July 4 2022

Macro Weekly

Week 27/2022

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Highlights

The world around us

The Norwegian economy

Market charts & comments

Last week, part I

- **The War/Sanctions**
  - Russia is slowly conquering ground in the East, and has now almost taken full control over the Luhansk region. Will the Russian continue? If not, real peace negotiations may start. Some news on possible expot
  - **Most commodity prices** fell further last week. A bleaker growth outlook and probably less hoarding may explain the weakness in these prices. However, European natural gas prices rose further due to lack of supplies from both Russia and the US, and continental prices are at the highest level since just after the war started

- **Manufacturing PMI/ISM**
  - **The global manufacturing PMI** fell 0.1 p to 52.2 in June, as we assumed. However, the devil lies in the details. A steep recovery from the lockdown slump in the **Chinese PMIs** in April and May supported the headline index by 0.8 p. In the rich part of the world the PMI fell by 2.5 p to 52.2, due to (already reported) weakness in both EMU and US. The **new order sub-index** fell sharply both places, to below the 50-line, and to 45 in the EMU. In the US the **ISM manufacturing index** surprised at the downside (as we assumed), down 3.2 p to 53. Here too, as well as measured by several other regional Fed indices, new orders contracted in a way that <u>we normally see only just before or into recessions. An obvious warning sign</u>. The Norwegian PMI recovered but has been trending down recent months
- **USA**
  - **Pending home sales** rose marginally in May, and while demand for **new mortgages** was unchanged, and **existing home prices** are still on the way up (albeit at a somewhat slower pace, but still way above income growth) the direction is very likely set: <u>Demand for housing is on the way down, and prices will very likely follow suit, due the steep increase in mortgage rates</u>
  - **Consumption** fell in May and April and Q1 was revised down. Growth in Q2 may be just above 1%, well below our forecasts until now
  - Actual order inflow has not softened by much and signals decent growth in business investments in Q2
  - **Still, Atlanta Fed's GDP** nowcaster signals a 2% decline in GDP in Q2, following the 1.6% setback in Q1
  - Consumers' expectations fell further in June, and the gap to households' assessment of the current situation is the largest ever. This gap is always the largest before recessions
  - Not that surprising then, that **recession fears** blossomed late last week. **Interest rates** fell sharply all over the curve everywhere, barring in the very short end – central banks are not finished yet. **Inflation expectations** explained almost all of the decline in bond yields in the US, as the decline in **real rate expectations** was modest. Credit spreads widened, the stock markets were weak, at least until Friday

Last week, part II

- **EMU**
  - » **CPI inflation** accelerated to 8.6% and slightly more than expected, while the core rate slowed marginally to 3.7%, 0.2 pp below expectations. However monthly increases are still very high. Energy and food prices soared. Gas prices are still climbing, due to fear of supply shortages the coming winter if Russia is not willing/able to deliver through the Nord Stream 1 pipeline
  - » **The unemployment rate** fell to 6.6% in May, 0.2 pp lower than expected – and the lowest rate since 1981. The pace of decline may be slowing. Wage inflation is accelerating
- **Sweden**
  - » **The Riksbank** delivered the expected 50 bps, and lifted the interest rate path by up to 90 bps, and indicates a signal rate at approx. 1.5% in December. The peak of the interest rate path is still just 0.2 pp higher than assumed in April, at 2.1%. Inflation was revised up, growth down. Market rates followed global rates down last week but the Riba curve is still 70 bps above The new Riksbank path
- **Norway**
  - » **NAV unemployment** fell 0.1 pp to 1.7% in June, from an upwards revised 1.8% in May, we expected 1.6%. The trend is still down, but at a slower pace, as the rate is approaching the lowest in decades. However, new vacancies have probably peaked, and the inflow of new jobless claims may have bottomed, indicating that the demand side may be calming somewhat down too
  - » **Retail sales** fell 0.9% in May, as most main sectors contributed on the downside. Sales as still well above the pre-pandemic trend path, which though was a weak one

The Calendar, week 27: Services PMI/ISM, US labour market. Norwegian house prices, GDP

Time	Count.	Indicator	Period	Forecast	Prior
Tuesday July 5					
03:45	CN	Caixin China PMI Services	Jun	49	41.4
08:30	SW	Swedbank/Silf PMI Services	Jun		68.2
10:00	EU	Services PMI	Jun F	52.8	52.8
10:00	EU	Composite PMI	Jun F	51.9	51.9
Wednesday July 6					
08:00	SW	GDP Indicator SA MoM	May	0.2%	-0.2%
11:00	**NO**	**House prices**	**June**	**(0.2%)**	**0.7%**
11:00	EU	Retail Sales MoM	May	0.40%	-1.3%
15:45	US	Services PMI	Jun F	51.6	51.6
16:00	**US**	**ISM Services Index**	**Jun**	**54.5**	**55.9**
16:00	**US**	**JOLTS Job Openings**	**May**	**11000k**	**11400k**
17:00	WO	Composite PMI	June		
20:00	US	FOMC Meeting Minutes	Jun-15		
Thursday July 7					
08:00	GE	Industrial Production SA MoM	May	0.7%	0.4%
08:00	NO	GDP Mainland MoM	May		-0.5%
08:00	NO	Manufacturing prod. MoM	May		-0.5%
14:15	US	ADP Employment Change	Jun	193k	128k
14:30	US	Initial Jobless Claims	Jul-02	230k	231k
14:30	US	Trade Balance	May	-$86.6b	-$87.1b
Friday July 8					
14:30	US	Change in Nonfarm Payrolls	Jun	275k	390k
14:30	**US**	**Unemployment Rate**	**Jun**	**3.6%**	**3.6%**
14:30	**US**	**Average Hourly Earnings YoY**	**Jun**	**5.1%**	**5.2%**
14:30	US	Labor Force Participation Rate	Jun	62.3%	62.3%
Saturday July 9					
03:30	CN	CPI YoY	Jun	2.5%	2.1%

- **Services & composite PMI**
  - » The steep lift in the Chinese PMIs will lift the global PMI, even if the PMIs in the rich part of the world declined in June
- **USA**
  - » **The labour market** is extremely tight. This week, unfilled vacancies (in the JOLTS report), the unemployment rate as well as wage inflation in the labour market report will be in focus
- **Norway**
  - » **We expect house price inflation** to slow in June, or if not in June, in July or in August. Higher interest rates will have an impact on demand for housing – and the downside risk is larger than the 2%+ drop NoBa expects to next spring from the assumed peak in June
  - » **Mainland GDP** fell in April, and we expect a correction upwards in May. However, underlying growth is now slowing as capacity utilisation is very

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

The Calendar, week 28: A China week, June & Q2 data. US CPI & retail sales, manuf. CPI here

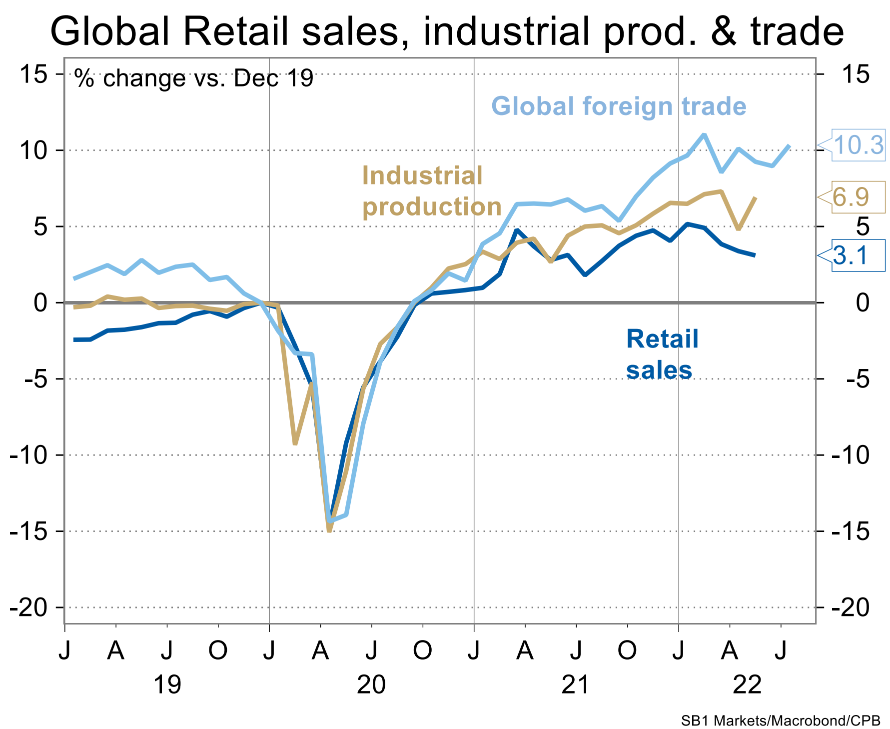
Time	Count.	Indicator	Period	Forecast	Prior
Monday July 11					
08:00	**NO**	**CPI YoY**	**Jun**	**(6%)**	**5.7%**
08:00	**NO**	**CPI Underlying YoY**	**Jun**	**(3.8%)**	**3.4%**
Tuesday July 12					
11:00	GE	ZEW Survey Expectations	Jul		-28.0
12:00	US	NFIB Small Business Optimism	Jun		93.1
Wednesday July 13					
	CN	Trade Balance	Jun		$78.76b
	CN	**Exports YoY**	**Jun**		**16.9%**
	CN	Imports YoY	Jun		4.1%
11:00	EU	Industrial Production SA MoM	May		0.4%
14:30	**US**	**CPI YoY**	**Jun**	**8.8%**	**8.6%**
14:30	**US**	**CPI Ex Food and Energy YoY**	**Jun**	**5.7%**	**6.0%**
20:00	US	Fed Beige Book			
Thursday July 14					
08:00	SW	CPI YoY	Jun		7.3%
08:00	SW	CPIF Excl. Energy YoY	Jun		5.4%
14:30	US	PPI Final Demand YoY	Jun		10.8%
14:30	US	Initial Jobless Claims	Jul-09		
	US	Atlanta Fed median wage track.	Jun		
Friday July 15					
03:30	CN	New Home Prices MoM	Jun		-0.2%
04:00	**CN**	**Industrial Production YoY**	**Jun**		**0.7%**
04:00	CN	GDP YoY	2Q	0.3%	4.8%
04:00	**CN**	**GDP SA QoQ**	**2Q**		**1.3%**
04:00	**CN**	**Retail Sales YoY**	**Jun**		**-6.7%**
04:00	CN	Fixed Assets Ex Rural YTD YoY	Jun		6.2%
04:00	CN	Property Investment YTD YoY	Jun		-4.0%
14:30	US	Retail Sales Advance MoM	Jun	0.9%	-0.3%
14:30	**US**	**Retail Sales Control Group**	**Jun**		**0.0%**
15:15	US	Manufacturing (SIC) Production	Jun		-0.1%
16:00	US	Business Inventories	May		1.2%
16:00	US	U. of Mich. Sentiment	Jul P		50.0
During the week					
	CH	Aggregate Financing CNY	Jun	4200.0b	2790.0b
	CH	New Yuan Loans CNY	Jun	2200.0b	1890.0b

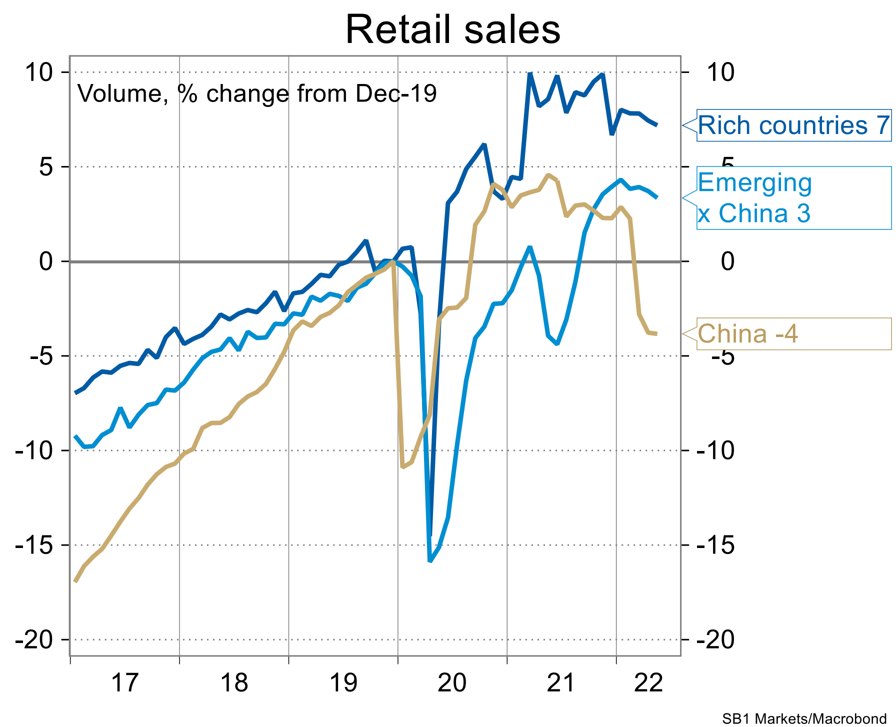
- **China**
  - » March and April was a disaster, May far better, at least regarding exports and manufacturing production. Retail sales and services lagged. Very likely, retail sales and total service activity will increase in June – and industrial production, exports probably kept up. Somewhat better in June. However, that would not be sufficient to save the Q2 GDP, which is expected just marginally up y/y – and by implication sharply down q/q.
- **USA**
  - » **The headline CPI** is close to the peak, and the core has already peaked. However, the labour market & wage inflation is the real treat, not raw material or auto prices
  - » We still think wage inflation is more important than the current price inflation vs. the real, longer-term inflation risk. **Atlanta Fed median wage tracker** will be published late this week
  - » **Retail sales** (volumes) are heading downward, at least the goods part of it, hurt by high inflation, and more spending on services
  - » Manufacturing production has been accelerating recent months, at least until last months. Surveys, like the ISM, are signalling a slowdown, not yet a downturn (except for the steep decline in the new order indices in June(
- **Norway**
  - » We expect a further increase in the both the **headline & the core CPI** in June. Electricity prices flattened in June, but gasoline prices rose. And for the core, the trend is still up. The semi-annual adjustment of most food prices will turn up in the July index, next month

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

Global manufacturing production up in May, thanks to China

… which lowered production sharply in April. Retail trade is trending down. China at the bottom



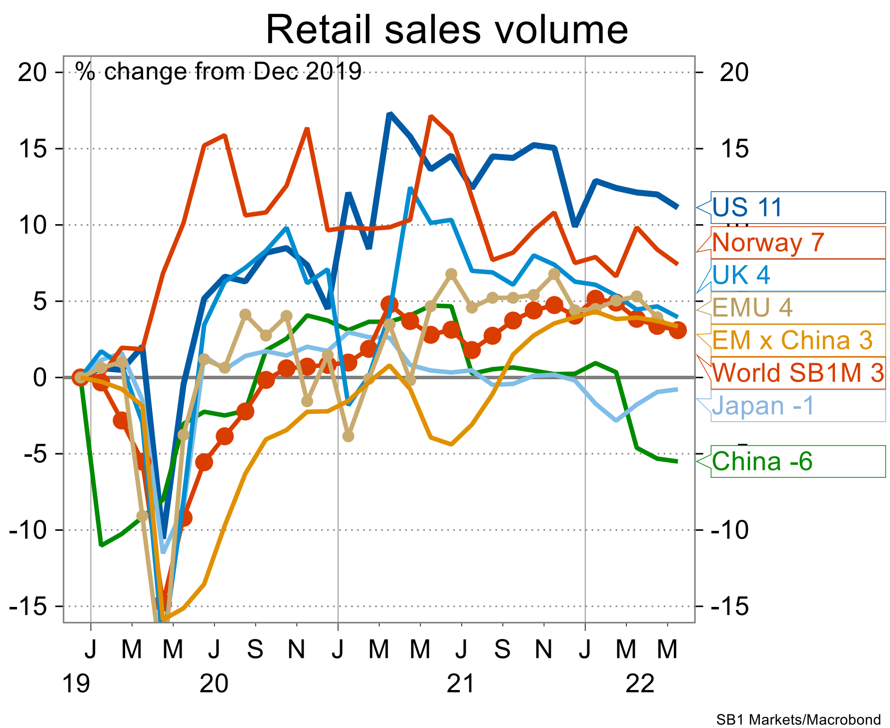


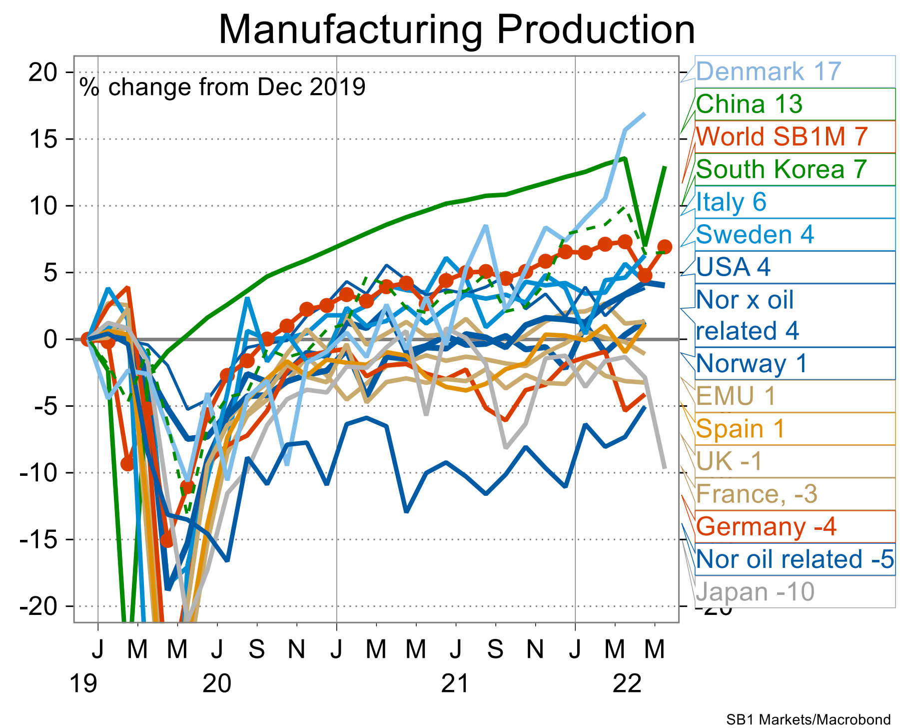
- Global foreign trade has flattened at high level since early 2022

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.

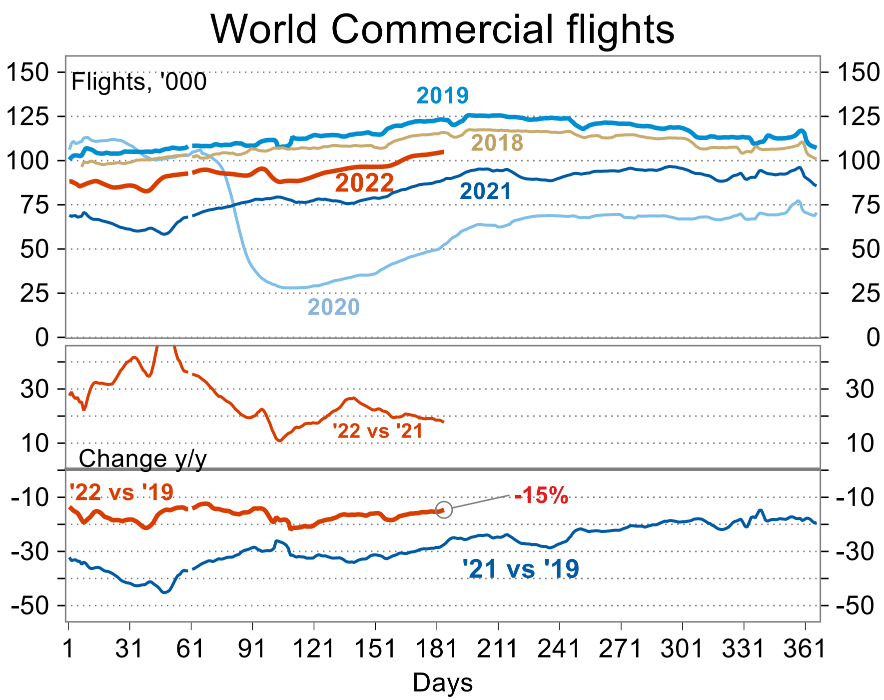
The decline in retail sales is broad based.

Manufacturing production is trending upwards – and is exposed?

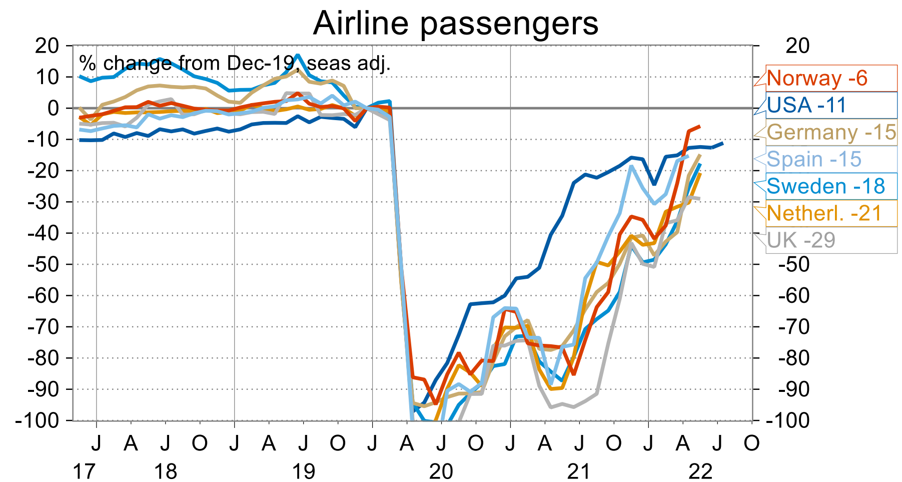




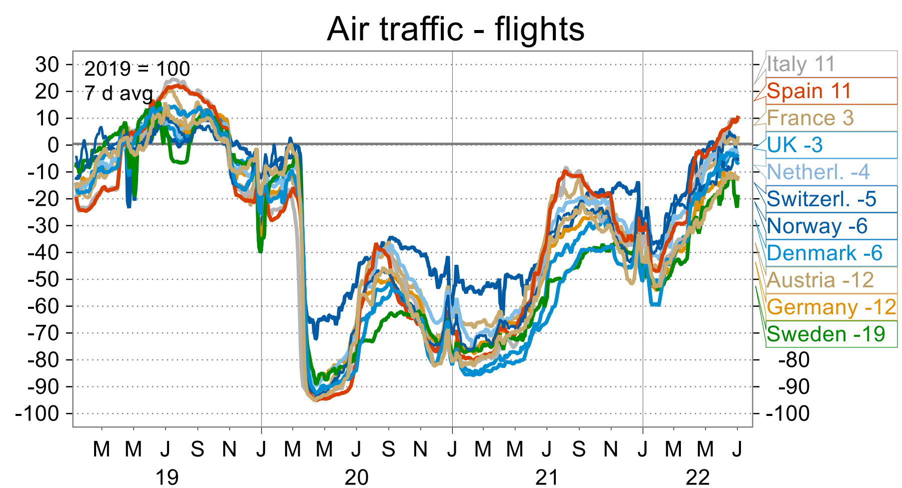
Global airline traffic on the way up, but not more than the seasonal normal



Flightradar24 SB1 Markets/Macrobond



National authorities, SB1 Markets/Macrobond



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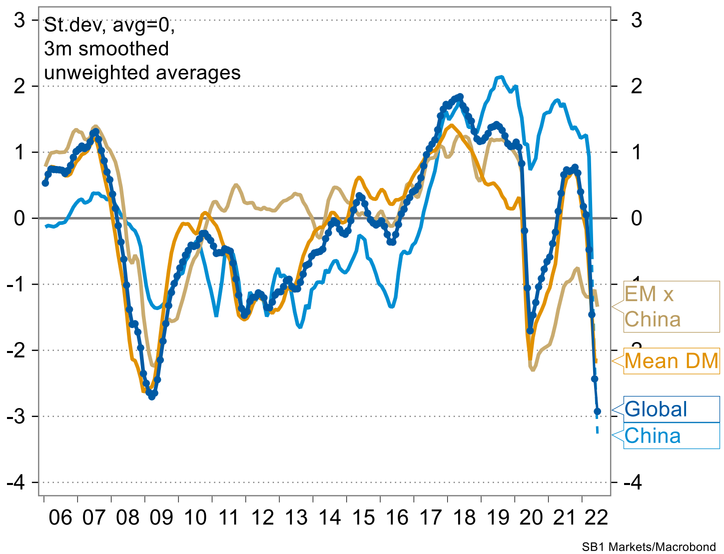
Global trade: The last months are estimates from Kiel Institute

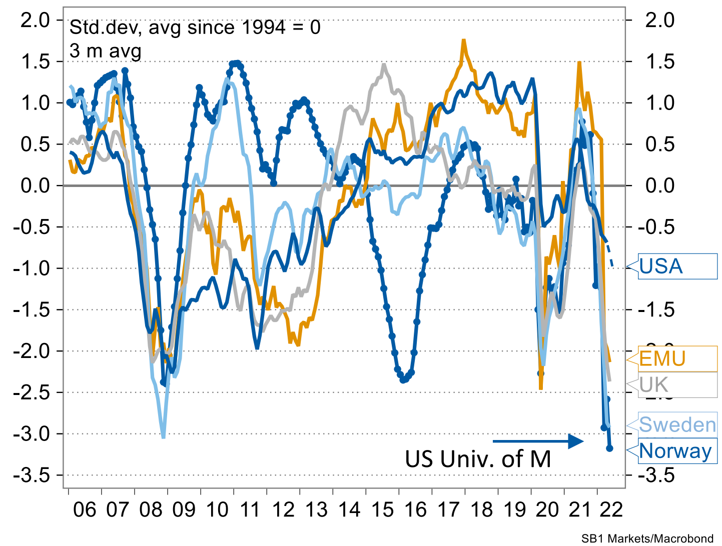
Consumer confidence sharply down almost everywhere

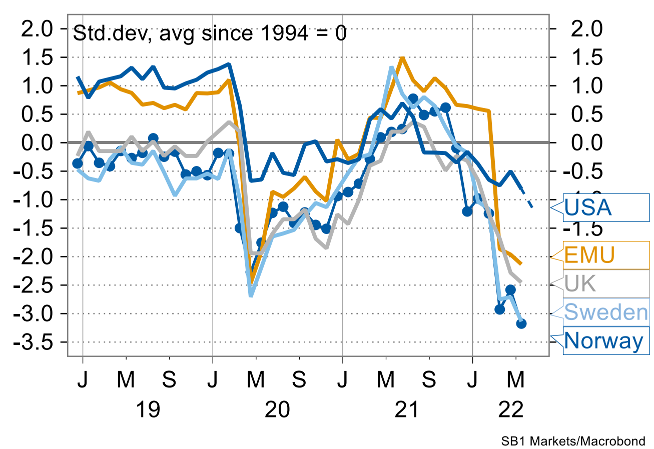
In good company: Sweden, Norway, China and Demark at the bottom!

Global consumer confidence



Consumer confidence

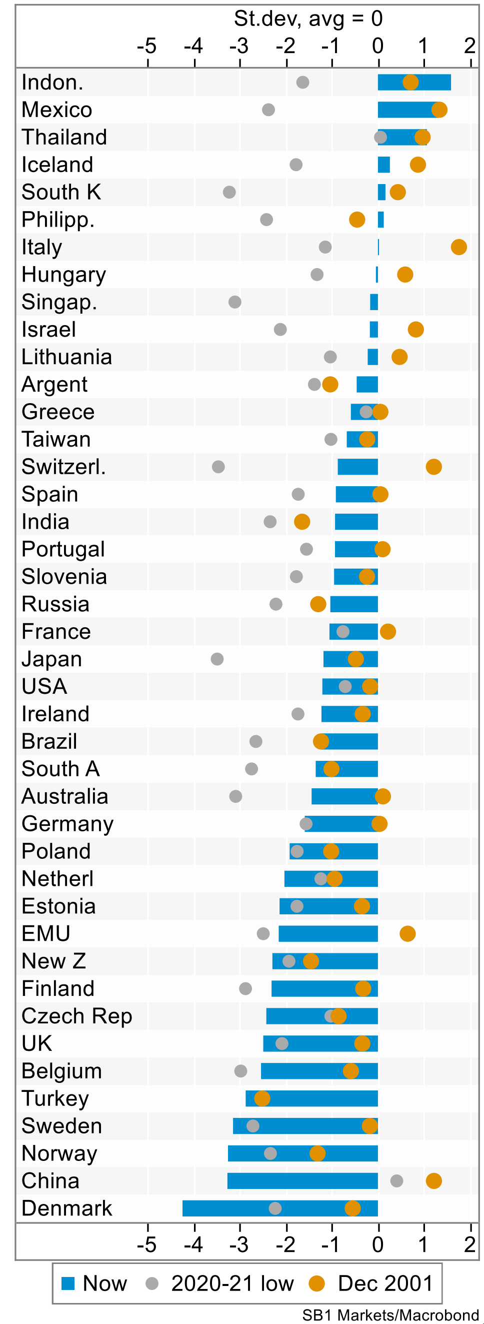




- Most countries are reporting a significant lower confidence level than late last year. Just 6 countries are above average, 33 are below, many at ATL
- In most countries inflation and higher interest rates may to blame, while the collapse in the sentiment in China is very likely due the Covid measures
- **Emerging markets ex China** has not fallen that much recently, but the level is low

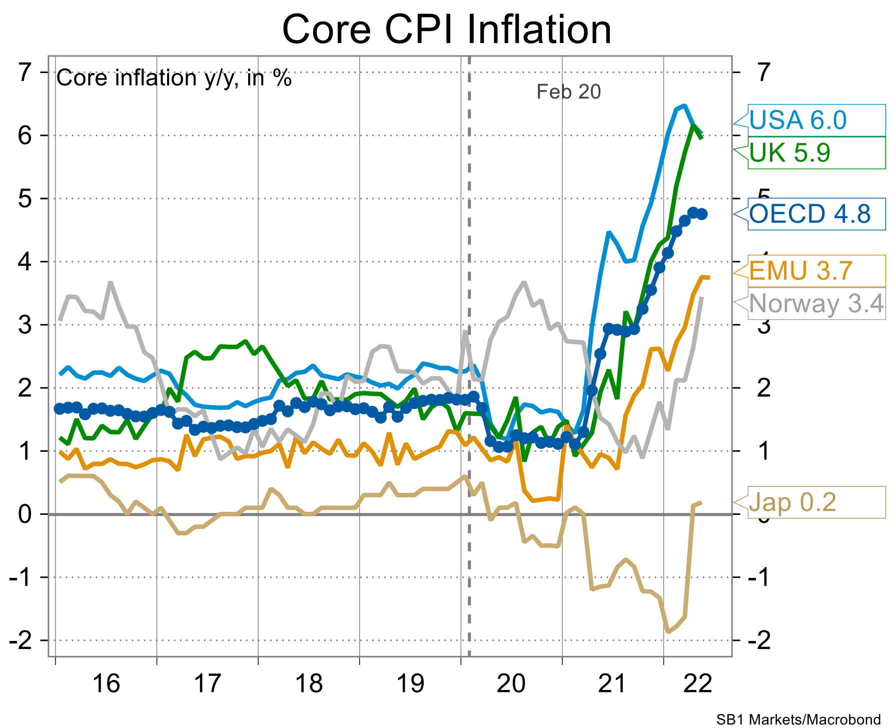
Last observation. Total EMU is leading 1 month on member countries
Norway is the average of Finans Norge & Opinion

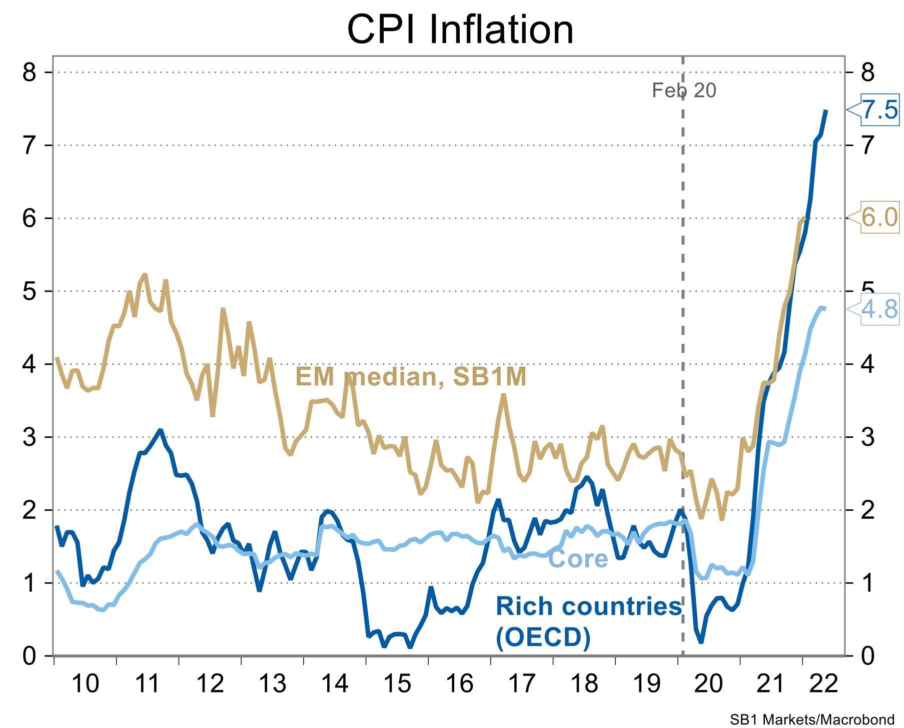
Consumer confidence



Inflation still the main challenge most places

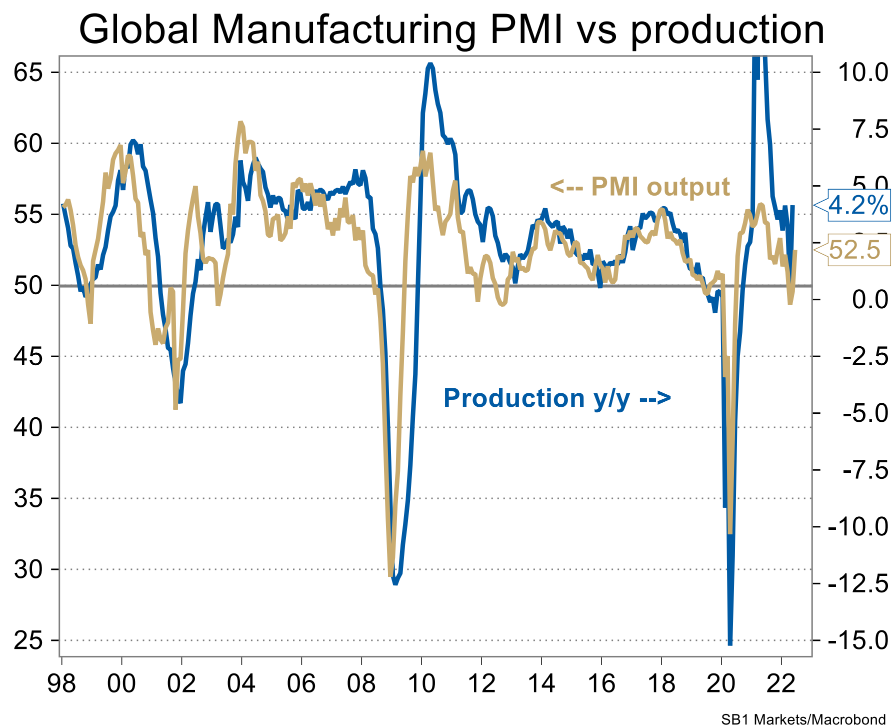
Energy prices the main culprit, but core inflation has turned up most places

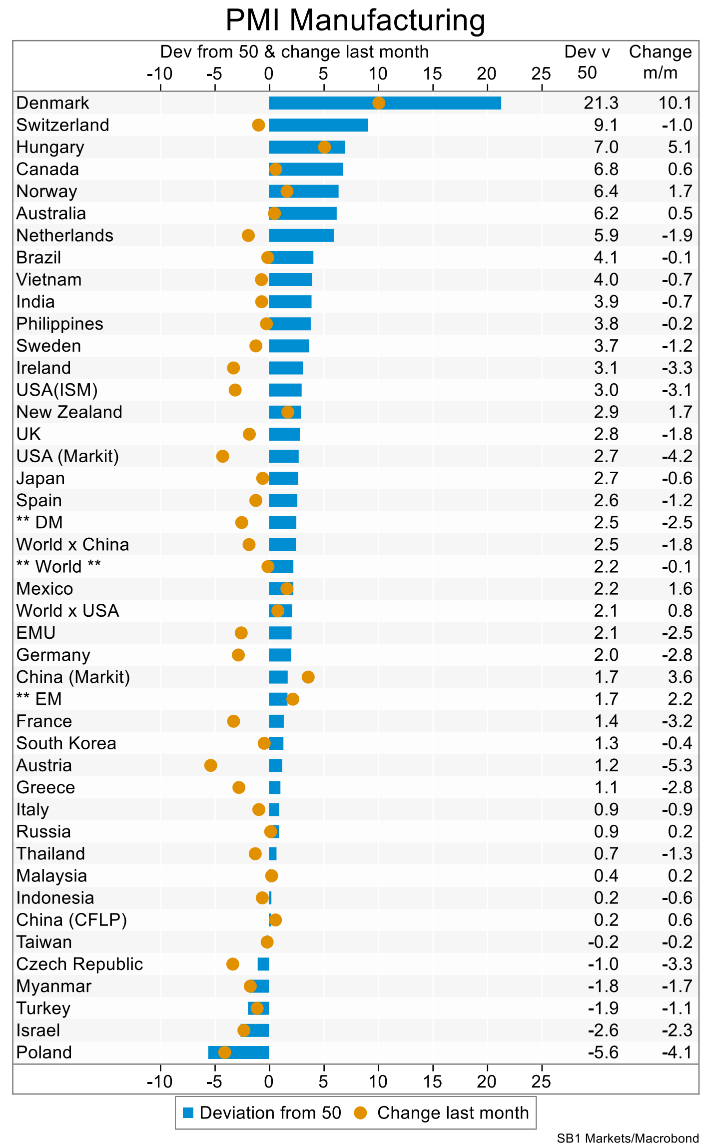




Manufacturing total PMI down 0.1 p to 52.2; the output index up 2.9 p to 52.5

… due to China which recovered from lockdowns in June. 6 of 43 surveys below 50, but 31 down m/m

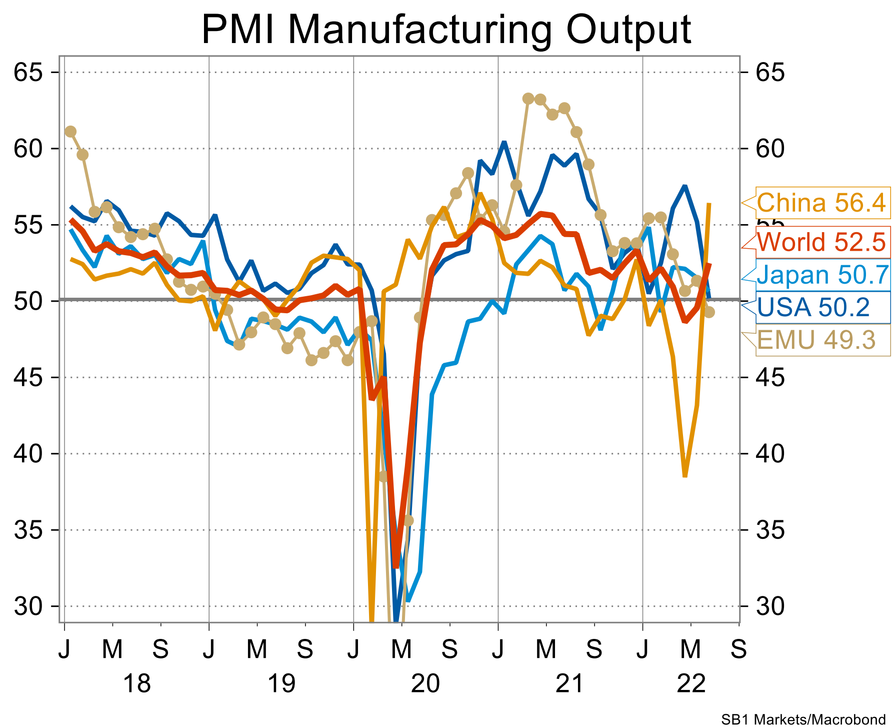


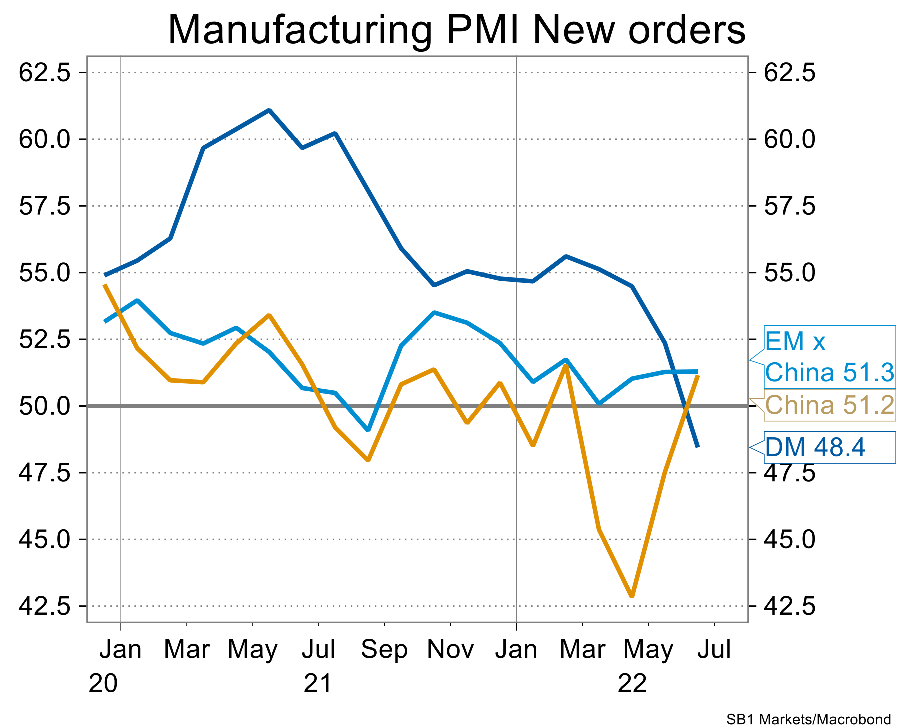


- China contributed sharply at the downside to the global PMIs in April and May, and the recovery in the output index was just due to a 13 p lift in China to 56.4
  - » A large majority of countries reported lower activity in June
  - » **Rich countries** are still stronger than EM measured by the total index but the gap is narrowing. Measured by the new order index, EM are ahead of DM, which fell below 50
  - » **Norway** is close to the top of the list, Sweden has fallen down from the peak (Denmark has taken the pole position)

China very likely not to blame for the decline in new orders in EMU & US in June

The lockdowns brought China to a halt in April/May. The slowdown in DM is probably not due to that

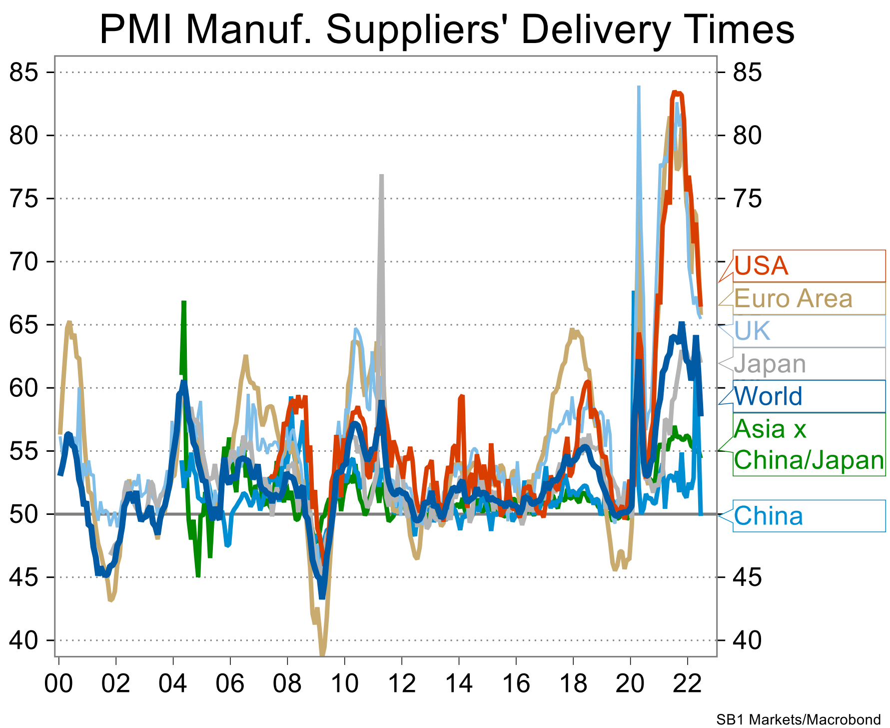


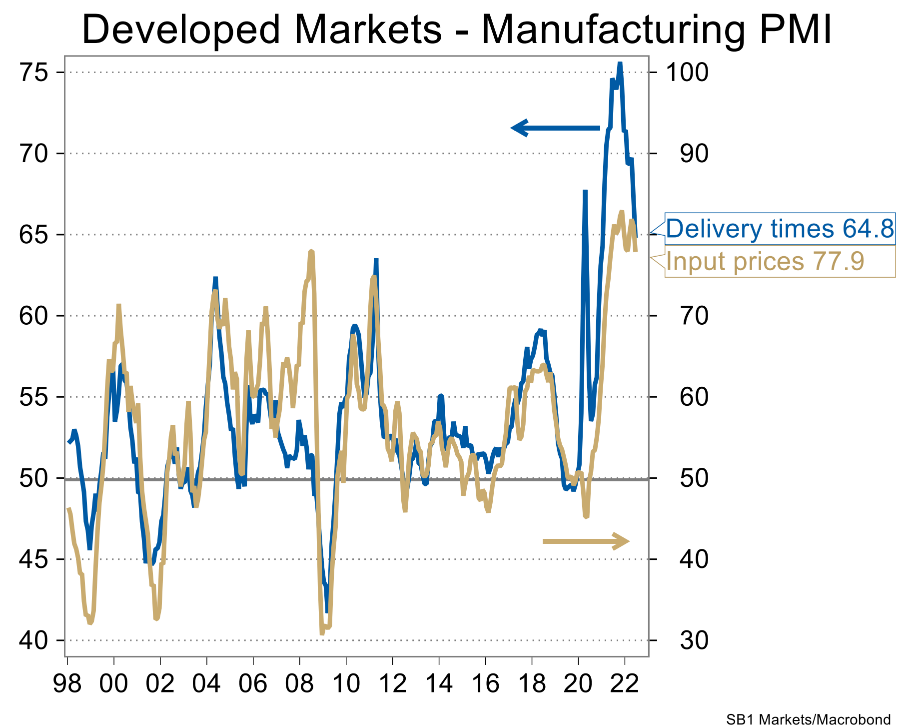


- The new order index fell sharply in both the US and even more in the EMU in June, at the same time as the delivery times index declined sharply.
- Chinese exports were close to ATH in May, even in volume terms
- Thus, it seems unreasonable to suggest that the weakening in new orders in June in the US & EMU is due to lack of supplies from China

