June 7 2022

Macro Weekly

Week 23/2022

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

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

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

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Highlights

The world around us

The Norwegian economy

Market charts & comments

Last week, part I

- **The War/Sanctions**
  - No end in sight for the war. Both parties want to strengthen their position on the ground before real peace negotiations to start
  - **EU** finally decided to stop buying Russian oil, at least seaborn
  - **Mixed commodity prices**, metals up, oil prices close to unch. Wheat prices sharply down as the UN and Russia discuss exports of Russian grains, fertilisers
- **The virus**
  - **Lockdowns** are gradually eased in most Chinese cities, and now even in **Beijing,** and economic activity should recover. However, as it is unlikely that the Omicron virus is totally eradicated, it will no doubt hit back when social distancing is removed. And what to do then? Just after Shanghai was reopened, new community cases were reported. The strategy does not seem viable, at least not from an economic point of view
- **May PMIs/ISMs**
  - **The global PMI** rose marginally in May, by 0.3 p to 51.5, signalling global GDP growth below trend, at some 2.5%. Following two months of steep decline, the Chinese (and Russian) PMIs recovered in May – less than expected but sufficiently to lift the global PMI. In the rich part of the world, the PMI fell 1.8 p, mostly due to weaker US indices, but the EMU PMI fell too. Delivery times fell most places, and the price indices moderated marginally. Still, price pressures are unusually elevated, of course
- **Auto sales**
  - **US** sales fell sharply in May, to 25% below the 2019 level, while **EMU** sales rose slightly – still down 37%! Russian sales fell further, and are down 79% vs 2019! Sales in **other EMs**, which so far have reported, are up. **Norwegian sales** were stable in May, at 6% below average sales in 2019. On bright spot: **German auto production** recovered in May, back up to the 2019 level!

Last week, part II

- **USA**
  - » **Employment** grew more than expected in May but **unemployment** was unchanged at 3.6%, and **wage inflation** has moderated the recent months, and was lower than expected in May. The participation rate recovered half of the June loss. However, vacancies remained at very high level in April (JOLTS), and in the SME survey more companies reported problems filling open positions, in fact equal to the highest share ever measured, and they plan both to hire and lift wages at an unusual pace. New jobless claims fell for the 2nd week in a row, also confirming a tight labour market
  - » **House prices** rose sharply in March (Feb-April avg), according to Case/Shiller, at a 30% pace, the 2nd highest ever, and the annual growth rate accelerated to 21%, the highest ever
  - » On the other hand, **Fed's Beige Book** reported some soft spots in the US economy, due to lower real incomes, higher interest rates. Some are reporting flatting or lower wage inflation. The overall picture is still growth above trend and lack of labour
- **EMU**
  - » **Headline inflation** added 0.6 pp to 8.1%, 0.4 pp more than expected as prices rose 0.8% m/m. Energy and food prices rose further. In addition, core prices rose 0.4% m/m and the annual rate accelerated 0.3 pp to 3.8%, also above expectations. Inflation is broadening, even if energy and food prices still explain the lion's share of the overall inflation
  - » **Unemployment** has stabilised at 6.8%, the lowest level since 1981
  - » **EU surveys** confirm the PMIs, growth remains above trend, even if manufacturing activity has slowed somewhat
  - » Comments from **ECB board members** also contributed a massive lift in interest rates/bond yields in EMU last week. Are 'double' hikes on the agenda here too?
- **Norway**
  - » **NAV unemployment** fell more than expected in May, to 1.7% (seas. adj), from downward revised 1.8% in April. Unemployment 0.3 pp lower than NoBa assumed in March, below NoBa's trough estimate for this cycle (assumed in early 2023), and not far above the lowest since 1987, just before the banking crisis started. BTW, in the rich part of the world, the unemployment rate is the lowest since 1981
  - » **House prices** continued upwards in May, up by 0.7%. The price level is 1.4% higher than NoBa forecasted in June. Higher interest rates have so far not scared home buyers – and a record low consumer confidence is not relevant for the house market, of course
  - » **Credit growth** in slowly slowing, at least for households (and local governments), which is not consistent with higher house prices
  - » A weaker NOK, higher CPI & house price inflation, lower unemployment than assumed in March are good arguments for NoBa for lifting the interest rates path somewhat at the June meeting. A hike in June (still a 25 bps), and then another in August and in September and December, is now our best forecast. The market is even more 'aggressive'. The best counterargument: Consumer confidence, fear of a sudden stop at the housing market

The Calendar: US & NO CPIs, China trade, ECB

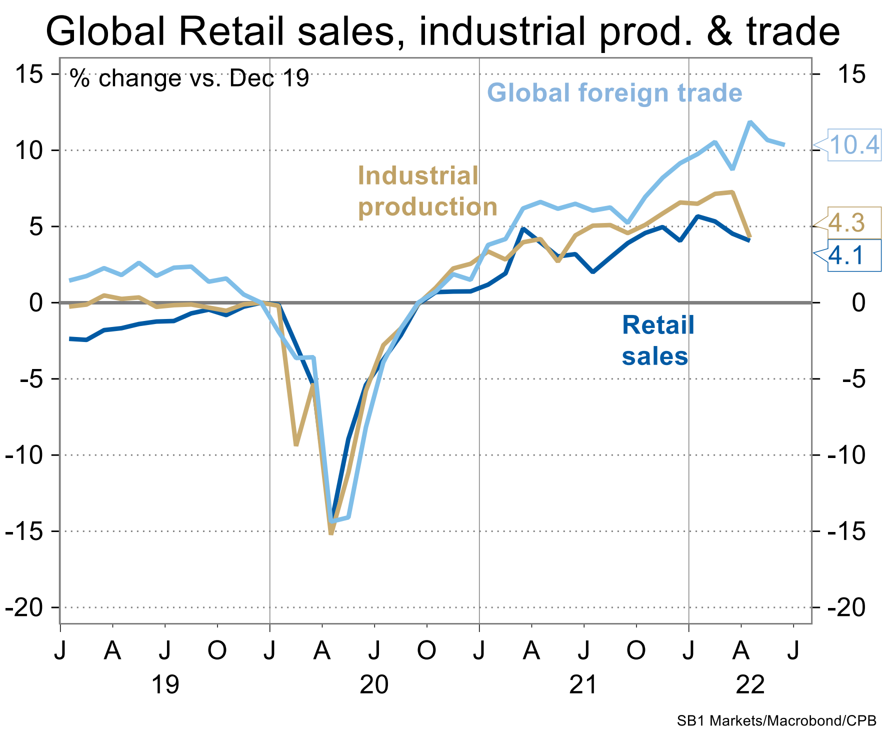
Time	Count.	Indicator	Period	Forecast	Prior
Tuesday June 7					
08:00	GE	Factory Orders MoM	Apr	0.3%	-4.7%
10:30	UK	Services PMI	May F	51.8	51.8
14:30	US	Trade Balance	Apr	-$89.5b	-$109.8b
Wednesday June 8					
08:00	NO	Manufacturing prod SA MoM	Apr	1.2%	-3.9%
08:00	GE	Industrial Production SA MoM	Apr	1.2%	-3.9%
11:00	EU	OECD Economic Outlook			
11:00	EU	GDP SA QoQ, more details	1Q F	0.3%	0.3%
Thursday June 9					
	CN	Trade Balance	May	$57.79b	$51.12b
	CN	Exports YoY	May	8.0%	3.9%
	CN	Imports YoY	May	2.5%	0.0%
08:00	SW	GDP Indicator SA MoM	Apr	--	1.0%
13:45	**EU**	**ECB Deposit Facility Rate**	**Jun-09**	**-0.50%**	**-0.50%**
14:30	US	Initial Jobless Claims	Jun-04	210k	200k
18:00	US	Household Change in Net Worth	1Q	--	$5297b
Friday June 10					
03:30	CN	PPI YoY	May	6.5%	8.0%
03:30	CN	CPI YoY	May	2.2%	2.1%
08:00	**NO**	**CPI YoY**	**May**	**5.6% (5.6)**	**5.4%**
08:00	**NO**	**CPI Underlying YoY**	**May**	**3.1%(2.9)**	**2.6%**
08:00	NO	SSB Economic trends - f'casts			
14:30	US	CPI YoY	May	8.2%	8.3%
14:30	US	CPI Ex Food and Energy MoM	May	0.5%	0.6%
14:30	**US**	**CPI Ex Food and Energy YoY**	**May**	**5.9%**	**6.2%**
16:00	US	U. of Mich. Sentiment	Jun P	58.8	58.4
20:00	US	Monthly Budget Statement	May		$308.2b
During the week					
	CN	Aggregate Financing CNY	May	1975.0b	910.2b
	CN	New Yuan Loans CNY	May	1211.5b	645.4b

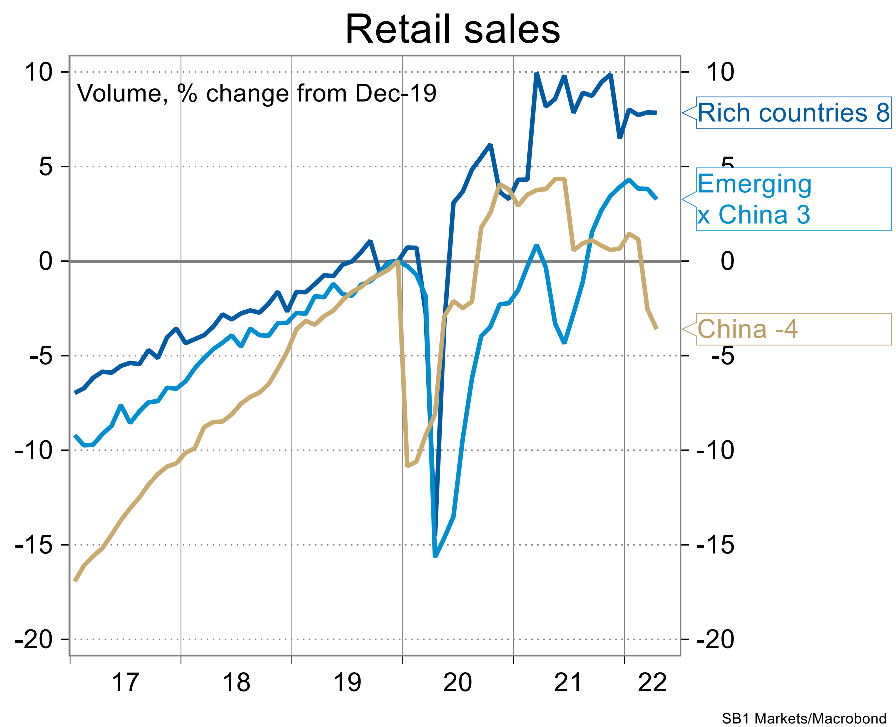
- **China**
  - » **CPI** has accelerated but inflation is still low – and the core even lower. May credit data may also be published. In April, bank lending slowed sharply, we assume due to the lockdowns that dampened
  - » Both **exports and imports** fell sharply in March but more or less stabilised in April. Many factories and harbours were closed in May too but we assume trade volumes rose somewhat
  - » May **credit data** may be published too. In April, bank lending slowed sharply
- **USA**
  - » **CPI** may have peaked but inflation is still far above acceptable levels. Core inflation is at 6.2%, and is expected up 0.5% m/m in May. Both the core rate and out simple energy driven CPI model suggest that it is not possible to blame the energy shock for more than parts of the hike in headline inflation, directly and indirectly. There are of course supply side challenges but those are partly a result of strong growth in demand for goods. A rapid acceleration in wage inflation also contributes to the lift in overall inflation.
- **EMU**
  - » **ECB** will very likely confirm that the ECB will not increase its holdings of bonds under the APP program from July, paving the way for the well signalled hike in the policy rate at the July meeting and then further in September, bringing the repo rate up to zero (some ECB board members have even advocated the need for 50 bps hikes). As inflation is 8% and the unemployment rate is the lowest since 1981, these moves do not seem overly hawkish
- **Norway**
  - » **Core CPI inflation** will very likely accelerate further – even without a very high m/m change in prices, as prices were flat m/m in May last year. Anyway, the core CPI has accelerated, and rather broadly. The **headline CPI** should not climb that much, as electricity prices fell slightly, at least partly compensating for a 14-something per cent lift in gasoline prices, up to the highest level ever

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

Global activity fell in March/April due to the Chinese lockdowns

Global industrial production fell some 2% due to the 7% setback in China

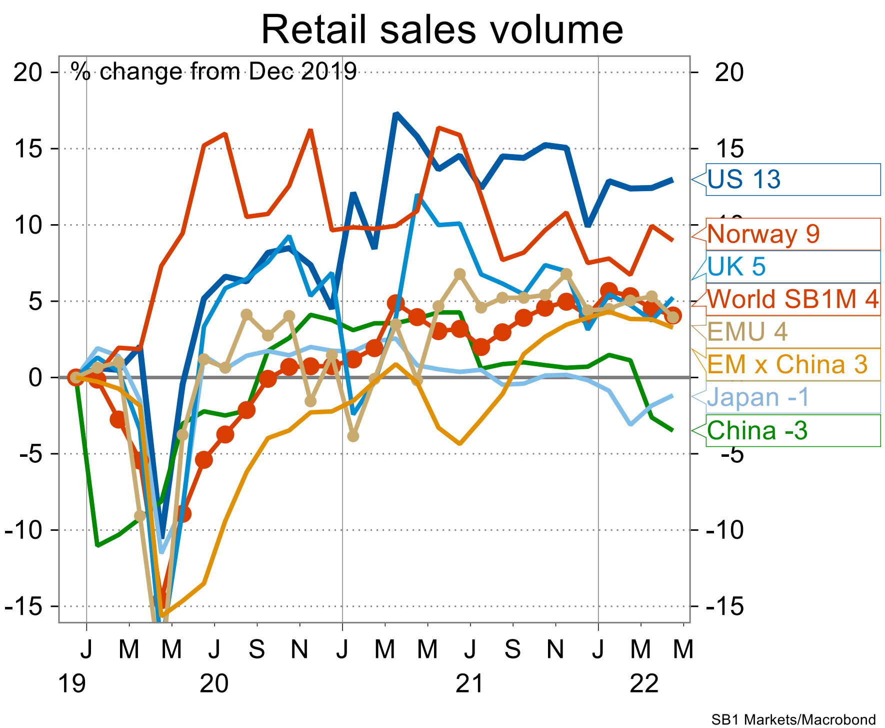


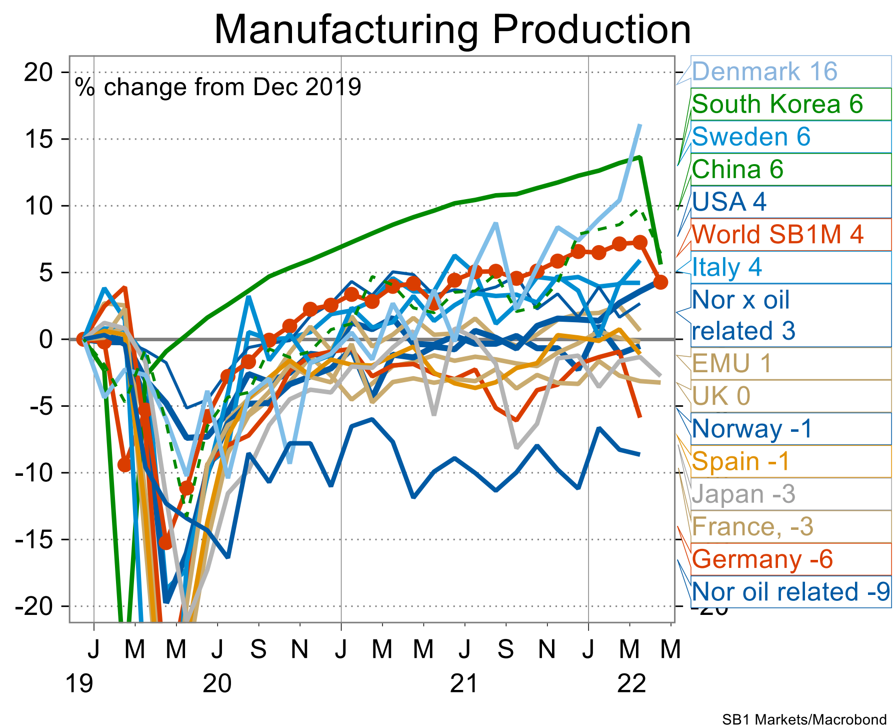


Global trade: The last months are estimates from the Kiel Institute, they are also making a prognoses for the next month based on shipping activity etc.

Retail sales has slowed since January, mostly due to China

However, both other EMs and most rich countries are reporting slower sales too, it's services now!





- **Manufacturing production** fell in April due to the steep decline in China
- **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 but not above trend
  - » China reported a sharp drop in production in April, which will the global aggregate down (but too few others have so far reported)

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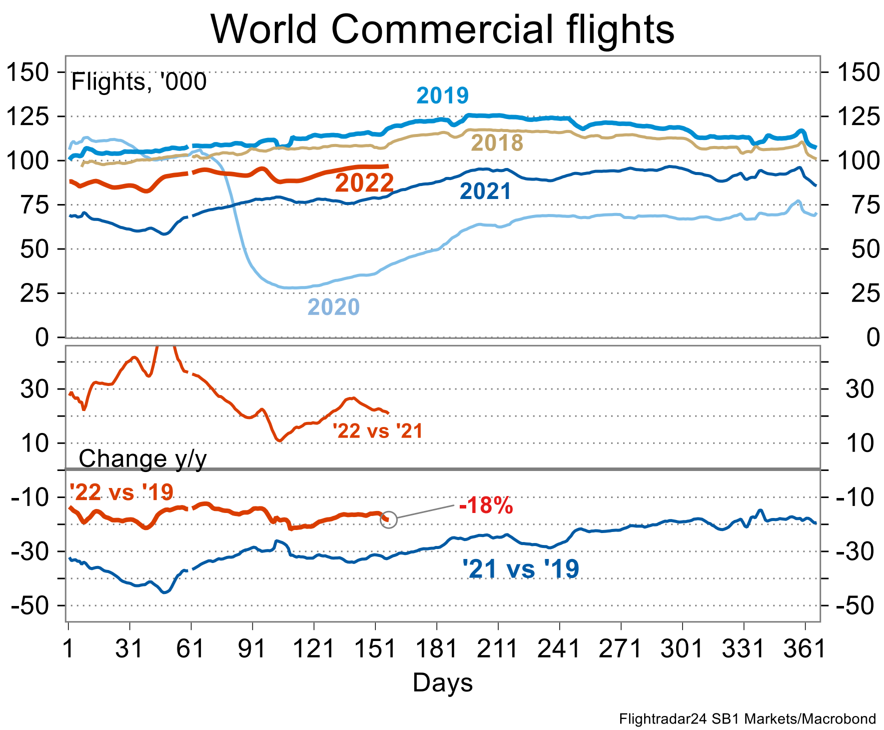
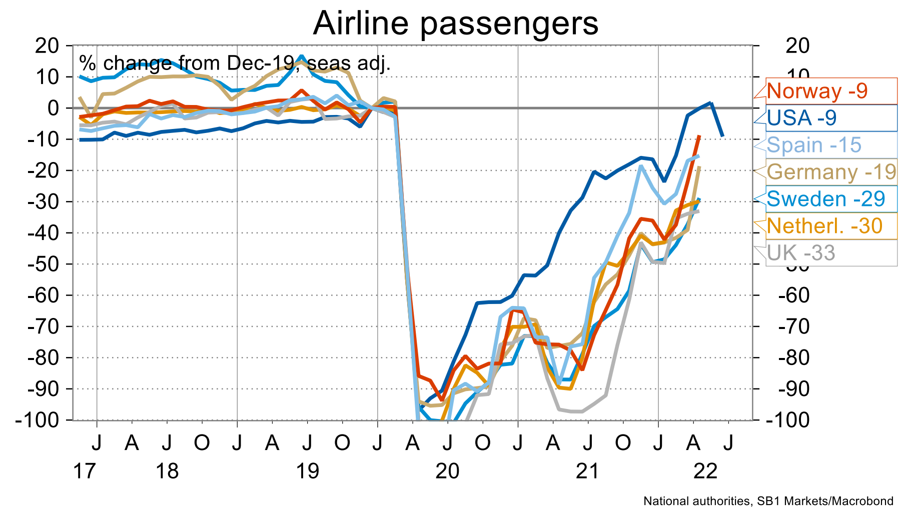
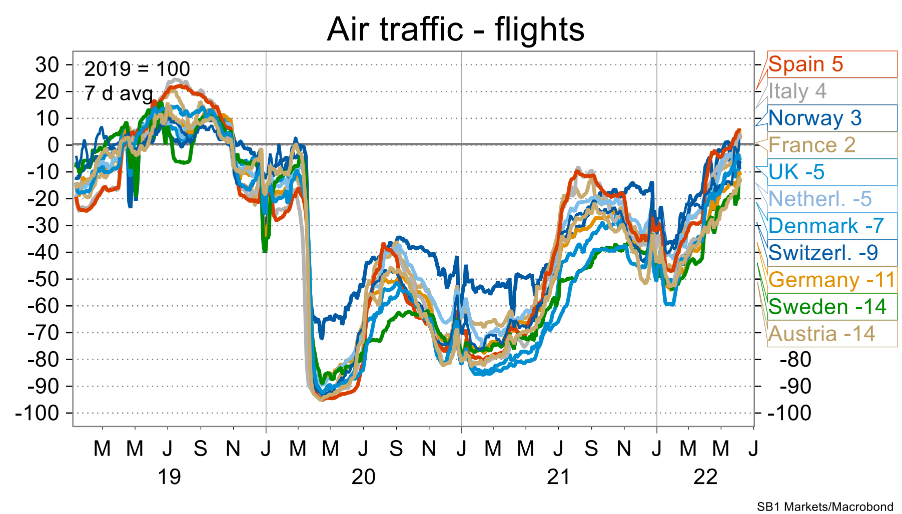
Global airline traffic has flattened, in a normally strong season

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



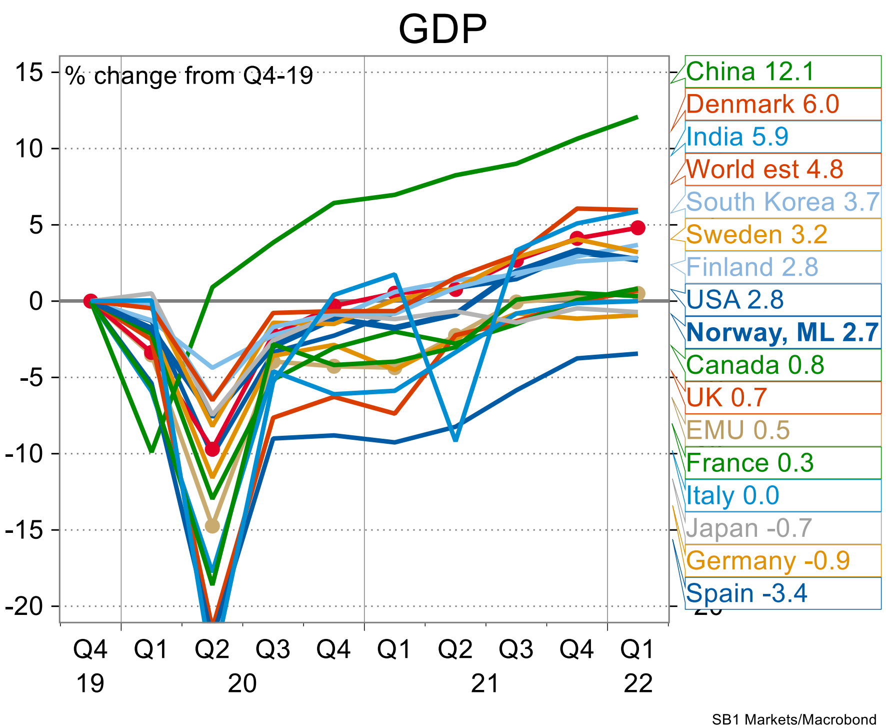


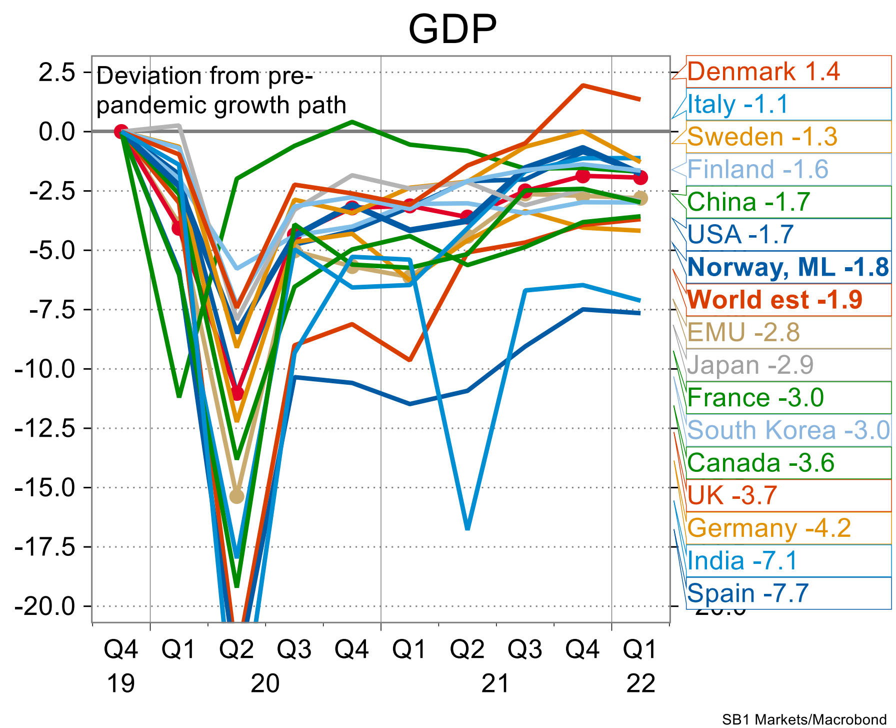


Global trade: The last months are estimates from Kiel Institute

GDP slowed in Q1, to 0.7% (2.5% annualised) from 1.4% (5.7%) in Q4

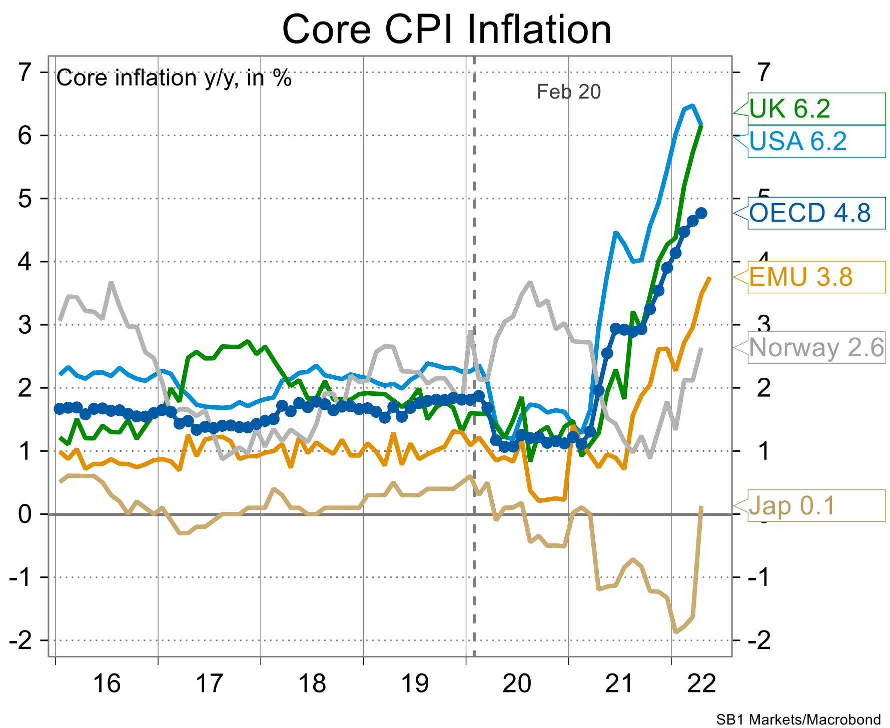
US explains most of the slowdown. GDP is still below the pre-pandemic growth path, by some 2%

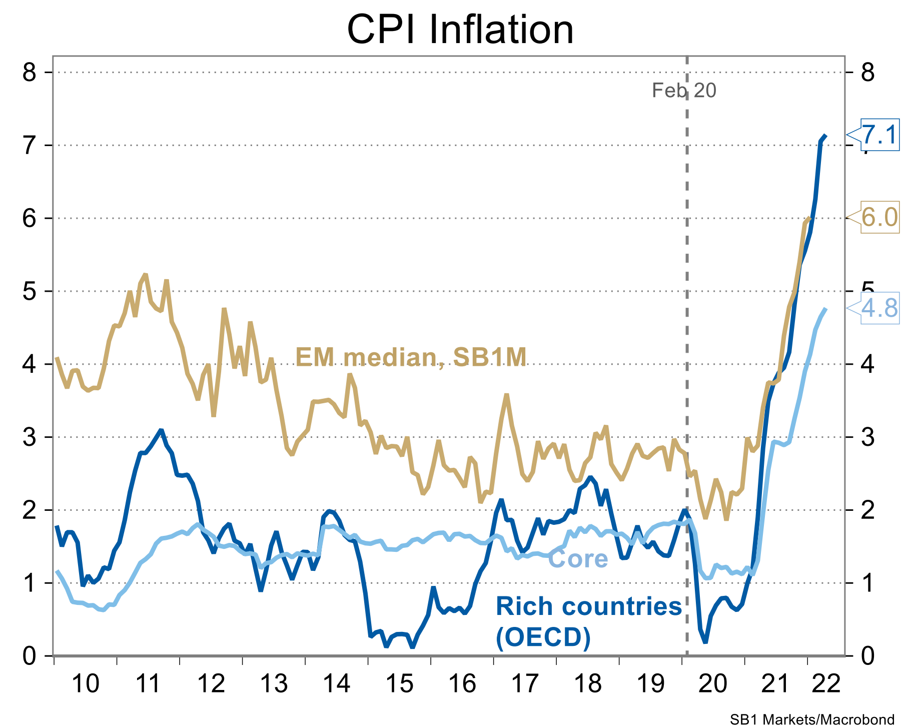




Inflation still the main challenge most places

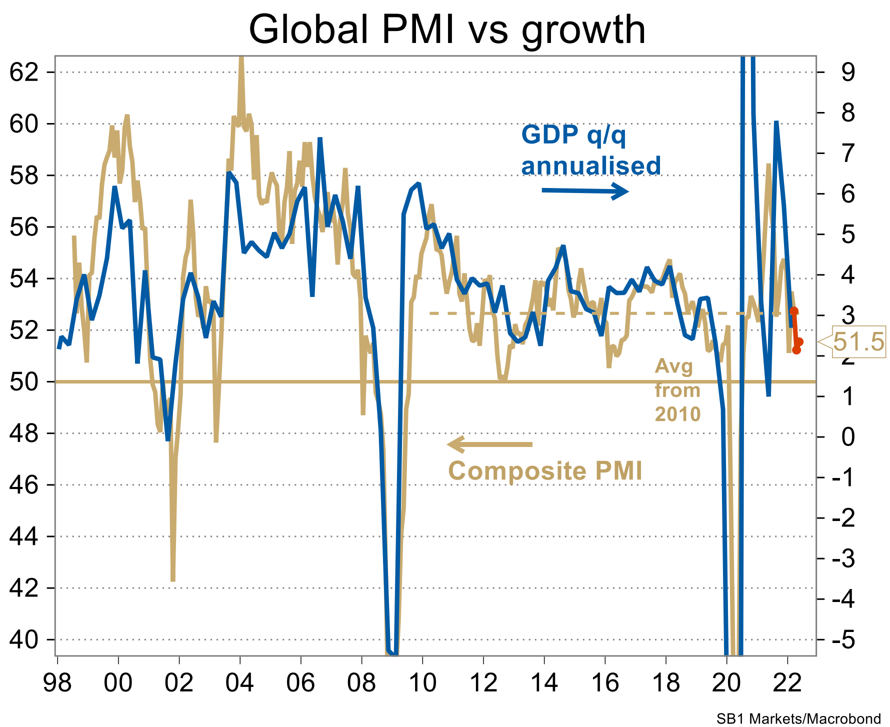
Energy prices the main culprit, but core inflation has turned up most places

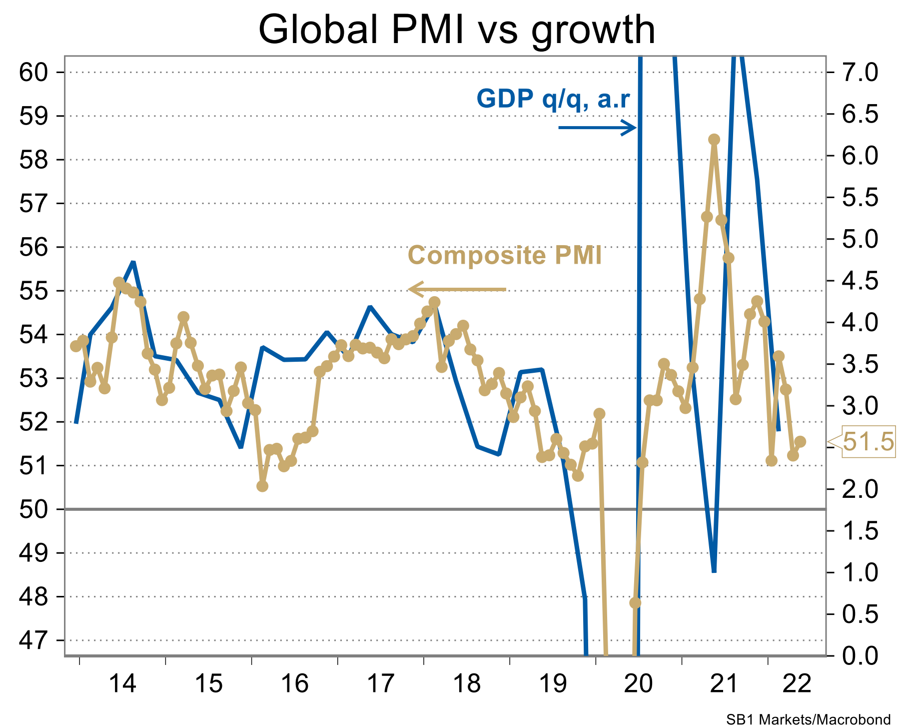




The global PMI slightly up in May, thanks to China. DM down 1.8 p to 53.7

The global index gained 0.3 p to 51.5, signalling below trend growth in GDP at some 2.5%

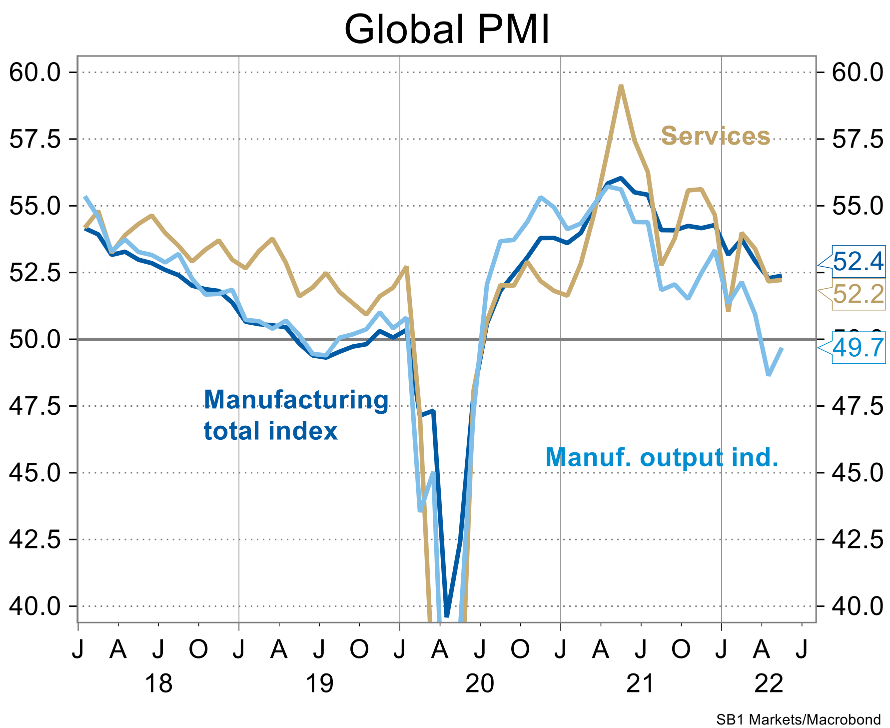


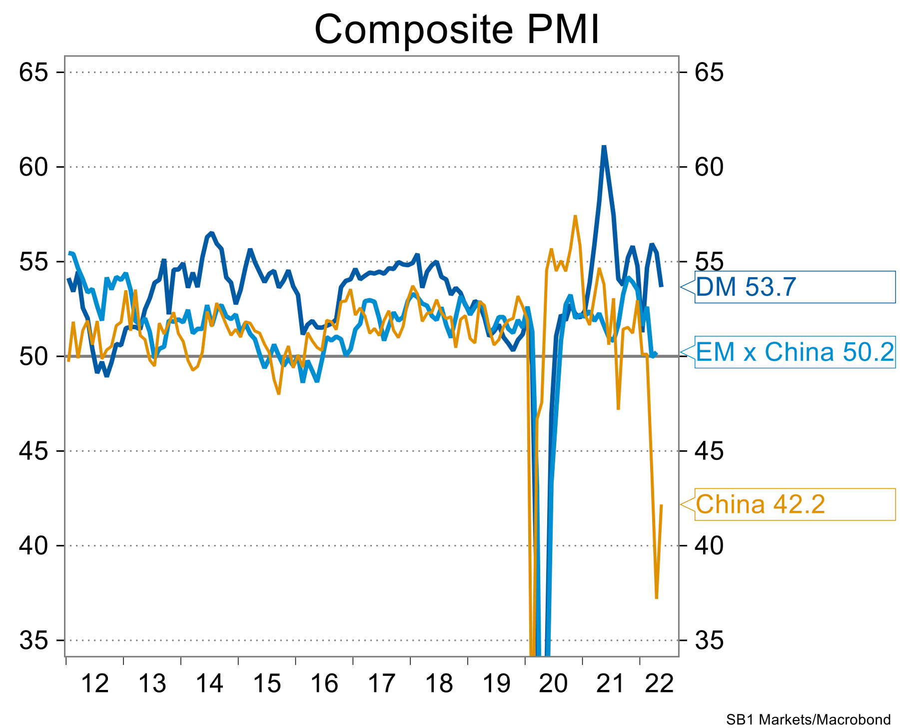


- Both manufacturing and services contributed to the uptick in the global composite

The Chinese PMIs recovered but still signal 'some' lockdown challenges in May

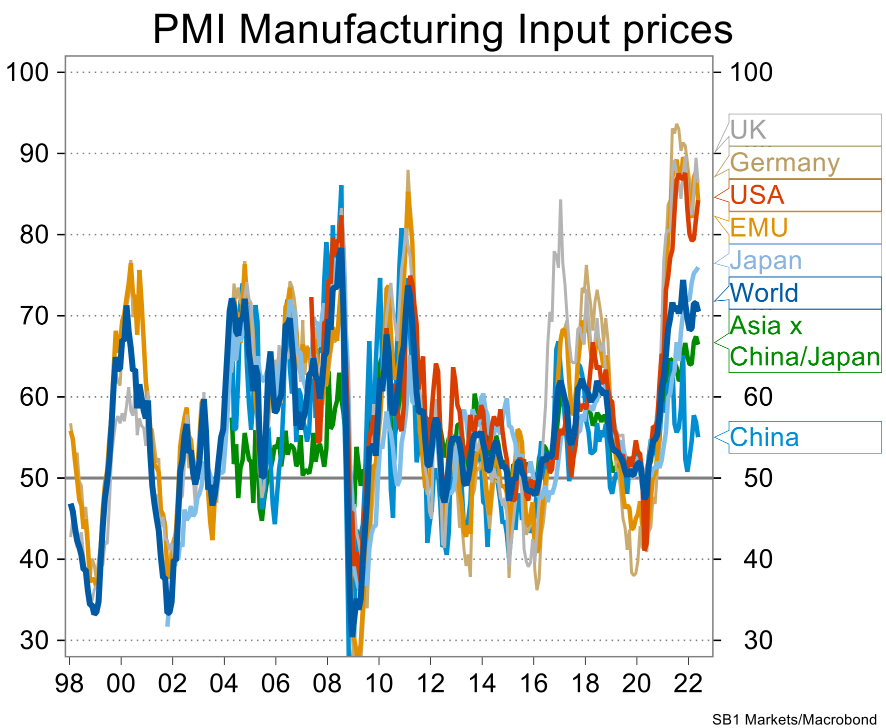
EM x China was close to unchanged at a low level of 50.2. DM down 1.8 p to 53.7, still above avg.

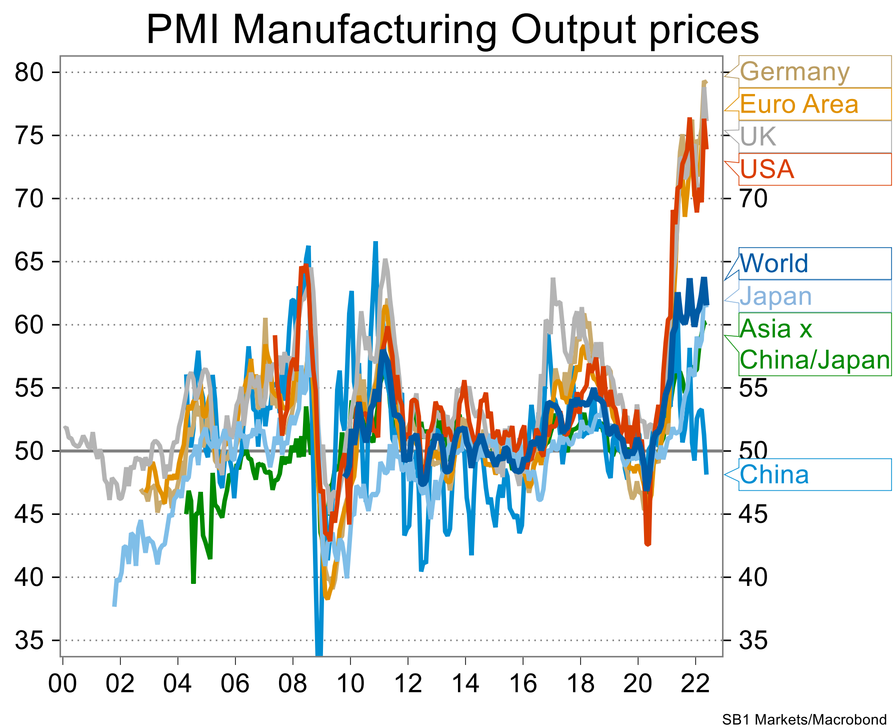




Both input and output prices rose at a slower pace in May, but just marginally

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

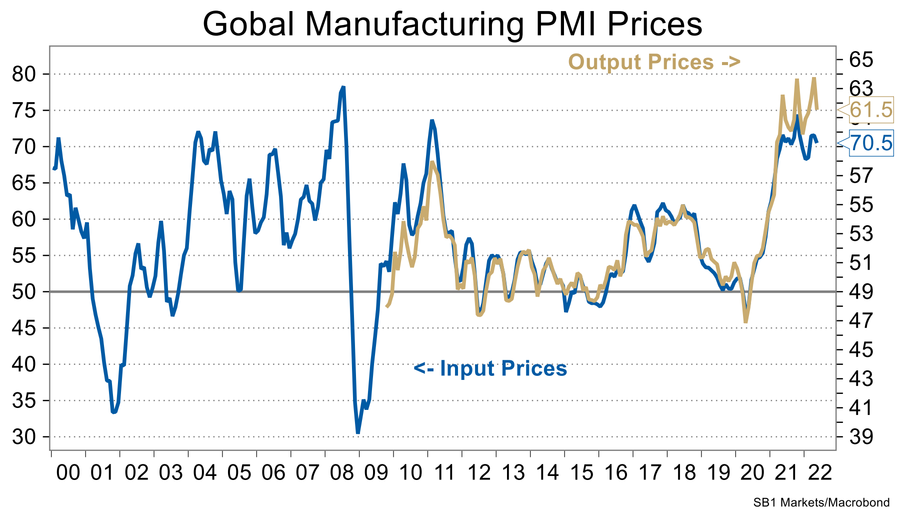


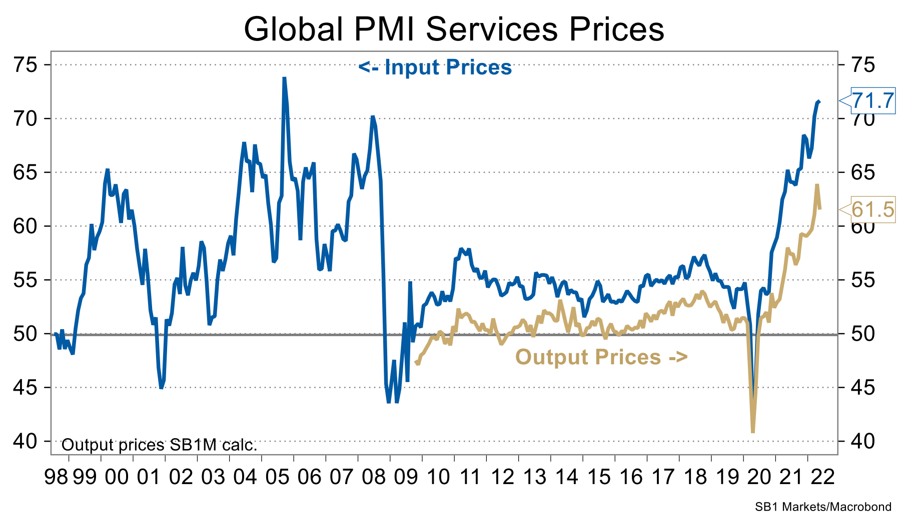


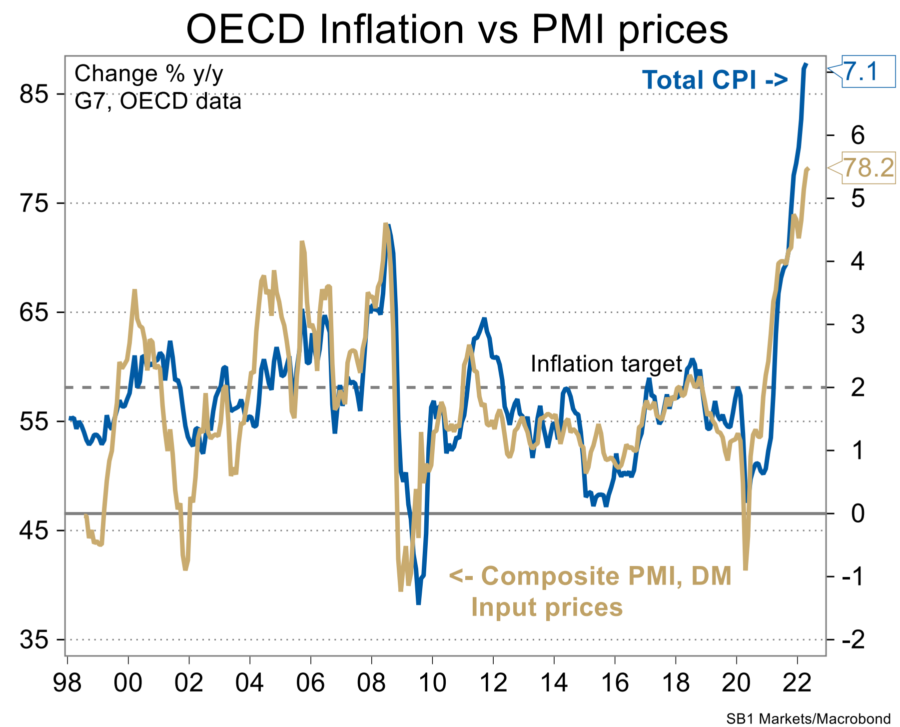
- Output prices in Germany, UK and Euro Area are still rising at the 2nd fastest pace ever
- Output prices still rose at a faster pace in Asia x China & Japan

Services input prices rose further, the other price indices fell

All price indices remain at very high levels

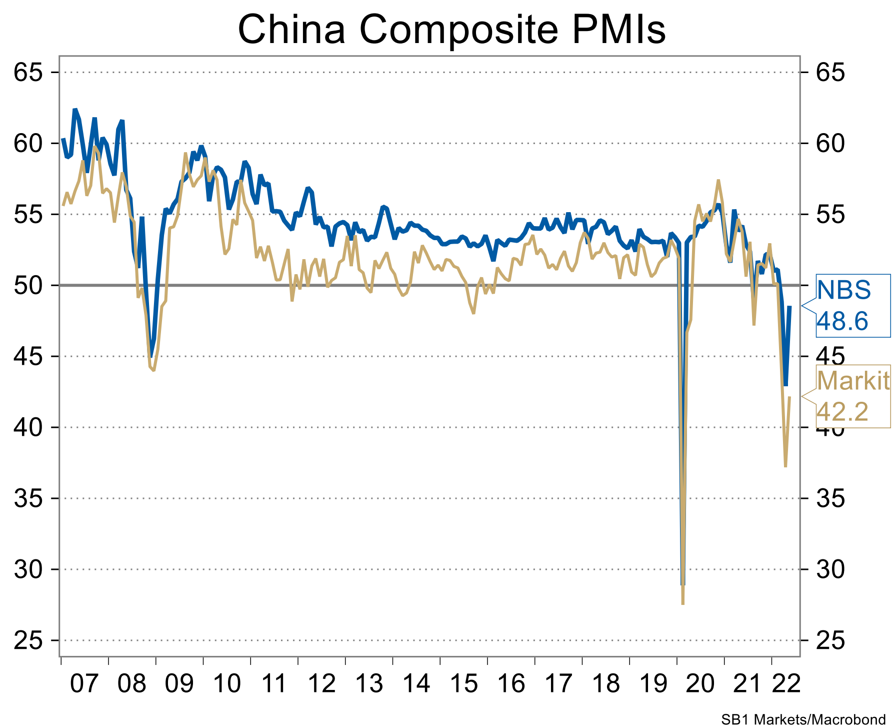


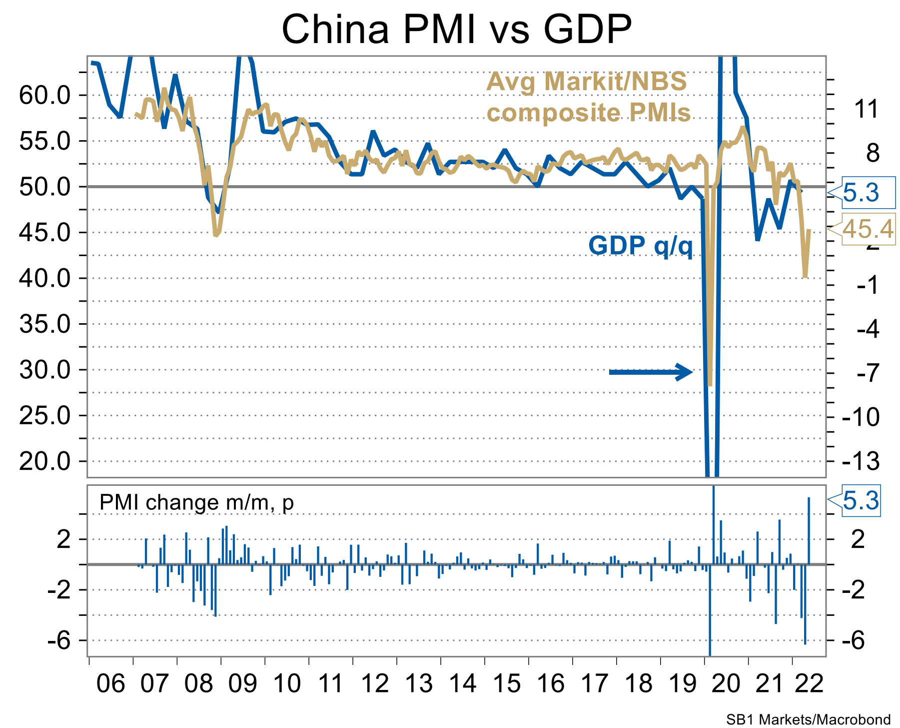




Both PMI data sets recovered in May but are just signalling very slow growth

The composite average rose 5.3 p but it is still at 45.4, following the 4+6 p drops in March/April

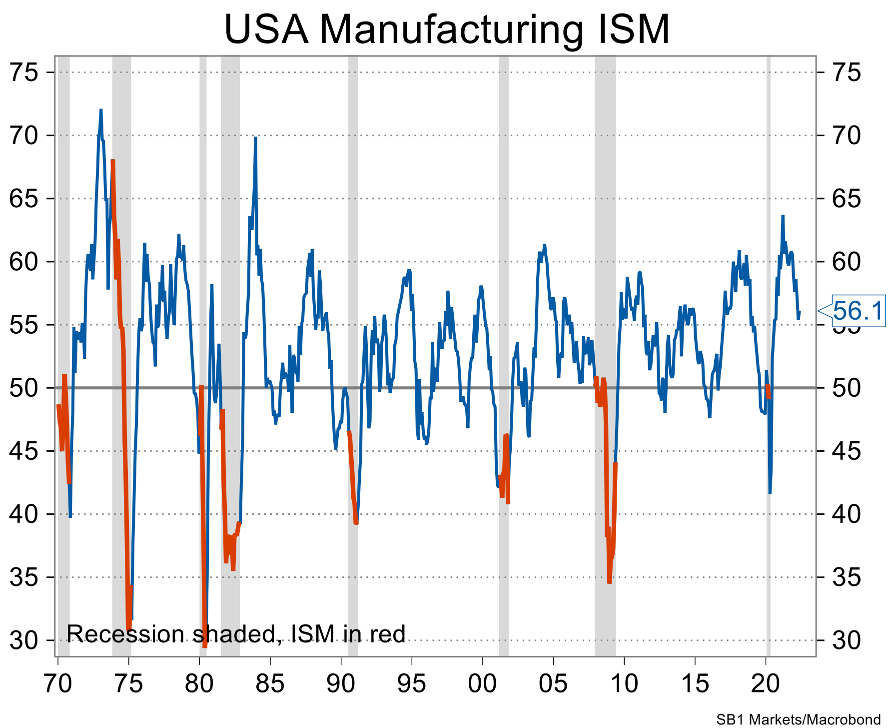


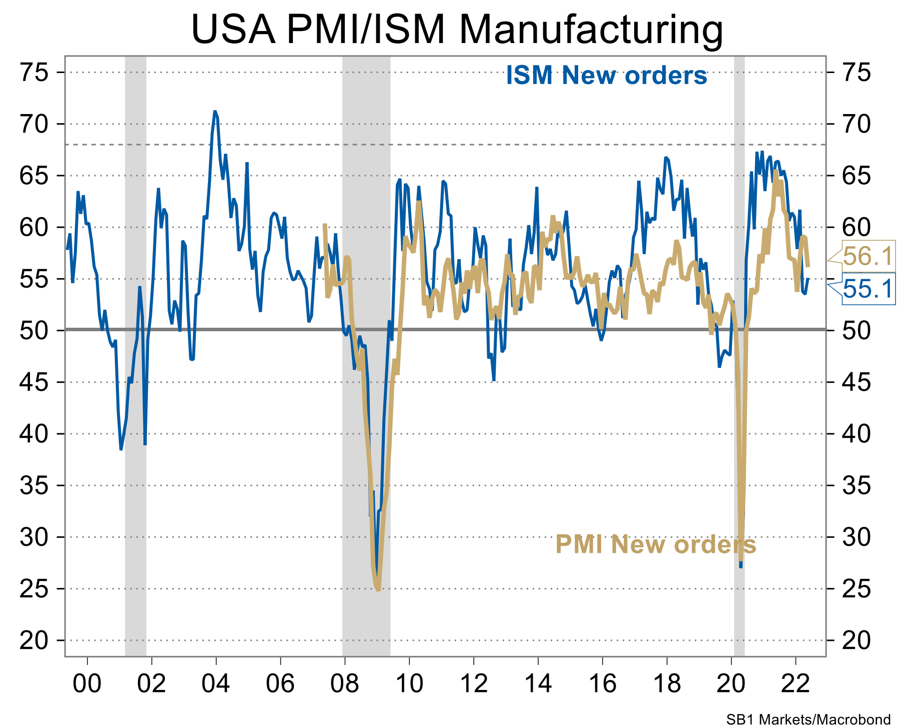


- **Both the NBS/CFLP and Caixin/Markit's PMIs** rose in May, following the rapid declines in March and April. Both recovered 5-6 p, the 'official' NBS survey was up more than expected, the 'private' Markit survey less than expected, especially in the service sector
  - » Markit's PMI at 42.2 still signals a contraction vs. the activity level in April, while the NBS print at 48.6 indicates a small uptick in economic activity
- The PMIs confirm that the lockdowns have hurt the economy badly, but as they have been less rigorous than in 2020 (on average, for the whole country), the economic impact is less than during the first lockdowns. Restrictions are now eased most places, and the economy will very likely grow in June. However, the Omicron variant is very likely not eradicated, and it will hit back if the population lacks immunity – which is the case in China

The manufacturing ISM surprised on the upside in May, but it is trending down

The total index gained 0.7 p to 56.1, better than expected and far better than reg. surveys signalled





The **ISM manufacturing index is trending down but is not yet at low level. However, at the current speed of decline, we are soon there**

- Last month, 15 of 18 manufacturing sectors reported growth (down from 17 the prev. month), just 1 sector report a decline (furniture), as the prev. month
  - » The **new orders** index rose 1.3 p to 55. In Markit's PMI, the new order component fell almost 3 p to 56.1 – still a rather high level
- 40 commodities saw **price increases** (from 36, at the peak 56 commodities). Aluminium, steel, petrochemical products prices were lower
- 18 commodities were reported in **short supply,** as in the previous month (and far below the peak at 50 commodities a few months ago)
- **Companies** are reporting mixed supply chain issues – some are reporting easing, but most of them are not. No report of lack of labour. Some few comments on easing demand

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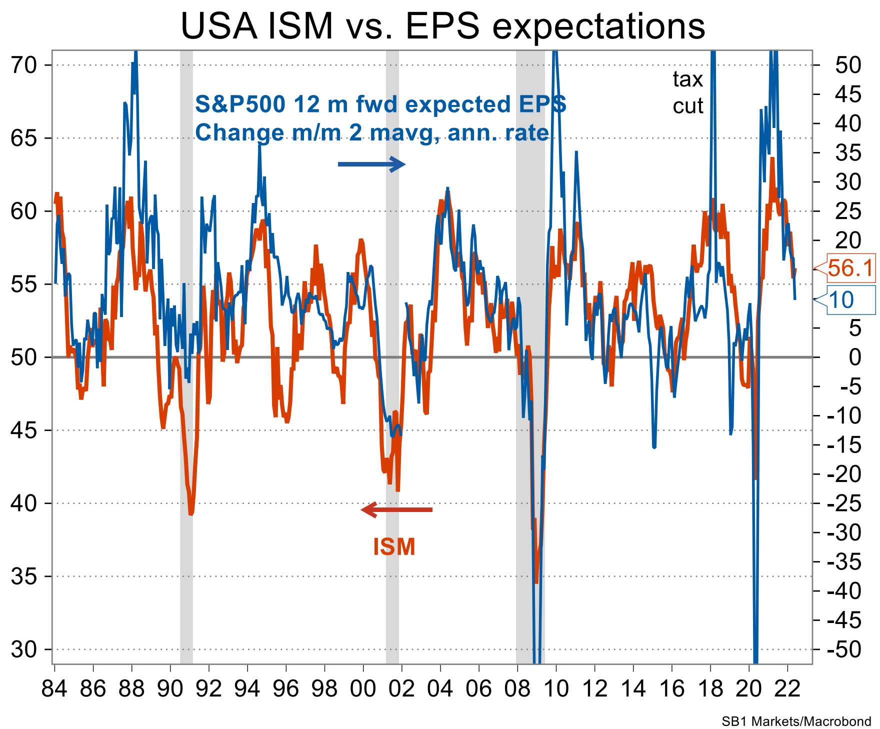
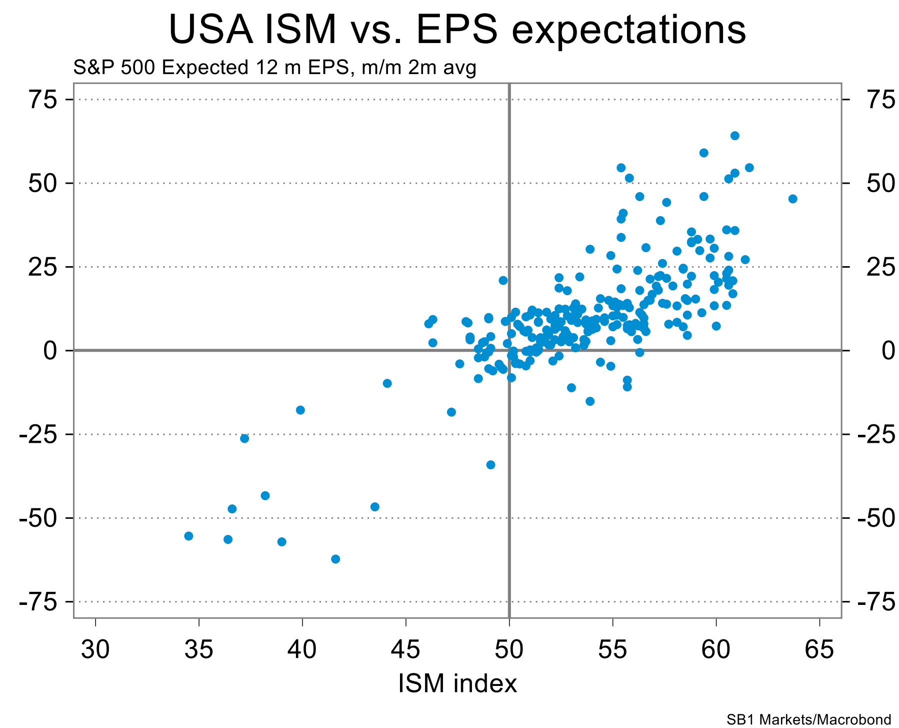
When the ISM turns south, growth in expected earnings always joins

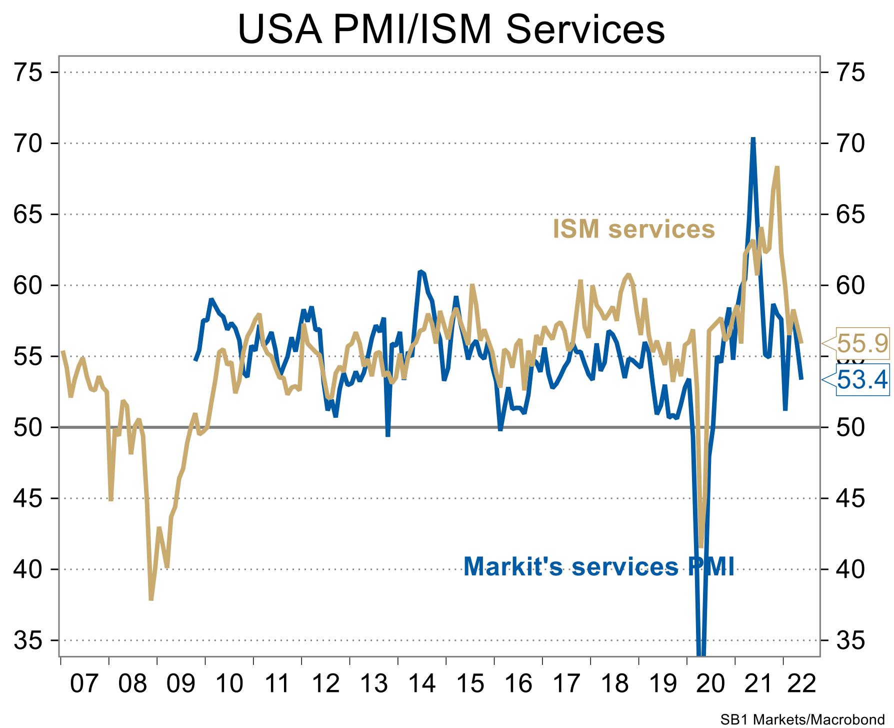
At 56, decent earnings growth is normally assumed. But not at 50

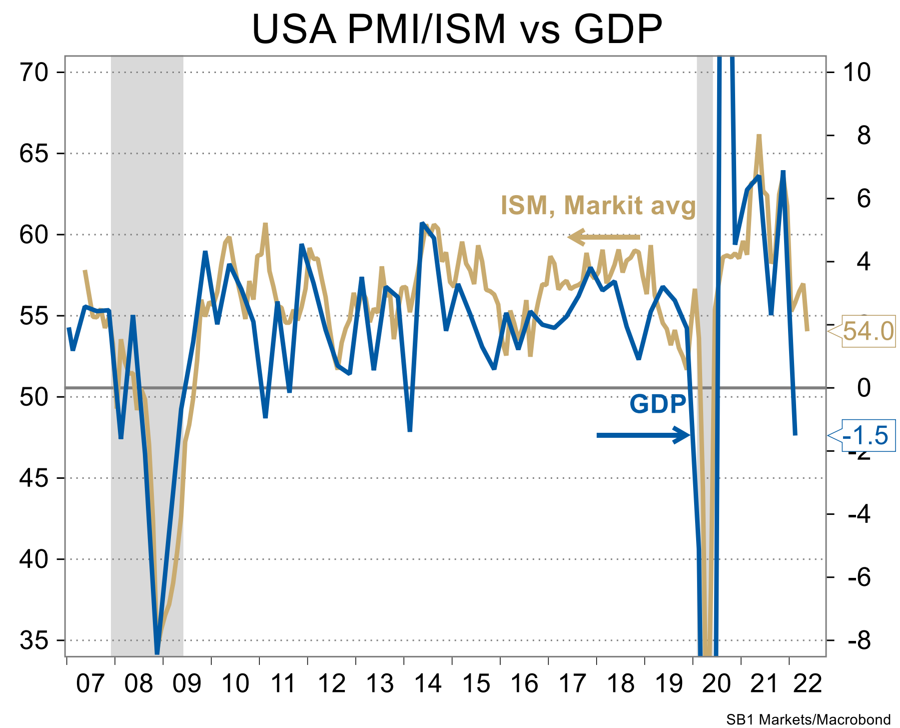




Services ISM further down but still somewhat above average at 55.9

Markit's services PMI confirmed down too. The grand PMI/ISM total at 54.0, signals 2 % GDP growth

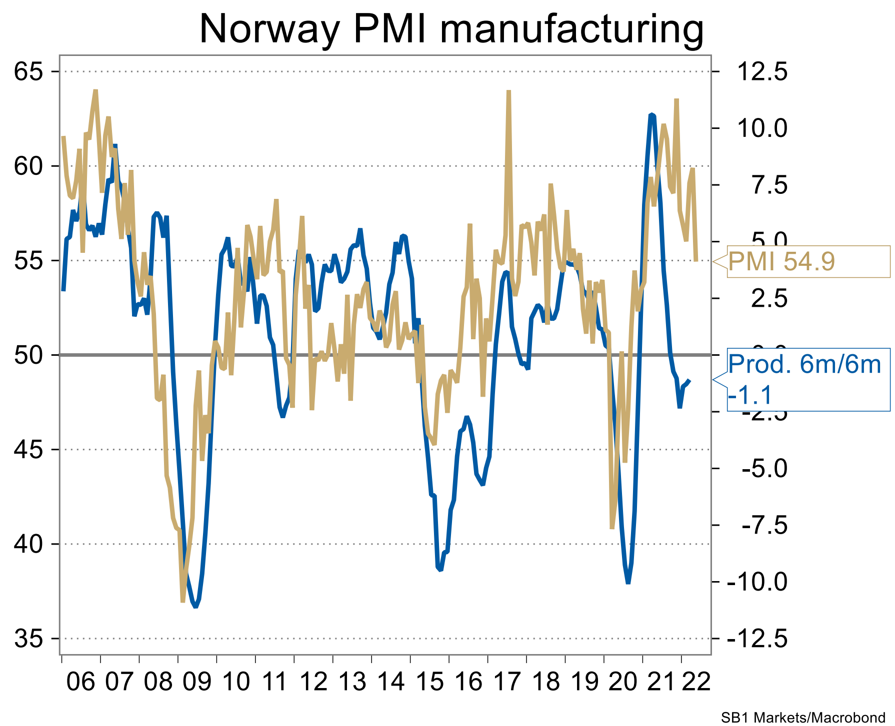


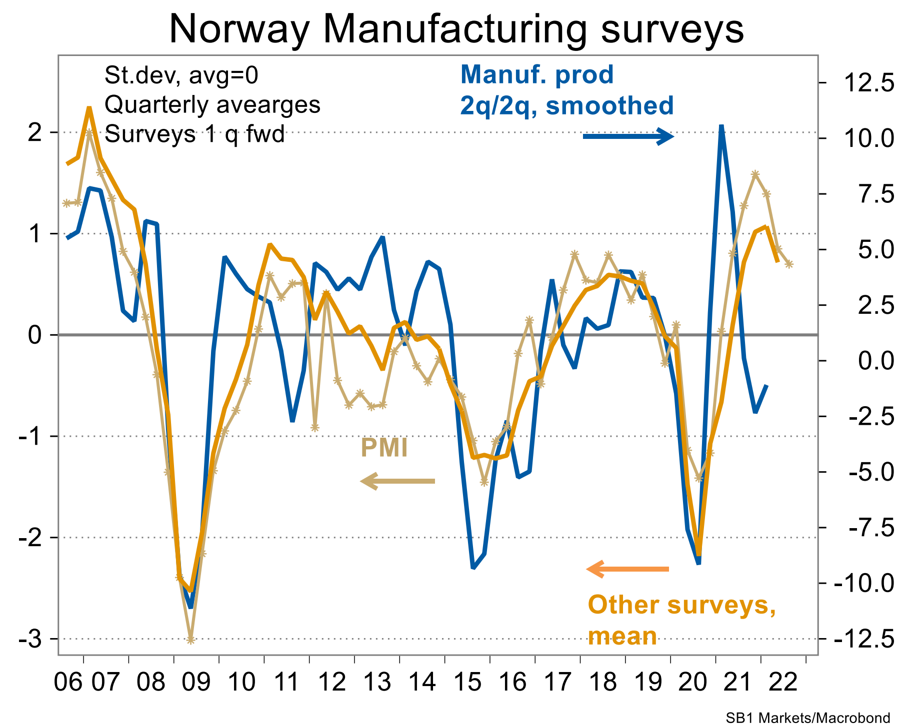


- **The ISM services index** lost 1.2 p to 55.9 in May, expected down to 56.3. The level is well below the re-opening spikes but still somewhat above average. The activity index, which we include in the 'composite' ISM fell more, by 4.6 p to 54.5. Markit's service sector PMI (which is the activity index) fell by 2.3 p to 53.4, close to the initial estimate
- The input price index in IMS's service sector PMI fell marginally to 82.1, from the ATH print in April. In sum the price indices remain at very high levels – but the peak is probably behind us
- Together with their manufacturing indices, the average of the composite **PMI/ISMs** fell 3 p to 54.0, which signal a 2% GDP growth rate, down from the 3% signal last month. The trend seems to be pretty clear

The manufacturing PMI down 5.7 p to 54.9 in May

We expected a decline, but just to 58. New orders, production growth slowed sharply, prod. to zero

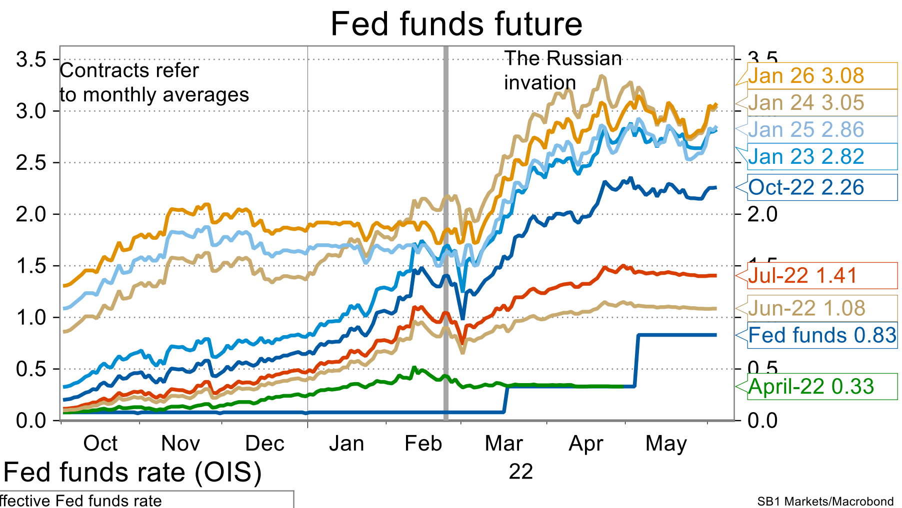




- The **manufacturing PMI index** fell to 54.9 from 59.9, revised down from 60.6. A clear setback, but the manufacturing sector is still expanding. Worth noting is that the production sub-index is now down to par
- Other **manufacturing surveys** are mixed, but SSB's quarterly survey was strong in Q1
- Even if surveys have been reporting growth, **actual production** has fallen slightly since last April

Beige book: Still growth everywhere but some signs of slowdown

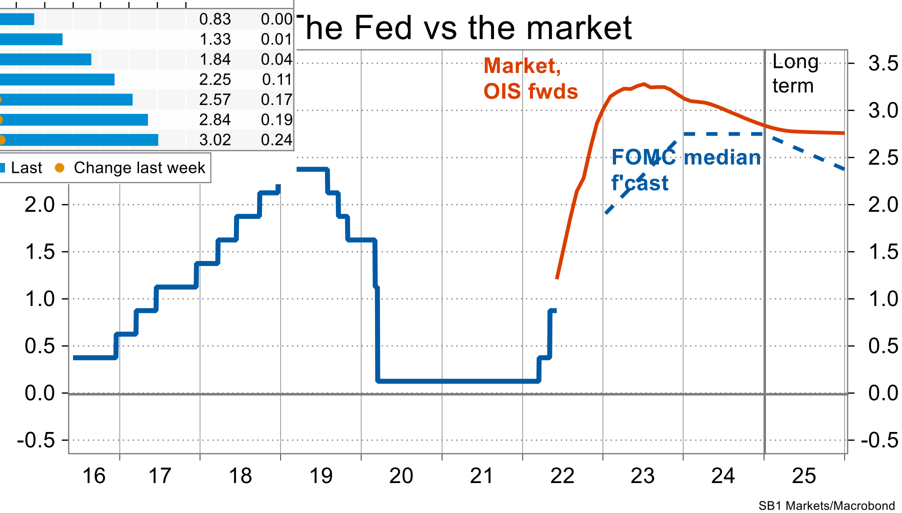
Even wage and price inflation may be easing



USA Fed funds rate (OIS)

FOMC meetings	Effective Fed funds rate (Last)	Change last week
Now	0.83	0.00
June 15	1.33	0.01
July 27	1.84	0.04
Sept 21	2.25	0.11
Nov 2	2.57	0.17
Dec 14	2.84	0.19
Feb 1	3.02	0.24

Last ● Change last week

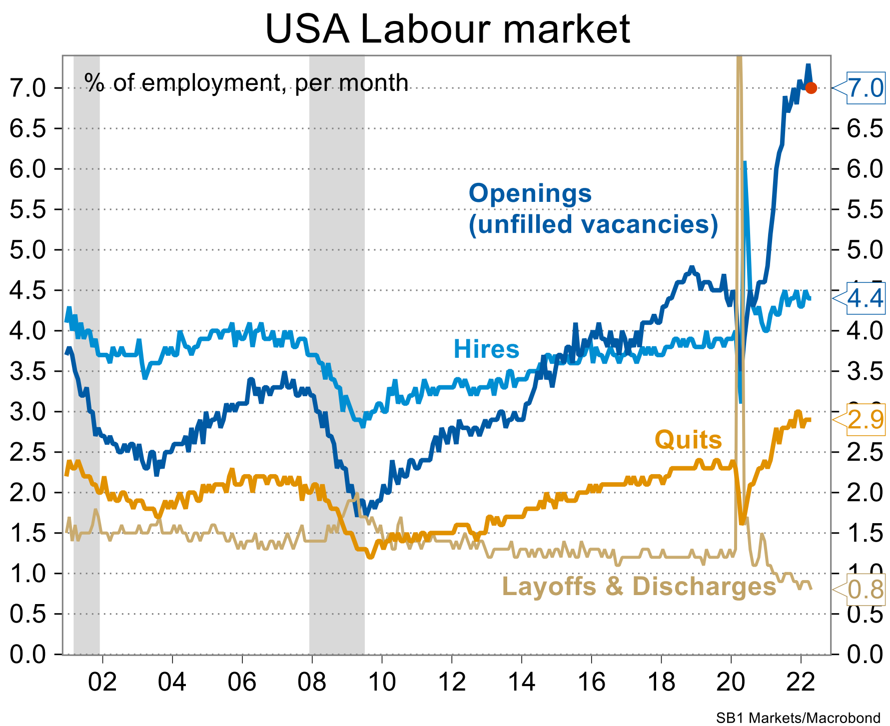


- **Fed's Beige book**, its 'Reginal Network', continue to report slight/modest/moderate growth but 4 out of 12 regions states that growth had slowed since the previous report (6 weeks ago. Respondents in 8 districts expected growth to slow further, and respondents in 3 districts referred to the possibility of a recession
- Retail sales are slowing somewhat due to high prices (and we assume due to spending diverted to services) and residential real estate demand is dampened due to high prices and higher mortgage rates (which was not mentioned 6 weeks ago!). However, manufacturing production is still growing
- The main challenges: Lack of labour, supply chain backlogs and the impact of higher interest rates
- The labour market is still tight but one district reported slower employment growth, and some companies have announces hiring freezes. Majority of districts report strong wage growth, the others moderate. However, some report that wage inflation is levelling off edging down
- All districts are still reporting strong or robust price increases, especially input prices. Even so, 3 districts reported somewhat lower prices increases for their own products but companies in general had pricing power
- **What we are looking for now**: Impacts of tighter financial conditions, like on the housing market or signs of lower wage/price inflation. There are some indications in this beige book - but far from preventing the Fed from hiking rates sharply the coming meetings. If the Fed does not hike, financial conditions would ease 'too early'
- 50 bps 'double' hikes in June and late July are done deals, according to markets. A 3rd 50 bps hike in September has a 60% probability (and 40% for a 25 'single' hike)

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

The vacancy rate a down in April, still higher than expected

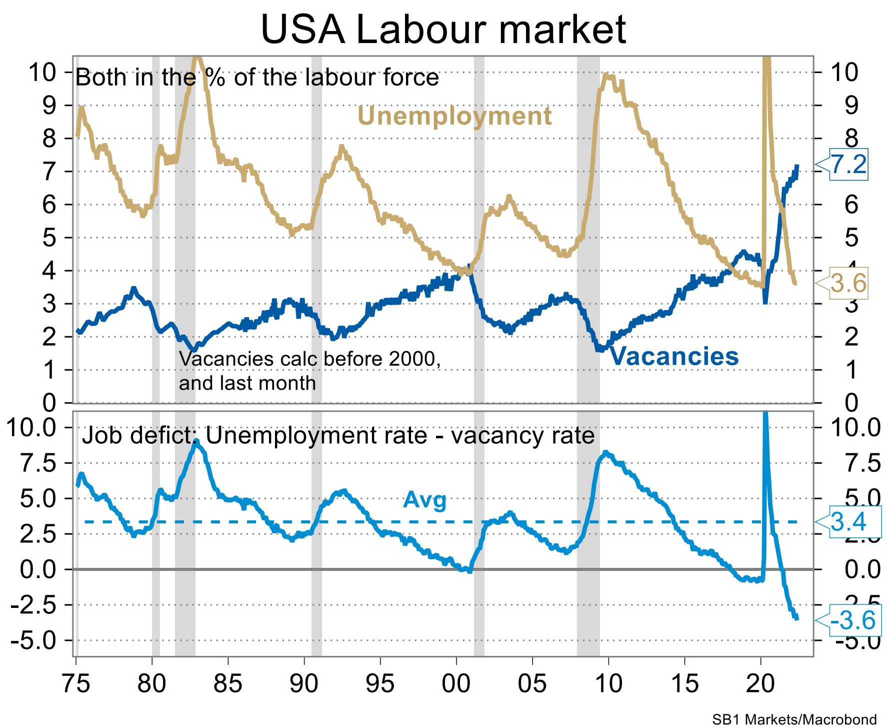
'Nobody' is laid off. The labour market is still extremely tight

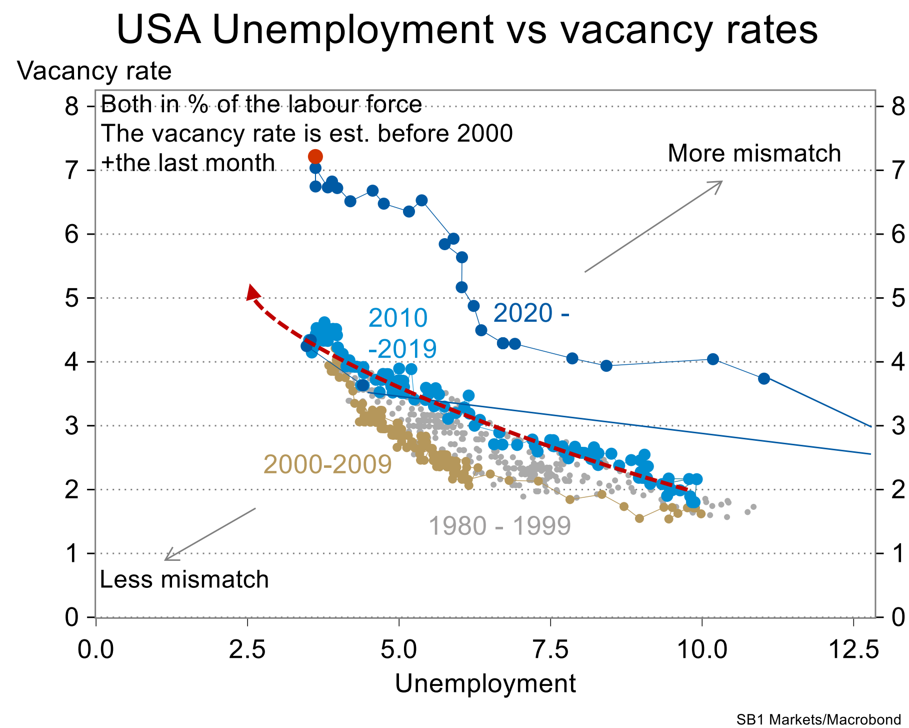


- The number of **unfilled vacancies** declined 0.5 mill to 11.4 mill in April from 11.9 mill in March, expected down to 10.35 mill from previously reported 11.6 mill. The rate fell 0.3 p to 7.0%, from previously reported 7.1% in March. Recent months the no. of unfilled vacances have been revised upwards
  - » The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit
- **The SMBs (NFIB survey)** reported an increase in the share of companies that were not able to fill positions in May, up to touch the ATH from last September – which does not signal a less tight labour market. These two series are very closely correlated – and both have been at levels never seen before since early last year
- **New hires** was unchanged at 6.6 mill, equalling 4.4% of the employment level (unch. from March, just marginally below ATH). The trend is completely flat
- The number of **voluntary quits** was unch. at 4.5 mill, equalling 3% of the labour force, not far below ATH from last November. As with unfilled vacancies, quits are closely correlated to wage inflation – for obvious reasons
- **Layoffs** fell back to record low, 0.8% of the labour force
- **In sum:** The report data confirms an extreme tight labour market – NO SIGNAL OF ANY EASING IN DEMAND OR OF STRONGER SUPPLY

An unprecedented tight labour market – and still a large mismatch

5.9 mill were unemployed in April, and at the same time there were 11.4 mill unfilled job openings!





- **The Unemployment - Vacancy-curve** (UV, Beveridge curve) is still moving in the north-west direction, also signalling a gradually tighter labour market. The only silver lining may be that unemployment is falling faster than the vacancy rate increases, signalling that the mismatch in the labour market may be easing somewhat – it is just tighter than ever before
- Powell's bet for a soft landing is that the vacancy rate may decline to a normal level without pushing the unemployment up. It has never happened before

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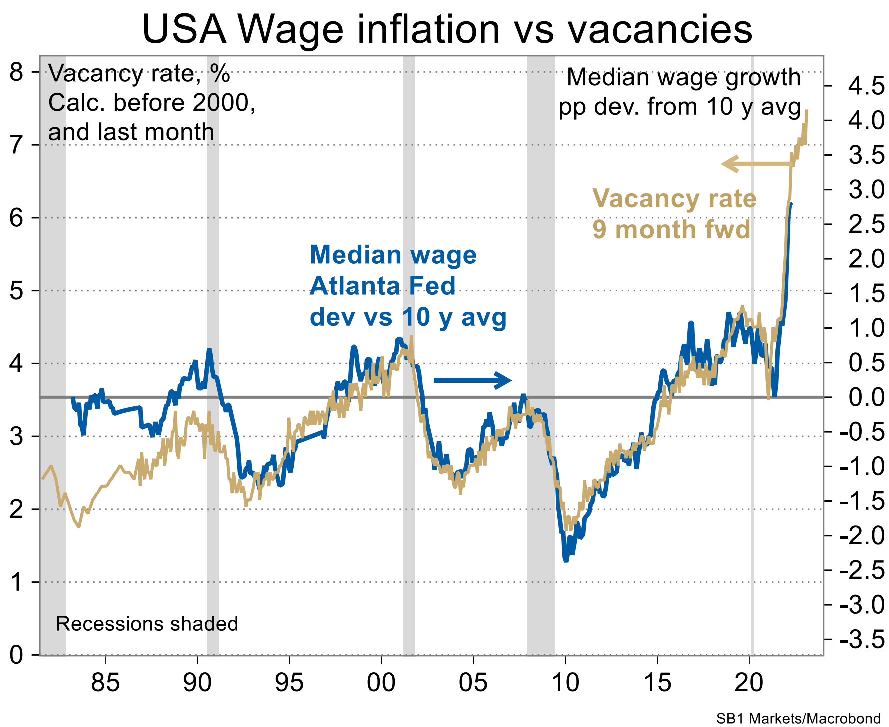
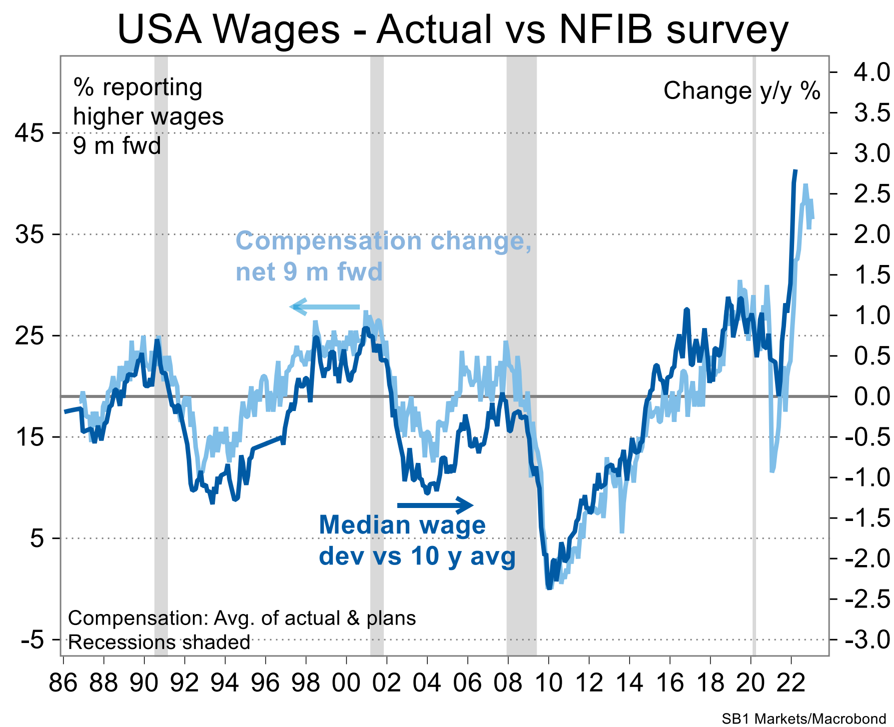
There seems to be some connections here?

The correlation between the vacancy rate and changes in median wage growth is extremely tight

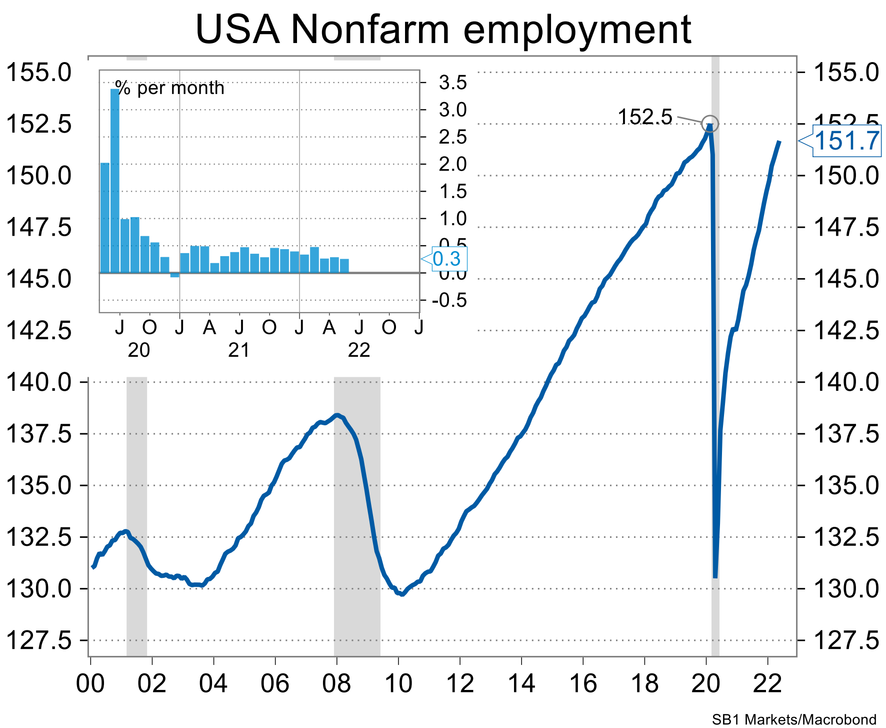


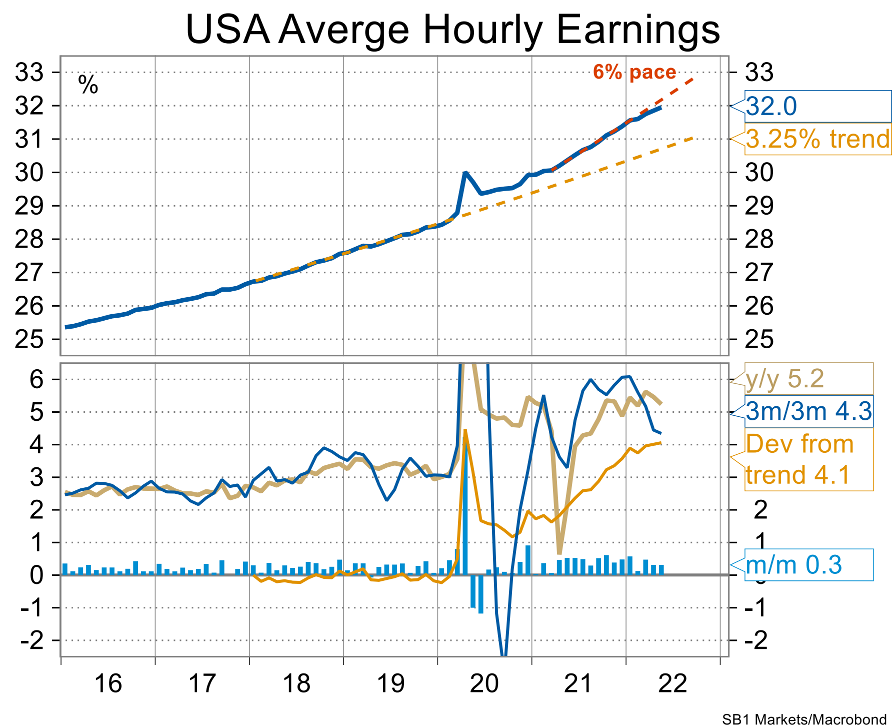


- Our 'Phillips curve' based in the vacancy rate signal a further increase in wage inflation the coming quarters, as the vacancy rate leads changes in wage inflation quite consistently by 3 quarters
- Companies (SMEs) compensation plans (see the previous page) signal continued high wage inflation but not faster than the current
- Wage inflation has already accelerated by 2.5 – 3 pp vs the 10 y average (Atlanta Fed median) and cannot possibly generate a 2% price inflation rate over time. This is Fed's main headache. And it will become the stock owners' headache too, of course, if their companies should not be able to increase their selling prices at almost a double digit pace
- **Demand for labour has to be reduced sharply in order to get wage inflation beck to a sustainable level!**
- Check under which circumstances wage inflation slows on the charts above (hint: find the shaded areas, follow the wage line - as well as the vacancy rate or the wage hike plans ☺)

Stable growth in employment, wage inflation has slowed somewhat!

