April 25 2022

Macro Weekly

Week 17/2022

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SpareBank 1 MARKETS

Last week, part I

- **The War/Sanctions**
  - The war continues, with no end in sight as the focus of the fight has moved to east, and south. Russia seems eager to cut of Ukraine from the Black sea, as 'final' solution
  - European imports of **Russian oil and gas** is still up for debate – but so far Russian energy is flowing westwards
  - **Commodity prices** were mostly down last week, but food prices rose further. Food prices are lower than just after the invasion
- **The virus**
  - **Shanghai and a large number of other Chinese cities are** still struggling to cope with the virus as large proportion of the elderly is not effectively vaccinated and the authorities assumes that the zero tolerance strategy to be the only possible policy to prevent a very large number of deaths. Some restrictions were still eased last week. If this policy is viable for several weeks/months with a very contagious virus around is still an open question. We doubt
  - **In the rest of the world**, also in other Asian countries, mobility is on the way up, as the virus is on the retreat
- **April preliminary PMIs – prices are soaring**
  - The **European composite PMI** surprisingly rose in April, due to higher growth in the service industry, and the **Japanese PMI** rose further. However a surprising decline in the **US services PMI** signals a small decline in the overall index for the rich countries. In March, China and Russia surprised sharply at the downside, so the jury is still out vs the global outcome. Growth in manufacturing is slowing but not in the US. **The delivery times index** was close to unchanged but **price indices** soared, all over the place – in sum to record high levels. Not a good sign

Last week, part II

- **USA**
  - **Fed's Powell** once more scared markets by stating the obvious, that the US central bank will be serious in the fight against inflation, and that the Fed funds rate will be lifted by 50 bps at the May meeting – which already was fully discounted in the market. However, further out on the curve, rates rose sharply – and expectations for the Dec-22 climbed almost 40 bps – to 2.8% from the current 0.33 bps (mid of corridor). Thus, total hikes at almost 250 bps are expected at the next 6 FOMC meetings, in average 40 bps per meeting – a substantial and rather rapid policy tightening. If delivered, will demand slow down sufficiently to ease price (and wage!) pressures. If so, how will the economy look like then (hint: corporate earnings down, unemployment up)
  - **Fed's Beige book** confirmed a tight labour market and serious price pressures. There were no reports on reduced demand at the housing markets. However, there were signs of improvements in worker availability and slower wage growth. High inflation was hurting some demand too
  - **Housing starts and building permits** were close to unch. in March, at high level. **Existing home sales** fell but prices rose further in March, and the inventory of unsold homes is empty. Demand for new mortgages may be slowing somewhat, as the 30y mortgage rate is up almost 200 bps so far in 2022
- **EMU**
  - **5 more years: Macron** secured an unusual re-election as president in France. One risk factor less
  - **Consumer confidence** rose just marginally in April, following the huge setback to a low level in March. Blame the war & sanctions
- **Norway**
  - The **trade surplus** was record high in March, as gas prices soared, and the oil price was high too. The surplus equalled almost 30% of Mainland GDP. Thank you, Mr. Putin
  - **SSB's manufacturing survey** was stronger than we assumed (it rose marginally), supported by oil related industries. Capacity utilisation is up, and even fewer companies report lack of demand. Supply side limitations eased marginally but are still dominating. Prices are expected more up than ever, of course
  - **Housing starts** are on the way up, and the level is not low, according to SSB. Boligprodusentene (the homebuilders) report stable activity at a normal level but describes it (as usual) as declining and far too low
  - No major news from **Norges Bank's Q2 lending survey**. Household demand for loans may weaken somewhat, and banks are able to lift lending margins vs businesses, even as the NIBOR has climbed rapidly

The Long Calendar: EMU/US GDP, US empl. cost index, the Riksbank, Norw. Labour market

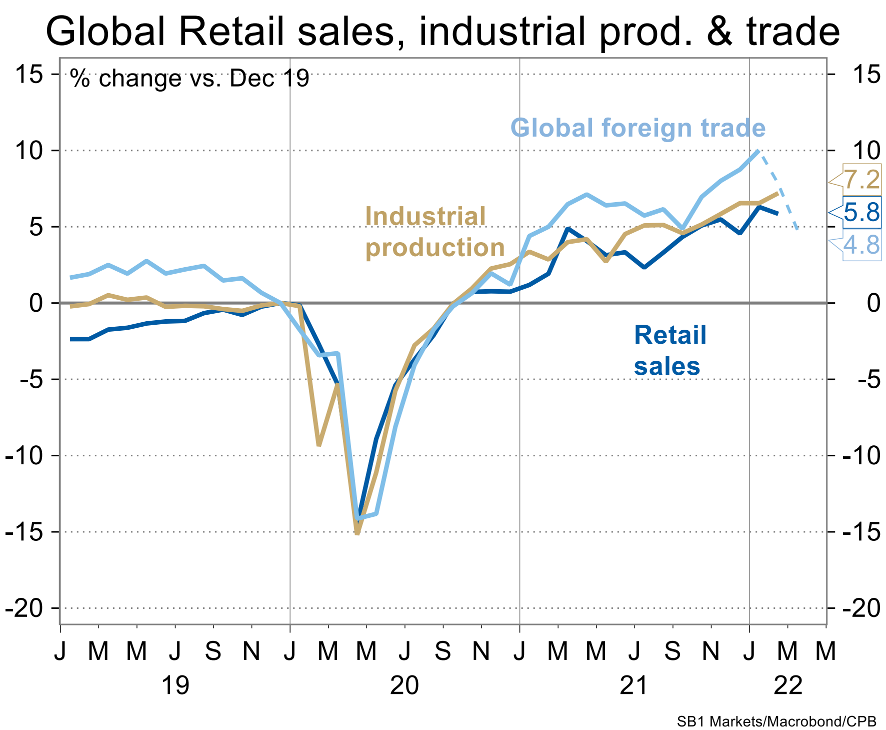
Time	Count.	Indicator	Period	Forecast	Prior
Monday April 25					
10:00	GE	IFO Expectations	Apr	83.5	85.1
Tuesday April 26					
14:30	US	Durable Goods Orders	Mar P	1.0%	-2.1%
14:30	US	Cap Goods Ship Nondef Ex Air	Mar P	0.5%	0.3%
15:00	US	S&P CoreLogic CS 20-City YoY	Feb	19.2%	19.1%
16:00	US	Consumer Confidence, Conf B.	Apr	108.0	107.2
16:00	**US**	**New Home Sales**	**Mar**	**775k**	**772k**
Wednesday April 27					
08:00	NO	Hotel guest nights	Mar		
08:00	SW	Unemployment Rate SA	Mar	7.5%	7.3%
14:30	US	Advance Goods Trade Balance	Mar	-$105.0b	-$106.6b
16:00	US	Pending Home Sales MoM	Mar	-0.5%	-4.1%
Thursday April 28					
01:50	JN	Retail Sales MoM	Mar	1.1%	-0.8%
01:50	JN	Industrial Production MoM	Mar P	0.5%	2.0%
	JN	BOJ Policy Balance Rate	Apr-28	-0.1%	-0.1%
08:00	**NO**	**Unemployment Rate AKU**	**Feb**	**(3.1%)**	**3.2%**
00:00	**NO**	**Payrolls, wages**	**Mar**		
08:00	SW	GDP Indicator SA MoM	Mar		-0.8%
08:00	SW	GDP Indicator SA QoQ	1Q	-0.5%	1.4%
08:00	SW	Retail Sales MoM	Mar		-0.1%
09:00	SW	Economic Tendency Survey	Apr	108	110.3
09:00	SW	Consumer Confidence	Apr	70.0	73.5
09:30	**SW**	**Riksbank Interest Rate**	**Apr-28**	**0.00%**	**0.00%**
11:00	EMU	Economic Confidence	Apr	108	108.5
14:00	**GE**	**CPI YoY**	**Apr P**	**7.2%**	**7.3%**
14:30	**US**	**GDP Annualized QoQ**	**1Q A**	**1.0%**	**6.9%**
14:30	US	Initial Jobless Claims	Apr-23	180k	184k
Friday April 29					
07:30	FR	GDP QoQ	1Q P	0.3%	0.7%
08:00	**NO**	**Retail Sales W/Auto Fuel MoM**	**Mar**	**(0.0)**	**-1.1%**
08:00	NO	Credit Indicator Growth YoY	Mar	**(4.8)**	4.8%
10:00	EMU	Money M3 (& credit growth)	Mar	6.2%	6.3%
10:00	**NO**	**NAV Unemployment Rate**	**Apr**	**1.9%(1.8)**	**2.0%**
10:00	GE	GDP SA QoQ	1Q P	0.2%	-0.3%
11:00	**EMU**	**CPI YoY**	**Apr P**	**7.5%**	**7.5%**
11:00	**EMU**	**CPI Core YoY**	**Apr P**	**3.1%**	**2.9%**
11:00	**EMU**	**GDP SA QoQ**	**1Q A**	**0.3%**	**0.3%**
14:30	**US**	**Employment Cost Index**	**1Q**	**1.1%**	**1.0%**
14:30	US	Personal Income	Mar	0.4%	0.5%
14:30	US	Personal Spending	Mar	0.6%	0.2%
14:30	US	PCE Deflator YoY	Mar	6.7%	6.4%
14:30	US	PCE Core Deflator YoY	Mar	5.3%	5.4%
Saturday April 30					
03:30	CN	Manufacturing PMI, NBS	Apr	48.0	49.5
03:30	**CN**	**Non-manufacturing PMI, NSB**	**Apr**	**46.2**	**48.4**
03:45	**CN**	**Manufacturing PMI, Caixin**	**Apr**	**47.0**	**48.1**

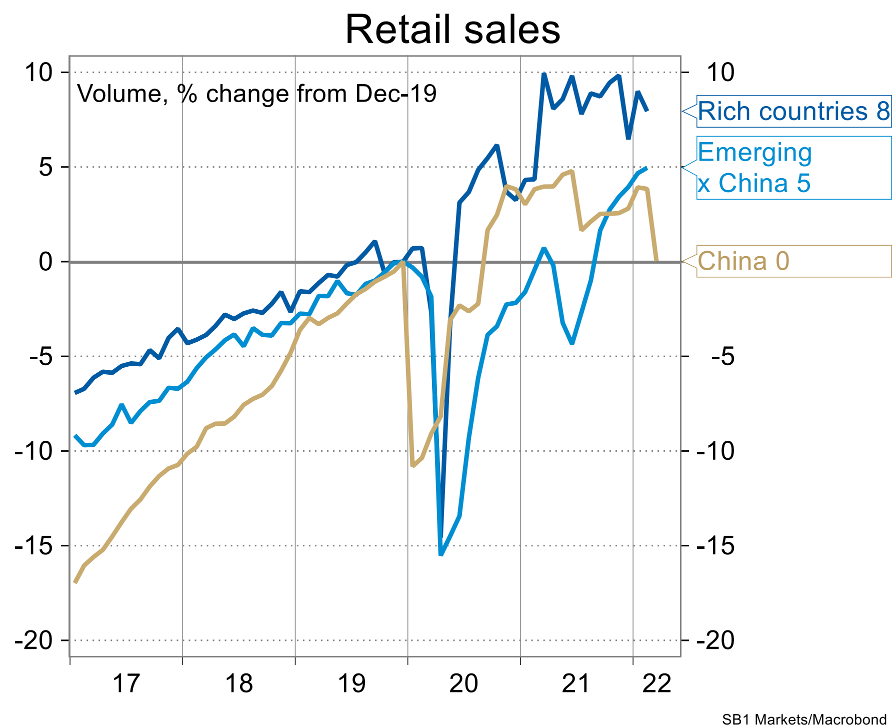
- **China**
  - » 3 of the 4 April PMI reports out at Saturday. March was a 'disaster' with weakness in the manuf. Sector but even more in services, no doubt due to the lockdowns. How much worse in April? Hopefully not too much, and if so, the surveys should strengthen (the PMIs are signalling growth, not the activity level, at least in principle
- **USA**
  - » **GDP to 1 from 7:** Growth is expected to have slowed substantially in Q1, but not due to lower domestic demand (like a Omicron drag), just an inventory rundown, and a substantial negative drag from net exports (exports fell, imports rose). We think consensus is at the low side
  - » **The Employment Cost Index** is one of several indicators of wage inflation, and was the last one to turn upwards. A further increase is expected in Q1
- **EMU**
  - » **Q1 GDP** is expected up 1.2% (annualised, 0.3% not ann.), like in Q1
- **Sweden**
  - » **The Riksbank Turnaround:** A hike is possible, but not expected. However, the bank will have to recognise – as the last Western central bank – that the inflation (and we would add, growth) environment does not warrant a zero interest rate policy anymore. At the last Rix meeting 2(!!) months ago, the mantra was still that the signal rate would not be lifted before H2-2024. Thus, the bank will have to present its largest policy makeover, ever**.** The market expects 4 hikes in 2022, the first in June, and almost 6 more hikes in 2023, up to 2.4%, close to a 'Norwegian' level (**Bank of Japen** may also adjust its policy somewhat?)
- **Norway**
  - » We expect both **NAV and AKU unemployment** to decline further in April/February, and the **payroll report** to show a sharp increase in employment in March, following the decline in February. The NAV unemployment rate was far lower than expected in March, it fell by 0.2 p to 1.9%, just 0.14 pp above NoBa's estimate of the bottom in this cycle. We expect at 0.1 pp (seas. adj) decline in April, 0.2 pp not adjusted
  - » **Retail sales** have been on a slippery slope for a while, as spending on services at home, more x-border shopping in Sweden and more travel abroad in general returns to more normal levels. We expect no growth in March

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

Global retail sales remained strong in February. Emerging markets on the way up

Industrial production on the right track too. And global trade has been to, at least until January





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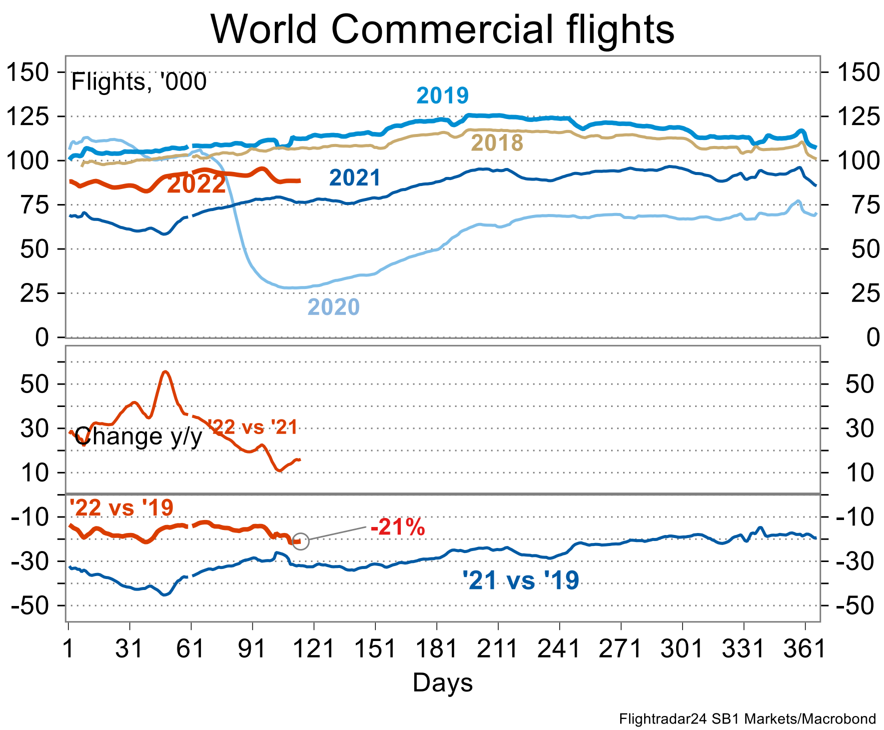
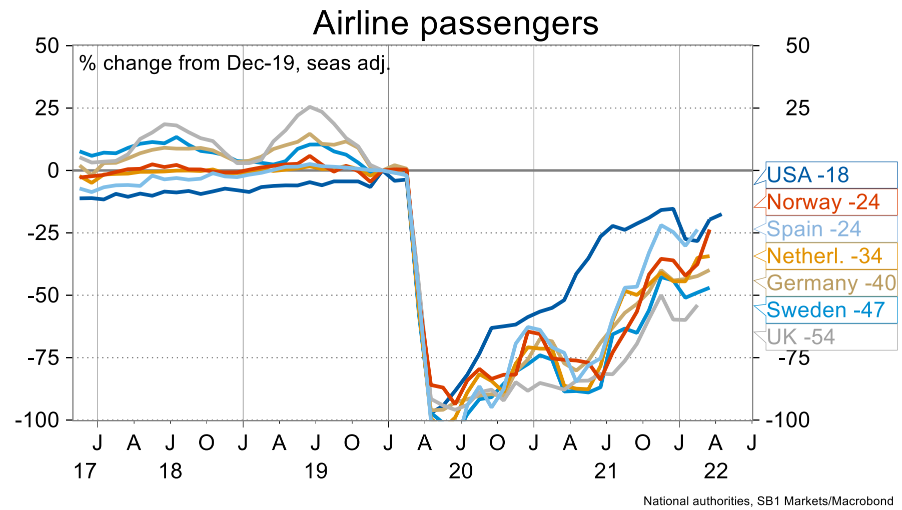
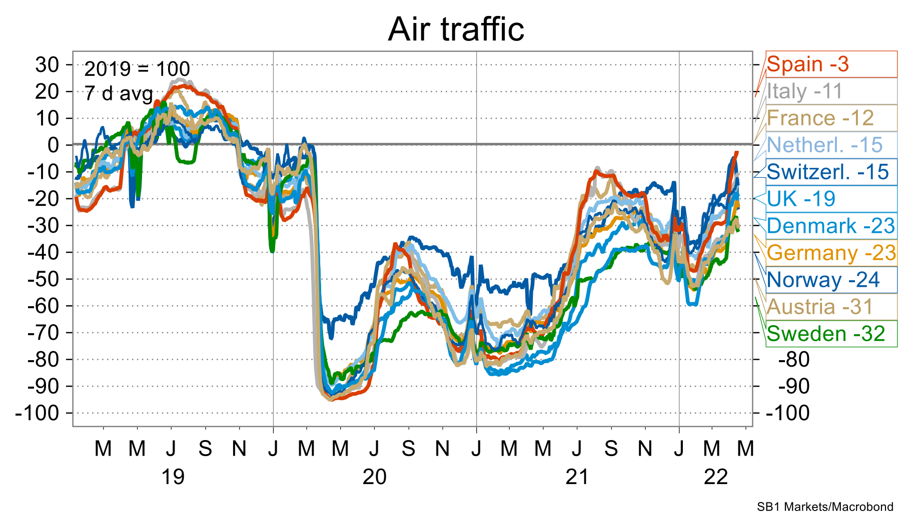
Global airline traffic is descending, now 21% below 2019

Geopolitics? Trouble in China. Western Europe & US on the way up

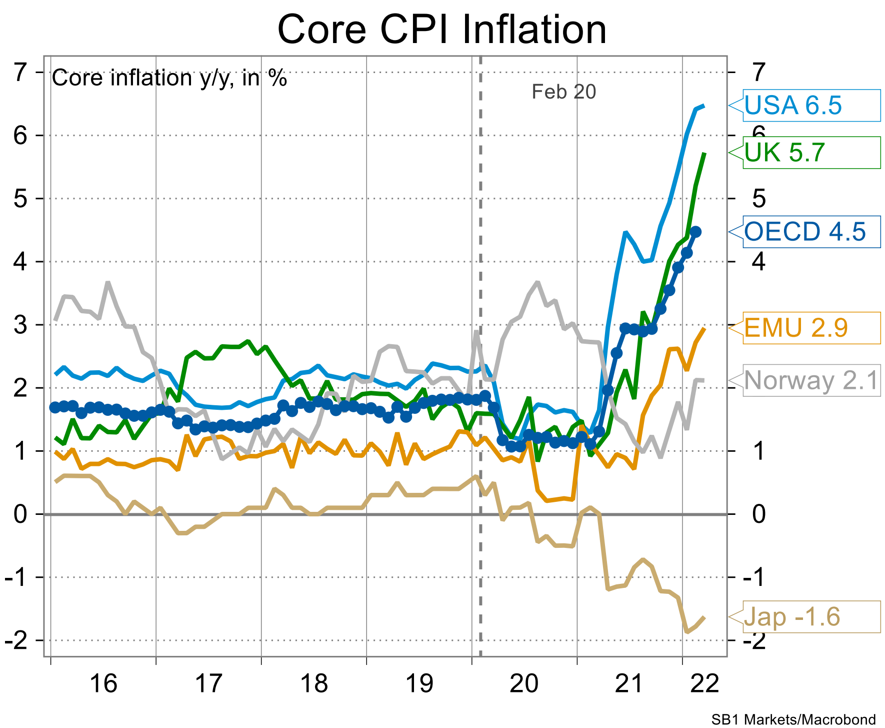


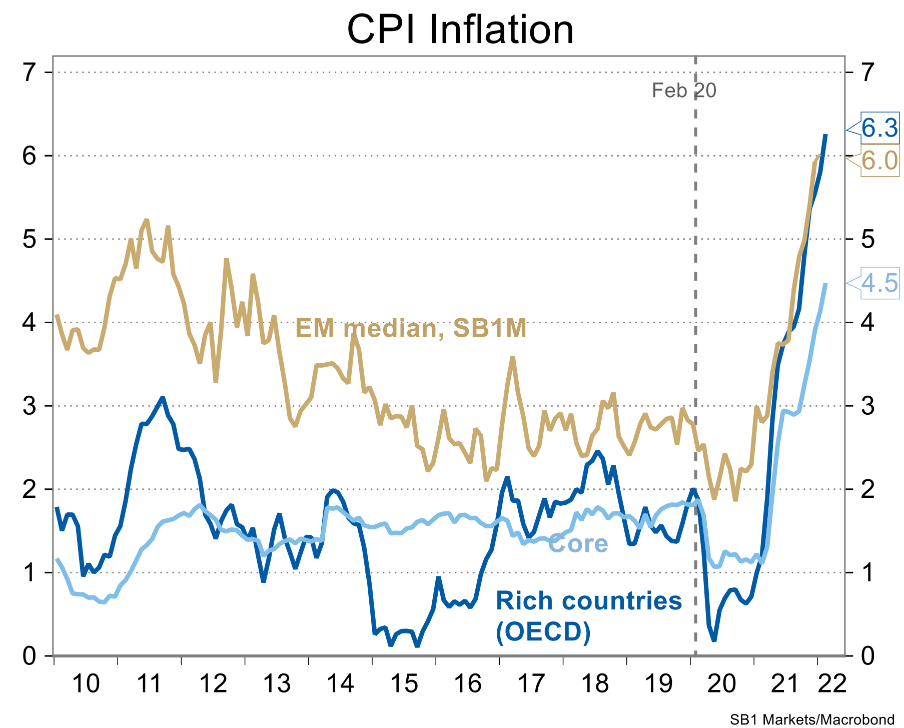




Inflation still rapidly on the way up

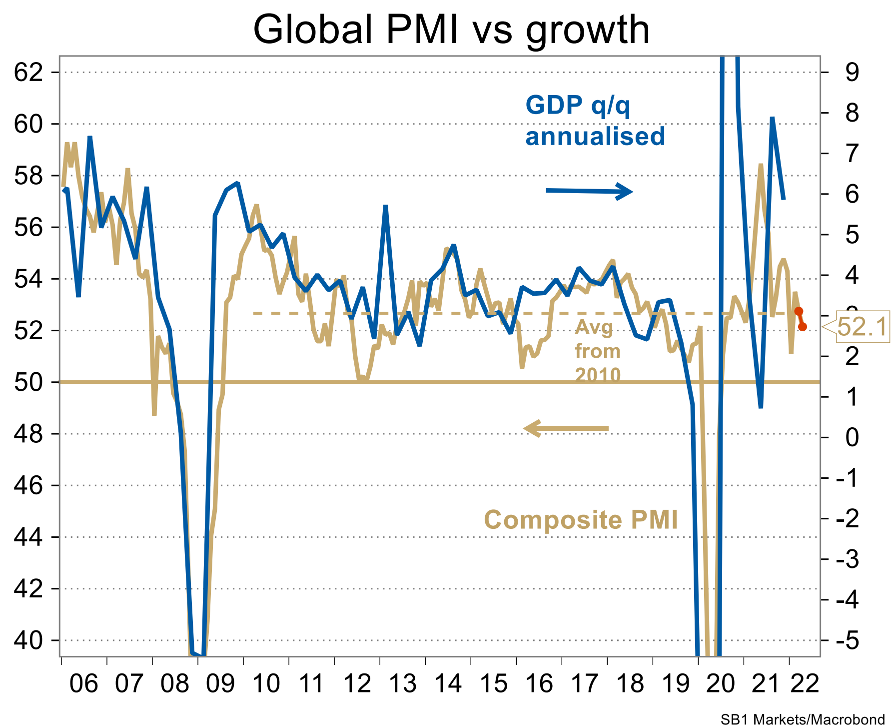
Energy prices the main culprit, but core inflation has turned up most places

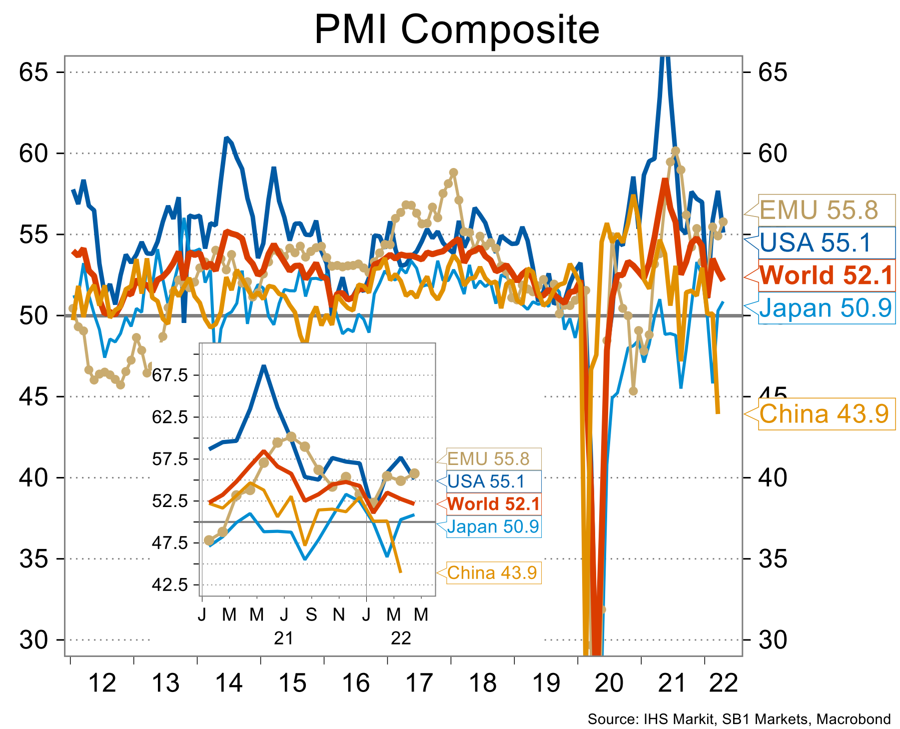




The April PMIs down in the rich part of the world, but prices shot up

We estimate 0.6p m/m decline in the composite PMI to 52.1 →, 3%- global GDP growth



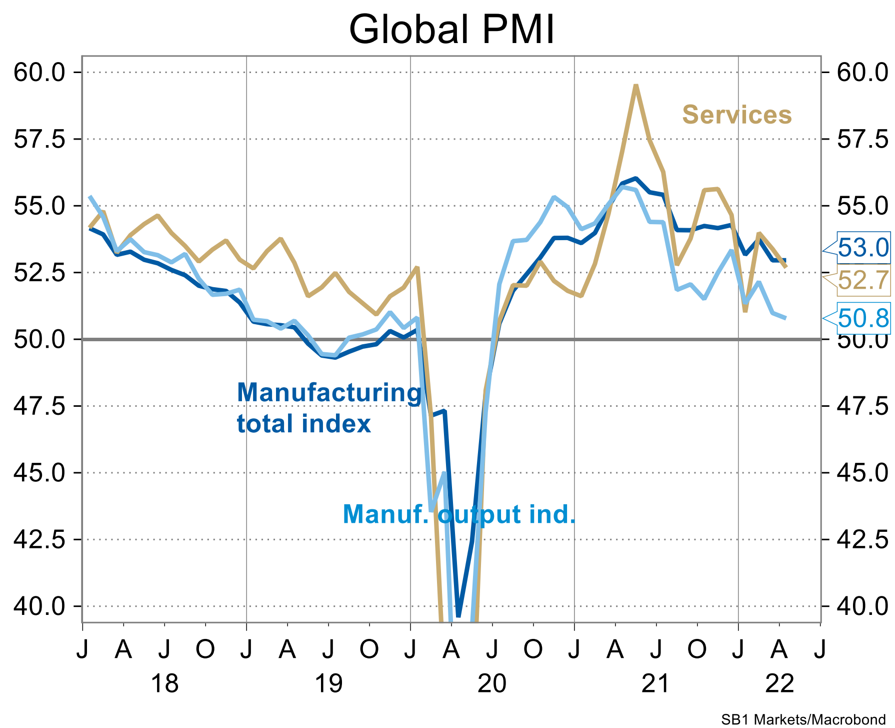


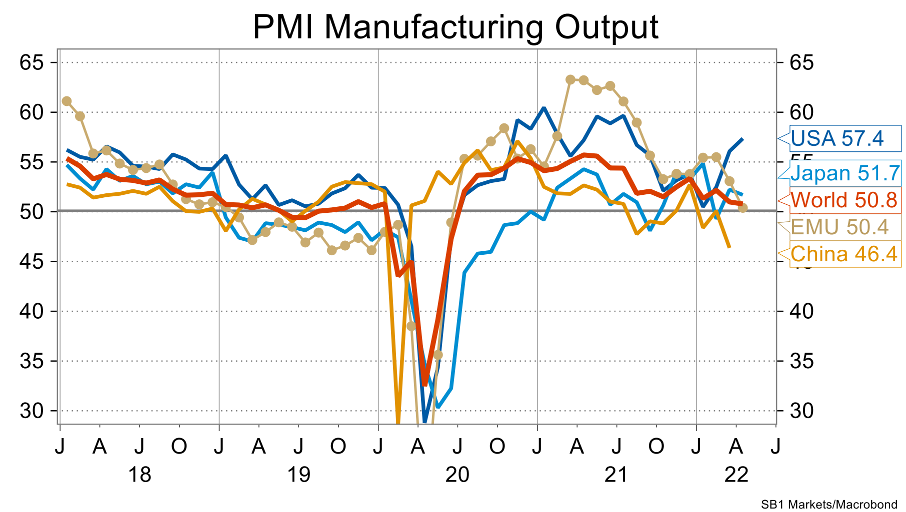
- However, in March we estimated a 1.3 p gain in the **global composite**, but it turned out that the index in the end fell by 0.6 p. The 1.9 pp miss equals more than a 1pp differential in the global GDP growth rate! The setback was due to steep declines in China (virus fight) and Russia (war, sanctions) – while the PMI in the rich part of the world rose
- In April, the US and UK reported slower growth **in services**, services grew faster in the EMU – but sum was down.
- The **manufacturing PMI** was close to unchanged – the index rose in both the US but fell in EMU, UK and in Japan
- US and UK reported lower composite PMIs but the EMU index rose, thanks to the services sector
- **Delivery times** did not increase (but remains at high level), while companies everywhere reported faster **price growth**, both input and output prices

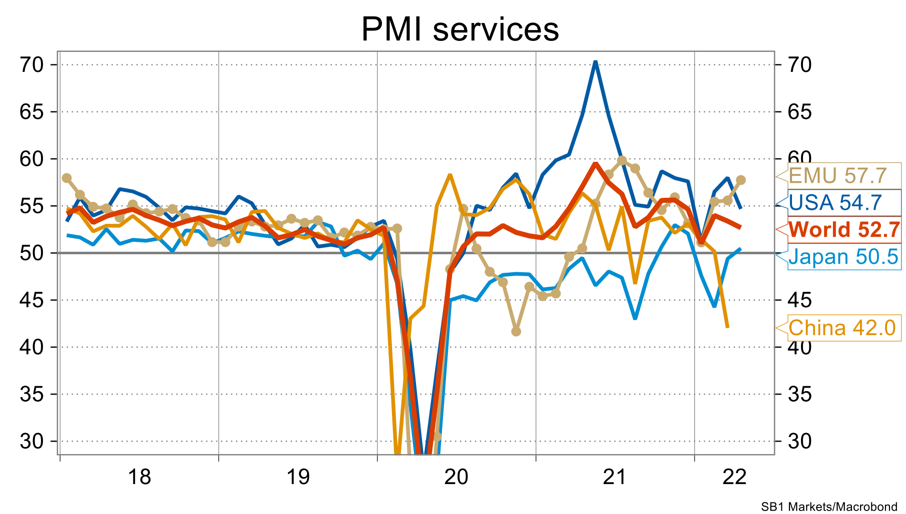
Our estimates are based on the preliminary PMIs from US, China, EMU, Japan UK, Australia. The estimates are uncertain, but usually by less than 0.5 p

Both manufacturing & services report higher growth

At least the output index in the manufacturing survey fell – and the service activity index fell more



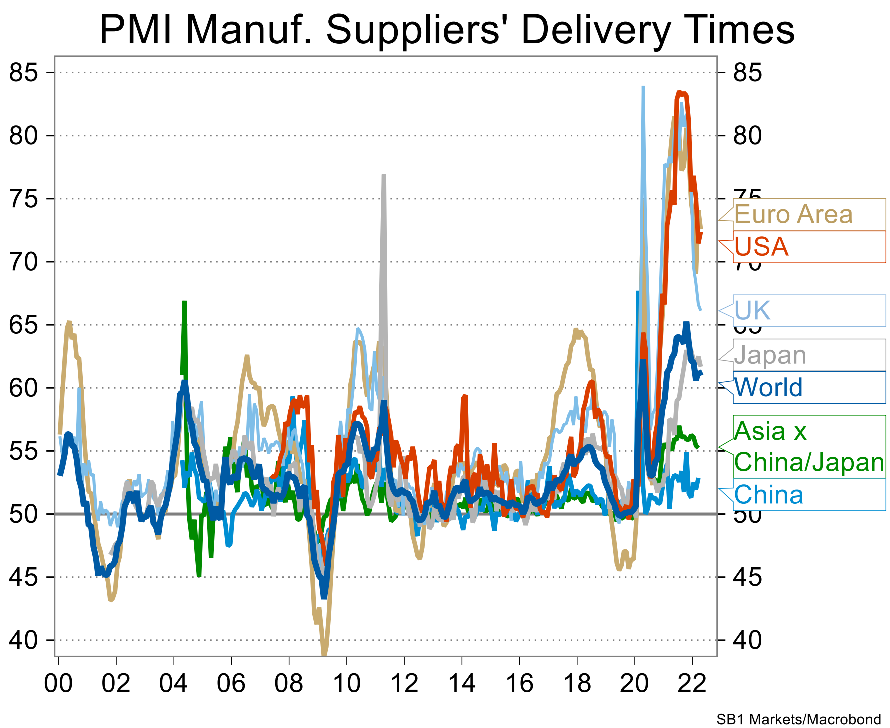


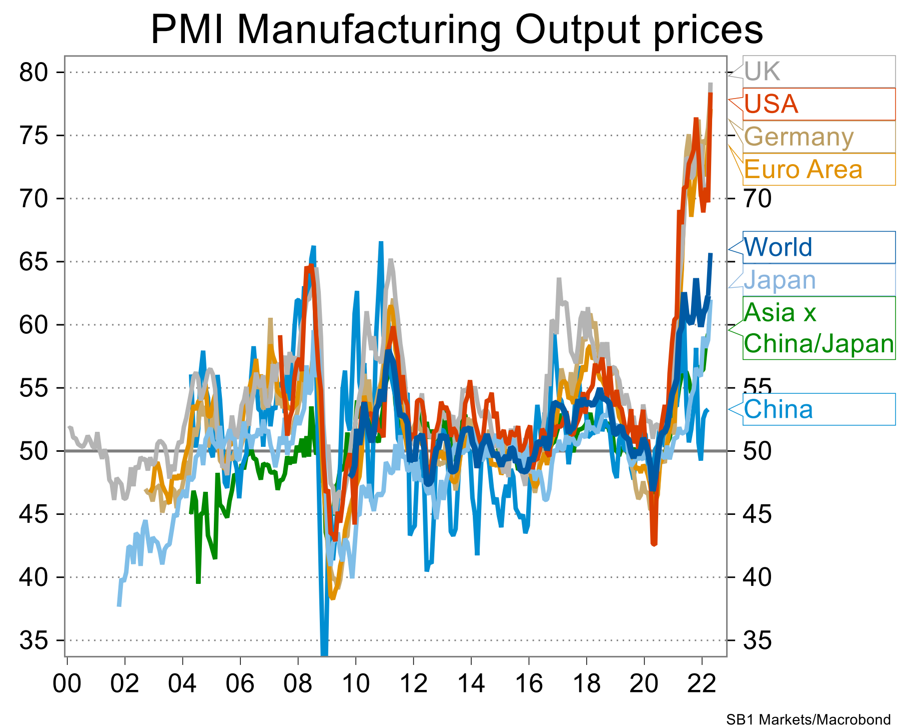


- Growth has very likely peaked, at least in the rich part of the world. Now, the war in Ukraine and economic war against Russia may create new challenges – even if 'geopolitics' normally are not important for the economic cycle

Delivery times index close to unch – and are trending down everywhere

No war/sanction chock to be see, so far. But prices are soaring, everywhere!





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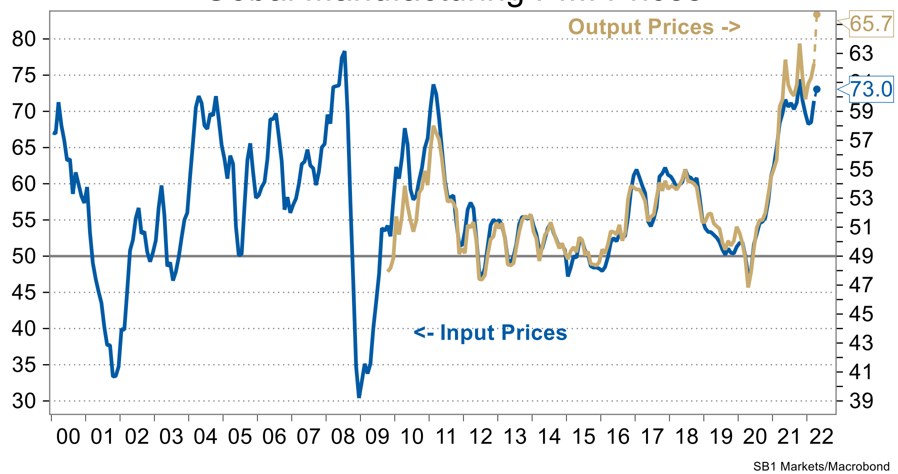
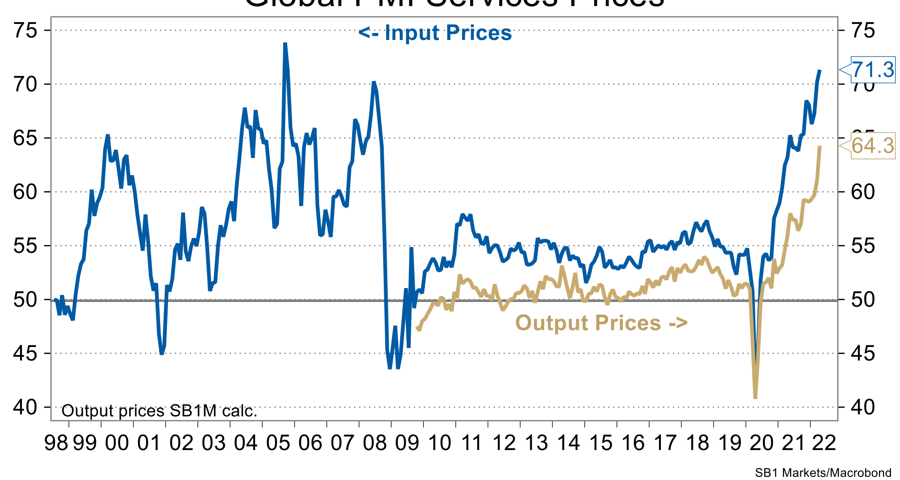
Price indices up, all over the place

We may take some comfort that actual inflation is ‘artificially’ boosted by the lift in energy prices

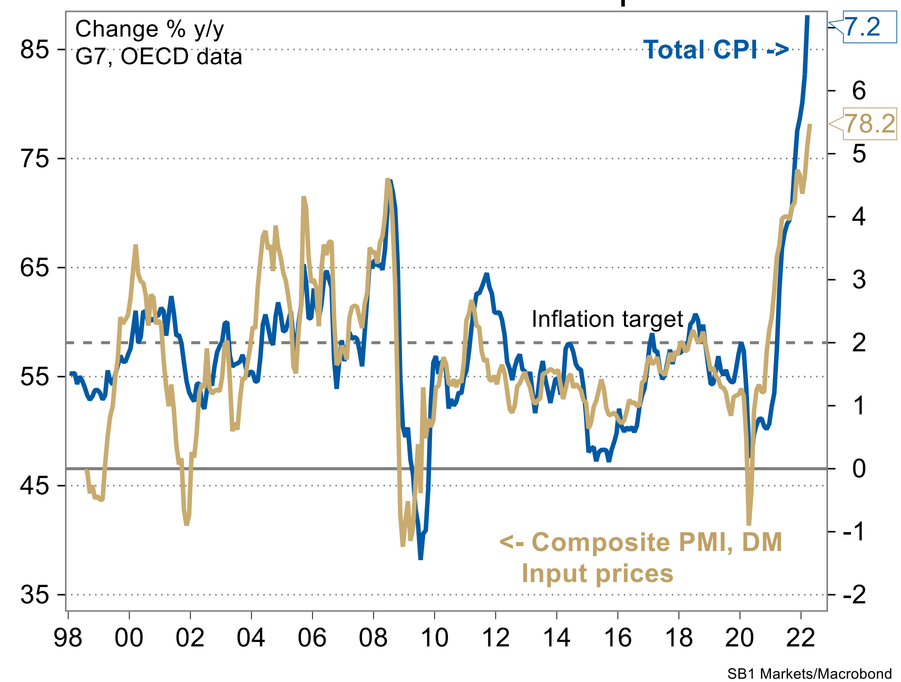
Gobal Manufacturing PMI Prices



Global PMI Services Prices



OECD Inflation vs PMI prices

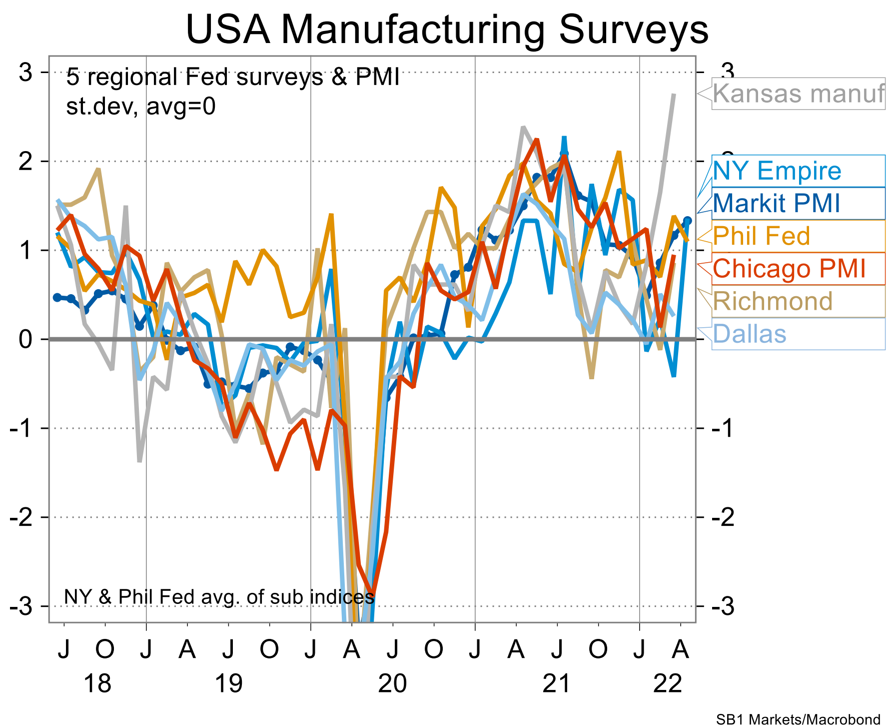


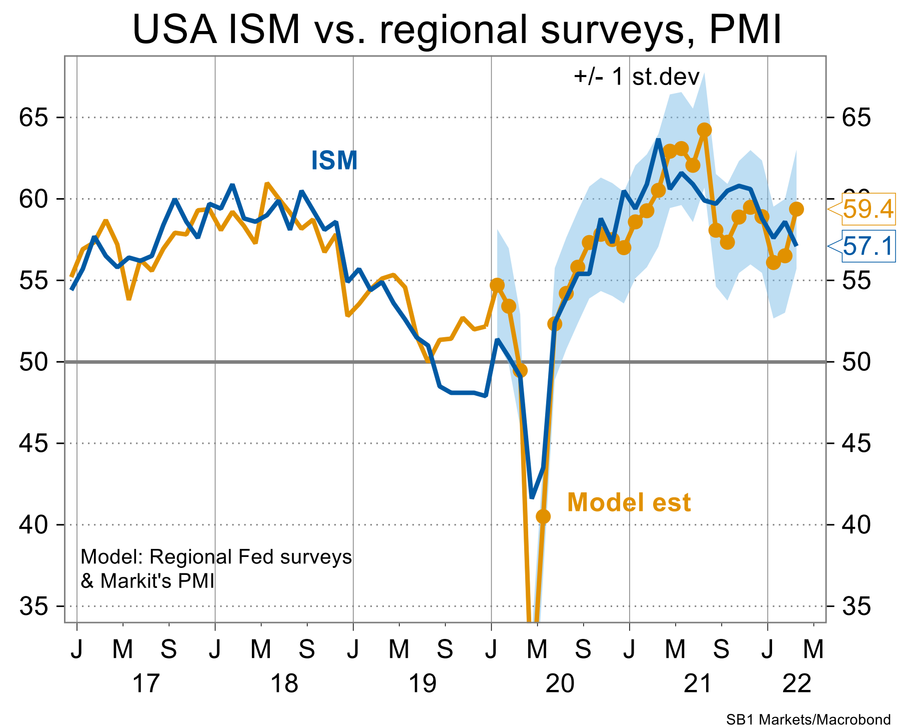
- These PMIs signals a substantial price pressure the coming months
- We are still much more concerned about wage inflation than the actual price inflation due to factors that most likely are transitory, like hikes in raw material prices, freight cost or short lived margins expansion when demand is surprisingly strong

Last obs. based on preliminary PMIs from EMU, Japan, UK, and the US

So far: April manufacturing indices signal a stronger ISM

In sum, a 2 p uptick in the ISM signalled, to above 59

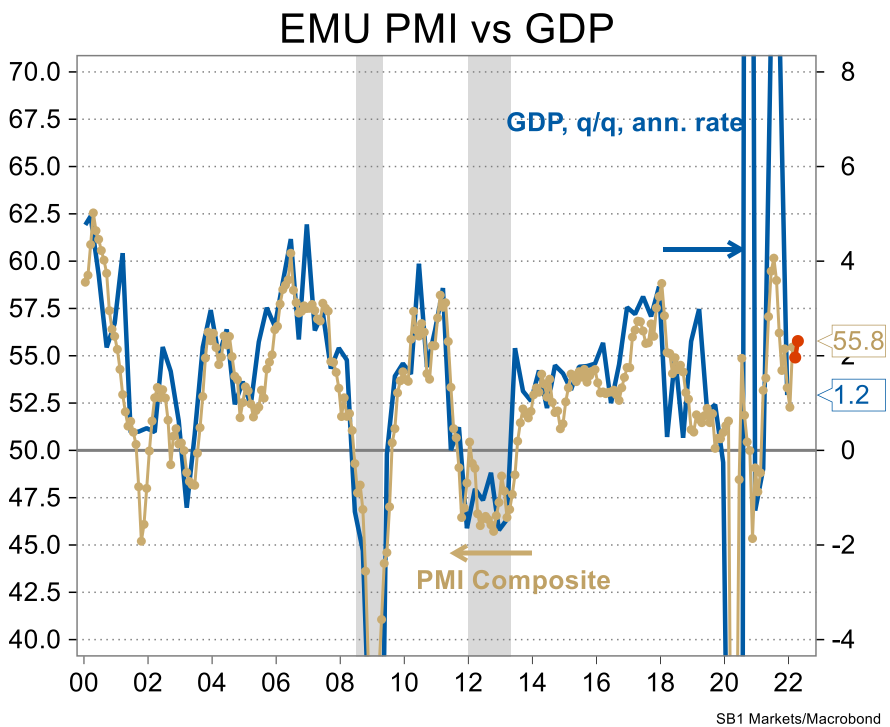


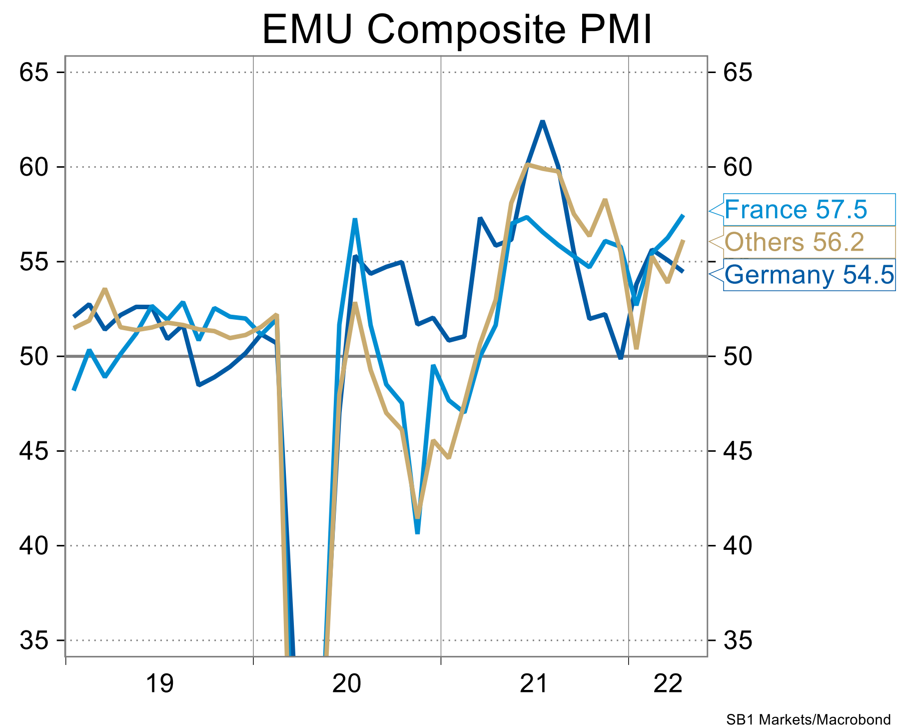


- The other regional surveys have not yet reported April data

The comp. PMI up 0.9 p to 55.8, exp. -1p to 53.9, services surprised at the upside

The (nuclear powered) French PMI further up, the (gas powered) German PMI further down

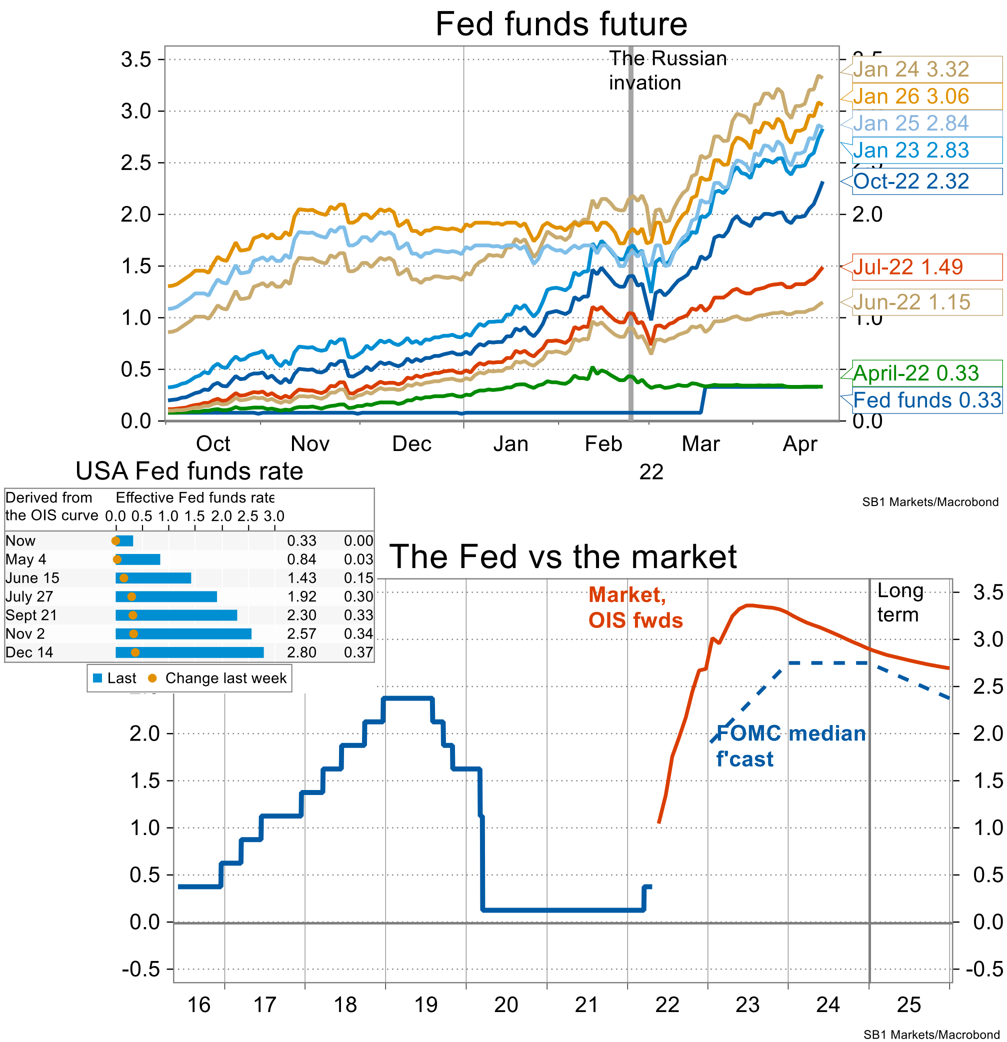




- **The composite PMI** gained 0.9 (vs the 0.6 p decline in March), while a further decline was expected. The index, which is well above average signals GDP growth at marginally above 2%
  - » The gain was in **services**, up 2.2 p to 58.3, a strong print, indicating that the post pandemic recovery in the sector is well underway
  - » **The manufacturing index** fell by 1.2 p to 55.3. The **output index** fell 2.7 p to 50.4, coming close to the contraction territory
- **Delivery times** fell, but prices increases accelerated – to the fastest pace ever, at least in the manufacturing sector

Powell talked interest expectations up once more

… and Fed's Beige book (the network survey) explained why. But there were some positive signs too

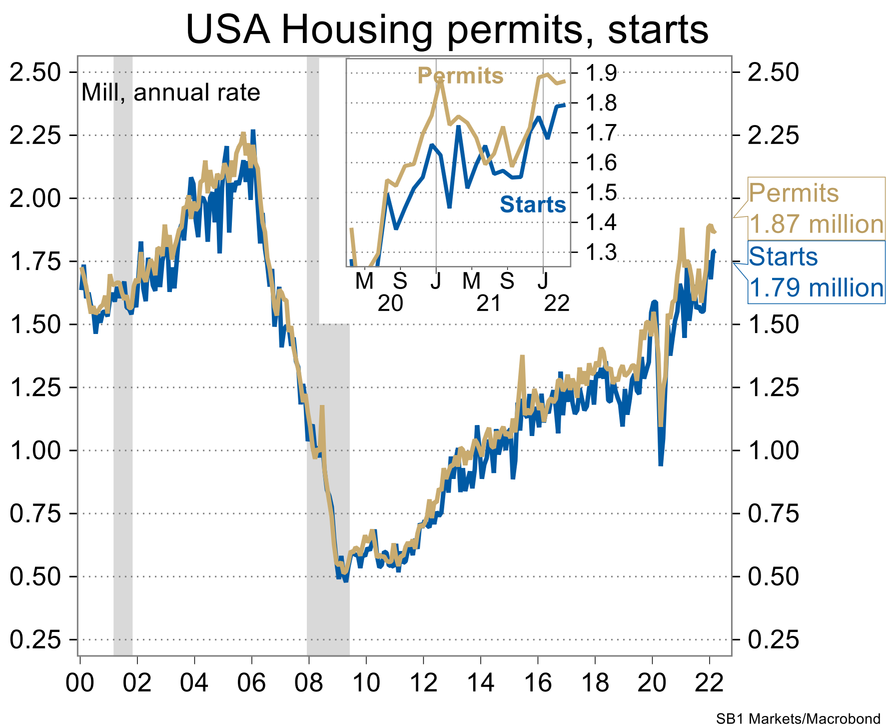


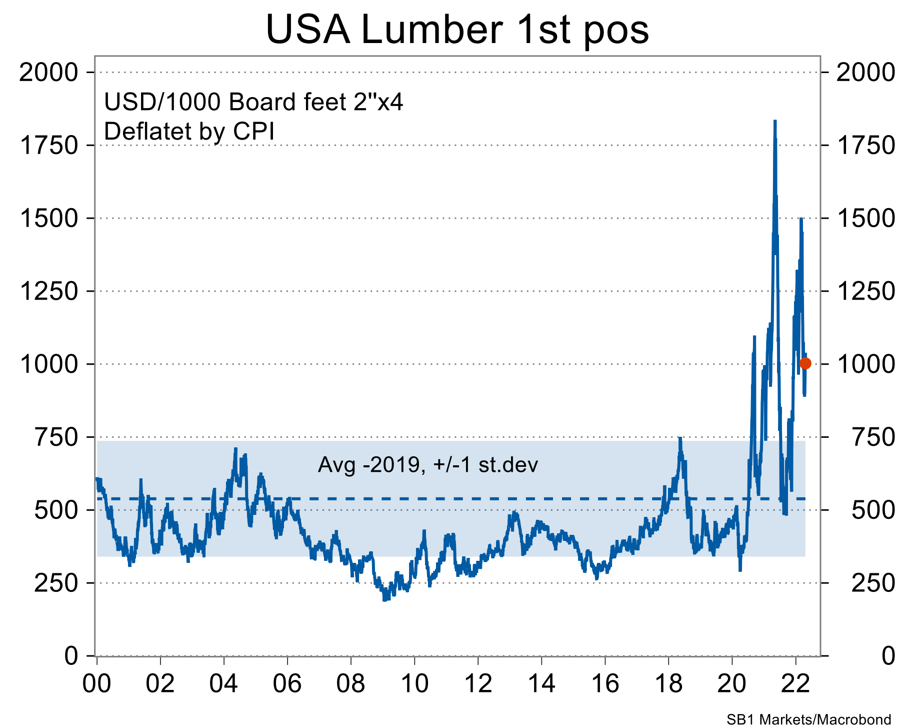
- **Fed's governor Powell** confirmed last Thursday what as already priced into the market, that Fed is likely to hike by 50 bps at the upcoming May meeting. Another FOMC member did not exclude a 75 bps hike. In addition, the bank will announce the pace of the QT, the reversal of the QE program
- **Fed's Beige book**, its 'Reginal Network', report moderate growth through the 6 weeks to early April. Consumer spending grew as Covid cases fell and restrictions were eased. The manufacturing sector report solid activity but supply chain backlogs, labour market tightness, and elevated input costs. Commercial real estate activity was accelerating, while demand in the residential market is strong but supply is limited. Thus, no impact of the surge in mortgage rates was recognised
- Employment is increasing, even if hiring is held back by lack of labour but several districts reported signs of modest improvements in worker availability. Both lack of labour and high inflation fuelled high wage growth but some contacts report early sign of slower wage growth
- Inflationary pressures remained strong for all the known reasons, at are expected to remain so. As demand is strong, companies are able to pass through input cost increases to customers. However, some few contacts report that high prices impacted sales negatively
- The market expect the bank to lift the signal rate by 50 bps. The expectations for the coming meetings are moving targets, the Dec-22 climbed by 37 bps to 2.8% last week!

Blue: 'rates down'. Red: 'rates up'

Building permits, housing starts unchanged in March, trend is still up

Both starts and permits are at the highest level since 2006





- **Housing starts** rose marginally to 1.79'', expected down to 1.75. Februar and March are the 2 best months since 2006
- **Building permits** also rose marginally, to 1.87 mill, expected down to 1.82''. Permits have been close to this level in Q1
- **Given the strong end of the year, the trend is still slightly up.** The level is some 15% above the pre-pandemic level. However, given the incredible strong existing home market, and soaring prices, starts should normally have strengthened further, as mortgage rates have been low until recently and the economy has been strong, with a very low unemployment rate
- **Supply & capacity problems and higher cost** in the building sector may explain the lack of response. Lumber (2''x4) prices have been high but even after the decline recent days prices are 2x the average price level since 2000

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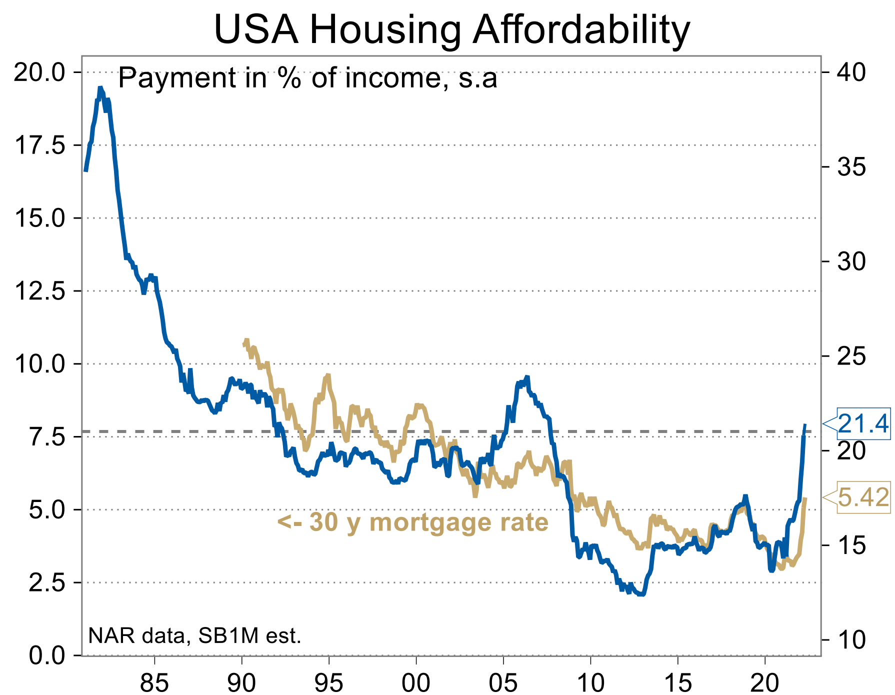
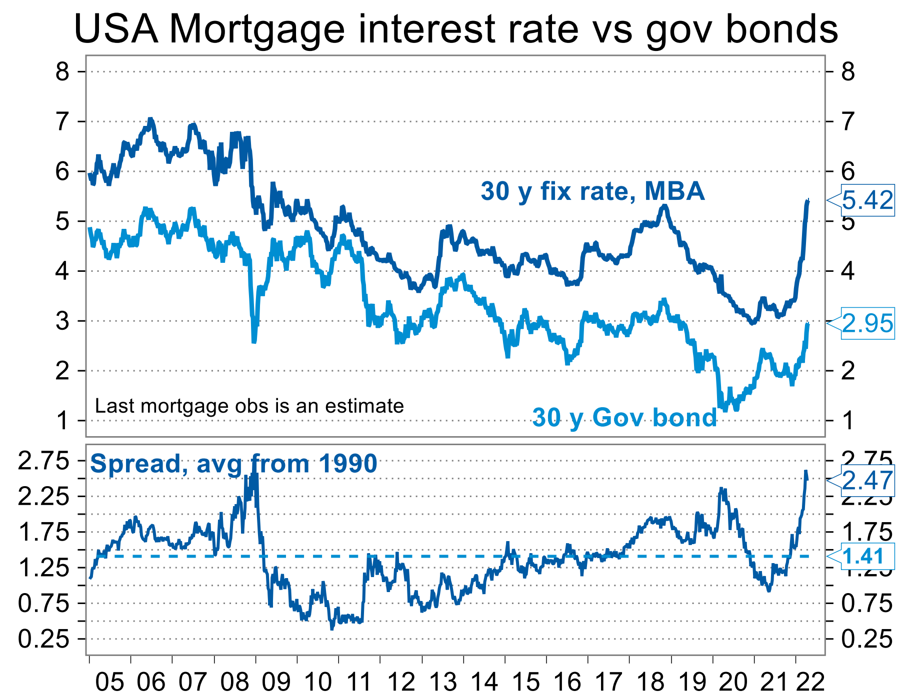
The least affordable housing market since 2008

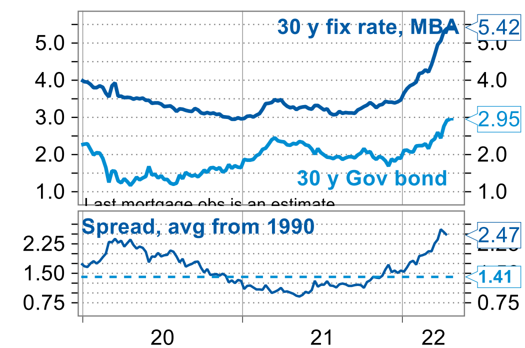
Prices are up 33% since before the pandemic, the mortgage rate is up 35!



