p to 61.7, far above an average level
- 33 commodities were up in **price** (from 36, at the peak 56 commodities). 6 were down in price (from 7), mostly steel products. The price index fell marginally
- 11 commodities were reported in **short supply,** down from 16 (and way below the peak at 50 commodities a few months ago)
- **In their comments**, companies were not are complaining about labour shortages anymore. Comments are generally very positive vs the growth outlook

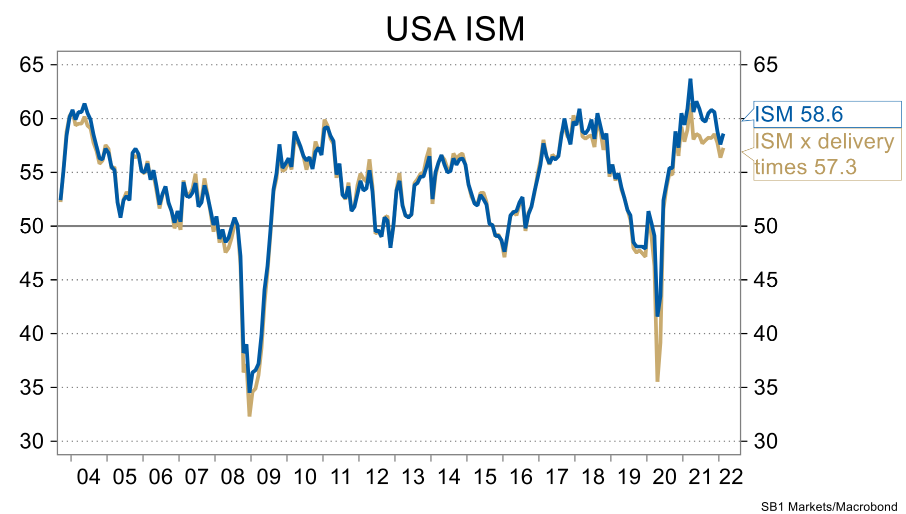
The delivery index not further down in Feb, and input prices still increasing rapidly

Still, both indices are down from H2 peaks









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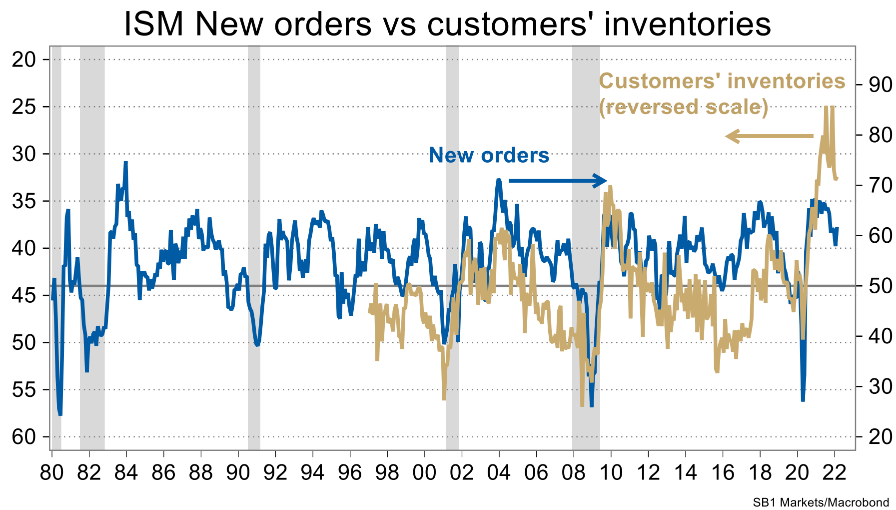
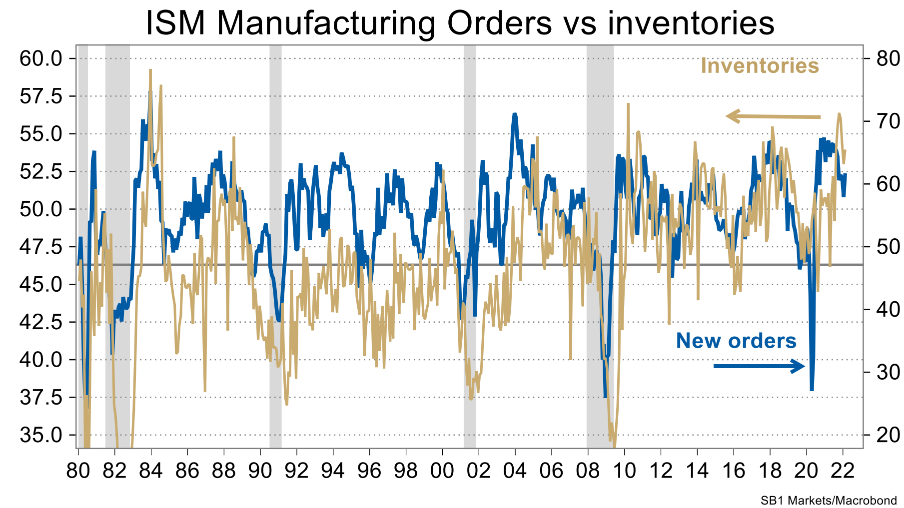
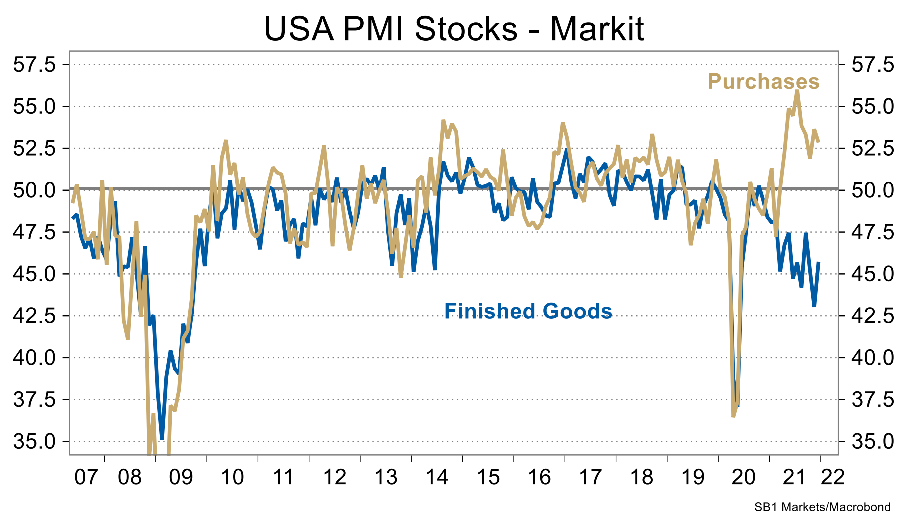
New orders still going strong, customers' & finished goods are very low

Signals further growth in activity in the manufacturing sector



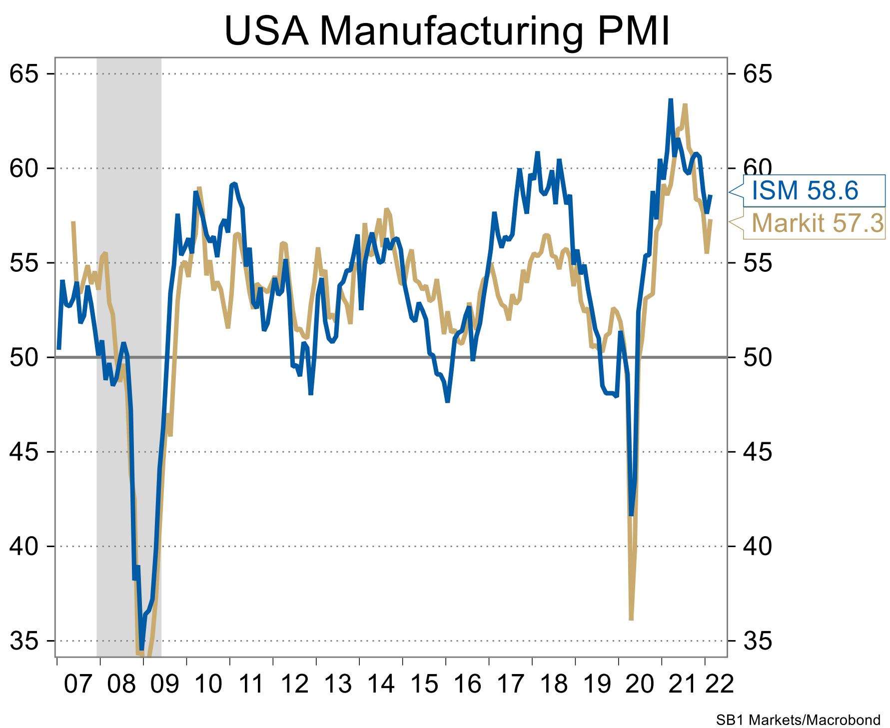


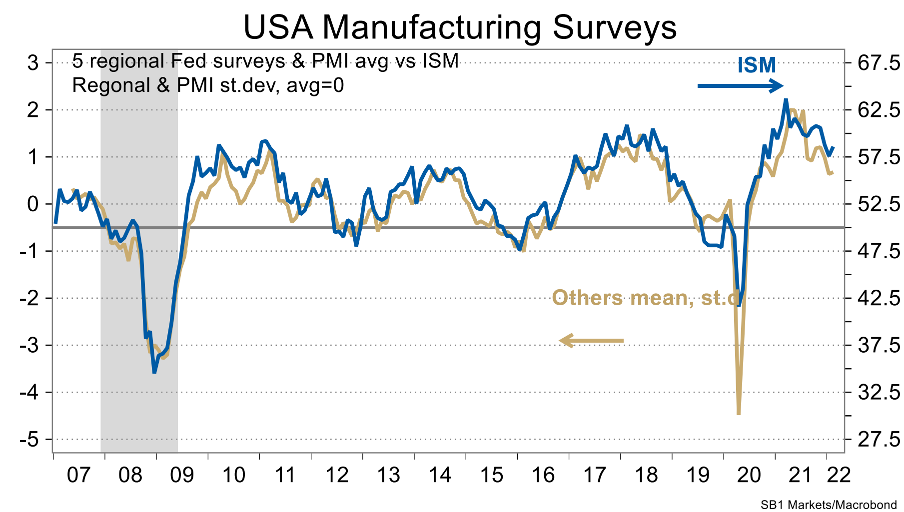


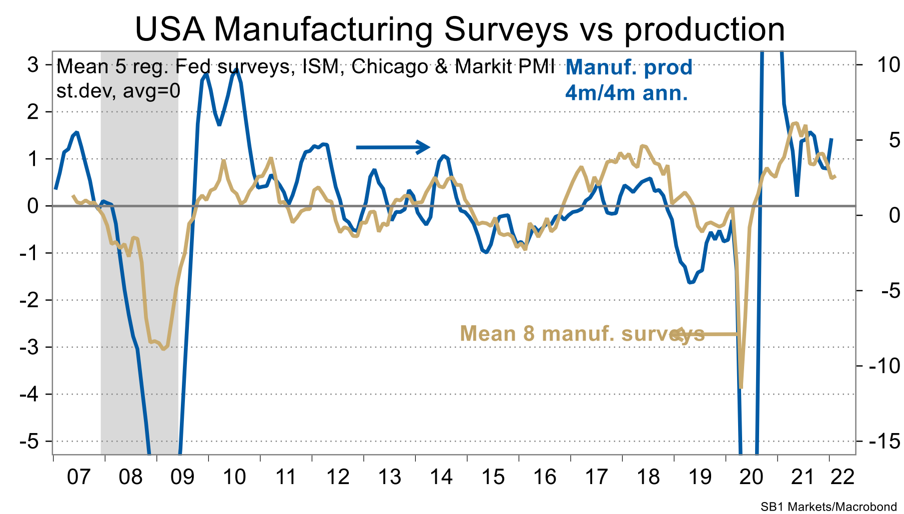
- Growth in manufacturers' **own inventories** (of purchases, <u>not</u> finished goods) are still higher than normal. Inventories must be pretty rich:
  1) Production is running slower than expected, due to weaker demand or due lack of <u>some</u> components, labour, transport services etc.
  2) <u>Companies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

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

Sum of manufacturing surveys: Down in January, still above an average level



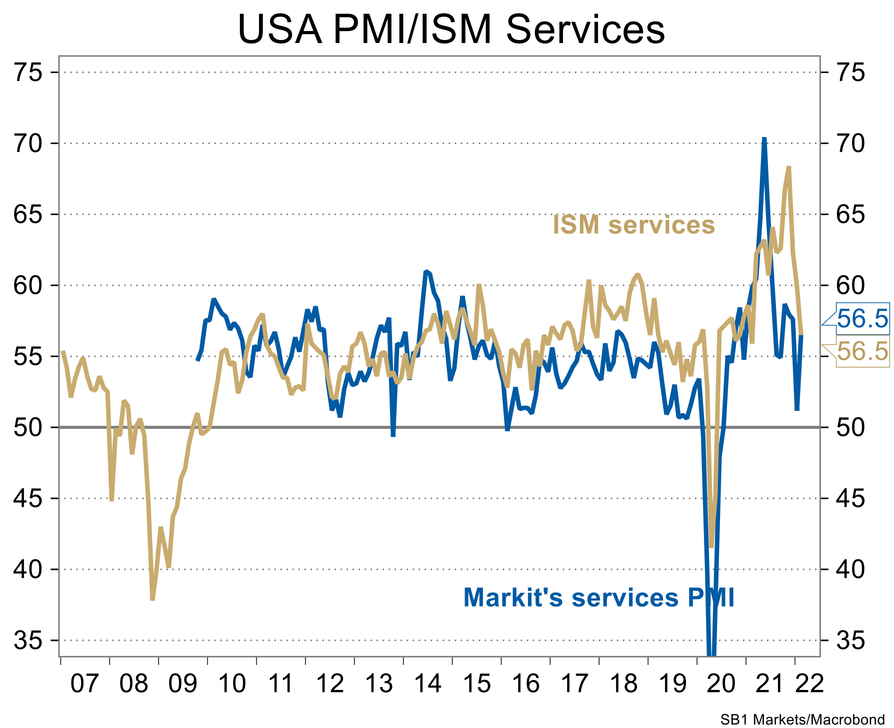


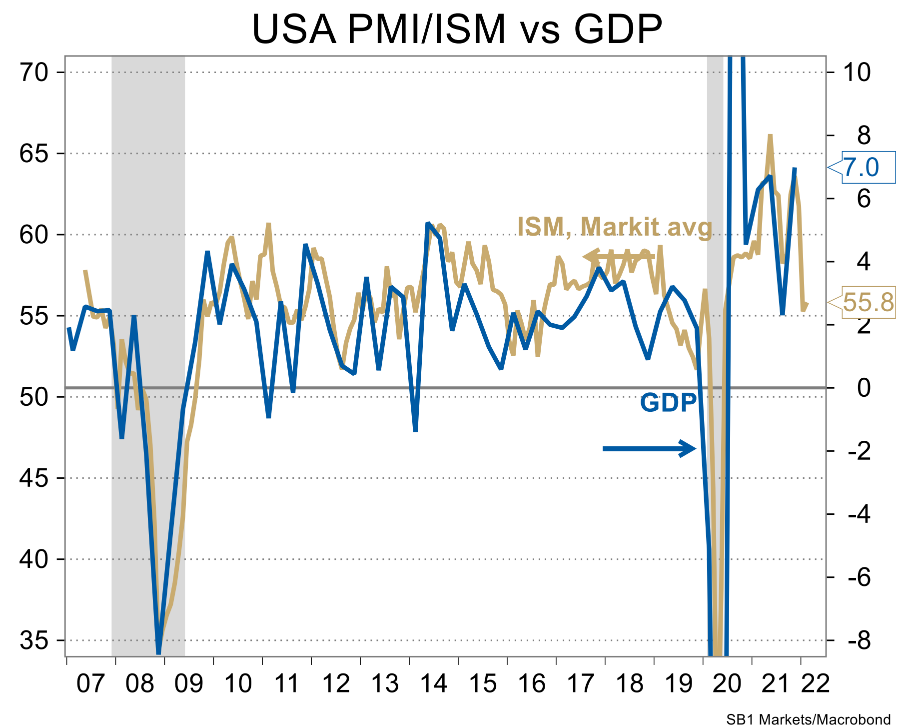


- Actual manufacturing production is on the recovery track and it is finally above the pre-pandemic level
- We expect a continued growth the coming months. The inflow of core durable goods orders are well above the pre-corona level
  - » Investments will probably climb further while goods consumption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

Services ISM down 3.4 p – but the level is still decent, at 56.5 – as Markit's PMI

Markit's service PMI was confirmed sharply up

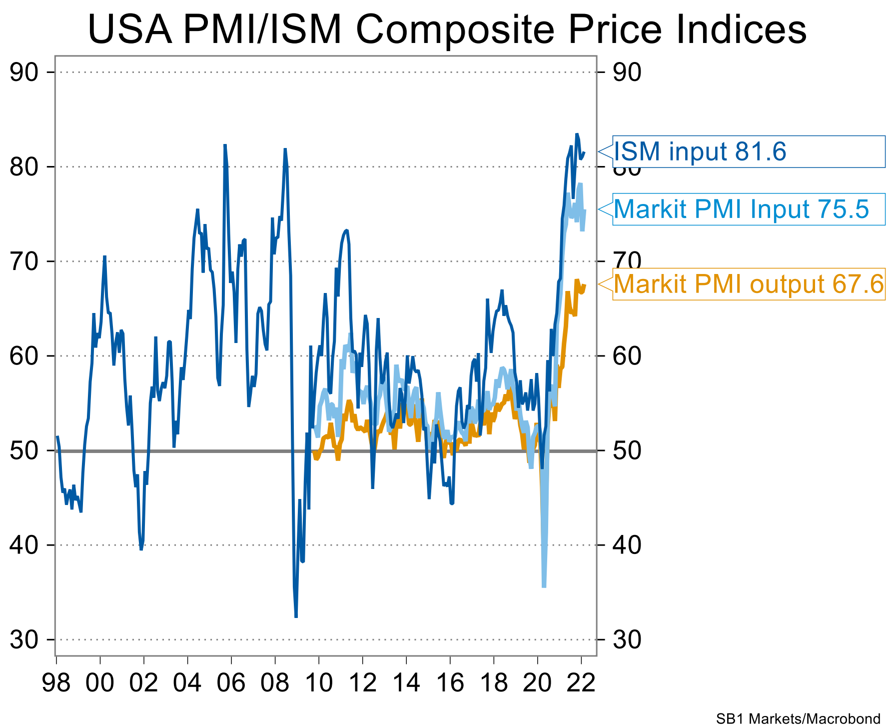


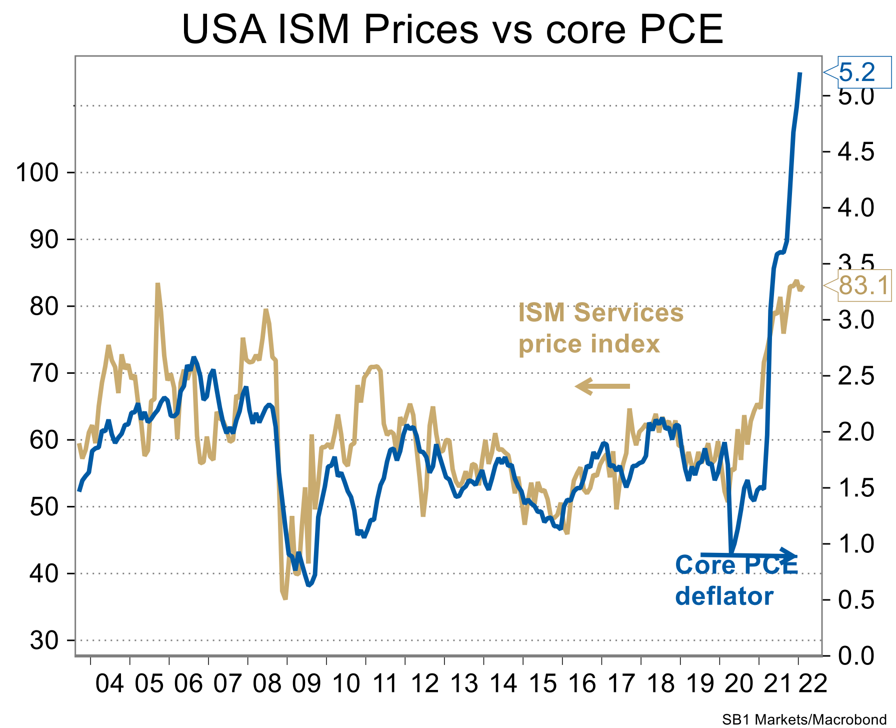


- Together with their manufacturing indices, the **PMI/ISMs** signal a 2.5 – 3% GDP growth rate
- **Prices indices** are still signalling rapid price growth (check next page), for input prices as well as output prices (in Markit's PMI)

Price indices are not yielding by much

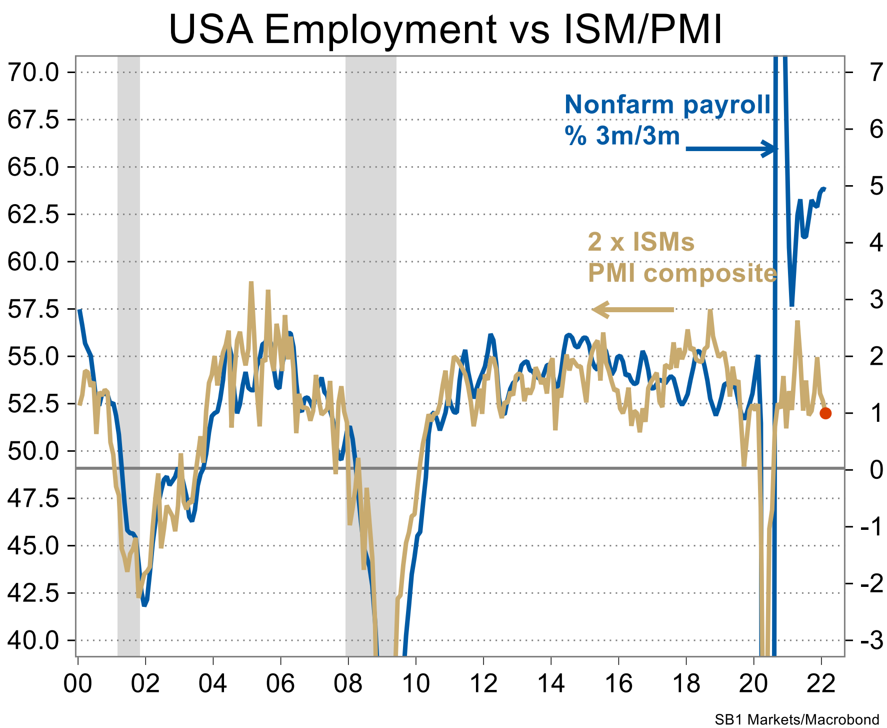
… but actual prices are climbed more than the PMI/ISMs have told us they would (at least the core)





PMI/ISM: The employment indices signals modest employment growth

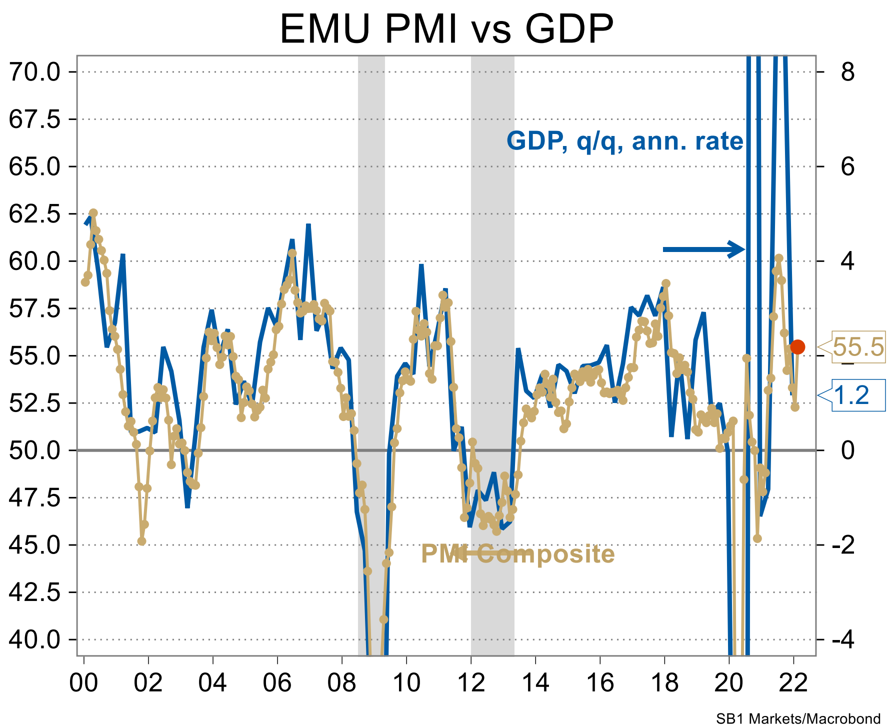
.. And well below the 5% pace over the past 6 months (which is not sustainable anyway)

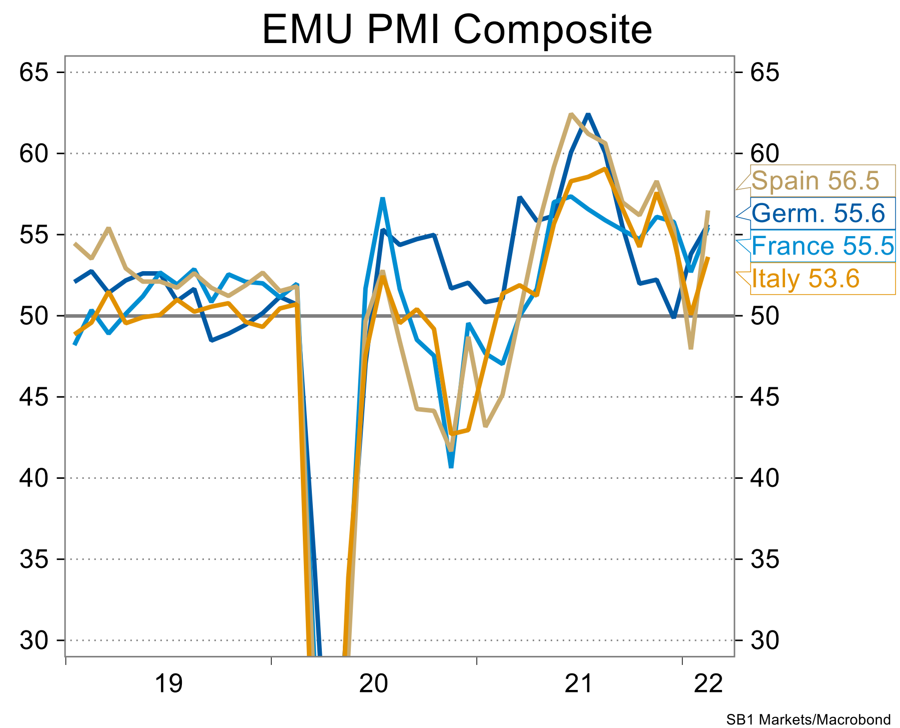


- **Actual employment** growth measured 3m/3m is strong, especially following the upwards revisions in the January report
- The average of PMI & ISM employment indices signals close to a 1.5% growth pace
  - » Because they to not need/want to hire – or because they are not able? Probably mostly due to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

The February PMIs confirmed straight up – all over the Union

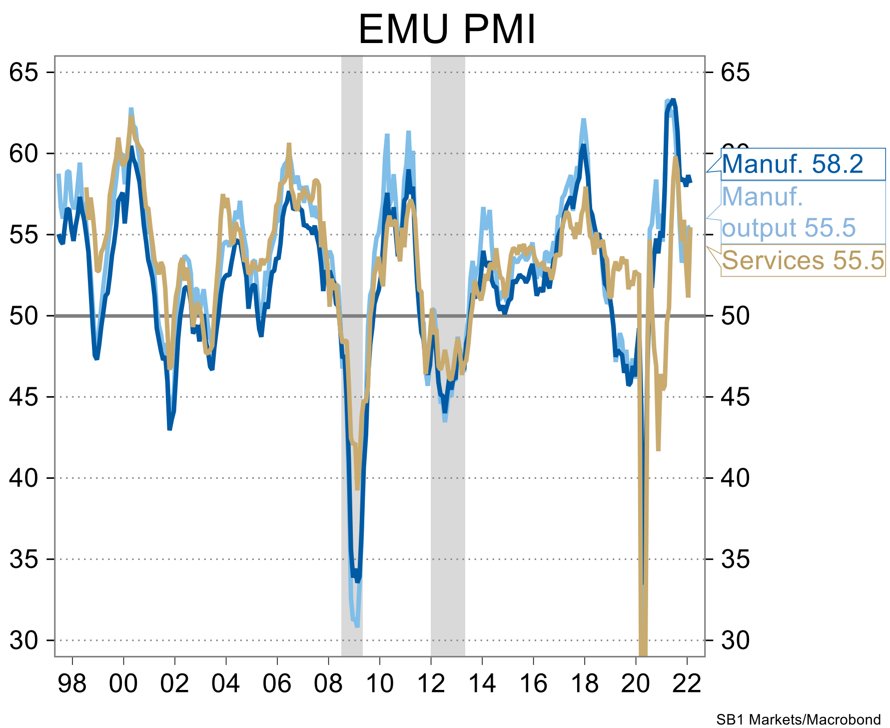
The composite PMI fell by 1.0 p to 52.3, 0.1 pp weaker than the prelim. est. Signals 1% growth

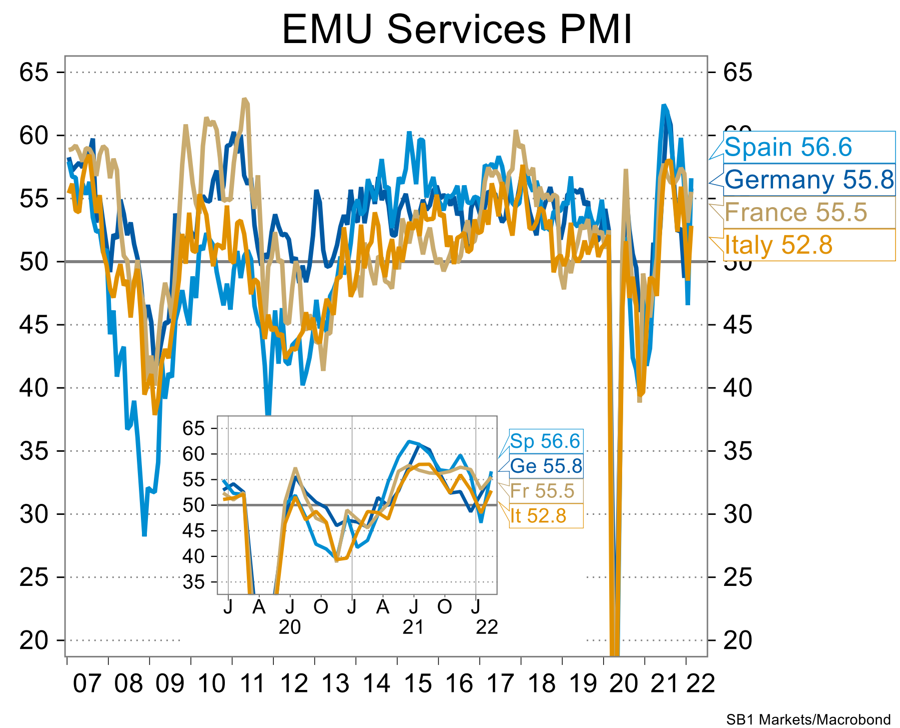




- The final **composite PMI** at 55.5 in Feb signals growth well above trend, at 2% (yes, that's above trend)
- Spain gained the most

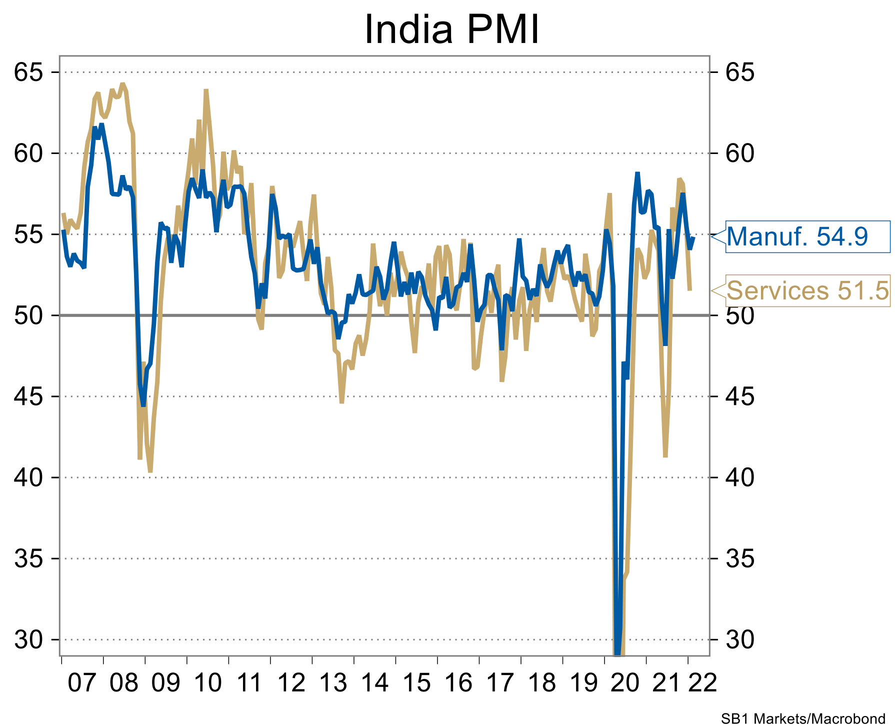
Services recovered sharply - everywhere

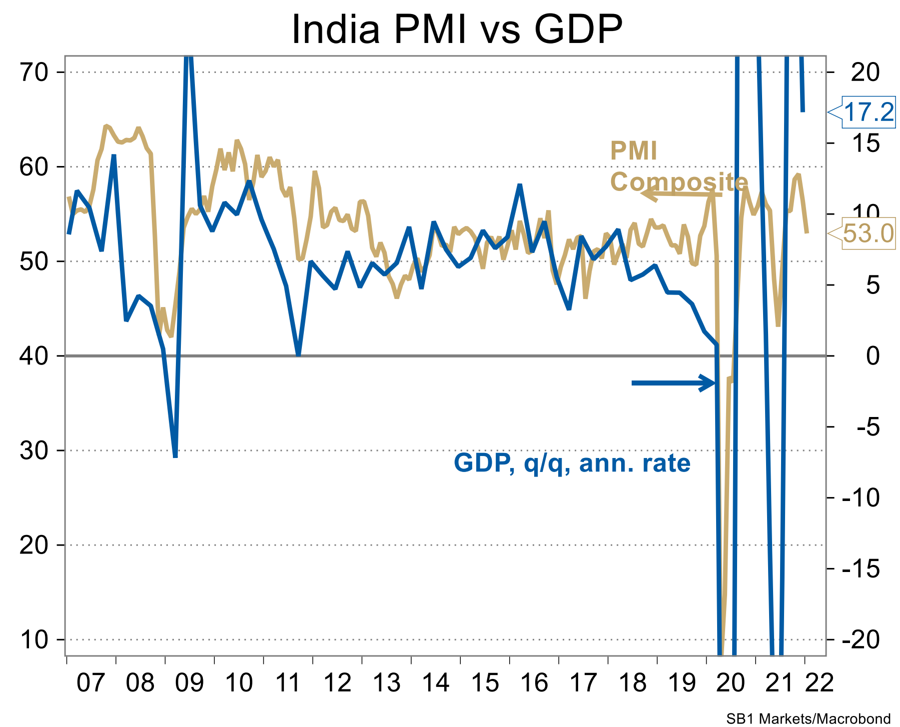




Services slowed in February, some virus challenges?

The composite index down 3.5 p to 53.0 – still above an average level, signalling strong growth

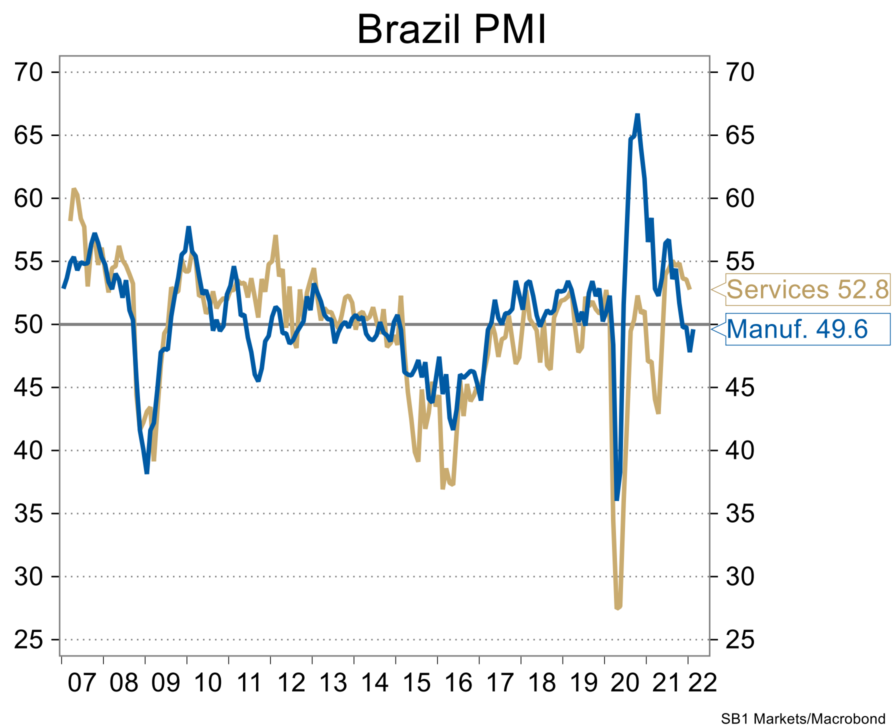


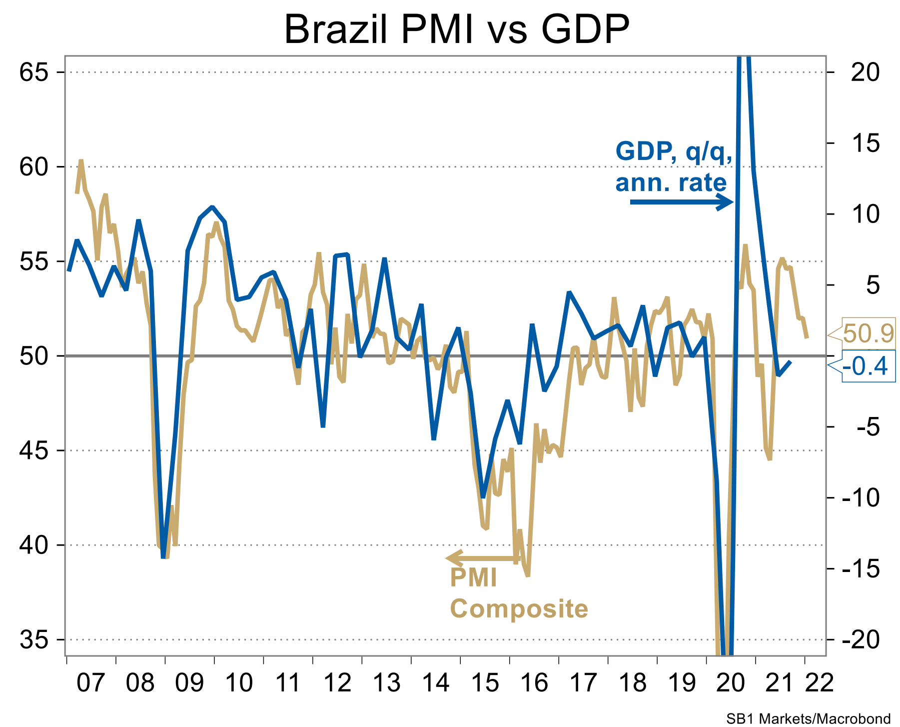


- **In Q4, Indian GDP** grew by 17.2% (annualised, 4.0% not annualised) as the economy recovered further from the Delta outbreak in Q2
- The PMIs signal some moderation into Q1. The Omicron has arrived there too

Manufacturing is stagnating, services are slowing

The composite fell 1.1 p to 50.9 – signalling no more than 1% GDP growth





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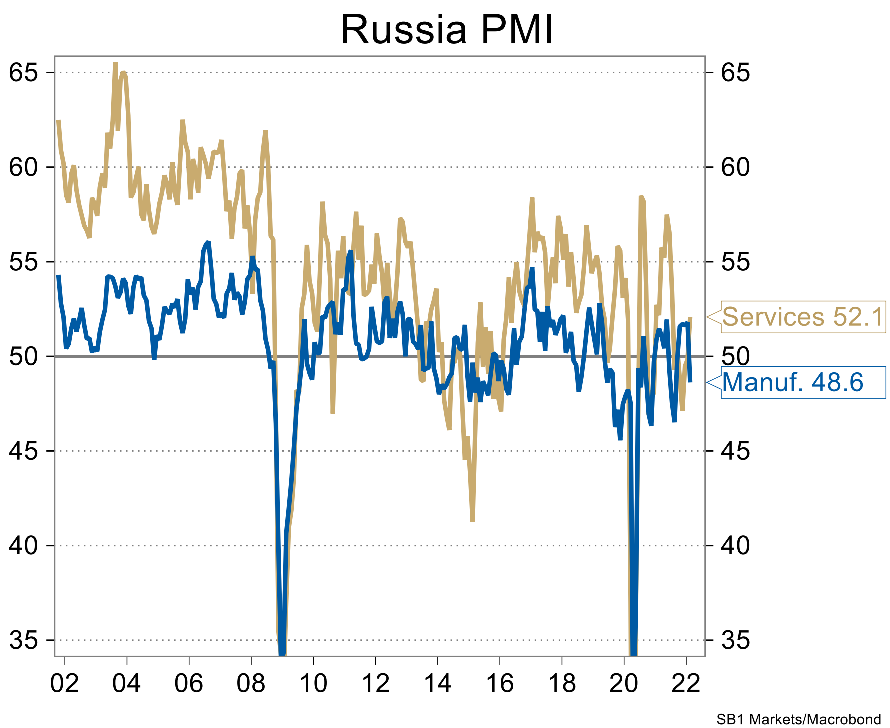
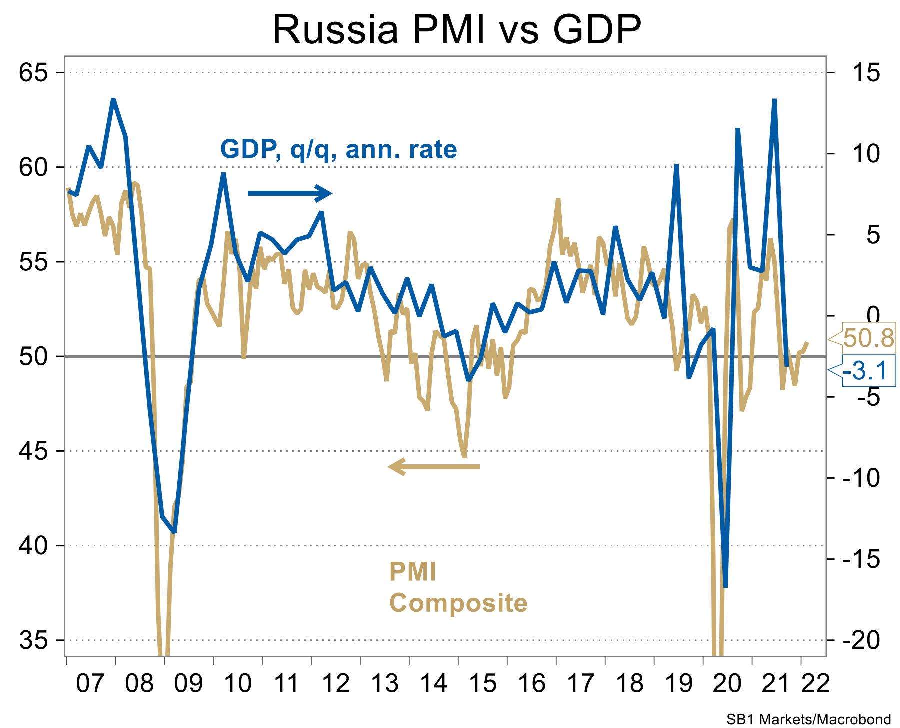
In February, services recovered, manufacturing slowed. And in March??

The composite PMI at 50.8 signals a moderate contraction in GDP

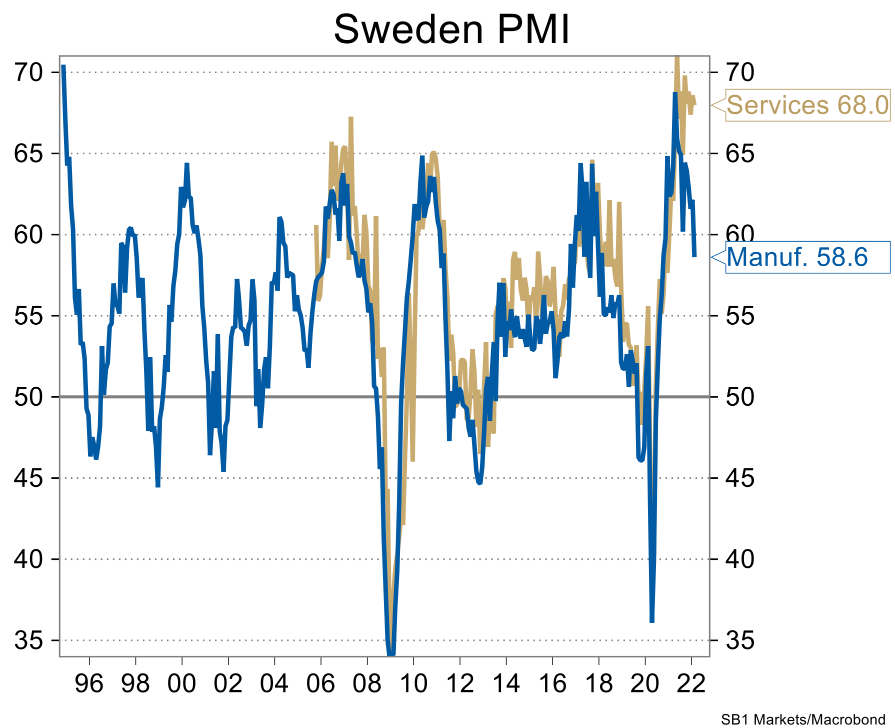


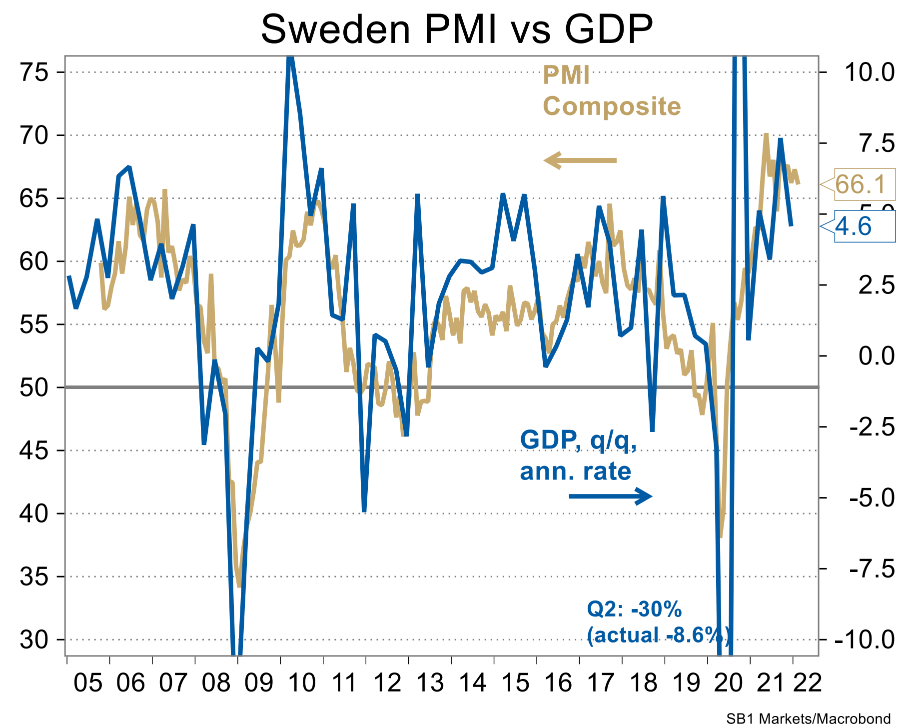


- **The composite PMI** added 0.5 p to 50.8 in Jan. A PMI at this level normal signals a 2% contraction in GDP but the correlation has not been that tight during the pandemic
- The coming months will be exciting, to put it mildly
  - » At the same time as sanctions were introduced in 2014 following the Crimean occupation, the oil price slowed sharply, and it is not easy to pinpoint the impact of the sanctions. This time around, sanctions are much tougher than last time

The Swedish composite PMI still incredibly strong, at 66.1 – 6% GDP growth

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

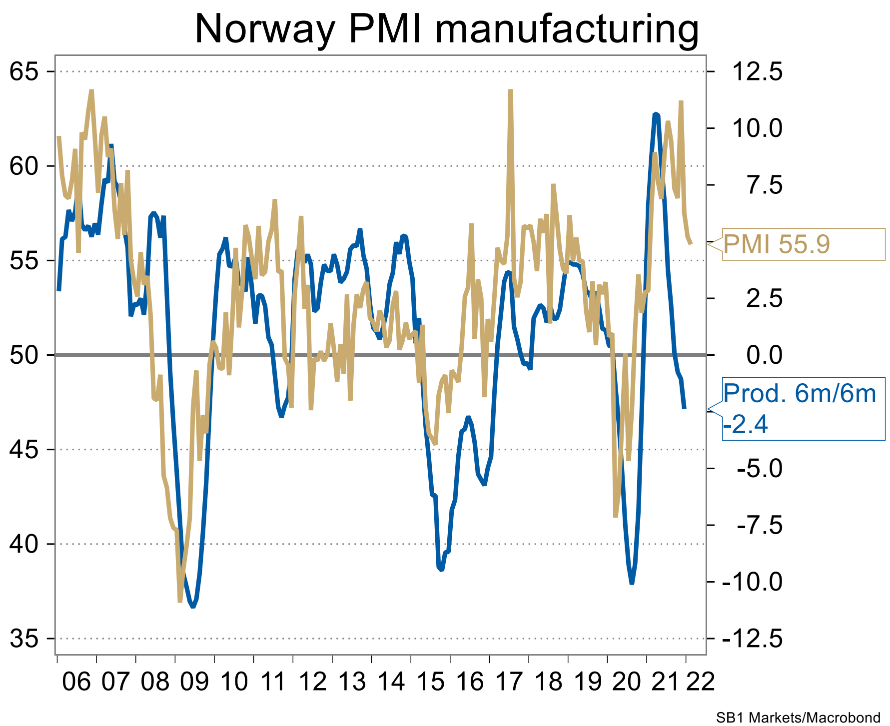


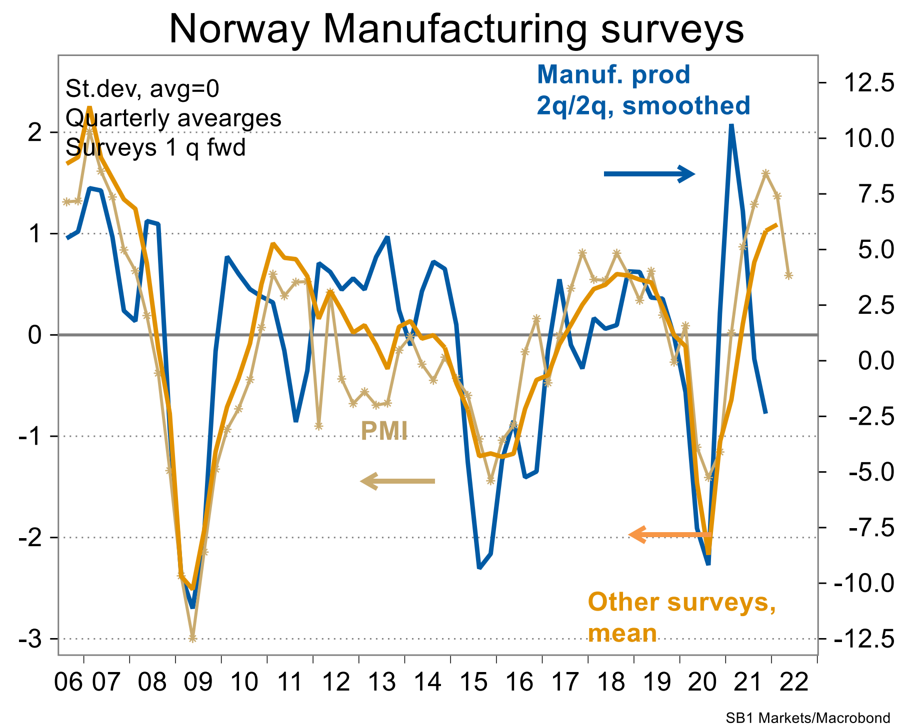


- In Q4, GDP grew at a 4.6% pace
- The **Riksbank** has so far not yielded, it promises to keep the exchange rate at 0 until ~~Q4~~ H2 2024

The manufacturing PMI down 0.4 p to 55.9, still well above an average level

Delivery times and prices are easing somewhat. However, the order index fell too

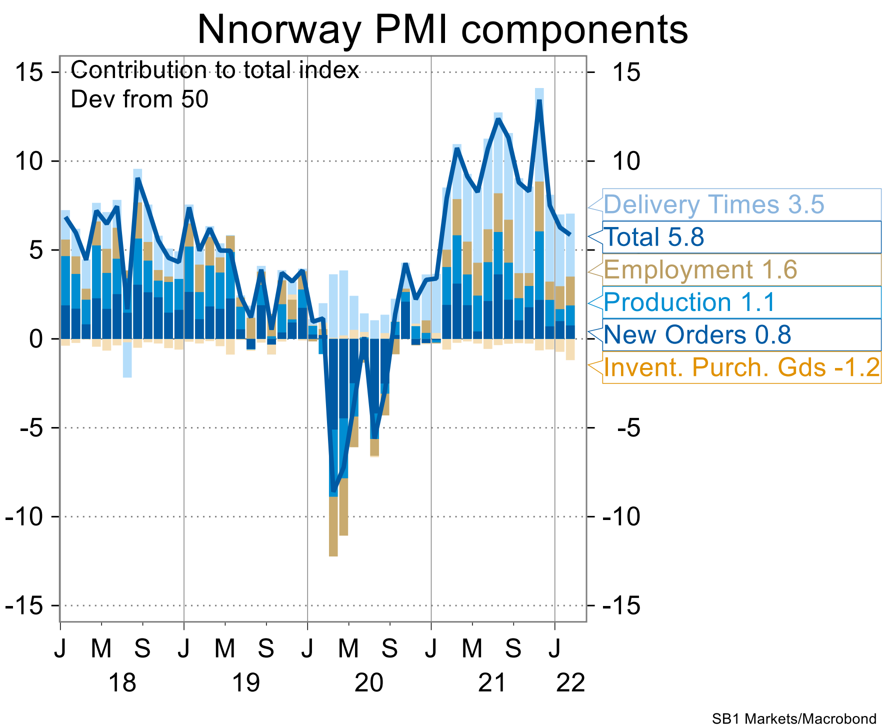


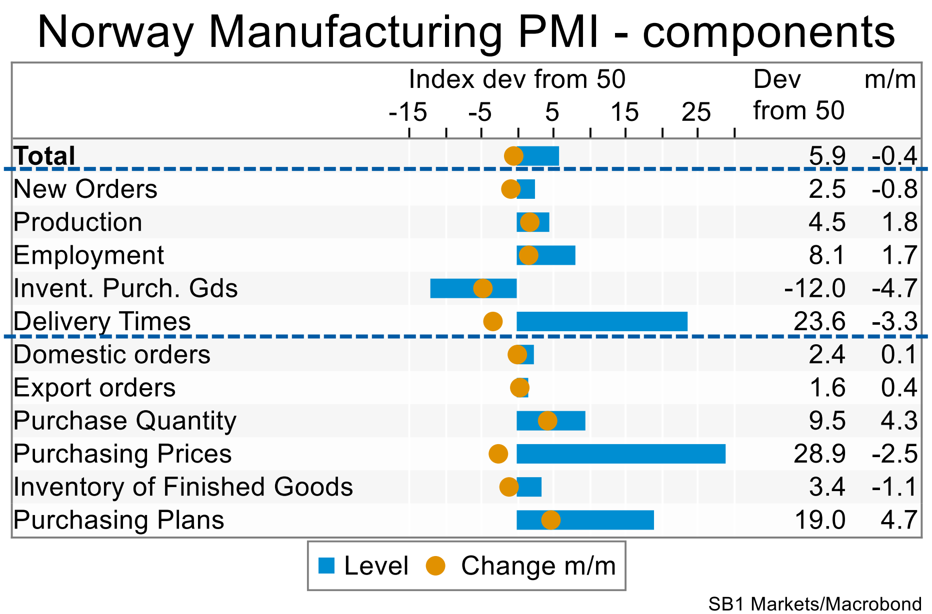


- The **manufacturing PMI index** fell for the 3rd month in row, though from the 3rd highest level ever, and the February index is still 0.7 st.dev above average. We expected an uptick to 57, consensus was for 56.5, above the outcome at 55.9
- The **delivery times** index fell further, and contributed by 0.5 p at the downside in the headline index, so did an usual decline in the index for **inventory of purchased goods**. However, the **new order index** fell slightly too. The production index rose sharply
- Other manufacturing **surveys** have not turned south yet, at least not in average
- Even if surveys have been reporting growth, **actual production** has fallen slightly since last April