Both labour force & unemployment rates remain well below pre-pandemic levels





- **Nonfarm payrolls** rose by 390' in May, marginally slower than in April, and 70' above expectations. Payrolls are still down 0.8 mill vs. Feb-20 or by 0.5%. The LFS employment gained 323', and the employment rate recovered the 0.1 pp loss from April
- **The participation rate** rose 0.1 p to 62.3%, as expected following the 0.2 p drop in April. The trend is still probably up, but remarkably slowly vs. the still brisk demand for labour. Very few now states Covid as a reason for not working/searching work (0.2%)
- **The unemployment rate** was stable at 3.6%, and once again 0.1 pp higher than expected. The rate still just 0.1 pp above Fed's estimate end of '22 estimate – and 0.4 pp below Fed's estimate of the long term NAIRU. In April, the unfilled vacancies equalled 6.7% of the labour force (7.0% of employment)
- **Wage inflation is slowing: The average wage** rose 0.3%, 0.1 pp less than expected, and the 3m/3m rate has fallen to 4.3% from 6% in January. The annual rate fell 0.3 pp to 5.2%, as expected, still up from 3¼% before the pandemic – and still not compatible with 2% CPI inflation over time
- **Maximum employment:** Even if the participation may be trending slowly up, the supply side is obviously the bottleneck at the labour market. For the time being, maximum employment is reached – and wage inflation is well above a sustainable level

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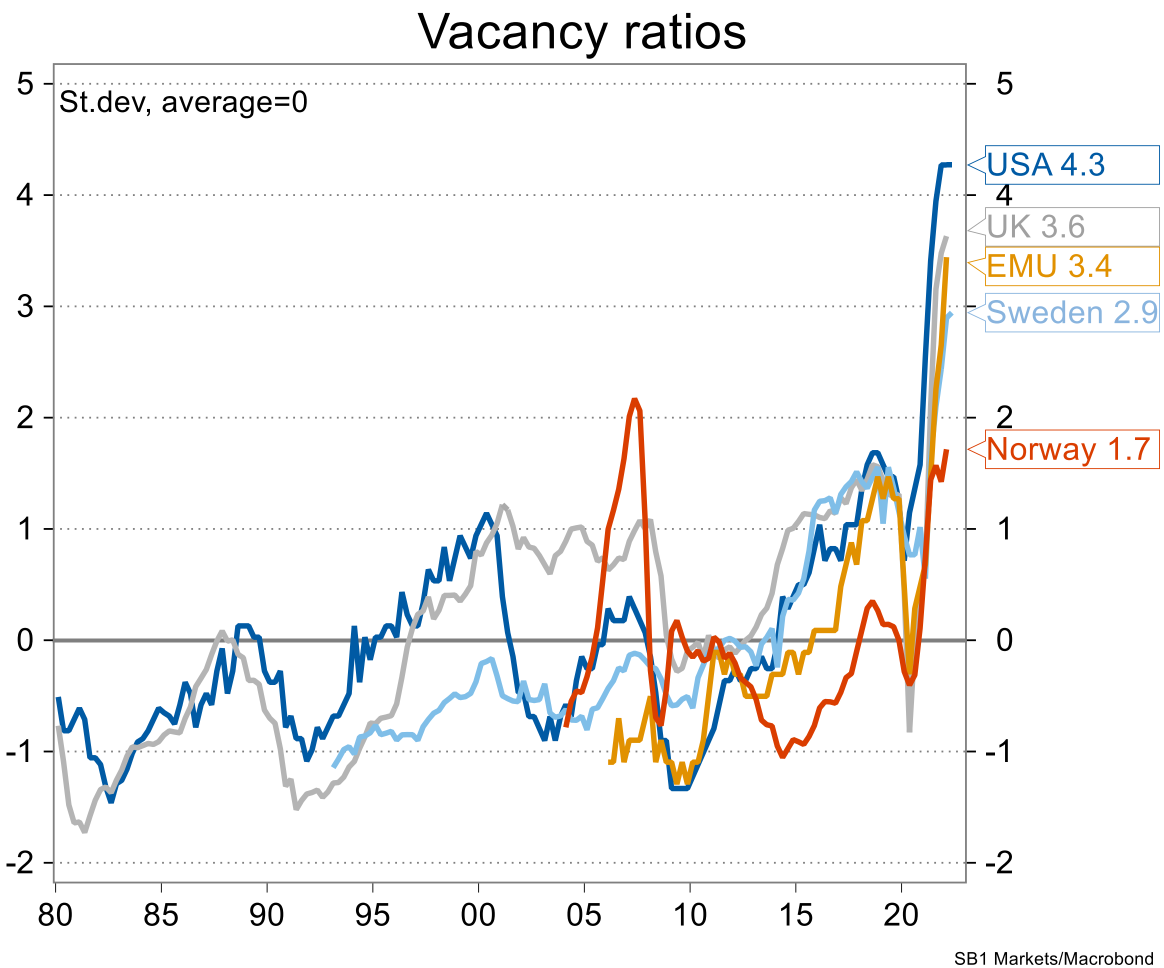
Lack of labour a ‘global’ phenomenon

The US in the lead but Europe is not far behind! Norway is a ‘laggard’ (if NoBa’s ‘old’ data are correct)



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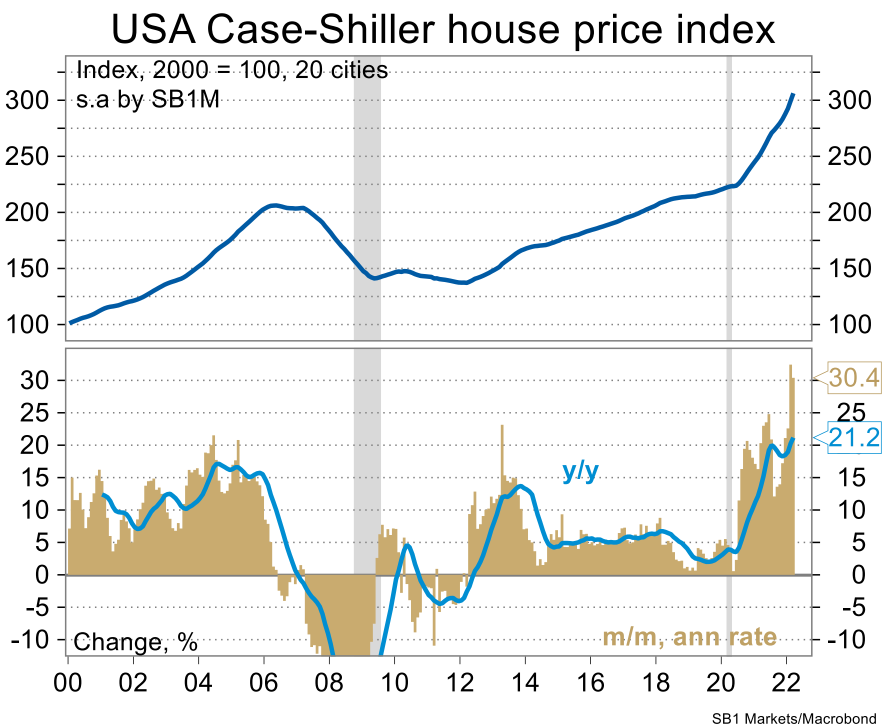
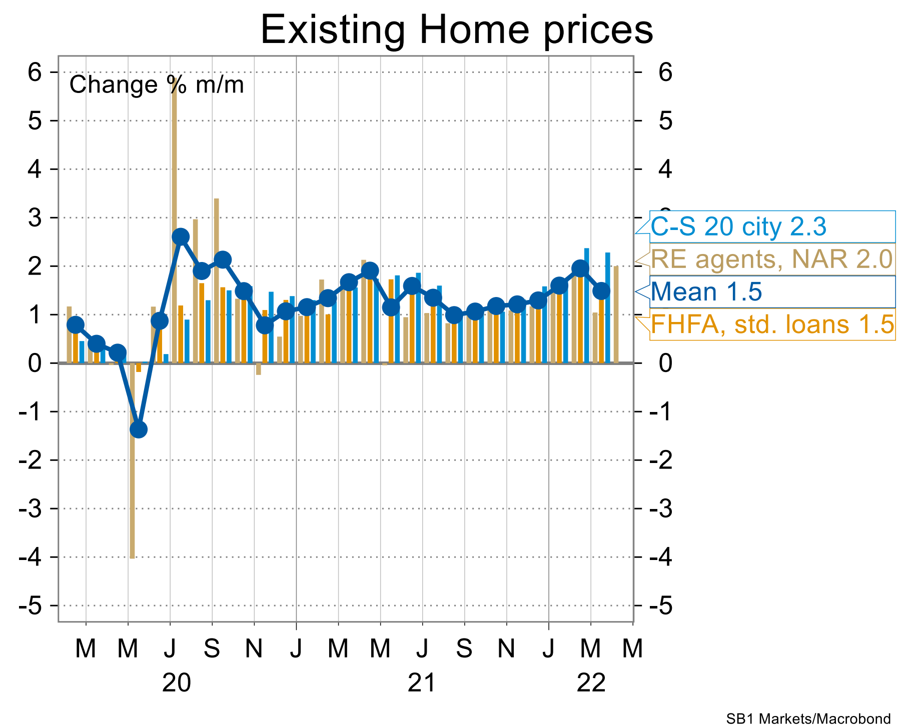
Case/Shiller house prices still up at 30% pace in 'March'! And by 37% since Feb-20

Shouldn't house price inflation slow by now? Well, Feb-April avg ('March') the 2nd highest print ever!





- **The previous month, house prices rose at the fastest pace ever. This is rather crazy**
- **S&P's Case/Shiller's 20 cities** price index rose 2.2% m/m in March (Feb – April avg, our seas. adj) equalling a 30% annualised pace, just marginally down from the Feb ATH at 32%. A 1.9% lift was expected. The annual rate accelerated by 1 pp to 21.2% (expected 19.6%). BTW, anther ATH print!
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), rose 'just' 1.5% in Feb, and are up 19 y/y!
- Realtors reported a 2.0% lift in April, covering deals agreed upon in March
- <u>However, even if prices cover transactions closed in April (included in the Feb-March average), those deals were mostly agreed upon in March</u> – and 'something might have happened in April and in May after the mortgage rate shot up. <u>We still expect prices to yield substantially the coming months</u>

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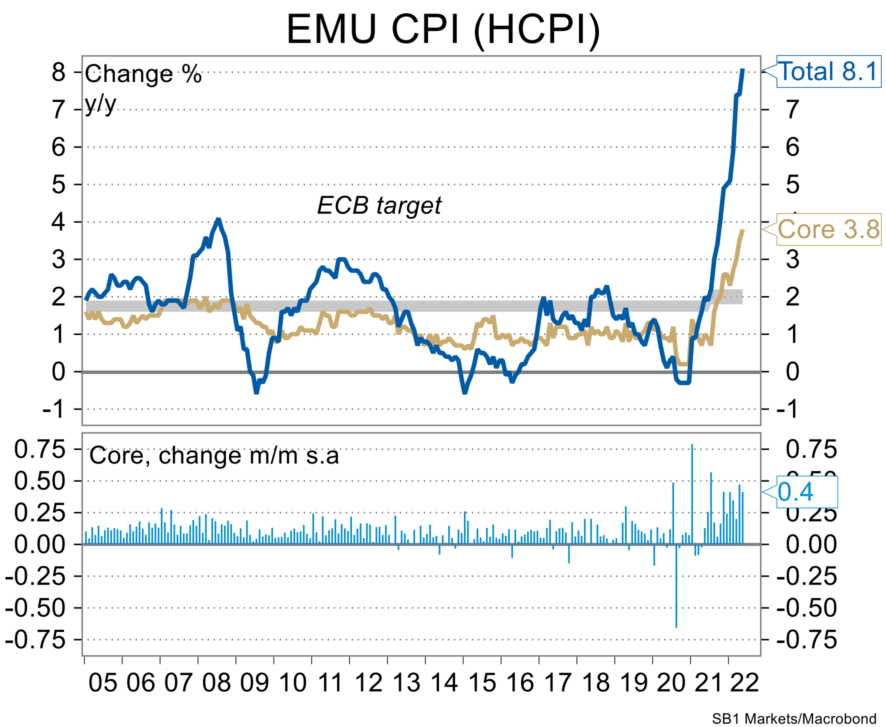
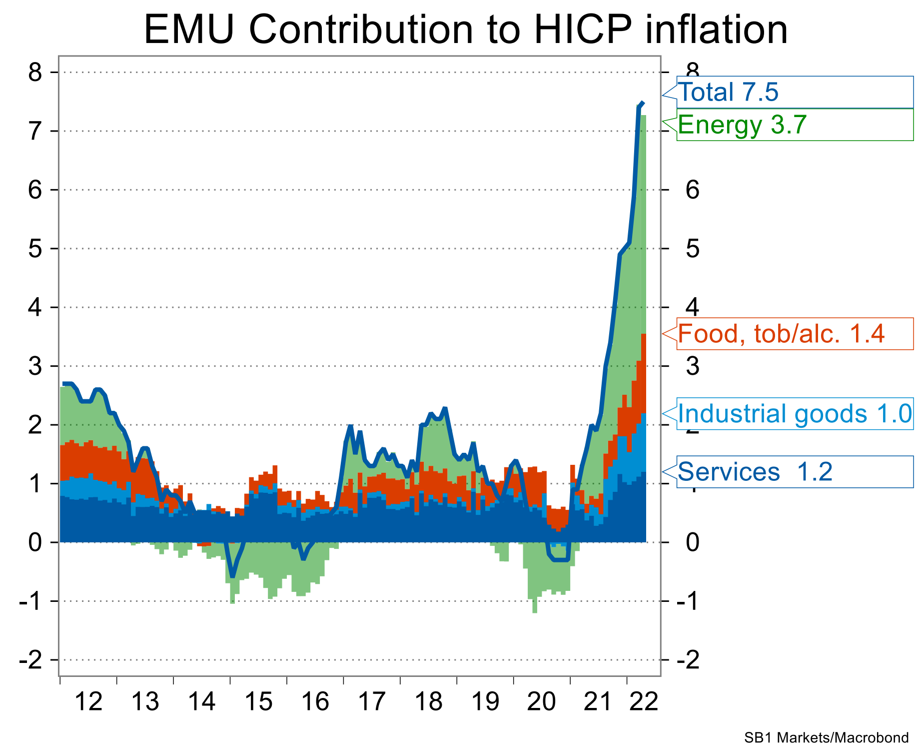
Core inflation up to 3.8% as prices rose 0.4% m/m, 0.2 more than expected!

The headline CPI soared to 8.1%, from 7.5%, 0.4 pp higher than expected

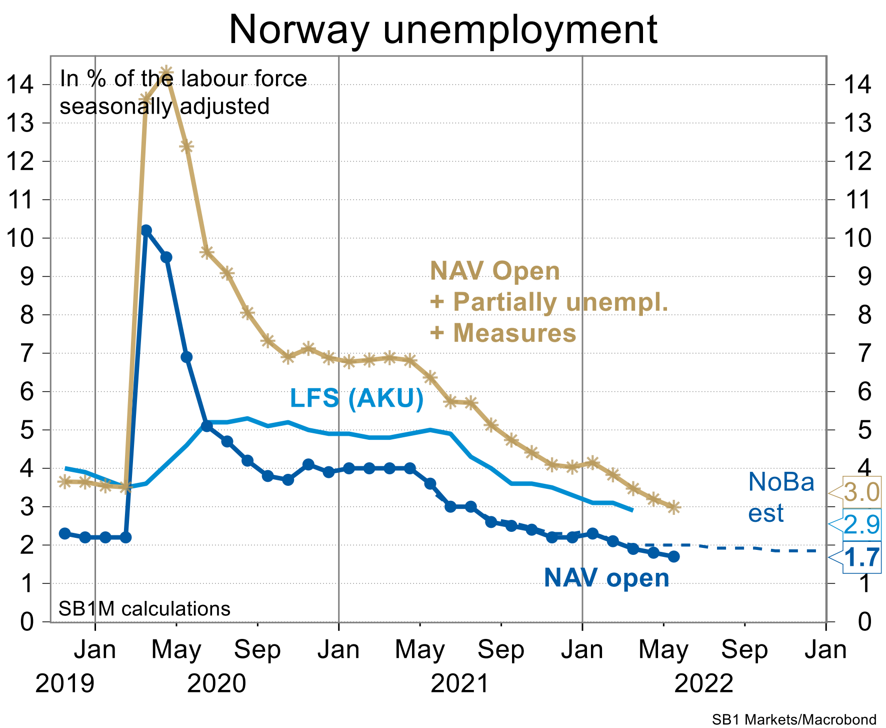


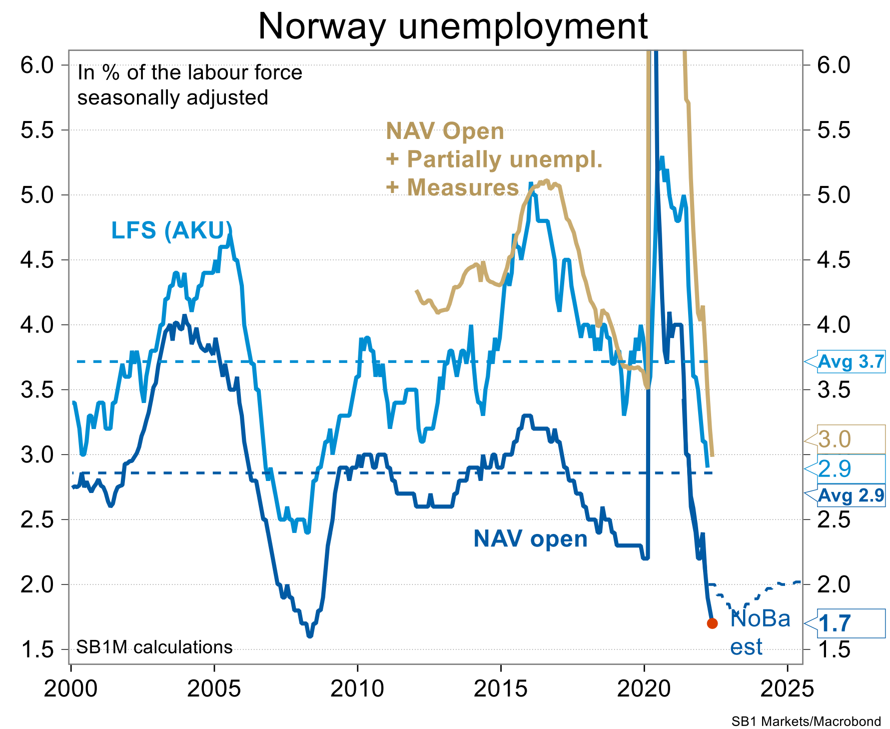


- The **total HICP** rose 0.8% m/m, an extreme print – as is the annual rate at 8.1%, and the core y/y rate at 3.8%
- The steep increase in prices in May comes after surprisingly strong growth in April and March as well
- **Energy prices** rose 2.2% m/m, and the annual rate climbed marginally – but this rate is below the March peak.
- Energy explains the lion's share of total inflation (especially if normal indirect impacts are added), but food prices are also adding to the burden now, up 7.4% y/y. In addition, the 'residual' is on the way too
- The ECB has very likely recognised sufficient smoking guns to ride into action

NAV unemployment down to 1.7%, close to the lowest level since 1987

And below NoBa's estimate of the trough of this cycle, which should be reached next year

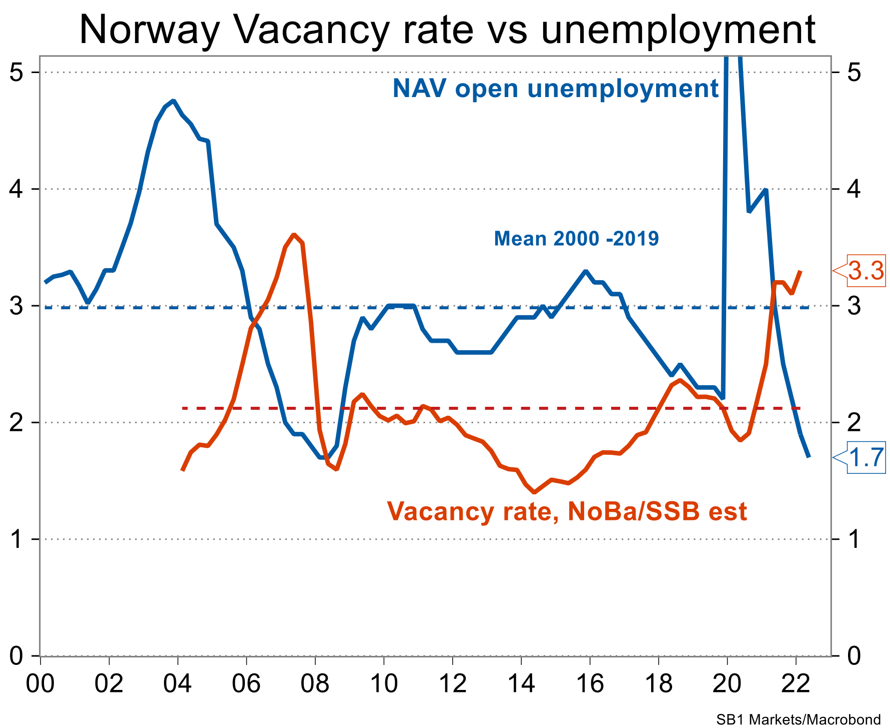


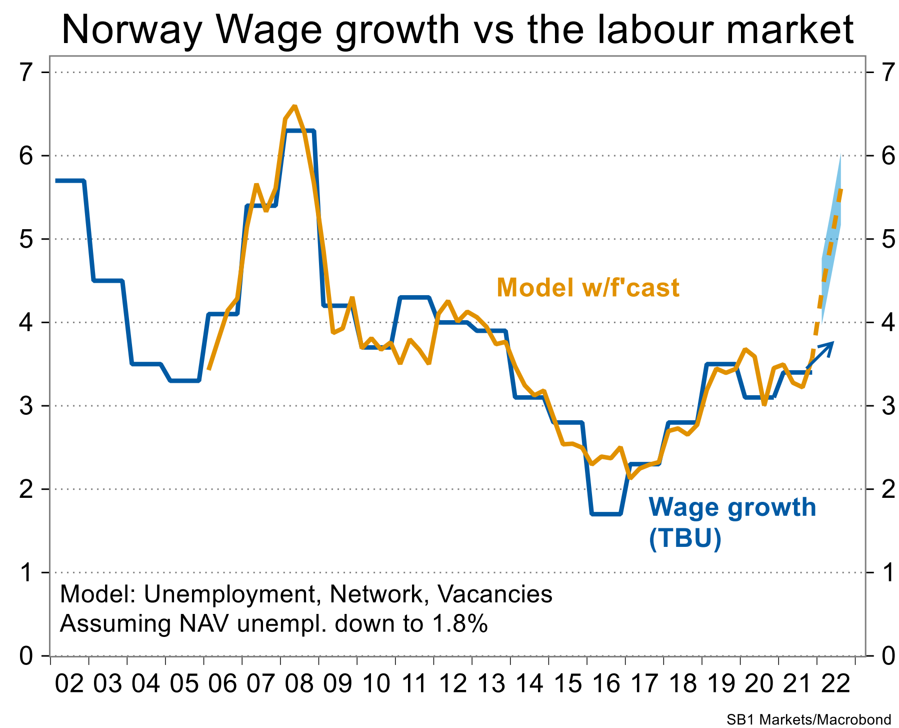


- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 3' persons in May (seas. adj) to 51', slightly below our forecast, and to 1.7% of the labour force, down 0.1 pp from the 0.1 pp downward revised rate in April. We expected 1.8%. Unadjusted, the rate fell 0.3 pp to 1.6% , lower than expected. The s.a. rate is 0.4 pp below the pre-pandemic level, 0.1 pp above the 2008 through and 1.2 pp the average since 2000. More important, the rate is 0.3 pp below NoBa's estimate in the March MPR. The level is even below NoBa's estimate of the cycle trough, assume in 2023
- The number of **partially unemployed** (not incl . in the ordinary unemployment no.) fell by 3' to 23', and including measures, the **total unemployment** fell by 6' to 87', 13' below the pre-pandemic level. The overall unemployment rate fell by 0.2 pp to 3.0%
- The inflow of **new job seekers** was unch. at a record low level in April. The **inflow of new vacancies** fell marginally but is close to the ATH in Feb
- **The LFS (AKU) unemployment rate** fell to 2.9% in March, and employment growth is strong

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

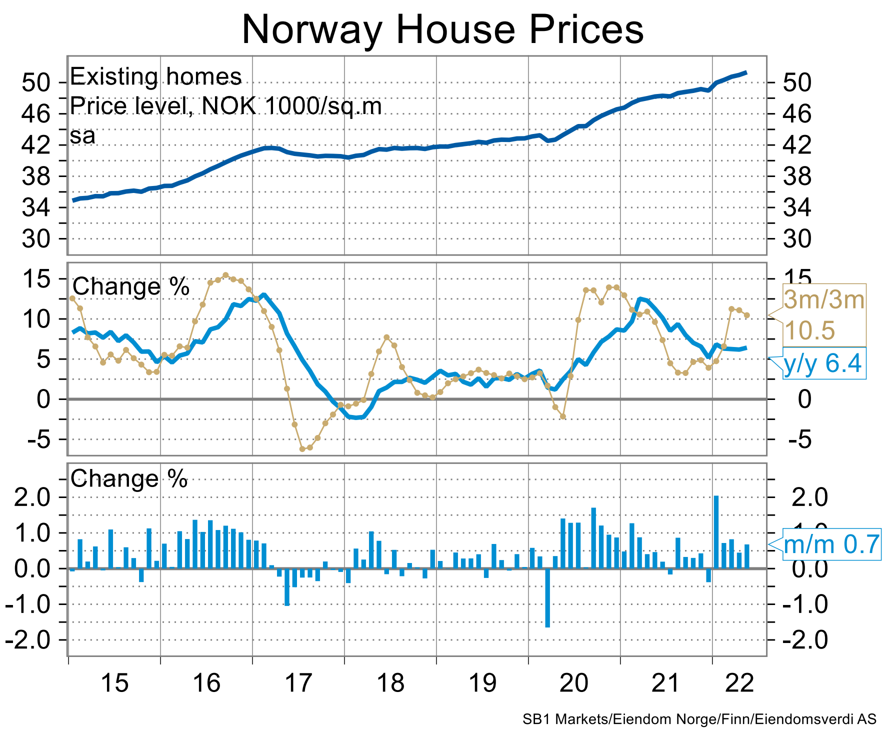
The labour market is tight – and it is probably tightening further

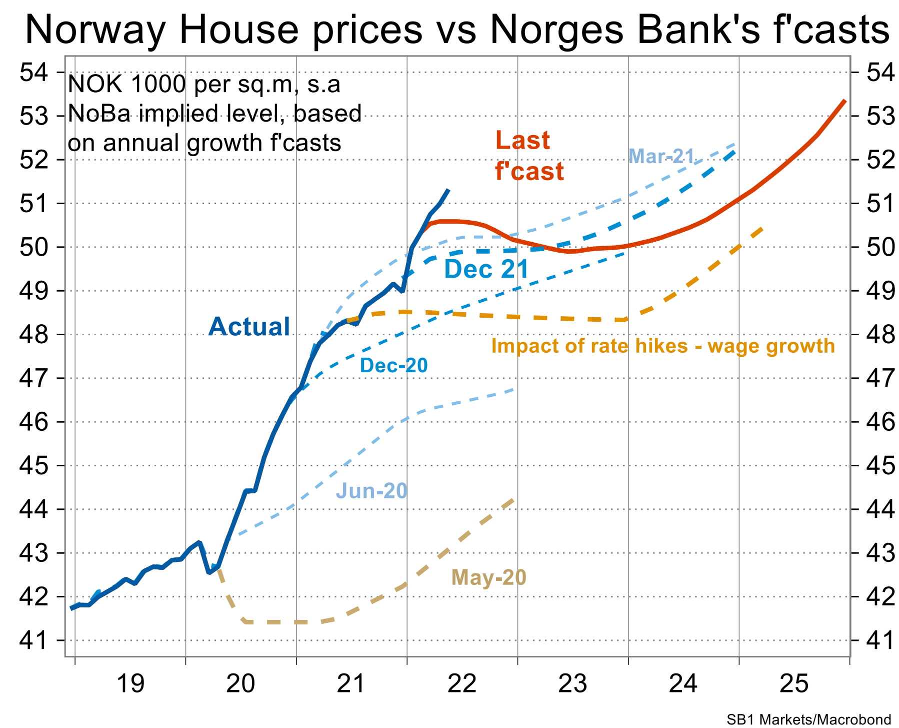




Shouldn't house prices calm down now? Higher rates, a confidence collapse not enough

Prices up 0.7%, and they are 1.4% higher than NoBa assumed in March





- **House prices rose 0.7% in May (**seas. adjusted., +1.2% unadj.), we expected 0.0%, like in April – which now is reported up 0.5% (but Feb was revised down). The number of transactions rose, and the inventory fell, to a record low level. New documentation requirements may have surprised supply in early 2022 but that excuse is now becoming less likely
- In March, **Norges Bank** expected that prices would flatten, and to decline marginally from Q3, before turning up again in H2 2023. In Q3 2024 prices were expected back to the H1-22 level. Prices are now 1.4% above the trajectory drawn 3 months ago, and the current price should not have been reached before early 2025. Thus a new path must be drawn, we still think it will show short term weakness
- The further increase in house prices are of course an argument for Norges Bank to lift the interest rate path once more

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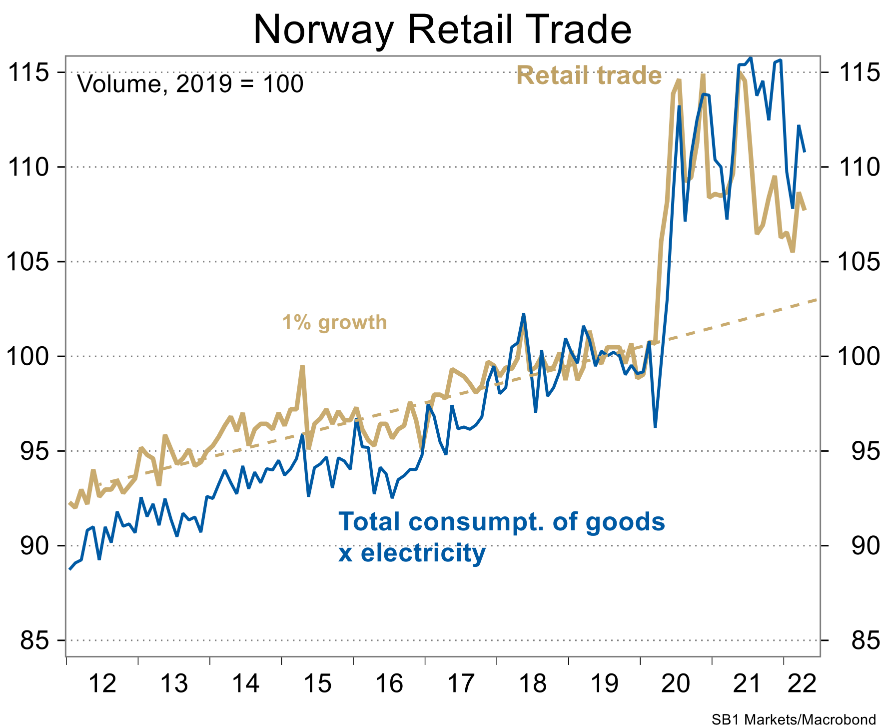
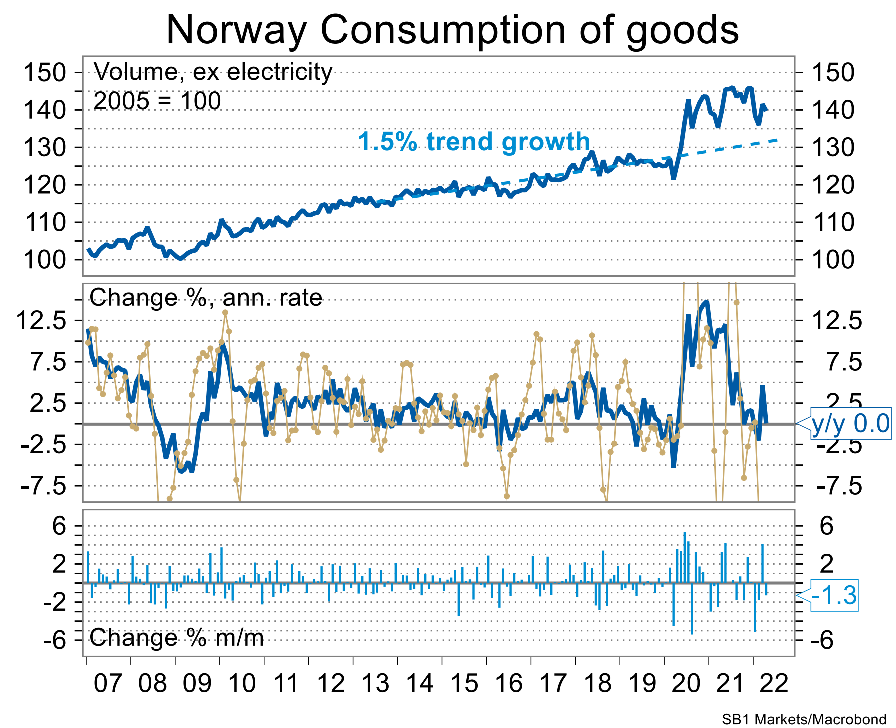
A small retail sales downward correction in April, trend down too

Sales down 1%, we expected -2%, following the 3% lift in March





- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth paths. Sales may still be somewhat above normal in volume terms
- The lift in inflation, higher interest rates and the steep decline in consumer confidence, more spending on services, more x-border shopping and travelling abroad have so far not knocked domestic demand for goods down
- No big changes sector-wise in April. Clothing sales kept up, even after the surge in March

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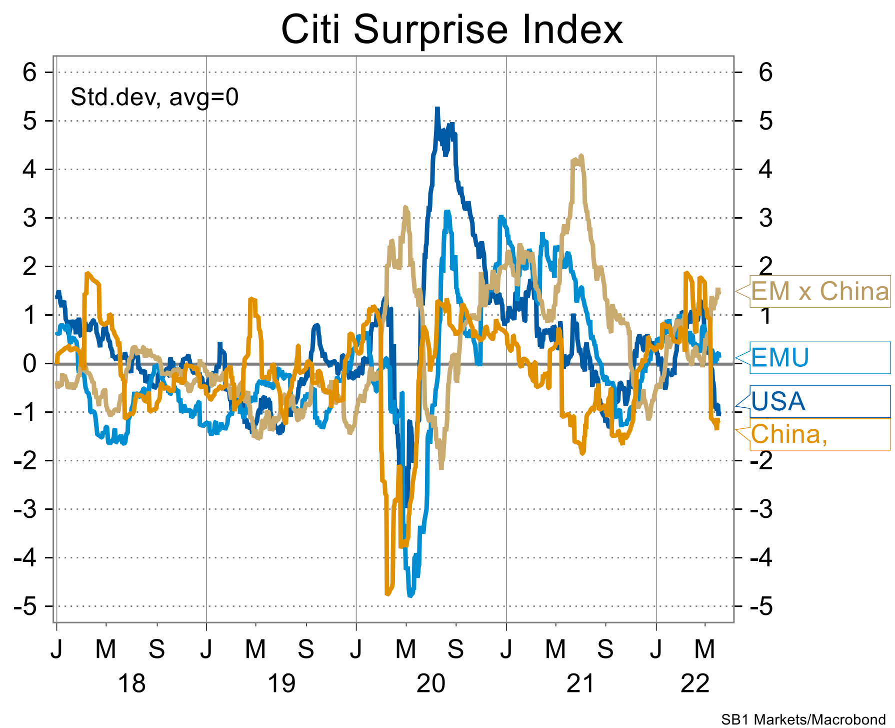
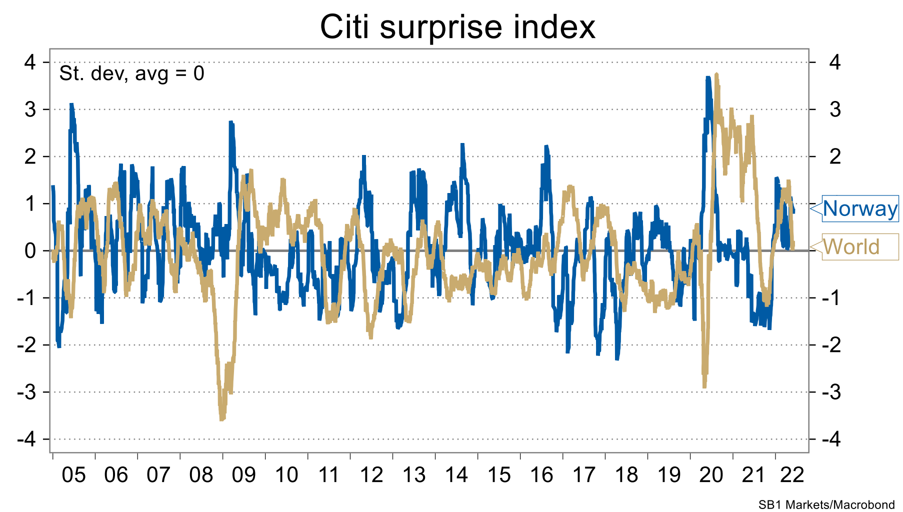
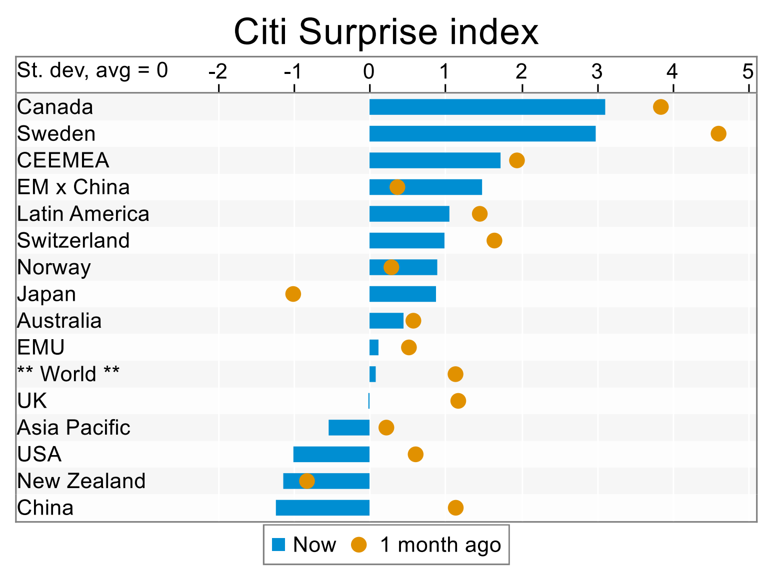
We know why China is disappointing on the downside now. But why is the US?

Exuberance that was irrational, or a real weakening?





- **Emerging markets** are delivering better results than excepted
- **Norway** is surprising significantly on the upside, according to Citi
- **Canada and Sweden** at the top



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

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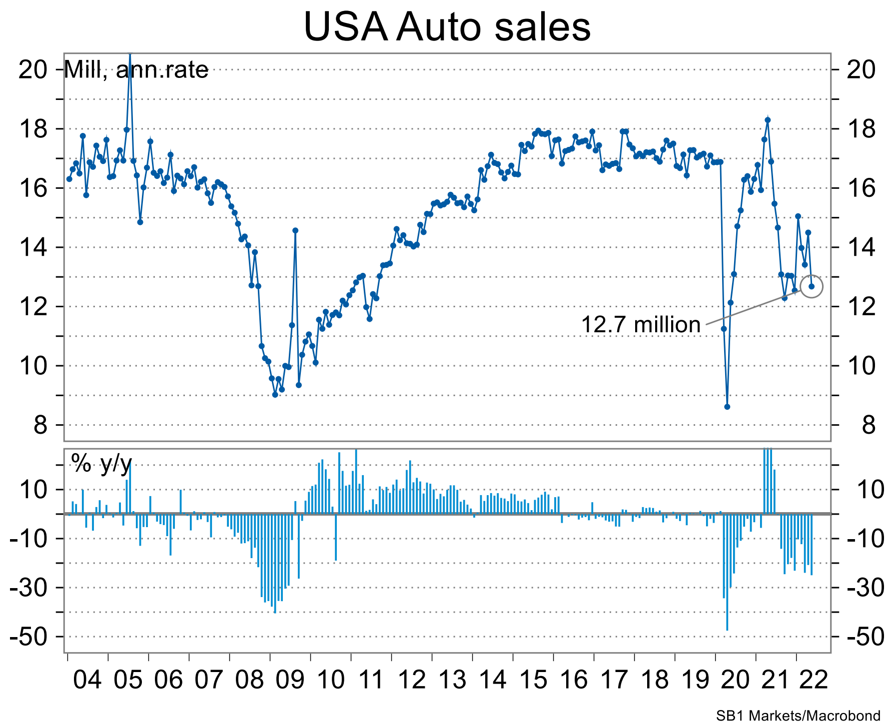
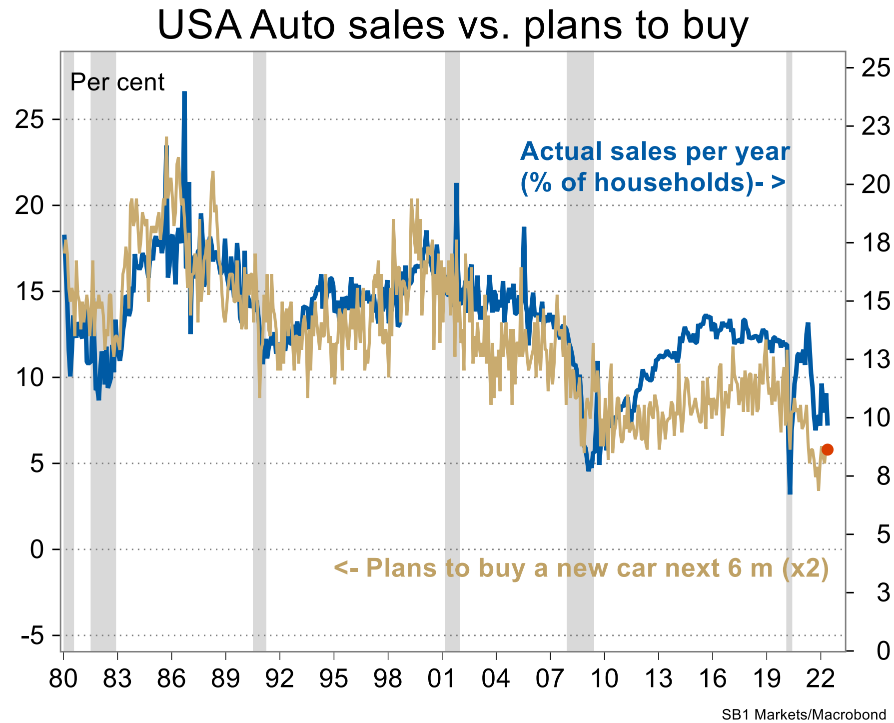
US auto sales sharply down in May. Supply or demand?

Sales fell well short of expectations in May, to 12.7 mill from 14.6 mill in April, expected slightly up

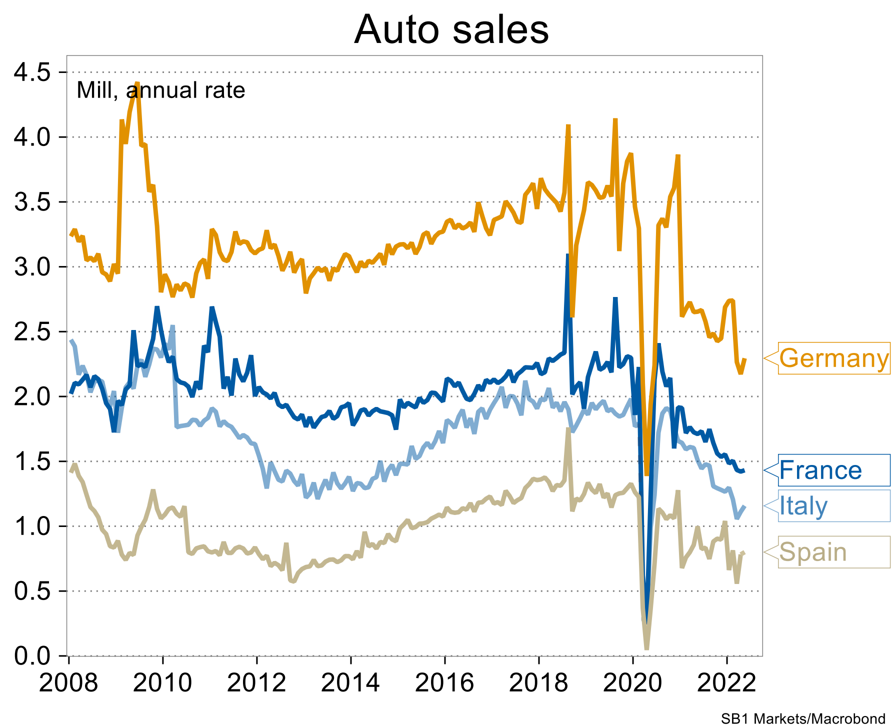


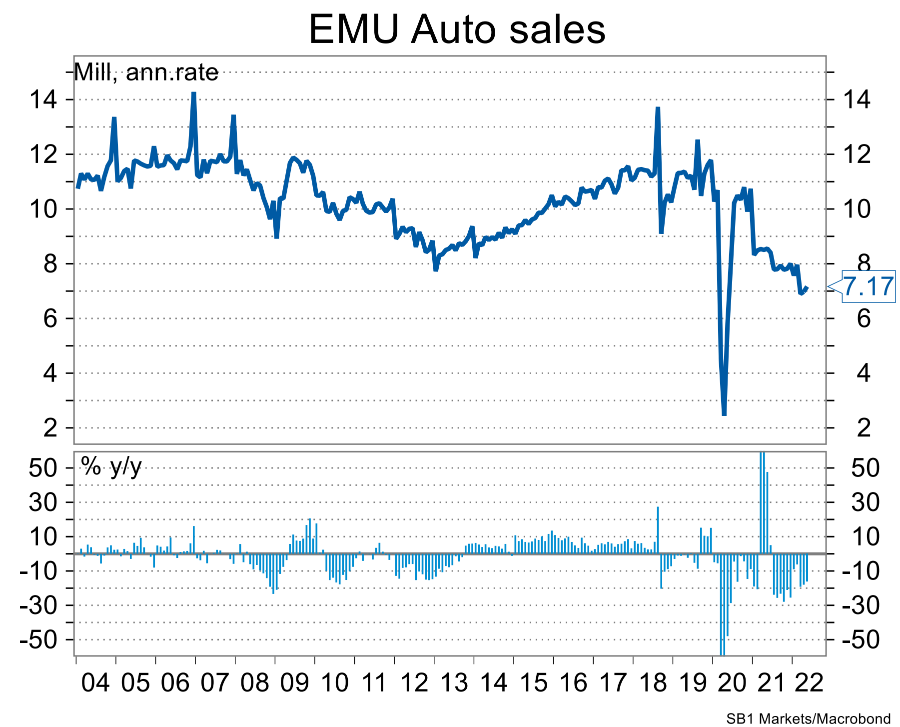


- Until now we have been sure than weak sales were due to lack of supply, not due to low demand. In May we are not so sure, neither are other analysts. Inventories are still low but used car prices have retreated somewhat (until April)
- Sales are down 25% vs. the 2019 level

Auto sales probably slightly up in May too, still at a very low level

Sales rose in all of the Big 4 but just marginally. EMU sales are still down 37% vs. the 2019 level

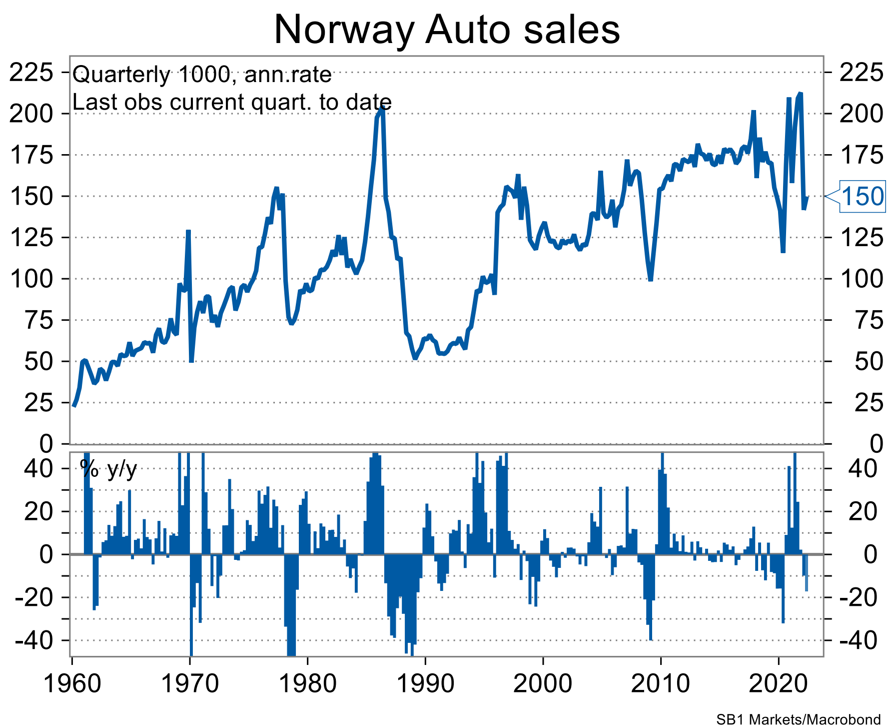


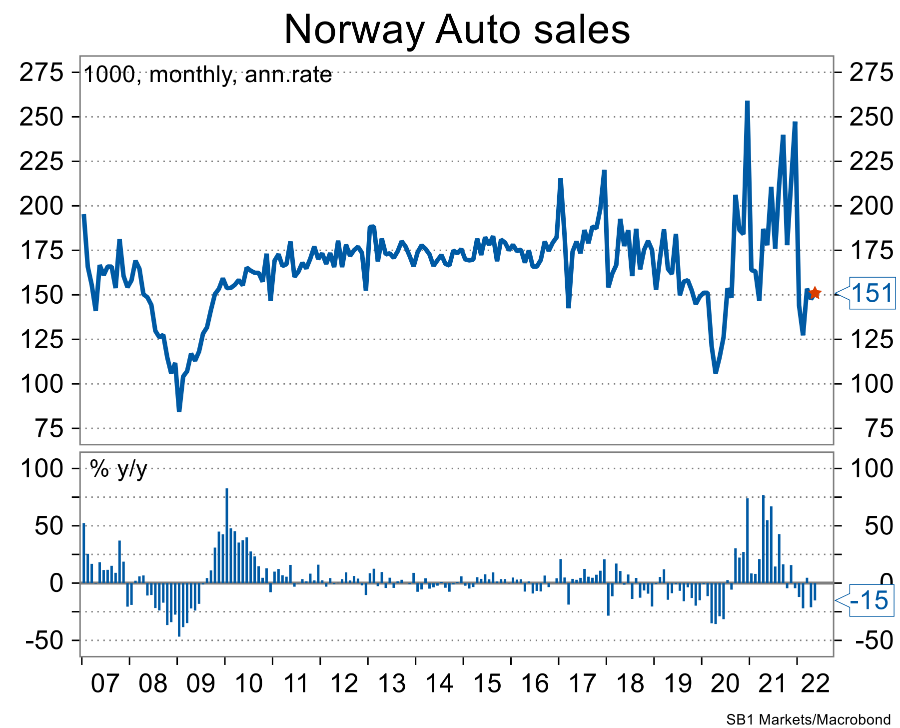


- All markets have reported substantial decline in auto sales since early 2021 – delivery problems is the main culprit, but some demand weakness as well?
- The coming months will be very challenging. The supply chains are exposed, once more – and German production nosedived in March

Norway: Stable ‘low’ auto sales, as delivery times are getting longer

Media reports indicate that demand is no problem, but finally the supply came down here as well

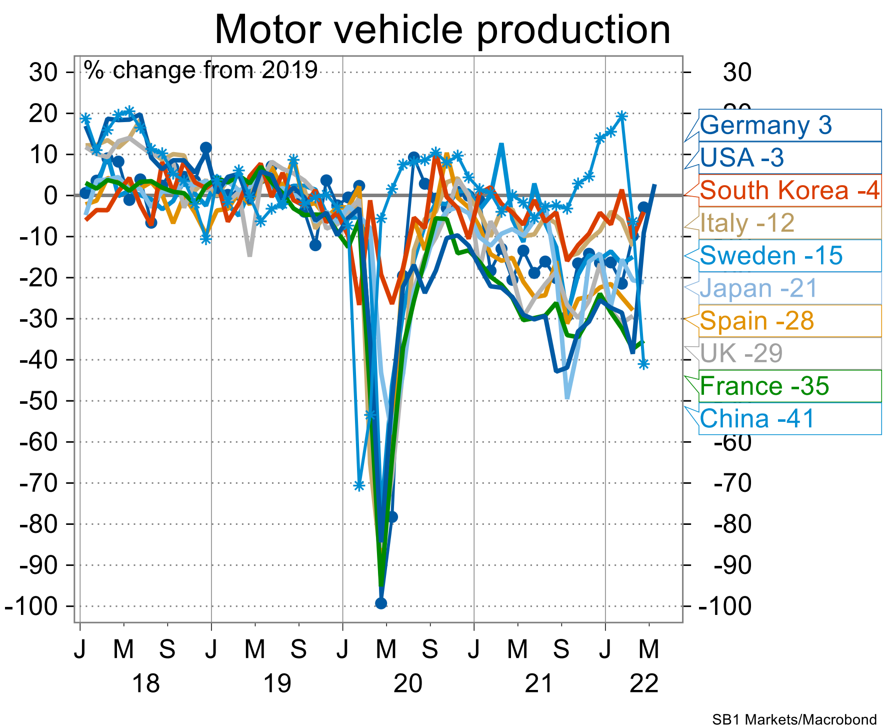




- Sales were stable at close to 150’ in May
- So far, Q2 is marginally above Q1
- Last year, 192’ autos were first-time registered –above the previous ATH at 185’ in 2017 – and before that 173’ in 2006!
  - » Sales have been much stronger than in any other rich country during the supply squeeze

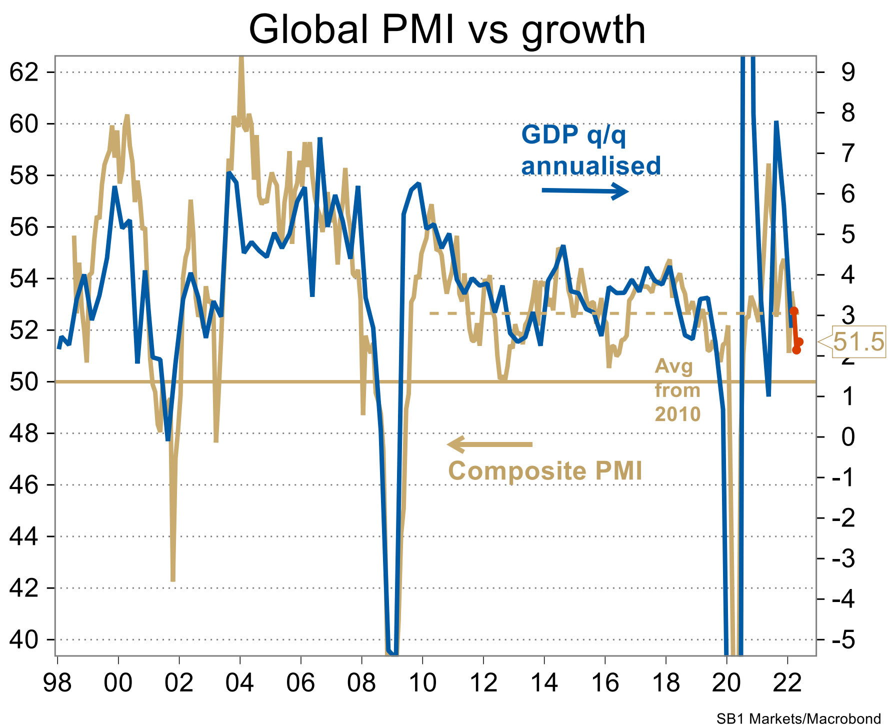
German auto production up to a normal level in May? At least they say so

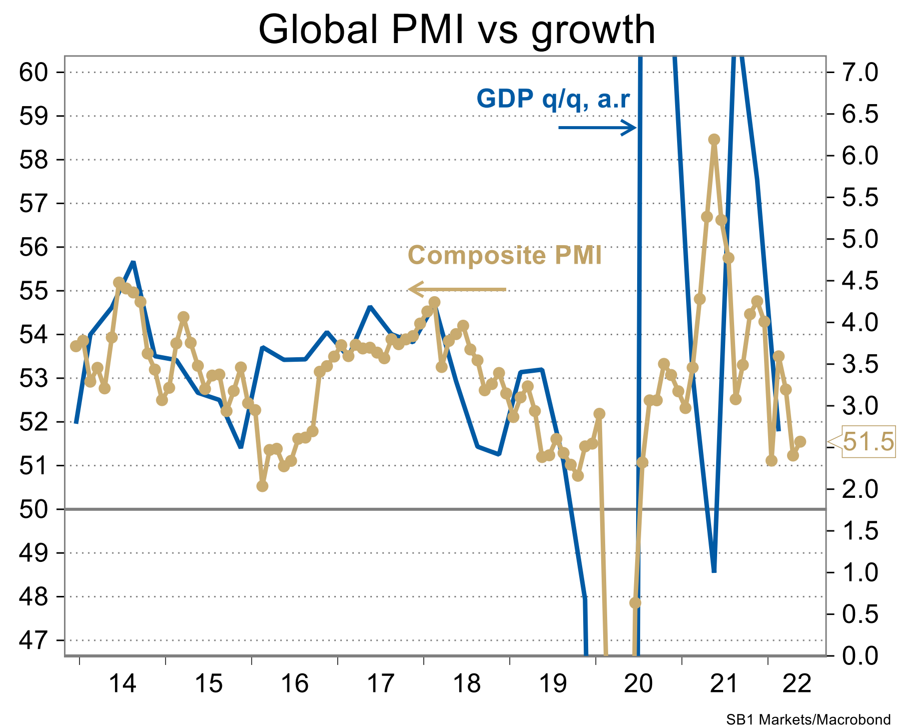
Production was down almost 40% vs. the 2019 level in March!



The global PMI slightly up in May, thanks to China. DM down 1.8 p to 53.7

The global index gained 0.3 p to 51.5, signalling below trend growth in GDP at some 2.5%

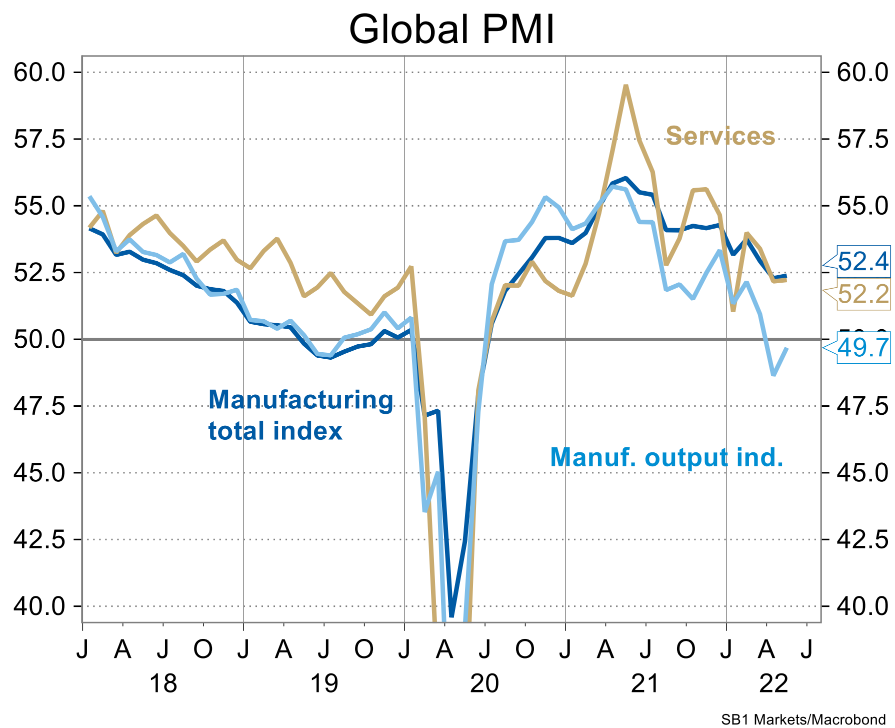


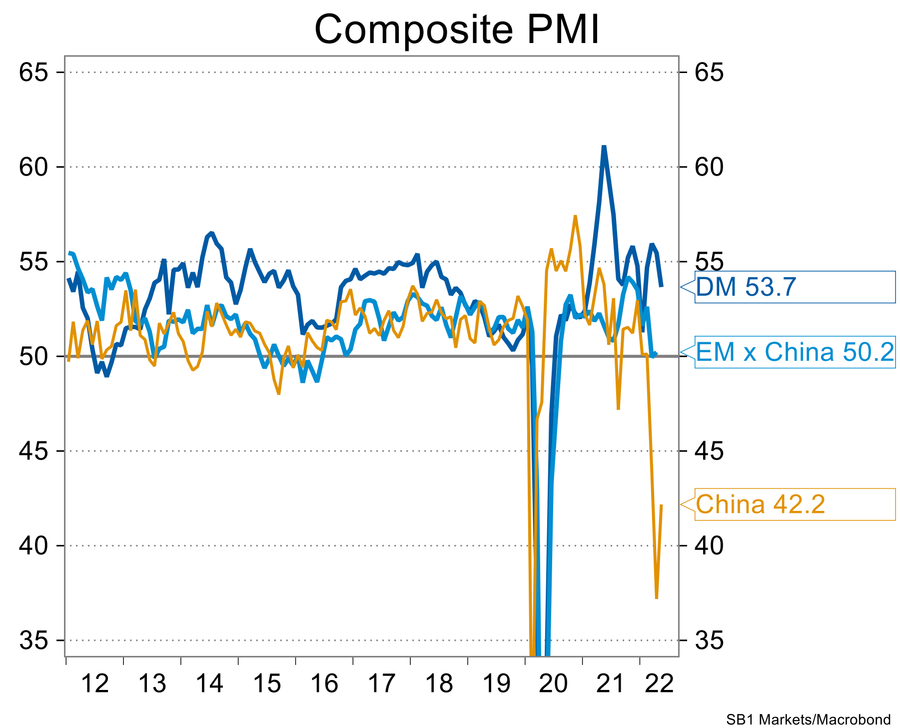


- Both manufacturing and services contributed to the uptick in the global composite

The Chinese PMIs recovered but still signal 'some' lockdown challenges in May

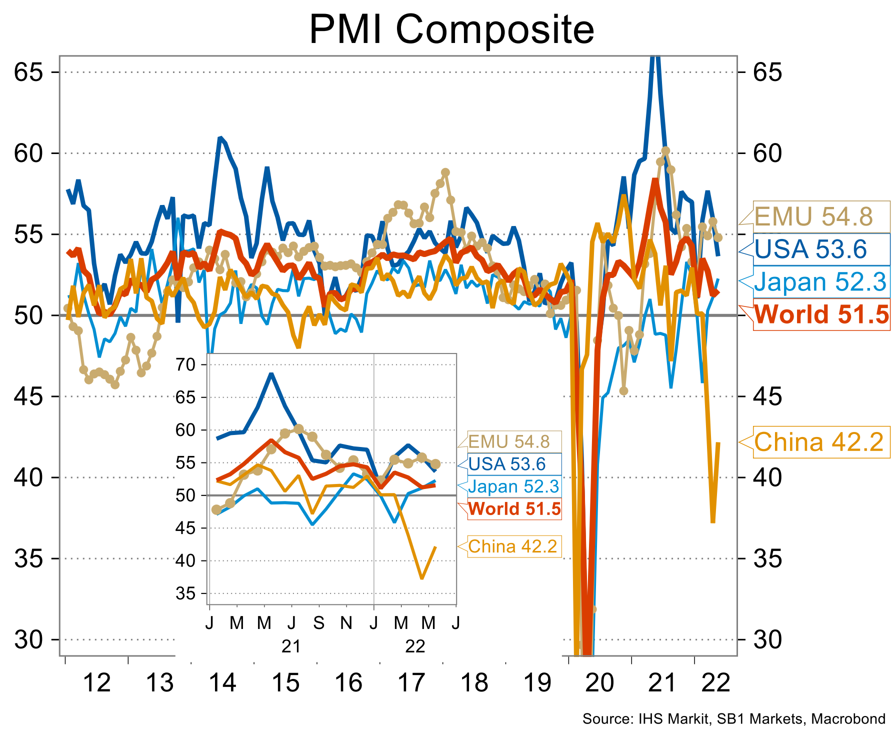
EM x China was close to unchanged at a low level of 50.2. DM down 1.8 p to 53.7, still above avg.

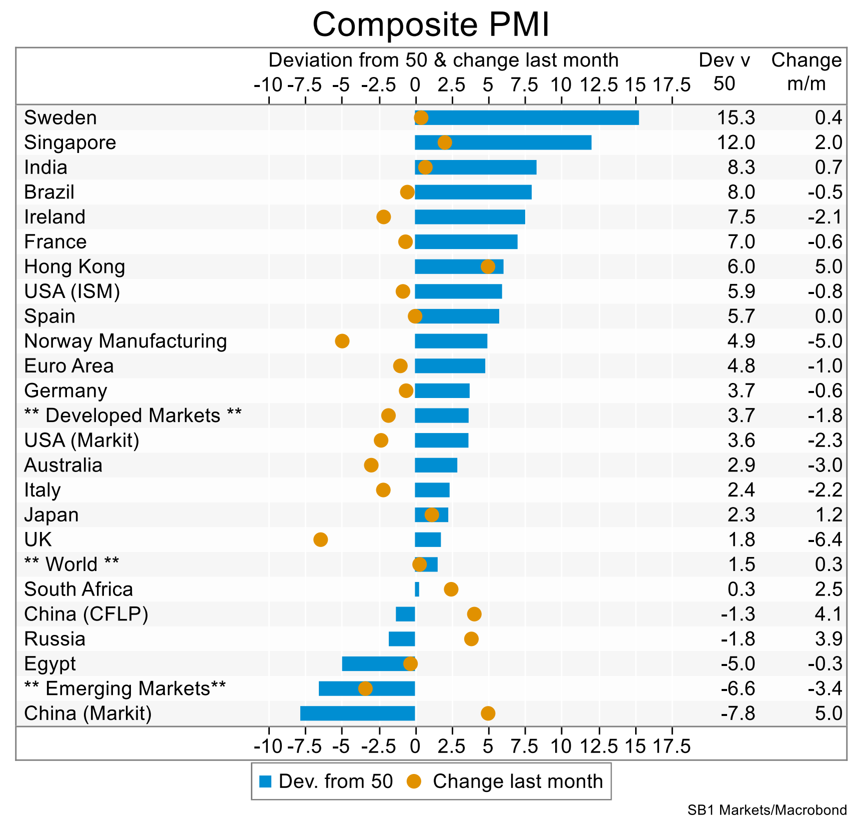




The global comp PMI up, thanks to China, Russia, and remains low due to China, Russia

More countries down than up in May



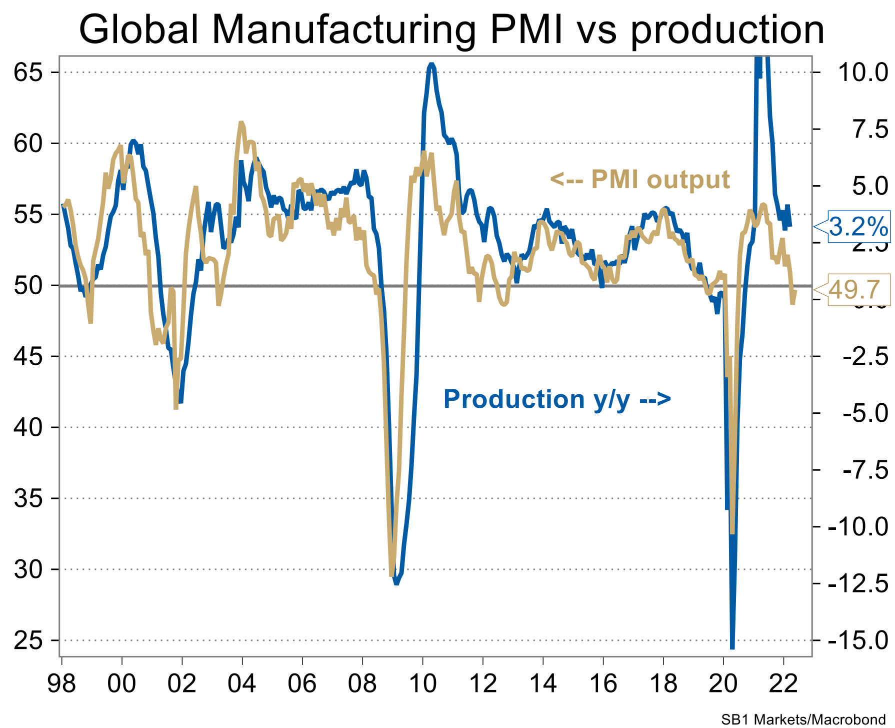


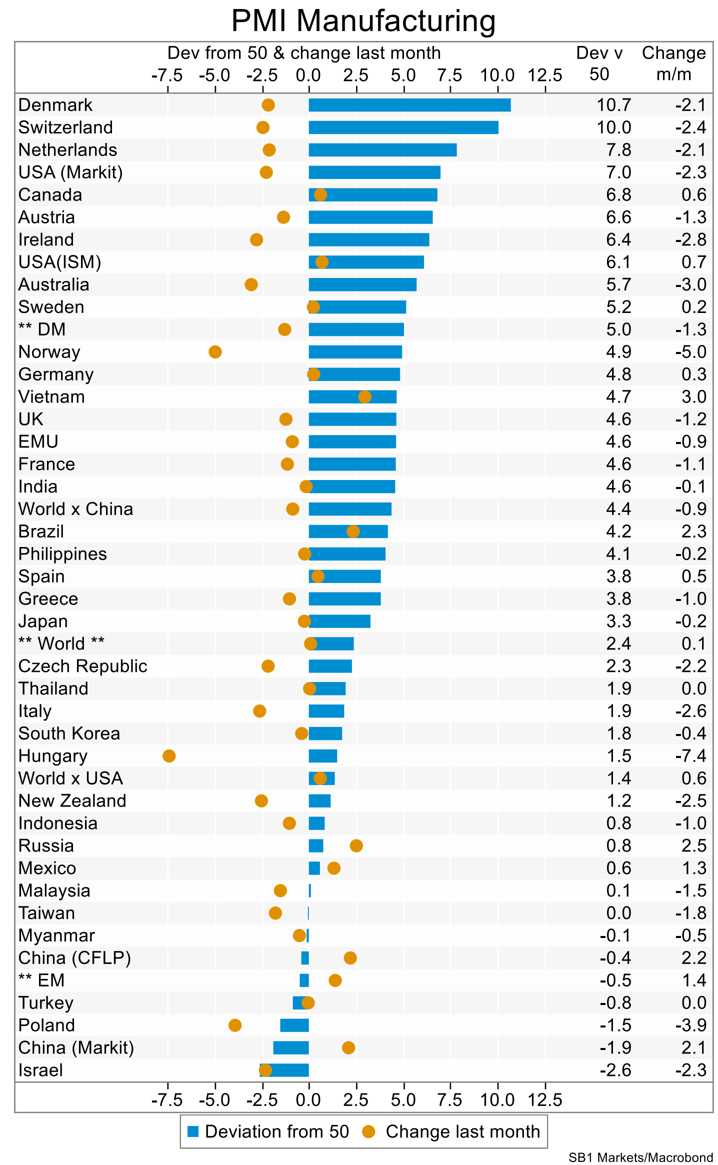
	Dev v 50	Change m/m
Sweden	15.3	0.4
Singapore	12.0	2.0
India	8.3	0.7
Brazil	8.0	-0.5
Ireland	7.5	-2.1
France	7.0	-0.6
Hong Kong	6.0	5.0
USA (ISM)	5.9	-0.8
Spain	5.7	0.0
Norway Manufacturing	4.9	-5.0
Euro Area	4.8	-1.0
Germany	3.7	-0.6
** Developed Markets **	3.7	-1.8
USA (Markit)	3.6	-2.3
Australia	2.9	-3.0
Italy	2.4	-2.2
Japan	2.3	1.2
UK	1.8	-6.4
** World **	1.5	0.3
South Africa	0.3	2.5
China (CFLP)	-1.3	4.1
Russia	-1.8	3.9
Egypt	-5.0	-0.3
** Emerging Markets**	-6.6	-3.4
China (Markit)	-7.8	5.0

- 14 countries/regions down in May (from 11), and 10 up (from 14)
- **Both China and Russia** contributed on the upside in May, as the contraction eased both places. However, their PMIs remained below the 50 line
  - » India and Brazil are reporting strong growth
- **The rich countries (Developed Markets, DM) PMI** declined 1.8 p due to a 2.3 p drop in the **US,** and 1 p drop in the **EMU**. The UK index also fell sharply
- **Sweden** still has the pole position, ahead of Singapore, and India
- (**Norway** does not compete here, we just have a manufacturing PMI. The level would have yielded a 10th place in the composite race (from no. 2 in April, with the 2nd largest decline, just the UK fared even worse)

Manufacturing headline PMI up 0.1 p to 52.4; the output index up 1.2 p to 48.5

7 of 43 surveys below 50. <u>Europe at the top, China & Russia up, but both close to the bottom</u>

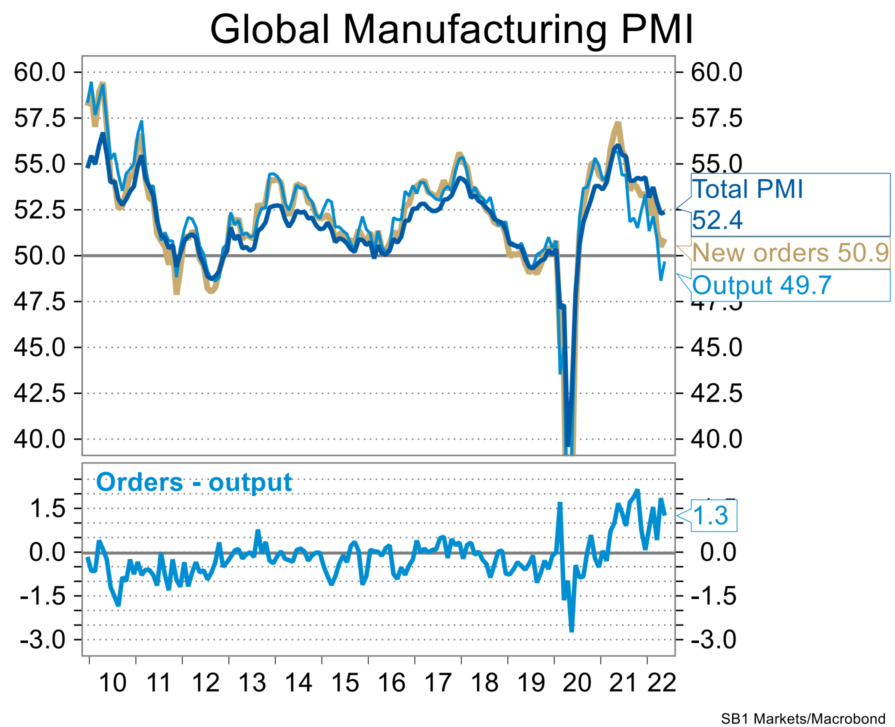


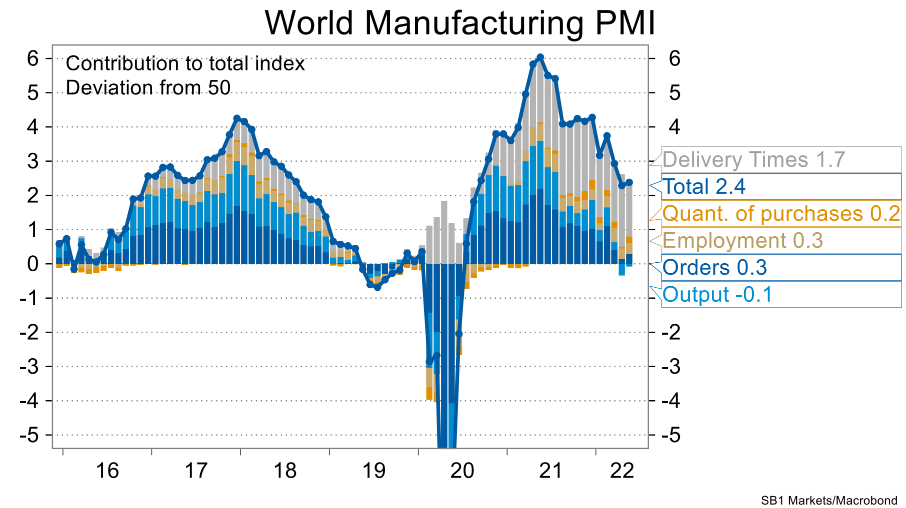


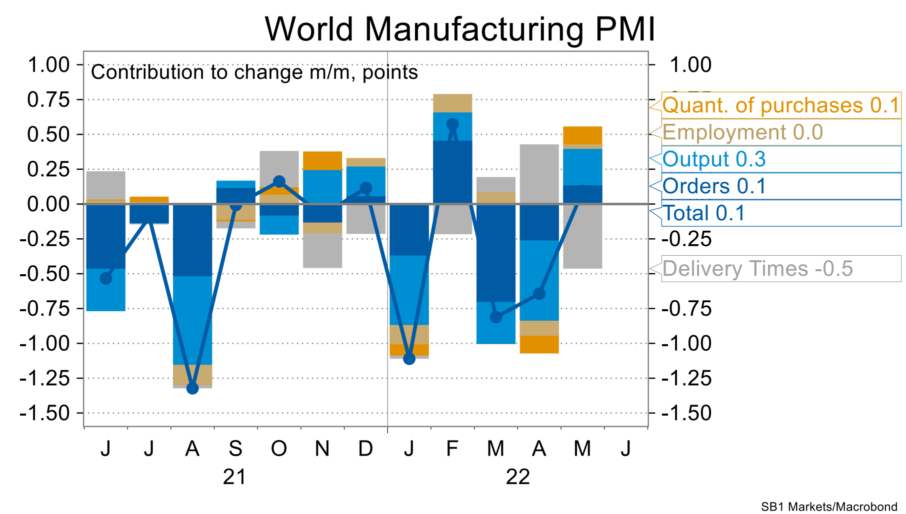
- The **manufacturing output index** rose 0.9 p to 49.7, slightly above our forecast based on preliminary data for DMs
  - 40% of countries/regions reported higher total PMIs last month, down from 46% in April
  - **European countries** still at the top of the list. Markit's US PMI fell, ISM's added 0.7 p
  - The Chinese indices recovered but both remain below the 50 line
  - Russia reported an further increase and is now at 50.8, signalling some growth!
  - **Norway** reported the 2nd largest decline in May (behind Hungary) – total index still at 54.9

Manuf. delivery times index down, other parts of the PMI up in May

And easing supply problems is good news! The Output index is higher, but still below 50

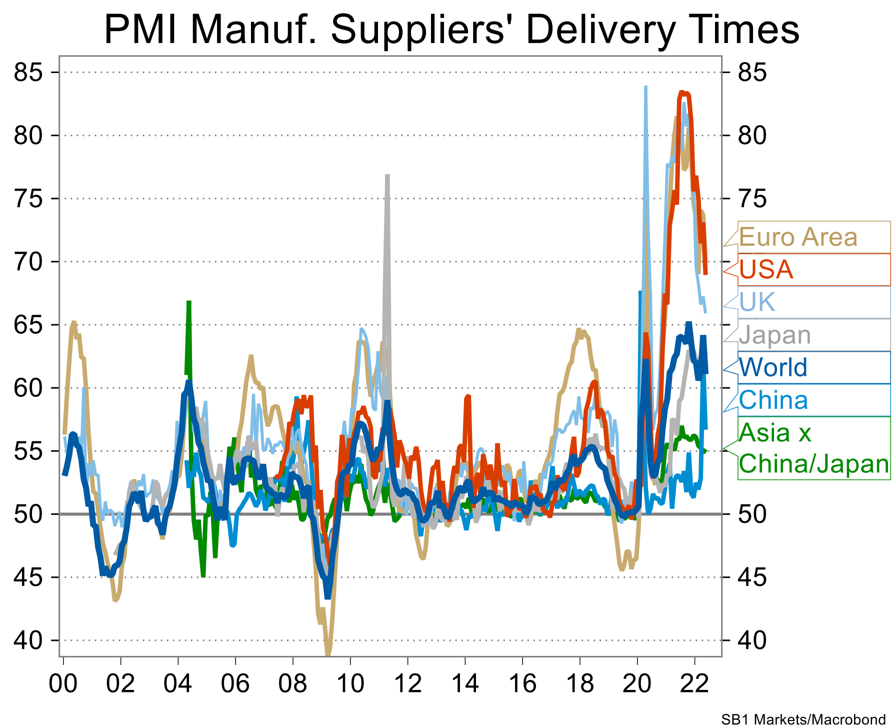


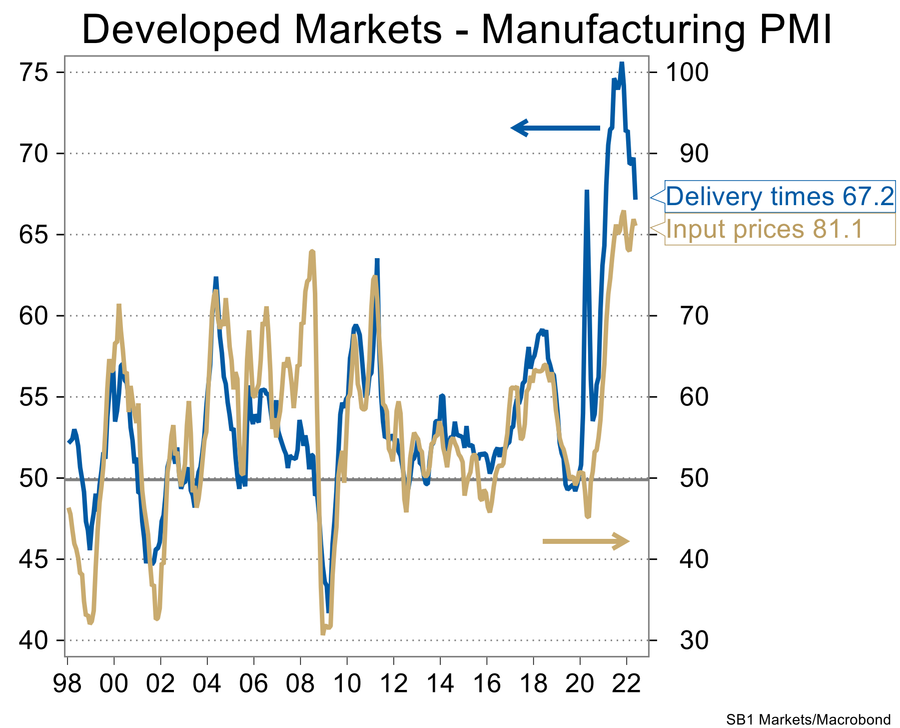




Delivery times indices are coming down, but are still high

…and input prices are still rising fast

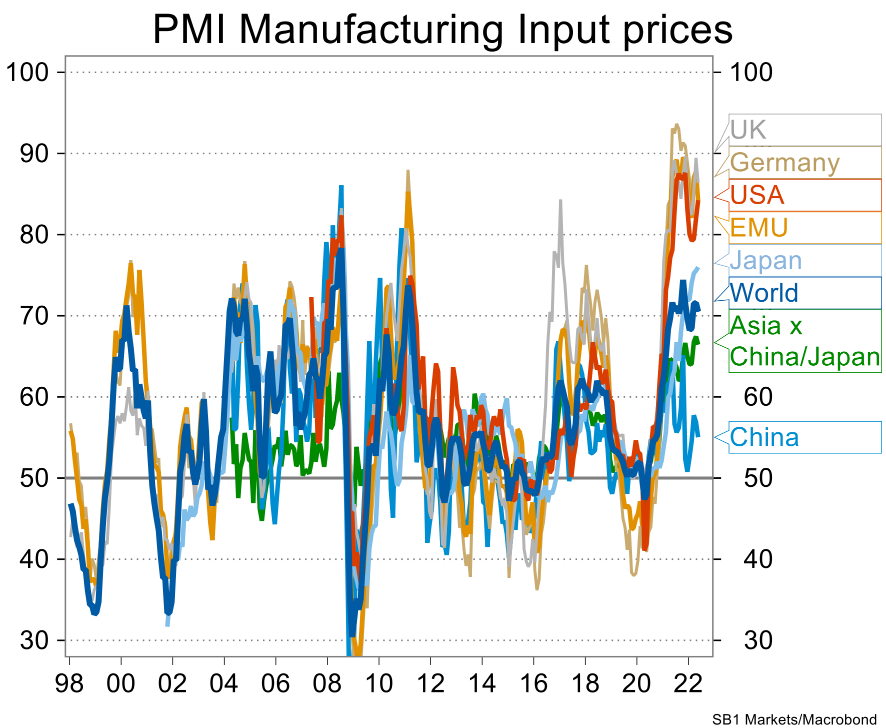


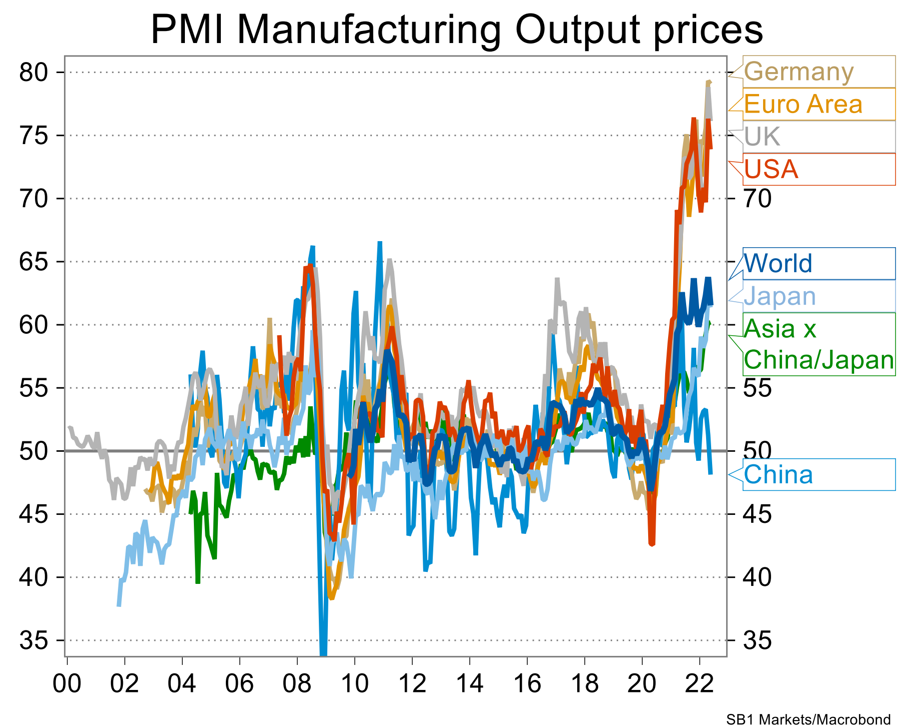


- The Chinse delivery times index fell sharply in May following the steep rise in April. That may be due to less supply problems – or just still weak demand from factories that have been closed down

Both input and output prices rose at a slower pace in May, but just marginally

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



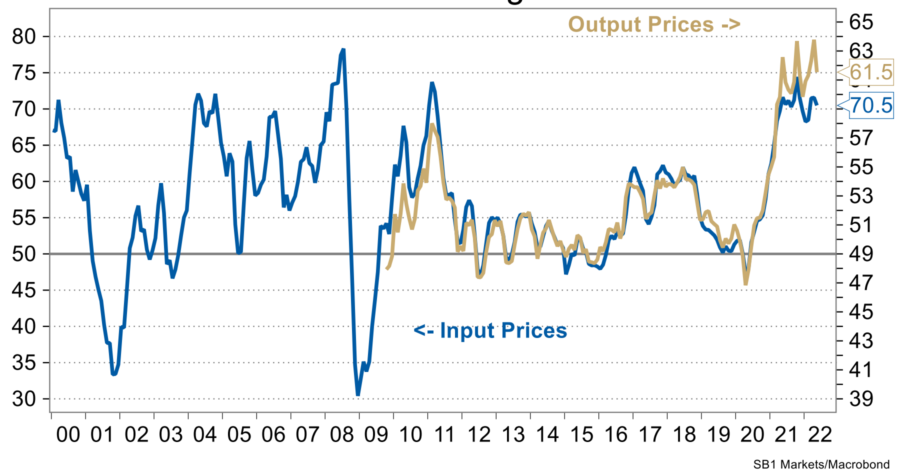


- Output prices in Germany, UK and Euro Area are still rising at the 2nd fastest pace ever
- Output prices still rose at a faster pace in Asia x China & Japan

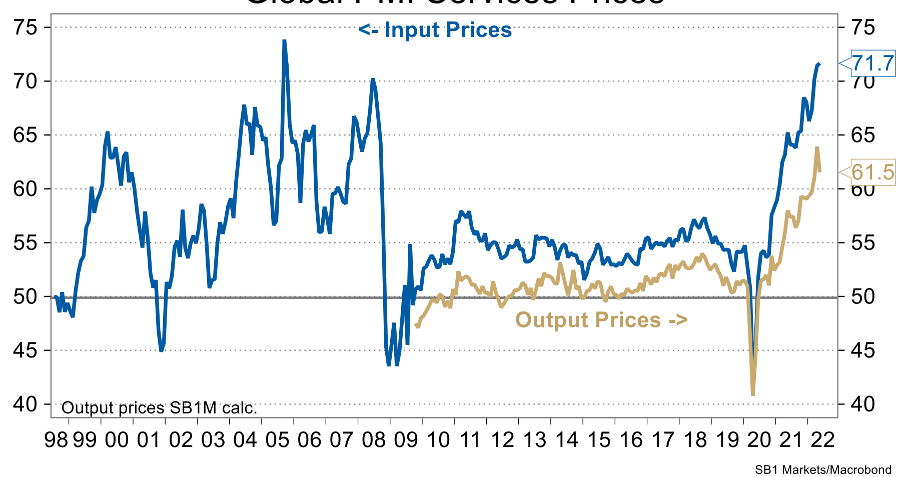
Services input prices rose further, the other price indices fell

All price indices remain at very high levels

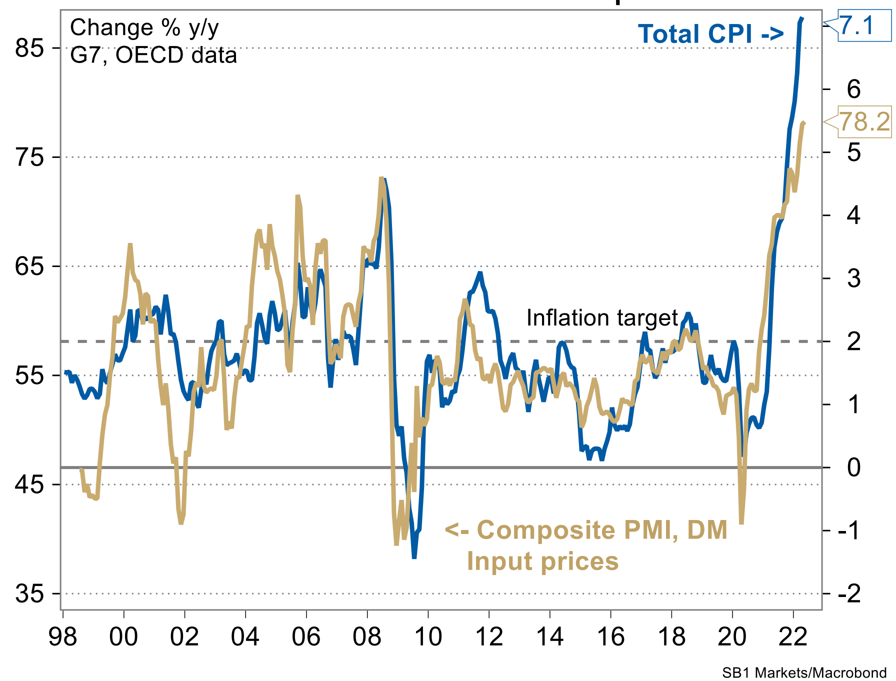
Gobal Manufacturing PMI Prices



Global PMI Services Prices

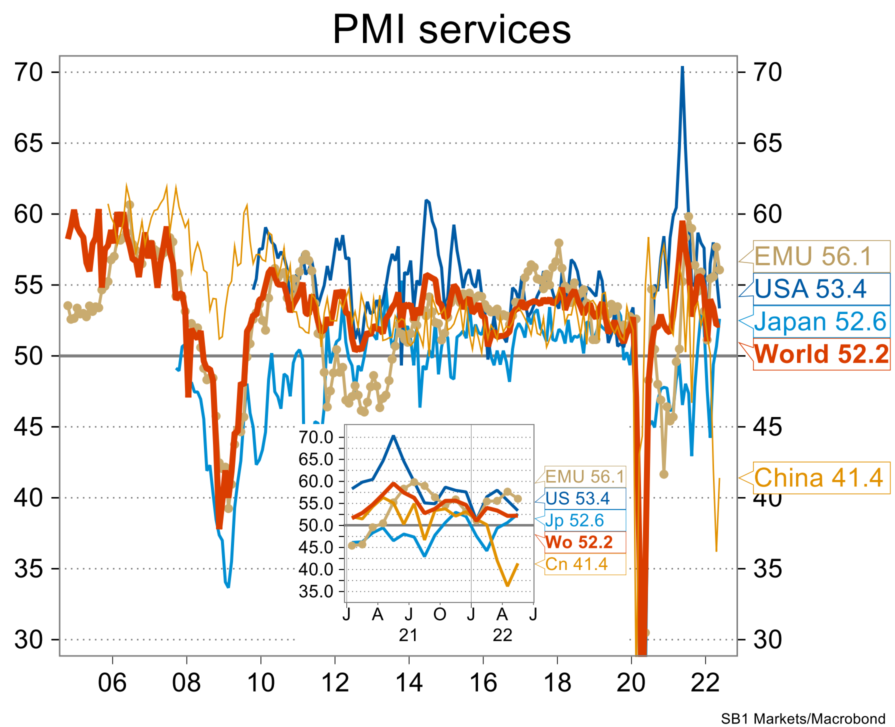


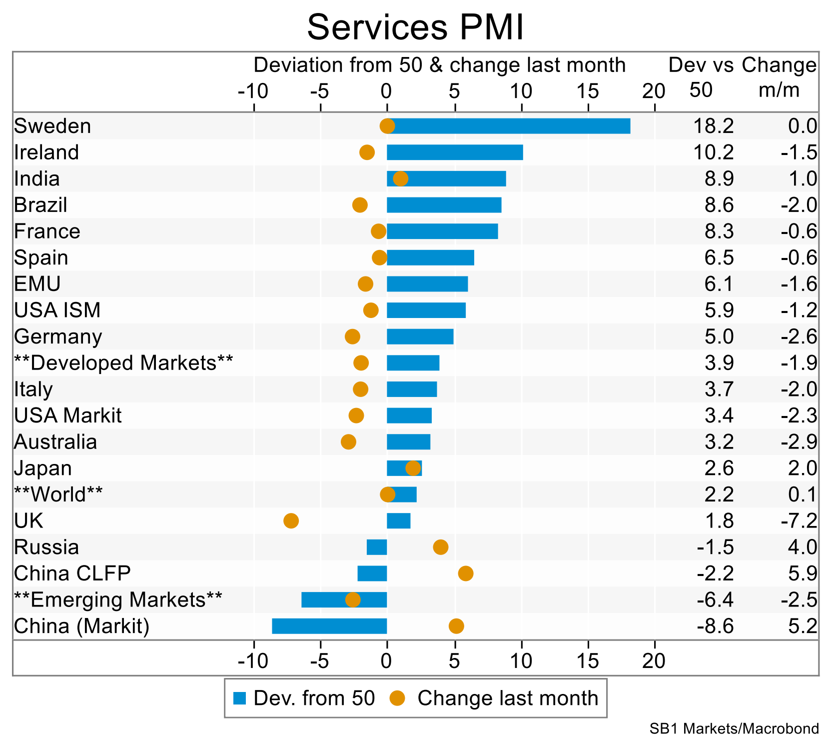
OECD Inflation vs PMI prices



Services slowed almost everywhere in May, except for China and Russia

… where the activity level fell but at slower pace in May. China and Russia the only ones below 50!