SB1 Markets/Macrobond



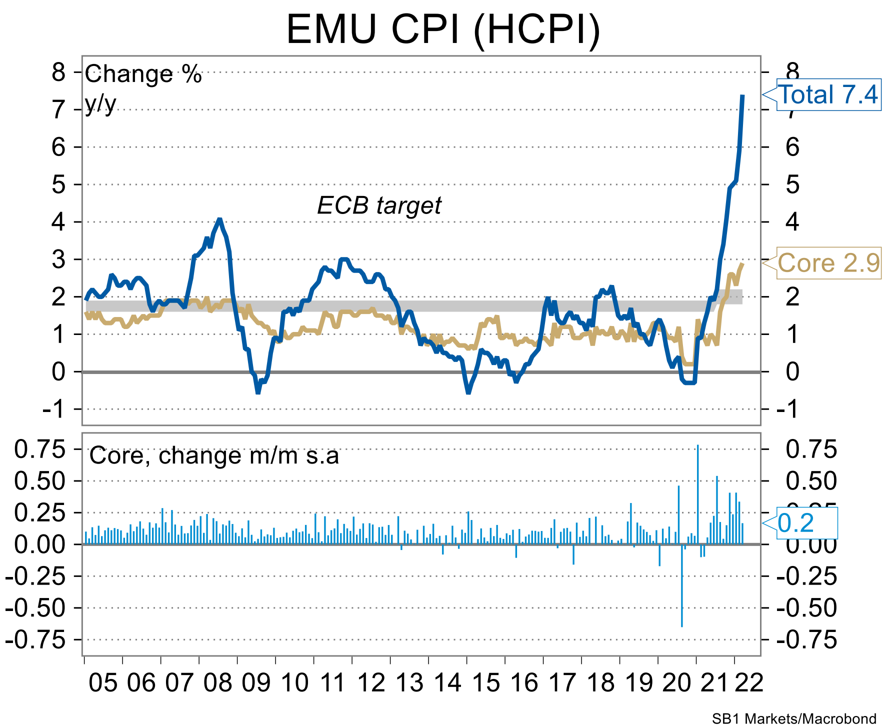
SB1 Markets/Macrobond

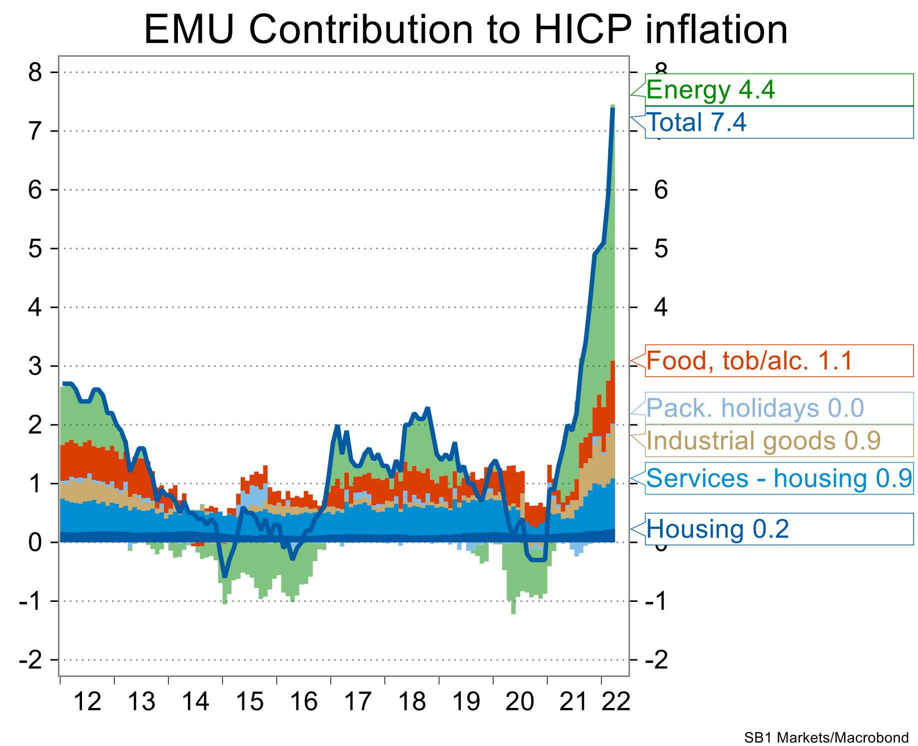


- **The 30 y fixed mortgage rate** has climbed to 5.4% (effective rate) from 3.0% last summer, and from 4% in early 2020 (or by 32%)
  - » The mortgage rate has climbed MUCH faster than the 30 y Gov bond rate. The spread has widened to 247 bps from 91 at the bottom last spring and it is far above the 140 bps average – and among the highest in modern times
- The **Federal Reserve** has ended its mortgage backed bonds buying campaign - and signals eagerness to reduce its holdings, which very likely explains the steep increase in the spread vs the treasury bond
  - » The central bank has funded most of the housing marked during the pandemic, at least until mortgage lending shot up through 2021

Eurozone inflation 0.1 pp lower than the first estimate, headline still up 7.4% y/y

Core prices up 0.2% m/m, 2.9%. Energy is the dominating factor





- **The headline HICP** rose 1.7% m/m, more than even before, and the annual rate is unprecedented too
  - » Energy prices rose 11.8% - and they are up 44% y/y, contributing 4.4 pp to the headline 7.4% growth rate. Food prices rose 0.9%, and are up 5.0% y/y
- **Core prices** rose 0.3% m/m, in line with the monthly increases past months – implying an underlying rate at above 3.5%
- Tax changes have no material impact on the HICP now

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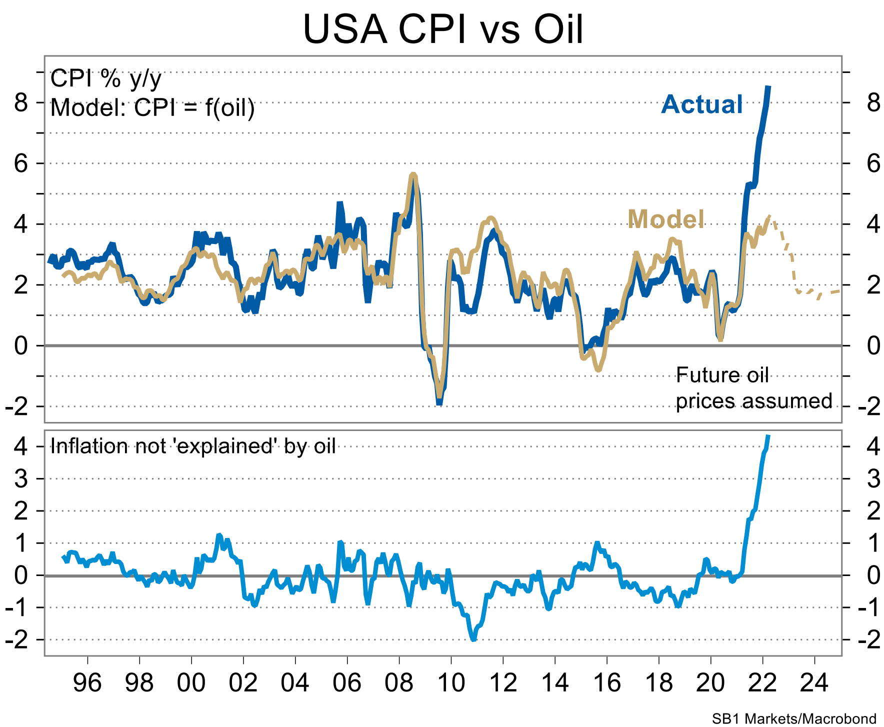
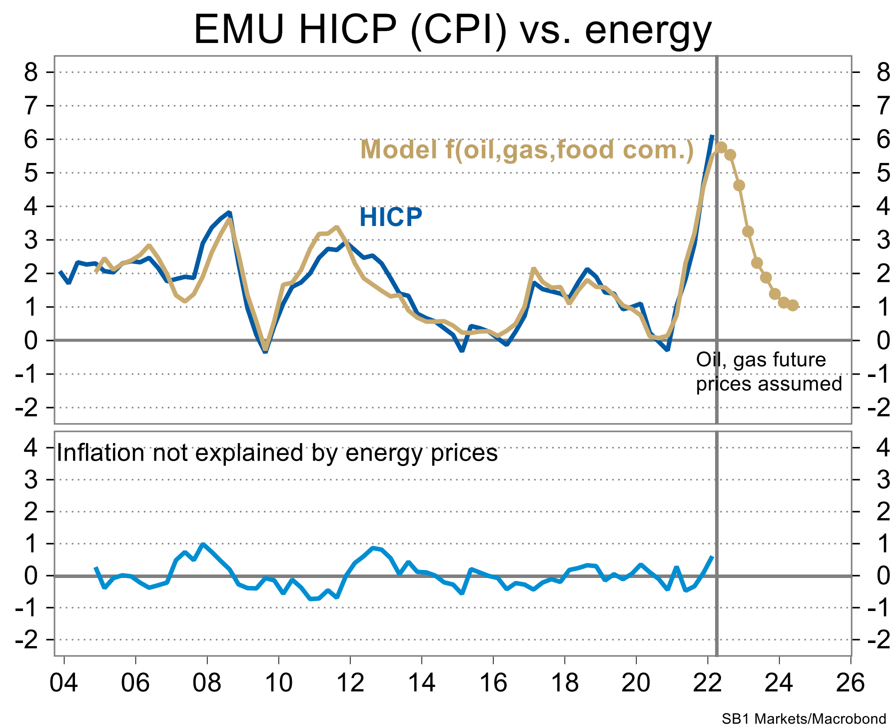
The tale of two different inflation regimes

The EMU inflation is fully explained by higher oil & gas prices, US inflation is not



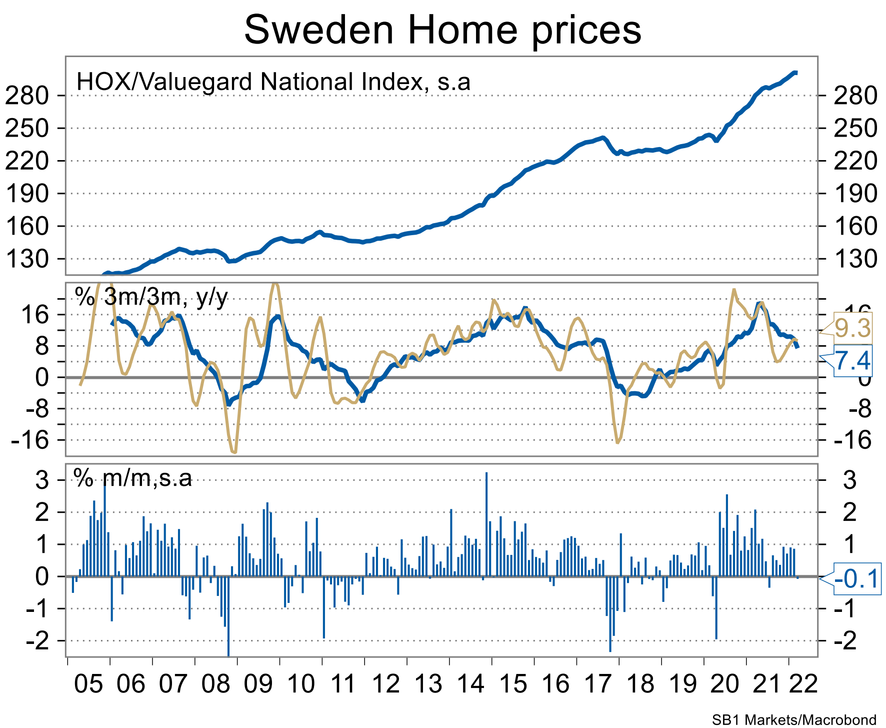


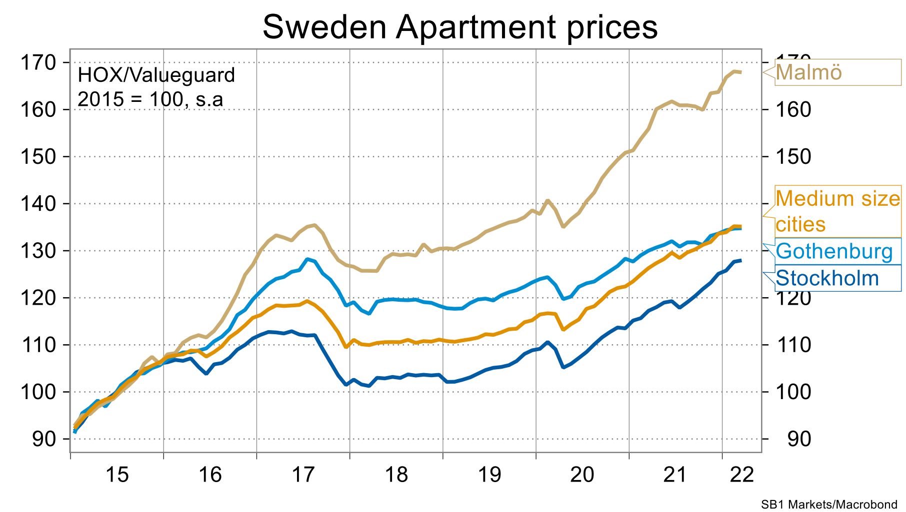
- **In the US, oil price cycles** have – for all practical purposes – explained all of the CPI cycles the past 30 years. Until 2021. The precent 4 pp discrepancy is unprecedented! The current/future oil price signals a decline in the annual CPI rate later this spring. The trouble is the 'gap' or the 8% starting point
- **In EMU**, the CPI acceleration recent so far can be fully explained by the increase in energy prices (with a small contribution also from food commodity price). If oil/natural gas prices follow the future prices from here, inflation is now close to the peak, and the annual growth rate will return to below 2% in early 2023. Had energy prices suddenly returned to a 'normal' level now, inflation would have collapsed!

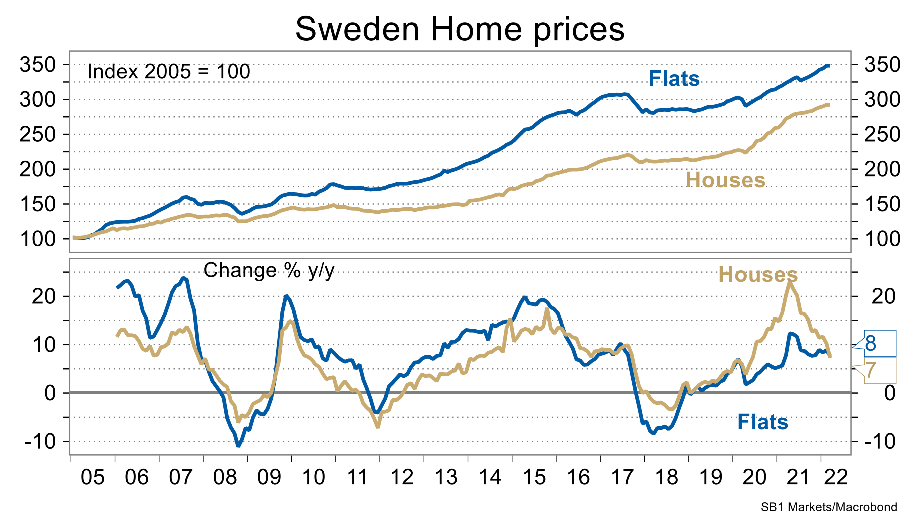
In these models we incorporate all direct impacts from changes in the oil price – as well as the impact from other factors that influences inflation which correlates to the oil price

Swedish house prices FELL in March, the annual rate 7.4%, from 19% a year ago

The slowdown in March was broad based. The war or mortgage rate expectations – or both



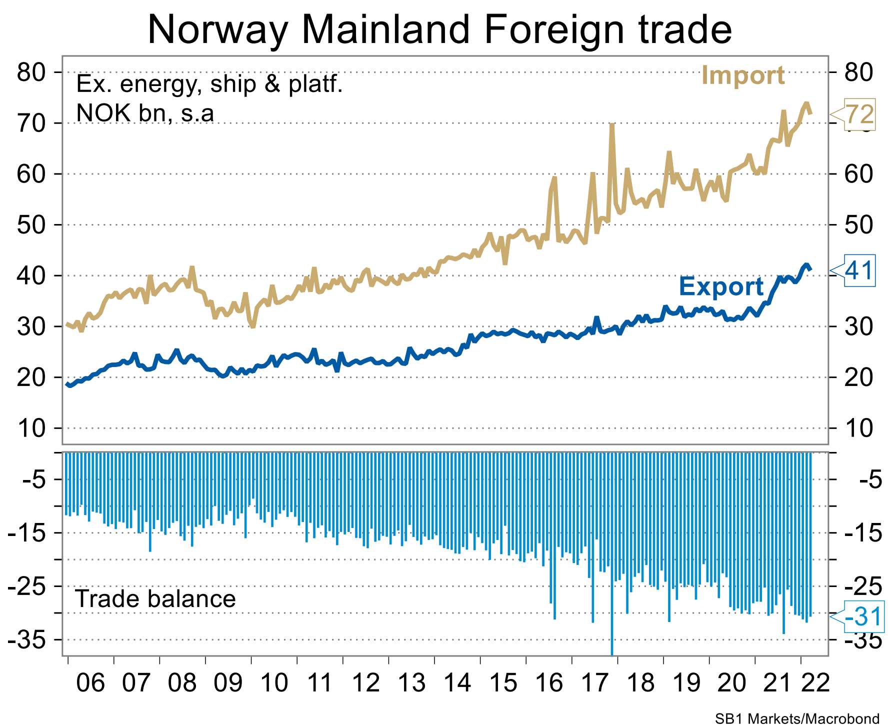


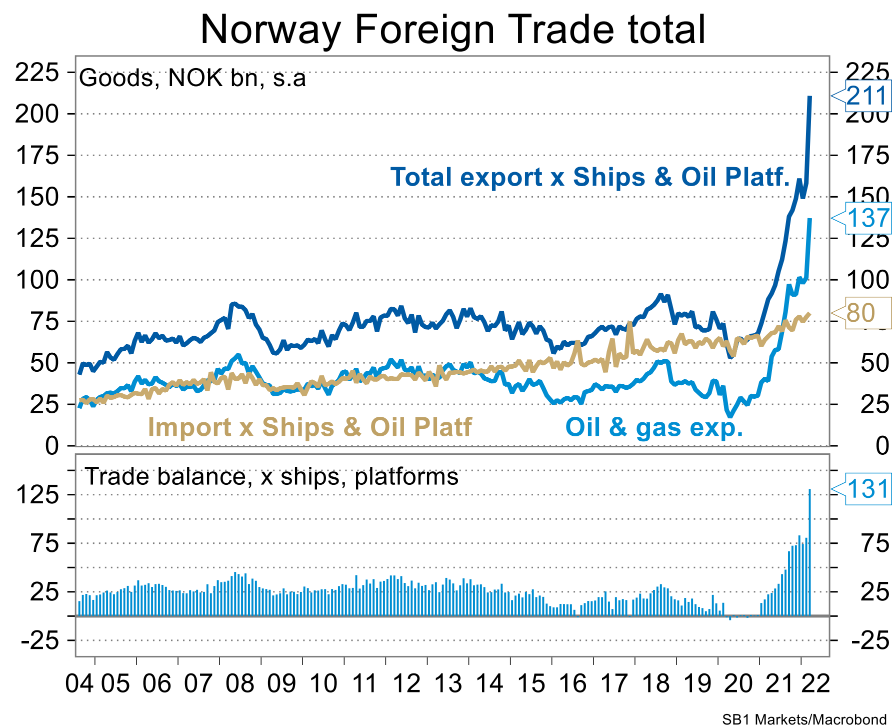


- Prices fell 0.1% m/m, and the annal rate declined to 7.4% from 9.7% in Feb
  - » The underlying price growth (3m/3m) is still 9%, up from 4% in October
- The 3 large city regions reported a slowdown in March, and over time, houses have slowed more than flats
- The war in Ukraine, inflation fears may explain the minor drop in prices in March but so could also a steep increase in interest rate expectations

Trade surplus at NOK 131 bn in March as gas exports rose to NOK 88 bn

The previous ATH was NOK 80 bn. The Mainland trade deficit is widening but not further in March

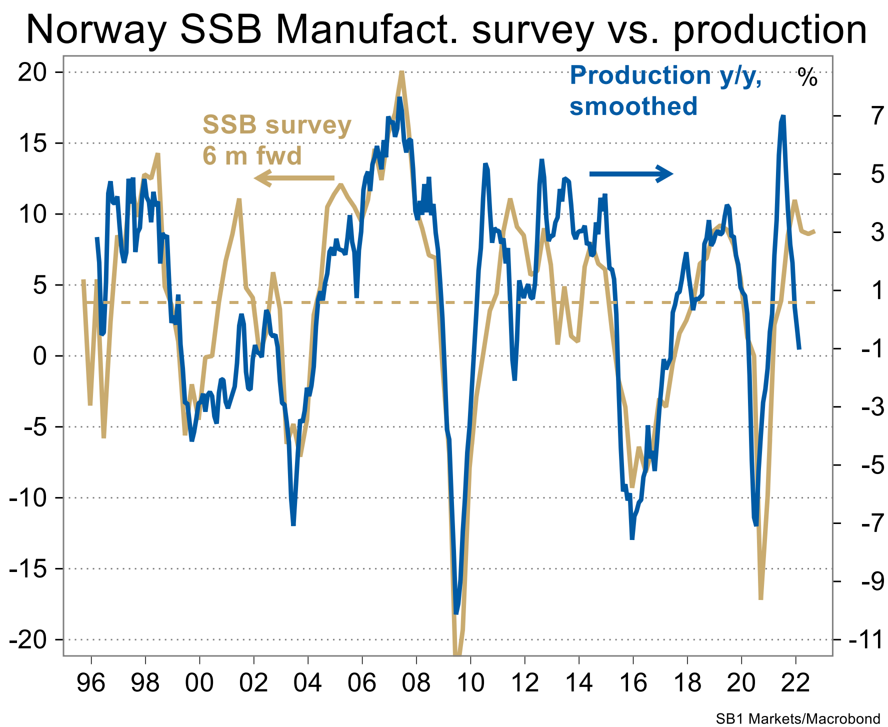


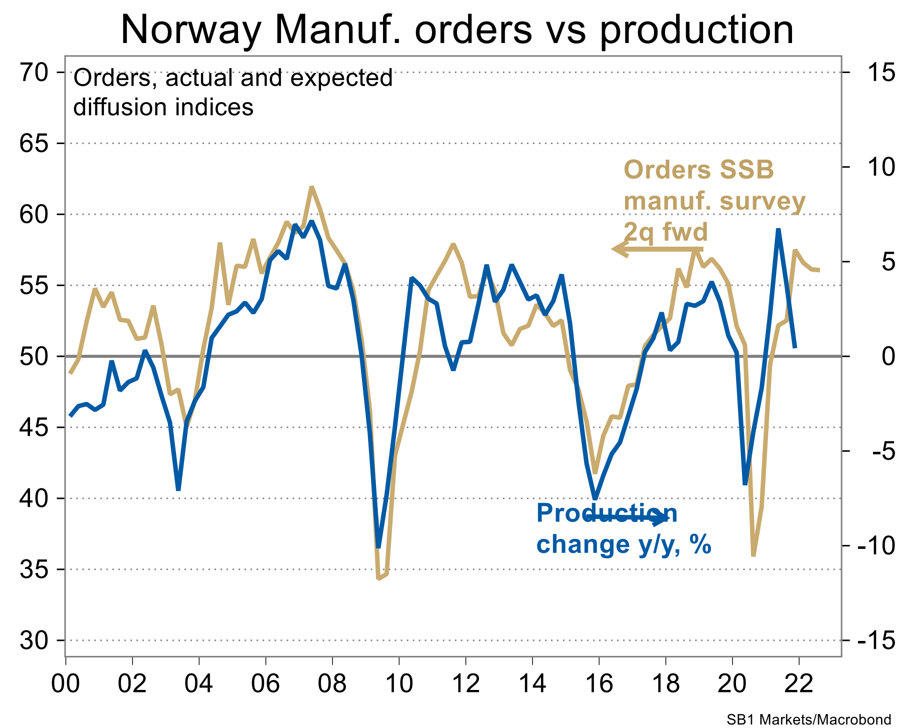


- **Gas exports** shot up in March, to NOK 88 bn (seas. adj, actually to 112 bn), and **oil exports** to NOK 47 bn, as prices rose sharply from February. Petroleum exports equalled almost 50% of Mainland GDP. On man's misery, is another man's fortune. Sorry, president Zelensky. And thank you, president Putin. Almost all of the windfall gain will end up in the Oil fund
- **The trade surplus in goods** (ex ships/platforms) fell rose to NOK 131 bn, an enormous amount, 28% of Mainland GDP!
- **The Mainland (non energy) trade deficit in goods** fell marginally to NOK 31 bn, equalling 10% of Mainland GDP (however, most imports for oil investments are categorised as Mainland imports and sales from the Mainland to the oil sector (both op.ex and cap.ex) are not counted as exports)
- **Non-energy exports** rose fell slightly in March, to NOK 41 bn. Exports are up more than 30% since 2020, mostly due to higher prices but volumes are up as well. Fish, metals & chemicals are reporting string growth
- **Imports** fell 2 bn in March but remain at a 10% growth path

SSB's manufacturing marginally up in Q1, better than we expected

Oil related up, others not. Supply constraints still dominating. Prices are expected up more than ever

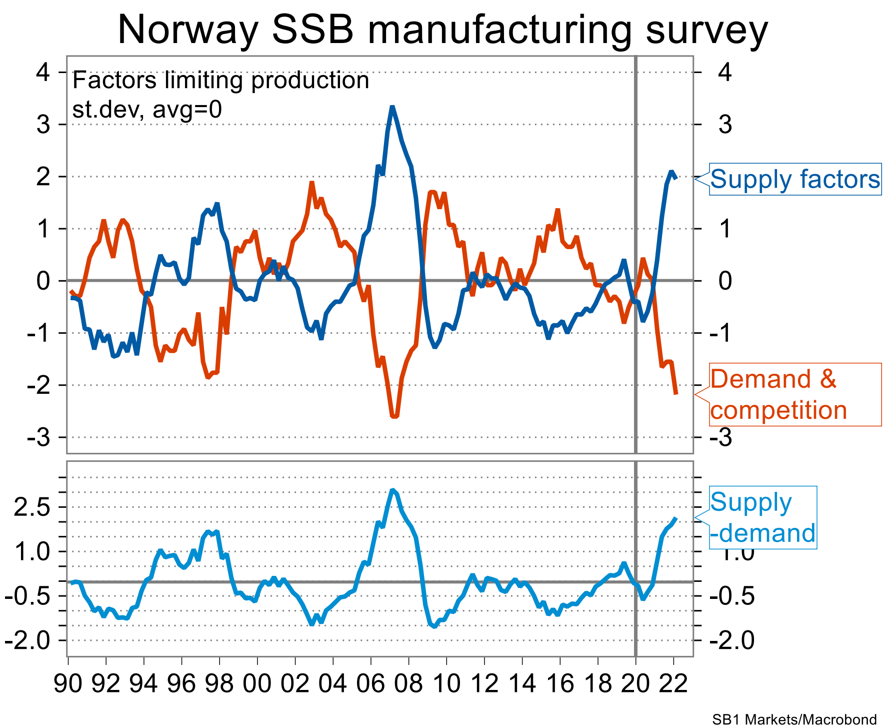


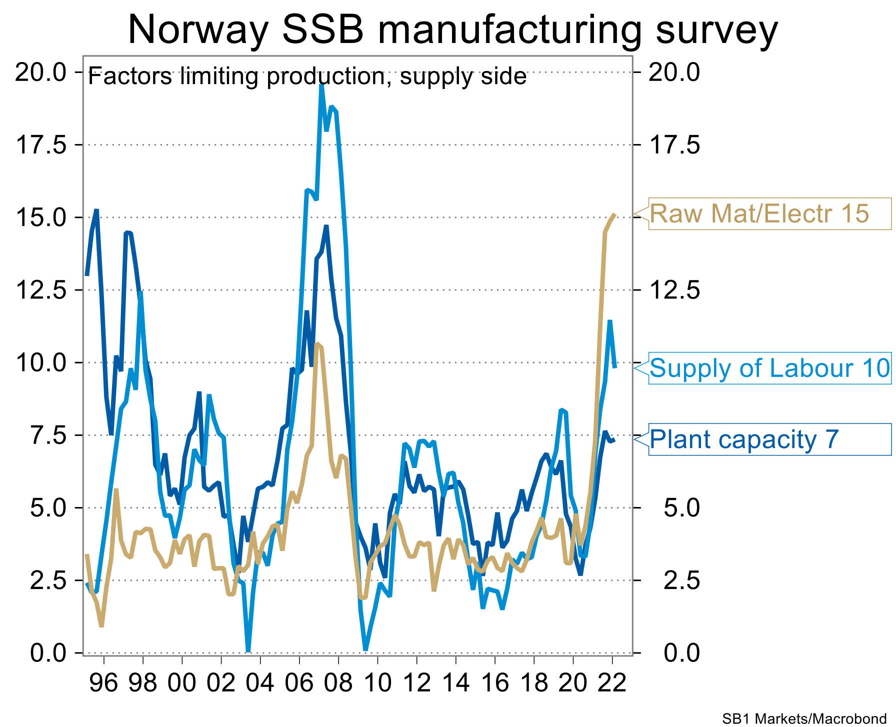


- The **composite index ('confidence')** in SSB's manufacturing survey added 0.2 p to 8.8 in Q1, we expected a decline to 5. The current level is 0.7 st.dev above average. Oil related sectors report a better outlook (order expectations), other sectors a slightly lower gowth
  - » The index signals growth well above trend in production, 3½ GDP growth and – together with the oil price, a 40% growth in 12 m expected corporate (OSEBX) earnings, though below analyst's current 58% growth estimate
- **Supply constraints** eased marginally (for labour), but are still the most serious since 2008. **Demand/competition** is far less of a problem than normal
- In Q4, companies expected to hike their **selling prices** faster than ever before (data from 1990). In Q1, this index rose sharply

Limiting production: Supply factors far above average, demand far below

The gap is the 2nd highest since 1990. The good news: Supply side problems eased marginally in Q1

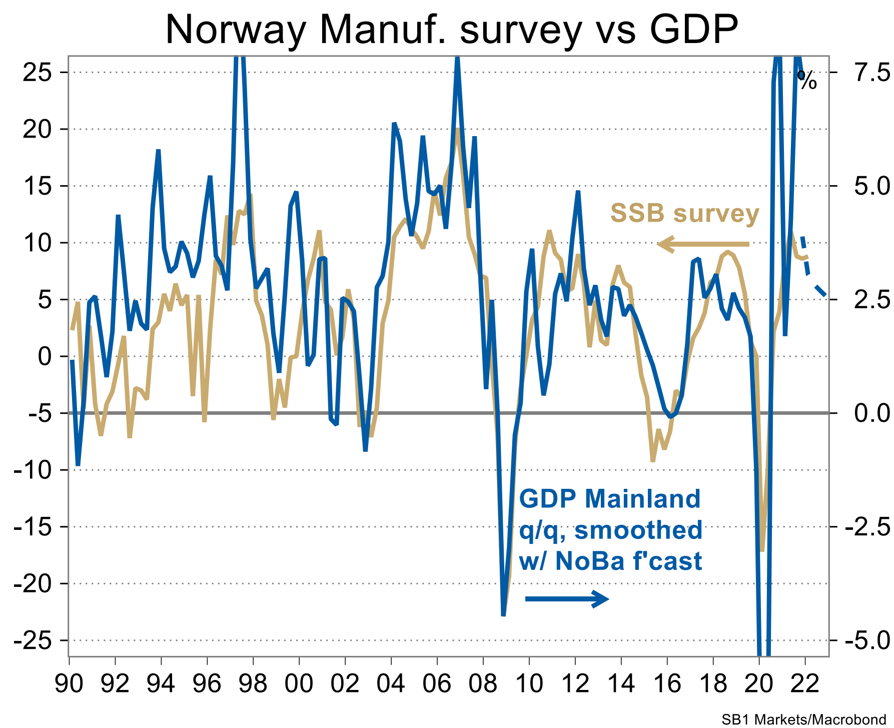


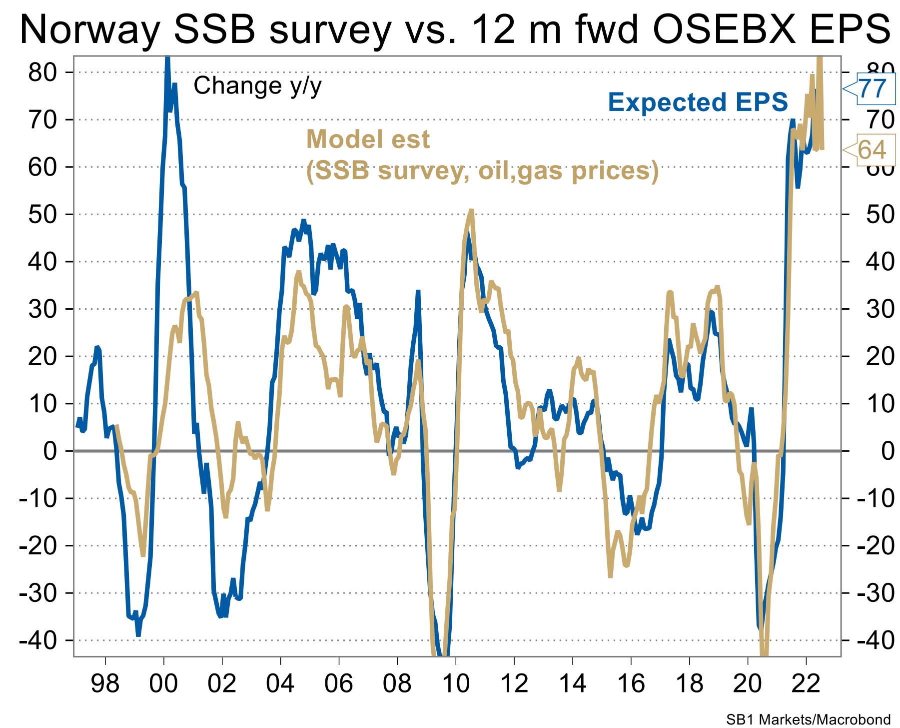


- More companies are reporting supply side factors as limiting production, up to the highest share since 2008
  - » More companies are reporting that lack of raw materials/electricity as a limiting factor than anytime before
  - » More companies are reporting supply of labour and plant capacity as limiting factors than since 2008
- Far fewer companies than normal are reporting lack of demand or competition as limiting factors
- ***No demand crisis – and it never was during the pandemic***

SSB's manufacturing survey signals 3½ % GDP growth, and still strong EPS growth

... but lower growth than the current 12 m EPS f'cast (where oil & gas prices are added in the model)

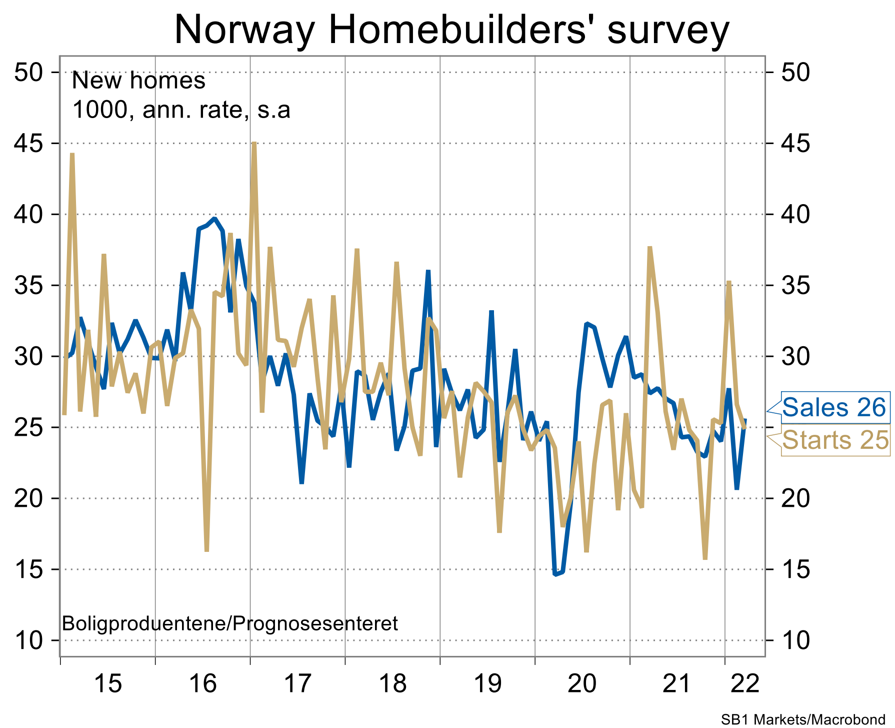


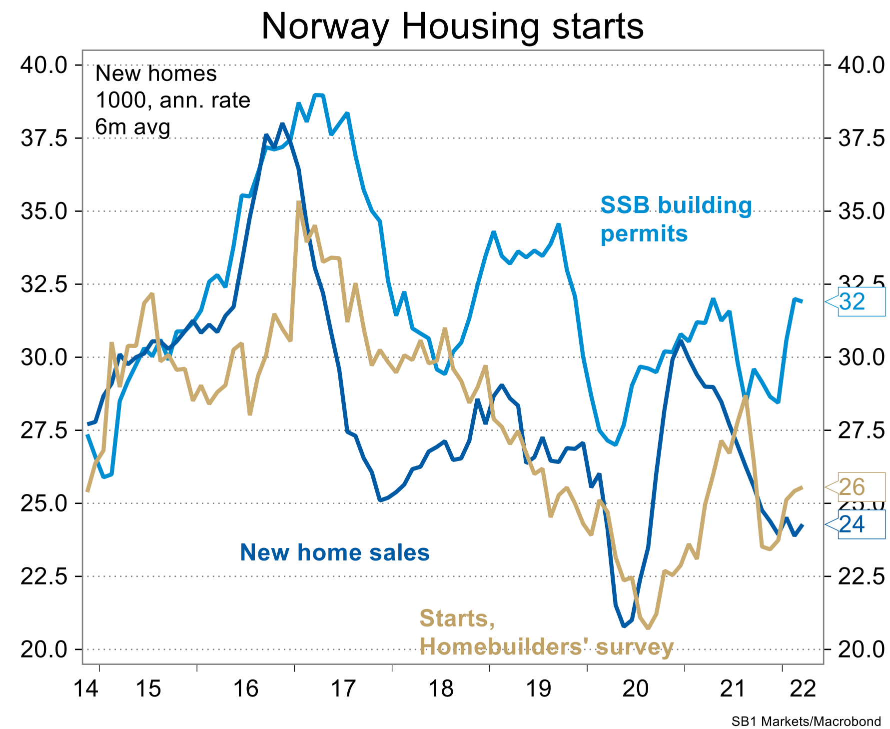


- The manufacturing survey is quite closely correlated the Mainland GDP cycle
- The survey is closely correlated to the OESEBX earnings cycle too – and even better if oil & gas prices are added in the equation

New home sales up to a ‘normal’ level in March, starts down to a ‘normal’ level

… according to the homebuilders. SSB report a surge in building permits

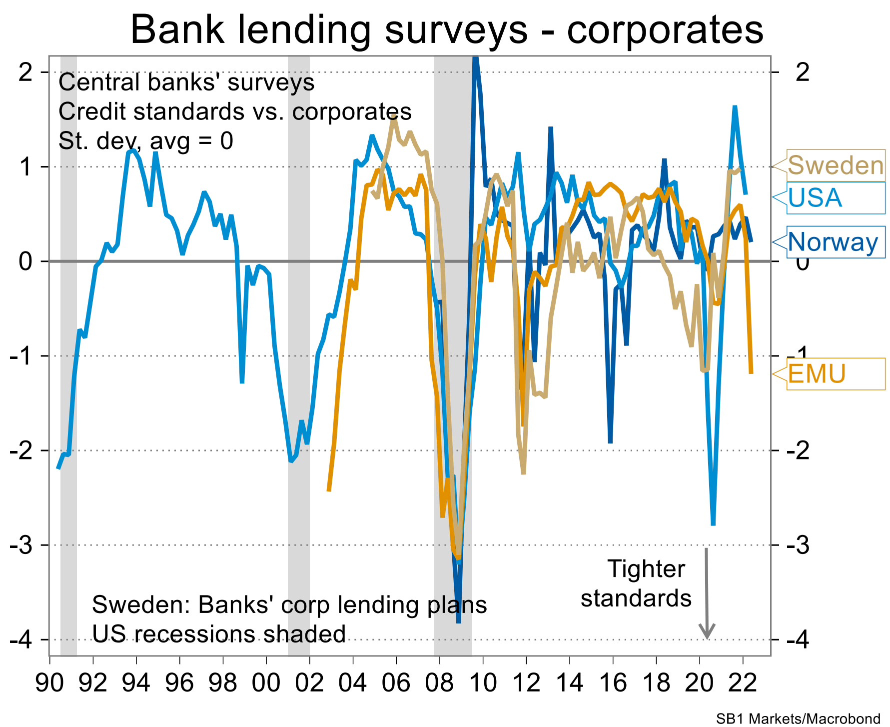


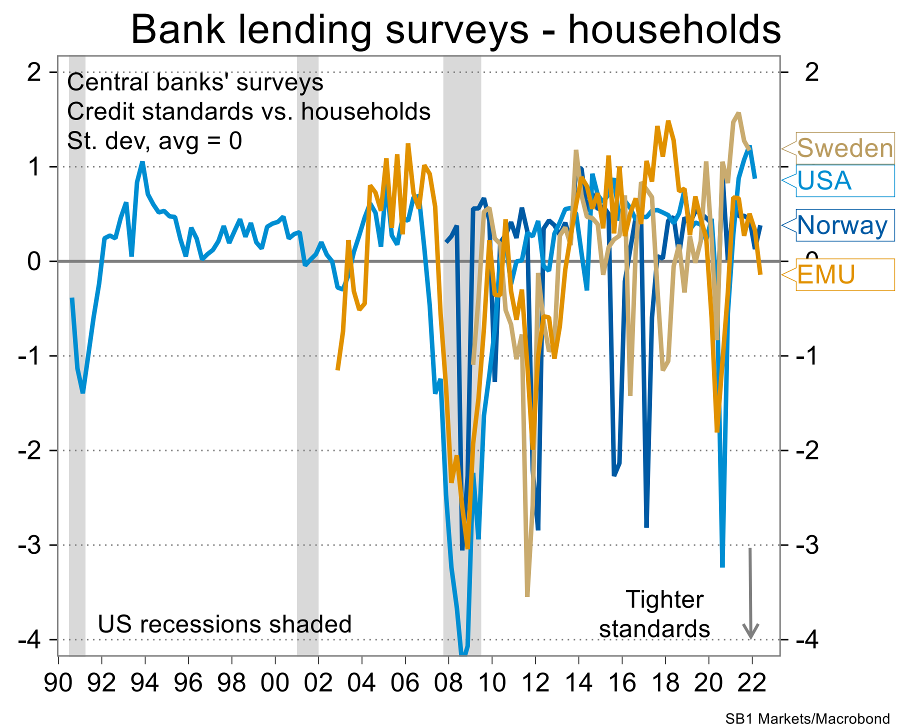


- Boligprodusentene (Home builders) ‘always’ report that building activity is declining and that it is too low
- Recent months sales have flattened and starts have increased. The level is not necessarily low
- SSB report a decent increase in housing starts recent months, and the level is above the average over the past years

Global view: European banks have tightened vs. the corporate sector

US banks are still open for business

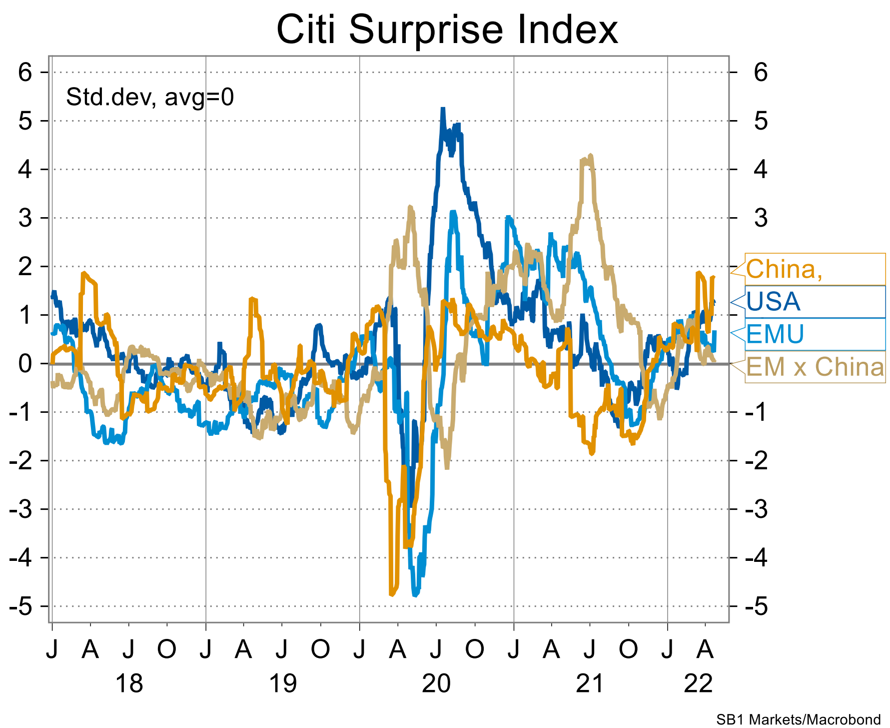


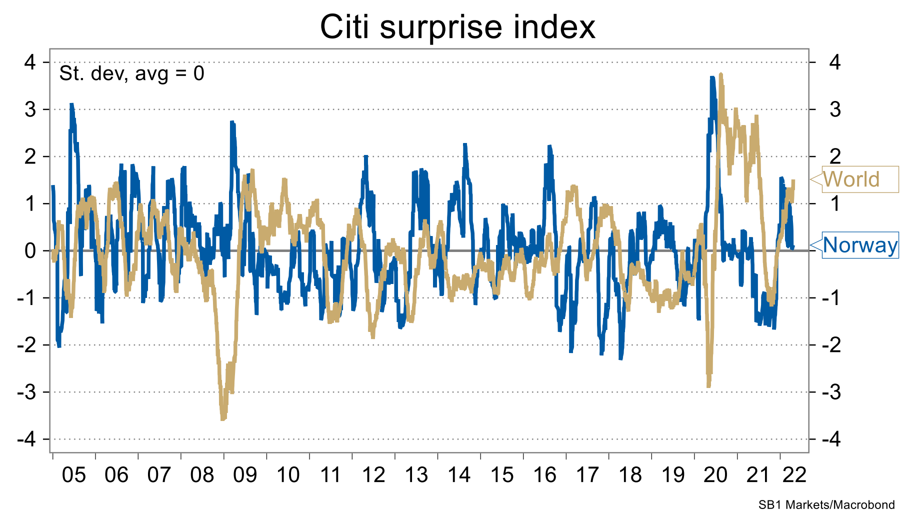


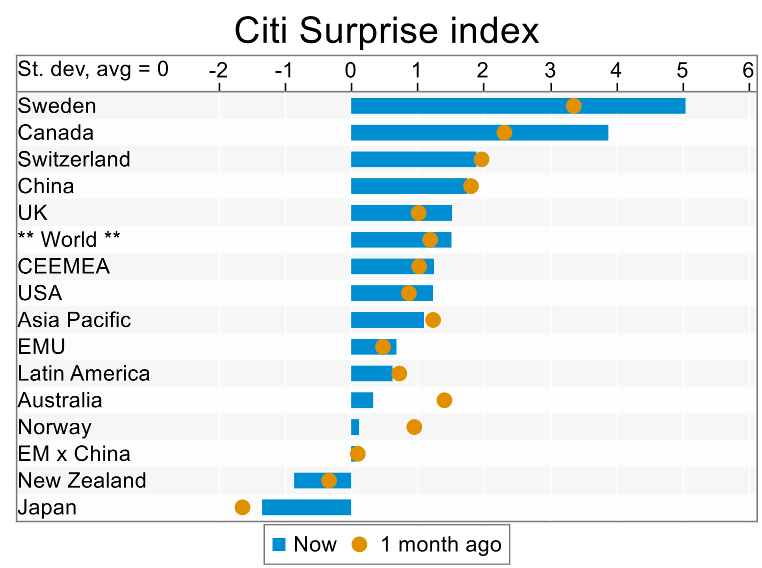
- **US banks** are signalling loosening standards, and quite a bit towards the corporate sector. Credit spreads in the corporate bond market are among the lowest past two decades
- **European banks** changed their mood in Q2, we think we know why…
- **Swedish banks** are reporting easing standards vs. households & businesses (but no 2022 data yet)

The world is still surprising at the upside

Just Japan (and New Zealand) at the downside vs expectations







- **Norway** was surprising sharply on the downside through most of 2021. But in early December we crossed the zero line, and shot up in January – but now data are on par again, according to Citi
- **Sweden** is a the top

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

Highlights

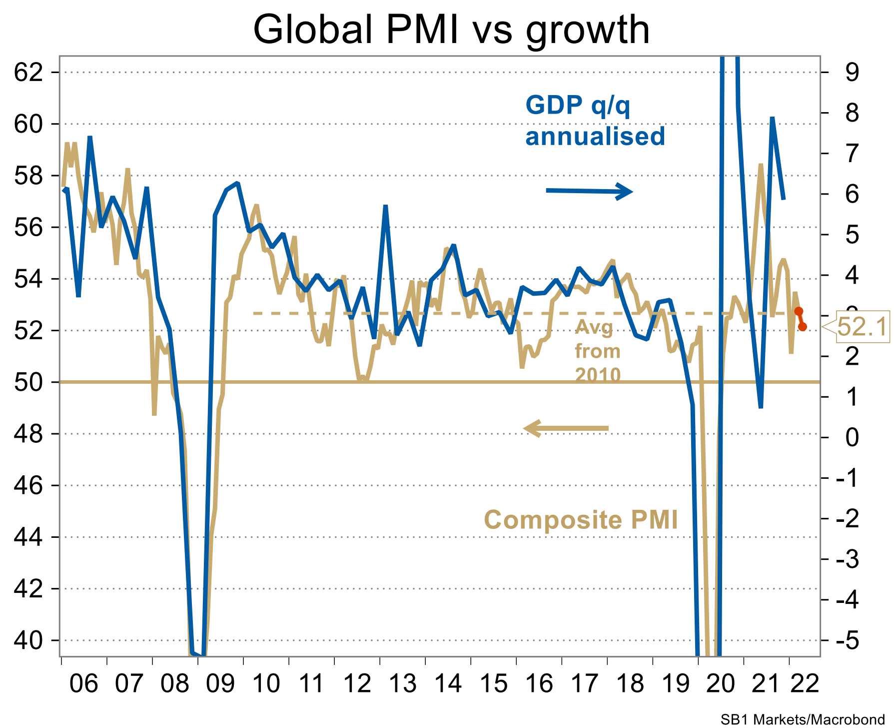
The world around us

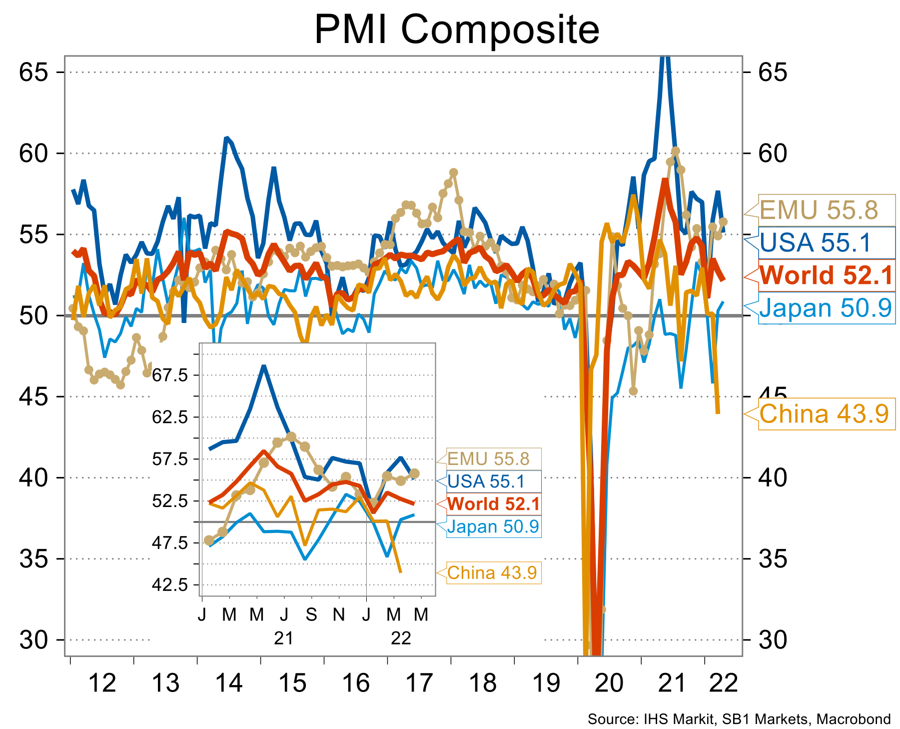
The Norwegian economy

Market charts & comments

The April PMIs down in the rich part of the world, but prices shot up

We estimate 0.6p m/m decline in the composite PMI to 52.1 →, 3%- global GDP growth



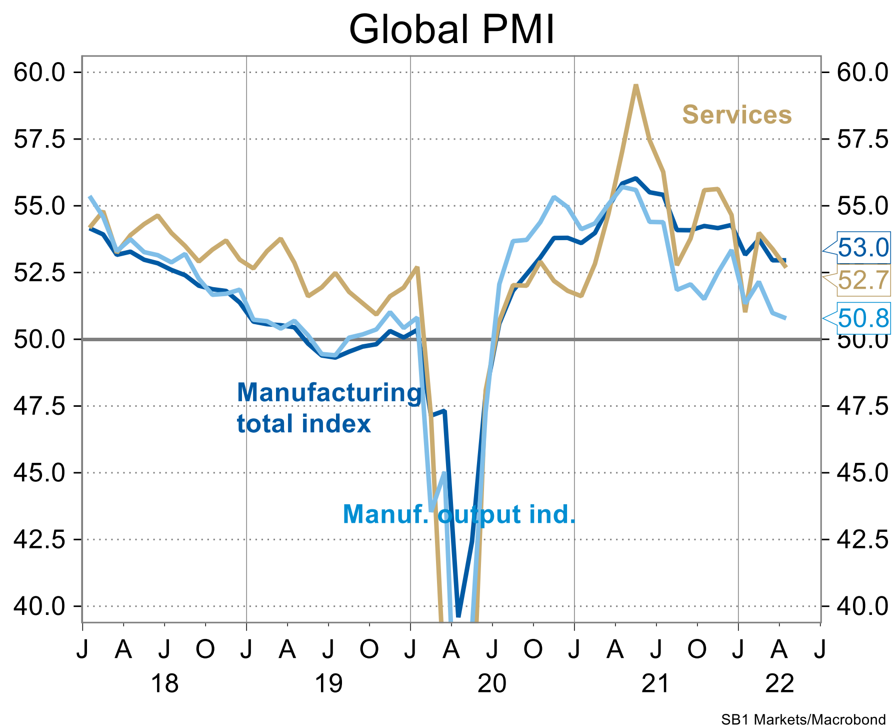


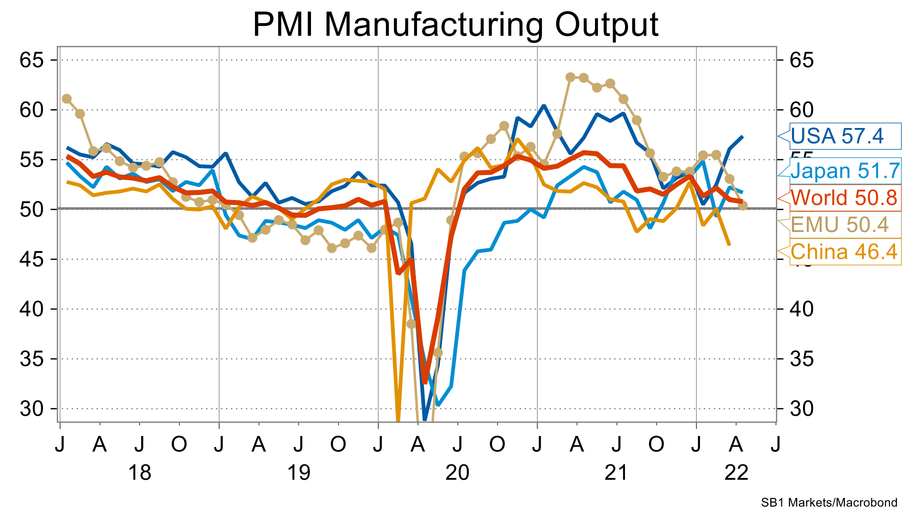
- However, in March we estimated a 1.3 p gain in the **global composite**, but it turned out that the index in the end fell by 0.6 p. The 1.9 pp miss equals more than a 1pp differential in the global GDP growth rate! The setback was due to steep declines in China (virus fight) and Russia (war, sanctions) – while the PMI in the rich part of the world rose
- In April, the US and UK reported slower growth **in services**, services grew faster in the EMU – but sum was down.
- The **manufacturing PMI** was close to unchanged – the index rose in both the US but fell in EMU, UK and in Japan
- US and UK reported lower composite PMIs but the EMU index rose, thanks to the services sector
- **Delivery times** did not increase (but remains at high level), while companies everywhere reported faster **price growth**, both input and output prices

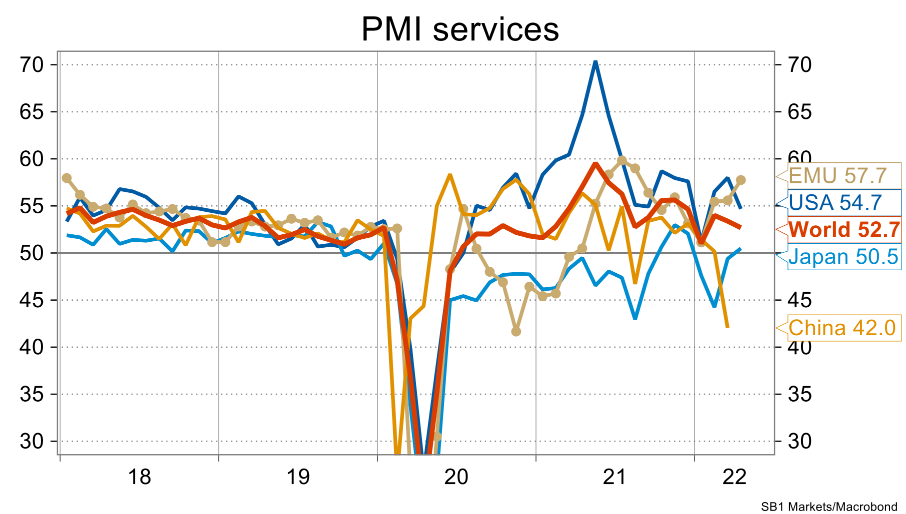
Our estimates are based on the preliminary PMIs from US, China, EMU, Japan UK, Australia. The estimates are uncertain, but usually by less than 0.5 p

Both manufacturing & services report higher growth

At least the output index in the manufacturing survey fell – and the service activity index fell more



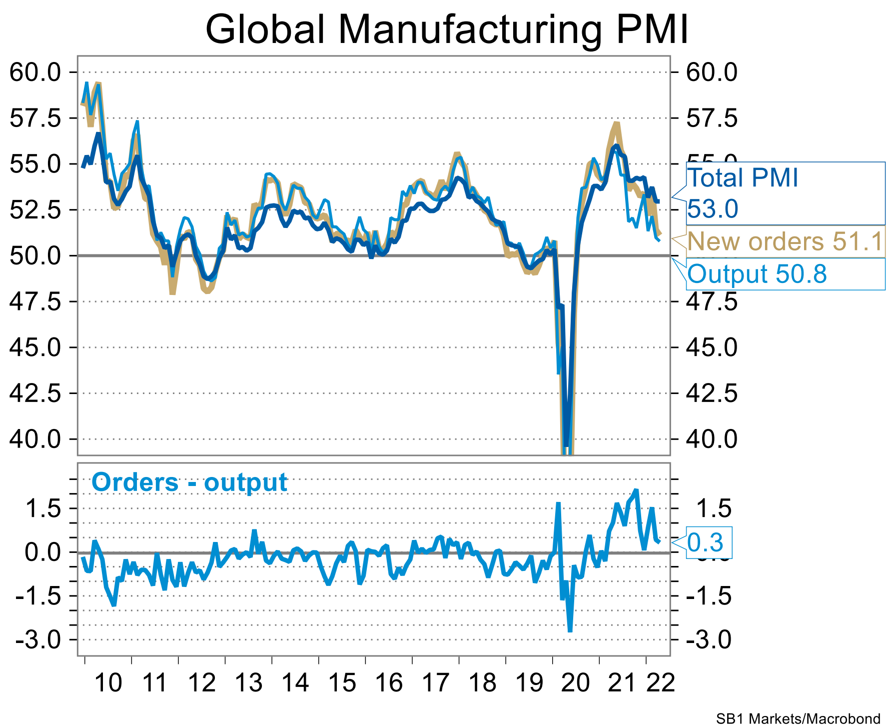


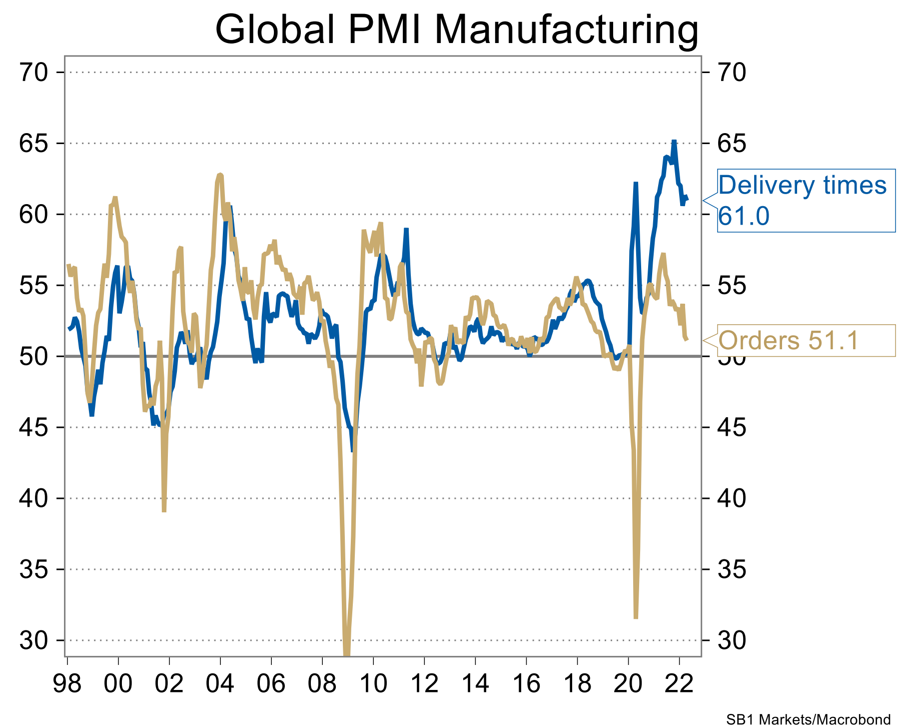


- Growth has very likely peaked, at least in the rich part of the world. Now, the war in Ukraine and economic war against Russia may create new challenges – even if 'geopolitics' normally are not important for the economic cycle

Growth in manufacturing orders and output below par

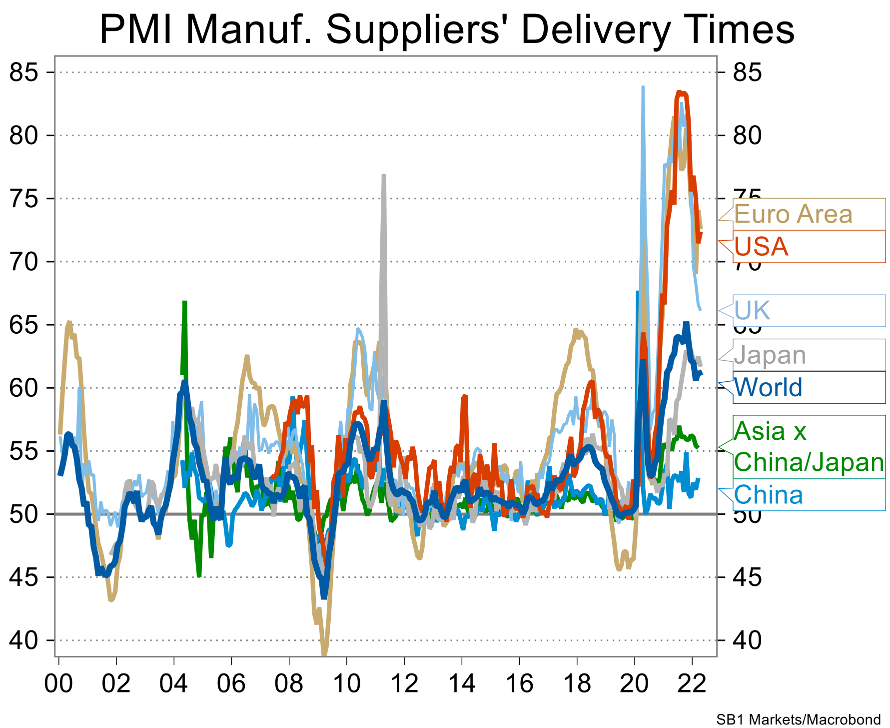
The delivery times index close to unch in April, well down from the peak

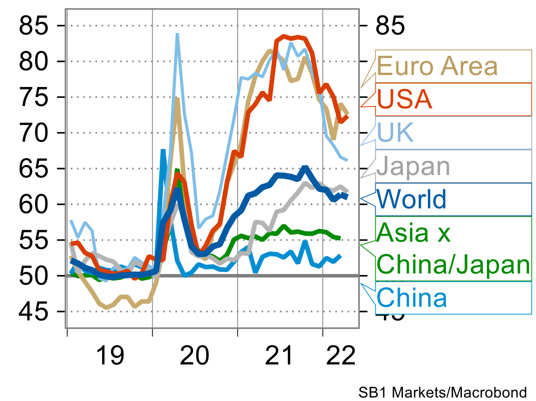




Delivery times index close to unch – and are trending down everywhere

No war/sanction chock to be see, so far

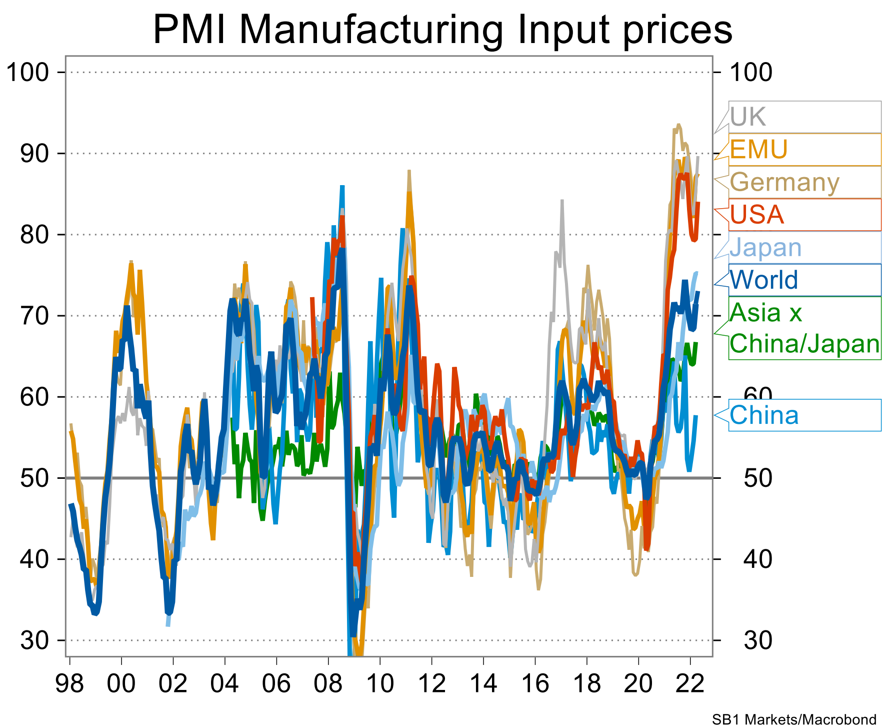


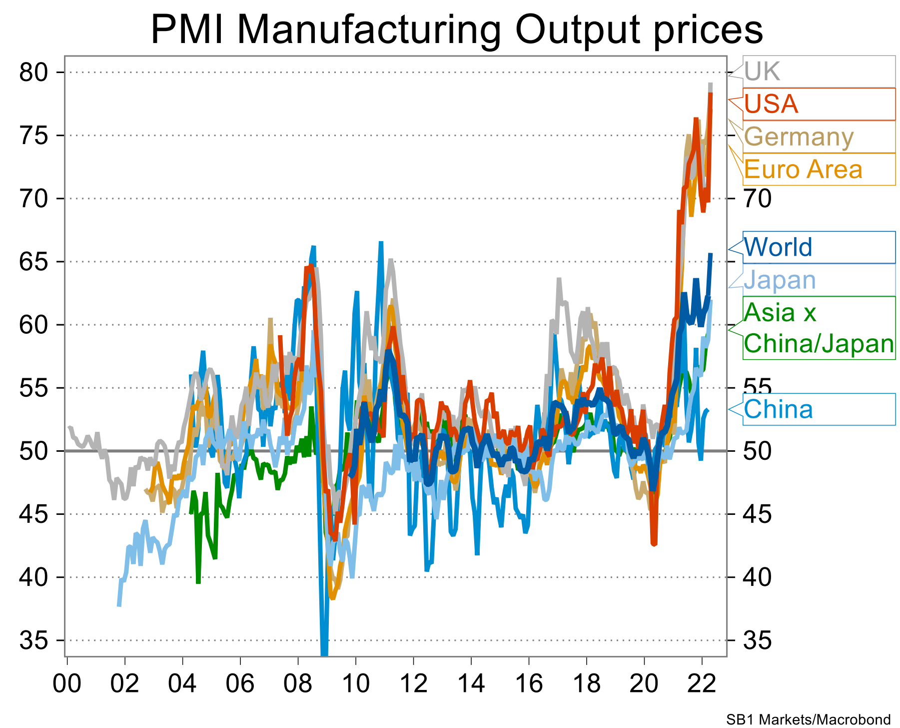


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) has been inching down since the peak in last October. The decline is broad among in The Western rich countries
- **The interpretation of this index is uncertain** – are companies really reporting changes in delivery times – which they are asked to do?
  - » This index as been above 50 most of the time (the past 20+ years), formally implying a continuous increase in delivery times. However, delivery times have surely not increased almost all the time – they have rather fallen! Companies may be reporting the level of delivery times. If so, delivery times are now contracting – while the index formally reports than delivery times are increasing at a marginally slower pace

Input prices climbed faster – and output prices the fastest ever

A steep lift, especially in selling prices in April





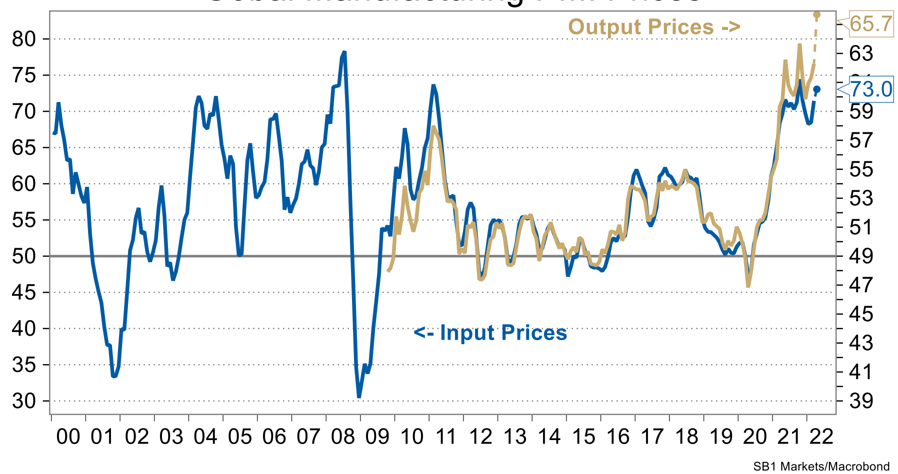
- In services, both input and output prices rose faster than ever, check next page

SpareBank 1 MARKETS

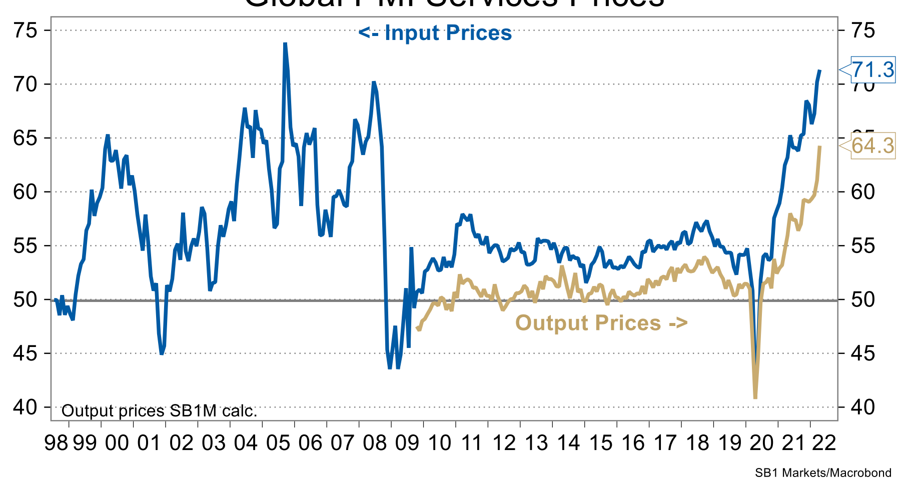
Price indices up, all over the place

We may take some comfort that actual inflation is ‘artificially’ boosted by the lift in energy prices

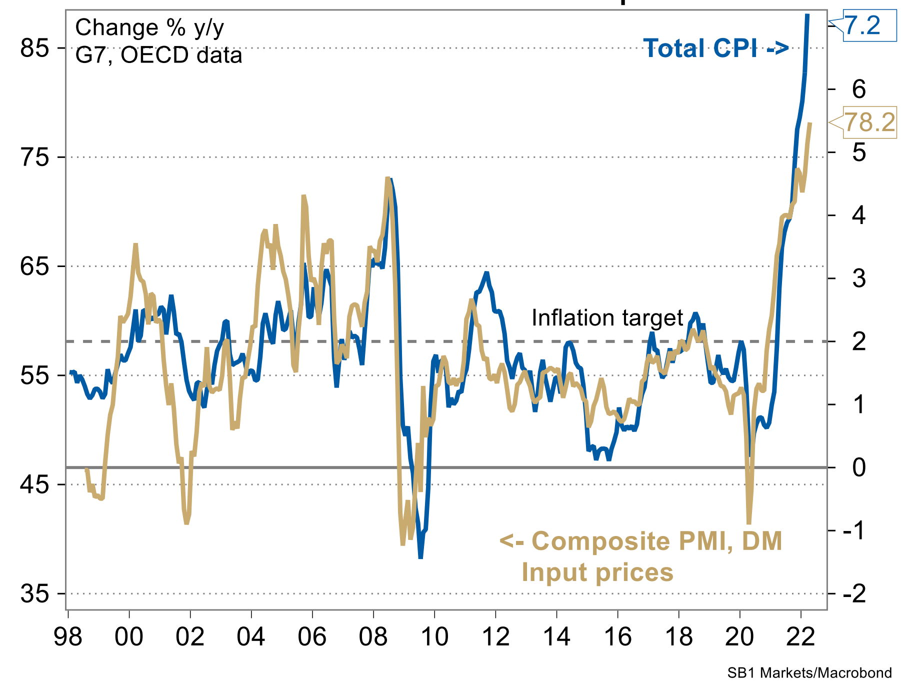
Gobal Manufacturing PMI Prices



Global PMI Services Prices



OECD Inflation vs PMI prices

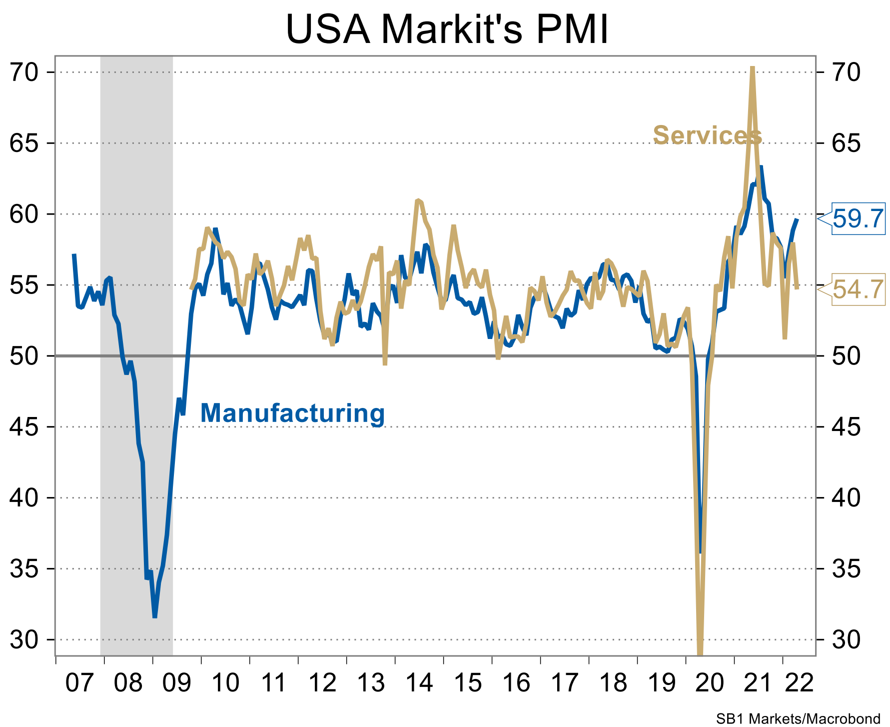


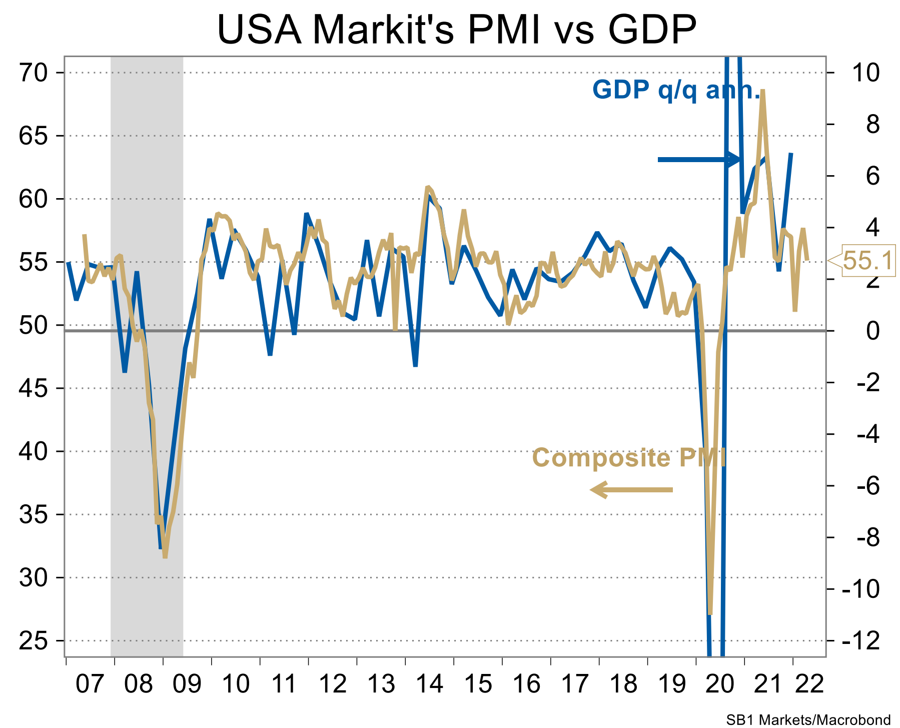
- These PMIs signals a substantial price pressure the coming months
- We are still much more concerned about wage inflation than the actual price inflation due to factors that most likely are transitory, like hikes in raw material prices, freight cost or short lived margins expansion when demand is surprisingly strong

Last obs. based on preliminary PMIs from EMU, Japan, UK, and the US

The services PMI down in April, the manufacturing index further up. So are prices

The composite fell 2.5p to 55.1, expected up 0.1 pp to 57.9, a larger miss than usual. 3% growth sign.

