May 30 2022

Macro Weekly

Week 22/2022

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Highlights

The world around us

The Norwegian economy

Market charts & comments

Last week, part I

- **The War/Sanctions**
  - **No good news** from the East front, no end in sight for the war. The Russians have gained some ground in the Eastern regions. Both parties seemingly to want to strengthen their position on the ground before real peace negotiations to start
  - **Energy prices** rose last week, while most other commodity prices fell
- **The virus**
  - **Lockdowns** are gradually eased in most cities, and now even in **Beijing. Shanghai** is still partially locked down, and mobility is very low, as in Beijing (where it is trending down)
  - **PM Li Keqiang** urged local governments on Wednesday during an unprecedented, huge webinar to do whatever it takes to revive growth, as the economy is stalling, and unemployment increasing. No new measures were announced, but recently more infrastructure spending, tax cuts for businesses, car subsidies, credit easing and cut in the signal rate for mortgages have been decided. However, the current setback is very likely mostly due to the lockdowns – which are due to the great leader Xi's refusal of importing effective (Western) vaccines. The zero tolerance policy is demanding, to put it mildly. Reporting on Li's (desperate?) initiative was soon moved downwards on the news agenda, and another where the great leader Xi was hailed, had advanced to the top position…). Still, it is obvious that the Chinese authorities are willing utilise all measures available to stimulate demand the coming months
- **Preliminary May PMIs**
  - **The composite PMI** in developed markets fell in May, mostly due to weaker indices in the US and UK, but even the EMU PMI fell slightly. The EMU is still reporting growth above trend, the US and UK not. The delivery times indices fell, but price indices remain at very high level. China will decide the fate of the global index in May, like in March and April. In the US, regional surveys and the PMI signal a significant decline in the manufacturing ISM (which is not expected)
- **USA**
  - **New home sales** 'collapsed' in April, after Homebuilders reported a steep decline in demand due to affordability, flowing the surge in mortgage rates through the spring – and the steep rise in home prices. **Pending (existing) home sales** fell sharply too in April. Setbacks on the housing market is often the early warning before recessions and we are probably witnessing the first impacts on demand from the substantial change in financial conditions, triggered by the change in Fed's policy stance
  - **Household income** growth is slowing, and just a substantial decline in the **savings rate** has managed to keep **consumption in volume** terms up so far in 2022. The saving rate fell to 4.4% in April, 3 pp below the pre-pandemic level. However, most of the 'Wall of saving', the accumulated excess savings through the pandemic, is still intact, barring for low income groups
  - The PCE **consumption price deflators** have probably peaked but underlying inflation is still far too high
  - **Minutes from the May 4th FOMC meeting** confirmed that the Fed plans to hike by 50 bps in June, and very likely in July. Thereafter the bank will (of course) have to evaluate the development in the economy (especially the labour market, we think), when the path forward must be decided. The market thought this was a somewhat dovish message – and the stock market rally continued

Last week, part II

- **EMU**
  - » **Money and credit** growth has accelerated but remains in check. Still current growth rates are not an argument for a signal rate at -0.5%. Neither is the lowest unemployment rate since 1981
- **UK**
  - » The government proposed a **huge support program**, to mitigate negative impacts from the surge in the energy bill funded by a temporary 25% extra tax on windfall gains in the energy sector. Total subsidies now equal almost 9% of GDP!
- **Norway**
  - » **Oil companies** revised their 2022 investment forecast up by 5%, but there will be a decline vs the 2021 level, by some 10% in real terms. The 2023 estimate was unch. at very low level. However, no spending on the 40-some projects that are expected to be presented for the authorities before the Dec-31 deadline in order to benefit from the favourable temporary tax regime is included in the current forecast (a PDO application must sent first). We still expect a substantial growth in oil and gas investments next year
  - » The **manufacturing sector** reported very ambitious investment plans for both 2022 and 2023. The **power supply sector** signals some growth in its investments next year, following the almost 40% (!) decline since the peak in 2018
  - » The **LFS/'AKU' unemployment rate** fell 0.2 p to 2.9% (expected 3.0), to the lowest level since 2008, even if the participation rate really surprised on the upside, a very good piece of news, may signal more spare capacity. However, employment grew even faster (0.6% m/m), and the labour market tightened further
  - » **Finans Norge's consumer confidence index** fell sharply in Q2, but not more than we expected. However, the outlook for the personal economy fell much more than we assumed, to the same level as during the banking crisis (1992), and way below anything since ever since. Opinion's monthly CCI survey also fell again, to the same low level as the personal economy outlook in Finans Norway's survey. It is impossible to explain the huge drop in households sentiment by any of the standard factors that usually explains their confidence. We have seen high inflation and interest rates on the way up before. It is hard to believe that the war in Ukraine should lower expectations dramatically. So it may be the mix, and the extreme media coverage of all the terrible crises we are witnessing these days?
  - » **Hotel guest nights** touched ATH in April, and prices are up 17% since before the pandemic

Time	Count.	Indicator	Period	Forecast	Prior
Monday May 30					
08:00	SW	GDP QoQ	1Q	-0.4%	1.1%
08:00	**NO**	**Retail Sales MoM**	**Apr**	**(-2.0)**	**3.3%**
11:00	EC	Economic Confidence	May	104.9	105.0
14:00	GE	CPI YoY	May P	7.6%	7.4%
Tuesday May 31					
	GE	Retail Sales MoM	Apr	-0.4%	0.9%
01:50	JN	Retail Sales MoM	Apr	0.9%	1.7%
01:50	JN	Industrial Production MoM	Apr P	-0.1%	0.3%
03:30	**CH**	**Manufacturing PMI, NBS**	**May**	**49.0**	**47.4**
03:30	**CH**	**Non-manufacturing PMI, NBS**	**May**	**45.0**	**41.9**
08:00	NO	Credit Indicator Growth YoY	Apr	(4.9%)	5.0%
10:00	NO	Norges Bank f/x transact., NOK	Jun		2bn
11:00	EC	CPI YoY	May P	7.7%	7.5%
11:00	**EC**	**CPI Core YoY**	**May P**	**3.6%**	**3.5%**
15:00	US	CS House prices, 20 cities, YoY	Mar	19.6%	20.2%
16:00	US	Conf. Board Consumer Confid.	May	103.7	107.3
17:00	**WO**	**Manufacturing PMI**	**May**	**(51.3)**	**52.3**
Wednesday June 1					
03:45	**CH**	**Manufacturing PMI, Caixin**	**May**	**49.5**	**46.0**
08:00	**NO**	**Household savings rate**	**Q1**		**9.9%**
08:30	SW	Manufacturing PMI	May		55.0
10:00	EC	Manufacturing PMI	May F	54.4	54.4
10:00	NO	Manufacturing PMI	May	(58)	60.6
10:30	UK	Manufacturing PMI	May F	54.6	54.6
11:00	EC	Unemployment Rate	Apr	6.8%	6.8%
15:45	US	Manufacturing PMI, Markit	May F	57.5	57.5
16:00	**US**	**ISM Manufacturing**	**May**	**54.8**	**55.4**
16:00	**US**	**JOLTS Job Openings**	**Apr**	**11350k**	**11549k**
20:00	US	Fed Beige Book			
	US	Auto sales	May	14.50m	14.29m
Thursday June 2					
11:00	EC	PPI YoY	Apr	38.6%	36.8%
14:15	US	ADP Employment Change	May	295k	247k
14:30	US	Initial Jobless Claims	week	210k	210k
Friday June 3					
08:30	SW	Services PMI	May		68.1
08:45	FR	Industrial Production MoM	Apr	0.2%	-0.5%
10:00	**NO**	**Unemployment Rate, NAV**	**May**	**1.7%**	**1.9%**
10:00	EC	Services PMI	May F	56.3	56.3
10:00	EC	Composite PMI	May F	54.9	54.9
11:00	**NO**	**House prices**	**May**	**0.0%**	**0.0%**
11:00	EC	Retail Sales MoM	Apr	0.3%	-0.4%
14:30	**US**	**Change in Nonfarm Payrolls**	**May**	**325k**	**428k**
14:30	**US**	**Unemployment Rate**	**May**	**3.5%**	**3.6%**
14:30	**US**	**Average Hourly Earnings MoM**	**May**	**0.4%**	**0.3%**
14:30	US	Labor Force Participation Rate	May	62.3%	62.2%
15:45	US	Services PMI, Markit	May F	53.5	53.5
16:00	**US**	**ISM Services**	**May**	**56.3**	**57.1**
Monday June 6					
03:45	CH	Composite PMI, Caixin	May		37.2
03:45	CH	Services PMI, Caixin	May	46.2	36.2
17:00	**WO**	**Composite PMI**	**May**	**52.2**	**51.6**

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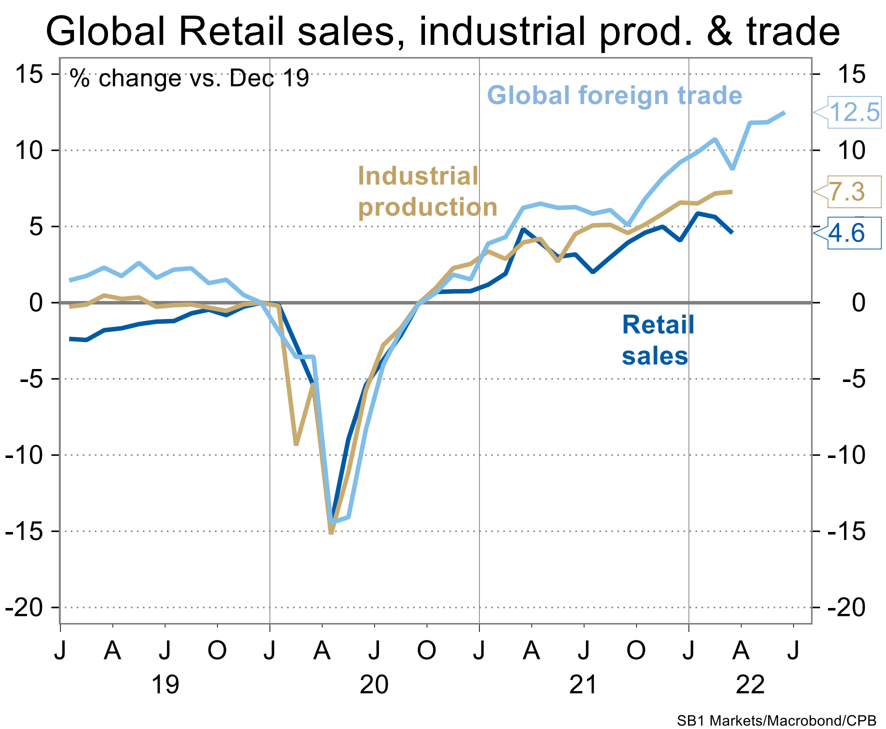
The Calendar: It's full! PMI/ISM, US labour marked, EMU CPI++

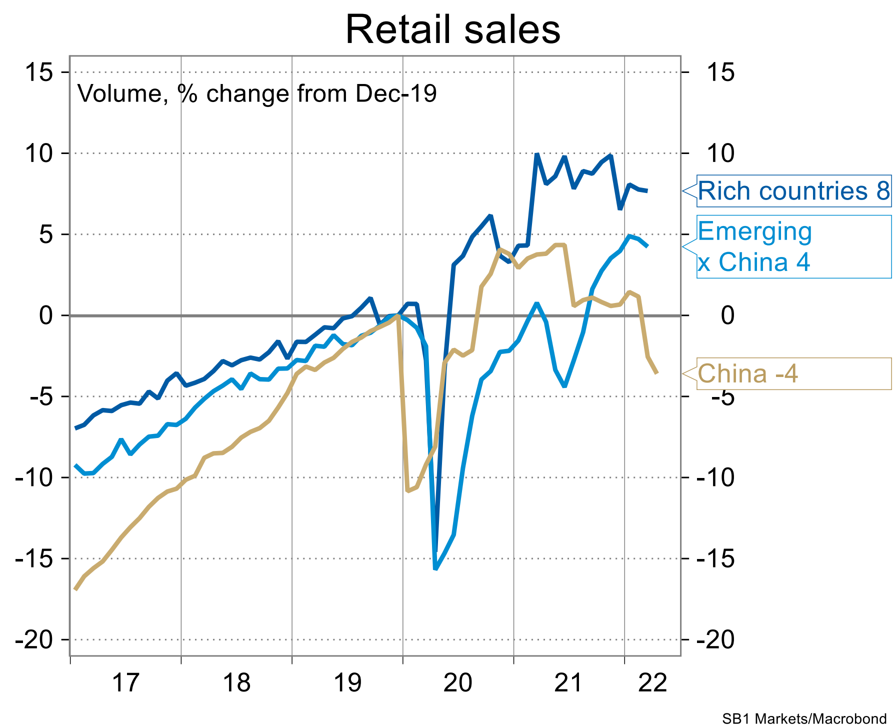
- **May PMIs/ISMs**
  - **Rich countries** have reported a 1 p decline in the composite PMI in May – but the final outcome for the global index is decided by **China**, like in March and April. The Chinese PMIs are expected sharply up but – but to remain below 50, formally signalling that production fell further in May, following steep declines in March and April. The global index may recover some of the losses the past two months. So far, DMs have reported a decline in the delivery index but still very high price increases. In the US, the risk is on the downside vs the **manufacturing ISM**, as regional surveys signal a larger decline than the consensus forecast
- **USA**
  - Without a substantial weakening of the **labour market** and a decline in wage inflation, the FOMC cannot declare success in the war on price inflation. Powell hopes that it will be possible just to lower the vacancy rate to some 3.5% from 7% (our interpretation) in order to bring wage inflation down, without lifting the unemployment rate. Usually, the unemployment rate increases 2 times more than the vacancy rate declines… This week, the **Job openings** report (JOLTS), the **NFIB SME** survey, and of course Friday's **employment report** will be published. In the latter, unemployment & wages are most important, not employment growth
  - **House prices** should soon slow, given the decline in transactions. Annual inflation is above 20%
  - Fed's Beige Book may give relevant news on both demand and the labour market. Any signs of weakening?
- **EMU**
  - Even **higher inflation** is expected in May, the headline up to 7.7%. We think May may turn out to be the peak for the headline rate – if energy prices do not spiral out of control
  - **Unemployment** has fallen to the lowest level since 1981, and a further decline is expected in April
- **Norway**
  - We expect the **NAV unemployment rate** to decline further by 2', from the 1.9% level in April to 1.8% (seas adj., 1.7% unadjusted). We assume the inflow of new vacancies remained high
  - **House prices** flattened in April, we expect the same in May. Higher interest rates (extremely) weak consumer confidence indicates that the risk is on the downside
  - **Credit growth** is stable at 5%. **Household savings** have fallen but has so far remained above the pre-pandemic level. In Q1, dividends will fall sharply following the adjustment to the change taxation in Q4 last year, but the savings rate ex. dividends will rise as consumption fell due to covid restrictions in Q1

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

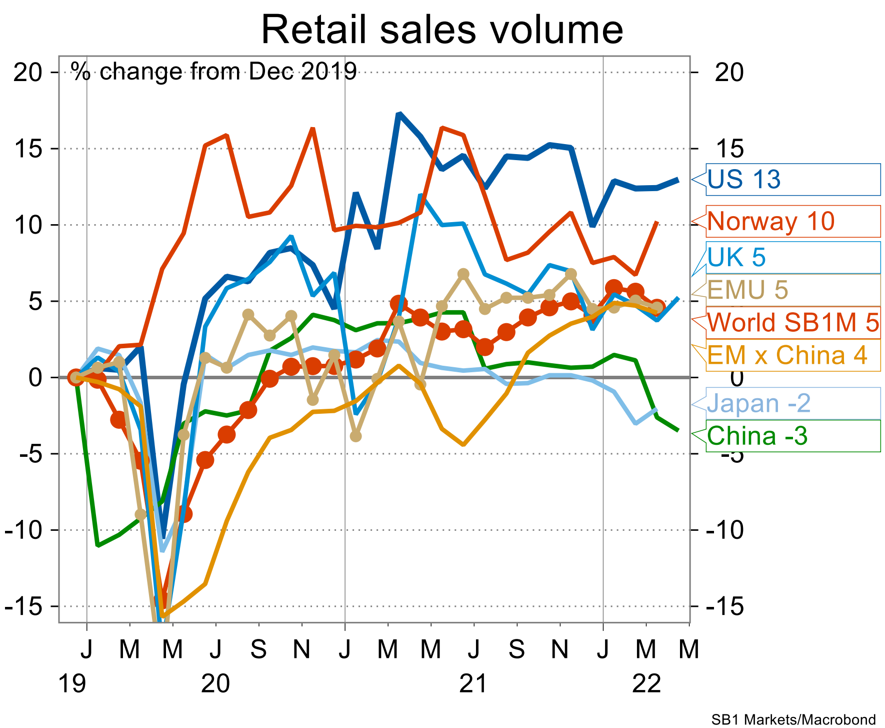


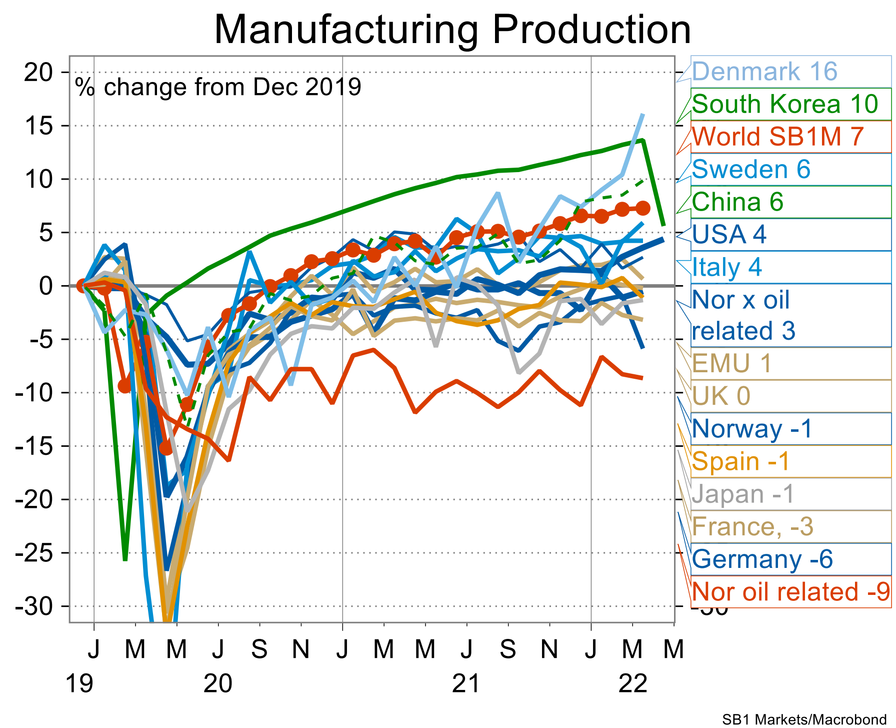


Global trade: The last months are estimates from the Kiel Institute, they are also making a prognoses for the next month based on shipping activity etc.

Retail sales down in March too, industrial production probably further up

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

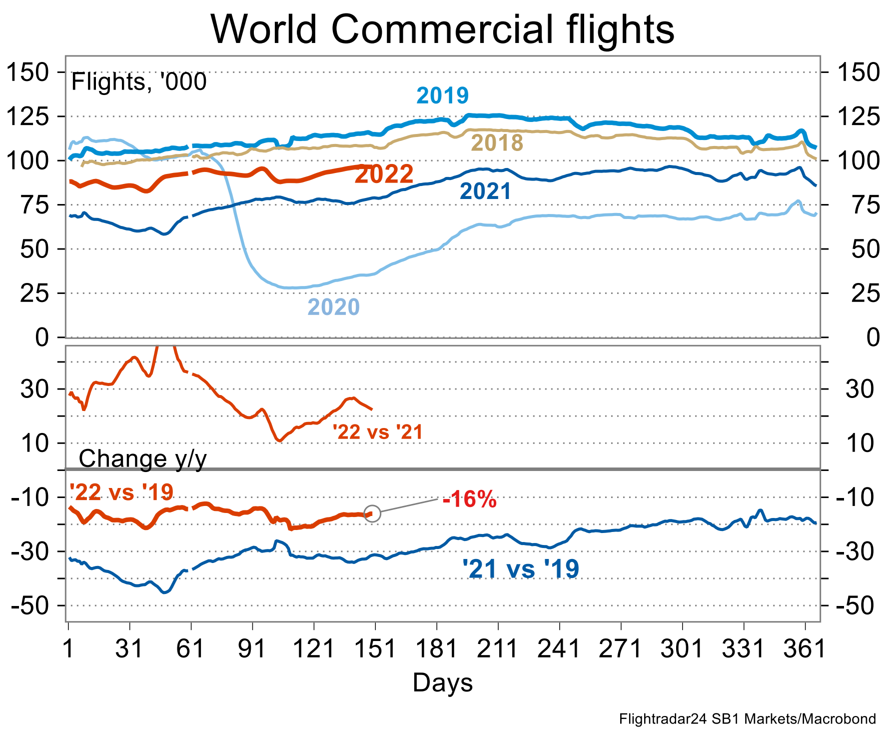


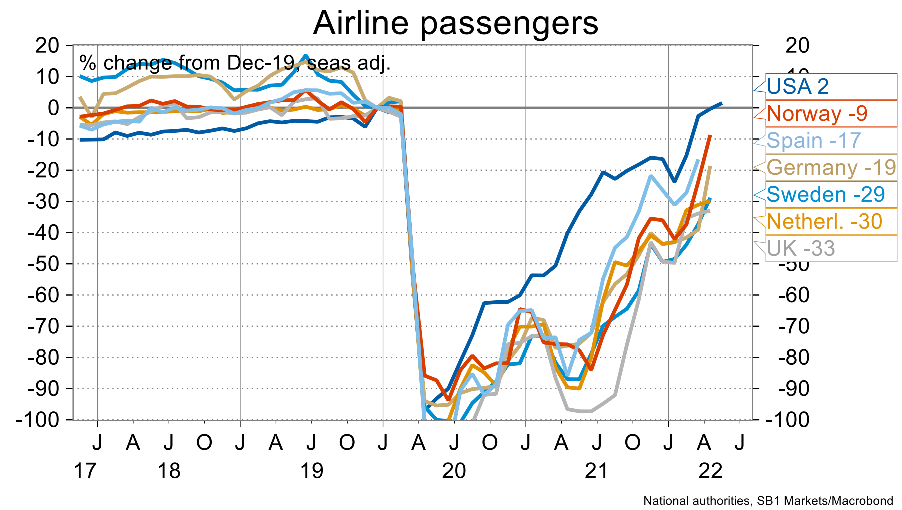


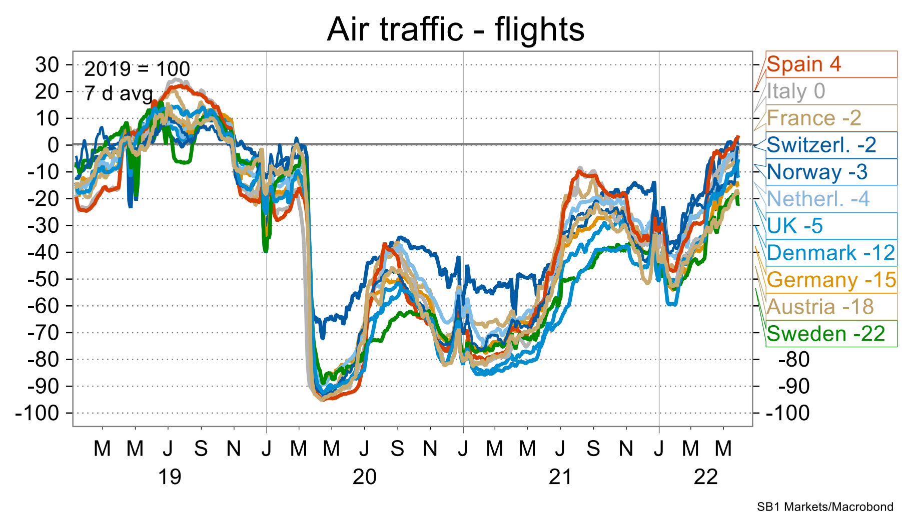
- **Retail sales** in Emerging Markets x China are recovering but sales are far below pre-pandemic trends
- **Manufacturing production** has been hampered by a deep decline in auto production. The manufacturing PMIs are down from the peak but are still signalling growth, however not above trend
  - » China reported a sharp drop in production in April, which will pull the global aggregate down (but too few others have so far reported)

Global airline traffic up last week – still 16% down from 2019

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





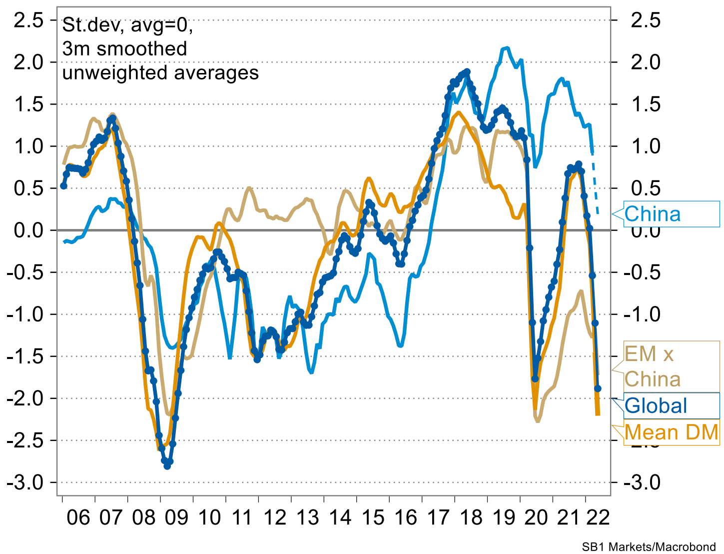


Global trade: The last months are estimates from Kiel Institute

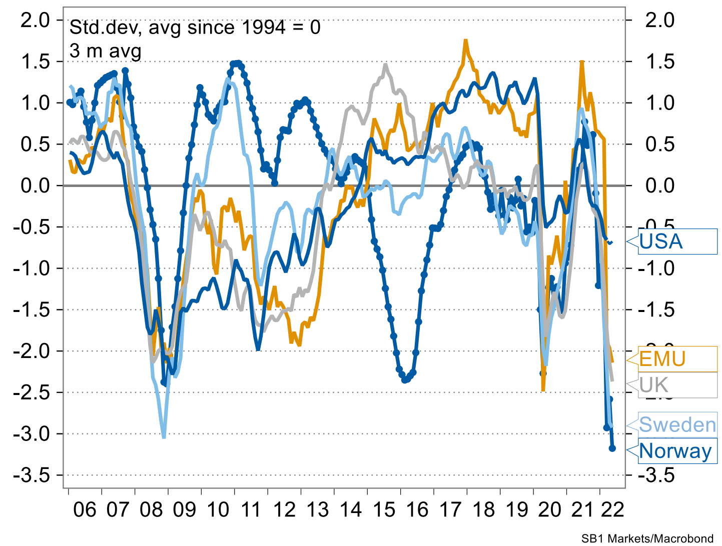
Consumer confidence sharply down almost everywhere, Scandics at the bottom!

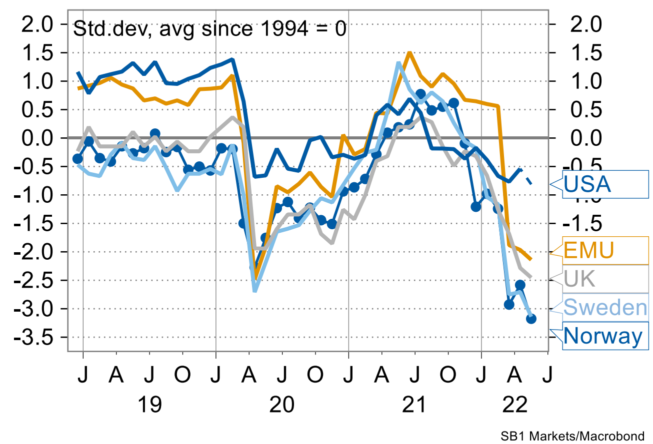
Inflation, higher interest rates – and a war. We still doubt demand will collapse

Global consumer confidence

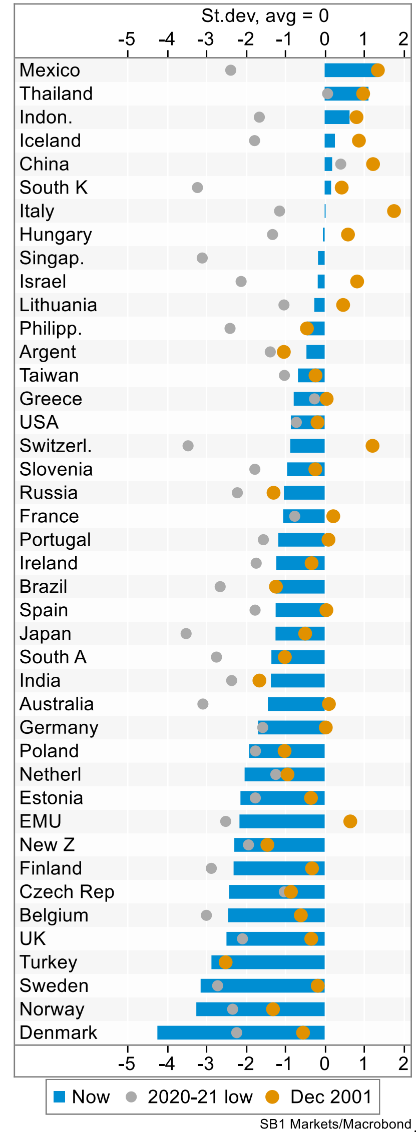


Consumer confidence





Consumer confidence

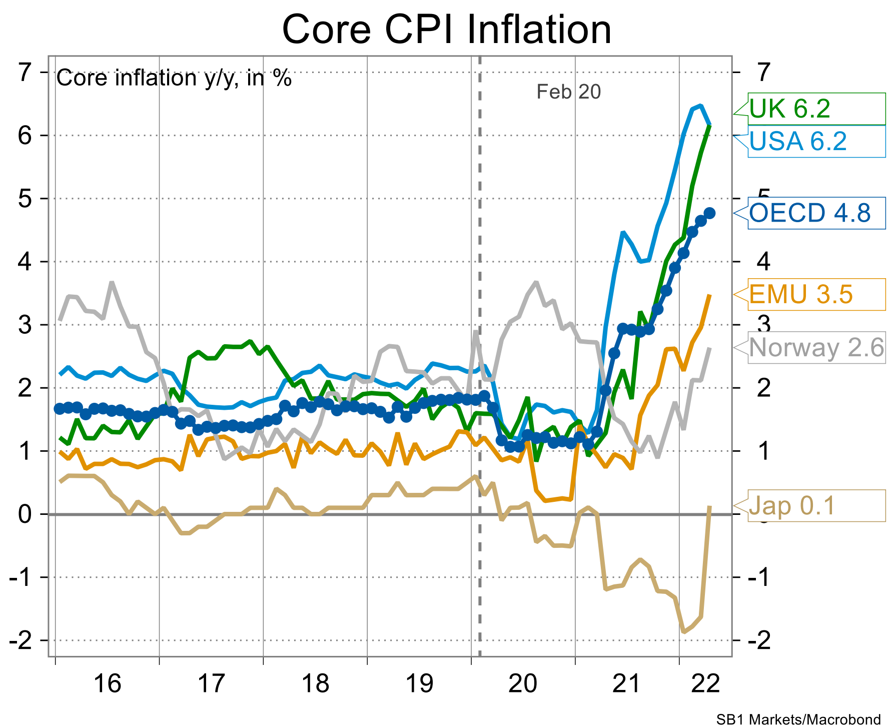


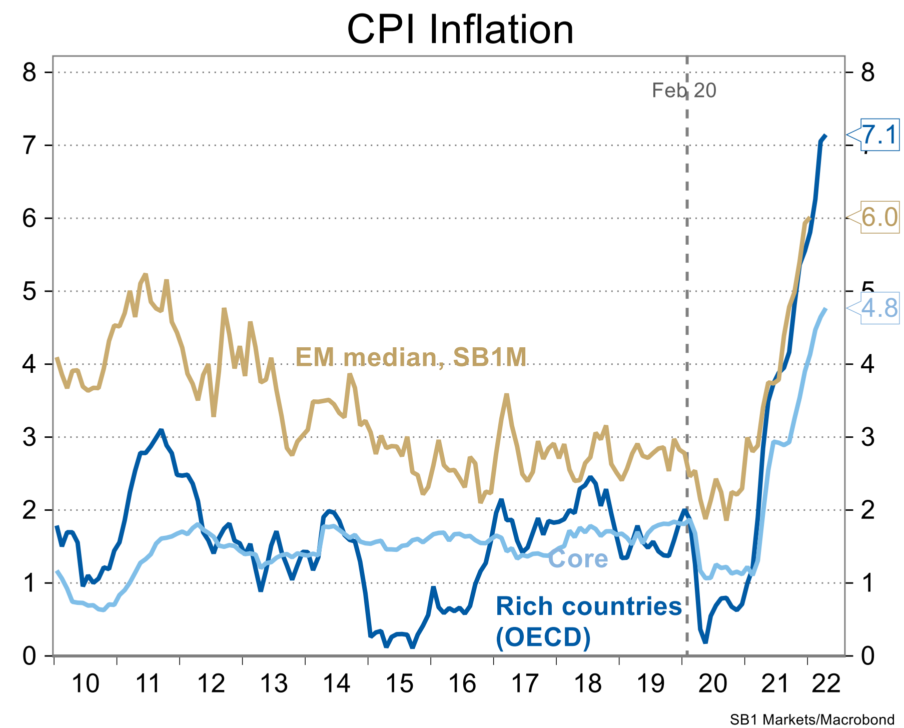
- **Most countries** are reporting a significant lower confidence levels than late last year. Just 6 countries are above average, 33 are below
- Sentiment has fallen more in **Europe** than in the **US** (at least the average of Conf. Board's & Univ. of Mich' indices, the latter is down to an European level)
- The decline in **Norway & Sweden** is <u>identical and really bad</u>. **Denmark** is even worse. The 3 Scandics are at the bottom of the long list!
- **Emerging markets ex China** has not fallen that much recently, but the level is low. The last Chinese data point is March (unsmoothed at the chart above)
- Downside risk to household demand but we doubt households will do as they say

Last observation. Total EMU is leading 1 month on member countries
Norway is the average of Finans Norge & Opinion

Inflation still the main challenge most places

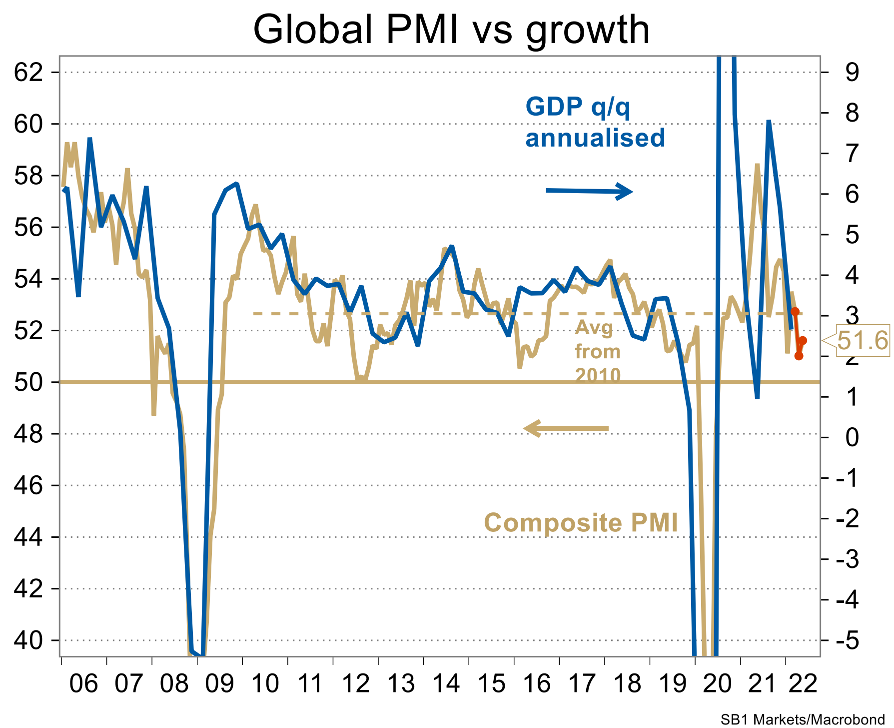
Energy prices the main culprit, but core inflation has turned up most places

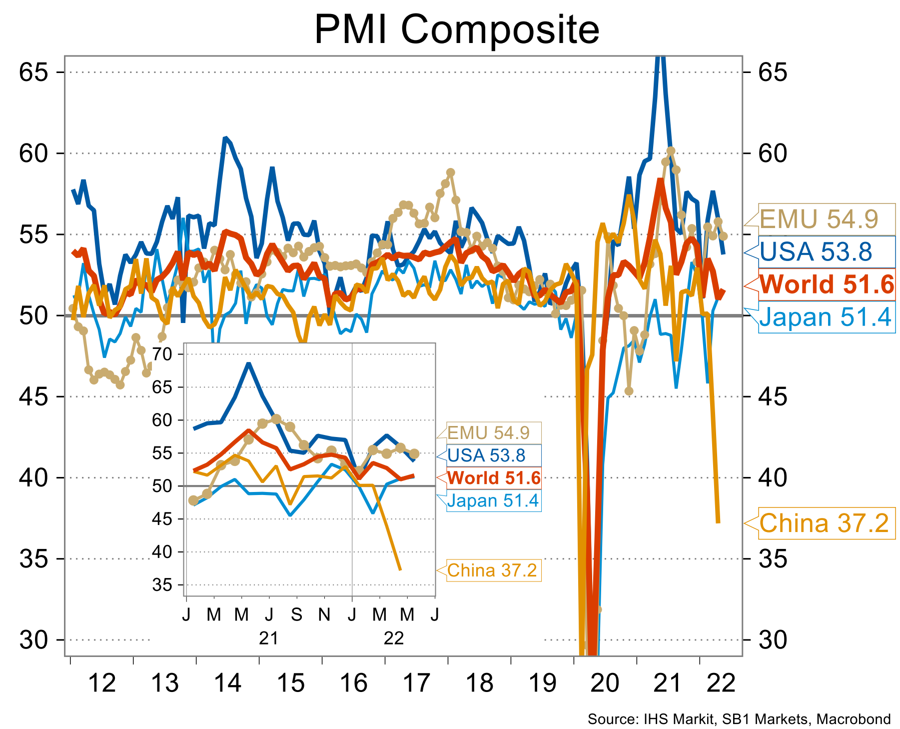




A further decline in the global PMI in May? Possibly, a DM decline is very likely

But China will decide, as was the case in March and April. A lift in China likely, and in the global PMI?





- The lockdown in China lowered the global PMI sharply in March and even more in April
- We have just illustrated the impact of the changes in the flash May PMIs from development markets. The final outcome will be decided elsewhere
- The US composite PMI fell sharply, and much more than expected, to 53.8 from 56

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

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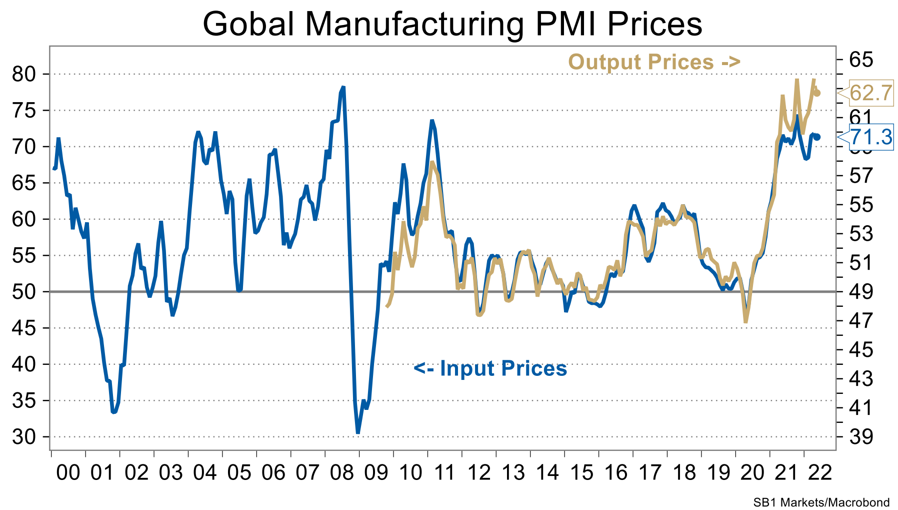
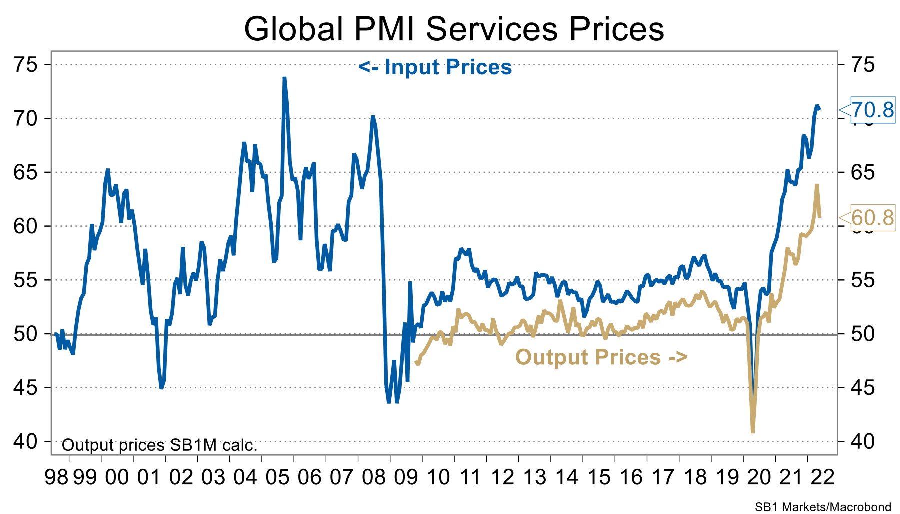
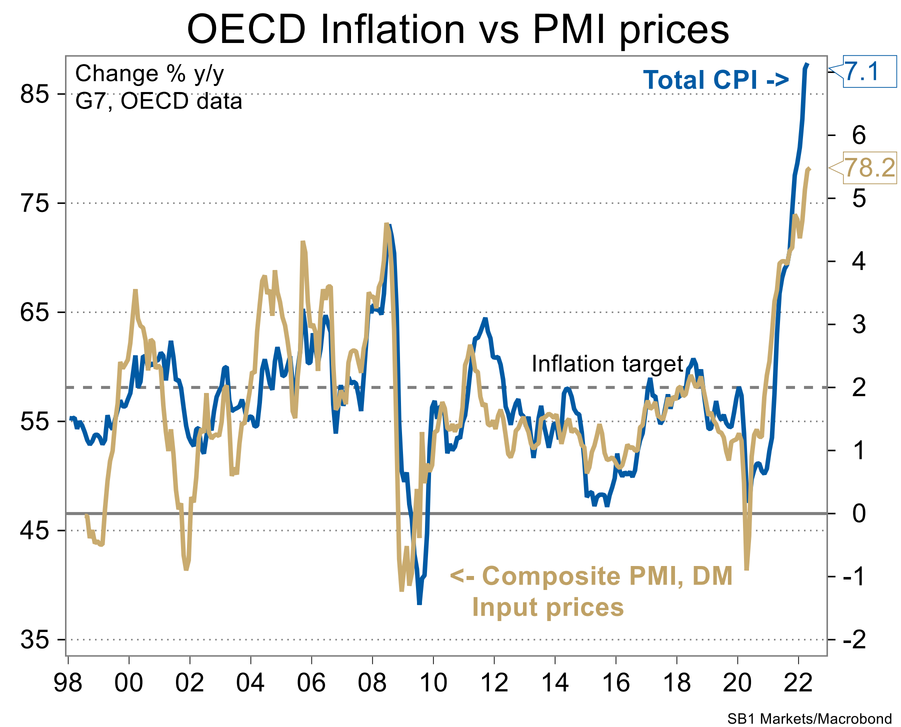
Price indices may have peaked but are still at very elevated levels





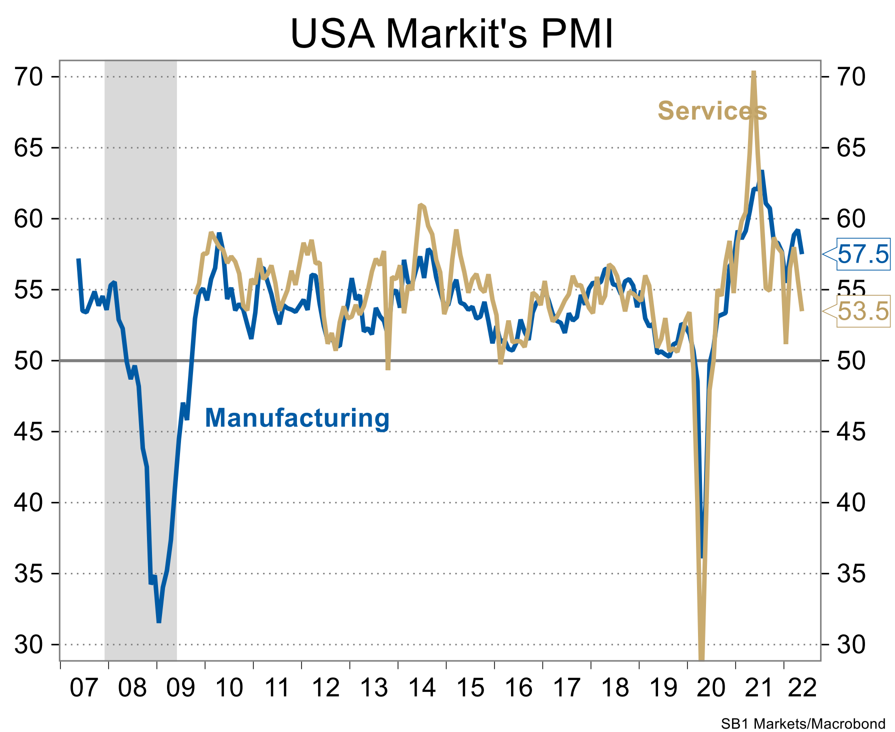


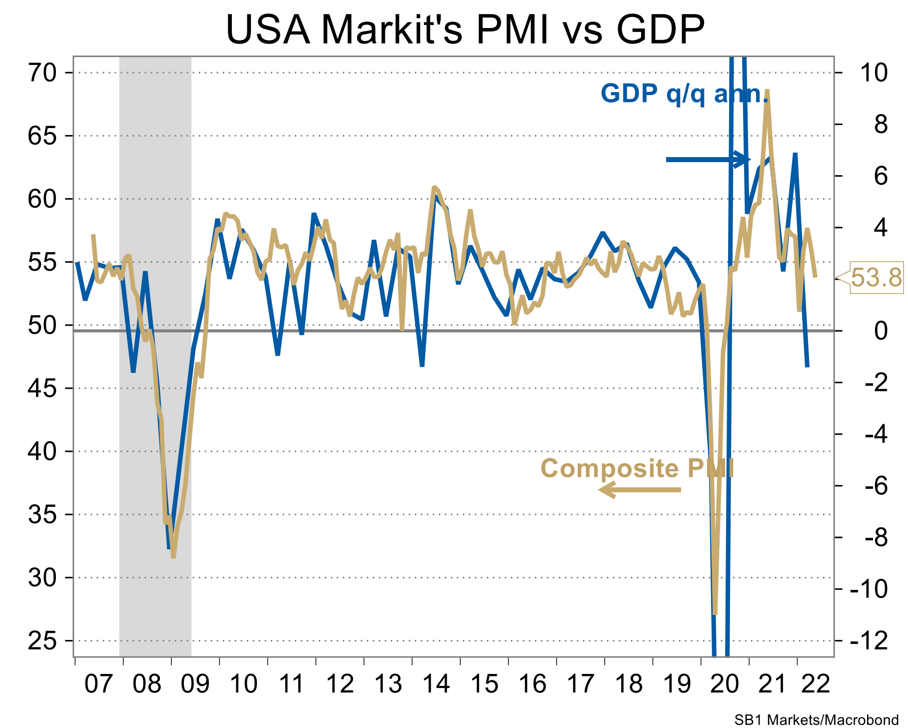
- These PMIs signal a substantial price pressure the coming months
- We are still much more concerned about wage inflation than the actual price inflation due to factors that are most likely transitory, like hikes in raw material prices, freight cost or short lived margins expansion when demand is surprisingly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

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

Services slowed further May, down to below average, manufacturing still OK

The composite fell 2.2p to 53.8, expected at 55.5 → 2% GDP signalled

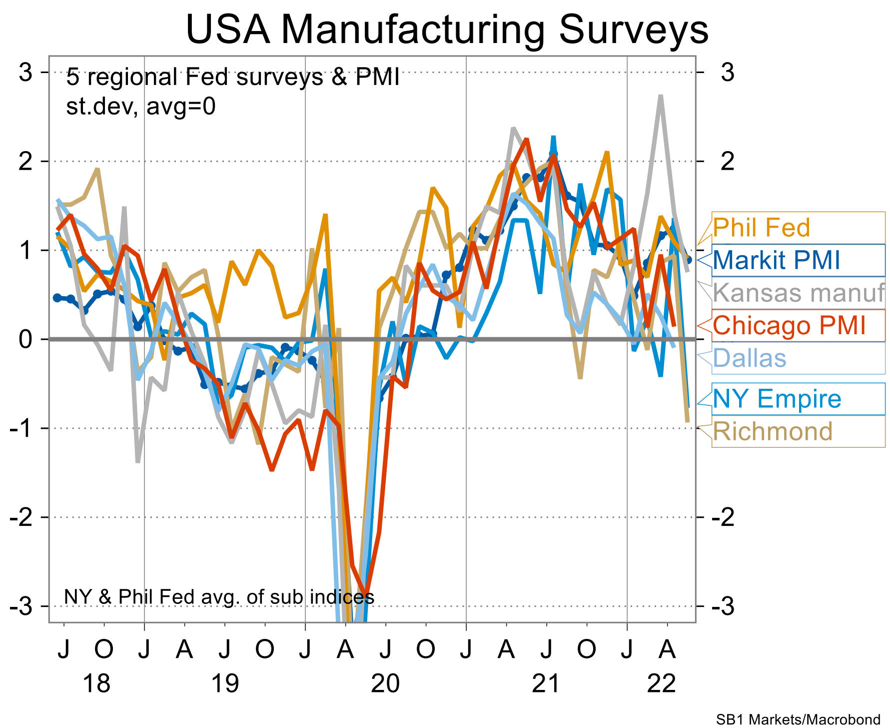


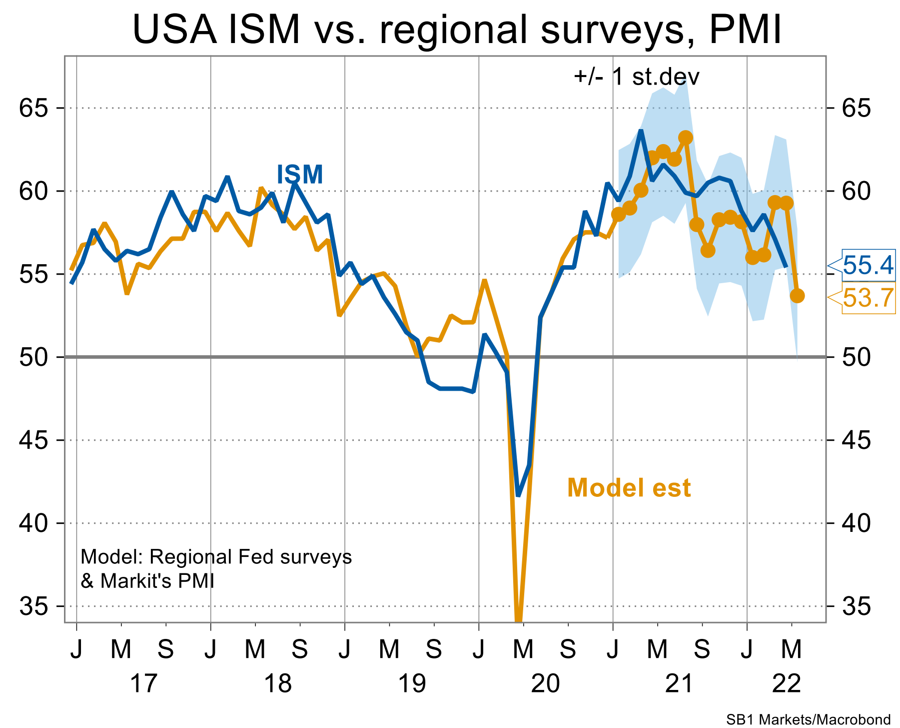


- **The composite PMI** has been trending flattish since August last year – while GDP was far better than the survey indicated in Q4, and far worse in Q1 – on average 2.8%. The May PMI signals somewhat lower growth – but far from any setback in the economy
  - » The decline was due to a 2.2 p setback in services to 53.5 (expected 55.5), and…
  - » … a decline in the output component in the manufacturing survey by 2.3 p to 55.2. The total manuf. index fell 1.7 p 55.7. Both total & output is above average but both are trending down. Together with regional Fed surveys, a substantial decline in the ISMs in May are likely
- **The price indices** were mixed: Input prices rose the fastest ever, while growth in output prices slowed – to the 2nd highest level ever
- **The delivery times index** fell sharply, signalling some easing of supply chain challenges

So far: May manufacturing surveys signal a substantial drop in the ISM

A 3 p – 6 p decline in the is ISM signalled, to 51 – 54. Consensus: down 0.6 p to 54.8

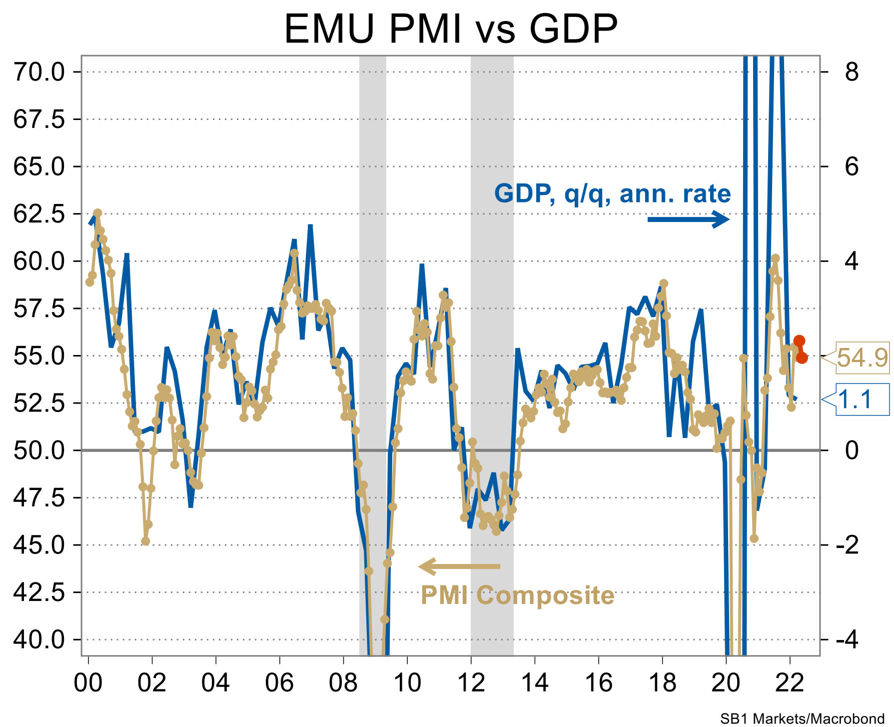


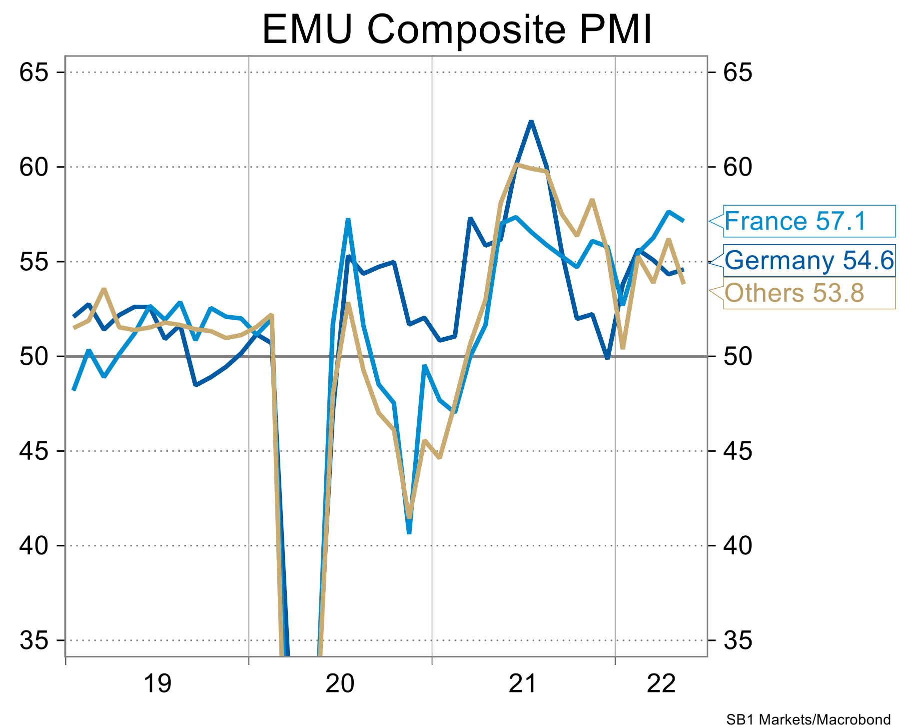


- All five regional manufacturing surveys published so far, and Markit's PMI, fell in May, some rather sharply – and our models signal a significant decline in the ISM index, which is published on Wednesday

The comp. PMI -0.9 p to 54.9, close to exp. – and still signalling growth > trend

Germany marginally up, but France and 'the South' down. All are reporting growth well above avg.!

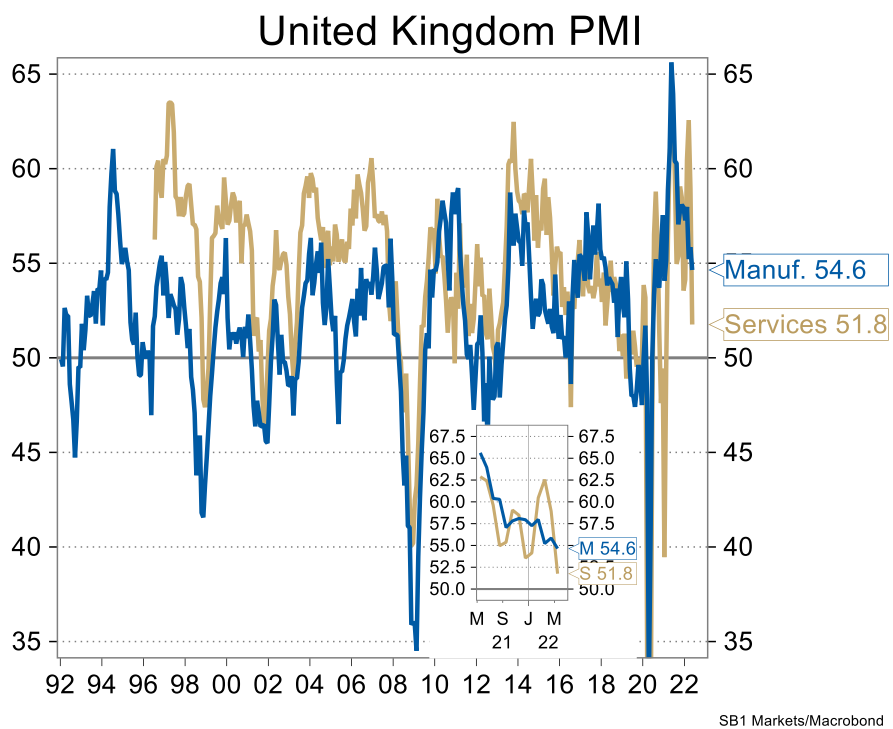


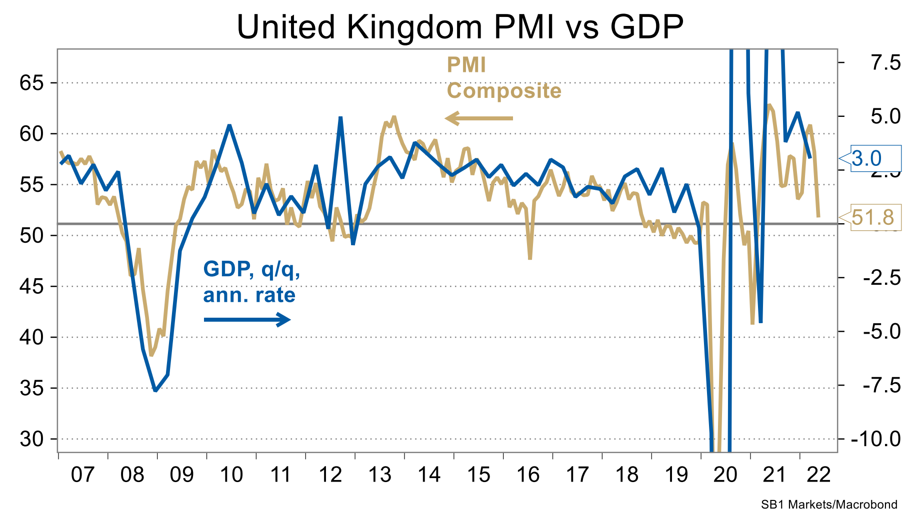


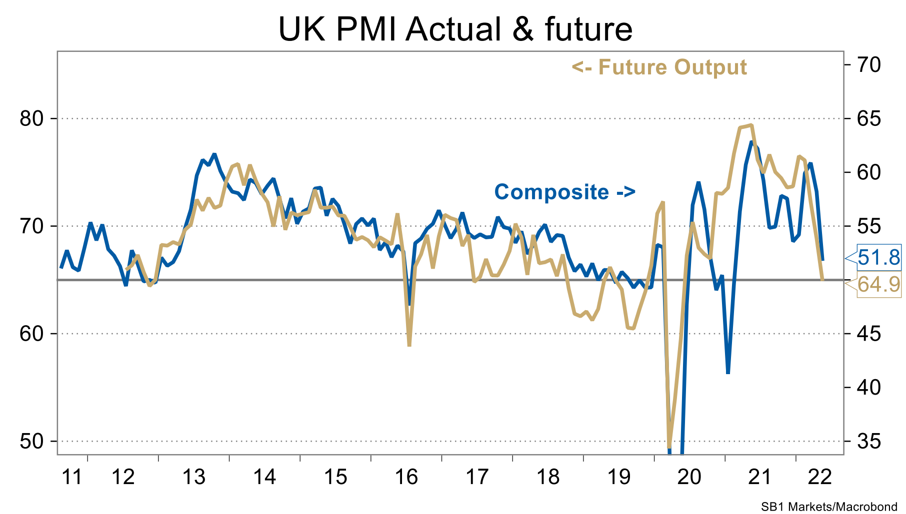
- **The composite PMI** fell back to the March level in May – and the index has been close to unchanged since the substantial lift in February, when Covid restrictions were eased/removed. The index, which is well above average, signals GDP growth at approx. 2%
  - » **Services** reported slightly lower growth but the index is still strong, at 56.3
  - » Manufacturing grew marginally faster than in April but still not at an impressive pace; index at 51.2
- **The delivery times** and price indices fell but all remain at very high levels, signalling a continued high price pressure
- **The ECB** will not change its plan due to these data, a July hike is very likely – if a catastrophe does not take place in the between time

Oops: The composite index down 6.4 p to 51.8; 1% GPD growth signalled (from 3.5)

Services took the hardest hit, but manufacturing down too, order growth to zero?







- **The manufacturing total index** fell 1.1 p to 54.6, still well above average (exp. 55.0). However, the **output index** subtracted 2.4 p to 51.8. The new orders index fell to 50.2. Prices are climbing rapidly, even if the delivery time index fell
- **The service sector** declined 7.2 p to 51.8 (exp. 57!), following the 4.3 p setback in April. The level is well below par
- The **composite PMI** decline was large; far larger than expected (-6.4 p vs. exp. -1.7 p) and the level signals just marginal growth in GDP
- **The future index** also fell rapidly May, to 64.9, which is well below an average level. 2 months ago, the index was close to record high level

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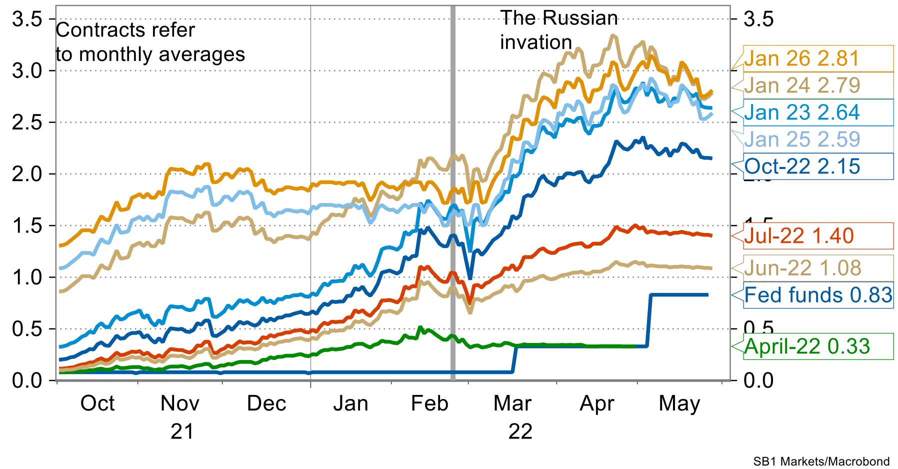
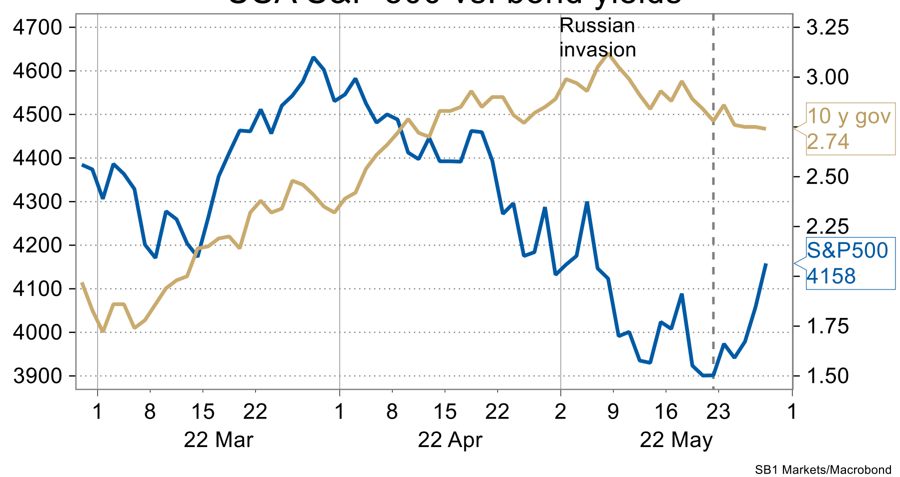
A hawkish stance was confirmed – but not worse than markets feared

Sure, the FOMC has not decided what to do with the Fed funds rate after the next 2 x 50 bps hikes

Fed funds future



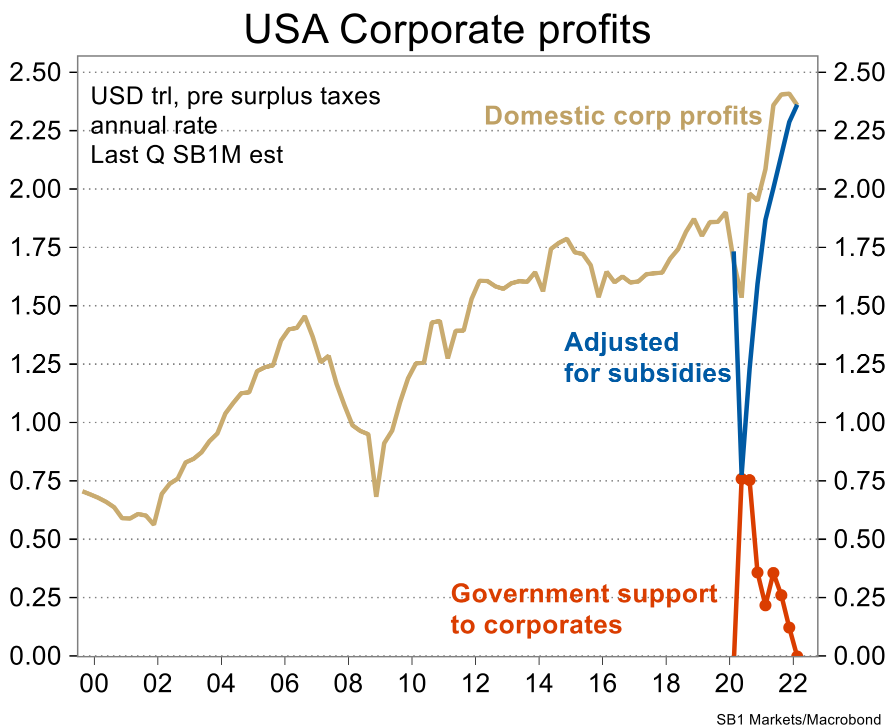
USA S&P 500 vs. bond yields

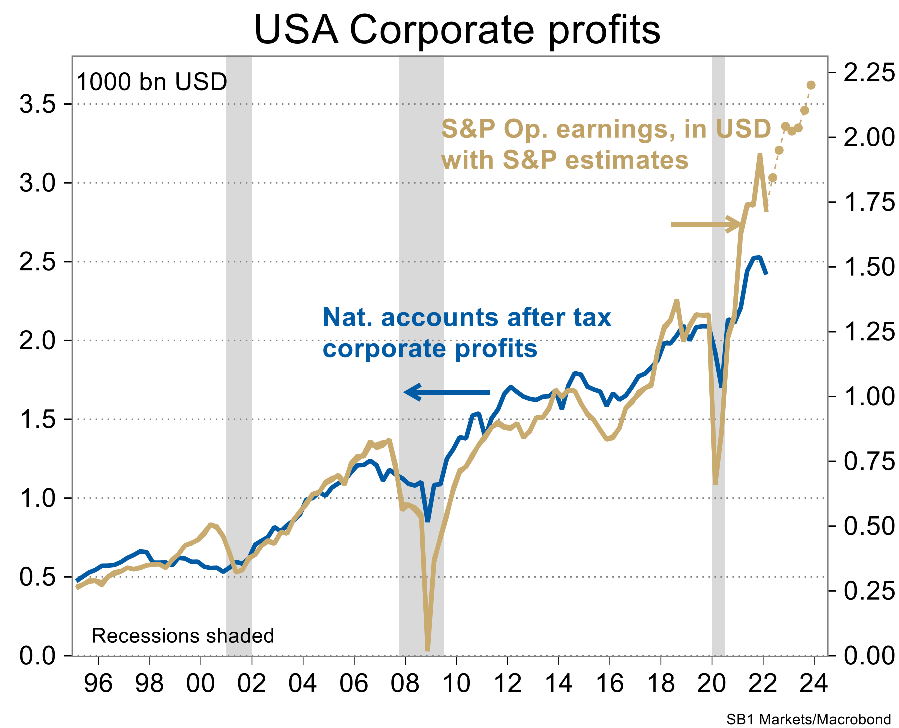


- All FOMC members agreed that the Committee should expeditiously move the stance of monetary policy toward a neutral posture, through both increases in the target range for the federal funds rate and reductions in the size of the Federal Reserve's balance sheet. Most members judged that 50 bps increase in the target rate the next couple of meetings – which was well communicated by Powell at the press conference after the meeting.
- The FOMC members also noted that a restrictive stance of policy may well become appropriate depending on the evolving economic outlook and the risks to the outlook
- However, several participants commented on the challenges that monetary policy faced in restoring price stability while also maintaining strong labor market conditions – a dovish message
- In addition, last week a FOMC member (Bullard) noted that a cut next year could not be ruled out (which of course never can)
- The FOMC pins its hope for a soft landing on the possibility for reducing the record high level of vacancies – in order to bring wage inflation down – without pushing unemployment on the fact that the vacancy rate is much higher than normal vs. the unemployment rate. Sure, in theory it could be possible, but we have our doubts
- Fed fund future rates fell sharply on Wednesday, by up to 17 bps. The rest of the curve did not blink that much. Equity markets continued straight upwards!
- Since late April, Fed funds future contracts have fallen by up to 55 bps, from 2.80% at the peak

Corporate profits fell 4% in Q1, as the government closed its coffers

No more subsidies but 'real' profits rose further

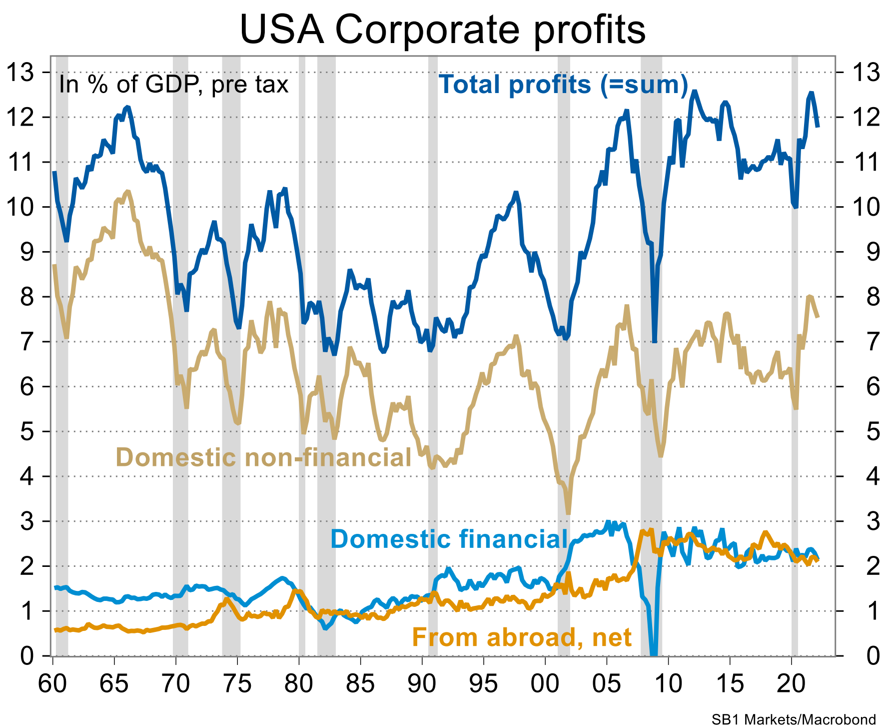


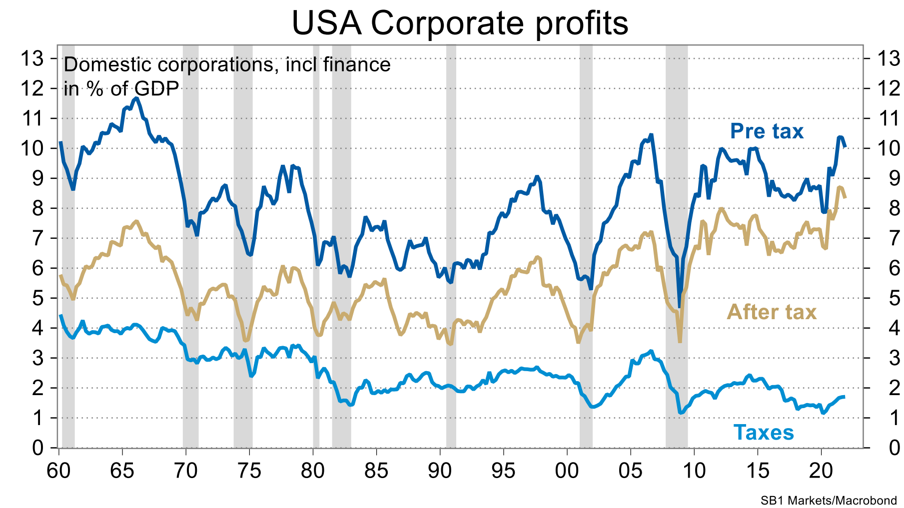


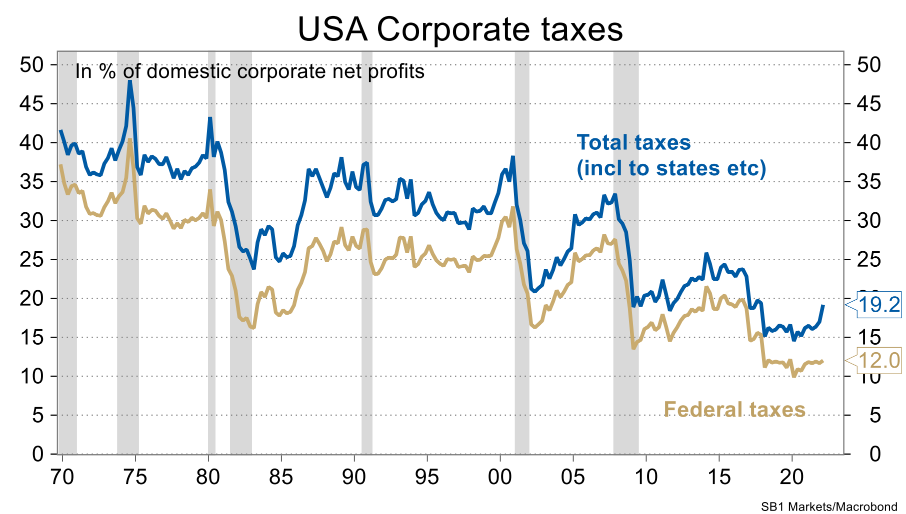
- **Pre-tax profits** fell close to our initial estimate, and the decline was just due to the end of government support programs. Ordinary taxes on the surplus were higher than we assumed
- The **S&P** estimate a 10% q/q decline S&P 500 profits in Q1 (our seasonal adj). Of course, thereafter profits will grow rapidly, forever. S&P profits are still way above National Account's estimated profits for the total corporate sector
- We think the **profit outlook** is bleak. 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. Demand for goods and services will have to be slowed down in order to get margins down – and demand for labour must reduced substantially in order to get wage inflation in check. The analysts are finally starting to revise their optimistic forecasts, check 3 pages forward

Profit rates soared to very high/record levels – but may have peaked in Q3/Q4

The total pre-tax profit share at 11.8% of GDP is still among the best results ever







- The domestic corporate profit rate is still close to the highest since late 1960s
- The after-tax profit rates are even closer to all time high, as corporate taxes have been cut several times. The effective tax rate rose somewhat in Q4 and Q1

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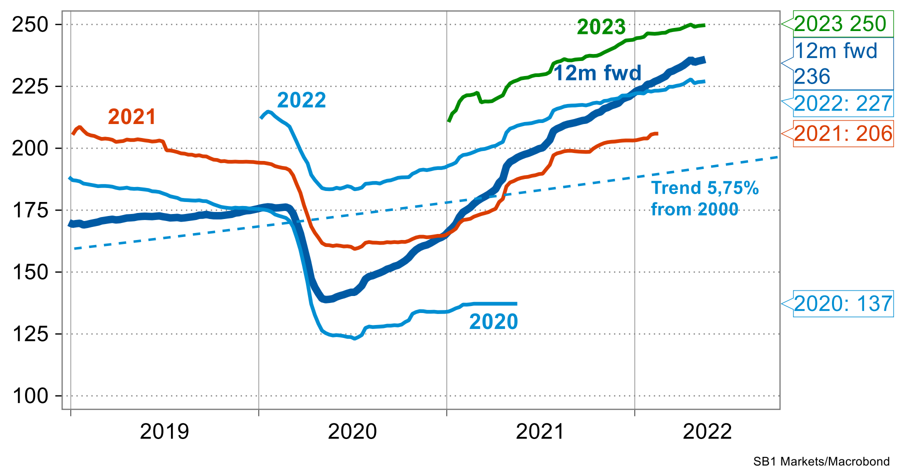
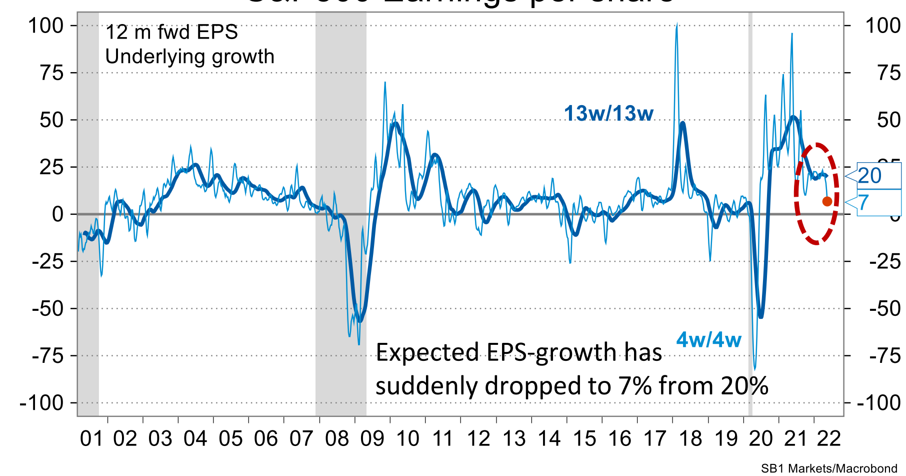
Finally, analysts have started to recognise that The Times They Are A-Changin'

Earnings growth is now being revised sharply down – and more to come. Watch out for the ISM ☺

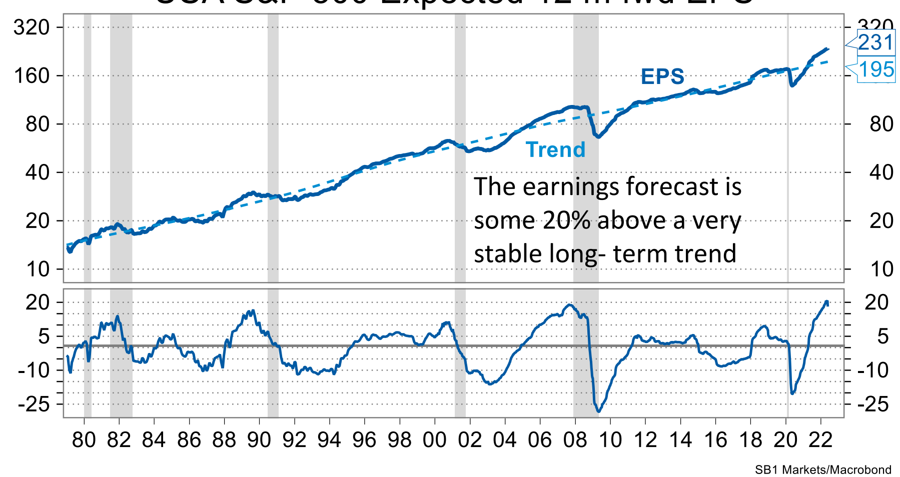
Annual S&P 500 EPS consensus (Factset)



