May 2 2022

Macro Weekly

Week 18/2022

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Highlights

The world around us

The Norwegian economy

Market charts & comments

Last week, part I

- **The War/Sanctions**
  - » The war continues, with no end in sight as the focus has moved to east, and south. Russia seems eager to cut of Ukraine from the Black Sea, as 'final' solution
  - » **Russia** last week shut down **gas supplies to Poland and Bulgaria** as these countries refused to pay up in Russian roubles. Still, European gas prices rose just marginally (in Netherlands) or fell (in UK) last week, even if they initially rose on the news
  - » **Other commodity prices** were more down than up last week, including food prices. Food prices are lower than just after the invasion
  - » **In the US**, president Biden proposed a huge support package for Ukraine, USD 33 bn
- **The virus**
  - » **Last week Omicron reached Beijing**, and some light restrictions are imposed.
  - » In **Shanghai**, the lockdown was further eased in some areas where no new cases are reported. Still, the we doubt the zero tolerance strategy will be viable, or if it is successful vs. the virus, the human and economic cost will be huge (which reports tells is not recognised by president Xi). Regrettably, the Chinese will not utilise 'western' vaccines that are more effective than the Chinese versions
  - » **In South Africa, two new variants of Omicron**, BA.4 and BA.5, have led to a surge in new cases, an increase in hospitalisations, and some few deaths, as earlier infections but also vaccines gives less immunity then for other variants
- **China**
  - » The **April PMIs** were far weaker than expected, especially the service sector PMI from the NBS. The manufacturing sector PMIs fell too, and in average more than expected, and the output components tanked. The NBS composite fell to 42.9, while the Markit's may have fallen to below 40!
- **USA**
  - » **GDP to -1.4% from 6.9%.** GDP was expected up 1% but a surge in March imports made a further dent into domestic production. The drag from net trade was 3.8 pp. Inventory growth also slowed sharply. Domestic final demand grew faster in Q1 than in Q4, both private consumption and business investments accelerated! Prices rose 8%. Still, wage costs probably grew slightly faster than value added in the domestic corporate sector as productivity has fallen sharply. In addition – and more important in Q1 - government subsidies were cut and corporate profits probably fell. In March **personal consumption** rose 0.2% but real income fell due to the 0.9% lift in the PCE price deflator (which did not climb faster than expected – and March may have been the y/y peak). As during the previous months, a decline in the savings rate funded consumption growth
  - » **The Employment Cost Index** accelerated more than expected in Q1, up to 1.4% (5.8% annualised). All wage indicators tell the same story, wage inflation is accelerating like we have not seen in decades
  - » **House prices** shot up in March, by 2.4%, and are up 20.2% (S&P Case/Shiller) but data may be lagging. Mortgage rates are surging, and demand for new mortgages have fallen recent weeks

Last week, part II

- **EMU**
  - » **HICP (CPI) inflation** shot up more than expected – even if energy prices fell m/m. Energy is still the main culprit in the EMU, but food prices are on the rise – and some other prices as well
  - » **Q1 GDP** grew 0.8% (0.2% not annualised, expected 0.3%), mixed between the big 4
- **Sweden**
  - » **The Riksbank's U-turn**: The bank somewhat surprisingly lifted the signal rate by 25 bps to 0.25%, and the short end of the FRA-curve initially rose 12 – 13 bps. The bank lifted the interest rate path by up almost 150 bps in one go, still 75 bp below the long end of the FRA curve (Riba). Even so, the futures rose by up to 25 bps, and are now 100 bps above Riksbank's new path! The Riksbank revised its core inflation forecast up by as much as 3 pp but unemployment just marginally upwards
  - » **GDP** rose by 1% in March but still declined by 0.4% in Q2. Blame the Omicron. The **national business survey** signal growth at a 5% growth pace – and the sentiment has not been much hurt by war & sanctions
- **Norway**
  - » **NAV open** unemployment fell by 2' persons in April, but was unch at 1.9%, we expected 1.8%. However, total unemployment, including part time unemployed and persons on labour market measures, unemployment fell by 8' or 0.3 pp to 3.2%, below the pre-pandemic level (and more than we expected)
  - » **LFS (AKU) unemployment** was unch too, but at 0.1 pp downward revised level, at 3.1%
  - » **The number of employees** rose by 0.1% in March, and Feb was revised sharply up. The LFS employment rate rose, and is at the highest level since 2009. The participation rate has flattened since last summer, at the highest level since 2012
  - » **Retail sales** rose 3.3% in March, supported by clothing, sport and household equipment. Still, the trend for total sales is down, and the level is very likely above the long term trend. Spending on services are on the way back, as is x-border trading and other consumption abroad
  - » **Consumer confidence** (CCI) rose in April but is still very low at -3.1 st.dev below average following the collapse to -4 st.dev in March
  - » **Credit growth** was higher than we expected in March, mostly due to an upward revision of corporate borrowing in February. Total C2 growth is at 5%. No credit boom to be seen even if interest rates have been record low – but households debt/income ratio is very high

The Calendar: FOMC, BoE to hike, NoBa not. PMI/ISM. US labour market. Norw. house prices

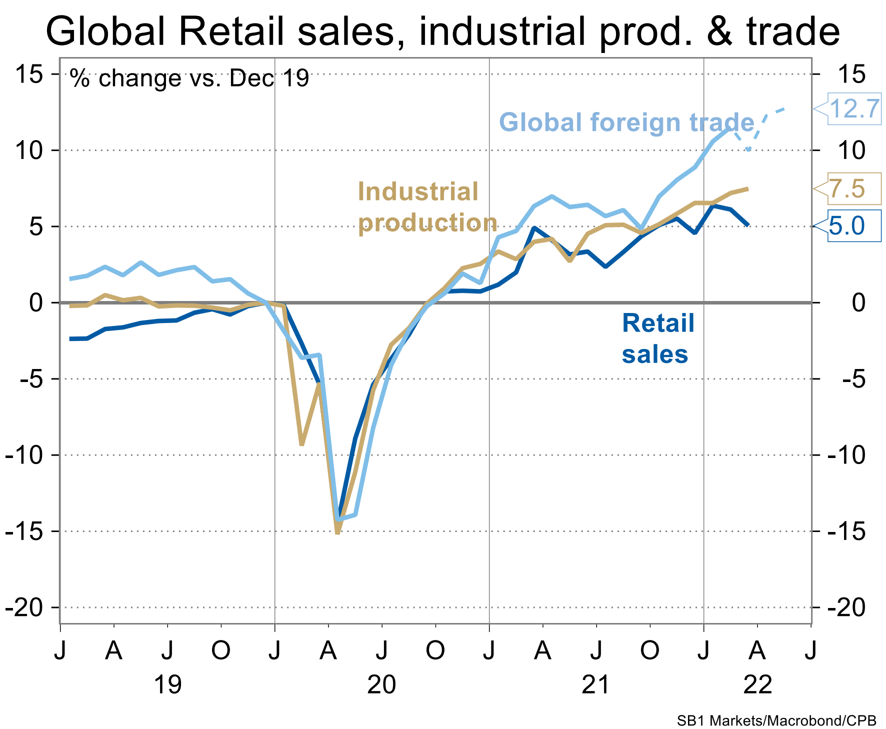
Time	Count.	Indicator	Period	Forecast	Prior
Monday May 2					
08:00	GE	Retail Sales MoM	Mar	0.3%	0.3%
08:30	SW	Manufacturing PMI	Apr	--	57.3
10:00	NO	Manufacturing PMI	Apr	57.5	59.6
10:00	EU	Manufacturing PMI	Apr F	55.3	55.3
11:00	EU	Economic Confidence	Apr	108	108.5
15:45	US	Manufacturing PMI	Apr F	59.7	59.7
16:00	US	Construction Spending MoM	Mar	0.8%	0.5%
16:00	**US**	**ISM Manufacturing**	**Apr**	**57.8**	**57.1**
16:00	WO	Manufacturing PMI	Apr	(52.3)	53.0
Tuesday May 3					
11:00	EU	PPI YoY	Mar	36.3%	31.4%
11:00	EU	Unemployment Rate	Mar	6.8%	6.8%
16:00	**US**	**JOLTS Job Openings**	**Mar**		**11266k**
	US	Auto sales	Apr	13.80m	13.33m
Wednesday May 4					
08:30	SW	Services PMI	Apr	--	65.3
10:00	EU	Services PMI	Apr F	57.7	57.7
10:00	EU	Composite PMI	Apr F	55.8	55.8
11:00	NO	House prices	Apr	(0.0)	1.1
11:00	EU	Retail Sales MoM	Mar	-0.1%	0.3%
14:15	US	ADP Employment MoM	Apr	395k	455k
14:30	US	Trade Balance	Mar	-$105.9bn	-$89.2bn
15:45	US	Services PMI	Apr F	54.7	54.7
16:00	**US**	**ISM Services**	**Apr**	**58.6**	**58.3**
Thursday May 5					
03:45	CN	Services PMI, Markit	Apr	41.0	42.0
10:00	**NO**	**Deposit Rate**		**0.75%**	**0.75%**
13:00	**UK**	**Bank of England Bank Rate**		**1.00%**	**0.75%**
14:30	US	Productivity	1Q P	-4.5%	6.6%
14:30	**US**	**Unit Labor Costs**	**1Q P**	**7.9%**	**0.9%**
14:30	US	Initial Jobless Claims	Apr-30	180k	180k
17:00	**WO**	**Composite PMI**	**Apr**	**(51.6)**	**52.8**
20:00	**US**	**Federal Reserve, FOMC Rate**		**1.00%**	**0.50%**
Friday May 6					
08:00	GE	Industrial Production SA MoM	Mar	-1.0%	0.2%
14:30	US	Nonfarm Payrolls MoM	Apr	395k	431k
14:30	**US**	**Unemployment Rate**	**Apr**	**3.5%**	**3.6%**
14:30	**US**	**Average Hourly Earnings MoM**	**Apr**	**0.4%**	**0.4%**
14:30	US	Average Hourly Earnings YoY	Apr	5.5%	5.6%
14:30	US	Average Weekly Hours All	Apr	34.7	34.6
14:30	**US**	**Labor Force Participation Rate**	**Apr**	**62.5%**	**62.4%**

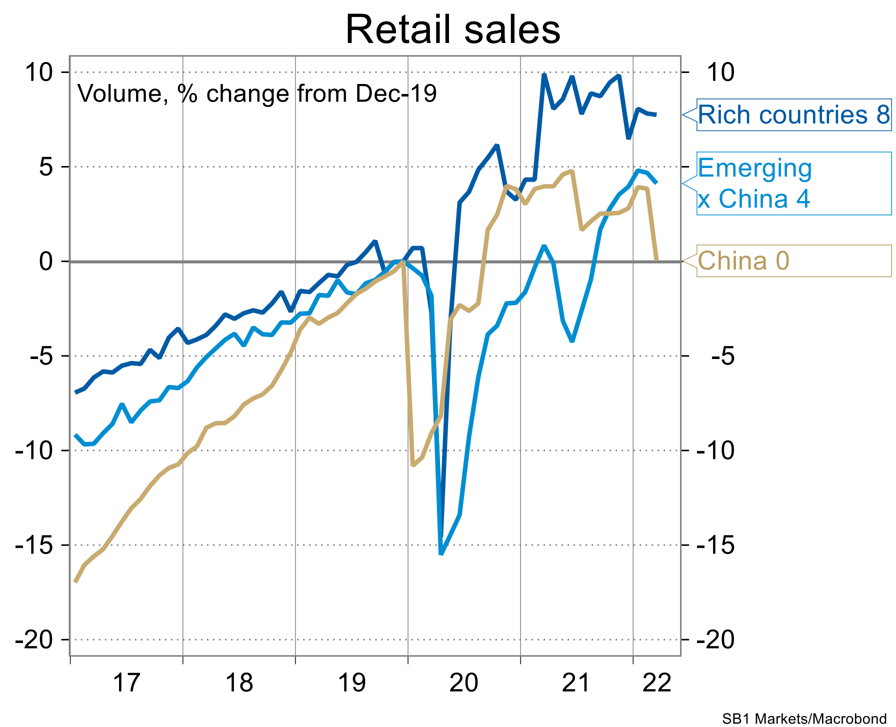
- **PMIs/ISM**
  - » The global PMI will decline further in April, and now both rich countries and very likely China will contribute at the downside. We expect at 1.2 p decline to 51.5, normally signalling a 2 – 2.5% global GDP growth rate, down from a 3.5% rate signalled in February. Both manufacturing and services contributed at the downside. Delivery times rose sharply in China, and prices rose sharply everywhere, the latter according to the preliminary PMIs in rich countries. The ISM indices in the US is expected slightly up – and the levels are still far above average
- **Central Banks**
  - » **The Federal Reserve** will most likely lift the Fed funds rate by 50 bps to a 175 – 100 bps corridor, from 25 – 50 now. Inflation is far too high, and not just because energy prices are high. The labour market is extremely tight, pushing wage inflation up in a way not seen in decades. So somebody has to do something…
  - » **Bank of England** is also struggling with high inflation but energy is more to blame. However, wage inflation is accelerating and inflation expectations are high. Another 25 bps is expected
  - » At the March meeting, **Norges Bank** 'promised' to continue its gradual campaign by lifting the rate at a quarterly pace, next time in June – and not now in May. No reason to expect no to surprise us all
- **USA**
  - » **The unemployment rate** is expected another tick down, to 3.5%. Wages are expected up by another 0.4%. Demand for labour is brisk, and we expect both the small business survey and the official unfilled openings (JOLTS) report to confirm a very tight labour market. Growth in employment is not the critical number in the job report
  - » **Productivity** must have fallen sharply in Q1, as production fell, and hours worked rose. Wage inflation was high – and **labour cost per unit produced** no doubt soared. However, so did prices (8%) and the decline in profits in Q1 (which we expect) was due to less government subsides. Going forward we expect price inflation to decline faster than unit labour cost inflation, supressing profits further
- **Norway**
  - » **Existing home prices** soared in Q1, probably due to lack of supply of existing homes approved for sale following the new documentation requirements. Realtors report calmer market in April, and we expect prices to flatten

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 – probably global foreign trade too

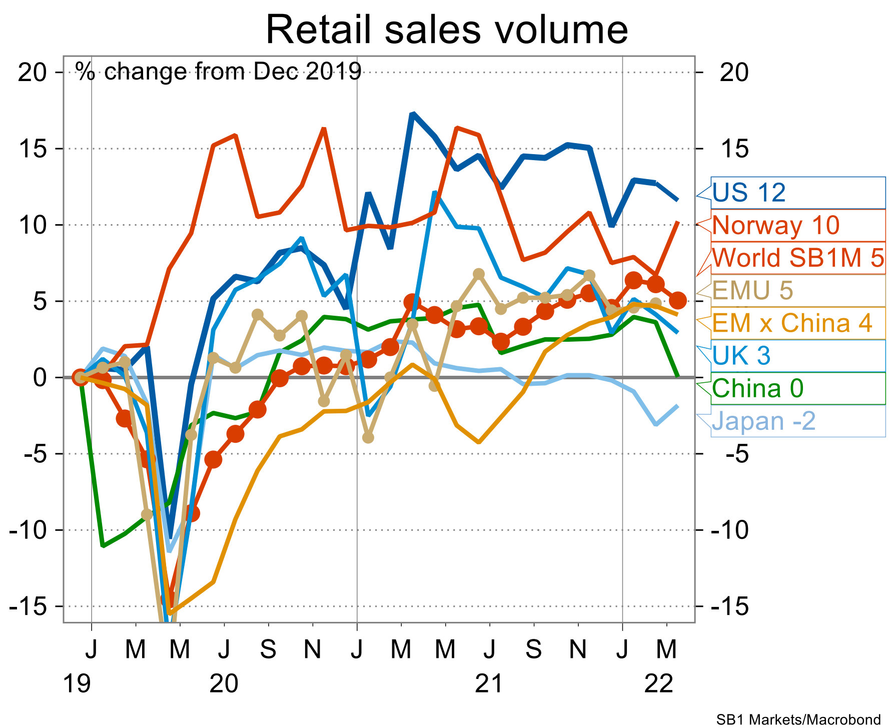


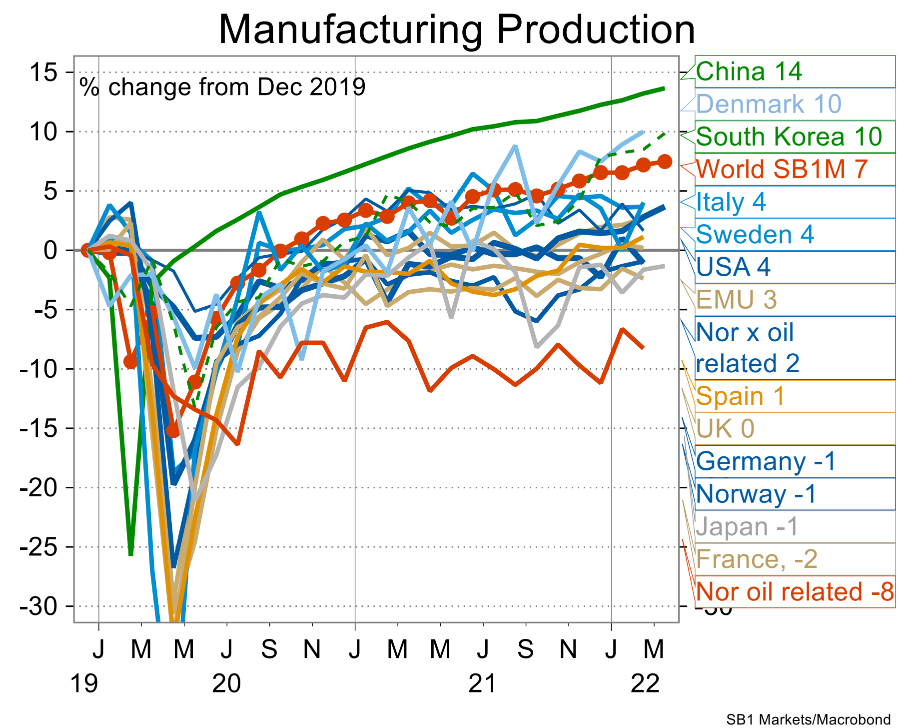


Global trade: The last months are estimates from Kiel Institute

Retail sales down in March, industrial production further up

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

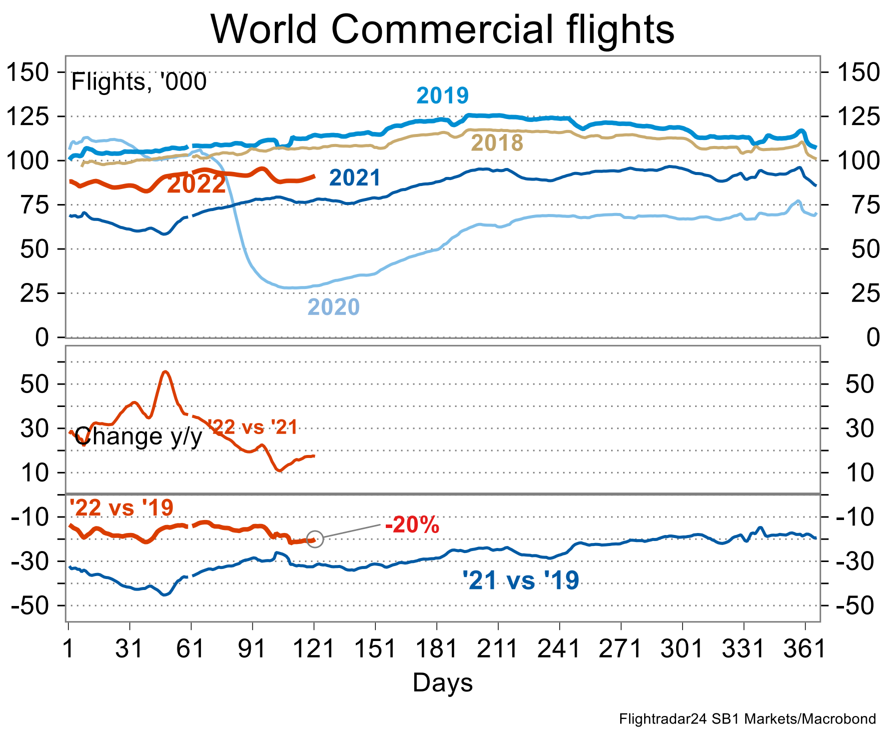


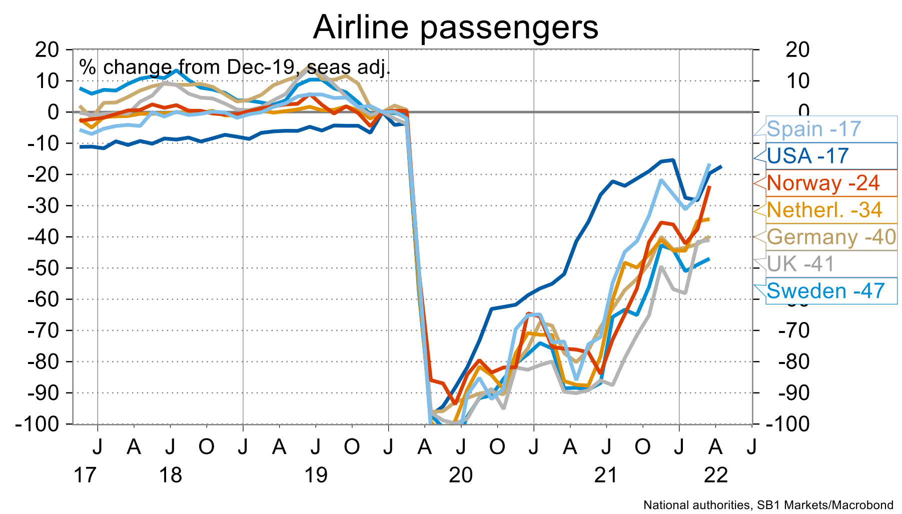


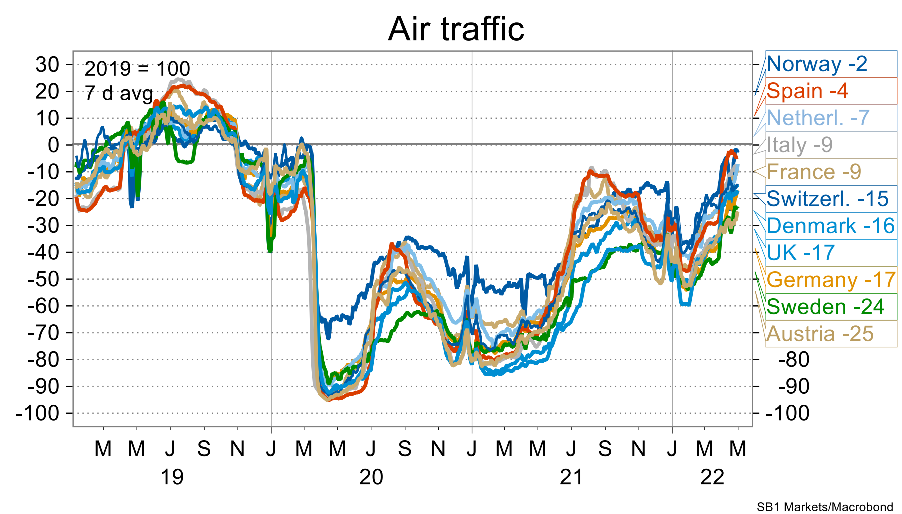
- **Retail sales** in Emerging Markets x China are recovering but is far below pre-pandemic trends
- **Manufacturing production** has been hampered by a deep decline in auto production. The manufacturing PMIs are down from the peak but aare still signalling growth above trend

Global airline traffic slightly up last week – still 20% down from 2019

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



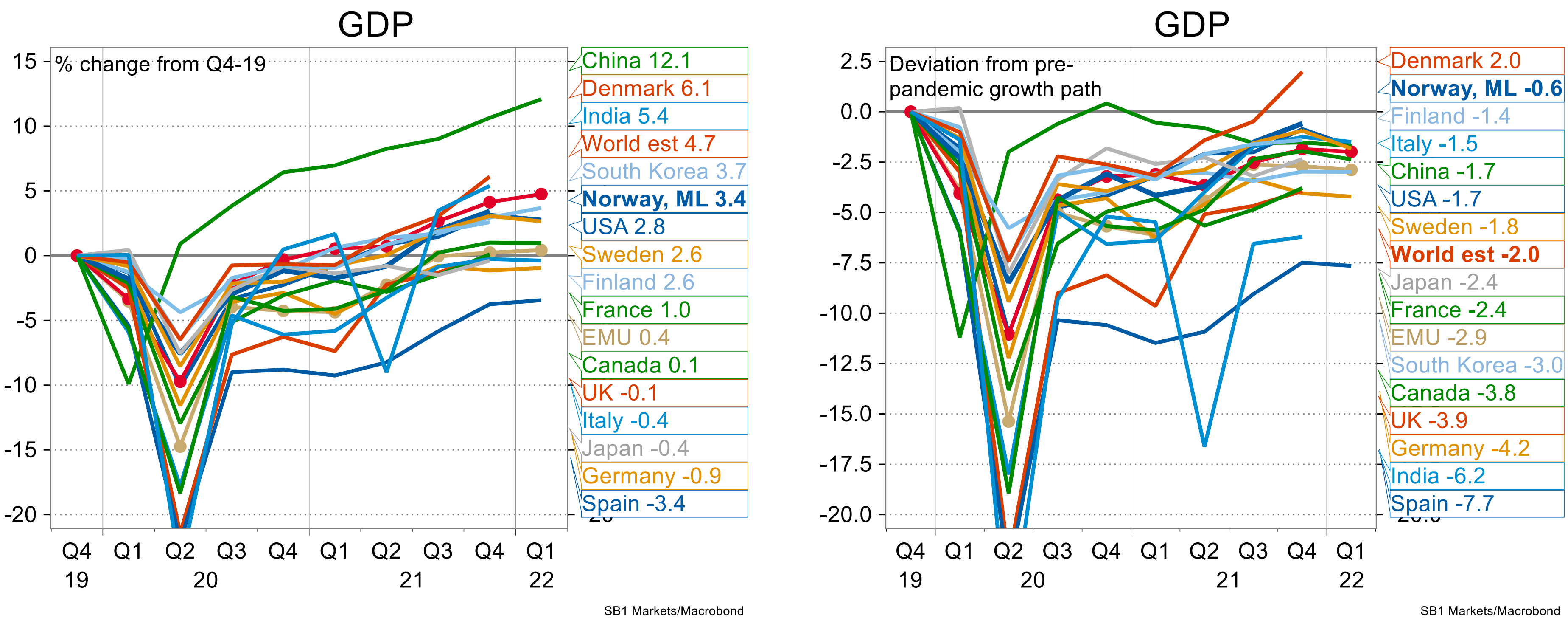




Global trade: The last months are estimates from Kiel Institute

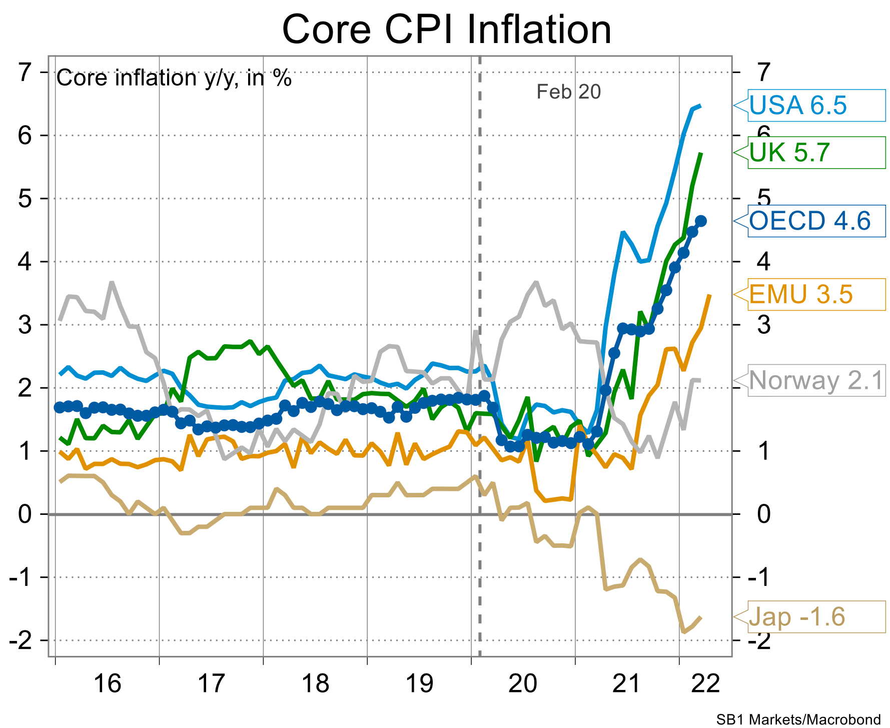
GDP slowed in Q1, to 0.6% (2.4% annualised) from 1.4% (5.7%) in Q4

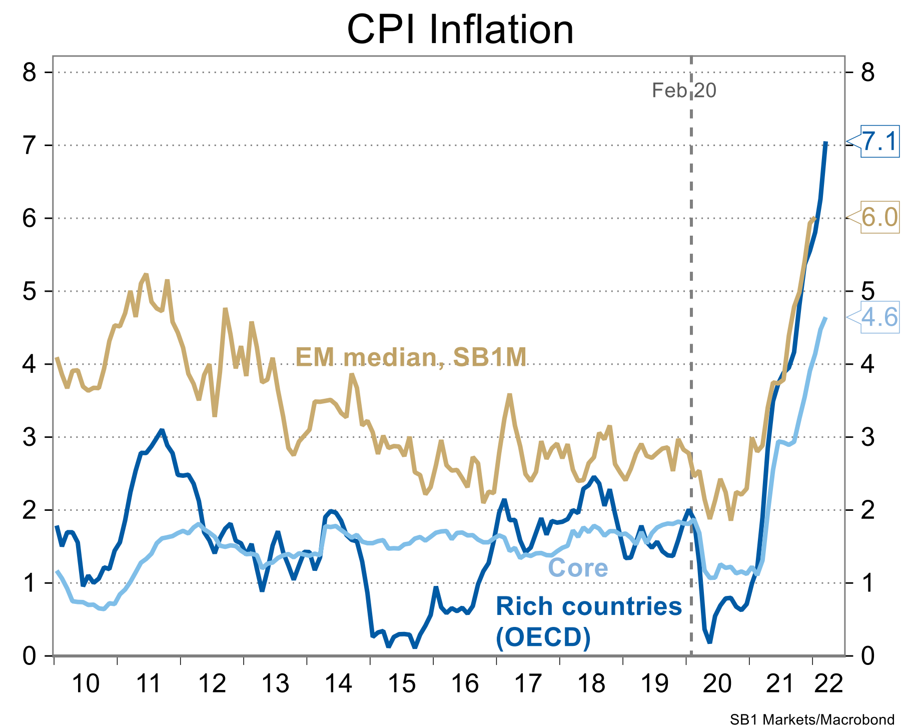
GDP is still below the pre-pandemic growth path, some 2%



Inflation still rapidly on the way up

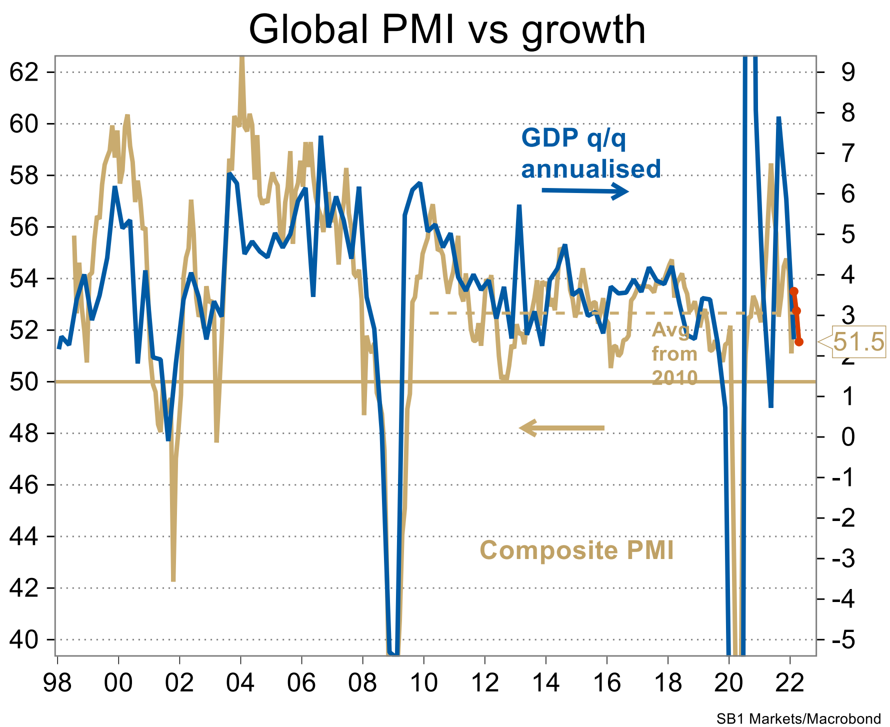
Energy prices the main culprit, but core inflation has turned up most places

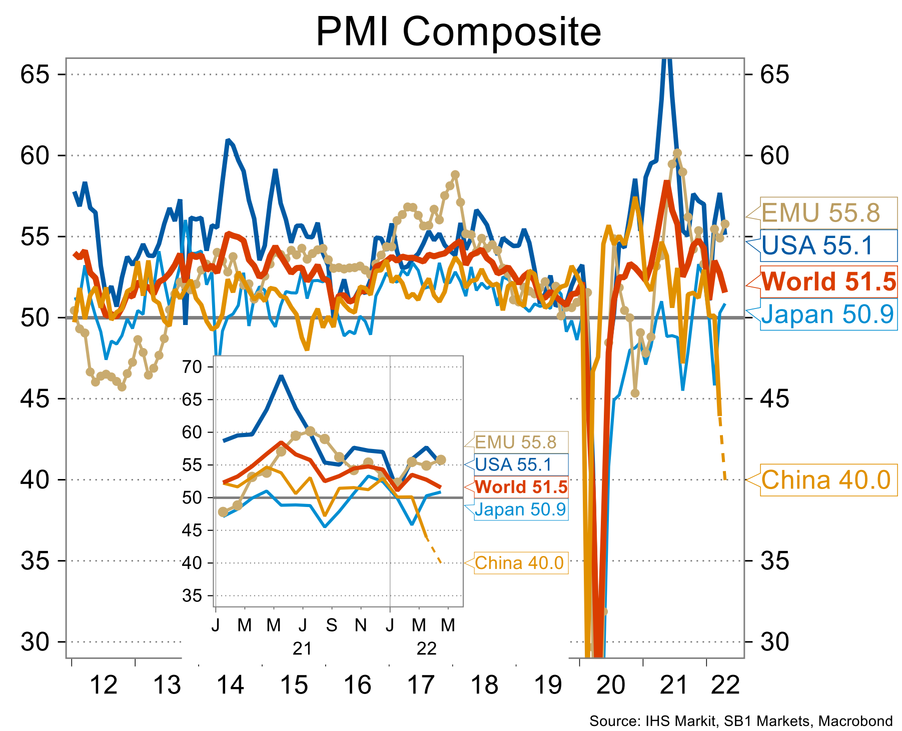




The global economy slowed further in April

The composite PMI may have declined by some 1 – 1.5 p in April. China has run into lockdown trouble

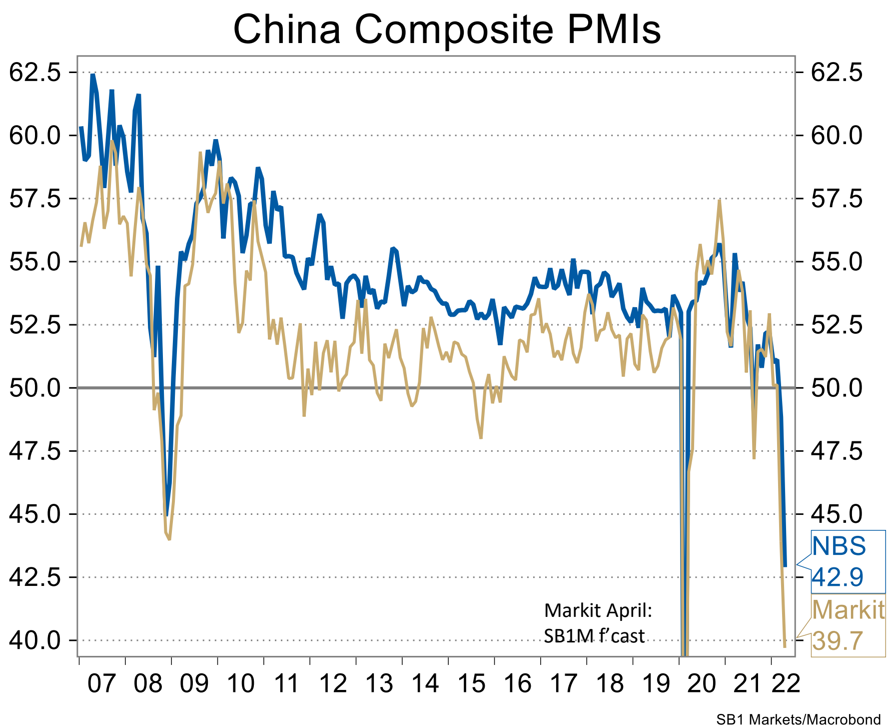


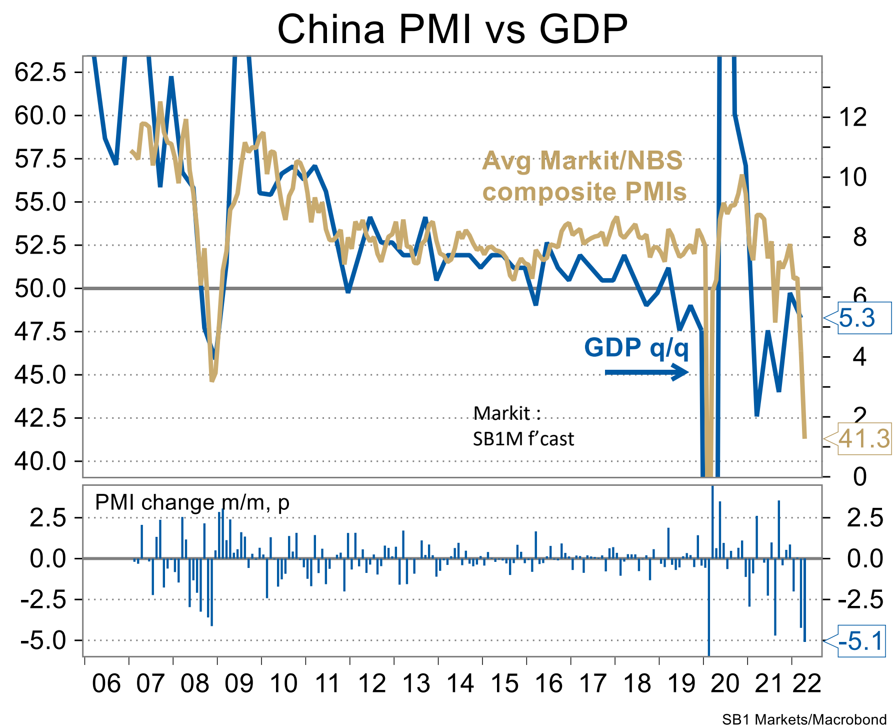


- IF Markit's Chinese service sector PMI remains unchanged in April (which could be somewhat optimistic), the Chinese composite PMI 'just' fell to 40.0, and the global index to 51.5, signalling 2- 2½% global GDP growth – down from 3½ in February. A 2 – 2 ½% growth rate has often been labelled a global recession
  - » The impact on growth in global corporate earnings (MSCI) is almost 10 x larger, that is a 10 pp decline, normally down to approx. zero
- **Both manufacturing & services** contribute to the expected decline in the overall PMI
- **The preliminary PMIs** rose in EMU, but fell in US (and UK), and probably in the rich part of the world in average
- **Delivery times** rose in the manufacturing sector – and all **price indices** rose – and most to new ATH. So war & sanctions (and Chinese lockdowns) have some impacts…

China is struggling again, no doubt due to the large scale lockdowns

The NBS composite fell almost 6 p to 42.9, Markit's index very likely fell too (manuf. output collapsed)





- The **CFLP/NBS composite PMI** fell by 5.9p to 42.9, the lowest level since the start of the pandemic in Feb-20
- **Markit's composite PMI** very likely fell as well, to below 40 even if we have just pencilled an unchanged service sector PMI. The manufacturing survey fell sharply, especially the output sub-component (which represents manufacturing in the composite index)
- **The average of the two PMI** data sets (with our estimate Markit's service sector index) fell 5.1p to 41.3
- **What has happened?** China's corona strategi has more or less failed. The Omicron variant is very contagious, and the Chinese vaccines to not work well (and far too few old people are vaccinated). The lockdowns are now hurting the Chinse economy badly. President Xi is said to so fixated at the zero Covid tolerance policy, he has not been able to acknowledge its huge economic cost
- **The construction sector** is not reporting a backlash – not in March either

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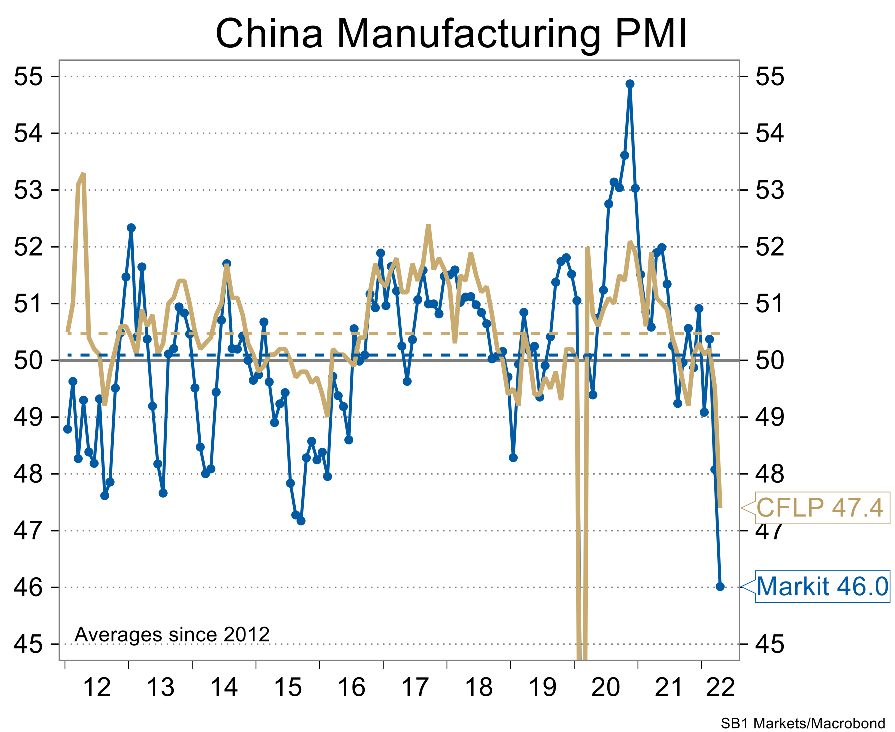
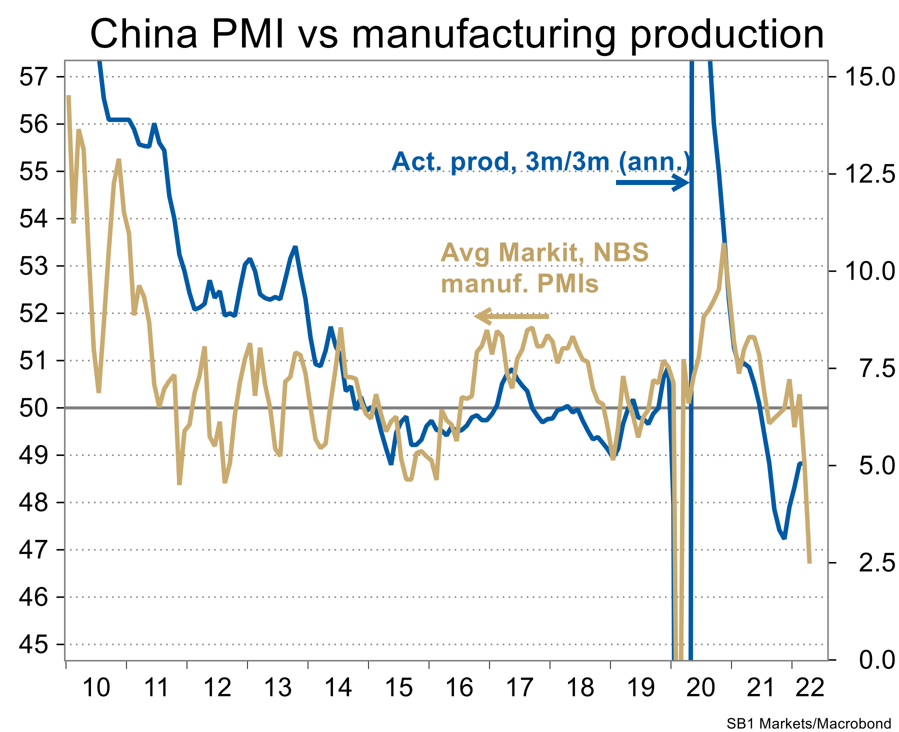
Both manufacturing PMIs down fell sharply in April as lockdowns bite

Both surveys down 2.1 p, and in average more than exp., down to 46.8 in avg, a slow growth sign

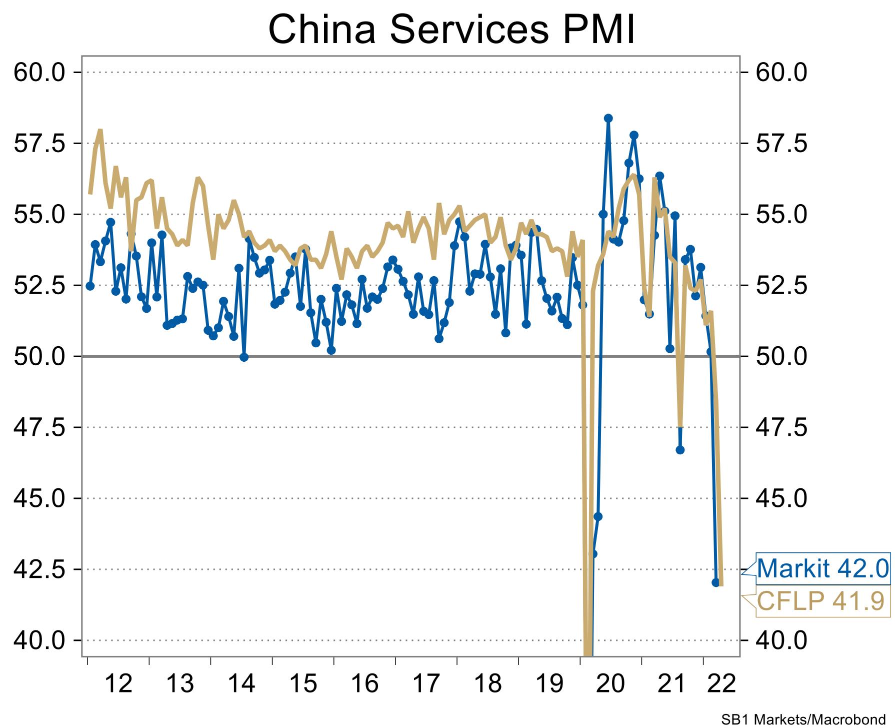


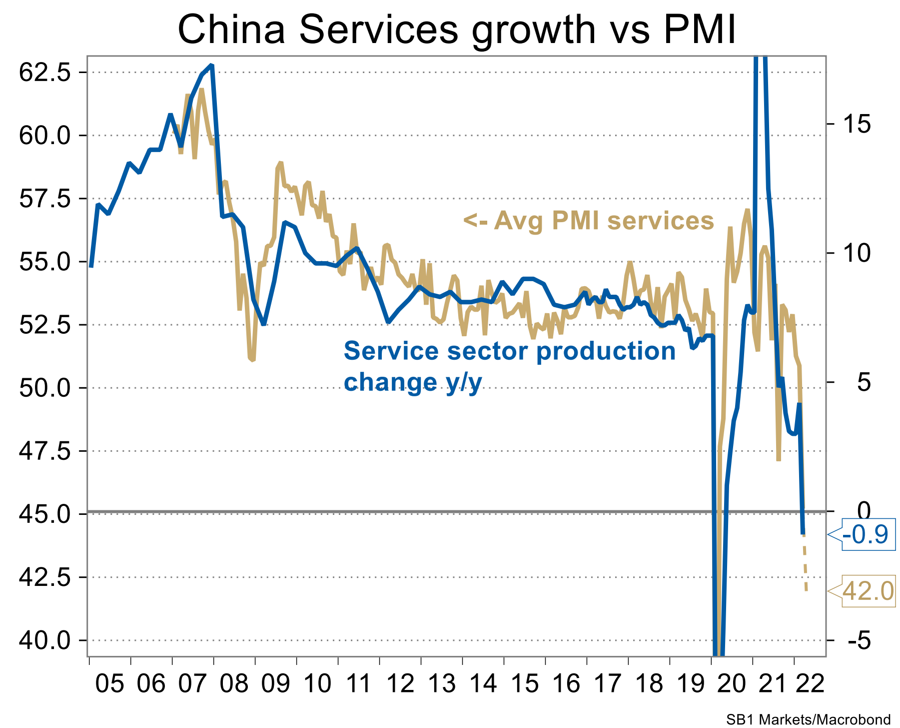


- The CPLP/NBS survey fell less than expected, while Markit's survey fell more
- Even if these surveys are well below the 50 line, they do not automatically signal a contraction in activity, at least not measured vs official production data. However, the April surveys are both outliers, like the Feb-20 surveys were (the first lockdowns), and our model is not calibrated vs such special circumstances. In addition, the output components fell more than the total indices, especially in Markit's PMI, down to 38 (check next page) – no doubt signalling contraction in production

The CFPL/NBS service sector PMI joined the March Markit survey, at 42!

A 2 p decline to 46.2 was expected. I fell 6.5p. The tight lockdowns have a substantial economic cost

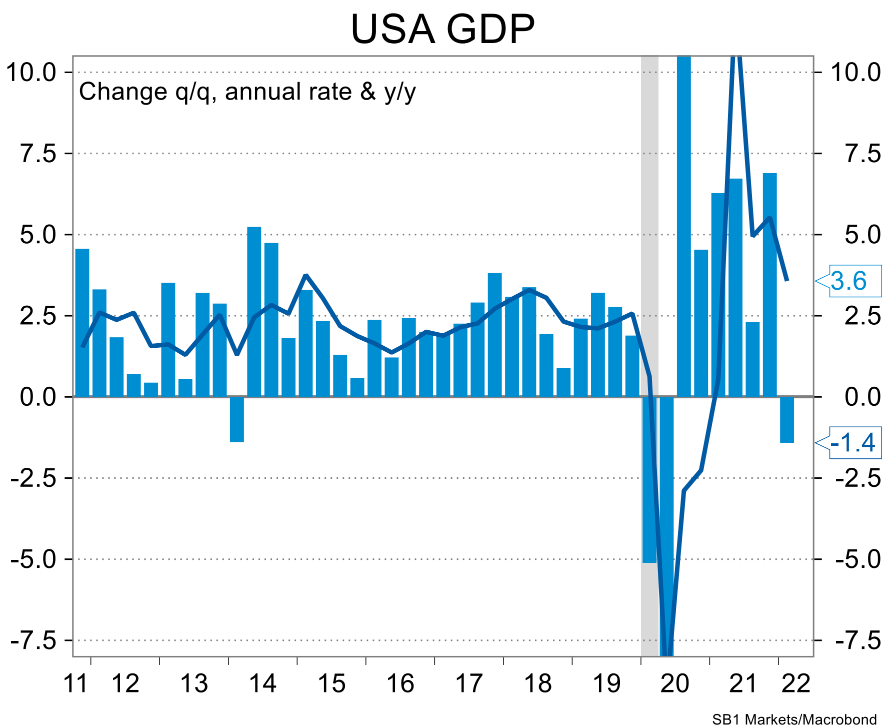


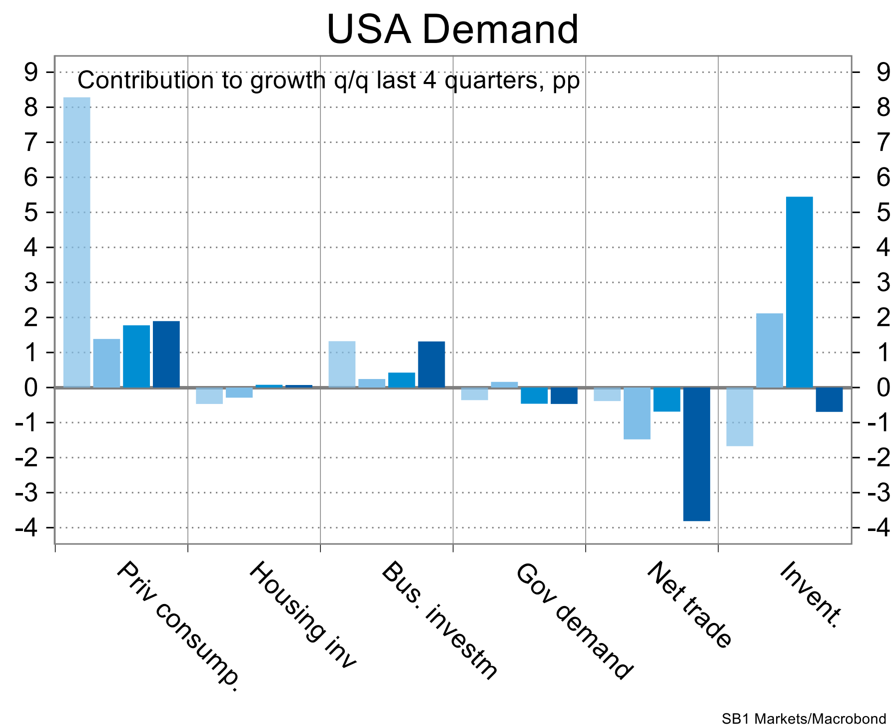


- Markit has not yet reported its April service sector survey
- If assuming an unchanged Markit service sector index in April, that is at the same level as the NBS survey, a substantial decline in service sector activity in April is signalled

GDP down 1.4% as strong domestic demand just leaked to the ROW, imports rose

Net trade deducted 3.8 pp from domestic product, and inventory growth slowed too





- **GDP** was expected up by 1.0%, down from 6.9% in Q4. March **trade data** was published one day before the GDP report, which signalled a downside risk to Q1 GDP. However, other short term data, neither from the demand and supply side (hours worked) signalled a decline in GDP
- The **demand mix** was unusual, the drag from a 18% surge in **imports**, which was much larger than expected. Exports fell by 5.9%, and net trade deducted 3.8% from GDP!
- In addition, the **inventory contribution** declined to -1.6% from highly unusual support of 5.4%. However, inventories were still growing faster than normal in Q1
- **Domestic final demand** (ex. inventories) was not weak, in fact it rose faster than in Q4, up 2.7% from 1.7% in Q4 – while GDP growth fell to -1.4% from +6.9%!
  - » Private consumption grew at tad faster, and business investments rose much faster. Public sector demand declined further
- **Core PCE inflation** (Fed’s price measure) was unch. at 5.2%, while the overall GDP deflator grew 8% in Q1
- We assume **corporate profits** fell by 5% in Q1, in spite of the 8% surge in prices. Employment compensation rose rapidly, and more important, government support ended

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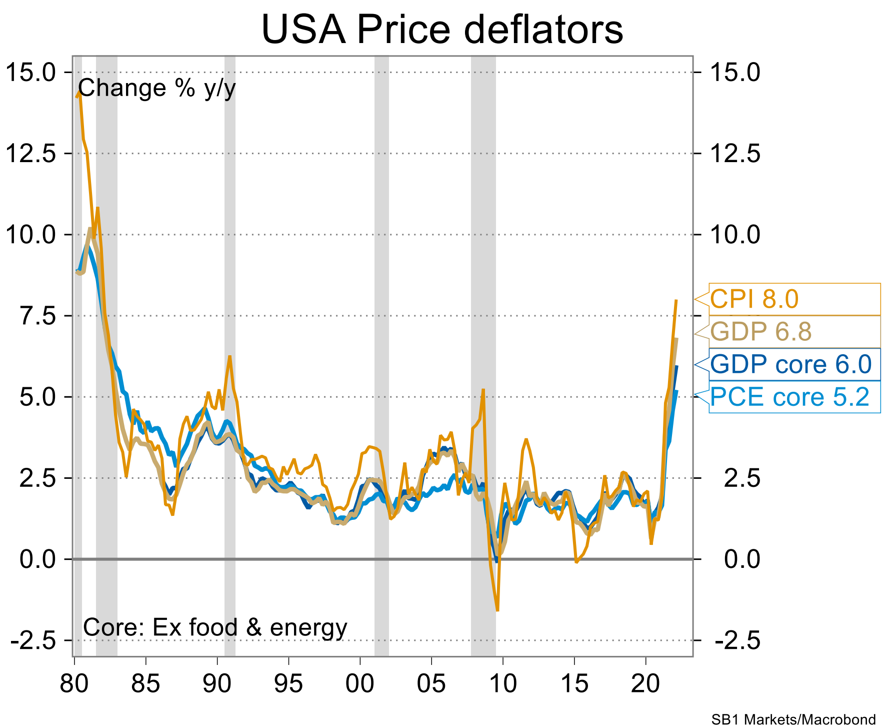
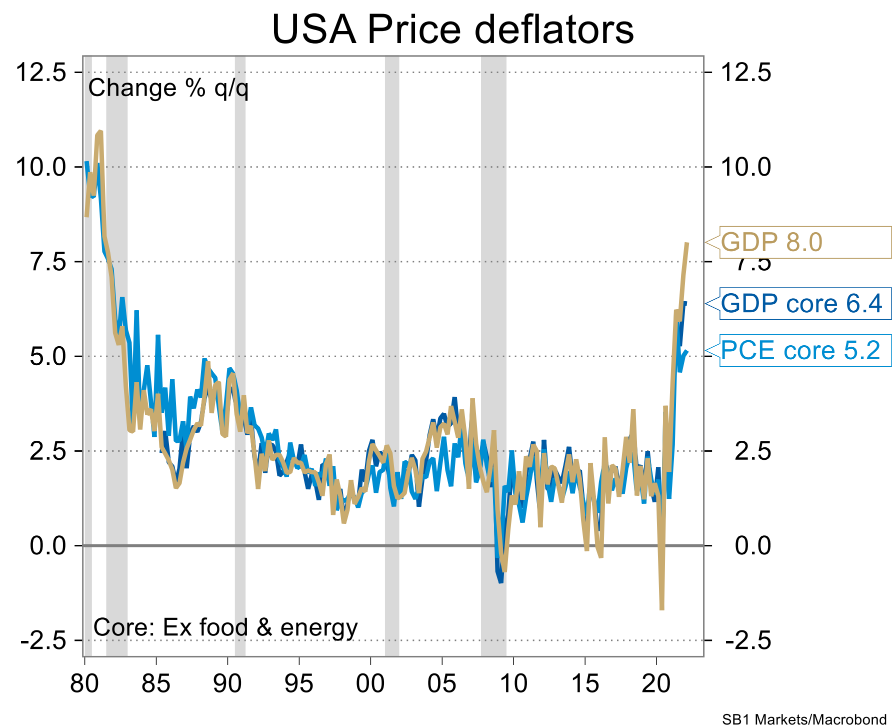
Price increases accelerated in Q1 – and we are at levels not seen in decades

All GDP/PCE deflators up 5 – 8% in Q1. Nominal GDP grew by 6.5%

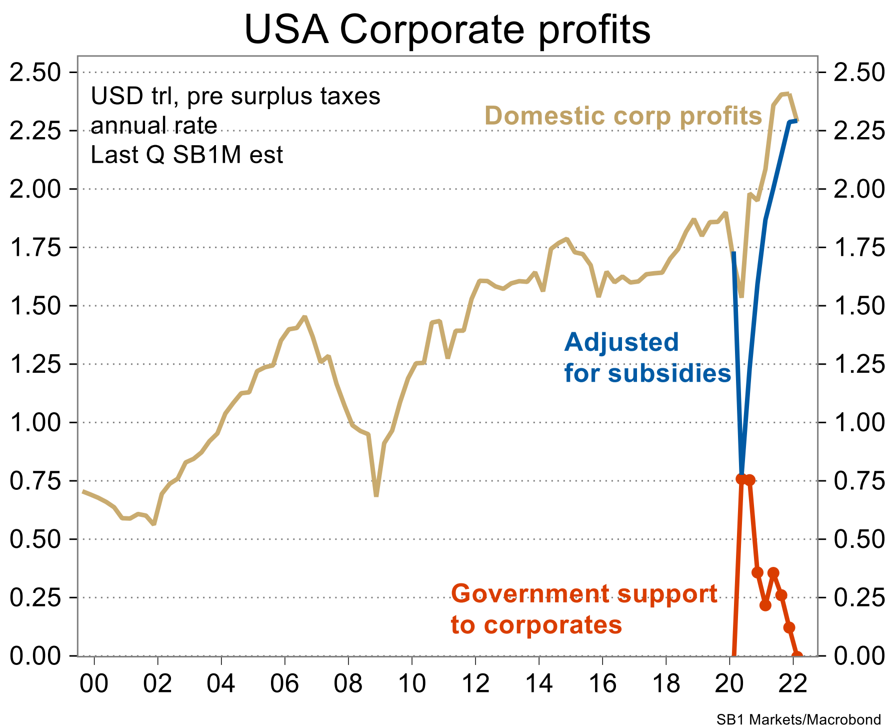


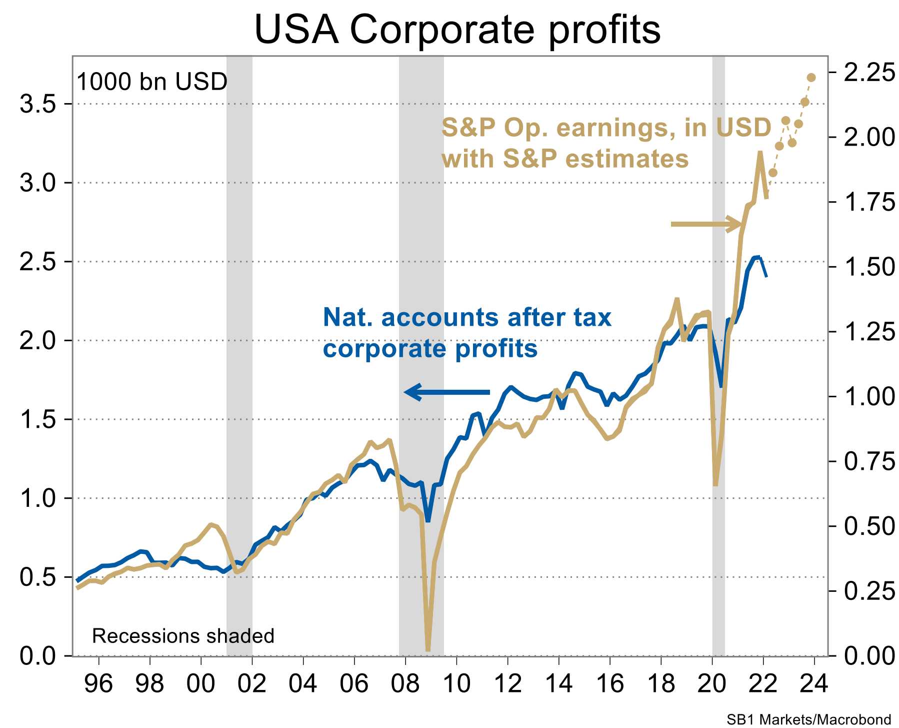


- Higher energy prices to blame for the steep rise in prices but other prices also contributed to the lift in GDP deflator at 8% in Q1 (q/q, the annual rate is 6.8%). The growth rate is the highest since early 80'ies
- The core (x energy, food) PCE deflator (Fed's preferred measure) is up 5.2% in Q1 (and by 5.2% in y/y), the highest since 1984

Corporates' profits probably down in Q1, due to the end the Gov subsidy bonanza

However our 'pre-subsidy' estimate may be too optimistic

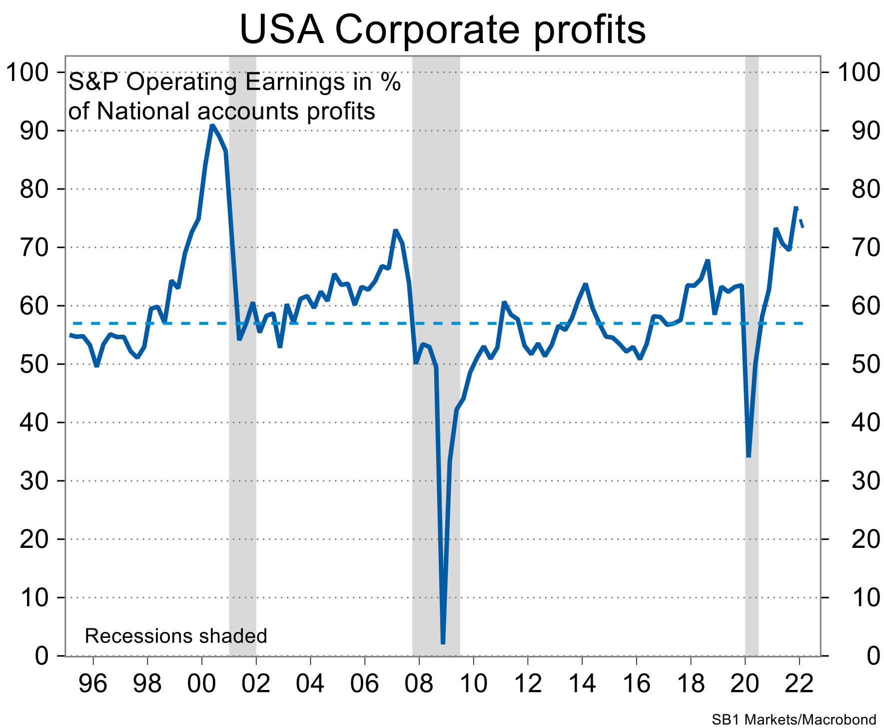


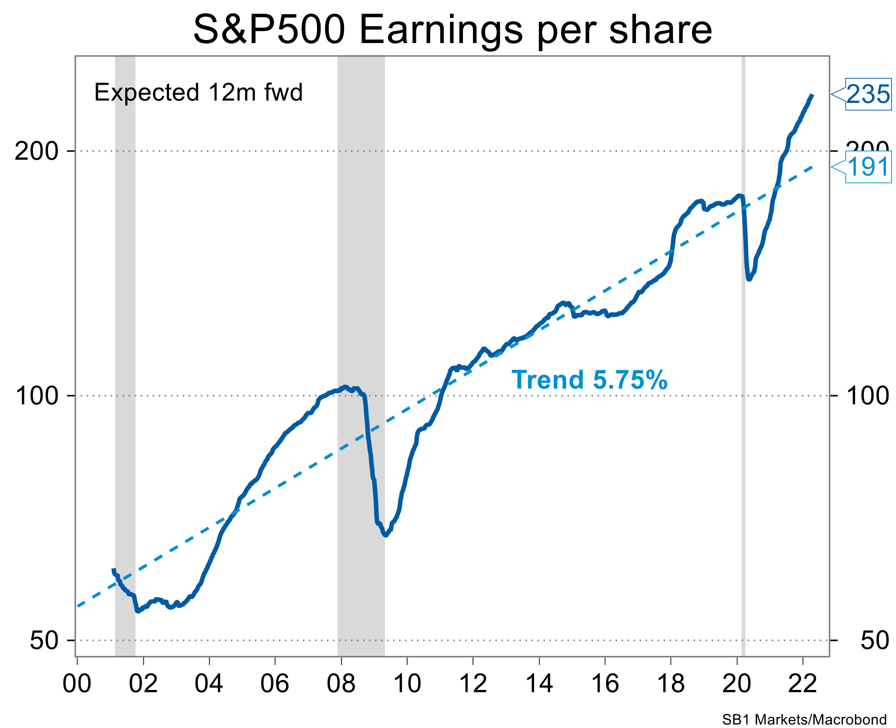


- **We assume domestic corporate profits** fell some 5%, not annualised. Growth in nominal corporate GDP slowed (we assume to 1.9% from 3.2%, but the estimate is uncertain!), even if inflation accelerated to above 8%, and growth in labour compensation slowed to 2.2% (9.3% annualised) from 2.7%. The main drag still came from an increase in net taxes-subsidies, contributing to a 4.8% decline in corporate profits
- The **S&P** estimate that S&P 500 profits fell by 8.6% (our seasonal adj). Of course, thereafter profits will grow rapidly forever. S&P profits are still way above normal vs National Account profits for the total corporate sector
- We think the **profit outlook** is muted. Wage inflation will not subside anytime soon given the super tight labour market – and a continued price inflation at the current pace cannot be tolerated by the Federal Reserve. Exciting times ahead

Profits in the National accounts are strong, S&P profits are even better

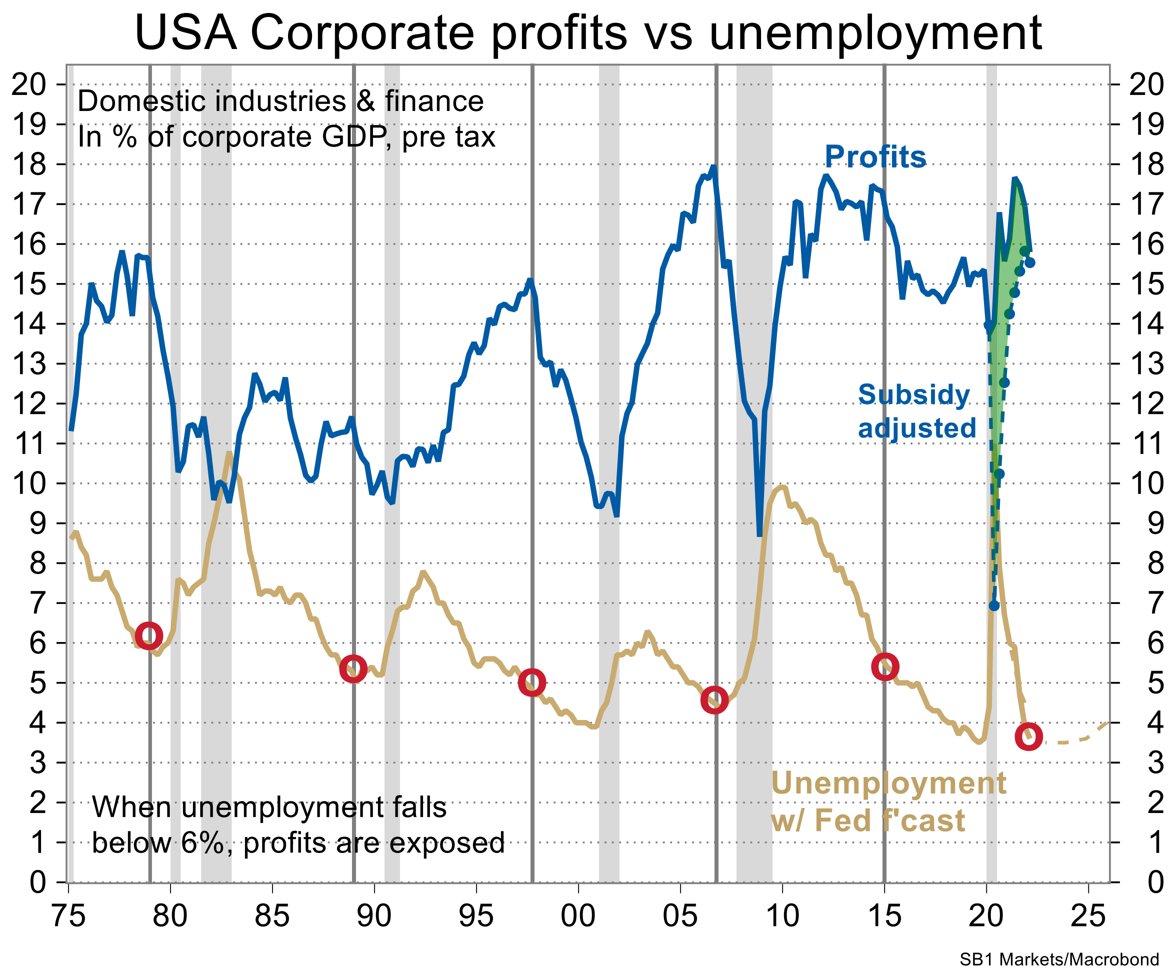
Until further notice





The profit share has peaked? And more may come

The bottom line has always been hurt when the labour market becomes too tight. Like it is now

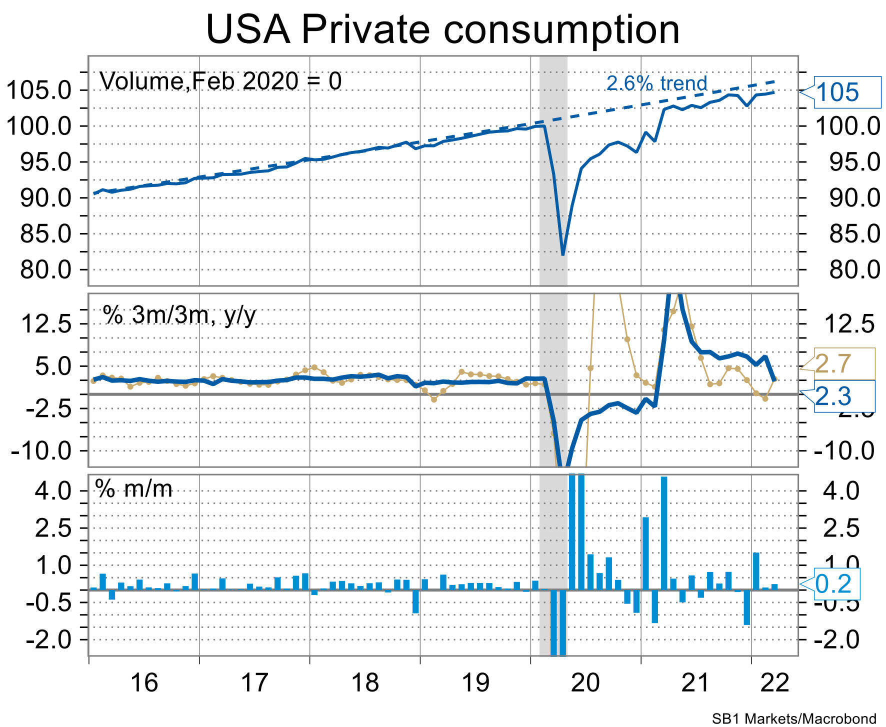


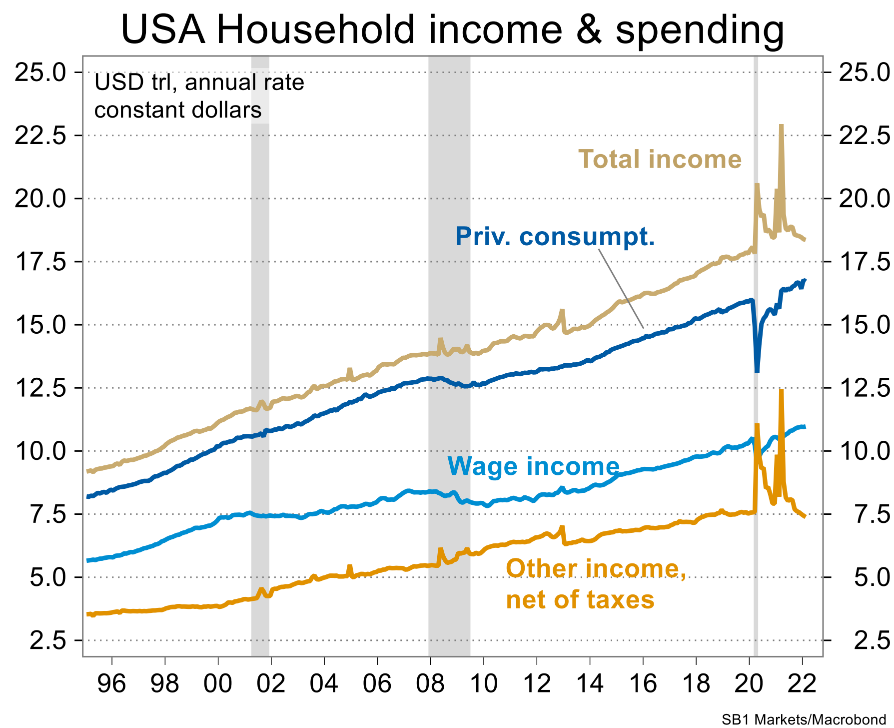
- Prices are increasing at an incredible pace but so are wage costs, and government support is on the way down
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - » Unemployment is now at 3.6%, and it is falling rapidly as other indicators (especially vacancies) suggest that the labour market is even tighter than the 3.6% rate signals
- In addition, it is reasonable to expect the production taxes-subsidies to normalise the coming quarters.
  - » The impact is shown as the green area at the chart above
- Thus, it is quite likely that the profit share is headed downwards from here

All data are not yet published, and the Q1 numbers are just our estimate

Real consumption up 0.4% in March; Goods down, services further up

Real incomes fell by 0.4%, and are trending due to high inflation. Lower savings fund consumption

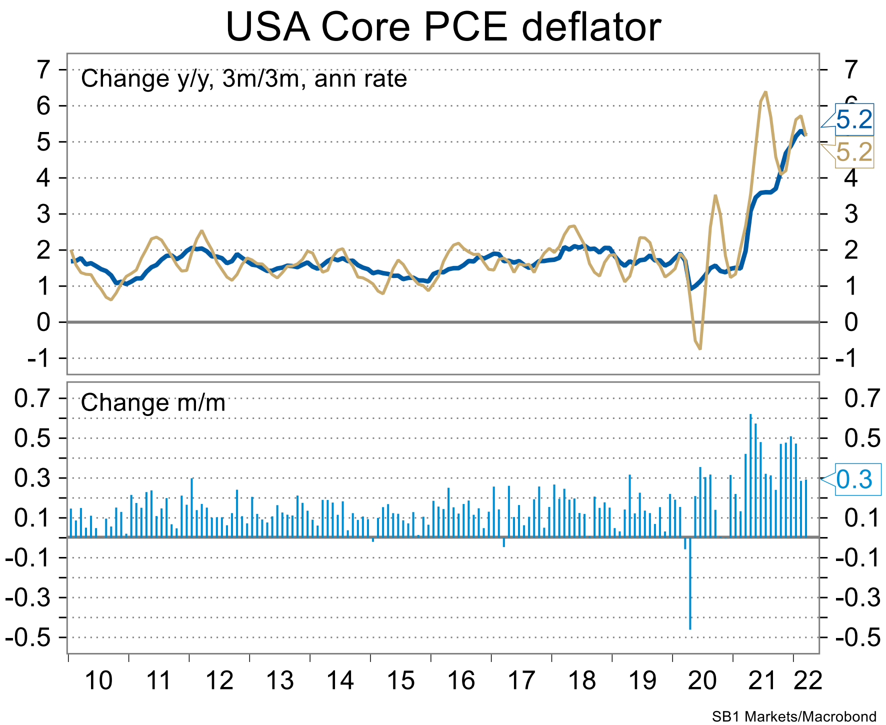


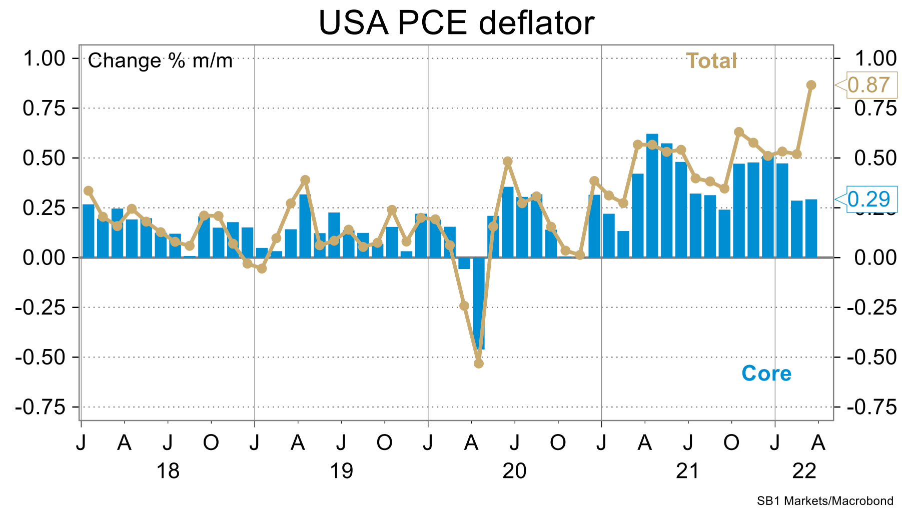


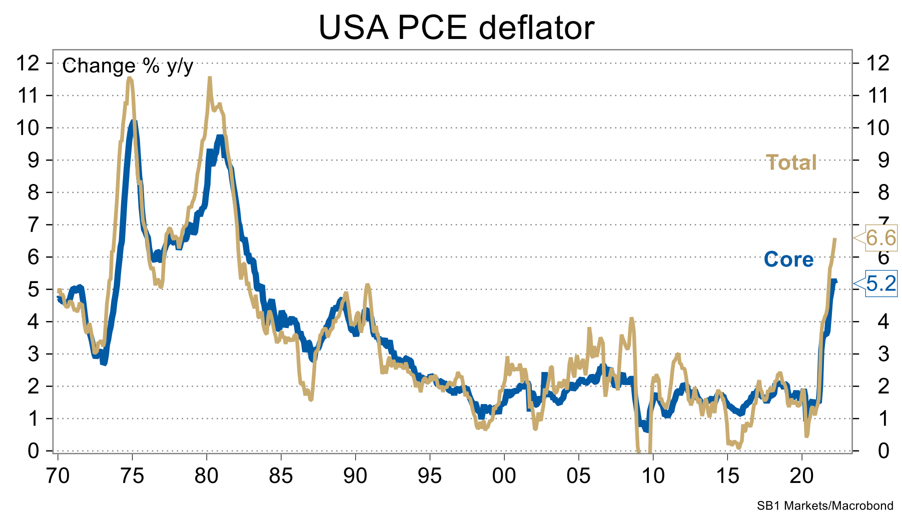
- **Private consumption** grew 0.2% in March, expected down 0.1%. Feb was revised up to 0.1% from -0.4%. Spending rose by 1.1% in nominal terms! The PCE deflator shot up 0.9%. Real consumption is up 5% vs. Feb-20; Goods are 15% up, service are back to the starting point! No doubt, goods consumption slow, services will grow further the coming months
- **Personal disposable income** gained 0.5% in March, but fell 0.3% in real terms. Real household income has been falling recent months, due to the surge in inflation, and a normalisation of transfers/taxes. Real wage incomes are still trending upwards
- **The savings rate fell +0.6 po to 6.2%**, from a 0.5 pp upward revised level in Feb. The savings rate is now below the pre-pandemic level. However, households have saved an extra amount equalling 13% of one year's disposable income during the pandemic and has ample capacity to keep consumption growth above income growth – in average, that is. Low income families spent their ordinary income + transfers from the government, high income familied increased their savings – and do perhaps not plan to spend the 'savings surplus', even if most of the excess savings have been invested in liquid assets like bank deposits

Has core inflation peaked? Quite likely, last year's monthly increases hard to beat

The annal core PCE declined 0.1 pp to 5.2%, 0.1 below expectations. The headline up 0.3 pp to 6.6%



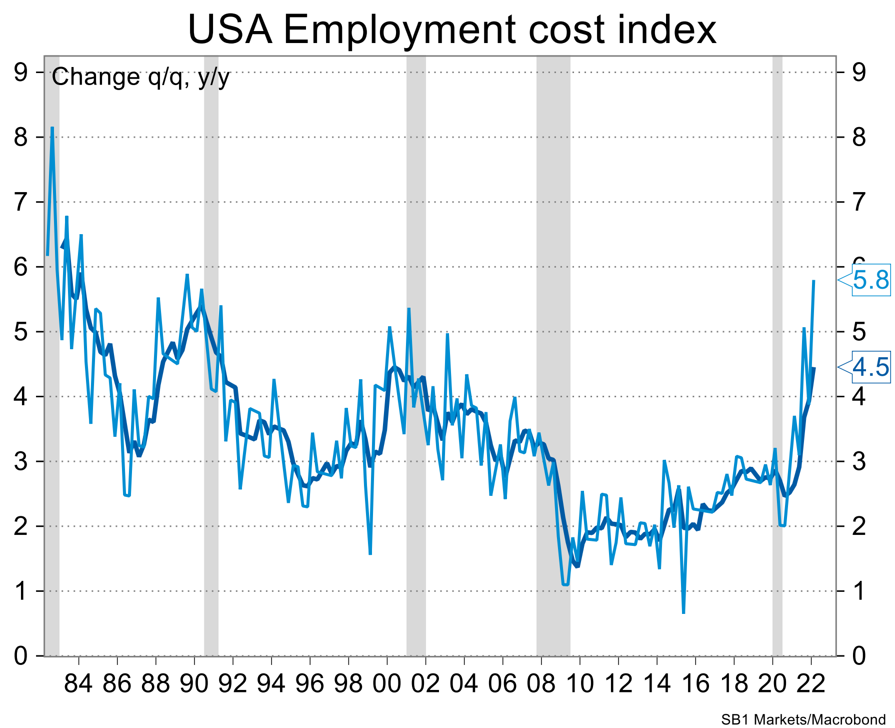


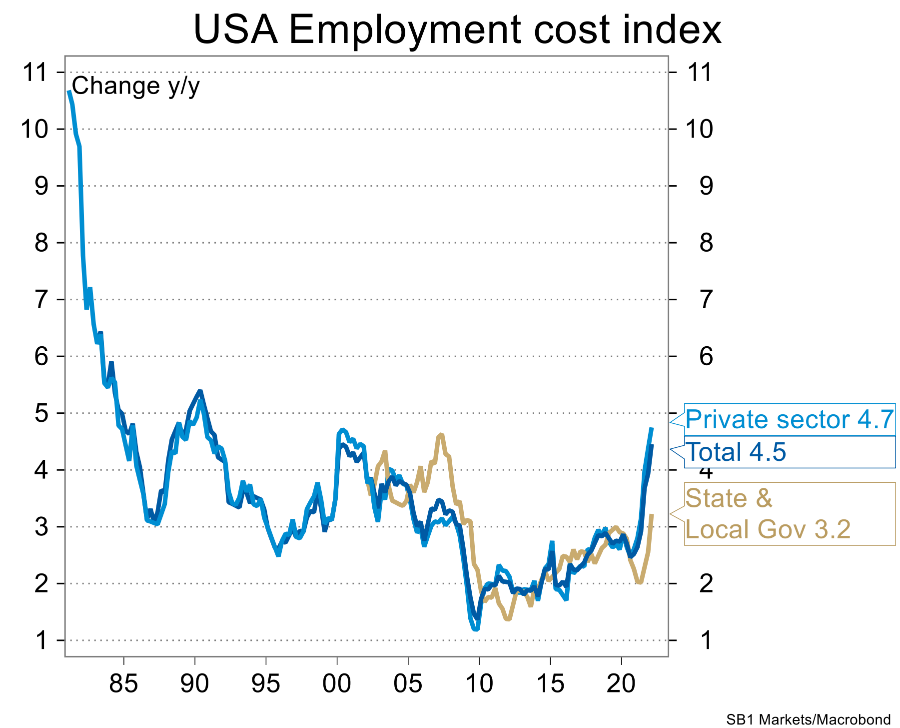


- **The total PCE deflator** rose by 0.9% in March, as expected, and the annual rate accelerated 0.3 pp to 6.6%, the highest since 1982. Feb was revised down by 0.1 pp
- **The core PCE** rose by 0.3% m/m, as expected, but history was revised down, and the annual rate at 6.6% was lower than exp.
- As energy prices retreated somewhat in April, the headline PCE will very likely increase by far less than 0.6% rate delivered in April last year. The same goes for the core rate, which shot up in April last year
- **The price level** is far above Fed's 2% long term path target, and March data did not reduce the pressure on the FOMC to act. Anyway, the real problem is the too high wage inflation

The Employment Cost Index accelerated sharply in Q1, up 5.8%, highest since ‘89

The ECI rose 1.4% q/q (5.8% annualised), expected 1.1%, up from 1% in Q4 – and cost is up 4.5% y/y

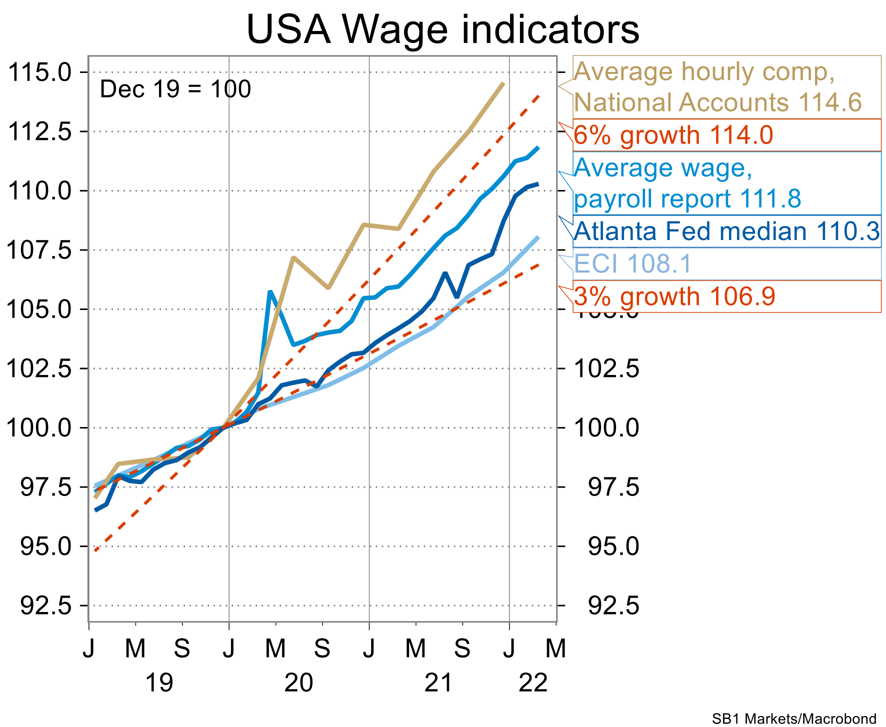


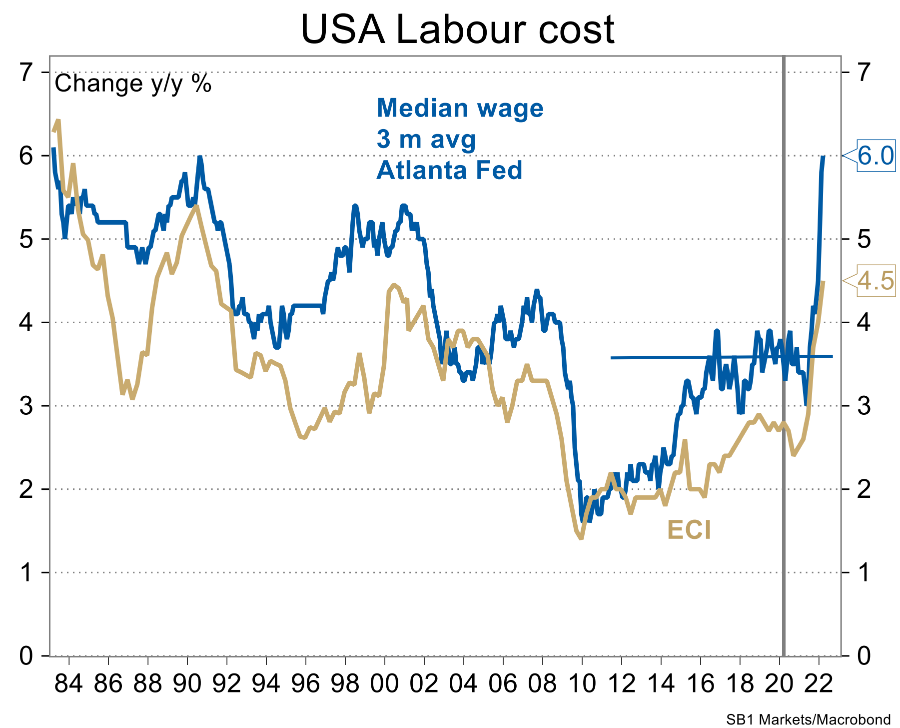


- The **Employment cost index for all civilian workers**, which measures wages and other wage costs for <u>the same types of jobs (and is not influenced by changes in employment between sectors/type jobs)</u>, accelerated to the highest level since 1989 (q/q). The annual rate is the highest since 1991
  - » <u>In the private sector, the ECI also rose by 1.4% q/q, and it is up 4.7% y/y</u>
  - » State and local gov employment costs are up just 3.2% y/y, the largest discrepancy to the private sector ever
  - » In general, low paid services reported the highest wage growth, both q/q & y/y but all sorts of labour received higher compensation (next page)
- **All other wage indicators have reported higher wage growth for a while**

Wage indicators agree: Growth has accelerated, to substantially > the 10y avg

… which yielded 2% inflation (or more)

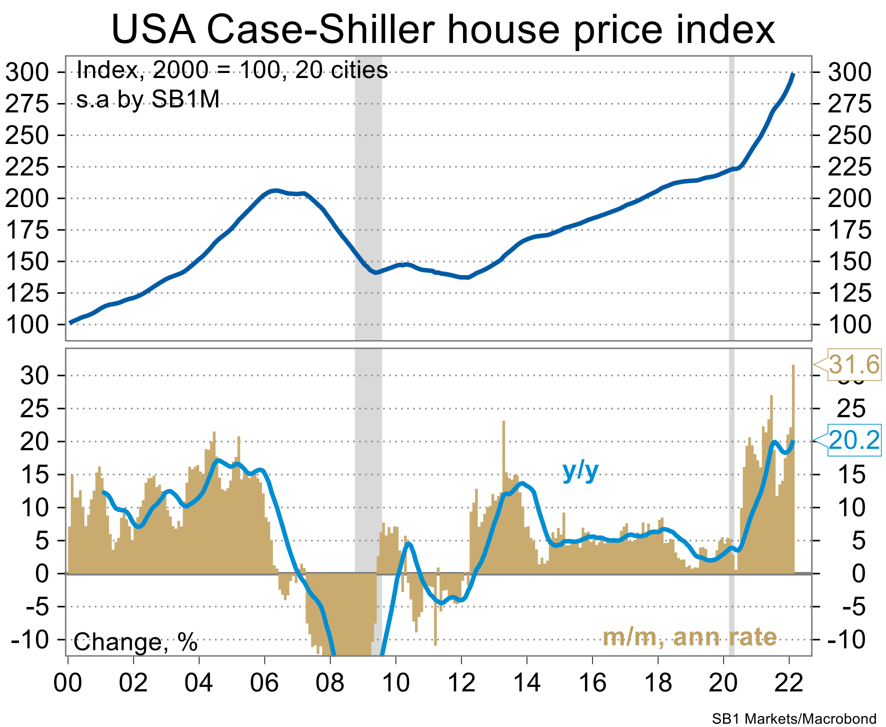


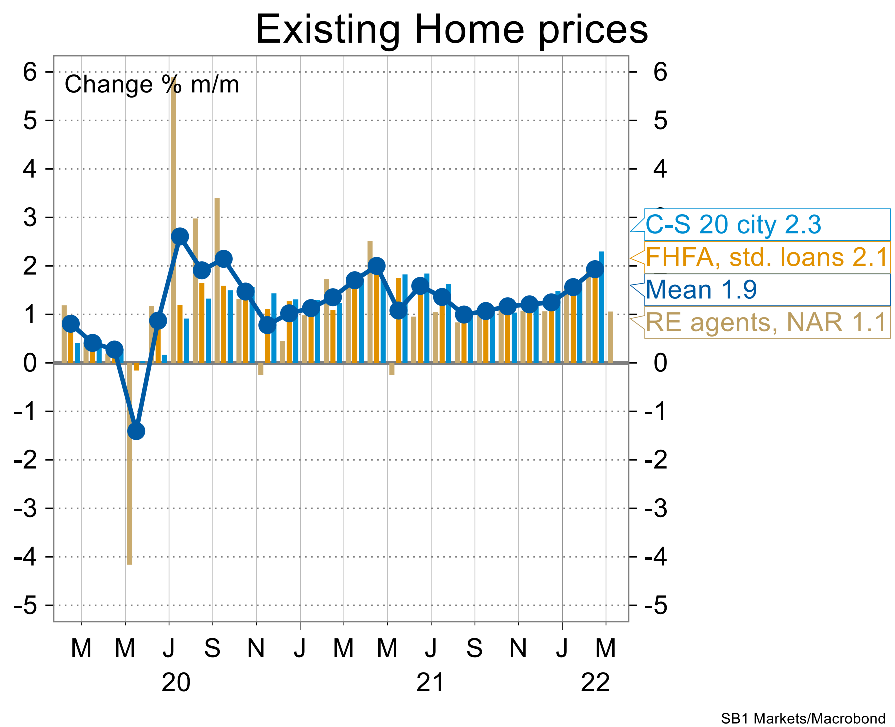


- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years
- Growth in wage/earnings/compensation indicators are up 1.5 – 3.5 pp vs the their respective 10 y averages. The current rate of wage inflation is not consistent with CPI inflation at 2% over time
- Wage inflation will probably not come down to a 'normal' level before unemployment has turned up (which again normally requires a recession)

Suddenly, house prices just shot up, more than ever

Which does NOT support the hypothesis that higher mortgage rates are starting to bite. But….