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

The declivery index lifts by 3.5 p





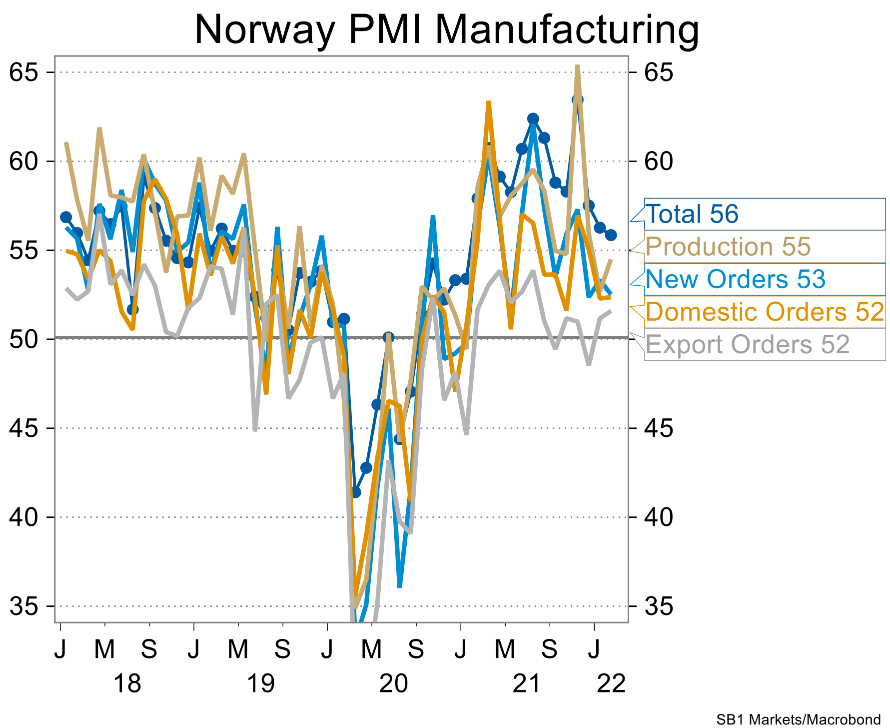
- Normally, the **delivery times index** has not had any sigificant impact on the total PMI index as the delivery times index has been quite closely correlated other components in the headline index. Now, it makes a substantial difference, by 4 pp to the total index
- **Prices** are still rising at a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

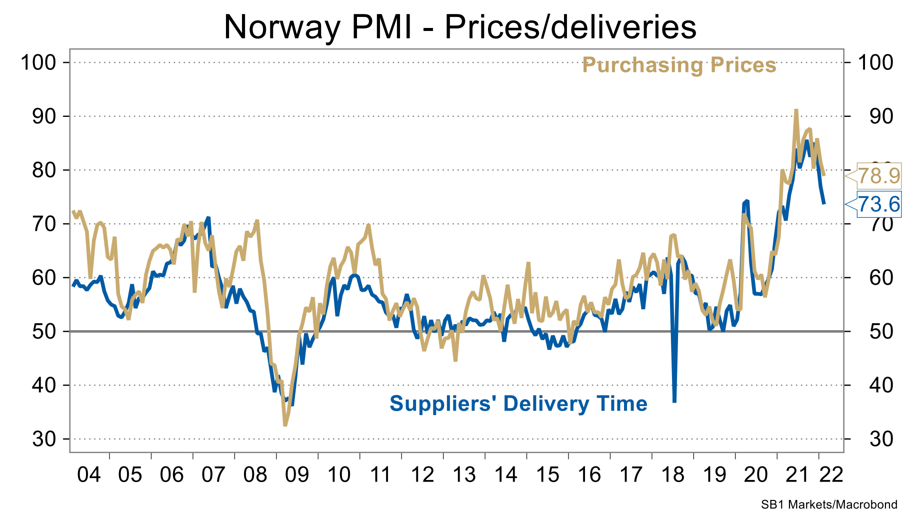
The total PMI index is a weighted index of new orders, production, employment, inventory of purchased goods, and delivery time. The 6 next sub indices at the table to the right are not included in the total index calculus

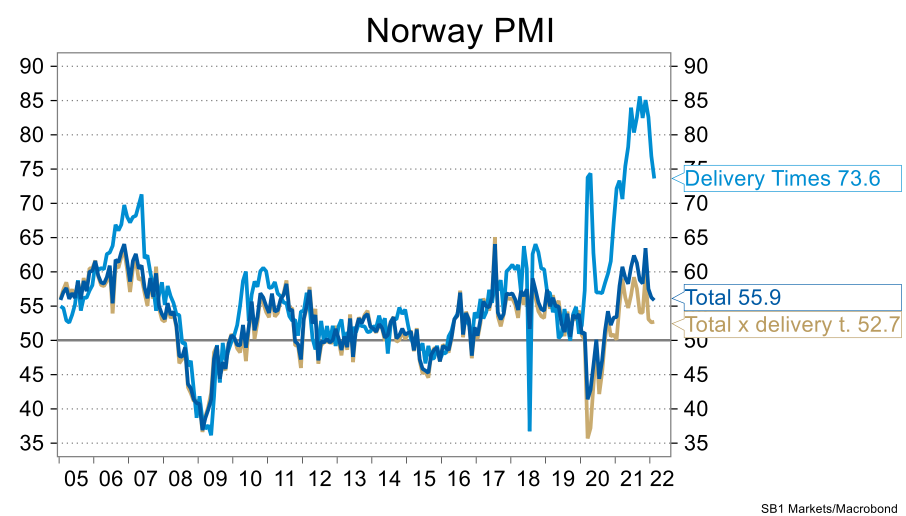
SpareBank 1 MARKETS

New orders have slowed, as have growth in production (but not further in Feb)

A total index ex. delivery times fell 0.2 p to 52.7 in Feb



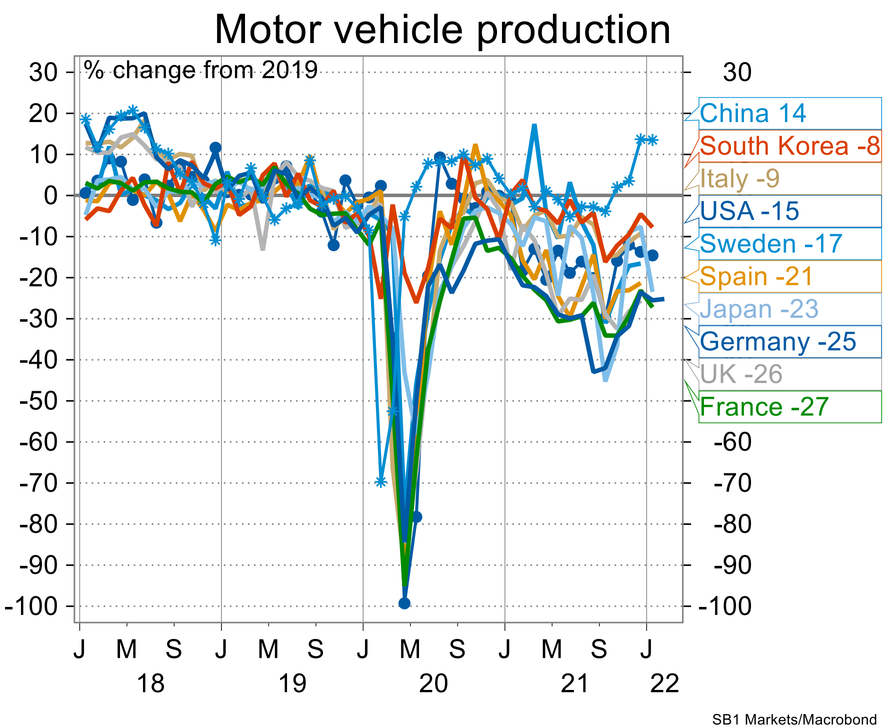


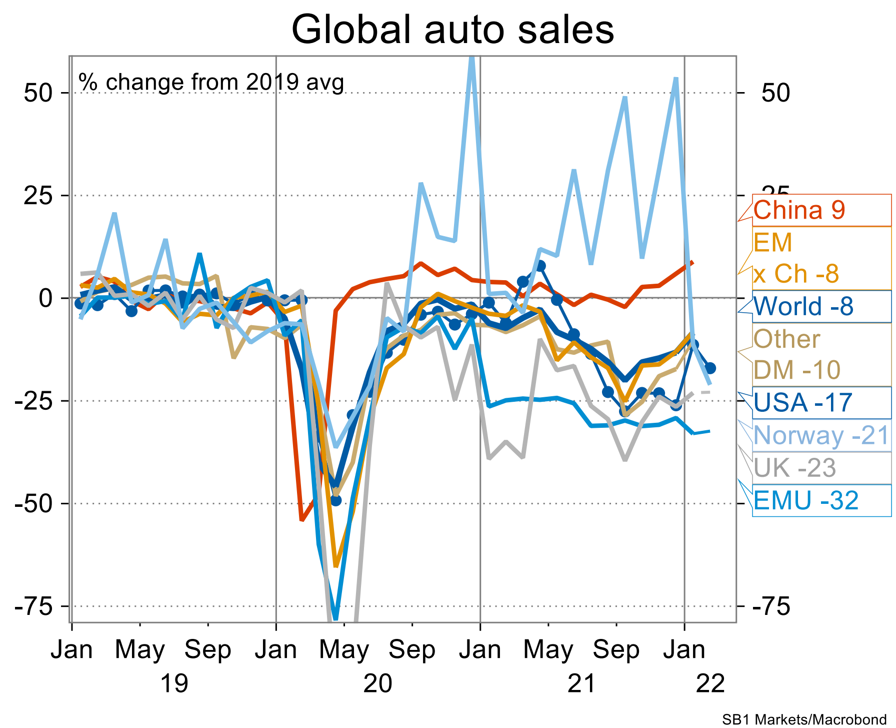


- **Prices** are still rising at a fast pace, albeit marginally slower in Jan

Auto production on the way up!

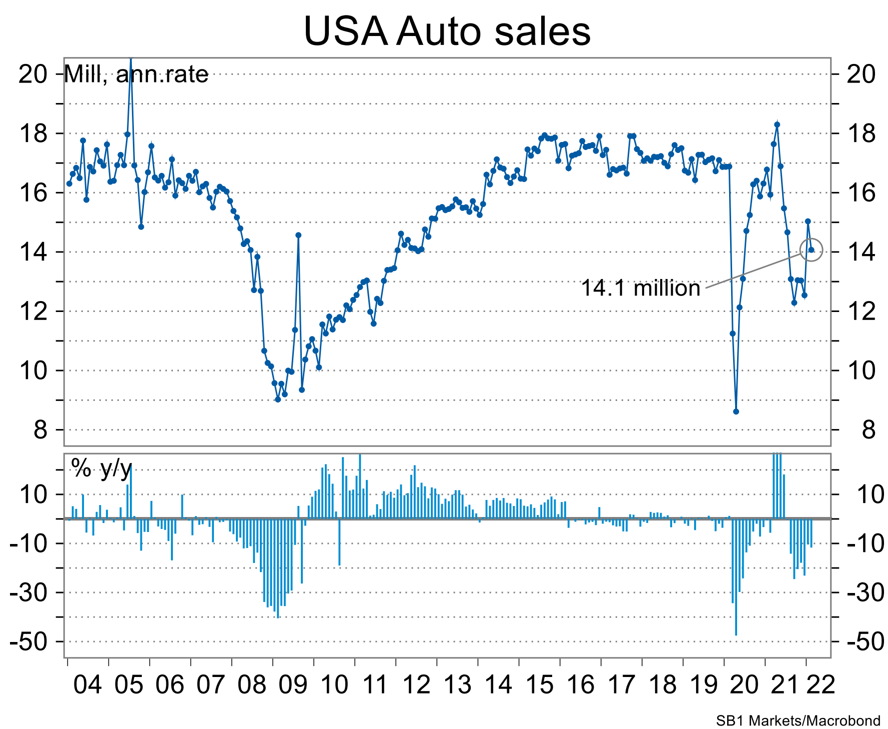
Germany production fell in Jan but is 'just' 11% below the '19 level, was down 43%! China is up 13%

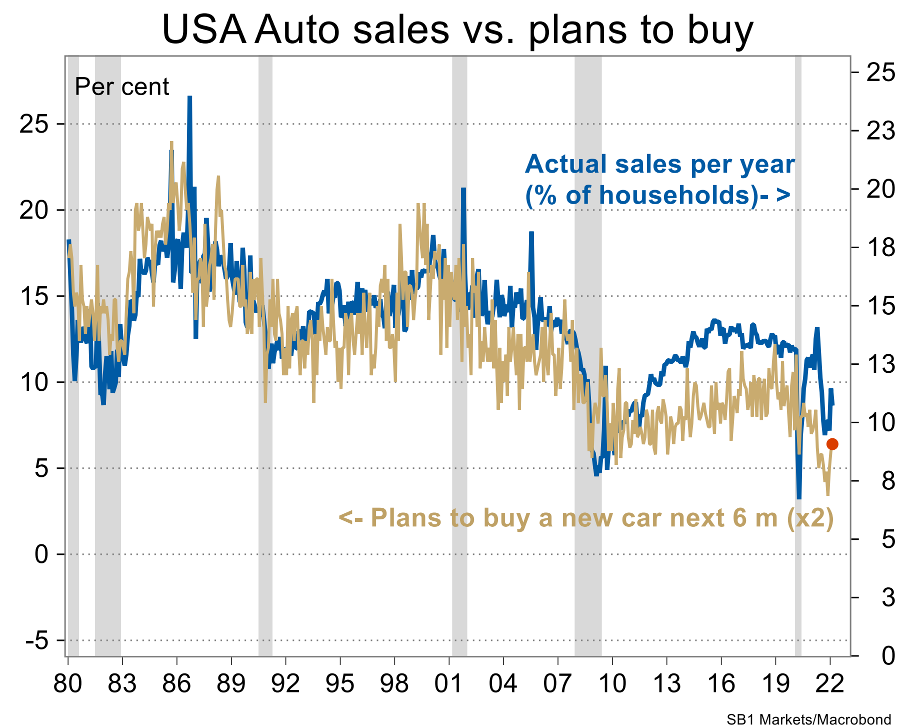




US auto sales down to 14.1 mill in Feb, from 15.0, expected 14.4 ill

Sales are down 17% vs. the 2019 level, due to lack of supply

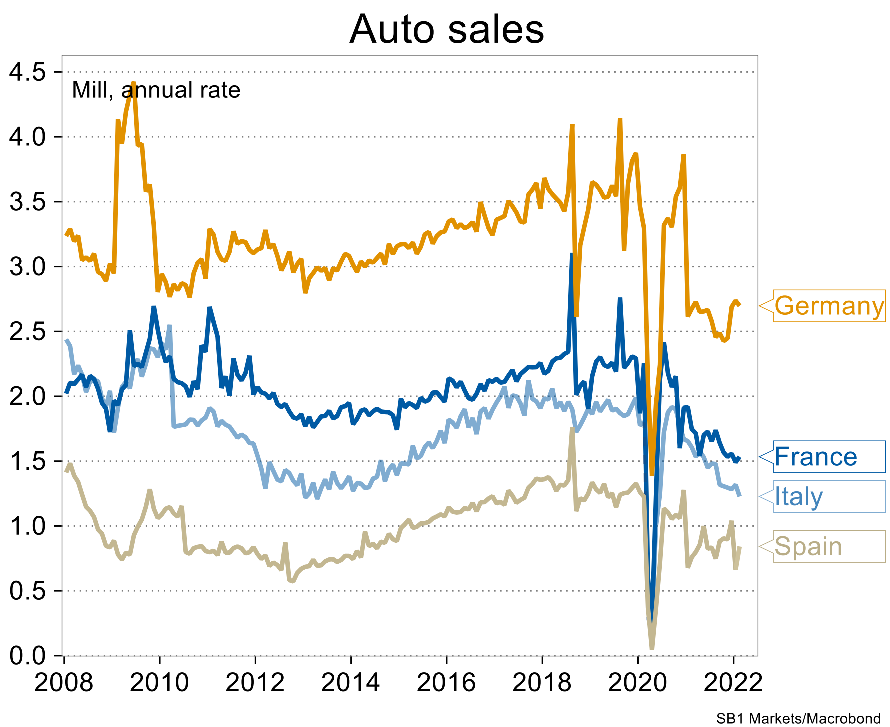


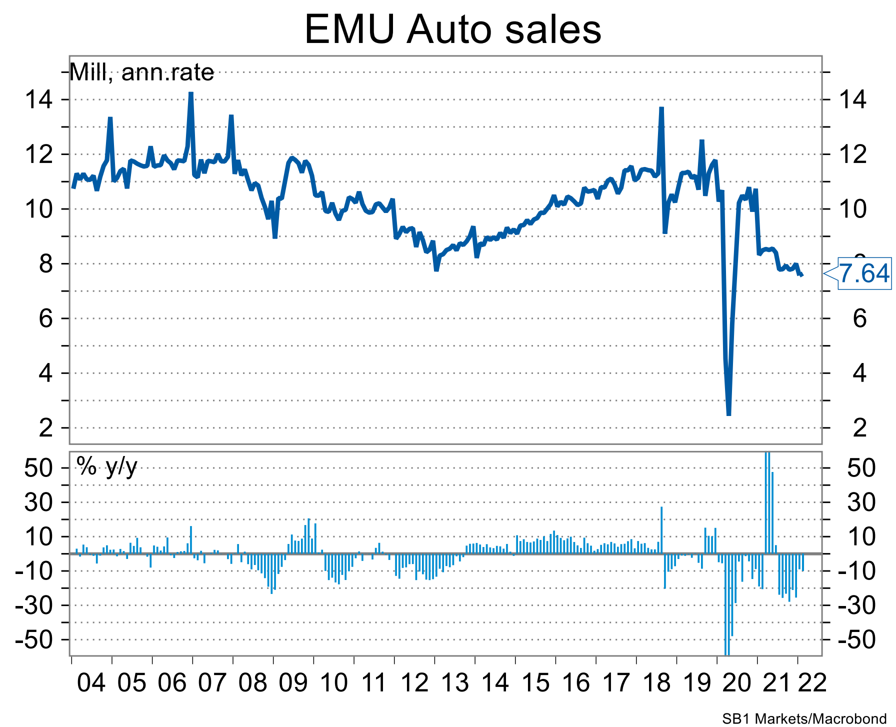


- Households revised down their **plans for buying a new car** substantially during last year as they probably have observed that there are delivery 'challenges'. In addition, prices are rising sharply (for identical cars), and more expensive models are prioritised by car producers (or rather cars with the highest margins). In January though, more households reported a lift in buying plans!
- **Demand for cars** is still strong, as the 2nd hand market is 'emptied', and used car prices have soared 50 – 60%

EMU: auto sales likely close to unchanged in February

Sales probably rose in Spain – but fell in Italy and Germany

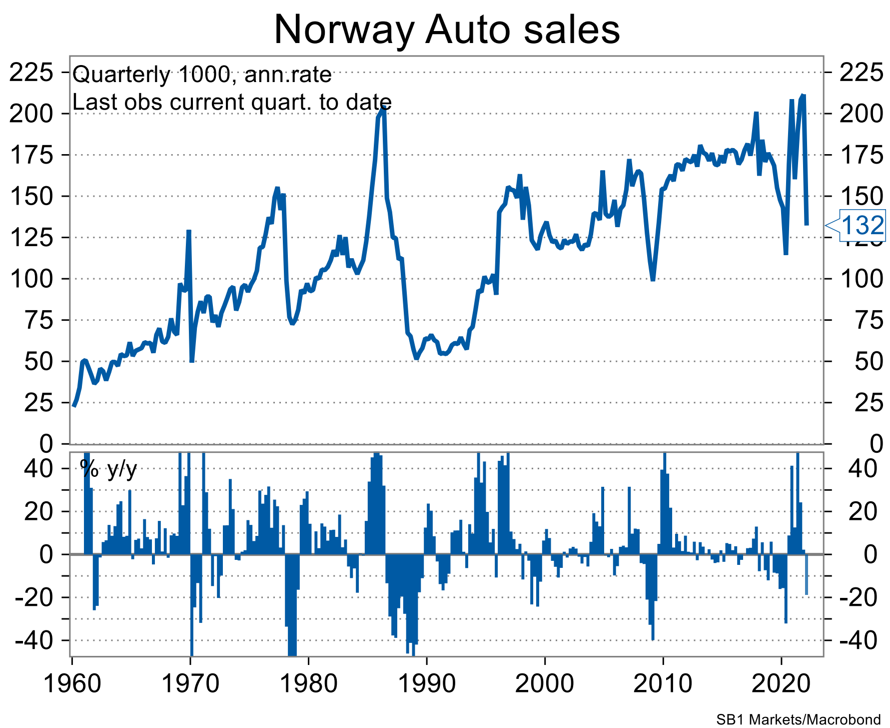


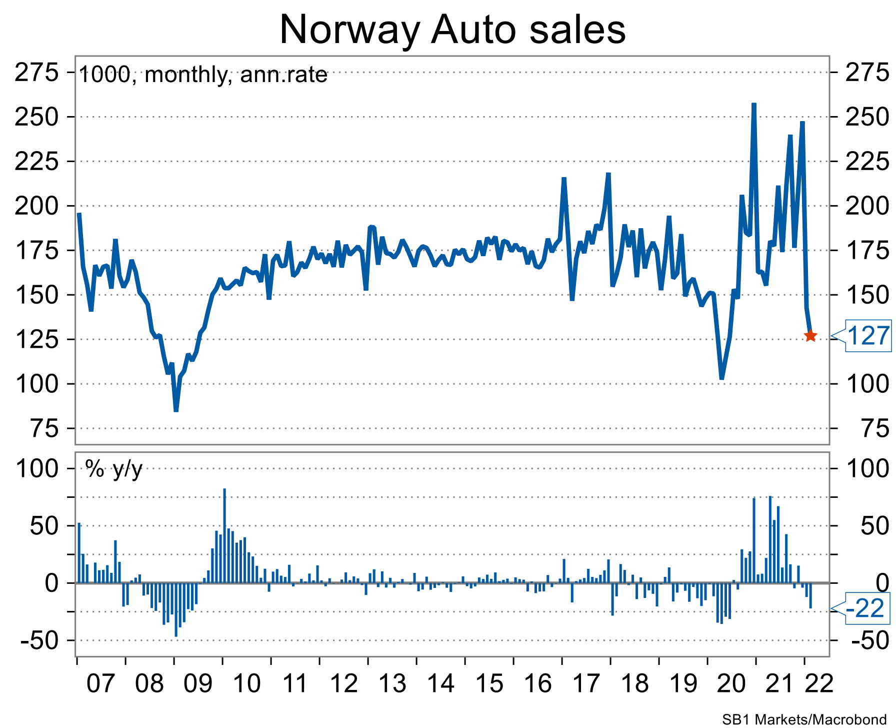


- Our estimate: EMU Jan sales at 7.64 mill (annual rate), down 32% vs. the 2019 level. Last year sales fell by 6% to the lowest level in modern times
- The coming months will probably be challenging. The supply chains are exposed, once more. Both Russia and Ukraine are

Norway: Slow auto sales in February too – after being sky high in 2021

Sales down to 127’, from above 200’ in Q4 (ATH), down 21% vs. the 2019 average

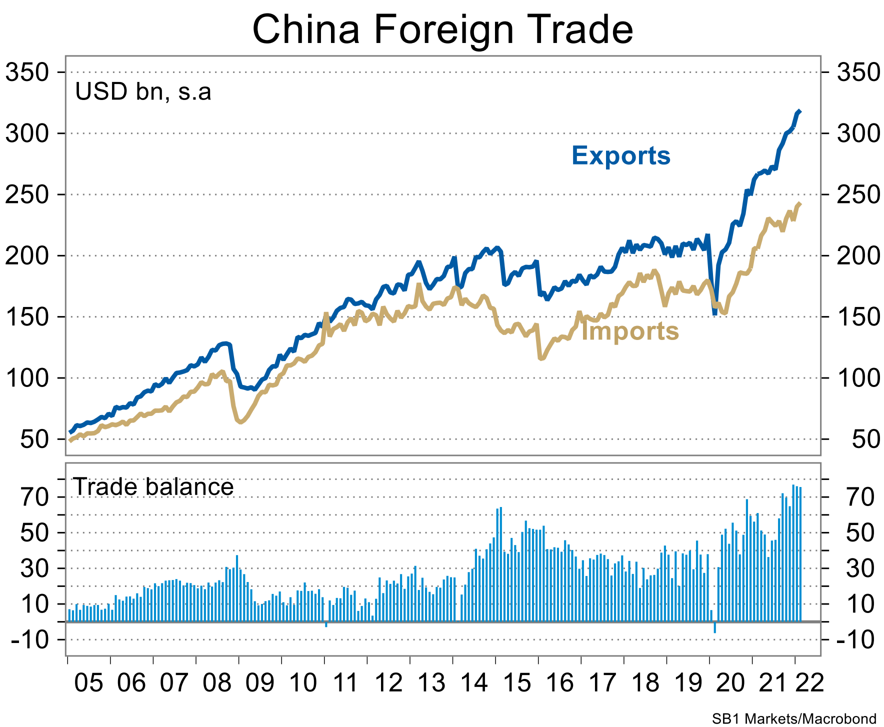




- We assume some of the extraordinary sales in Q4 was due to changes in the taxes – and a one stage Norwegian sales had to be limited by the global setback in auto production
- Last year, 192’ autos were first time registered –above the previous ATH at 185’ in 2017 – and before that 173’ in 2006!
  - » Sales rose 21% from 2020 – in a year where global production and sales fell

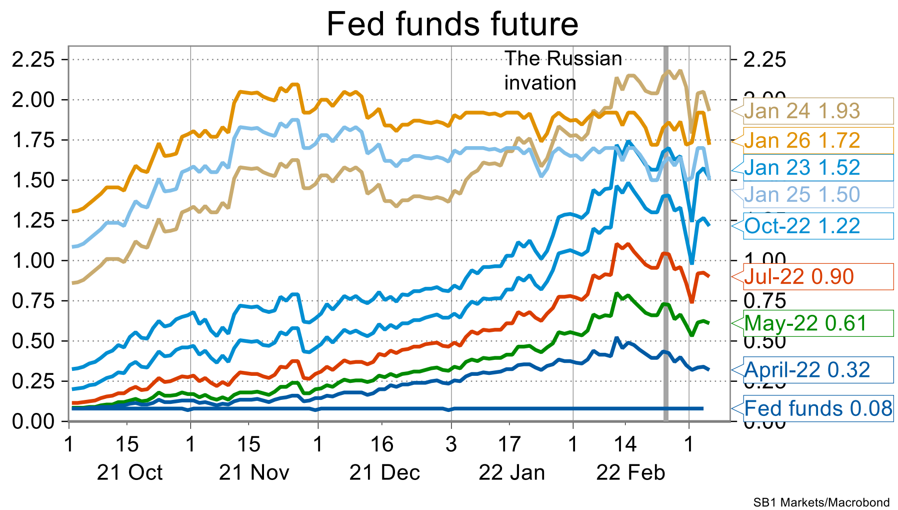
Exports further up in Jan/Feb, imports too

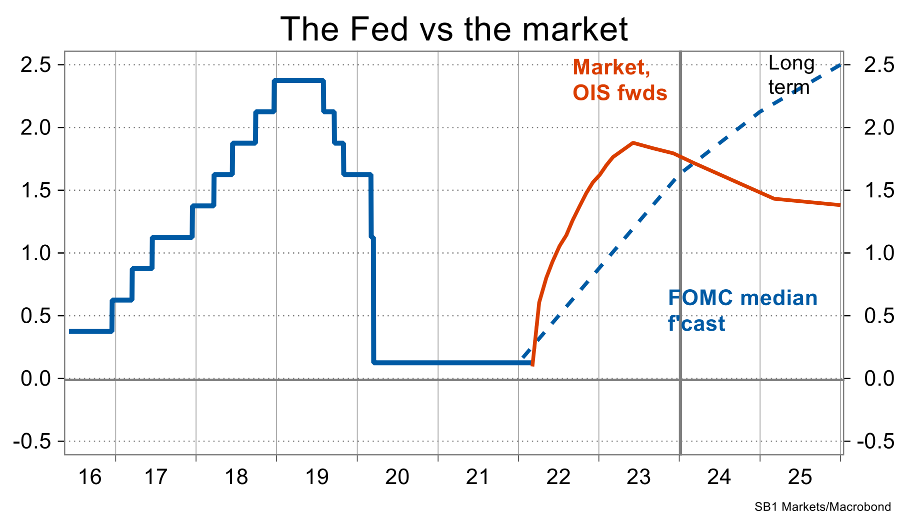
The trade surplus has been at ATH the past 3 months



- **Exports** probably grew in both January and February, both in value and volume terms. Export values are up 10% in average in Jan/Feb, expected 15%
- Imports also grew m/m, and are up some 17%, as expected
- More details in next weeks report

Powell: Ukraine is a worry but inflation is far larger concern

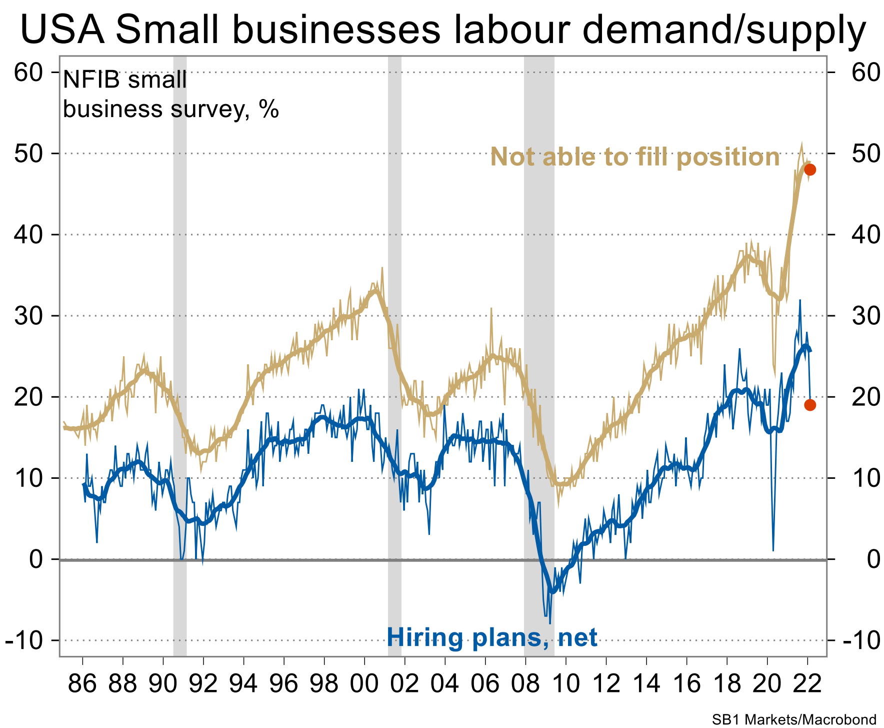


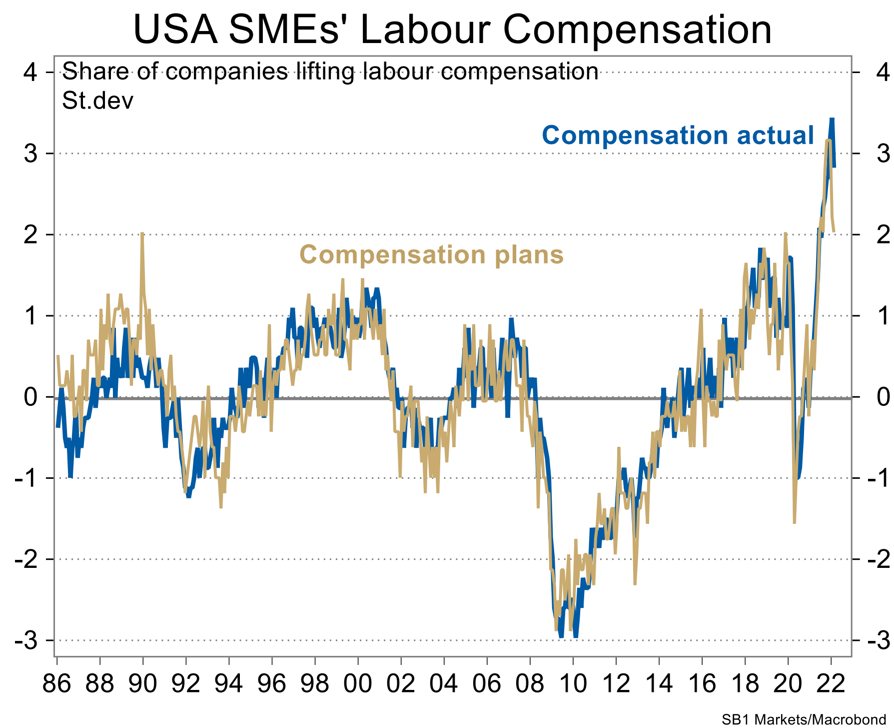


- At the **hearing at the Congress** last week, **Fed's Powell** confirmed that he was in favour of a March hike, and a further tightening through the rest of 2022 – and even more than by 25 bps at remaining 3 ('main') FOMC meeting in 2022
- **Fed's Beige book**, its 'Reginal Network' report modest to moderate growth through the 6 weeks to mid February, as the Omicron variant held back consumer spending (even if Jan retail trade was much stronger than expected), increased sickness leave. In addition, the winter weather have been tougher than normal some places
- Reports on lack of labour, further wage and price increases are still wide spread – but some respondents reported some signs of cost pressures to flatten out through the year
- Interest rate expectations have come down even in the US (but not as in the EMU, which is far more exposed to the Ukraine crisis)

SMBs are still not able to fill vacancies but fewer report hiring plans in February

Fewer – but still unusually many – companies are reporting plans to lift wages/compensation

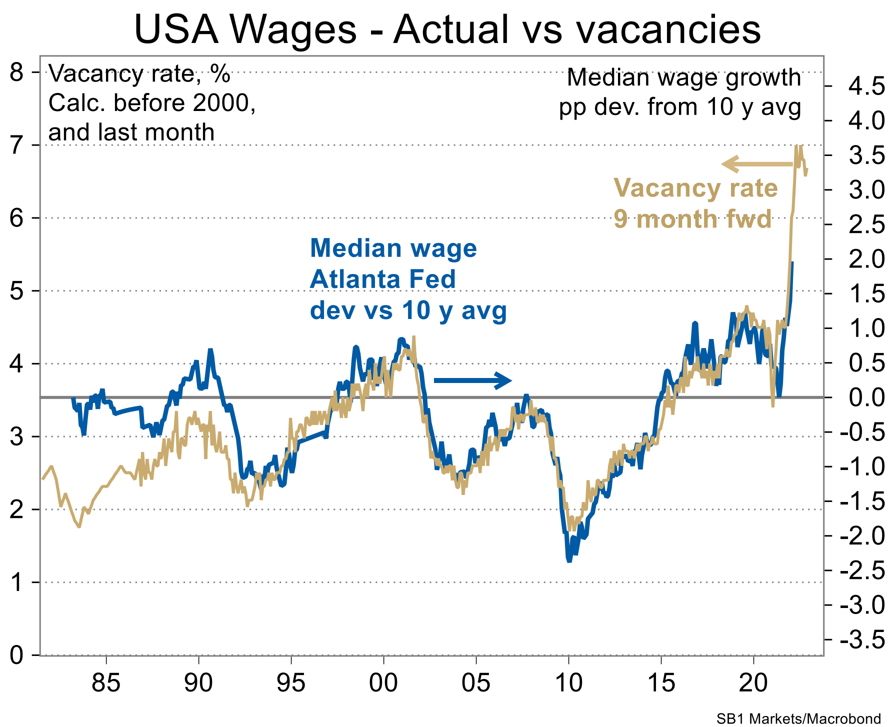


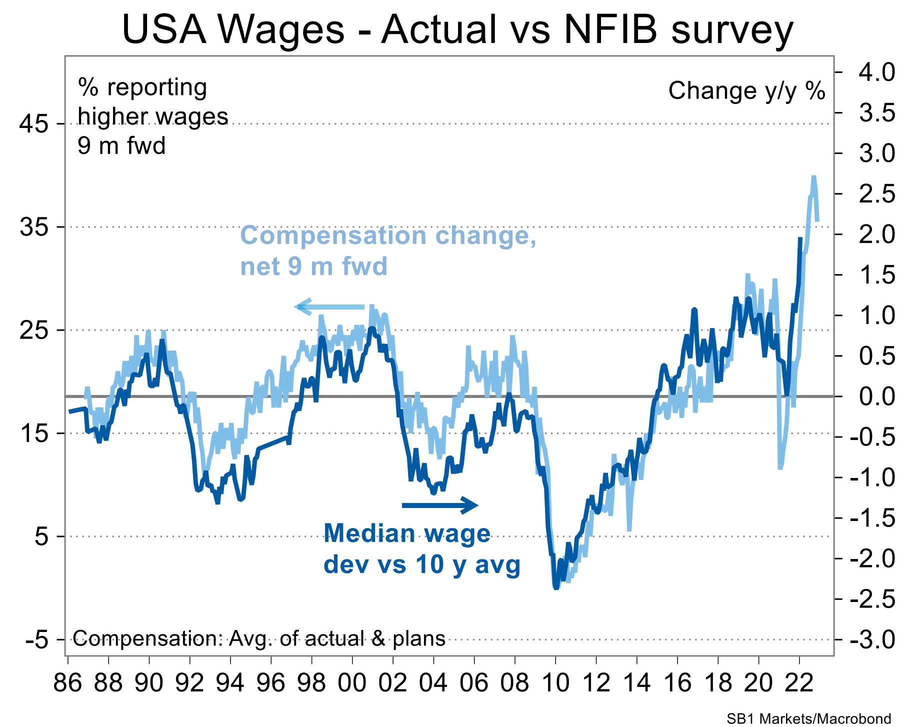


- The share of companies that reported **plans to lift compensation** fell further in February but remains higher than ever – barring the previous few months, at 2 st.dev above average
  - The correlation to actual wage growth is pretty close, check the next page

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

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

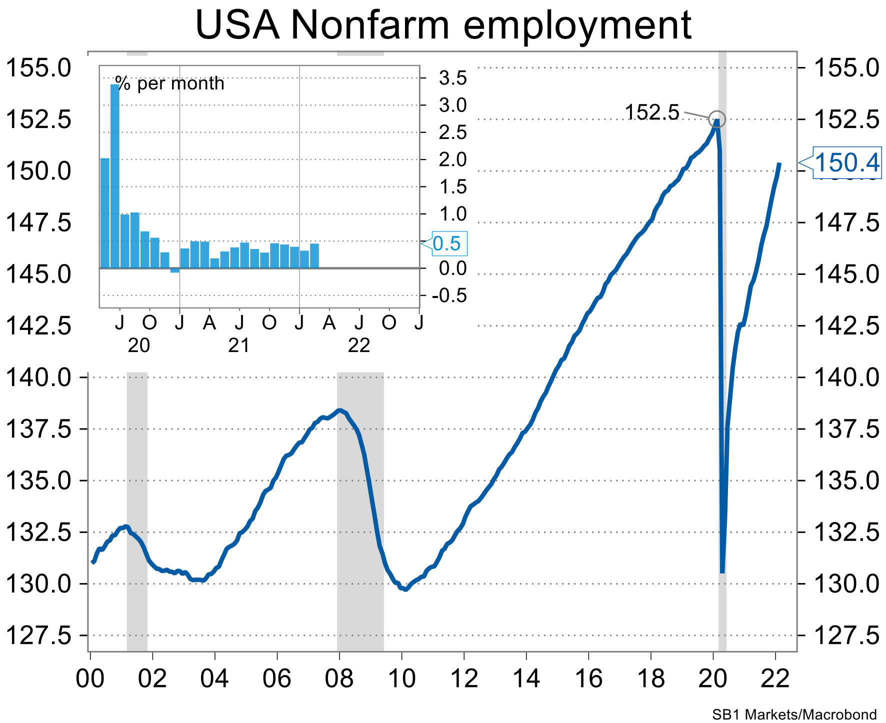


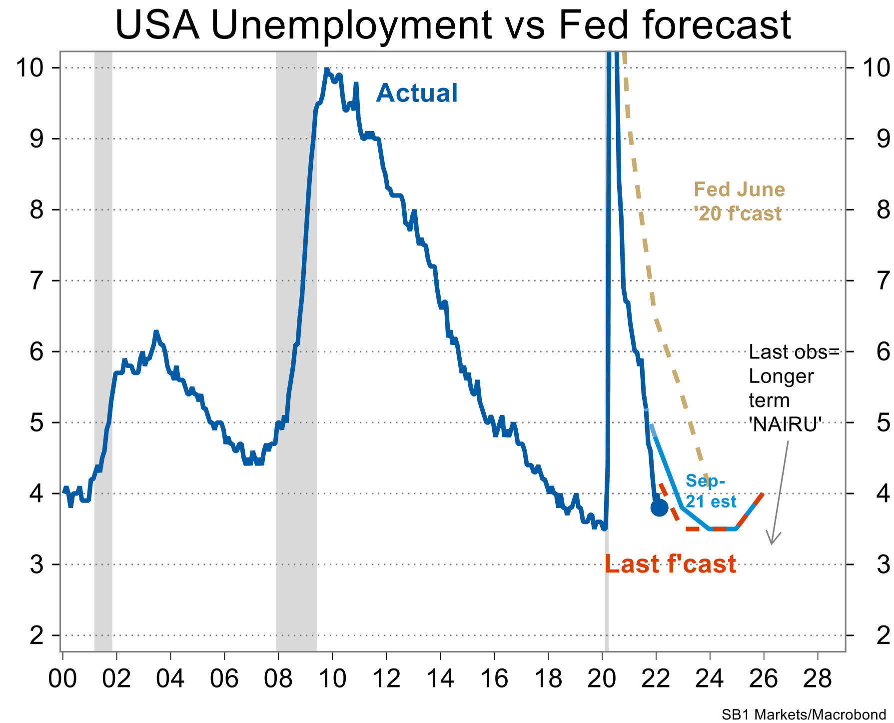


- .. Both vs the vacancy rate and the SMEs' compensation plans

Steady growth in payrolls, unemployment down 0.2 pp to 3.8%

Wages flattened but is still trending rapidly upwards

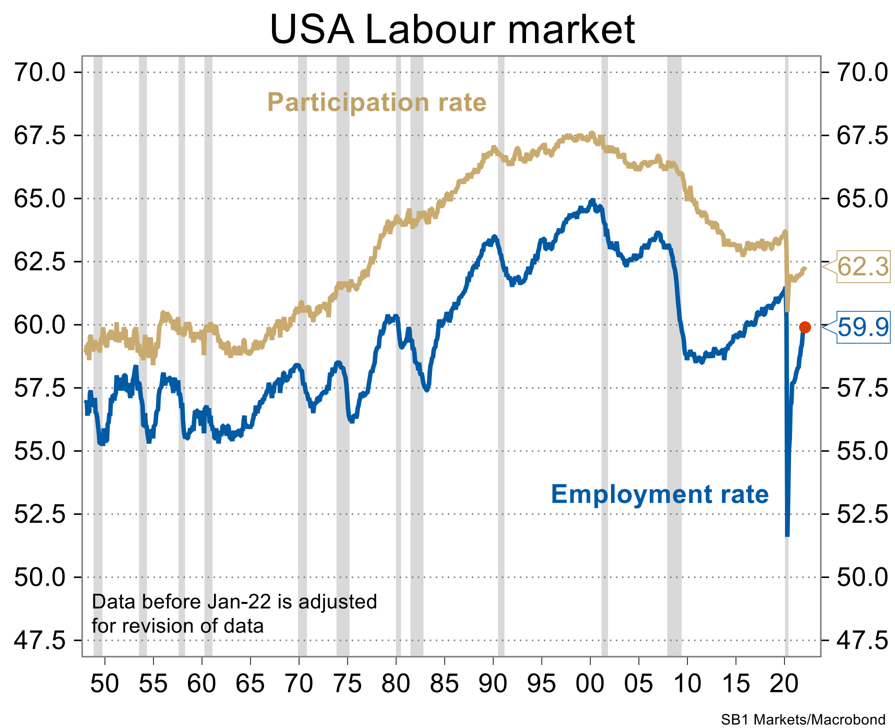


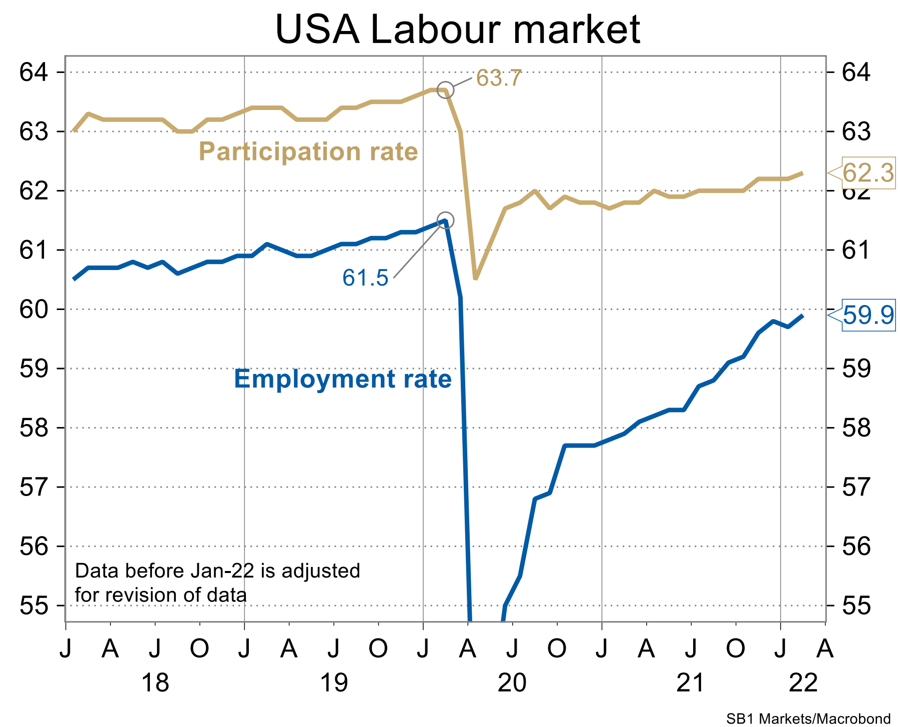


- **Nonfarm payrolls** rose by 678' in February, well above the expected 423'. The past 2 months were revised up by 92', a rather small revision these days .Payrolls are still down 2.1 mill vs. Feb-20 or by 1.3%.
- **The participation rate** rose 0.1 pp to 62.3%, highest level since before the pandemic – a positive sign. The employment rate rose by 0.2%. Both remains below the pre-pandemic levels
- **The unemployment rate** fell 0.2 p to 3.8%, 0.1 pp lower than expected. The trend i steeply down
- **The average wage** was unch m/m, expected up 0.5% - finally a 'positive' surprise. However the underlying trend is still some 6%
- **Maximum employment:** Even if the participation now may be trending slowly up, the supply side is obviously the bottleneck at the labour market. The tight labour market signals continued wage inflation at a level which is not consistent with CPI inflation at 2% over time (barring a substantial productivity shock, or a crash in corp. profit margins/earnings). The Fed is now recognising that the maximum employment target is met – as wage inflation in the end is the final criterium

The participation rate up 0.1 pp in February – and ‘for real’

... and the rate is the highest since before the pandemic



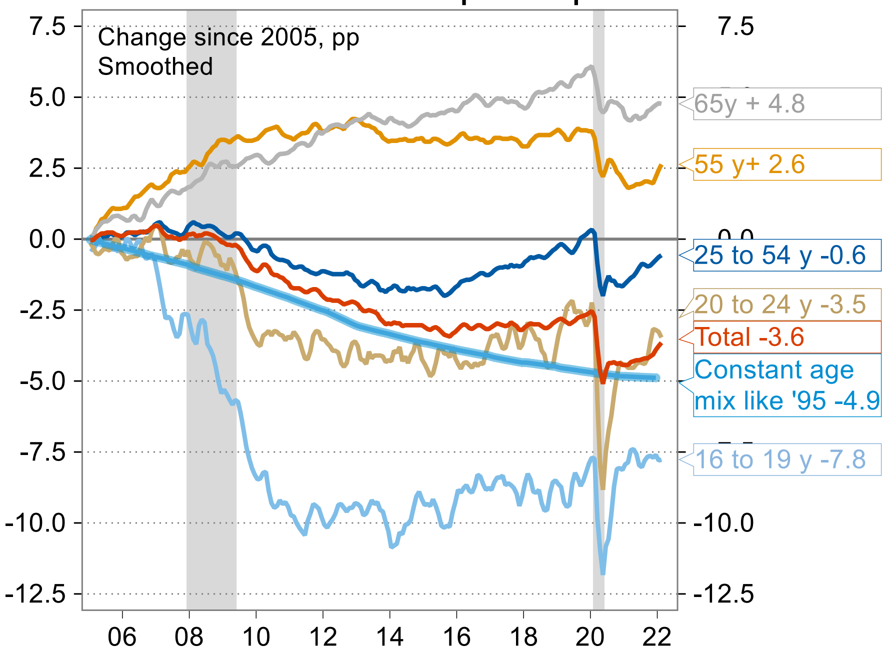


- **The labour force participation rate** gained 01 pp to 62.3% (of the working age population, 16 y +). The trend is slightly positive but not impressive given the increase in the employment rate (and the decline in the early part of the pandemic)
  - » The participation rate is down 1.4 pp (vs the working age population) vs the pre pandemic level, equalling 2.2% or 3.6 mill persons
  - » In December, 1.5 mill persons responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons. Now, Omicron cases/hospitalisations are rapidly on the way down
- **The employment rate** rose 0.2 pp to 59.9%. LFS employment rose by 548’. Over time, the payrolls stats and the LFS report the same growth rates, but they may differ substantially from month to month. The employment rate is still down 1.6 pp vs. Feb 20, equalling 2.6% or 4.2 mill persons

The potential: Will the elderly return to the labour market?