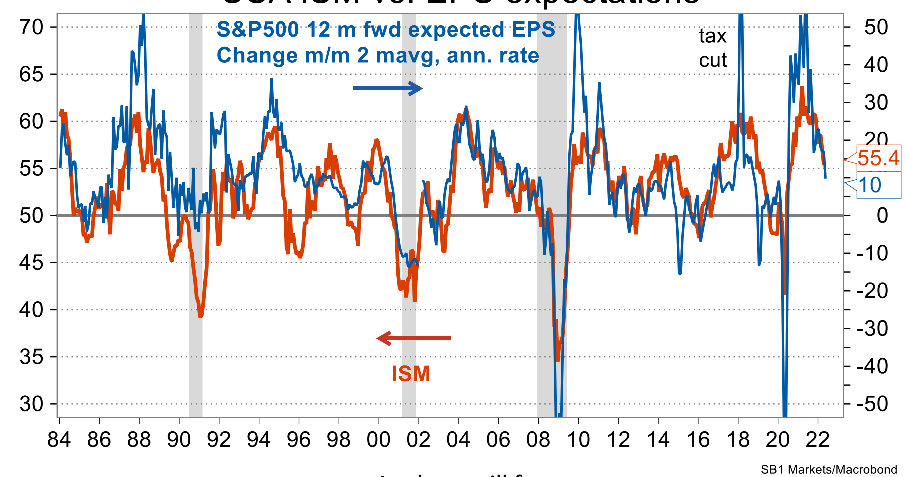
S&P500 Earnings per share



USA S&P 500 Expected 12 m fwd EPS



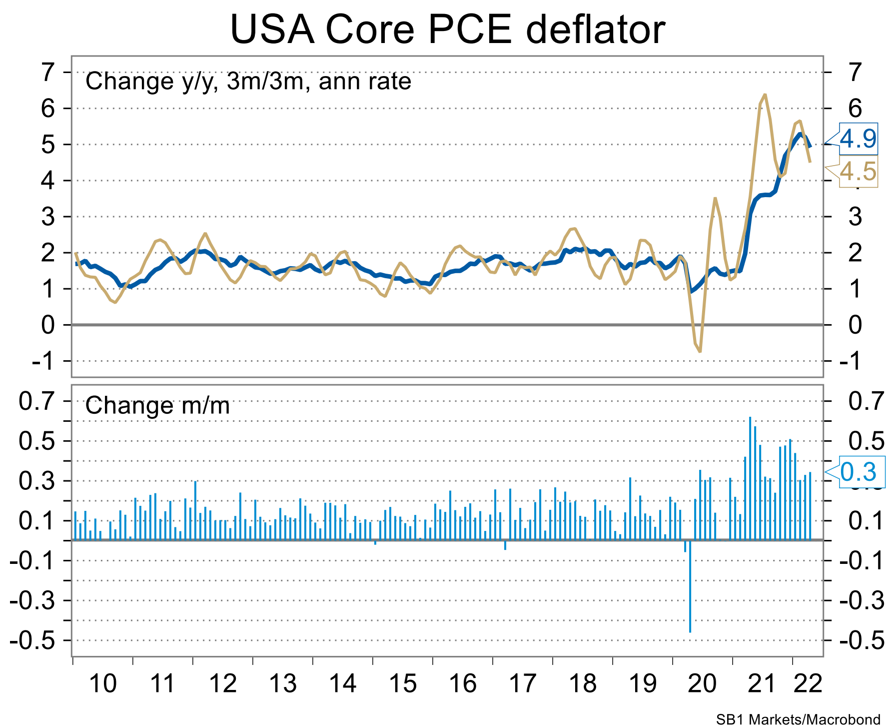
USA ISM vs. EPS expectations

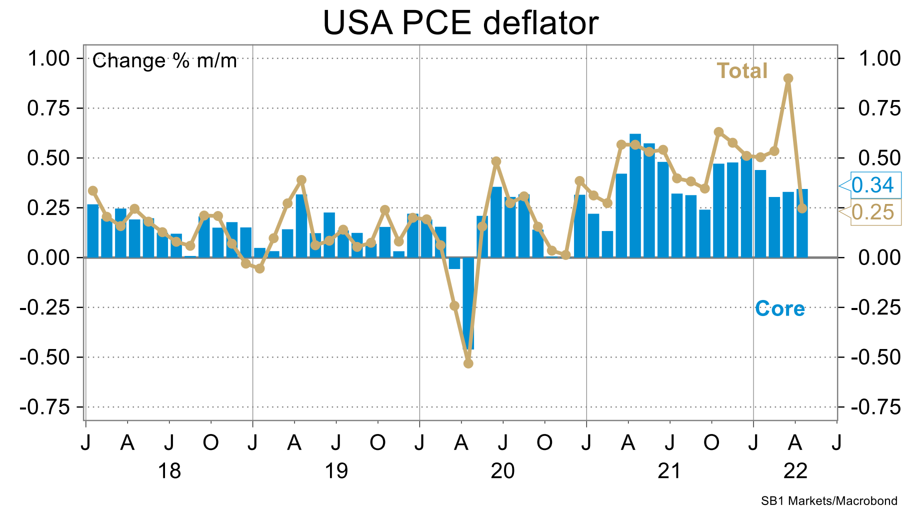


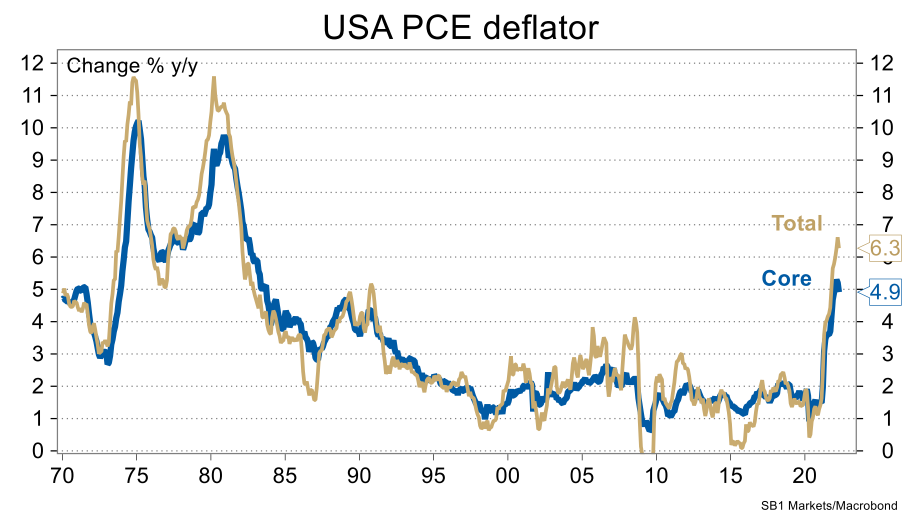
Analysts will forecast a declining EPS when the ISM falls below the 50 line

Peak inflation. But still far too high

The annal core PCE declined 0.3 pp to 4.9%, as expected. The headline also down 0.3 pp, to 6.3%







- **The total PCE deflator** rose by just 0.2% in April (0.247%), expected 0.3%, and the annual rate retreated as expected
- **The core PCE** rose by 0.3% (0.344) m/m, and the annual rate fell below 5%. The underlying 3m/3m rate fell to 4.5%, from above 5%
- **The price level** is ways above Fed's 2% long term path target, and April data did not really reduce the pressure on the FOMC to act. Anyway, the real problem is too high wage inflation

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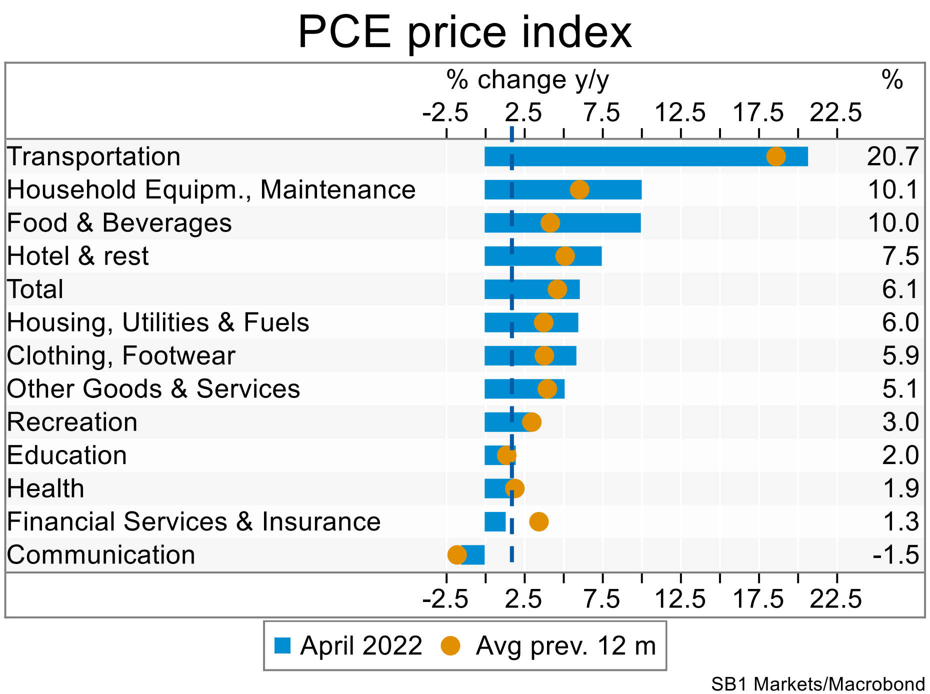
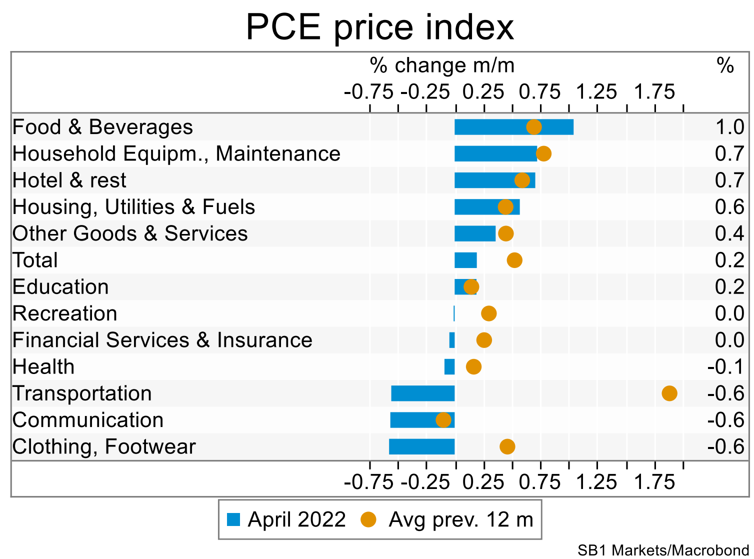
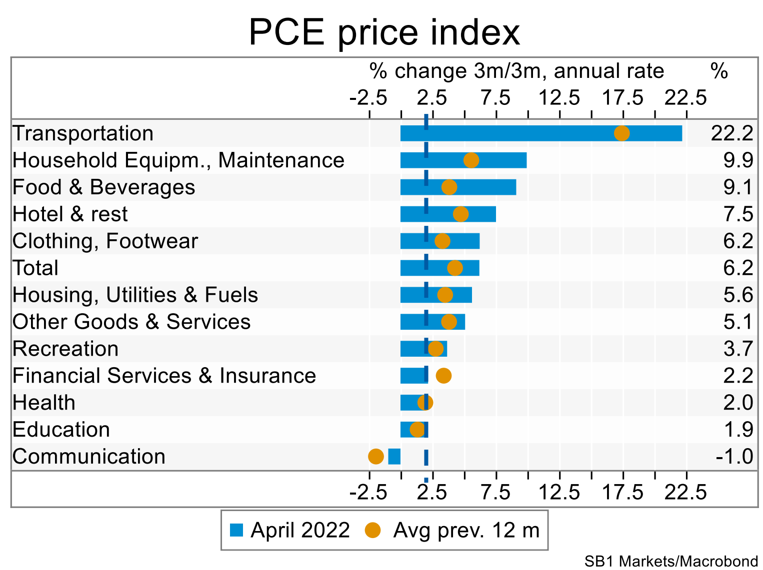
PCE by main sectors: All but 3 sectors report >2% annual growth

… and all but 3 are up more than 2% measured 3m/3m, the total is up 6.2%







- Food prices are up 10% y/y!!
- The momentum is still strong, almost sectors report accelerating price growth (the 3m/3m is above the annual rate)

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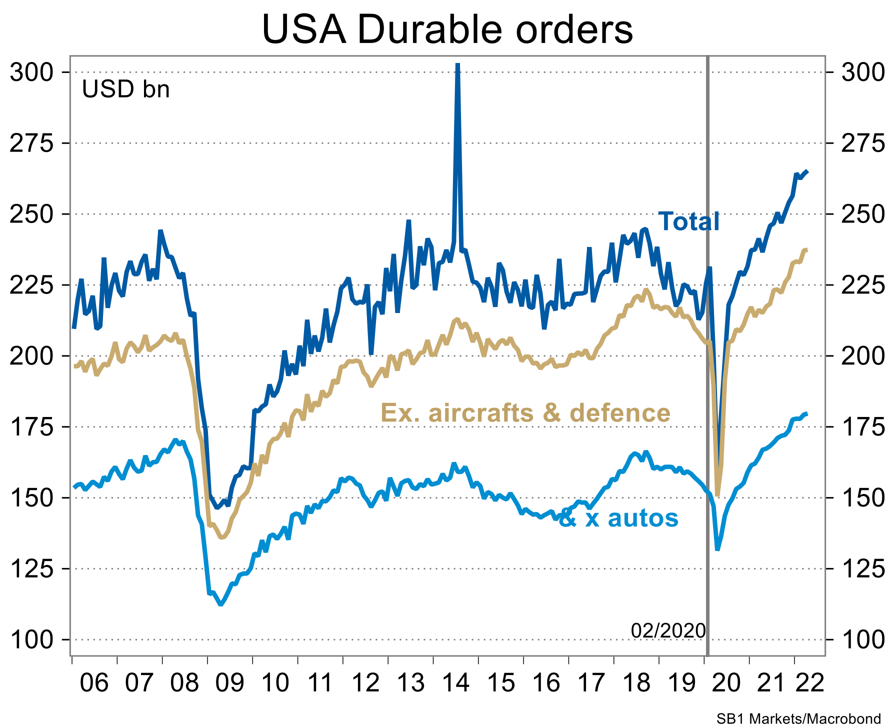
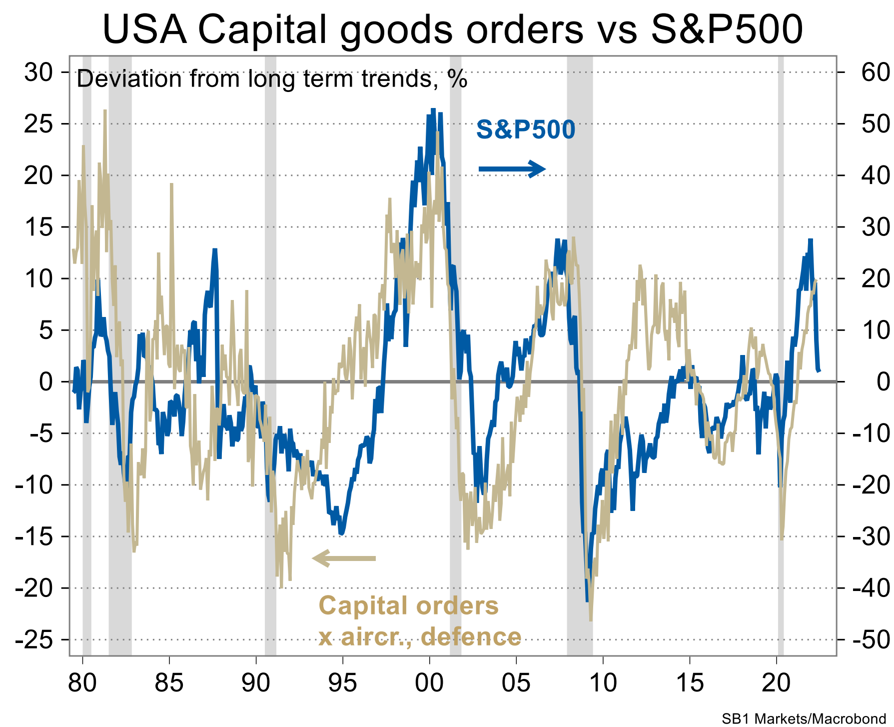
Durable orders up in April – though from a downward revised level

Without a downturn in orders, no further down downturn at Wall Street?



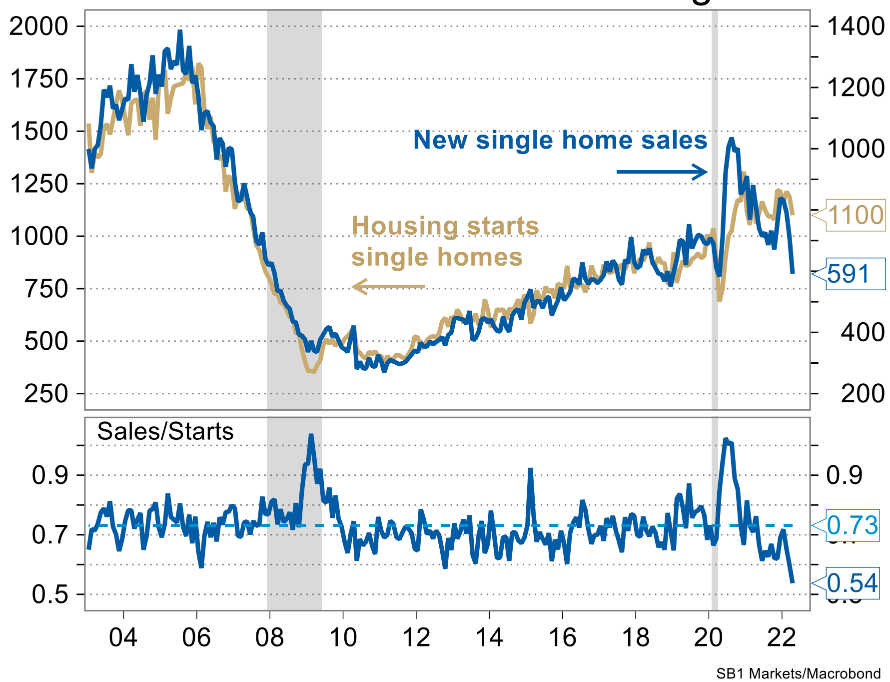


- **Total durable** orders rose 0.6% in April, 0.2pp less than expected, and March was revised down by 0.5 pp to 0.6%
- Both the volatile aircraft & defence orders declined, and ex these two components, the 'core' gained 1.6%
- **Core <u>investment</u> goods orders** grew 1%. The trend is still straight upwards, at a descent pace
- **Order inflow** has been revised sharply down the past two years (by the current level by some 10%!!) but the pattern remains intact and orders are anyway well above pre-pandemic levels. Orders are now better aligned with production data
- Has the stock market met trouble halfway this time? The stock marked has yielded even if orders have not

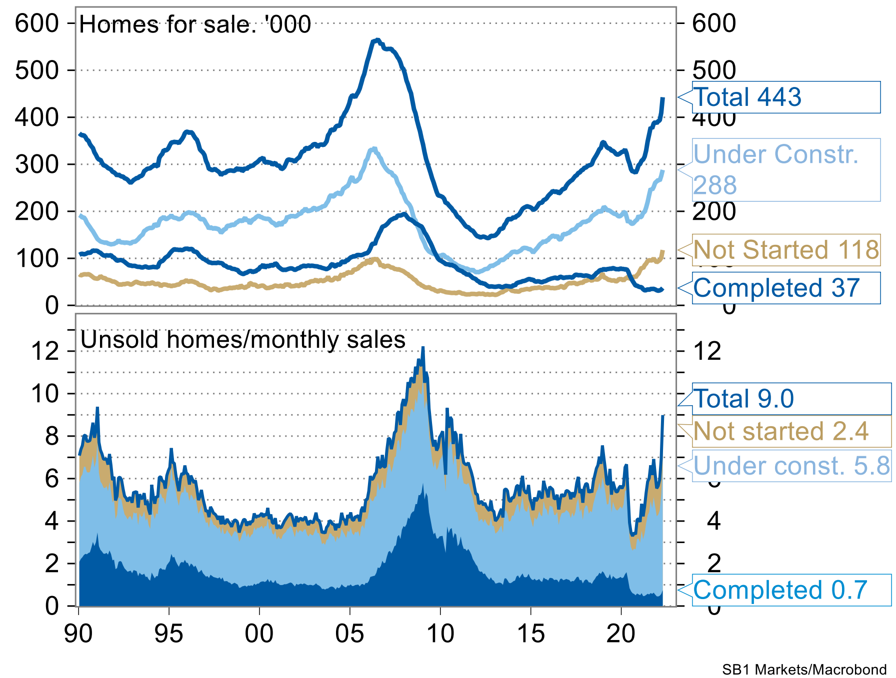
Suddenly, new homes sales fell off the cliff, inventory straight up – and it's high!

Prices rose, but data are volatile. The decline is quite likely due to large increase in mortgage rates

USA New home sales and housing starts



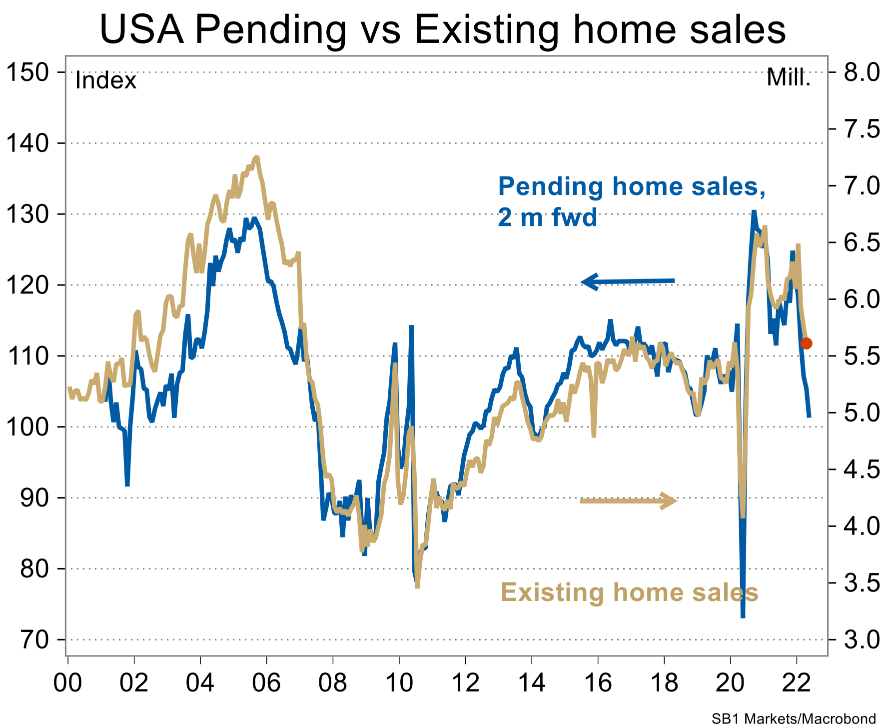
USA New Homes for sales

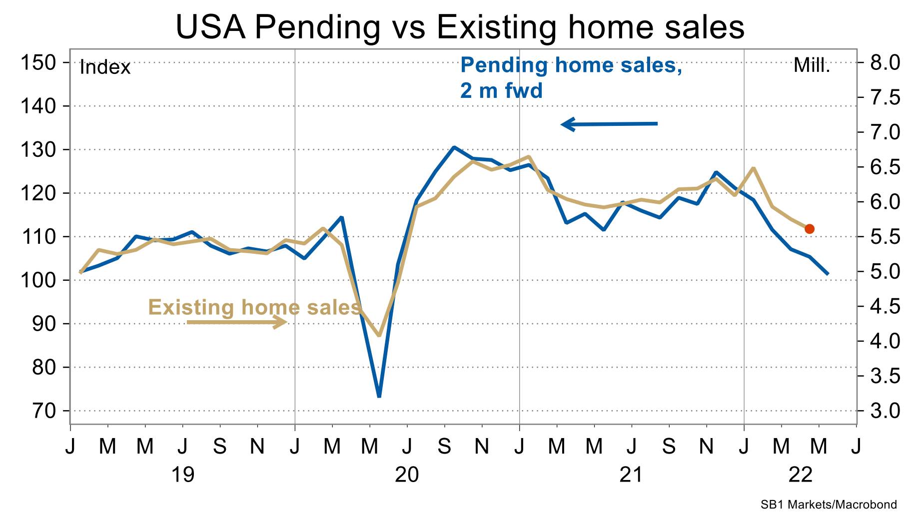


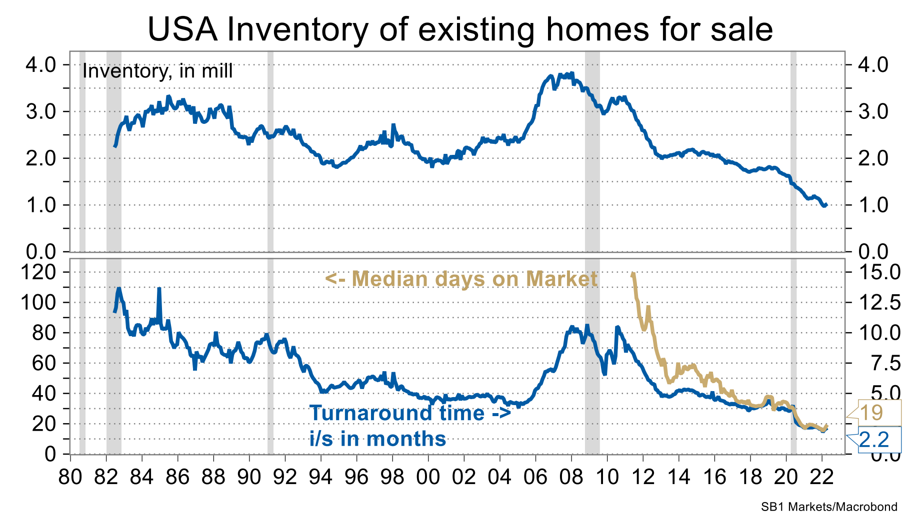
- **New single home sales** fell 17% m/m to 591' – from a 7% downward level in March (709'). Sales were expected down 2% to 750'. A substantial deviation! Sales are down 30% from January, and 43% from the local peak in August 2020, when the housing market exploded
- **The inventory of unsold homes** is climbing rapidly, to 433' units, up from below 300' in Aug-20. Measured in month's of sales, inventories are up to 9 months, from 3 at the bottom. Most of the inventory is 'for real', either completed homes or under construction (and these homes will be completed) – as the supply side responded to the strong increase in demand
- Why this abrupt setback? Very likely the sharp lift in mortgage rate the recent weeks/months, check the following pages too

Pending home sales further down in April, signals fewer existing home sales

No. of agreed transactions fell 3.9%, and is down 19% from last November, a substantial decline





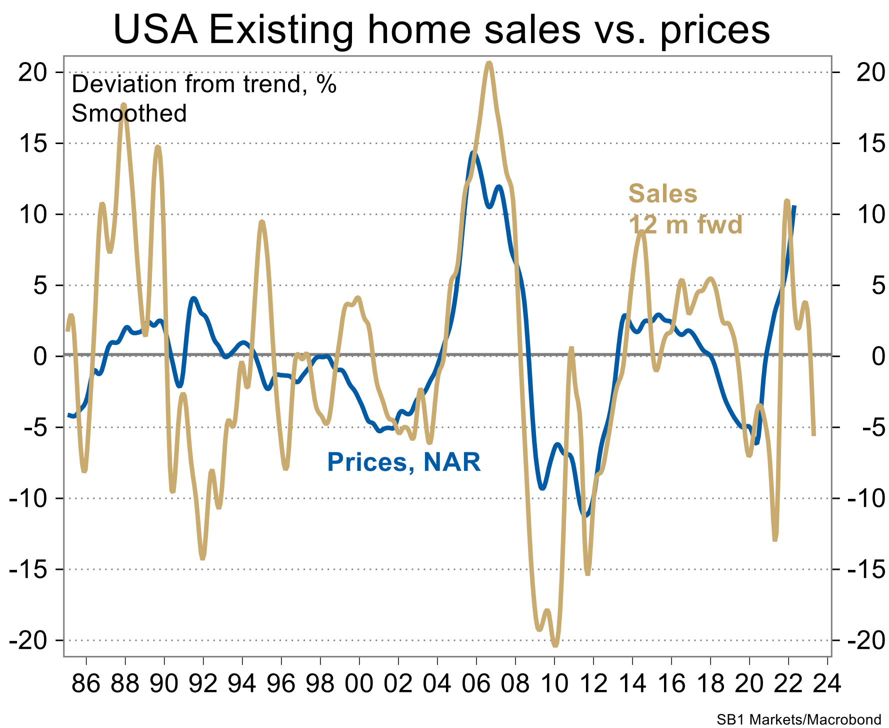


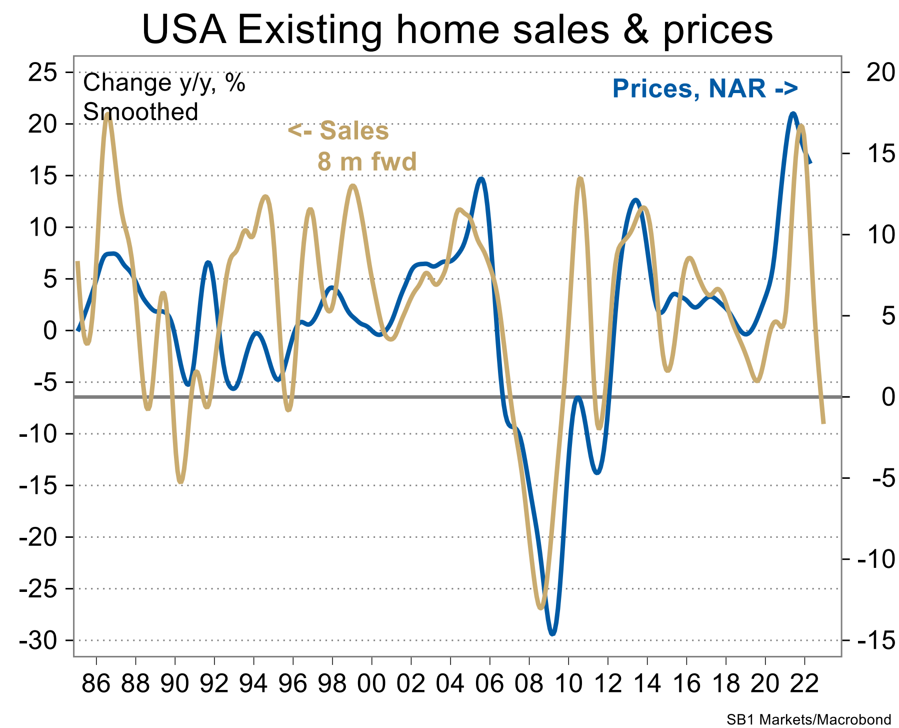
- The decline in April was larger than expected (2.1%) – and the 5th month in row with a lower number of signed deals
- The decline signals that higher mortgage rates are slowing the housing market
- Normally, prices are lagging sales by several months, by up to 1 year (check next page)

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

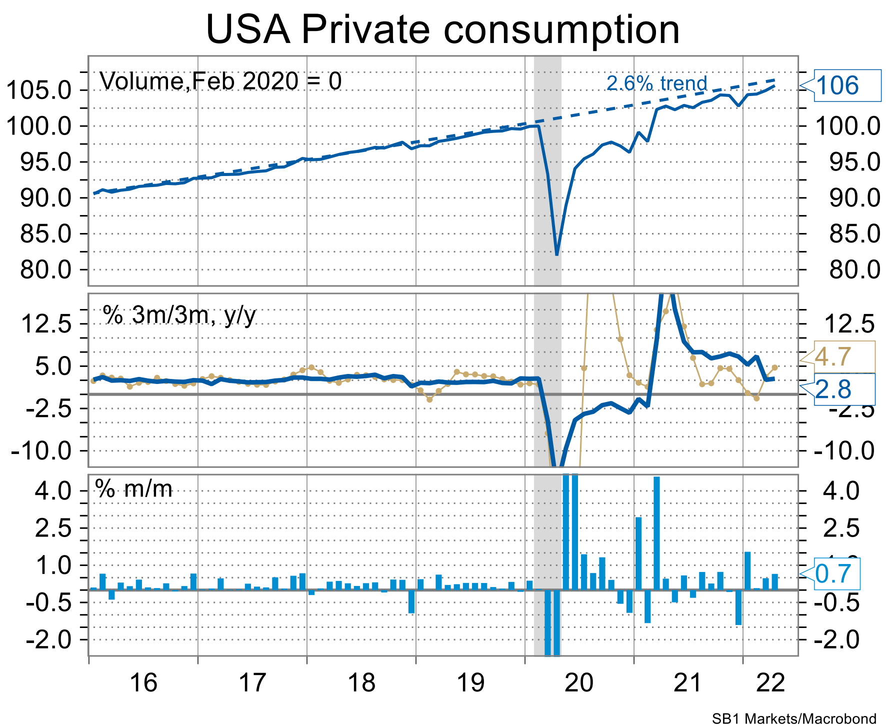
Thus, a focus on transactions is justified – even if prices are the ‘real thing’

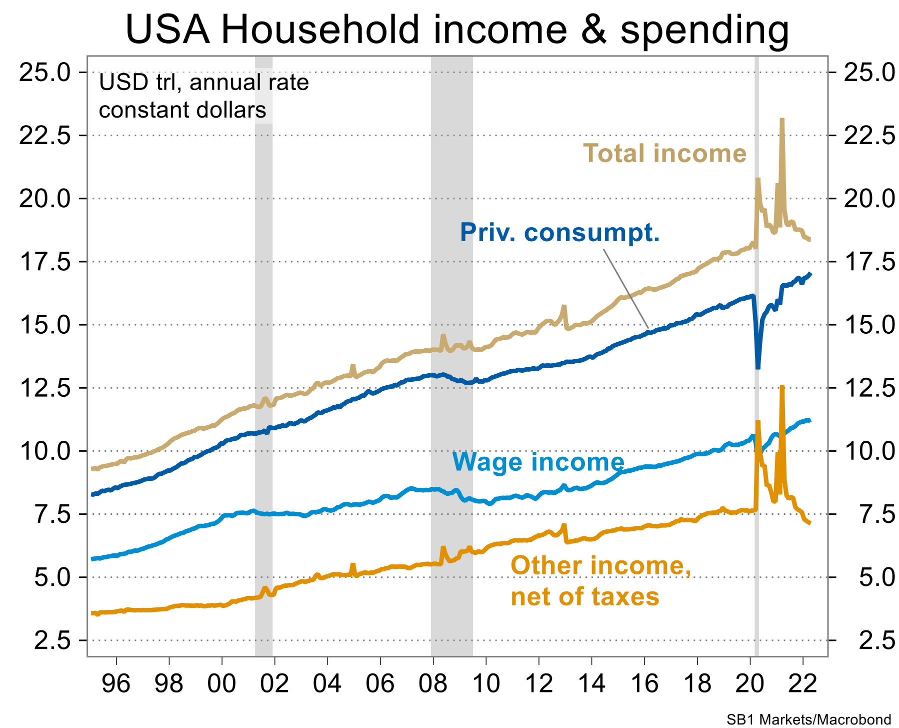




Still no weakness in consumption, up 0.7% in April. Real incomes are falling

Real incomes rose just 0.1%, and a lower savings rate funded the lift in spending, now down to 4.4%

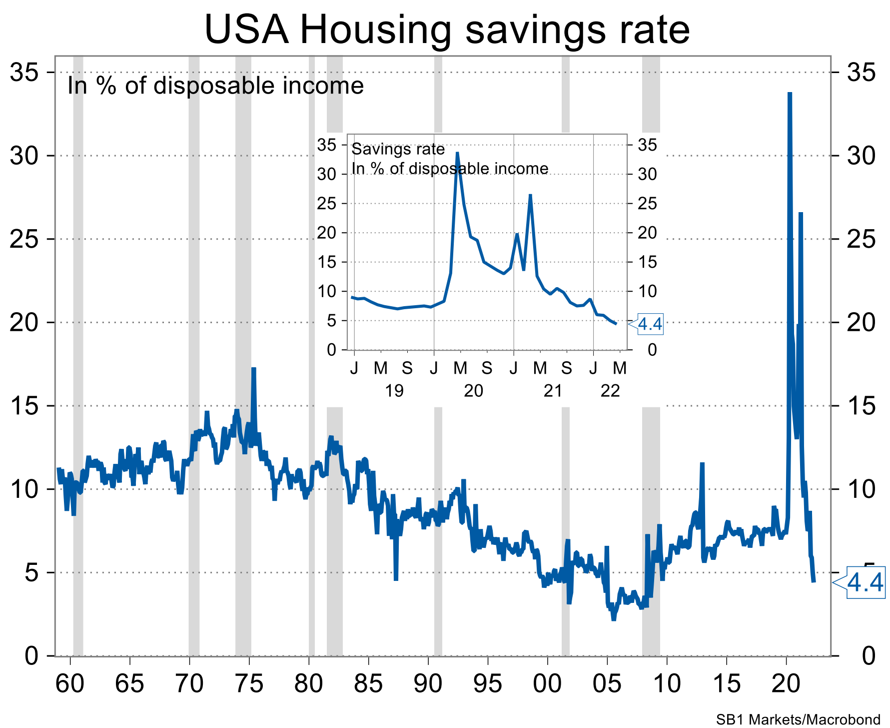


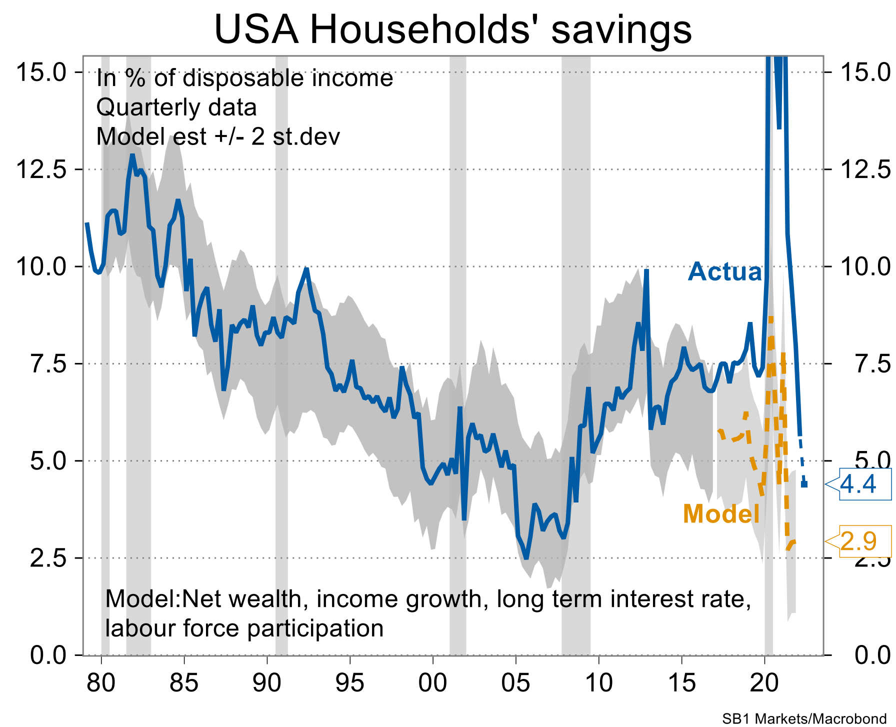


- **Private consumption** grew 0.7% in March, as expected. March was revised up to 0.5% from 0.2%. Spending rose by 0.9%, in nominal terms. The PCE deflator ruse just 0.2% (as expected). Real consumption is up 6% vs. Feb-20; Goods are 16% up, services are up 1%! No doubt, goods consumption will have to slow as services very likely will grow further the coming months
- **Personal disposable income** gained 0.5% in April, and by 0.2% in real terms. Real household income has been sharply revised down due to higher tax payments. In addition, higher inflation has beaten down real incomes
- **The savings rate fell by 0.6 pp to 4.4%**, from a 1.2 pp downward revised level in March. The savings rate is now 3 pp below 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 for still a while – on 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

Pandemic savings spent to pay for inflation? The savings rate far below p-p level

The savings rate fell 0.6 pp to 4.4%. Lowest since 2009 post a 1.2 pp downw. revision of March figure

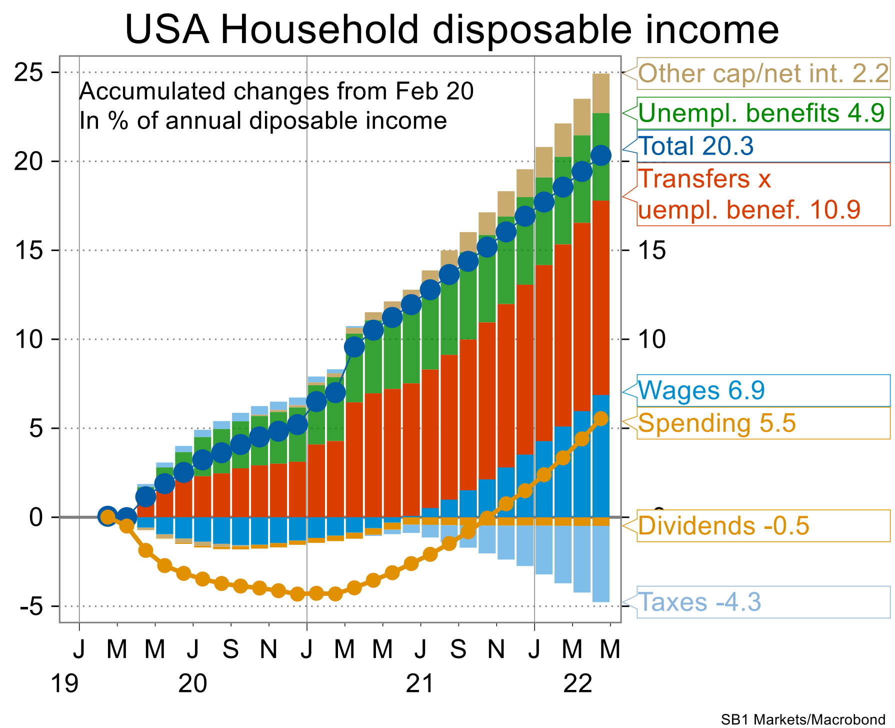


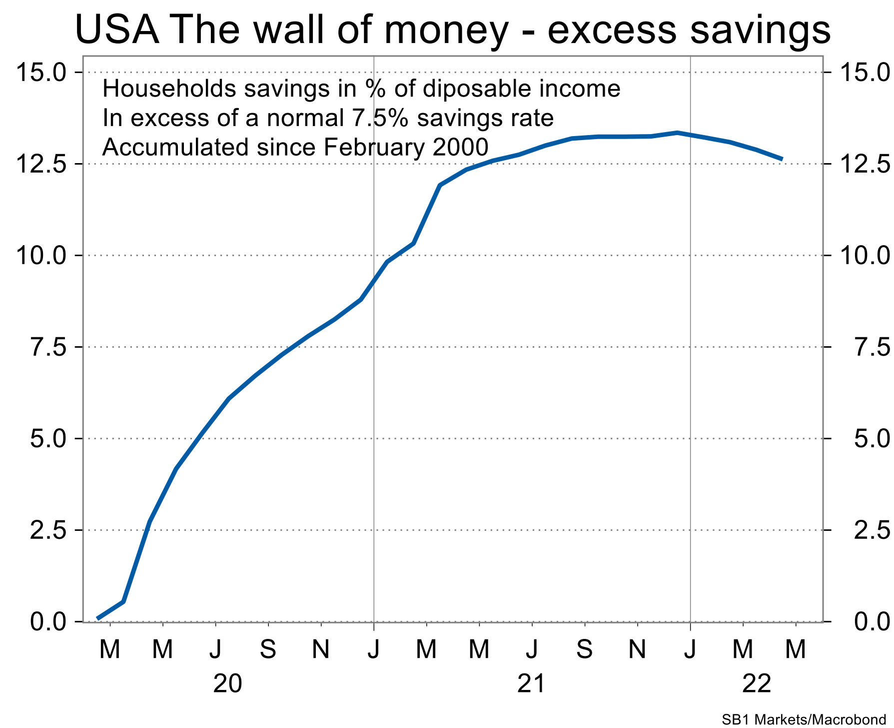


- The savings rate declined 0.6 pp to 4.4% in April, from 5%, revised down from 6.2%
- Households are dipping into savings in order to keep consumption up, as their incomes are not keeping up, due to the high rate of inflation. The savings rate is now 3 pp lower than before the pandemic
- However, household have saved a large amount of money during the pandemic, some 13% of disposable income – on average for all households, that is. This 'Wall of Money' is now shrinking, but just slowly (at 3 pp per year, if the savings rate stabilises at 4.4%)
- Our old savings model, yields a 2.9% savings rate in Q1. During the 2016 – 2019 period our model has underestimated the savings rate systematically by some 2 pp. Now, the discrepancy is narrowing rapidly

The Wall of Money is still (almost) intact

The sum of ‘excess savings’ through the pandemic is now tapped but most of it remains

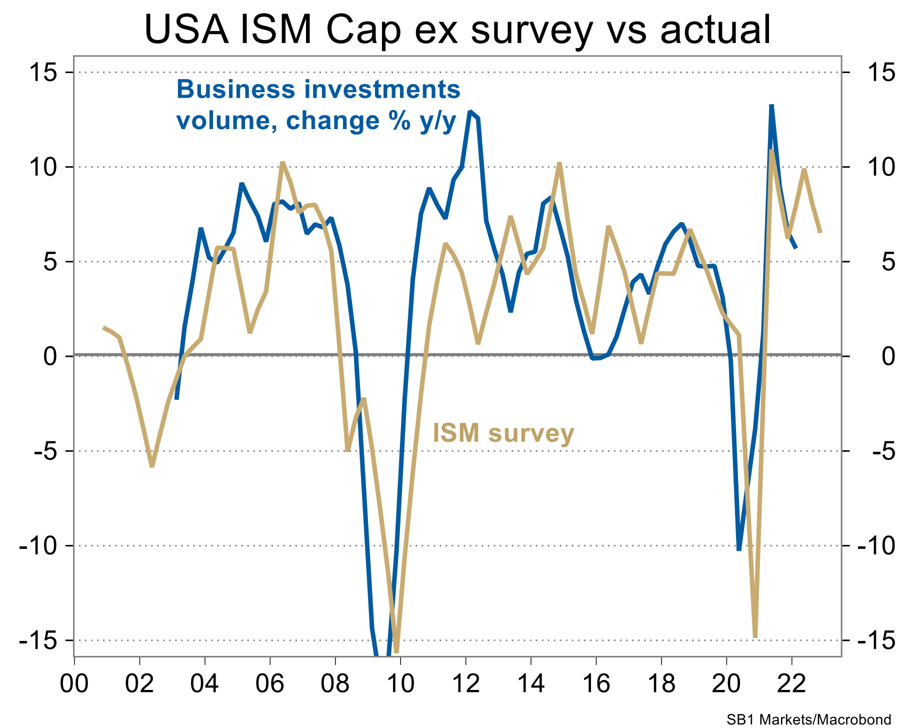




- Transfers from the government and low spending (on services) explained the lift in savings - but now spending is coming back, and the savings rate is now lower than before the pandemic

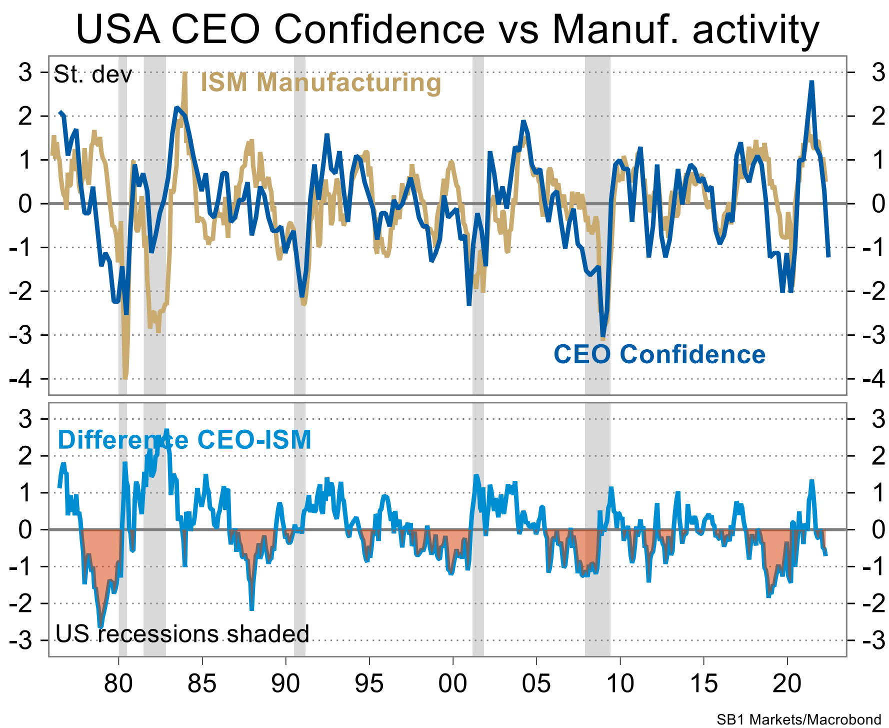
ISM semi-annual investment survey: Down, but far from out

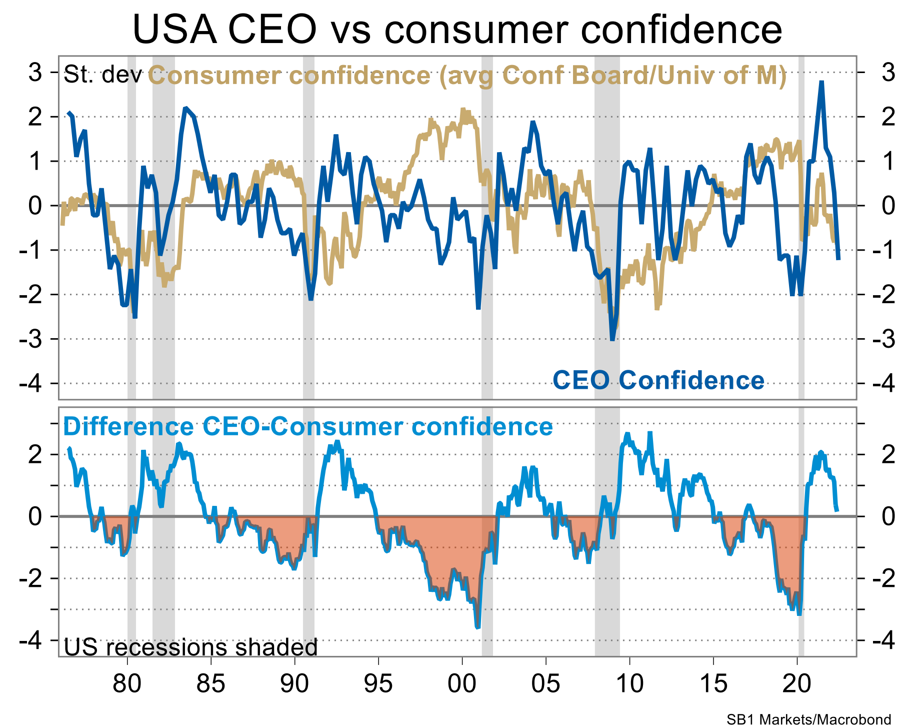
Growth in investments well above a normal level is signalled



CEOs are growing more pessimistic, probably for good reasons

Households are pessimistic too (at least the Univ. of Mich survey). Businesses (ISM) still too upbeat?

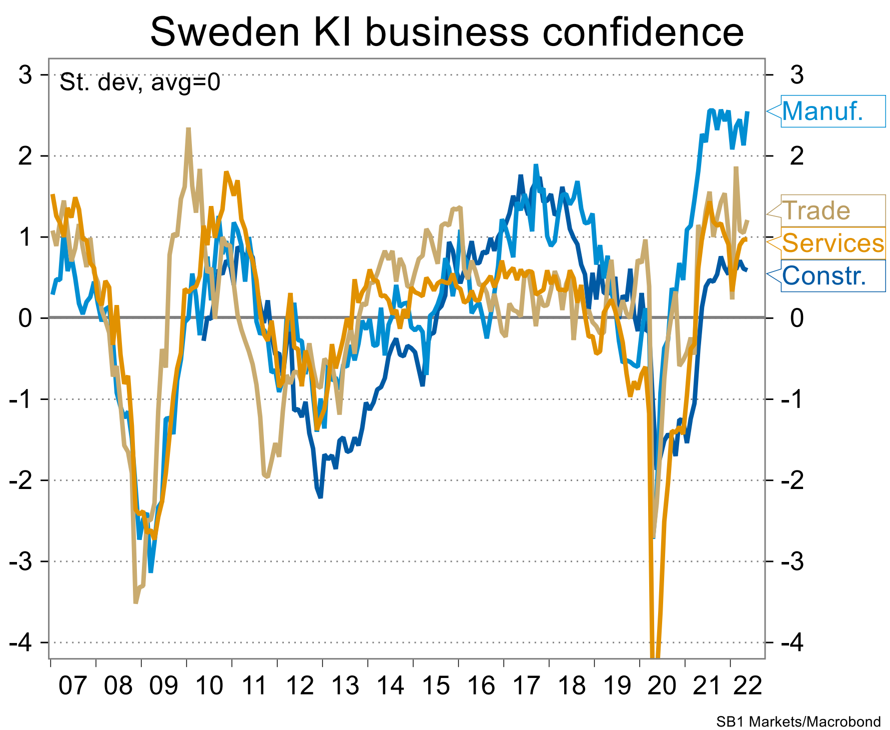


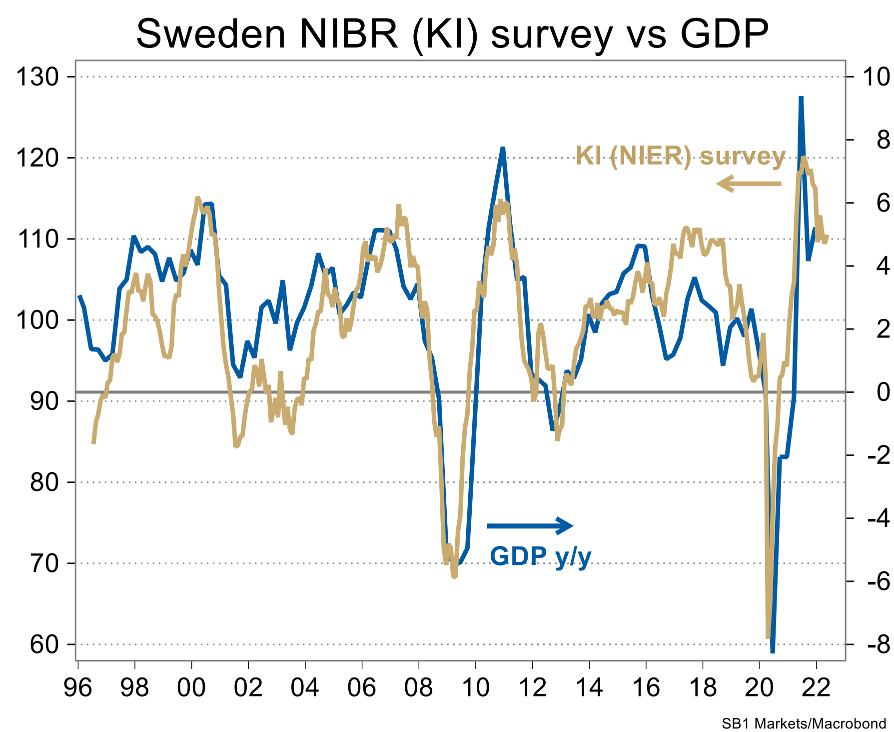


- The CEO confidence survey fell further in Q2, down to -1.1 st.dev below par, from +0.3 in Q1
- Normally, a weaker confidence corresponds to lower business investments

No inflation/interest rate or war angst among businesses, 5% GDP growth signal

Just construction reported slightly lower confidence in May, other sectors higher, manf. close to ATH!

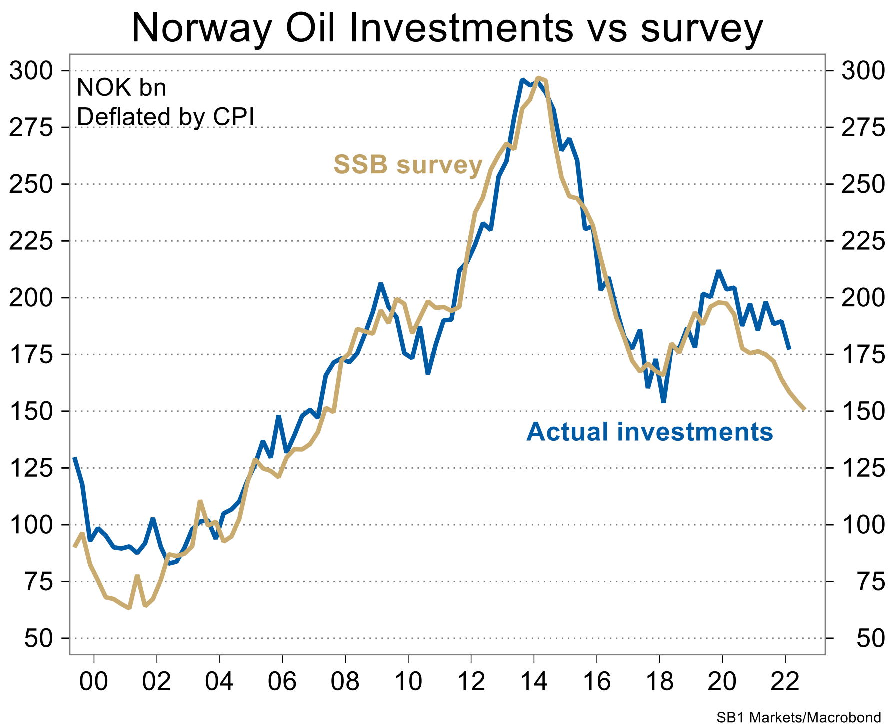


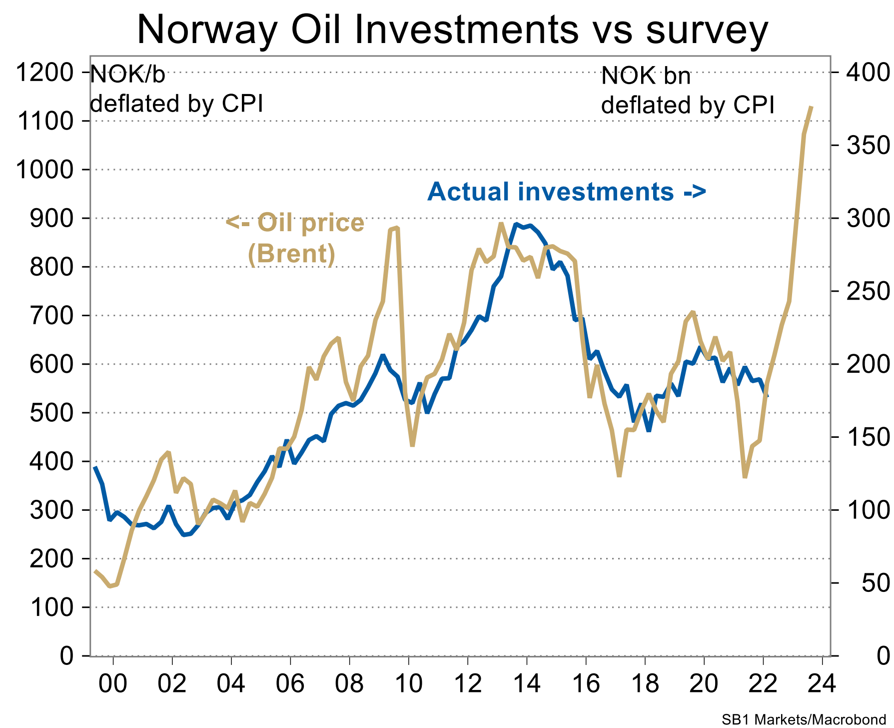


- **The composite index** rose 1 p to 110.5, expected down to 108,0 – the index is 1.0 st.dev above average. The index signals a 5% GDP growth rate
- **All 4 main sub-sectors** are reporting growth far above average. The **manufacturing index** rose the most in April, to 2.5 st.dev above average, close to ATH
- No impact so from higher interest rates in the **construction** sector

Oil investments: 2022 will be the local bottom

The temporary tax relief and high oil prices will lift investments substantially in 2023 (and '24+)

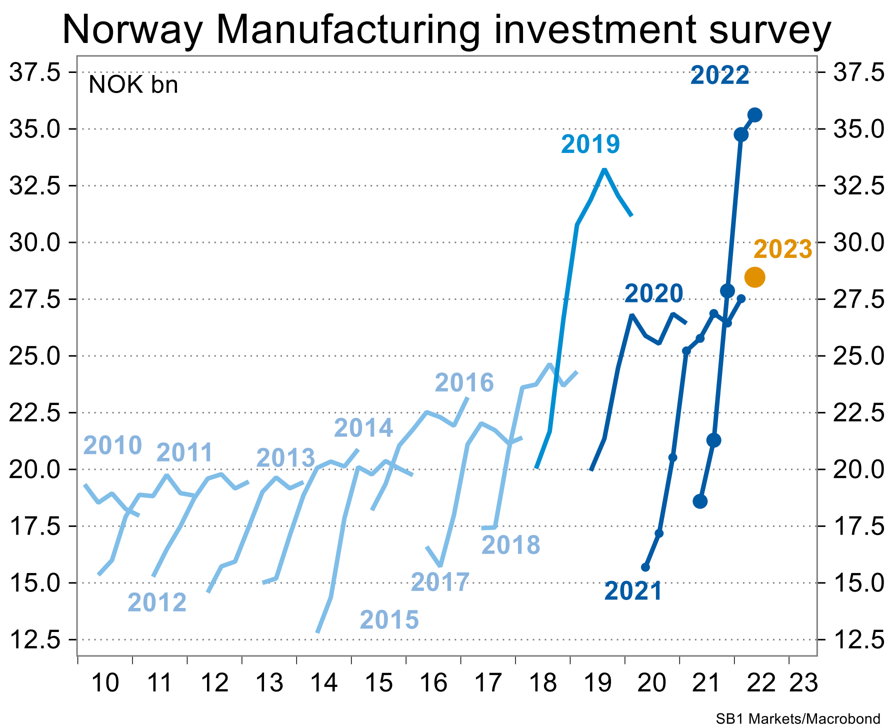


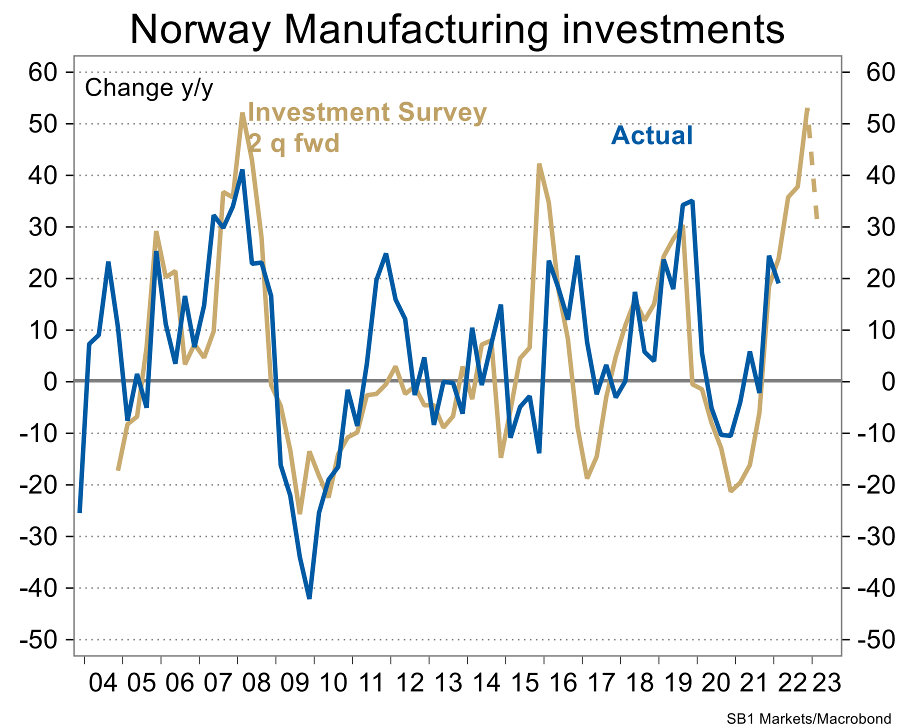


- **Oil companies lifted their 2022 investment estimate** by 5% to 167 bn. The estimate is still 8% below the equivalent 2021 estimate. Several investment projects will be added to the list (a PDO delivered) before end of 2022 in order to benefit from the temporary tax cuts decided in 2020 – and a higher oil price is also supportive – and there is some upside vs. the current May estimate (which on average is 3% higher then the final outcome)
- **The 2023 outlook** is far better, even if the May estimate was well below our forecast and 22% below the equivalent 2022 estimate – many projects will be added, both due to the temporary tax cut (check next page) and the high oil price (check the chart to the right above)

WOW, manufacturing investments probably further up in 2023

At least 20% volume growth in growth in 2022, and almost double digit in 2023?

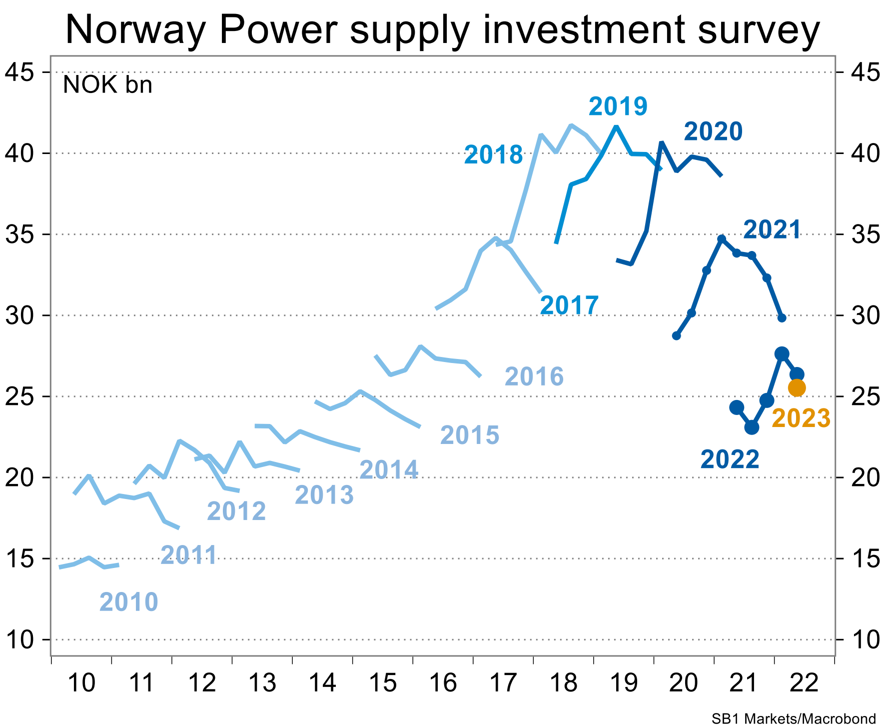


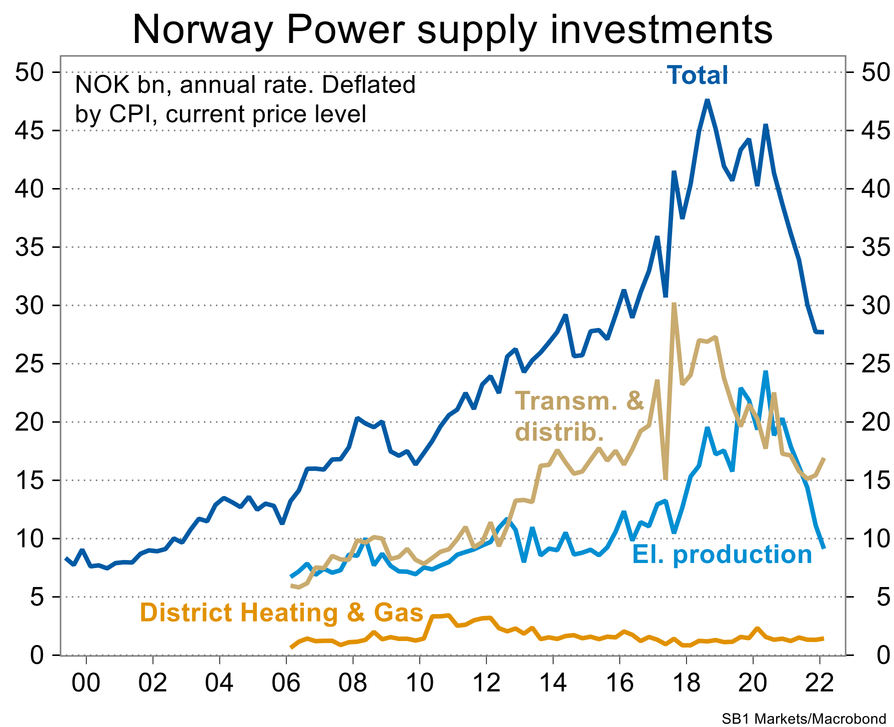


- Manufacturing companies report a 38% growth in **investments in 2022** – to the highest level ever, at least in nominal terms. We assume at least 20% in volume terms (prices are rising rapidly)
- The first **2023 estimate** is very high, up 53% from the first 2022 estimate, one year ago. The estimates for 2022 has been revised upwards much more than normal, and we do not expect the 2023 estimate to follow the same steep path. Still a substantial further growth in investments in 2023 seems likely, we assume 15% in nominal terms and at least 5% in volume terms. If so, up to ATH in volume terms too
- **Computer/electrical equipment** contributes the most to the increase in the 2022, followed by non-ferrous metals
- **Non-ferrous metal industry** reports very aggressive 2023 investment plans too, as does the computer/electrical industry. We assume batteries are included in the electrical industry

Power supply: After 2 years of decline, a small uptick next year?

Investments -23% in '21, we assume -12% in 2022 – but then a 10% – 15% recovery in 2023



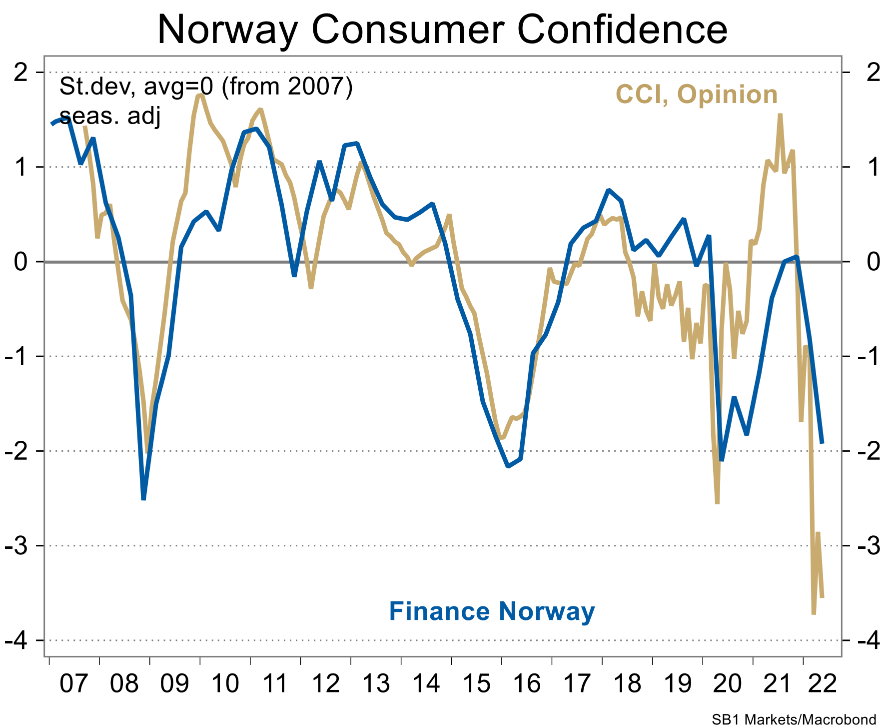


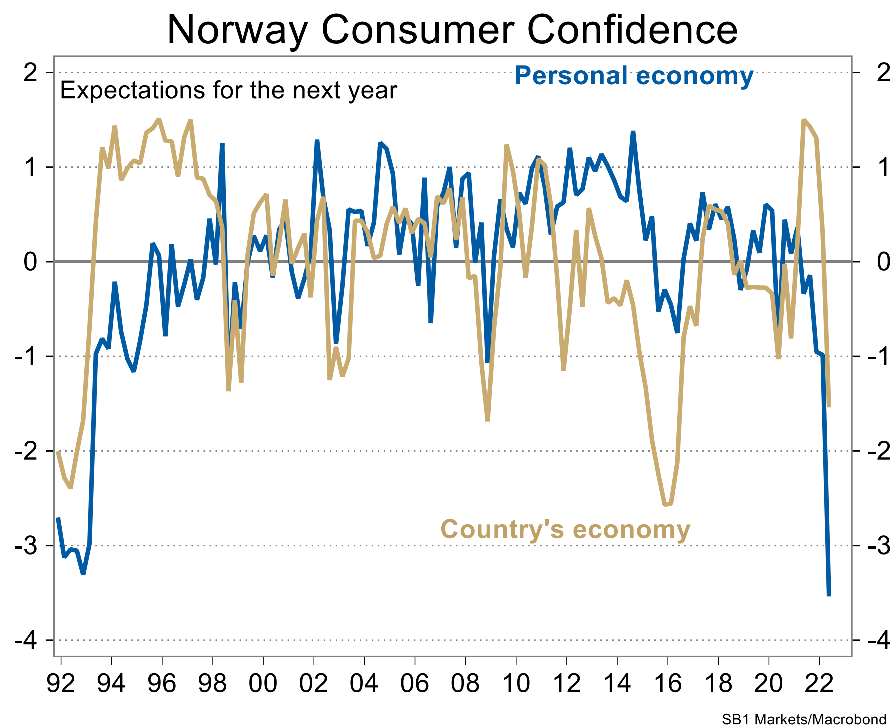
- **Power supply** (production & distribution) companies invested NOK 30 bn **in 2021**, down from 23% from the 38 bn level in 2020 (and 40 bn at the peak in 2018)
  - » Some big wind power projects were completed by the end of 2020, and few new projects have been added, contributing to the decline in 2021
- Companies cut their **2022 investment f'cast** by 1 bn (5%) vs their Q1 prognosis. The estimate is 22% below the equivalent 2021 forecast. However, the decline in the 2021 estimates was rather steep from the May survey, and the final decline in 2022 will be some 15% (nominally)
- The first **2023 forecast** was 5% above the equivalent 2022 forecast, and we expect the final outcome to be well above
- Until 2018, power supply investments had more than quadrupled since early 2000, by more than 10% p.a on average. The investment level as % of Mainland GDP was above 1%, the highest in decades. Both production & transmission have contributed. To 2022 from 2018, investments may decline by 36%, in nominal terms, and more in real terms. Will the green transition new turn the tide? Quite likely

SpareBank 1 MARKETS

Finans Norges' Q2 consumer confidence down to -2 st.dev, as expected

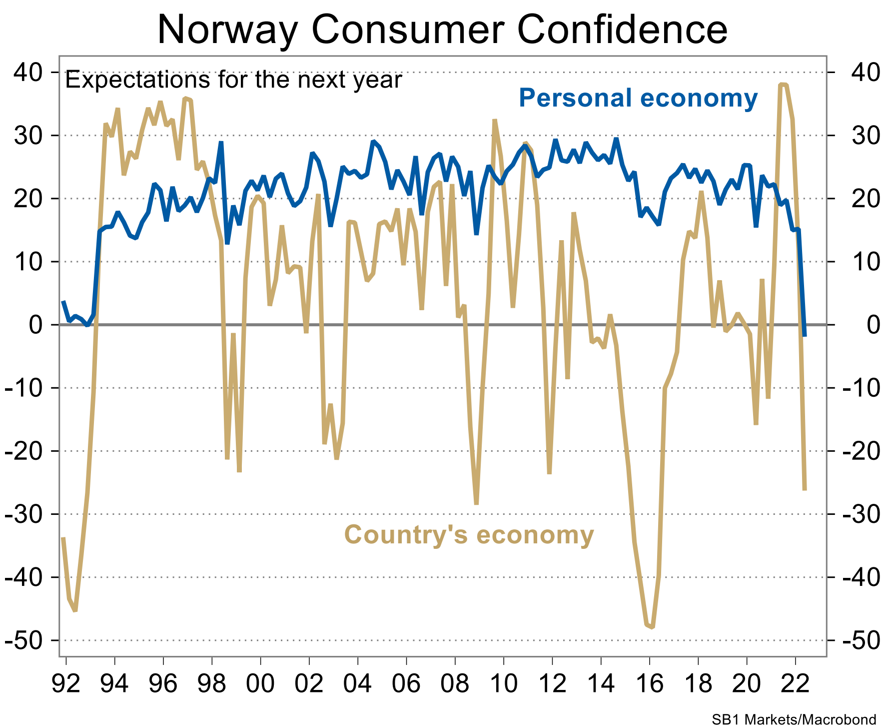
However, personal economy expectations collapsed: (perceived) Inflation, interest rates or the war?

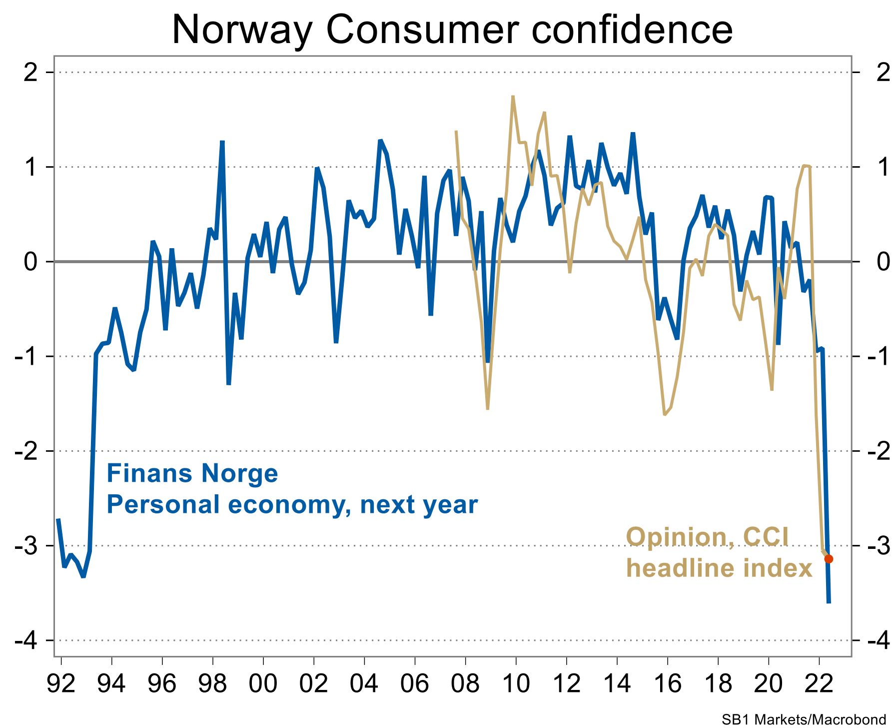




- **Finance Norway's quarterly consumer confidence index** fell to -11.7 in Q2 from +0.7 in Q1, we expected -10 (but from prev. reported 5). The index fell to 1.9 st.dev below avg., from -0.8 in Q1 . The index is still above the bottom during the pandemic (& the oil 'crisis', fin. crisis)
- **Households' expectations** of their own economy fell off the cliff in Q2, by 2.5 st.dev to -3.7, to the lowest level ever! (The actual index number fell to -1.9 p, from +15, the first negative print ever: So the balance is still not that weak per se, but far weaker than normal, check the chart on the next page too)
- **What's up (or down)? Inflation, interest rates or the war? Inflation** was high in Q4 and Q1 as well, but we think households 'feel' inflation has increased far more than the actual increase in the CPI (and they fear the worst). The **interest rate** outlook may be to blame – but interest rates have been on the way up before too, without killing the sentiment. And while **house buying plans** fell, they are far from weak. The war may of course be a worry, but not specifically for the personal economy? Or is it just the sum of all these concerns?
- **Opinion's monthly consumer confidence index (CCI)** fell again in May, down to -3.6 st.dev below average – in line with the outlook for the personal economy in Finans Norge's Q2 survey

A very special data point for personal economy outlook. But the CCI agrees!