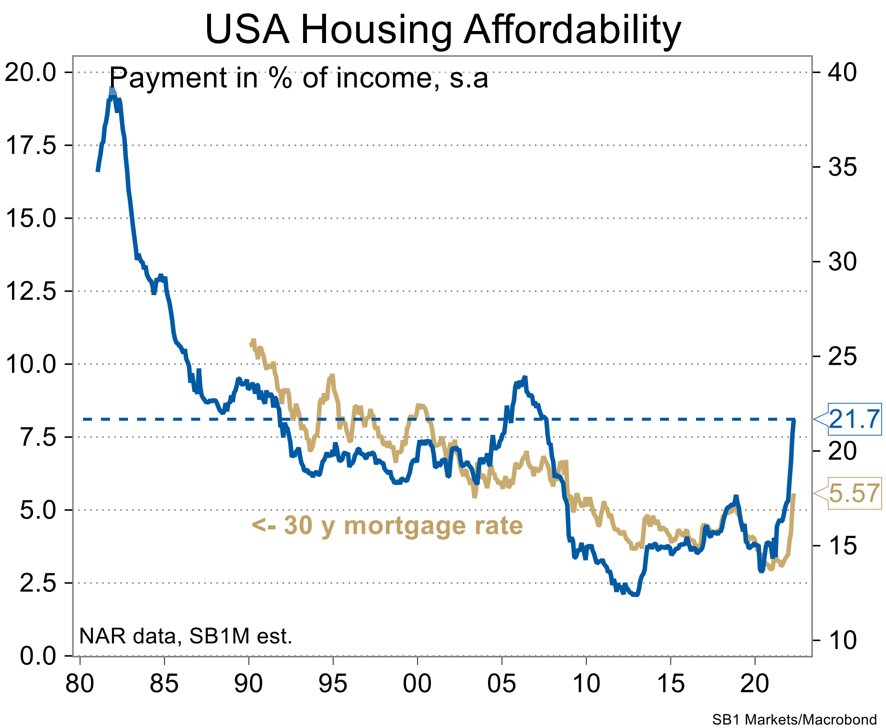


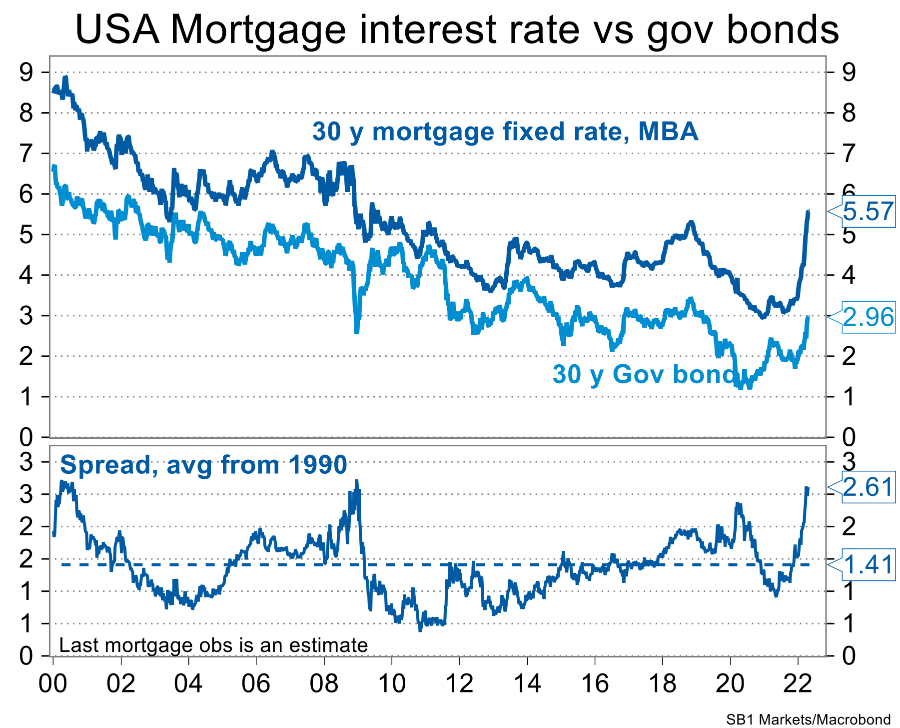


- **S&P's Case/Shiller's 20 cities** price index rose 2.3% m/m in Feb (Jan – March avg, our seas. adj) equalling a 32% annualised pace. ATH, by far. A 1.5% lift was expected. The annual rate accelerated by 1.1 to 20.2% (expected 19.2%). BTW, also an ATH print!
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), rose 2.1% in Feb, and are up 19.3% y/y. ATH, of course
- <u>However, even if prices cover transactions closed in March (included in the Jan-March average), those deals were mostly agreed upon in February</u> – and 'something might have happened in March and even more in April, when rates really shot up, and affordability has fallen to a lower level than since the bottom before the house market crashed in 2006. Realtors reported a 1.1% lift in March, covering deals agreed upon in February, well down from the 2% lift the previous month

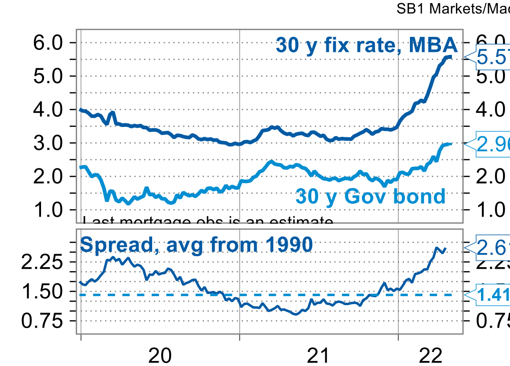
The least affordable housing market since 2008

Prices are up 35% since before the pandemic, the mortgage rate is up 40%. In sum….





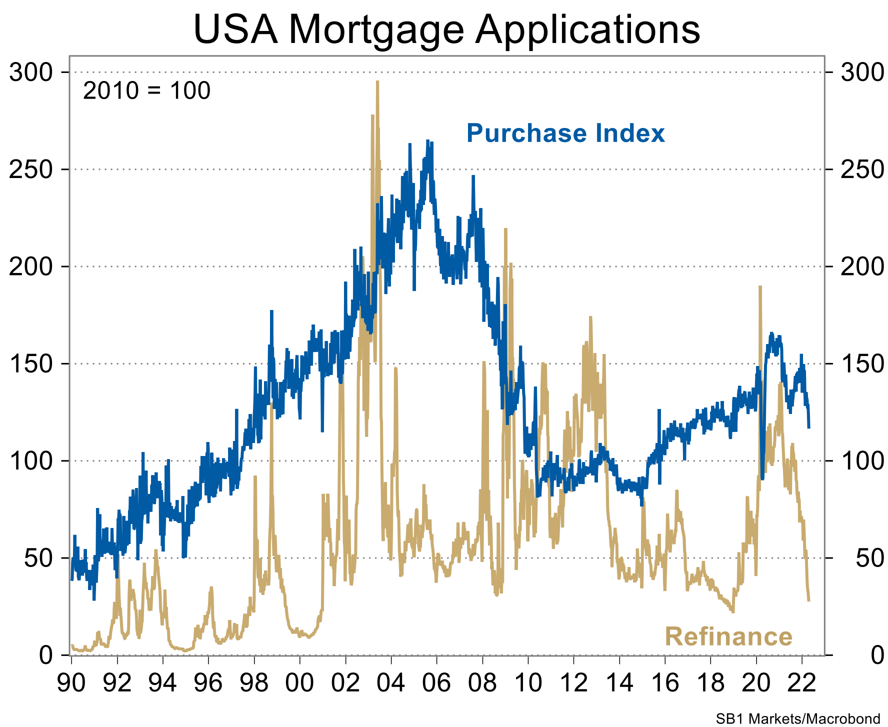
- **The 30 y fixed mortgage rate** has climbed to 5.57% (effective rate) from 3.0% last summer, and from 4% in early 2020 (or by almost 40%)
  - » The mortgage rate has climbed MUCH faster than the 30 y Gov bond rate. The spread has widened to 261 bps from 91 at the bottom last spring and it is far above the 140 bps average – and among the highest in modern times. The upside risk must be limited from here – the spread will a one stage retreat
- The **Federal Reserve** concluded its mortgage backed bonds buying campaign in March - and signals eagerness to reduce its holdings, which very likely explains the steep increase in the spread vs the treasury bond. A decision will be taken at the FOMC meeting this week
  - » The central bank has funded most of the housing marked during the pandemic, at least until mortgage lending shot up through 2021 – and is 'responsible' for the substantial part of the unprecedented 35% surge in prices past 2 years

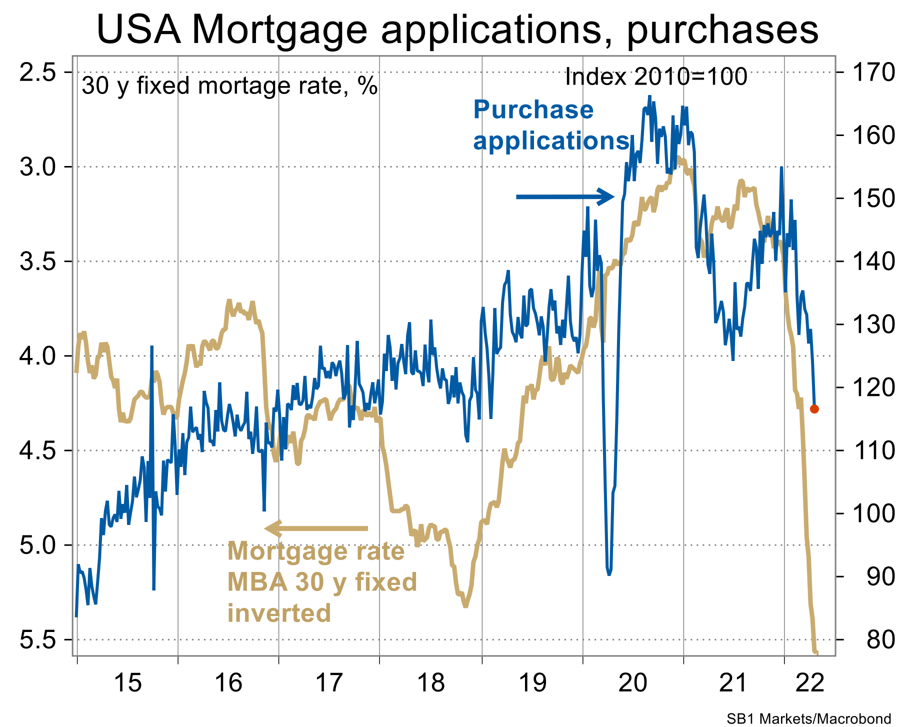


USA

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

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

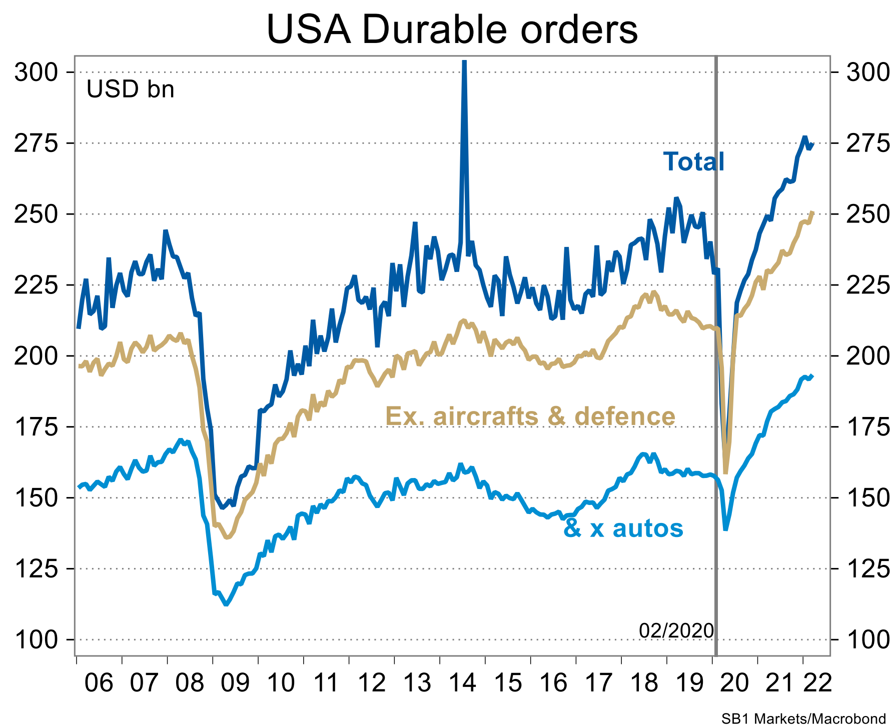


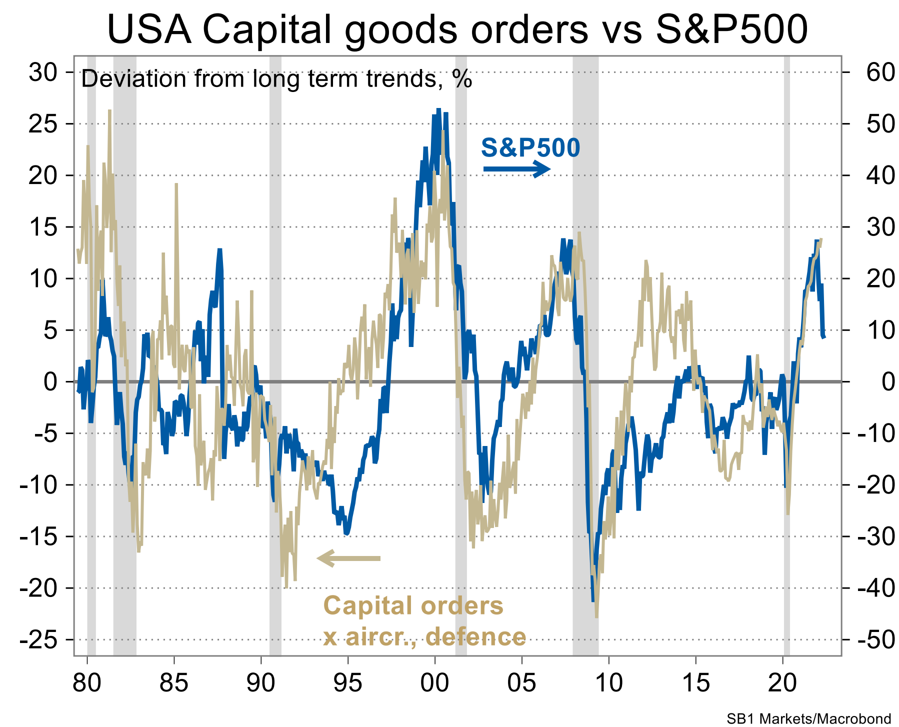


- Applications for new mortgages are some 20% since the start of the year, and the level is now almost 10% below the pre-pandemic level. Still, the downturn is not dramatic
- In addition, the correlations between mortgage rates and home sales or prices are far from perfect

New orders up in March – trend still upwards

May signal some support for equities?

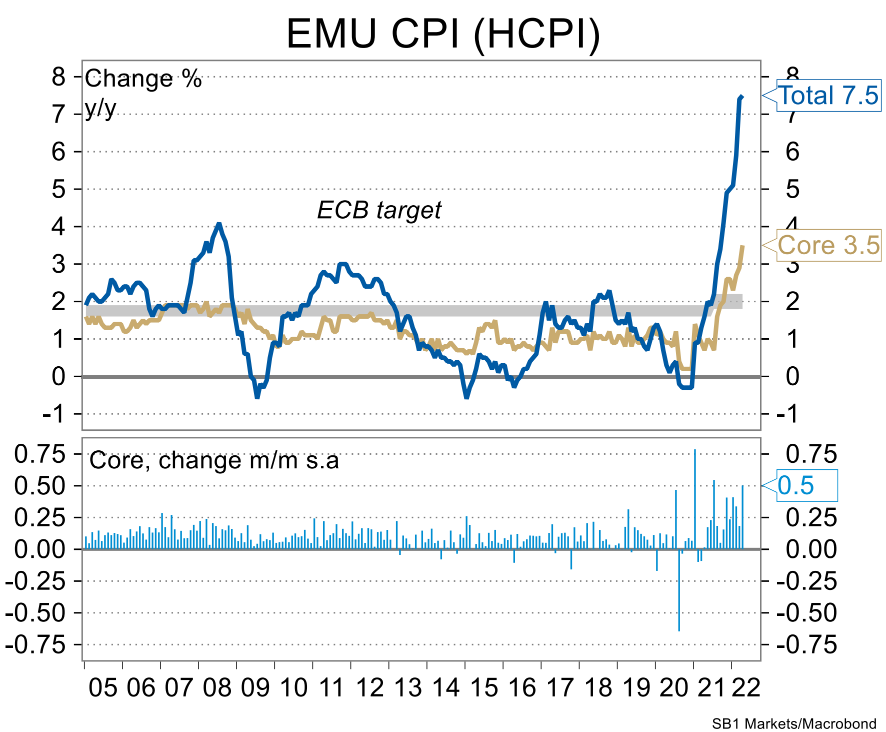


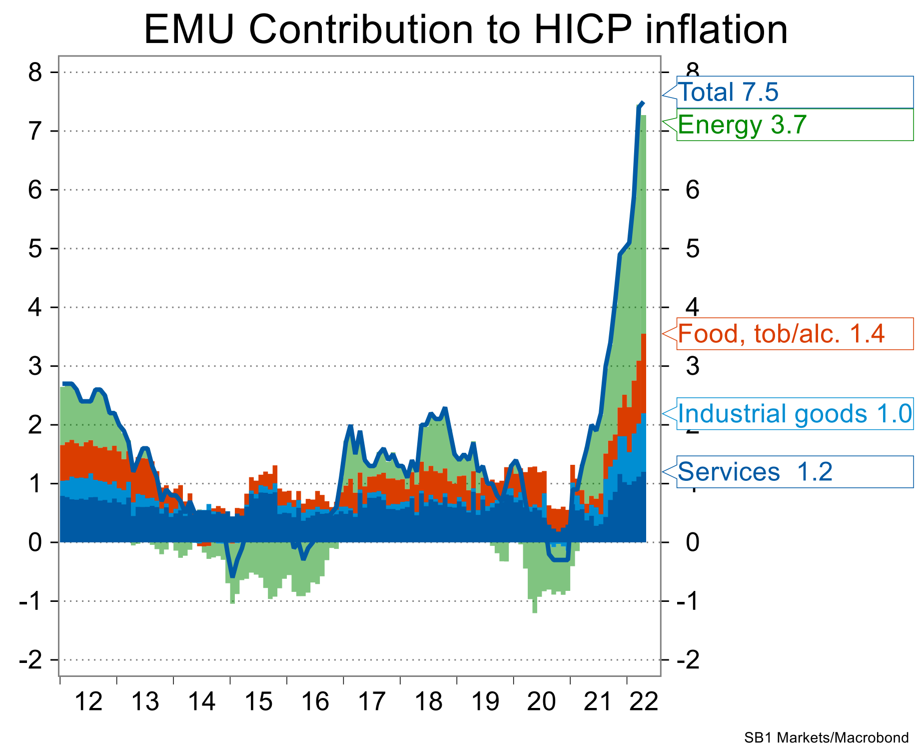


- **Total durable** orders rose 0.8% in March, close to expectations
- Both the volatile aircraft & defence orders declined and ex these two components, the 'core' gained 1.6%
- **Core <u>investment</u> goods orders** grew 1%. The trend is still straight upwards, at a descent pace
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are signalling a further increase the coming months, albeit at a slower pace
- Without a decline (at least vs trend) in investment orders, a further setback at the stock marked does not seem too likely

Core inflation up to 3.5% as prices rose 0.5% m/m. Food up too, energy down

The core rose 0.4 pp more than expected!! Headline CPI up 0.1pp to 7.5%, up 0.2% m/m

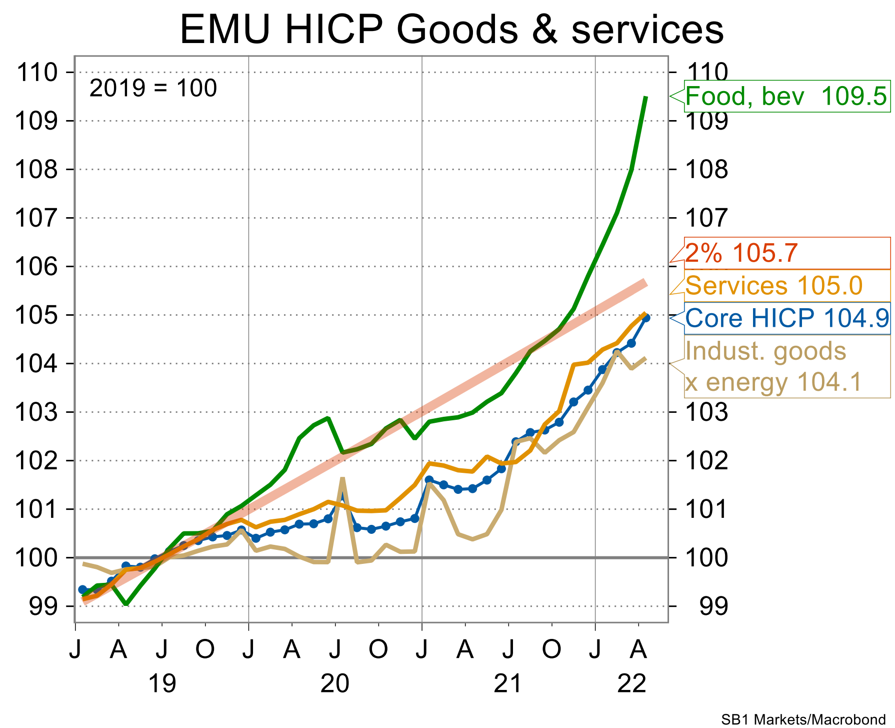


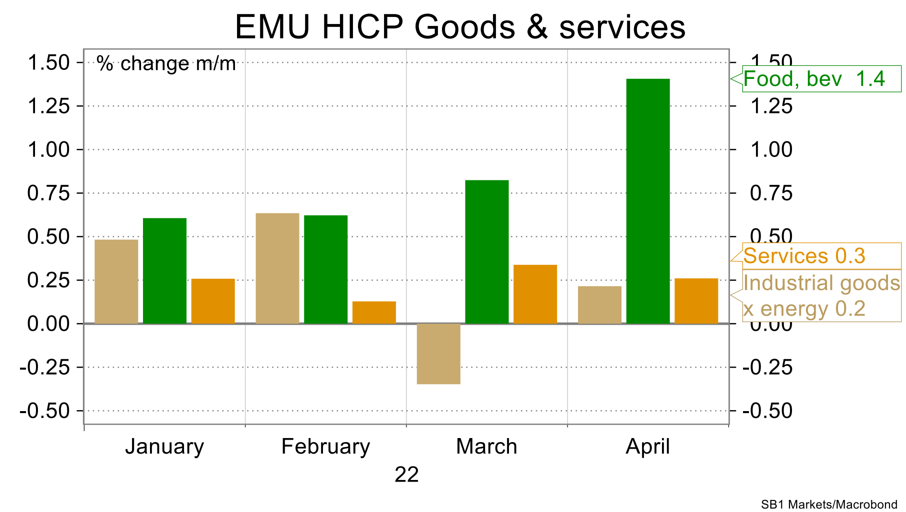


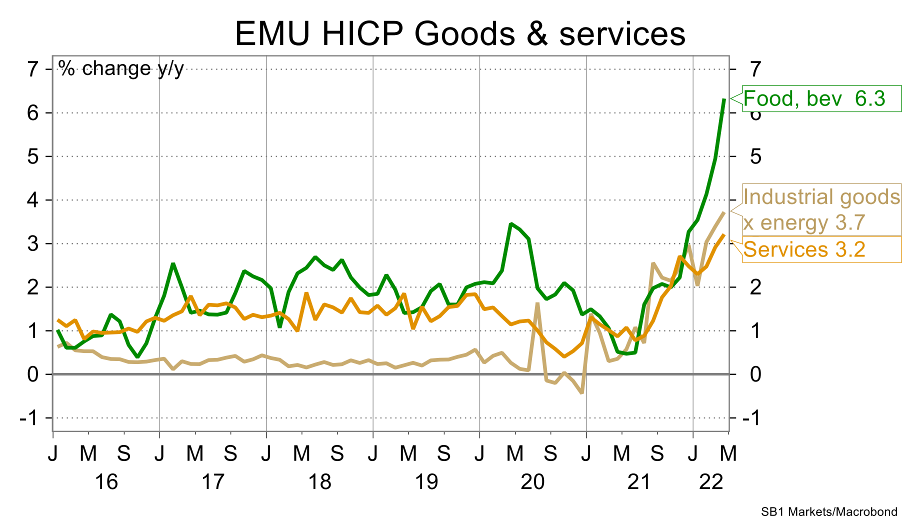
- **The headline** was just 0.1 pp higher than expected, so the HUGE surprise was the core index. Few details yet but both goods x energy & services accelerated
- **Energy prices** fell m/m, and the annual rate declined. **Still,** energy is the main culprit for the extremely high inflation numbers (check also 3 – 4 pages further out of the report)

And prices ex energy and food are climbing are accelerating too

Food inflation at 6.3%, industrial goods x energy at 3.7%, and services 3.2%





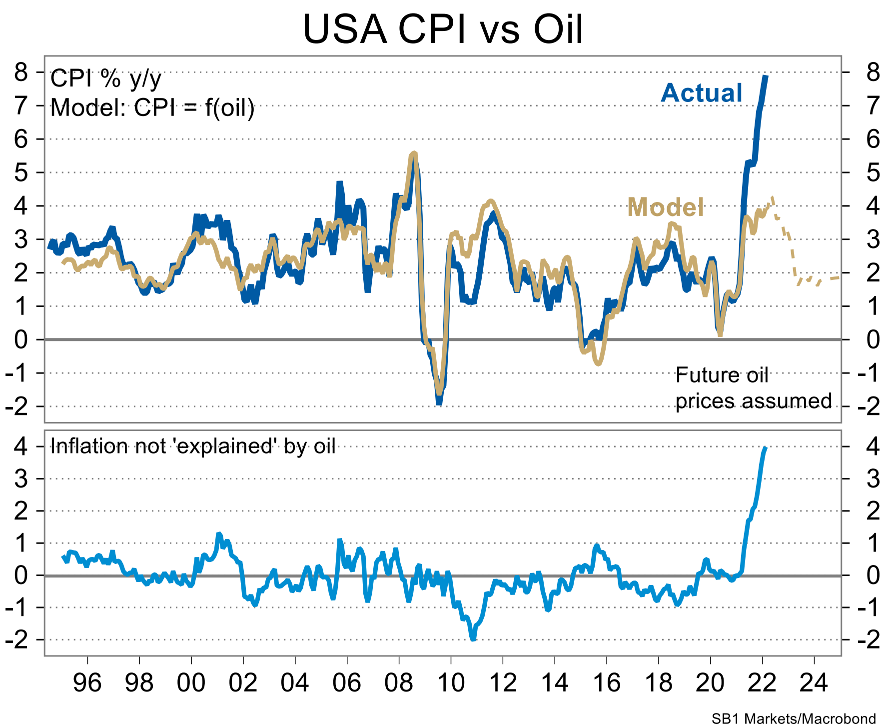


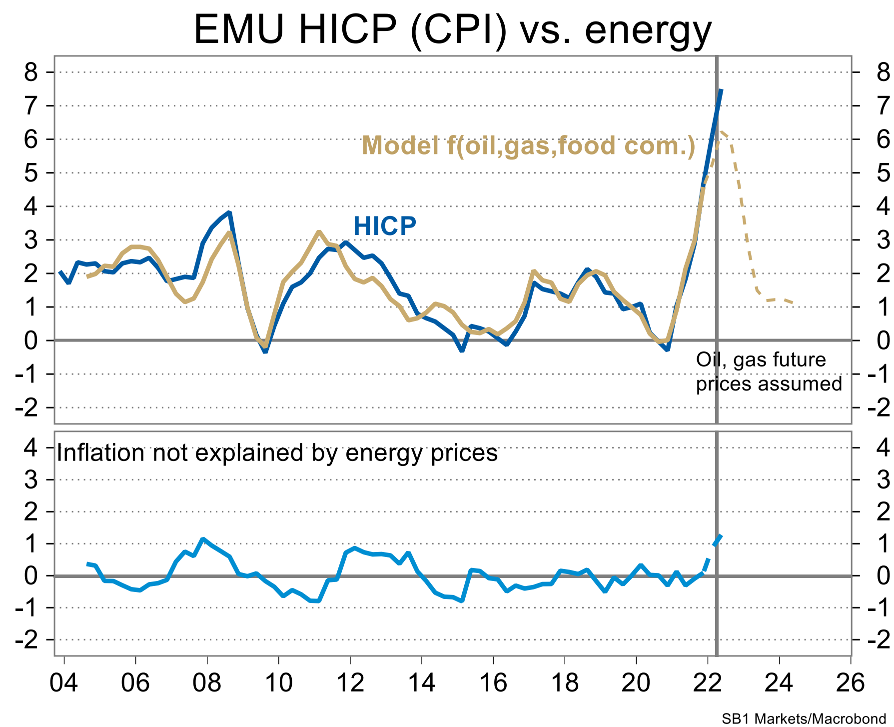
- Industrial goods prices increased 0.2% in April, and are up 3.7% y/. Still, these prices are well below a 2% path since 2019
- Services prices rose 0.3% in April, and these prices are also below a 2% path vs the 2019 level. Transport and hotels/restaurants have contributed on the upside last year (but no data for April yet)
- (No further details in the preliminary HICP report)

SpareBank 1 MARKETS

The tale of two different inflation regimes

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



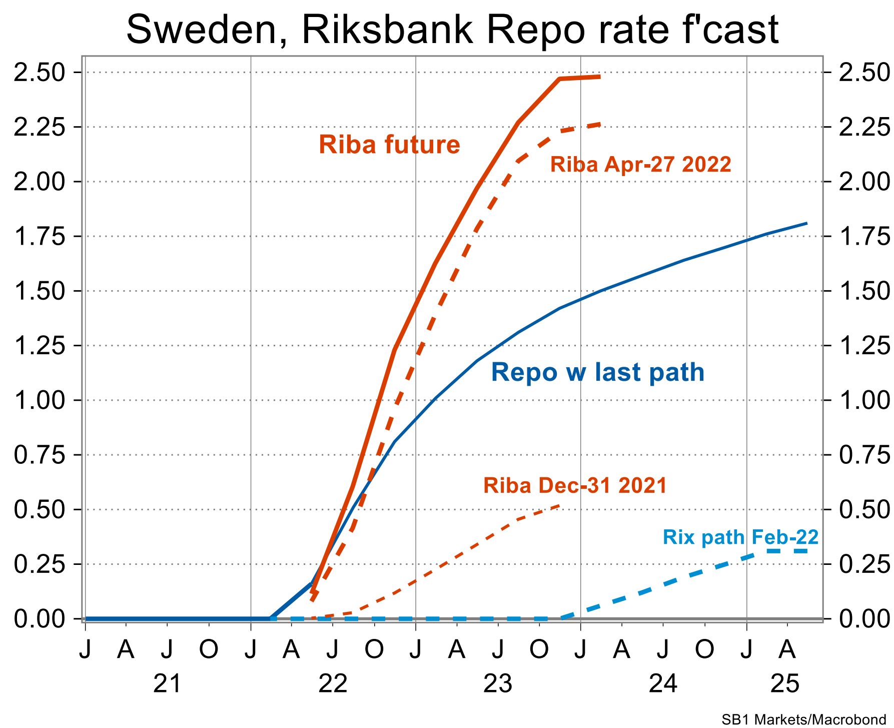


- **In the US, oil price cycles** have – for all practical purposes – explained all of the CPI cycles the past 30 years. Until 2021. The precent 4 pp discrepancy is unprecedented! The current/future oil price signals a decline in the annual CPI rate later this spring. The trouble is the 'gap' or the 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

The Riksbank changed tack, more than any other central bank, ever?

The bank even hiked the signal rate, which was just partly priced into the curve. FRAs >> new path



- **The Riksbank** had no choice; 2 months after the bank insisted that the signal rate would be kept at zero until H2-2024, the bank hiked the signal rate by 25 bps to 0.25%, and lifted the interest rate path by almost 1.5 pp in one go. The bank signals **1 hike per quarter** until mid 2023, and thereafter at a much slower pace, and up to 1.8% by mid 2025.
- **The bank** surprised the market somewhat on the upside by hiking the policy rate by 25 bp (from zero) at this meeting – and the very short end of the money market curve initially rose by 10 – 13 bps (and further at Friday), implying that market had discounted a 50% probably for a rate hike. Another hike is now expected in June. The SEK still depreciated last week
- The Riksbank lifted the path big time, but the new path was still 75 bps below the market FRAs (Riba) ahead of the meeting, measured by the end of 2023. In spite of that, market expectations shot up by 25 bps, and is now 100 bps above the bank's new path! Thus, the market does still NOT HAVE ANY CONFIDENCE in the bank's policy signal!
- The Riksbank will continue its **QE program**, though at a slower pace than until now. (But why buy more at all??)
- **The inflation forecast** was lifted by up to more than 3pp, while the growth forecast was revised down by 1.2 pp in 2022, and 0.6 pp in '23, though with just a minor upward revision of the unemployment rate (0.1 – 0.2 pp)

Forecast for Swedish inflation, GDP, unemployment and the repo rate

Annual percentage change, annual and quarterly averages respectively

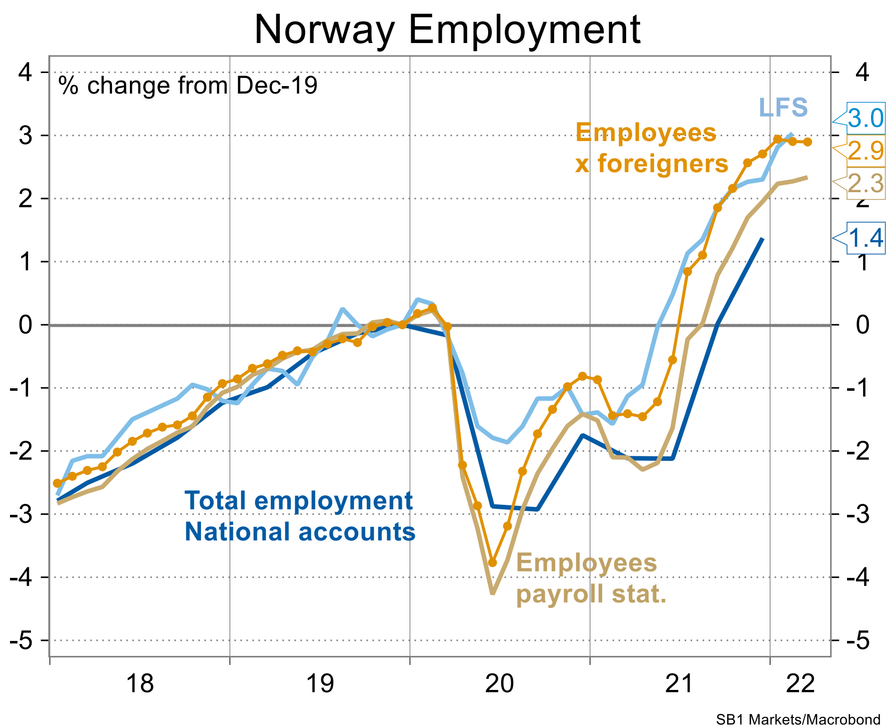
	2021	2022	2023	2024	2025 Q2*
CPI	2.2 (2.2)	6.0 (2.9)	5.0 (2.0)	2.8 (2.4)	2.3
CPIF	2.4 (2.4)	5.5 (2.9)	3.3 (1.9)	2.0 (2.2)	2.1
GDP	4.8 (5.2)	2.8 (3.6)	1.4 (2.0)	1.4 (1.7)	1.5
Unemployment, per cent	8.8 (8.8)	7.6 (7.7)	7.4 (7.2)	7.4 (7.0)	7.4
Repo rate, per cent	0.0 (0.0)	0.4 (0.0)	1.2 (0.0)	1.6 (0.2)	1.8

Note. The assessment in the Monetary Policy Report in February 2022 is shown in brackets.
*Calendar-adjusted GDP growth and seasonally adjusted LFS unemployment in 2025 Q2.
Sources: Statistics Sweden and the Riksbank

	2022 Q1	2022 Q2	2023 Q2	2024 Q2	2025 Q2
Repo rate	0.00 (0.00)	0.16 (0.00)	1.18 (0.00)	1.57 (0.13)	1.81

Slower growth in no. of employees, perhaps

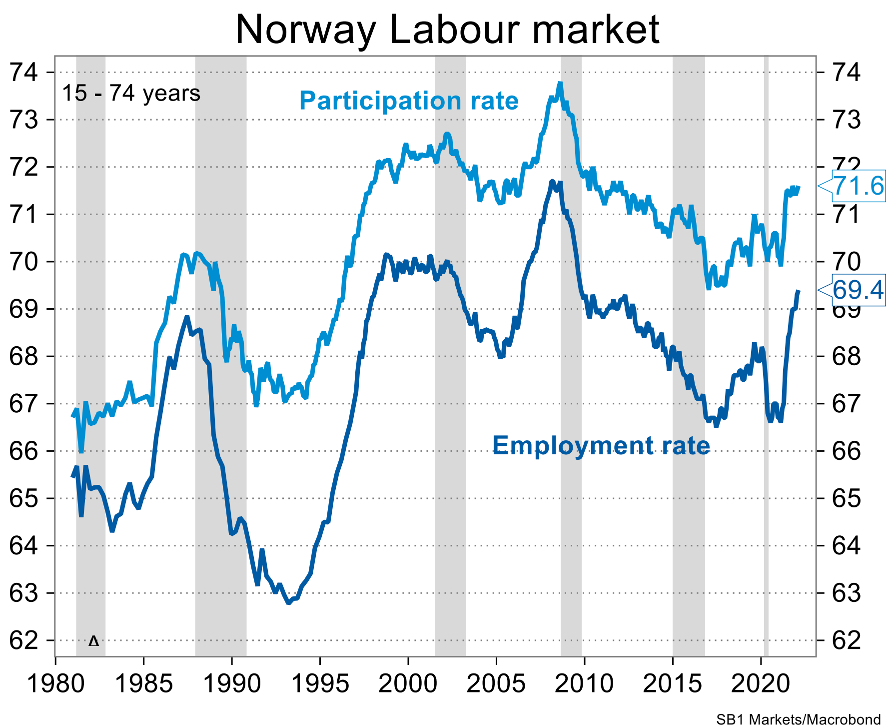
Employment rose by 0.1% in March, following a similar uptick February, revised from a 0.5% decline



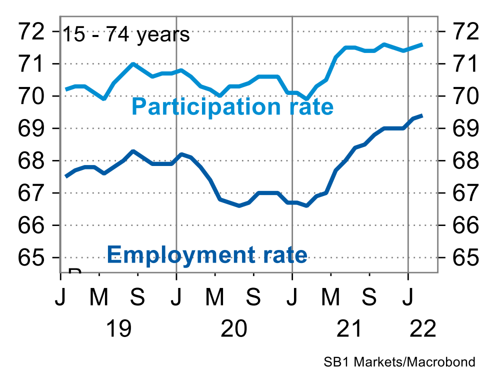
- The February revision of was much larger than normal, and we to not assume it will be repeated (and there is not bias in the first estimate vs. the final outcome)
- The no. of employees grew at at 1.5% pace past 3 months and are up 2.3% vs. the Dec-19 level
- We do not yet have Q1 data for foreign residents on temporary employment, but assumes a further increase through the quarter.
  - » Thus, employment among residents will grow slower than the total – and may have flattened in February and March
- We expect employment growth to slow due to lack of available labour, not due to lack of demand
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) reported 0.2% growth in Feb (avg Jan – March from avg Dec – Feb), and by a 3.0% pace over the past 3 months
  - » LFS employment is up 3.0% since before the pandemic, and both participation and employment rates are far above the pre-pandemic level – and the LFS unemployment rate has 'collapsed', now to 3.1%
- **National Accounts** reported a 1.4% growth in total employment in Q4 (5.5% annualised) – and the level is up 1.4% vs. Q4-19. These NA data includes foreigners on short-term stay

The participation rate has flattened since last summer

No further lift since last summer signals that the reserve is already engaged, no spare capacity left?



- **The employment rate** rose 0.1 pp to 69.3% in Feb
  - Ahead of the pandemic the rate was 68.1 – 68.2, and it is up from the 66.4 through in early 2021 (and from the same level in 2017, after the 'oil crisis'). The employment rate is measured in % of the working age 15 - 74 y population
  - The employment rate is the highest since ~~2012~~ 2009
- **The participation rate** gained 0.1 pp to 71.6% in Feb. This rate has been flat since early last summer – at the highest level since 2012
- These monthly data are volatile but the flattening of the participation rate since the last summer even if demand for labour is still increasing may indicate that the easy part of 're-engagement' is behind us
- **Working age population** growth is 0.4% over the last year (Q4 est), in line with the moderate growth ahead of the pandemic



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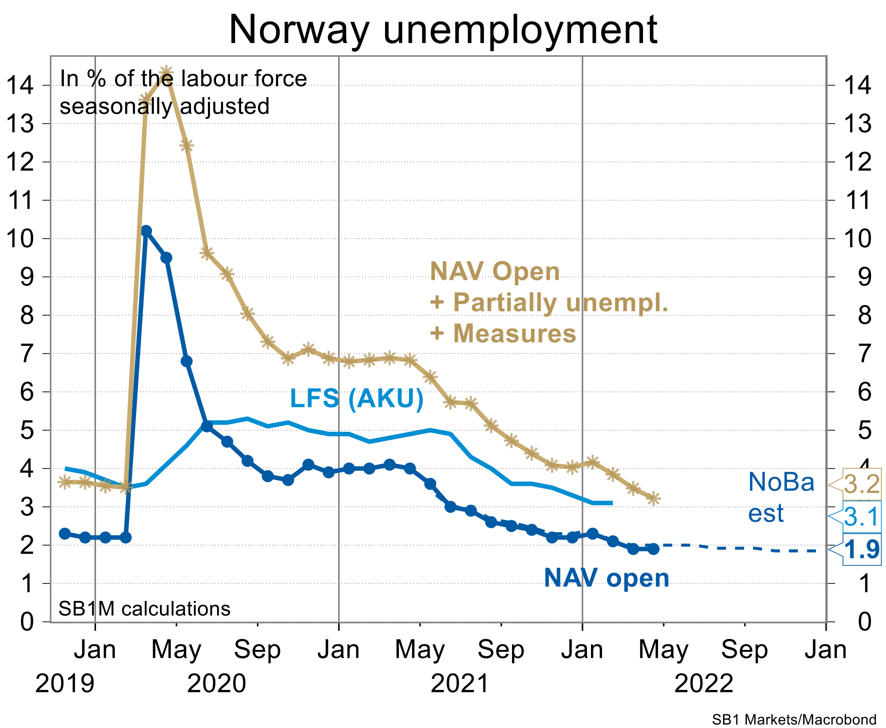
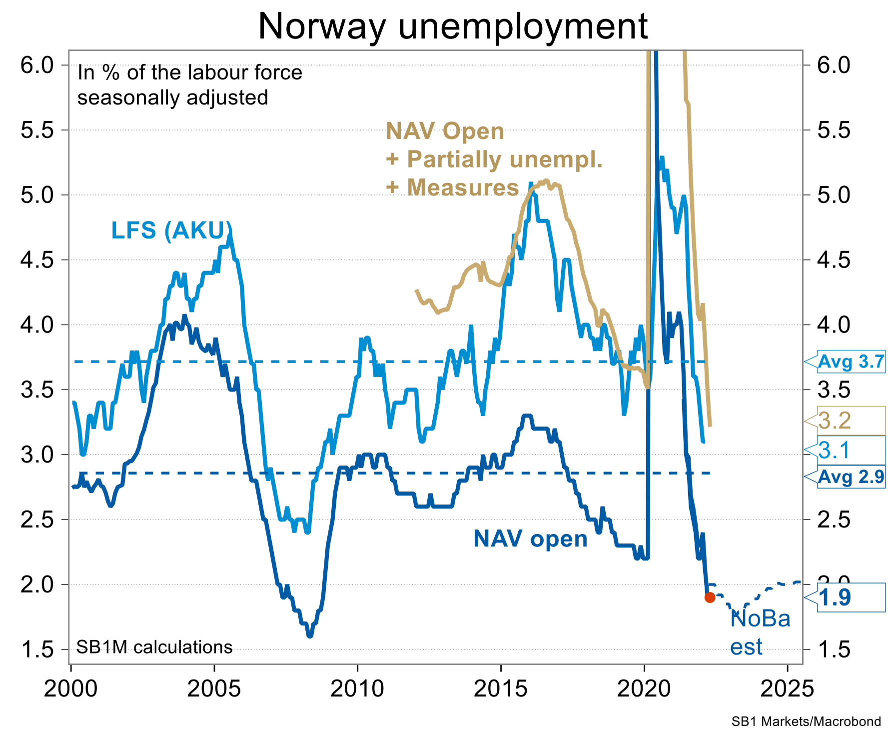
NAV unemployment further down, even if the 'main' rate was unch. at 1.9%

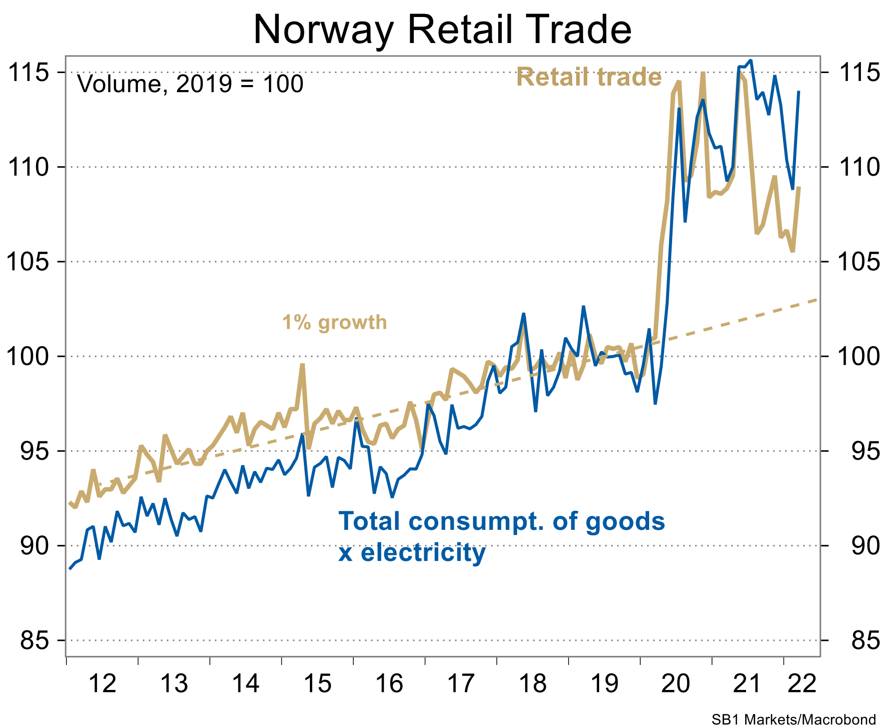


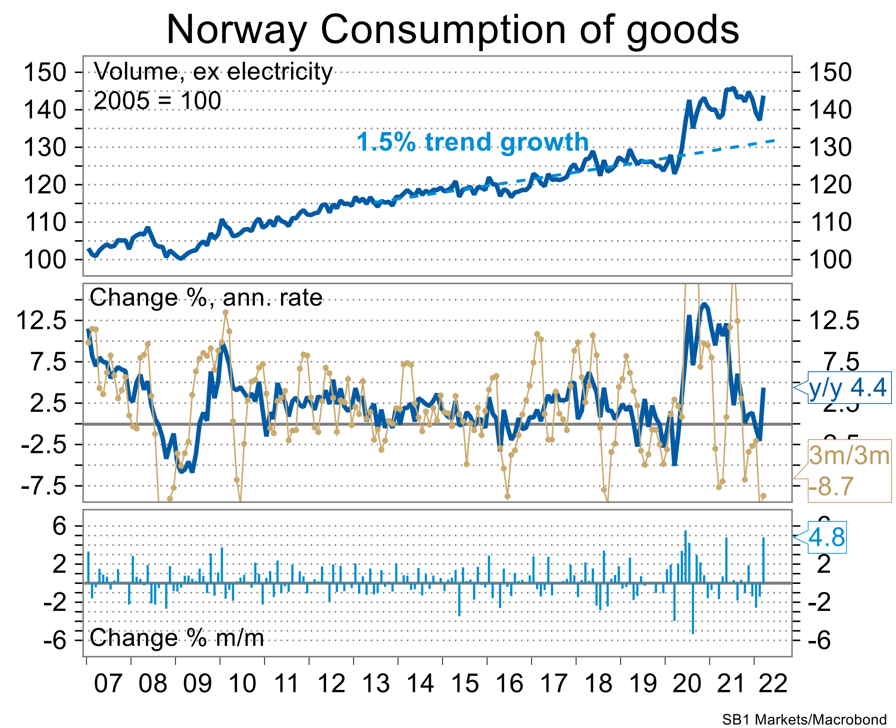


- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 2' persons in April (seas. adj) to 54', marginally above our forecast. Unadjusted, the rate fell 0.2 pp to 1.9% , as expected (we expected 1.8%). Seas. adj, the rate was unch at 1.9%, 0.3 pp below the pre-pandemic level – and 0.3 pp above the 2008 trough – and 1 pp below average. The rate is 0.1 pp below NoBa's estimate in the March MPR
- The number of **partially unemployed** (not incl . in the ordinary unemployment no.) fell by 5' to 36', and including measures, the **total unemployment** fell by 8' to 93', 7' below the pre-pandemic level. <u>The overall rate fell by 0.3 pp to 3.2%, and there is no decline in the speed of decline</u>
- The inflow of **new job seekers** was unch at a record low level in April. The **inflow of new vacancies** fell marginally but is close to the ATH Feb
- **The LFS (AKU) unemployment rate** was 3.1% in Feb, unch from a 0.1 pp downward revised level in Jan

A ‘small’ retail sales upward correction – clothing up 28%, sport equipm. 10%

Retail sales rose 3.3%, and total consumption of goods 4.8%. New expect a reversal coming months





- **We expected** unch sales m/m in March
- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth paths. After the March surge, sales/total consumption of goods are well above our estimate of the long term trend (which though is somewhat higher than the anaemic pre-pandemic growth path)
- Some sectors reported unusual sales gains (in volume terms) in March, in spite of the unprecedented decline in consumer confidence, higher inflation & the 2nd rate hike from Norges Bank. Clothing was suddenly reported 36% above the average 2019 level, and sport quipment as well as household equipment added 10% m/m

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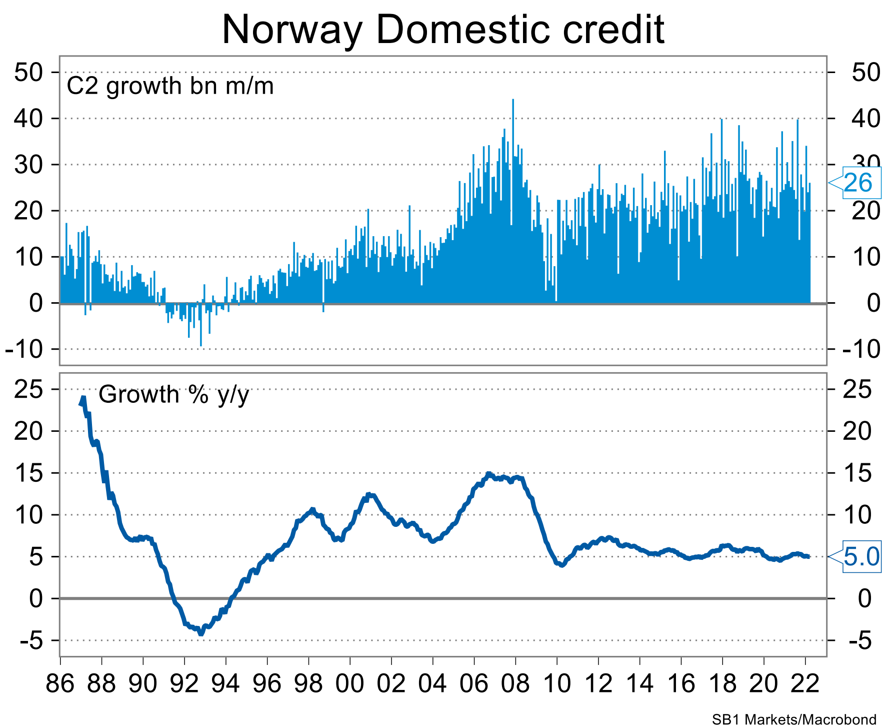
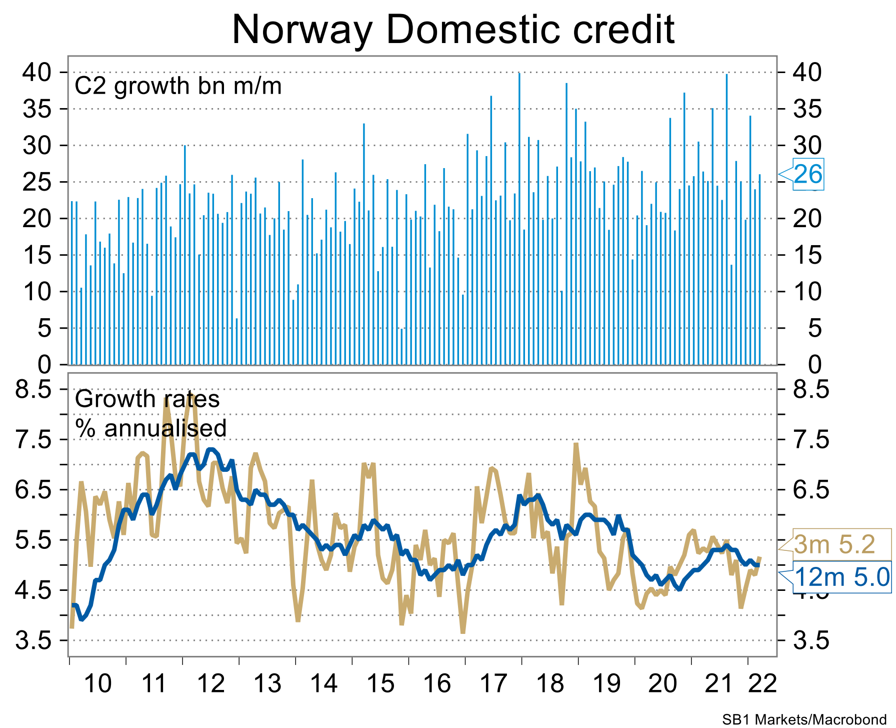
Domestic credit growth (C2) growth 0,2 pp higher than we expected

.. Even if household debt growth was lower: Businesses and local governments increased their debt more

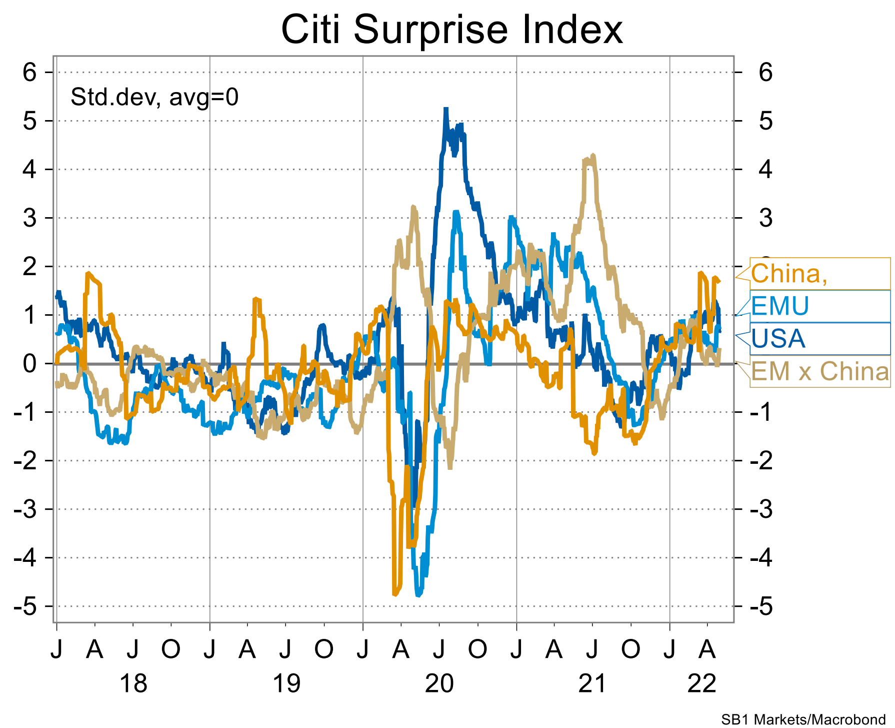


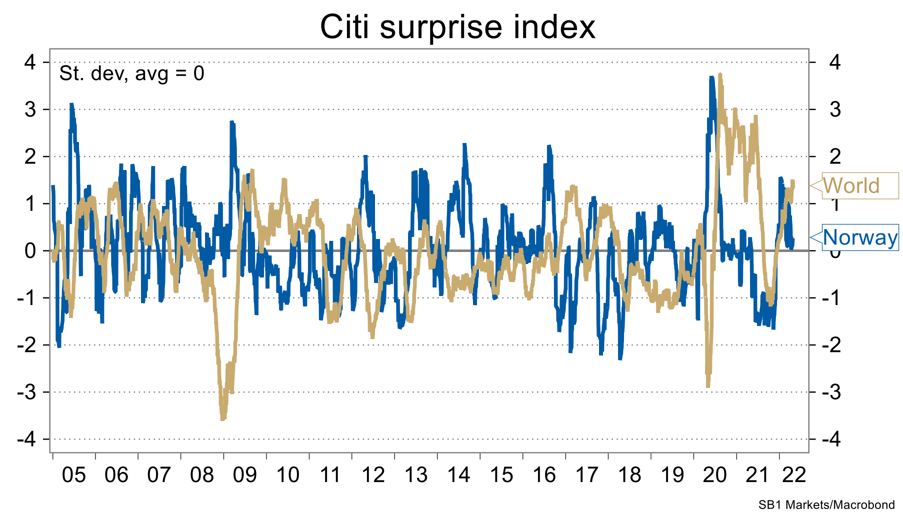


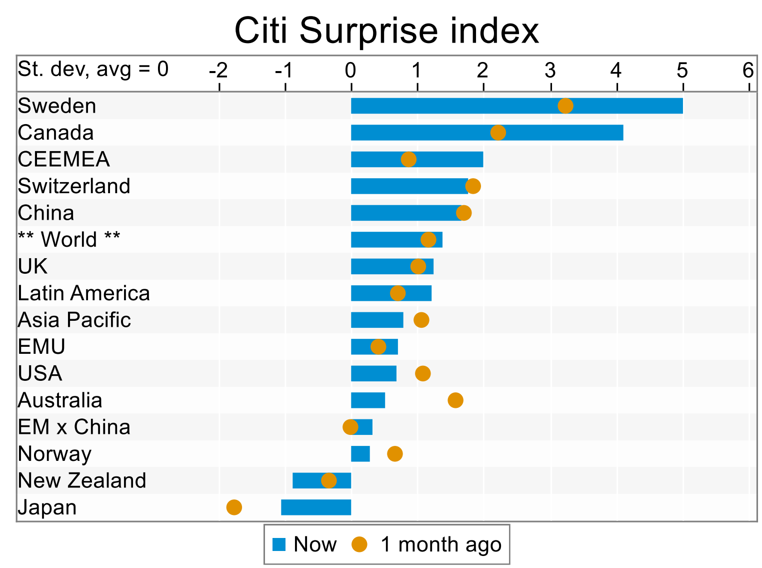
- **Total domestic debt** (C2) rose by NOK 26 bn in Marc, up from 24 bn in Feb. Feb was revised up 3 bn, and Jan was revised up by 6 bn. The annual growth rate was unch at 5.0%, though up form prev. reported 4.8% in Feb. The 3m/3m growth rate is at 5%. <u>We are not witnessing any credit boom. However, debt levels are high, especially for the household sector</u>
- **Household credit** <u>rose by NOK 10 bn</u> in Feb, we expected NOK 16 bn. The annual rate rose to was unch at 4.9% (revised down from 5%)
- **Corporate C2 credit**, <u>rose by NOK 12 bn</u>, 6 bn more than in Feb (even after Feb was revised up to +5 bn, from 1 bn), and 5 bn more than we expected. The February annual growth rate was revised up by 0.8 pp to 4.8%, and rose further to 5.0% in March, far above our f'cast. **Mainland corporations** increased their debt by 6.6% y/y, up from 6% in Feb (revised up from 5.4%)
- **Local governments** added NOK 4 bn to their debt burden in March. The annual growth rate still to 5.0% from 5.9%. Last summer the rate was 8%

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 still at the top

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

Highlights

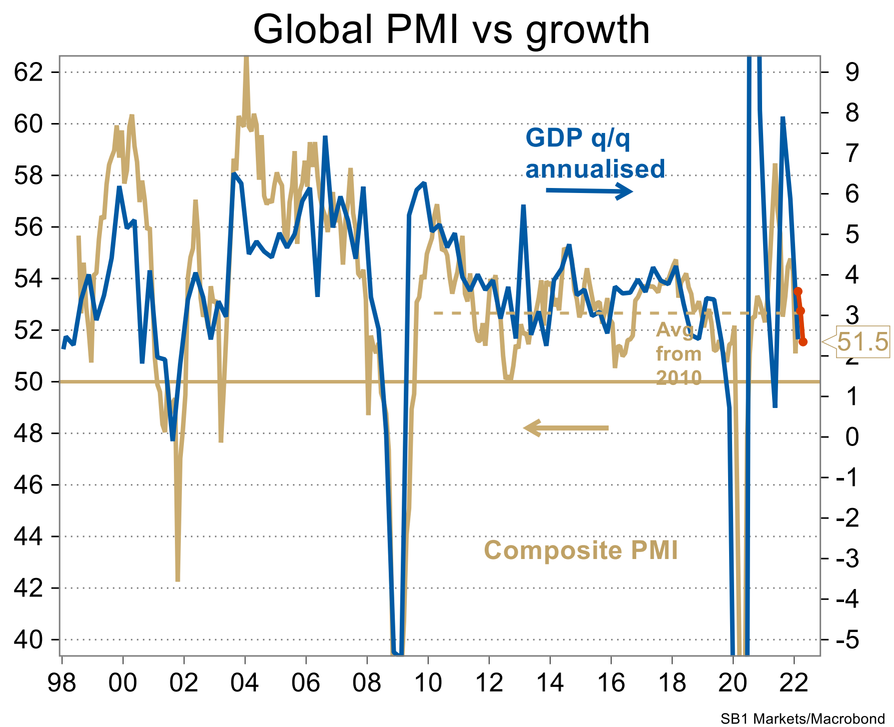
The world around us

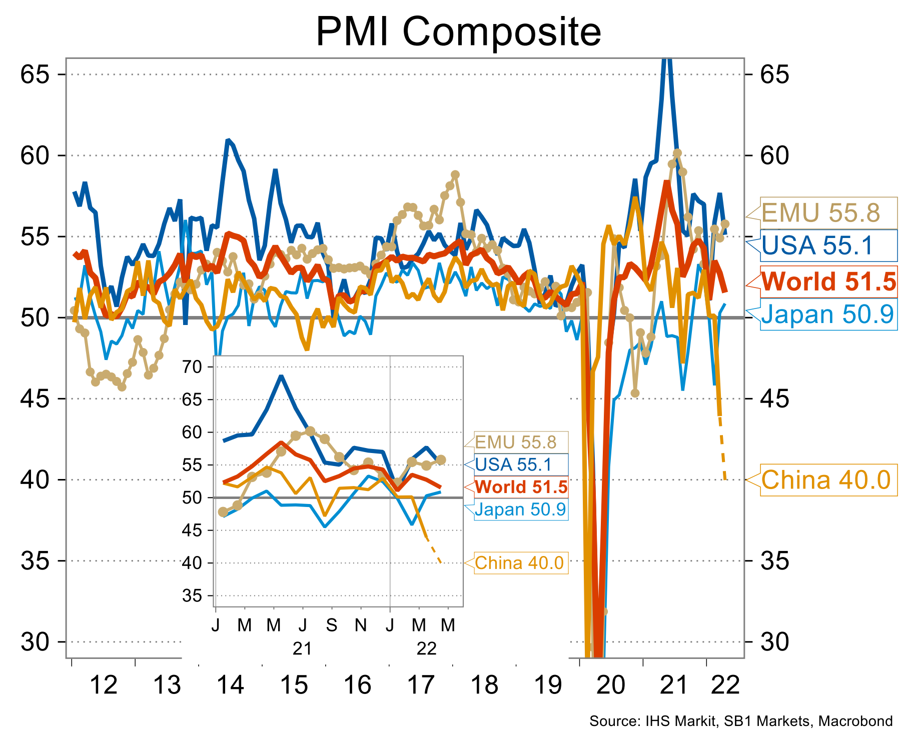
The Norwegian economy

Market charts & comments

The global economy slowed further in April

The composite PMI may have declined by some 1 – 1.5 p in April. China has run into lockdown trouble

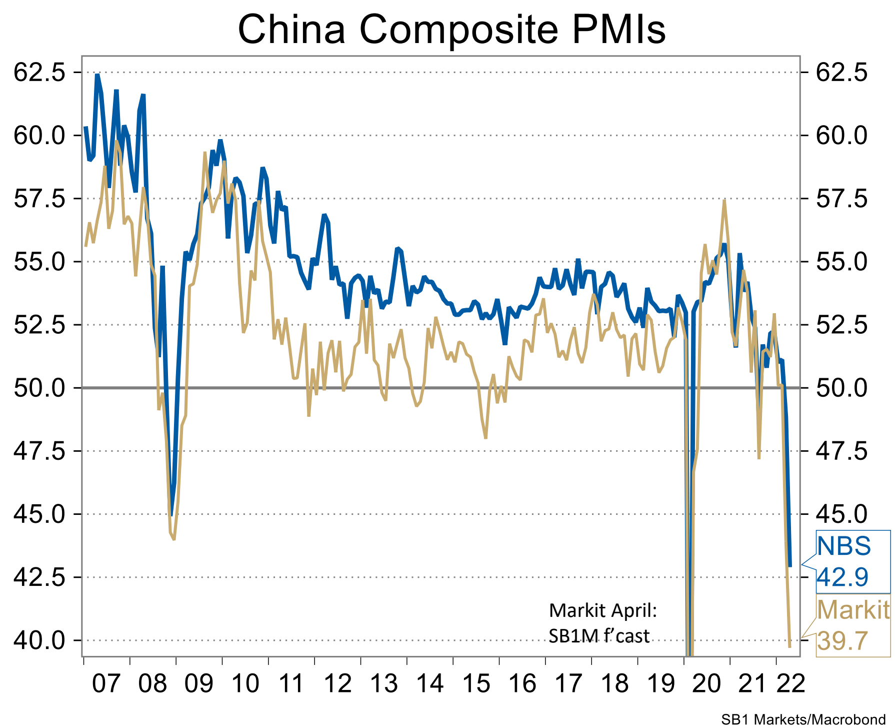


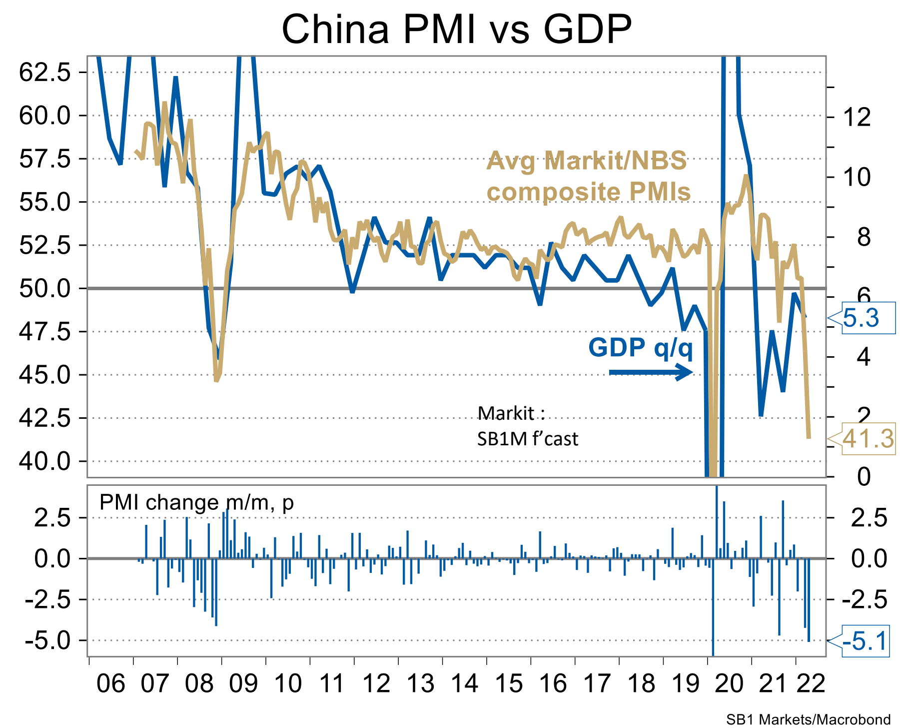


- IF Markit's Chinese service sector PMI remains unchanged in April (which could be somewhat optimistic), the Chinese composite PMI 'just' fell to 40.0, and the global index to 51.5, signalling 2- 2½% global GDP growth – down from 3½ in February. A 2 – 2 ½% growth rate has often been labelled a global recession
  - » The impact on growth in global corporate earnings (MSCI) is almost 10 x larger, that is a 10 pp decline, normally down to approx. zero
- **Both manufacturing & services** contribute to the expected decline in the overall PMI
- **The preliminary PMIs** rose in EMU, but fell in US (and UK), and probably in the rich part of the world in average
- **Delivery times** rose in the manufacturing sector – and all **price indices** rose – and most to new ATH. So war & sanctions (and Chinese lockdowns) have some impacts…

China is struggling again, no doubt due to the large scale lockdowns

The NBS composite fell almost 6 p to 42.9, Markit's index very likely fell too (manuf. output collapsed)

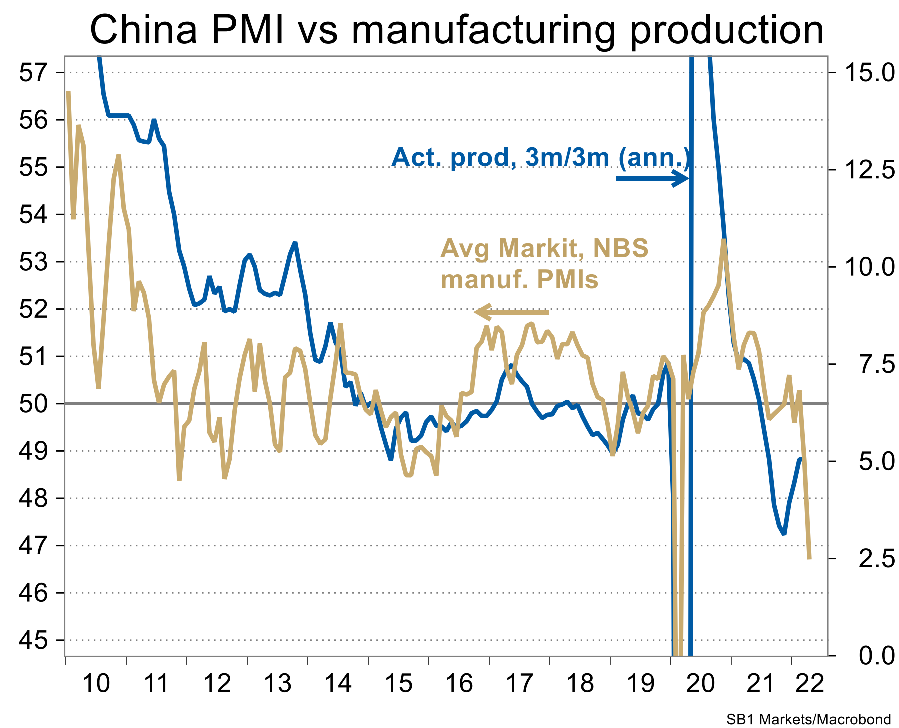




- The **CFLP/NBS composite PMI** fell by 5.9p to 42.9, the lowest level since the start of the pandemic in Feb-20
- **Markit's composite PMI** very likely fell as well, to below 40 even if we have just pencilled an unchanged service sector PMI. The manufacturing survey fell sharply, especially the output sub-component (which represents manufacturing in the composite index)
- **The average of the two PMI** data sets (with our estimate Markit's service sector index) fell 5.1p to 41.3
- **What has happened?** China's corona strategi has more or less failed. The Omicron variant is very contagious, and the Chinese vaccines to not work well (and far too few old people are vaccinated). The lockdowns are now hurting the Chinse economy badly. President Xi is said to so fixated at the zero Covid tolerance policy, he has not been able to acknowledge its huge economic cost
- **The construction sector** is not reporting a backlash – not in March either

Both manufacturing PMIs down fell sharply in April as lockdowns bite

Both surveys down 2.1 p, and in average more than exp., down to 46.8 in avg, a slow growth sign

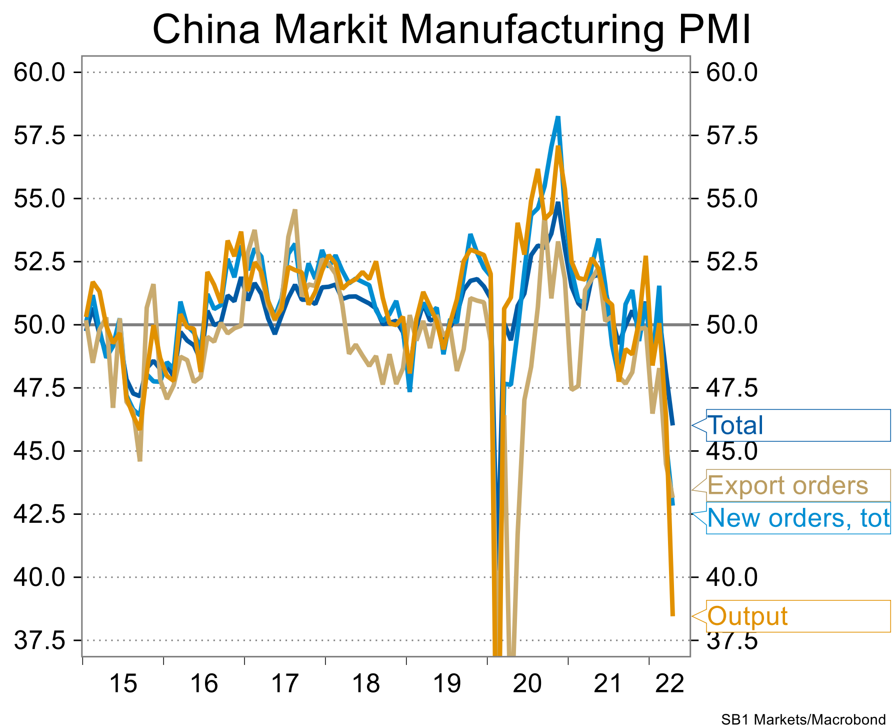


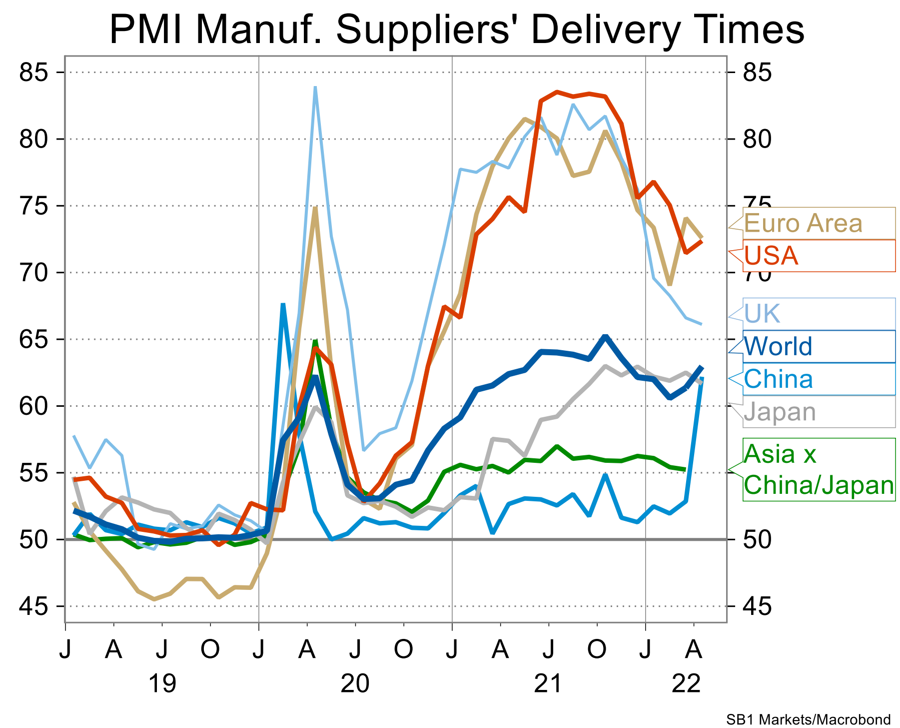
- The CPLP/NBS survey fell less than expected, while Markit's survey fell more
- Even if these surveys are well below the 50 line, they do not automatically signal a contraction in activity, at least not measured vs official production data. However, the April surveys are both outliers, like the Feb-20 surveys were (the first lockdowns), and our model is not calibrated vs such special circumstances. In addition, the output components fell more than the total indices, especially in Markit's PMI, down to 38 (check next page) – no doubt signalling contraction in production

SpareBank 1 MARKETS

The PMI manufacturing output index fell sharply, the new order index too

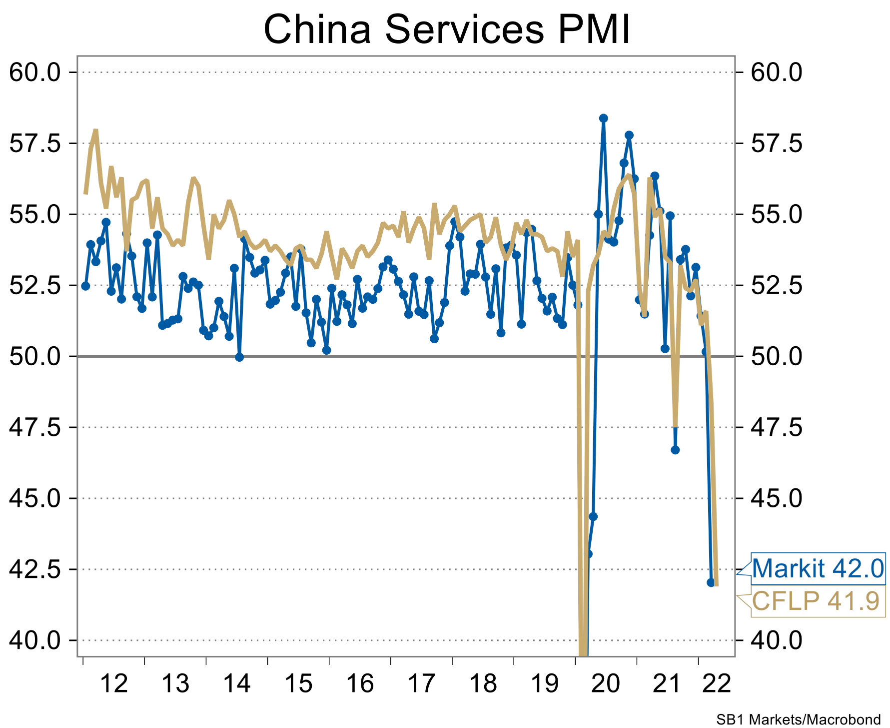
Delivery times soared, which is not a sign of strength now

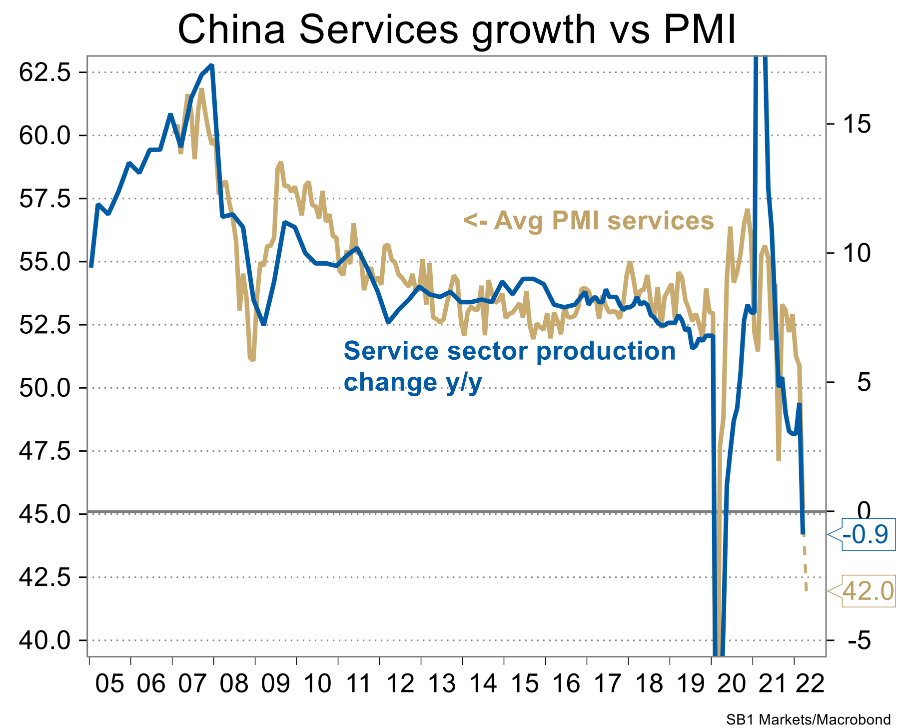




The CFPL/NBS service sector PMI joined the March Markit survey, at 42!