Delivery times indices are coming rapidly down, but are still high

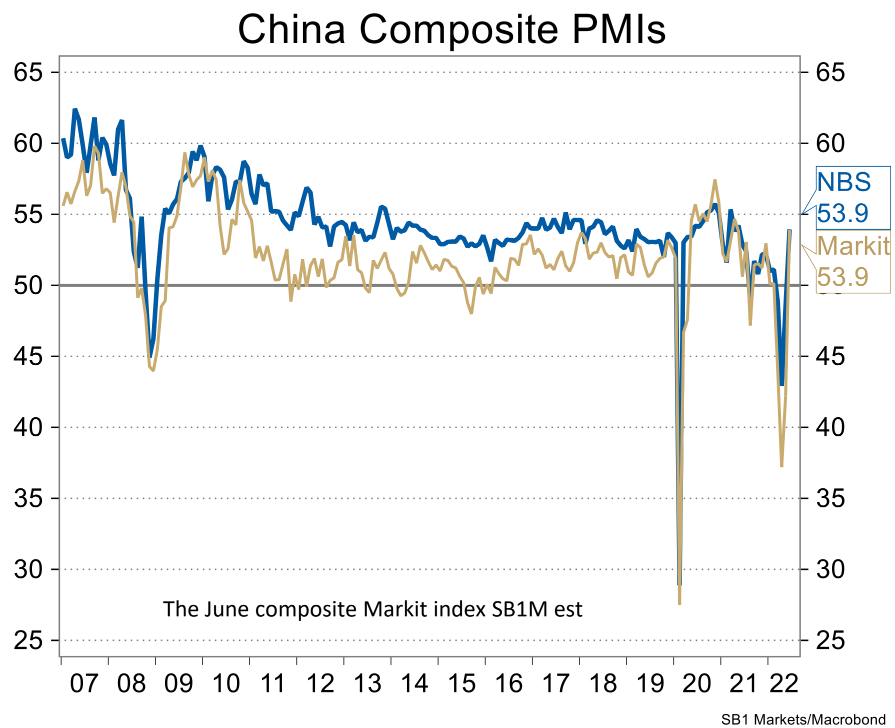
…but input prices inflation is sticky, just marginally down from the peak

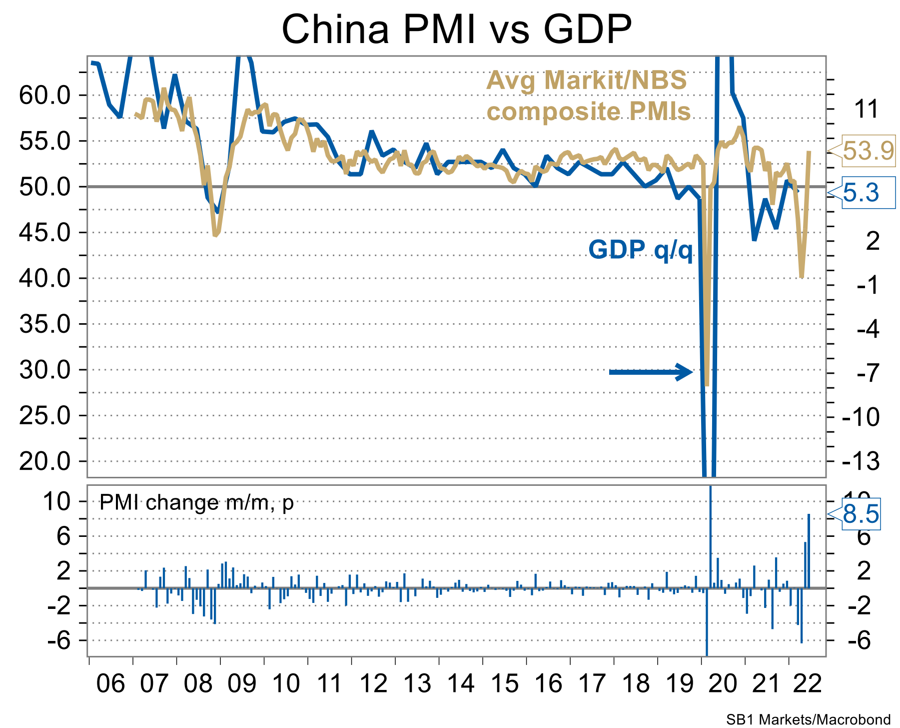




The PMIs to well above 50 in June, as China opened up

Services report strong growth, and the output in the manuf. sector soared, after the lockdowns

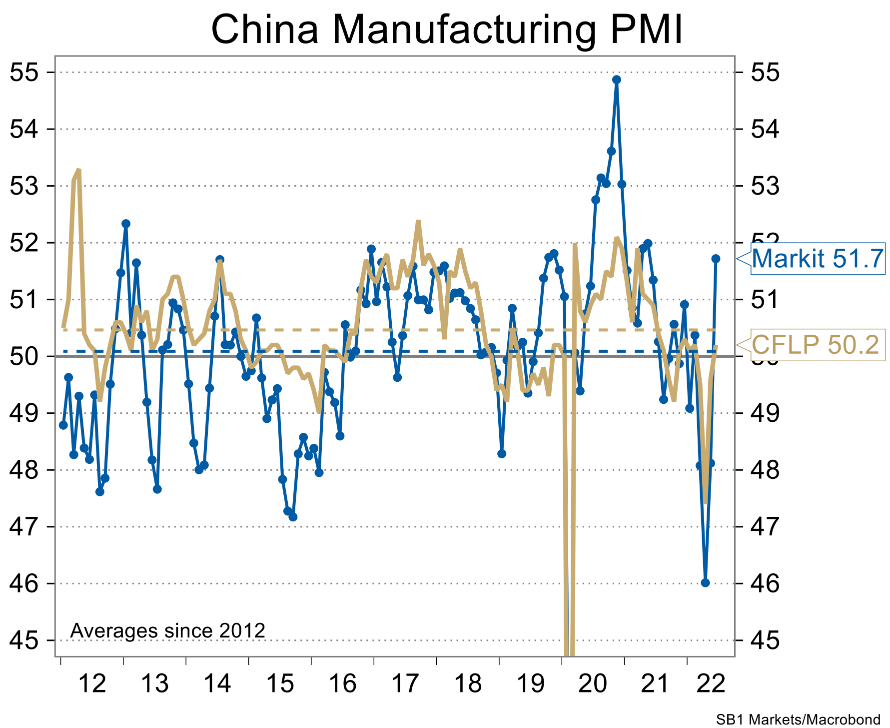


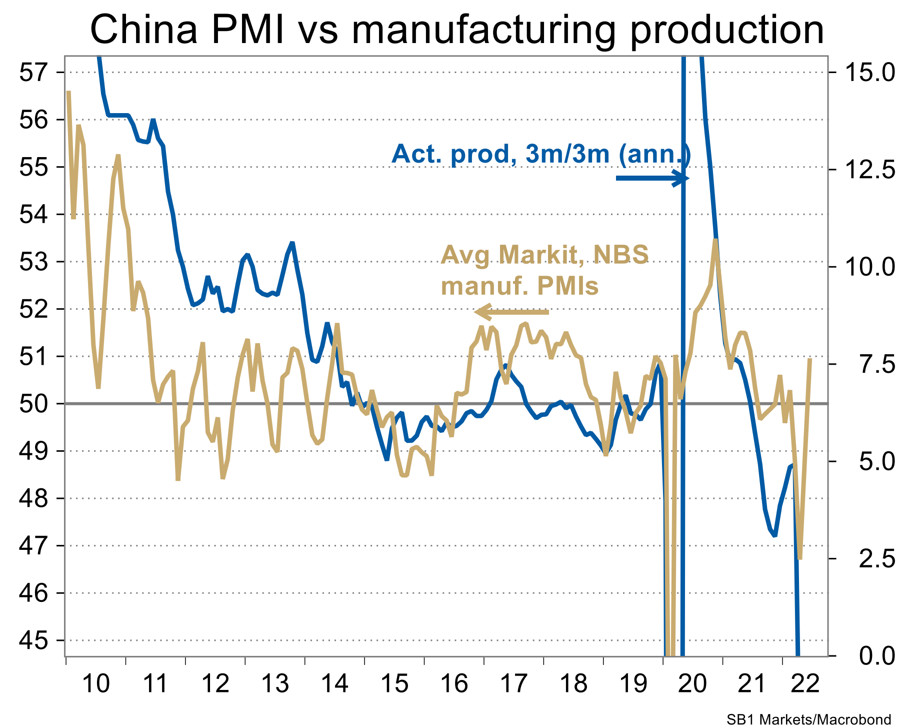


- **Both the NBS/CFLP and Caixin/S&Ps (aka Markit)** PMIs recovered to well above the 50 line in June, and more than expected
- The NBS PMI rose 5.4 p to 53.9, with the largest contribution from the service sector
- The S&P Global Composite PMI (which is the misleading name for Markit's PMIs now) has not yet report it's services PMI, very likely also rose sharply as the manufacturing output index shot up, and we assume that the service sector PMI also recovered to above the 50 line. Our forecast for the comp. index is 53.9, as for the NBS survey
- The PMIs confirm that the economy recovers as soon as Covid restrictions are eased. The authorities have announced a less rigid virus regime, hopefully preventing large scale, and extremely expensive lockdowns

Both manufacturing PMIs, Caixin/Markit's the most – to 51.7

The NBS/CFLP survey crossed the 50-line too





- Actual production rose sharply in May, even if the PMIs remained below the 50-line. Most likely, production rose further in June

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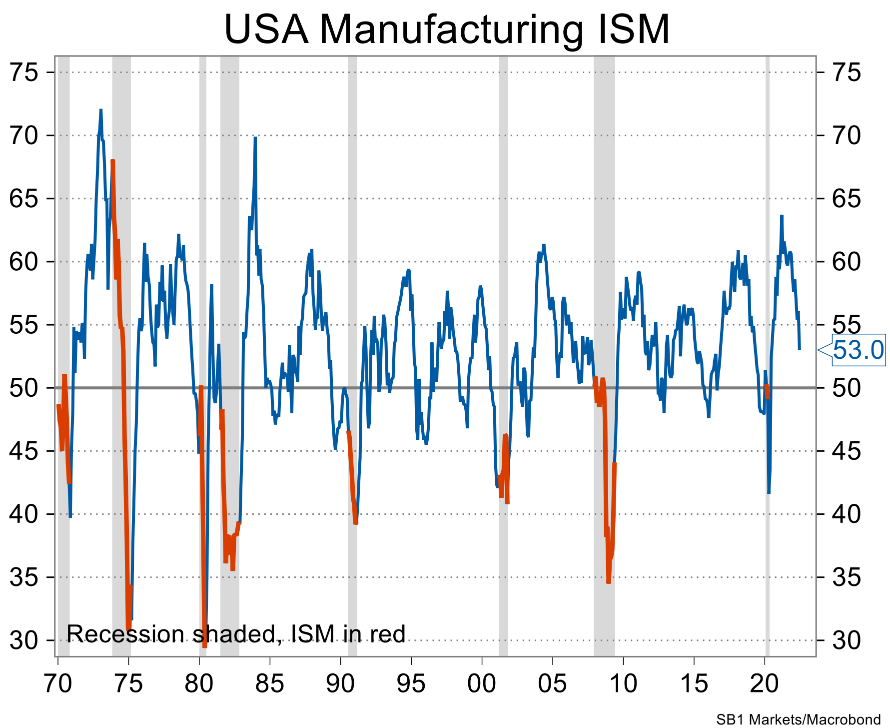
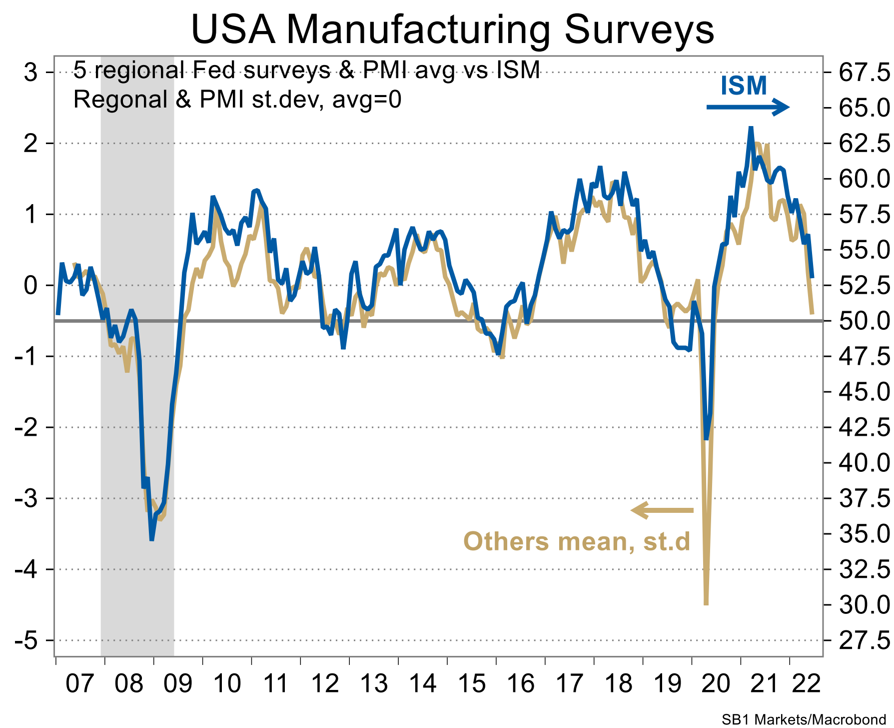
The trend is set: The economy is slowing rapidly, ISM -3.1 p to 53.0

The index was (as we assumed) weaker than expected (54.5 – 55.0), still stronger than other surveys





The **ISM manufacturing index is fell more than expected (as we assumed). Other surveys were at a '50'-level in June**

- Last month, 15 of 18 manufacturing sectors reported growth (unch vs the prev. month), the 3 sectors reported a decline (furniture, wood, paper), up from 1
- The **new orders index** fell sharply, by 6 p to 49.2, and confirmed the rapid slowdown signalled by all the other surveys. An early recessionary signal? (check next page)
- Fewer **supply chain** issues: 'Just' 29 commodities saw **price increases** (from 40 last month, and at the peak 56 commodities). 7 were down in price, like alum,, timber, freight, steel. 13 commodities were reported in **short supply**, down from 18 in June (and far below the peak at 50 commodities a few months ago)
- **More companies** are commenting on weaker order inflow, either due to weaker end user demand or less hoarding,. Just a few report lack of labour

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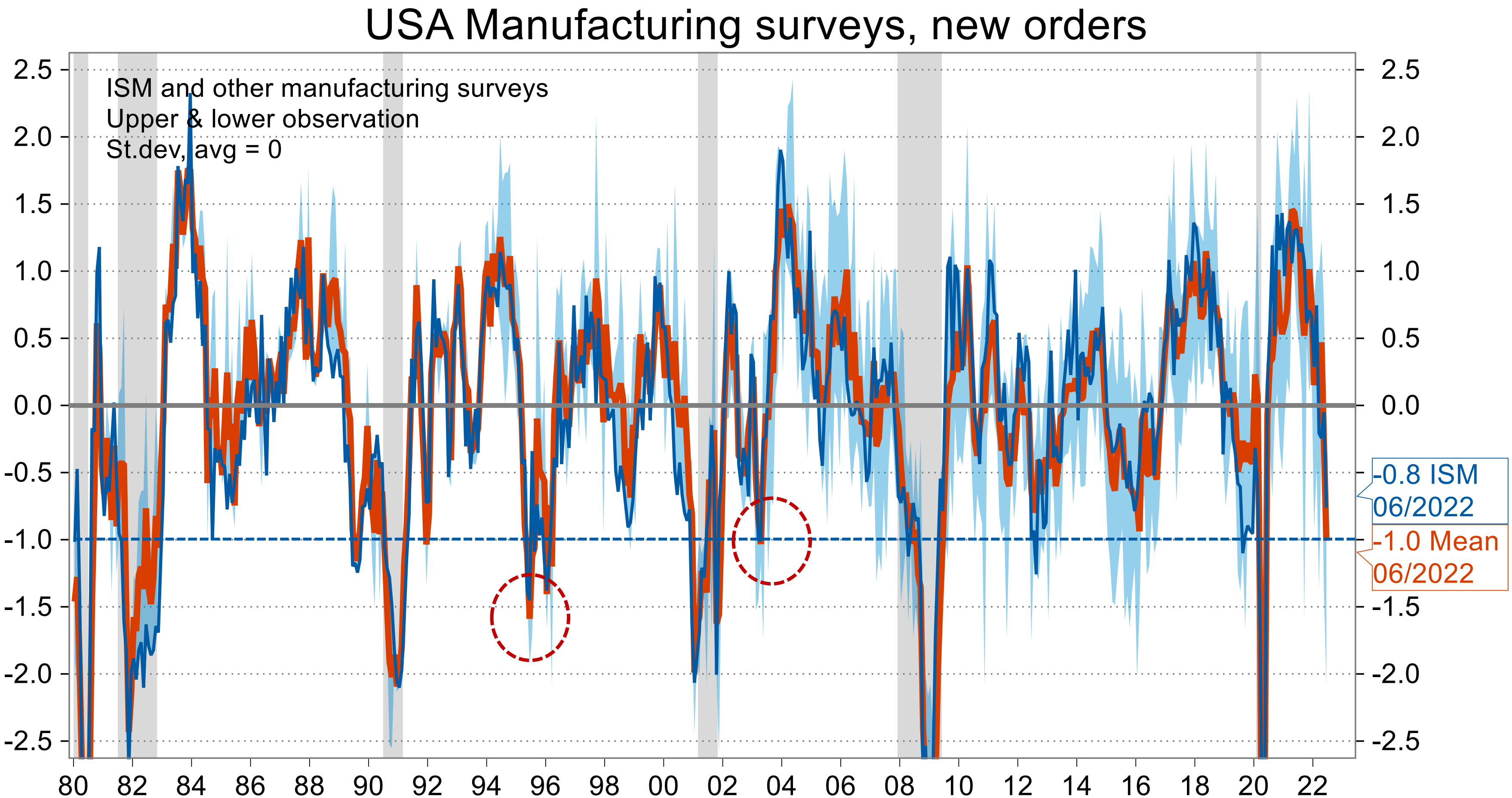
A warning sign: At the current pace of contraction in new orders…

… a recession usually follows. The 1995 soft landing is the only clear exception. The other 6 are the past 6 recessions. Orders were weak in 2003 too, a borderline case without a recession



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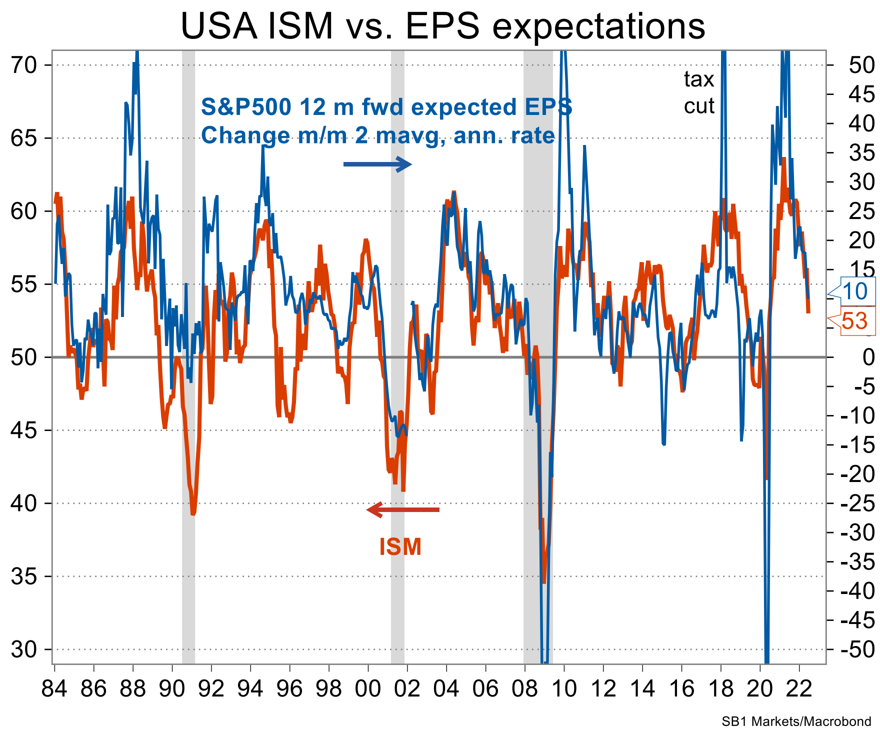
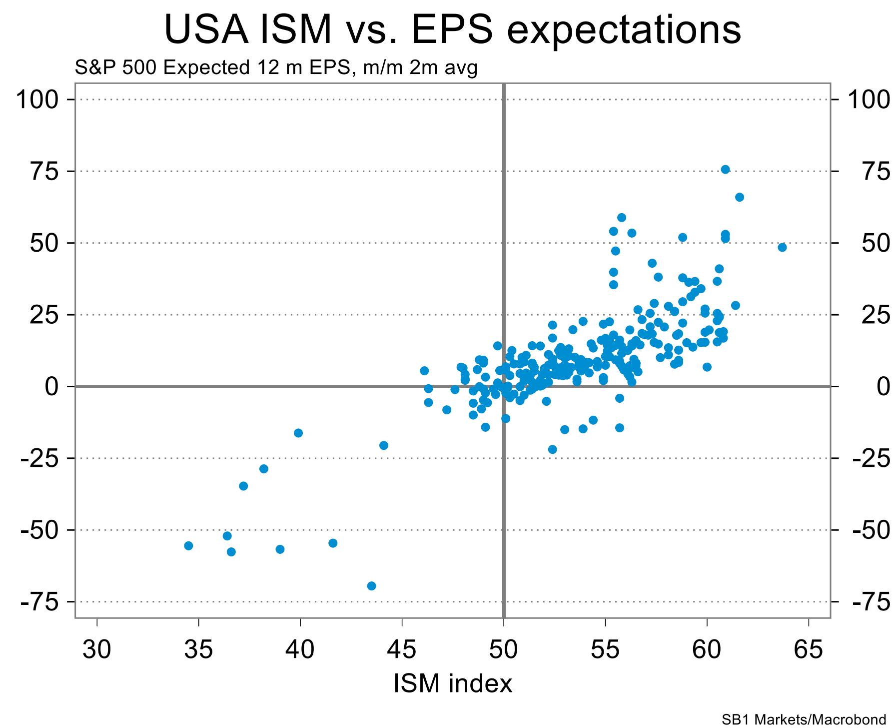
When the ISM turns south, growth in expected earnings always joins

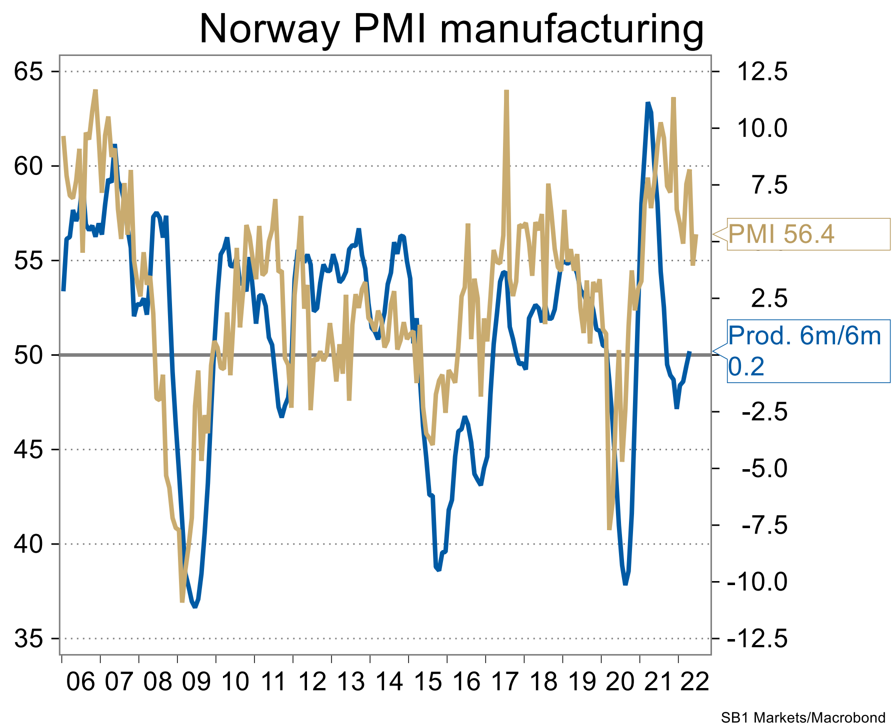
At 53, single digit earnings growth is normally assumed. At 50, the signs often change ☺

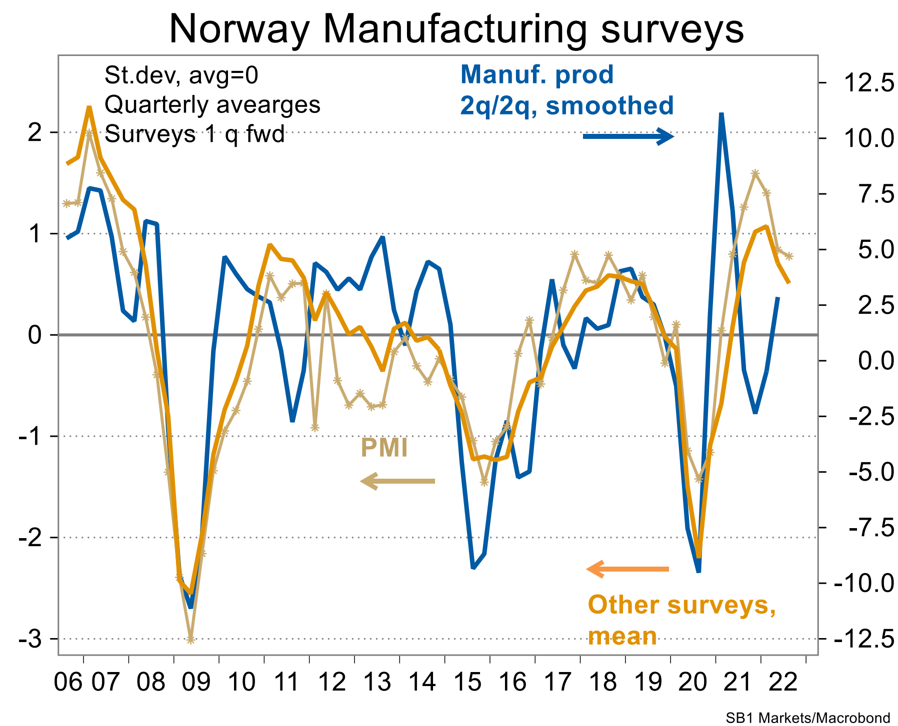




The manufacturing PMI corrected slightly up in June, OK level but trend is down

Up to 56.4, from 54.7 in May. We expected a small decline, New orders, production growth slowed sharply, prod. to zero

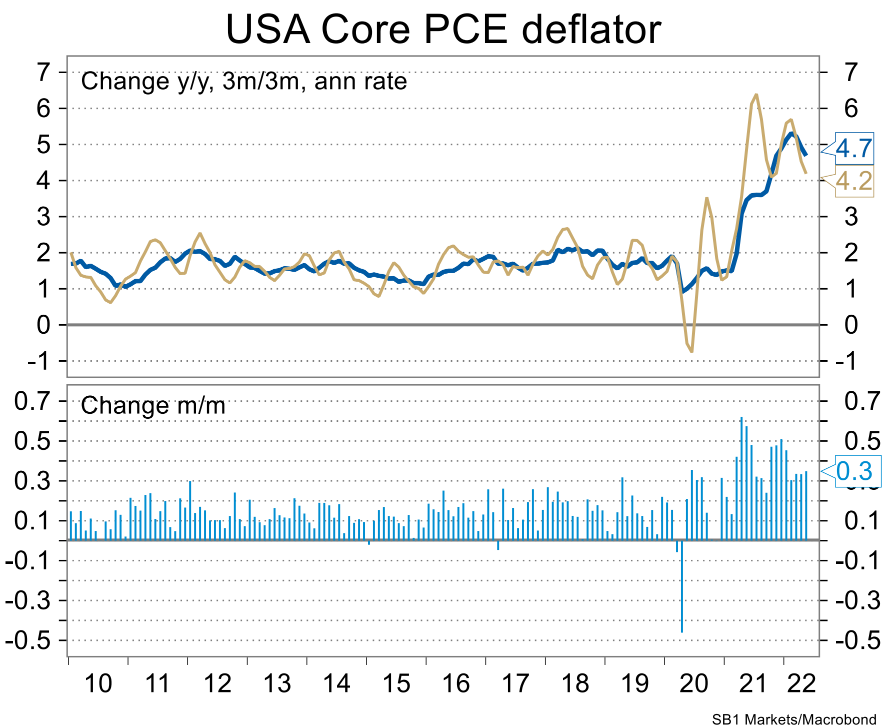




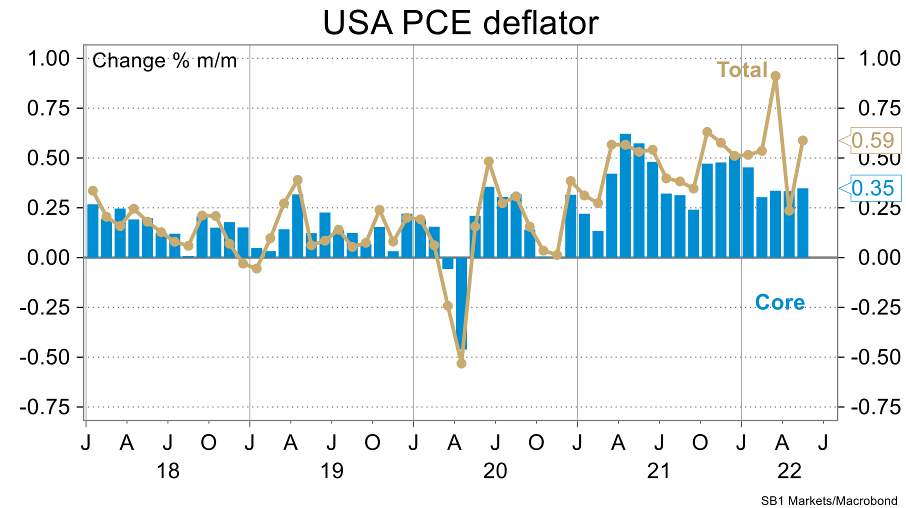
- Other **manufacturing surveys** are mixed, but SSB's quarterly survey was strong in Q1
- Even if surveys have been reporting growth, **actual production** has fallen slightly since last April

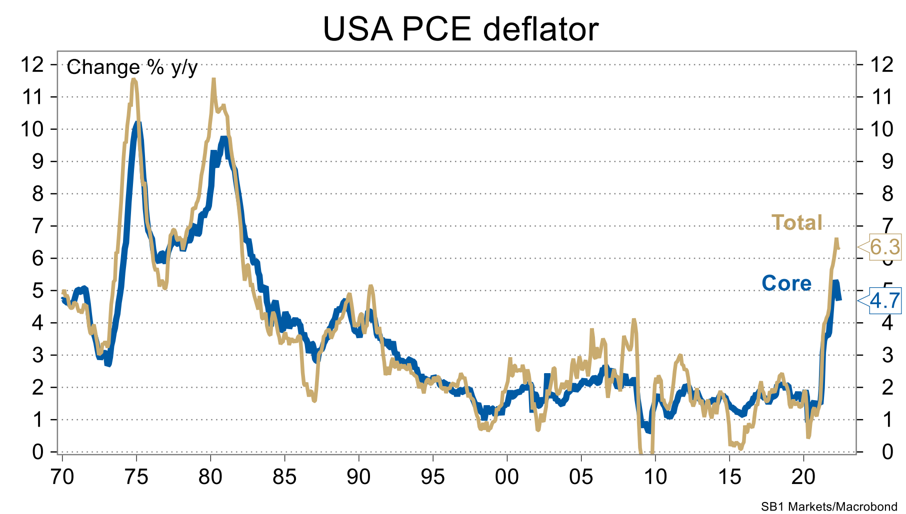
Inflation has very likely peaked. But it is still far too high

The annal core PCE declined 0.2 pp to 4.7%. The headline unch at 6.3%. Both 0.1 pp lower than exp.



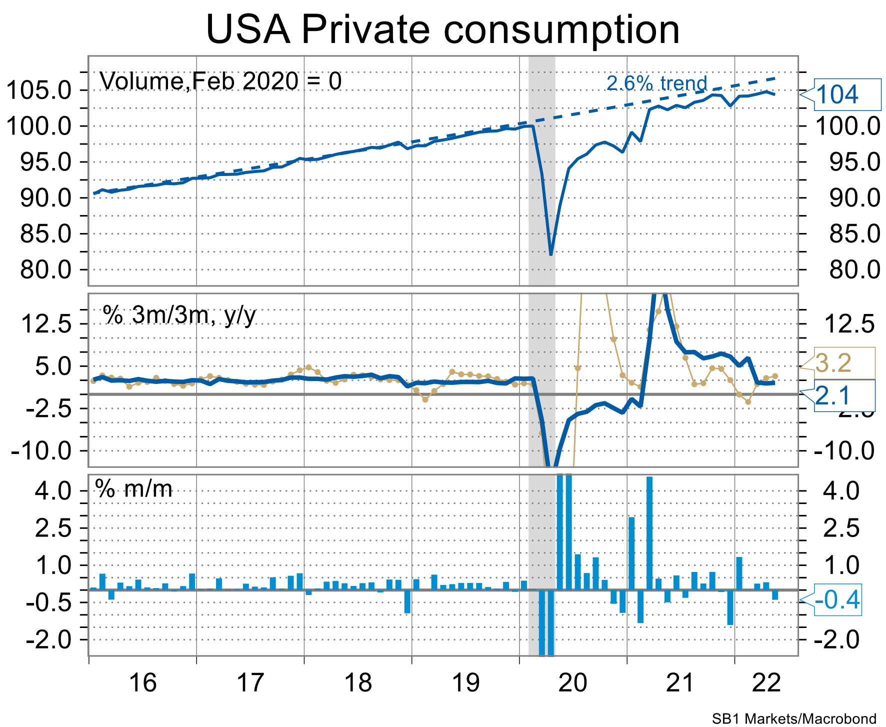
- **The total PCE deflator** rose by 0.6% in May expected 0.7%. The annual rate was unch at 6.3%
- **The core PCE** rose by 0.3% in May (0.348%), expected 0.4%. The annual rate fell 0.2 pp to 4.7%
- **The price level** is still ways above Fed's 2% long term path target, but any decline in the rate of inflation is good news

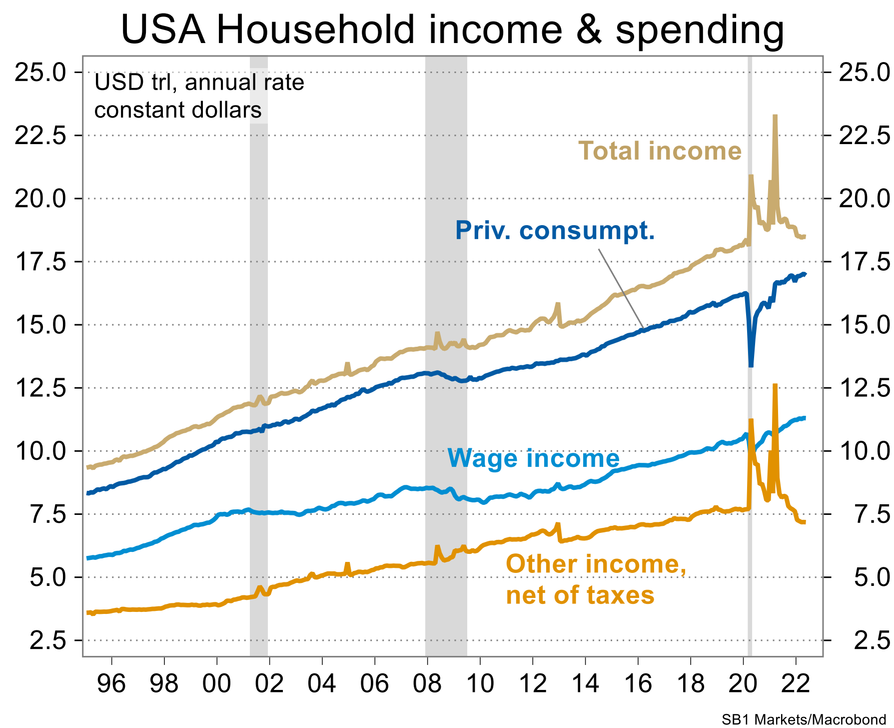




Consumption growth in slowing, Q1 revised down by 1.3 pp to 1.8%

Growth in Q2 may be as low as 1.2 – 1.3%, well below previous forecasts. Consumption -0.4% in May





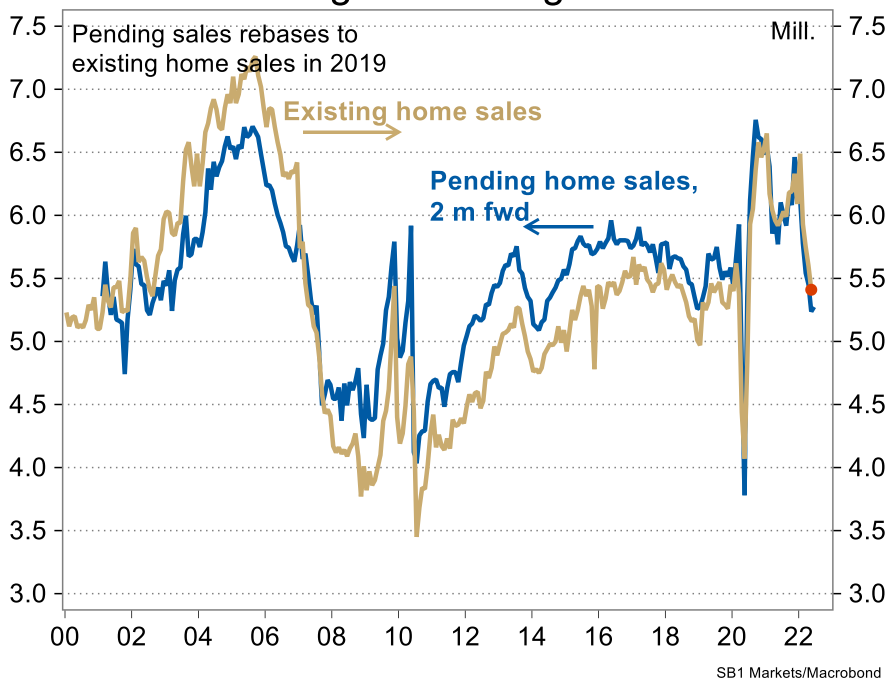
- **Private consumption** fell 0.4% in real terms in May, slightly below expectations. Nominal spending rose 0.2%, expected up 0.4%, and April was revised down 0.3 pp to 0.6%. Consumption in Q1 was revised sharply down to 1.8%, and following the weak April/May data, growth in Q1 will probably not be much above 1%. We assumed close to 3% before the recent data were published!
  - » Consumption of goods fell, services are still on the way up
- **Personal nominal disposable income** gained 0.5% in May, and by 0.2% in real terms
- **The savings rate** rose 0.2 pp to 5.4% in May, from an 0.8 pp upward revised 5.2% in April. The savings rate is now well below the pre-pandemic level. However, accumulated extraordinary savings through the pandemic are still almost fully intact, which may make it possible for households to keep spending up

SpareBank 1 MARKETS

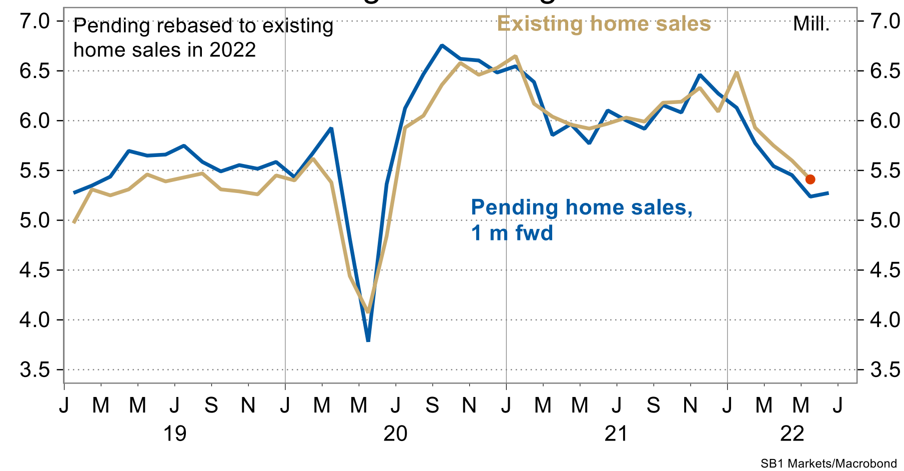
Another positive housing market data point: Pending home sales up in May

However, the trend is sharply downwards, as higher mortgage rates start to bite

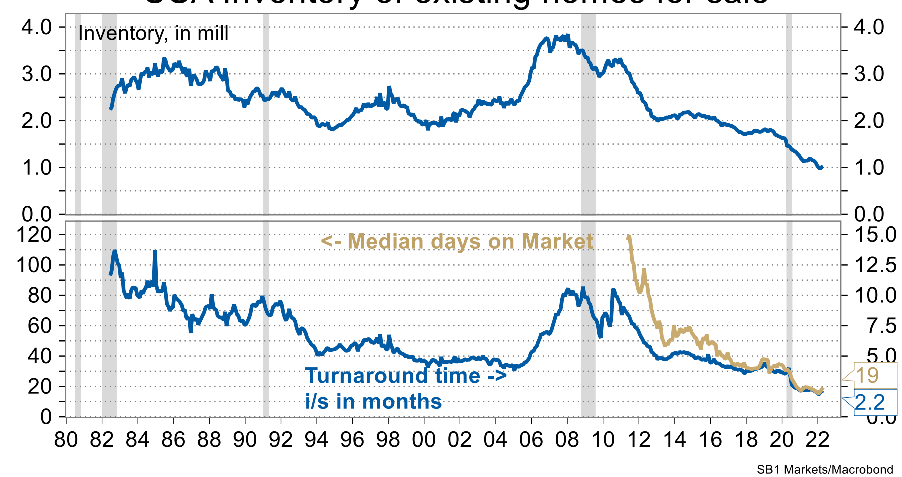
USA Pending vs Existing home sales



USA Pending vs Existing home sales



USA Inventory of existing homes for sale

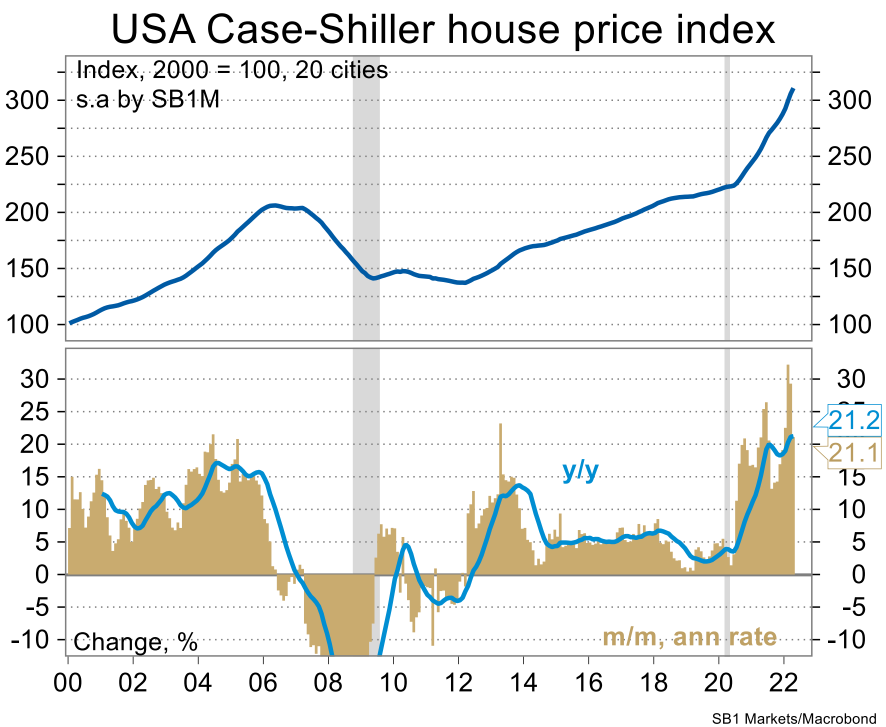


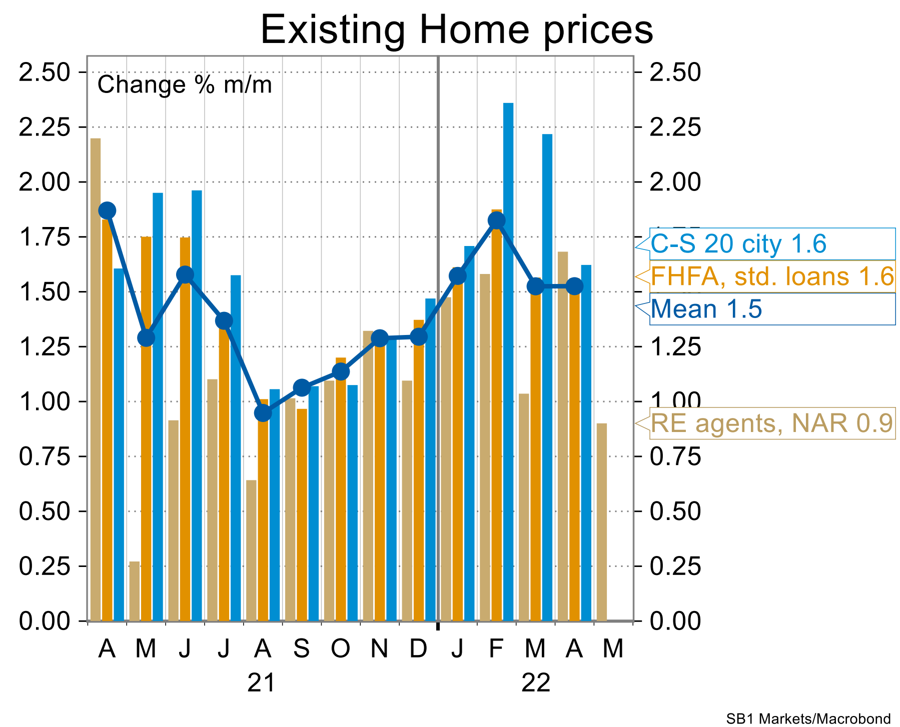
- Pending home sales rose 0.7% in May, expected down 4%, the same as the decline in April
- However, the trend is clearly downwards, as is the number of actual transactions (existing home sales). The decline signals that higher mortgage rates are slowing the housing market
- Normally, prices are lagging sales by several months, by up to 1 year