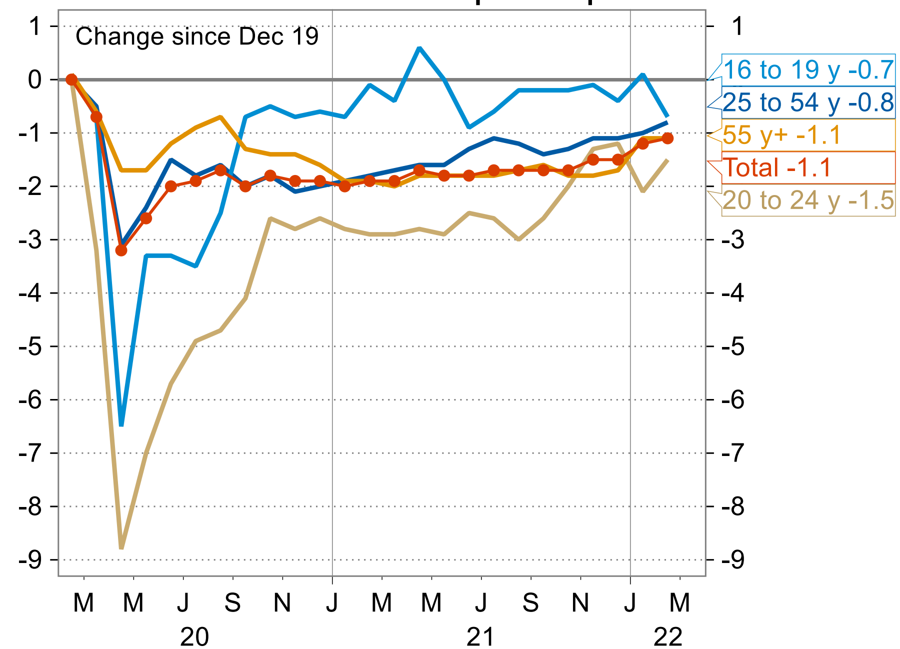
Encouraging data recently, some more to among the core 25-54 y group too

USA Labour force participation rate



SB1 Markets/Macrobond

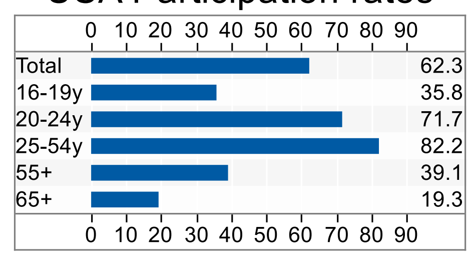
USA Labour force participation rate



SB1 Markets/Macrobond

- As the US population is aging, a decline in the average participation rate <u>over time</u> is no surprise. The chart above illustrates the impact. The thick light blue line illustrates the participation rate if each group kept their participation rate at the 2005 level. The decline is due to the larger old cohorts

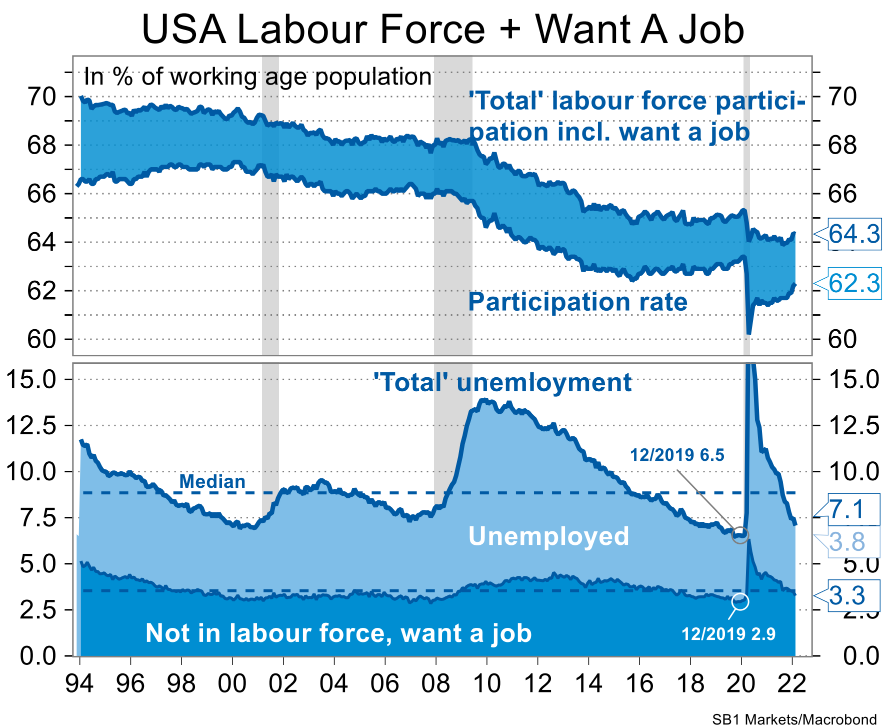
USA Participation rates

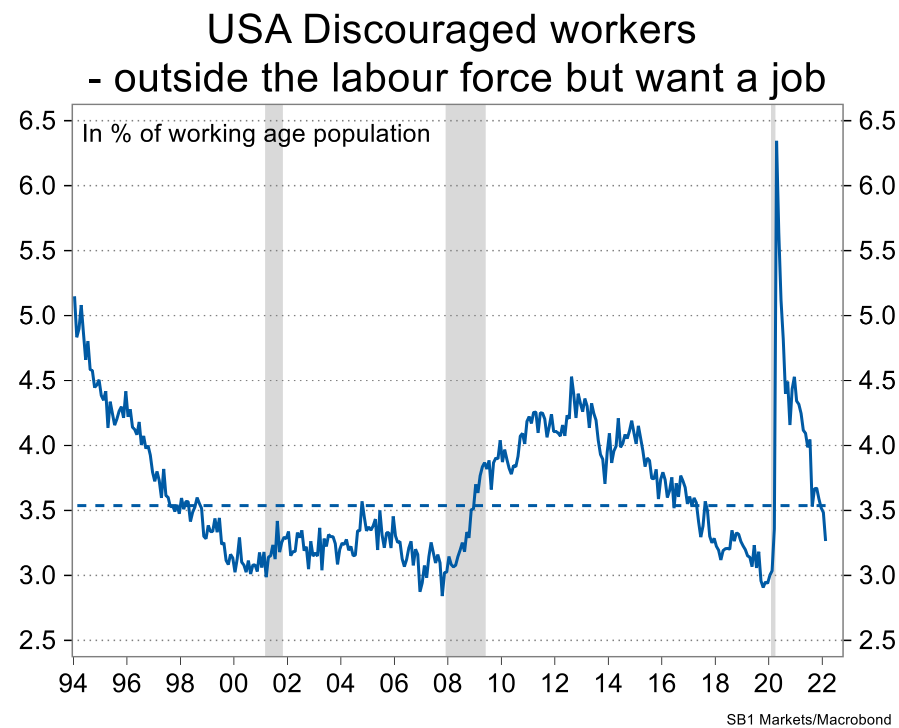


SB1 Markets/Macrobond

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

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

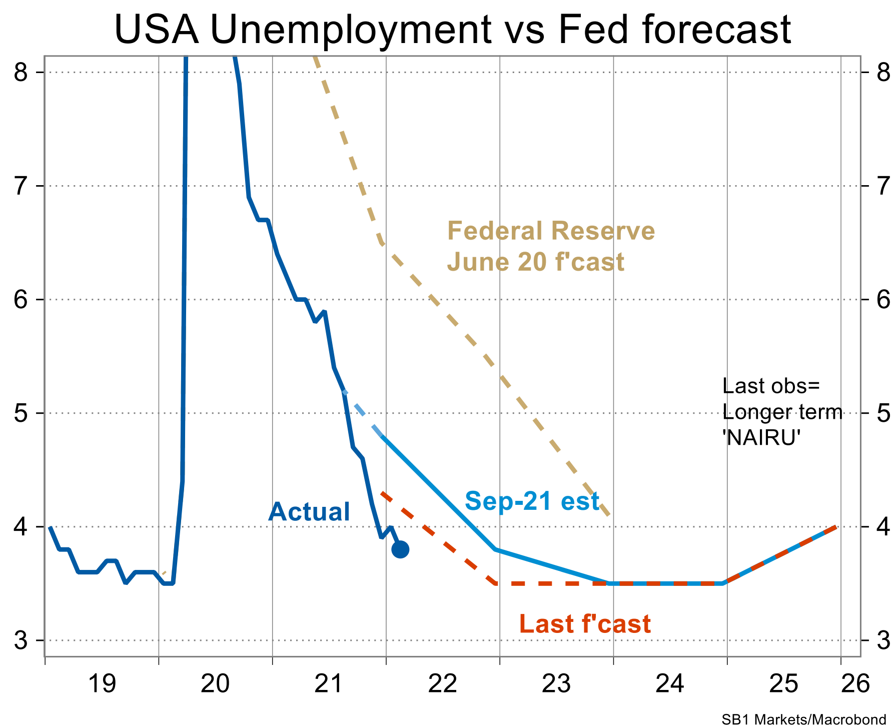


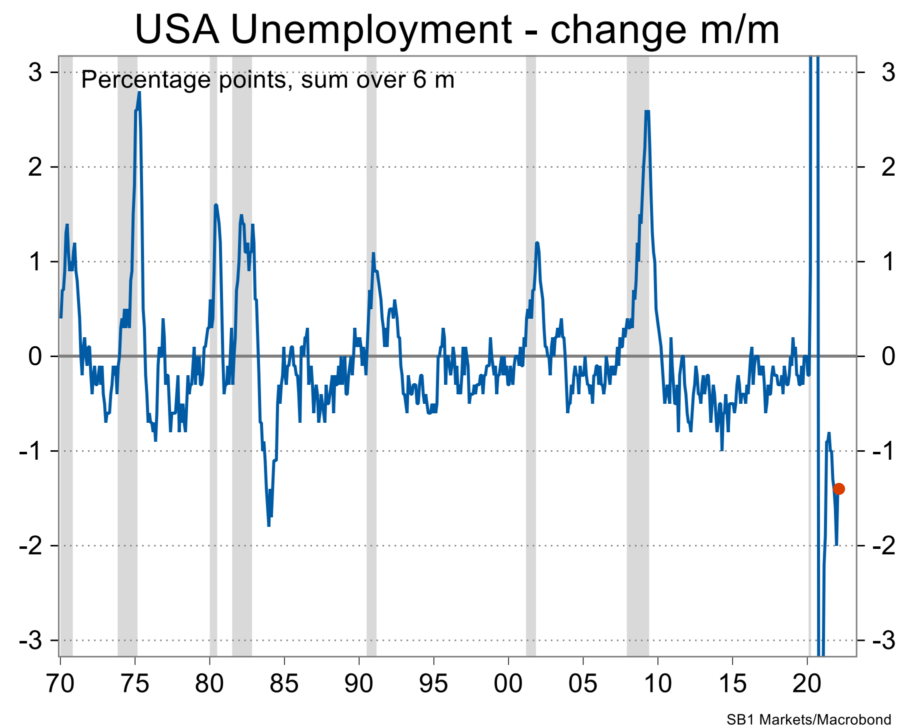


- Fewer than normal say they want a job without activity searching for one (they are not influded in the work force)
  - » Still – in really good times, the labour force may be increased by an additional 0.3 – 0.4 pp
- Covid related outsiders that say they want a job are included in these discouraged workers data

Unemployment down 0.2 pp to 3.8%, 0.1 pp lower than expected

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

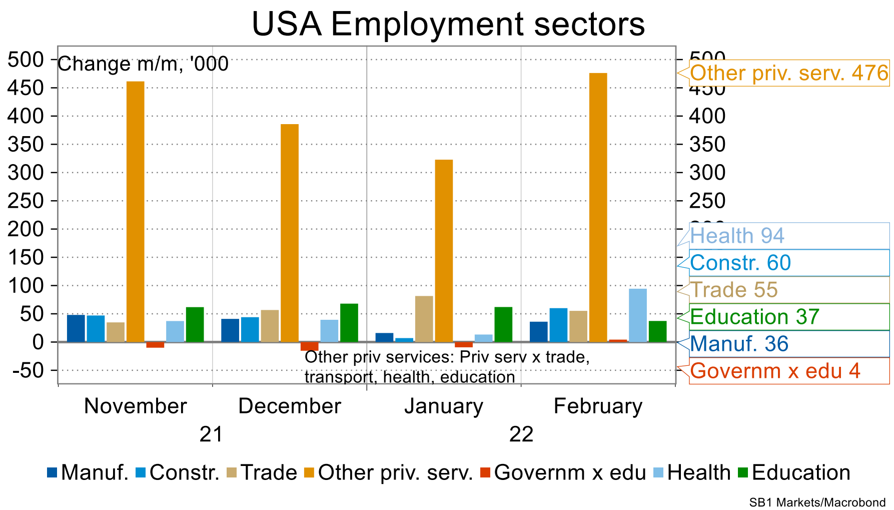


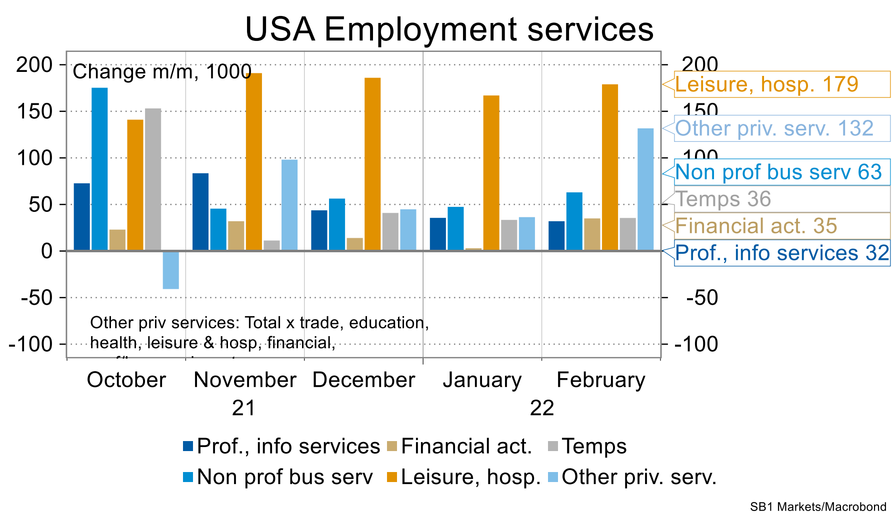


- The recent six months (as over the past 12 months), the unemployment rate has fallen at the fastest pace ever, barring the initial decline in the unemployment rate after the first Covid-19 shock in 2020
- The 3.8% rate is 0.2 pp below the FOMC members' median 4% NAIRU (long term) estimate
- All other labour market indicators signal that US is very close or at maximum employment

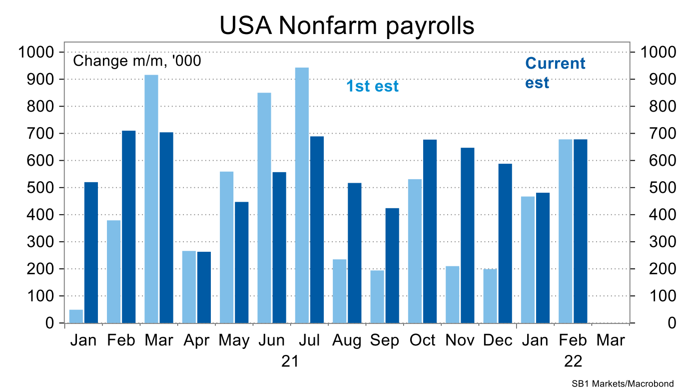
SpareBank 1 MARKETS

In Feb: Growth in all main sectors, services (leisure/hospitality) in the lead



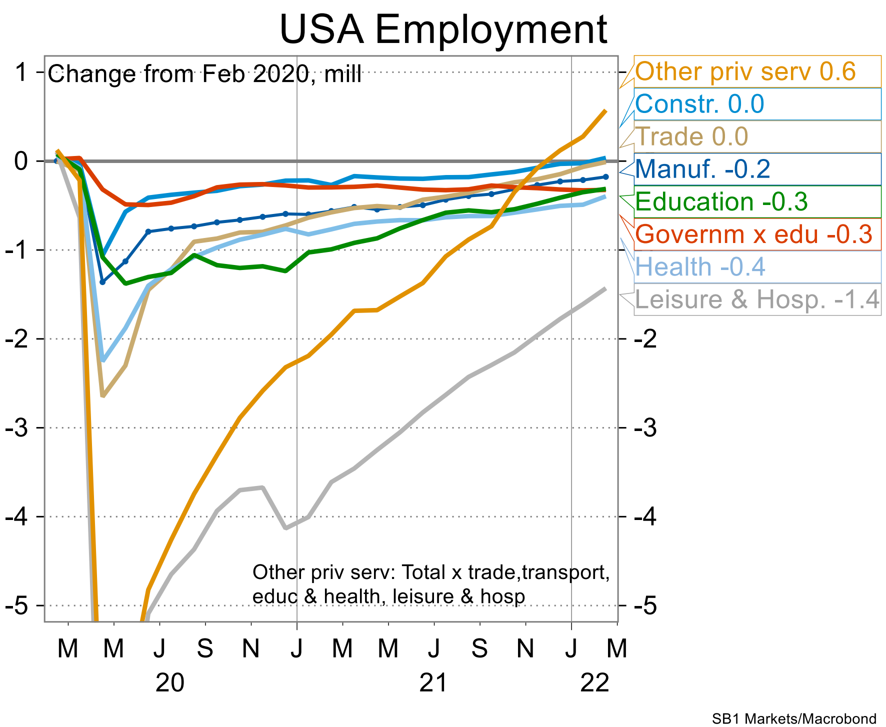


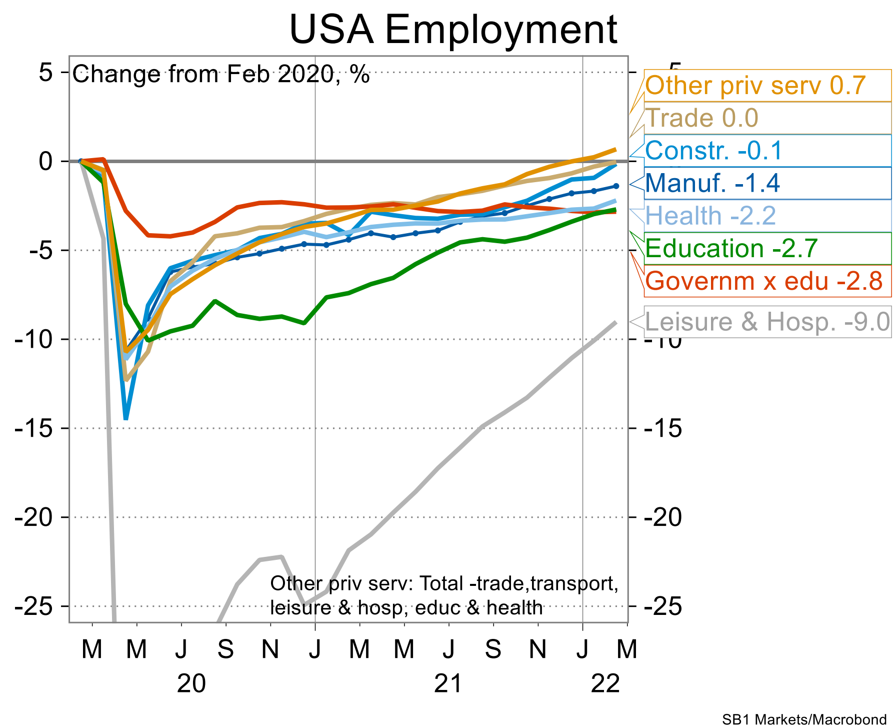
- **Last month:**
  - **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 179’ jobs
  - **Trade** added 55’ jobs – and the trend is steady upwards
  - A broad increase in payrolls in other **private services**
  - **Manufacturing** added 36’, on par
  - **Construction** sector employment up by 60’ more than normal
  - **Education** (private & public) up by 37’ (seas. adj.)
  - Employment in **government** (ex education) up by 4’



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

Leisure & hospitality still down 9% - but steadily climbing

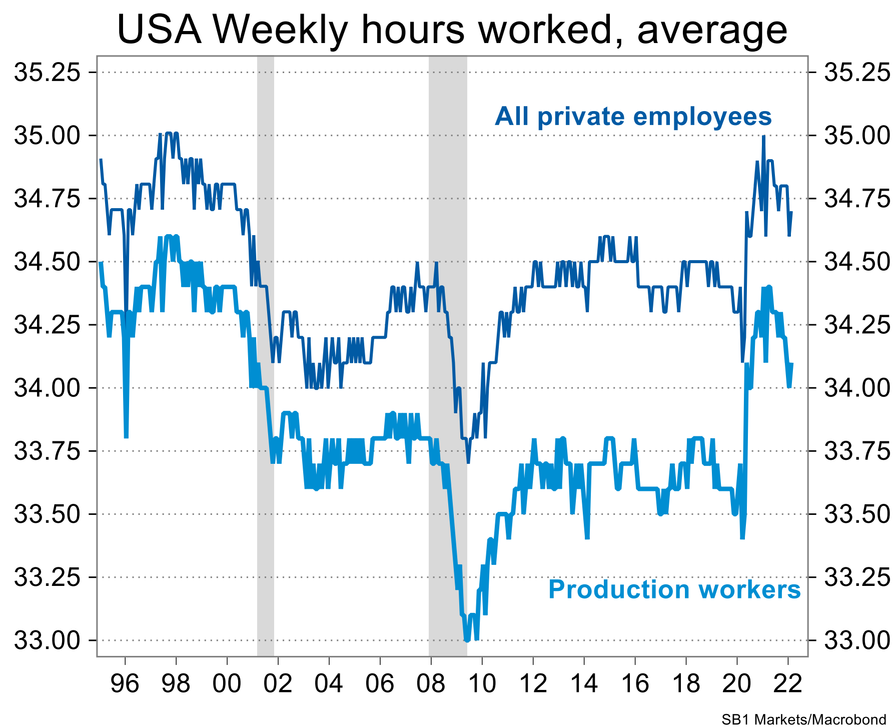


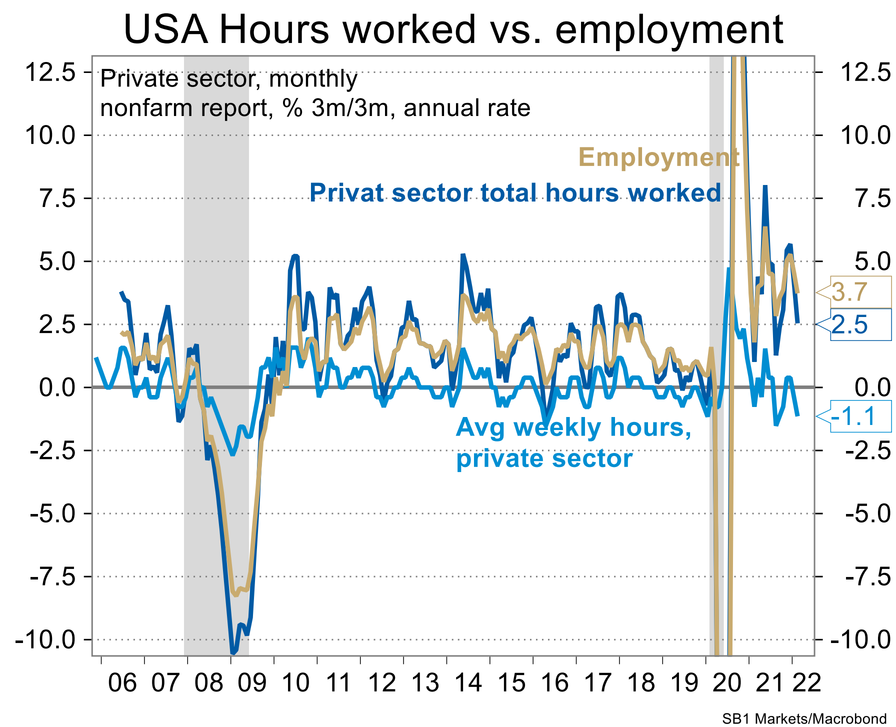


USA

Average weekly hours up in February but remains at a low level

Probably due to virus problems (sickness leave etc)

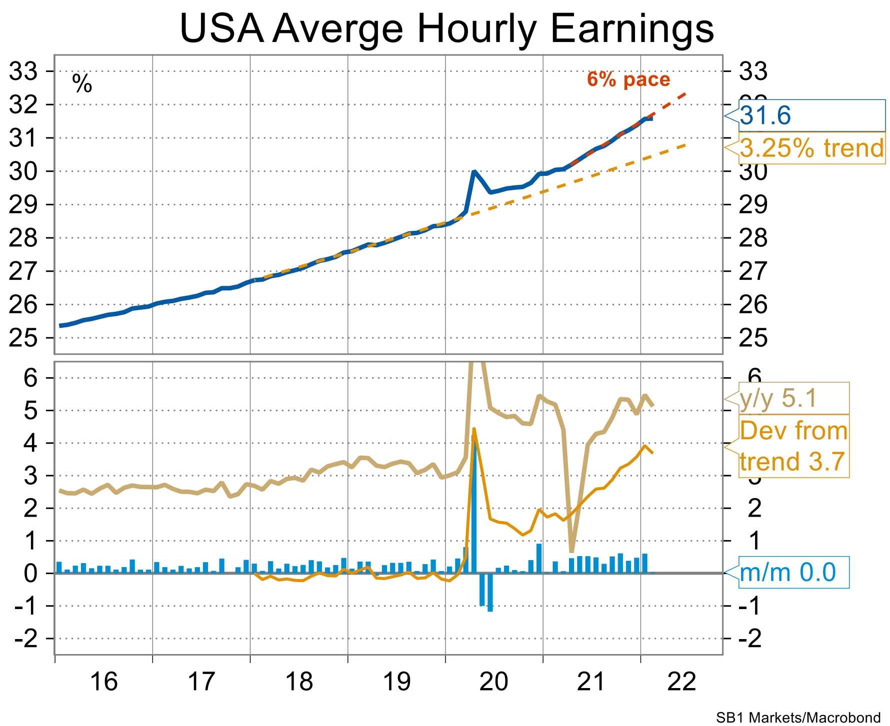




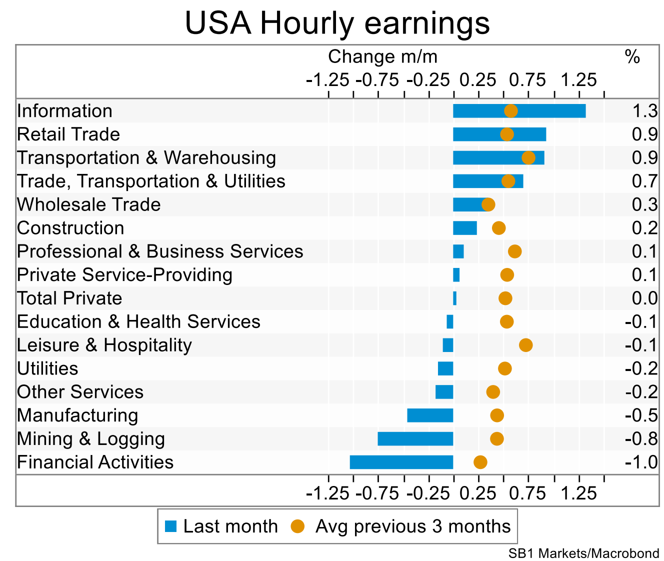
- 4.2 mill workers in the LFS reported that they have been unable to work or have worked fewer hours because the employer closed or lost business due to the pandemic – down from 6 mill in February (but still up from 3.1 mill in December). This may explain some of the decline in hours worked

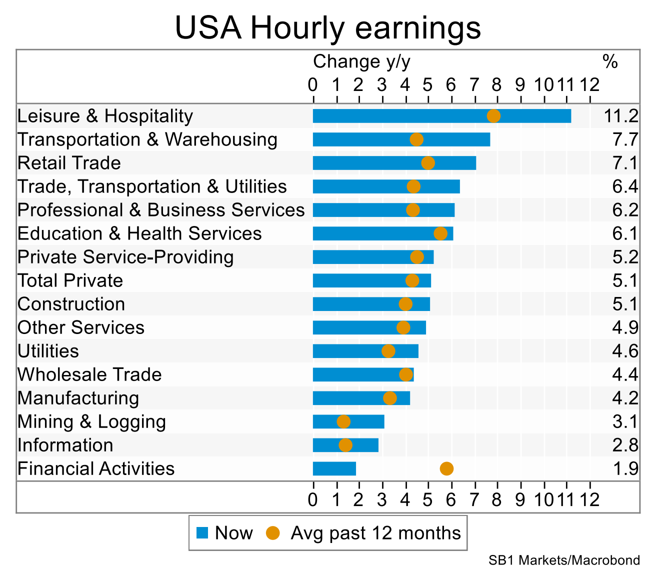
Wages flattened in February, trend still strong

Unsual differences between sectors, wage down in 7 of 15



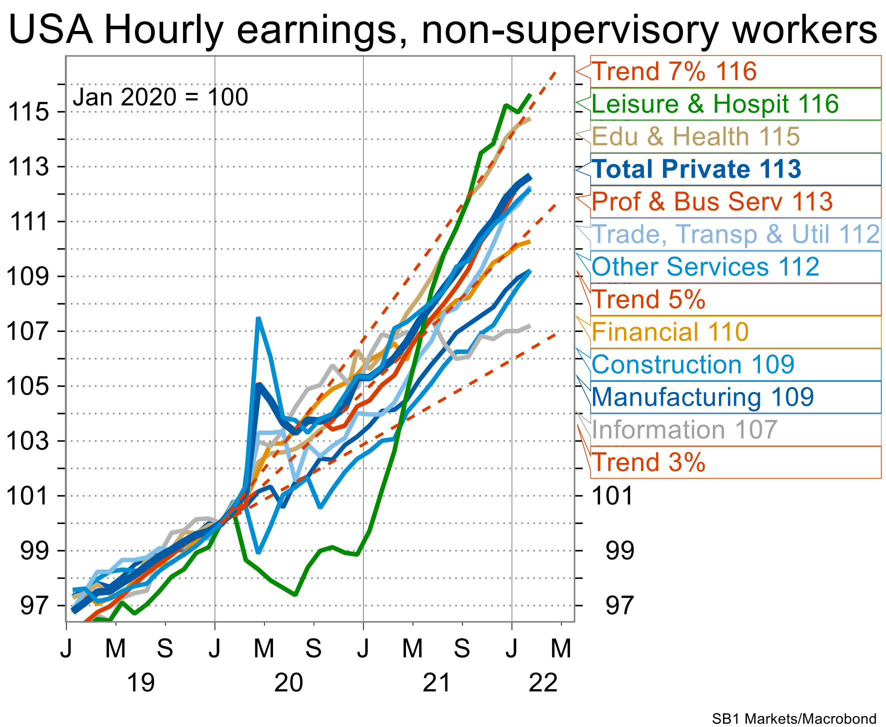
- The **average wage** rose was unch m/m, expected up 0.5%. **The annual rate** fell to 5.1% from 5.7%, 0.7% less than expected (as the history was revised a little down, following a larger upward revision in January
- Since last April, the underlying growth has equalled close to 6%, even if wages flattened February.
- Most sectors reported lower m/m wage changes than over the past 3 months. However, almost all sectors report higher annual inflation, than the average 12 m growth rate over the past year. Just poor finance port a slowdown, were bonuses smaller than hoped for?





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

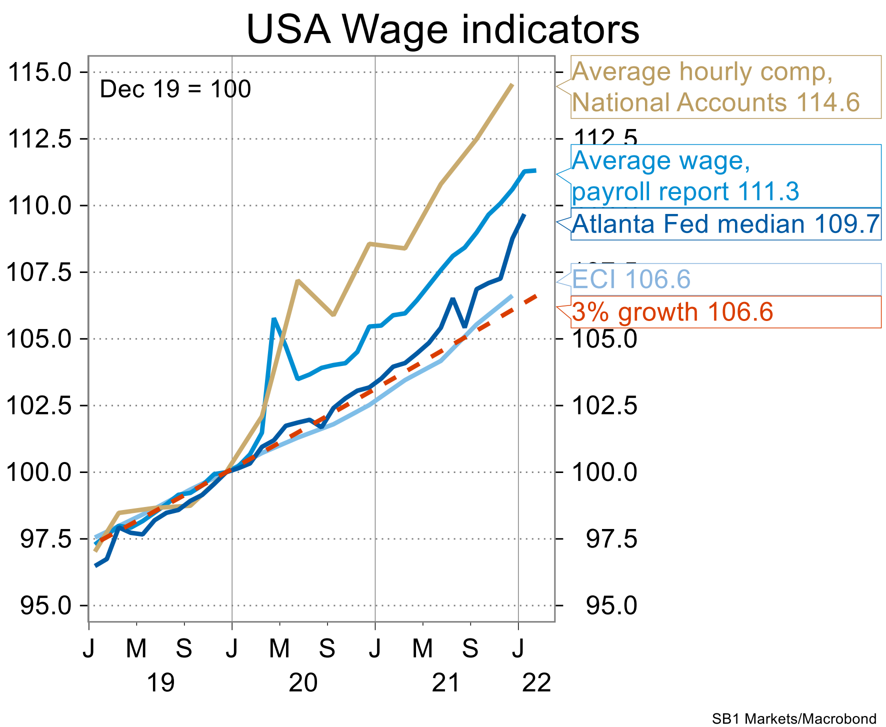
... And well above the pre-pandemic growth path in all sectors

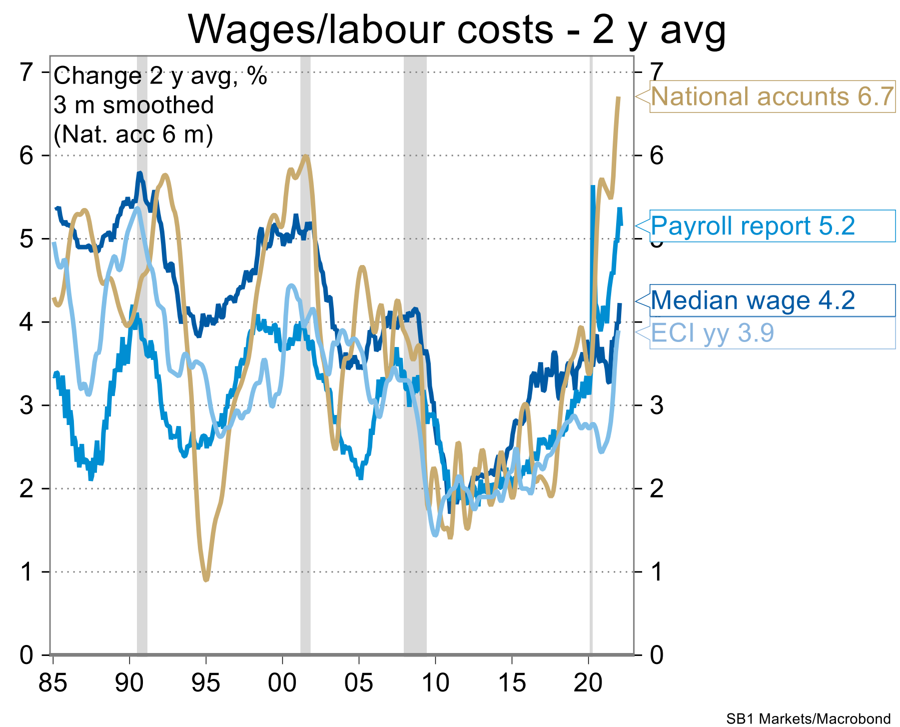


Memo: On the chart to the left above, wages for non-supervisory workers are shown. When all employees are included, growth is slightly lower in most sectors

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

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

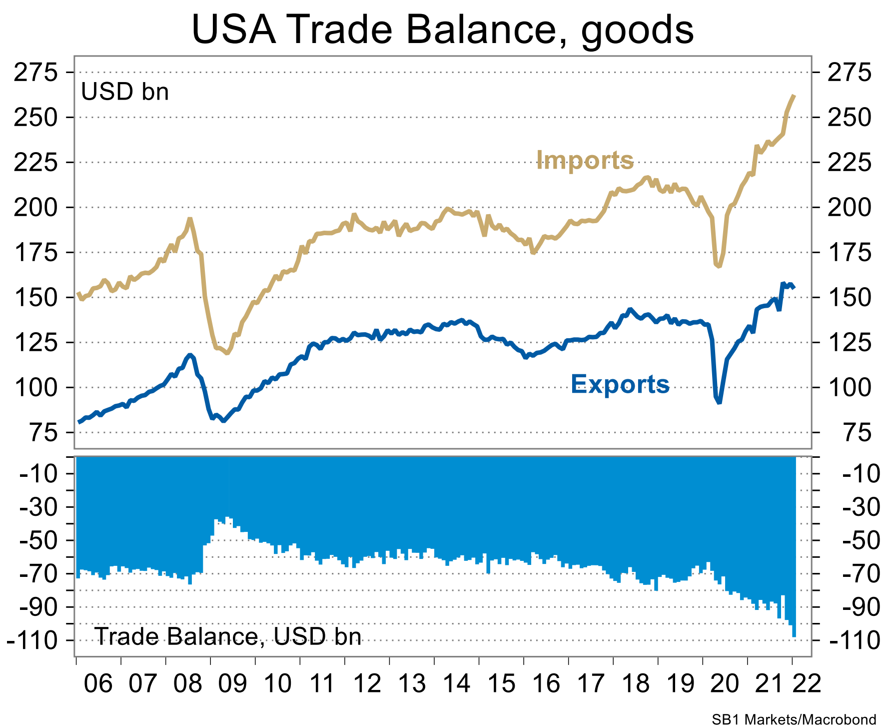


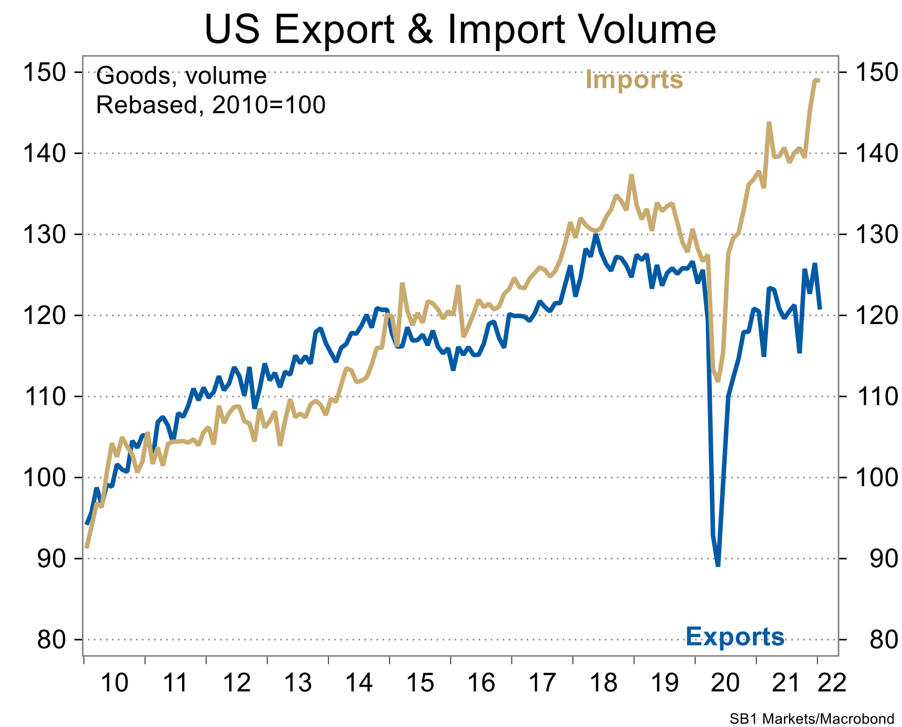


- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years, also if we apply a 2-year average growth rate, to exclude the impact of changes during the first part of the pandemic (chart to the right)
- Growth in wage/earnings/compensation indicators are up 1.5 – 3.5 pp vs the their respective 10 y averages. There is an obvious risk that wage inflation will accelerate further (check the following pages) – probably until the next recession hits as the labour market is extremely tight
- Over the past 10 years, inflation has been close to 2%, and well above 2% if calculated over a shorter period
- It will be a 'challenge' to keep inflation at 2% if wage inflation remains at 5- 6 %. Productivity growth has not accelerated by much. Profit margins may take a beating – and they very likely will – but probably not sufficient to bring inflation down.

Imports are surging, the trade deficit in goods up to USD 108 bn, ATH

Imports rose in both nominal and real terms in January

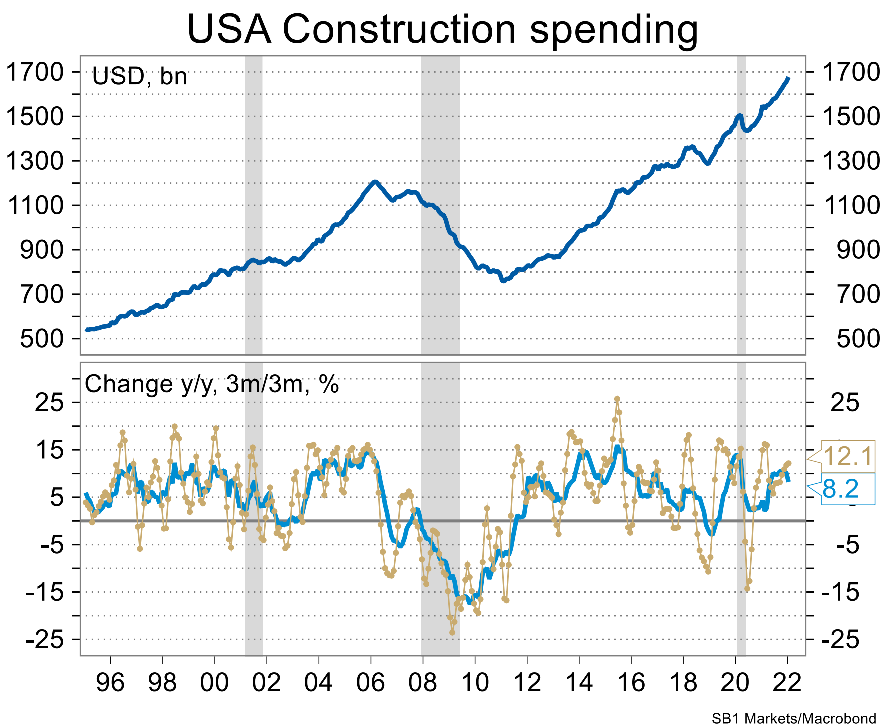


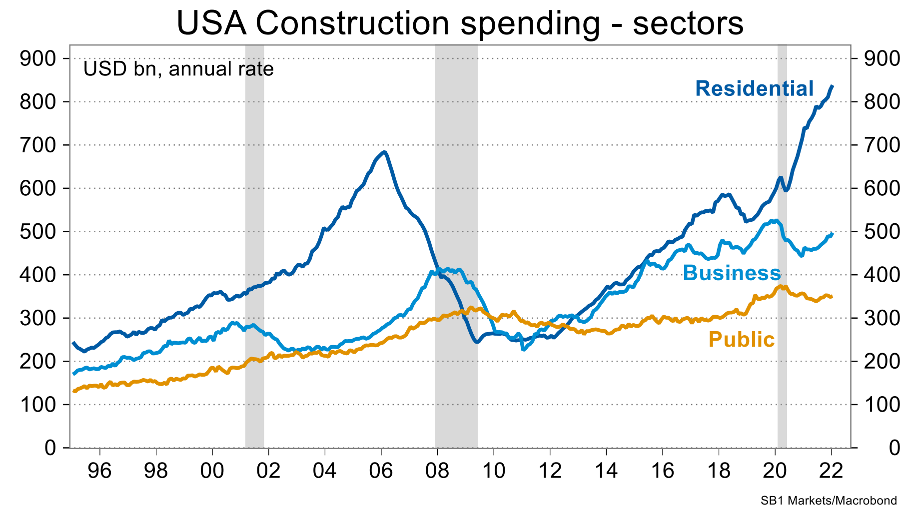


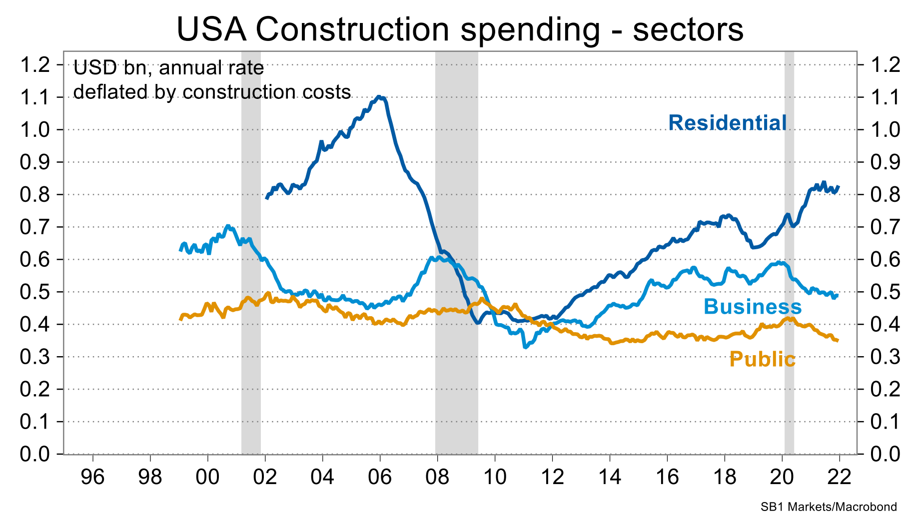
- **Imports** of goods rose by 1.7% in January, and is >25% above the Feb 2020 level, according to the advanced data
  - » **In volume terms** imports rose too; and are up 14% above the pre-pandemic level! Demand for goods has been strong during the pandemic, driving imports – even if auto imports have been low. We expect US households' demand for goods to slow the coming quarters, from the present very high level – dampening demand for imports too
- **Exports** of goods fell almost 2%. This advanced report does not give any details
  - » Export volumes are still below the pre-pandemic level (in value terms exports are well above)
- **The trade deficit** in goods shot up to USD 108 bn, the largest ever

USA construction spending is growing steadily, in nominal terms

However, construction costs are climbing rapidly, construction volumes are declining

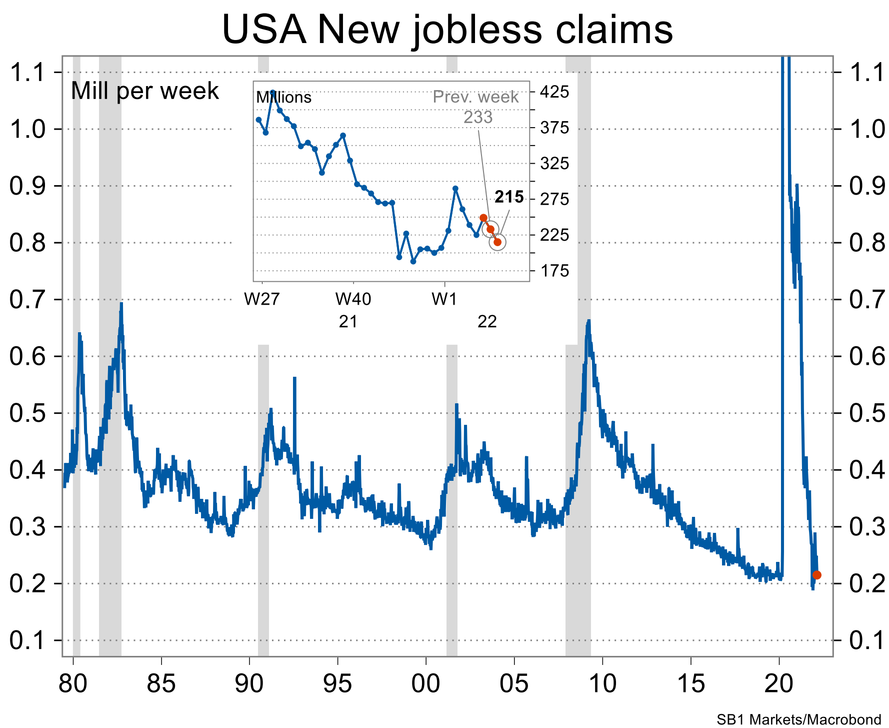


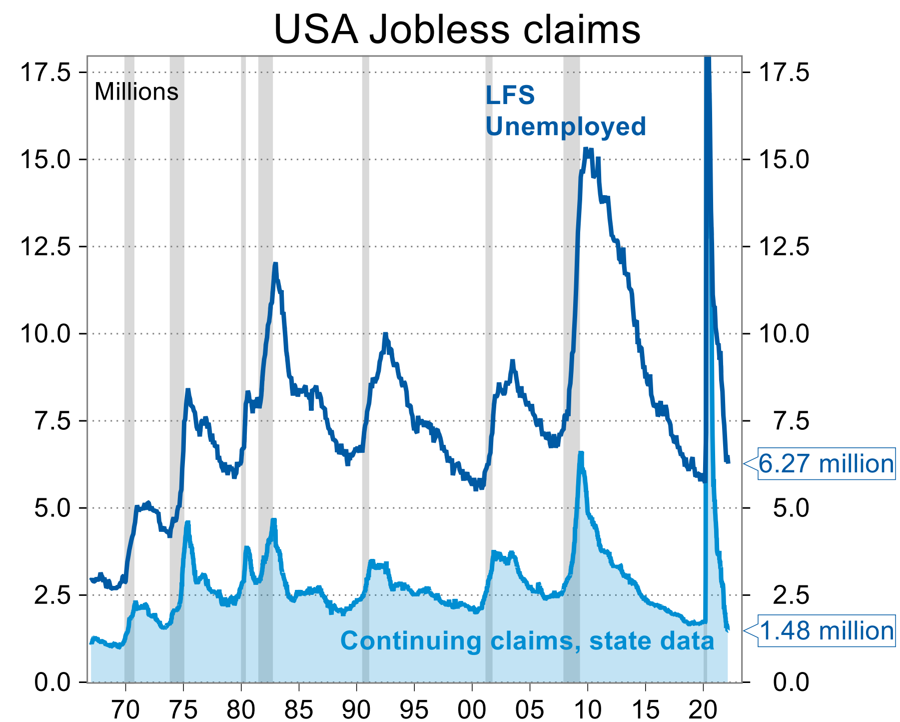




- Underlying growth some 12% in nominal terms but construction cost inflation is even higher – and construction investments are declining

New jobless claims down last week – and very few left on the dole

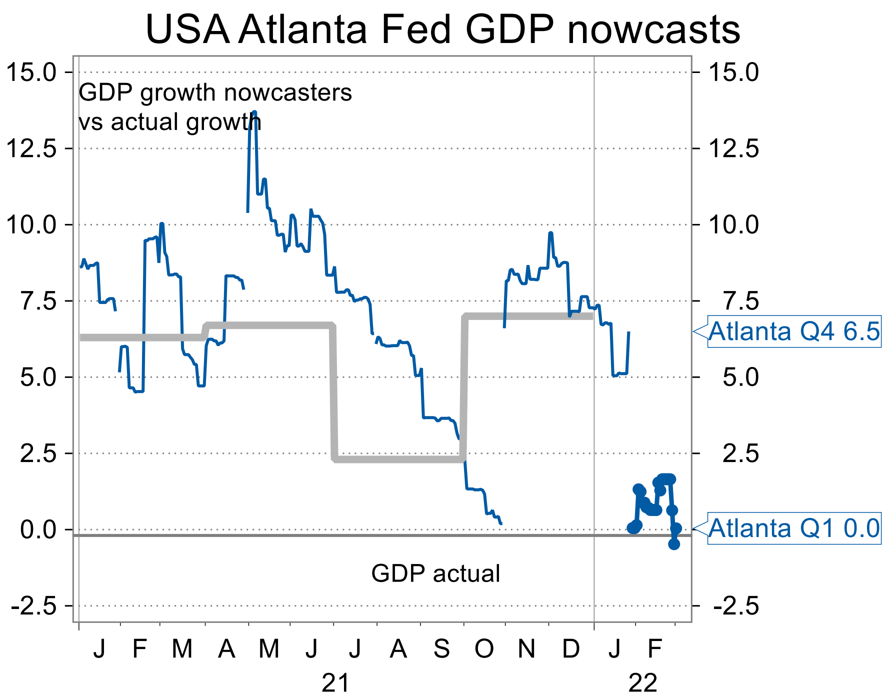




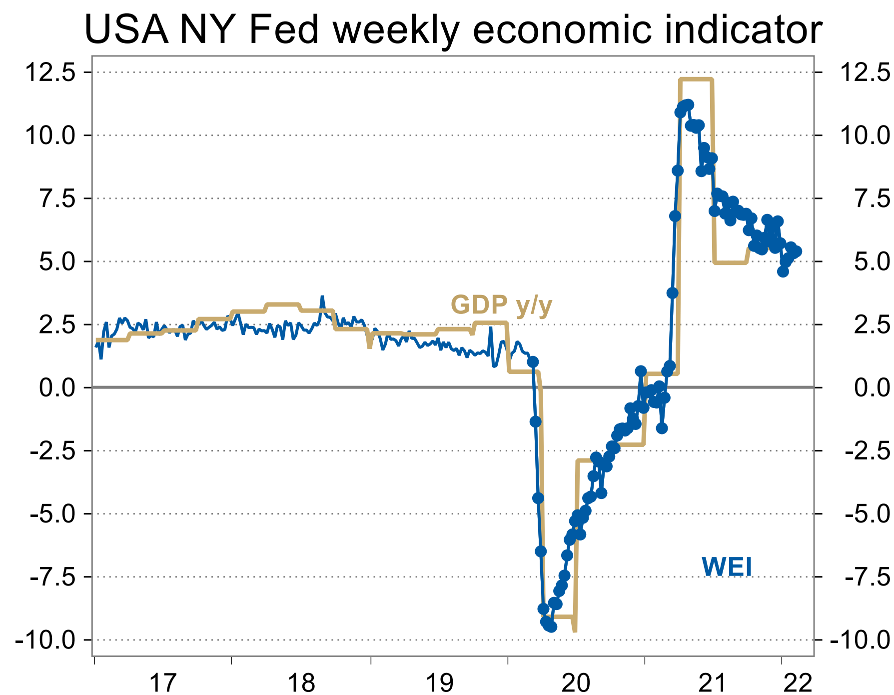
- **New jobless claims** fell to 215' in week 8 from 233' the previous week. The inflow is low – but somewhat above the level late last year
- **Ordinary continuing claims** were unch in week 6, at 1.48 mill, the lowest level since 1970, and as share of the labour force, the lowest ever, by far

Atlanta Fed’s nowcaster suggests zero growth in Q1

Net trade & inventories contributes at the downside, according to Atlanta Fed



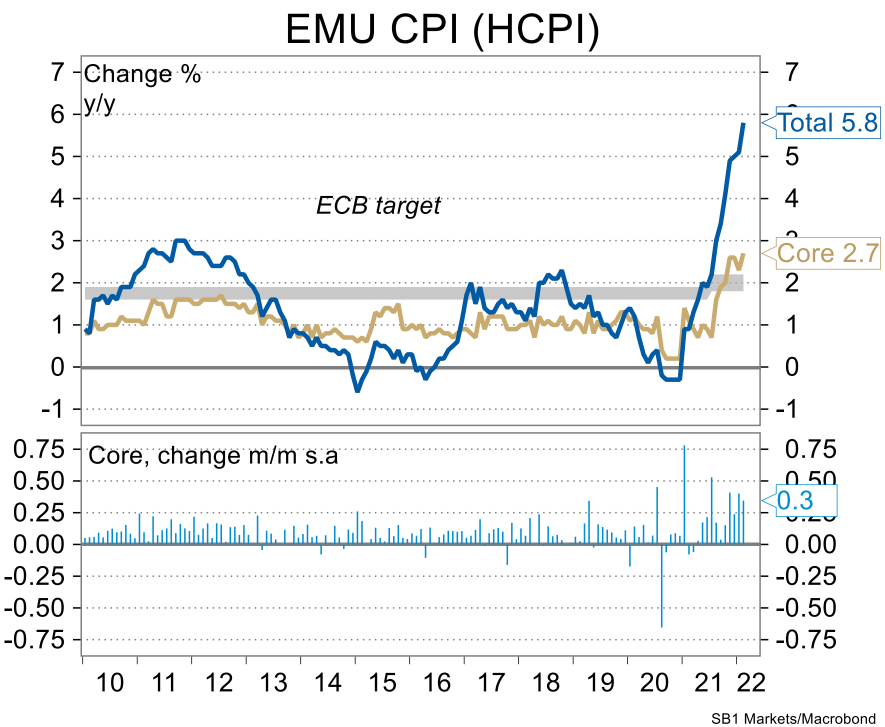
SB1 Markets/Macrobond

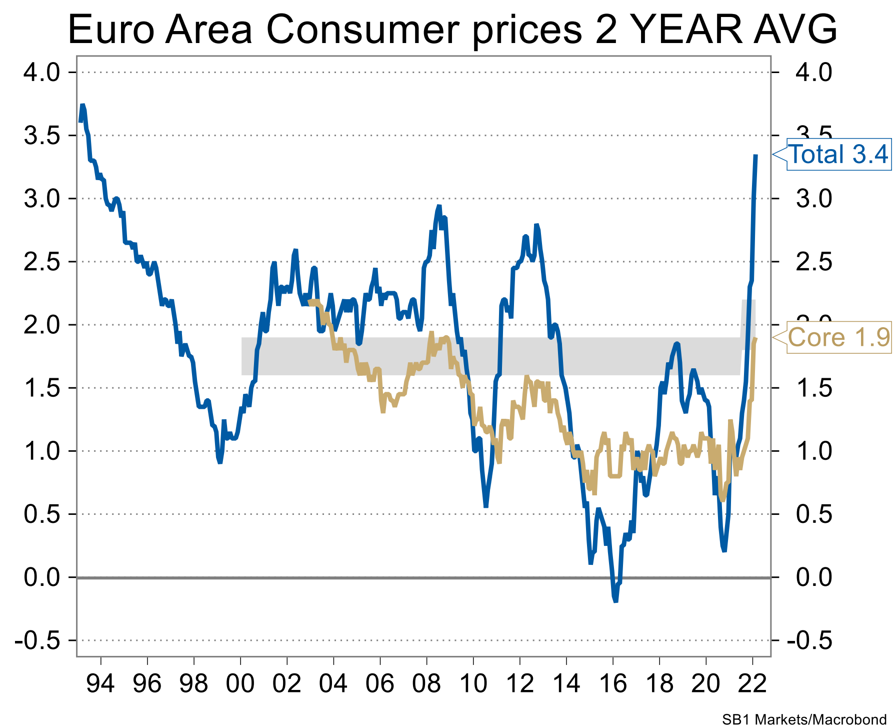


SB1 Markets/Macrobond

Inflation still surprises on the upside, headline towards 6%, core towards 3%

.. 0.1 – 0.2 pp above revised expectations. And more may come. Still the focus is not here anymore



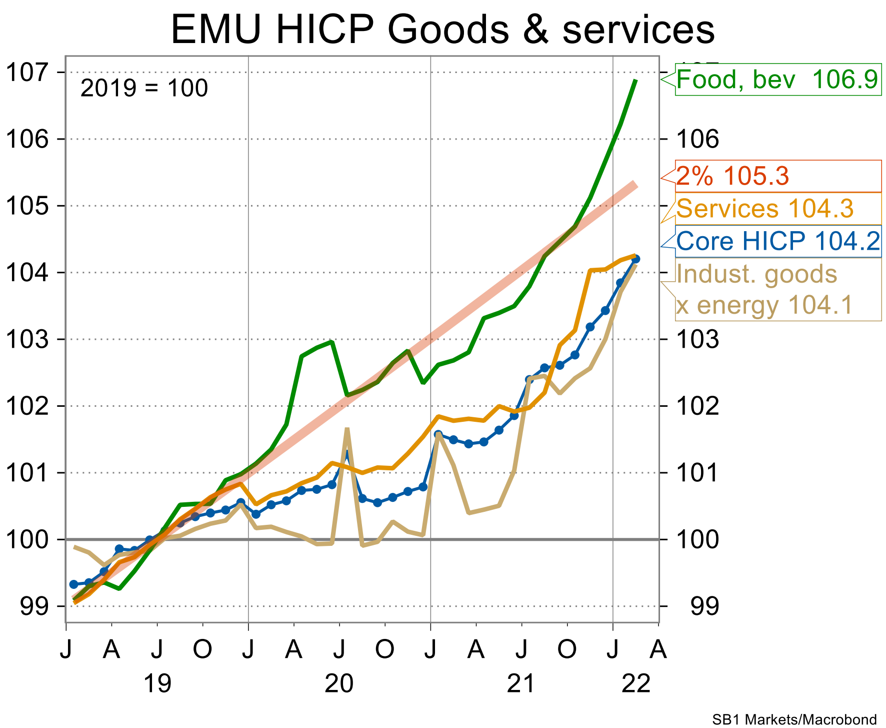


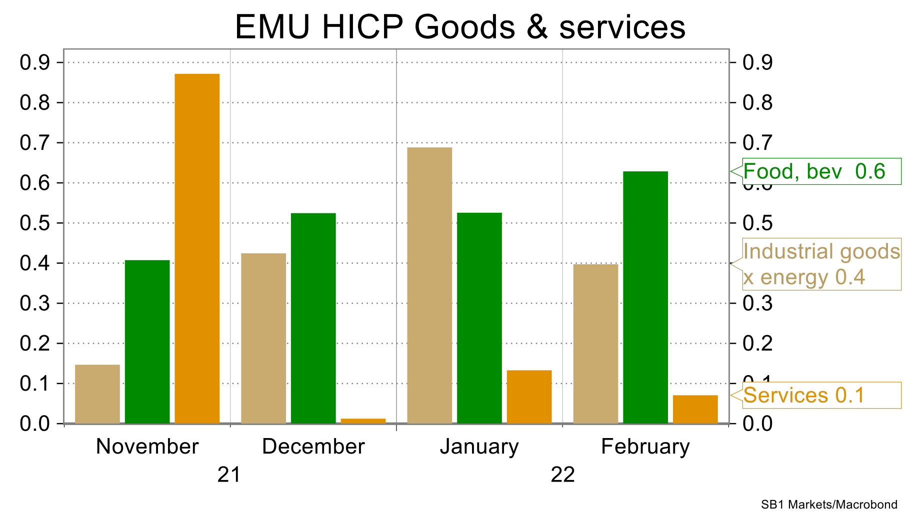
- … The potential huge energy supply shock following the Russian invasion will not be met with higher interest rates – as is very likely lowers growth. As long as wage inflation does not accelerate, not reason for the ECB to fight an eventual energy shock
- **The headline HICP** rose 0.7% m/m in February, pushing the annual rate up by 0.7 pp to 5.8%, expected 5.6% (one week ago, 5.4% was expected)
- **Core prices** rose 0.3% m/m, and the annual rate accelerated 0.4 pp to 2.7%, expected 2.6%. Over the past 2 years, the core is up just 1.9%. However, underlying inflation the past 4 months is above 3% (annualised)
- **Wage inflation** is still modest, but more unions are requesting compensation for the hike in consumer prices…