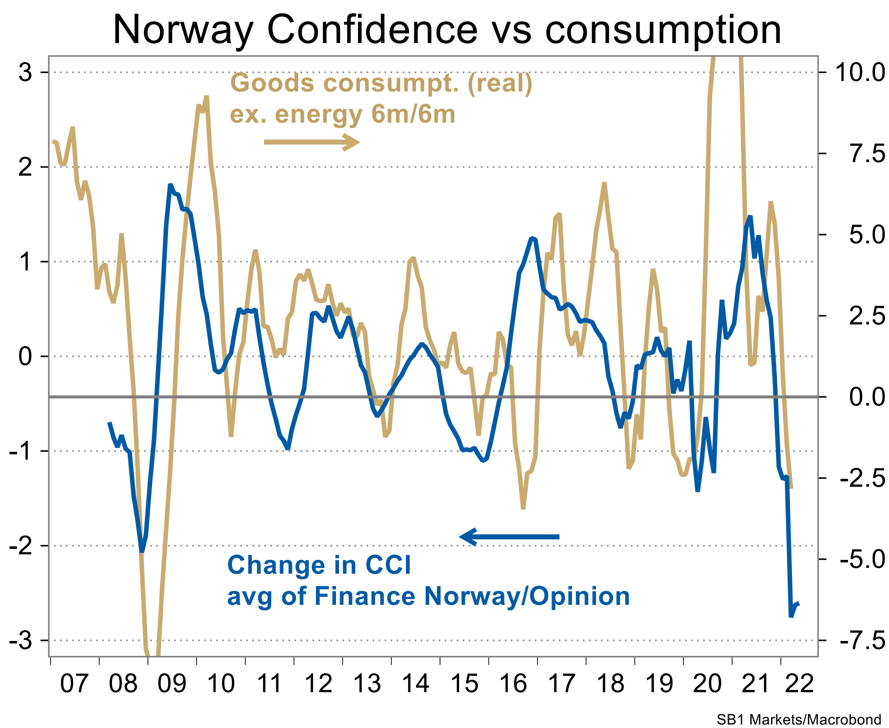


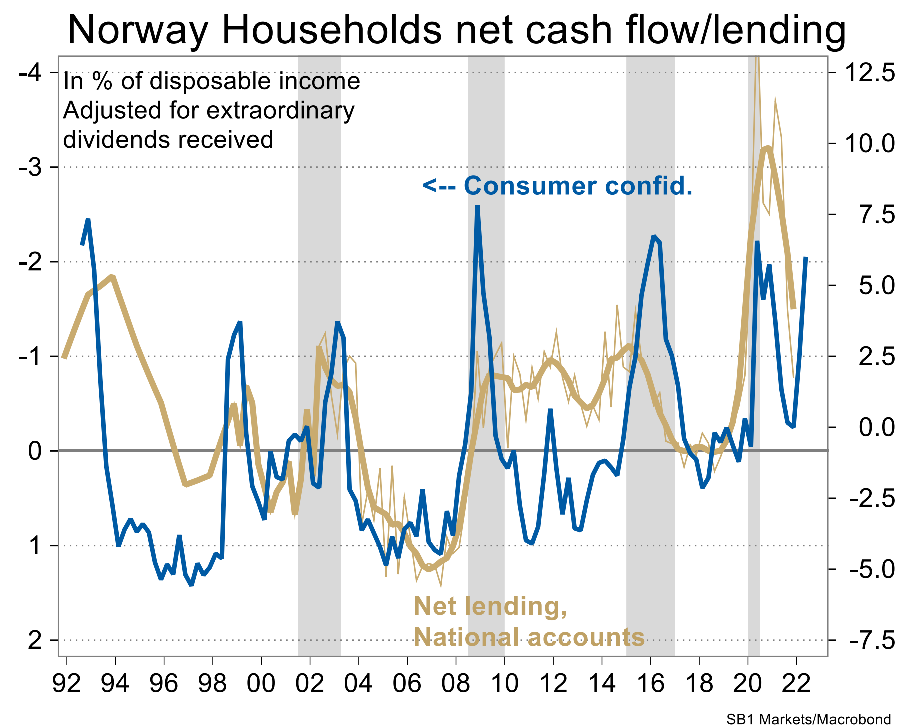


- Households have very volatile views on the outlook for the country's economy – and in actual number (not standardised), the decline was even larger for the outlook for the country, from +12 net positive to -26

A sharp decline in consumer confidence is normally not a good sign

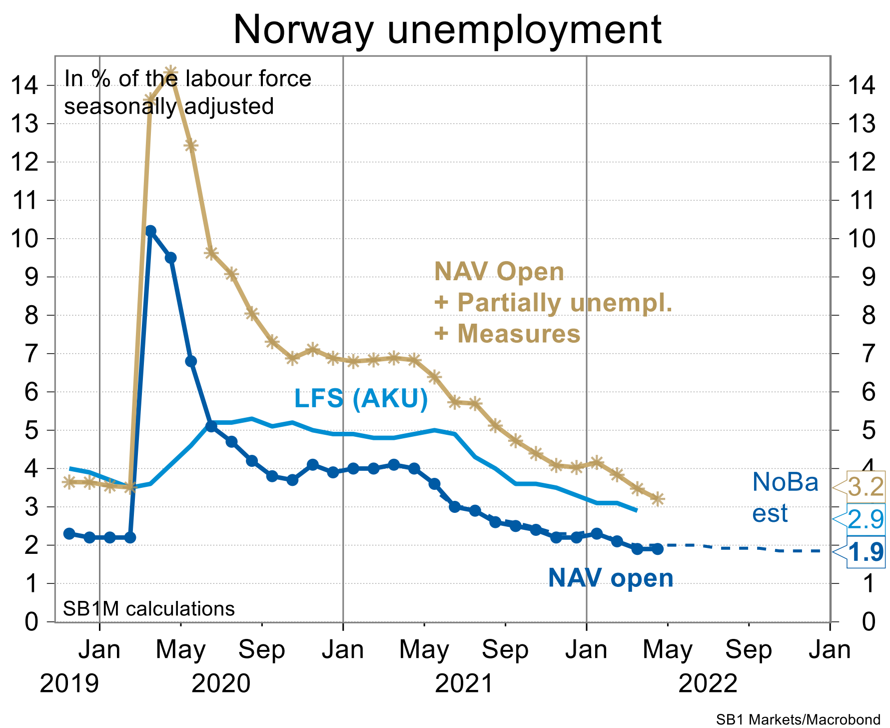
Neither consumption nor savings are uncorrelated to the confidence leve/changes in confidence

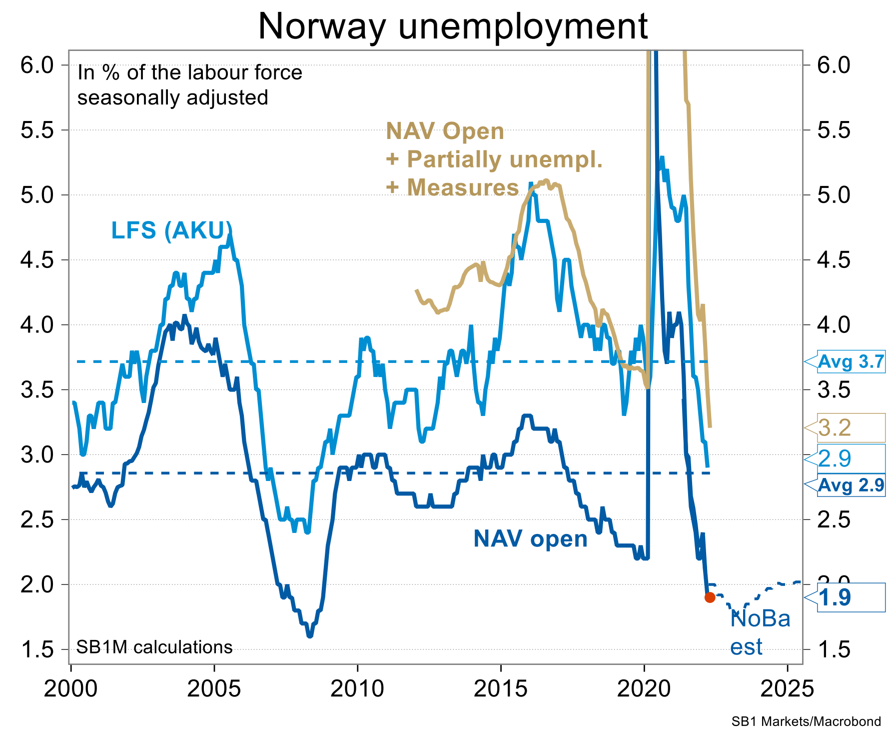




LFS/AKU unemployment down 0.2 pp to 2.9%, lowest since 2008

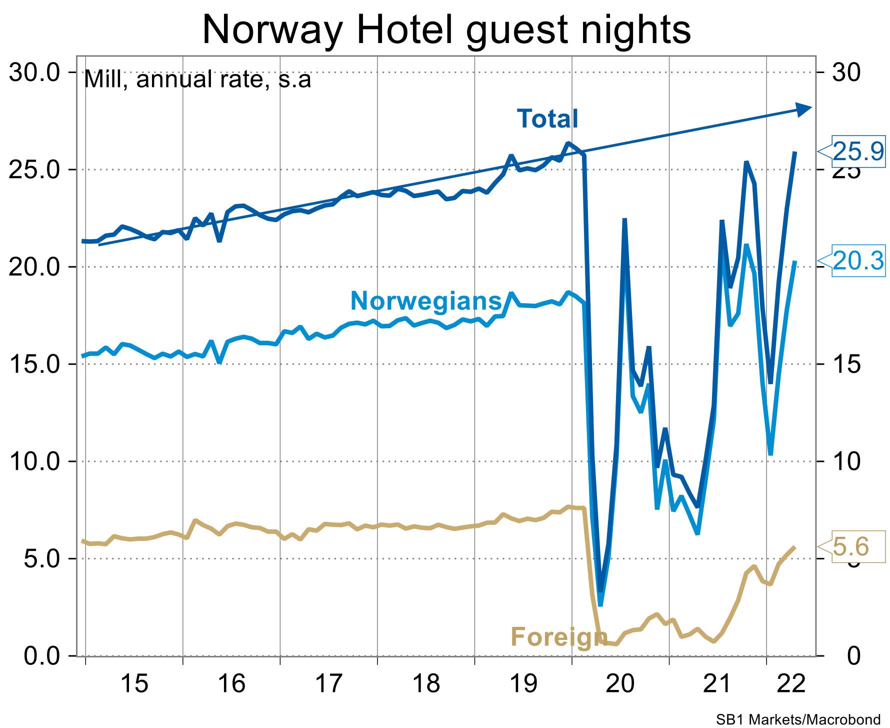
The decline was steeper than expected but 2.9% is at (the downward) trend

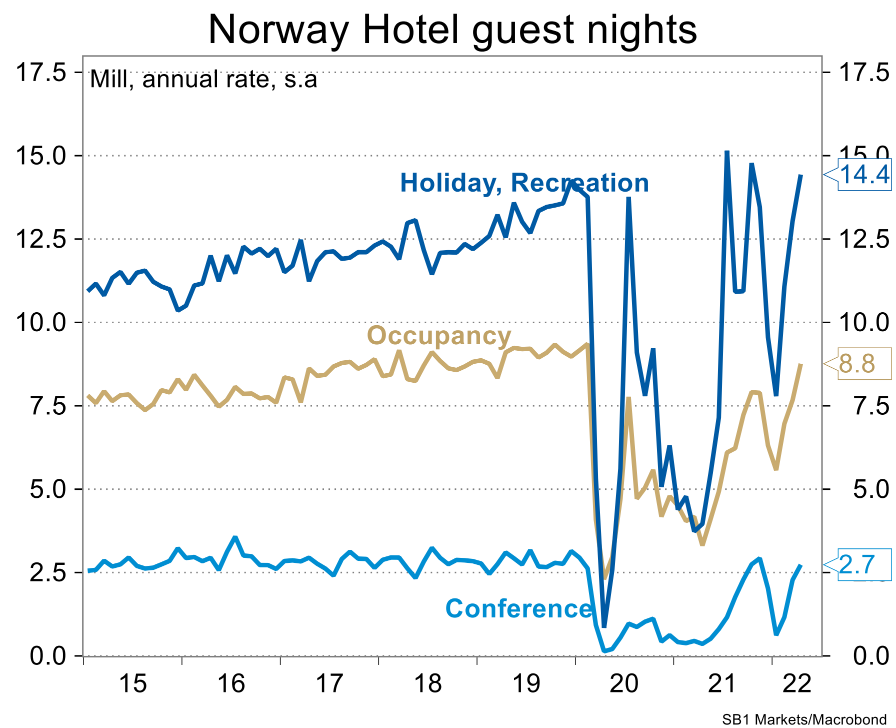




The best April for hotels ever, and almost the best month ever!

Still some fewer foreigners than before but more Norwegians – and the hotel sector is back on track

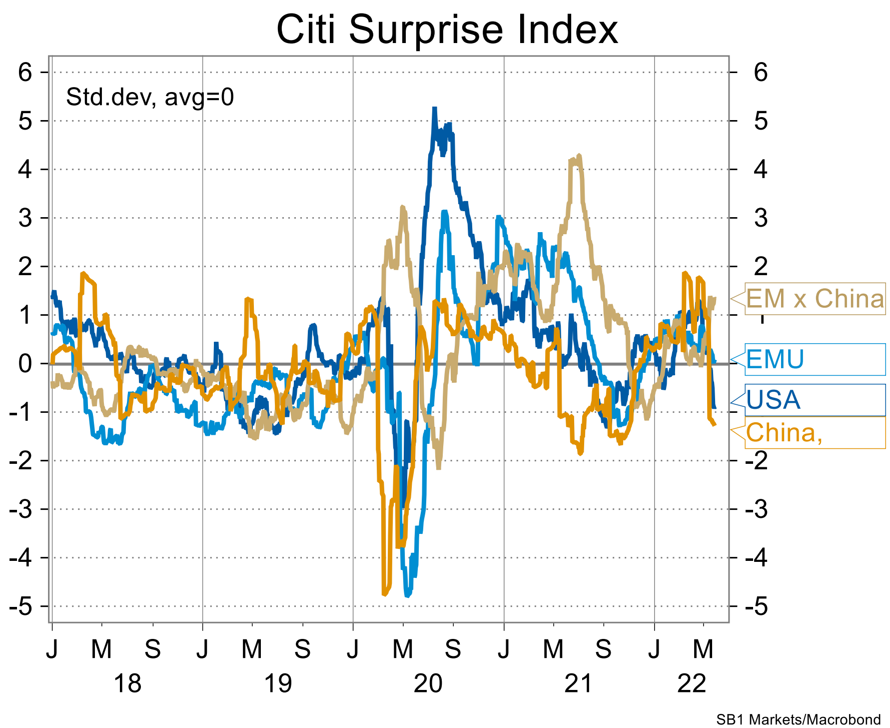


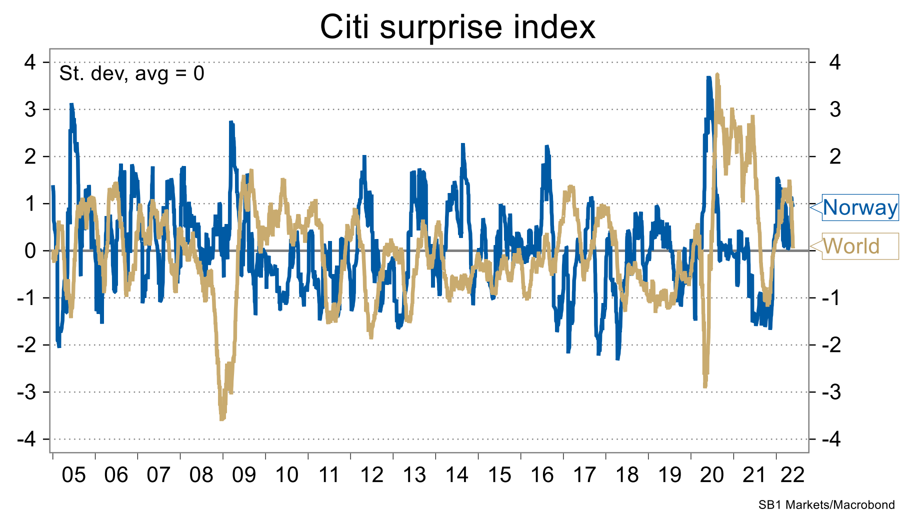


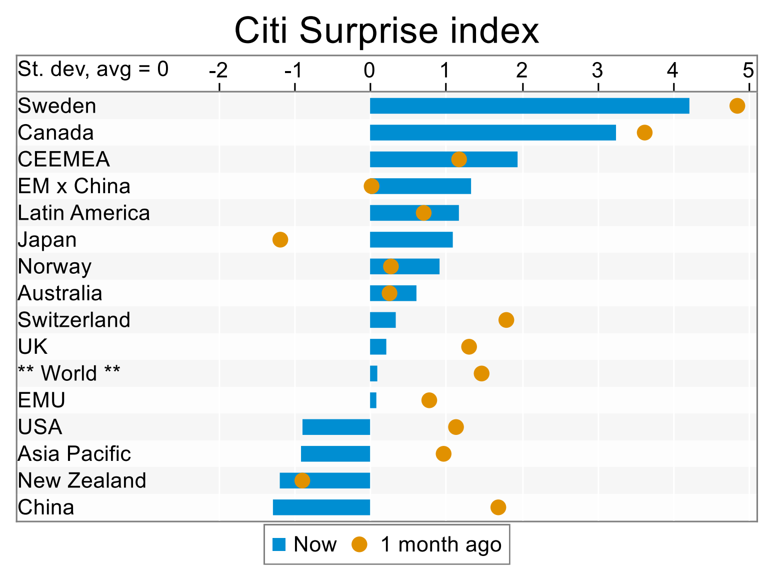
- Recreational traffic is higher than ever
- The conference market is back the pre-pandemic level – it took just some few weeks after restrictions were lifted
- Other business guest nights are just marginally below the pre-pandemic level
- The no. of guest nights is still somewhat below the pre-pandemic trend growth paths, but no more than 5%, and just due to fewer foreigners – but they are now returning at a rapid pace

Chinese lockdowns even take the global surprise index down to average

US has fallen below par too







- **Norway** is surprising significantly on the upside, 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

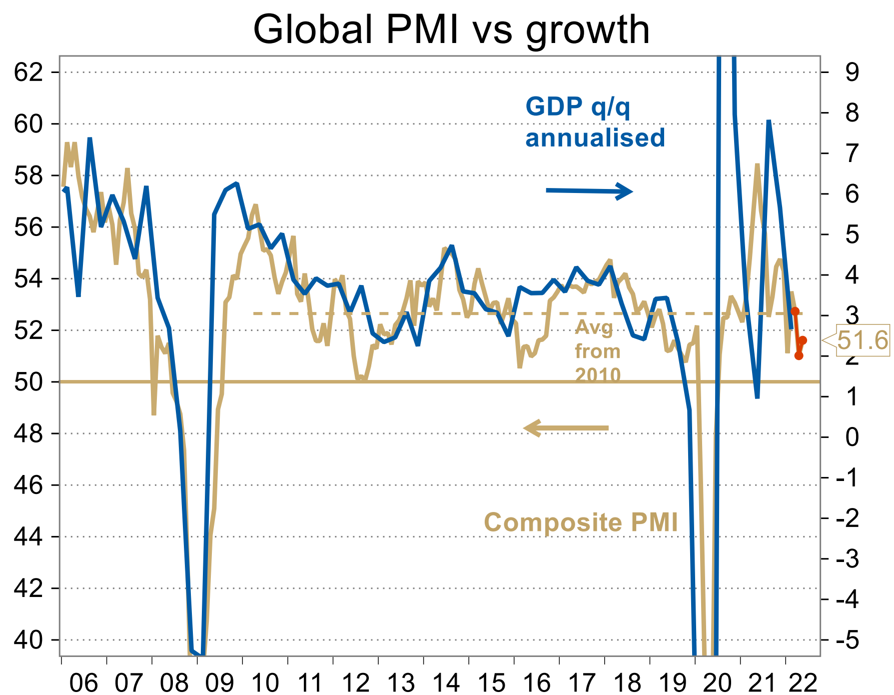
The world around us

The Norwegian economy

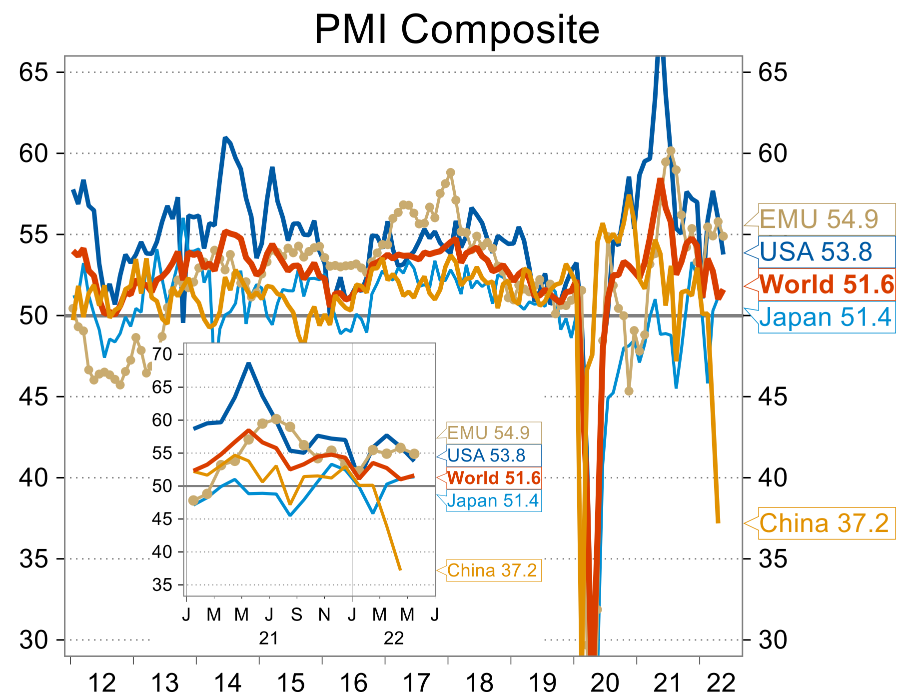
Market charts & comments

A further decline in the global PMI in May? Possibly, a DM decline is very likely

But China will decide, as was the case in March and April. A lift in China likely, and in the global PMI?



SB1 Markets/Macrobond



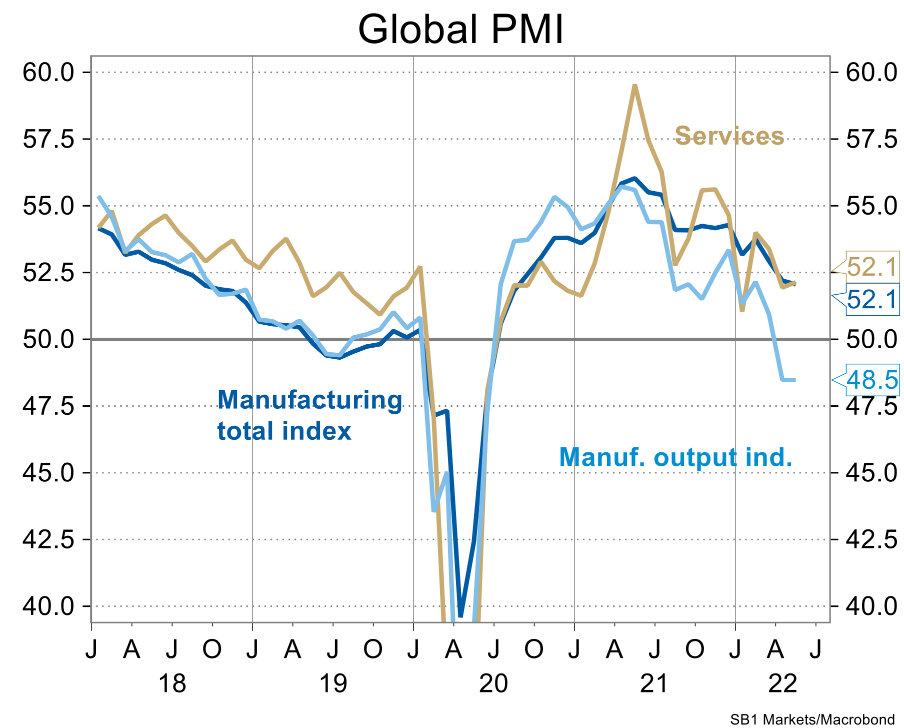
Source: IHS Markit, SB1 Markets, Macrobond

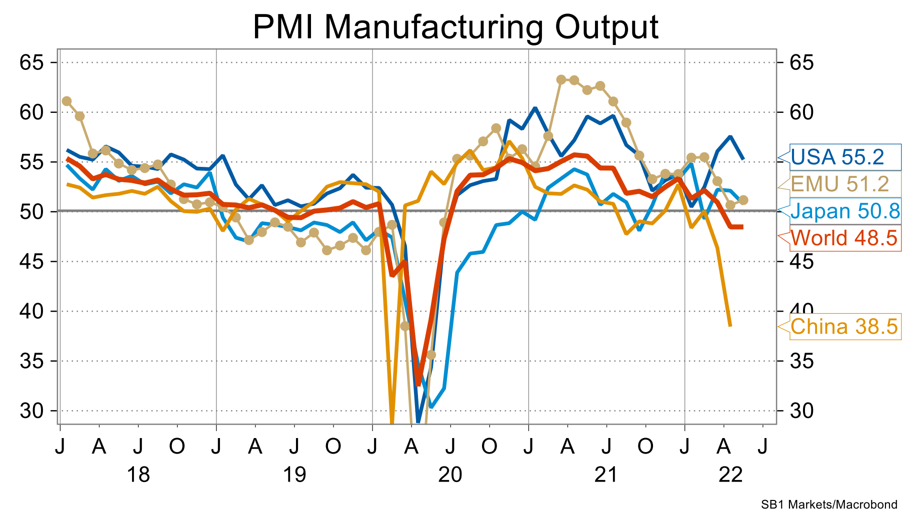
- The lockdown in China lowered the global PMI sharply in March and even more in April
- We have just illustrated the impact of the changes in the flash May PMIs from development markets. The final outcome will be decided elsewhere
- The US composite PMI fell sharply, and much more than expected, to 53.8 from 56

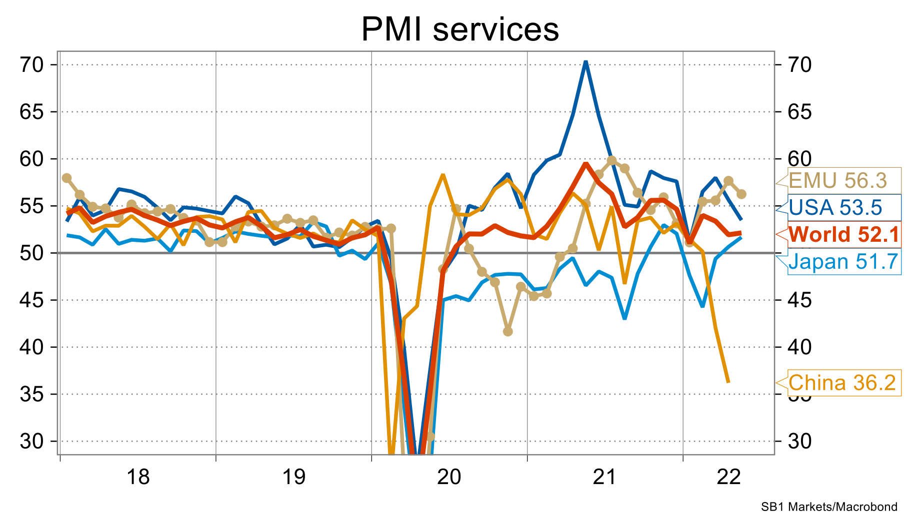
Our estimates are based on the preliminary PMIs from US, China, EMU, Japan UK, Australia. The estimates are uncertain, but usually by less than 0.5 p

Both manufacturing & services down in DM in May

Services are still growing at a fast pace in Europe; probably still an 'out of covid' drive



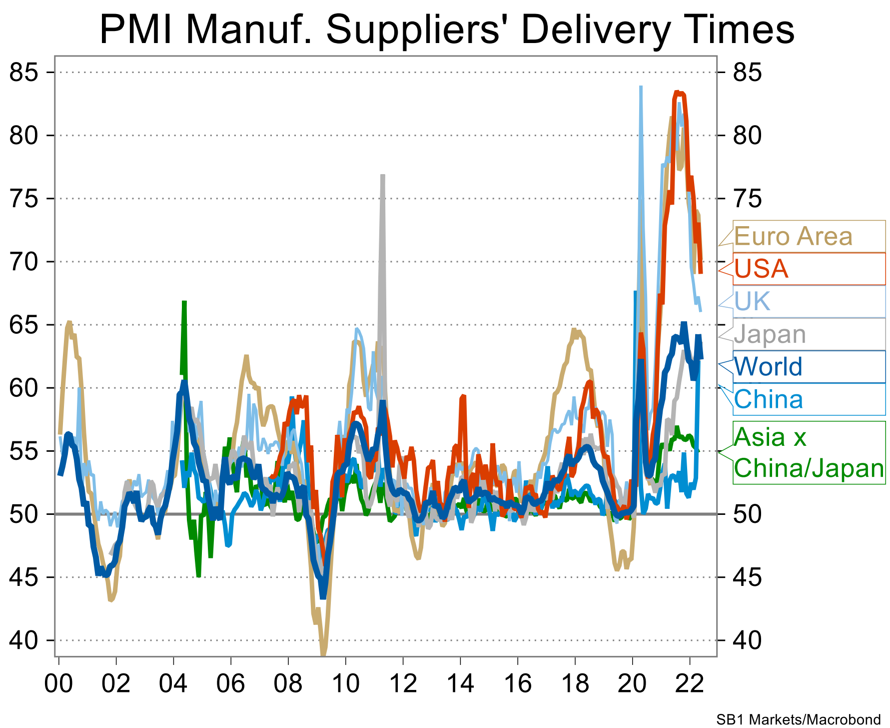


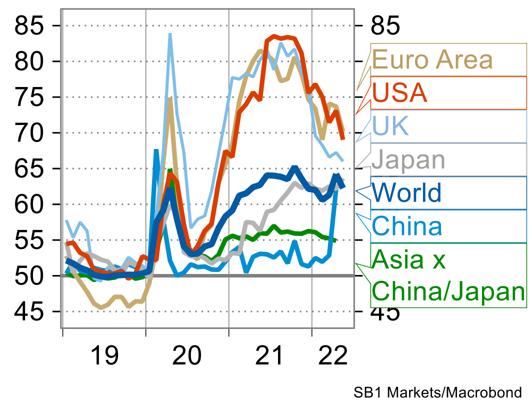


- Services in the US are slowing, while activity in the manufacturing sector is holding up better in the US than in Europe (both EMU and UK)
- The trend for the composite PMI in the rich part of the world is downwards
- A recovery in the Chinese PMIs are assumed in the global forecasts

Delivery times index probably further down in April, at least x China

China has not reported May data yet. US and Europe reported declining indices

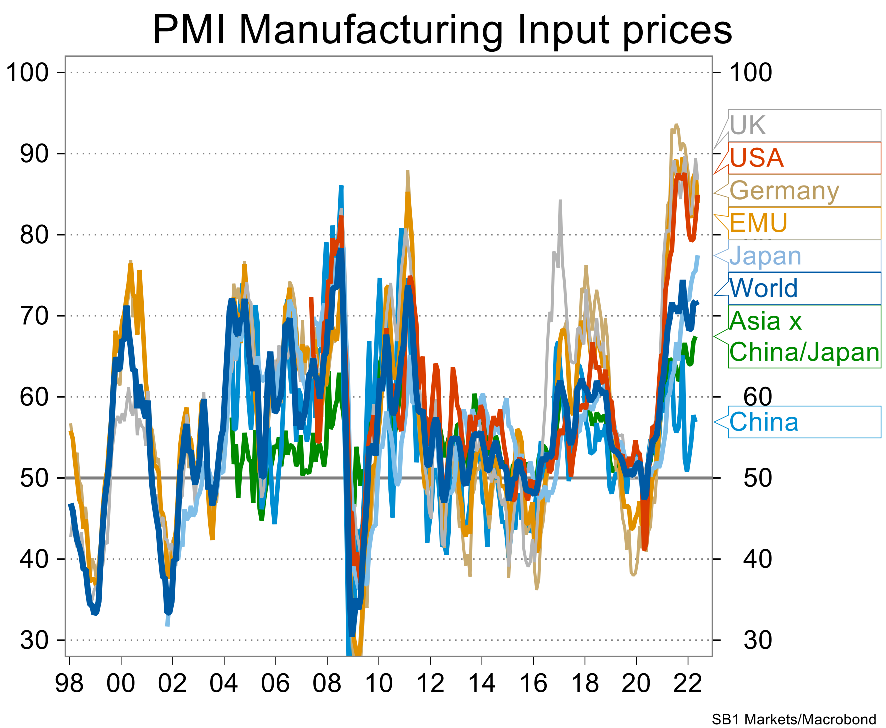


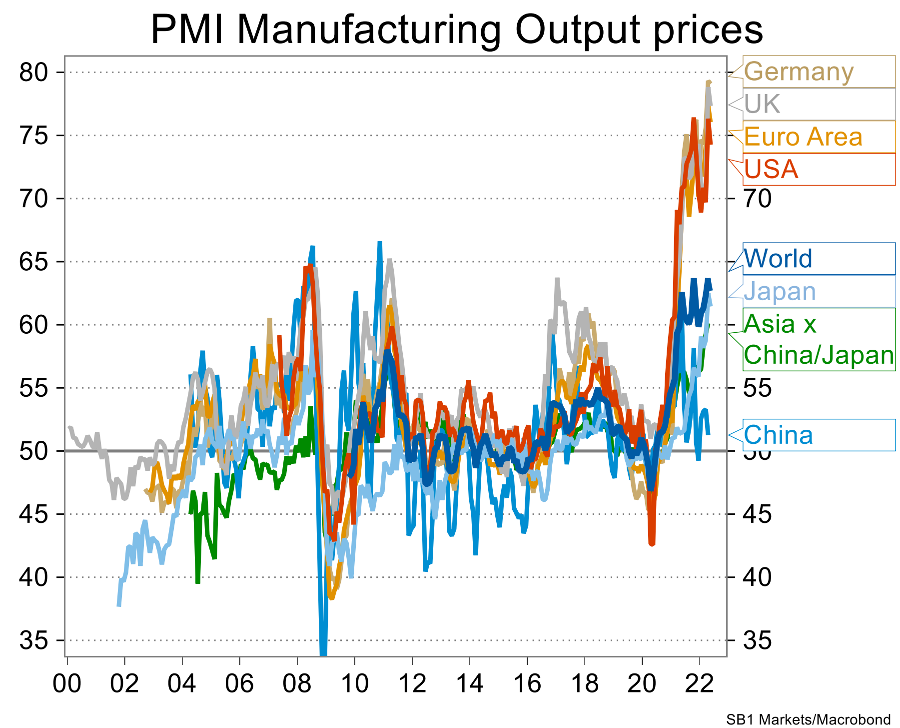


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) has been inching down since the peak last October. The decline is broad among the Western rich countries
- **The interpretation of this index is uncertain** – are companies really reporting changes in delivery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

Manufacturing price inflation mixed, a small decline in May possible

(…but not due to the US). Anyway, levels are still VERY high

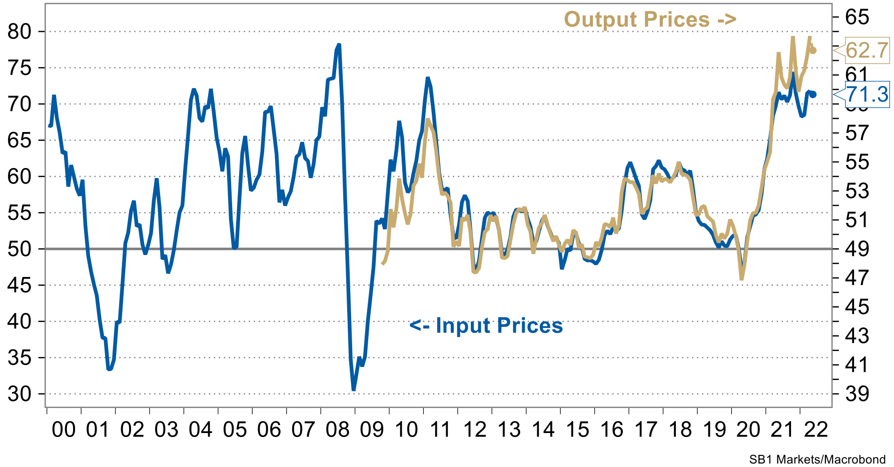




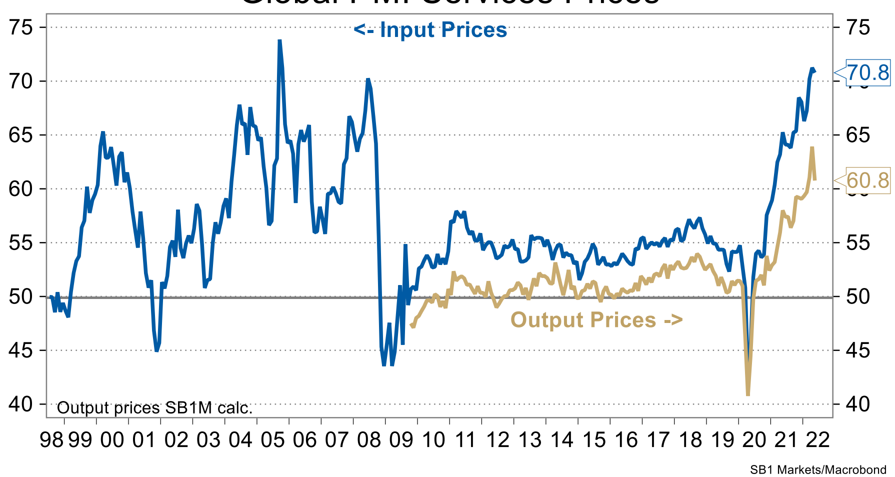
SpareBank 1 MARKETS

Price indices may have peaked but are still at very elevated levels

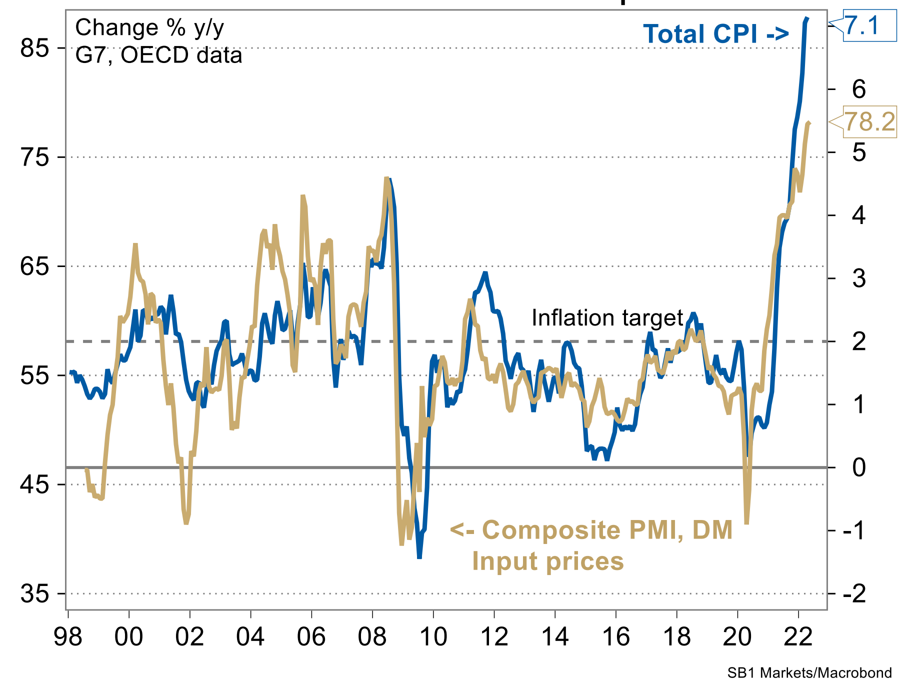
Gobal Manufacturing PMI Prices



Global PMI Services Prices



OECD Inflation vs PMI prices

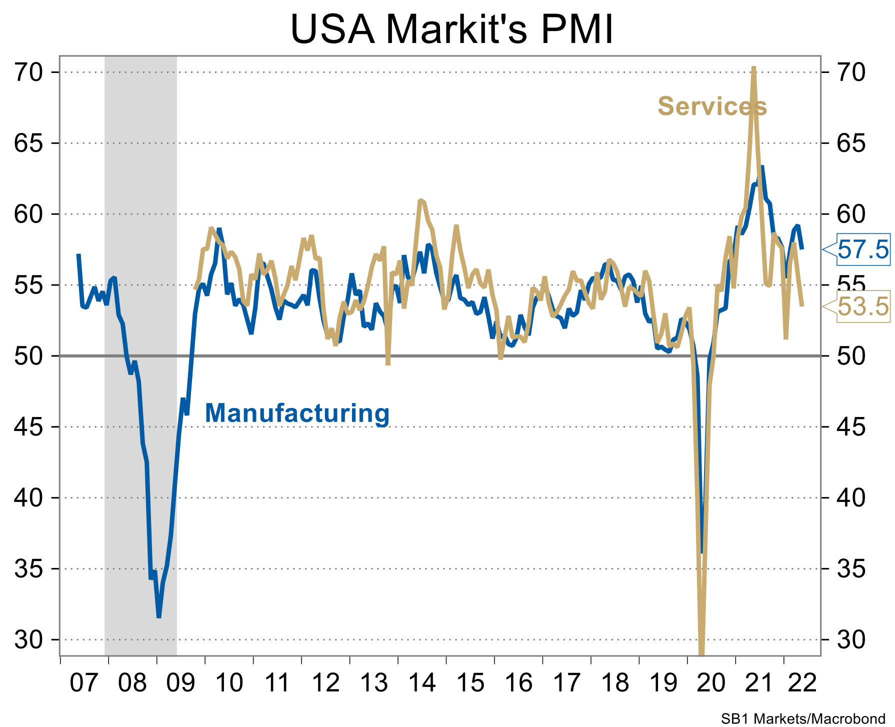


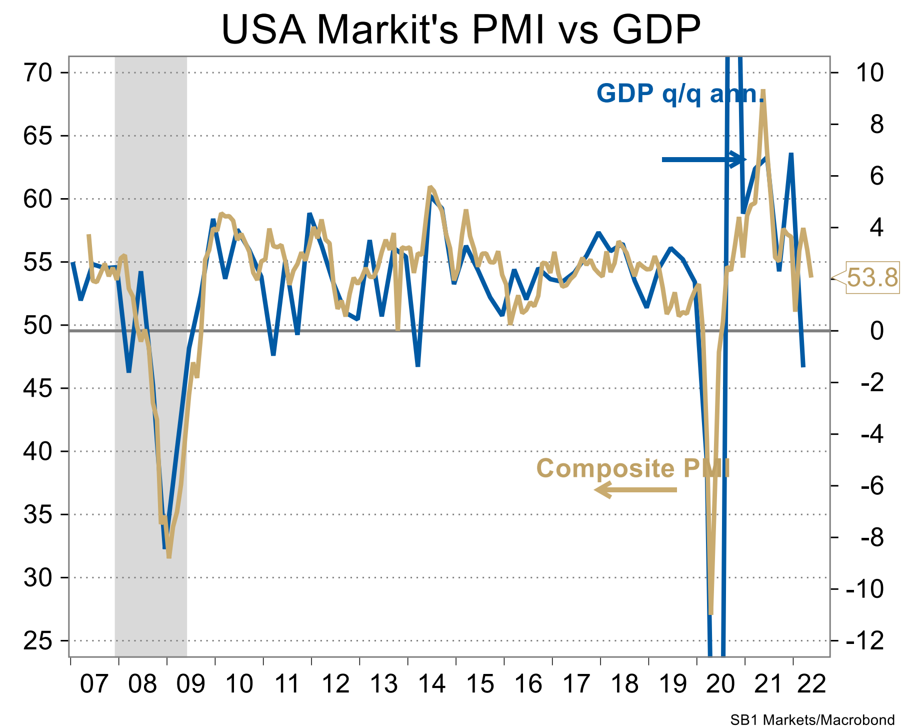
- These PMIs signal a substantial price pressure the coming months
- We are still much more concerned about wage inflation than the actual price inflation due to factors that are most likely transitory, like hikes in raw material prices, freight cost or short lived margins expansion when demand is surprisingly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

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

Services slowed further May, down to below average, manufacturing still OK

The composite fell 2.2p to 53.8, expected at 55.5 → 2% GDP signalled

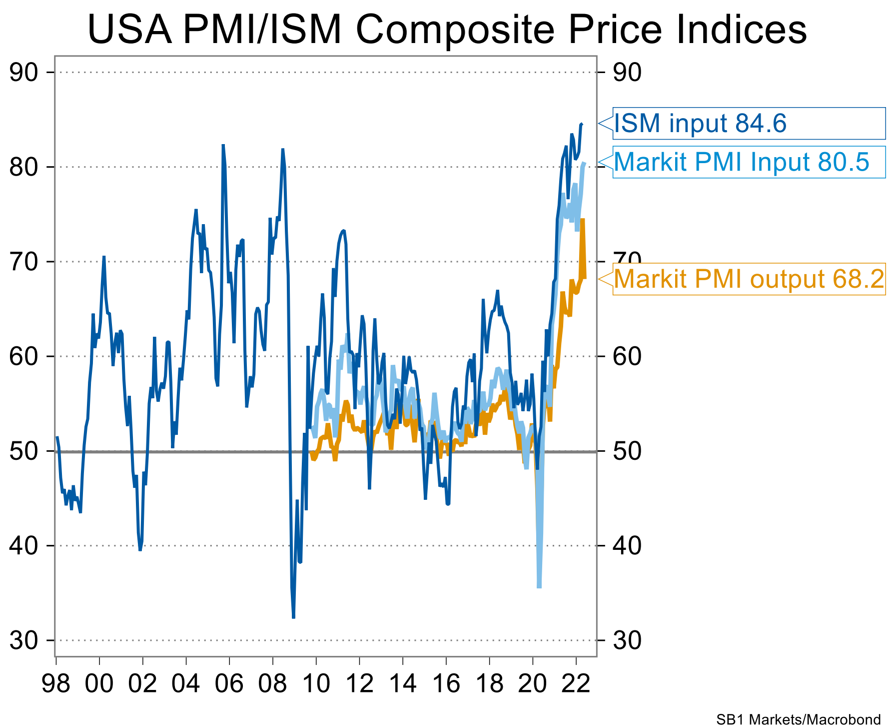




- **The composite PMI** has been trending flattish since August last year – while GDP was far better than the survey indicated in Q4, and far worse in Q1 – on average 2.8%. The May PMI signals somewhat lower growth – but far from any setback in the economy
  - » The decline was due to a 2.2 p setback in services to 53.5 (expected 55.5), and…
  - » … a decline in the output component in the manufacturing survey by 2.3 p to 55.2. The total manuf. index fell 1.7 p 55.7. Both total & output is above average but both are trending down. Together with regional Fed surveys, a substantial decline in the ISMs in May are likely
- **The price indices** were mixed: Input prices rose the fastest ever, while growth in output prices slowed – to the 2nd highest level ever
- **The delivery times index** fell sharply, signalling some easing of supply chain challenges

Peak price inflation? Perhaps, output prices rose at slower pace in May

The problem (besides wage inflation): The output price index is at the 2nd highest level ever

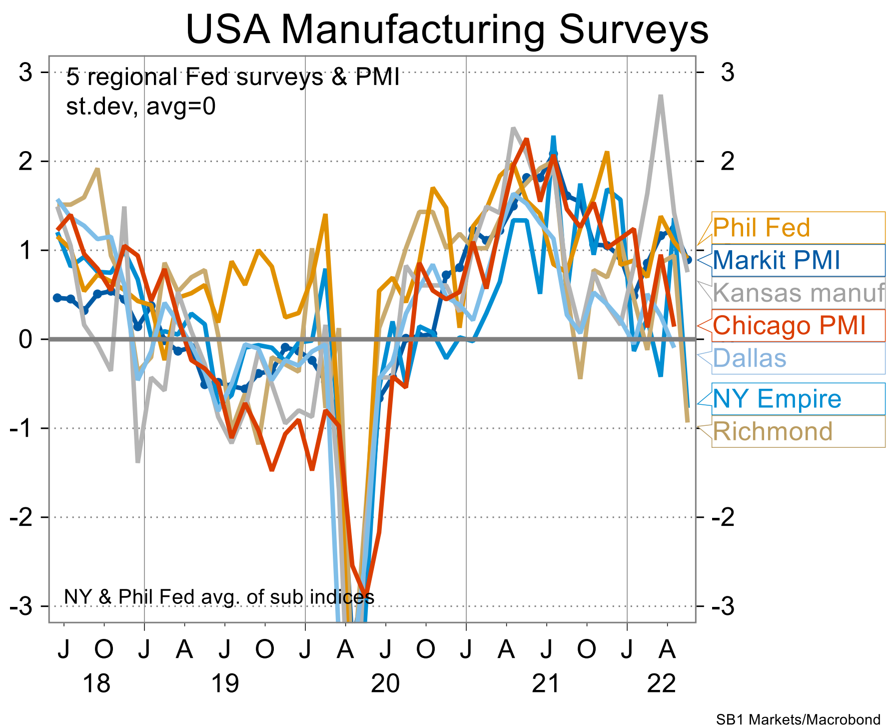


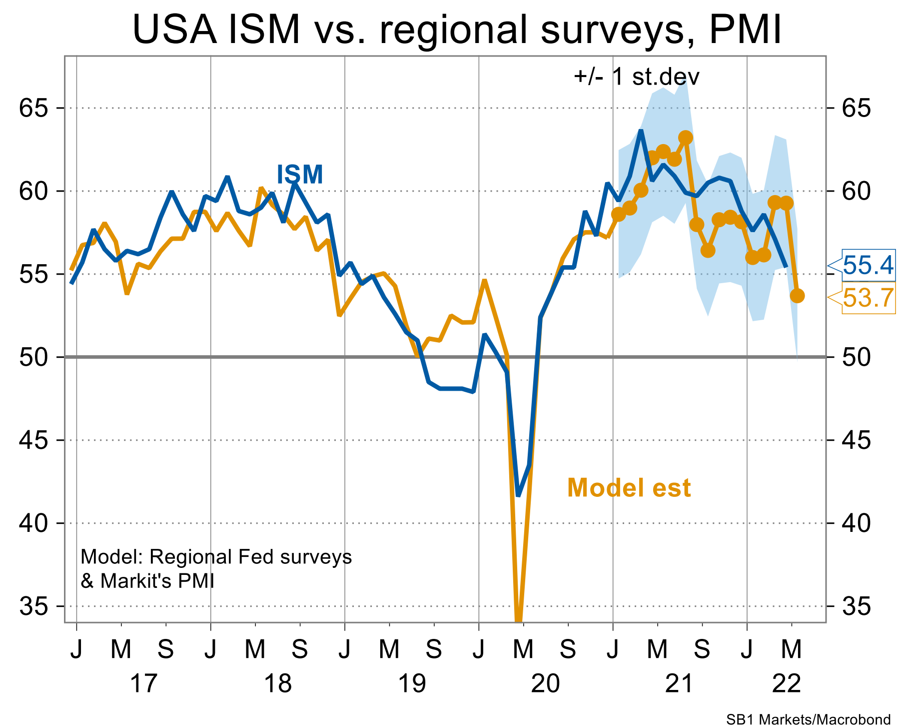
- … and input prices are climbing faster than ever

- ISM has not yet reported January data

So far: May manufacturing surveys signal a substantial drop in the ISM

A 3 p – 6 p decline in the is ISM signalled, to 51 – 54. Consensus: down 0.6 p to 54.8

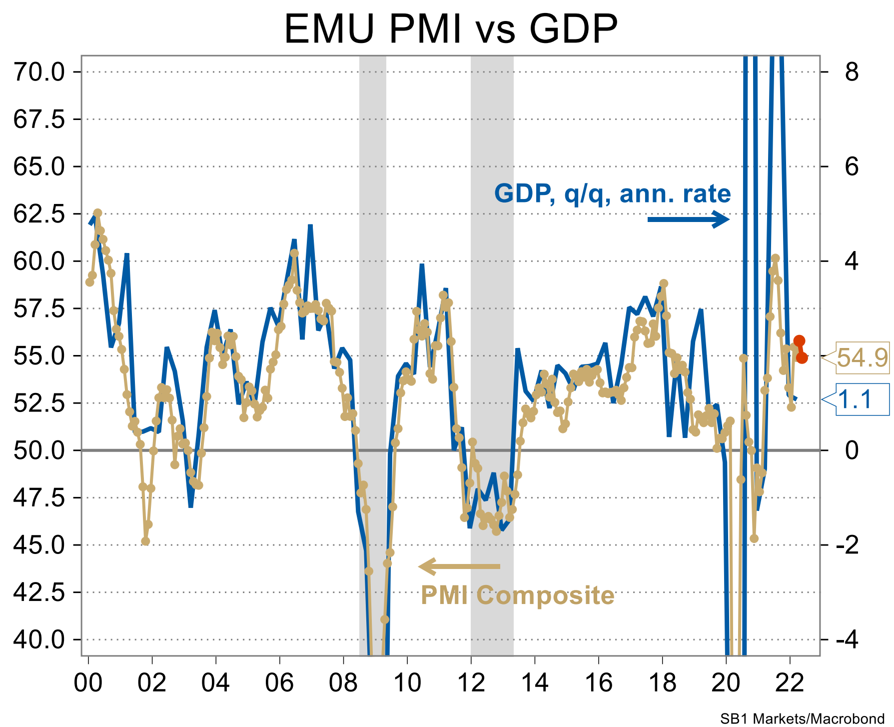


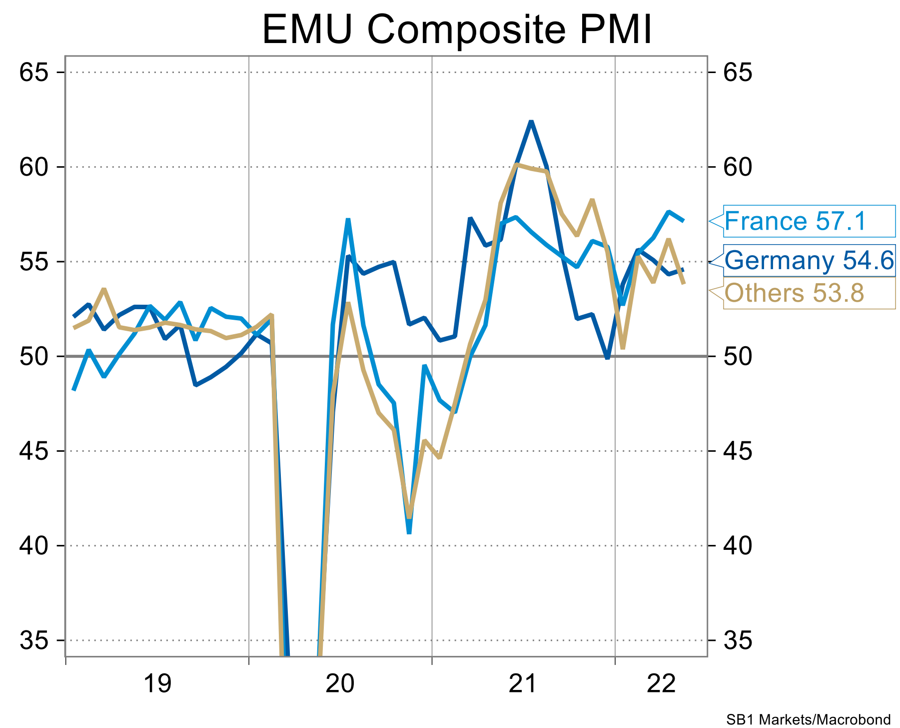


- All five regional manufacturing surveys published so far, and Markit's PMI, fell in May, some rather sharply – and our models signal a significant decline in the ISM index, which is published on Wednesday

The comp. PMI -0.9 p to 54.9, close to exp. – and still signalling growth > trend

Germany marginally up, but France and 'the South' down. All are reporting growth well above avg.!

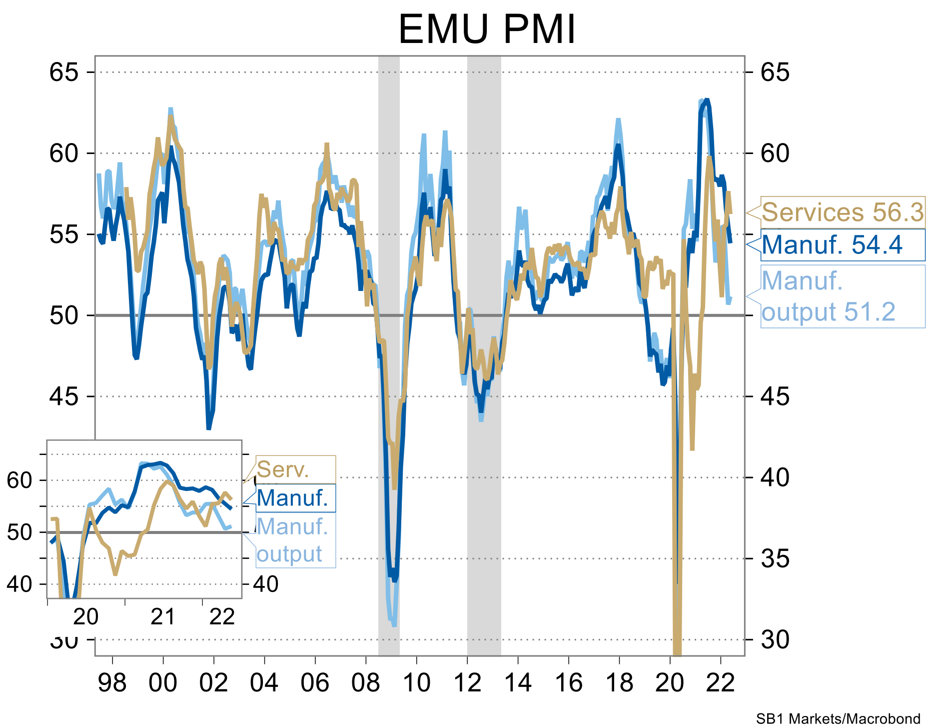


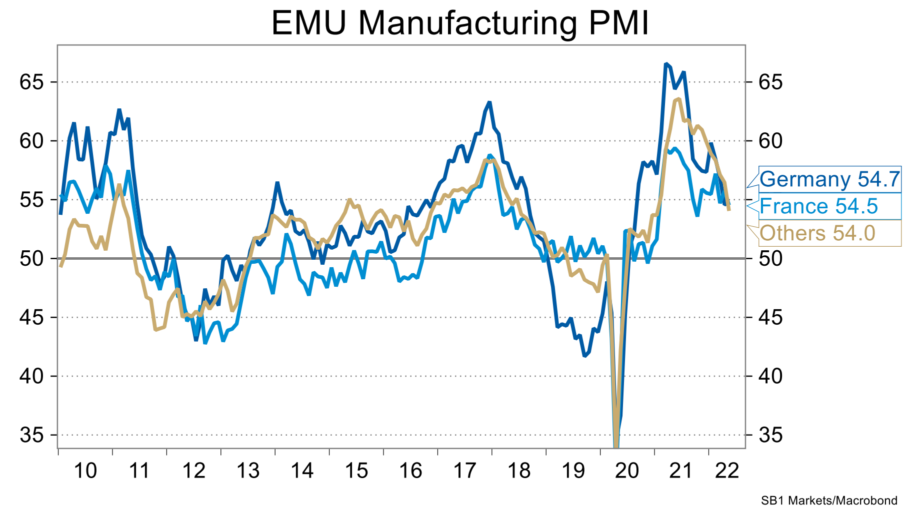


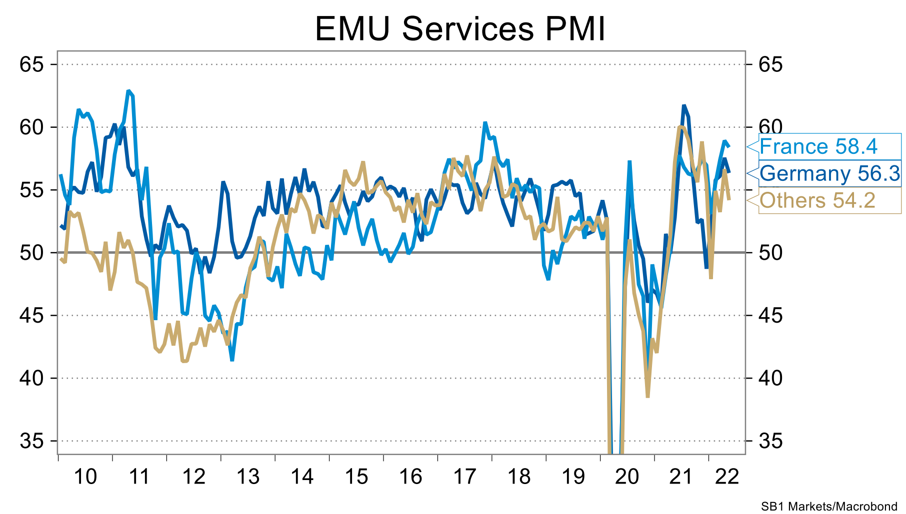
- **The composite PMI** fell back to the March level in May – and the index has been close to unchanged since the substantial lift in February, when Covid restrictions were eased/removed. The index, which is well above average, signals GDP growth at approx. 2%
  - » **Services** reported slightly lower growth but the index is still strong, at 56.3
  - » Manufacturing grew marginally faster than in April but still not at an impressive pace; index at 51.2
- **The delivery times** and price indices fell but all remain at very high levels, signalling a continued high price pressure
- **The ECB** will not change its plan due to these data, a July hike is very likely – if a catastrophe does not take place in the between time

Manufacturing output has slowed but not further in May, services still strong

Very likely, war/sanctions have a chilling impact on parts of the manuf. sector, but not on services



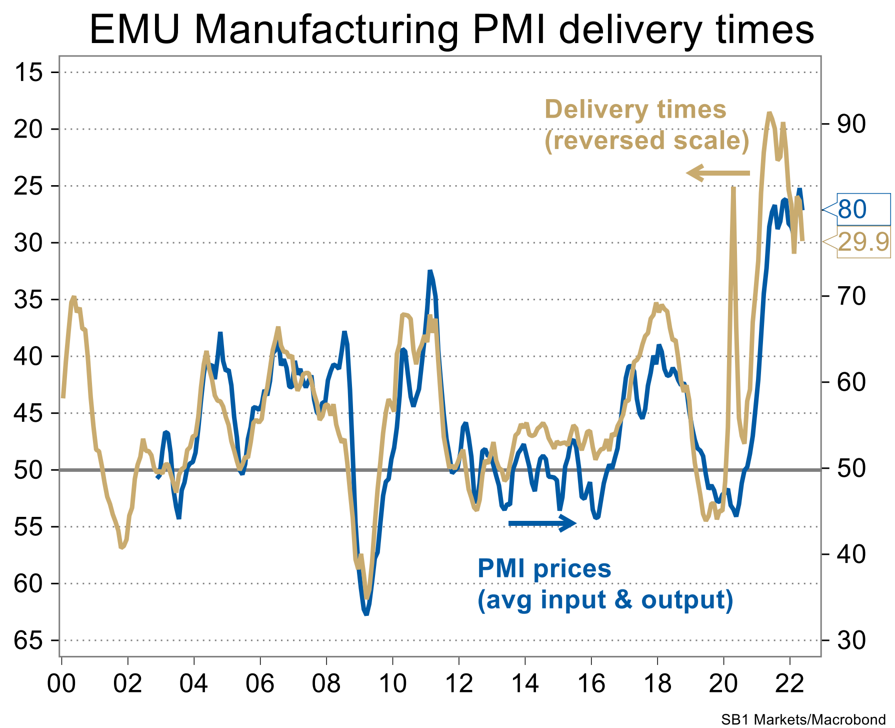




SpareBank 1 MARKETS

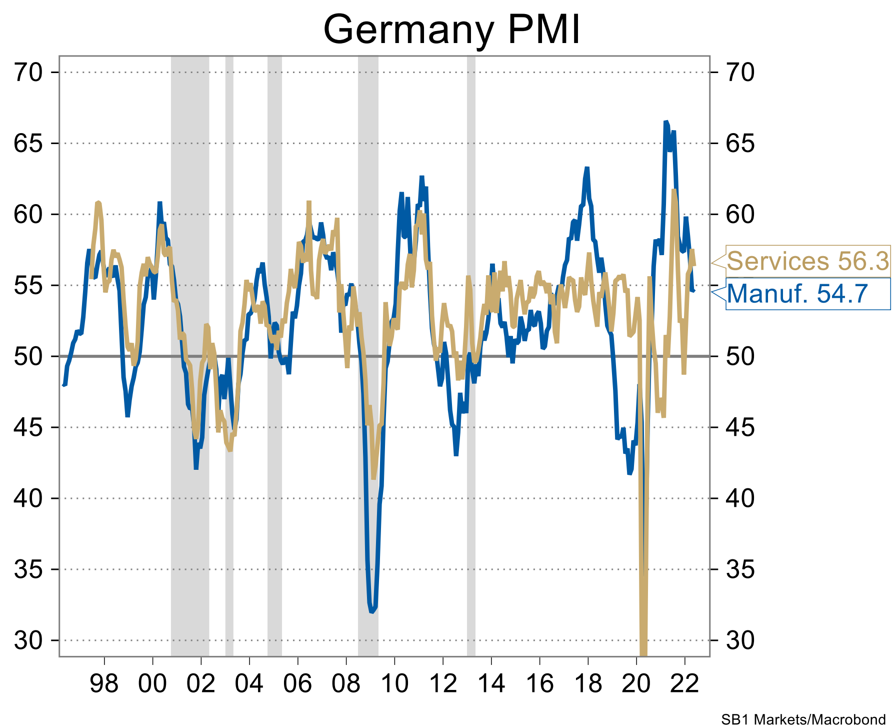
Price inflation slightly down – but still very high

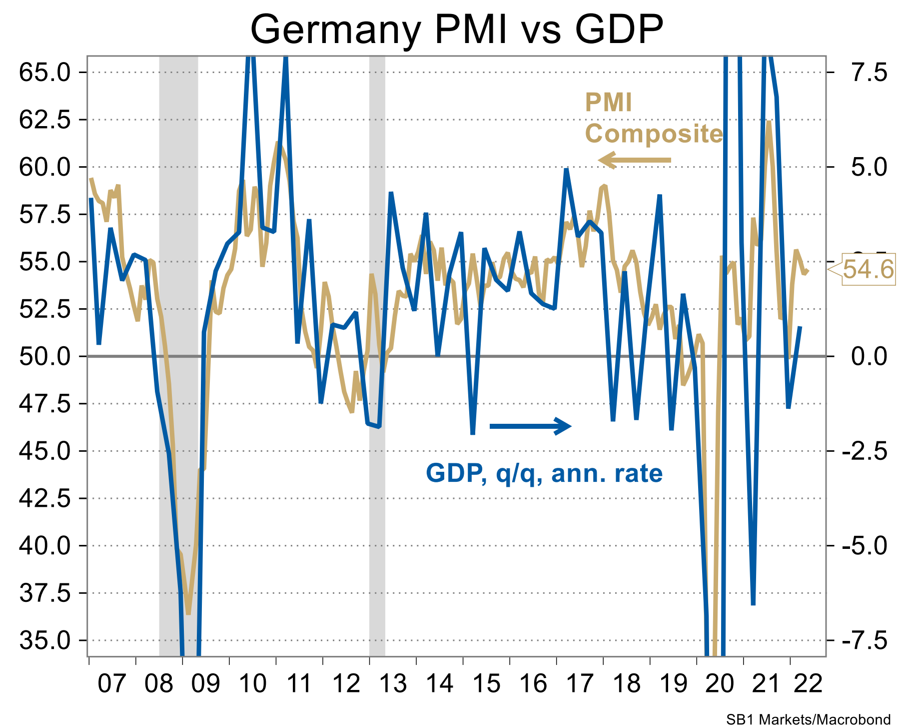
Even if the delivery index has come down from the peak



Germany: The composite PMI sightly up to 54.6 (exp. -0.5 p) → 2.5 % GDP growth

Services slightly down but at a high level (56.3). Output in the manufacturing sector up

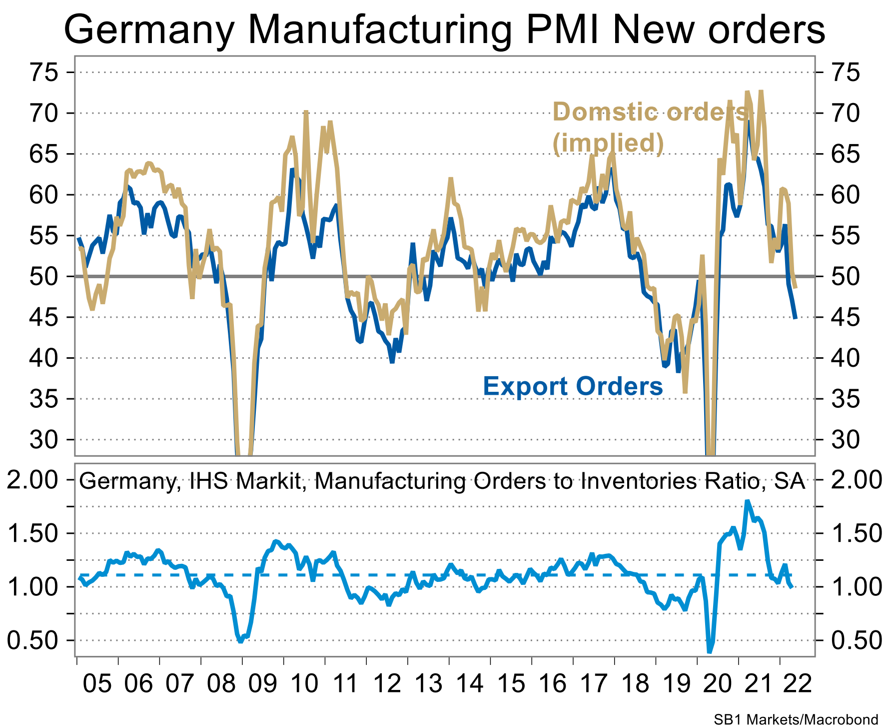




- **The composite PMI** was 0.8 p higher than expected (difference equals 0.4 pp higher GDP growth)

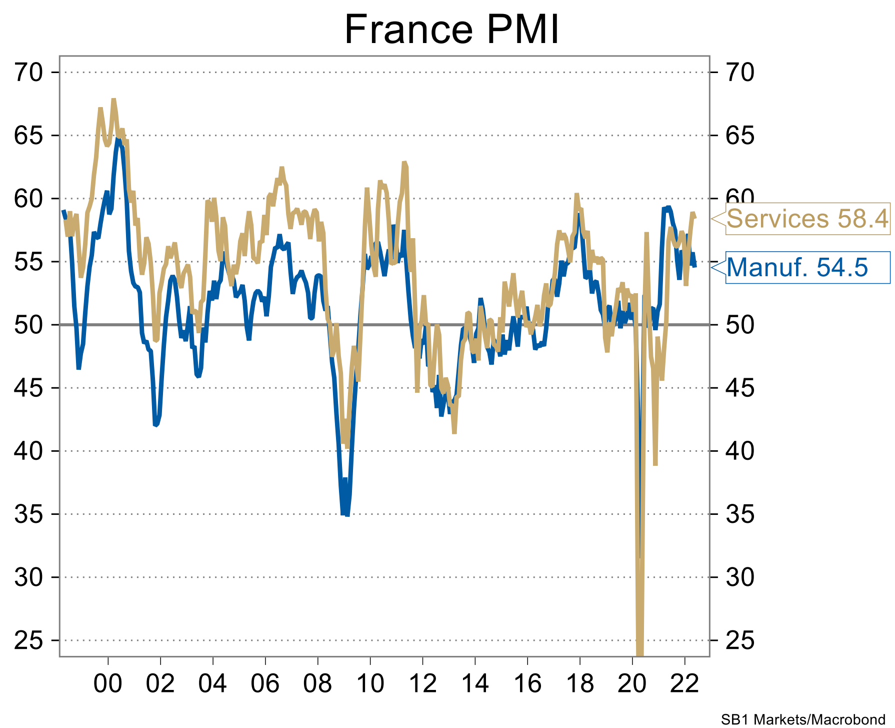
Order growth into negative territory – both from abroad and at home

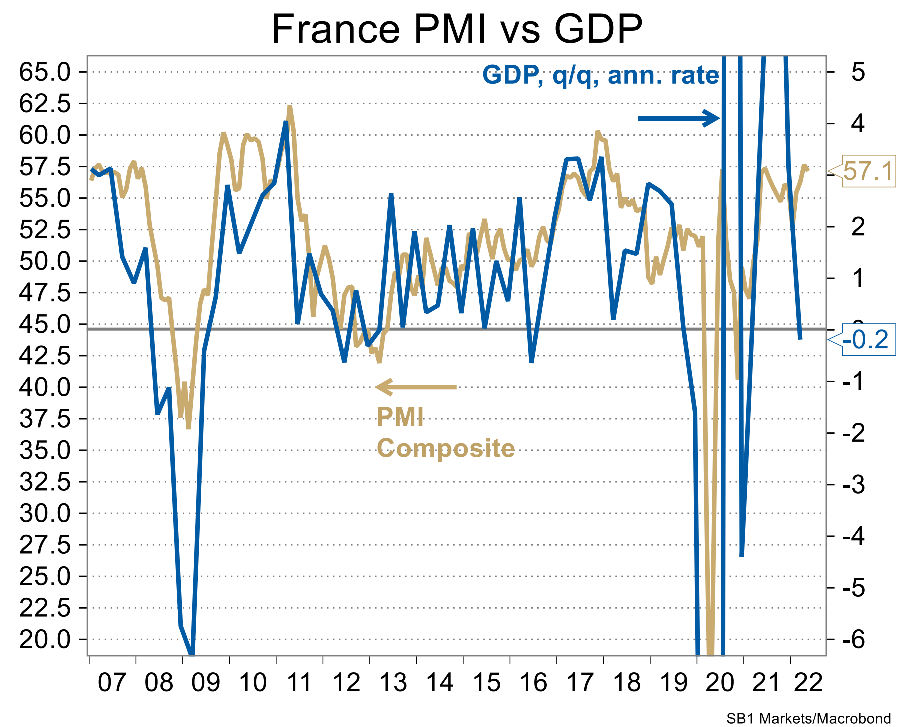
A warning sign that the activity in the manufacturing sector now turns south



France: Services still very strong, manufacturing well above average too

The composite down 0.5 p to 57.1. (as expected) → 3%+ GDP growth is signalled!

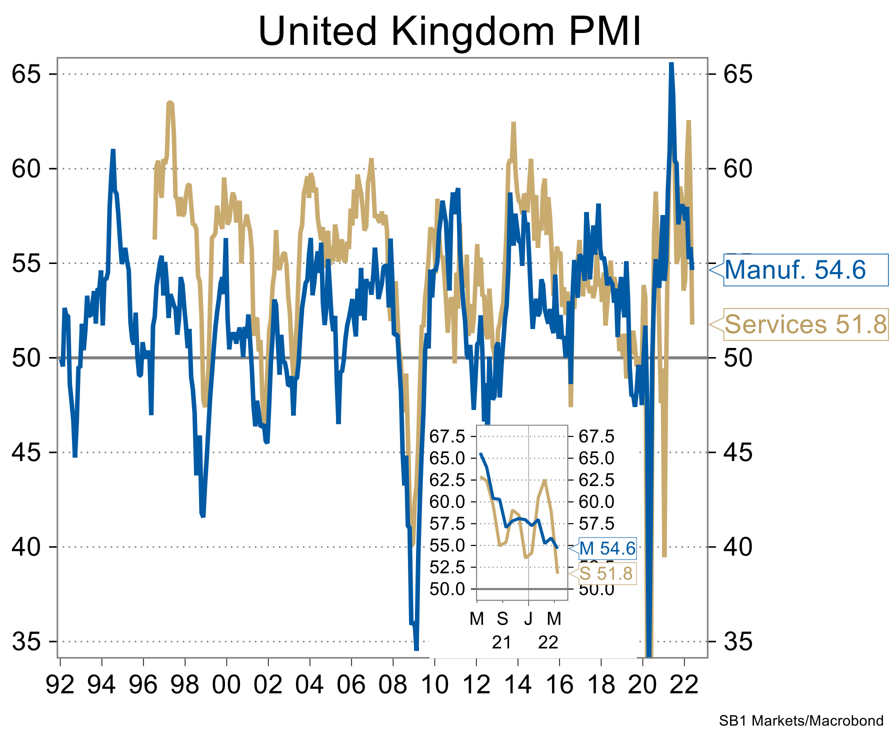


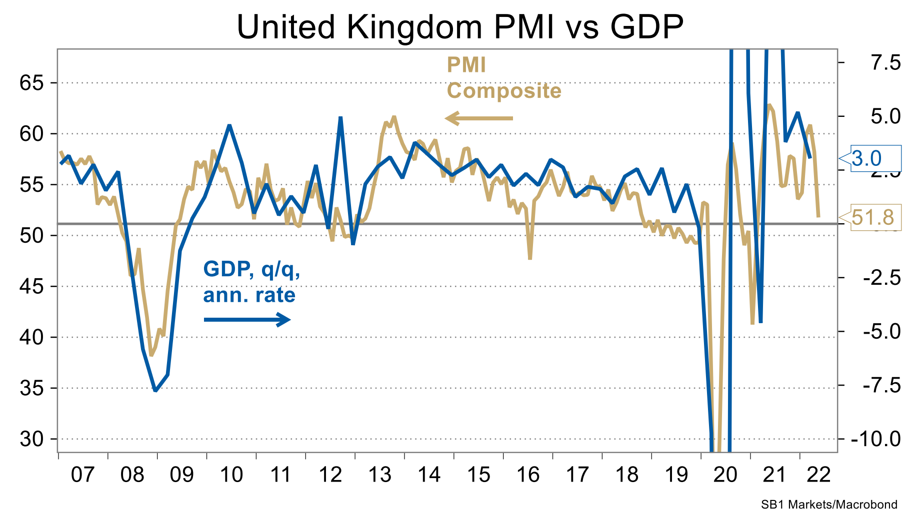


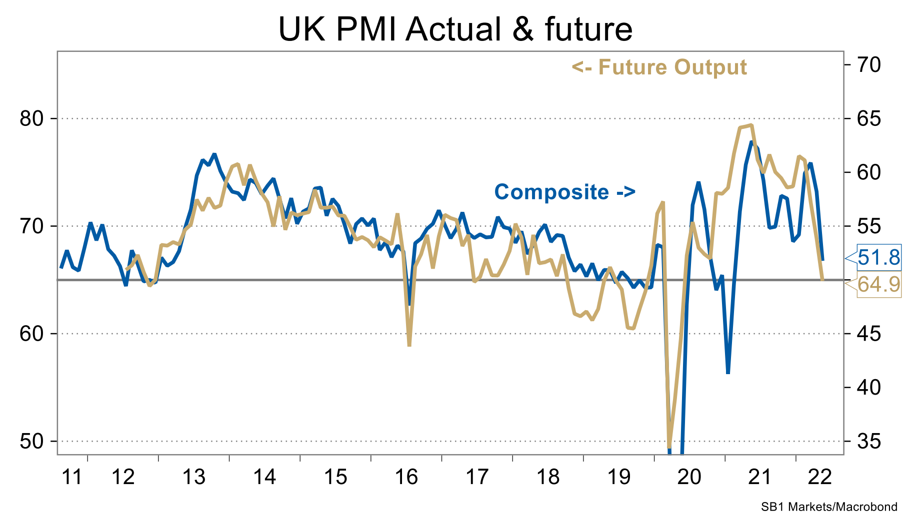
- Small changes in both manufacturing & services

Oops: The composite index down 6.4 p to 51.8; 1% GPD growth signalled (from 3.5)

Services took the hardest hit, but manufacturing down too, order growth to zero?



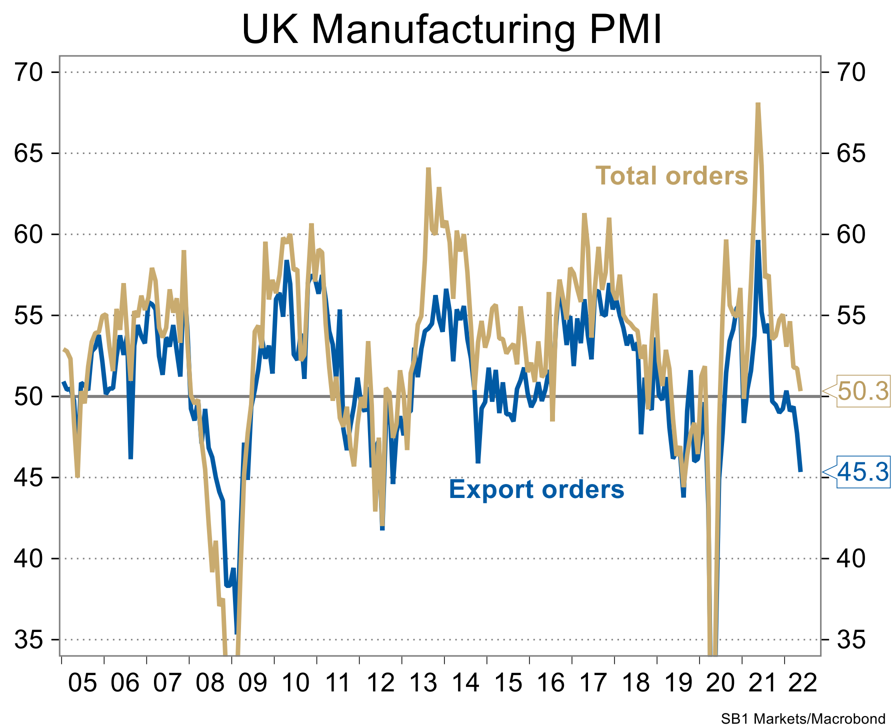


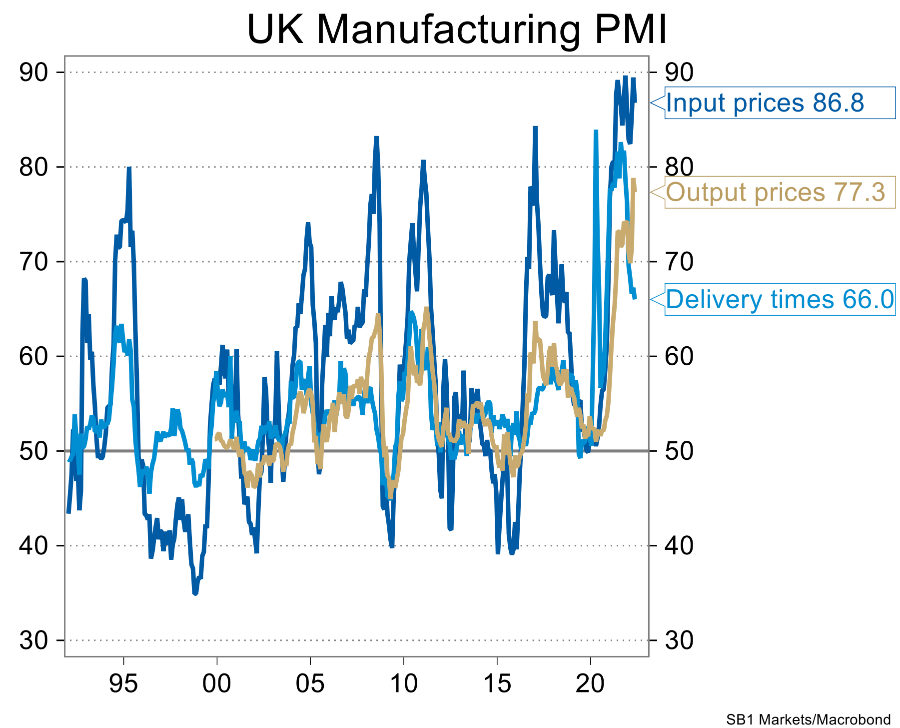


- **The manufacturing total index** fell 1.1 p to 54.6, still well above average (exp. 55.0). However, the **output index** subtracted 2.4 p to 51.8. The new orders index fell to 50.2. Prices are climbing rapidly, even if the delivery time index fell
- **The service sector** declined 7.2 p to 51.8 (exp. 57!), following the 4.3 p setback in April. The level is well below par
- The **composite PMI** decline was large; far larger than expected (-6.4 p vs. exp. -1.7 p) and the level signals just marginal growth in GDP
- **The future index** also fell rapidly May, to 64.9, which is well below an average level. 2 months ago, the index was close to record high level

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

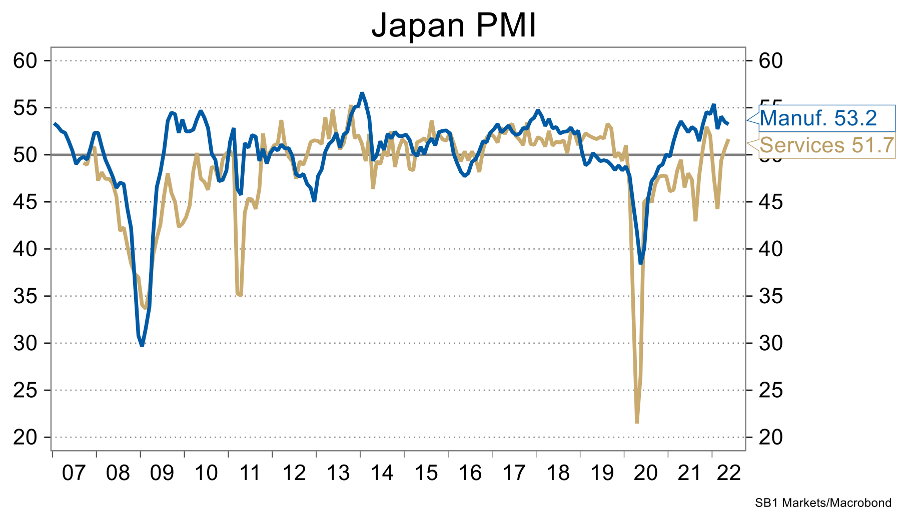
… but input prices are reported growing even faster in April, output prices up to ATH (by far)

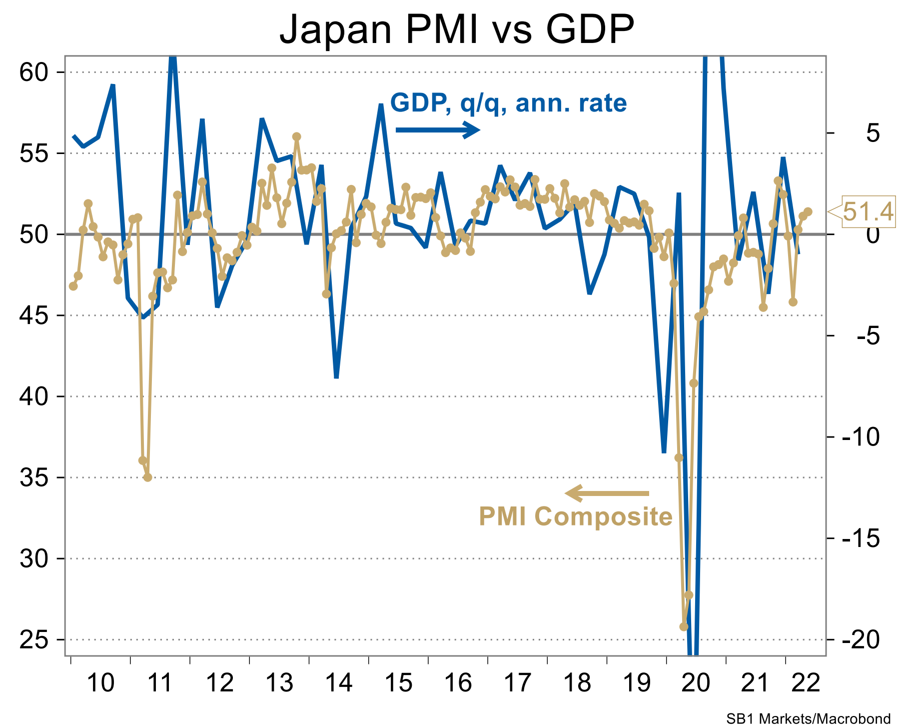


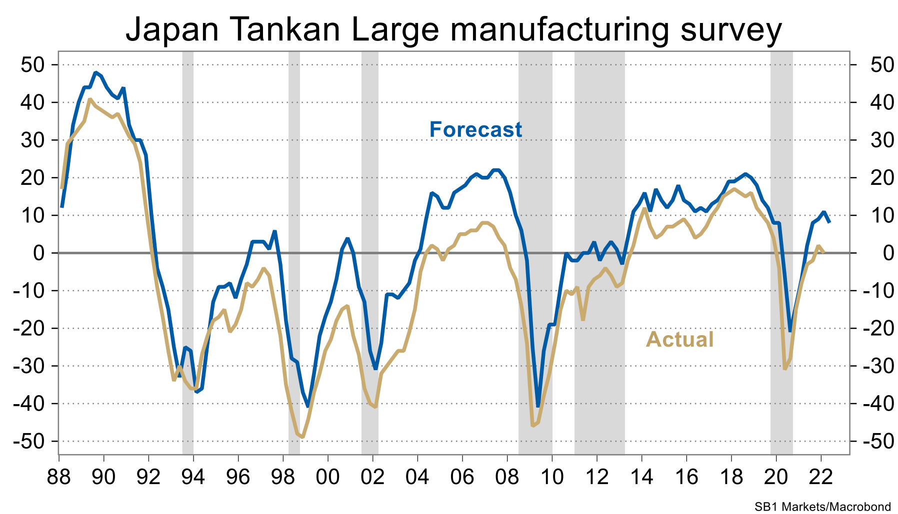


The composite PMI further up, 1% GDP growth signalled

The manuf. PMI slightly down but above an average level. Services up, but the level is still below par

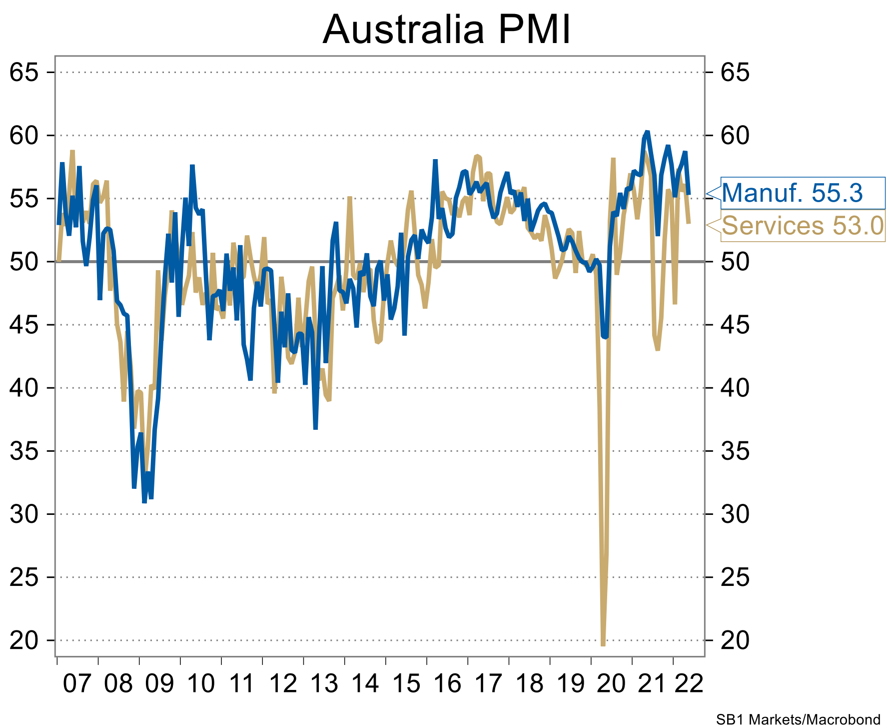


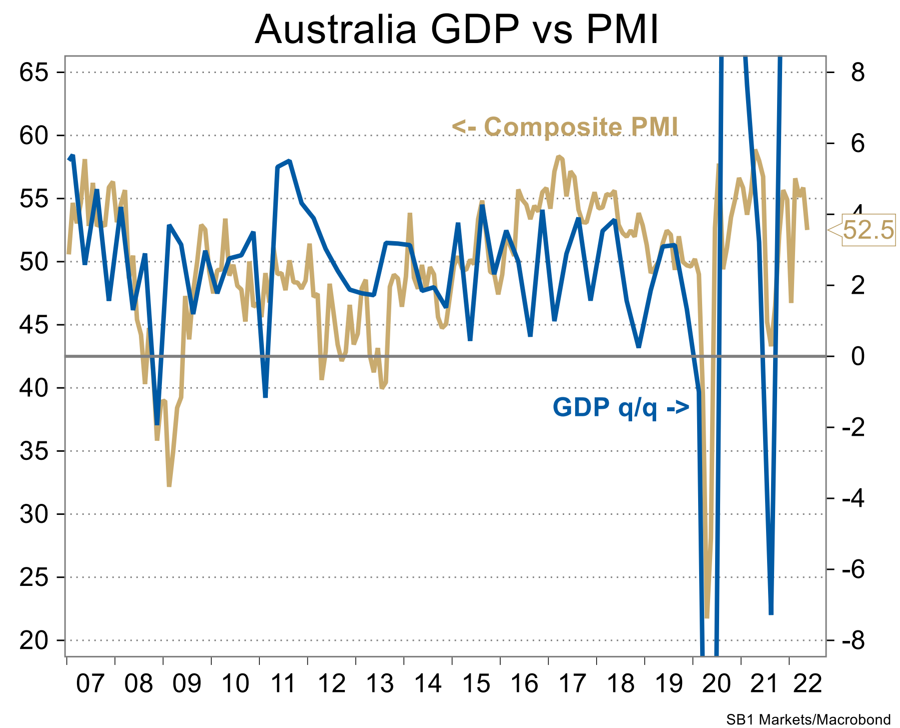




Both PMIs down in May, the composite index still signals growth above trend

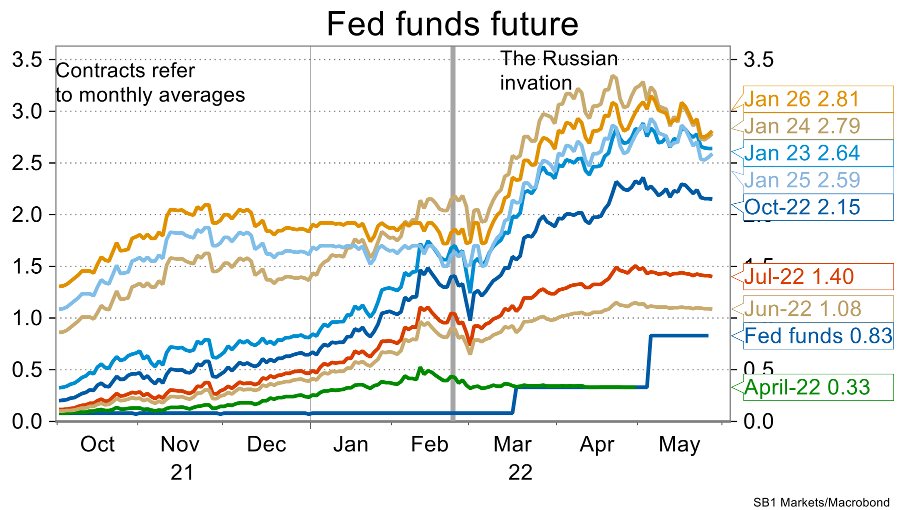
... But not by a wide margin. Higher interest rates will soon dampen activity?