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

Case/Shiller house prices still up at 21% pace in ‘April’! And by 39% since Feb-20

Monthly price increase are still high but stats are lagging. Something may be happening now

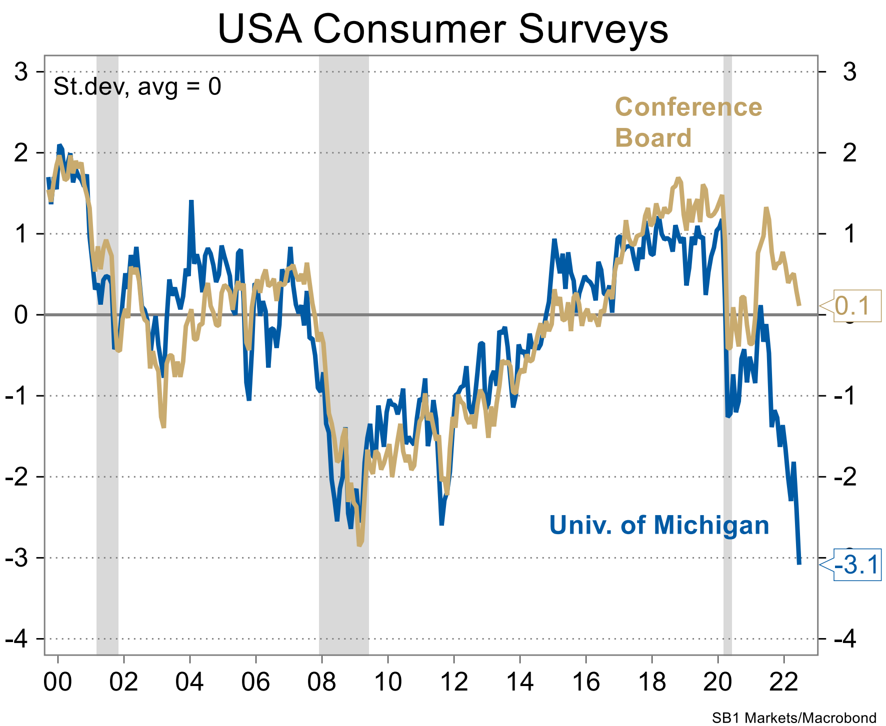




- **S&P’s Case/Shiller’s 20 cities** price index rose 1.6% m/m in April (March – May avg, our seas. adj) equalling a 21% annualised pace. A 1.9% lift was expected. The annual rate was unch at 21.1%
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac (‘Husbankene’, has a countrywide coverage), rose ‘just’ 1.6% in April, and are up 18.8% y/y!
- Realtors reported a 0.9% lift in May, mostly covering deals agreed upon in April
- Both the S&P % FHFA indices are smoothed over 3 months. In addition, there is lag between the timing of signing and when deals are executed. Thus, these prices data are lagging several months. We assume <u>that prices by now have more or less flattened</u> – and we expect prices to decline the coming months/quarters

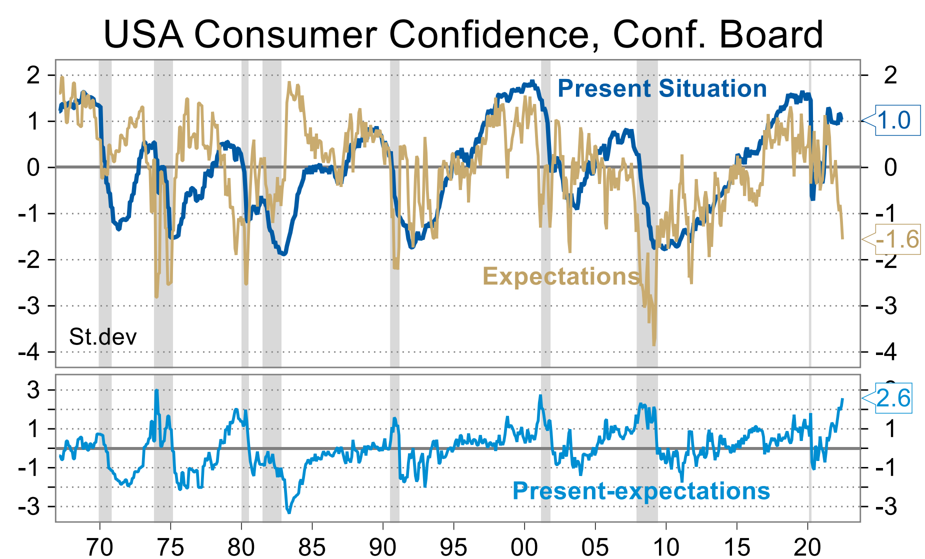
Conference Board's confidence down in June but still above an avg level!

However, expectations are falling rapidly – and are at low level. The diff. to 'present situation' HUGE



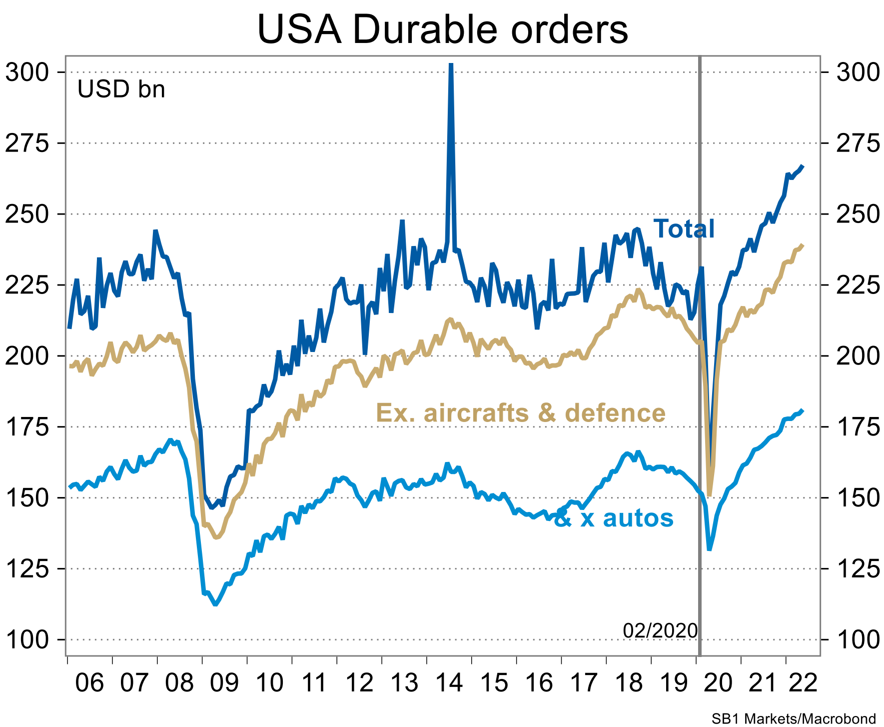
- **The other consumer** surveys we follow are on another planet, University of Michigan's sentiment being the weakest at -3.1 st.dev below avg, and at the lowest level ever, with data from 1953
  - » Two other confidence surveys, from IBD/TPP and Univ. Florida not much better than the UM survey – and Conf. Board's survey is still an outlier – even if it is not heading downwards

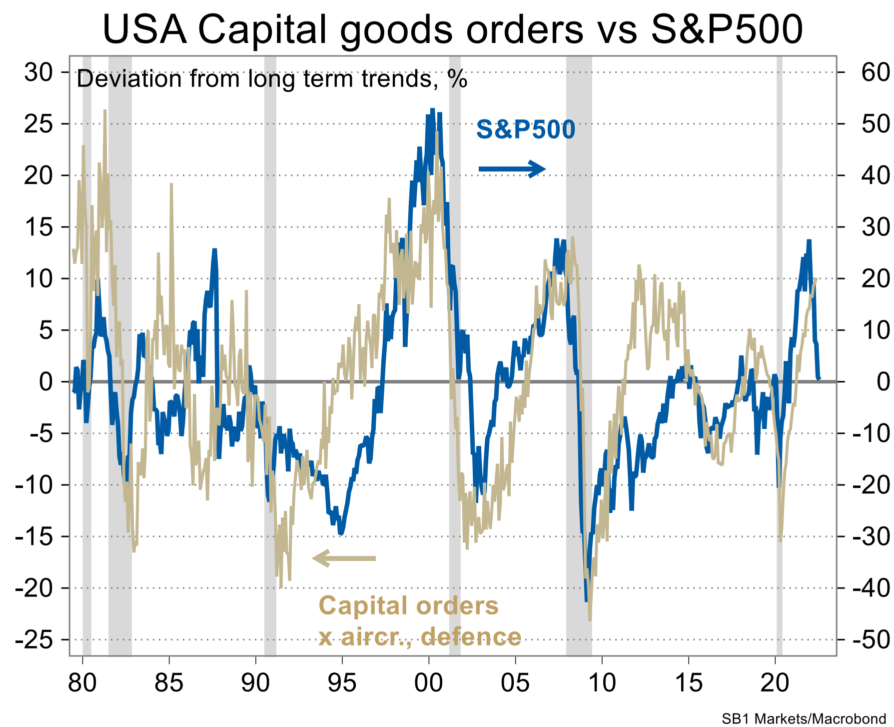
- **The main index** fell to 98.7 in June, down from 103.2 in May, expected down to 100.0. Expectations fell the most, the assessment of the present situation declined just marginally (0.3 p)
  - » The decline in the main index equals 0.3 pp, and the level in June is 0.1 st.dev above average
  - » **Expectations** are weak, -1.6 st.dev below average, which is normally seen in recessions
  - » **The difference** between households assessment of the present situation, and expectations is the 3rd widest ever. The gap is always the largest just before or when a recession hit, check the chart below



SpareBank 1 MARKETS

Growth in new orders are slowing but not setback yet. Surveys are weaker XXX

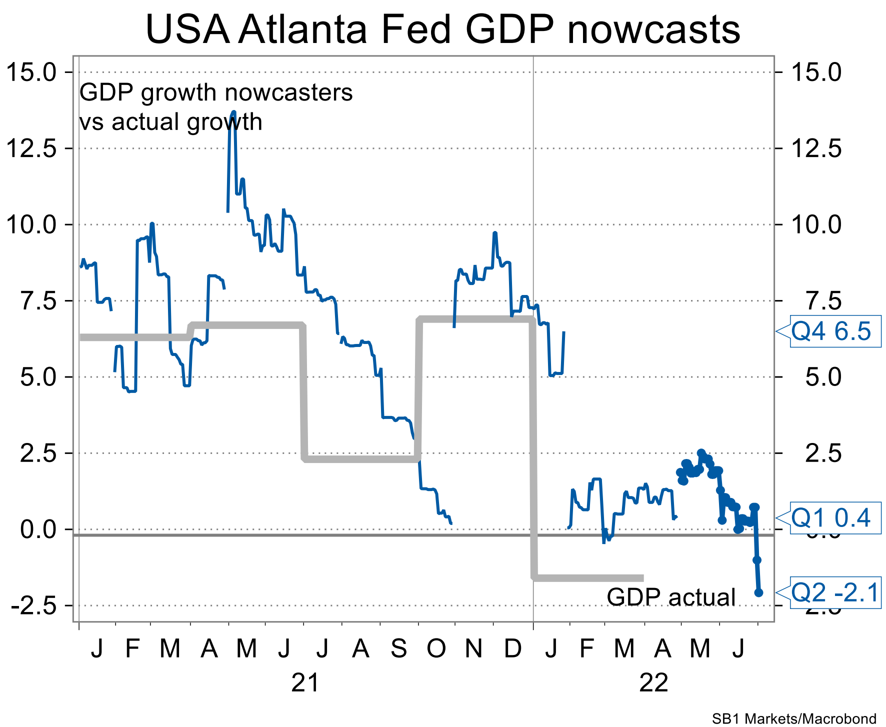


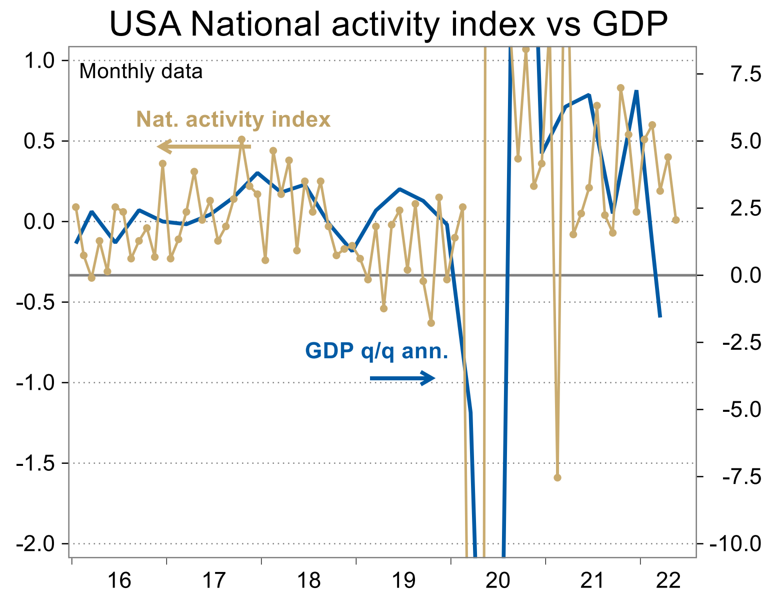


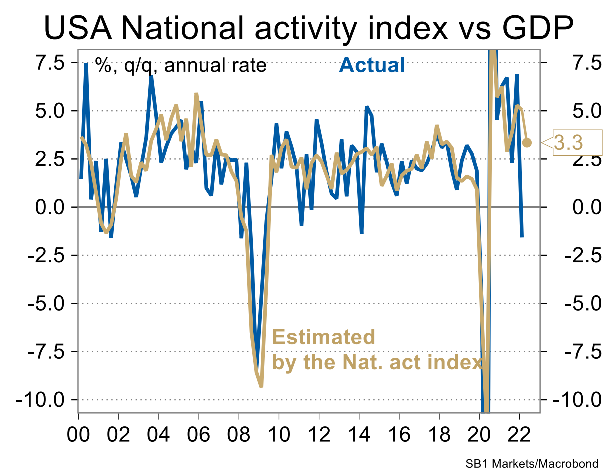
- **Total durable** orders rose 0.7% in May, slightly better than expected (0.1%)
- The volatile aircraft & defence orders in sum rose line line with the total – and core durable orders rose by 0.7% too
- **Core <u>investment</u> goods orders** grew 0.5, expected down 0.1%. Underlying growth is slowing but remain well above trend
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are signalling a further increase the coming months, albeit at a slower pace
- Without a decline (at least vs trend) in investment orders, a further setback at the stock marked does not seem too likely

Atlanta Fed's nowcaster suggests a 2.1% decline in Q2 GDP!!

… while the National Activity index just signals slowdown to some 2% GDP growth in May







- The downward revision to -2.1% from -1.0% calculated by the Atlanta Fed model was due to the weak ISM print
- **In a quarterly model**, the Activity index suggests a 3.3% growth pace, way above Atlanta Fed's nowcaster
- **The consensus** Q2 GDP growth forecasts among economist some few days ago was 3%
- **Q1 GDP** was revised down 0.1 pp to -1.6% as growth in consumption was far lower than so far reported (1.8% vs. 3.1% in the prev. est.)

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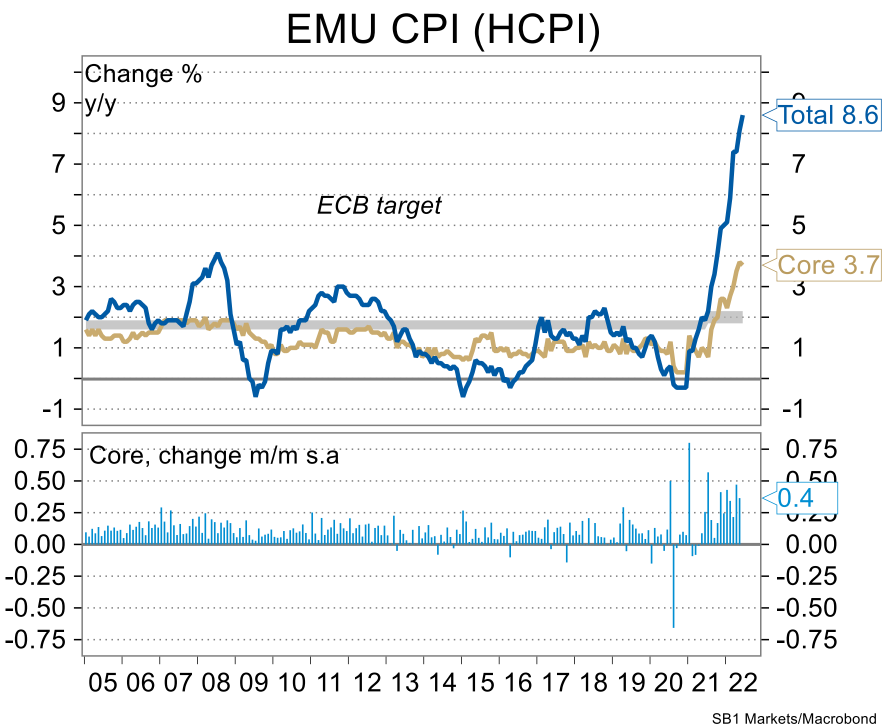
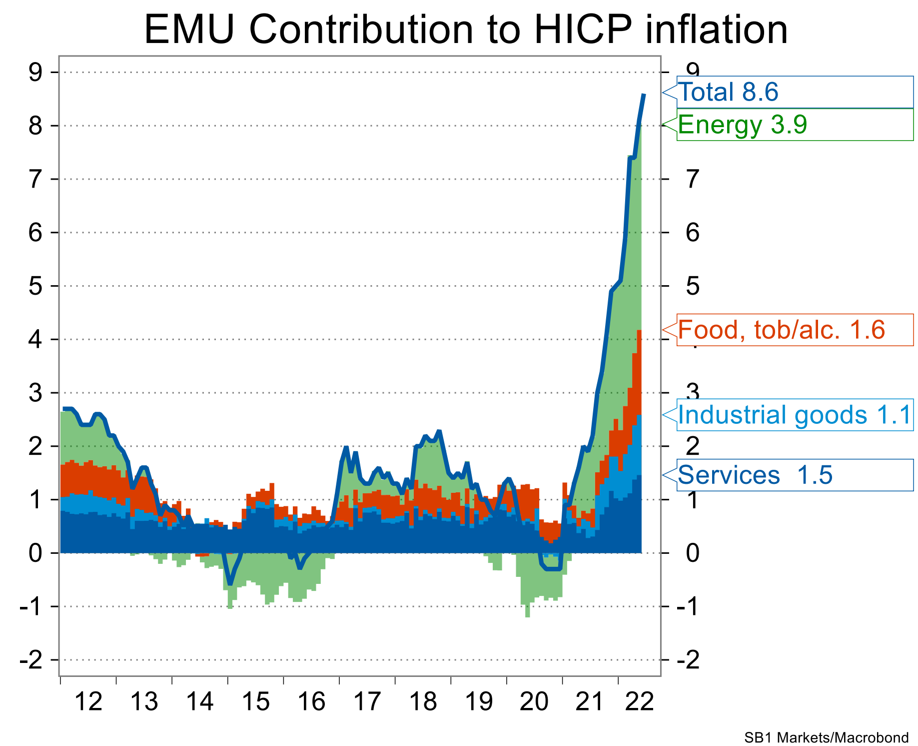
Headline inflation up to an American level, 8,6%. The core slowed a tad, at 3.7%

The headline was 0.1 pp higher than expected, the core 0.2% lower than feared

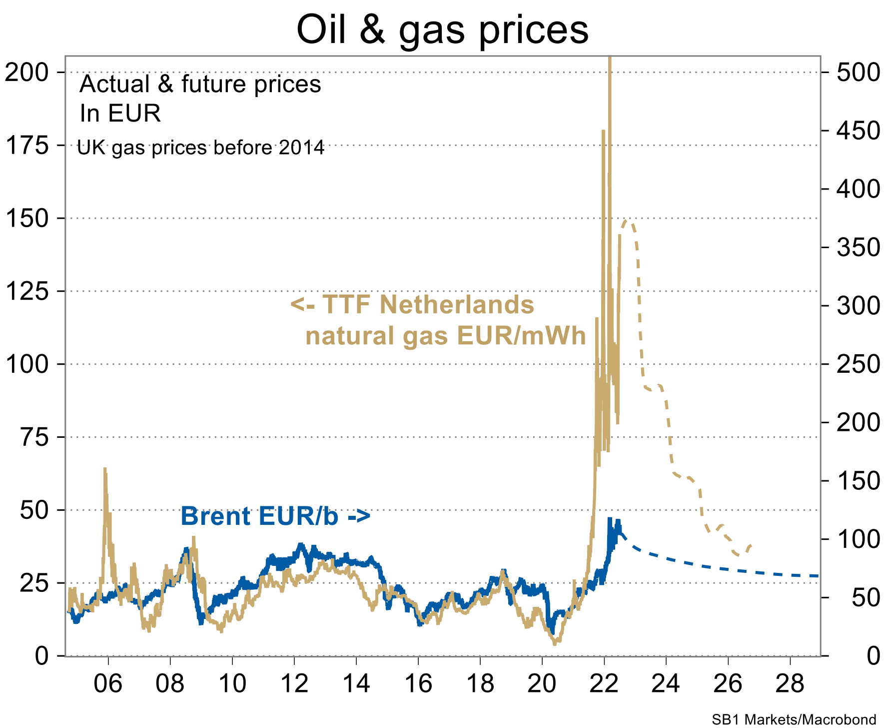


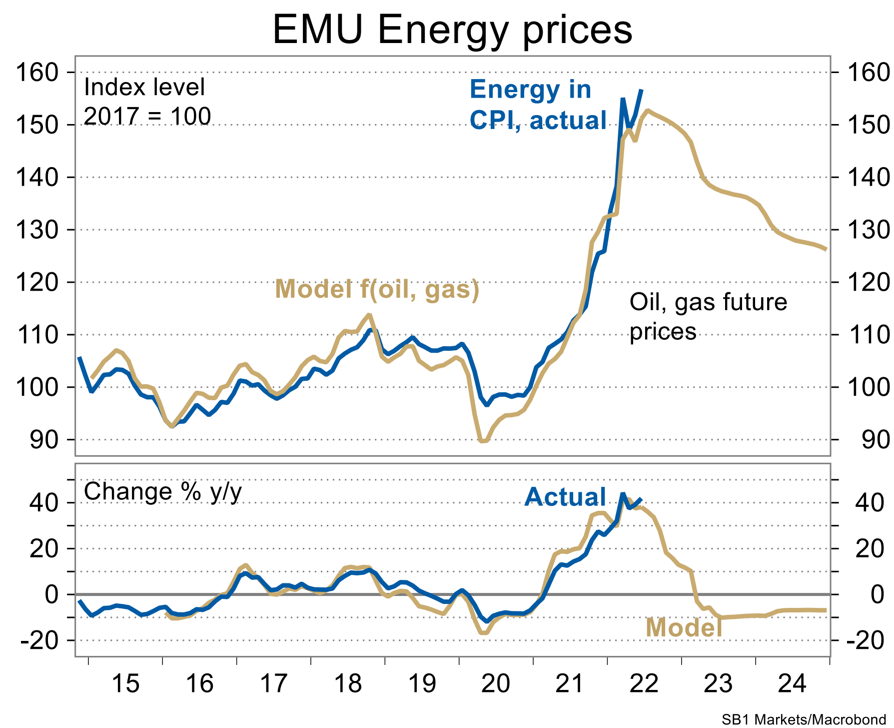


- The **total HICP** rose 0.7% m/m, following the 0.8% lift in May, two extraordinary prints (we hope)
  - » Energy prices rose 3.2% m/m, food prices 1.3% - and the latter is up 8.8% y/y
- **The core rose 0.4% m/m, also a very high number, though less than expected**
- **XXX SJEKK UPDATE XXXXX Energy** 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

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

…if futures markets are correct (this time…), annual energy inflation will peak… soon



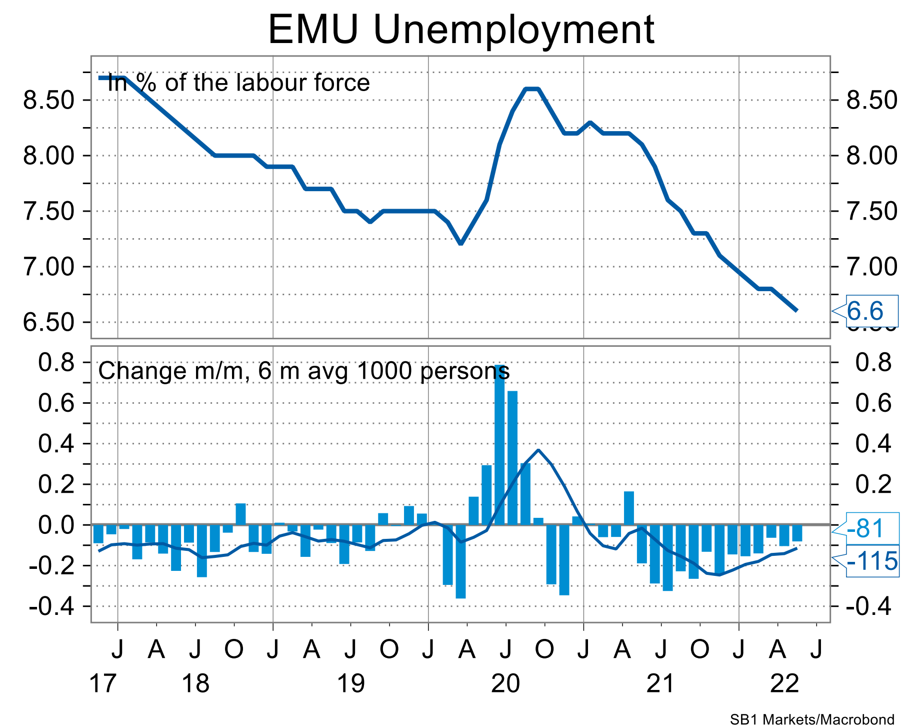


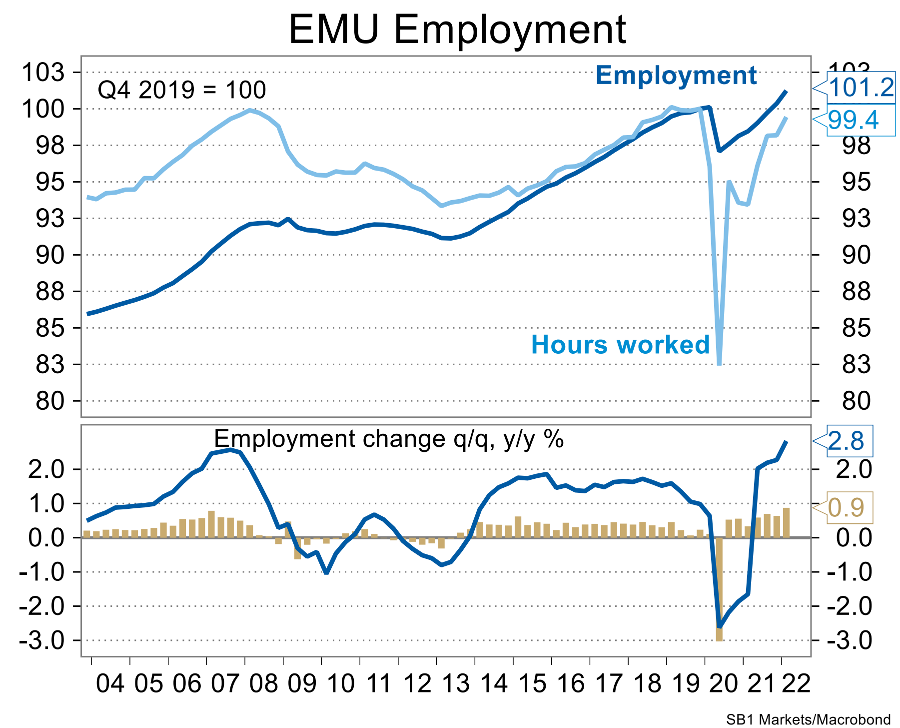
- Futures prices are heading downwards – but European gas prices are not expected to return to 'normal' level
- Early next year, energy prices will be down, measured y/y
- Gas and oil have contributed equally to the lift in energy prices measured at the consumer level, according to our models
- The problem: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

SpareBank 1 MARKETS

Unemployment surprisingly down 0.1 pp to 6.6% in May, the lowest since 1981

Most likely, the decline in unemployment is slowing

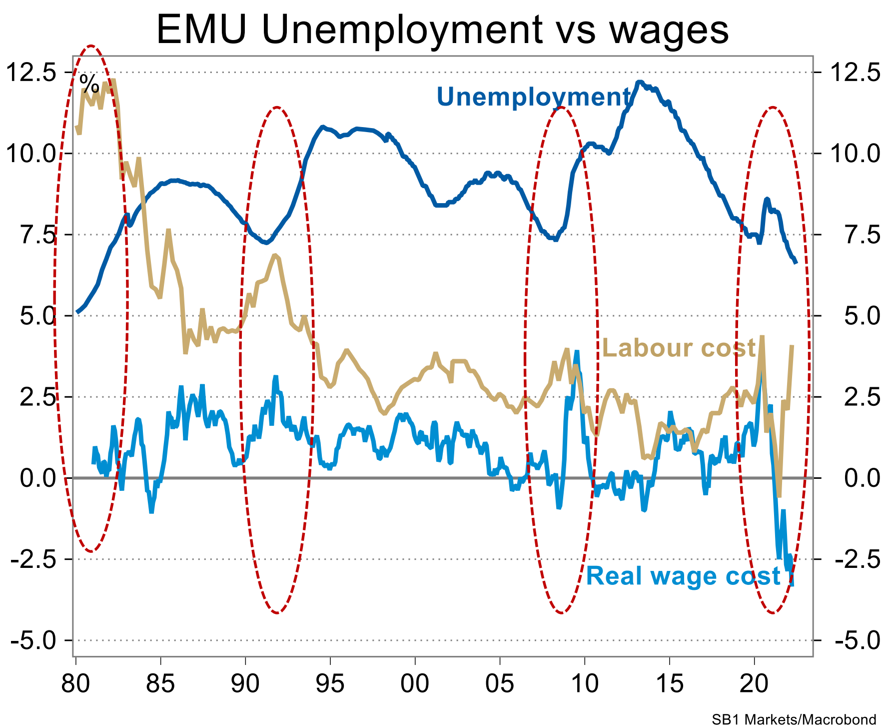


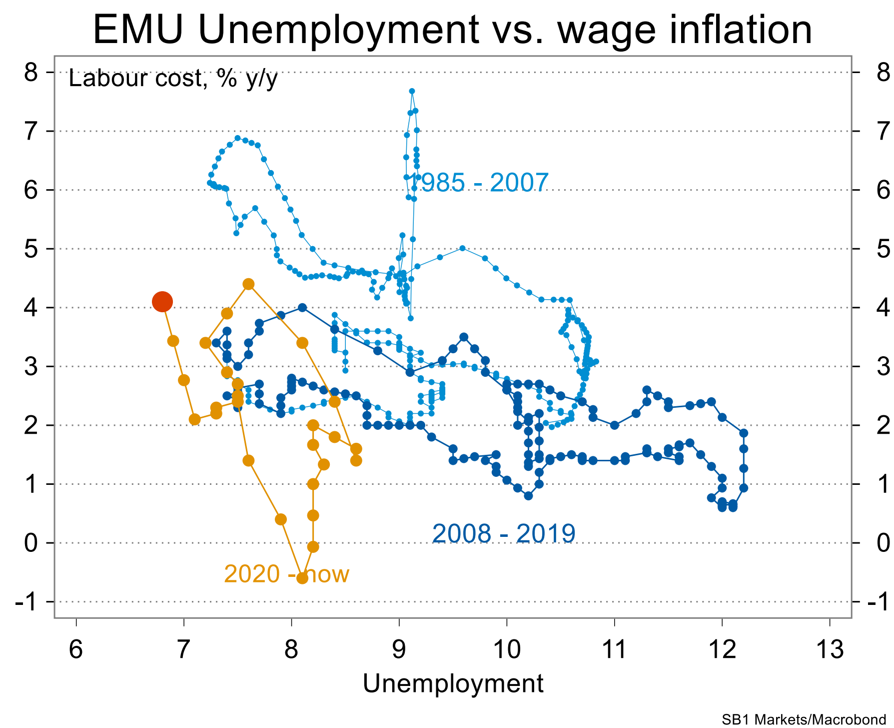


- **Unemployment** in April was revised down 0.1 pp to 6.7%. An unchanged 6.8% was expected for May. Thus the outcome was 0.2 pp better than expected
- **Employment** rose by 0.9% in Q1 (3.6% annualised pace), and the level is 1.2% above the pre-pandemic level. The employment rate is well above the pre-pandemic level too
  - » However, the best proxy for **demand for labour**, is the number of **hours worked**. In Q1, hours worked was still 0.6% below 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 the lowest since 1981, vacancies are at ATH

There may be some wage inflation risk in the EMU too? And now something is visible??

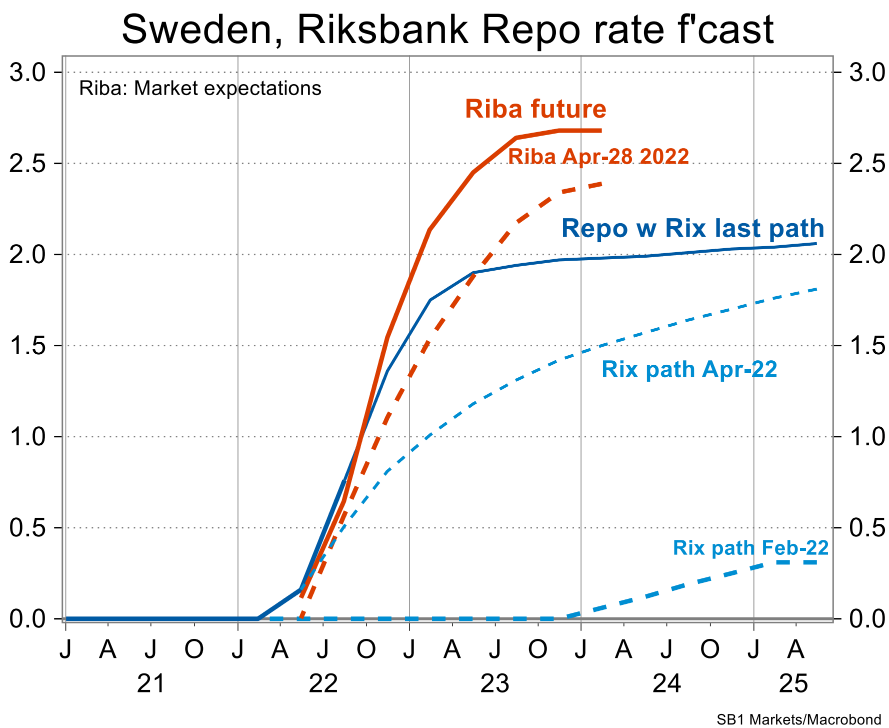




- Labour cost inflation has been revised up. The annual growth rate in Q1 at 4.1 is well above the normal labour cost inflation in the EMU
- The Phillips curve does not seem to be completely dead

The Riksbank lifted the signal rate by 50 bps, still just at 0.75%. More to come

The path was lifted by up to 90 bps, and the peak by 30 bps to 2.1%. Inflation still up, growth down



- **The Riksbank** had to speed up, as most other central banks these days. Even if the interest rate path was lifted substantially, and market rates have fallen somewhat recently, the market is some 70 bps above the Bank's new interest rate path (following a huge retreat recent days, from well above 100 bps above
- **Inflation** was revised further up, **GDP growth** down but the **unemployment rate** was revised just slightly upwards, signalling a downward revision of the output capacity (like in Norway, and most other places).
- The Riksbank will speed up its **QT program**, somewhat, as another part of the monetary tightening

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

Annual percentage change, annual and quarterly averages respectively

	2021	2022	2023	2024	2025 Q2*
CPI	2.2 (2.2)	7.6 (6.0)	7.1 (5.0)	2.7 (2.8)	2.1 (2.3)
CPIF	2.4 (2.4)	6.9 (5.5)	4.2 (3.3)	2.0 (2.0)	2.0 (2.1)
GDP	5.1 (4.8)	1.8 (2.8)	0.7 (1.4)	1.3 (1.4)	1.8 (1.5)
Unemployment, per cent	8.8 (8.8)	7.5 (7.6)	7.7 (7.4)	7.9 (7.4)	8.0 (7.4)
Policy rate, per cent	0.0 (0.0)	0.6 (0.4)	1.9 (1.2)	2.0 (1.6)	2.1 (1.8)

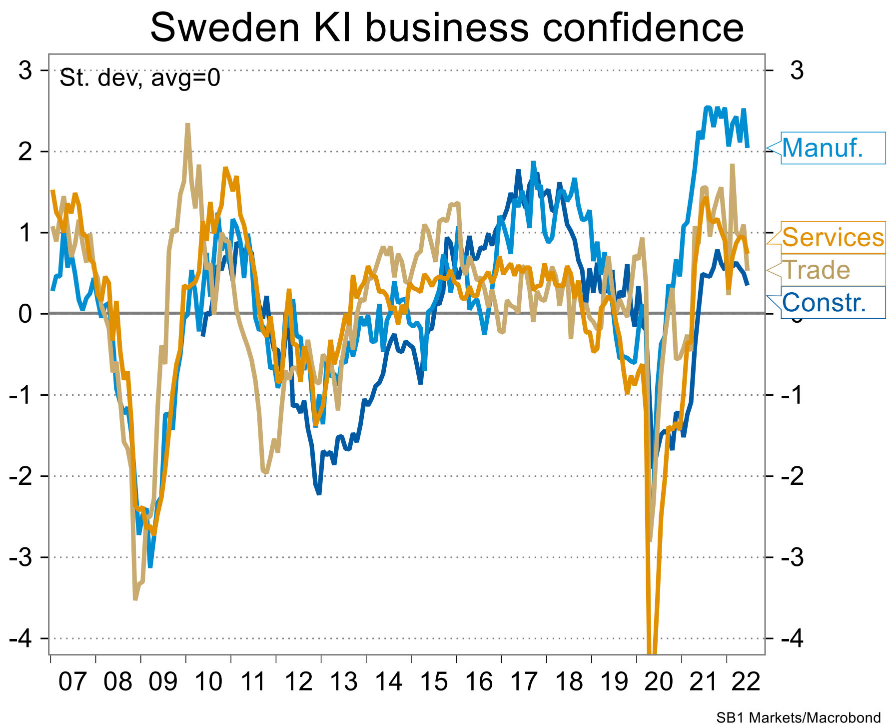
Forecast for the policy rate

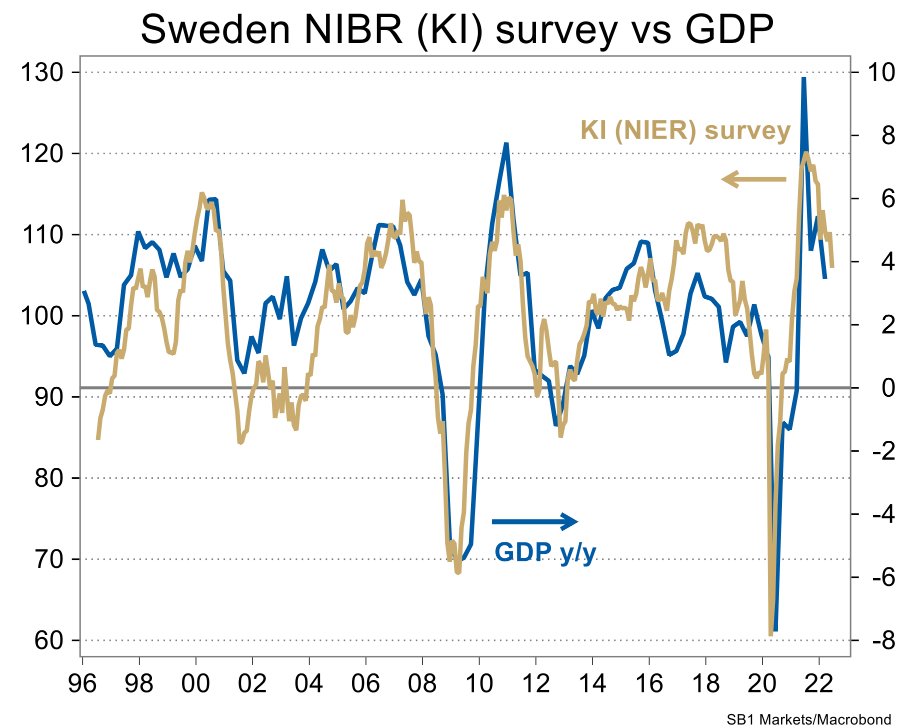
Per cent, quarterly mean values

	2022 Q2	2022 Q3	2022 Q4	2023 Q2	2024 Q2	2025 Q2
Policy rate	0.16 (0.16)	0.76 (0.51)	1.36 (0.81)	1.90 (1.18)	1.99 (1.57)	2.06 (1.81)

Business confidence is slowly retreating, construction at the bottom, still > avg!