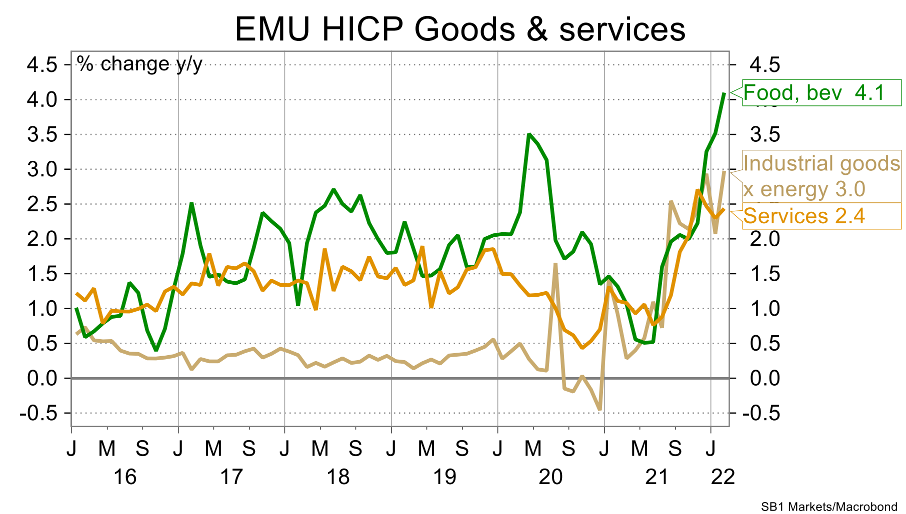
SpareBank 1 MARKETS

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

Food inflation at 4.1%, industrial goods x energy at 3.0%, and services 2.4%



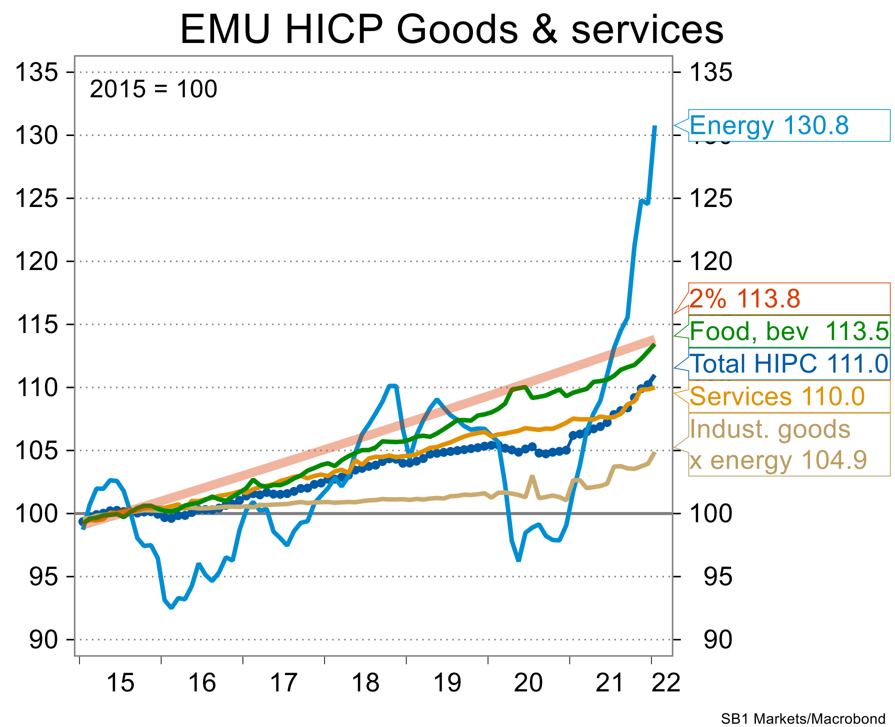




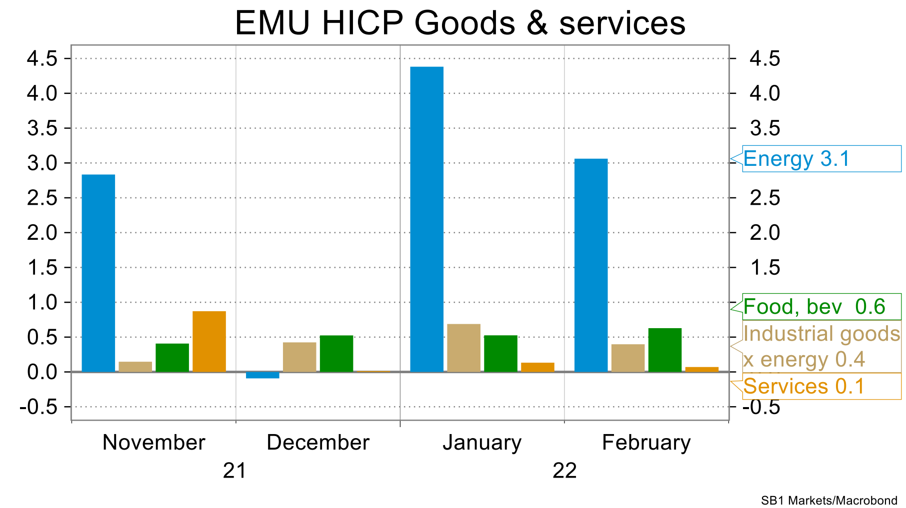
- Industrial goods rose 0.4% m/m in February, and prices have been rising sharply since December. Still, the prices are below a 2% path since 2019
- Services prices rose 0.1% in Feb, and these prices are also below a 2% path vs the 2019 level. Transport and hotels/restaurants have contributed on the upside last year (but no data for Feb yet)
- More details in the full report in a couple of weeks time

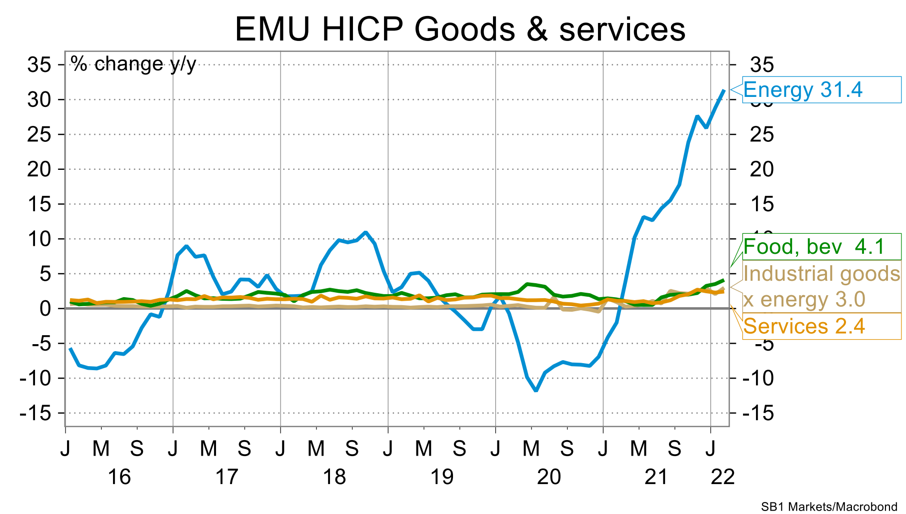
Inflation: It is ~~(somewhat)~~ more than energy

But energy is still the BIG story – and prices rose 3% m/m in February – and are up 31% y/y



- At one stage, energy prices will turn south again





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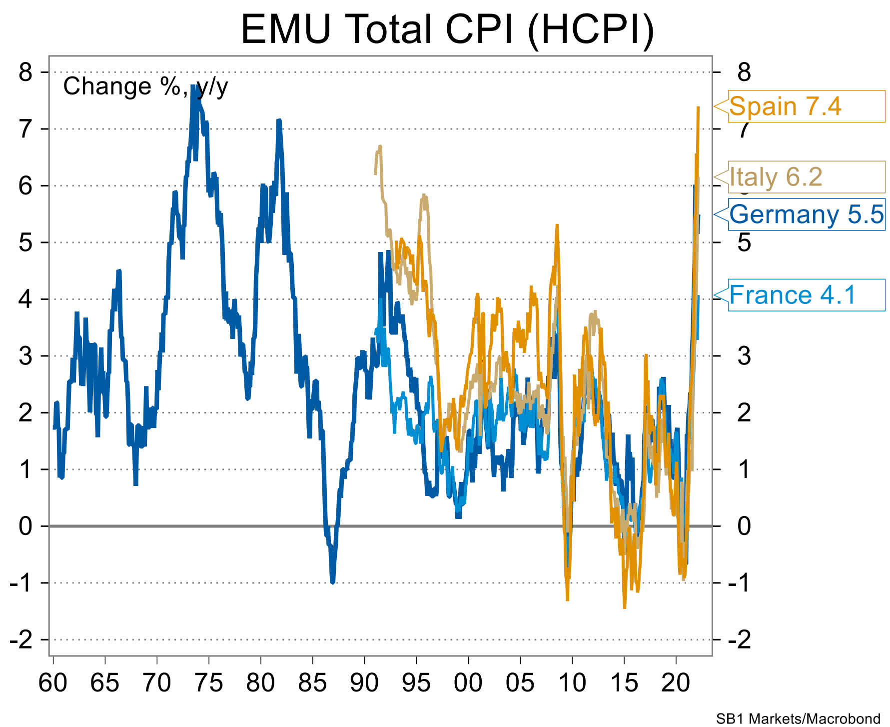
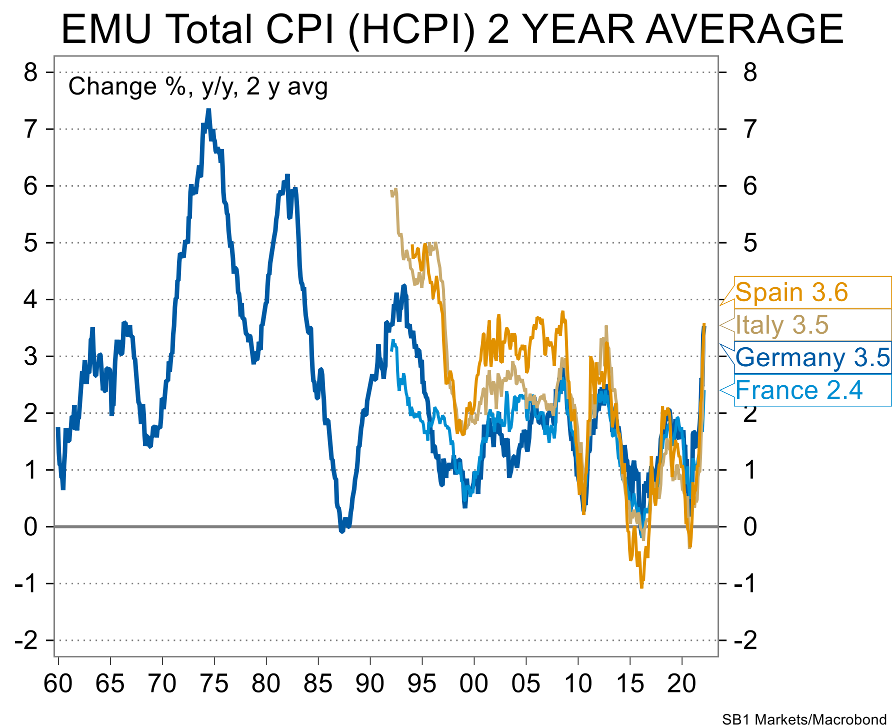
Now even 2 year's inflation rates are becoming more troublesome

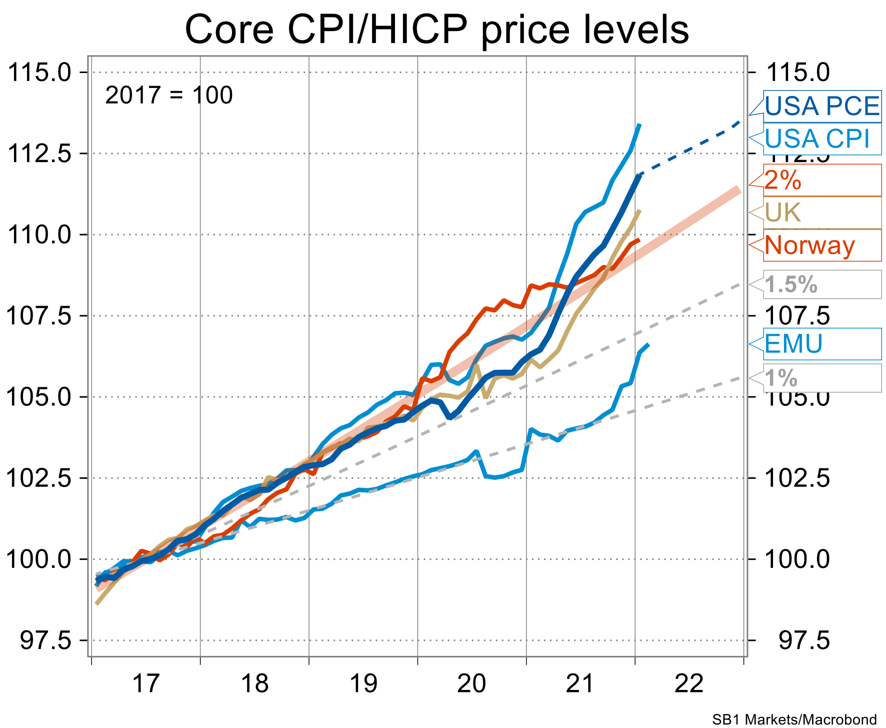
Mostly due to energy





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

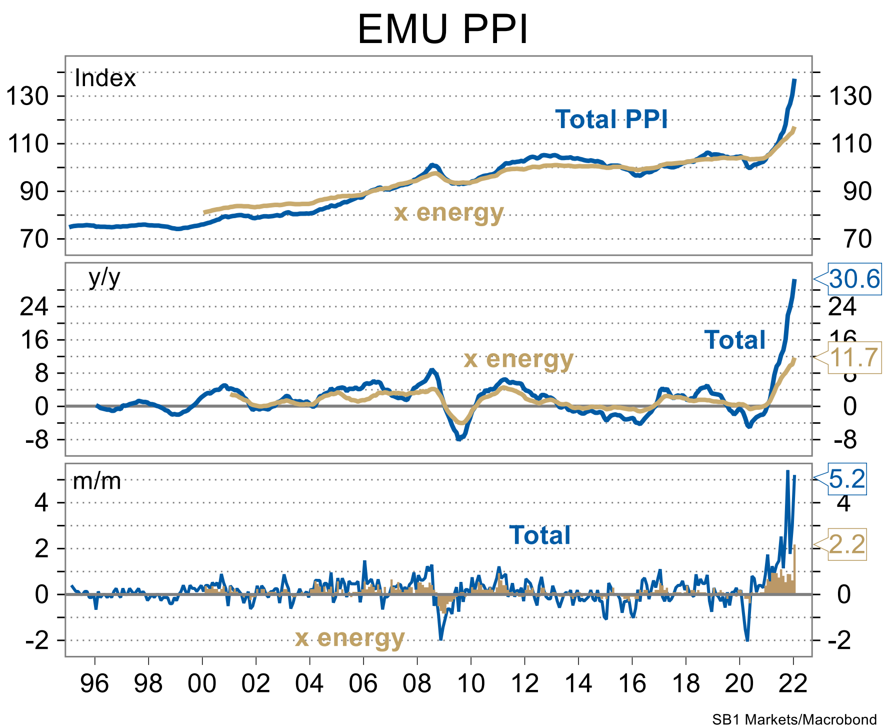
Core prices are climbing faster everwhere

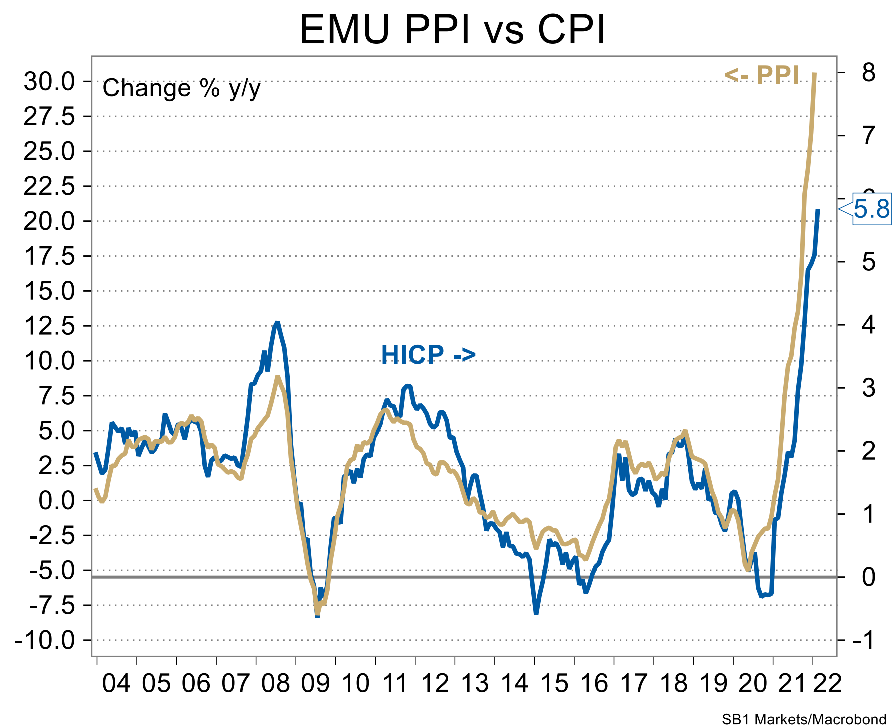


- EMU core CPI has shot up recent months but is still at 'at low level'

Producer prices up 31% y/y, all included. And 12% x energy

The total PPI rose 5.2% m/m in January, the core index added 2.2%, the most ever





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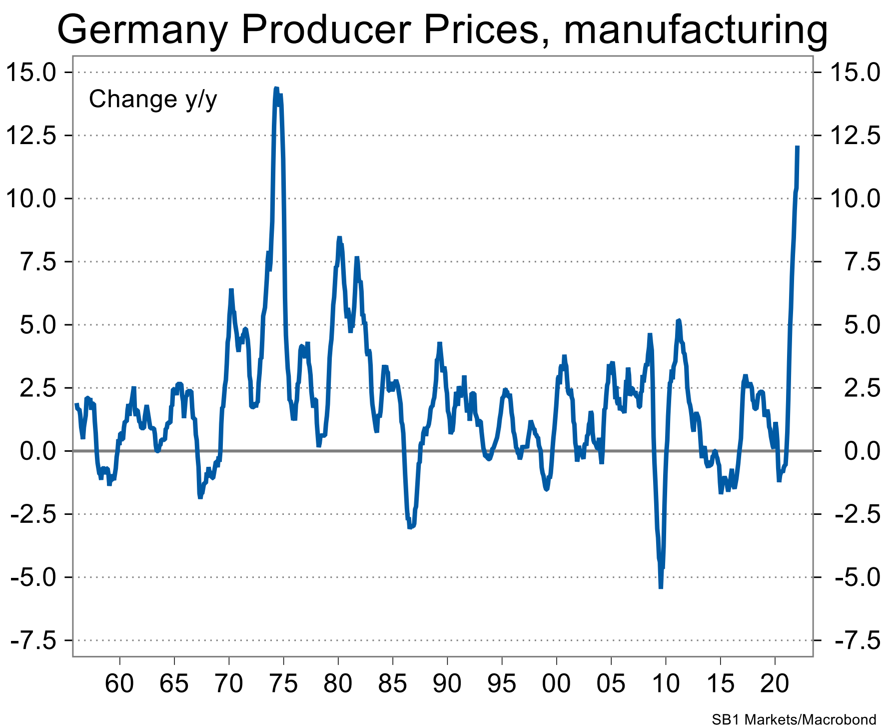
Just for the record: German producer prices, ex energy

Up 12% y/y, has been higher only once, in 1973



- Energy prices are not included

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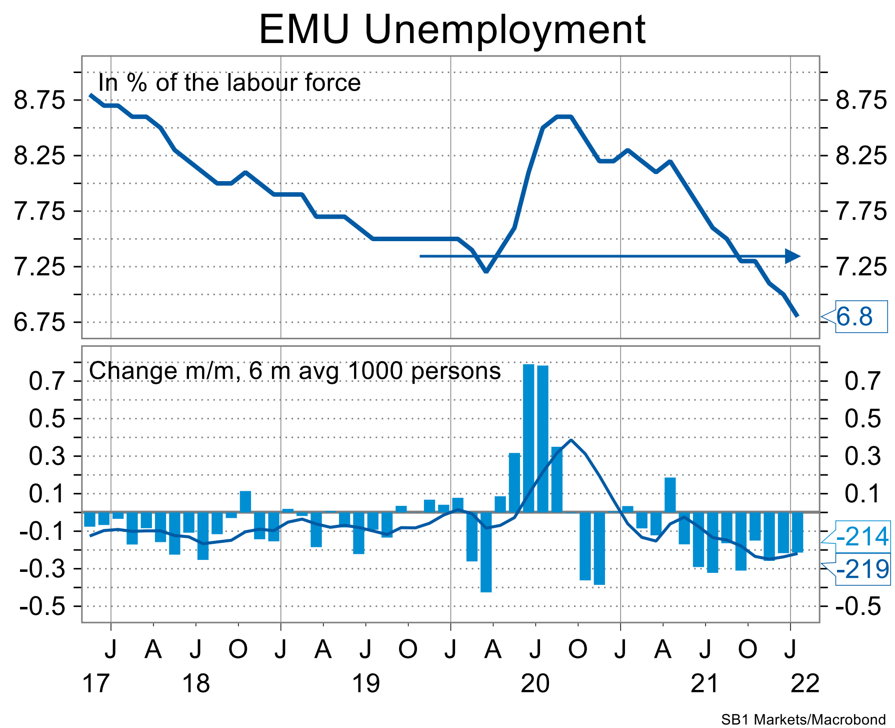
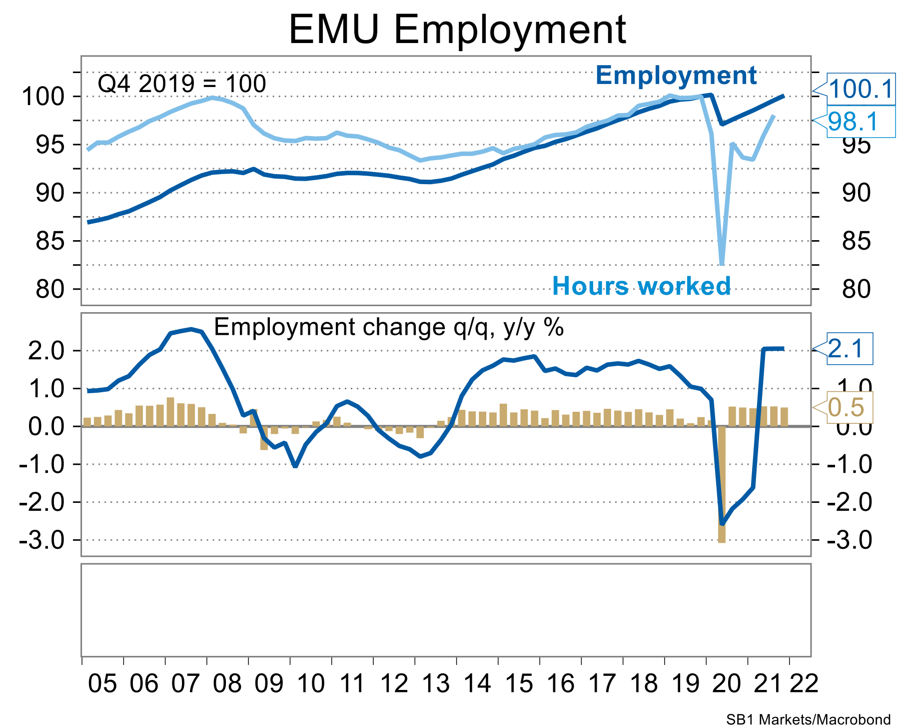
Unemployment fell further in December, by 0.2 pp to 6.8%

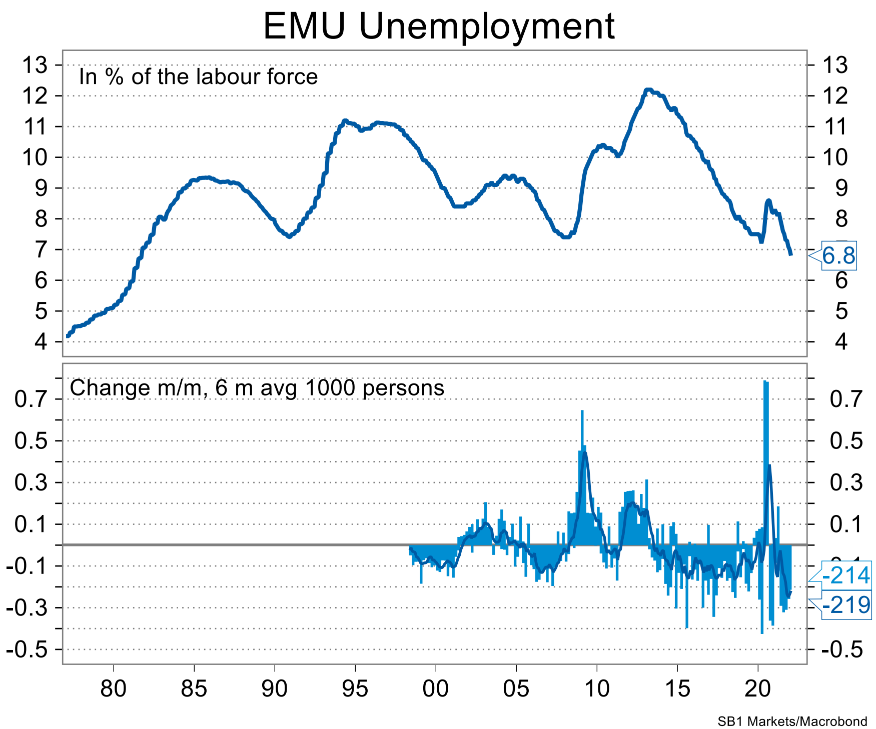
Unemployment is the lowest in the region since 1981, well below the pre-pandemic level





- **Unemployment** has been falling rapidly since last spring. In January, the unemployment rate 0.2 pp, expected unchanged
- **Employment** rose by 0.5% in Q4, as in the previous 4 quarters, and the level is 0.1% above the pre-pandemic level
  - » However, the best proxy for the real unemployment rate, at least vs. **demand for labour**, is the number of **hours worked**. In Q3, hours worked were down 1.9% vs the pre-pandemic level, as average working hours have fallen – but working hours grew rapidly in both Q2 and Q3
- The number of **unfilled vacancies** has soared to the highest level ever, by far

Unemployment the lowest ever in the EMU, and since 1981 in the member states



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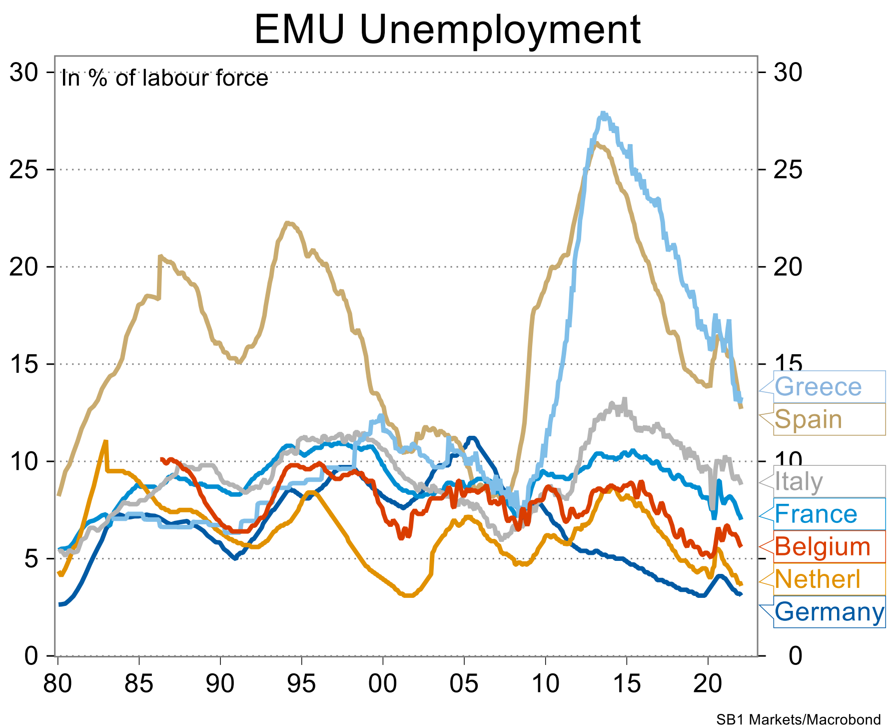
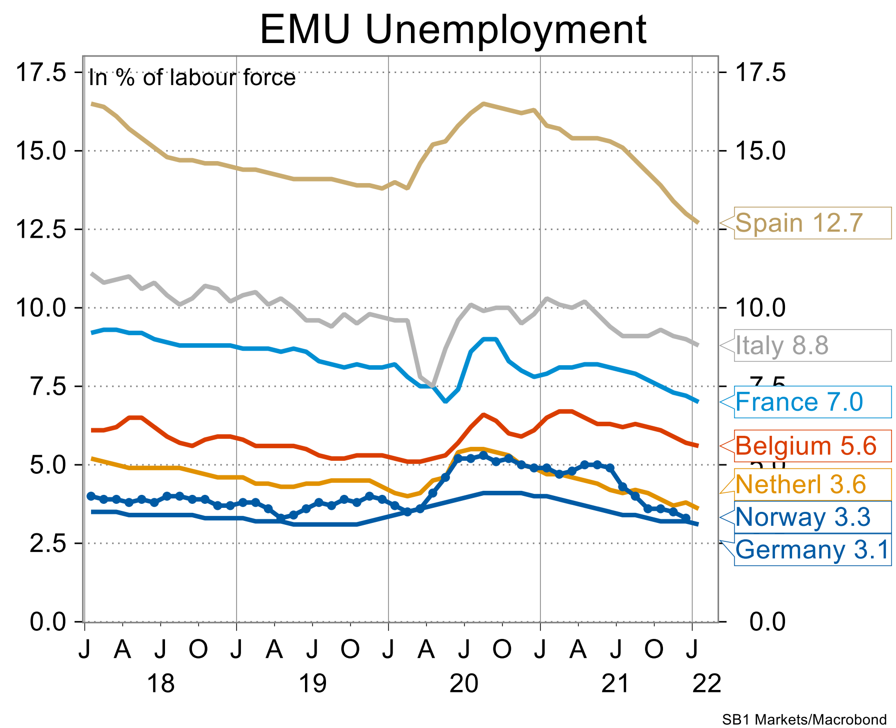
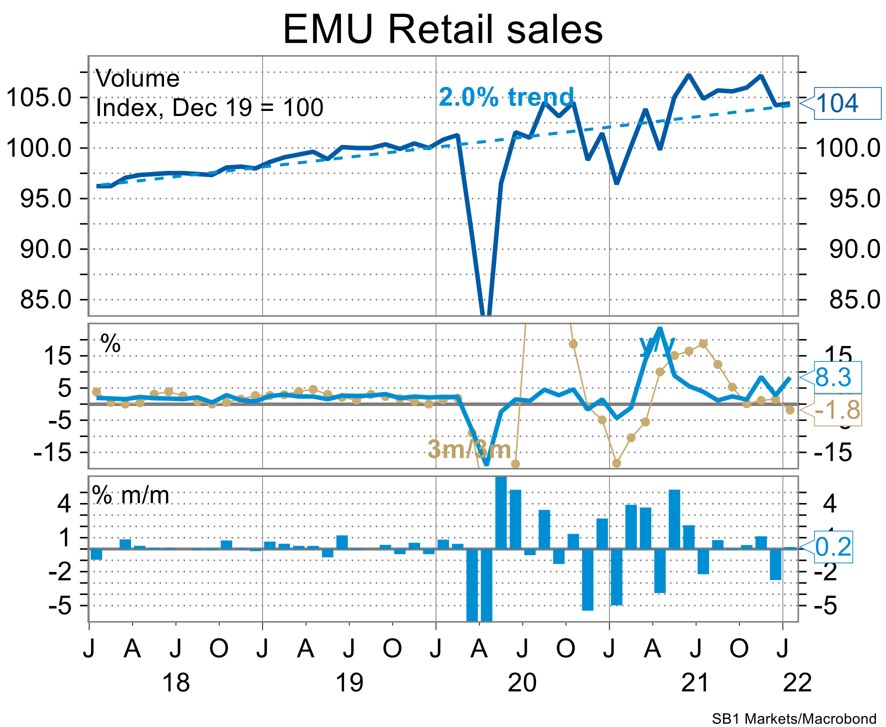
Unemployment is falling all over the region

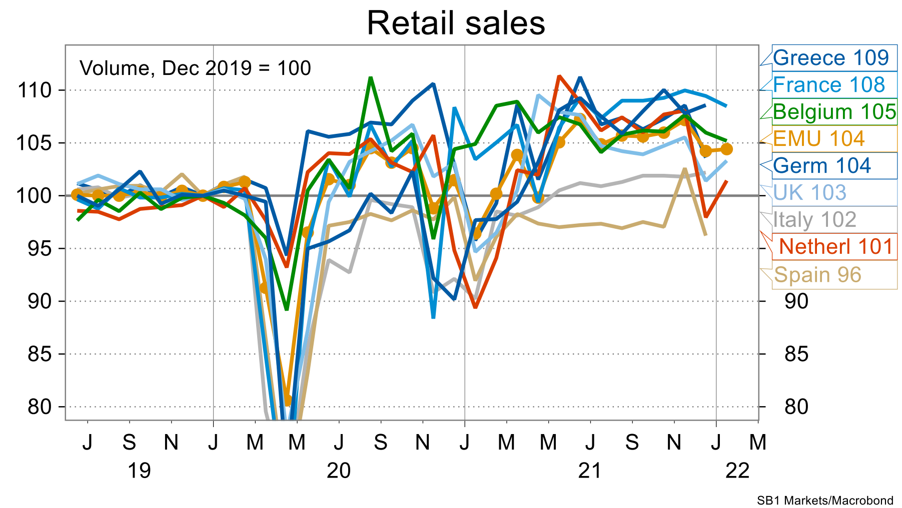




Retail sales up just 0.2% in January, following the 2.7% drop in

Sales much weaker than expected (+1.3%)



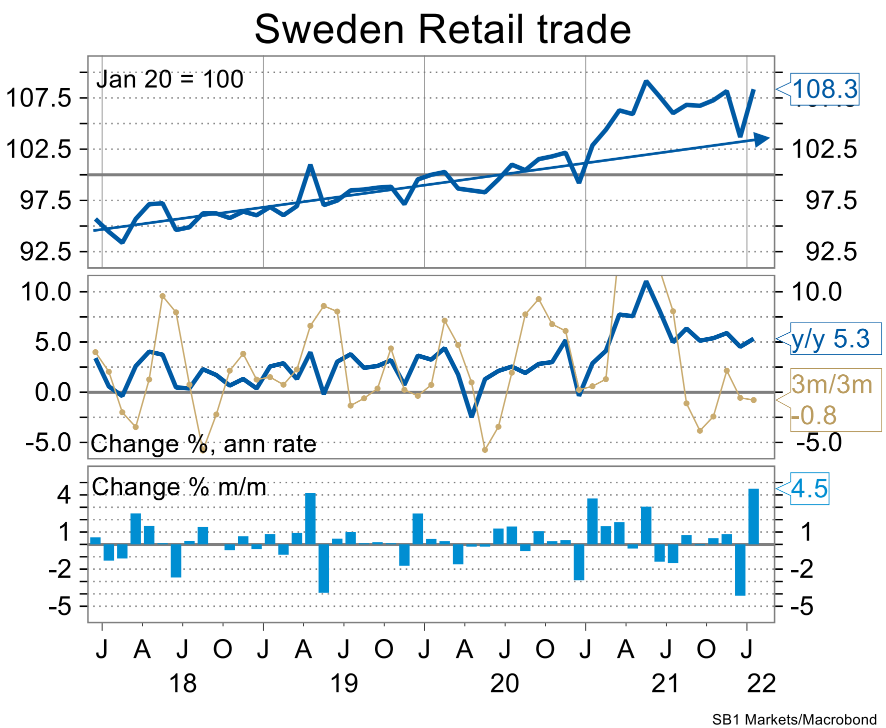


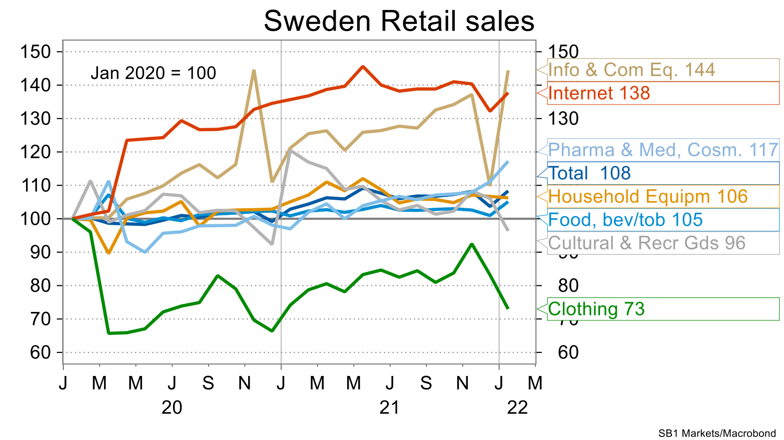
- Since before the pandemic: Sales are up 4%, close to the pre-pandemic growth path

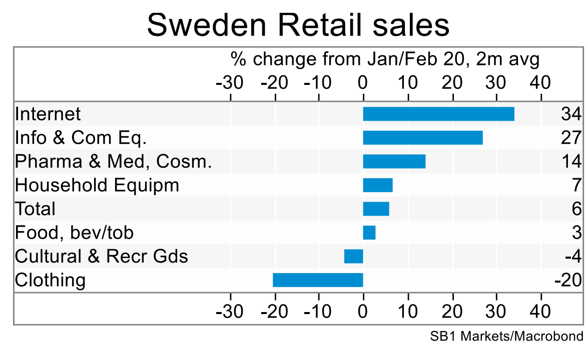
SpareBank 1 MARKETS

Retail sales up by 4.5% in January – following the 4% drop in December

Level is 8% higher than before the pandemic. Clothing still down 20%!







- Sales are still trending up and are some 5% above the pre-pandemic trend
- Huge sectoral differences. Internet sales up 38% (here like in many other countries), info/communication +32%. Food sales are close to flat, which is strange, given far less activity at restaurants (and Norwegians do not normally buy that much in Sweden, do we??). Also, clothing sales are still down 20% vs Jan-20, rather incredible (has the net taken the market?)
- As for Norway and several other countries: Retail sales are very likely above a long-term trend

Highlights

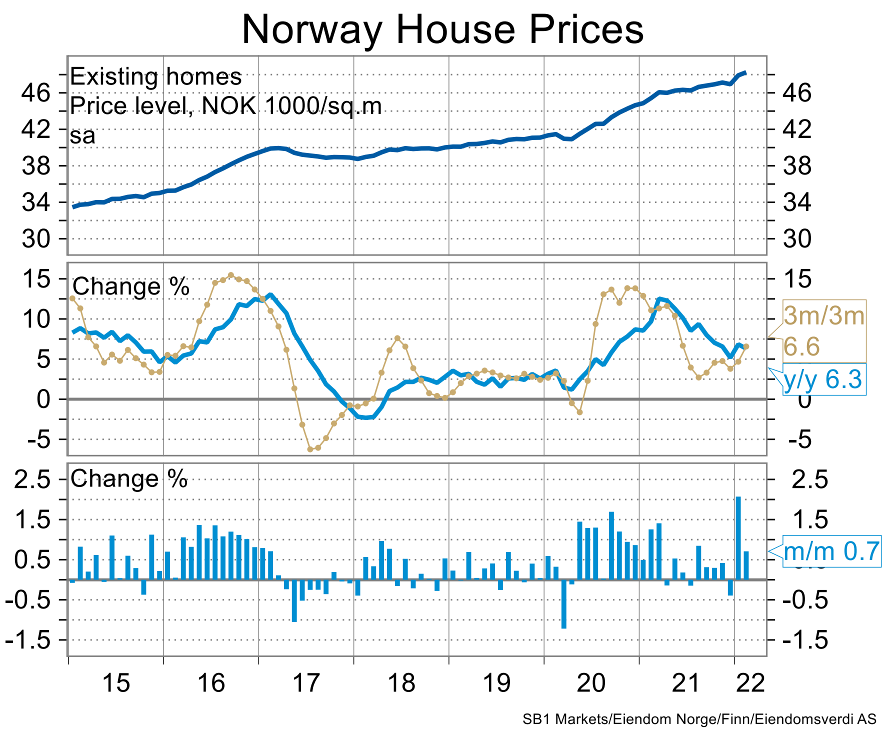
The world around us

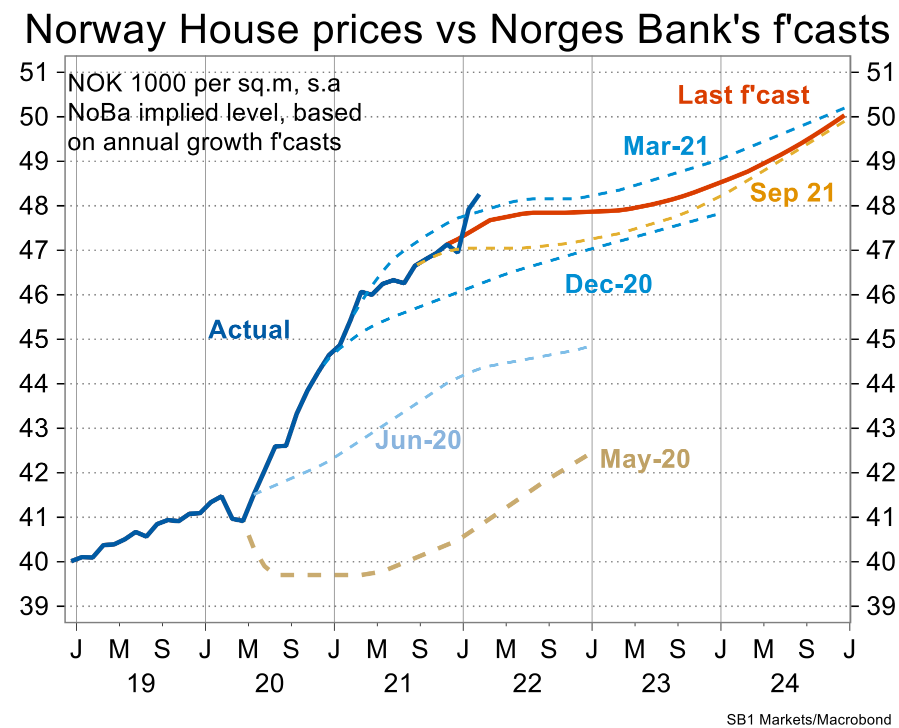
The Norwegian economy

Market charts & comments

A ‘technical’ house price appreciation in ~~January~~ February too?

A further 0.7% price hike may be due to new paperwork requirements, the supply side is curbed

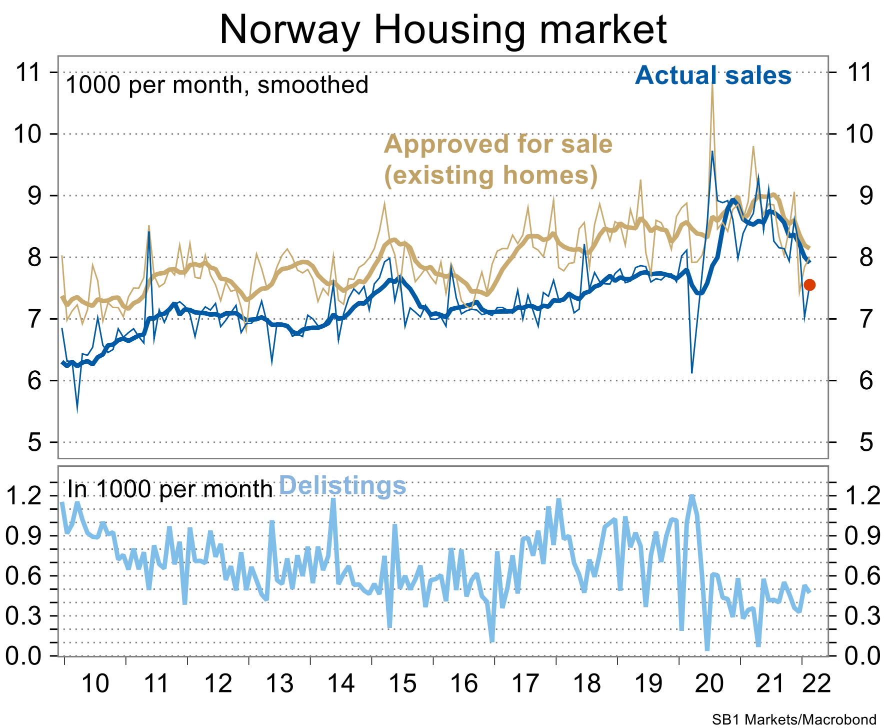


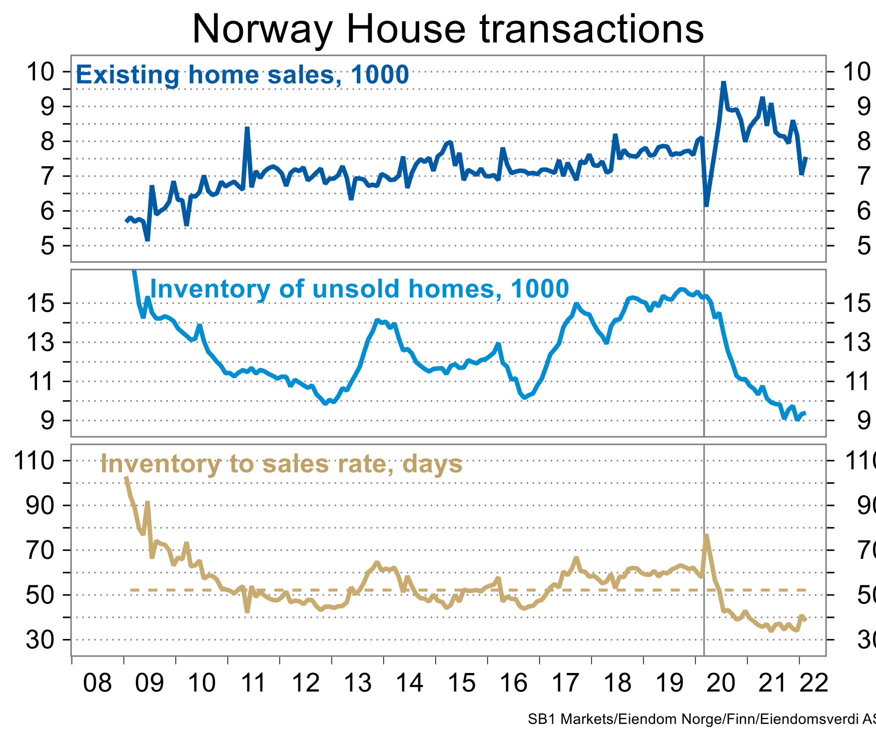


- **House prices** rose 0.7% m/m in February (+1.5% not adjusted), we expected unch, following the 2.1% hike in January. Norges Bank expected 0.3% in both of these months in the Dec MPR, but as prices fell 0.4% in December (NoBa +0.3%), prices are ‘just’ 2.3% above NoBa’s path
  - » The surge in prices in Jan/Feb is probably mostly due to lack of supply as a new law put up stricter requirements for technical valuation reports etc and thus fewer new homes for sale reached the market. Most likely, the congestion will we eased the coming months, bringing supply back up to a ‘normal’ level
- If prices climb at a fast pace the coming months too – which we think is rather unlikely – it will have some impact on NoBa’s tightening pace

The number of transactions remained at a low level in February

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

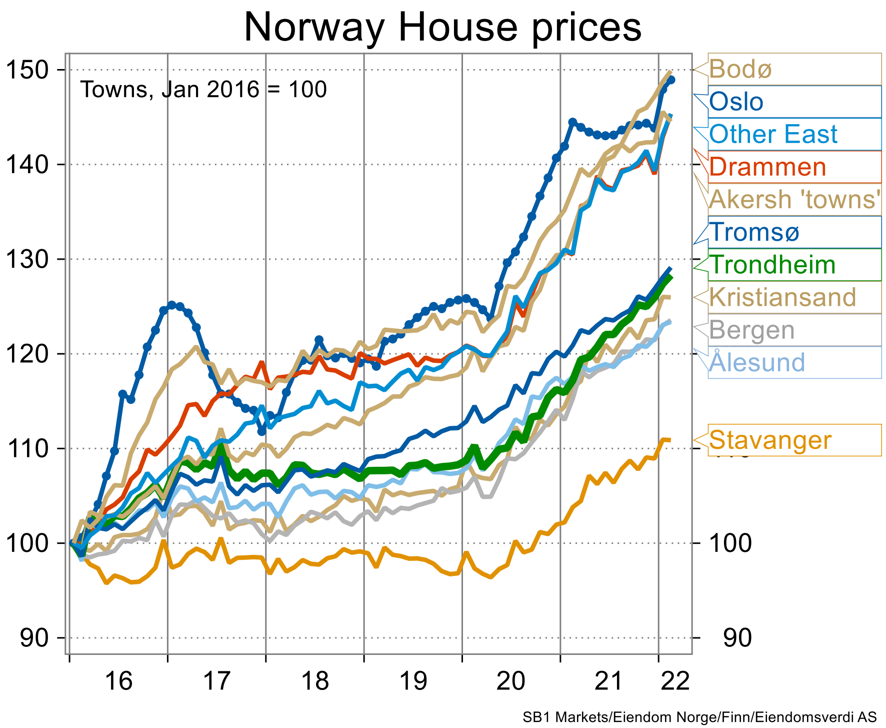


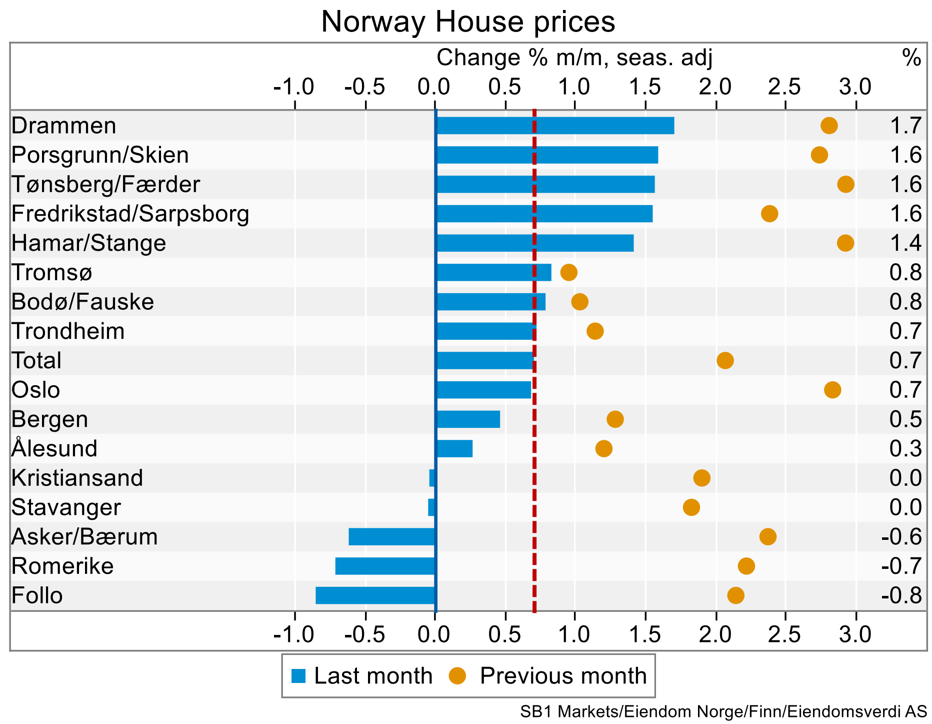


- **The number of transactions** recovered somewhat following the large decline in January but the level is still far below normal, at least the normal since the before the pandemic. However, the trend has been down since last summer
- The **supply of new existing homes for sale (approvals)** also rose somewhat but the level remains low
- The **inventory of unsold homes** was close to unchanged at a record low level in February
- The **inventory/sales ratio** declined 3 days to 38 days, vs an average at 52 days
- The **actual time on market** for those homes sold was unch was 34 days, the fastest pace in 5 years

Mixed between cities, prices down close to Oslo (but not in Oslo)

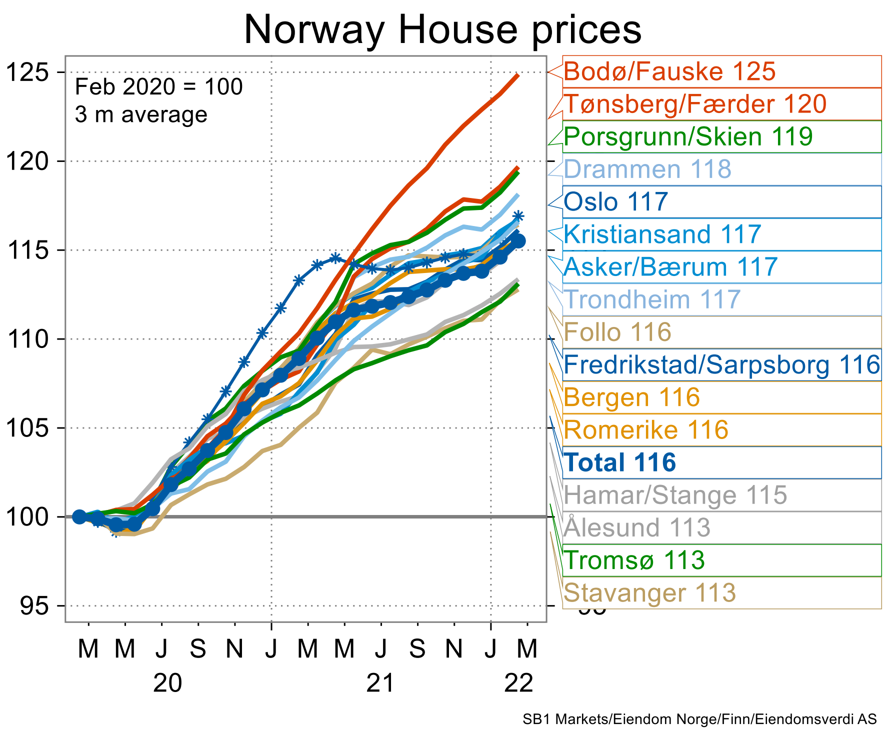
The outer Eastern cities at all at the top of the list