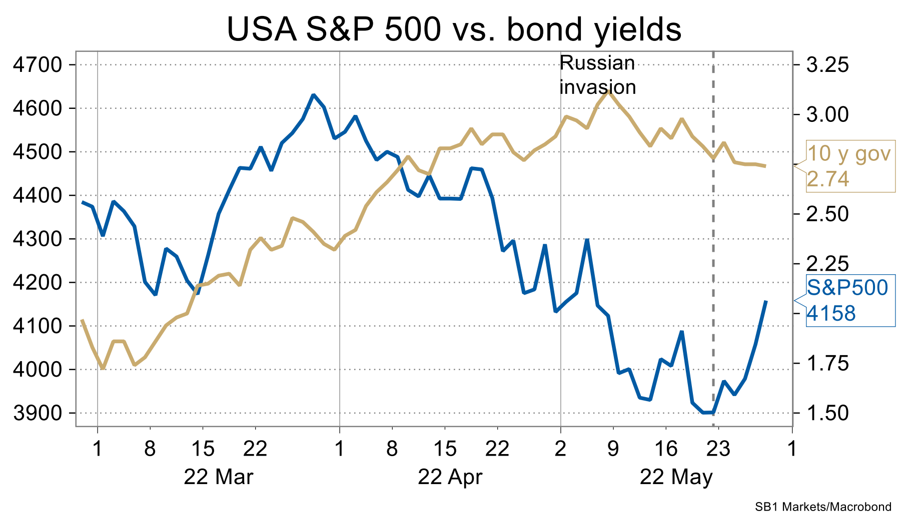




A hawkish stance was confirmed – but not worse than markets feared

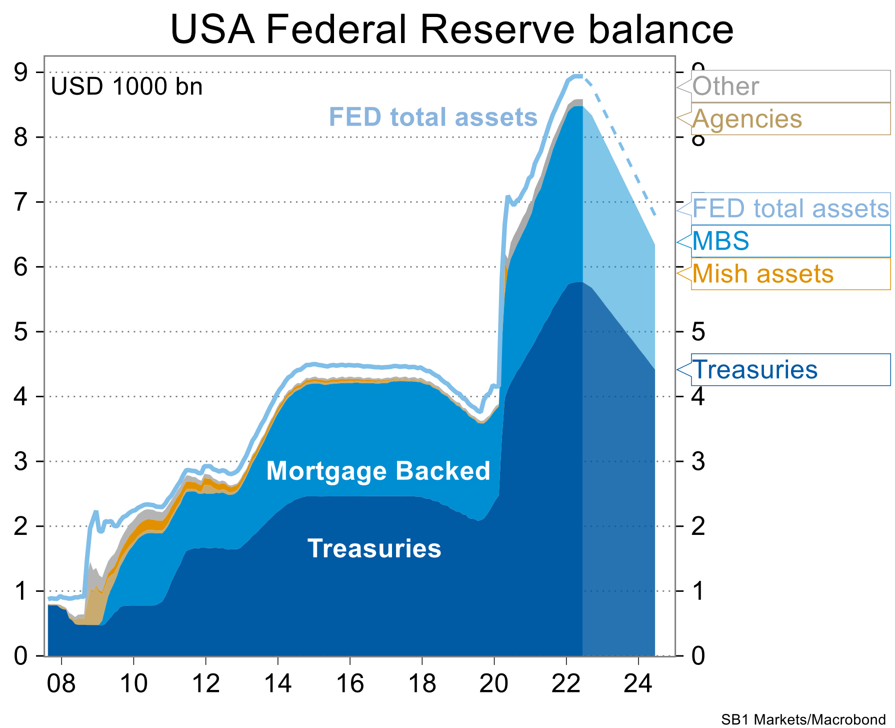
Sure, the FOMC has not decided what to do with the Fed funds rate after the next 2 x 50 bps hikes





- All FOMC members agreed that the Committee should expeditiously move the stance of monetary policy toward a neutral posture, through both increases in the target range for the federal funds rate and reductions in the size of the Federal Reserve's balance sheet. Most members judged that 50 bps increase in the target rate the next couple of meetings – which was well communicated by Powell at the press conference after the meeting.
- The FOMC members also noted that a restrictive stance of policy may well become appropriate depending on the evolving economic outlook and the risks to the outlook
- However, several participants commented on the challenges that monetary policy faced in restoring price stability while also maintaining strong labor market conditions – a dovish message
- In addition, last week a FOMC member (Bullard) noted that a cut next year could not be ruled out (which of course never can)
- The FOMC pins its hope for a soft landing on the possibility for reducing the record high level of vacancies – in order to bring wage inflation down – without pushing unemployment on the fact that the vacancy rate is much higher than normal vs. the unemployment rate. Sure, in theory it could be possible, but we have our doubts
- Fed fund future rates fell sharply on Wednesday, by up to 17 bps. The rest of the curve did not blink that much. Equity markets continued straight upwards!
- Since late April, Fed funds future contracts have fallen by up to 55 bps, from 2.80% at the peak

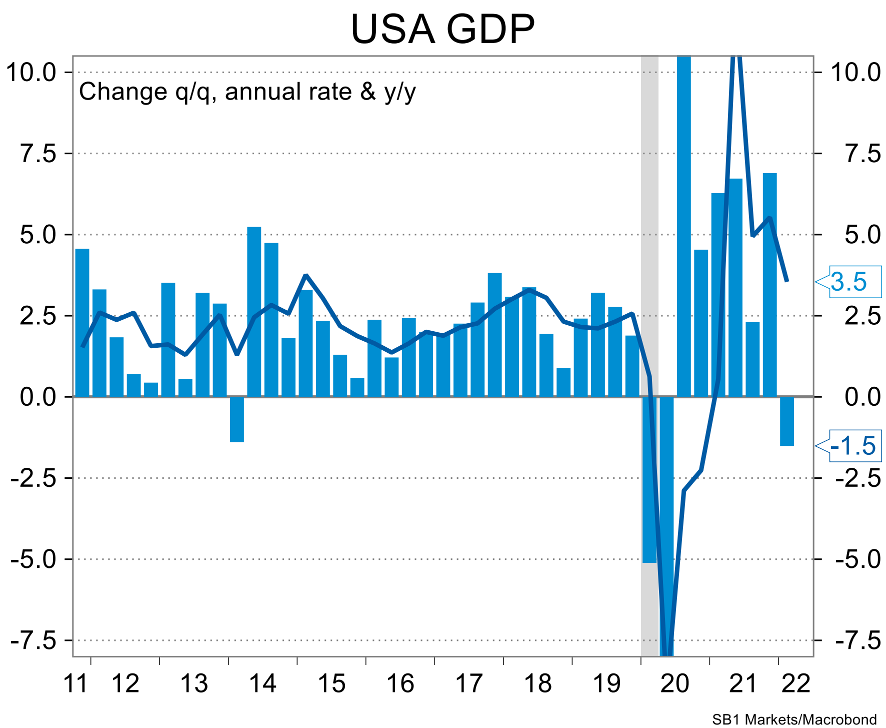
The balance sheet: The (open ended) plan

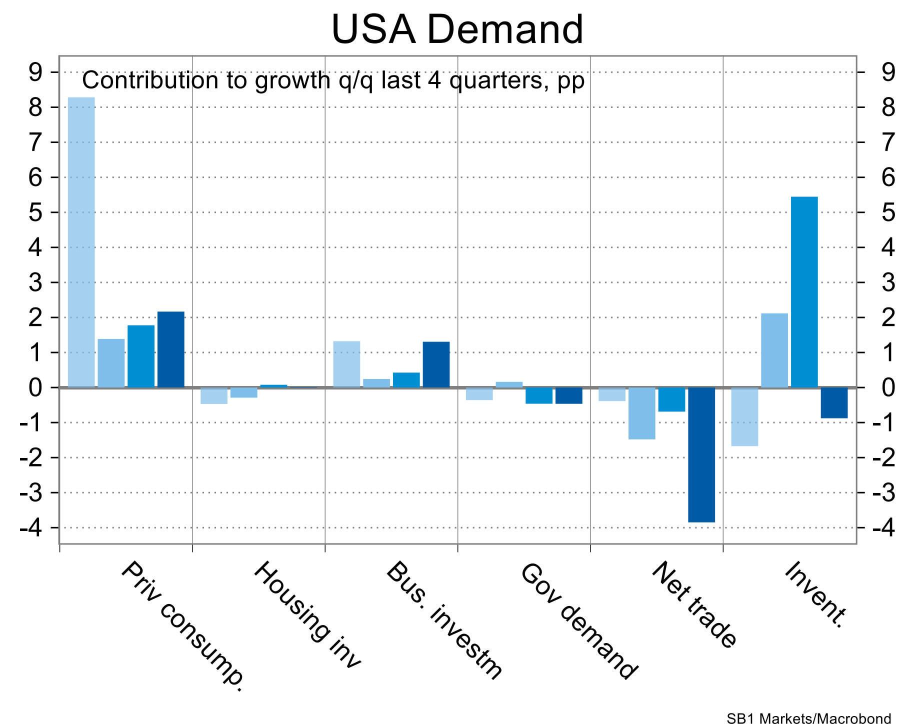


- The balance sheet reduction should take place from June. The stock of treasuries will be reduced by up to USD 30 bn/month the first 3 months, and then USD 60 bn/month. The stock of mortgage-backed bonds will be reduced by up to USD 17.5 bn/m, and after 3 months by up to USD 35 bn/month.
  - The indicated QT speed is at least twice as fast as during QT in 2018/19

GDP revised down 0.1 pp to -1.5%, expected up to -1.3%. Profits fell sharply

Just small revisions; business investments rose less, inventories contributed more on the downside

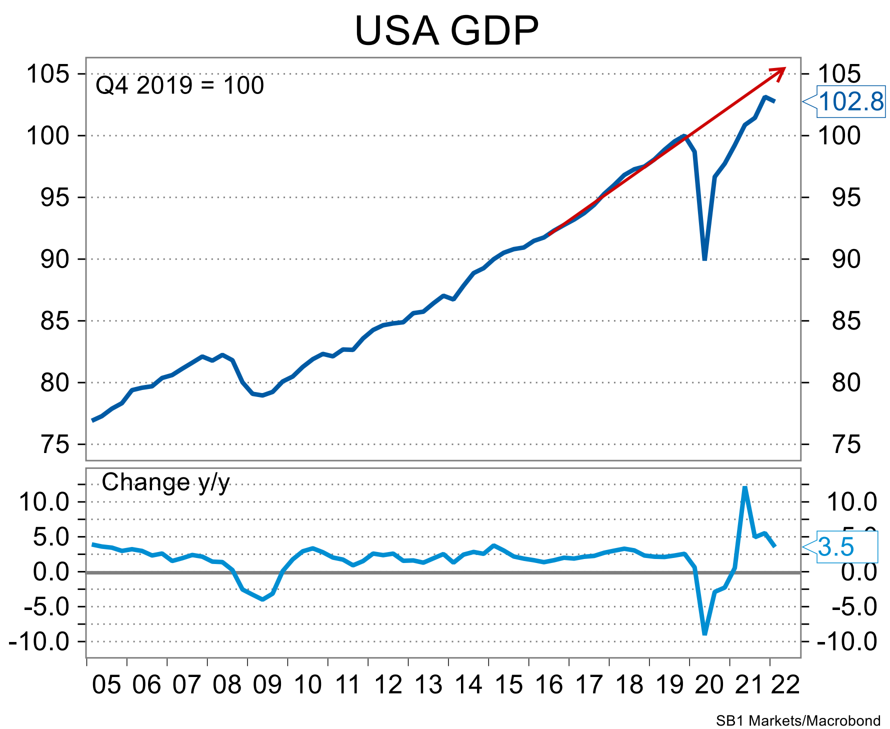


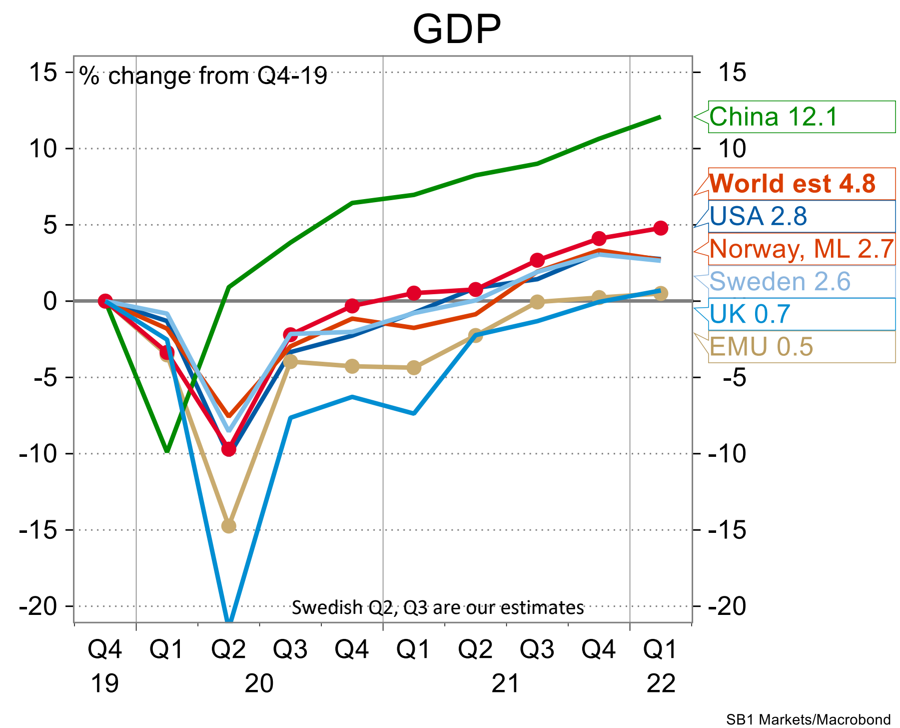


- **The initial report** was much weaker than expected. Domestic demand rose faster than in Q4 but internet trade and inventories both contributed on the downside, and domestic production fell. The main picture is unchanged in the first revision
- **Corporate profits** fell by 5% in Q1, in spite of the 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

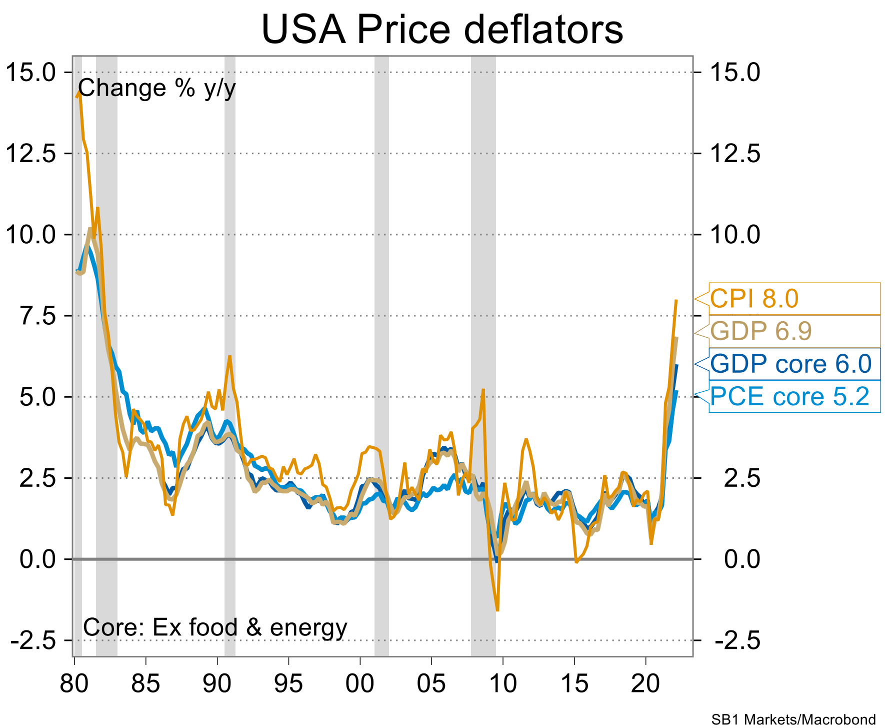
Most likely, GDP will grow again in Q2, we do not expect that domestic demand will contract (now)

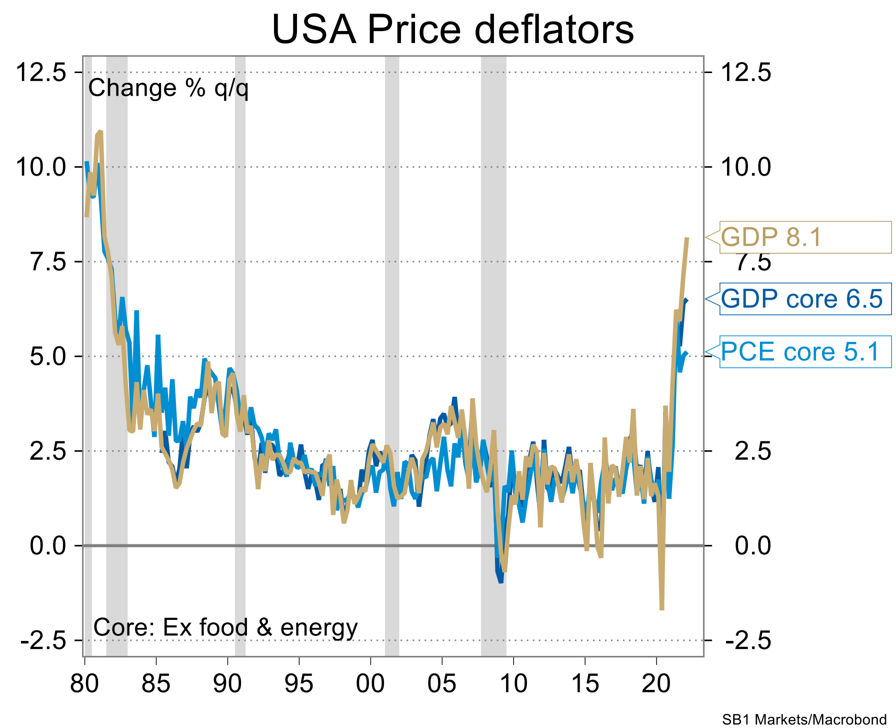




Price increases accelerated in Q1 – and we are at levels not seen in decades

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

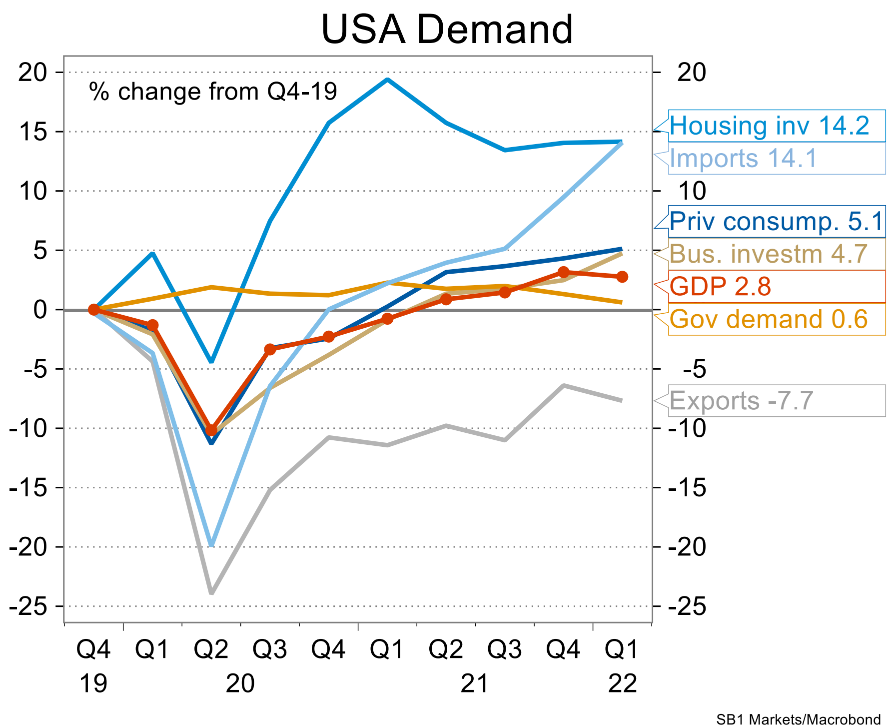


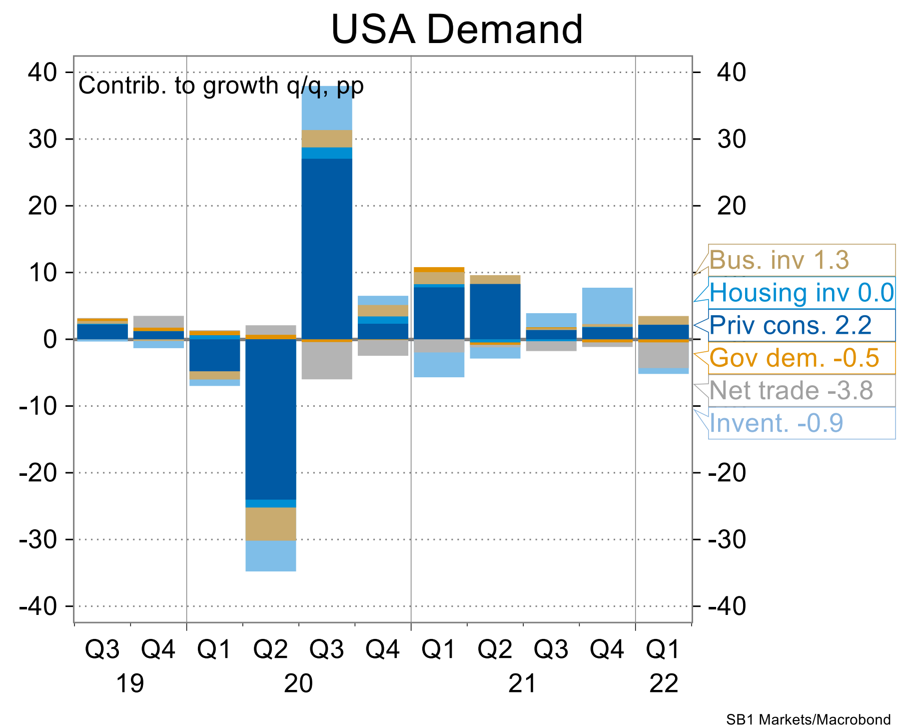


- Higher energy prices to blame for the steep rise in prices but other prices also contributed to the lift in the GDP deflator at 8% in Q1 (q/q, the annual rate is 6.8%). The growth rate is the highest since early 80s
- The core (x energy, food) PCE deflator (Fed's preferred measure) is up 5.2% in Q1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

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

The inventory contribution turned negative

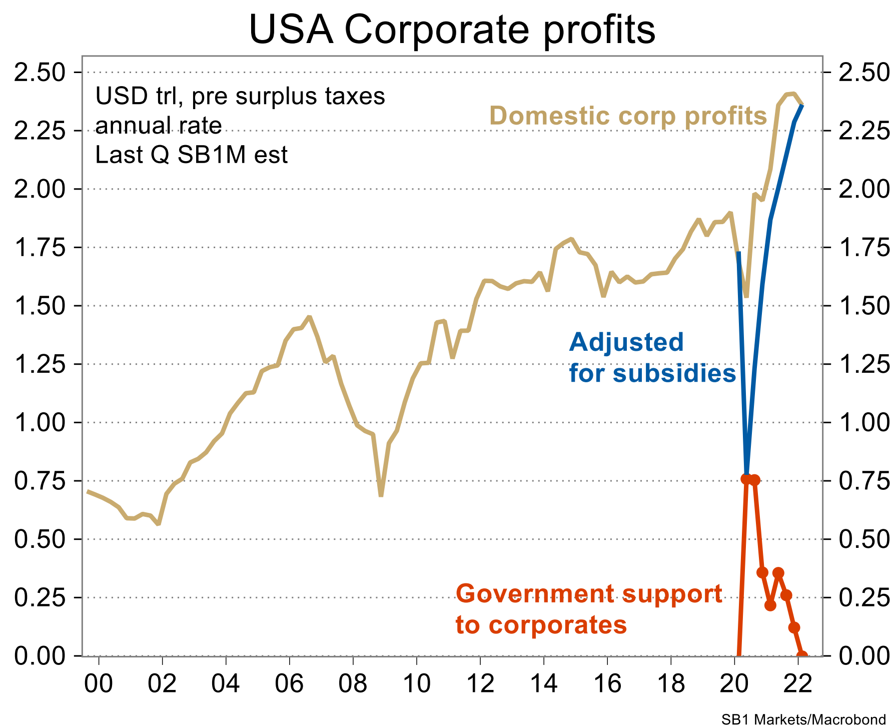


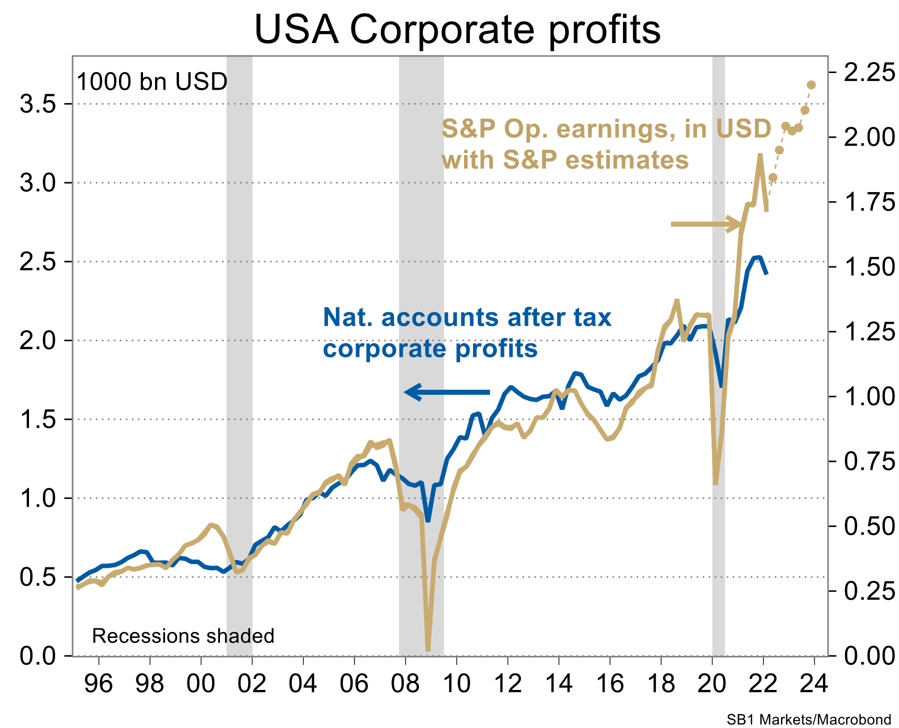


- Imports of consumer goods explained 2/3 of the surge in total imports in Q1, investment goods the rest

Corporate profits fell 4% in Q1, as the government closed its coffers

No more subsidies but 'real' profits rose further

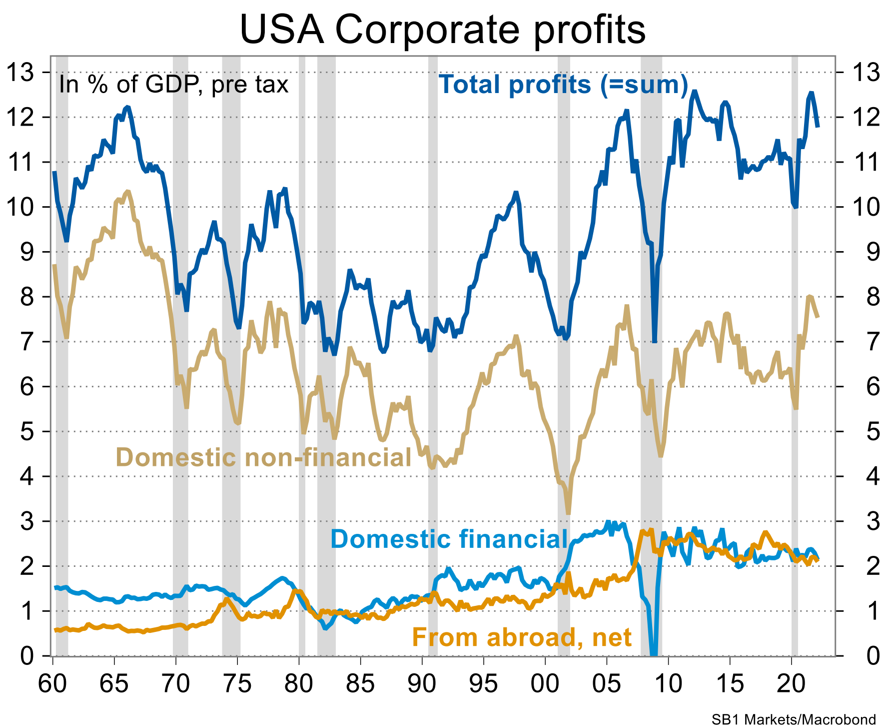


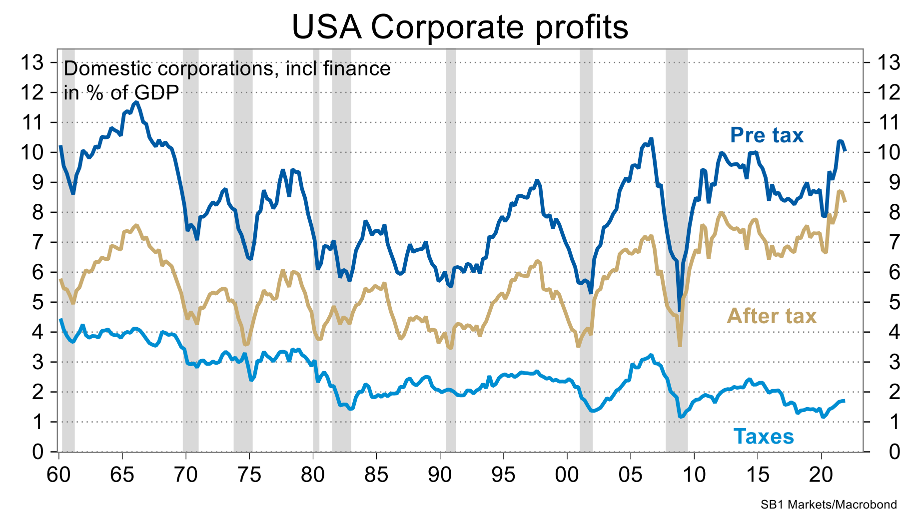


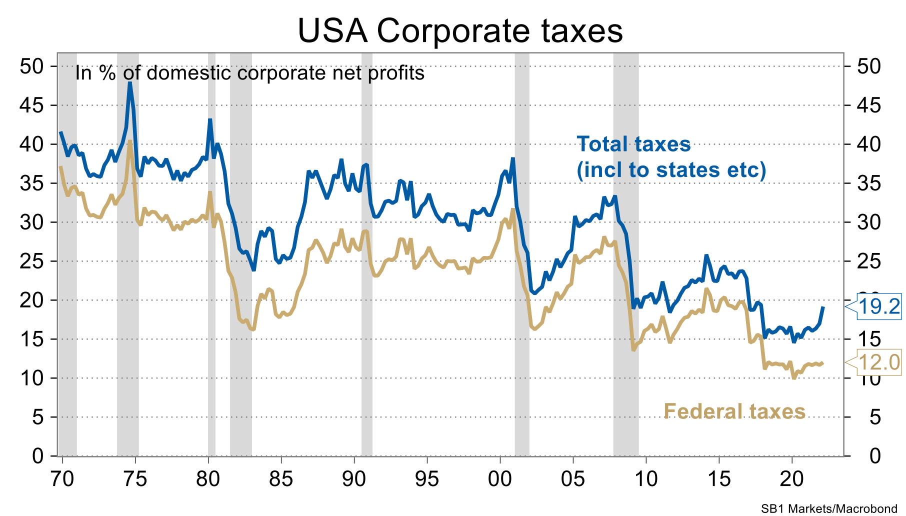
- **Pre-tax profits** fell close to our initial estimate, and the decline was just due to the end of government support programs. Ordinary taxes on the surplus were higher than we assumed
- The **S&P** estimate a 10% q/q decline S&P 500 profits in Q1 (our seasonal adj). Of course, thereafter profits will grow rapidly, forever. S&P profits are still way above National Account's estimated profits for the total corporate sector
- We think the **profit outlook** is bleak. 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. Demand for goods and services will have to be slowed down in order to get margins down – and demand for labour must reduced substantially in order to get wage inflation in check. The analysts are finally starting to revise their optimistic forecasts, check 3 pages forward

Profit rates soared to very high/record levels – but may have peaked in Q3/Q4

The total pre-tax profit share at 11.8% of GDP is still among the best results ever



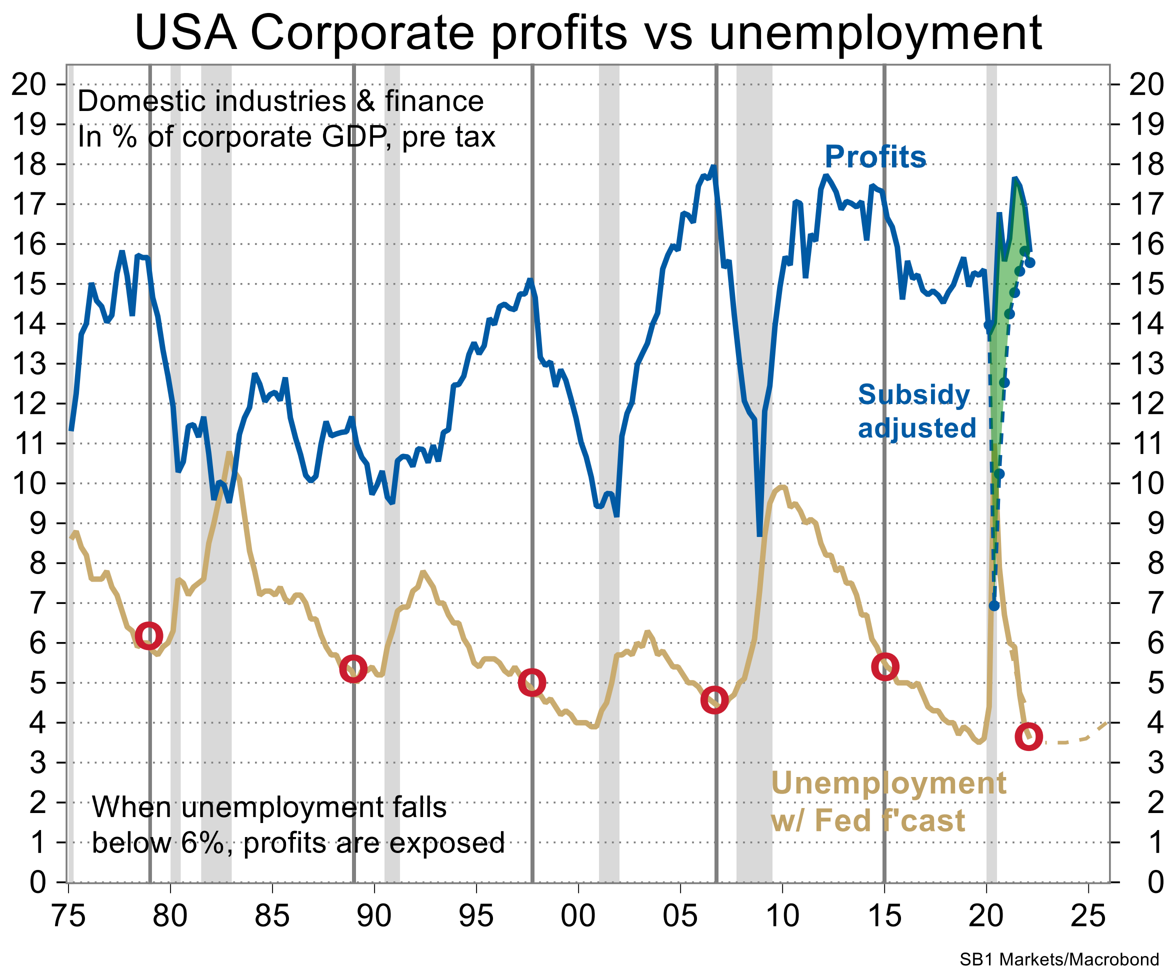




- The domestic corporate profit rate is still close to the highest since late 1960s
- The after-tax profit rates are even closer to all time high, as corporate taxes have been cut several times. The effective tax rate rose somewhat in Q4 and Q1

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



- 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
- The Federal Reserve (normally with a helping hand from markets) will have to tighten financial conditions sufficiently to dampen demand for goods and services and labour. Margins and wages will have to yield, in order to get inflation down
- <u>Thus, it is quite likely that the profit share is headed downwards from here</u>

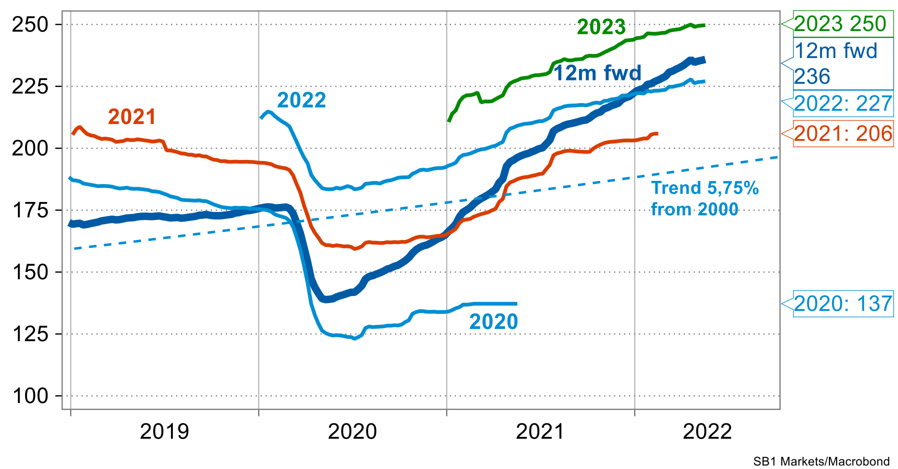
All data are not yet published, and the Q1 numbers are just our estimate

SpareBank 1 MARKETS

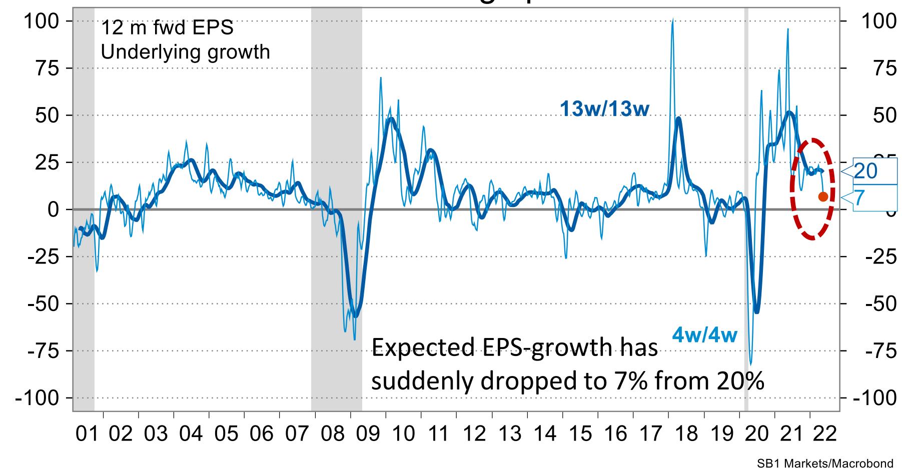
Finally, analysts have started to recognise that The Times They Are A-Changin'

Earnings growth is now being revised sharply down – and more to come. Watch out for the ISM ☺

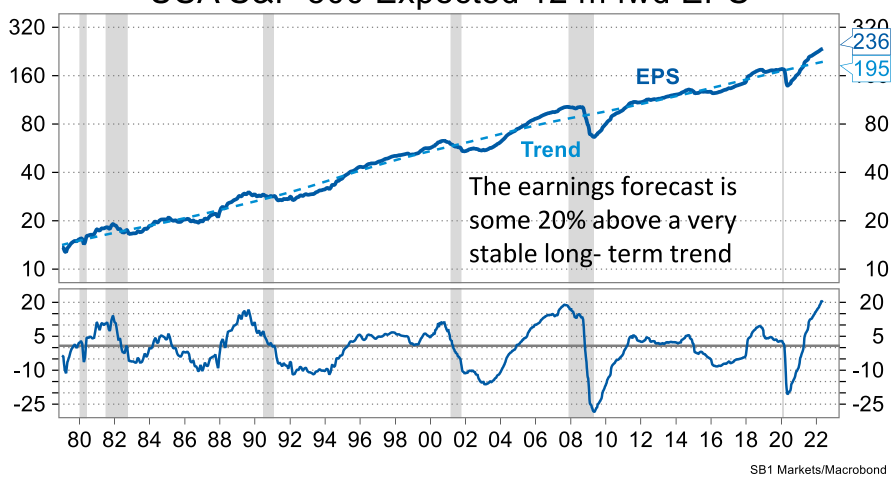
Annual S&P 500 EPS consensus (Factset)



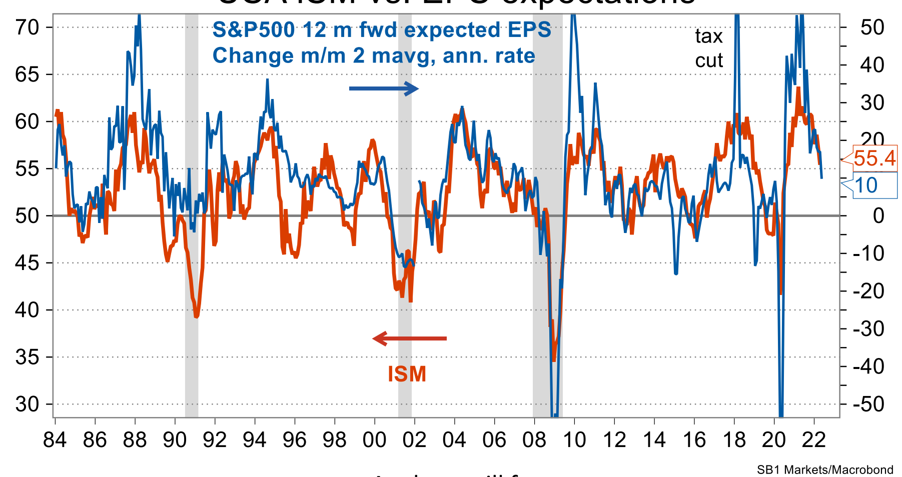
S&P500 Earnings per share



USA S&P 500 Expected 12 m fwd EPS



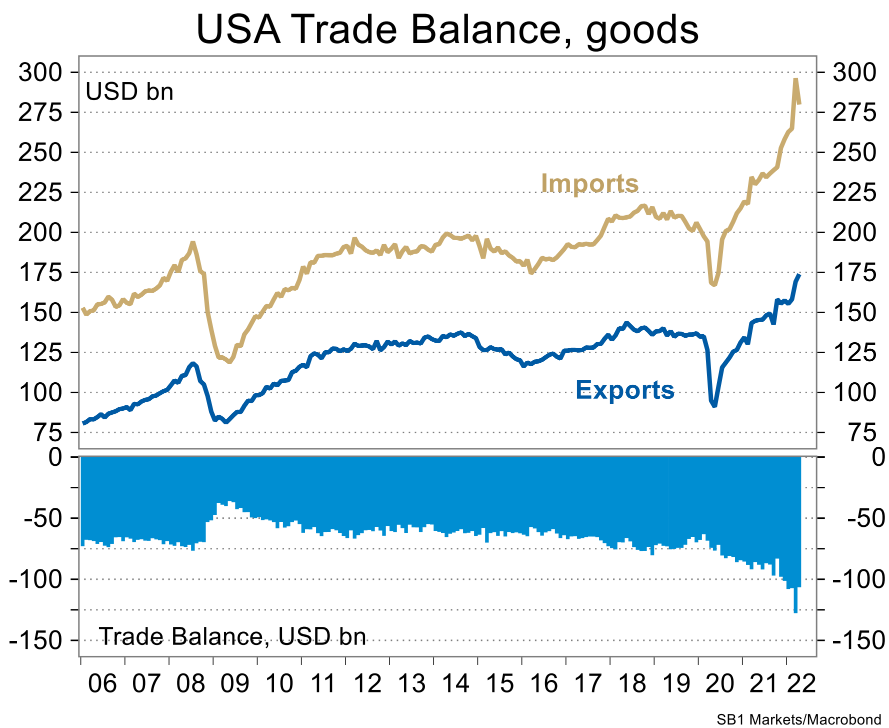
USA ISM vs. EPS expectations

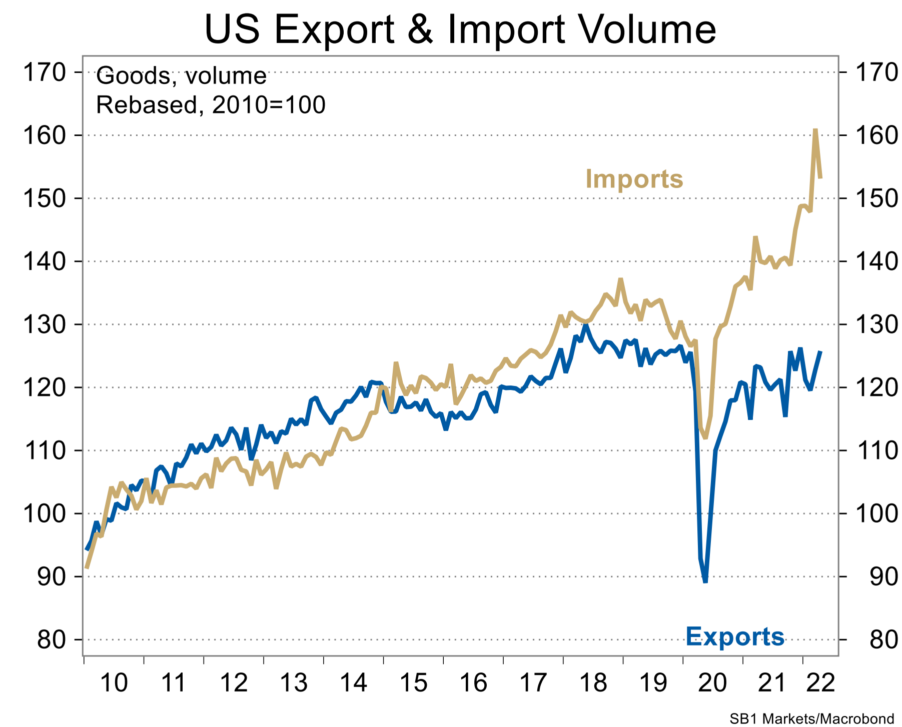


Analysts will forecast a declining EPS when the ISM falls below the 50 line

A ‘normal’ trade deficit in April: Trade may support growth in Q2

… following the huge (3.8 pp) negative drag to GDP growth in Q1, when imports exploded

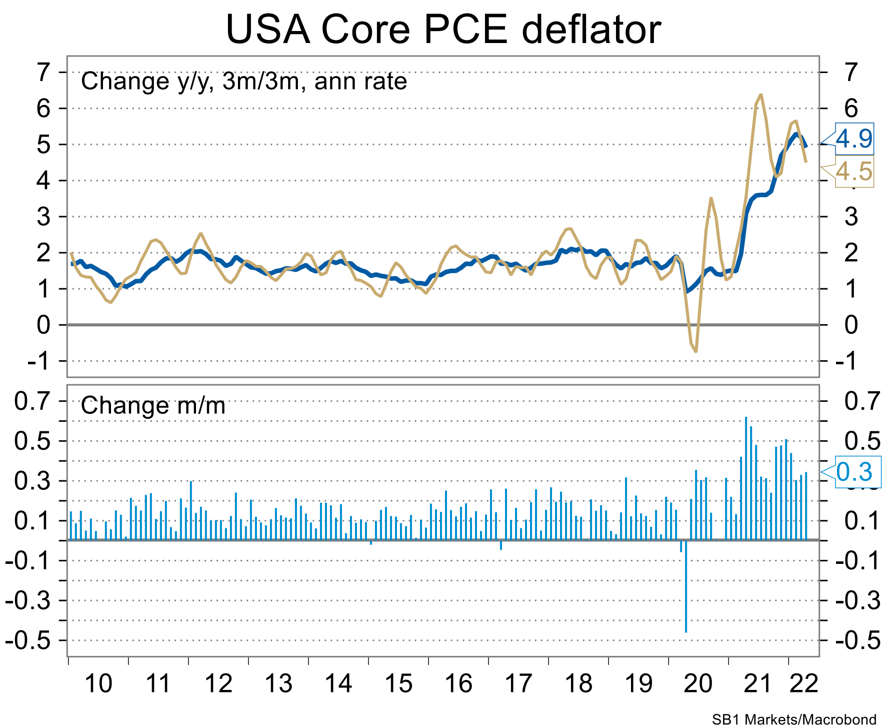


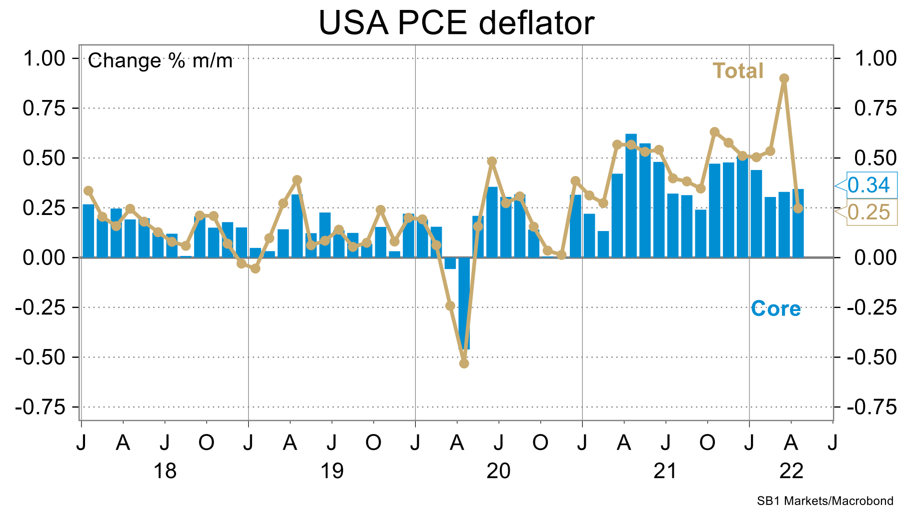


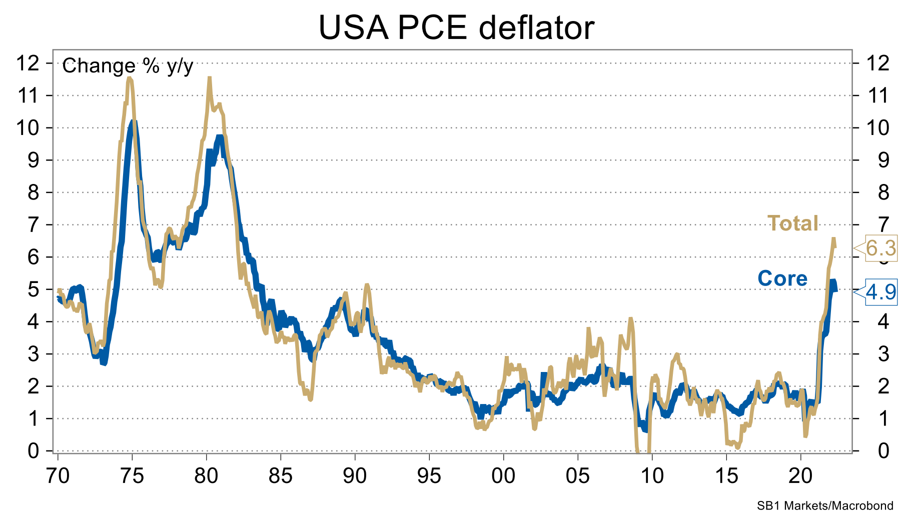
- **In April, imports** fell both in nominal and real terms, and **exports** rose. The nominal **trade deficit** returned to the Jan/Feb level – which was a record high level until then (also in volume terms)

Peak inflation. But still far too high

The annal core PCE declined 0.3 pp to 4.9%, as expected. The headline also down 0.3 pp, to 6.3%

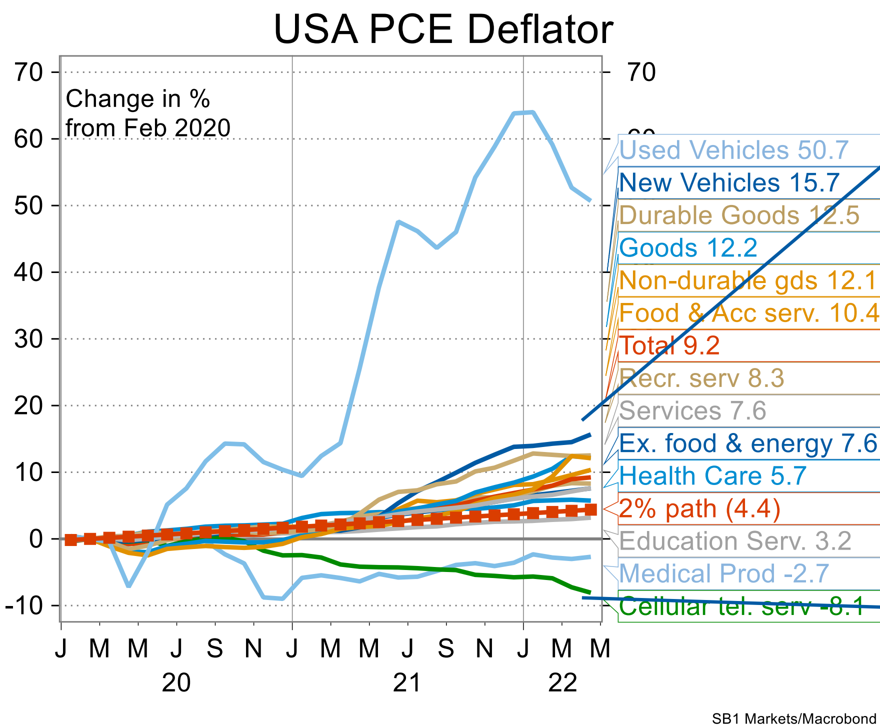


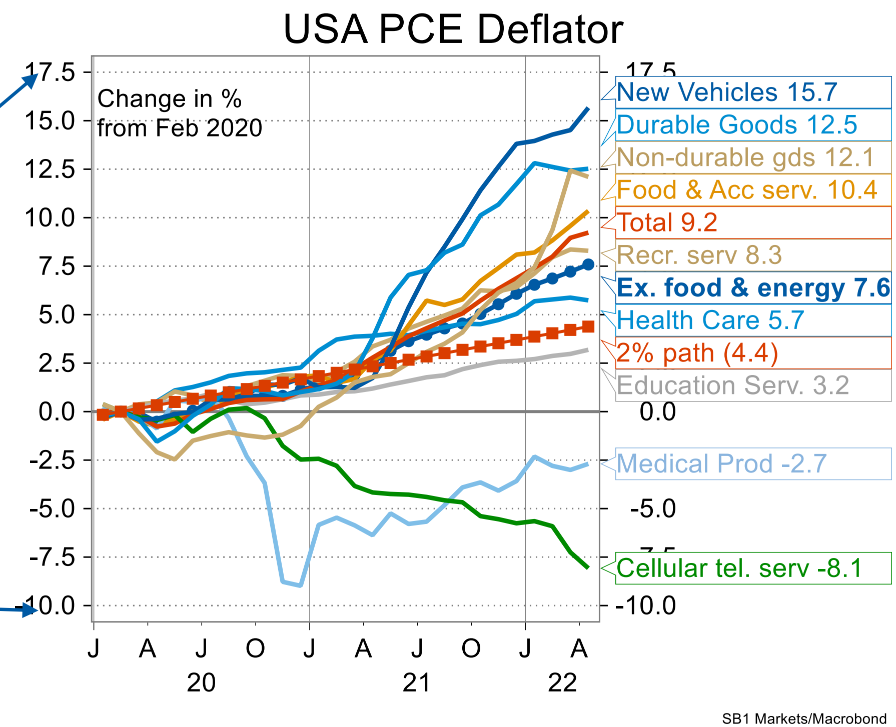




- **The total PCE deflator** rose by just 0.2% in April (0.247%), expected 0.3%, and the annual rate retreated as expected
- **The core PCE** rose by 0.3% (0.344) m/m, and the annual rate fell below 5%. The underlying 3m/3m rate fell to 4.5%, from above 5%
- **The price level** is ways above Fed's 2% long term path target, and April data did not really reduce the pressure on the FOMC to act. Anyway, the real problem is too high wage inflation

Used auto prices further down – and some other prices are growing slower

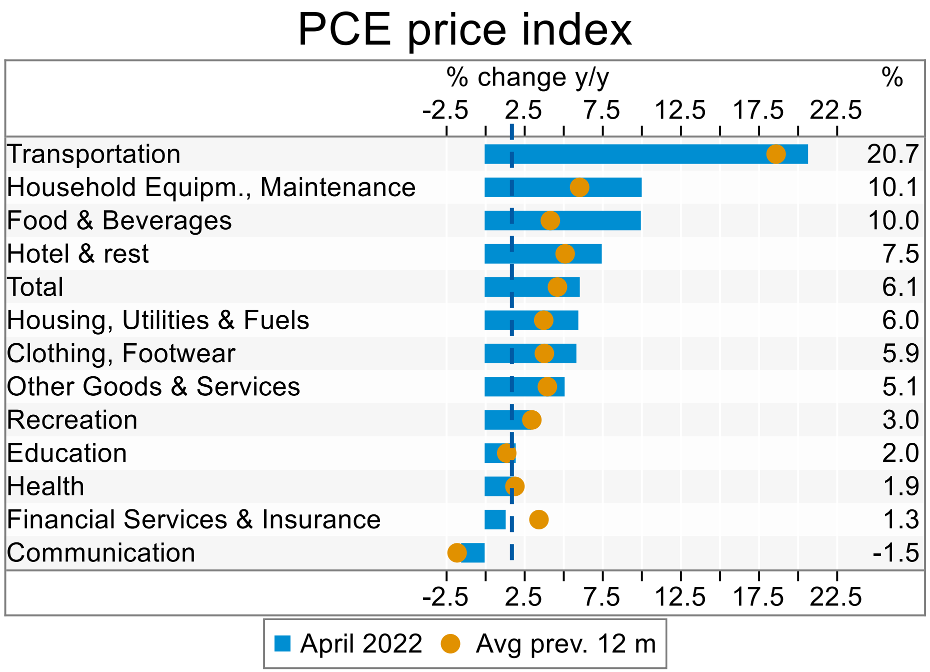




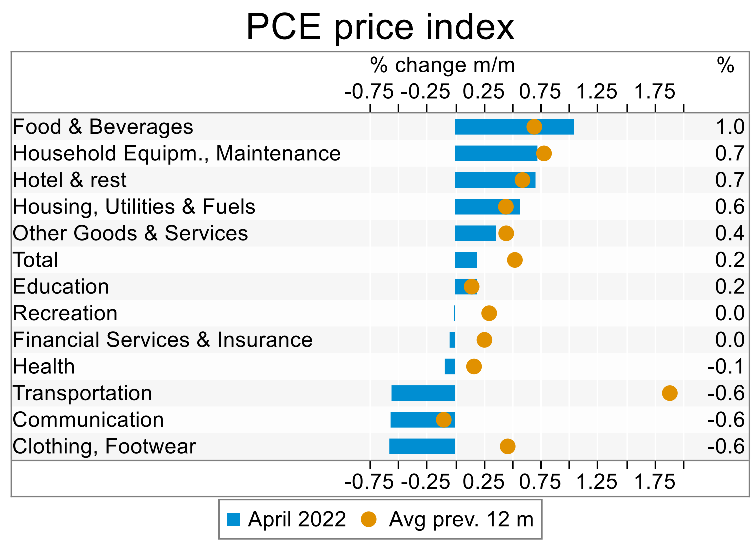
- **Hotel & restaurant prices** are up 9.6% since Feb-20 (>4.5% per year)

PCE by main sectors: All but 3 sectors report >2% annual growth

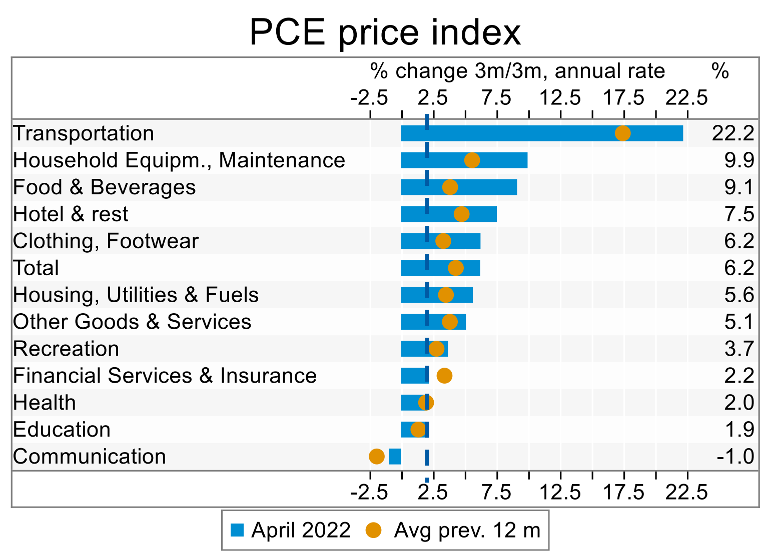
… and all but 3 are up more than 2% measured 3m/3m, the total is up 6.2%



SB1 Markets/Macrobond



SB1 Markets/Macrobond

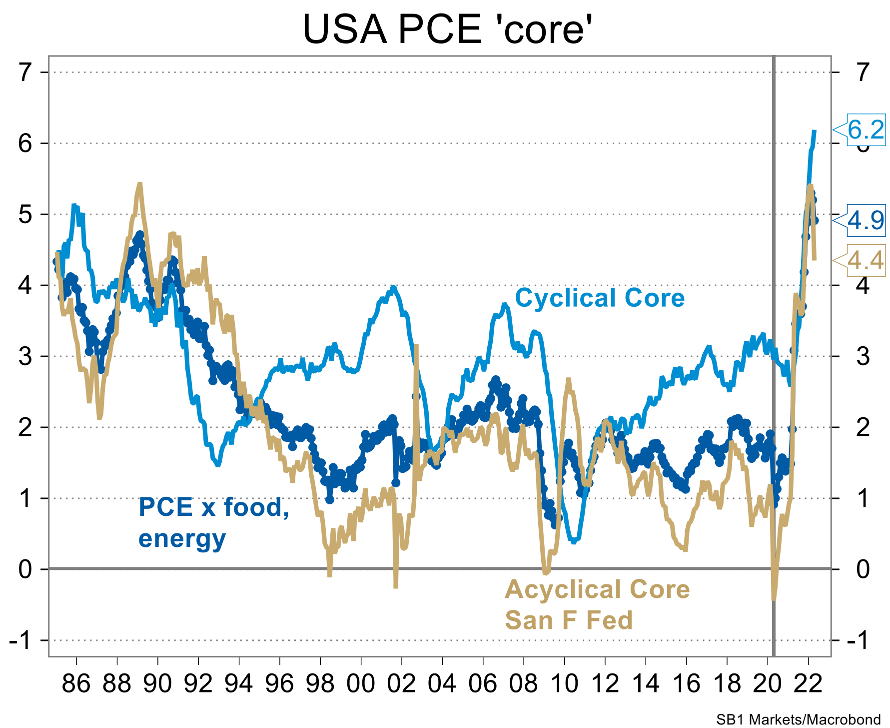


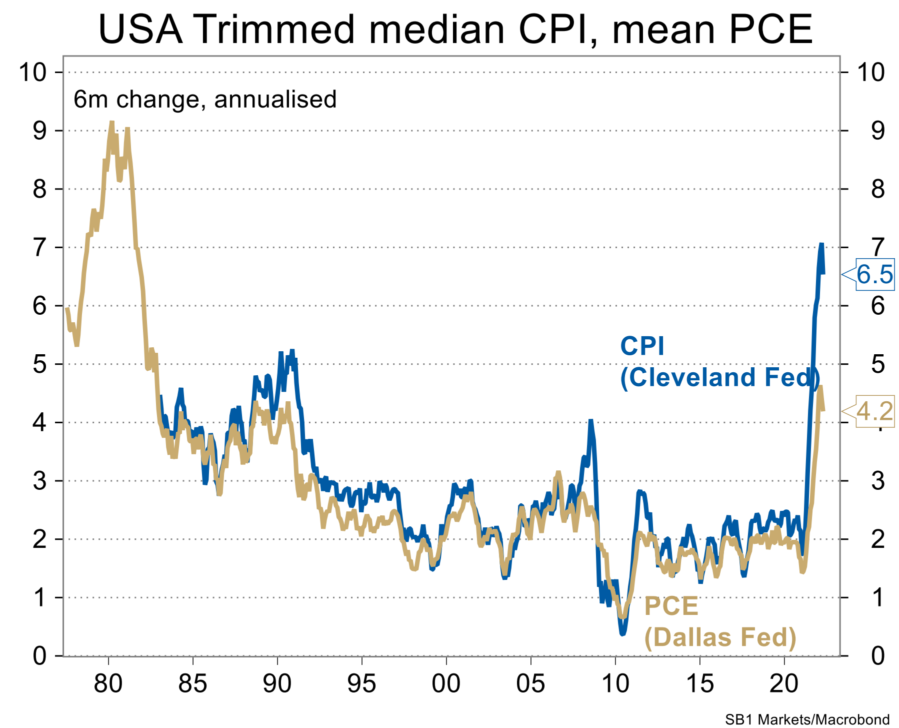
SB1 Markets/Macrobond

- Food prices are up 10% y/y!!
- The momentum is still strong, almost sectors report accelerating price growth (the 3m/3m is above the annual rate)

Inflation may be peaking but remains extremely high – broad based

However, all ‘underlying’ measures of inflation are at levels we have not seen in decades

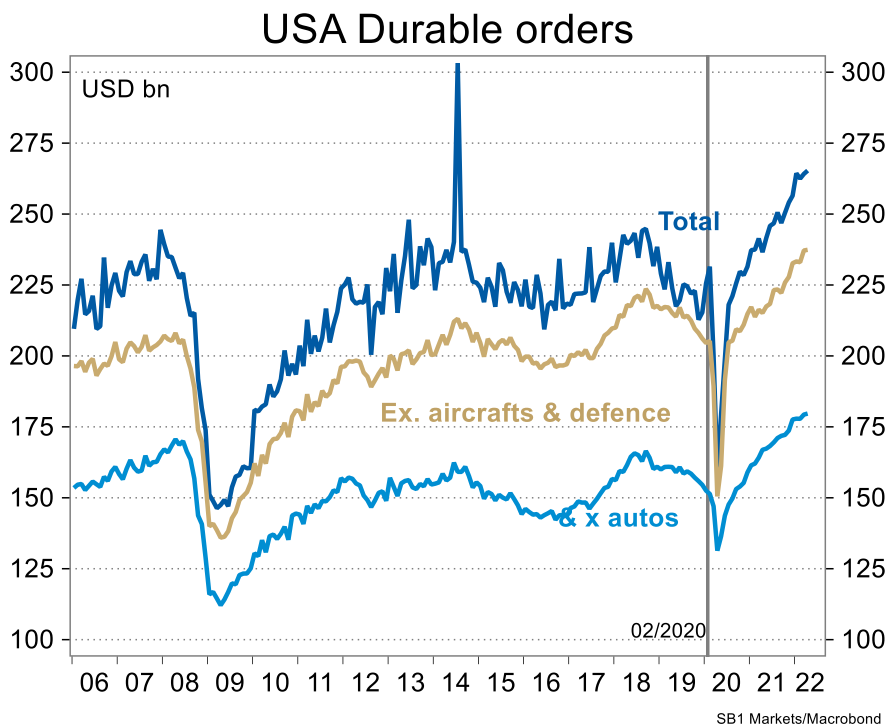


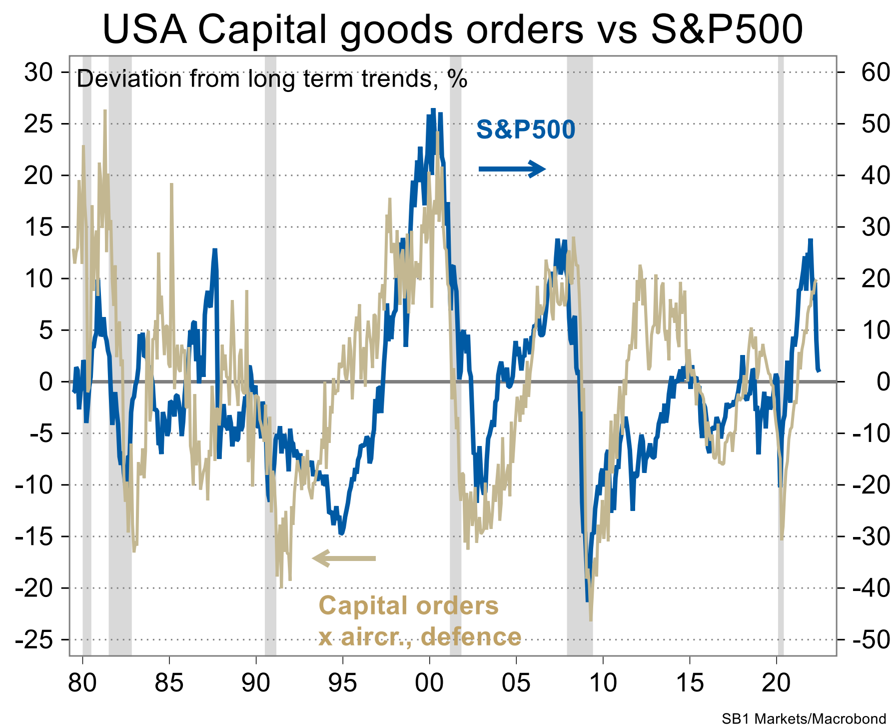


- The **trimmed PCE mean** (Dallas Fed) subtracted 0.2 pp to a 4.2% pace over the past 6 months
- **The trimmed median CPI (Cleveland Fed)** is up 6.5% over 6 months, down from the peak at 7%
- **Core cyclical and acyclical PCE** prices are up 4.4% – 6.2%, and the cyclicals are still on the way up
- Other measures of underlying inflation are also at the highest levels in 30 – 40 years

Durable orders up in April – though from a downward revised level

Without a downturn in orders, no further down downturn at Wall Street?