Trade lost the most in June. Confidence in the manuf. sector still close to ATH, 2 st.d. above avg

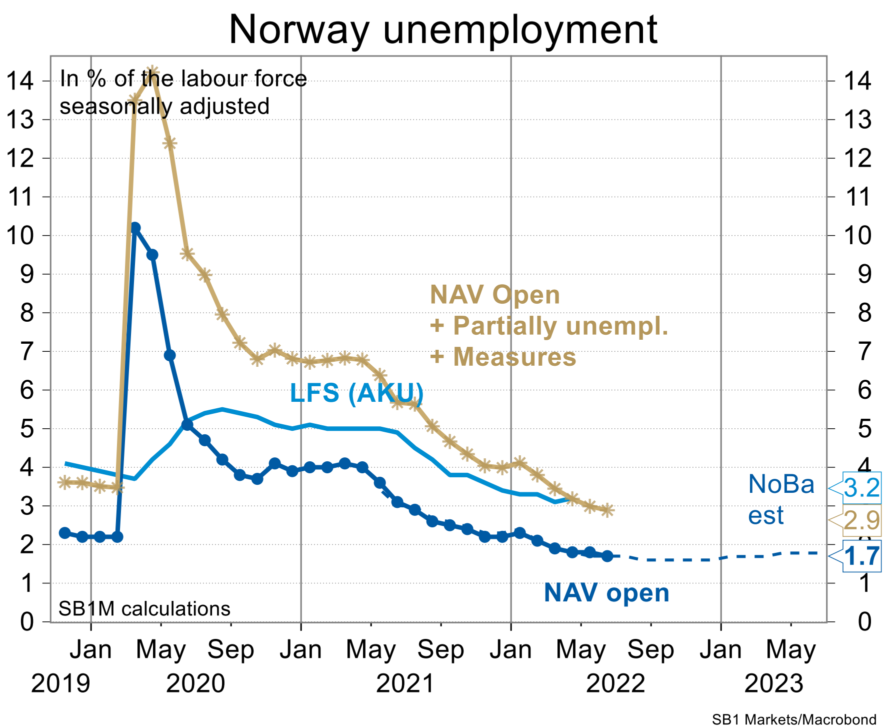


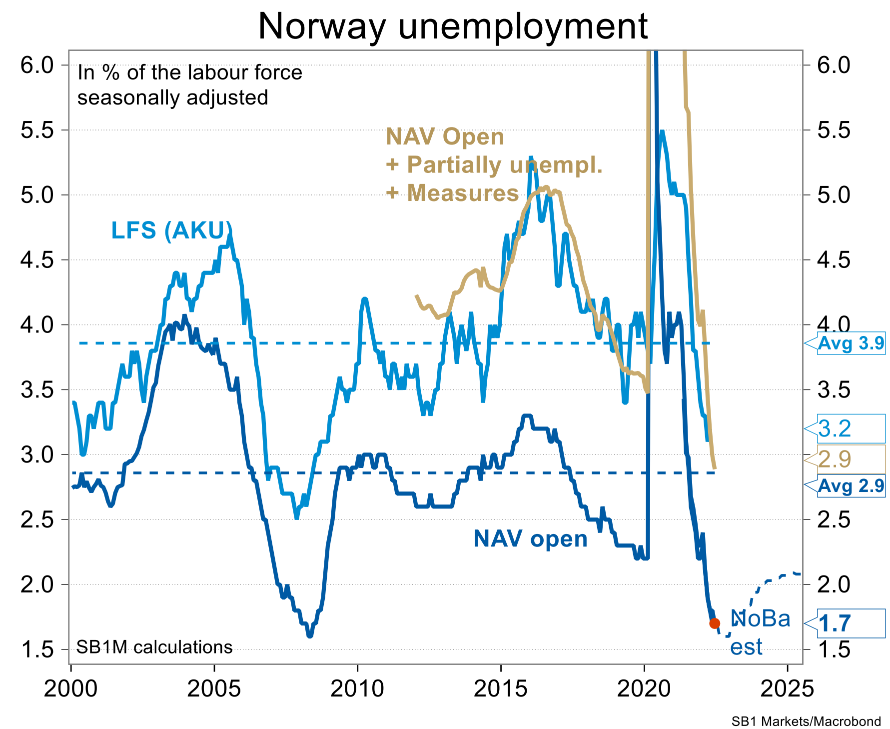


- **The composite index** rose fell to 105.9 in June from 110.3 in May, expected down to 108,0, equalling a 0.4 st.dev decline to +0.6 st.dev above average. The index signals a 4% GDP growth rate, down from 5% in May
- **All 4 main sub-sectors** are reporting growth above average. The **manufacturing index** remains at a very high level, +2 st.dev, not far below ATH
- Even the **construction** sector

NAV unemployment still on the way down but at a slower pace in June

A small upward revision of May but a further decline in June. New vacancies have probably peaked



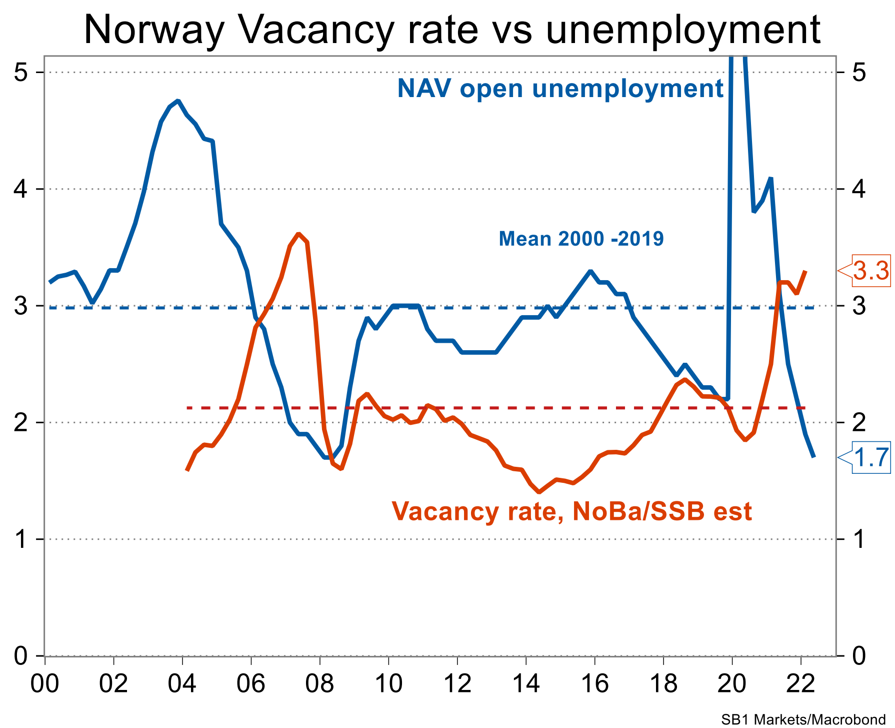


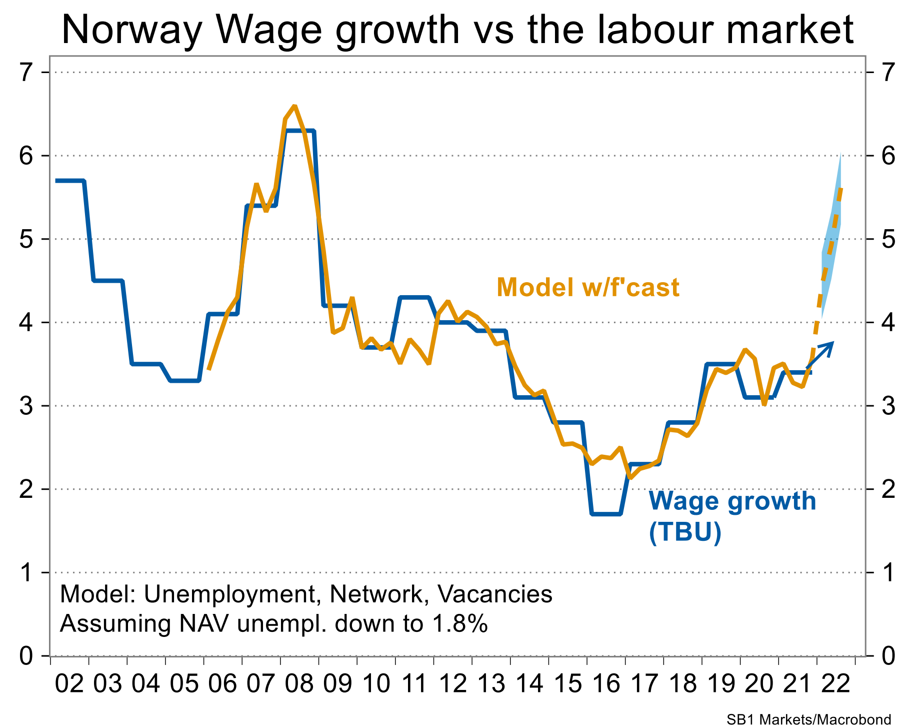
- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 1' persons in June (seas. adj) to 50', slightly above our forecast, and to 1.8% of the labour force, down 0.1 pp from the 0.1 pp upward revised rate in May. We expected 1.7%. Unadjusted, the rate fell 0.3 pp to 1.6% , 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 below the average since 2000. Norges Bank revised it's forecasts down in the June MPR. In May, the March forecast was 0.3 pp off mark!
- The number of **partially unemployed** (not incl . in the ordinary unemployment no.) fell by 1' to 22', and including measures, the **total unemployment** fell by 3' to 85', 16' below the pre-pandemic level. The overall unemployment rate fell by 0.1 pp to 2.9%
- The inflow of **new job seekers** may have bottomed at a low level. The **inflow of new vacancies** fell further in June, but remains at a very high level
- **The LFS (AKU) unemployment rate** fell to 3.2% in April, while employment flattened. The no. of employees rose further in May

SpareBank 1 MARKETS

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

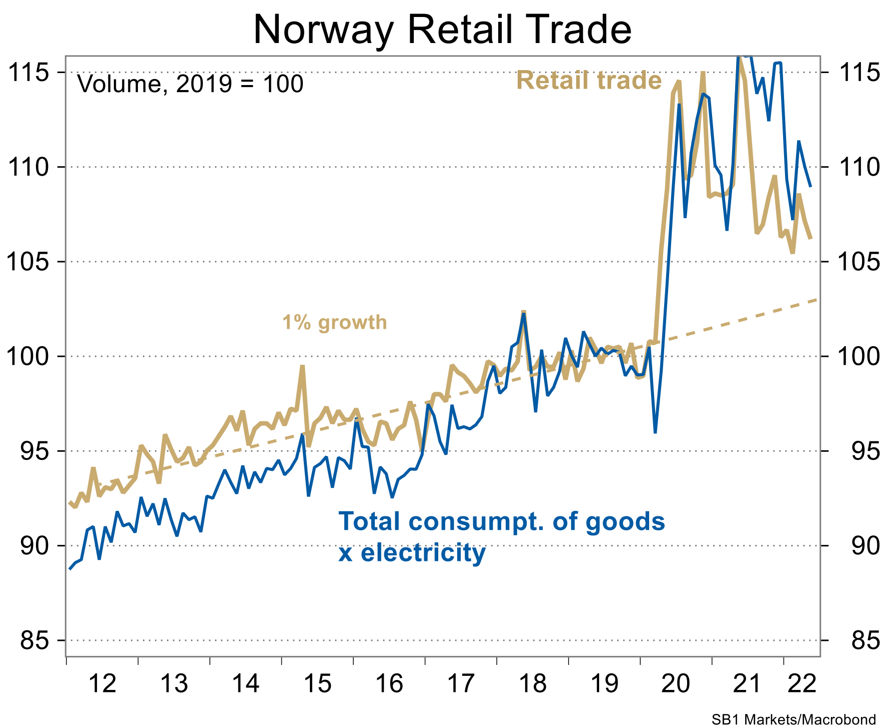
The labour market is tight – and it is still tightening further

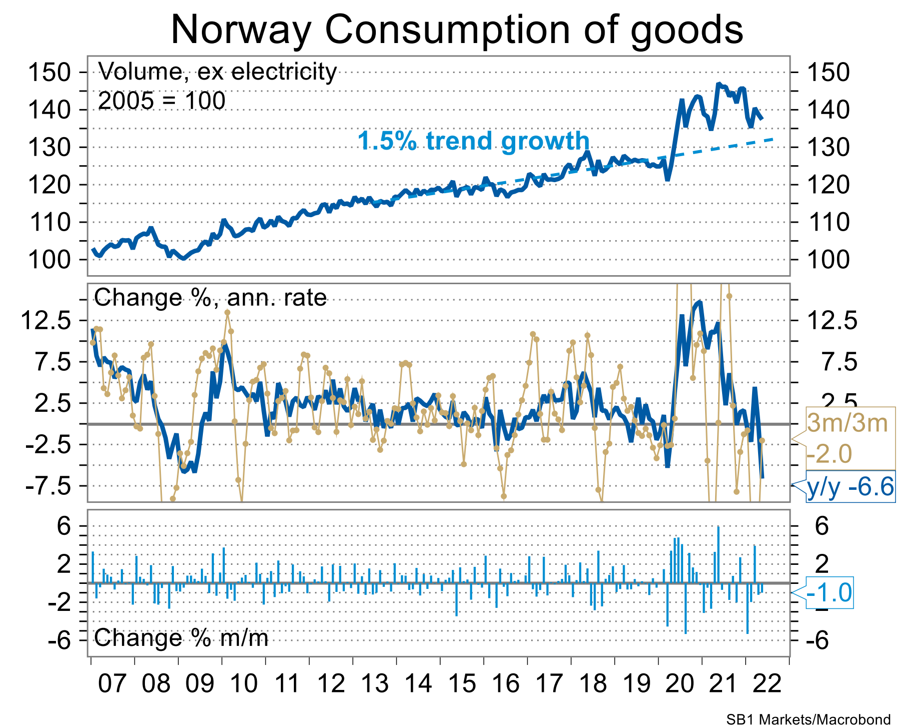




Retail sales further down in May, trend is down too, as most places now

Sales down 0.9%, we expected flat. Sales are still above a pre-pand. Trend, the that trend was modest

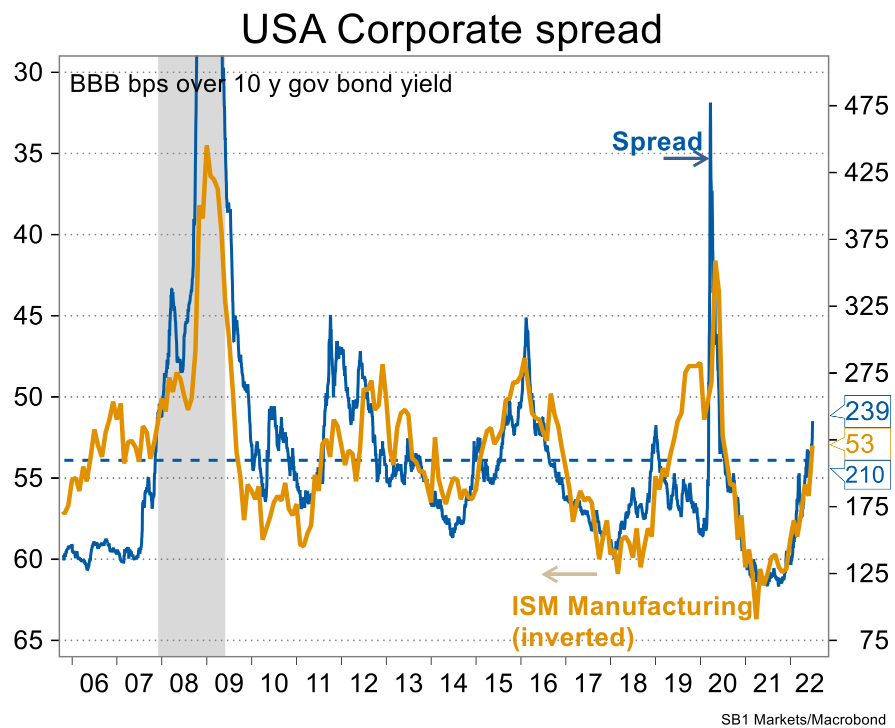


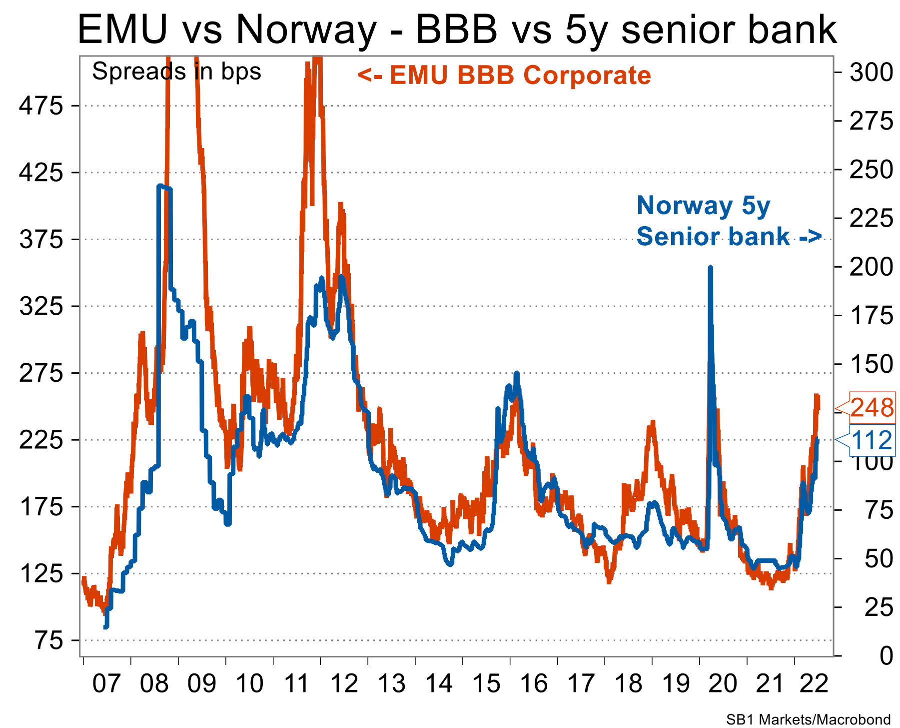


- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth paths. Sales may still be somewhat 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 back down to the pre-pandemic trend
- Sales fell 0.9% in May following a 1.3% decline in April (revised from -1.0%). Consumption of goods (including autos, ex electricity) fell 1.0%, as in April
- The decline was broad based

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

What do you think is more likely: An ISM at ~~50~~ 45 or 60 in some few months time? We are quite sure..

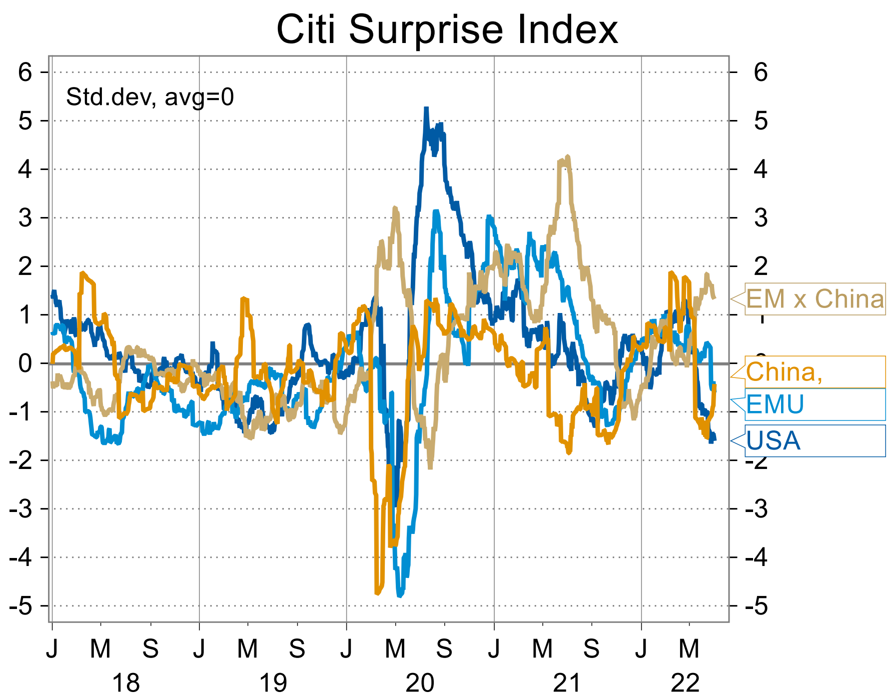




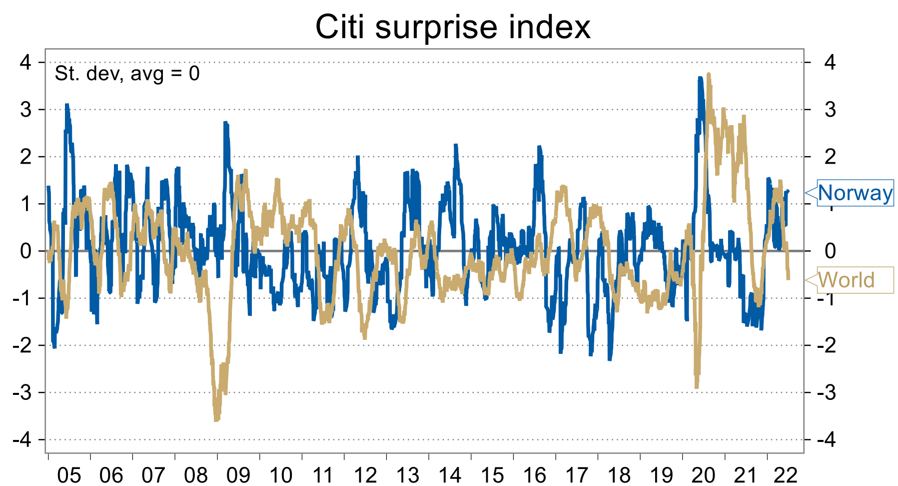
- The answer is not irrelevant for your view on the outlook for spreads, we think
- And do you think Norwegian spreads will be influenced by changes in the global credit market?

USA surprises the most at the bottom, EMU turned negative too

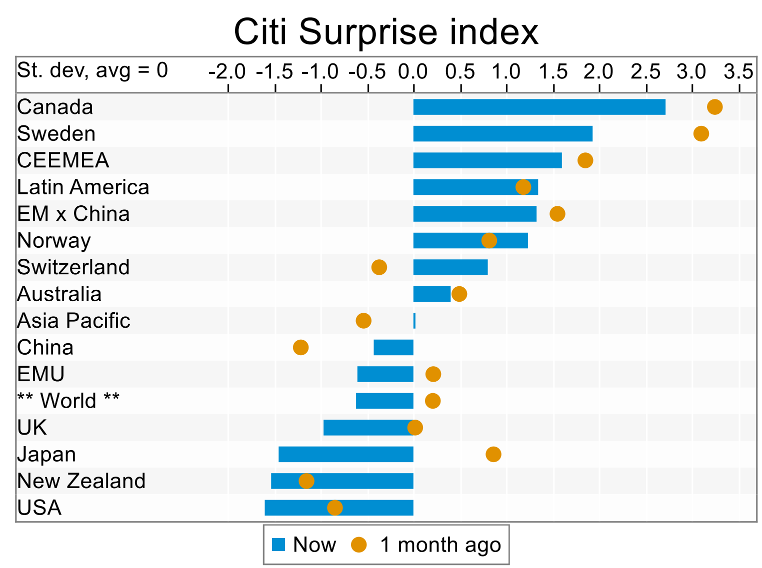
Strong PMI prints strengthened the Chinese surprise index The word well below par again



SB1 Markets/Macrobond



SB1 Markets/Macrobond



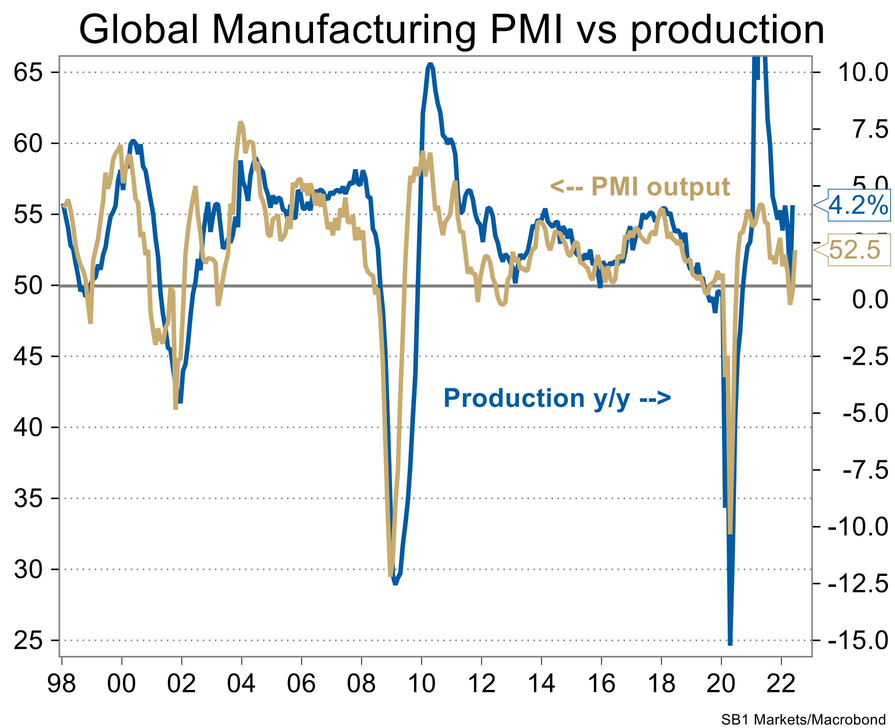
SB1 Markets/Macrobond

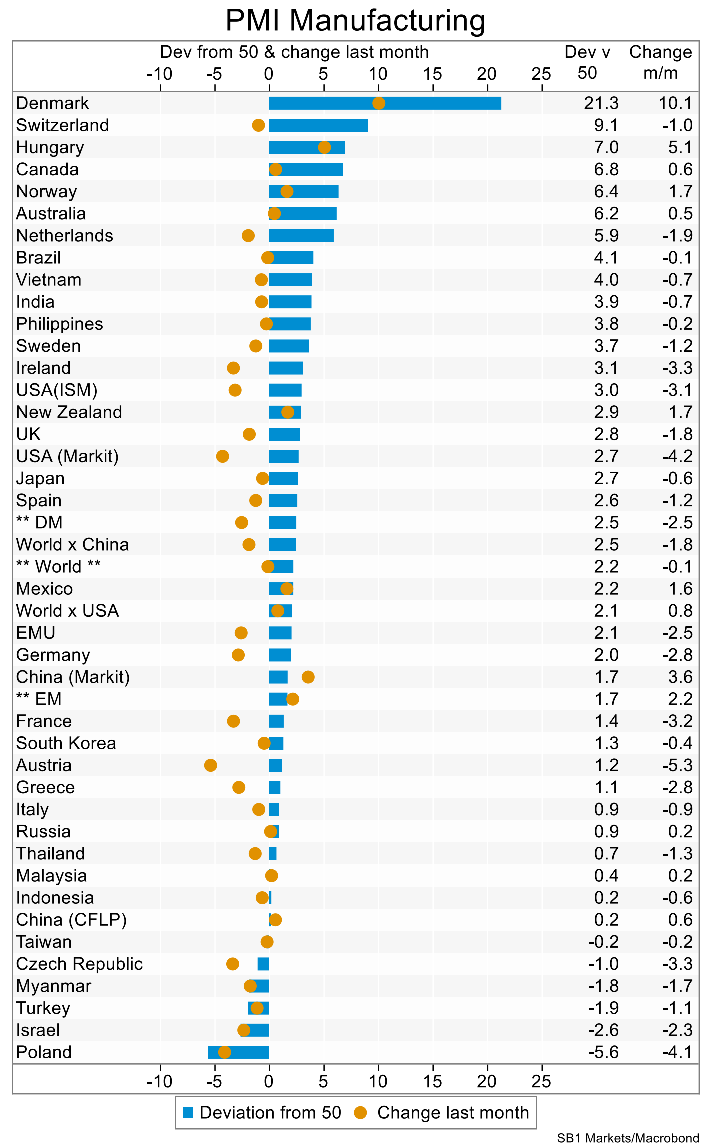
- **Emerging markets** x China are still delivering better results than excepted
- **Norway** is surprising significantly on the upside, according to Citi
- **Canada and Sweden** are still at the top

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

Manufacturing total PMI down 0.1 p to 52.2; the output index up 2.9 p to 52.5

… due to China which recovered from lockdowns in June. 6 of 43 surveys below 50, but 31 down m/m

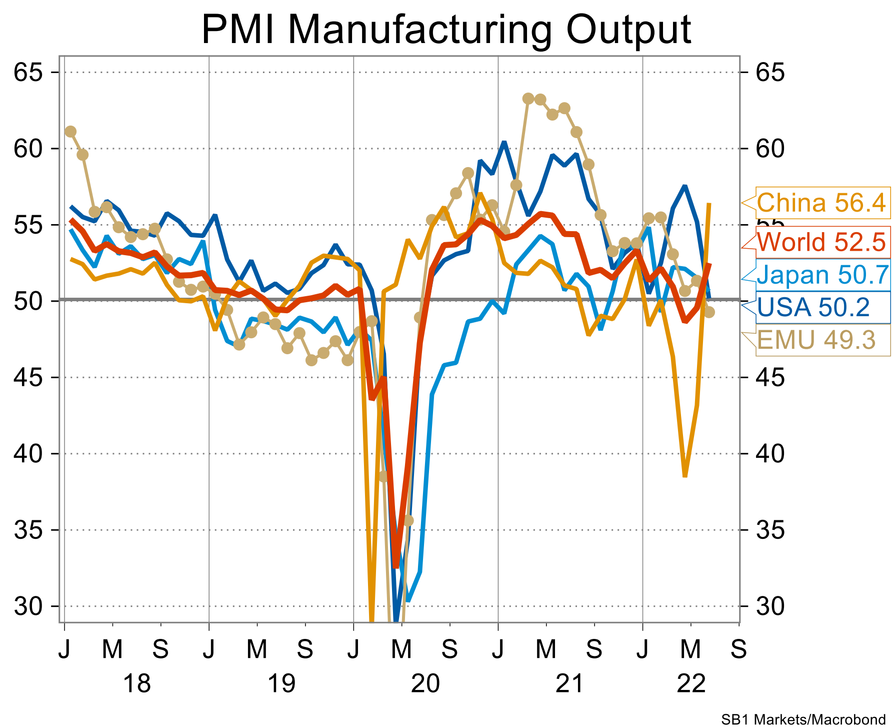


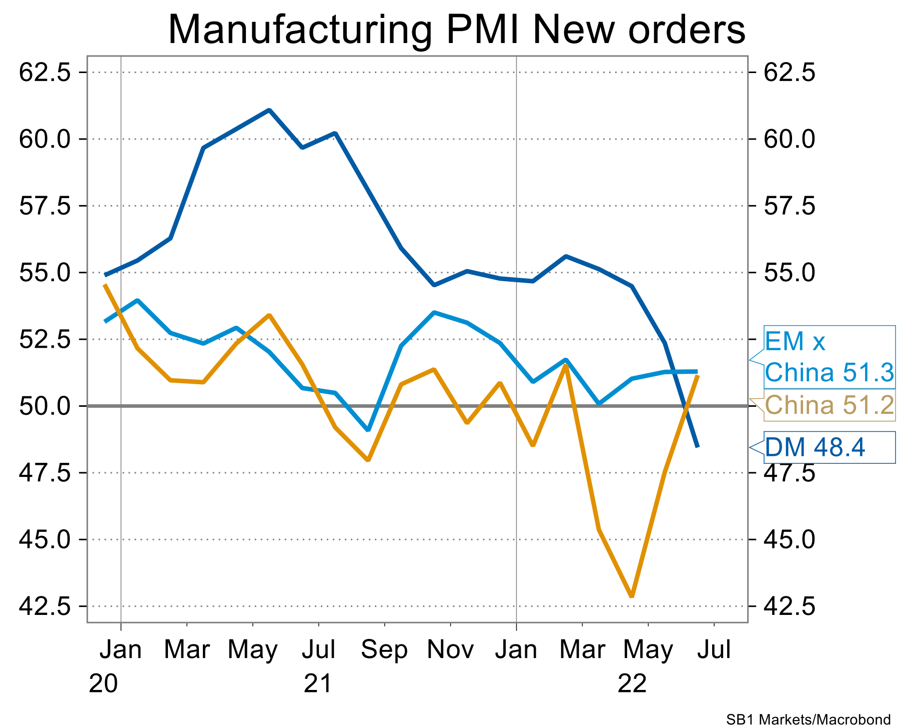


- China contributed sharply at the downside to the global PMIs in April and May, and the recovery in the output index was just due to a 13 p lift in China to 56.4
  - » A large majority of countries reported lower activity in June
  - » **Rich countries** are still stronger than EM measured by the total index but the gap is narrowing. Measured by the new order index, EM are ahead of DM, which fell below 50
  - » **Norway** is close to the top of the list, Sweden has fallen down from the peak (Denmark has taken the pole position)

China very likely not to blame for the decline in new orders in EMU & US in June

The lockdowns brought China to a halt in April/May. The slowdown in DM is probably not due to that

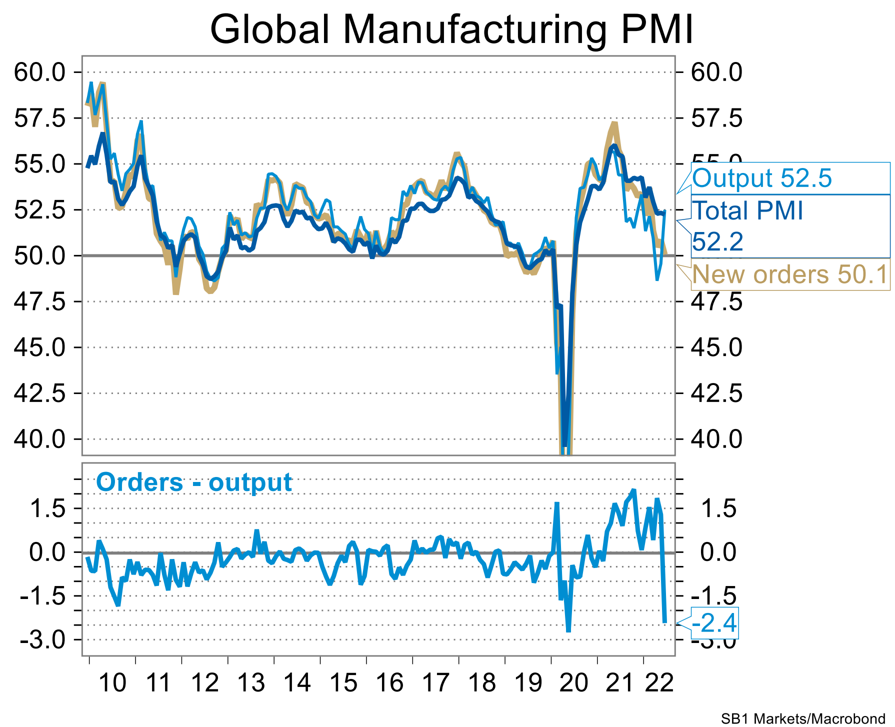


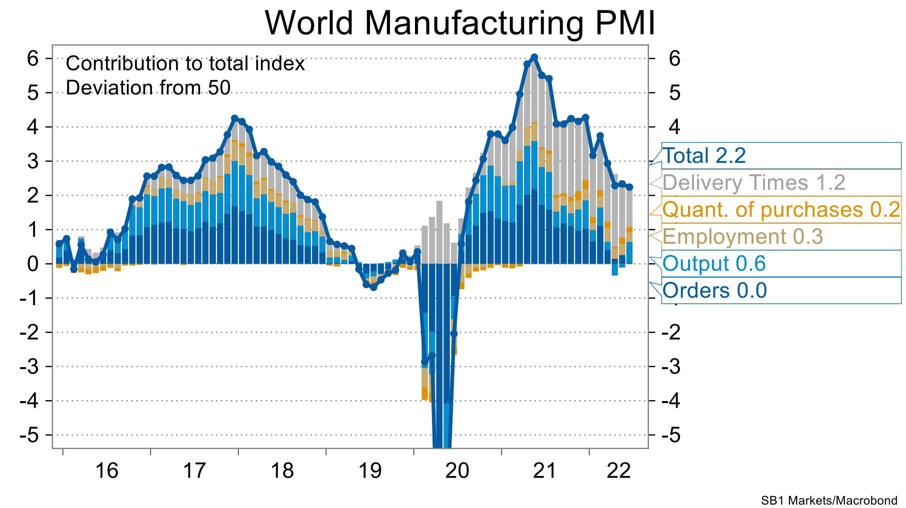


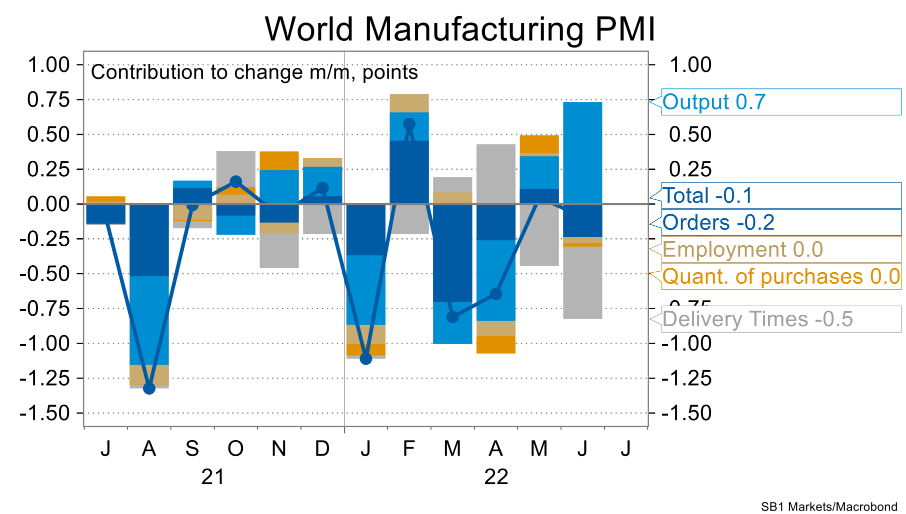
- The new order index fell sharply in both the US and even more in the EMU in June, at the same time as the delivery times index declined sharply.
- Chinese exports were close to ATH in May, even in volume terms
- Thus, it seems unreasonable to suggest that the weakening in new orders in June in the US & EMU is due to lack of supplies from China

Manuf. delivery times index down, (Chinese) output up in June

Easing supply problems are good news but may also be due to waning demand & activity

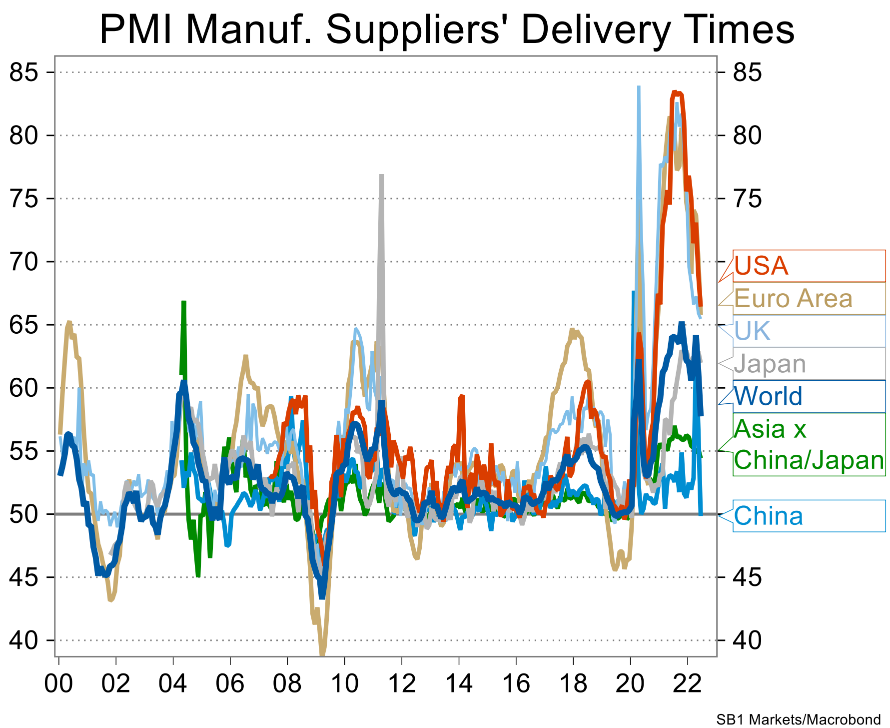


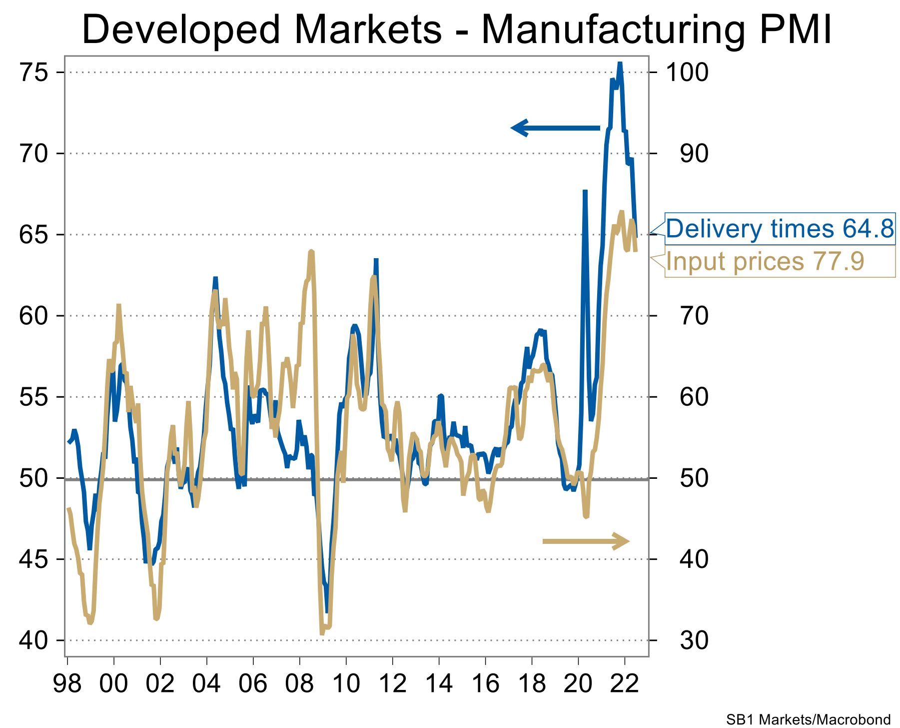




Delivery times indices are coming rapidly down, but are still high

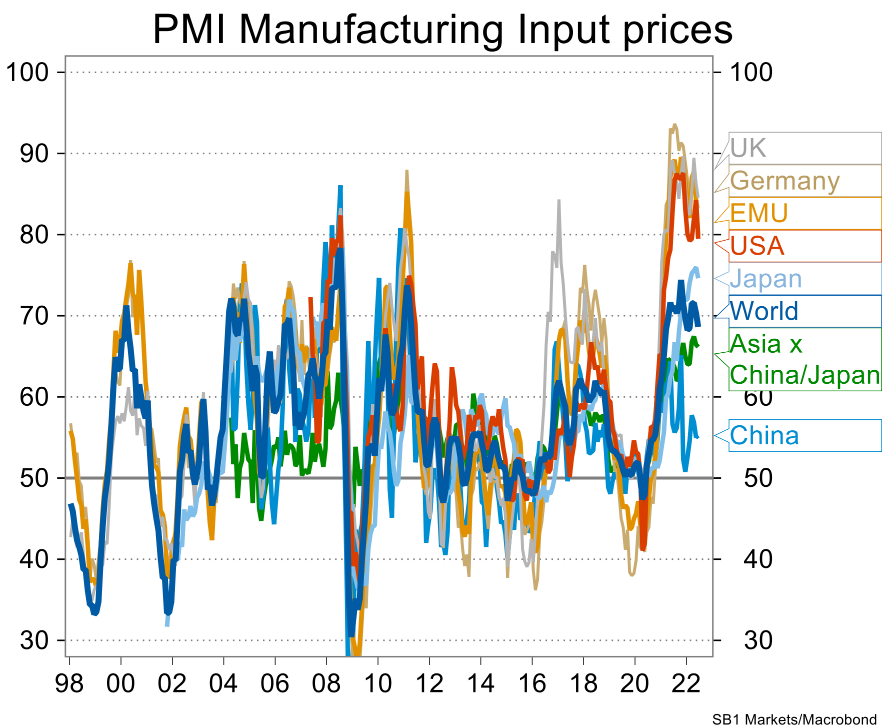
...but input prices inflation is sticky, just marginally down from the peak

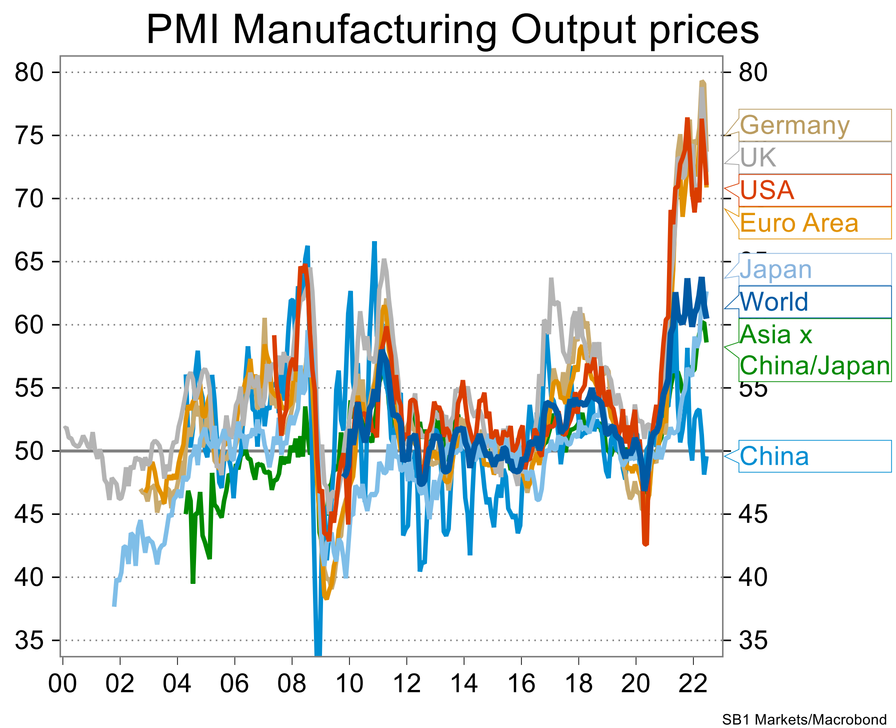




Both input and output prices rose at a slower pace in June, but just marginally

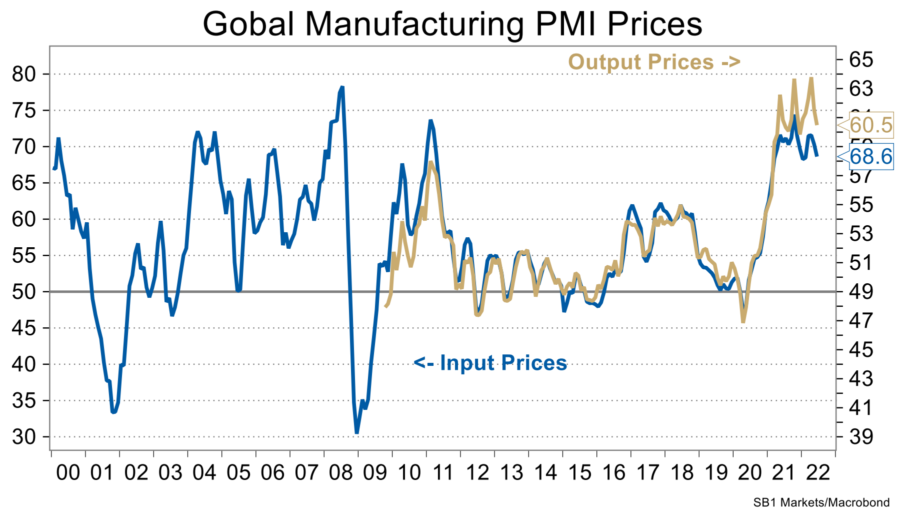
Price increases have mostly been a Western problem – because demand has been strong here