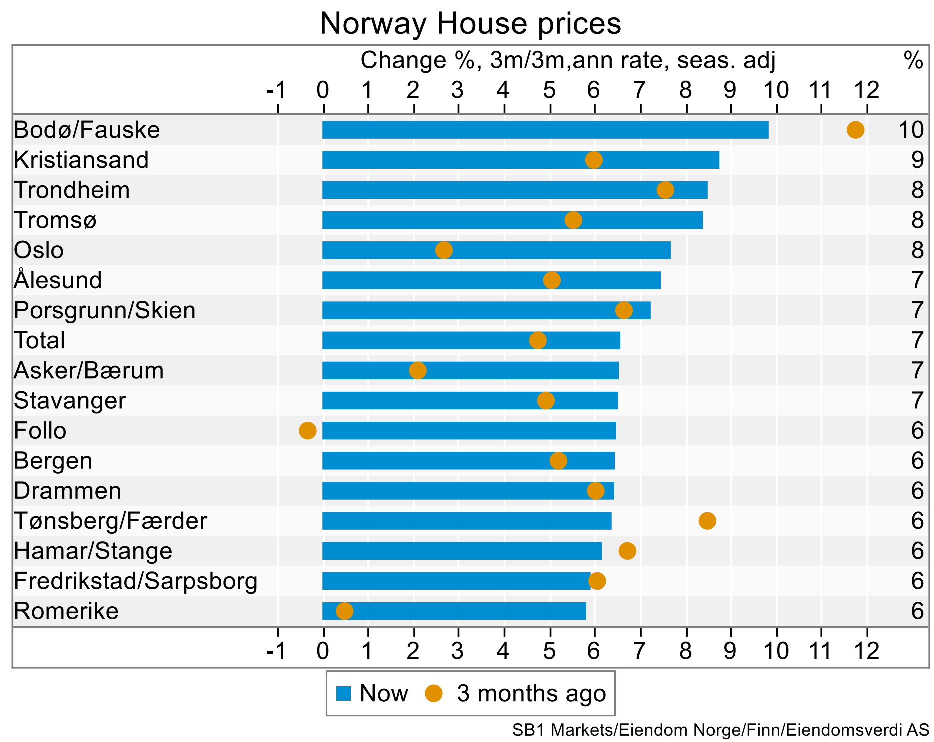




The big picture: Bodø still in the pole position but more cities are coming up

Bodø has been slowing somewhat, while Kristiansand toerhs are gaining speed

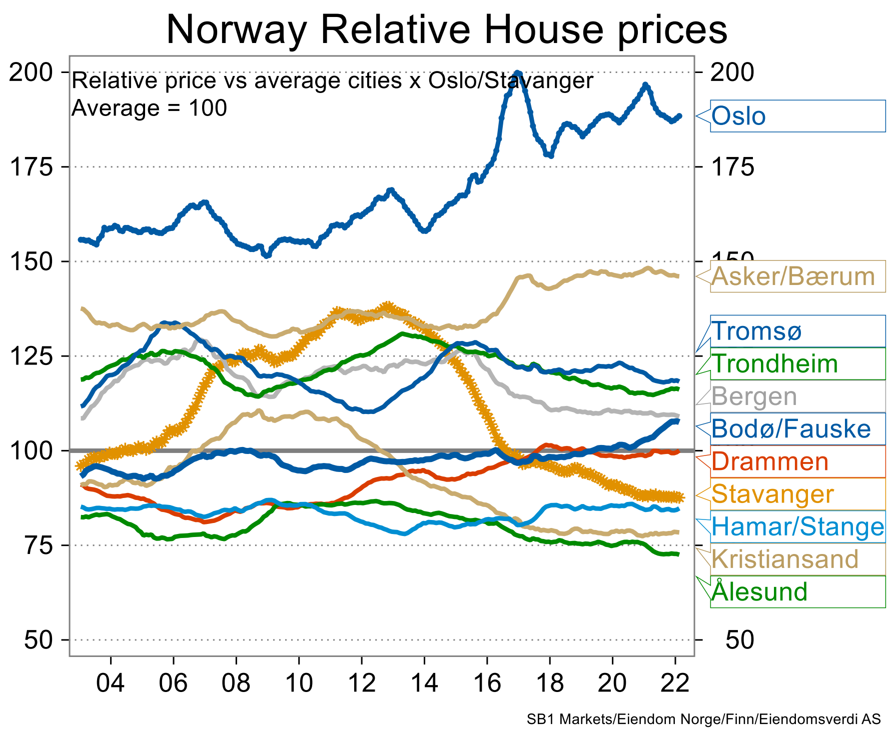


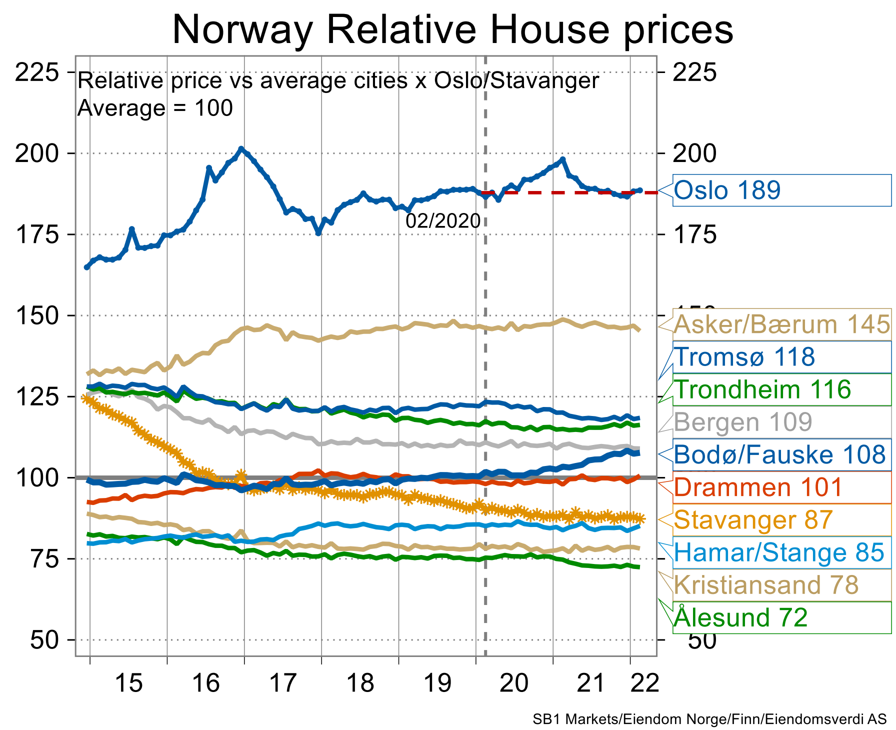


- Bodø the winner the past few months (3m/3m) as well as since 2016 and 2020
- No clear pattern in changes in house prices during the pandemic or over the recent months but Eastern towns are at bottom over the recent months

Oslo relative prices slightly above the pre-pandemic level

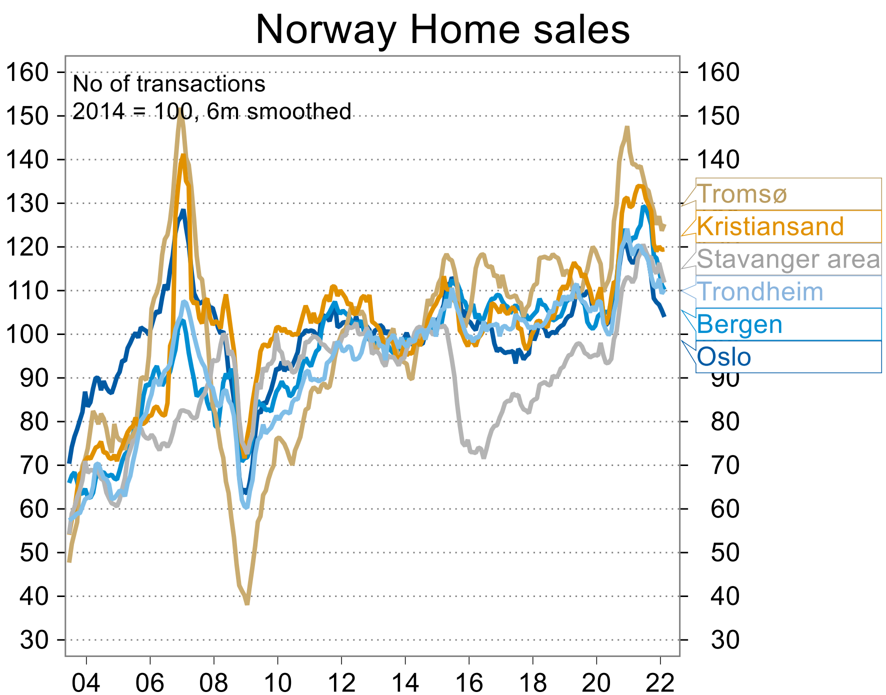
Stavanger is still sliding down, as is Ålesund. Bodø the big winner, of course



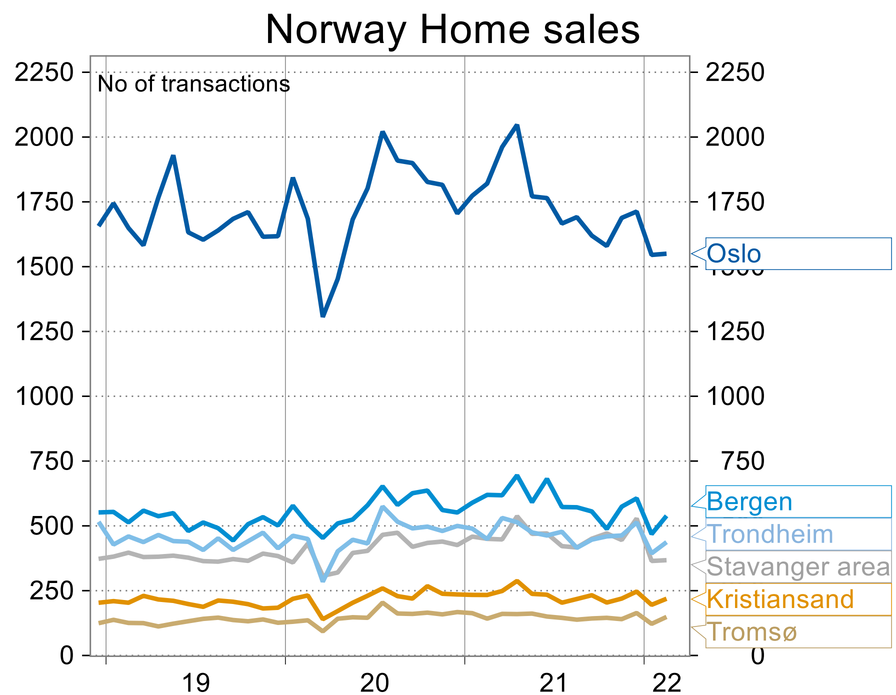


- Housing starts in Stavanger/Rogaland are still not lower than normal. It is still profitable to build, even at 'Hamar/Stange' prices! And why shouldn't it??

Number of transactions slightly up in February



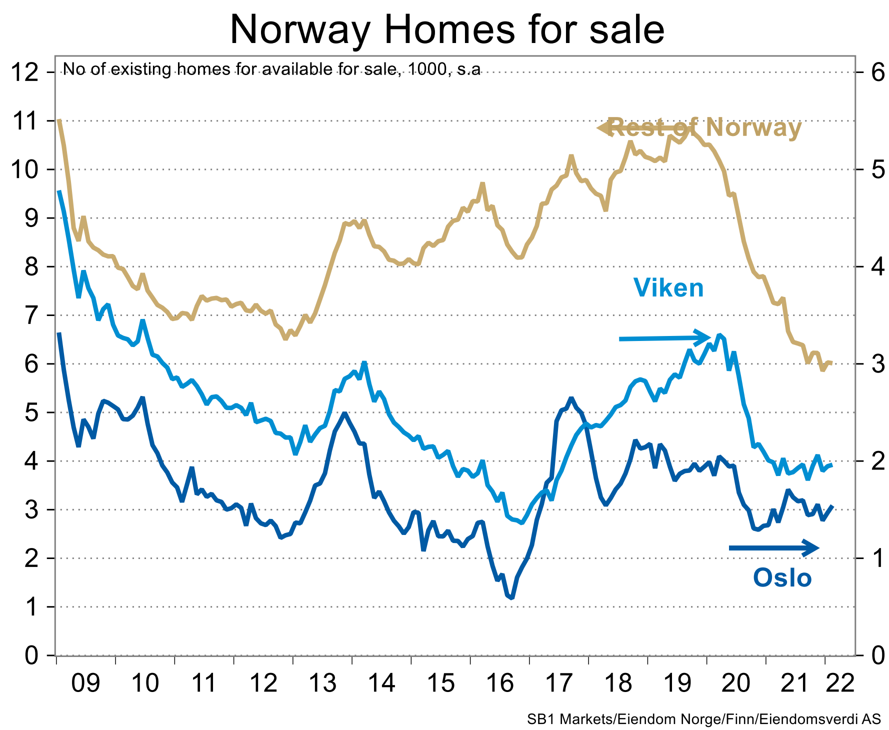
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

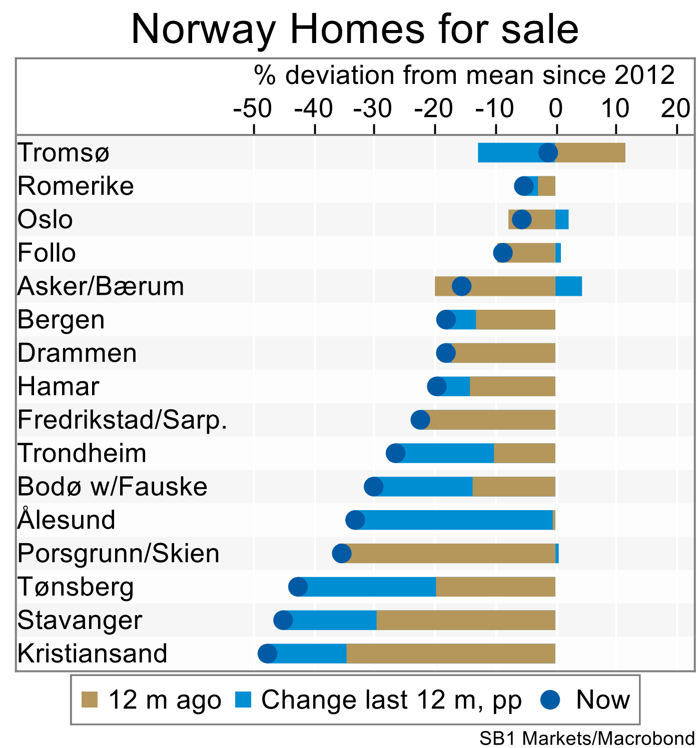


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

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

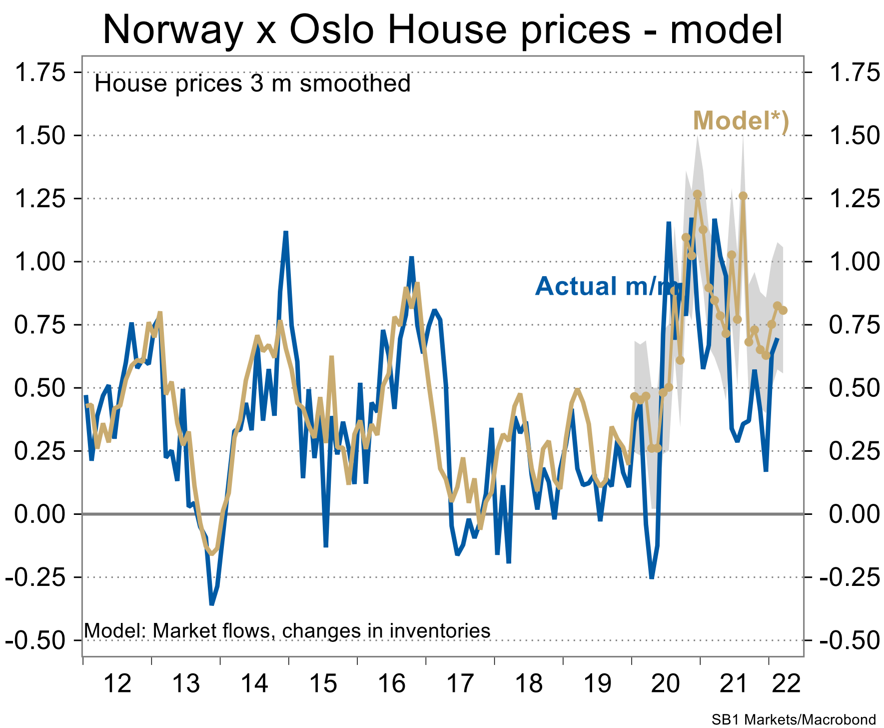
The no. unsold homes is falling most places too

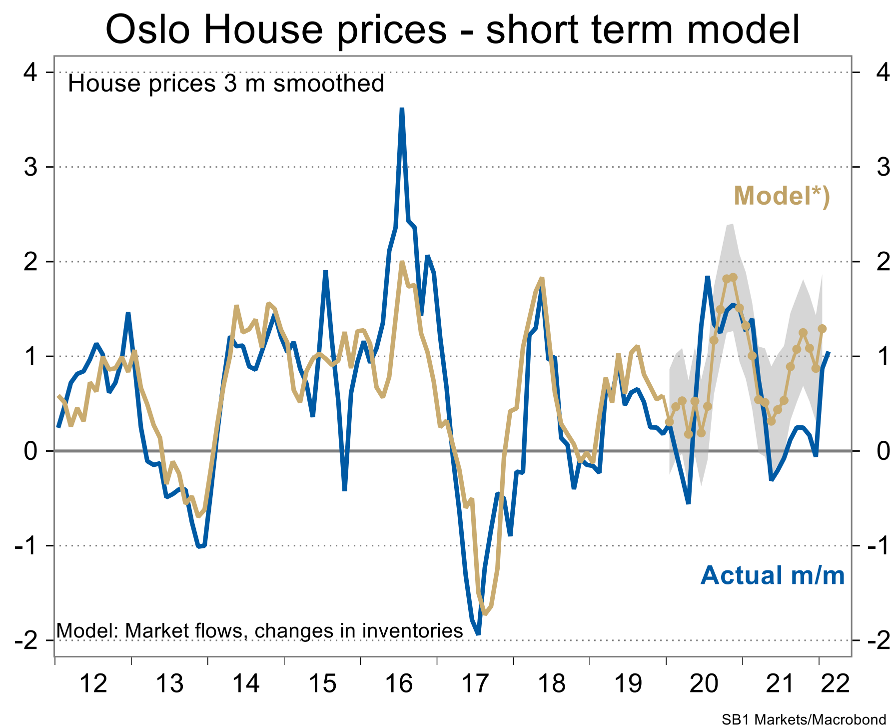




- Over the last year, the inventory has fallen most places, except for Oslo, Fredrikstad/Sarpsborg and Bodø/Fauske
- The steepest declines have been seen in Ålesund and Tønsberg

Short term market flows suggest decent price growth

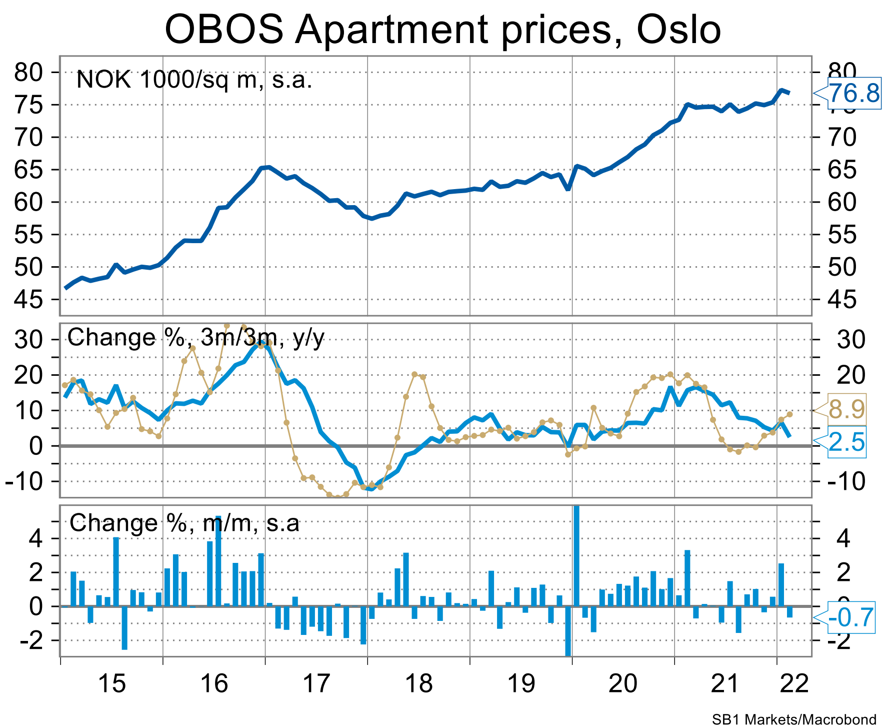


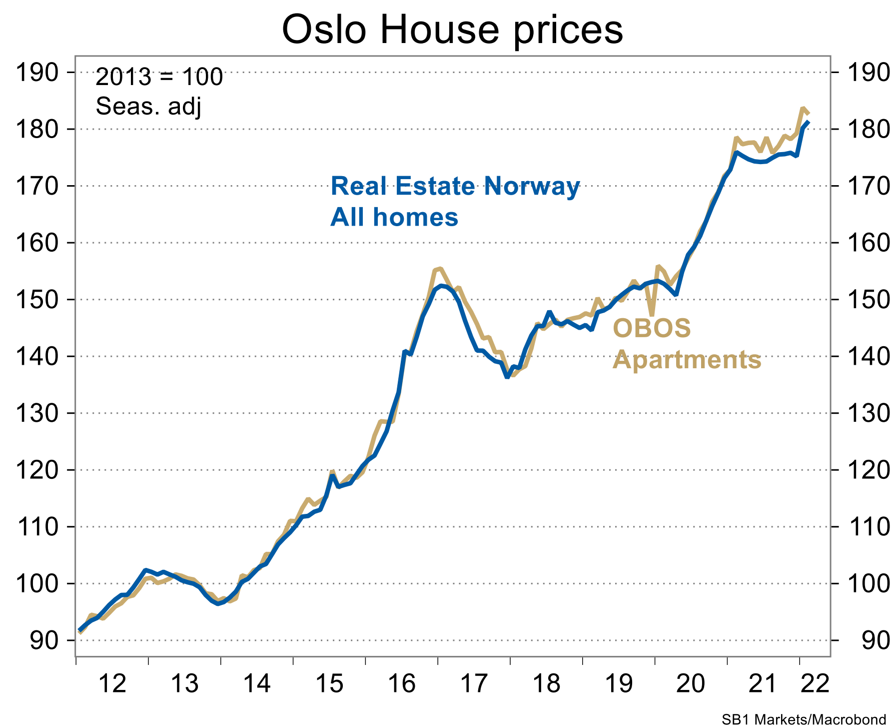


- Our **national x Oslo model** based on flows and the inventory signals a 0.8% growth in house prices per month, well above the actual price appreciation until the January take-off
- Our **Oslo model** signals a 1 – 1.5% growth
- **Mortgage rates** are not included in these short term market models, because they have not consistently added to the models performance. Still, we may possibly address the gap between actual price growth until January and the model forecasts as an impact of Norges Bank's campaign to normalise interest rates. If so, a ½ - 1 pp/month impact – and the most in Oslo
- *These models are not long term price models, just short term price models based on flows of (existing) houses approved for sale actual sales & changes in inventories*

OBOS apartment prices down 0.7% in Feb, reversing some of the 2.5% Jan hike

The annual growth down to 2.5%, the slowest pace since before the pandemic





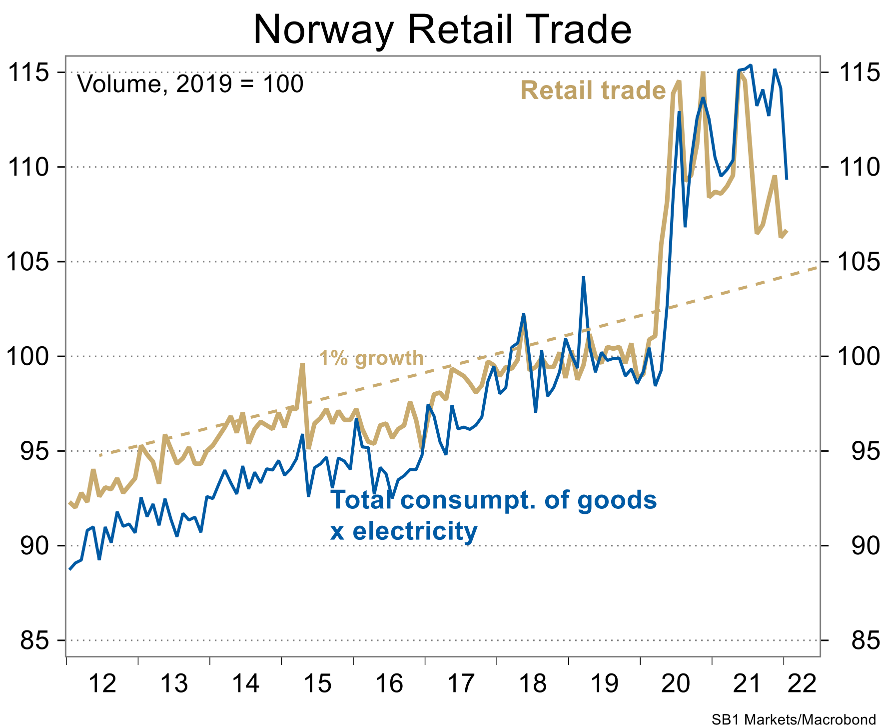
- The parallel change in both co-op & total house prices in Oslo signal a turning point in the Oslo housing market in early 2021, the peak for both indices was in last February, and prices are down 1 – 2% since then. That is, until the 'special' January data

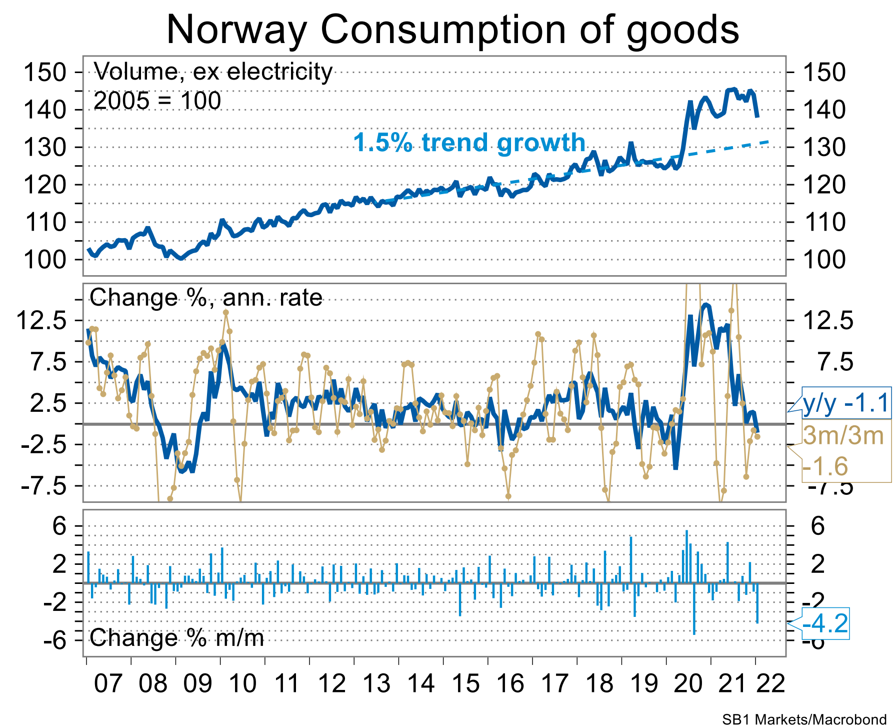
Co-op apartment prices follow the overall Oslo market quite closely, the average price level is somewhat lower than total Oslo market

SpareBank 1 MARKETS

Retail sales just marginally up in January, the trend is down

Sales +0.4%, we expected 2%, consensus 1.5%. Sport/clothing down. Auto sales lowered goods cons.



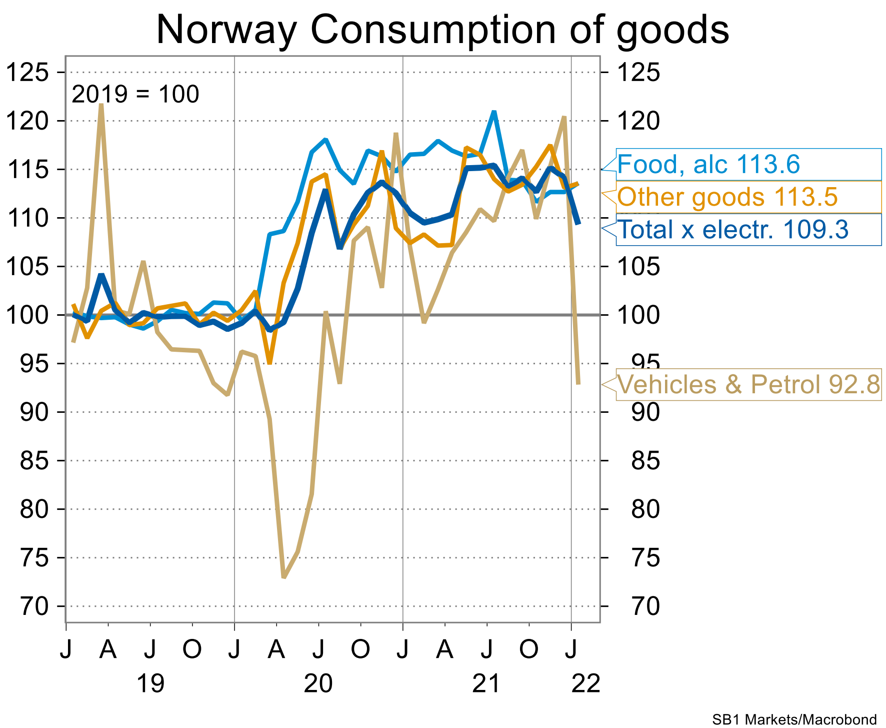


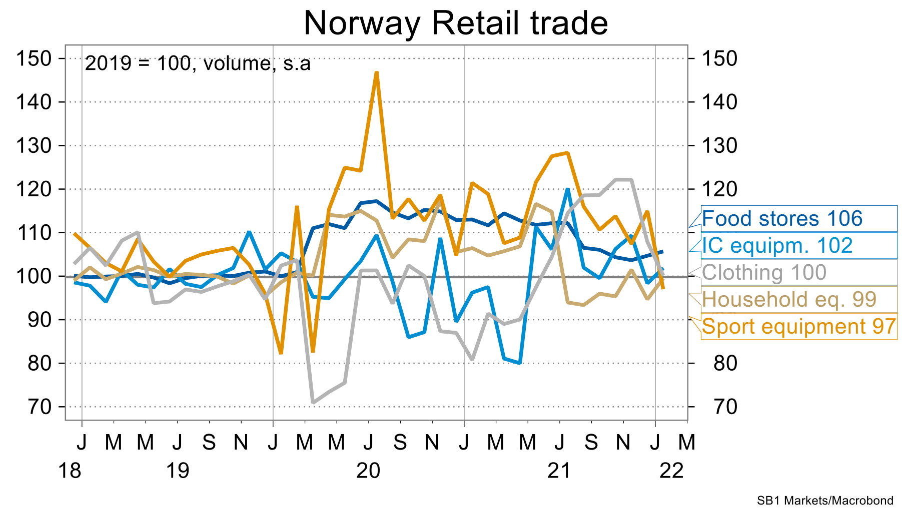
- Retail sales have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down through last year, from a very high level – and is now approaching the pre-pandemic trend, which was rather modest
- **In January**, sales of sport equipment fell 16%, and clothing 7%. Sport eq. is now well below the pre-p trend. Too little snow?
- **Total household consumption of goods** (x electricity) fell 4.2%, as auto sales fell sharply (as the decline first time registrations suggested). In February, auto sales fell further

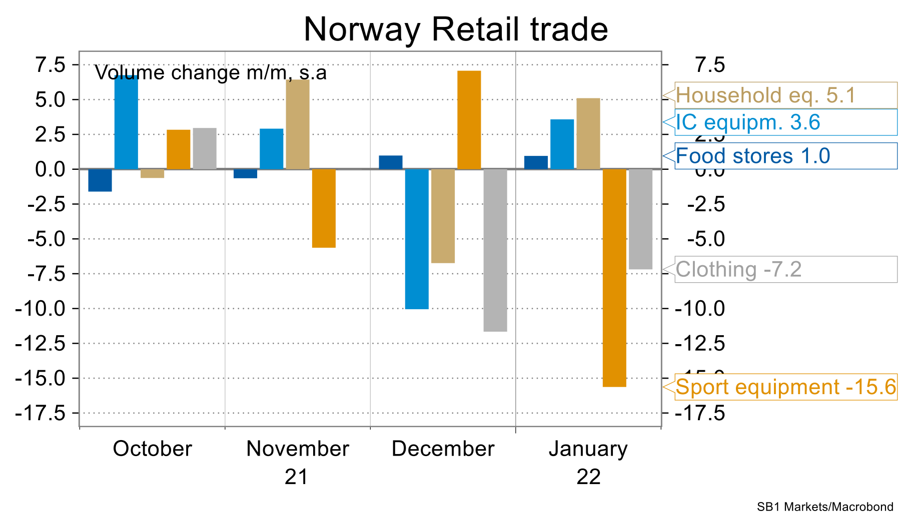
SpareBank 1 MARKETS

Sports equipment down 16%, clothing -7% in January, household equipm. +5%

A steep decline in auto sales lowered total consumption of goods, from a very high level



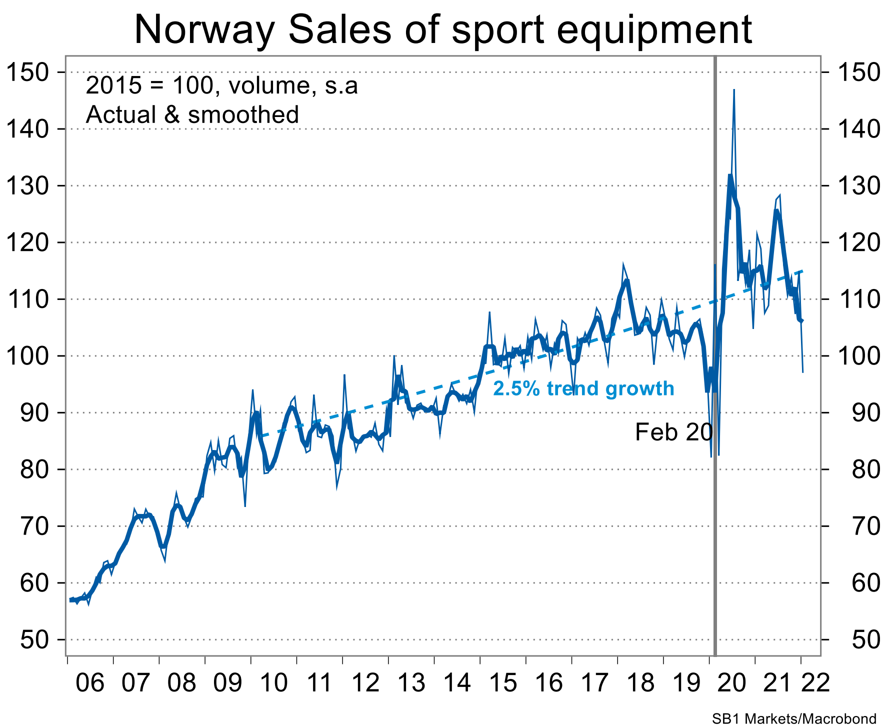




- Consumption of 'other goods' rose somewhat in January
  - » Decent growth in household equipment, as well as in Info/communication equipment

Sport equipment: No snow! Sales sharply down in Jan (and history revised down)

Sales are down almost 25% (in volume terms) since the local peak during last summer’s staycation

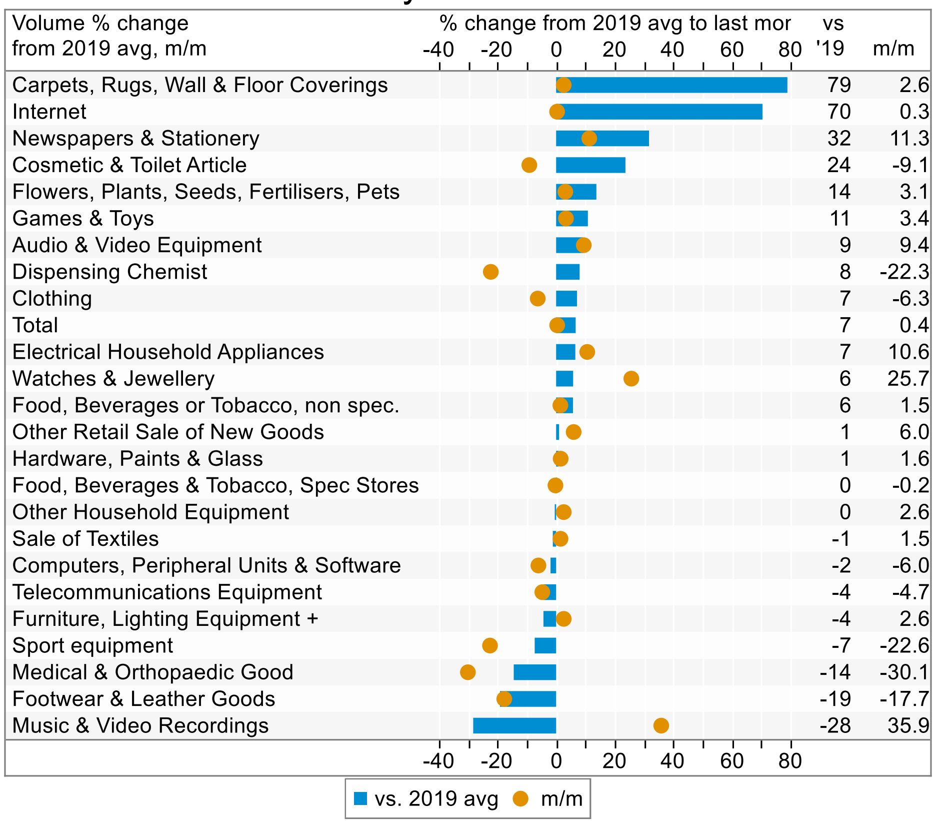


SpareBank 1 MARKETS

Since before the pandemic: Still huge sectoral differences

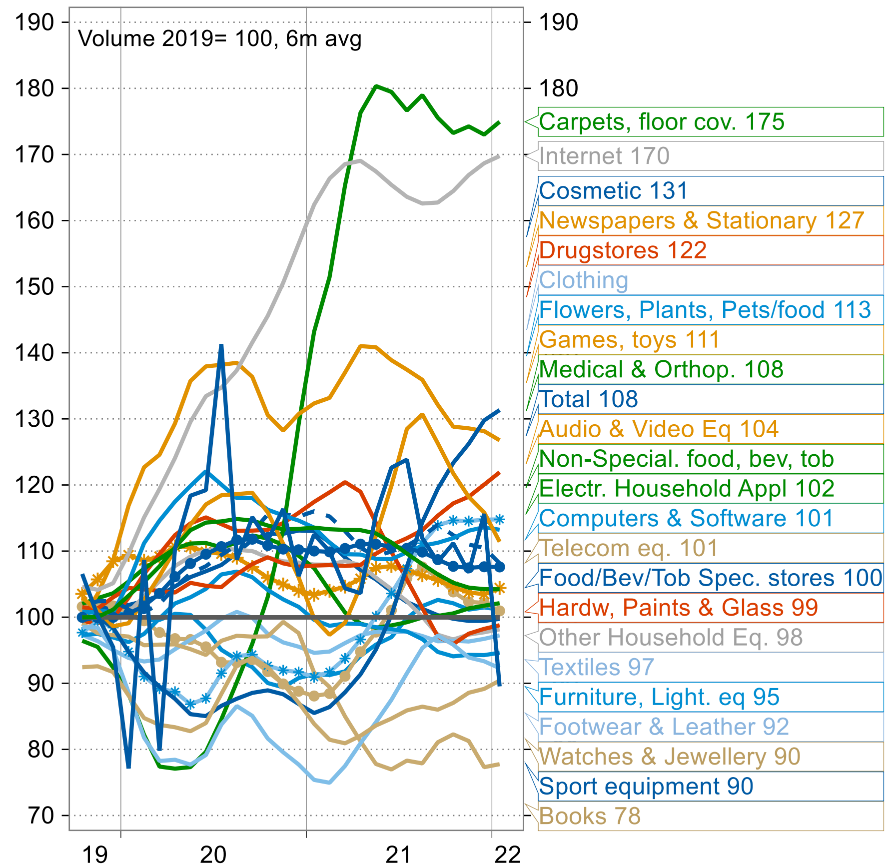
– net sales & home refurnishing at the top. The losers were mainly losers before the pandemic too

Norway Retail Sales



SB1 Markets/Macrobond

Retail sales

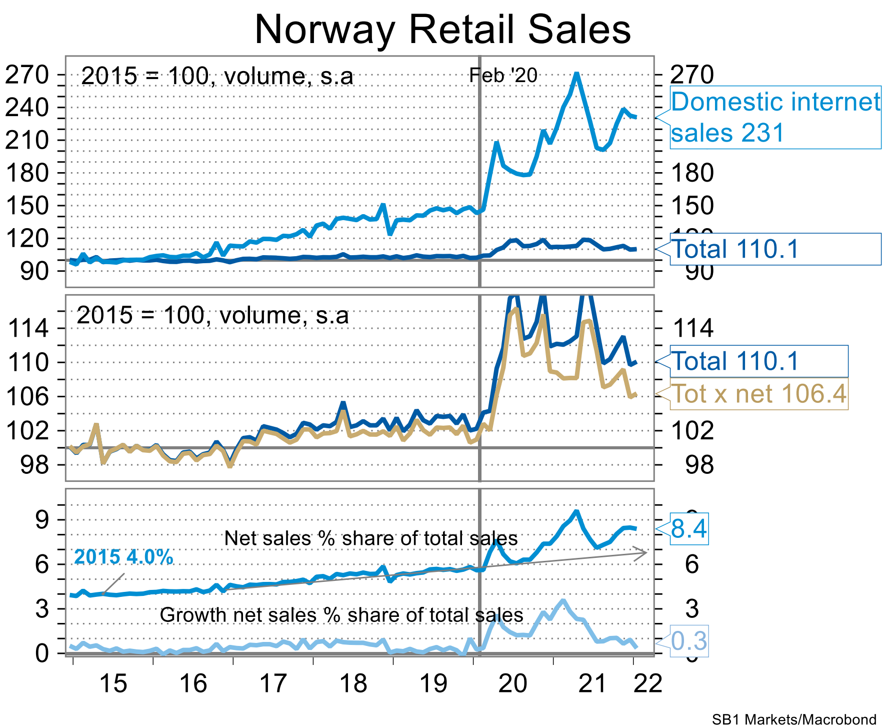


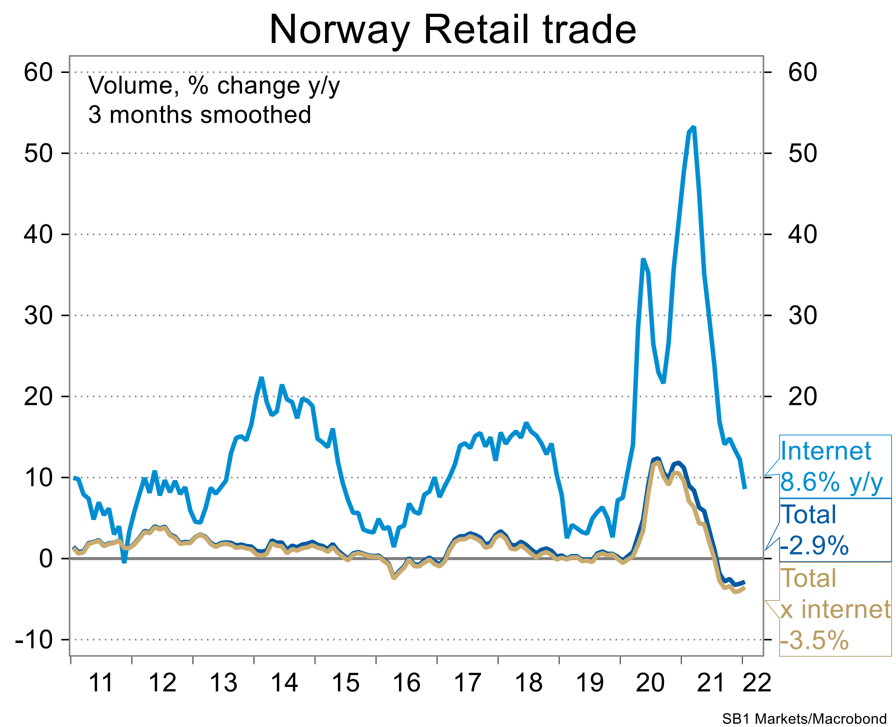
SB1 Markets/Macrobond

SpareBank 1 MARKETS

Internet sales (domestic) slightly down in January too

Net sales are up 9% y/y, and the market share has recovered somewhat – still below the pandemic peak

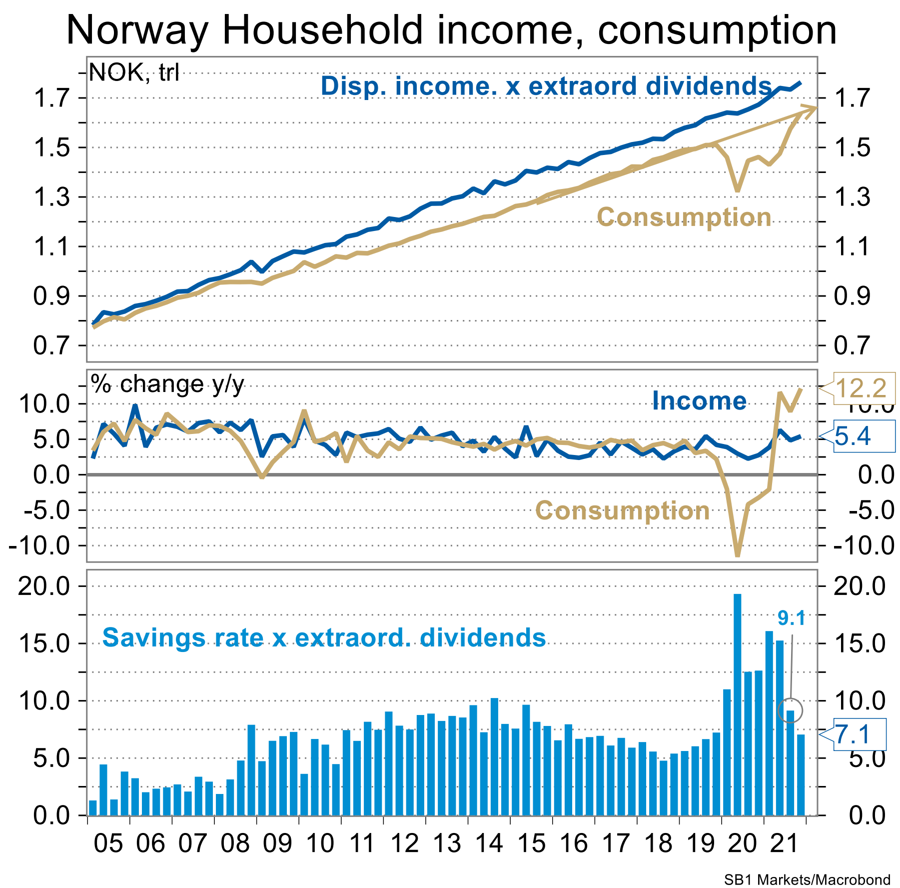




- Since 2015, **<u>domestic</u> internet sales** (not included direct import from <u>abroad</u>) have increased its market share to 8.4% from 4%, via 6% just before the pandemic, to 10% at the top in April. By now, the pre-pandemic trend would have yielded market share not far below 7%. Thus the pandemic gain has not been that impressive
- ICT equipment, cosmetics/drugs, clothing, food, and sports equipment are the 5 largest product categories sold from net outlets

Consumption up 4% in Q4, income ‘just’ 1.7% (x extraord. dividends)

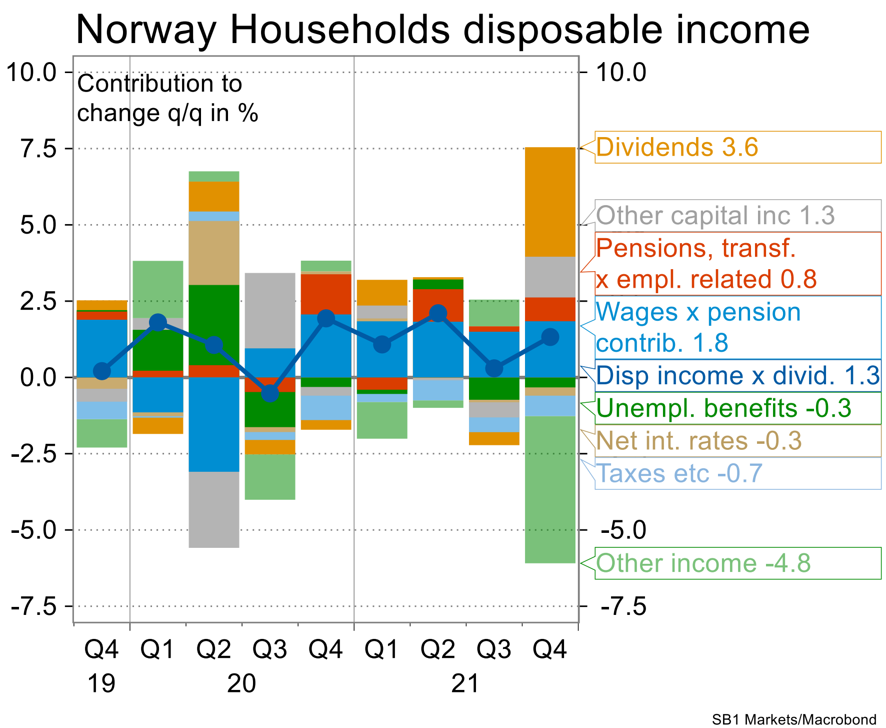
The savings rate fell to 7.1% from 9.1% (rev. from 10.3%) in Q4

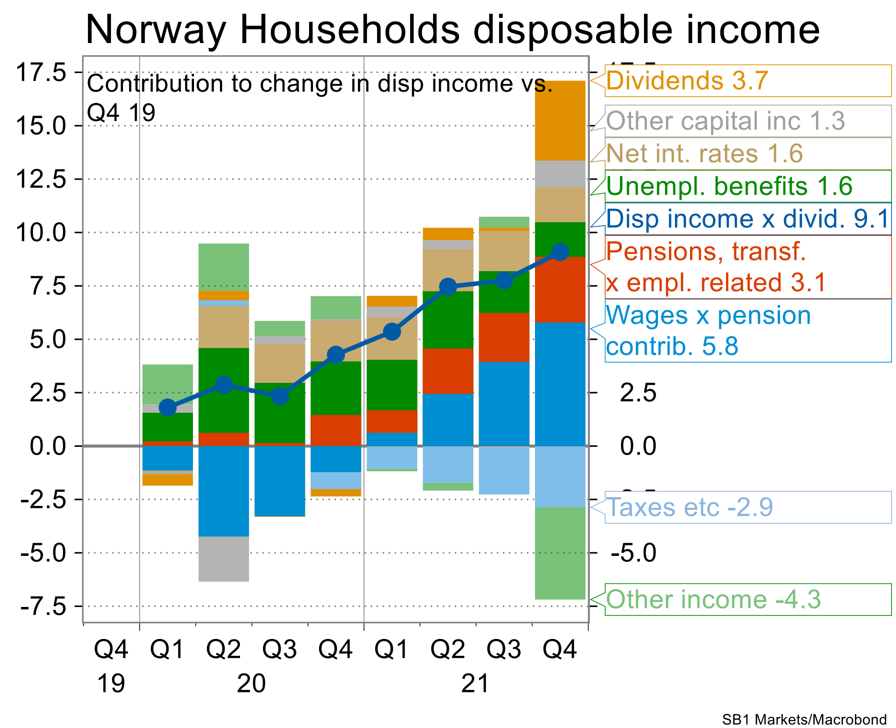


- **Total household disposable** income rose 4.5 q/q in Q4 (nominally) but mostly due to extraordinary dividend payments before the tax rate on received dividends for households was increased from 2022. Adjusted for extraordinary dividends & pension rights, income rose by 1.7% - and income are up 4.5% y/y. Wage revenues are up 7.6% y/y
- **Nominal growth in consumption** climbed 4.1% - and by 12% y/y
- **The extraordinary dividends adjusted savings rate** fell by 2 pp to 7.1%, in line with the pre-pandemic level
- **The savings rate** has been far higher than normal during the pandemic, in average by some 8.5 pp, accumulated more than NOK 230 bn, or 14% of annual disposable income. Extra net financial investments are of the same size. A decent ‘Wall of Money’ (but we are not able to find all these money in financial statistics, check some pages forward)
- In aggregate, households have not reduced their debts since before the pandemic, and just a minor part has covered higher residential investments, so their financial assets have increased substantially, like bank deposits
  - » By end of Q4, bank deposits were some NOK 100 bn higher than implied by the pre-covid trend

Wage revenues are coming back, less unemoployment benefits

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



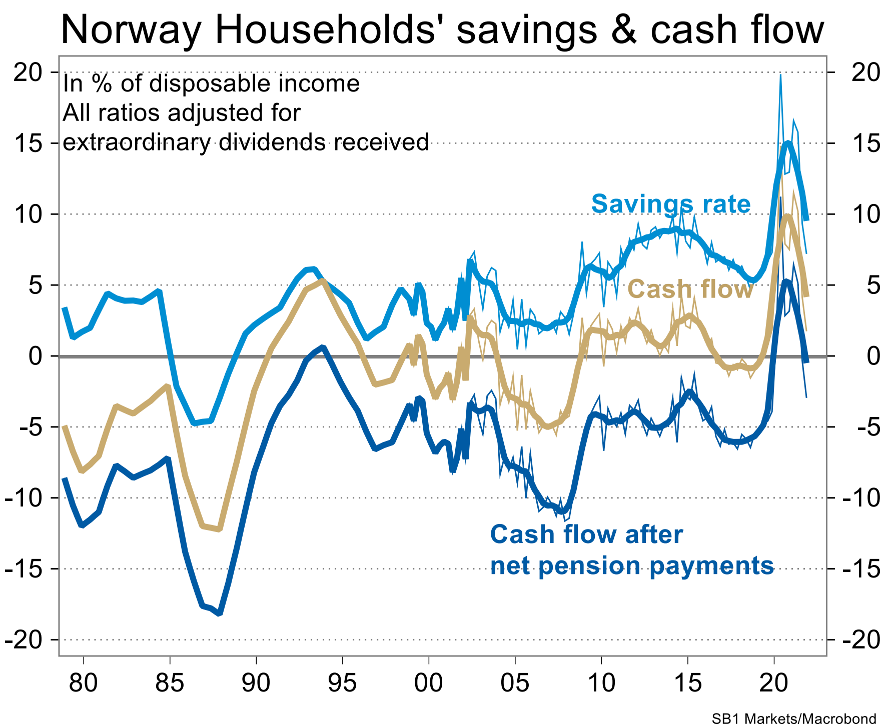


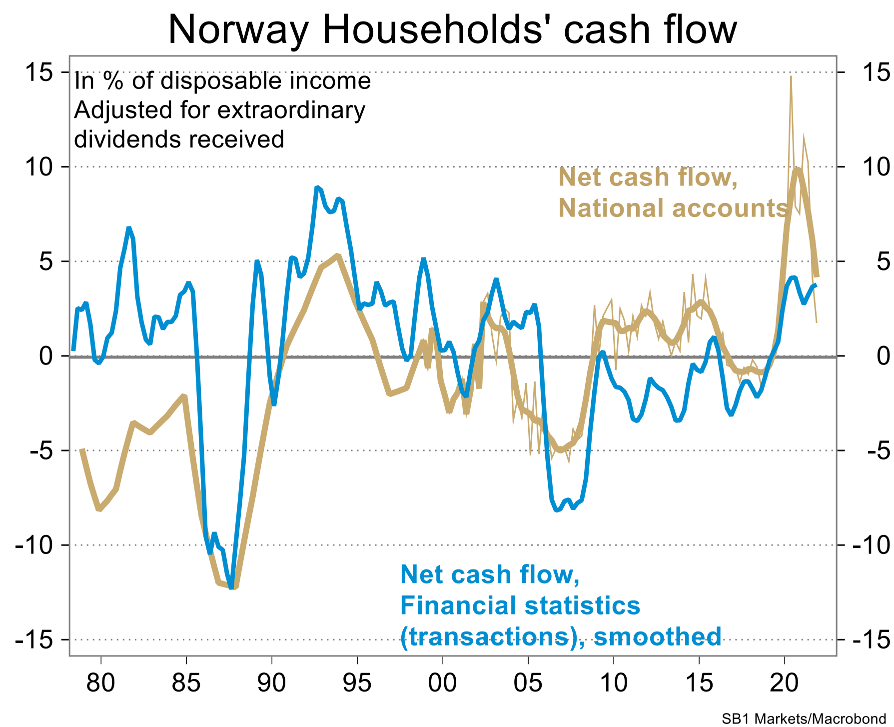
- Household net disposable income (before adjustments of pension rights), adjusted for short term volatility in dividends, rose by 0.5% - and are up by 8.5% vs. the pre-pandemic level
- In Norway, extra government transfers to households during the pandemic have been rather limited. Unemployment benefits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

SpareBank 1 MARKETS

Savings on the way back to more normal levels

Net cash flow after net pension payments back in red

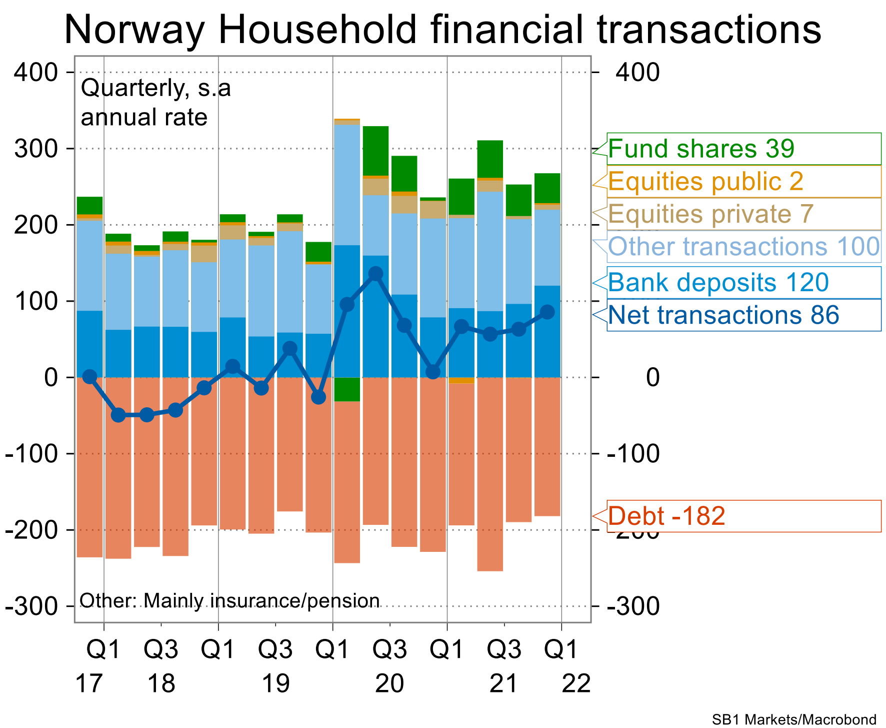


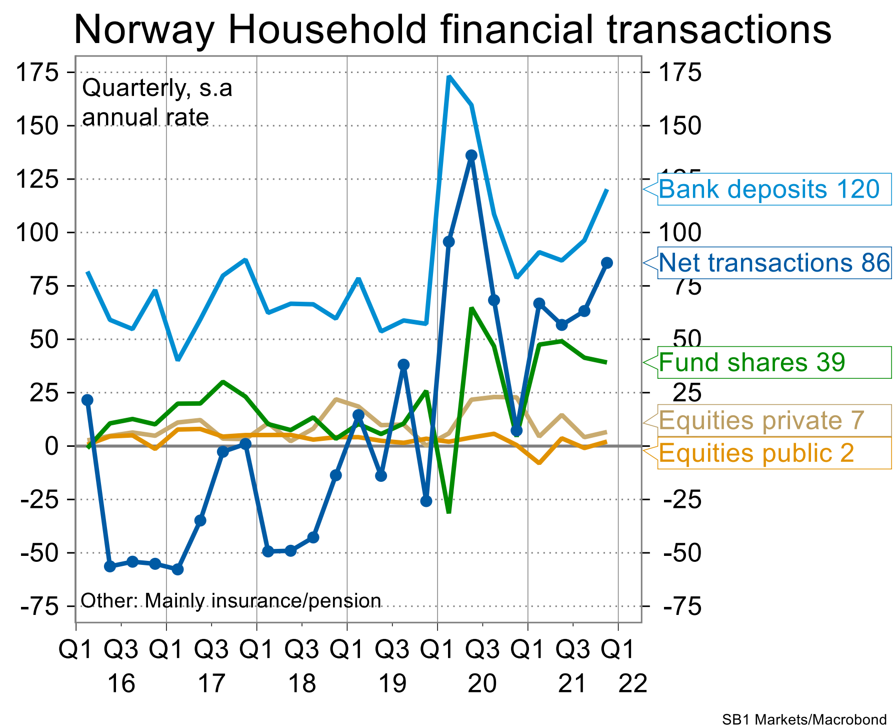


- As households normally invest more in new homes than depreciation on their old ones (which is included in total consumption), their cash flow is lower than their savings (savings = income – consumption).
- In addition, households have to fill up their pension contracts, and the 'free' cashflow is even lower. <u>However, even this free cash flow has been in positive territory since Q1 2020. I Q3 the 'free' cash flow approached zero</u>
- **Q4 Financal statistics data** confirms a positive cash flow before pension plan payments

Where is the cash surplus invested?