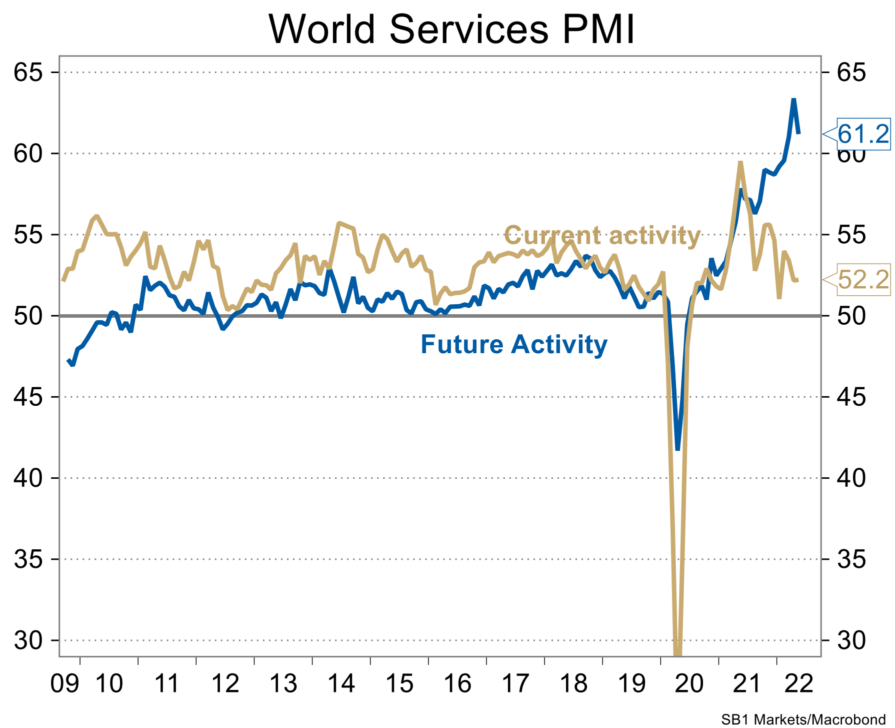


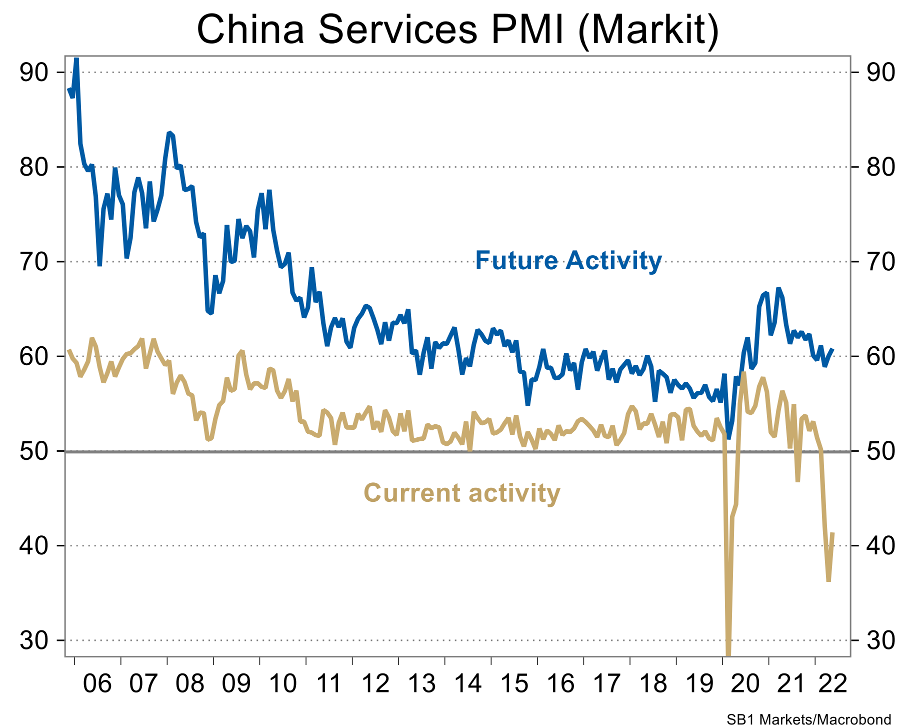


- **The global service sector PMI** gained marginally in May, by 0.1 p to 52.2. Outside China and Russia, just 2 countries reported higher growth in May – the others were down, the UK the most

The service sector still very upbeat on the future, especially outside China

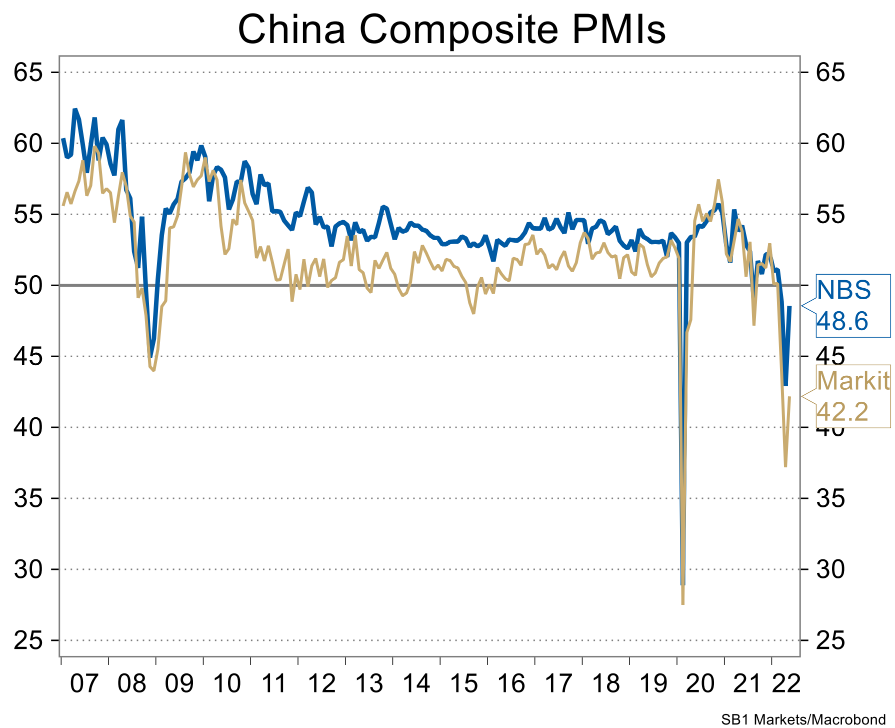
Current activity is of course weak in China – and moderate elsewhere

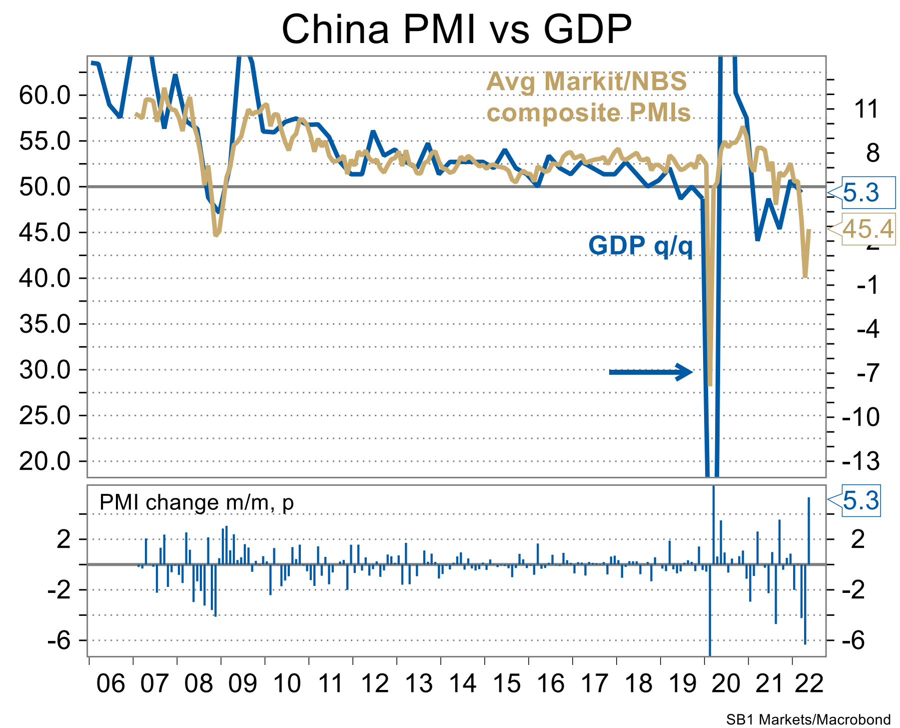




Both PMI data sets recovered in May but are just signalling very slow growth

The composite average rose 5.3 p but it is still at 45.4, following the 4+6 p drops in March/April

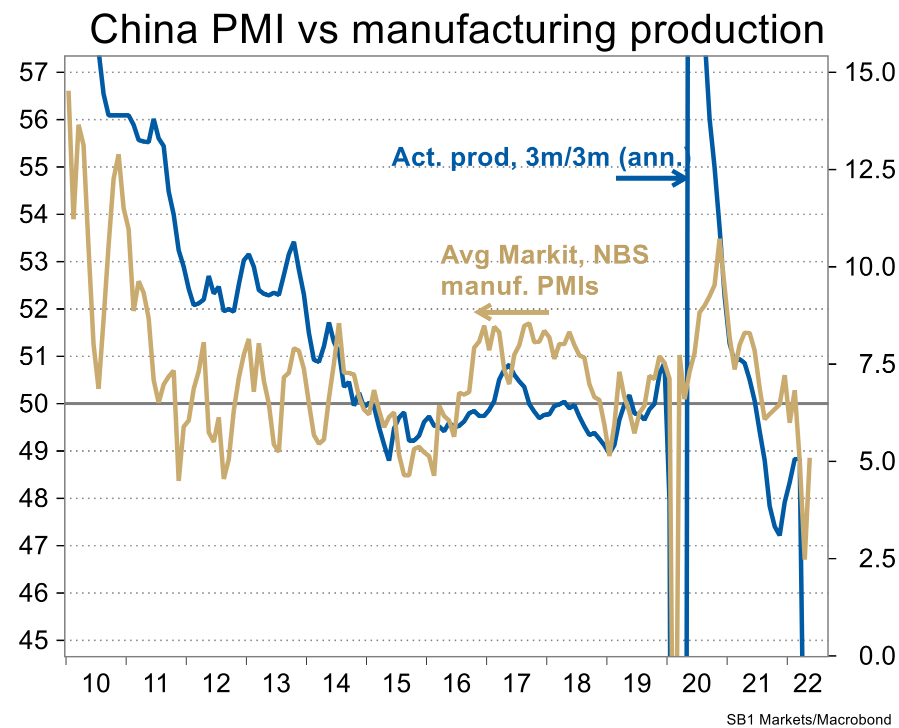




- **Both the NBS/CFLP and Caixin/Markit's PMIs** rose in May, following the rapid declines in March and April. Both recovered 5-6 p, the 'official' NBS survey was up more than expected, the 'private' Markit survey less than expected, especially in the service sector
  - » Markit's PMI at 42.2 still signals a contraction vs. the activity level in April, while the NBS print at 48.6 indicates a small uptick in economic activity
- The PMIs confirm that the lockdowns have hurt the economy badly, but as they have been less rigorous than in 2020 (on average, for the whole country), the economic impact is less than during the first lockdowns. Restrictions are now eased most places, and the economy will very likely grow in June. However, the Omicron variant is very likely not eradicated, and it will hit back if the population lacks immunity – which is the case in China

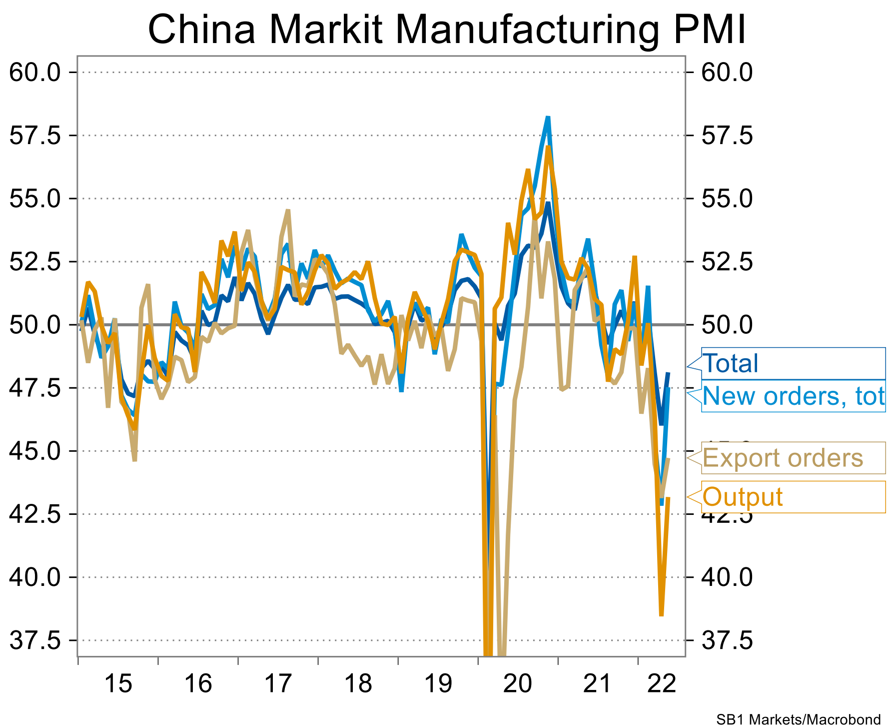
Both manufacturing PMIs up in May, but both surveys still below the 50 line

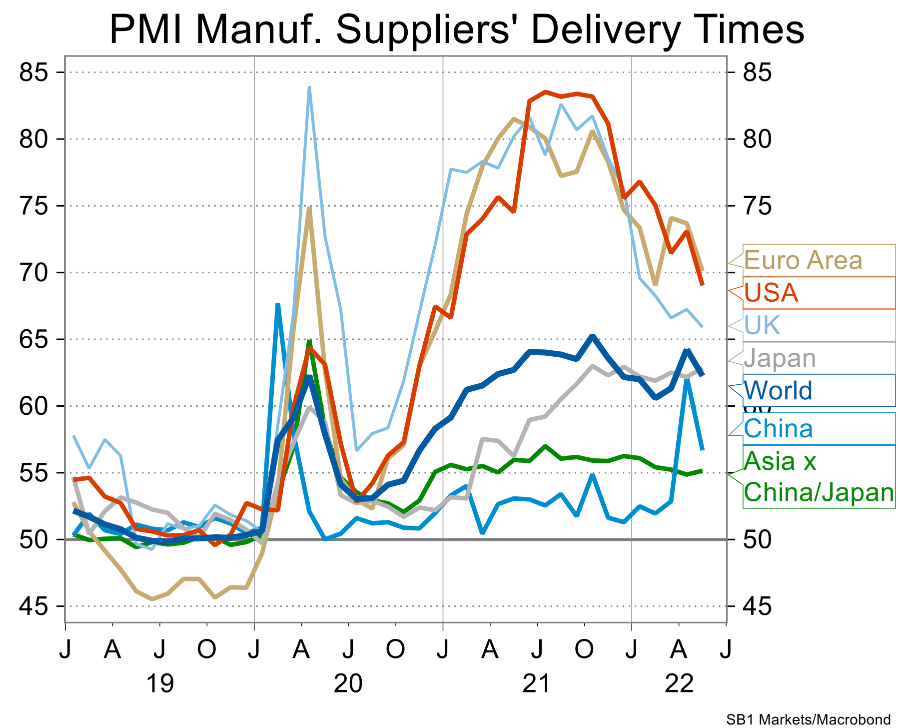
Both surveys up 2.1 - 2.2 p, less than expected. The avg. level at 48.9 is among the weakest on record



- Formally, companies are still reporting a decline in production in May vs April. Given that lockdowns were eased in many cities (but introduced in Beijing though) we would not have been expected to see somewhat better prints
- May production data will be out next week

Details still not upbeat, and output is contracting rapidly

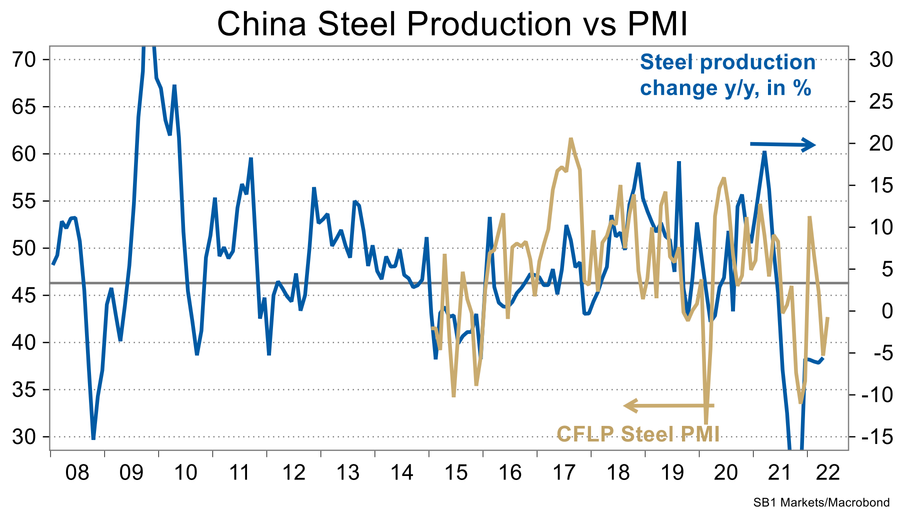


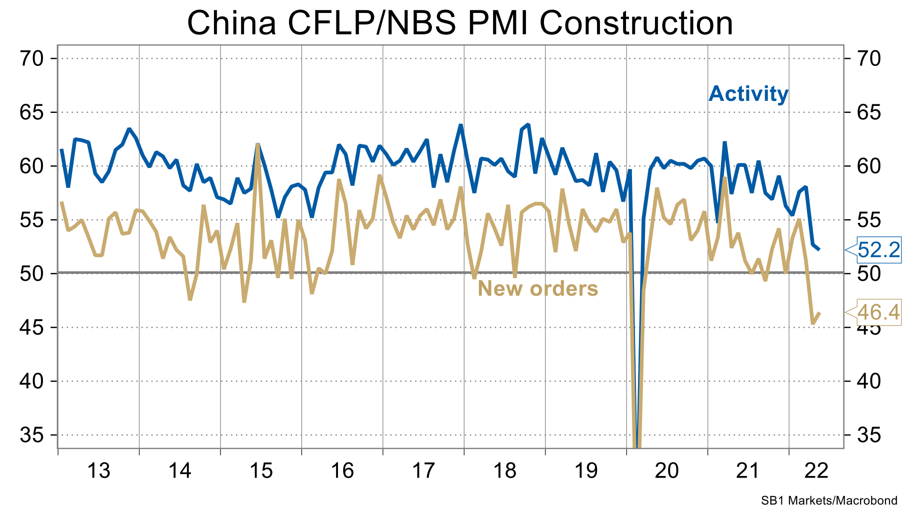


- Delivery times ‘normalised’, due to less supply problems – or still very weak demand from closed factories

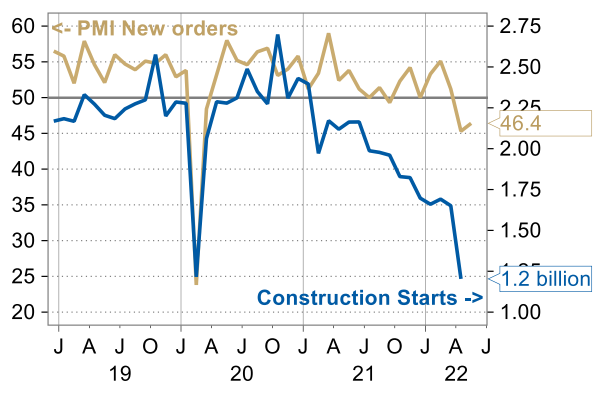
Steel & construction PMIs up in May but still at low levels, especially construction

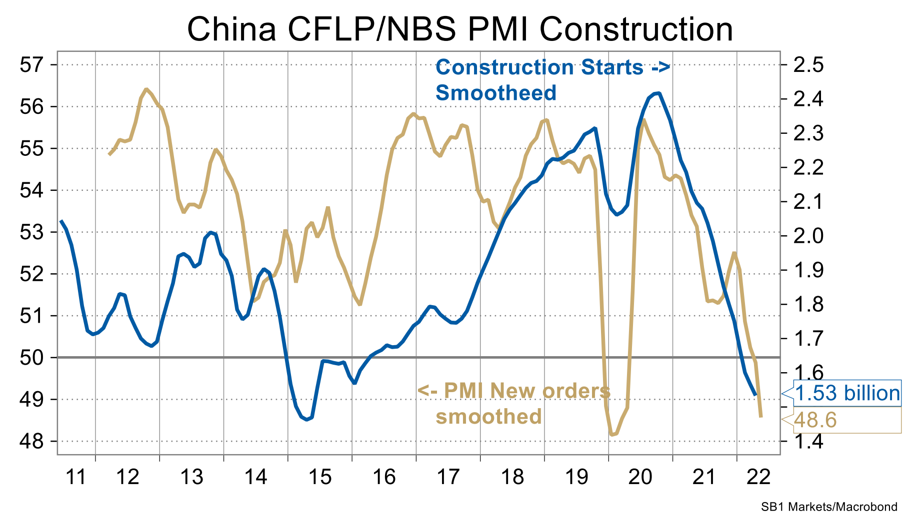
Construction activity fell off the cliff in April, very likely directly due to the widespread lockdowns





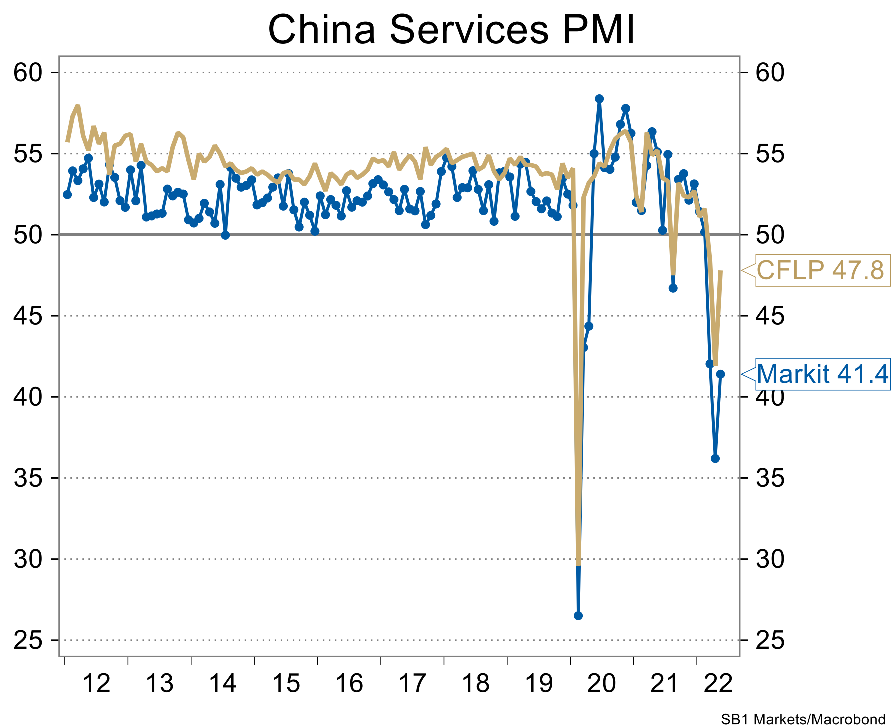
- The recent setback is probably not due to the specific challenges within these sectors but rather the overall impacts of the lockdowns

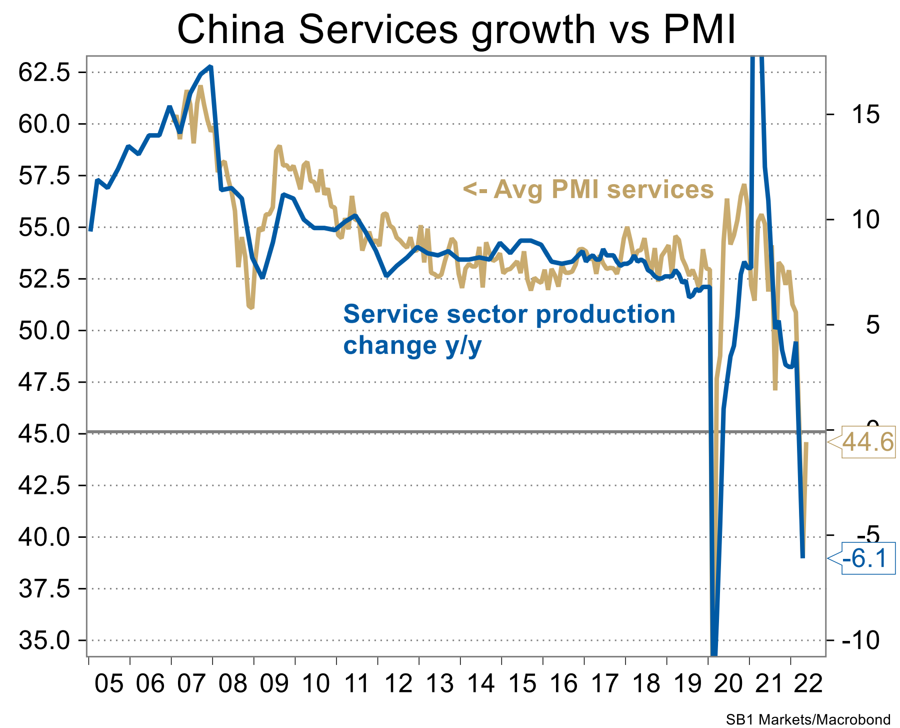




Still contraction in the service sector, the PMIs up but are still weak

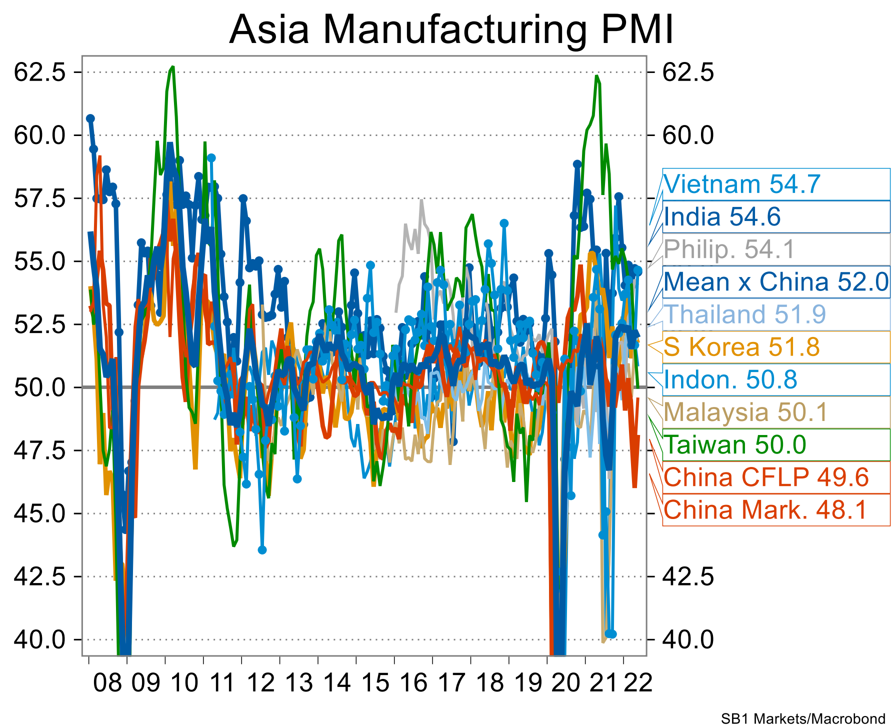
Here too, Markit's PMI is lagging the NBS/CFLP survey

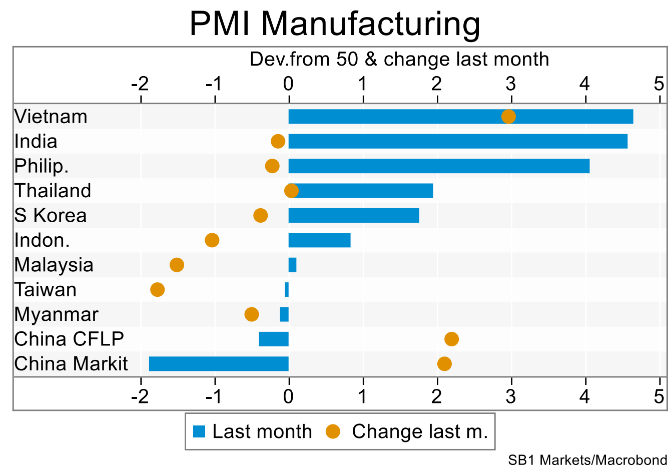


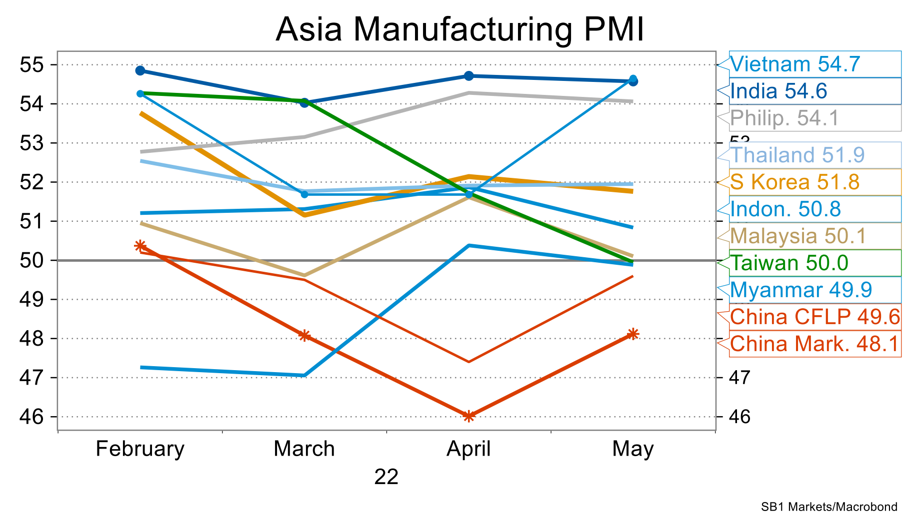


EM Asia manufacturing : More down than up in May, just Vietnam up besides China

On a positive note: All but the Chinese PMIs are close to the 50 line or above



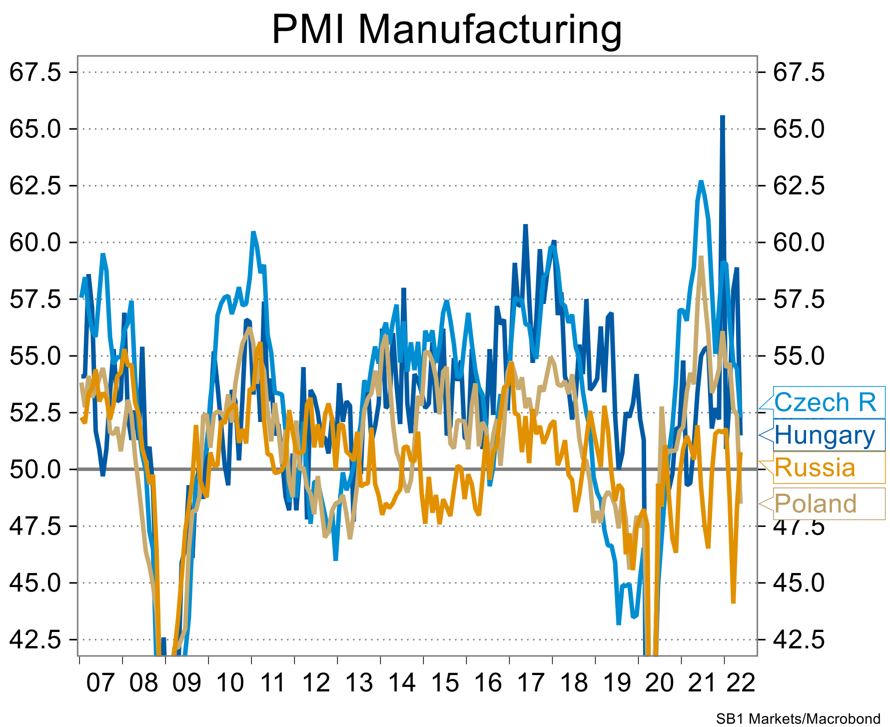


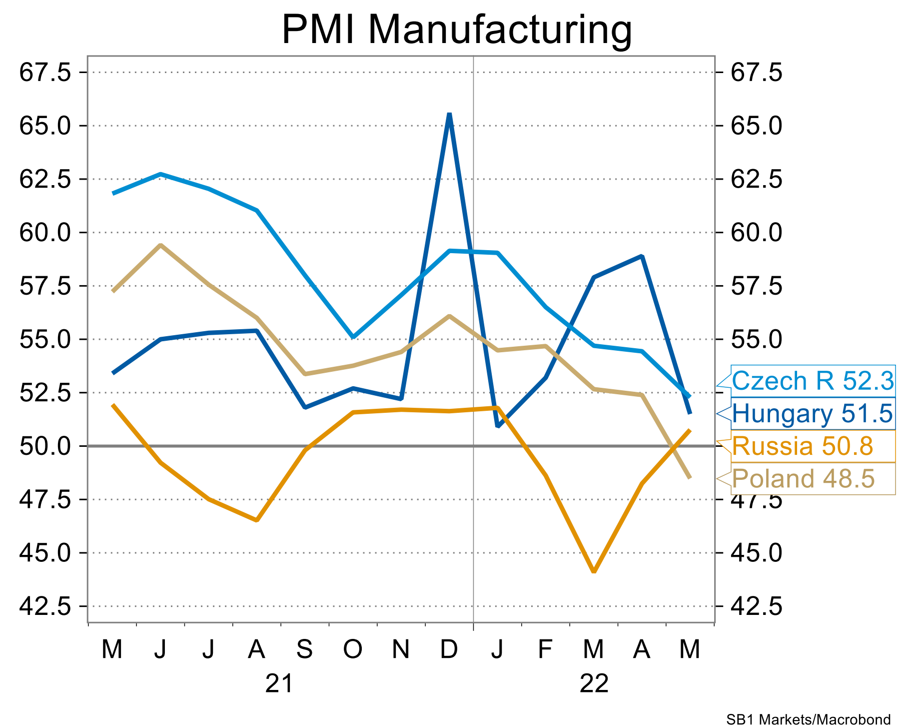


- So far, a Chinese problem – with some impact in Taiwan as well, a large drop in May, to the 50-line
- India is still reporting strong growth

Russia back to above 50, but Poland fell below

The activity level in Russia may still be rather low. The volatile Hungarian index fell sharply





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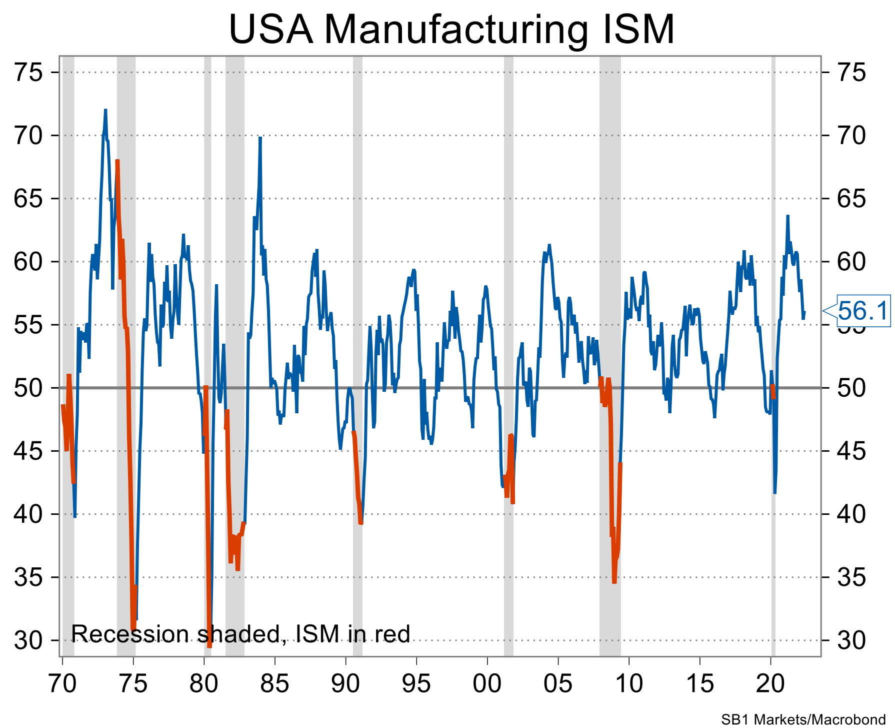
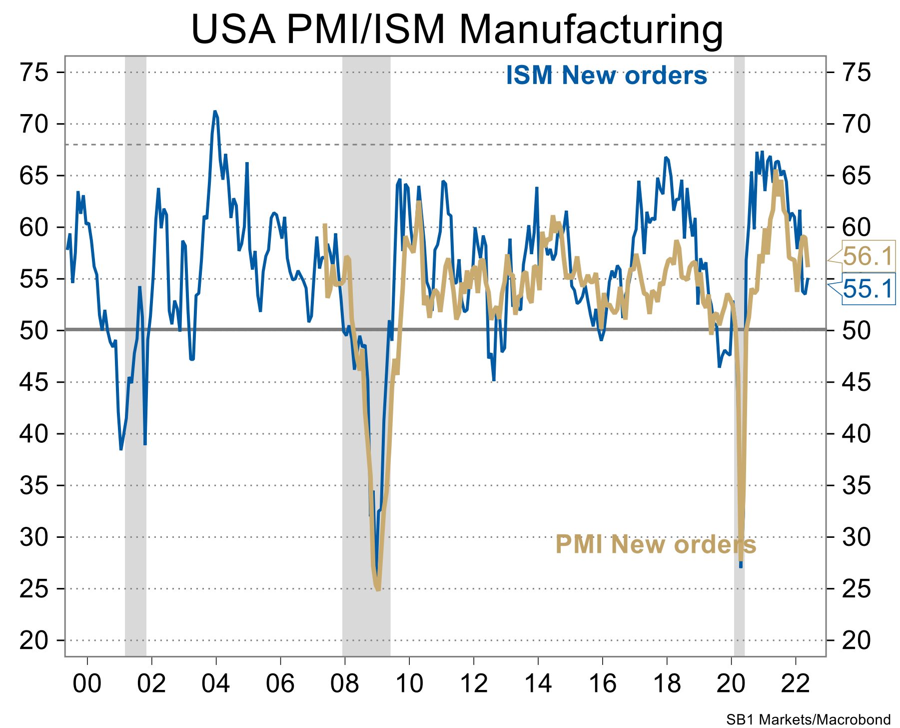
The manufacturing ISM surprised on the upside in May, but it is trending down

The total index gained 0.7 p to 56.1, better than expected and far better than reg. surveys signalled



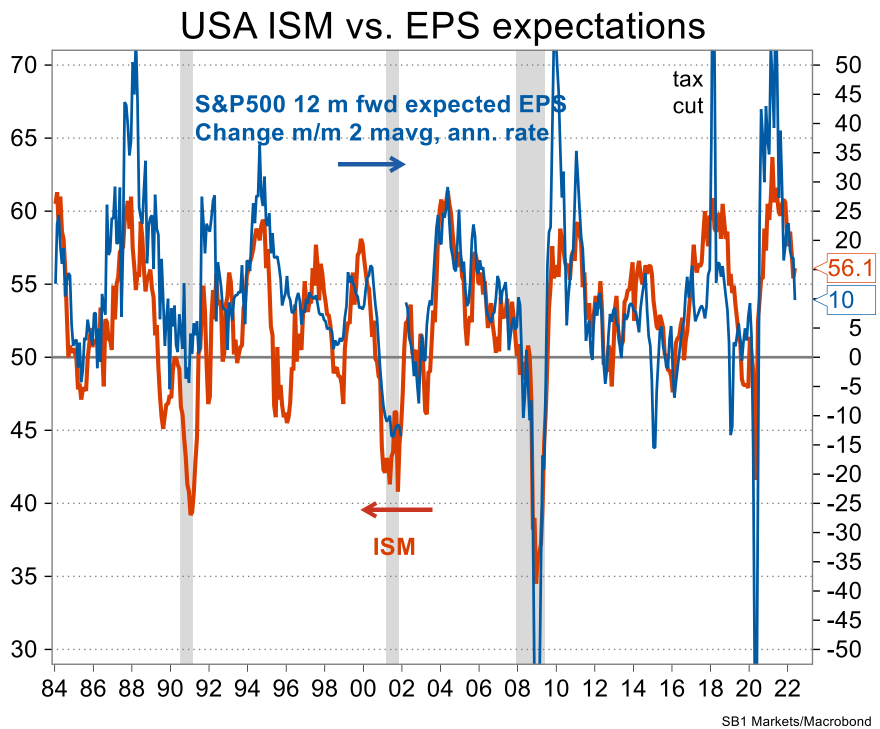


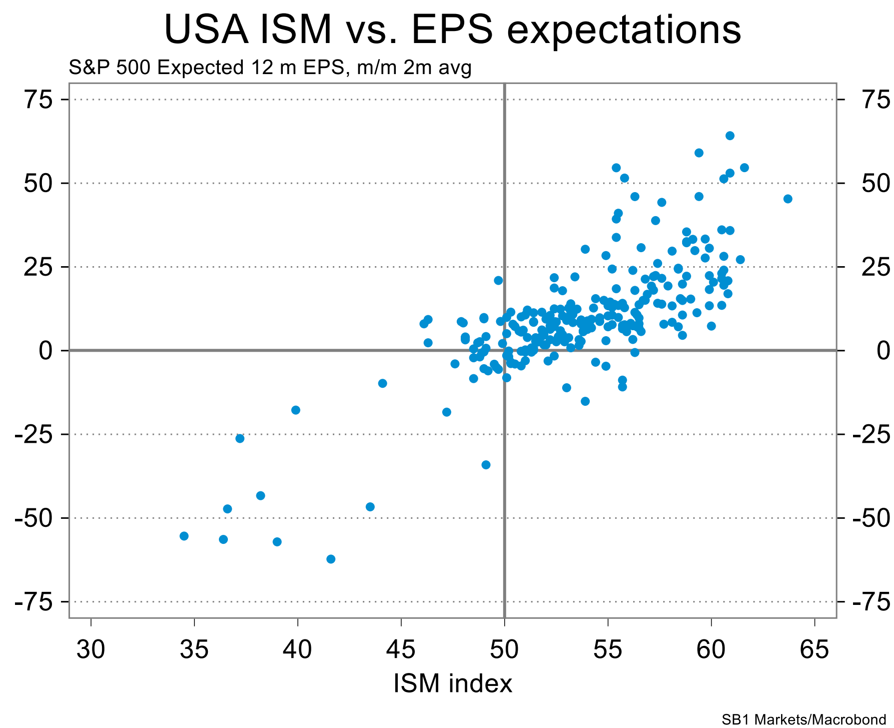
The **ISM manufacturing index is trending down but is not yet at low level. However, at the current speed of decline, we are soon there**

- Last month, 15 of 18 manufacturing sectors reported growth (down from 17 the prev. month), just 1 sector report a decline (furniture), as the prev. month
  - » The **new orders** index rose 1.3 p to 55. In Markit's PMI, the new order component fell almost 3 p to 56.1 – still a rather high level
- 40 commodities saw **price increases** (from 36, at the peak 56 commodities). Aluminium, steel, petrochemical products prices were lower
- 18 commodities were reported in **short supply,** as in the previous month (and far below the peak at 50 commodities a few months ago)
- **Companies** are reporting mixed supply chain issues – some are reporting easing, but most of them are not. No report of lack of labour. Some few comments on easing demand

When the ISM turns south, growth in expected earnings always joins

At 56, decent earnings growth is normally assumed. But not at 50





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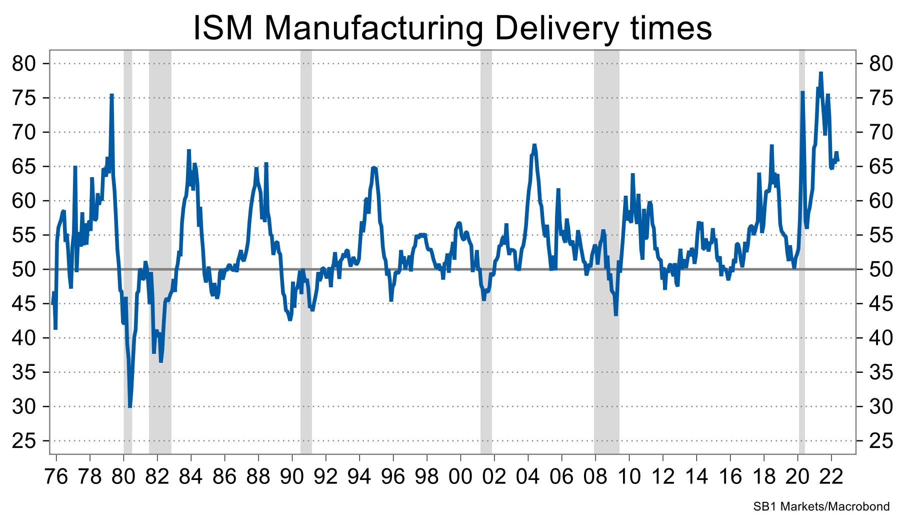
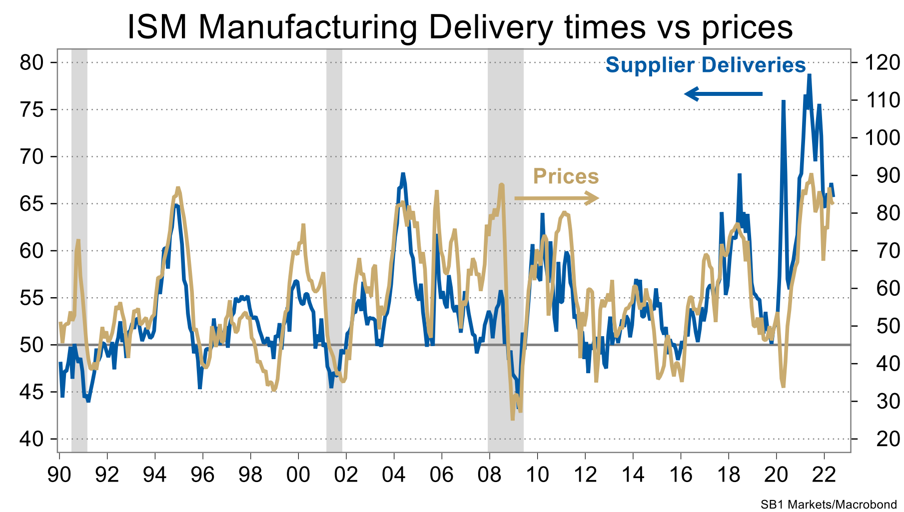
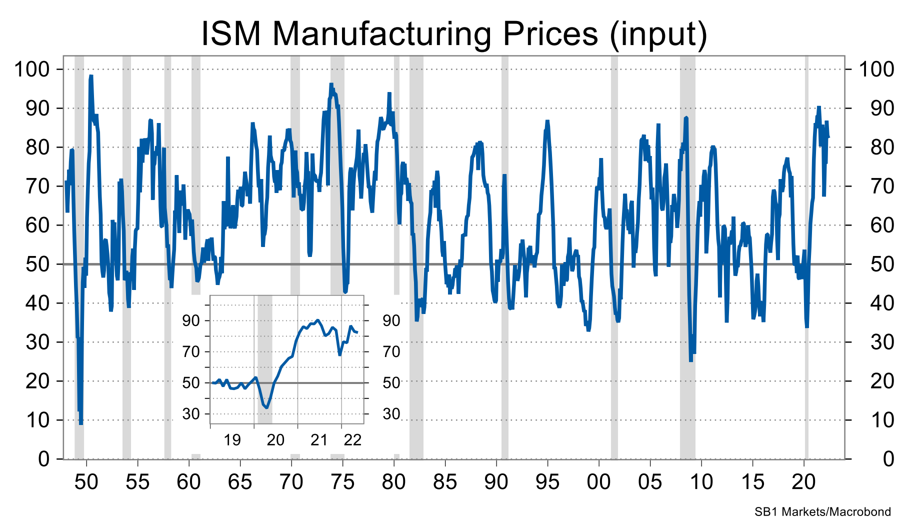
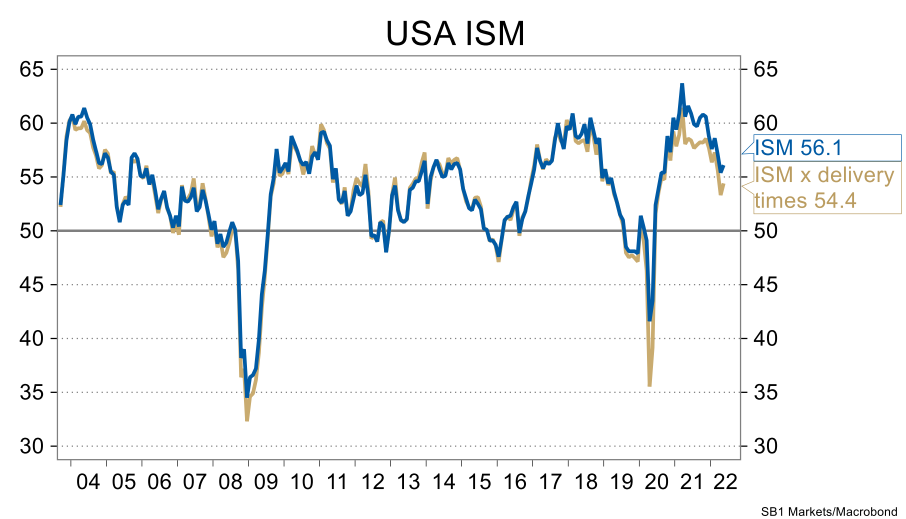
Delivery times & price indices remain at very high levels

A high delivery times index is not necessarily a sign of strength. 'Real' ISM is weaker than total index



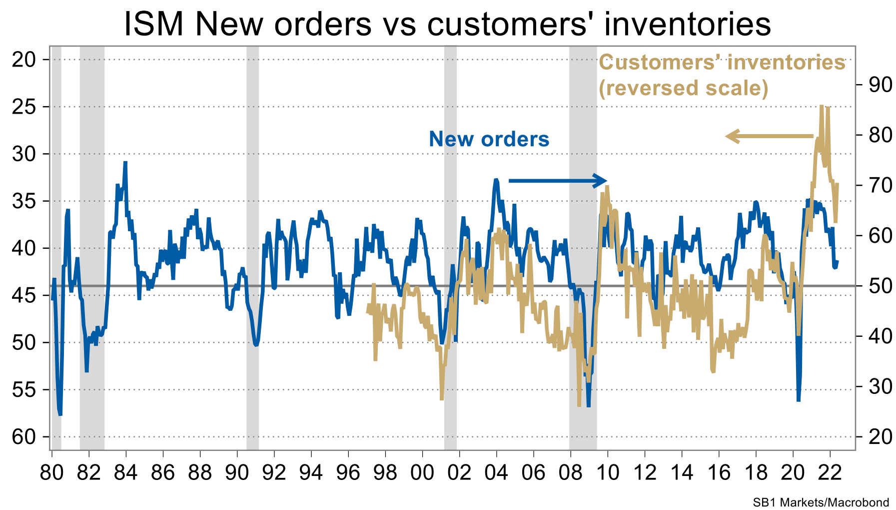


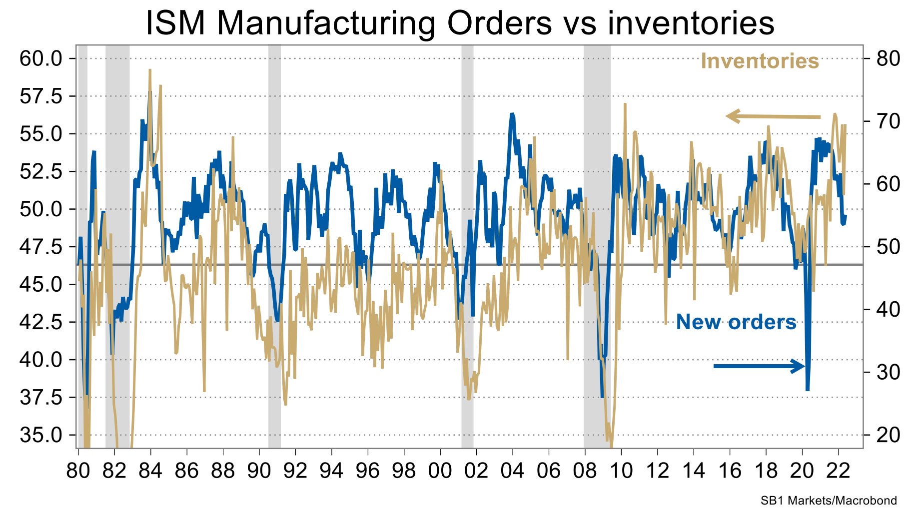


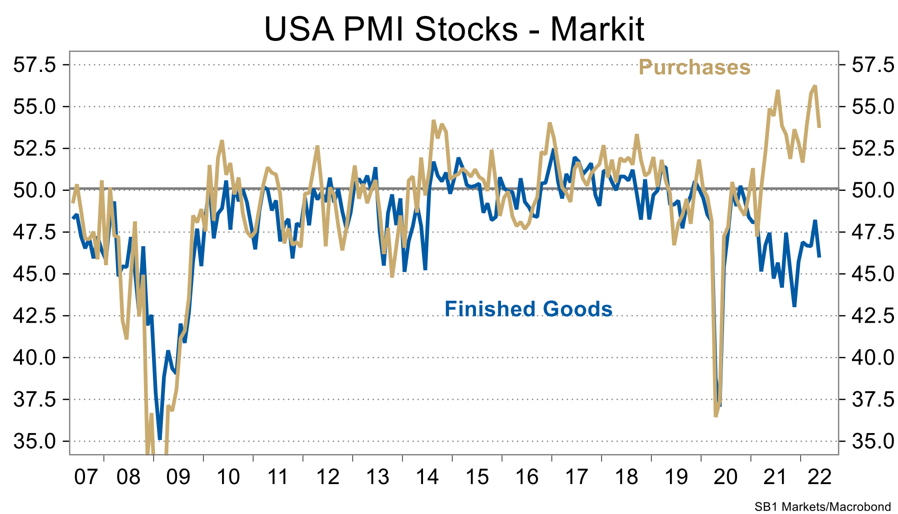


No signs of inventory build-up. However, growth in new orders is trending down

Customers' inventories fell faster in May - reports of increased inventories are not confirmed







- **However, inventories of input materials** in the manufacturing sector rose unusually fast in May (like in March). As demand (orders) have slowed, the build-up could be involuntarily
- **Inventories of finished goods** (in Markit's report) are still on the way down, according to the PMI, which supports the hoarding explanation (which is good news vs the outlook)

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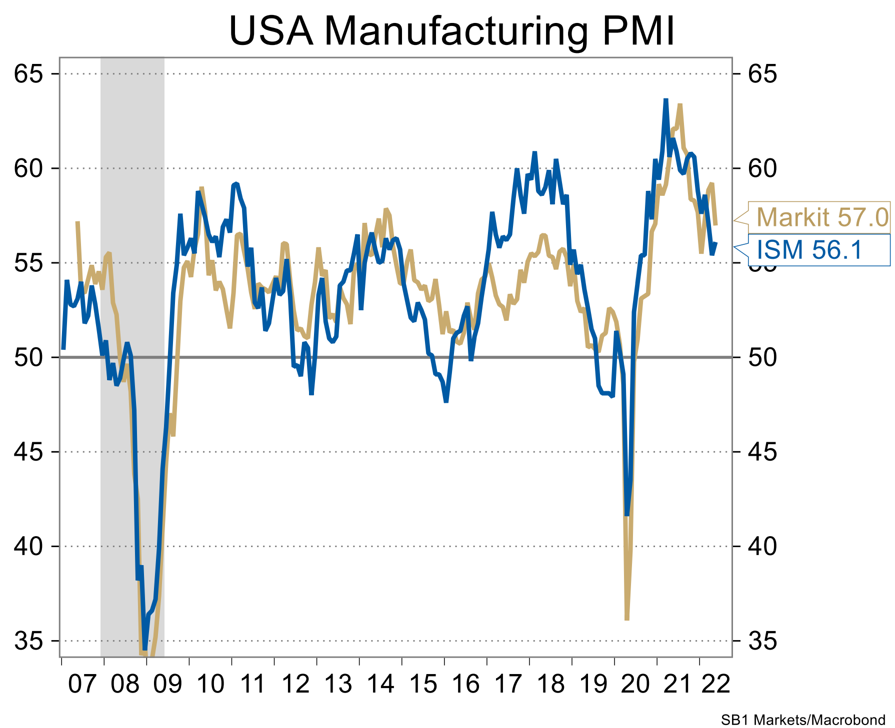
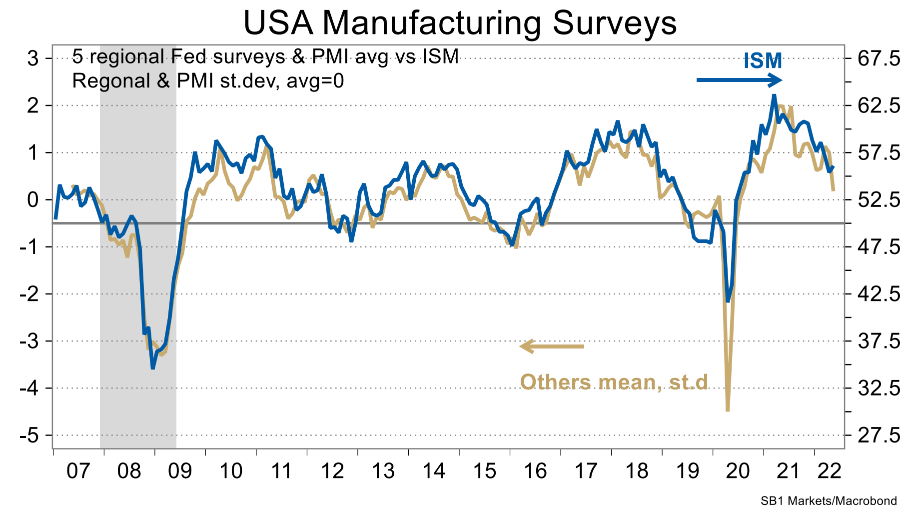
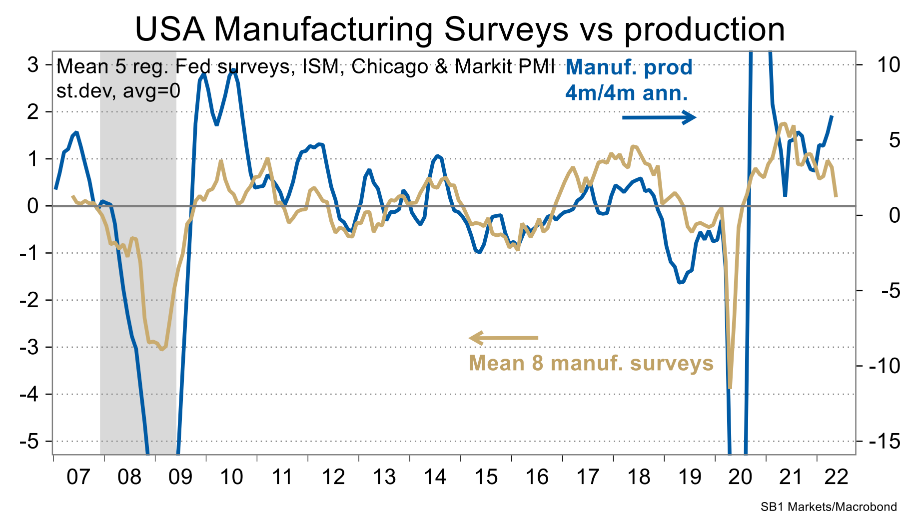
Sum of manufacturing surveys: Down in May – and the trend is down

Growth is signalled at above trend for the PMI/ISMs but well below for the regional Fed surveys







- Actual manufacturing production has been accelerating recent months and it is well above the pre-pandemic level
- We expect surveys to move further south, and actual production to follow suit the coming months/quarters

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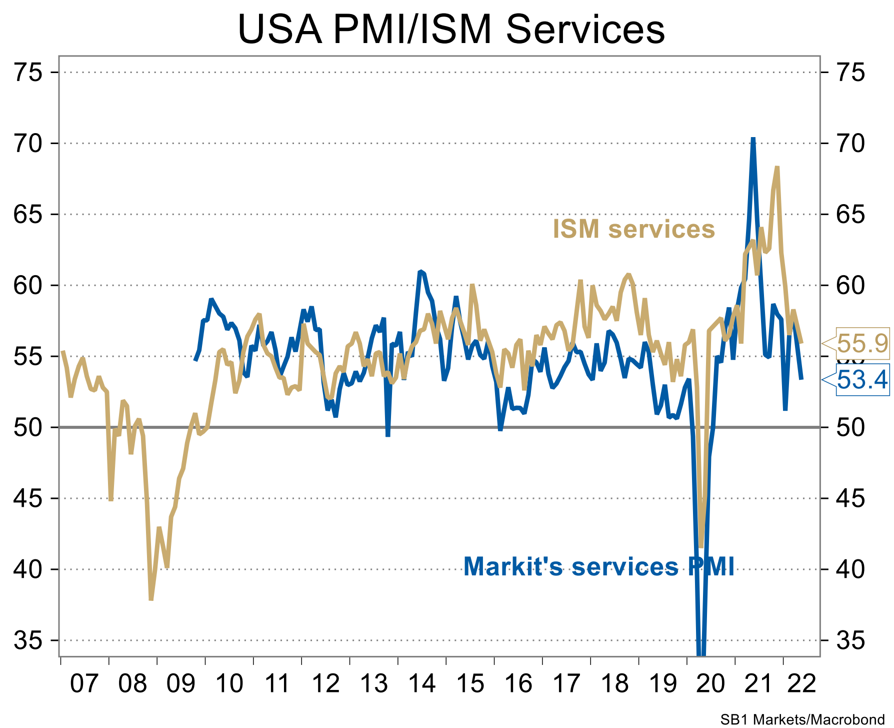
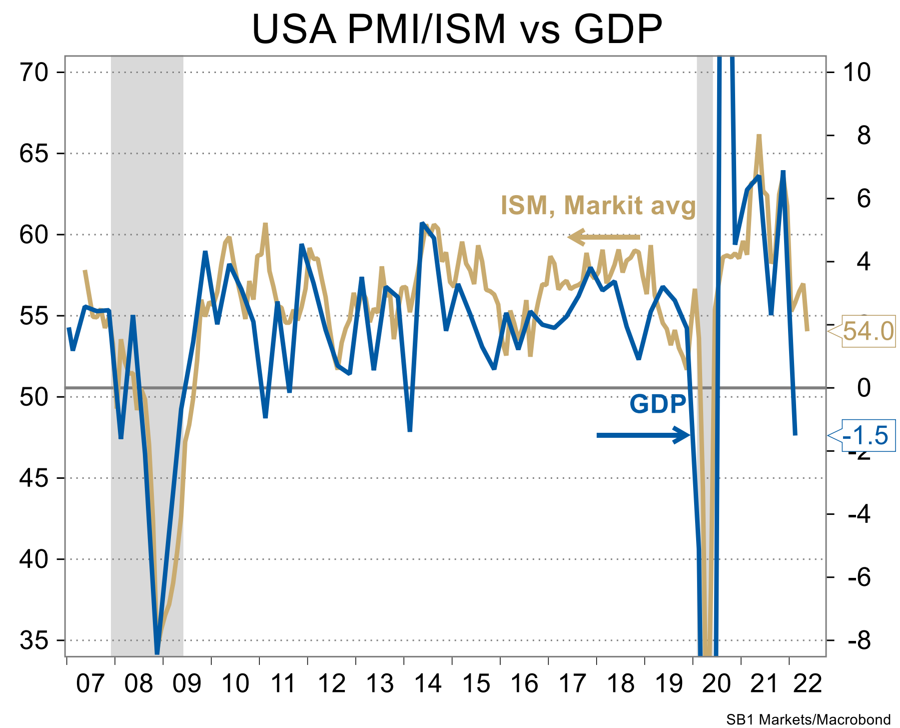
Services ISM further down but still somewhat above average at 55.9

Markit's services PMI confirmed down too. The grand PMI/ISM total at 54.0, signals 2 % GDP growth

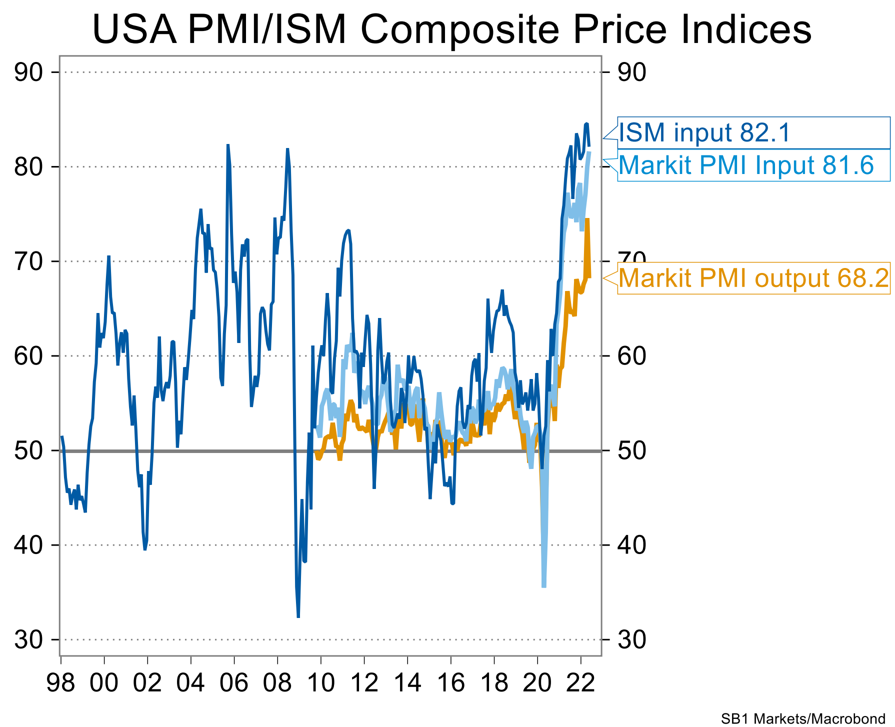


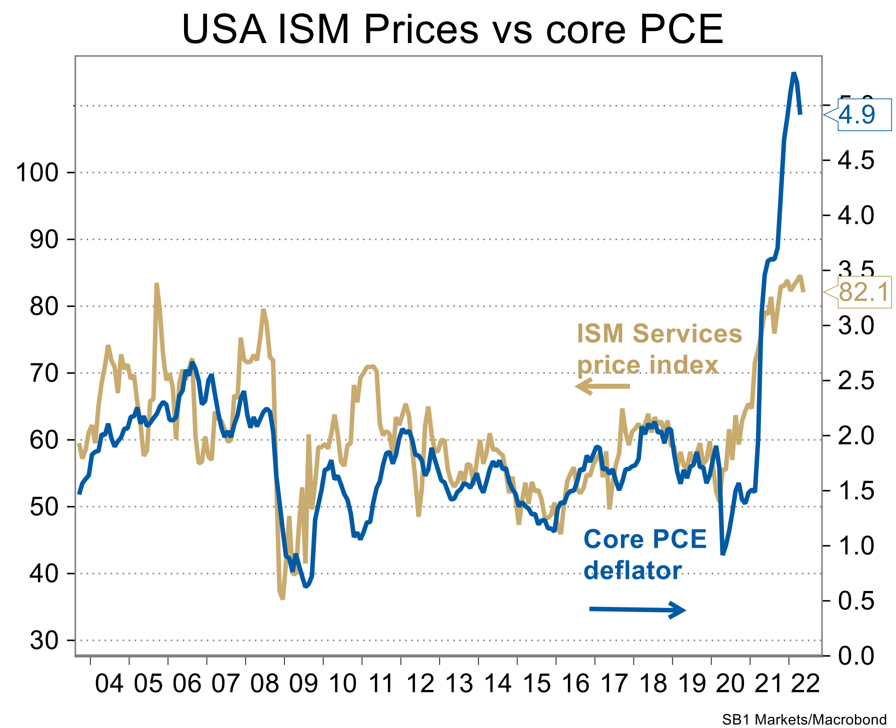


- **The ISM services index** lost 1.2 p to 55.9 in May, expected down to 56.3. The level is well below the re-opening spikes but still somewhat above average. The activity index, which we include in the 'composite' ISM fell more, by 4.6 p to 54.5. Markit's service sector PMI (which is the activity index) fell by 2.3 p to 53.4, close to the initial estimate
- The input price index in IMS's service sector PMI fell marginally to 82.1, from the ATH print in April. In sum the price indices remain at very high levels – but the peak is probably behind us
- Together with their manufacturing indices, the average of the composite **PMI/ISMs** fell 3 p to 54.0, which signal a 2% GDP growth rate, down from the 3% signal last month. The trend seems to be pretty clear

ISM input prices reported up faster than ever before

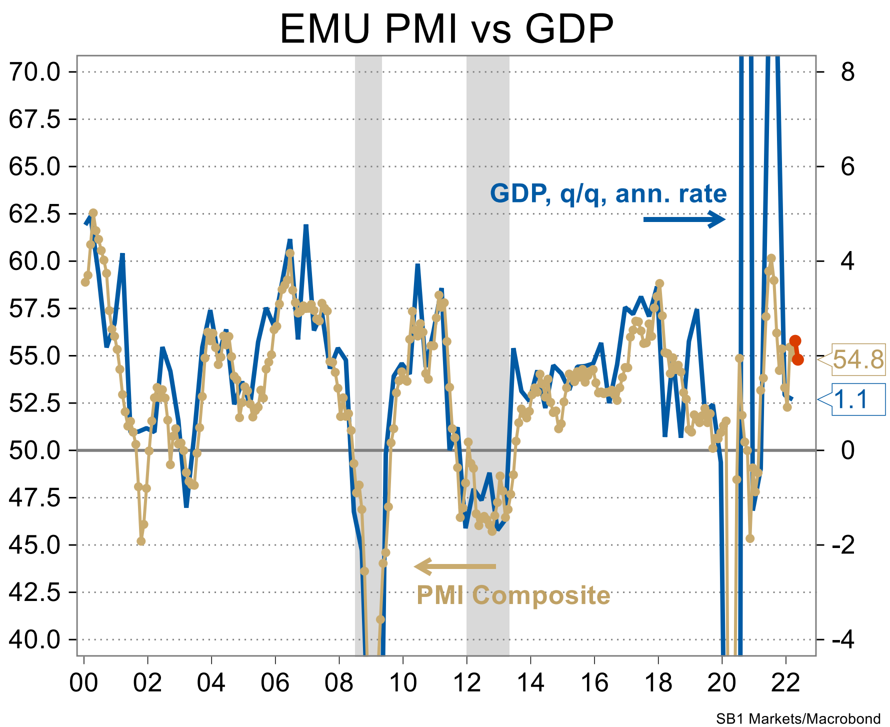
… but actual inflation (at least the core) has accelerated more than the PMI/ISMs have signalled

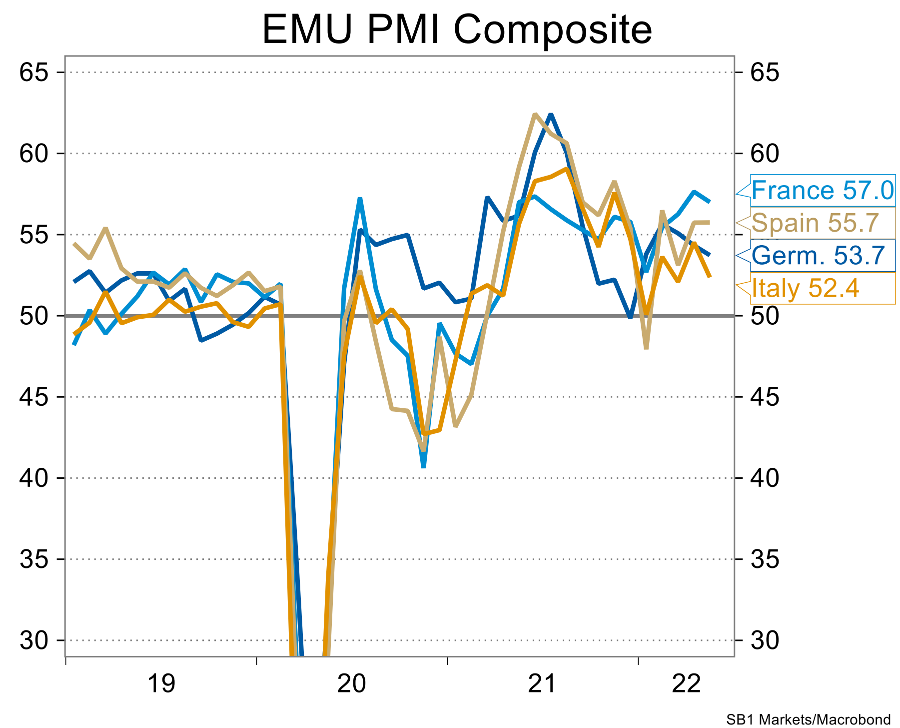




PMI confirmed slightly down in May, has been quite stable since February

The composite PMI fell 1 p to 55.8. The level is above average, signals 2% GDP growth



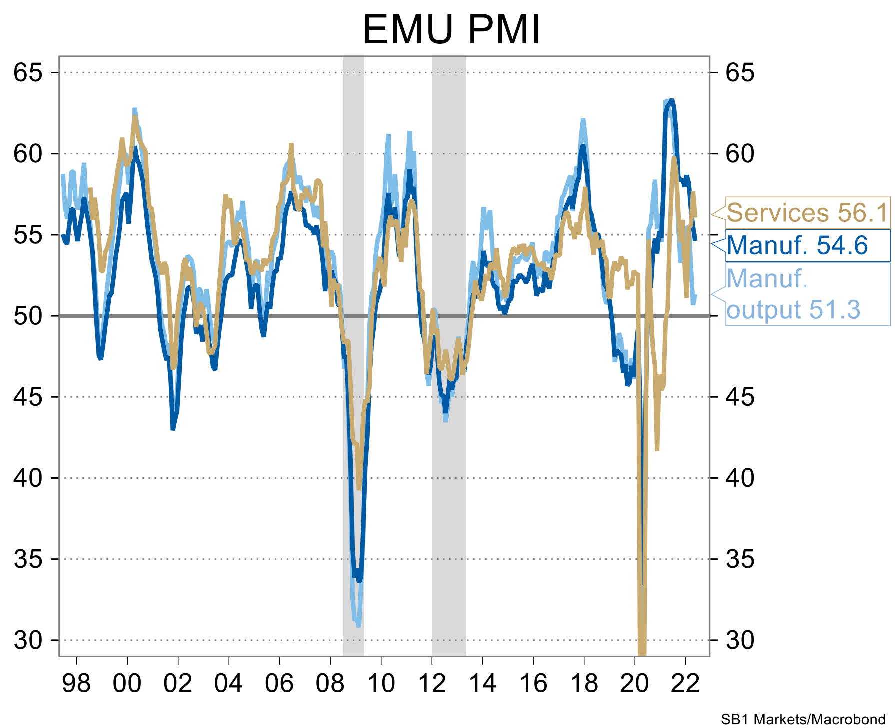


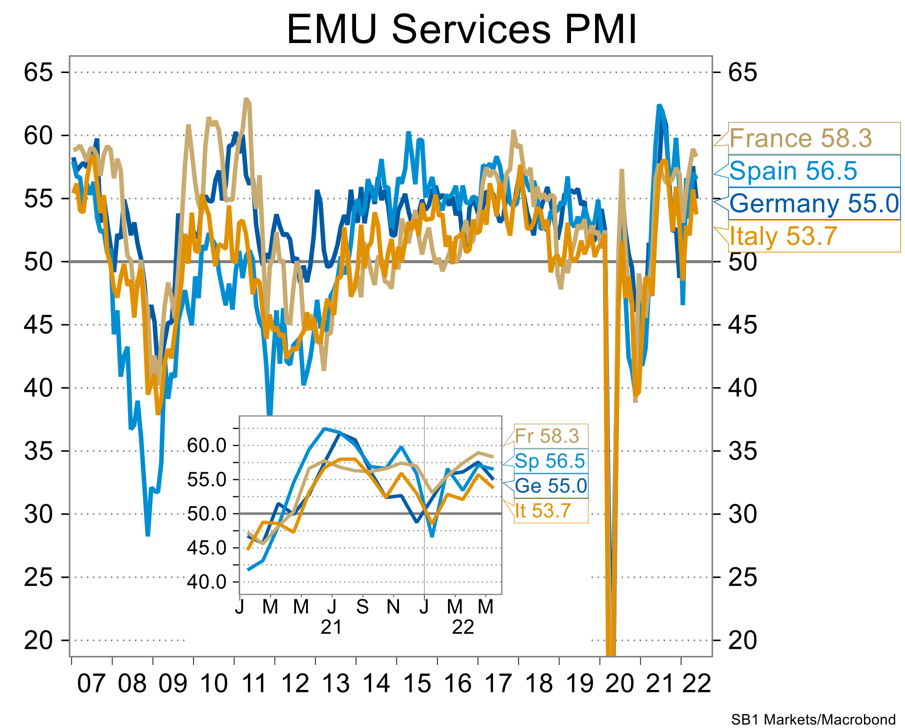
- The EMU PMIs has been stable since the war in Ukraine started. However, the impact of the war in the headline index may be masked by the post-lockdown recovery in services, and a deterioration in the manufacturing sector, especially in the output index
- The **service sector PMI** fell, while the **manufacturing output** index rose – but it remains low, at 51.3
- The downtick in May was broad, just Spain kept the growth up; the 3 others reported slower growth. Italy at the bottom at 52.4

SpareBank 1 MARKETS

Manufacturing report slower growth, services still very upbeat

Manufacturing sector still expanding, but affected by supply-chain disruptions

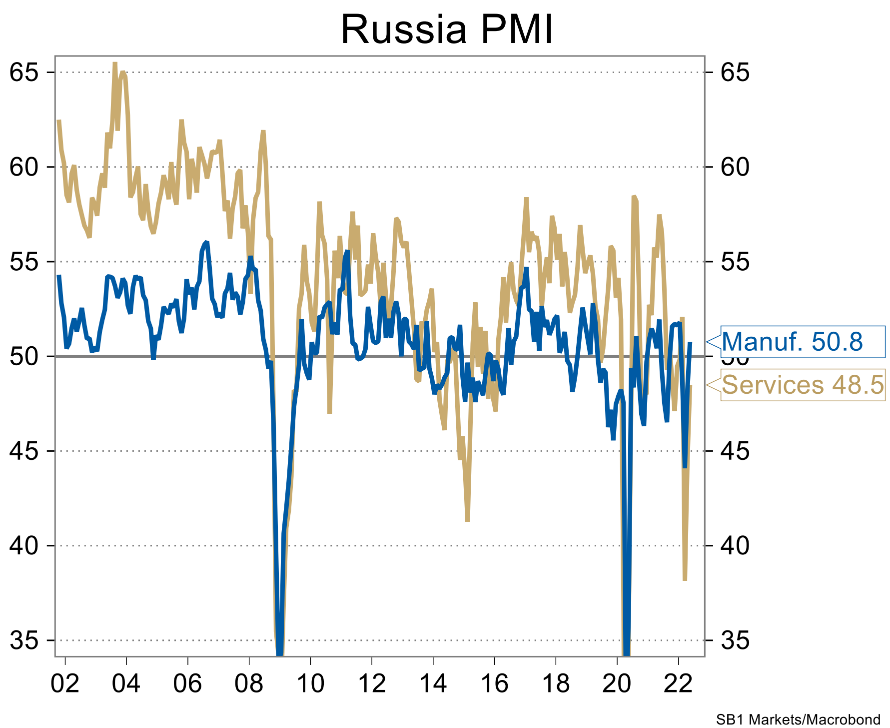


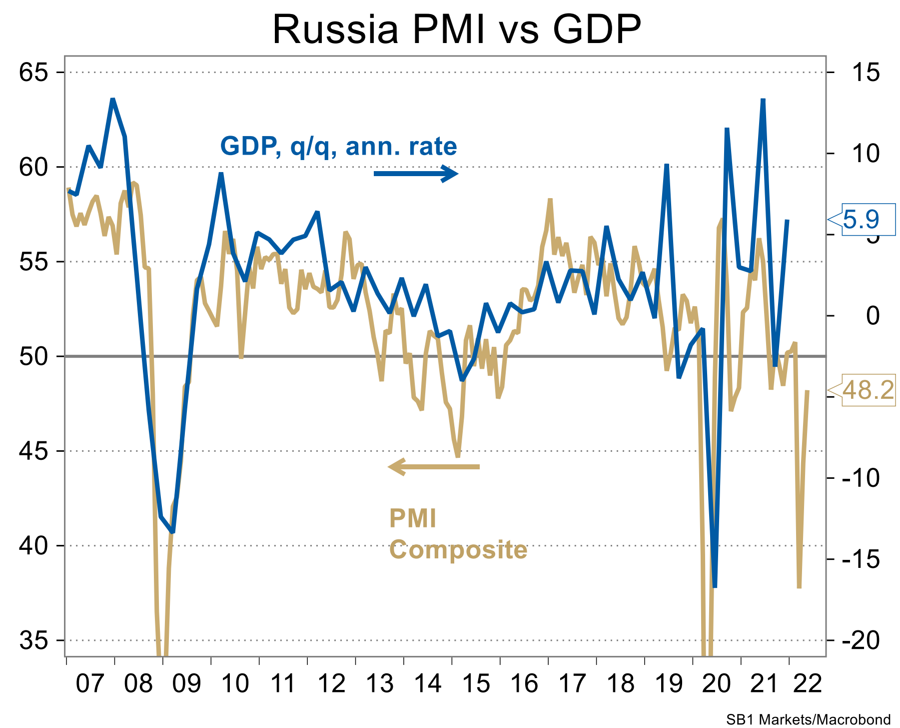


- The EMU **manufacturing PMI** fell by 0.9 p to 54.6 in May. The war in Ukraine, supply-side challenges, rising input prices, and another round of lockdowns in China weigh on sentiment
- The **services PMI** came in at 57.7, in line with the flash estimate and up 2.1 p from March as Covid restrictions were further eased across the EMU

Both manufacturing and services PMIs up, but the composite index still below 50

The composite PMI rose further by 3.8 p to 48.2, signalling a continuing but moderate decline in GDP

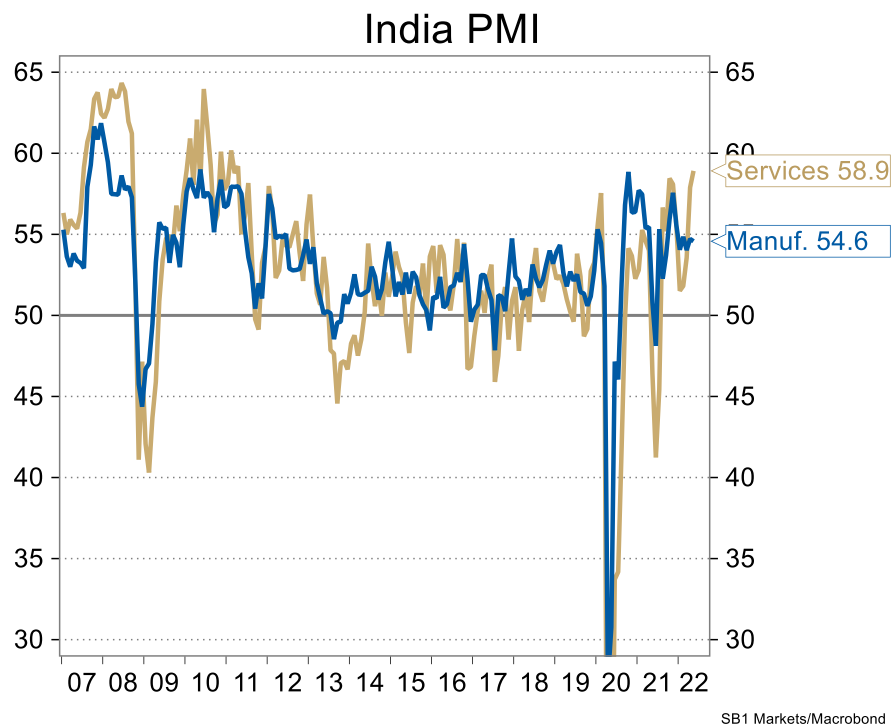


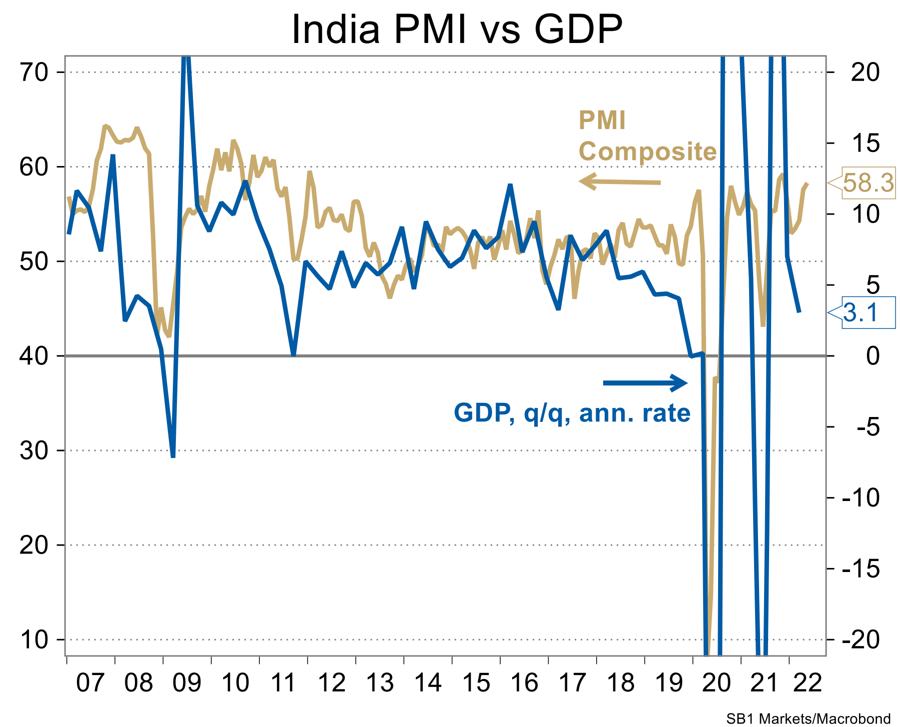


- **The manufacturing PMI crossed he 50 line, following 3 months below. The index rose by 2.5 p to 50.8**
- **The service sector PMI** climbed 4.0 p to 48.3
- **The composite PMI** is still well below an average level, which usually corresponds to a decline in GDP. The correlation is not very impressive though
- **There is of course just one explanation for the setback in the PMIs, problems created by the war and the sanction regime**
- **A reminder:** The PMIs are not sentiment surveys – respondents are asked about in changes in actual activity (new orders, output, employment, inventories) from the previous month

The PMIs up in May, especially in the service sector, very strong growth ahead

The composite PMI gained 0.7 p to 58.3, one of the best prints on record the past 10 years!