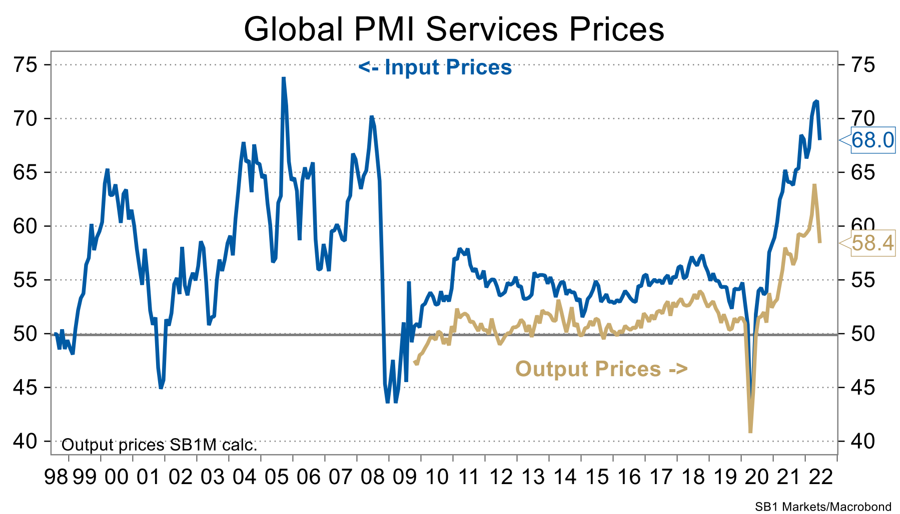


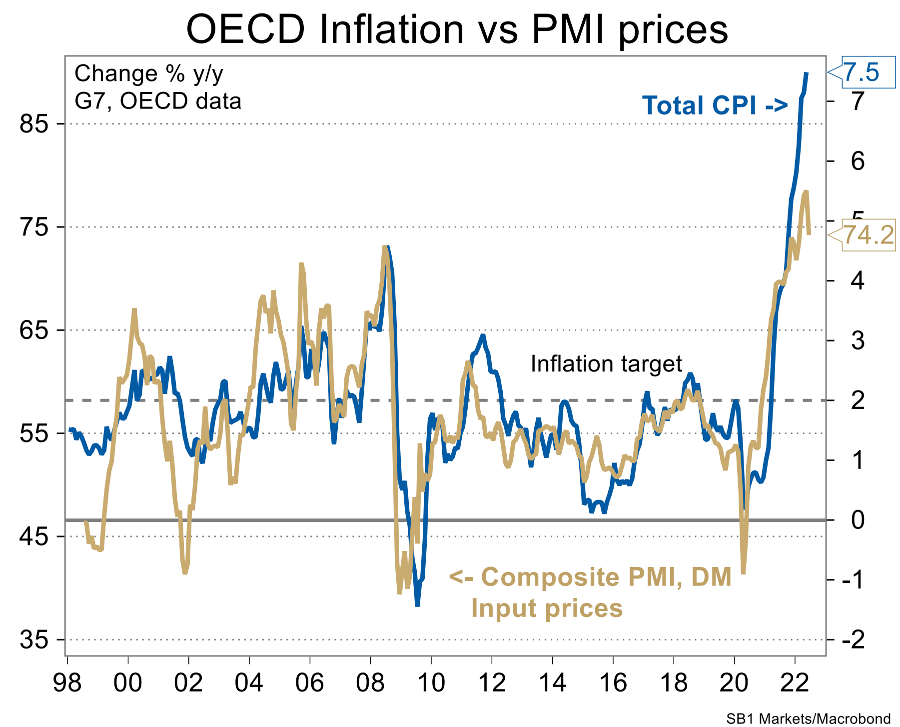


Peak inflation? At least, the PMI price indices have probably peaked

However, all price indices remain at very high levels

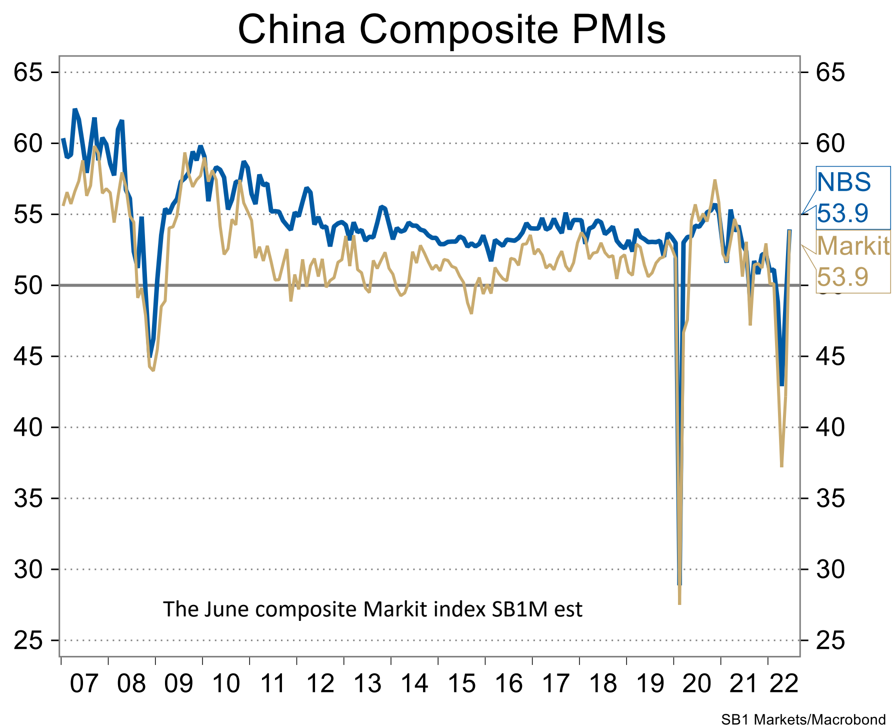


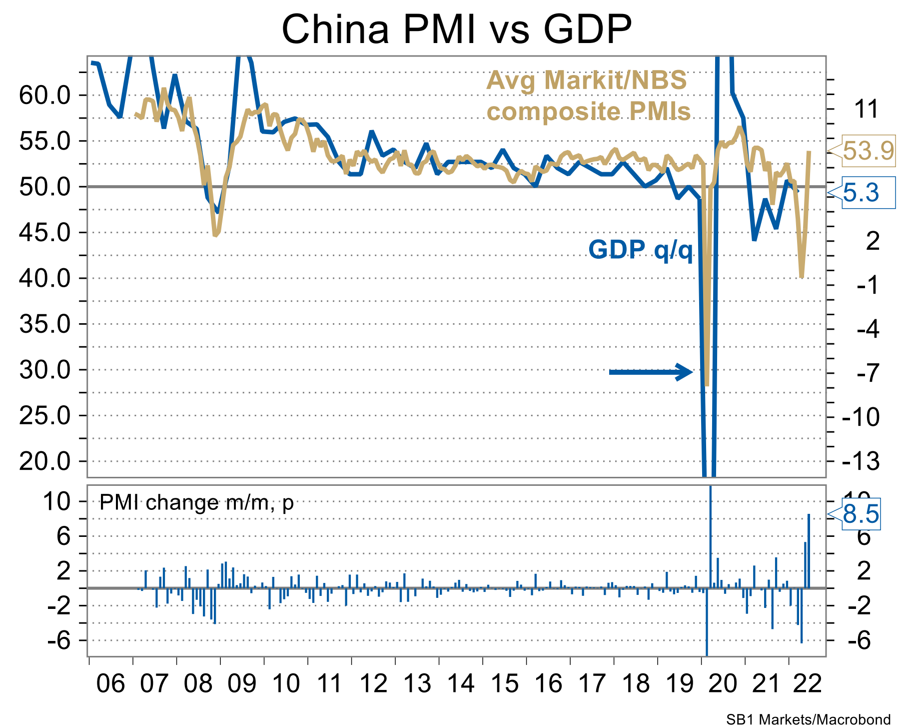




The PMIs to well above 50 in June, as China opened up

Services report strong growth, and the output in the manuf. sector soared, after the lockdowns

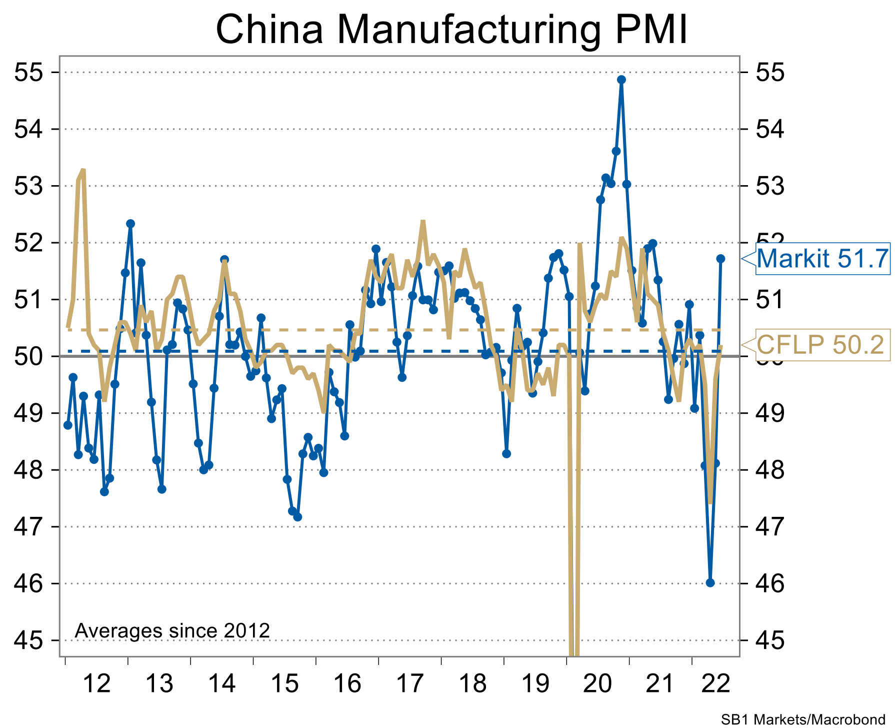


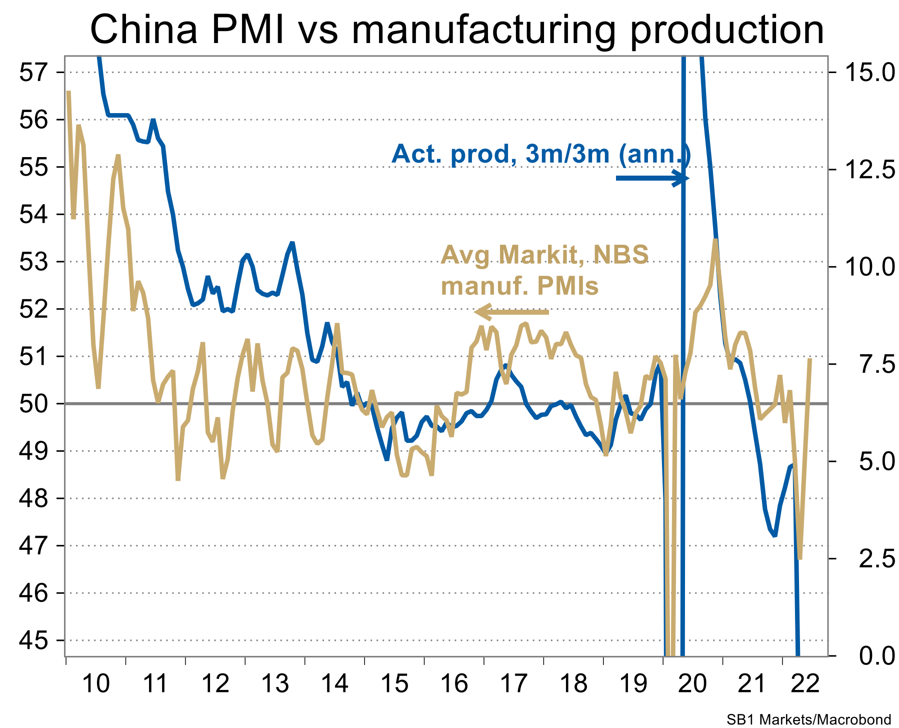


- **Both the NBS/CFLP and Caixin/S&Ps (aka Markit)** PMIs recovered to well above the 50 line in June, and more than expected
- The NBS PMI rose 5.4 p to 53.9, with the largest contribution from the service sector
- The S&P Global Composite PMI (which is the misleading name for Markit's PMIs now) has not yet report it's services PMI, very likely also rose sharply as the manufacturing output index shot up, and we assume that the service sector PMI also recovered to above the 50 line. Our forecast for the comp. index is 53.9, as for the NBS survey
- The PMIs confirm that the economy recovers as soon as Covid restrictions are eased. The authorities have announced a less rigid virus regime, hopefully preventing large scale, and extremely expensive lockdowns

Both manufacturing PMIs, Caixin/Markit's the most – to 51.7

The NBS/CFLP survey crossed the 50-line too

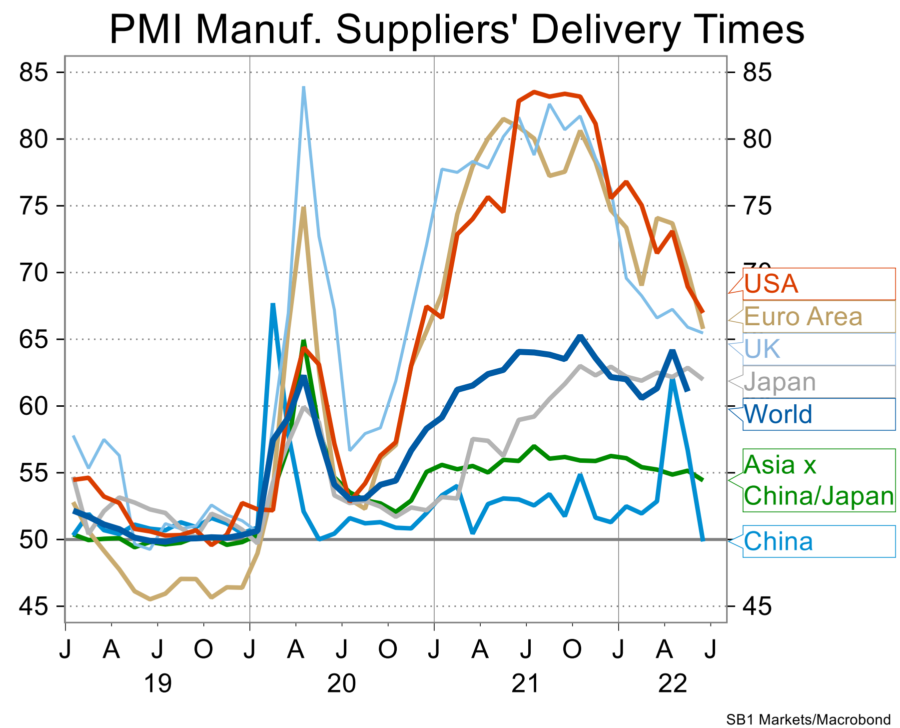




- Actual production rose sharply in May, even if the PMIs remained below the 50-line. Most likely, production rose further in June

Details confirm a rapid normalisation of activity after the lockdowns

The output index the 2nd best ever

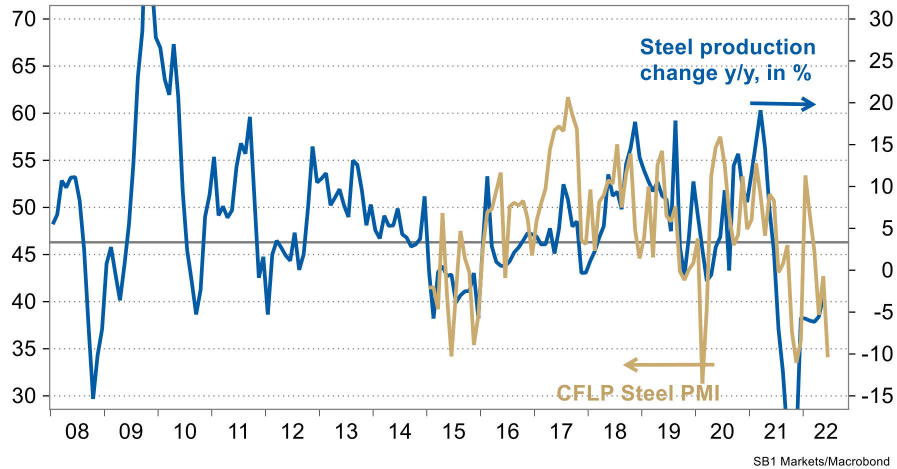


- Delivery times 'normalised', due to less supply problems – or still very weak demand from closed factories

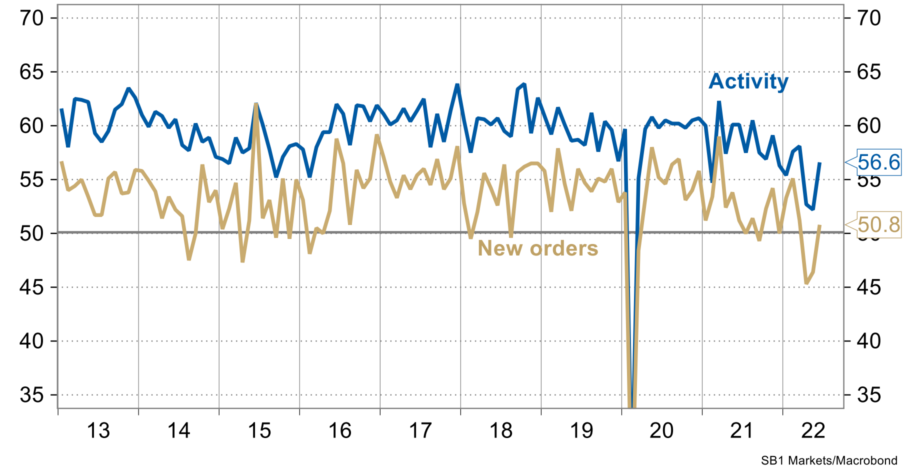
The steel sector PMI against the tide, sharply down in June

The construction sector PMI recovered to above 50 in June, but the level is still well below average

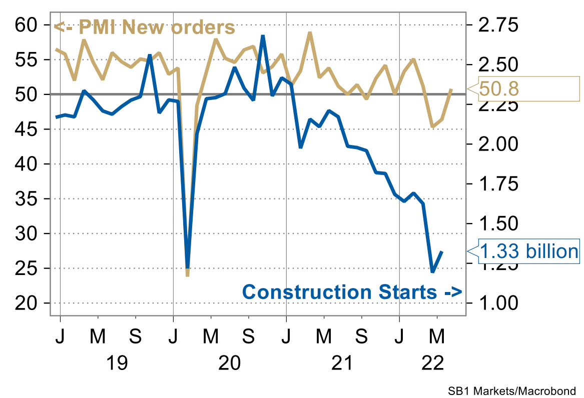
China Steel Production vs PMI



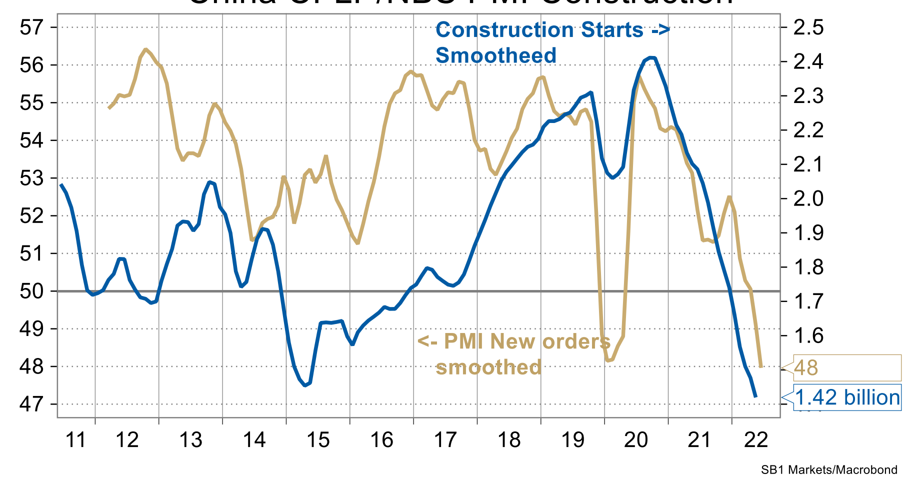
China CFLP/NBS PMI Construction



- Construction starts stabilised in May, following the steep (very likely lockdown caused) decline in April

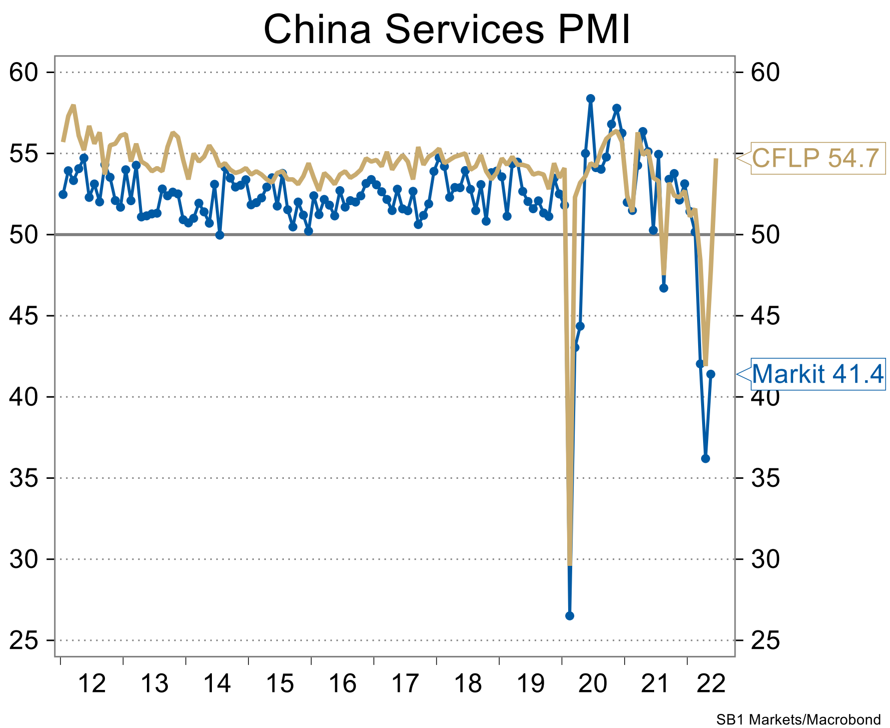


China CFLP/NBS PMI Construction



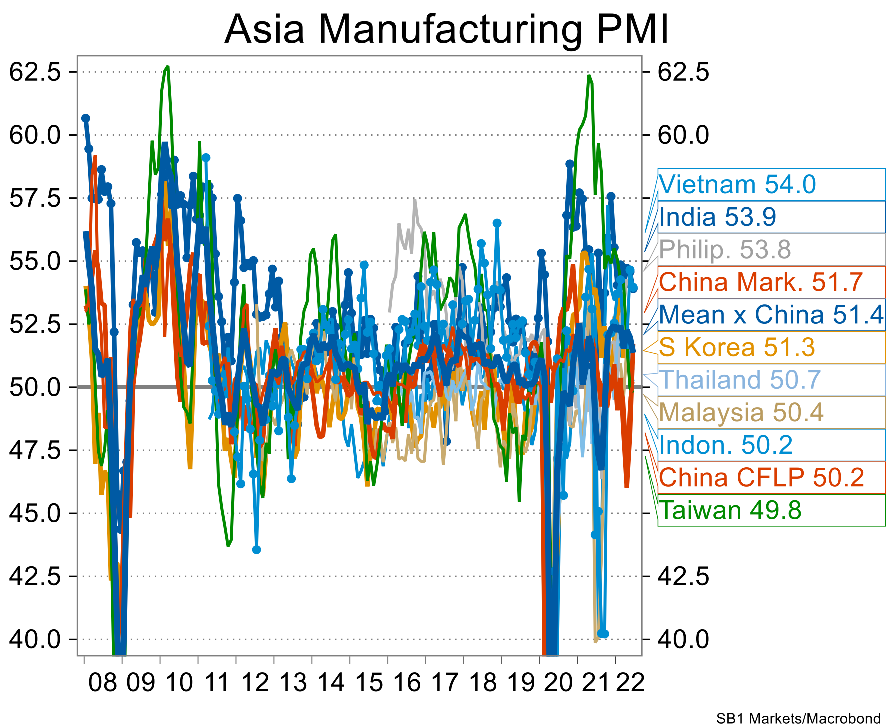
June was much better in the service sector, according to the NBS/CFLP PMI

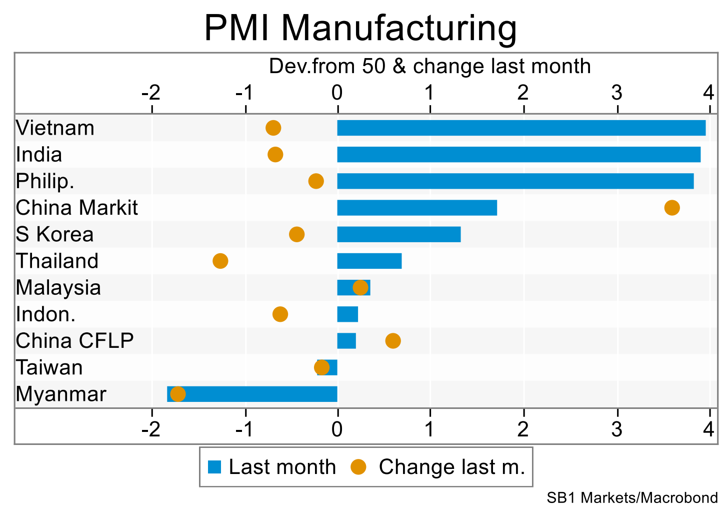
S&P (Markit) has not yet reported, but also this index very likely climbed to above 50 in June

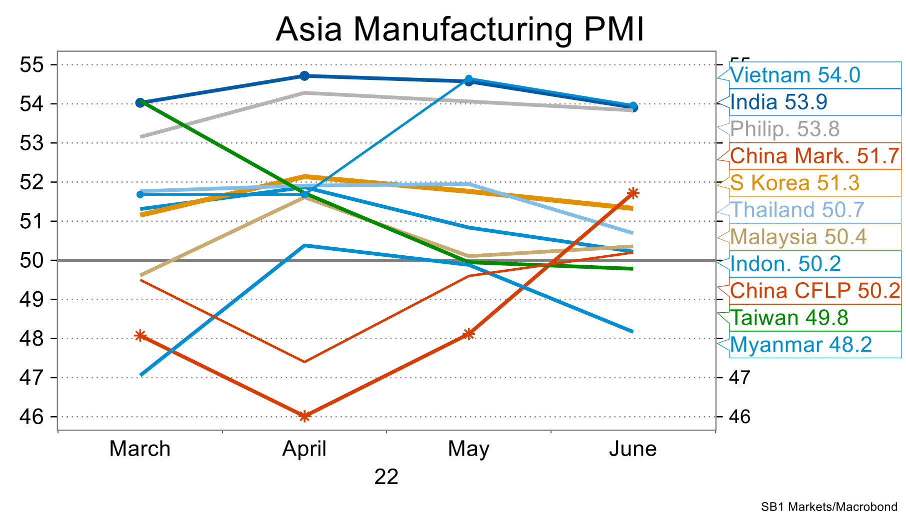


More down than up in June too, just China & Malaysia strengthened

Taiwan fell below the 50-line but the others (barring Myanmar) are above



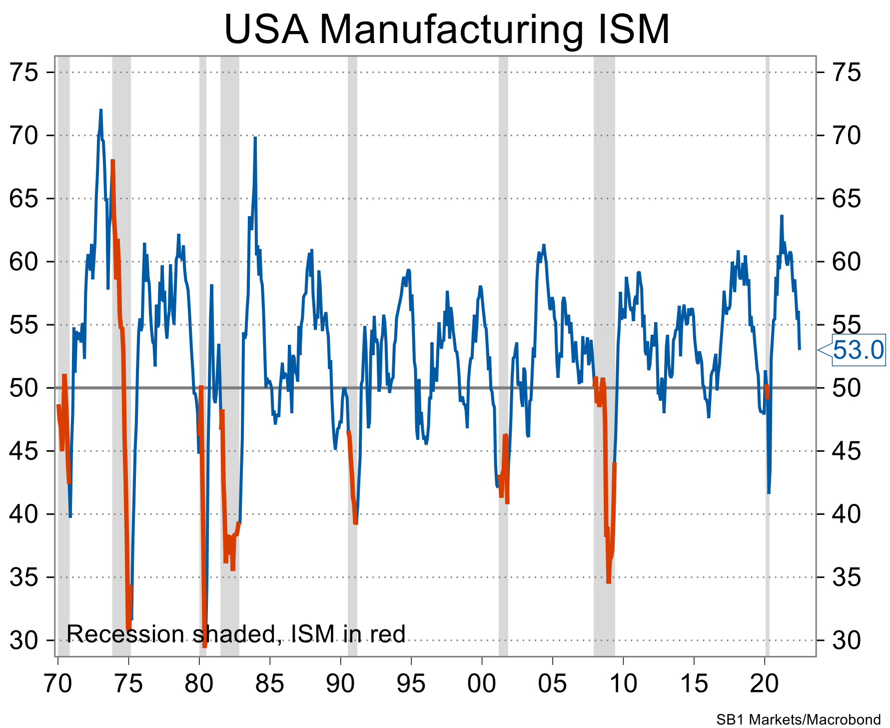


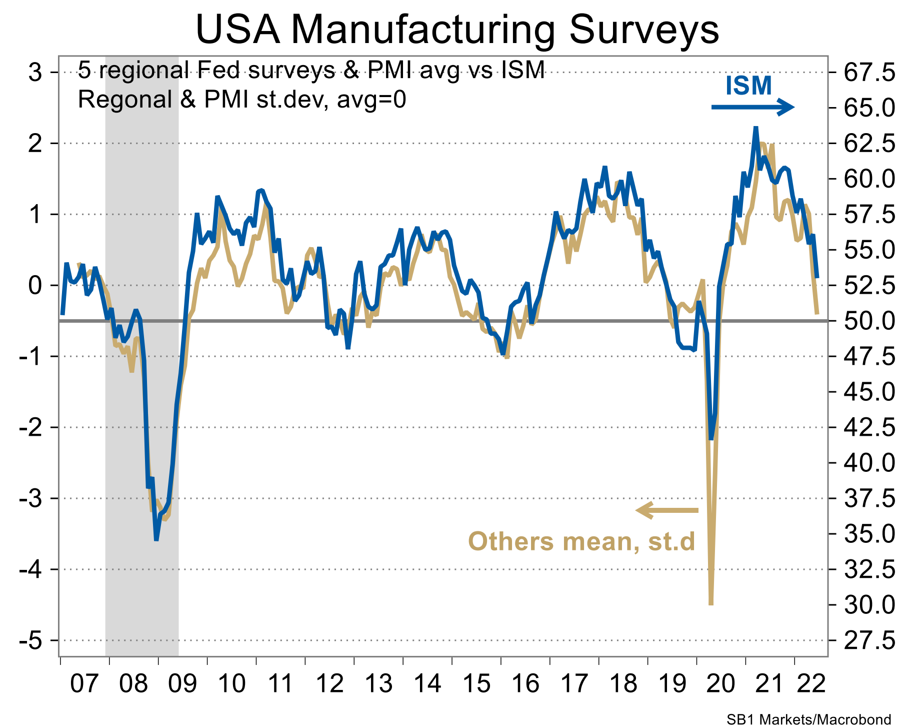


- India is still reporting very strong growth, as is Vietnam

The trend is set: The economy is slowing rapidly, ISM -3.1 p to 53.0

The index was (as we assumed) weaker than expected (54.5 – 55.0), still stronger than other surveys





The **ISM manufacturing index is fell more than expected (as we assumed). Other surveys were at a '50'-level in June**

- Last month, 15 of 18 manufacturing sectors reported growth (unch vs the prev. month), the 3 sectors reported a decline (furniture, wood, paper), up from 1
- The **new orders index** fell sharply, by 6 p to 49.2, and confirmed the rapid slowdown signalled by all the other surveys. An early recessionary signal? (check next page)
- Fewer **supply chain** issues: 'Just' 29 commodities saw **price increases** (from 40 last month, and at the peak 56 commodities). 7 were down in price, like alum,, timber, freight, steel. 13 commodities were reported in **short supply**, down from 18 in June (and far below the peak at 50 commodities a few months ago)
- **More companies** are commenting on weaker order inflow, either due to weaker end user demand or less hoarding,. Just a few report lack of labour

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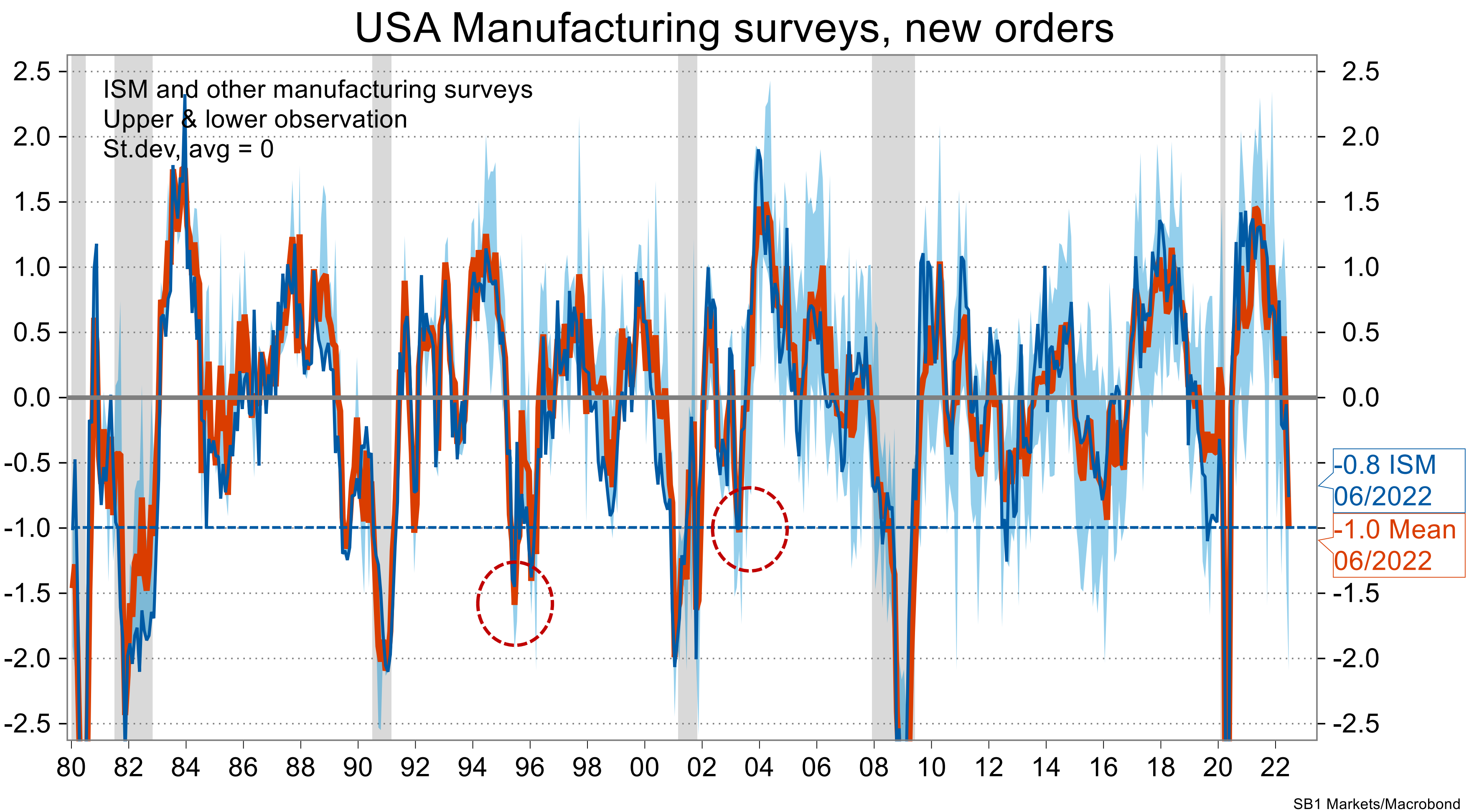
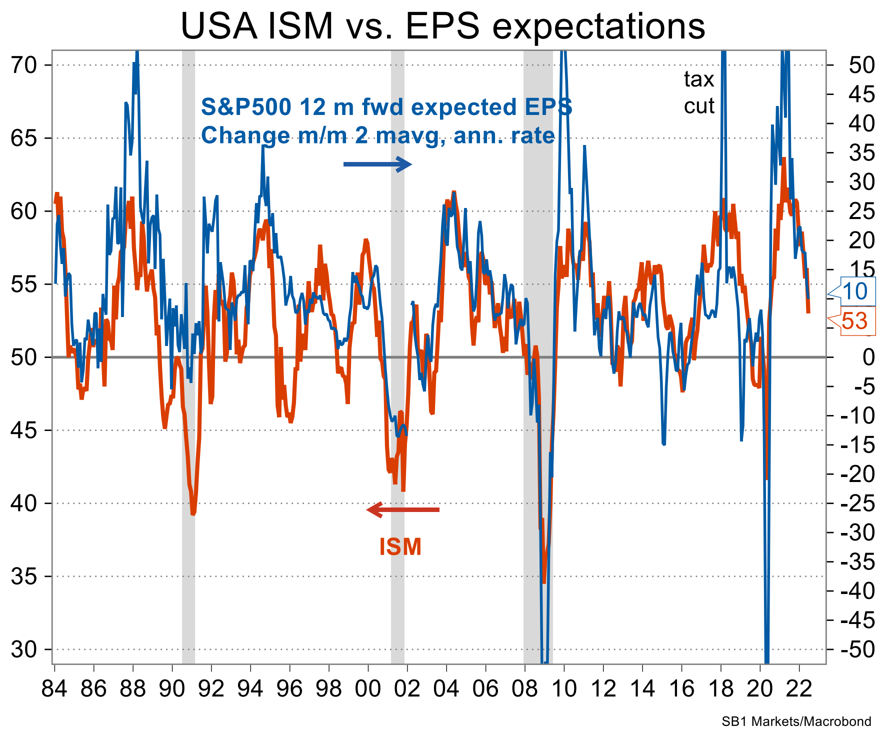
A warning sign: At the current pace of contraction in new orders…

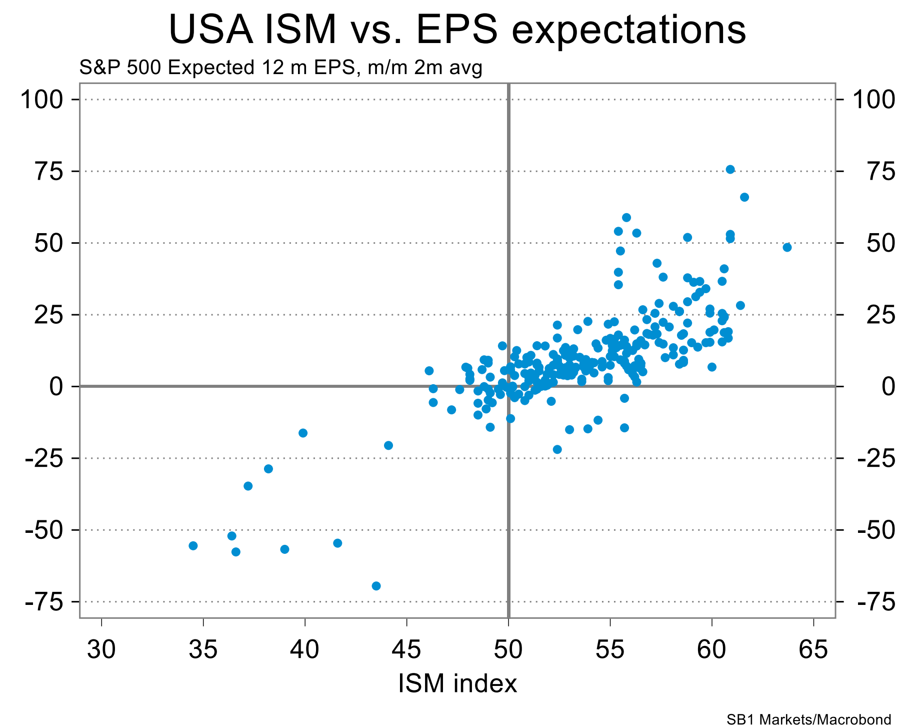
… a recession usually follows. The 1995 soft landing is the only clear exception. The other 6 are the past 6 recessions. Orders were weak in 2003 too, a borderline case without a recession



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

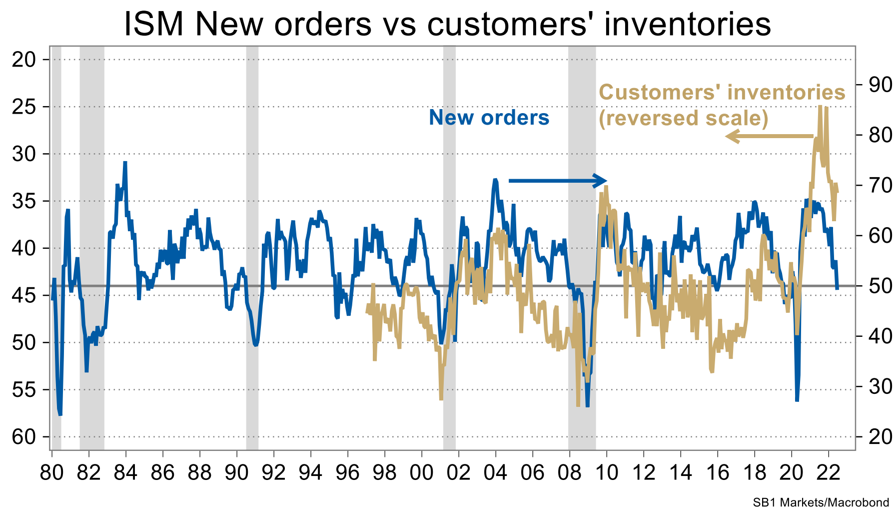
At 53, single digit earnings growth is normally assumed. At 50, the signs often change ☺