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

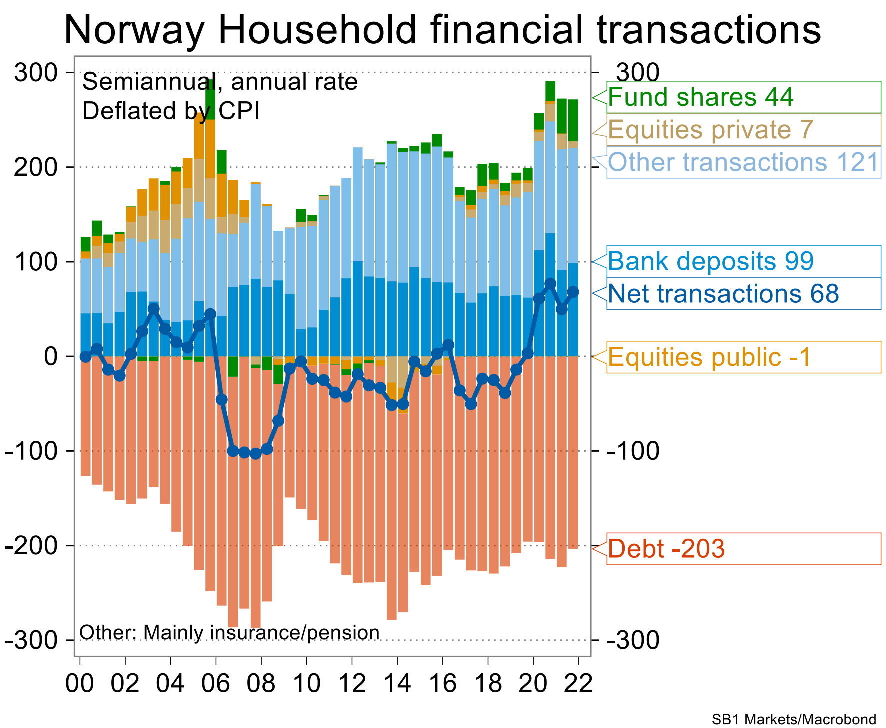


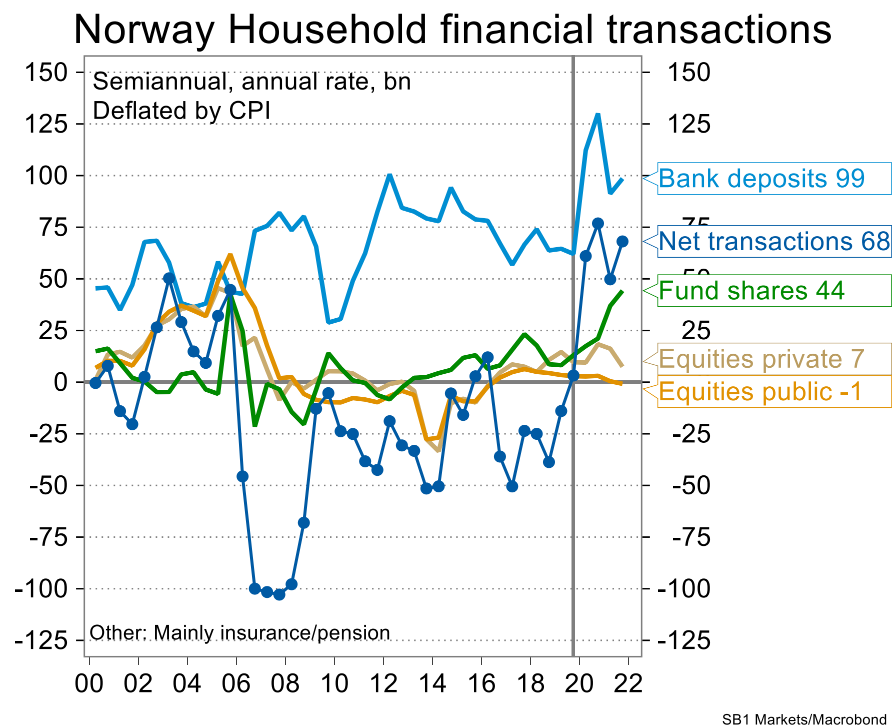


- During the pandemic households have accumulated almsot NOK 100 bn more than normal in bank deposits

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

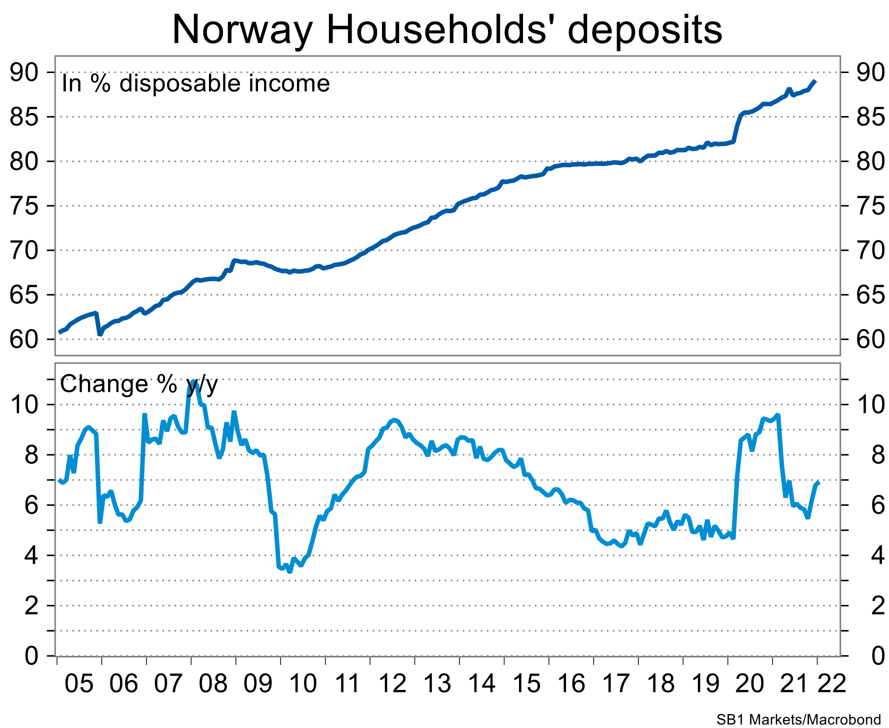
Investments in fund shares have been higher than normal – some NOK 20 bn extra (annual rate)

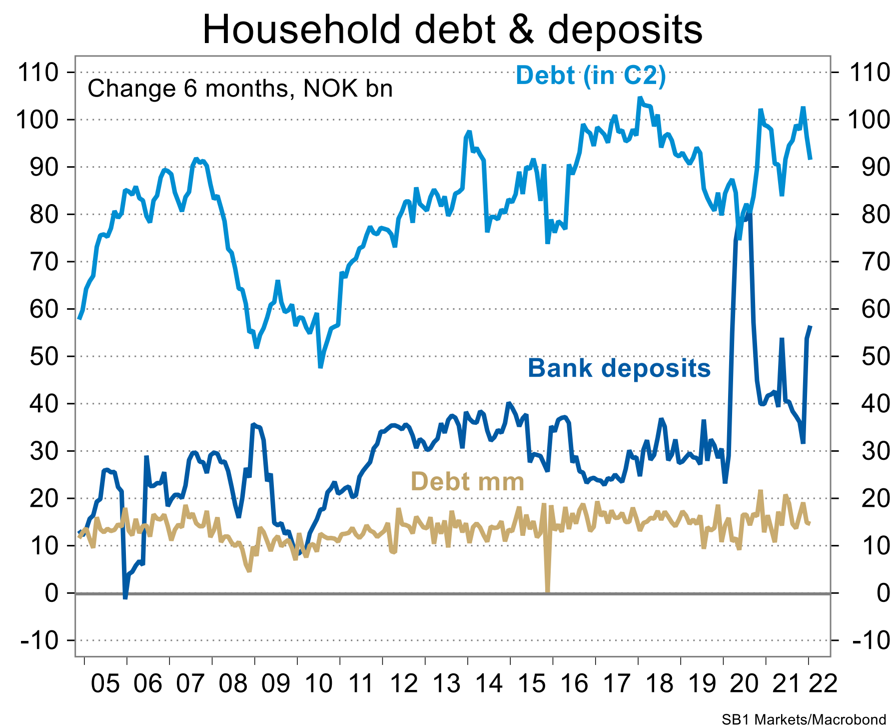




Growth in bank deposits slow, growth in household debt not

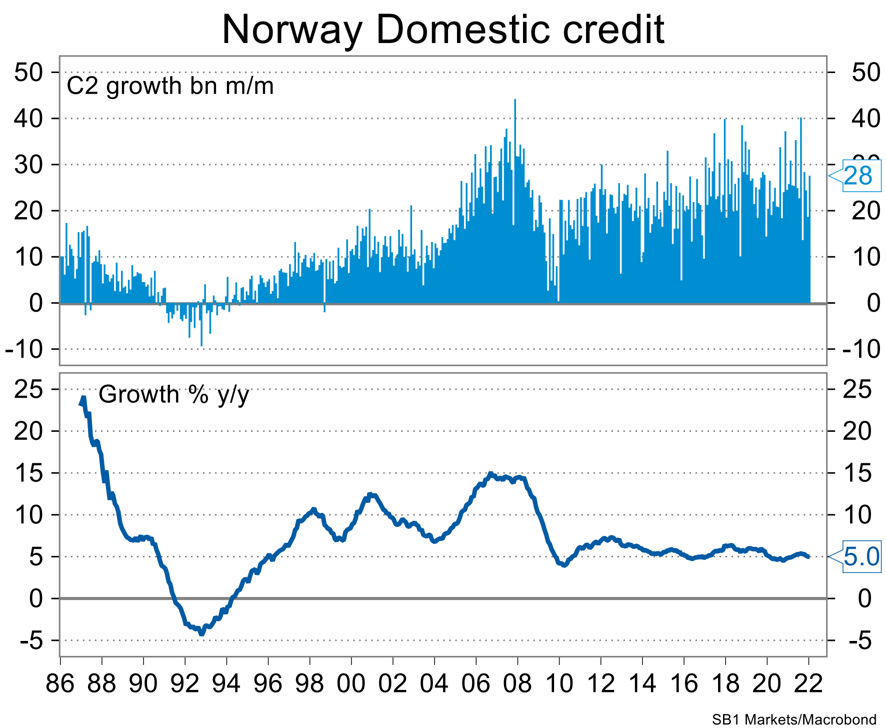
... and banks will a one stage need a normal funding of mortgages ☺

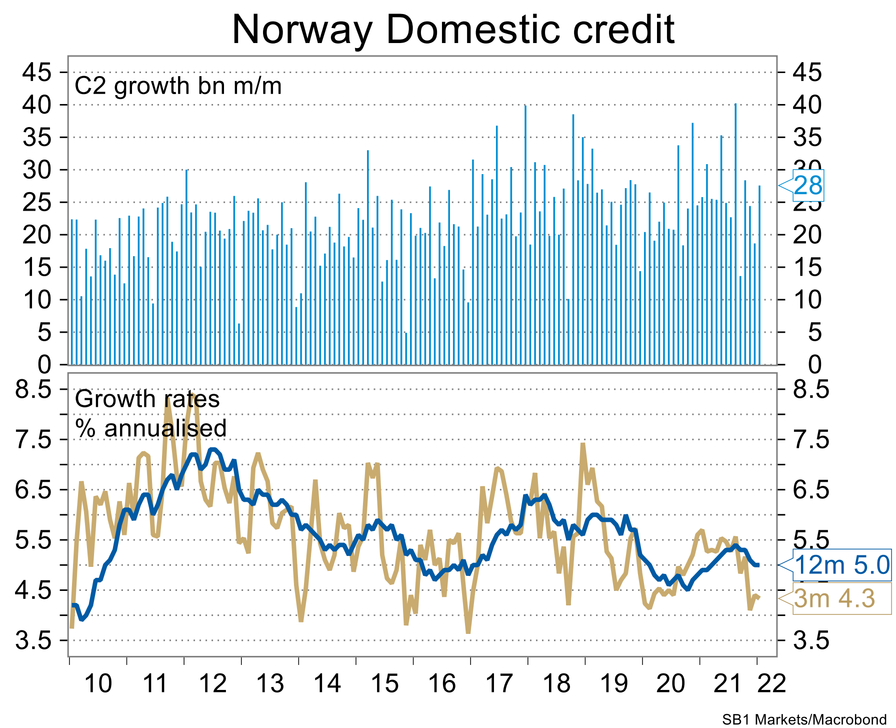




- For the first time 'ever' household deposits rose at the same rate as household debt, measured in NOK – for some few months
- Growth in deposits accelerated somewhat in Q3/Q4, probably due to increased dividends paid out before the tax hike

Domestic credit growth (C2) flat at 5% in January

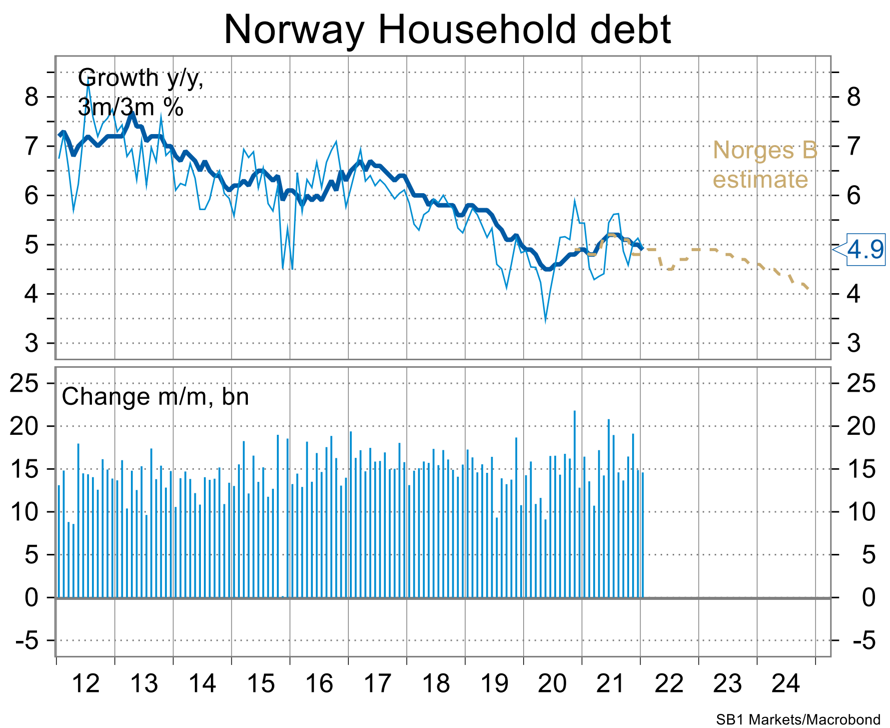


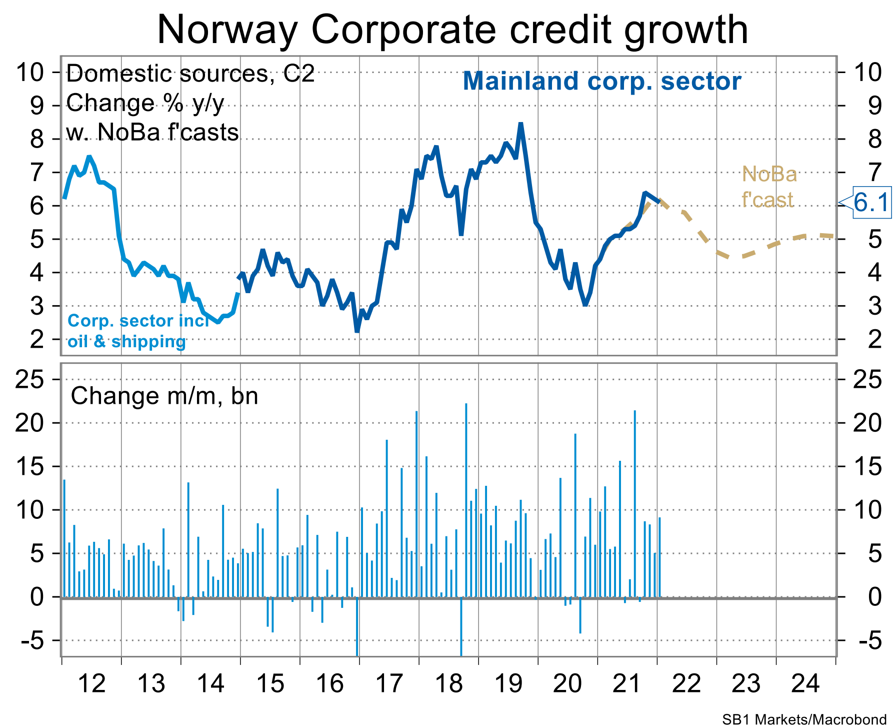


- **Total domestic debt** (C2) rose by NOK 28 bn in Jan, up from 21 bn in Dec, as we expected. However, growth in Dec was revised down, and the annual rate remained at 5.0%, we expected 5.1%. The 3m/3m growth rate is at 4.3%. We are not witnessing any credit boom. However, debt levels are high, especially for the household sector
- **Household credit** rose by NOK 15 bn in Dec, as in Dec, we expected NOK 16 bn. The annual rate fell by 0.1 p to 4.9%, we expected unch
- **Corporate C2 credit**, rose by NOK 9 bn, 4 bn more than in Nov (we expected 8 bn). The annual growth rate was unch at 4.9%, we expected 5.0%. **Mainland corporations** increased their debt by 6.1% y/y (-0.1 pp from Dec)
- **Local governments** added NOK 4 bn to their debt burden in Dec, as we expected. The annual growth rate accelerated to 6.0% from 5.3%

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

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

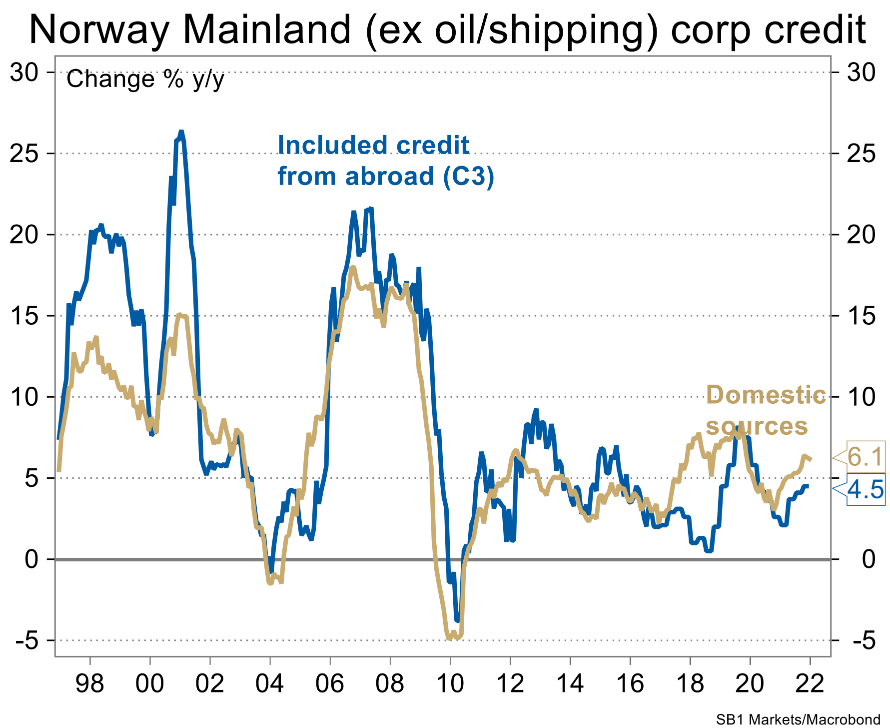


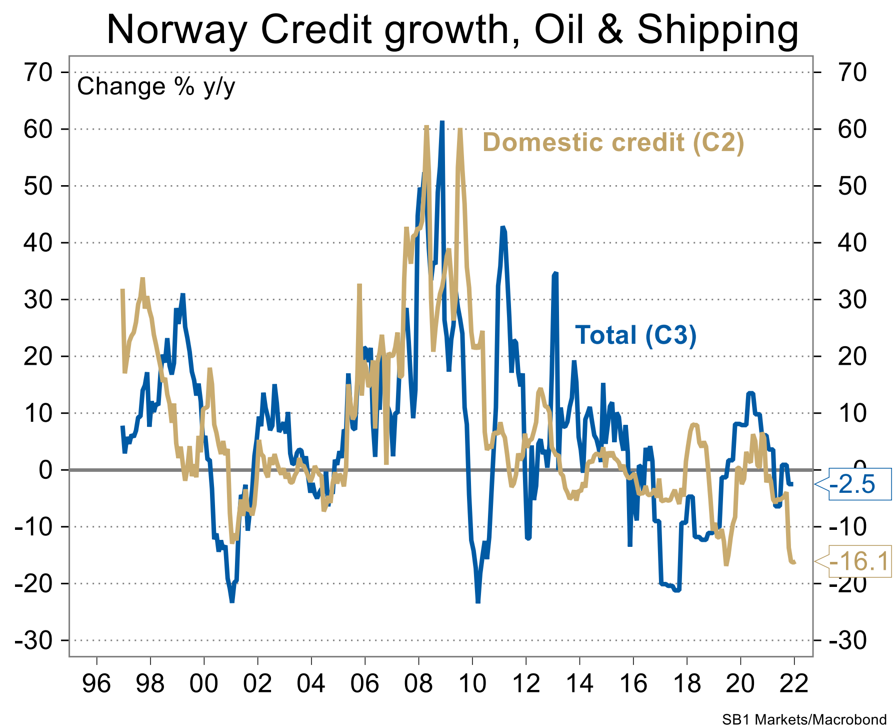


- **Household credit** growth has accelerated somewhat from the through in H1-20, though not by much. The annual rate was 5.0% in January, while the underlying 3m/3m rate was marginally above. Norges Bank expect annual growth to slow in H1, and over the coming years
- Monthly growth in **corporate domestic credit** slowed through most of 2020 but accelerated during last year. The annual rate has climbed to 6.3% from 3.0% at the bottom – and has now retreated to 6.1 %. Norges Bank expects growth to slow (and the bank has done so as long as we can remember)

Mainland corporates are increasing total debt (including foreign credit) by 4.5%

… but by 6.1% from domestic sources (in C2)

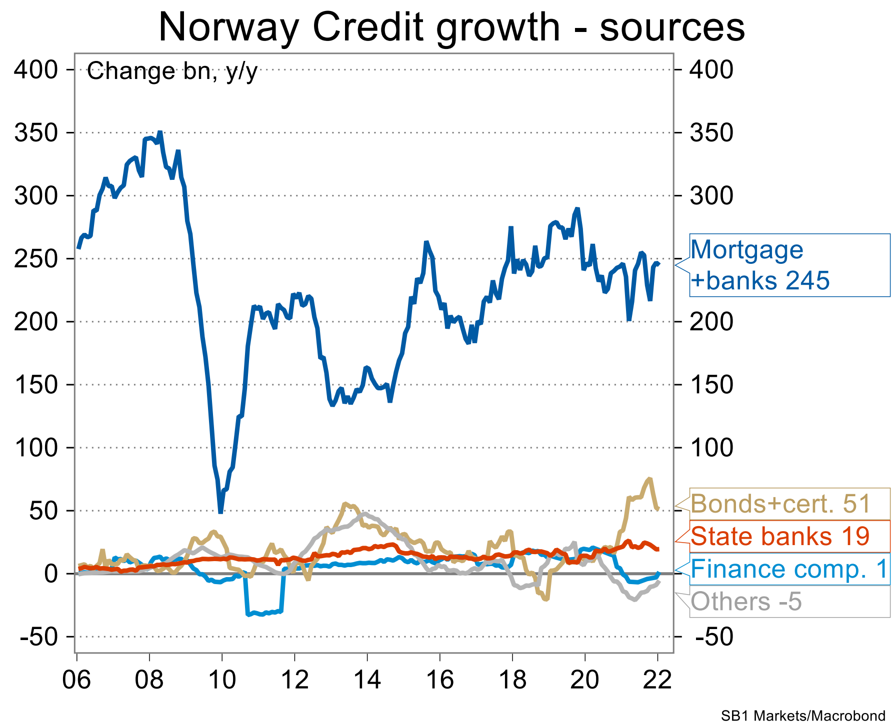




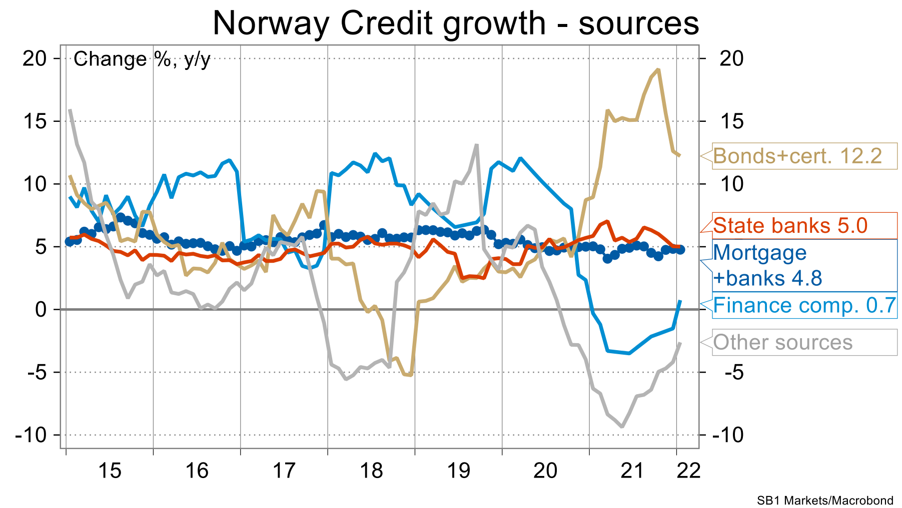
- Domestic credit supply to **Mainland businesses** has accelerated faster than their total debt, including credit from foreign sources
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway. The sum is down 2.5%, even if domestic debt is down 16% (via transactions, not including write-downs

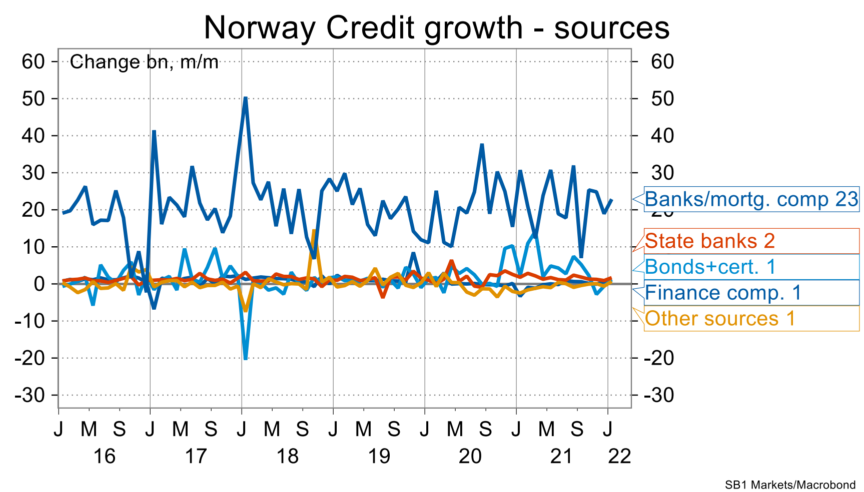
Bond borrowing has peaked, steady growth in bank lending

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



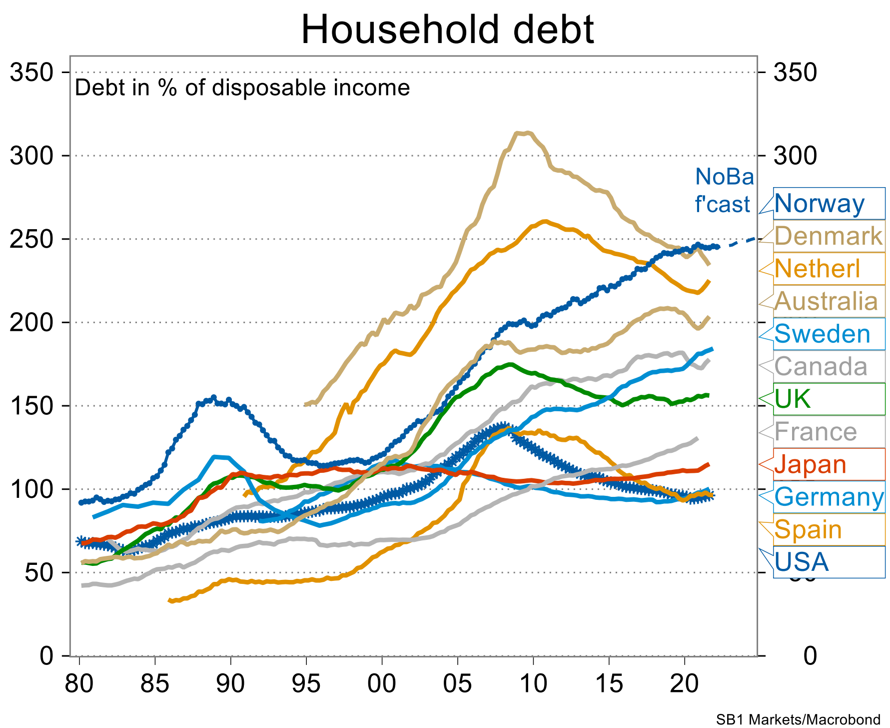
- Net issuance of bonds (to non-financial sector) is up NOK 51 bn (13%) y/y, unusual high growth rates but down from the peak
- Banks/mortgage companies are up NOK 249 bn (4.9%) y/y
- Finance companies and 'others' have reduced their lending
  - » Both insurance/pension funds as well as Statens Lånekasse, Eksportkreditt are included in our residual 'others', but just the sum of SL & Eksportkreditt is down

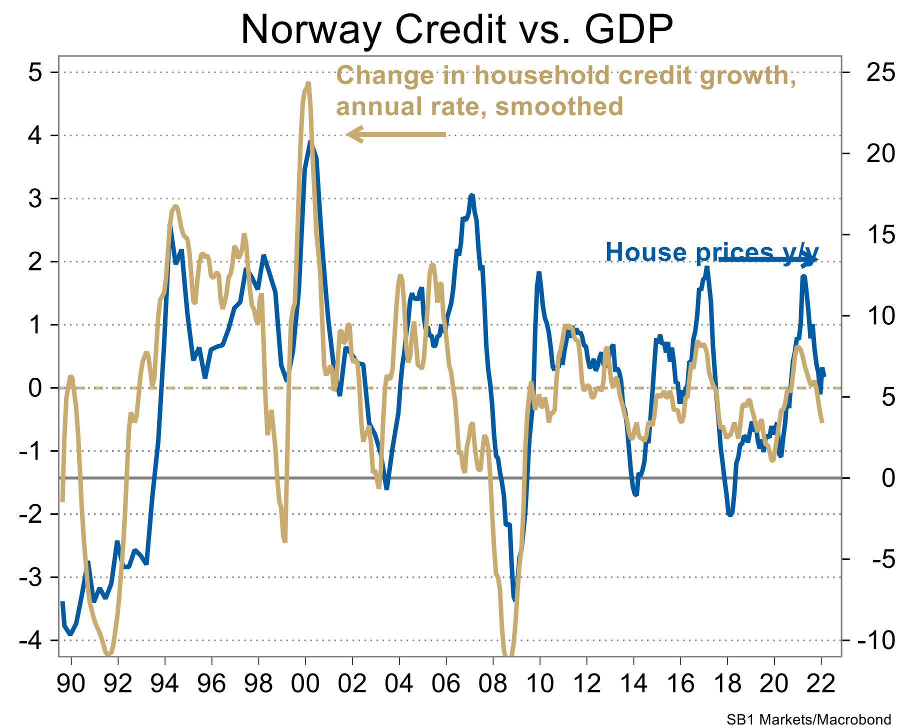




The seasonally adjusted 'sum of the parts' credit supply do not exactly equal changes in the total C2 seasonally adjusted. Consumer banks are included in 'banks and mortgage companies'

Household debt/income: We are no. 1!

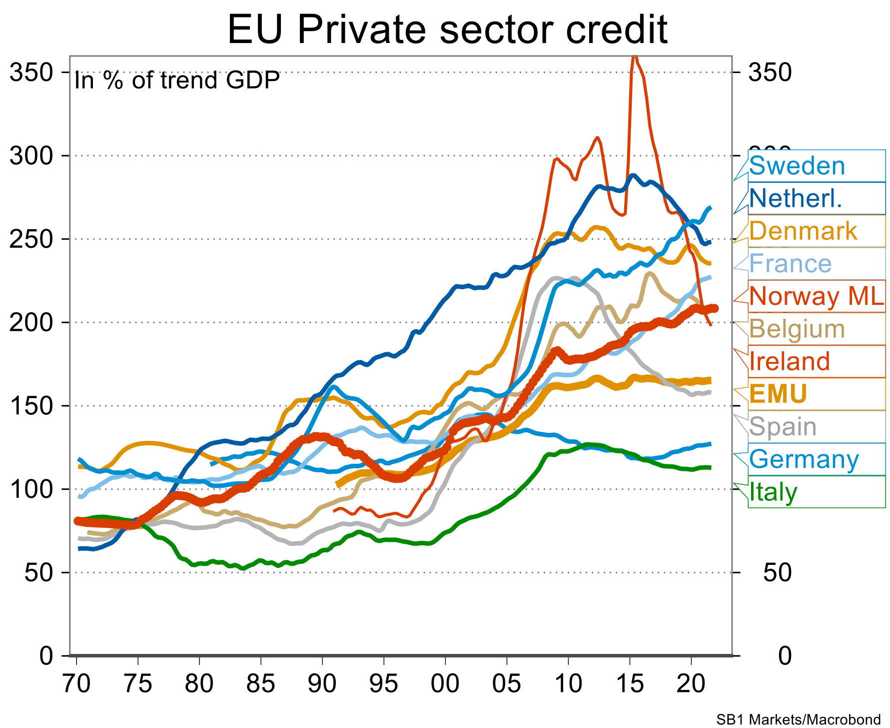


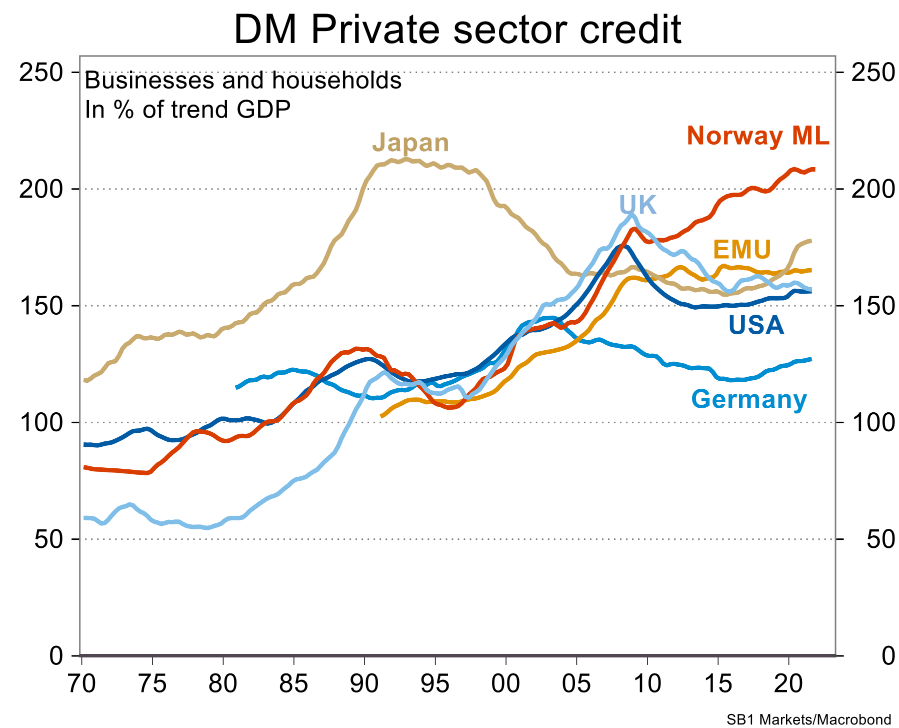


- **Norwegians households' debt** steady been growing faster than income but just marginally since early 2018
  - » Debt/income ratios in many countries have been influenced policy measures vs. households during the pandemic
- **Changes** in credit **growth** (the 2nd derivative) is usually correlated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

The private sector has mostly been deleveraging since the Financial crisis

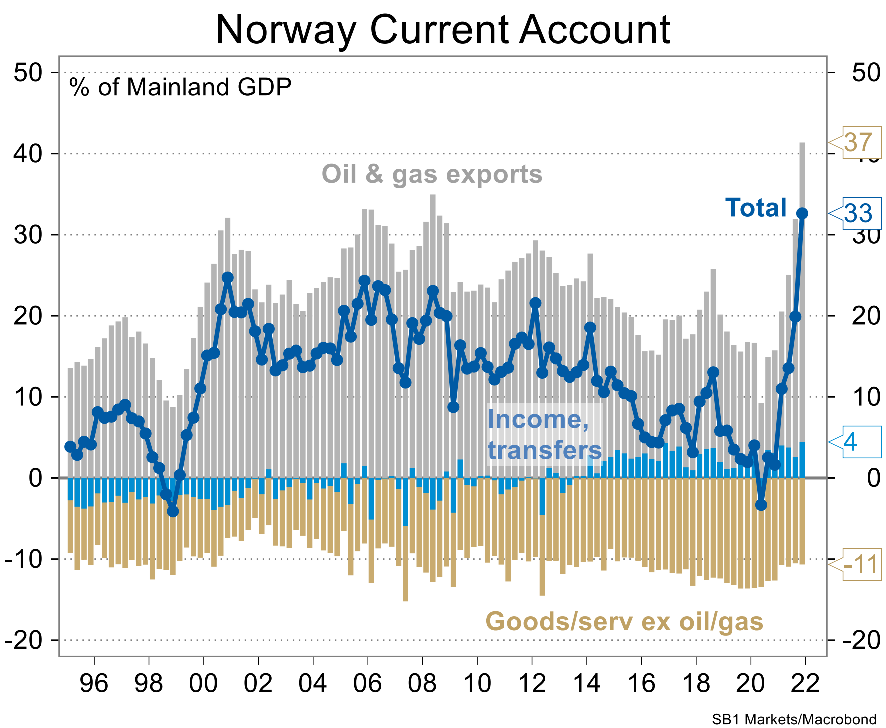
… and credit growth has been moderate during the pandemic, at least most places





An incredibile 33% of GDP surplus at the current account in Q4, a new record

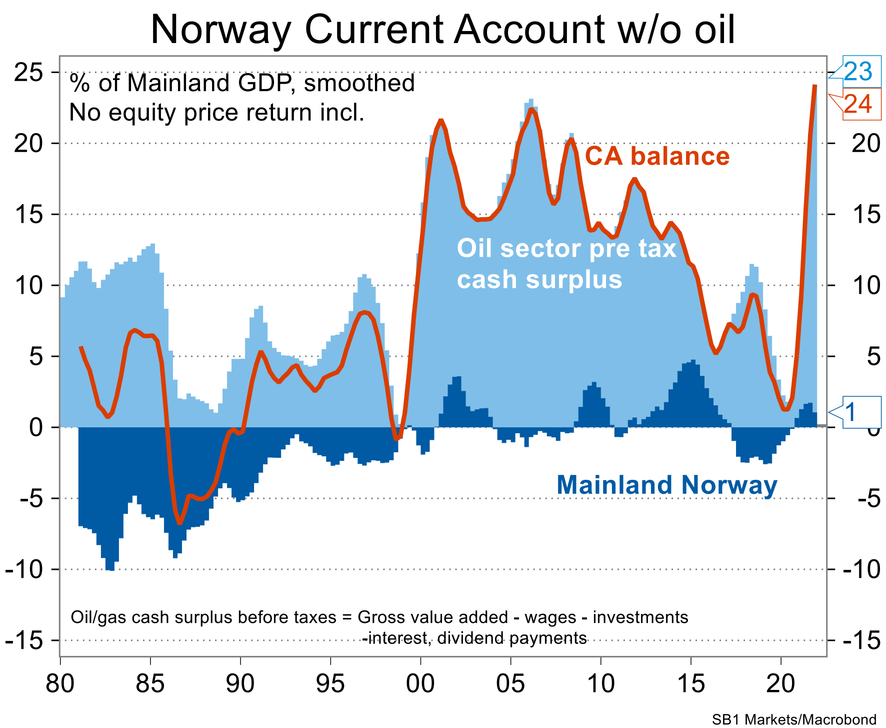
And given the current oil and gas prices, the surplus is even higher now

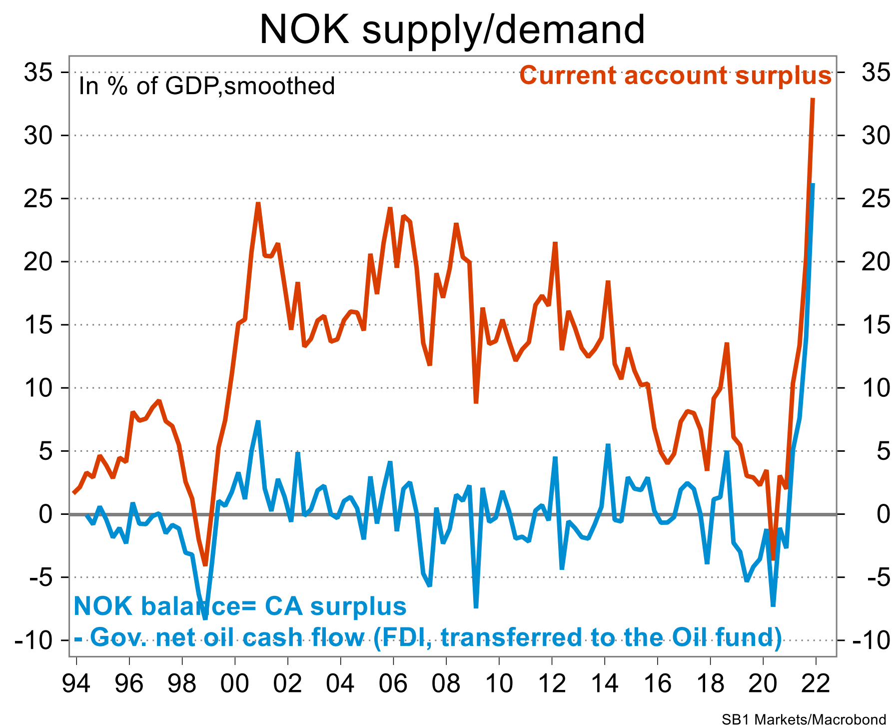


- The surplus was NOK 269 bn in Q4
- The deficit in trade in goods & services ex. oil and gas has been stable at 11% recent quarters

Norway ex the oil sector is in balance?

Yes – if we calculate the real 'oil sector balance', after deducting for op.ex, cap.ex etc.

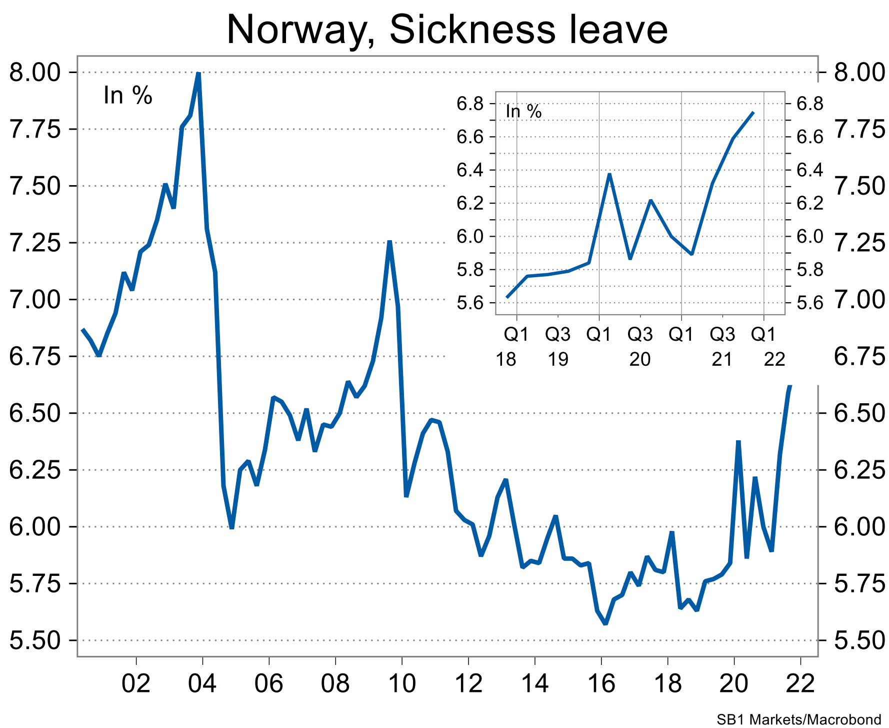




- The pre-tax cash surplus in the oil sector is far smaller than the value of oil and gas exports
  - » The sector has to pay op.ex (including wages), finance its cap.ex (investments) and pay interest rates and pay dividends, to Norway and abroad, in sum almost 10% of Mainland GDP. Investments alone equals some 5% of Mainland GDP
  - » Some of these input are imported directly, while the most is 'imports' from the Mainland. However, these sales from the Mainland is not counted as 'Mainland exports' in trade statistics
- On the chart to the left above, the 'real' ex. oil balance is calculated – and is not that bad
  - » A MAIN CAVIAT: WE ASSUME THAT 'EXPORTS' TO THE OIL SECTOR CAN BE REPLACED 1:1 BY OTHER EXPORTS OR REDUCED IMPORT, if demand from the oil sector is cut down. That is very likely not the case, as companies will not have the same advantage when competing at other markets. In addition, we have not adjusted for reduced exports of oil related equipment to other countries, if the rest of the world also decides to 'go green'. Still, this calculus explains the 'real' ex oil balance pretty well

Sickness leave straight up but not that dramatic

The rate up to 6.75% in Q4, 1 pp above a 'normal' level



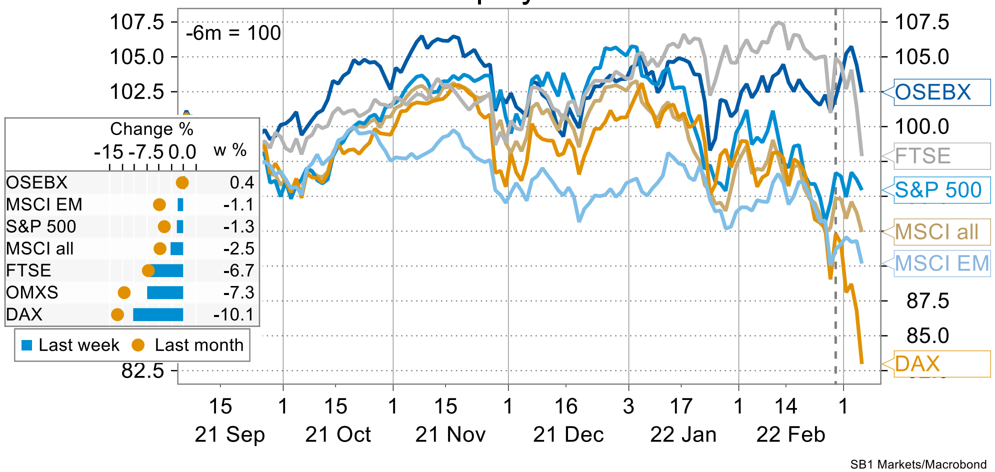
- Sickness leave has been higher during the pandemic than before the corona virus arrived
- More sickness leave may have contributed somewhat to the tightness at the labour market. However, we doubt many employers usually replaces these leavers with new empoyees

SpareBank 1 MARKETS

DAX down 10%. The OSEBX up 0.4%. The others in between

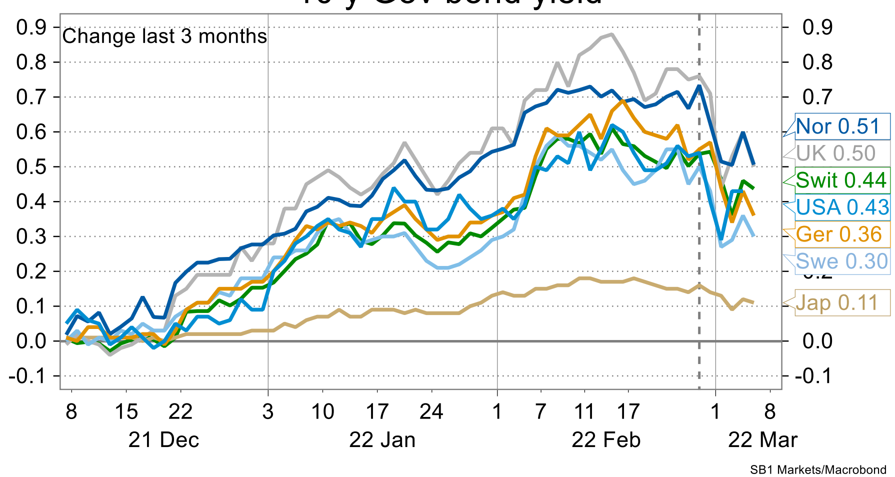
The oil price up 26%, gas prices 60%. Bond yields down everywhere. The NOK, CHF, CNY up. EUR, SEK down

Equity Indices

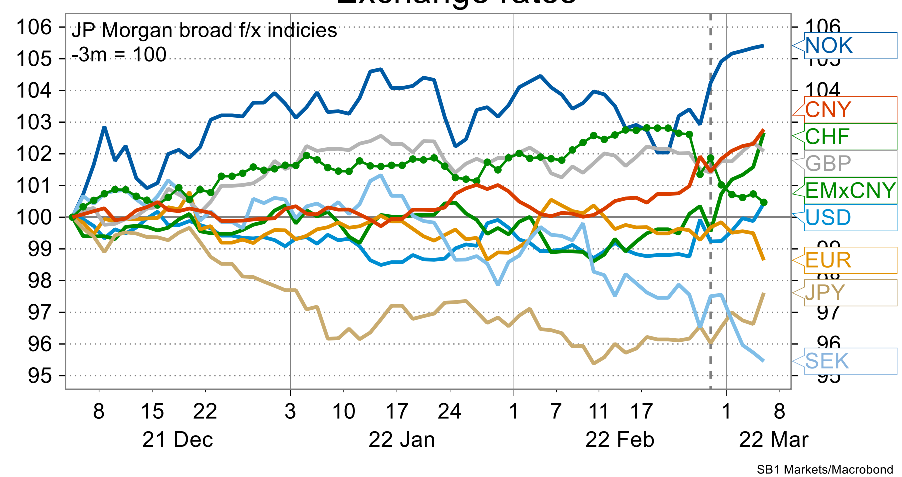


Oil vs. metals

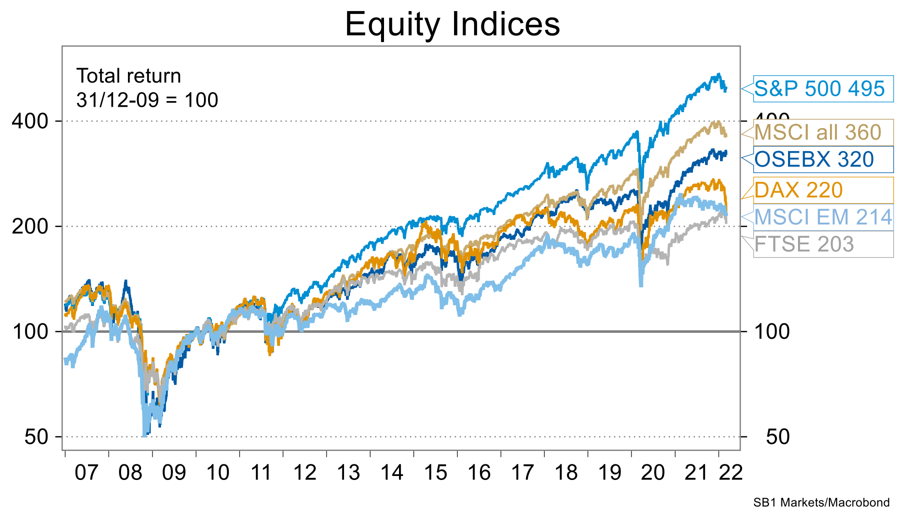
10 y Gov bond yield

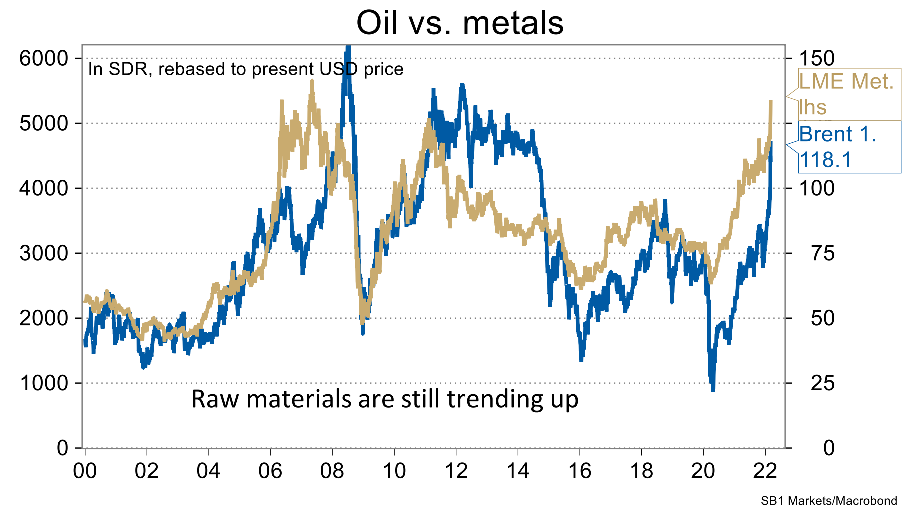


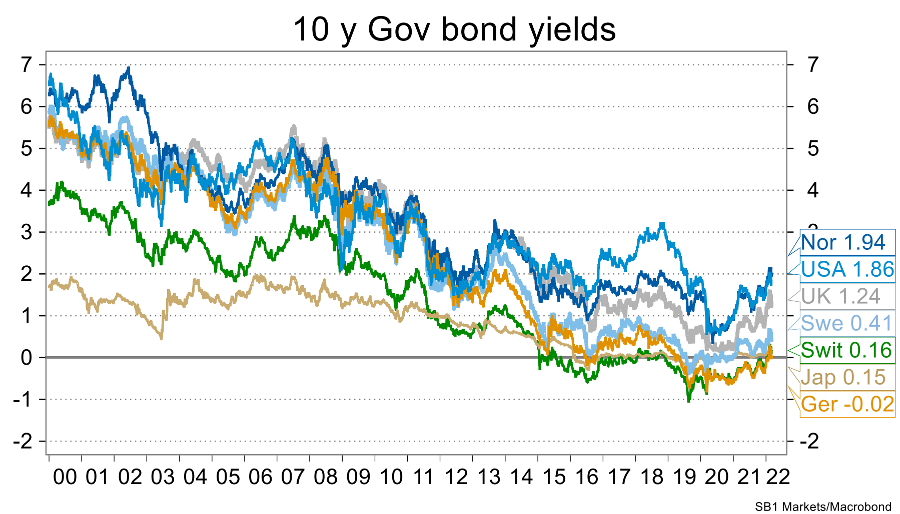
Exchange rates

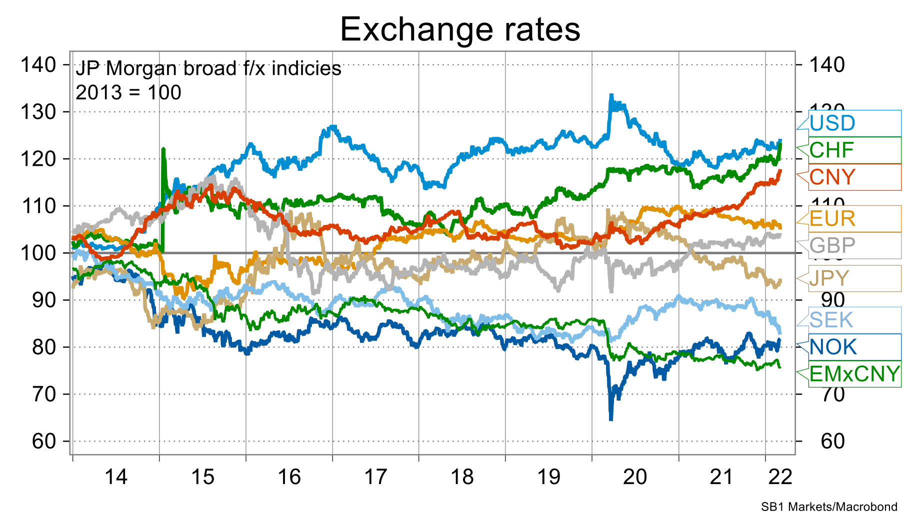


Commodity prices ‘exploded’ last week. Will Russian/Ukrainian supplies be cut?