A 2 p decline to 46.2 was expected. I fell 6.5p. The tight lockdowns have a substantial economic cost

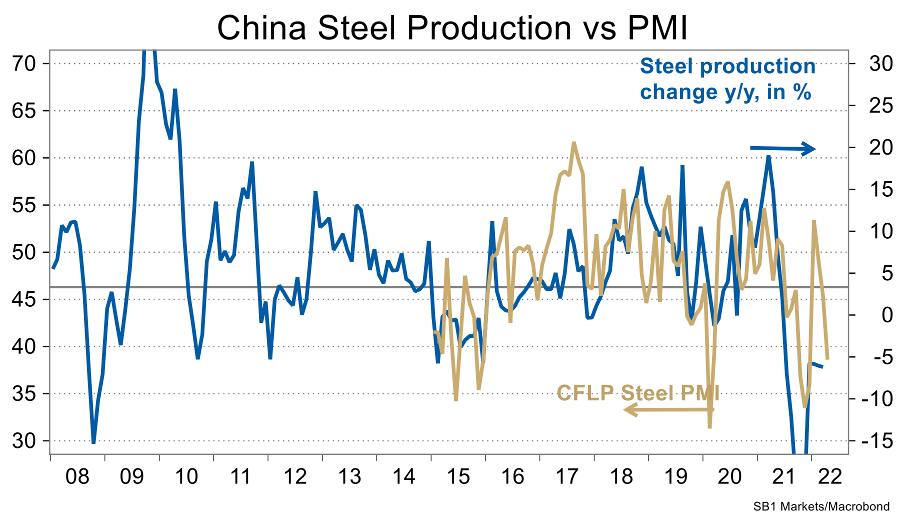


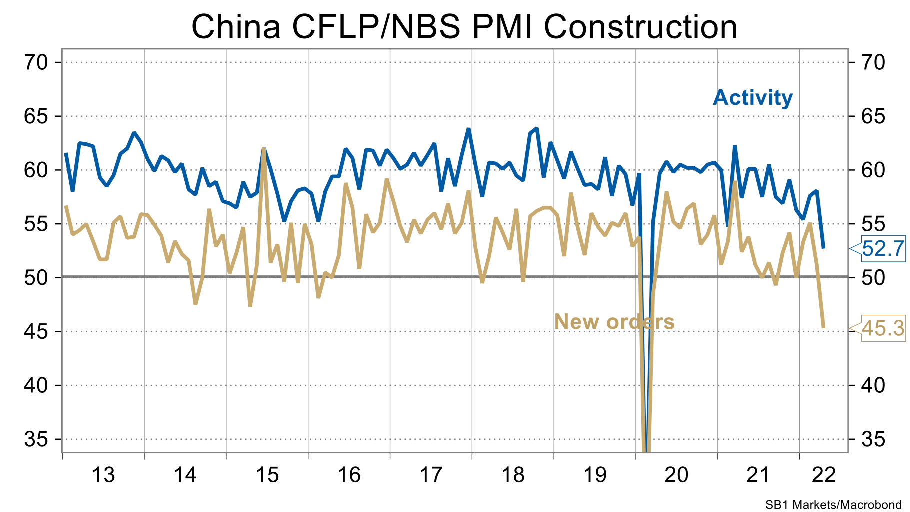


- Markit has not yet reported its April service sector survey
- If assuming an unchanged Markit service sector index in April, that is at the same level as the NBS survey, a substantial decline in service sector activity in April is signalled

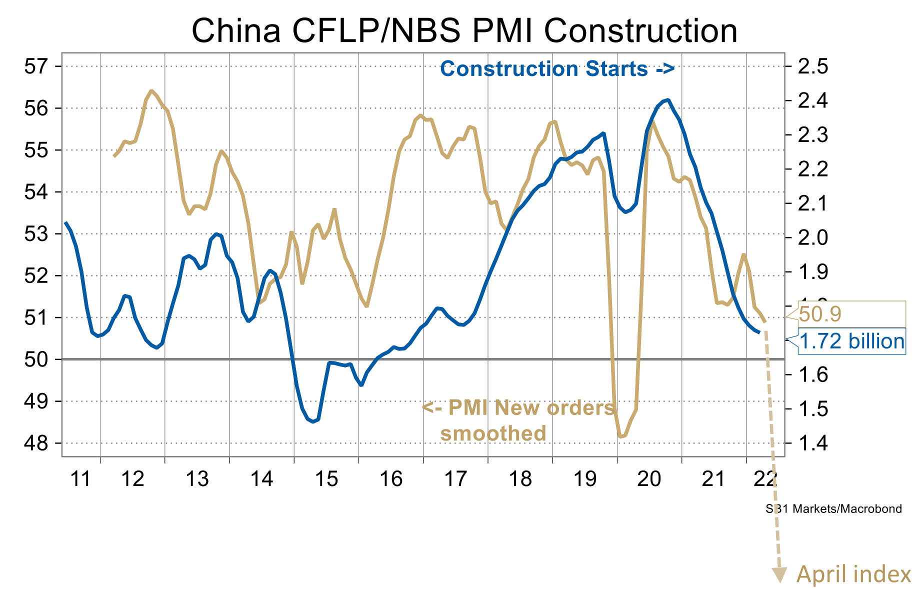
Steel & construction is hurt to, according to the PMIs

The steel sector PMI fell below 40, and the new construction order index signals a significant decline



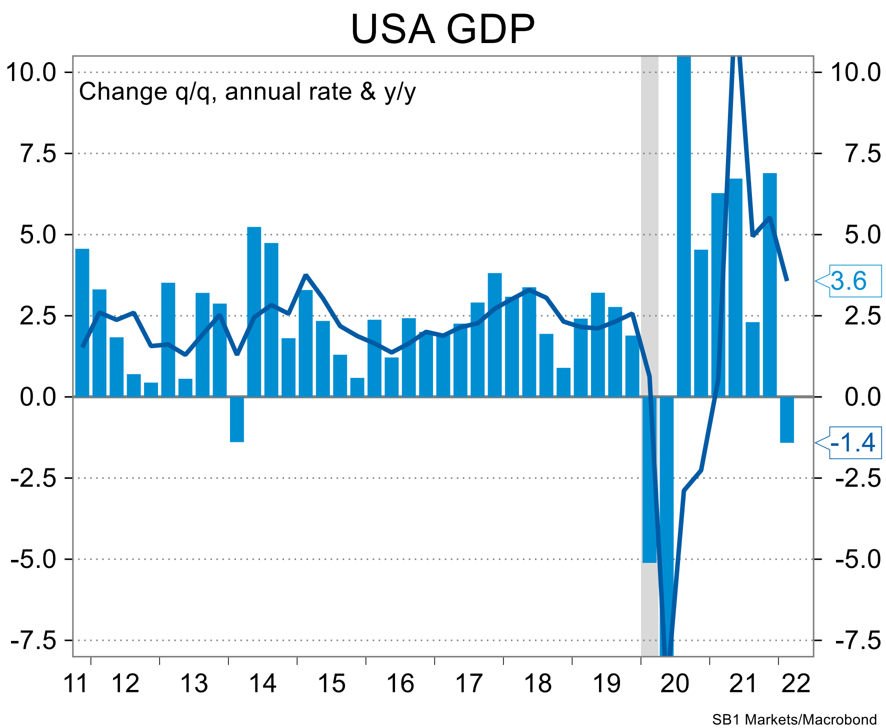


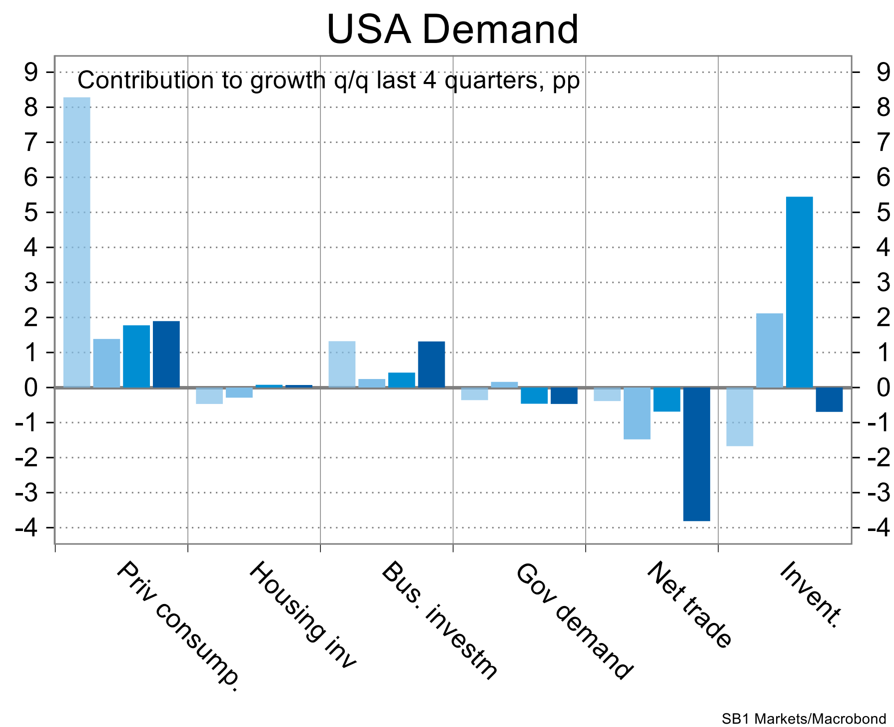
- The recent setback is probably not due to the specific challenges within these sectors but rather the overall impacts of the lockdowns



GDP down 1.4% as strong domestic demand just leaked to the ROW, imports rose

Net trade deducted 3.8 pp from domestic product, and inventory growth slowed too

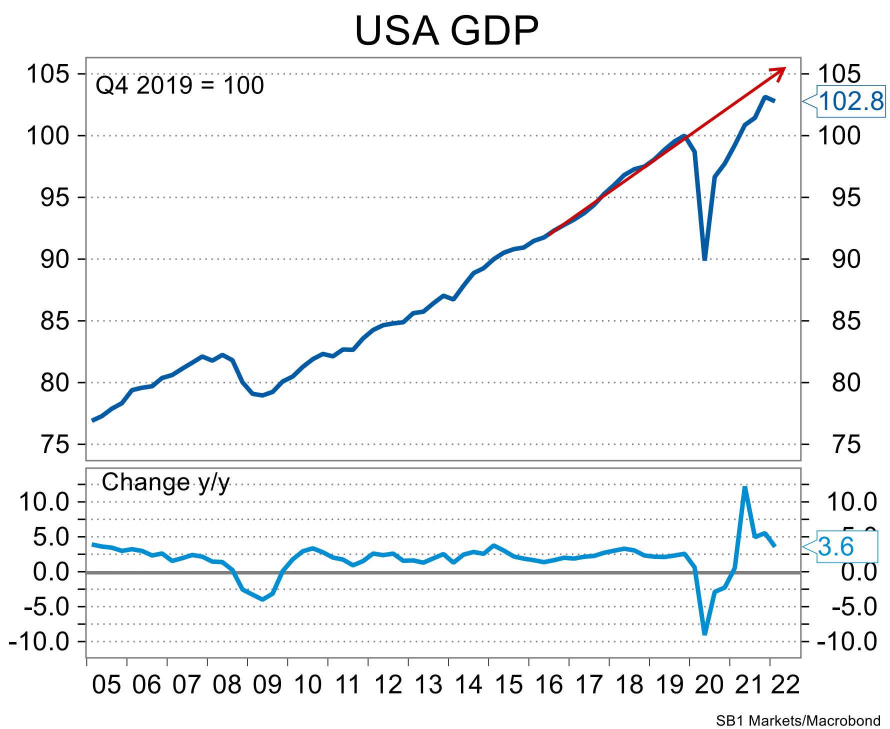


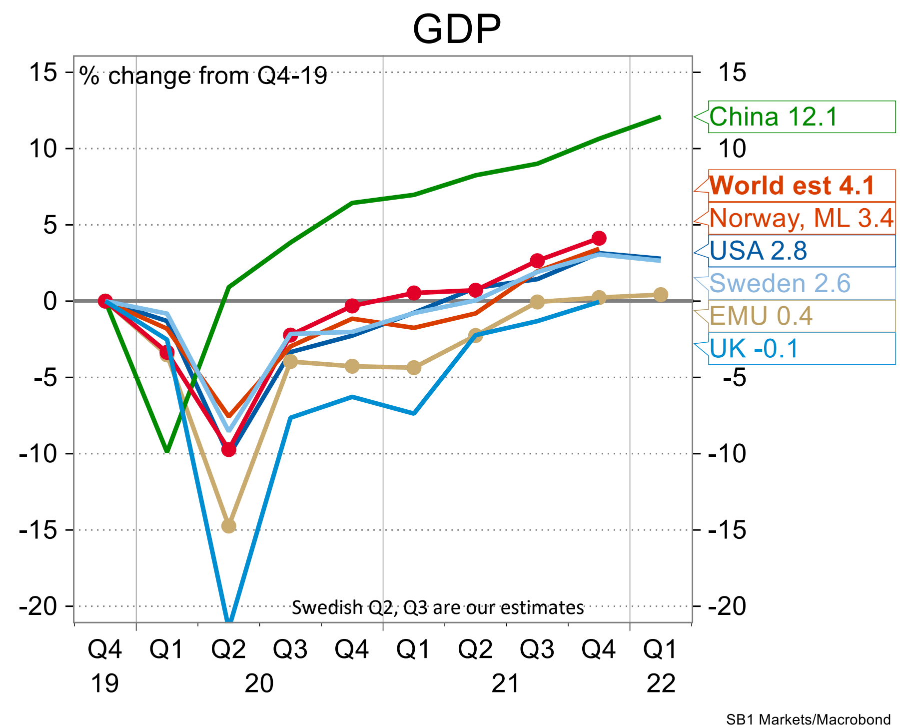


- **GDP** was expected up by 1.0%, down from 6.9% in Q4. March **trade data** was published one day before the GDP report, which signalled a downside risk to Q1 GDP. However, other short term data, neither from the demand and supply side (hours worked) signalled a decline in GDP
- The **demand mix** was unusual, the drag from a 18% surge in **imports**, which was much larger than expected. Exports fell by 5.9%, and net trade deducted 3.8% from GDP!
- In addition, the **inventory contribution** declined to -1.6% from highly unusual support of 5.4%. However, inventories were still growing faster than normal in Q1
- **Domestic final demand** (ex. inventories) was not weak, in fact it rose faster than in Q4, up 2.7% from 1.7% in Q4 – while GDP growth fell to -1.4% from +6.9%!
  - » Private consumption grew at tad faster, and business investments rose much faster. Public sector demand declined further
- **Core PCE inflation** (Fed's price measure) was unch. at 5.2%, while the overall GDP deflator grew 8% in Q1
- We assume **corporate profits** fell by 5% in Q1, in spite of the 8% surge in prices. Employment compensation rose rapidly, and more important, government support ended

GDP up 3.6% y/y, and the level is 2.8% above the pre-pandemic level

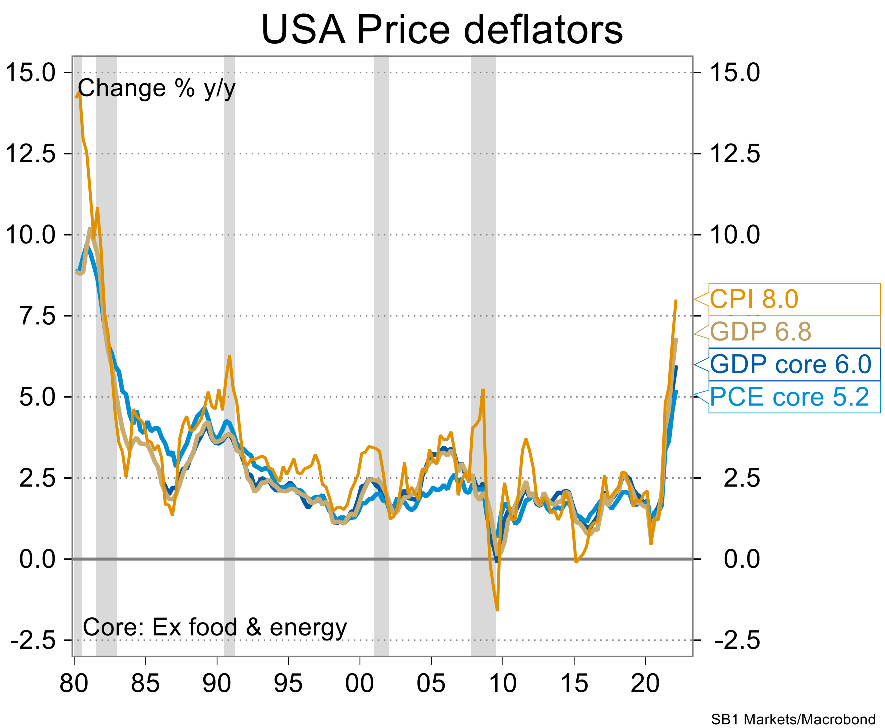
Most likely, GDP will grow again in Q2, we do not expect that domestic demand will contract (now)

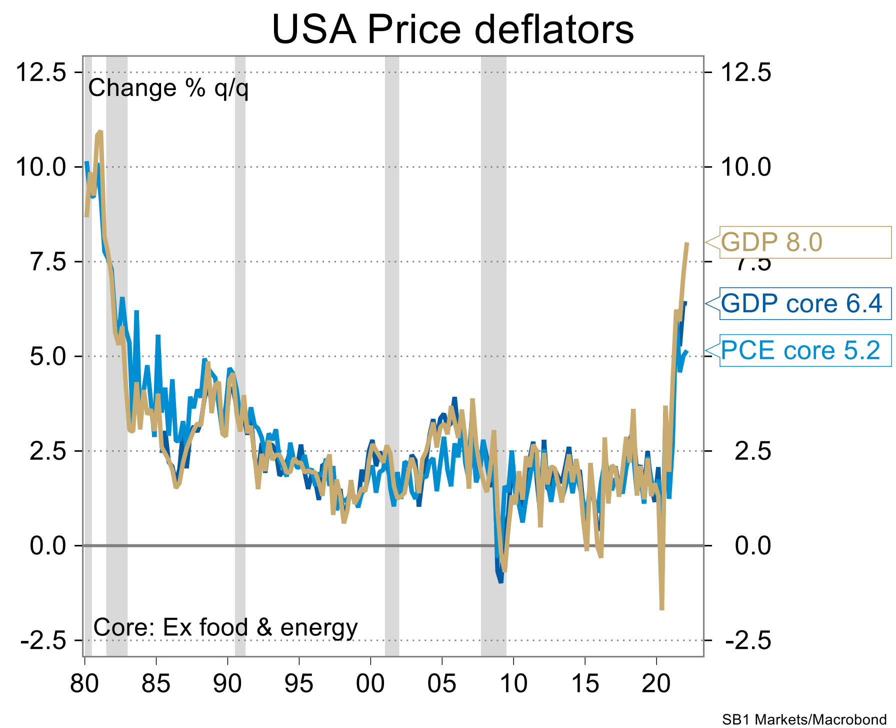




Price increases accelerated in Q1 – and we are at levels not seen in decades

All GDP/PCE deflators up 5 – 8% in Q1. Nominal GDP grew by 6.5%

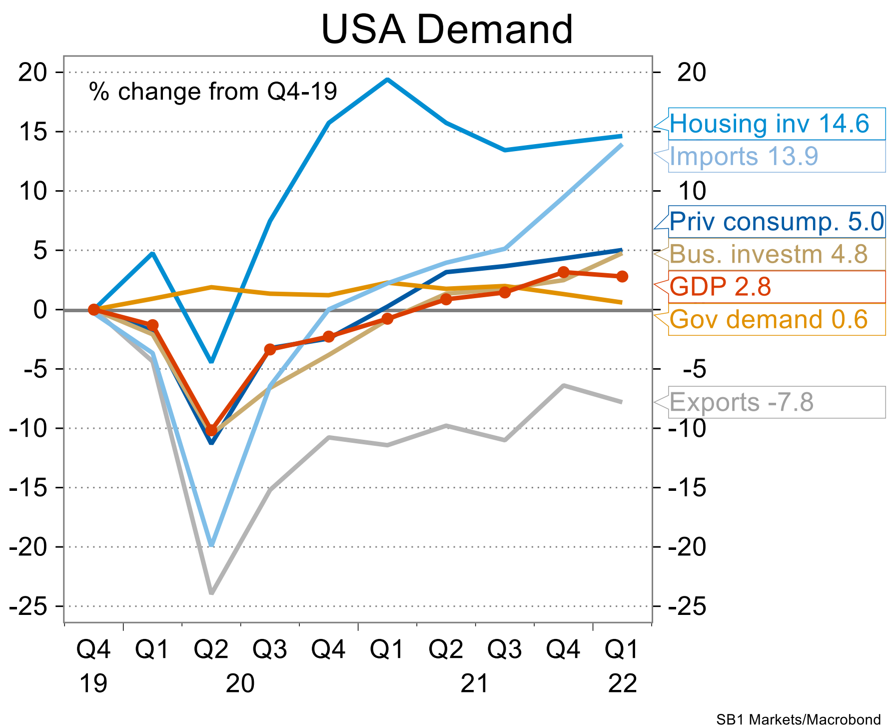


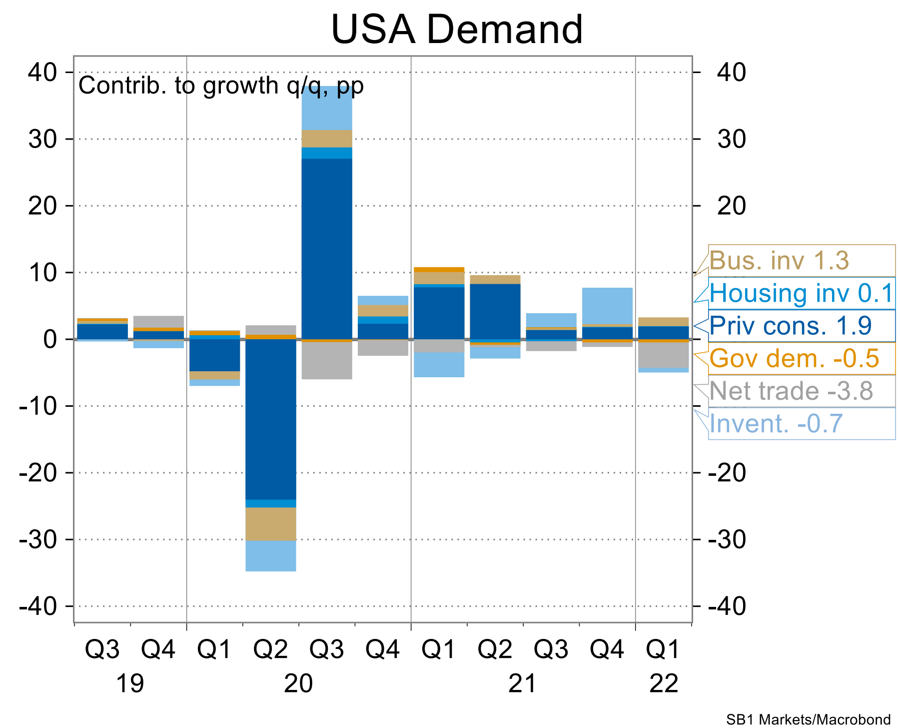


- Higher energy prices to blame for the steep rise in prices but other prices also contributed to the lift in GDP deflator at 8% in Q1 (q/q, the annual rate is 6.8%). The growth rate is the highest since early 80'ies
- The core (x energy, food) PCE deflator (Fed's preferred measure) is up 5.2% in Q1 (and by 5.2% in y/y), the highest since 1984

Net trade was the Q1 story – imports surge, exports fell

The inventory contribution disappeared as well

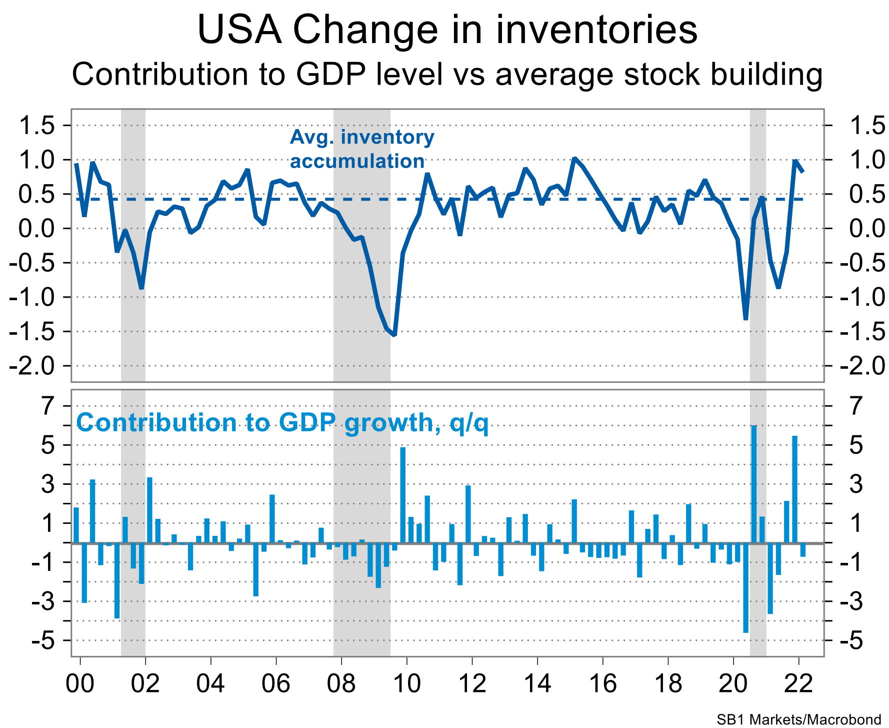


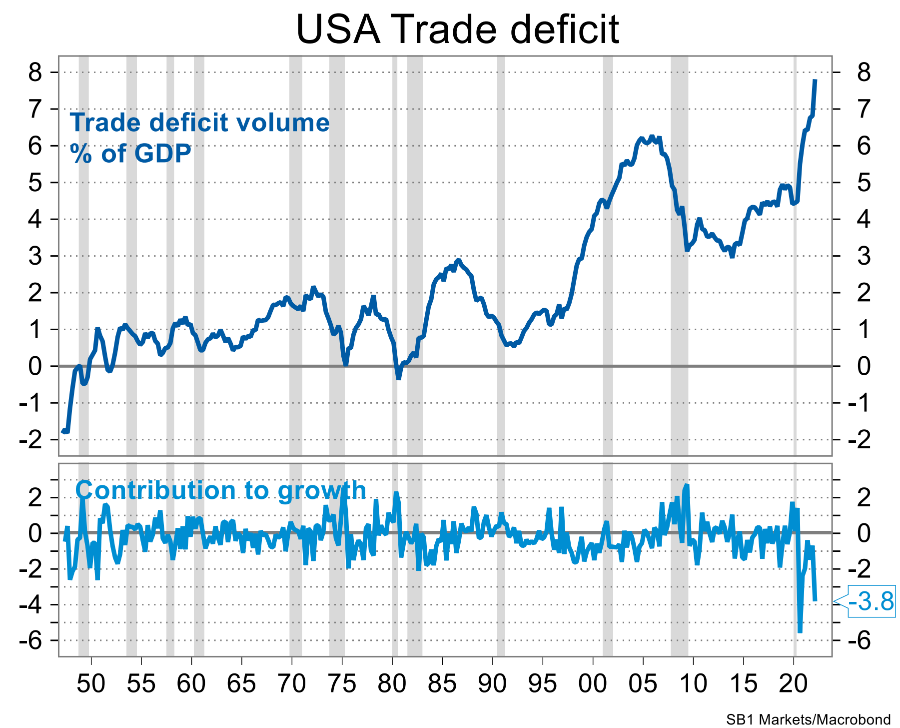


- Imports of consumer goods explained 2/3 of the surge in total imports in Q1, investment goods the rest

Inventory growth slowed but is still higher than normal

The Q1 foreign trade drag was historic, just the pandemic Q3-20 was even worse in modern times

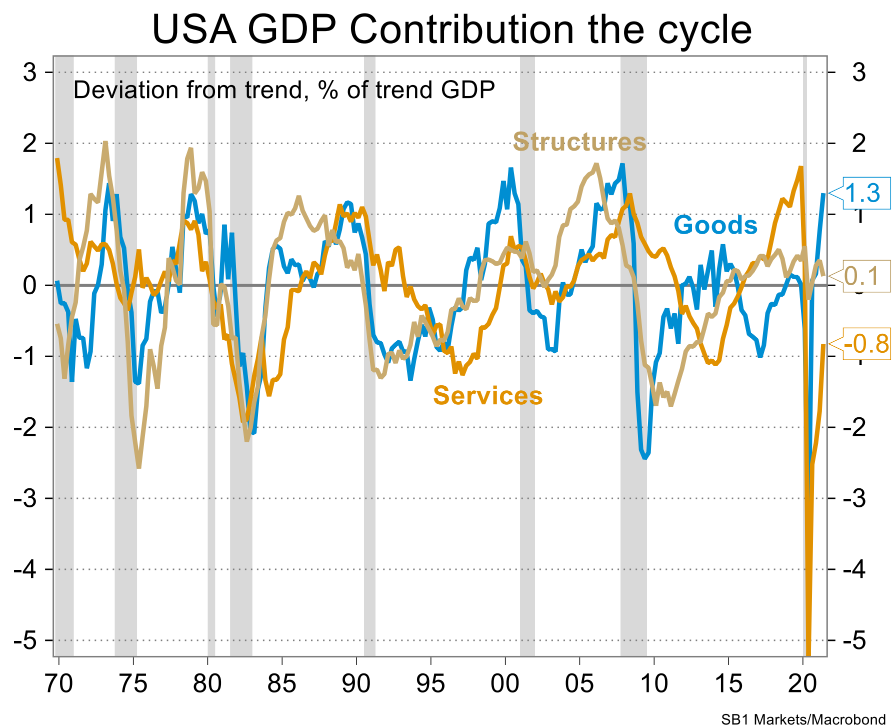




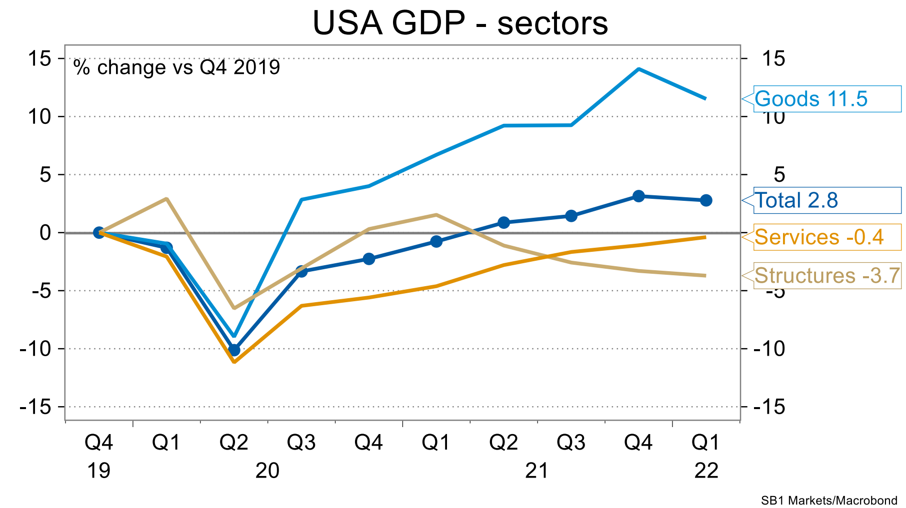
- However, inventories can not continue to grow at the same pace as during Q4 and Q1 – then inventories will become too large over time

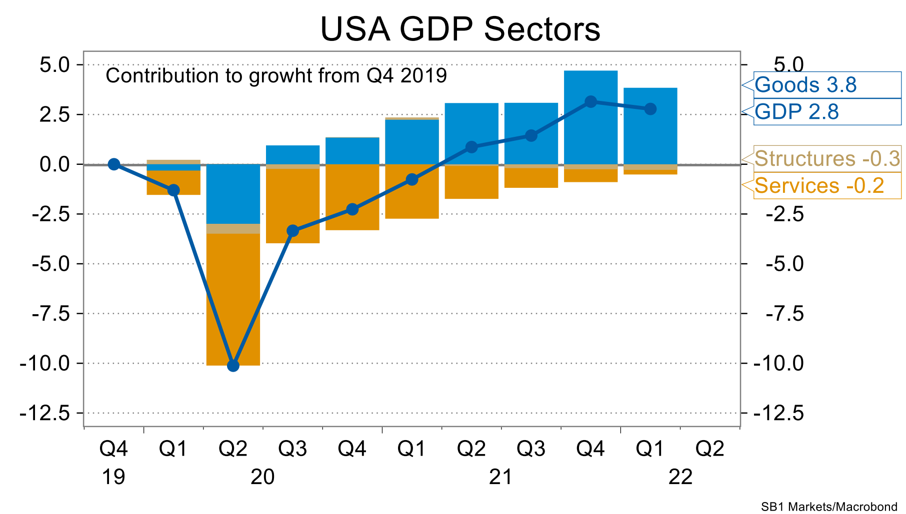
Goods took GDP down in Q1, services grew further – but is still below Q4-19!

Goods production is 11.5% above the pre-pandemic level, the total is up 2.8%



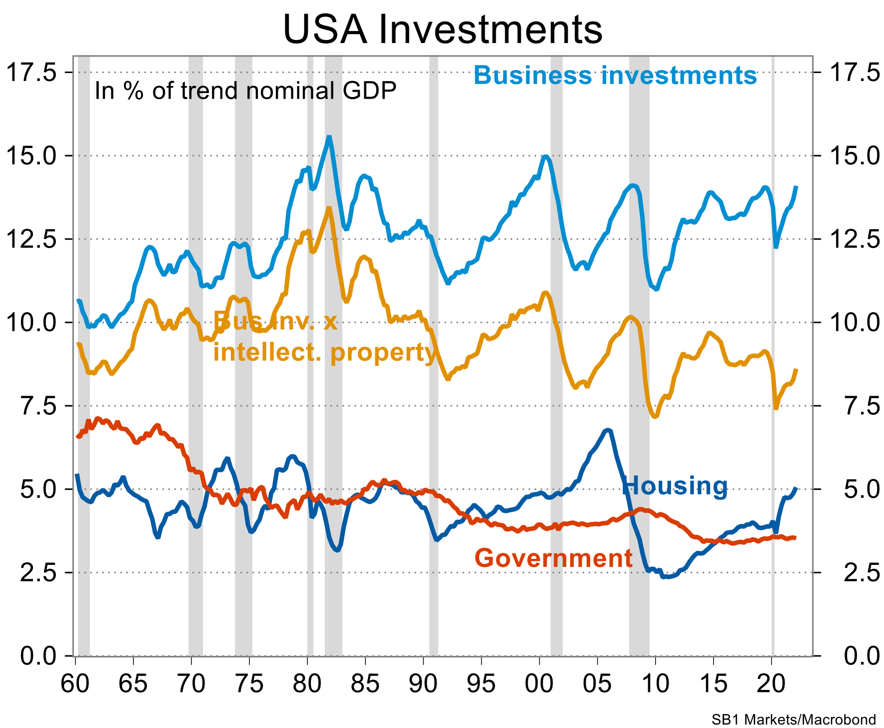
- Normally goods and structures are the main culprit during recessions, at these sectors are the most volatile elements in the economy. In addition, services are normally lagging. During the Covid-19 crisis, the service sector was the main swing factor – and it has far from recovered

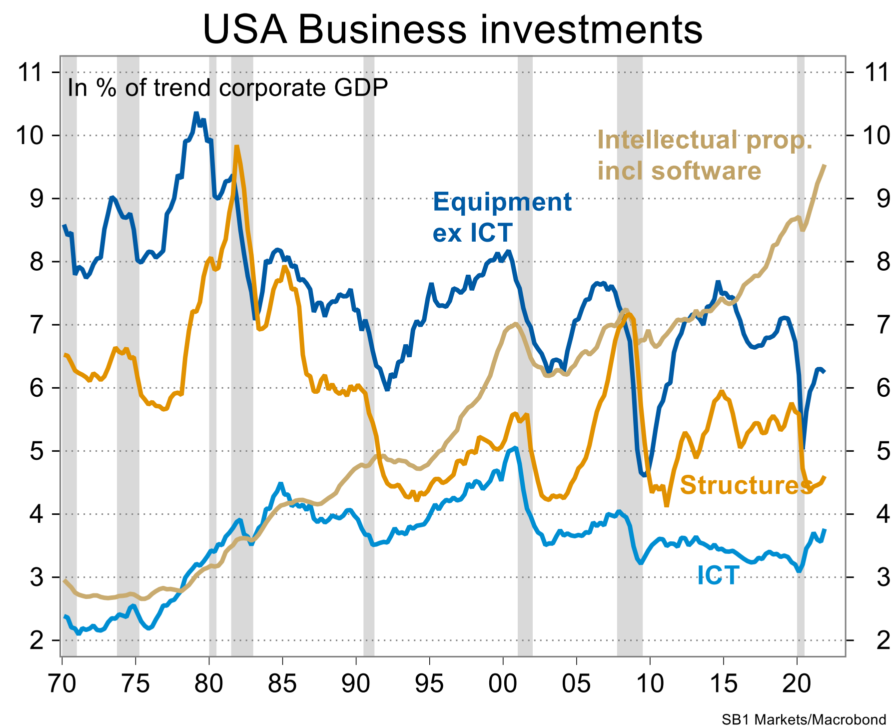




Investments: Total business investments strong, housing investment high too

Business investments above trend just due to IP & software, ICT. Other equipment, structures still weak

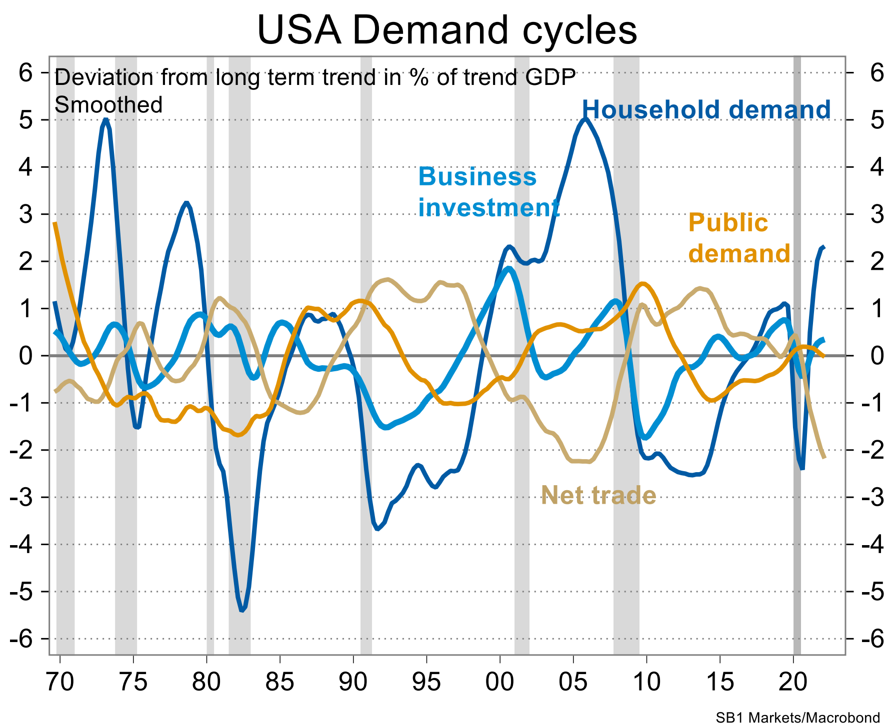


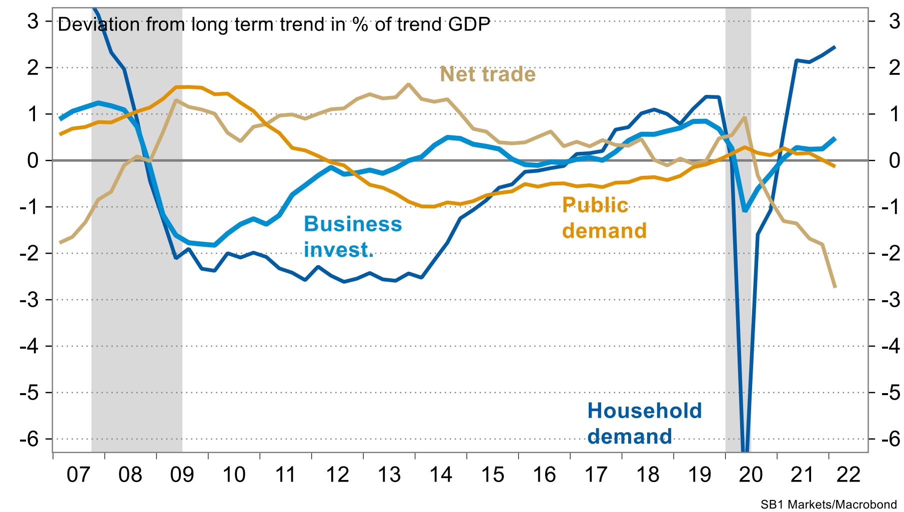


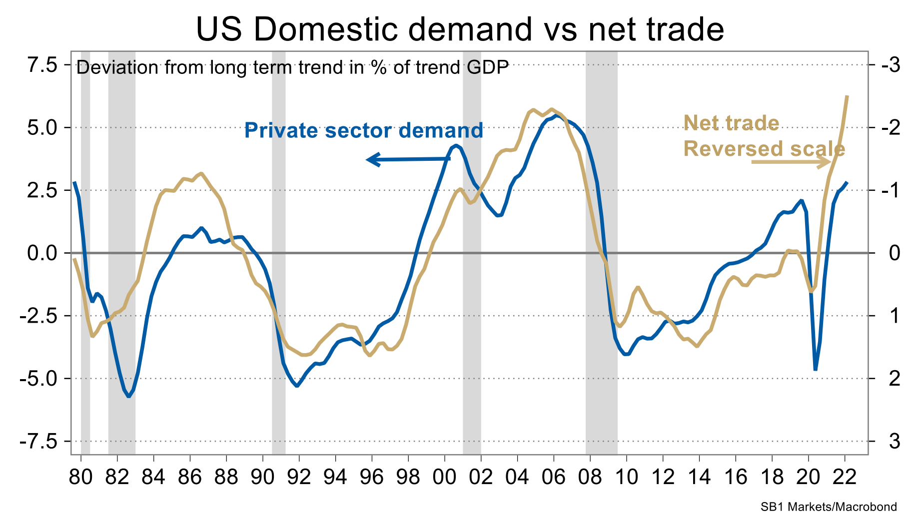
- **Business investments** are up 4.8% vs. the Q4-19 level (in volume terms), driven IP/software and ICT equipment. Investments in structures are still very low. Investments in equipment x ITC may is most likely below trend
  - » Thus the outlook for business investments is not clear: The boom in IP/software/ICT may well continue, even if the levels are high. There is still upside for other equipment and structures, at least vs the normal cycles in these sectors
  - » However, higher interest rates, and weaker growth in demand does not normally support business investment, and we are probably not far below the peak
- **Housing investments** grew 2.1% and housing investments/GDP rose further and is very likely above trend
- **Government investments** as share of GDP are close to flat vs GDP, and the level is rather trending down than up

A private consumption cycle. Or rather, a virus cycle…

A shallow & short business investment downturn. Net trade a large drag, and larger than 'is should have been'



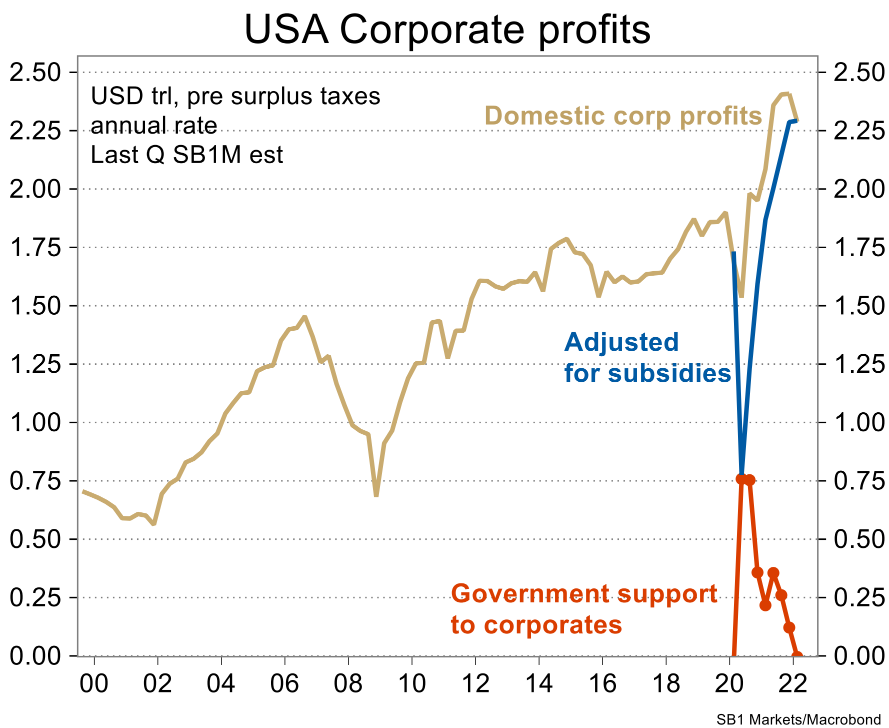


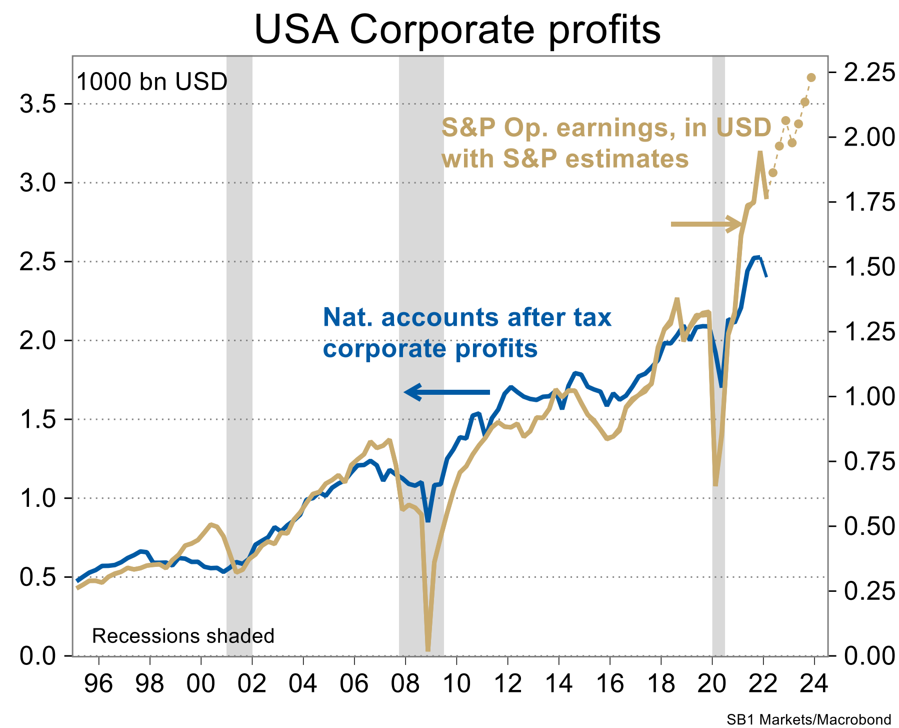


- Net trade has declined more than normal vs. the increase in domestic demand
- *Check more on the household sector some few pages forward*

Corporates' profits probably down in Q1, due to the end the Gov subsidy bonanza

However our 'pre-subsidy' estimate may be too optimistic

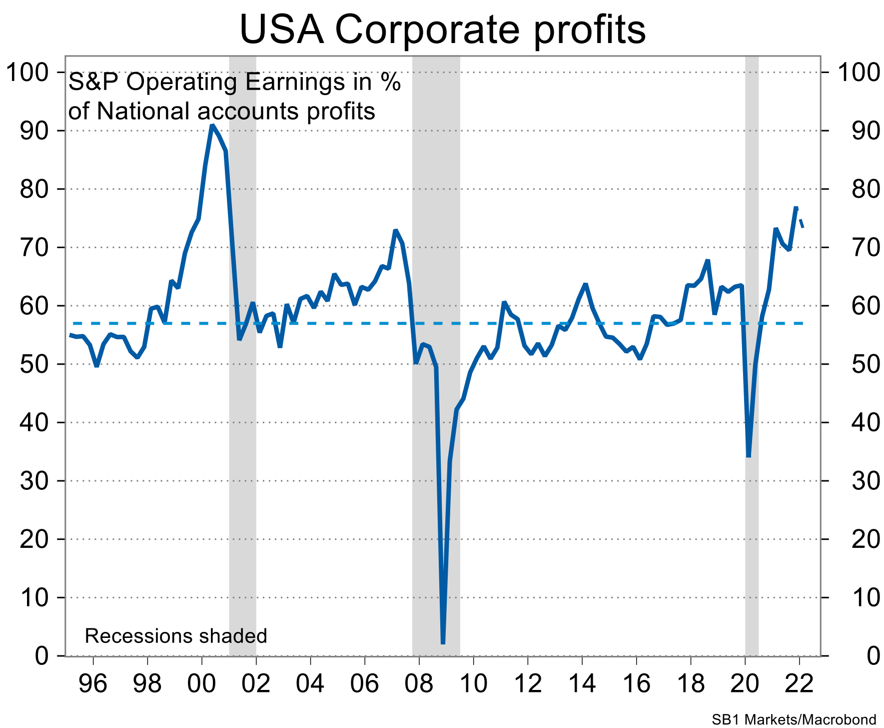


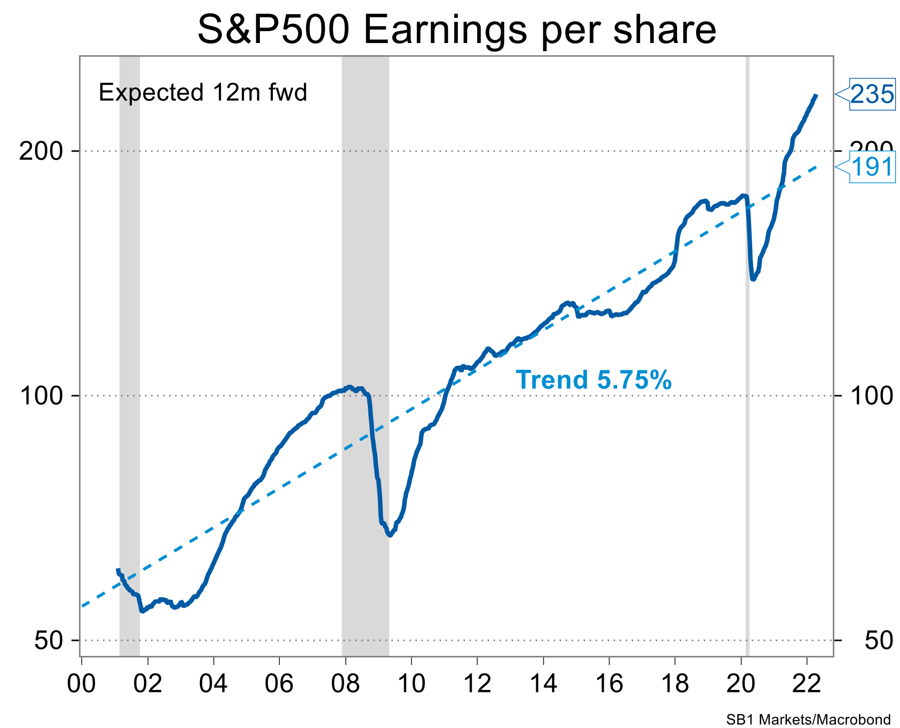


- **We assume domestic corporate profits** fell some 5%, not annualised. Growth in nominal corporate GDP slowed (we assume to 1.9% from 3.2%, but the estimate is uncertain!), even if inflation accelerated to above 8%, and growth in labour compensation slowed to 2.2% (9.3% annualised) from 2.7%. The main drag still came from an increase in net taxes-subsidies, contributing to a 4.8% decline in corporate profits
- The **S&P** estimate that S&P 500 profits fell by 8.6% (our seasonal adj). Of course, thereafter profits will grow rapidly forever. S&P profits are still way above normal vs National Account profits for the total corporate sector
- We think the **profit outlook** is muted. Wage inflation will not subside anytime soon given the super tight labour market – and a continued price inflation at the current pace cannot be tolerated by the Federal Reserve. Exciting times ahead

Profits in the National accounts are strong, S&P profits are even better

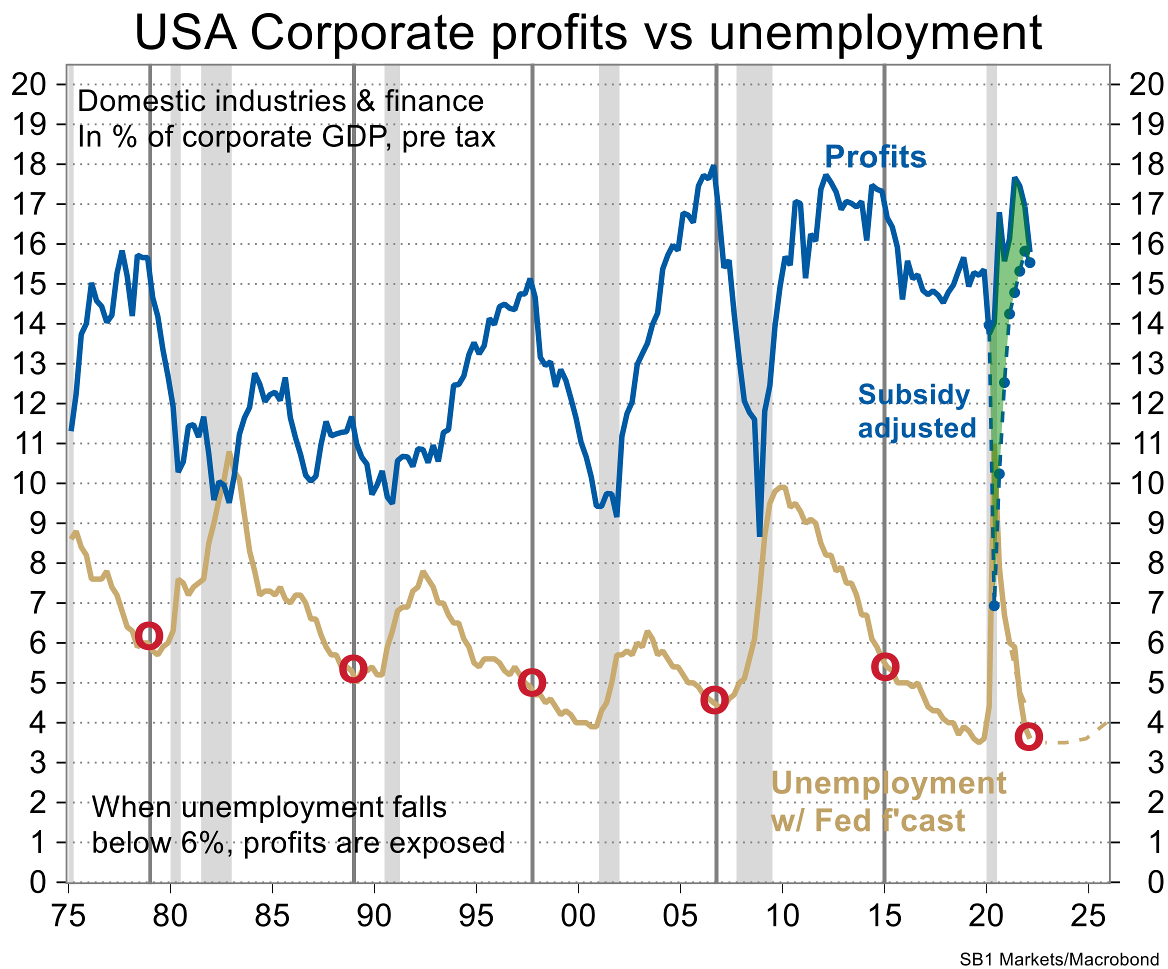
Until further notice





The profit share has peaked? And more may come

The bottom line has always been hurt when the labour market becomes too tight. Like it is now

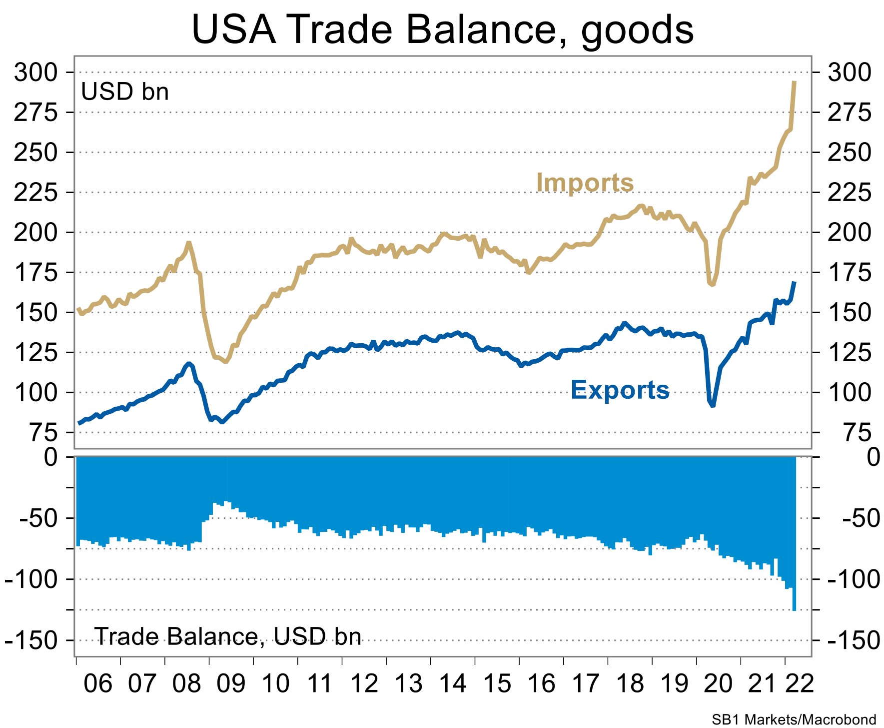


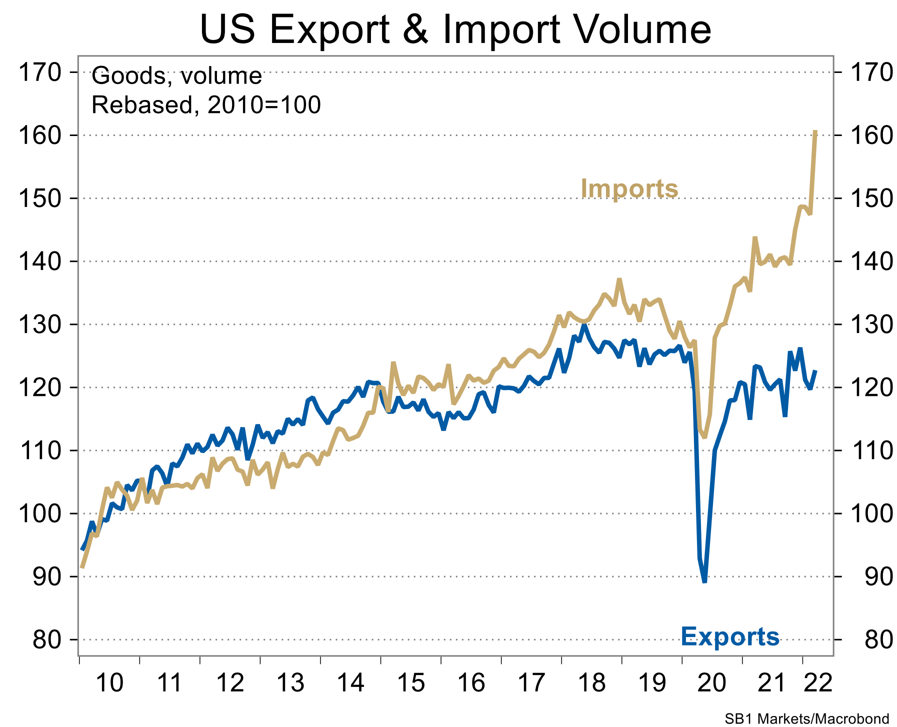
- Prices are increasing at an incredible pace but so are wage costs, and government support is on the way down
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - Unemployment is now at 3.6%, and it is falling rapidly as other indicators (especially vacancies) suggest that the labour market is even tighter than the 3.6% rate signals
- In addition, it is reasonable to expect the production taxes-subsidies to normalise the coming quarters.
  - The impact is shown as the green area at the chart above
- Thus, it is quite likely that the profit share is headed downwards from here

All data are not yet published, and the Q1 numbers are just our estimate

Here is the import data that killed the Q1 GDP, they came in March

The trade deficit shot up in March, to ATH, by far – as imports rose 11% in value terms, 9% in volume

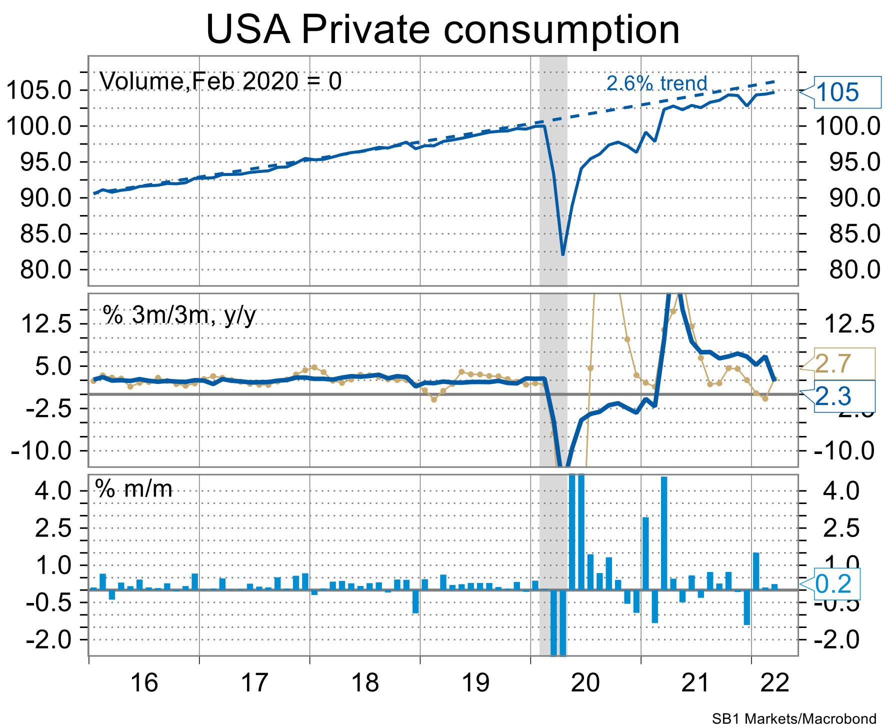


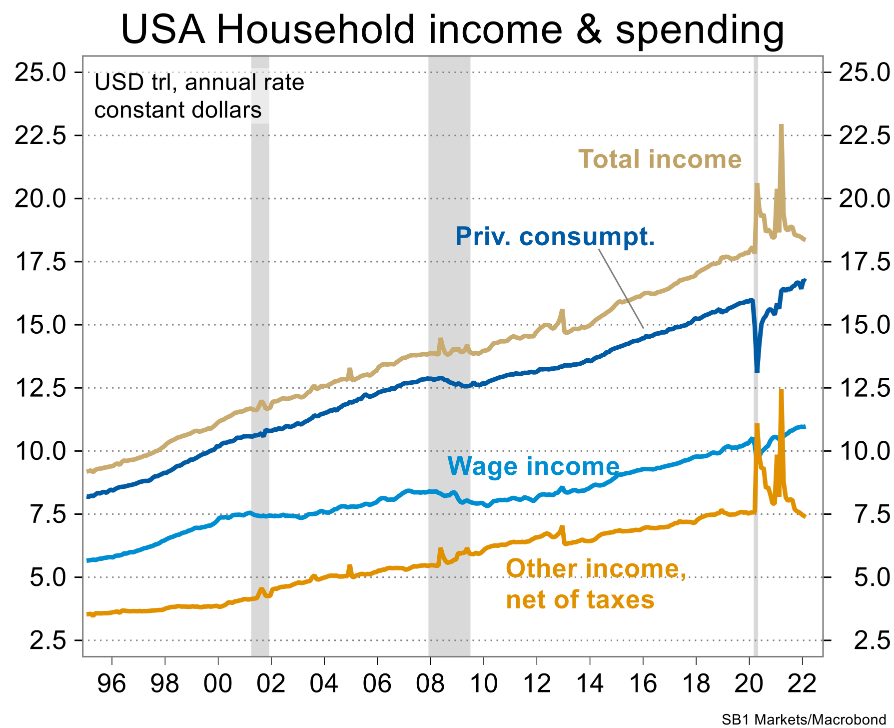


- **Imports** of goods are almost 50% higher than before the pandemic, and by 26% in volume terms
  - » We expect US households' demand for goods to slow the coming quarters, from the present very high level – dampening demand for imports too (we said so one month ago too…)
- **Exports** of goods rose 7% m/m and are up 21% vs the Feb-20 level. However, in volume terms, exports are down 3% vs. Feb-20
  - » Domestic demand has been strong, while demand abroad has not been that upbeat
- **The trade deficit** in goods fell by USD 19 bn to 125 bn, 18 bn above the Jan ATH

Real consumption up 0.4% in March; Goods down, services further up

Real incomes fell by 0.4%, and are trending due to high inflation. Lower savings fund consumption

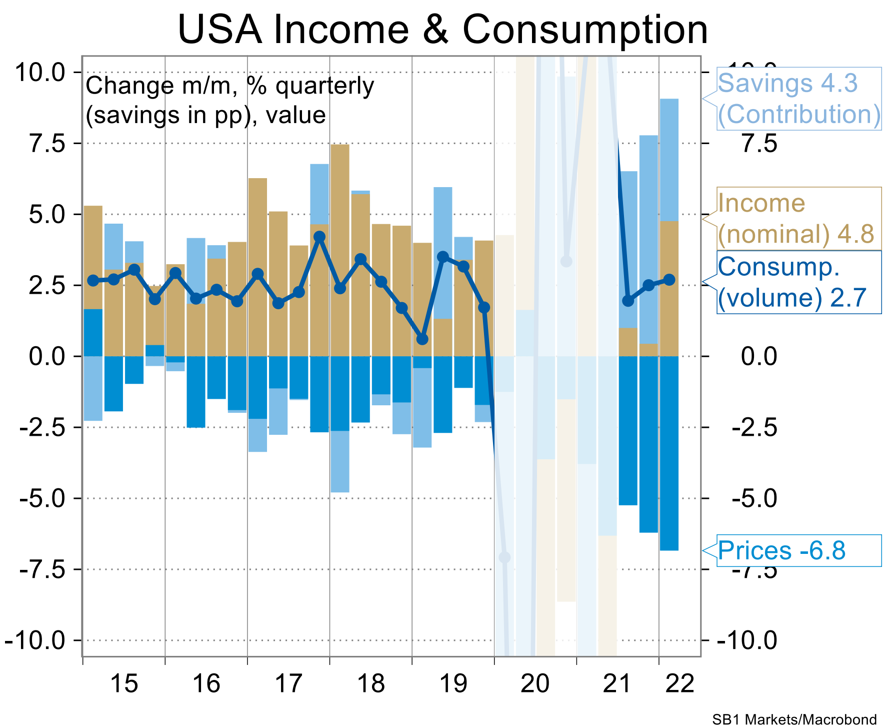


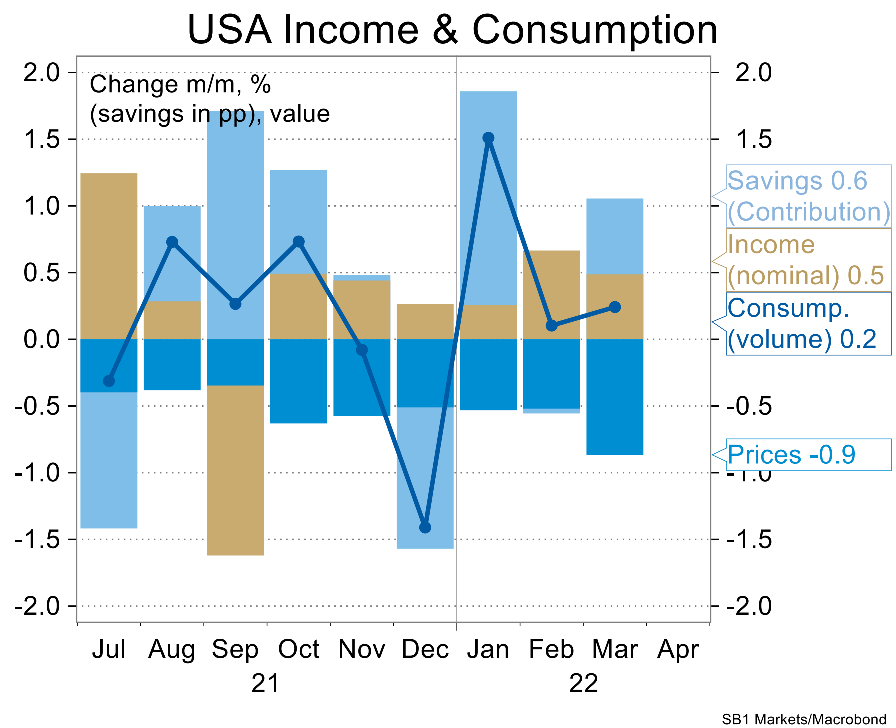


- **Private consumption** grew 0.2% in March, expected down 0.1%. Feb was revised up to 0.1% from -0.4%. Spending rose by 1.1% in nominal terms! The PCE deflator shot up 0.9%. Real consumption is up 5% vs. Feb-20; Goods are 15% up, service are back to the starting point! No doubt, goods consumption slow, services will grow further the coming months
- **Personal disposable income** gained 0.5% in March, but fell 0.3% in real terms. Real household income has been falling recent months, due to the surge in inflation, and a normalisation of transfers/taxes. Real wage incomes are still trending upwards
- **The savings rate fell +0.6 po to 6.2%**, from a 0.5 pp upward revised level in Feb. The savings rate is now below the pre-pandemic level. However, households have saved an extra amount equalling 13% of one year's disposable income during the pandemic and has ample capacity to keep consumption growth above income growth – in average, that is. Low income families spent their ordinary income + transfers from the government, high income familied increased their savings – and do perhaps not plan to spend the 'savings surplus', even if most of the excess savings have been invested in liquid assets like bank deposits

Rapid price increases lower real income

A decline in the savings rate funds growth in consumption





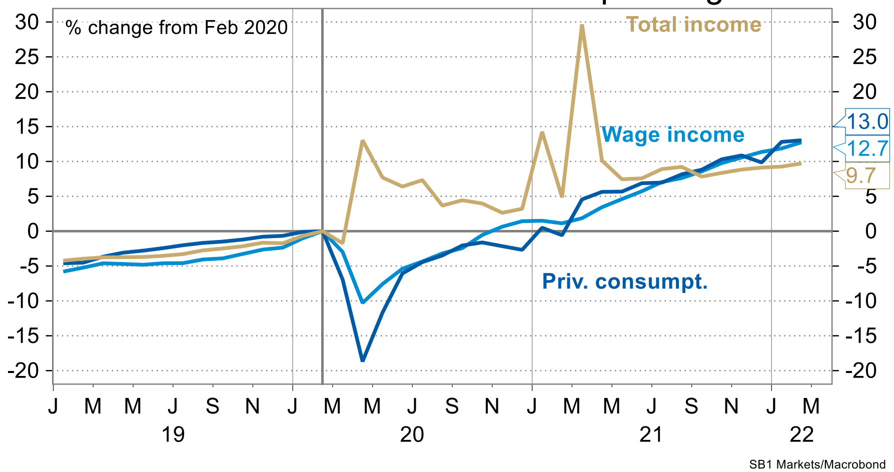
- Growth in prices are have been higher than growth in nominal disposable income recent quarters, and a reduction in the savings rate has funded growth in real consumption

We have shaded the ‘hard’ pandemic quarters at the chart to the left

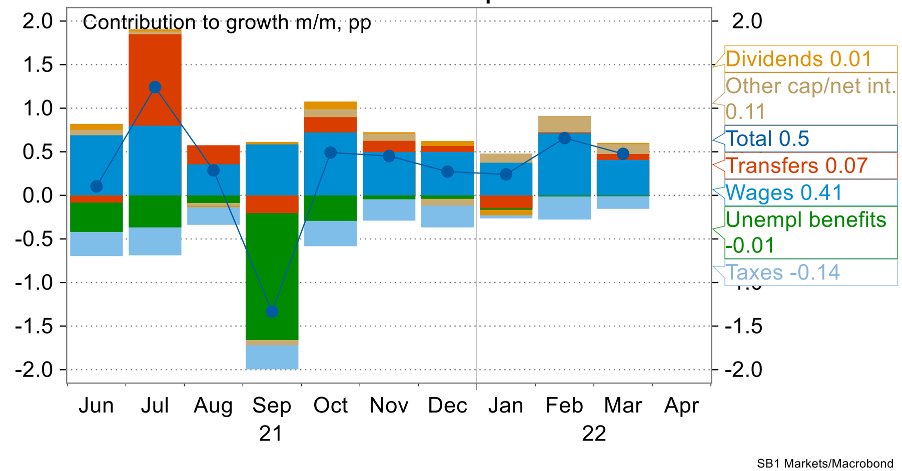
Nominal income growth is normalising – total up 0.5% in March

Wage revenues are climbing rapidly. Transfers ex. unemployment benefits are back on trend

USA Household income & spending

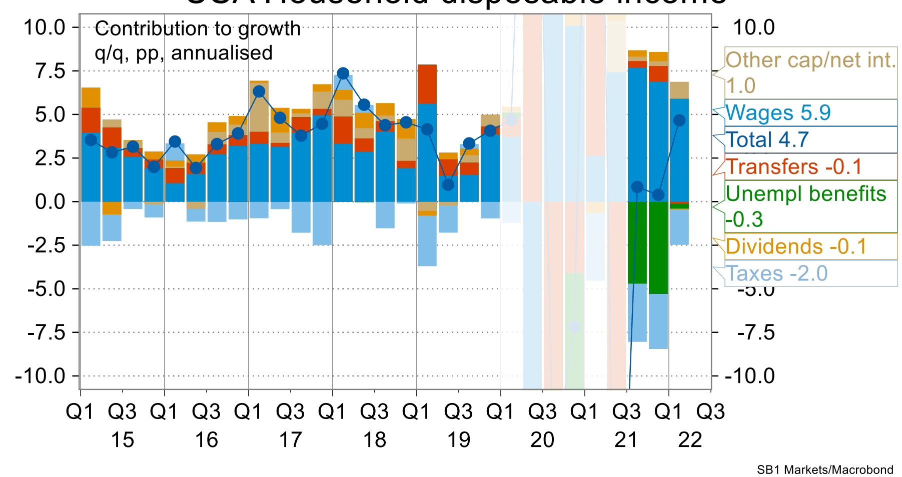


USA Household disposable income



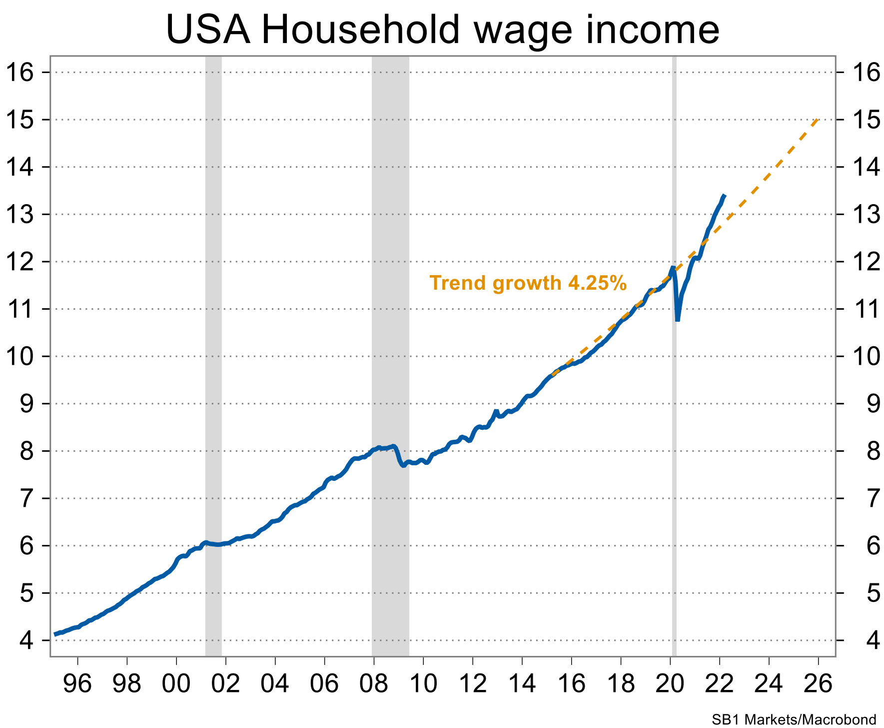
- **Total income has** flattened since the spring as ordinary public transfers and unemployment benefits have gradually normalised
- **Total wage income** is growing rapidly and level is above the pre-pandemic growth path at 4.25%, even if employment & hours worked remain well below the pre-pandemic level. The reason is of course the sharp increase in wage inflation

USA Household disposable income



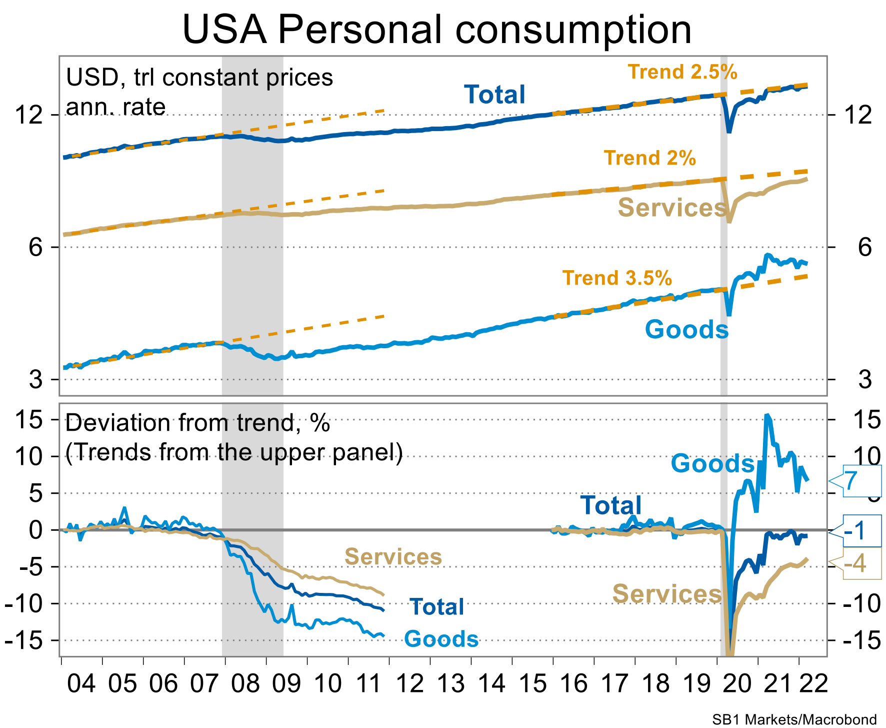
We have shaded the 'hard' pandemic quarters at the lower right chart

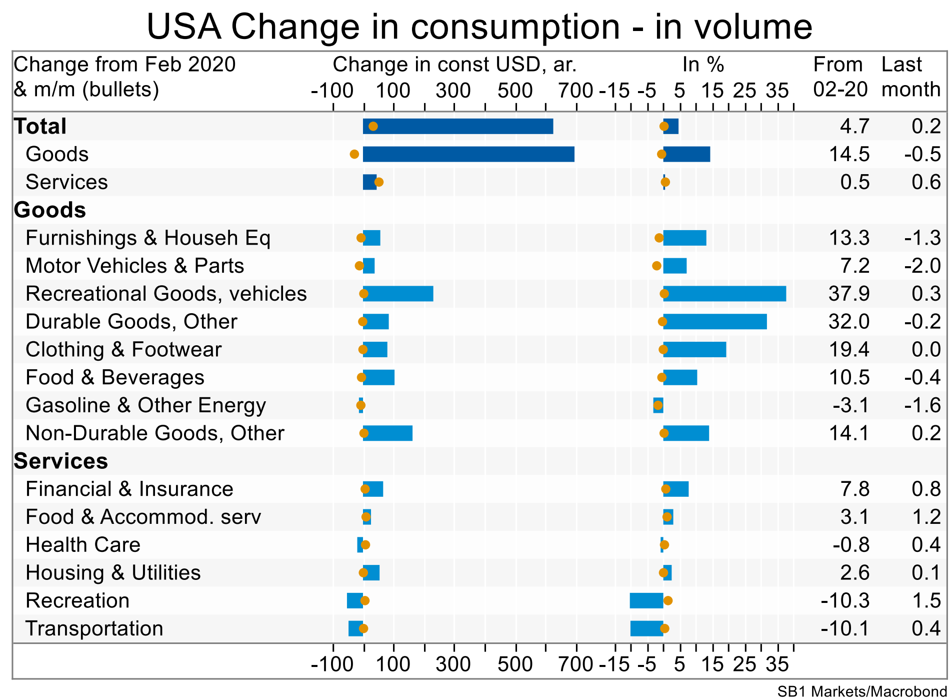
Something is happening with wage revenues (=wage costs for others…)



Services finally back to the pre-pandemic level, goods are still 15% above

Spending on services is still 4% below the pre-pandemic <u>trend</u>, spending on goods are ~~8%~~ 7% above!