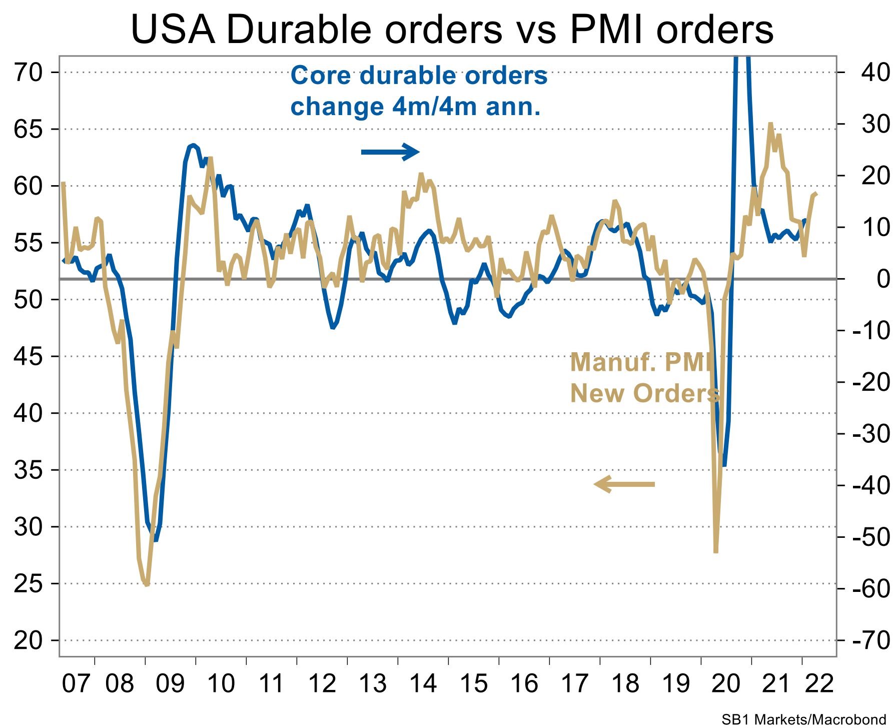


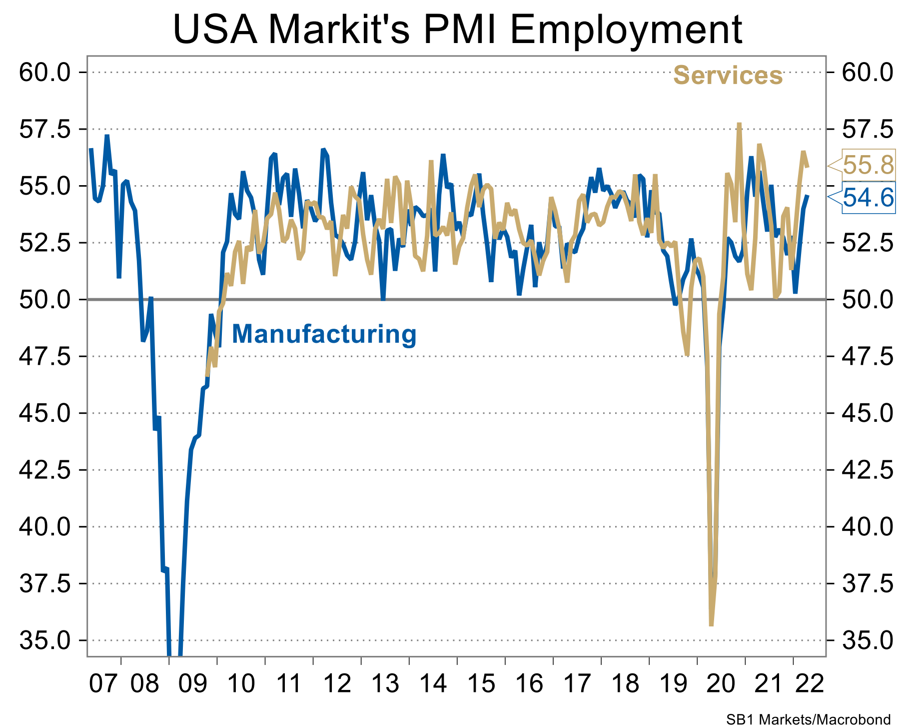


- **The composite PMI** has been trending flattish since August last year – while GDP was far better than the survey indicated in Q4. Now, growth in Q1 was probably quite low, and below what the PMIs have signalled
  - » The decline was due to a 3.3 unexpected decline in the service sector PMI, to 54.7, still somewhat above an average level
  - » The manufacturing PMI added 0.8 to 59.7, far above average
- **The price indices** rose sharply – to ATHs
- **The delivery times index** stabilised - following the decline further. Order growth is still strong
- Companies report that **employment** rose at a brisk pace in March too especially in the service sector

Manufacturing orders are growing well above trend, so is employment

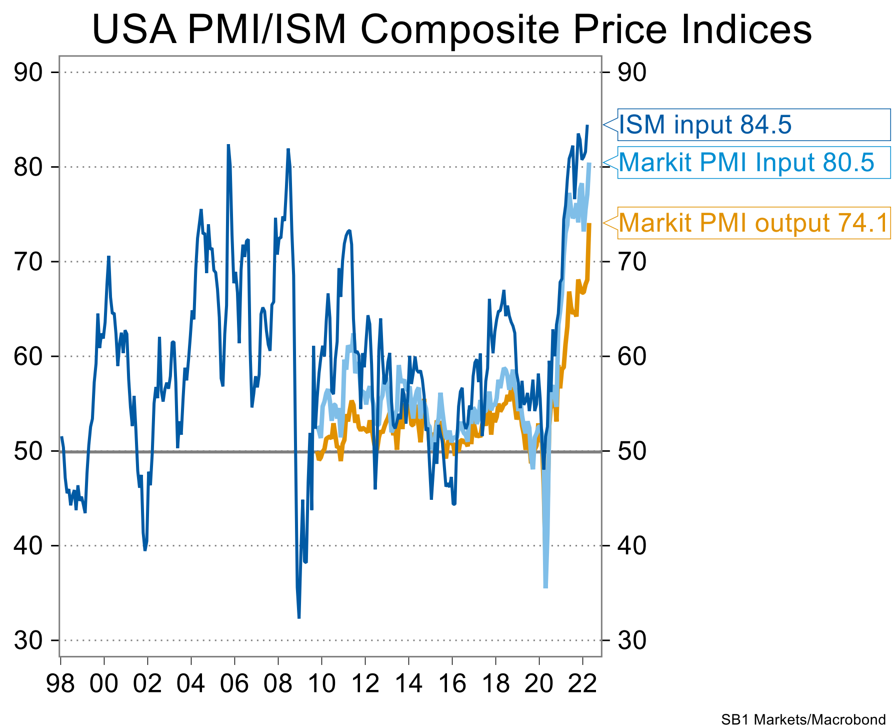
Services report an unusual rapid growth in employment





Peak price inflation? Well, not that convincing yet

The PMI price indices rose sharply in April (and the ISM price indices in March)

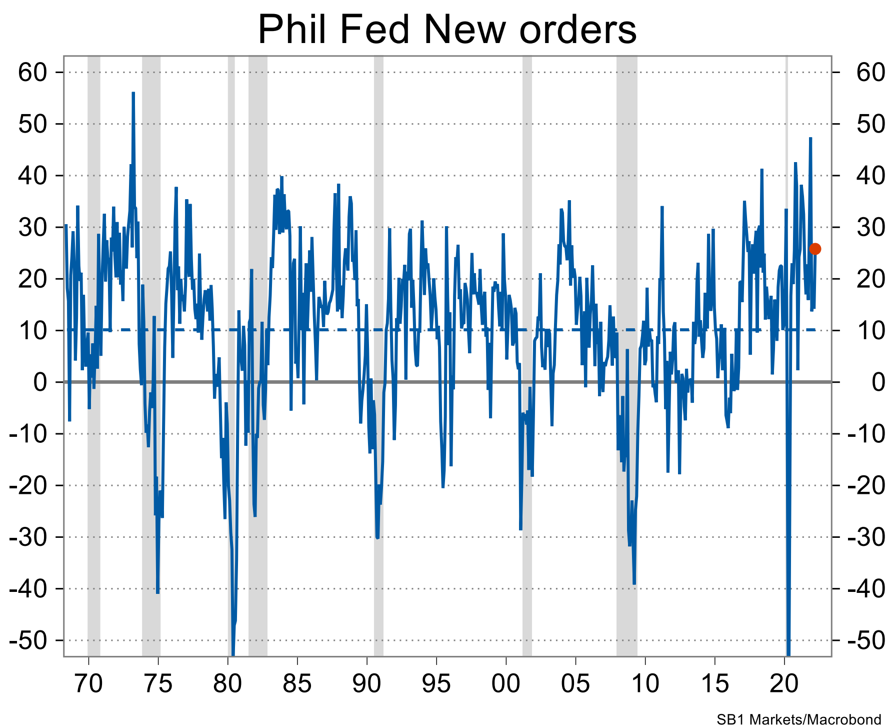


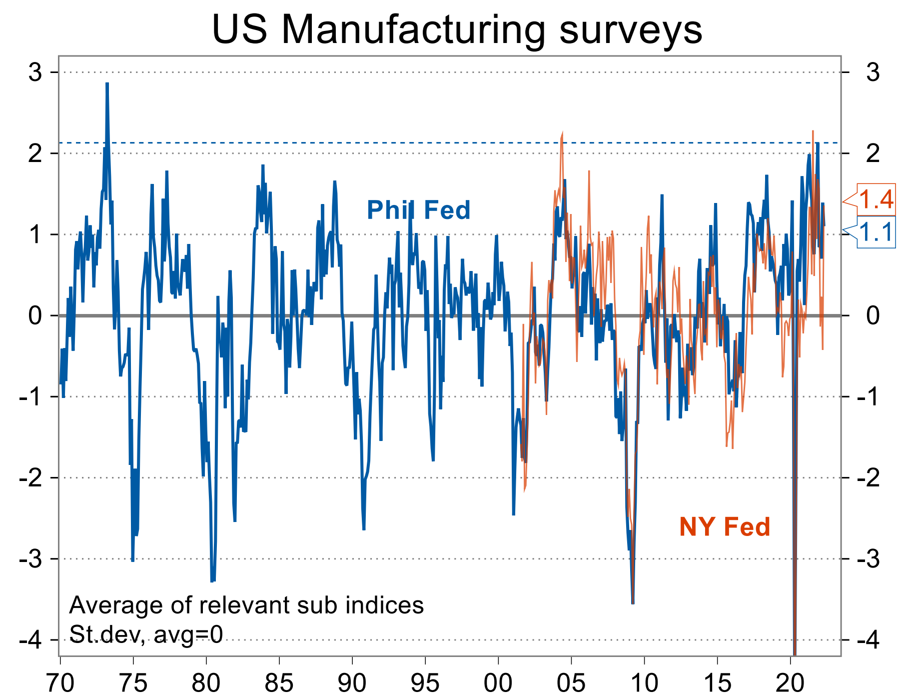
- ISM has not yet reported January data

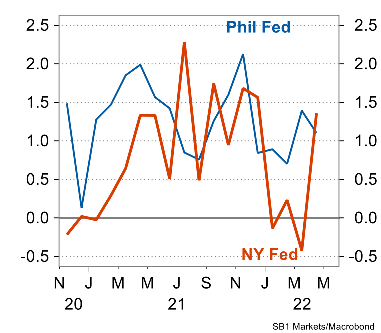
SpareBank 1 MARKETS

Philadelphia Fed’s manufacturing survey marginally down, NY Fed’s shot up

Mixed growth signals. Prices, delivery times up again.



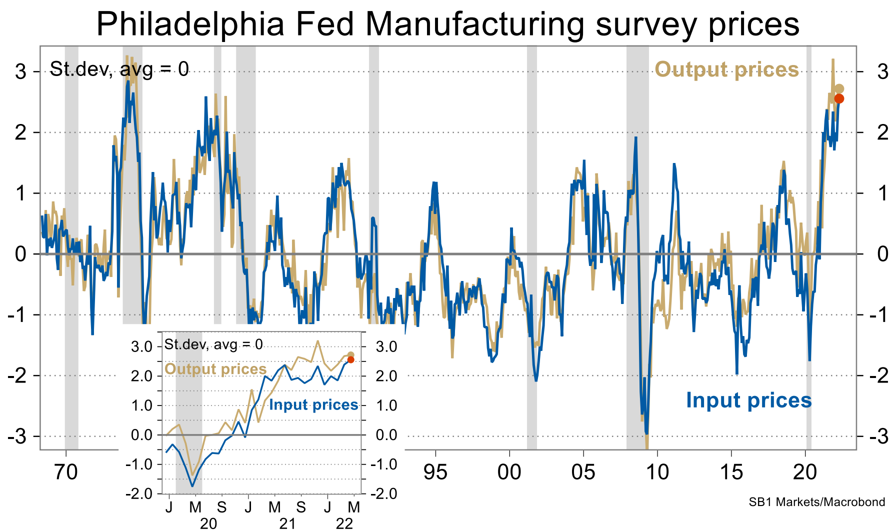


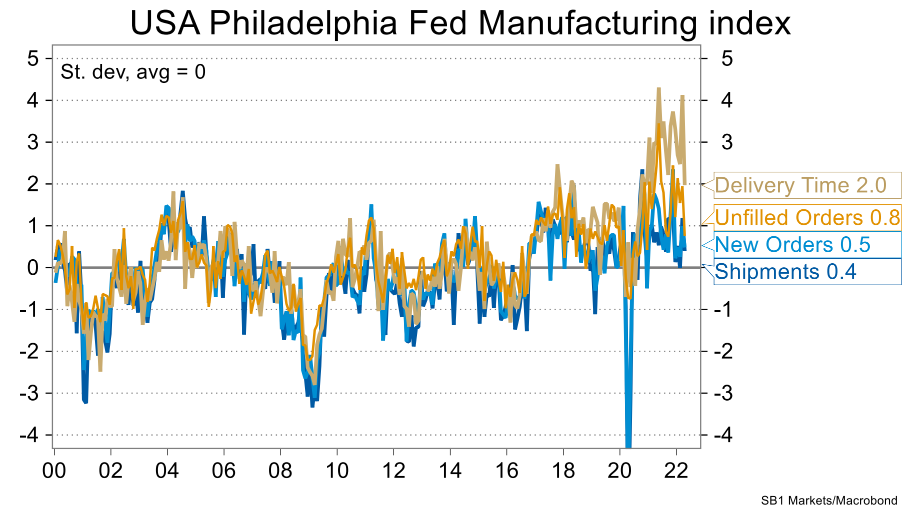


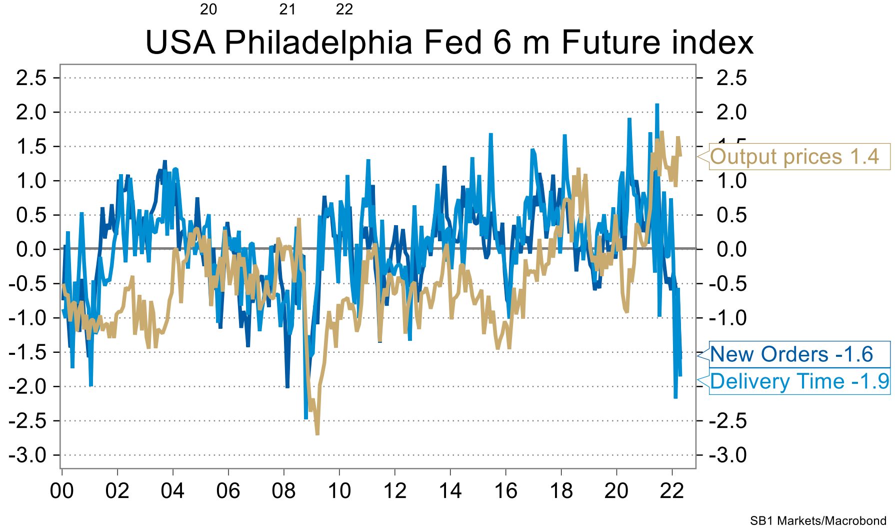
- Phil Fed up to 27.4 in March from 16, expected down to 14
  - » New orders, shipments up – delivery times, prices even faster up
- NY Fed down to -11.8 in March from 3.1, expected up to 6.4 – following the surising decline in February
  - » New orders, shipments reported down – delivery times up, prices received up to record high

Phil Fed: Delivery times eased – but so are orders & shipments too

Prices rose even faster, and input prices at the fastest pace since 1979. The outlook is really bad…



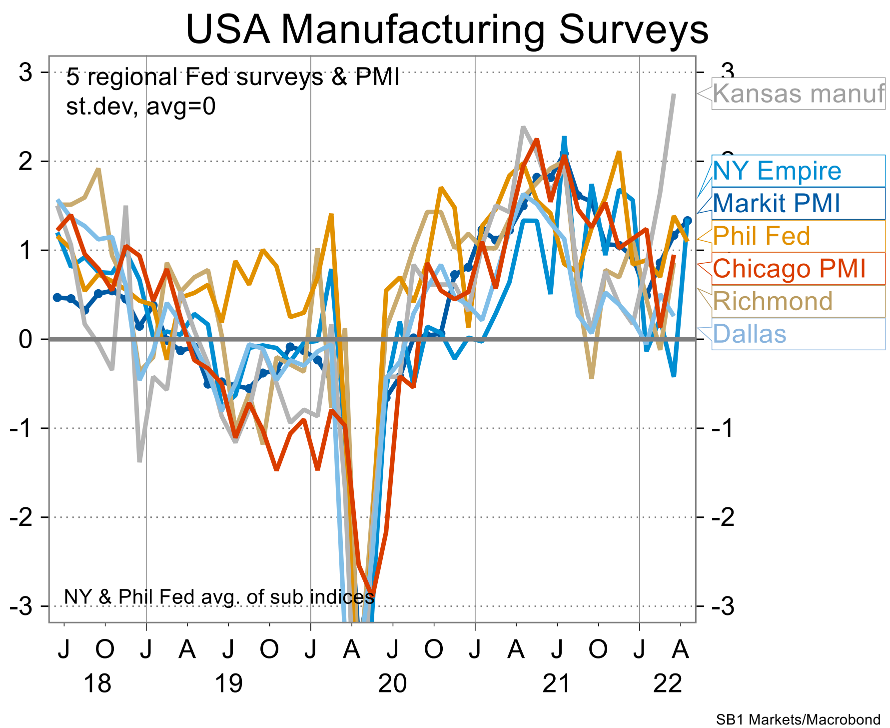


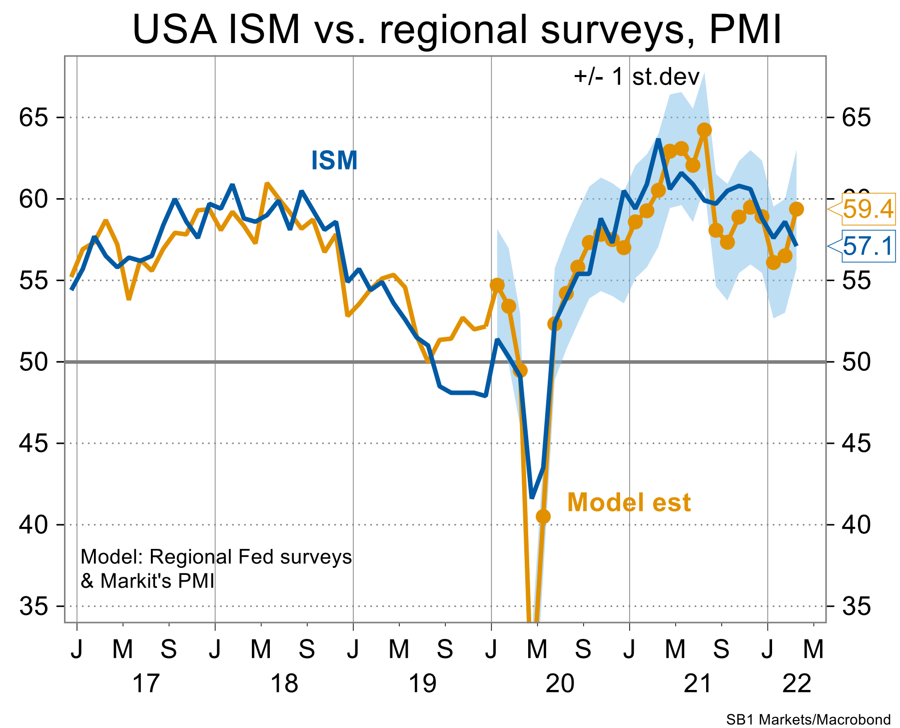


- Growth in **new orders and shipments** slowed further in April
- **The outlook:** Supply chains problems are expected to ease substantially but also the order inflow. Even so, output prices are expected to increase rapidly – and even more some in the March survey.
  - » A bit strange mix? Stagflation??

So far: April manufacturing indices signal a stronger ISM

In sum, a 2 p uptick in the ISM signalled, to above 59

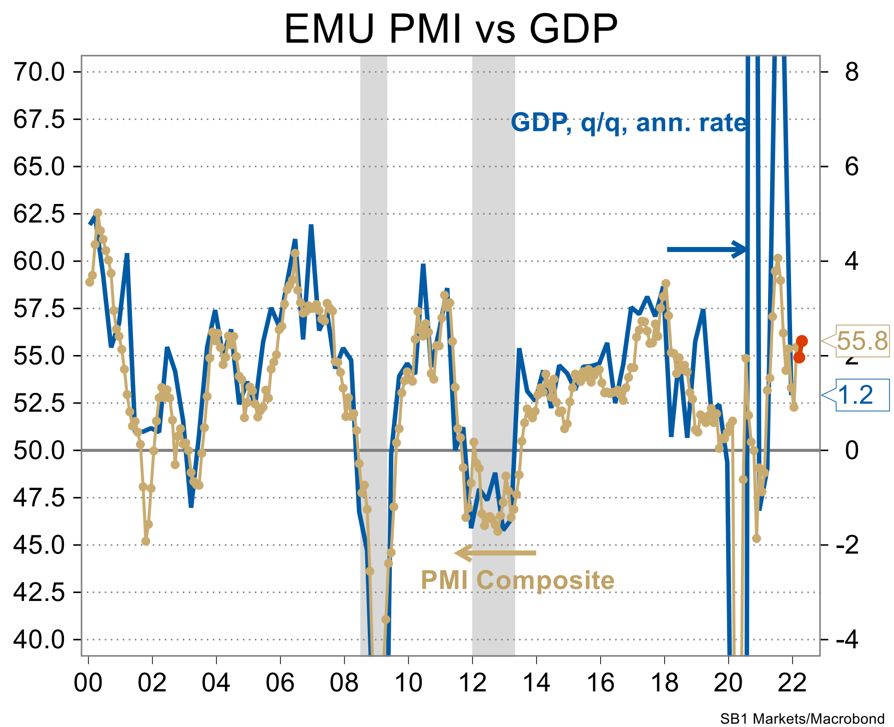


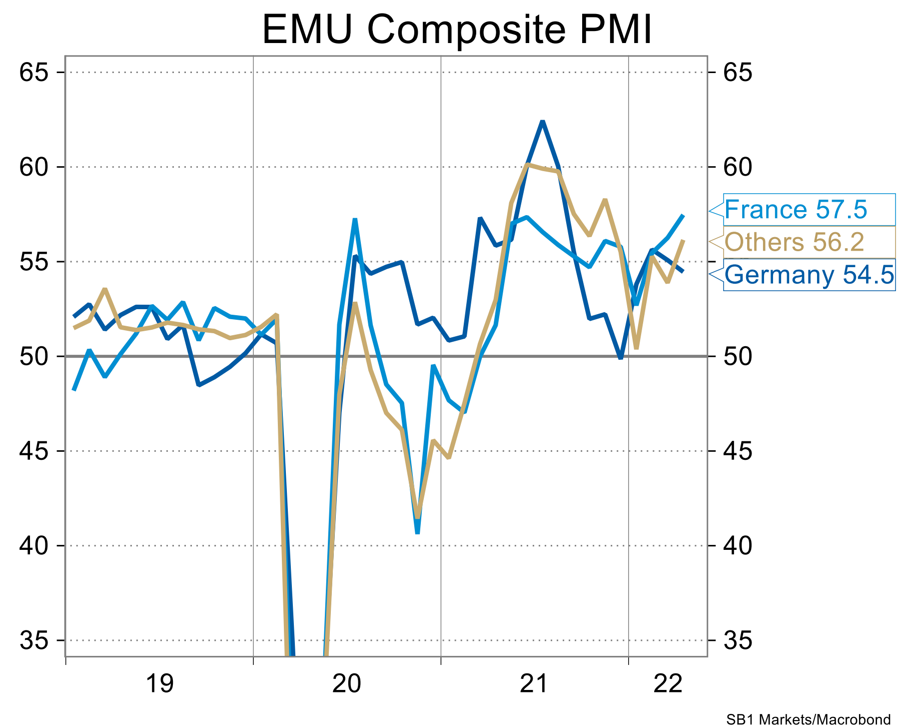


- The other regional surveys have not yet reported April data

The comp. PMI up 0.9 p to 55.8, exp. -1p to 53.9, services surprised at the upside

The (nuclear powered) French PMI further up, the (gas powered) German PMI further down

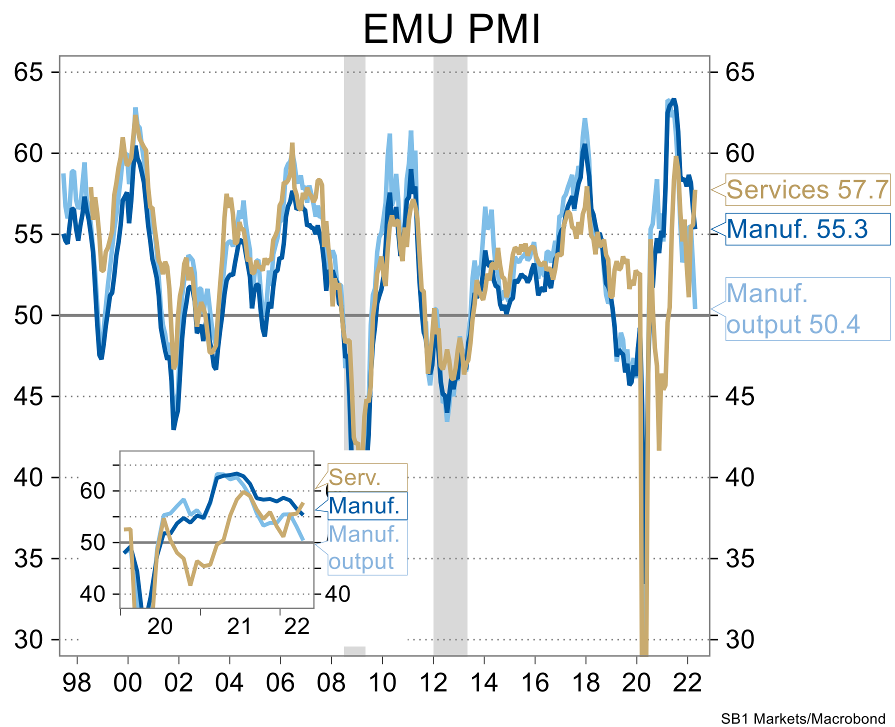


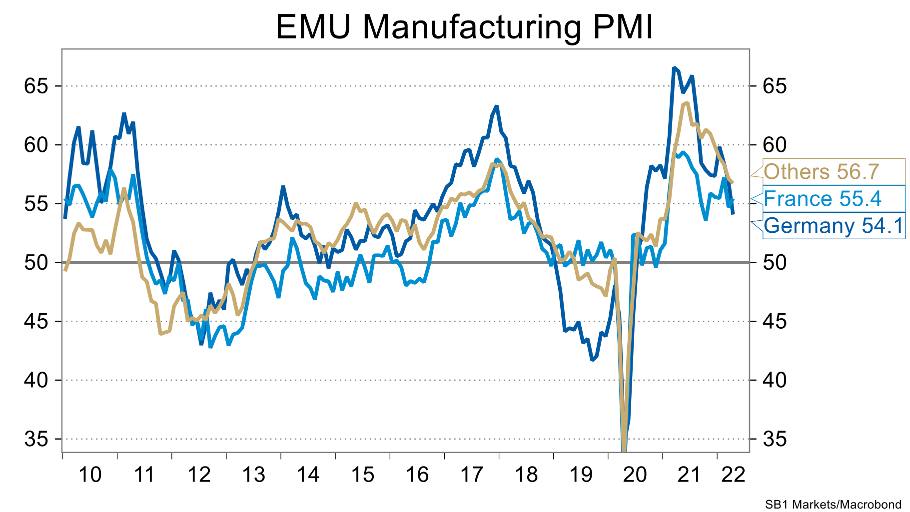


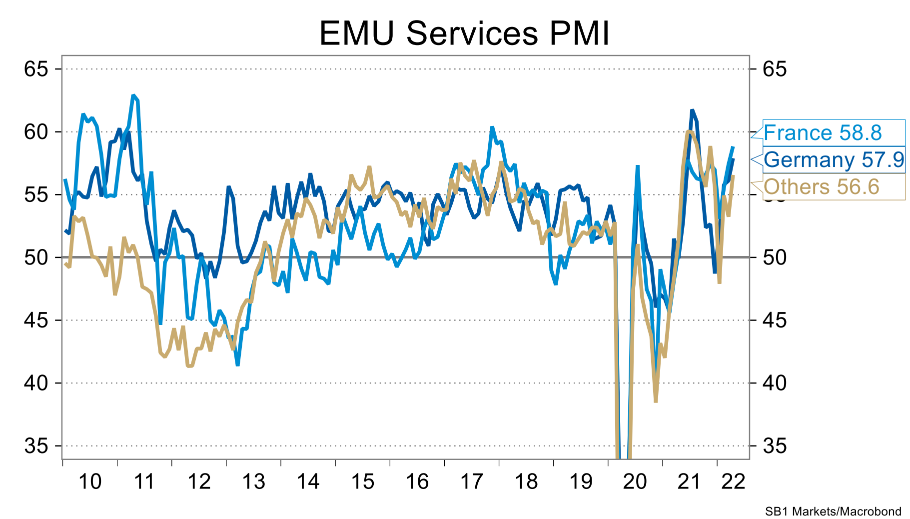
- **The composite PMI** gained 0.9 (vs the 0.6 p decline in March), while a further decline was expected. The index, which is well above average signals GDP growth at marginally above 2%
  - » The gain was in **services**, up 2.2 p to 58.3, a strong print, indicating that the post pandemic recovery in the sector is well underway
  - » **The manufacturing index** fell by 1.2 p to 55.3. The **output index** fell 2.7 p to 50.4, coming close to the contraction territory
- **Delivery times** fell, but prices increases accelerated – to the fastest pace ever, at least in the manufacturing sector

Manufacturing output is stalling while growth in services is accelerating

The manufacturing sector is probably starting to fell some impact of the war/sanctions

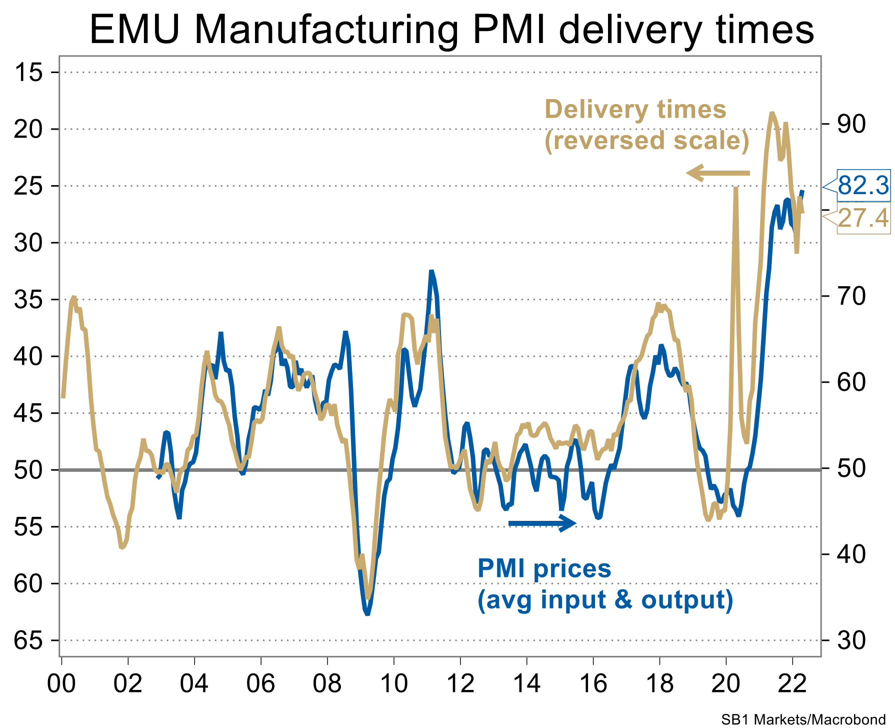






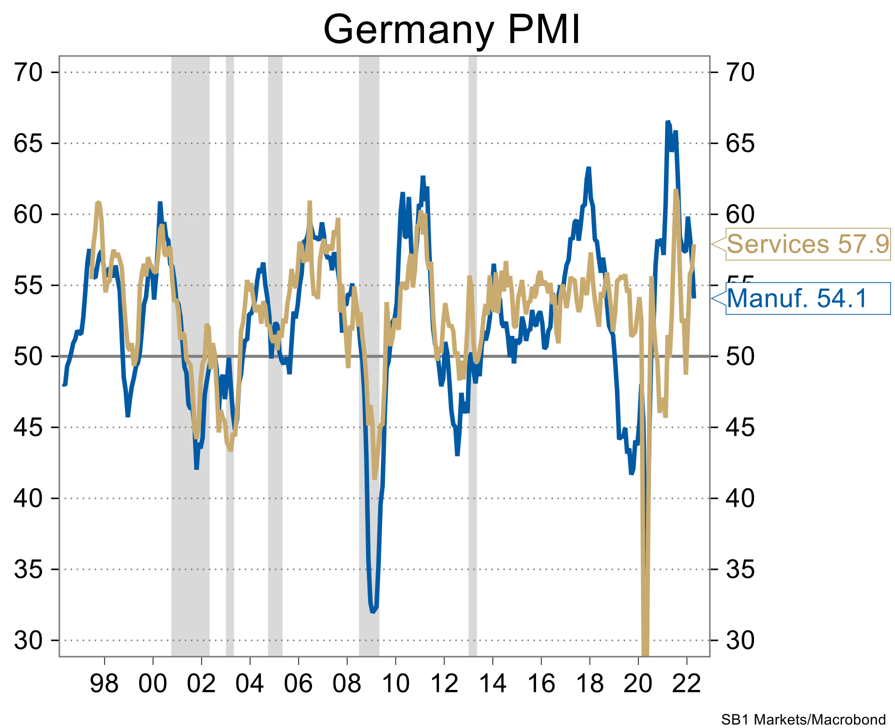
Record rapid price increases in the manufacturing sector

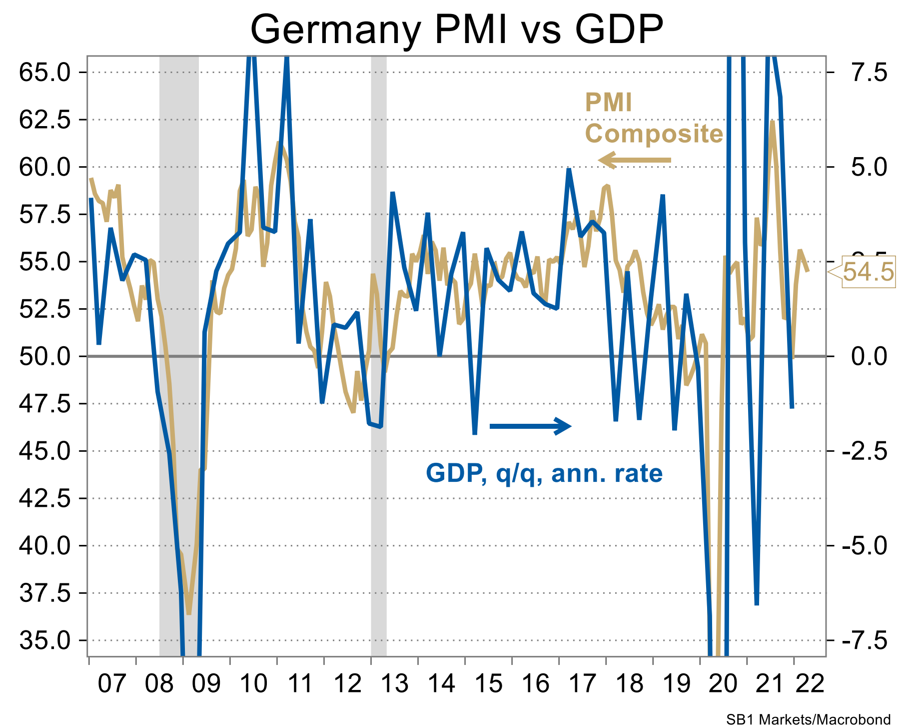
Even if the delivery index has come down from the peak. Not a good sign



Germany: The manufacturing PMI sharply down in April, services further up

The composite PMI down 0.6 p to 54.5 (exp. 54.1) → 2.5 % GDP growth signalled

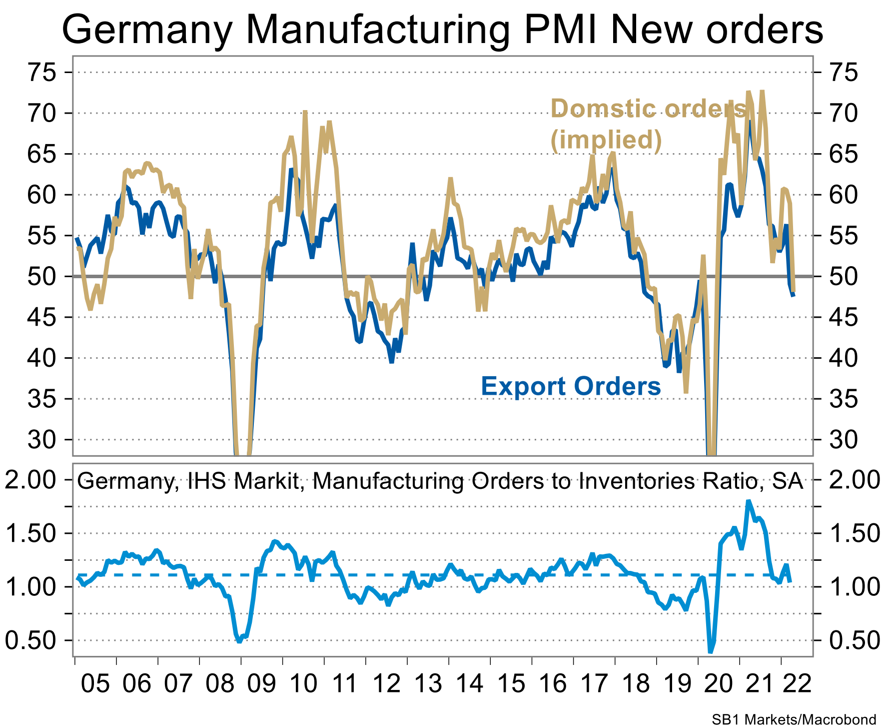




- **The composite PMI** was 0.4 p higher than expected
- **The manufacturing PMI** declined 2.8 p to 54.1, 0.4 weaker than expected. The order component felt due a decline in both domestic & export orders
- **The service sector PMI** gained 1.8 p, and was 2.6 p better than expected, at 57.9, the 3rd best print since 2011 (just July/Aug-21 even stronger)

Order growth into negative territory – both from abroad and at home

A warning sign that activity is the manufacturing sector now turns south



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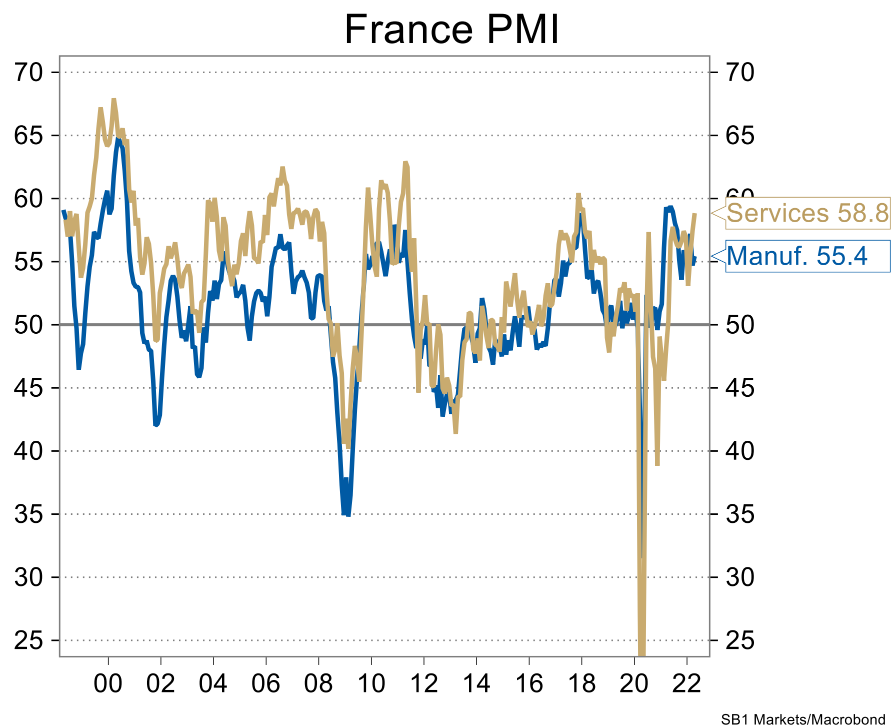
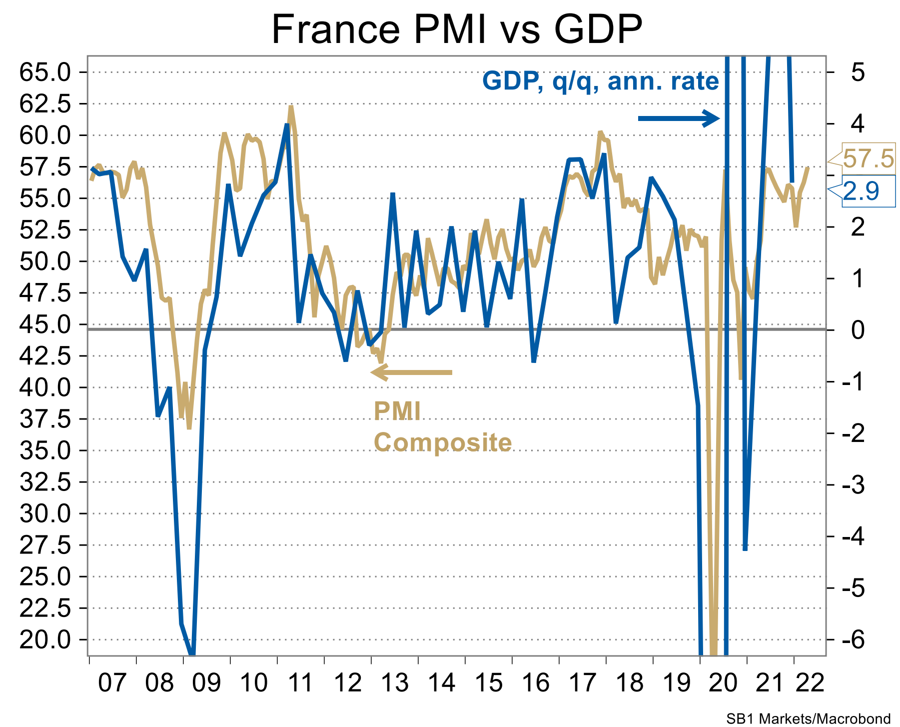
France: Services going even stronger in April, manufacturing a tad up too

The composite up 1.2 p to 55.5, best since 2017 (exp. down to 55.0) → 3% GDP growth is signalled





- The service sector PMI rose 1.8 p to 58.8, the best level since 2017

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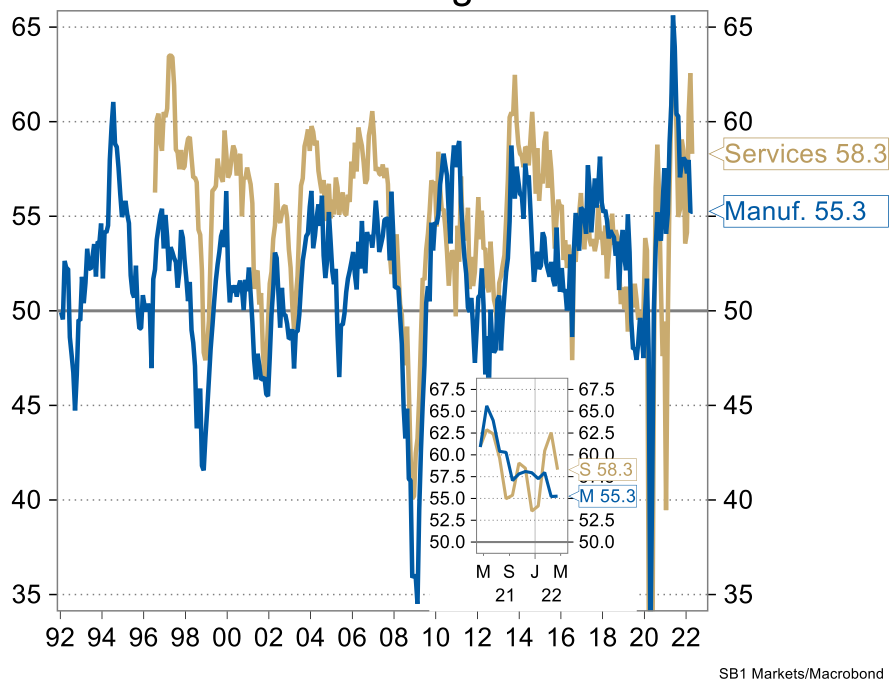
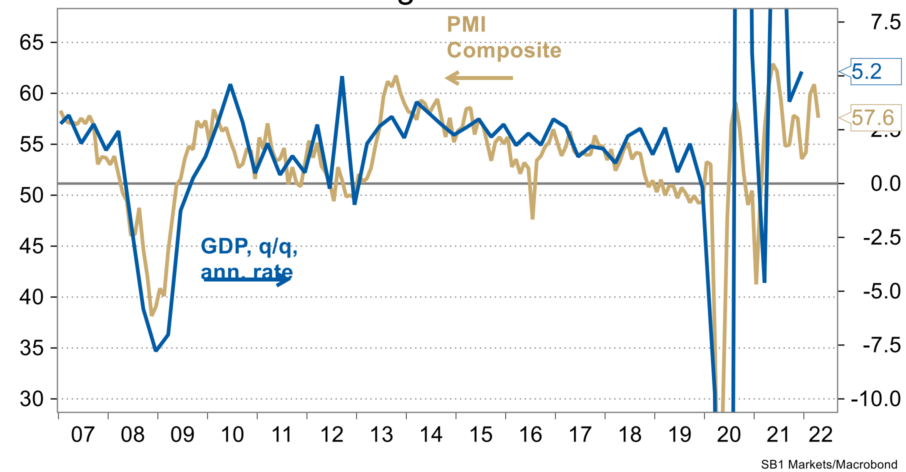
The PMIs in sum down in April but still at a high level: 57.6

Both manufacturing and services report less high growth. Delivery times down but manuf. prices UP!

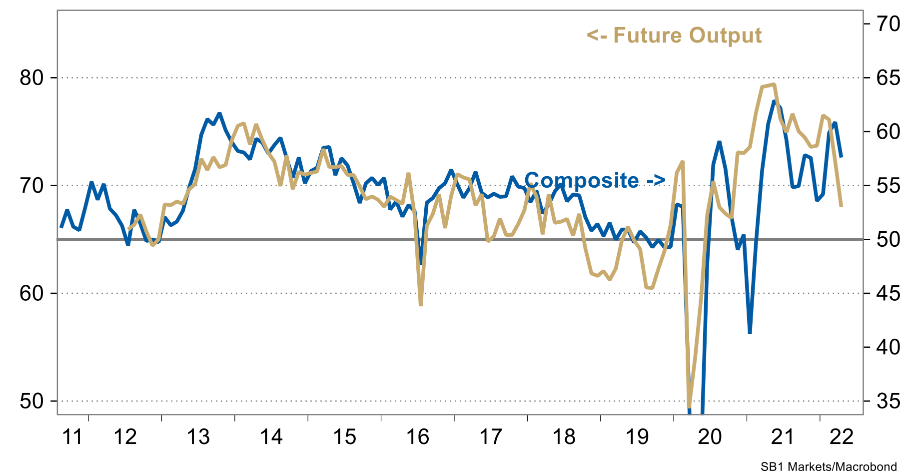
United Kingdom PMI



United Kingdom PMI vs GDP



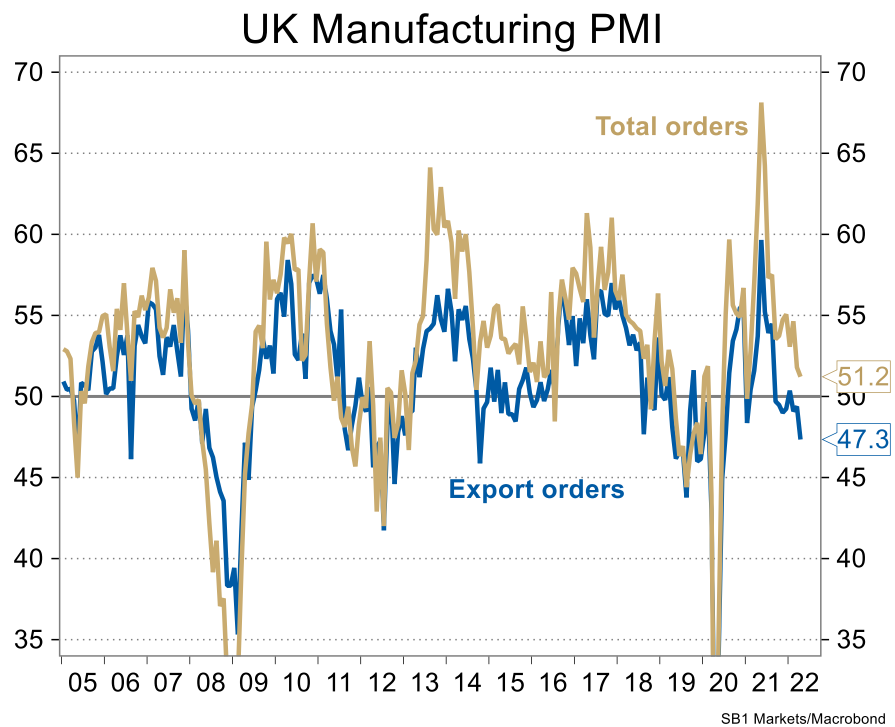
UK PMI Actual & future

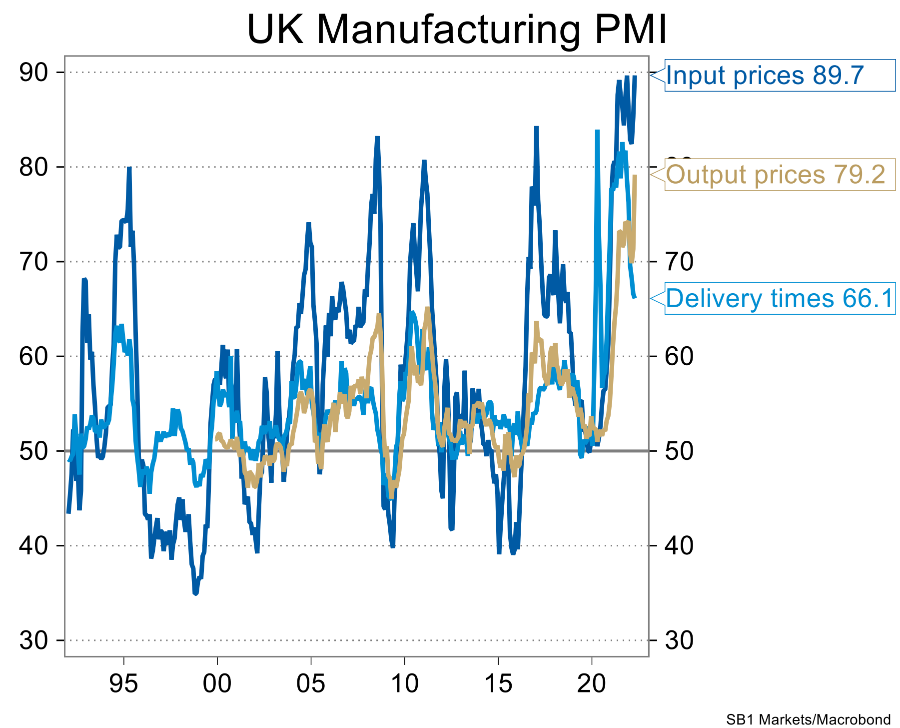


- **The manufacturing index added 0.1 p to** 55.3. The output index gained 2 p to 53.8 (following a 4.3 p drop in March)
- **The service sector** declined 4.3 p, 1.7 more than expected. The remaining level, 58.3, still signals very strong growth in services
- The composite PMI lost 3.3 p, but 57.6 is still a strong level
- **The future index** fell rapidly in April too, likely due to concerns vs. the longer terms impacts of the war in Ukraine

Order growth is slowing (but not from abroad), delivery times index down

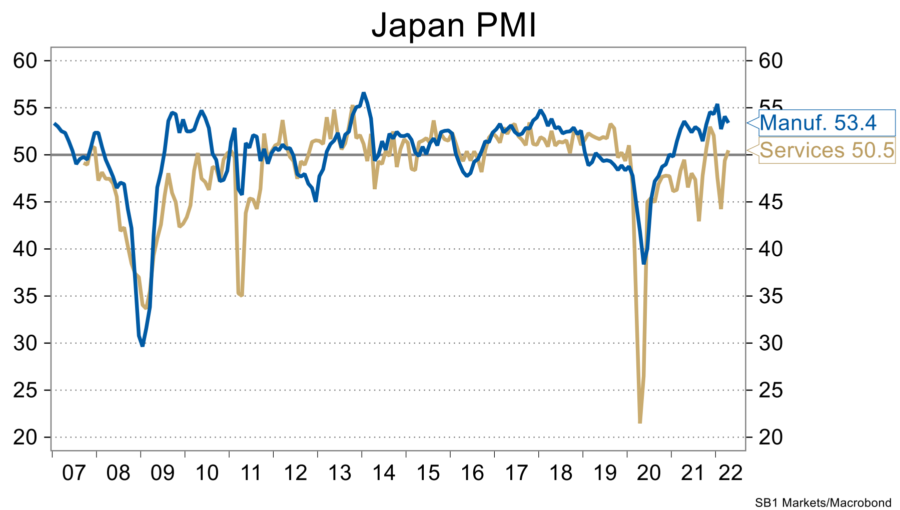
… but input prices are reported even faster up in April, output prices up to ATH (by far)

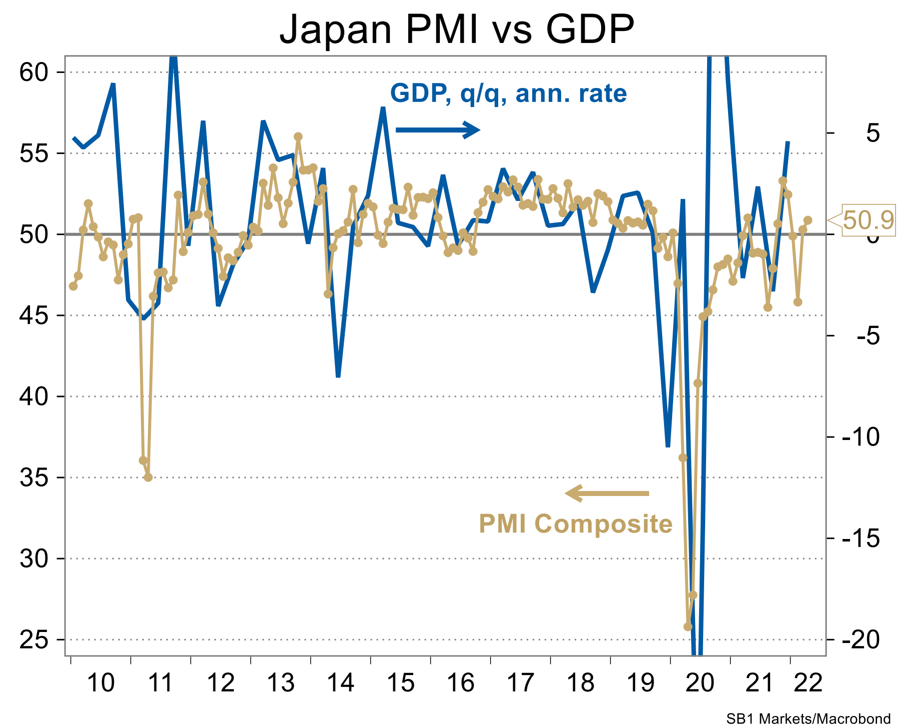


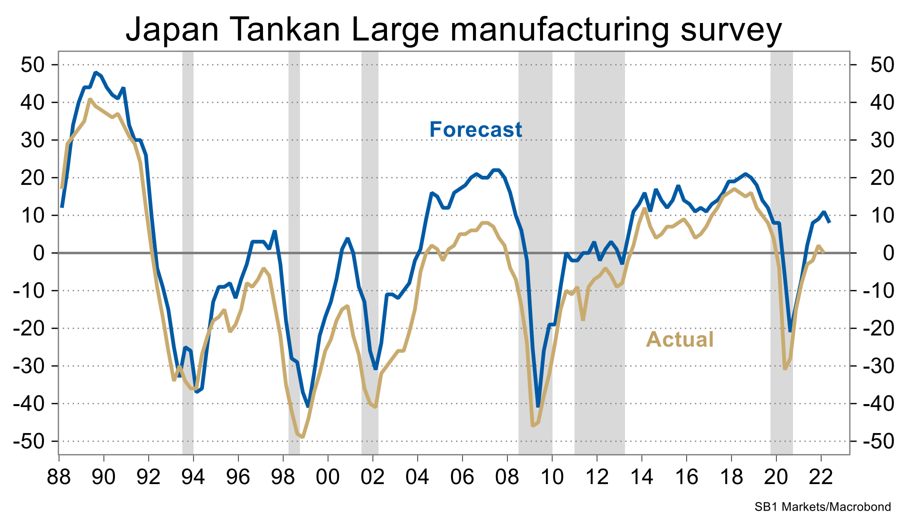


The PMIs mixed but in sum further up, but no growth signalled

The service sector PMI recovered, and crossed the 50-line. Manufacturing at an OK level

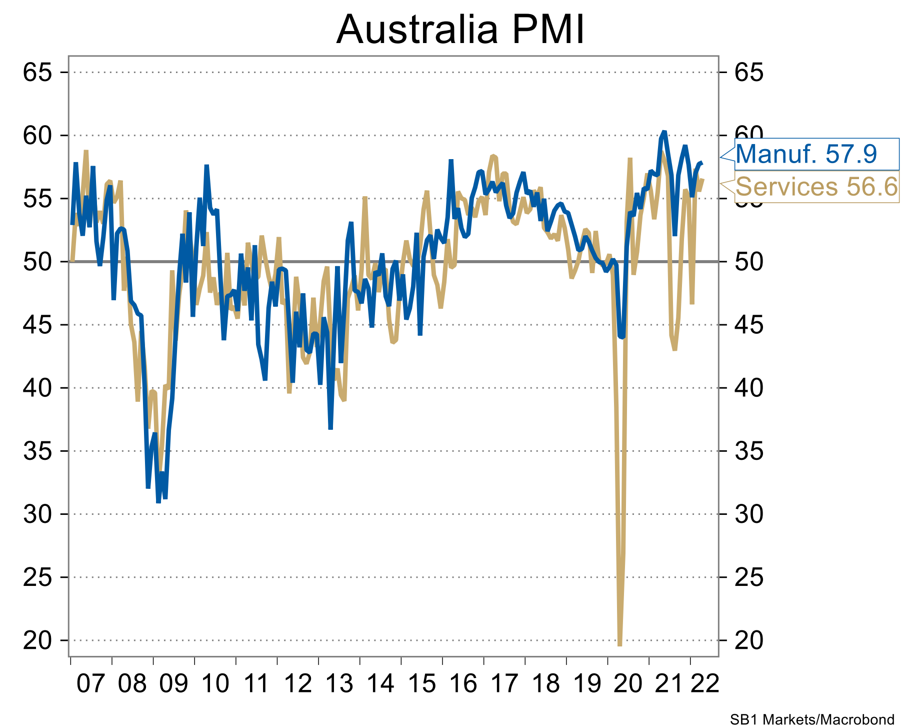


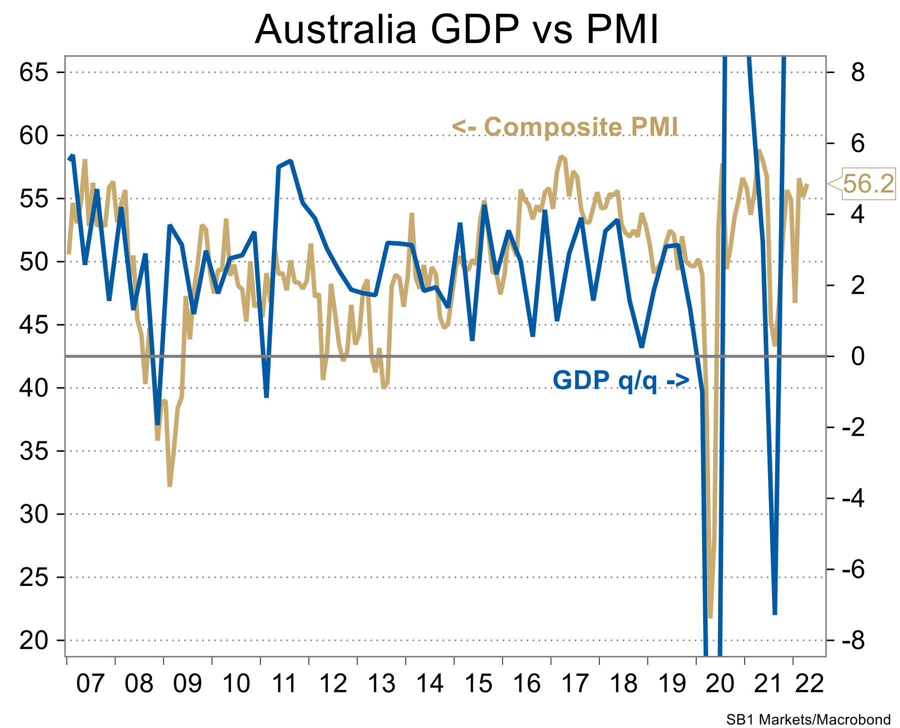




Still full speed ahead in Australia, the both manuf. & services at the 56-57 level

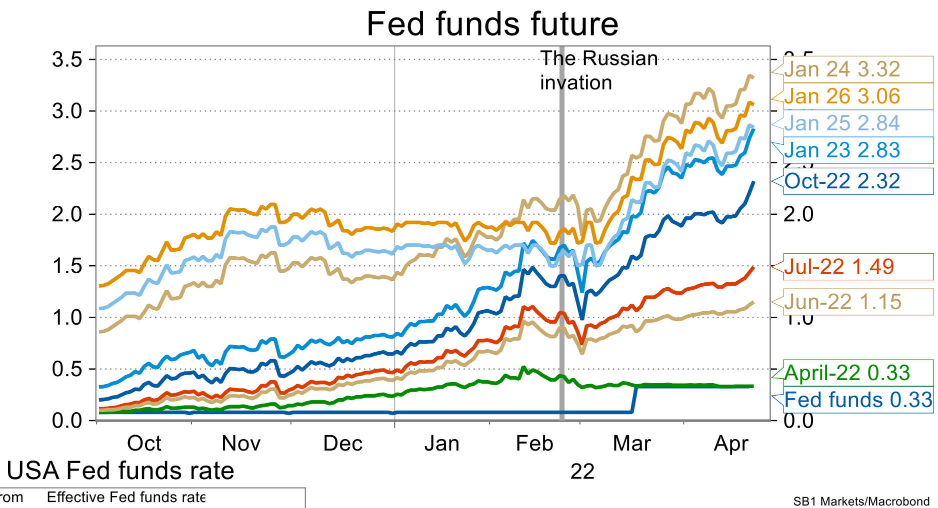
Which is not far below previous cycle peaks

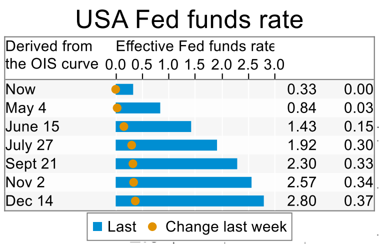


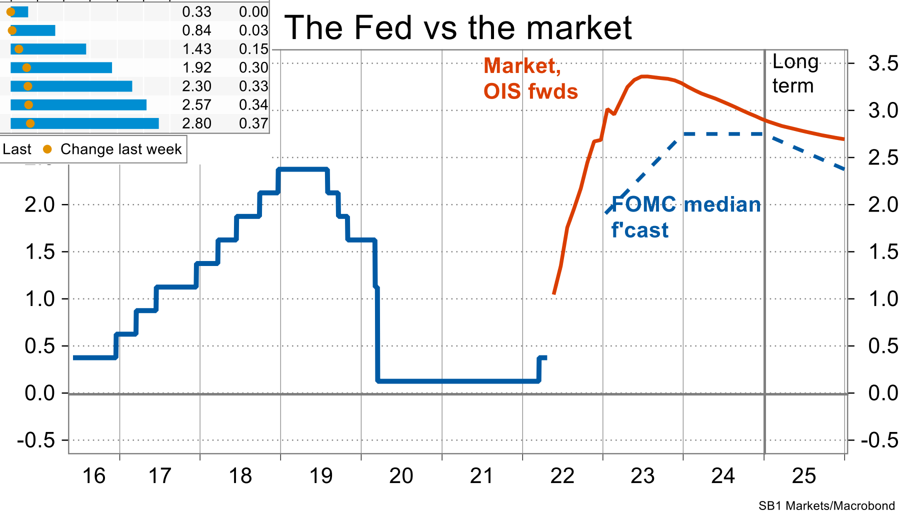


Powell talked interest expectations up once more

… and Fed's Beige book (the network survey) explained why. But there were some positive signs too





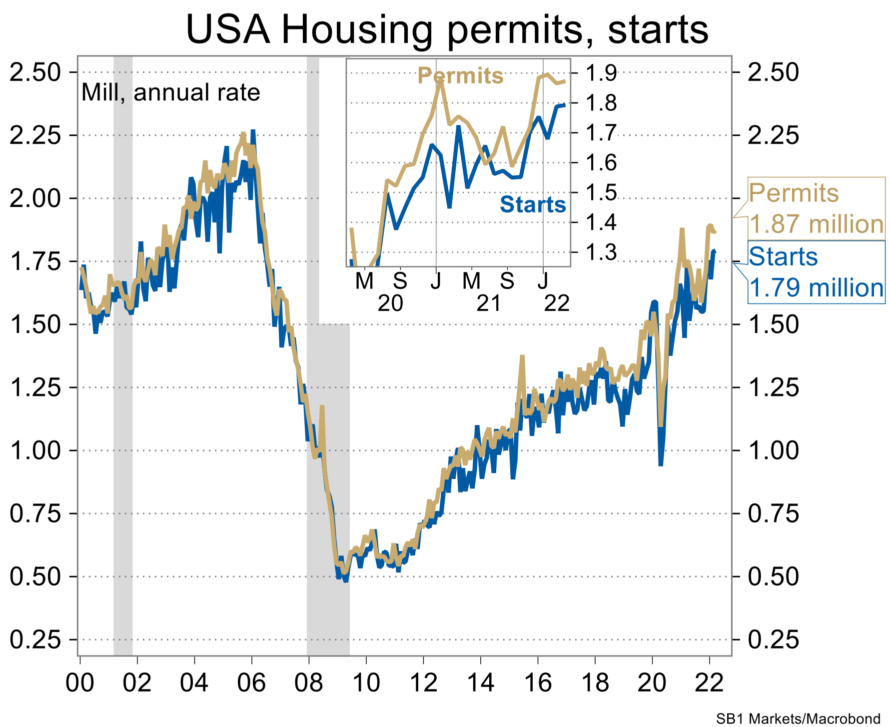


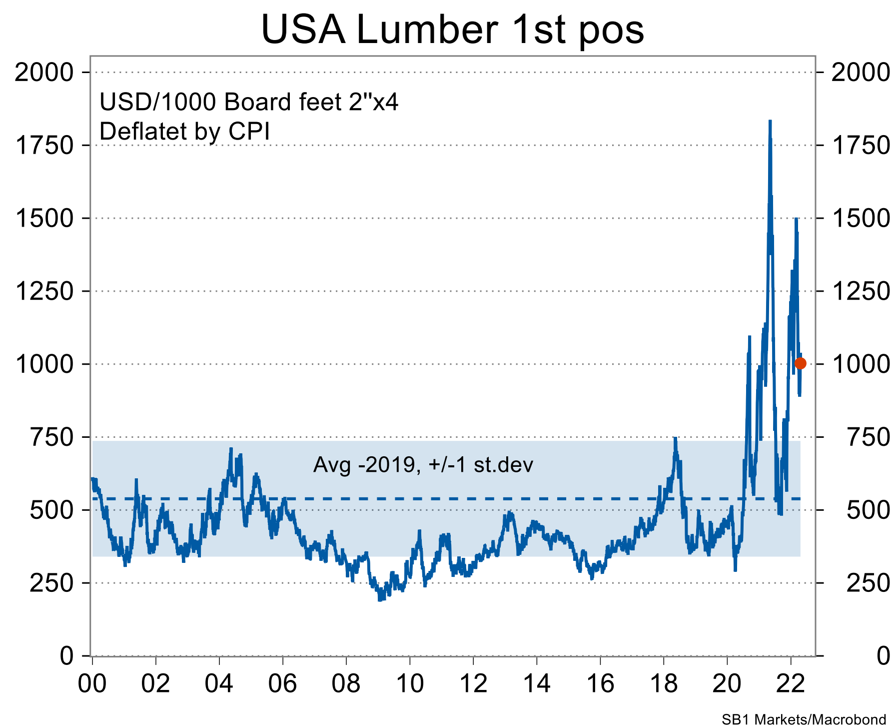
- **Fed's governor Powell** confirmed last Thursday what as already priced into the market, that Fed is likely to hike by 50 bps at the upcoming May meeting. Another FOMC member did not exclude a 75 bps hike. In addition, the bank will announce the pace of the QT, the reversal of the QE program
- **Fed's Beige book**, its 'Reginal Network', report moderate growth through the 6 weeks to early April. Consumer spending grew as Covid cases fell and restrictions were eased. The manufacturing sector report solid activity but supply chain backlogs, labour market tightness, and elevated input costs. Commercial real estate activity was accelerating, while demand in the residential market is strong but supply is limited. Thus, no impact of the surge in mortgage rates was recognised
- Employment is increasing, even if hiring is held back by lack of labour but several districts reported signs of modest improvements in worker availability. Both lack of labour and high inflation fuelled high wage growth but some contacts report early sign of slower wage growth
- Inflationary pressures remained strong for all the known reasons, at are expected to remain so. As demand is strong, companies are able to pass through input cost increases to customers. However, some few contacts report that high prices impacted sales negatively
- The market expect the bank to lift the signal rate by 50 bps. The expectations for the coming meetings are moving targets, the Dec-22 climbed by 37 bps to 2.8% last week!