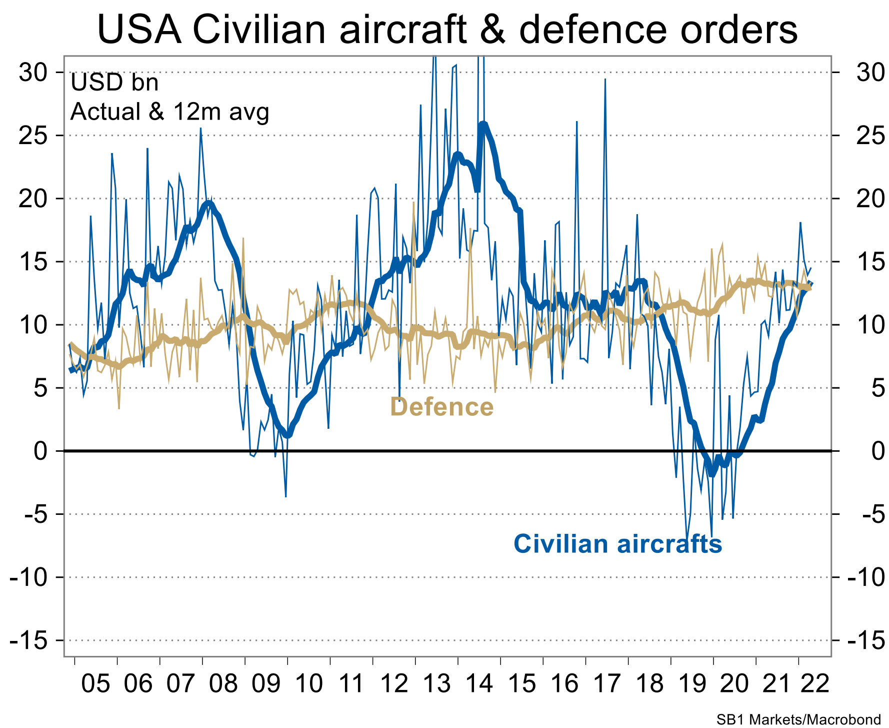


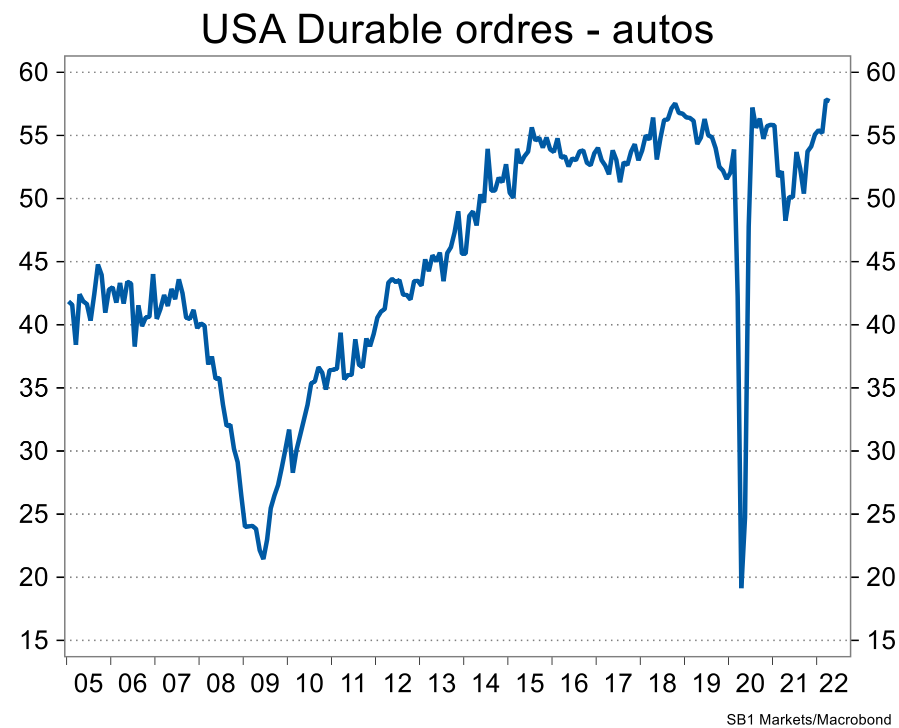


- **Total durable** orders rose 0.6% in April, 0.2pp less than expected, and March was revised down by 0.5 pp to 0.6%
- Both the volatile aircraft & defence orders declined, and ex these two components, the 'core' gained 1.6%
- **Core <u>investment</u> goods orders** grew 1%. The trend is still straight upwards, at a descent pace
- **Order inflow** has been revised sharply down the past two years (by the current level by some 10%!!) but the pattern remains intact and orders are anyway well above pre-pandemic levels. Orders are now better aligned with production data
- Has the stock market met trouble halfway this time? The stock marked has yielded even if orders have not

Aircraft & defence orders at normal levels

… while auto orders rose a tad further – and they are at ATH. In spite of component shortages



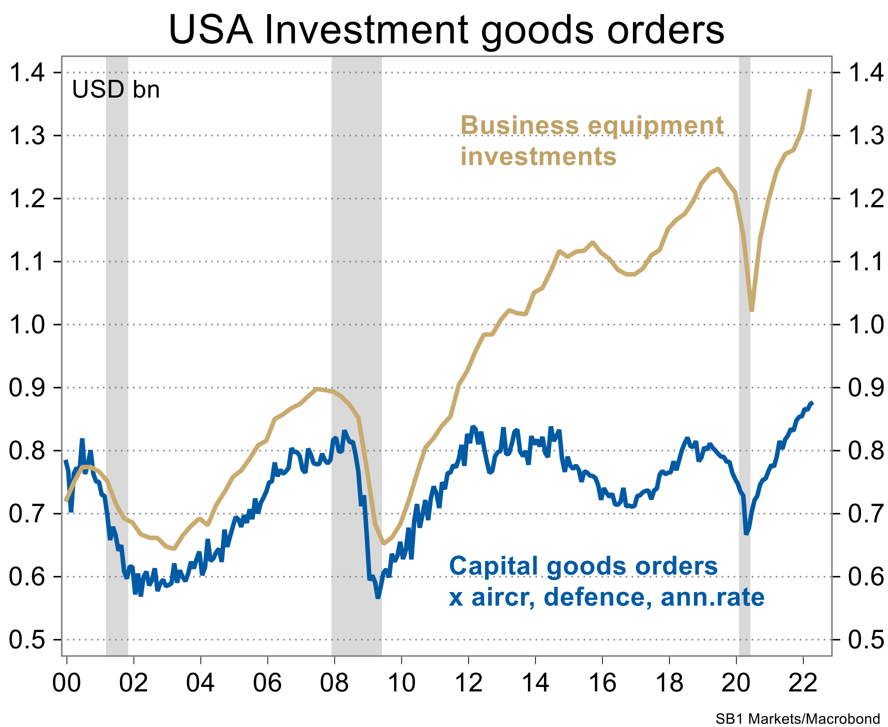


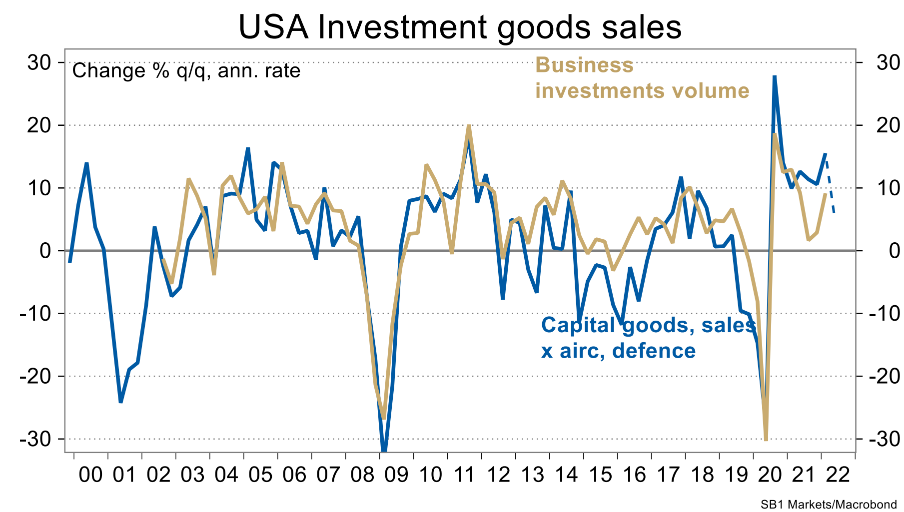
- Aircraft orders have been heavily revised down <u>before</u> the pandemic and to levels <u>not so deep down during</u> the pandemic

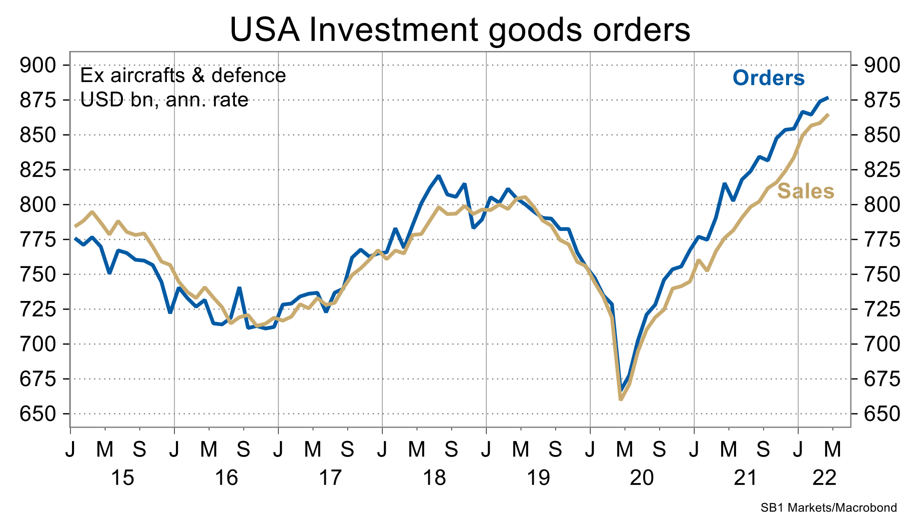
SpareBank 1 MARKETS

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

Signal slowing growth in business investments into Q2

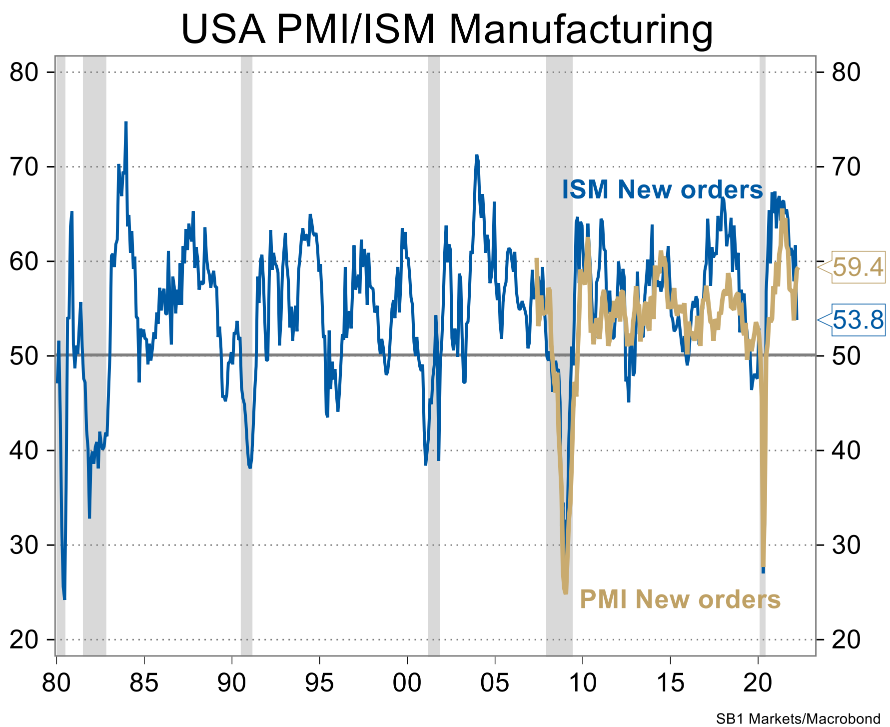


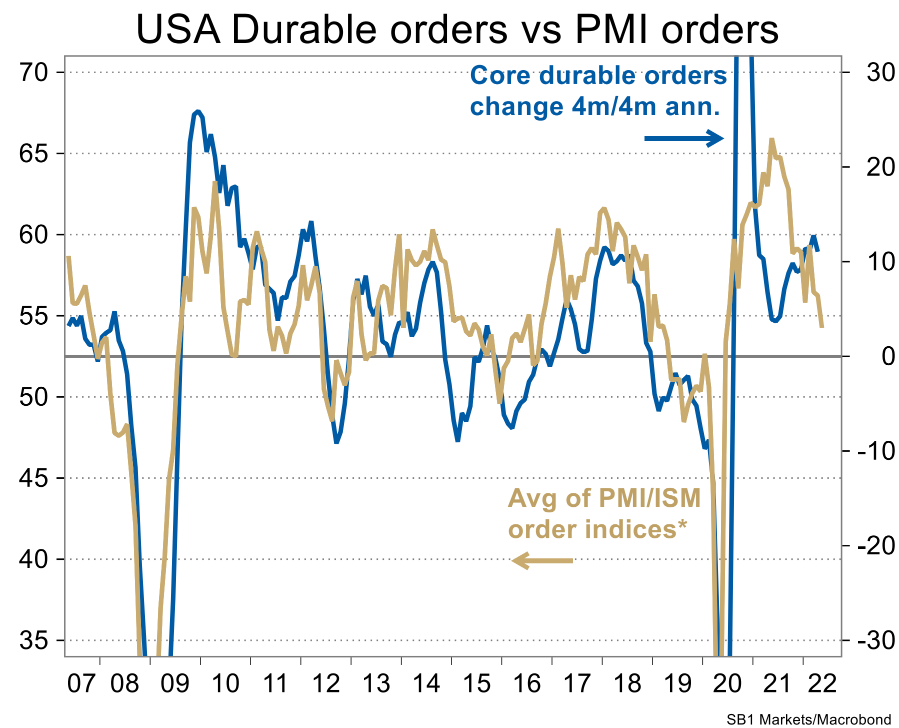




- **Core (x aircraft, defence) capital goods orders** added 0.3% in April. Shipments were up 0.8% m/m
  - » Still growth in both orders and shipments are slowing, so will growth in business investments too
- **The business investment** level is well above the pre-pandemic level – and not at all low vs. a reasonable long term trend (but rather well above)

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

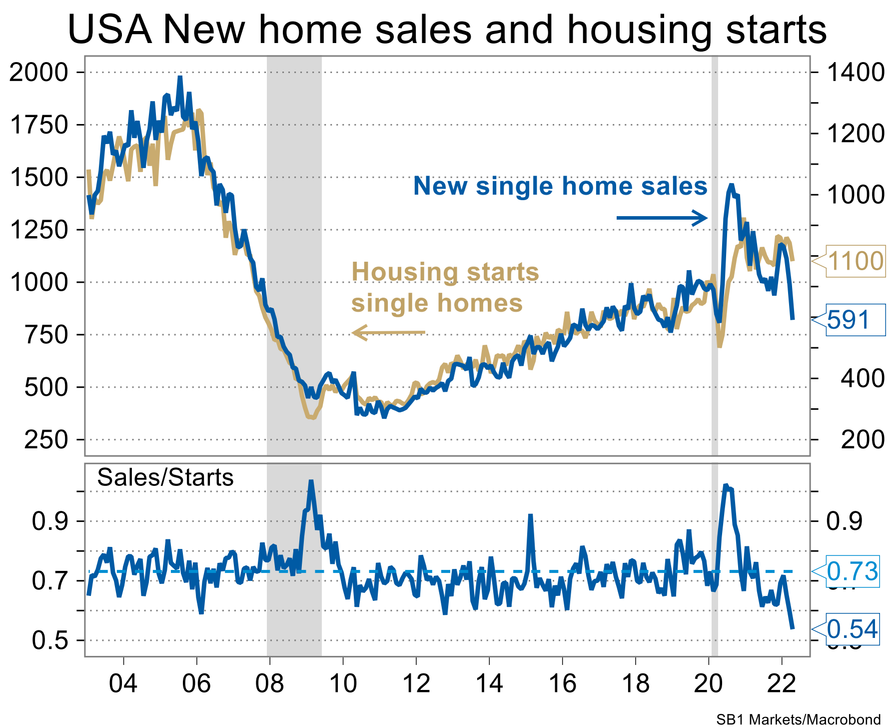


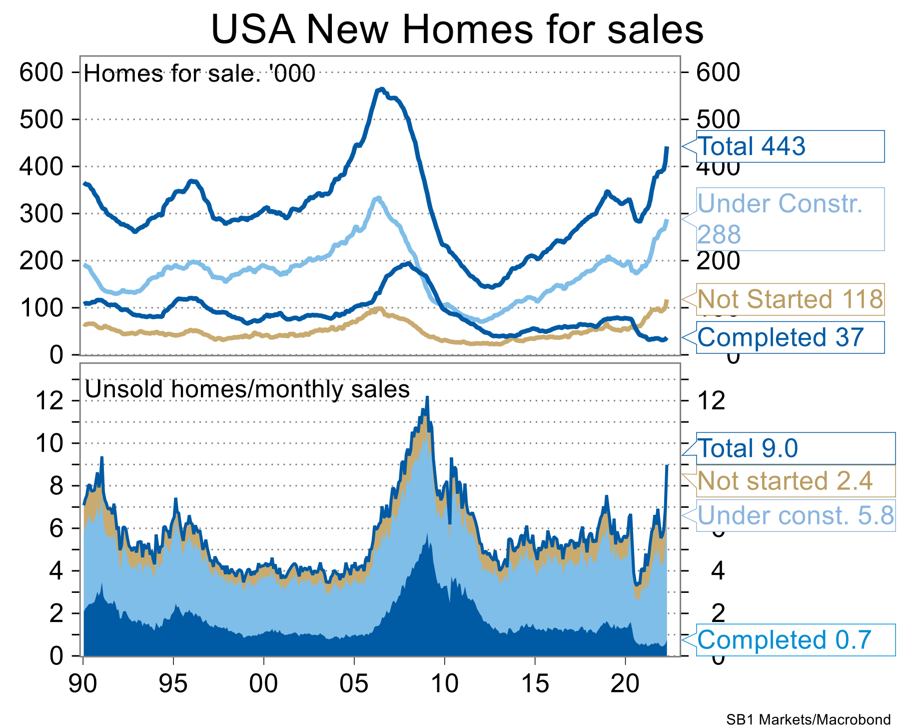


* The ISM order index is

Suddenly, new homes sales fell off the cliff, inventory straight up – and it's high!

Prices rose, but data are volatile. The decline is quite likely due to large increase in mortgage rates

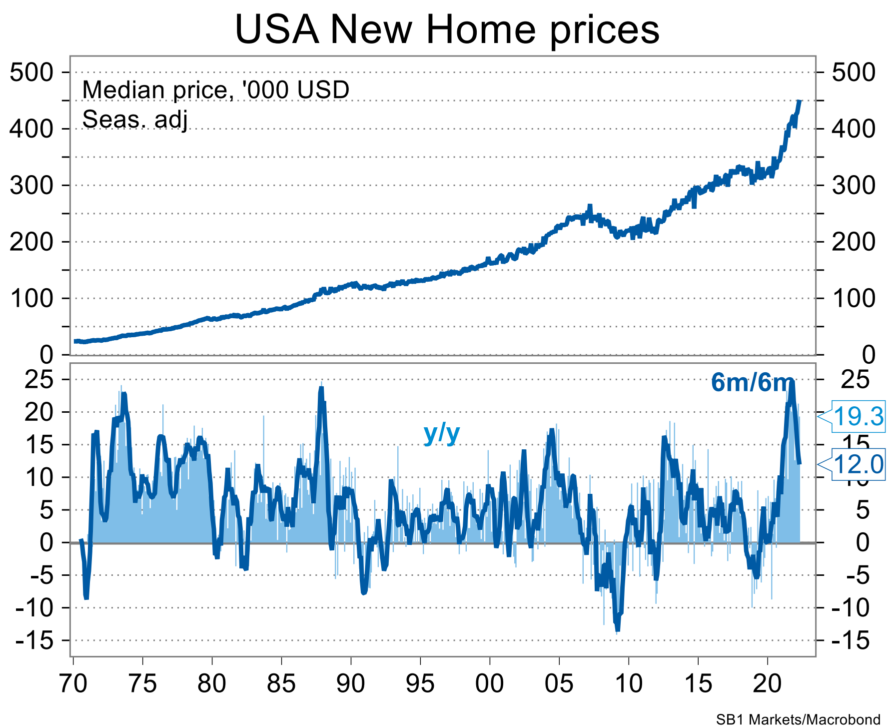


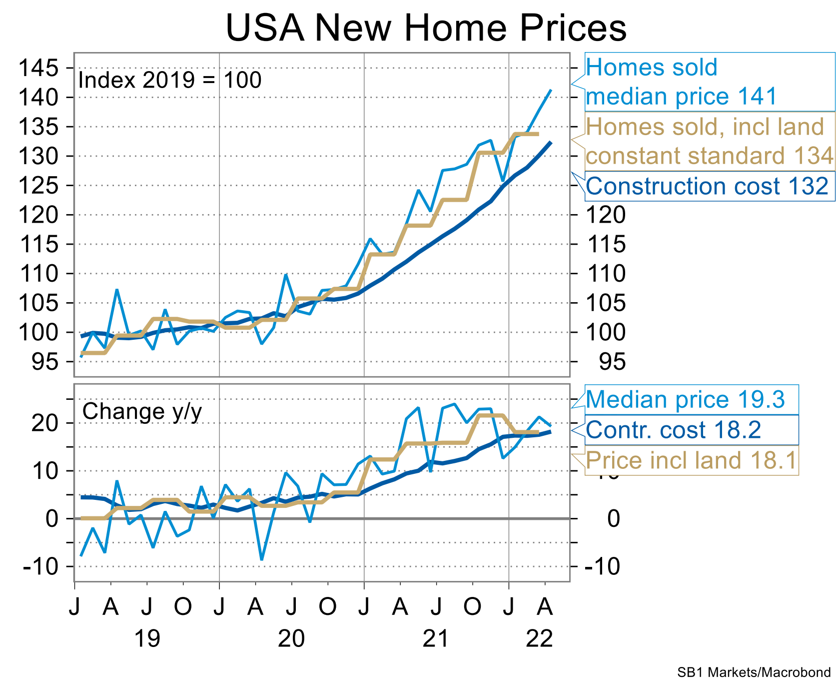


- **New single home sales** fell 17% m/m to 591' – from a 7% downward level in March (709'). Sales were expected down 2% to 750'. A substantial deviation! Sales are down 30% from January, and 43% from the local peak in August 2020, when the housing market exploded
- **The inventory of unsold homes** is climbing rapidly, to 433' units, up from below 300' in Aug-20. Measured in month's of sales, inventories are up to 9 months, from 3 at the bottom. Most of the inventory is 'for real', either completed homes or under construction (and these homes will be completed) – as the supply side responded to the strong increase in demand
- Why this abrupt setback? Very likely the sharp lift in mortgage rate the recent weeks/months, check the following pages too

New home prices up again and 19% y/y but underlying growth may have slowed

The new home median prices are volatile but anyway no sign of weakness. Construction costs up 18%

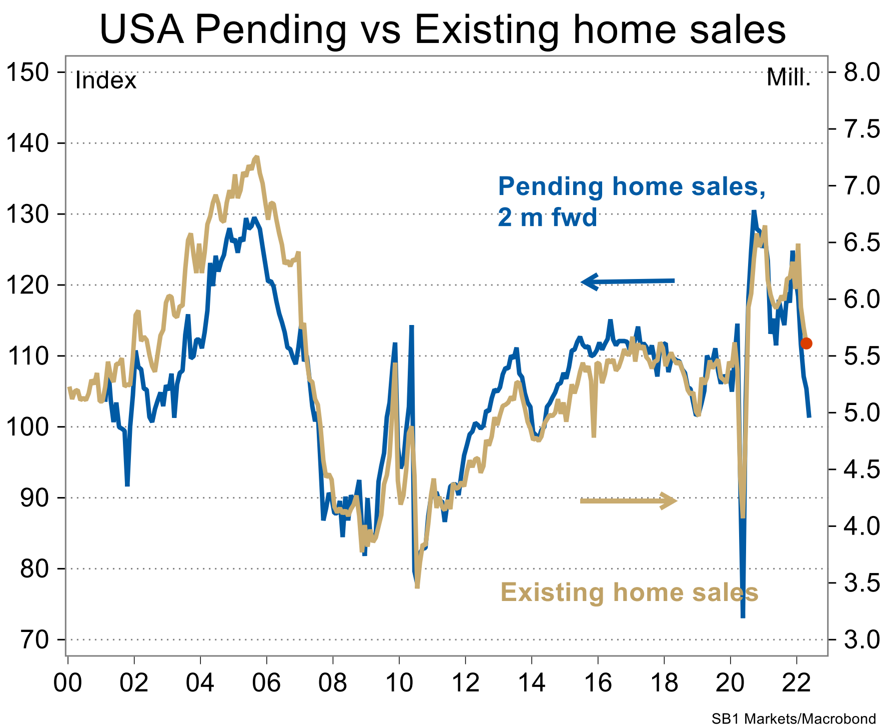


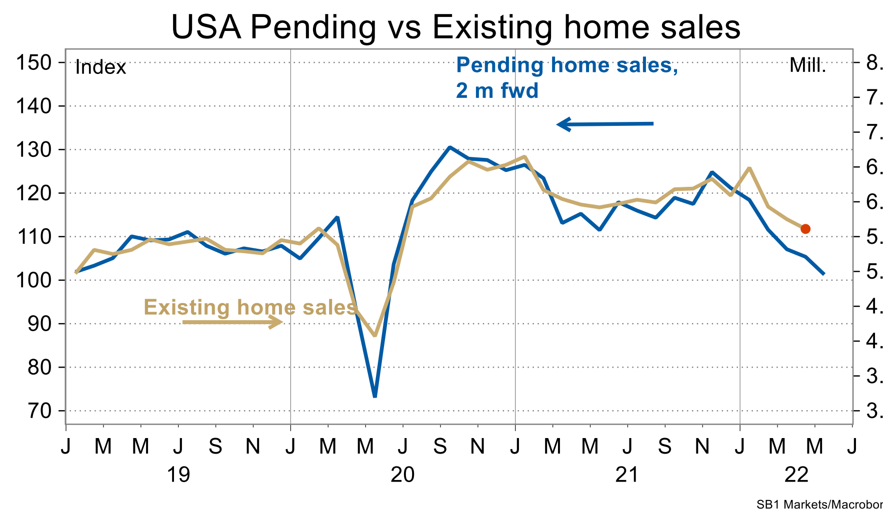


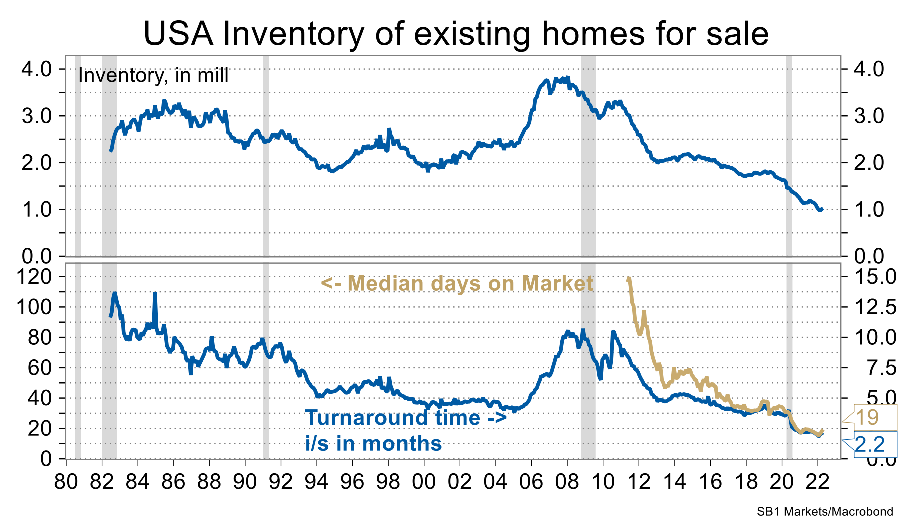
- Monthly **median new home sales prices** are very volatile, as these prices are not adjusted for changes in the mix of homes sold. In April, prices were up 19.3% y/y, but the 6m/6m pace is just 12%
- The **construction price index** is adjusted for changes in standard & size, as is the **new homes sold price index**, which also includes cost of land: they are both up by 18%, measured in April/Q1
  - » The parity between total cost (incl land) and construction costs signals that land price growth – and thus demand for new homes - has slowed vs 2021. Then, prices incl. land grew even faster than construction costs, signalling strong demand for new homes

Pending home sales further down in April, signals fewer existing home sales

No. of agreed transactions fell 3.9%, and is down 19% from last November, a substantial decline





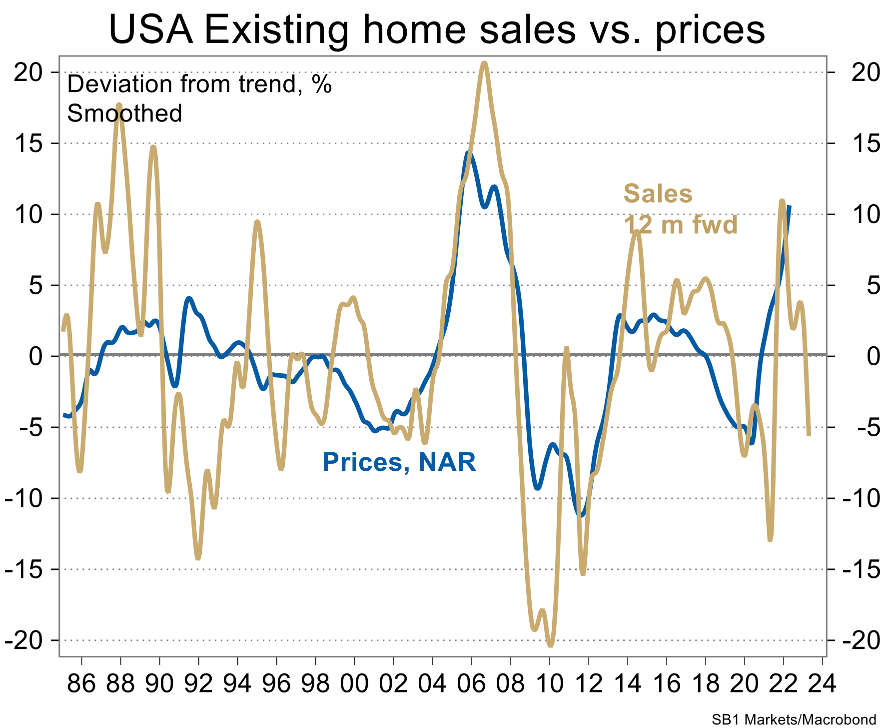


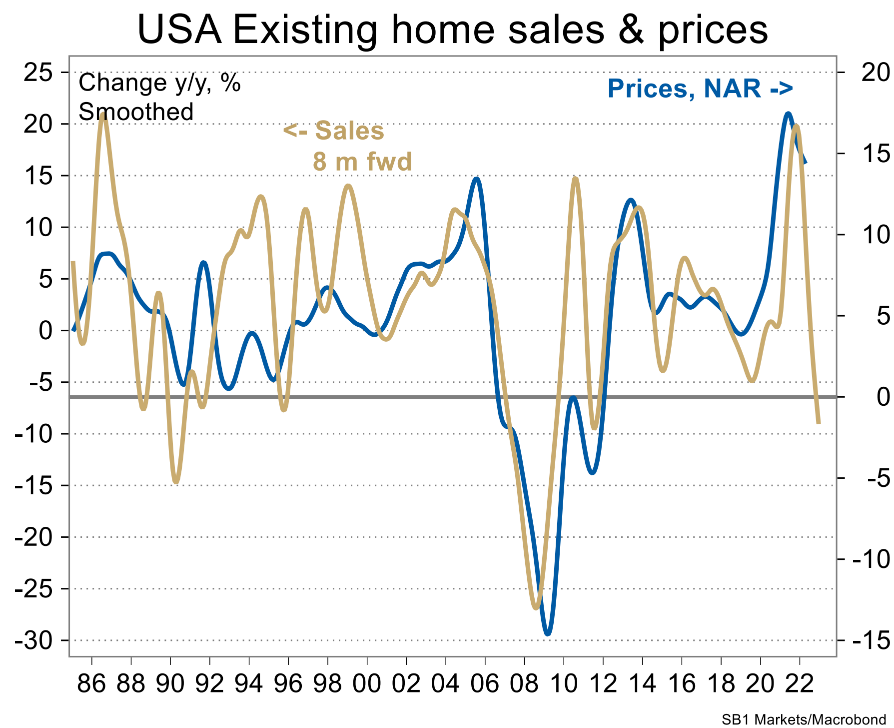
- The decline in April was larger than expected (2.1%) – and the 5th month in row with a lower number of signed deals
- The decline signals that higher mortgage rates are slowing the housing market
- Normally, prices are lagging sales by several months, by up to 1 year (check next page)

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

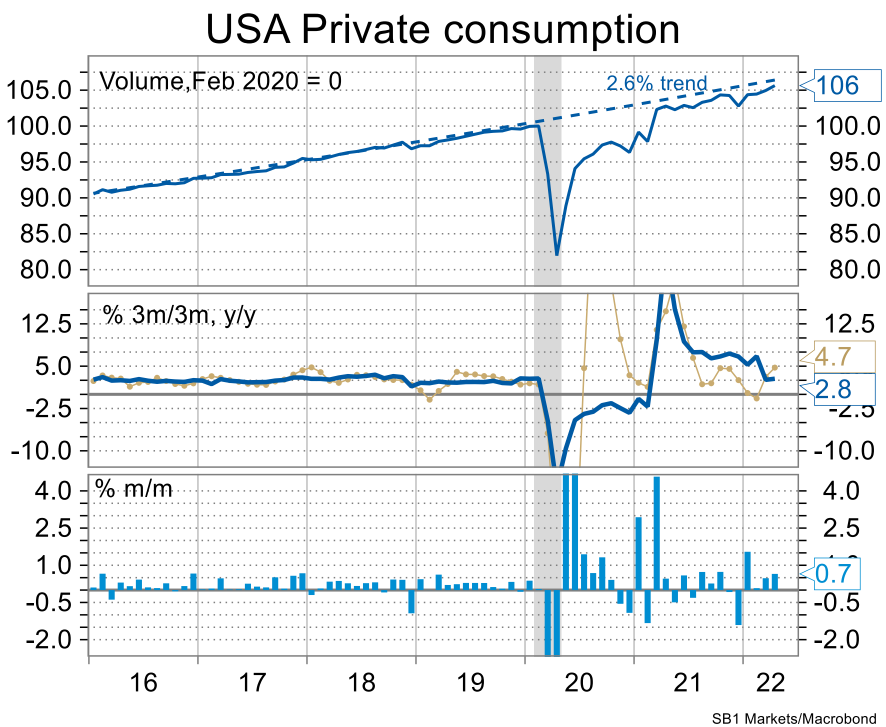
Thus, a focus on transactions is justified – even if prices are the ‘real thing’

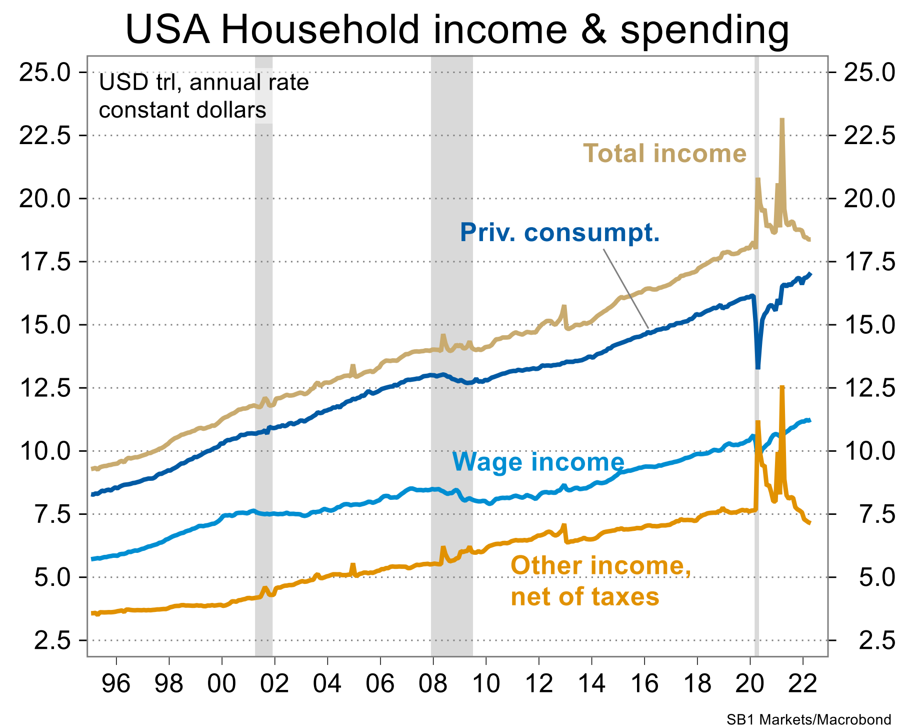




Still no weakness in consumption, up 0.7% in April. Real incomes are falling

Real incomes rose just 0.1%, and a lower savings rate funded the lift in spending, now down to 4.4%

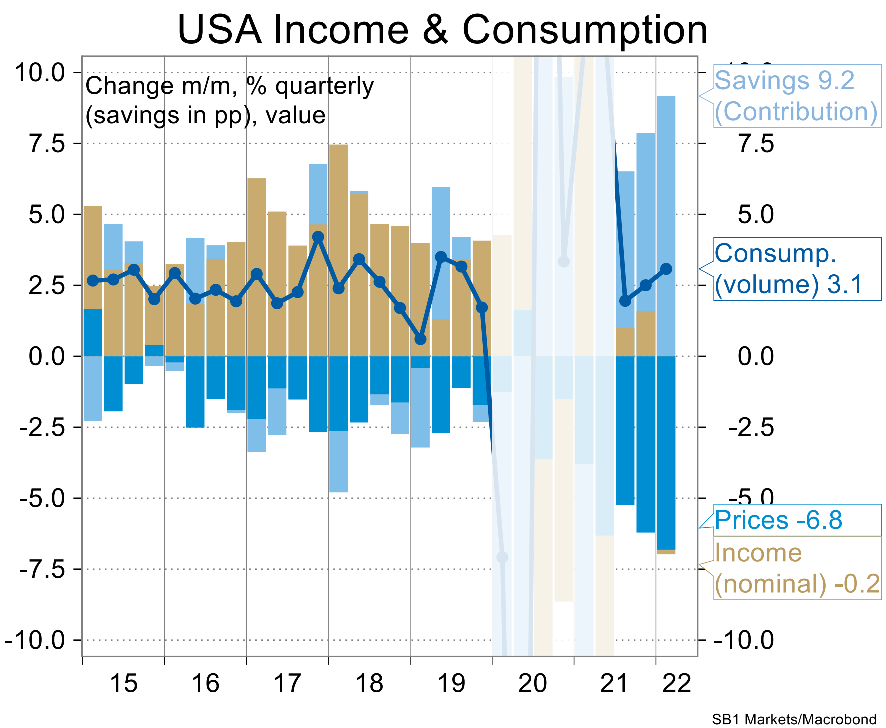


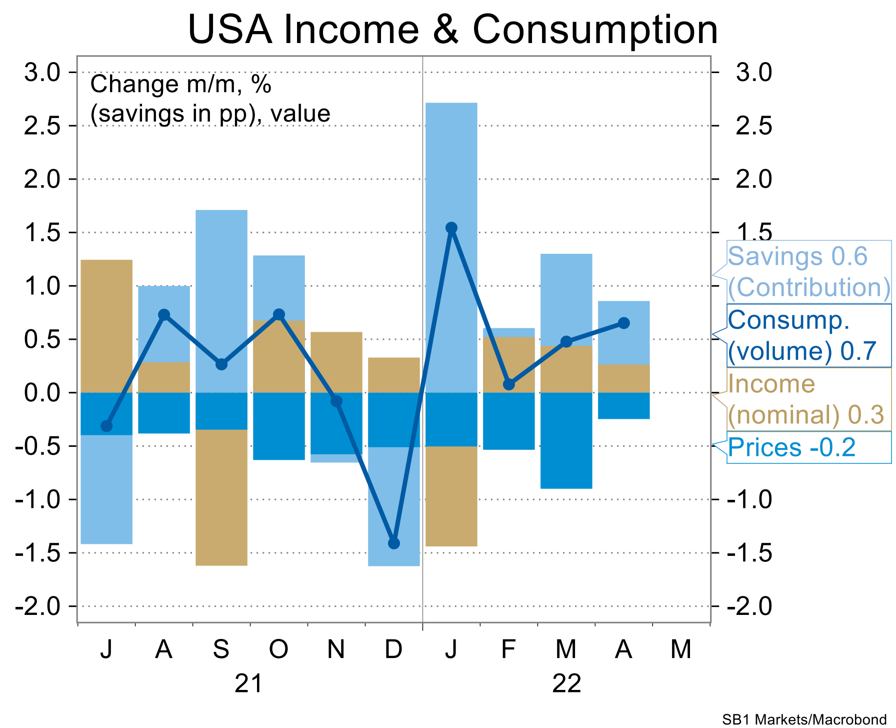


- **Private consumption** grew 0.7% in March, as expected. March was revised up to 0.5% from 0.2%. Spending rose by 0.9%, in nominal terms. The PCE deflator ruse just 0.2% (as expected). Real consumption is up 6% vs. Feb-20; Goods are 16% up, services are up 1%! No doubt, goods consumption will have to slow as services very likely will grow further the coming months
- **Personal disposable income** gained 0.5% in April, and by 0.2% in real terms. Real household income has been sharply revised down due to higher tax payments. In addition, higher inflation has beaten down real incomes
- **The savings rate fell by 0.6 pp to 4.4%**, from a 1.2 pp downward revised level in March. The savings rate is now 3 pp below 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 for still a while – on 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

Lower savings funded almost all of the growth in real spending in April

… as income growth is slowing. Luckly, prices rose just 0.2% m/m



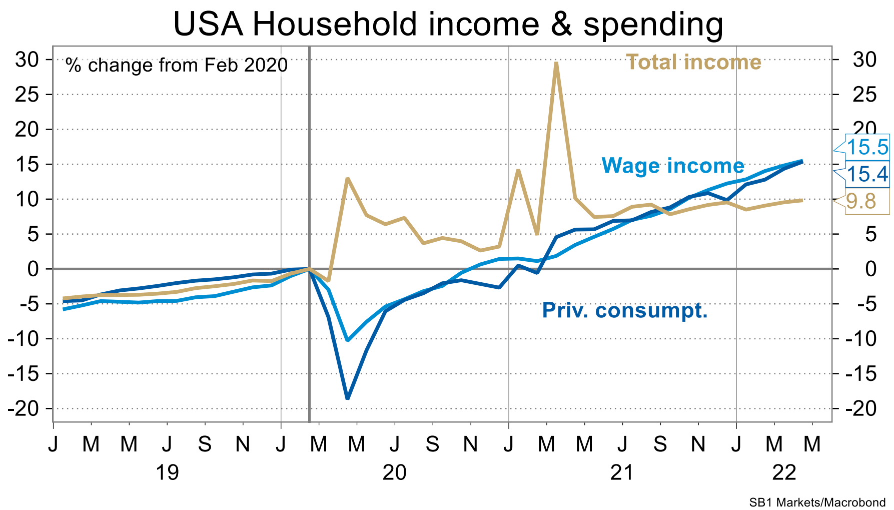


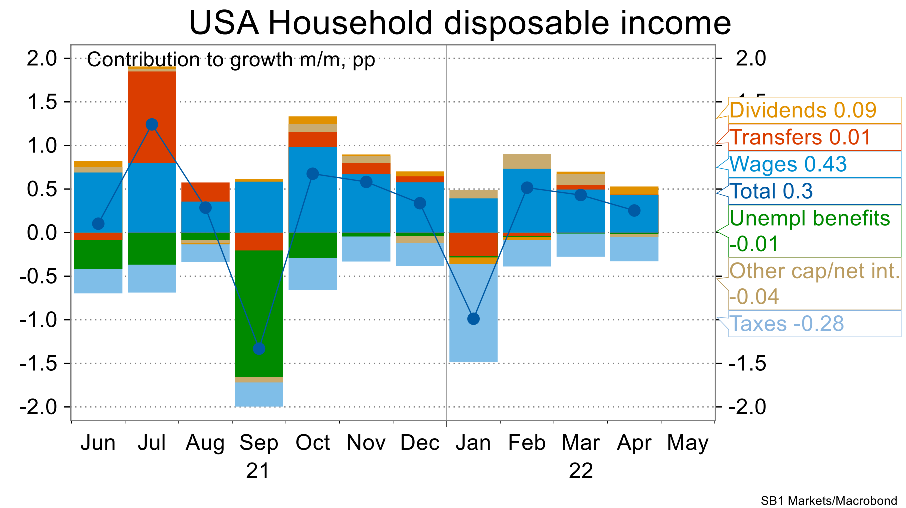
- In Q1, lower savings funded both the 3.1% growth in real consumption as well as a 6.8% lift in consumption prices

We have shaded the 'hard' pandemic quarters at the chart to the left

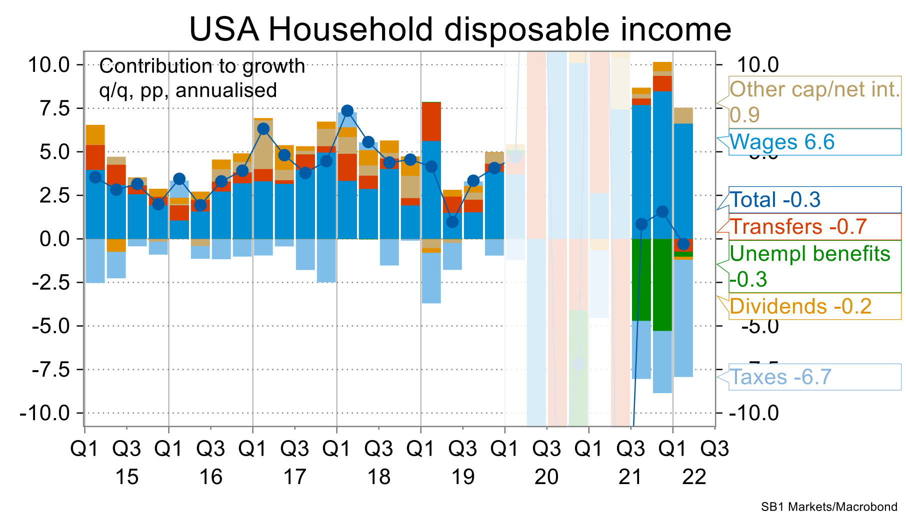
Nominal income growth is slowing, up just 0.3% in April, taxes are increasing

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



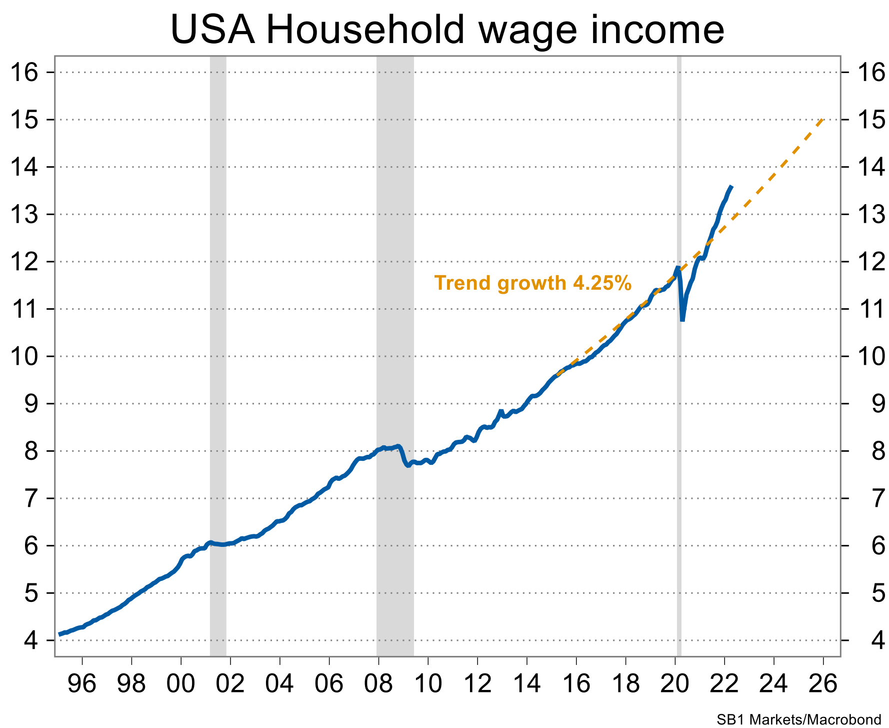


- **Total income has** flattened since last spring as ordinary public transfers and unemployment benefits have gradually normalised. Household income in Q1 was revised down sharply (to -0.3% from +4.7% annualised!), due to substantially higher tax payments than initially calculated
- **Total wage income** is growing rapidly and level is above the pre-pandemic growth path at 4.25%, even if employment & hours worked remain below the pre-pandemic level. The reason is of course the sharp increase in wage inflation



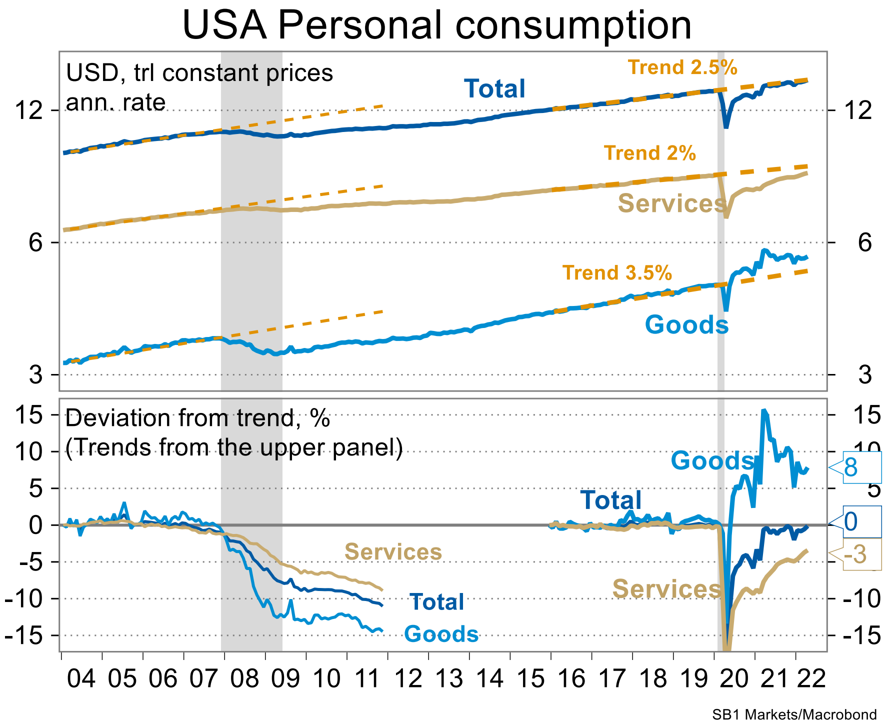
We have shaded the 'hard' pandemic quarters at the lower right chart, as these data make no sense now

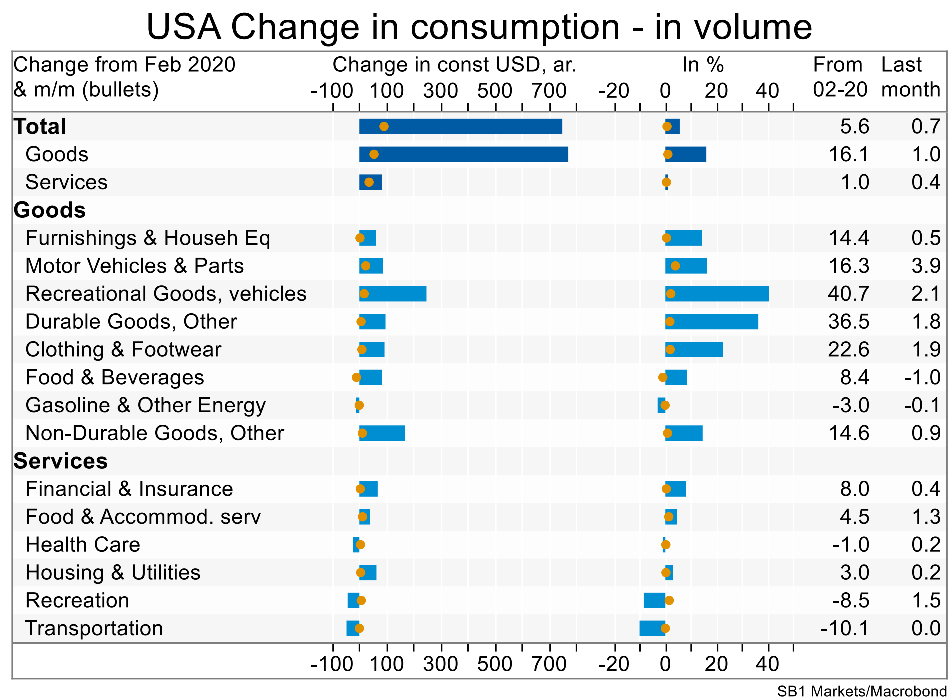
Something is happening with wage revenues (=wage costs for others…)



Services are back to the pre-pandemic level, goods are still 16% above

Spending on services is still 3% below the pre-pandemic trend, spending on goods are 8% above!

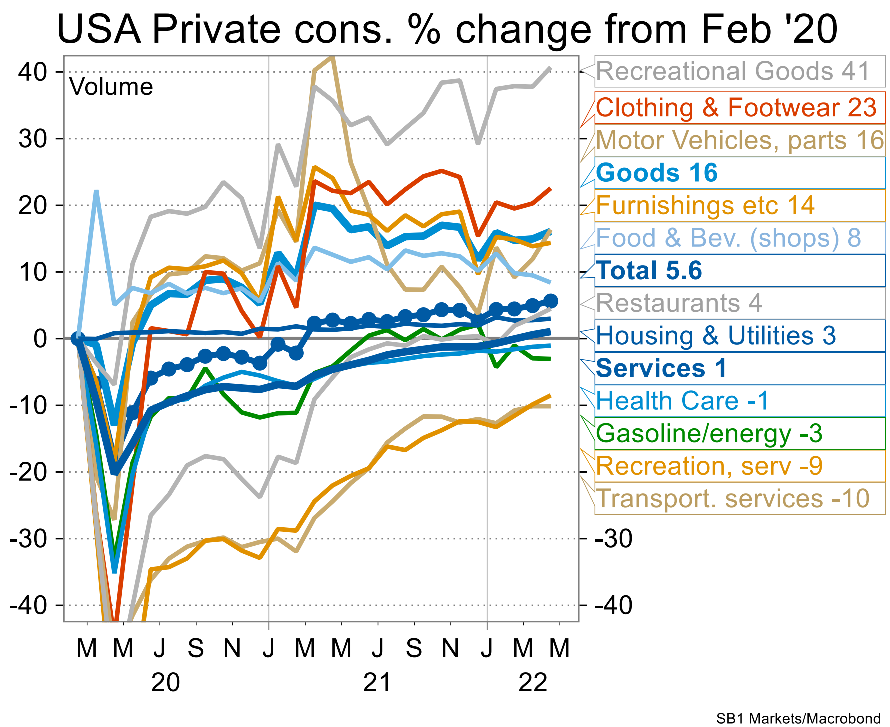




- **Consumption of goods** gained 1% in April but has been trending flattish since last March
  - » Demand for **durable goods** are way above sustainable levels, we assume
- **Services** are recovering, and climbed above the Feb-20 level in March, and rose further by 0.4% in April (less than we assumed). Spending is still 3% 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

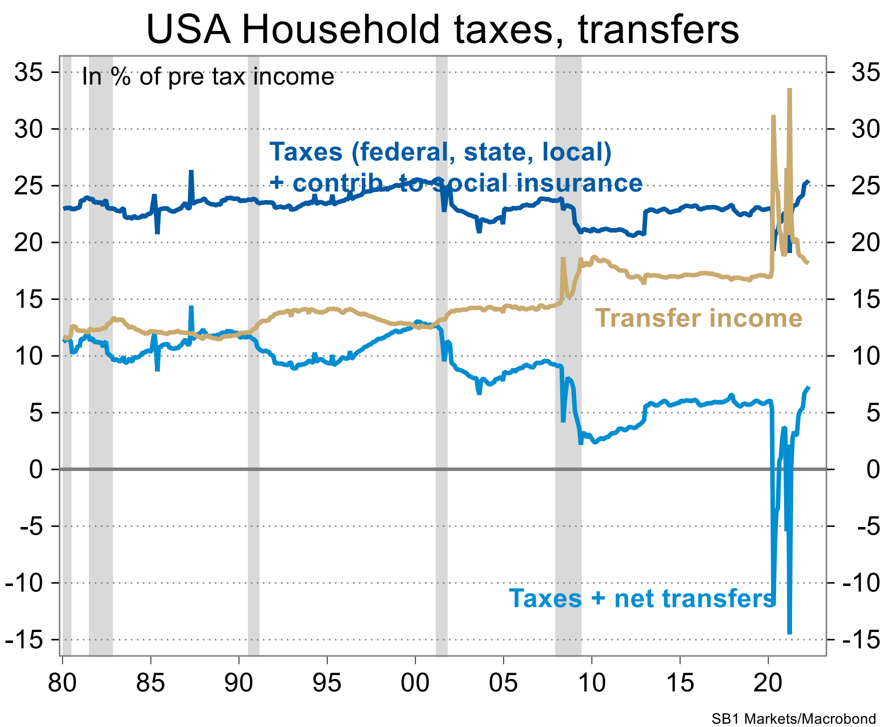
Most sectors reported volume growth in April

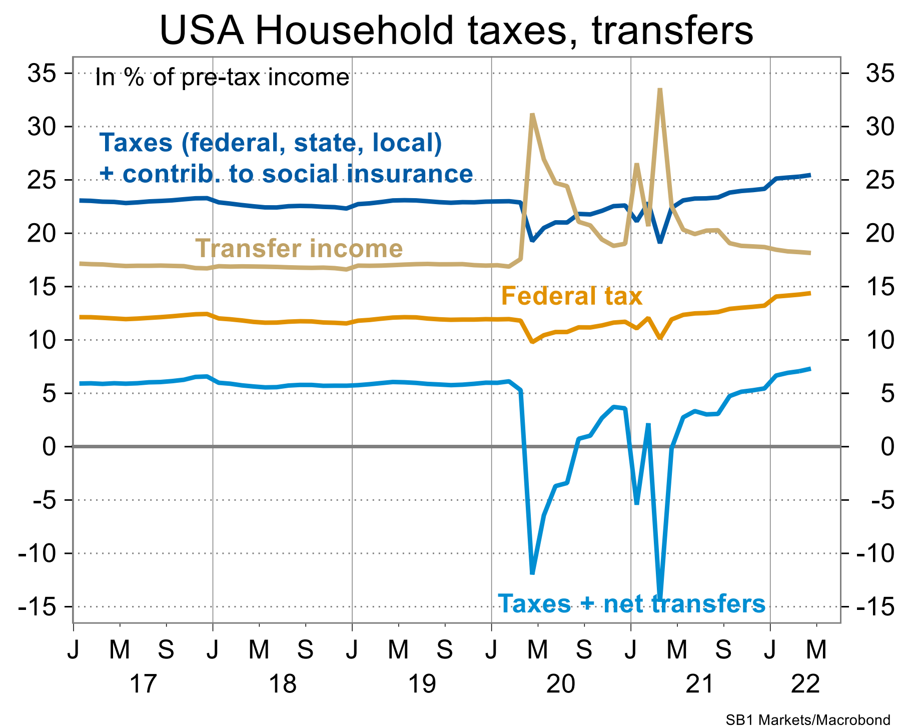


- **Total consumption** is up 5.6% vs. Feb-20. Since last March, growth in spending has been muted, but consumption is still trending up – supporting GDP growth in Q1 – and now into Q2
- **Recreational goods** are still trending upwards, and is 41% above the level in Feb-20
- **Autos** are up 16% - in volume terms, even new auto sales are well below a normal level. Used car sales have surged even in number terms
- **Several goods sectors** are trending down, like clothing, furnishings
- **Services** are up on average but recreational services and transport (air travel) is still 9% – 10% below the pre-pandemic level. However, restaurants are 4% above – again in volume terms (number of meals)

Households contribute more to the Federal coffers than before the pandemic!

Net taxes up to 7% of pre-tax income, best since 2009 – though well below the Fin. Crisis level

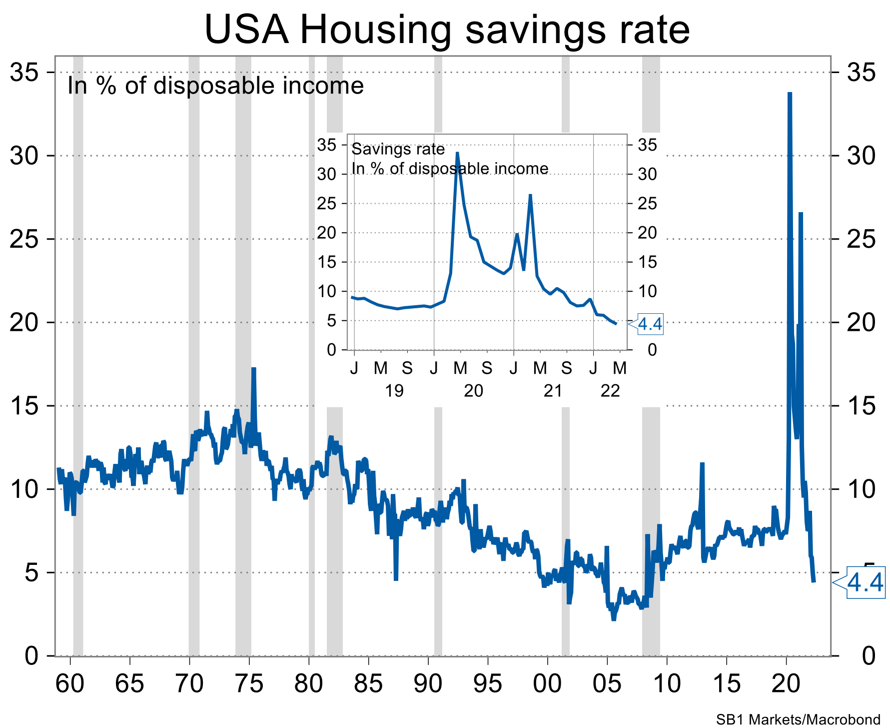


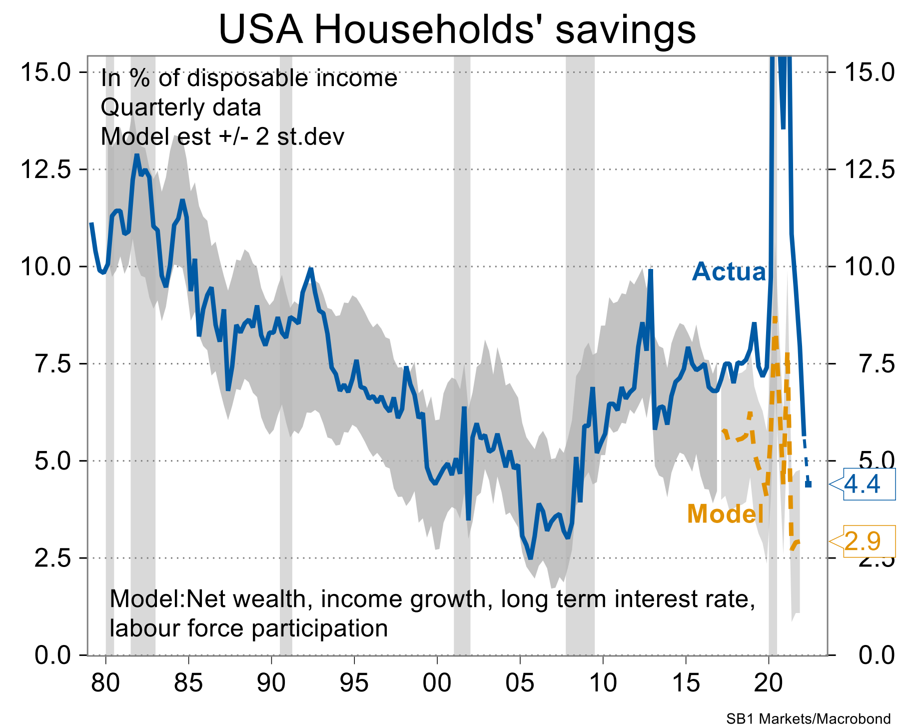


- Transfers are still higher than before the pandemic (vs total pre-tax income), but the total tax rate has crossed the 25% line, for the first time since year 2000!
- The net tax rate has recovered to 7%, above the 6% pre-pandemic level – but far below the 10% – 12% from before year 2000

Pandemic savings spent to pay for inflation? The savings rate far below p-p level

The savings rate fell 0.6 pp to 4.4%. Lowest since 2009 post a 1.2 pp downw. revision of March figure

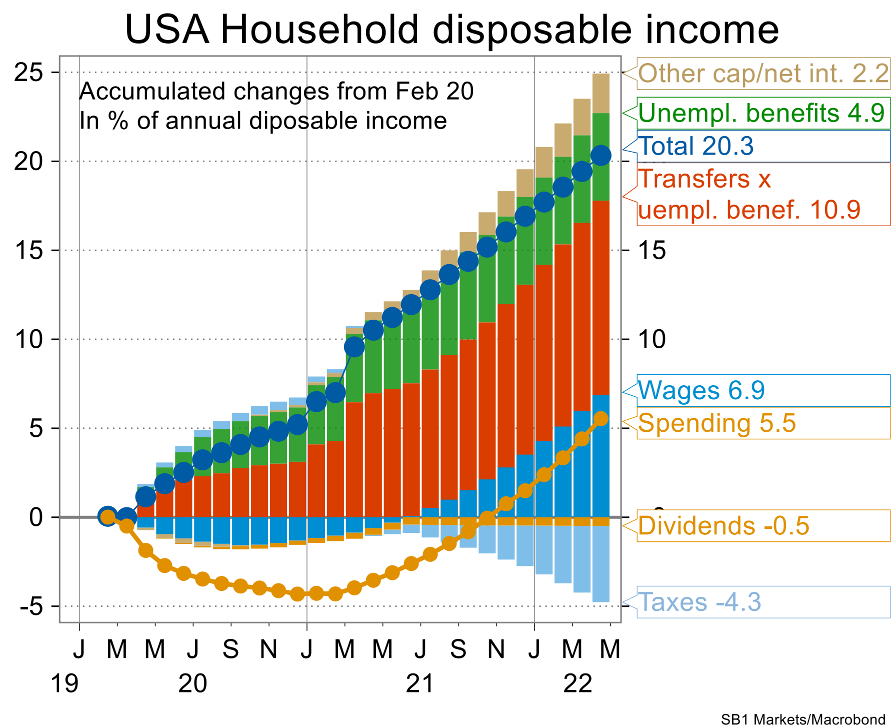


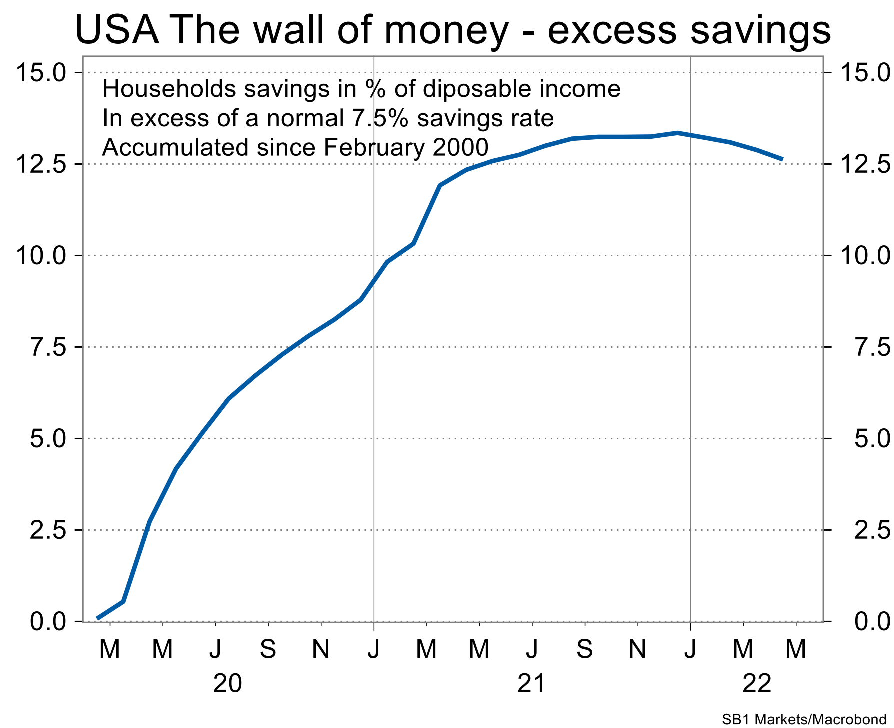


- The savings rate declined 0.6 pp to 4.4% in April, from 5%, revised down from 6.2%
- Households are dipping into savings in order to keep consumption up, as their incomes are not keeping up, due to the high rate of inflation. The savings rate is now 3 pp lower than before the pandemic
- However, household have saved a large amount of money during the pandemic, some 13% of disposable income – on average for all households, that is. This 'Wall of Money' is now shrinking, but just slowly (at 3 pp per year, if the savings rate stabilises at 4.4%)
- Our old savings model, yields a 2.9% savings rate in Q1. During the 2016 – 2019 period our model has underestimated the savings rate systematically by some 2 pp. Now, the discrepancy is narrowing rapidly

The Wall of Money is still (almost) intact

The sum of 'excess savings' through the pandemic is now tapped but most of it remains

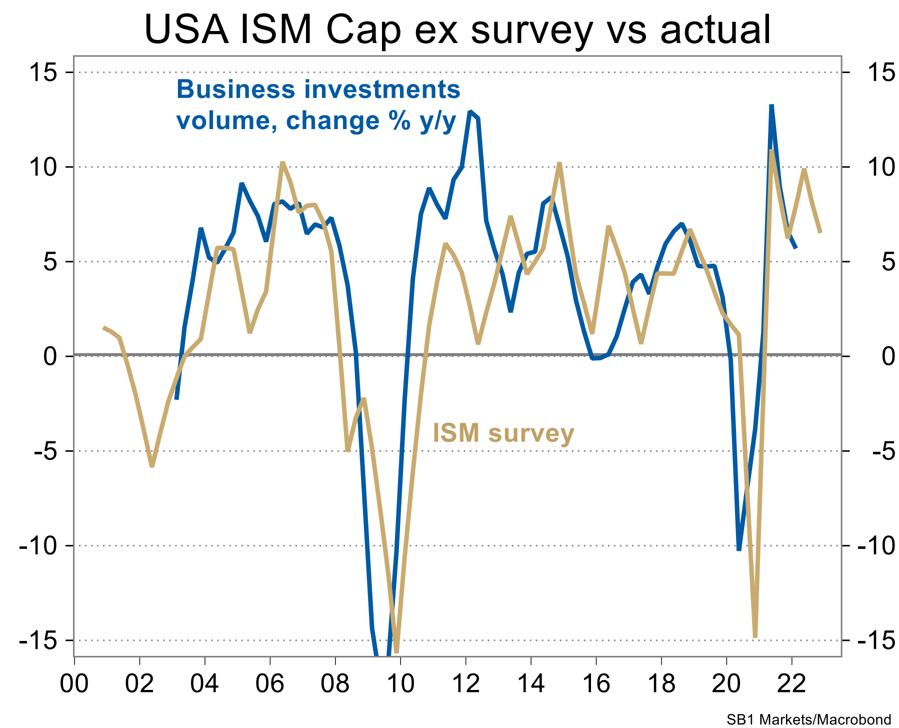




- Transfers from the government and low spending (on services) explained the lift in savings - but now spending is coming back, and the savings rate is now lower than before the pandemic

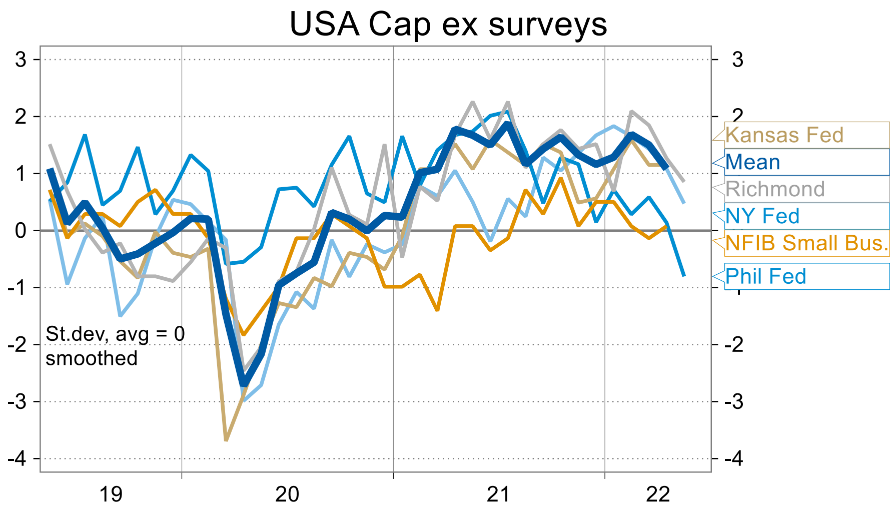
ISM semi-annual investment survey: Down, but far from out

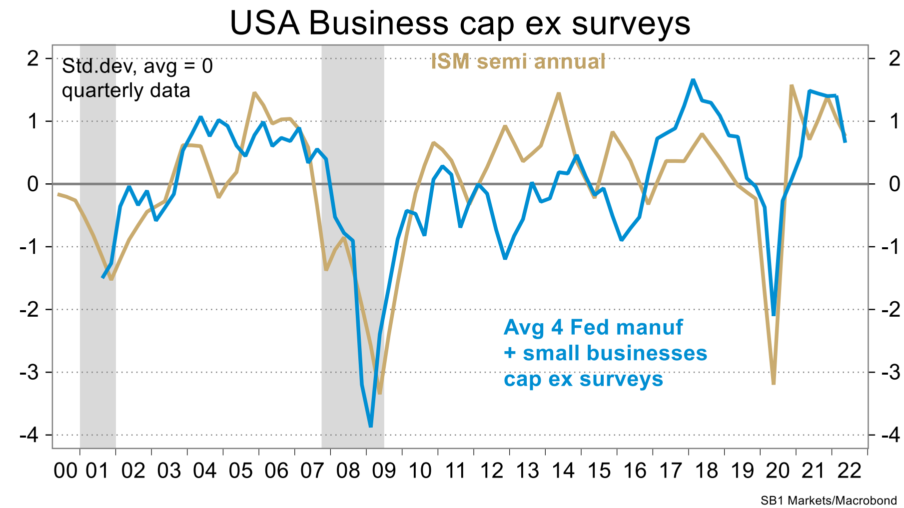
Growth in investments well above a normal level is signalled

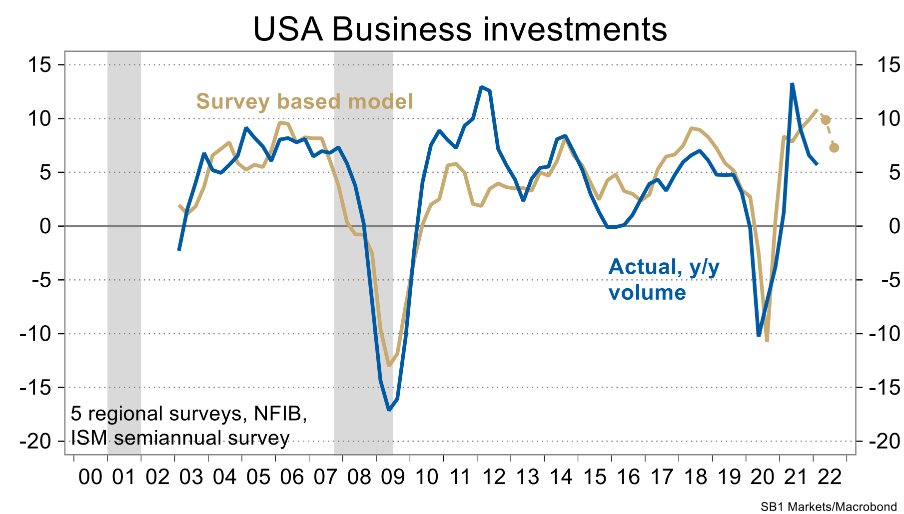


Other investment surveys not that upbeat

Taken together with the ISM survey, a 7% actual growth rate is indicated

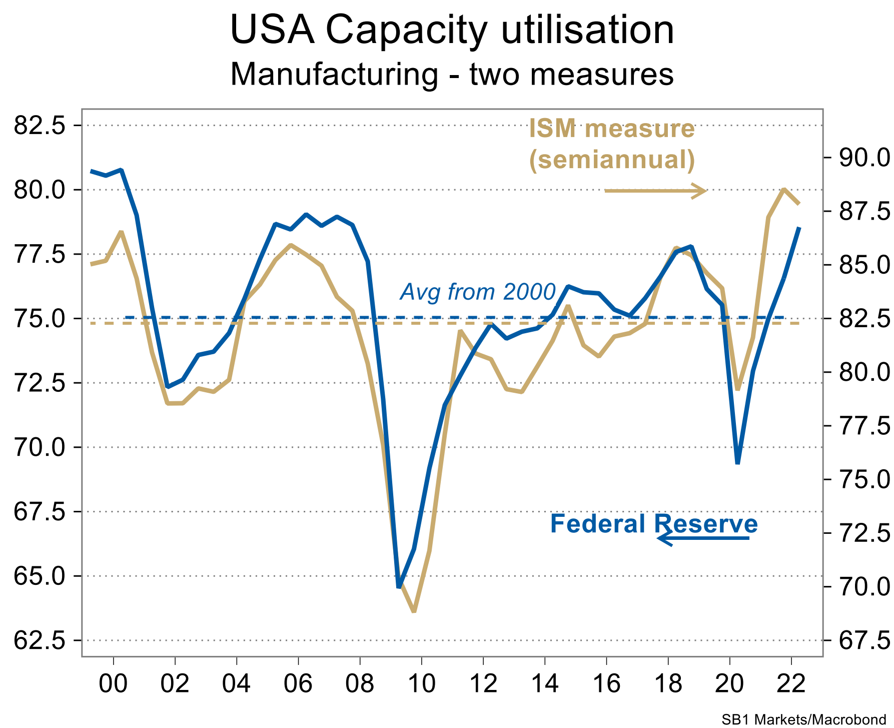


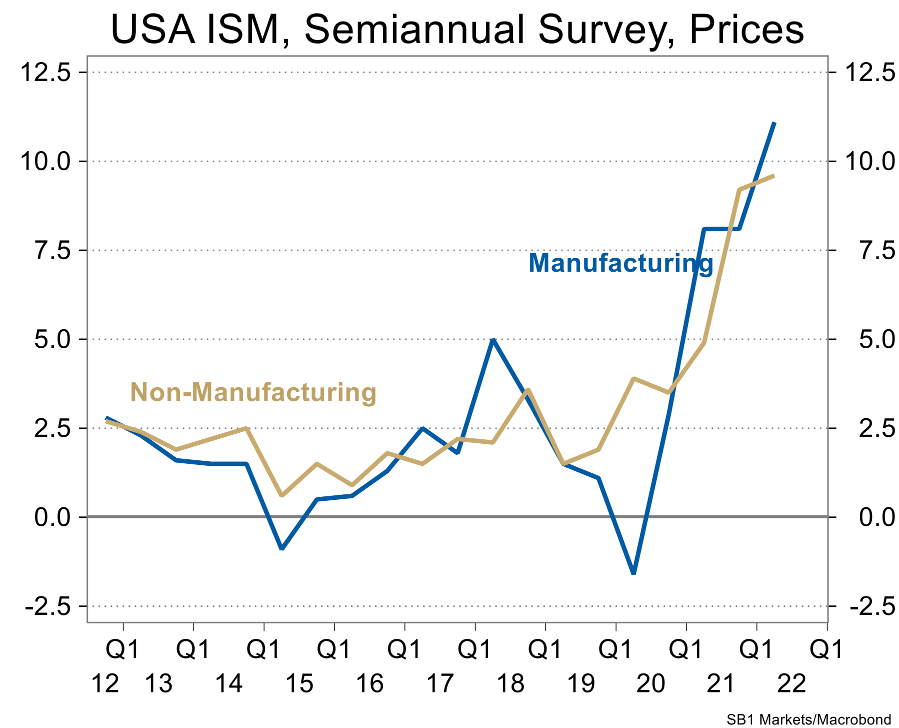




ISM: Capacity utilisation in manufacturing marginally down in H1, prices not

The decline in utilisation is not confirmed by Fed's measure or by actual growth in production

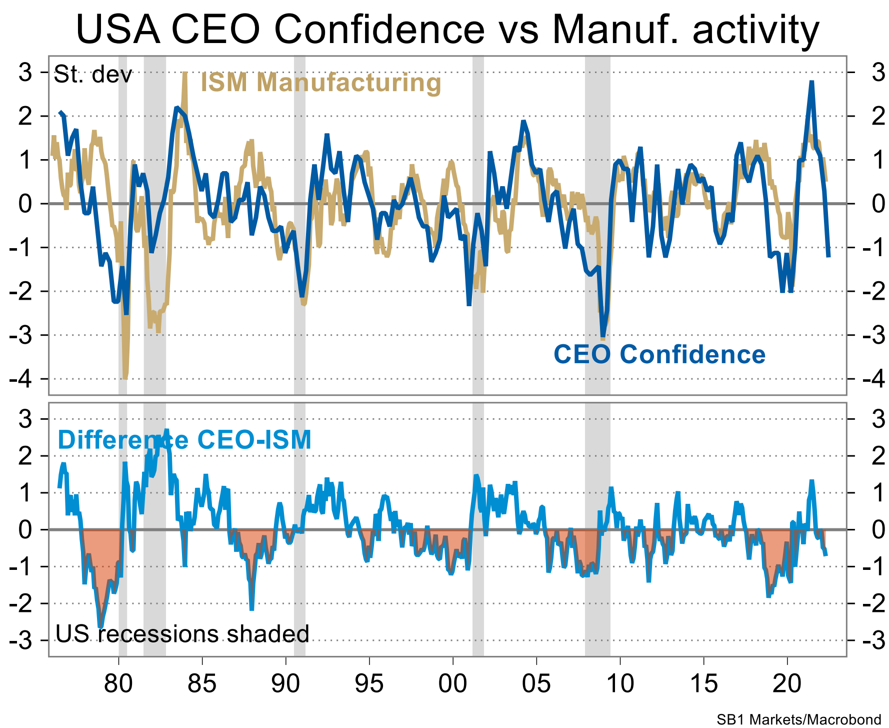


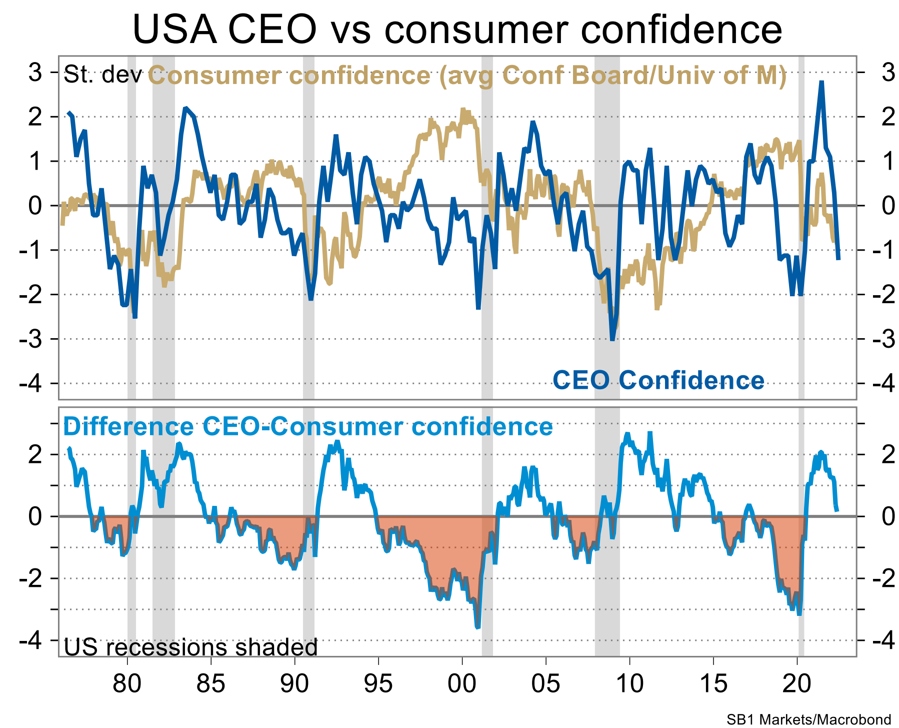


- In the **ISM's semi-annual survey**, companies reported a utilisation at 88% – 6 pp above average
- The **Federal Reserve's** estimates a 79% utilisation (so far in H2), 3 p above average. The gap between the two measures narrowed in H1
- In the ISM semi-annual survey, companies in both manufacturing and non-manufacturing are reporting the highest expected prices increases ever – however with data just back to 2012. But is surely illustrates the price risk on the upside

CEOs are growing more pessimistic, probably for good reasons

Households are pessimistic too (at least the Univ. of Mich survey). Businesses (ISM) still too upbeat?

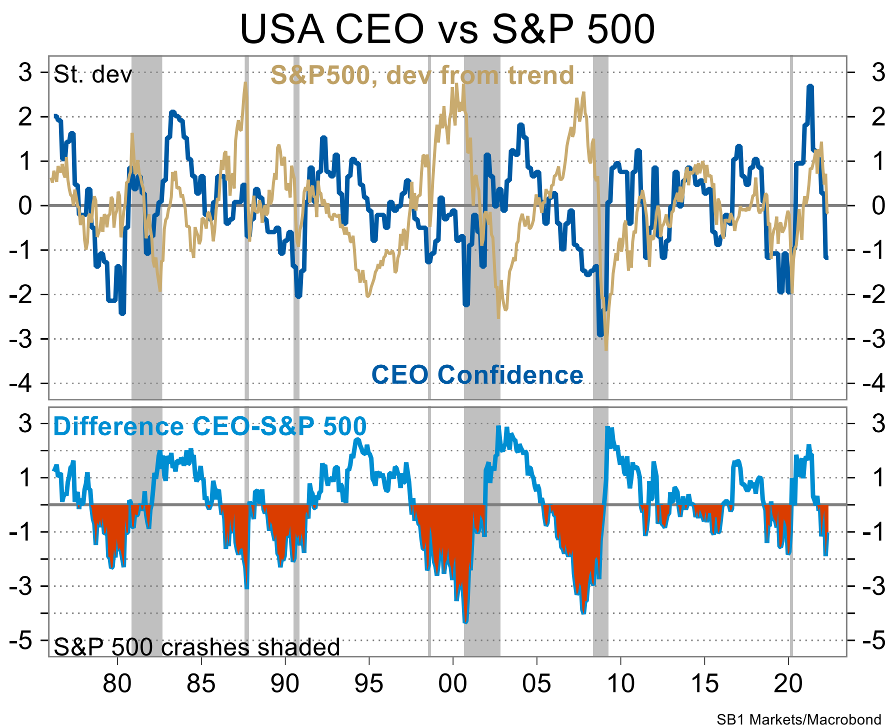




- The CEO confidence survey fell further in Q2, down to -1.1 st.dev below par, from +0.3 in Q1
- Normally, a weaker confidence corresponds to lower business investments

CEO confidence down; the stock marked has taken notice

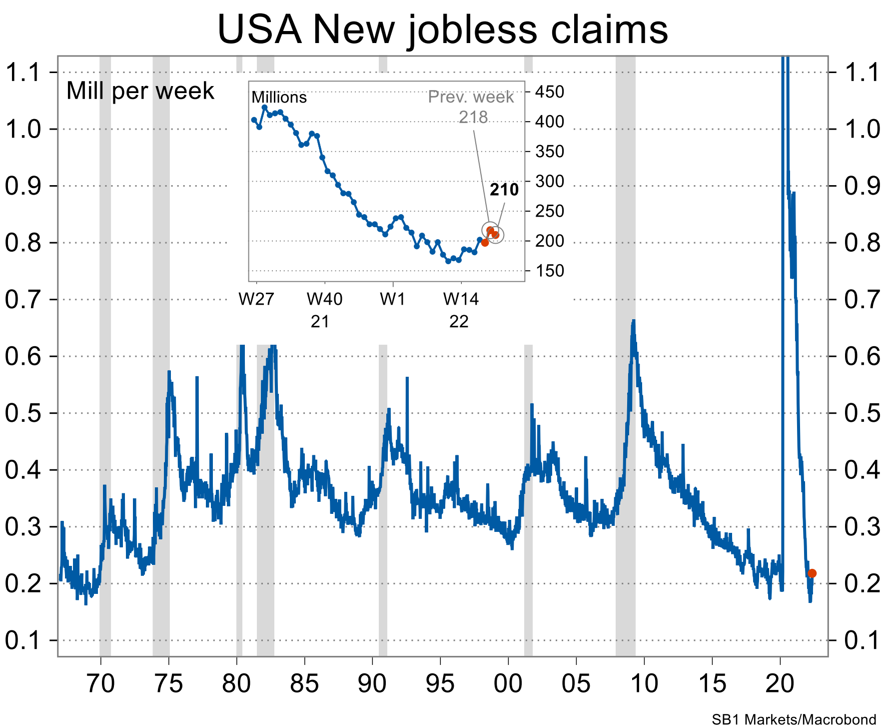
Before all S&P crashes, the CEOs have become far more downbeat before the stock market yielded

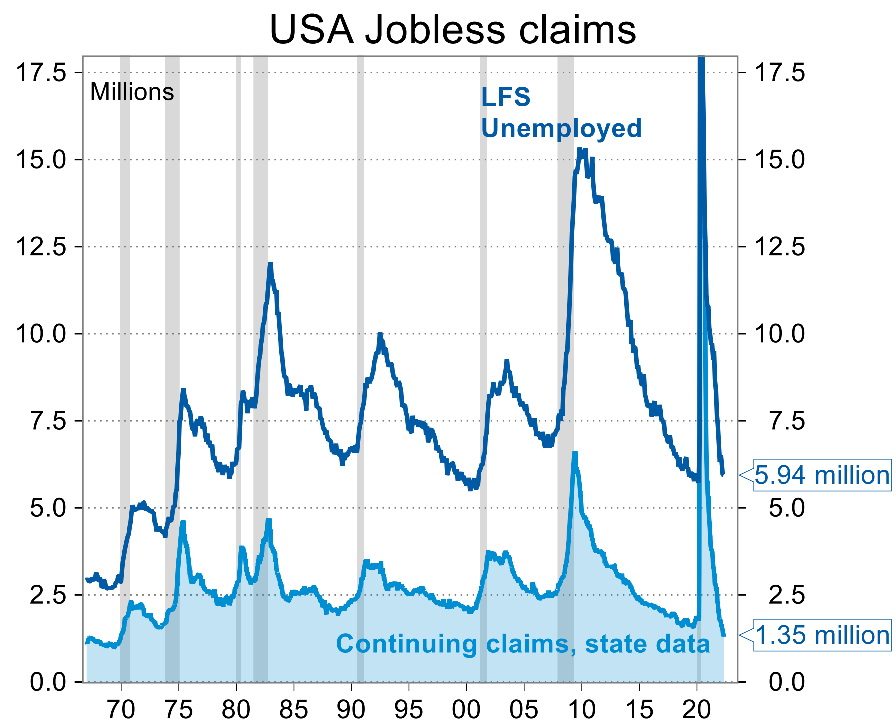


- ... at least yields sufficiently to withstand a deep decline in the market
- The red sones on the chart to the left is when CEO's mood sours before the stock market tanks, usually over several years (and the CEO survey is not a precise timing instrument)
- Now the market has come down, at least partially in tandem with the CEO sentiment, clearly a positive sign (considering the alternative, a still very bullish stock market)
- The CEO survey is best on the way out of recessions – it kicks up immediately, and never with false signals – at least if the threshold is set to crossing the average level (st.dev = 0)

No further increase in new jobless claims

However, new claims is often an early warning sign!