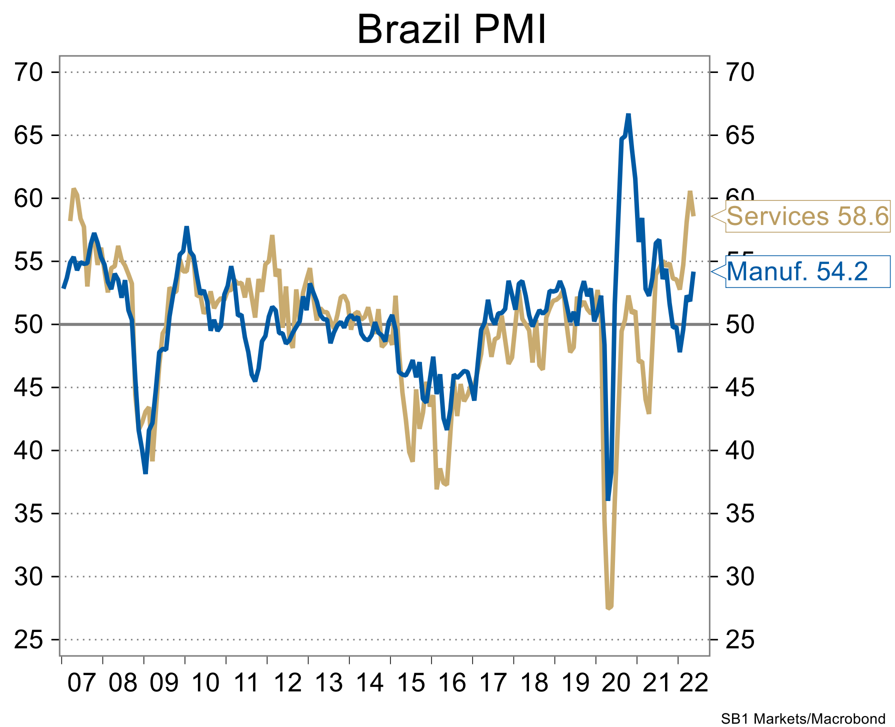


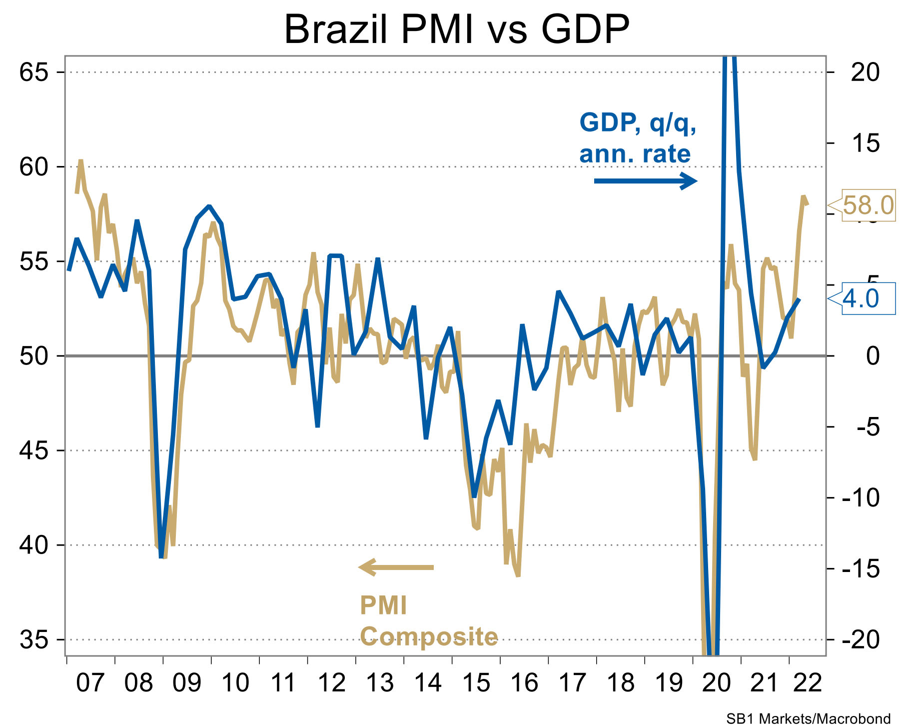


- The service sector report the highest growth since 2011
- In Q1, **Indian GDP growth** slowed to a 3.1% pace, down from 7% in Q4. The PMI signals higher growth in Q2
  - » However, the correlation between the PMIs and GDP is rather weak – and due to the pandemic, growth rates have been all over the place the past 2 years

The service sector PMI slightly down from close to ATH, manuf. further up

The composite index fell by 0.5 pp to 58.0. Very strong growth signalled

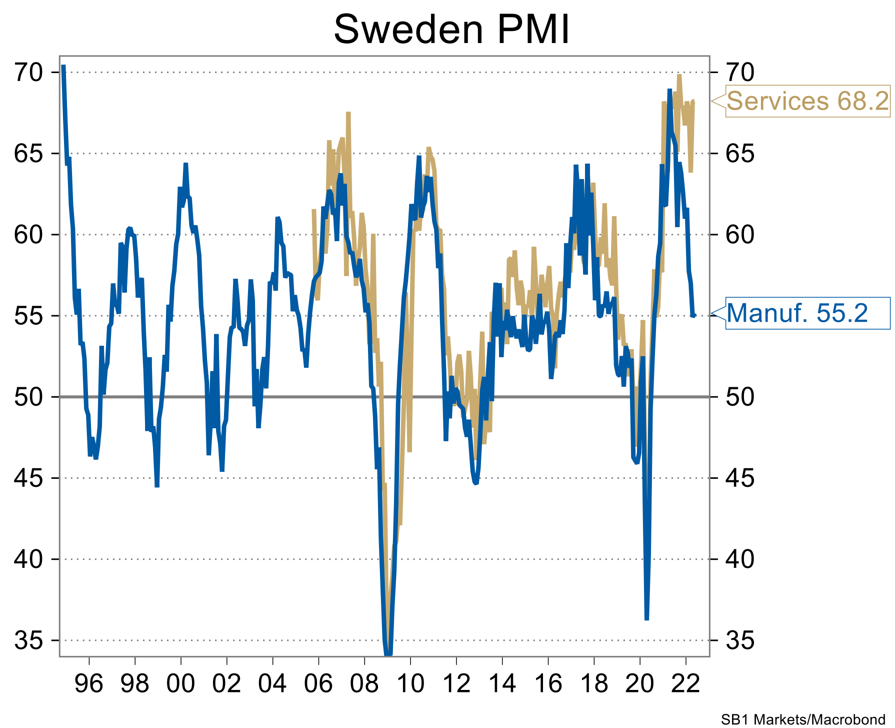


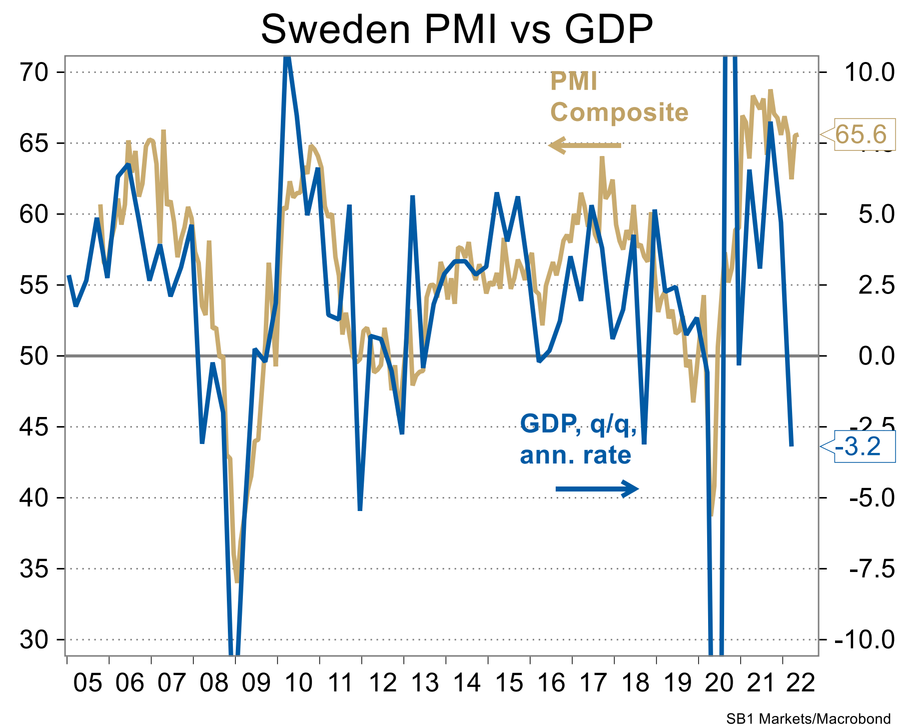


- GDP growth has been weak the previous 3 quarters, as the country has experienced serious covid challenges. A brisk recovery is now under way

Services full steam ahead, the manuf. PMI has slowed but not further in May

The composite index at 65.6 signals 8% GDP growth

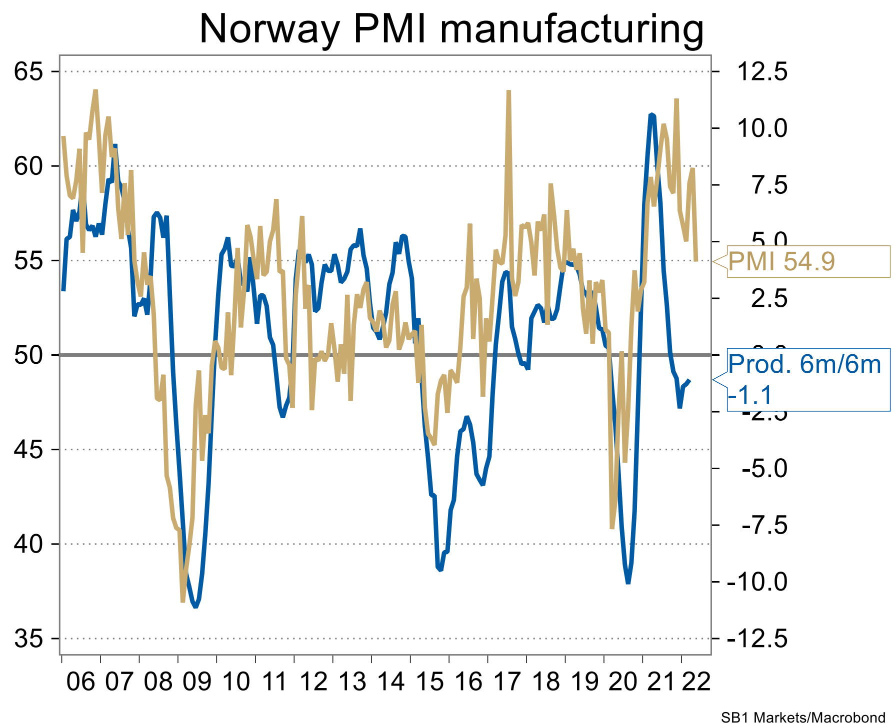


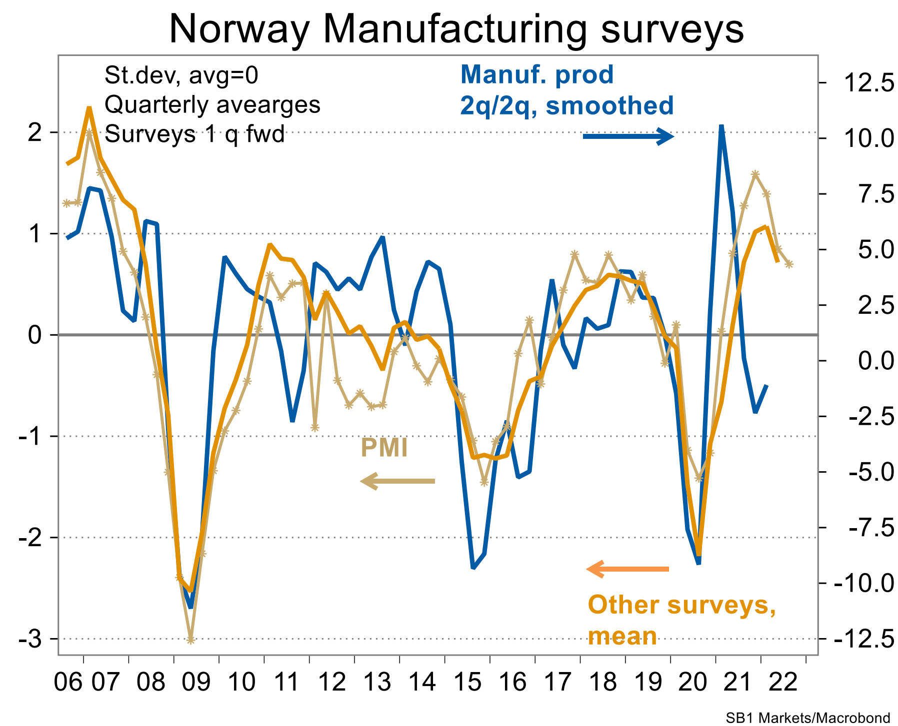


- In Q1, **GDP** fell at a 3.2% pace, due to the Omicron slowdown in some services (which BTW was not captured by the service sector PMI)

The manufacturing PMI down 5.7 p to 54.9 in May

We expected a decline, but just to 58. New orders, production growth slowed sharply, prod. to zero

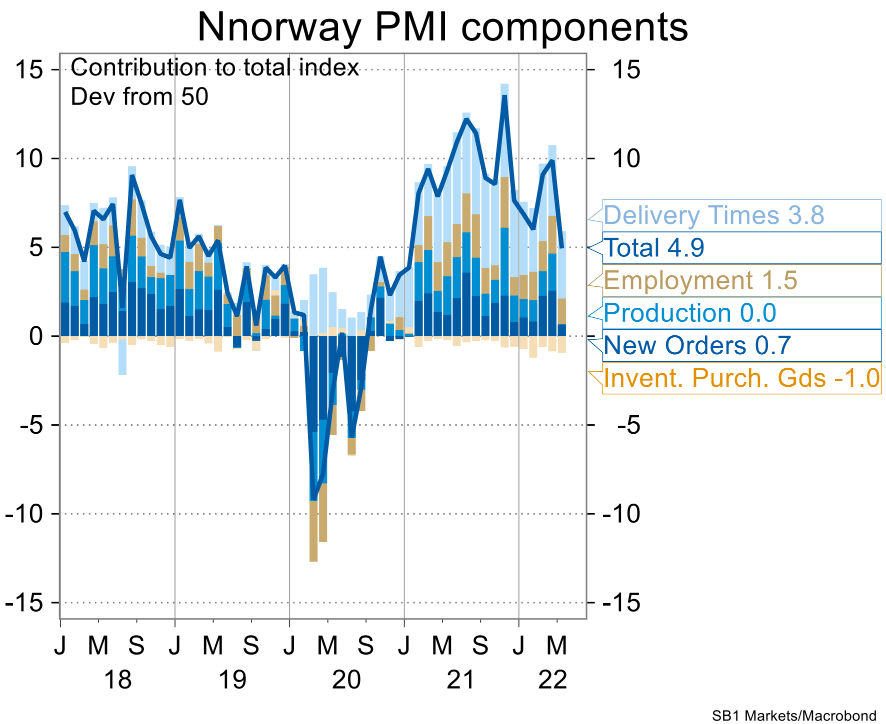


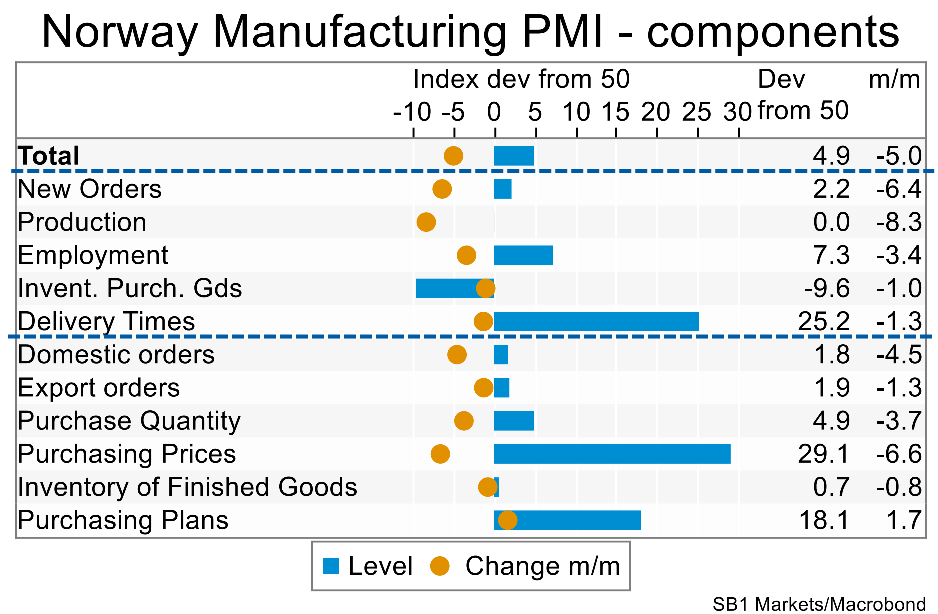


- The **manufacturing PMI index** fell to 54.9 from 59.9, revised down from 60.6. A clear setback, but the manufacturing sector is still expanding. Worth noting is that the production sub-index is now down to par
- Other **manufacturing surveys** are mixed, but SSB's quarterly survey was strong in Q1
- Even if surveys have been reporting growth, **actual production** has fallen slightly since last April

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

The delivery index lifts the PMI by 3.8 p, while production was flat





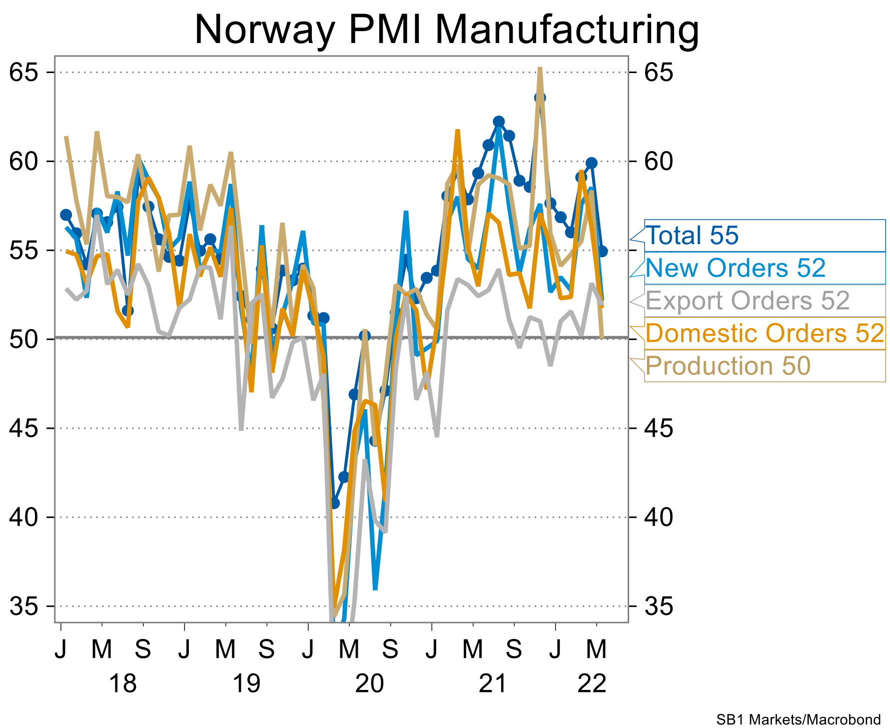
The total index is a weighted average of the first 5 sub-indices

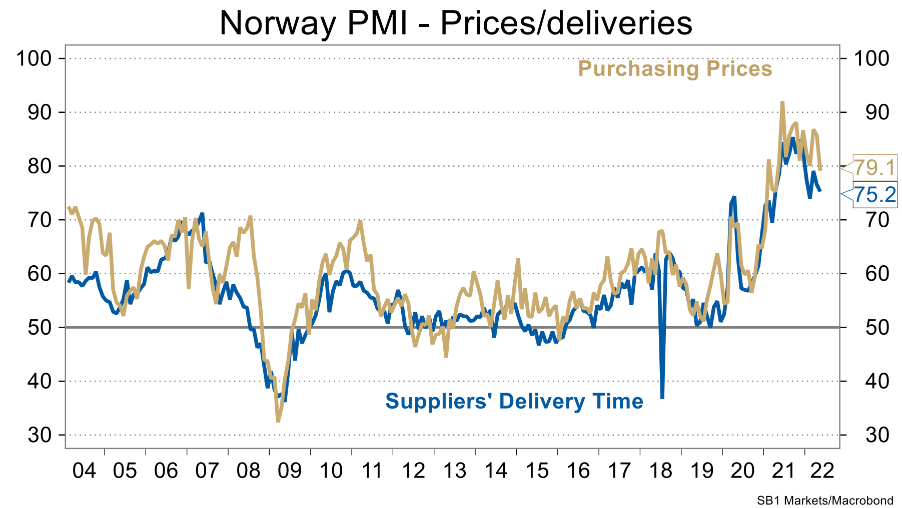
- Normally, the **delivery times index** has not had any significant impact on the total PMI index as the delivery times index has been quite closely correlated other components in the headline index. Now, it makes a substantial difference, by 3.8 p to the total index
- **Prices** are still rising at a fast pace, albeit slower than in January when the index shot up 7.5 p to 88.1! Now, the price index has fallen to 79.2 (of course still an extremely high level

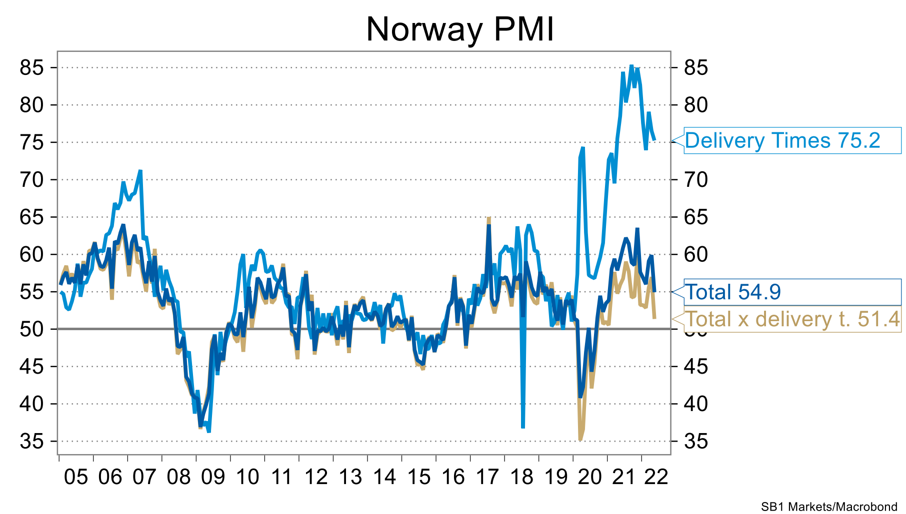
The total PMI index is a weighted index of new orders, production, employment, inventory of purchased goods, and delivery time. The 6 next sub indices at the table to the right are not included in the total index calculus

Production at par in May – while orders are still expanding, but at a slower pace

A total index ex. delivery times fell 4.6 p to 51.4



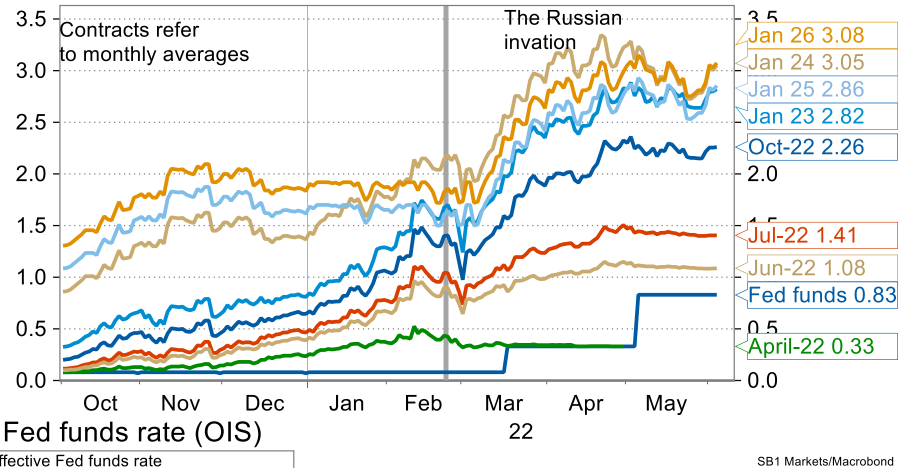


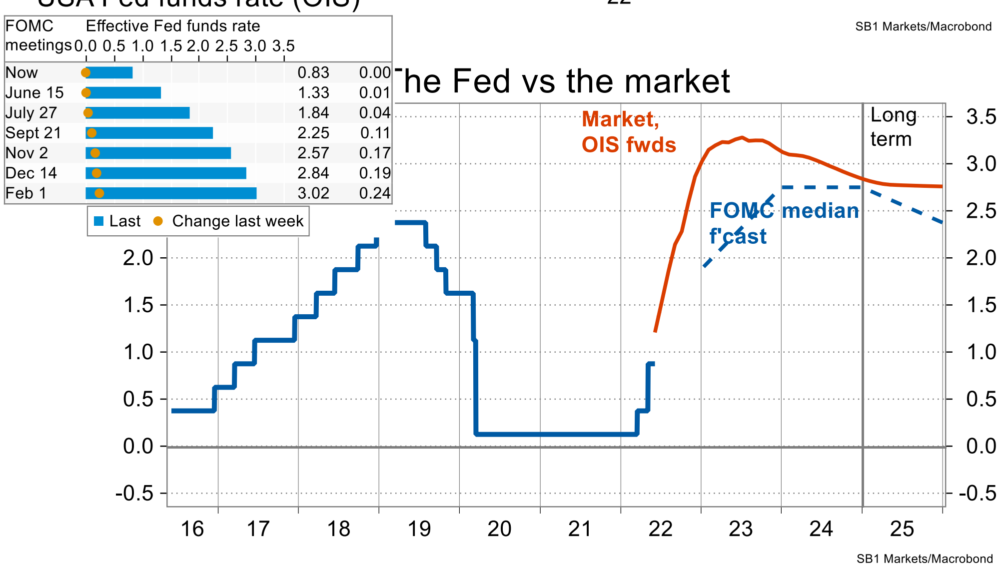


- **Prices** are still rising at a very fast pace

Beige book: Still growth everywhere but some signs of slowdown

Even wage and price inflation may be easing





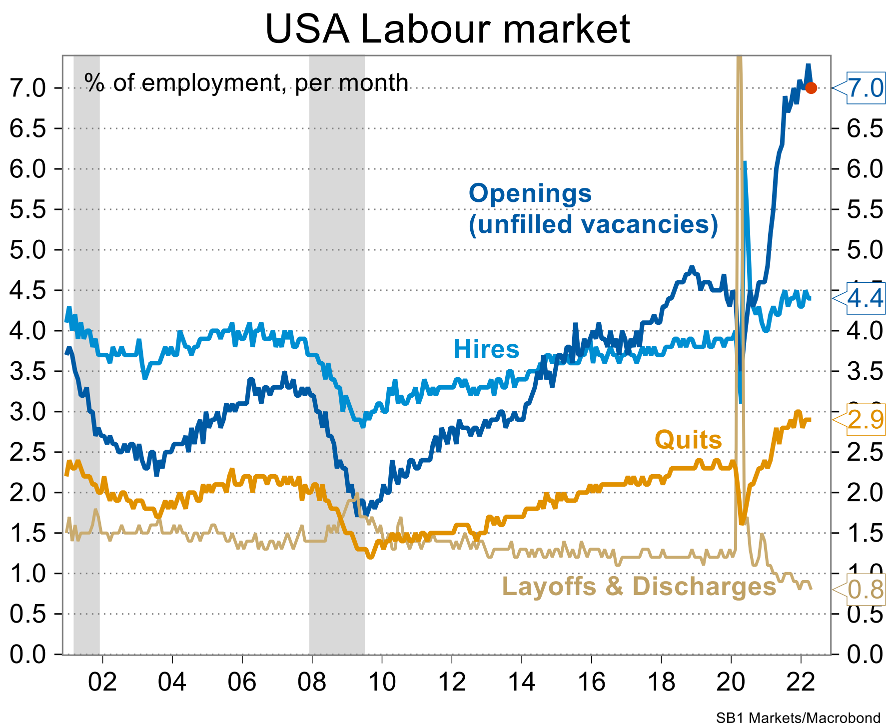
FOMC meetings	Effective Fed funds rate (Last)	Change last week
Now	0.83	0.00
June 15	1.33	0.01
July 27	1.84	0.04
Sept 21	2.25	0.11
Nov 2	2.57	0.17
Dec 14	2.84	0.19
Feb 1	3.02	0.24

- **Fed's Beige book**, its 'Reginal Network', continue to report slight/modest/moderate growth but 4 out of 12 regions states that growth had slowed since the previous report (6 weeks ago. Respondents in 8 districts expected growth to slow further, and respondents in 3 districts referred to the possibility of a recession
- Retail sales are slowing somewhat due to high prices (and we assume due to spending diverted to services) and residential real estate demand is dampened due to high prices and higher mortgage rates (which was not mentioned 6 weeks ago!). However, manufacturing production is still growing
- The main challenges: Lack of labour, supply chain backlogs and the impact of higher interest rates
- The labour market is still tight but one district reported slower employment growth, and some companies have announces hiring freezes. Majority of districts report strong wage growth, the others moderate. However, some report that wage inflation is levelling off edging down
- All districts are still reporting strong or robust price increases, especially input prices. Even so, 3 districts reported somewhat lower prices increases for their own products but companies in general had pricing power
- **What we are looking for now**: Impacts of tighter financial conditions, like on the housing market or signs of lower wage/price inflation. There are some indications in this beige book - but far from preventing the Fed from hiking rates sharply the coming meetings. If the Fed does not hike, financial conditions would ease 'too early'
- 50 bps 'double' hikes in June and late July are done deals, according to markets. A 3rd 50 bps hike in September has a 60% probability (and 40% for a 25 'single' hike)

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

The vacancy rate a down in April, still higher than expected

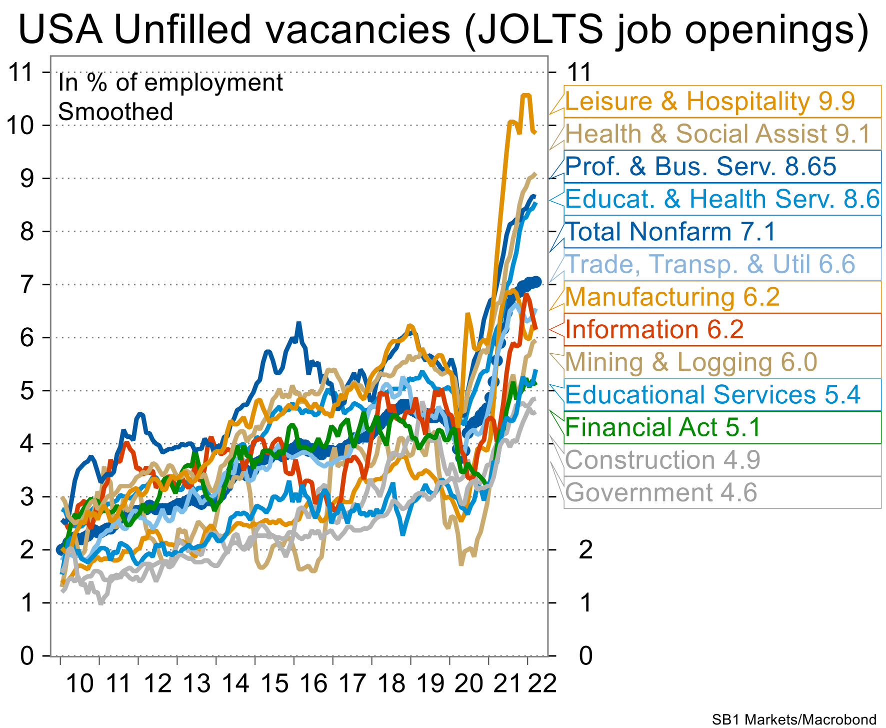
‘Nobody’ is laid off. The labour market is still extremely tight

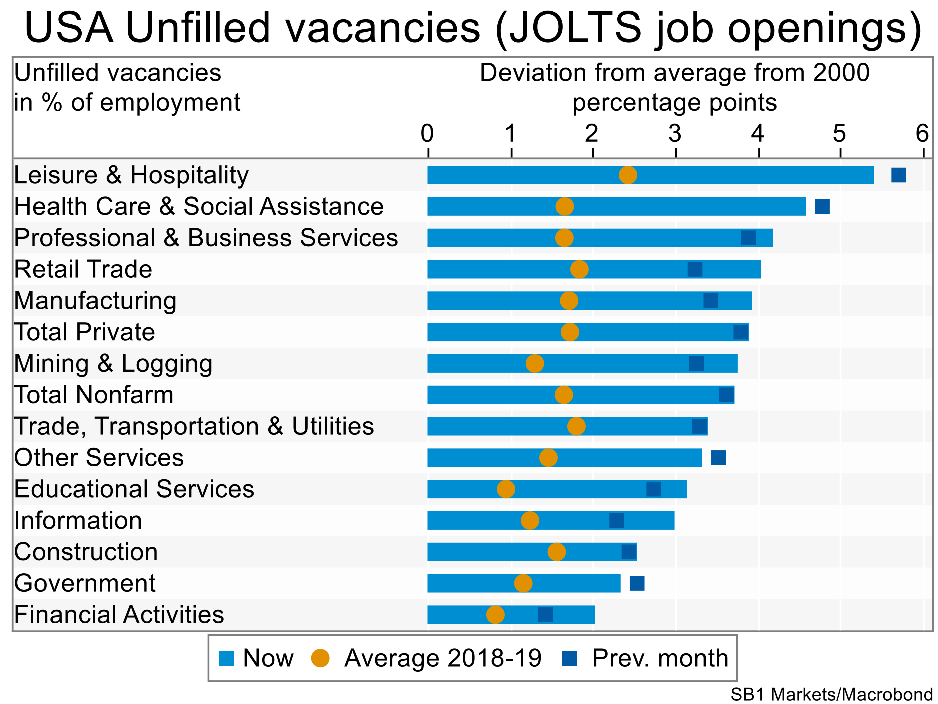


- The number of **unfilled vacancies** declined 0.5 mill to 11.4 mill in April from 11.9 mill in March, expected down to 10.35 mill from previously reported 11.6 mill. The rate fell 0.3 p to 7.0%, from previously reported 7.1% in March. Recent months the no. of unfilled vacances have been revised upwards
  - » The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit
- **The SMBs (NFIB survey)** reported an increase in the share of companies that were not able to fill positions in May, up to touch the ATH from last September – which does not signal a less tight labour market. These two series are very closely correlated – and both have been at levels never seen before since early last year
- **New hires** was unchanged at 6.6 mill, equalling 4.4% of the employment level (unch. from March, just marginally below ATH). The trend is completely flat
- The number of **voluntary quits** was unch. at 4.5 mill, equalling 3% of the labour force, not far below ATH from last November. As with unfilled vacancies, quits are closely correlated to wage inflation – for obvious reasons
- **Layoffs** fell back to record low, 0.8% of the labour force
- **In sum:** The report data confirms an extreme tight labour market – NO SIGNAL OF ANY EASING IN DEMAND OR OF STRONGER SUPPLY

All sectors are reporting more vacancies than before the pandemic

Most sectors are still trending upwards. Leisure may have peaked, with 10% unfilled vacancies!

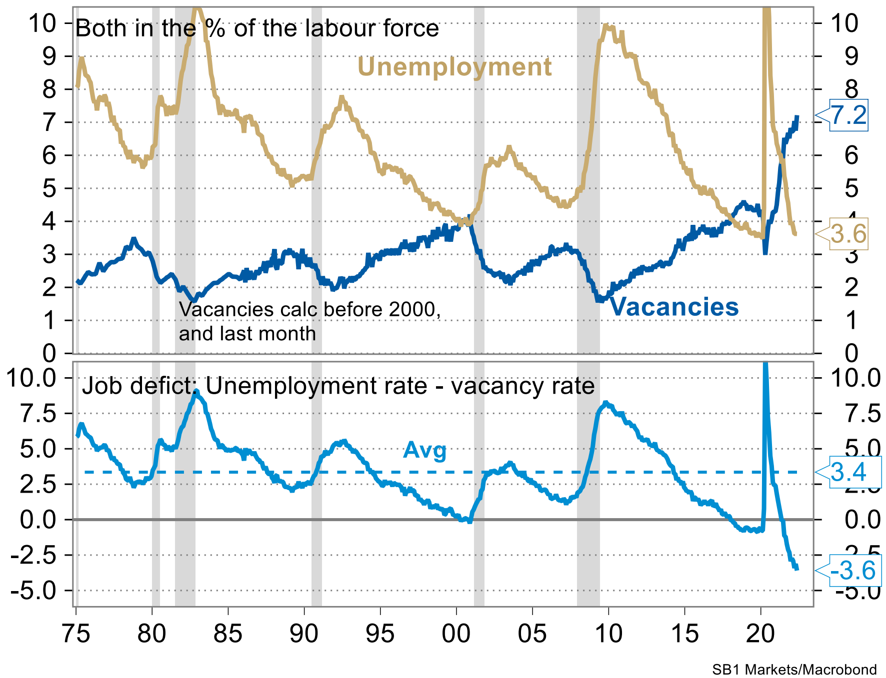




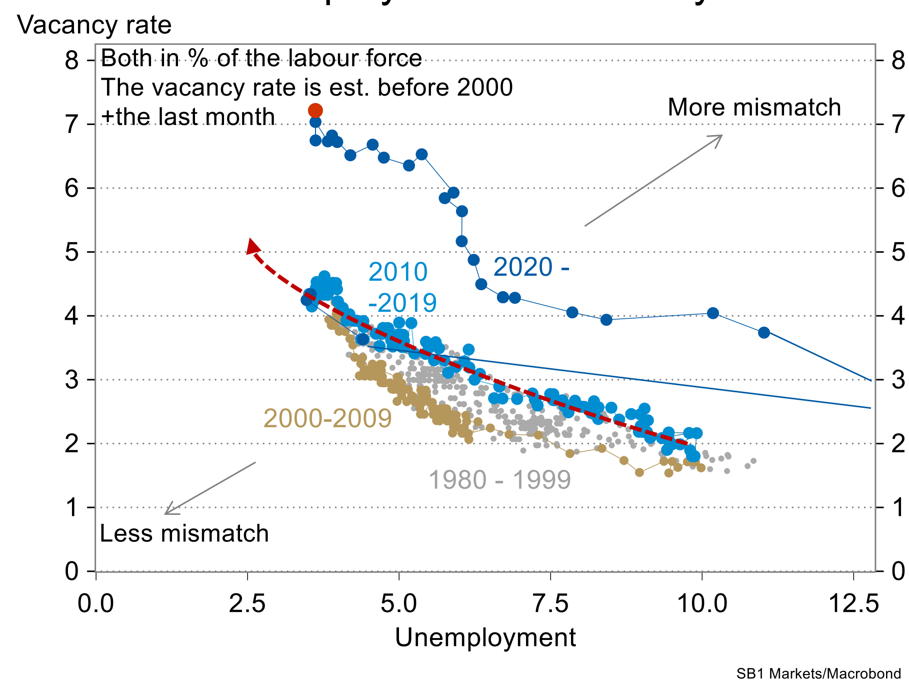
An unprecedented tight labour market – and still a large mismatch

5.9 mill were unemployed in April, and at the same time there were 11.4 mill unfilled job openings!

USA Labour market



USA Unemployment vs vacancy rates

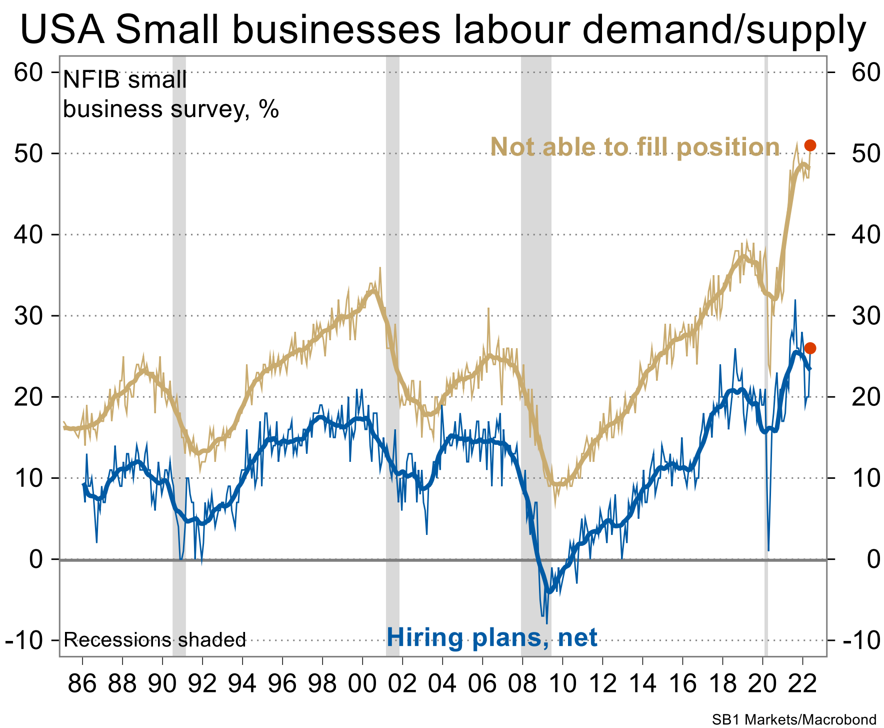


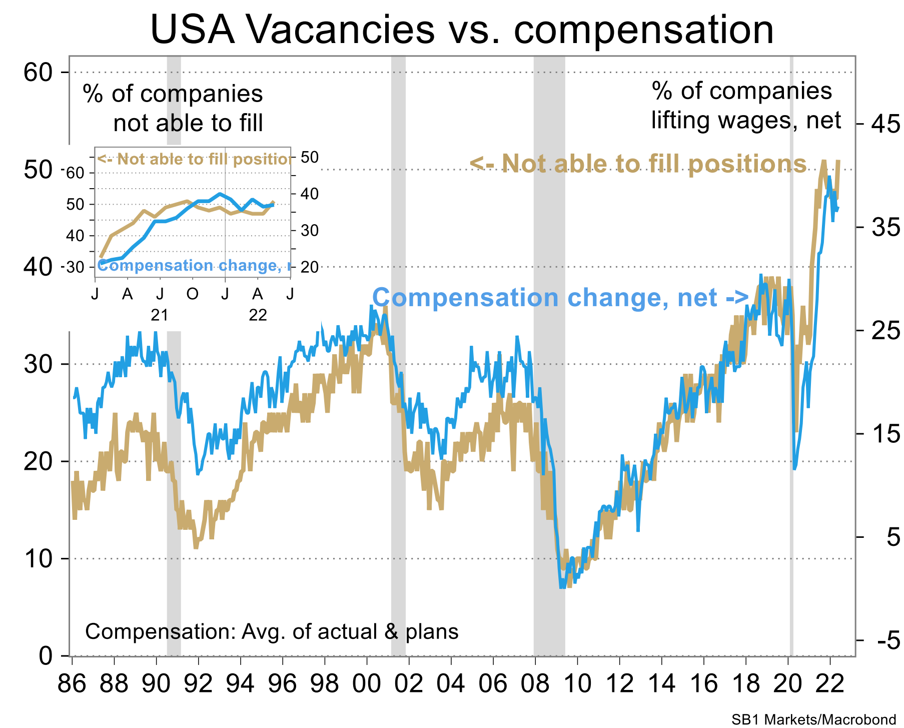
- **The Unemployment - Vacancy-curve** (UV, Beveridge curve) is still moving in the north-west direction, also signalling a gradually tighter labour market. The only silver lining may be that unemployment is falling faster than the vacancy rate increases, signalling that the mismatch in the labour market may be easing somewhat – it is just tighter than ever before
- Powell's bet for a soft landing is that the vacancy rate may decline to a normal level without pushing the unemployment up. It has never happened before

SpareBank 1 MARKETS

More SMEs report more trouble filling positions in May, back to ATH at 51%

A very high share of companies report plans to lift compensation too, marg. up from April

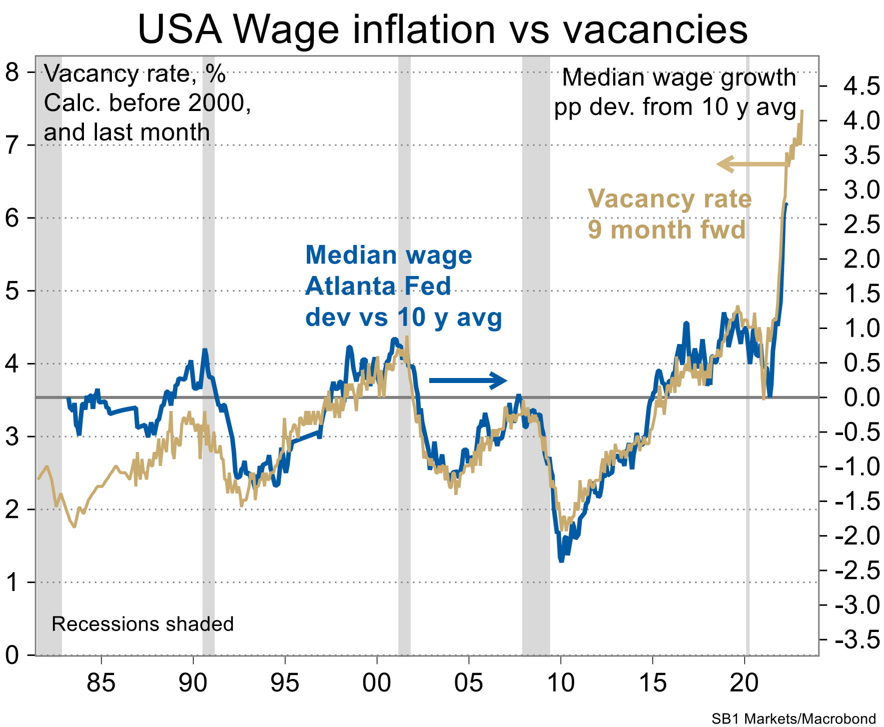


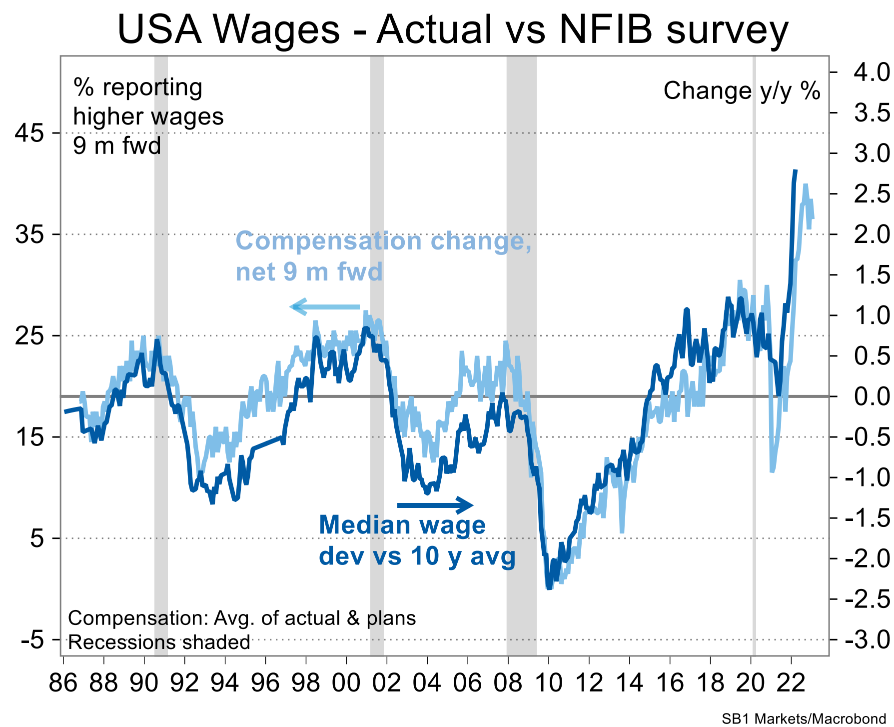


- **SMB's hiring plans** rose further in May, and the share is not far below ATH last November
- 36% of companies report that they **plan to lift compensation** in the coming months, unchanged from March. The peak was at 39% in last December. Before that, the ATH was at 27%, while the average – signalling no acceleration in wage growth, is at some 20%

There seems to be some connections here?

The correlation between the vacancy rate and changes in median wage growth is <u>extremely</u> tight

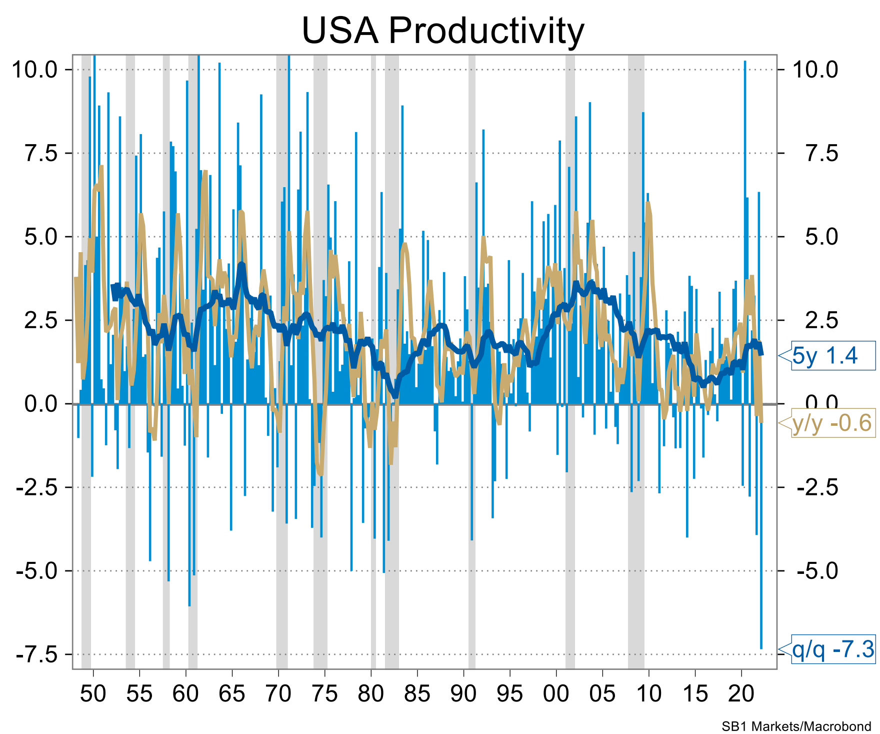


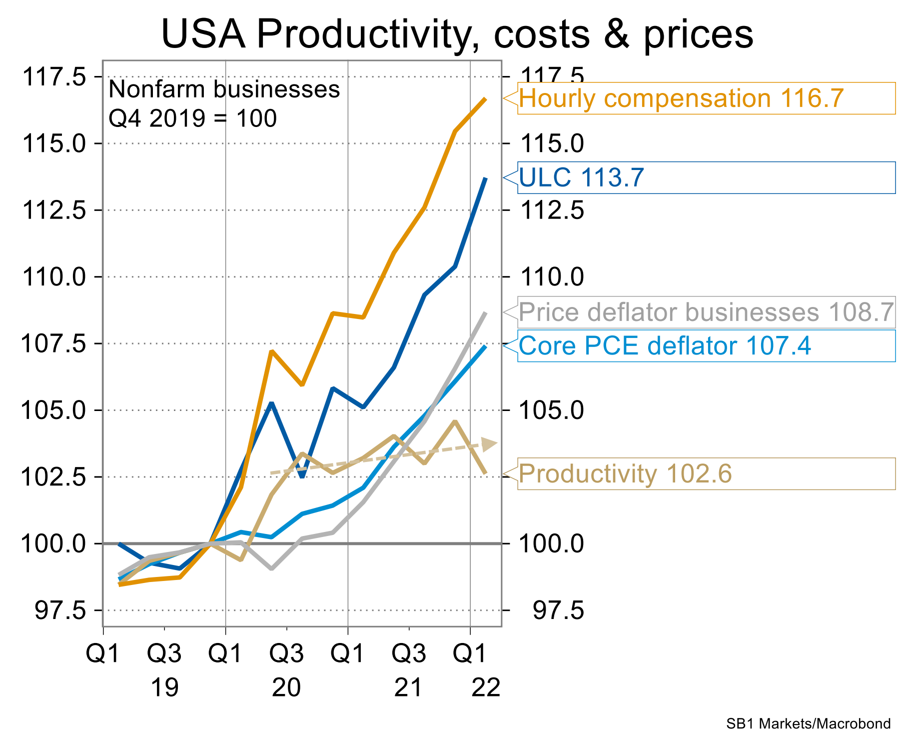


- Our 'Phillips curve' based in the vacancy rate signal a further increase in wage inflation the coming quarters, as the vacancy rate leads changes in wage inflation quite consistently by 3 quarters
- Companies (SMEs) compensation plans (see the previous page) signal continued high wage inflation but not faster than the current
- Wage inflation has already accelerated by 2.5 – 3 pp vs the 10 y average (Atlanta Fed median) and cannot possibly generate a 2% price inflation rate over time. <u>This is Fed's main headache. And it will become the stock owners' headache too, of course, if their companies should not be able to increase their selling prices at almost a double digit pace</u>
- **Demand for labour has to be reduced sharply in order to get wage inflation beck to a sustainable level!**
- <u>Check under which circumstances wage inflation slows on the charts above (hint: find the shaded areas, follow the wage line - as well as the vacancy rate or the wage hike plans ☺)</u>

Labour cost inflation revised upwards, unit labour costs are exploding

As growth in productivity is far from reassuring (but the 7.3% drop in Q1 is a 'silly' ATL outlier)

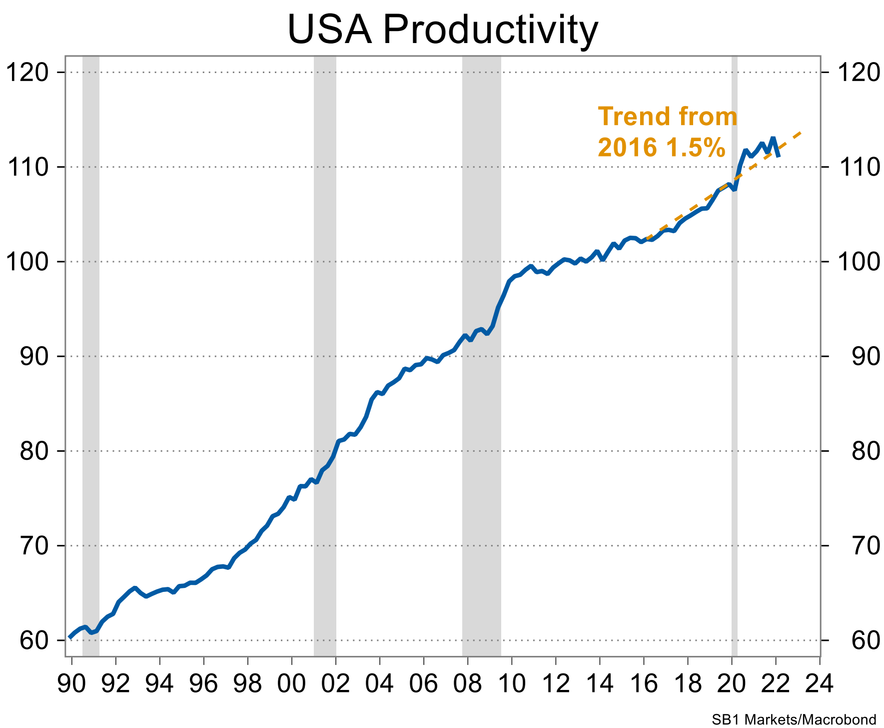


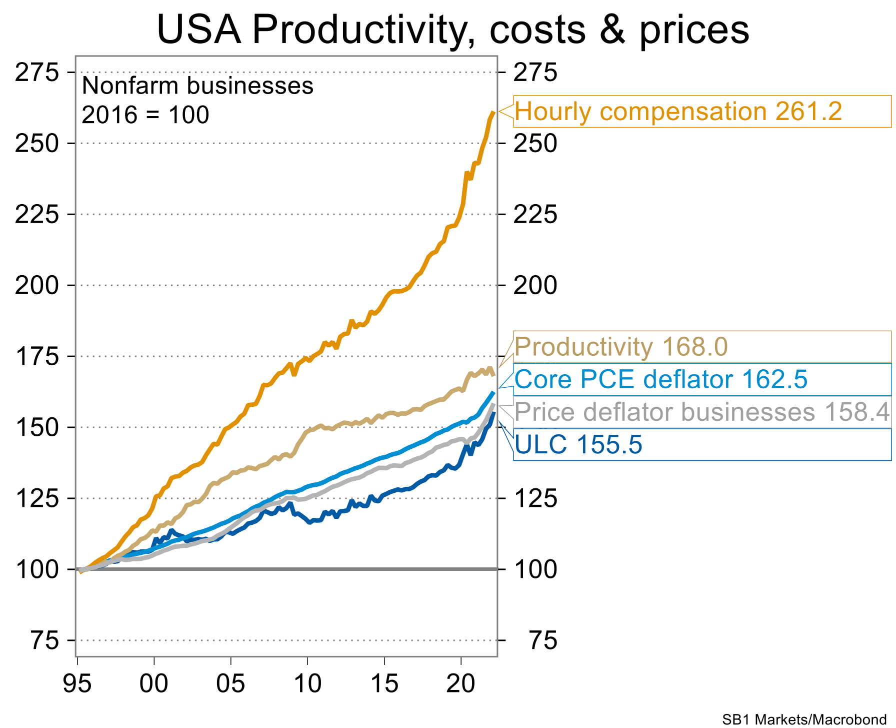


- **Productivity data** are still all over the place measured q/q – and Q1 was rather special – but so was probably the uptick in Q4. The trend is not impressive. The underlying growth pace since 2019 is below 2%
- **Hourly compensation (wages ++)** grew at just a 4.4% pace in Q1 (up from initially reported 3.2%), and the annual rate accelerated to 7.6%, up from the estimated 6.5%. Since Q4-19 hourly compensation has grown at a 7.1% pace, WAY above the pre-pandemic level
- **Unit labour costs** (hourly compensation – productivity) grew by 12.6% in Q1 (up from the first estimate at 11.6%) up 8.2 y/y, the highest since 1982. Since Q4-19, ULC has grown at a 5.9% pace, far above a normal level – which of course is totally incompatible vs the 2% inflation target, given the normal growth in productivity we still have around us! (the underlying trend is up less than 5.9% but anyway well above a sustainable level)

No impressive lift in productivity during the pandemic

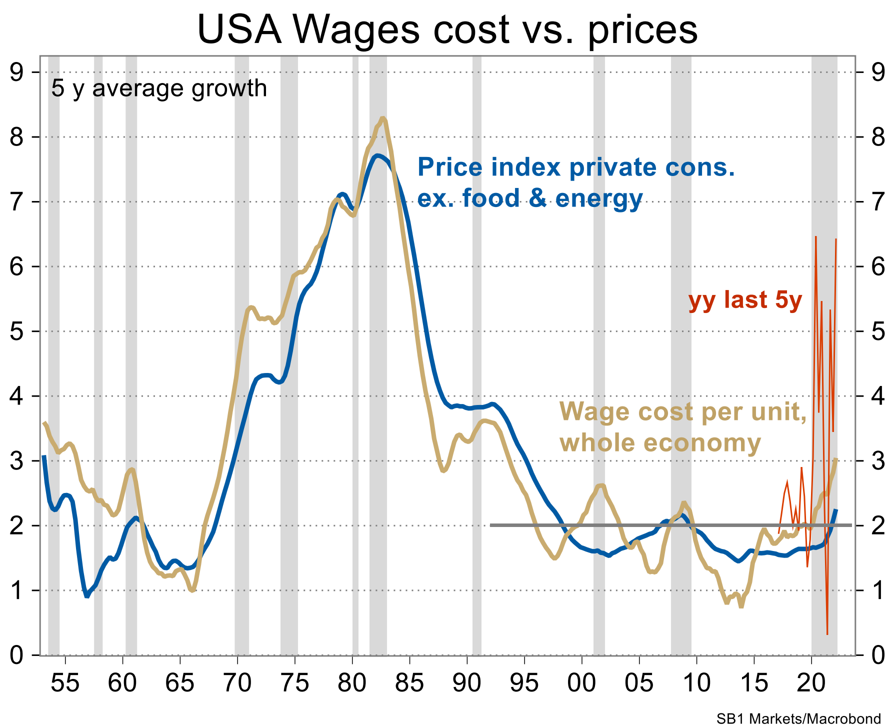
However, a quite impressive lift in hourly compensation… As in costs & inflation

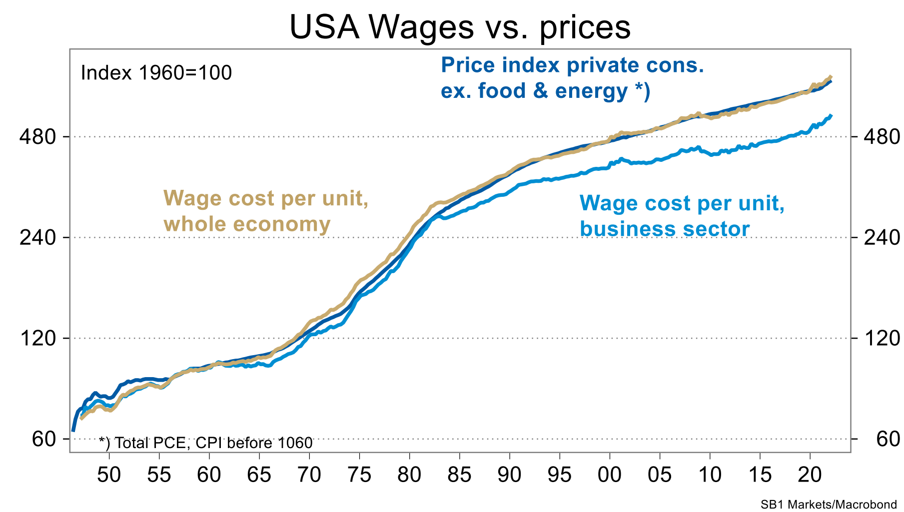


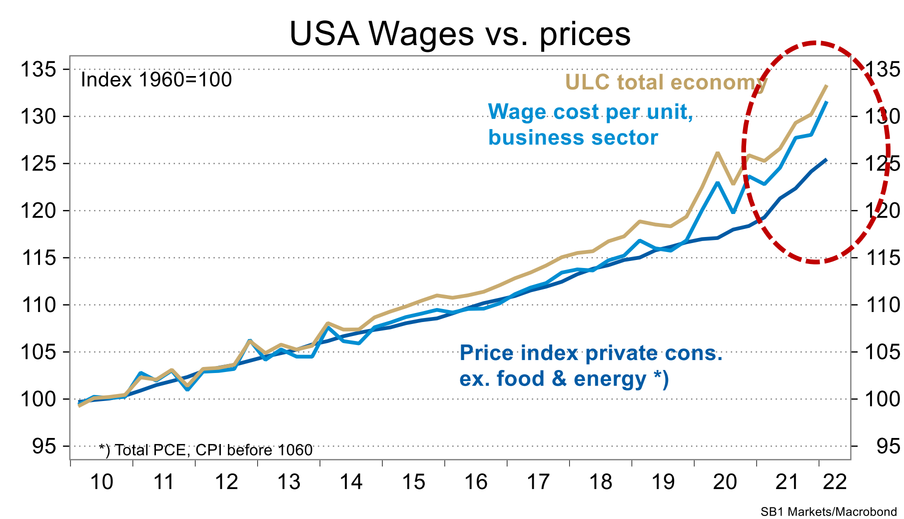


Wage inflation is the main risk, not raw materials/energy/corp. margins

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



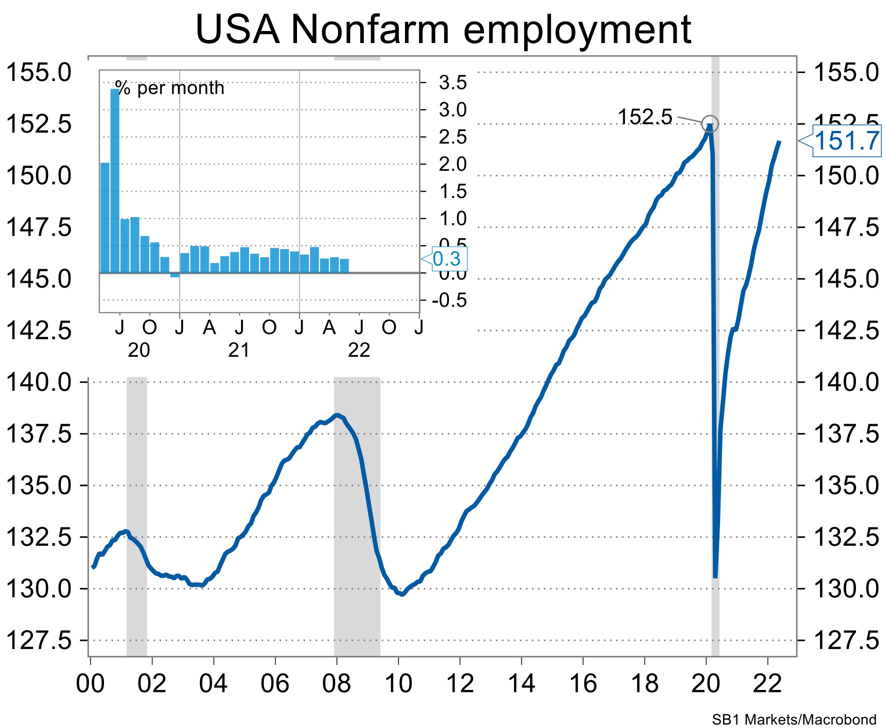


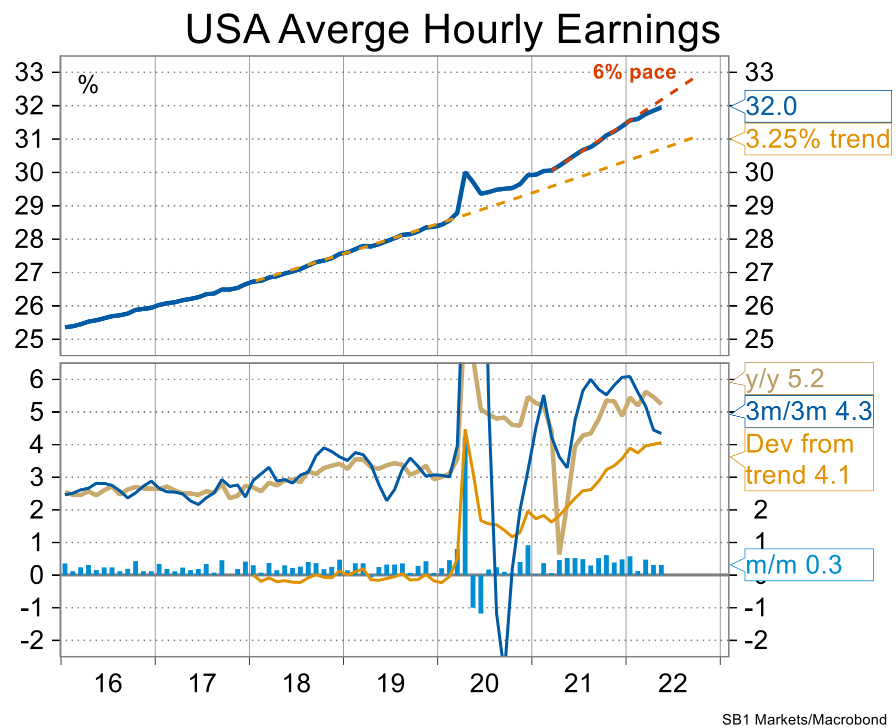


- Costs have climbed faster than core prices since <u>before</u> the pandemic

Stable growth in employment, wage inflation has slowed somewhat!

Both labour force & unemployment rates remain well below pre-pandemic levels

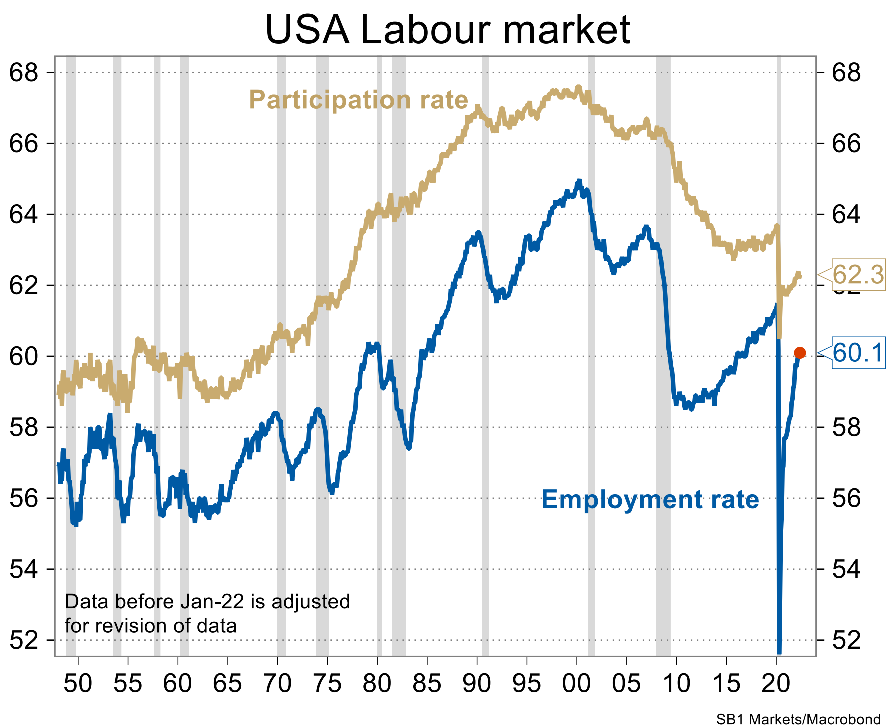


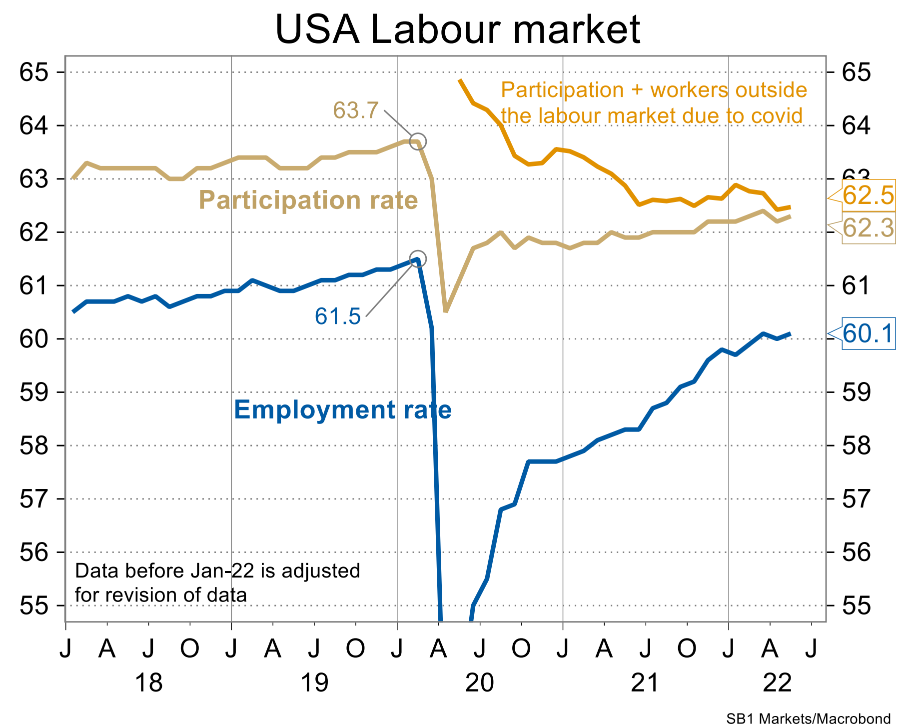


- **Nonfarm payrolls** rose by 390’ in May, marginally slower than in April, and 70’ above expectations. Payrolls are still down 0.8 mill vs. Feb-20 or by 0.5%. The LFS employment gained 323’, and the employment rate recovered the 0.1 pp loss from April
- **The participation rate** rose 0.1 p to 62.3%, as expected following the 0.2 p drop in April. The trend is still probably up, but remarkably slowly vs. the still brisk demand for labour. Very few now states Covid as a reason for not working/searching work (0.2%)
- **The unemployment rate** was stable at 3.6%, and once again 0.1 pp higher than expected. The rate still just 0.1 pp above Fed’s estimate end of ‘22 estimate – and 0.4 pp below Fed’s estimate of the long term NAIRU. In April, the unfilled vacancies equalled 6.7% of the labour force (7.0% of employment)
- **Wage inflation is slowing: The average wage** rose 0.3%, 0.1 pp less than expected, and the 3m/3m rate has fallen to 4.3% from 6% in January. The annual rate fell 0.3 pp to 5.2%, as expected, still up from 3¼% before the pandemic – and still not compatible with 2% CPI inflation over time
- **Maximum employment:** Even if the participation may be trending slowly up, the supply side is obviously the bottleneck at the labour market. For the time being, maximum employment is reached – and wage inflation is well above a sustainable level

The participation rate up in May, still below the March level

... and it remains low vs. the pre-pandemic level. Very few Covid-related outsiders left

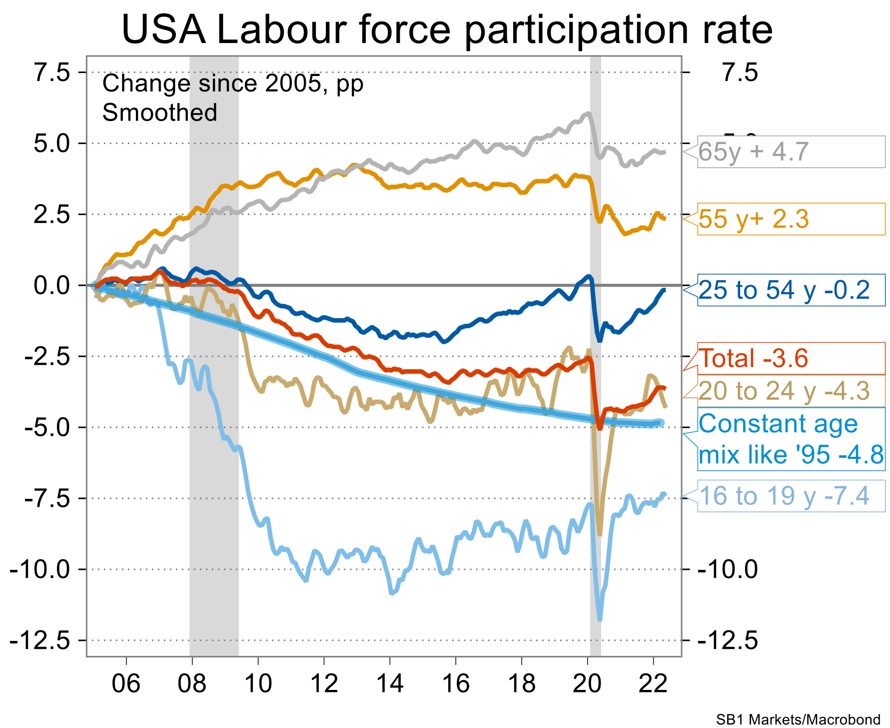


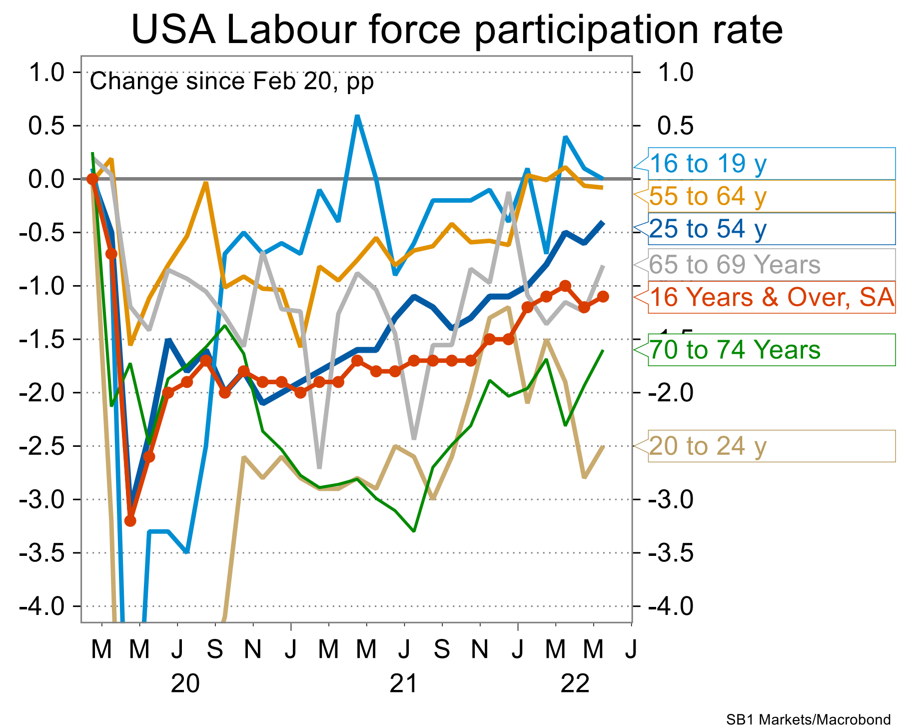


- In May, **the labour force participation rate** recovered half of the 0.2 pp April loss, and rose to 62.3% (of the working age population, 16 y +), as expected. The trend is slightly positive but not impressive given the increase in the employment rate
  - » The participation rate is down 1.4 pp vs the pre pandemic level, equalling 2.2% or 3.6 mill persons
  - » The ‘covid outsider rate’ has fallen by 0.9 pp to just 0.2% the past 12 months, while the participation rate has increased just 0.4 pp. This indicates that the reservoir of available labour supply is very limited
- **The employment rate** gained 0.1 pp to 60.1%. Growth has slowed since late last year LFS employment rose 321’, following 353’ drop in April. The employment rate is down 1.4 pp vs. Feb 20, equalling 2.3% or 3.7 mill persons. Over time, the payrolls stats and the LFS report the same growth rates, but they may differ substantially from month to month.

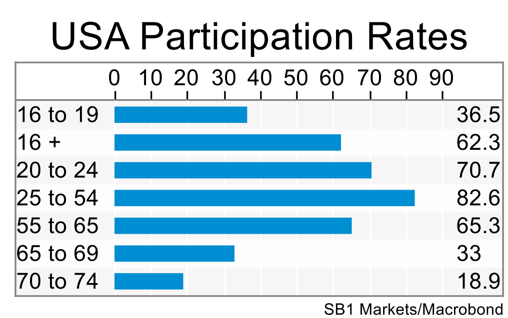
Participation rates: Core age groups soon back to pre-Covid & pre-GFC levels

Thus, the core reserve may be declining rapidly. The really old >64 seem hard to get back



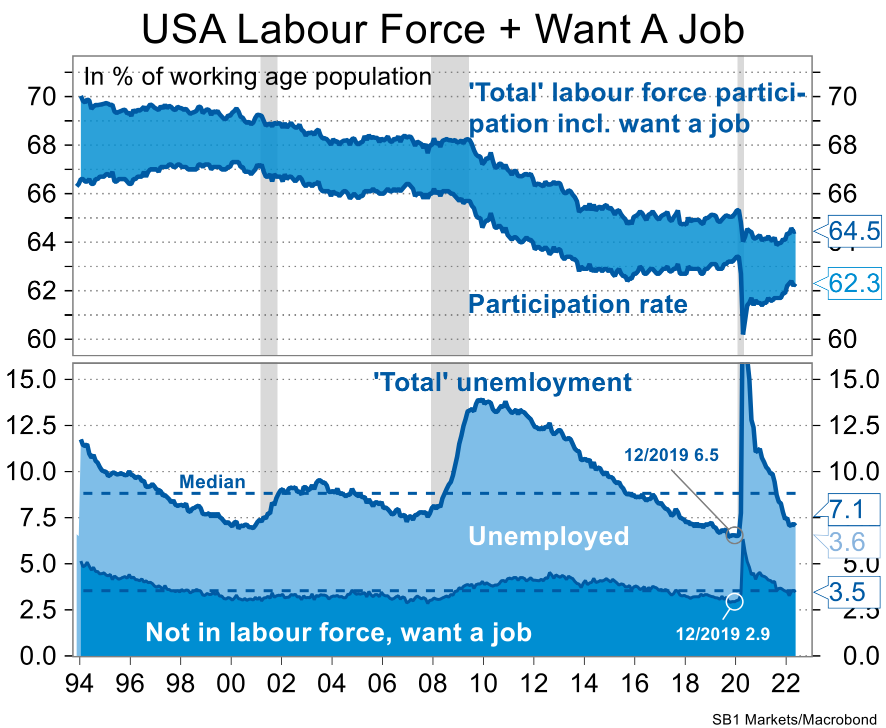


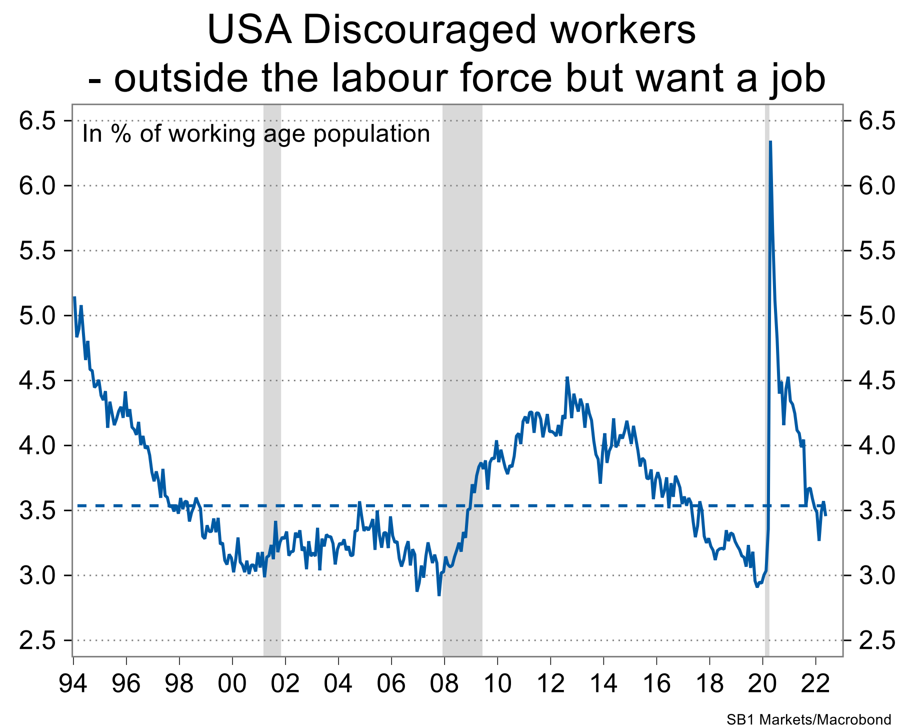
- The participation rate among the 25 – 64 y group is now almost back to the level from before the pandemic. The 20 – 24 y group remains well below. The 65+ group is still below the early 2020 level
- As the US population is aging, and a decline in the average participation rate <u>over time</u> is no surprise. The chart above illustrates the impact. The thick light blue line illustrates the participation rate if each group kept their participation rate at the 2005 level. The decline is due to the larger old cohorts



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

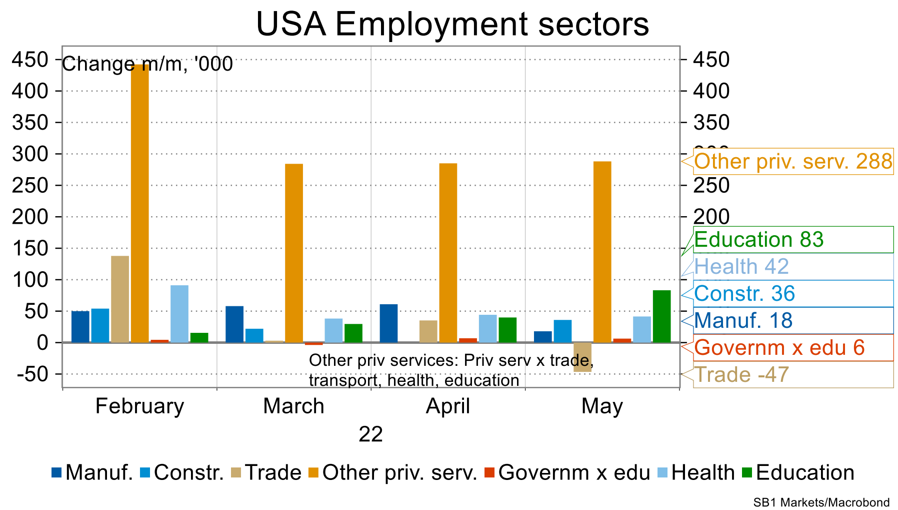
These outsiders equal 3.6% of the labour force, which is at the historical average

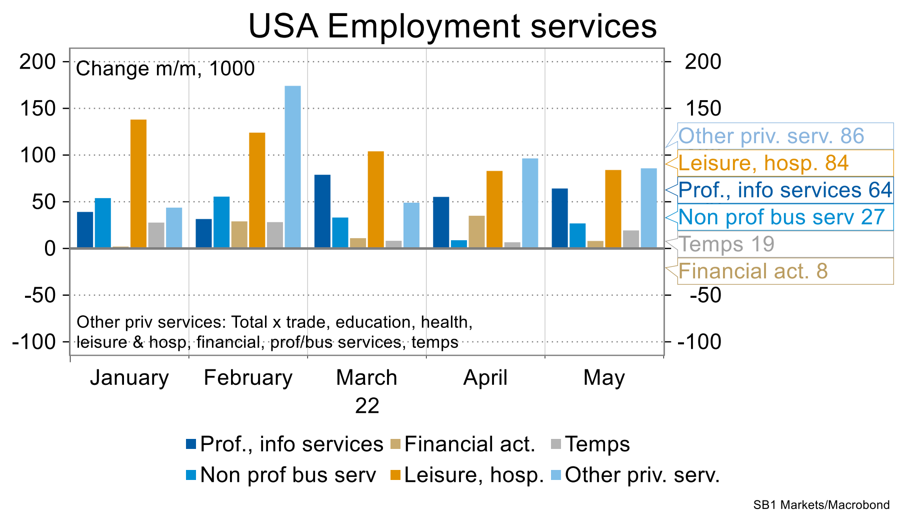




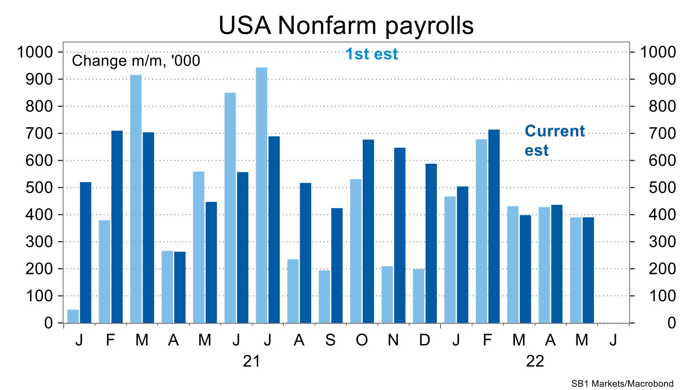
- Normally, the ‘discouraged workers’ rate is lower than average in booming times – and it ‘should’ have been below average. Those who sat they cannot work due covid now constitutes just a small fraction of the 3.6% rate

In May: Steady growth in most sectors

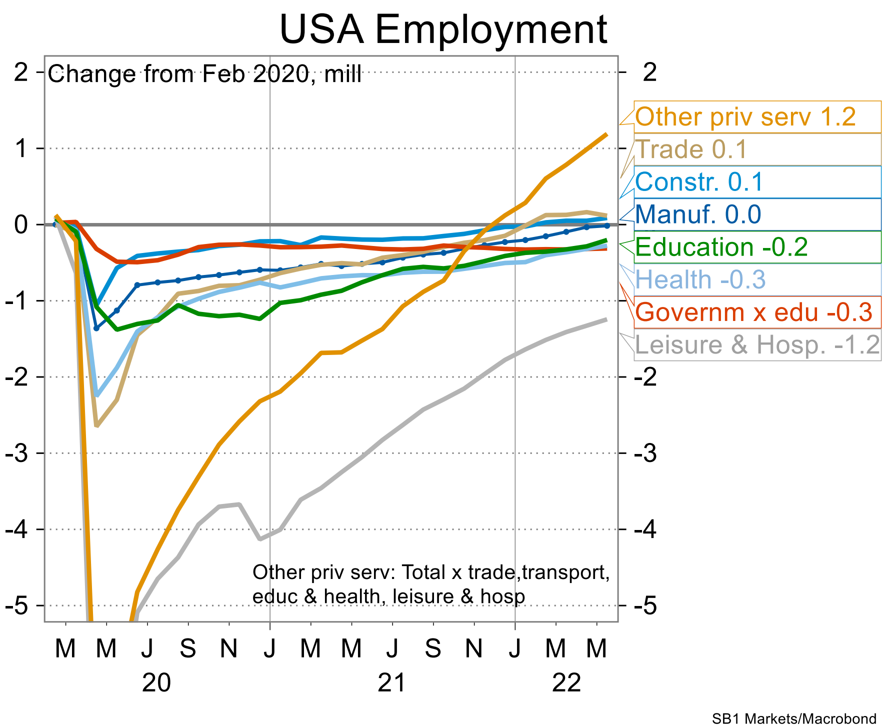


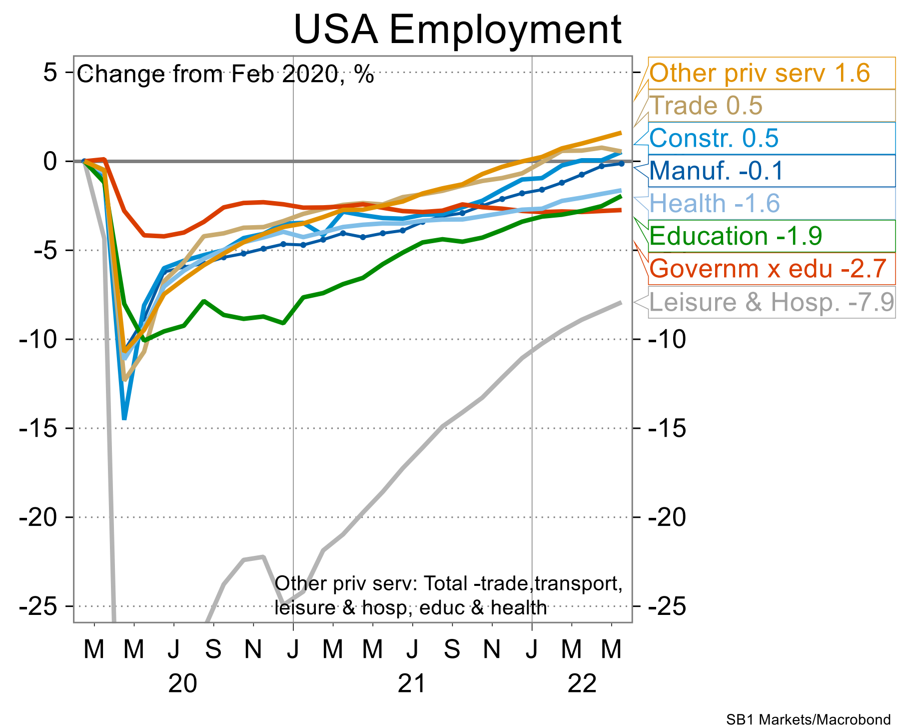


- **Last month:**
  - » **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 84' jobs. Growth is now slowing, even if the no. of employed is still 8% below the pre-Covid level
  - » **Trade cut 47'** jobs – which may signal weaker retail trade in May (some retailers are complaining). Until April, sales were OK, in macro
  - » A broad increase in payrolls in other **private services**
  - » **Manufacturing** added 18', a 'normal' growth figure
  - » **Construction** sector employment up by 36, more than normal, even if new home sales are slowing
  - » **Education** (private & public) up by 83', more than normal, from a level that is well below normal
  - » Employment in **government** (ex education) up by 6'
  - » No major revisions



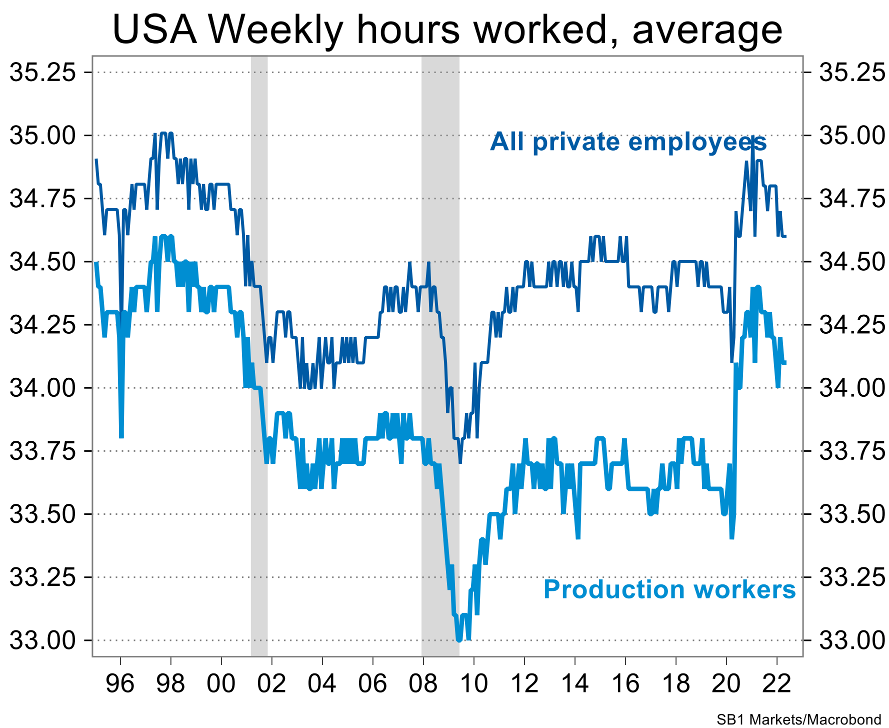
Vs. Feb-20: Several private services are up, but leisure/hospitality still down 8%

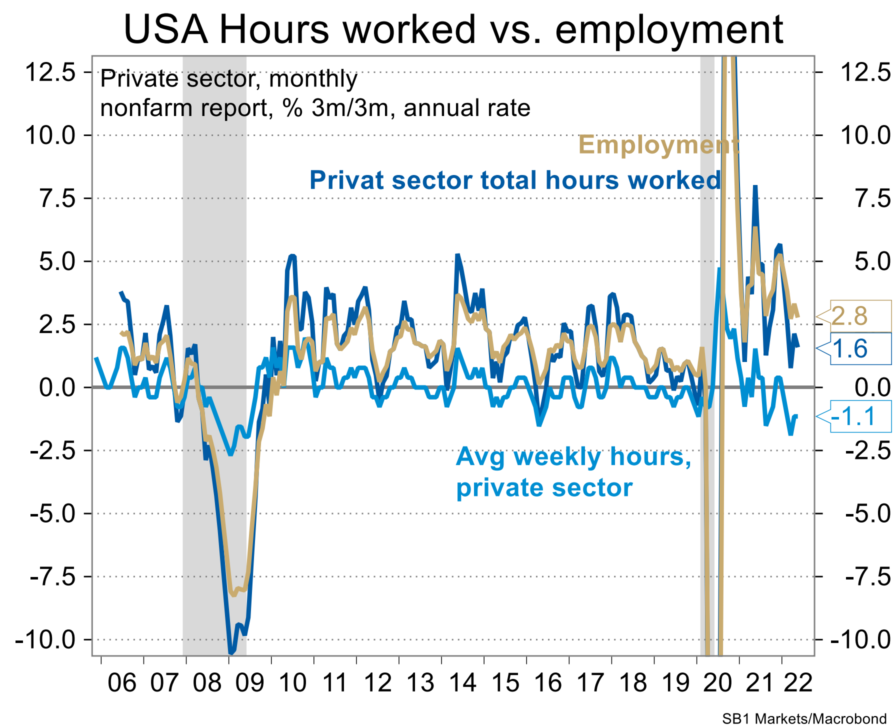




Average weekly hours flat in May too but are trending down

The level is higher than before the pandemic. Part-time workers are probably returning now

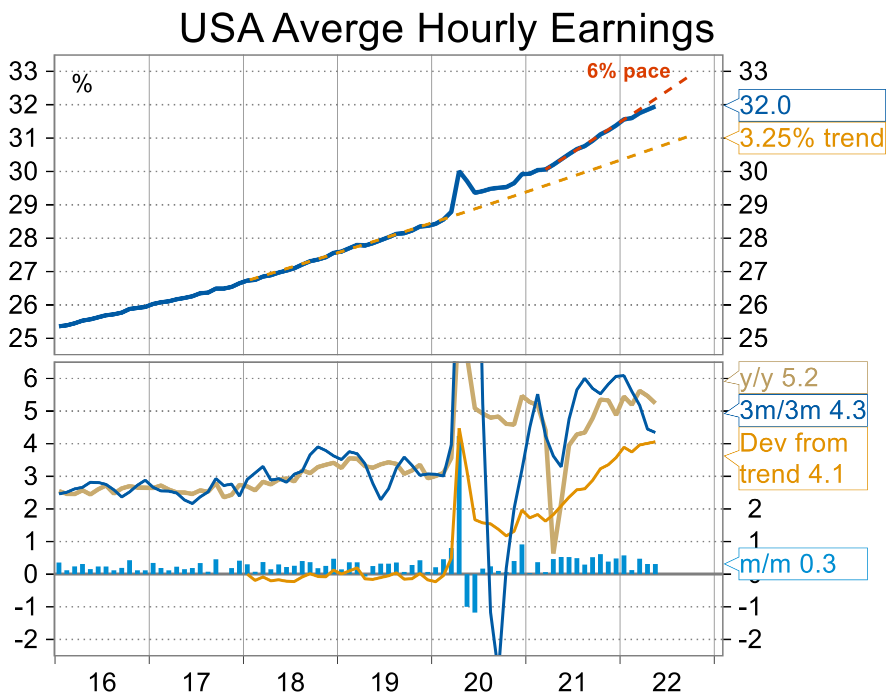




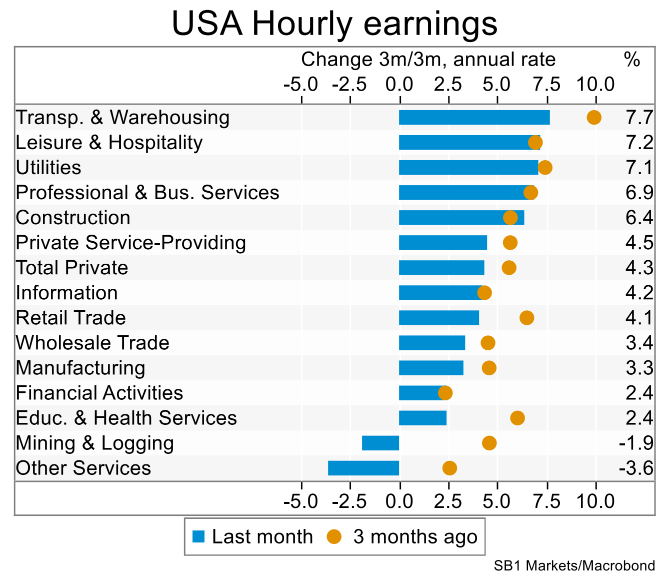
- Underlying growth in total hours worked in the private sector has fallen to below 2%

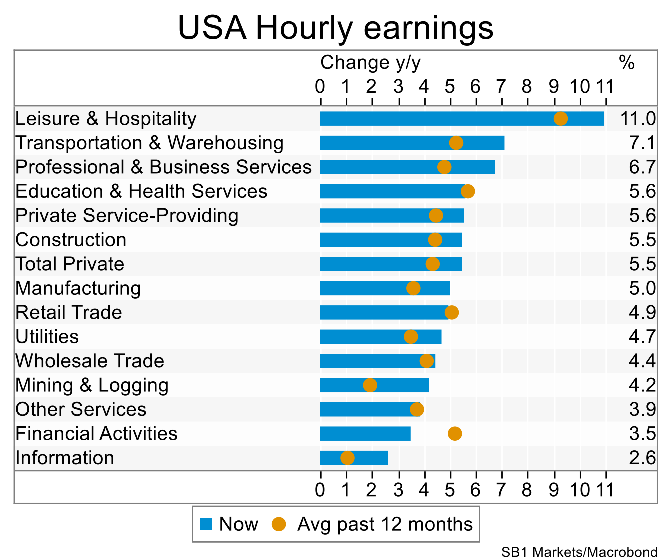
The REALLY good news: Wage growth ~~may be~~ is slowing somewhat

The decline in wage inflation is broad based, and the 3m/3m rate has fallen to 4.3% from 6% in January



- The **average wage** rose by 0.3% in May, 0.1 pp less than expected (just as in April). **The annual rate** slowed by 0.3 pp to 5.2%, as expected
  - » Underlying (3m/3m) growth has slowed to 4.3% from 6% in January
  - » Before the pandemic, wage inflation was at approx. 3¼%
- In manufacturing wages are up by just 3.3%, measured 3m/3m – but still above 7% in transport and leisure and hospitality
- These monthly wage data are not adjusted for the change in employment mix between sectors or within sectors

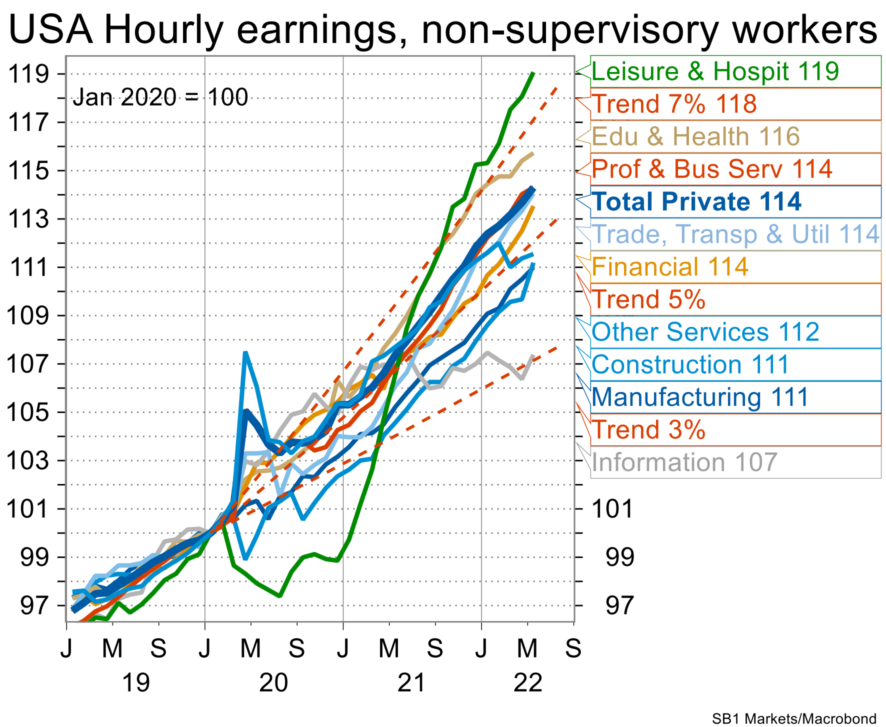




SpareBank 1 MARKETS

Wages are climbing at 4% – 7% growth pace, the average at 5.5% since Jan-20

… And well above the pre-pandemic growth paths <u>in all sectors</u> (barring information)

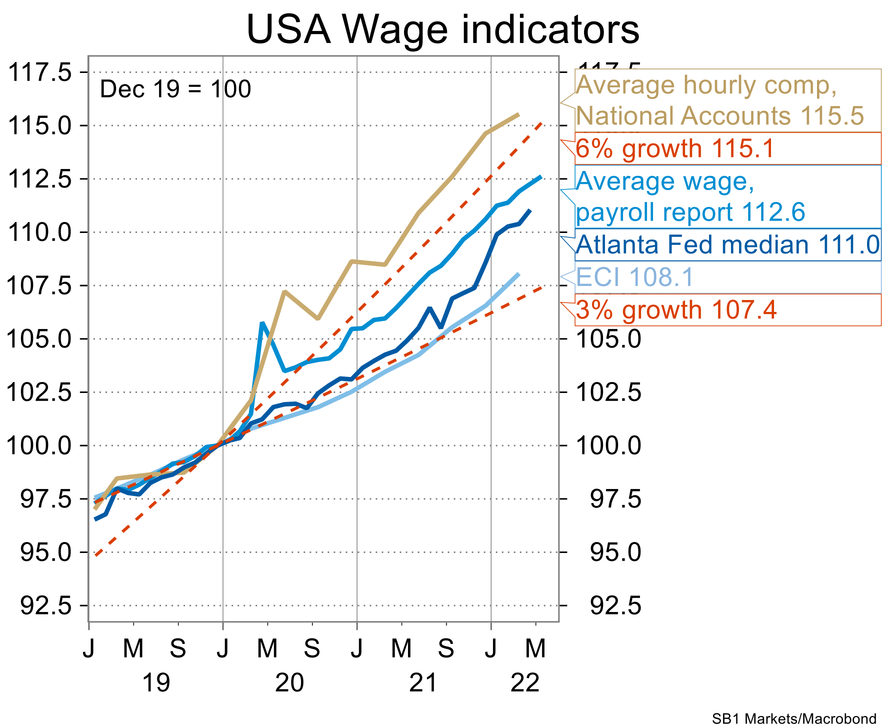


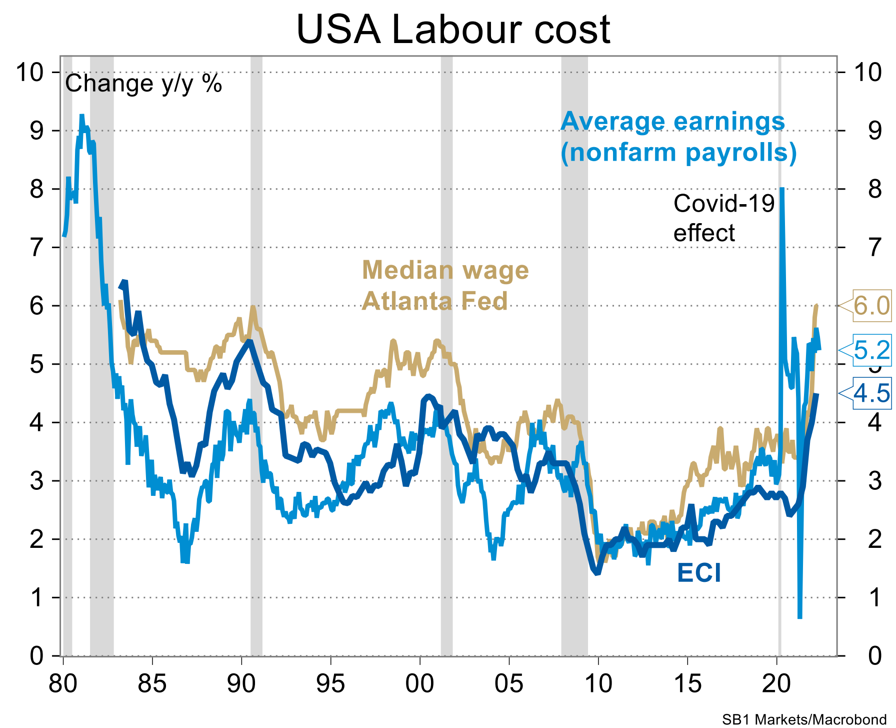
Memo: On the chart to the left above, wages for <u>non-supervisory workers</u> are shown. When all employees are included, growth is slightly lower in most sectors

SpareBank 1 MARKETS

No clear signal of any slowdown in wage inflation from other wage indicators

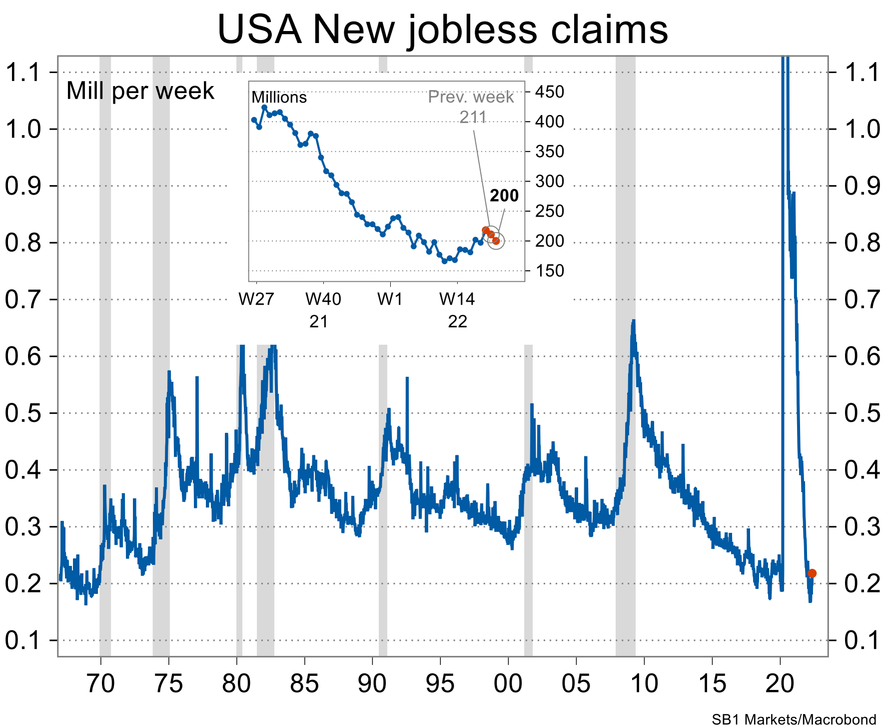
… and all are reporting higher wage inflation than before the pandemic

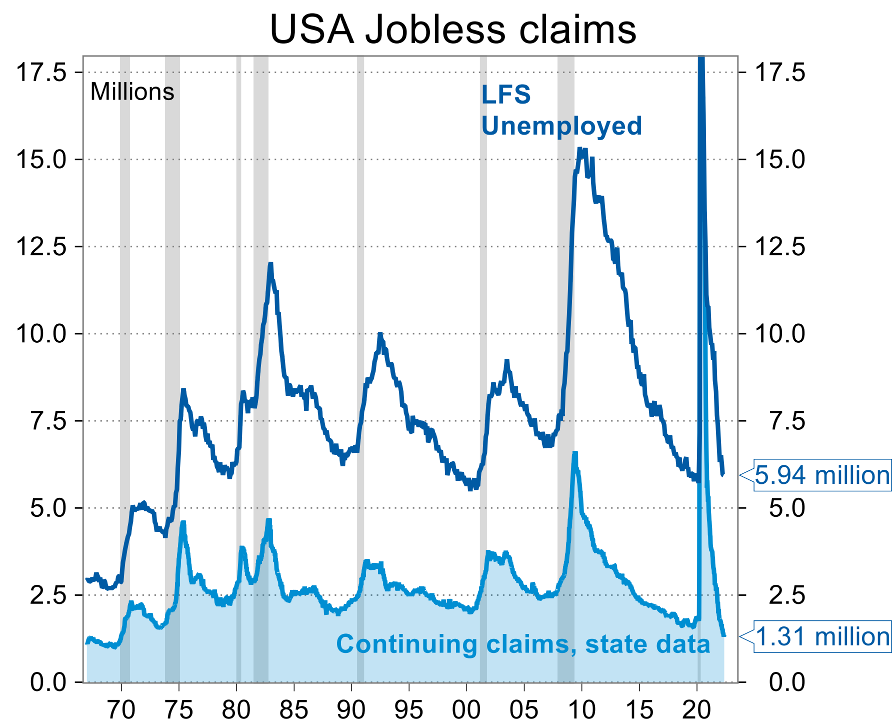




- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years
- Growth in wage/earnings/compensation indicators are up 1.5 – 3.5 pp vs the their respective 10 y averages. There is an obvious risk that wage inflation will accelerate further (check the following pages) – probably until the next recession hits, as the labour market is extremely tight
- Over the past 10 years, inflation has been close to 2%, and well above 2% if calculated over a shorter period
- It will be a 'challenge' to keep inflation at 2% if wage inflation remains at 5% - 6 %. Productivity growth has not accelerated. Profit margins may take a beating – and they very likely will – but probably not sufficient to bring inflation down to acceptable levels on their own. Wage inflation will probably not slow by much before demand for labour weakens – and unemployment increases

Jobless claims down for the 2nd week in row. Not a recession signal

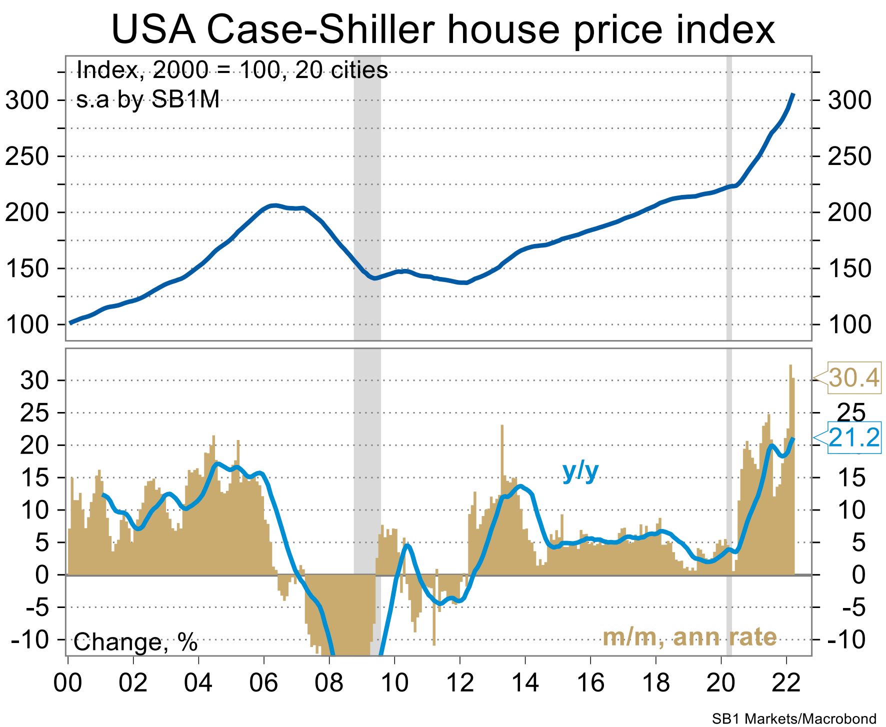


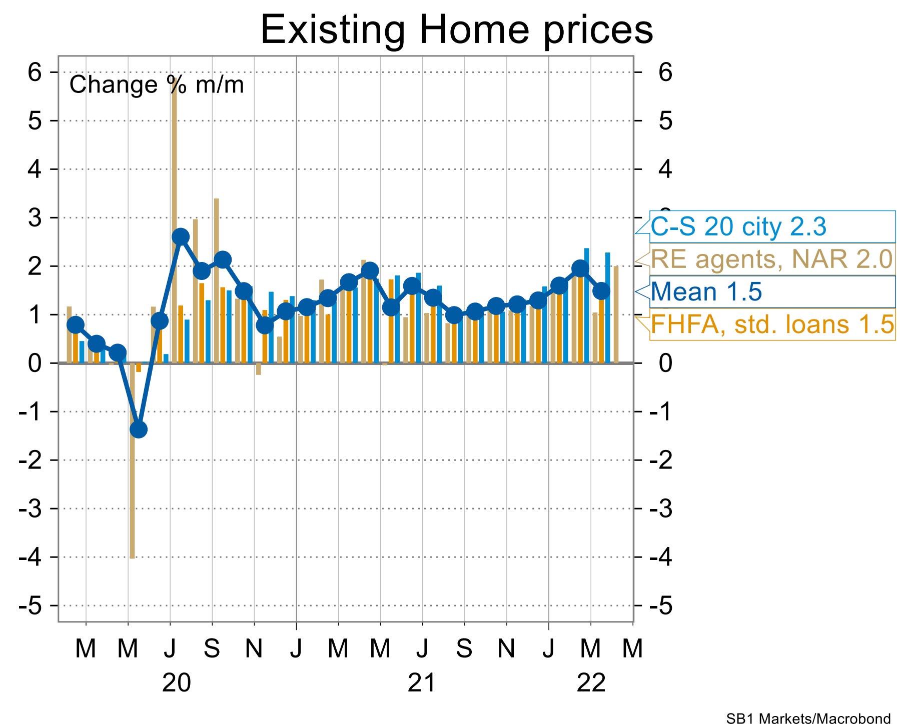


- **New jobless claims** fell by 11' in week 21 to 200'. Until 2 weeks ago, the inflow increased marginally but 1/3 of the small lift has been reversed the 2 past weeks. The inflow is close to the lowest level since 1968, when the labour force was 2 times larger than today
- **Ordinary continuing claims** fell by 34' to 1.31 mill in week 20, the lowest level since 1969
- Another confirmation that the **labour market** is still extremely tight

Case/Shiller house prices still up at 30% pace in 'March'! And by 37% since Feb-20

Shouldn't house price inflation slow by now? Well, Feb-April avg ('March') the 2nd highest print ever!