Blue: 'rates down'. Red: 'rates up'

Building permits, housing starts unchanged in March, trend is still up

Both starts and permits are at the highest level since 2006

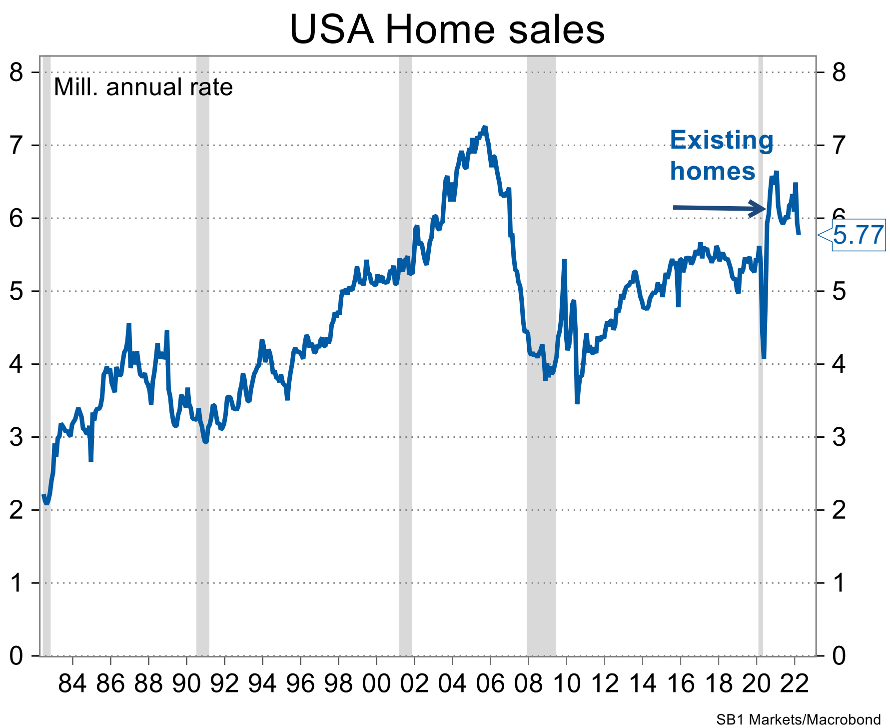


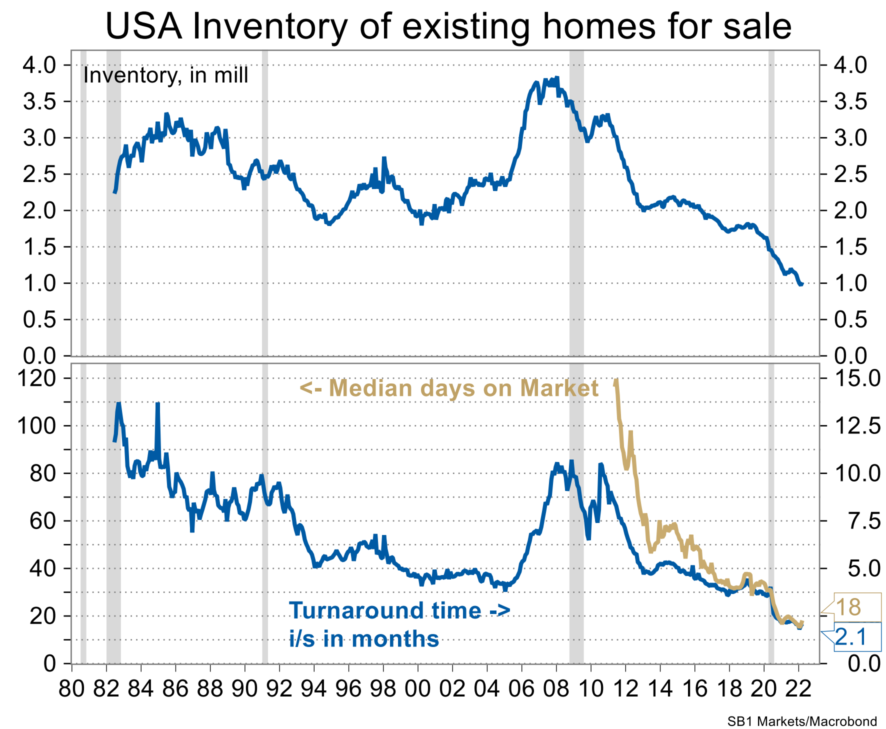


- **Housing starts** rose marginally to 1.79'', expected down to 1.75. Februar and March are the 2 best months since 2006
- **Building permits** also rose marginally, to 1.87 mill, expected down to 1.82''. Permits have been close to this level in Q1
- **Given the strong end of the year, the trend is still slightly up.** The level is some 15% above the pre-pandemic level. However, given the incredible strong existing home market, and soaring prices, starts should normally have strengthened further, as mortgage rates have been low until recently and the economy has been strong, with a very low unemployment rate
- **Supply & capacity problems and higher cost** in the building sector may explain the lack of response. Lumber (2''x4) prices have been high but even after the decline recent days prices are 2x the average price level since 2000

Existing home sales down in March, but the inventory is extreme low, prices rose

So far, lack of supply has probably been more important for lower sales than the rise in mortg. rates

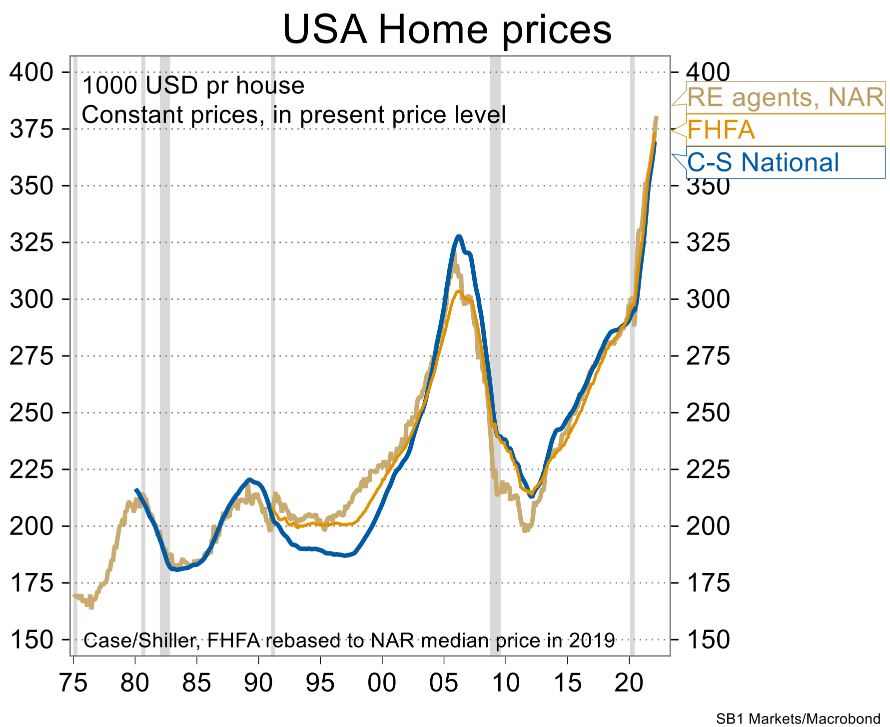


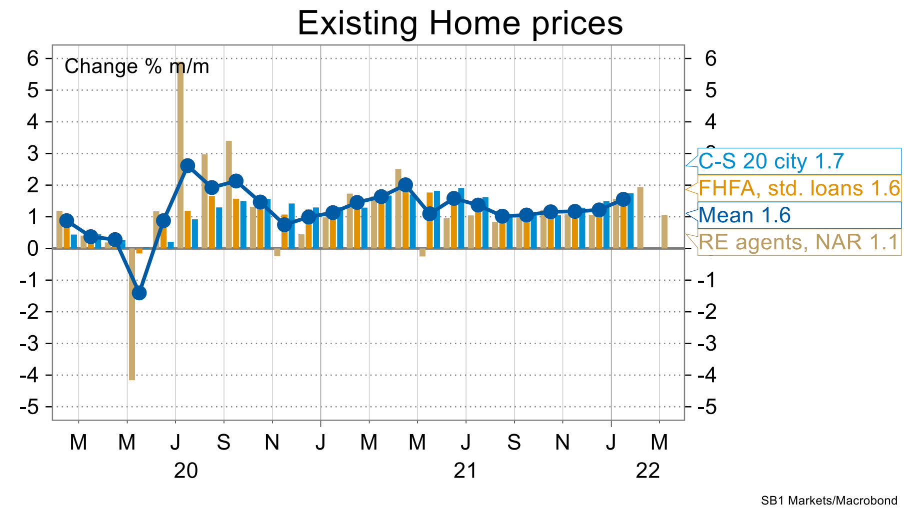


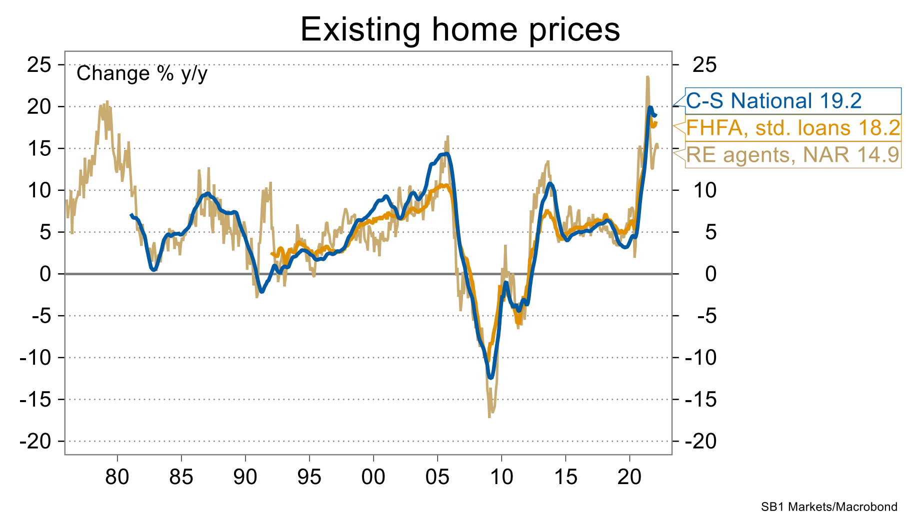
- Sales of **existing homes** fell to 5.77 mill (annualised rate), from 6.02 mill in February, slightly better than expected. Sales have fallen 11% from local peak in January, and are probably trending down – from a high level in mid-20
- **The inventory of unsold homes** rose marginally in March, up from ATL in February
  - » The inventory equals 2.1 months of sales (up from 2.1 last month). During the 2005 boom, the i/s ratio was 4 months, in bad times it has been as high as 10 months
  - » The median time on the market for those homes sold is just 18 days (up from 16 last month), down from 30 days before the pandemic (and 120 days in 2011!)
- **Prices** rose 1.0% m/m in March, down from an upward revised 2% in Feb (but in reality covering transactions agreed up in February). The annual rate fell 0.7 pp to 14.9%. Other indices confirm a faster price appreciation, and annual rates are 17 - 19%. Prices are normally lagging sales by almost 1 year
- **Mortgage rates** have shot up since February (when March existing sales closings were agreed upon). Some reports signal a slowdown in activity. So far, declining sales could have been explained by lack of supply, as prices have been soaring

Existing home prices up 1% in March (or really in Feb). What now?

Mortgage rates have exploded since February – will the housing market stand it?



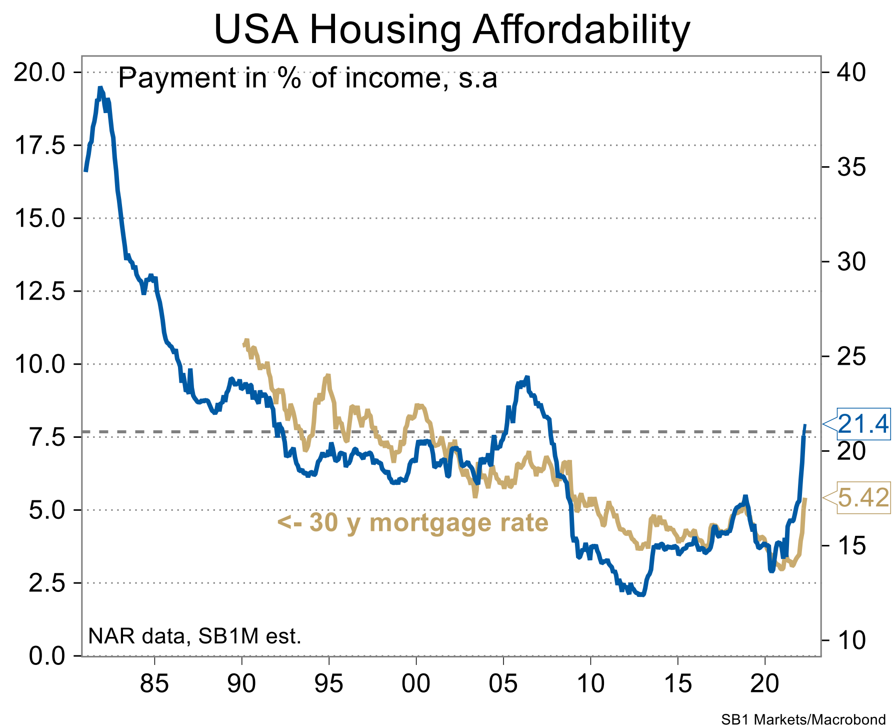


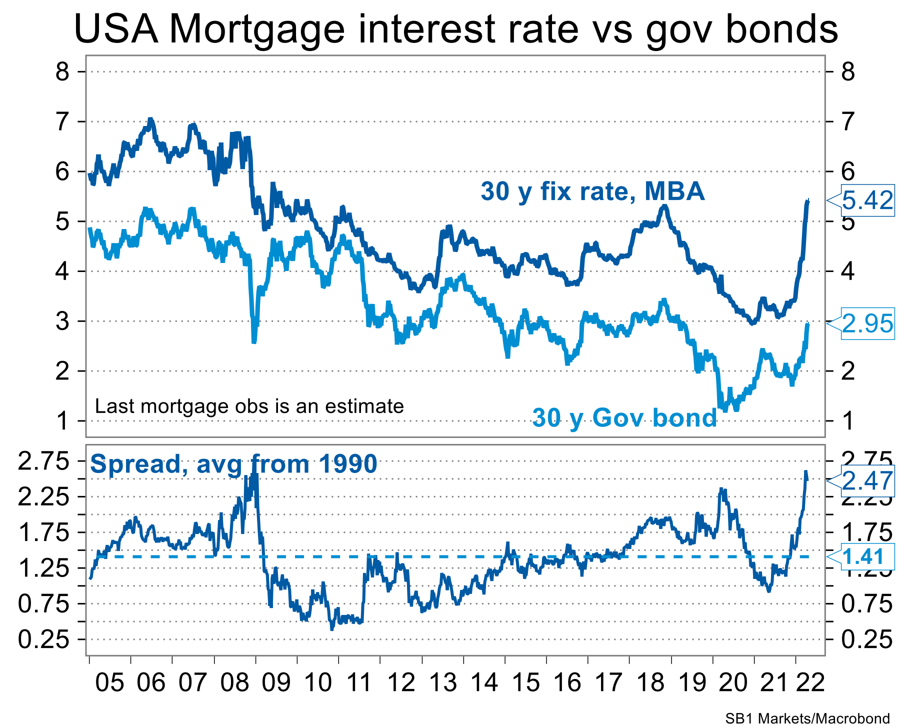


- **Prices** rose 1.1% m/m in March, according to the realtors, down from almost 2% in Feb (revised up from 1.5%). The annual rate fell 0.8 pp to 14.9%. These prices covers transactions agreed upon in February – and since then the mortgage rate has climbed more than 1 pp. There are some reports on a slowing housing marked
- **Other price indices** confirm that the housing market has been red hot; monthly price increase trended upwards during the autumn. Prices are up 17 – 19% (an these indices are much more precise than the raw measure from the realtors). However: These sats are even more outdated than the realtors price index

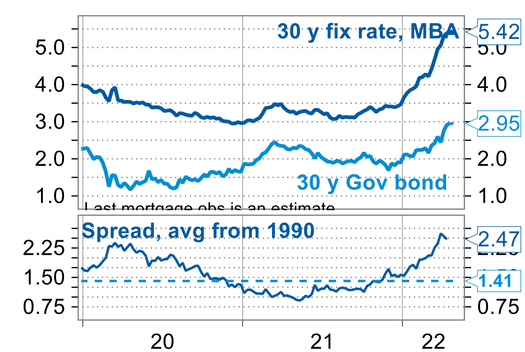
The least affordable housing market since 2008

Prices are up 33% since before the pandemic, the mortgage rate is up 35!



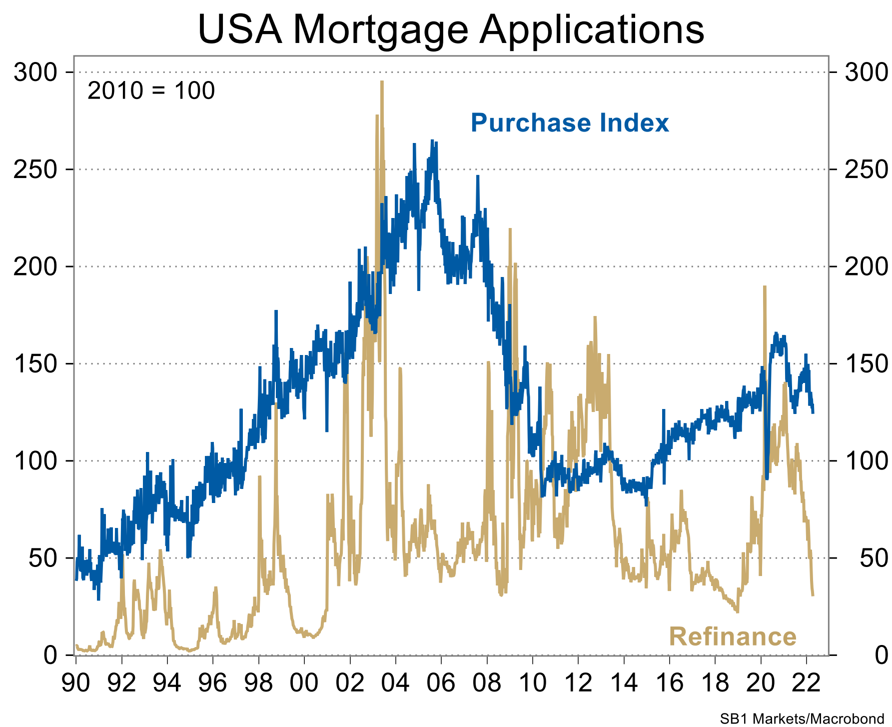


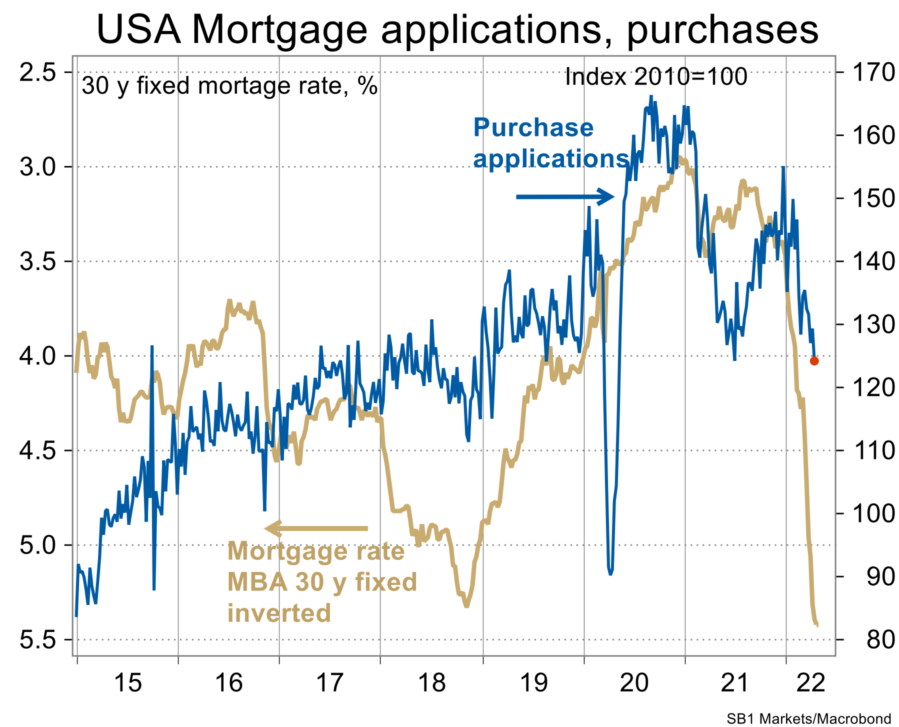
- **The 30 y fixed mortgage rate** has climbed to 5.4% (effective rate) from 3.0% last summer, and from 4% in early 2020 (or by 32%)
  - » The mortgage rate has climbed MUCH faster than the 30 y Gov bond rate. The spread has widened to 247 bps from 91 at the bottom last spring and it is far above the 140 bps average – and among the highest in modern times
- The **Federal Reserve** has ended its mortgage backed bonds buying campaign - <u>and signals eagerness to reduce its holdings, which very likely explains the steep increase in the spread vs the treasury bond</u>
  - » The central bank has funded most of the housing marked during the pandemic, at least until mortgage lending shot up through 2021



Mortgage rates are up – and demand for new mortgages may be waning

Applications fell further last week – and finally we can see a downturn worth talking about

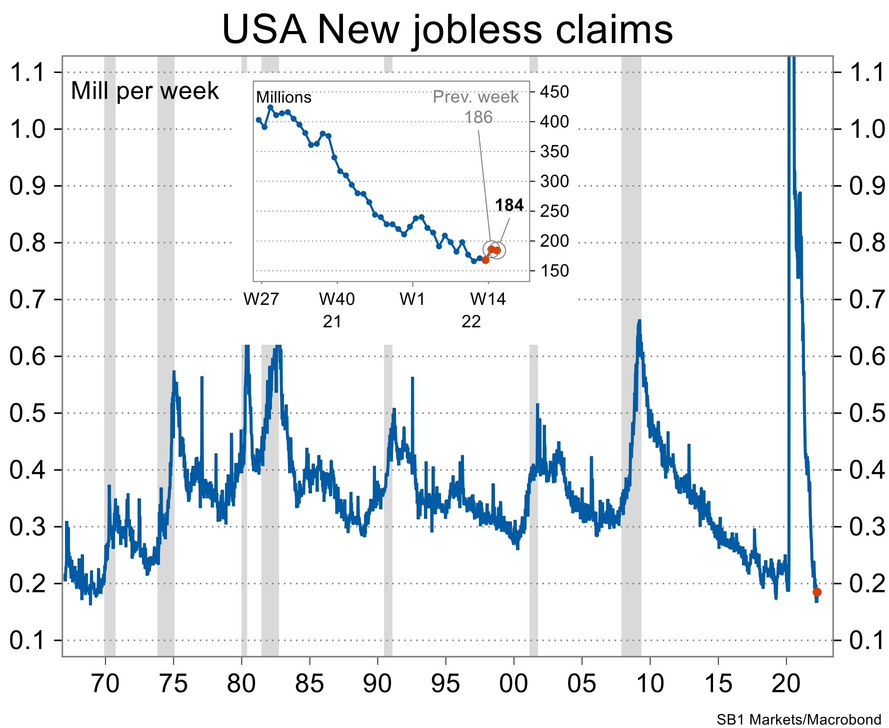


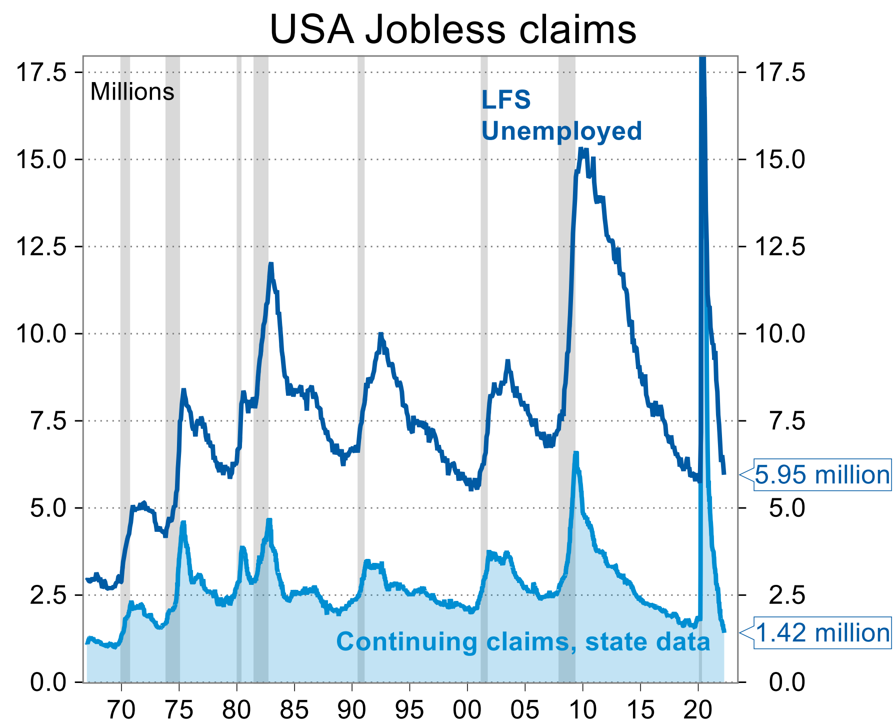


- However, the decline in applications for new mortgages is not jet dramatic, still just some 15%, and the level is close to the pre-pandemic level
- In addition, the correlations between mortgage rates and home sales or prices are far from perfect

New jobless claims remain well below 200’, a very low inflow

Continued claims fell further – to the lowest level since early 1970’ies



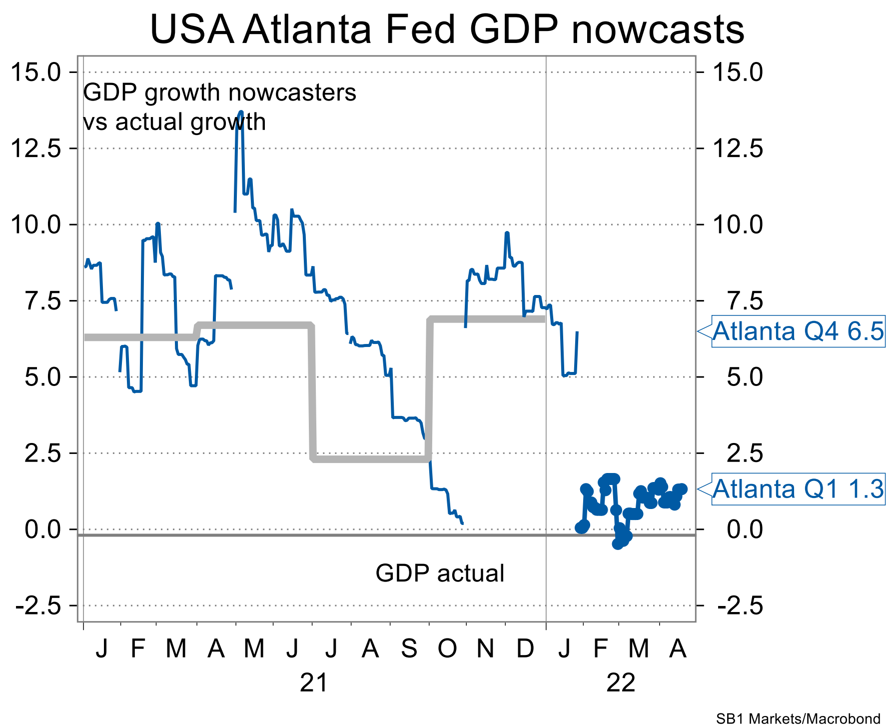


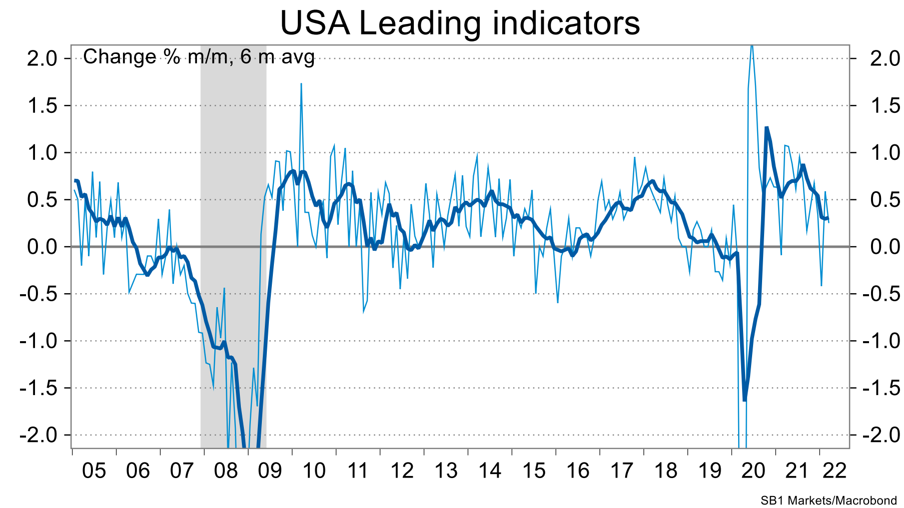
- **New jobless claims** fell 2’ in week 15 to 184’. Recent weeks, the inflow has been at the lowest since 1968, when the labour force was 2 times larger than today
- **Ordinary continuing claims** declined by 58’ to 1.42 mill in week 14
- The **labour market** is extremely tight

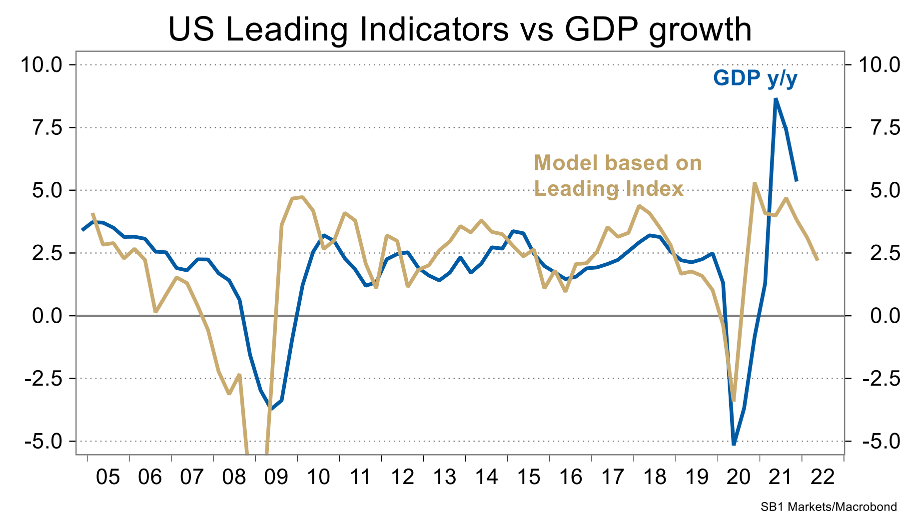
SpareBank 1 MARKETS

Atlanta Fed's nowcaster suggests 1.3% growth in Q1, leading indicators 2%+

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





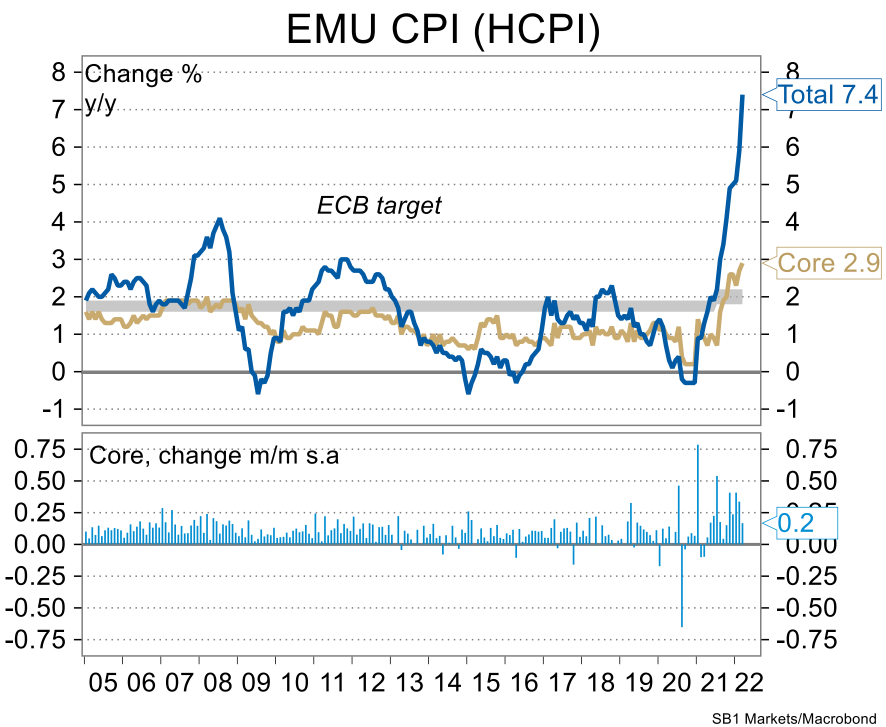


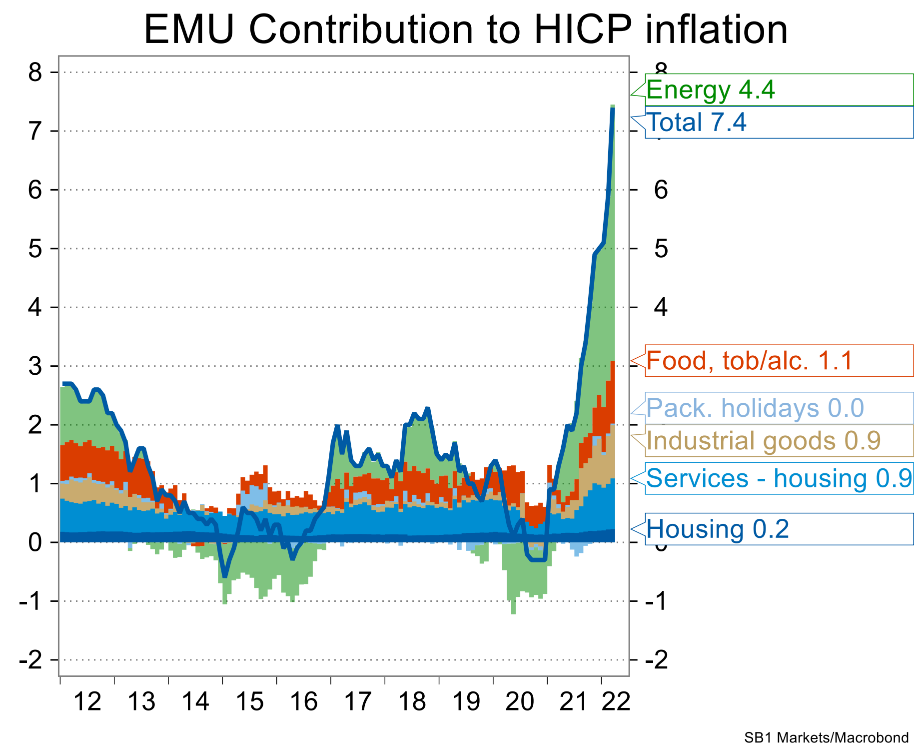
- Conference Board's leading indicators have been drifting downwards from early 2021 but still signal growth at trend

SpareBank 1 MARKETS

Eurozone inflation 0.1 pp lower than the first estimate, headline still up 7.4% y/y

Core prices up 0.2% m/m, 2.9%. Energy is the dominating factor

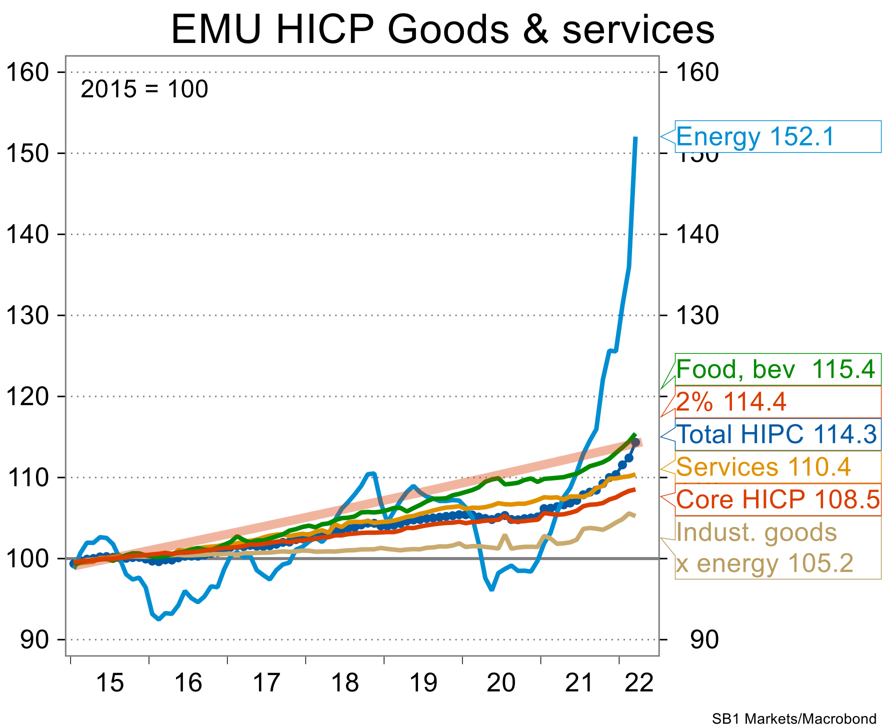


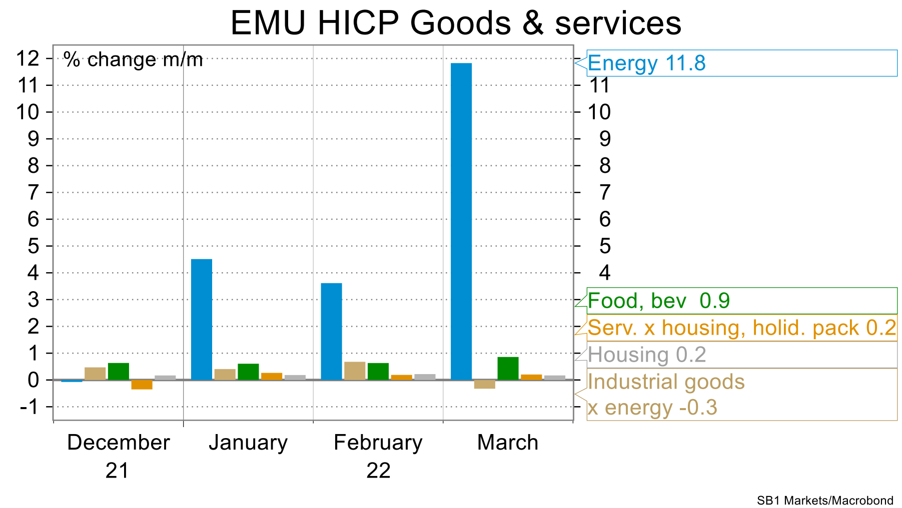


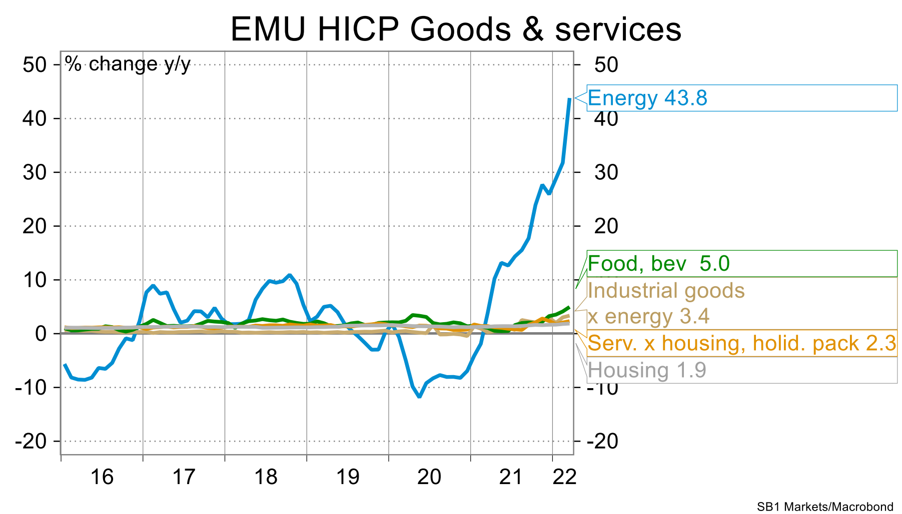
- **The headline HICP** rose 1.7% m/m, more than even before, and the annual rate is unprecedented too
  - » Energy prices rose 11.8% - and they are up 44% y/y, contributing 4.4 pp to the headline 7.4% growth rate. Food prices rose 0.9%, and are up 5.0% y/y
- **Core prices** rose 0.3% m/m, in line with the monthly increases past months – implying an underlying rate at above 3.5%
- Tax changes have no material impact on the HICP now

Inflation: It is somewhat more than energy

But energy is still the BIG story – and prices rose 12% m/m in February – and are up 44% y/y



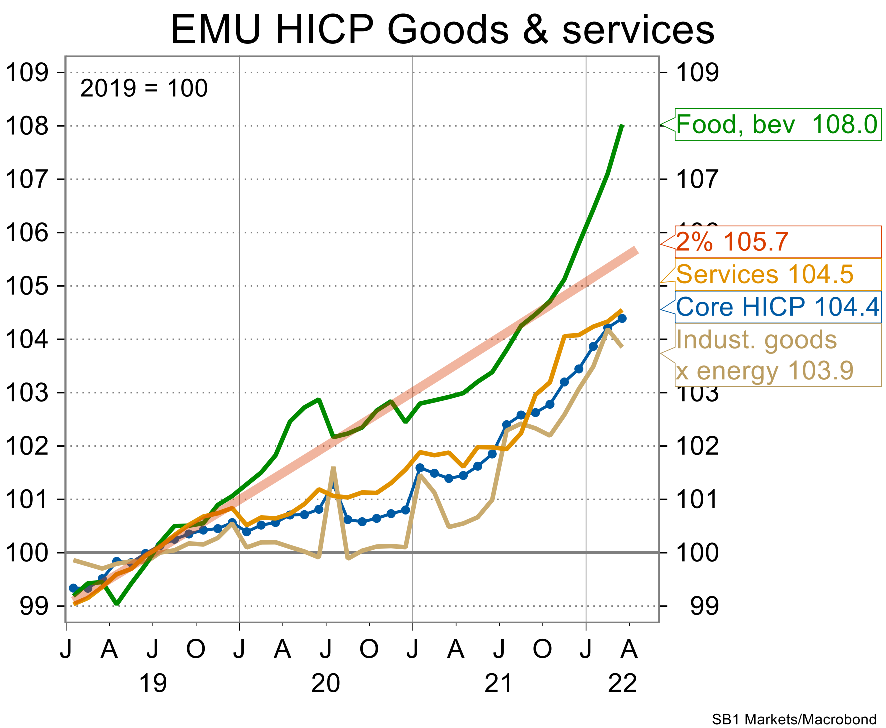


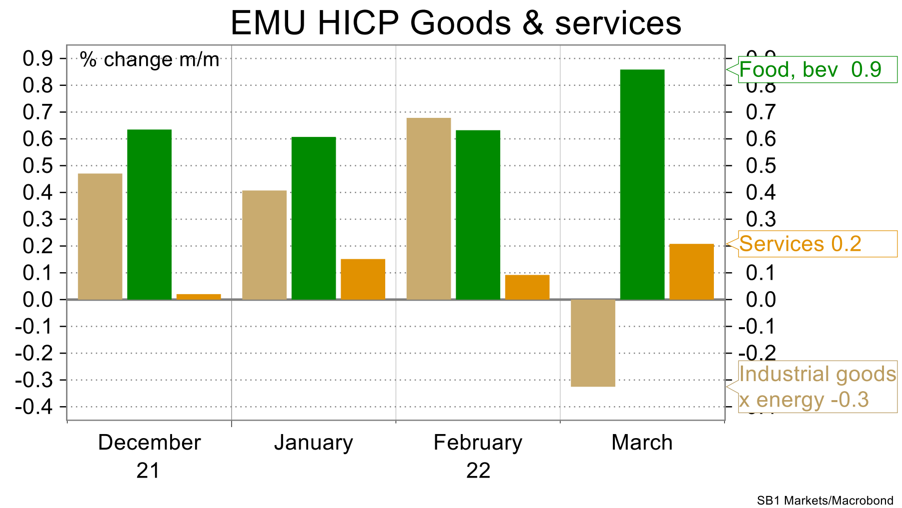


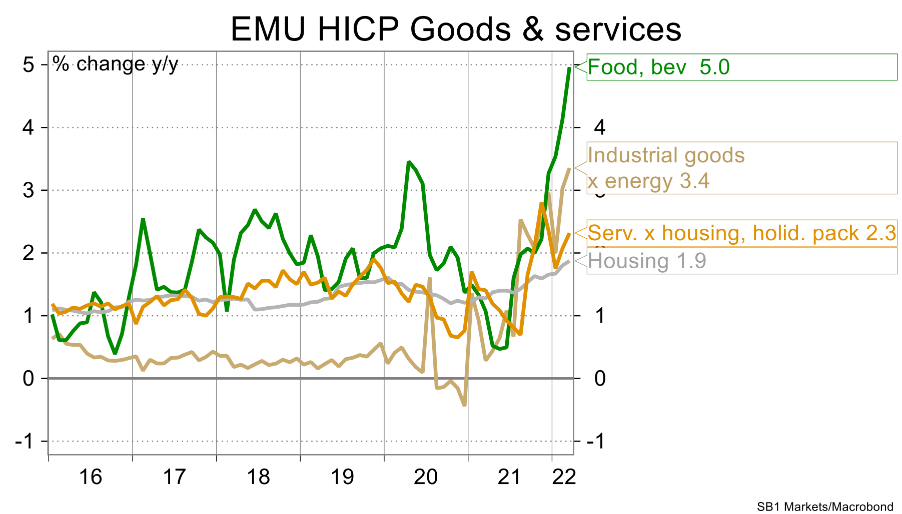
- At one stage, energy prices will turn south again

Inflation: It is somewhat more than energy

Food inflation at 5.0%, industrial goods x energy at 3.4%, and services 2.3%



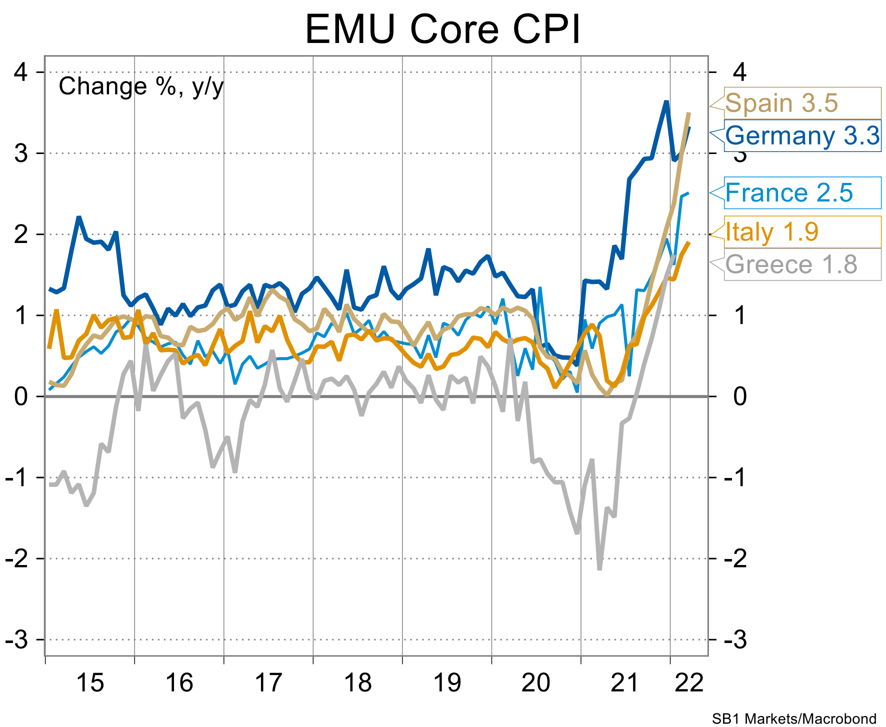


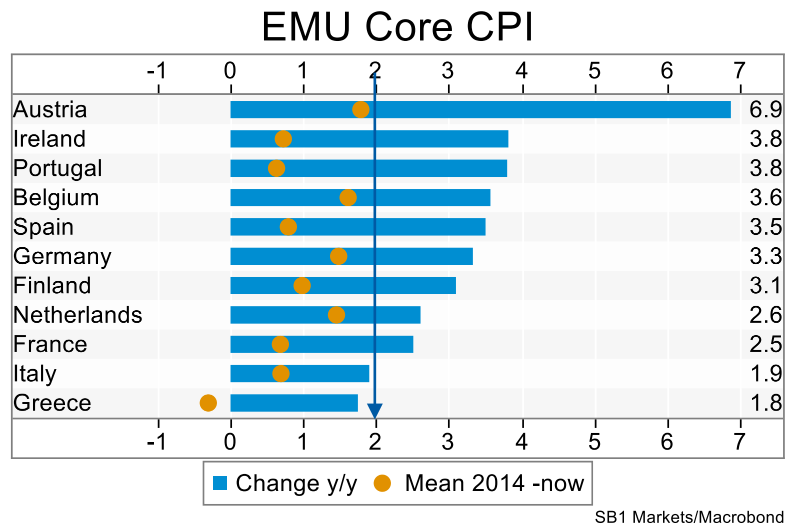


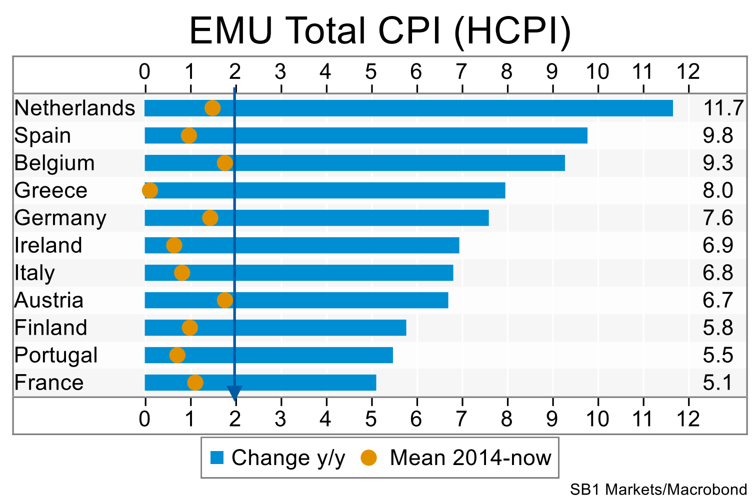
- Industrial goods prices fell by 0.3% m/m in March but prices are still up 3.4% y/y, following a steep rise to February from last October. Still, the prices are well below a 2% path since 2019
- Services prices (ex housing, holiday packages) rose 0.2% in Feb, and are up 2.3% - but also clearly below a 2% path vs the 2019 level. Transport and hotels/restaurants have contributed on the upside last year

Core inflation now above 2% in a majority of countries

.. And total inflation is above 5% everywhere





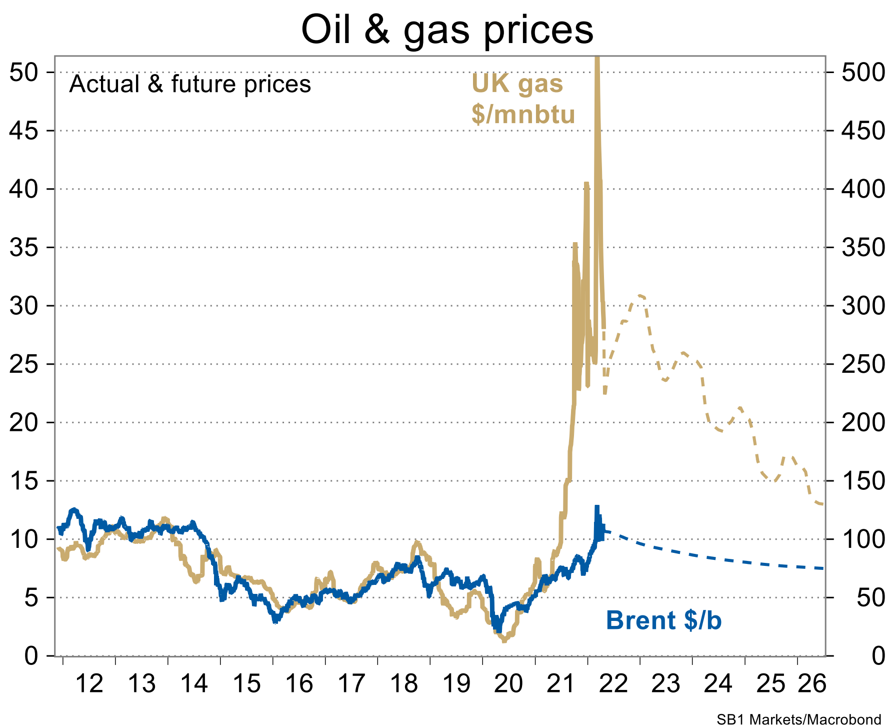


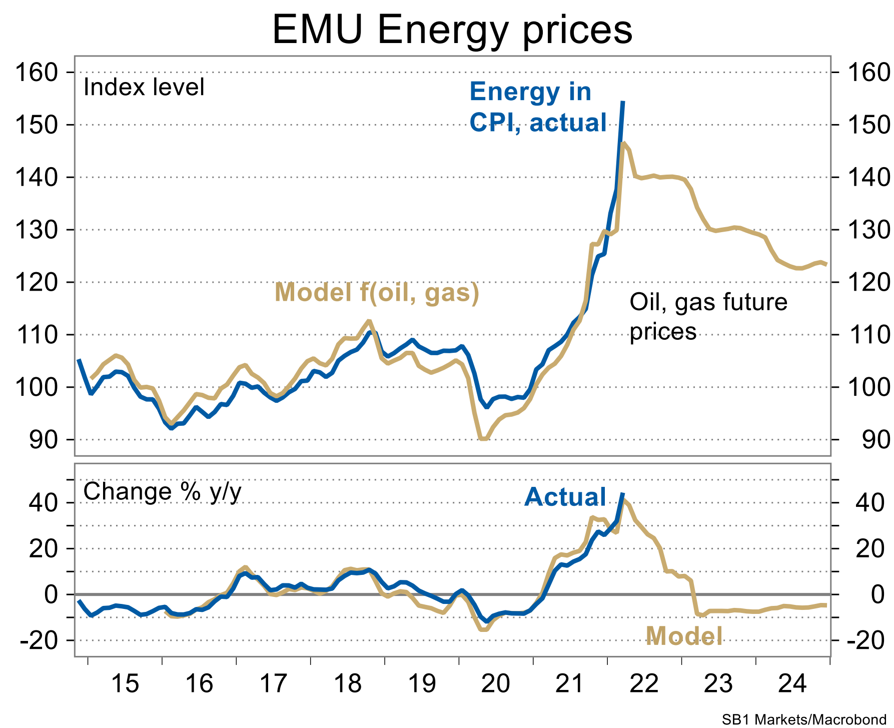
- The base effect is substantial: *Check next page*

SpareBank 1 MARKETS

Gas, oil prices have lifted the energy component in the HICP by up to 40% but….

if future markets are correct (this time…) , annual energy inflation will peak in April, and then decline



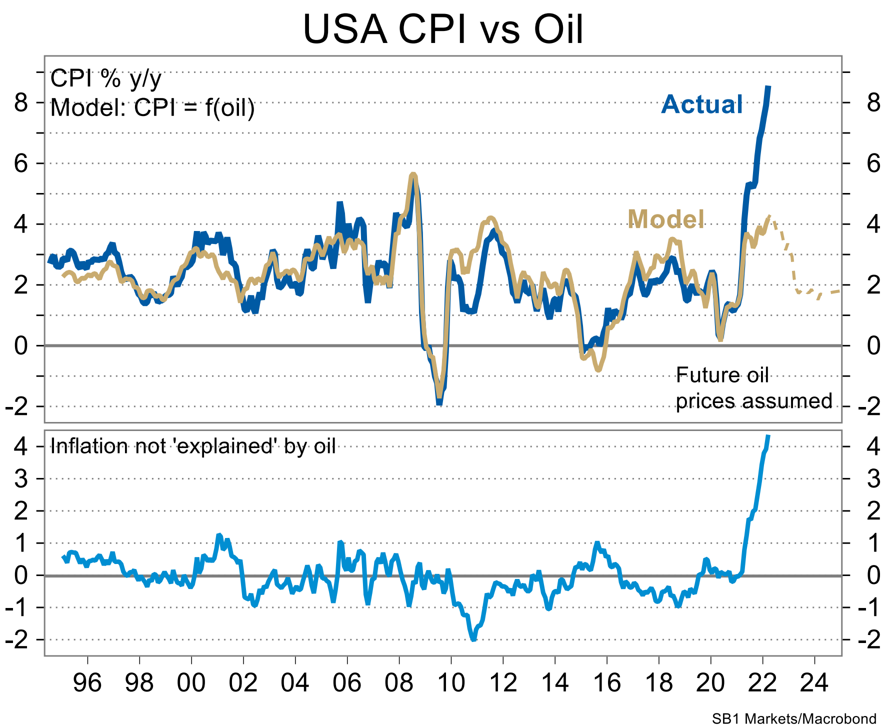


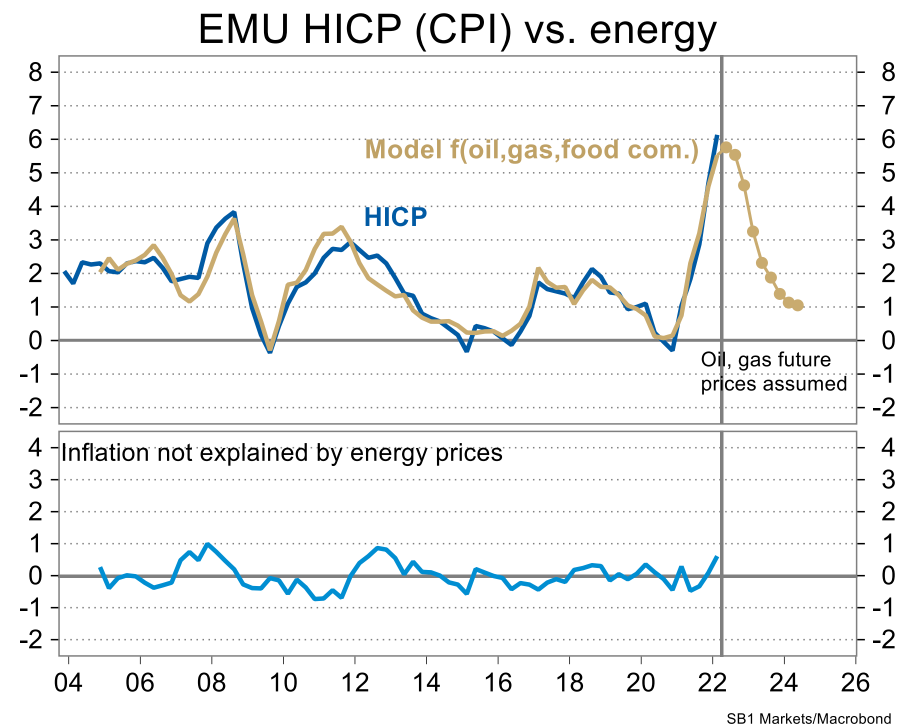
- Future prices are heading downwards
- Early next year, energy prices will be down, measured y/y
- Gas and oil have contributed equally to the lift in energy prices measured at the consumer level, according to our models

In these models we incorporate all direct impacts from changes in the oil price – as well as the impact from other factors that influenced inflation which correlates to the oil price

The tale of two different inflation regimes

The EMU inflation is fully explained by higher oil & gas prices, US inflation is not

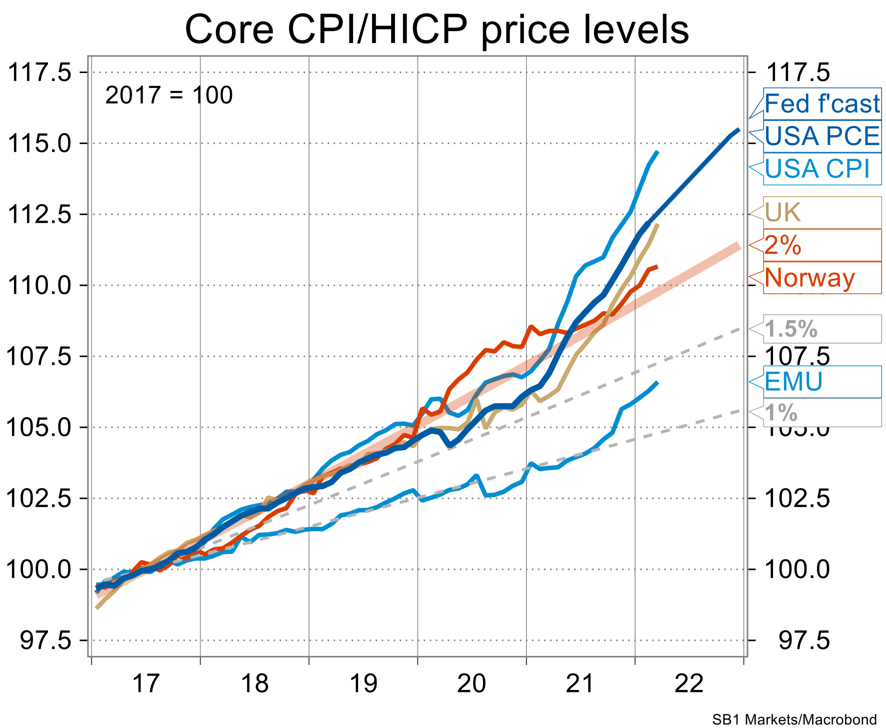




- **In the US, oil price cycles** have – for all practical purposes – explained all of the CPI cycles the past 30 years. Until 2021. The precent 4 pp discrepancy is unprecedented! The current/future oil price signals a decline in the annual CPI rate later this spring. The trouble is the 'gap' or the 8% starting point
- **In EMU**, the CPI acceleration recent so far can be fully explained by the increase in energy prices (with a small contribution also from food commodity price). If oil/natural gas prices follow the future prices from here, inflation is now close to the peak, and the annual growth rate will return to below 2% in early 2023. Had energy prices suddenly returned to a 'normal' level now, inflation would have collapsed!