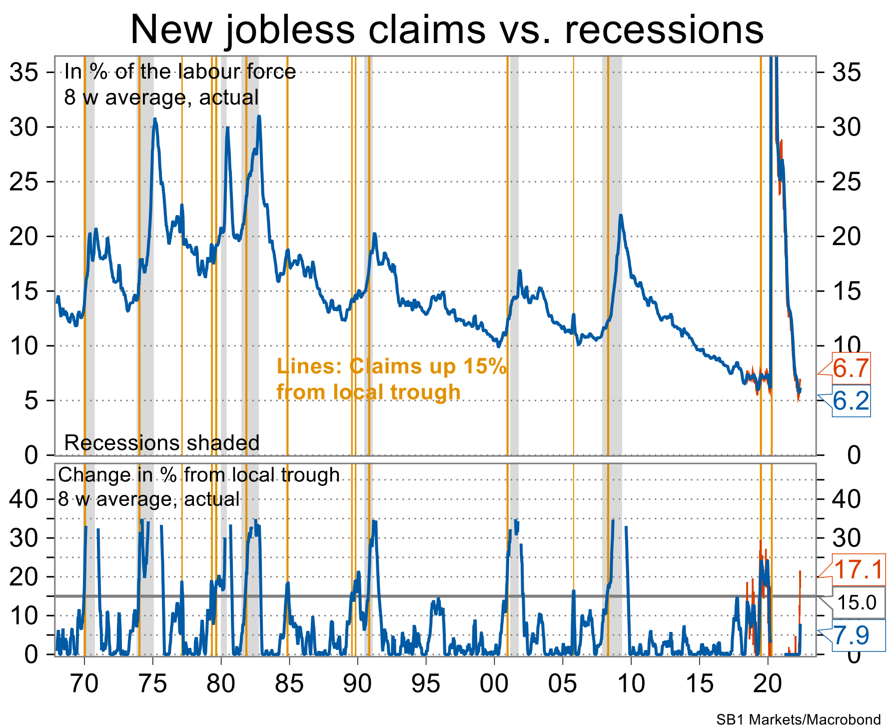




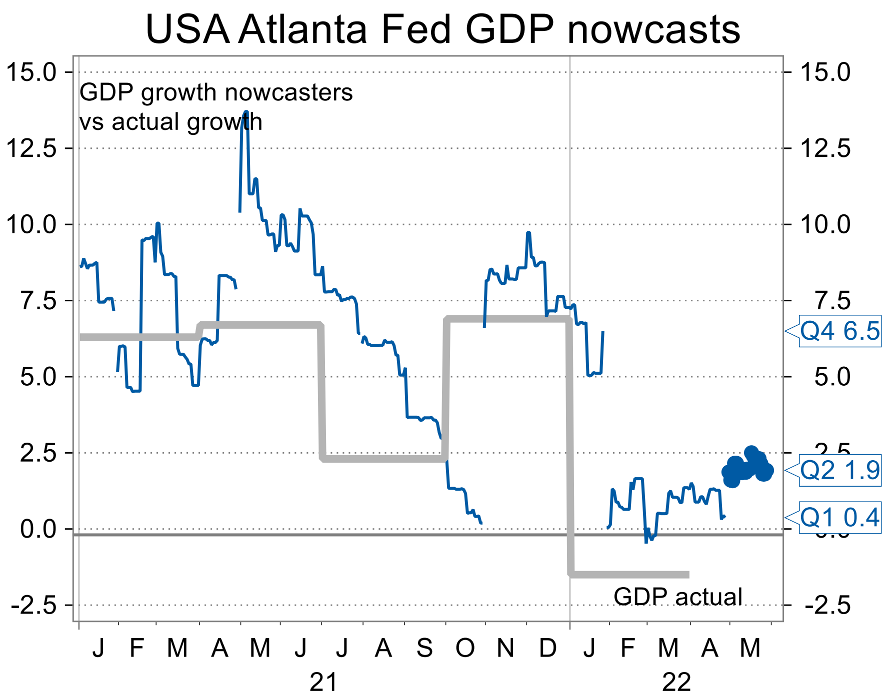
- **New jobless claims** fell by 8' in week 20 to 220'. Recent weeks, the inflow has increased marginally. Still, the inflow is close to the lowest level since 1968, when the labour force was 2 times larger than today
- **Ordinary continuing claims** rose by 31' to 1.35 mill in week 19, from the lowest level since 1969
- Another confirmation that the **labour market** is still extremely tight – <u>but that it may not be tightening further</u>

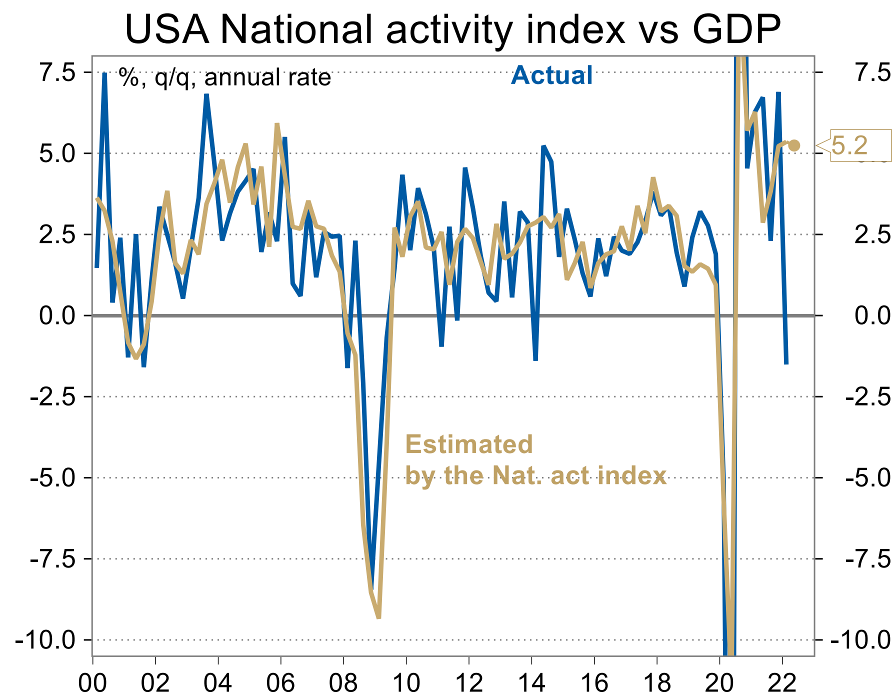
When a recession hits, jobless claims have been on the way up for a while

The change in the 8-week average is still far too small to suggest a recession



Atlanta Fed's nowcaster suggests 1.9 % growth in Q2, the Nat. Activity index 5%





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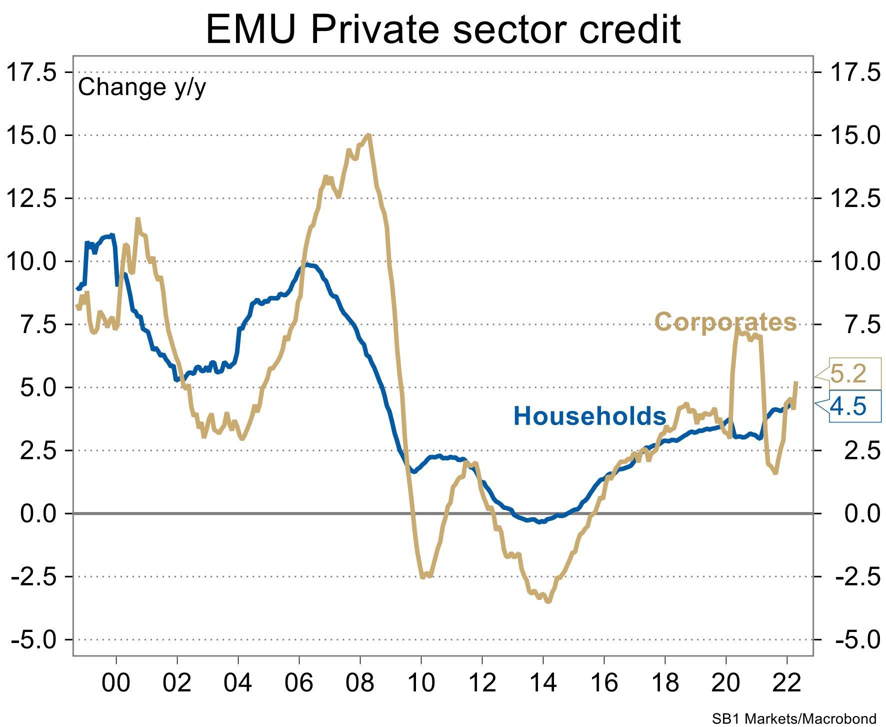
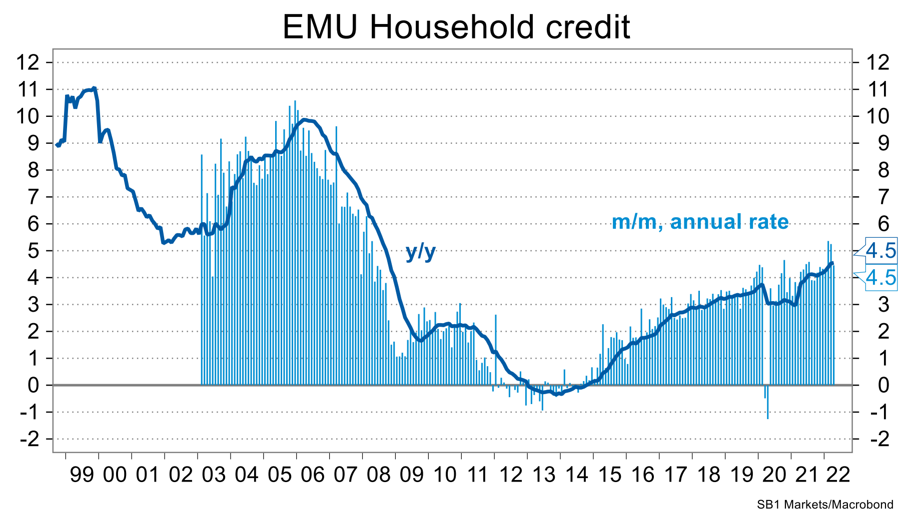
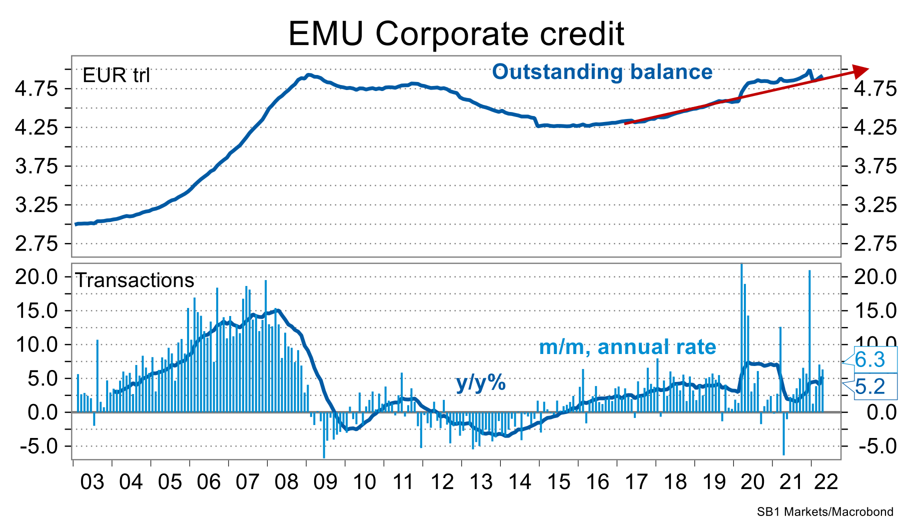
Credit growth is slowly accelerating? Still, no credit boom to be seen

Household debt up at 4.5% pace, businesses are taking on somewhat more too. Anyway, no squeeze



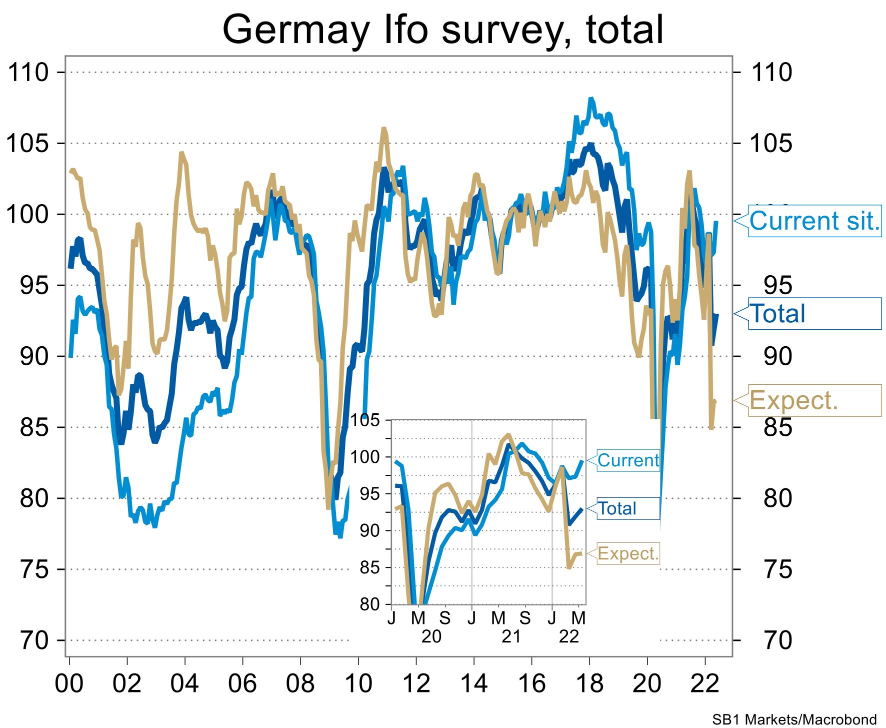


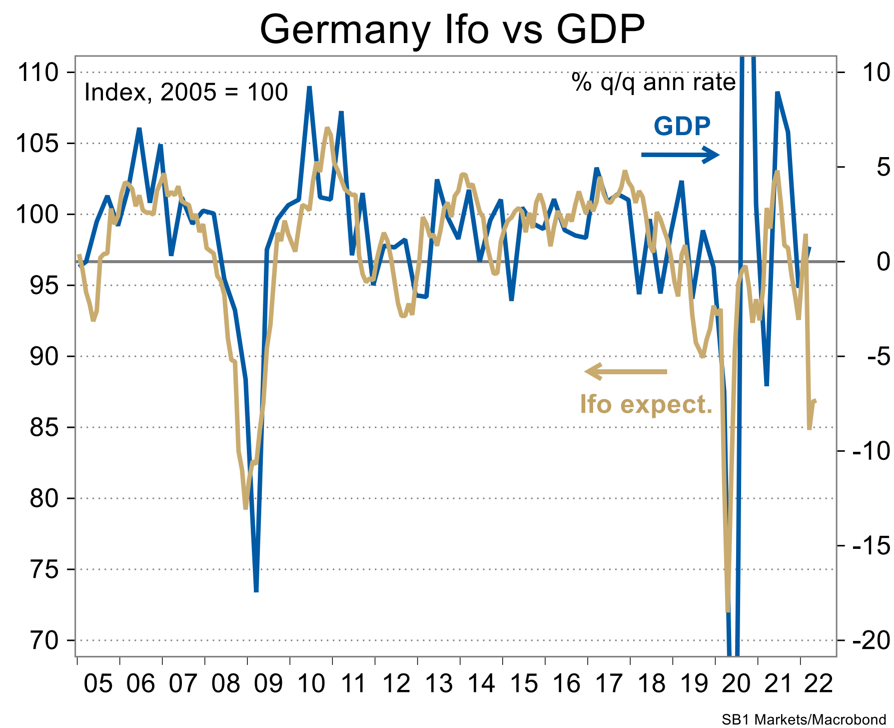


- The corporate debt level close to the pre-pandemic trend growth path

Businesses are still rather pessimistic but not more in May. The current sit. OK!

The index up 0.1 st.dev to -2.0 sd below average. The current situation also improved, +0.3 to 0.7 st.d

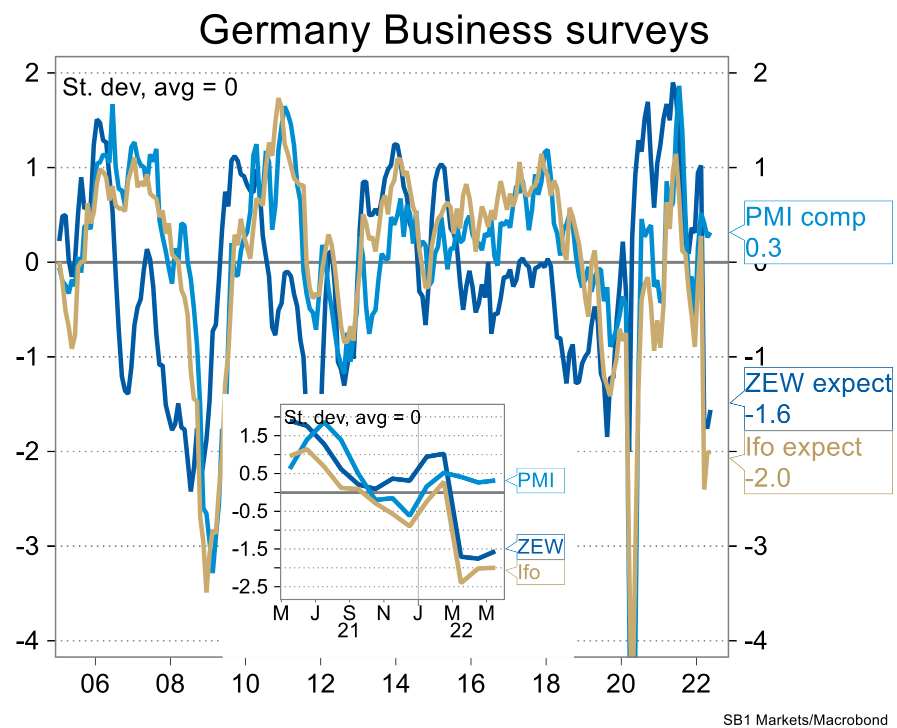




- **The expectation index** gained 0.1 p to 86.9 (April also revised up by 0.1 p), expected down 3.3 p. Companies are still worried, but slightly less so than in March. However, translated to GDP, the Ifo is still signalling a huge decline in GDP, at a 7% – 8% pace!
- The **assessment of the current situation** also improved in May, and is now 0.7 st.dev above average. War and inflation worries are not biting yet, on actual activity

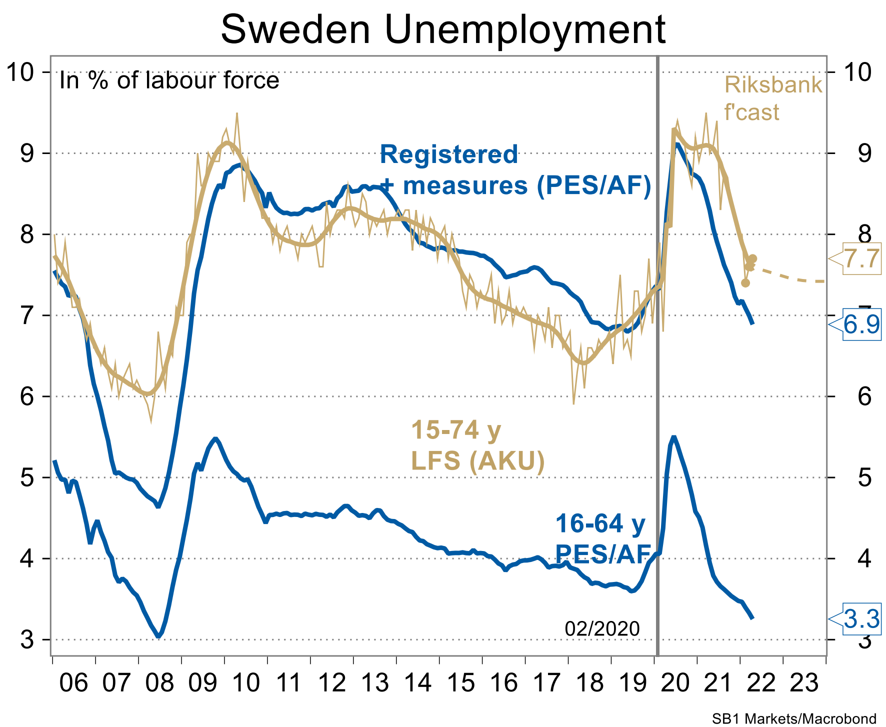
The climate index rose in all sectors, but just construction above average

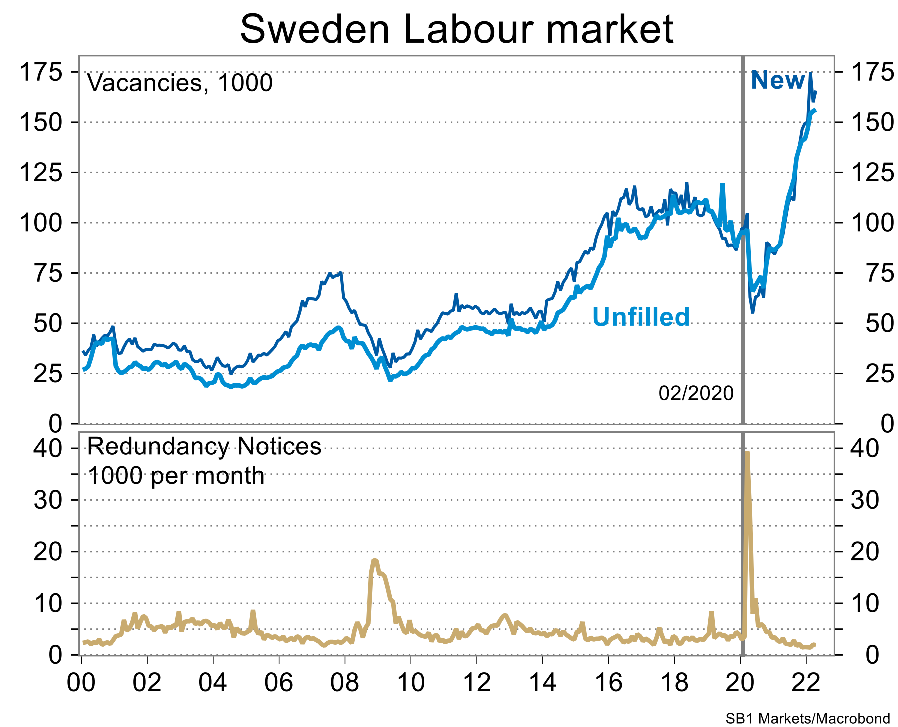
The PMI rose in May and is above avg while the ZEW expectation survey is a negative as Ifo's



LFS unemployment up in April too, still trending down

The unemployment rate rose 0.1 pp to 7.7%, expected down to 7.5%

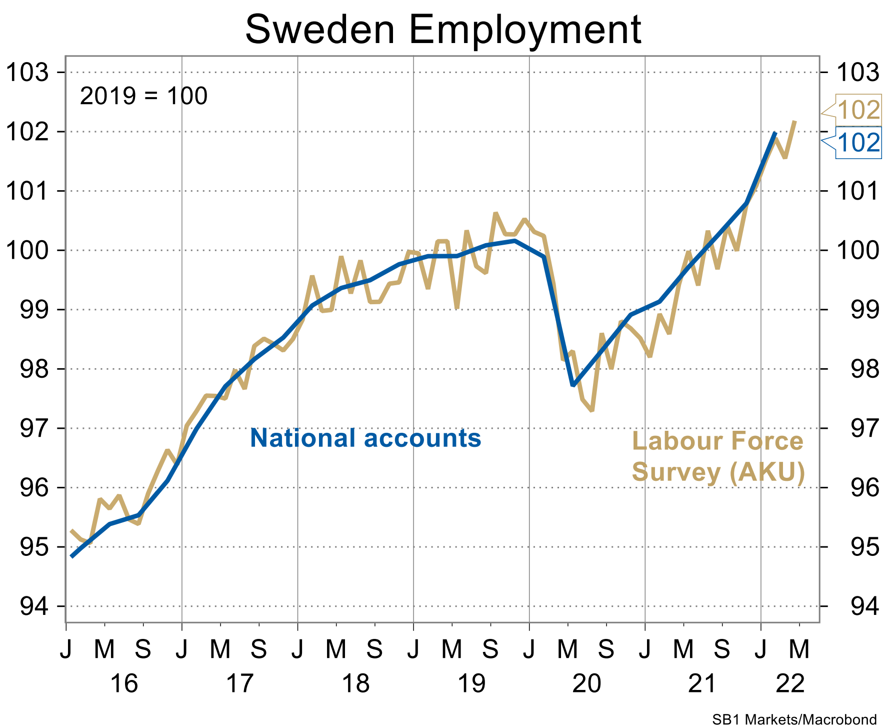


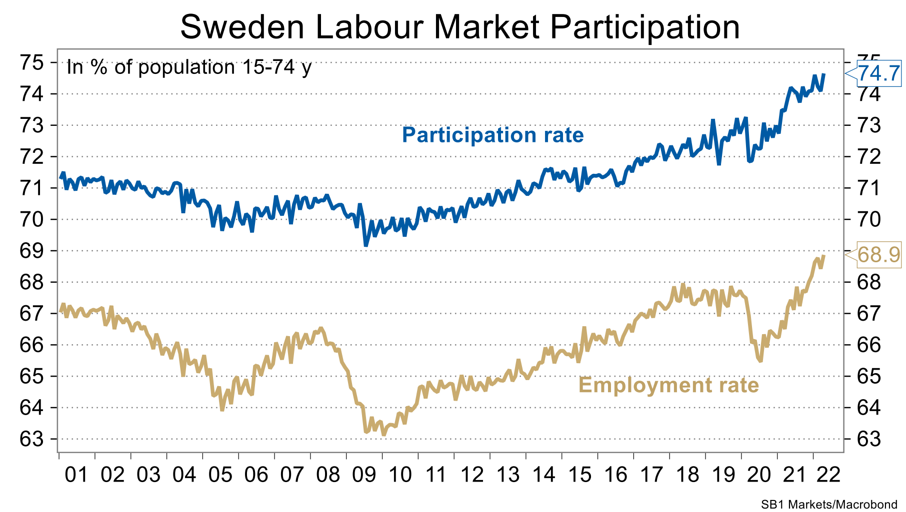


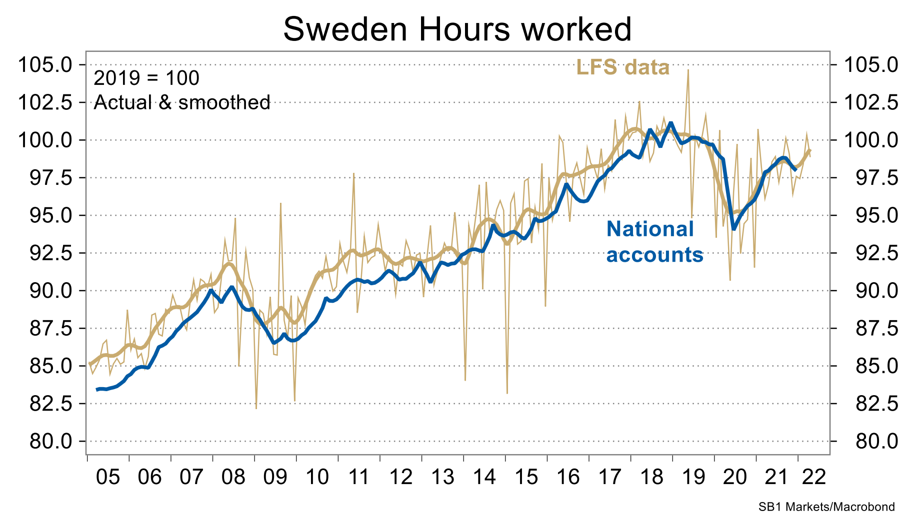
- **Unemployment** rose even if employment rose 0.6% m/m, the labour force grew even faster
- The **'open' registered unemployment rate** is at 3.4% - and it is also trending down. The rate is far below the pre-pandemic level
  - » **Including labour market** measures has fallen to 6.9% - which is above the level in 2019, but below the level just before the pandemic hit
- Both the number of new vacancies and the number of unfilled vacancies rose in April

Strong employment growth – and the employment rate is the highest in decades

However, hours worked still below the pre-pandemic level. Strange, as the vacancy rate is very high



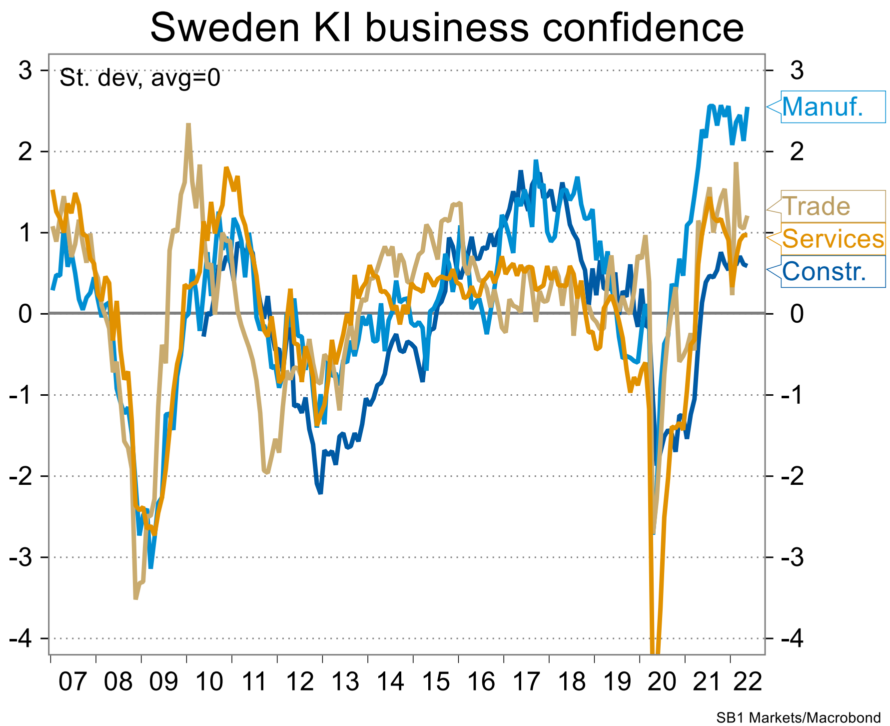


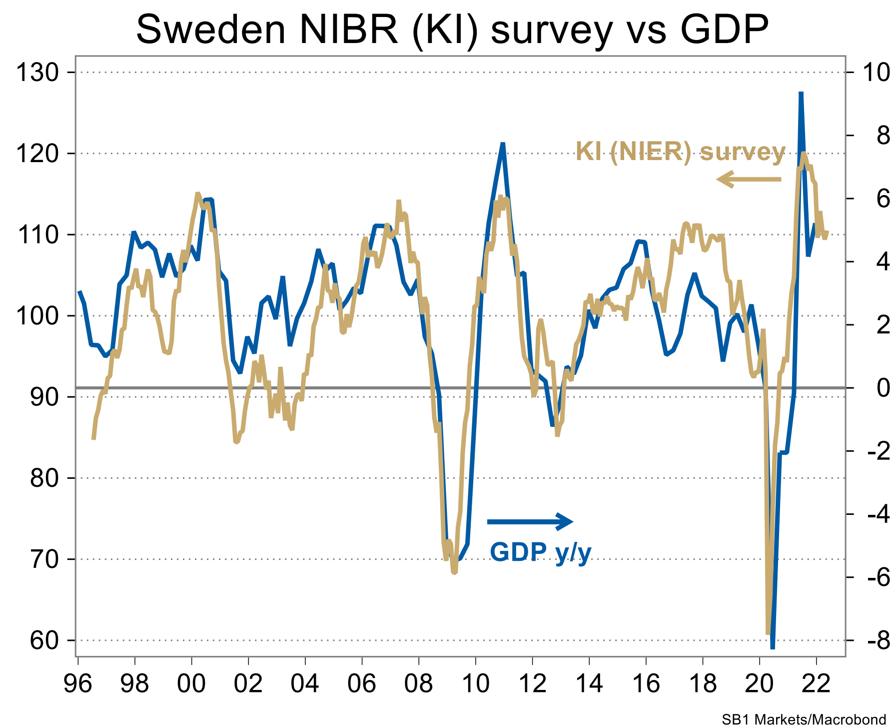


- Is the decline in hours worked due to the supply side, people do not want to work too long hours?

No inflation/interest rate or war angst among businesses, 5% GDP growth signal

Just construction reported slightly lower confidence in May, other sectors higher, manf. close to ATH!

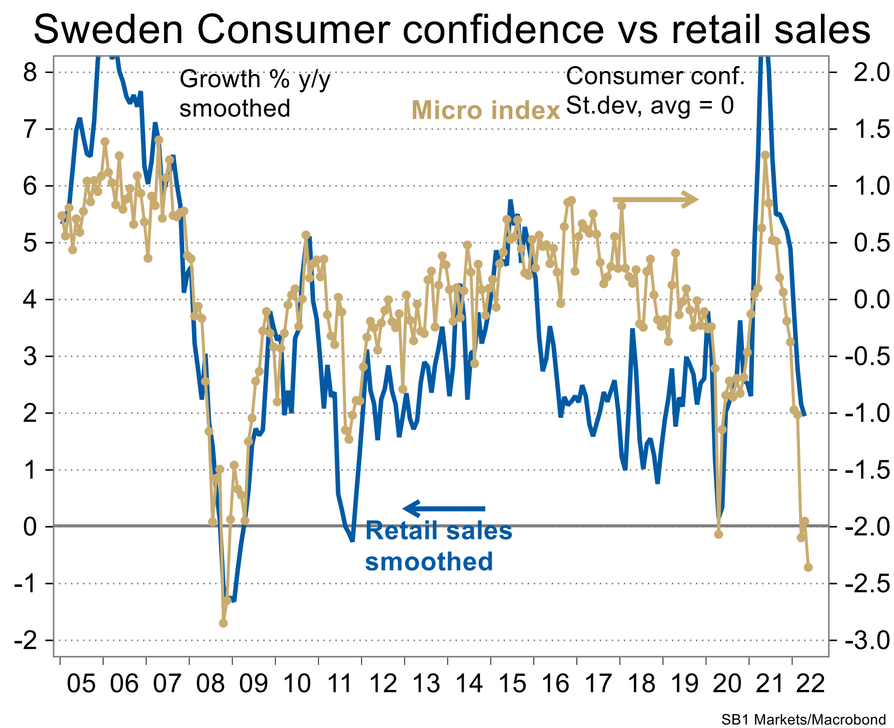


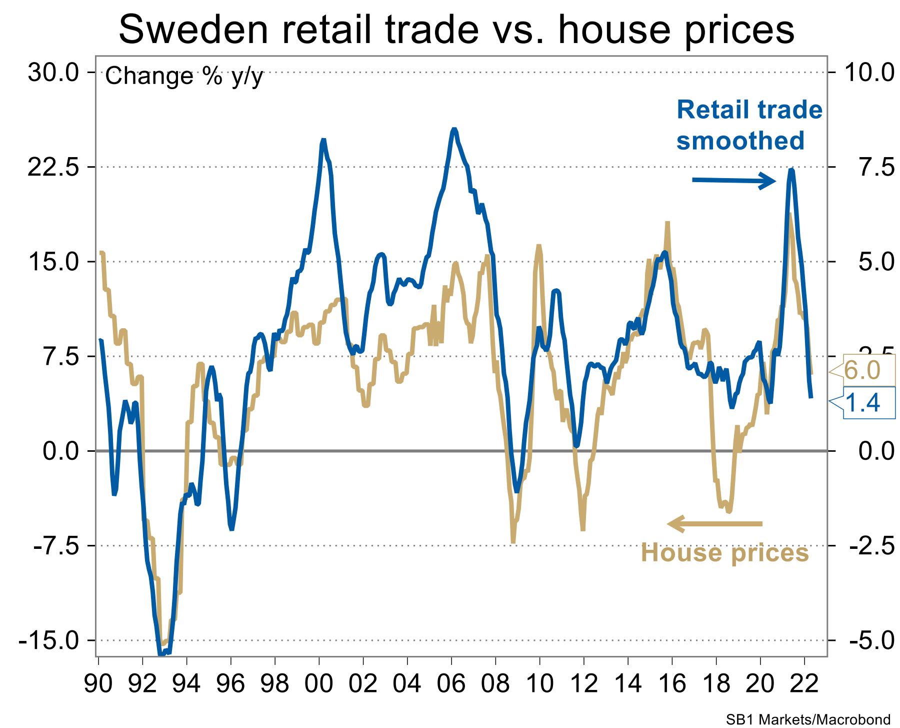


- **The composite index** rose 1 p to 110.5, expected down to 108,0 – the index is 1.0 st.dev above average. The index signals a 5% GDP growth rate
- **All 4 main sub-sectors** are reporting growth far above average. The **manufacturing index** rose the most in April, to 2.5 st.dev above average, close to ATH
- No impact so from higher interest rates in the **construction** sector

Consumer confidence further down in May, to the lowest level since 2008

Inflation, interest rates – and a war nearby. Not a positive sign vs. household demand



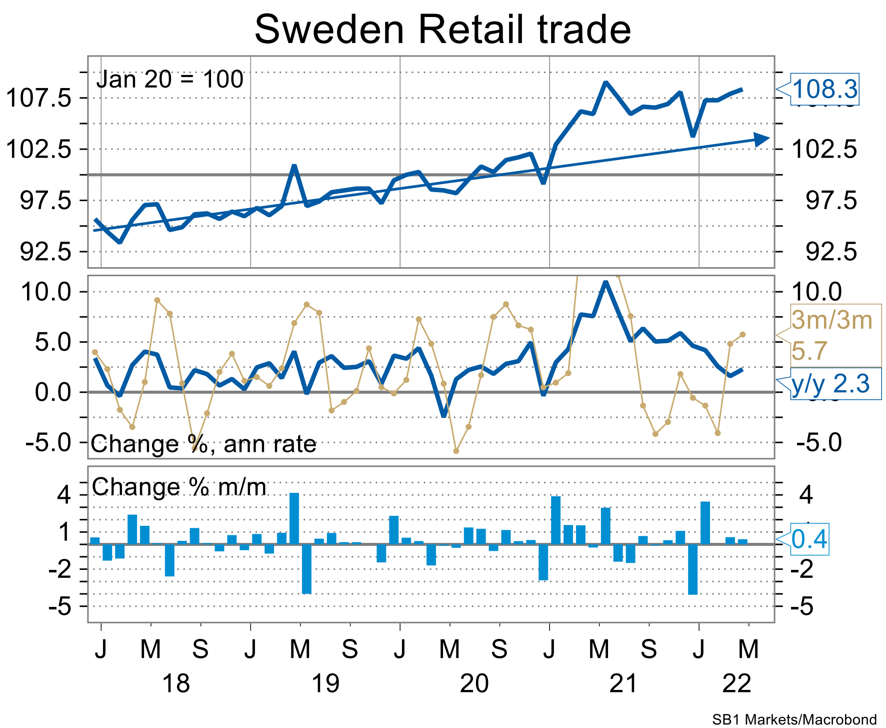


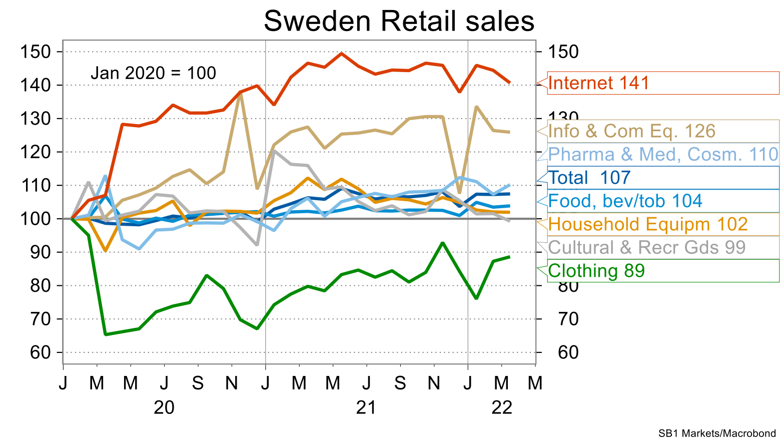
- **Consumer confidence** fell almost to the same levels as during the financial crisis (the pandemic was not as though as the fin. crisis) in March, rose slightly in April but fell more in May, to 2.4 st.dev below average
- Even if the annual growth rate in retail sales (and house price inflation) have 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

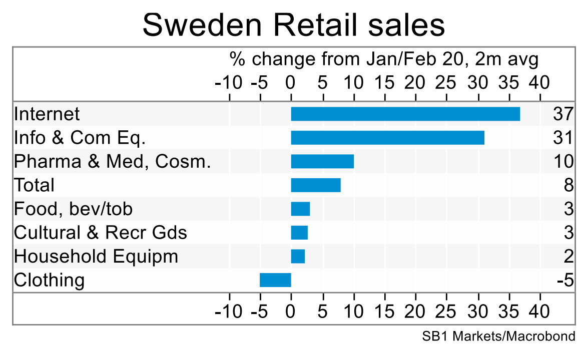
SpareBank 1 MARKETS

Retail sales further up in April, level well above the pre-pandemic trend

Sales are 8% higher than before the pandemic, some 5% above the pre-pandemic trend







- Sales rose 0.4% m/m. March was revised up to 0.6% from 0.2%
- As for Norway and several other countries: Retail sales are very likely above a long-term trend
- Clothing is still down 5% vs. the pre-pandemic level, rather surprising

Highlights

The world around us

The Norwegian economy

Market charts & comments

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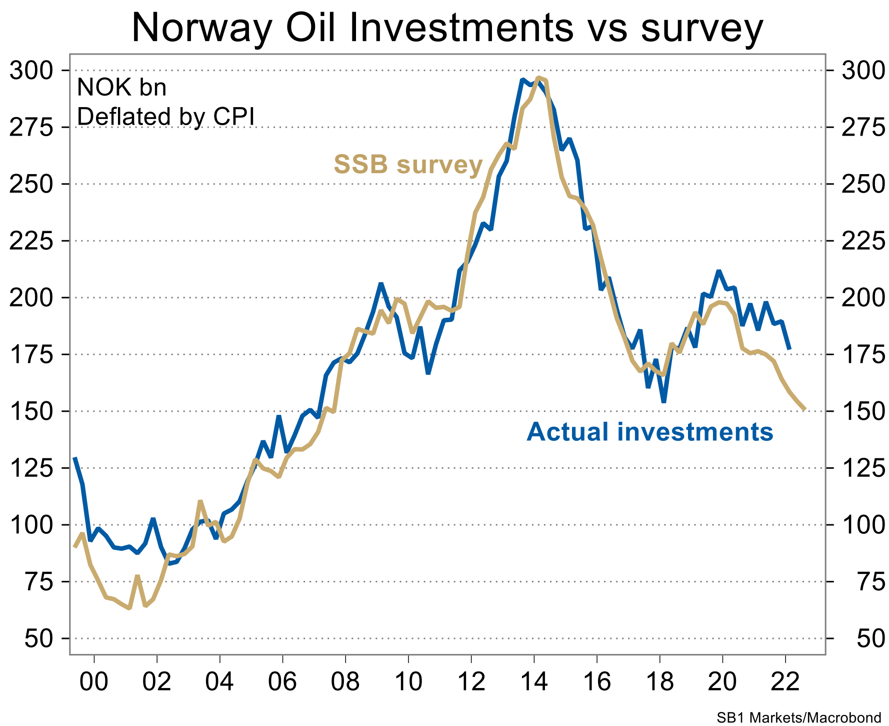
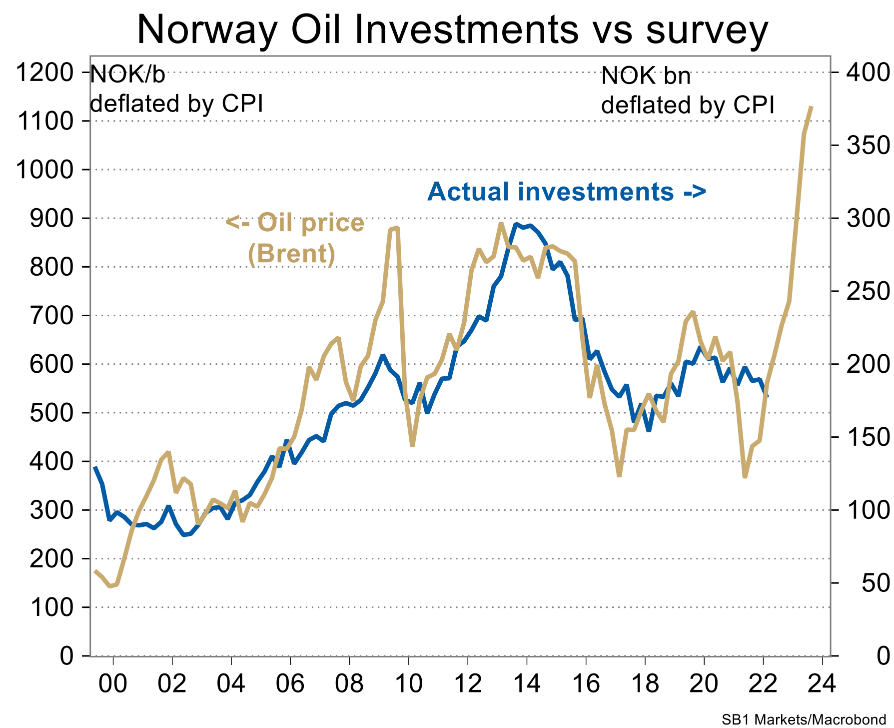
Oil investments: 2022 will be the local bottom

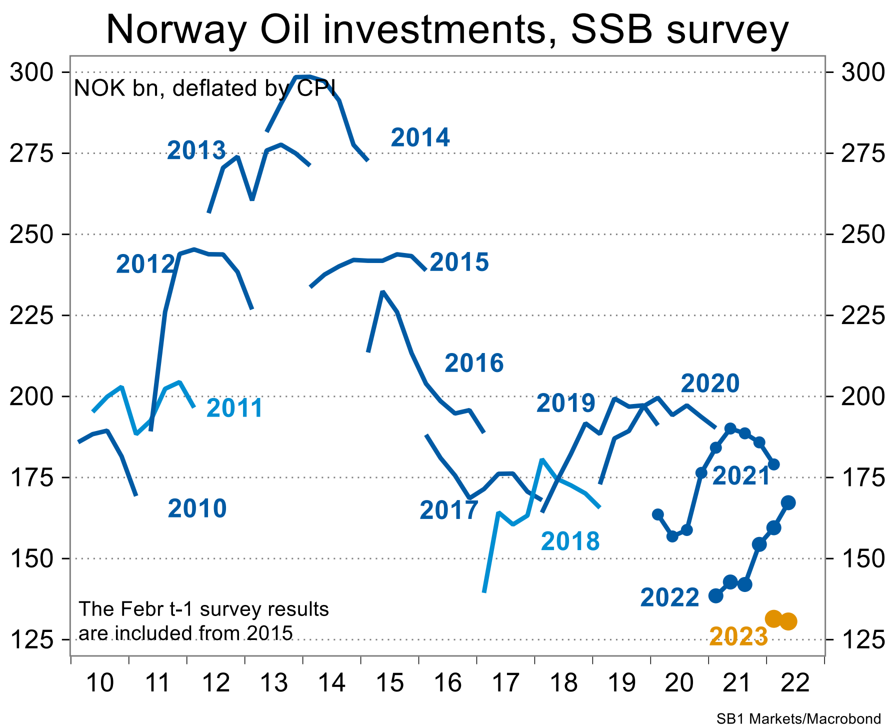
The temporary tax relief and high oil prices will lift investments substantially in 2023 (and ‘24+)





- **Oil companies lifted their 2022 investment estimate** by 5% to 167 bn. The estimate is still 8% below the equivalent 2021 estimate. Several investment projects will be added to the list (a PDO delivered) before end of 2022 in order to benefit from the temporary tax cuts decided in 2020 – and a higher oil price is also supportive – and there is some upside vs. the current May estimate (which on average is 3% higher then the final outcome)
- **The 2023 outlook** is far better, even if the May estimate was well below our forecast and 22% below the equivalent 2022 estimate – many projects will be added, both due to the temporary tax cut (check next page) and the high oil price (check the chart to the right above)

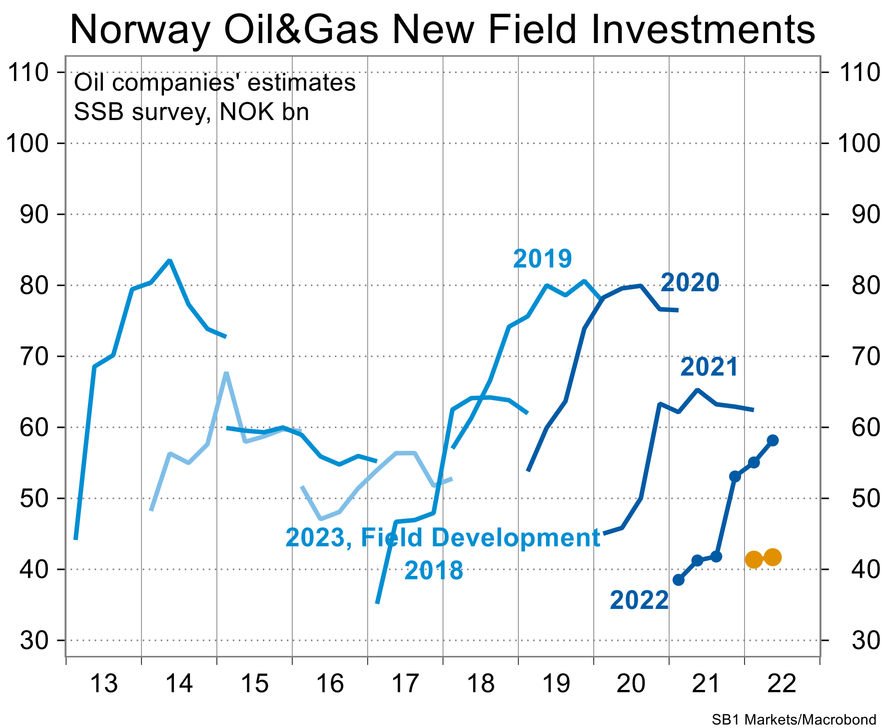
The 2023 forecast is still not relevant, many projects will be added

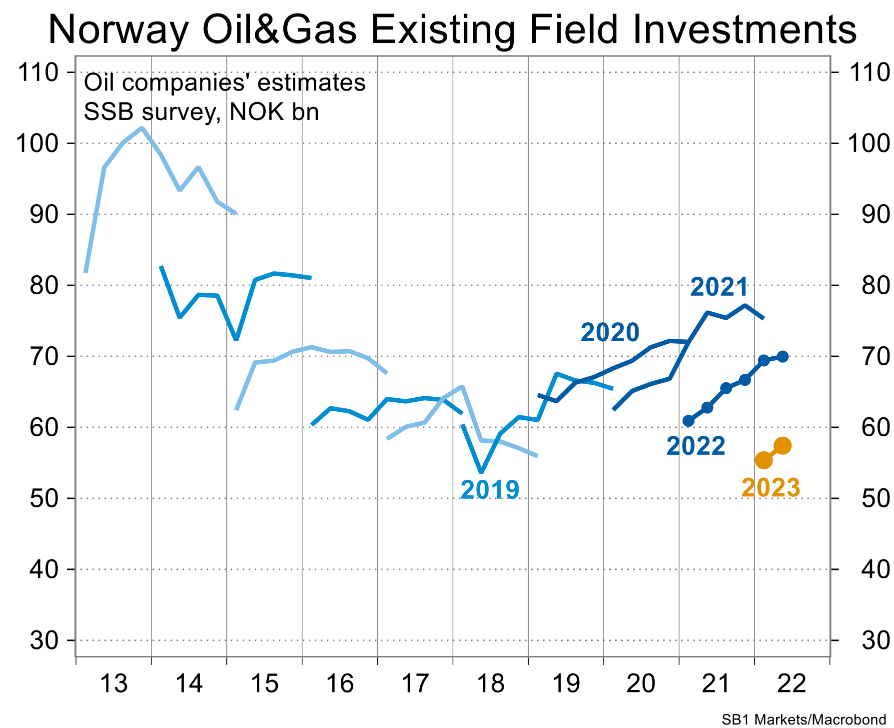


- In SSB's Q1 oil & gas investment survey, companies reported a small further increase in the **2022 investments in NOK**
- **The 2022 investment estimate** was revised up by 5% to NOK 167 bn, still down 8% vs the equivalent '21 estimate, in line with forecast. A large number of projects will be added before the end of 2022 in order to benefit from the temporary cut in oil taxes, and some spending on these projects may be booked on the 2022 accounts. Still, a decline in both value and even more volume is still very likely
  - » Both investments in new and existing fields are expected down in 2022
- **The 2nd 2023 estimate** rose 0.5% vs the February forecast to NOK 130 bn, we expected a revision to NOK 140. A NOK 4 bn decline in the exploration budget was not included in our forecast, and field investments were revised up less than we assumed
  - » However these 2023 estimates are rather irrelevant due to the temporary tax cut for the oil sector. Oil companies cannot include spending on projects before a Plan for Development and Operation (PDO) is delivered to the Min. of Petroleum and Energy. In order to utilise the tax cuts, PDOs must be delivered before Dec 31 2022. Thus, a record high no. of PDOs will be delivered before year end – and will be included in the investment survey in Q4 or in Q1 next year. We assume oil companies will spend substantial amounts next year on several of the projects
  - » The increase in the oil & gas prices are also an argument for expecting a lift in investments in 2023
- **Conclusion:** A short and quite shallow downturn in oil investments in 2021 and 2022 – then another boom, at least a mini boom

Companies gradually lift their field investment forecasts

A small decline in 2022 is still likely. The 2023 forecasts will be revised sharply op

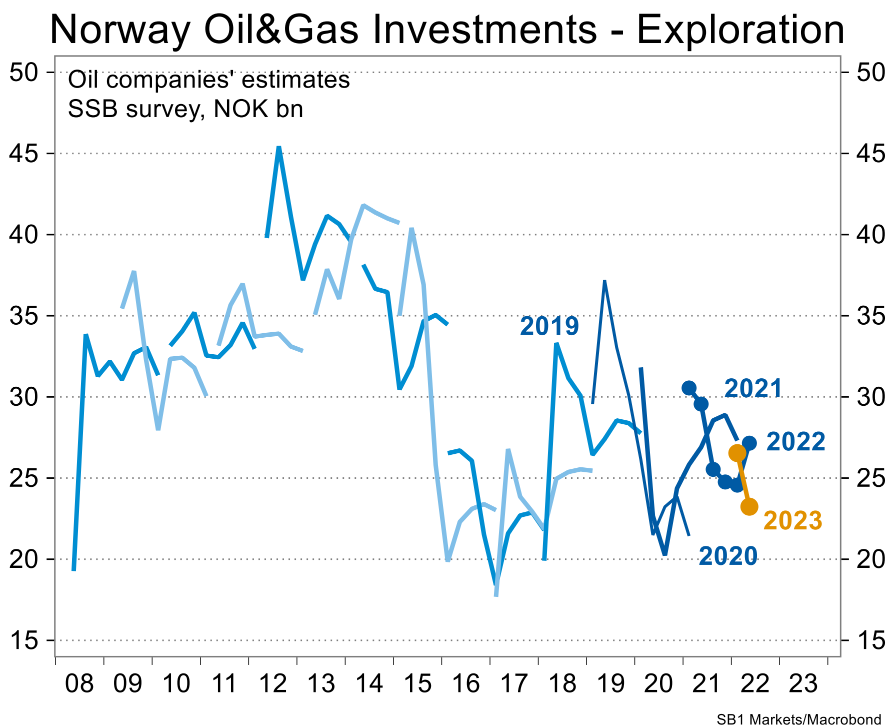


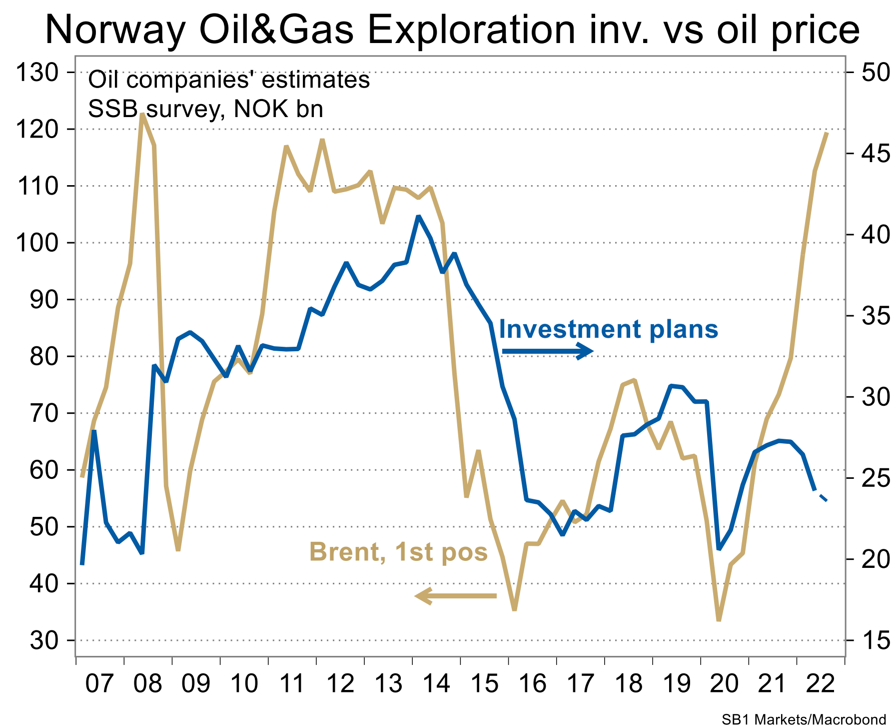


- **Investments in new fields**
  - » The '22 forecast was revised slightly up (without any new projects added). The current estimate is down 10% vs. the 2021 outcome.
  - » The '23 forecast is still irrelevant (check the previous page)
- **Investments in fields on stream**
  - » The '22 forecast was revised upwards, in a normal manner. Companies signal a 6% decline vs. 2021
  - » A bit more surprising, companies are still signalling a substantial decline in investments in existing fields in 2023, by some 10%. Some rehabs will probably be added the coming quarters

Spending plans for exploration & concept studies down in 2023

A bit surprising, given the rush for delivering PDOs before the end of the year. More spending in ‘23?

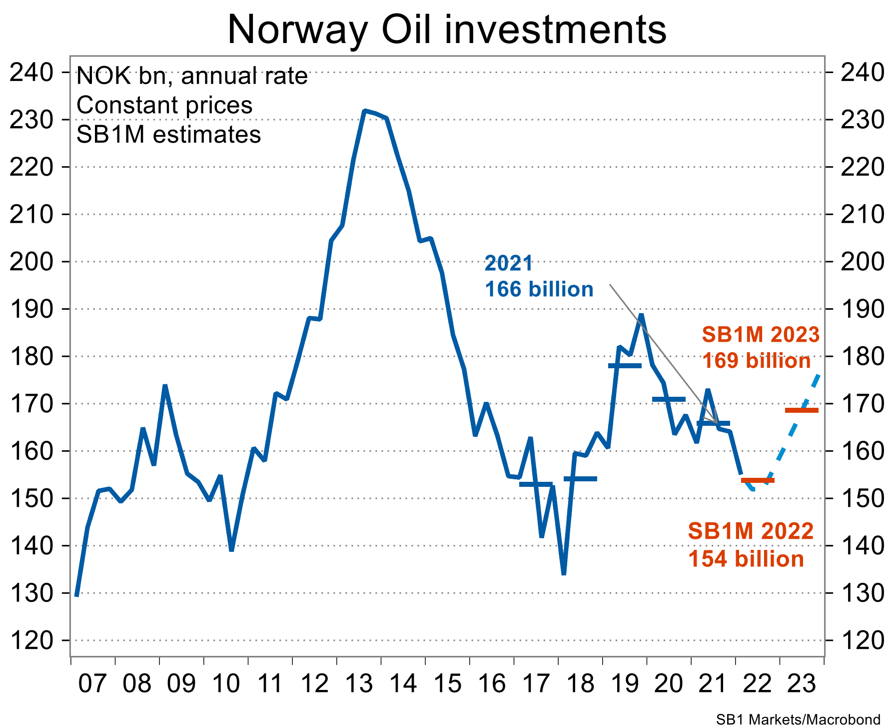


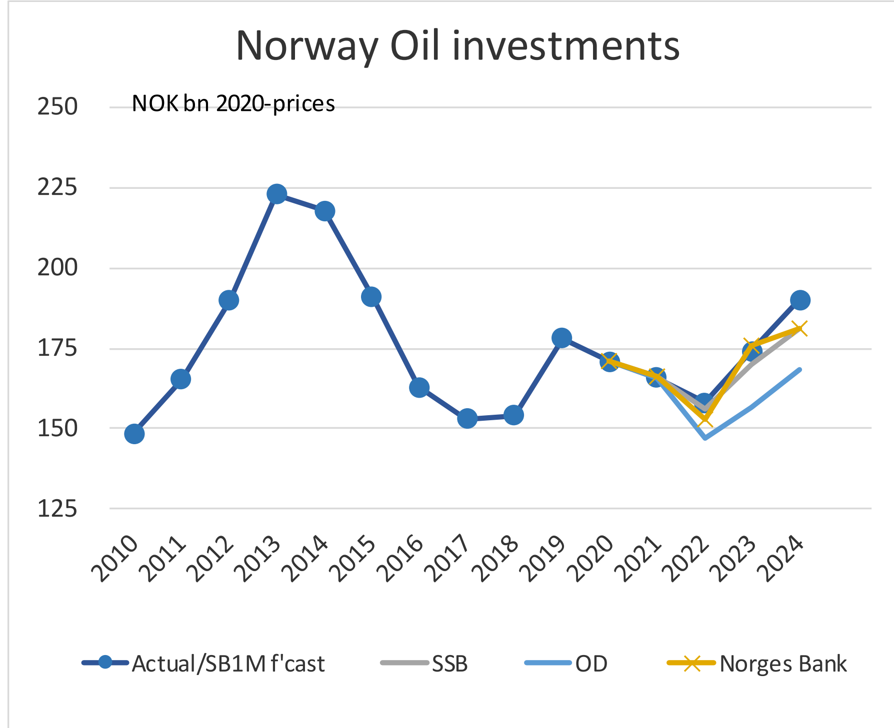


- More spending may be included when oil companies will deliver PDO’s for a large number of projects before end of 2022
- Anyway, the current ‘22 estimate in line with the 2021 outcome
- The 2023 estimate is 20% (!) below the equivalent 2022 forecast

Oil investments further down in 2022 – before the next mini boom

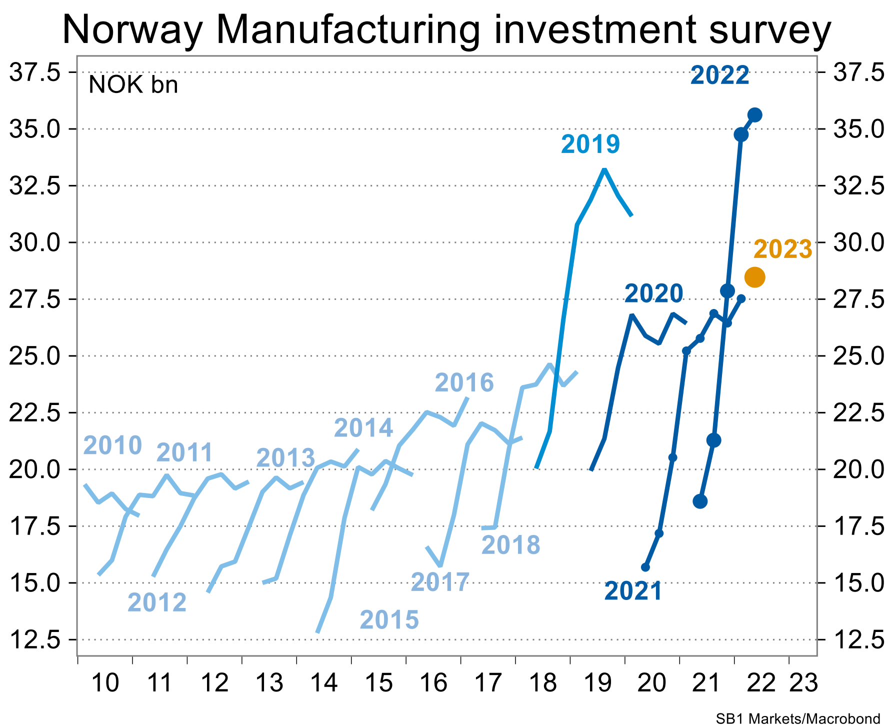
The surge will come later, from 2023

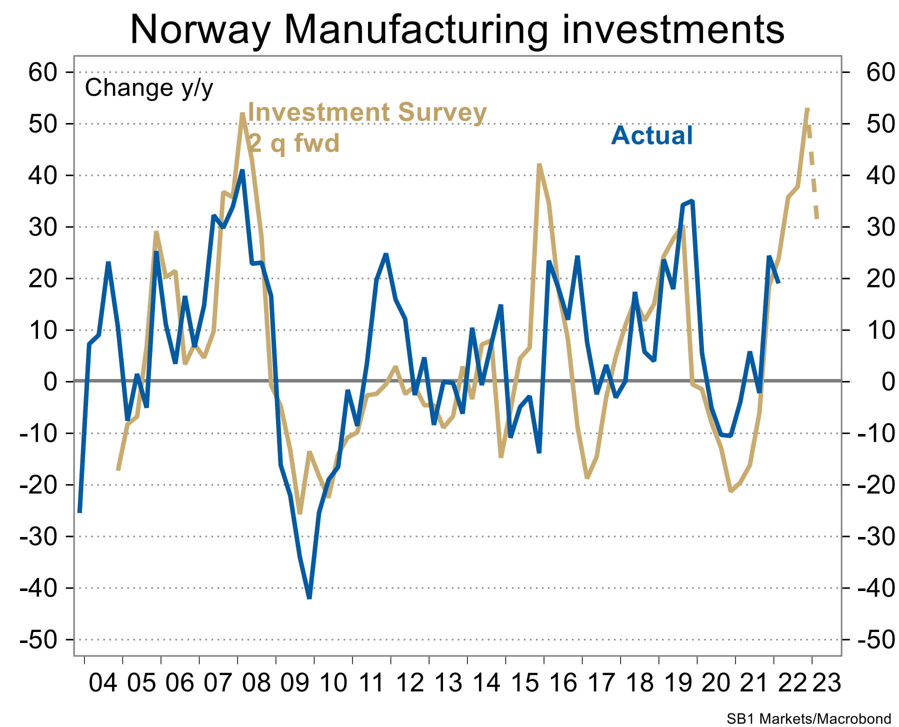




WOW, manufacturing investments probably further up in 2023

At least 20% volume growth in growth in 2022, and almost double digit in 2023?

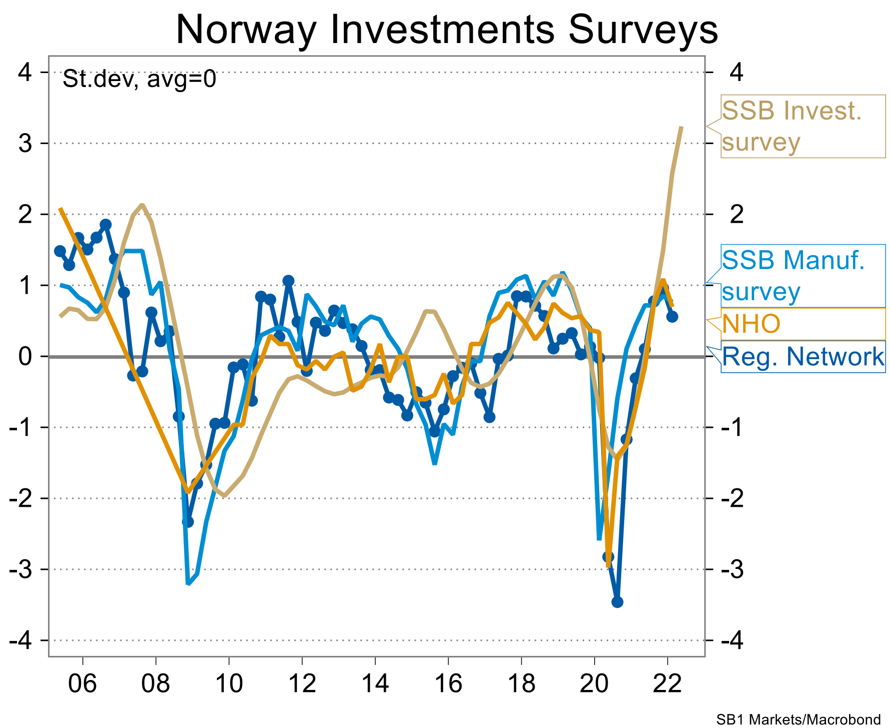




- Manufacturing companies report a 38% growth in **investments in 2022** – to the highest level ever, at least in nominal terms. We assume at least 20% in volume terms (prices are rising rapidly)
- The first **2023 estimate** is very high, up 53% from the first 2022 estimate, one year ago. The estimates for 2022 has been revised upwards much more than normal, and we do not expect the 2023 estimate to follow the same steep path. Still a substantial further growth in investments in 2023 seems likely, we assume 15% in nominal terms and at least 5% in volume terms. If so, up to ATH in volume terms too
- **Computer/electrical equipment** contributes the most to the increase in the 2022, followed by non-ferrous metals
- **Non-ferrous metal industry** reports very aggressive 2023 investment plans too, as does the computer/electrical industry. We assume batteries are included in the electrical industry

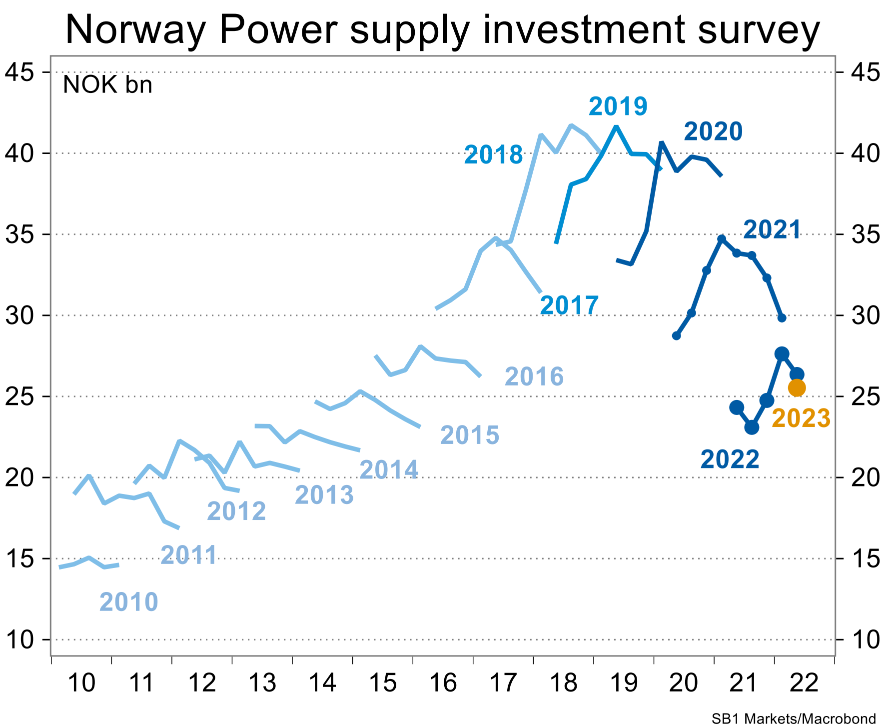
Other surveys are signalling strong growth in manufacturing investments

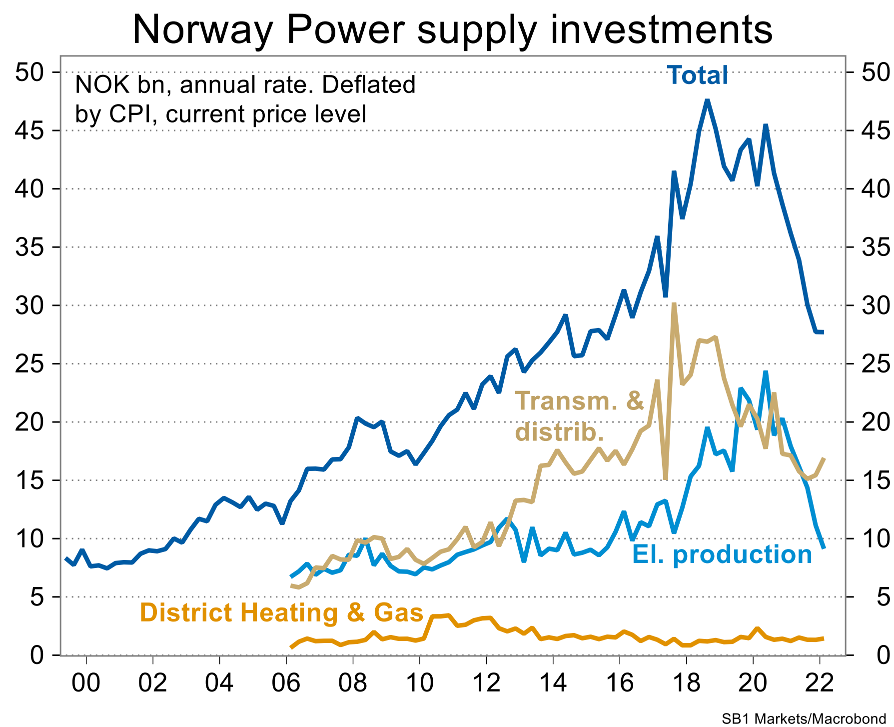
... If not at the same scale as SSB's investment survey



Power supply: After 2 years of decline, a small uptick next year?

Investments -23% in ‘21, we assume -12% in 2022 – but then a 10% – 15% recovery in 2023

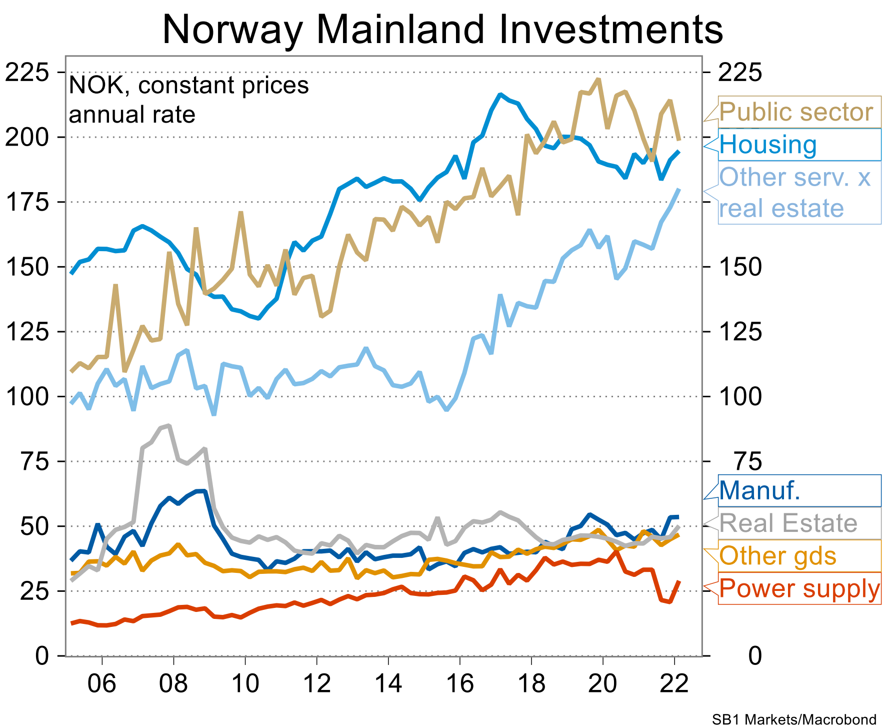


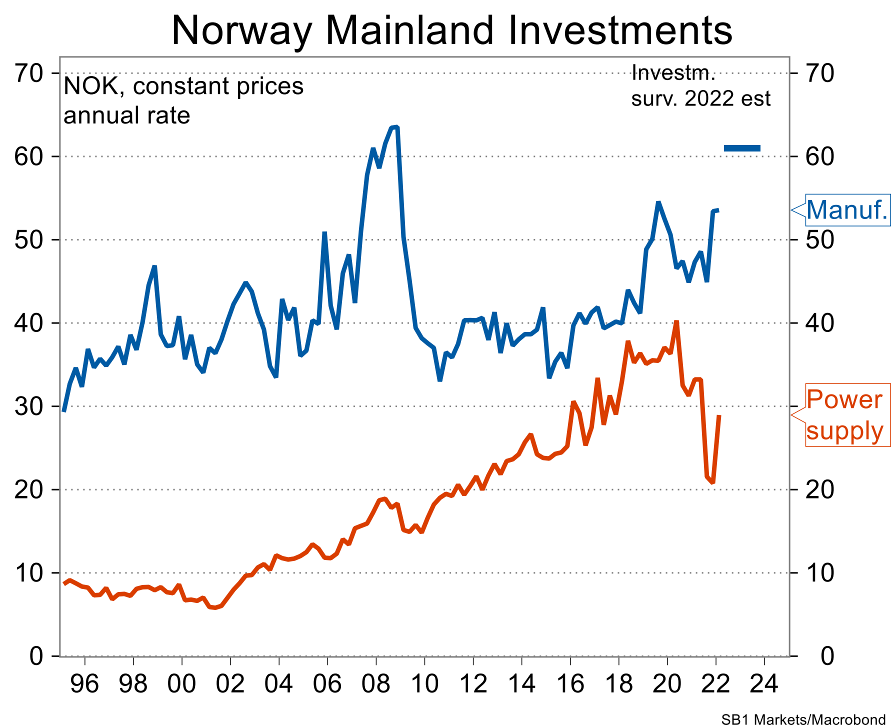


- **Power supply** (production & distribution) companies invested NOK 30 bn **in 2021**, down from 23% from the 38 bn level in 2020 (and 40 bn at the peak in 2018)
  - » Some big wind power projects were completed by the end of 2020, and few new projects have been added, contributing to the decline in 2021
- Companies cut their **2022 investment f’cast** by 1 bn (5%) vs their Q1 prognosis. The estimate is 22% below the equivalent 2021 forecast. However, the decline in the 2021 estimates was rather steep from the May survey, and the final decline in 2022 will be some 15% (nominally)
- The first **2023 forecast** was 5% above the equivalent 2022 forecast, and we expect the final outcome to be well above
- Until 2018, power supply investments had more than quadrupled since early 2000, by more than 10% p.a on average. The investment level as % of Mainland GDP was above 1%, the highest in decades. Both production & transmission have contributed. <u>To 2022 from 2018, investments may decline by 36%</u>, in nominal terms, and more in real terms. <u>Will the green transition new turn the tide? Quite likely</u>

Manufacturing and power supply investments are diverging sharply

Power supply investments were very low in both Q3 and Q4. Manuf. on the way up – to the sky?

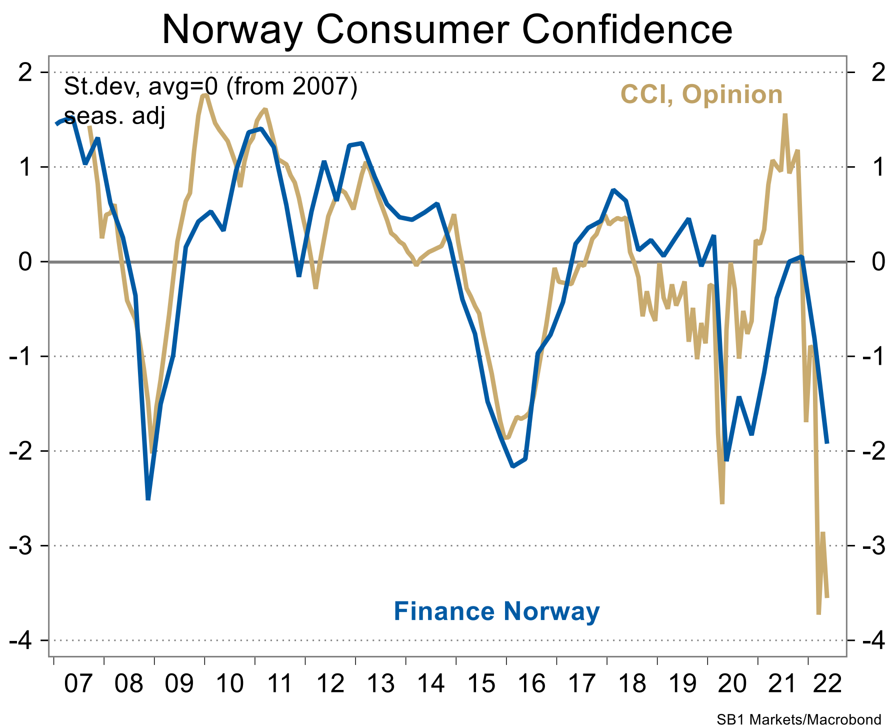


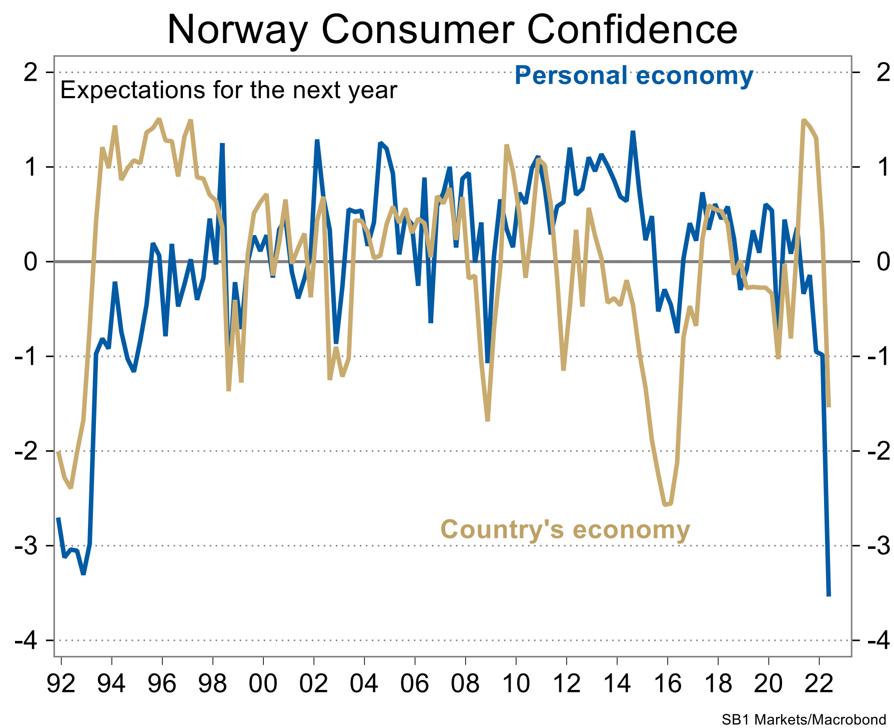


- SSB's investment survey signals a huge leap in manufacturing investments in 2022, + 30%, in volume terms to NOK 62 bn?

Finans Norges' Q2 consumer confidence down to -2 st.dev, as expected

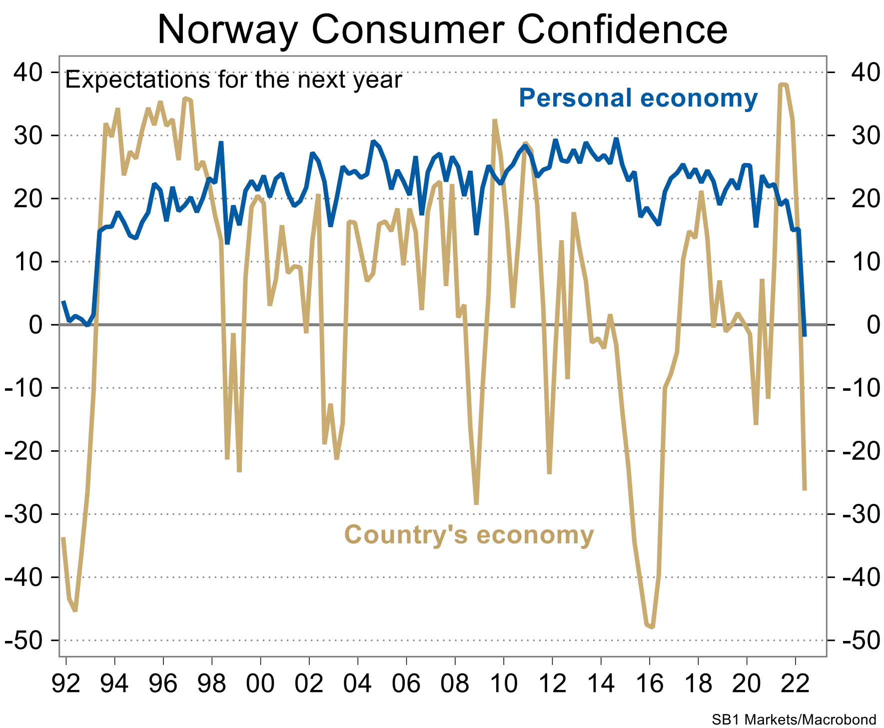
However, personal economy expectations collapsed: (perceived) Inflation, interest rates or the war?