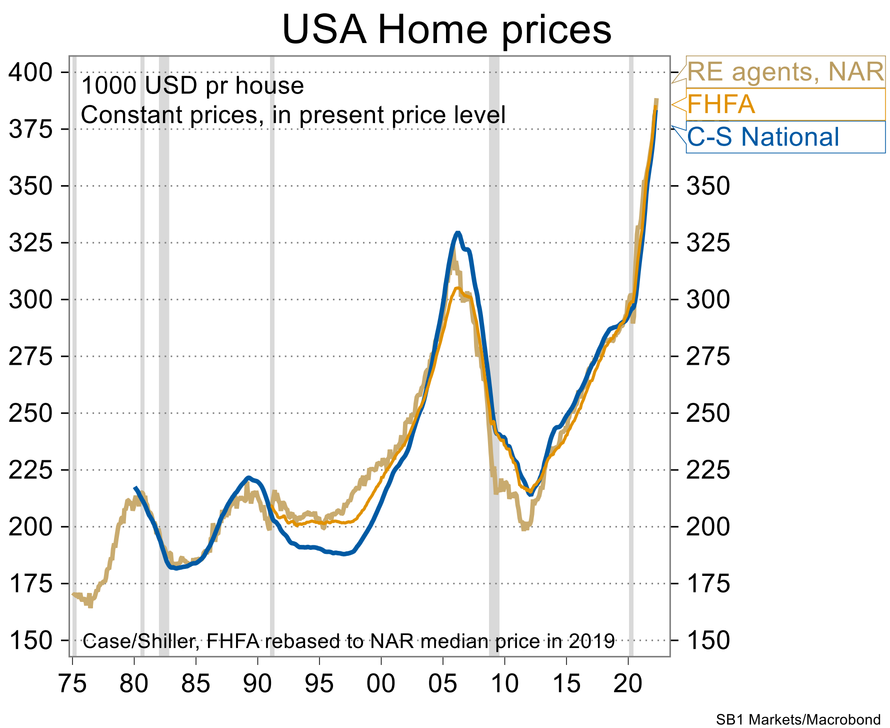


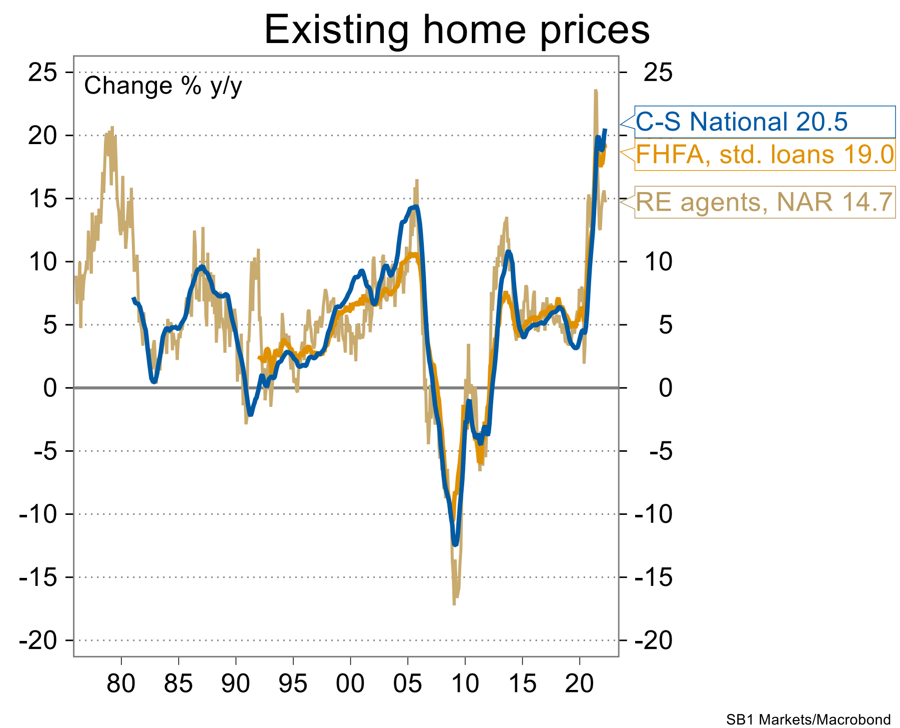


- **The previous month, house prices rose at the fastest pace ever. This is rather crazy**
- **S&P's Case/Shiller's 20 cities** price index rose 2.2% m/m in March (Feb – April avg, our seas. adj) equalling a 30% annualised pace, just marginally down from the Feb ATH at 32%. A 1.9% lift was expected. The annual rate accelerated by 1 pp to 21.2% (expected 19.6%). BTW, anther ATH print!
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), rose 'just' 1.5% in Feb, and are up 19 y/y!
- Realtors reported a 2.0% lift in April, covering deals agreed upon in March
- <u>However, even if prices cover transactions closed in April (included in the Feb-March average), those deals were mostly agreed upon in March</u> – and 'something might have happened in April and in May after the mortgage rate shot up. <u>We still expect prices to yield substantially the coming months</u>

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

Real prices are 17% – 26% above the pre-financial crisis peak

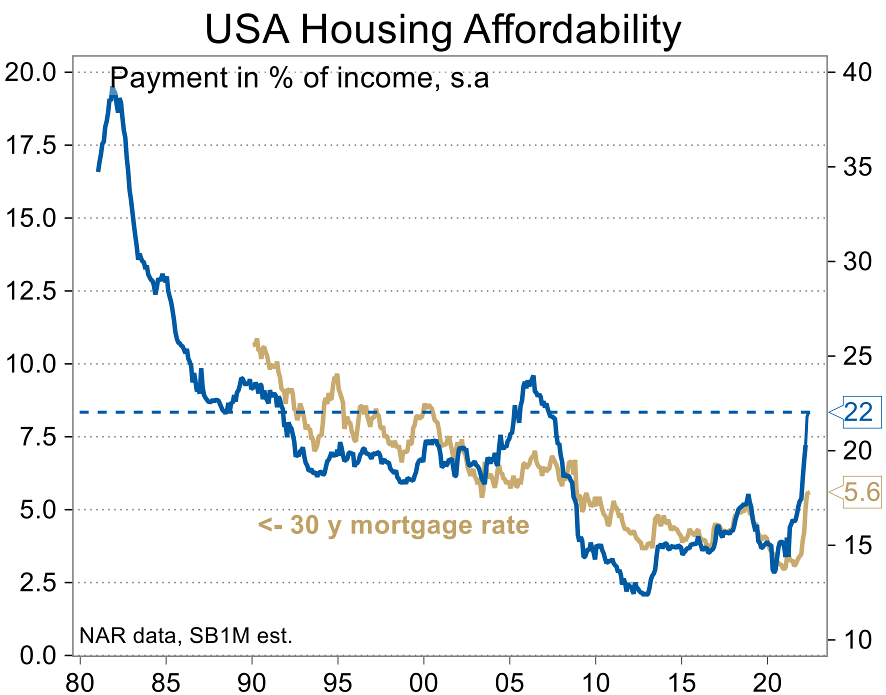




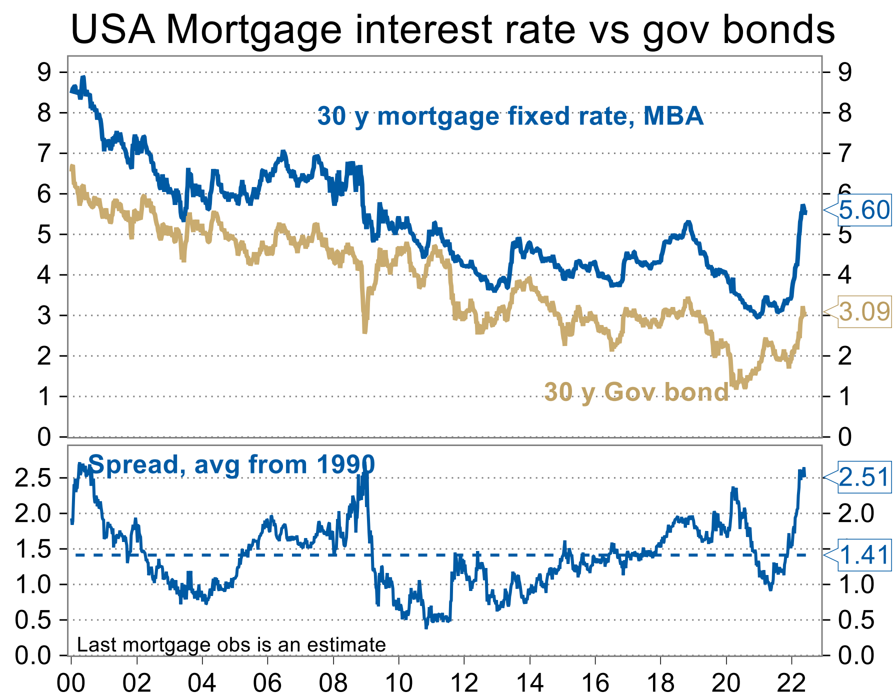
- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index have been reporting the highest house price appreciation ever (or since 1948) during the past months
- Real prices are far above the 2006 peak, by some 17% – 26%
- There are still some big differences vs the mid 2000 housing bubble
  - » **Housing starts** are at a lower level. The **inventory** of 2nd homes for sale is record low (vs high 15 – 16 years ago). However, the inventory of new homes for sale is climbing rapidly
  - » Households average **debt/income ratio** has fallen sharply since the peak before the financial crisis, and their cash positions have soared (on average) to above debts. However, credit growth has accelerated rapidly during the pandemic
  - » The **savings rate/net financial investments rate** has now fallen to well below the pre-pandemic level – but the ratios are far above the level in 2005

The least affordable housing market since 2008

Prices are up 37% since before the pandemic, the mortgage rate is up 40%. In sum….

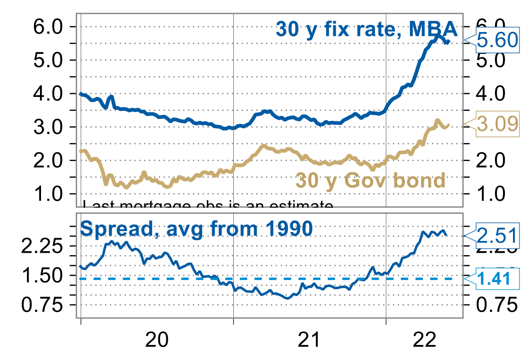


SB1 Markets/Macrobond



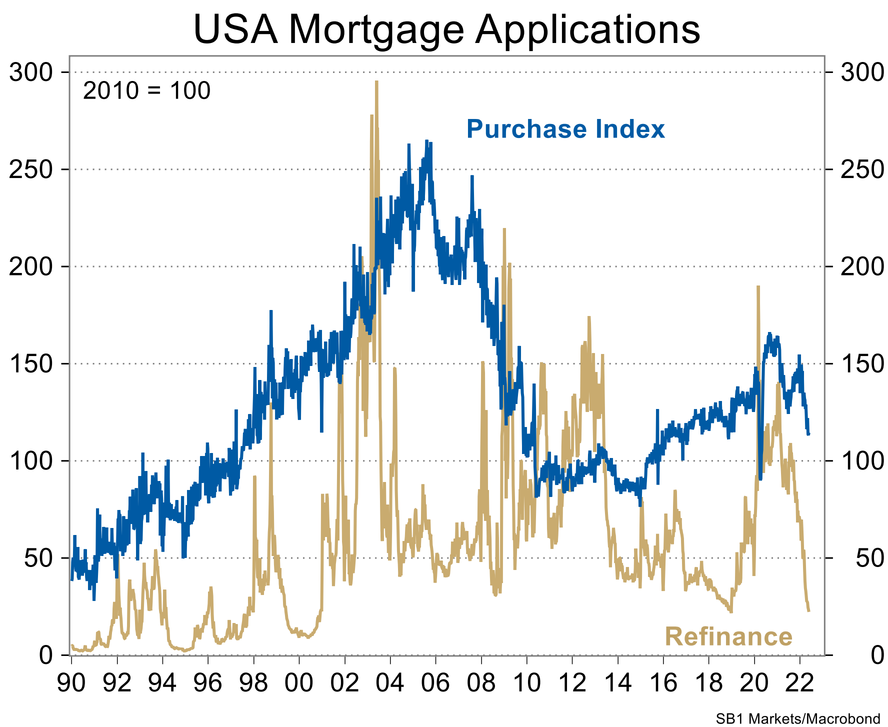
SB1 Markets/Macrobond

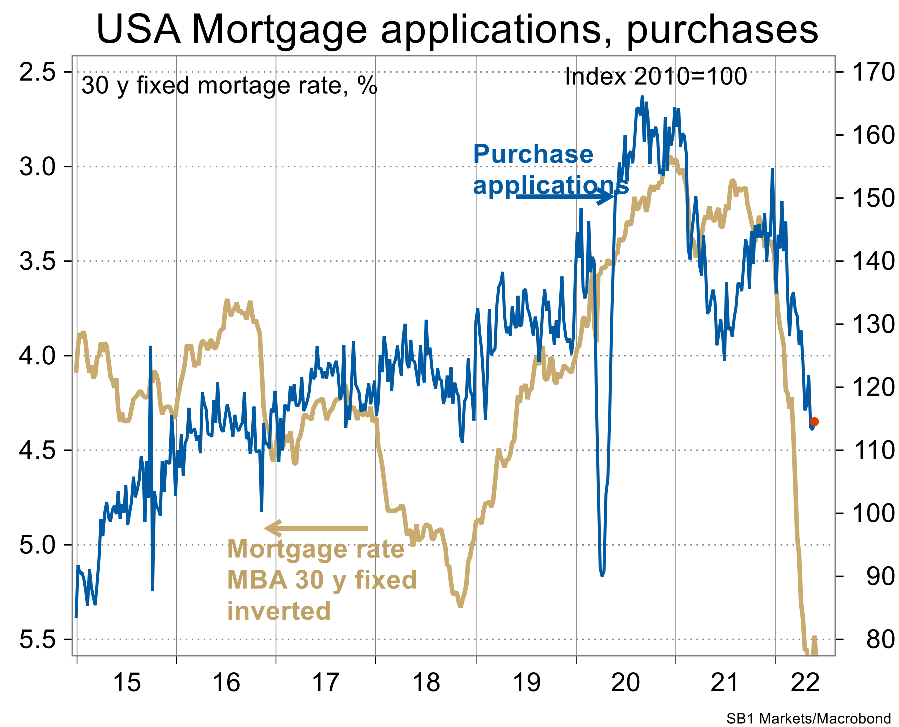
- **The 30 y fixed mortgage rate** has climbed to 5.6% (effective rate) from 3.0% last summer, from 3.5% at the start of 2022. Before the pandemic, the rate was 4.0%
  - » The mortgage rate has climbed MUCH faster than the 30 y Gov bond rate. The spread has widened to 251 bps from 91 bps at the bottom last spring, and it is far above the 141 bps average – <u>and among the highest in modern times. The upside risk must be limited from here – the spread will at one stage retreat</u>
- The **Federal Reserve** concluded its mortgage backed bonds buying campaign in March - <u>and has now start reducing its holdings. No doubt, this shift explains the surge in the spread</u>



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

Applications did not decline further last week. Still, the downturn since January is worth talking about

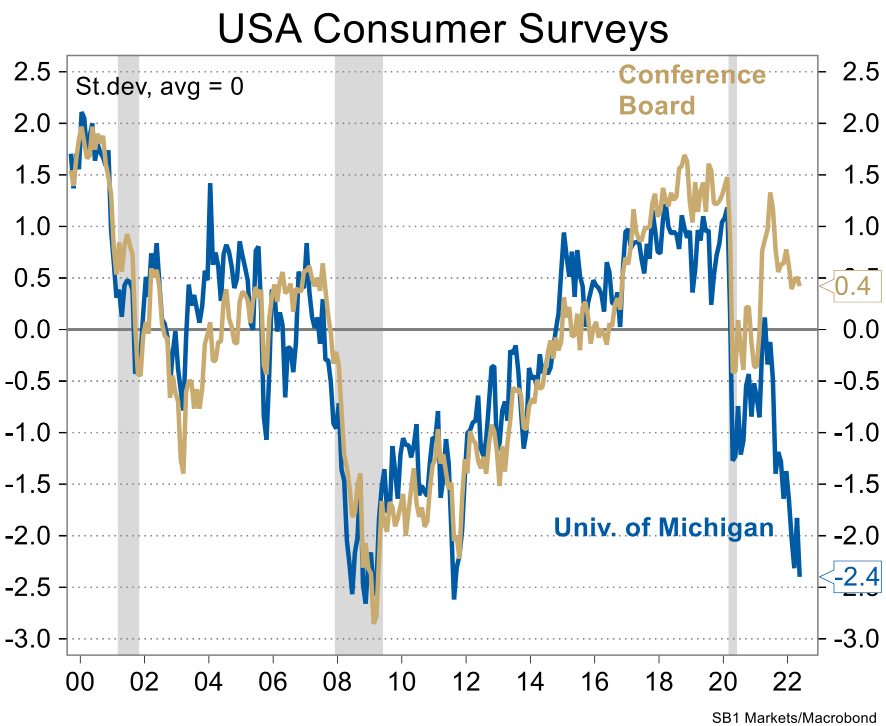




- Applications for new mortgages are down some 20% since the start of the year, and the level is now almost 10% below the pre-pandemic level. Still, the downturn is not dramatic

Conference Board's confidence marginally down in May, still well above average

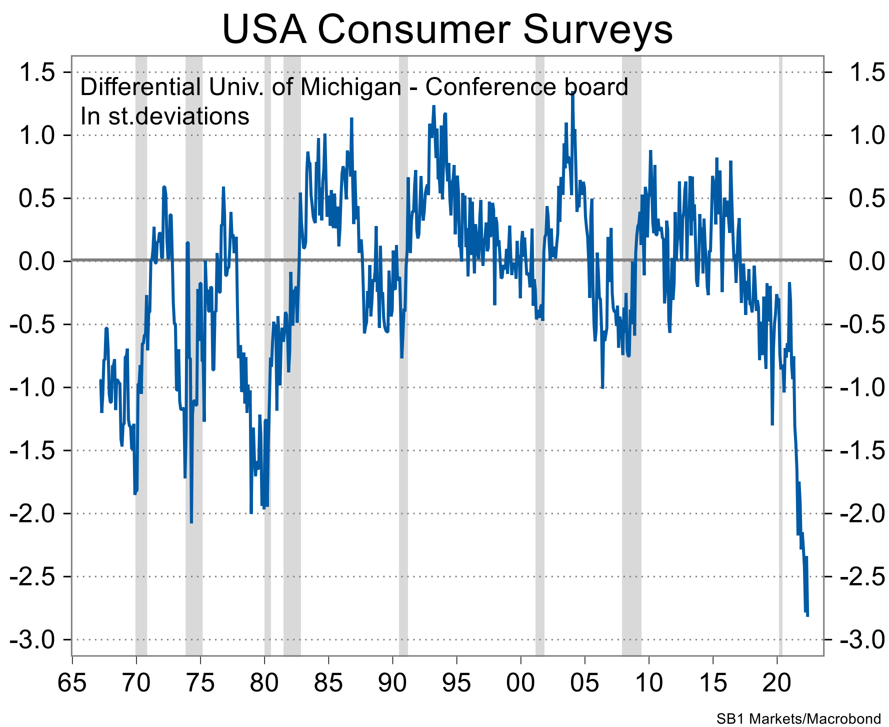
Expectations recovered somewhat, the assessment of the current situation fell less

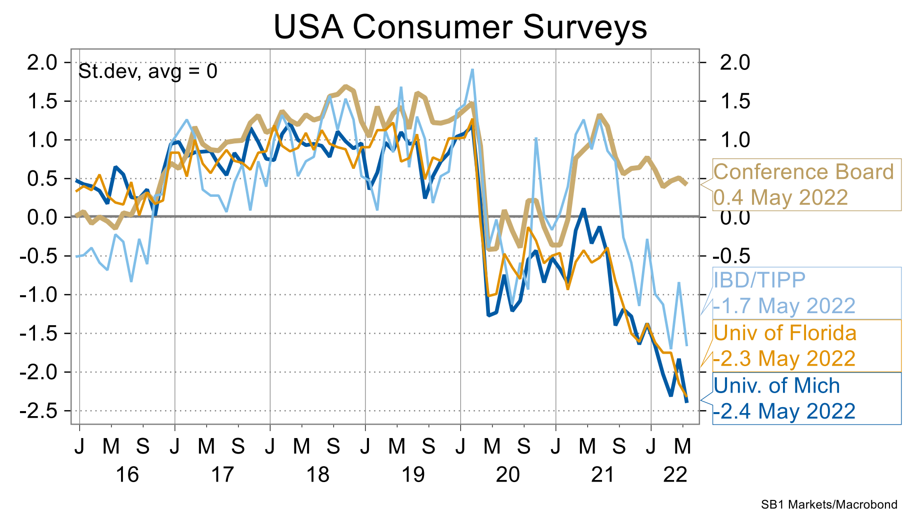


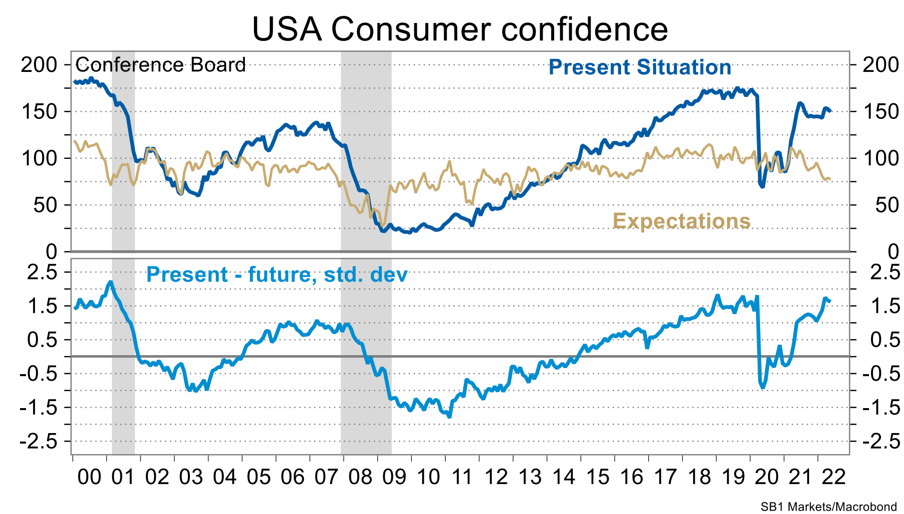
- Even if expectations are below average, this index is remarkably strong vs. other surveys, at 0.4 st.dev above average, down from 0.5 in April, and back to the same level as in March
- **University of Michigan's sentiment** fell to 2.4 st.dev below avg in May an ATH differential vs. Conference Board's survey, by far!!
  - » Two other confidence surveys, from IBD/TPP and Univ. Florida are close to the UM survey – and Conf. Board's survey is now an outlier

The Conf. Board – Univ of Mich. differential the widest ever in May

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



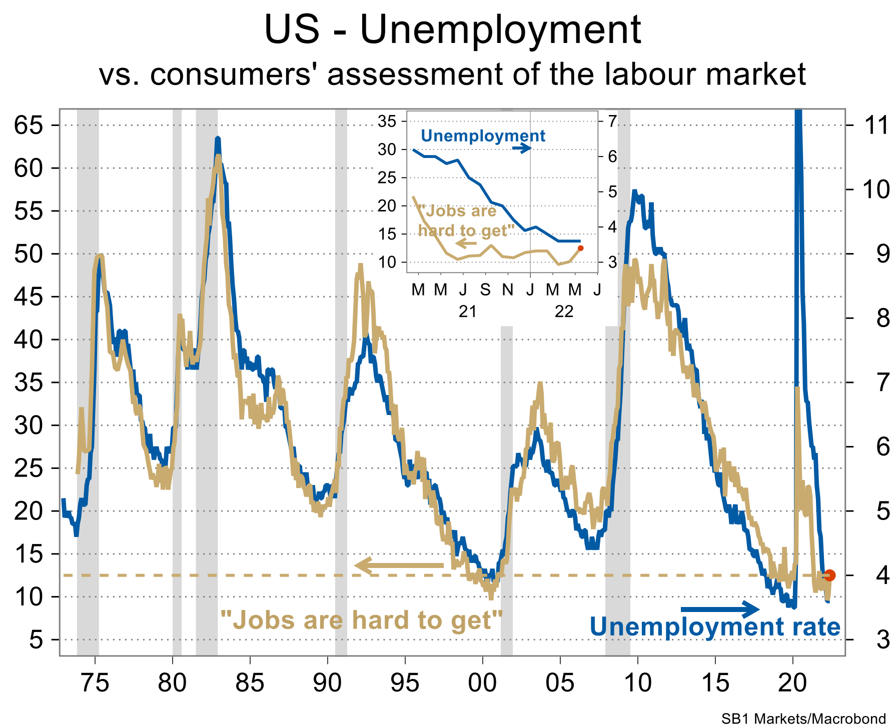


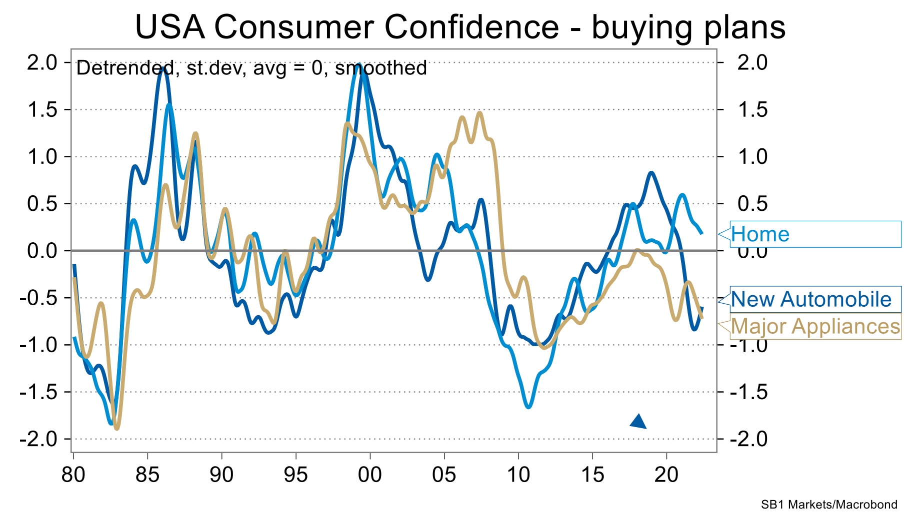


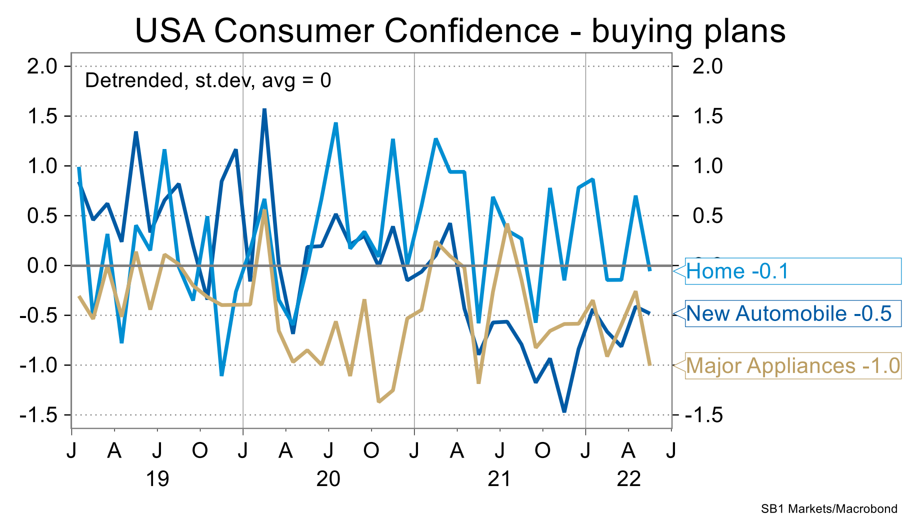
- High inflation is normally not welcomed, but we have not been able to explain the drop in UM sentiment by the traditional factors (including also inflation expectations, growth, unemployment, mortgage rates etc). In addition, the sentiment soured without any deterioration of the Covid-19 situation (the sentiment fell well before Omicron arrived, and has not recovered even if the Omicron variant is kept well in check)
- Simply, we do not have good explanations! Actual behavior – so far – indicate that Conference Board's index is far closer to the ball vs the other indices. One exception: Home sales have fallen substantially

Still, rather easy to get at job, but slightly less so than earlier in the spring

May signal that the labour market is not tightening further



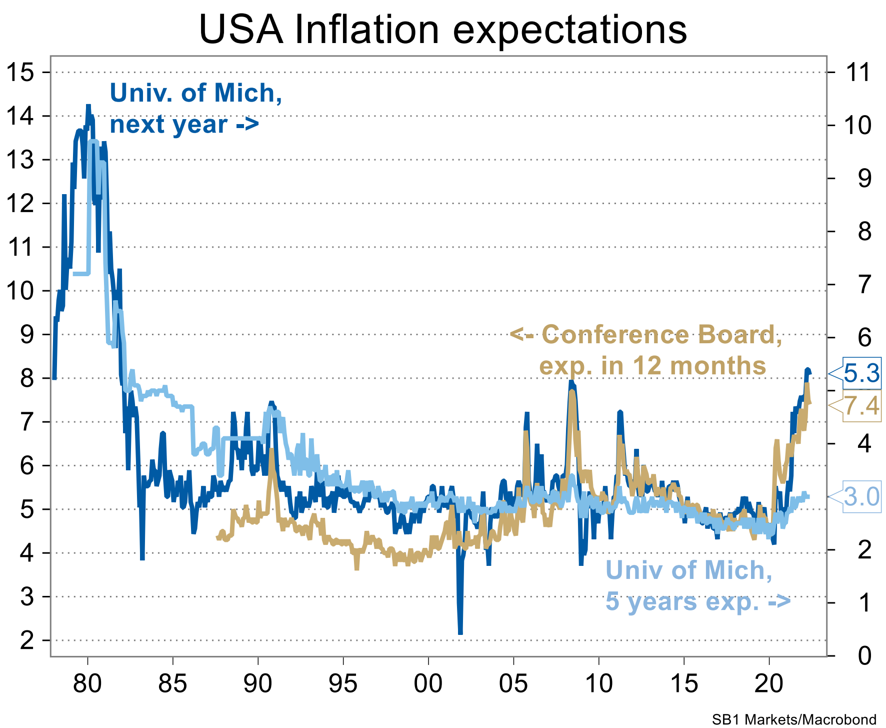




- **Household spending plans** are volatile, and in sum not aggressive
- Car buying plans have stabilised but home buying plans are trending down but still close to average

Inflation expectations a tad down but rather high, short term

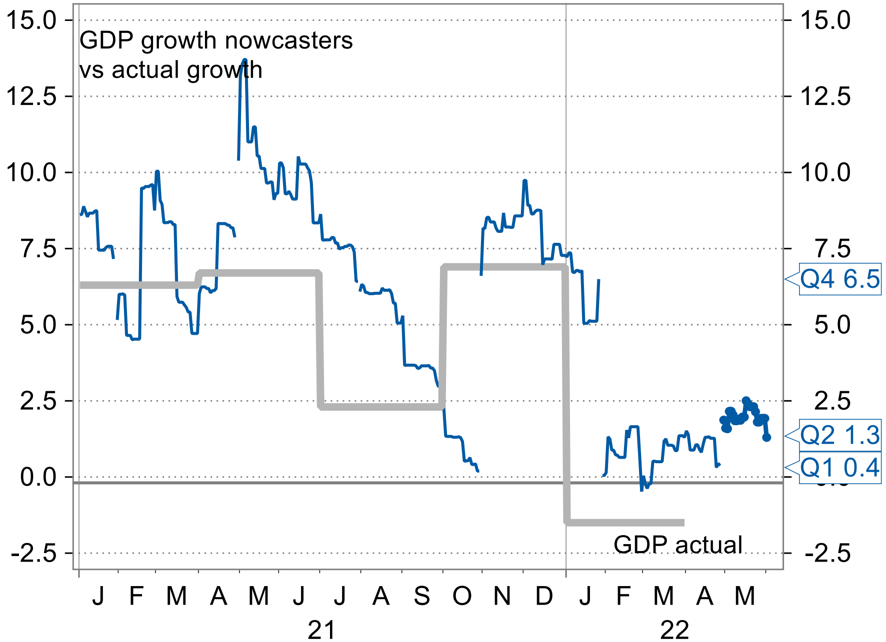
Long-term expectations have been climbing since 2020 bur are not that high



Atlanta Fed's nowcaster suggests just 1.3 % growth in Q2

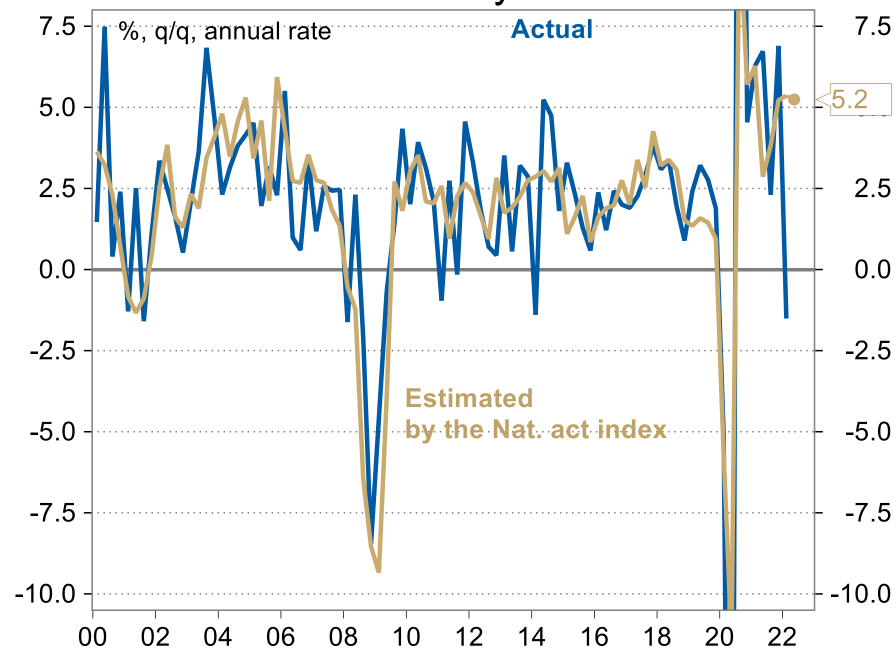
However, the National Activity Index signals far higher growth – a 5% pace!

USA Atlanta Fed GDP nowcasts



SB1 Markets/Macrobond

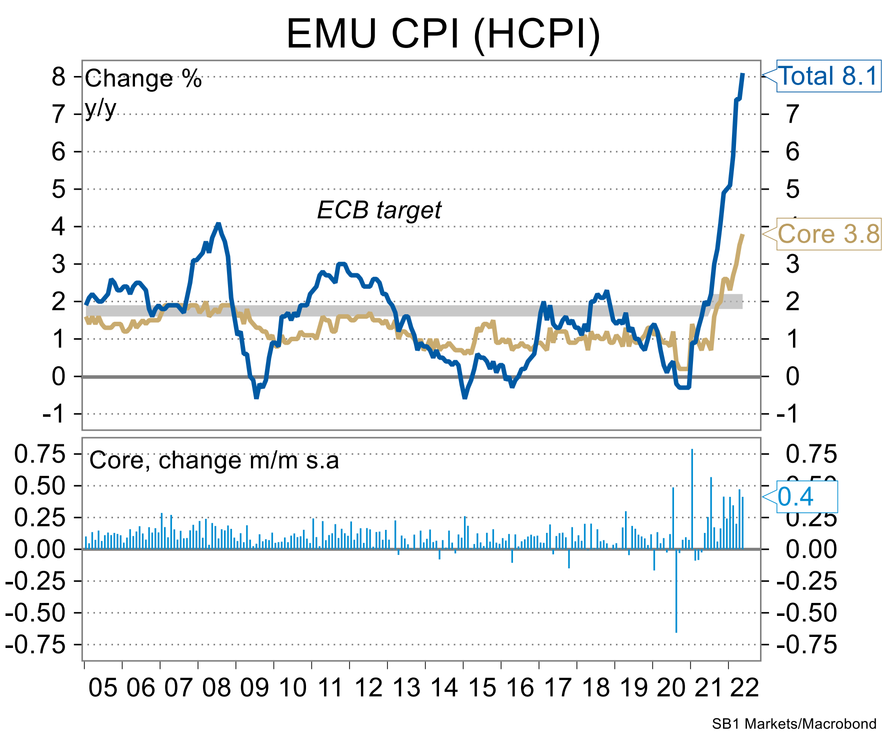
USA National activity index vs GDP

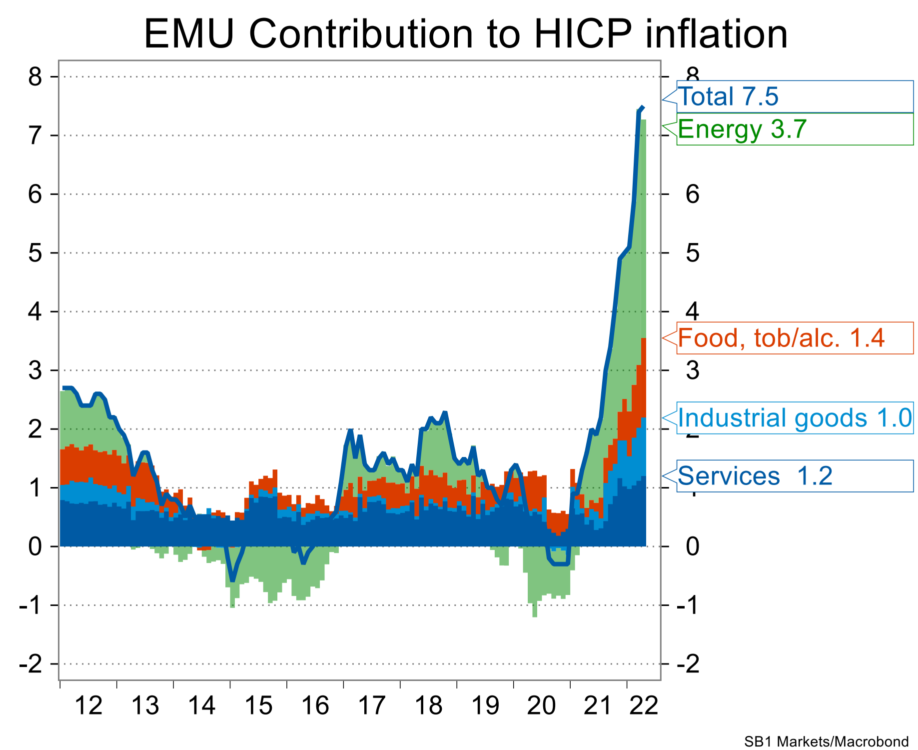


SB1 Markets/Macrobond

Core inflation up to 3.8% as prices rose 0.4% m/m, 0.2 more than expected!

The headline CPI soared to 8.1%, from 7.5%, 0.4 pp higher than expected

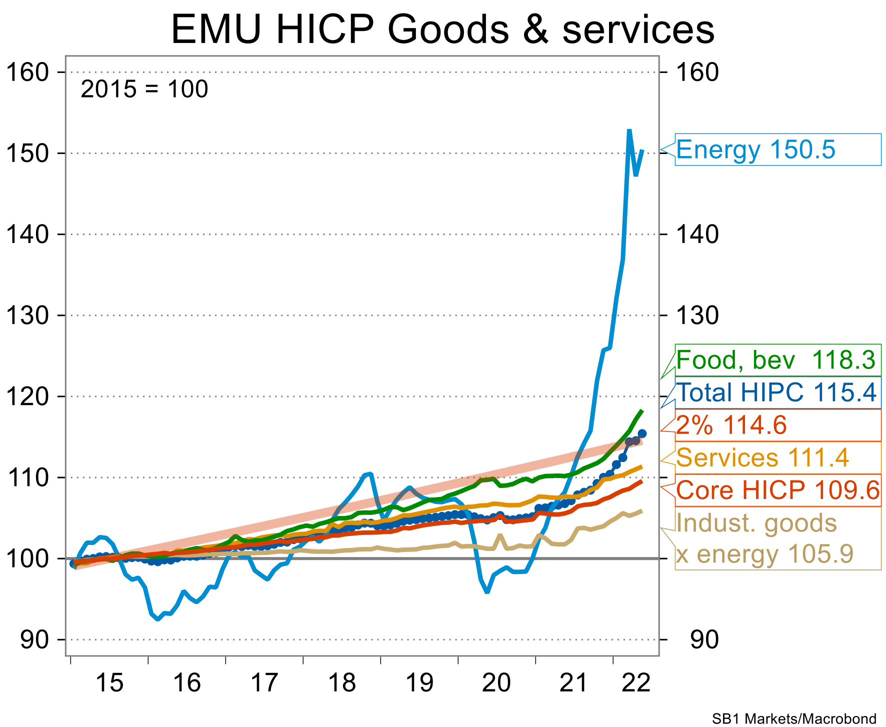


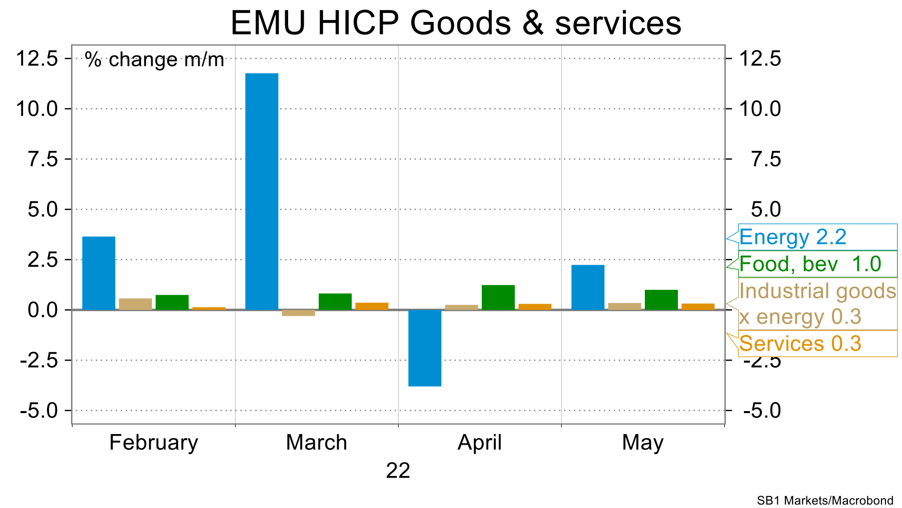


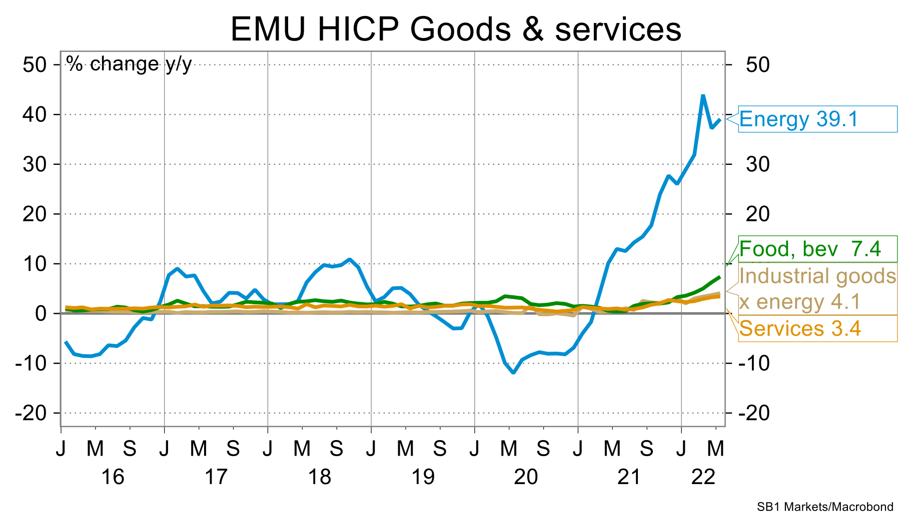
- The **total HICP** rose 0.8% m/m, an extreme print – as is the annual rate at 8.1%, and the core y/y rate at 3.8%
- The steep increase in prices in May comes after surprisingly strong growth in April and March as well
- **Energy prices** rose 2.2% m/m, and the annual rate climbed marginally – but this rate is below the March peak.
- Energy explains the lion's share of total inflation (especially if normal indirect impacts are added), but food prices are also adding to the burden now, up 7.4% y/y. In addition, the 'residual' is on the way too
- The ECB has very likely recognised sufficient smoking guns to ride into action

Energy prices rose 2% in May, and food prices added another 1.0%

Energy prices are up 39% y/y – but have peaked (even before more gov. subsides are introduced)

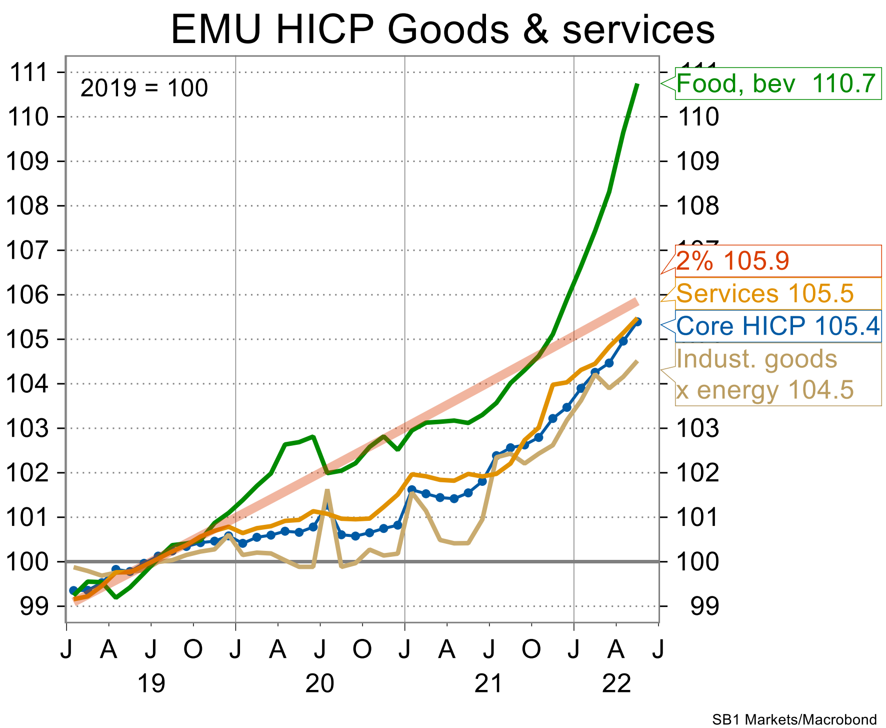


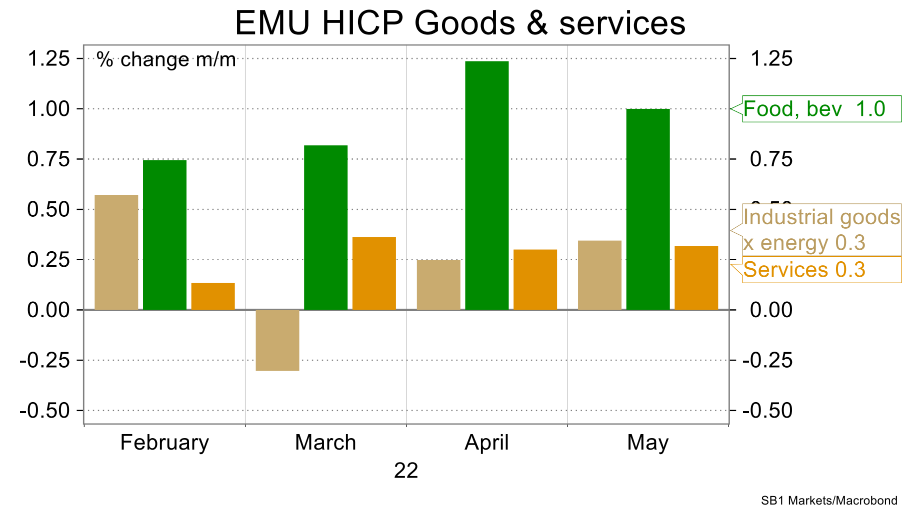


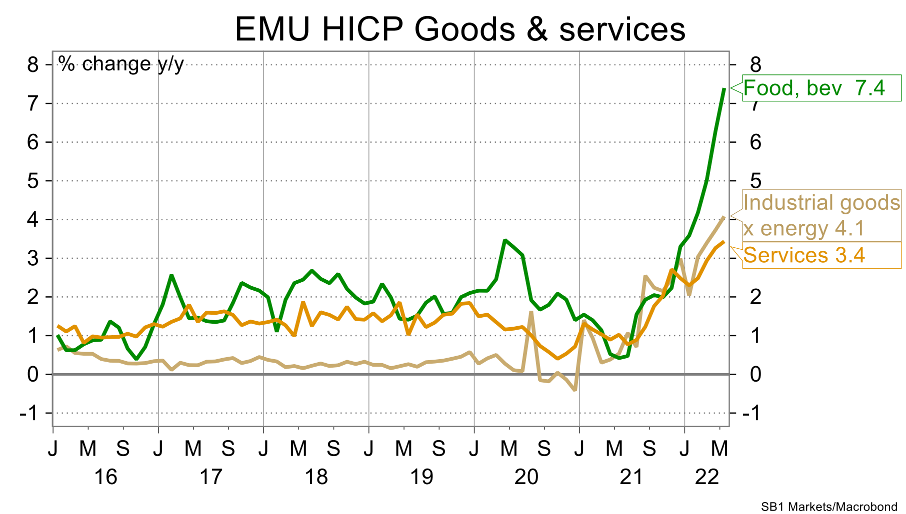


And prices ex energy and food are accelerating too

Food inflation at 7.4%, industrial goods x energy at 4.1%, and services 3.4%. The target? 2%...



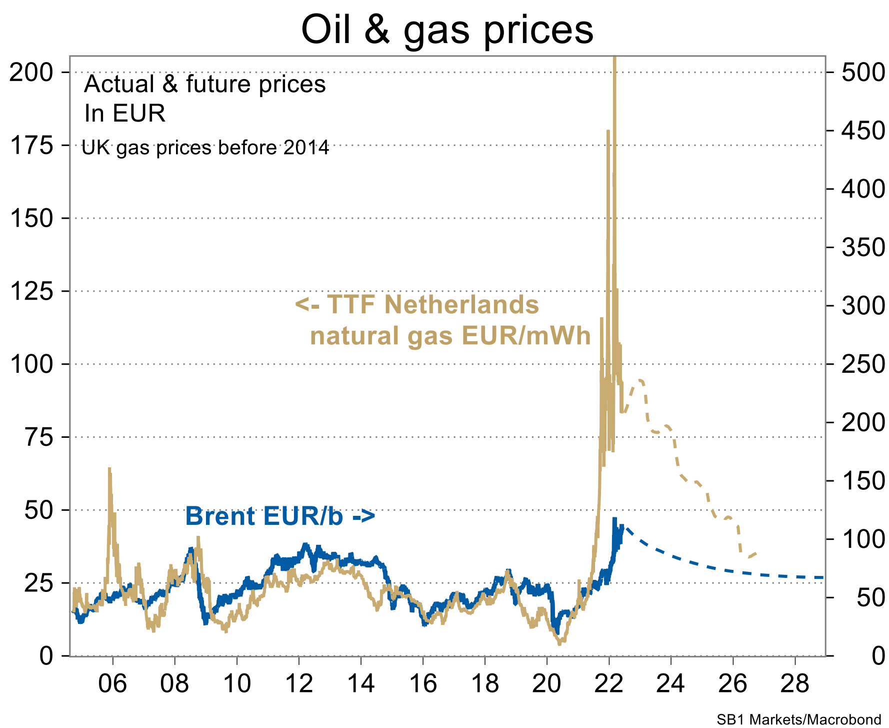


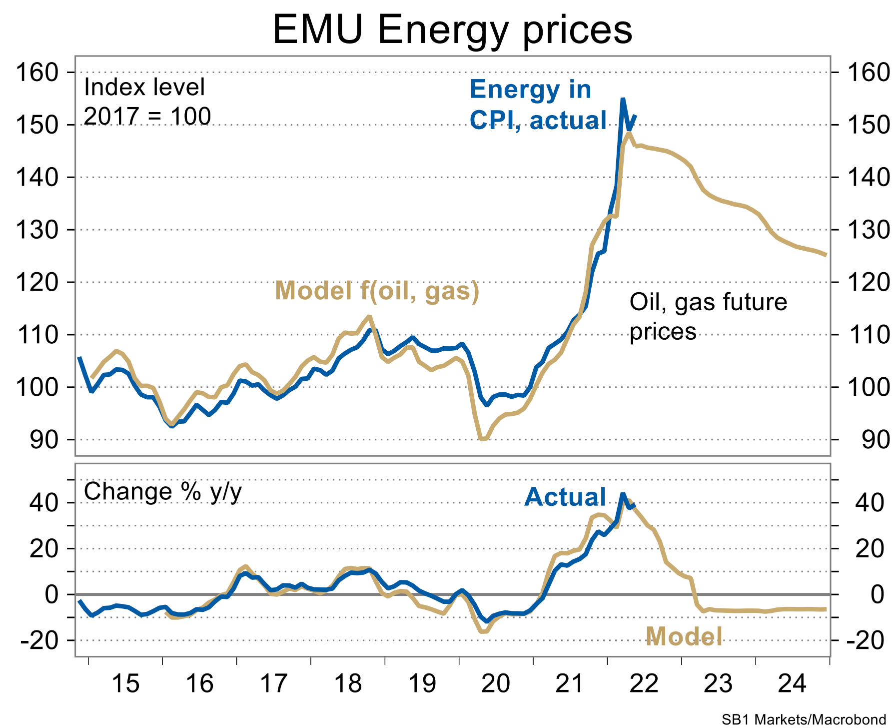


- **Industrial goods** prices increased 0.3% in May, and are up 4.1% y/. Still, these prices are <u>well below</u> a 2% path <u>since 2019</u>
- **Services prices** rose 0.3% in May, and these prices are also below a 2% path vs the 2019 level. Transport and hotels/restaurants have contributed on the upside last year (but no data for May yet)
- (No further details in the preliminary HICP report)

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

…if futures markets are correct (this time…), annual energy inflation peaked in March

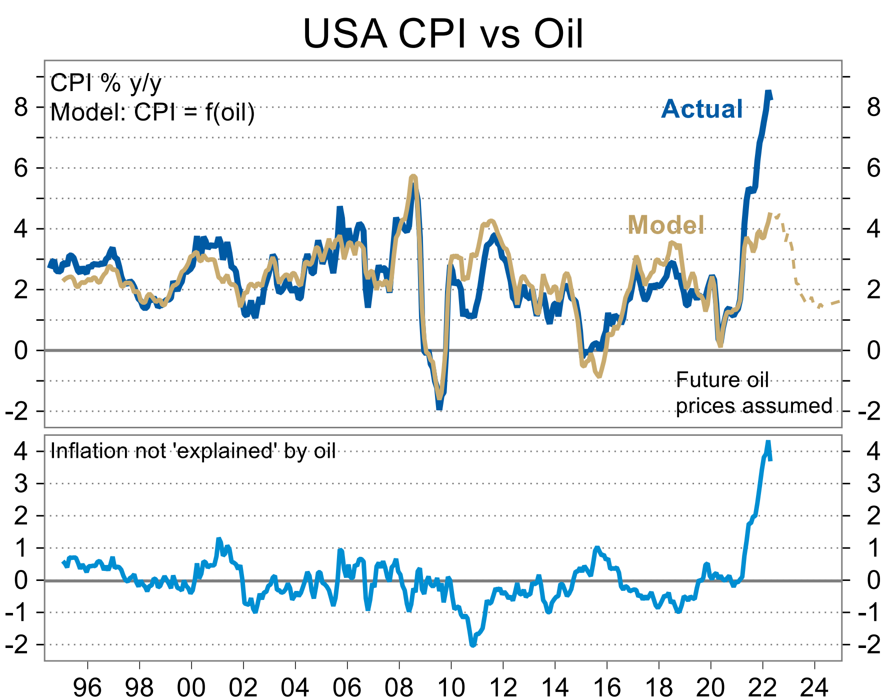


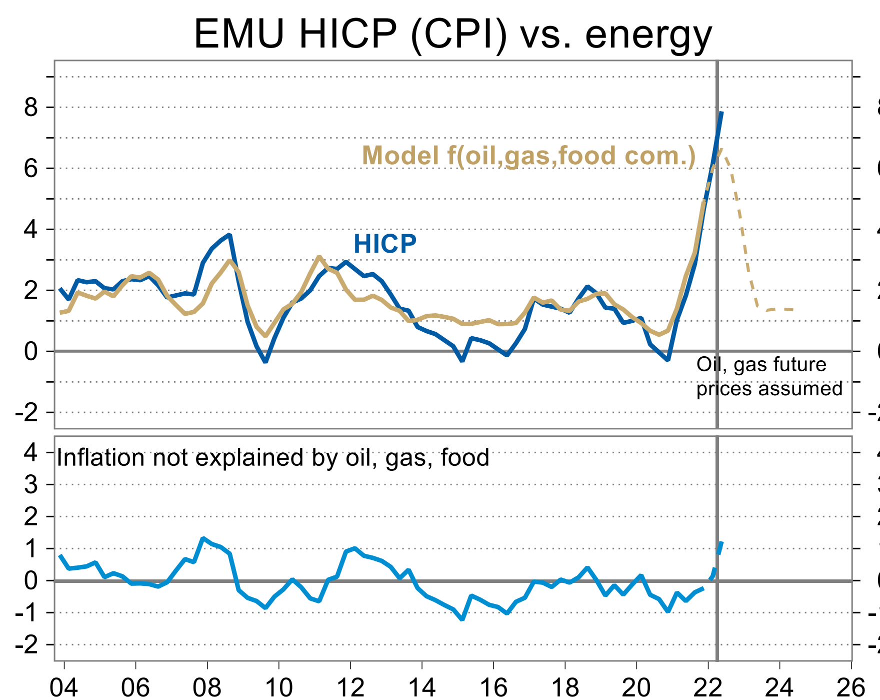


- Futures prices are heading downwards – but European gas prices are not expected to return to 'normal' level
- Early next year, energy prices will be down, measured y/y
- Gas and oil have contributed equally to the lift in energy prices measured at the consumer level, according to our models
- The problem: Food prices – and many other prices

The tale of two different inflation regimes

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





- **In the US, oil price cycles** have – for all practical purposes – explained all of the CPI cycles the past 30 years. Until 2021. The precent 4 pp discrepancy is unprecedented! The current/future oil price signals a decline in the annual CPI rate later this spring. The trouble is the 'gap' or the 8% starting point
- **In EMU**, the CPI acceleration until late last year could be fully explained by the increase in energy prices (with a small contribution also from food commodity prices). Now, other goods and services are also contributing, perhaps more than anytime before, as also signalled by the core HICP
- If oil/natural gas prices follow the futures prices from here, inflation is now close to the peak, and the annual growth rate will return to below 2% in early 2023. Had energy prices suddenly returned to a 'normal' level now, inflation would have collapsed!

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

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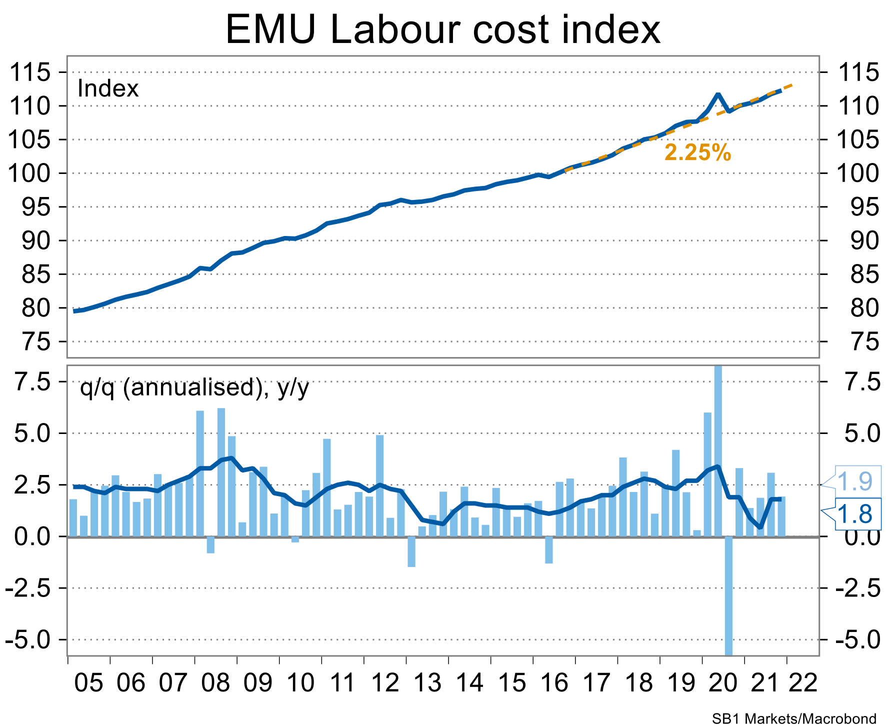
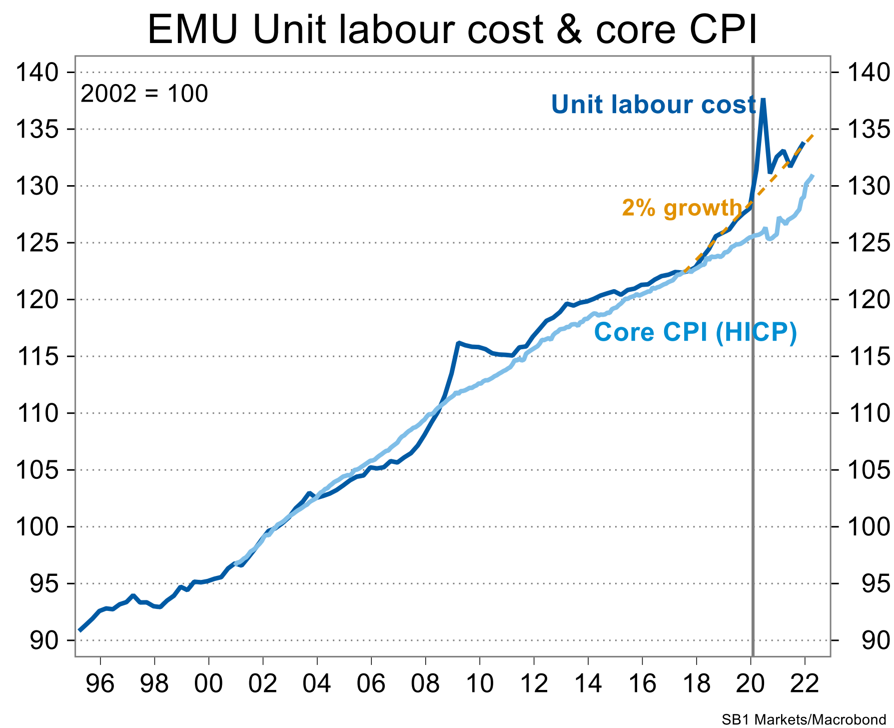
Just a reminder: So far, no wage cost pressure in the EMU

Even if the unemployment rate is the lowest since 1981, and the vacancy rate is the highest ever

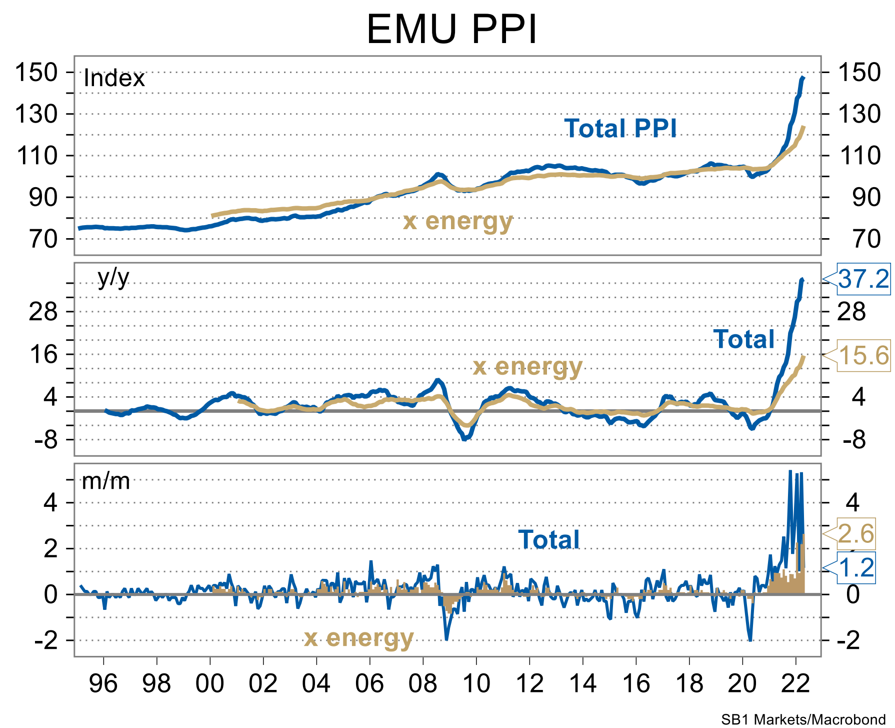


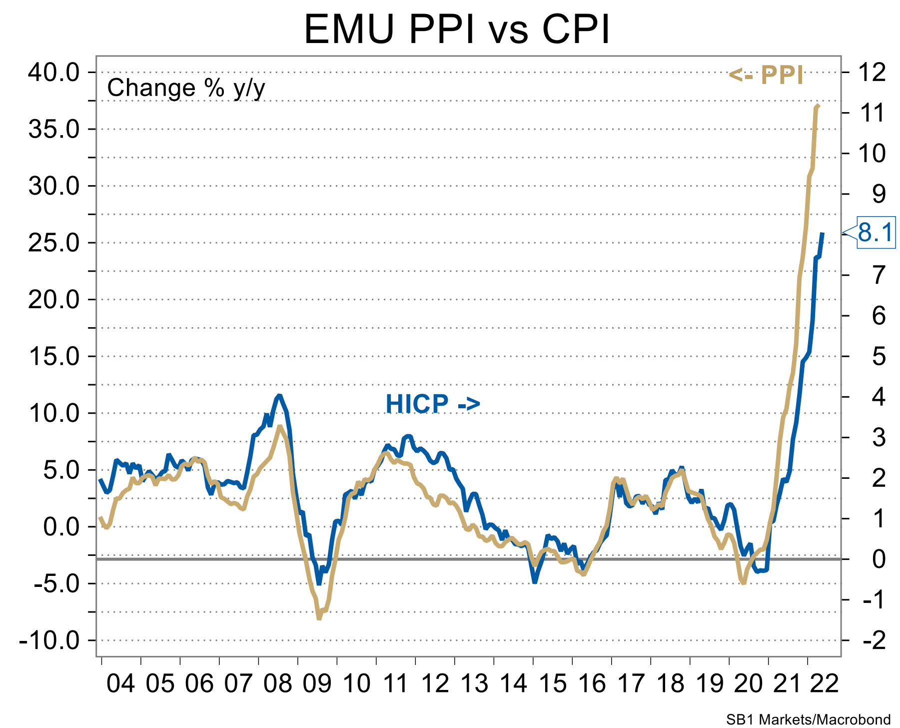


SpareBank 1 MARKETS

Producer prices up 37% y/y, all included. And 16% x energy

The total PPI rose 1.2% m/m in April, the core index added 2.6%, the highest ever!



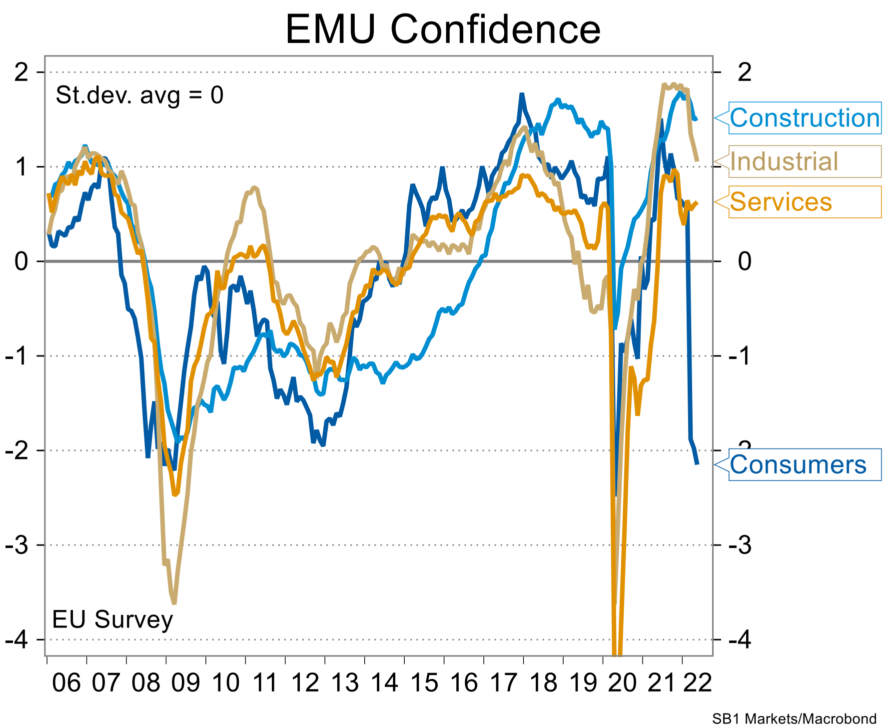


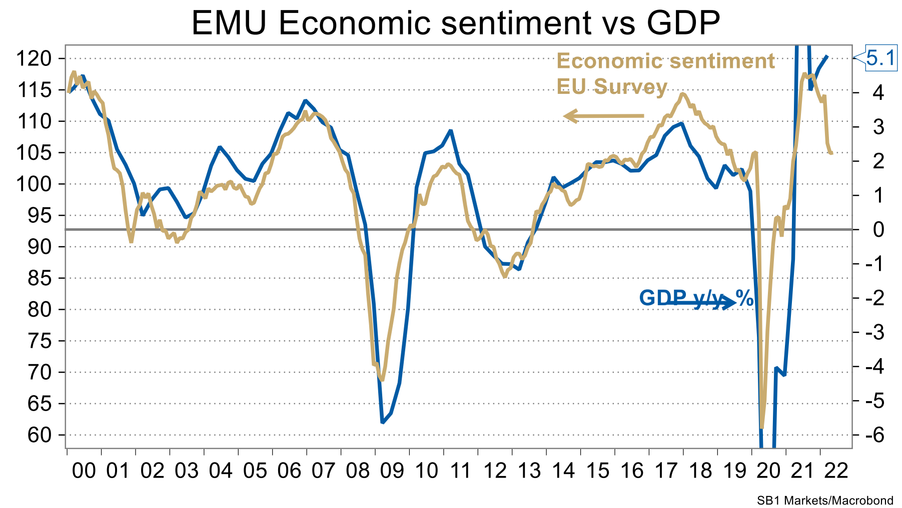
- No signs of lower inflation pressures here

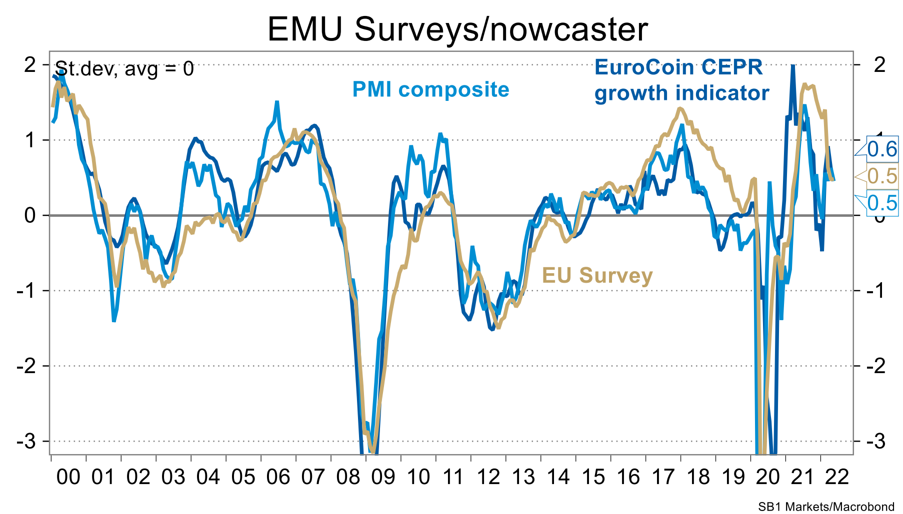
SpareBank 1 MARKETS

Business sentiment stabilised in May at 0.5 st.dev above avg, signalling 2½% grwt.

Services are on the way back, while the industrial sector is slowing, from a high level





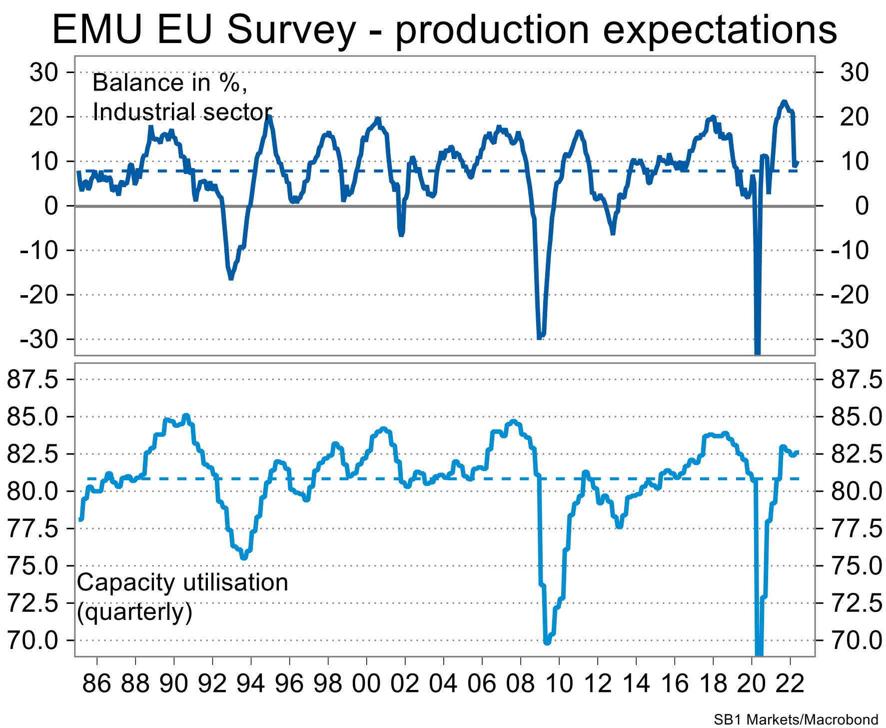


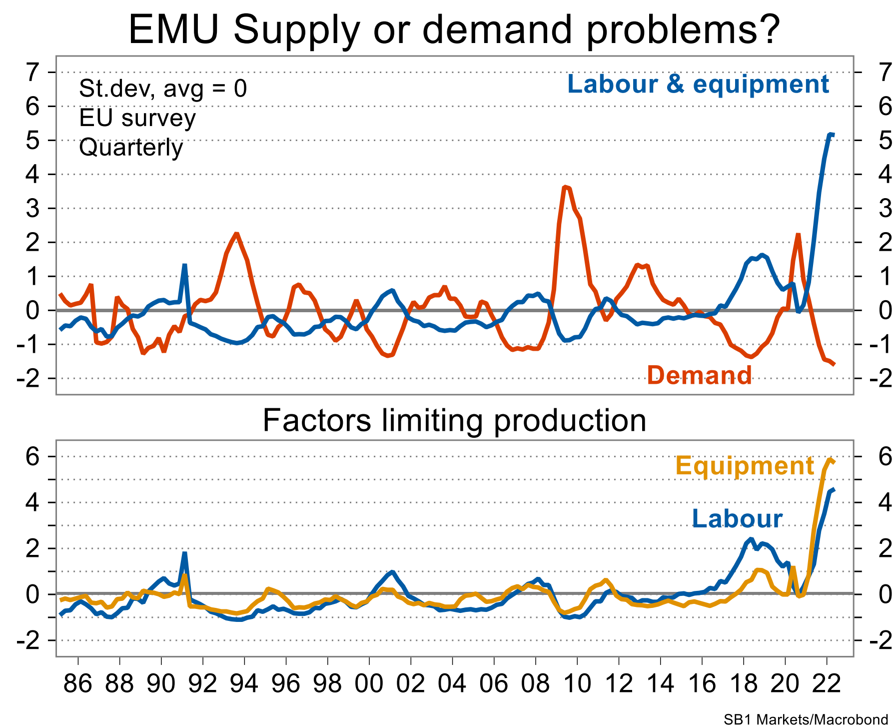
- **EU's confidence survey for the Euro area** gained 0.1 p to 105.0 in May, close to expectations. The level is 0.5 st.dev above average, signalling a GDP growth above average, at some 2½%
  - » **The industrial sector** reported a decline, but not by much, **construction was stable,** and **services reported a small lift in the index**, and all are well above an average level
  - » Thus, war & sanctions have not yet scared businesses much at all
  - » The contrast to **consumer confidence** is striking, as most other places: The CCI is 2.1 std.dev below par, as initially reported
- **The EuroCOIN GDP nowcaster** signals slower growth in line with EUs survey, as do the **PMI reports** – and all report growth above trend

SpareBank 1 MARKETS

Production expectations stabilized as well, at a slightly above avg level

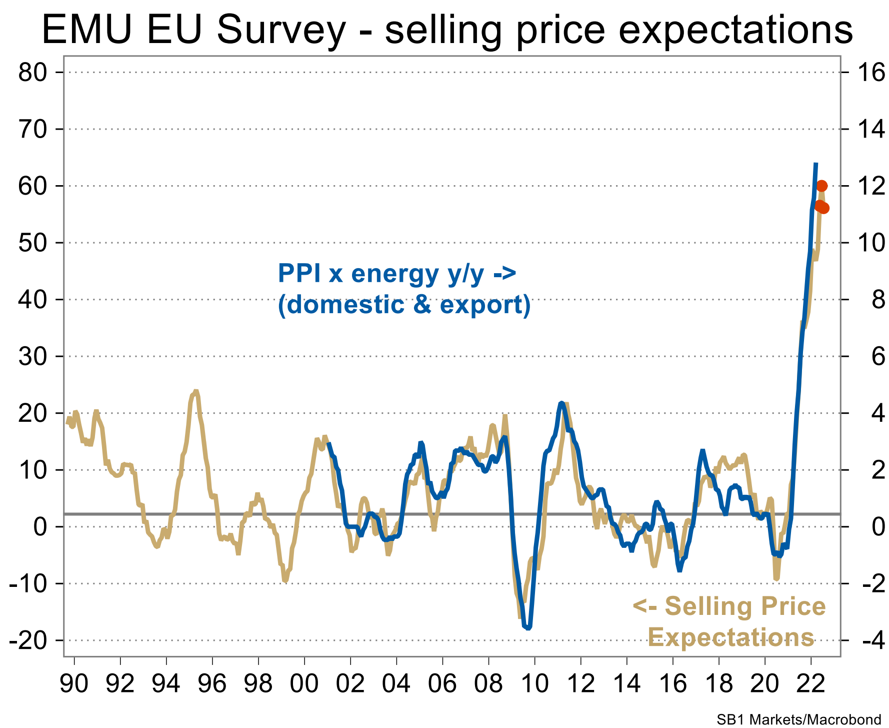
Capacity utilisation well above average – and 'nobody' says demand limits production





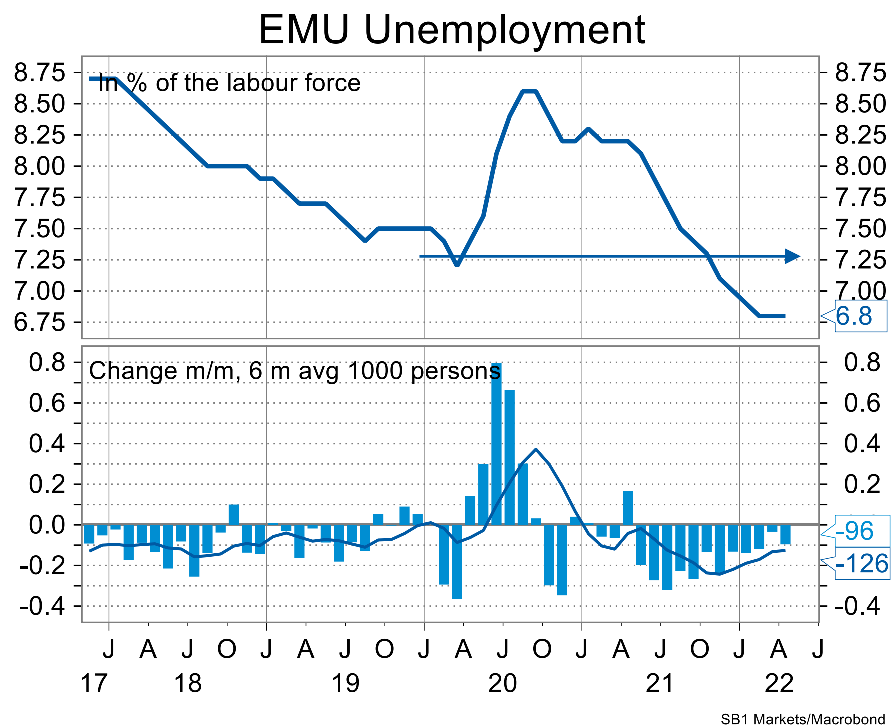
Companies report slightly lower selling price increases

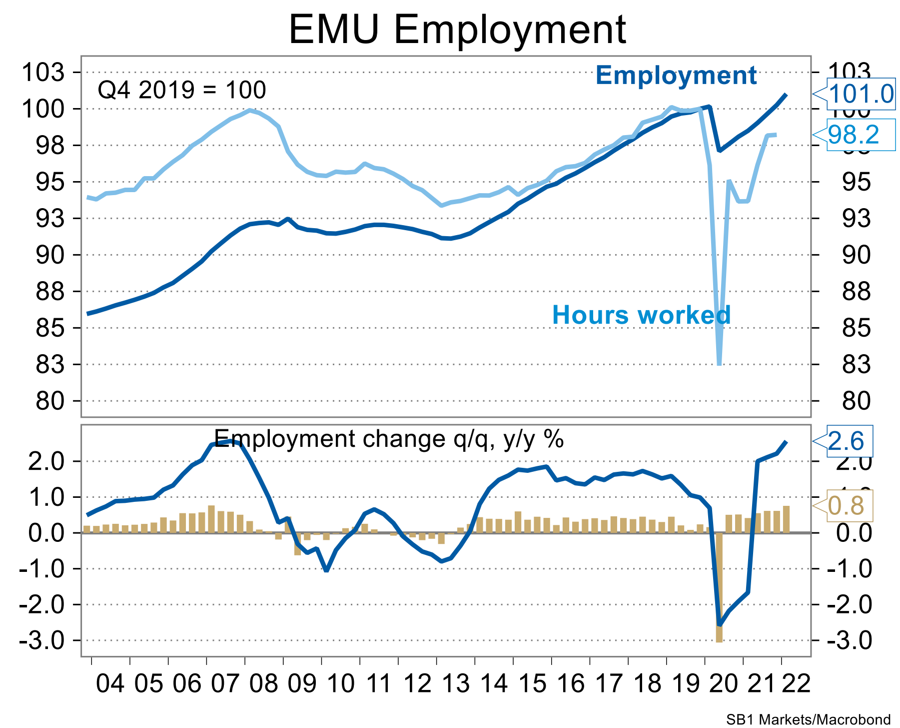
... But still very rapid price increases



Unemployment is flattening at the lowest level since 1981

The unemployment rate stable at 6.8% (but no. of unemployed fell by 96’ persons)

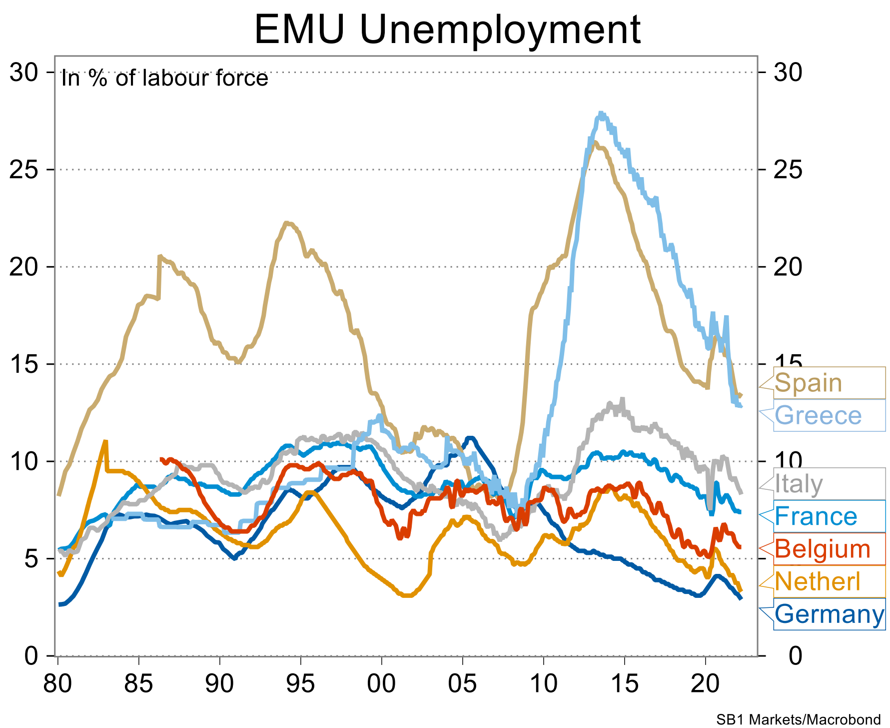


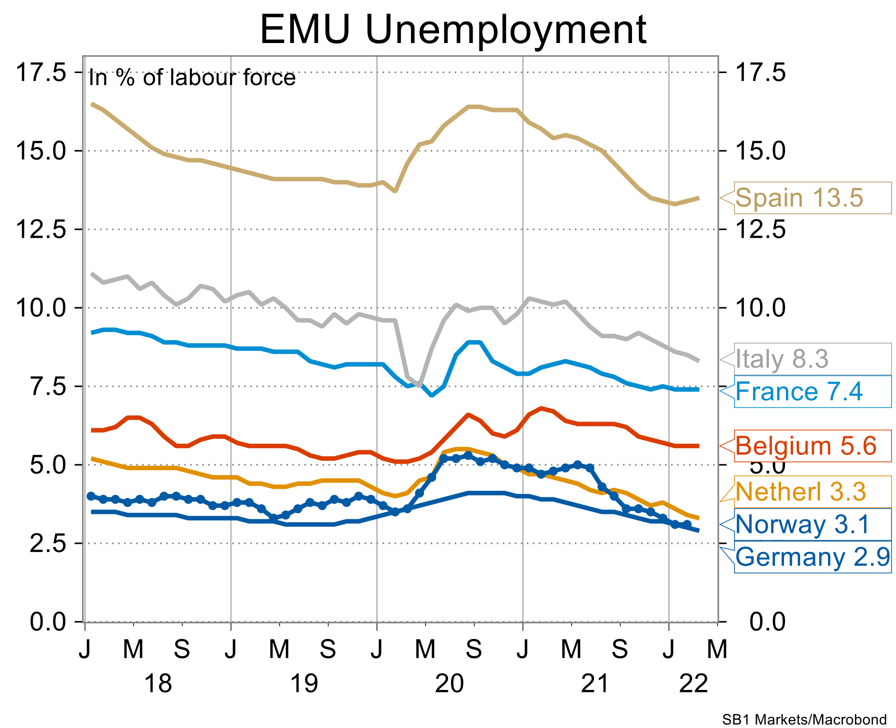


- **Unemployment** fell rapidly from last spring until February, and the rate was unch in March and April, expected down to 6.7%
- **Employment** rose by 0.8% in Q1 (3.2% annualised pace), and the level is 1% above the pre-pandemic level
  - » However, the best proxy for **demand for labour**, is the number of **hours worked**. In Q4, hours worked was unch., and were down 1.8% vs the pre-pandemic level, as average working hours have fallen
- The number of **unfilled vacancies** soared to the highest level ever in Q1, by far

Unemployment is declining all over the region…

… But not in Spain over the past 2 months!