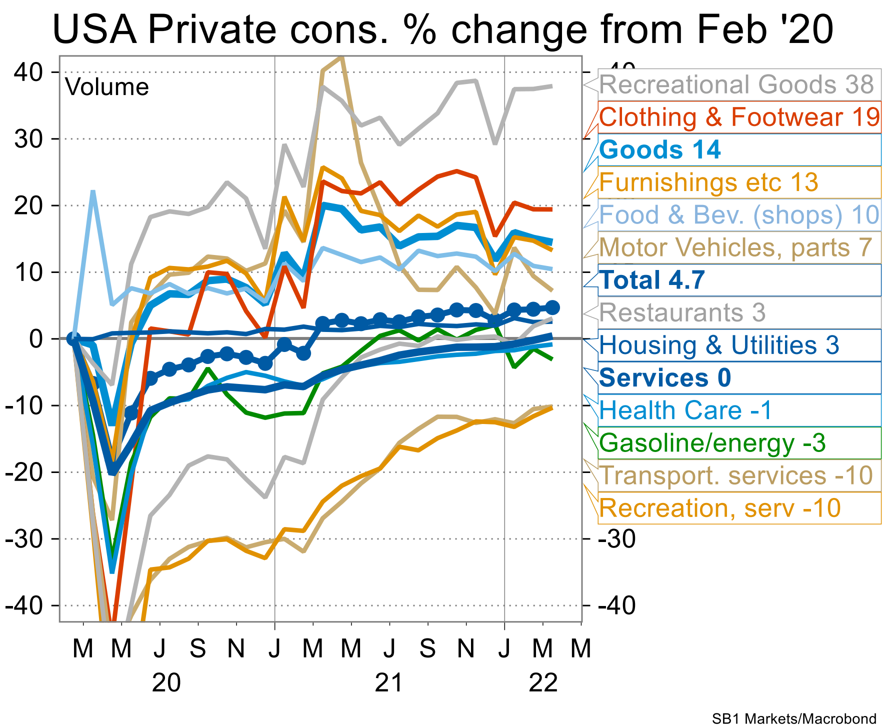




- **Consumption of goods** fell 0.5% m/m in February (volume terms). The trend is flattish, at best. Spending is still well above the pre-pandemic trend at 7%. The gap is steady declining – and will very likely continue downward
  - » Demand for **durable goods** are way above sustainable levels, we assume
- **Services** are recovering, and climbed above the Feb-20 level in March, as spending rose 0.6%. Spending is still 4% below the growth trend ahead of the pandemic

There are some larger aggregating differentials than usual in the PCE accounts, and the sums do not add up to the total

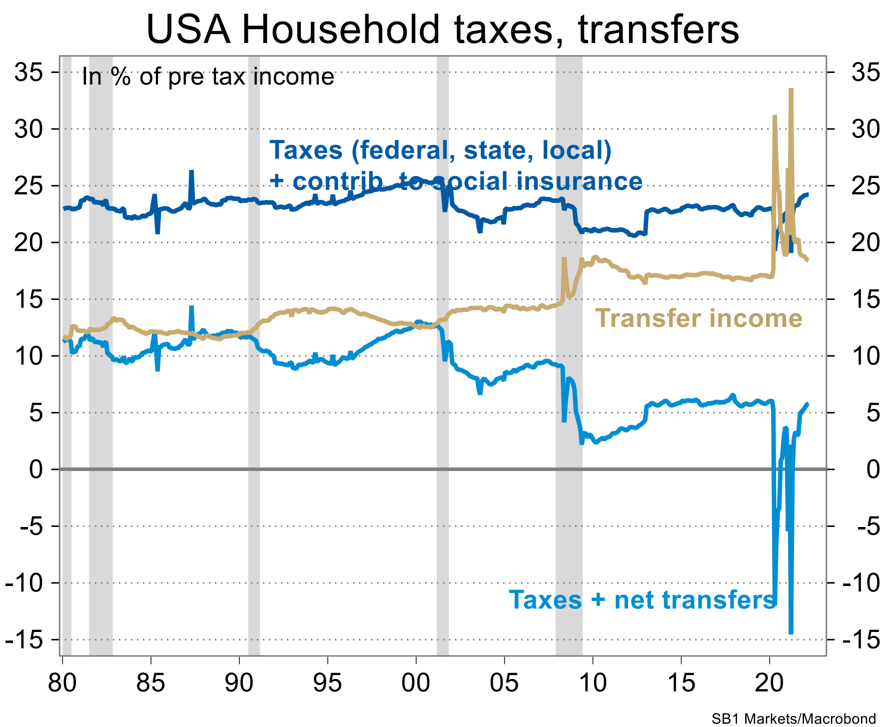
Mixed between sectors in March

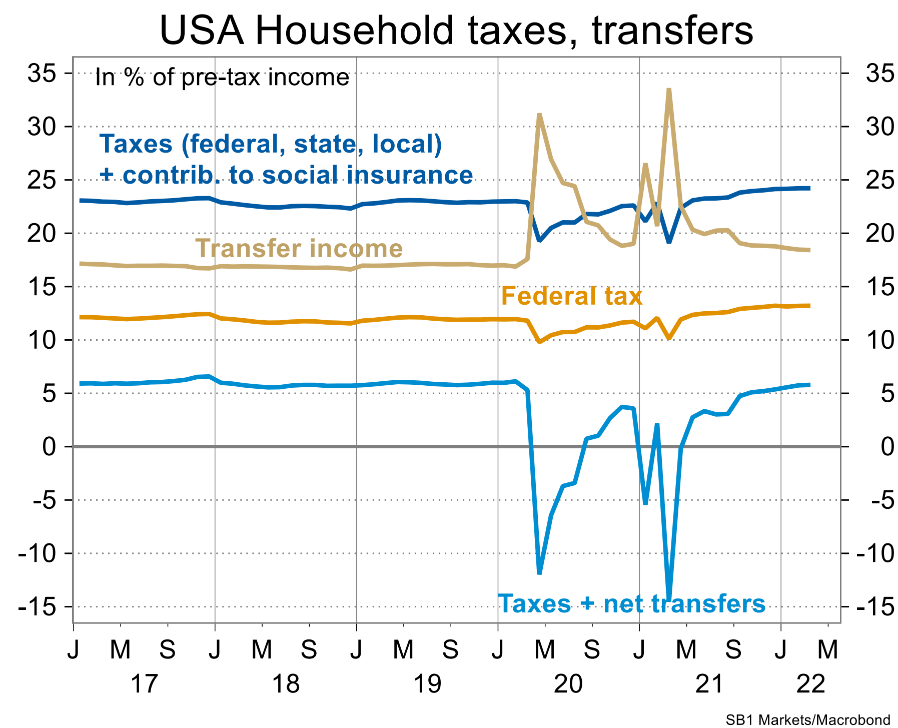


- **Consumption of goods** recovered from the Dec setback in January but yielded somewhat in February
- **Consumption of services** continued upwards in February, and the level is finally back to Feb-19.
  - » Restaurants, recreation & travel reported higher sales in January, and the trend is upwards. The level is still down 11%, in volume terms
- **Total consumption** is up 4.6% vs. Feb-20. Since last March, growth in spending has been muted, but consumption is still trending up – supporting GDP growth in Q1

Towards more normal times – but transfers are still above par

Net taxes close to 6% of pre-tax income, close to the pre-p level – which though was too low

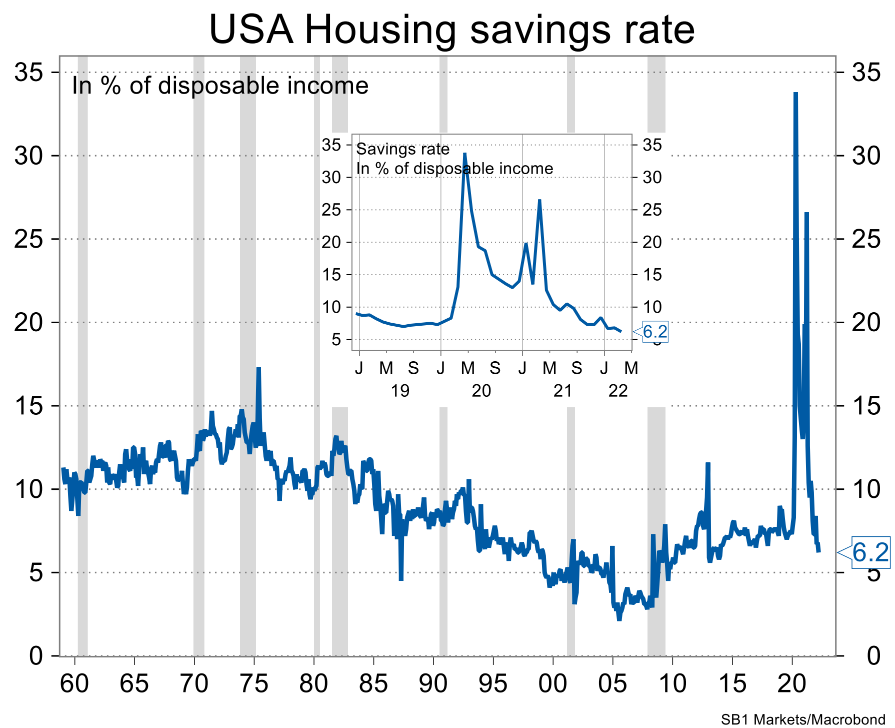


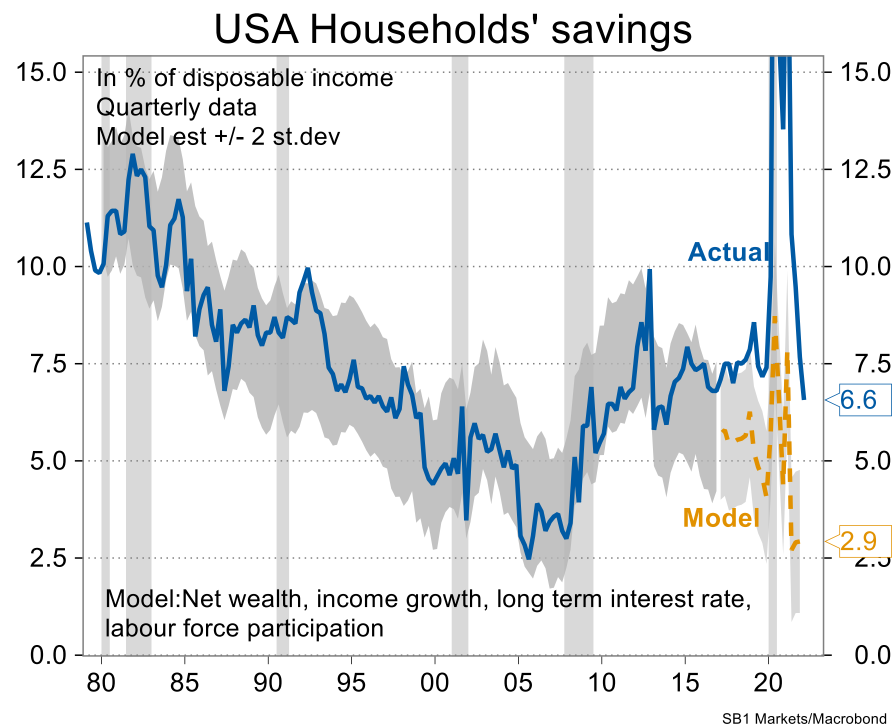


- The 'normal' net tax rate (taxes-transfers) implied a substantial government deficit – <u>which was not sustainable</u>
  - » Before year 2000, the net payment to the federal government equalled 10% - 12% of pre-tax income …. and somewhat below 10% until the Financial crisis. Since 2012, the net tax rate has been some 6% of GDP, and now at 5%
  - » Taxes are back to the pre-pandemic – or even a tad above – while transfers are

The savings rate below the pre-pandemic level

Will the savings rate stabilise at today's level? If so, income growth will decide consumption growth



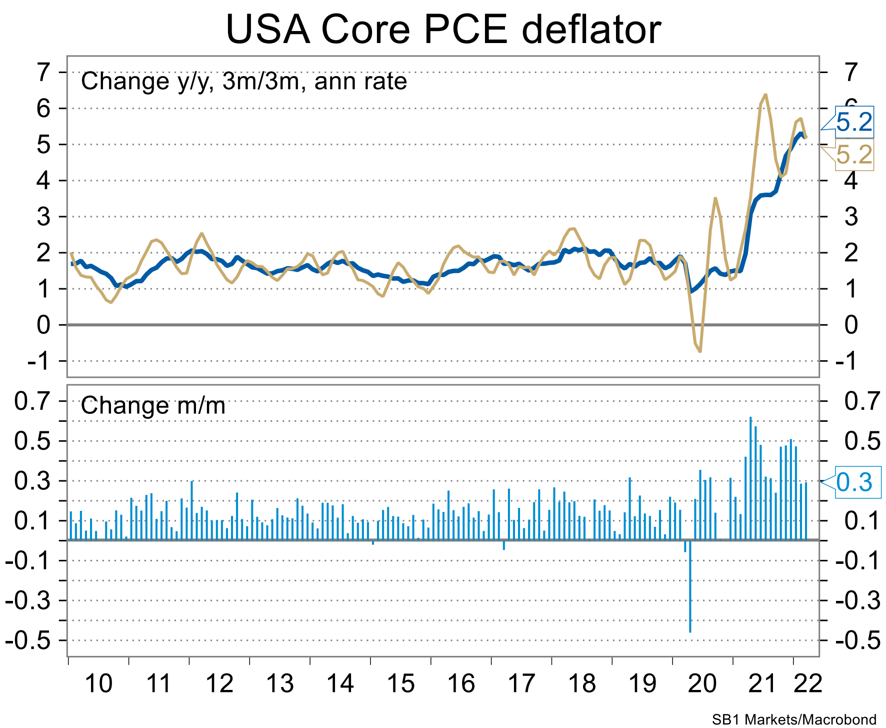


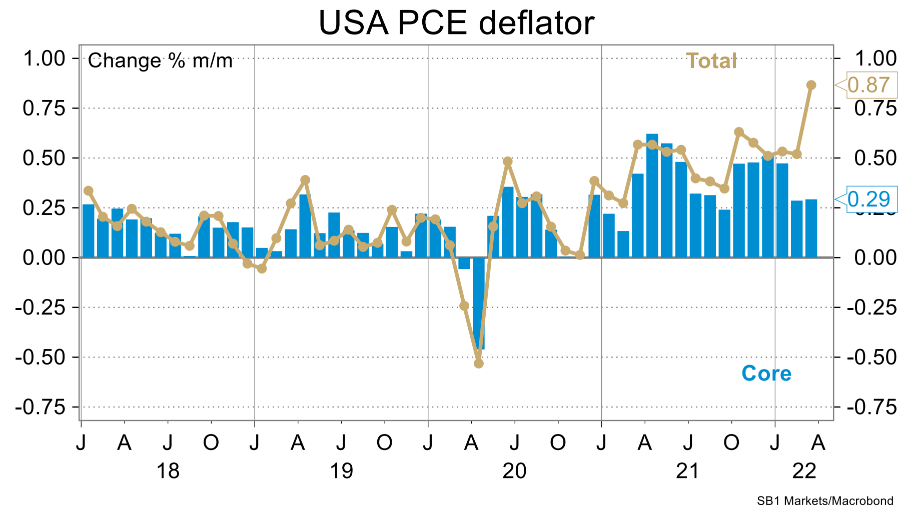
- The savings rate declined 0.6 pp to 6.3%, from a 0.5 pp upward level in February. Our old savings model, yields a 2.9% savings rate in Q1. During the 2016 – 19 period our old model has underestimated the savings rate systematically by some 2 pp
- The gap is now much larger – and it has been so during the pandemic, of understandable reasons – spending was not possible. Now the model may indicate a downside potential (or long term risk?) for a decline in the savings rate
- The 'Wall of Money', the excess savings during the pandemic is also an argument for a further decline in the savings rate

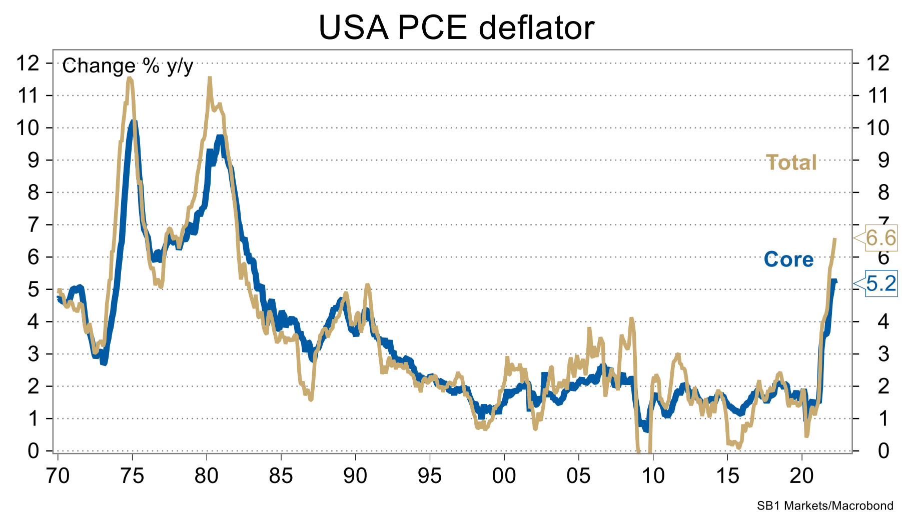
SpareBank 1 MARKETS

Has core inflation peaked? Quite likely, last year's monthly increases hard to beat

The annal core PCE declined 0.1 pp to 5.2%, 0.1 below expectations. The headline up 0.3 pp to 6.6%

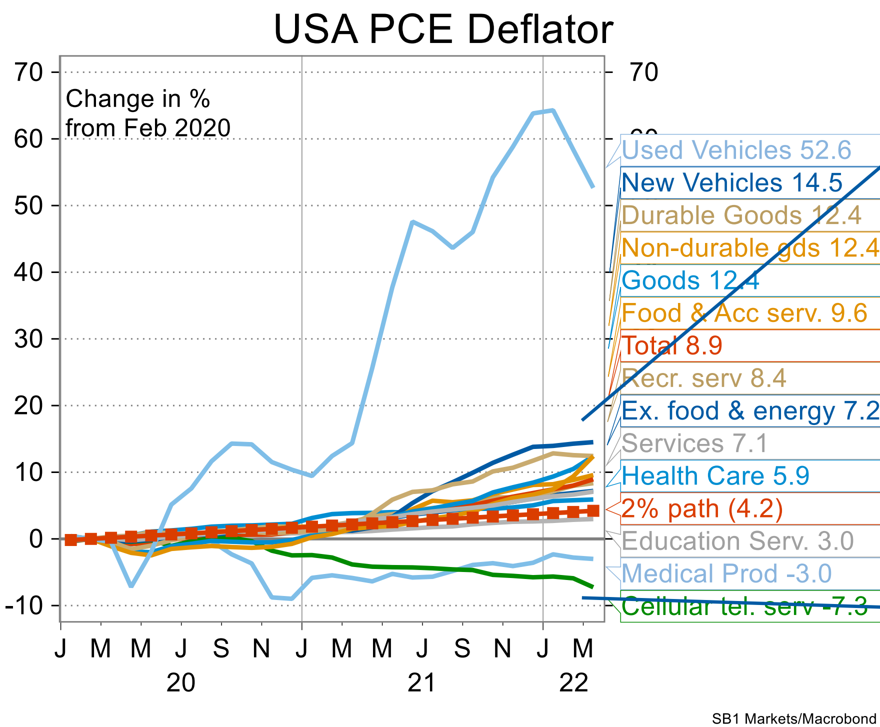


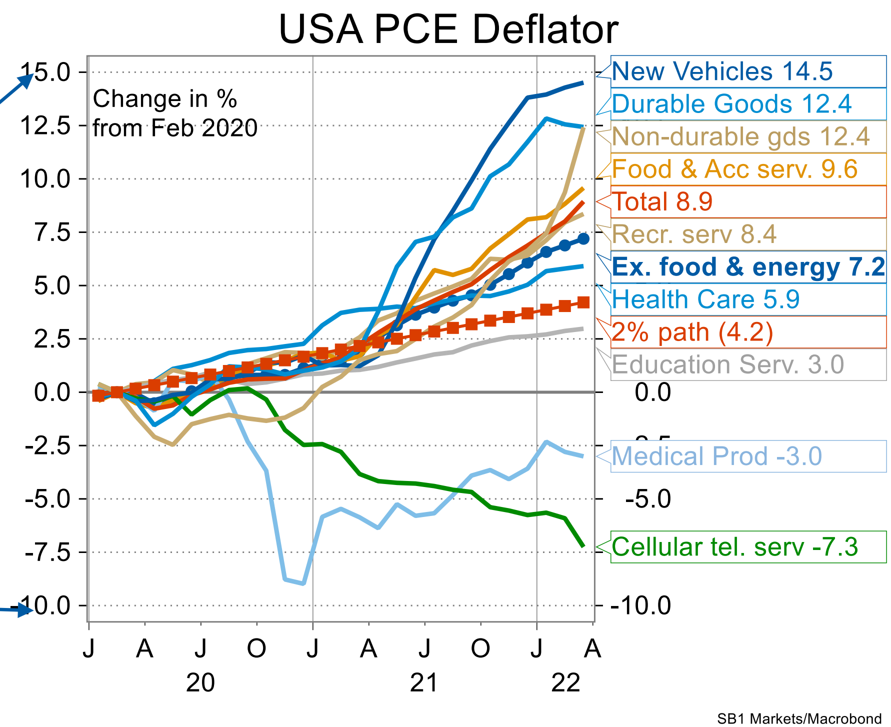




- **The total PCE deflator** rose by 0.9% in March, as expected, and the annual rate accelerated 0.3 pp to 6.6%, the highest since 1982. Feb was revised down by 0.1 pp
- **The core PCE** rose by 0.3% m/m, as expected, but history was revised down, and the annual rate at 6.6% was lower than exp.
- As energy prices retreated somewhat in April, the headline PCE will very likely increase by far less than 0.6% rate delivered in April last year. The same goes for the core rate, which shot up in April last year
- **The price level** is far above Fed's 2% long term path target, and March data did not reduce the pressure on the FOMC to act. Anyway, the real problem is the too high wage inflation

Used auto prices are falling rapidly. But not may other prices are slowing

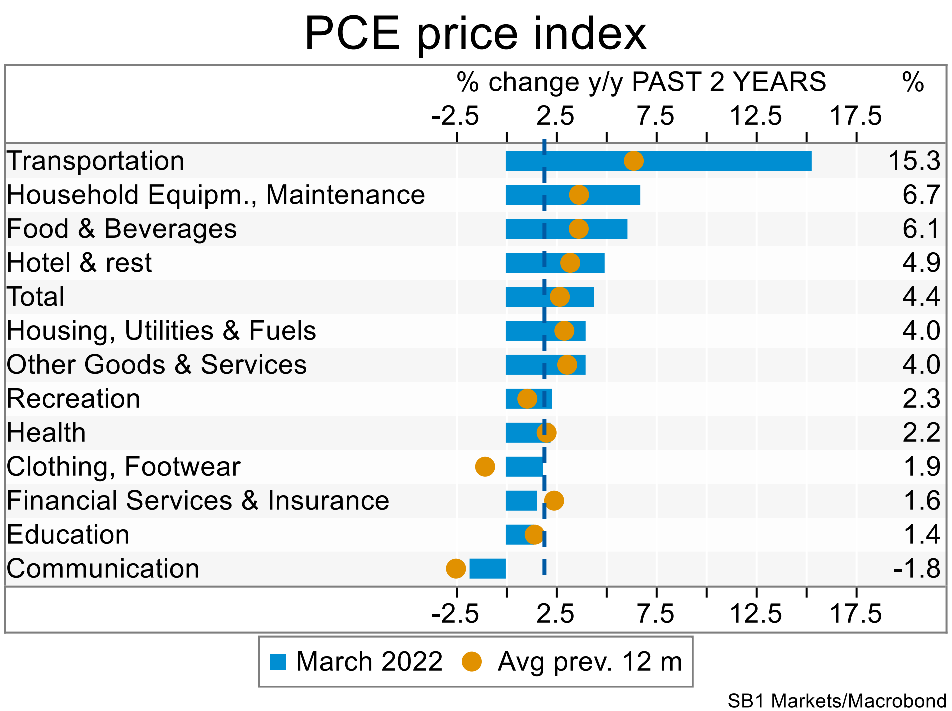


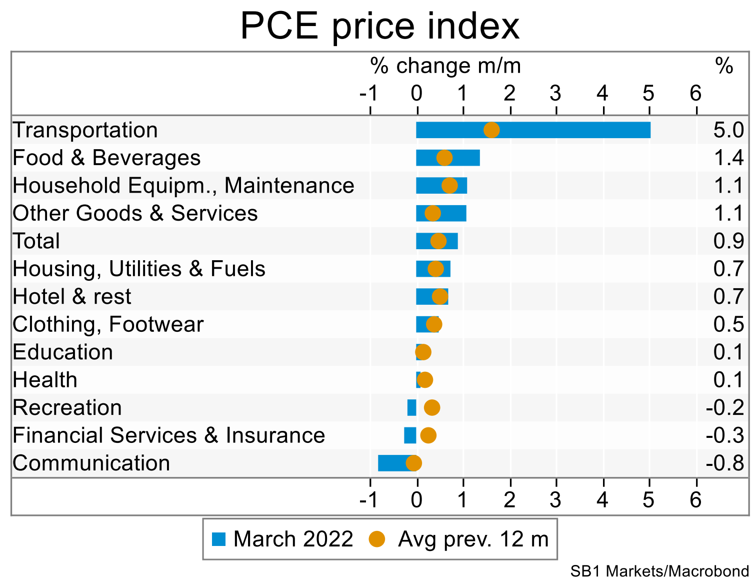


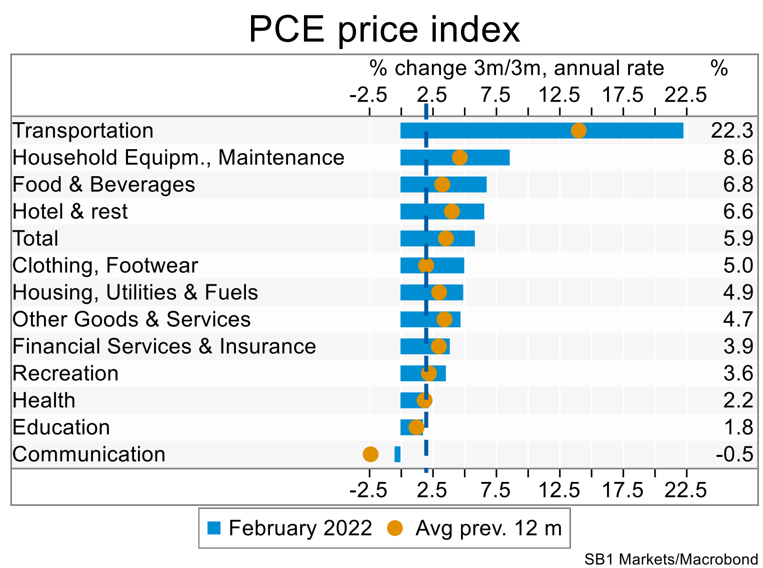
- **Hotel & restaurant prices** are up 9.6 since Feb-20 (>4.5% per year)

PCE by main sectors: All but 2 sectors report >2% growth past 2 years

… and all but 2 s are up more than 2% measured 3m/3m, the total is up 4.9%



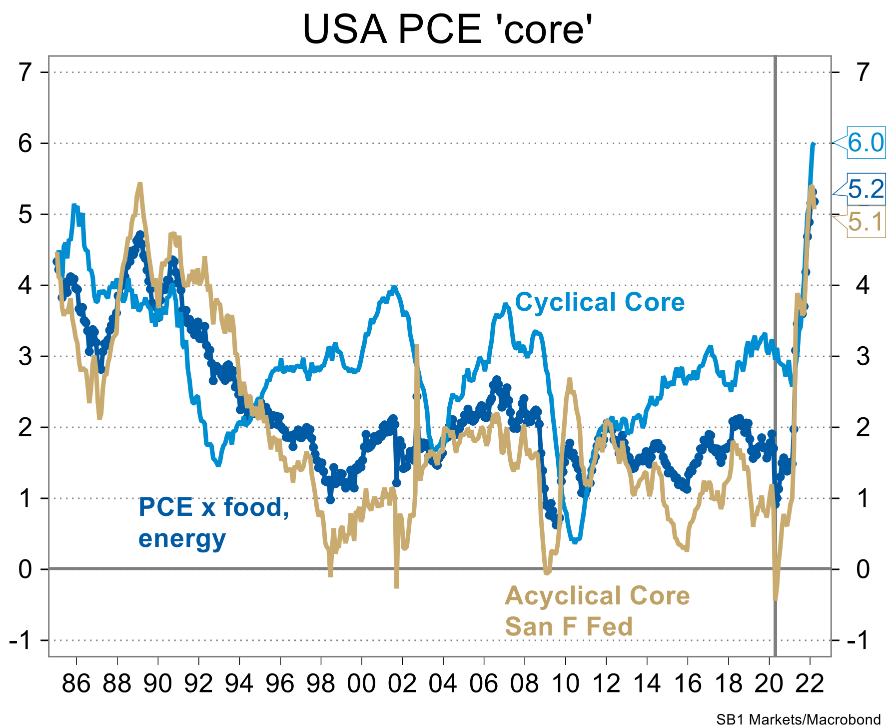


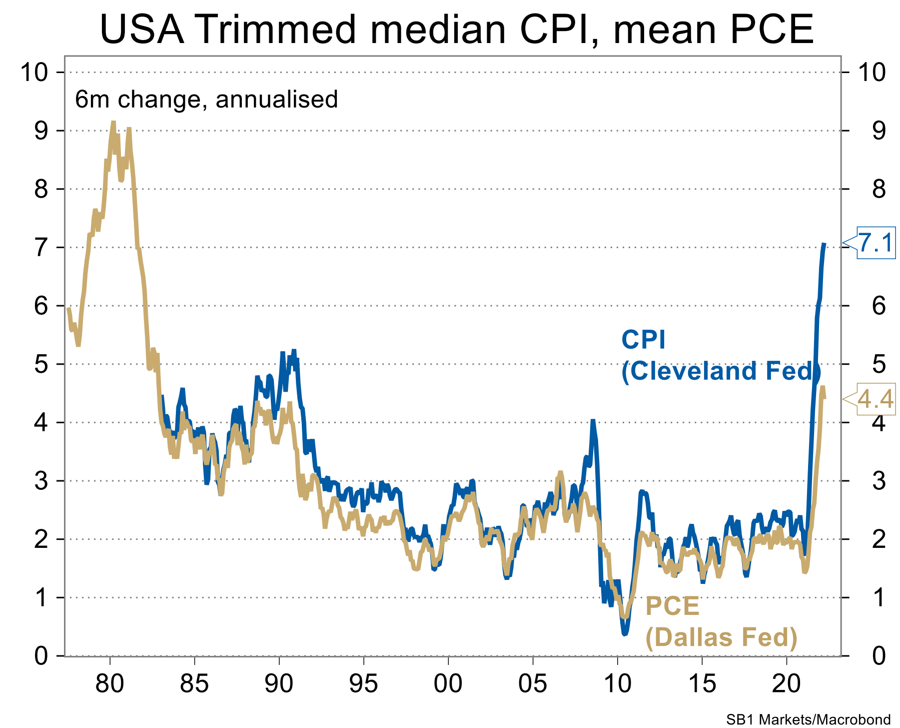


- 4 sector report less than 2% inflation over the past 2 years, 8 sectors are above
- The momentum is still strong, almost sectors report accelerating price growth (the 3m/3m is above the annual rate)

Inflation has broadened but not further in March

However, all 'underlying' measures on inflation are at levels we have not seen in decades



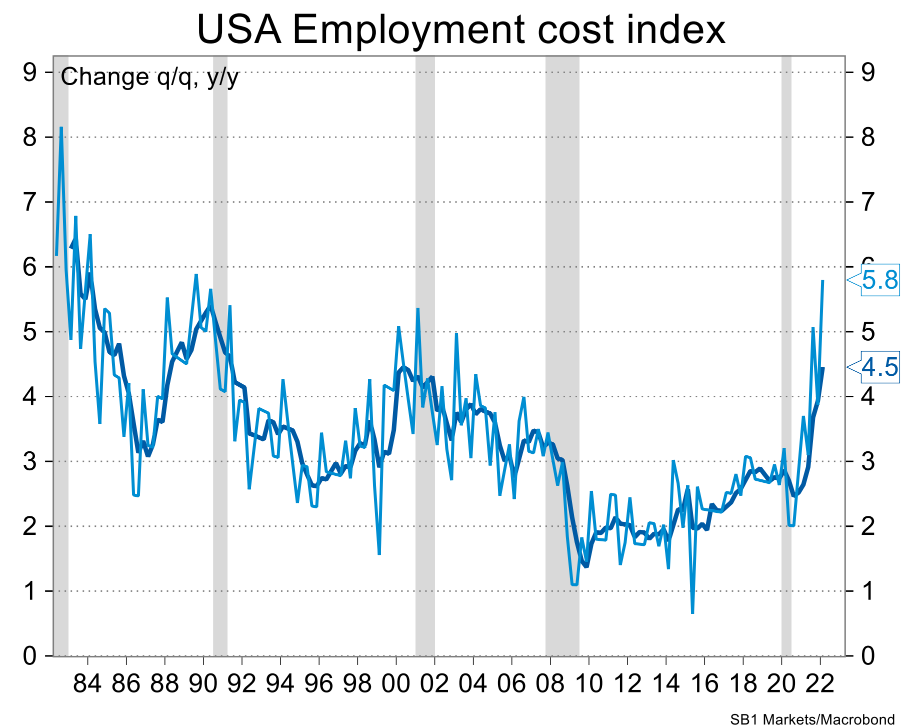


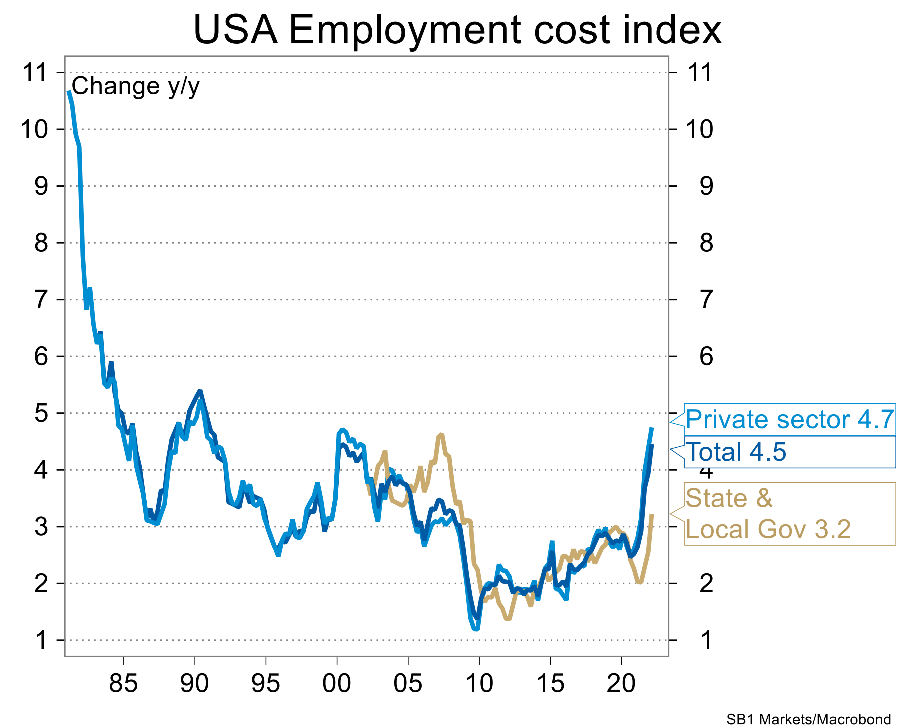
- The **trimmed PCE mean** (Dallas Fed) subtracted 0.3 pp to a 4.4% pace over the past 6 months
- **The trimmed median CPI (Cleveland Fed)** is up 7.1% over the 6 months, the highest on record, data back to 1983
- **Core cyclical and acyclical PCE** prices are up 5.1 - 5.6%, but these rates flattened or fell in March
- Other measures of underlying inflation are also at the highest levels in 30 – 40 years
- <u>At that time the Fed funds policy rate was not at 0.25%</u>

SpareBank 1 MARKETS

The Employment Cost Index accelerated sharply in Q1, up 5.8%, highest since '89

The ECI rose 1.4% q/q (5.8% annualised), expected 1.1%, up from 1% in Q4 – and cost is up 4.5% y/y

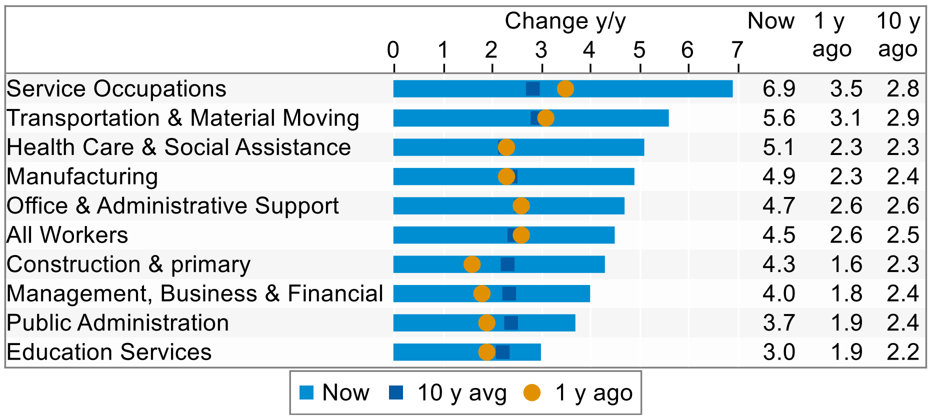




- The **Employment cost index for all civilian workers**, which measures wages and other wage costs for the same types of jobs (and is not influenced by changes in employment between sectors/type jobs), accelerated to the highest level since 1989 (q/q). The annual rate is the highest since 1991
  - In the private sector, the ECI also rose by 1.4% q/q, and it is up 4.7% y/y
  - State and local gov employment costs are up just 3.2% y/y, the largest discrepancy to the private sector ever
  - In general, low paid services reported the highest wage growth, both q/q & y/y but all sorts of labour received higher compensation (next page)
- **All other wage indicators have reported higher wage growth for a while**

All sectors report a substantial increase in wage inflation

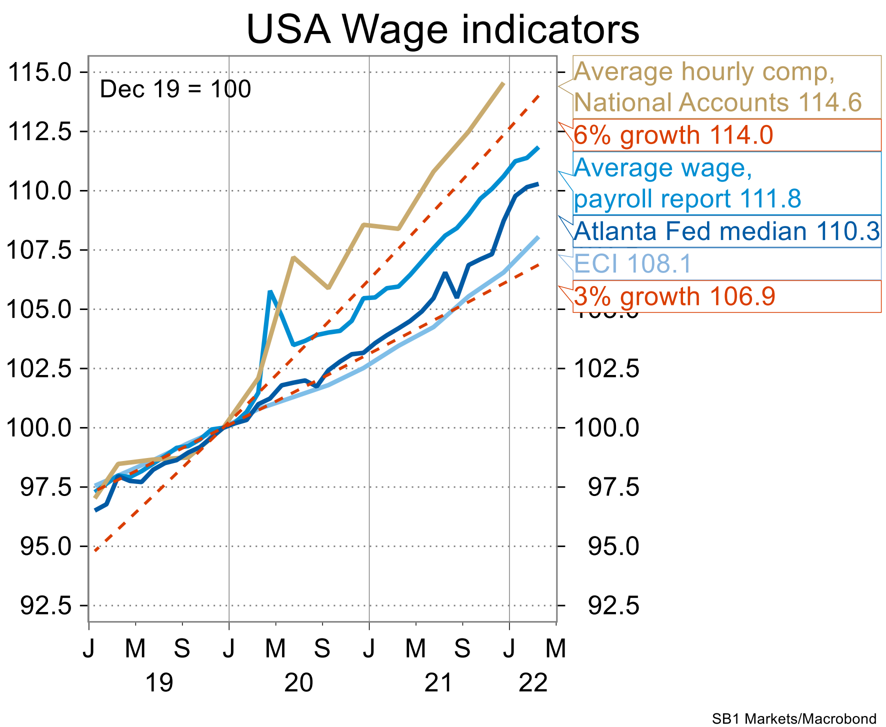
USA ECI

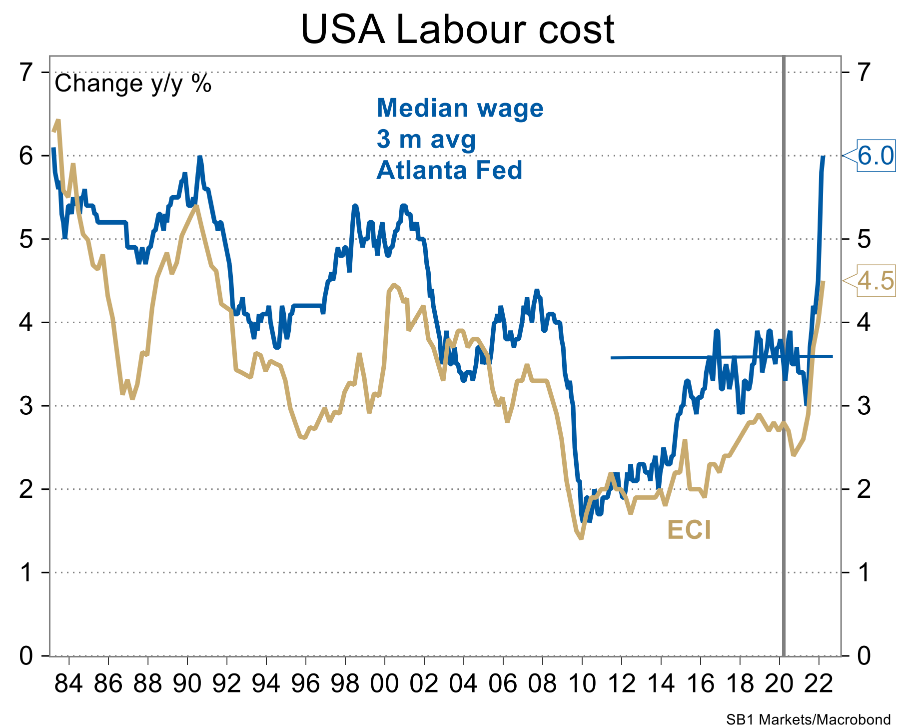


SB1 Markets/Macrobond

Wage indicators agree: Growth has accelerated, to substantially > the 10y avg

… which yielded 2% inflation (or more)

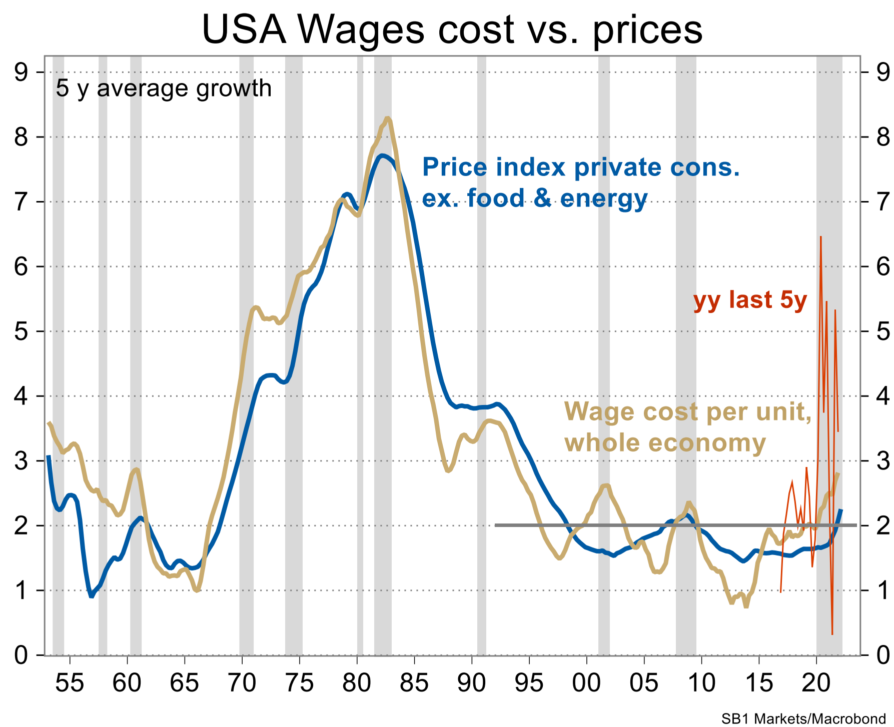


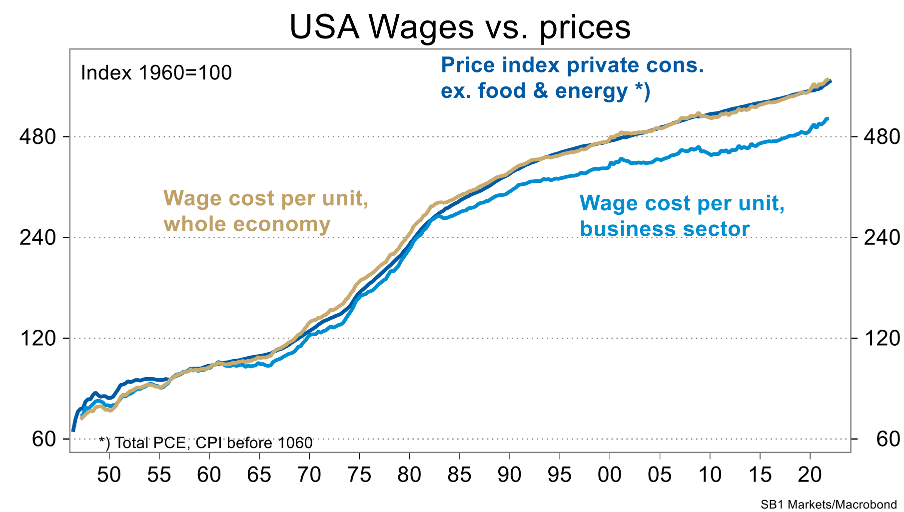


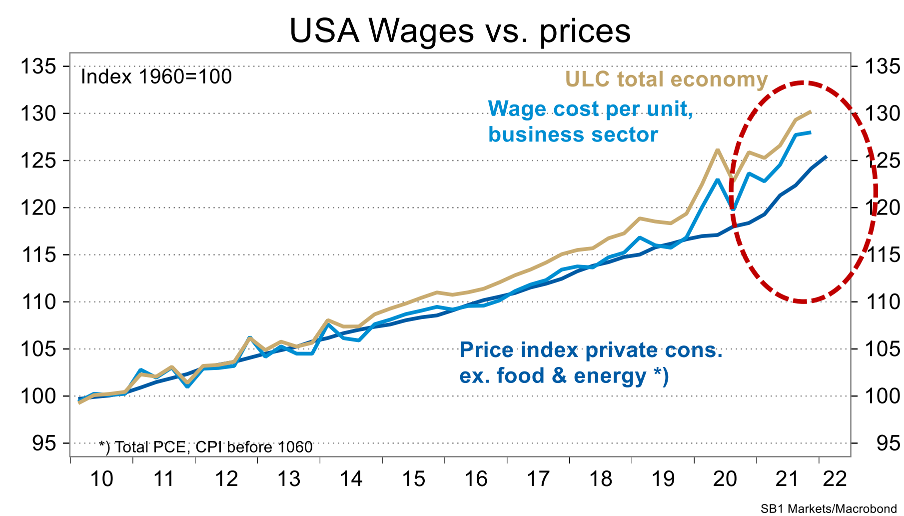
- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years
- Growth in wage/earnings/compensation indicators are up 1.5 – 3.5 pp vs the their respective 10 y averages. The current rate of wage inflation is not consistent with CPI inflation at 2% over time
- Wage inflation will probably not come down to a 'normal' level before unemployment has turned up (which again normally requires a recession)

Wage inflation is the main risk, not raw materials/energy/corp. margins

Still risk vs core inflation even without fast wage inflation from here

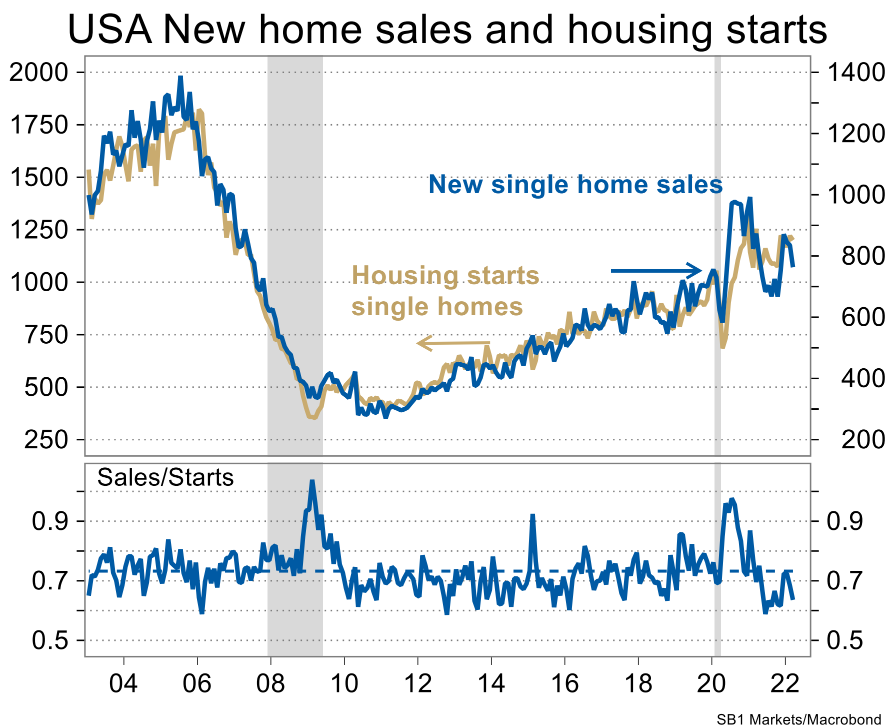


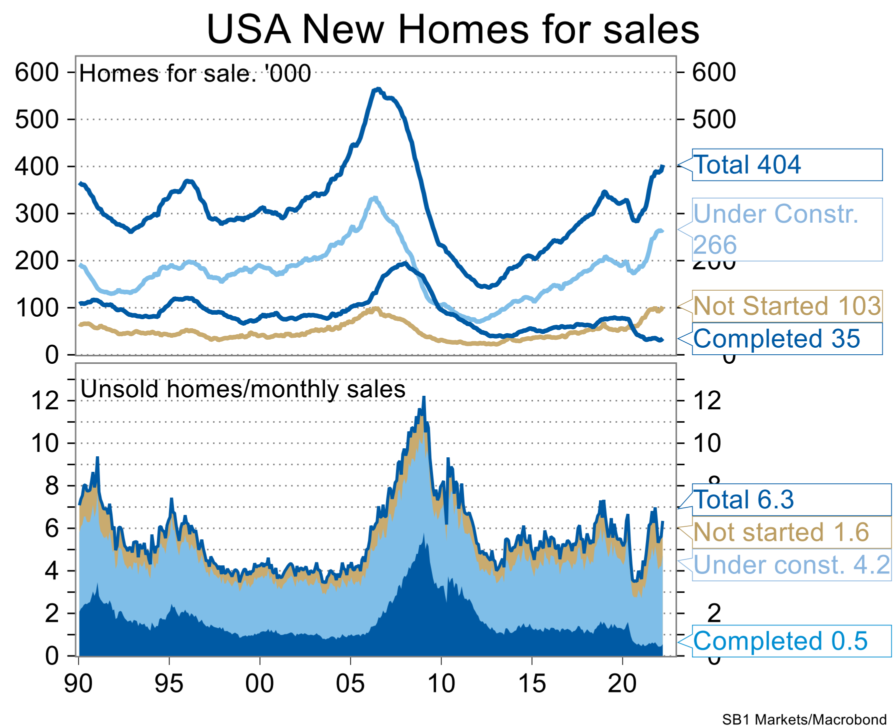




New home sales down in Feb, the total inventory of unsold homes on the way up

Prices have stagnated too. However, sales are still strong, and just few completed homes are for sale



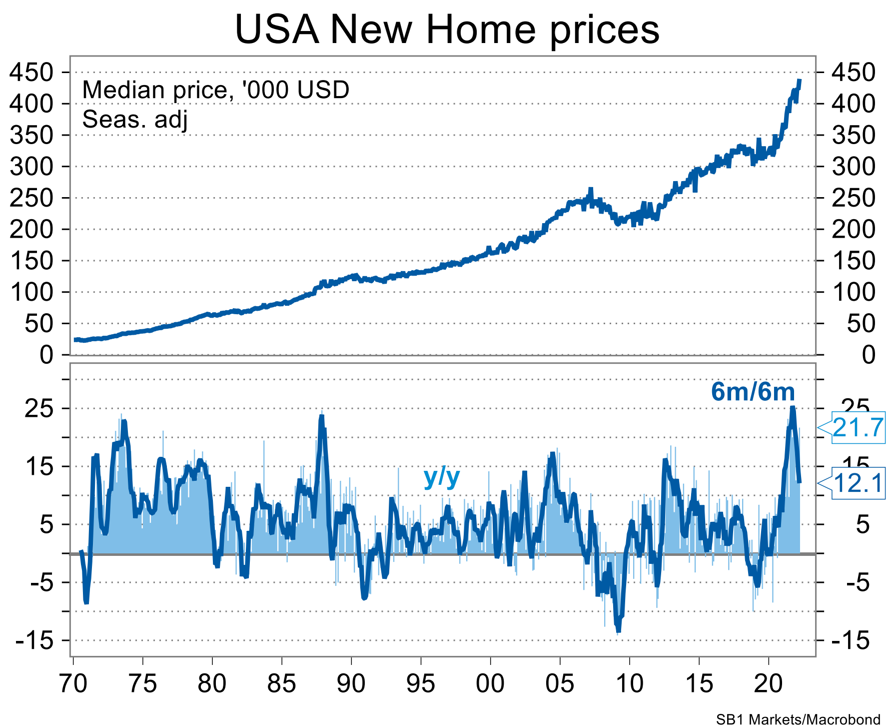


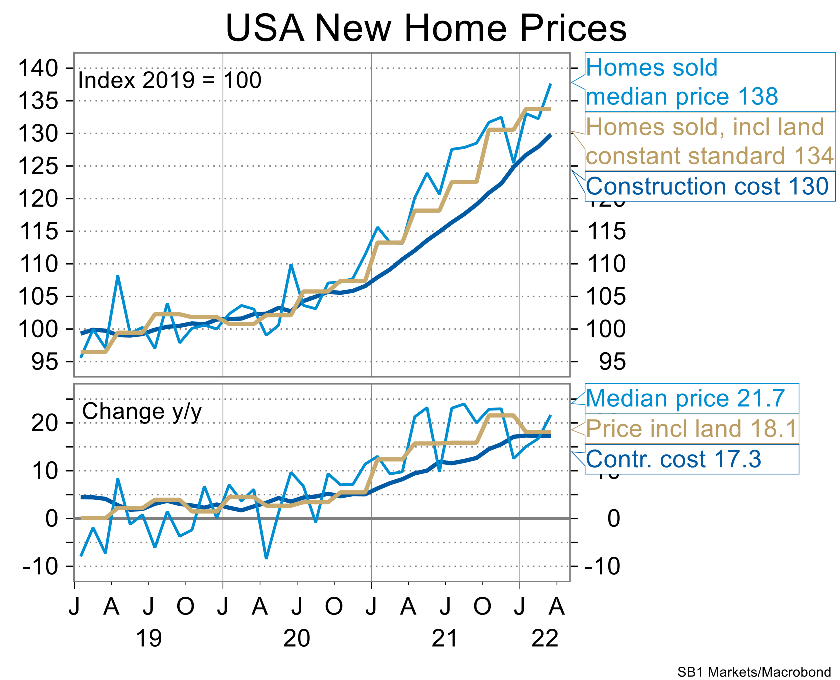
- **New single home sales** were at 763' (annualised rate), as expected, and in line with the 1st estimate for sales in February (now revised up to 835')
- **The big picture:** Following a 30% decline from January to June, sales were stable through H2 last year, at approx. the same level as before the pandemic – until the hike in Dec. So far in 2022 sales have fallen slightly but is still above the pre-pandemic level
- **The inventory of unsold homes** is climbing – by some 43% from the local trough in Oct 2020, to the highest level since 2008. The inventory equals 6.3 months of sales, a bit higher than 'normal' – and up from the record low level at 3.5 months in Sept 2020
  - » The increase in the inventory is not due to large increase in completed house for sale (the most 'effective' supply), and this inventory just equals 15 days of sale (1/3 of a normal level). However, the no. of projects not yet started (but for sale) has doubled, to the highest number ever, and the no. of new homes at the market but still under construction has climbed rapidly, to the highest level since 2007. So, there are lot of homes in the pipeline, and clearly a confirmation that the supply side is responding to the steep increase in demand. Combined with higher mortgage rates, that could change the balance at the housing market the coming months

SpareBank 1 MARKETS

New home prices up again but underlying growth may have slowed

Construction costs are up 17% y/y, selling prices is up 19% as land prices are more up than constr. costs

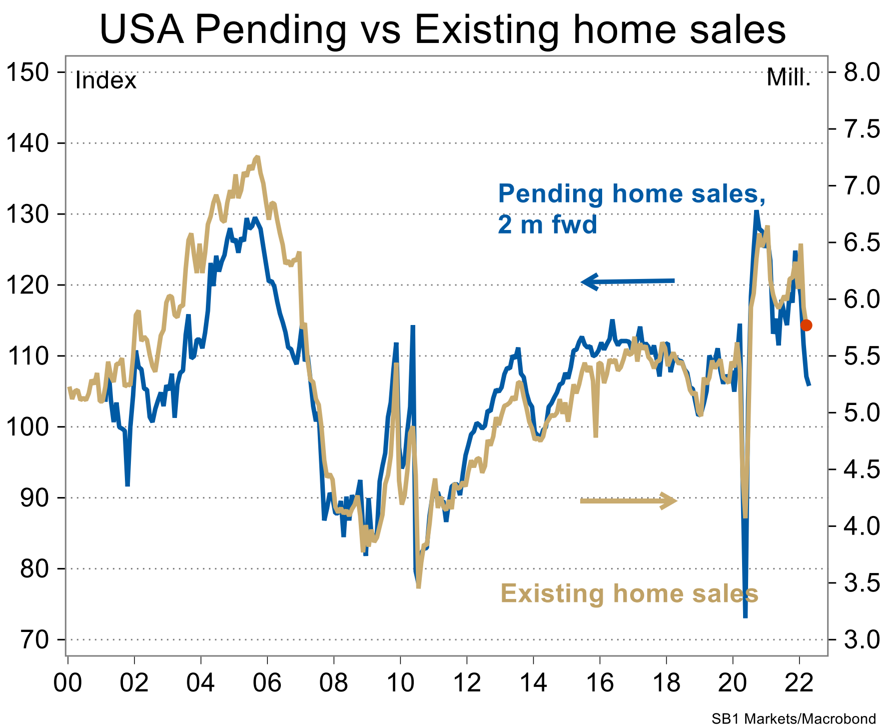


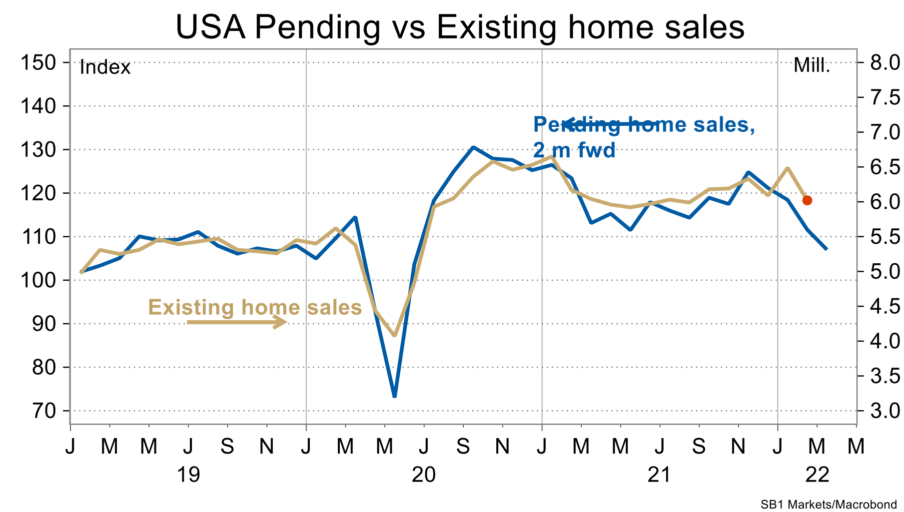


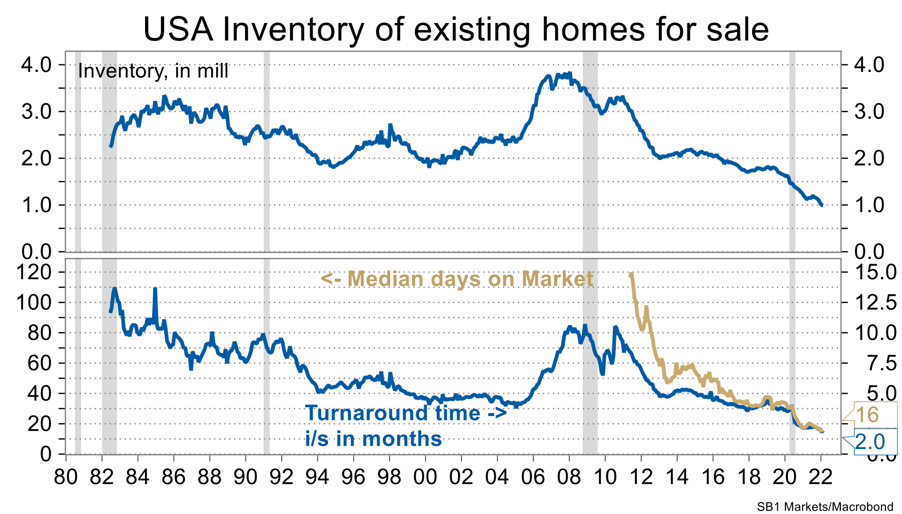
- Monthly **median new home sales prices** are very volatile, as these prices are not adjusted for changes in the mix of home sold. In March, prices were up 21.7% y/y, but the 6 m average is 'just' 12.1%
- The **construction price index** is adjusted for changes in standard & size, as is the **new homes sold price index**, which also includes cost of land: they are up by 17% and 18% resp., measured y/y in March/Q1
  - As prices including land are still up more than the construction cost index (which of course is influenced by higher material costs), which implies an even faster increase in land prices. Thus, demand must be the main driver for the hike in prices, not the construction cost (if demand was weak due to high prices, prices including land would have climbed less than construction costs)

Pending home sales further down in March, mortgages rates start to bite?

No. of agreed transactions fell 1.2%, and is down 14% from last November, a substantial decline





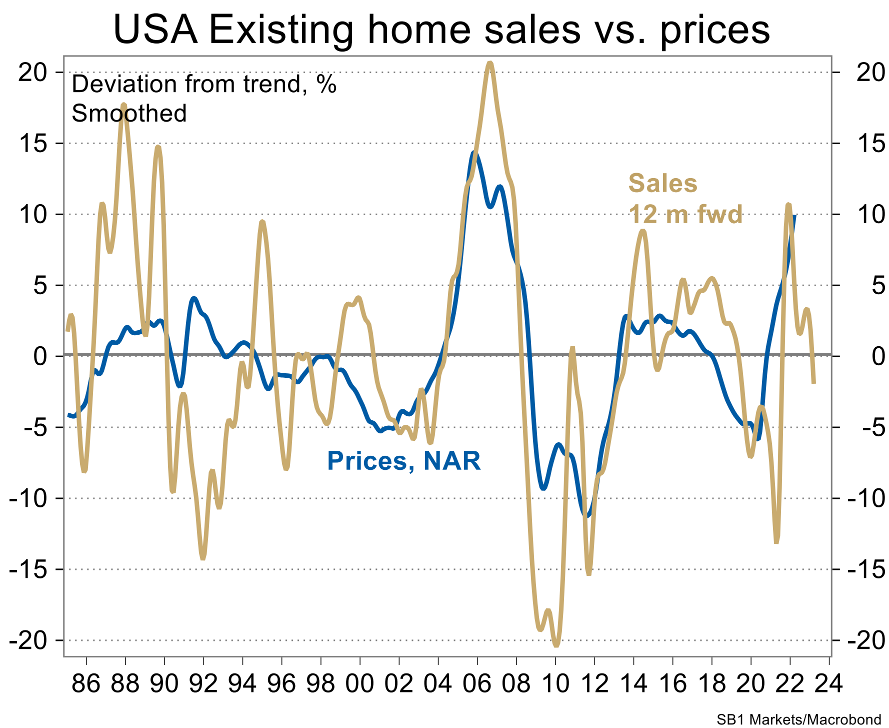


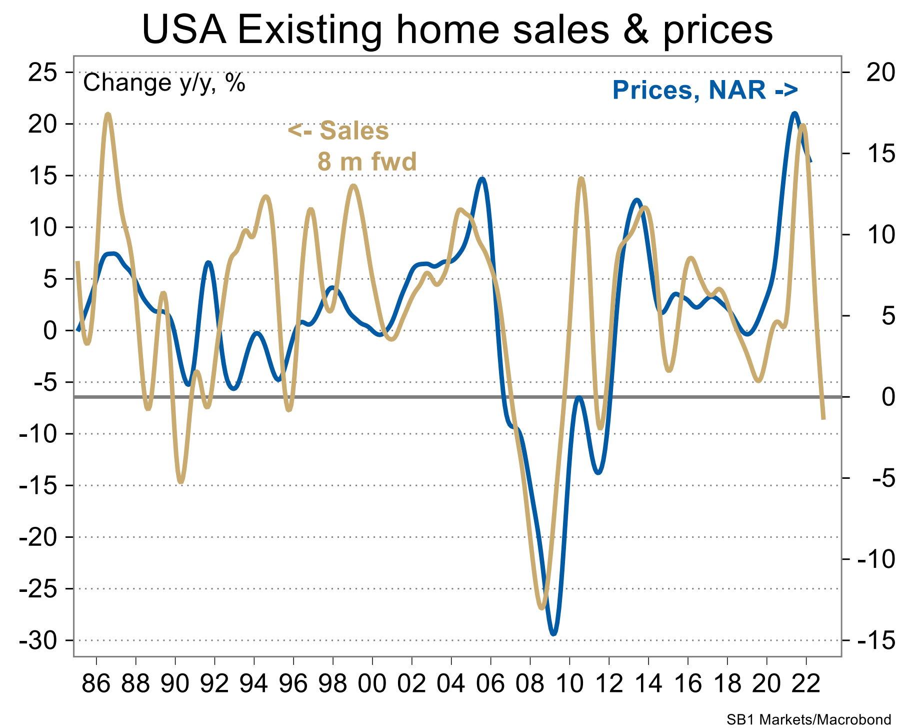
- The decline in March was as expected, and the March was the 4th month in row with declining sales
- The decline signals that higher mortgage rates may slow down the housing market
- Normally, prices are lagging sales by several months, by up to 1 year (check next page)

Pending home sales: Deals signed. Existing home sales: The actual transaction, typically 1 – 2 months after signing

When home sales decline, prices follow. Normally after a while

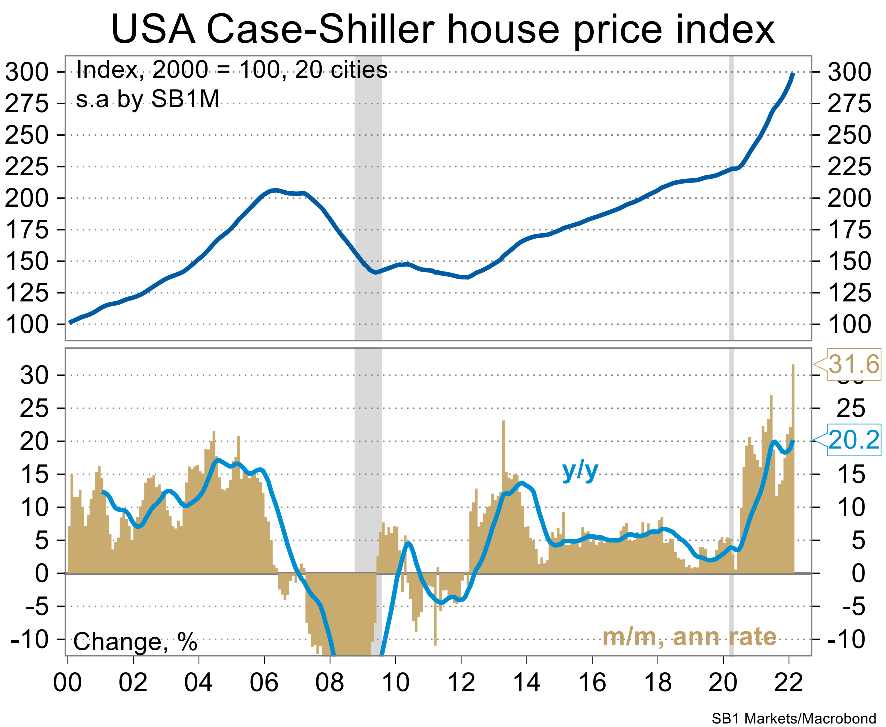
Thus, a focus at transactions is justified – even if prices are the 'real thing'

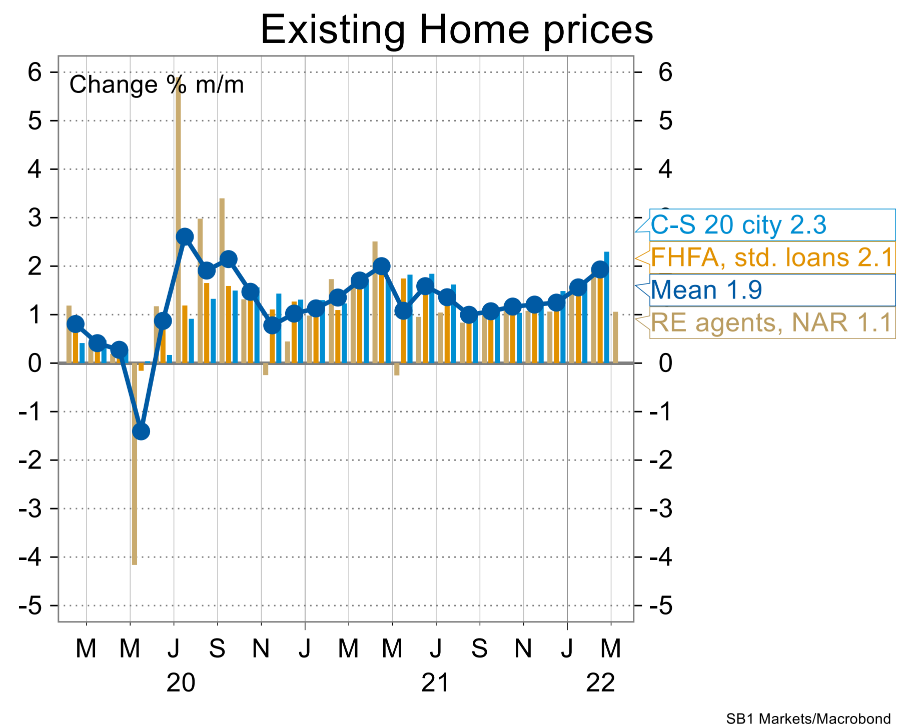




Suddenly, house prices just shot up, more than ever

Which does NOT support the hypothesis that higher mortgage rates are starting to bite. But….

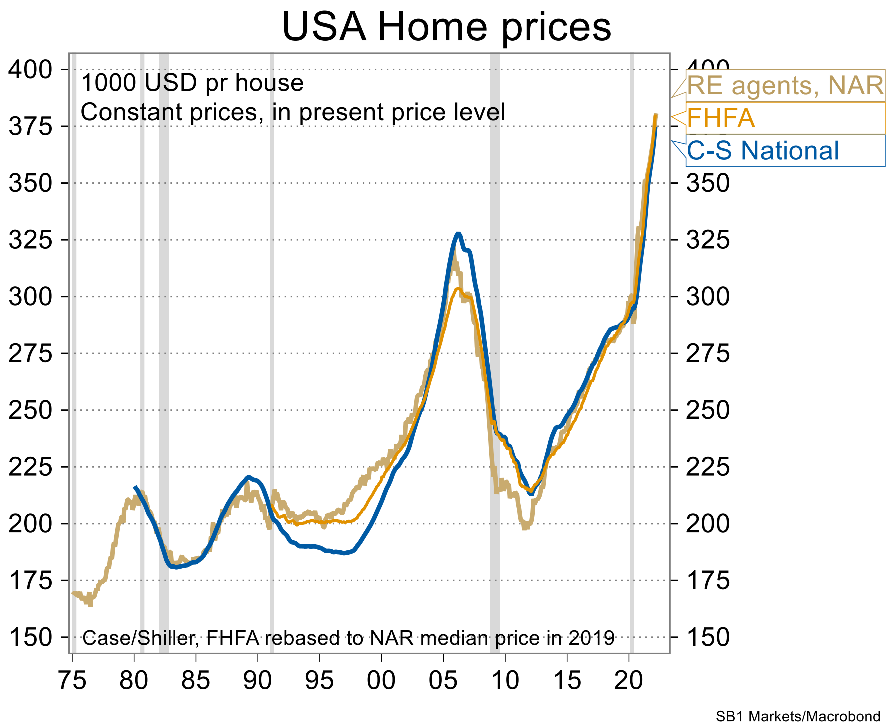


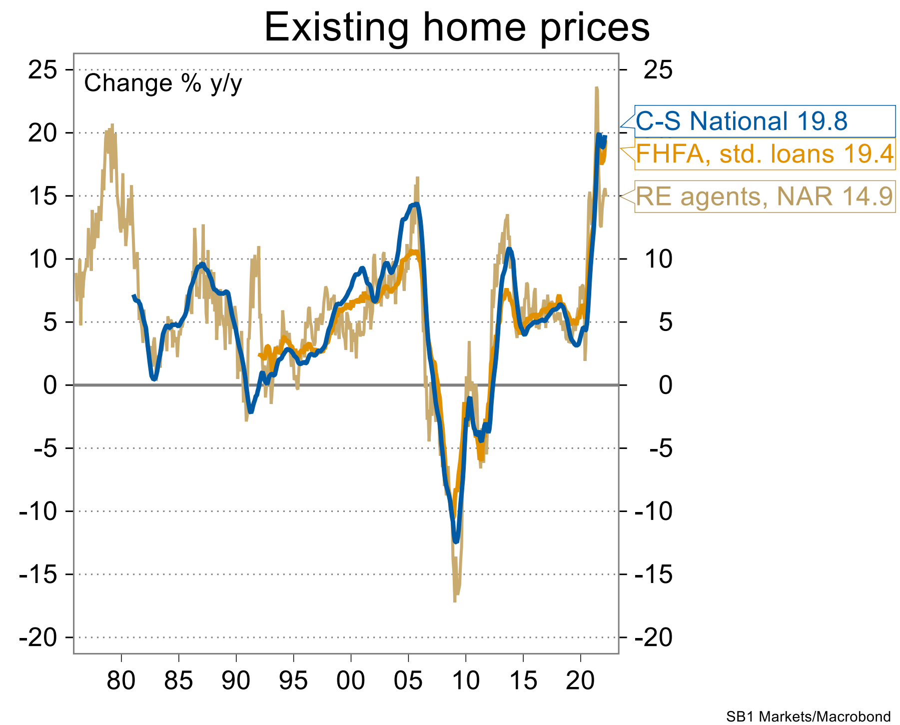


- **S&P's Case/Shiller's 20 cities** price index rose 2.3% m/m in Feb (Jan – March avg, our seas. adj) equalling a 32% annualised pace. ATH, by far. A 1.5% lift was expected. The annual rate accelerated by 1.1 to 20.2% (expected 19.2%). BTW, also an ATH print!
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), rose 2.1% in Feb, and are up 19.3% y/y. ATH, of course
- <u>However, even if prices cover transactions closed in March (included in the Jan-March average), those deals were mostly agreed upon in February</u> – and 'something might have happened in March and even more in April, when rates really shot up, and affordability has fallen to a lower level than since the bottom before the house market crashed in 2006. Realtors reported a 1.1% lift in March, covering deals agreed upon in February, well down from the 2% lift the previous month

Some special house data – both measured y/y & the real price level

Real prices are 15 – 25% above the pre-financial crisis peak

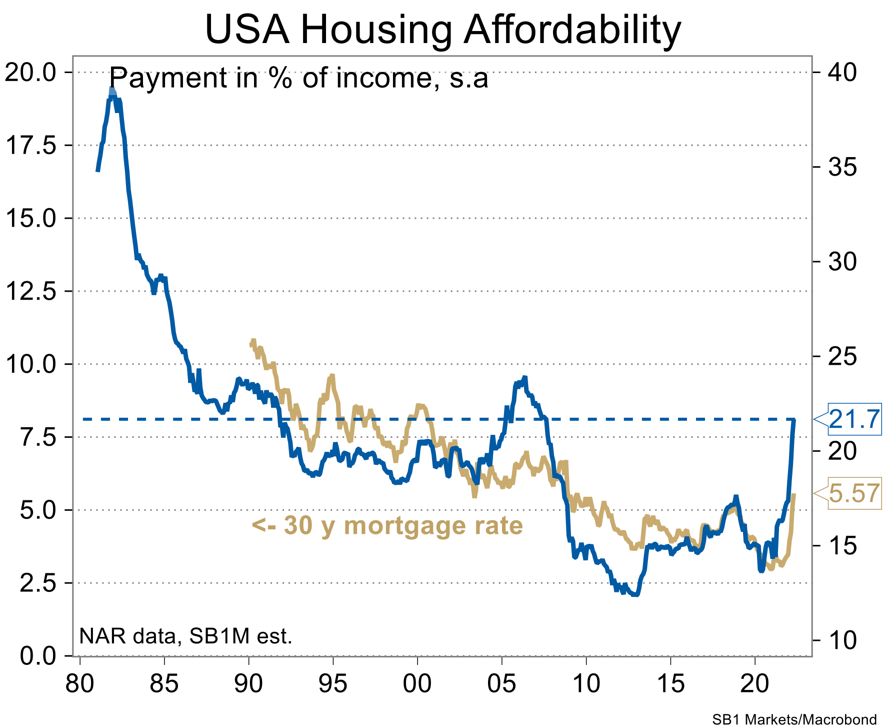


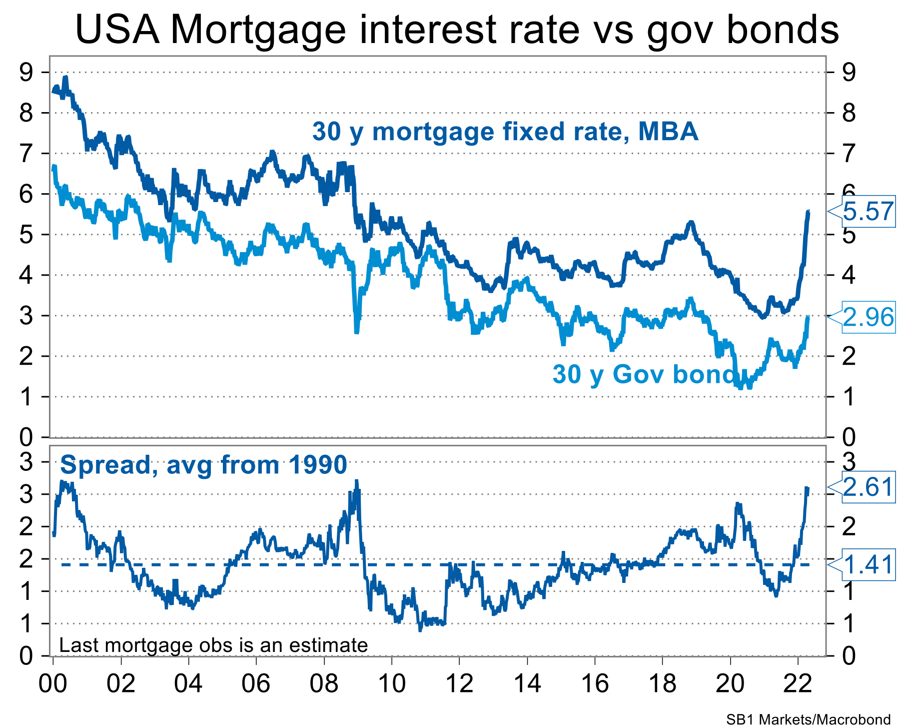


- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index reported the highest house price appreciation ever (or since 1948) during last year
- Real prices are far above the 2006 peak, by some 15 – 25%
- There are still some big differences vs the mid 2000 housing bubble
  - **Housing starts** are at a lower level. The **inventory** of 2[nd] homes for sale is record low (vs high 15 – 16 years ago). However, the inventory of new homes for sale is climbing rapidly
  - The **debt/income ratio** has fallen sharply since the peak before the financial crisis, and cash positions have soared (in average) to above debts. However, credit growth has accelerated during the pandemic
  - The **savings rate/net financial investments rate** has now fallen to below the pre-pandemic level– but the ratios are far above the level in 2005

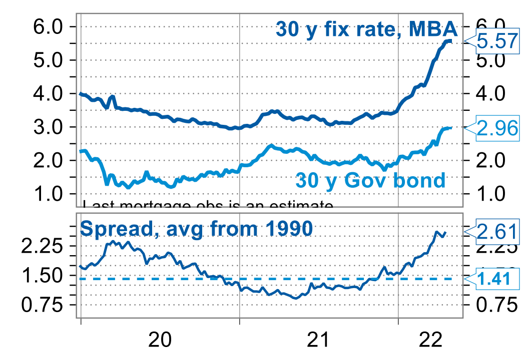
The least affordable housing market since 2008

Prices are up 35% since before the pandemic, the mortgage rate is up 40%. In sum….



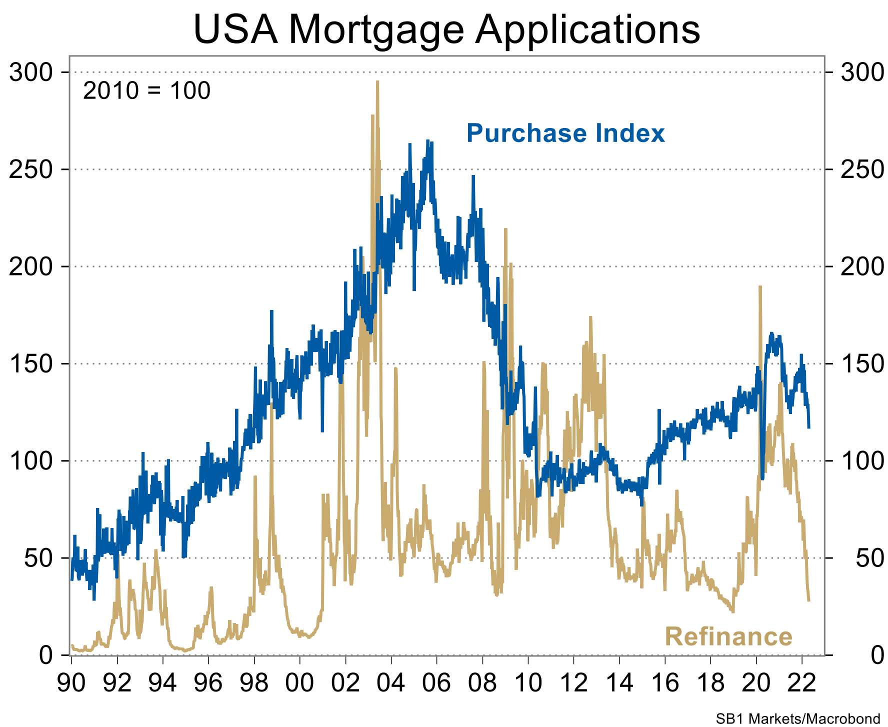


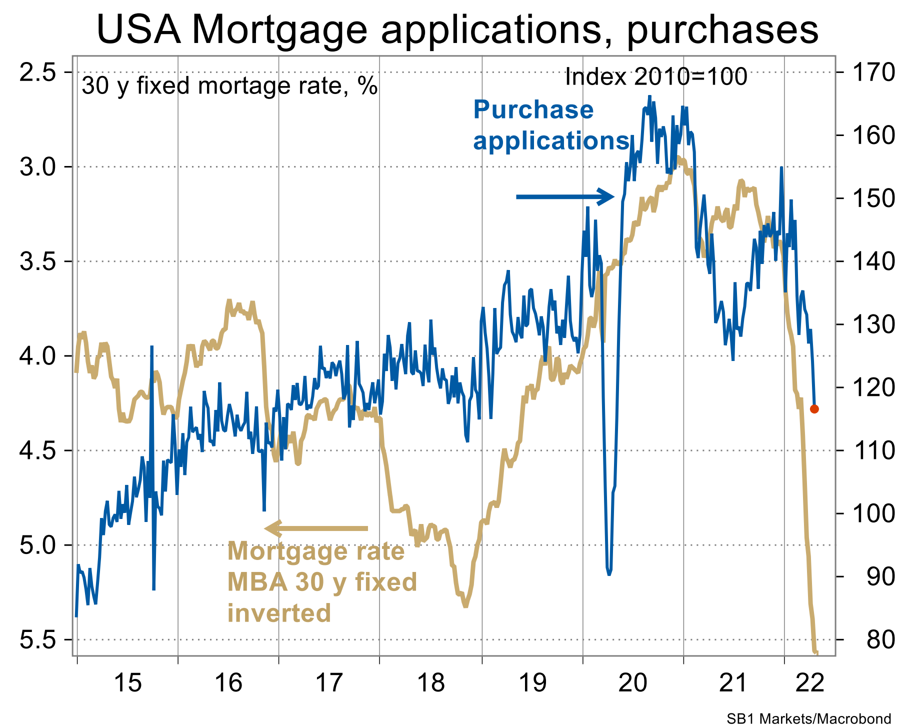
- **The 30 y fixed mortgage rate** has climbed to 5.57% (effective rate) from 3.0% last summer, and from 4% in early 2020 (or by almost 40%)
  - » The mortgage rate has climbed MUCH faster than the 30 y Gov bond rate. The spread has widened to 261 bps from 91 at the bottom last spring and it is far above the 140 bps average – and among the highest in modern times. The upside risk must be limited from here – the spread will a one stage retreat
- The **Federal Reserve** concluded its mortgage backed bonds buying campaign in March - and signals eagerness to reduce its holdings, which very likely explains the steep increase in the spread vs the treasury bond. A decision will be taken at the FOMC meeting this week
  - » The central bank has funded most of the housing marked during the pandemic, at least until mortgage lending shot up through 2021 – and is 'responsible' for the substantial part of the unprecedented 35% surge in prices past 2 years



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

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

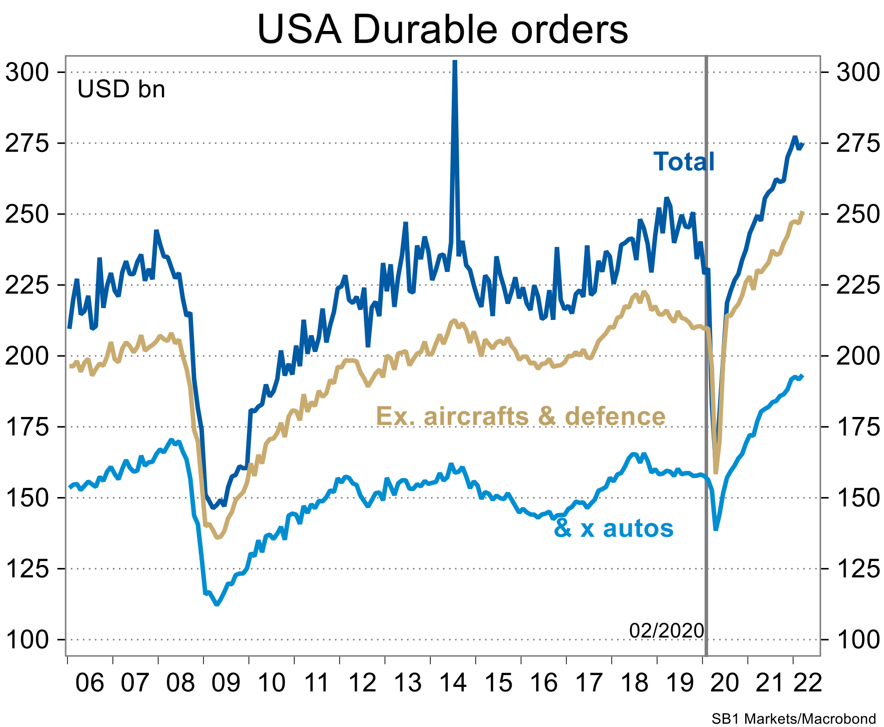


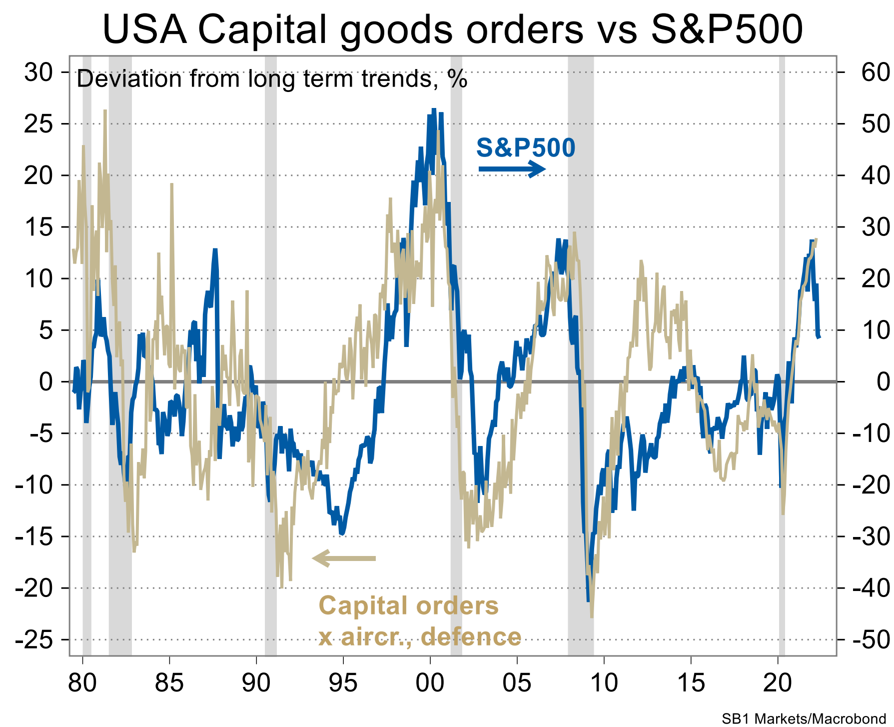


- Applications for new mortgages are some 20% since the start of the year, and the level is now almost 10% below the pre-pandemic level. Still, the downturn is not dramatic
- In addition, the correlations between mortgage rates and home sales or prices are far from perfect

New orders up in March – trend still upwards

May signal some support for equities?

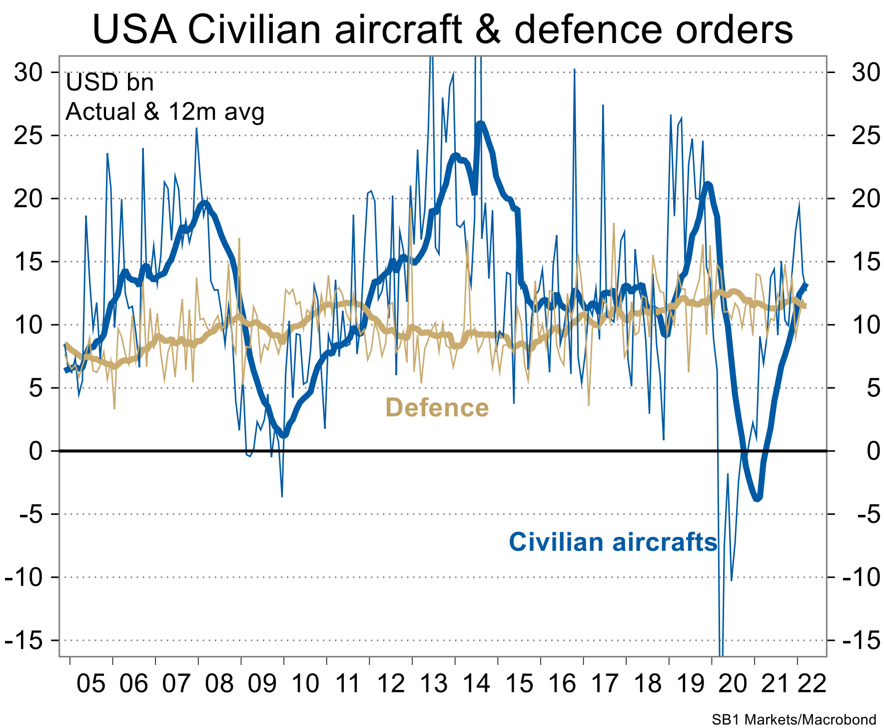


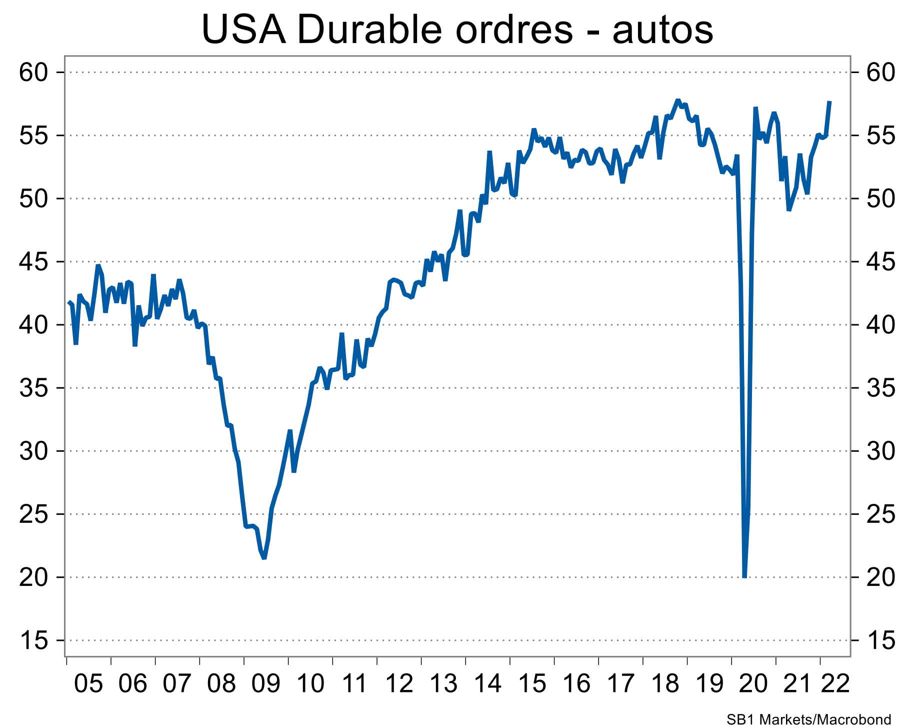


- **Total durable** orders rose 0.8% in March, close to expectations
- Both the volatile aircraft & defence orders declined and ex these two components, the 'core' gained 1.6%
- **Core investment goods orders** grew 1%. The trend is still straight upwards, at a descent pace
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are signalling a further increase the coming months, albeit at a slower pace
- Without a decline (at least vs trend) in investment orders, a further setback at the stock marked does not seem too likely

Aircraft & defence orders at normal levels

… while auto orders rose – and they are not at low level!