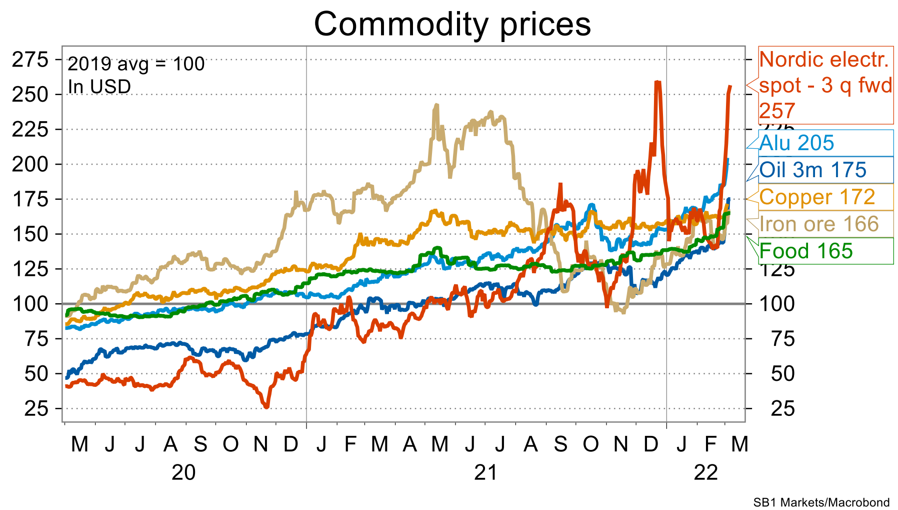


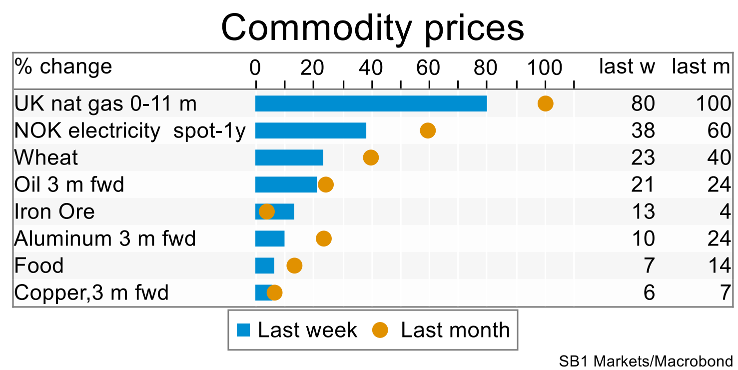


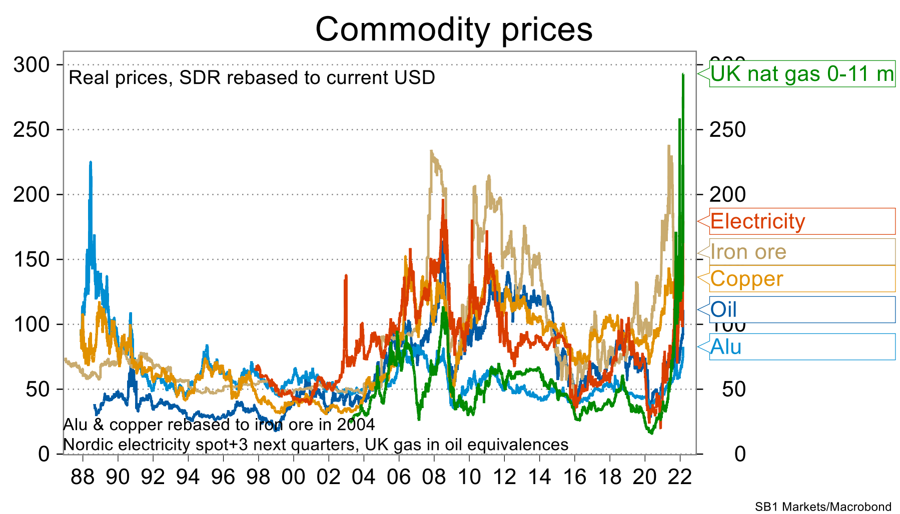


SpareBank 1 MARKETS

All commodity prices up, European natural gas the most, for good reasons

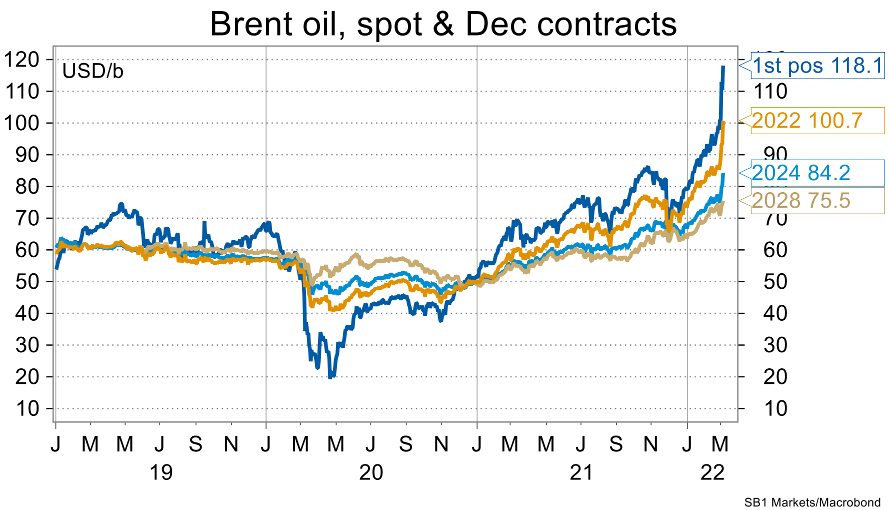


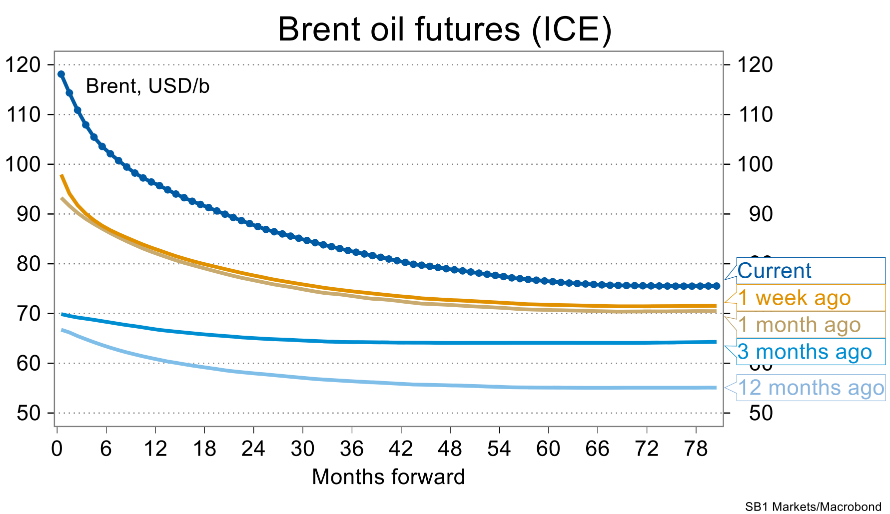




- **All commodity prices** rose last week, European natural gas the most, alongside European electricity – followed by wheat and crude oil
  - » European gas prices are almost 12 x a normal price level
- Will **Russia be allowed to export** oil and gas, will buyers abroad buy the stuff or will **Russia turn the tap off**?
- We simply do not know – and there risk is that Europe will not get sufficient

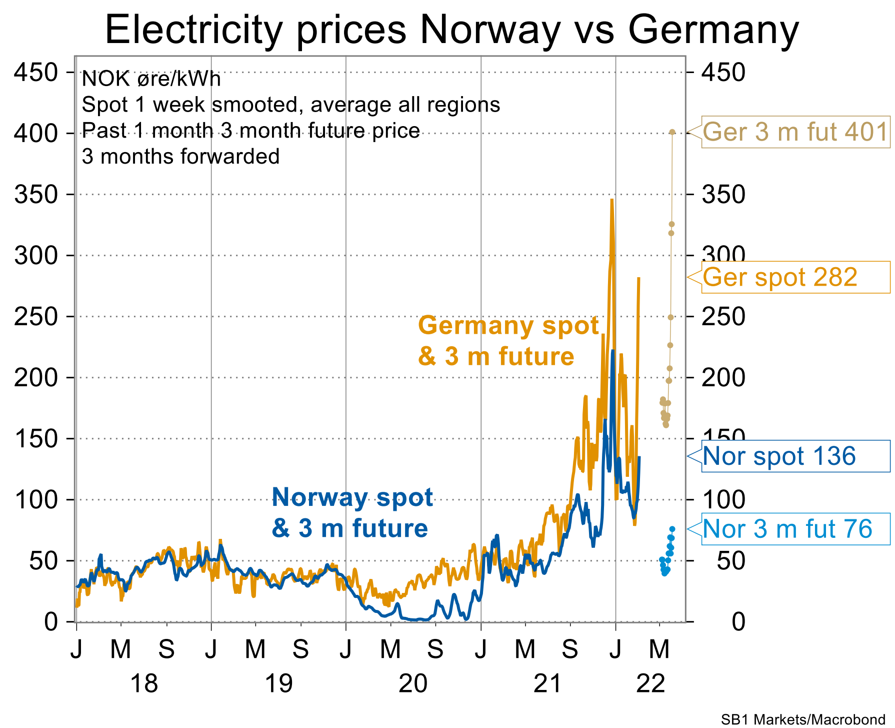
The whole oil price curve sharply up – but the most in the short end

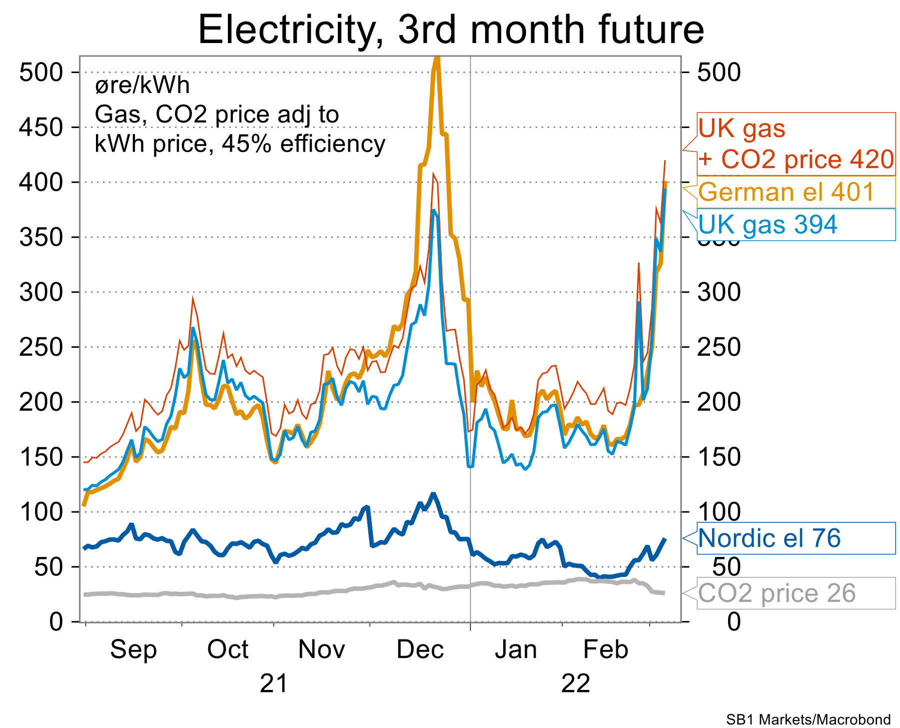




Will the Russian gas keep flowing?

European gas prices skyrocketed last week, as did electricity prices. Norwegian prices up, still ‘low’



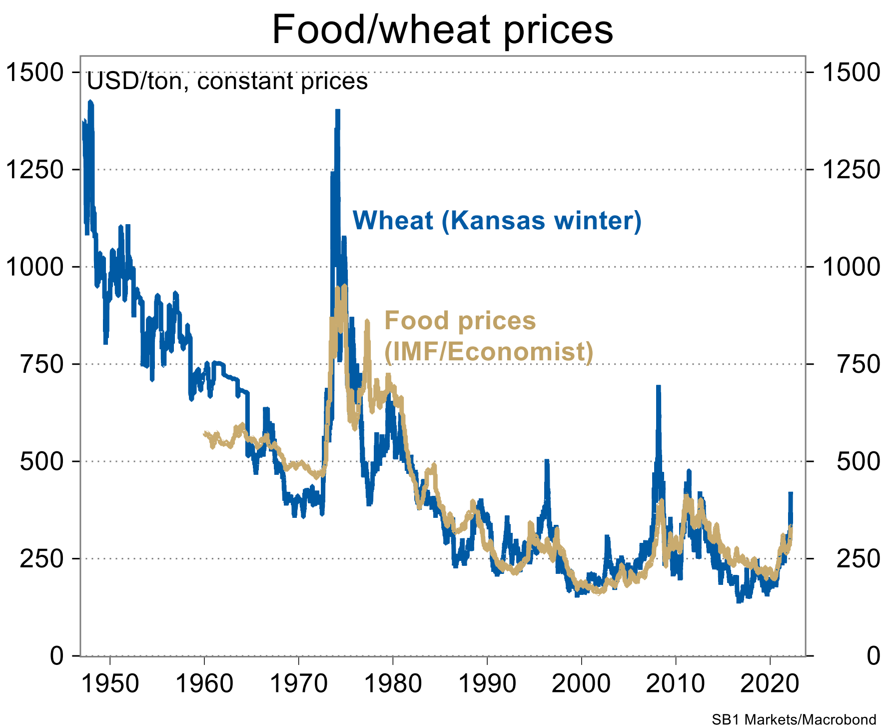


- **The ‘Norwegian’ risk**: Nordic future electricity prices remain far below European forward prices
- The Norwegian 2022 prices are up by 29 øre/kWh since before the Russian invasion, or by 75% the rest of 2022. At the CPI level (assumed continued subsidies, and low prices in Mid/Northern Norway), 2022 prices will be up by 7%, lifting the overall 2022 CPI by 0.3 pp
  - » The 80% subsidy for prices above 70 øre/kWh reduces the impact of higher electricity prices for Norwegian consumers substantially

SpareBank 1 MARKETS

Food prices are rising steeply but we have seen far higher prices before

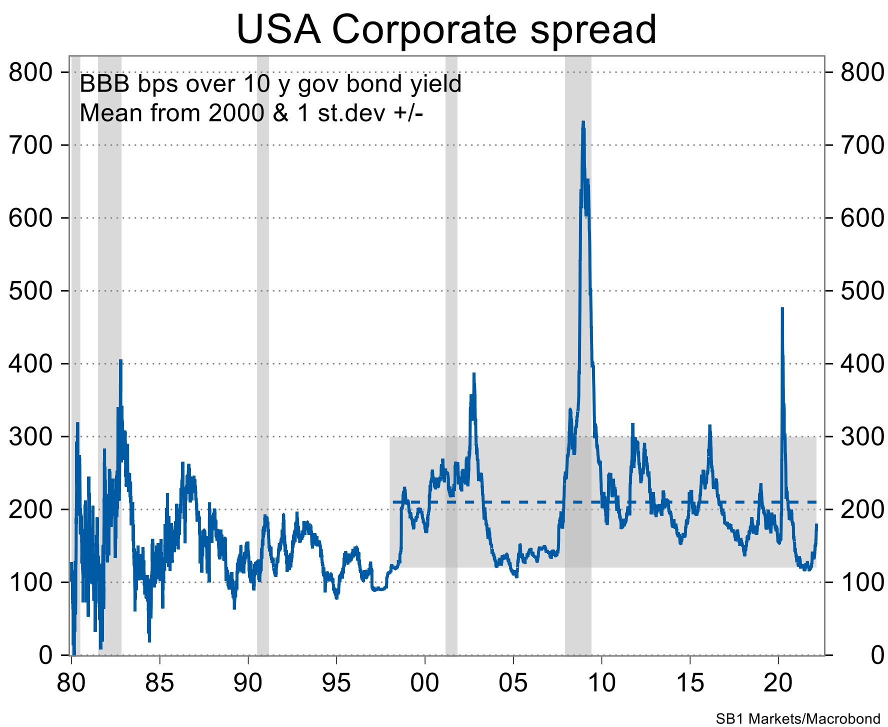
… and even in Russia & Ukraine is are huge grain exporters, their exports equal just 4% of global cons.

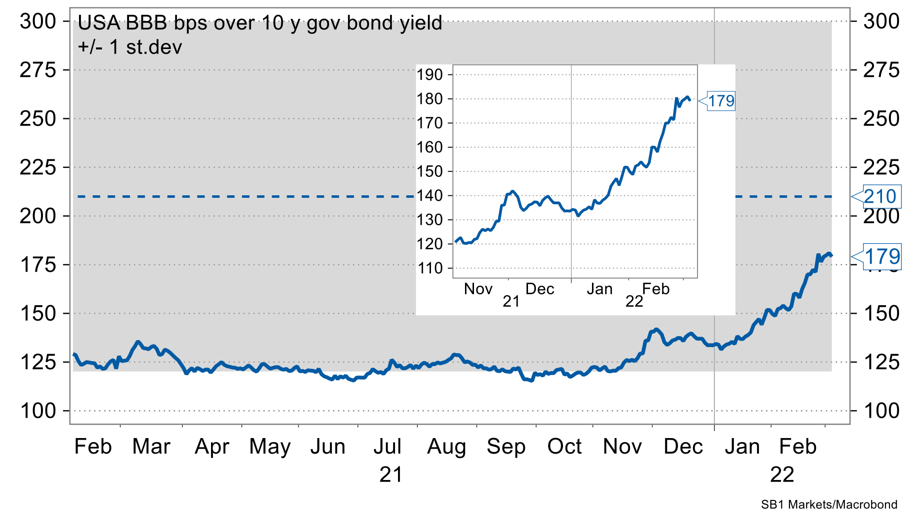


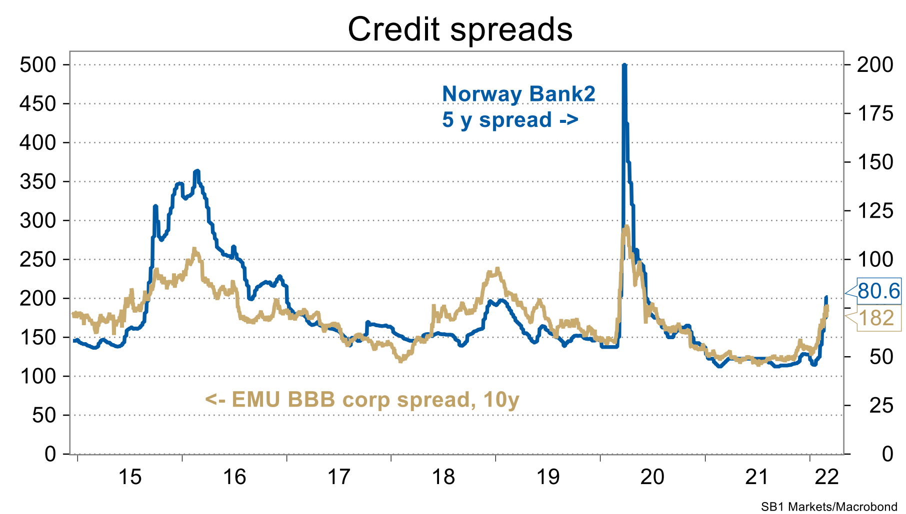
- **Russia and Ukraine** together exports 24% of global grain exports (and 25% of all wheat exports)
- However, exports (and imports) of grains equals 'just' 18% of **total consumption** – and Russian/Ukrainian exports equals 'just' 4% of global consumption – and somewhat higher for wheat
- **Russia & Ukraine exports** 103 mill tons in grains. Grain production is increasing over time, but is also declining from time to time – like by 50 mill tons in 2017/18 – without sending prices to the sky
- **Grain stocks** are somewhat below normal but not by much, at 26-27% vs. the 28% average (of annual consumption
- Of total consumption, less than **1/3 is eaten by humans**, while almost 50% is used as feedstock for animals/birds (we then eat)
  - » If just a small fraction of the proteins that are used for feedstock was consumed directly by humans, instead if eaten like meat, the world is well supplied without and imports from Russia or Ukraine

Credit spreads flattened in US, rose in Europe & in Norway

Norwegian bank's borrowing cost rose by 11 bps (to 81 bps, Bank 2, 5 y)





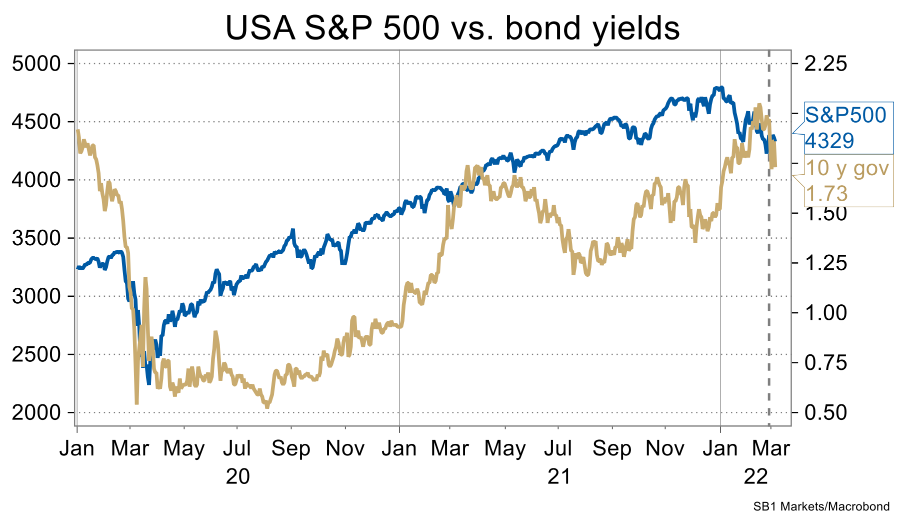


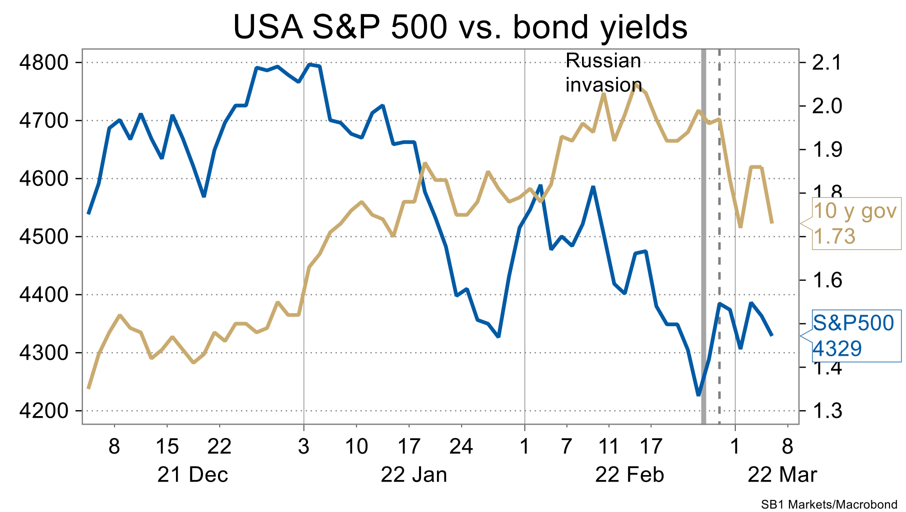
- The increase in US Corporate BBB spread now equals almost 2/3 st.dev, still far from a normal full credit cycle
  - » The credit cycle is often closely correlated to the economic cycle, check next page
- The NOK Bank 2, 5y spread widened 7 bps to 70 bp last week (and from below 50 three weeks ago), the highest spread in more than one year. 70 bps is just an average level…

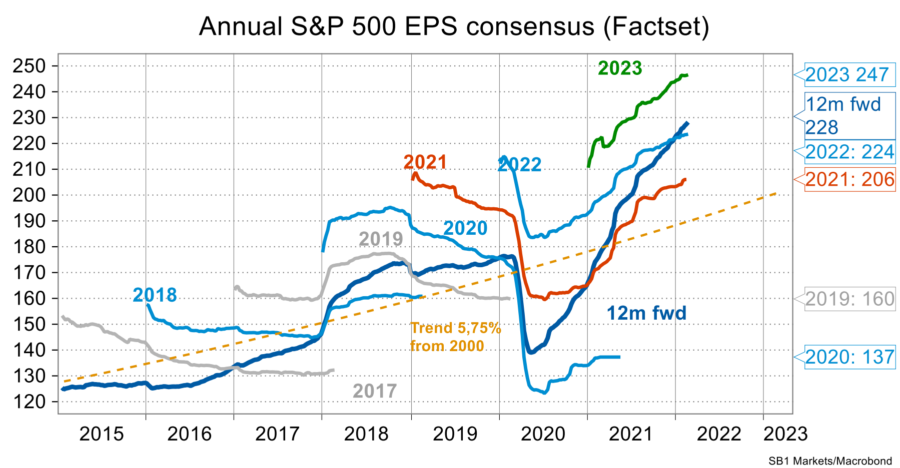
SpareBank 1 MARKETS

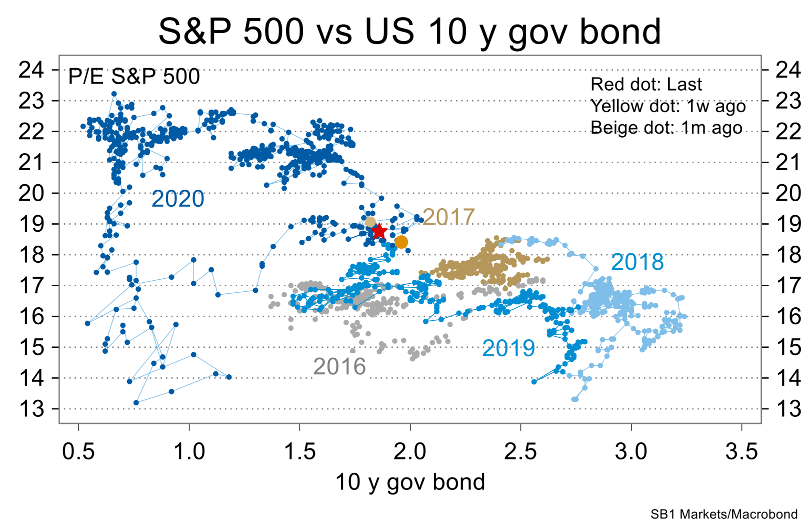
S&P down last week – but up from before the Russian invasion

Bond yields down too, by 24 bps to 1.73%



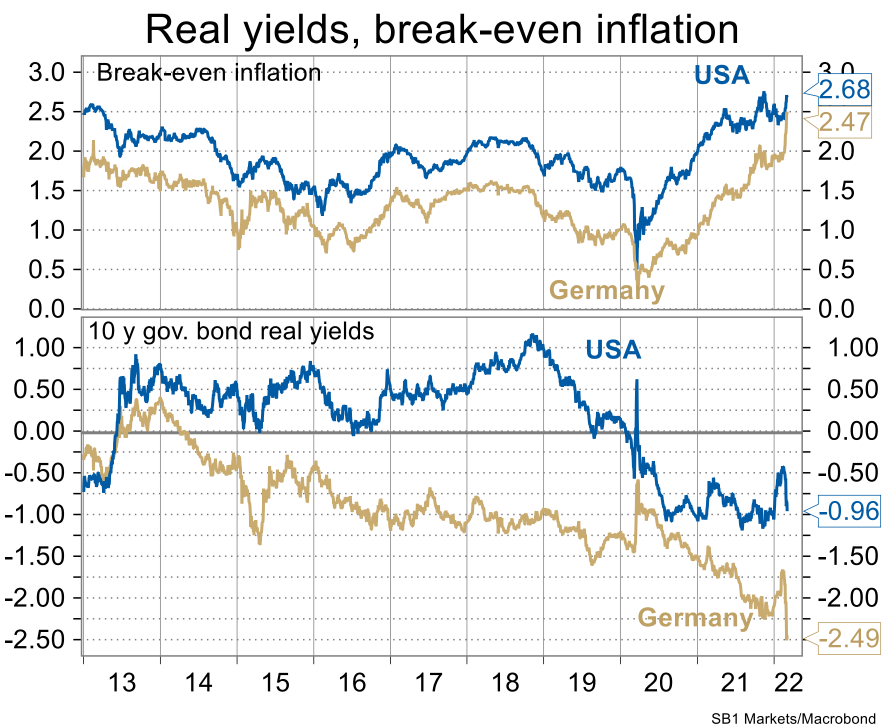


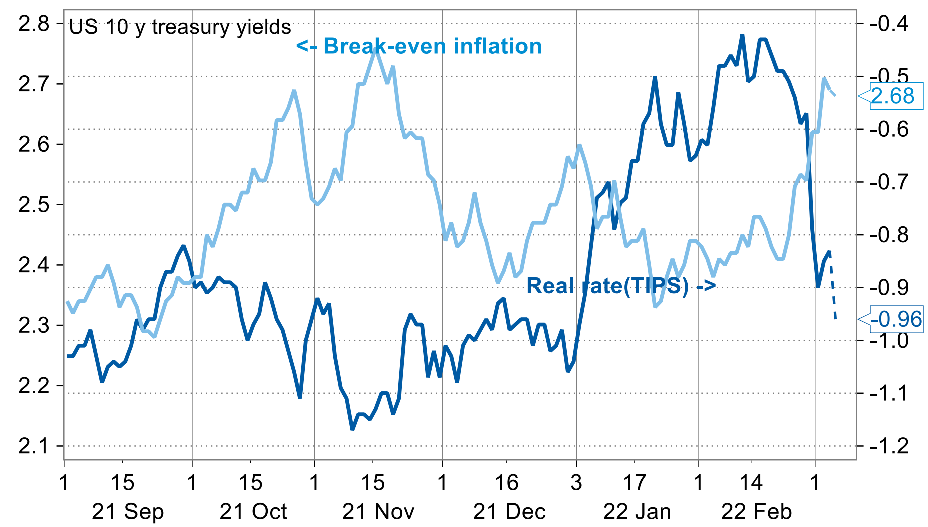




The economic war with Russia: More inflation, less growth

Inflation expectations up, real rates are collapsing, especially in Europe – for obvious reasons





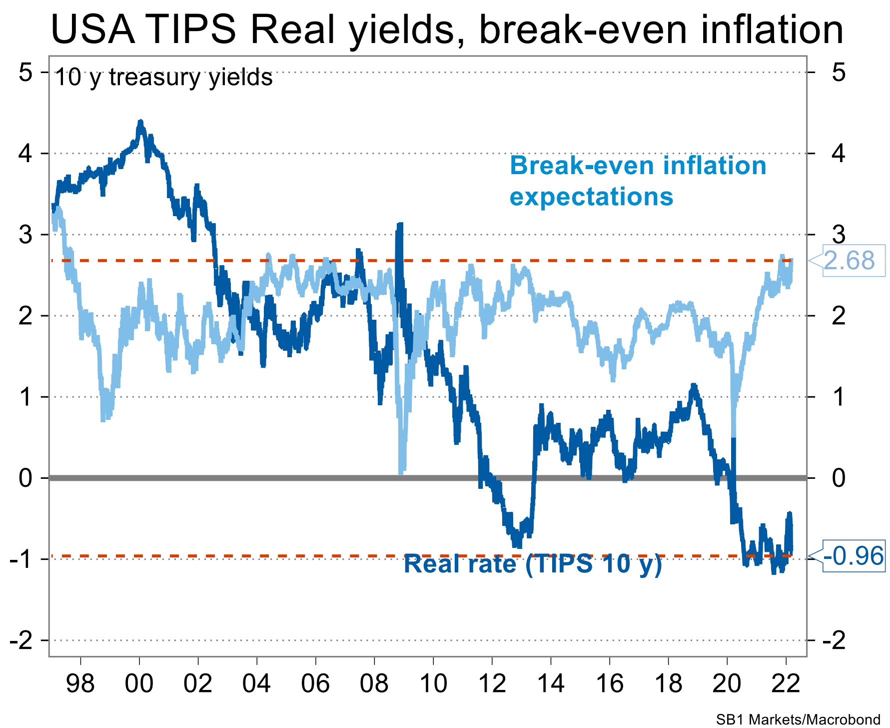
US & Germany 10 y Gov bond yield

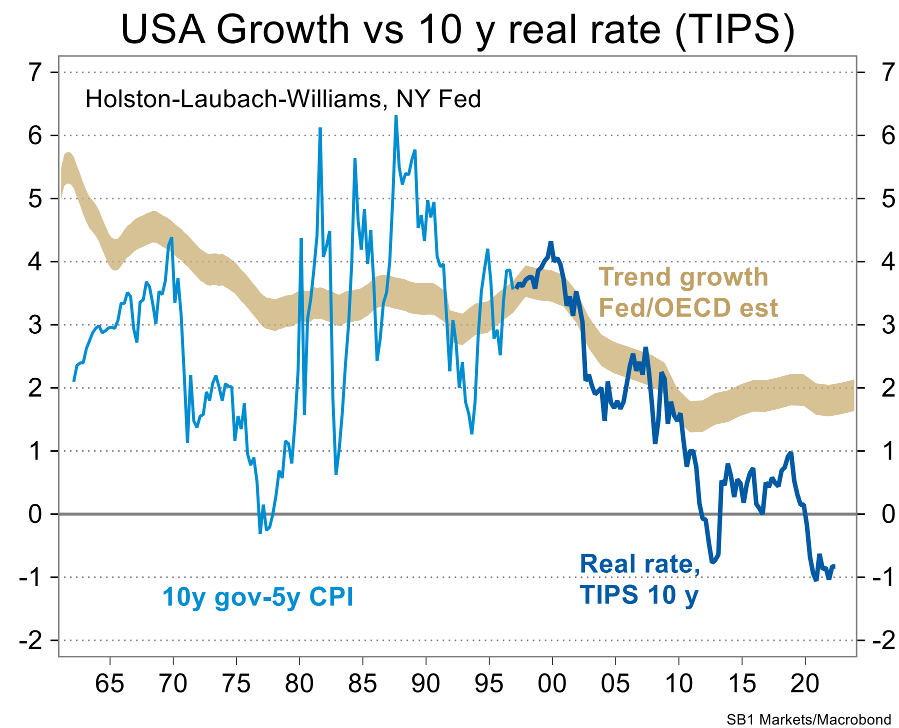
	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	1.73	-0.24	-0.20	-0.19	0.52
.. break-even inflation	2.68	0.14	0.27	0.27	1.06
.. TIPS real rate	-0.96	-0.39	-0.48	-0.47	-1.19
Germany nominal bund	-0.02	-0.19	-0.17	-0.24	-0.65
.. break-even inflation	2.47	0.25	0.57	0.49	0.40
.. real rate	-2.49	-0.44	-0.74	-0.73	-2.51

SB1 Markets/Macrobond

- **Higher energy & raw material prices** due to the supply shock (if Russian energy & other raw materials are kept out of European/global markets will push inflation further up – and growth will very likely slow, due to reduced disposable incomes perhaps also due to increased geopolitical uncertainty. German 10 y inflation expectations at 2.50% is unprecedented (up 57 bps since before the invasion)
- **The sanction regime** is being tightened by the day, and we do not know how Putin's regime will respond, by cutting exports of energy, food & raw materials the West still (possibly) wants to buy

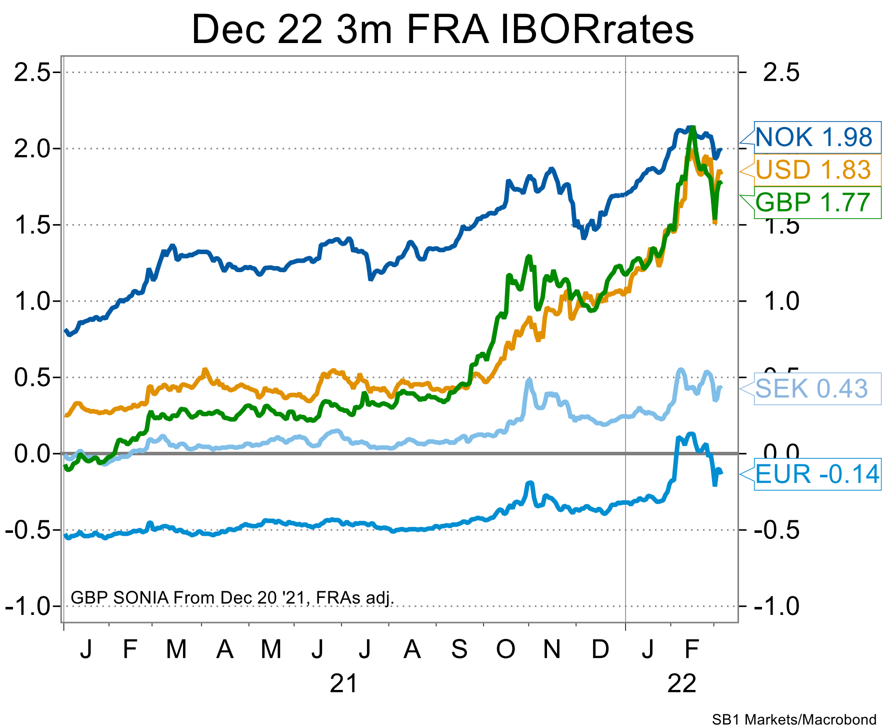
How much will growth expectations decline?

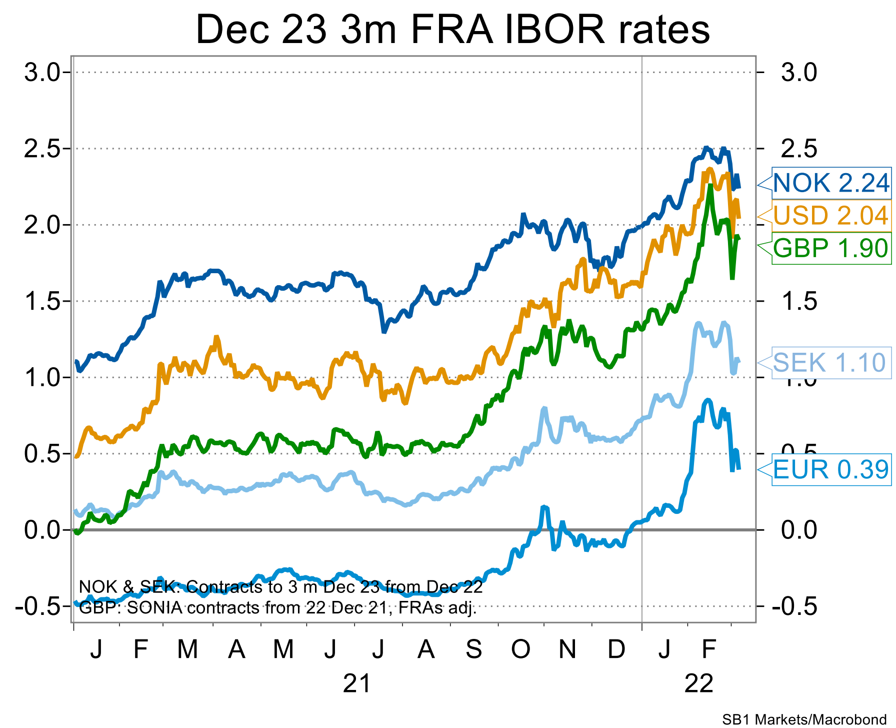




Rate expectations lowered everywhere: High inflation will not be sufficient

.. For central banks. They have to check if growth is kept up too, before tightening

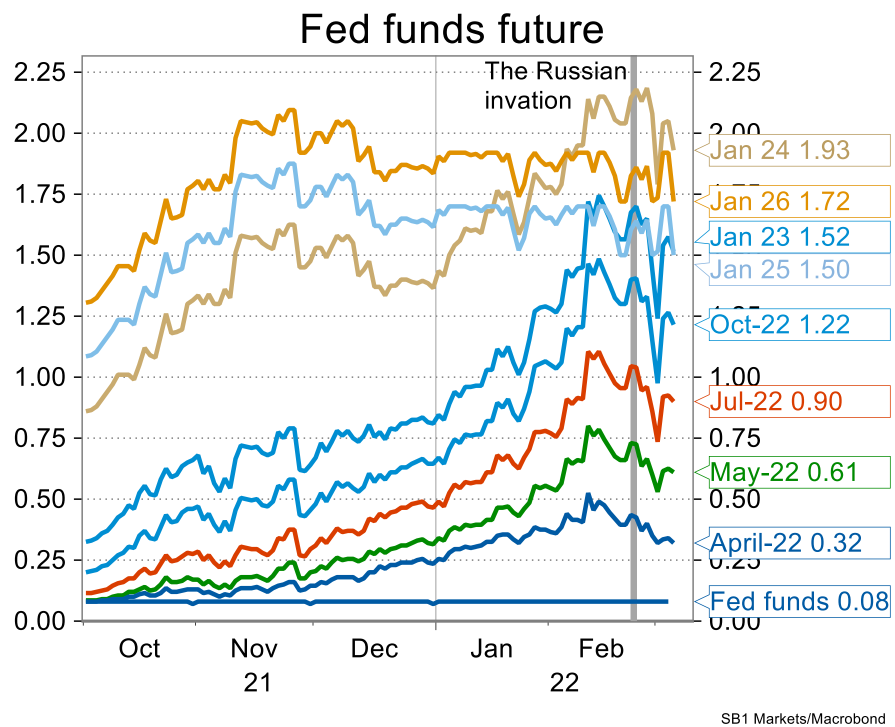


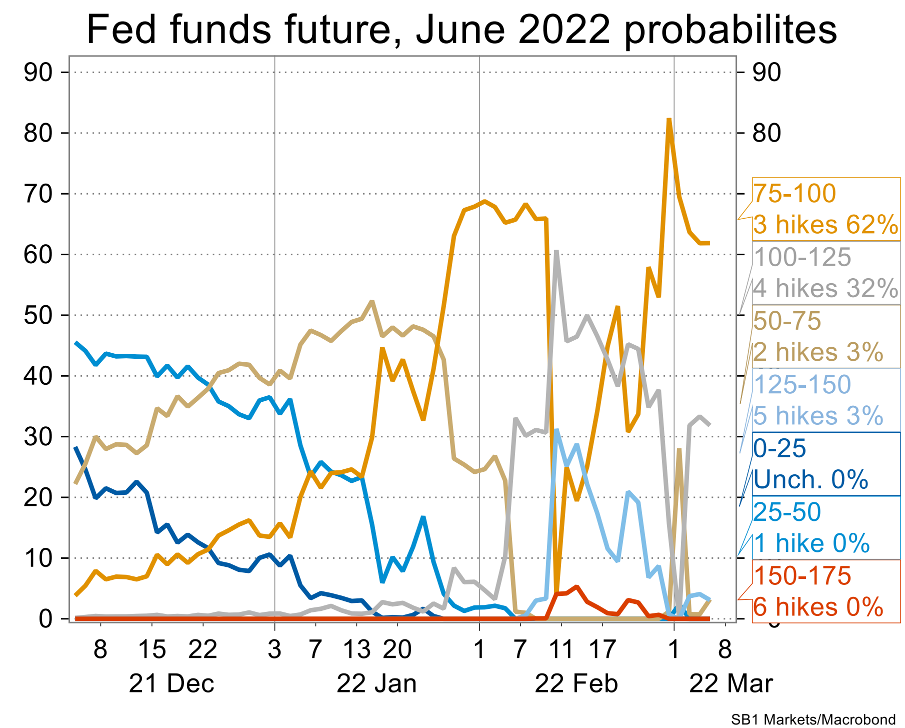


- At one stage however, the new geopolitical situation may lead to increased public spending (defence, energy subsidies), and corporate investments (energy, new supply chains, in-sourcing)
- If the economies have not been too badly hurt in between time, rates may then need to be lifted to make room for these 'prioritised' sectors
- Norway is obviously less hurt by an eventual energy shock – it at all (if growth is now lowered too much globally)

Fed still assumed to hike 5 – 6 times in 2022, US is not hurt much by sanctions ++

The upside risk for rates: Wage inflation remains too high (and not higher energy prices for a while)

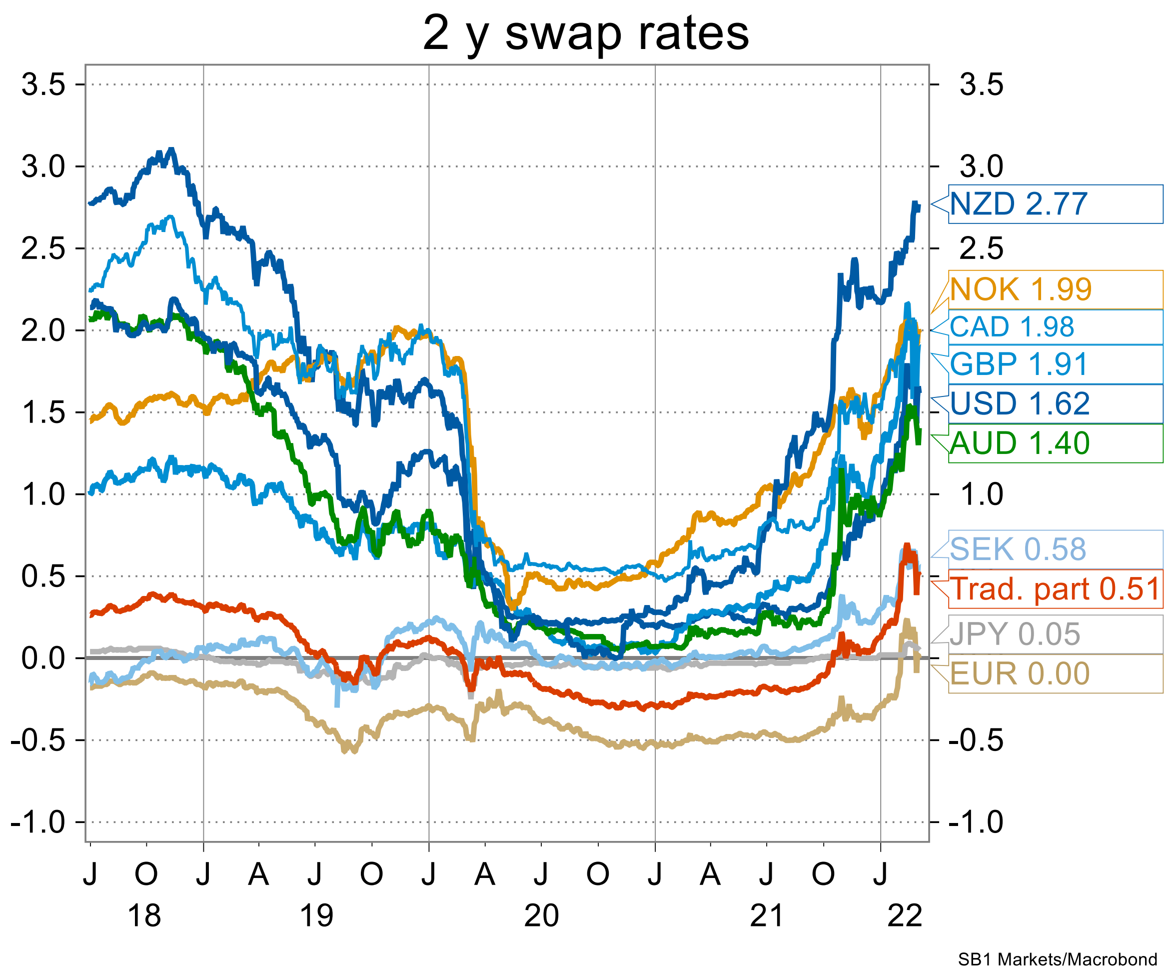


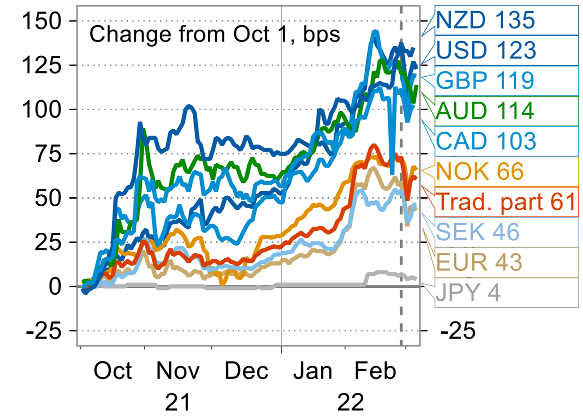


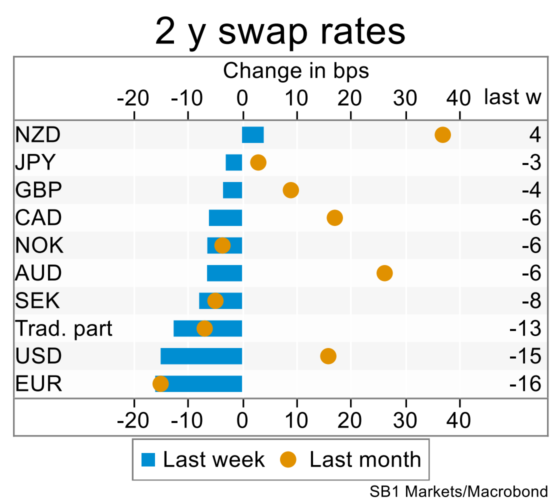
- Now, a March 23 25 bps hike is taken for granted, and a 50 bps hike is deemed unlikely

Geopolitics makes our charts unreadable – too much volatilty

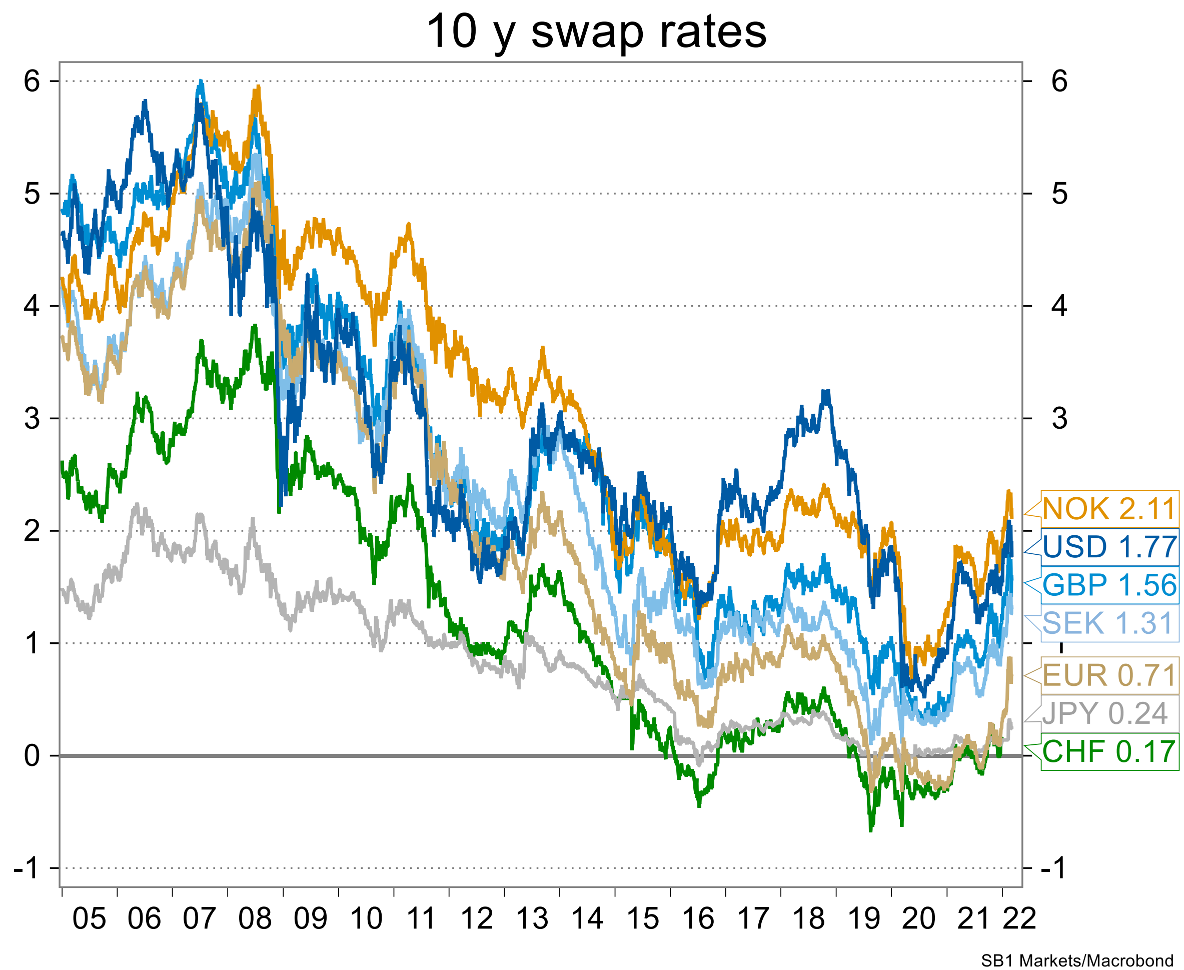
The main picture: Short term rates mostly down last week, and quite much in USD, EUR