In these models we incorporate all direct impacts from changes in the oil price – as well as the impact from other factors that influences inflation which correlates to the oil price

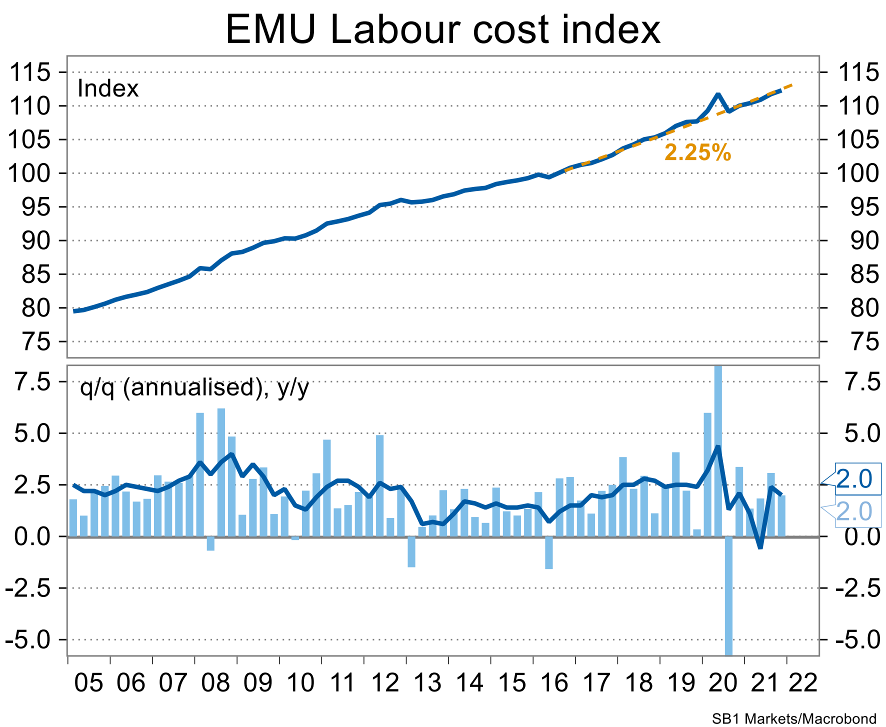
Core prices are climbing faster everwhere

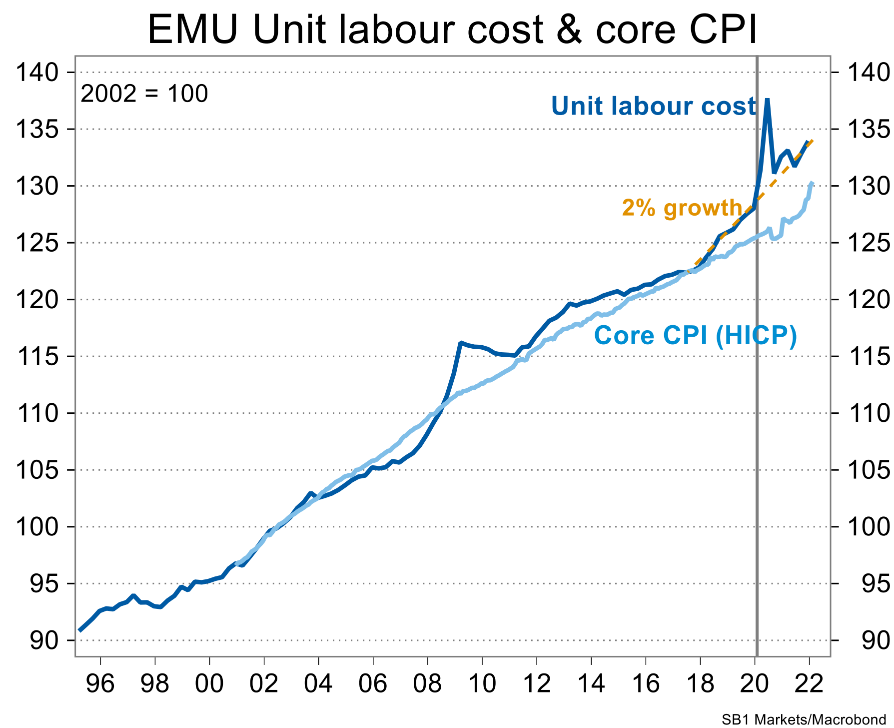


- EMU core CPI has shot up recent months but is still at 'at low level'

SpareBank 1 MARKETS

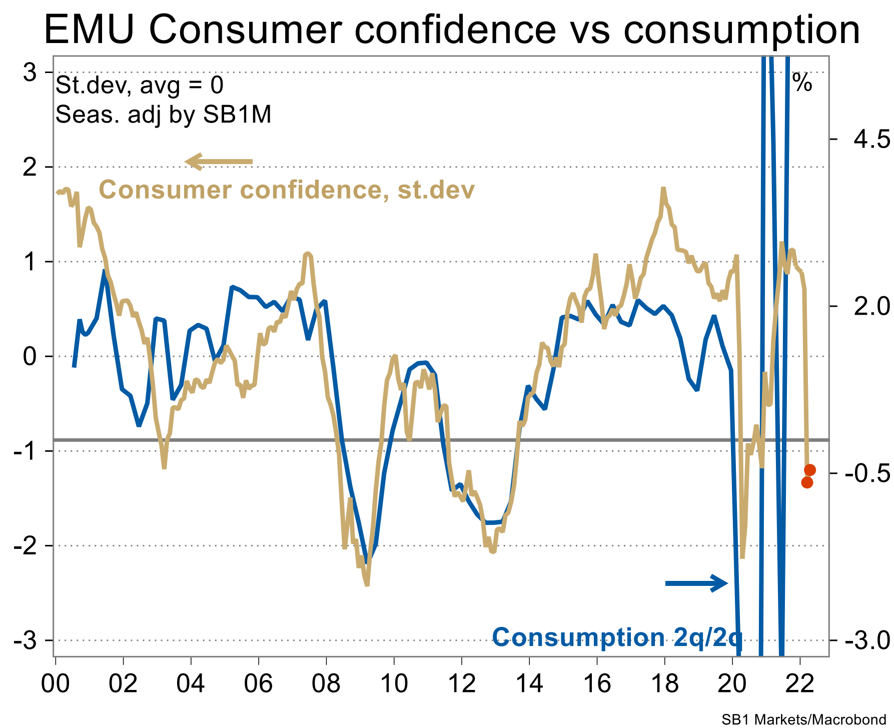
Just a reminder: No wage cost pressure in the EMU

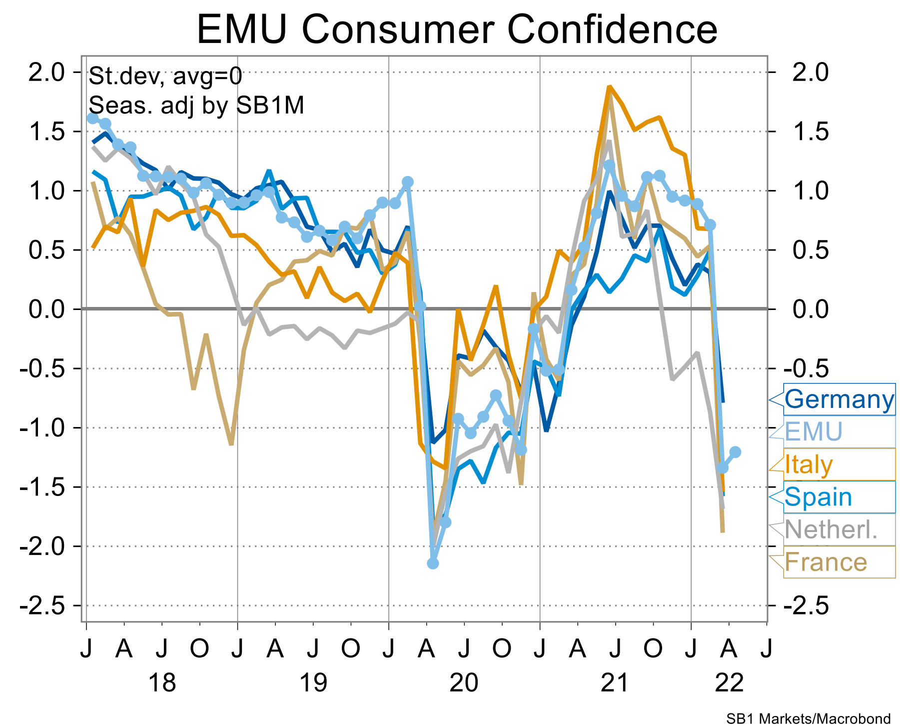




Consumer confidence just marginally up in April – the level remains low

Following the steep decline in March.

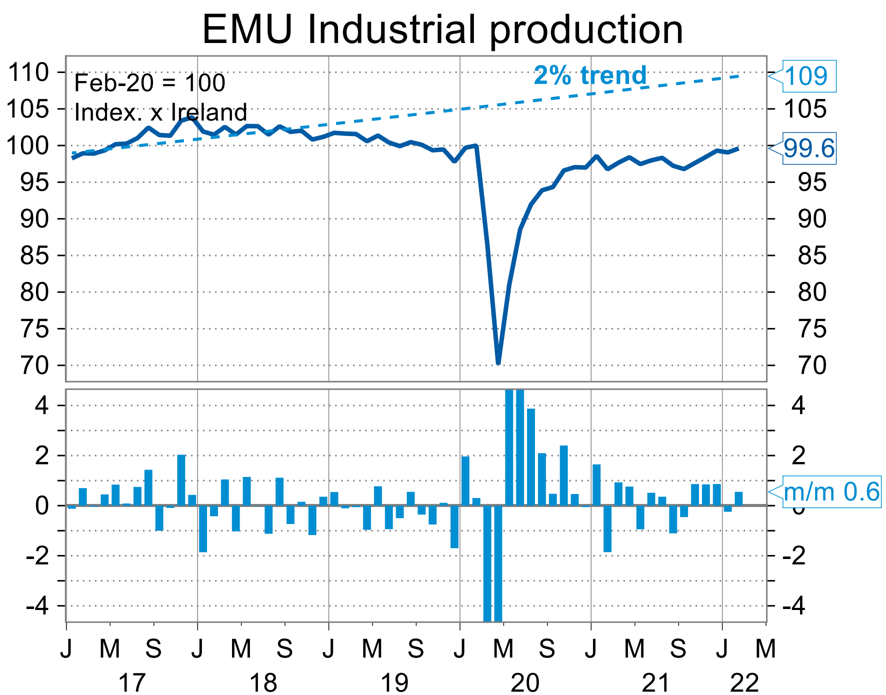




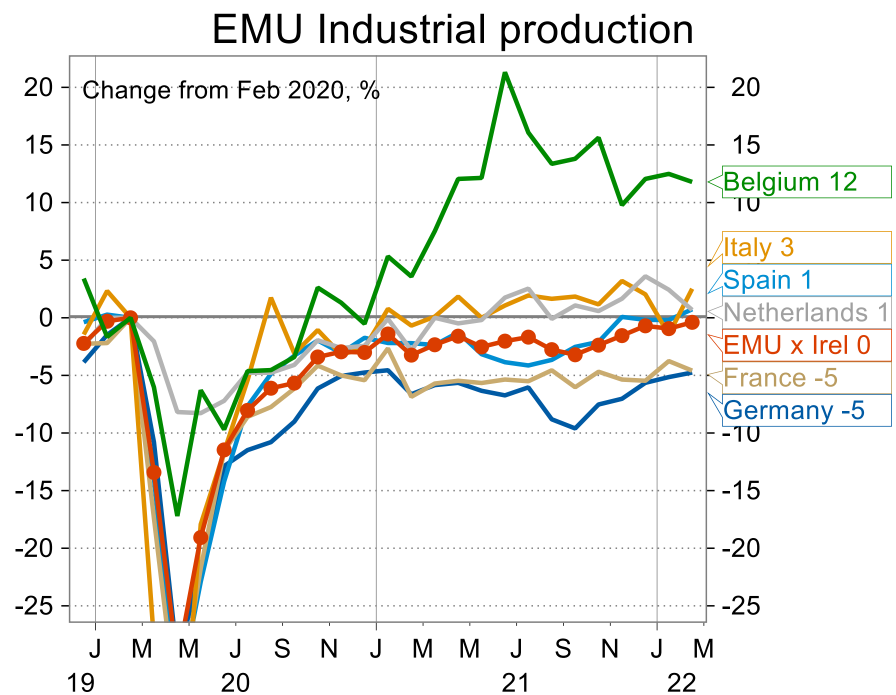
- The index rose 1.8 p to -16.9, expected down to -20. The increase equals 0.1 standard deviation, and the April level -1.3 st.dev below average. In February, the index was 0.7 st.dev above average – even if inflation was high, and Omicron was around. So the decline to March was just due the Russian attack on Ukraine – and fears of the consequences thereof
- No reports from individual countries yet

Industrial production on a slow recovery path, still below the pre-pand. level

Production rose 0.7% in February, with Germany, Italy & Spain at the upside,



SB1 Markets/Macrobond

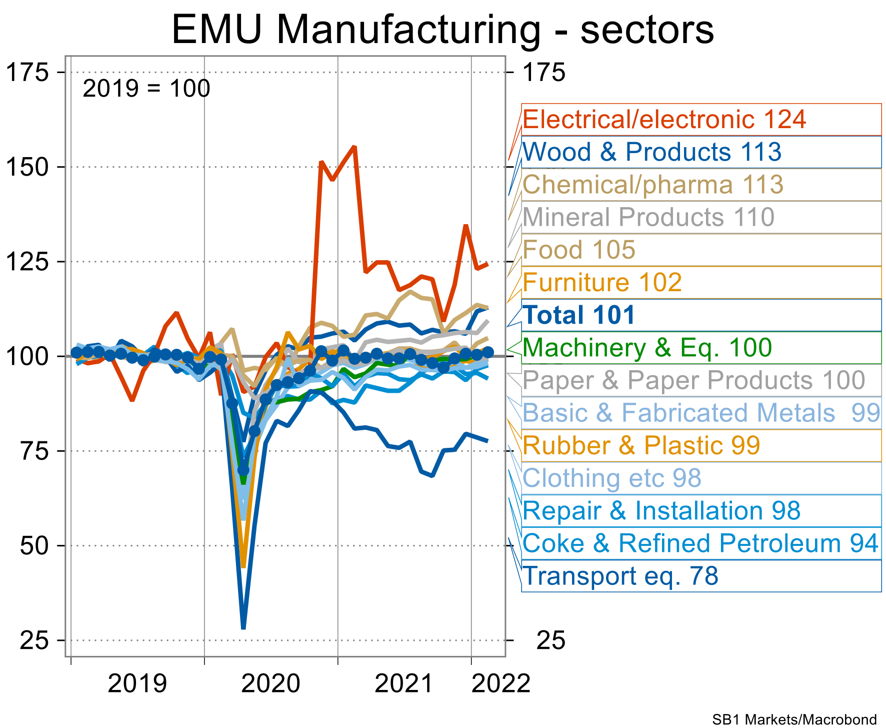


SB1 Markets/Macrobond

- Excluding Ireland, which often report 'crazy' monthly production data, production rose by 0.6%
- France and Germany both report production 5% below the Feb-20 level – both are heavily influenced by weak auto production

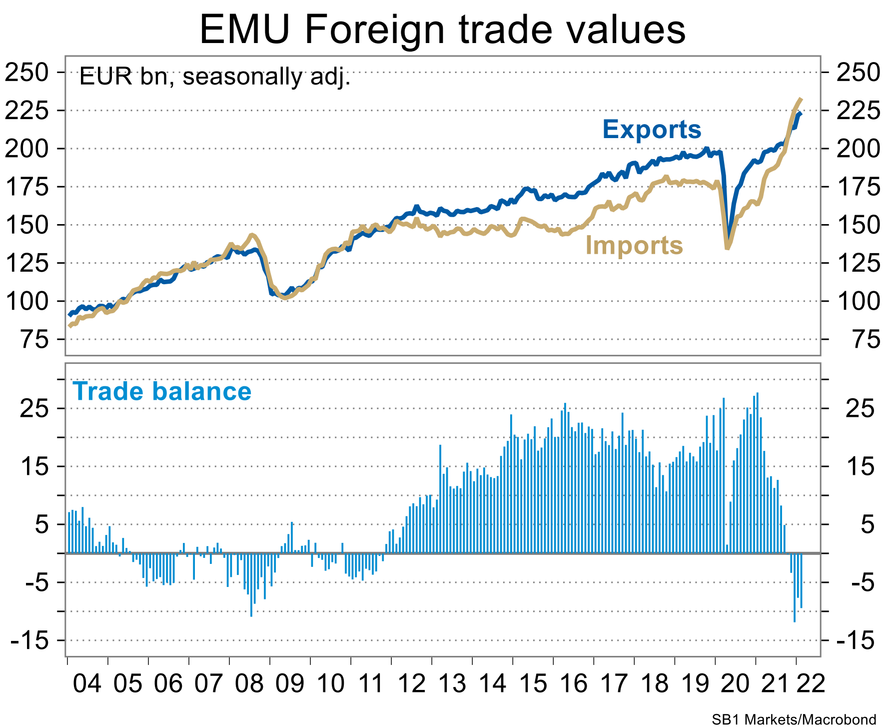
Auto production on the way back, still down 22% (and March will be much worse)

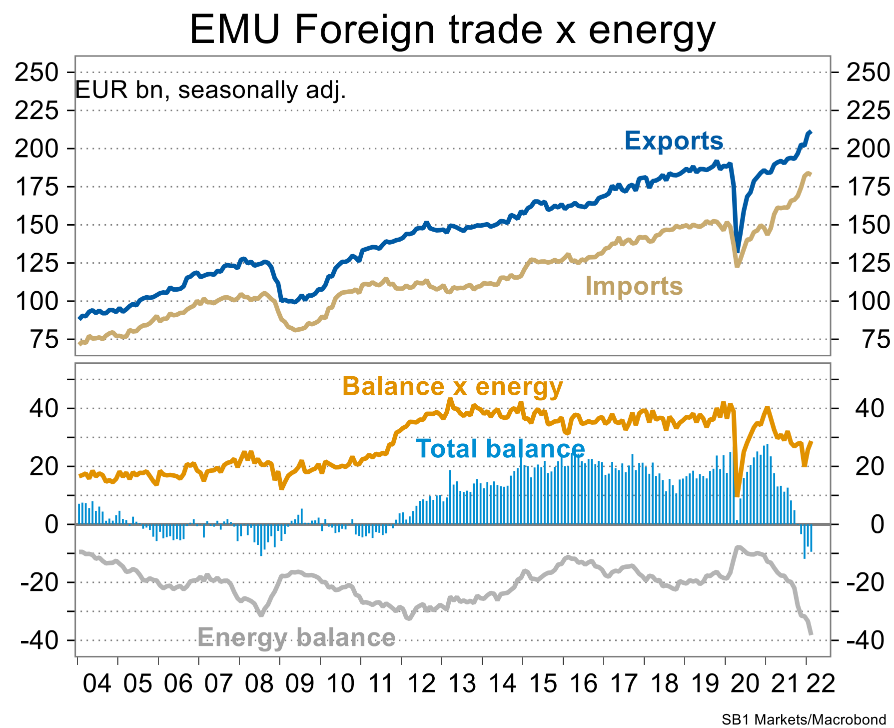
Auto production lowers total production by more than 2%



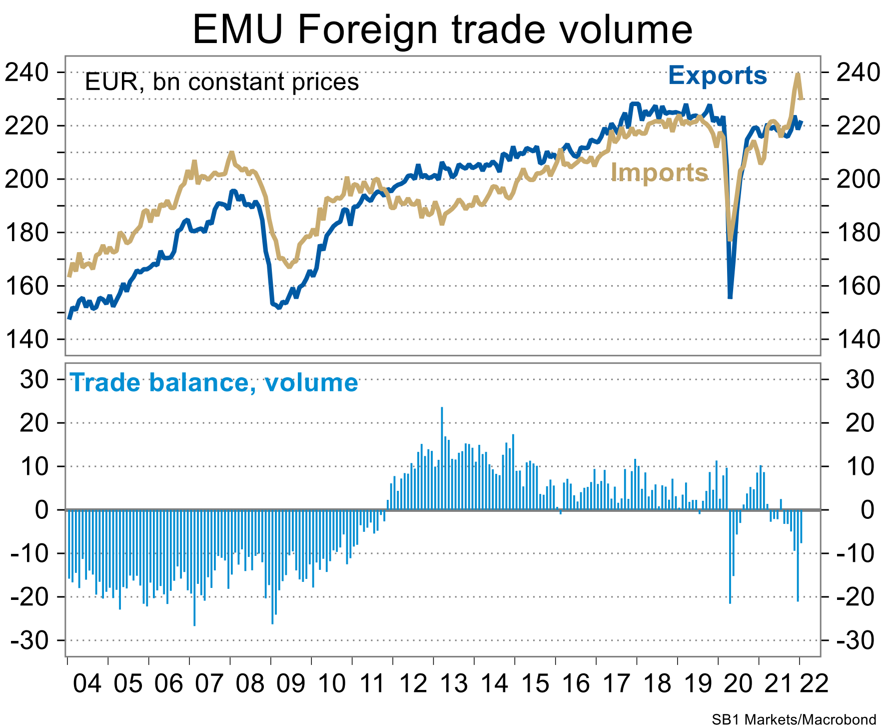
Import are exploding, and just not due to higher energy imports

The Euro Area is now running a trade deficit, mostly due to a steep increase in energy imports





Import volumes up 5% from Feb-20, exports are even

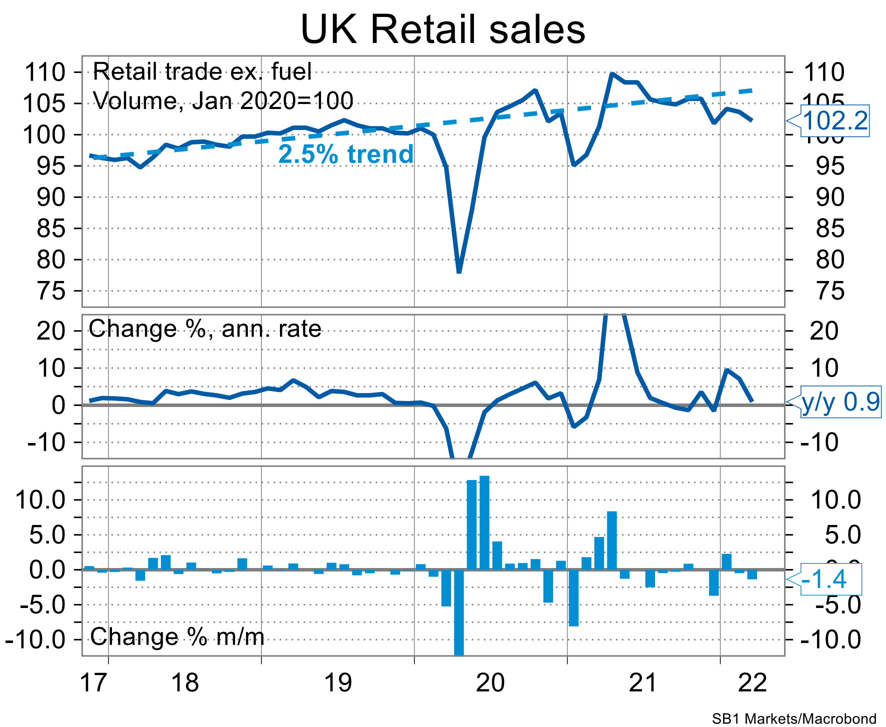


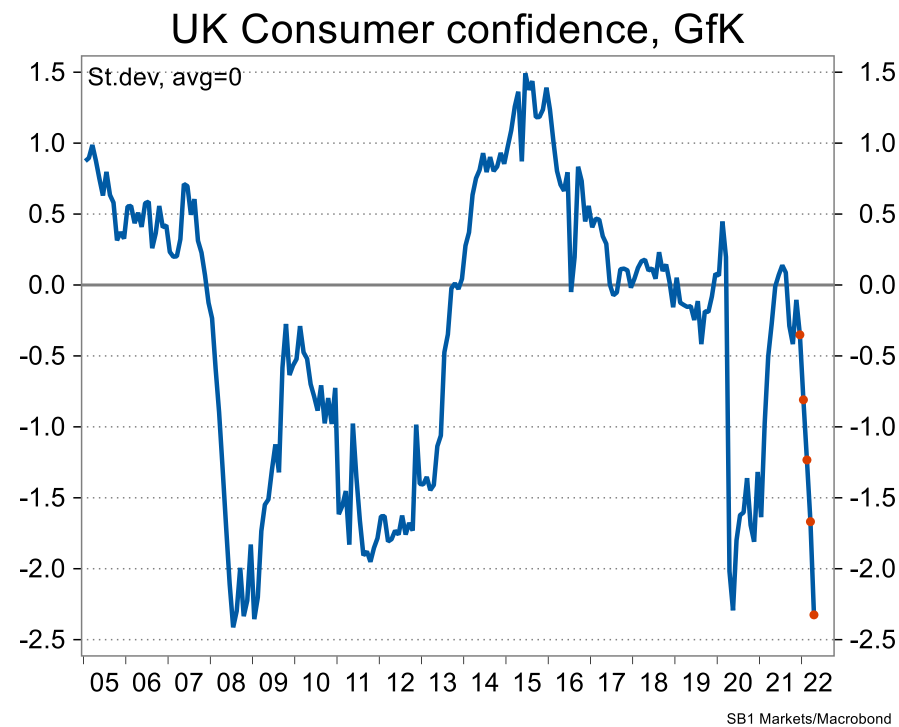
- All of the increase in import volumes are due to a lift late last year

Volume data are lagging value data by one month

Retail sales are heading down, consumer confidence is falling rapidly

Sales down 1.4%, expected down 0.3% - and the level is well below the pre-pandemic trend

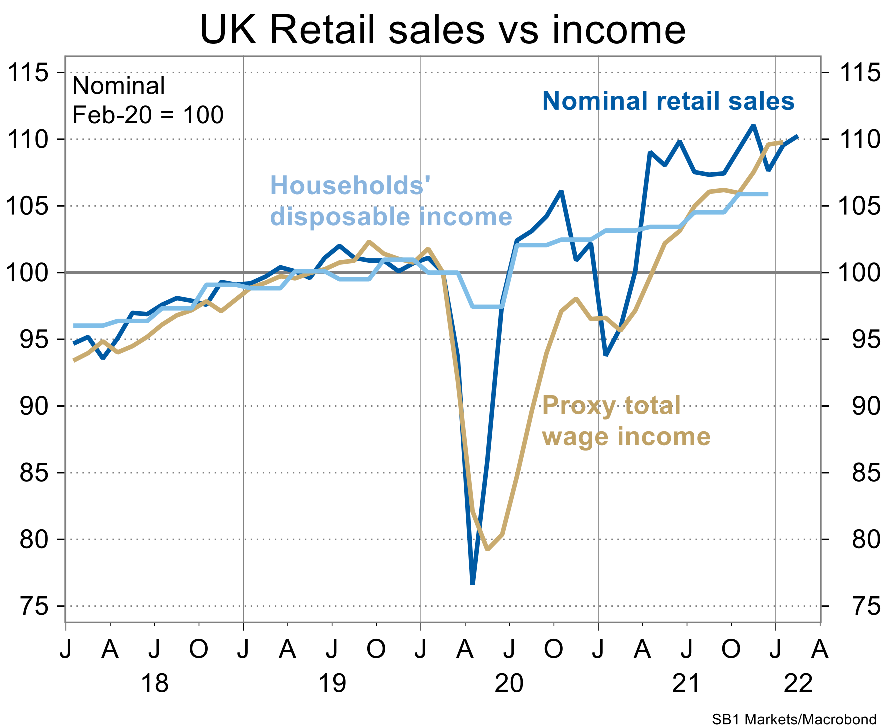


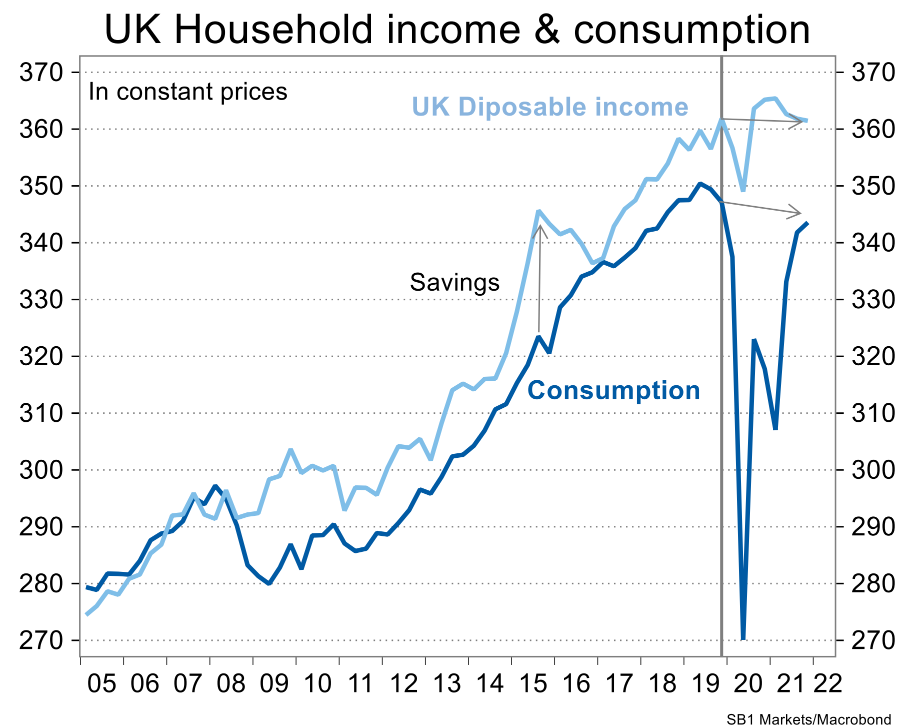


- **Retail sales** peaked last April, and the gradual decline brought sales down to well below the pre-pandemic 2.5% growth path. The Omicron wave hampered sales in December but sales remained low in both Jan & Feb, even if all restriction were lifted. Inflation is running high, and real incomes are declining
- **Consumer confidence** has fallen sharply since November, at close to an average level, down to -2.3 st.dev below average in April, almost the lowest on record. The decline April was the largest in this downturn.
  - » High inflation and declining real wages may be one reason. Beside that, the labour market is strong, and the unemployment rate is low

Total wage income is keeping up with nominal retail sales

... and total consumption is weaker than normal vs. total disp. income (=savings higher than normal)

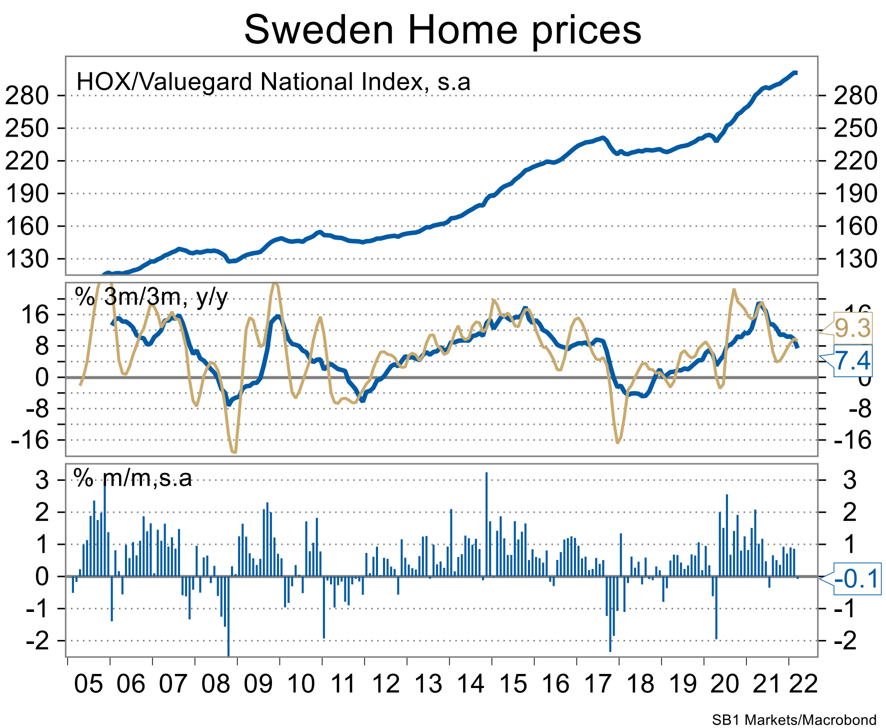


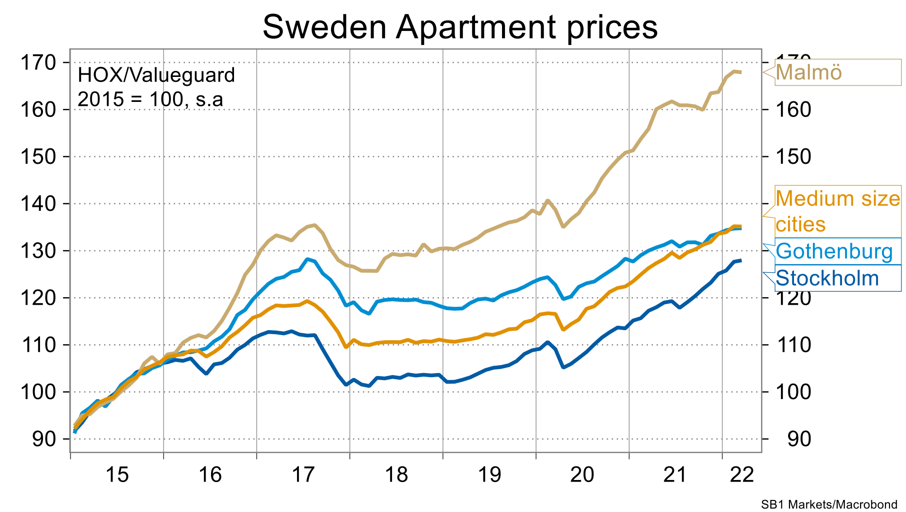


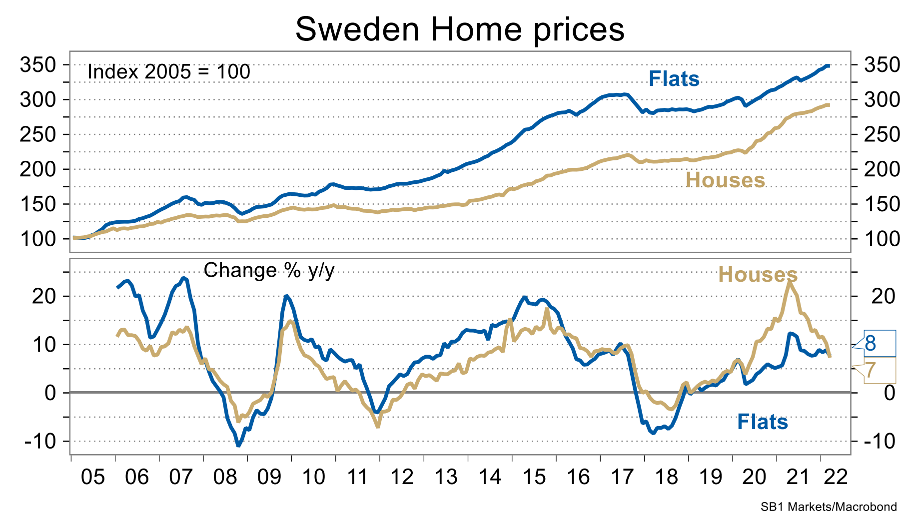
- The latter at least until Q4 last year

Swedish house prices FELL in March, the annual rate 7.4%, from 19% a year ago

The slowdown in March was broad based. The war or mortgage rate expectations – or both



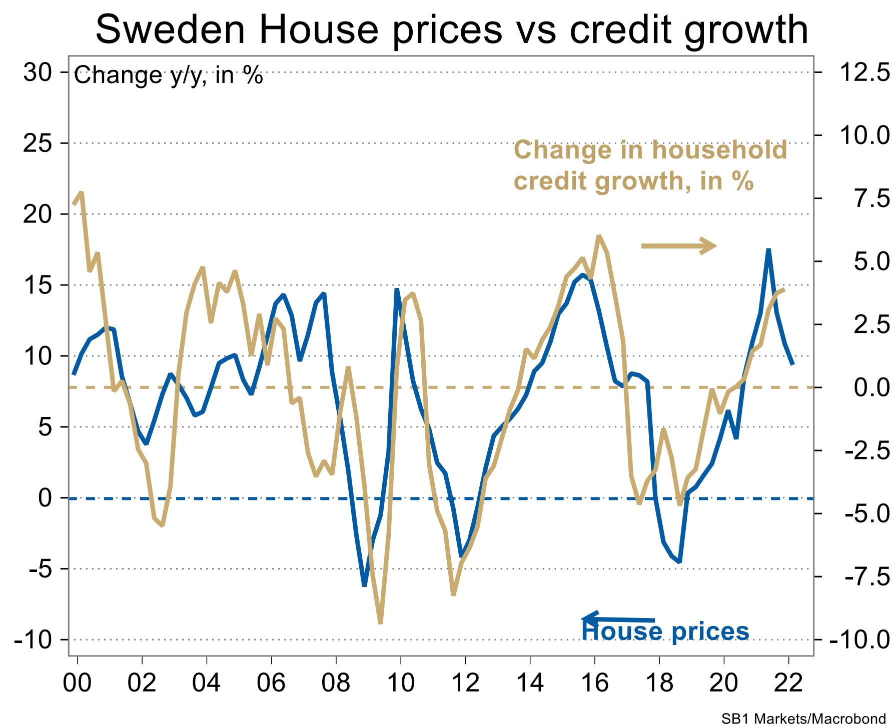


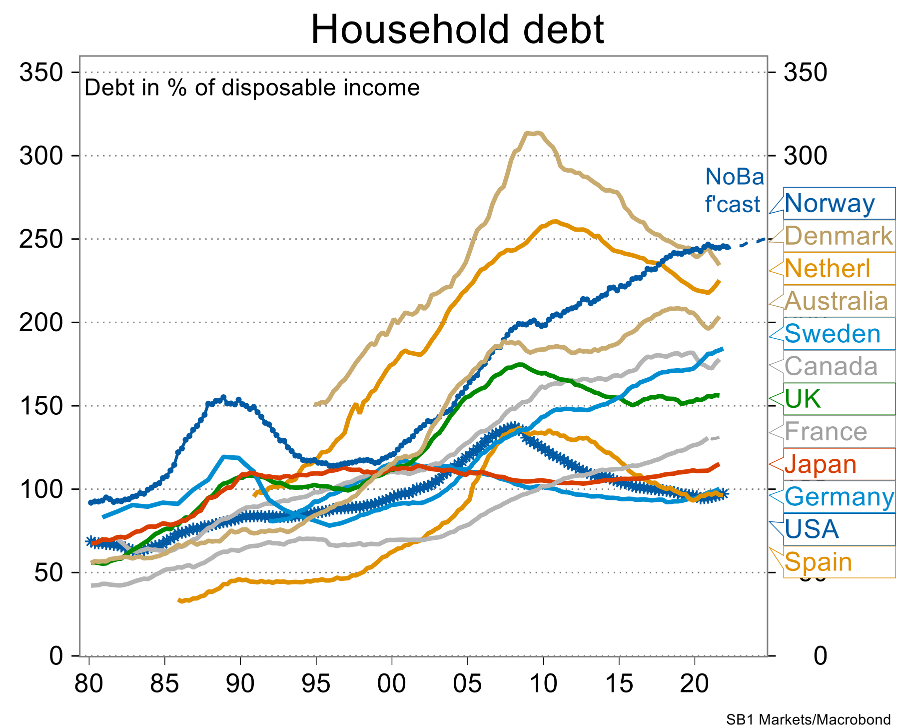


- Prices fell 0.1% m/m, and the annal rate declined to 7.4% from 9.7% in Feb
  - » The underlying price growth (3m/3m) is still 9%, up from 4% in October
- The 3 large city regions reported a slowdown in March, and over time, houses have slowed more than flats
- The war in Ukraine, inflation fears may explain the minor drop in prices in March but so could also a steep increase in interest rate expectations

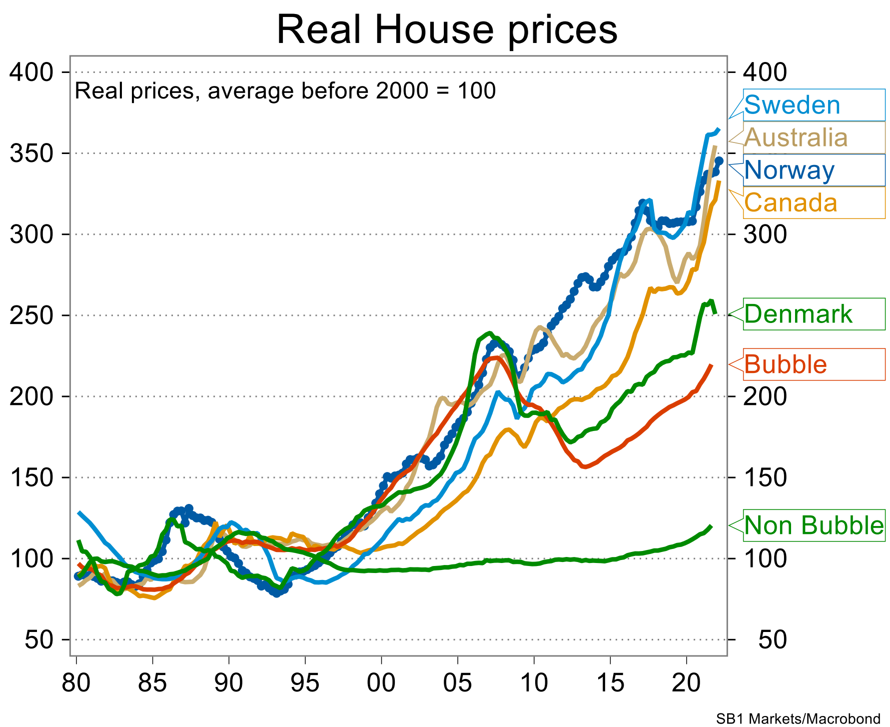
Credit growth is accelerating rapidly – and will for still a while

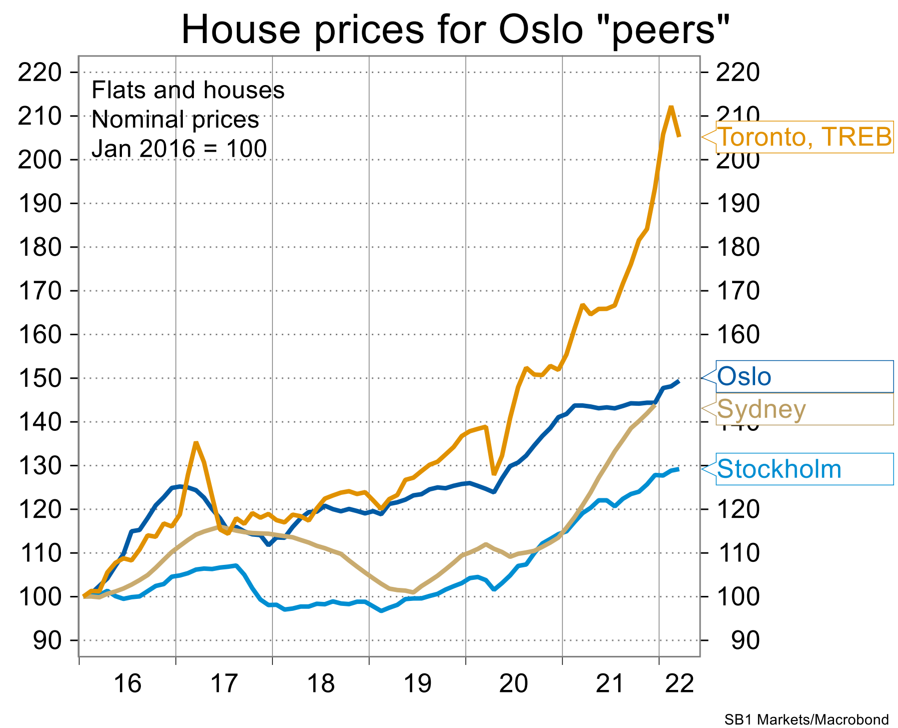
… and more than in any other rich country, without cuts in (record low) mortgage rates





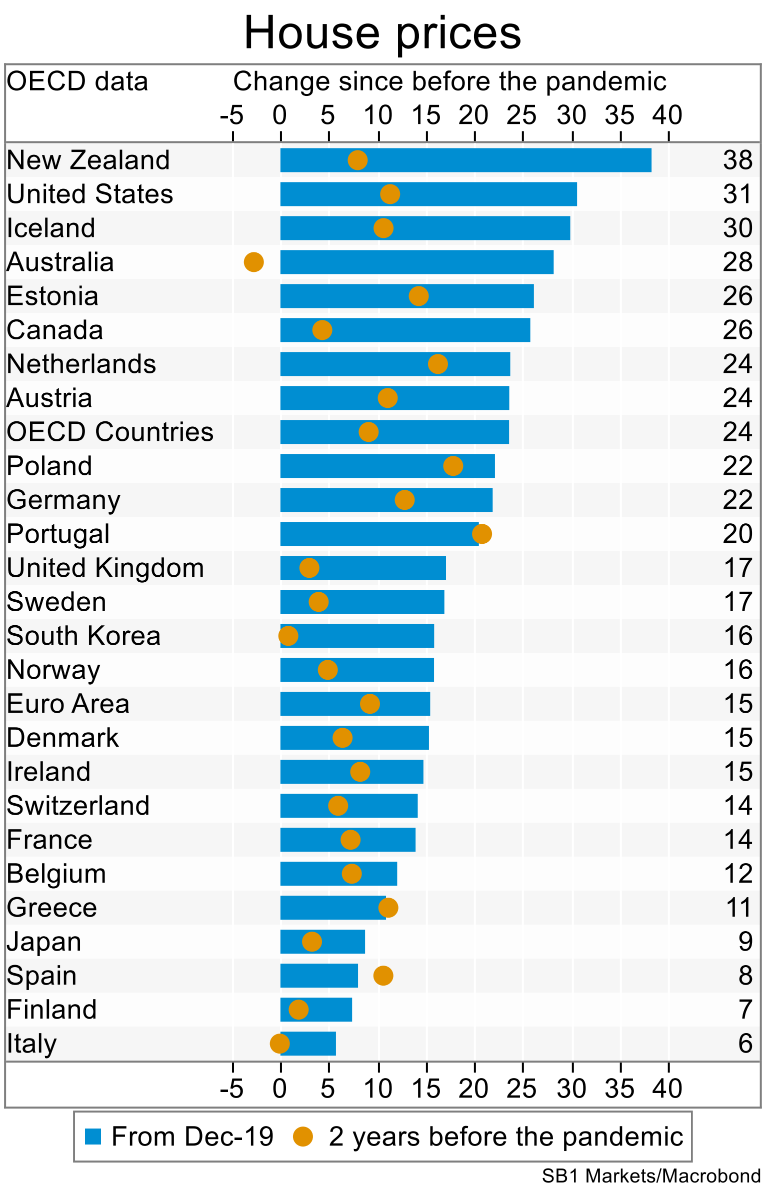
Zero-interest rates have been just wonderful!





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

House prices up everywhere, and have accelerated in 23 of 26 countries



... since before the pandemic

- Sweden is not at the top of the list, neither is Norway

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

Highlights

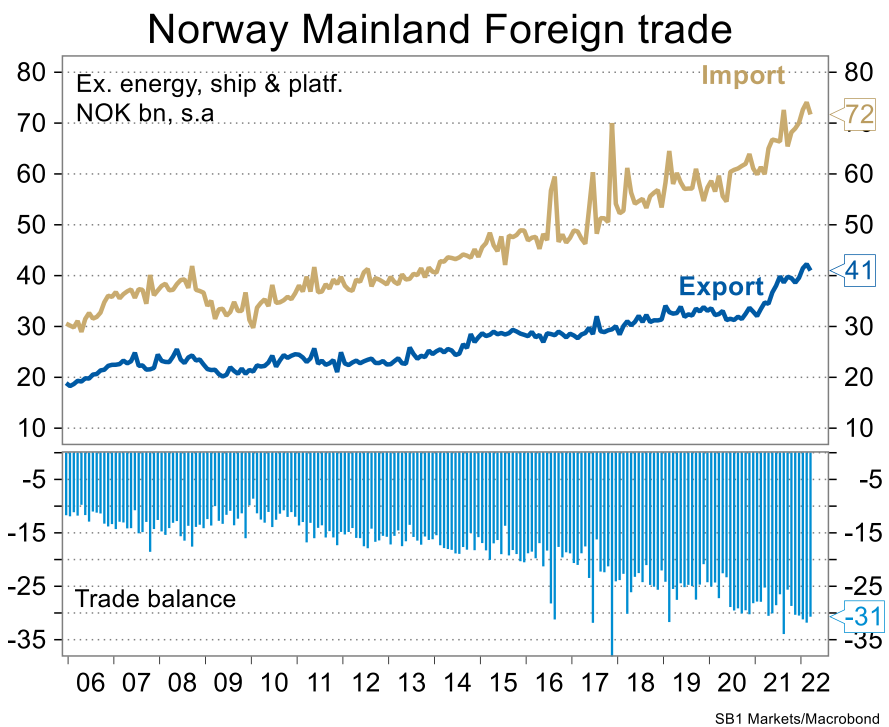
The world around us

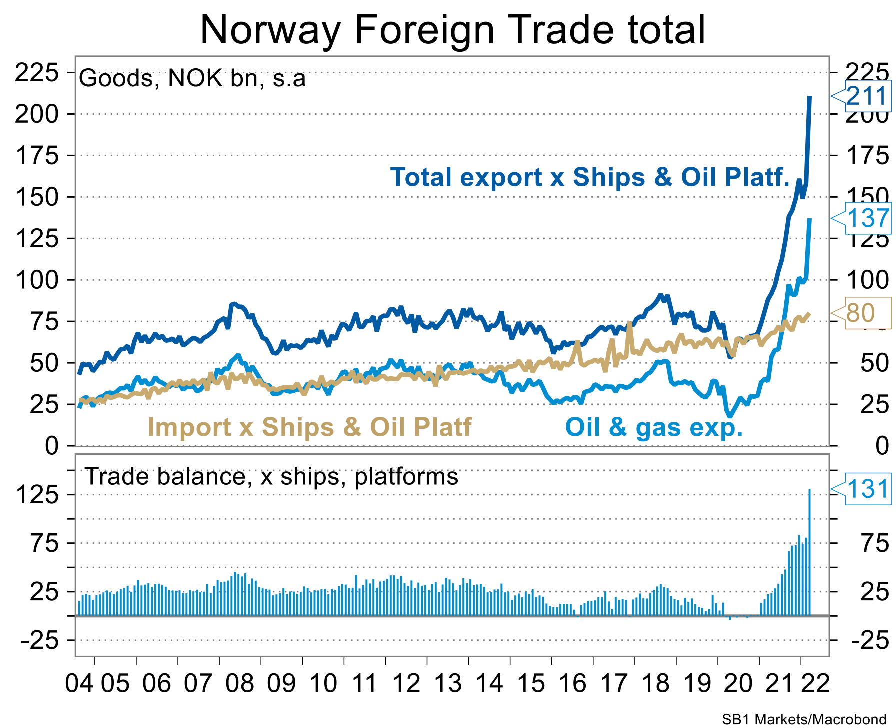
The Norwegian economy

Market charts & comments

Trade surplus at NOK 131 bn in March as gas exports rose to NOK 88 bn

The previous ATH was NOK 80 bn. The Mainland trade deficit is widening but not further in March

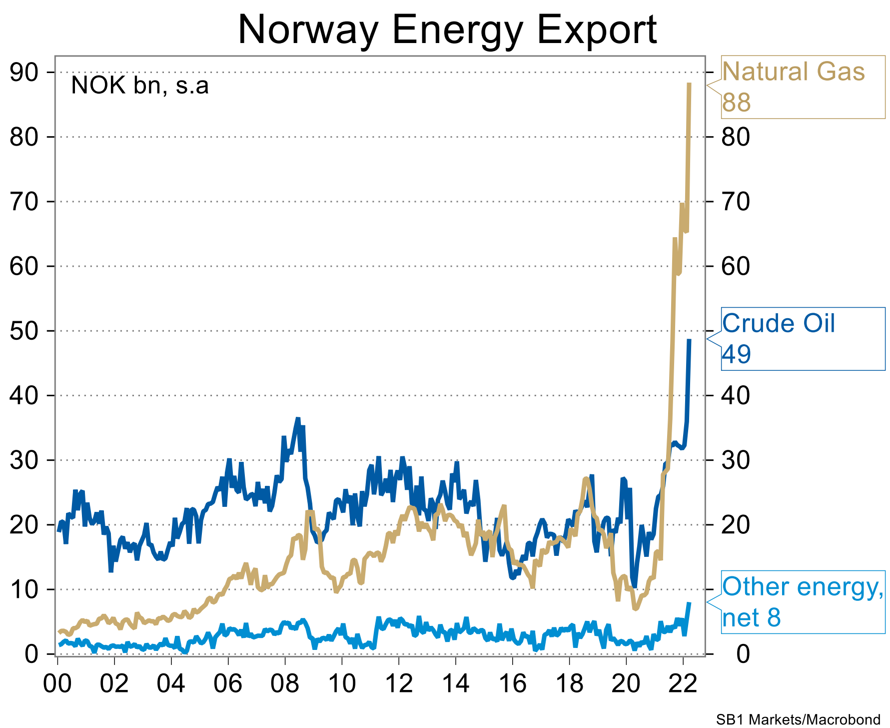


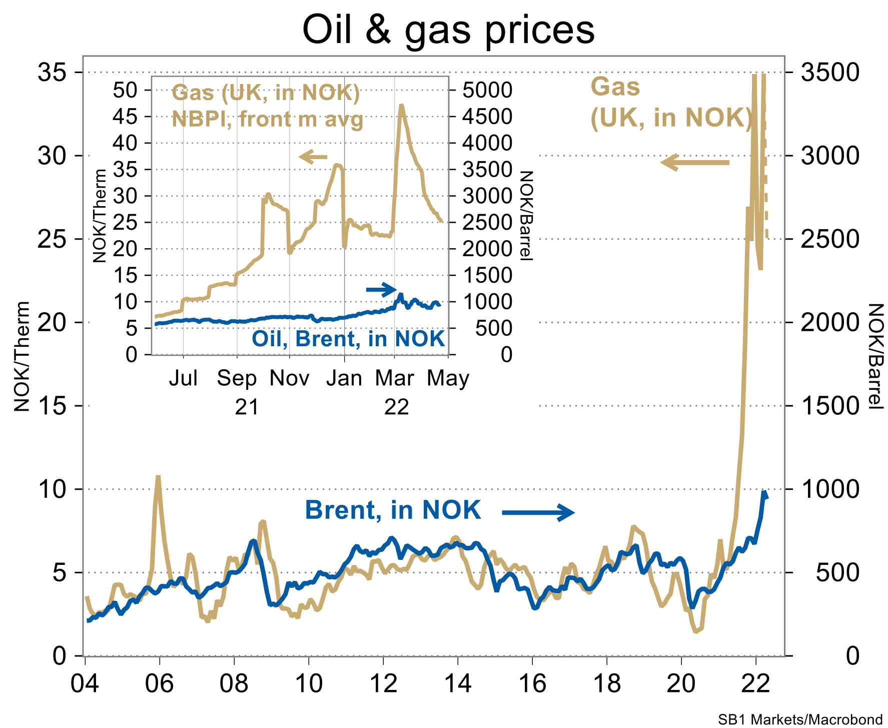


- **Gas exports** shot up in March, to NOK 88 bn (seas. adj, actually to 112 bn), and **oil exports** to NOK 47 bn, as prices rose sharply from February. Petroleum exports equalled almost 50% of Mainland GDP. On man's misery, is another man's fortune. Sorry, president Zelensky. And thank you, president Putin. Almost all of the windfall gain will end up in the Oil fund
- **The trade surplus in goods** (ex ships/platforms) fell rose to NOK 131 bn, an enormous amount, 28% of Mainland GDP!
- **The Mainland (non energy) trade deficit in goods** fell marginally to NOK 31 bn, equalling 10% of Mainland GDP (however, most imports for oil investments are categorised as Mainland imports and sales from the Mainland to the oil sector (both op.ex and cap.ex) are not counted as exports)
- **Non-energy exports** rose fell slightly in March, to NOK 41 bn. Exports are up more than 30% since 2020, mostly due to higher prices but volumes are up as well. Fish, metals & chemicals are reporting string growth
- **Imports** fell 2 bn in March but remain at a 10% growth path

Gas exports straight up in March – which may be the eternal ATH?

Gas exports equalled almost than 30% of Mainland GDP!





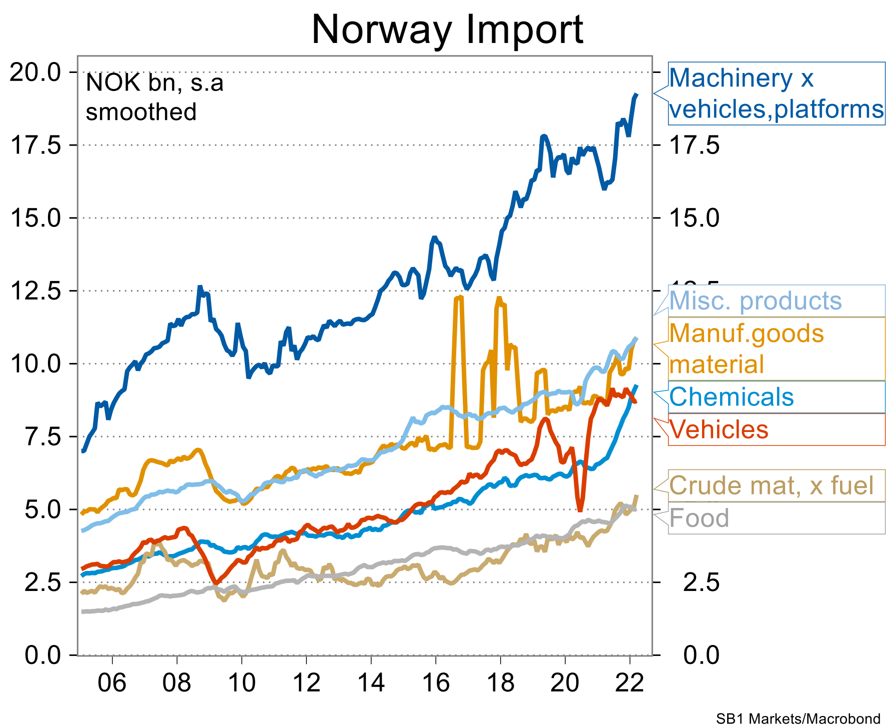
- **British gas** NBP prises (as the Dutch TTF) rose 50% from February to March to the highest monthly average ever.. In March, the spot price ('Index') rose 50%! So far in April, the price is down 27 – and the final result will very likely be even lower – but still 5x above the normal price level
- The value of **gas exports** rose by 33% (seasonally adjusted) to NOK 88 bn (the actual number was NOK 112 bn, and given market conditions, the normal decline in gas exports in Q2 and Q3 will probably not materialise in 2022, and the seas. adjusted March figure may be 'too low'). However we adjust it, gas exports are at an unprecedented level
- **Crude oil exports** rose by NOK 13 bn to 49 bn, ATH by far too – as the oil price rose sharply after the Russian invasion in Ukraine
- Of the **petroleum exports** at 137 bn, at least 120 bn will end up in the Government's coffers, and then transferred to the Oil fund. Some few dollars well trickle down to the oil companies' bottom line too
- Other energy exports rose as well, both refined gas & electricity

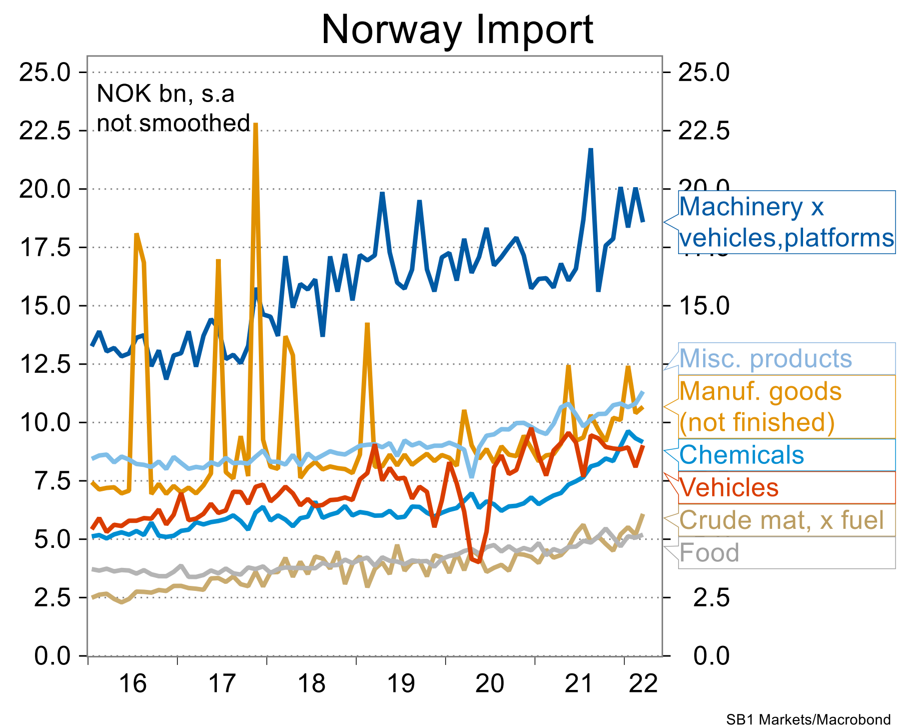
(The NBPI at the charts to the right above, the average for each month, calculated from the start of the month, the front month, check the small chart inserted)

SpareBank 1 MARKETS

Most imports are trending rapidly upwards – as domestic demand is strong

Vehicle imports have flattened – finally. Food imports are rather stable in value terms

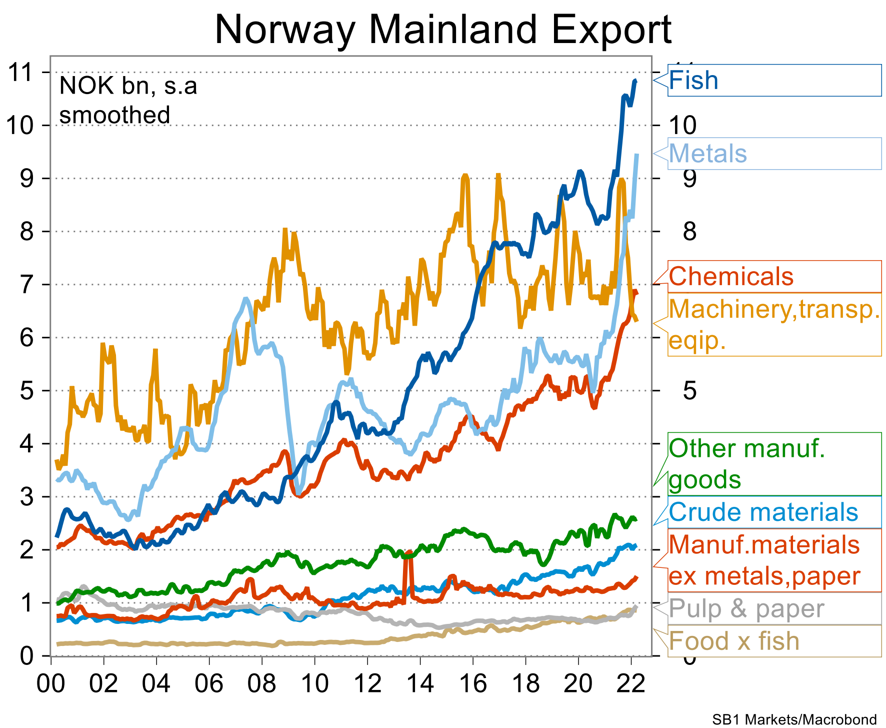


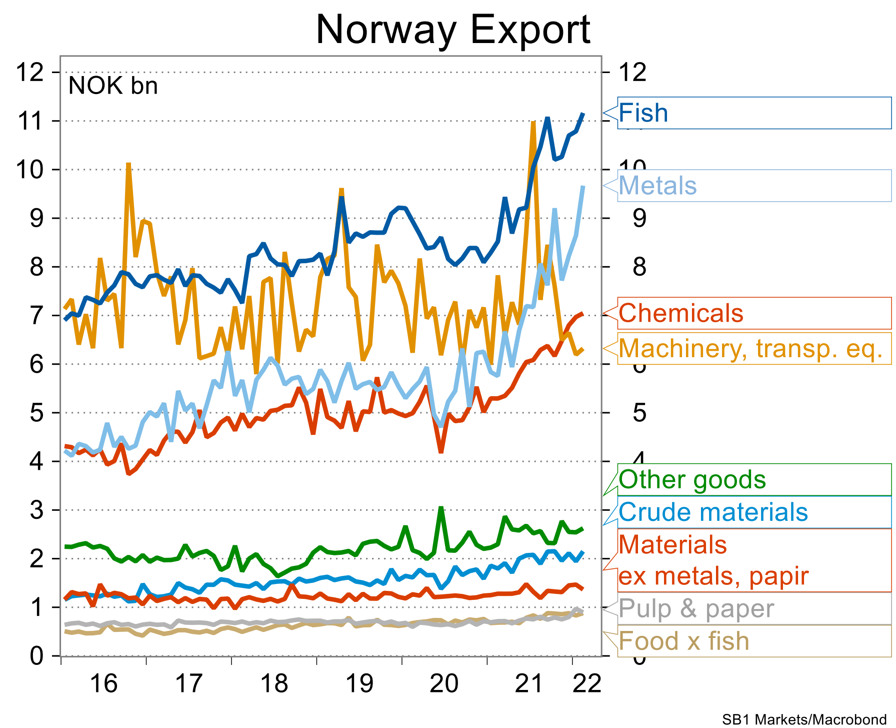


- The spikes in imports of manufactured goods are due to unfinished platforms or ships

Fish exports are surging, metals, chemicals sprinting upwards too

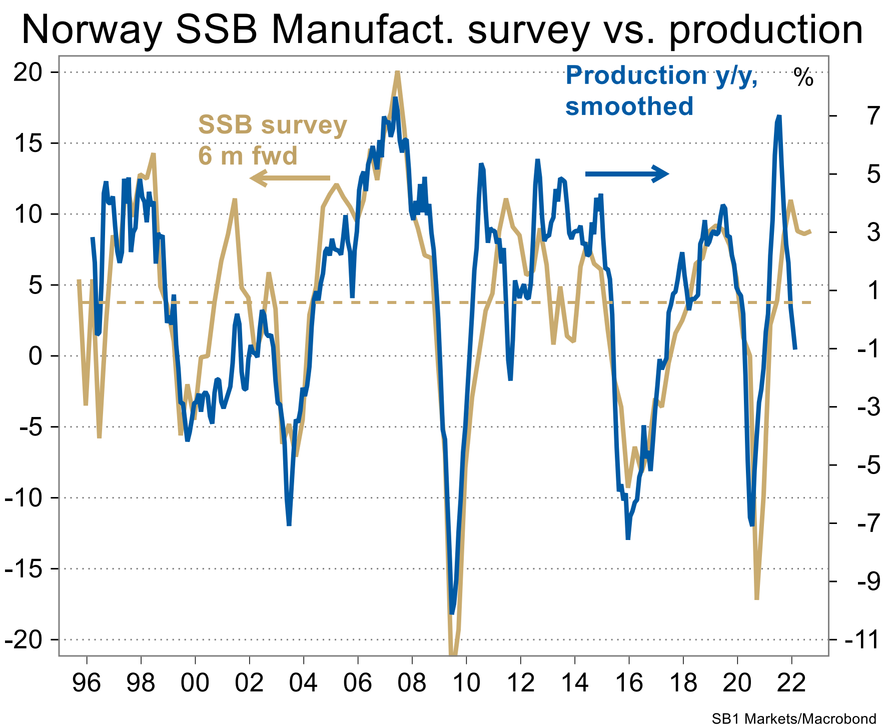
Exports of machinery & transport eq. sharply down recent months, level unch. from 2014 (and 2007)