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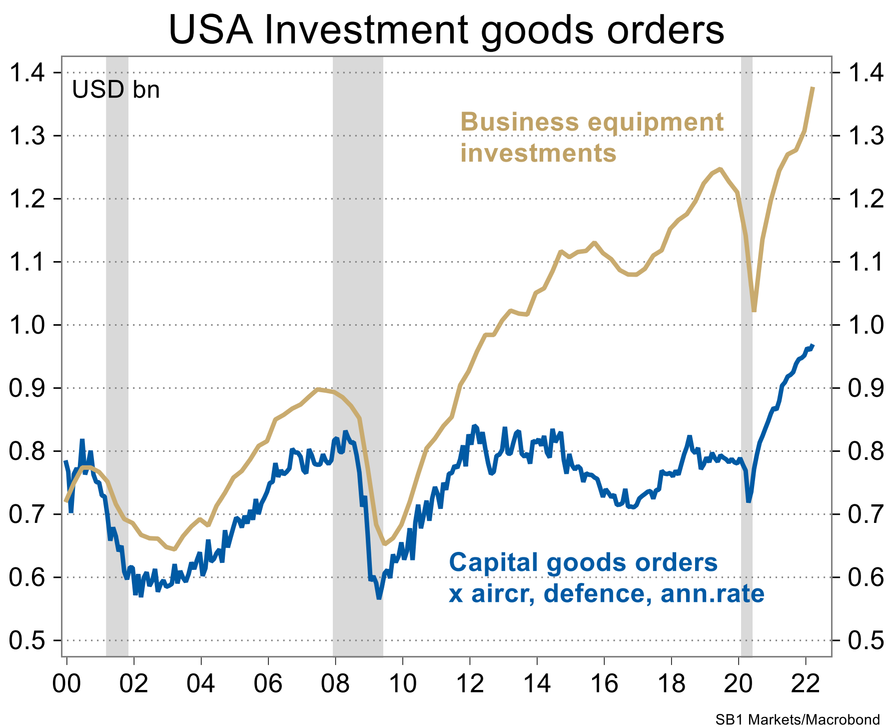
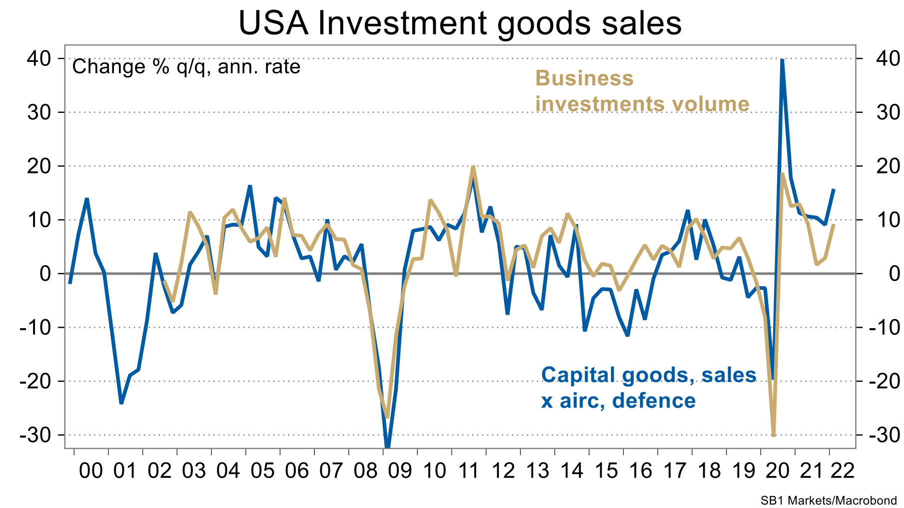
Core capital orders are still going strong but growth is slowing somewhat

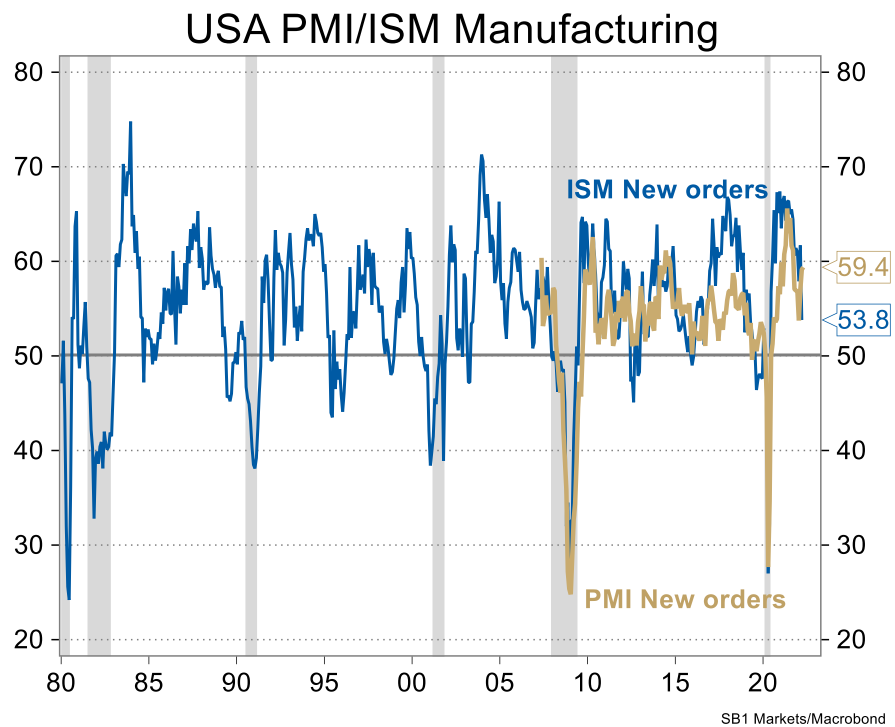
Signal decent growth in business investments into Q2

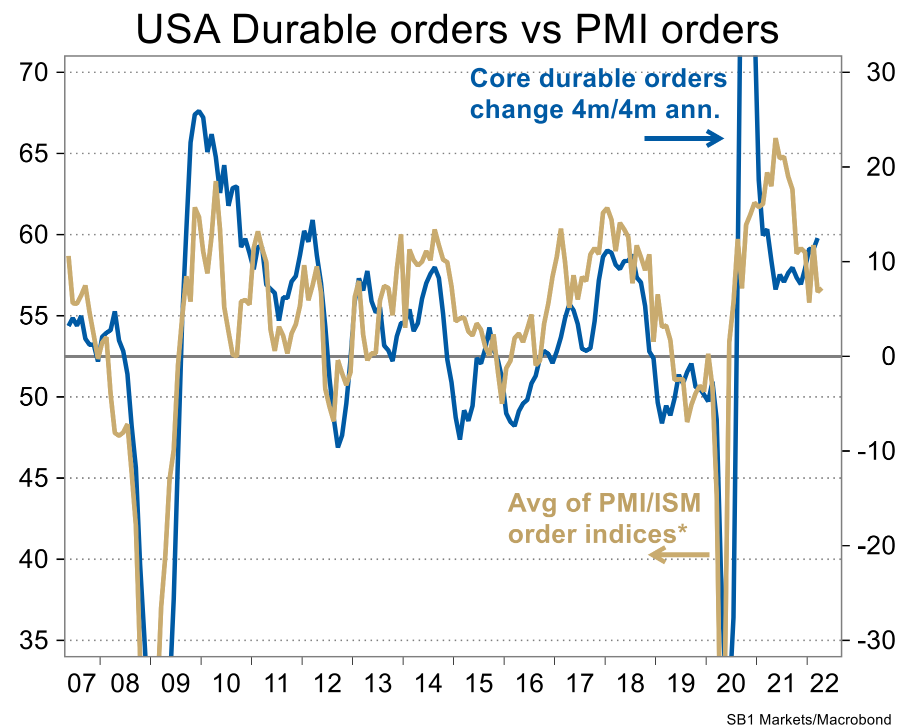




- **Core (x aircraft, defence) capital goods orders** added 1.0% in March. Shipments were up 0.2% m/m. A decent growth in business investments into Q2 (following a rather strong growth in Q1, as signalled by the order inflow recent months)
- **The business investment** level is well above the pre-pandemic level – and not at low vs. a reasonable long term trend

The ISM/PMIs are signalling a further, but somewhat slower growth in orders

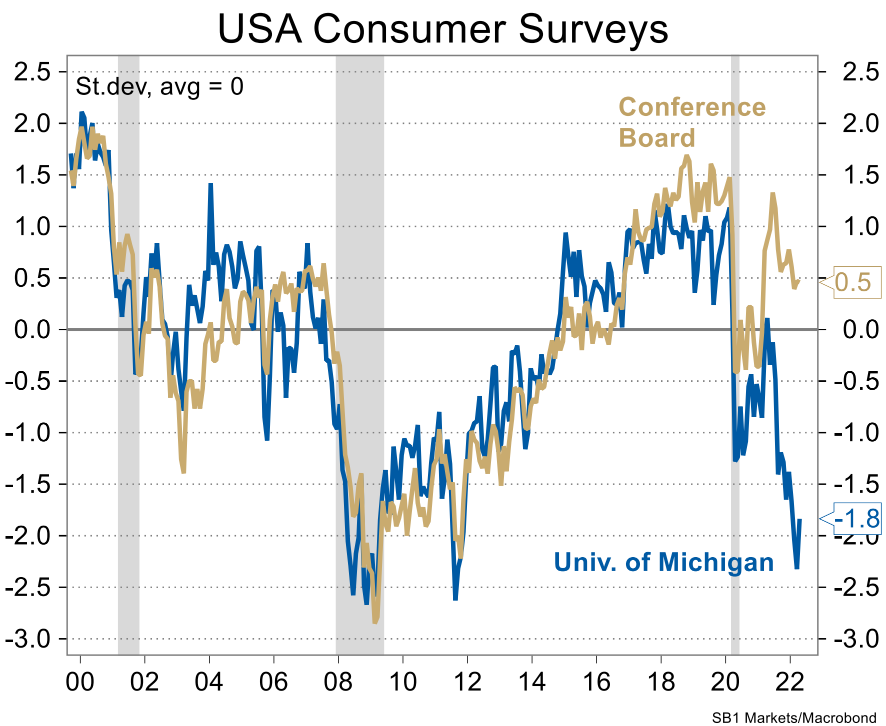




* The ISM order index is

Conference Board's confidence unch in April, still well above average

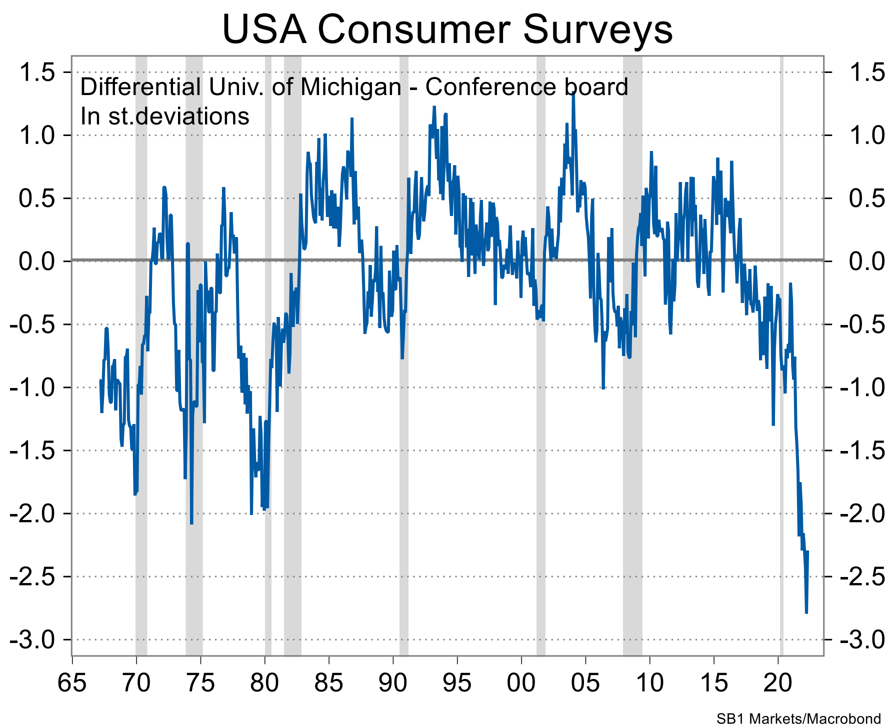
Expectations recovered somewhat, the assessment of the current situation fell less

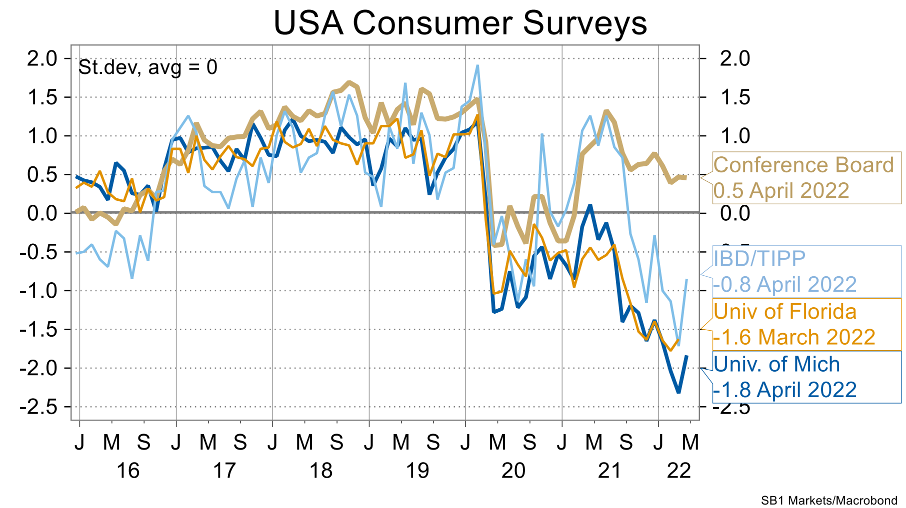


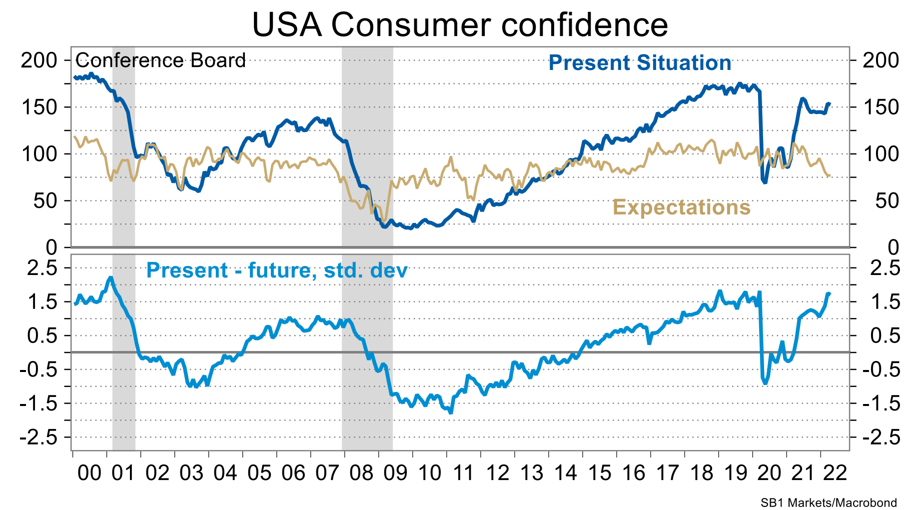
- **Even if expectations are below average, this index is strong vs. other surveys**
  - » **University of Michigan's sentiment** is 1.8 st.dev below average, as if there were a catastrophe is the US economy these days (a very minor revision vs the preliminary April estimate out 2 weeks ago)
  - » The discrepancy has never been larger

The Conf. Board – Univ of Mich differential reduced but still huge (unpreced.)

Almost always, when UM grounded before CB yielded, UM was right. And the recession started

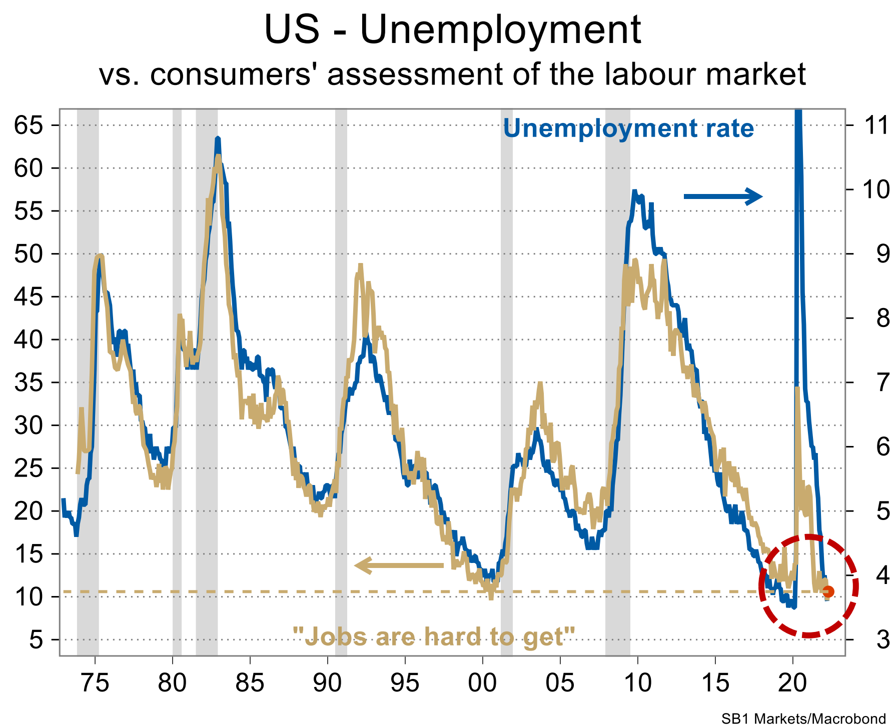


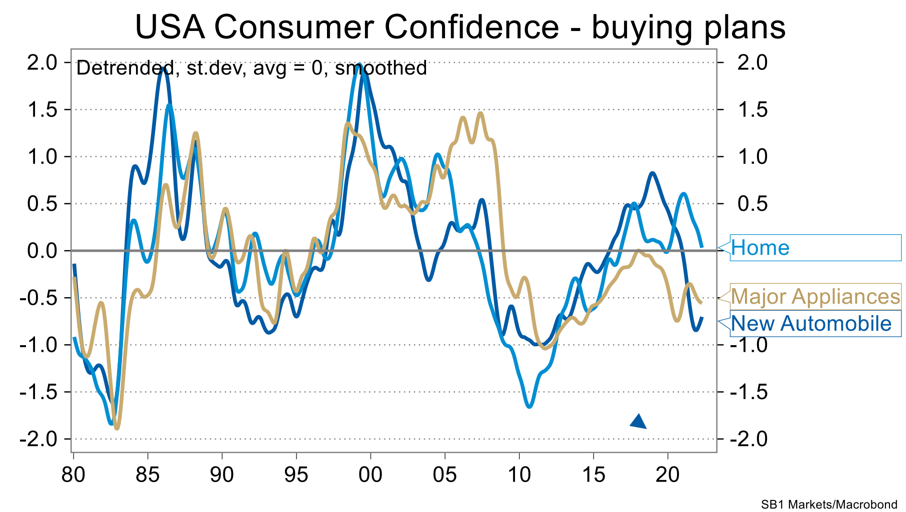


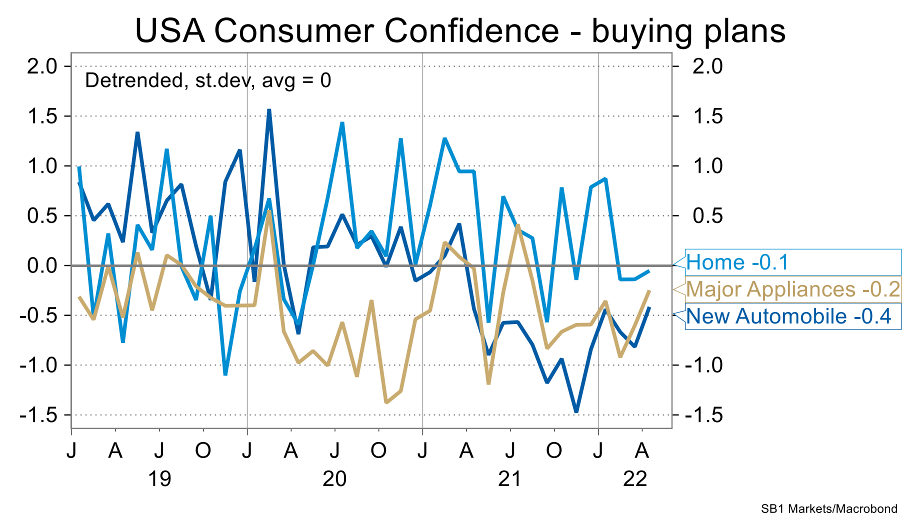


- However, both UM's survey and two other surveys that have been very weak recently recovered last month
- High inflation is normally not welcomed, but we have not been able to explain the drop in UM sentiment by the traditional factors (including inflation and inflation expectations but also including growth, unemployment, mortgage rates etc). In addition, the sentiment soured without any deterioration of the Covid-19 situation (the sentiment fell well before Omicron arrived, and now restrictions are gradually eased as the Omicron is on the retreat)
- Simply, we do not have good explanations! Actual behavior – so far – indicate that Conference Board's index is far closer to the ball vs the other indices

Still, record easy to get at job. And buying plans edged up in April







- **Household spending plans** are volatile, and in sum not aggressive – but somewhat stronger since late last autum

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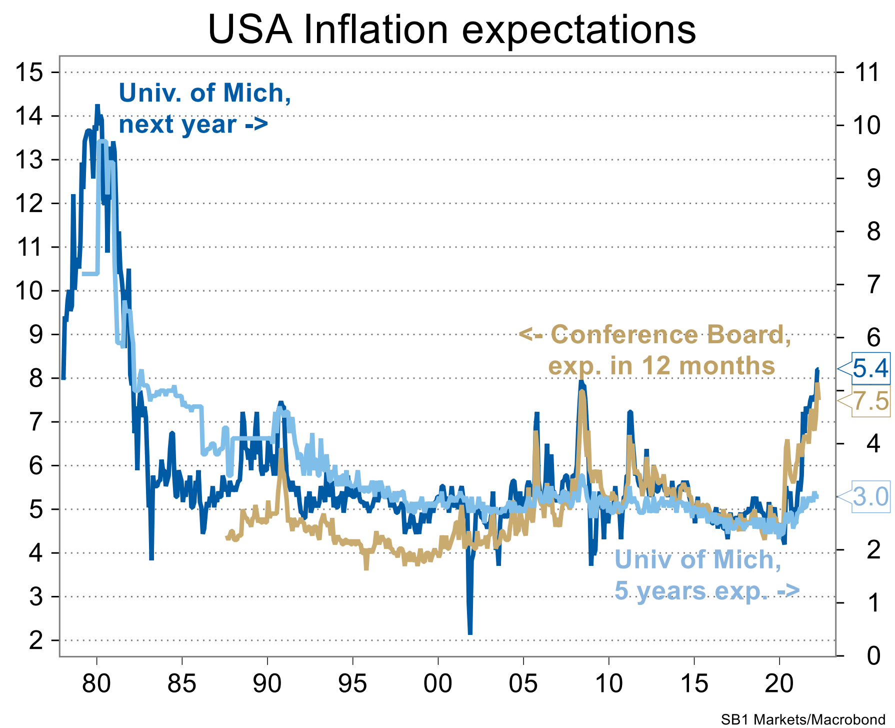
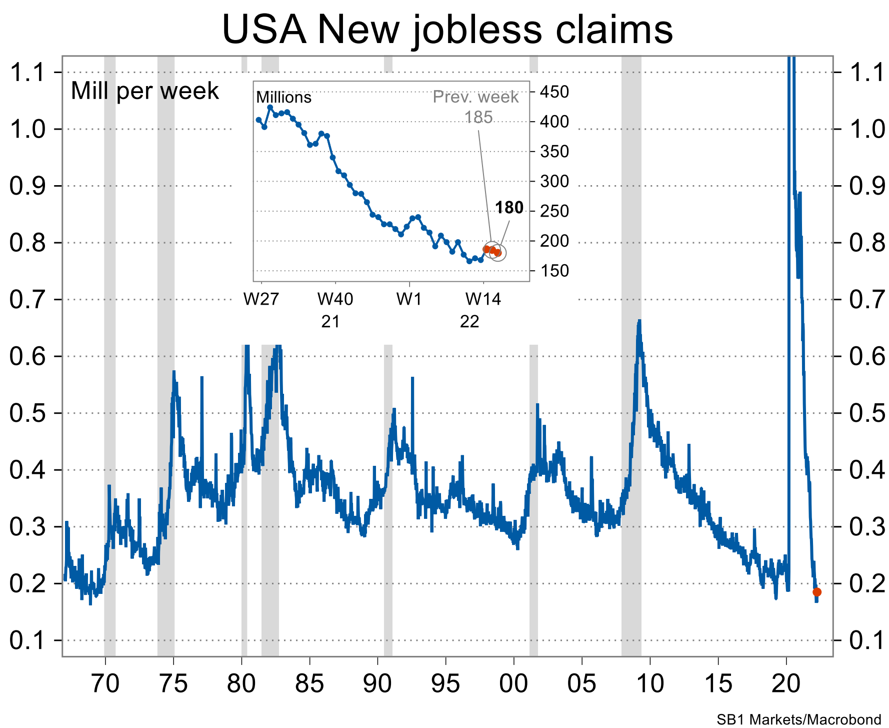
Inflation expectations a tad down, at least in the the Conf. Board's survey

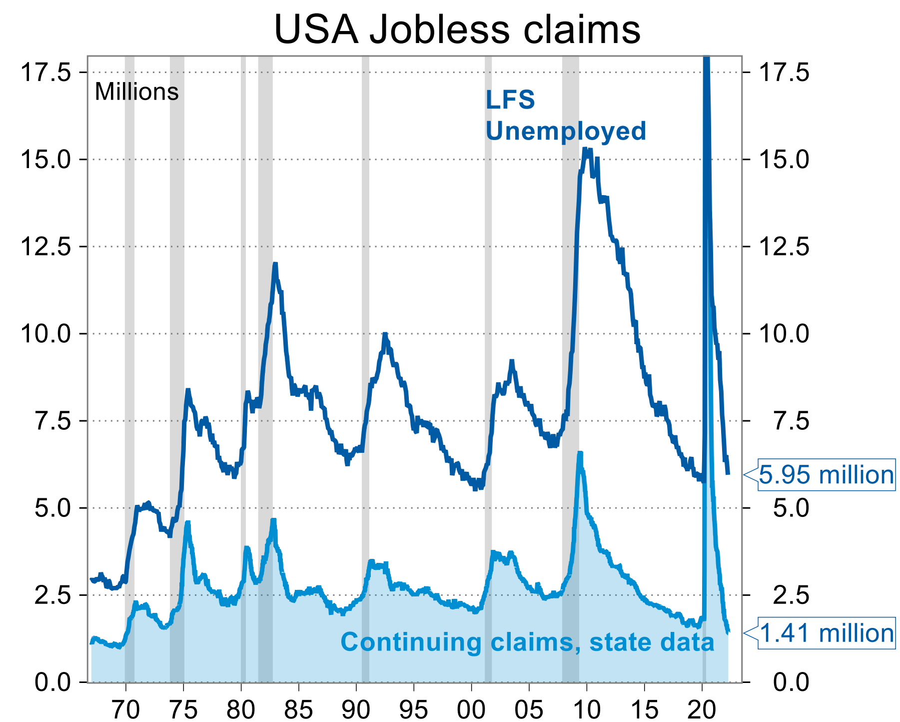
Long-term expectations have been climbing since 2020 bur are not that high



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

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

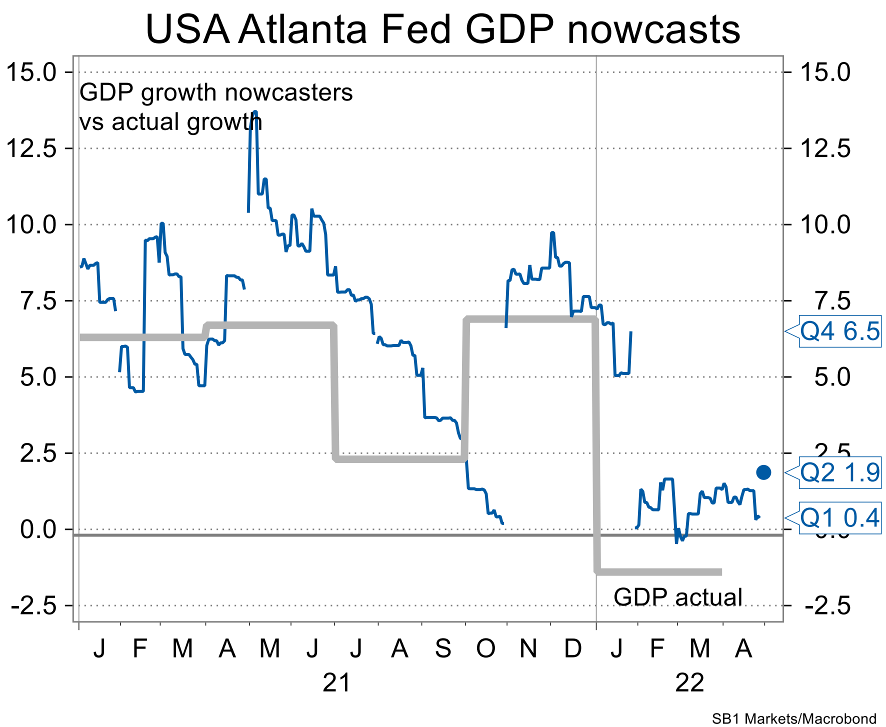


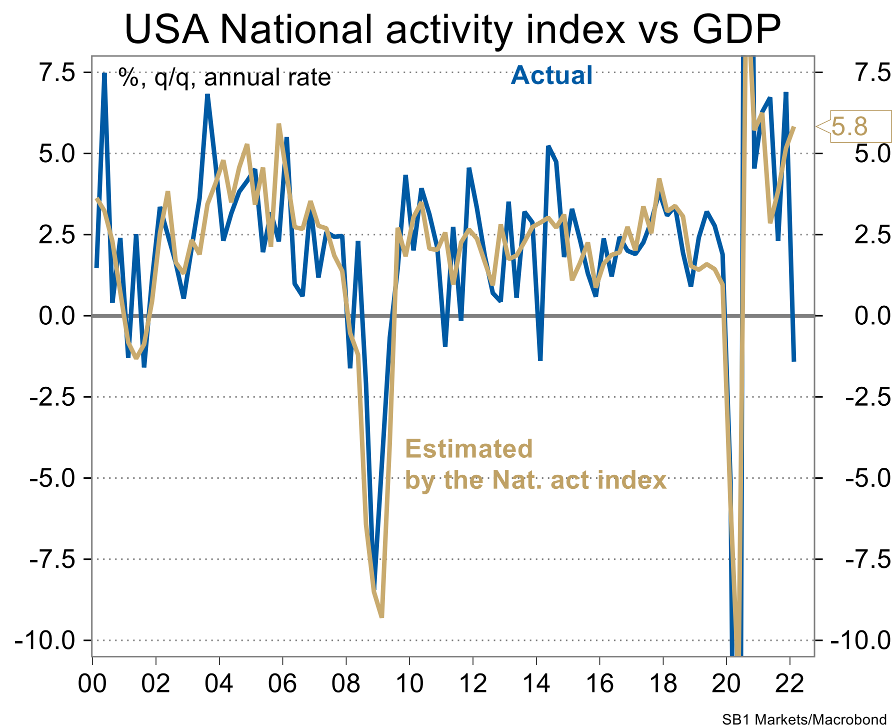


- **New jobless claims** fell 5' in week 16 to 180'. Recent weeks, the inflow has been at the lowest since 1968, when the labour force was 2 times larger than today
- **Ordinary continuing claims** declined by 1' to 1.41 mill in week 15
- The **labour market** is extremely tight

Atlanta Fed's nowcaster suggests 1.9% growth in Q2, the Nat. Activity index 6%

Q1 was far weaker than expected and signalled by other data

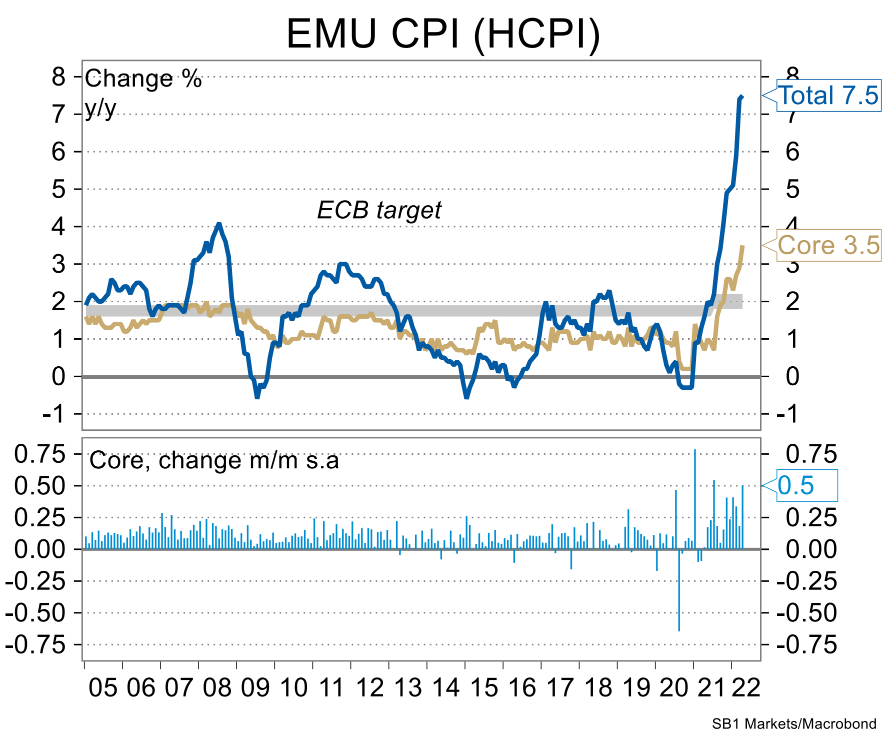


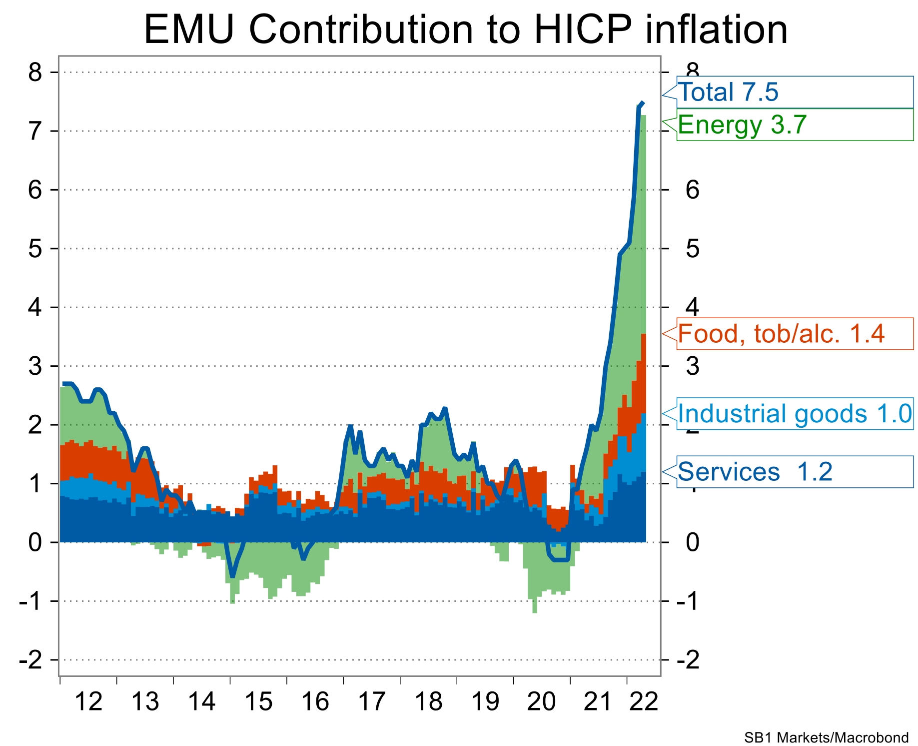


- **The National Activity Index** reported strong growth in Q1, a 5.8% pace – and growth was more than OK in March too, signalling substantial growth into Q2

Core inflation up to 3.5% as prices rose 0.5% m/m. Food up too, energy down

The core rose 0.4 pp more than expected!! Headline CPI up 0.1pp to 7.5%, up 0.2% m/m



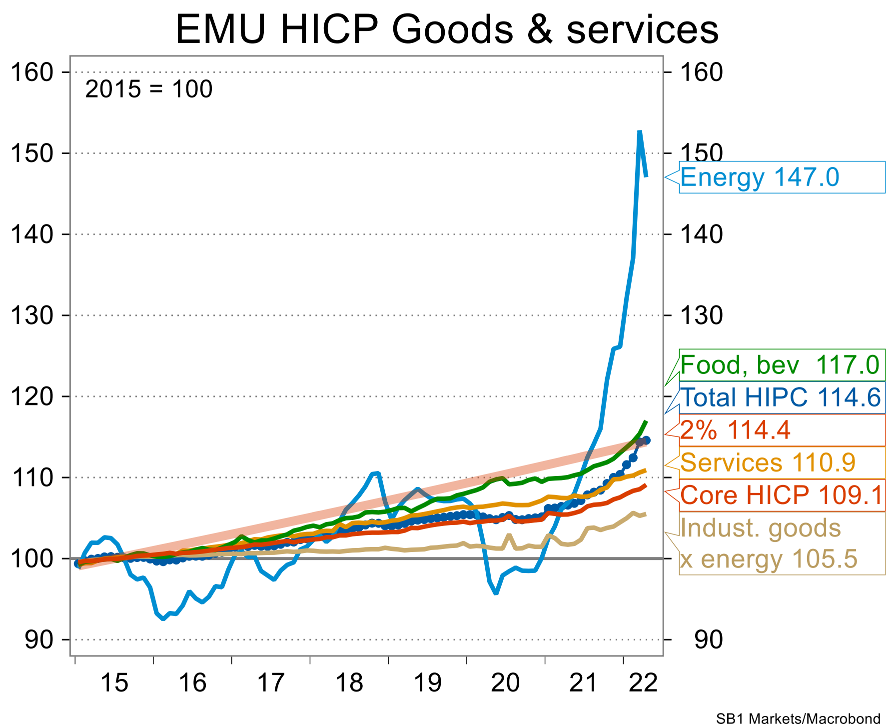


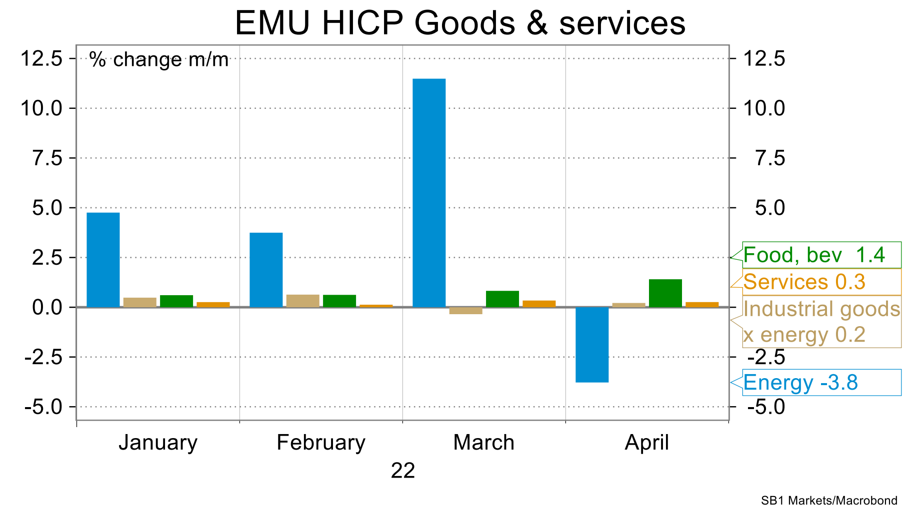
- **The headline** was just 0.1 pp higher than expected, so the HUGE surprise was the core index. Few details yet but both goods x energy & services accelerated
- **Energy prices** fell m/m, and the annual rate declined. **Still,** energy is the main culprit for the extremely high inflation numbers (check also 3 – 4 pages further out of the report)

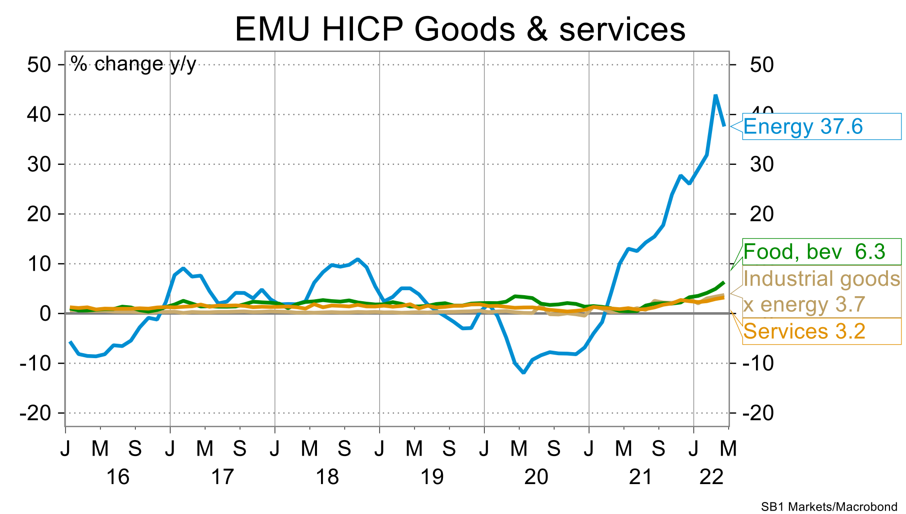
SpareBank 1 MARKETS

Energy prices may have peaked but food inflation surges

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



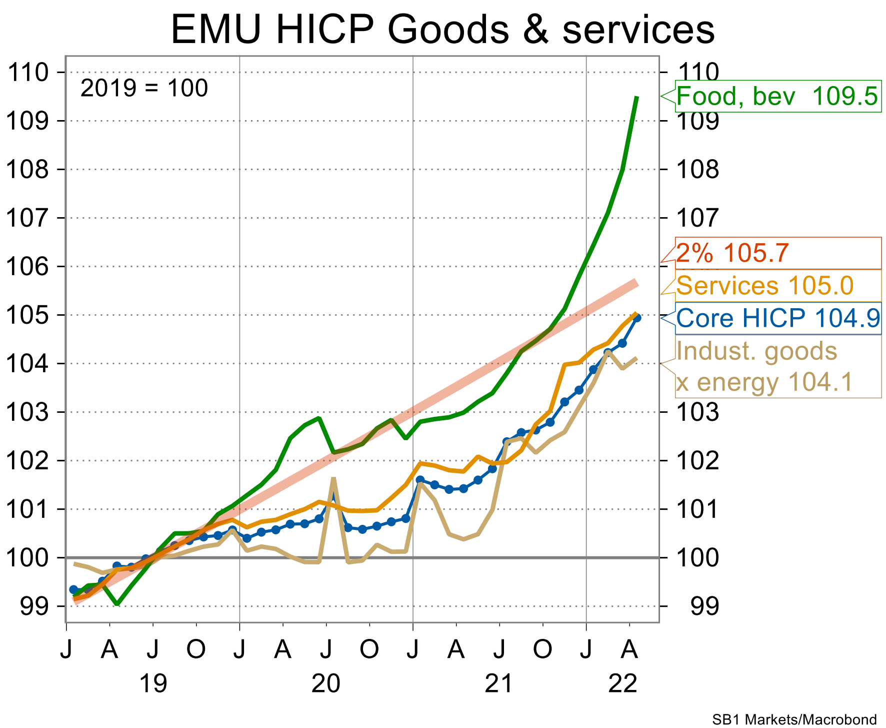


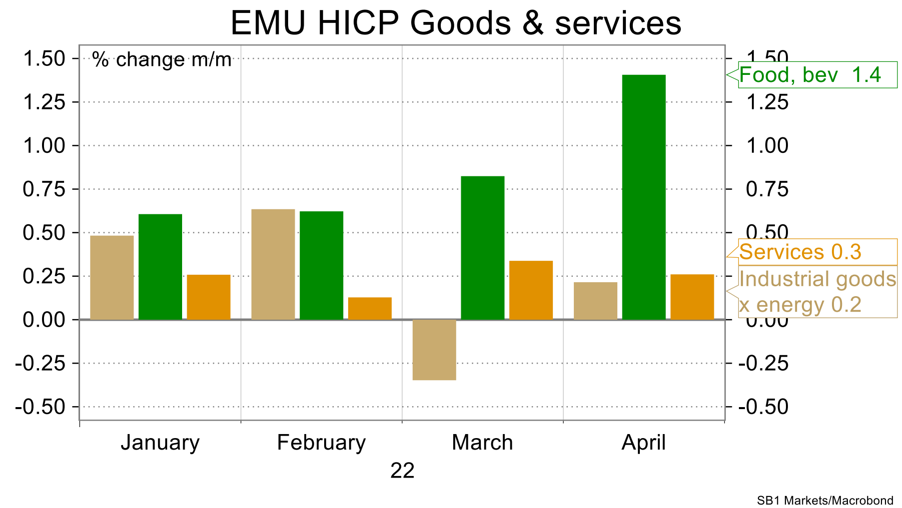


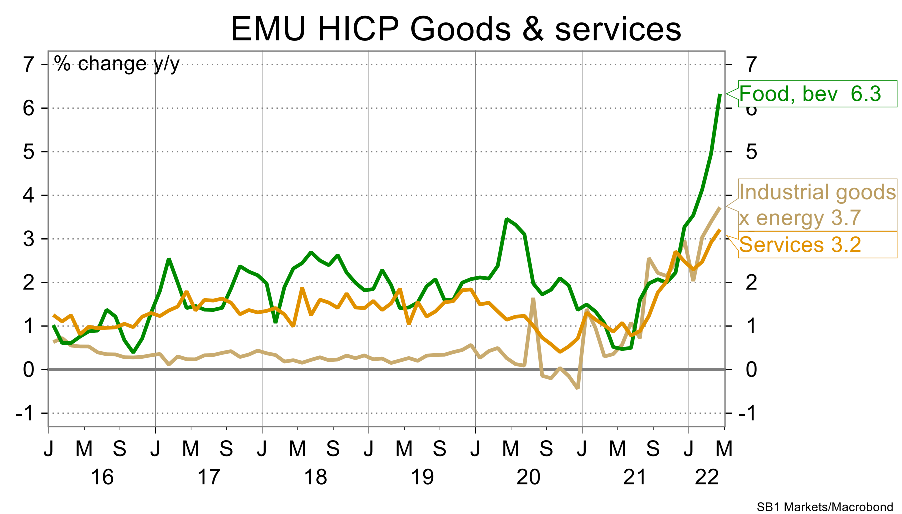
- At one stage, energy prices will turn south again

And prices ex energy and food are climbing are accelerating too

Food inflation at 6.3%, industrial goods x energy at 3.7%, and services 3.2%



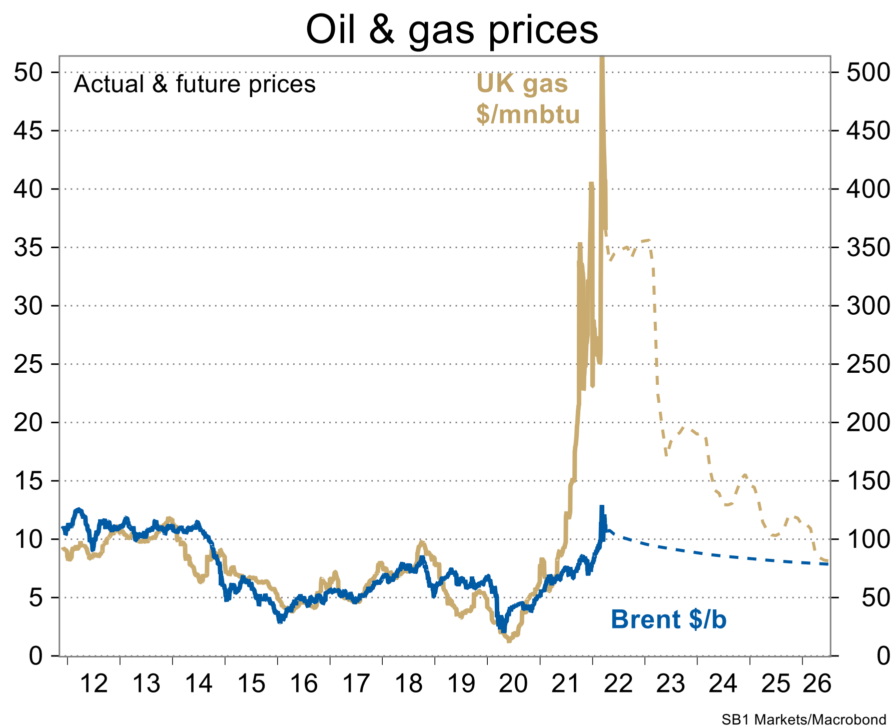


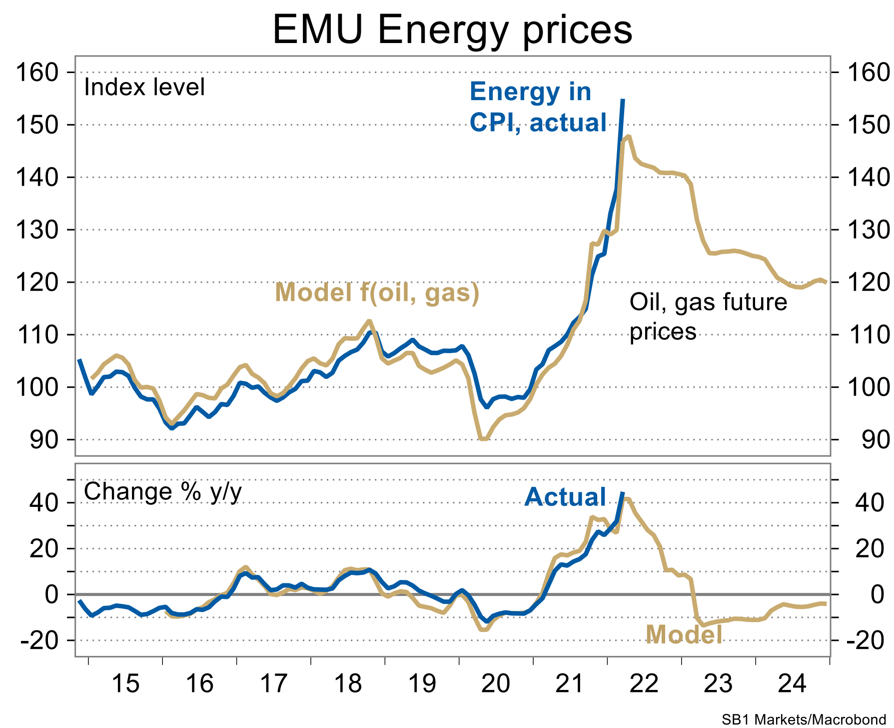


- Industrial goods prices increased 0.2% in April, and are up 3.7% y/. Still, these prices are well below a 2% path since 2019
- Services prices rose 0.3% in April, and these prices are also below a 2% path vs the 2019 level. Transport and hotels/restaurants have contributed on the upside last year (but no data for April yet)
- (No further details in the preliminary HICP report)

Gas, oil prices have lifted 'energy CPI inflation' up to 40% but….

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





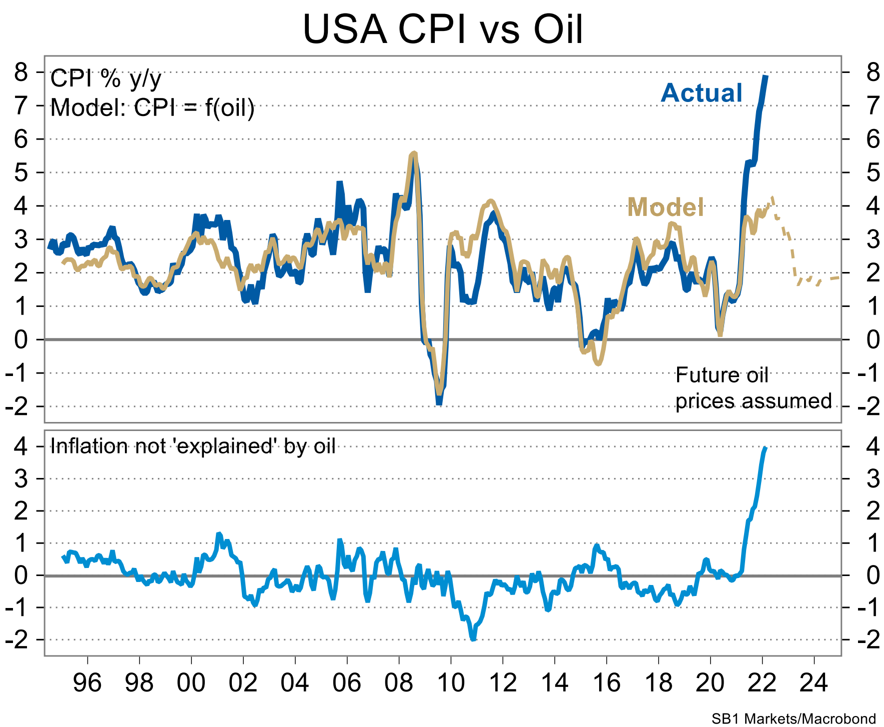
- Future prices are are heading downwards
- Early next year, energy prices will be down, measured y/y
- Gas and oil have contributed equally to the lift in energy prices measured at the consumer level, according to our models

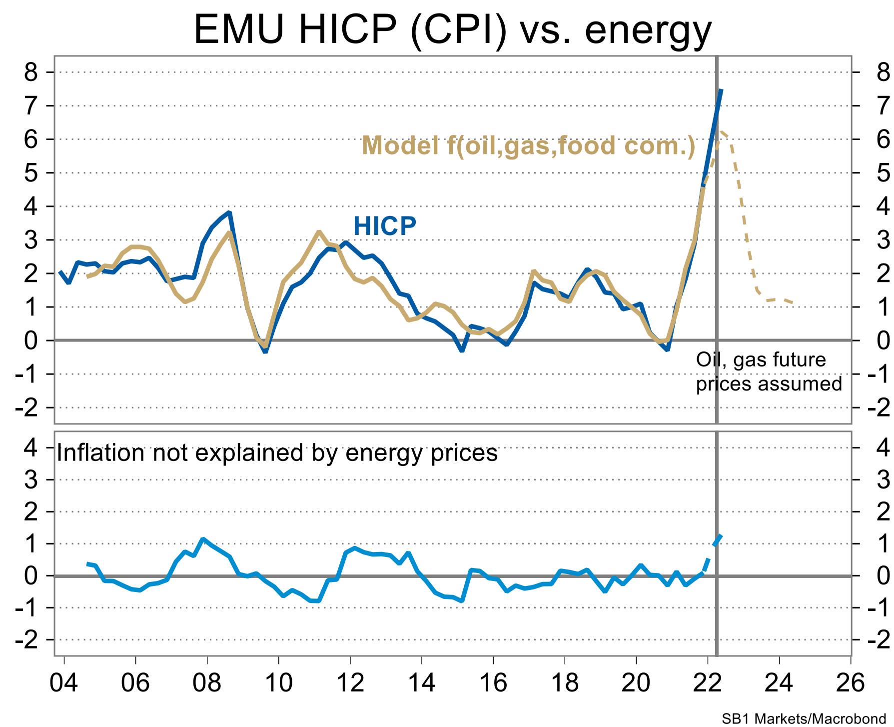
In these models we incorporate all direct impacts from changes in the oil price – as well as the impact from other factors that influenced inflation which correlates to the oil price

SpareBank 1 MARKETS

The tale of two different inflation regimes

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

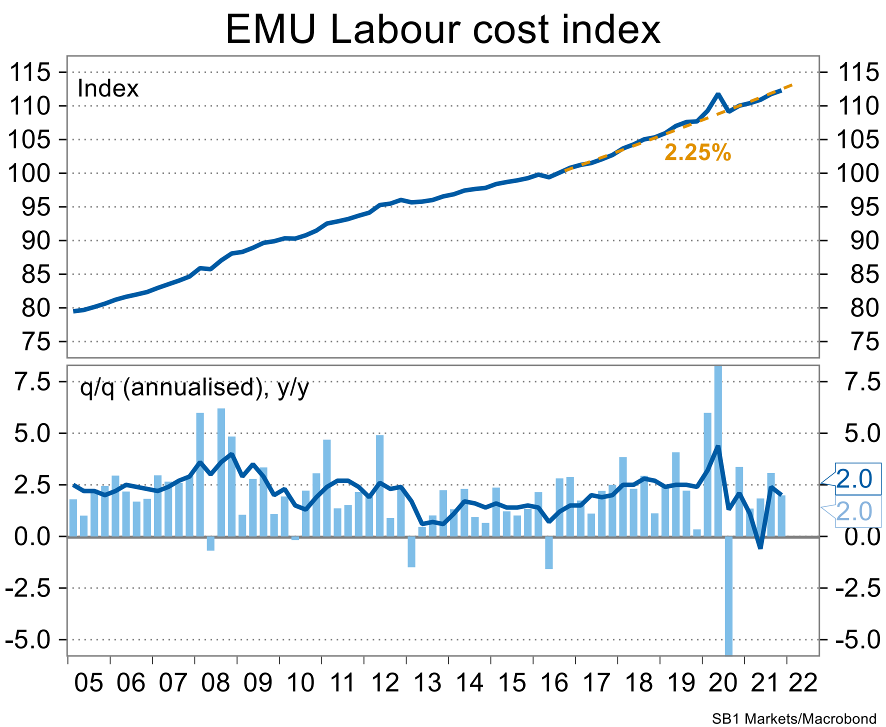


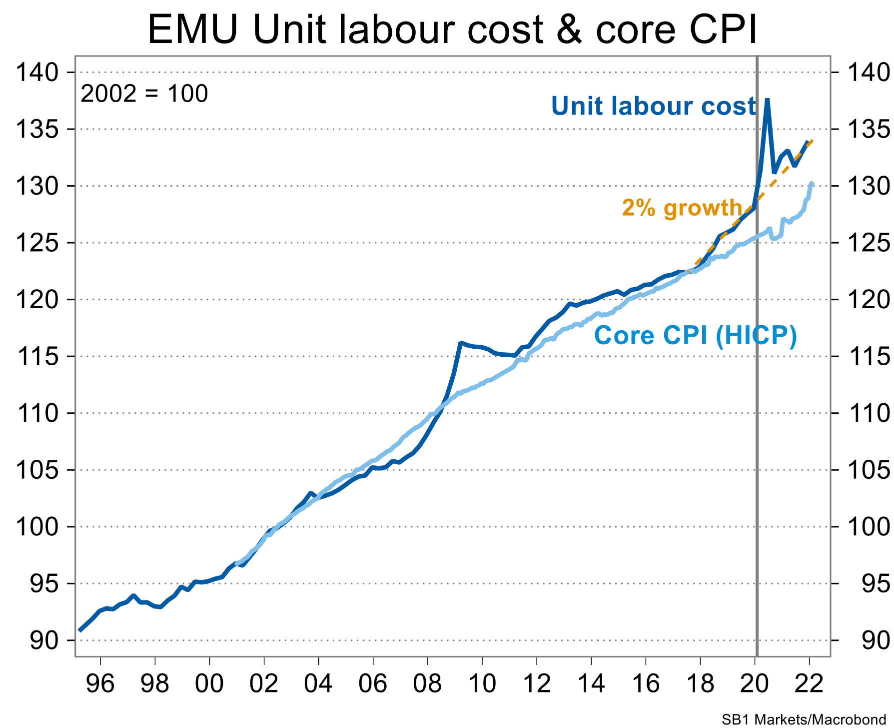


- **In the US, oil price cycles** have – for all practical purposes – explained all of the CPI cycles the past 30 years. Until 2021. The precent 4 pp discrepancy is unprecedented! The current/future oil price signals a decline in the annual CPI rate later this spring. The trouble is the 'gap' or the 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

Just a reminder: No wage cost pressure in the EMU





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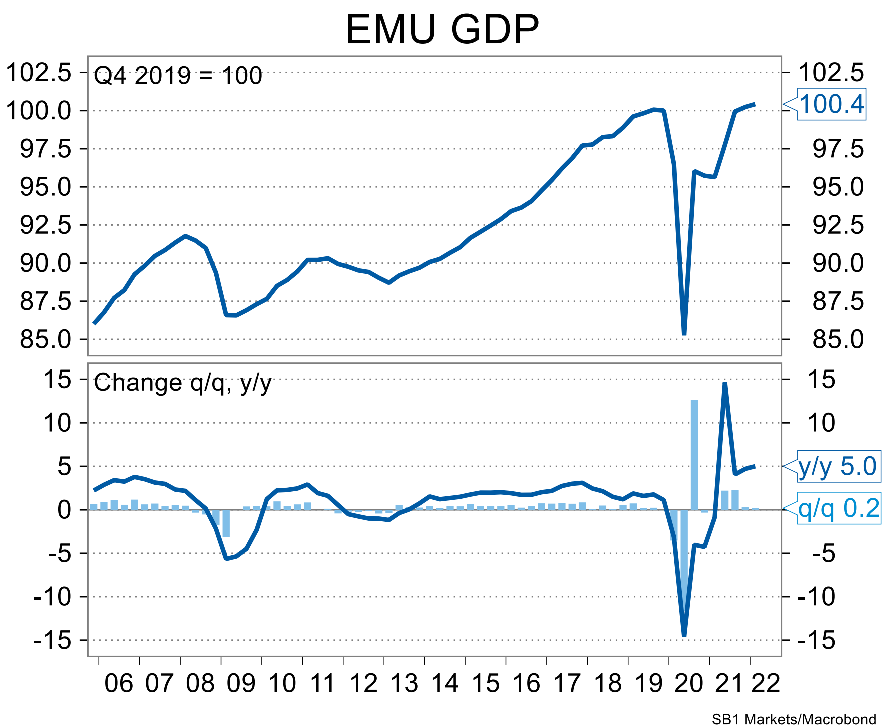
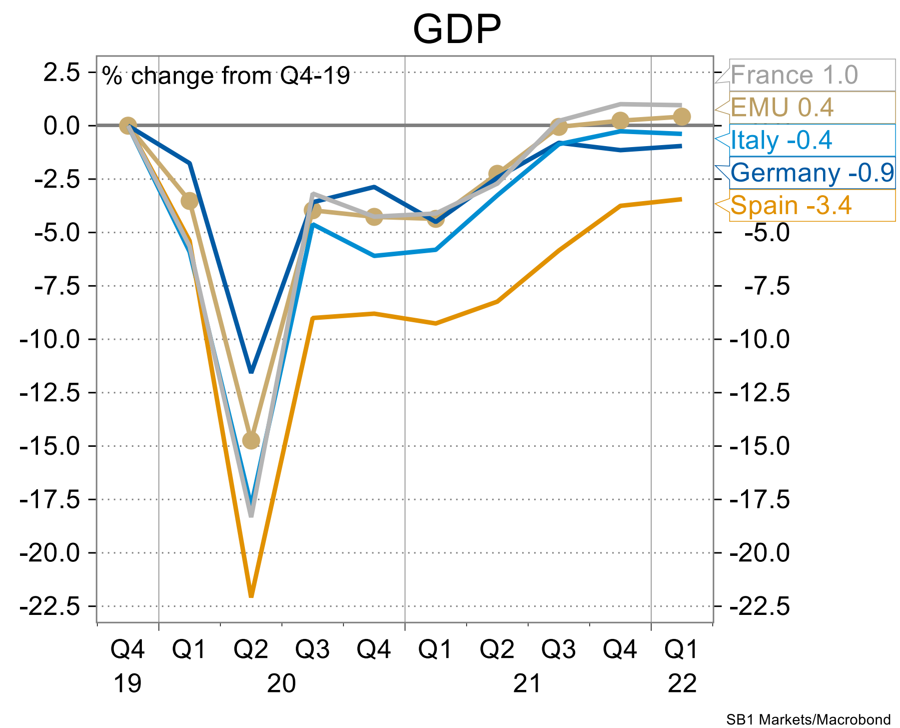
GDP up 0.2% in Q4 (0.8% annualised), 0.4% above the pre-pand. level

France down 0.1%, Italy -0.2%. However, Germany & Spain grew slightly, as did others



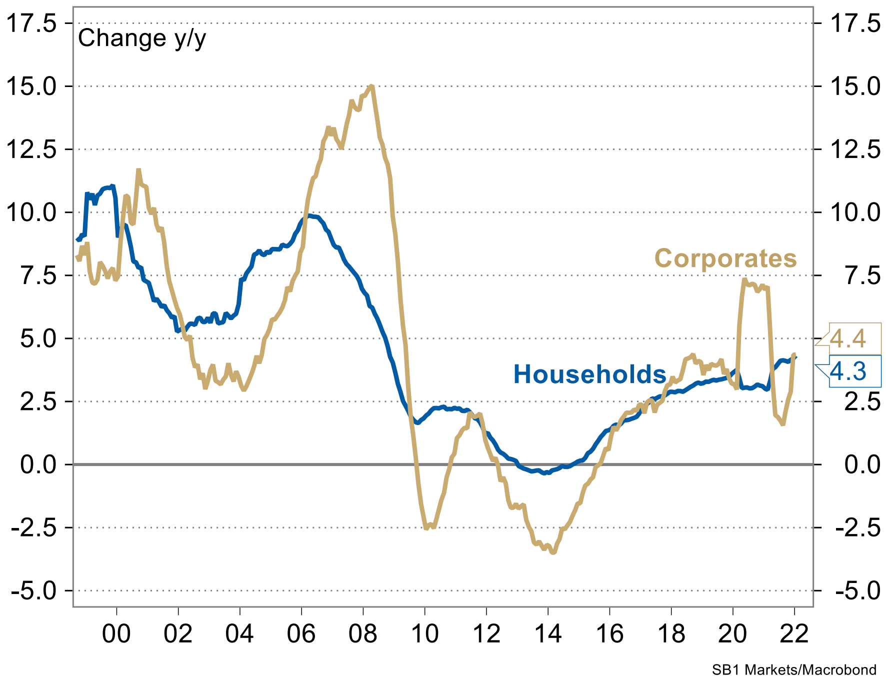


- France is the only of the big 4 above the Q4-19 level, +1%
- Spain at the bottom, still 3.4% below, as tourism has not yet fully recovered

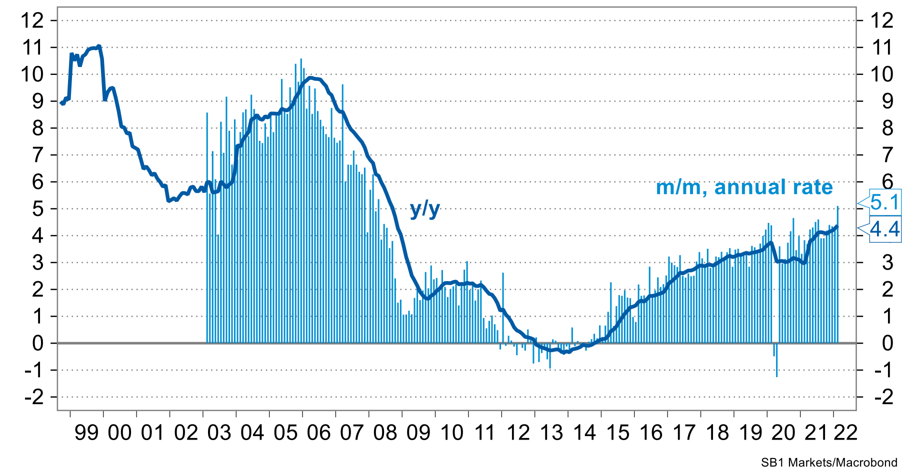
Credit growth is slowly accelerating?

Household debt growth is approaching 5% (underlying), businesses are taking on somewhat more too

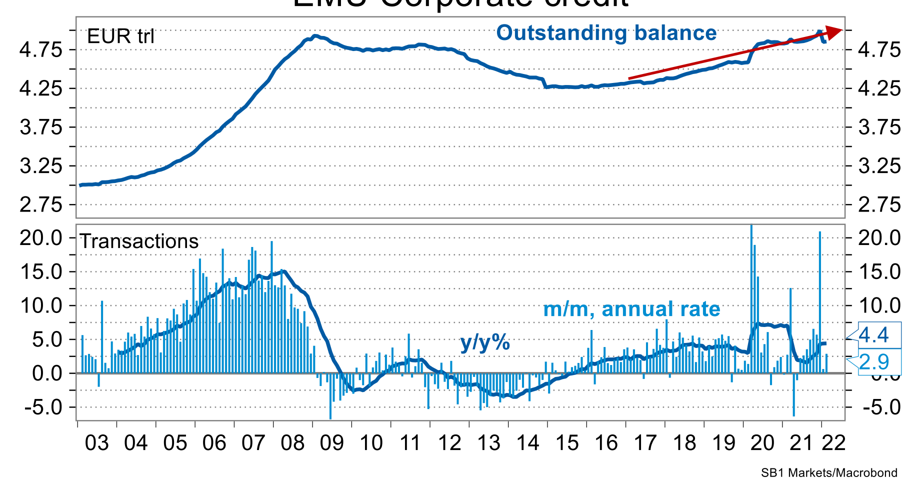
EMU Private sector credit



EMU Household credit



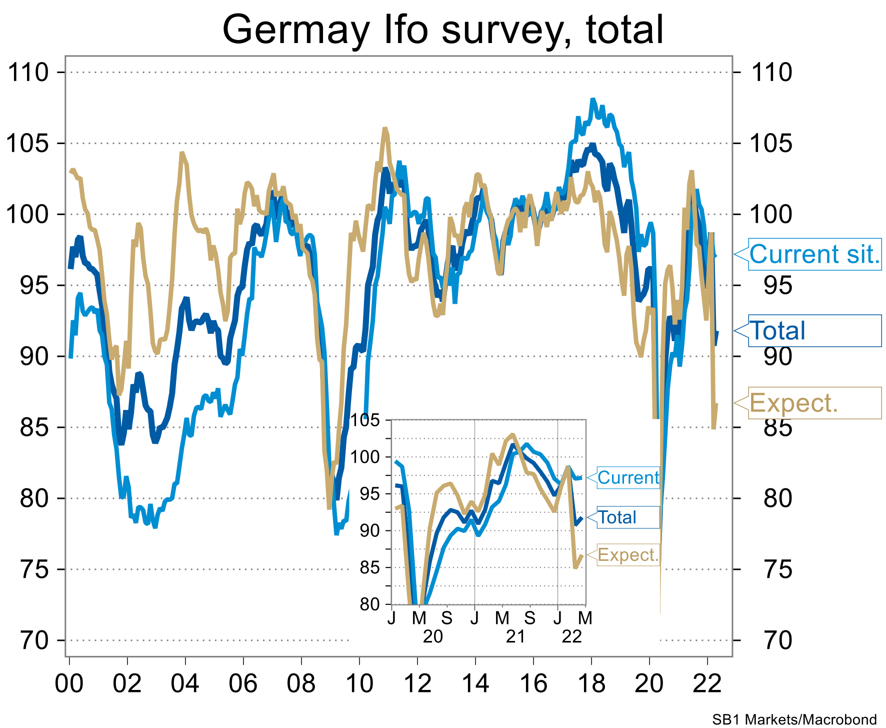
EMU Corporate credit

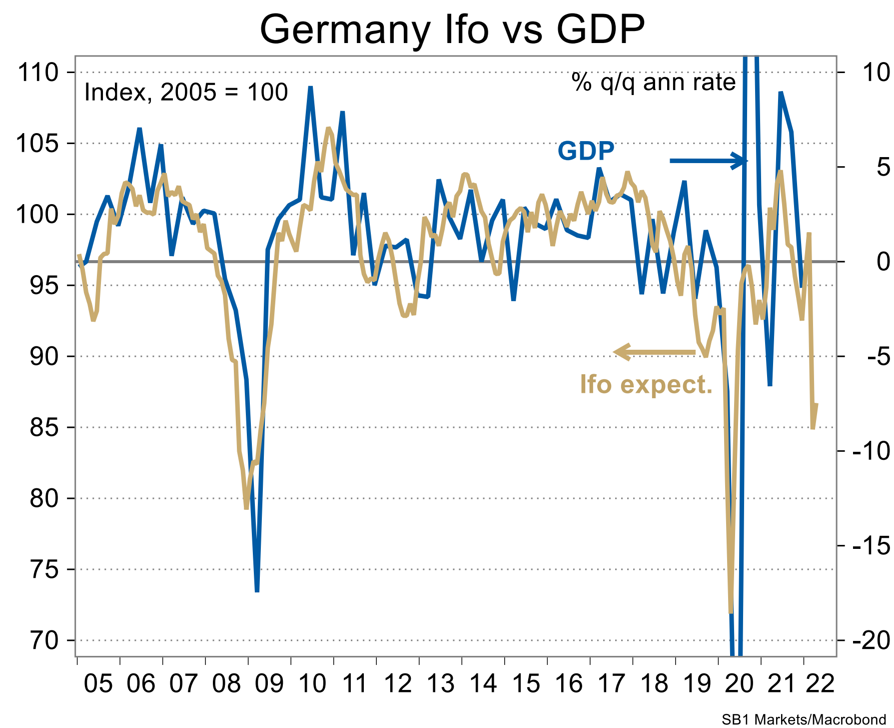


- The corporate debt level close to the pre-pandemic trend growth path. Following strong growth in December, no additional credit in January – but underlying growth has been accelerating recent months
  - » The credit volume is not higher than in 2008 in nominal terms – and sharply down in real terms or in % of GDP

Ifo business expectations just marginally up in April, following the March crash

The index up 0.3 st.dev to -2.1 sd below average. The current situation still OK, at above average

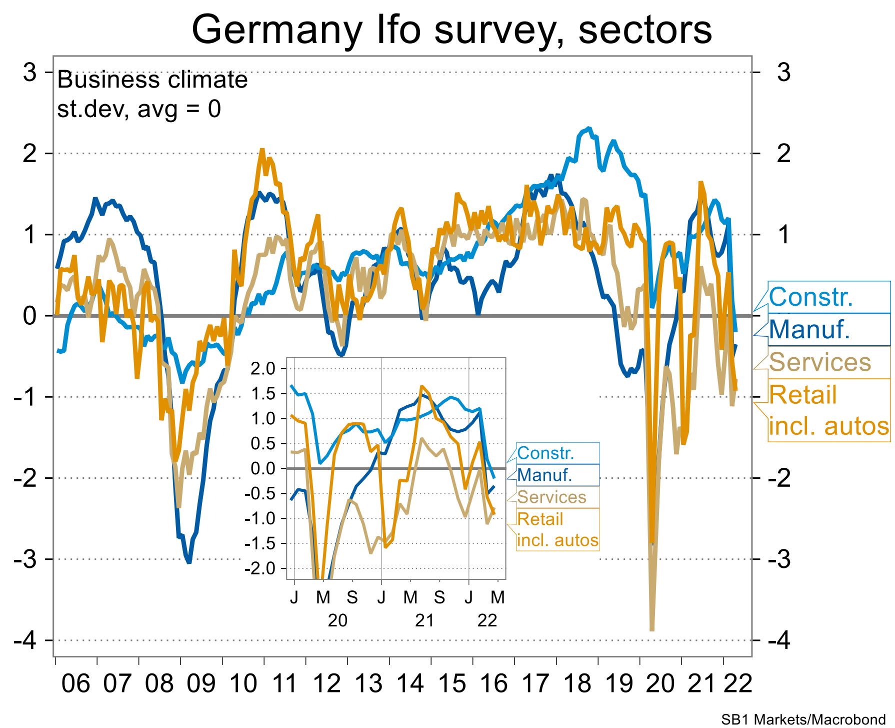


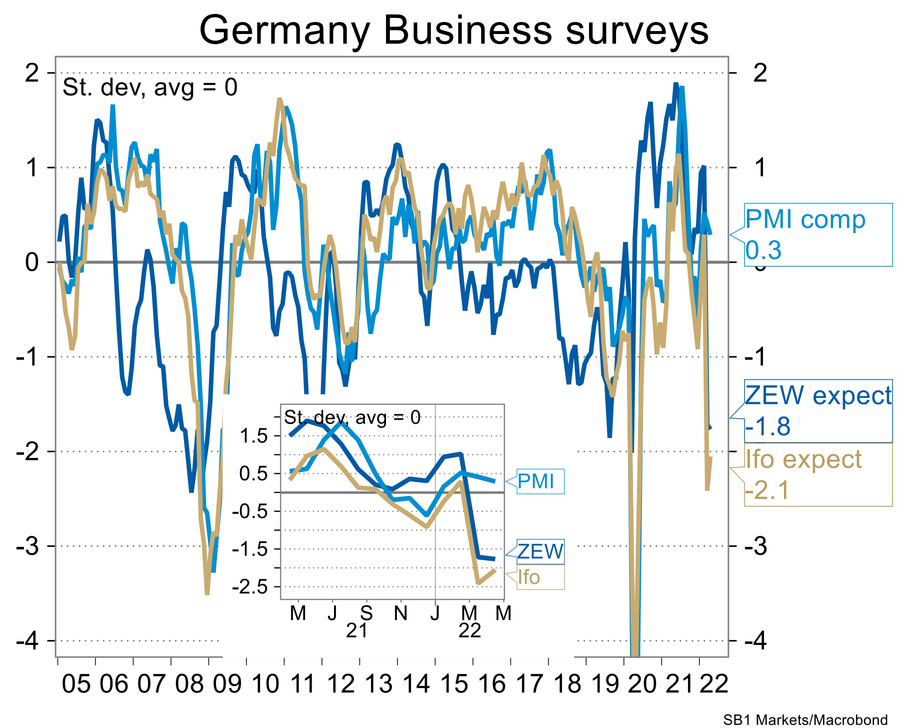


- **The expectation index** gained 1.8p to 86.7, expected down 1.4p – following the 13.4p dive in March – where expectations were hit by the outbreak of the war and the impact of sanctions. Companies are still worried, signalling in huge decline in GDP, at a 5 – 10% pace!
- The **assessment of the current situation** improved marginally in April, remains 0.4 st. dev above average. So there is not any crisis, yet

Climate below par everywhere in all sectors, less on in construction

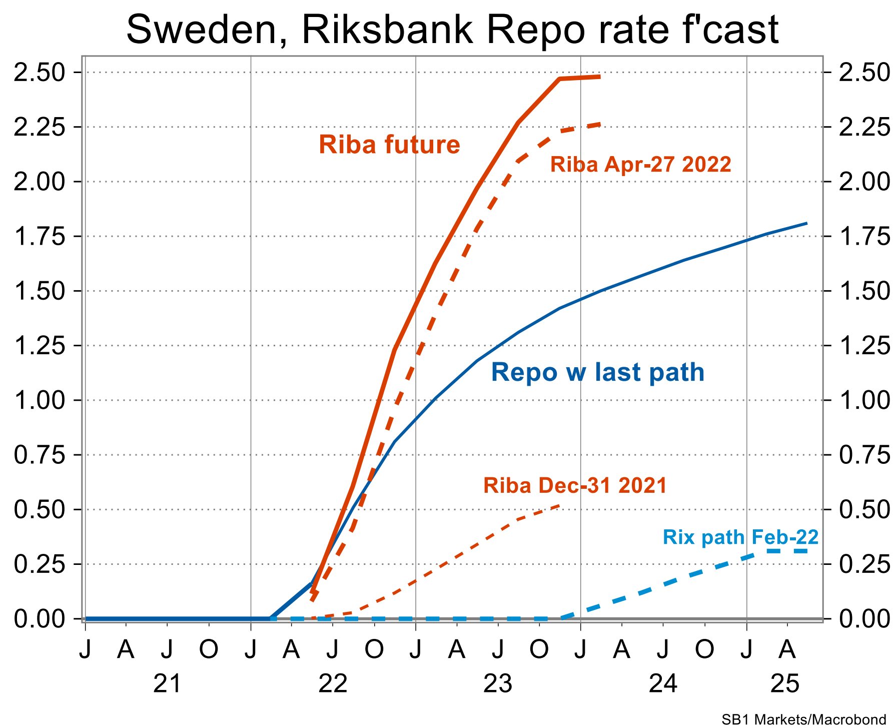
The PMI is above average while the ZWE expectation survey is a bad as Ifo expectations





The Riksbank changed tack, more than any other central bank, ever?

The bank even hiked the signal rate, which was just partly priced into the curve. FRAs >> new path



- **The Riksbank** had no choice; 2 months after the bank insisted that the signal rate would be kept at zero until H2-2024, the bank hiked the signal rate by 25 bps to 0.25%, and lifted the interest rate path by almost 1.5 pp in one go. The bank signals **1 hike per quarter** until mid 2023, and thereafter at a much slower pace, and up to 1.8% by mid 2025.
- **The bank** surprised the market somewhat on the upside by hiking the policy rate by 25 bp (from zero) at this meeting – and the very short end of the money market curve initially rose by 10 – 13 bps (and further at Friday), implying that market had discounted a 50% probably for a rate hike. Another hike is now expected in June. The SEK still depreciated last week
- The Riksbank lifted the path big time, but the new path was still 75 bps below the market FRAs (Riba) ahead of the meeting, measured by the end of 2023. In spite of that, market expectations shot up by 25 bps, and is now 100 bps above the bank's new path! Thus, the market does still NOT HAVE ANY CONFIDENCE in the bank's policy signal!
- The Riksbank will continue its **QE program**, though at a slower pace than until now. (But why buy more at all??)
- **The inflation forecast** was lifted by up to more than 3pp, while the growth forecast was revised down by 1.2 pp in 2022, and 0.6 pp in '23, though with just a minor upward revision of the unemployment rate (0.1 – 0.2 pp)

Forecast for Swedish inflation, GDP, unemployment and the repo rate

Annual percentage change, annual and quarterly averages respectively

	2021	2022	2023	2024	2025 Q2*
CPI	2.2 (2.2)	6.0 (2.9)	5.0 (2.0)	2.8 (2.4)	2.3
CPIF	2.4 (2.4)	5.5 (2.9)	3.3 (1.9)	2.0 (2.2)	2.1
GDP	4.8 (5.2)	2.8 (3.6)	1.4 (2.0)	1.4 (1.7)	1.5
Unemployment, per cent	8.8 (8.8)	7.6 (7.7)	7.4 (7.2)	7.4 (7.0)	7.4
Repo rate, per cent	0.0 (0.0)	0.4 (0.0)	1.2 (0.0)	1.6 (0.2)	1.8

Note. The assessment in the Monetary Policy Report in February 2022 is shown in brackets.
*Calendar-adjusted GDP growth and seasonally adjusted LFS unemployment in 2025 Q2.
Sources: Statistics Sweden and the Riksbank

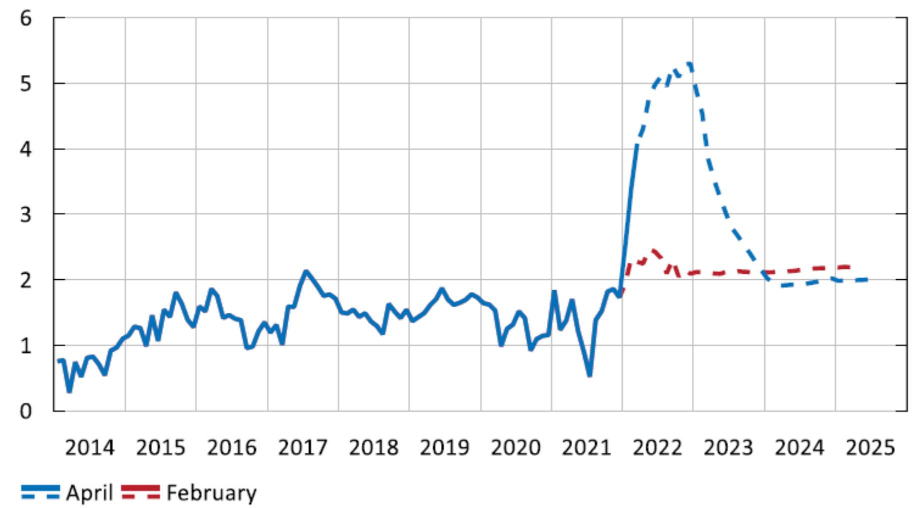
	2022 Q1	2022 Q2	2023 Q2	2024 Q2	2025 Q2
Repo rate	0.00 (0.00)	0.16 (0.00)	1.18 (0.00)	1.57 (0.13)	1.81

A new path for expected inflation. The war was a convenient excuse?

SEK rate expectations rose sharply last week

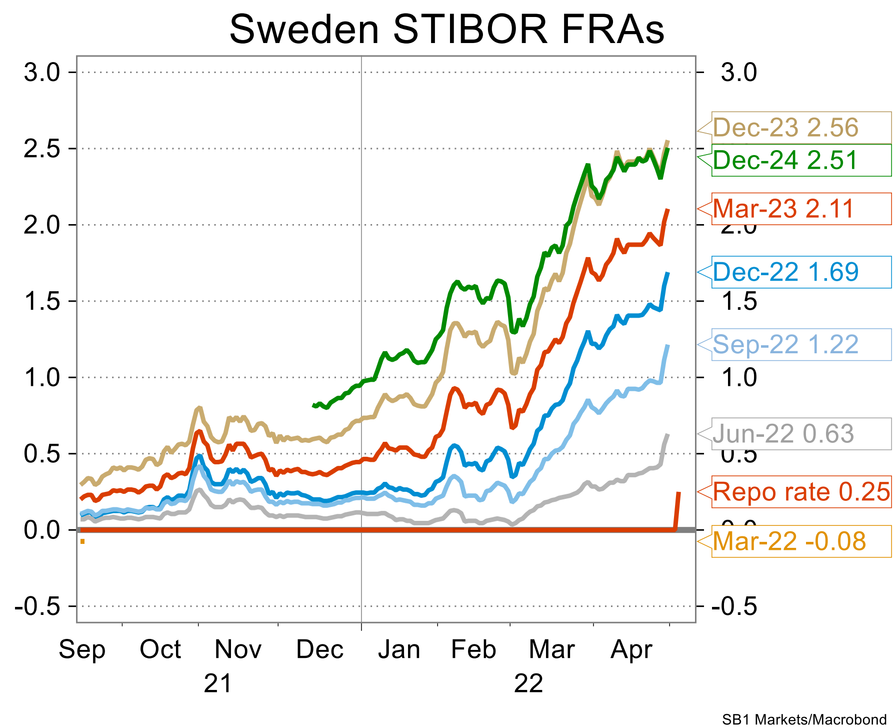
Figure 5. CPIF excluding energy

Annual percentage change



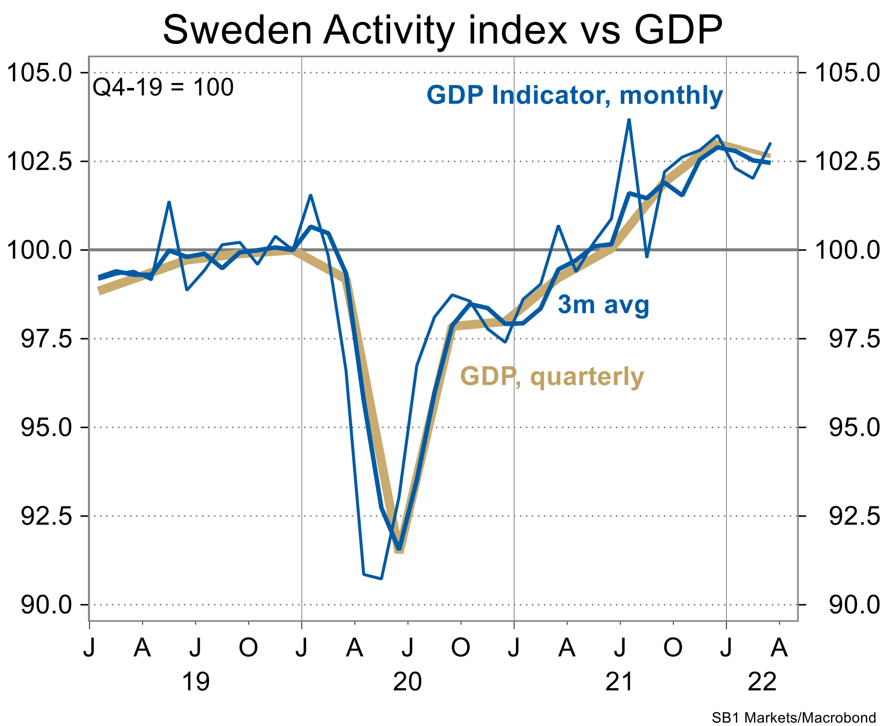
Note. Solid line refers to outcome, broken line represents the Riksbank's forecast.