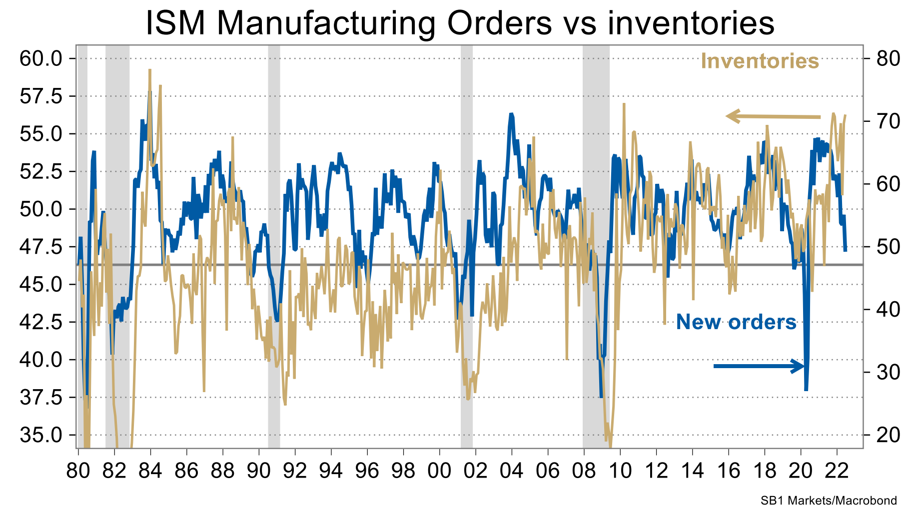


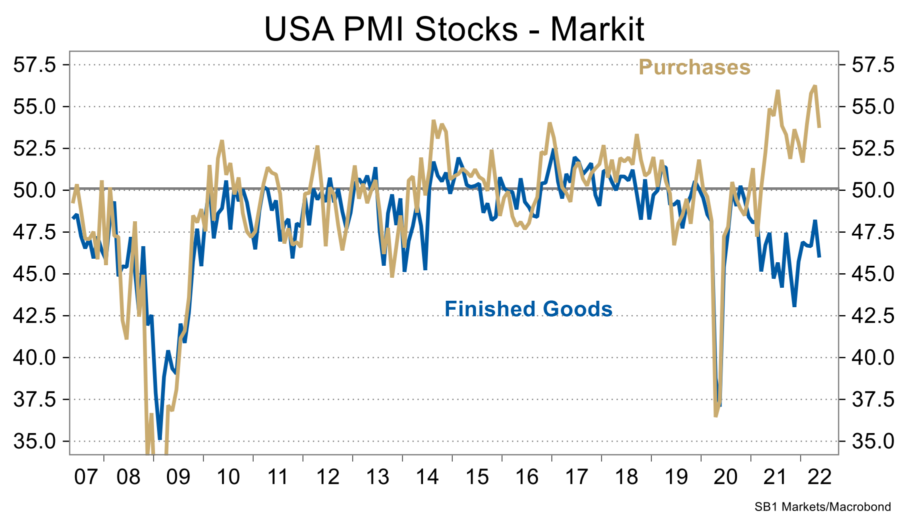


Inventories of purchases are growing rapidly but customers' inventories are not

… And the latter is always the most troublesome, they build up before recessions

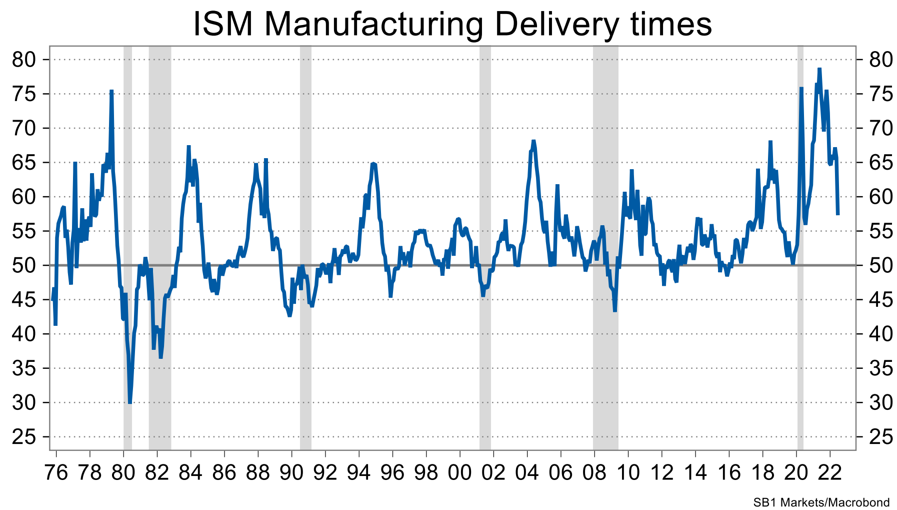


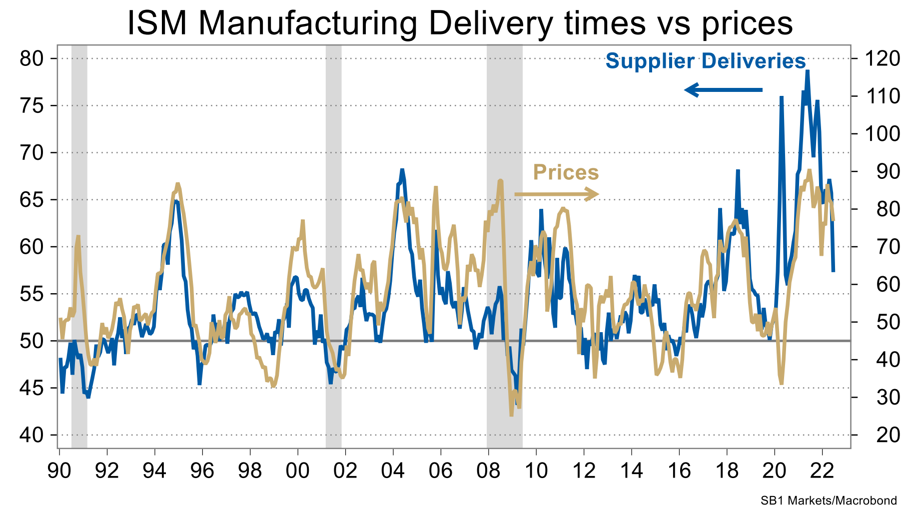


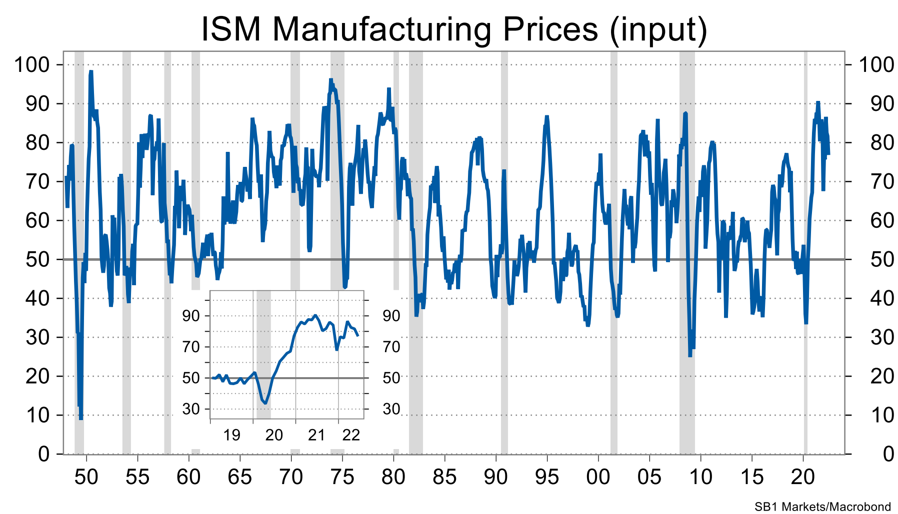


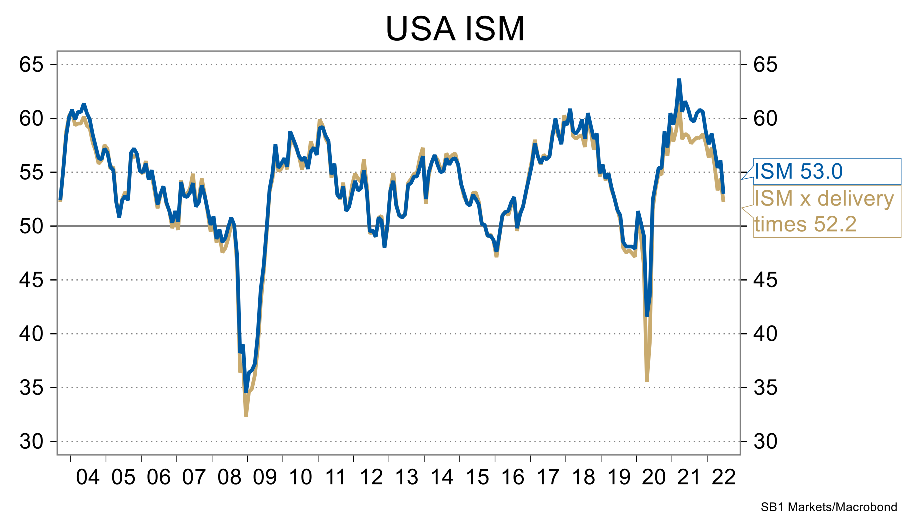
- **However, inventories of input materials** in the manufacturing sector rose unusually fast in May and June at the same time as new orders contracted. Not an ideal mix, the build-up could be involuntarily
- **Inventories of finished goods** (in Markit's report) are still on the way down, according to the PMI which supports a hoarding explanation for the rapid growth in stocks of inventories of purchases (which is good news vs the outlook, at least vs. prices – they will come down!)

The delivery times index straight down, while price increases are still widespread



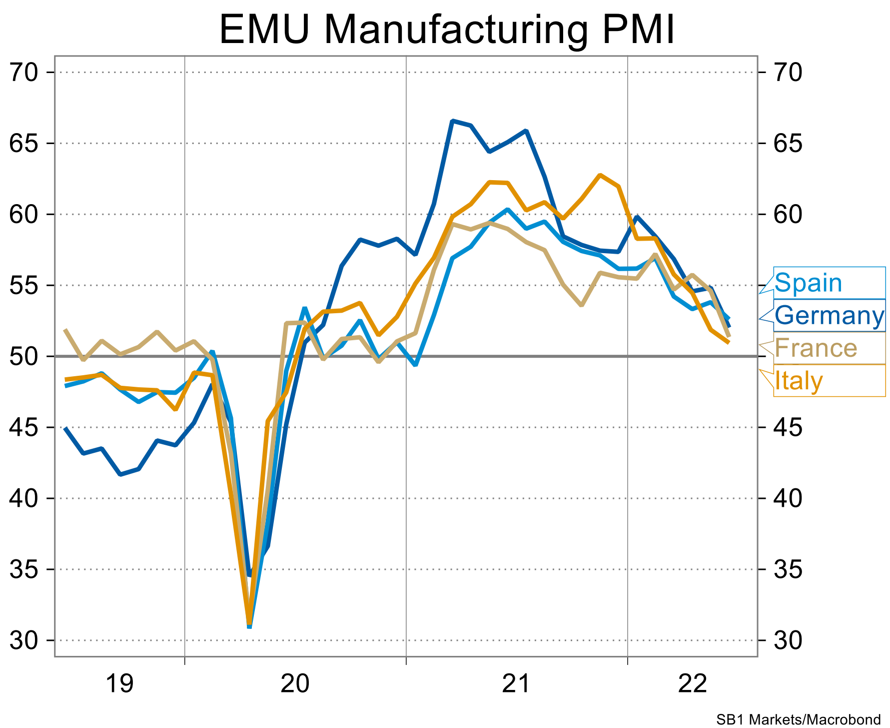


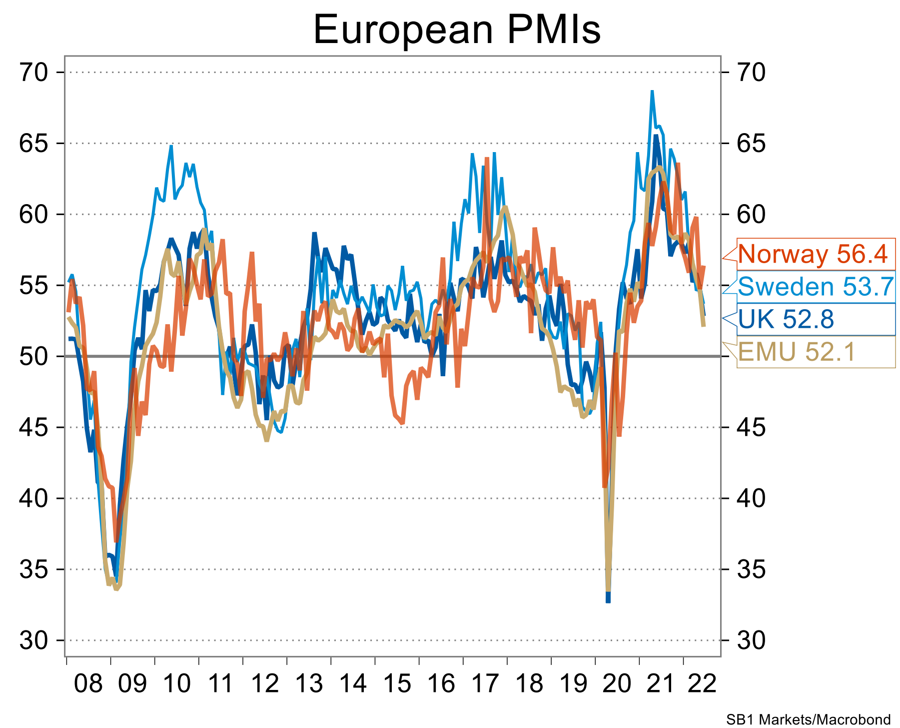




Eurozone manufacturing PMIs down. So are other Western European PMIs

The decline in the EMU PMI in June was confirmed, down 2.5 p to 52.1, broad based

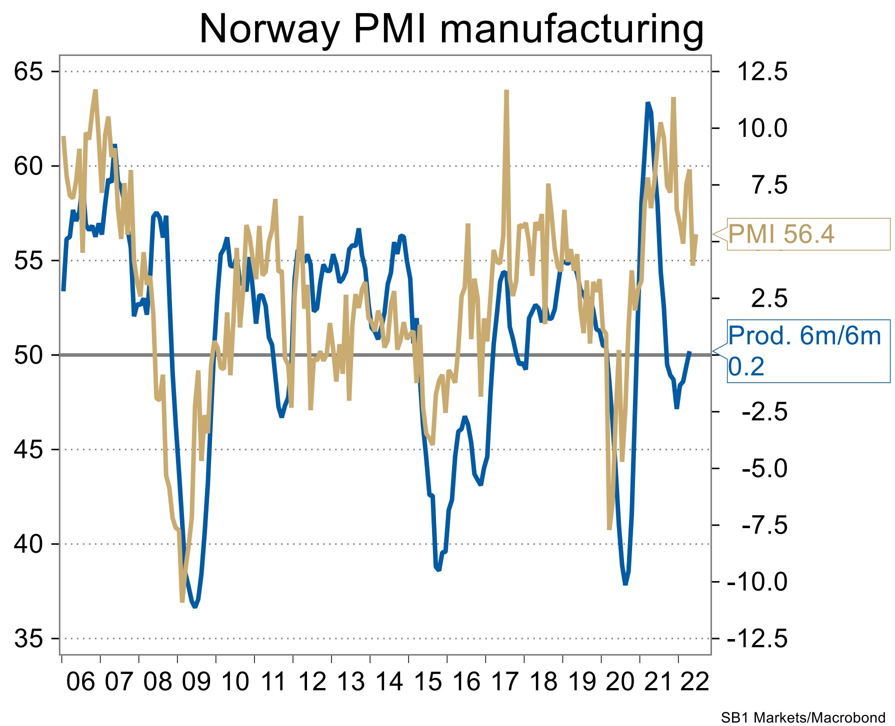


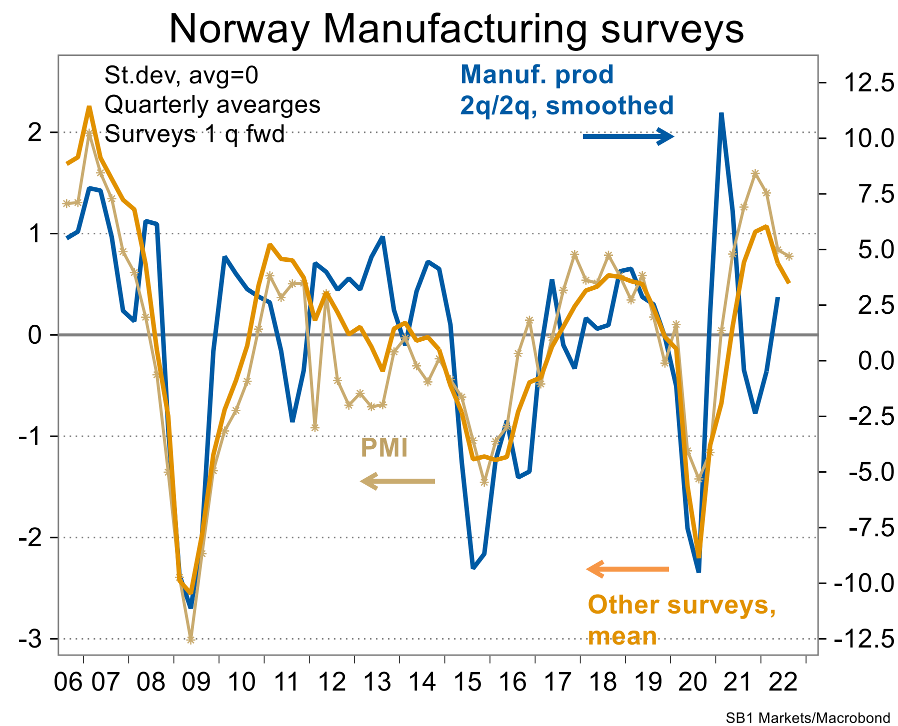


- **The UK PMI** was revised down by 0.7 p to 52.3.
- **The Swedish PMI** fell too, by 1.2 p to 53.7
- **The Norwegian PMI** recovered a small part of the June decline, +1.7 p to 54.6

The manufacturing PMI corrected slightly up in June, OK level but trend is down

Up to 56.4, from 54.7 in May. We expected a small decline, New orders, production growth slowed sharply, prod. to zero

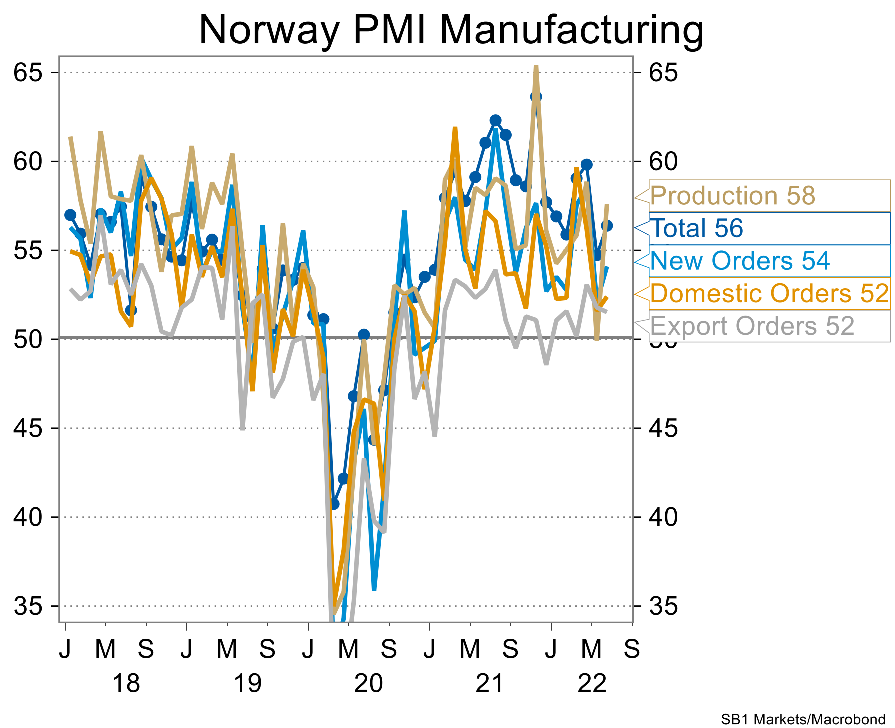


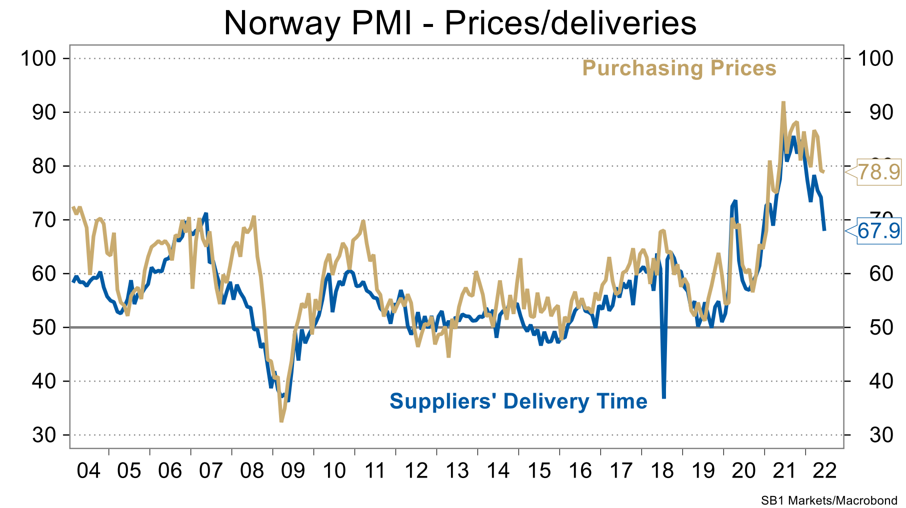


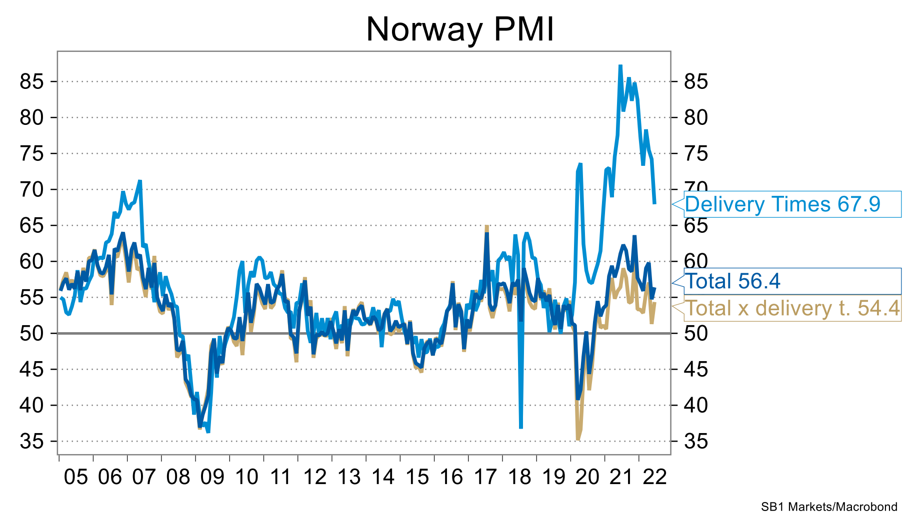
- Other **manufacturing surveys** are mixed, but SSB's quarterly survey was strong in Q1
- Even if surveys have been reporting growth, **actual production** has fallen slightly since last April

The production sub-index sharply up in June, orders OK too

The delivery times index is falling rapidly but prices are still increasing at a fast pace

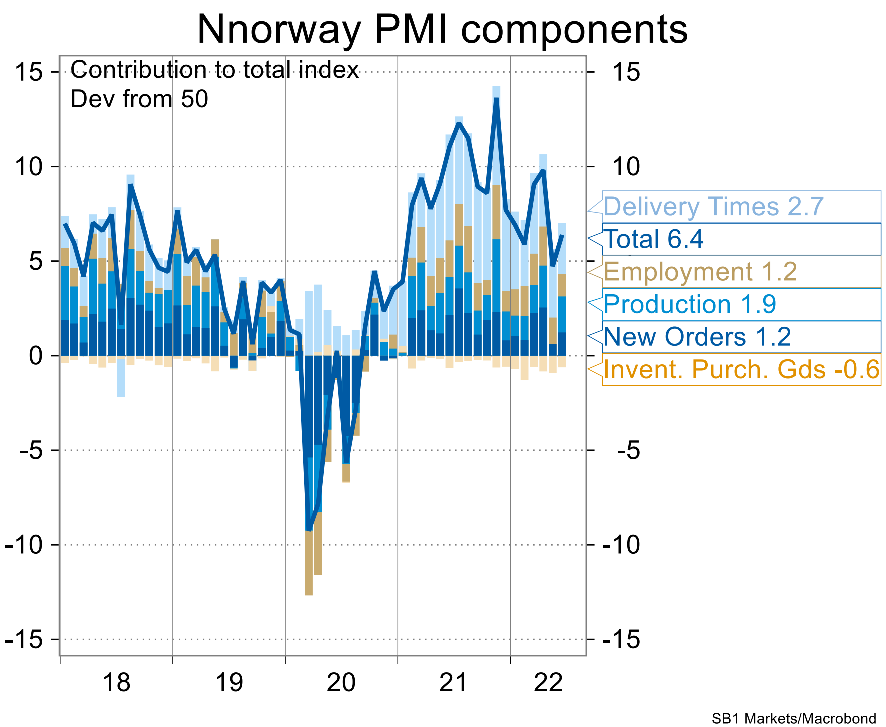


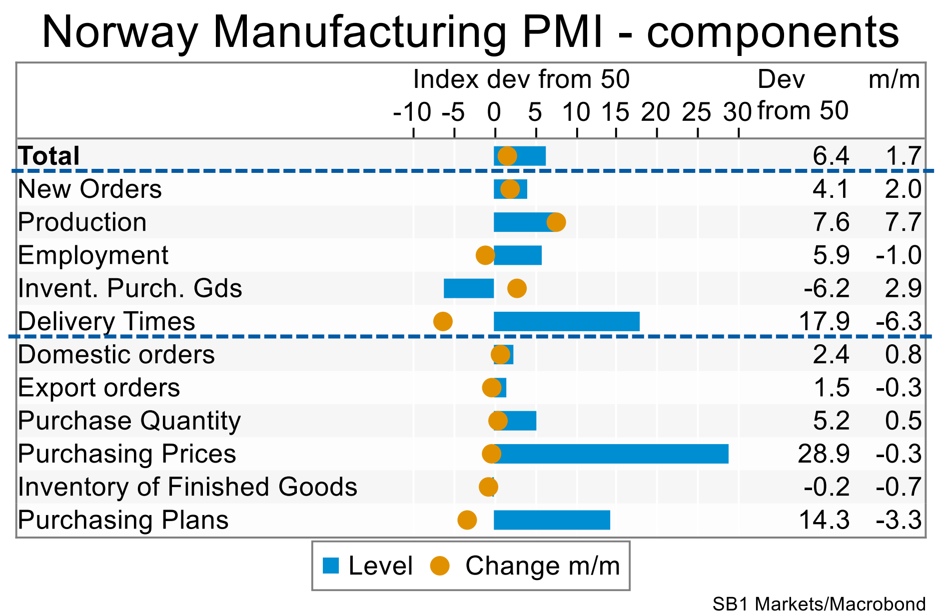




The delivery times index down but still contributes ‘artificially’ on the upside

However, the production index rose sharpy in June, and the new order index rose as well





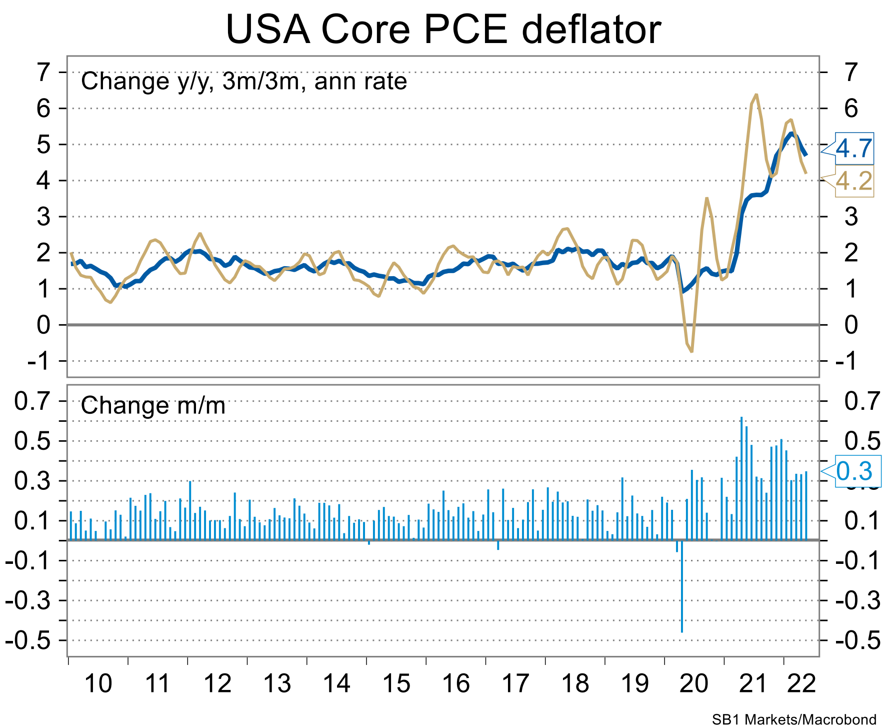
The total index is a weighted average of the first 5 sub-indices

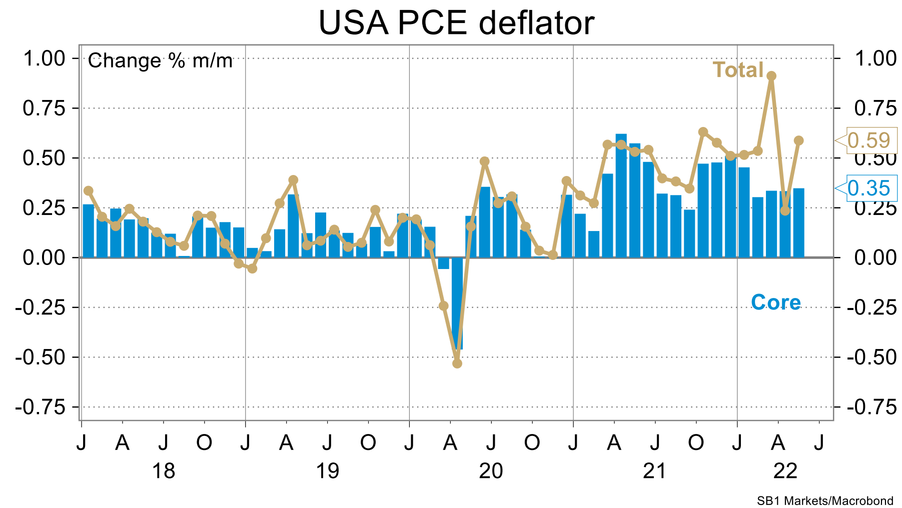
- Normally, the **delivery times index** has not had any significant impact on the total PMI index as the delivery times index has been quite closely correlated other components in the headline index. Now, it makes a substantial difference, by 2.7 p to the total index, down from 3.8 p in June
- **Purchasing 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 78.9 (of course still an extremely high level)

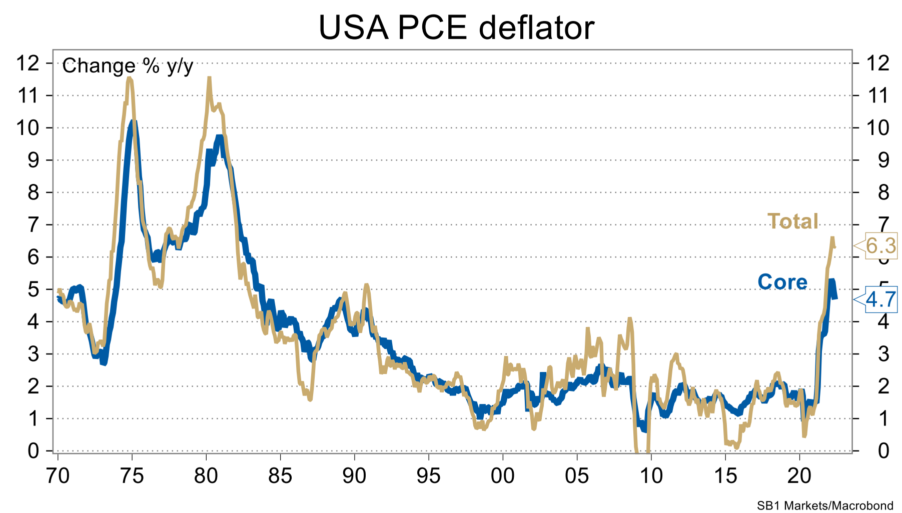
The total PMI index is a weighted index of new orders, production, employment, inventory of purchased goods, and delivery time. The 6 next sub indices at the table to the right are not included in the total index calculus

Inflation has very likely peaked. But it is still far too high

The annal core PCE declined 0.2 pp to 4.7%. The headline unch at 6.3%. Both 0.1 pp lower than exp.

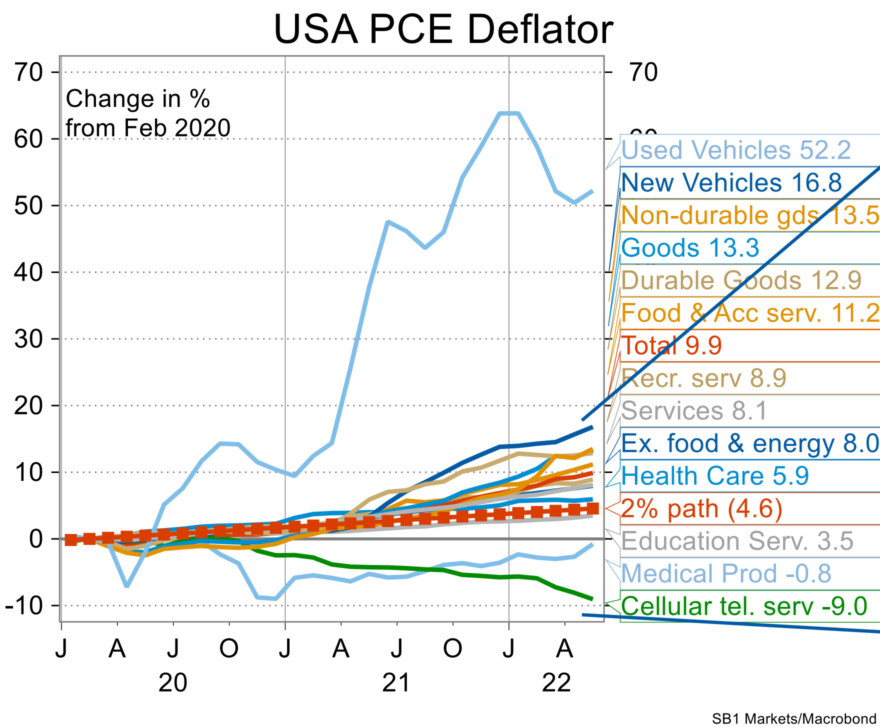


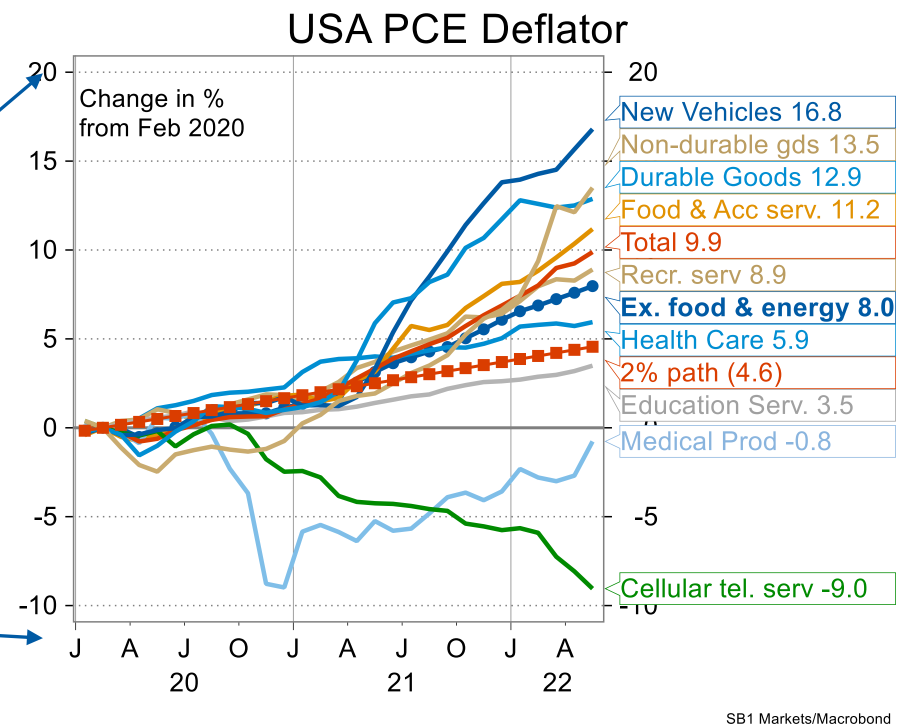




- **The total PCE deflator** rose by 0.6% in May expected 0.7%. The annual rate was unch at 6.3%
- **The core PCE** rose by 0.3% in May (0.348%), expected 0.4%. The annual rate fell 0.2 pp to 4.7%
- **The price level** is still ways above Fed's 2% long term path target, but any decline in the rate of inflation is good news

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





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

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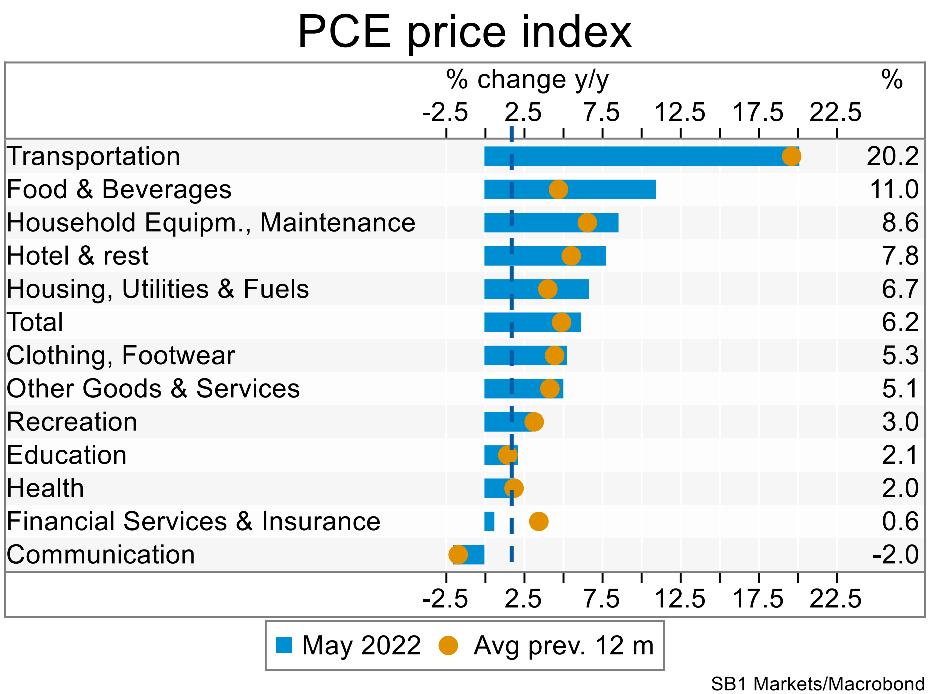
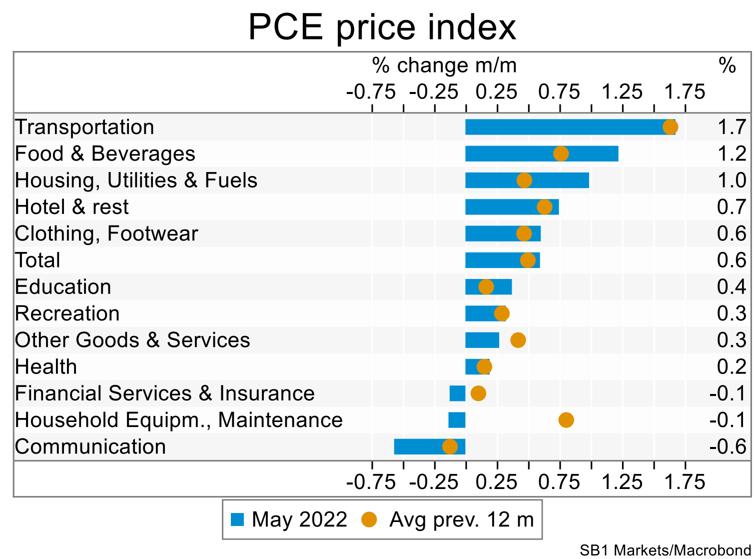
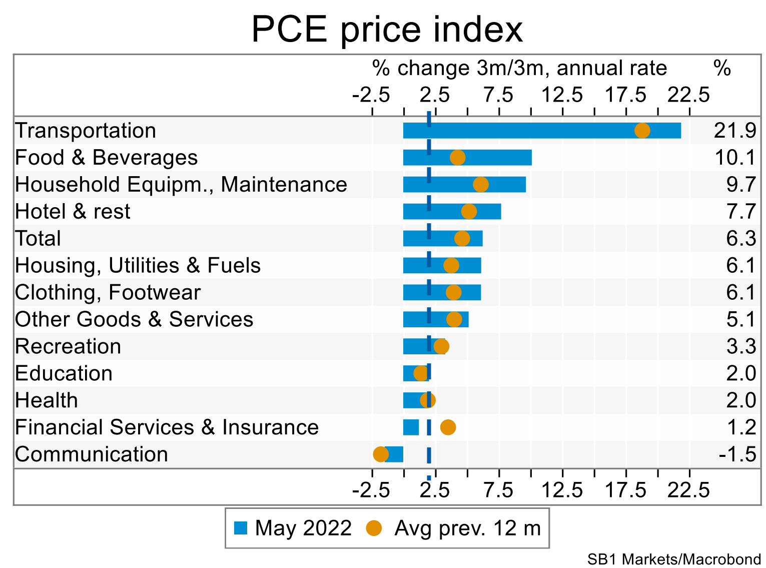
PCE by main sectors: All but 3 sectors still report >2% annual growth

… and all but 4 are up more than 2% measured 3m/3m, the total is up 6.3%



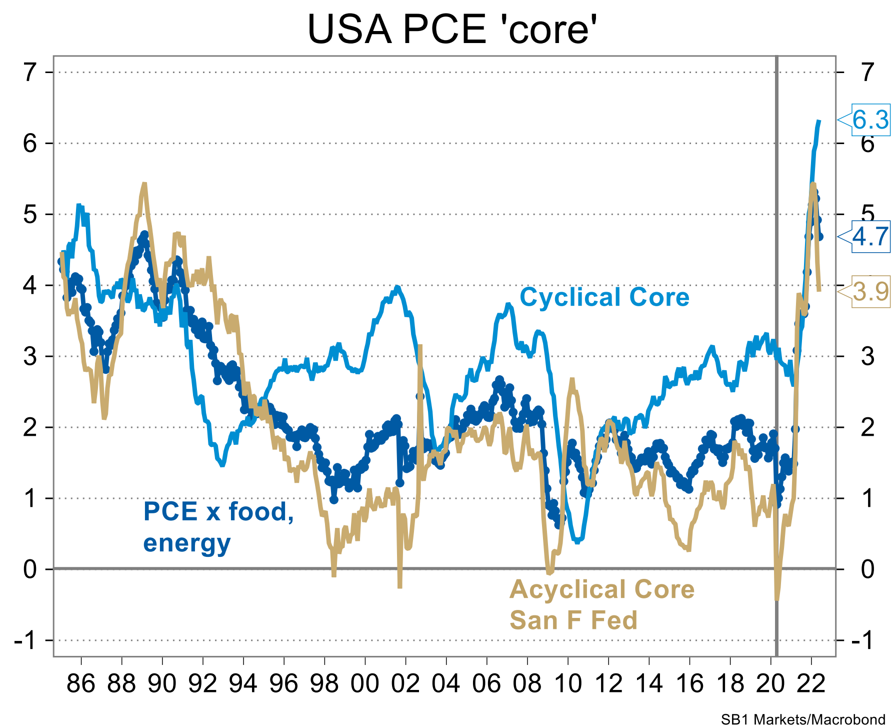


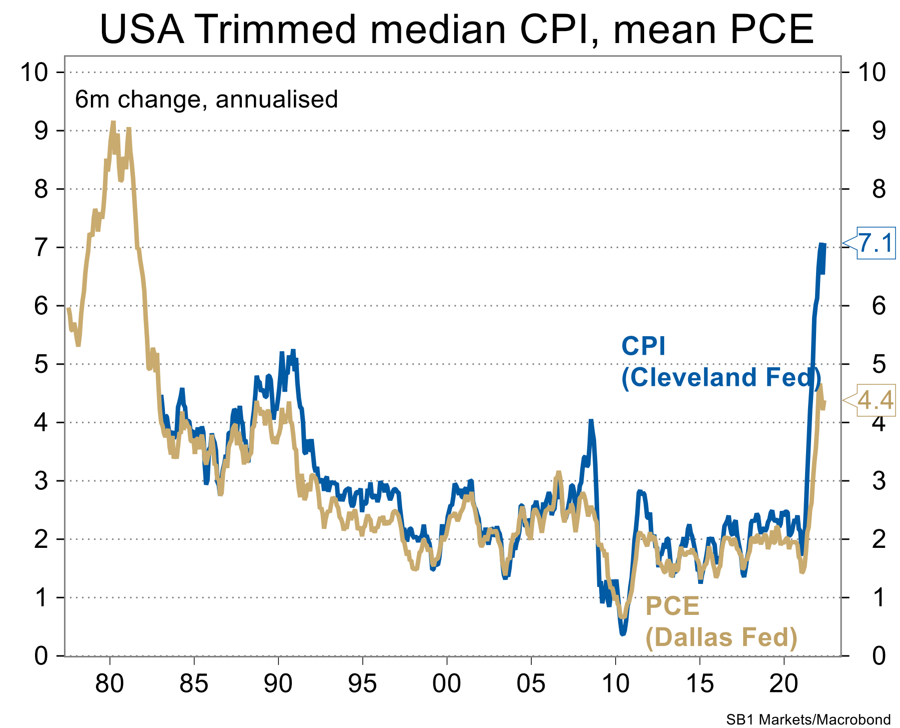


- Food prices are up 11% y/y!!
- The momentum is still strong, almost sectors report accelerating price growth (the 3m/3m is above the annual rate)