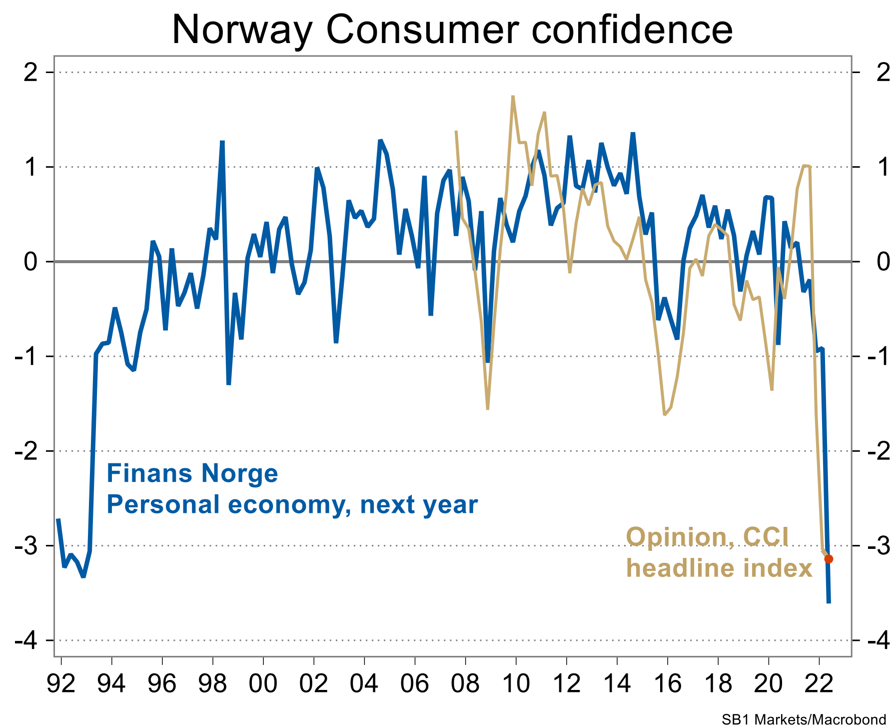




- **Finance Norway's quarterly consumer confidence index** fell to -11.7 in Q2 from +0.7 in Q1, we expected -10 (but from prev. reported 5). The index fell to 1.9 st.dev below avg., from -0.8 in Q1 . The index is still above the bottom during the pandemic (& the oil 'crisis', fin. crisis)
- **Households' expectations** of their own economy fell off the cliff in Q2, by 2.5 st.dev to -3.7, to the lowest level ever! (The actual index number fell to -1.9 p, from +15, the first negative print ever: So the balance is still not that weak per se, but far weaker than normal, check the chart on the next page too)
- **What's up (or down)? Inflation, interest rates or the war? Inflation** was high in Q4 and Q1 as well, but we think households 'feel' inflation has increased far more than the actual increase in the CPI (and they fear the worst). The **interest rate** outlook may be to blame – but interest rates have been on the way up before too, without killing the sentiment. And while **house buying plans** fell, they are far from weak. The war may of course be a worry, but not specifically for the personal economy? Or is it just the sum of all these concerns?
- **Opinion's monthly consumer confidence index (CCI)** fell again in May, down to -3.6 st.dev below average – in line with the outlook for the personal economy in Finans Norge's Q2 survey

A very special data point for personal economy outlook. But the CCI agrees!

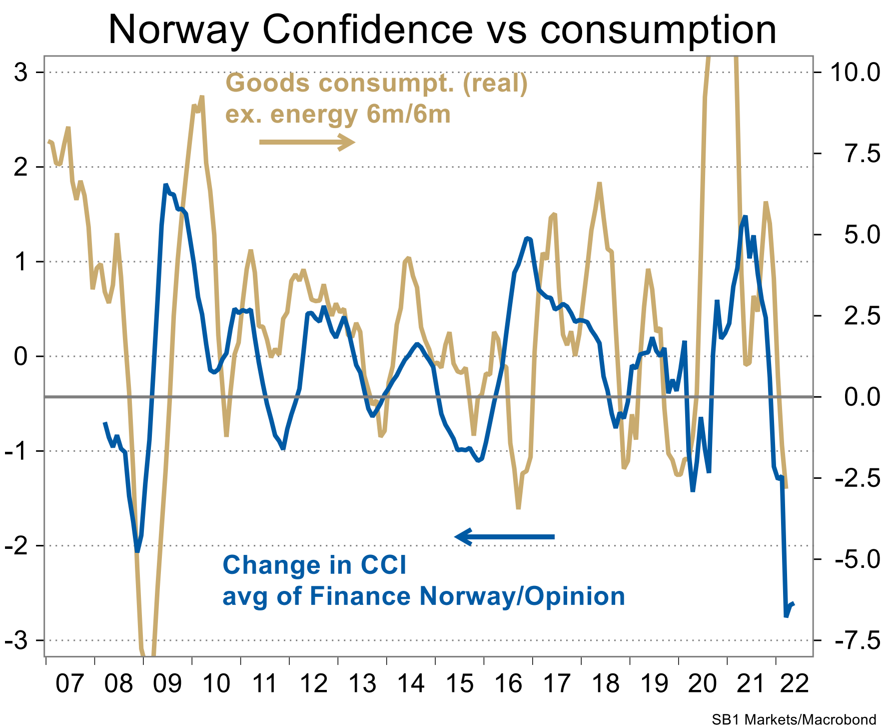


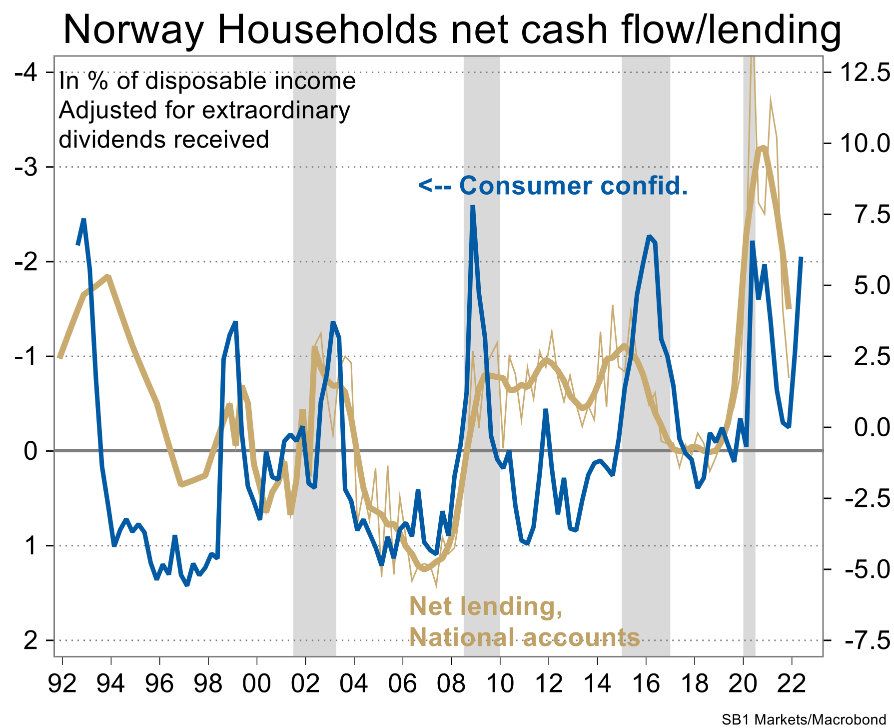


- Households have very volatile views on the outlook for the country's economy – and in actual number (not standardised), the decline was even larger for the outlook for the country, from +12 net positive to -26

A sharp decline in consumer confidence is normally not a good sign

Neither consumption nor savings are uncorrelated to the confidence leve/changes in confidence



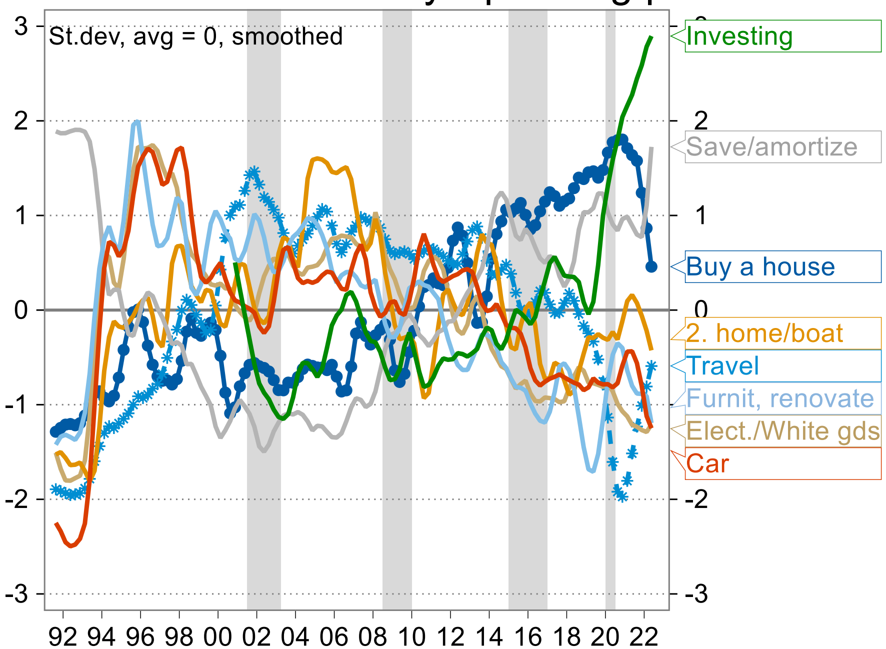


SpareBank 1 MARKETS

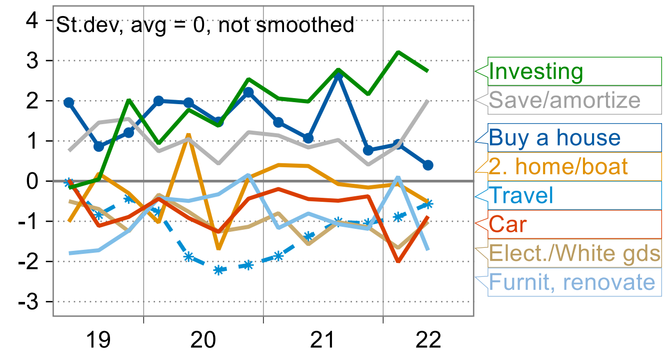
It's time for 'investing' and saving, like never before. Travels towards normal

House buying plans have has fallen recent quarters, and further in Q2 but are not below average

Finance Norway Spending plans

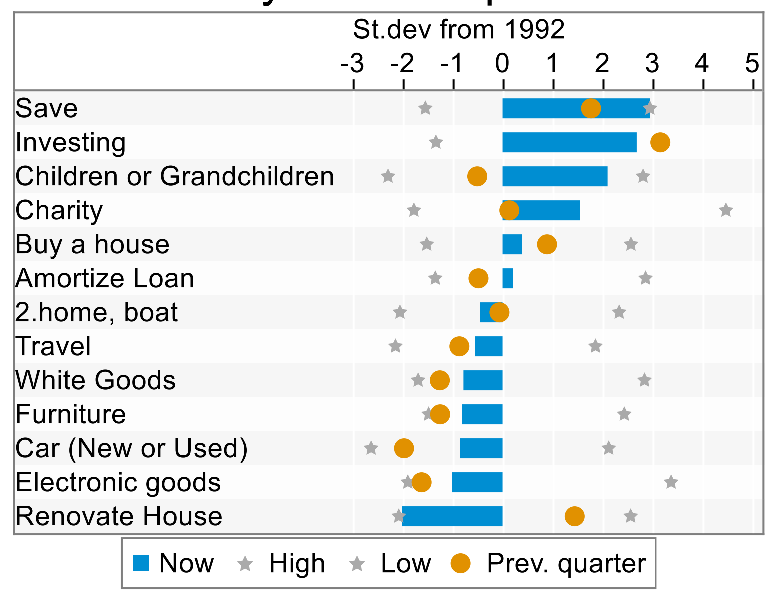


SB1 Markets/Macrobond



SB1 Markets/Macrobond

Norway How to spend it?

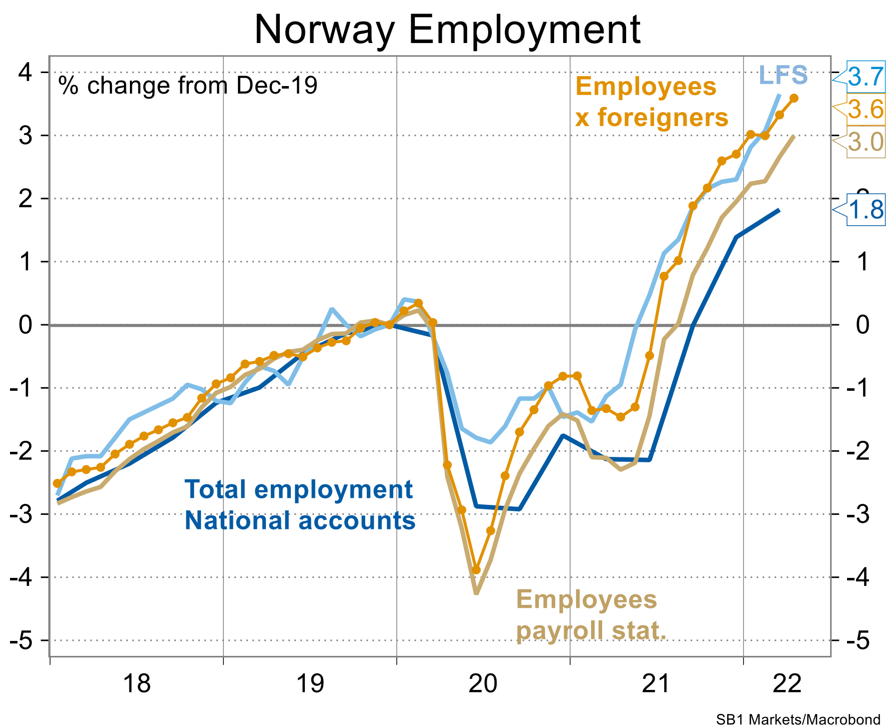


SB1 Markets/Macrobond

- **Home buying plans** have fallen sharply, but the rate is higher than the average from 1992 – but in line with the avg. since 2000
- Demand for **2nd homes and boats** has fallen below average, **car buying** plans rose but are still below par. **Furniture/renovate house** fell sharply. **Travel** is ticking upwards, is approaching par
- **Savings plans** shot up in Q2, and is the highest ever, and 'investment' plans are even stronger! We do not know what sort of investments households are referring too

Still strong growth in employment

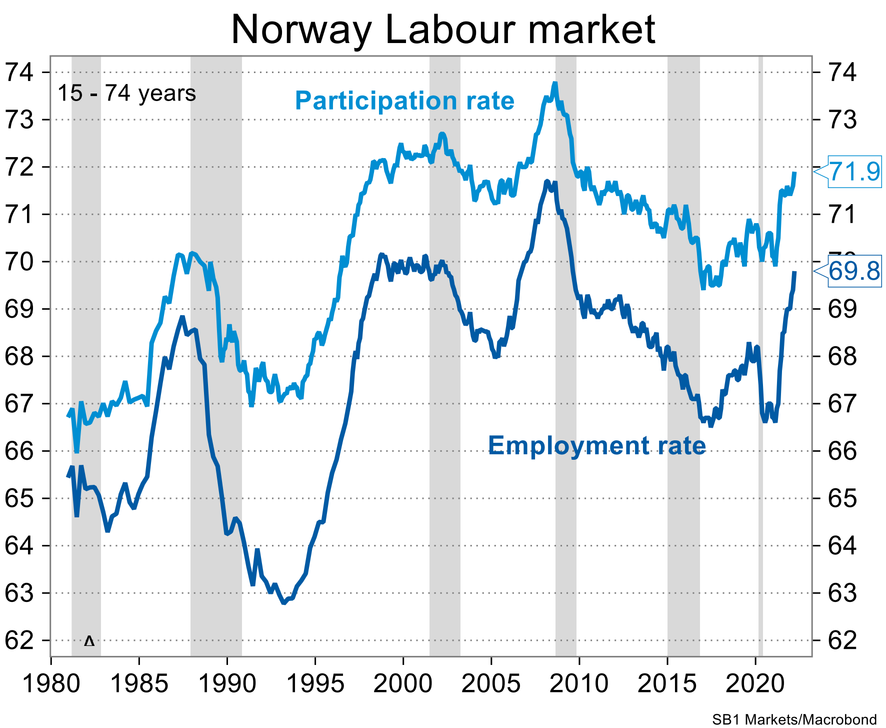
LFS employment rose by 0.6% in March



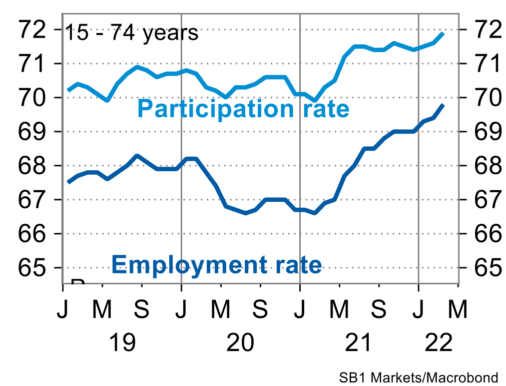
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) reported 0.6% growth in March (avg. Feb – Apr) from avg. Jan – Mar), and by a 3.0% pace over the past 3 months
  - » LFS employment is up 3.7% from before the pandemic – and the LFS unemployment rate has 'collapsed', now to 2.9%
- The register based employee stats, report a 3% growth since Q4-19. Excluding foreigners on short term stay, the no. of employees is up 3.6%
- National accounts report a 1.8% lift form Q4-19

The best news: the participation rate rose significantly in March!!

The rate has been close to flat since last summer – but improved

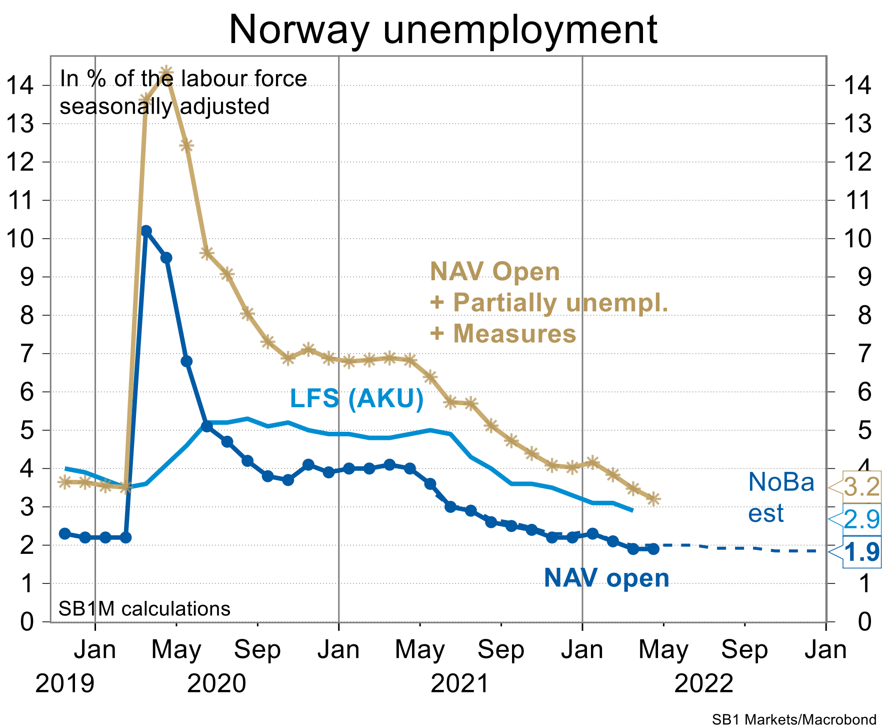


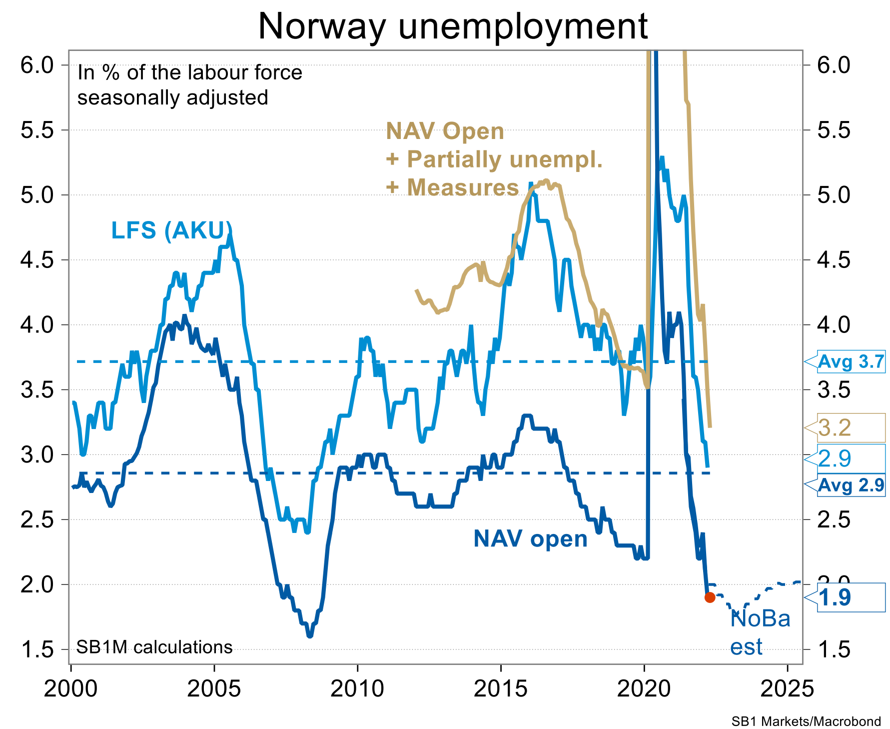
- **The employment rate** rose 0.5 pp to 69.8% in March
  - » Ahead of the pandemic the rate was 68.1% – 68.2%, and it is up from the 66.4% through in early 2021 (and from the same level in 2017, after the 'oil crisis'). The employment rate is measured in % of the working age 15 - 74 y population
  - » The employment rate is the highest since ~~2012~~ 2009
- **The participation rate** gained 0.3 pp to 71.9% in Feb. Until the lift in March, participation had been flat since last summer. Are there still reserves out there? If so, very good news – and an argument for Norges Bank to let the boom continue
- **Working age population** growth is up 0.75% over the last year (Q1 est), in fact higher than before the pandemic. Labour immigration has accelerated somewhat, possible as a ketchup effect after low immigration during the pandemic. Given the tight labour markets in the rest of Europe, we doubt labour immigration will solve the labour deficit in Norway



LFS/AKU unemployment down 0.2 pp to 2.9%, lowest since 2008

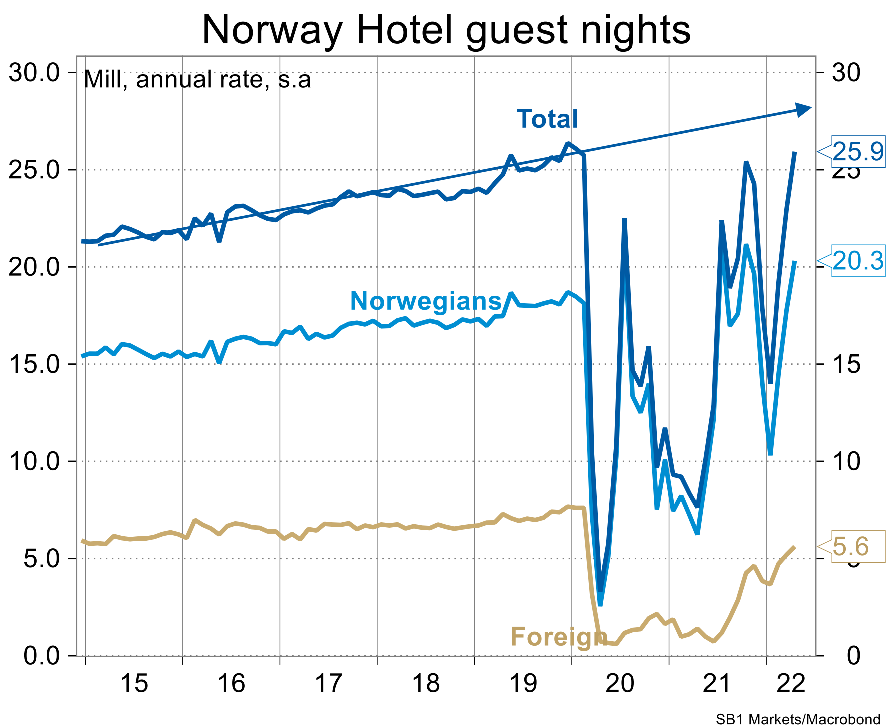
The decline was steeper than expected but 2.9% is at (the downward) trend

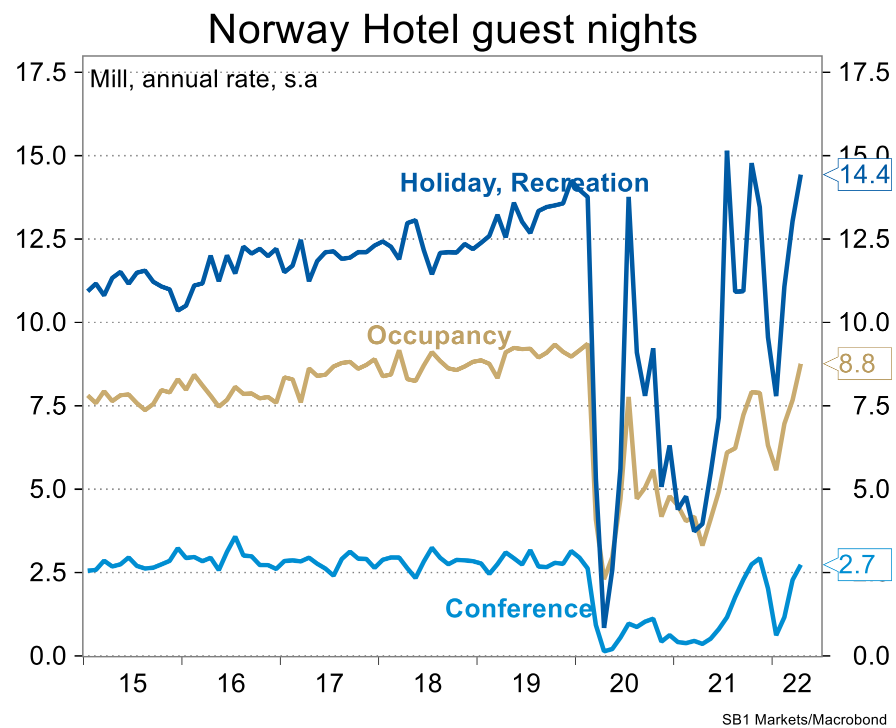




The best April for hotels ever, and almost the best month ever!

Still some fewer foreigners than before but more Norwegians – and the hotel sector is back on track



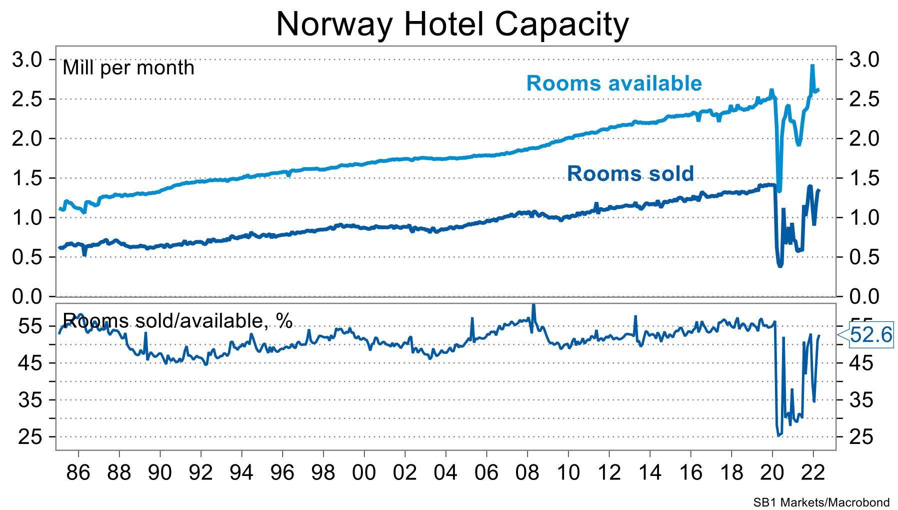


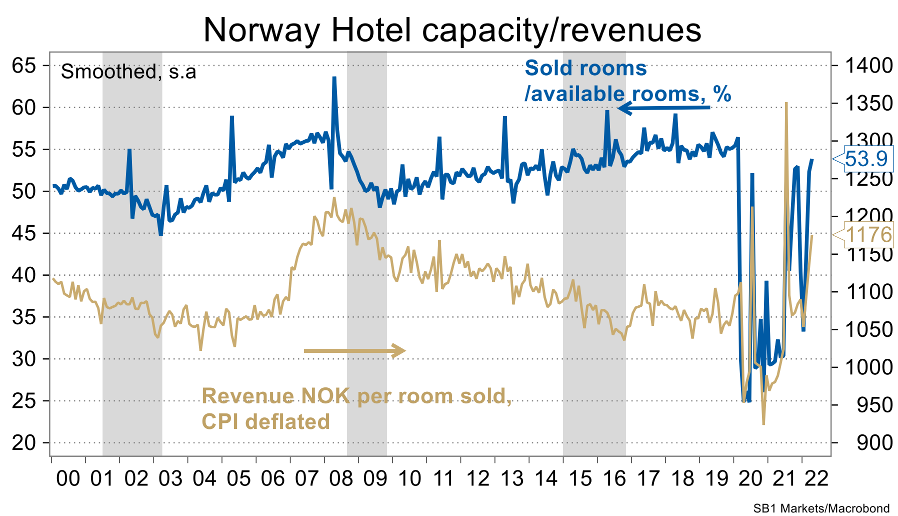
- Recreational traffic is higher than ever
- The conference market is back the pre-pandemic level – it took just some few weeks after restrictions were lifted
- Other business guest nights are just marginally below the pre-pandemic level
- The no. of guest nights is still somewhat below the pre-pandemic trend growth paths, but no more than 5%, and just due to fewer foreigners – but they are now returning at a rapid pace

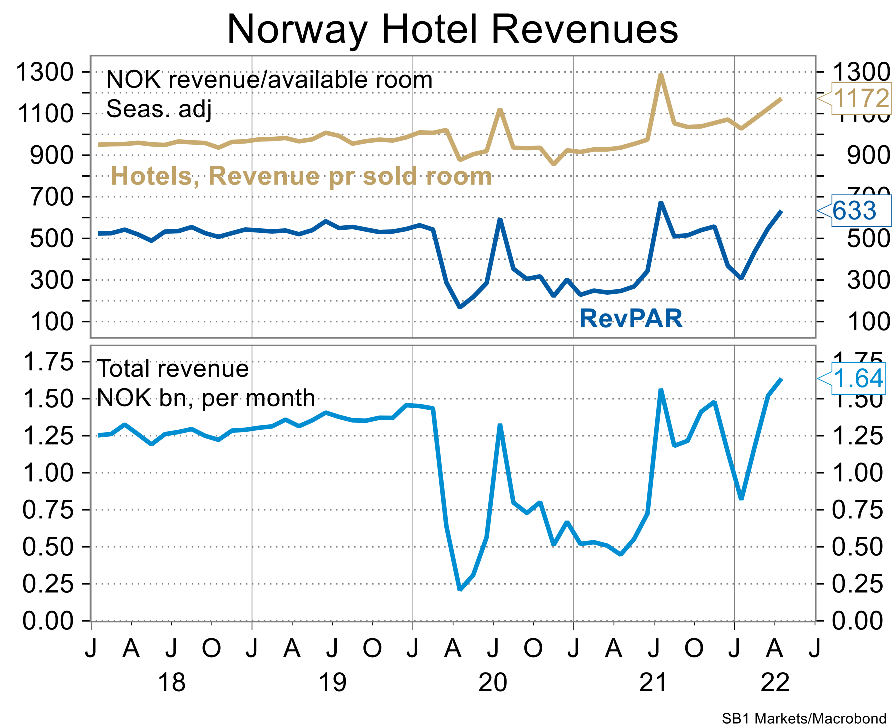
SpareBank 1 MARKETS

Capacity utilisation still 2.5 pp below par, but prices are up 17% since Feb-20…

… RevPAR is higher than ever before, as are total revenues





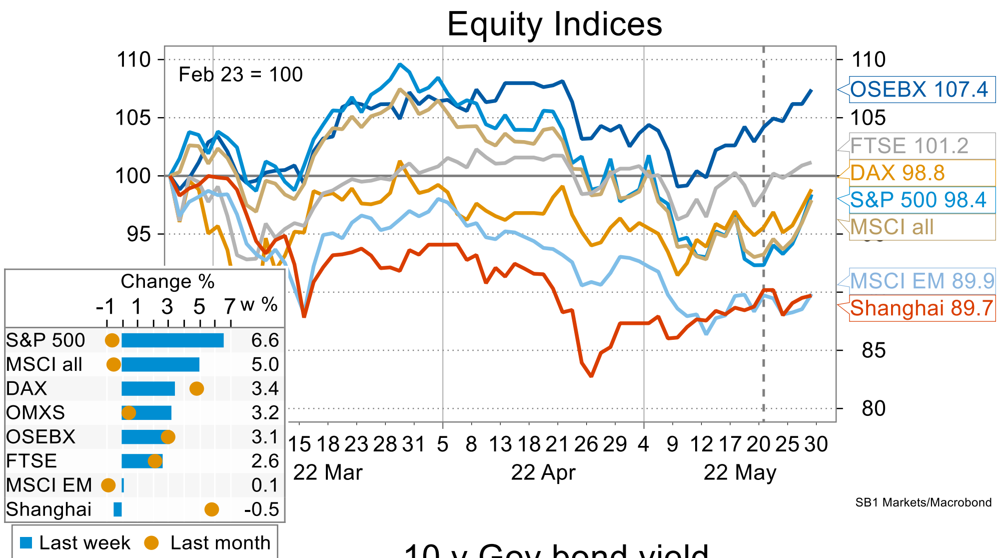


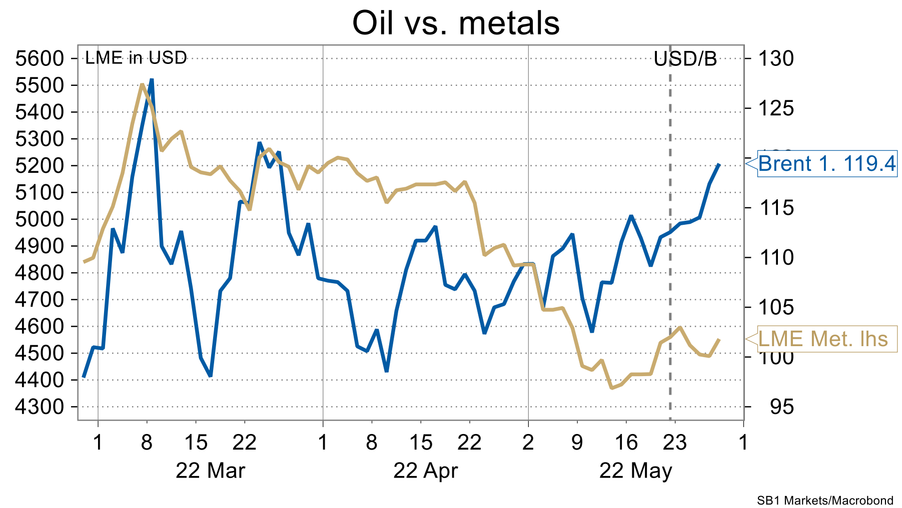
- **Capacity utilisation** (room sold vs. rooms available) was 52.6% in April, down from 55% from before the pandemic
- **Revenue per sold room** is 18% from the Feb-20 level, a substantial increase (it is also called inflation)
- **RevPAR** (revenue pre available room) is marginally lower than in 2019, in nominal terms (and significantly down in real terms, or deflated by the wage level)

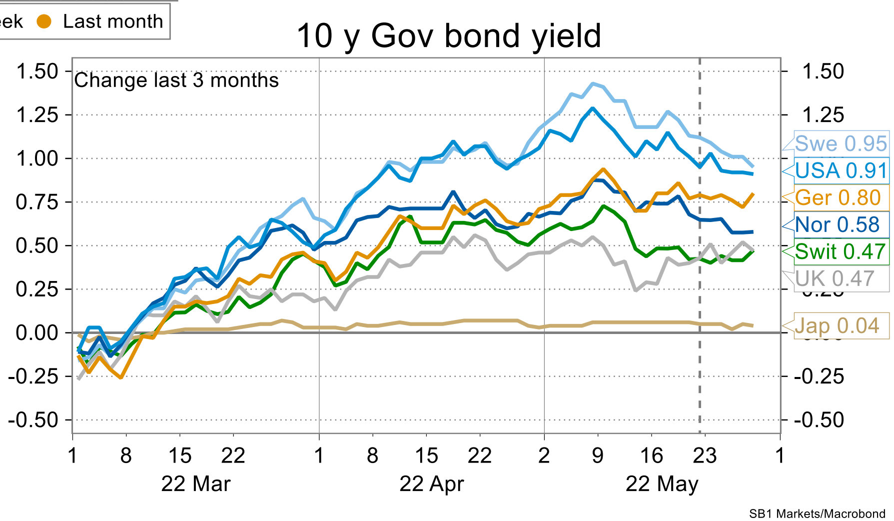
SpareBank 1 MARKETS

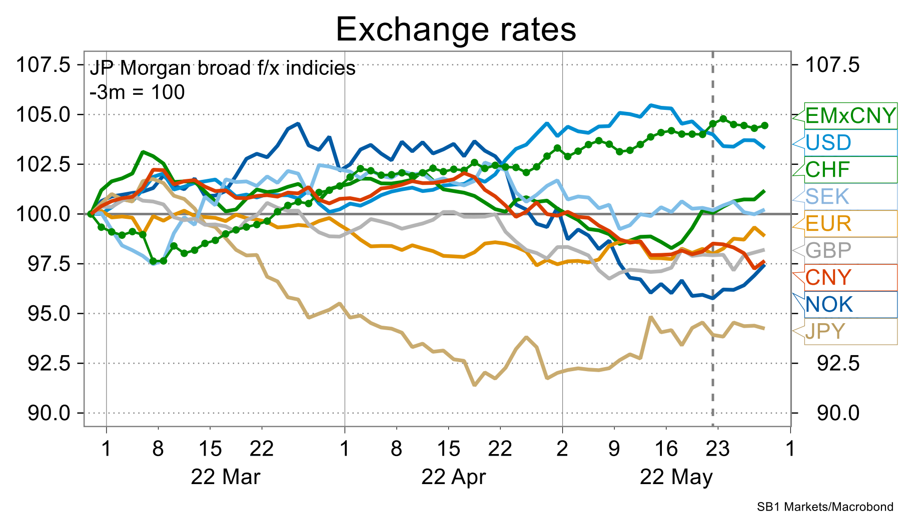
Risk ON!!! S&P500 up 6.6%, the oil price sharply up too

Yields mostly down. And the NOK bottomed, no surprise





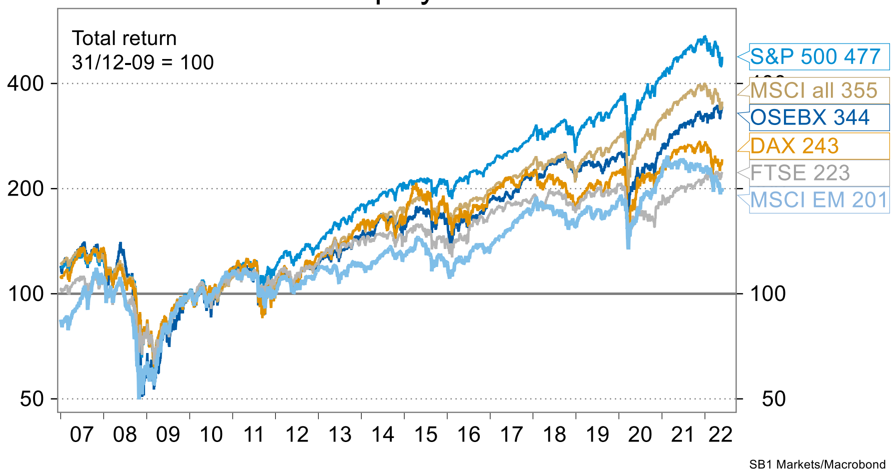




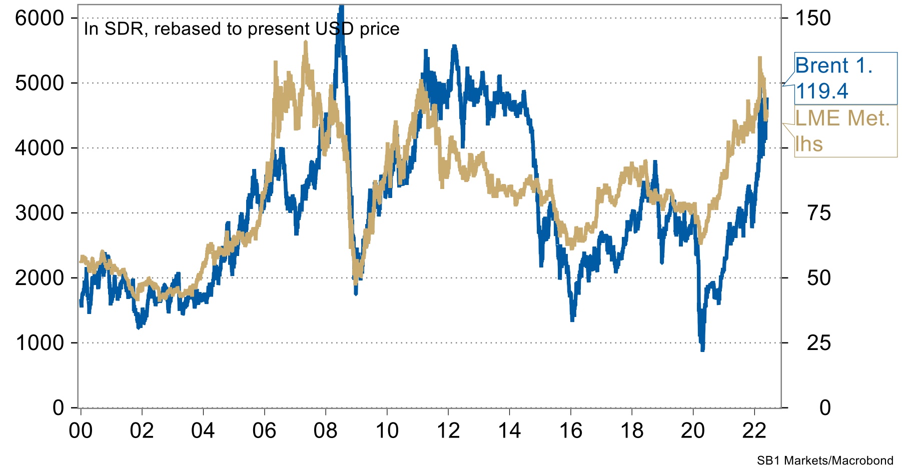
The big picture: Stock markets still down (-oil rich OSEBX, FTSE), bond yields up

Commodities have taken a big step upwards, at least since early March

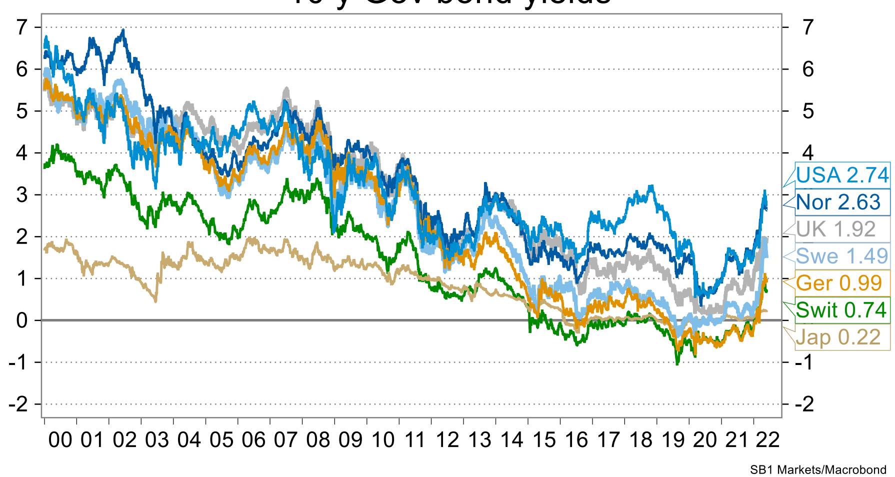
Equity Indices



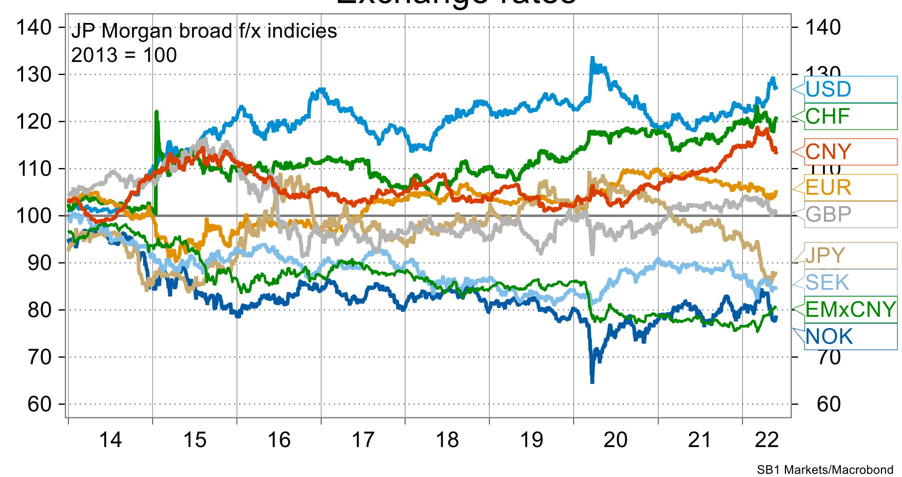
Oil vs. metals



10 y Gov bond yields



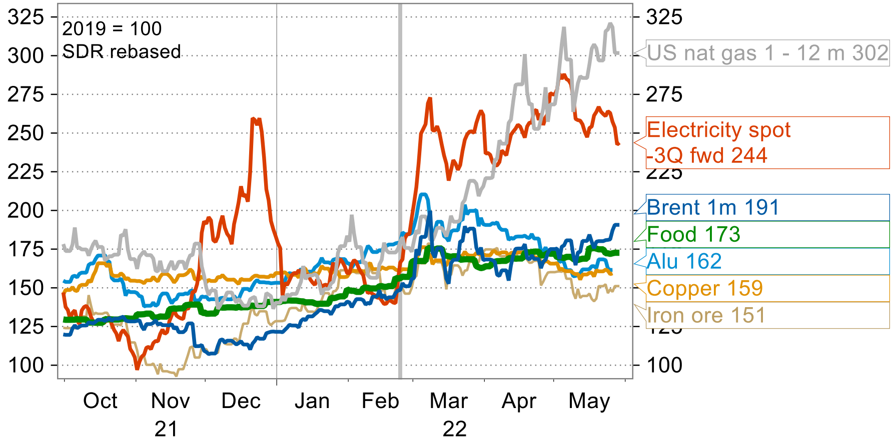
Exchange rates



Oil, gas prices up last week, other commodities down

Food prices have been stable since just after the war started (in SDRs, down in USD)

Commodity prices



SB1 Markets/Macrobond

Commodity prices

In SDR % change	last w	last m	Since Feb 23
UK nat gas 1-12 m	6	2	-5
Brent 1m	6	9	28
Brent 1-12 m	5	7	24
US nat gas 1 - 12 m	2	12	68
Iron Ore	0	-6	1
LME Metals	0	-6	-2
Aluminum 3 m fwd	-1	-7	-10
Food	-1	0	11
Copper,3 m fwd	-1	-4	-1
Wheat	-2	11	38
NOK electricity spot-1y	-7	-12	47

Last week · Last month

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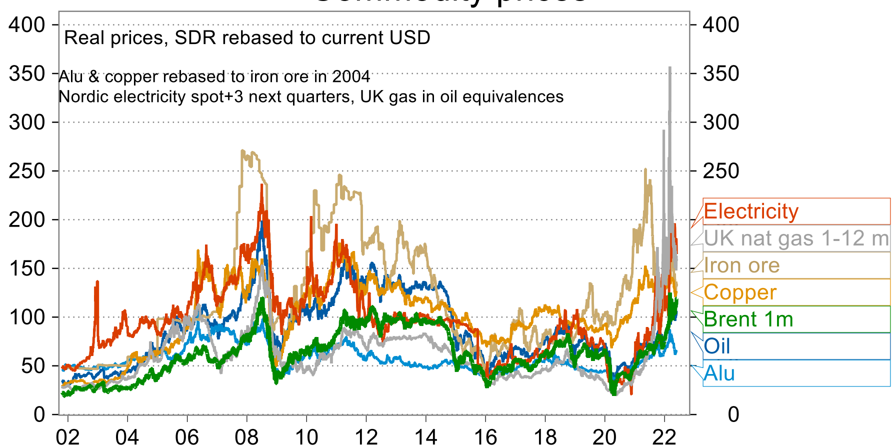
Commodity prices



SB1 Markets/Macrobond

- Oil prices rose further last week – to the highest since just after the invasion (even if Russian oil is still flowing freely)
- UK natural gas prices rose last week but are still 5% down since before the invasion
- US natural gas prices are up 68% - some LNG 'leakage' to Europe?
- Norwegian electricity prices fell last week but are up 47%
- The Economists food commodity index fell 1% last week, and has been close to flat last month – and prices are up 11% from before the war

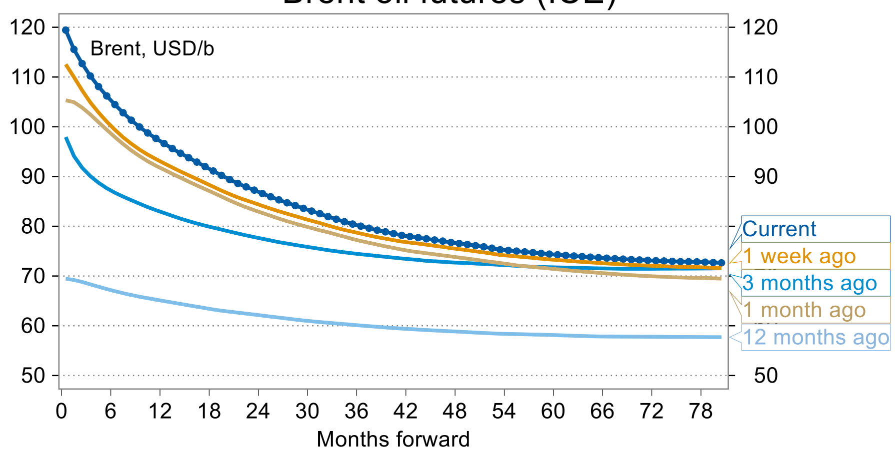
SDR: Special drawing rights – a 'global currency'

The oil price curve up

Brent oil, spot & Dec contracts

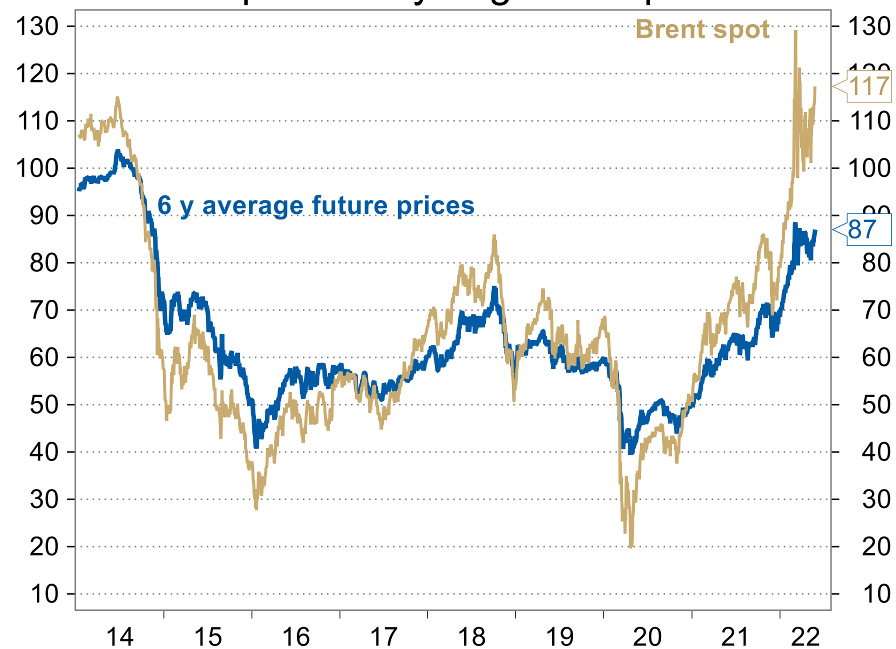
SB1 Markets/Macrobond

Brent oil futures (ICE)



SB1 Markets/Macrobond

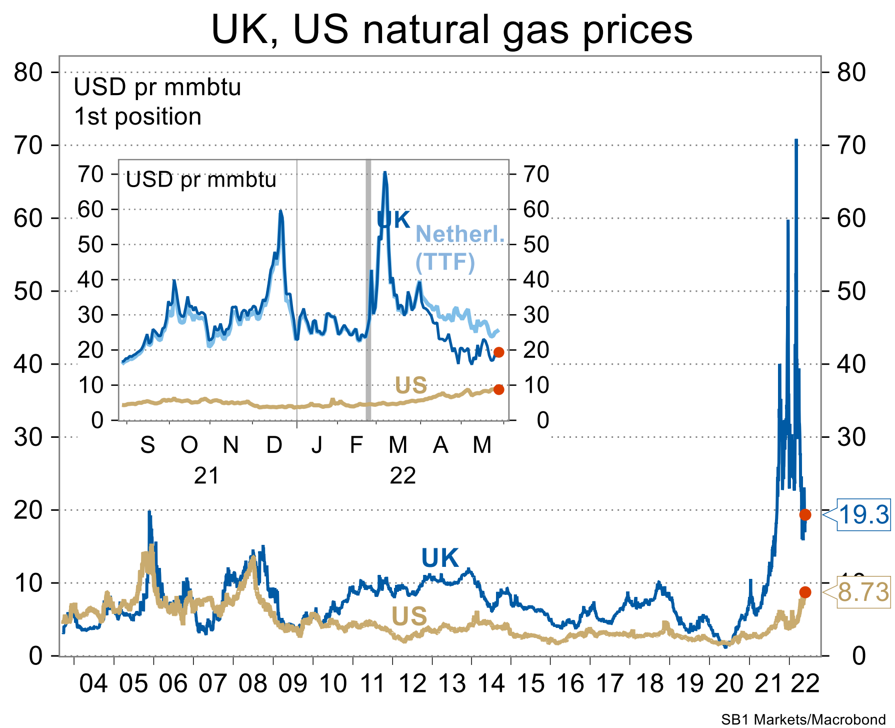
Oil Spot vs. 6 y avg future prices

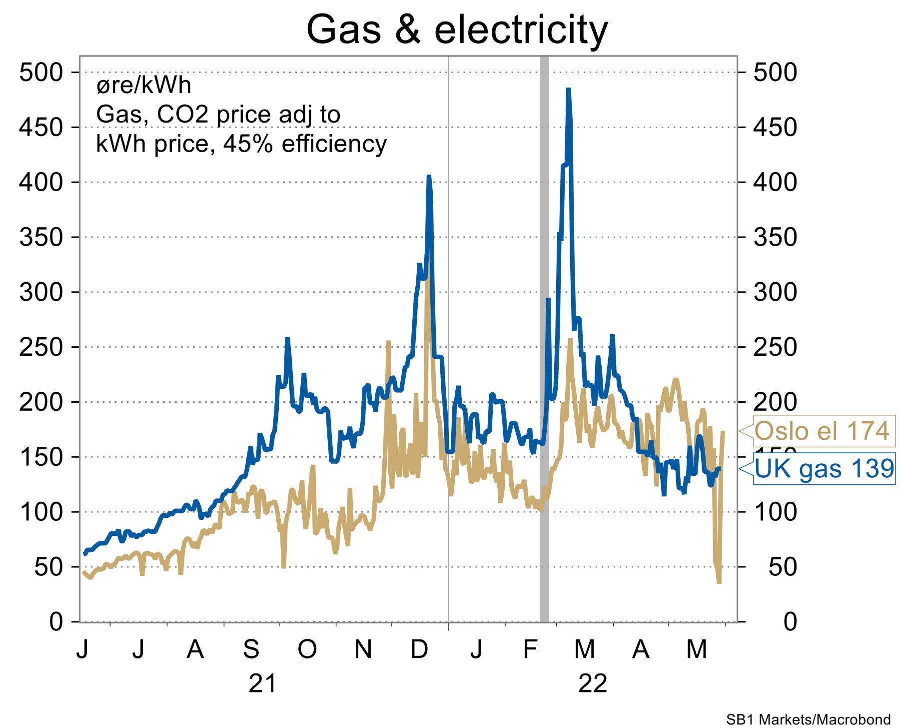


SB1 Markets/Macrobond

European natural gas prices are sliding down, and electricty prices are falling here

Even as the uncertainty vs. imports form Russia remains high

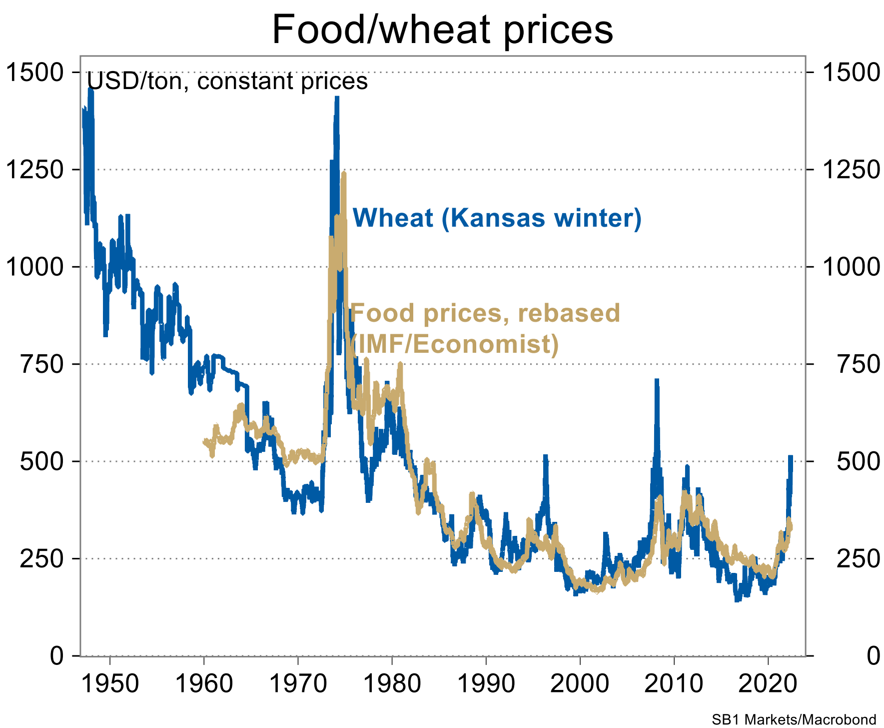


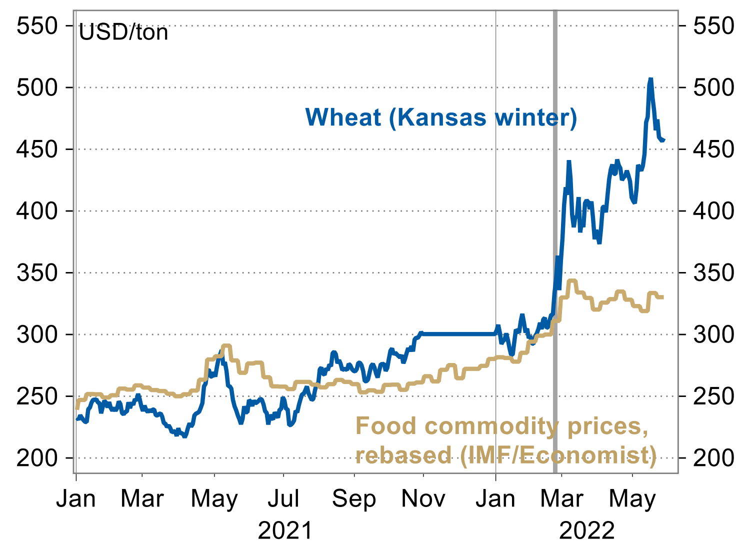


- Will LNG exports from the USA increase gas prices here? Seems like the market is discounting it – and it is not unreasonable. The cost exporting US gas to Europe may be some USD 5 – 6/mmbtu, or twice the current price differential (in the short end for the gas price curve)

Wheat prices down following the hike but overall food prices rose last week

Discussions on exports of Ukrainian grain products have not concluded, Russia wants sanctions easing

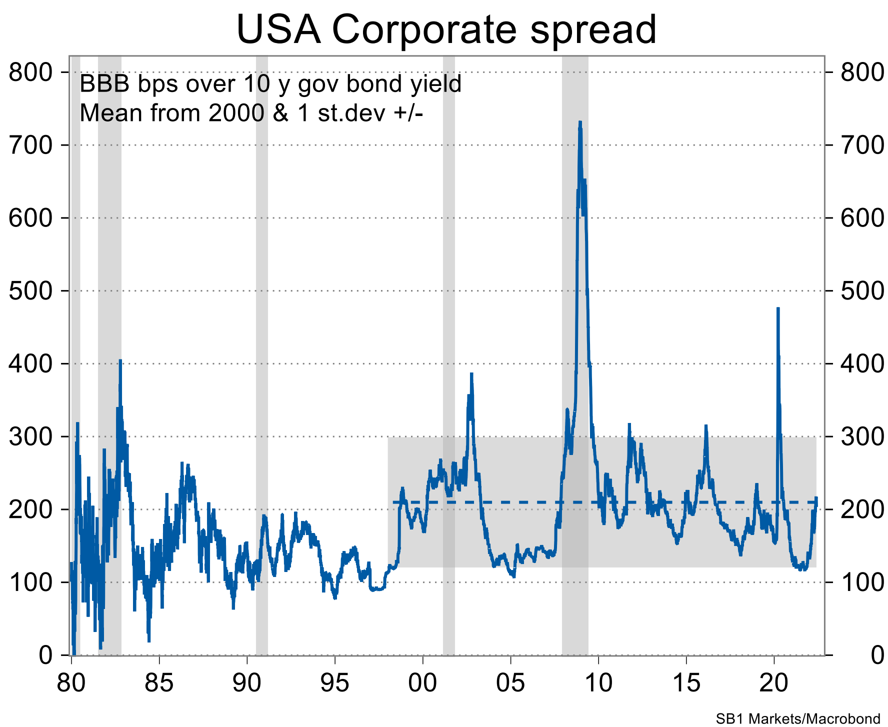


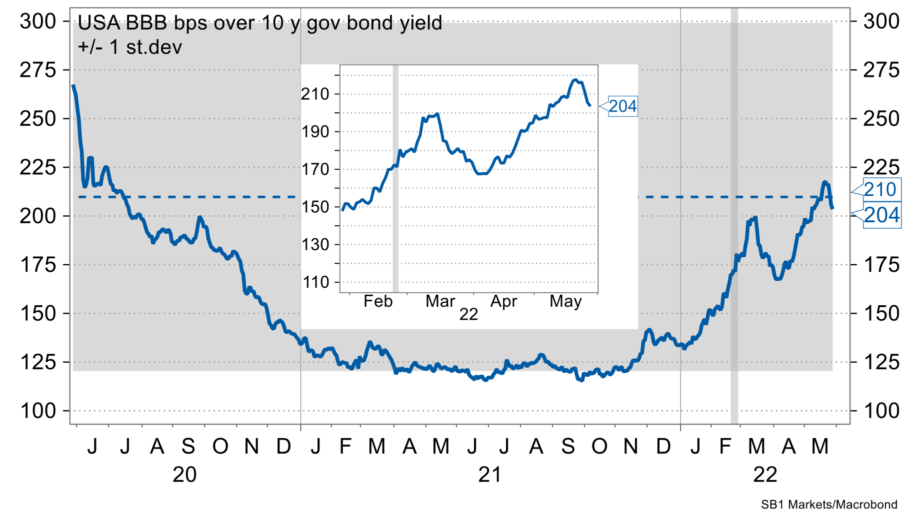


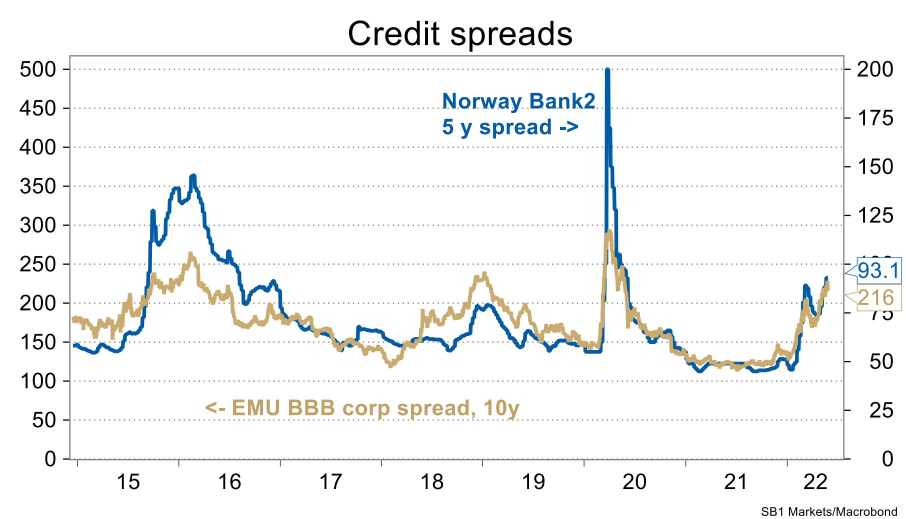
SpareBank 1 MARKETS

Credit spreads down from the local peak, alongside higher equity markets

Still, credit spreads are close to an average level, up from very low levels a few months ago



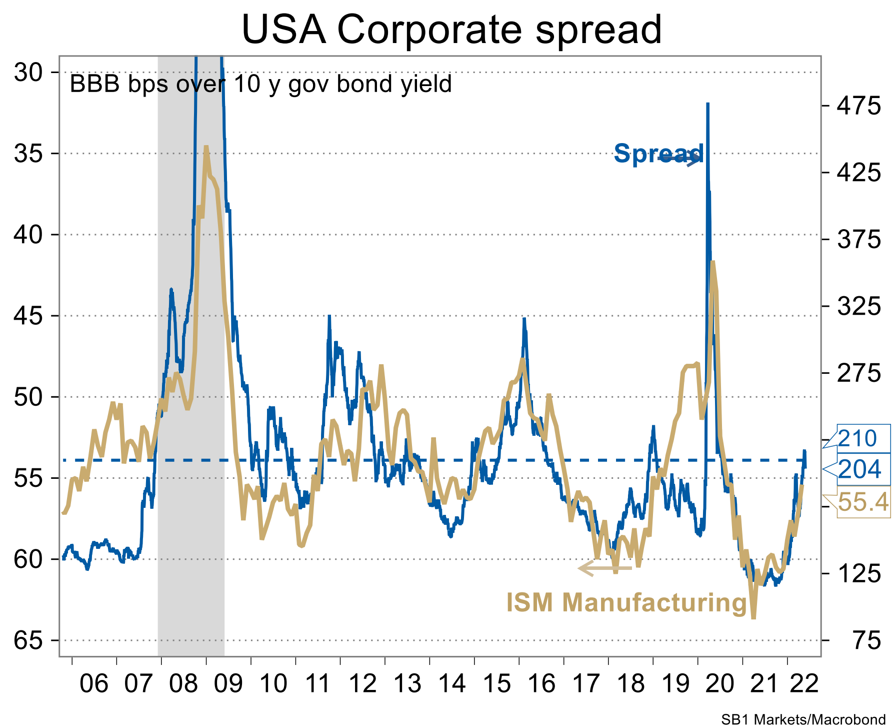


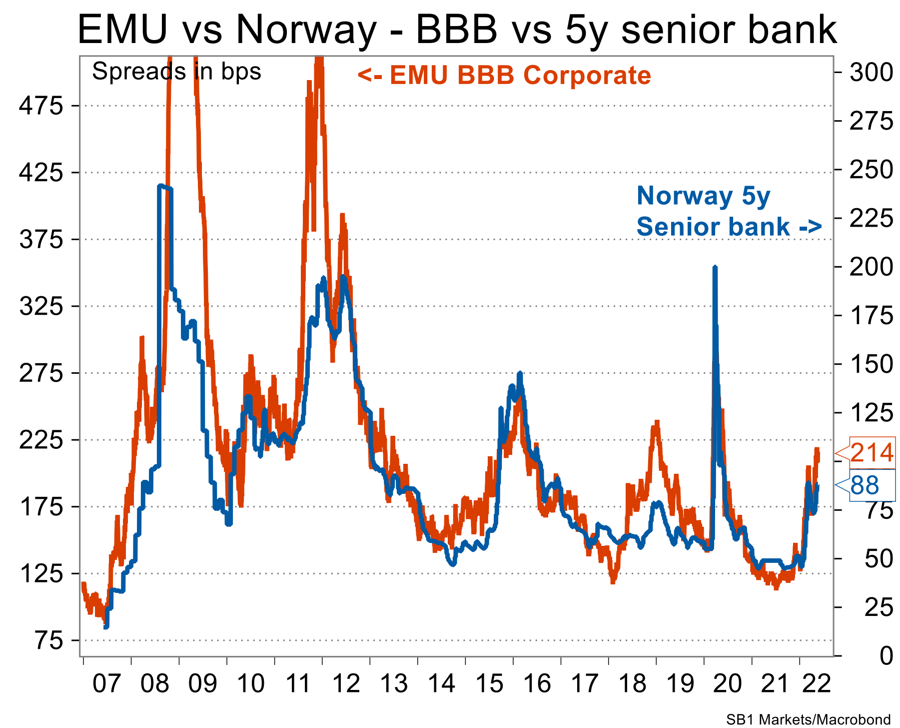


- The total capital cost has increased significantly, as the long term real government bond rate is up 130 bps (and the nominal rate even more)
- European and Norwegian spreads are following suit, as they usually do

Why are credit spreads widening? Could it be the slowing economy?

What do you think is more likely: An ISM at 50 or 60 in 6 months time?

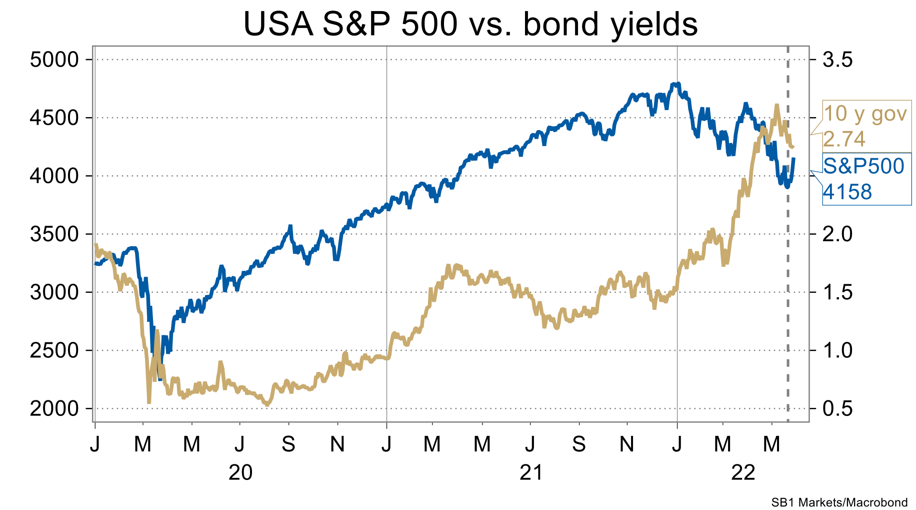


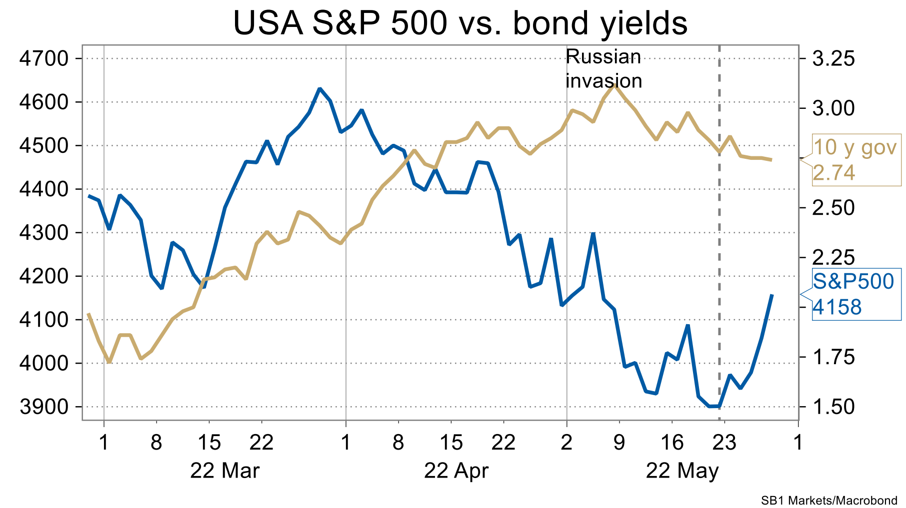


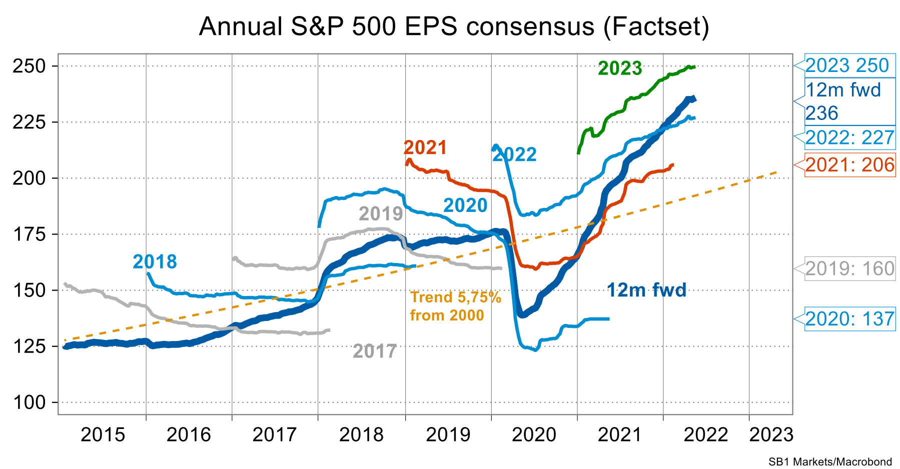
- The answer is not irrelevant for your view on the outlook for spreads, we think

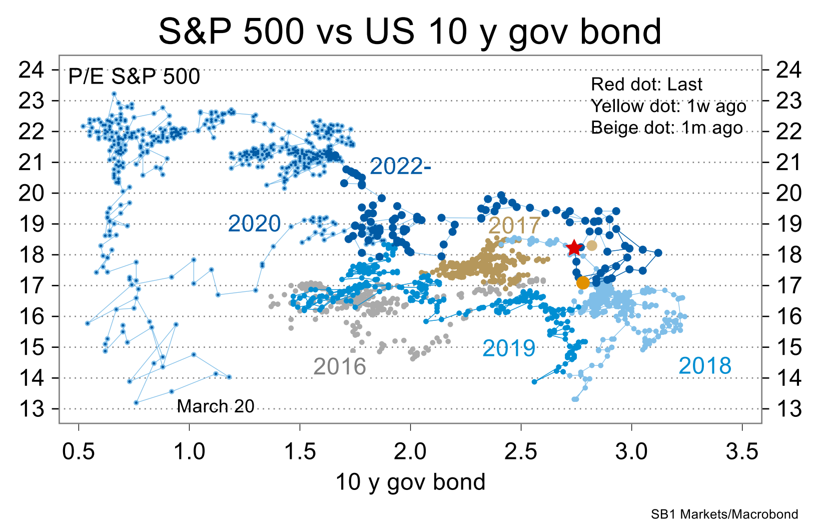
The S&P 500 up 6.6%, and May so far in plus! Bond yields are sliding down

Less fear of excessive tightening? However, earnings expectations are slowing sharply!



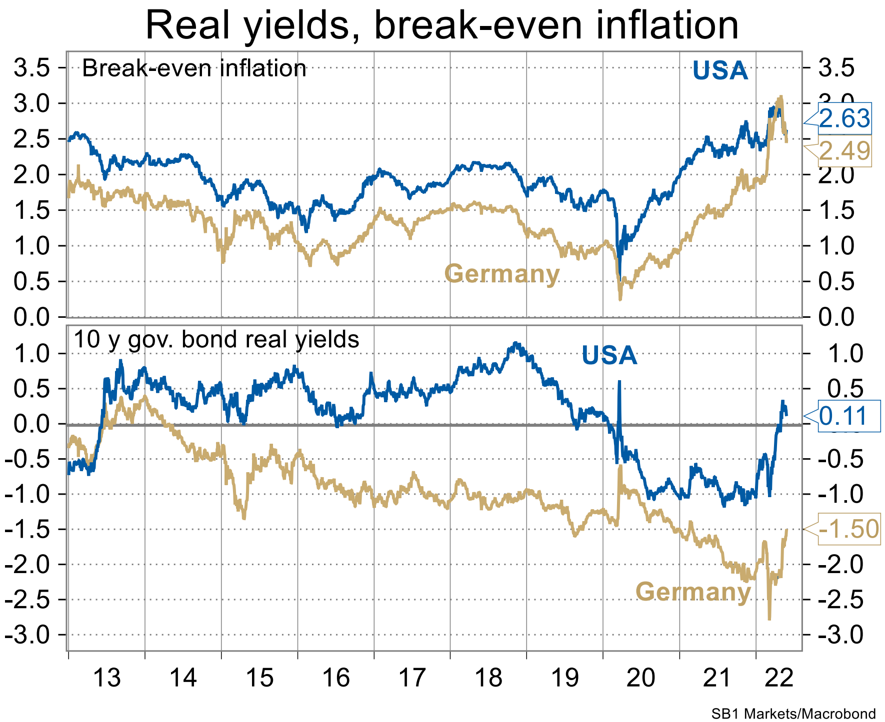






Inflation expectations slightly up (with the oil price?), real rates down (dovish Fed?)

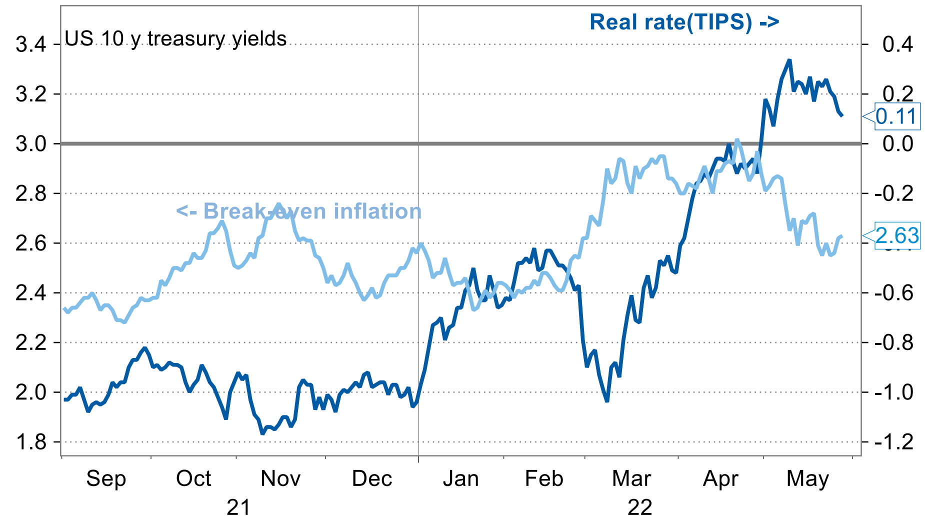
However, in Germany real rates are surging, inflation expectations are retreating



US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	2.74	-0.04	-0.08	0.82	0.52
.. break-even inflation	2.63	0.08	-0.25	0.22	1.06
.. TIPS real rate	0.11	-0.12	0.17	0.60	-1.19
Germany nominal bund	0.99	0.01	0.18	0.77	-0.65
.. break-even inflation	2.49	-0.15	-0.47	0.51	0.40
.. real rate	-1.50	0.16	0.65	0.27	-2.80

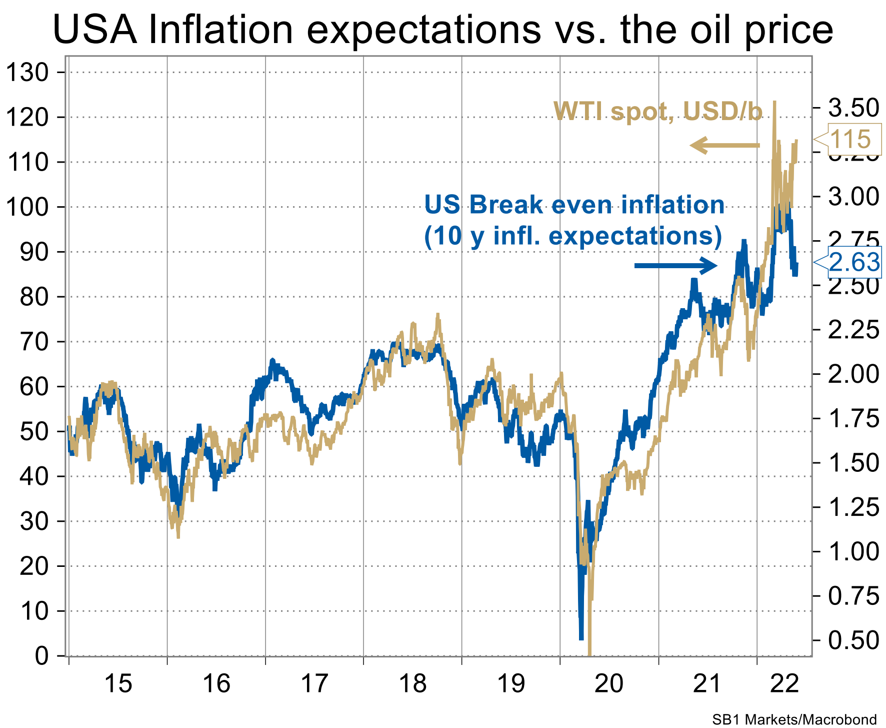
SB1 Markets/Macrobond

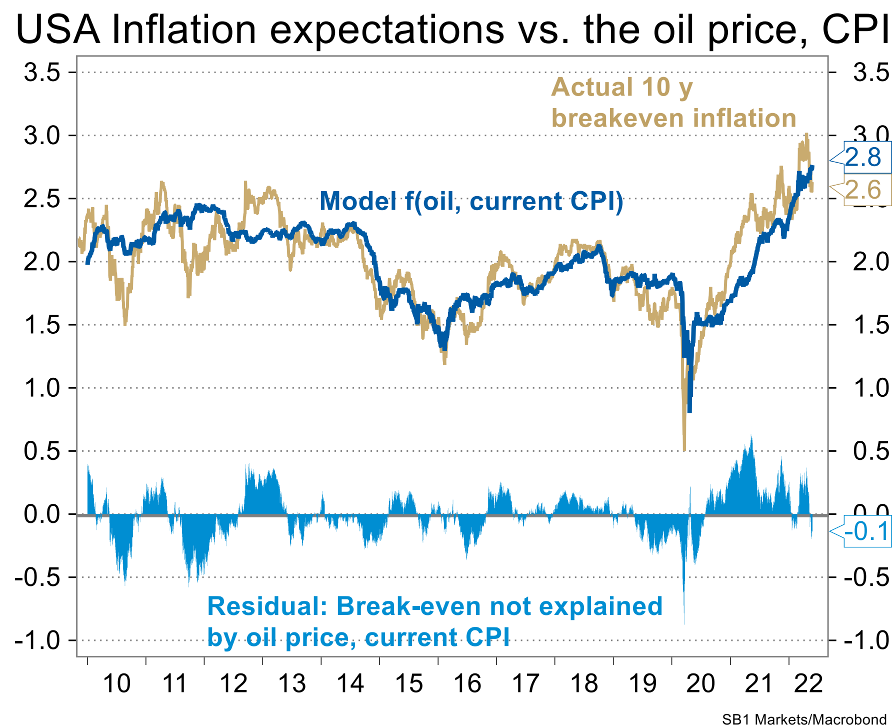


- **The US nominal 10 y bond** yield fell 4 bps last week to 2.74%
  - » **Real rates** fell 12 bps to 11 bps, **inflation expectation** up 8 bp to 2.63% - still well below the 3% peak
- **The 10 y German bund** close to unch. at 0.99%
  - » However, **real rates** up 16 bps to still very low 1.50%. **Inflation expectation** down to 2.49% - more than 50 bps down vs the 3%+ peak!