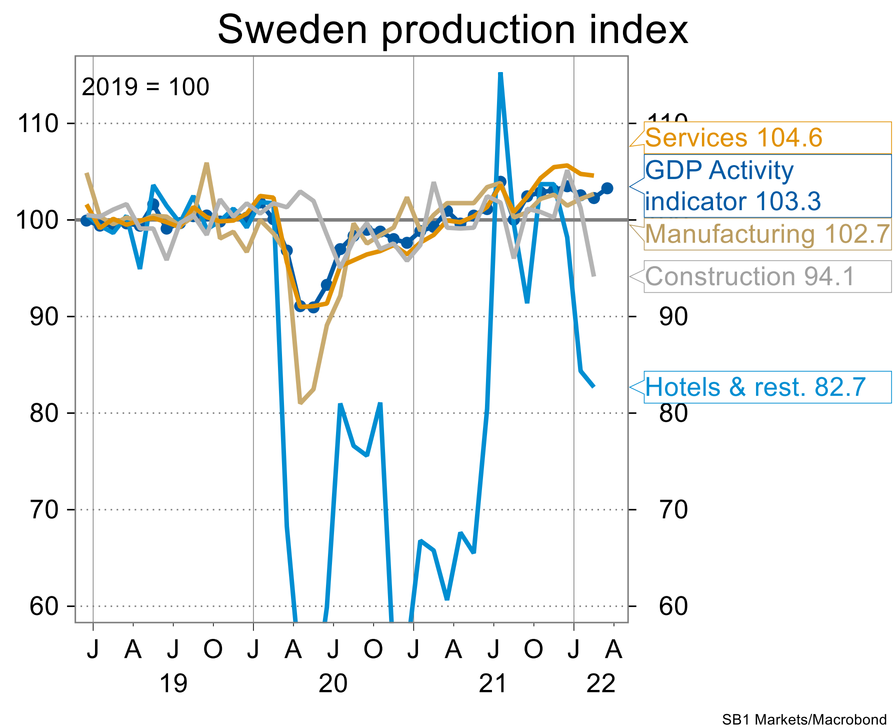
Sources: Statistics Sweden and the Riksbank.



GDP up 1% in March, still down 0.4% in Q1 – but level still OK

No details yet but the hospitality sector very likely recovered sharply in March

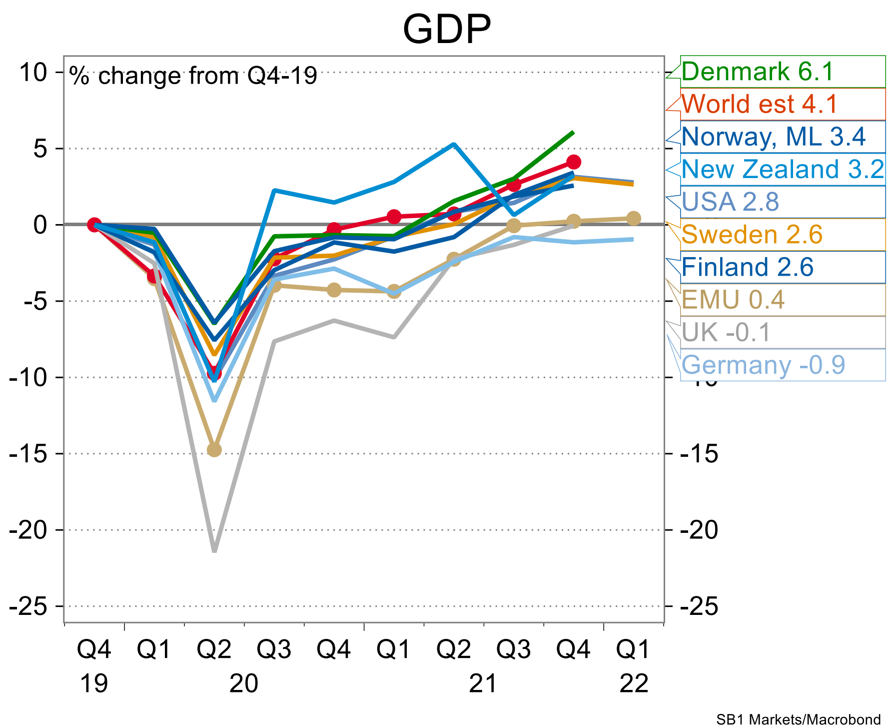


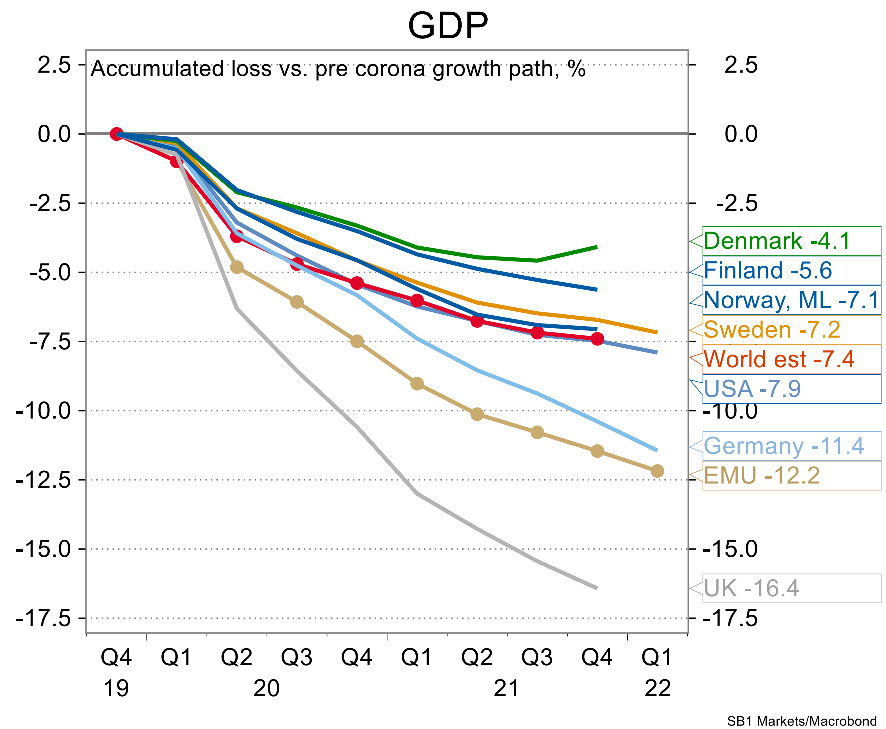


- **GDP** was expected down 0.5% in Q1
- **The outlook** remains excellent, according to Swedish companies. THE KI (NIER) is down from the peak but is still at a very high level, and the March PMI was the best in the world

Not that important differences between the Nordics during the pandemic

Denmark has suffered the smallest loss, Norway (probably) the largest – vs pre-pandemic growth paths

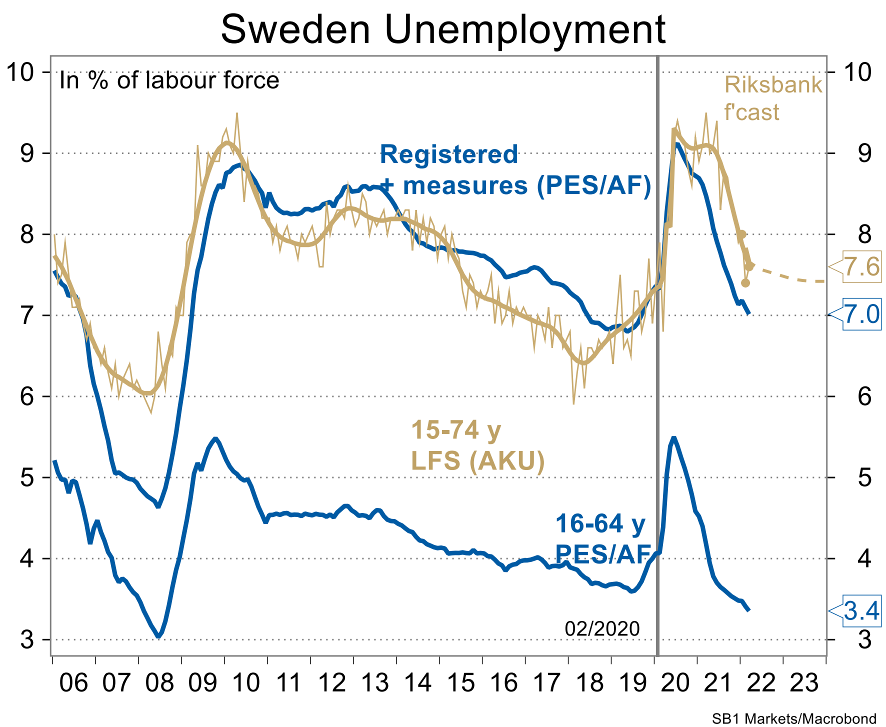


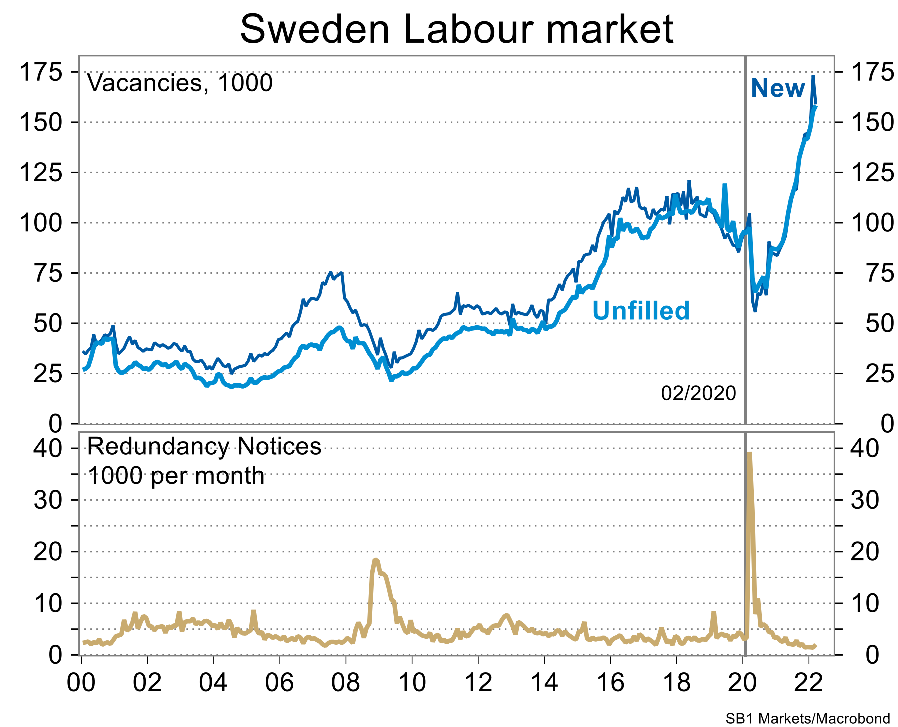


- The decline in oil investments has been an extra drag on the Norwegian Mainland GDP (which still was marginally above the Swedish GDP in Q4 – but aggregated activity in Norway during the pandemic has been marginally lower than in Sweden, at least until Q4 but will probably stay above after Q1 as well)
- The Nordics have reported the smallest losses among rich, western countries

LFS unemployment up in March, from an upward Feb level – still trending down

The unemployment rate rose 0.2 pp to 7.6%, from an 0.1 pp upward revised 7.4% level in Feb

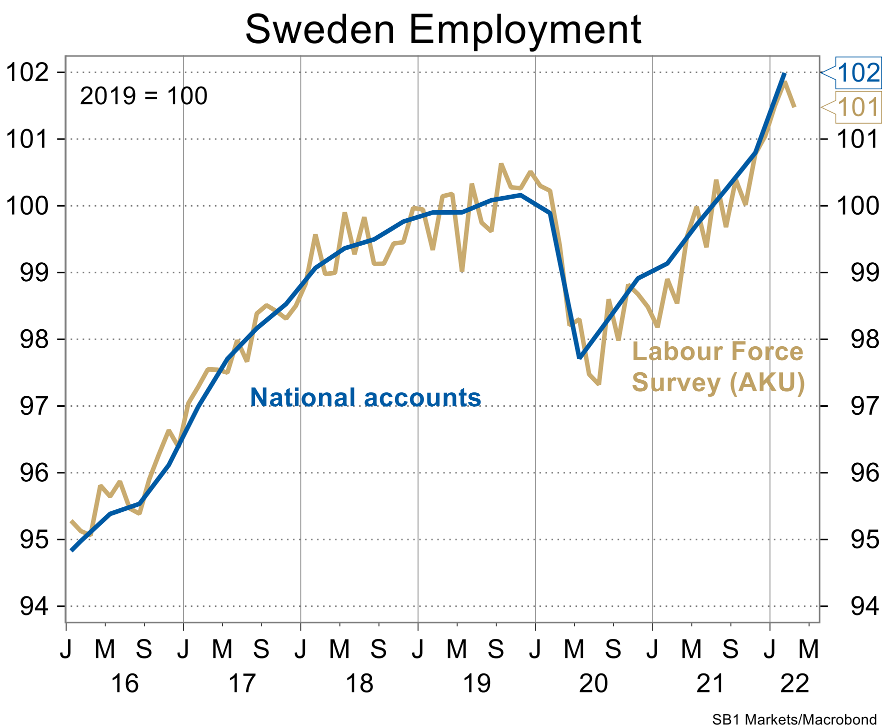


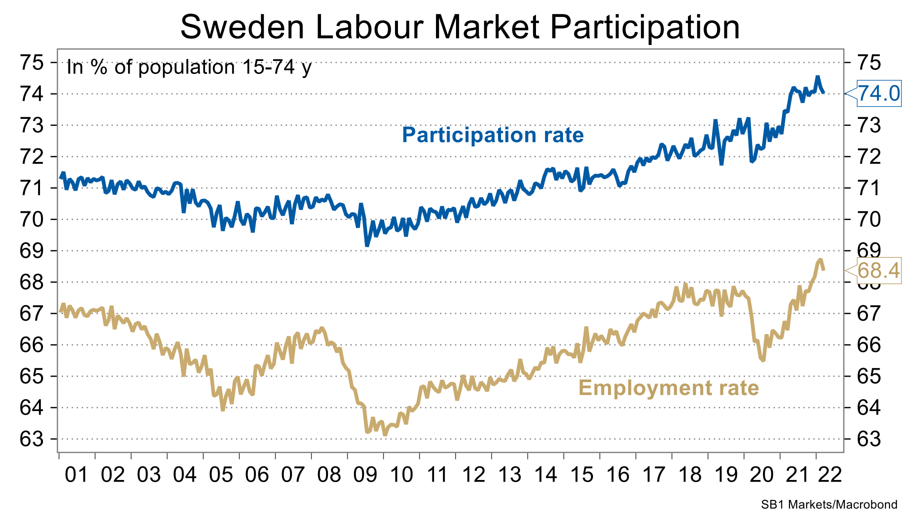


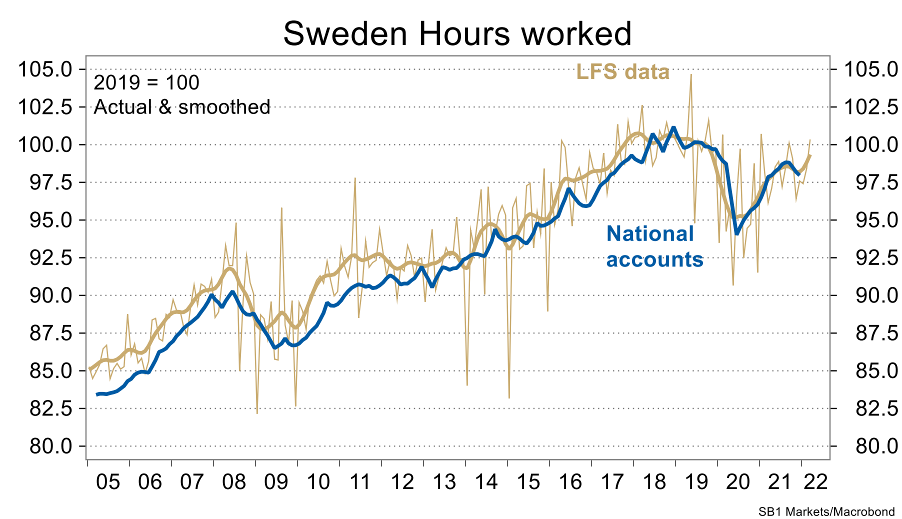
- The **'open' registered unemployment rate** is at 3.4% - and it is also trending down. The rate is well below the pre-pandemic level
  - » **Including labour market** measures the rate fell 0.1 pp to 7.0% - which is above the level in 2019, but below the level just before the pandemic hit
- The number of new vacancies fell marginally in March but the no. of unfilled vacancies rose to another ATH

Employment down in March but both employment & participation rate very high

Labour market activity the highest in decades. Hours worked still below the pre-pandemic level

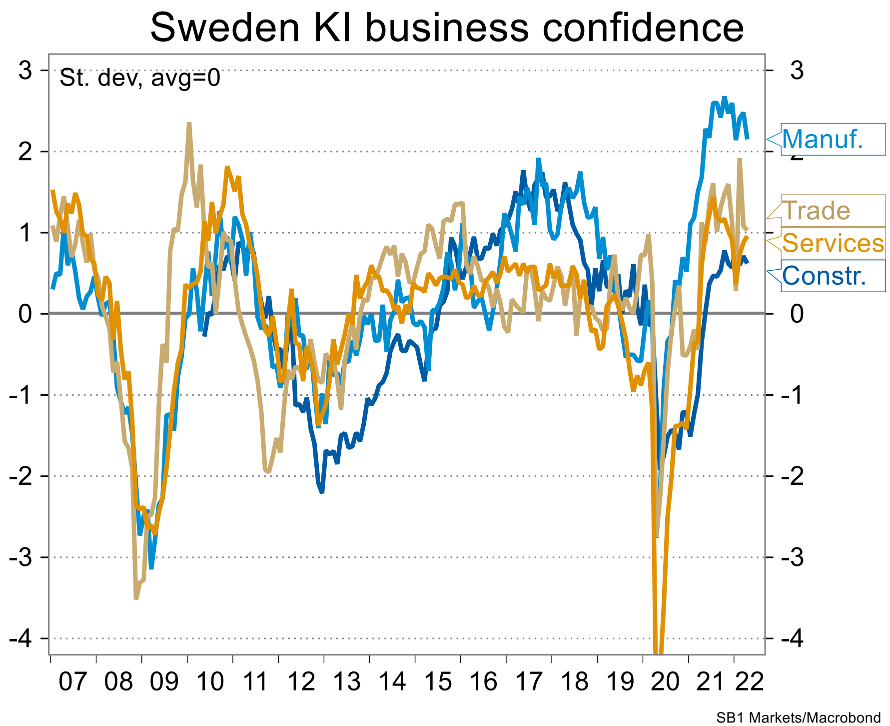


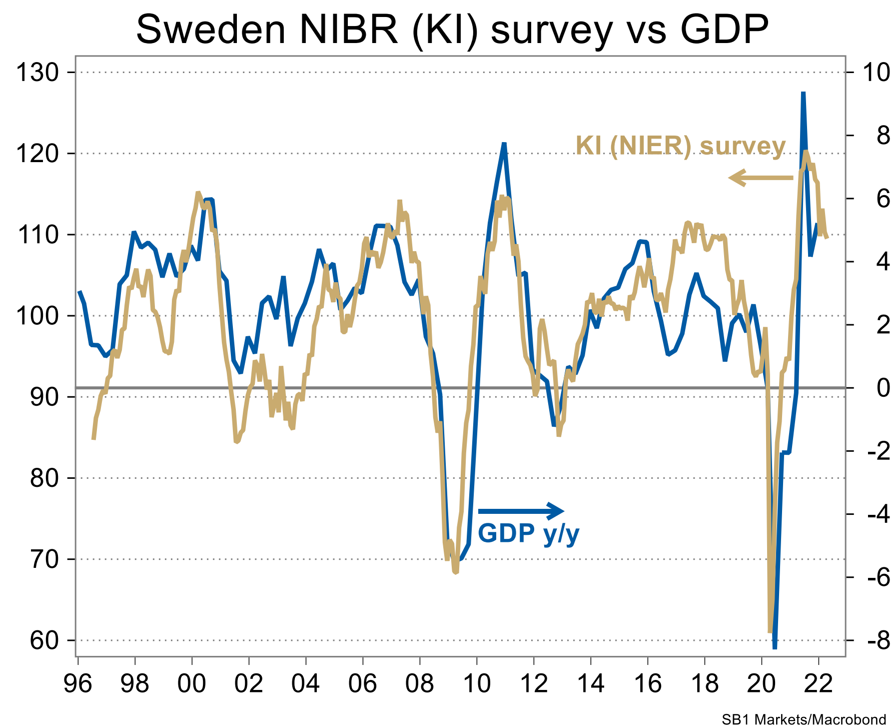




No war angst among Swedish businesses in April either

The confidence index fell just marginally slightly, and is still signalling 5% GDP growth

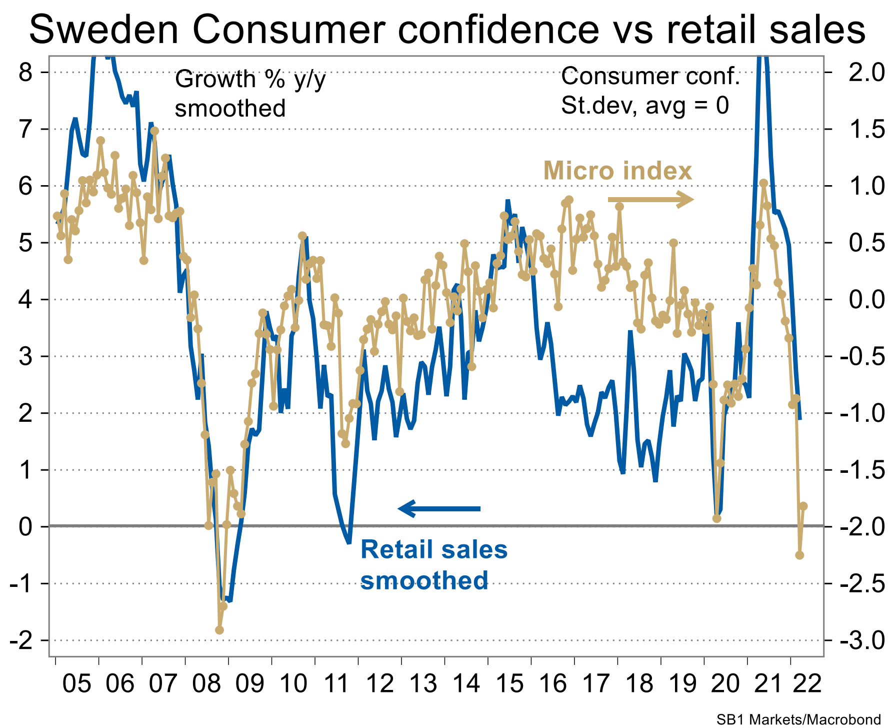


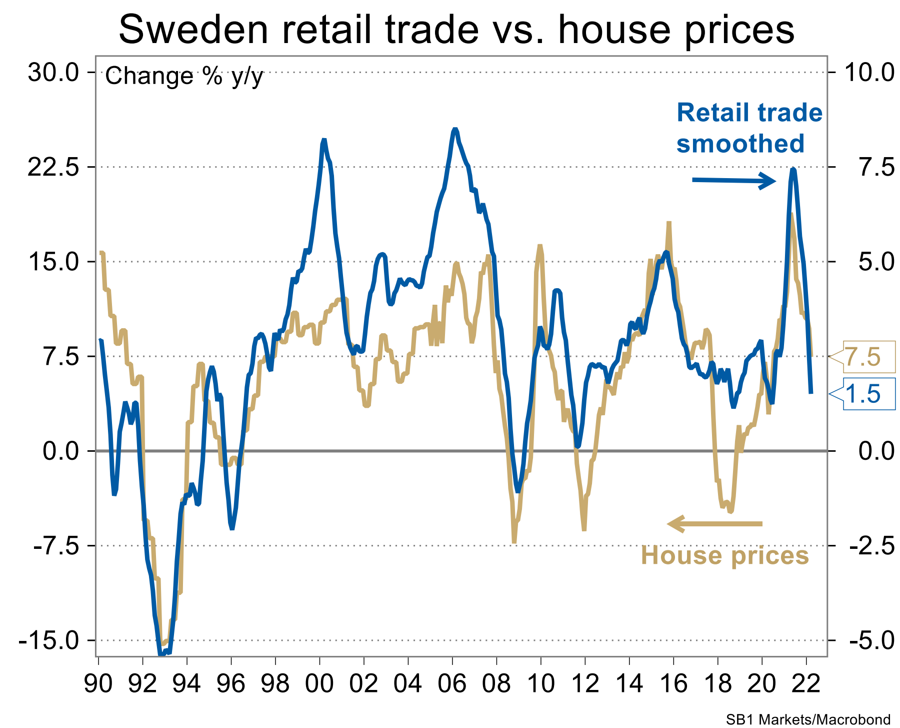


- **The composite index** fell to 0.8 p to 109.5, expected down to 108,0 – or by 0.1 st.dev, to 0.9 above average. The index signals a 6% GDP growth rate
- **All 4 main sub-sectors** are reporting growth far above average. The manufacturing index fell the most in April but remains very strong, 2.2 st. dev above average!

Cons. confidence up in April, from a very low level in March

The war in Ukraine has very likely scared the Swedes, like most others in Europe

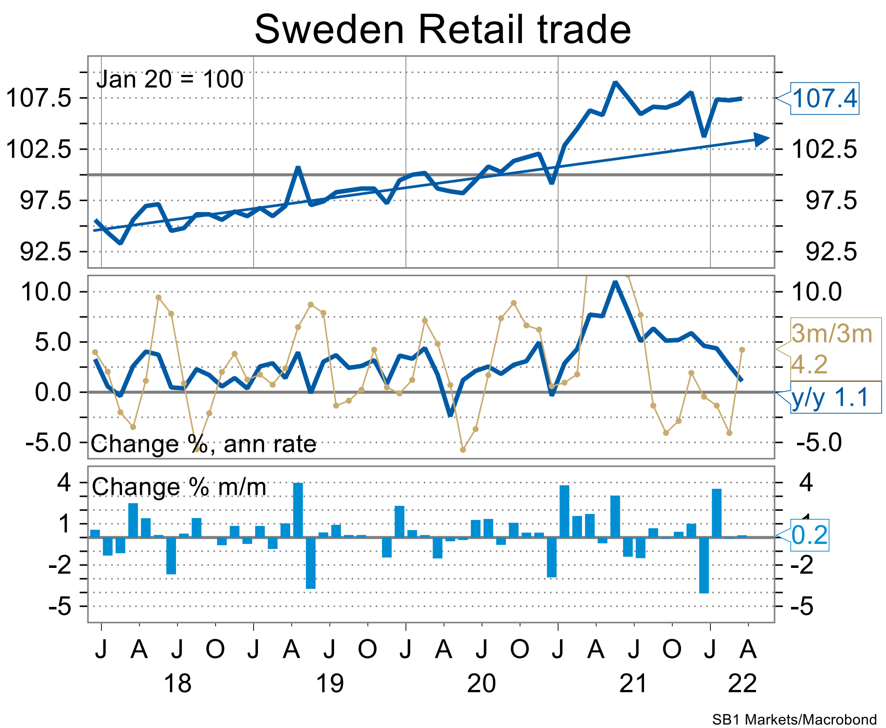


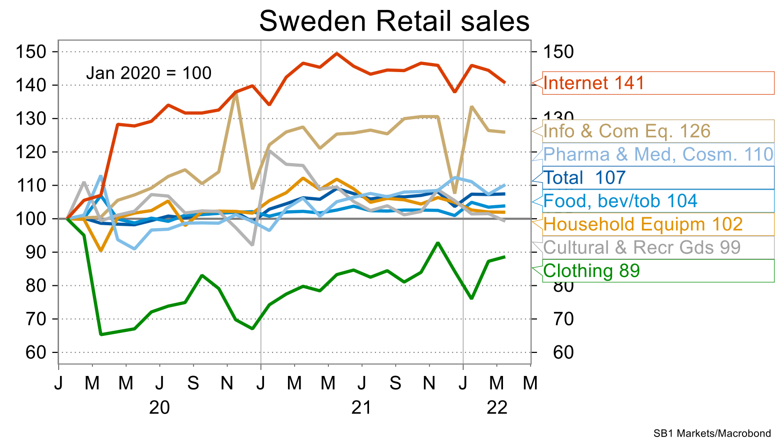


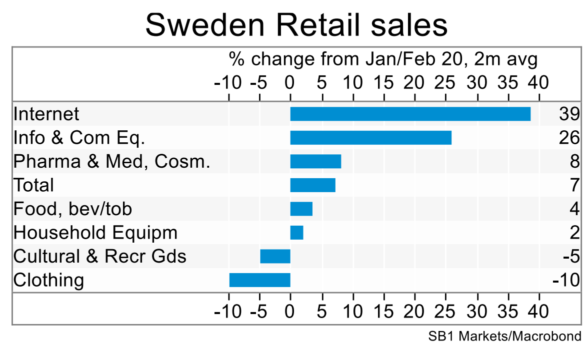
- **Consumer confidence** fell almost to the same levels as during the financial crisis (the pandemic was not as though as the fin. crisis) in March, to 2.3 st.dev below average. In April, the index rose 0.5 pp to -1.8.
- Even if the annual growth rate in retail sales (and house price inflation) have fallen alongside the decline in consumer confidence, sales have not slowed recent months (check next page)
- If sales should slow, higher inflation & now higher interest rates will probably be more to blame than war angst by itself

Retail sales flat in March, the trend is flat - but the level is probably still too high

Sales are 7% higher than before the pandemic, some 4% above the pre-pandemic trend



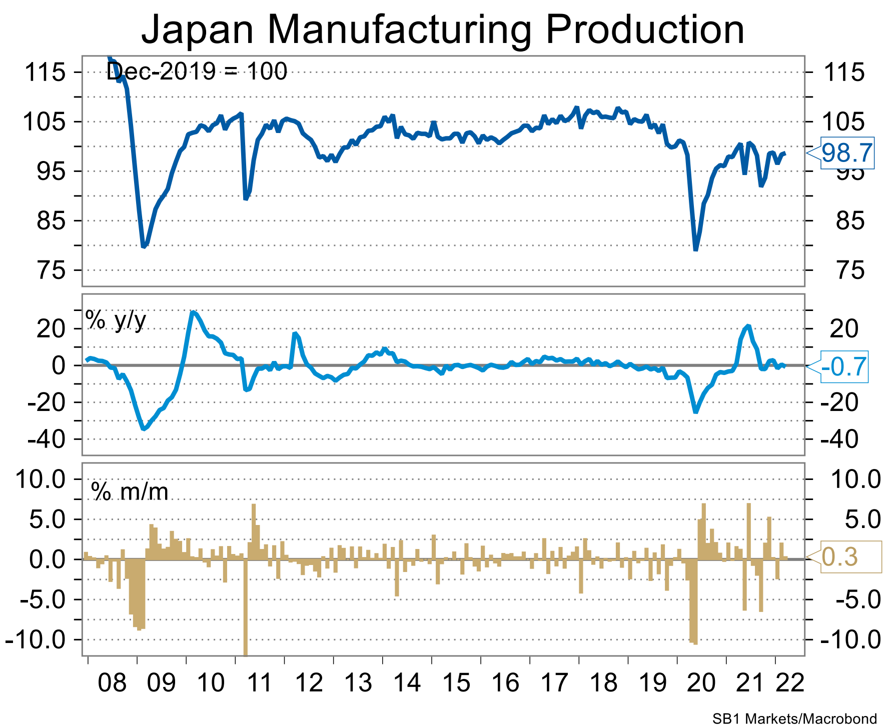


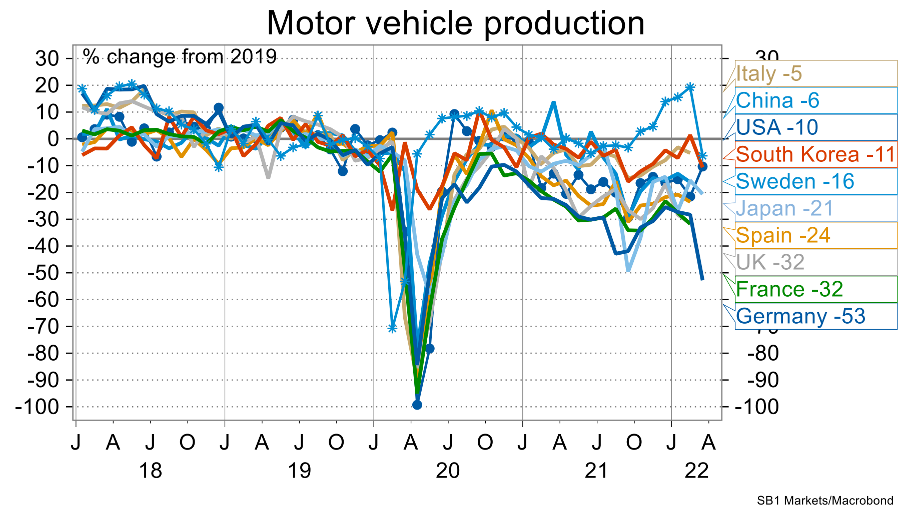


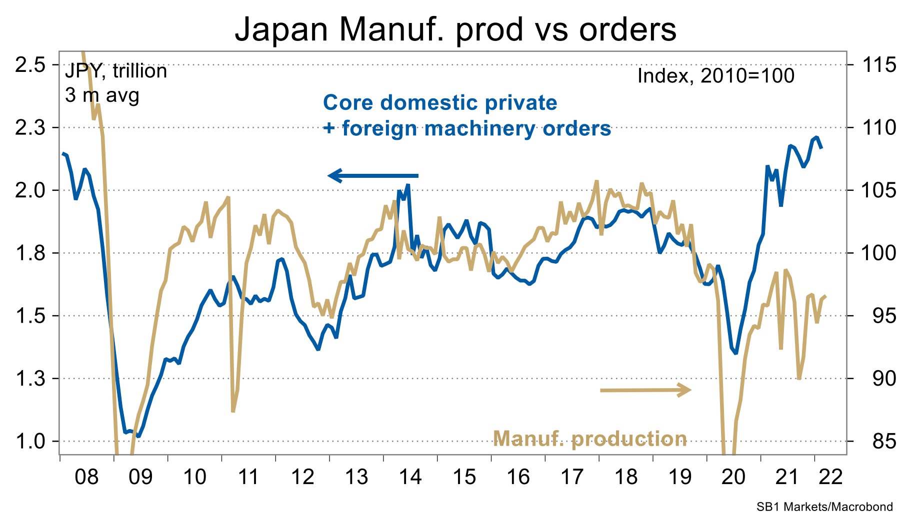
- As for Norway and several other countries: Retail sales are very likely above a long-term trend - but the gap is now gradually closing!
- Clothing is still down 10% vs. the pre-pandemic level, rather surprising

Manufacturing production up 0.3% in March, trend just flattish

… and the level is 1.3% below the (low) pre pandemic level. Auto production down 21%



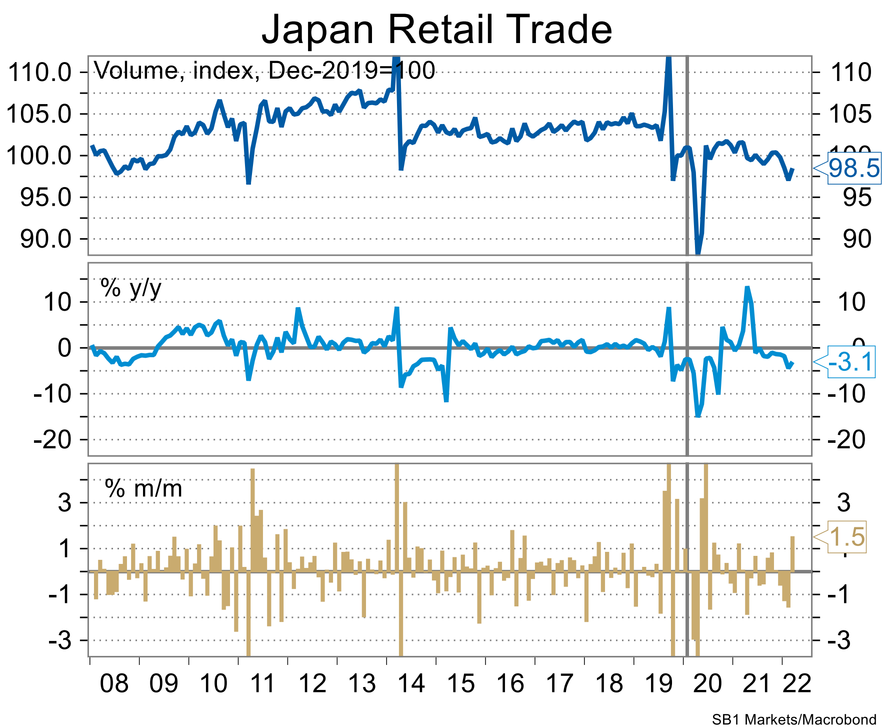


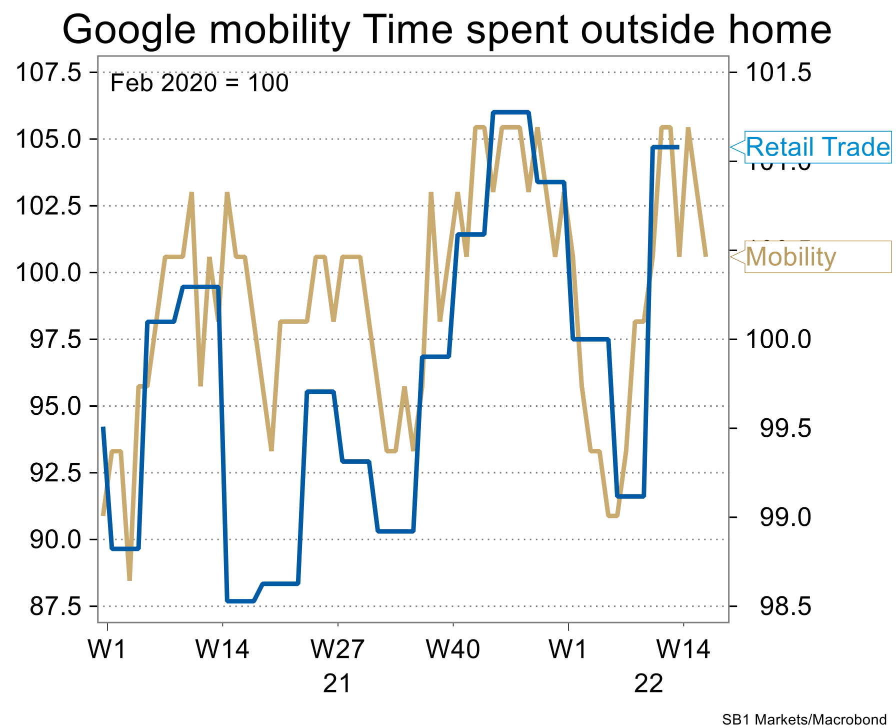


- **Production** grew by 0.3% in March, expected up 0.5%. February was initially reported to 0.3%, now reported to +2%
  - » **Motor vehicle production** is still weak and volatile – and down 7% in March – and it is 21% below the 2019 level
- **Overall order inflow** has strengthened substantially through 2021, and into 2022 signals a much higher production level than the present

Retail sales up 1.5% in March, as Omicron restrictions were eased

Sales are still 2.5% below a low level ahead of the pandemic





- **Retail sales** have been quite closely correlated to mobility (time spent outside home) recent months – and now mobility is close to normal

Highlights

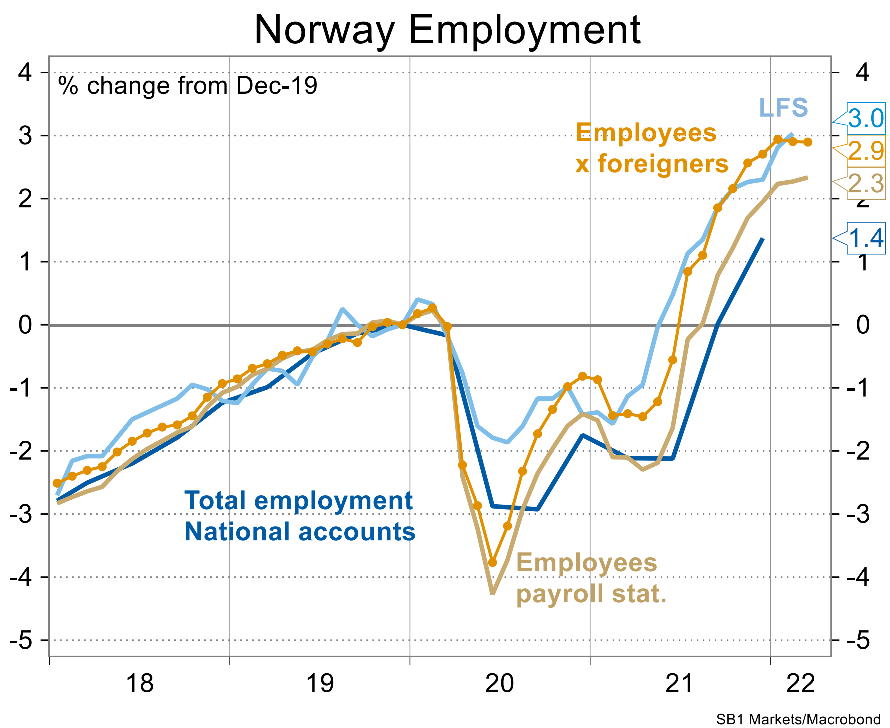
The world around us

The Norwegian economy

Market charts & comments

Slower growth in no. of employees, perhaps

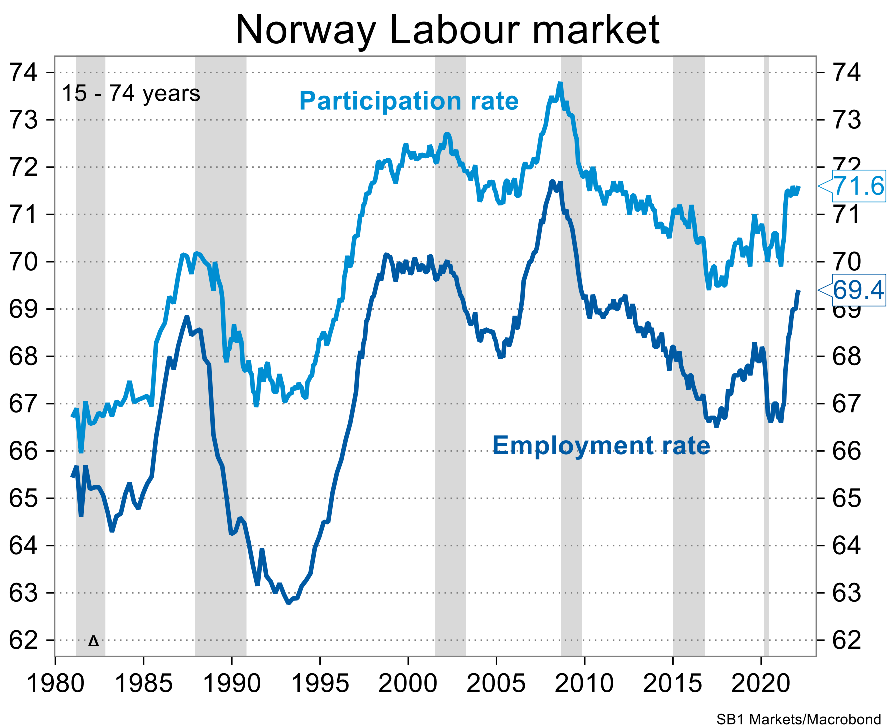
Employment rose by 0.1% in March, following a similar uptick February, revised from a 0.5% decline



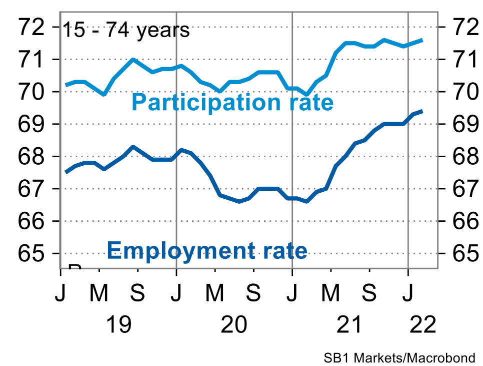
- The February revision of was much larger than normal, and we to not assume it will be repeated (and there is not bias in the first estimate vs. the final outcome)
- The no. of employees grew at at 1.5% pace past 3 months and are up 2.3% vs. the Dec-19 level
- We do not yet have Q1 data for foreign residents on temporary employment, but assumes a further increase through the quarter.
  - » Thus, employment among residents will grow slower than the total – and may have flattened in February and March
- We expect employment growth to slow due to lack of available labour, not due to lack of demand
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) reported 0.2% growth in Feb (avg Jan – March from avg Dec – Feb), and by a 3.0% pace over the past 3 months
  - » LFS employment is up 3.0% since before the pandemic, and both participation and employment rates are far above the pre-pandemic level – and the LFS unemployment rate has 'collapsed', now to 3.1%
- **National Accounts** reported a 1.4% growth in total employment in Q4 (5.5% annualised) – and the level is up 1.4% vs. Q4-19. These NA data includes foreigners on short-term stay

The participation rate has flattened since last summer

No further lift since last summer signals that the reserve is already engaged, no spare capacity left?

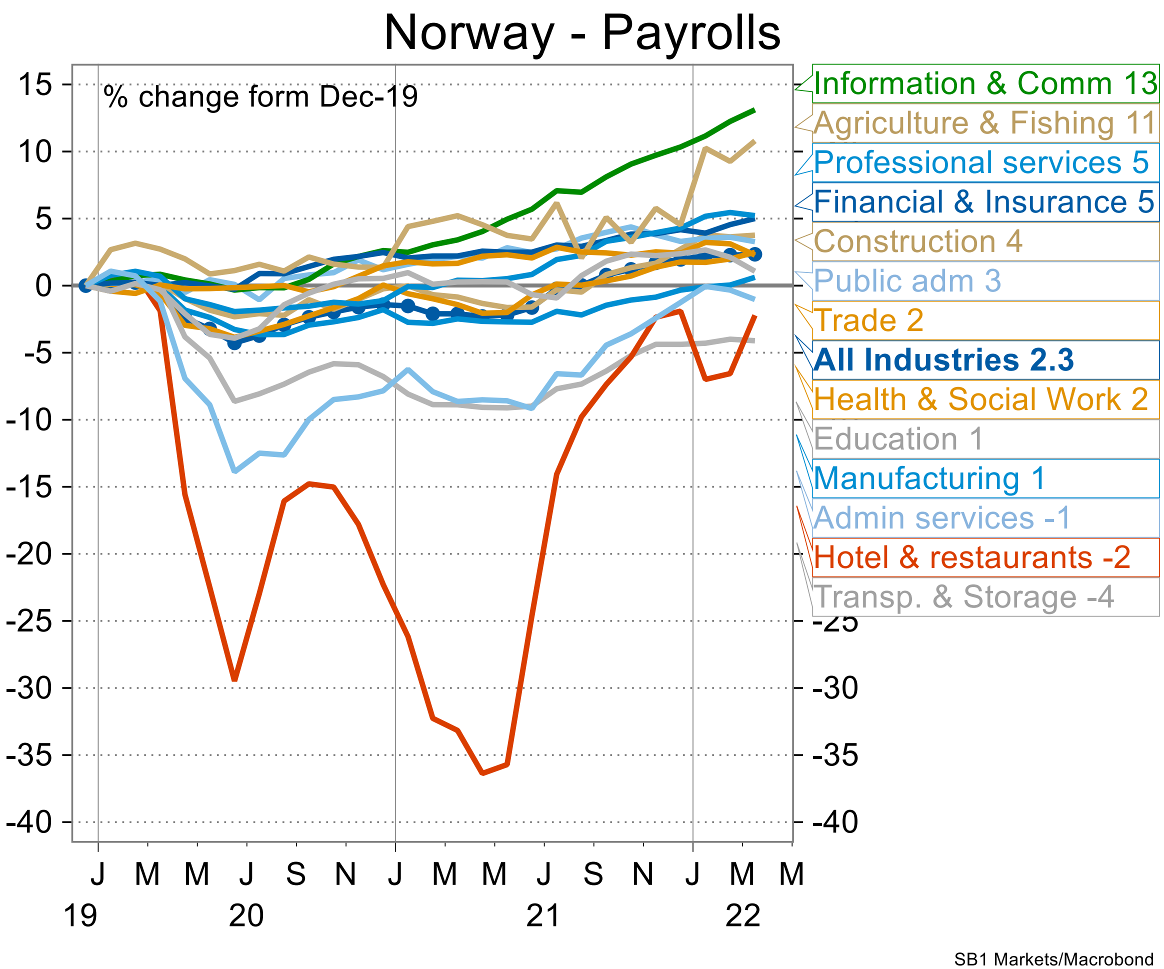


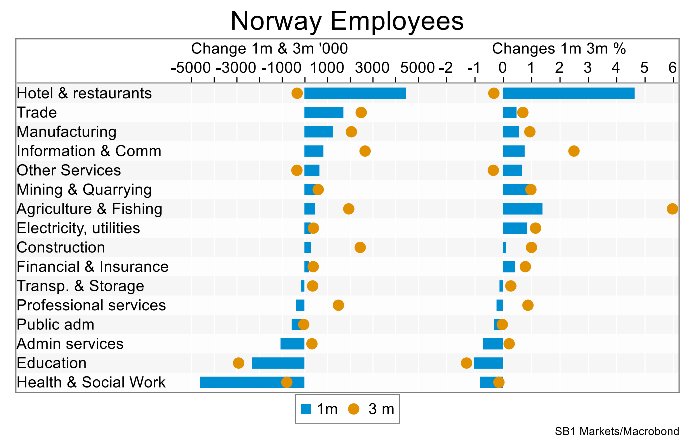
- **The employment rate** rose 0.1 pp to 69.3% in Feb
  - » Ahead of the pandemic the rate was 68.1 – 68.2, and it is up from the 66.4 through in early 2021 (and from the same level in 2017, after the 'oil crisis'). The employment rate is measured in % of the working age 15 - 74 y population
  - » The employment rate is the highest since ~~2012~~ 2009
- **The participation rate** gained 0.1 pp to 71.6% in Feb. This rate has been flat since early last summer – at the highest level since 2012
- These monthly data are volatile but the flattening of the participation rate since the last summer even if demand for labour is still increasing may indicate that the easy part of 're-engagement' is behind us
- **Working age population** growth is 0.4% over the last year (Q4 est), in line with the moderate growth ahead of the pandemic

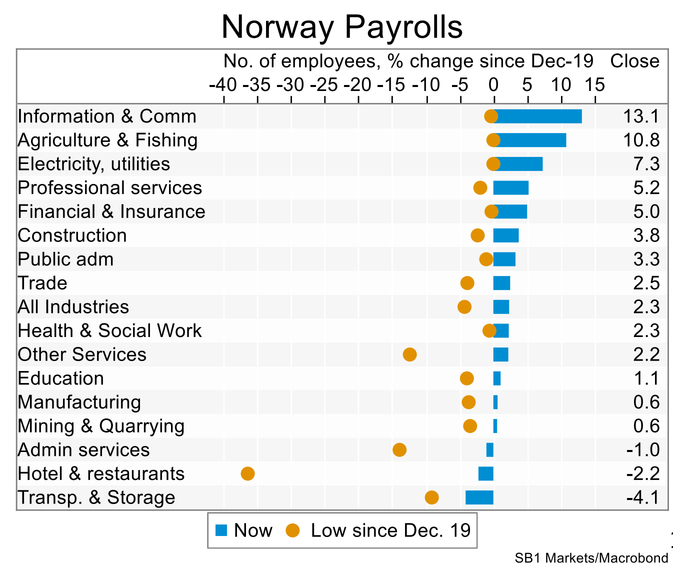


Employees: Just 3 service sectors below the pre-pandemic level

Public sector employment (health/educ.) has fallen recent months. Hotels & rest. sharply up in March







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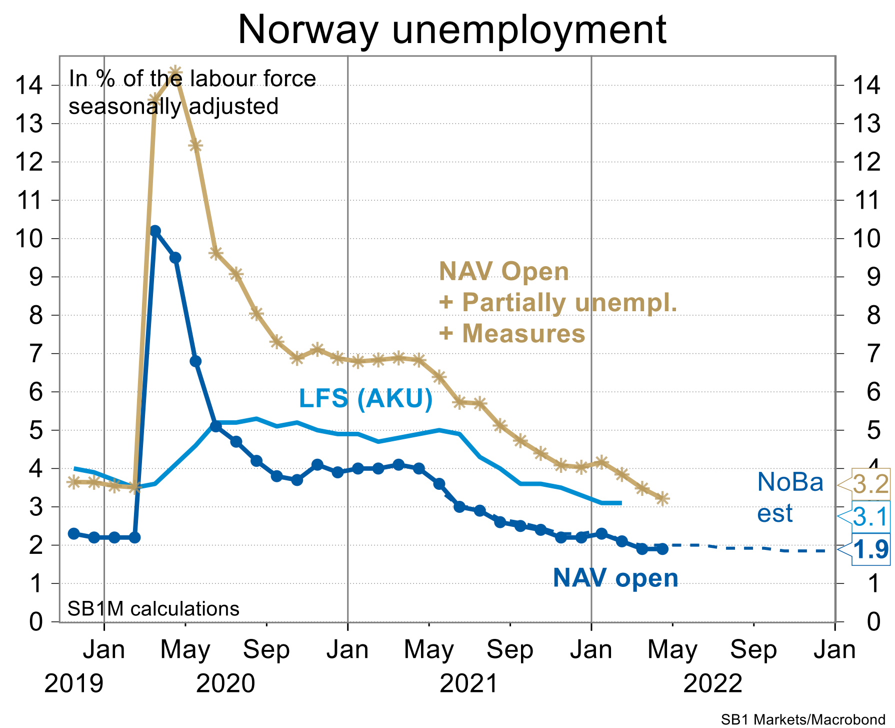
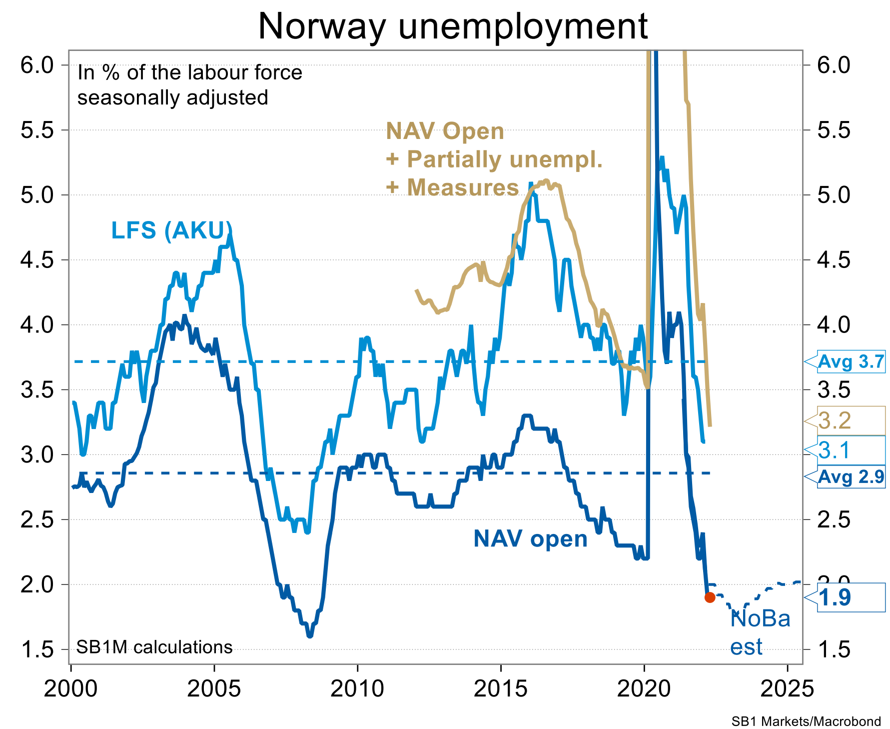
NAV unemployment further down, even if the 'main' rate was unch. at 1.9%

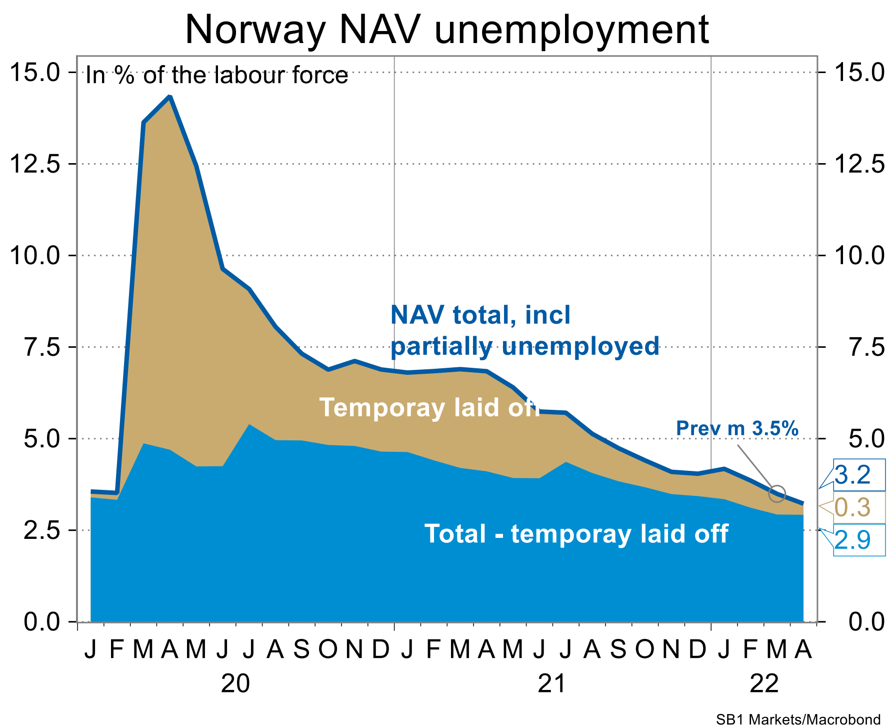


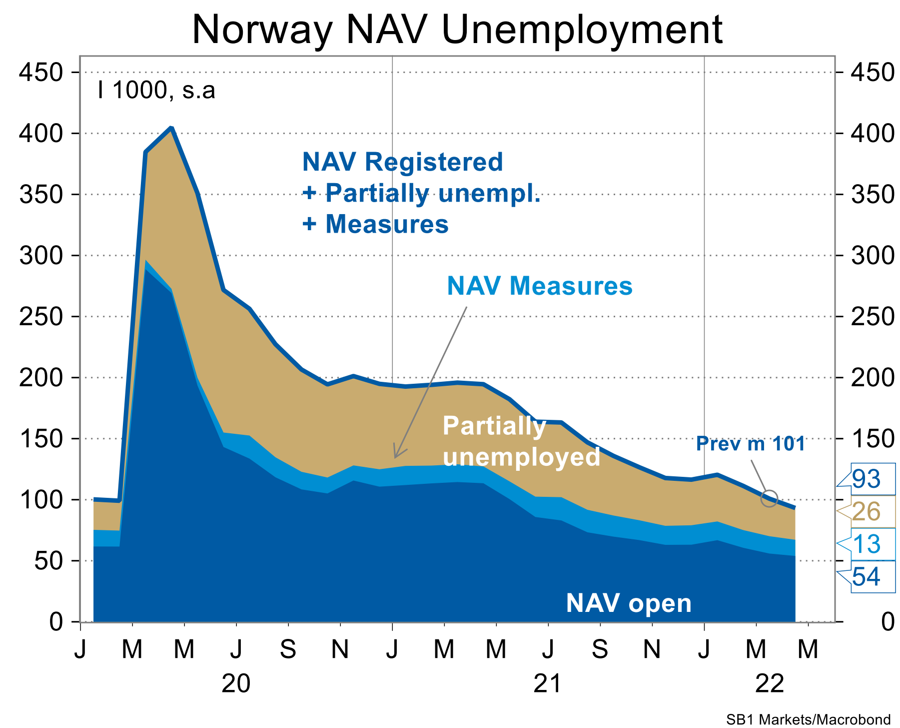


- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 2' persons in April (seas. adj) to 54', marginally above our forecast. Unadjusted, the rate fell 0.2 pp to 1.9% , as expected (we expected 1.8%). Seas. adj, the rate was unch at 1.9%, 0.3 pp below the pre-pandemic level – and 0.3 pp above the 2008 trough – and 1 pp below average. The rate is 0.1 pp below NoBa's estimate in the March MPR
- The number of **partially unemployed** (not incl . in the ordinary unemployment no.) fell by 5' to 36', and including measures, the **total unemployment** fell by 8' to 93', 7' below the pre-pandemic level. <u>The overall rate fell by 0.3 pp to 3.2%, and there is no decline in the speed of decline</u>
- The inflow of **new job seekers** was unch at a record low level in April. The **inflow of new vacancies** fell marginally but is close to the ATH Feb
- **The LFS (AKU) unemployment rate** was 3.1% in Feb, unch from a 0.1 pp downward revised level in Jan

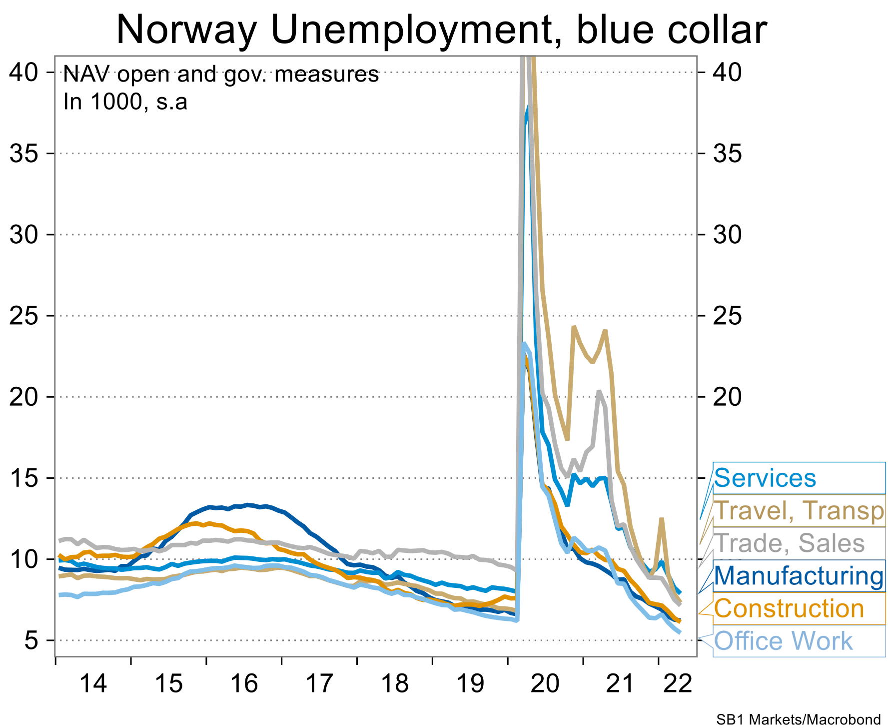
Down, down, down – whatever measure we apply

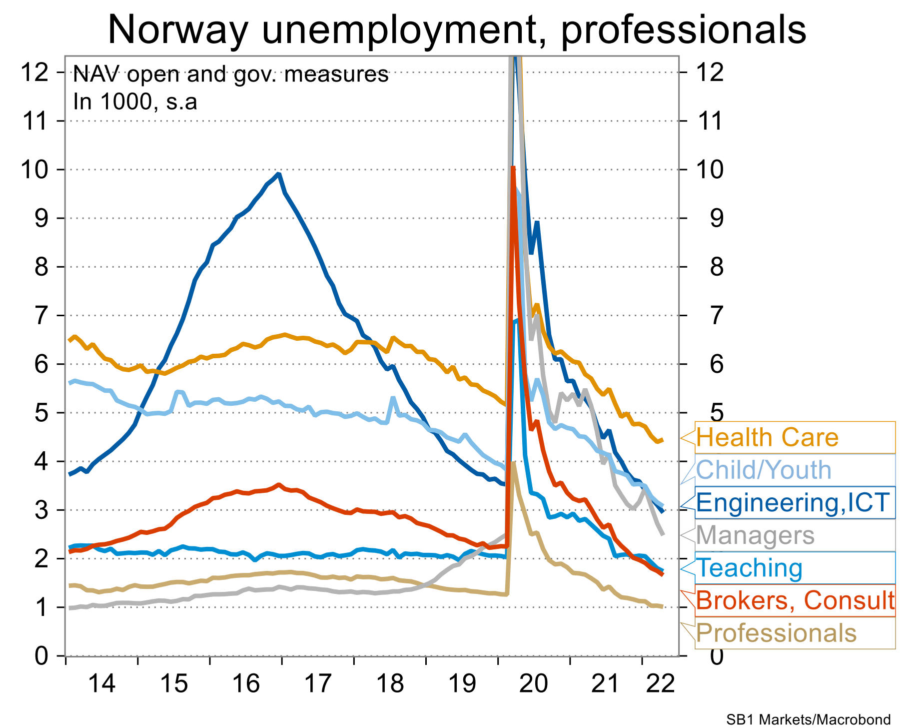
Grand total unemployment is now 7' below the pre-pandemic level





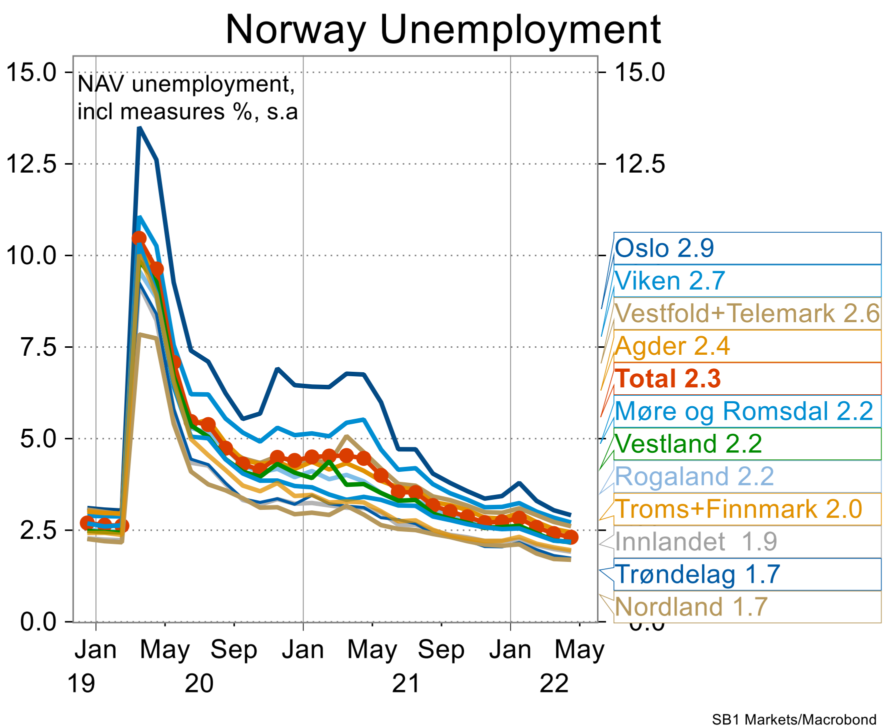
Unemployment is declining for all sorts of labour

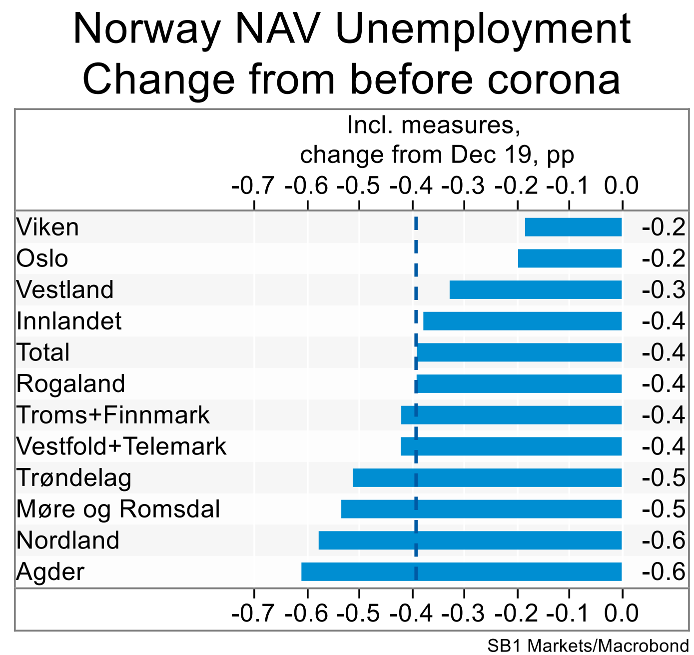




Unemployment (incl. measures) below the pre-pandemic level everywhere

Unempl. is declining in almost the same speed in all regions – and is well below avg everywhere



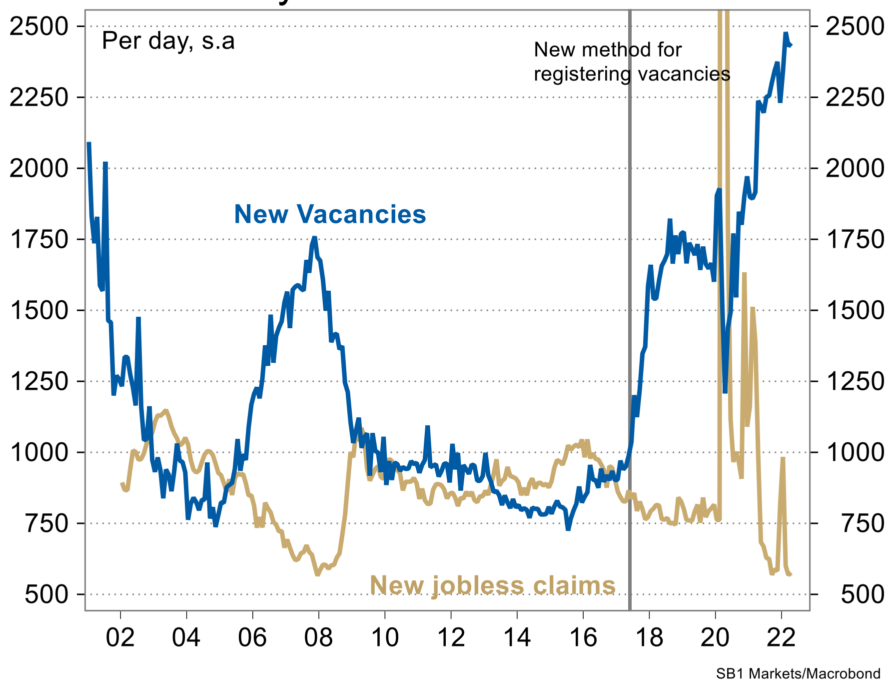


- Nordland and Trøndelag at the bottom – Oslo at the top, as usual

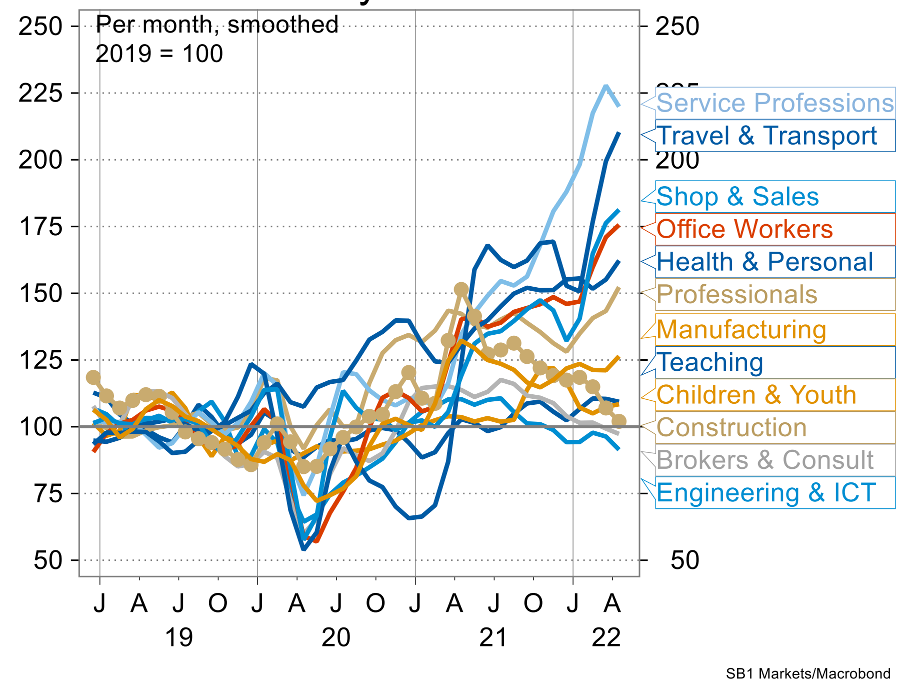
New jobless claims at a record low level

And new vacancies are at a record high level, both signalling a very tight labour market

Norway Labour market balance



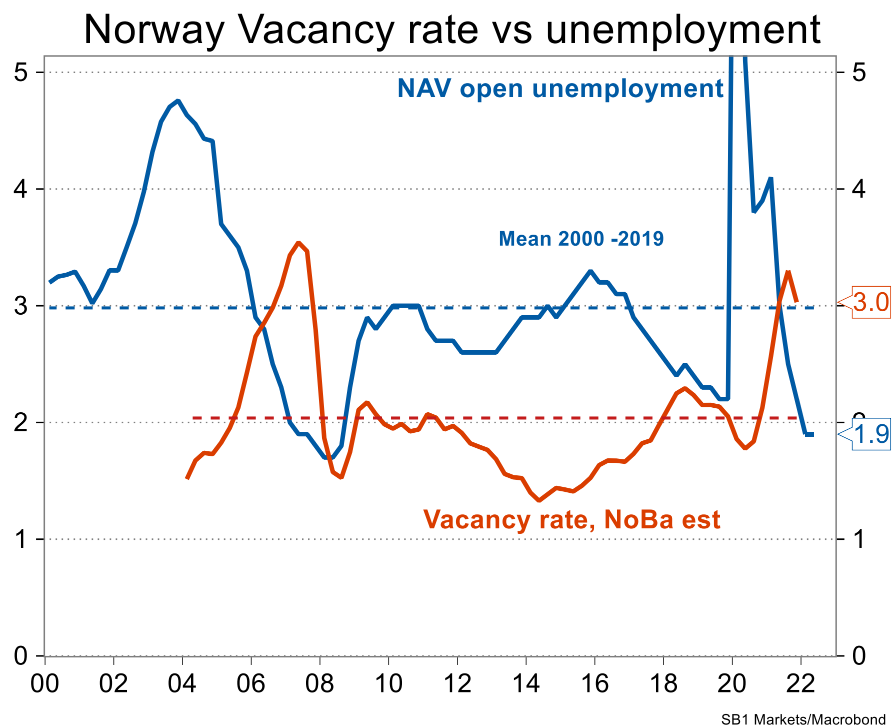
Norway New Vacancies

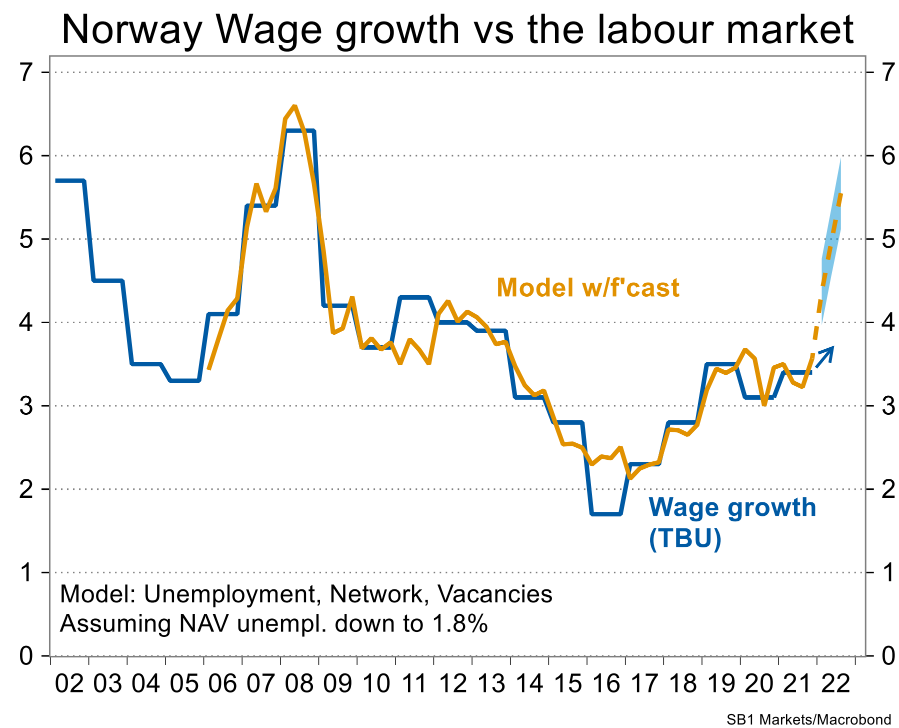


- Most sectors have announced more new vacancies, especially in service professions
- Some sectors are slowing down: Construction, engineering and brokers and consultants, still (mostly above the 2019 level

Can wage inflation climb above 3.7% in 2022/23? Our simple model suggests so

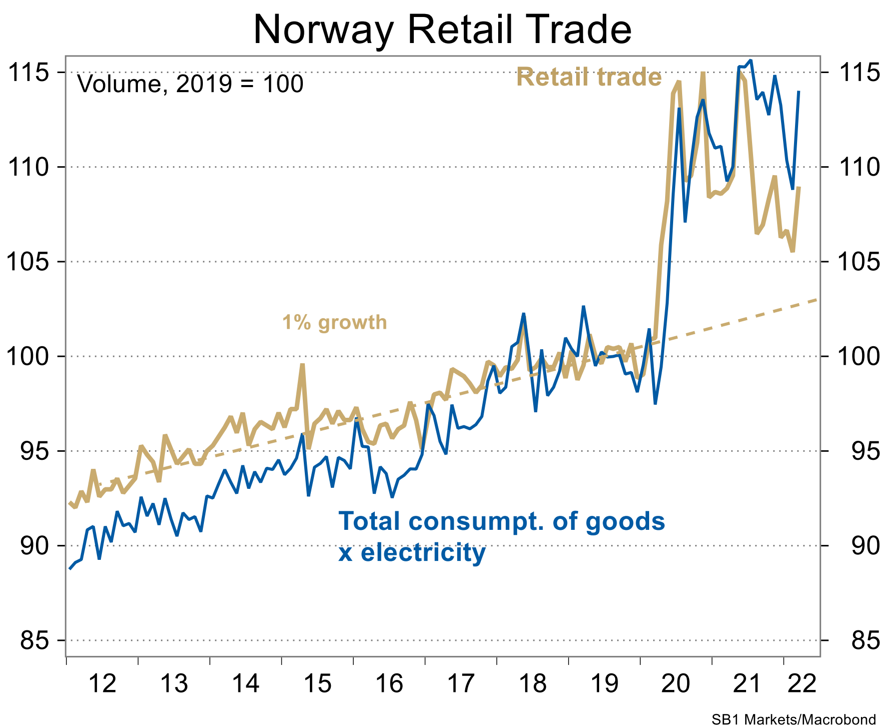
The labour market is tight – and it is probably tightening further

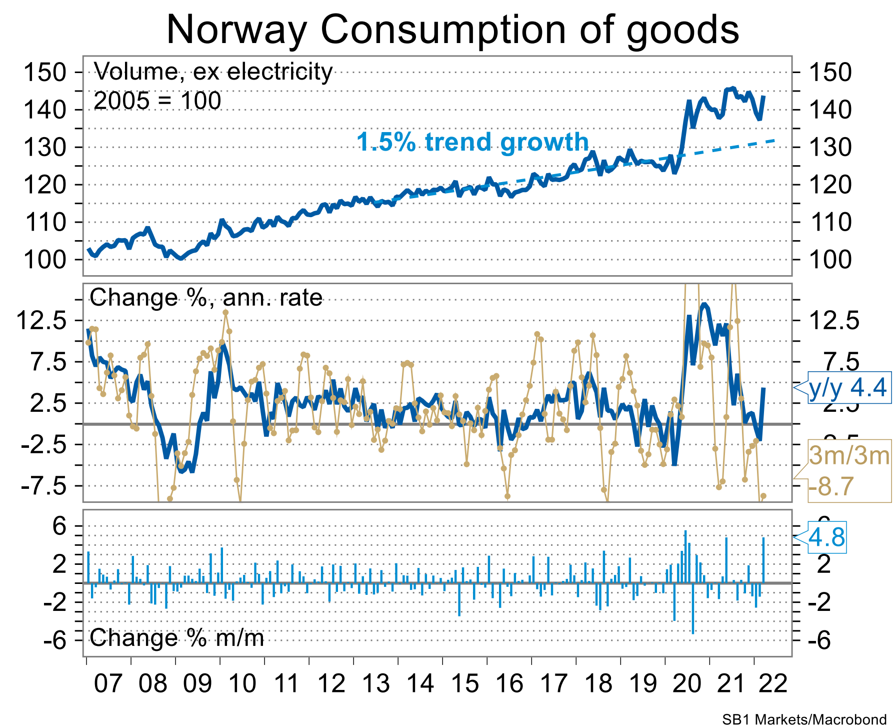




A ‘small’ retail sales upward correction – clothing up 28%, sport equipm. 10%

Retail sales rose 3.3%, and total consumption of goods 4.8%. New expect a reversal coming months

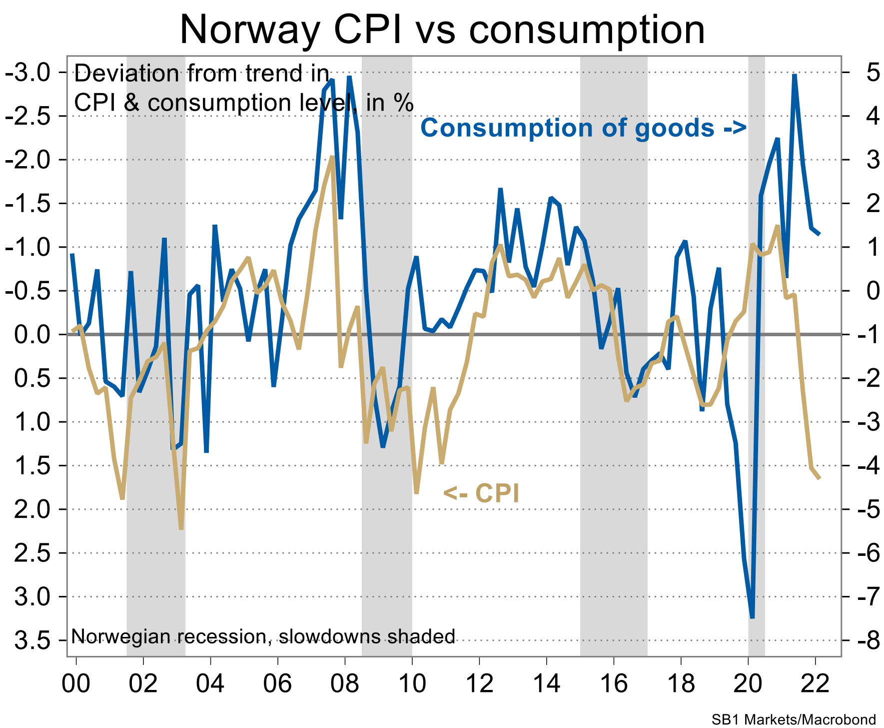




- **We expected** unch sales m/m in March
- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth paths. After the March surge, sales/total consumption of goods are well above our estimate of the long term trend (which though is somewhat higher than the anaemic pre-pandemic growth path)
- Some sectors reported unusual sales gains (in volume terms) in March, in spite of the unprecedented decline in consumer confidence, higher inflation & the 2nd rate hike from Norges Bank. Clothing was suddenly reported 36% above the average 2019 level, and sport quipment as well as household equipment added 10% m/m

Higher consumer (electricity) prices may dampen consumption

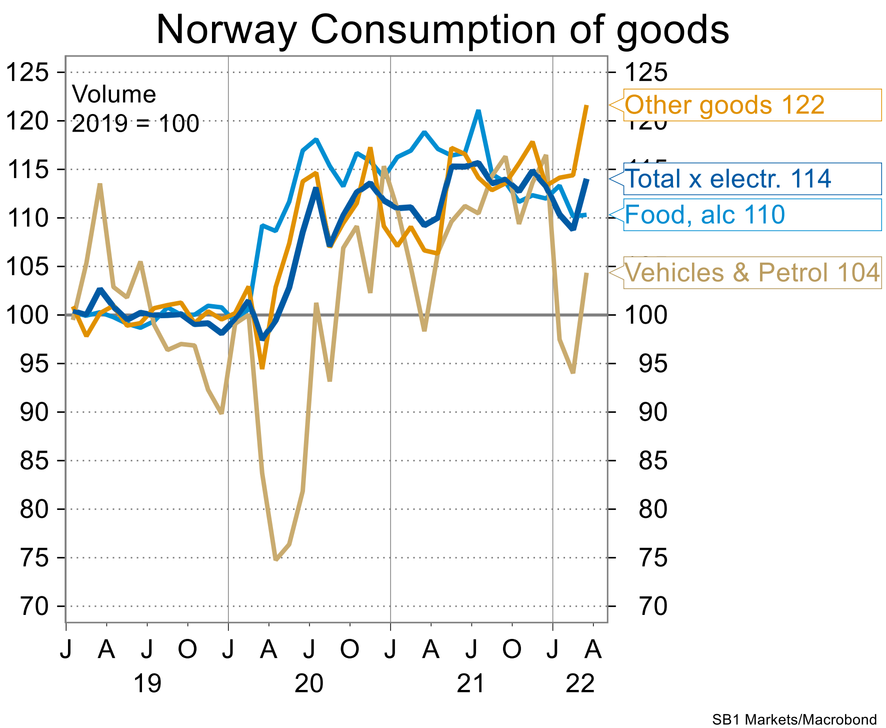
Consumption of goods (volume) are negatively correlated to changes in consumption prices