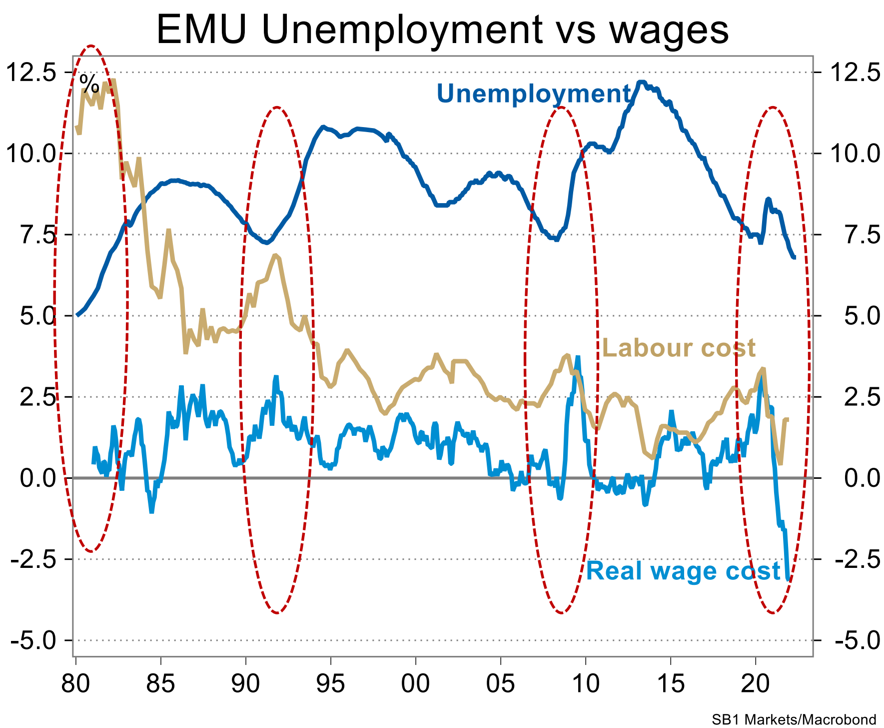


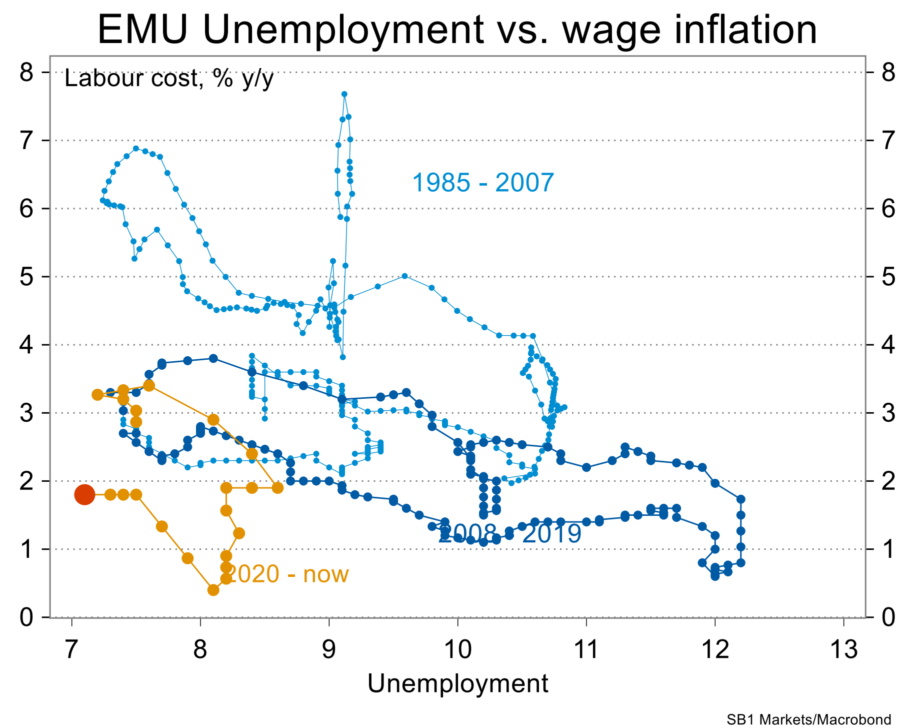


SpareBank 1 MARKETS

Unemployment is the lowest since 1981, vacancies are at ATH

There may be some wage inflation risk in the EMU too? So far, nothing is seen, wage inflation at 2.0%

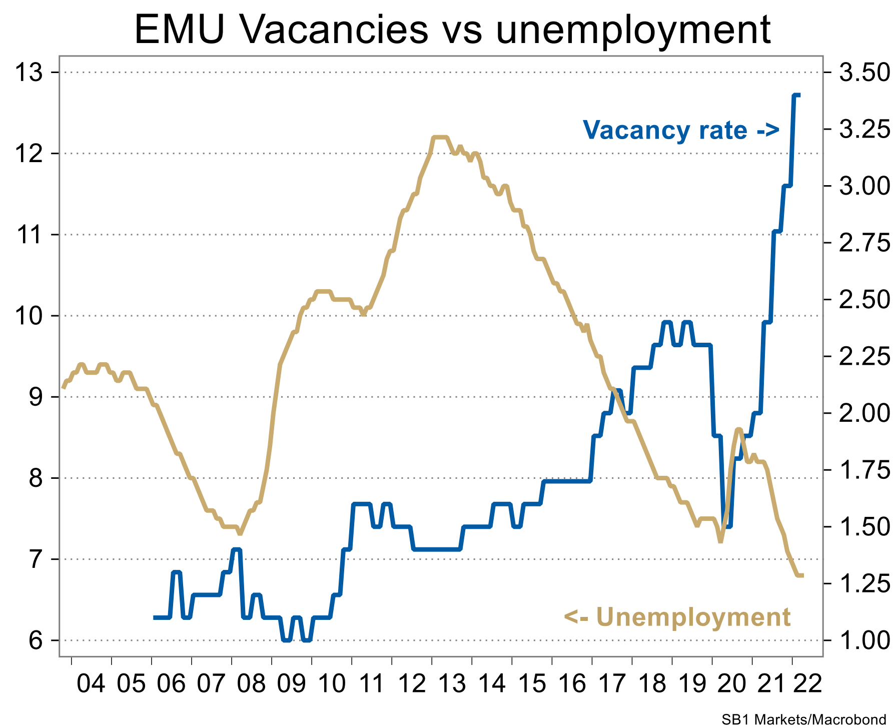


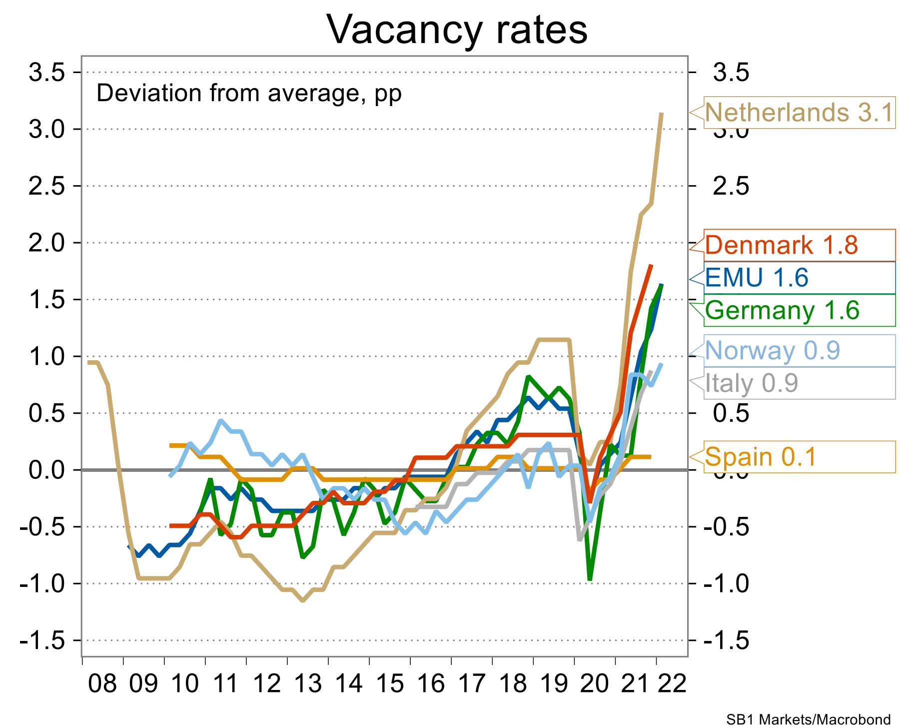


- A problem for the wage-earners: Wages are up 2%, while inflation is 7.5% - and real wages are collapsing

Businesses are reporting even more unfilled vacancies in Q1

… in tandem with the decline in the unemployment rate

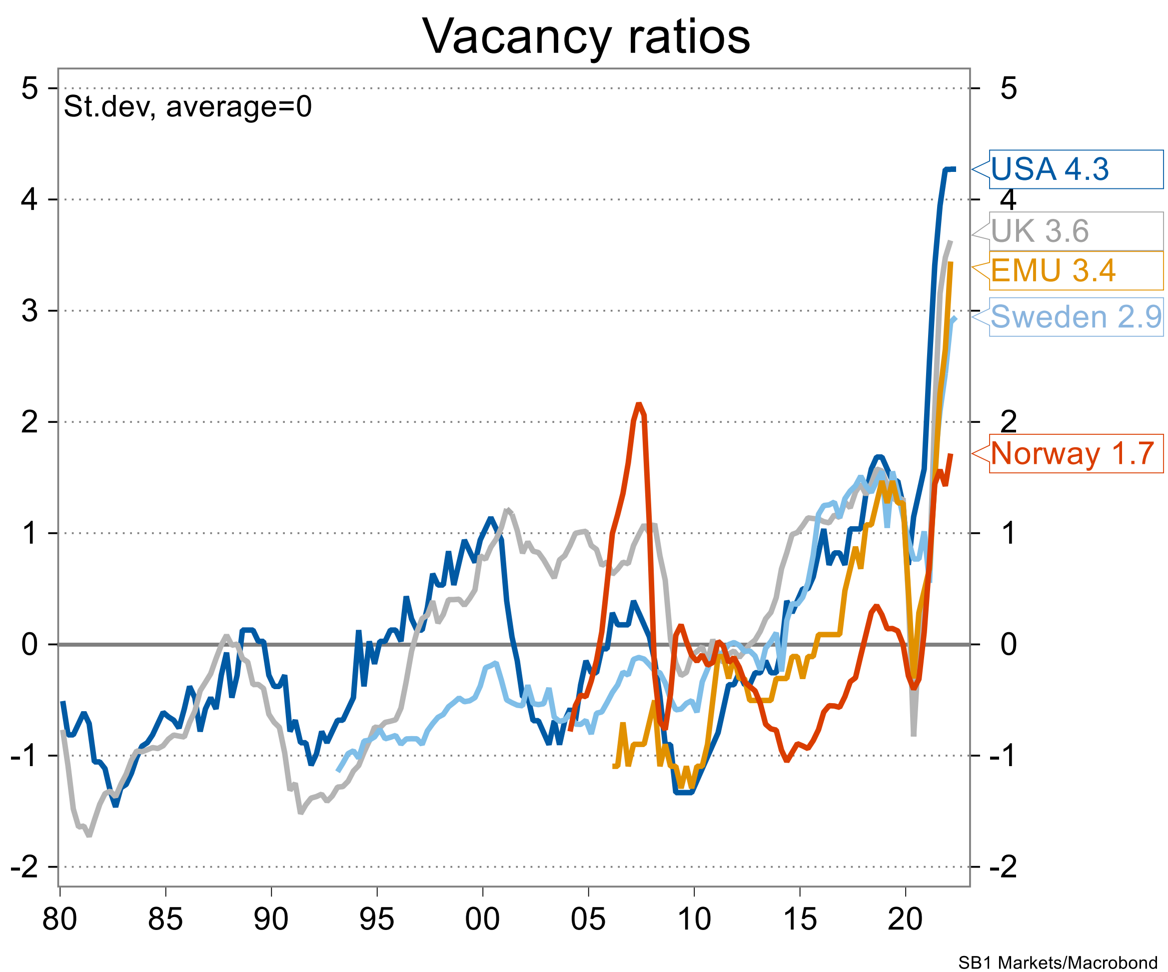




- Almost all European countries are reporting a steep increase in vacancies, and all but Spain to far above an average level (past 10 years, which these country stats cover). Several countries are reporting record high vacancy rates

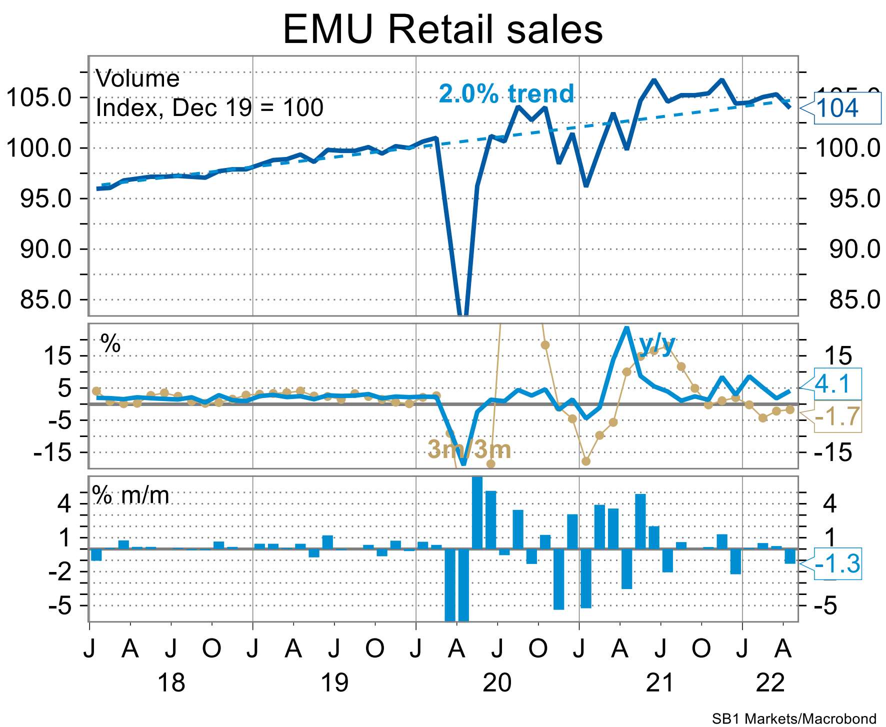
Lack of labour a ‘global’ phenomenon

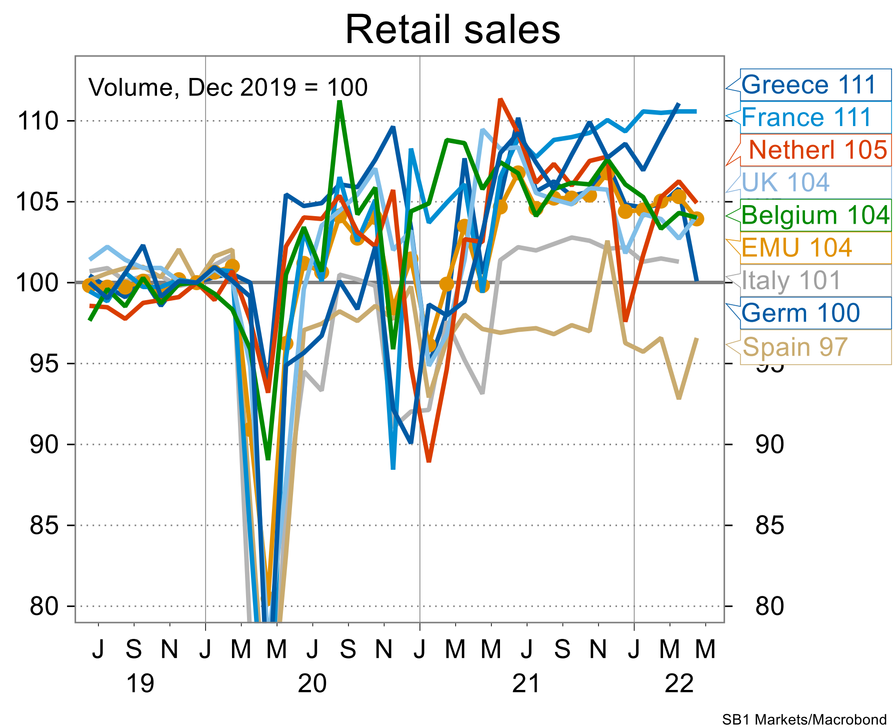
The US in the lead but Europe is not far behind! Norway is a ‘laggard’ (if NoBa’s ‘old’ data are correct)



Retail sales down 1.3% in April. Full stop in Germany

Sales in Spain rebounded

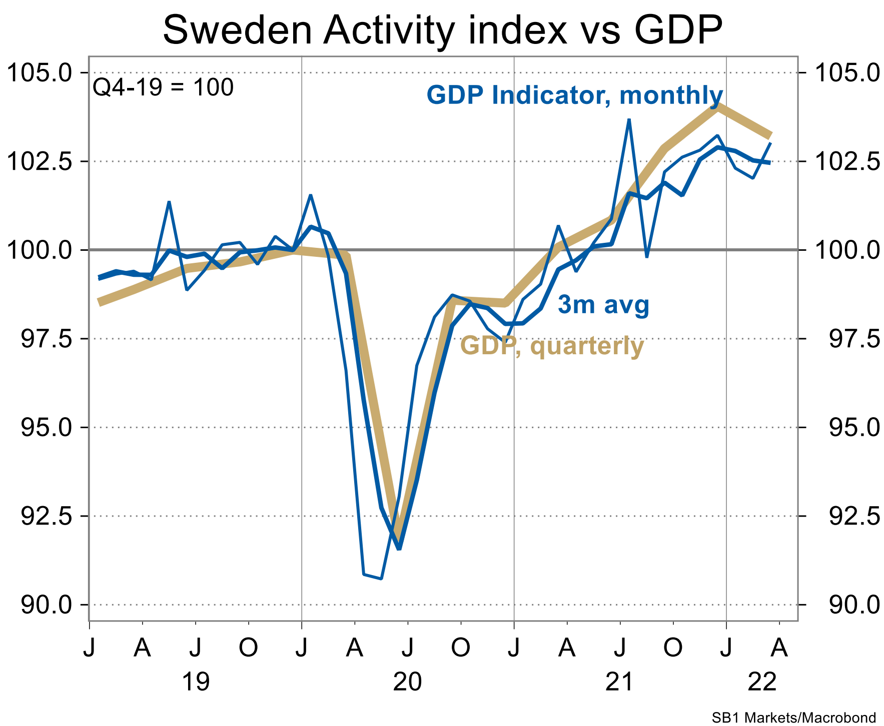


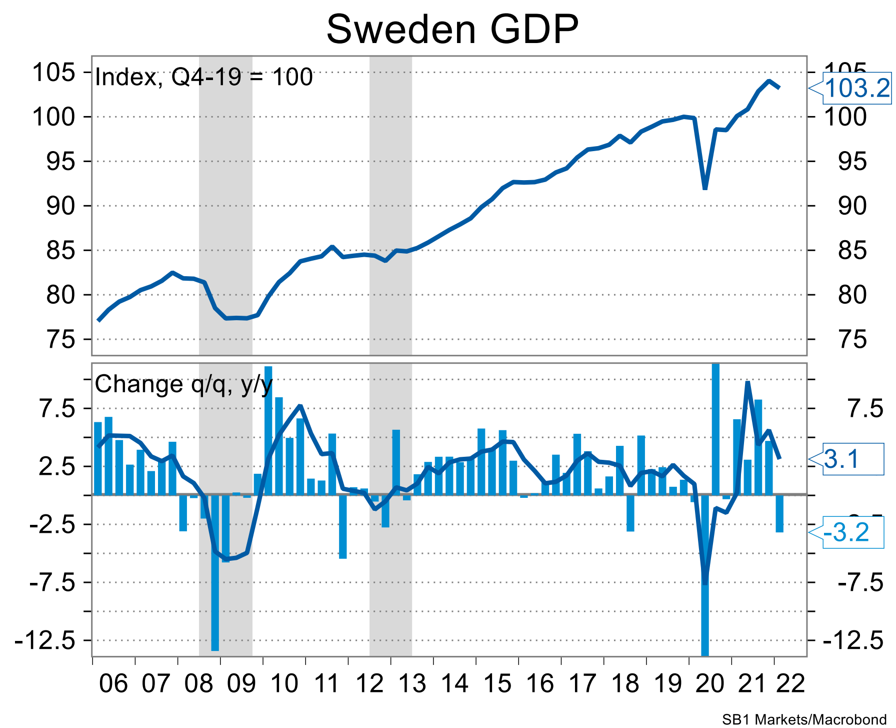


- Sales were expected up 0.3%
- Germany was the big surprise, down 5.4%, a really strange figure. Sales in Spain gained 4.1%
- Since before the pandemic: Sales are up 5%, and the level is close to the pre-pandemic growth path – signalling a limited downside risk (barring external chocks – and there are some around, like energy prices and war/sanctions)

GDP revised sharply up, and a tad more down in Q1 than previously reported

GDP fell 0.8% in Q1, double the initial estimate, the still 0.7% above the assumed level in Q1

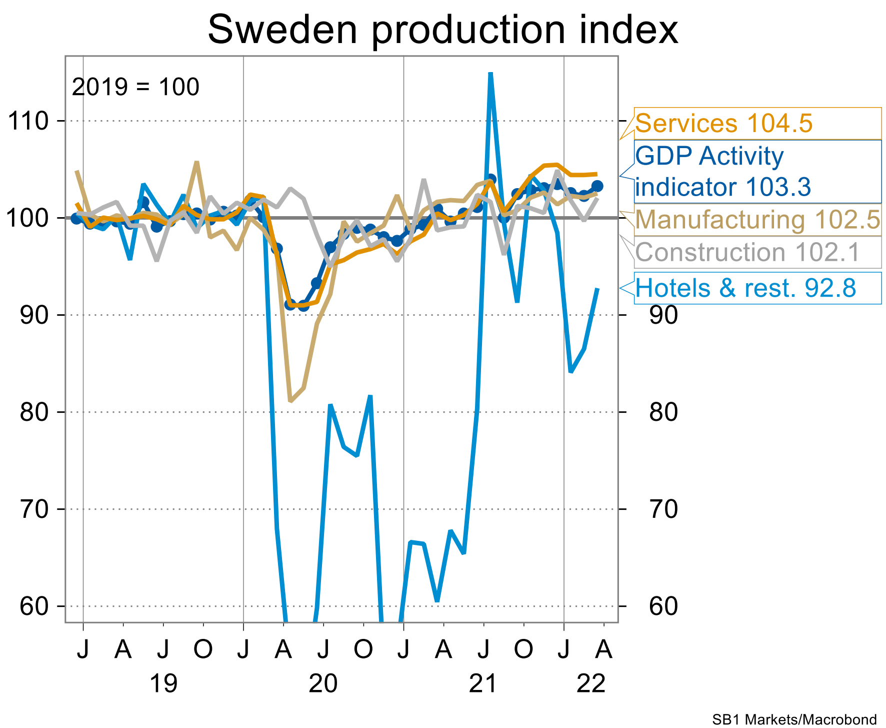




- **GDP** fell at a 3.2% pace in Q1 (-0.8% not annualised), twice as fast as expected
- **GDP** is 3.2% above the Q4-19 level, following a brisk recovery, starting in Q3-20
  - » Growth since Q4-19 was revised up by more 1%
- **The outlook** remains excellent, according to Swedish companies. THE KI (NIER) is down from the peak but is still at a very high level, and the March PMI was the best in the world
- Still, growth is very likely slowing, even if the business sector is extremely bullish on the outlook

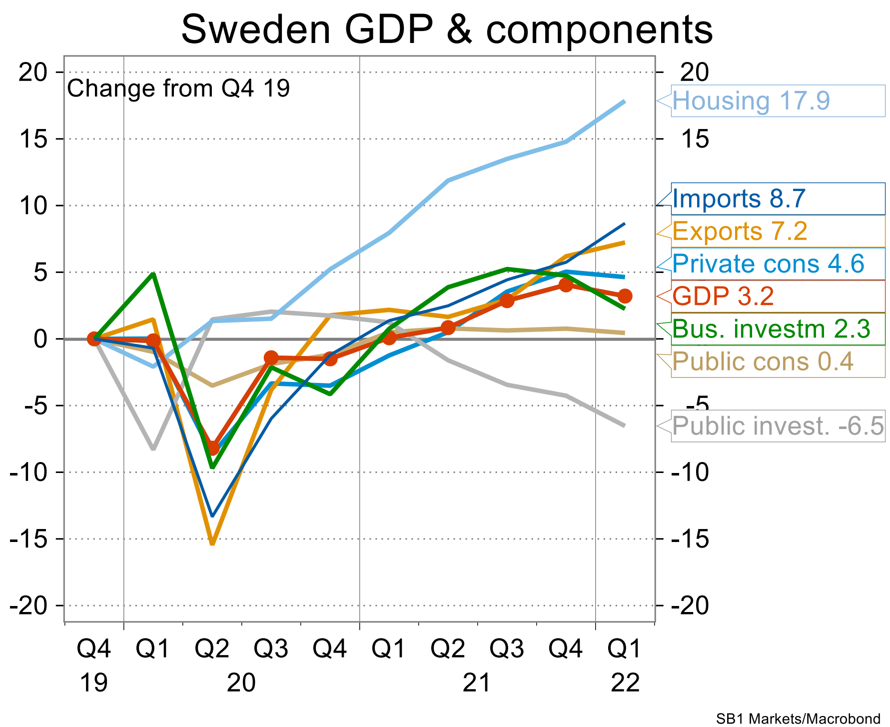
Parts of the service sector was still below par in March

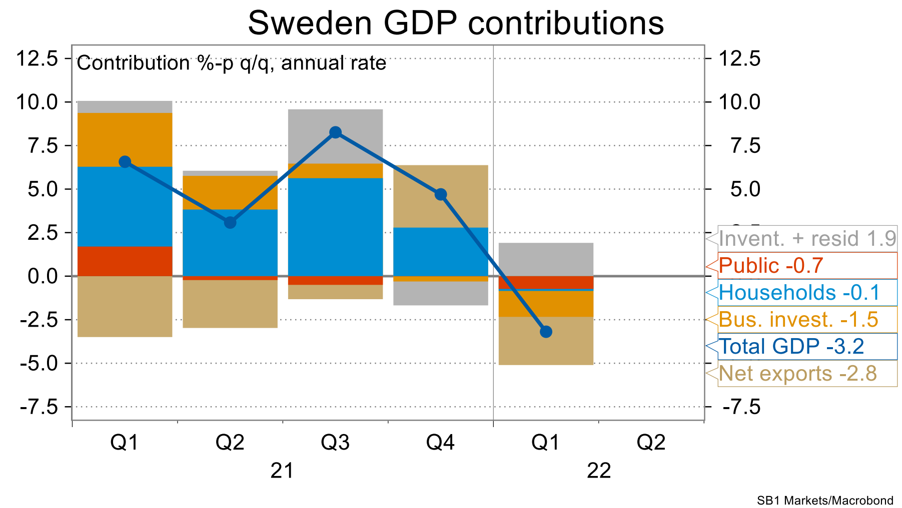
We expect a further recovery in April and May – even if consumer confidence has collapsed

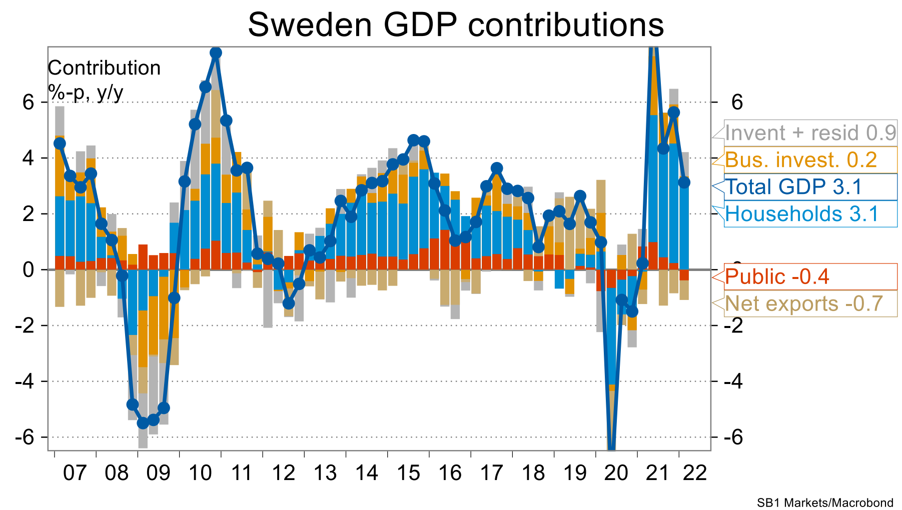


Households in the front seat, housing investments sharply up

… and private consumption has also recovered well. Exports OK too (but imports even more…)



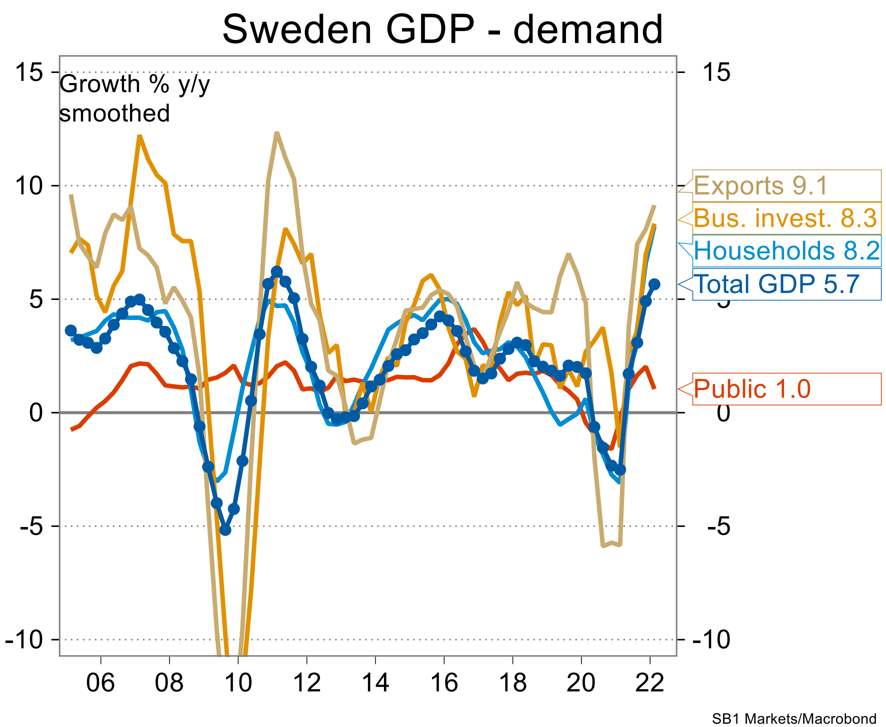


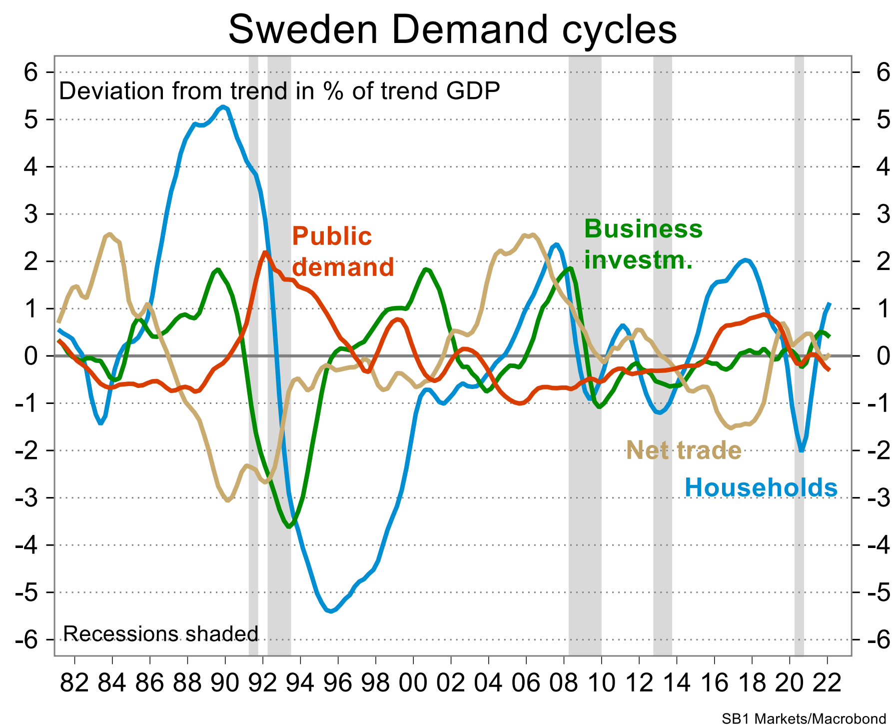


- Business investments have not shined, they are just marginally up y/y

The demand cycles: Households the main support now

Net trade not – and business investments have flattened

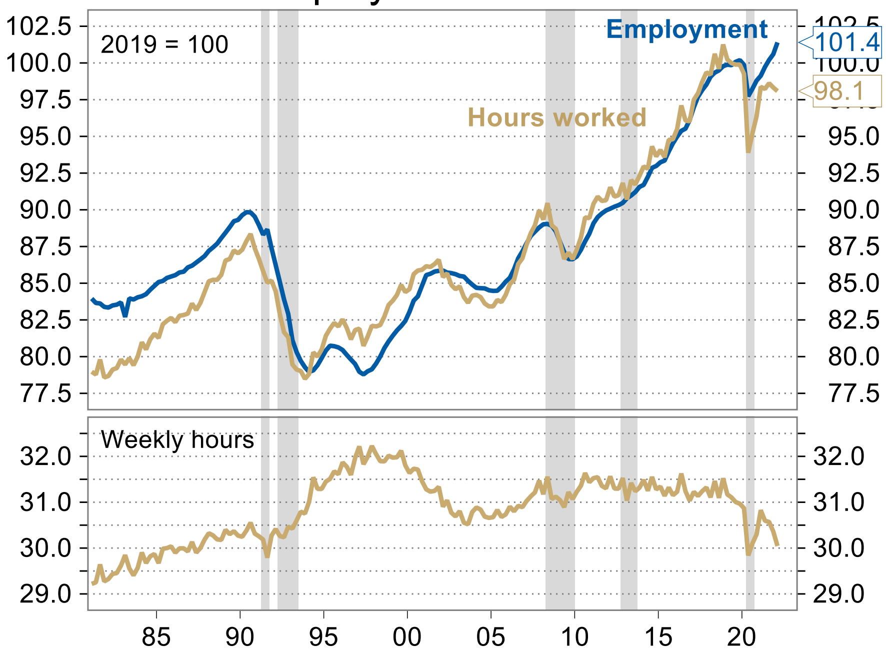




A lift in productivity during the pandemic?

However, the decline in hours worked does not seem reasonable, given strong employment growth?

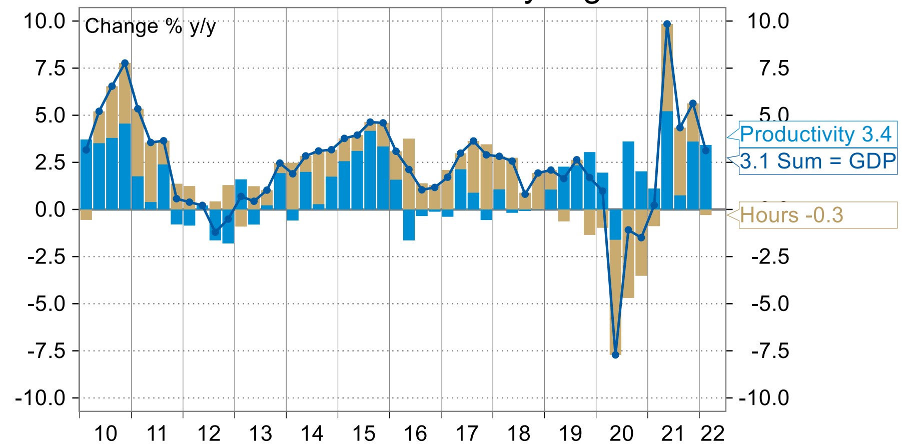
Sweden Employment vs hours worked



SB1 Markets/Macrobond

- Productivity growth are up 3.4% y/y, hours worked down 0.6%. Productivity picked up during the pandemic, while hours worked are down 0.3% y/y – even if the no. of employed is soaring. Not the usual mix

Sweden Productivity & growth



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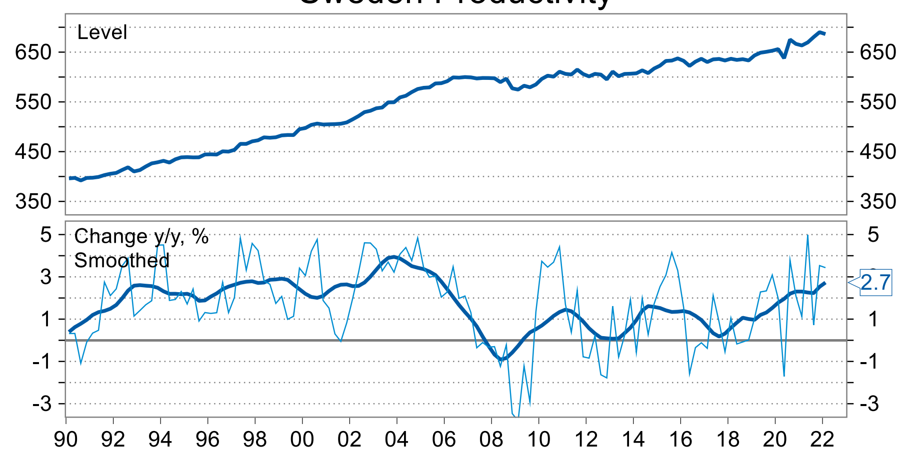
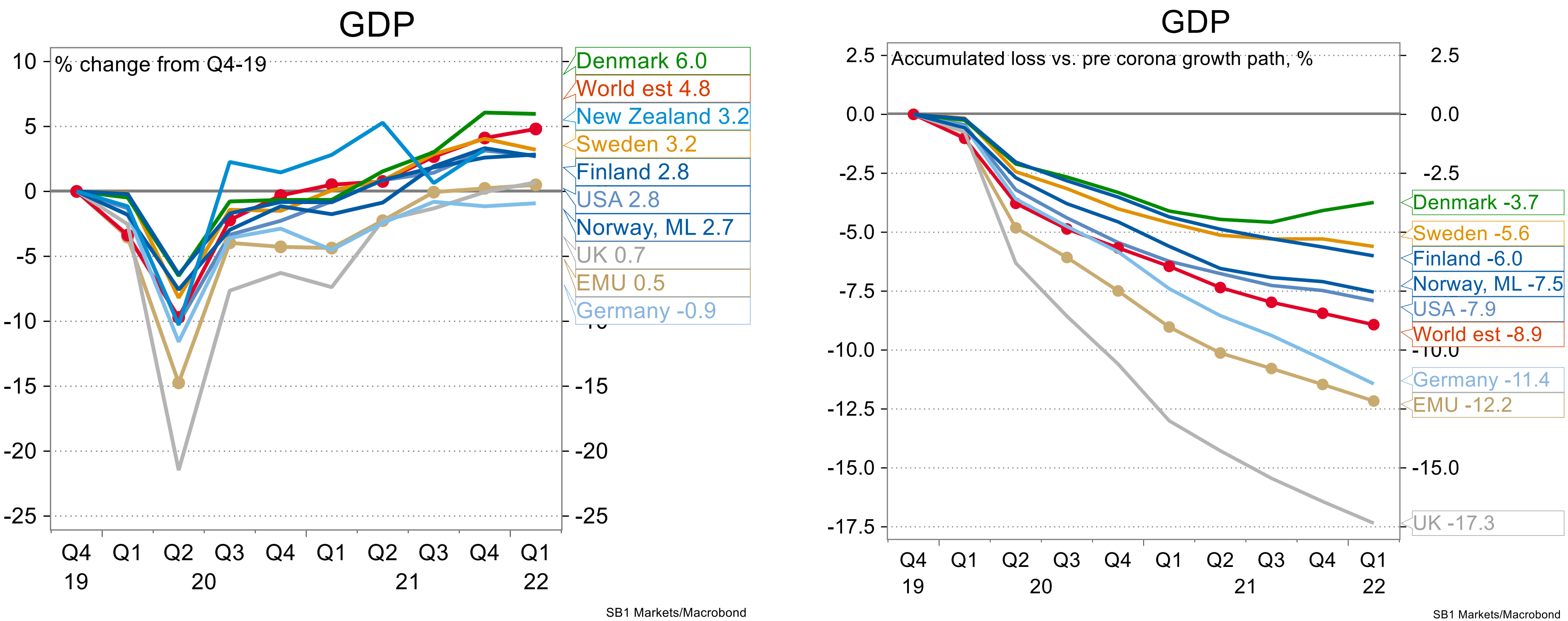
Sweden Productivity



SB1 Markets/Macrobond

Not that important differences between the Nordics during the pandemic

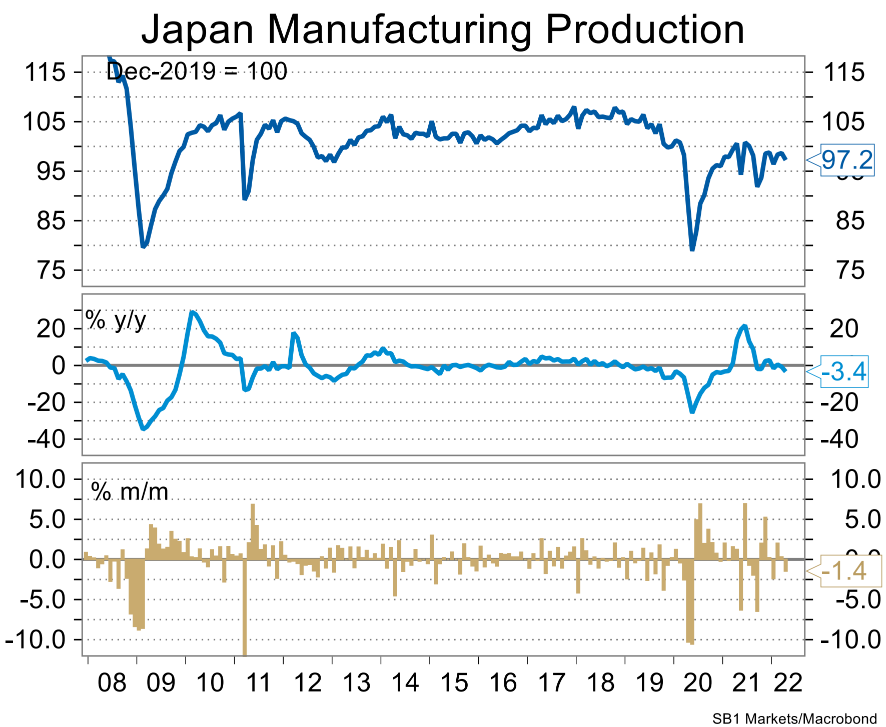
Denmark has suffered the smallest loss, Norway the largest – vs pre-pandemic growth paths

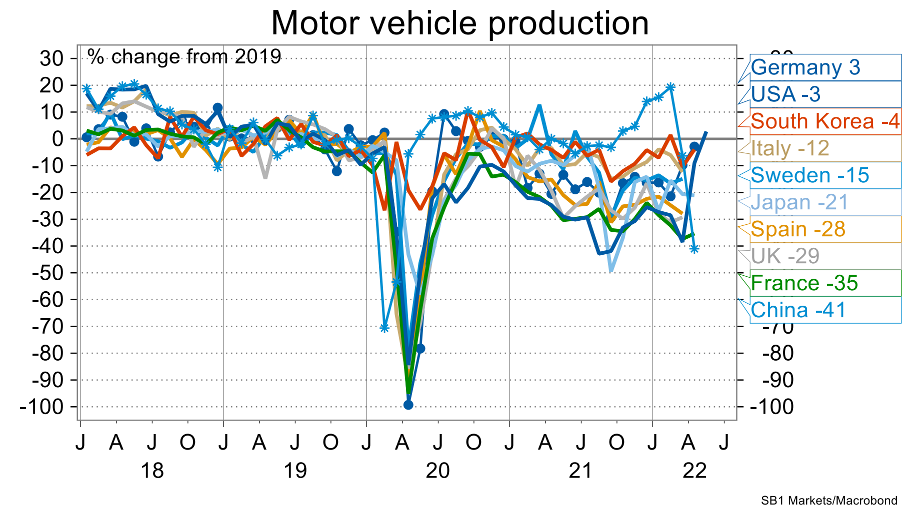


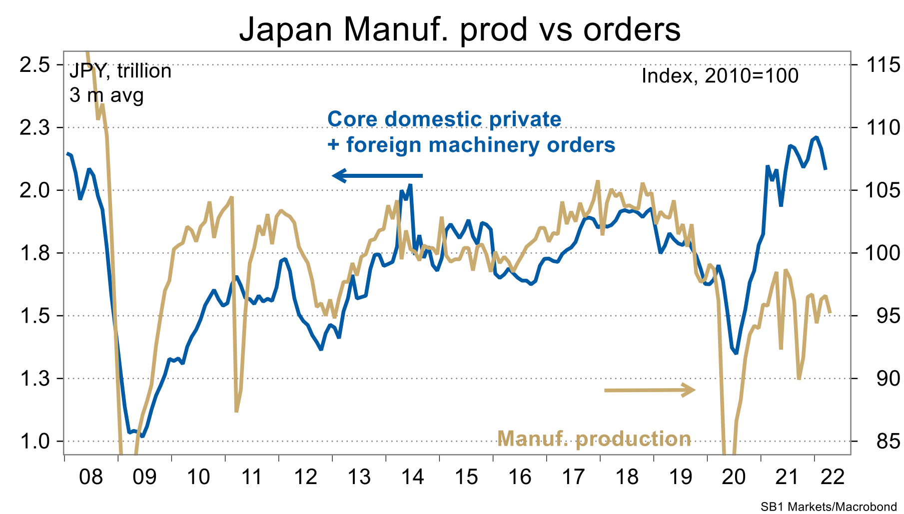
- The decline in **oil investments** has been an extra drag on the Norwegian Mainland GDP
- The Nordics have reported the smallest losses among rich, western countries, alongside New Zealand (Australia??)

Manufacturing production down 1.4% in April, trend flat

… and the level is 2.8% below the (low) pre-pandemic level. Auto production down 21%



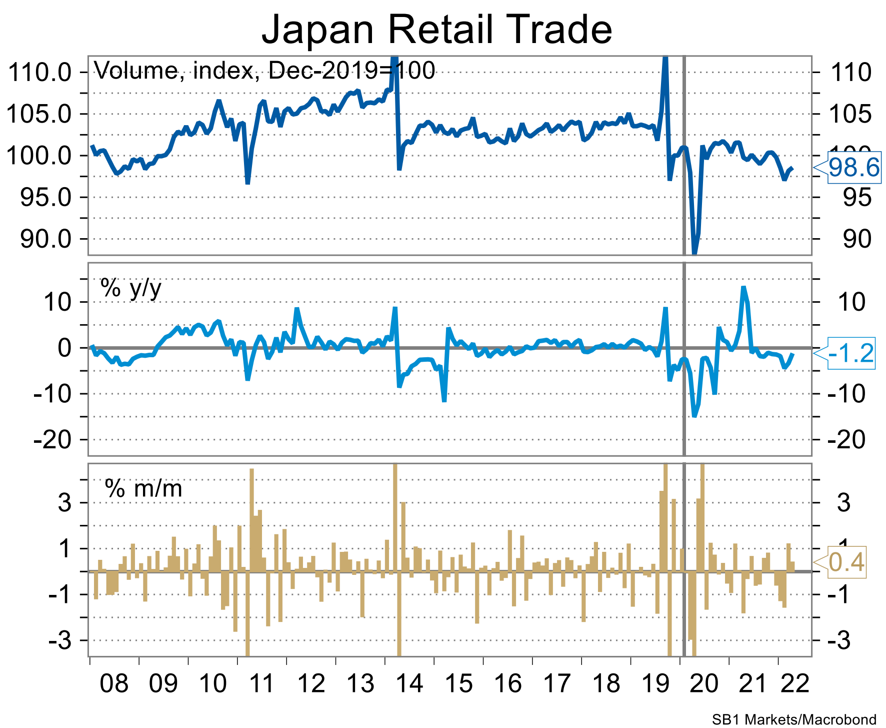


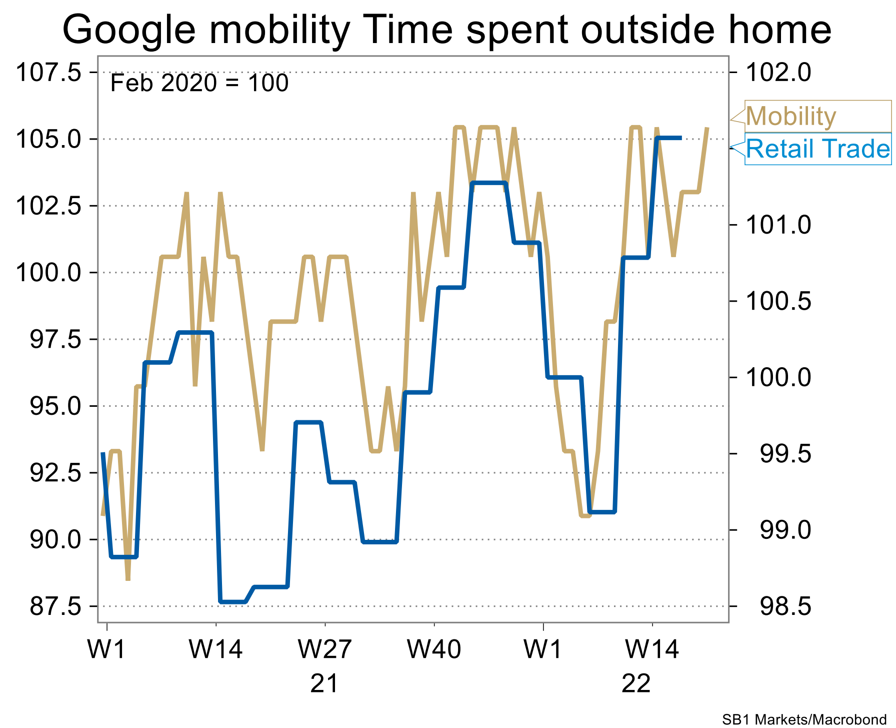


- **Production** contracted 1.4% in April, expected up 0.5%.
  - **Motor vehicle production** is still weak 21% below the 2019 level
- **Overall order inflow** has strengthened substantially through 2021, and into 2022 signals a much higher production level than the present

Retail sales up 0.4% in April, level still low

Sales are still 2.4% below a low level before the pandemic hit





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

Highlights

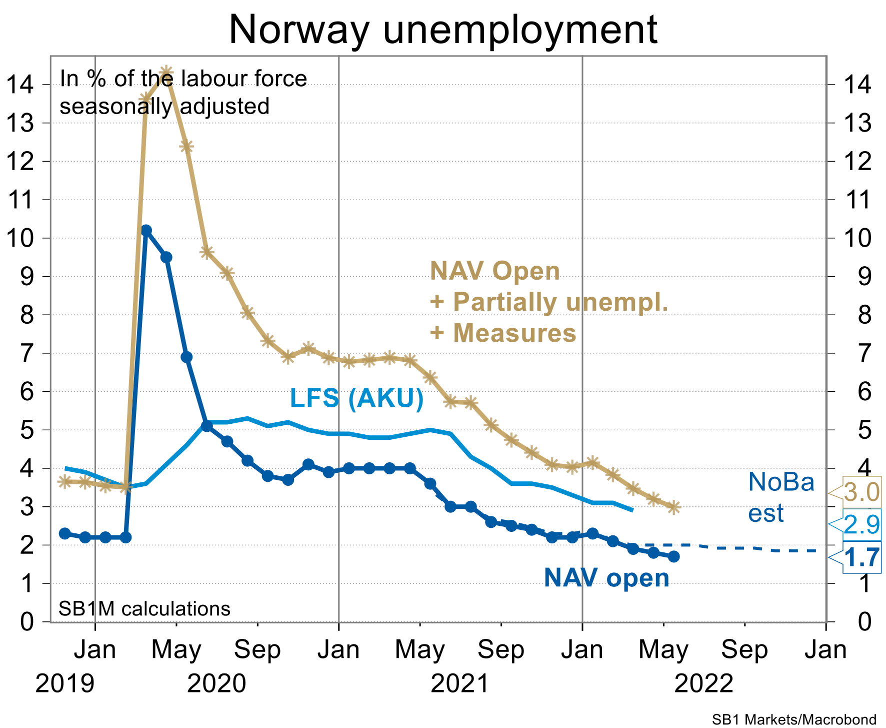
The world around us

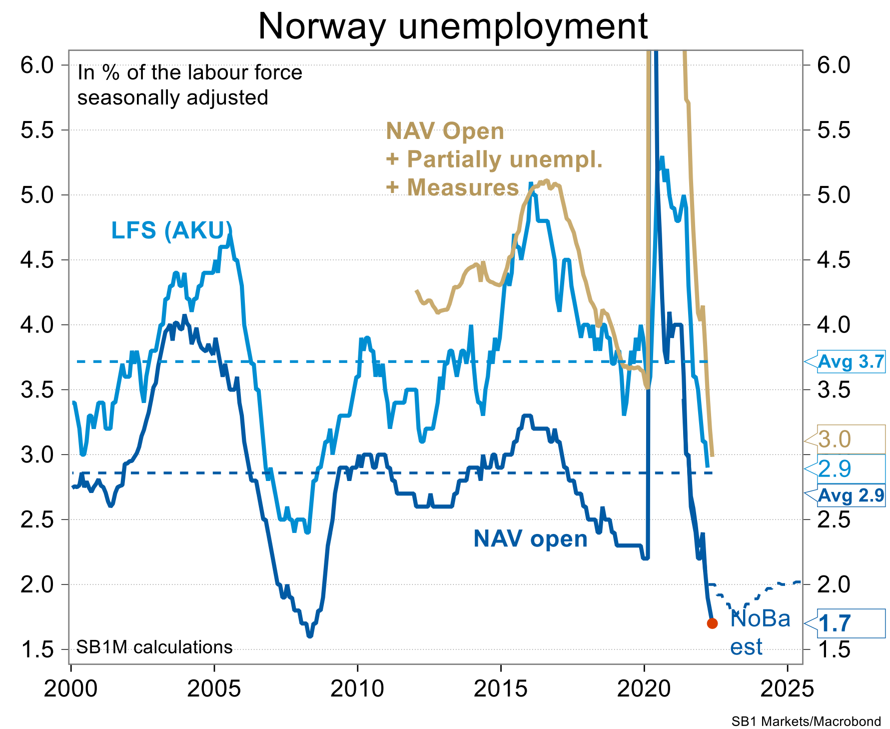
The Norwegian economy

Market charts & comments

NAV unemployment down to 1.7%, close to the lowest level since 1987

And below NoBa's estimate of the trough of this cycle, which should be reached next year

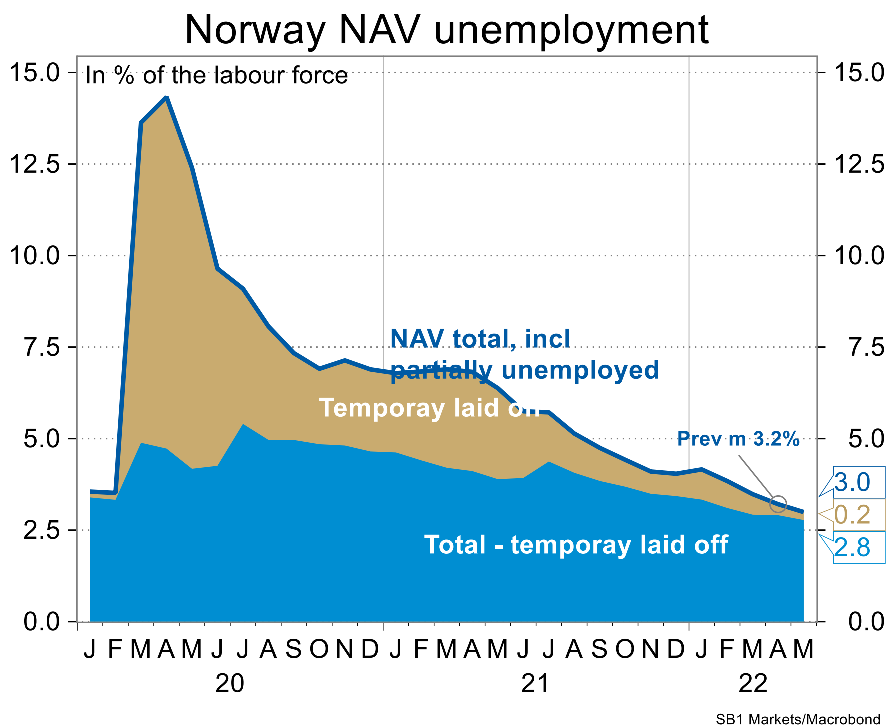


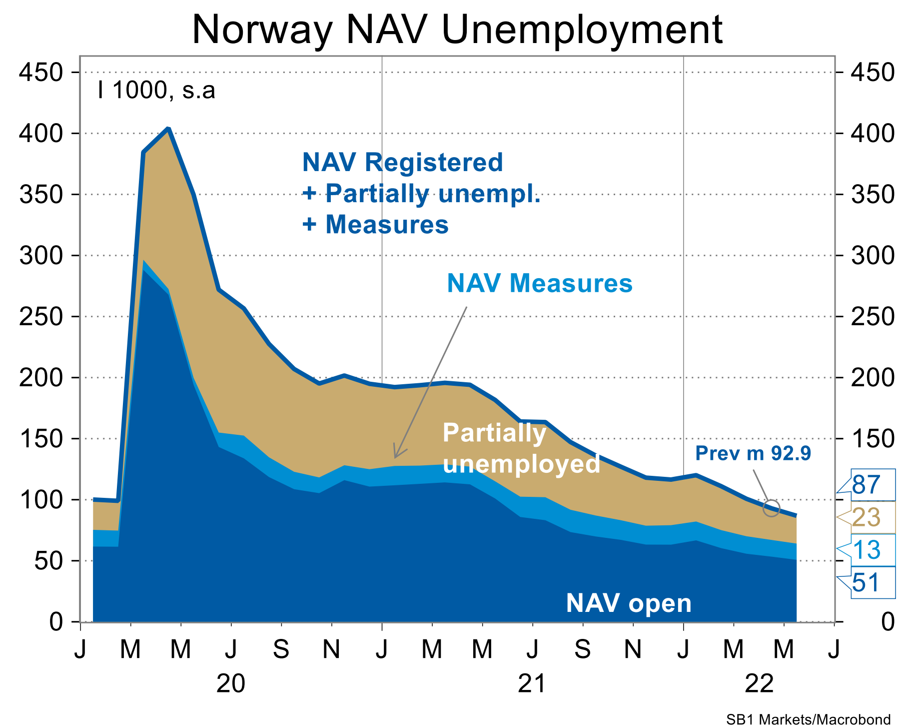


- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 3' persons in May (seas. adj) to 51', slightly below our forecast, and to 1.7% of the labour force, down 0.1 pp from the 0.1 pp downward revised rate in April. We expected 1.8%. Unadjusted, the rate fell 0.3 pp to 1.6% , lower than expected. The s.a. rate is 0.4 pp below the pre-pandemic level, 0.1 pp above the 2008 through and 1.2 pp the average since 2000. More important, the rate is 0.3 pp below NoBa's estimate in the March MPR. The level is even below NoBa's estimate of the cycle trough, assume in 2023
- The number of **partially unemployed** (not incl . in the ordinary unemployment no.) fell by 3' to 23', and including measures, the **total unemployment** fell by 6' to 87', 13' below the pre-pandemic level. <u>The overall unemployment rate fell by 0.2 pp to 3.0%</u>
- The inflow of **new job seekers** was unch. at a record low level in April. The **inflow of new vacancies** fell marginally but is close to the ATH in Feb
- **The LFS (AKU) unemployment rate** fell to 2.9% in March, and employment growth is strong

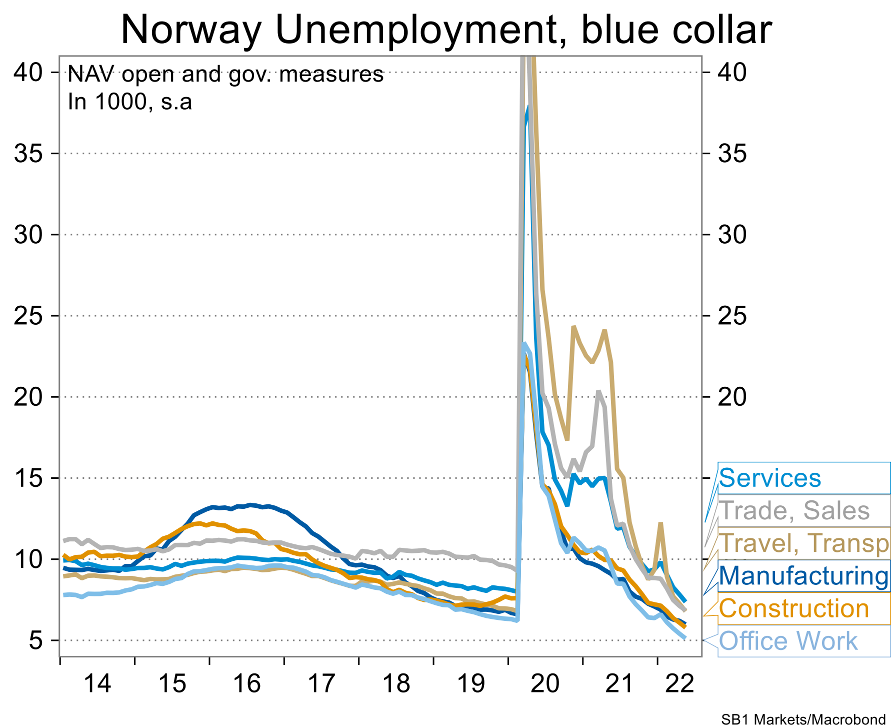
Down, down, down – whatever measure we apply

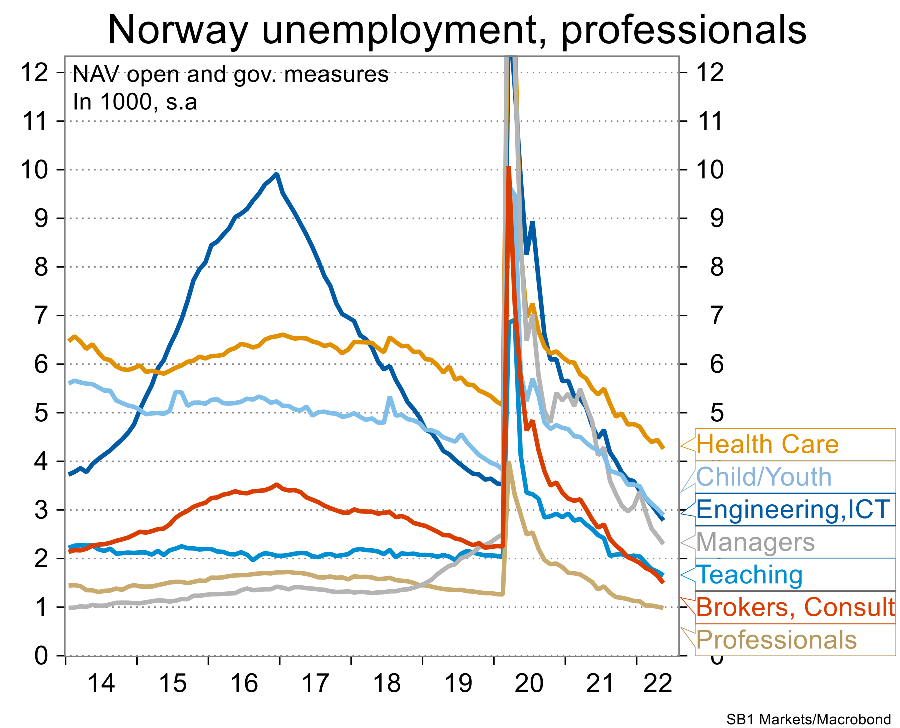
Grand total unemployment is now 13’ below the pre-pandemic level





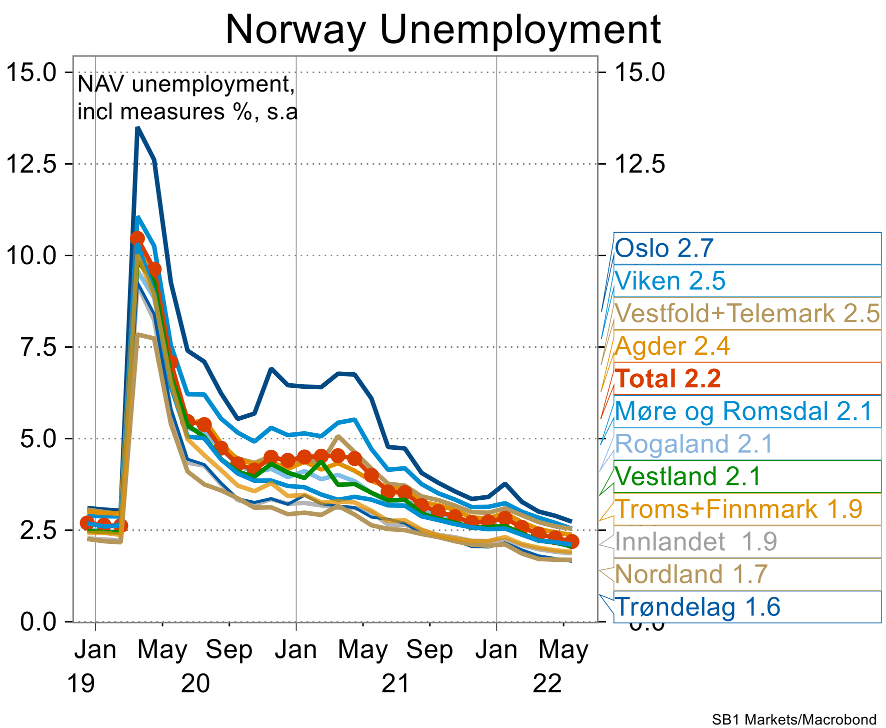
Unemployment is declining for all sorts of labour

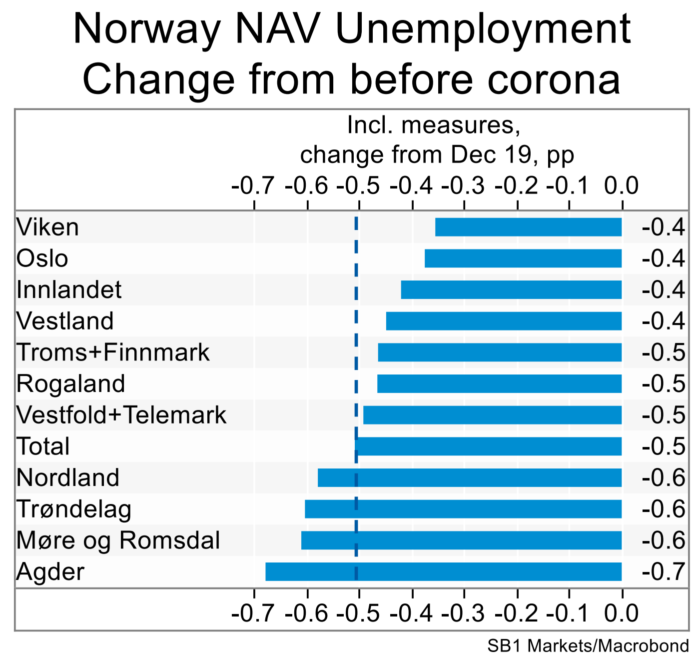




Unemployment is falling everywhere – and to well below pre-pandemic levels

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

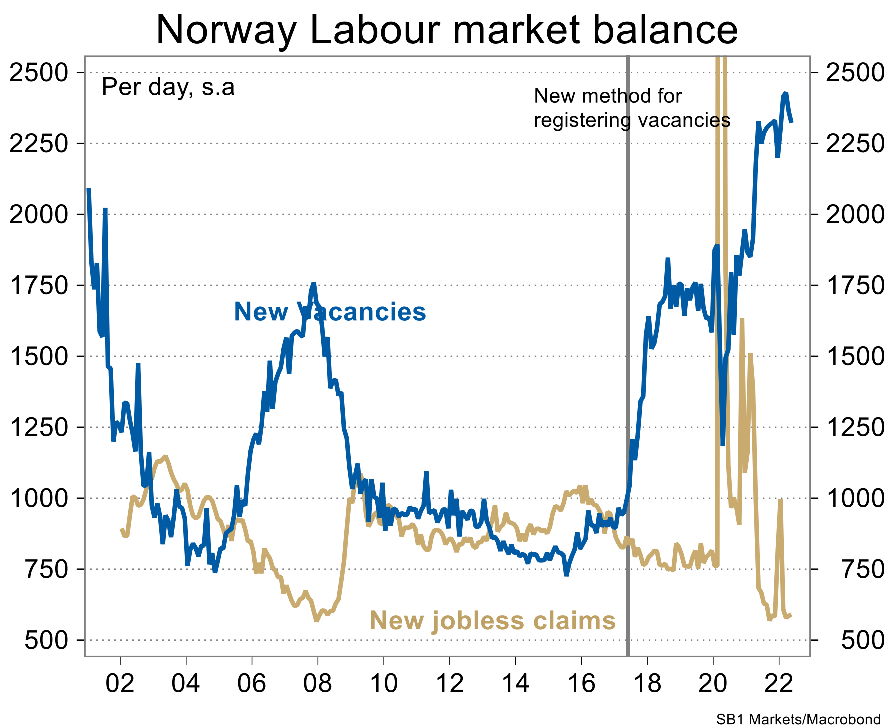


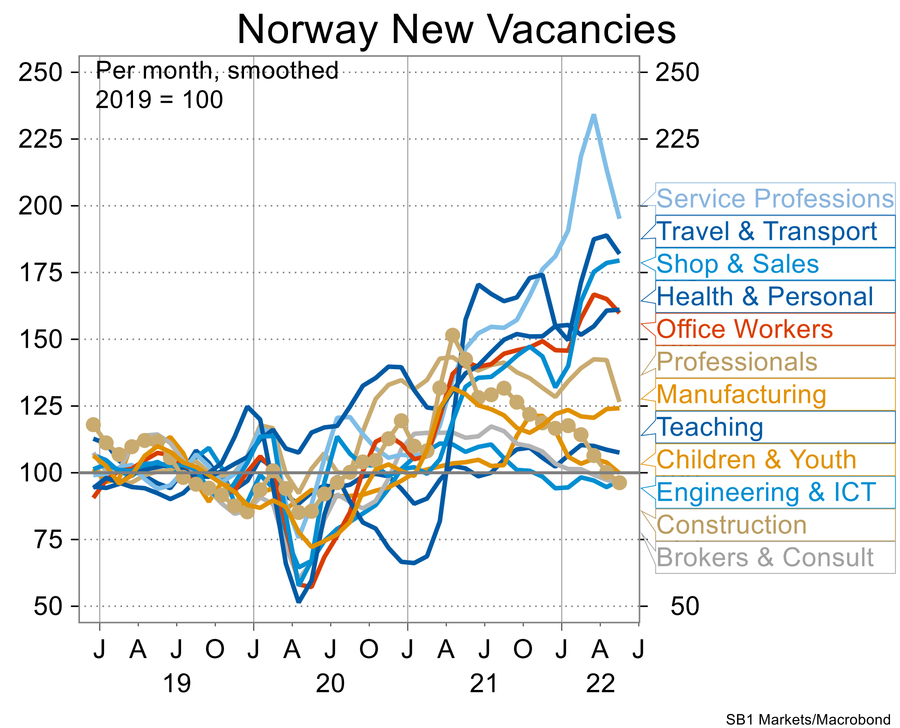


- Nordland and Trøndelag at the bottom – Oslo at the top, as usual

New jobless claims at a very low level, close to ATL

New vacancies close to record high – also signalling a very tight labour market

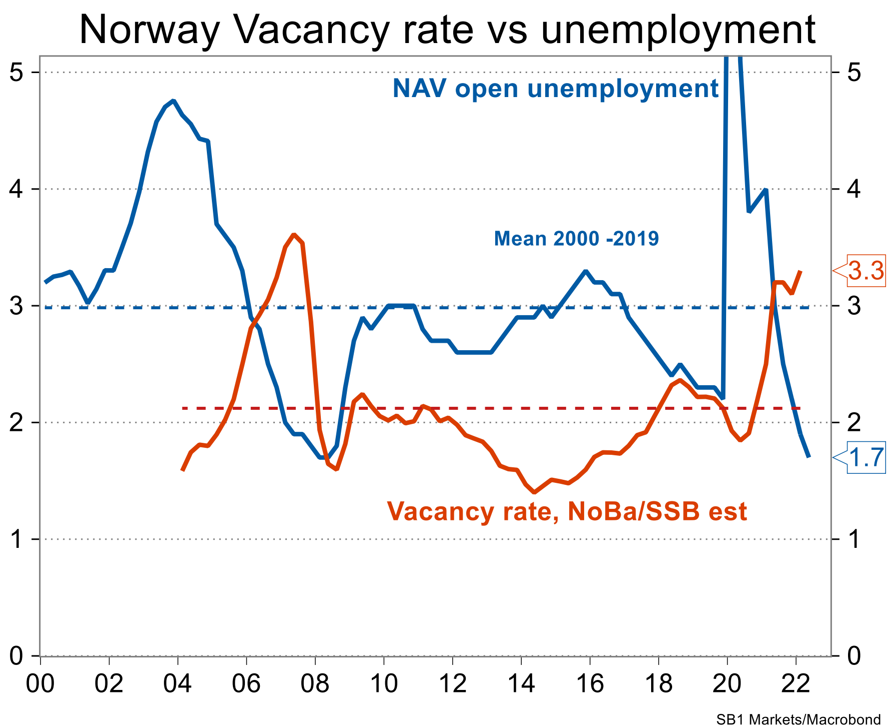


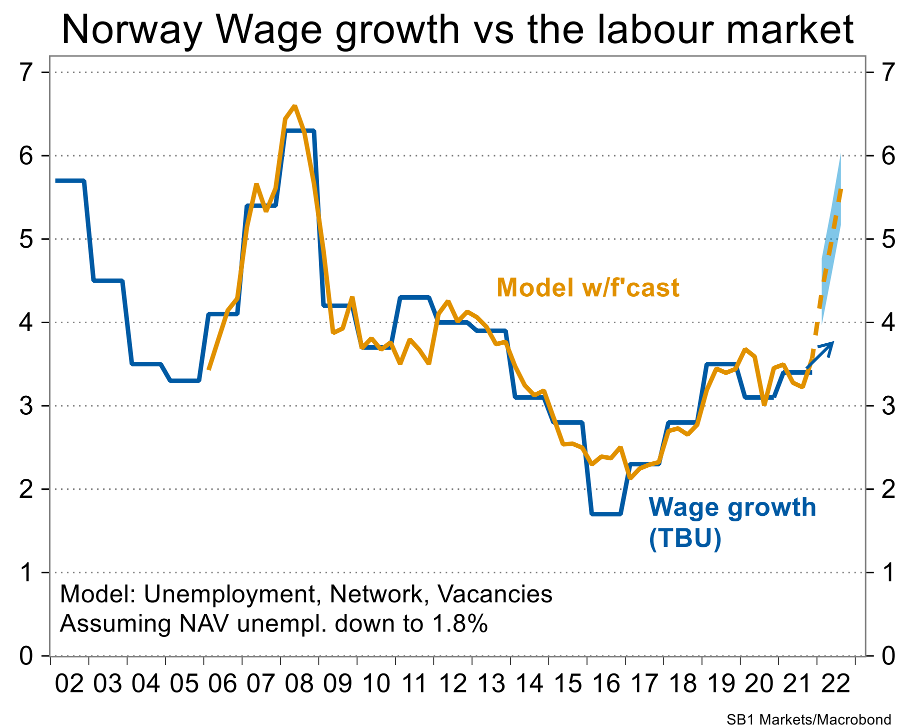


- Most sectors have announced somewhat fewer new vacancies recently, most pronounced in the construction sector
- Most sectors are reporting a higher number of new vacancies than in 2019

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

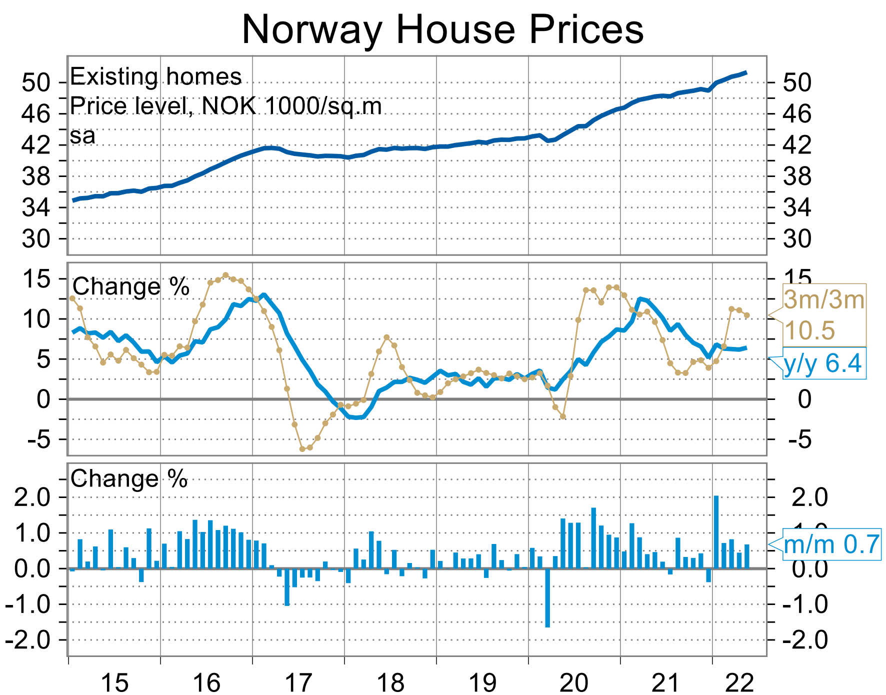
The labour market is tight – and it is probably tightening further



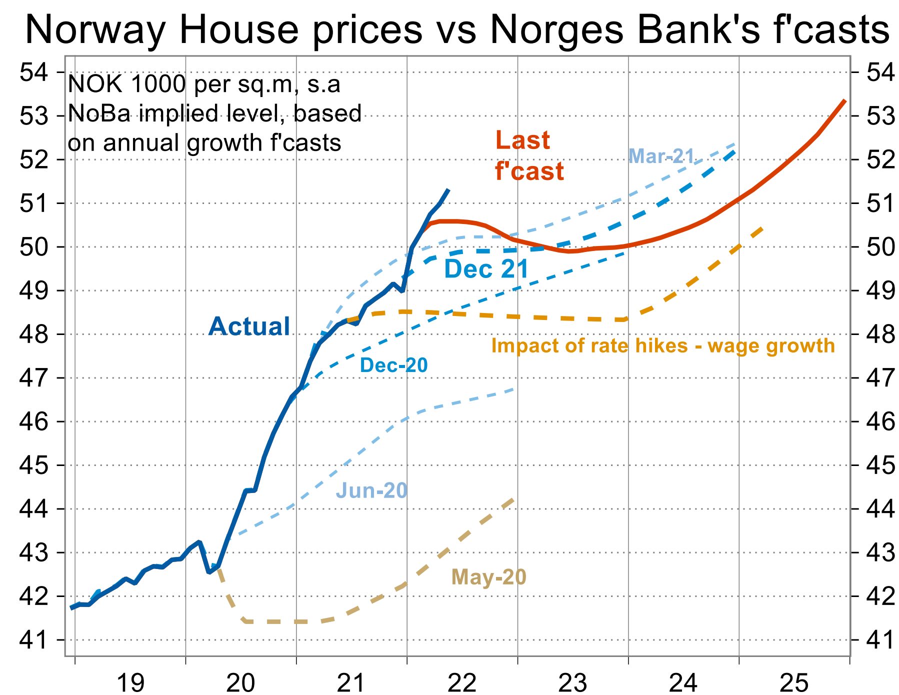


Shouldn’t house prices calm down now? Higher rates, a confidence collapse not enough

Prices up 0.7%, and they are 1.4% higher than NoBa assumed in March



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

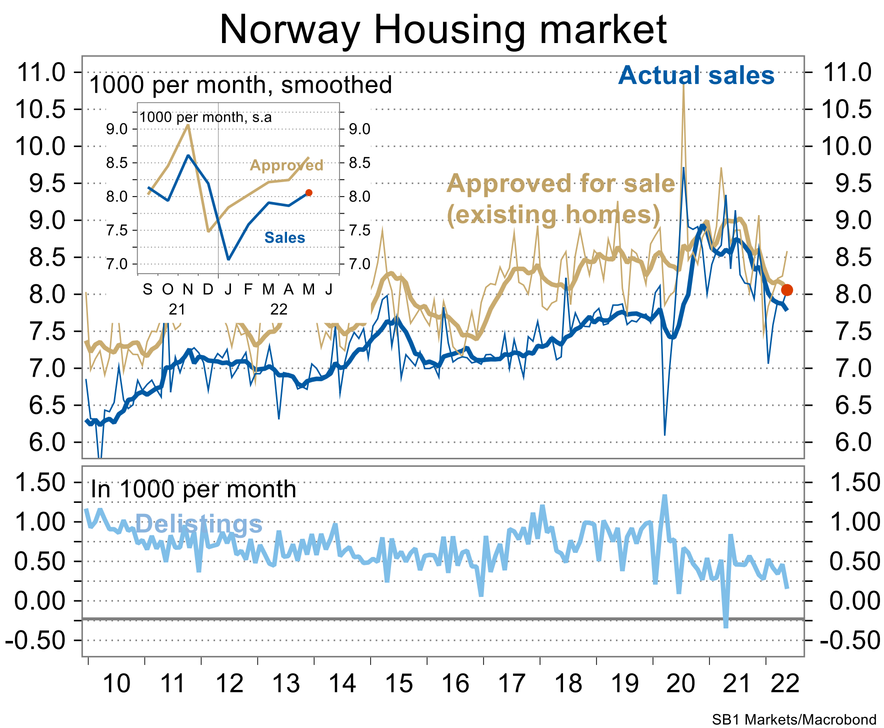


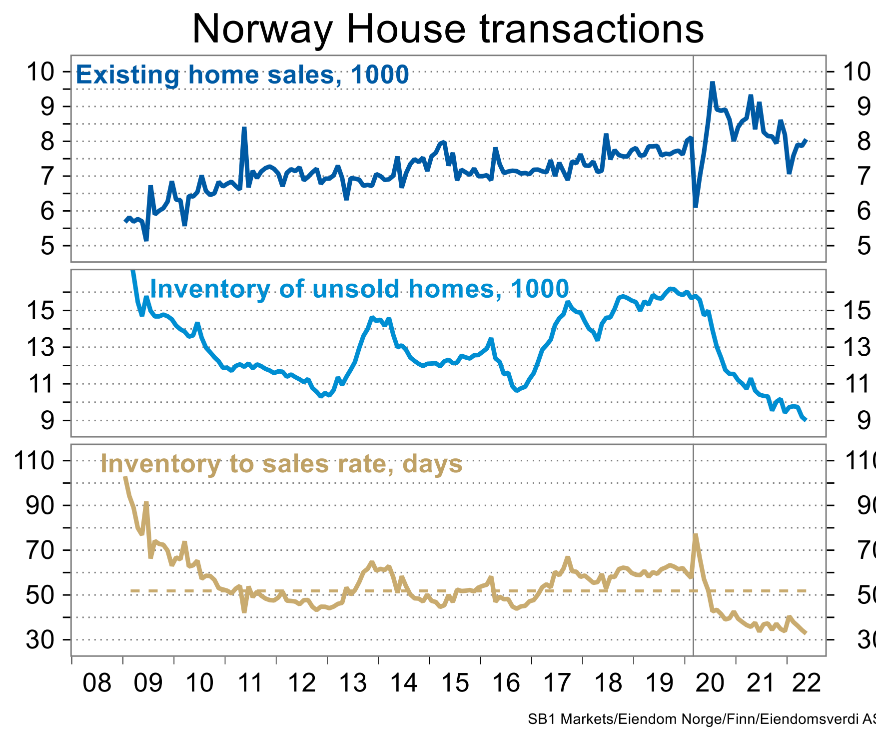
SB1 Markets/Macrobond

- **House prices rose 0.7% in May (**seas. adjusted., +1.2% unadj.), we expected 0.0%, like in April – which now is reported up 0.5% (but Feb was revised down). The number of transactions rose, and the inventory fell, to a record low level. New documentation requirements may have surprised supply in early 2022 but that excuse is now becoming less likely
- In March, **Norges Bank** expected that prices would flatten, and to decline marginally from Q3, before turning up again in H2 2023. In Q3 2024 prices were expected back to the H1-22 level. Prices are now 1.4% above the trajectory drawn 3 months ago, and the current price should not have been reached before early 2025. Thus a new path must be drawn, we still think it will show short term weakness
- The further increase in house prices are of course an argument for Norges Bank to lift the interest rate path once more

The number of transactions up in May, and the level is not low

Still, the inventory of listed homes fell further, to ATL

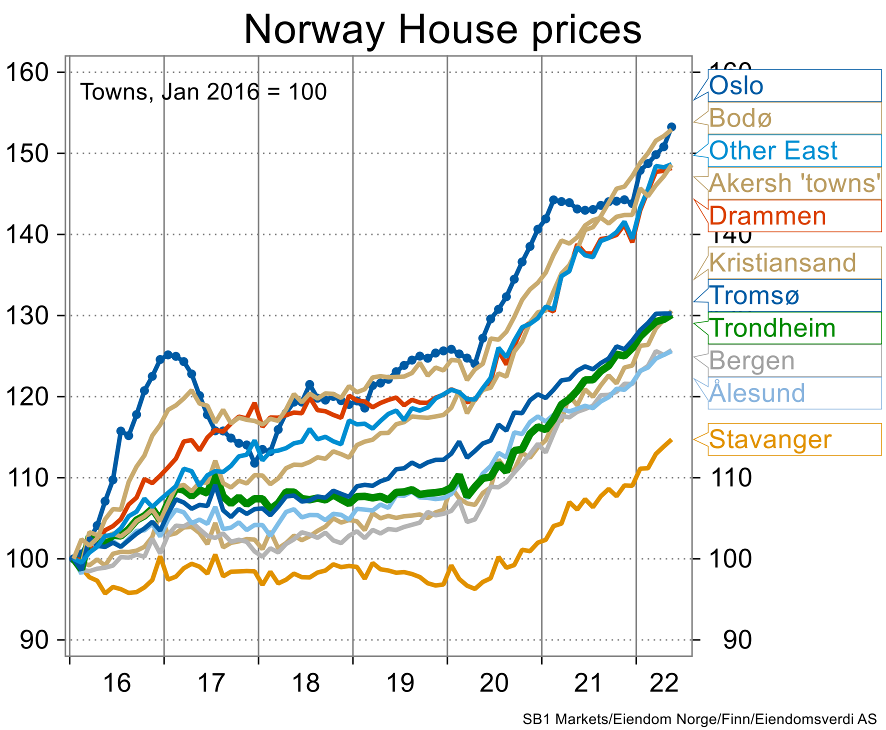


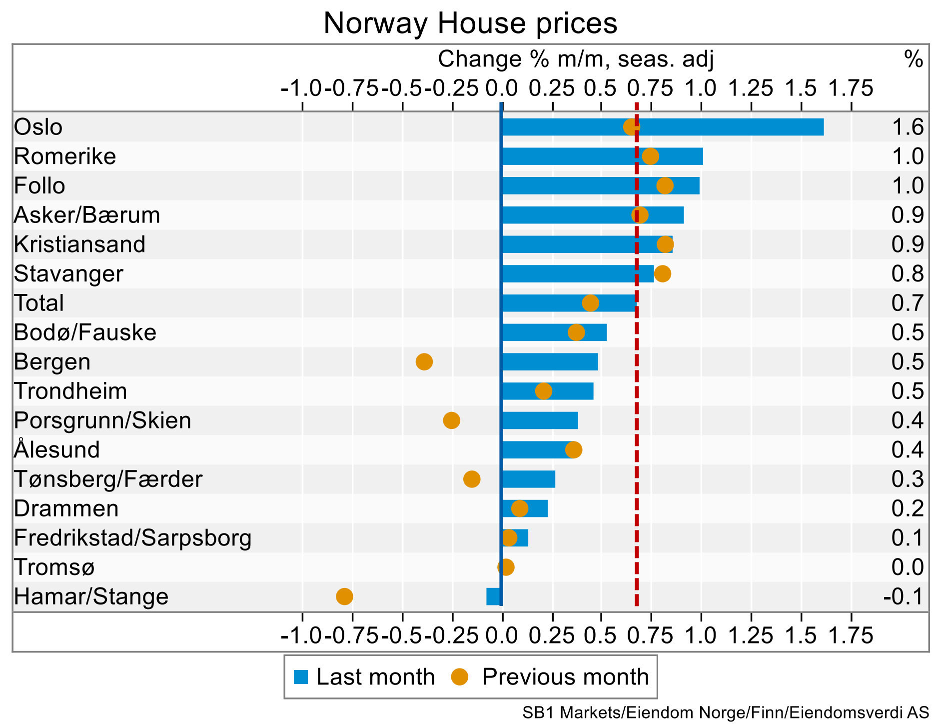


- **The number of transactions** has partially recovered following the large decline in January (new documentation requirements) but the level is lower than during the pandemic (but higher than before the pandemic!)
- The **supply of new existing homes for sale (approvals)** bottomed in December, and rose further in May
- The **inventory of unsold homes** declined in May, to the lowest level ever (since 2009, measured by this stats)
- The **inventory/sales ratio** declined 1 day to 33 days, vs an average at 52 days
- The **actual time on market** for those homes fell 1 day too, to 31 days, the fastest pace in almost 10 years (average 42 days)

All cites but Hamar reported higher prices in May

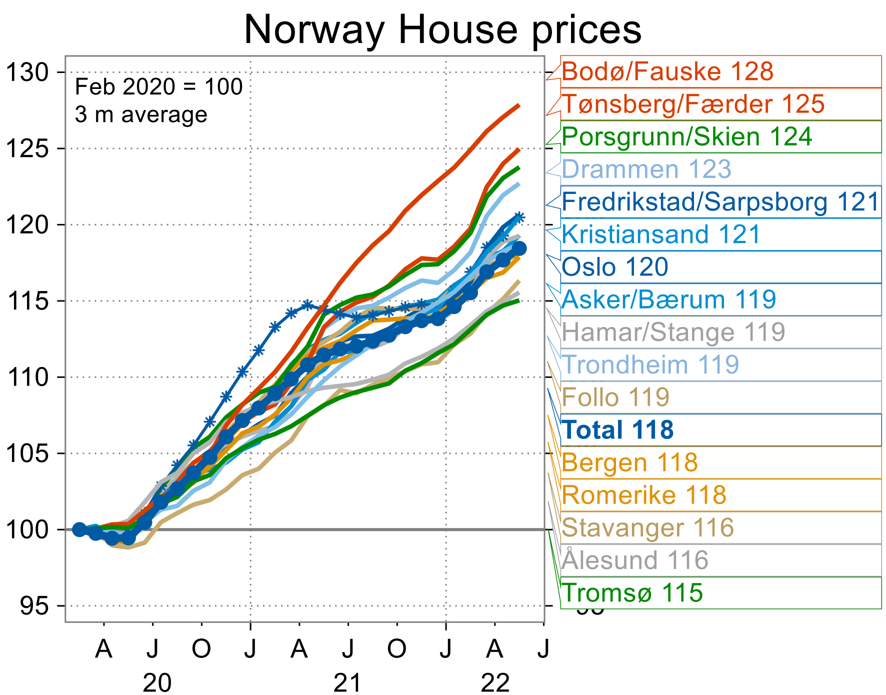
Oslo prices up 1.6%



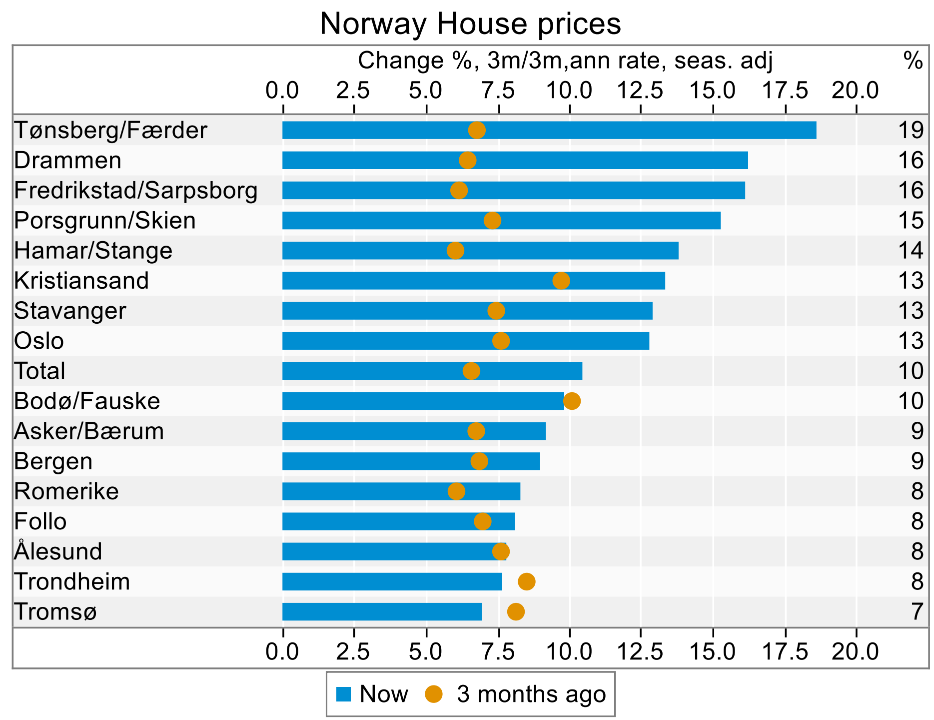


The big picture: Now prices are climbing the fastest in the Outer East

Bodø has lost some momentum



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS



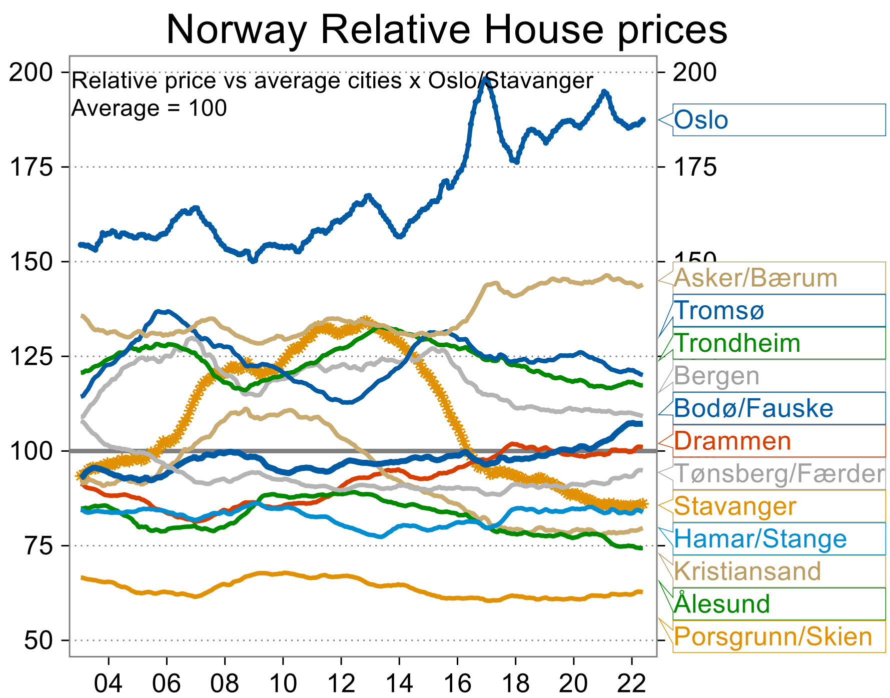
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- Bodø the winner through the pandemic (but Oslo since 2016, check the previous page)
- After Bodø, eastern towns have been the winners since the start of the pandemic, Tønsberg, Porsgunn/Skien, Drammen and Fredrikstad/Sarpsborg, and prices are still climbing the fastest here
- Bergen, Stavanger, Ålesund and Tromsø at the bottom of the list (vs. early 2000)