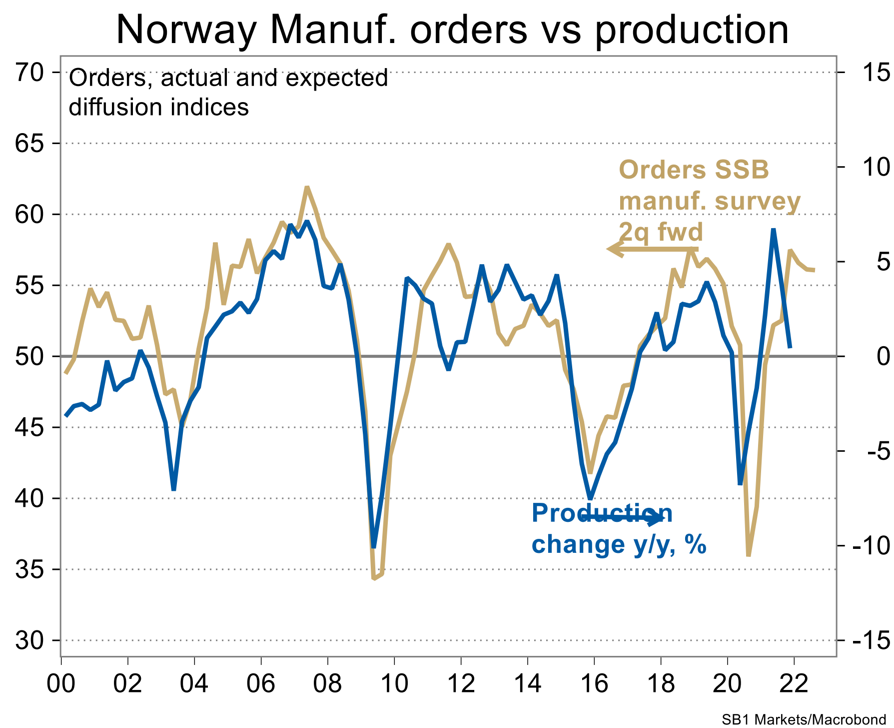




SSB's manufacturing marginally up in Q1, better than we expected

Oil related up, others not. Supply constraints still dominating. Prices are expected up more than ever

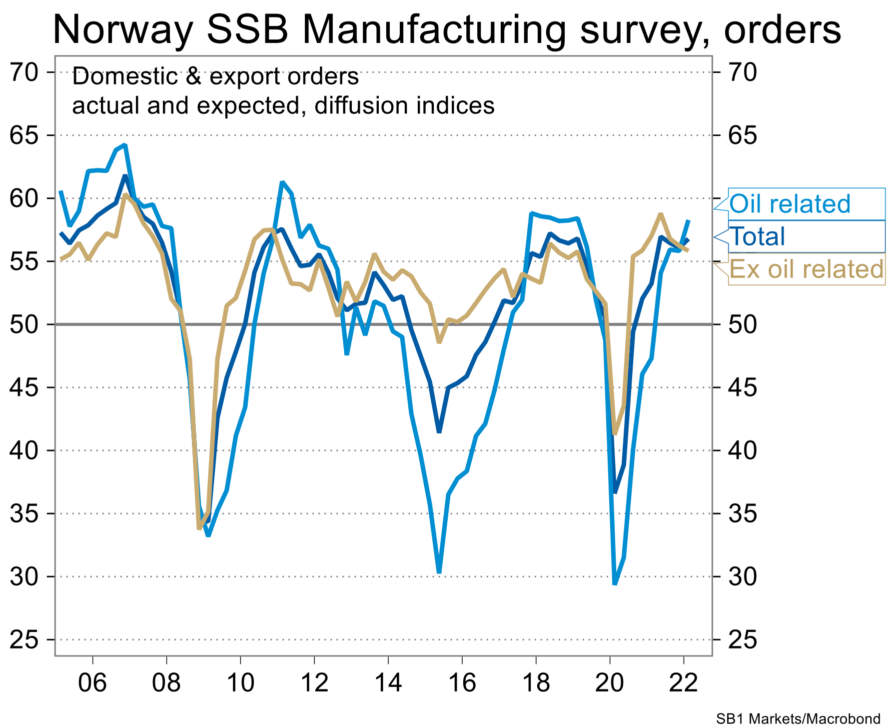


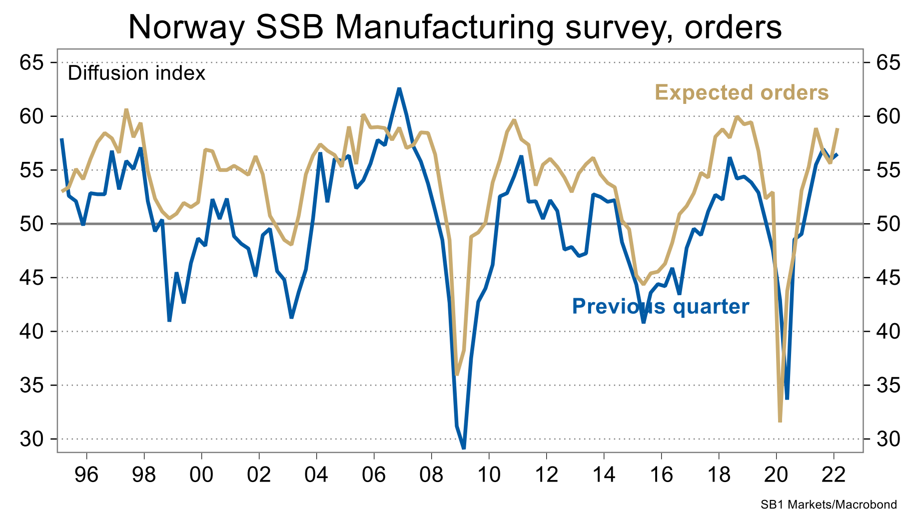


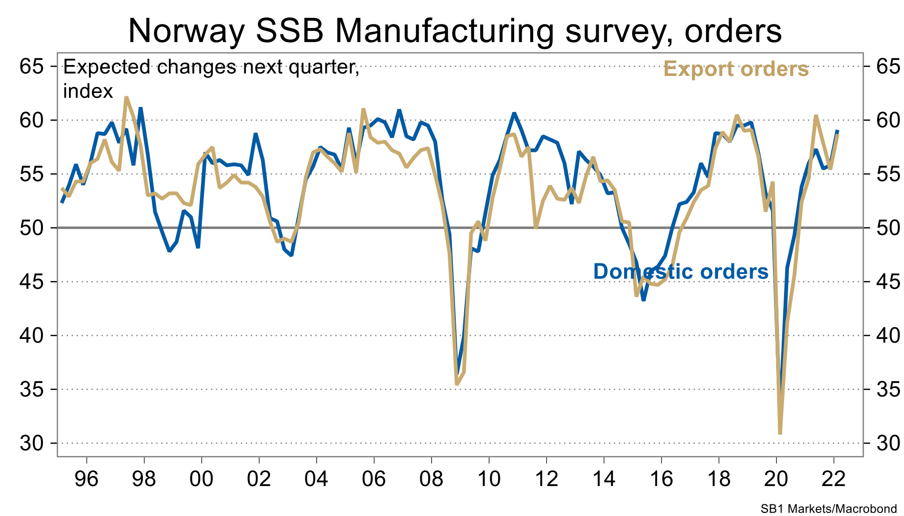
- The **composite index ('confidence')** in SSB's manufacturing survey added 0.2 p to 8.8 in Q1, we expected a decline to 5. The current level is 0.7 st.dev above average. Oil related sectors report a better outlook (order expectations), other sectors a slightly lower gowth
  - » The index signals growth well above trend in production, 3½ GDP growth and – together with the oil price, a 40% growth in 12 m expected corporate (OSEBX) earnings, though below analyst's current 58% growth estimate
- **Supply constraints** eased marginally (for labour), but are still the most serious since 2008. **Demand/competition** is far less of a problem than normal
- In Q4, companies expected to hike their **selling prices** faster than ever before (data from 1990). In Q1, this index rose sharply

Oil related manufacturers are reporting faster growth in orders, others not

Both domestic & export orders are growing at a faster pace

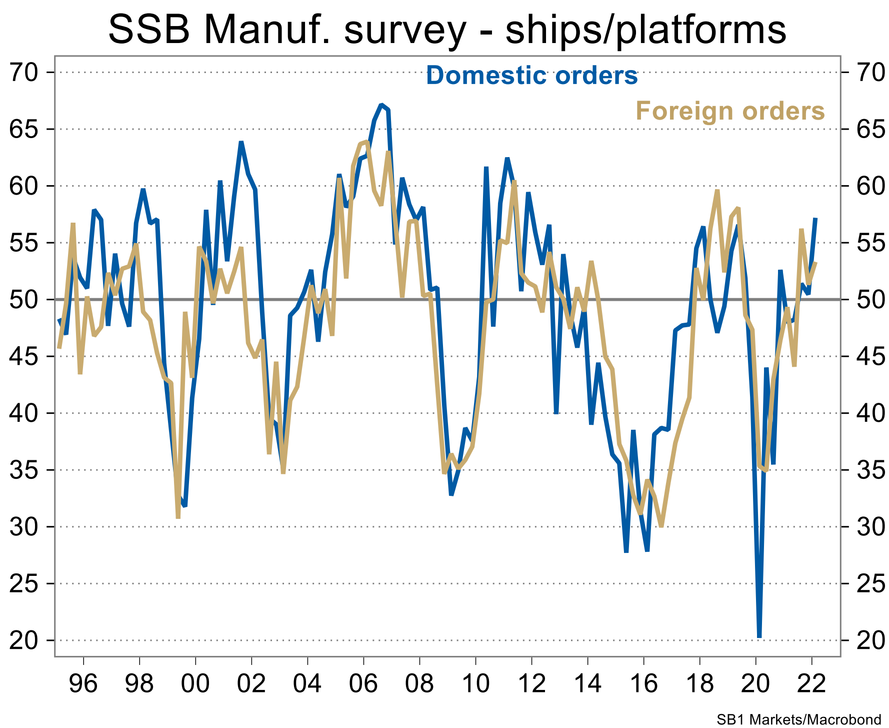






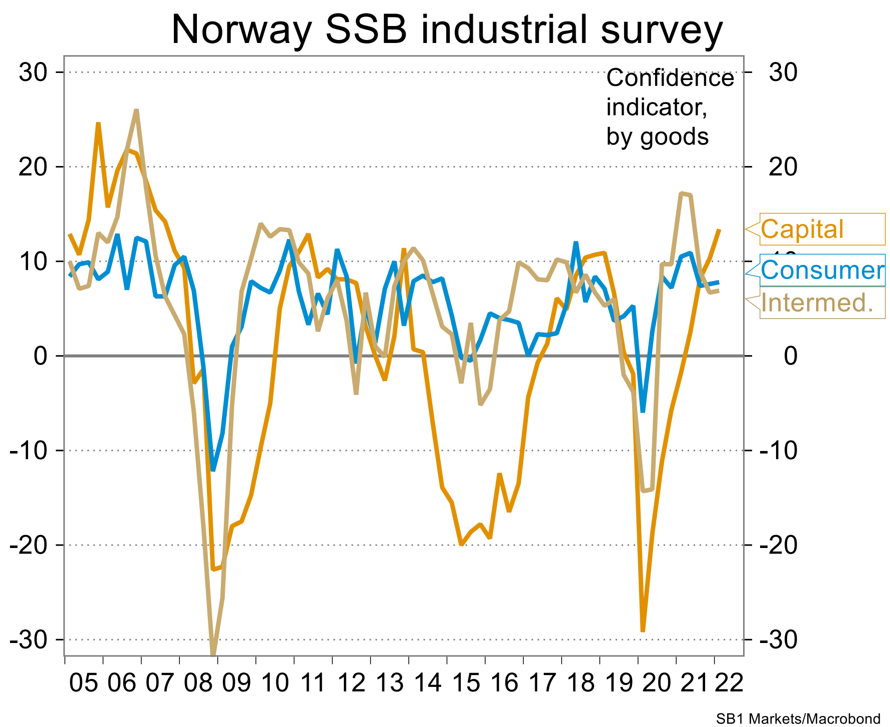
Ships/platforms: Order inflow on the way up

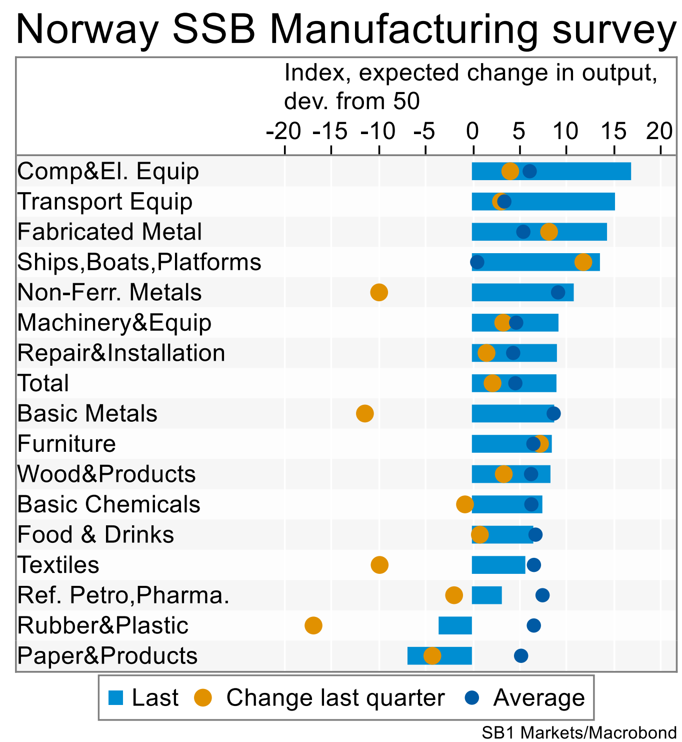
We expect more to come from home the coming quarters (or years)



Capital goods producers report even stronger growth

More sectors up than down in Q1, and most report growth above average

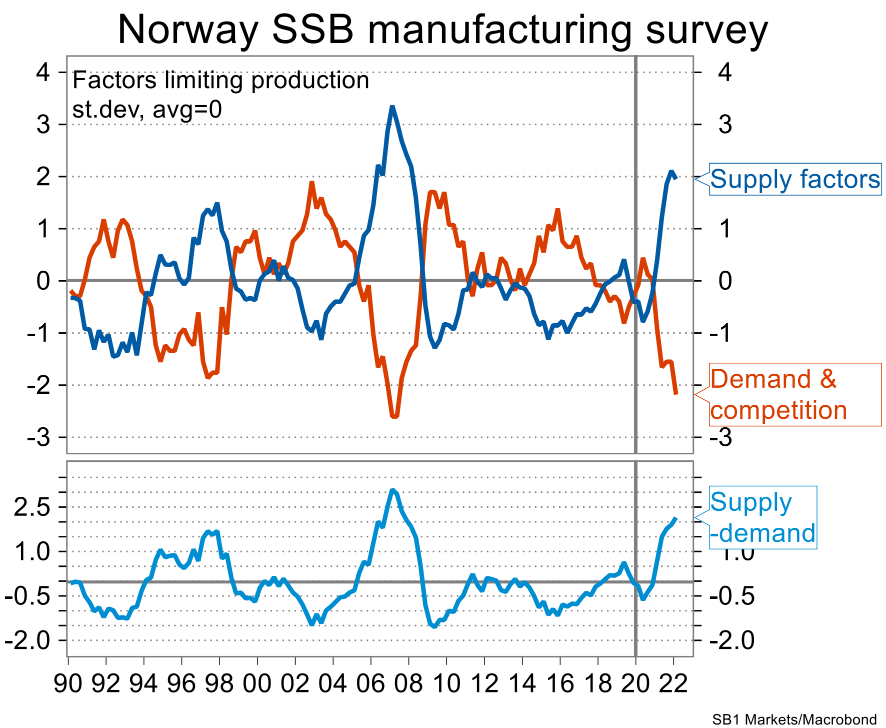


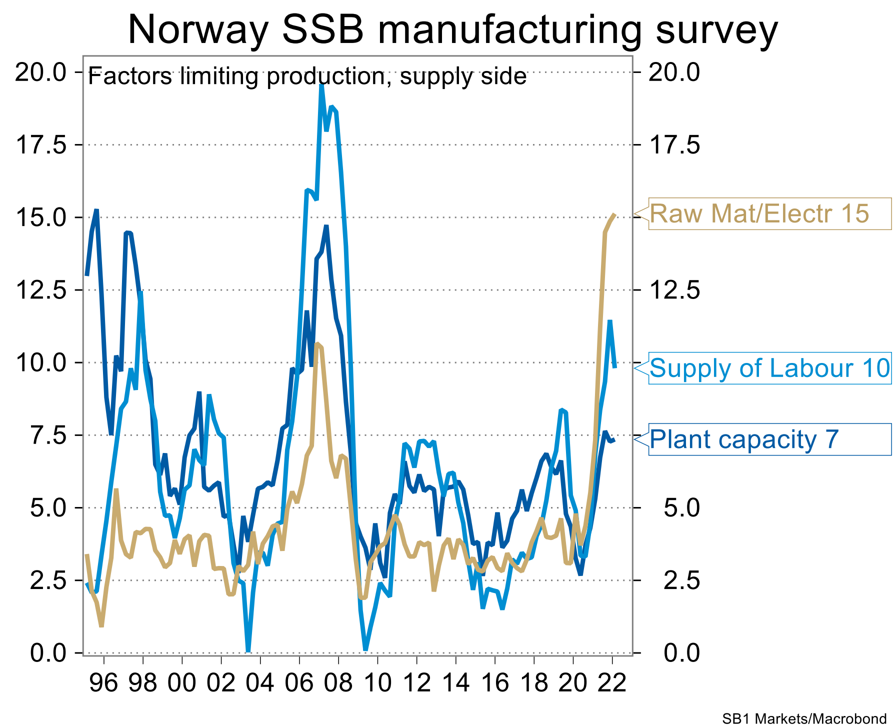


- Paper and rubber/plastic the only sectors below the 50 line

Limiting production: Supply factors far above average, demand far below

The gap is the 2nd highest since 1990. The good news: Supply side problems eased marginally in Q1

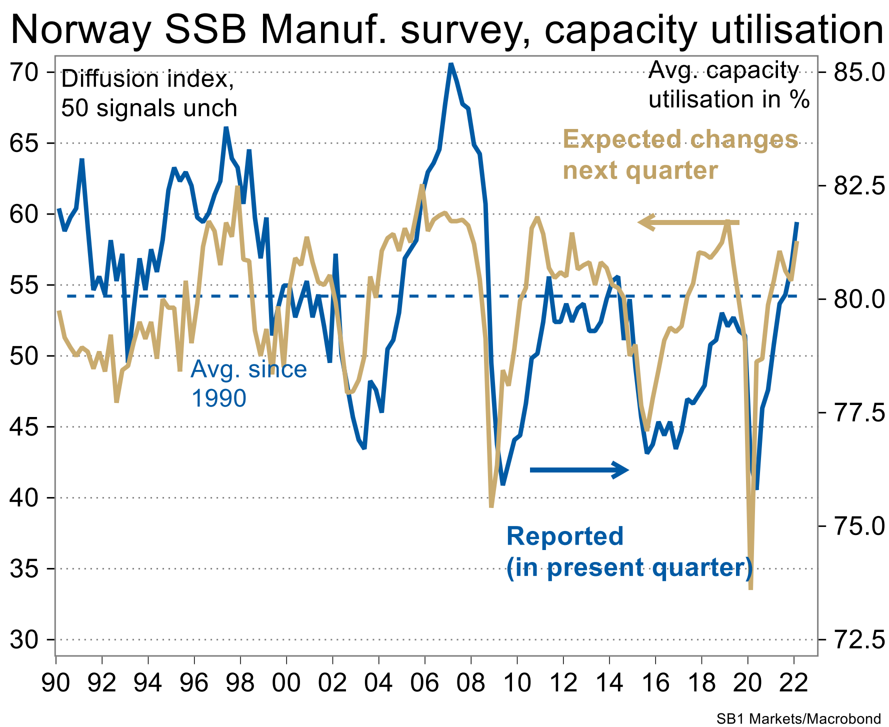


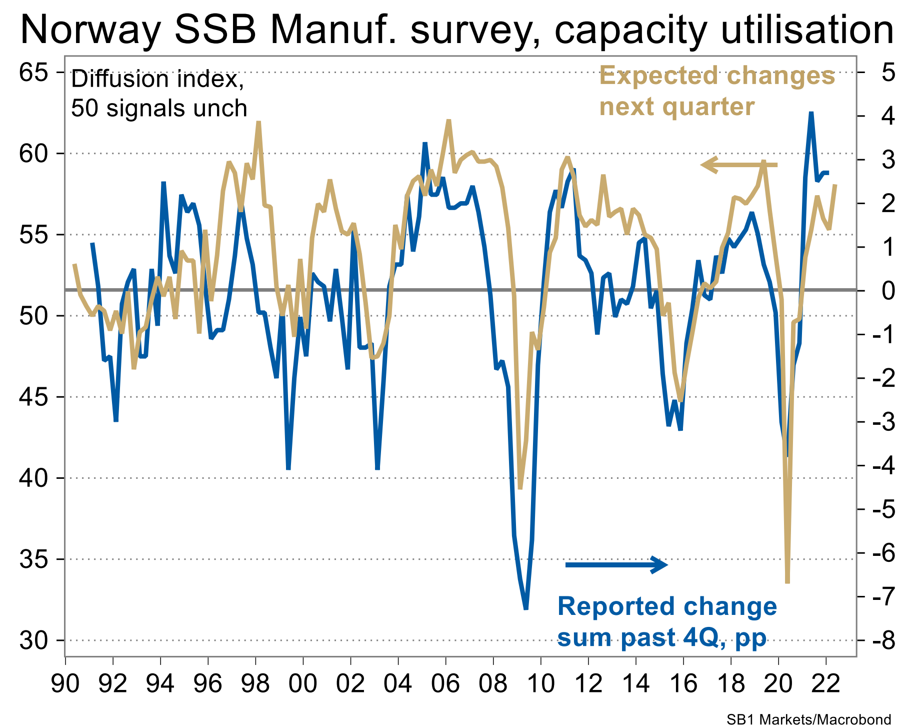


- More companies are reporting supply side factors as limiting production, up to the highest share since 2008
  - » More companies are reporting that lack of raw materials/electricity as a limiting factor than anytime before
  - » More companies are reporting supply of labour and plant capacity as limiting factors than since 2008
- Far fewer companies than normal are reporting lack of demand or competition as limiting factors
- ***No demand crisis – and it never was during the pandemic***

Reported capacity utilisation further up, well above an average level

An utilisation is expected further up



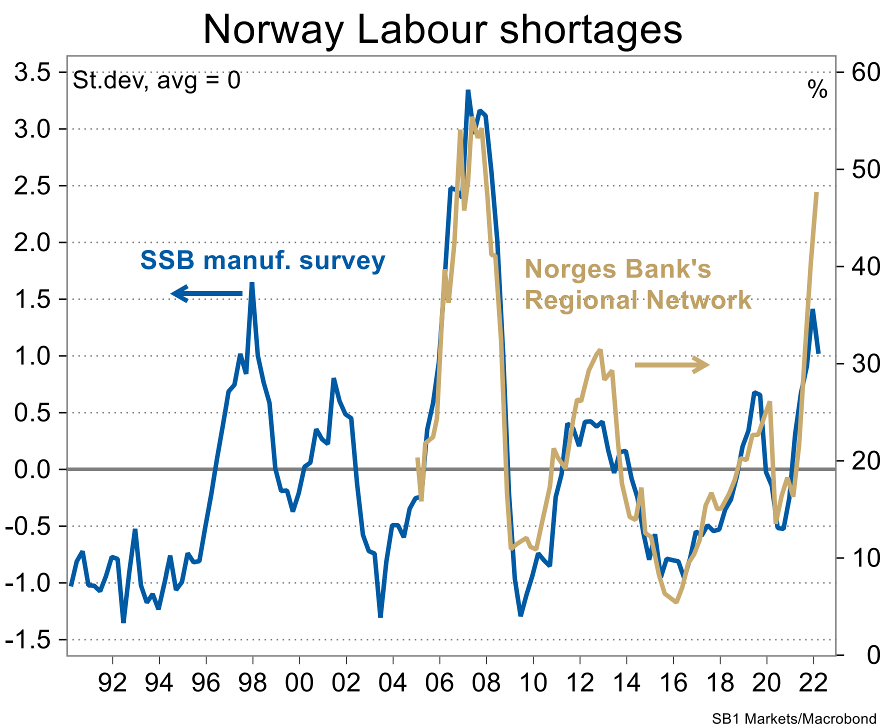


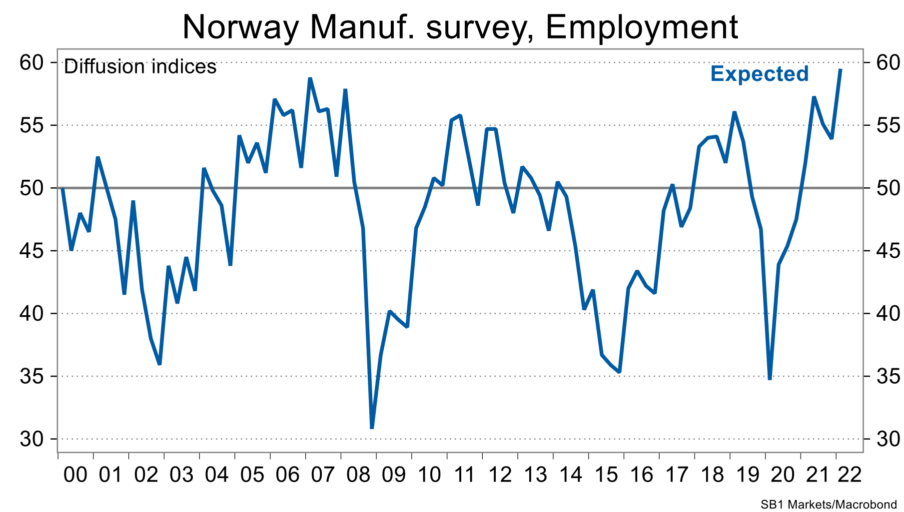
- The lift in capacity utilisation recent quarters has been impressive – from a low level last spring
- Companies expect a higher capacity utilisation in Q2, and they are usually right

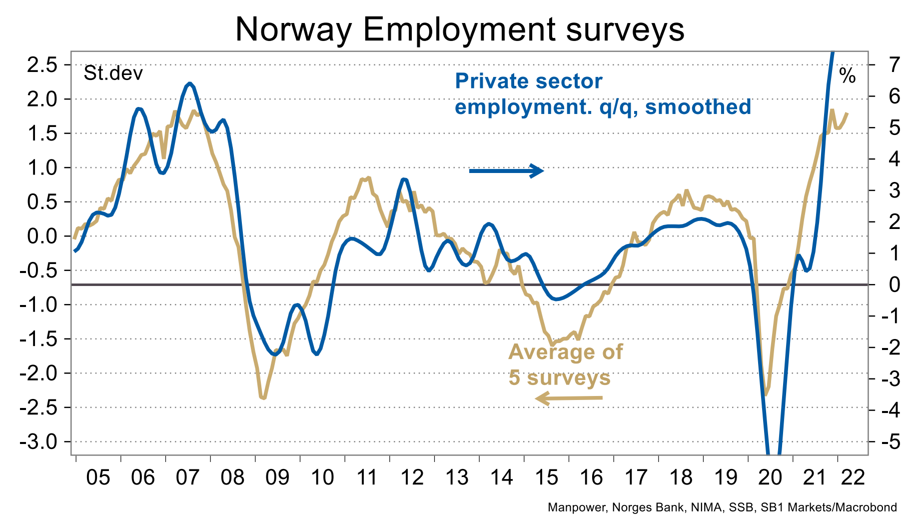
SpareBank 1 MARKETS

Labour shortages a tick down in Q1, but still a high level

Manufacturers and other sectors reports very aggressive hiring plans, in manuf. more than ever!

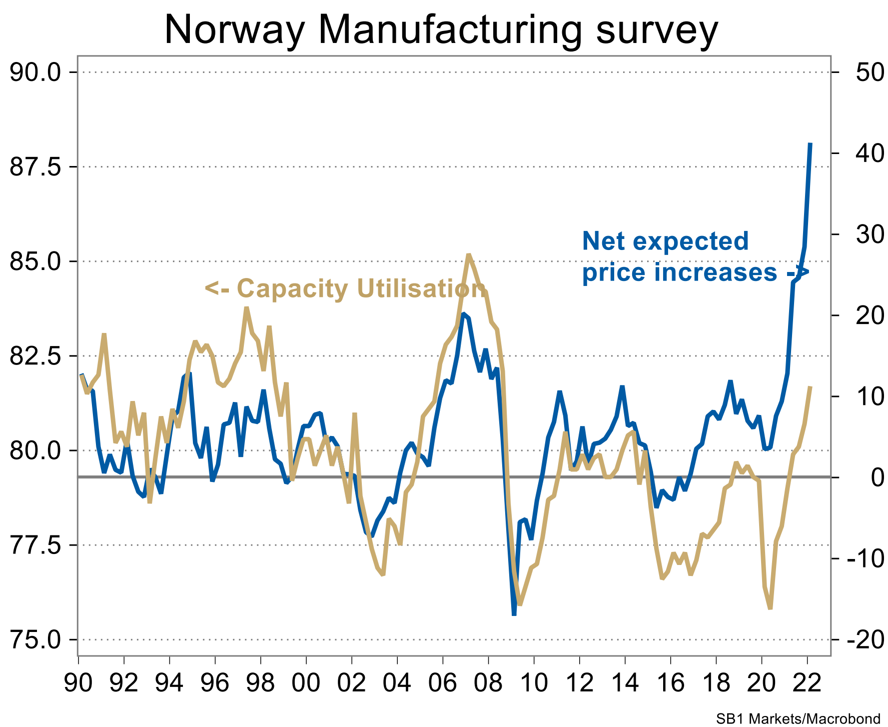






- Employment surveys are signalling a substantial acceleration of employment growth

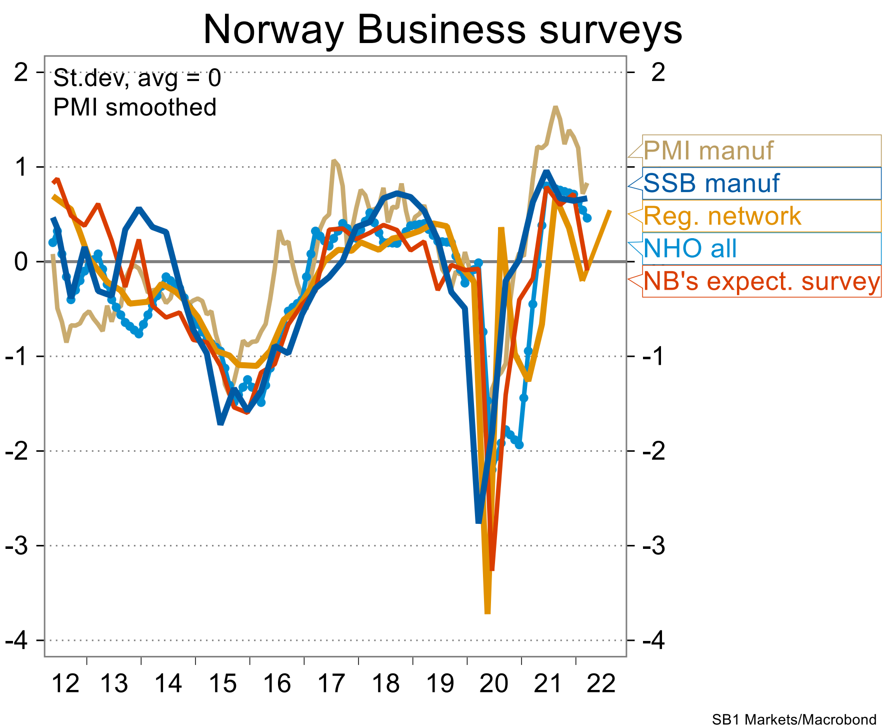
Prices are exploding, here too, and even more so in Q1

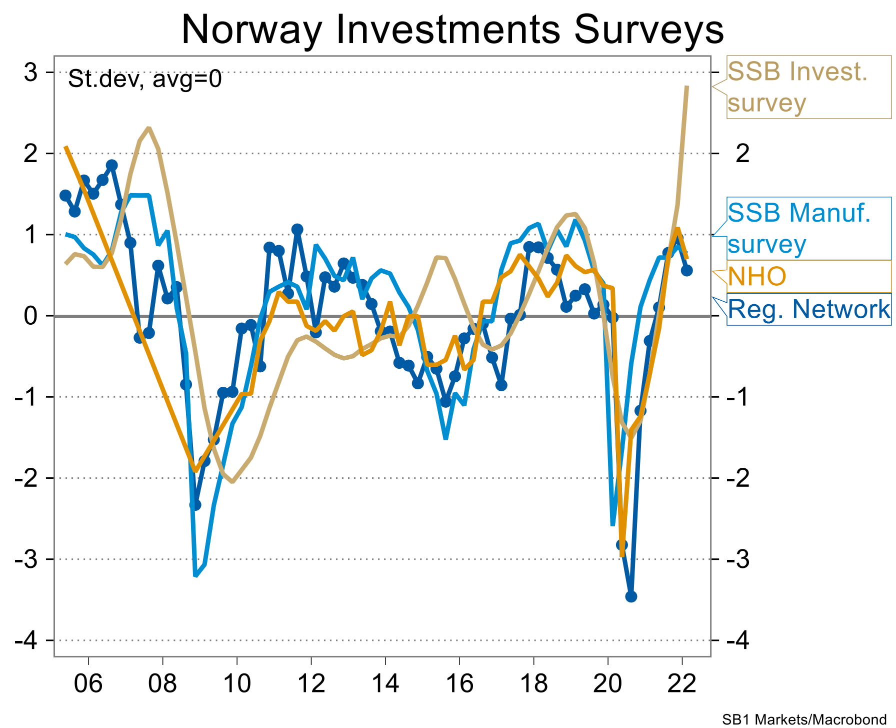


- Prices are expected up far more than suggested by the reported capacity utilisation

Surveys: Peak growth is behind us, decent growth still reported

SSB's investment survey (from February) signalled strong growth in manufacturing investments

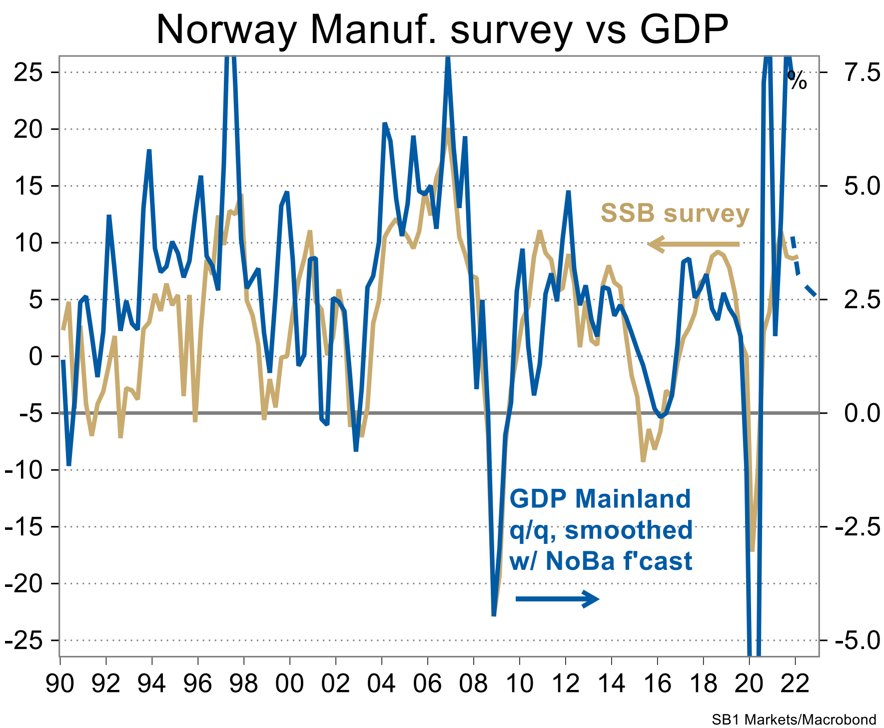


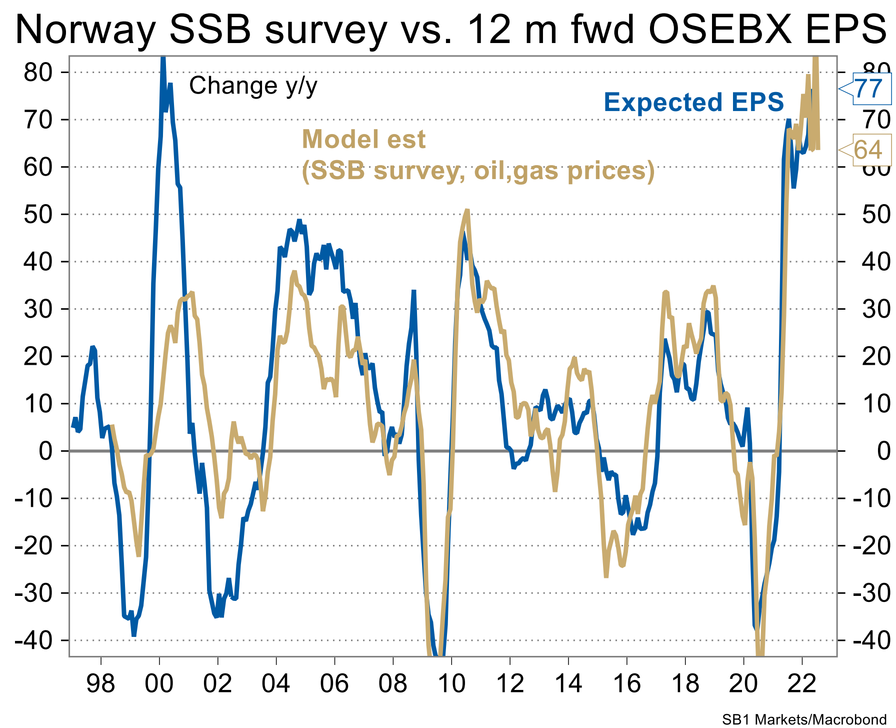


- In the current manufacturing SSB survey, companies revised their **investment plans** slightly down, still indicating growth well above average
- Other surveys are signalling investment growth at the same level – except SSBs investment survey, which was were upbeat in February

SSB's manufacturing survey signals 3½ % GDP growth, and still strong EPS growth

... but lower growth than the current 12 m EPS f'cast (where oil & gas prices are added in the model)

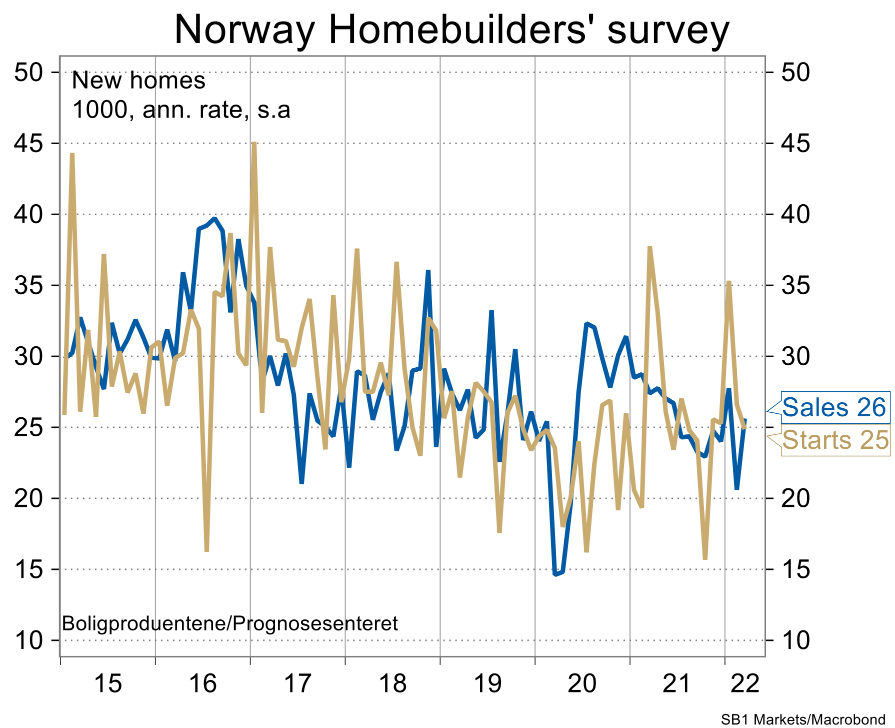


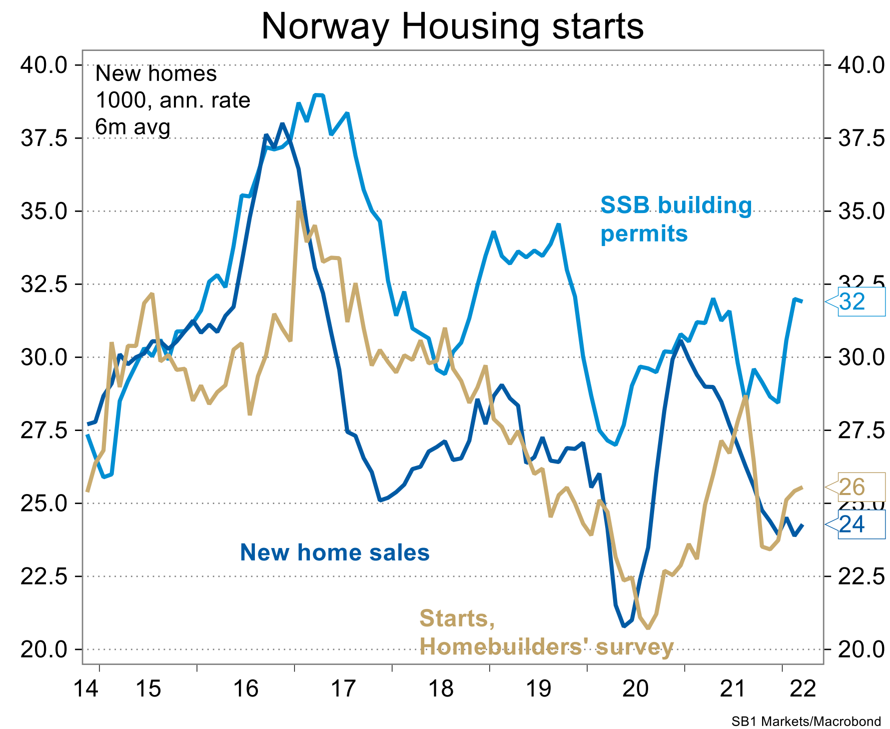


- The manufacturing survey is quite closely correlated the Mainland GDP cycle
- The survey is closely correlated to the OESEBX earnings cycle too – and even better if oil & gas prices are added in the equation

New home sales up to a ‘normal’ level in March, starts down to a ‘normal’ level

… according to the homebuilders. SSB report a surge in building permits

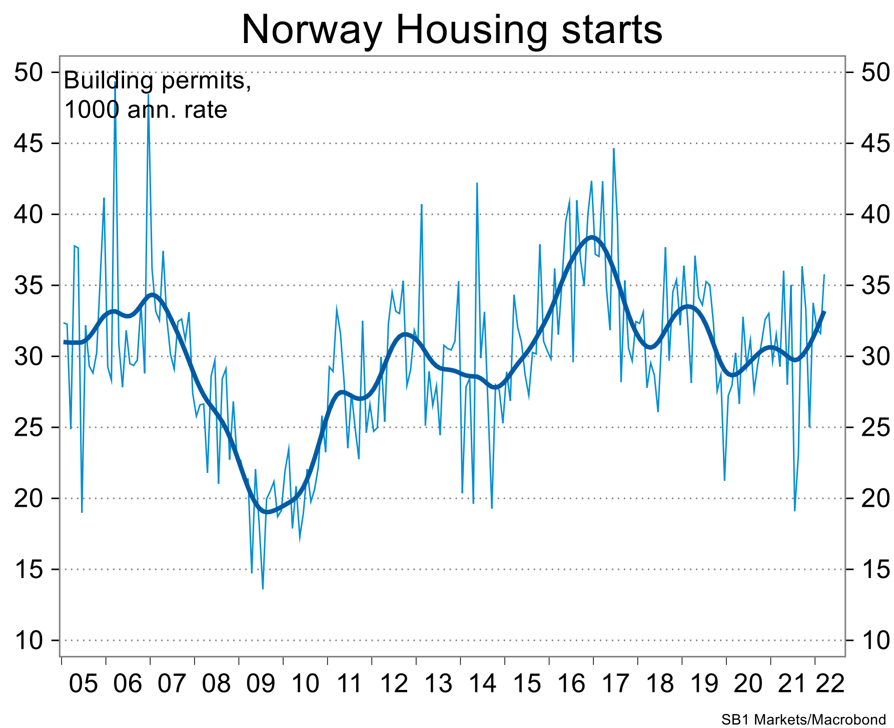


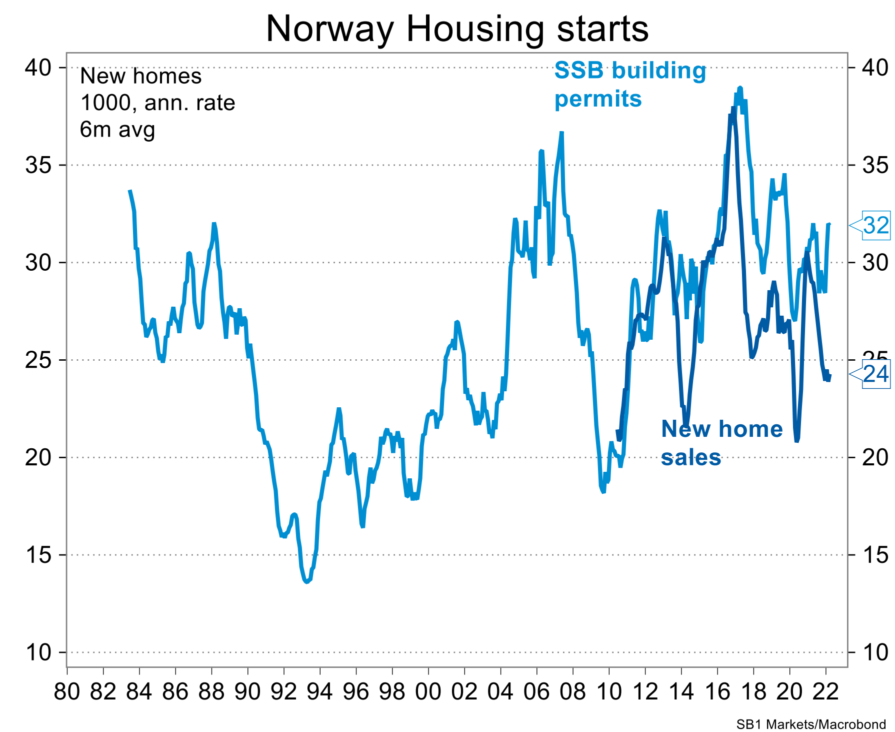


- Boligprodusentene (Home builders) ‘always’ report that building activity is declining and that it is too low
- Recent months sales have flattened and starts have increased. The level is not necessarily low
- SSB report a decent increase in housing starts recent months, and the level is above the average over the past years

SSB: Housing permits up to a high level in March – and the trend is up

Permits up to 36', well above the average level the past 5y. Have the fake news media told you so?

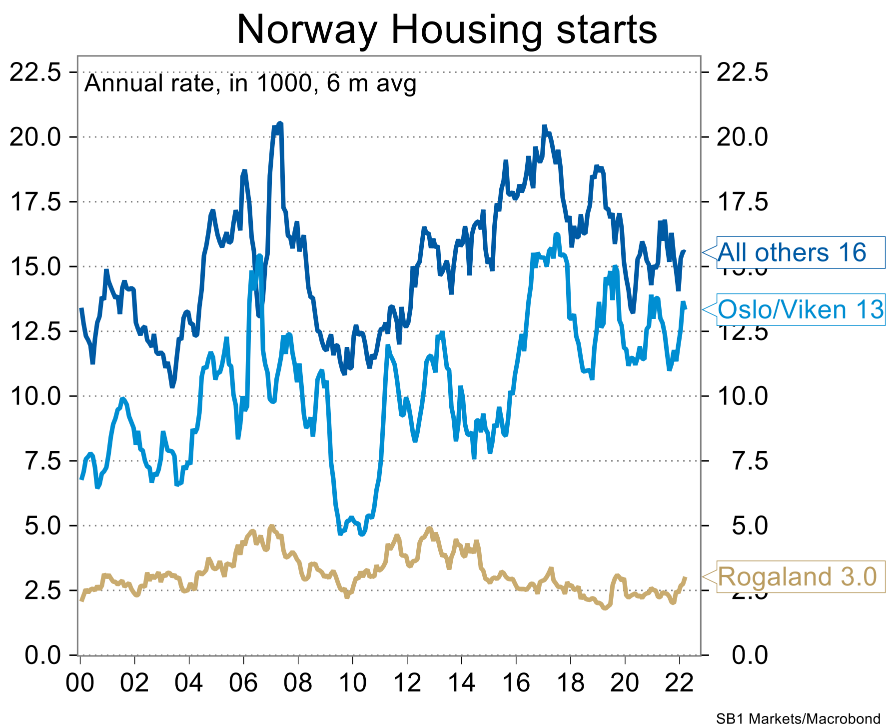


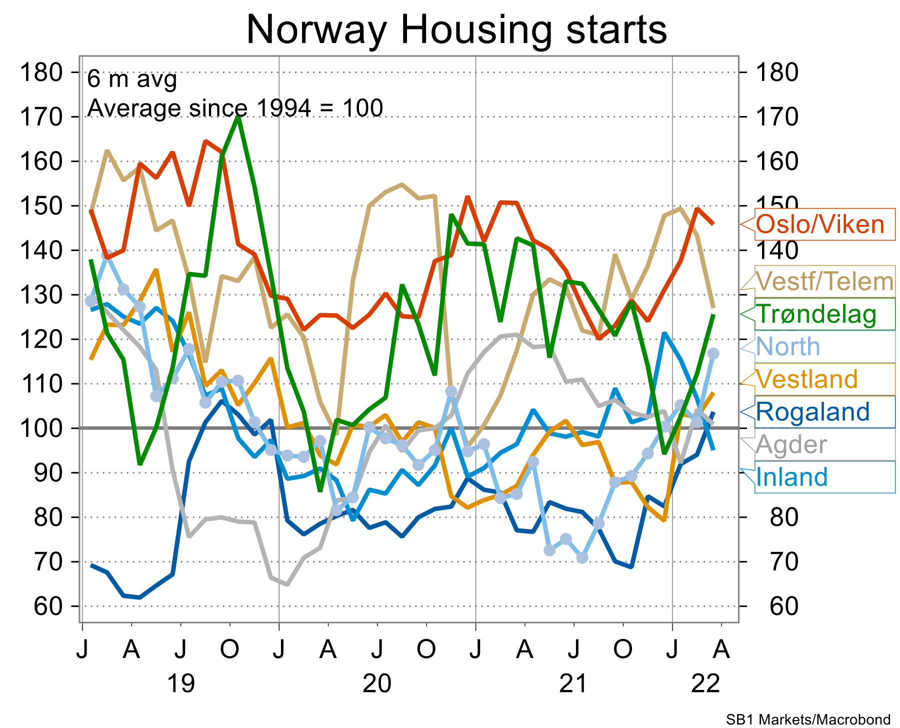


- The average no. of permits the past 6 months at 32, clearly above the estimate from the Homebuilders at 26'. However, student homes, are nurseries are not included in data from the Homebuilders. Some single homes are not included either

A broad increase in housing starts

Most regions are up recent months, and only Innlandet are reporting fewer start than past 25 y avg

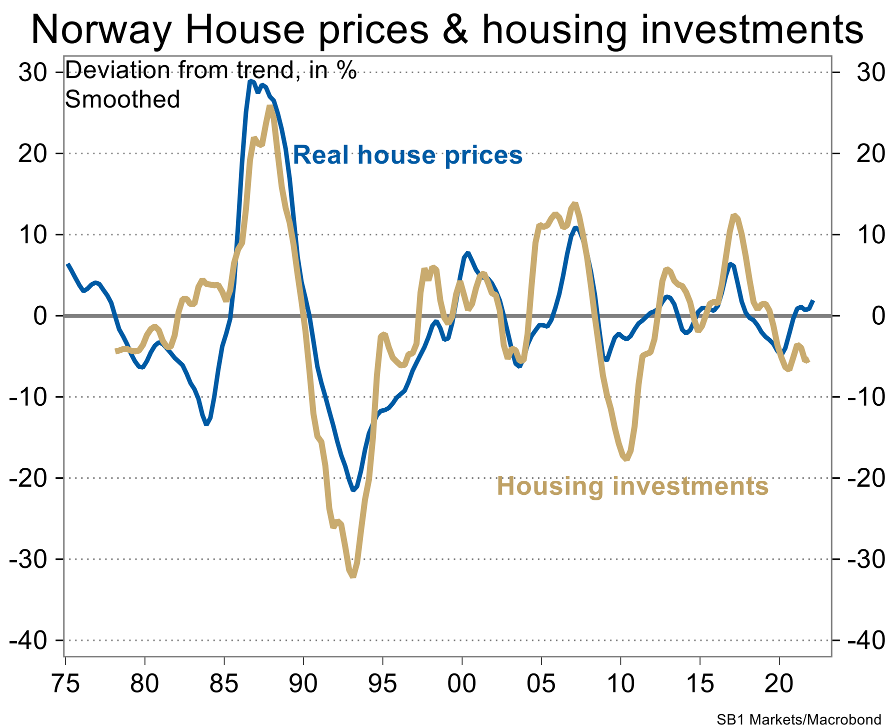


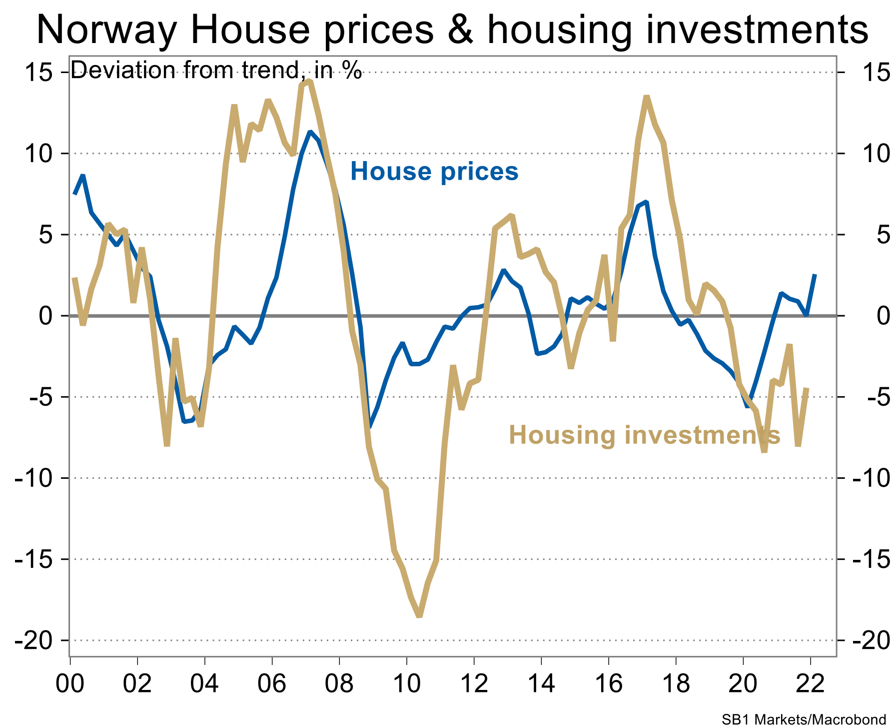


SpareBank 1 MARKETS

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

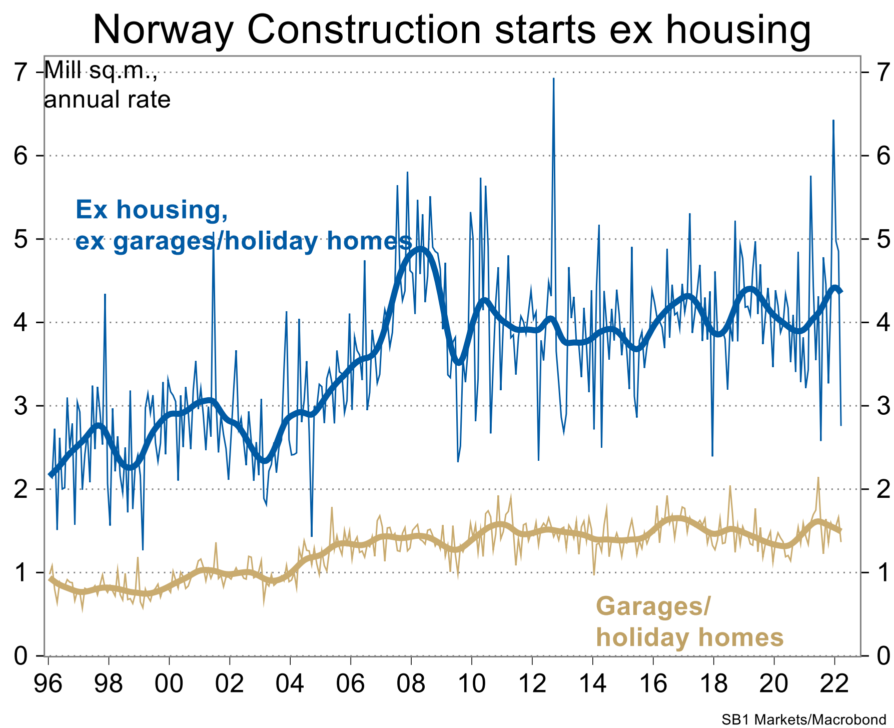
Prices have strengthened recent months – but higher building costs are probably weighting on starts

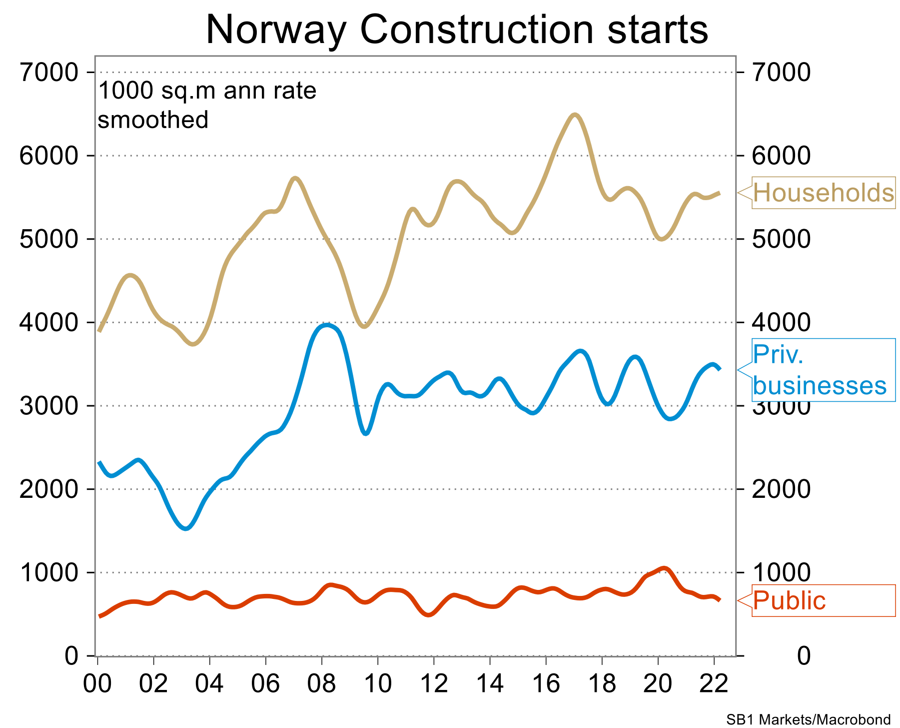




Non-residential construction down in March, trend still strong

Private services in the lead

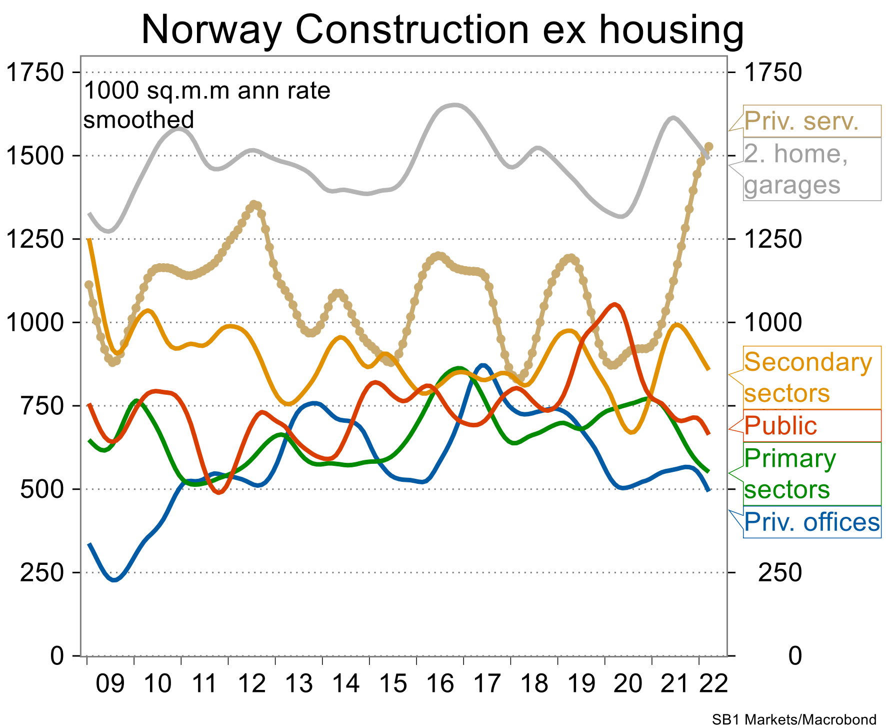


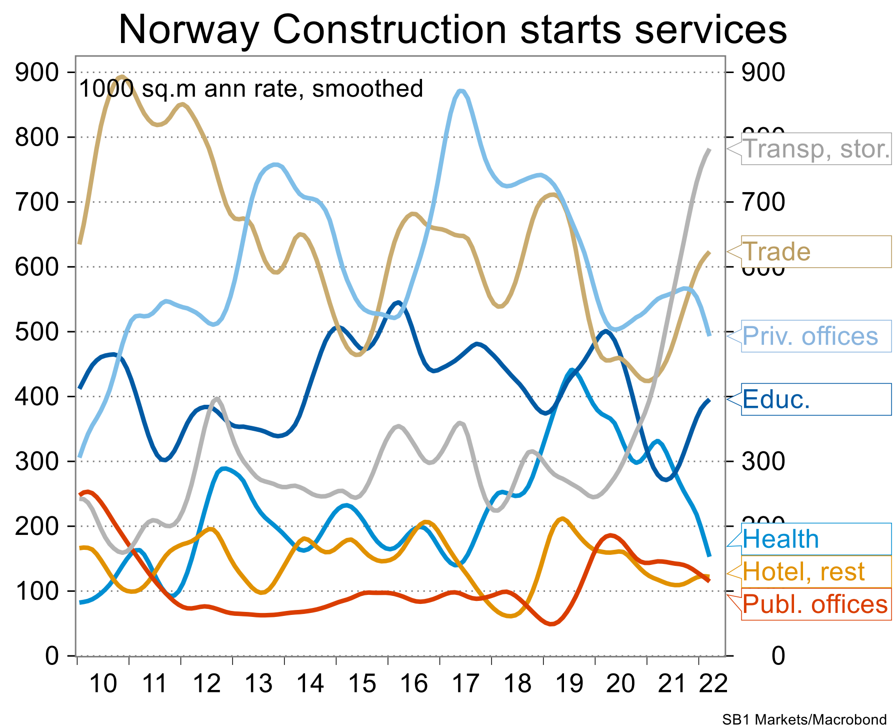


- **Construction starts ex housing & garages/cabins** are very volatile, short term, influenced by single projects
  - » **Private non-residential starts** climbed in H2-20 and continued at a high level in Q1
  - » **Public sector construction starts** have fallen almost 50% since early 2020 and still sliding down, due to few new starts within the oil sector
  - » **Construction starts of cabins/garages** are have climbed 30 – 40% from early 2020 – but have slowed somewhat the past months

Private services in the lead, transport/storage & trade on the way up

Private offices, public sector (health) have slowed substantially

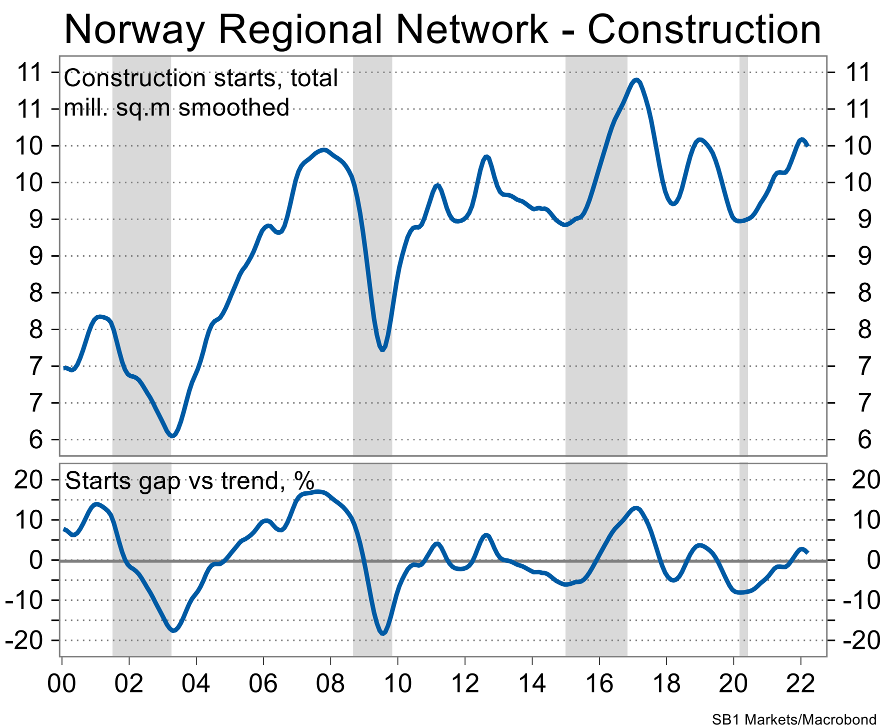


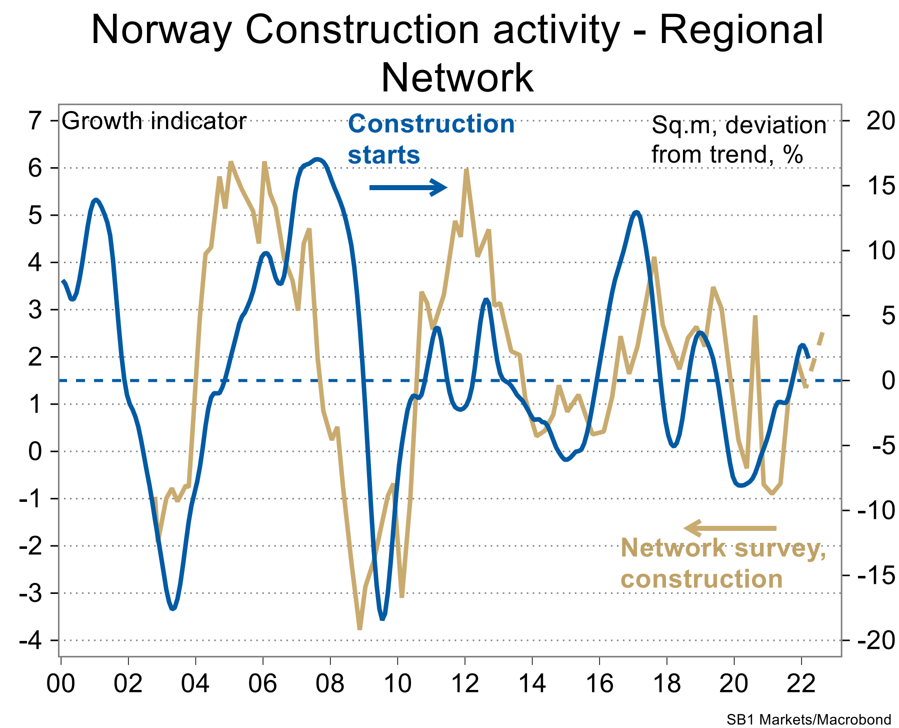


Public on the chart to the left, and at the previous page: Construction starts in public administration, education and health

The Q1 NoBa Regional Network signalled moderate – but higher – growth

...and not a surge like in December

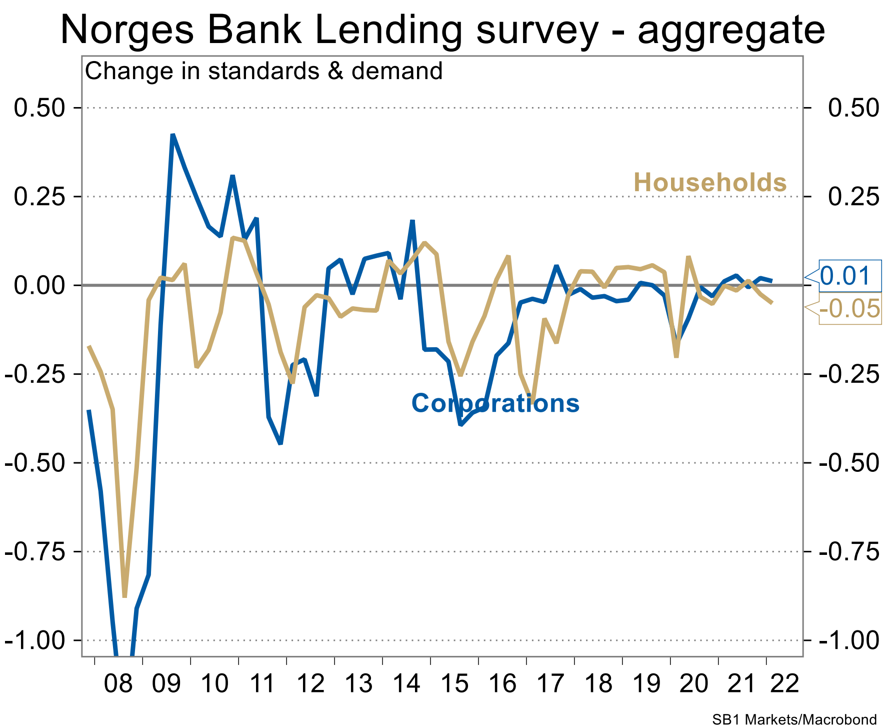


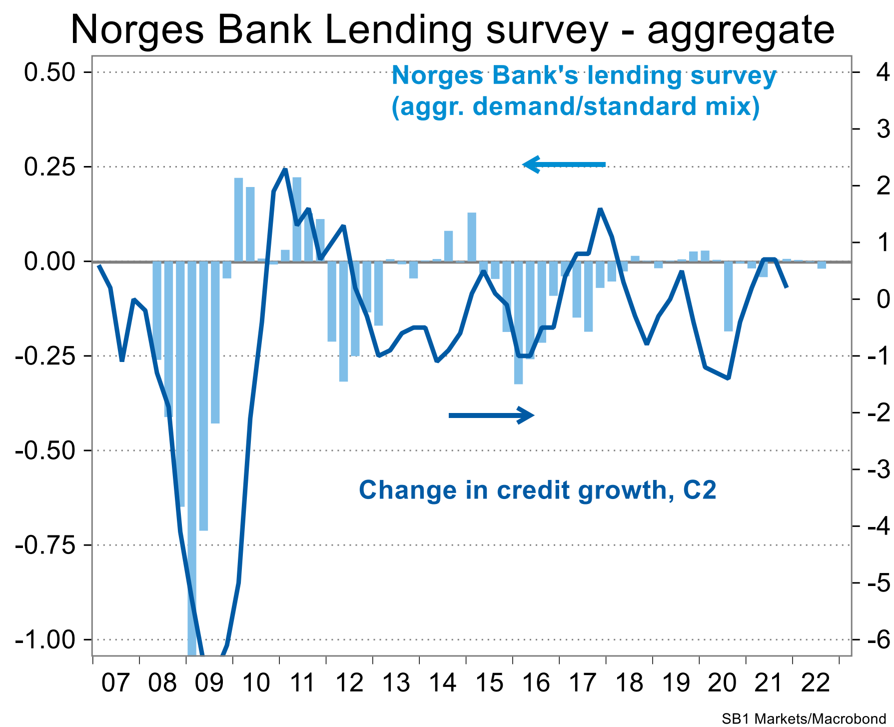


- The 'long term' trend is down since early 2017. At least until December

Bank lending survey indicates no large changes in credit standards or demand

Slightly weaker household demand expected – while lending margins vs. businesses increases