Inflation may be peaking but remains extremely high – broad based

But still better than a further take-off

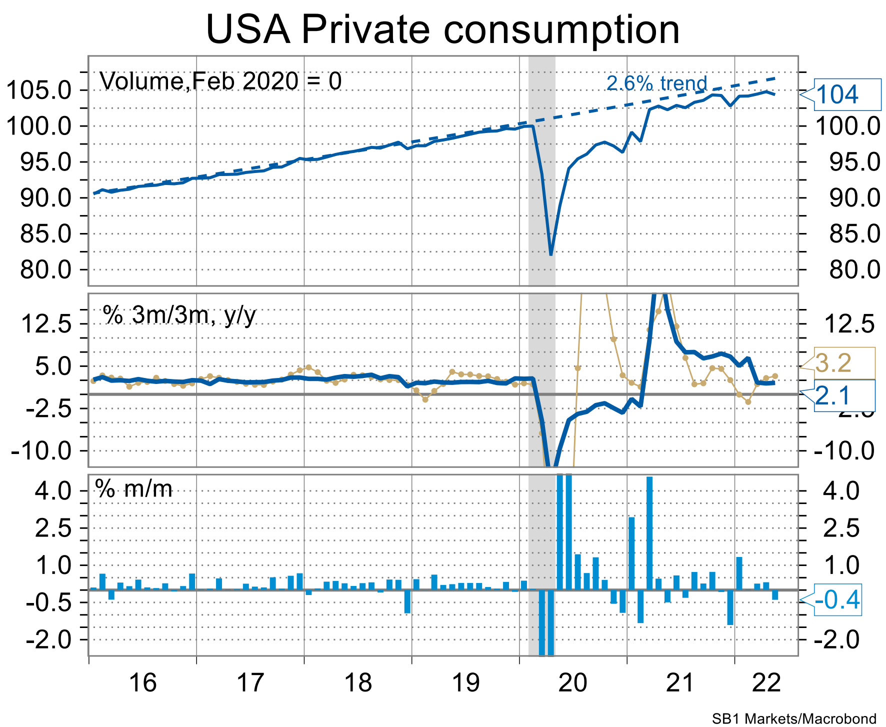


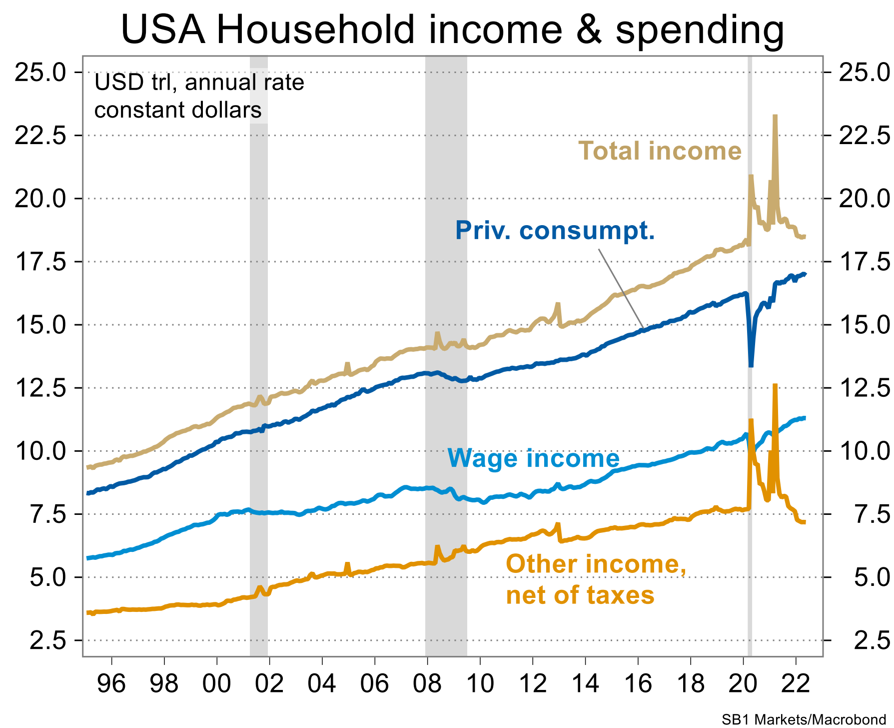


- The **trimmed PCE mean** (Dallas Fed) added 0.2 pp to a 4.4% pace over the past 6 months
- **The trimmed median CPI (Cleveland Fed)** is up 7.1% over 6 months, the highest rate ever
- **Core cyclical and acyclical PCE** prices are up 3.9% – 6.3%, and the cyclicals are still on the way up
- Other measures of underlying inflation are also at the highest levels in 30 – 40 years

Consumption growth in slowing, Q1 revised down by 1.3 pp to 1.8%

Growth in Q2 may be as low as 1.2 – 1.3%, well below previous forecasts. Consumption -0.4% in May

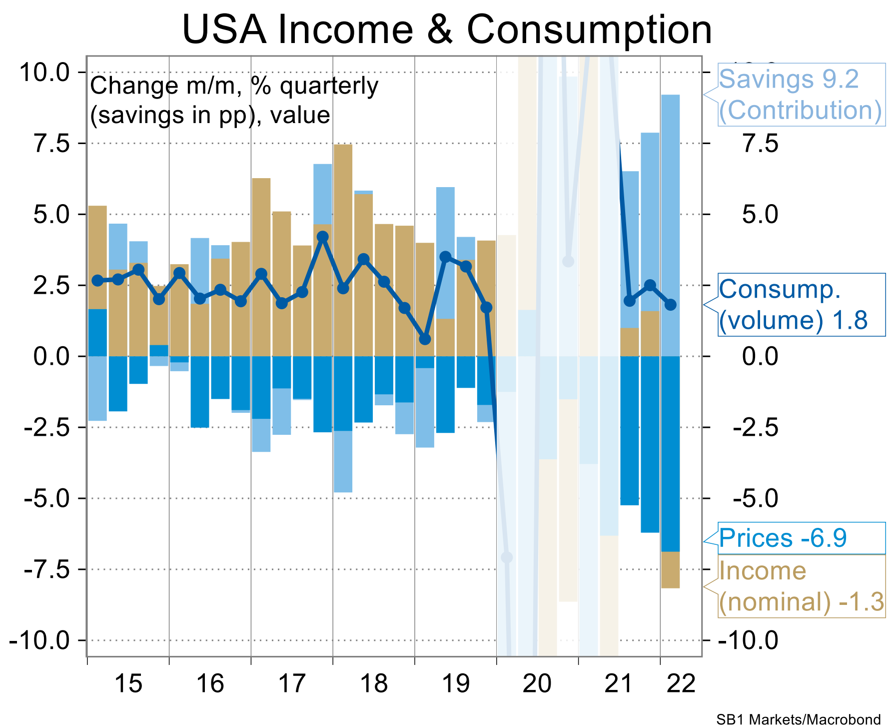


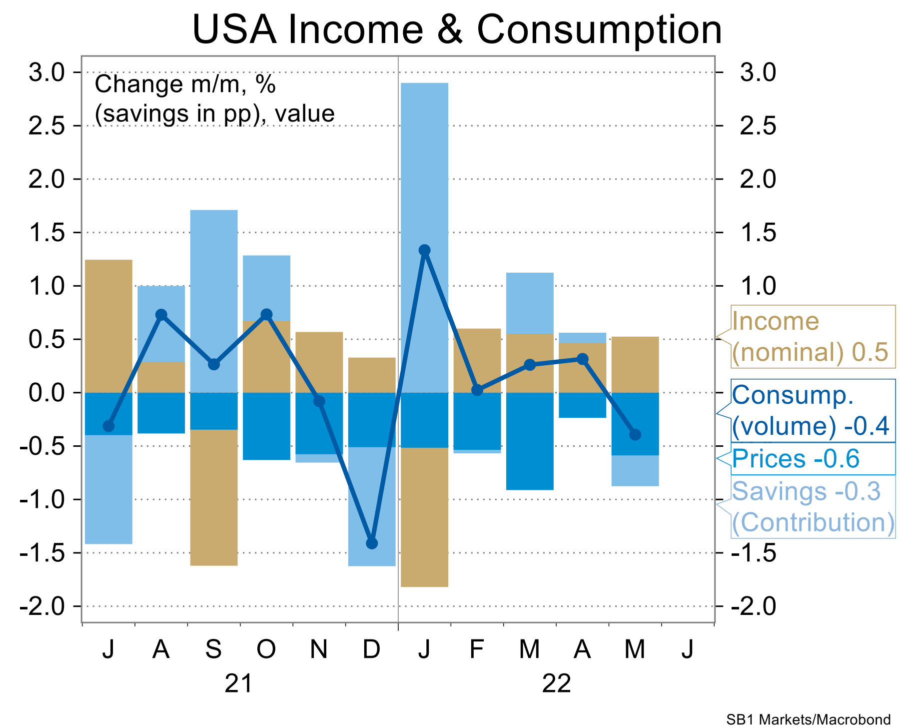


- **Private consumption** fell 0.4% in real terms in May, slightly below expectations. Nominal spending rose 0.2%, expected up 0.4%, and April was revised down 0.3 pp to 0.6%. Consumption in Q1 was revised sharply down to 1.8%, and following the weak April/May data, growth in Q1 will probably not be much above 1%. We assumed close to 3% before the recent data were published!
  - » Consumption of goods fell, services are still on the way up
- **Personal nominal disposable income** gained 0.5% in May, and by 0.2% in real terms
- **The savings rate** rose 0.2 pp to 5.4% in May, from an 0.8 pp upward revised 5.2% in April. The savings rate is now well below the pre-pandemic level. However, accumulated extraordinary savings through the pandemic are still almost fully intact, which may make it possible for households to keep spending up

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

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



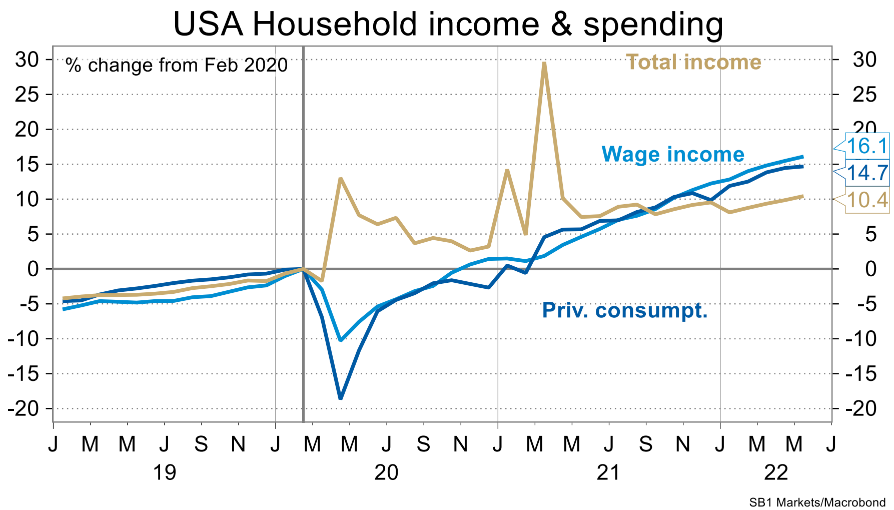


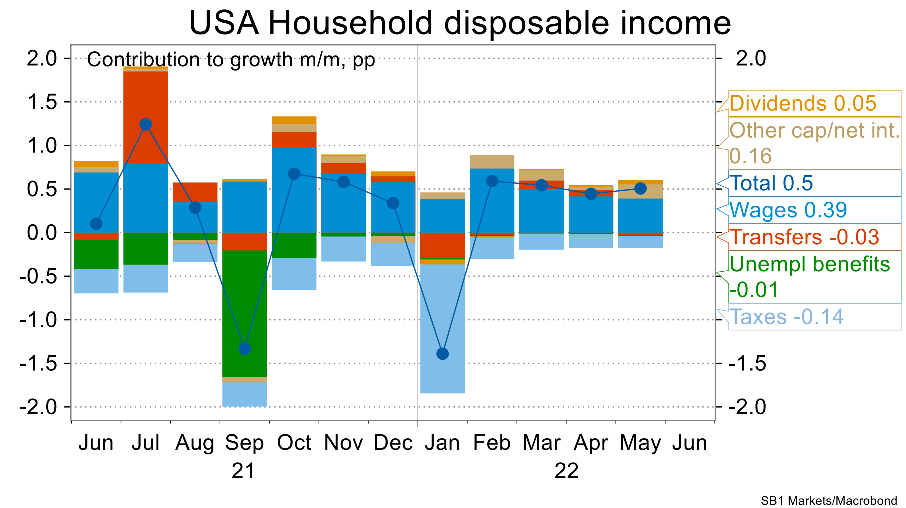
- Growth in consumption in Q1 was revised down to 1.8% from 3.1%, a rather unusual recalculation. A cut in the savings rate funded more than the growth in overall consumption
- I May, real consumption fell by 0.4%, as the savings rate rose slightly. Disposable income grew 0.5%. Prices cut 0.6% into real consumtion

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

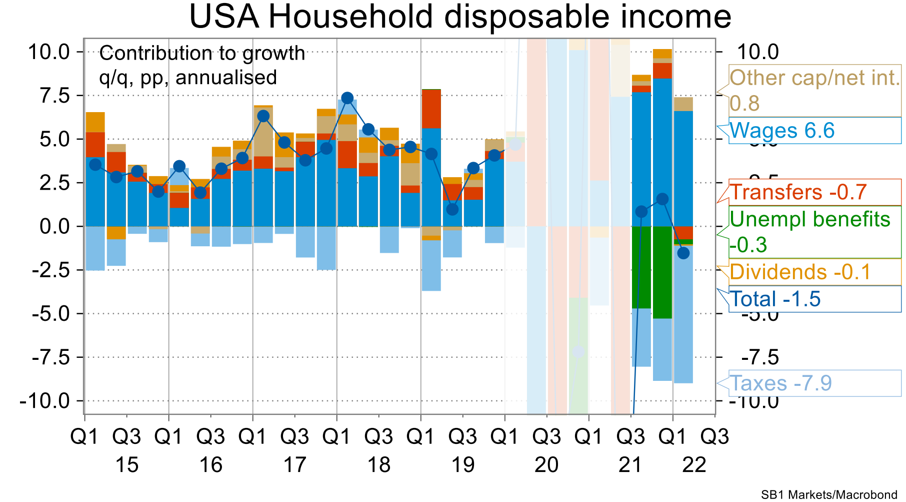
Nominal income growth at some 0.5% per month

Wage revenues are climbing rapidly, other components not, and taxes are increasing



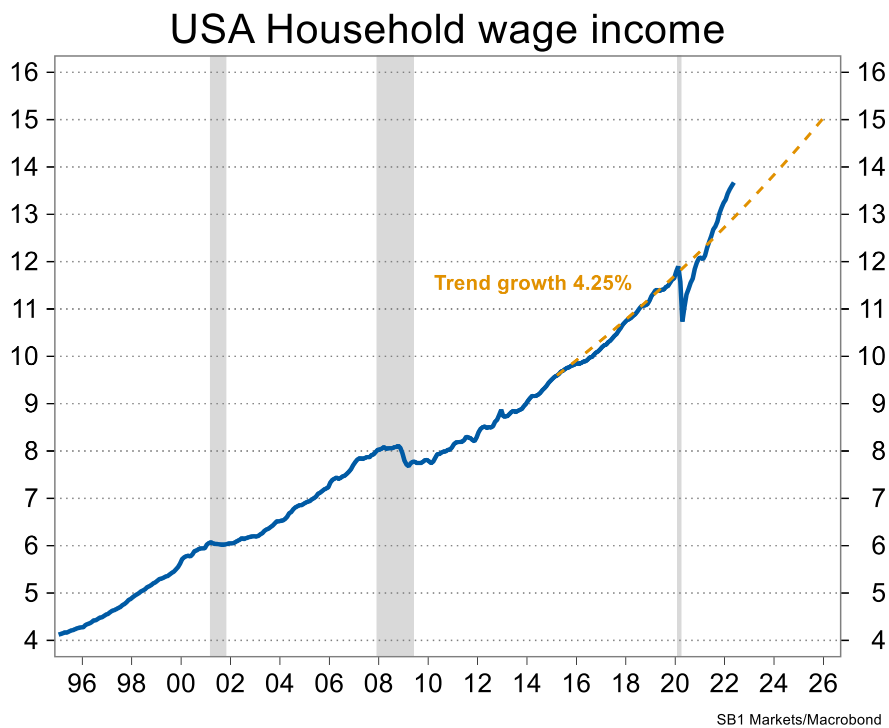


- **Total income has** flattened since <u>last spring</u> as ordinary public transfers and unemployment benefits have gradually normalised. Household income fell in Q1 due to higher tax payments
- **Total wage income** is growing rapidly and level is <u>above</u> the pre-pandemic growth path at 4.25%, even if employment & hours worked remain below the pre-pandemic level, check the chart on the next page. The reason is of course the sharp increase in <u>wage inflation</u>



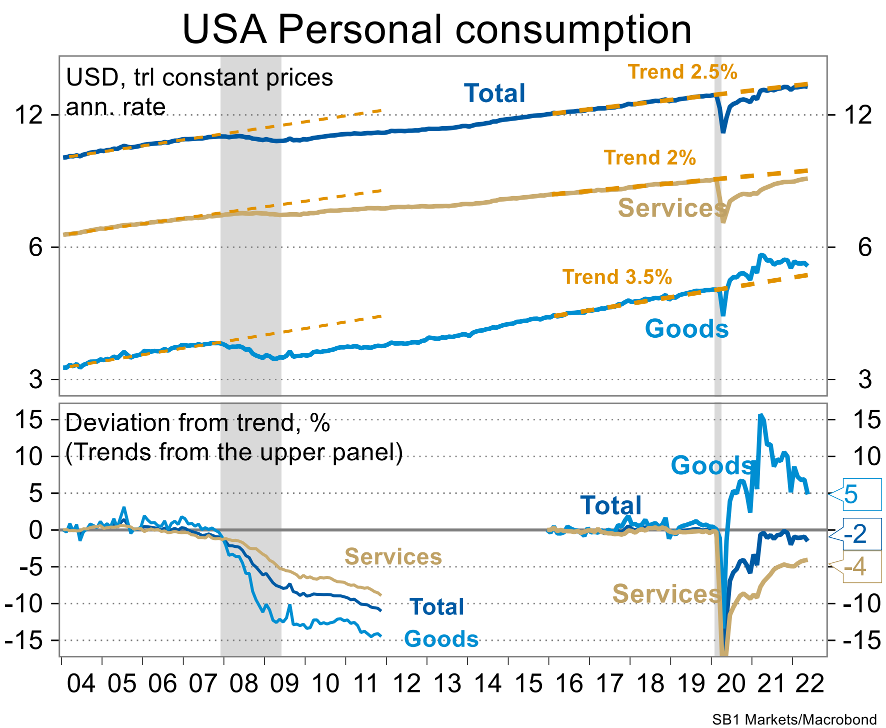
We have shaded the 'hard' pandemic quarters at the lower right chart, as these data make no sense now

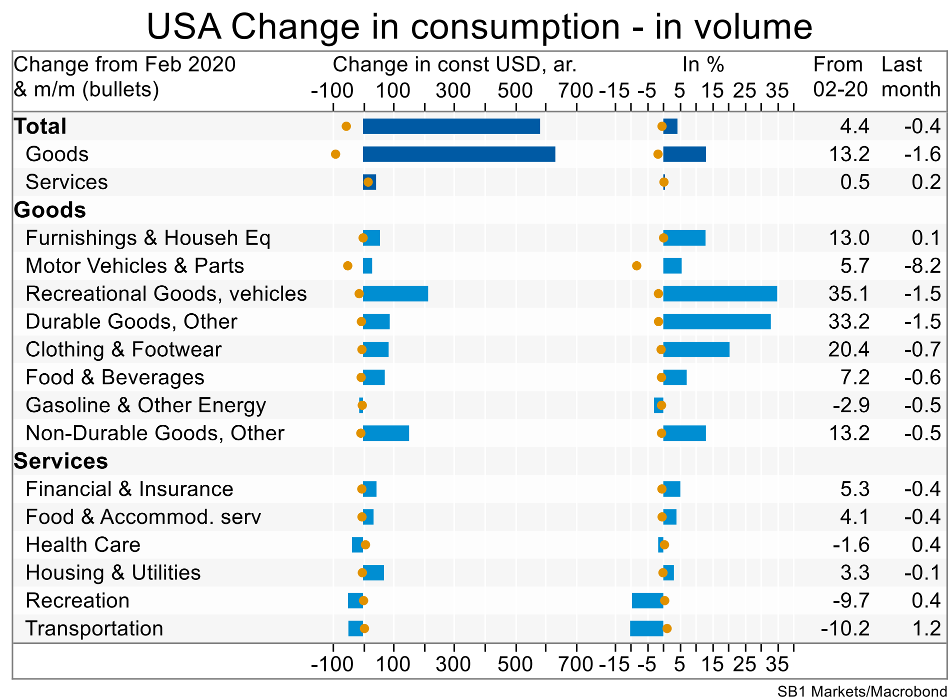
Something is happening with wage revenues (=wage costs for others…)



Services are back to the pre-pandemic level; goods are still 13% above

Spending on services is still 4% below the pre-pandemic trend, spending on goods are 8% above!



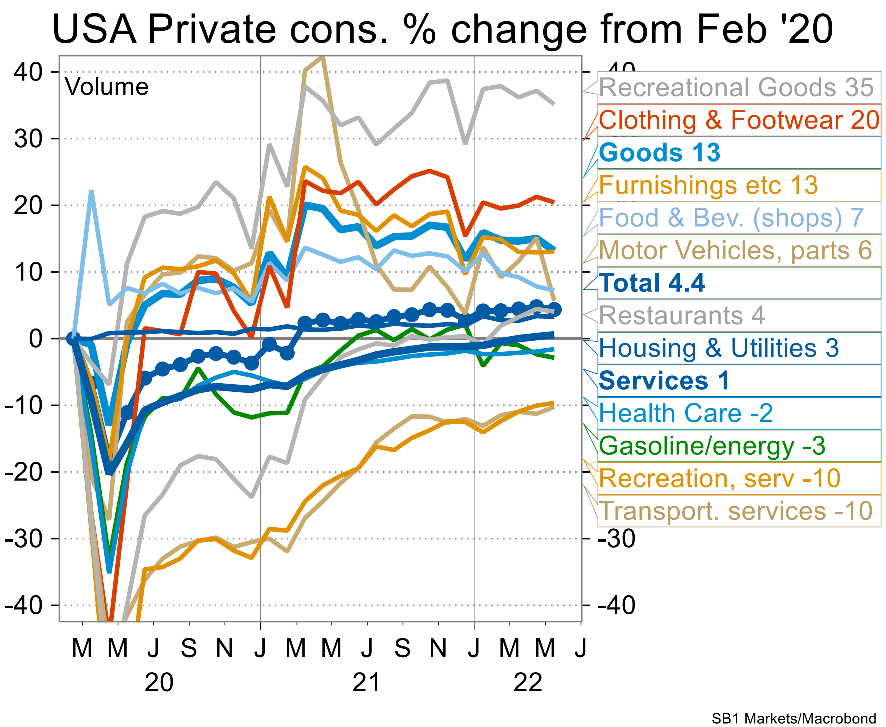


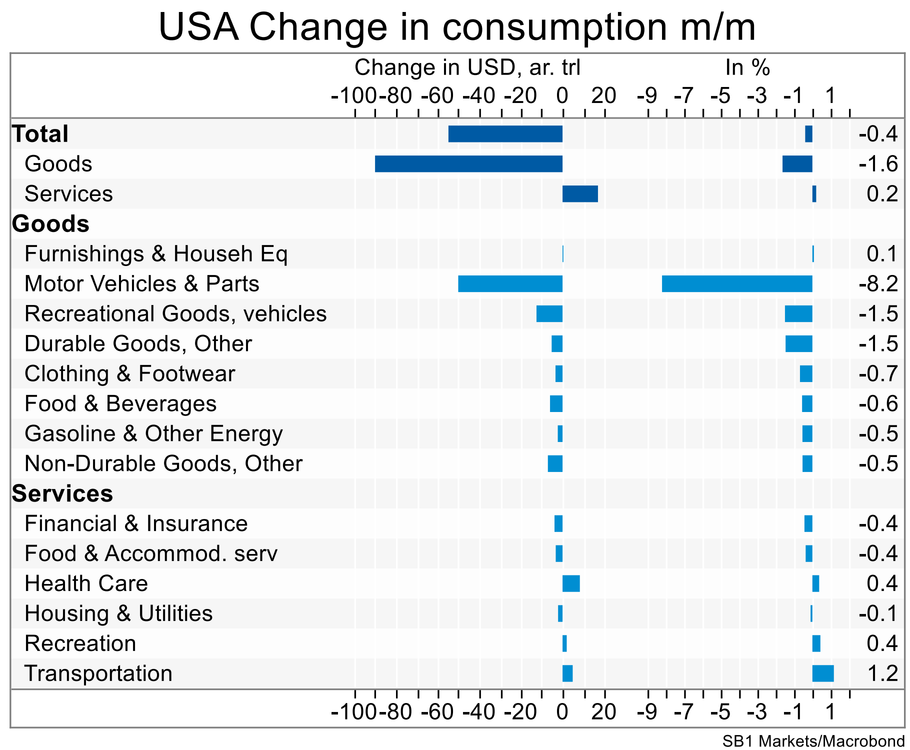
- **Consumption of goods** gained 1% in April but has been trending flattish since last March
  - » Demand for **durable goods** are way above sustainable levels, we assume
- **Services** are recovering, and climbed above the Feb-20 level in March, and rose further by 0.4% in April (less than we assumed).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

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

Most sectors reported a volume decline in May, with autos in the lead

Spending on services rose though, as transportation services gained traction



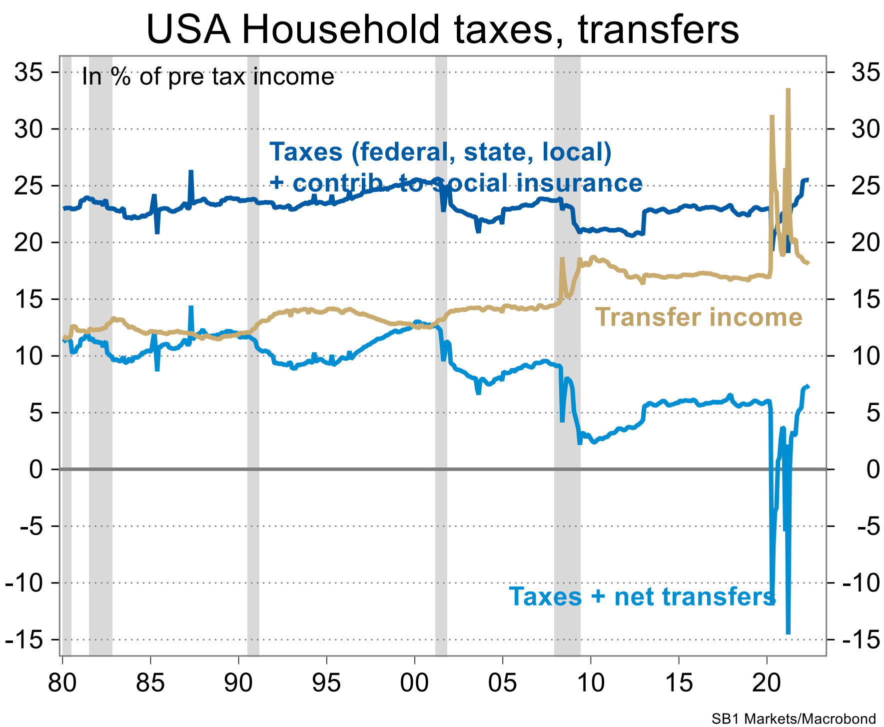


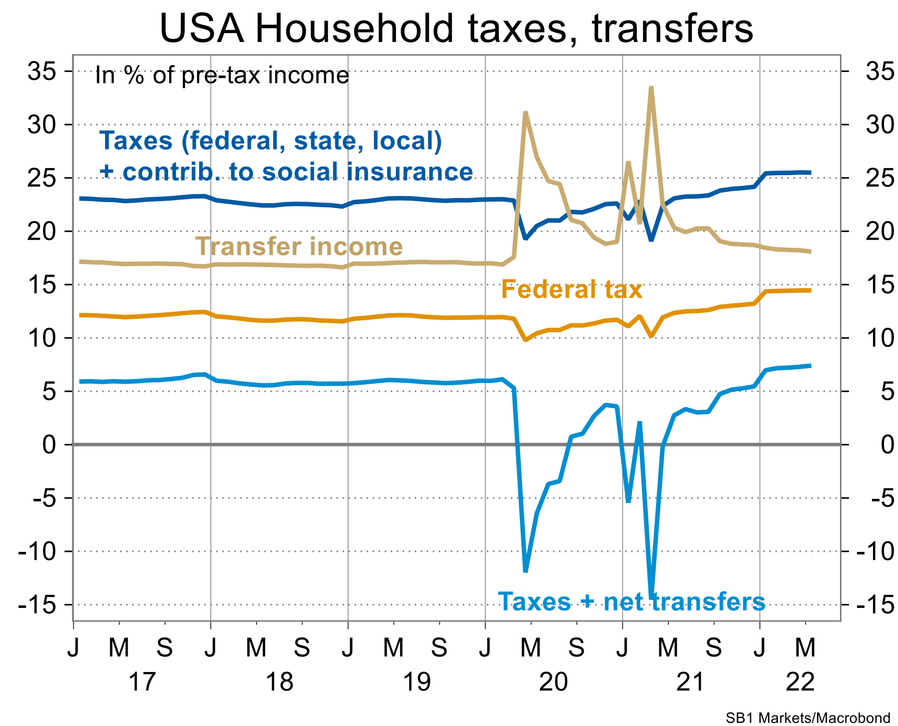
- **The decline in auto sales** in May is due to lack of supply, not lack of demand. Ex auto consumption fell, but just slightly
- **Recreational goods** have flattened at 35% above the pre-pandemic level
- **Several goods sectors** are trending down, like clothing, furnishings
- **Services** are up on average but recreational services and transport (air travel) is still 9% – 10% below the pre-pandemic level. However, restaurants are 4% above – again in volume terms (number of meals)

SpareBank 1 MARKETS

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

Net taxes up to 7.5% of pre-tax income, best since 2009 – though well below the pre Fin. Crisis level

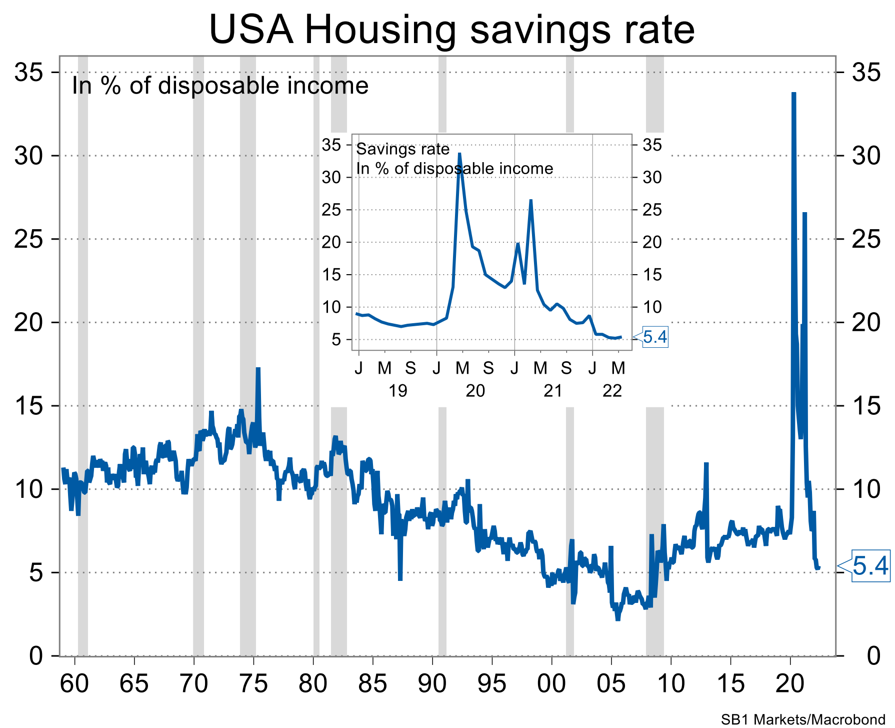


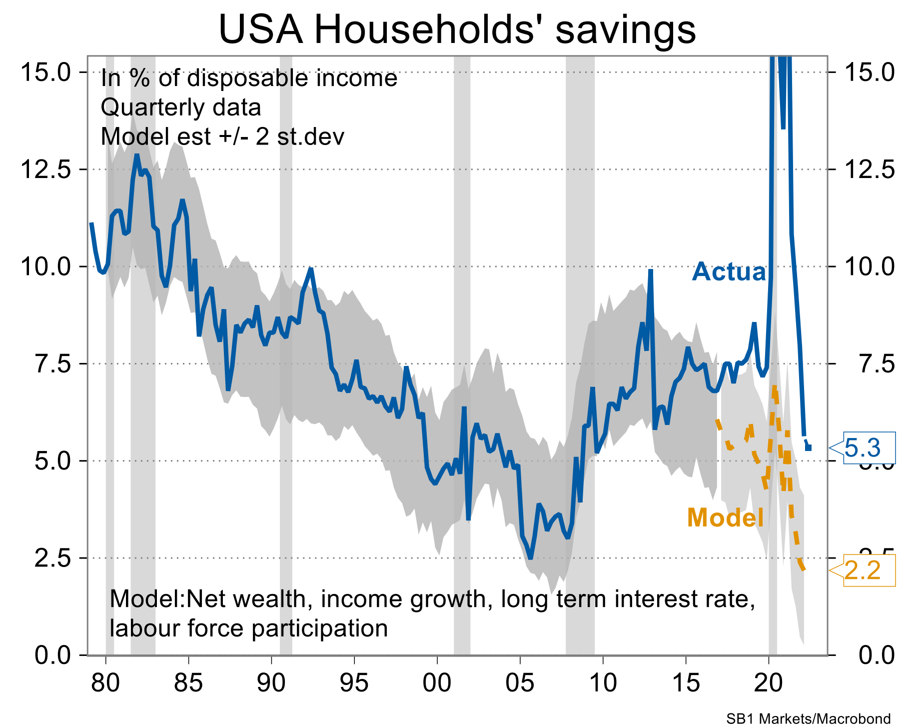


- Transfers are trending down but are still higher than before the pandemic (vs total pre-tax income). However, the total tax rate is climbing faster, and has crossed the 25% line, for the first time since year 2000!
- Thus, the net tax rate is on the way up, and has recovered to 7%, above the 6% pre-pandemic level – but far below the 10% – 12% from before year 2000

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

However, the downward revision of consumption in Q1, slow growth in Q2 – revised the sav.rate 1 pp

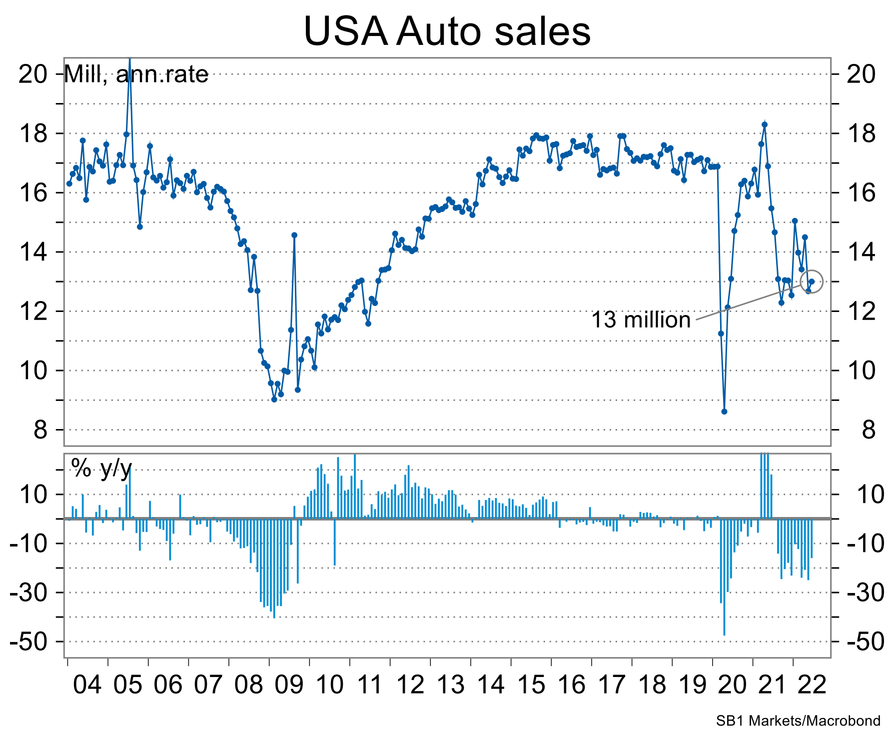


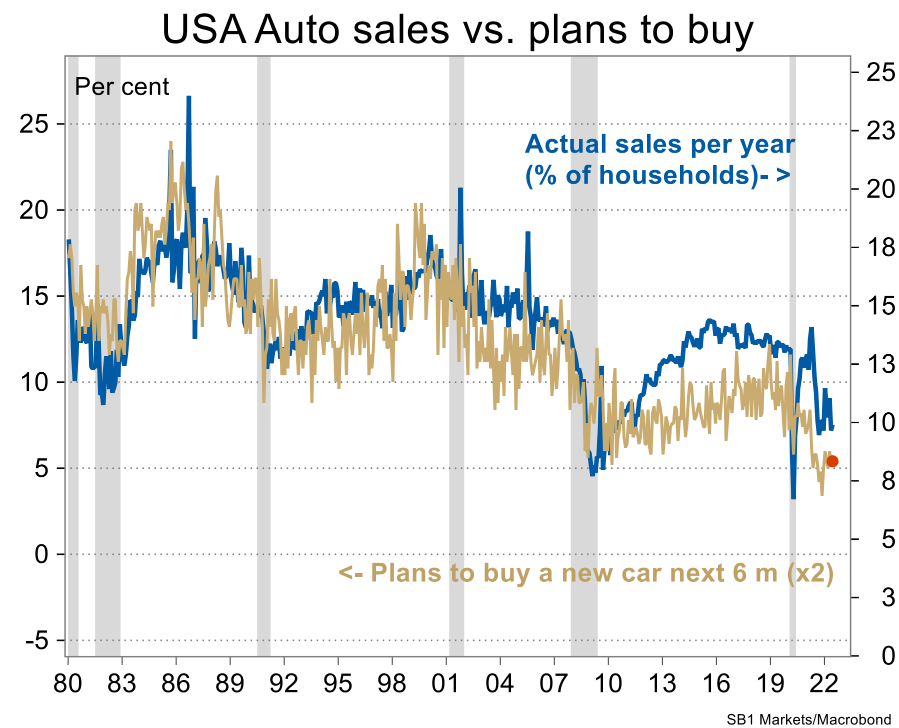


- The savings rate rose 0.2 pp to 5.4% in May, from an 0.8 pp upward revised 5.2% in April
- Still: Households are dipping into 'normal' savings in order to keep consumption up, as their real incomes are not keeping up, due to the high rate of inflation. The savings rate is now 3 pp lower than before the pandemic
- However, household have saved a large amount of money during the pandemic, some 13% of disposable income – on average for all households, that is. This 'Wall of Money' is now shrinking, but just slowly (at 3 pp per year, if the savings rate stabilises at 4.4%)
- Our old savings model, yields a 2.2% savings rate in Q1. During the 2016 – 2019 period our model has underestimated the savings rate systematically by some 2 pp

US auto sales just marginally up in June, to 13 mill, from 12.7

Sales fell short of expectations, 13.5 mill. Lack of supply very likely to blame

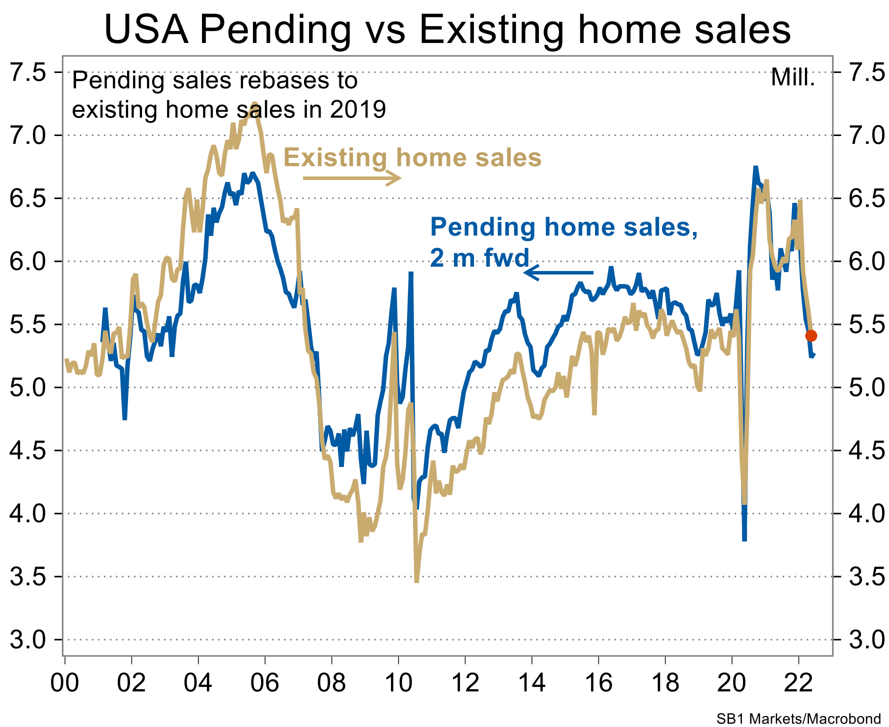




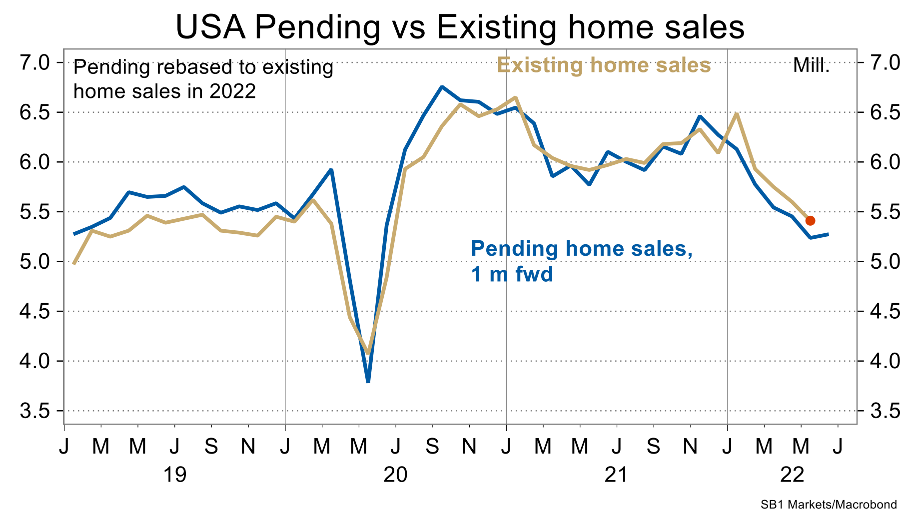
- Sales are down almost 25% vs. the 2019 level
- Plans for buying a new car has been stable at a record low level over the past year

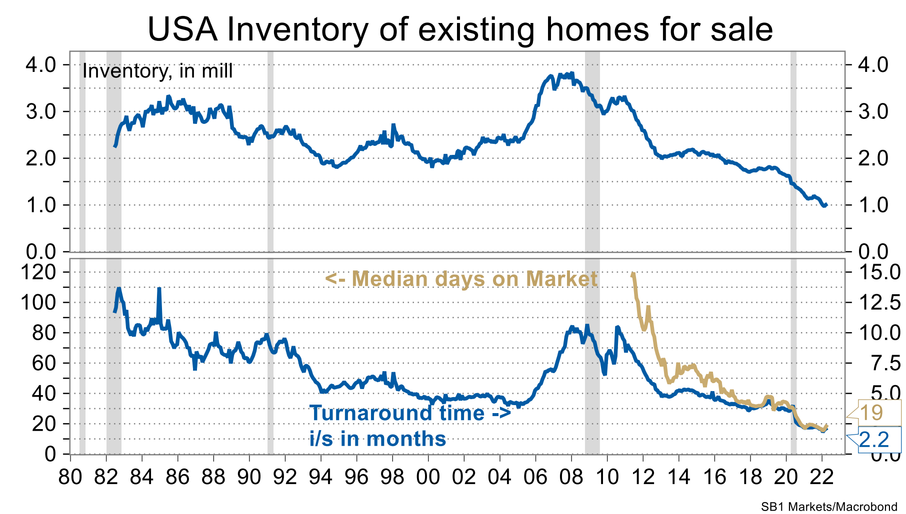
Another positive housing market data point: Pending home sales up in May

However, the trend is sharply downwards, as higher mortgage rates start to bite



- Pending home sales rose 0.7% in May, expected down 4%, the same as the decline in April
- However, the trend is clearly downwards, as is the number of actual transactions (existing home sales). The decline signals that higher mortgage rates are slowing the housing market
- Normally, prices are lagging sales by several months, by up to 1 year