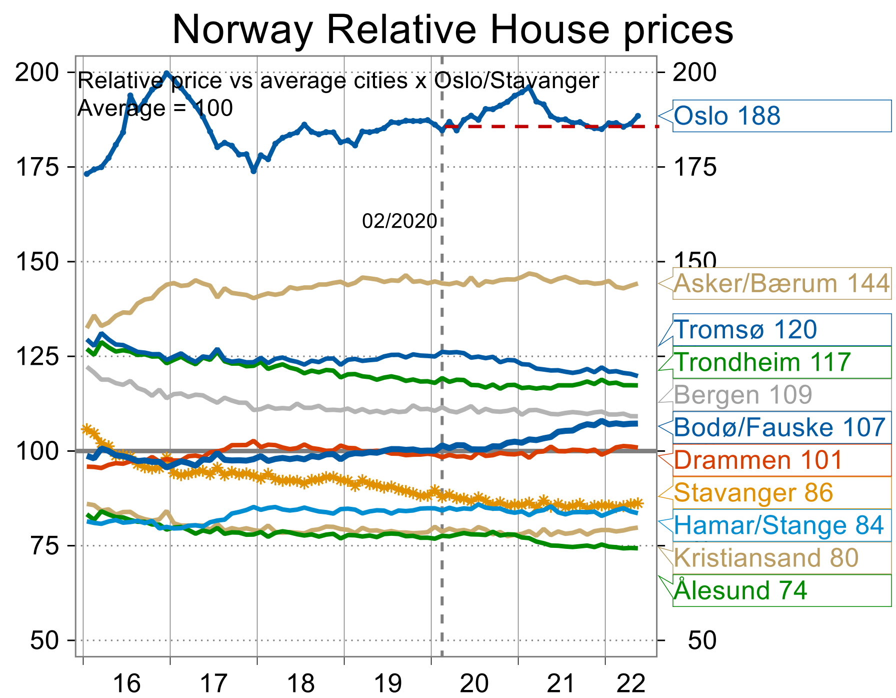
SpareBank 1 MARKETS

Oslo relative prices above the pre-pandemic level again

Stavanger has flattened relatively, at a low level



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

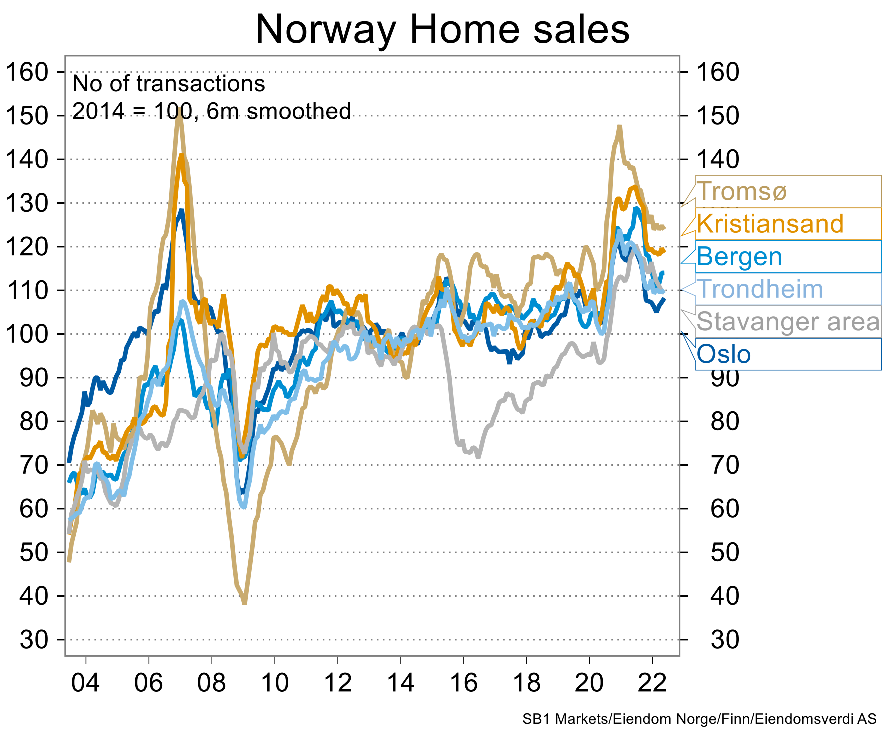


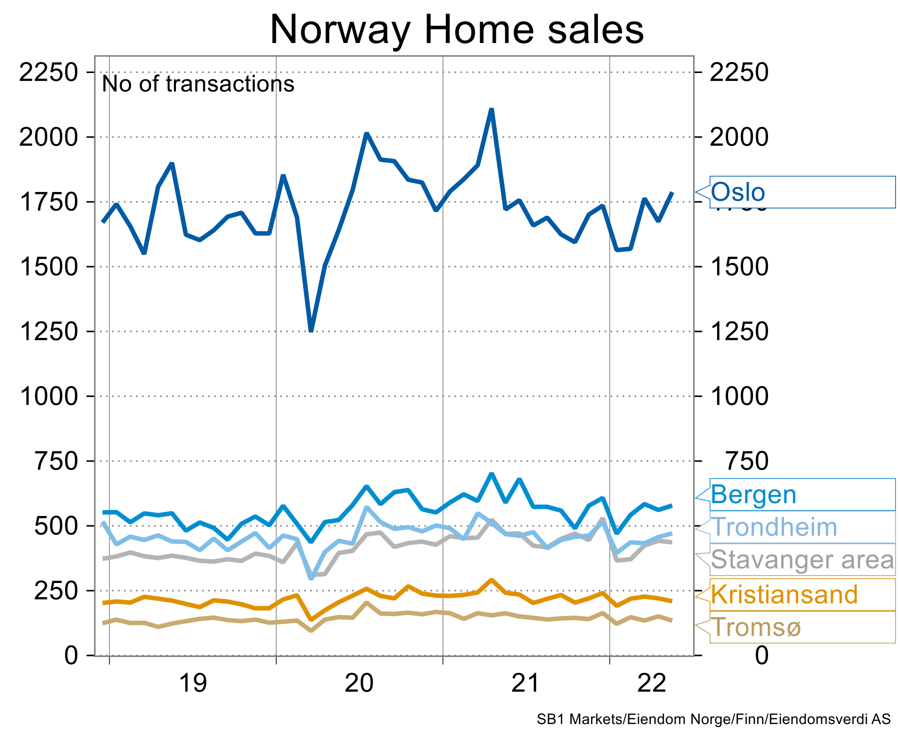
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

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

Number of transactions up in most cities in May

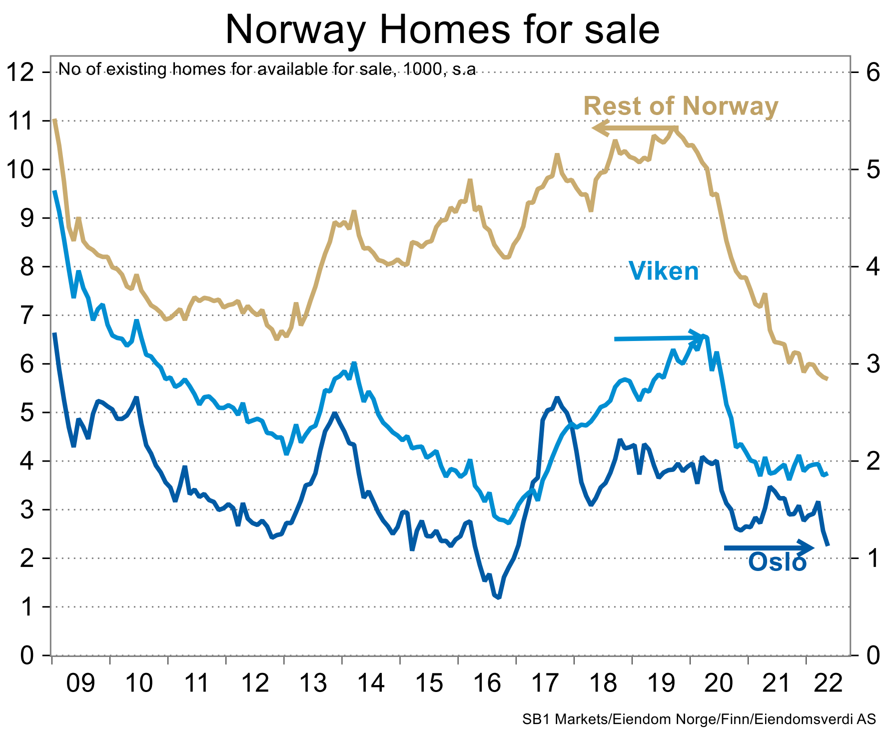
However, recent months have been lower than the previous everywhere

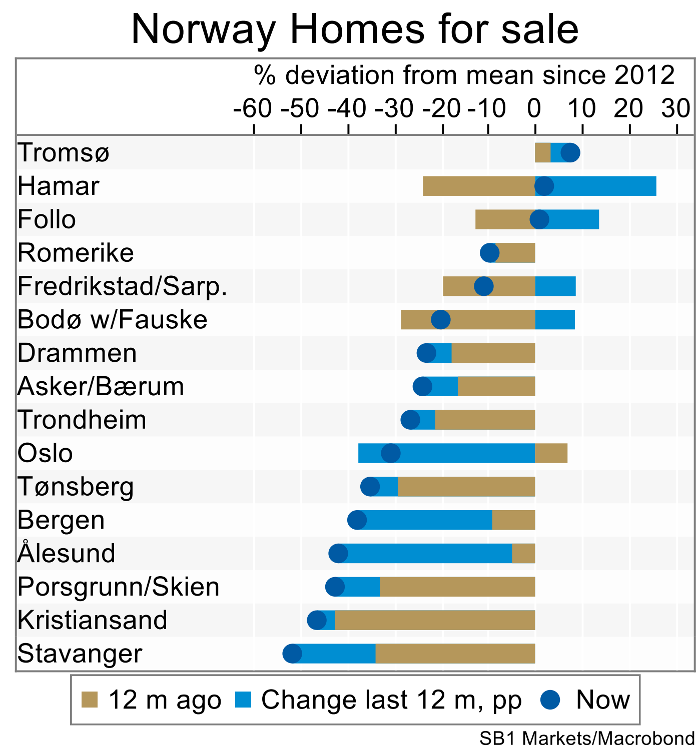




The inventory is lower than normal everywhere (except in Hamar and Tromsø)

...and it is falling most places





- Ålesund and Oslo are reporting the largest decline in homes for sales

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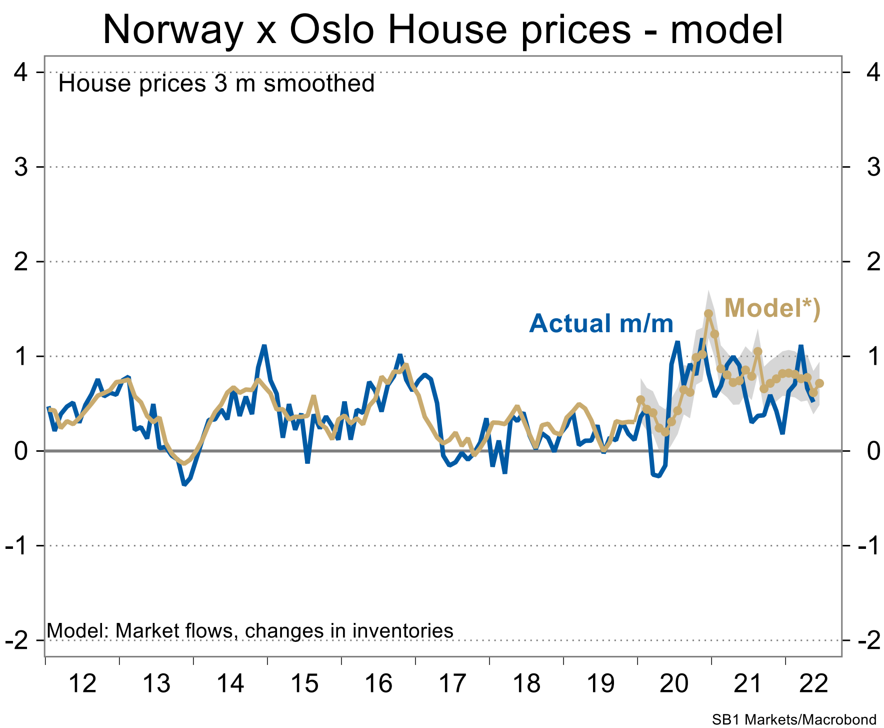
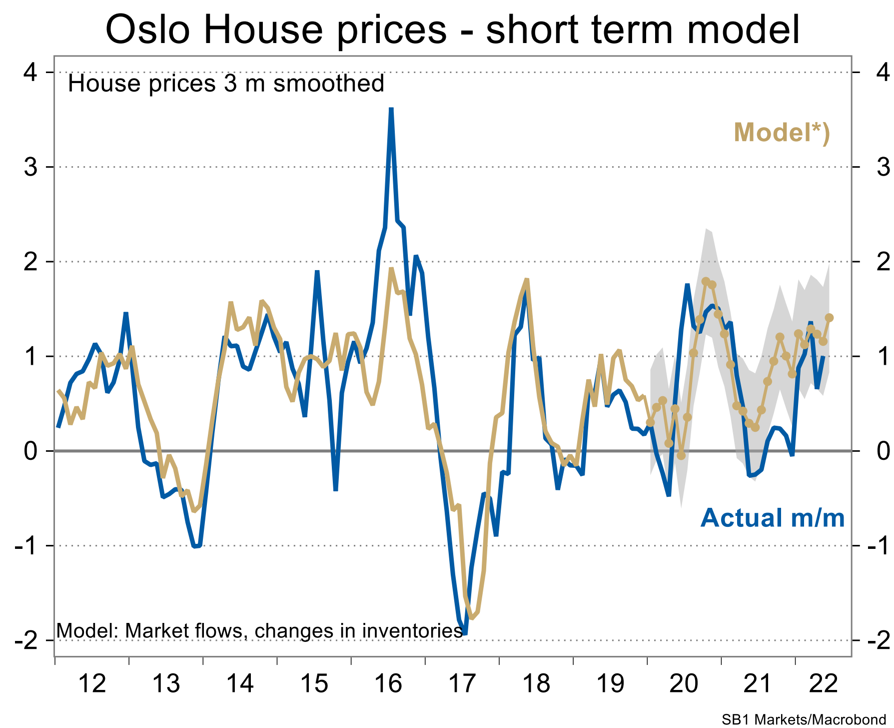
The inventory is turned around faster than normal everywhere

Though with substantial regional differences

- On average, the i/s ratio has fallen the past 12 months – the most in Ålesund

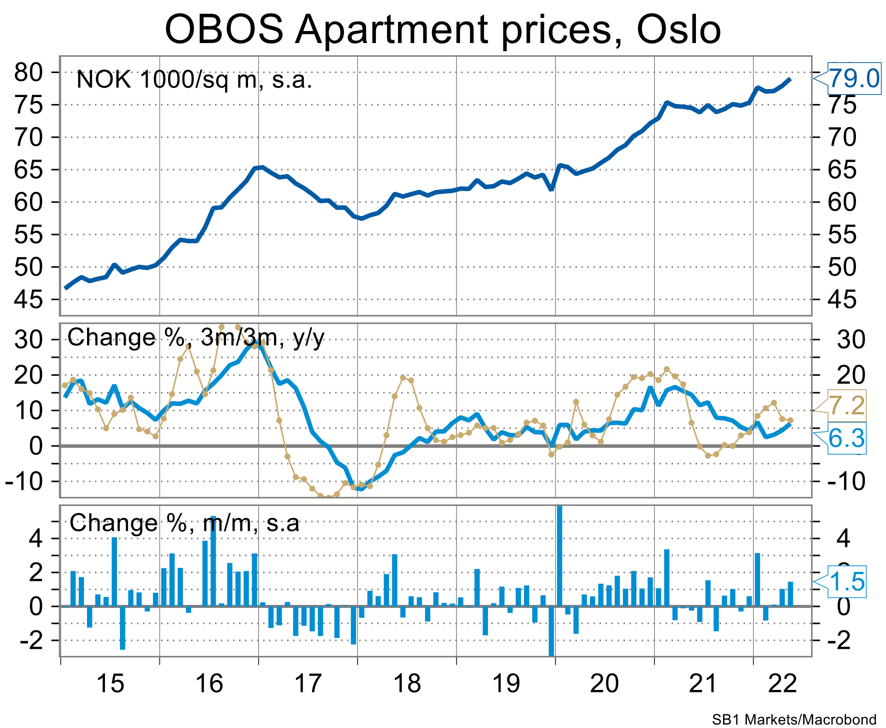
Short term market flows suggest decent price growth

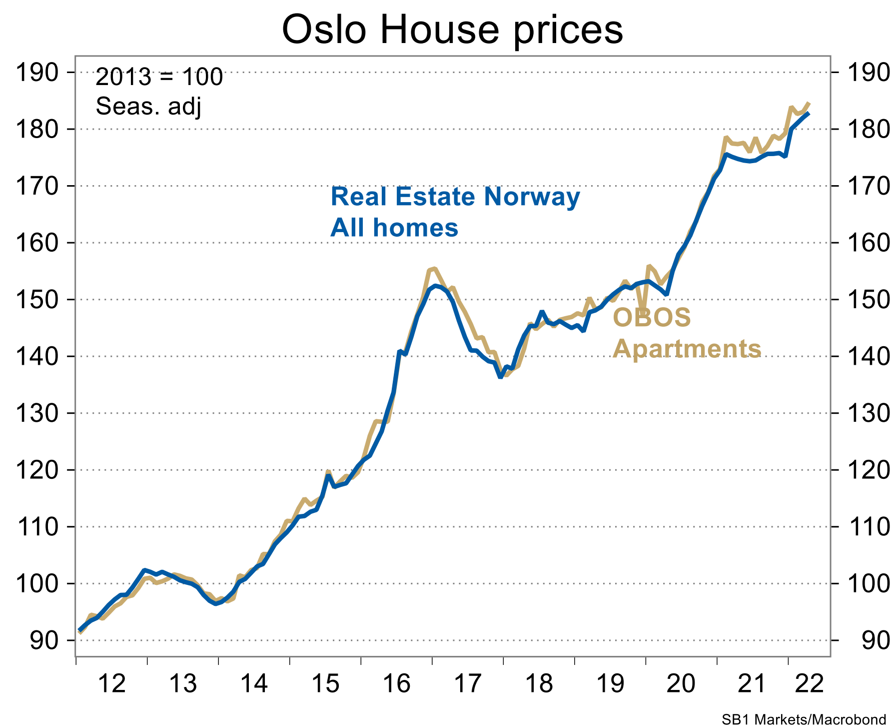




- Our **national x Oslo model** based on flows and the inventory signals a 0.7% growth in house prices per month, marginally above the 0.5% rate past 3 months
- Our **Oslo model** signals well above 1% growth, above the 1% lift per month the past 3 months
- **Mortgage rates** are not included in these short-term market models, because they have not consistently added to the models' performance. Still, over time, mortgage rates and credit growth are important driver for house prices, and now rates are on the way up
- *These models are not long-term price models, just short-term models based on flows of (existing) houses approved for sale, actual sales and changes in inventories – which are normally correlated to prices*

OBOS apartment prices up 1.5% in May, up 6.3 y/y





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

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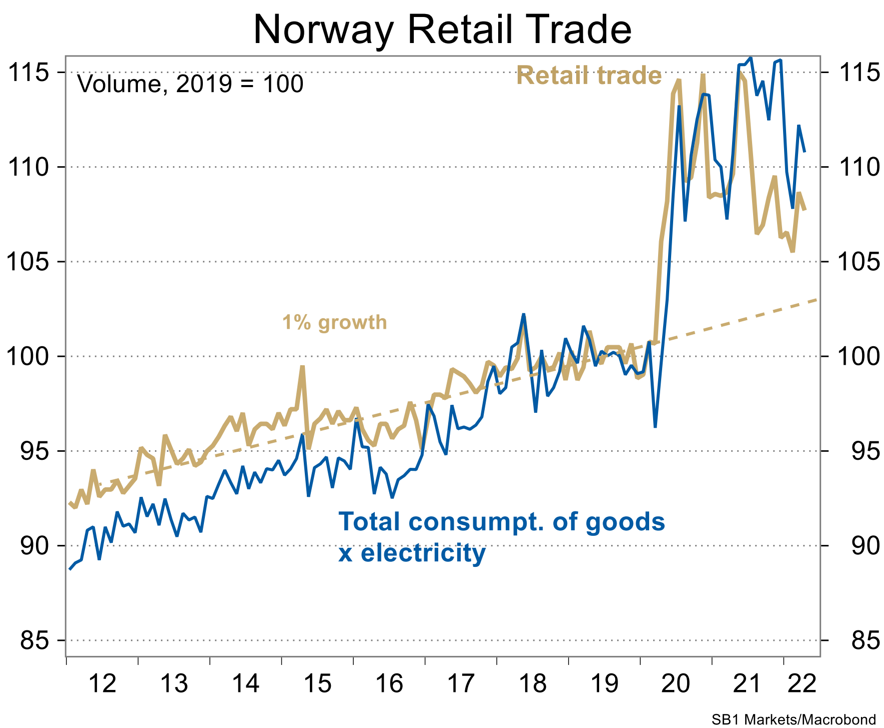
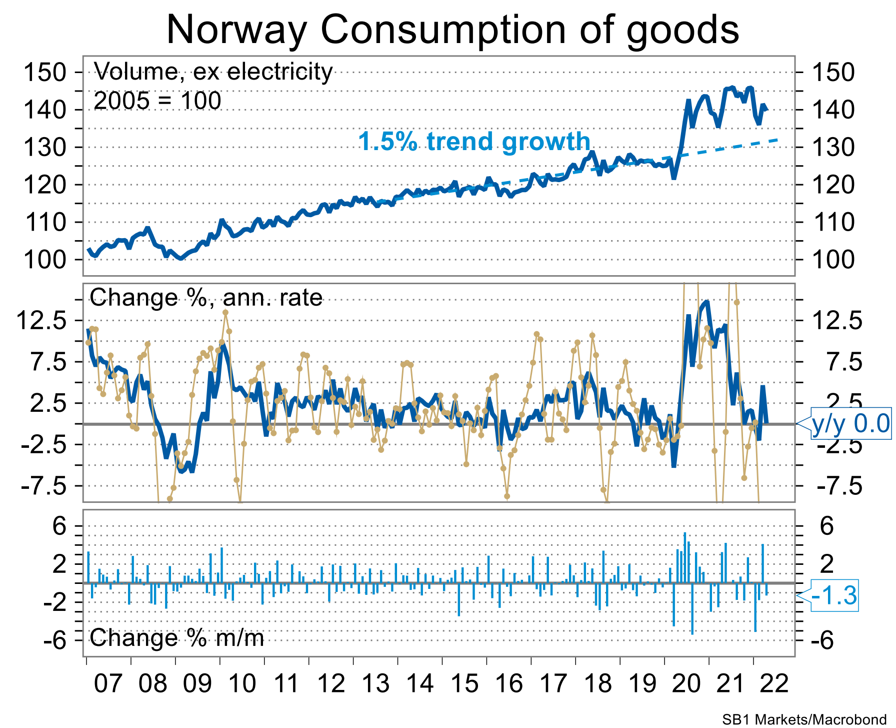
A small retail sales downward correction in April, trend down too

Sales down 1%, we expected -2%, following the 3% lift in March

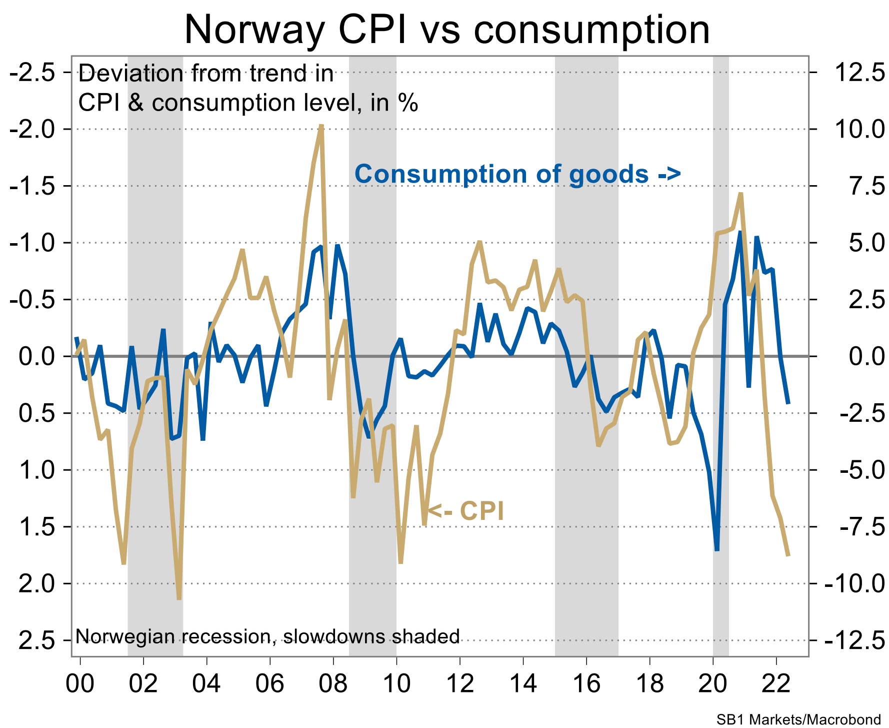




- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth paths. Sales may still be somewhat above normal in volume terms
- The lift in inflation, higher interest rates and the steep decline in consumer confidence, more spending on services, more x-border shopping and travelling abroad have so far not knocked domestic demand for goods down
- No big changes sector-wise in April. Clothing sales kept up, even after the surge in March

Higher consumer (electricity) prices may dampen consumption

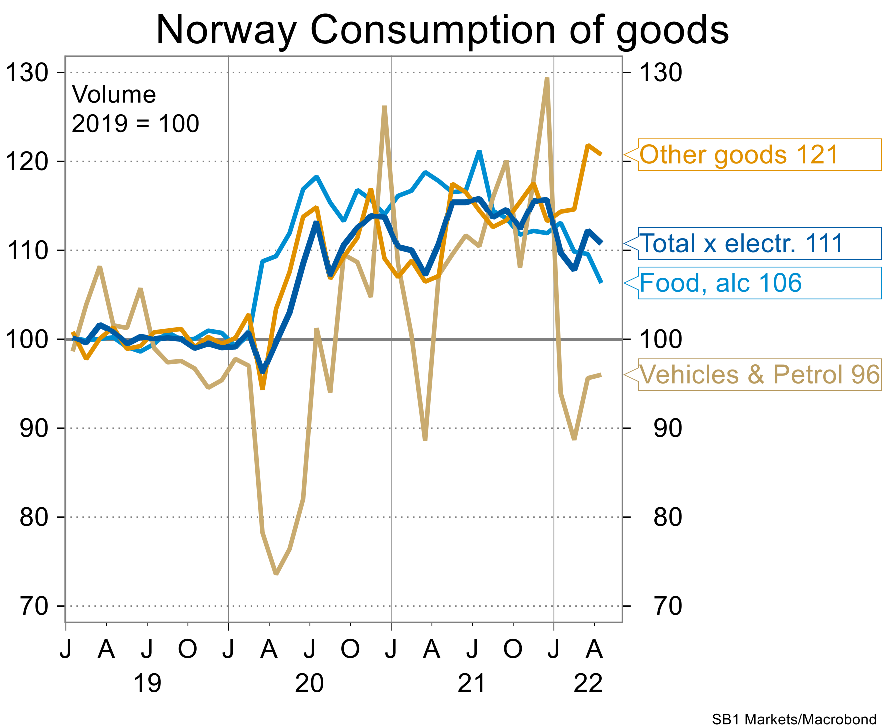
Consumption of goods (volume) are negatively correlated to changes in consumption prices



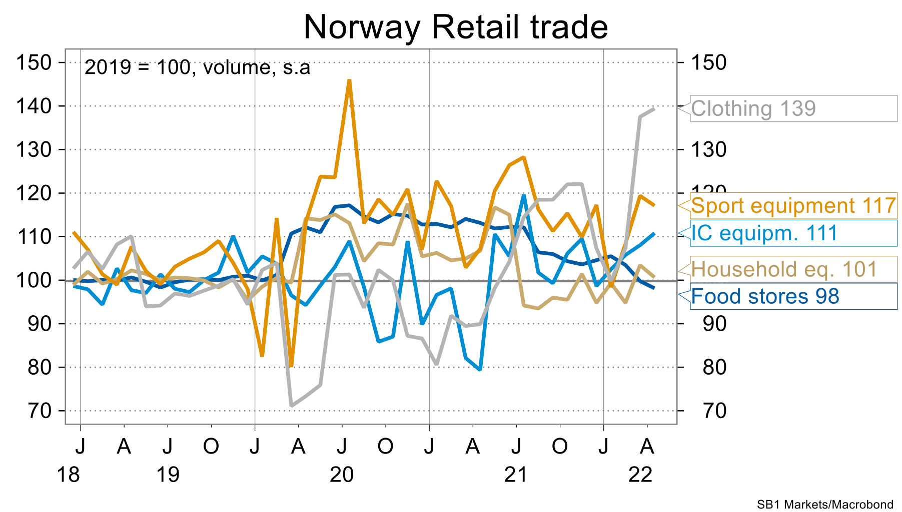
- The elasticity for consumption of goods vs. changes in headline CPU is some -2, probably as consumption of services normally are more stable than goods – and because high prices normally are associated with a weak Norwegian economy (like oil prices down, NOK weaker, higher imported inflation
- So far,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

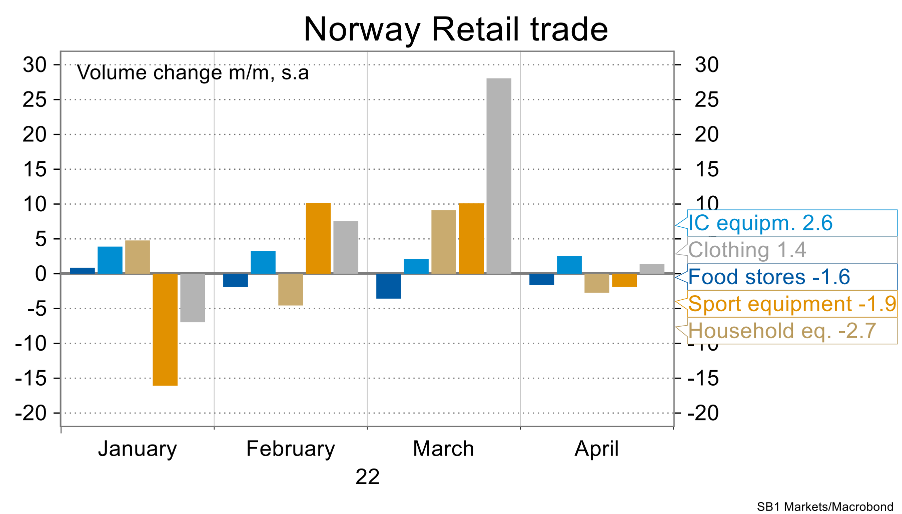
Clothing & sport equipment sales kept up at a high level in April

Food consumption is trending down – at least what is bought in shops in Norway



- Sales of household goods are still quite low, blame the high prices





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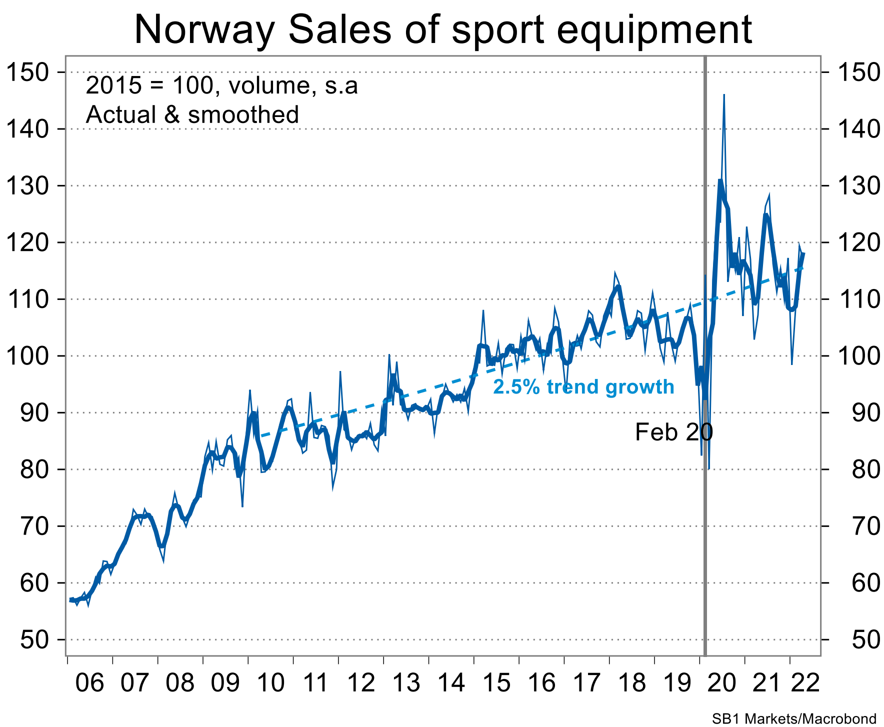
Sports equipment: Back to a normal level – limited downside from here?



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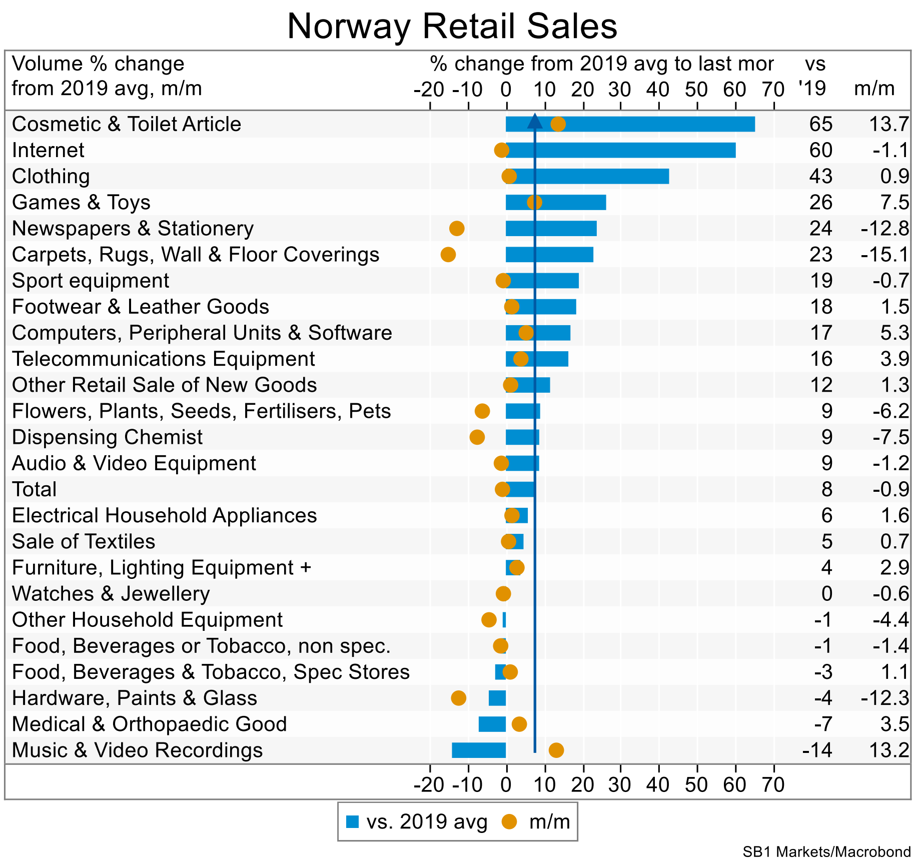
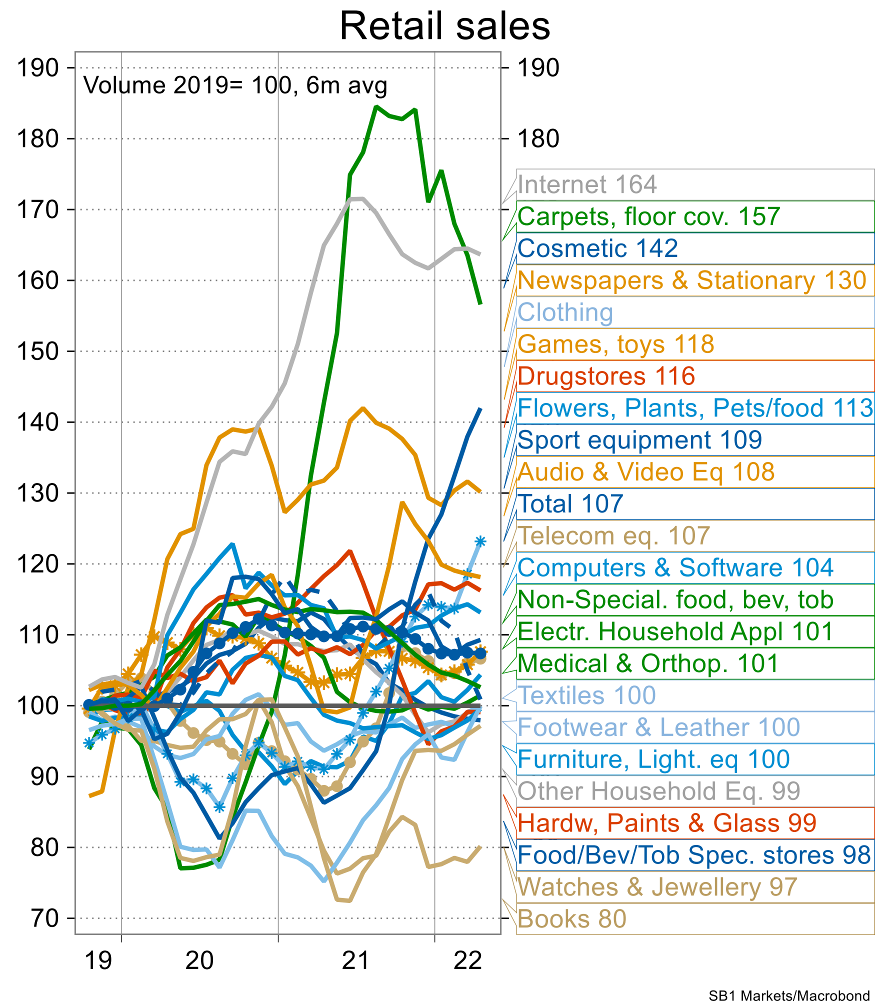
Since before the pandemic: Still huge sectoral differences in sales volumes

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



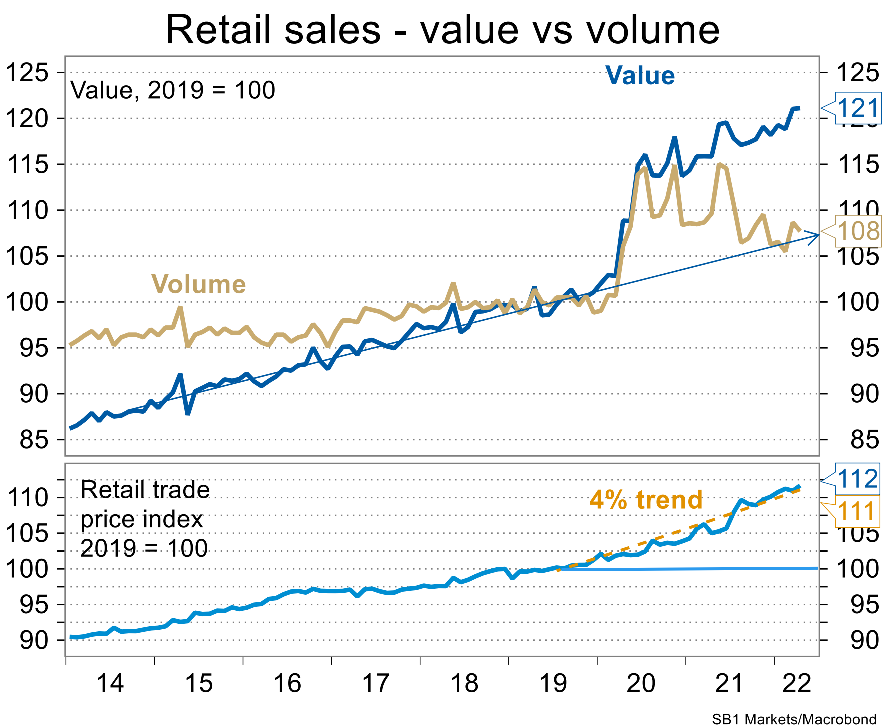


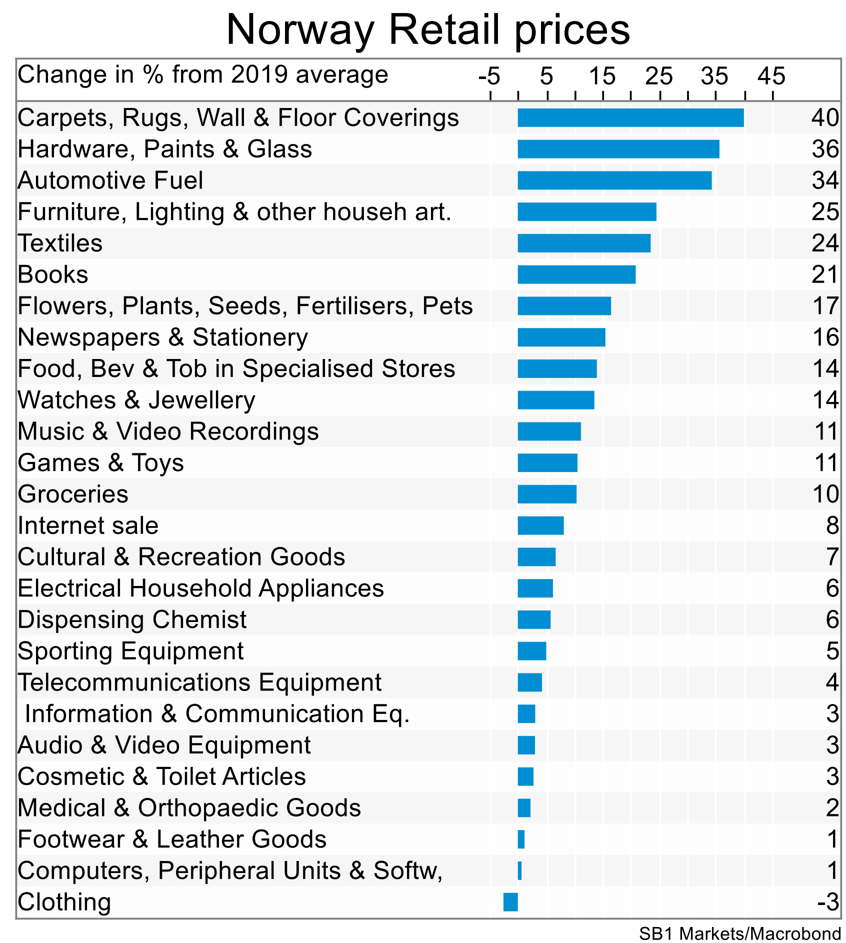
Where is the risk now?

- Guideline: *Start at the top of the list.*
- There are excuses, but probably not that many

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

Retail prices have been increasing at a 4% pace since 2019, in sum by 12%

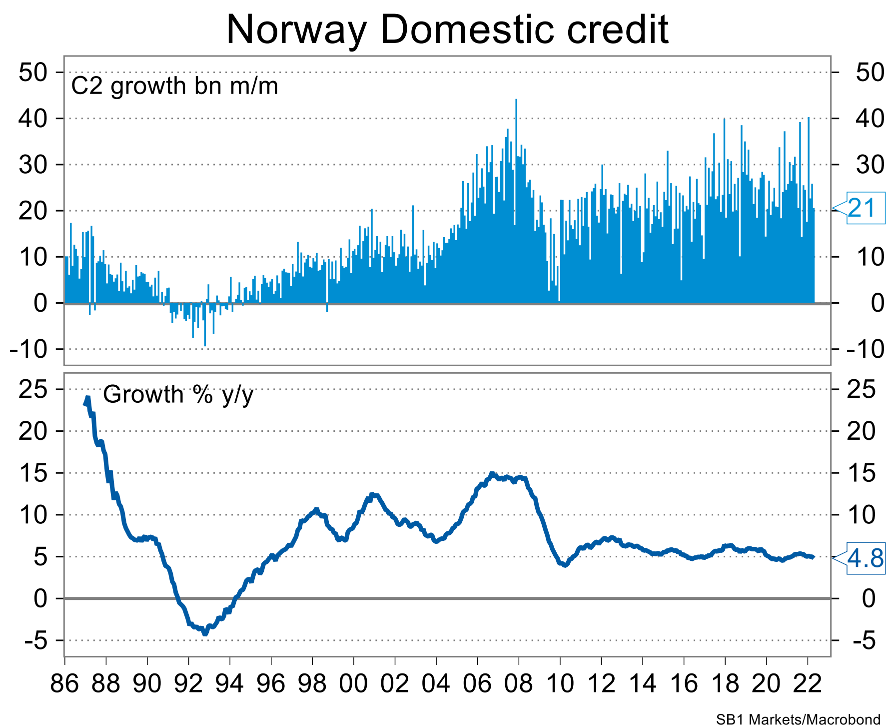


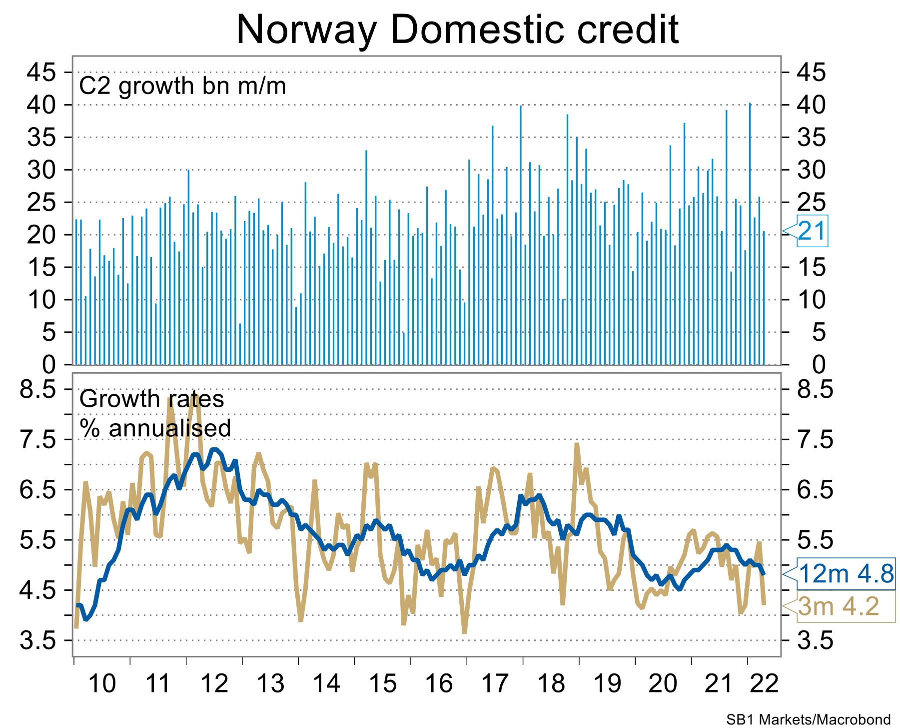


- Retail sales, measured in value terms, are 21% above the 2019 level and some 14% above the pre-pandemic trend
- Huge differences is price changes:
  - Floor coverings, hardware (building materials) are up 36% – 40%, furniture 25%
  - At the bottom of the list: Sport equipment is up just 5% and clothing is down 3%!

Domestic credit growth (C2) growth down to 4.8% in April, trend down-ish

Local governments took a debt holiday in April

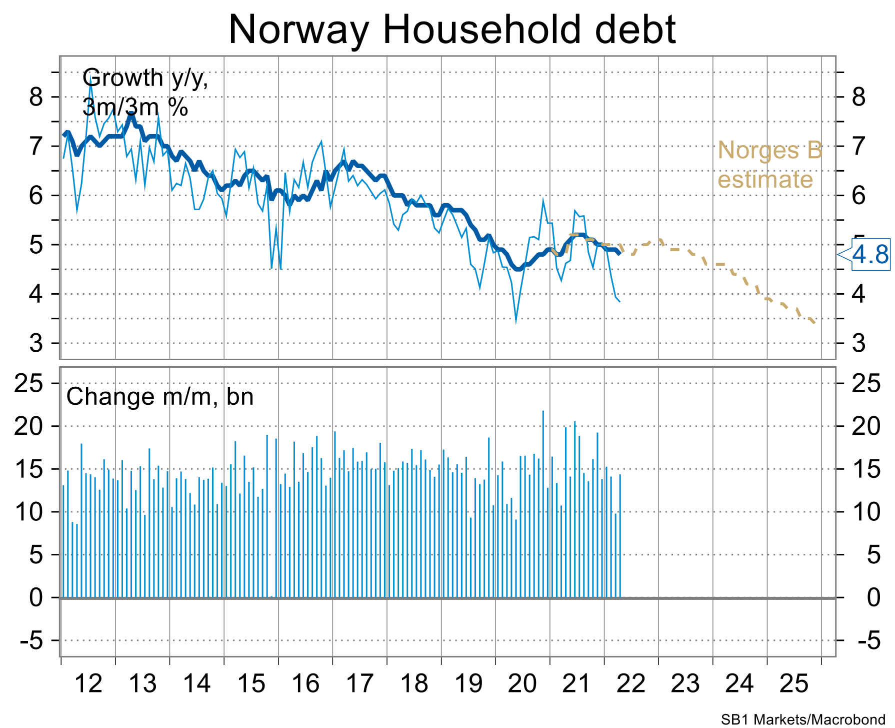


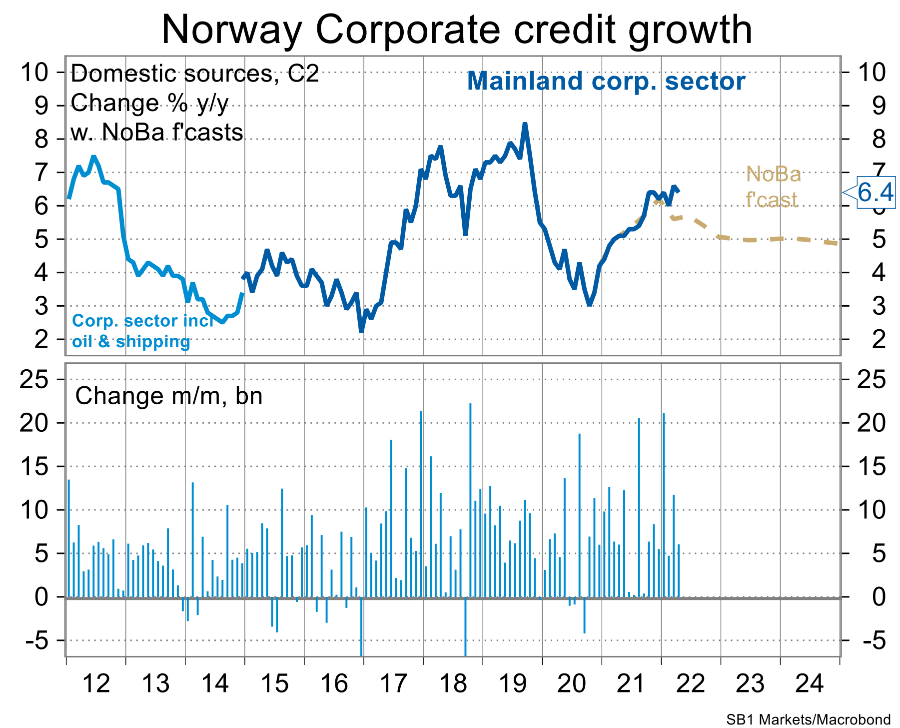


- **Total domestic debt** (C2) rose by NOK 21 bn in April, down from 26 bn in March, we expected 22 bn. The annual growth rate fell 0.2 pp to 4.8%, we expected 4.9%. The 3m/3m growth rate is at 4%. We are not witnessing any credit boom. However, debt levels are high, especially in the household sector
- **Household credit** rose by NOK 14bn in April, as we expected. The annual rate retreated to 4.8%
- **Corporate C2 credit**, rose by NOK 6 bn, down from 12 bn in March, 2 bn more than we assumed. Annual growth was unch. at 5%. **Mainland corporations** increased their debt by 6.4% y/y, down 0.2 pp vs. March
- **Local governments** kept their debt load unchanged in April, well below our assumption (4 bn) The annual growth rate fell 1 pp to 4.3%. Last summer the rate was 8%! Finally, local gov's at not increasing their debt/income ratio

Corporate credit growth is accelerating, the slowdown was revised away

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





- **Household credit** growth has been slowing marginally recent months, the 3m/3m rate has fallen to below 4%
- Monthly growth in **corporate domestic credit** is volatile, and from time to time, substantially revised. Norges Bank expects growth to slow (and the bank has done so as long as we can remember, but the current forecast is less dovish than usual)

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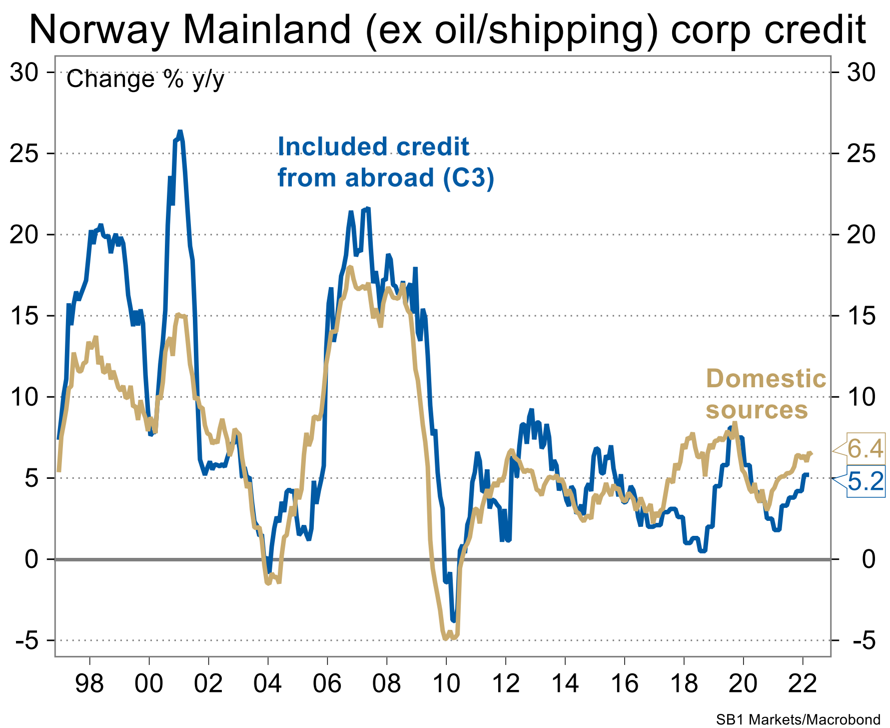
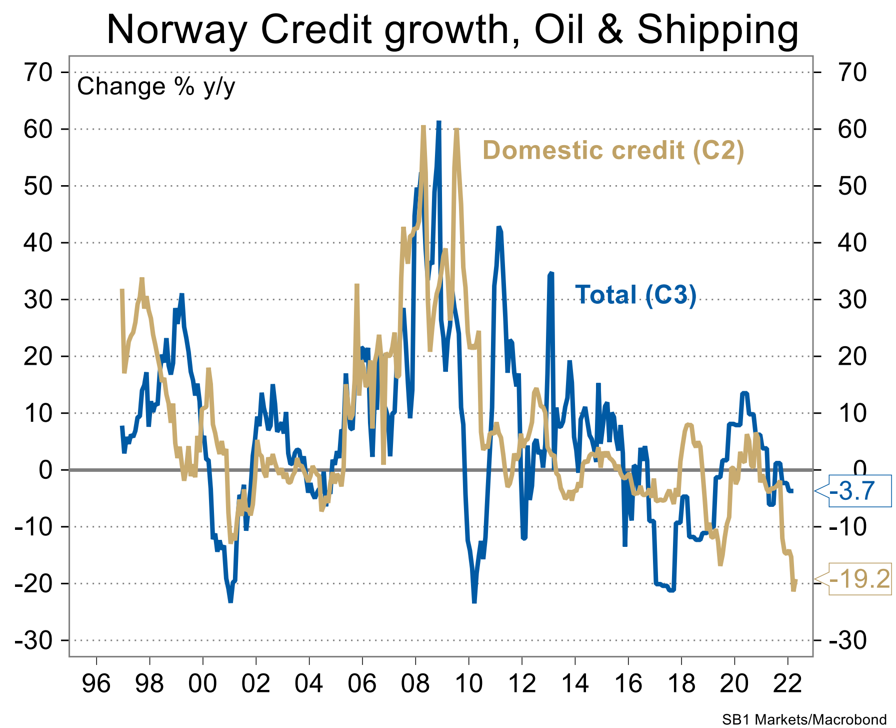
Mainland corporates are increasing total debt (including foreign credit) by 5.2%

... but by 6.4% from domestic sources (in C2)

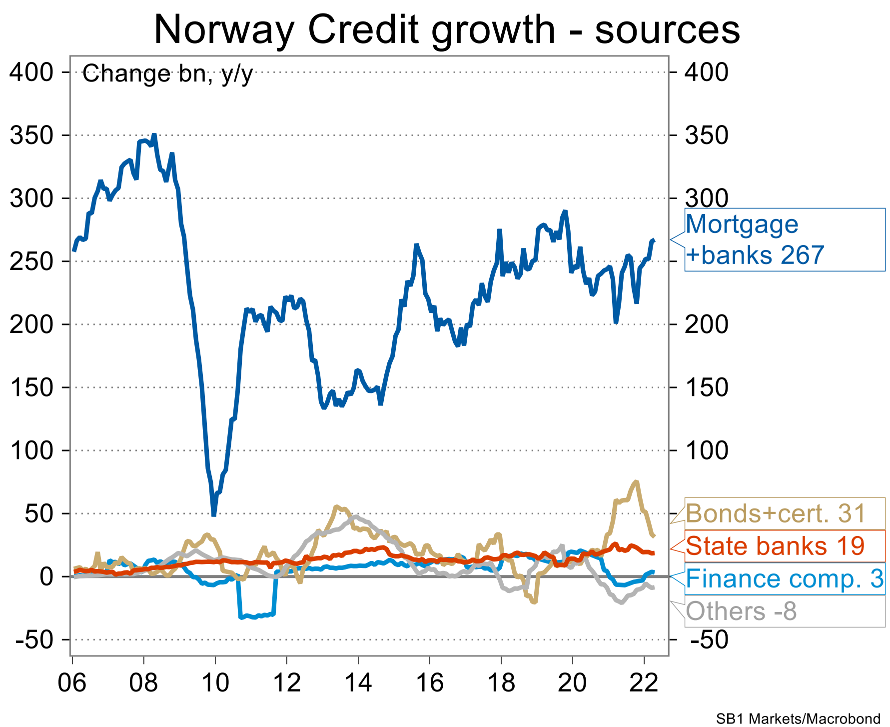


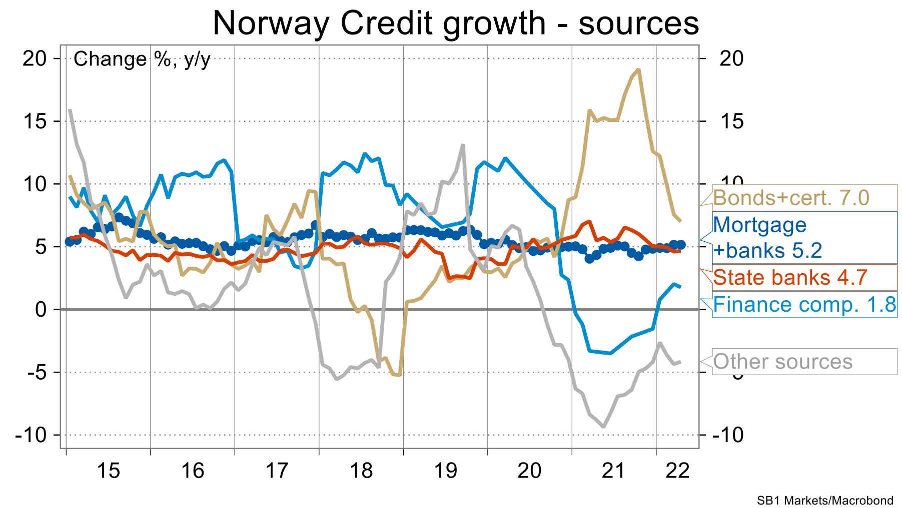


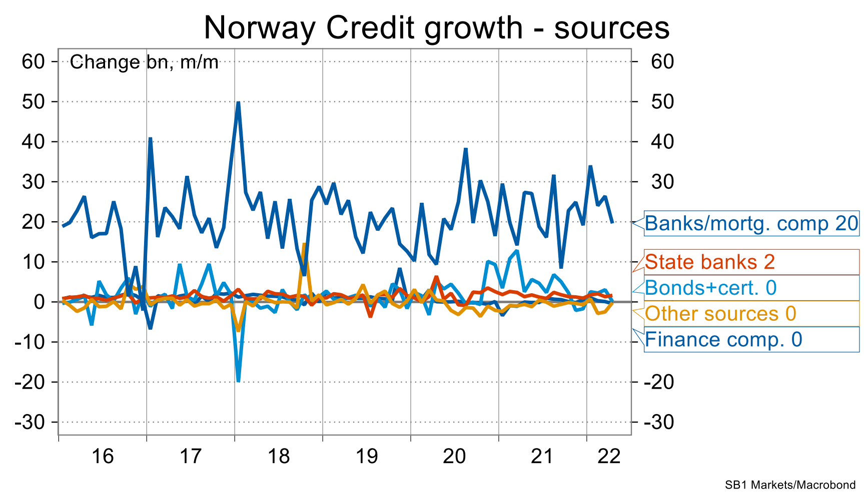
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway. The sum is down 3.7%, even if domestic debt is down 19% (via transactions)

Bond borrowing has peaked, growth in bank lending slightly up

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







- Net issuance of bonds (to non-financial sector) is up NOK 31 bn (7%) y/y, unusual high growth rates but well down from the peak (75 bn, 19%)
- Banks/mortgage companies are up NOK 267 bn (5.2%) y/y
- Finance companies and 'others' have reduced their lending
  - » Both insurance/pension funds as well as Statens Lånekasse, Eksportkreditt are included in our residual 'others', but just the sum of SL & Eksportkreditt is down

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

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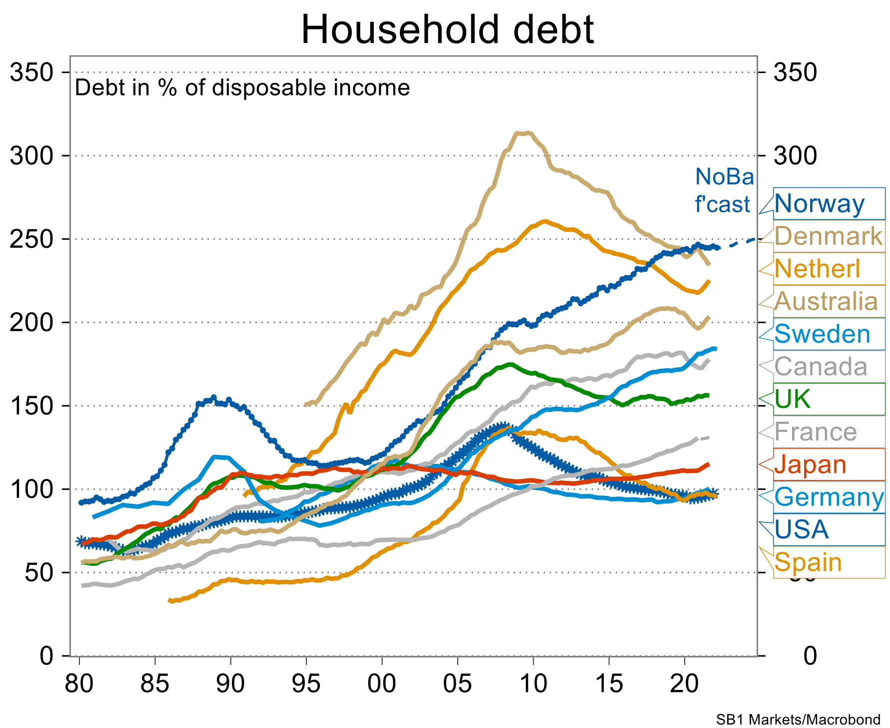
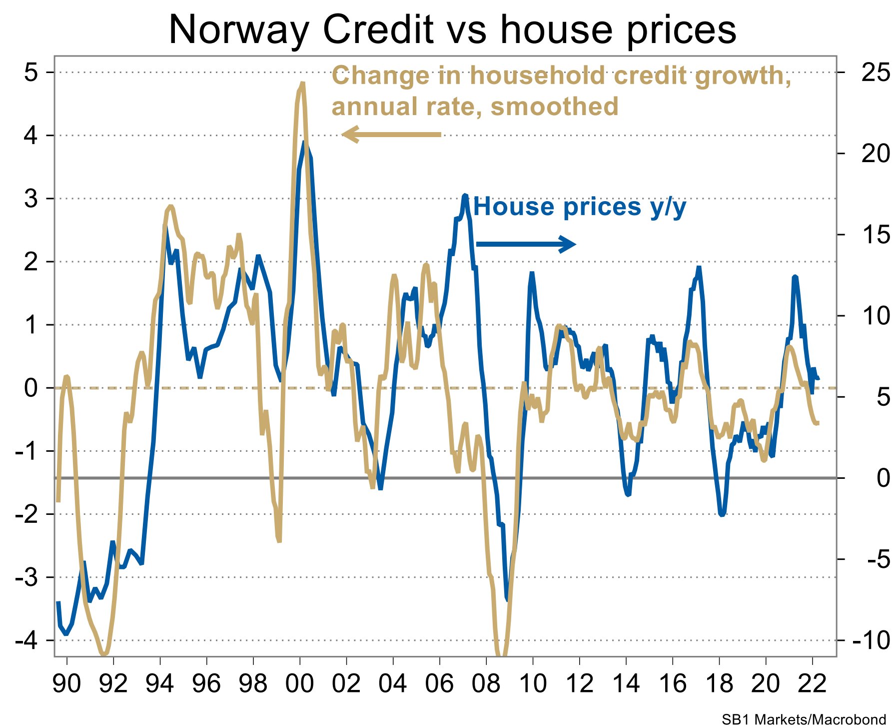
Household debt/income: We are no. 1! But the debt ratio has flattened





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

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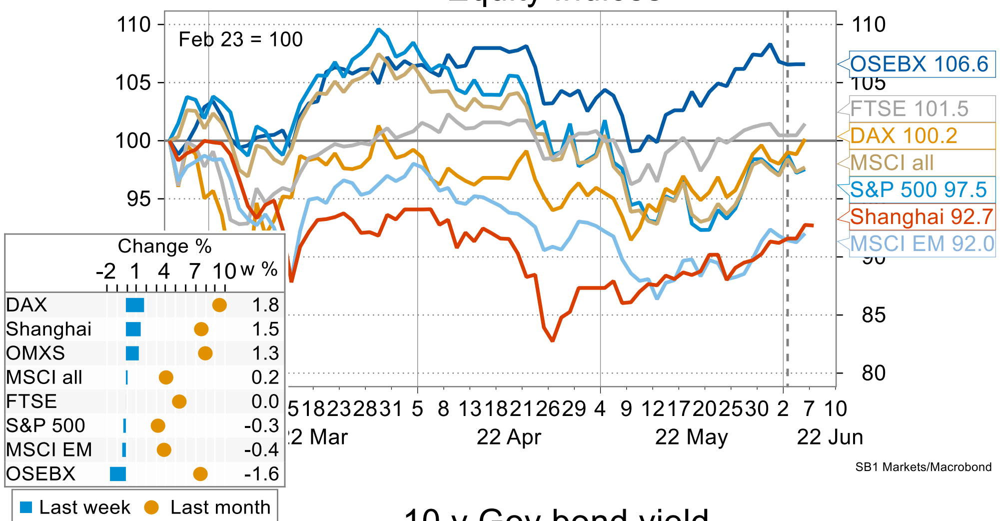
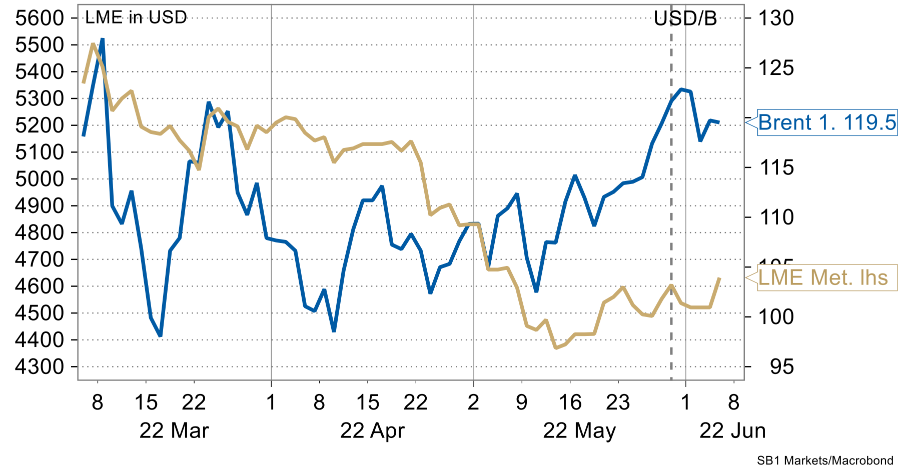
Bond yields up, equity markets mixed, commodities too

NOK slightly up, still too weak?

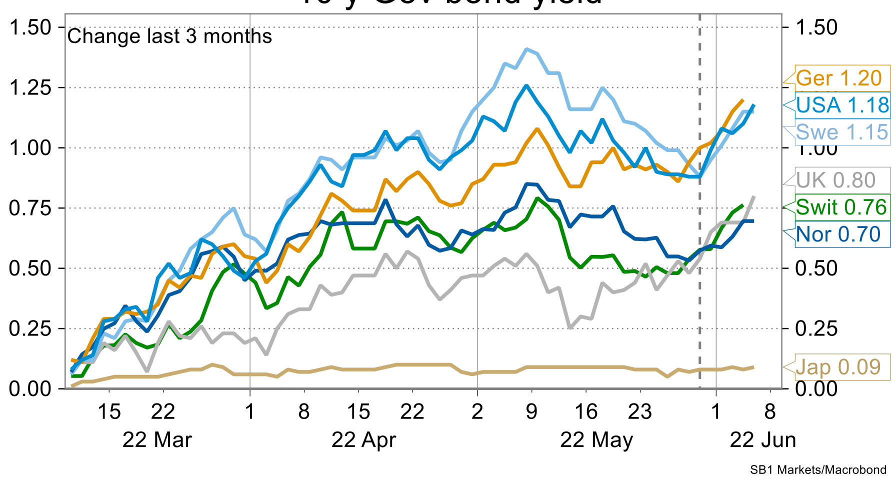
Equity Indices



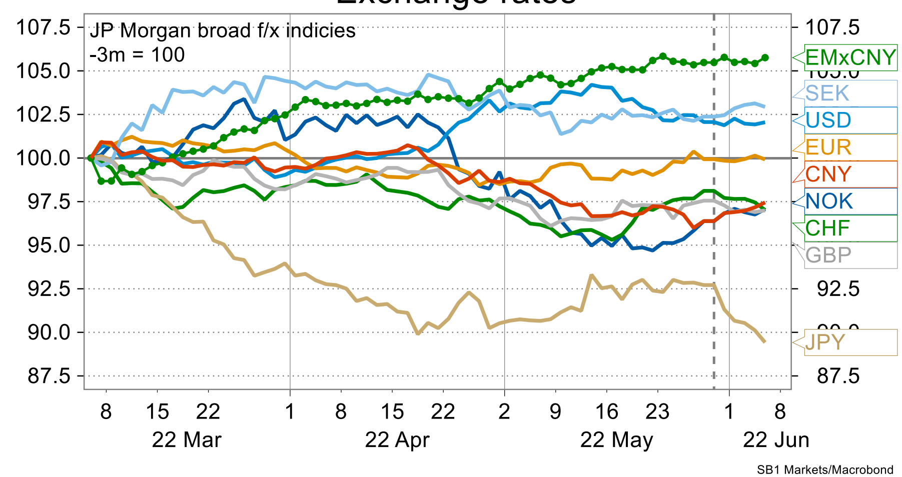
Oil vs. metals



10 y Gov bond yield



Exchange rates



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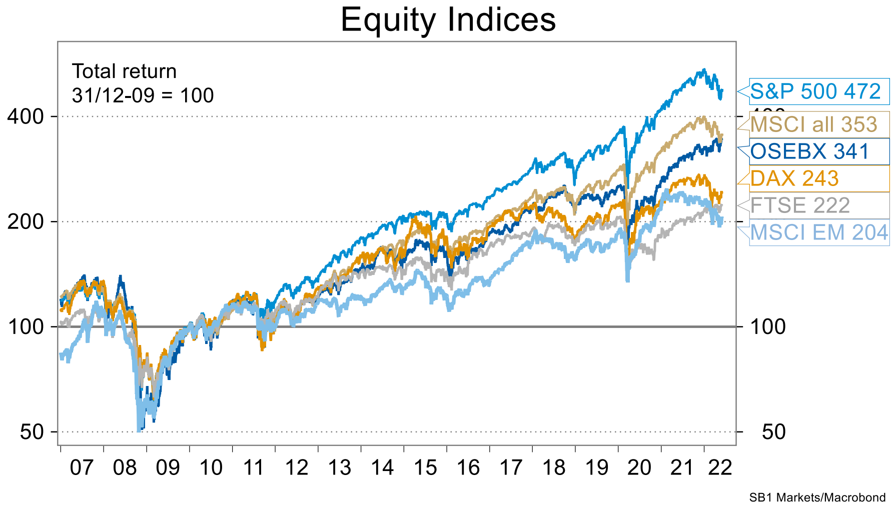
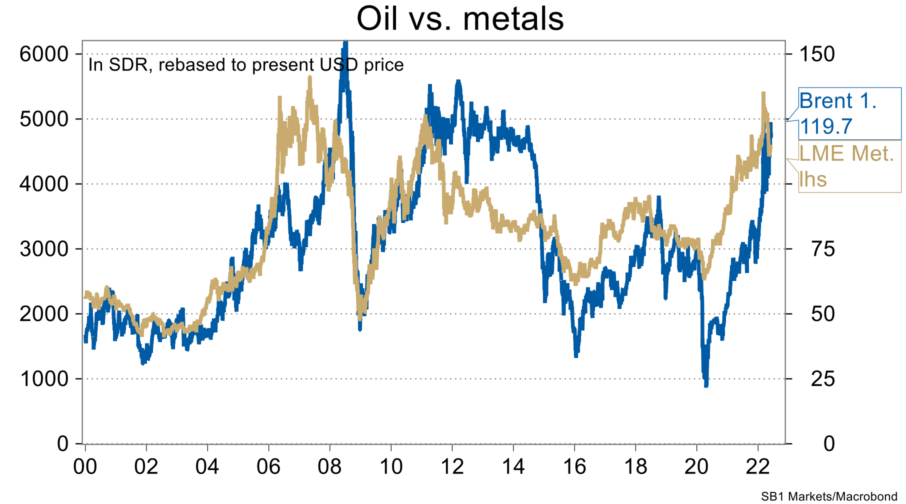
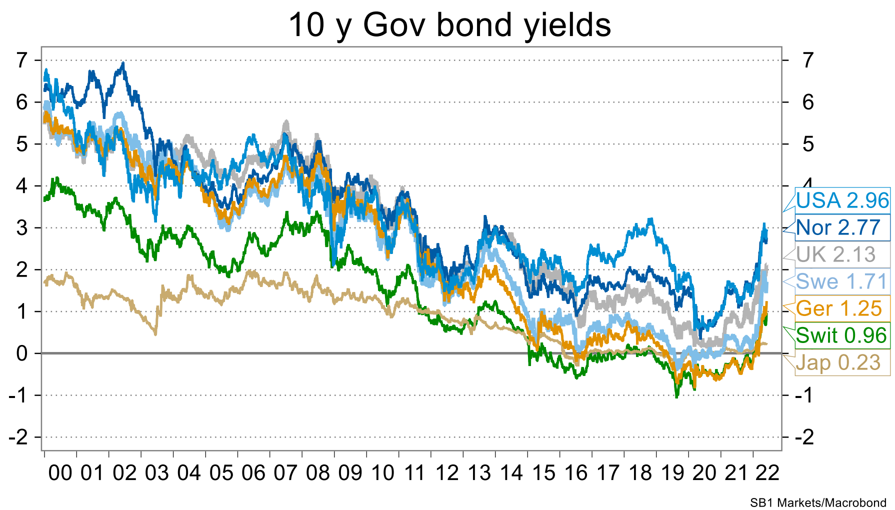
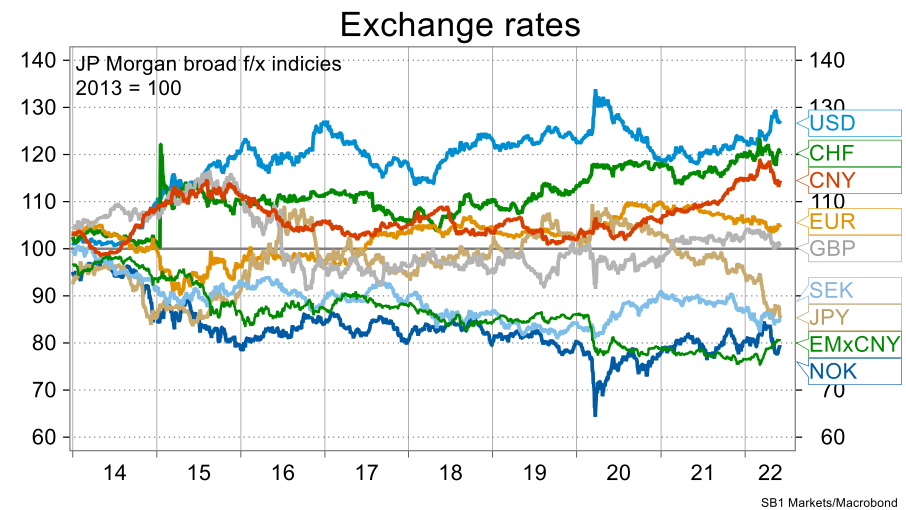
The big picture: Stock markets still down (-oil rich OSEBX, FTSE), bond yields up

Commodities have taken a big step upwards – at least until early March, mixed thereafter





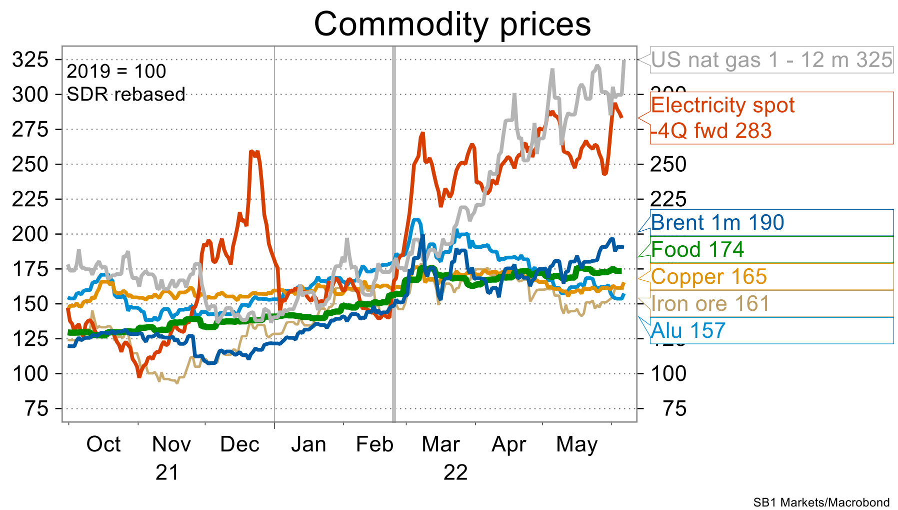


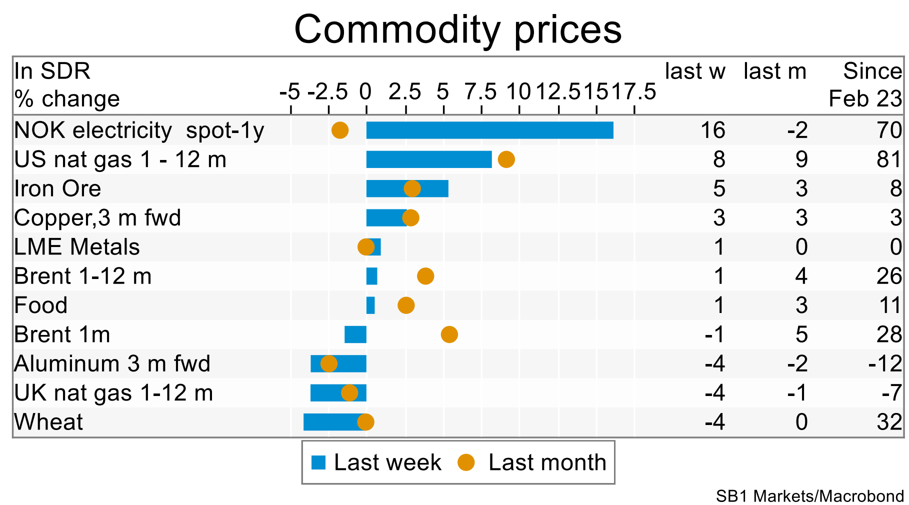


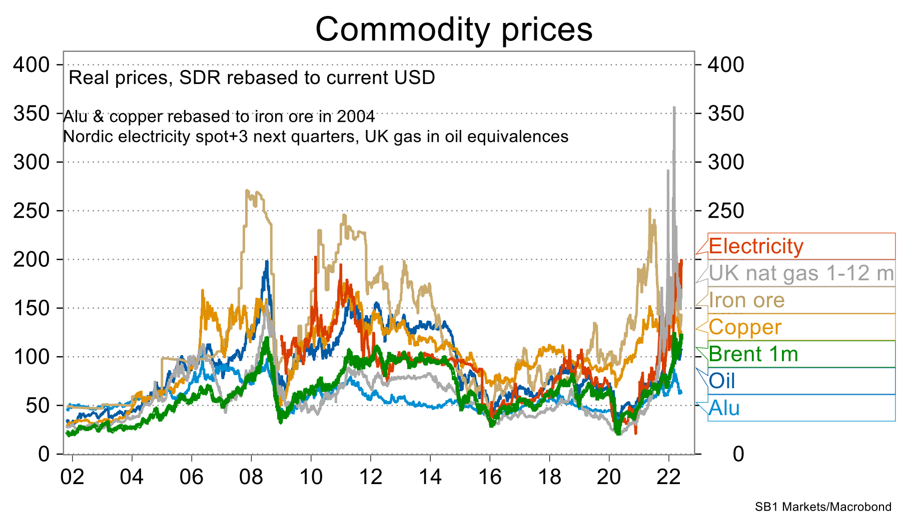
SpareBank 1 MARKETS

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)



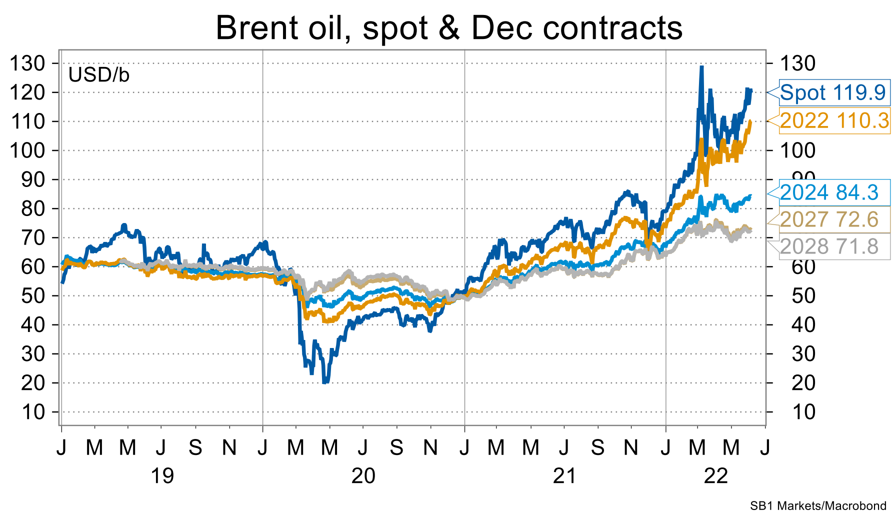


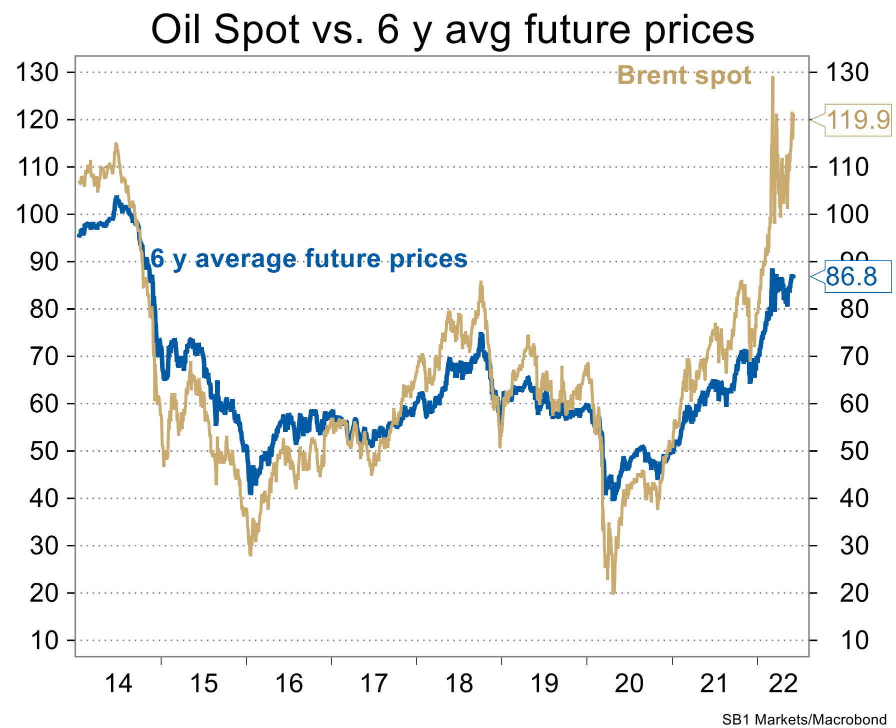


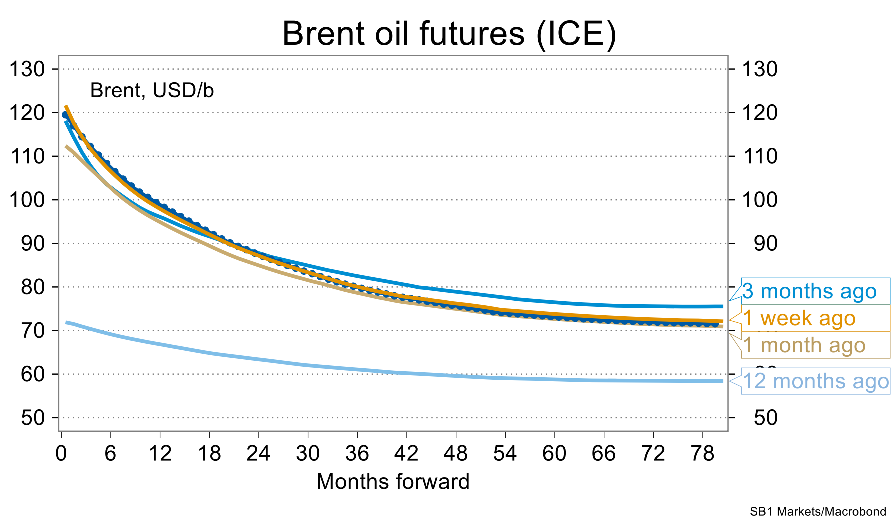
- Oil prices flattened last week – at the highest level since just after the invasion (even if Russian oil is still flowing freely)
- UK natural gas prices fell last week and are down 7% down since before the invasion. (European gas prices are roughly unchanged)
- US natural gas prices are up 81% - some LNG 'leakage' to Europe?
- Norwegian electricity prices rose further last week, and are up 70% from before the war!
- The Economists food commodity index rose 1% last week, and has been close to flat last month – and prices are up 11% from before the war

SDR: IMF's Special Drawing Rights – a 'global currency'

The oil price curve close to unchanged last week







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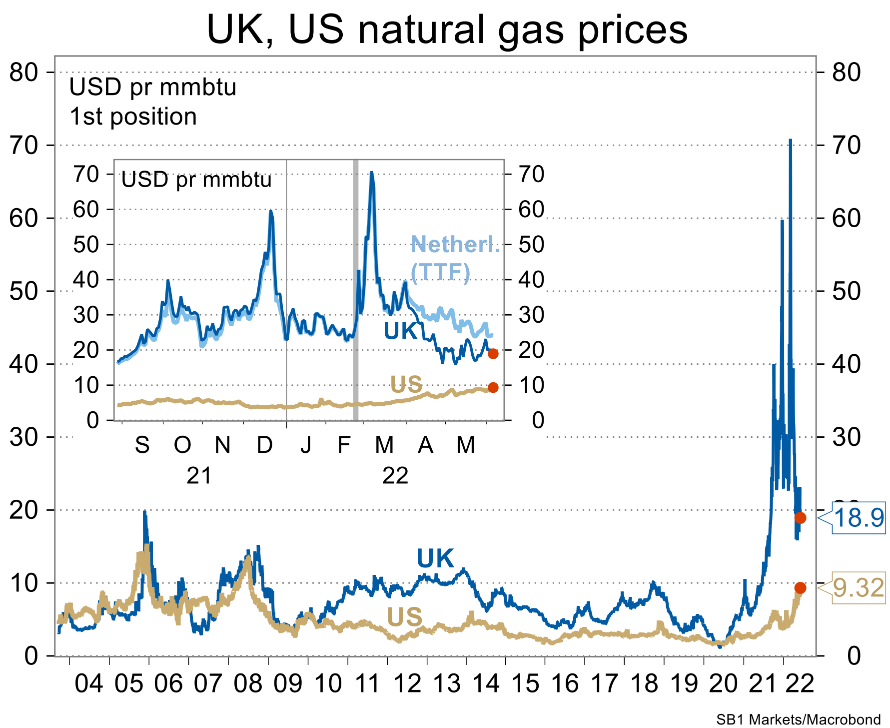
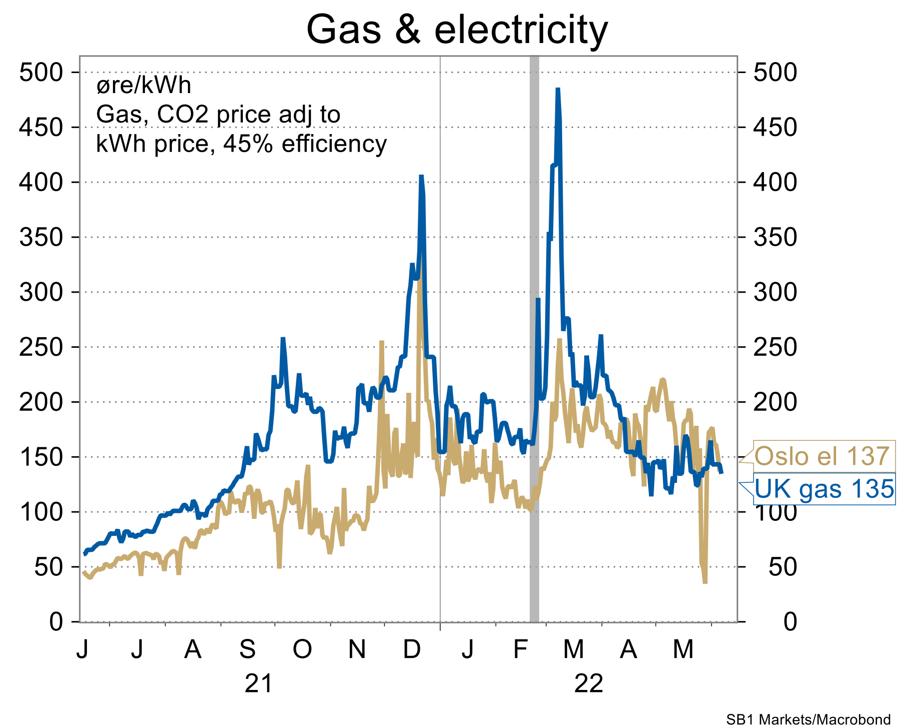
European natural gas prices are sliding down

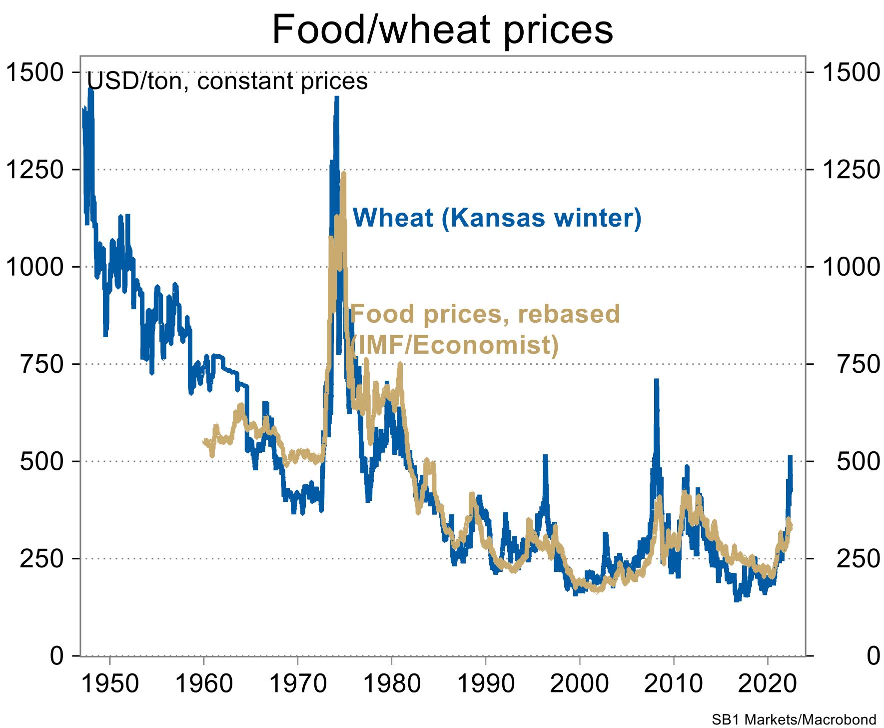
Even as the uncertainty vs. imports form Russia remains high

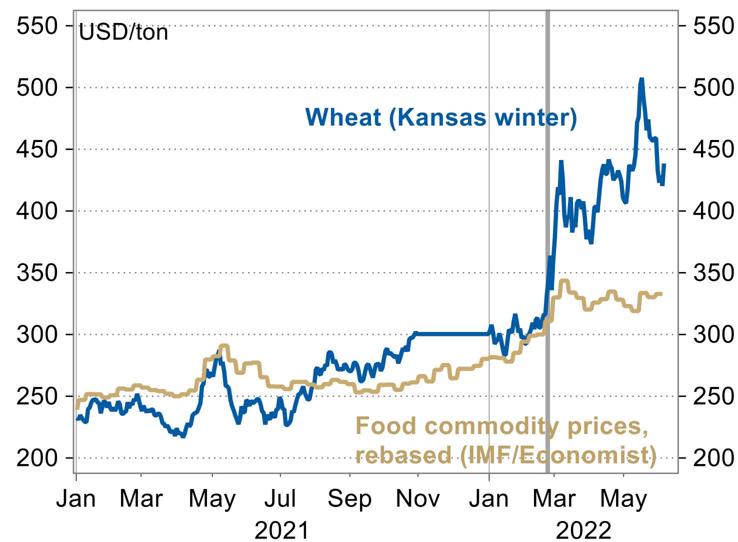




- Will LNG exports from the USA increase gas prices here? Seems like the market is discounting it – and it is not unreasonable. The cost exporting US gas to Europe may be some USD 5 – 6/mmbtu, or twice the current price differential (in the short end for the gas price curve)
- Norwegian spot electricity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

Wheat prices sharply down as Russia and UN discusses wheat, fertiliser exports





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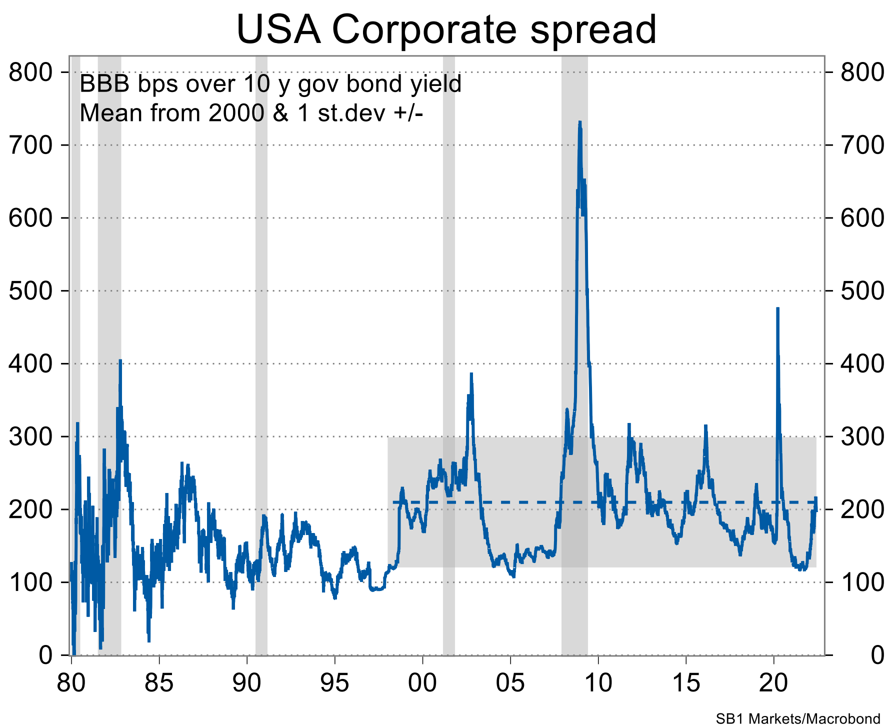
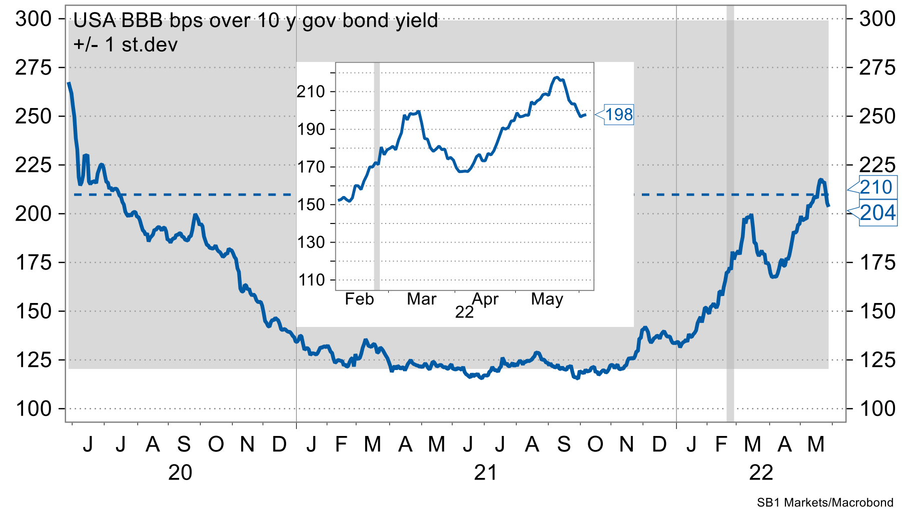
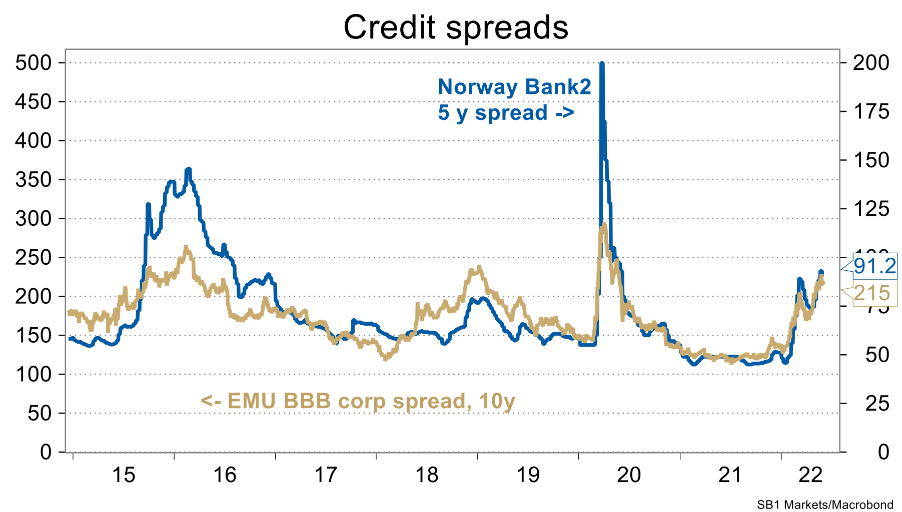
Credit spreads down from the local peak, alongside higher equity markets

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



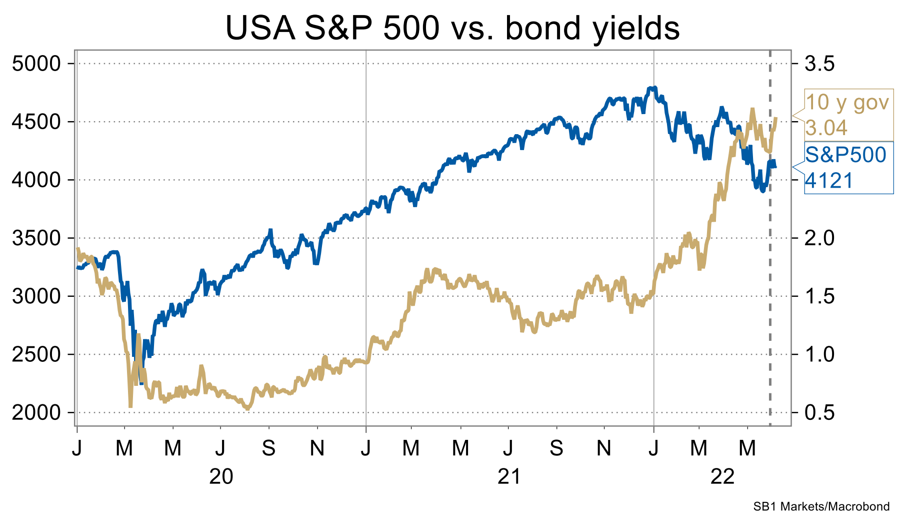


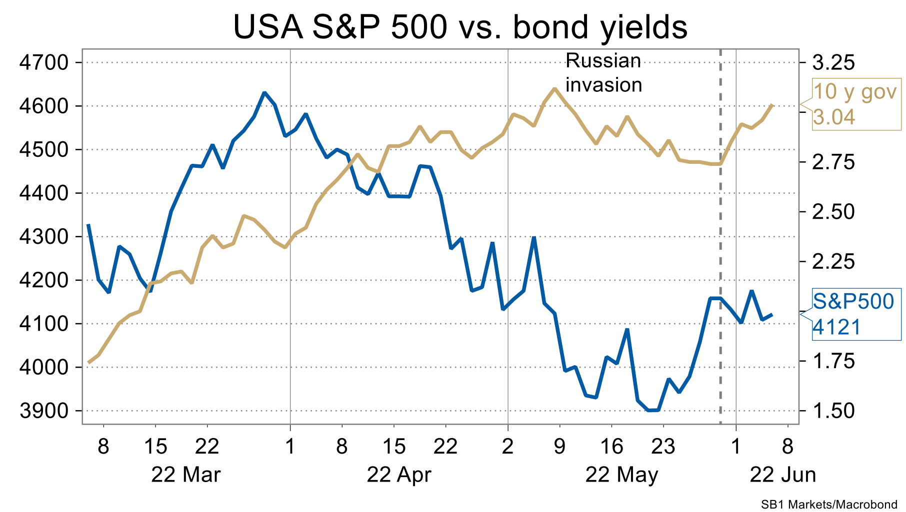
- The total capital cost has increased significantly, as the long term real government bond rate is up 130 bps (and the nominal rate even more)
- European and Norwegian spreads are following suit, as they usually do

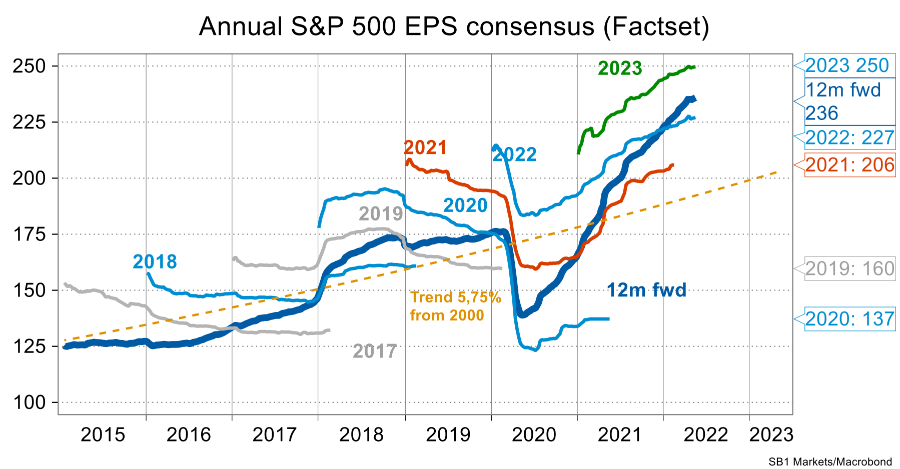


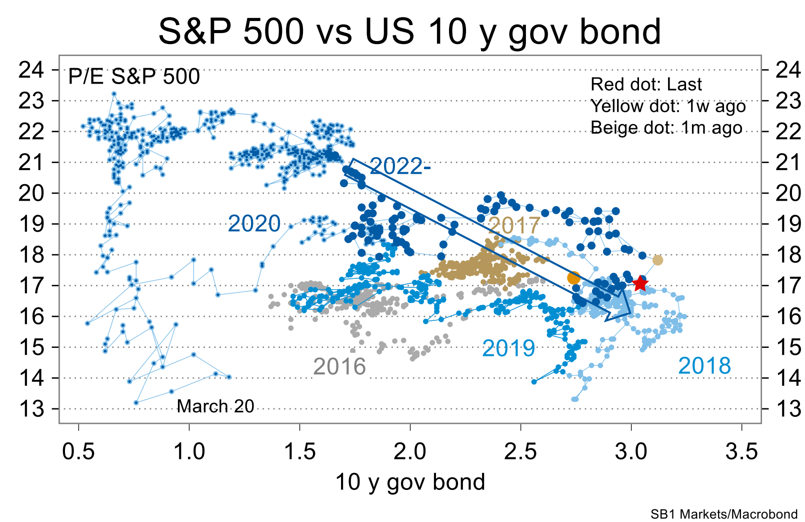
The S&P 500 down 0.3%, bond yields are above 3% again

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







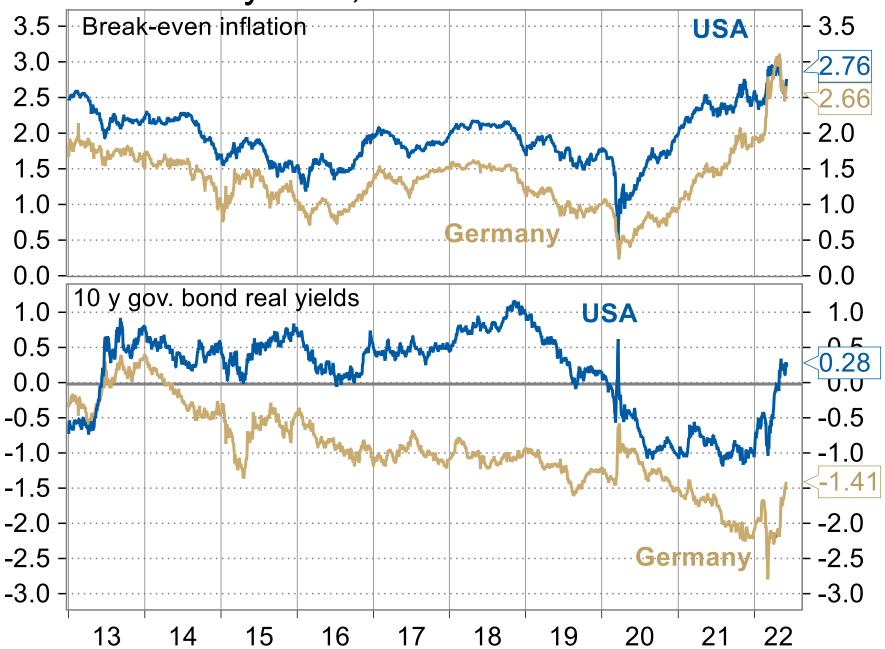


SpareBank 1 MARKETS

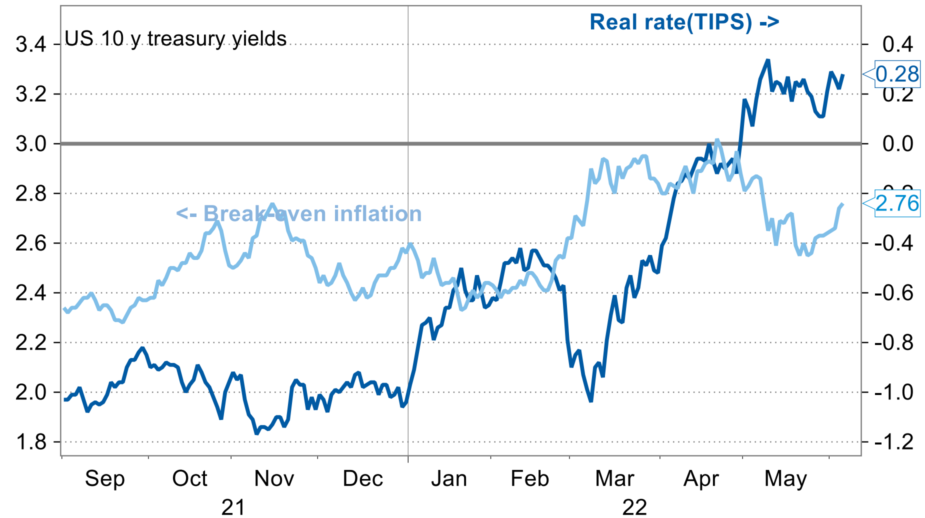
Both inflation expectations & real rates up last week – both in the US & Germany

Actual European inflation sharply up – but what was the inflationary impulse in the US?