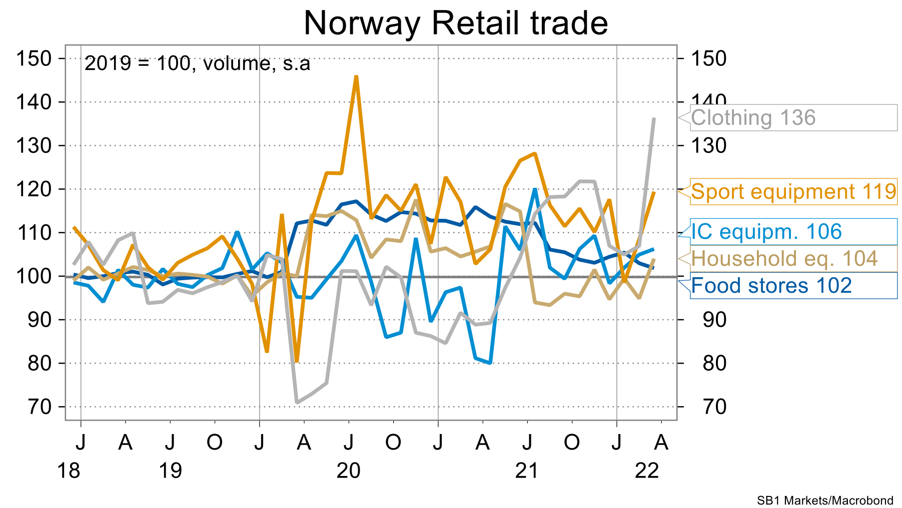


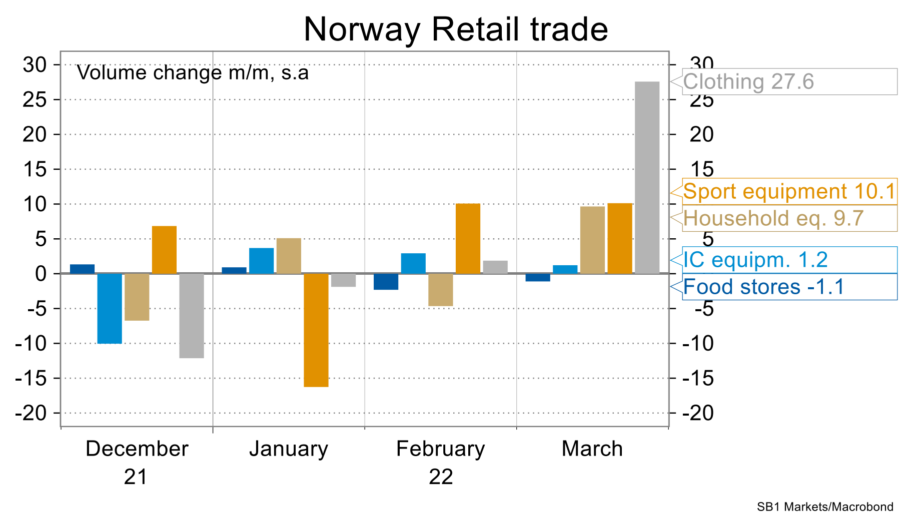
- The elasticity for consumption of goods vs. changes in headline CPU is some -2, probably as consumption of services normally are more stable than goods – and because high prices normally are associated to a weak Norwegian economy (like oil prices down, NOK weaker, higher imported inflation
- So far, consumption of goods has not collapsed even if the price level is above trend

Clothing/foowear up 28% m/m in March, sports & household equipment +10%

Food consumption flat – still above a normal level

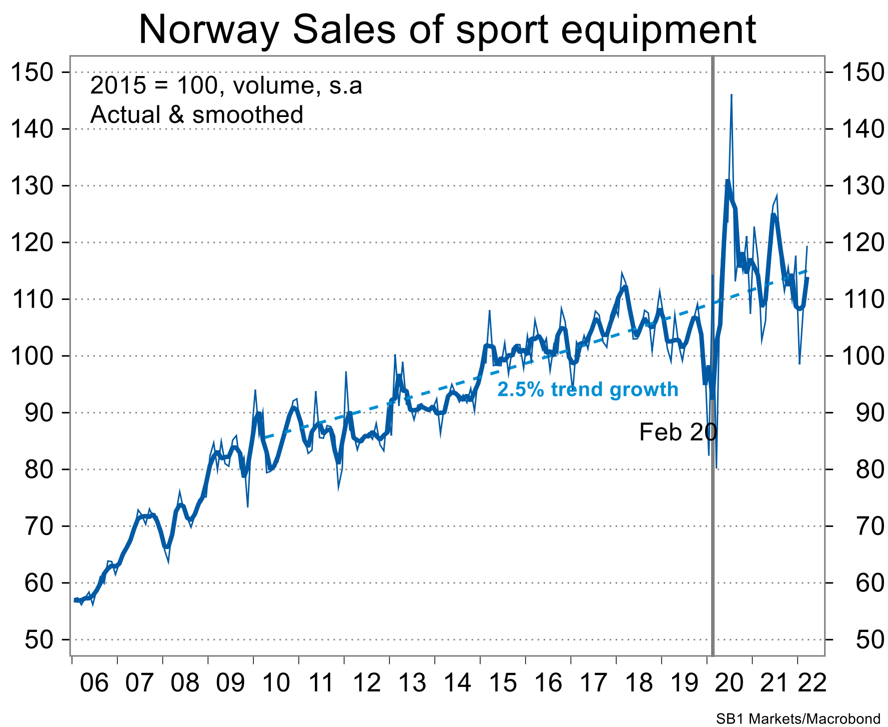






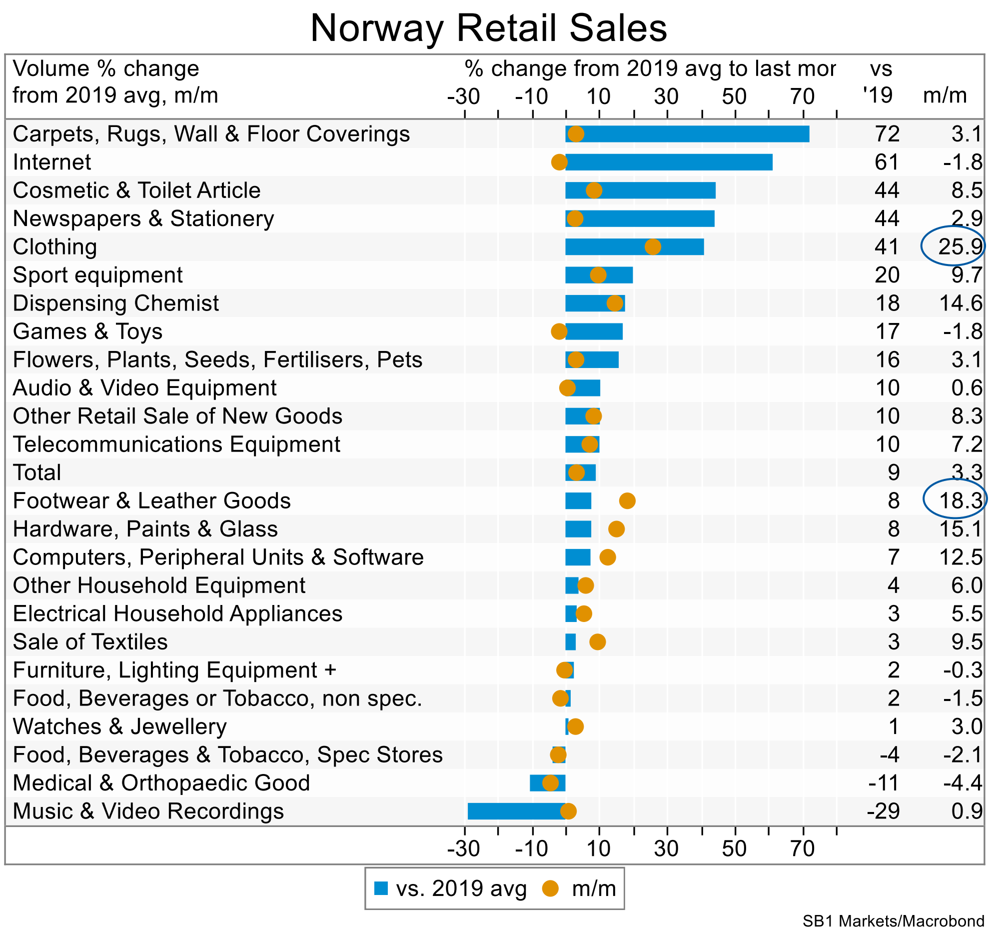
Sport equipment: Sales are trending down

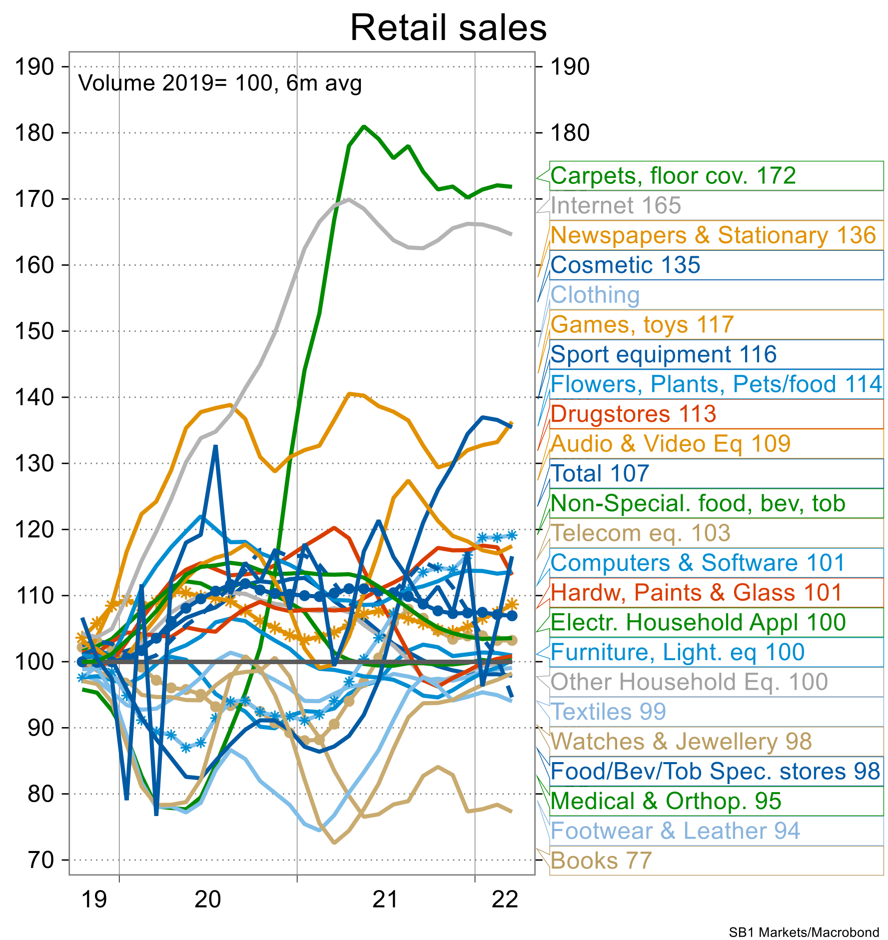
... but has recovered back up to the pre-pandemic trend path



Since before the pandemic: Still huge sectoral differences in sale volumes

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





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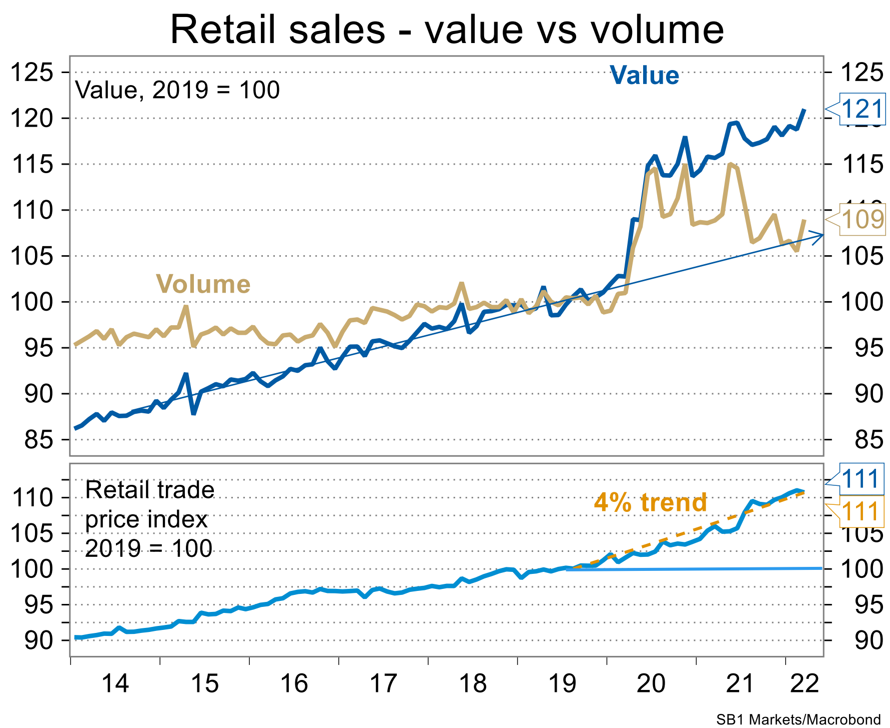
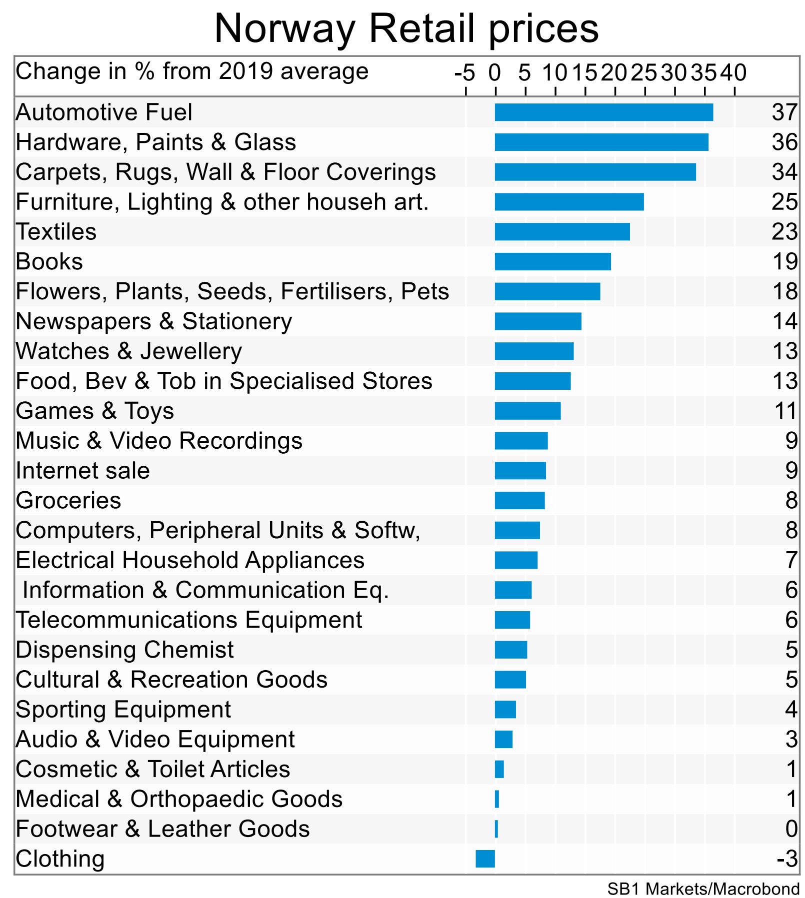
Retail sales value vs. volume – and what's between

Retail prices have been increasing at a 4% pace since 2019, in sum by 11%

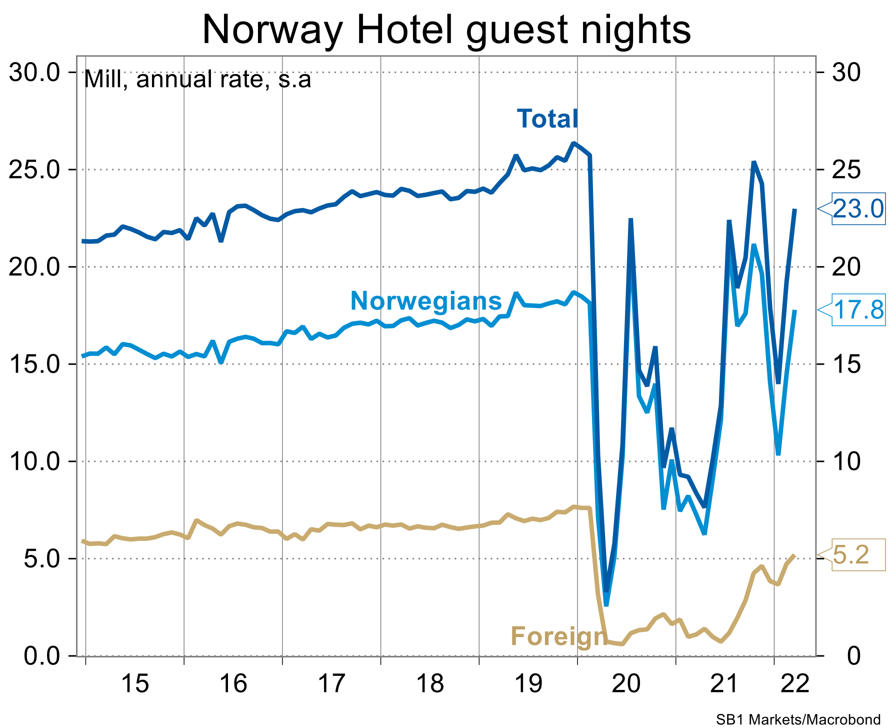


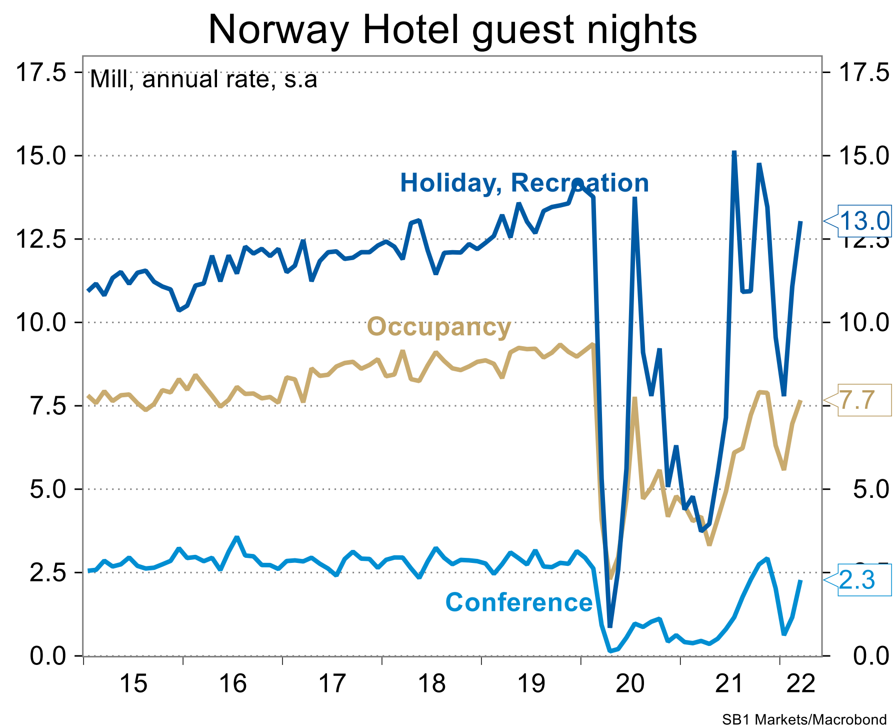


- Retail sales, measured in value terms, are 21% above the 2019 level and some 14% above the pre-pandemic trend
- Huge differences is price changes:
  - » Floor coverings, hardware (building materials) are up 34 – 37%, furniture 25%
  - » At the bottom of the list: Sport equipment is up just 4% and clothing is down 3%!

More hotel guest nights in March - and April will be even better

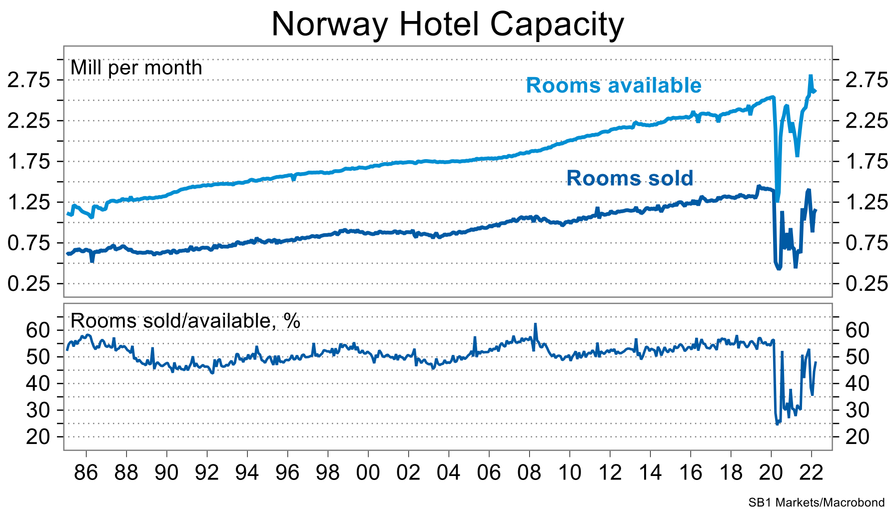
Recreational demand close to a normal level – even if foreign guest nights still below the pre-p. level

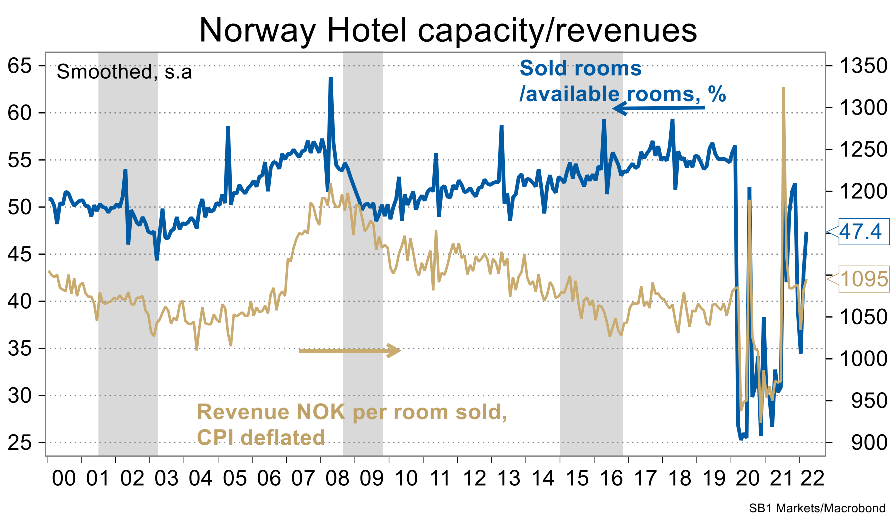


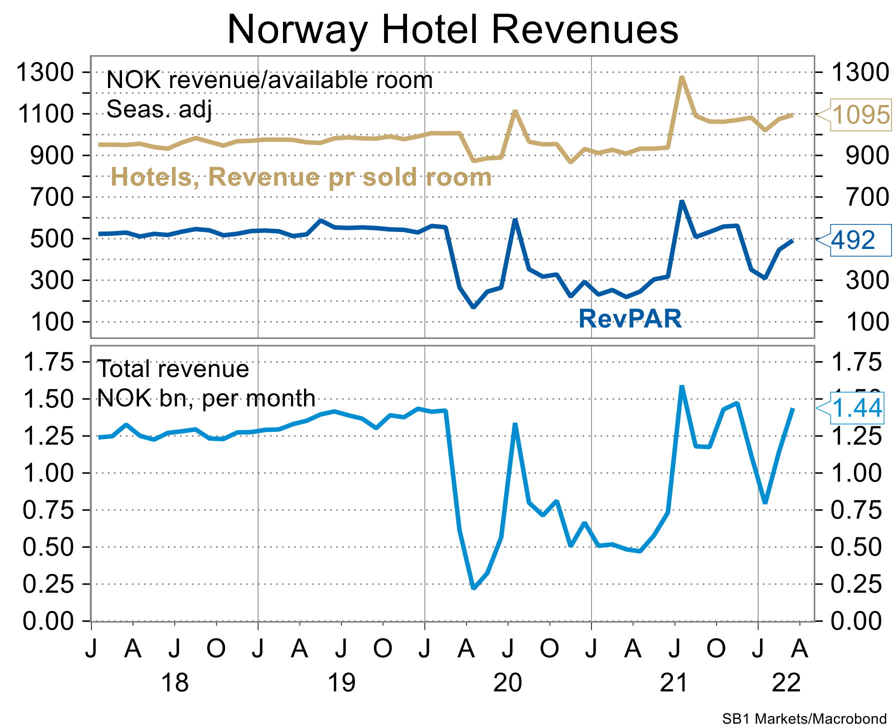


- Total number of guest nights is down less than 10% vs the 2019 level

Capacity up, utilisation down 15%. Prices +20%, and total revenue >2019 level



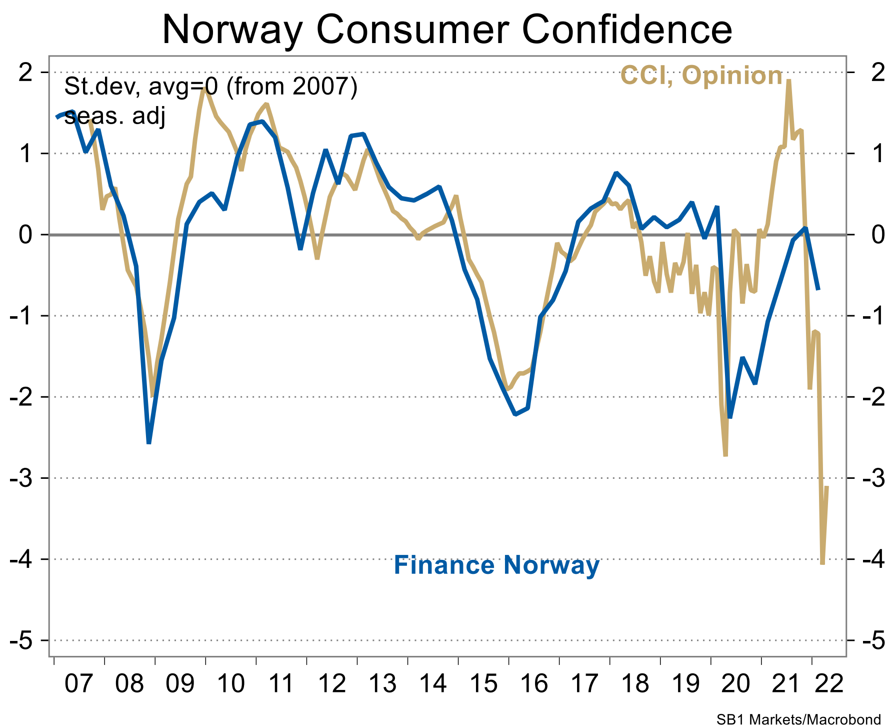




- **Capacity utilisation** (room sold vs. rooms available) was 47.5% in March, down 15% from the 2019 level
- **Revenue per sold room** is up 20% y/y, and more than 10% above the 2019 leve
- **RevPAR** (revenue pre available room) is marginally lower than in 2019, in nominal terms (and significantly down in real terms, or deflated by the wage level)

Consumer confidence up in April but still -3.1 st.dev below average!

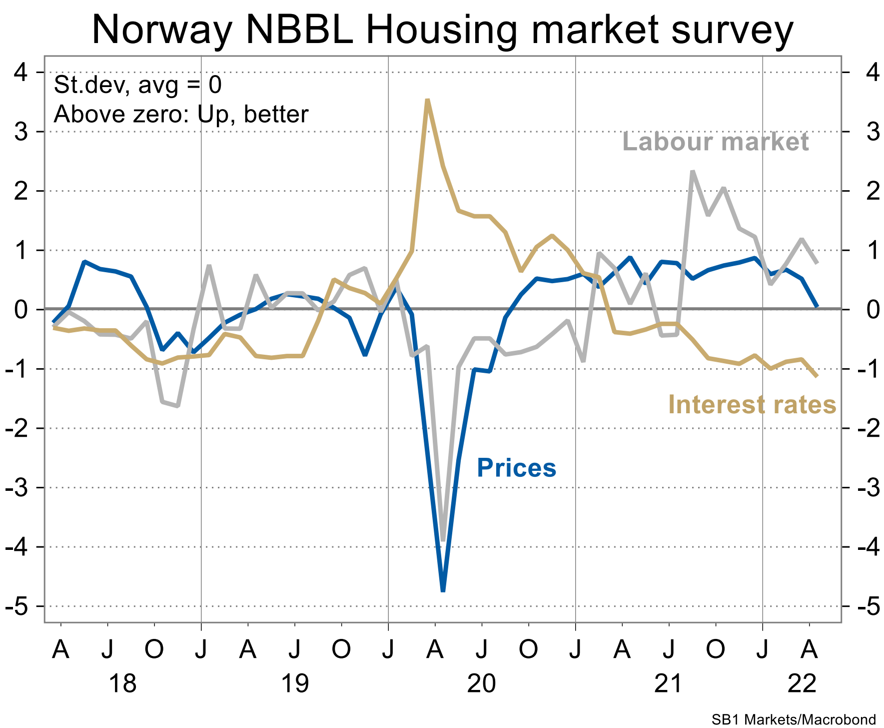
… which is the second weakest print ever

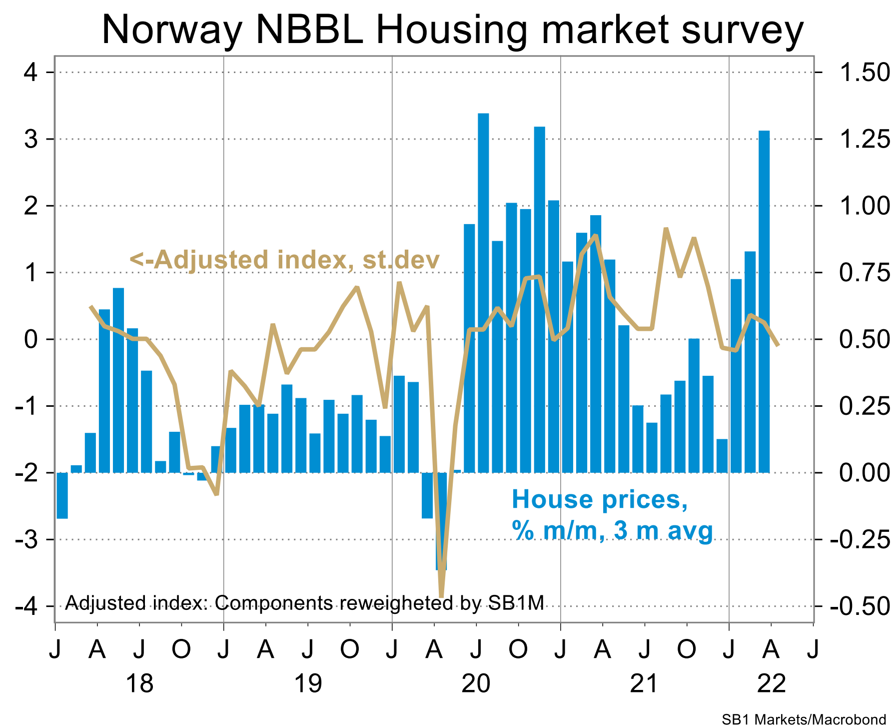


- **The decline in CCI** from Opinion in March was the largest one month drop ever, to the lowest lever ever – rather dramatic
  - » **The war in Ukraine** was the only news since the previous survey was conducted that could explain the unprecedented drop in confidence
  - » **Fear of higher inflation** – also present before the invasion – may also have explained some the drop – and the level was well below average in both Dec, Jan & Feb, very likely due to the steep rise in electricity prices
  - » **Norges Bank's rate hike** in March and the lift in the interest rate path were announced after the March survey was conducted
- **In April**, the CCI rose 0.9 st.dev to -3.1 below average, still an extreme data point of course
- **Will consumption** follow suit? In March, retail sales rose 3.3% and house prices rose sharply. Thus, in March, no close correlation ☺

NBBL Housing Market Survey: Sentiment at an average level in April

Interest rates are a drag, the labour market is OK. Price expectations have slowed, but are not weak



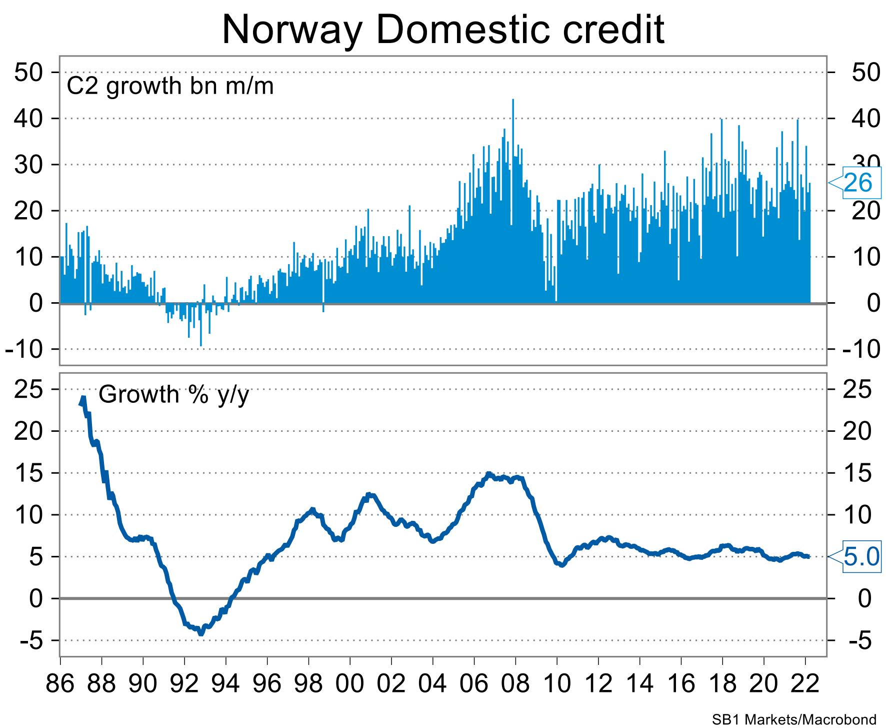


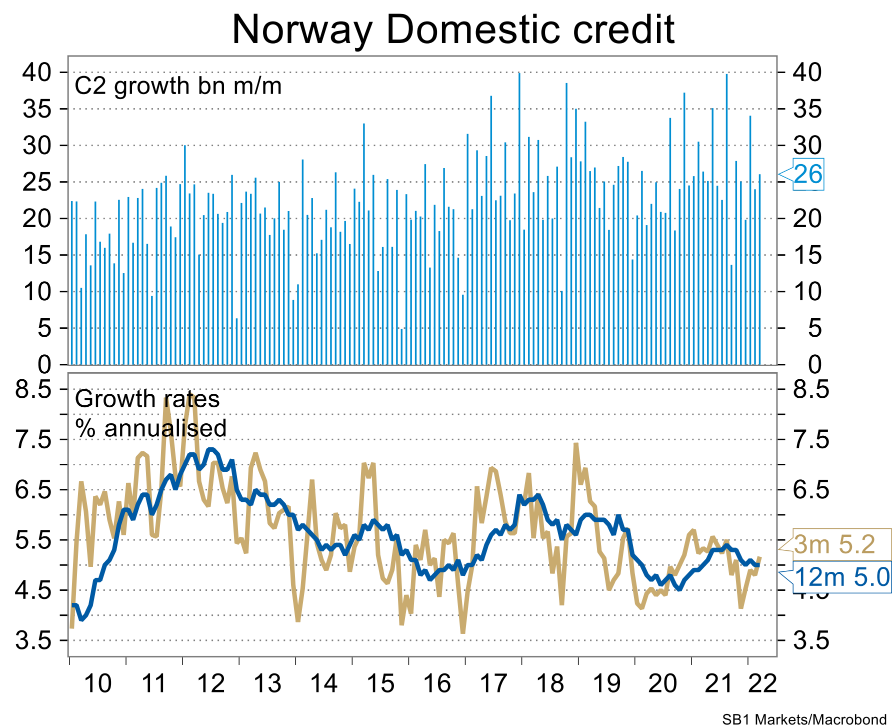
- The share of households expecting higher interest rates have increased gradually – and is now almost at 90%, at the highest level ever
- The assessment of the labour market is still positive (and climbed in April)
- An average no. of households expect house prices to increase, the weakest print since August 2022

We have adjusted the assessment of the labour market in August 2019, and reweighted the index to take different amplitudes for the 3 sub-indices into account.

Domestic credit growth (C2) growth 0,2 pp higher than we expected

.. Even if household debt growth was lower: Businesses and local governments increased their debt more

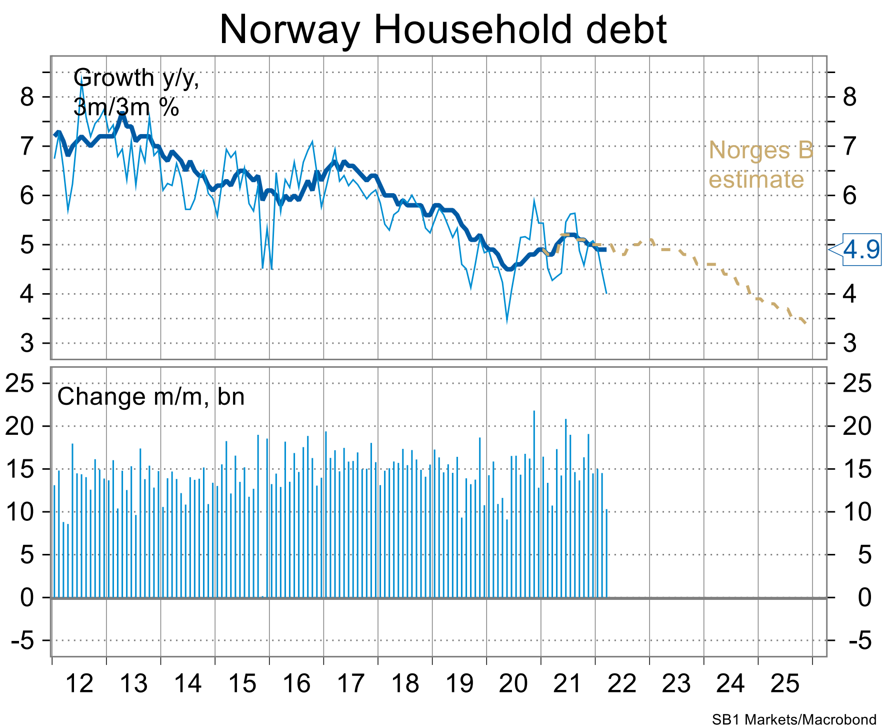


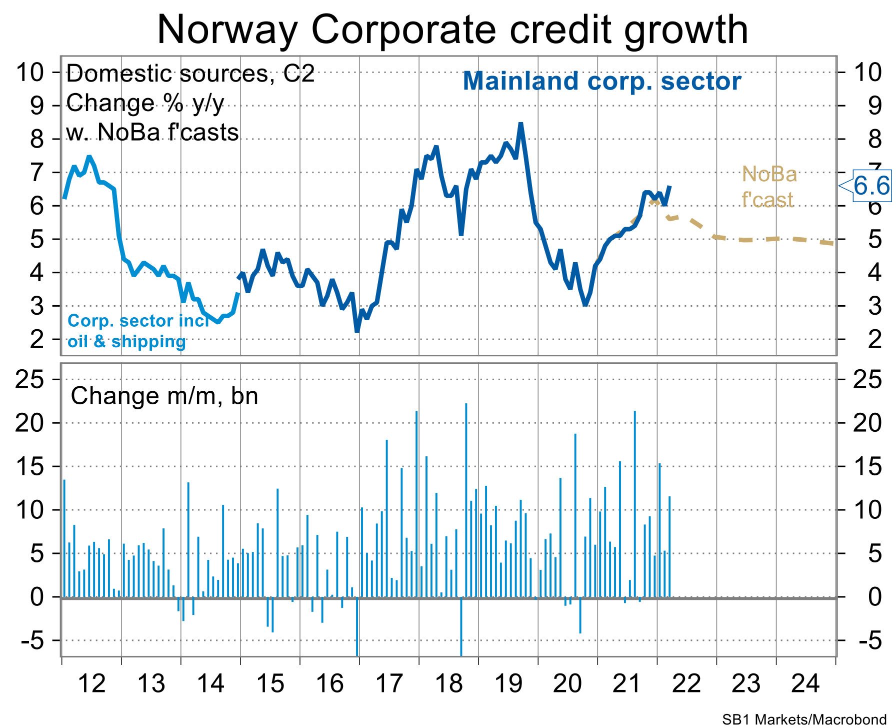


- **Total domestic debt** (C2) rose by NOK 26 bn in Marc, up from 24 bn in Feb. Feb was revised up 3 bn, and Jan was revised up by 6 bn. The annual growth rate was unch at 5.0%, though up form prev. reported 4.8% in Feb. The 3m/3m growth rate is at 5%. <u>We are not witnessing any credit boom. However, debt levels are high, especially for the household sector</u>
- **Household credit** <u>rose by NOK 10 bn</u> in Feb, we expected NOK 16 bn. The annual rate rose to was unch at 4.9% (revised down from 5%)
- **Corporate C2 credit**, <u>rose by NOK 12 bn</u>, 6 bn more than in Feb (even after Feb was revised up to +5 bn, from 1 bn), and 5 bn more than we expected. The February annual growth rate was revised up by 0.8 pp to 4.8%, and rose further to 5.0% in March, far above our f'cast. **Mainland corporations** increased their debt by 6.6% y/y, up from 6% in Feb (revised up from 5.4%)
- **Local governments** added NOK 4 bn to their debt burden in March. The annual growth rate still to 5.0% from 5.9%. Last summer the rate was 8%

Corporate credit growth is accelerating, the slowdown was revised away

However: Growth in household is now slowing, the underlying growth rate at 4%

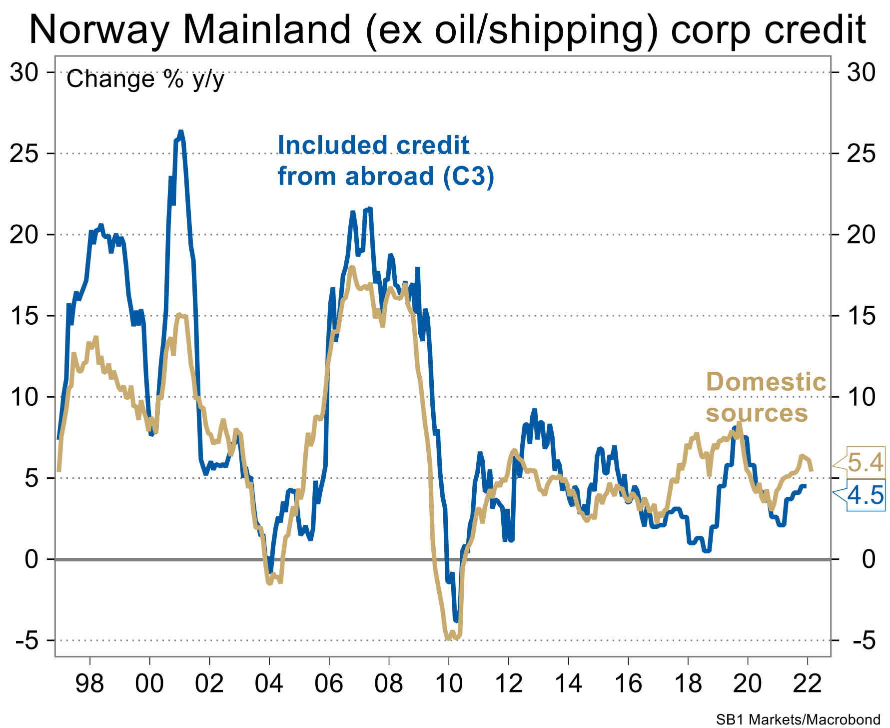


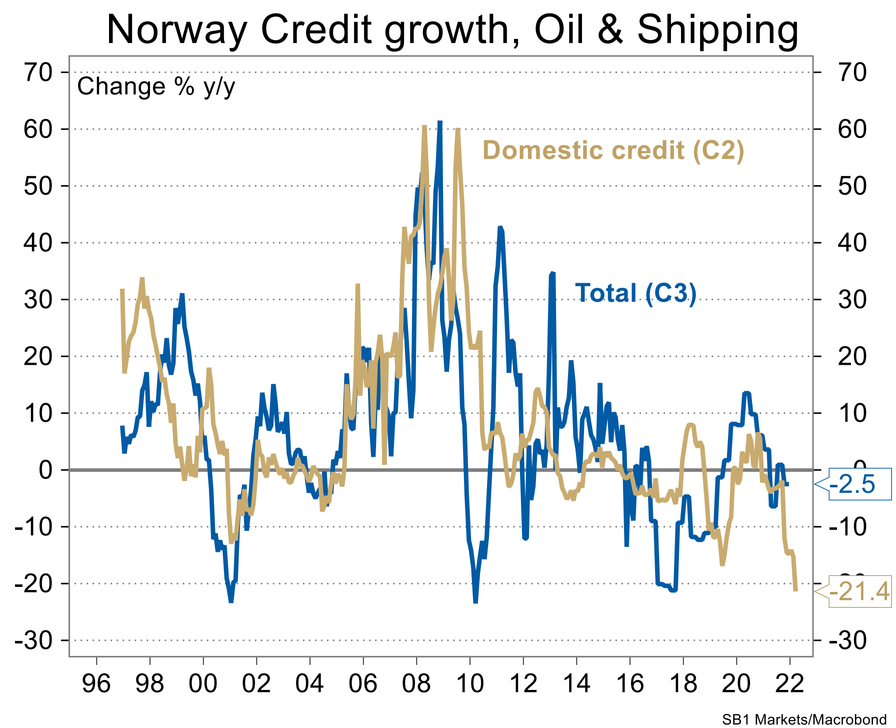


- **Household credit** growth has been slowing marginally recent months and the monthly growth in March was the lowest in 2 years – and growth may be slowing vs. NoBa's stable growth outlook may be too optimistic?
- Monthly growth in **corporate domestic credit** is volatile, and from time to time, substantially revised. Following this months's revision growth is keeping well up, at above 6%. Norges Bank expects growth to slow (and the bank has done so as long as we can remember, but the current forecast is less dovish than usual)

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

… but by 5.4% from domestic sources (in C2)

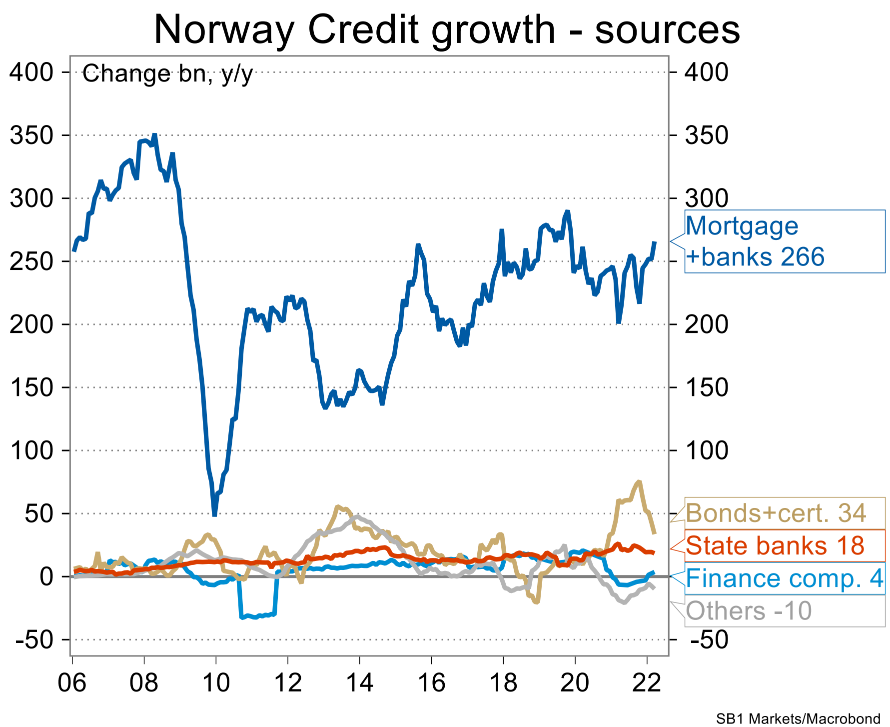


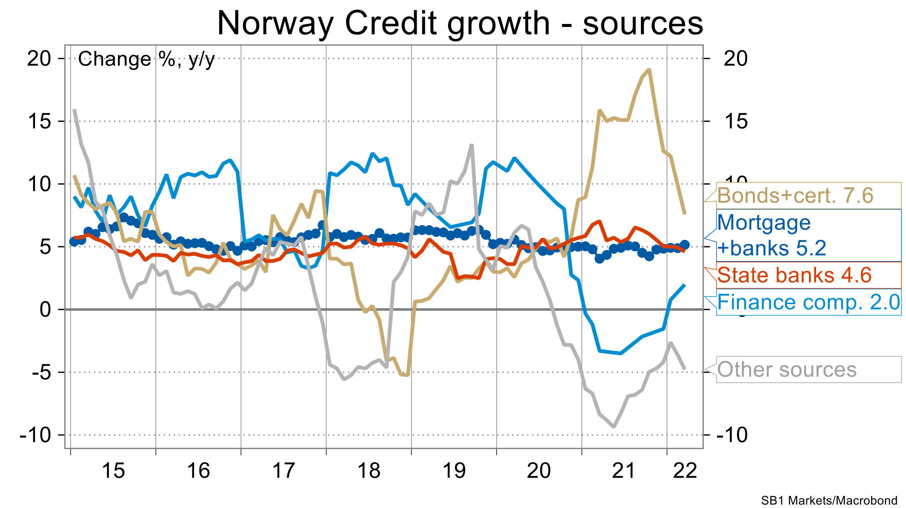


- Domestic credit supply to **Mainland businesses** has accelerated faster than their total debt, including credit from foreign sources
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway. The sum is down 2.5%, even if domestic debt is down 21% (via transactions)

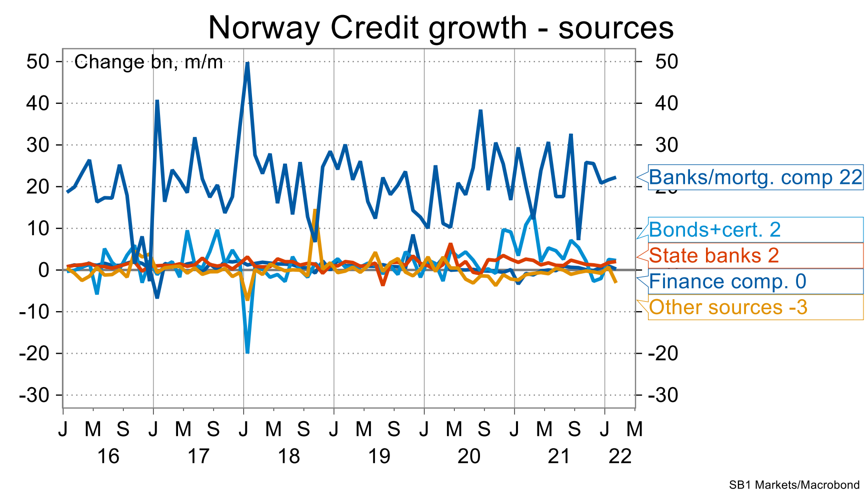
Bond borrowing has peaked, steady growth in bank lending slightly up

Banks (including their mortgage institutions) loans are totally dominating the domestic credit market





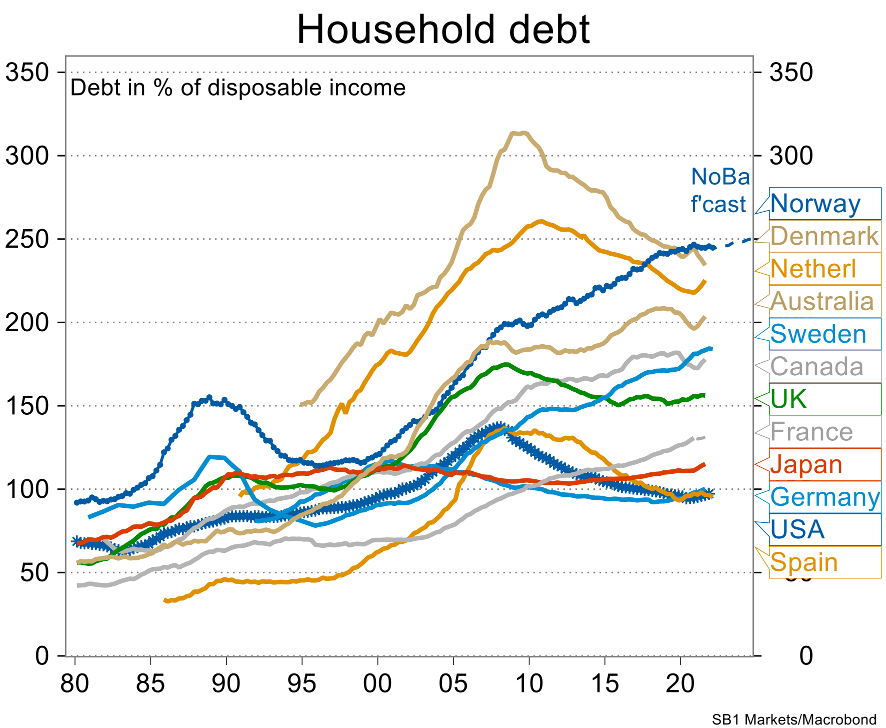
- Net issuance of bonds (to non-financial sector) is up NOK 34 bn (8%) y/y, unusual high growth rates but well down from the peak (75%, 19%)
- Banks/mortgage companies are up NOK 266 bn (5.2%) y/y
- Finance companies and 'others' have reduced their lending
  - » Both insurance/pension funds as well as Statens Lånekasse, Eksportkreditt are included in our residual 'others', but just the sum of SL & Eksportkreditt is down

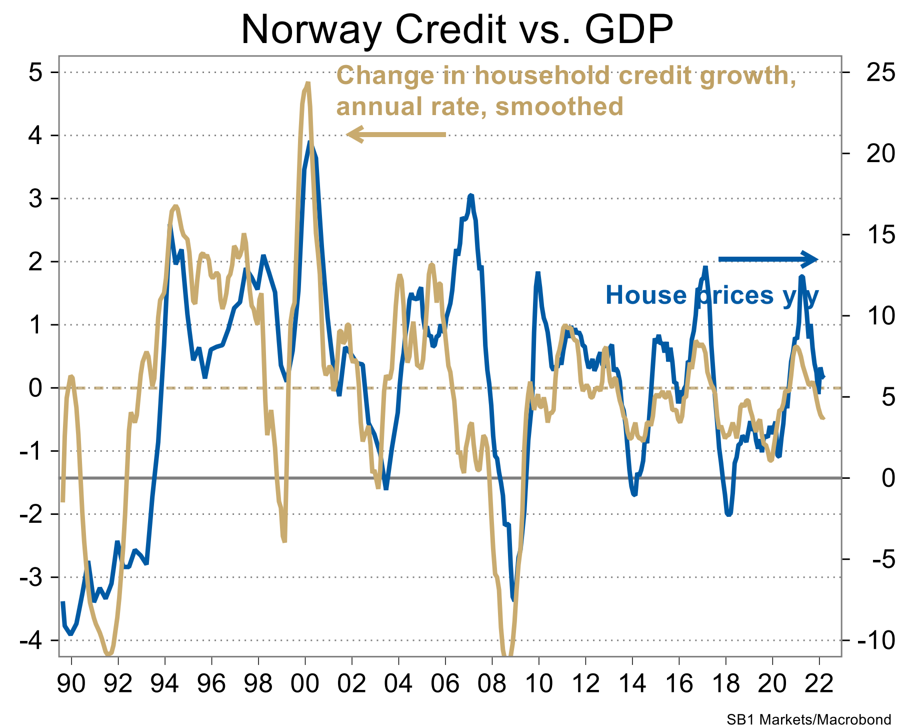


The seasonally adjusted 'sum of the parts' credit supply do not exactly equal changes in the total C2 seasonally adjusted. Consumer banks are included in 'banks and mortgage companies'

SpareBank 1 MARKETS

Household debt/income: We are no. 1! But the debt ratio has flattended



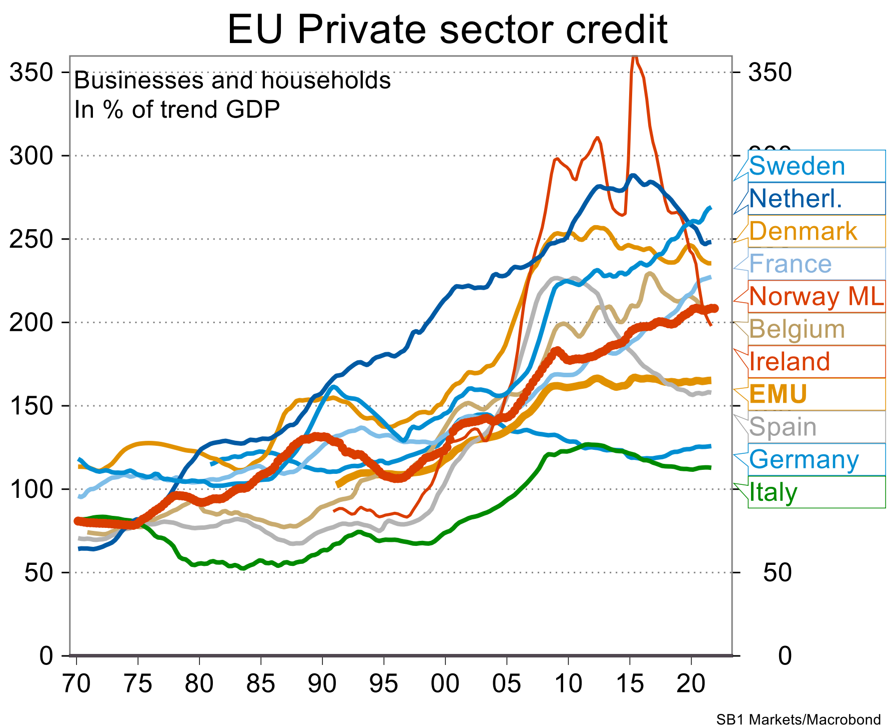


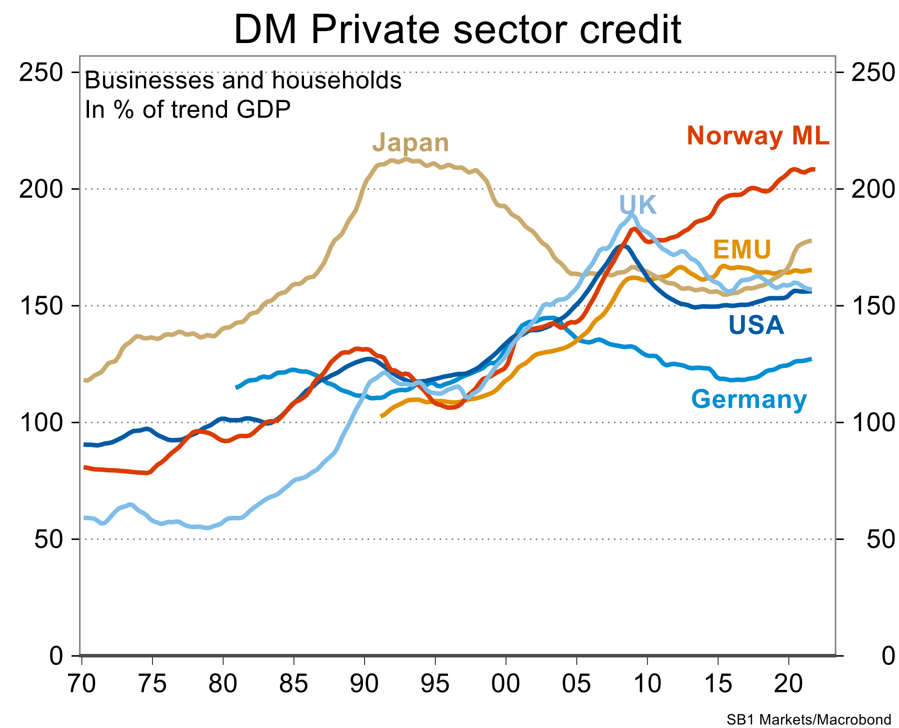
- **Norwegians households' debt** steady been growing faster than income but just marginally since early 2018
  - » Debt/income ratios in many countries have been influenced policy measures vs. households during the pandemic
- **Changes** in credit **growth** (the 2nd derivative) is usually correlated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

SpareBank 1 MARKETS

The private sector has mostly been deleveraging since the Financial crisis

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





- But not everywhere: Not in Norway, Sweden (+Canada & Australia, of course). The French have been accumulating debt as well.
- Rather interesting: Debt ratios in Germany and Japan have turned up recently – and the Americans are borrowing more again

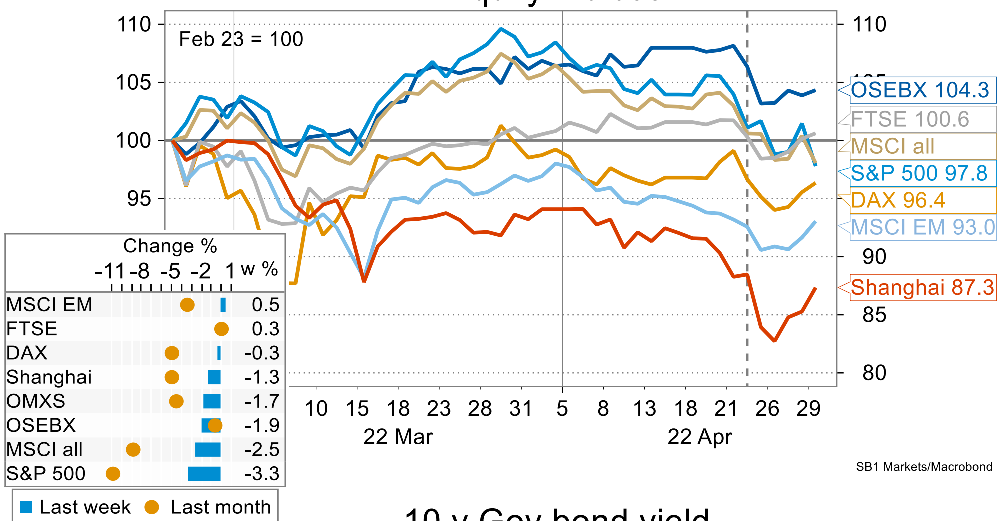
SpareBank 1 MARKETS

SpareBank 1 MARKETS

DM equity markets down, metals down but oil up. Mixed bond yields

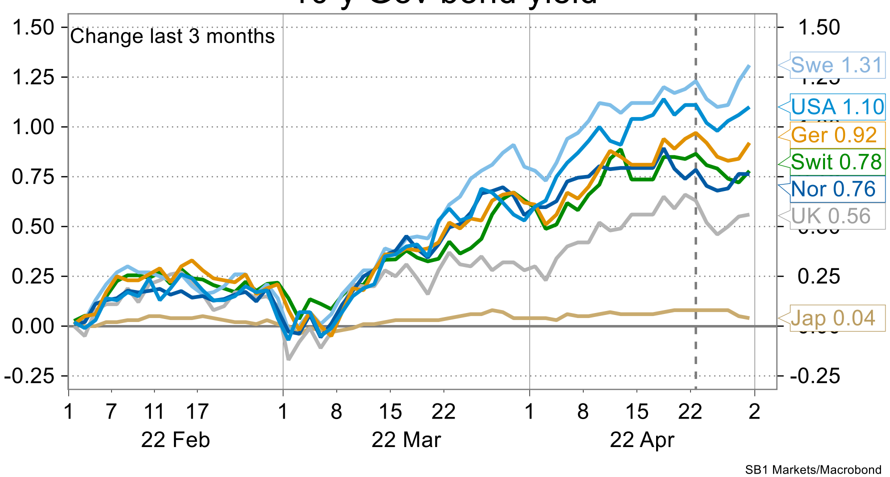
The USD up, NOK down even if the oil price rose. EUR & CNY down too. And even the SEK, even if the Rix surp.

Equity Indices

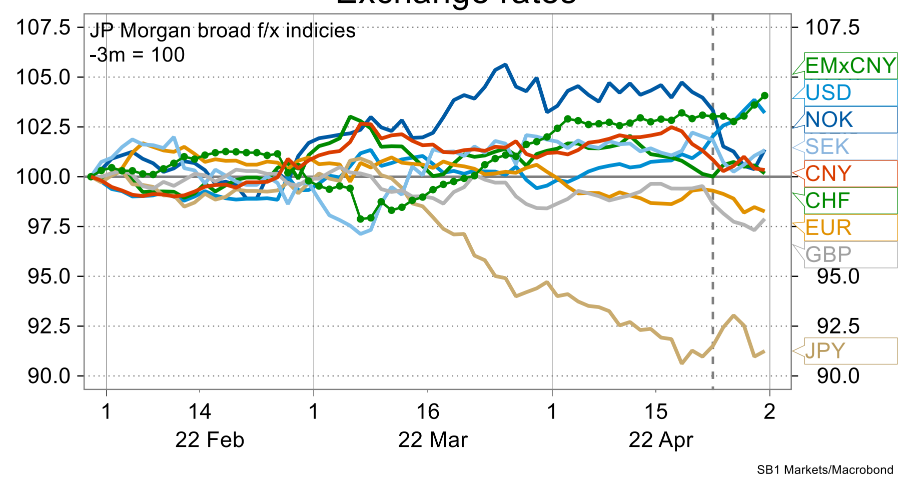


Oil vs. metals

10 y Gov bond yield

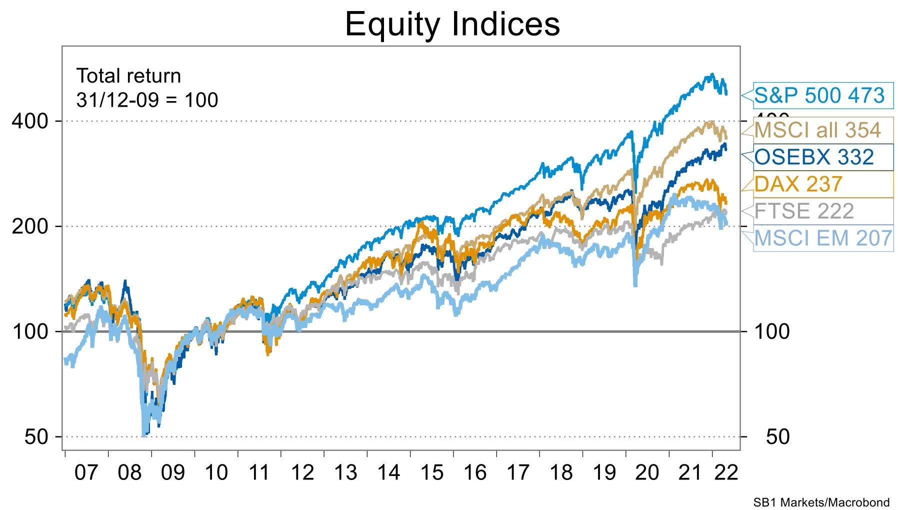


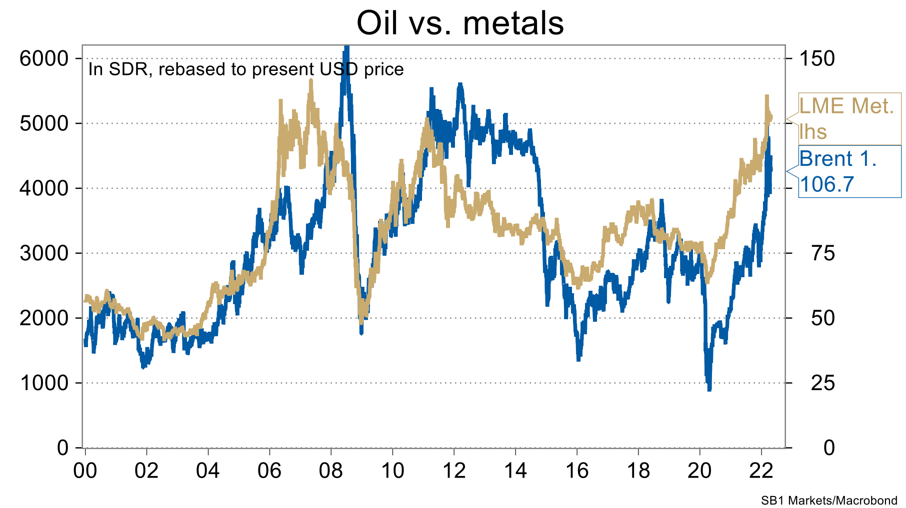
Exchange rates

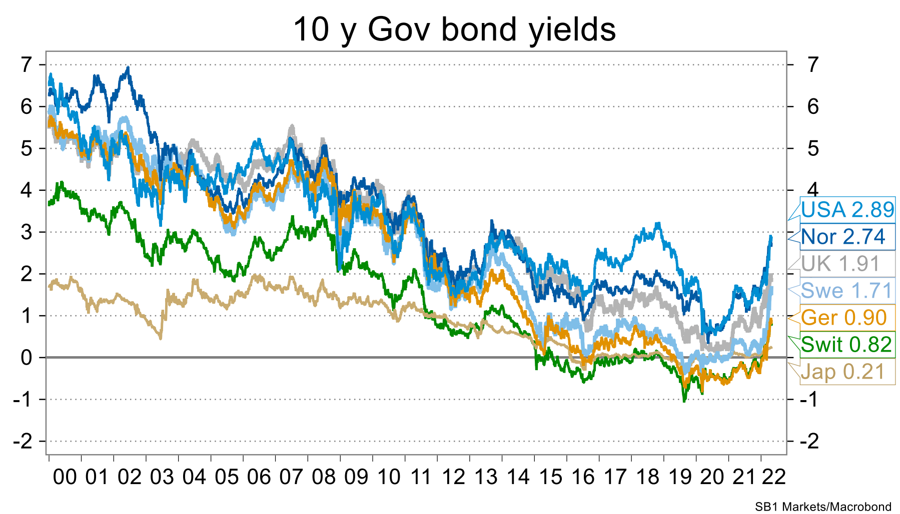


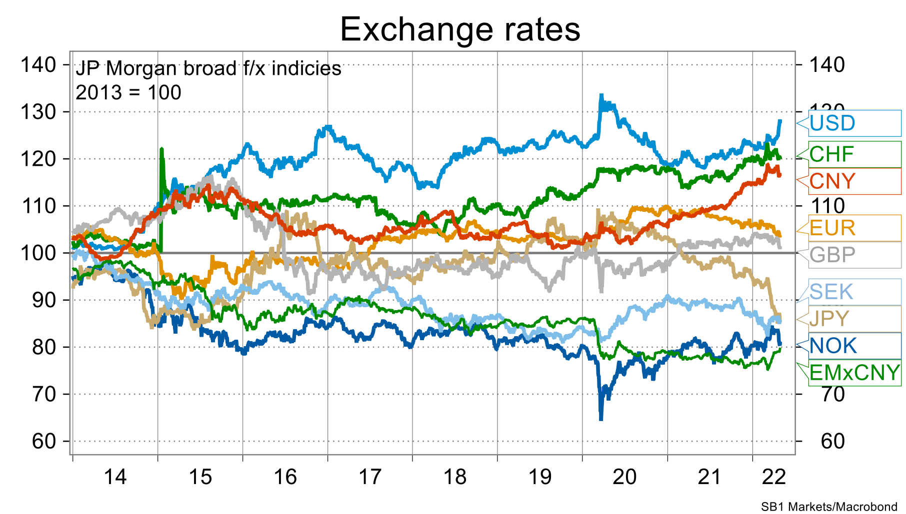
The big picture: Stock markets down (-OSEBX, FTSE), bond yields straight up

Commodities have taken a big step upwards, until early March. NOK, USD trend up; EUR, JPY down





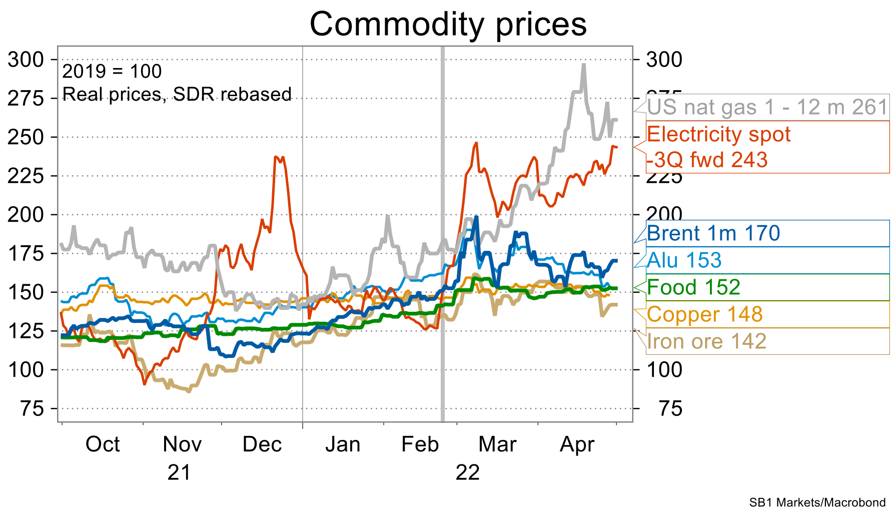


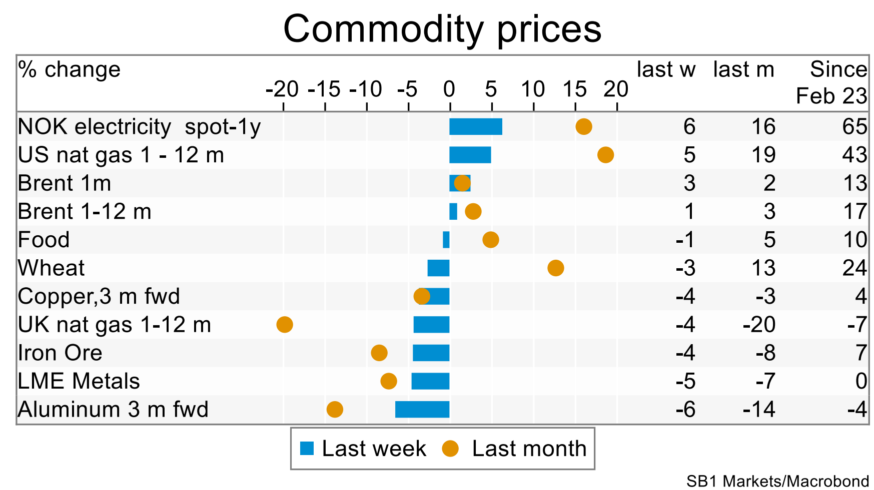


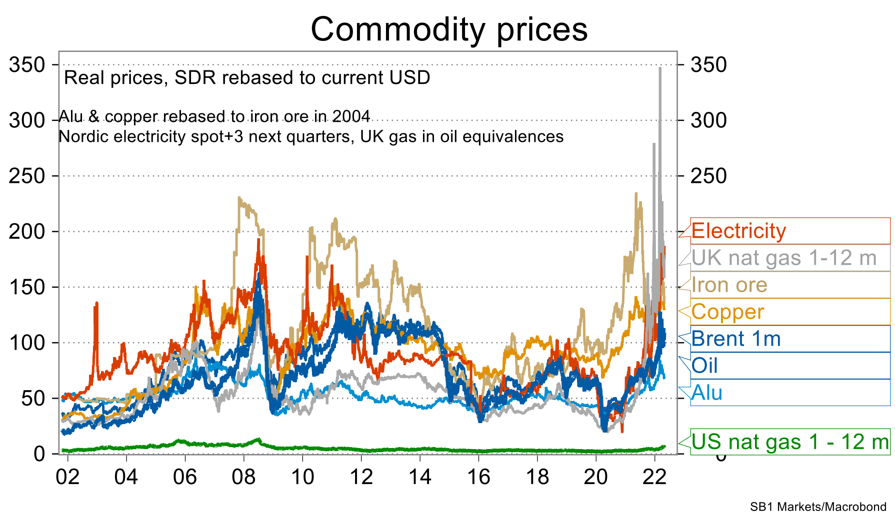
SpareBank 1 MARKETS

Most commodity prices down, even European gas prices

Russia will not deliver gas to Poland & Bulgaria before they pay in roubles



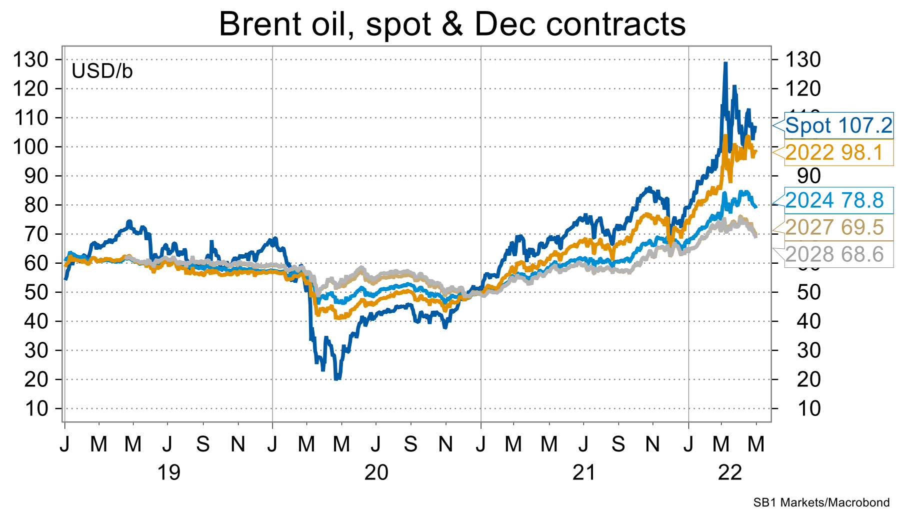


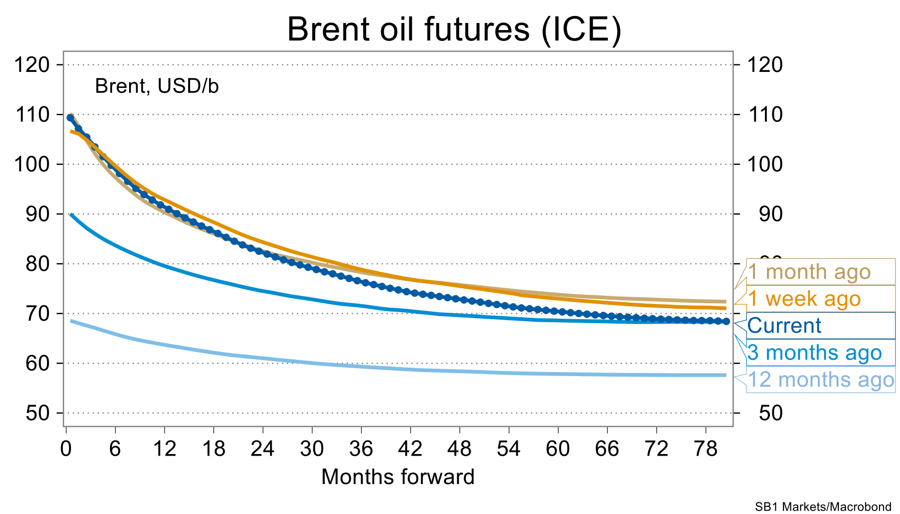


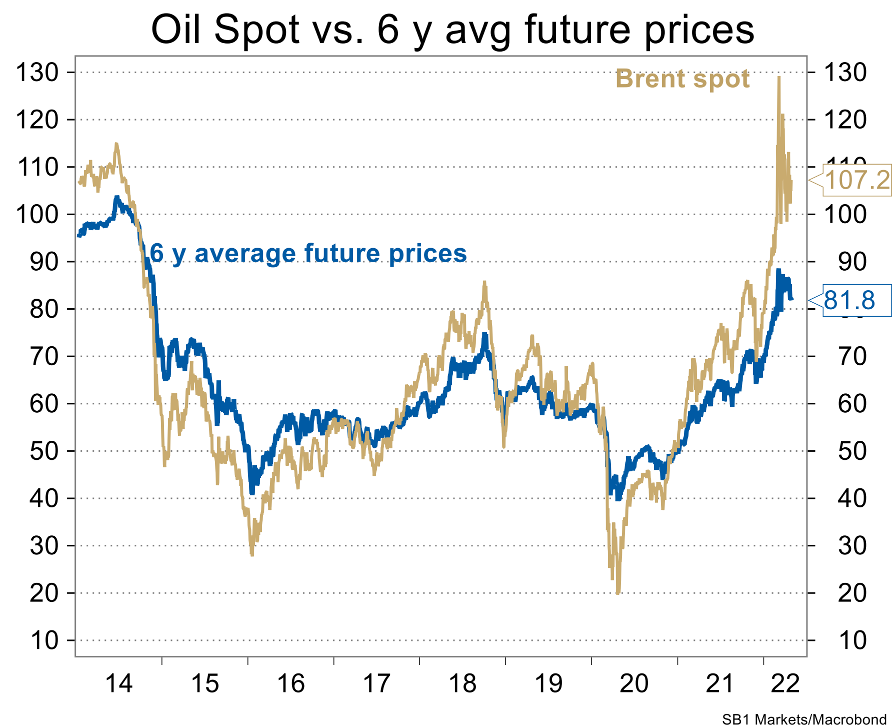
- UK natural gas prices are 7% down since before the invasion
- US natural gas prices are up 43% since late February!
- Norwegian electricity prices are up 65%
- The oil price slightly up as Europe is drifting towards cutting of Russian oil not before too long

The very short end of the oil price curve up last week but trends down

Longer dated contracts fell further last week – some angst for lower demand/a recession?



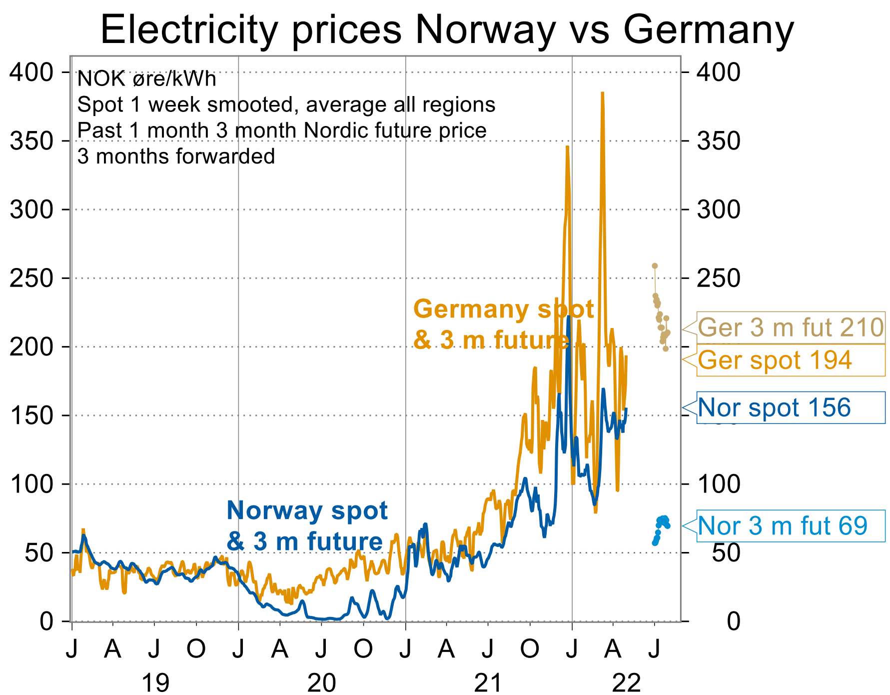




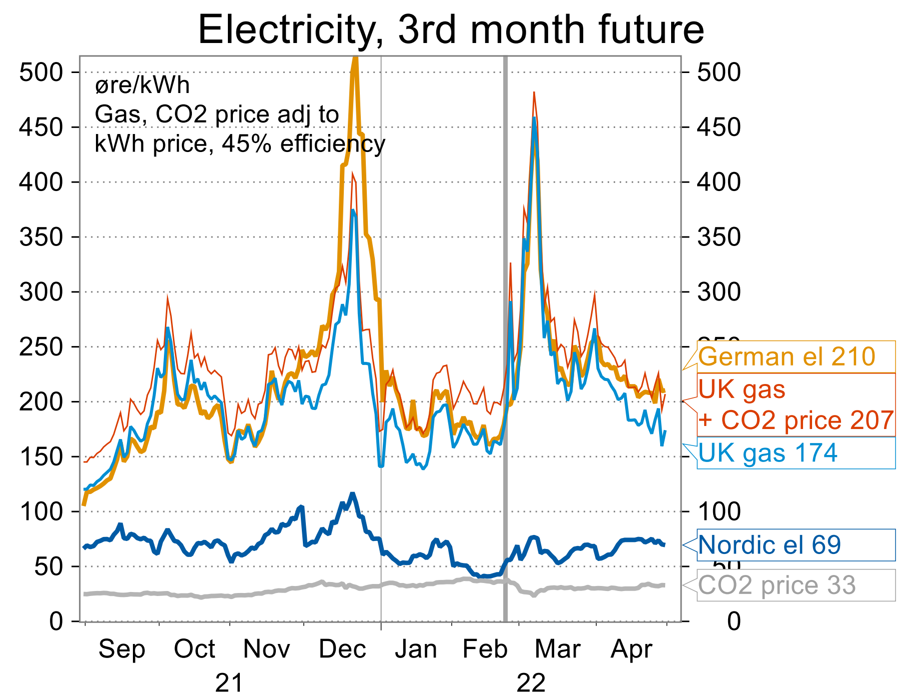
- Future prices have been lower than normal vs. the short end of the curve after the invasion – because markets assume that in the end, oil will flow

The European energy market not scared even if Russia shut down gas exports to Poland, Bulg.

European energy prices have been drifting downwards since early March (but not Norw. el. prices)



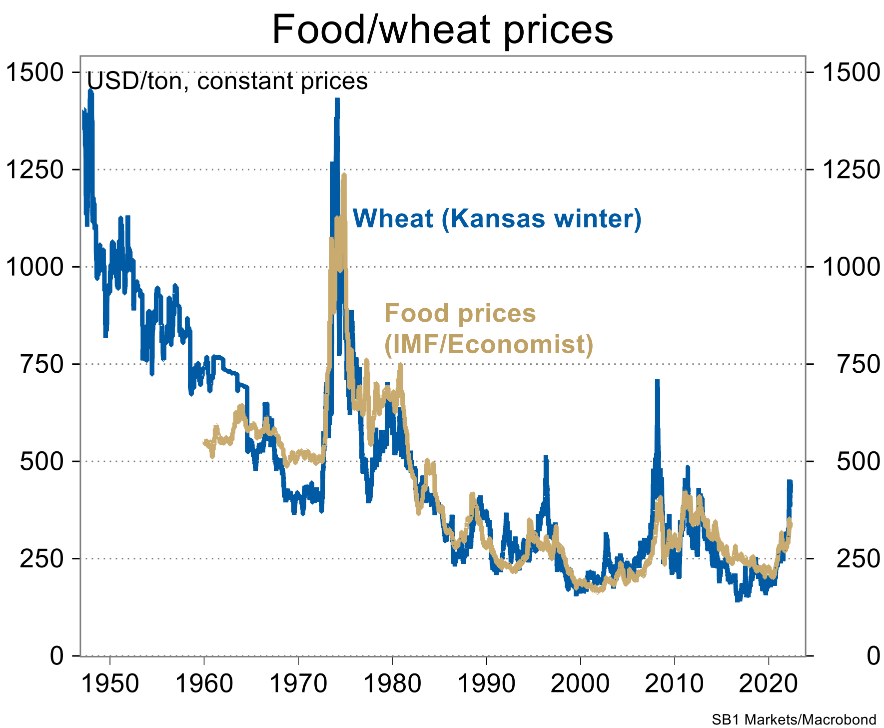
SB1 Markets/Macrobond

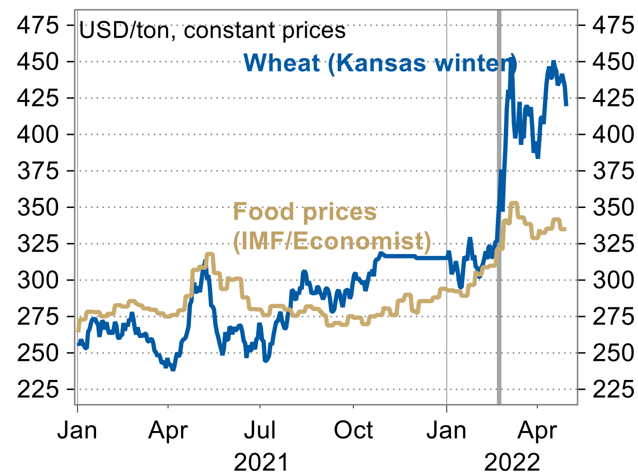


SB1 Markets/Macrobond

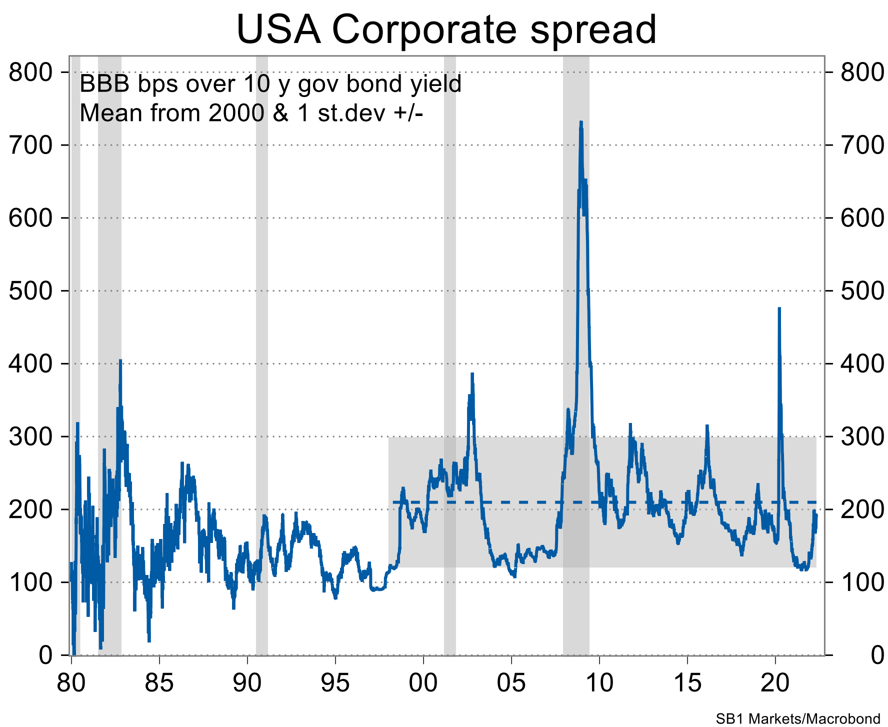
Food prices down last week – still up from before the invasion

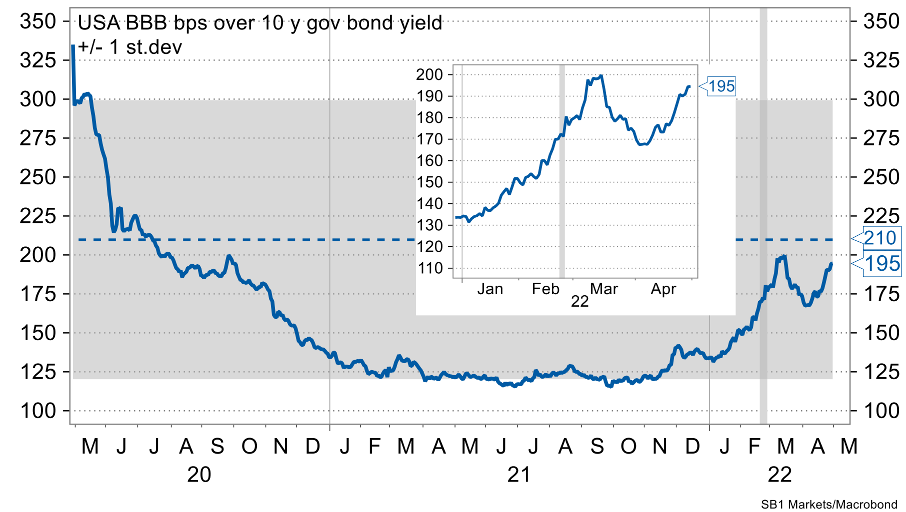
No end of the war in sight: how much wheat, sunflower + fertilisers will get out of Russia/Ukraine?