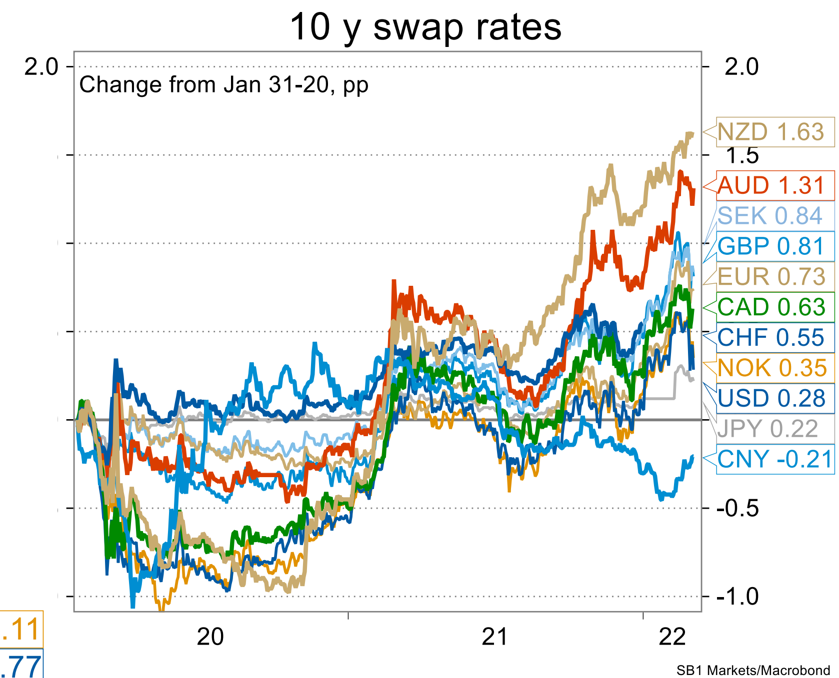


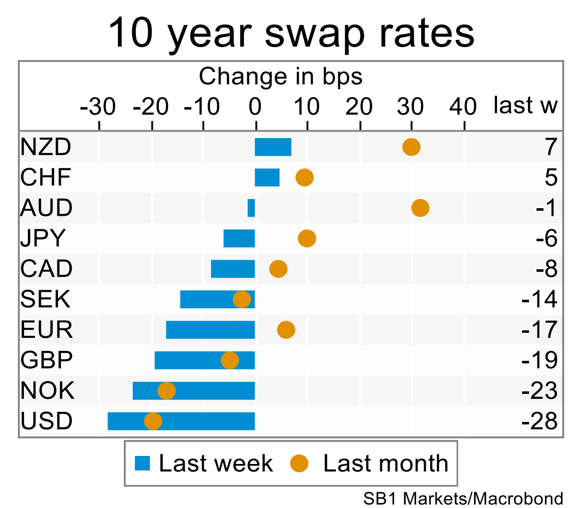




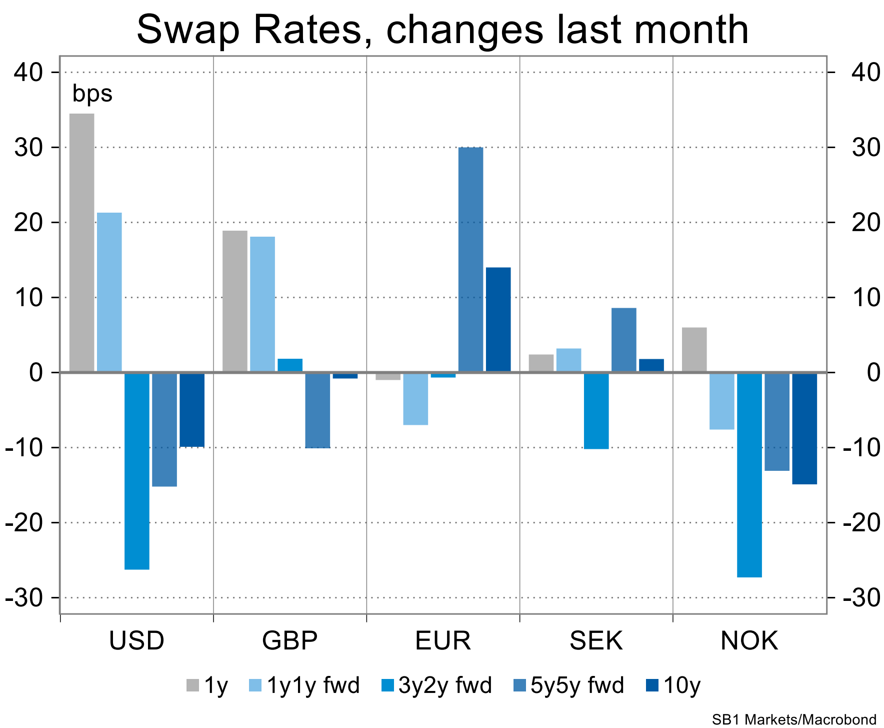
Most 10 y rates sharply down last week

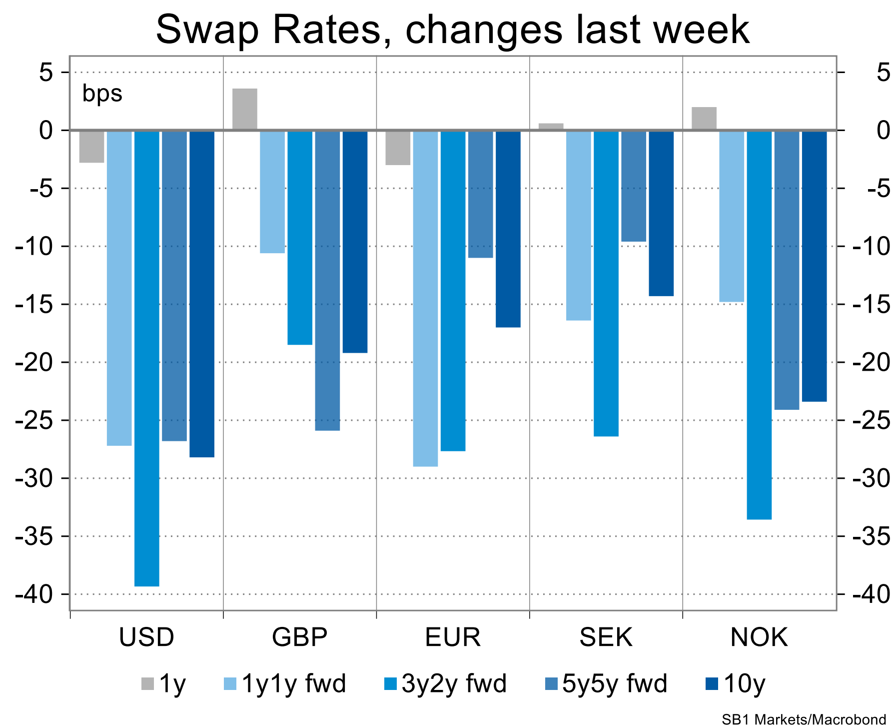






Almost all rates down, all over the curves – except in the very short end





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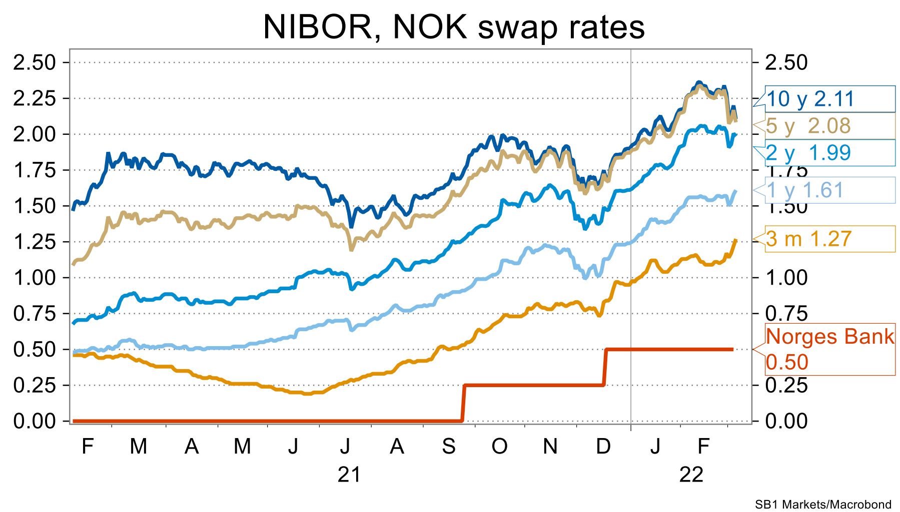
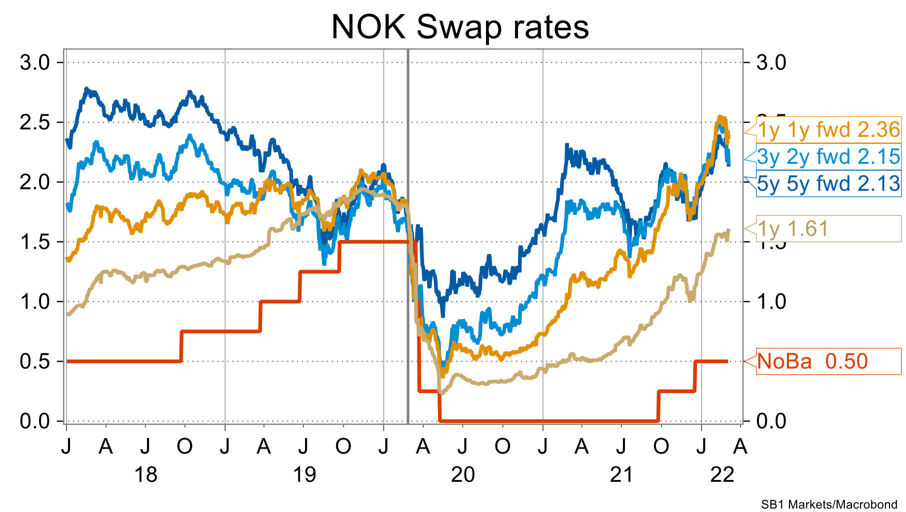
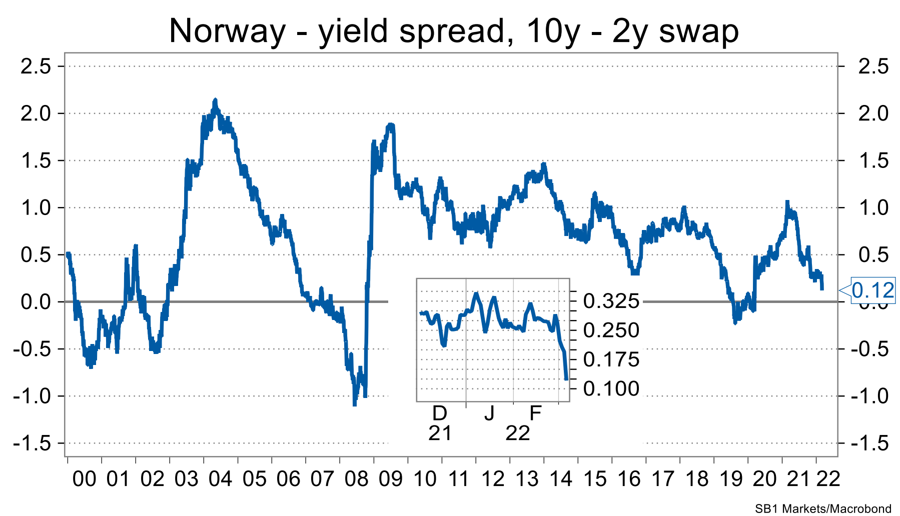
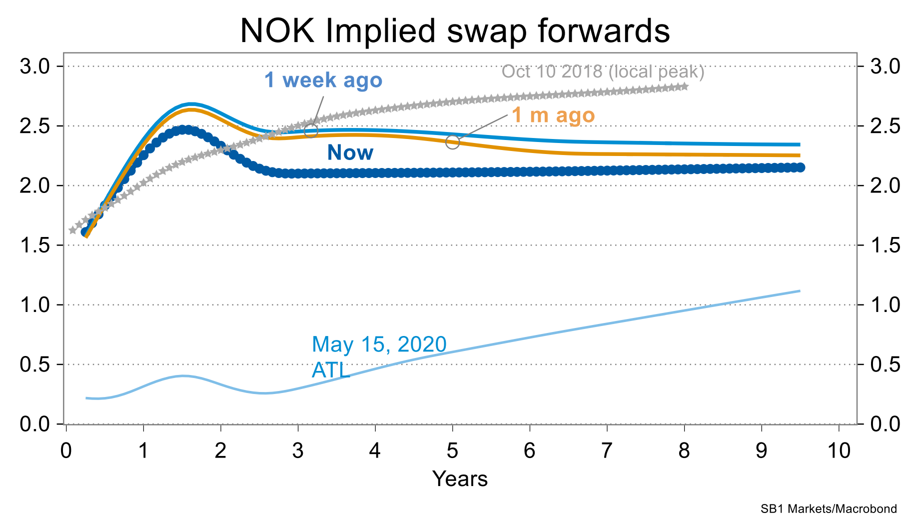
The long end of the curve sharply down, the curve flattened









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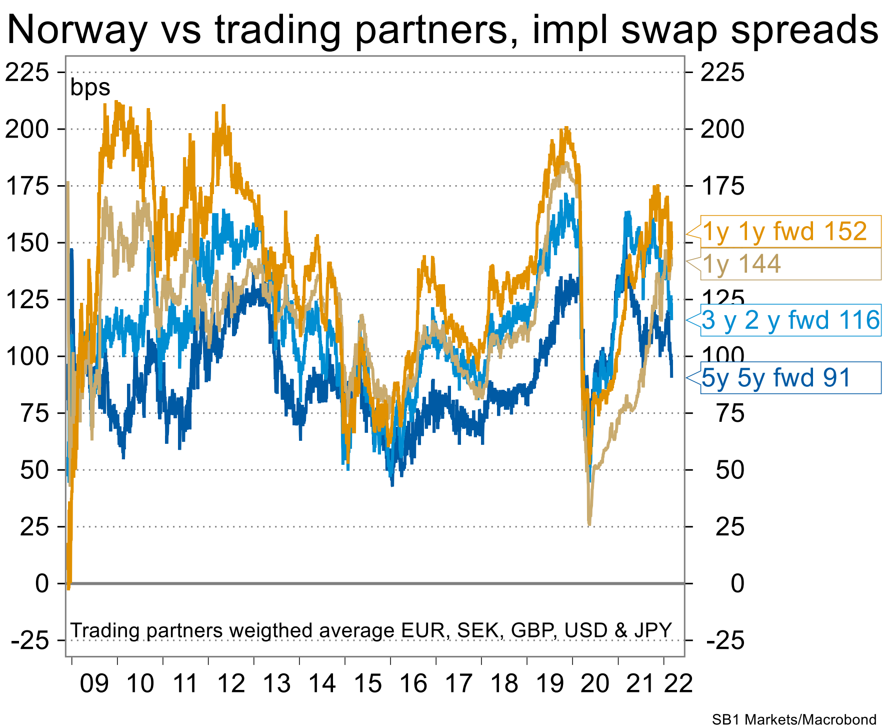
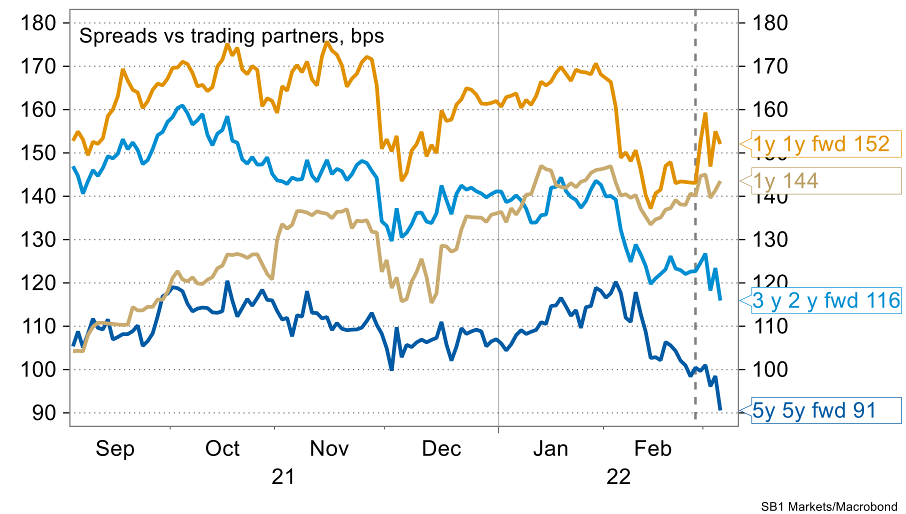
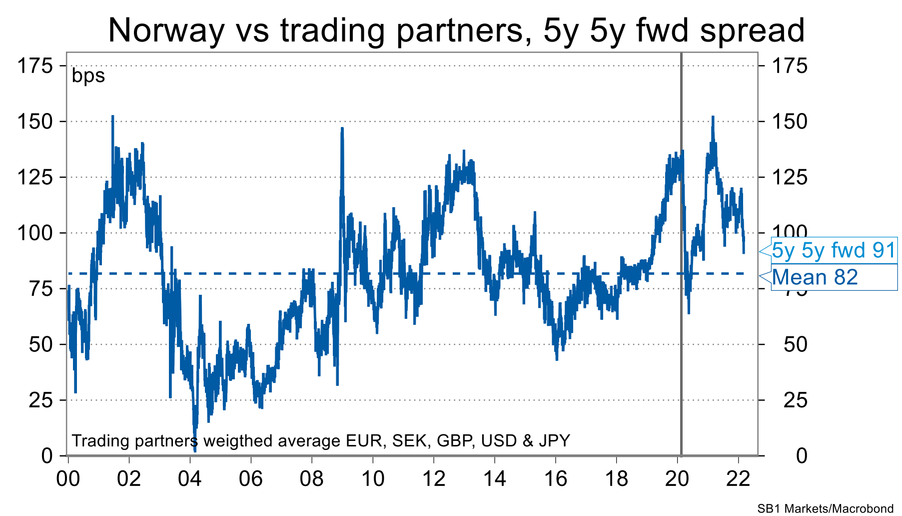
Spreads have fallen sharply in the long end of the curve – but still above mean







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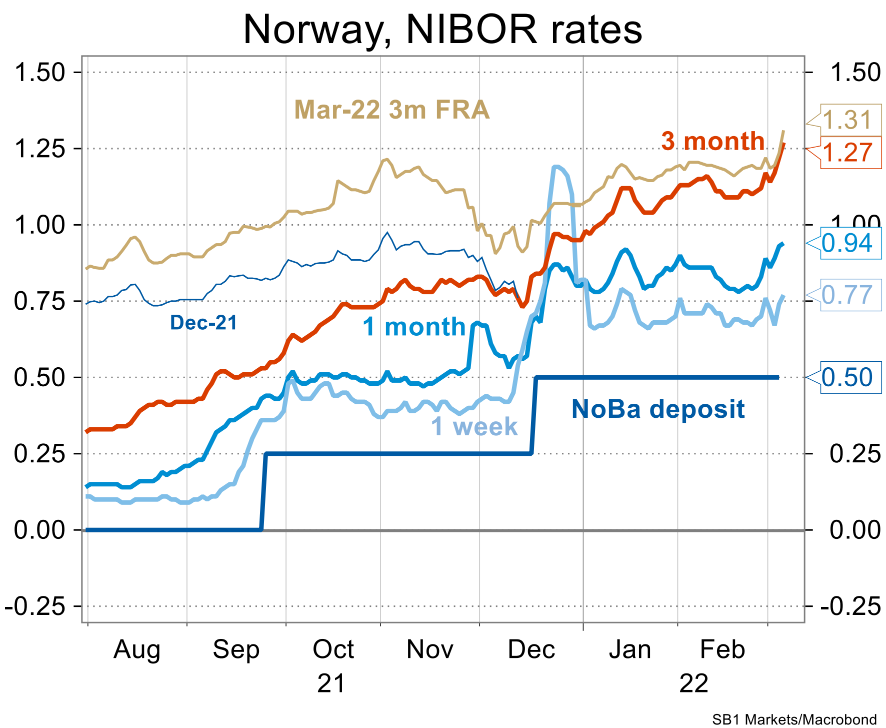
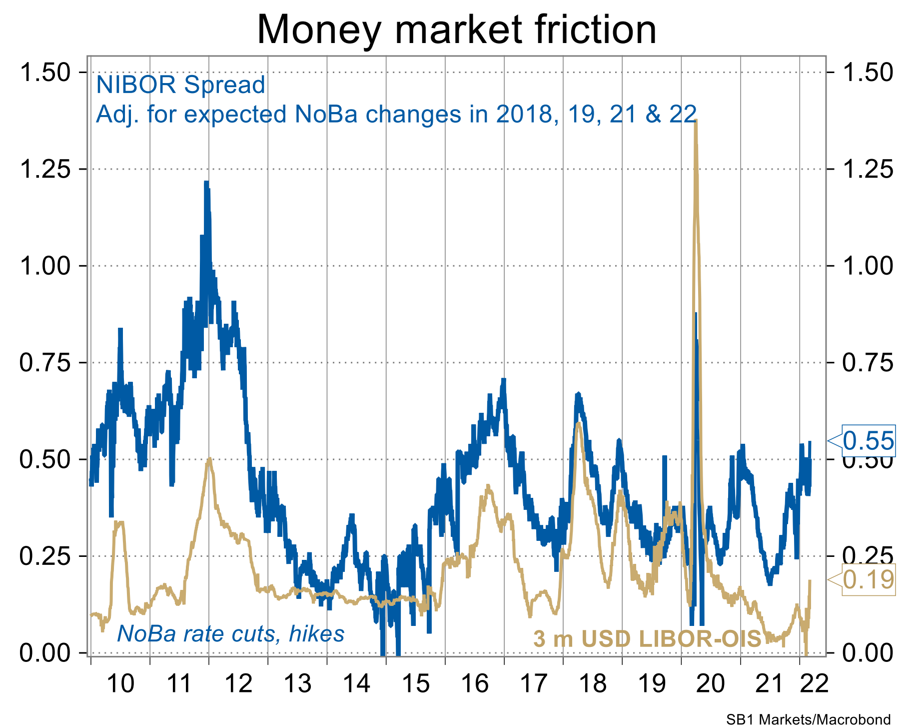
The 3m NIBOR up 15 bps to 1.27%, as spreads widen sharply

The NIBOR spread up 13 bps to 55 bps (if NoBa hikes 'just' 25 bps in March, and not further in May)





- Liquidity issues may follow sanctions – but most likely not, and Norges Bank will have no problems countering them
- The **USD LIBOR-OIS spread** shot up 10 bps too

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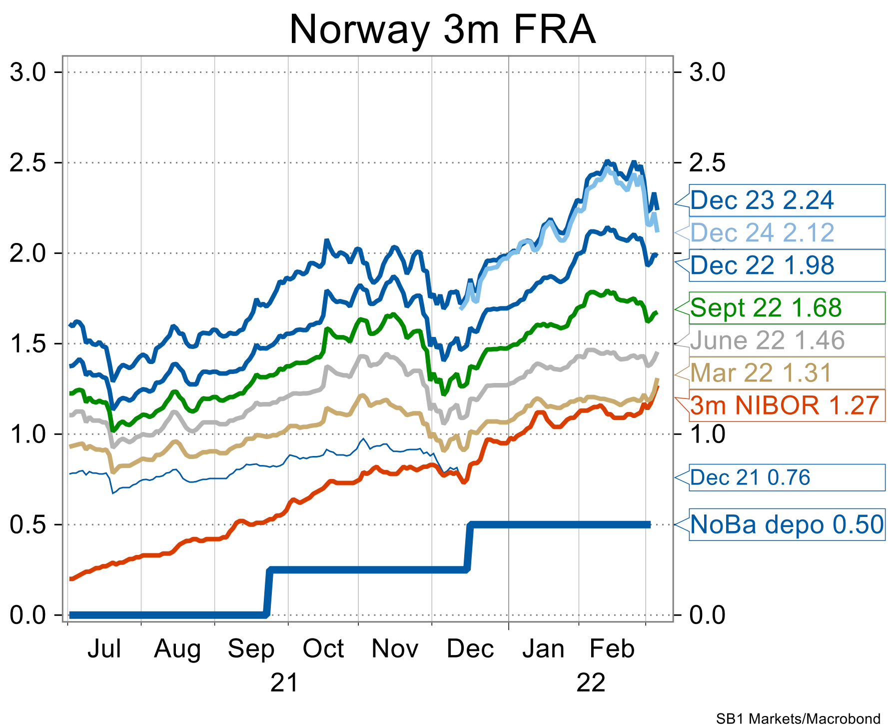
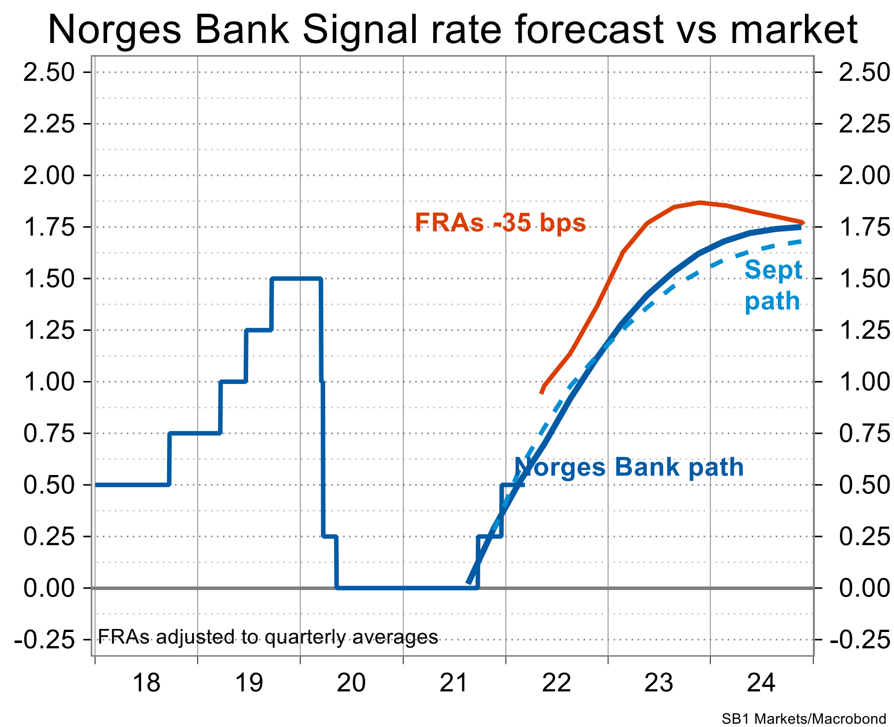
The short end of the FRA curve up, we think mostly due to a lift in the NIBOR spread

Still, the FRA path is steeper than NoBa's rate path – for good reasons



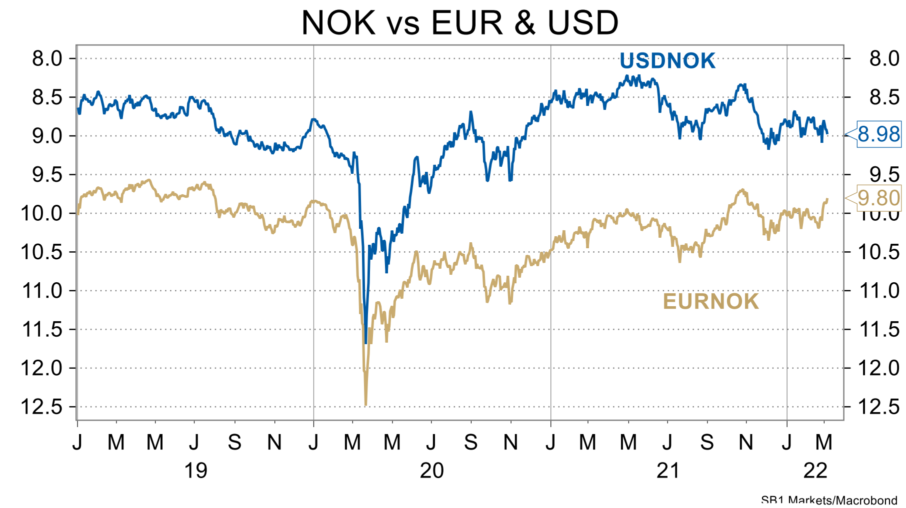


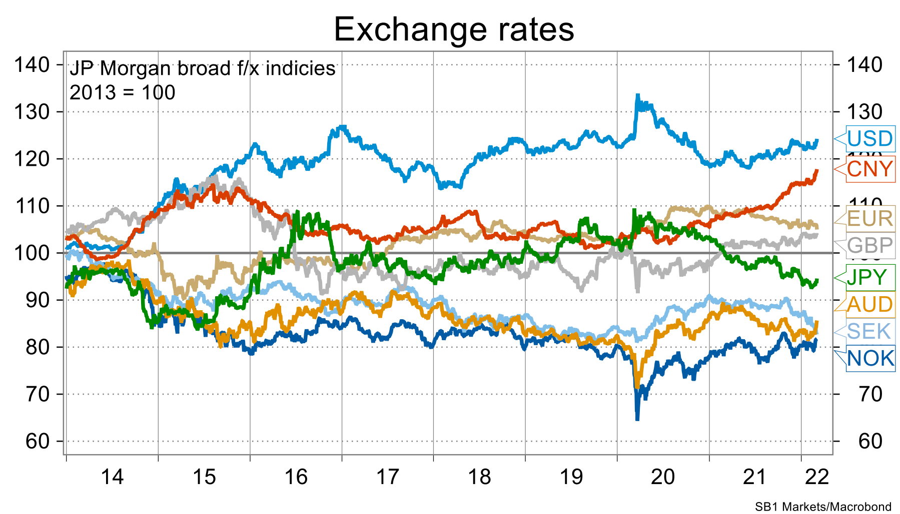
- Market FRAs are still discounting a steeper interest rate path than NoBa presented in December
- If NoBa hikes March 24 (by 25 bps, and not in May), the average NoBa rate will be 0.73% in the March FRA period
- Thus, the **March-22 3 m** contract at 1.31 implies 100% probability for a 25 hike with a 58 bps NIBOR spread!
- The June contract at 1.46% captures a lot of different scenarios, including a small probability for a June signal rate at 1.25%
- Longer dated FRA contracts fell last week

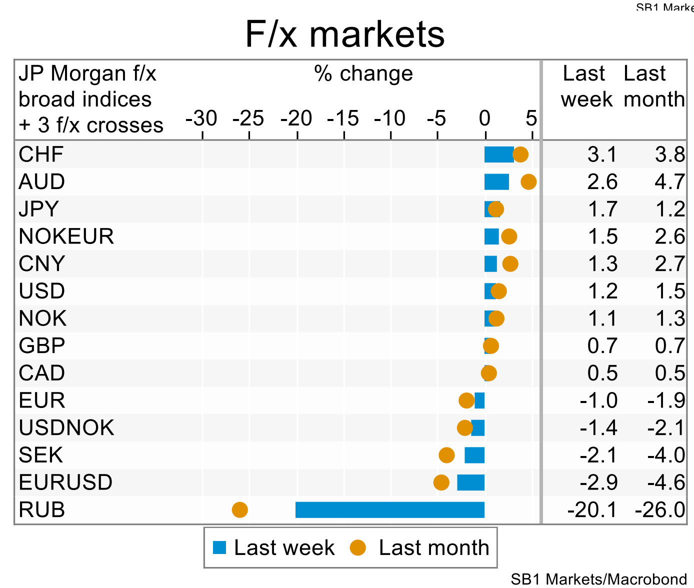
SpareBank 1 MARKETS

Besides the RUB, SEK & EUR pay the price for the Russian aggression

… and the NOK is far weaker than oil and gas prices suggest. AUD just enjoys higher commod. prices





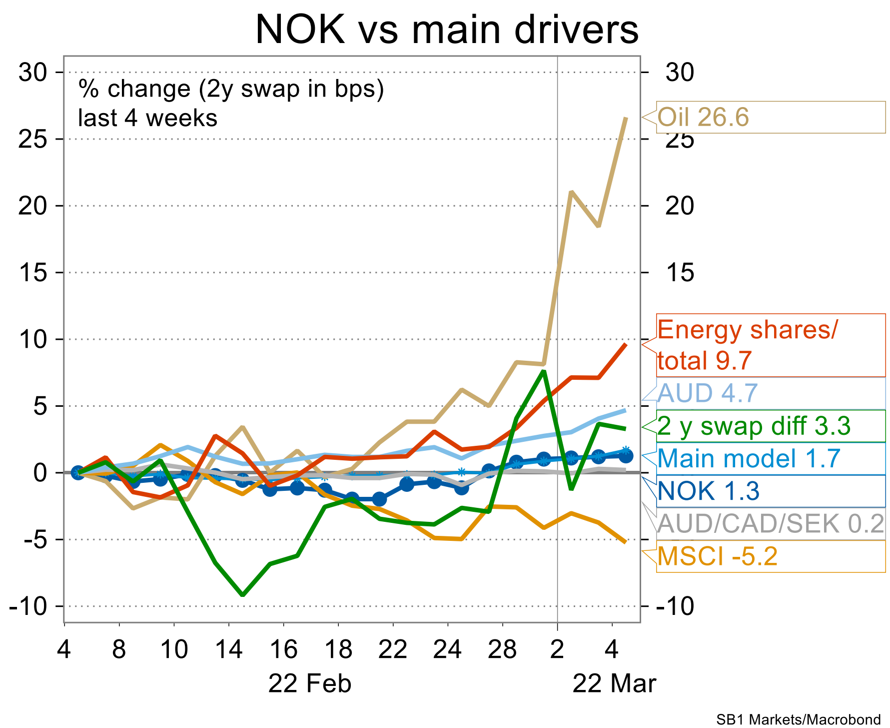


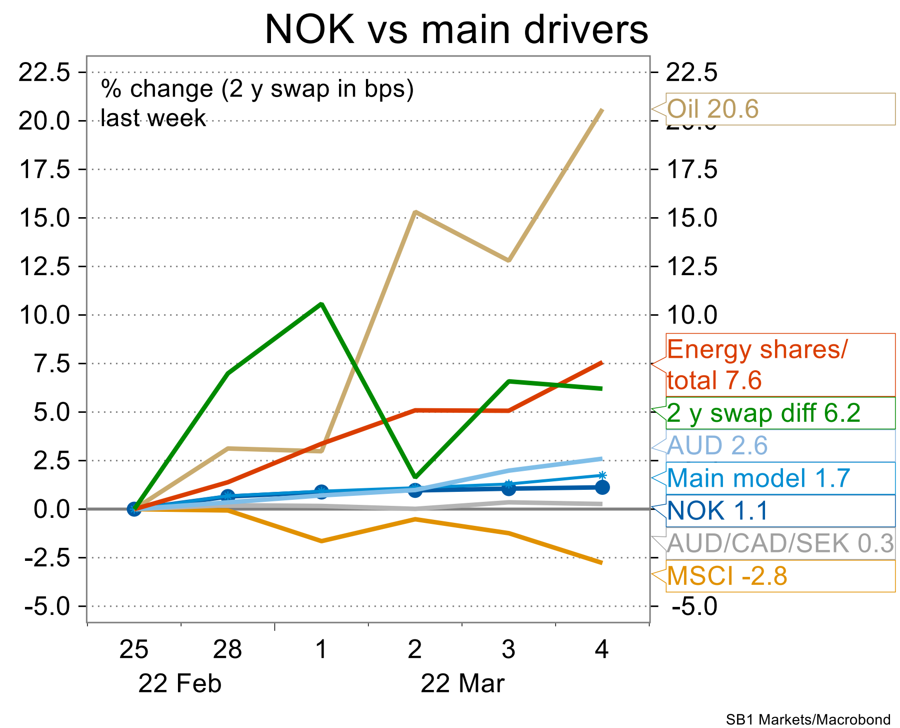
JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
CHF	3.1	3.8
AUD	2.6	4.7
JPY	1.7	1.2
NOKEUR	1.5	2.6
CNY	1.3	2.7
USD	1.2	1.5
NOK	1.1	1.3
GBP	0.7	0.7
CAD	0.5	0.5
EUR	-1.0	-1.9
USDNOK	-1.4	-2.1
SEK	-2.1	-4.0
EURUSD	-2.9	-4.6
RUB	-20.1	-26.0

SpareBank 1 MARKETS

NOK up just 1.1%, even if the oil price shot up 21% (and gas prices even more)

Our model suggested a 1.7% appreciation. However, 'risk off' in global markets is not supportive





The status vs. the normal drivers:

- ***The NOK up 1.1% - but even so the NOK is 4% below the model est (from -2%)***
- The NOK is 2% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -3), the SEK struggles
- NOK is 3% <u>stronger</u> than a model which includes global energy companies equity prices (vs the global stock market), but less than last week (from 4%)

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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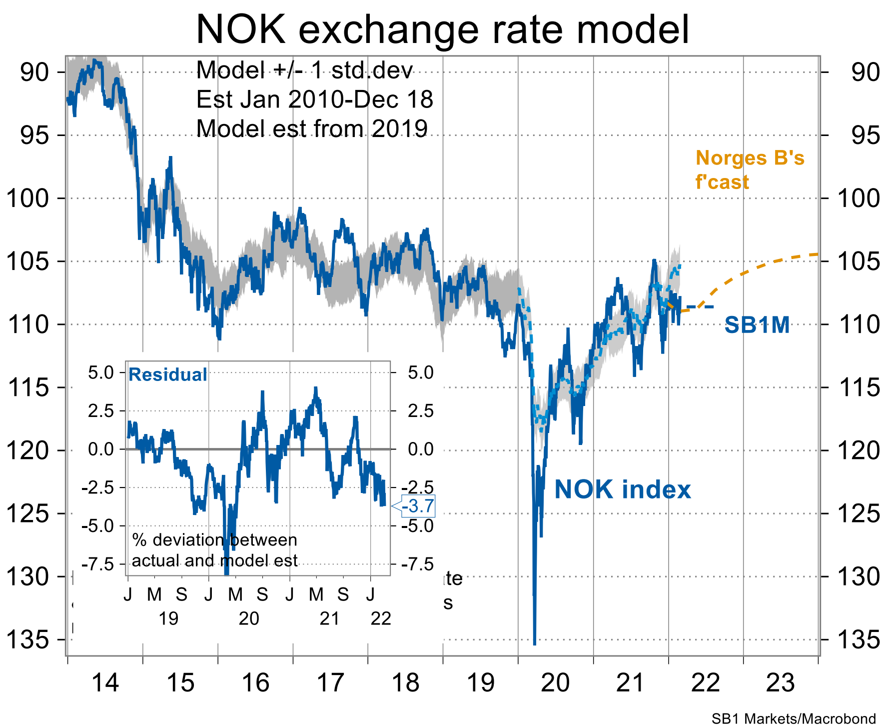
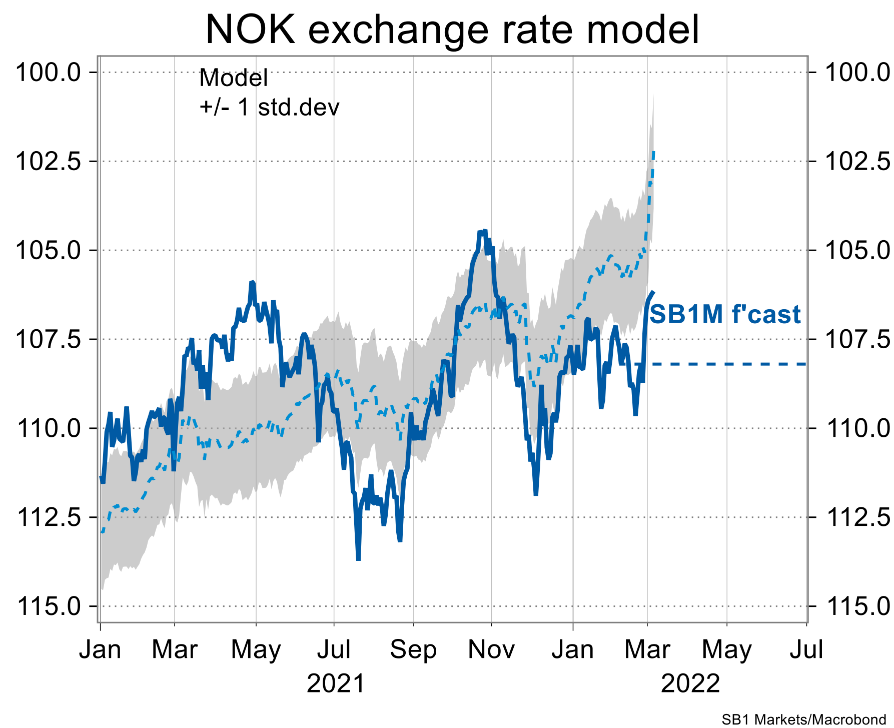
NOK lags our model by 4%

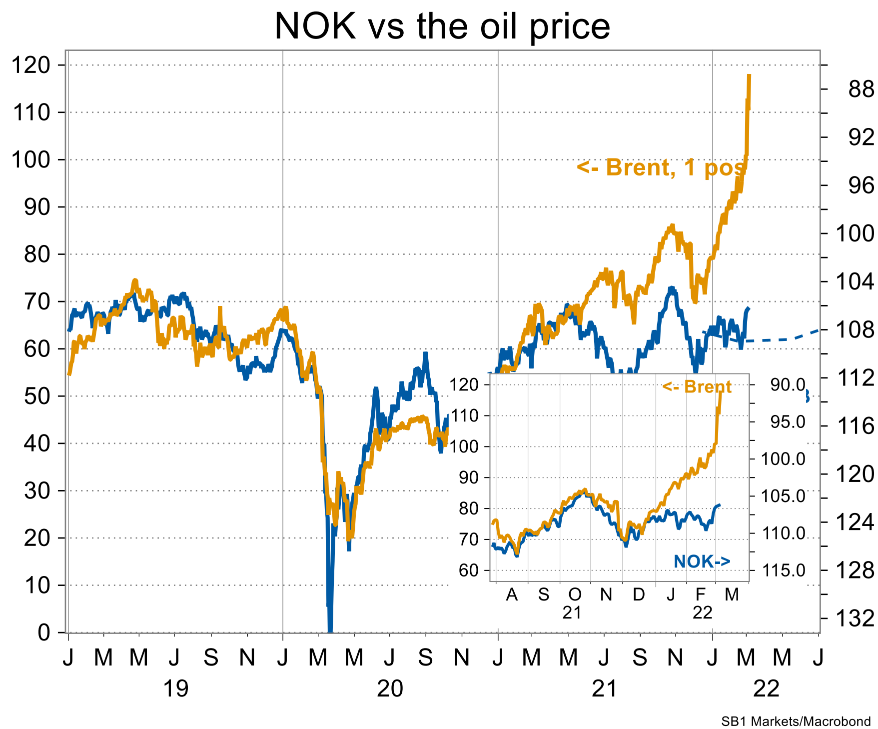
Time to buy? Probably

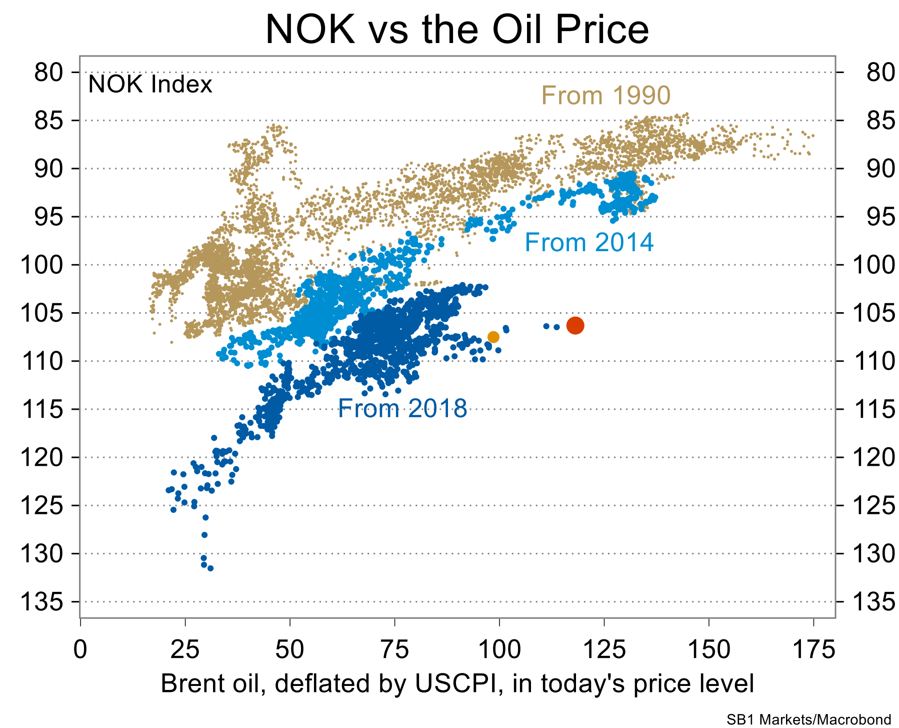




NOK up but far less than the oil prices suggested

The NOK is 'lagging' 10% vs. the early Jan parity. Geo-political risk has the opposite sign…



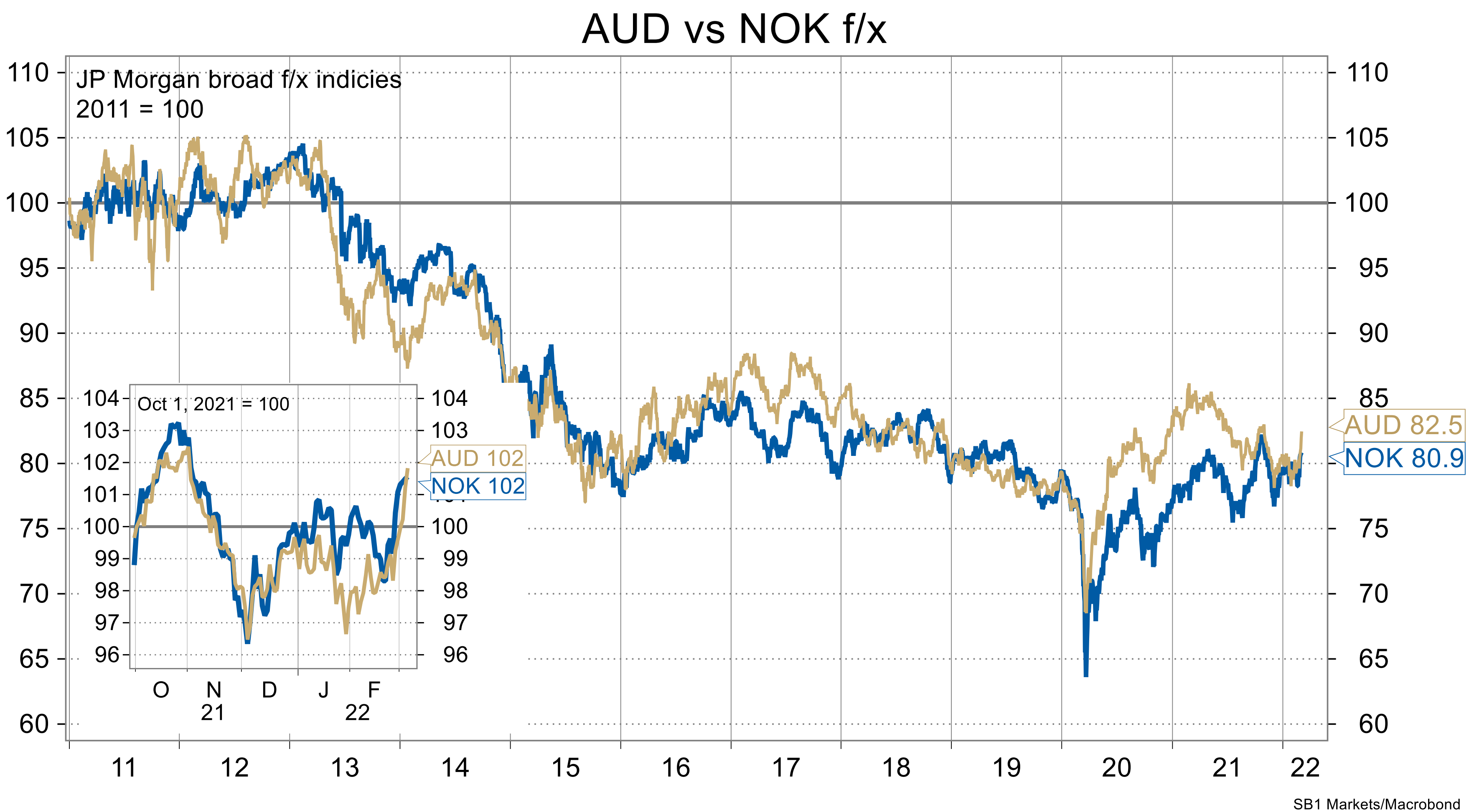


- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 4%, as a partial effect. Within a broader model, the impact is smaller

SpareBank 1 MARKETS

NOK up but the AUD even more – is farther away from Russia

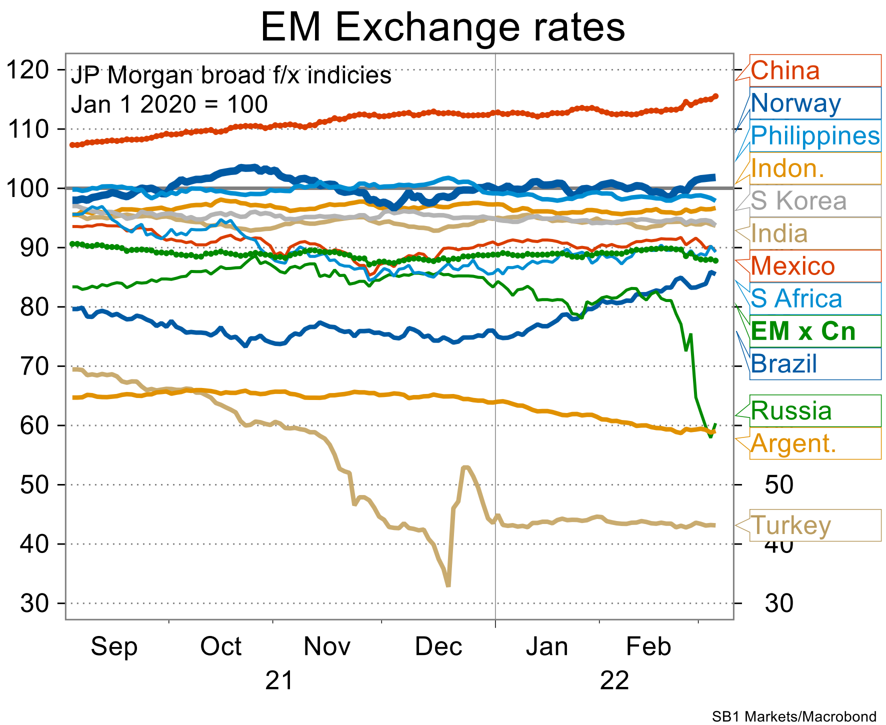
The surge in commodity prices is supporting both currencies

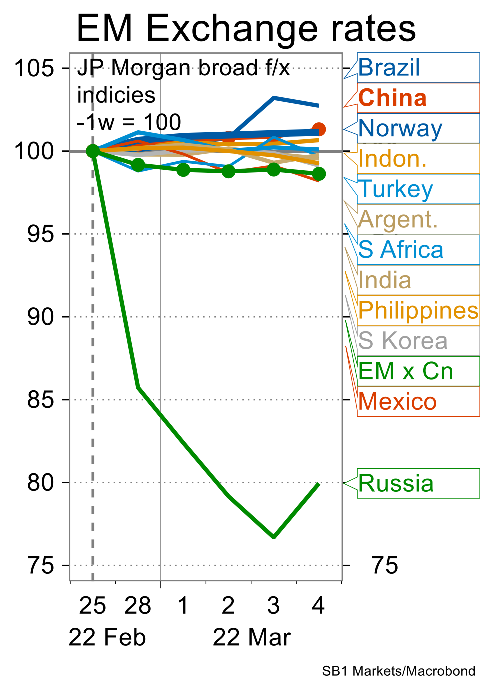


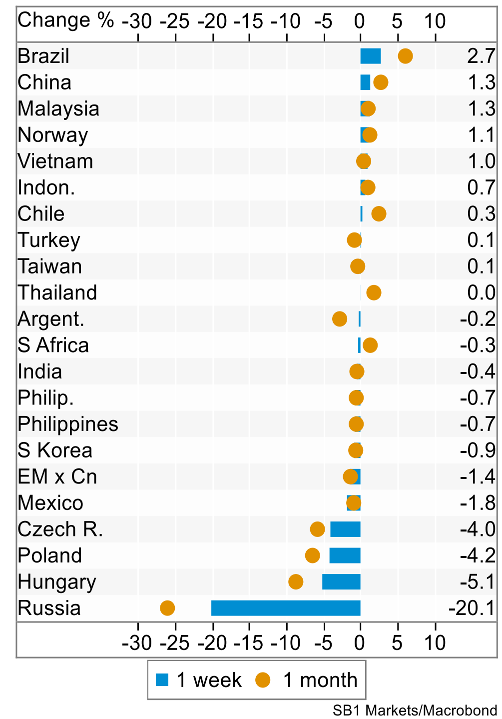
The two f/x indices are back to the 2011 parity (vs each other, from which they never since have deviated much)

The rouble rubbish

Down another 20 last week as the world recognises the humanitarian, economic catastrophy



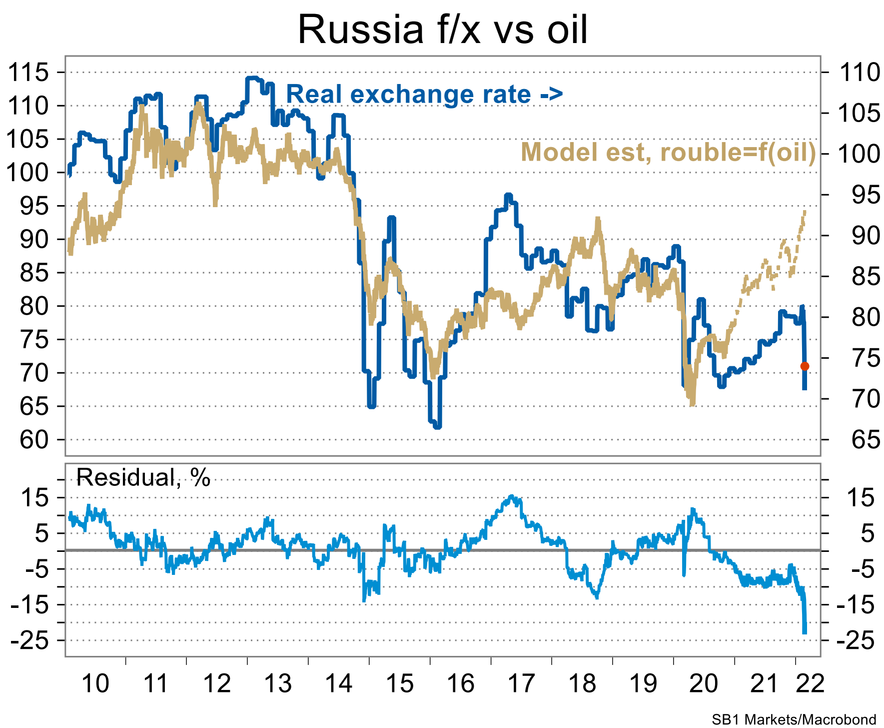


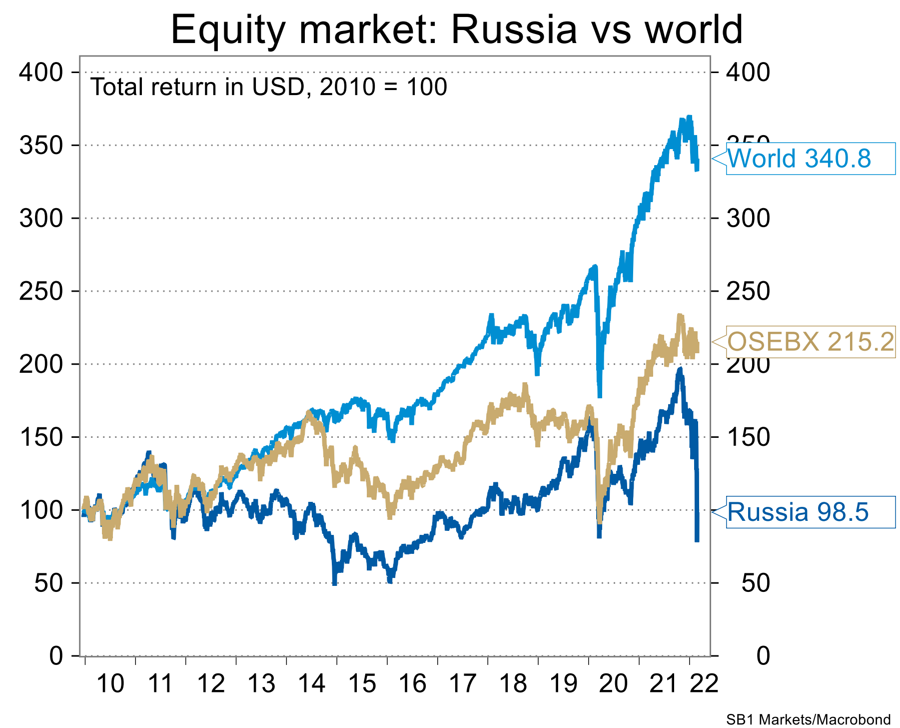


- Eastern Europe f/x was also under pressure, for good reasons
- The NOK appreciated further

The Russian rouble is 20% weaker than normal, given the oil price

And it will become much cheaper, given the tightening of the sanction regime over the weekend





- In addition, the stock market still has some downside left…

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