Inflation expectations down even if the oil price climbs

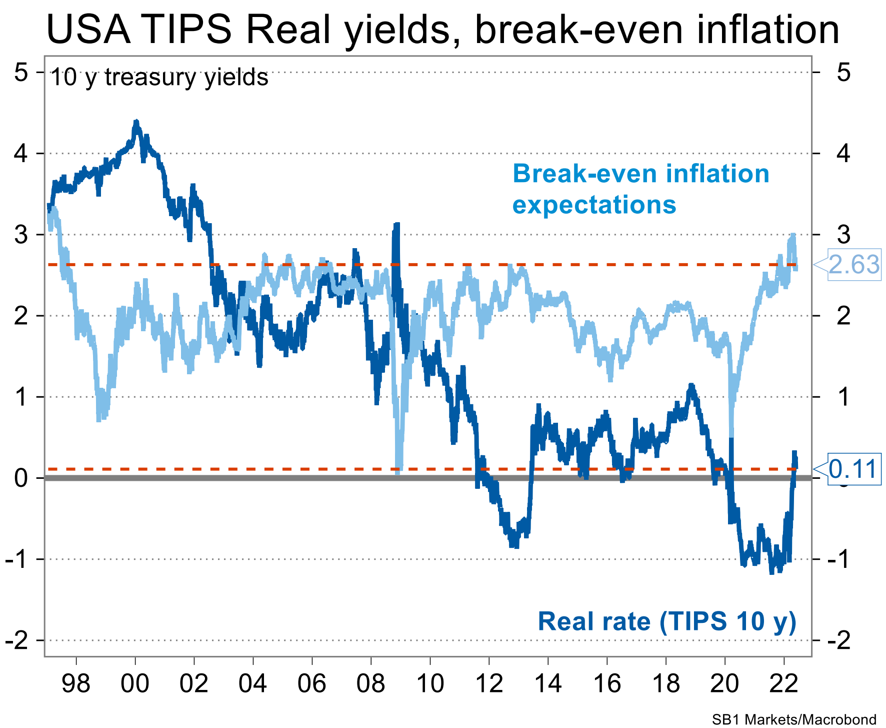
The gap is larger than normal – but most of it is explained by the high current CPI inflation

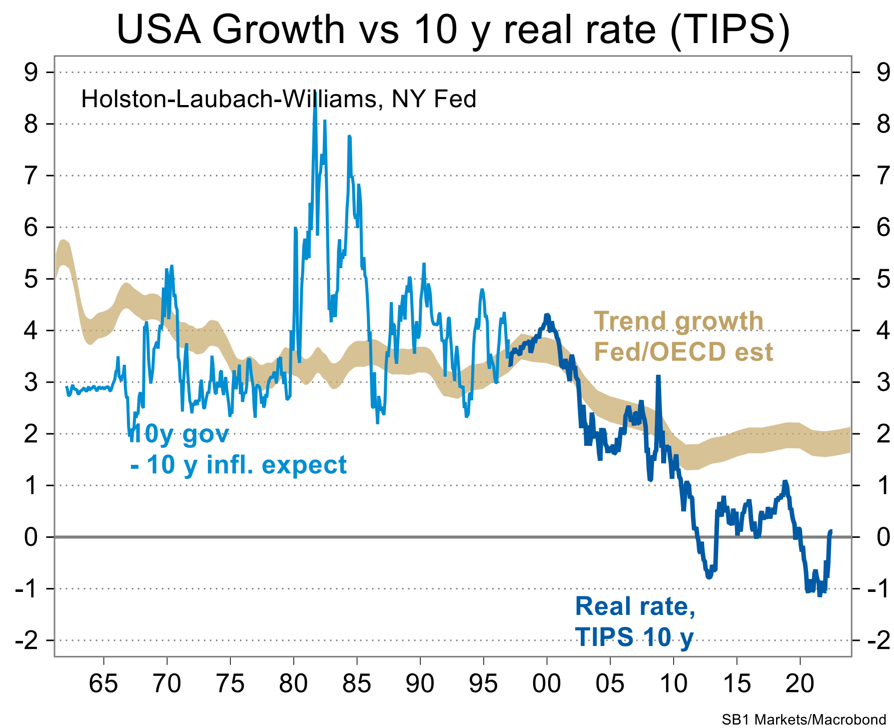




Mind the gap: It’s rapidly closing!

Real rates sharply up – while short/medium-term growth expectations are moving down

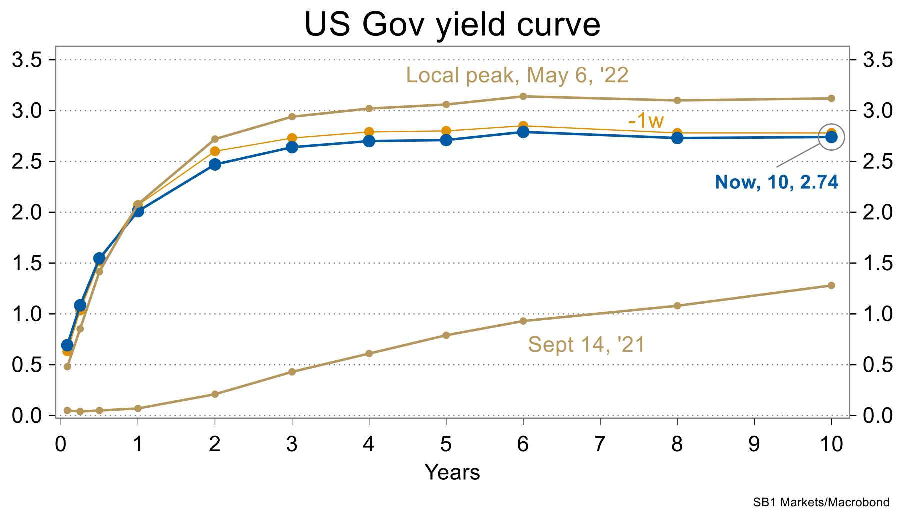


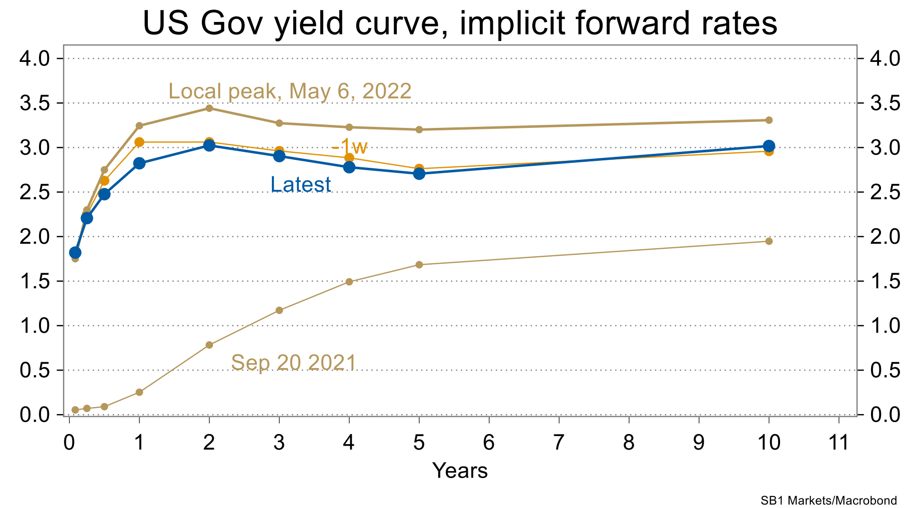


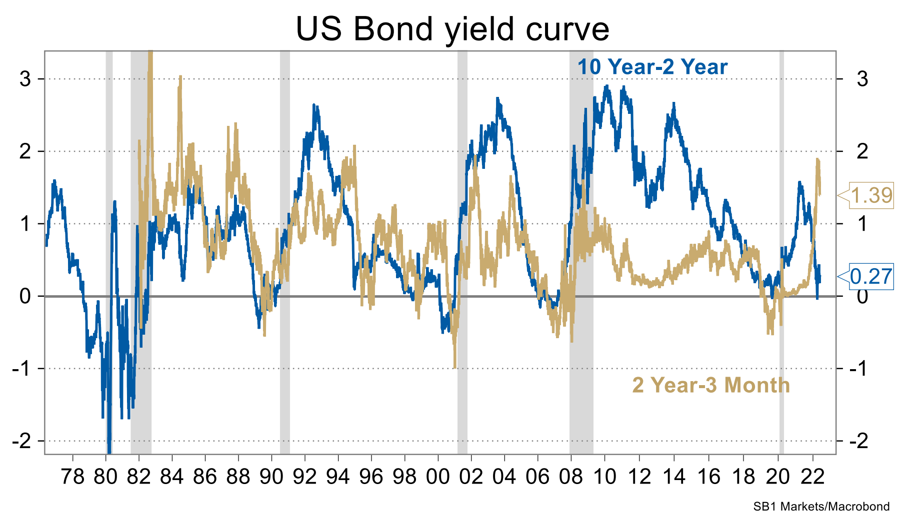
- There is no reason to believe that the current surge in real rates is due to an equivalent increase in growth expectations. It is of course the opposite: At least the short to medium-term outlook is now weakening as central banks finally enter the fight against inflation by at least bringing growth down to below trend growth
  - » Profit margins are VERY exposed
  - » Demand for labour will slow too, and unemployment will increase – in order to get wage inflation down
- The USD 10 trl question: Are all risk markets really discounting this scenario?

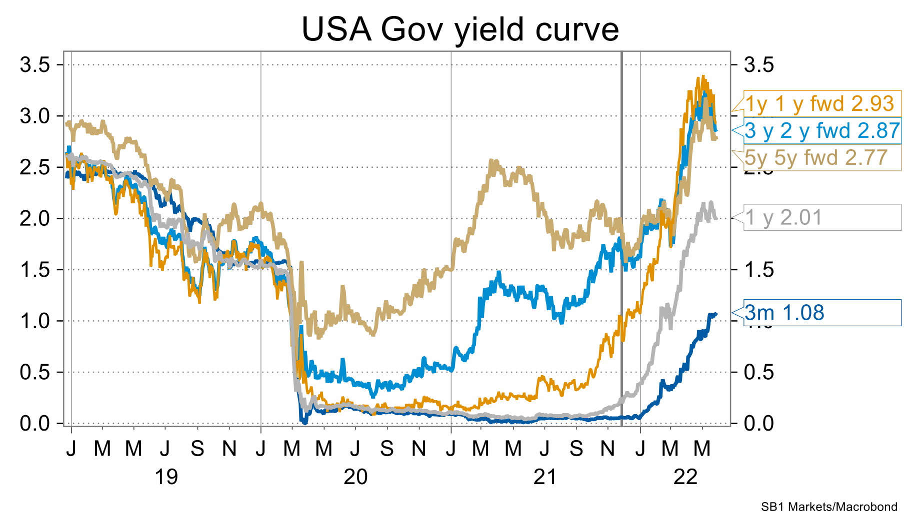
The forward curve is rather flat at 2.75% – 3% from 1 y onwards

– down almost 50 bps from early May



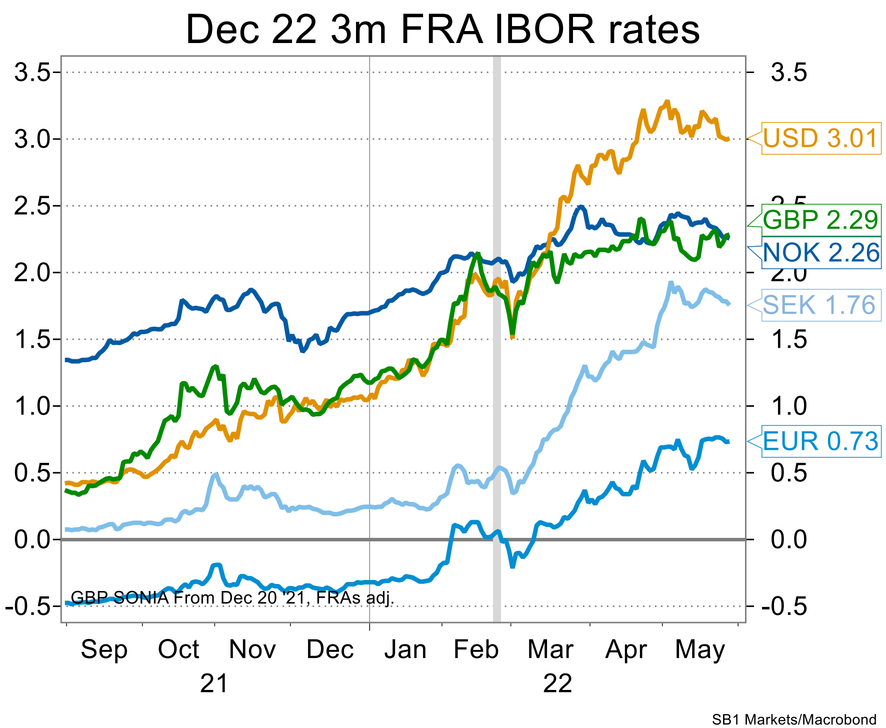


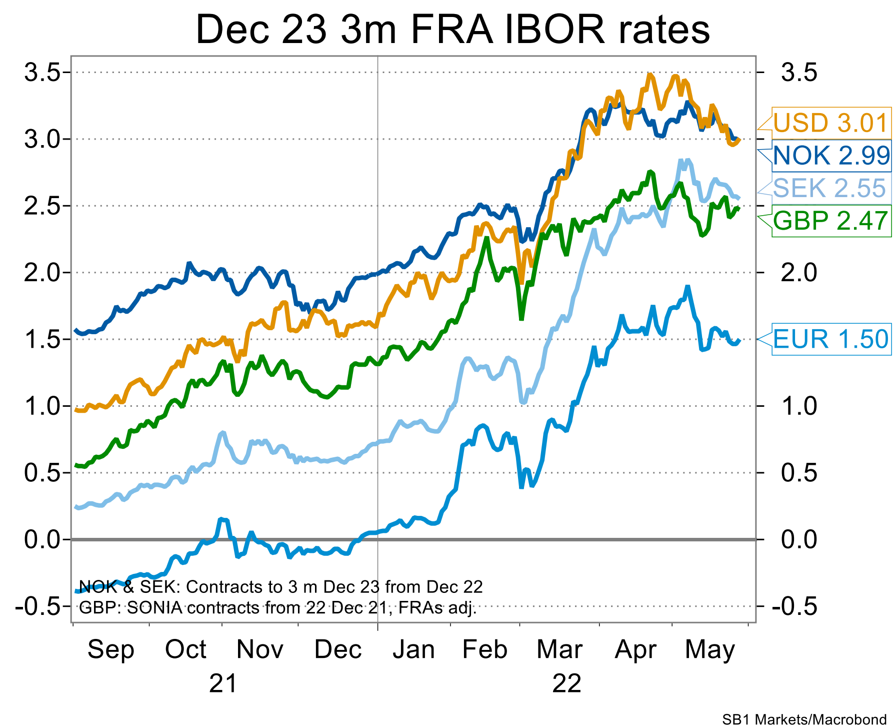




The FRAs have all peaked

Markets are awaiting signals if tightening of financial conditions (in total) are slowing the economy

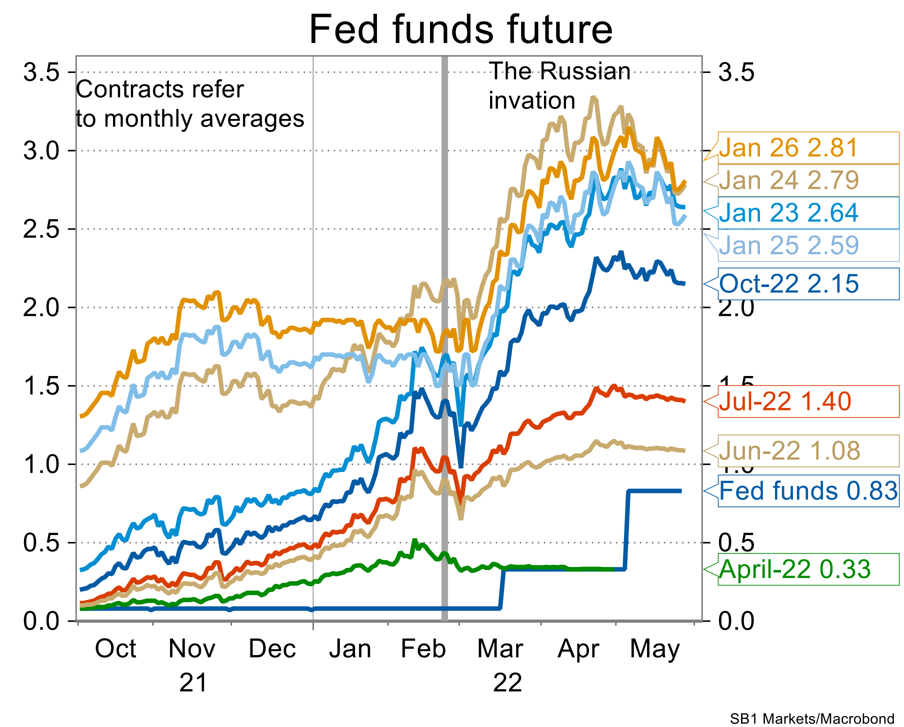


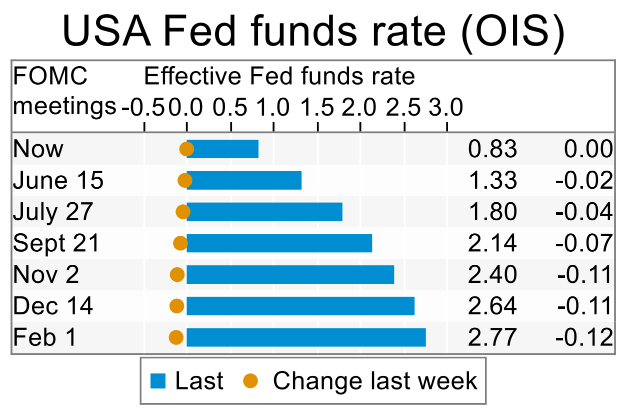


- The short end of the EUR curve has not yielded – as the ECB seems determined to move the signal rate into positive territory in Q3 (+ 50 bps). However, another 50 bps before end of year is too aggressive?

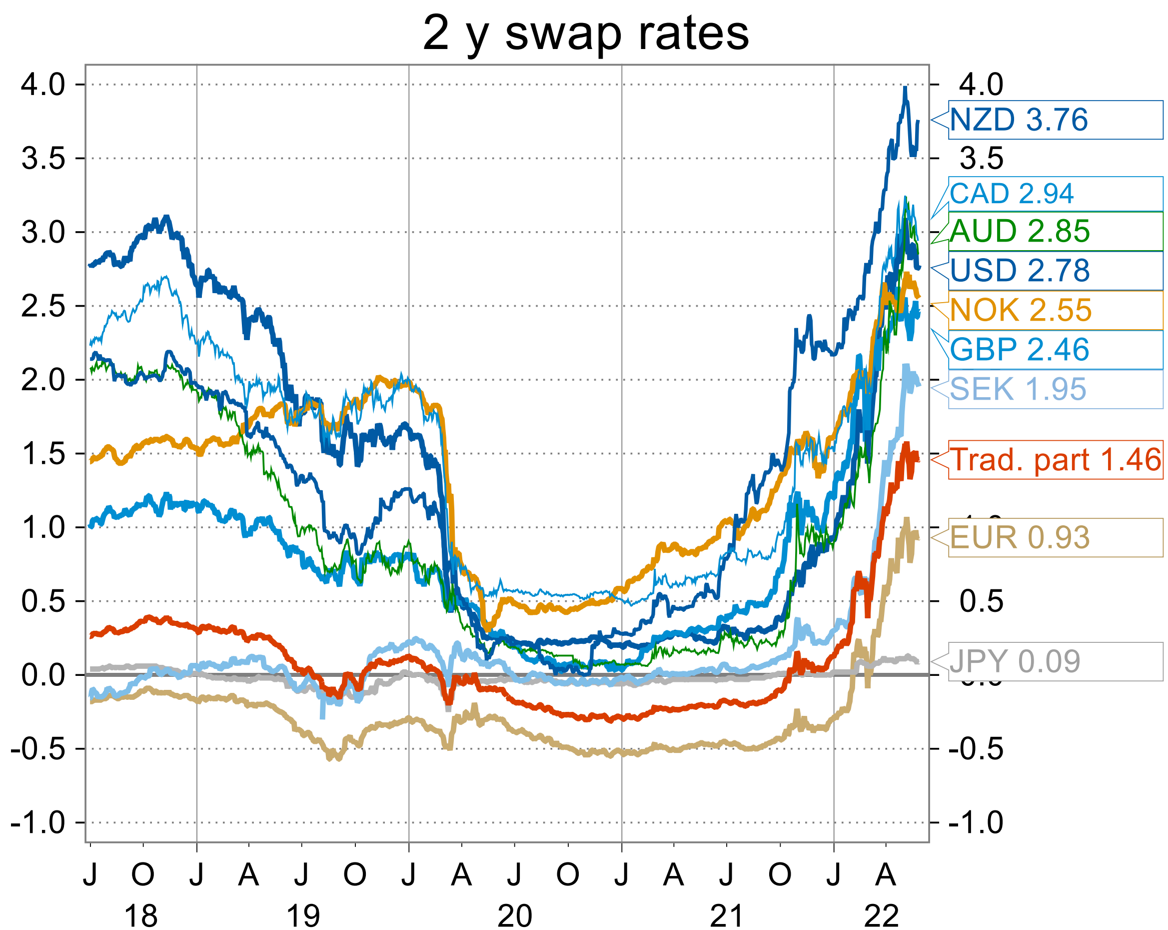
The FRA-curve is sliding downwards. Still 7 x 25 bps discounted before Christmas

Some recessions fears are understandingly being priced into the curve

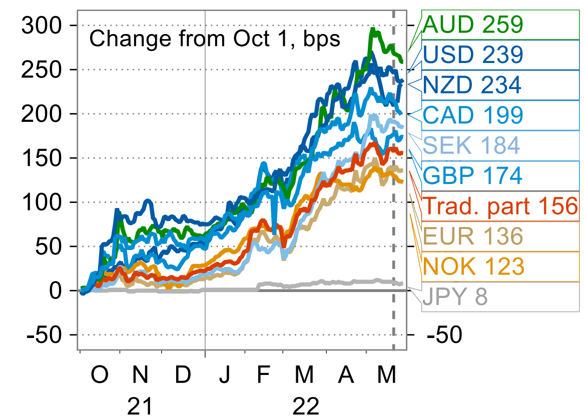


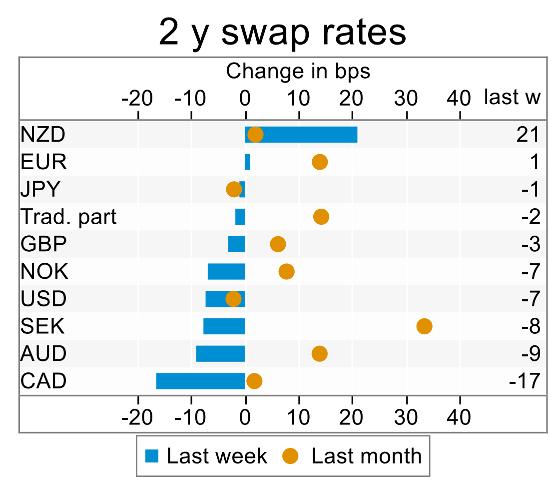


The short end of the curve down, almost everywhere



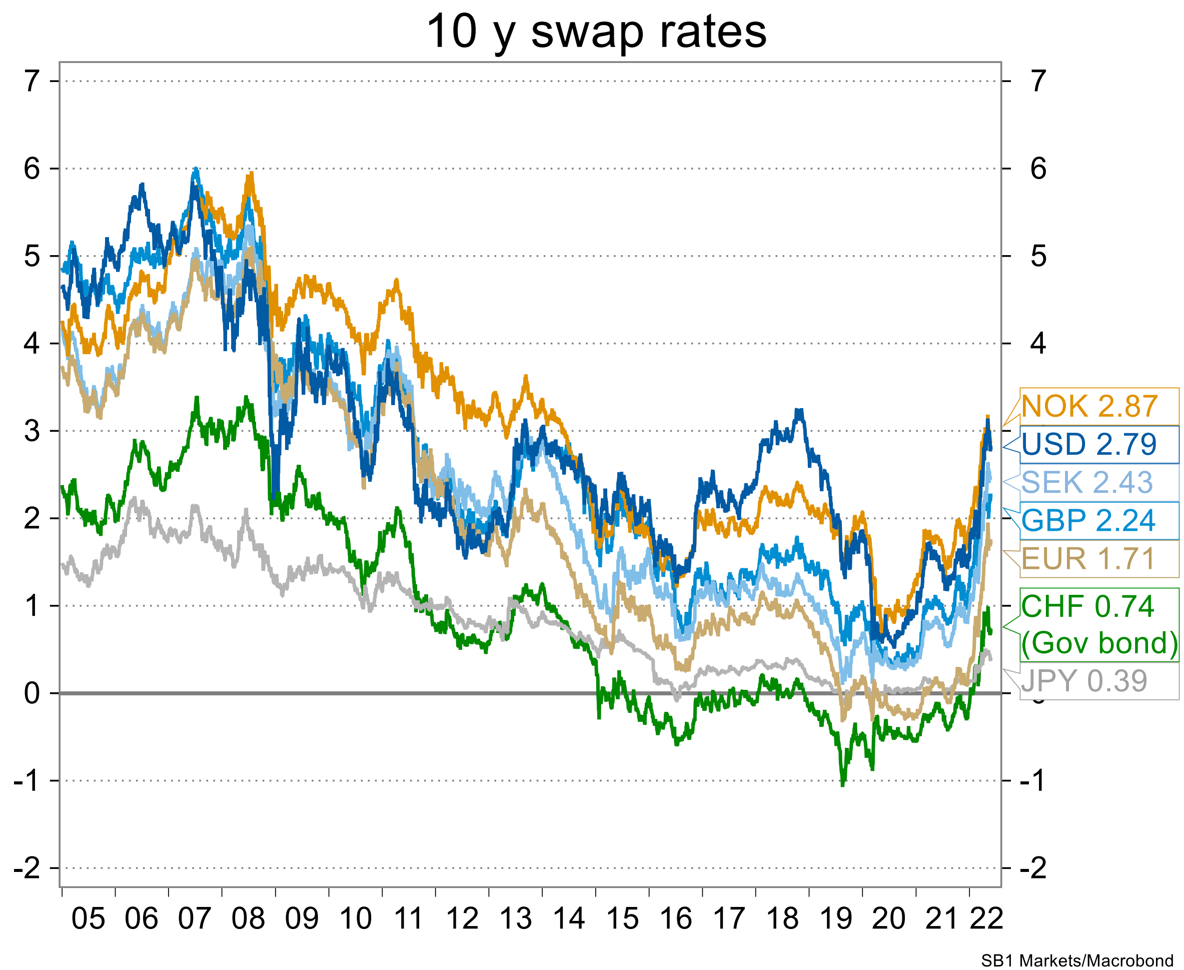
SB1 Markets/Macrobond

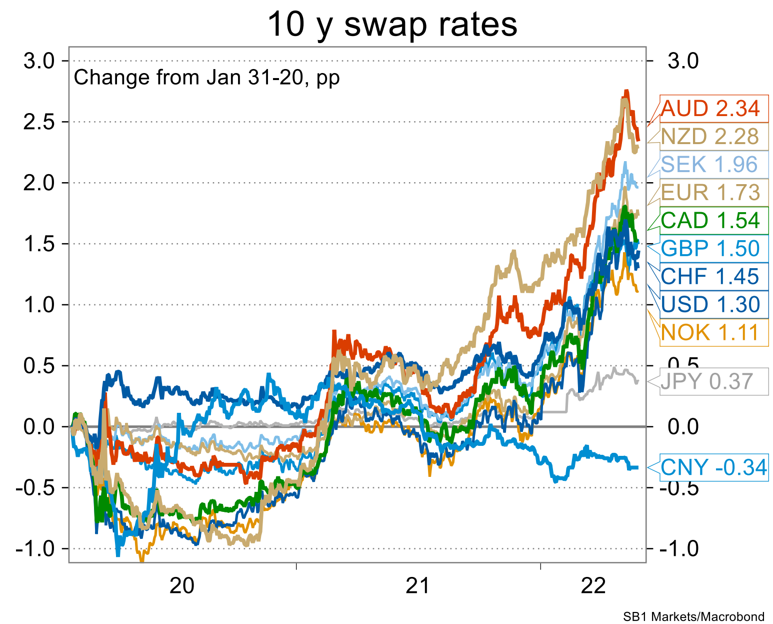


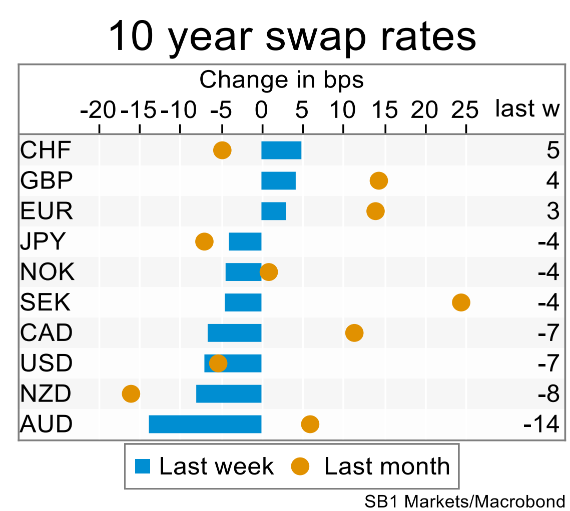


SB1 Markets/Macrobond

The long end down most places last week too but up in EUR, GBP



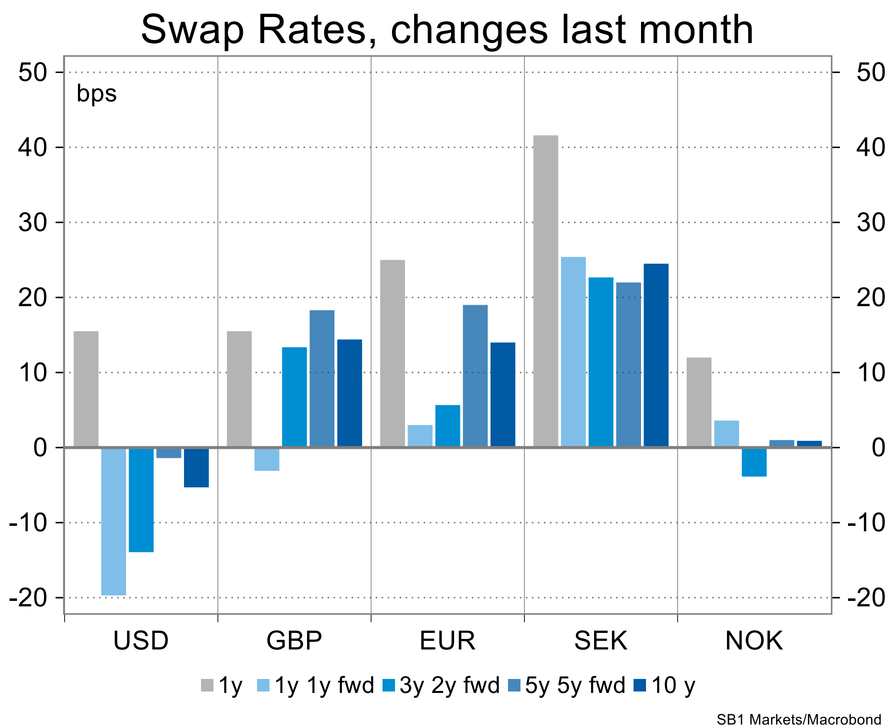


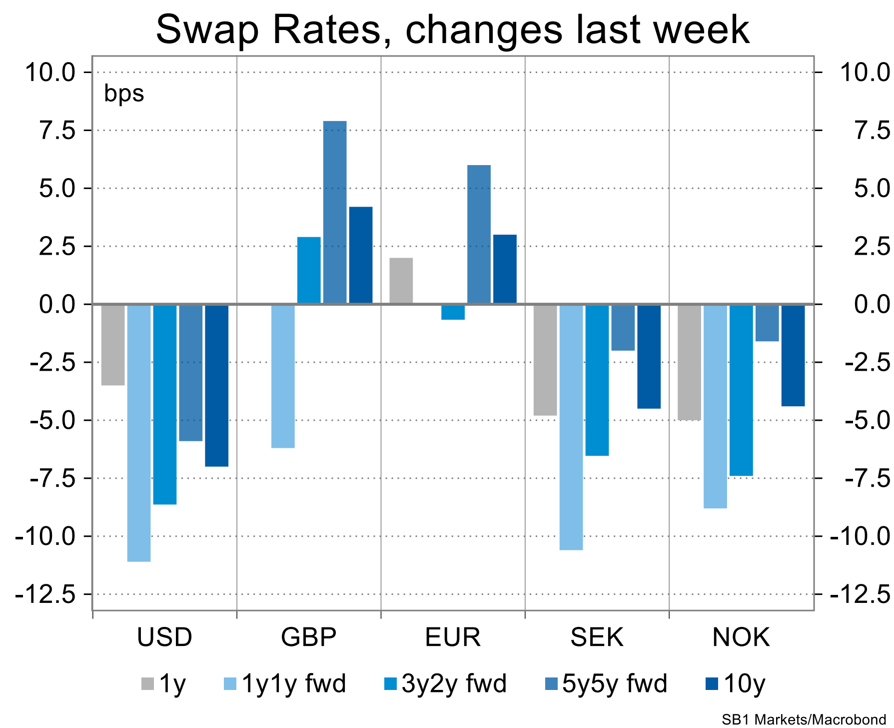


CHF: 10 y government bond yield

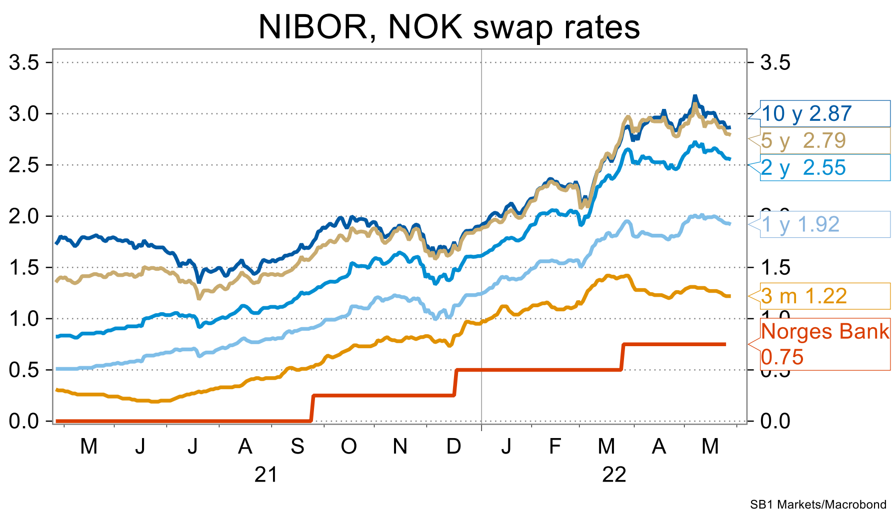
SpareBank 1 MARKETS

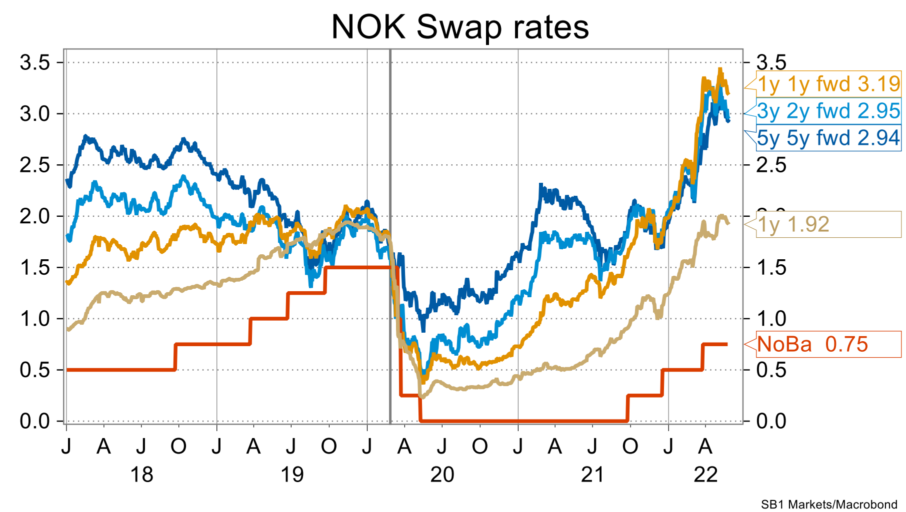
No clear pattern last week – GBP & EUR rates up, while USD, SEK, NOK rates fell

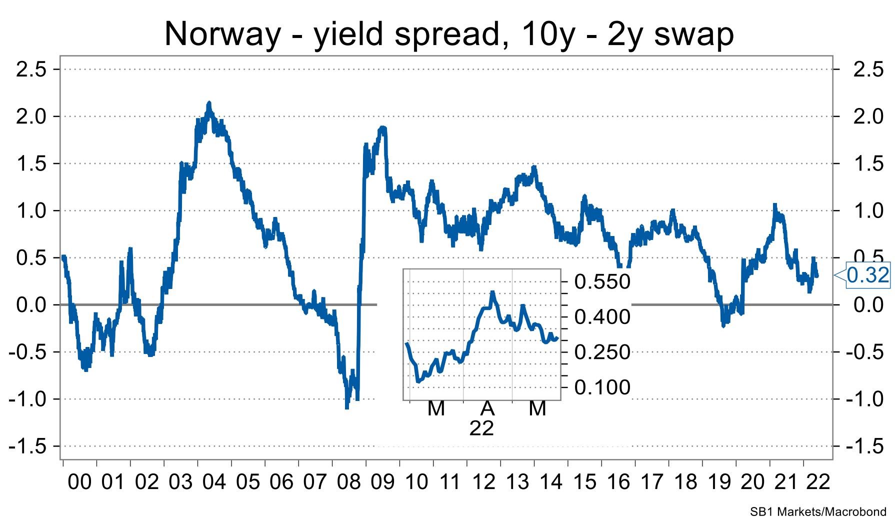


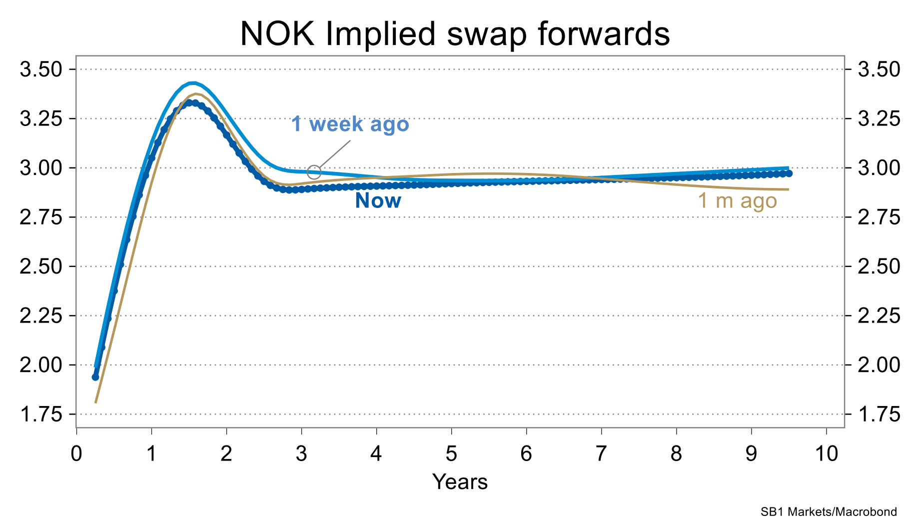


Rates further down all over the curve



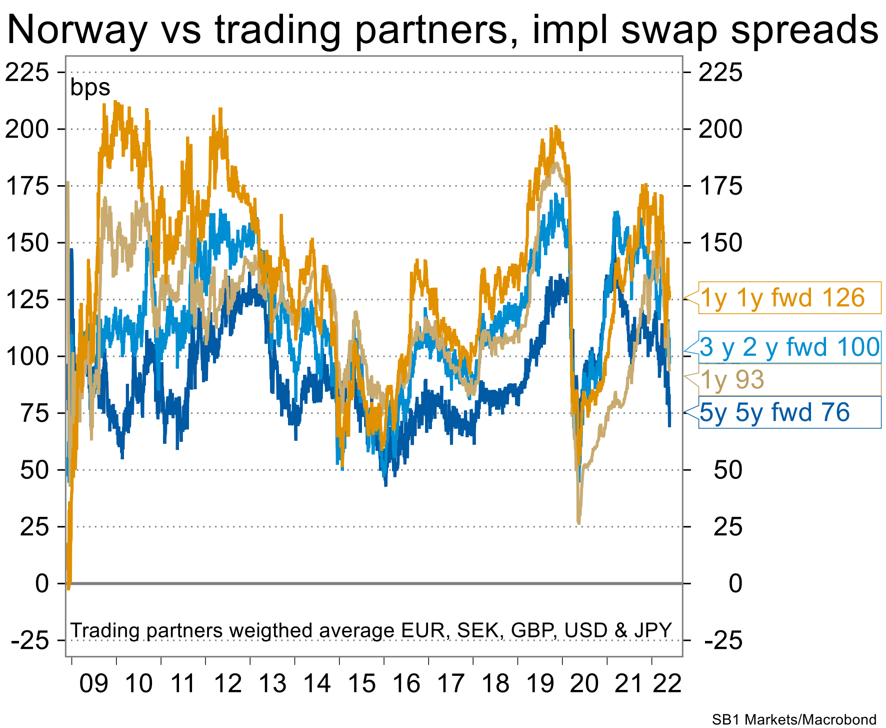


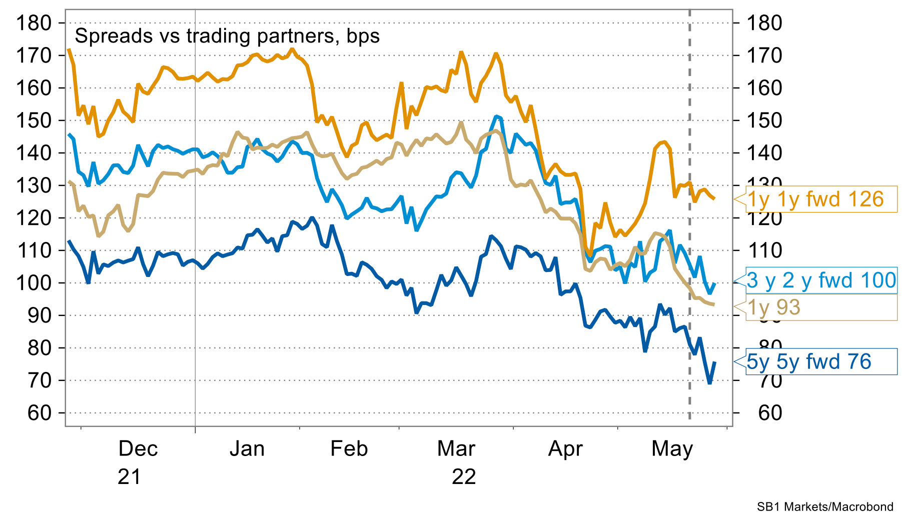


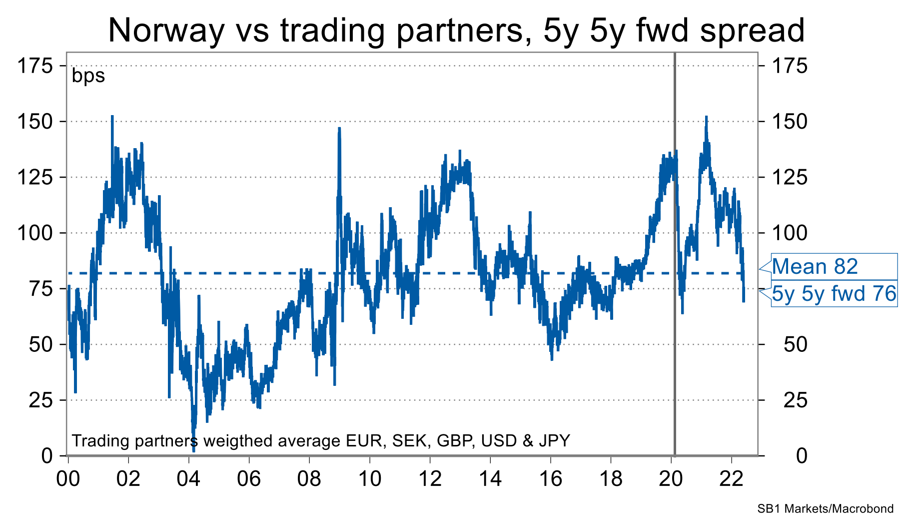


Spreads down last week too, most in the long end

Spreads vs. trading partners at very close to average levels

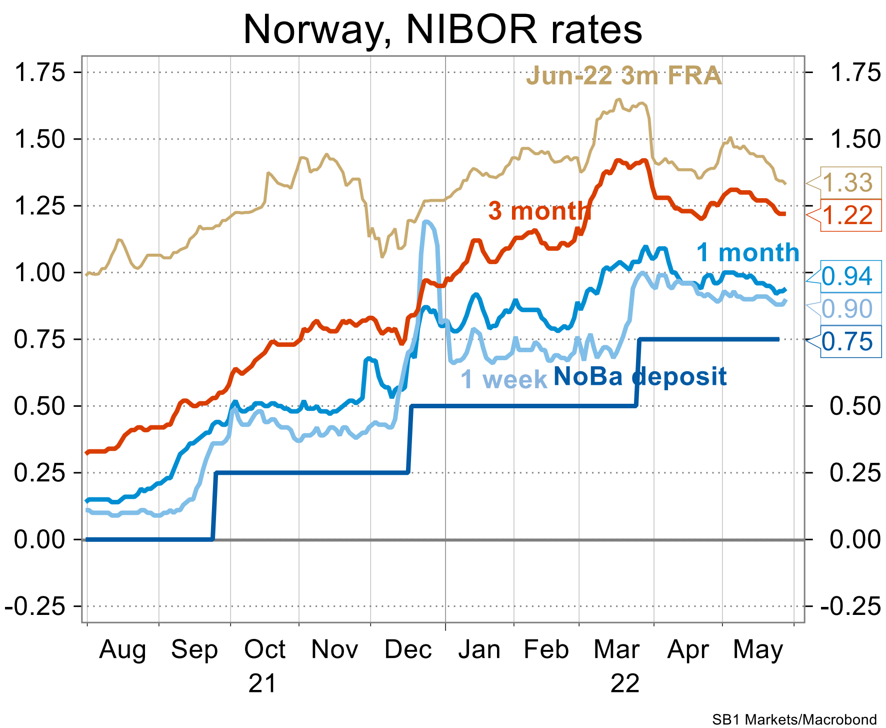


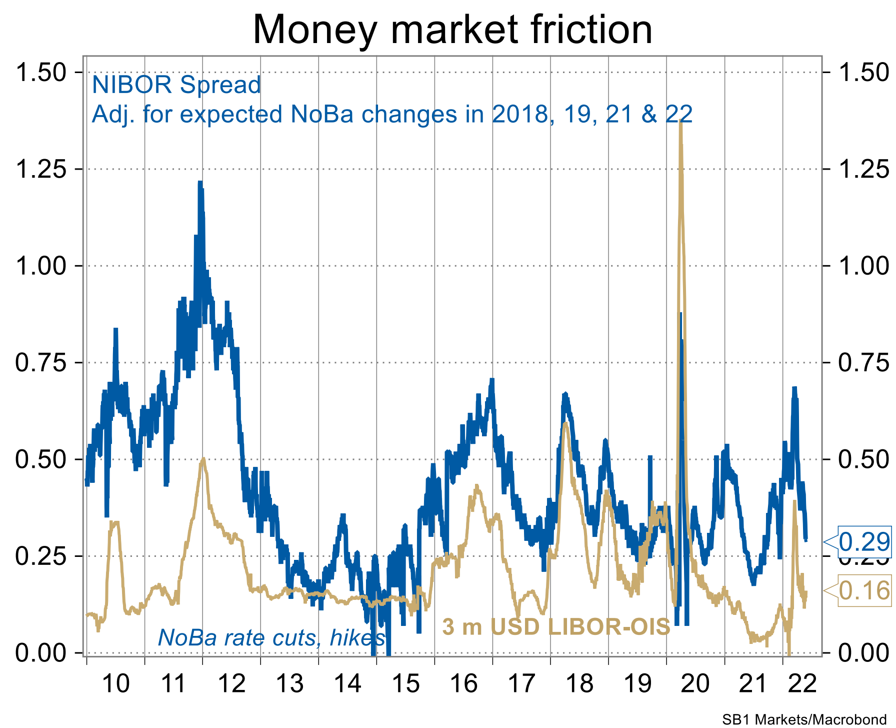




The 3m NIBOR down 5 bps to 1.22%, the NIBOR spread down 6 bps to 29 bps

The USD LIBOR-OIS spread up 2 bps to 16 bps

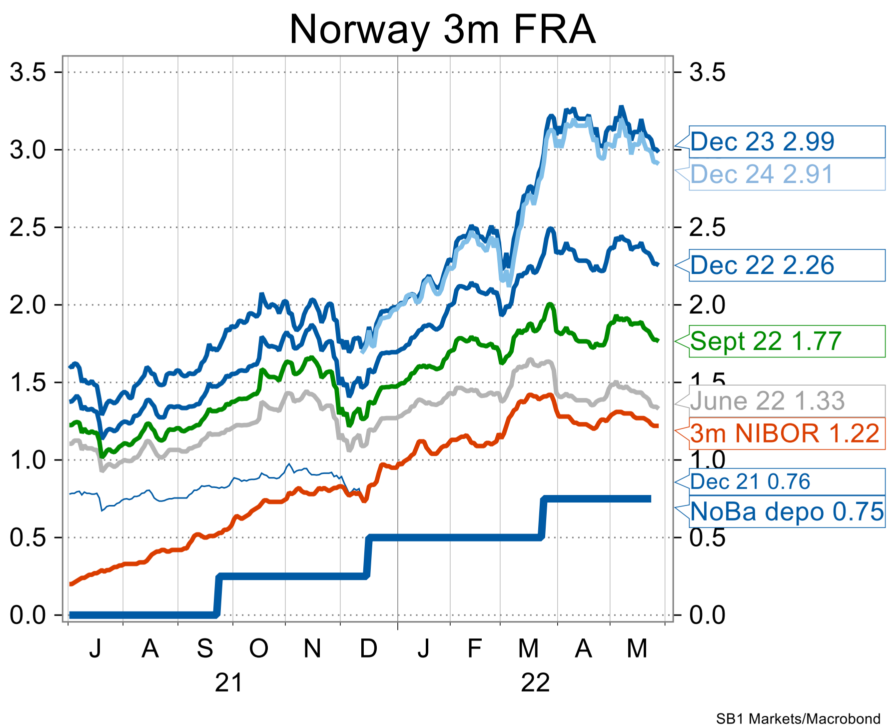


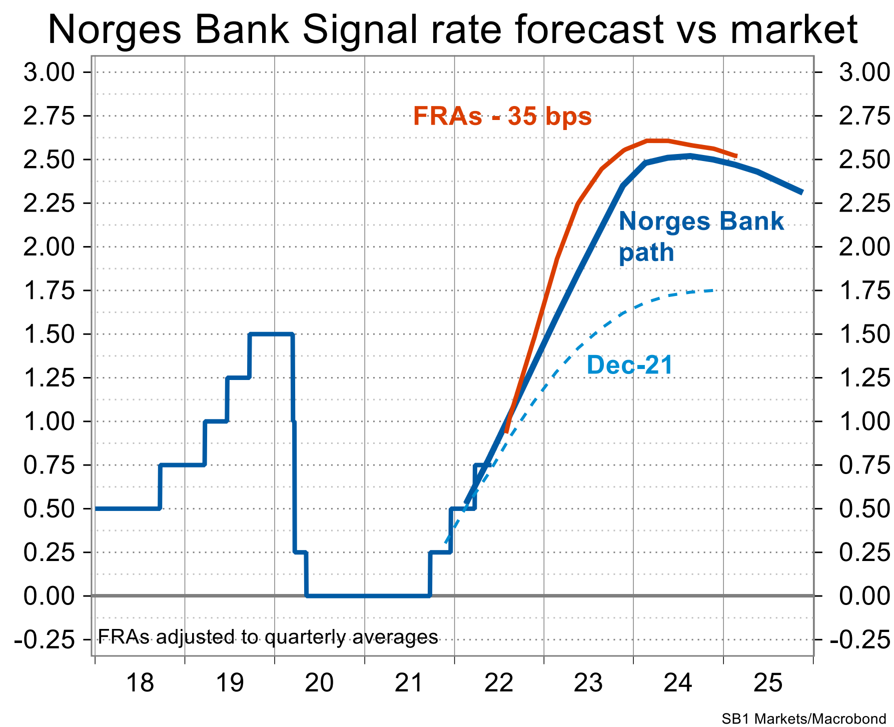


- Money market spread have normalised again. We adjust our NIBOR spread forecast to 35 bps (from 40 bps)

SpareBank 1 MARKETS

FRA rates further down last week – by some 8 bps



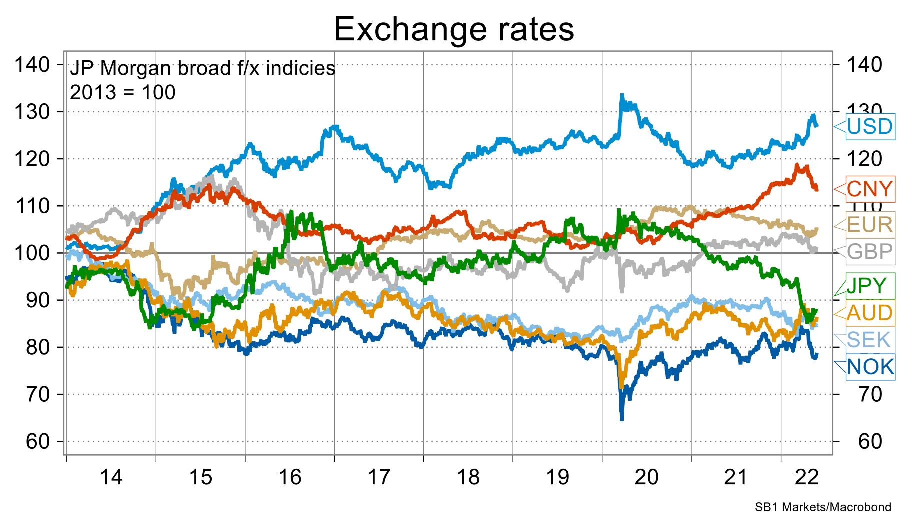


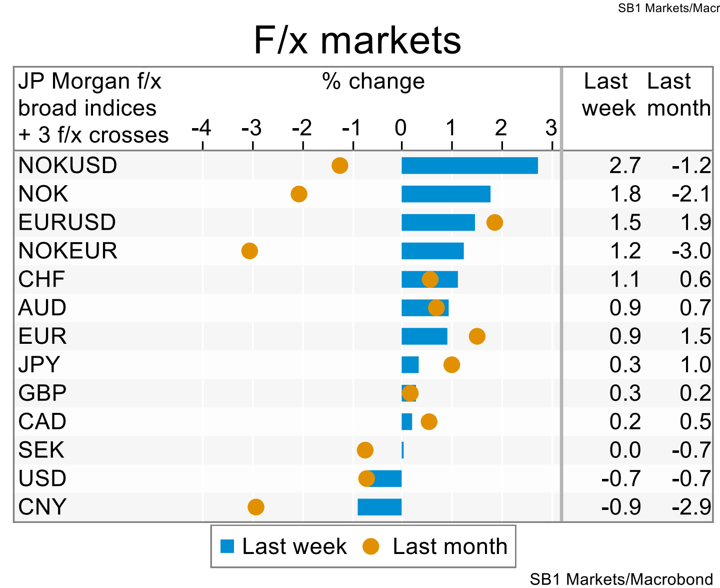
- The June 3 m **FRA** declined 8 bps (!) to 1.33% last week, and the Sep contract lost 7 bps to 1.77% (and Dec -8 bps to 2.26%)
- If NoBa hikes by 25 bps to 1% at **June meeting** (and no hike in August), the average deposit rate in the duration of the June 3 m FRA contract will be 0.98%. A 100% probability for a 25 bp hike if the assumed Q3 NIBOR spread is 35 bps – which is a reasonable estimate
- As the **Sept 3 m FRA** at 1.77% is 44 bps above the June contract, a 25 bps hike in both August and September is now assumed as most likely (75%, 25% just 1 hike, in September)
- The FRA market discounts close to a 50/50 between 1.75% or 2.00% rate in December (assuming a 35 bps NIBOR spread + a 5 bps Q4 liquidity premium). Norges Bank signalled 1.50 (85%) or possibly 1.75% (15%) in March

SpareBank 1 MARKETS

NOK finally up, from a too low level. EUR up too – USD further down

The CNY is inching downwards, the economy struggles with the lockdowns (but they are eased now)

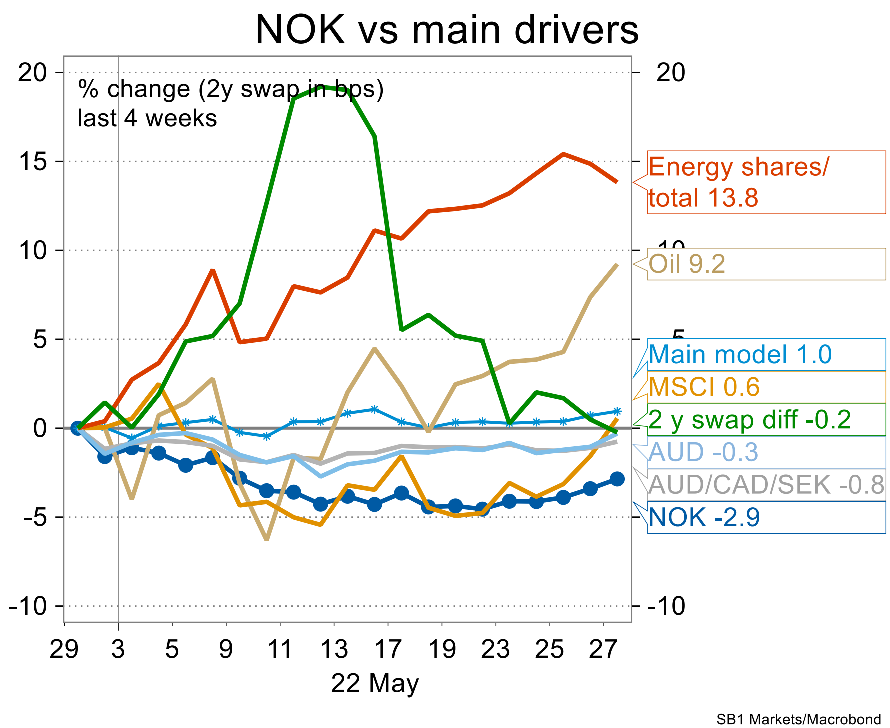


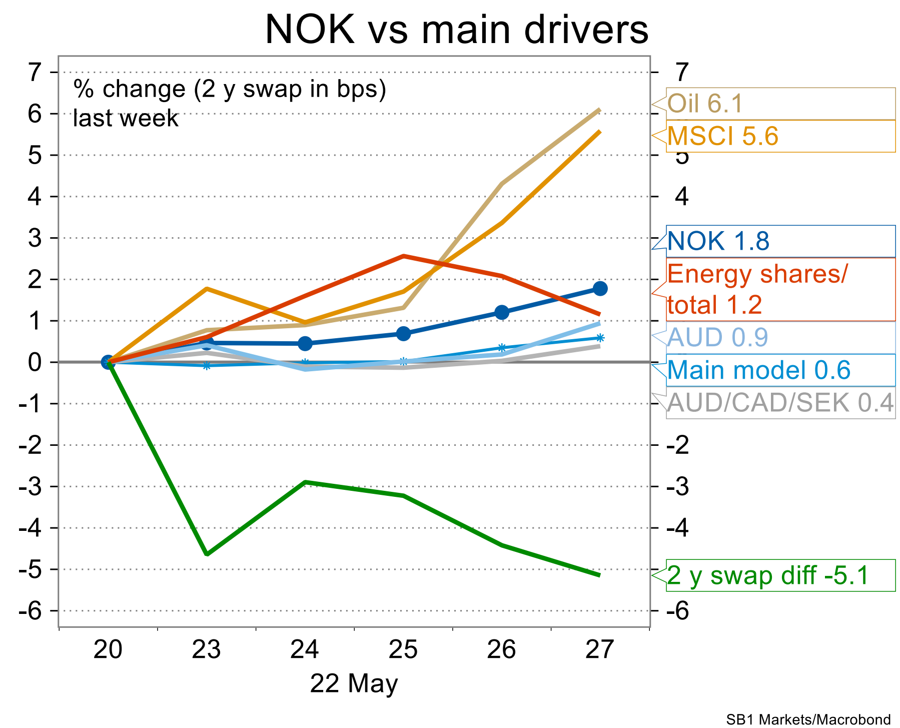


SpareBank 1 MARKETS

NOK up, and more than our model suggested – but remains weak

NOK finally turned up, by 1.8%, our model said +0.6%. Oil prices climbed further, risk on at equity markets





The status vs. the normal drivers – NOK gaps narrowed but they are still wide. In the upcoming June f/x report: Very likely a NOK buy

- ***The NOK +1.8% - and it is 5.3% <u>below</u> our main model estimate (from –6.8%)***
- The NOK is 8.3% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -9.5%)
- NOK is 4 % <u>weaker</u> than a model which includes global energy companies equity prices (vs the global stock market) (from 5)

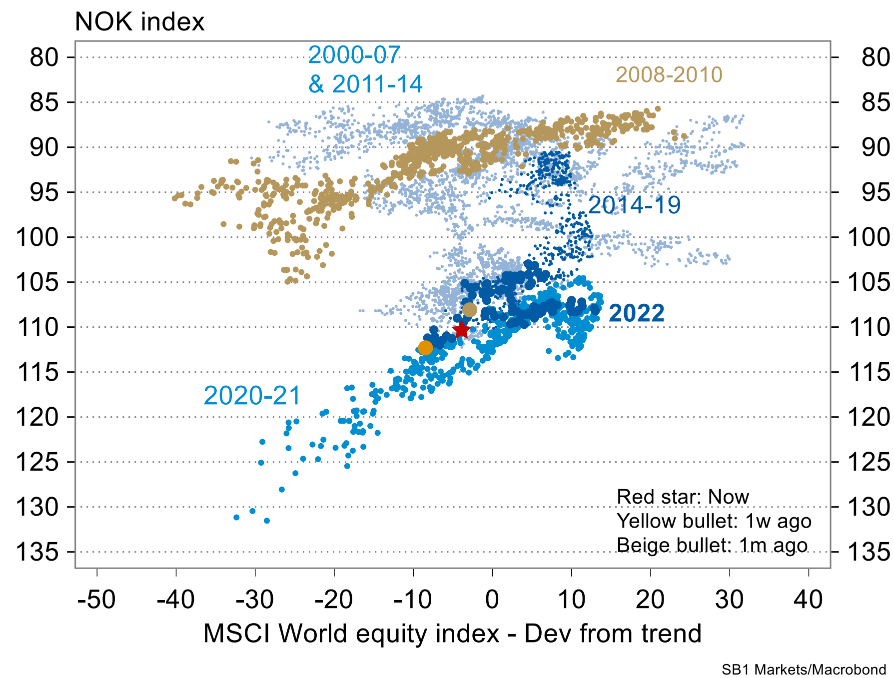
At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for f/x crosses. There are no substantial difference between these two indices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

The NOK has fallen alongside the global stock market recently

… but there is no stable correlation over time, and when it is, the oil price is normally the real driver

NOK Index vs. global equities

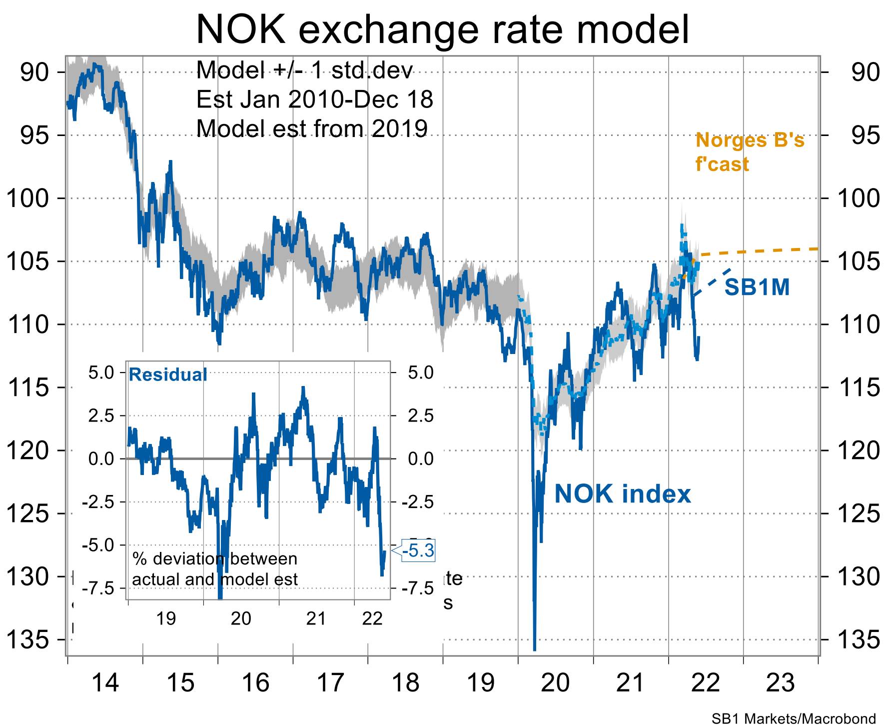
NOK vs. MSCI world index

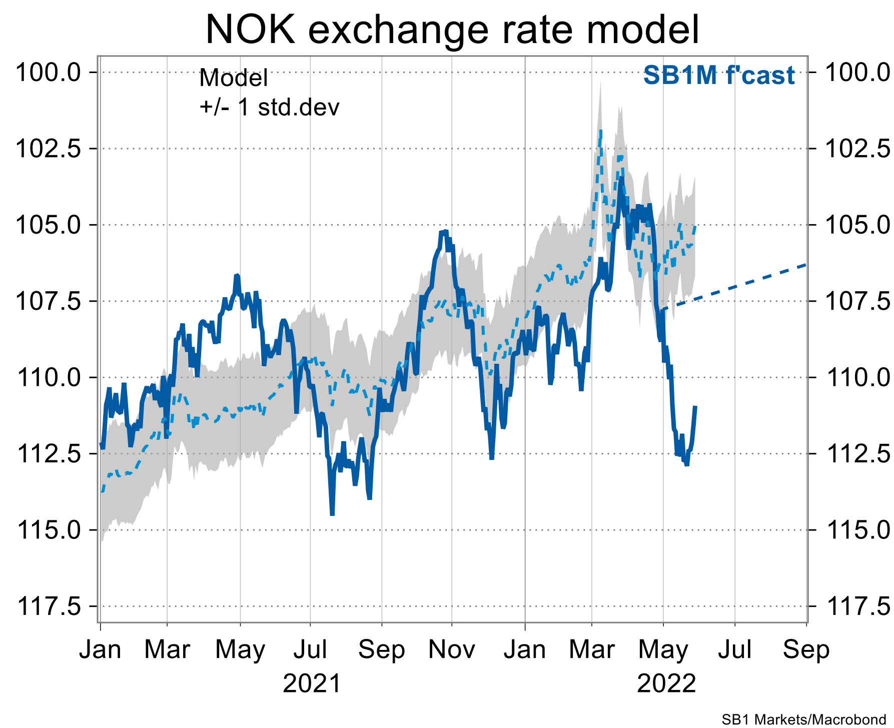


- Last week, both stock markets and the NOK recovered

The NOK up but still 5.3% below our model estimate

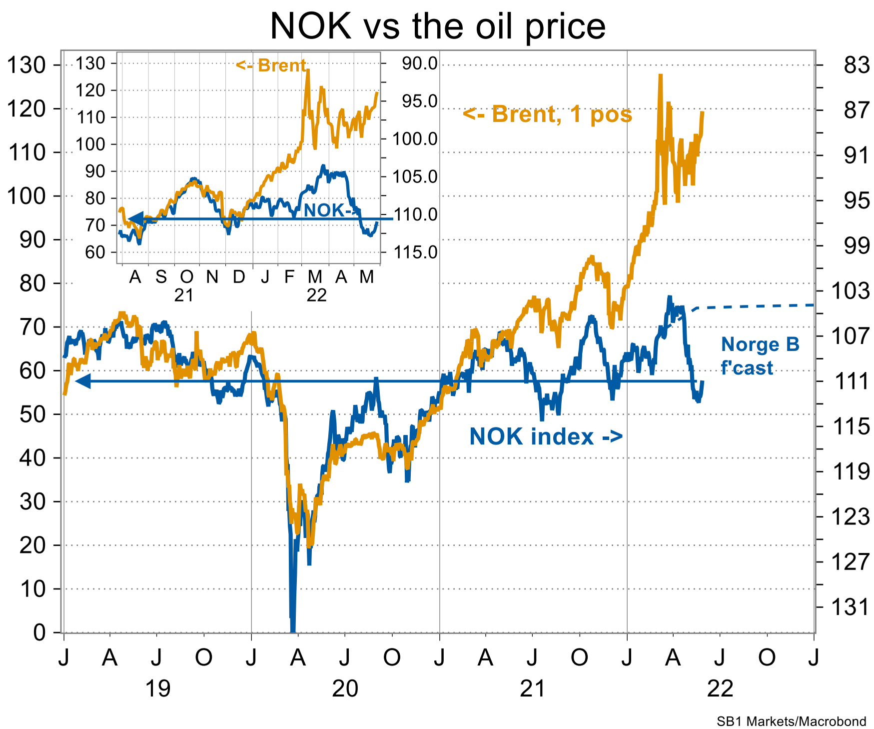
Rather unusual…

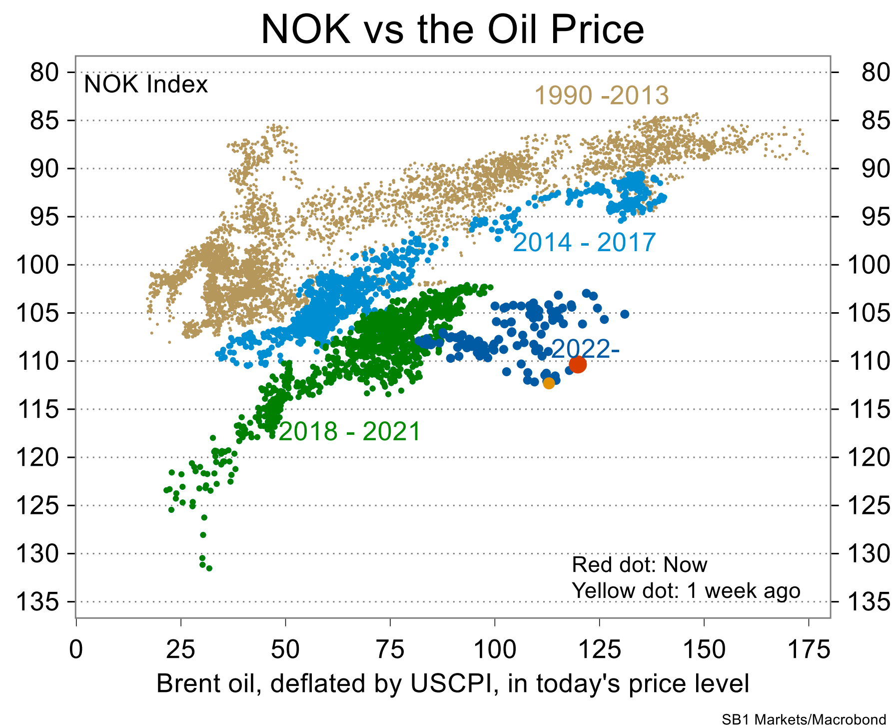




Oil up, NOK up but still weak vs. the oil price

NOK is weak, as if the oil prices were USD 70/b (rebased to early Jan) or 58 (rebased to May-21)

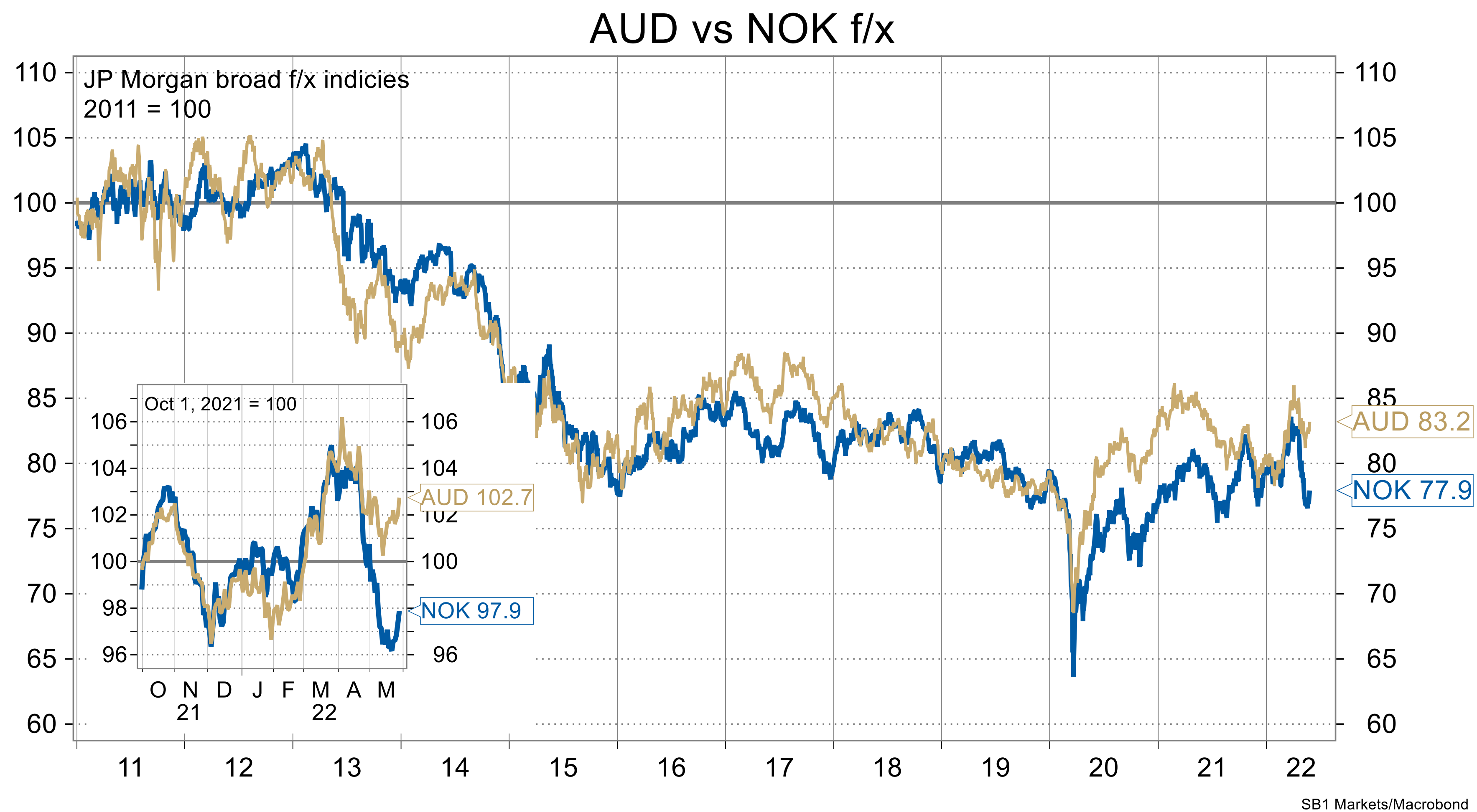




- The NOK has never before been as weak as now, given the oil price

Both the AUD & NOK up, but NOK is still lagging

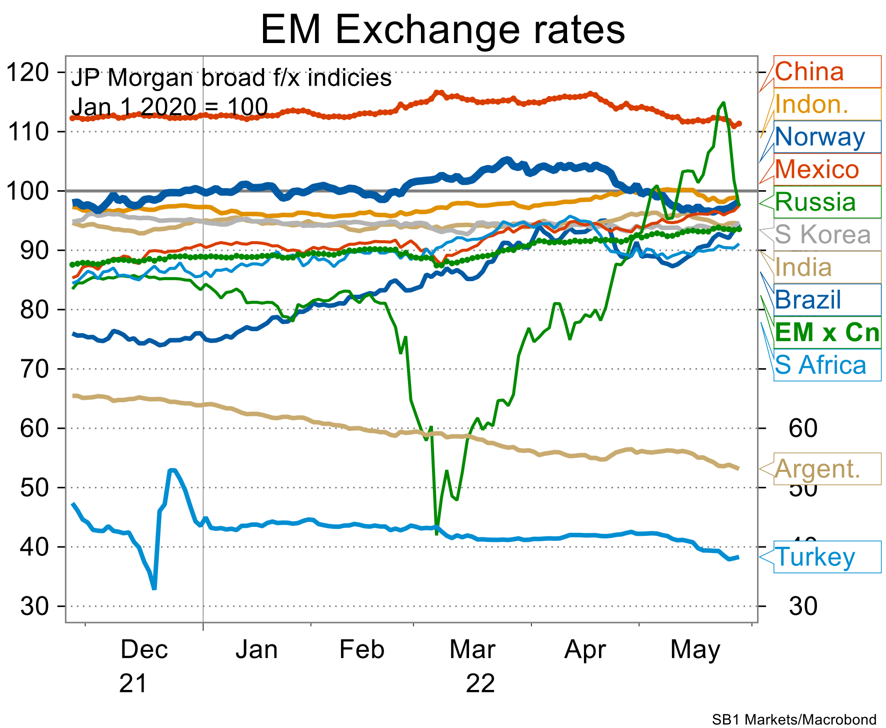
The usual suspects, the oil price vs metals cannot explain the relative NOK drop vs. AUD

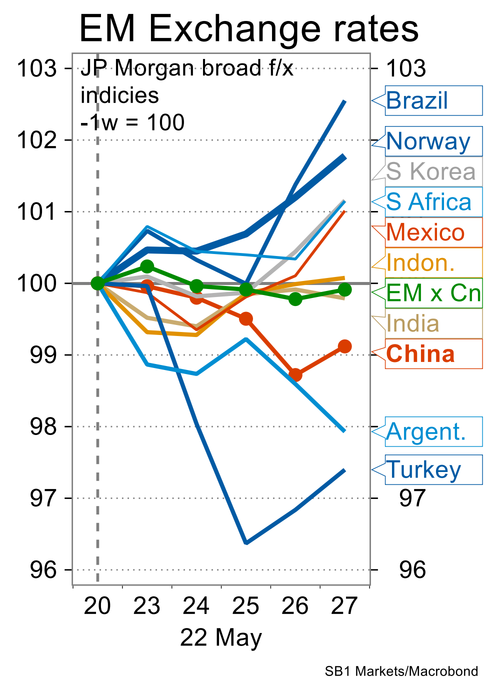


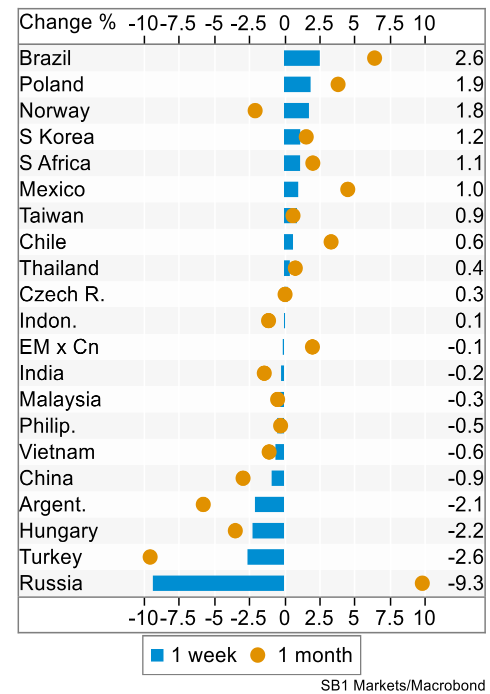
Usually, interest rate differentials have not been important at for the NOK/AUD relative strength/weakness. NOK has usually <u>strengthened</u> vs. the AUD in times of turbulence in the stock market (VIX, S&P vs. long term trend)

EM f/x mixed, Brazil up. Turkey and volatile Russia down, from a high level

(and not in NATO either). The Russian RUB is steadily climbing: A huge trade surplus + capital controls



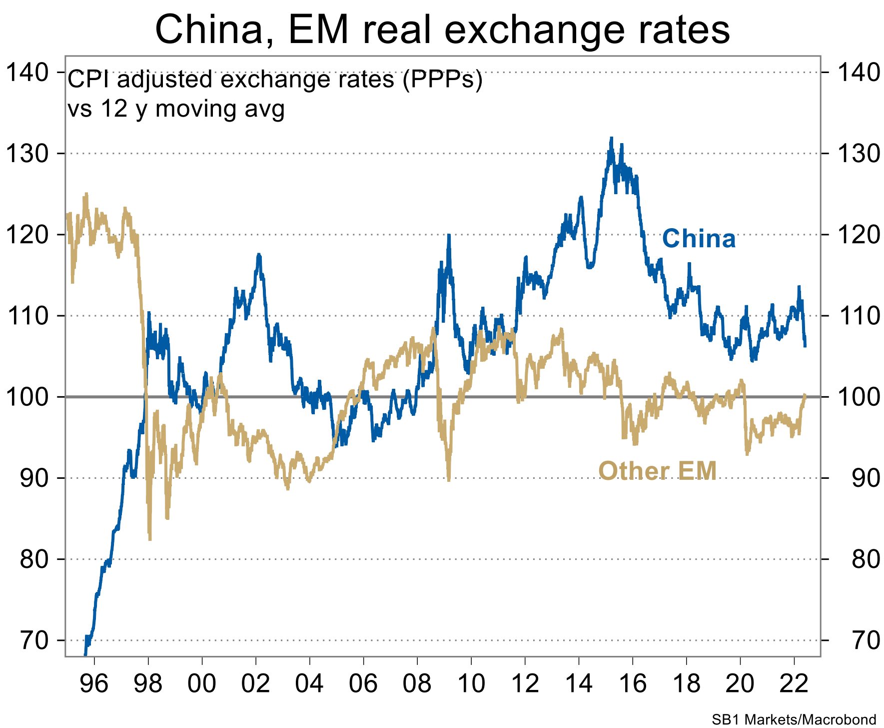


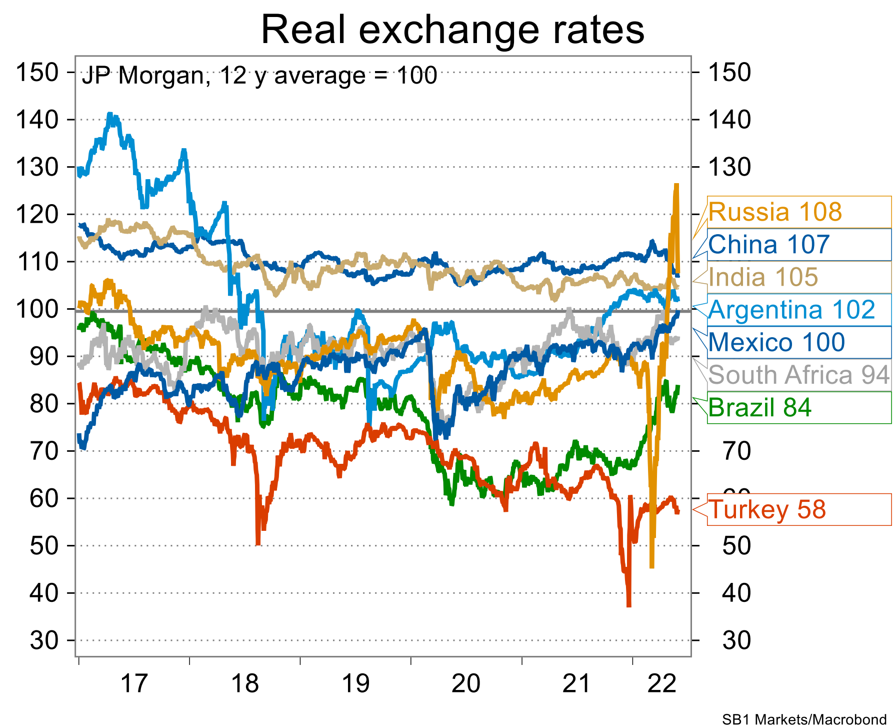


- The Brazilian real has appreciated sharply recent months, from a low level

EM f/x, The long view. Higher US interest rates have not crushed EM currencies

Most real exchange rates seem to be at reasonable levels. The Turkish lira is too cheap?





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