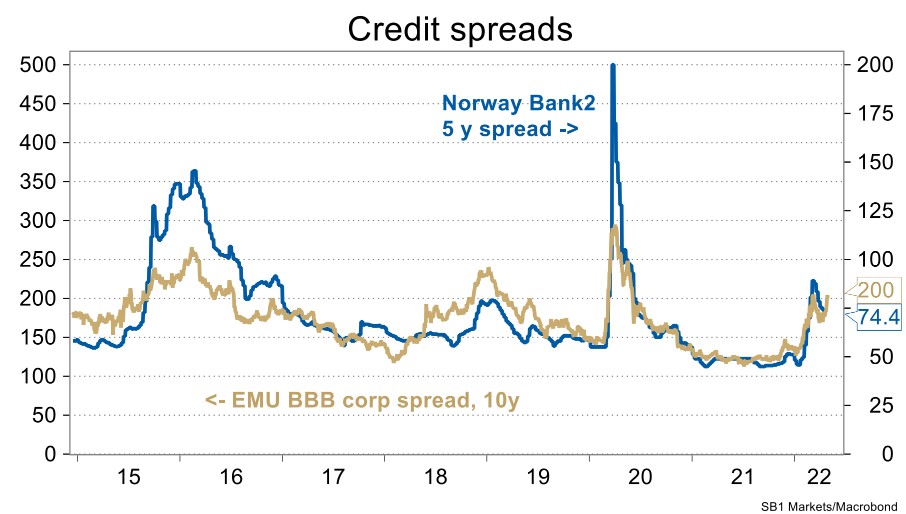




Credit spreads on the way up again, risk off, as at equity markets

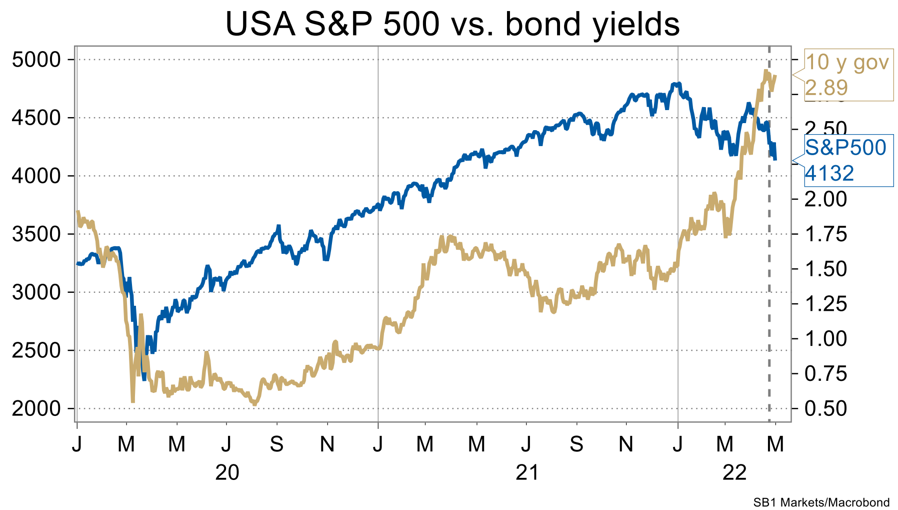


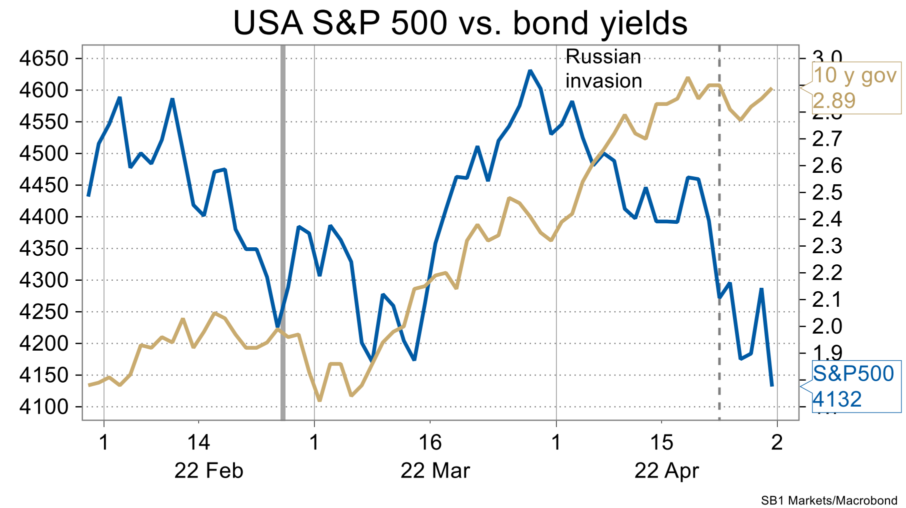


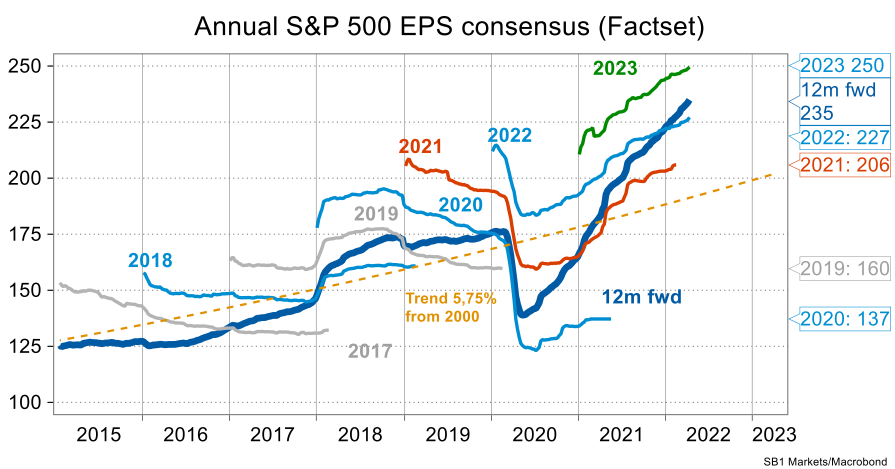


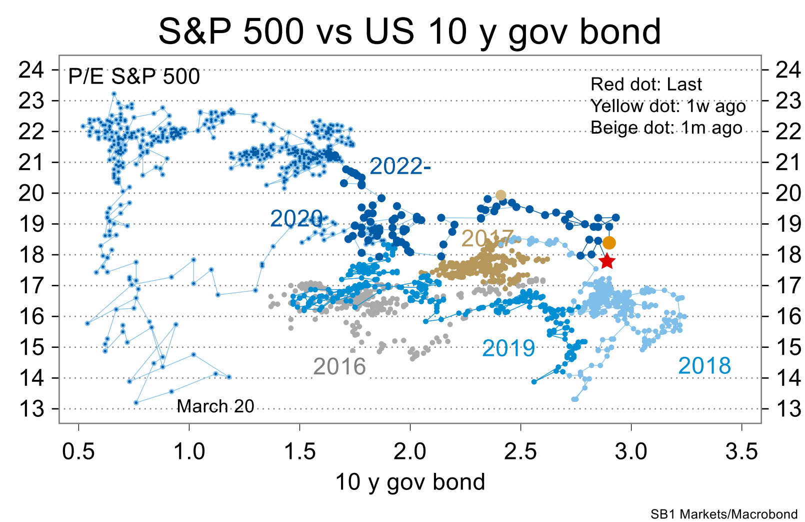
The 10 y gov bond down 1 bps to 2.90%! The S&P500 down 3.3%, in total 13.9%

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



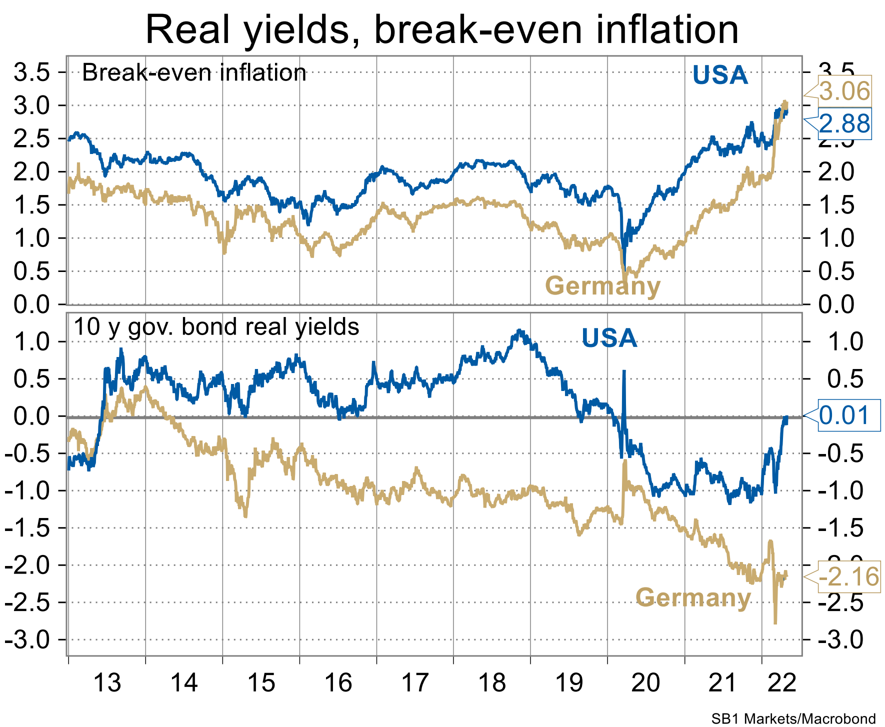


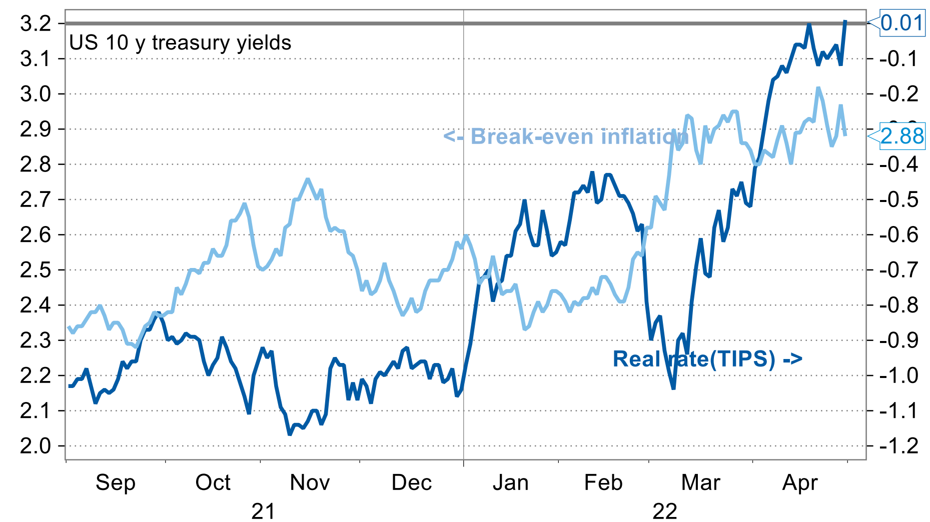




US inflation expectations down, as the 10 y TIPS real rate turned positive!

German inflation exp. >3%, real rates down!





US & Germany 10 y Gov bond yield

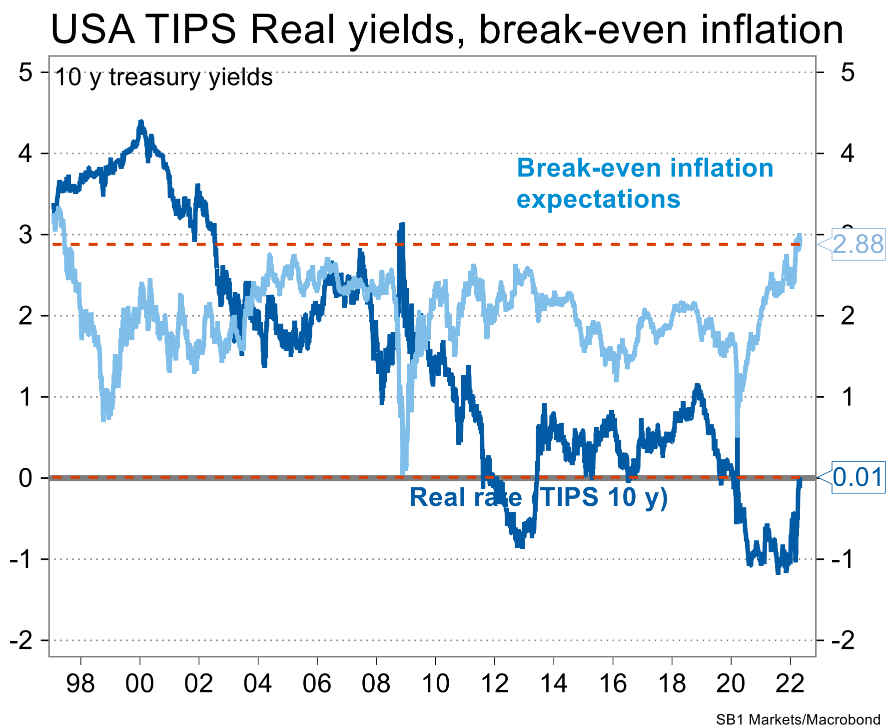
	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	2.89	-0.01	0.48	0.97	0.52
.. break-even inflation	2.88	-0.10	0.02	0.47	1.06
.. TIPS real rate	0.01	0.09	0.46	0.50	-1.19
Germany nominal bund	0.90	-0.05	0.26	0.68	-0.65
.. break-even inflation	3.06	0.02	0.29	1.08	0.40
.. real rate	-2.16	-0.07	-0.03	-0.40	-2.80

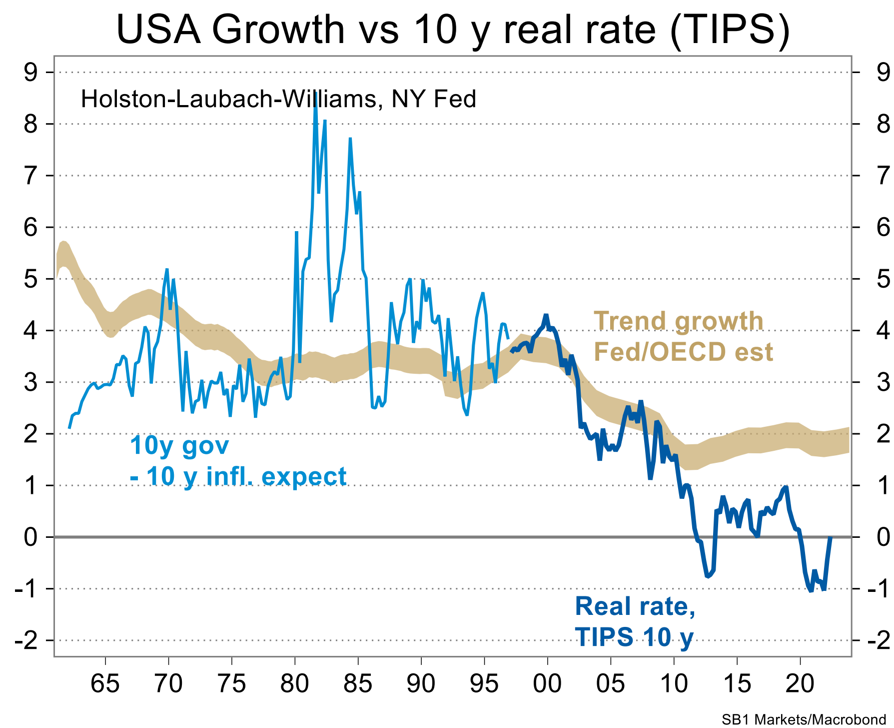
SB1 Markets/Macrobond

- **Real rates in the US** fell to 1.03% after the Russian invasion in Ukraine, down from -0.42%. Now it finally crossed the zero line and closed at Friday at +0.01 bps
- **The 10 y inflation expectations** are now almost 20 bps higher in Germany than in the US as Germany climbed to 3.06%, and US expectations fell 10 bs to 2.88
- **Real rates in Germany** are extremely low, at -2.16%. The spread to the US 10 y real yield is close to record high

US real rates crossed the zero line. But that is still a rather low level

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



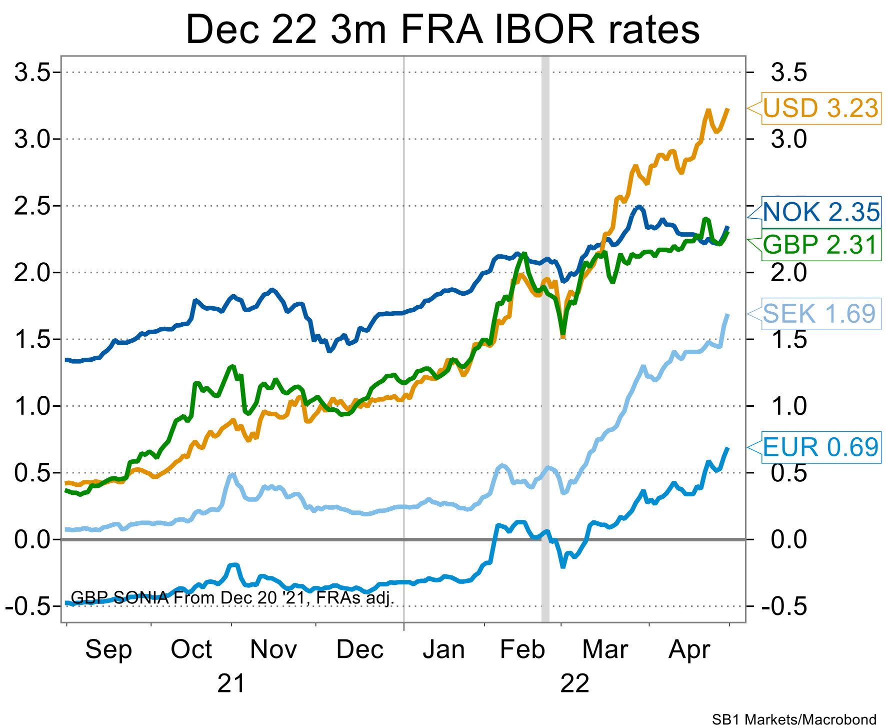


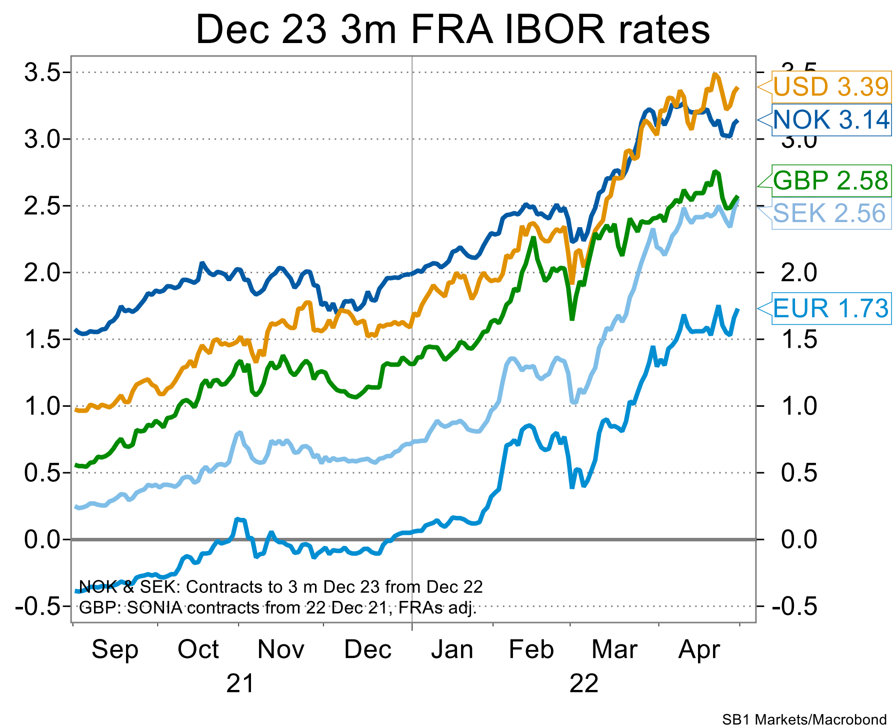
- If the economy is not really weak, we think central banks will tighten monetary policy by hiking rates, selling bonds in order to bring real rates further up to inflation under control by slowing the economy to below trend growth
  - Profit margins are exposed
  - Demand for labour will slow too, and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

SpareBank 1 MARKETS

Dec-22 FRAs mostly up, Dec-23 mostly down. Both the SEK FRAs rose

The SEK Dec-FRA gained 21 bps, as the Riksbank entered the battle more forcefully than expected

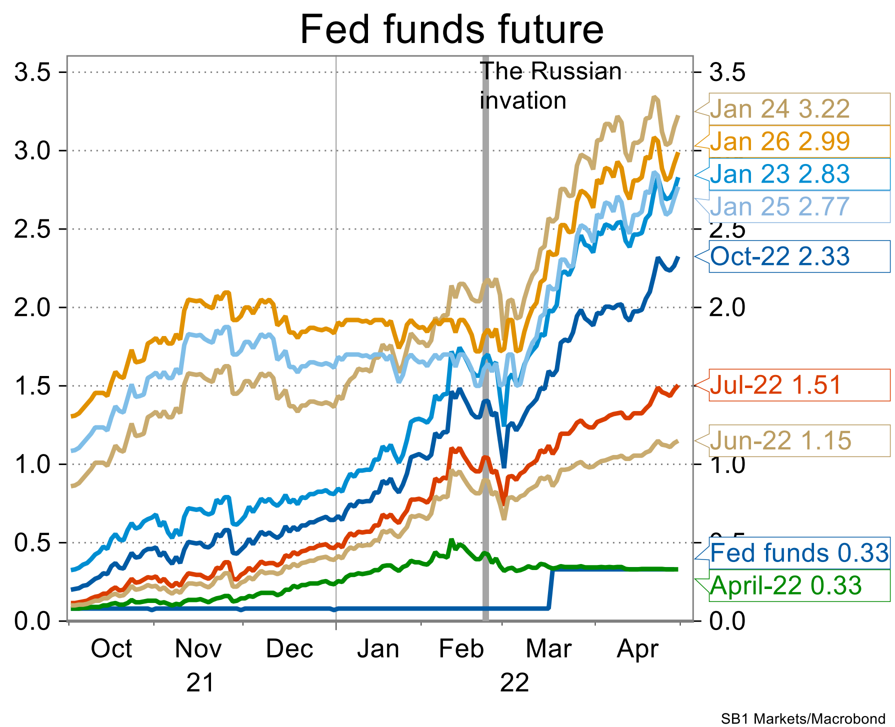


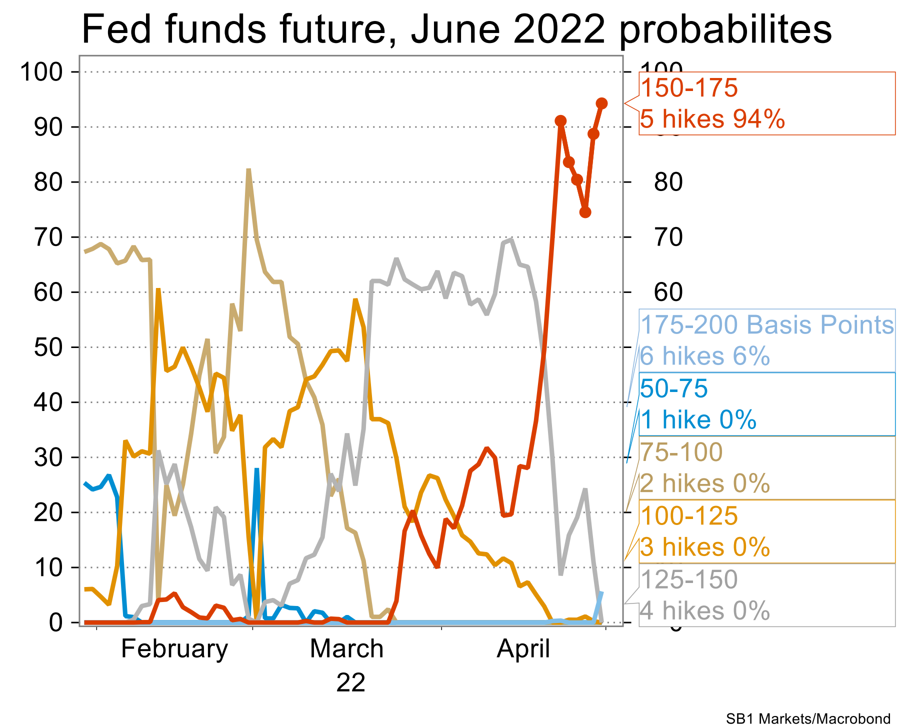


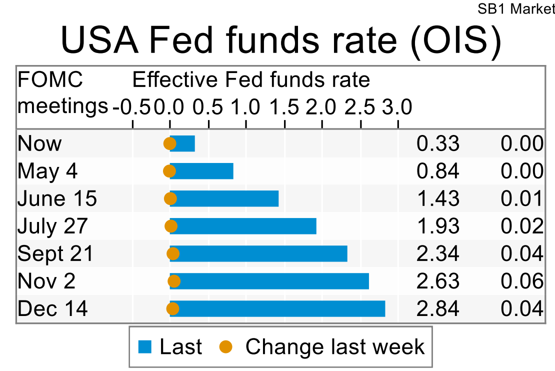
- This is the largest and most ‘co-ordinated’ (anticipated) change in monetary policy we have ever seen in modern times

SpareBank 1 MARKETS

The Fed funds rate up 2 x 50 bps or 50 + 75 bps in May & June

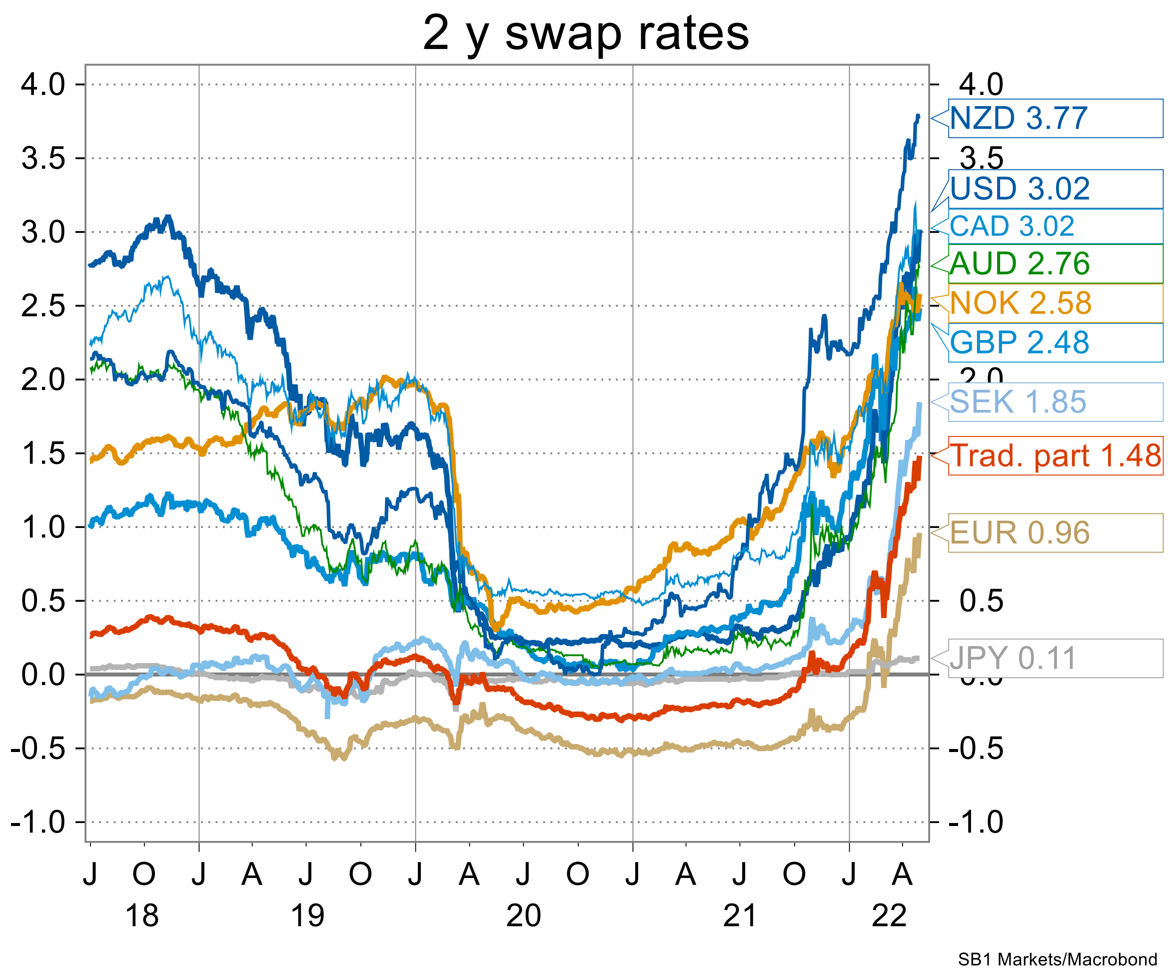


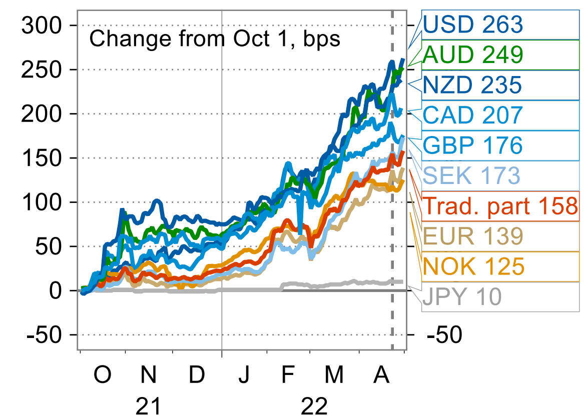


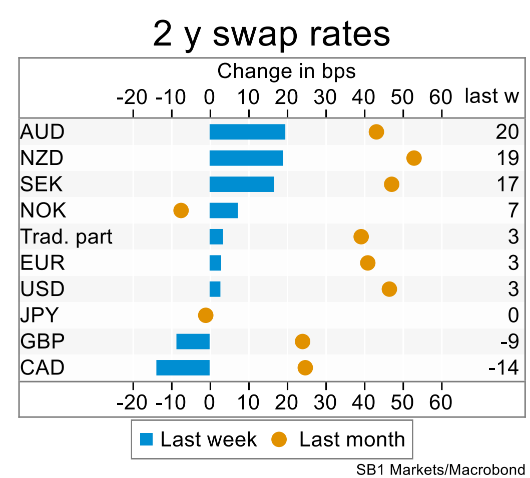


- Is the market going bananas? Well, the Fed has recognised that it is far behind the curve, and a 1.43 – 1.50 Fed fund rate is expected by the June meeting, from the current 0.33%. (We think the CME's 94% probabilities for 5 hikes, 6% for 6 hikes are too high)
- By the end of 2022, a 2.75% rate is discounted (5 – 6 more hikes in H2), and then monetary may have become marginally contractive, vs Fed's 2.4% estimated neutral rate

Mostly up, last week too







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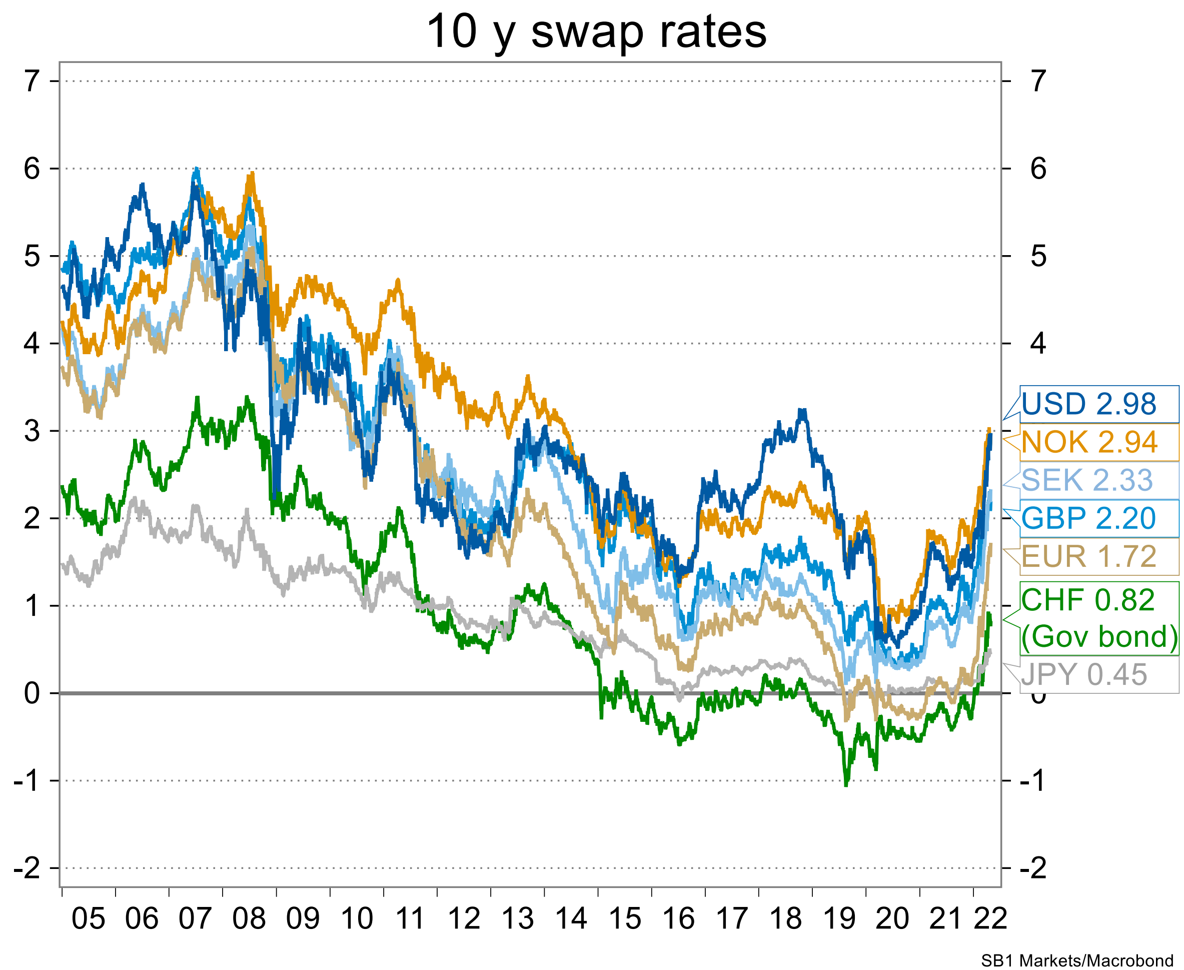
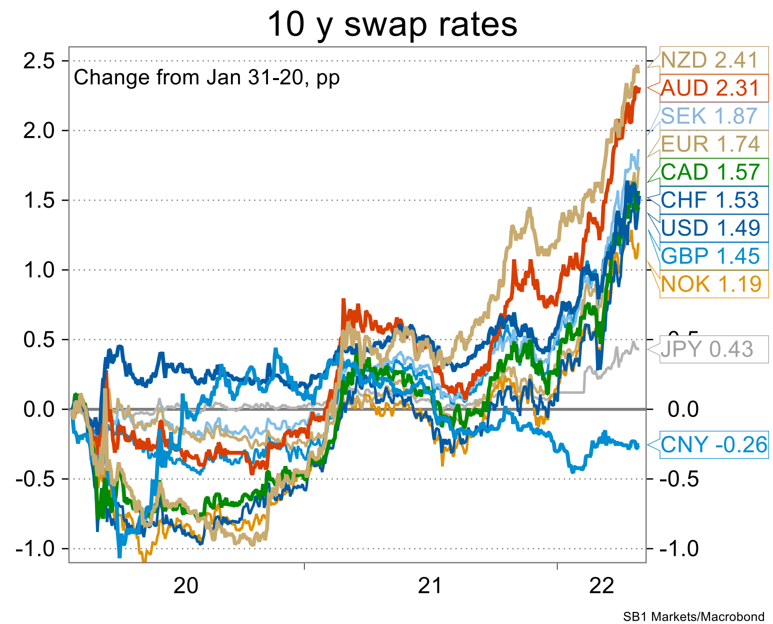
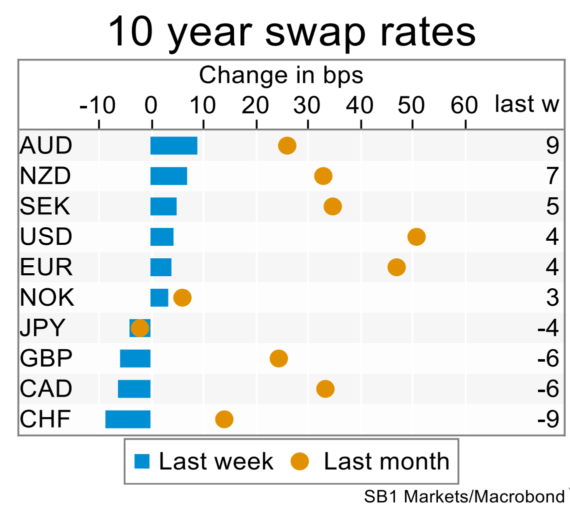
10y USD still at the top, the 10 y NOK is de-throned

Bank of Japan did not loosen its Yield Curve Control, and rates fell. But swaps are at 0.45 bps



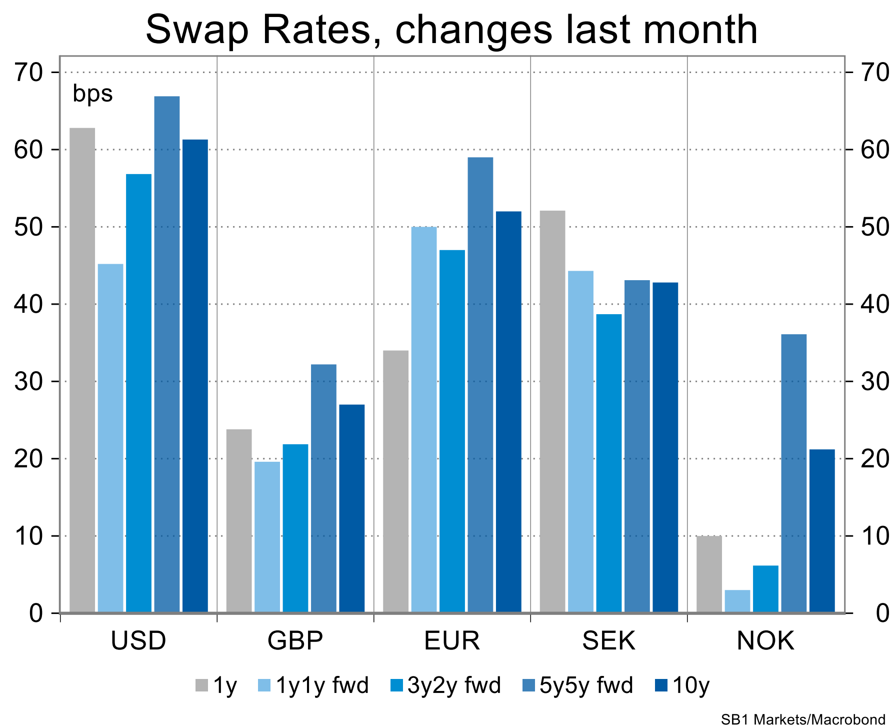


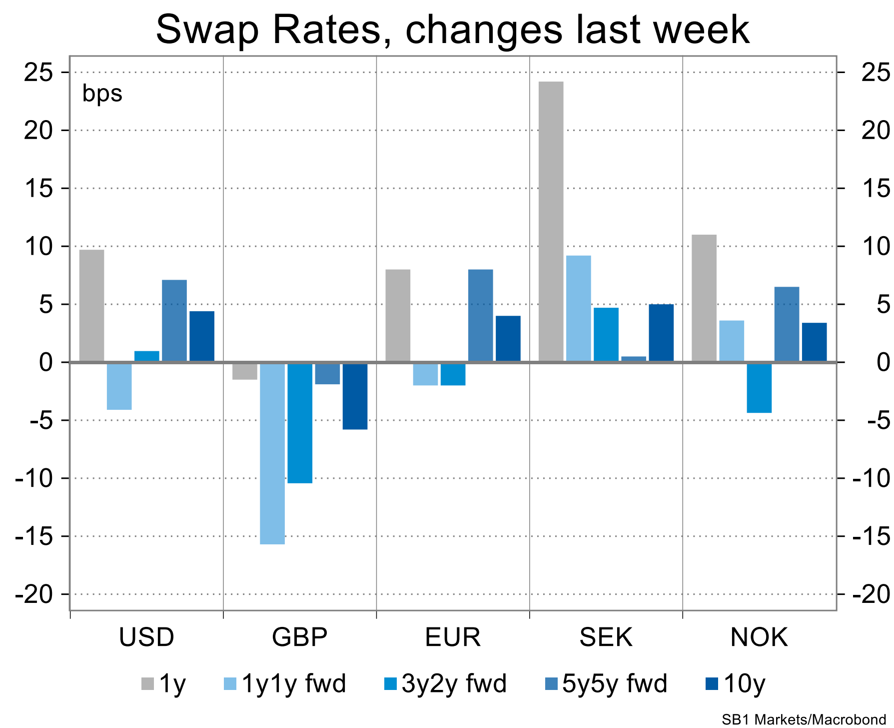


CHF: 10 y government bond yield

Unusually mixed last week: The short and the long end up most places

A 25 bp lift in the 1y SEK confirms that the Riksbank was more hawkish than expected





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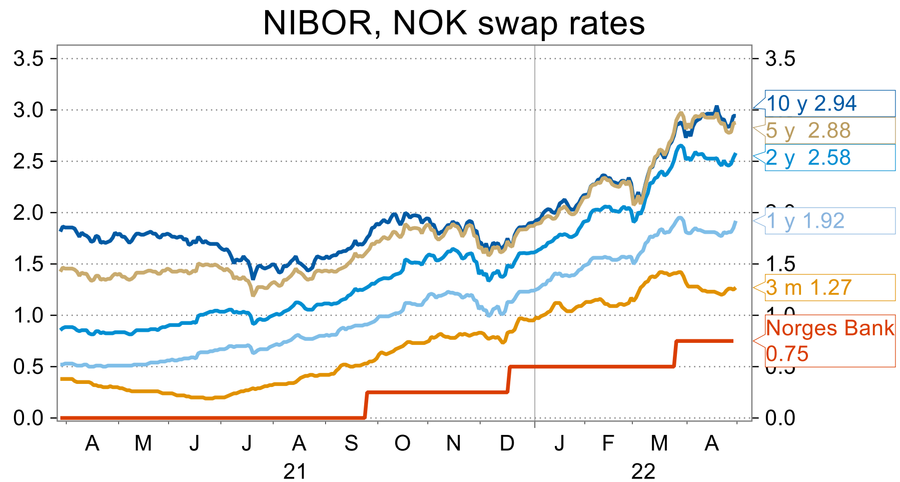
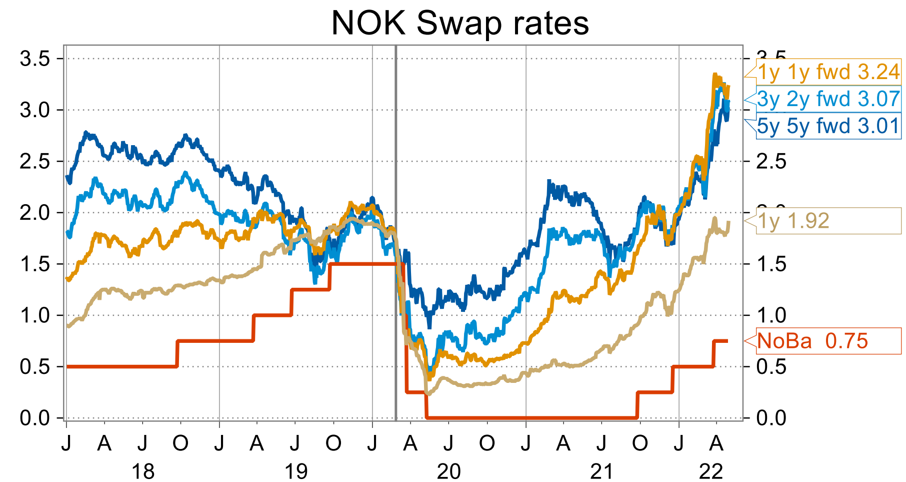
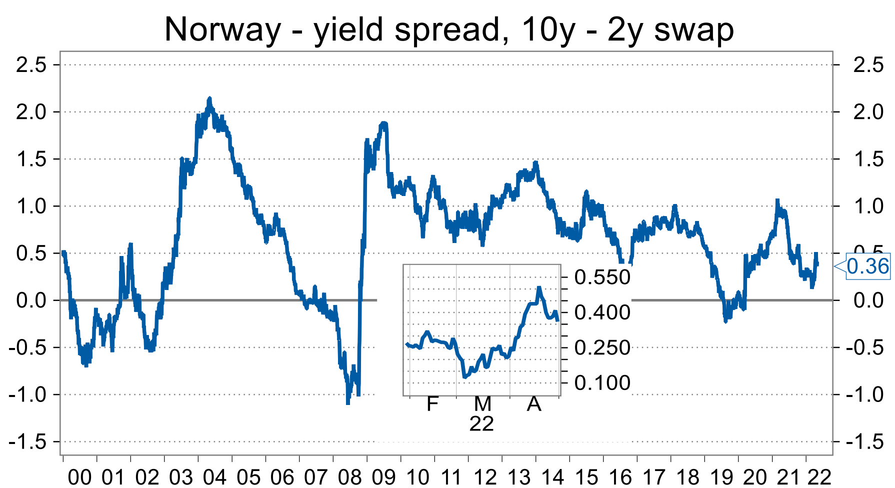
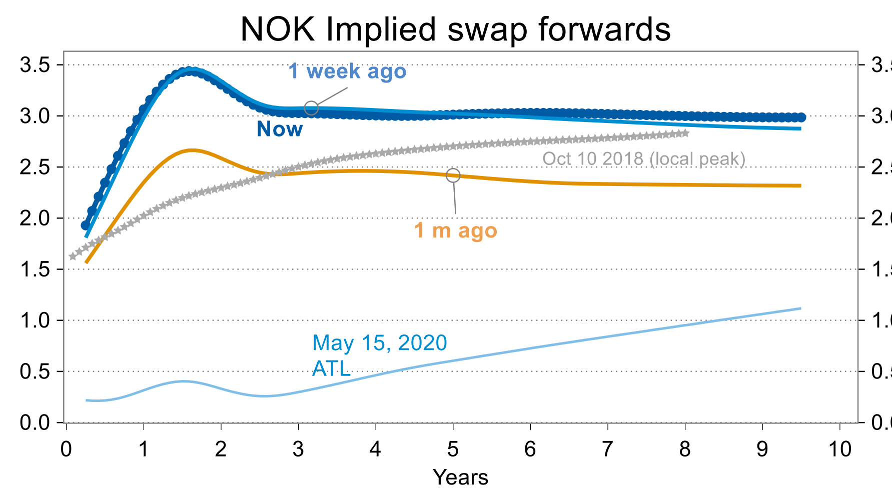
Rates slightly up over most of the curve – but down at the middle





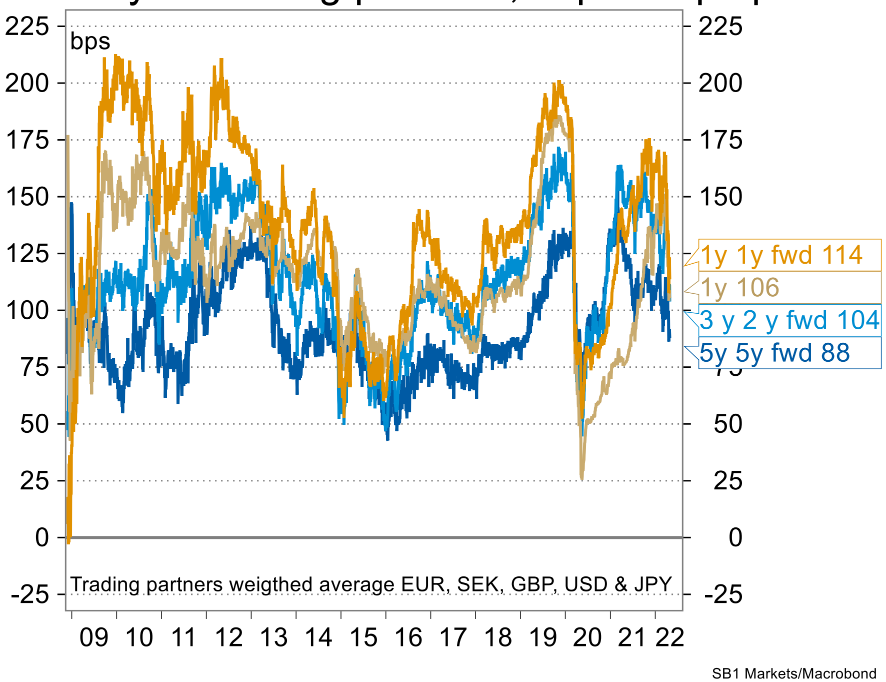


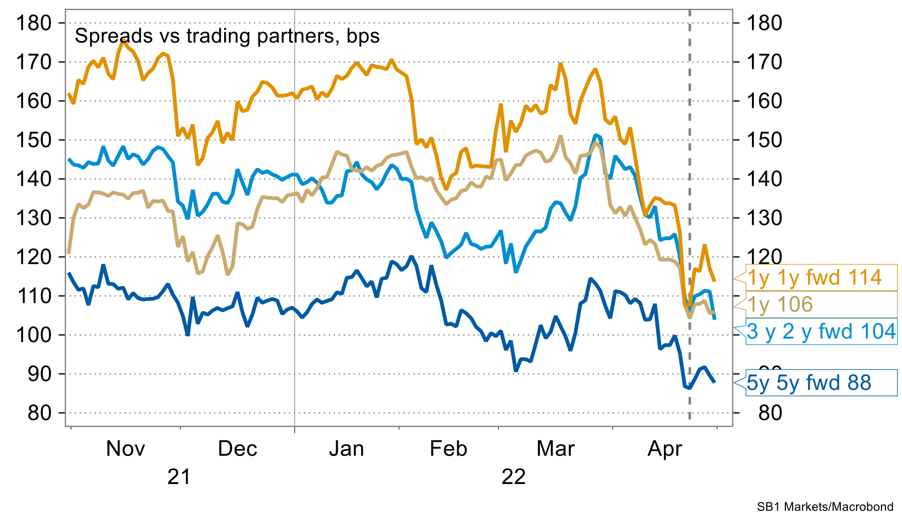


Spreads more or less stabilised last week, following the collapse past 3 weeks

Spreads are approaching average levels as rates have surges abroad

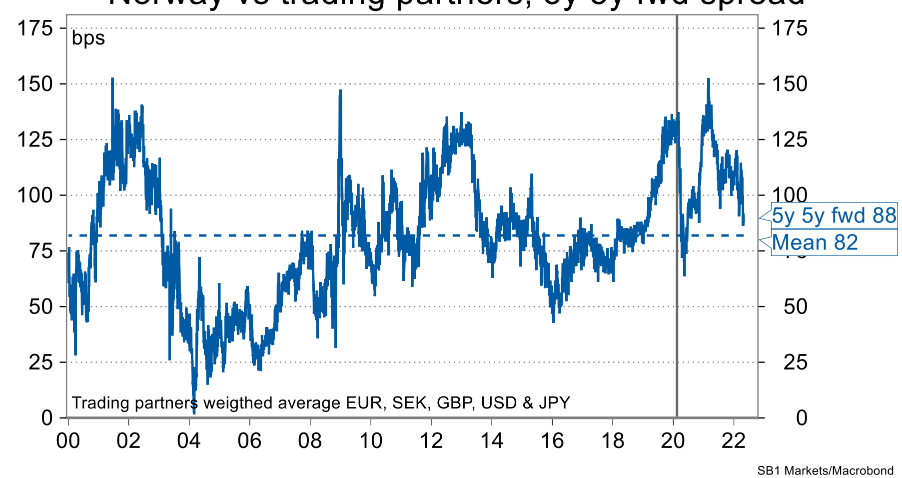
Norway vs trading partners, impl swap spreads





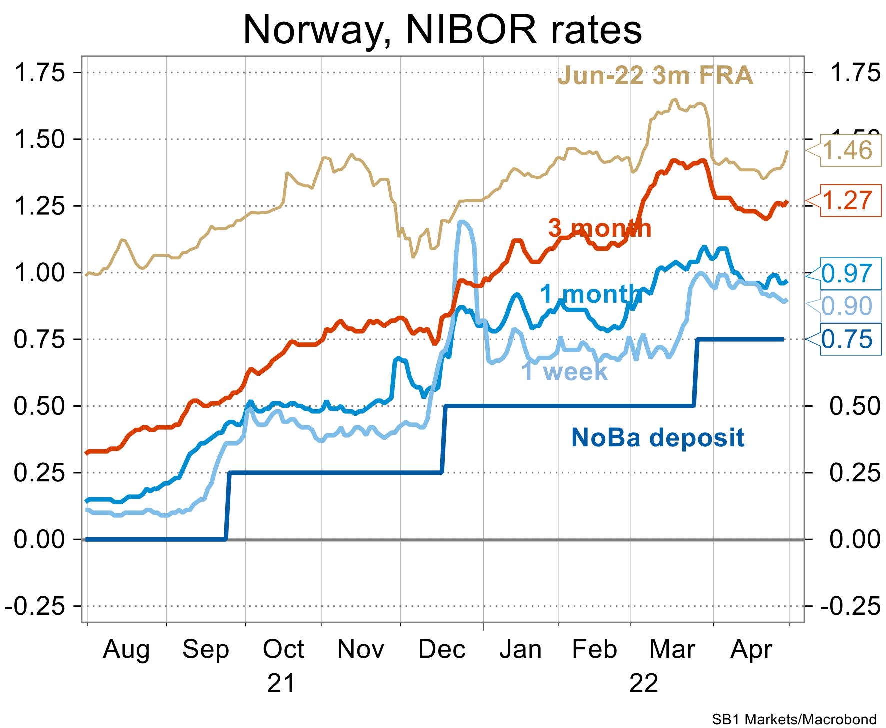
- Spreads down almost entirely due to higher rates above, with just minor contribution from lower rates in Norway

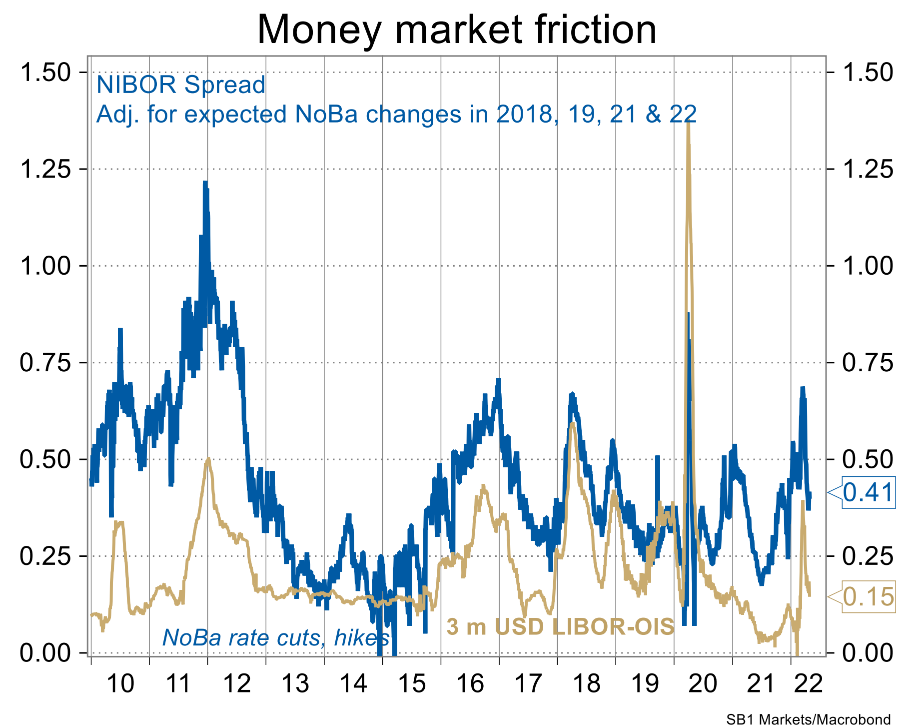
Norway vs trading partners, 5y 5y fwd spread



The 3m NIBOR up 6 bps to 1.27%, the NIBOR spread up 4 bps to 41 bps

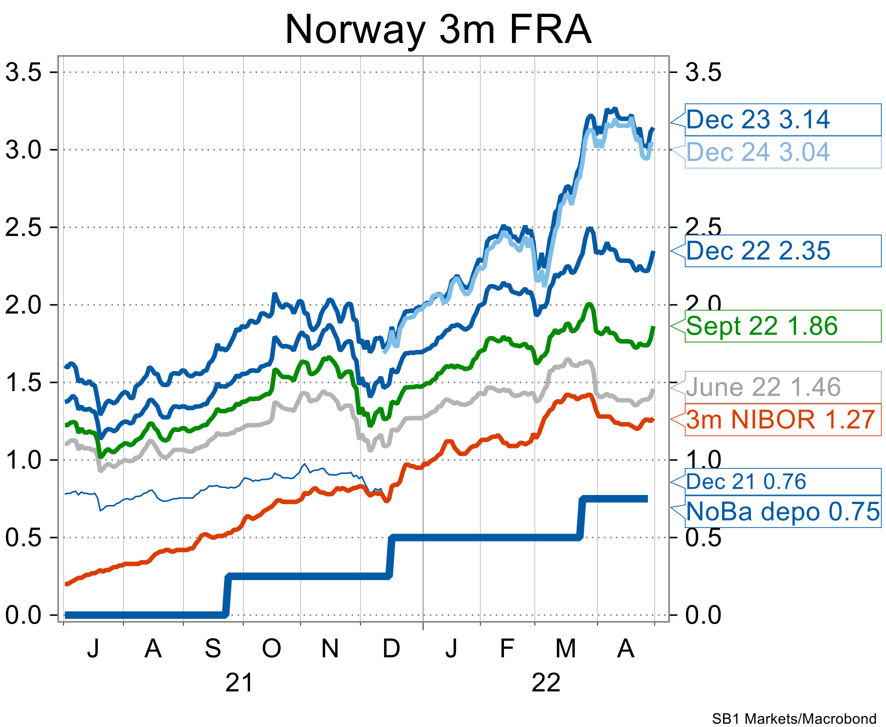
The USD LIBOR-OIS spread flattened at 15 bps, a normal level

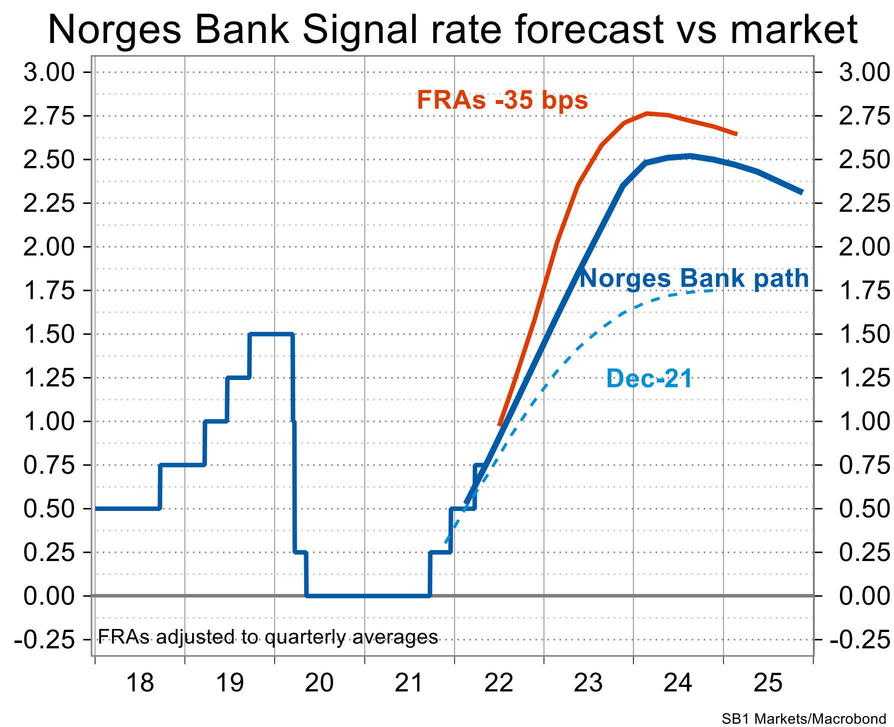




- Both the US and the NOK money market spread has narrowed by 0 – 25 bps the last 4 weeks

FRAs up, alongside the 3 m NIBOR. A higher NIBOR spread at least partly to blame





- The **June 3 m FRA** rose 8 bps to 1.46% last week, and the Sep contract added 11 bps to 1.86% (and Dec 9 bps to 2.35%)
  - » If NoBa hikes to 1% from the present 0.75% at June 23 (and no hike in August), the average deposit rate in the duration of the June 3 m FRA contract will be 0.98%
    - A 100% probability for <u>a 25 bp hike</u> if the assumed Q3 NIBOR spread is 48 bps. We doubt the spread is assumed to be that high. A 50 bps cannot be ruled out
    - However, as the Sept 3 m FRA at 1.86% is 40 bps above the June contract, a hike in both August and September is also an alternative
- The FRA market now discounts a 1.75% (40%) or a 2.00% (60%) signal rate in Q4 (assuming a 40 bps NIBOR spread)

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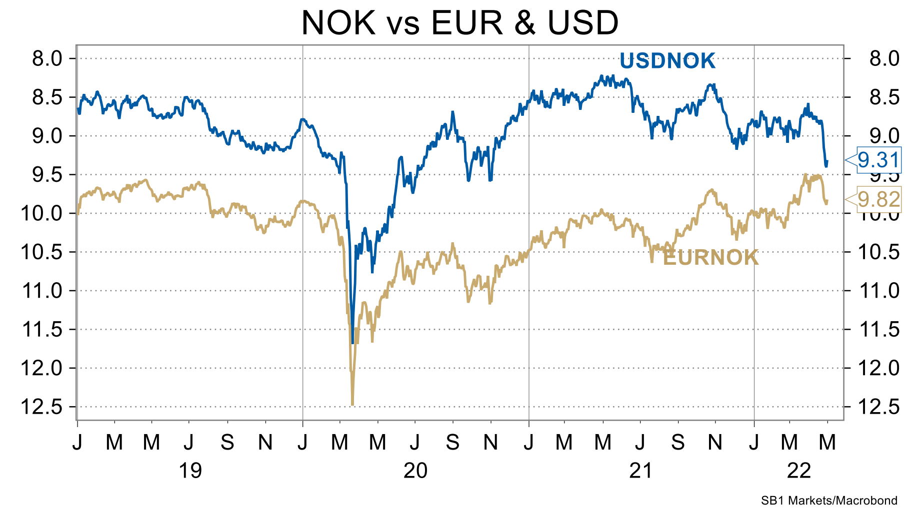
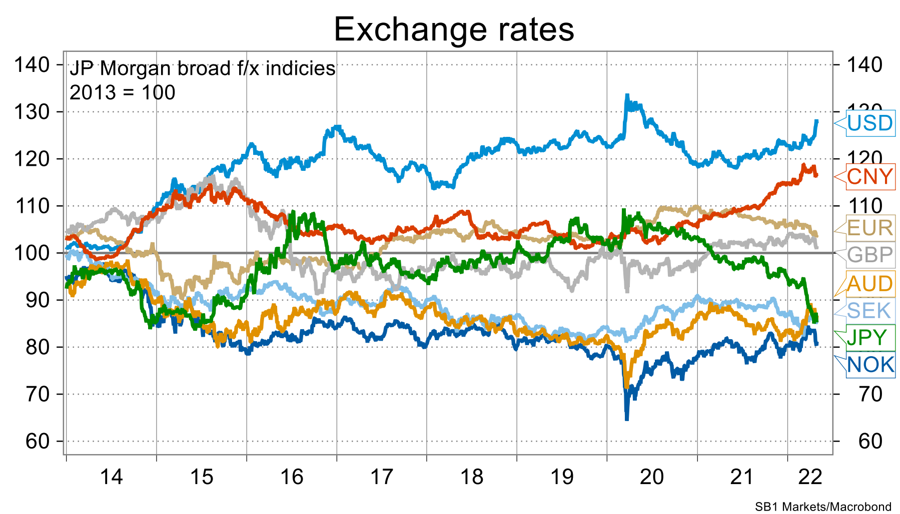
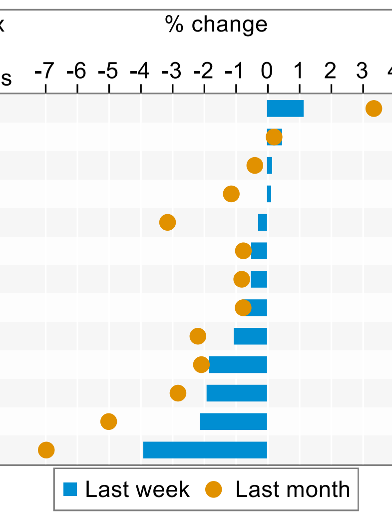
The NOK & the EUR the last weeks big losers, even if EUR short term rates rose

The CNY fell further too. The JPY fell further but not much even if the Bank of Jap. was rather dovish





F/x markets



JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
USD	1.2	3.4
CAD	0.5	0.2
CHF	0.2	-0.4
AUD	0.1	-1.1
JPY	-0.3	-3.1
SEK	-0.5	-0.7
CNY	-0.5	-0.8
GBP	-0.8	-0.8
EUR	-1.1	-2.2
NOKEUR	-1.8	-2.1
NOK	-1.9	-2.8
EURUSD	-2.1	-5.0
NOKUSD	-3.9	-7.0

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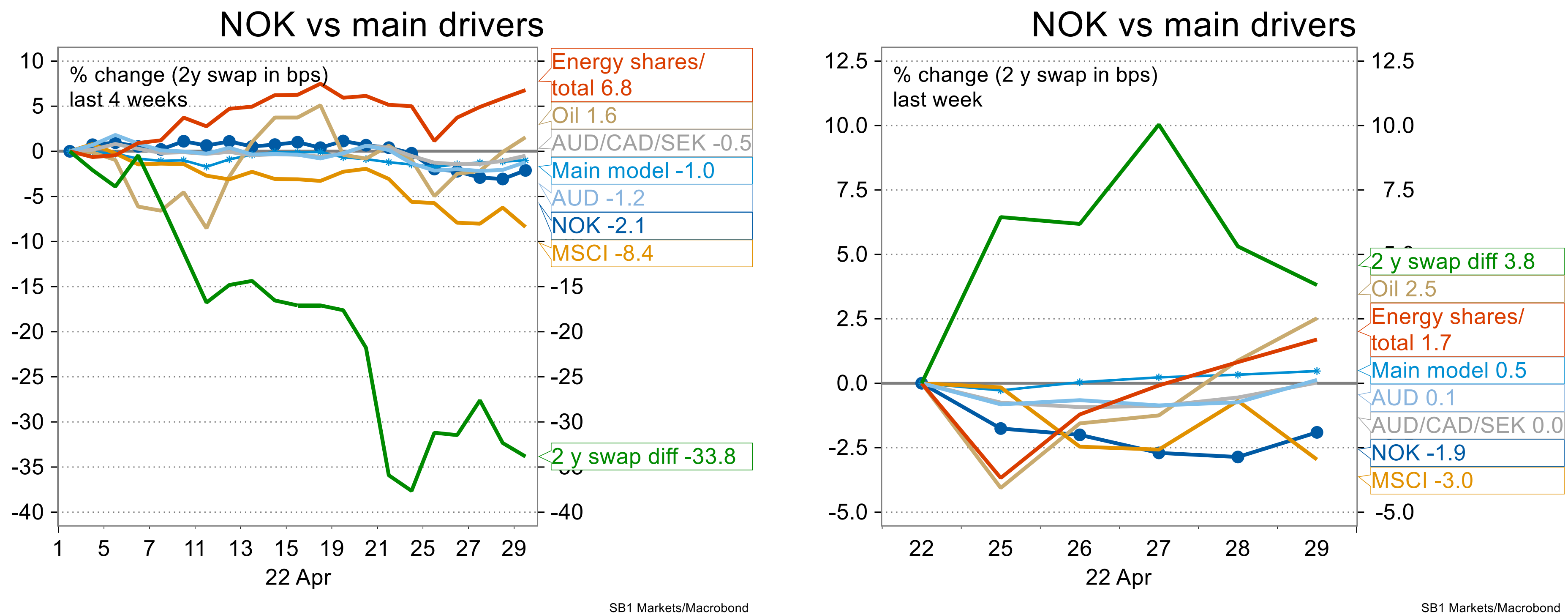
NOK down 1.9%, for no good reason – except for risk off at the equity market

Our model suggested a 0.5% appreciation as the oil price recovered



The status vs. the normal drivers – NOK the only loser: An argument for

- ***The NOK -1.9% - and the NOK 2% below our main model estimate (from +0.5%)***
- The NOK is 5.5% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from 3%)
- NOK is 3 % <u>stronger</u> than a model which includes global energy companies equity prices (vs the global stock market) (from 5)

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

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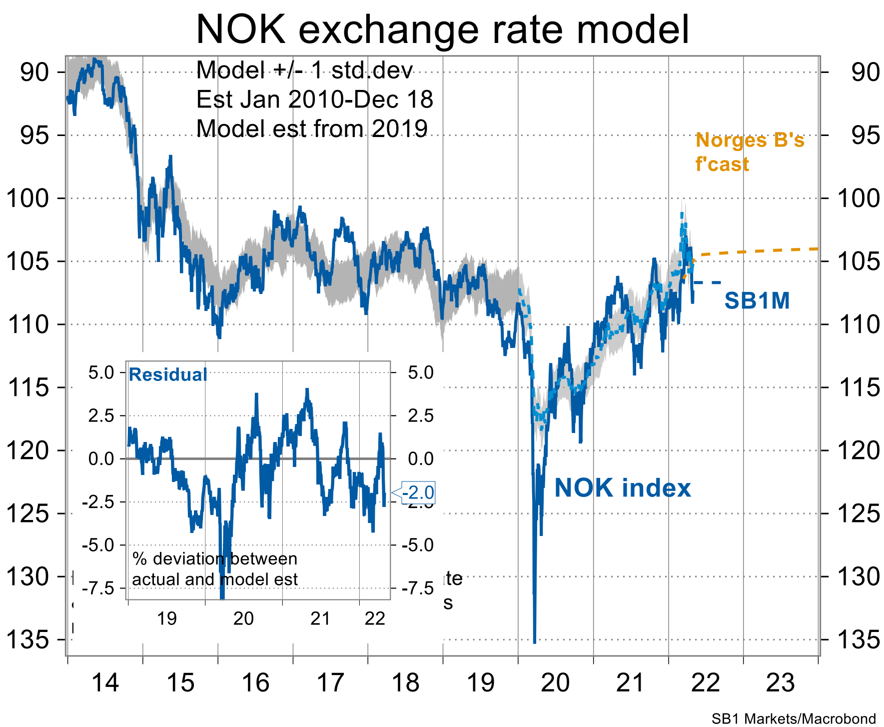
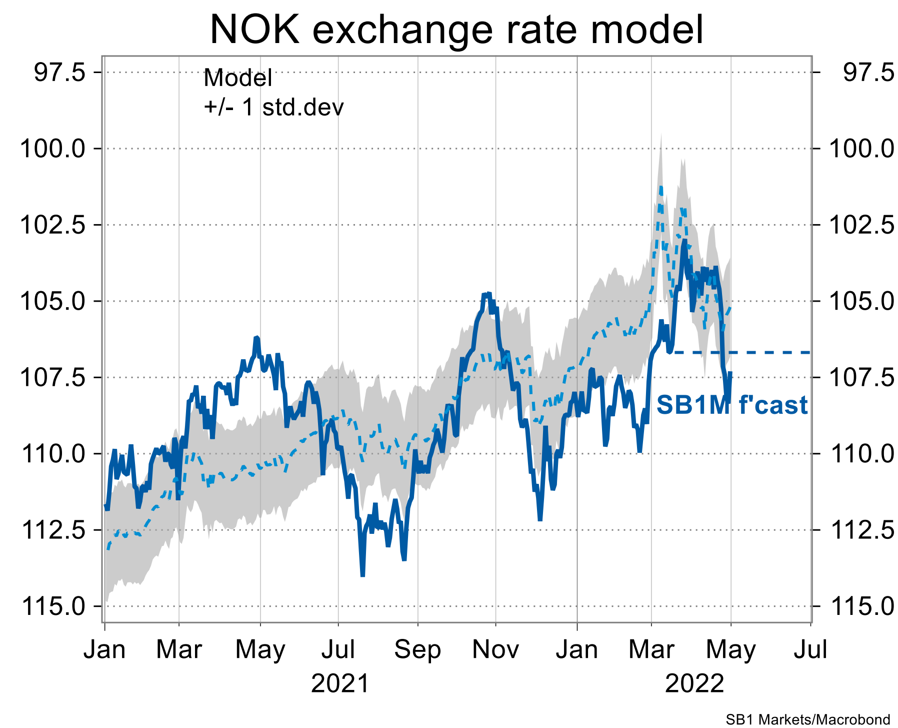
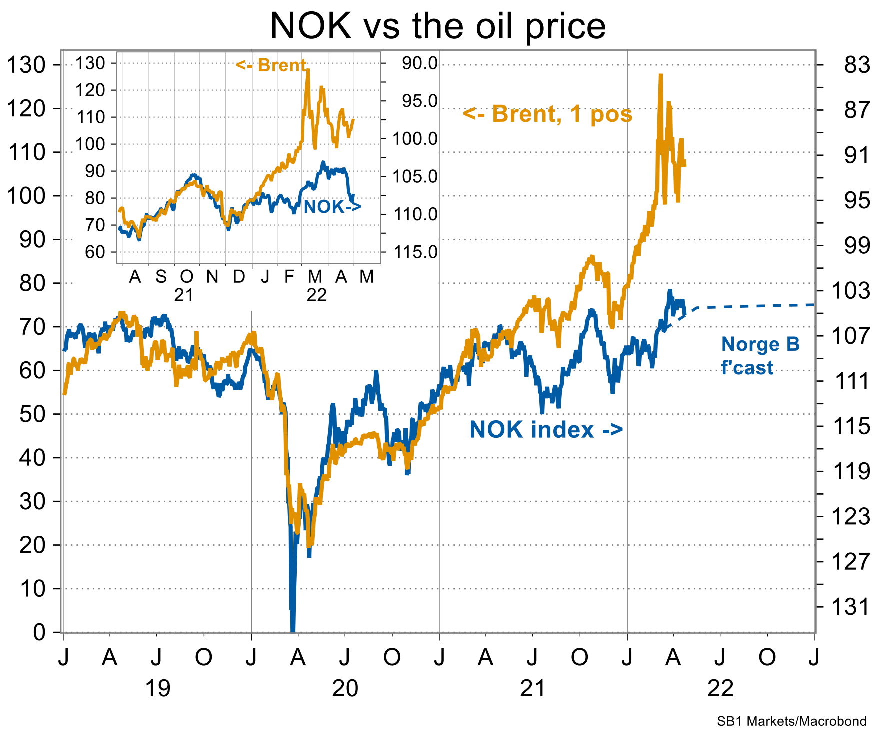
The NOK suddenly lost 2.5% vs. our model. Which happens from time to time

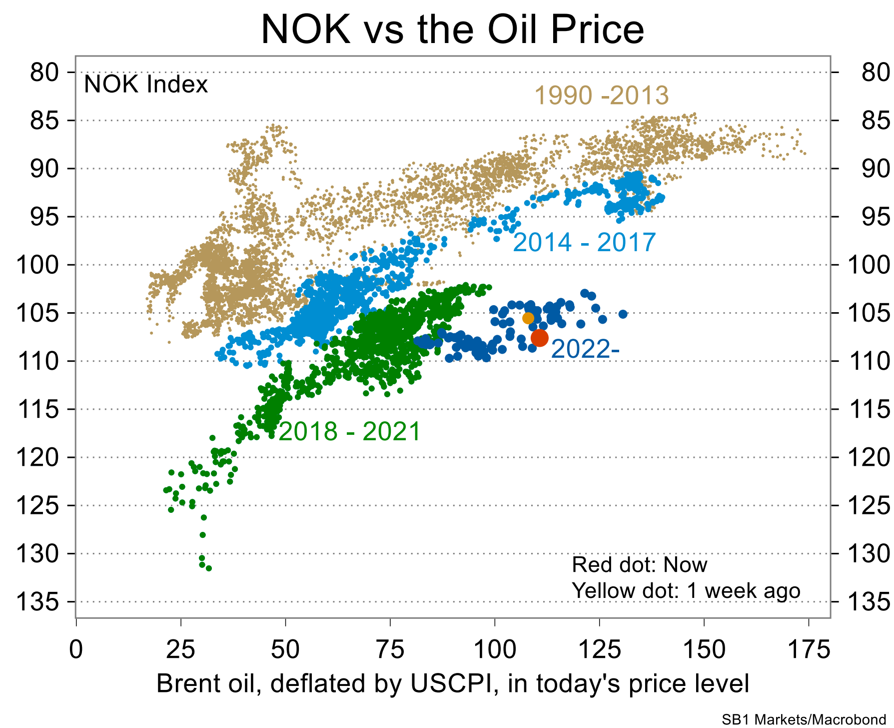




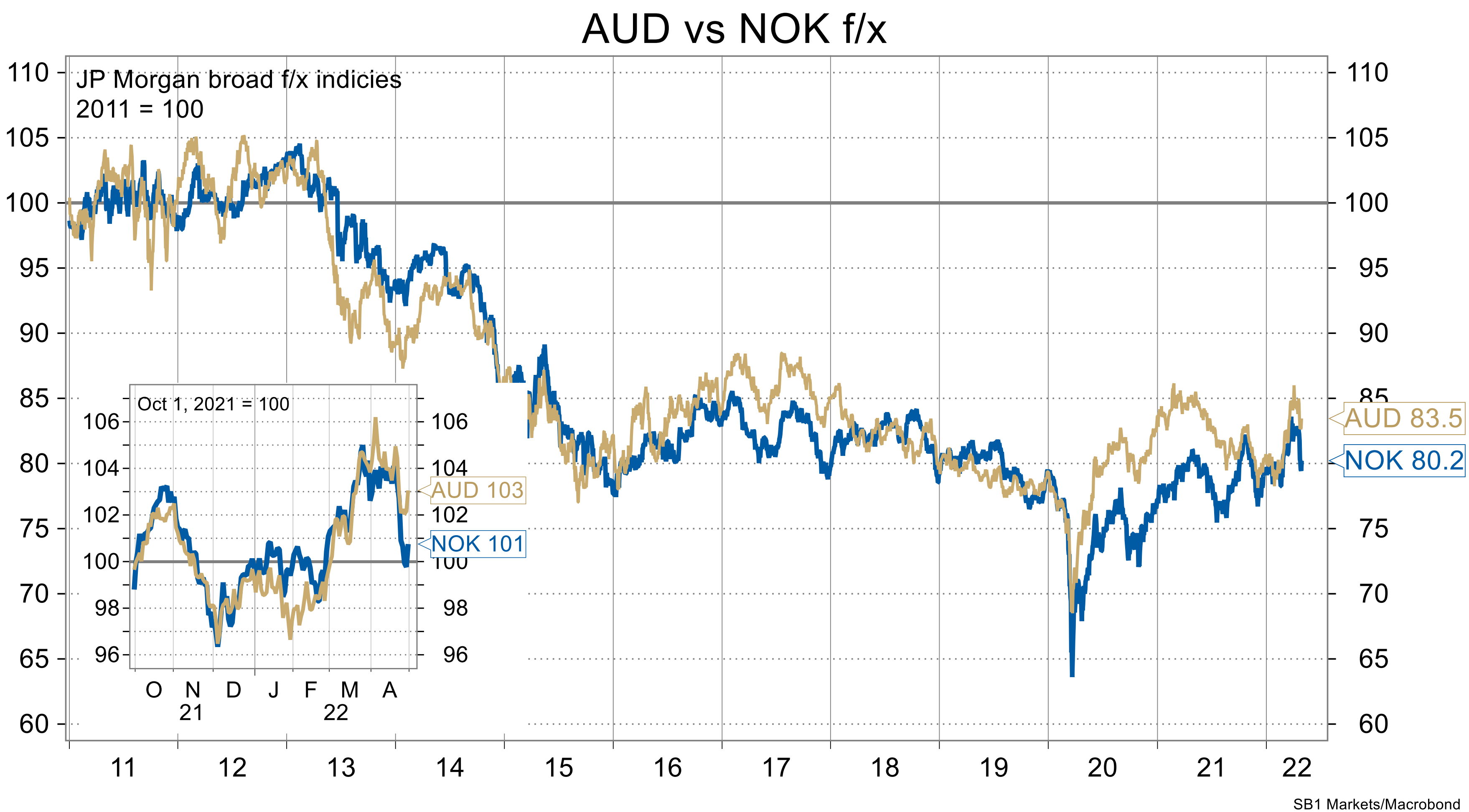
Oil up, NOK down

Oil & NOK have not been closely correlated so far in 2022





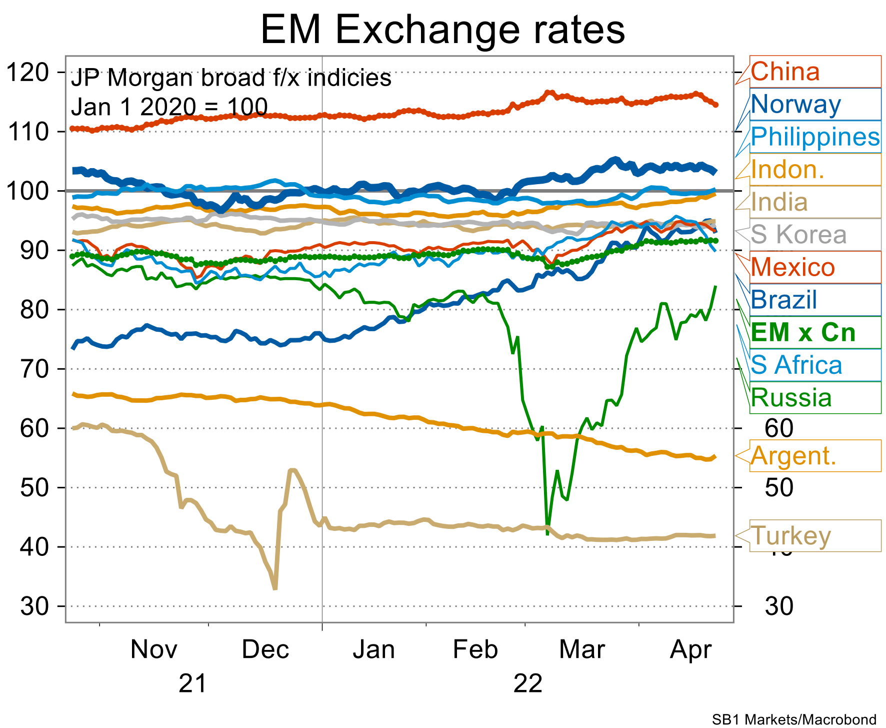
The NOK suddenly lost 2% vs. the AUD

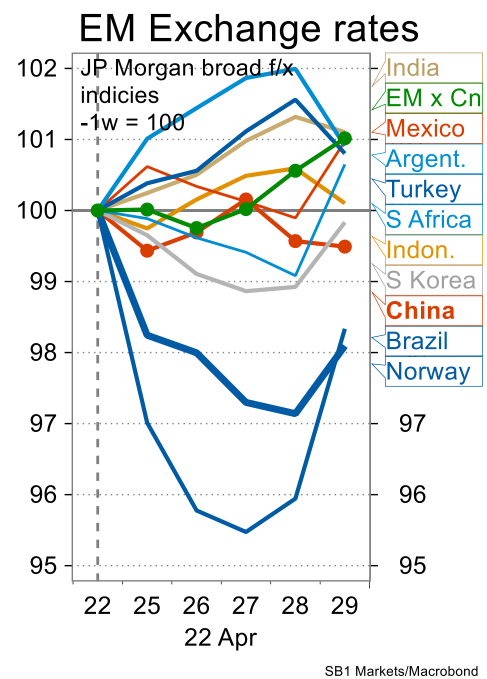


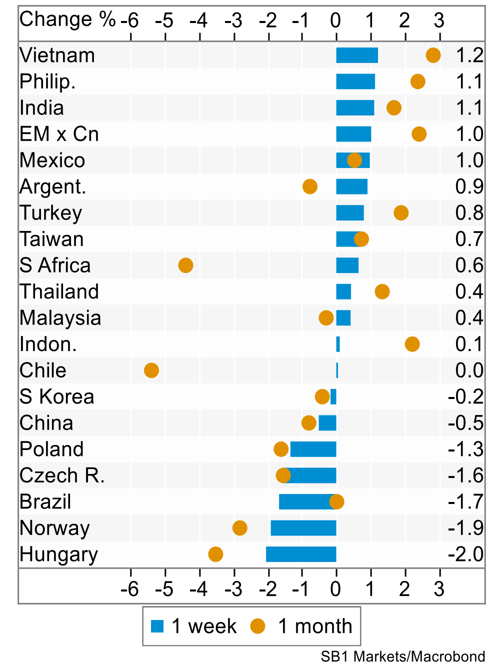
The two f/x indices are back to the 2011 'parity' (vs each other, from which they never since have deviated much)

The Russian rouble defies gravity (or real trading?)

Other EM currencies more up than down last week, but the CNY fell further







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