Real yields, break-even inflation



SB1 Markets/Macrobond



US & Germany 10 y Gov bond yield

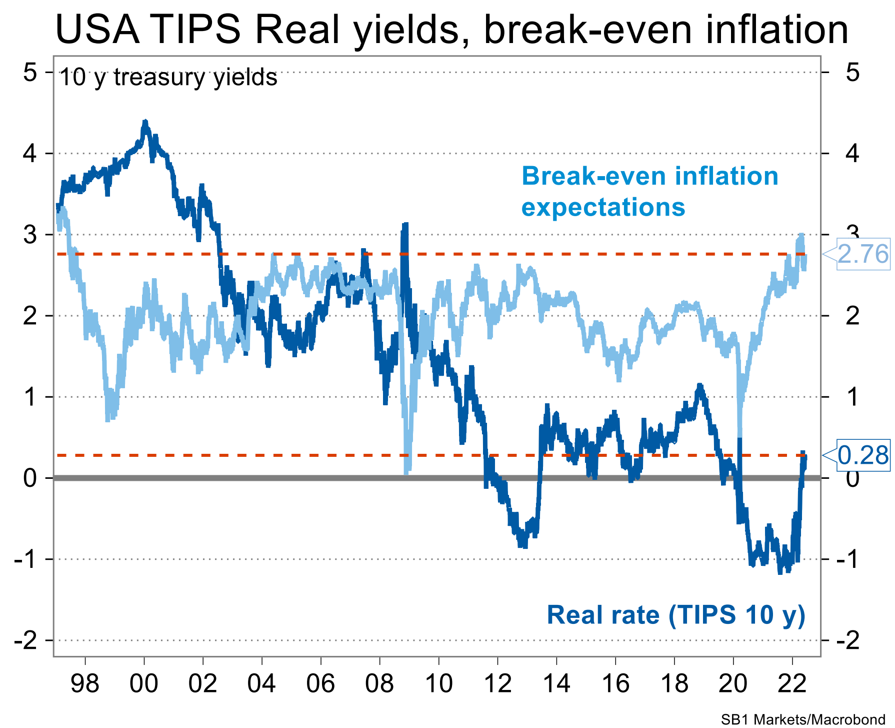
	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	3.04	0.30	-0.08	1.12	0.52
.. break-even inflation	2.76	0.13	-0.10	0.35	1.06
.. TIPS real rate	0.28	0.17	0.02	0.77	-1.19
Germany nominal bund	1.25	0.26	0.27	1.03	-0.65
.. break-even inflation	2.66	0.17	-0.39	0.68	0.40
.. real rate	-1.41	0.09	0.66	0.35	-2.80

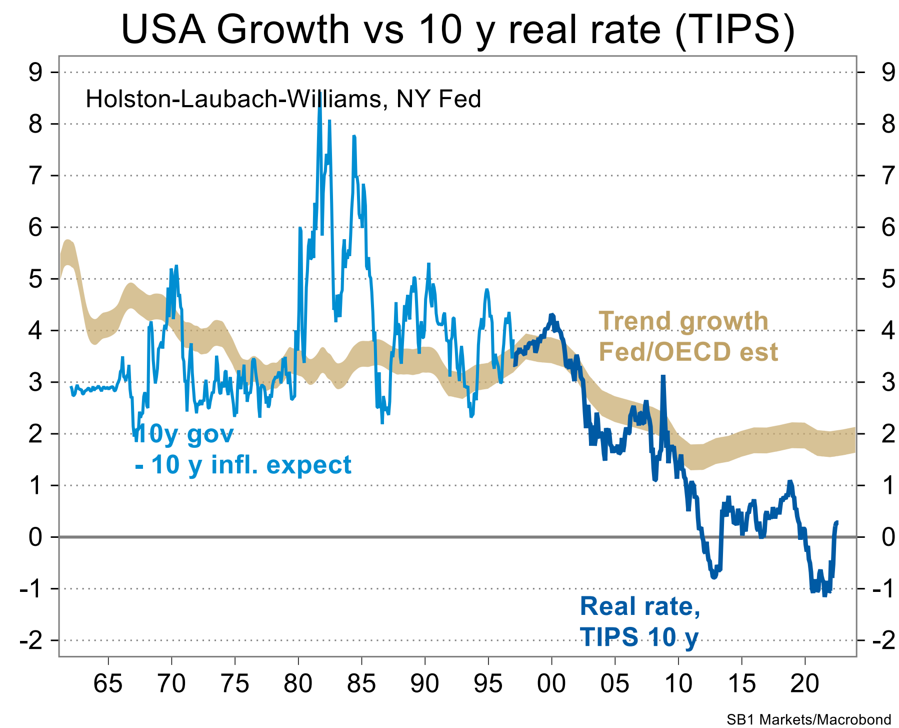
SB1 Markets/Macrobond

- **The US nominal 10 y bond** yield rose 30 bps last week to 3.04%
  - » **Real rates and inflation expectation** both climbed sharply
- **The 10 y German bund** added 26 bps to 1.25%
  - » **Real rates** rose 9 bps to -1.41%, back up to the same level as before the pandemic, for the first time
  - » Inflation expectations rose 17 bps to 2.66%, still well below the above the ATH at above 3% some few weeks ago

Mind the gap: It's rapidly closing!

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

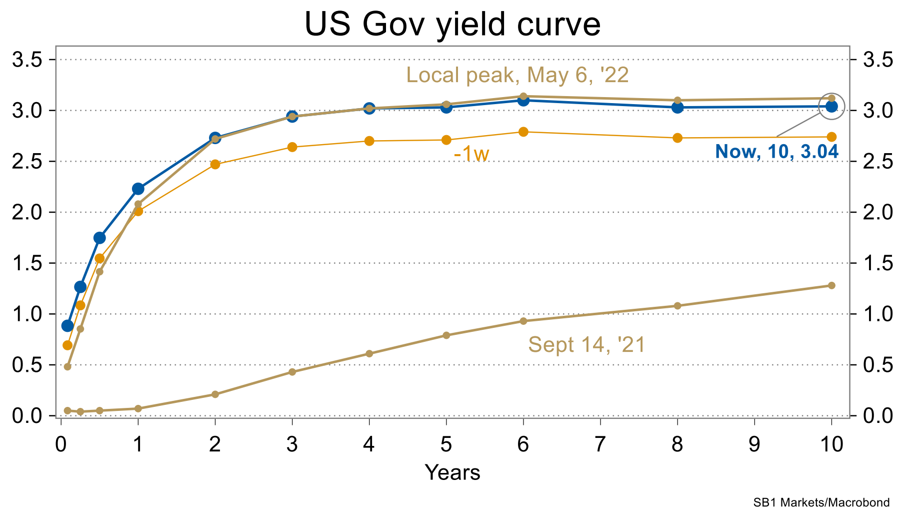


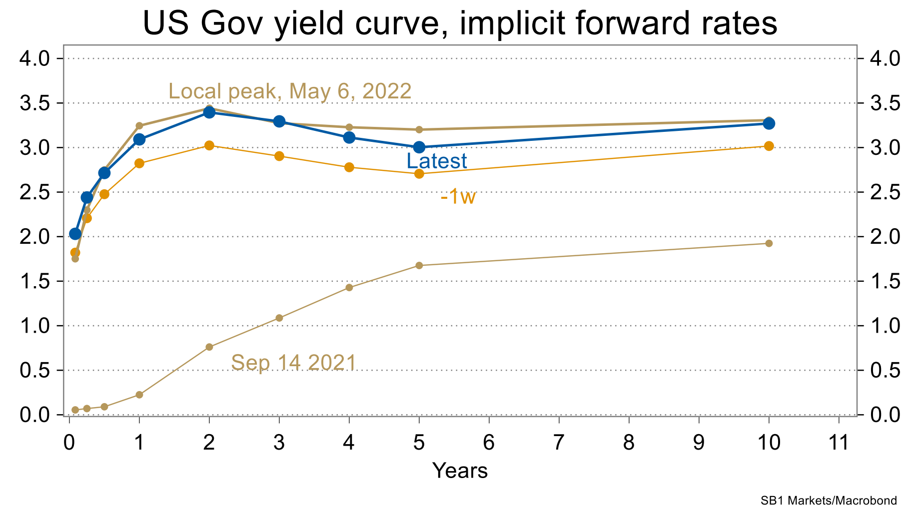


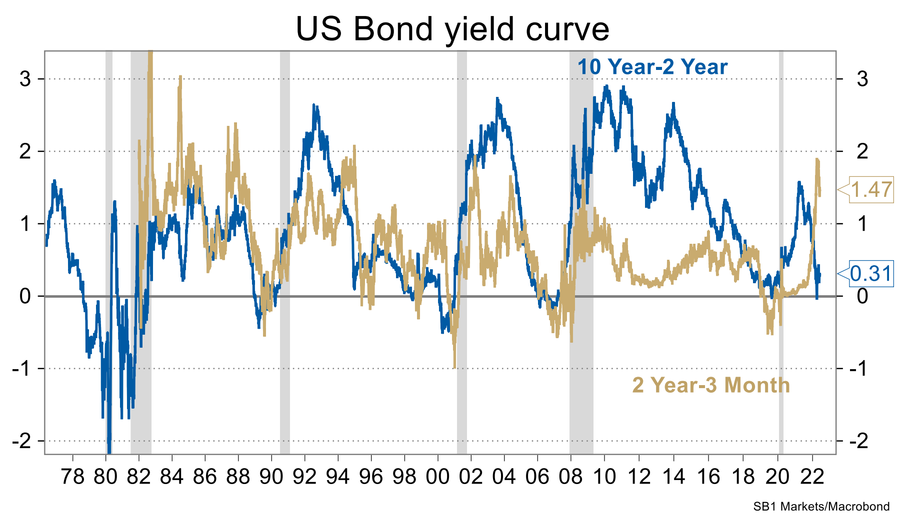
- There is no reason to believe that the current surge in real rates is due to an equivalent increase in growth expectations. It is of course the opposite: At least the short to medium-term outlook is now weakening as central banks finally enter the fight against inflation by at least bringing growth 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?

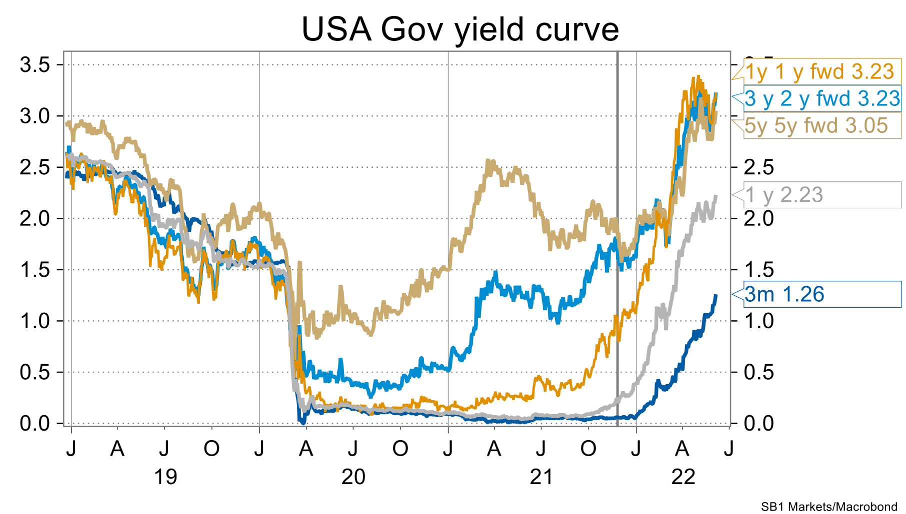
A little hump, and thereafter the forward curve is flat at 3% from 3 y onwards

– as half of the May decline was reversed last week (and more than that in the short end)



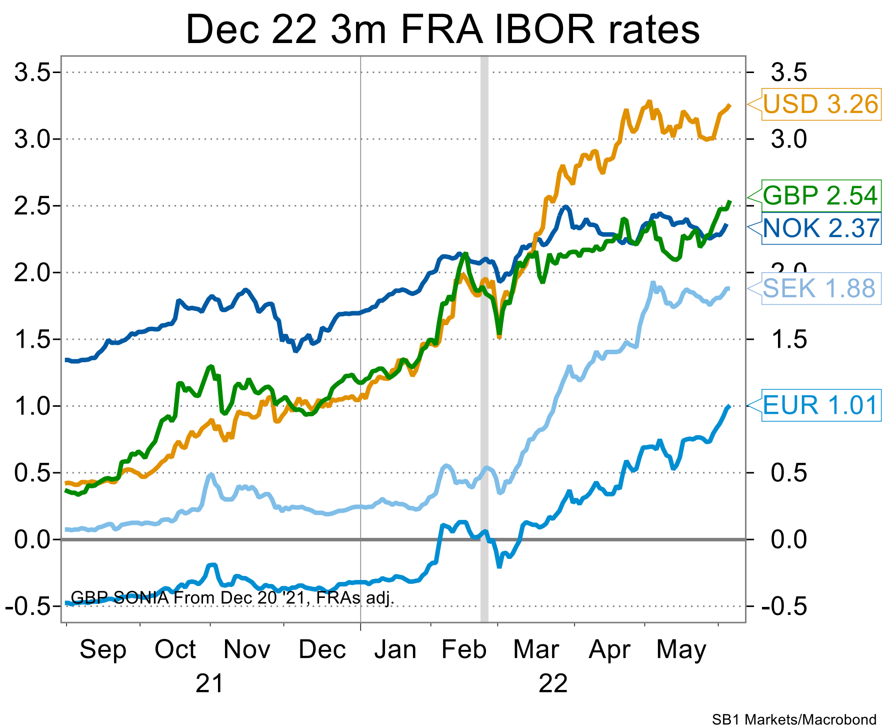


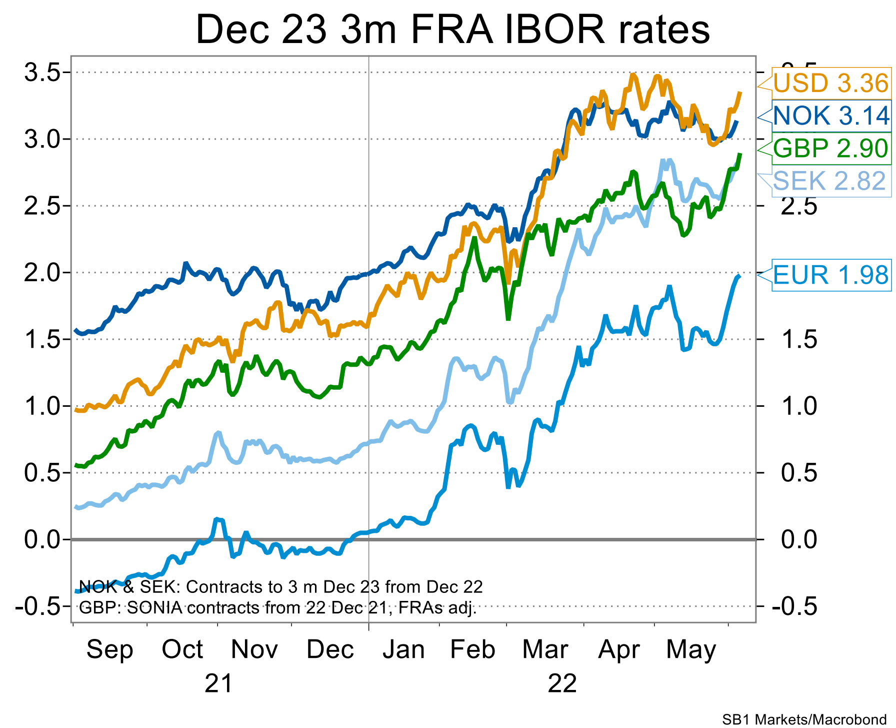




Here we go again – FRA rates up everywhere, and the most in Europe

Will the ECB really deliver hikes amounting to 150 bps before Christmas?

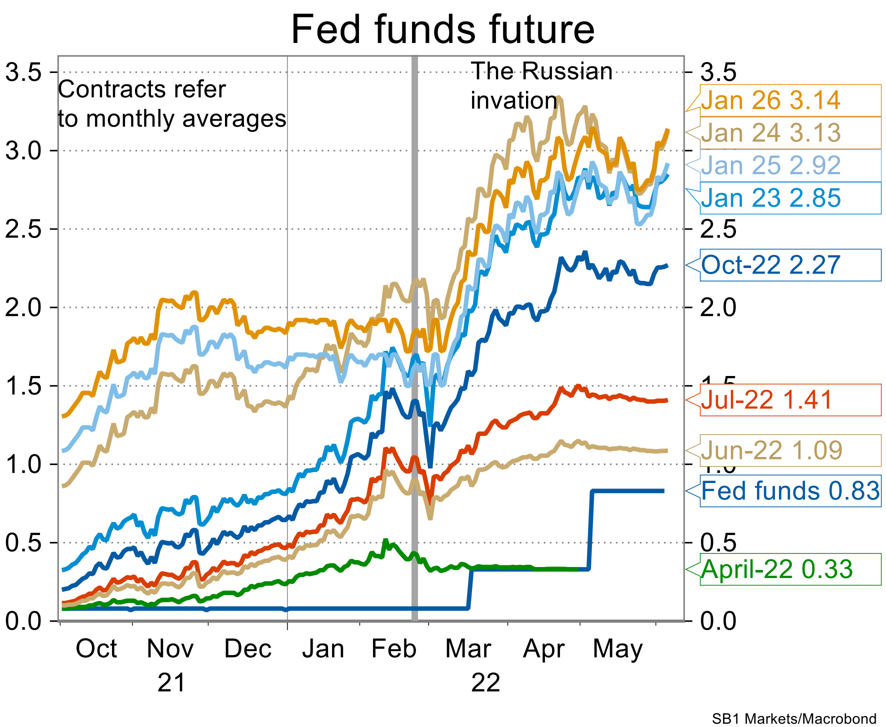


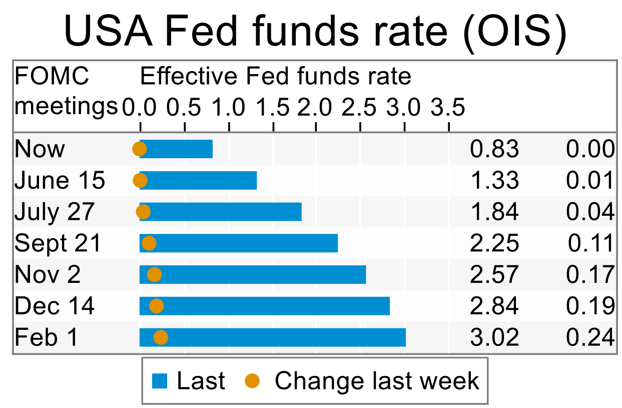


- 3% seems to be market consensus for end of 2023

50 bps in Sept too, like in June & July? A 200 bps lift before X-mas?

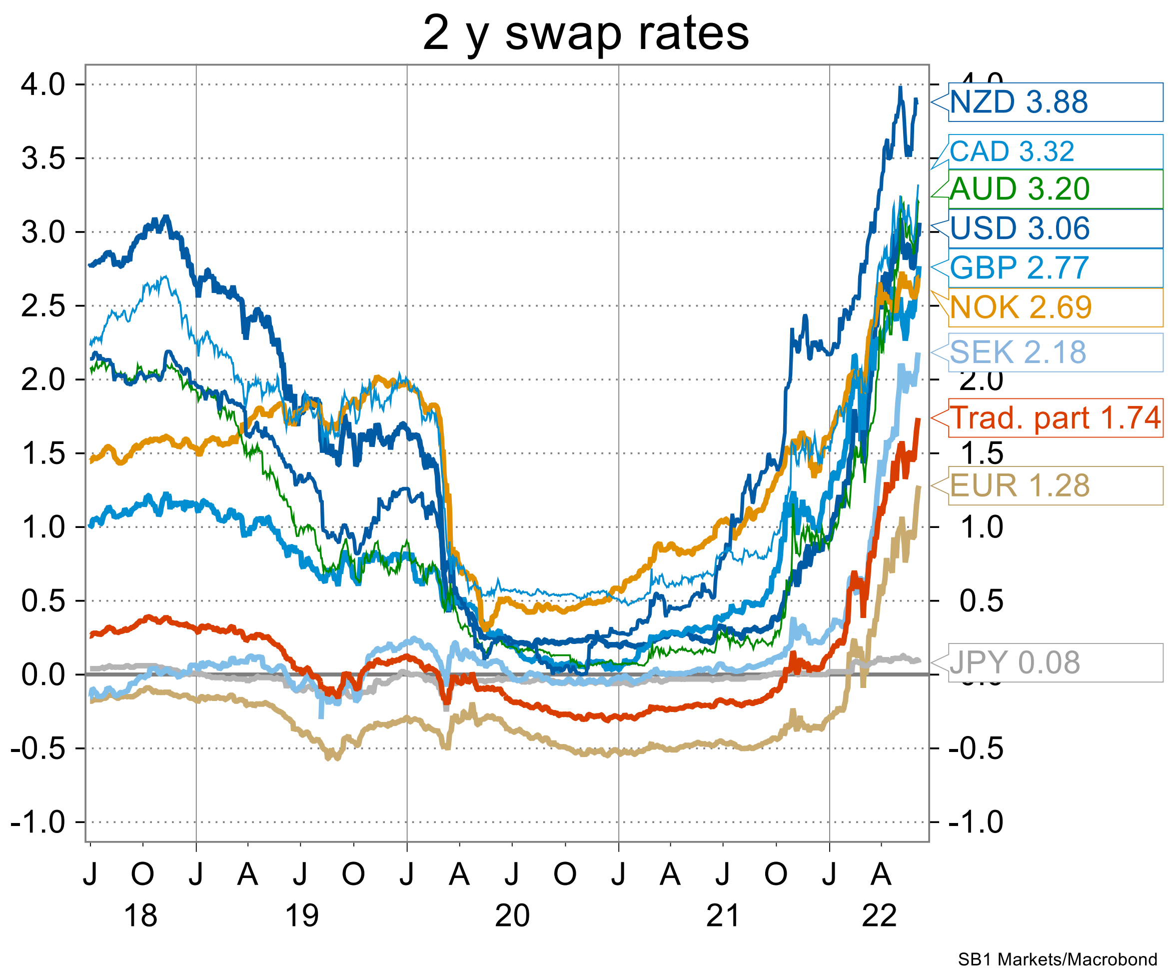
Last week's data were not that strong, but rates soared on hawkish comments from FOMC members

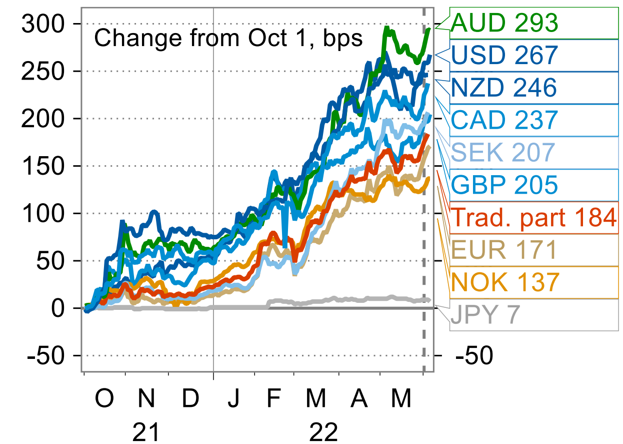


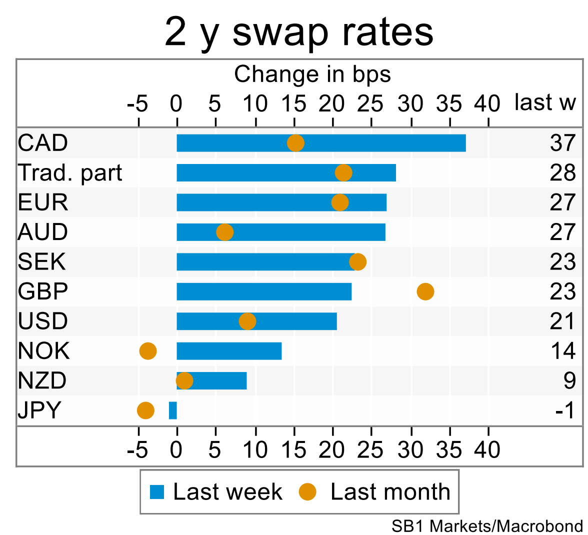


The short end of the curve straight up everywhere, the most in AUD & EUR

NOK rates up too but less than most others

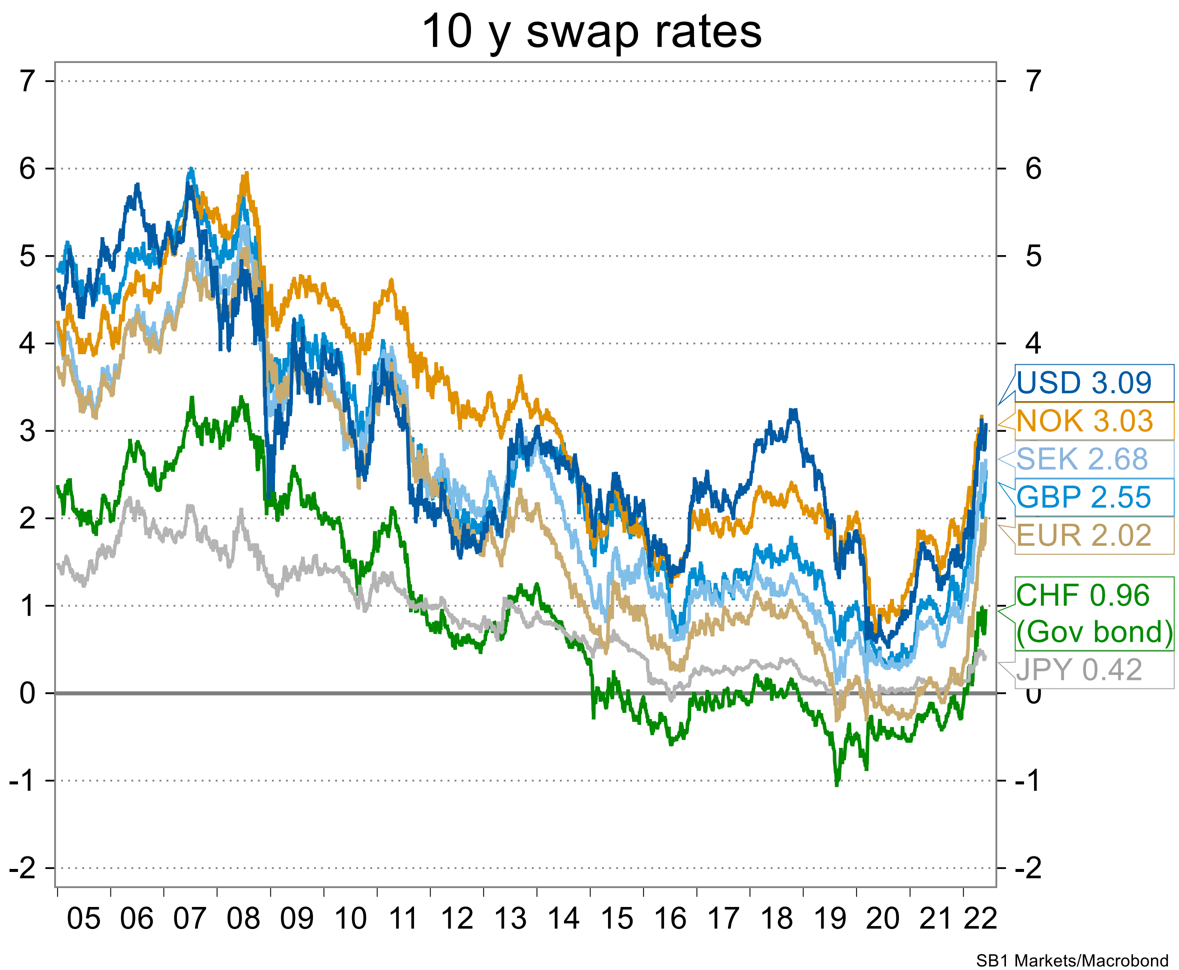


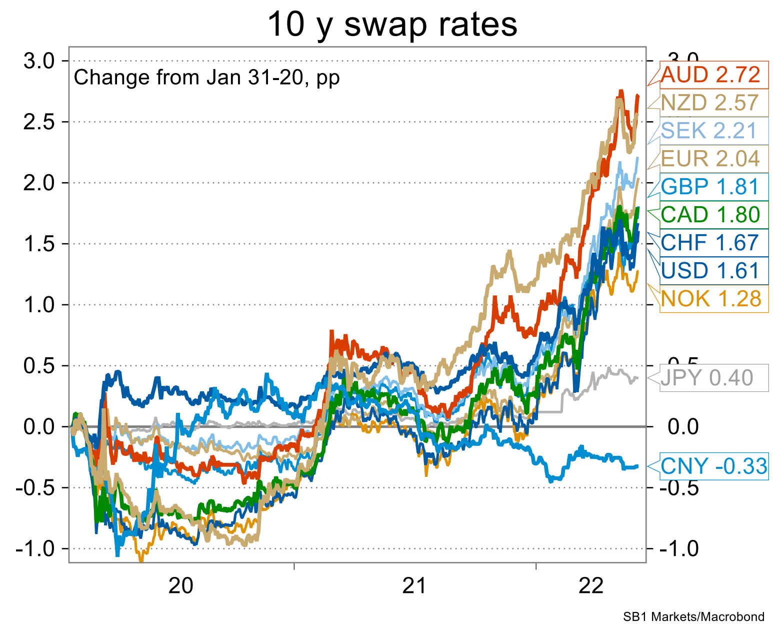


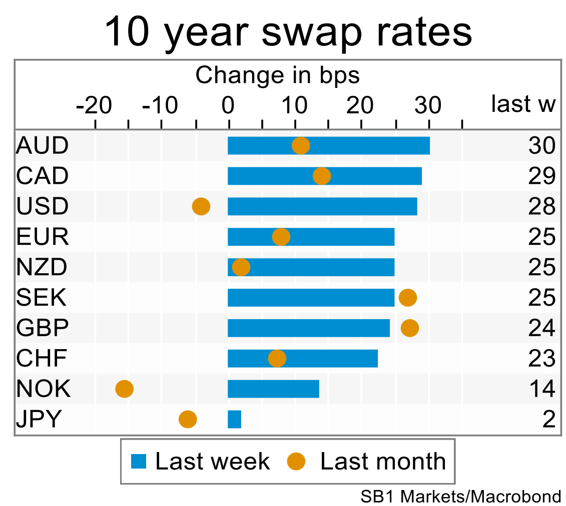


The long end of the curve followed suit, up everywhere by 20 – 30 bps

Some countries recorded new cycle highs



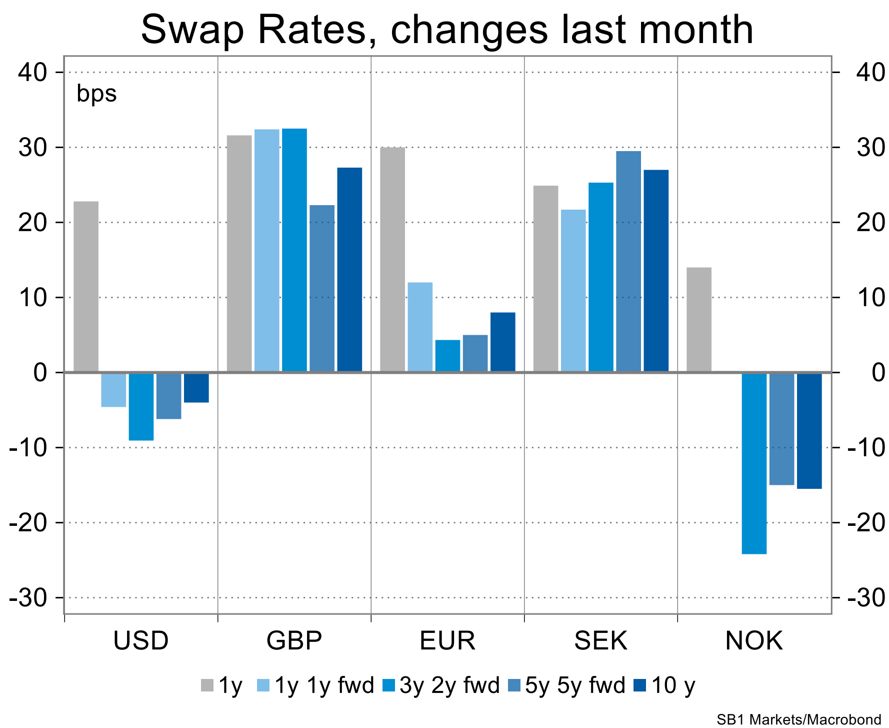


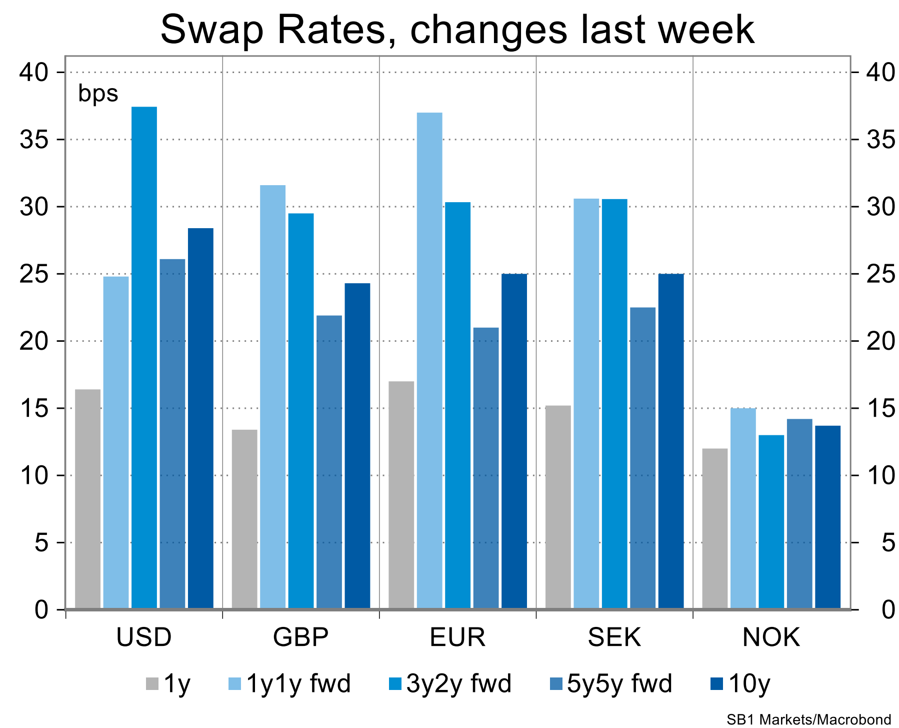


CHF: 10 y government bond yield

EUR rates in the lead last week – up by up to 47 bps (1 y 1 y fwd)

NOK rates up too, but less than abroad

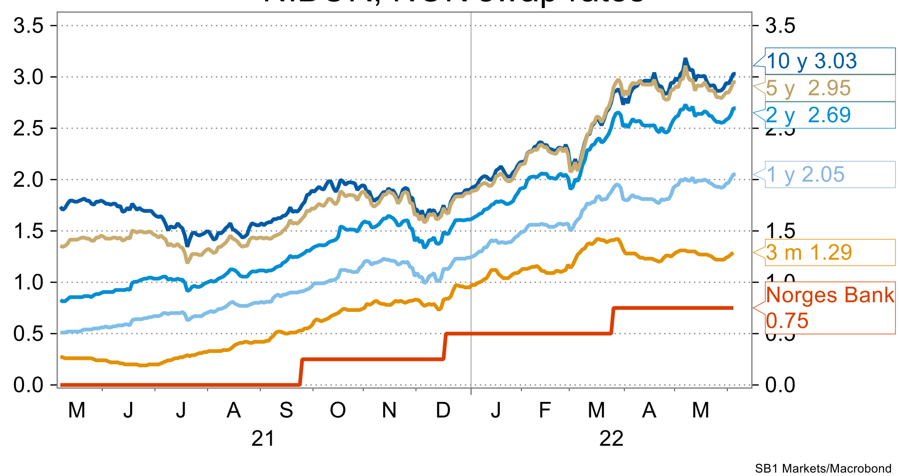




A shift upwards again, driven by higher rates abroad

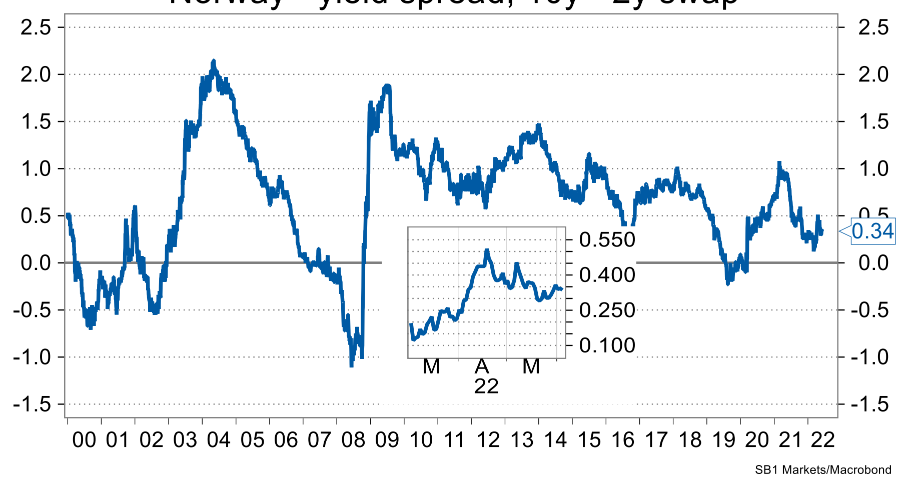
The 10 y swap is above 3% again – and the curve steepened some few bps

NIBOR, NOK swap rates

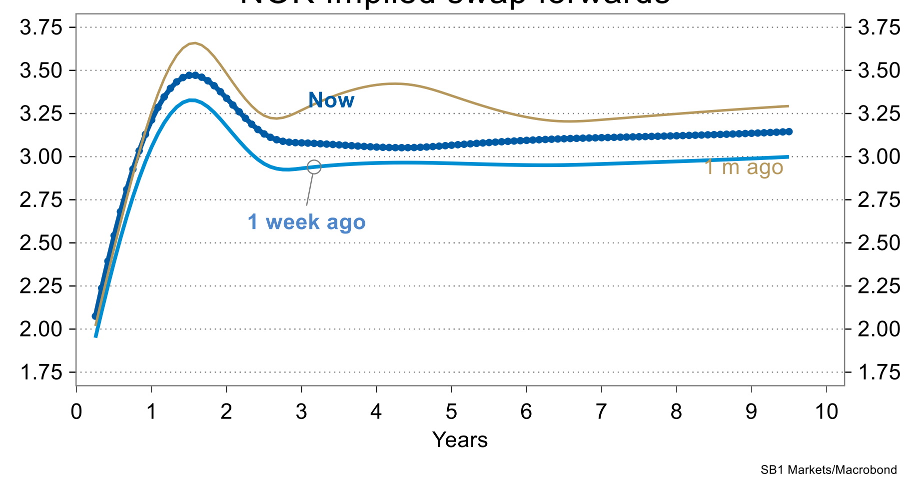


NOK Swap rates

Norway - yield spread, 10y - 2y swap



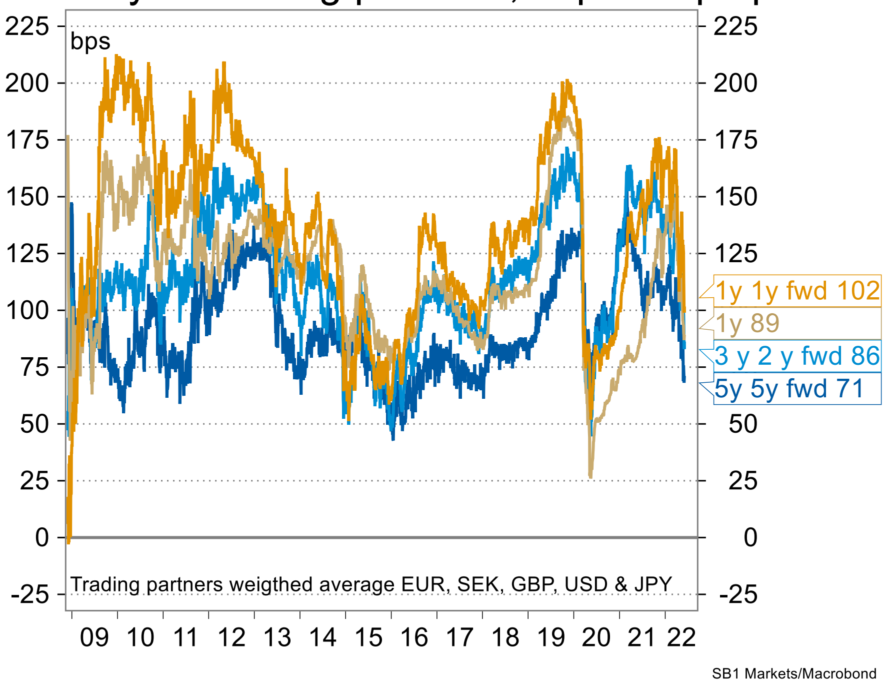
NOK Implied swap forwards

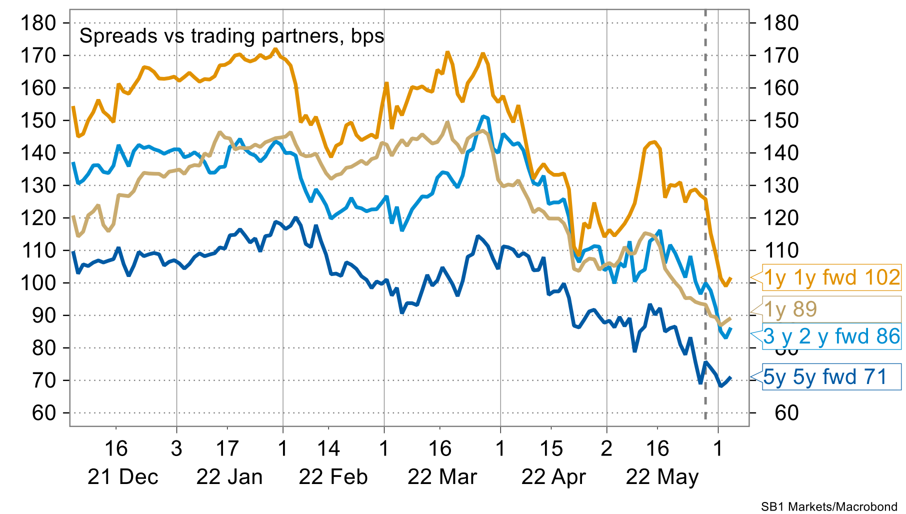


Spreads down last week too, all over the curve

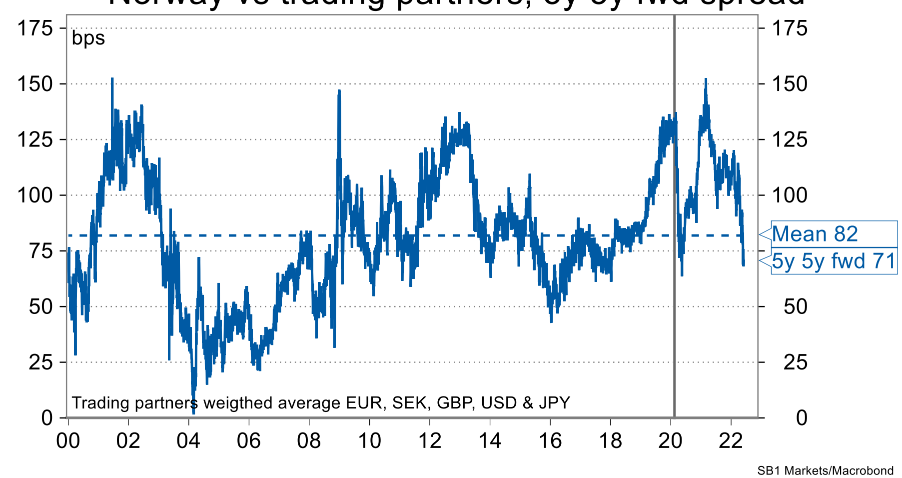
Spreads vs. trading partners at slightly below average levels

Norway vs trading partners, impl swap spreads



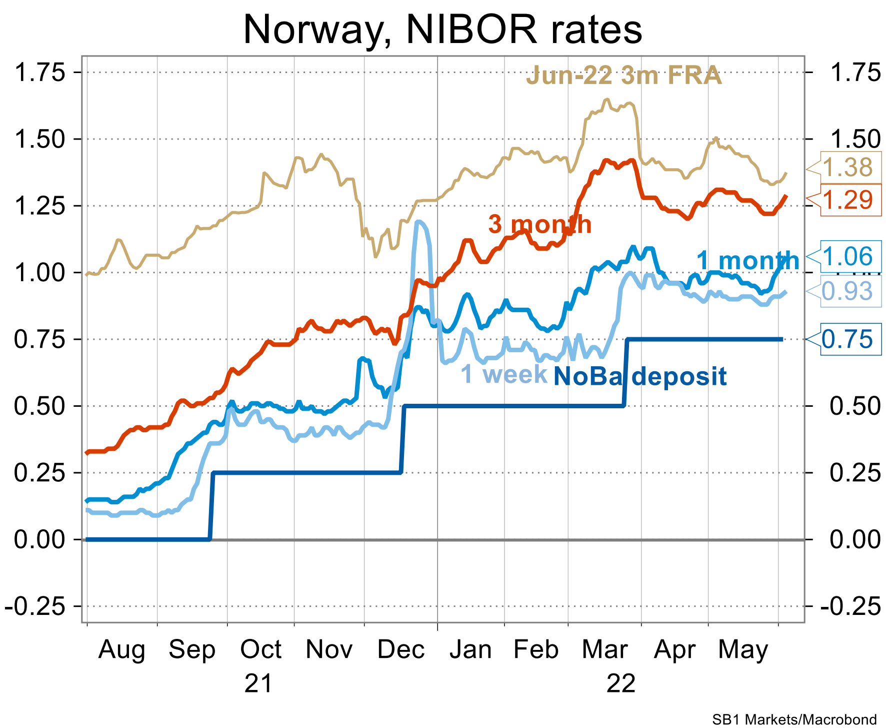


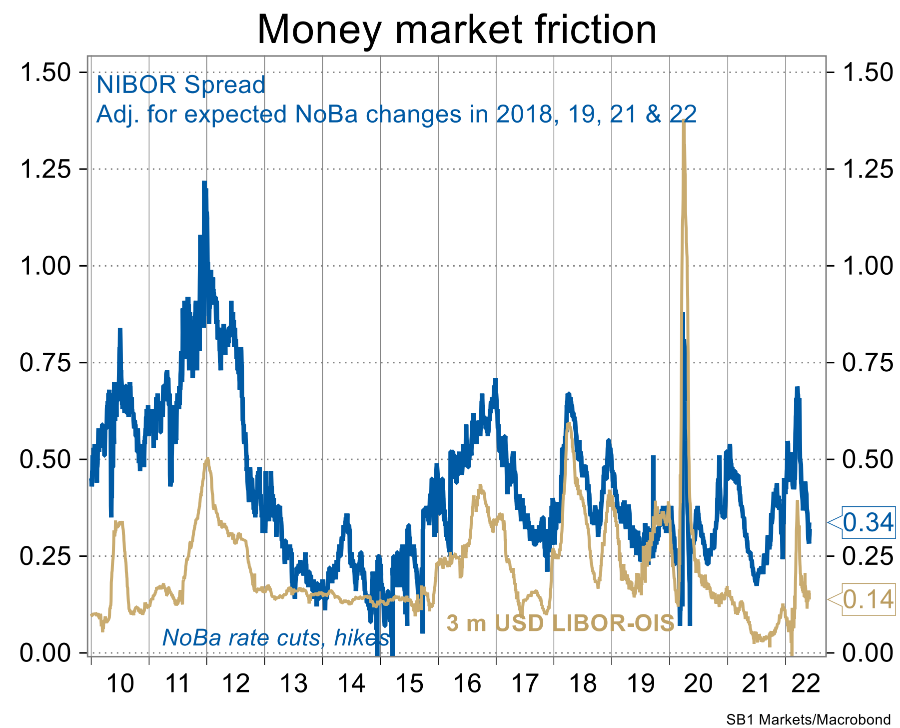
Norway vs trading partners, 5y 5y fwd spread



The 3m NIBOR up 5 bps to 1.29%, the NIBOR spread up 5 bps to 34 bps. Or…??

Will NoBa take a double hike in June – or lift the signal rate in August too?



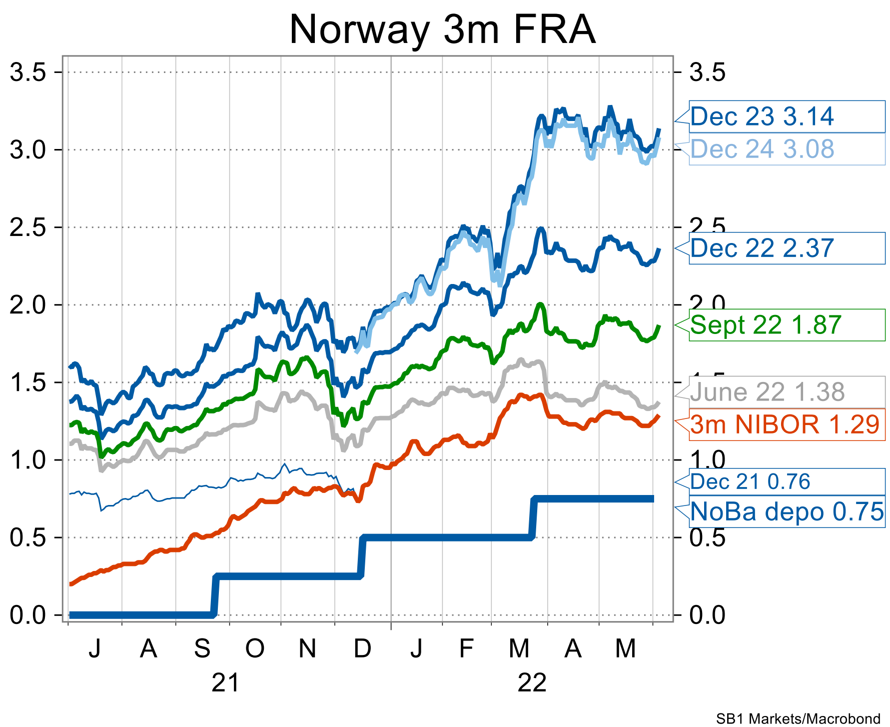


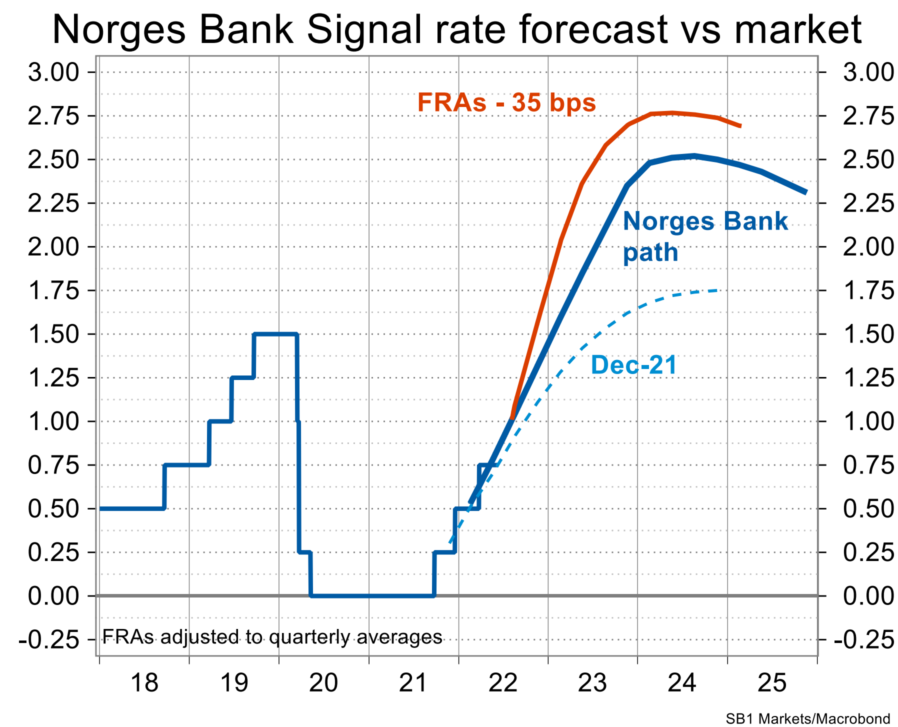
- Money market spread have normalised again. We assume a 35 bps spread going forward (from 40 bps)
- The USD LIBOR-OIS spread fell 2 bps to 14 bps last week

SpareBank 1 MARKETS

FRA rates turned up last week – by up to 18 bps. 50 bps in June or 25 in August?

Lower unemployment, higher house prices – and higher interest rates abroad lifted FRA rates



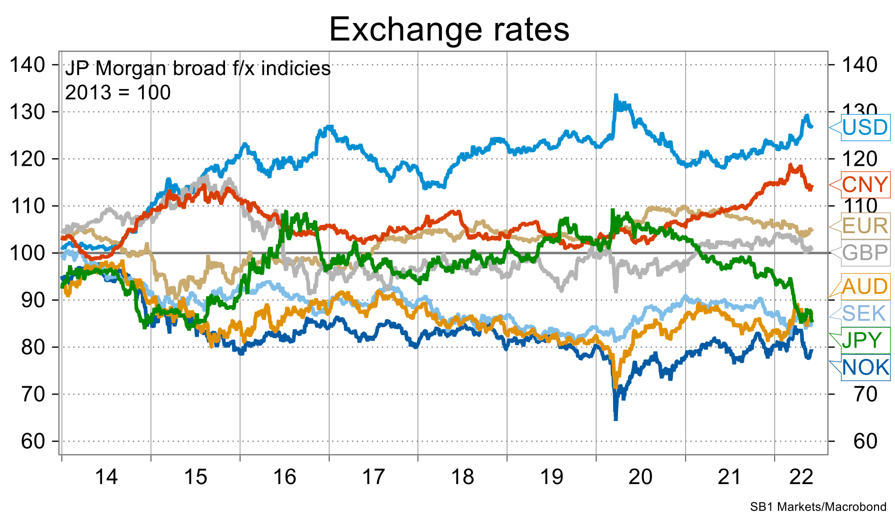


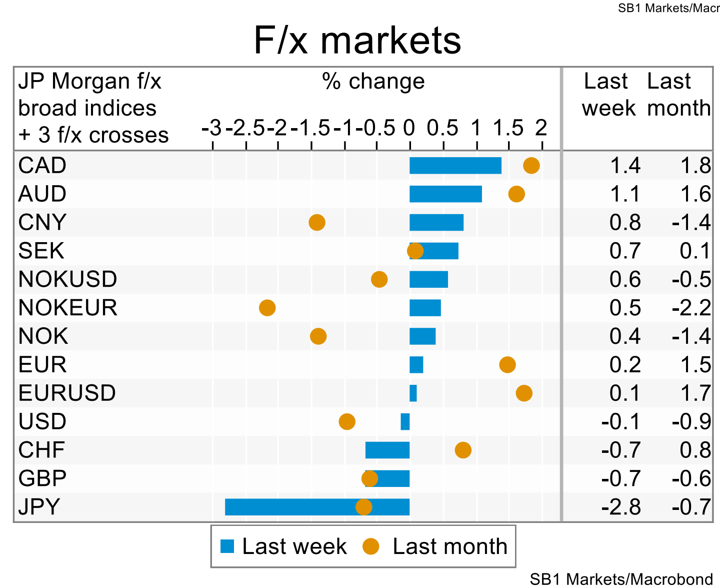
- If NoBa hikes by 25 bps to 1% at **June 23 meeting** (and no hike in August), the average deposit rate in the duration of the June 3 m FRA contract will be 0.98%. If the bank hikes by 50 bps, the avg depo rate will be 1.21%. If 25 bps in June, and 25 bps hike in August, 1.10%.
- **Assuming a 35 bps NIBOR spread** : The current June 3m FRA at 1.375% implies a 60% probability for a 25 bp hike in both June and August. Or a 20% probability for a 50 bps hike in June (and nothing in August). A minor reduction in the NIBOR spread increases the probability for a 'double' hike in June or an 'extra' 25 bps hike in August. Last week we estimated the 'clean' NIBOR spread at 29 bps (just 25 bps hike in June),and we may now be underestimating the probability for more aggressive hikes
- As the **Sept 3 m FRA** at 1.87% is 49 bps above the June contract, a 50 bps hike in Sept or a 25 bps hike in August is discounted, or a hike in November (in addition to June, Aug, Sept)
- The FRA market discounts close to a 90% probability for a 2% signal rate in December (the alternative is 1.75% (assuming a 35 bps NIBOR spread + a 5 bps Q4 liquidity premium). Norges Bank signalled 1.50 (85%) or possibly 1.75% (15%) in the March report

SpareBank 1 MARKETS

NOK further up but less than our ‘peers’ (AUD, CAD, SEK). EUR up, USD down

The CNY turned upwards again. The JPY fell sharply, again

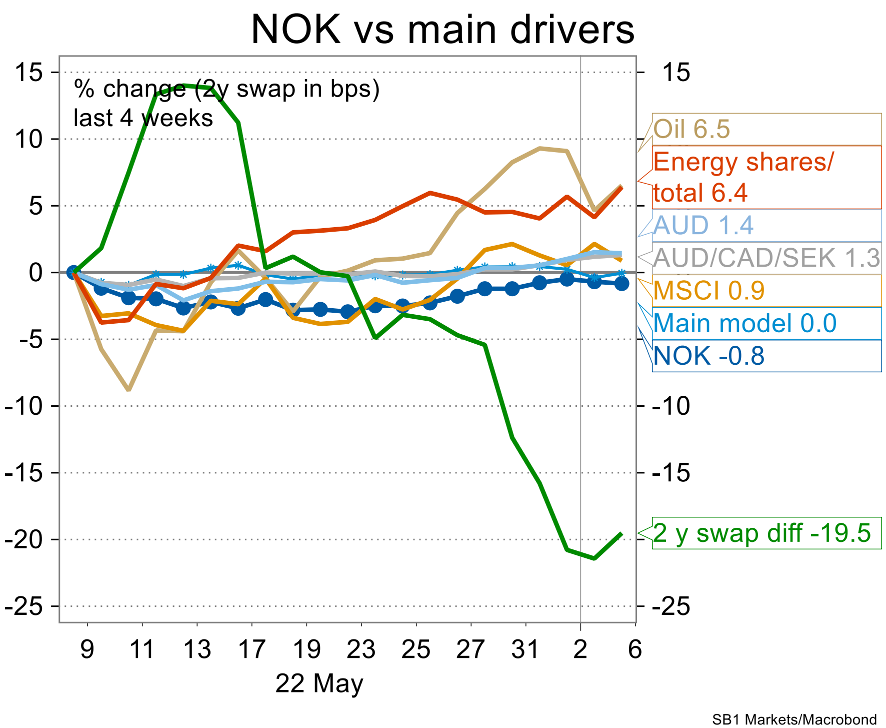


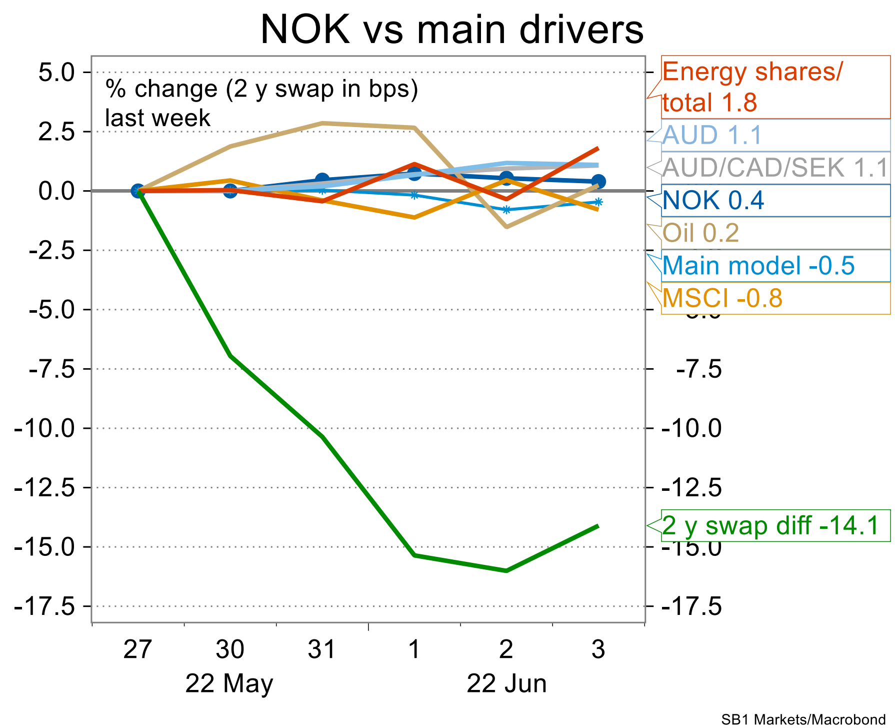


JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
CAD	1.4	1.8
AUD	1.1	1.6
CNY	0.8	-1.4
SEK	0.7	0.1
NOKUSD	0.6	-0.5
NOKEUR	0.5	-2.2
NOK	0.4	-1.4
EUR	0.2	1.5
EURUSD	0.1	1.7
USD	-0.1	-0.9
CHF	-0.7	0.8
GBP	-0.7	-0.6
JPY	-2.8	-0.7

NOK up 0.4%, our model signalled a 0.5% decline – the int. rate differential down

NOK is still far below out model estimate, and NOK is weak vs other commodity currencies, energy shares





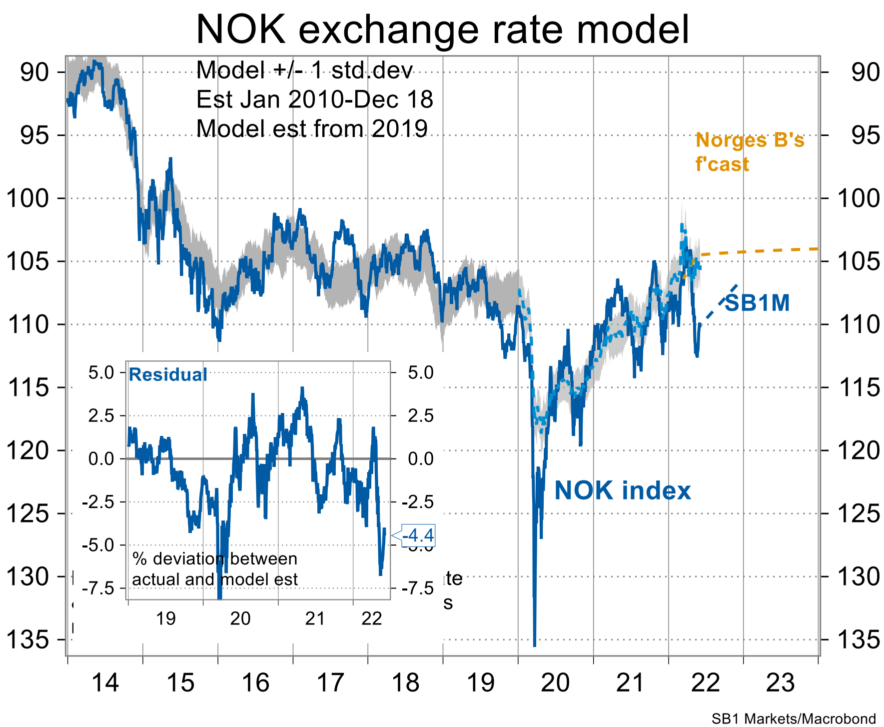
Gaps vs. out model estimates still wide

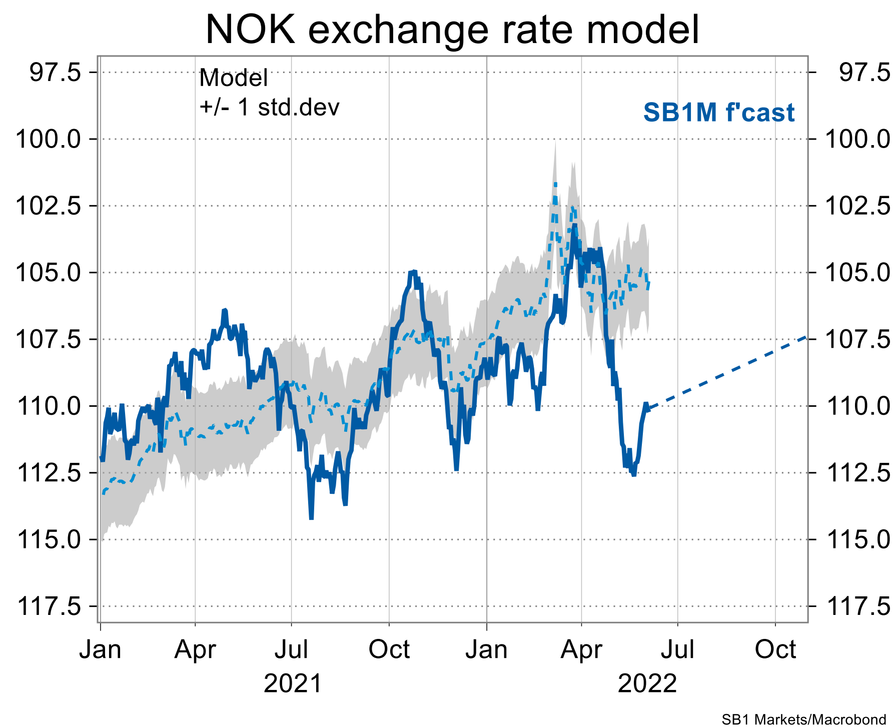
- ***The NOK +0.4% - and it is 4.4% <u>below</u> our main model estimate (from –5.3%)***
- The NOK is 10% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -8%)
- NOK is 3 % <u>weaker</u> than a model which includes global energy companies equity prices (vs the global stock market) (from 4)

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

The NOK up but still 4.4% below our model estimate

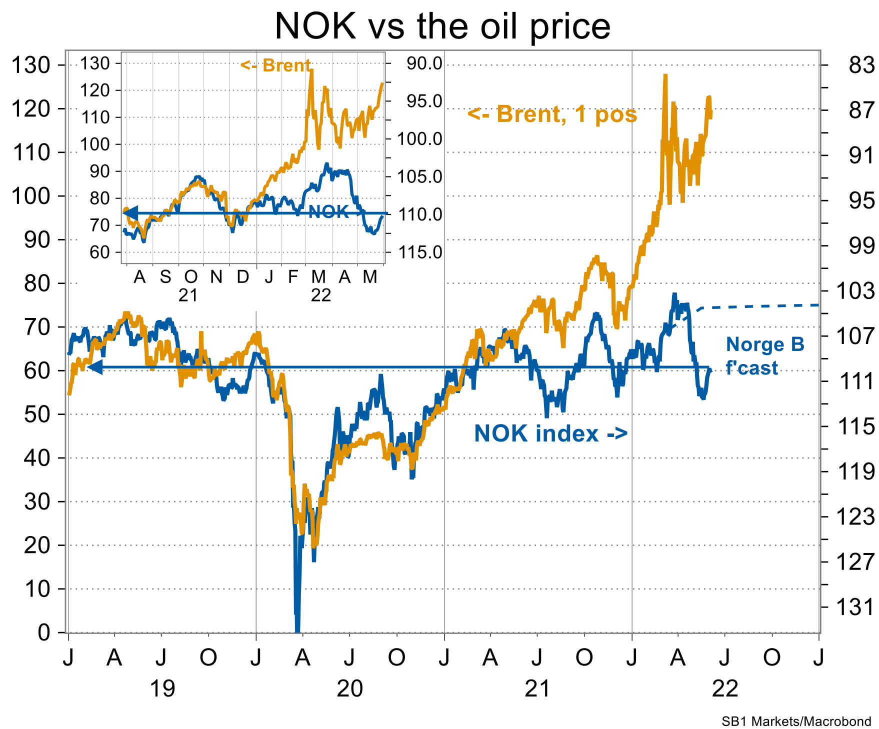
Rather unusual…

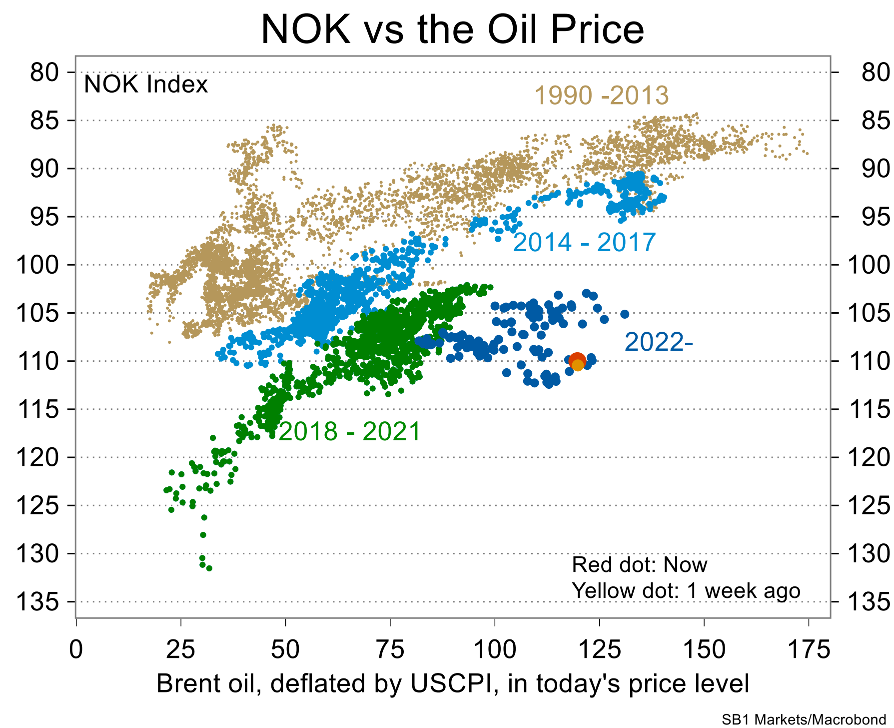




Oil up and NOK stronger, but still weak vs. the oil price

NOK is weak, as if the oil prices were USD 75/b (rebased to early Jan) or 60 (rebased to May-21)

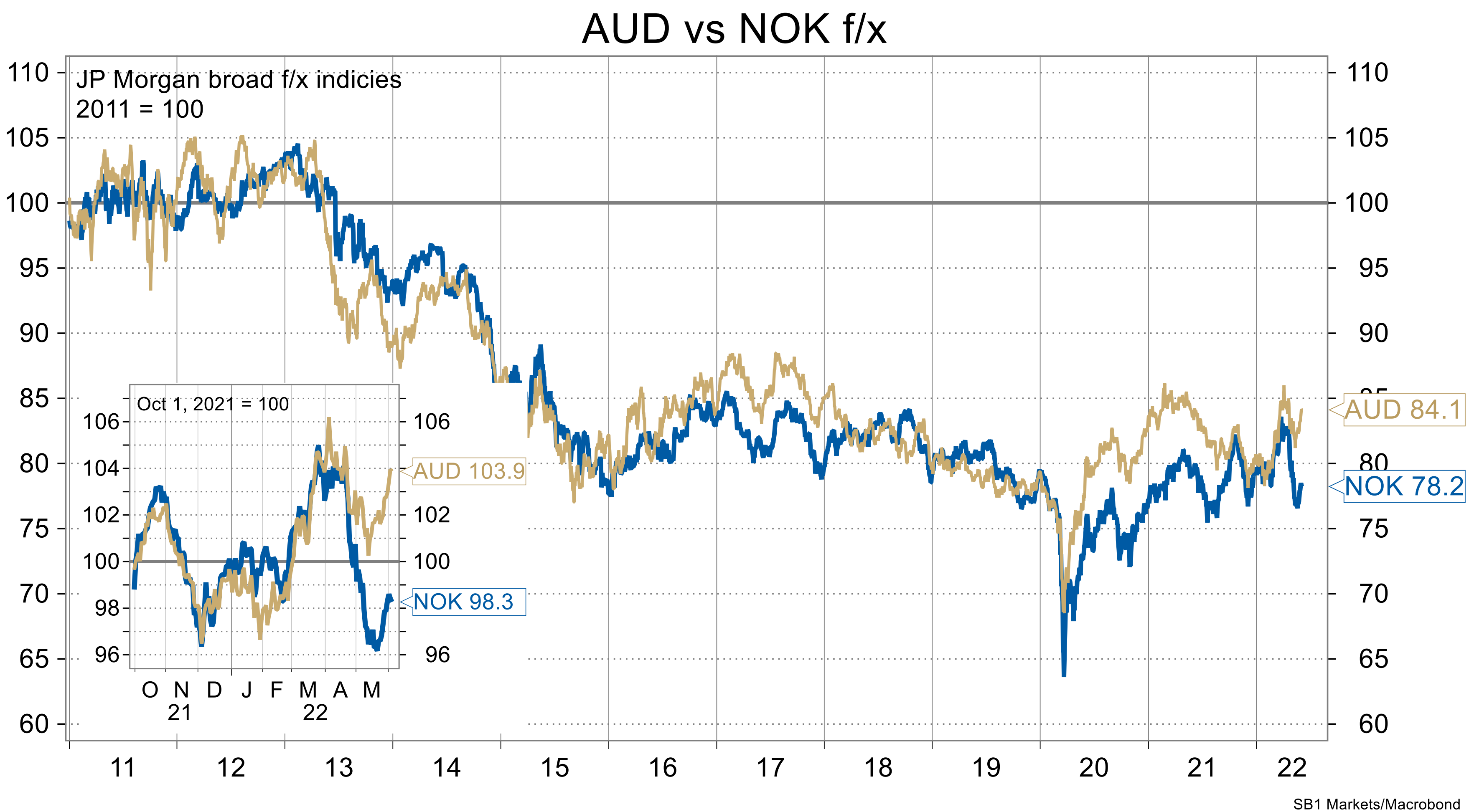




- The NOK has never before been as weak as now, given the oil price

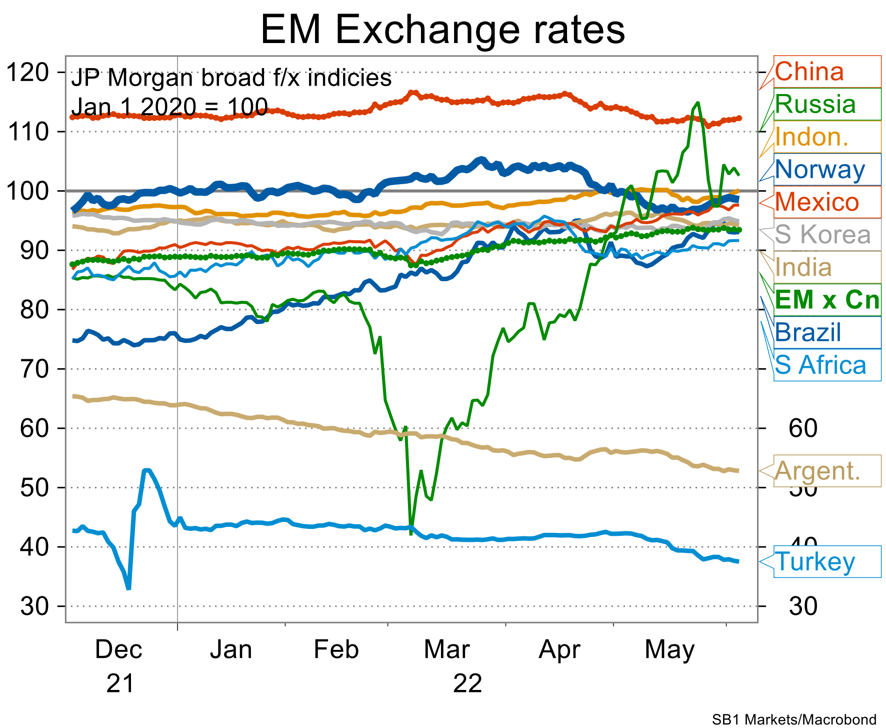
Both the AUD & NOK stronger, but NOK is still lagging

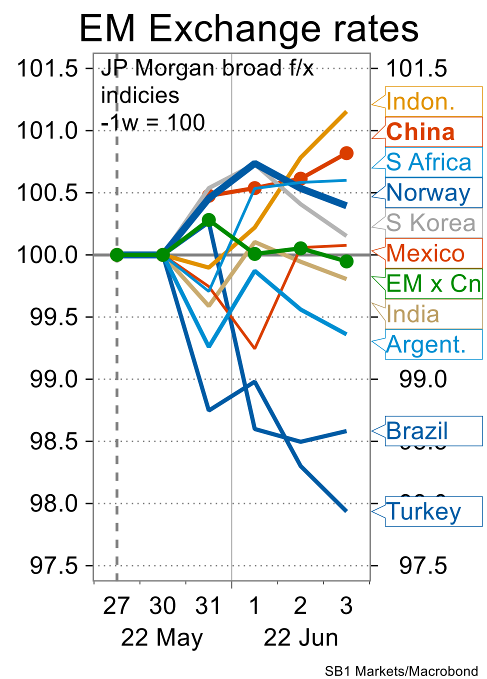
The usual suspects, the oil price vs metals cannot explain the relative NOK drop vs. AUD

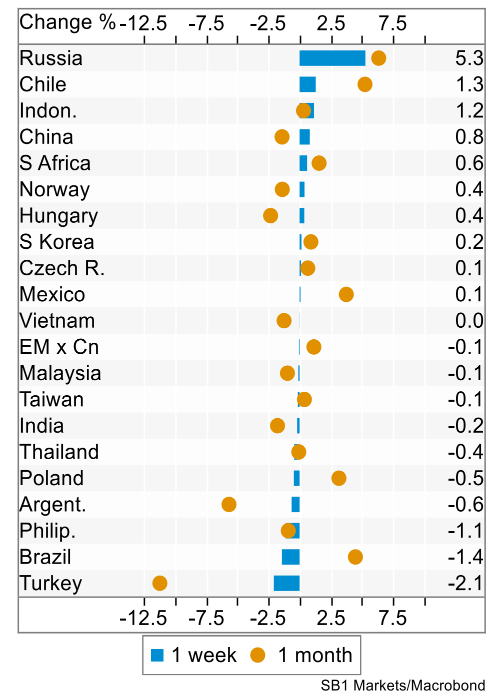


Usually, interest rate differentials have not been important at for the NOK/AUD relative strength/weakness. NOK has usually <u>strengthened</u> vs. the AUD in times of turbulence in the stock market (VIX, S&P vs. long term trend)

EM f/x mixed: Turkey is on a slippery slope. The CNY up last week too



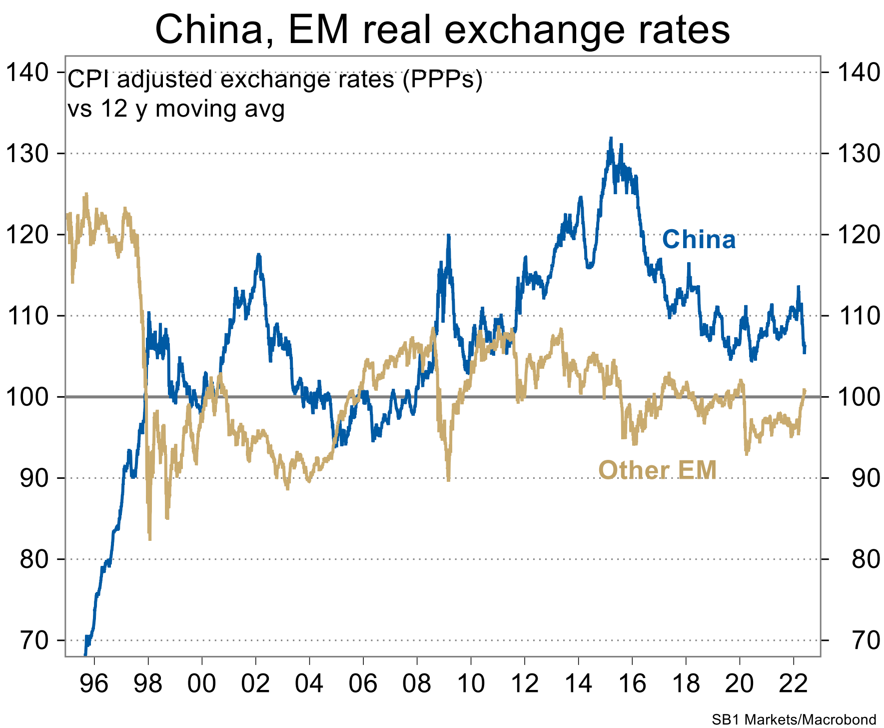


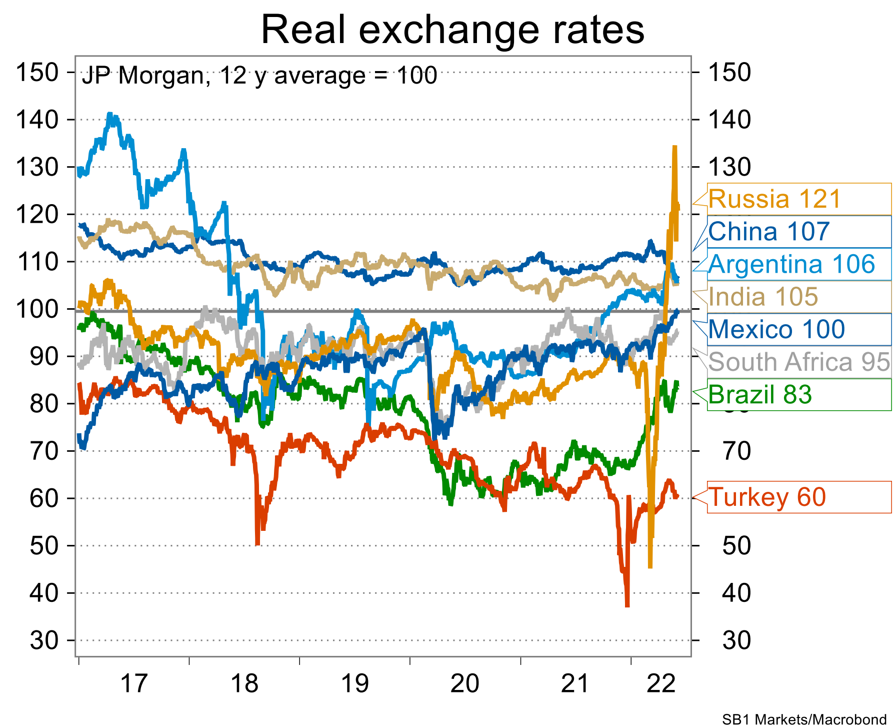


- The Brazilian real has appreciated sharply recent months, from a low level – but fell last week

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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