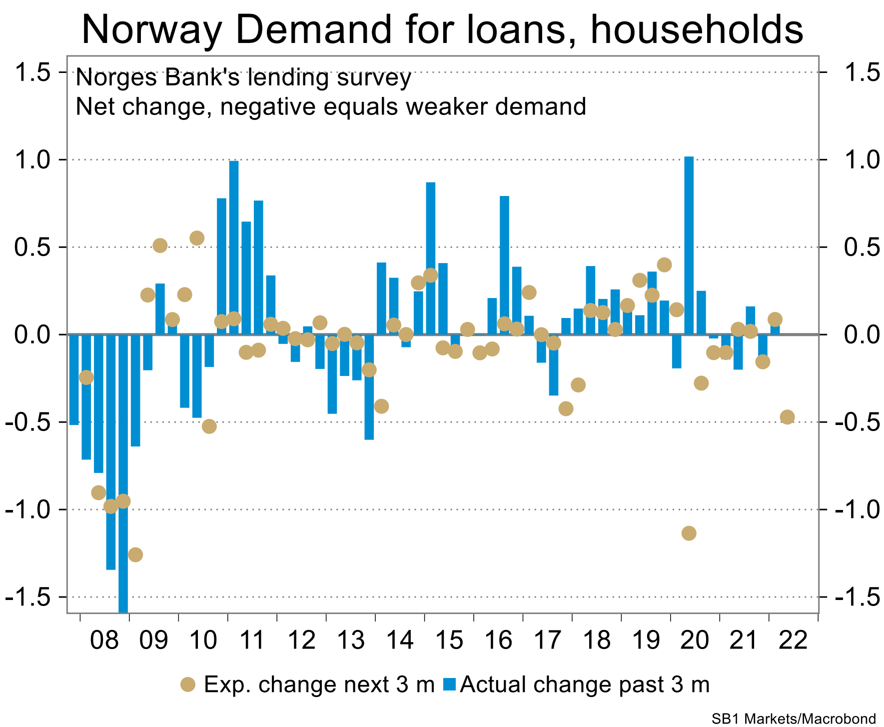


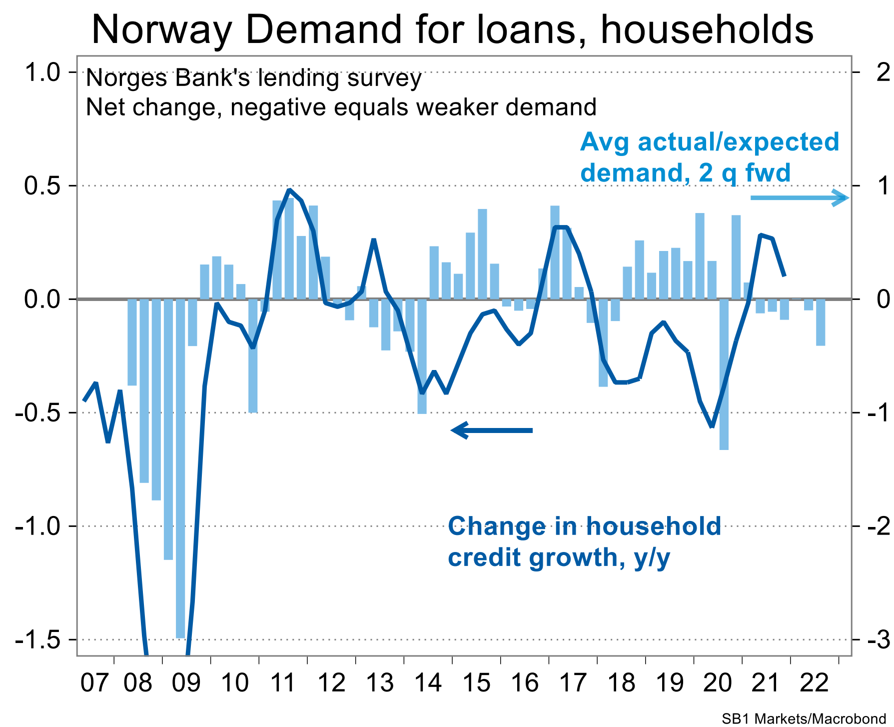


- The NoBa survey has not given any strong signals recent quarters
  - » No important changes in demand and credit standards
- Household demand for credit is expected to weaken somewhat
- Banks have been able to increase their lending margin (above NIBOR) vs. businesses, and expect to lift the margin further in Q2 – which surprised us

Data in this section are seasonally adjusted

Demand from households a tad stronger in Q1, expected weaker in Q2

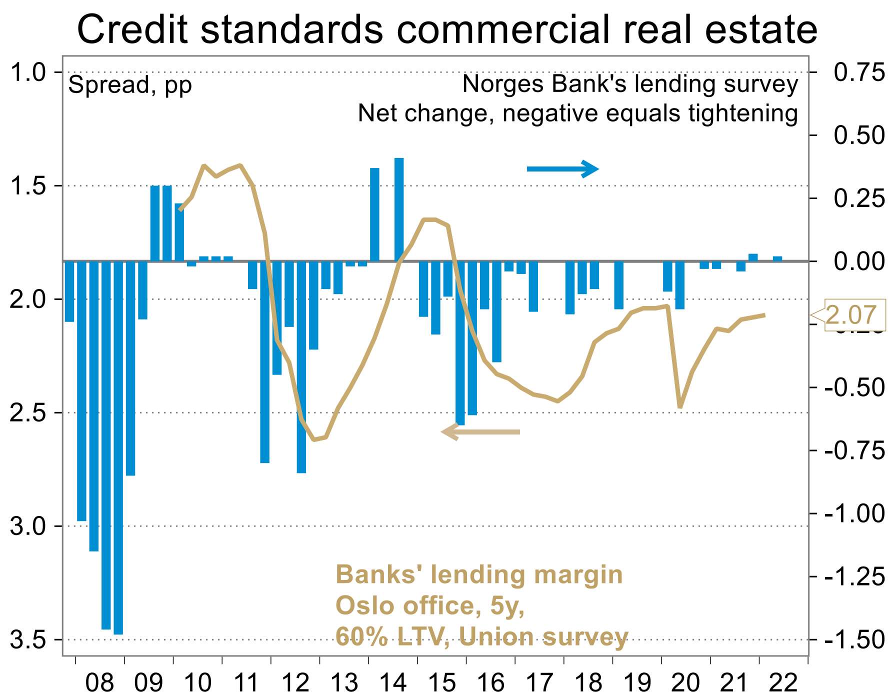




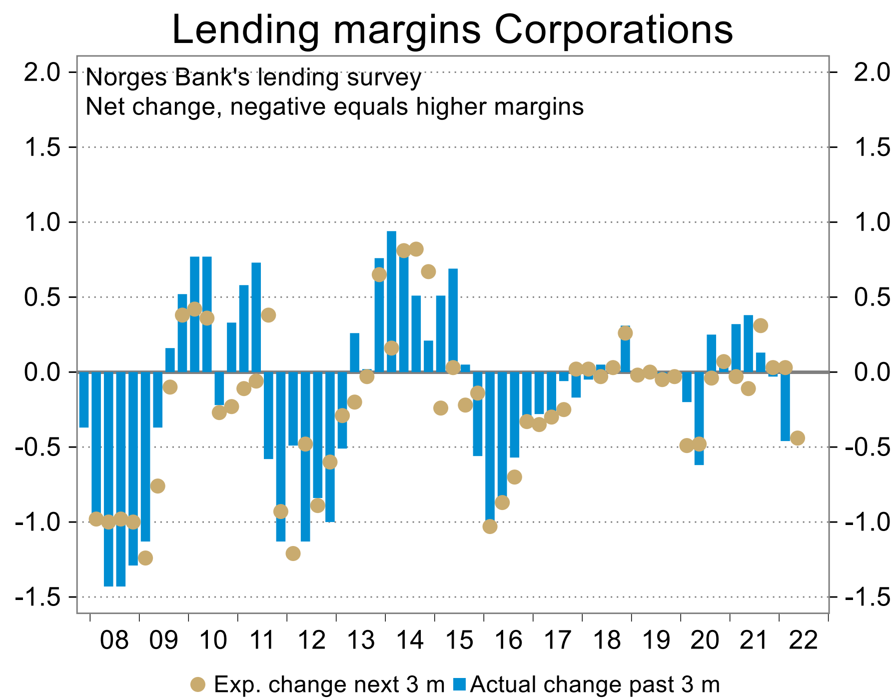
- There is not any tight correlation between banks' expectations for household demand for credit or their assessment of actual growth and the realised growth in households credit, as measured by the C2 credit indicator)
  - » Still, the lending survey probably tells the sentiment among bankers pretty well

Real estate loan standards flat, but business lending margins widens

Banks widened their lending margin in Q1 (the lending rate up vs. NIBOR), expect more to come



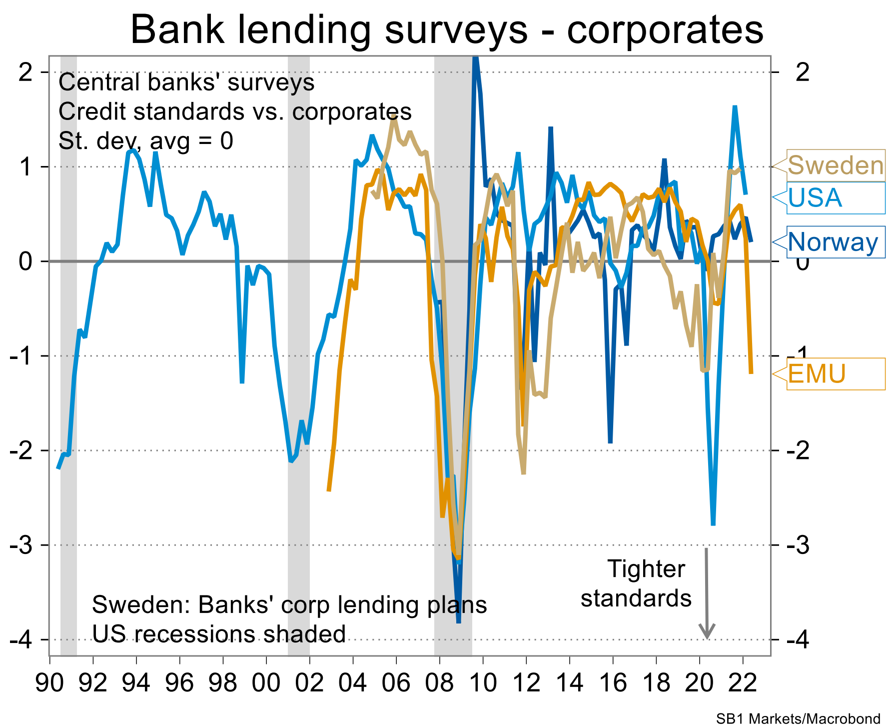
SB1 Markets/Macrobond

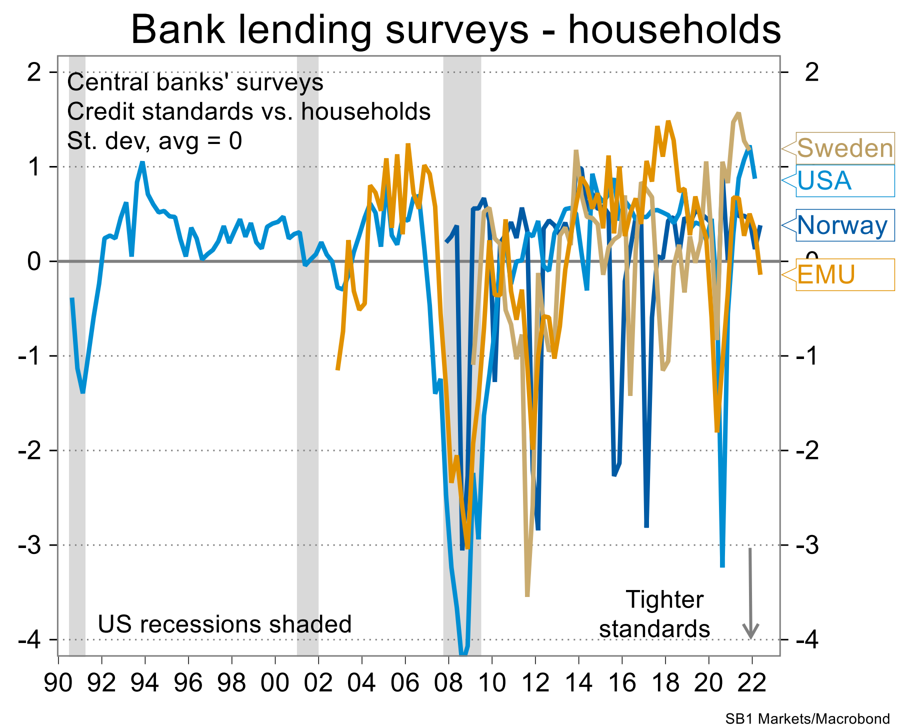


SB1 Markets/Macrobond

Global view: European banks have tightened vs. the corporate sector

US banks are still open for business



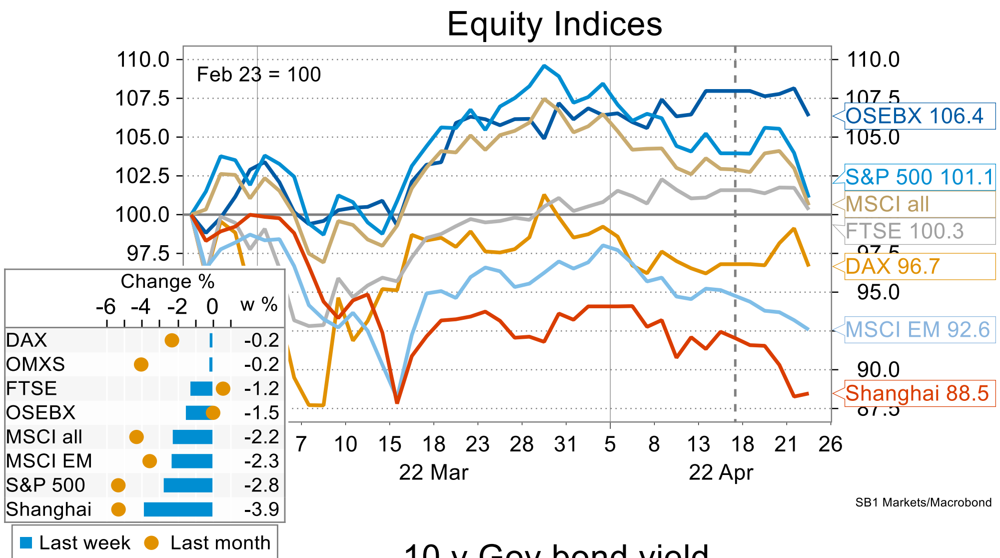


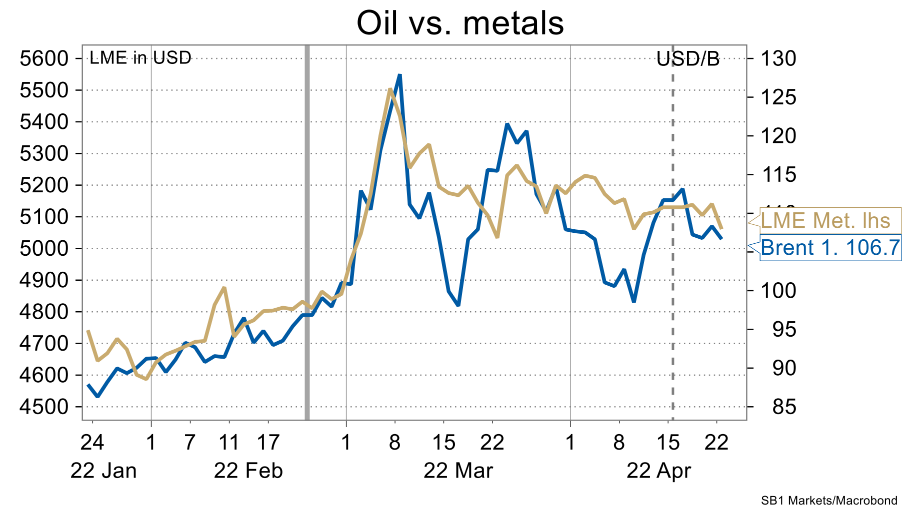
- **US banks** are signalling loosening standards, and quite a bit towards the corporate sector. Credit spreads in the corporate bond market are among the lowest past two decades
- **European banks** changed their mood in Q2, we think we know why…
- **Swedish banks** are reporting easing standards vs. households & businesses (but no 2022 data yet)

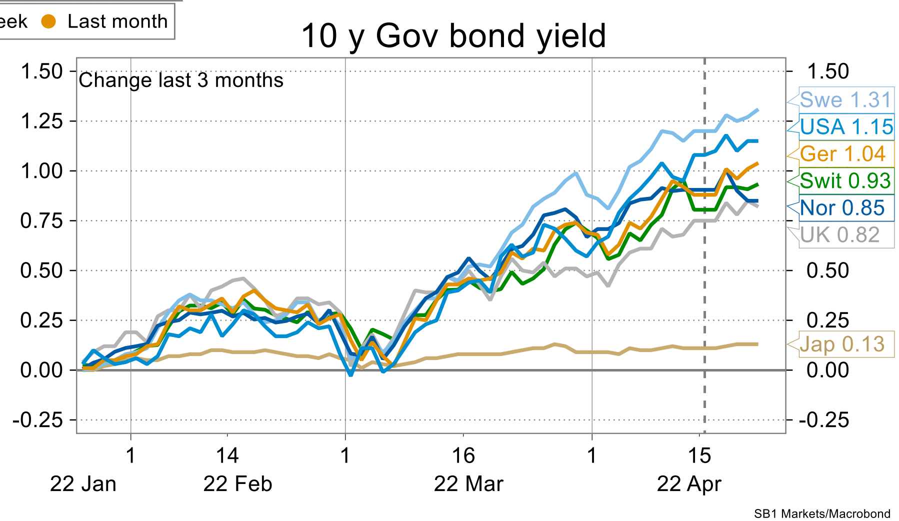
SpareBank 1 MARKETS

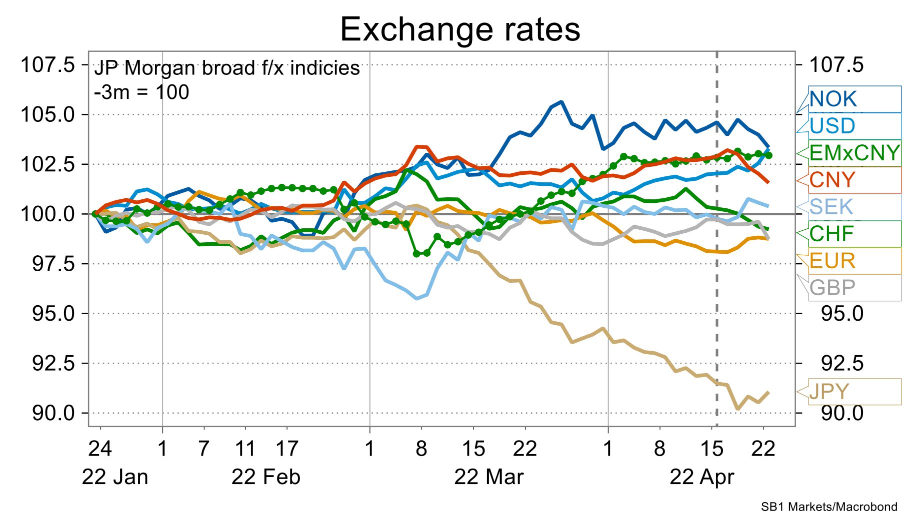
Equity markets down, commodities are trending down – bond yields up

(but NOK bond yields fell, as did the NOK)







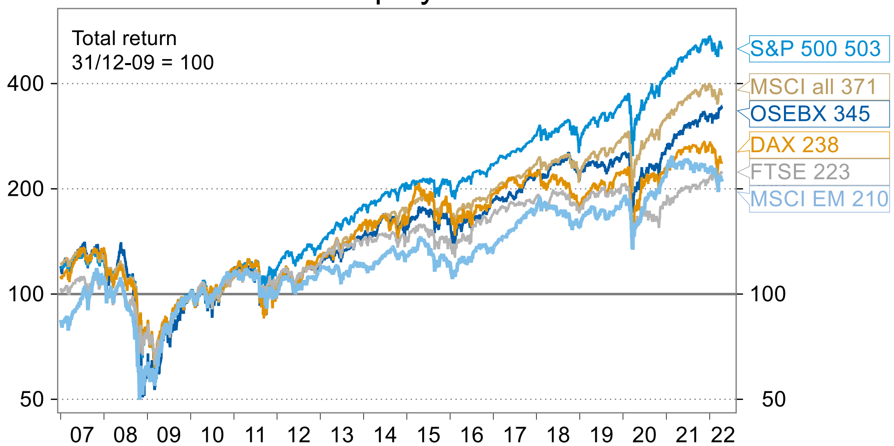


SpareBank 1 MARKETS

The big picture: Stock markets down (-OSEBX), bond yields up

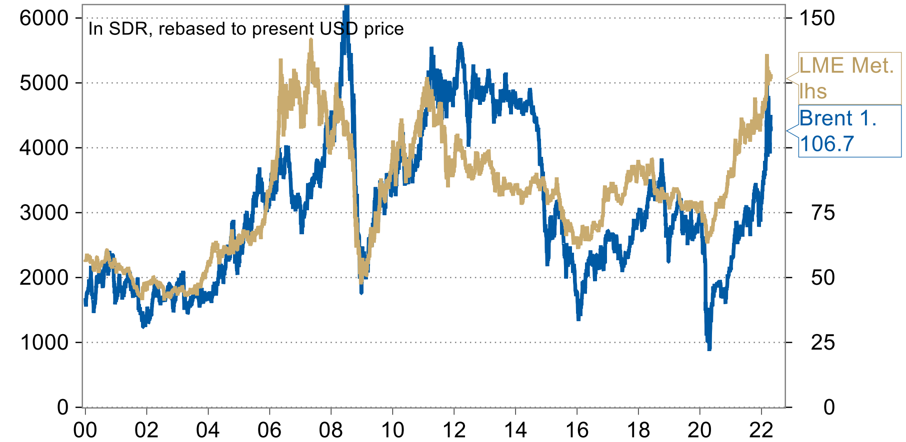
…. And commodities have taken a big step upwards

Equity Indices



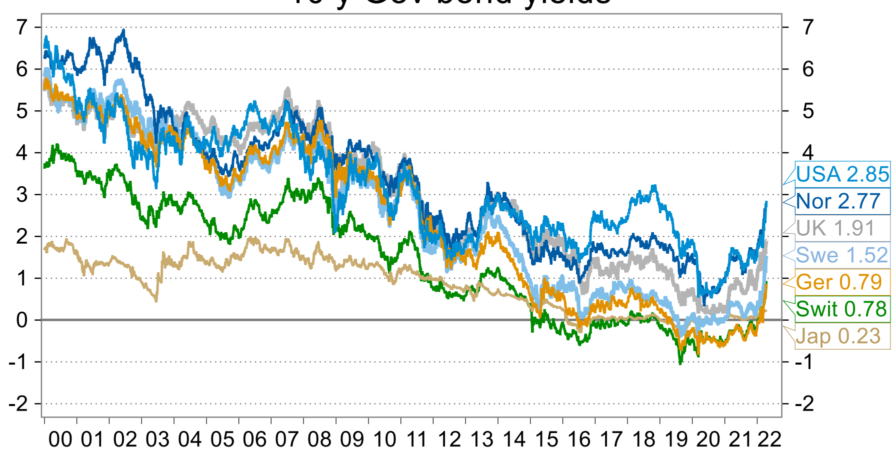
SB1 Markets/Macrobond

Oil vs. metals



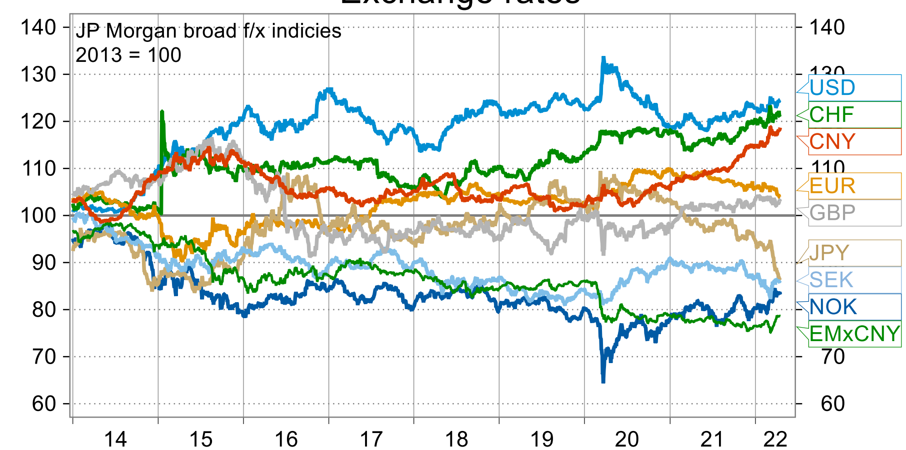
SB1 Markets/Macrobond

10 y Gov bond yields



SB1 Markets/Macrobond

Exchange rates

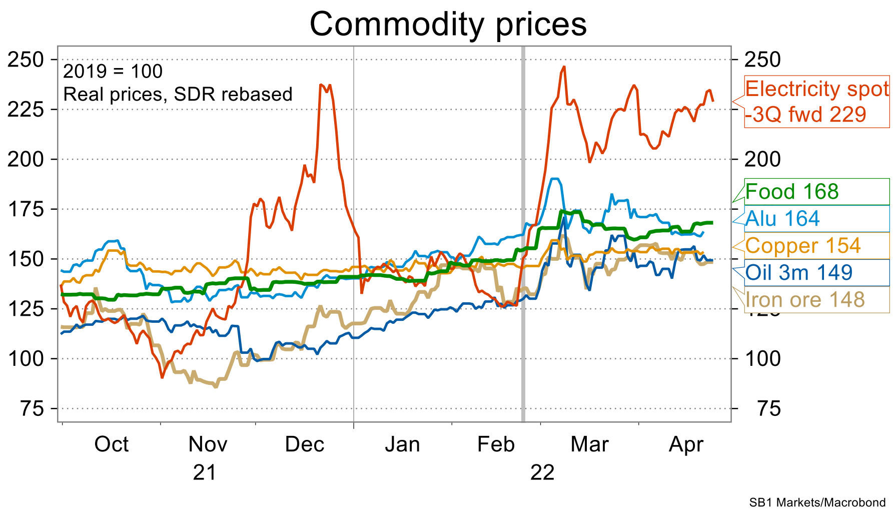


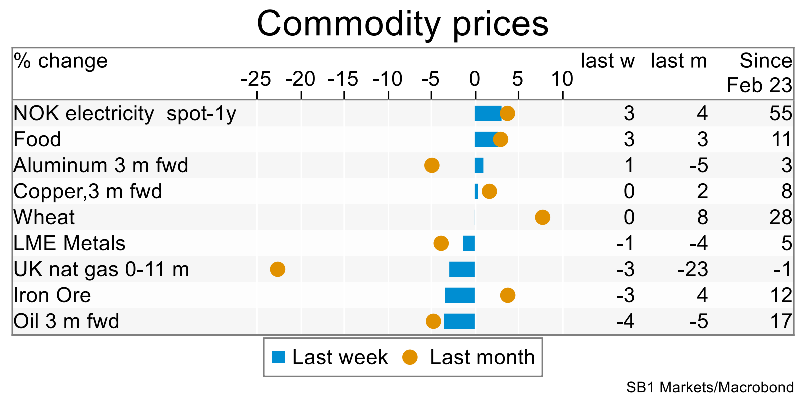
SB1 Markets/Macrobond

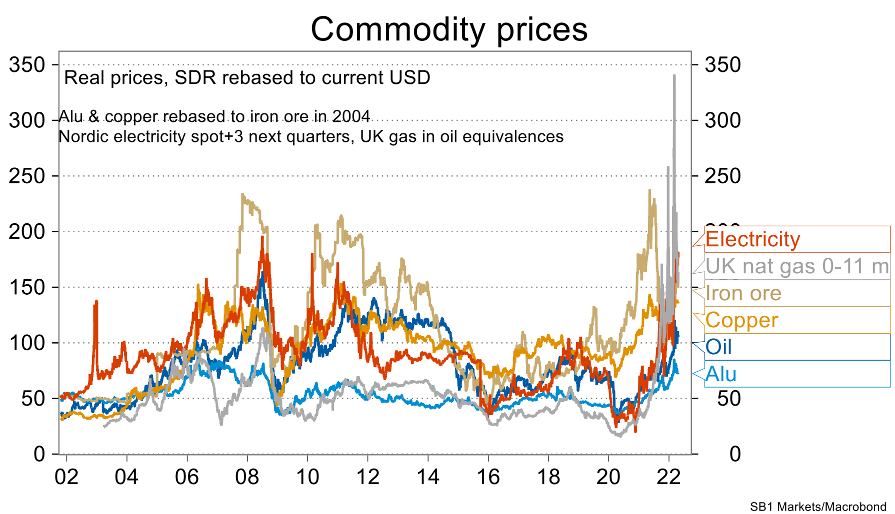
SpareBank 1 MARKETS

Mixed commodity prices, oil & wheat up. UK gas prices up too (but US prices up)

Food prices are up 7% from before the Russian invasion





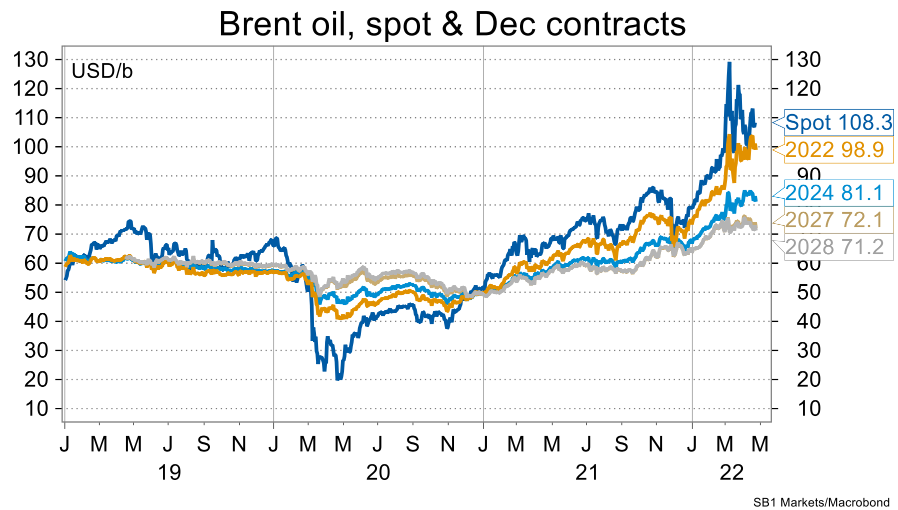


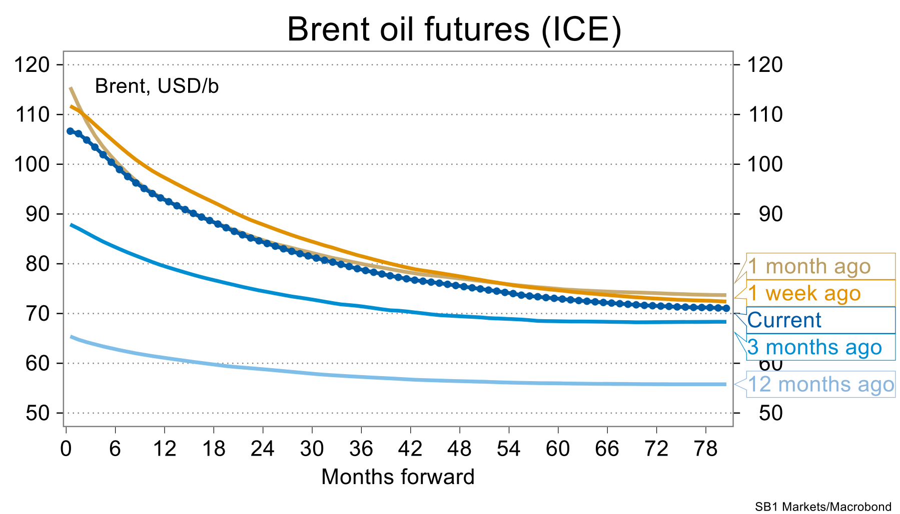
- NOK electricty future prices are up 55% since before the invasion, while UK gas prices are marginally down

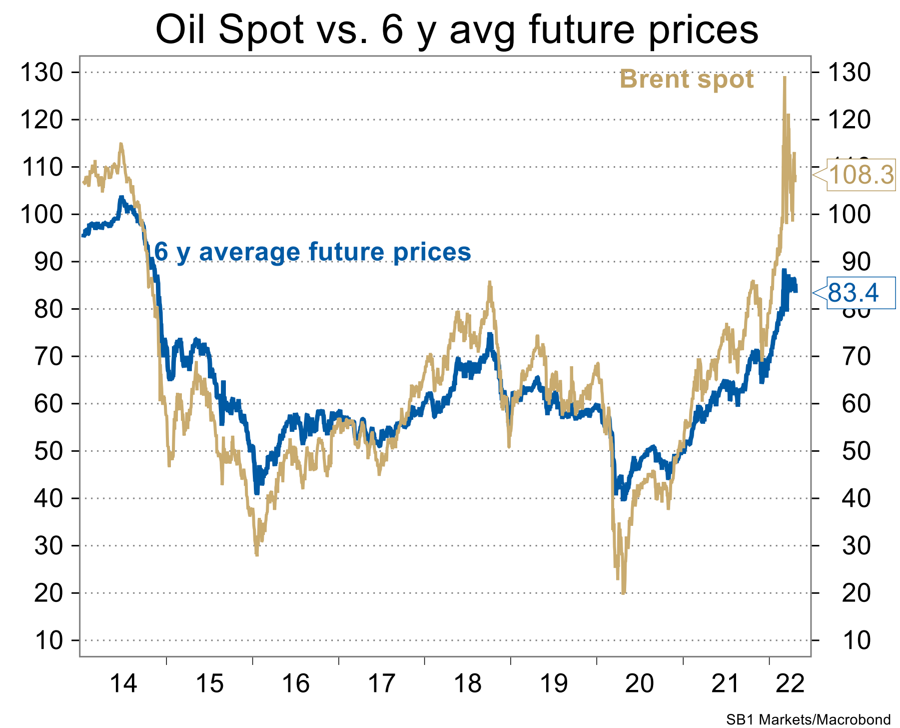
SpareBank 1 MARKETS

The short end of the oil price curve is trending slowly down

Future prices have been more stable than usual vs spot price, are not much down from the peak



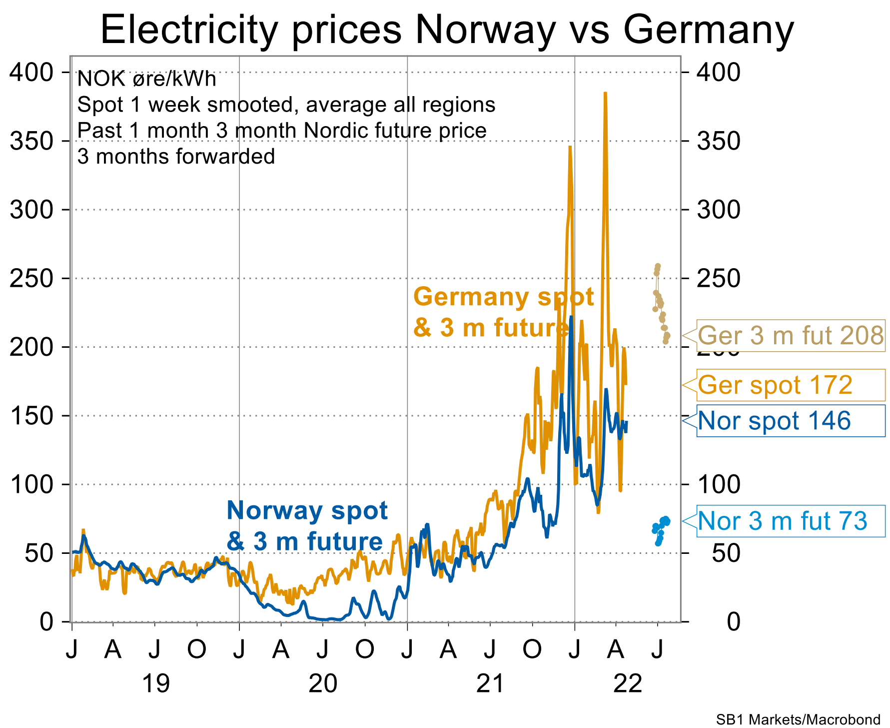


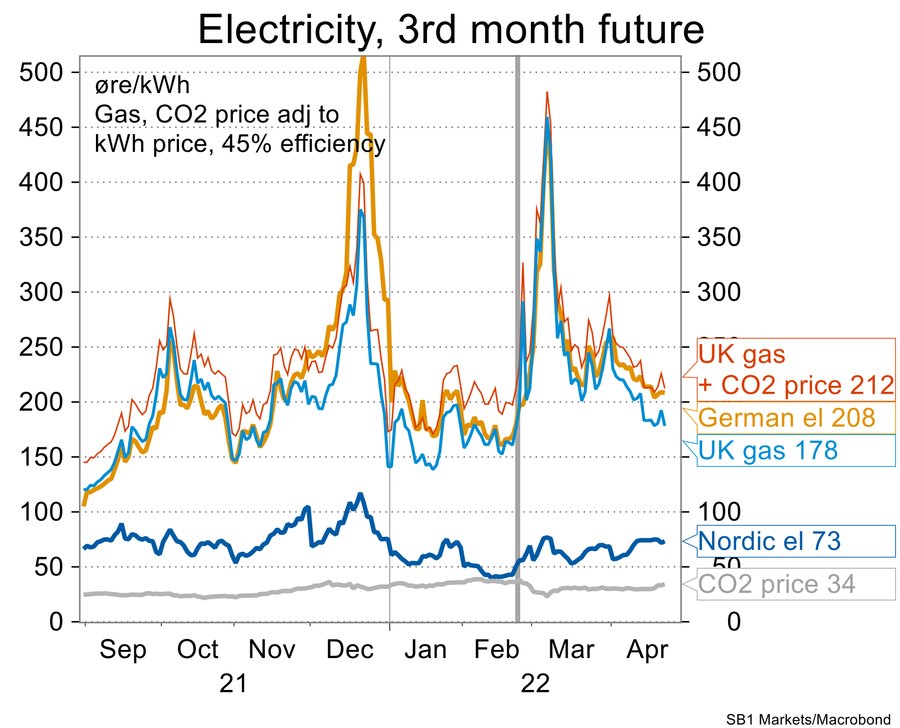


- Future prices have been lower than normal vs. the short end of the curve after the invasion – because markets assume that in the end, oil will flow

UK gas prices are trending down, while debate on Russian gas in Europe heats up

European electricity futures are heading down too

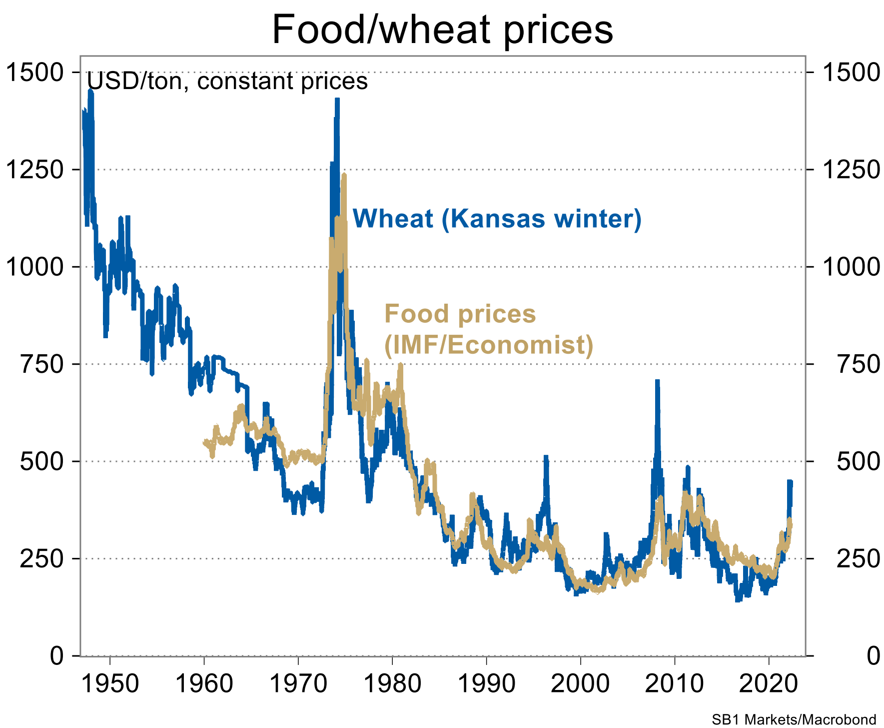


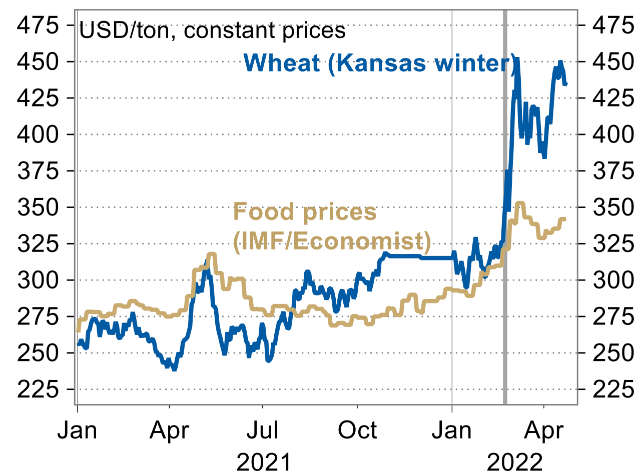


SpareBank 1 MARKETS

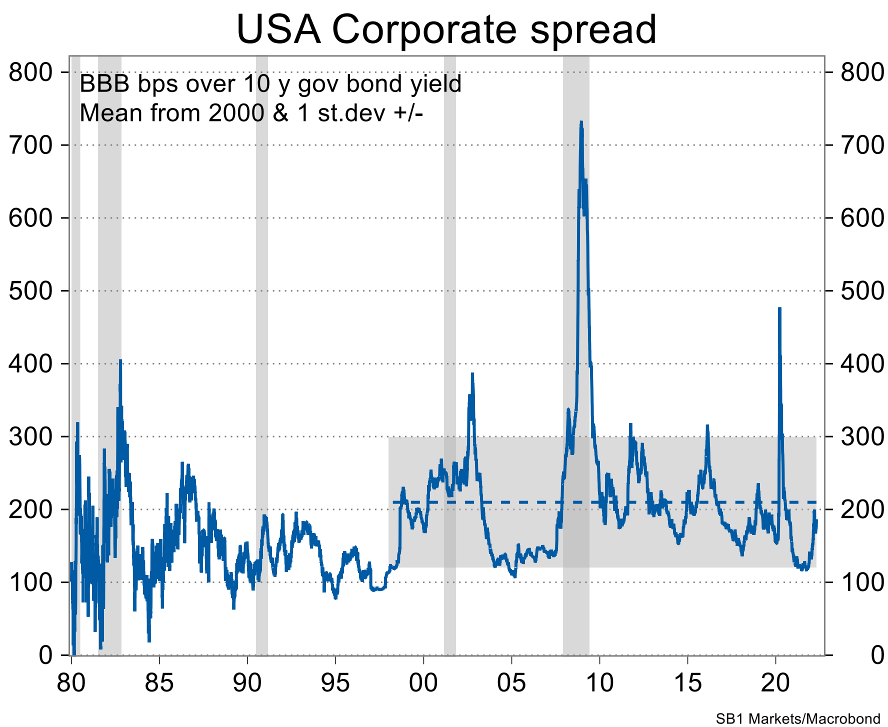
Food prices are inching upwards again, still below the level after the invasion

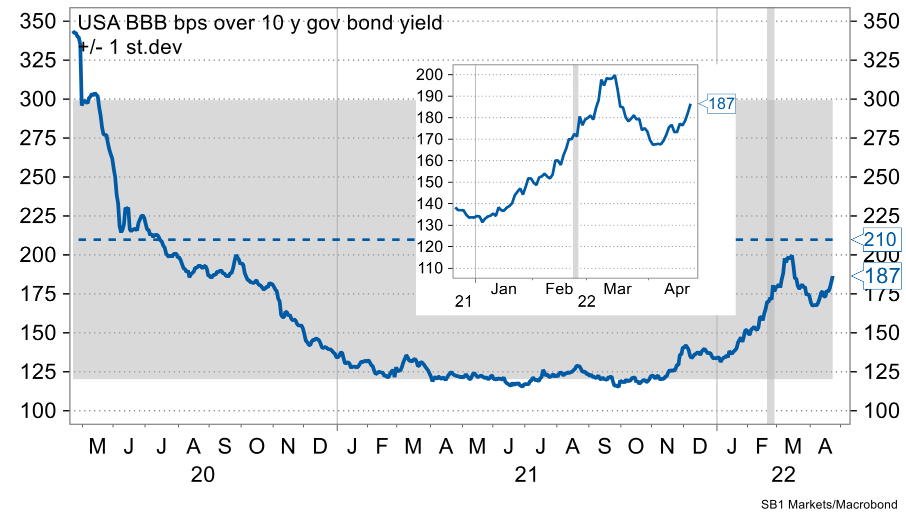
No end of the war in sight: how much wheat, sunflower + fertilisers will get out of Russia/Ukraine

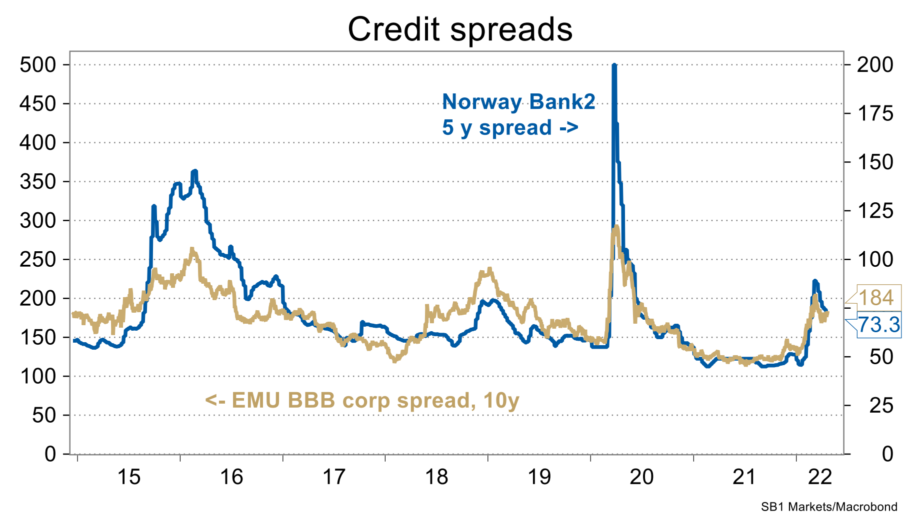




Credit spreads on the way up again, risk of, as at the equity markets



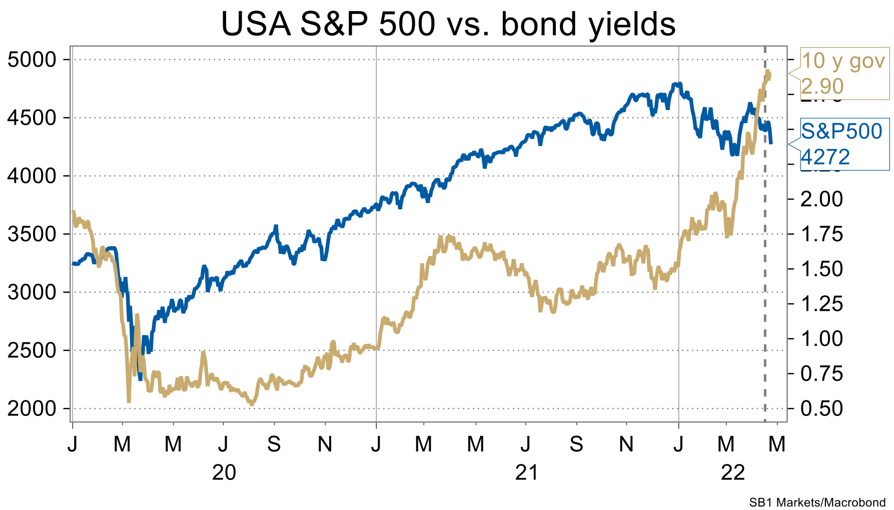


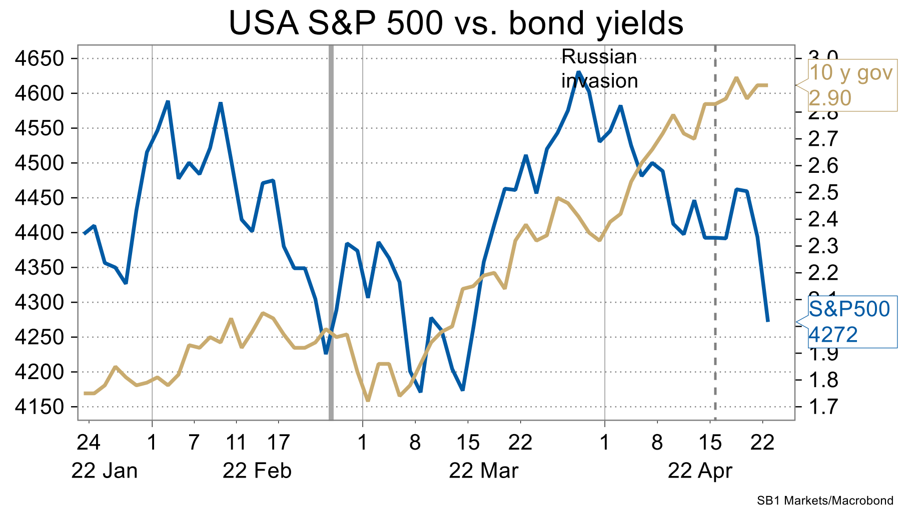


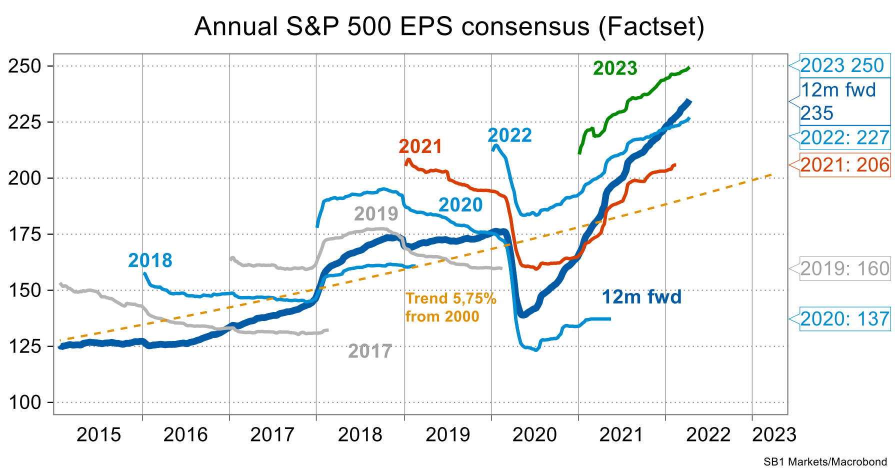
SpareBank 1 MARKETS

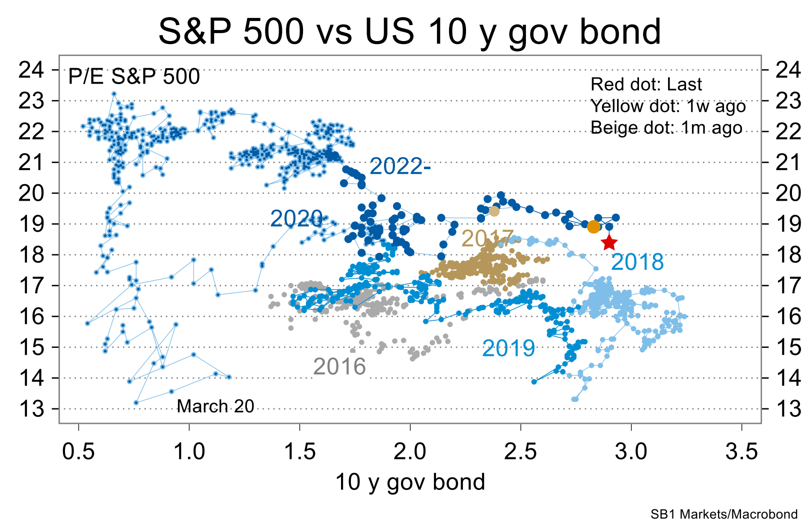
The 10 y gov bond up 7 bps to 2.90%! The S&P500 down 2.8%, in correction mode

Expected earnings growth is still impressive – at a >20% pace! For how long can that last??



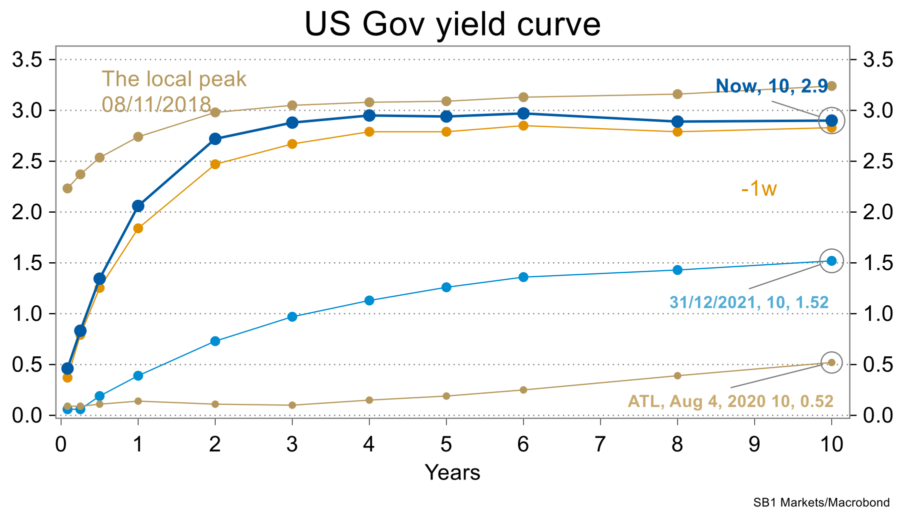


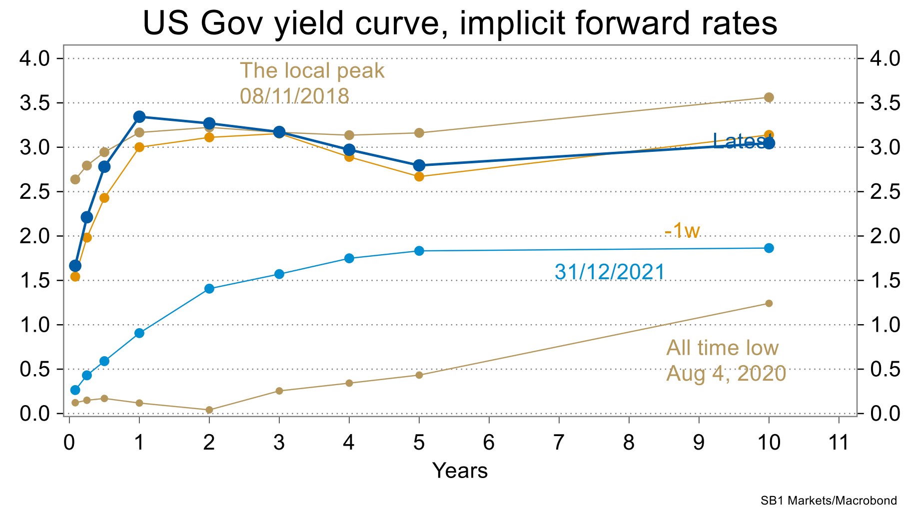


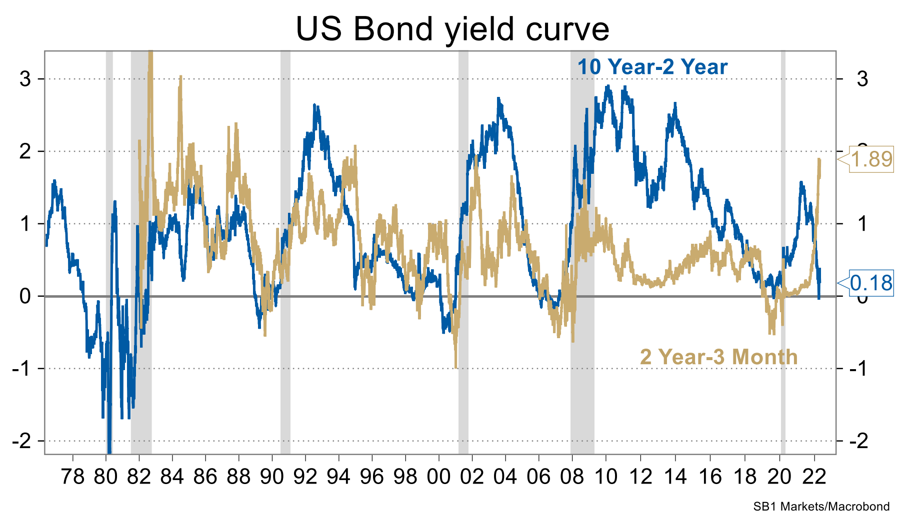


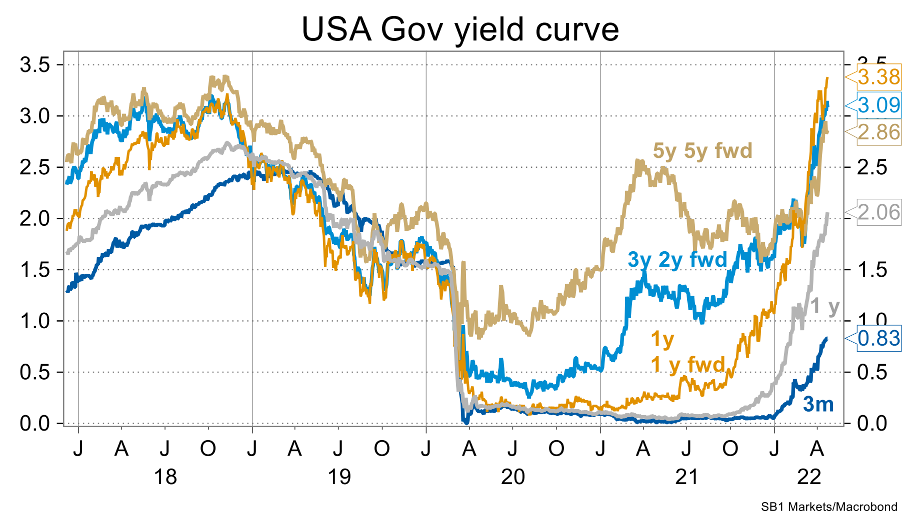
The whole curve up last week

The 10y – 2y curve dis-inverted – and the 2y-3m is the steepest since 1994. Not at recession signal



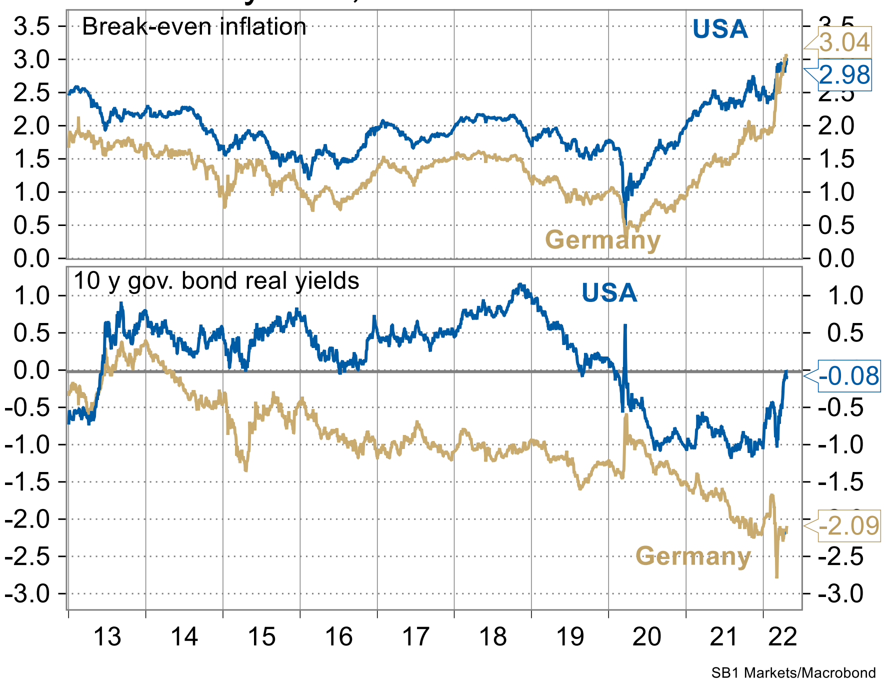


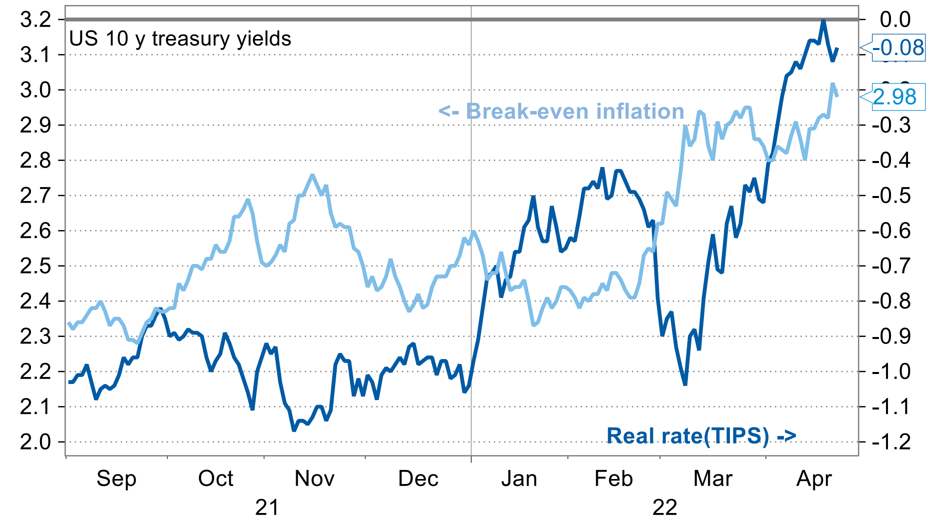




US inflation expectations up, even if Powell promises to take the fight

..and the real rate fell marginally – but it is close to zero. German inflation exp. >3%, real rates up too





US & Germany 10 y Gov bond yield

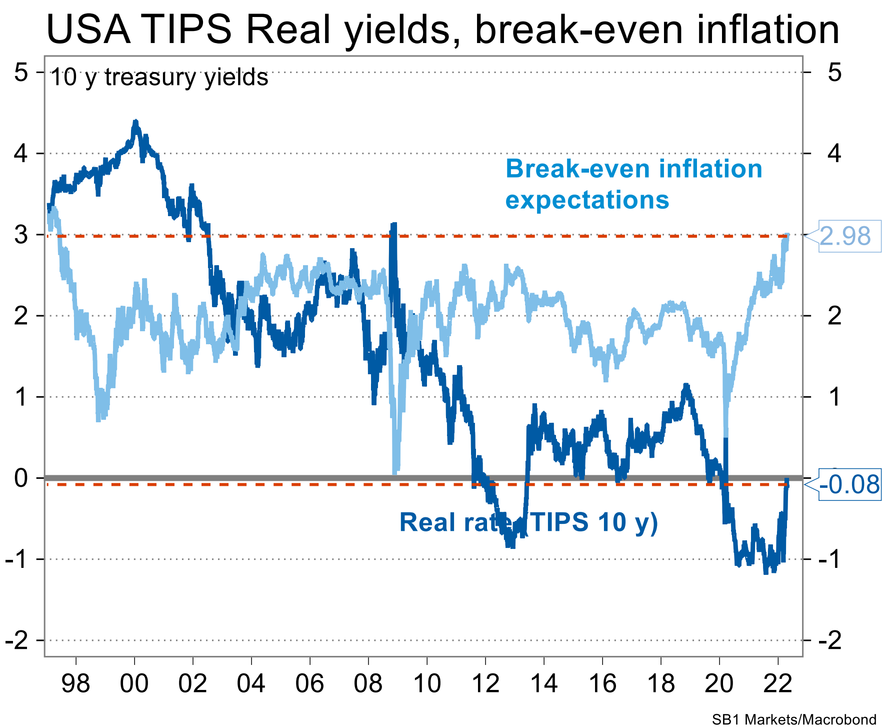
	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	2.90	0.07	0.52	0.98	0.52
.. break-even inflation	2.98	0.09	0.07	0.57	1.06
.. TIPS real rate	-0.08	-0.02	0.45	0.41	-1.19
Germany nominal bund	0.95	0.16	0.45	0.73	-0.65
.. break-even inflation	3.04	0.06	0.45	1.06	0.40
.. real rate	-2.09	0.10	0.00	-0.33	-2.80

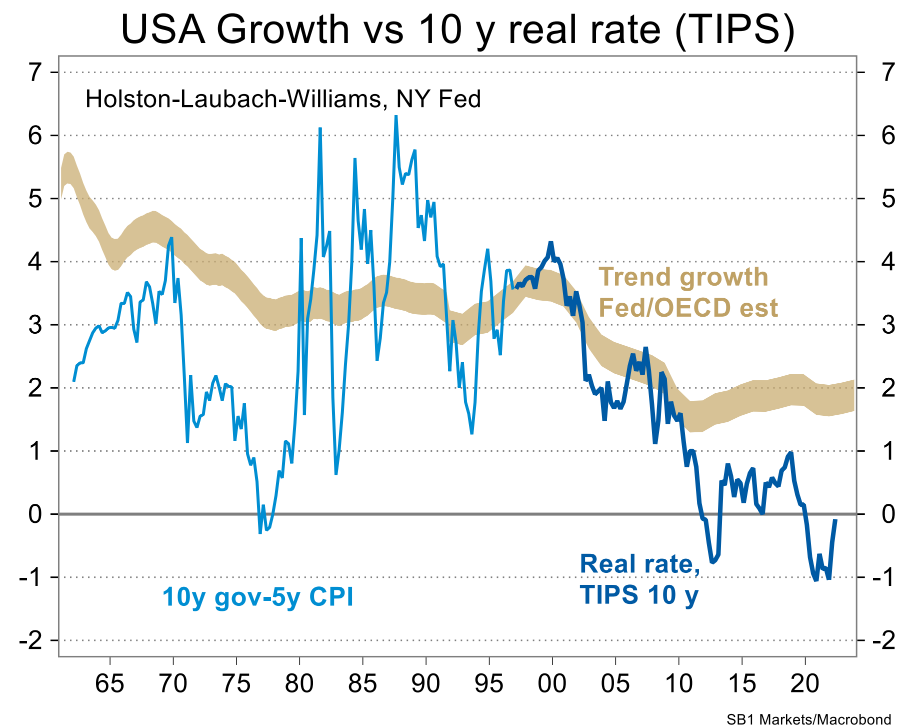
SB1 Markets/Macrobond

- **Inflation expectations** are close to 3%, both in USA and even in Germany!!
- **Real rates in the US** fell to 1.03% after the Russian invasion in Ukraine, down from -0.42%. Now it is at -0.08 bps, after touching the zero line last week
- **Real rates in Germany** remain extremely low, at -2.09%

US real rates almost back to zero. But that is still a rather low level

... If the economy does not run into serious problems



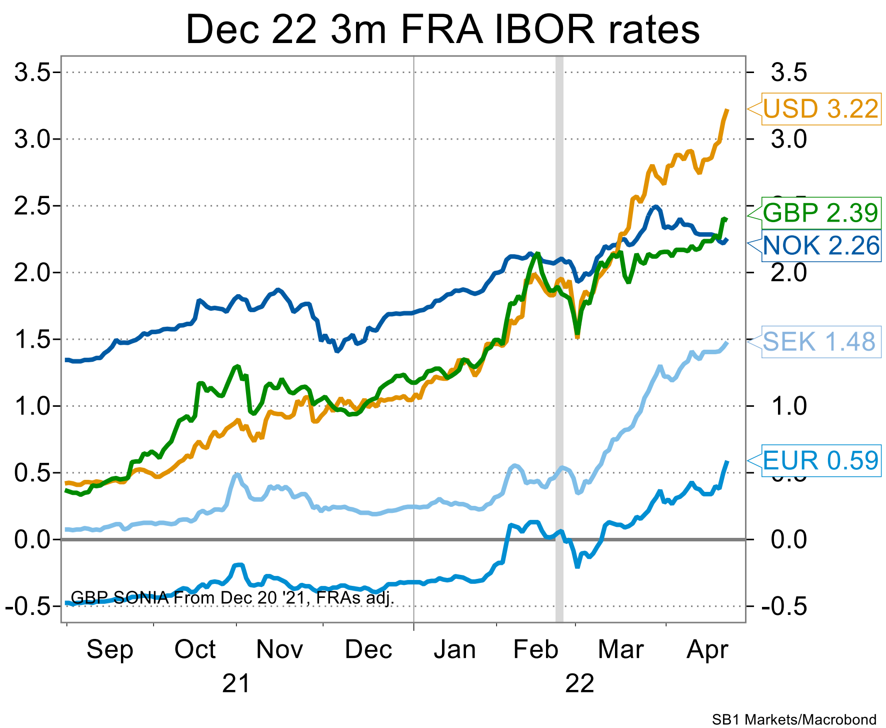


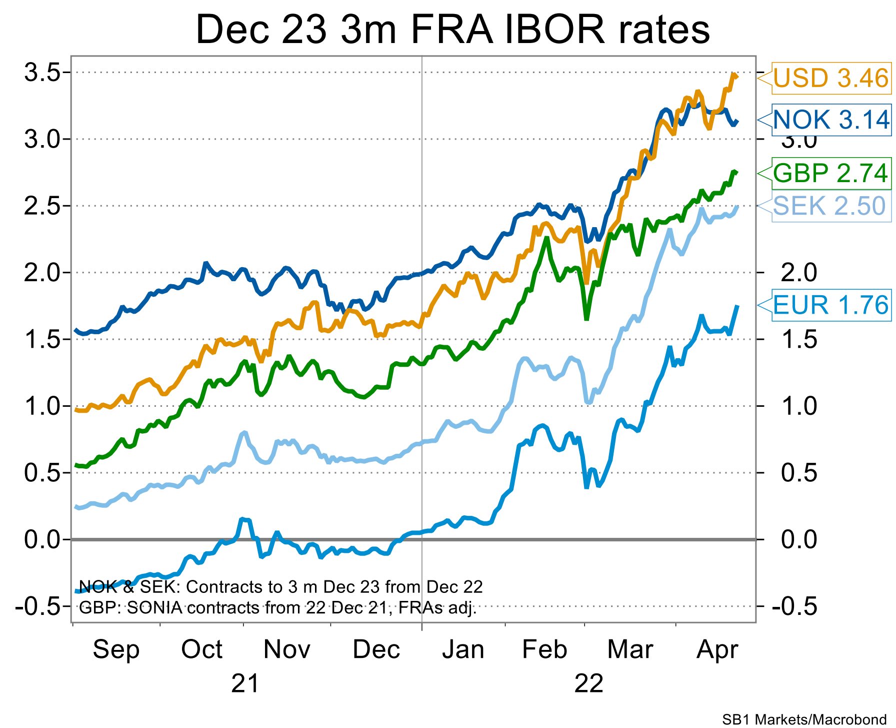
- If the economy is not really weak, we think central banks will tighten monetary policy by hiking rates, selling bonds in order to bring real rates further up to inflation under control by slowing the economy to below trend growth
  - Profit margins are exposed
  - Demand for labour will slow too, and unemployment will increase – in order to get wage inflation down
- The big question: Are other markets discounting this scenario

SpareBank 1 MARKETS

NOK FRA-rates down – all others sharply up last week

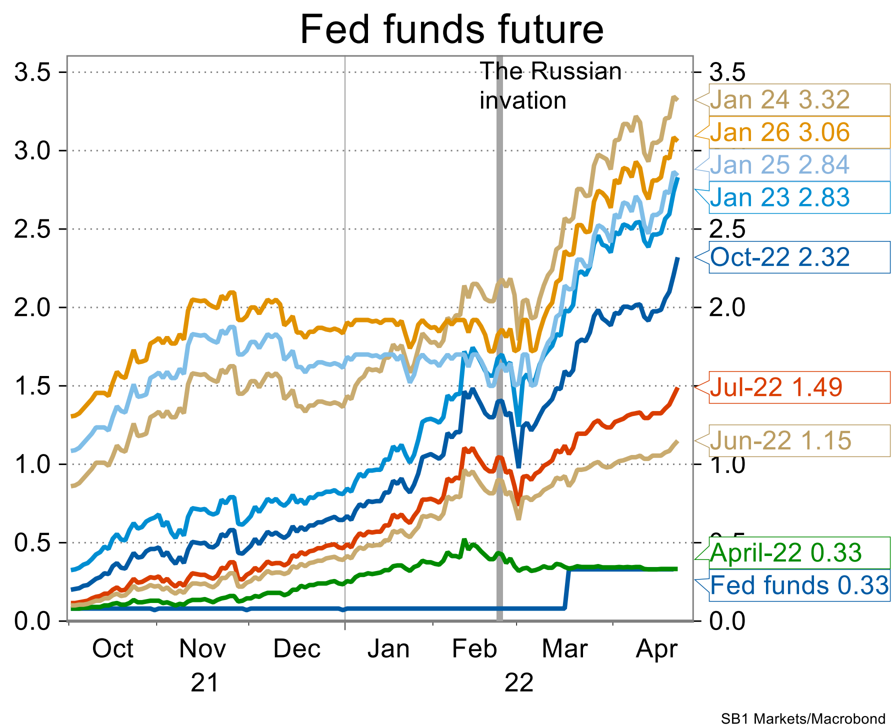
Look to Sweden: Are they aiming for NOK rates by the end of next year??

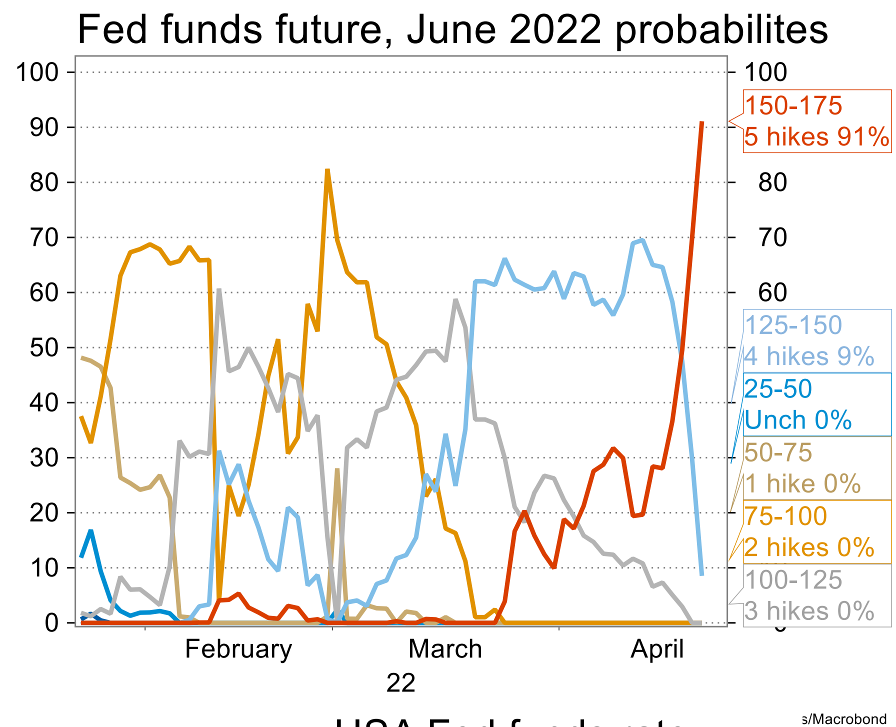


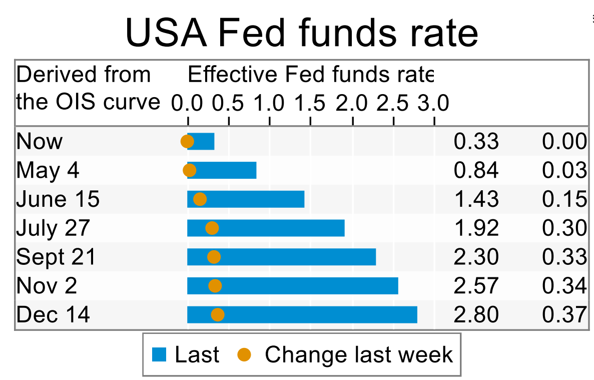


- This is the largest and most 'co-ordinated' (anticipated) change in monetary policy we have ever seen in modern times

125 bp extra before the summer, says the market. 50 bps in May, 75 bps in June

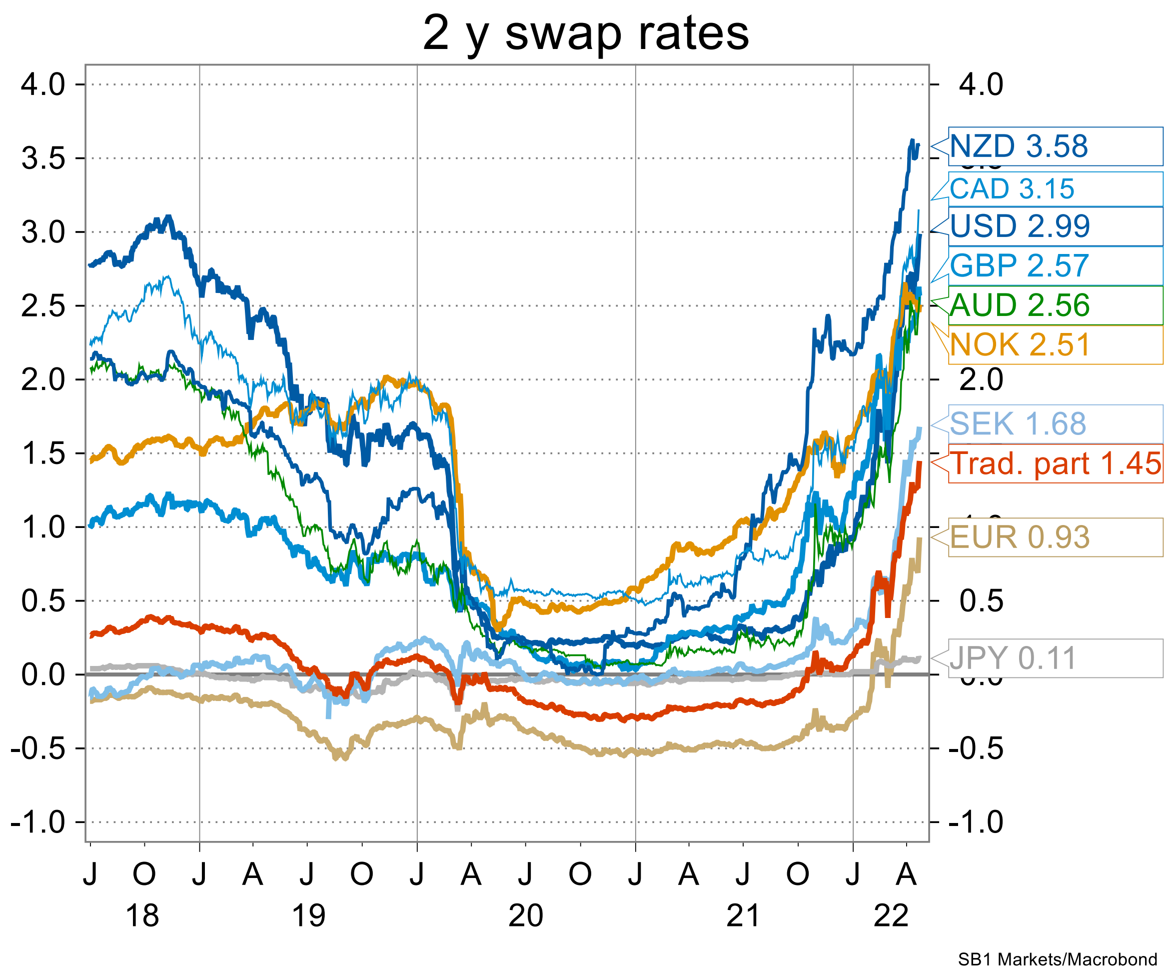


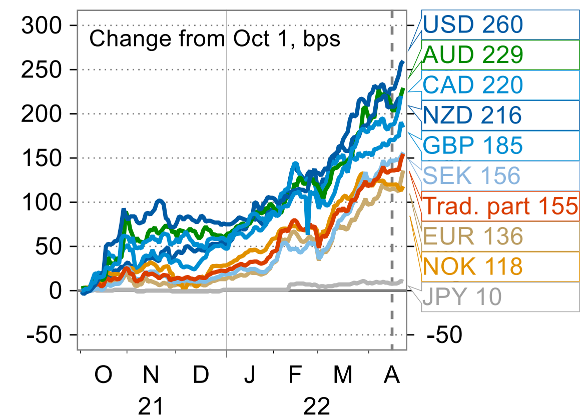


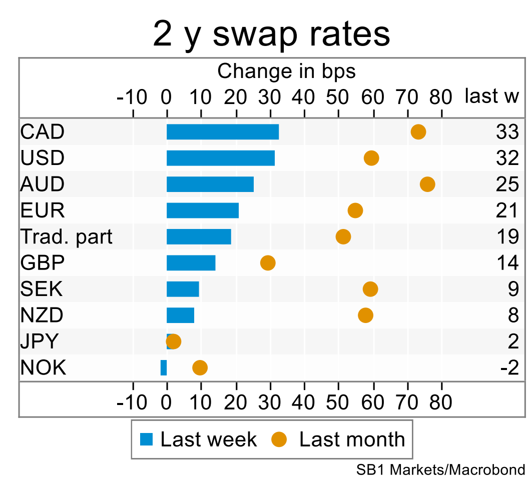


- Is the market going bananas? Well, the Fed has recognised that it is far behind the curve, and the market expect the Fed to reach 1.50% in Q2 – which is still far below a neutral rate
- By the end of 2022, a 2.75% rate is discounted (5 – 6 more hikes in H2), and then monetary may have become marginally contractive, vs Fed's 2.4% estimated neutral rate

Just NOK rates fell last week, huge lifts in USD, EUR

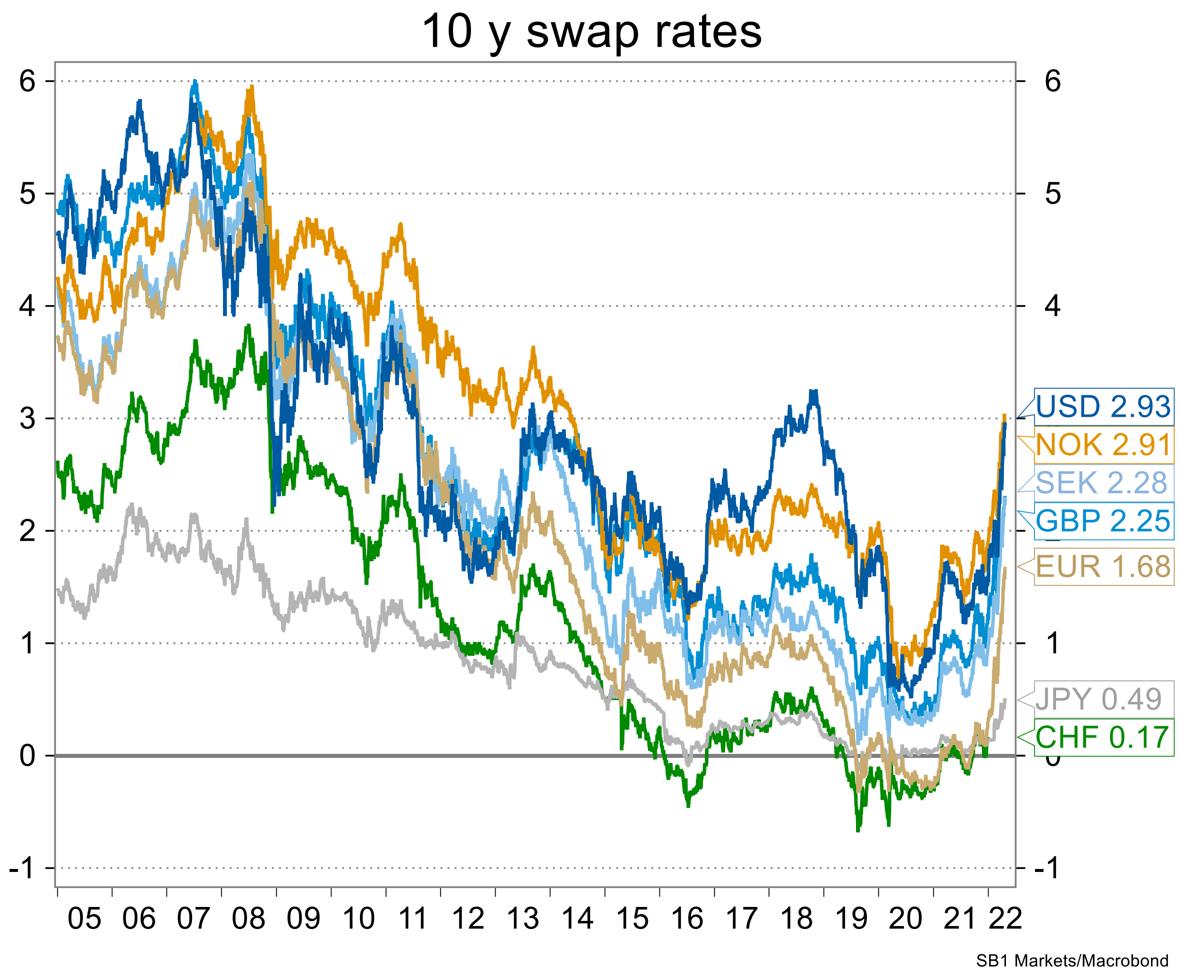


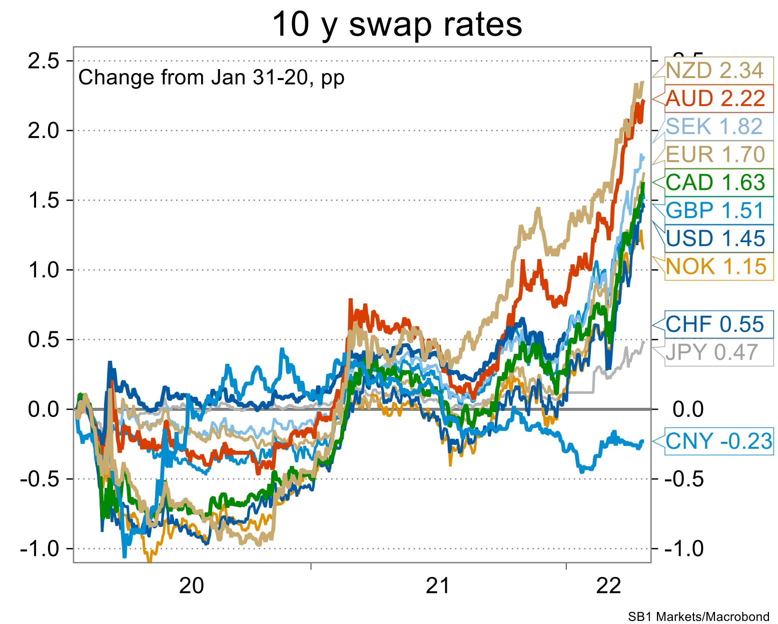


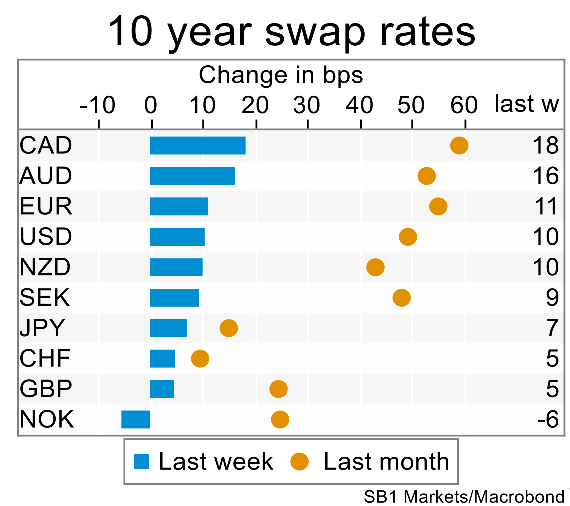


Just NOK rates fell last week – all other up, even 10y JPY is on the way

The 10y USD swap rate has overtaken the NOK rate, for the first time in 3 years!



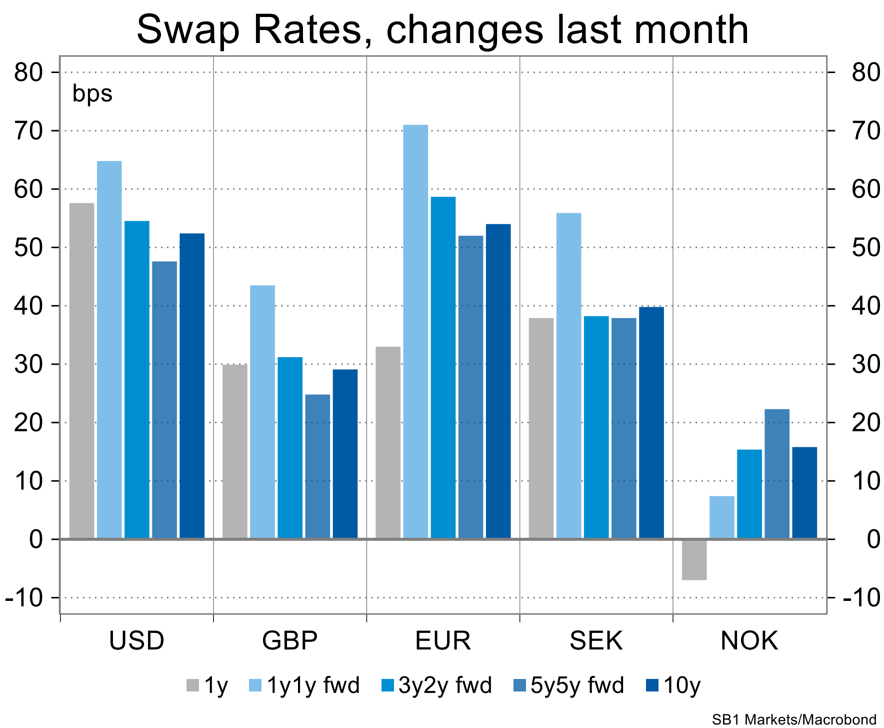


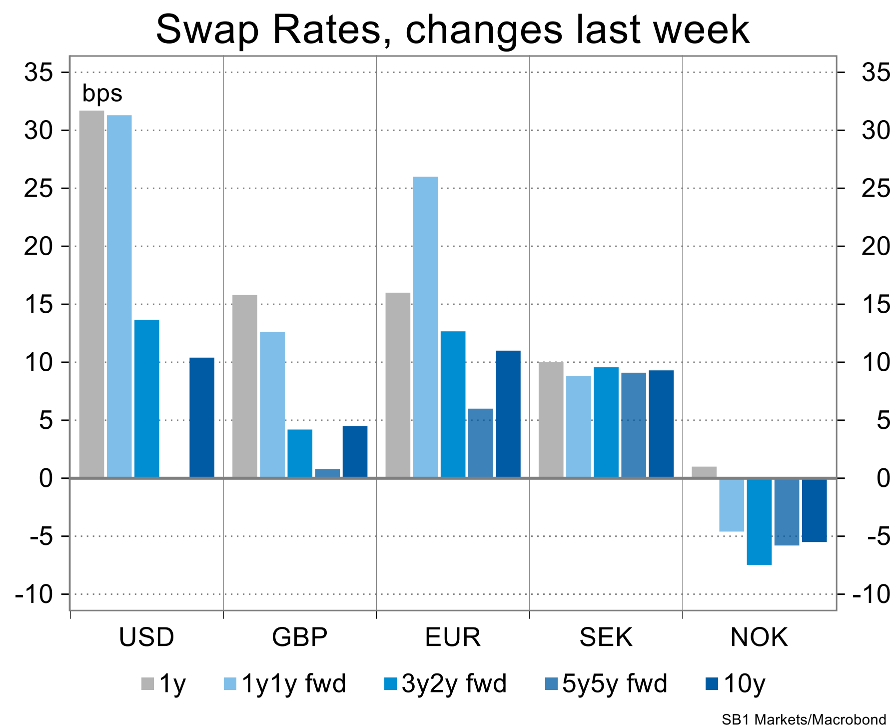


The 10 y CHF the only still left on the station

Another week with higher rates abroad, especially in the short end in US, EMU

Still, rates fell all over the curve in Norway (except a 1 bp lift in the 1 y swap), rather unusual!





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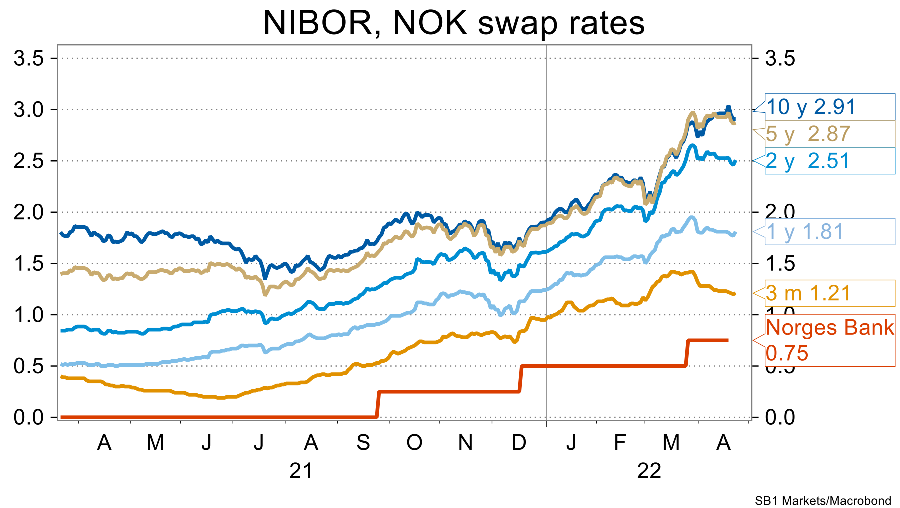
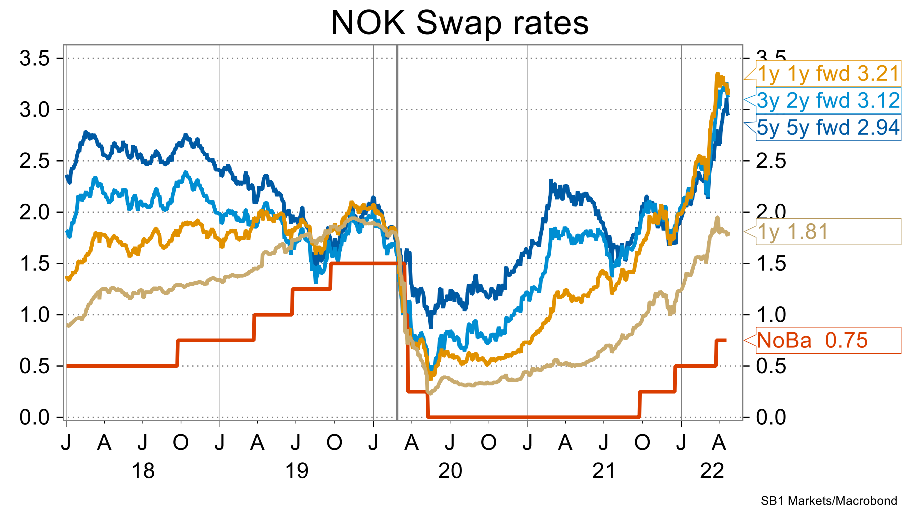
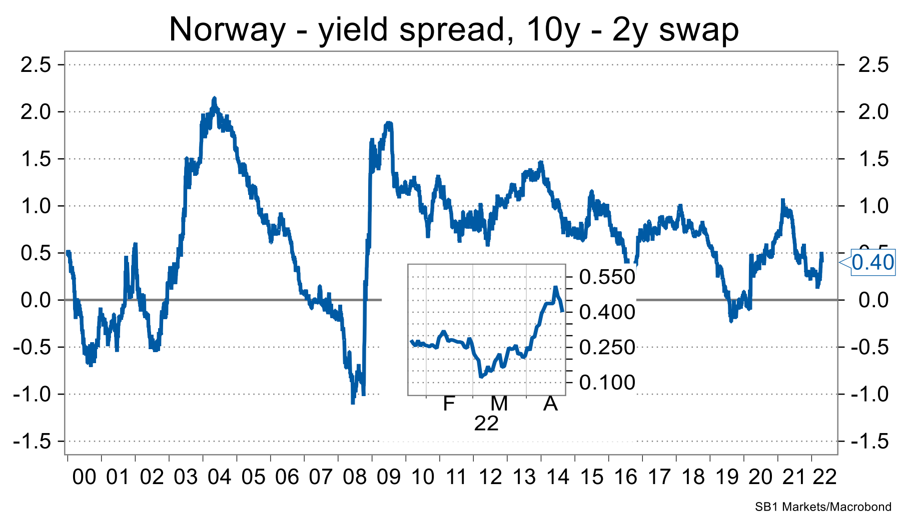
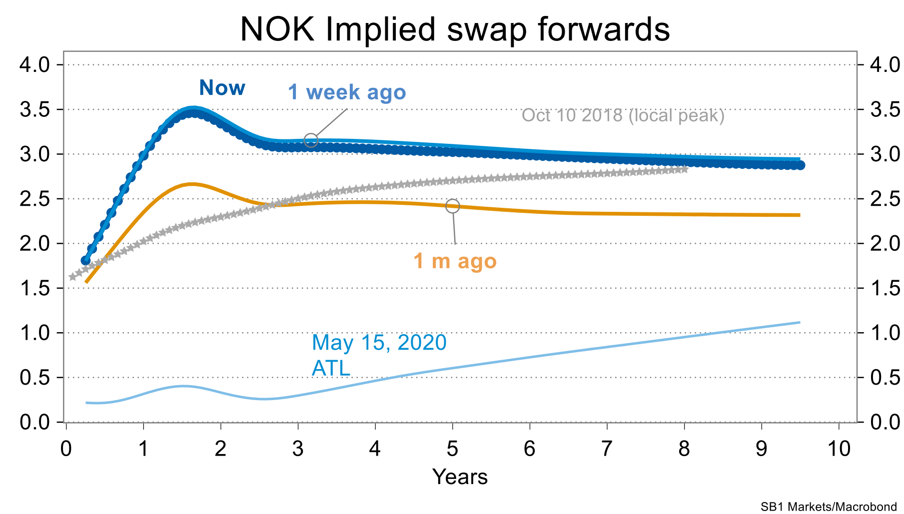
Rates slightly down all over the curve



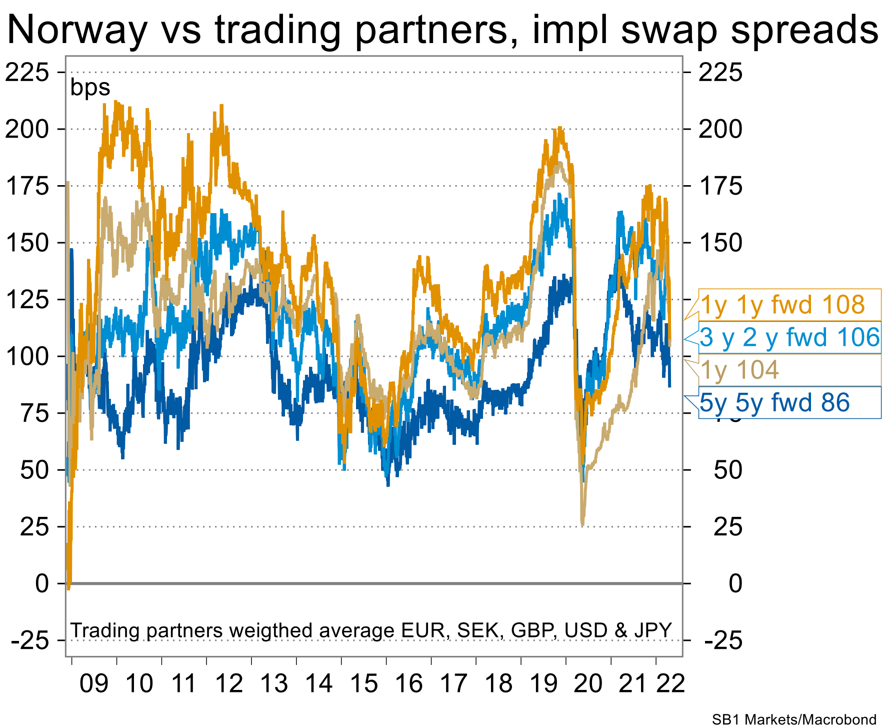


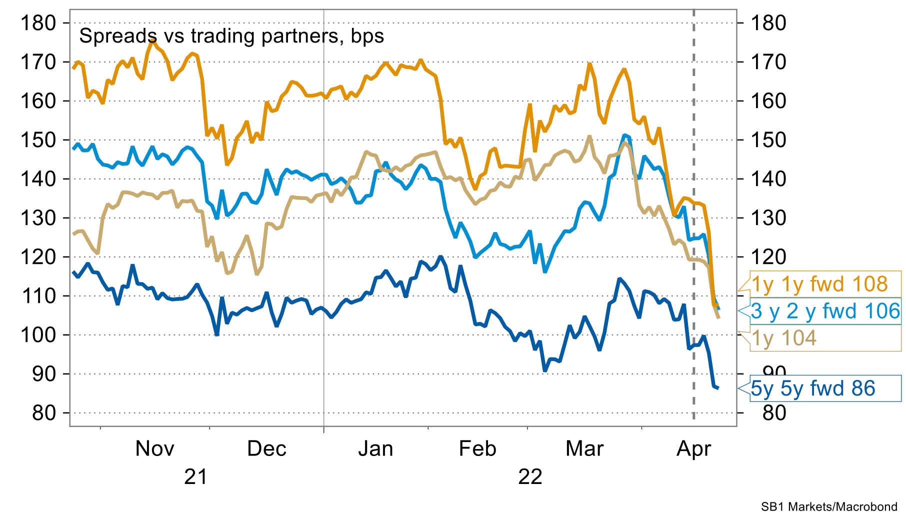




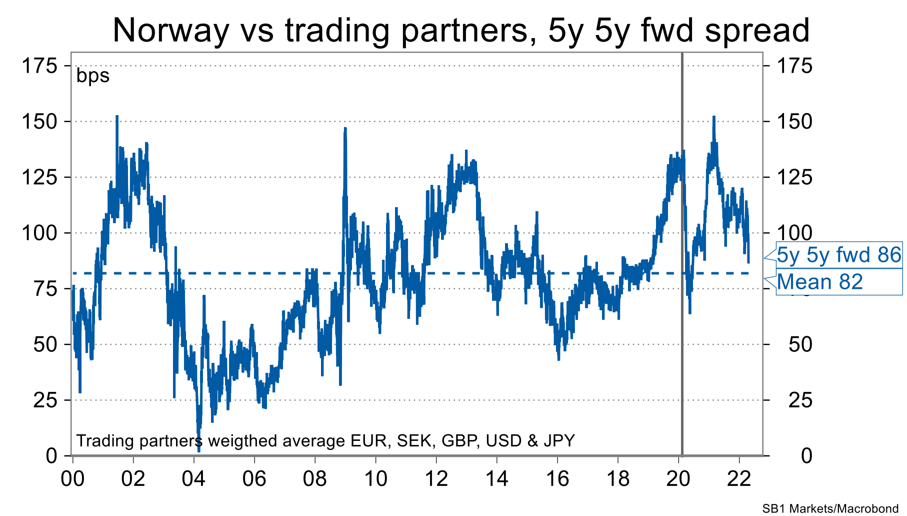
Spreads are collapsing – all over the curve. The 10 y spread down 15 bps

The spread narrowing most dramatic in the short end of the curve. 1y 1y fwd spread -50 bps past 4w



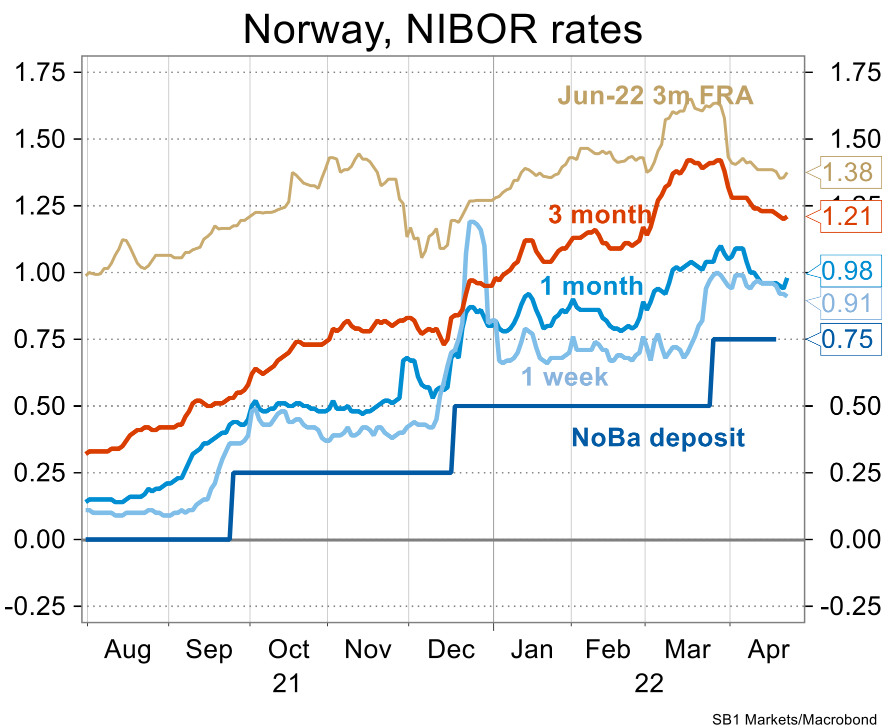


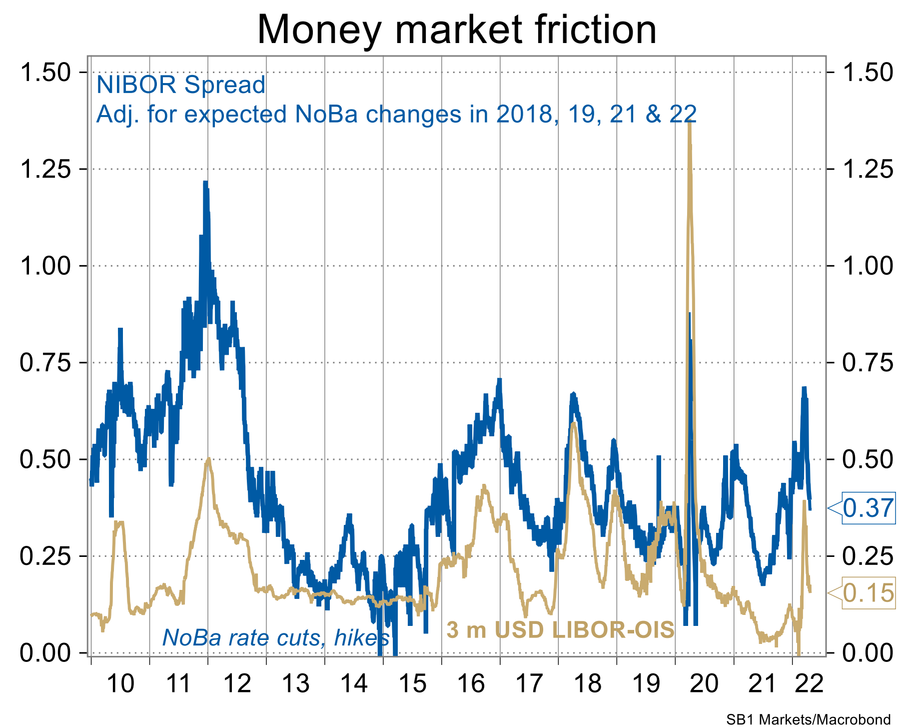
- Spreads down almost entirely due to higher rates above, with just minor contribution from lower rates in Norway



The 3m NIBOR down 3 bps to 1.21%, the NIBOR spread down 5 bps to 37 bps

The USD LIBOR-OIS spread is on the way down too, -2 bps to 15 bps last week

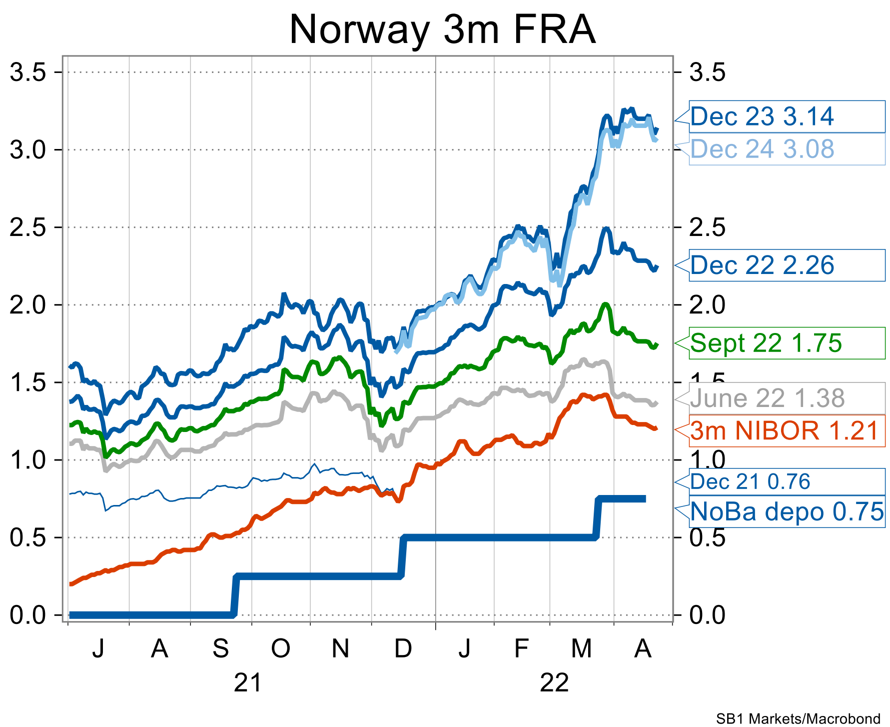


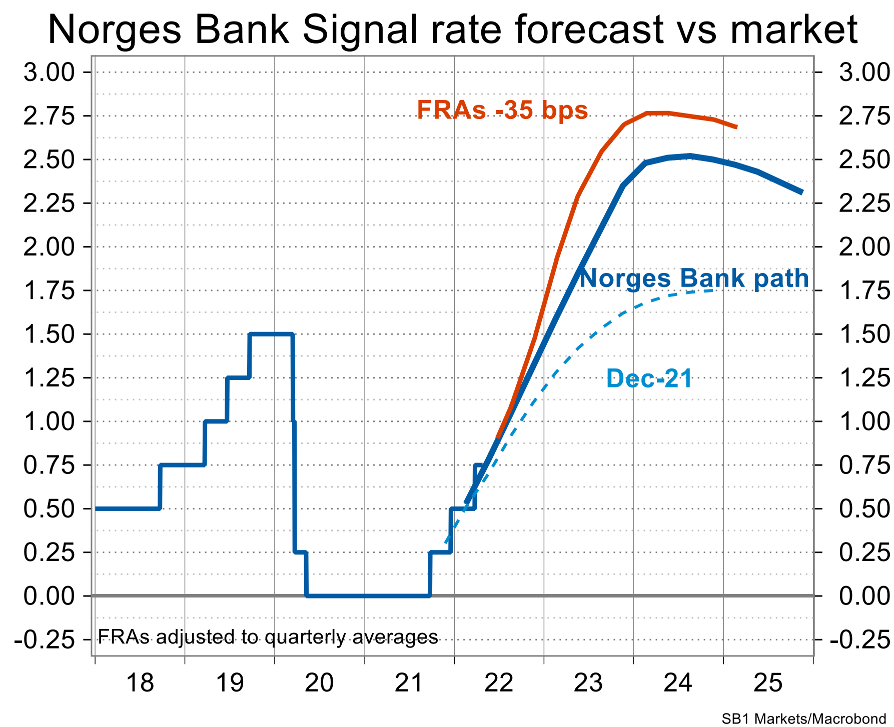


- Both the US and the NOK money market spread has narrowed by some 20 bps the last 4 weeks

FRAs further down by up to 8 bps last week

... due to a more normal NIBOR spread, not lowered NoBa expectations





- The **June 3 m FRA** fell 1 bps to 1.38% last week
  - » If NoBa hikes to 1% from the present 0.75% at June 23, the average deposit rate in the duration of the June 3 m FRA contract will be 0.98%
  - » A 100% probability for a 25 bp hike if the assumed Q3 NIBOR spread is 40 bps. This is not an unreasonable spread assumption – but higher than we think market participants shared today, the current spread is 37 bps. So a small probability for a 50 bps hike is most likely priced in
- The FRA market still discounts 3 to 4 hikes in H2 (that is, in addition to the March hike, and the expected June hike) but now with just a 1/3 probability for a 4th hike. NoBa's interest rate path signalled 2 hikes in H2 (total 4 in 2022), with a minor probability for a 3rd hike

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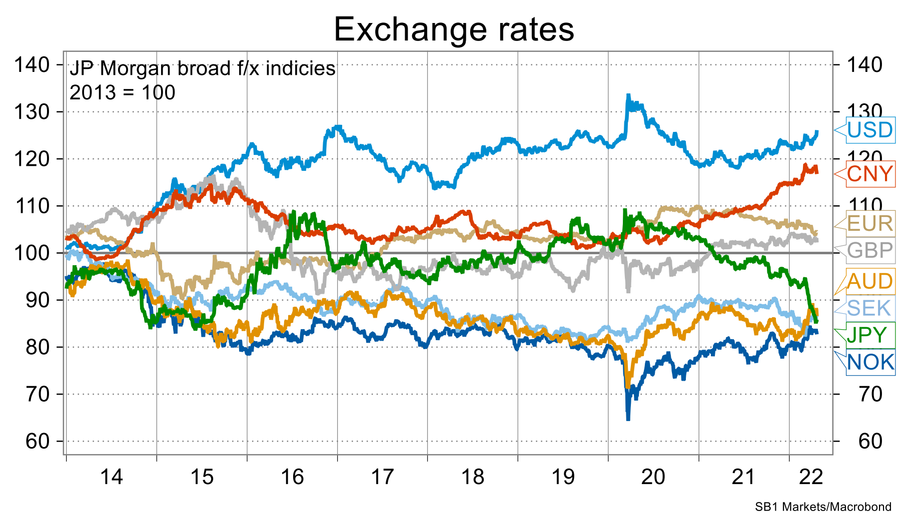
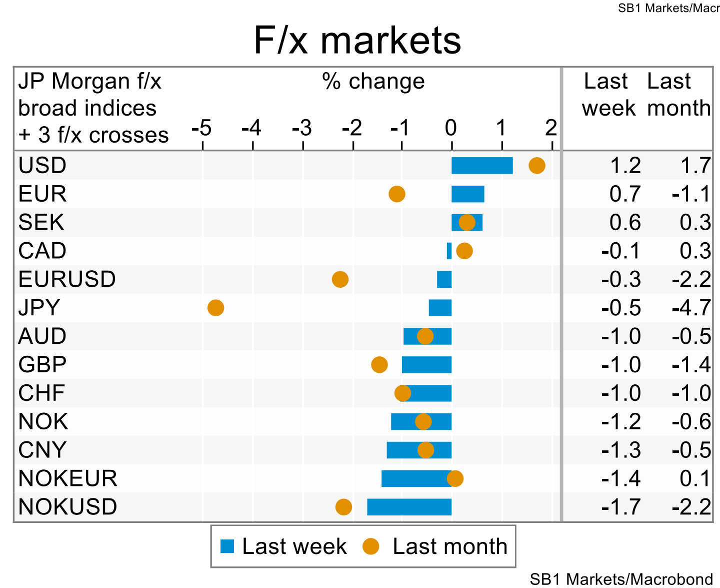
The USD last week's winner, EUR no 2 (yes, that's possible!)

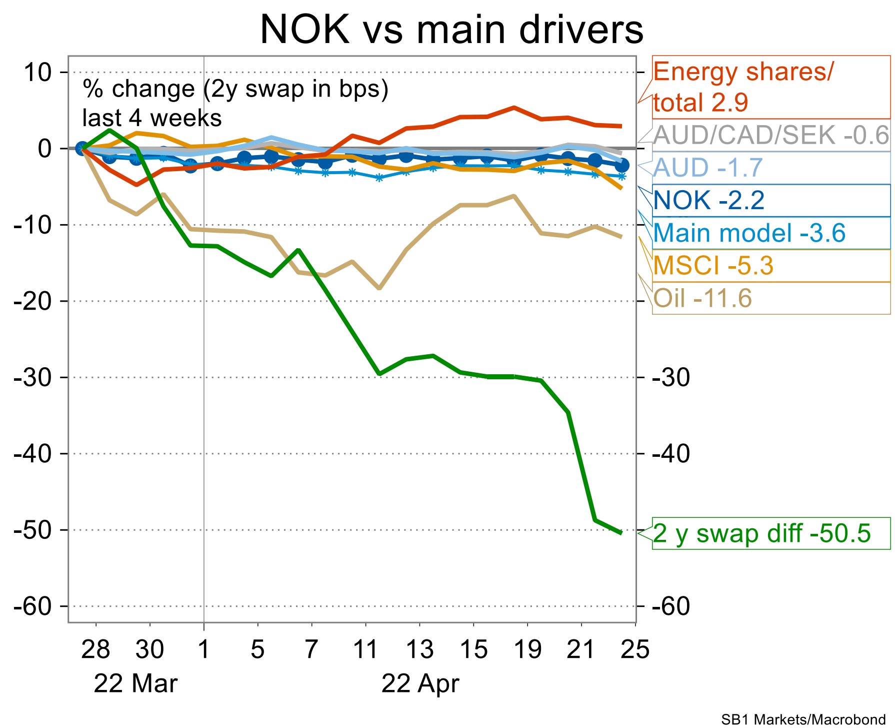
NOK & CNY at the bottom

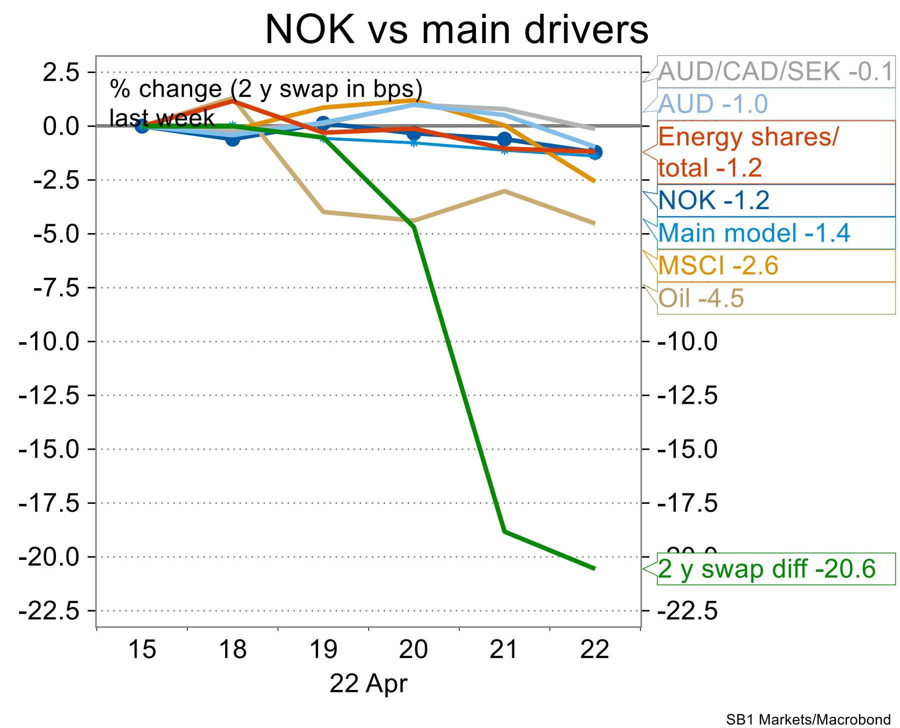




NOK down 1.2%, our model suggested -1.4%

The oil price fell – and the interest rate spread vs trading partners fell sharply last week too



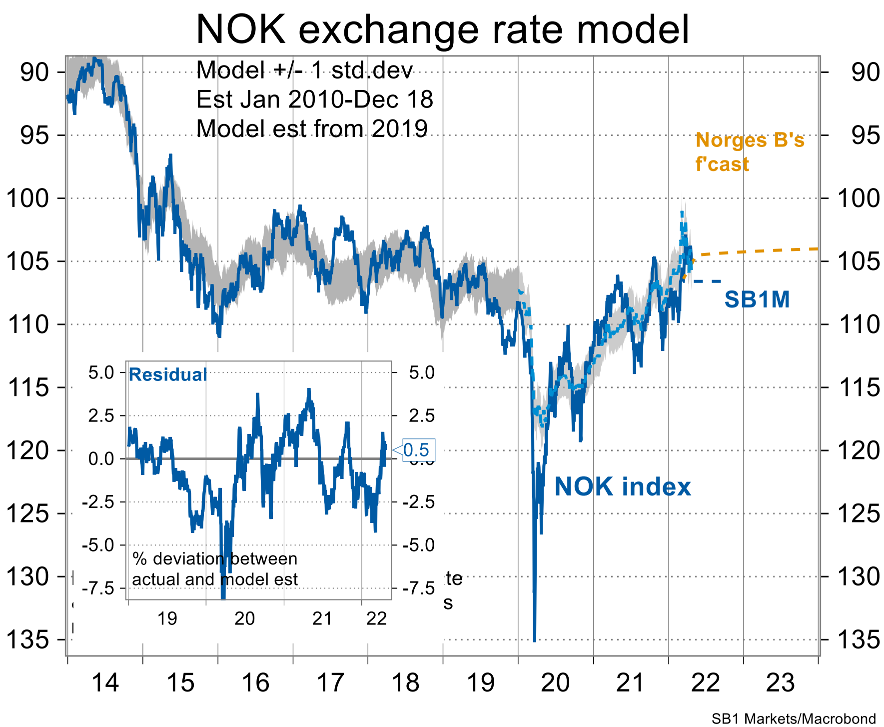


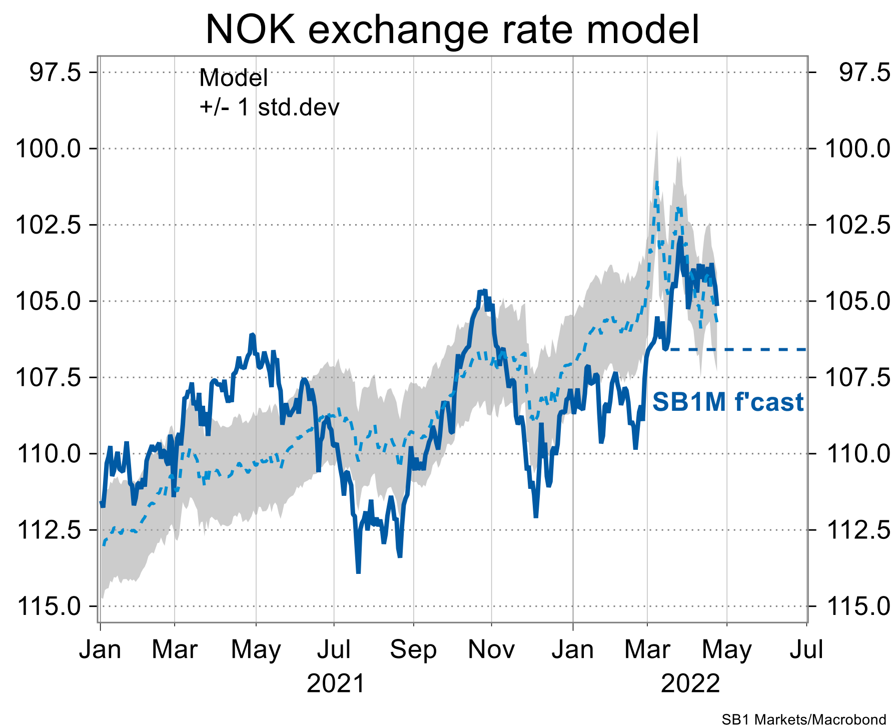
The status vs. the normal drivers:

- ***The NOK -1.2% - and the NOK 0.5% above our main model estimate (from +0.2%)***
- The NOK is 3% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (unch)
- NOK is 5% stronger than a model which includes global energy companies equity prices (vs the global stock market) (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

The NOK down with the oil price





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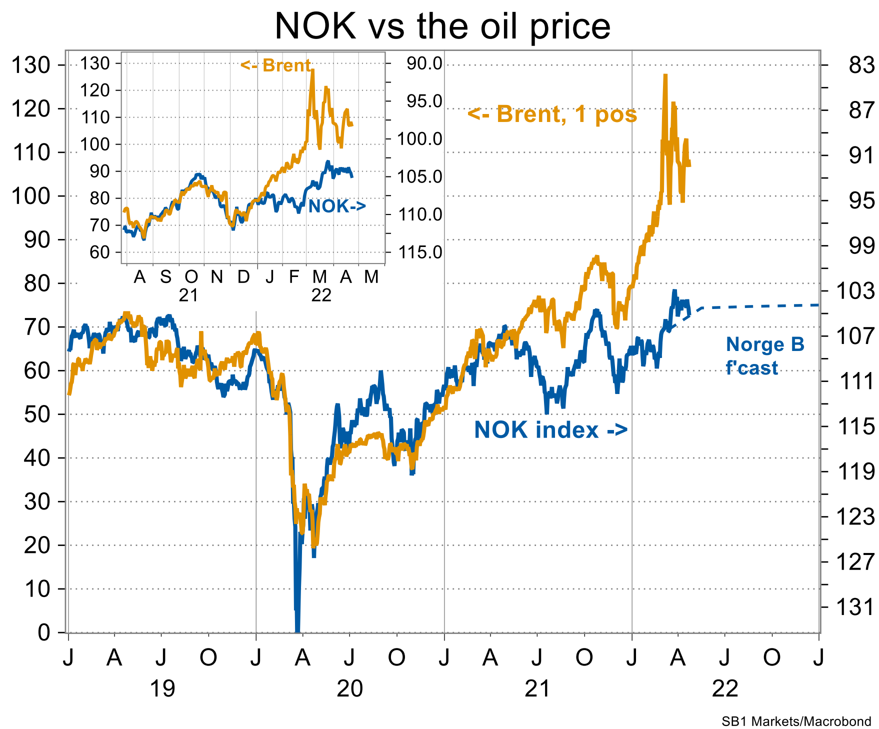
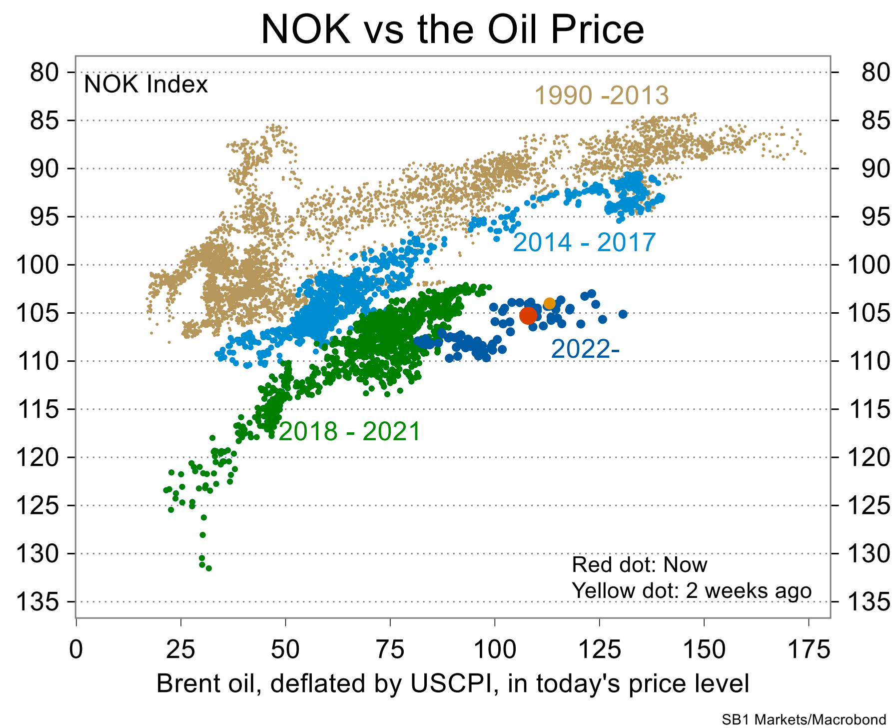
The oil price calms somewhat down – declined last week, as did the NOK

However, oil & NOK has not been closely correlated so far in 2022





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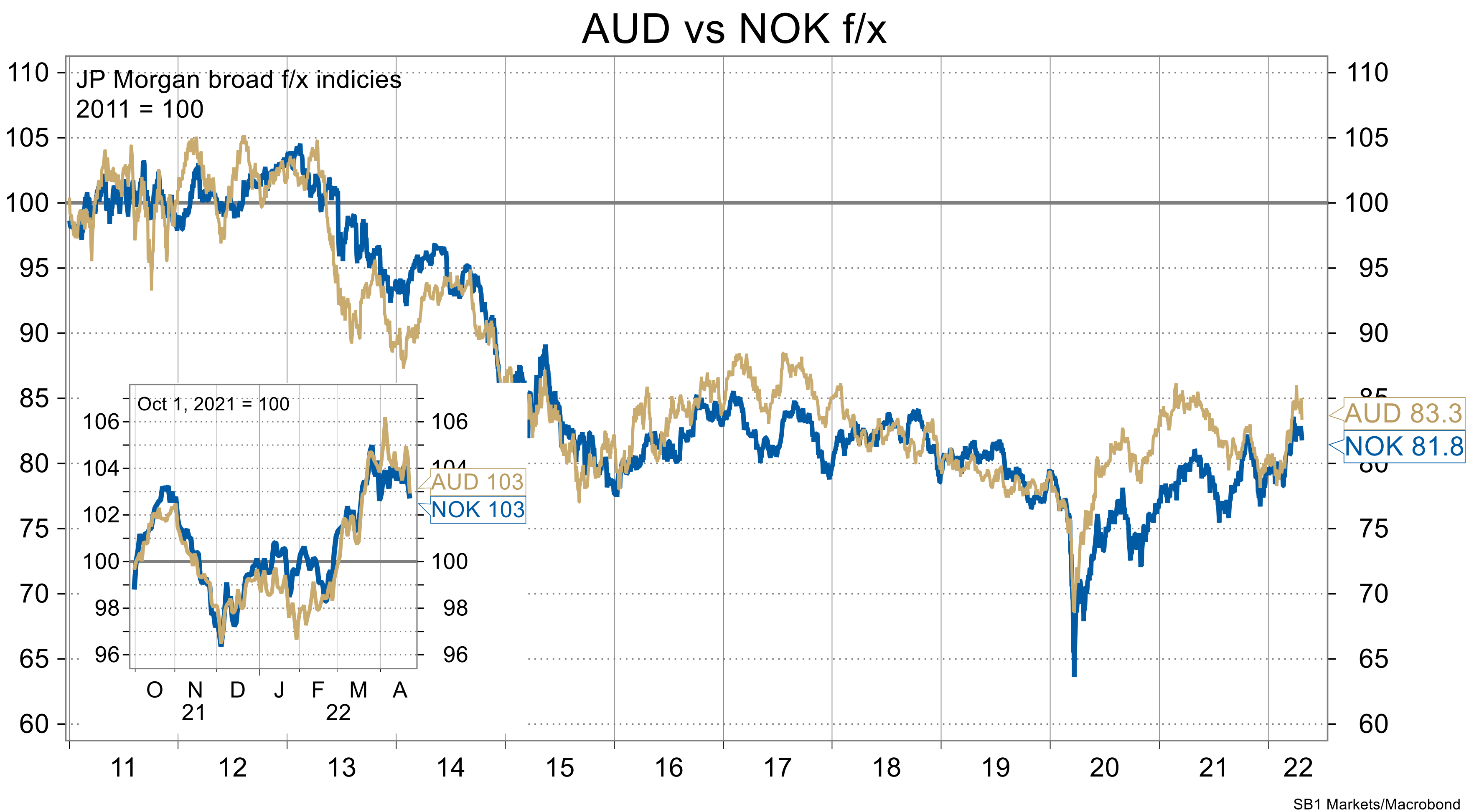
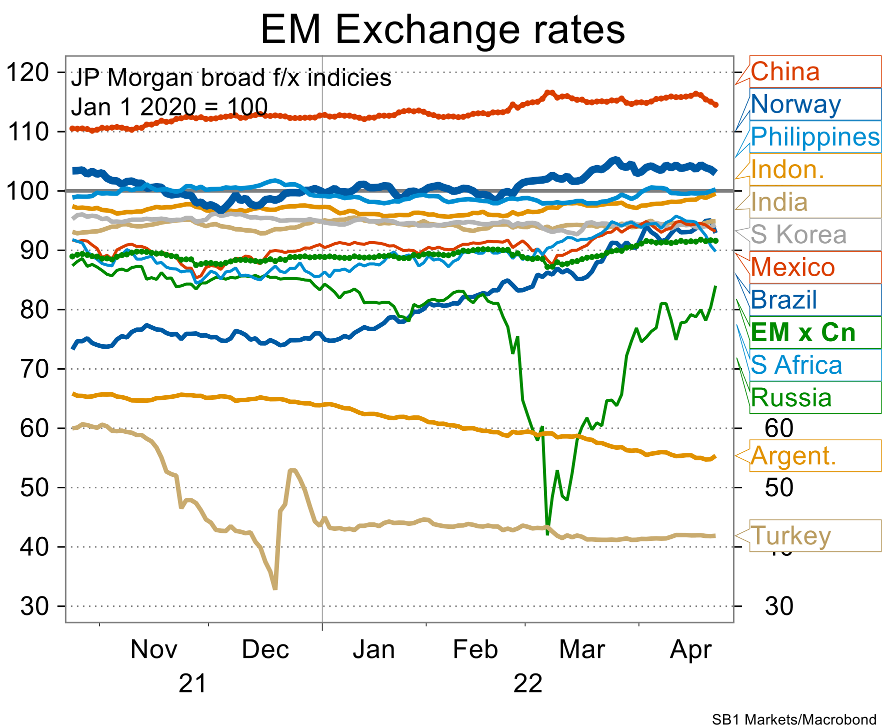
The NOK and AUD back in 'parity'

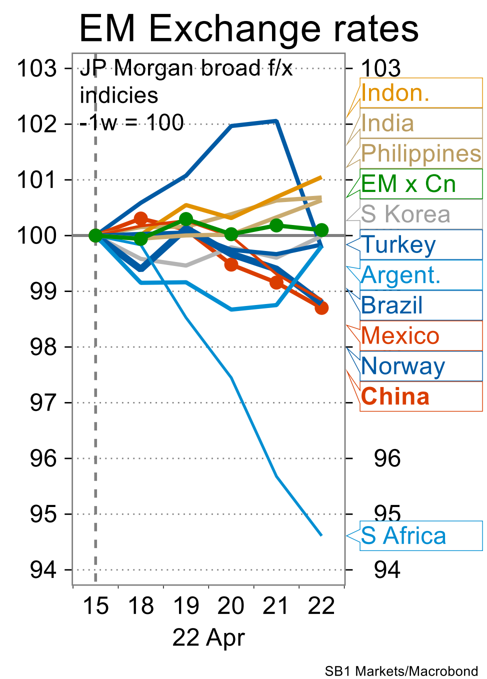


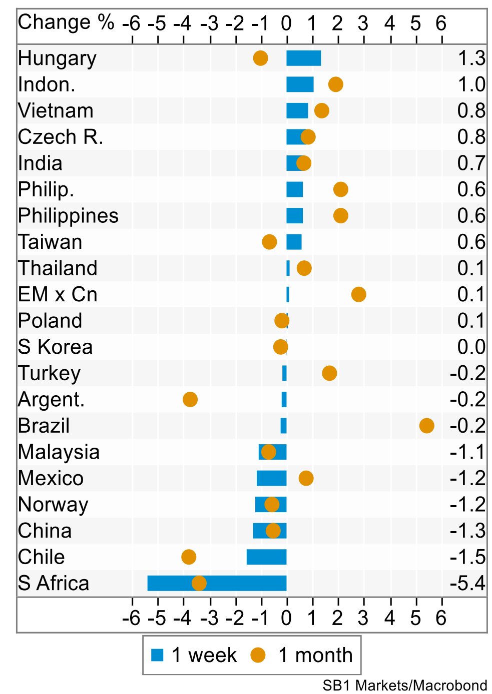
The two f/x indices are back to the 2011 'parity' (vs each other, from which they never since have deviated much)

The Russian rouble defies gravity (or real trading?)

Other EM currencies more down than up last week, even the CNY. South Africa a the bottom







Change %	
Hungary	1.3
Indon.	1.0
Vietnam	0.8
Czech R.	0.8
India	0.7
Philip.	0.6
Philippines	0.6
Taiwan	0.6
Thailand	0.1
EM x Cn	0.1
Poland	0.1
S Korea	0.0
Turkey	-0.2
Argent.	-0.2
Brazil	-0.2
Malaysia	-1.1
Mexico	-1.2
Norway	-1.2
China	-1.3
Chile	-1.5
S Africa	-5.4

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