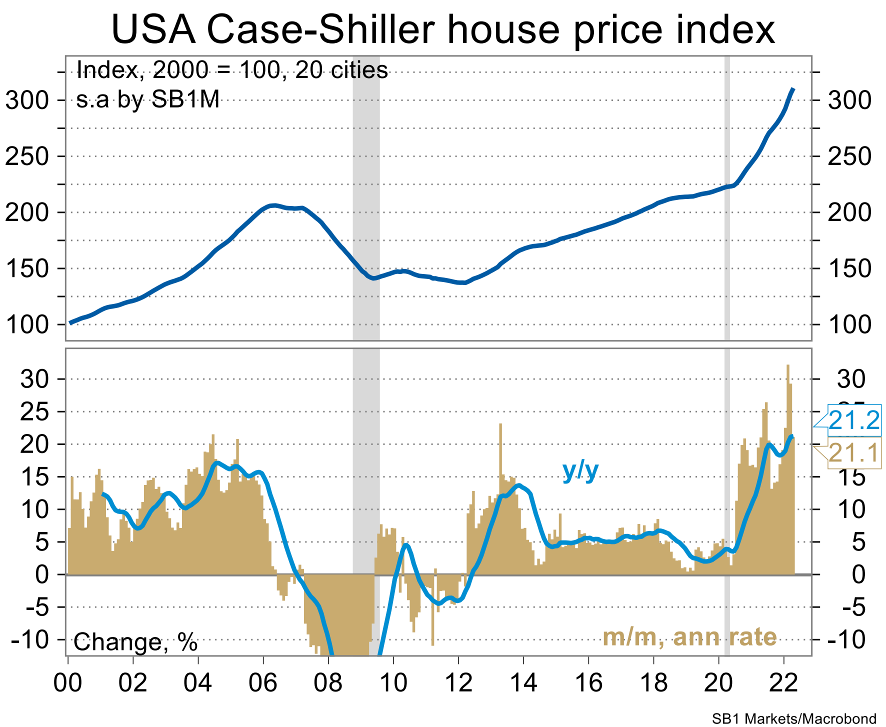


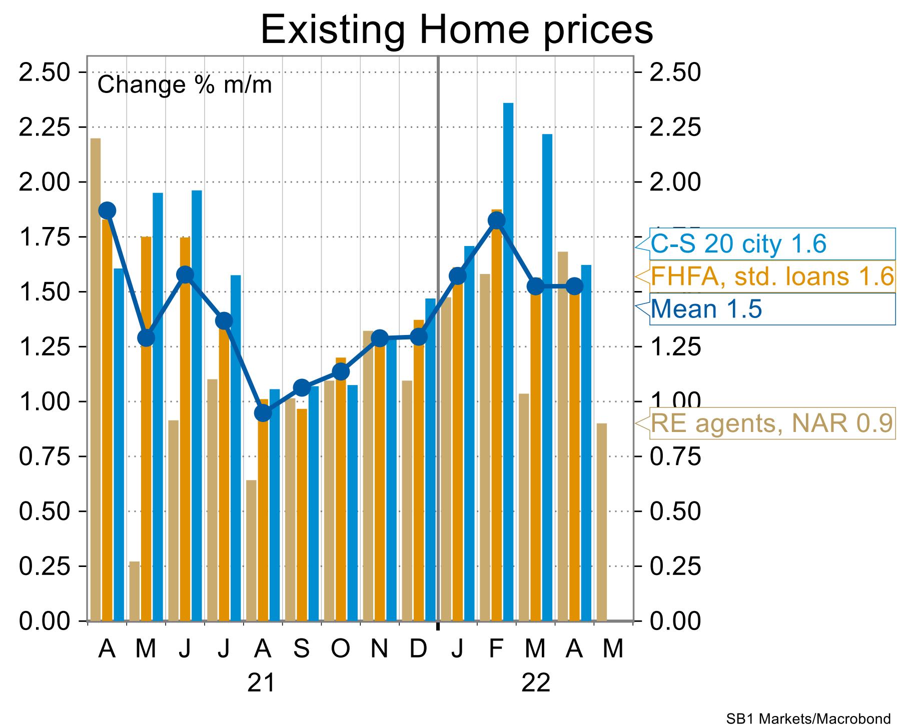


Pending home sales: Deals signed. Existing home sales: The actual transaction, typically 1 – 2 months after signing

Case/Shiller house prices still up at 21% pace in ‘April’! And by 39% since Feb-20

Monthly price increase are still high but stats are lagging. Something may be happening now

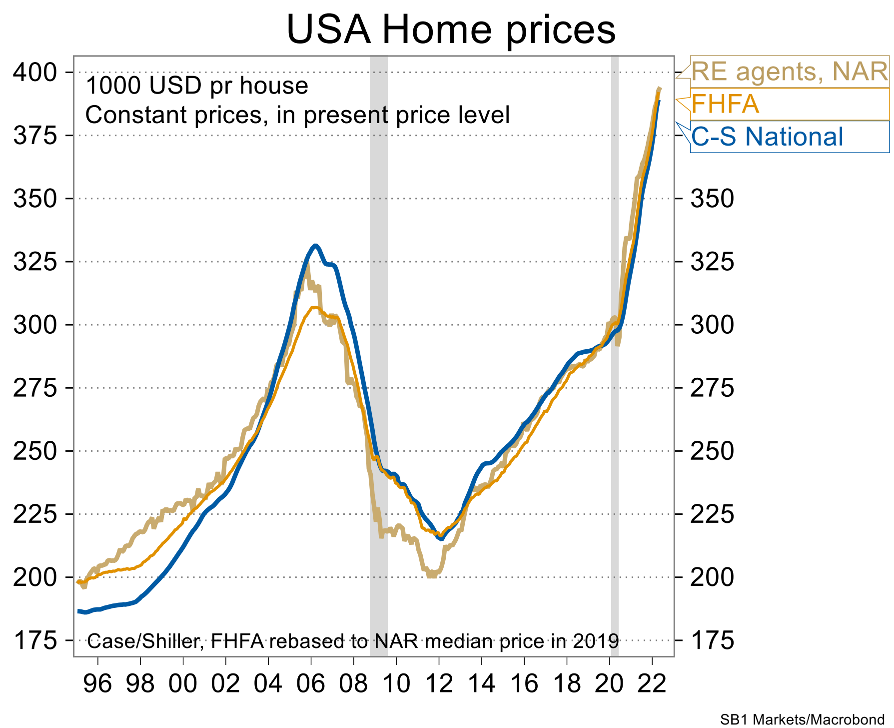


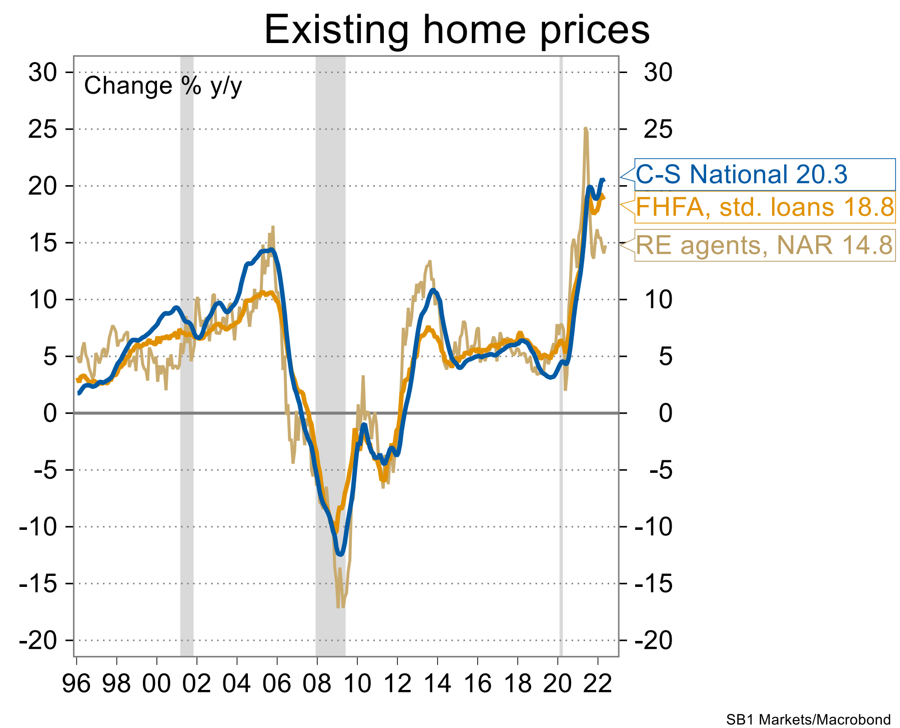


- **S&P’s Case/Shiller’s 20 cities** price index rose 1.6% m/m in April (March – May avg, our seas. adj) equalling a 21% annualised pace. A 1.9% lift was expected. The annual rate was unch at 21.1%
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac (‘Husbankene’, has a countrywide coverage), rose ‘just’ 1.6% in April, and are up 18.8% y/y!
- Realtors reported a 0.9% lift in May, mostly covering deals agreed upon in April
- Both the S&P % FHFA indices are smoothed over 3 months. In addition, there is lag between the timing of signing and when deals are executed. Thus, these prices data are lagging several months. We assume that prices by now have more or less flattened – and we expect prices to decline the coming months/quarters

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

Real prices are 18% – 28% above the pre-financial crisis peak

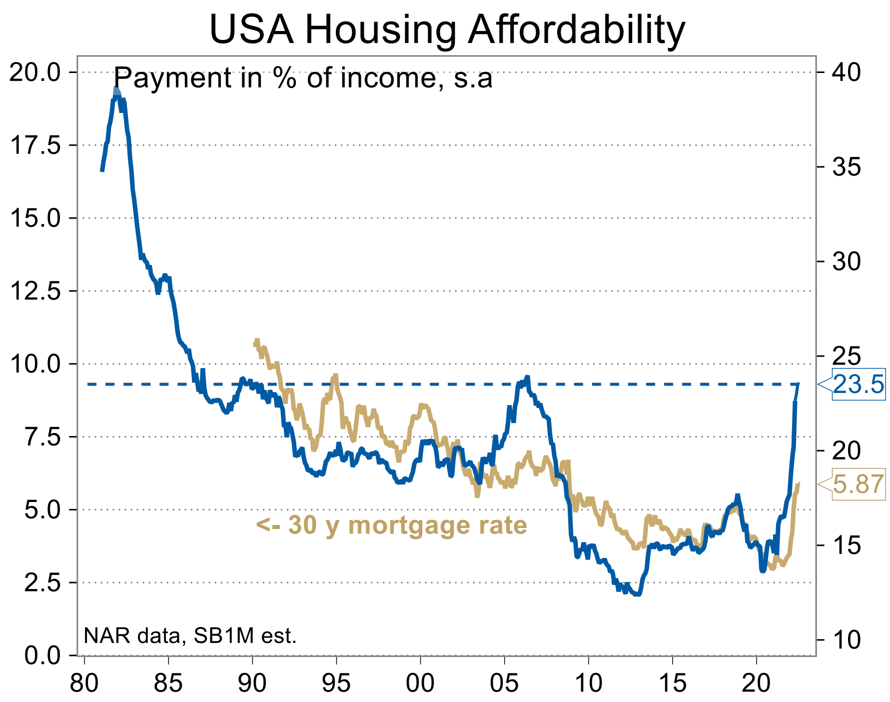


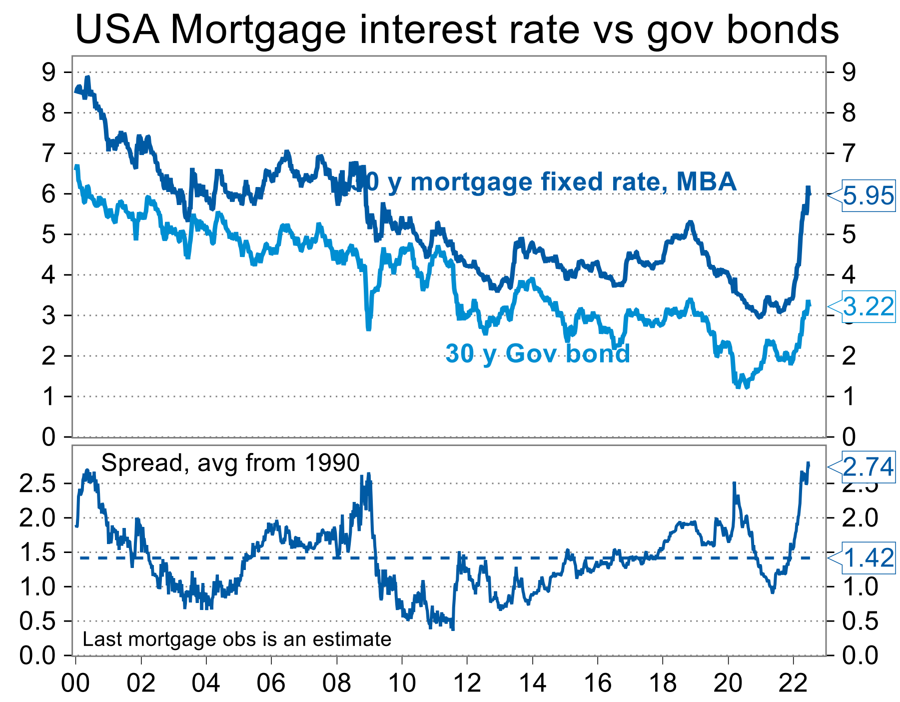


- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index have been reporting the highest house price appreciation ever (or since 1948) during the past months
- **Real prices** are far above the 2006 peak, by some 18% – 28%
- 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

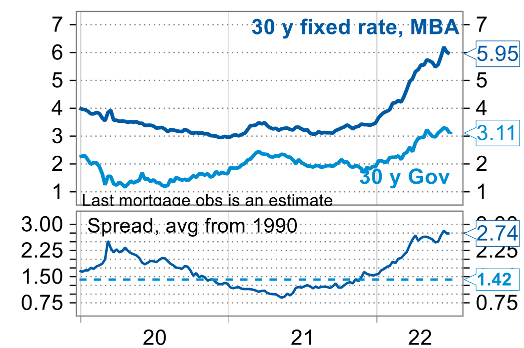
The least affordable housing market since 2008 (almost since 1987)

Prices are up 39% since before the pandemic, the mortgage rate is up 50%. In sum….



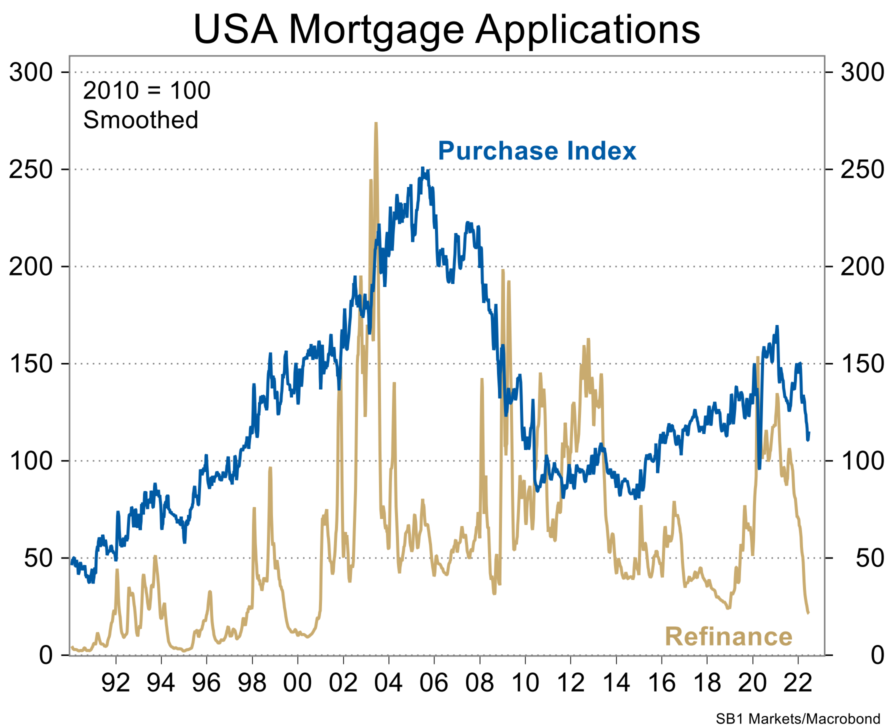


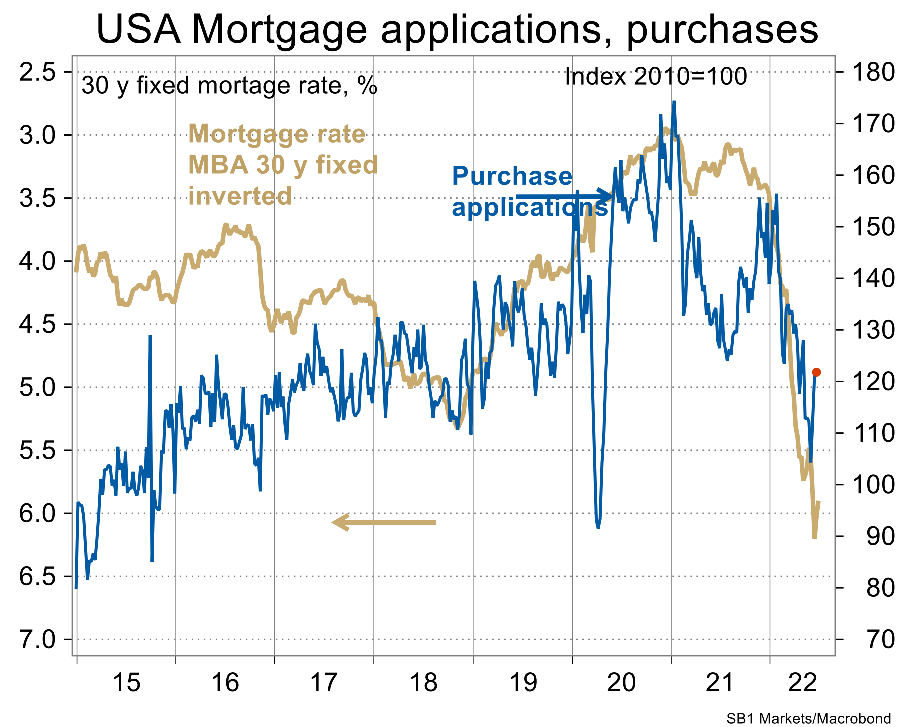
- **The 30 y fixed mortgage rate** has fell slightly last week but is still at 5.95% (effective rate) from 3.0% last summer, from 3.5% at the start of 2022. Before the pandemic, the rate was 4.0%
- The **Federal Reserve** concluded its mortgage backed bonds buying campaign in March - and has now start reducing its holdings. No doubt, that explains a big part of the surge in the spread, to 2.74 pp, way above the average at 1.42 pp (but all credit spreads are widening these days)



Mortgage applications unchanged last week but the trend is down, here too

Demand for new loans are down 20% so far in 2022, not a full stop but still an unusual decline

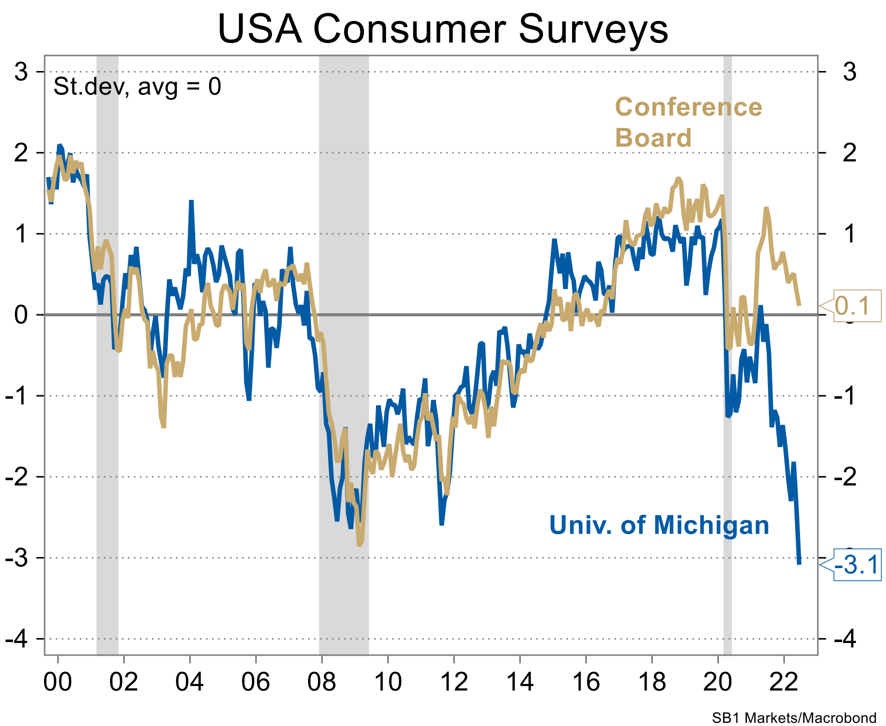




- Applications for new mortgages are down some 20% since the start of the year, and the level is almost 10% below the pre-pandemic level. We expect a further decline the coming weeks
- Demand for refinancing of loans are at the lowest level in over 20 years, as the mortgage rate has become rather high

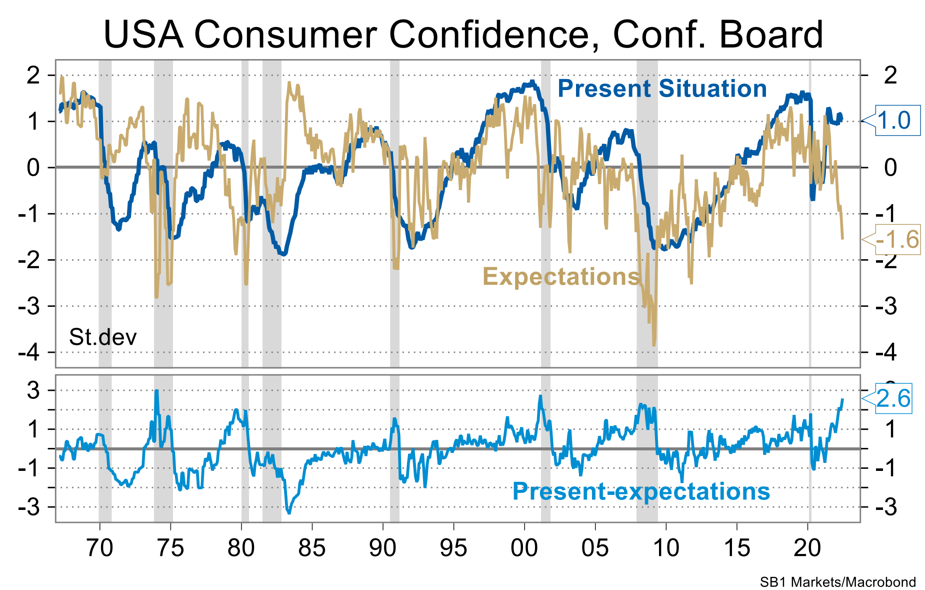
Conference Board's confidence down in June but still above an avg level!

However, expectations are falling rapidly – and are at low level. The diff. to 'present situation' HUGE



- **The other consumer** surveys we follow are on another planet, University of Michigan's sentiment being the weakest at -3.1 st.dev below avg, and at the lowest level ever, with data from 1953
  - » Two other confidence surveys, from IBD/TPP and Univ. Florida not much better than the UM survey – and Conf. Board's survey is still an outlier – even if it is not heading downwards

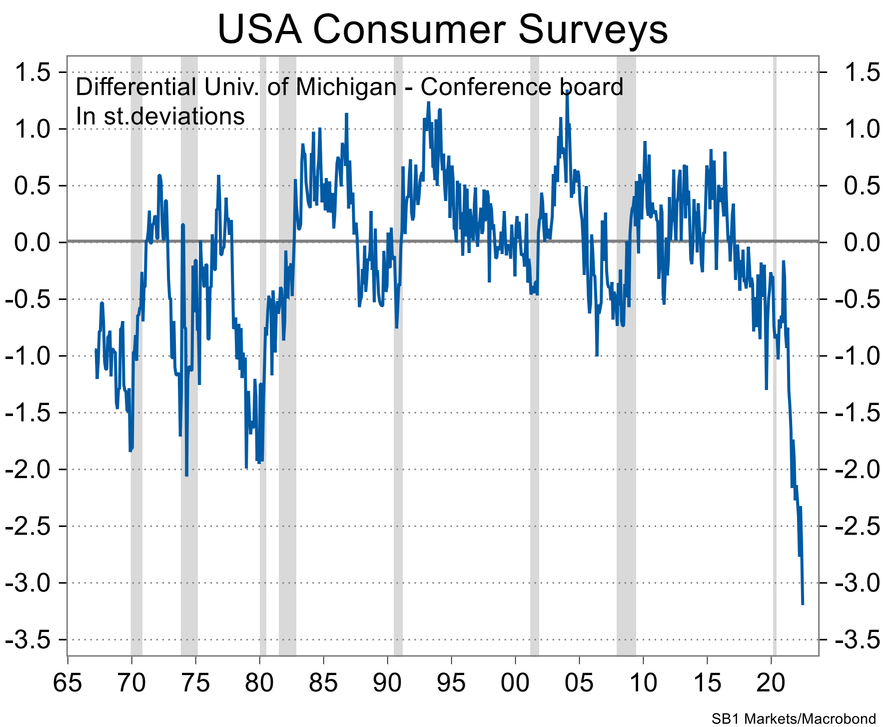
- **The main index** fell to 98.7 in June, down from 103.2 in May, expected down to 100.0. Expectations fell the most, the assessment of the present situation declined just marginally (0.3 p)
  - » The decline in the main index equals 0.3 pp, and the level in June is 0.1 st.dev above average
  - » **Expectations** are weak, -1.6 st.dev below average, which is normally seen in recessions
  - » **The difference** between households assessment of the present situation, and expectations is the 3rd widest ever. The gap is always the largest just before or when a recession hit, check the chart below

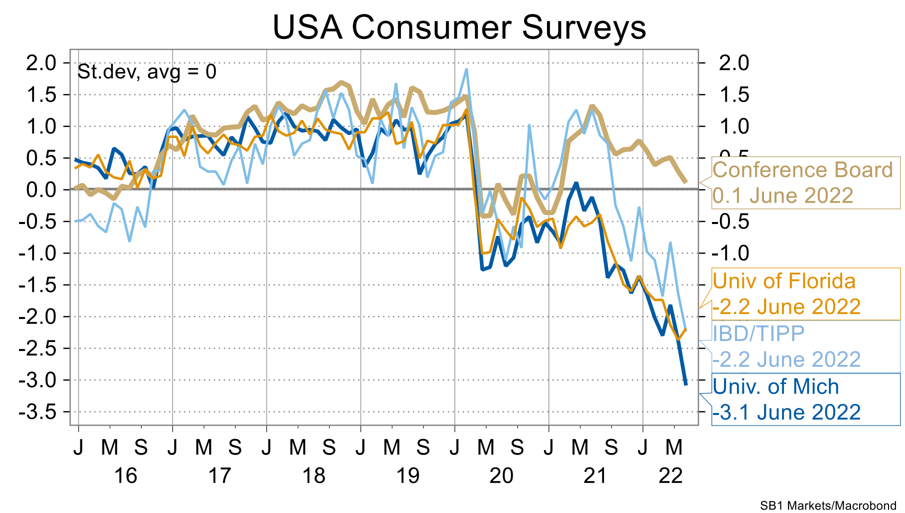


SpareBank 1 MARKETS

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

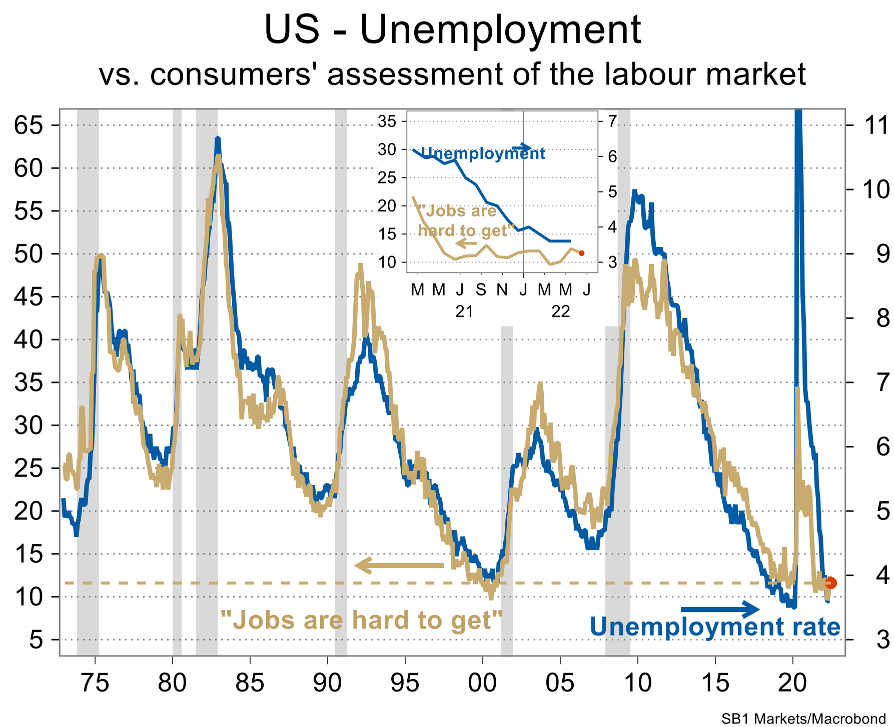
Almost always, when UM grounded before CB yielded, UM was right, and the recession started

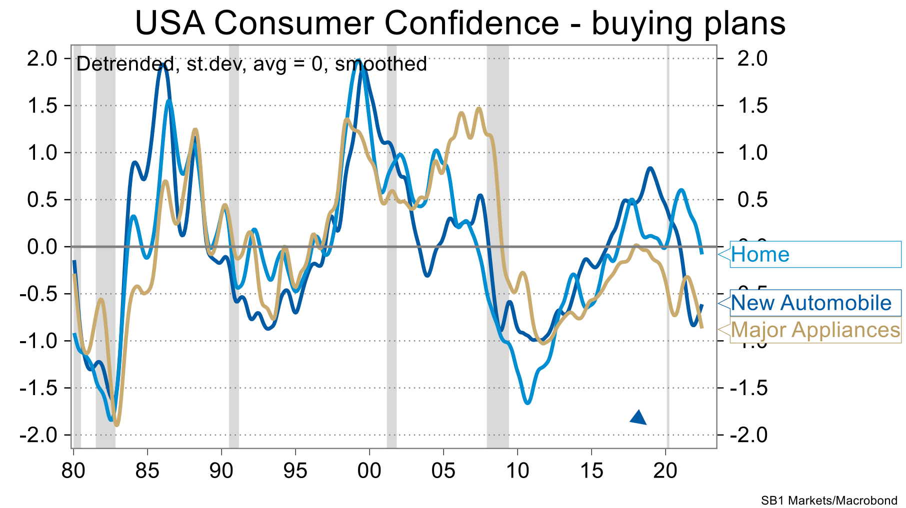


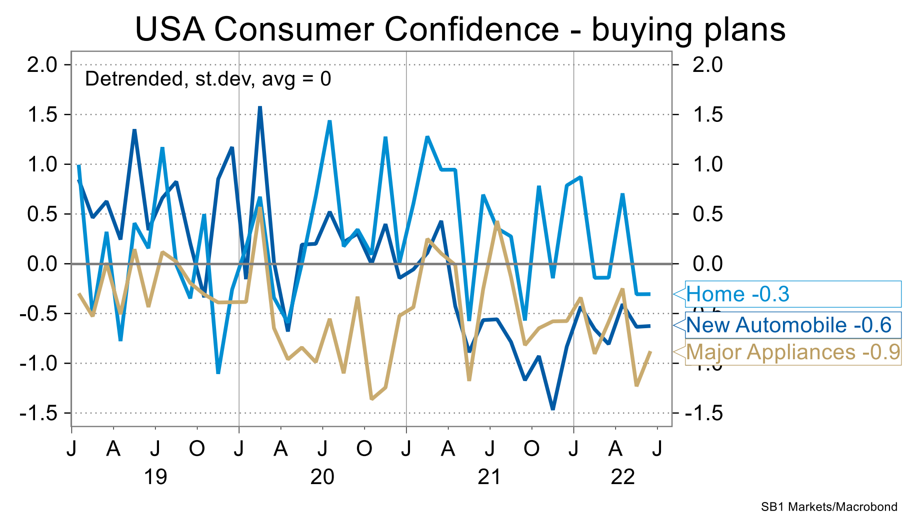


- High inflation is normally not welcomed, but we have not been able to explain the drop in UM sentiment by the traditional factors (including also inflation expectations, growth, unemployment, mortgage rates etc).
- Simply, we do not have good explanations! Actual behavior – so far – indicate that Conference Board's index is closer to the ball vs the other indices. One exception: Home sales have fallen substantially

Still, very easy to get at job (but not easier). Spending plans somewhat below avg



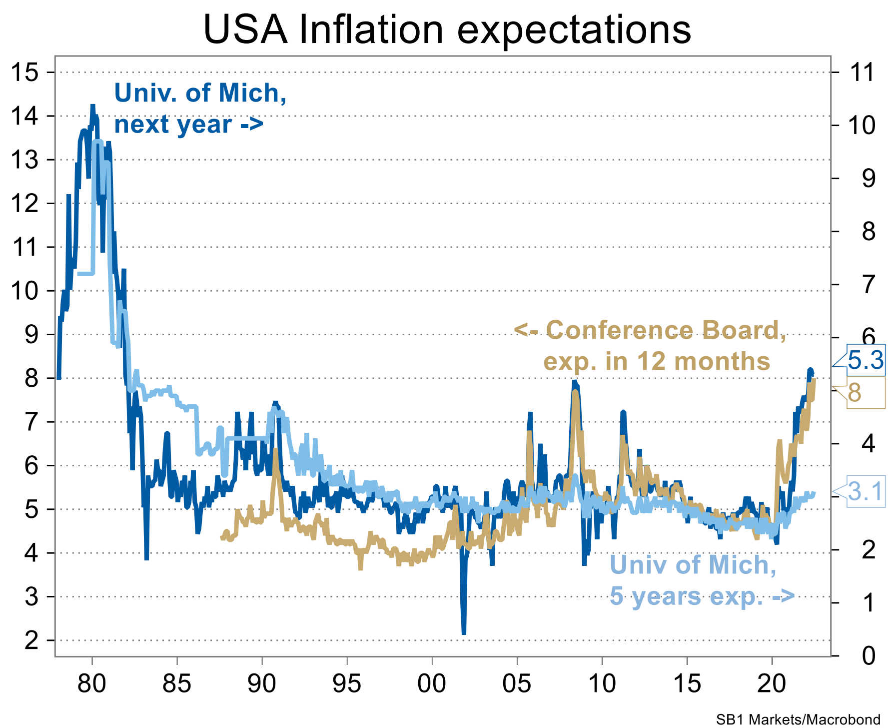




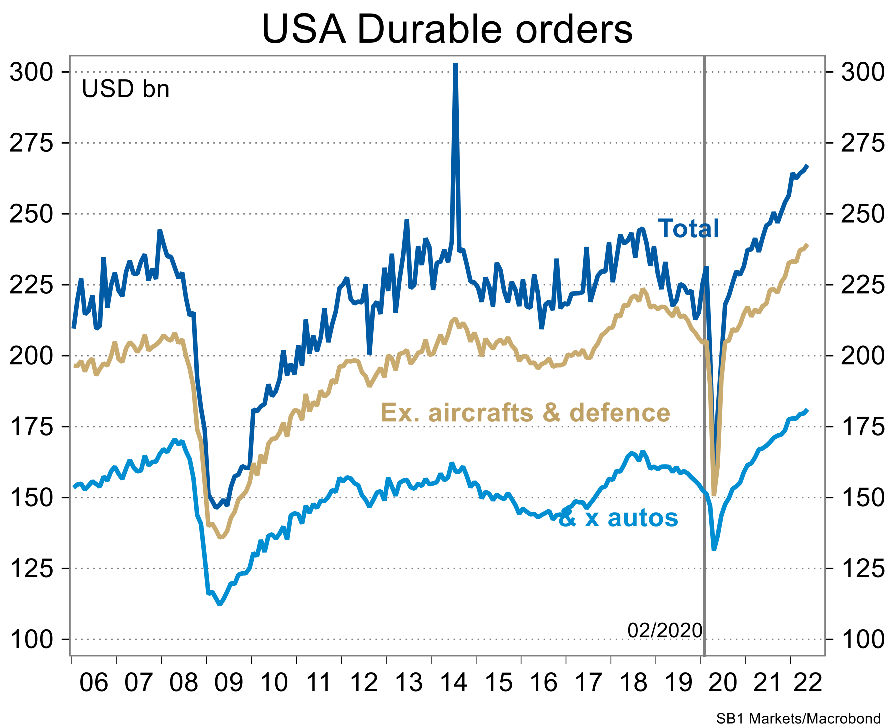
- **Household spending plans** are volatile, and in sum not aggressive, all the sub indices are below average
- Car buying plans have stabilised but home buying plans are trending down and have fallen slightly below zero

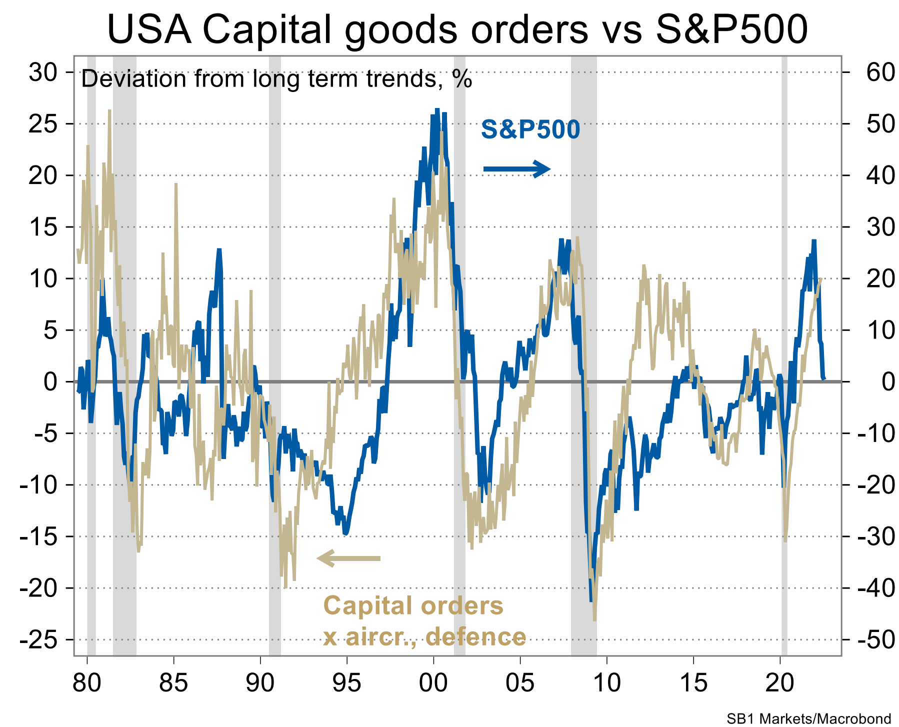
Short term inflation expectations are drifting up, alongside actual inflation

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



Growth in new orders are slowing but not setback yet. Surveys are weaker XXX

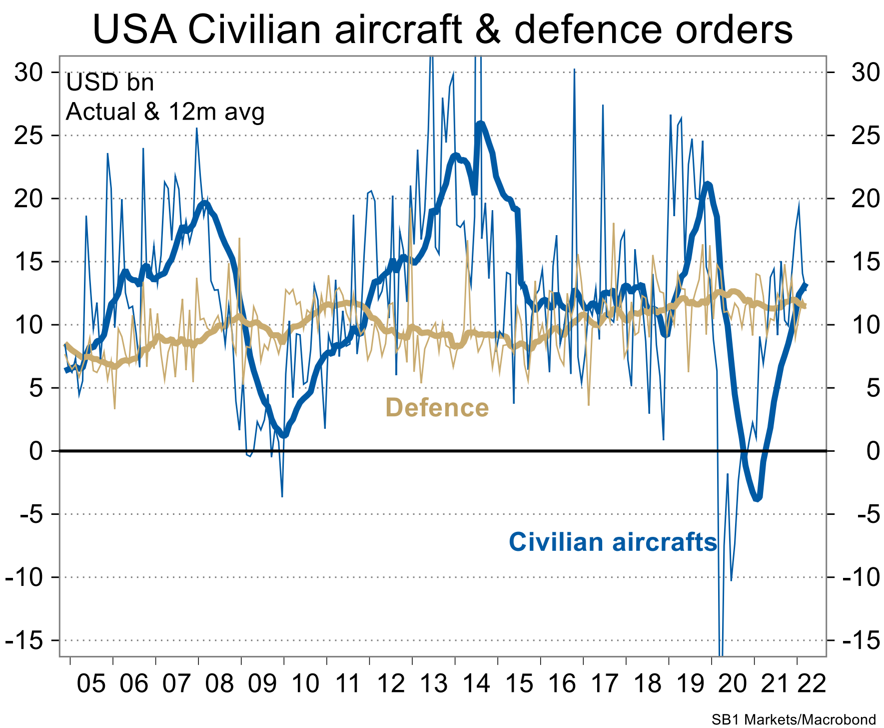


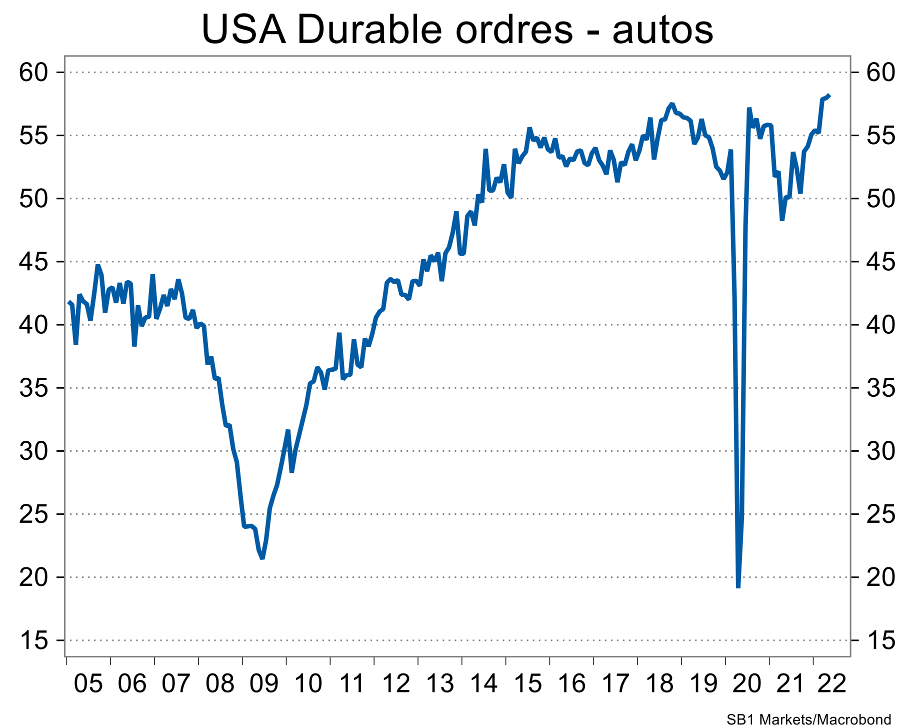


- **Total durable** orders rose 0.7% in May, slightly better than expected (0.1%)
- The volatile aircraft & defence orders in sum rose line line with the total – and core durable orders rose by 0.7% too
- **Core investment goods orders** grew 0.5, expected down 0.1%. Underlying growth is slowing but remain well above trend
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are signalling a further increase the coming months, albeit at a slower pace
- Without a decline (at least vs trend) in investment orders, a further setback at the stock marked does not seem too likely

Aircraft & defence orders at normal levels

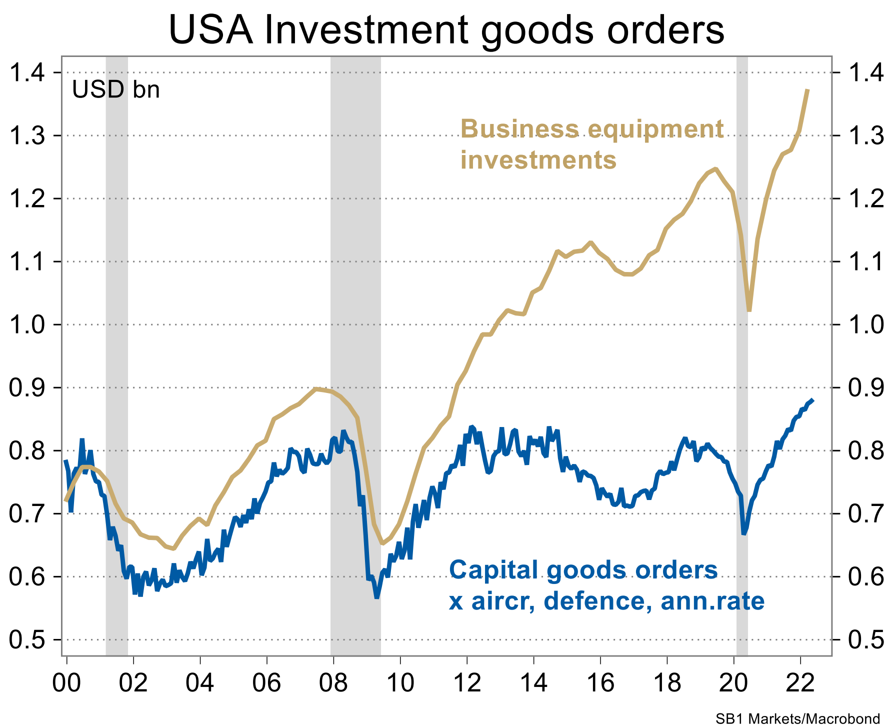
… while auto orders rose further in May, up to a new ATH!

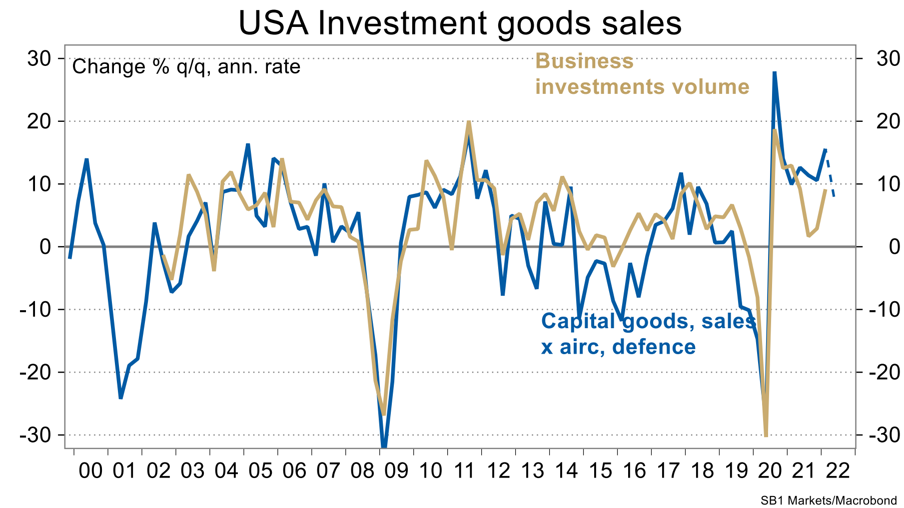


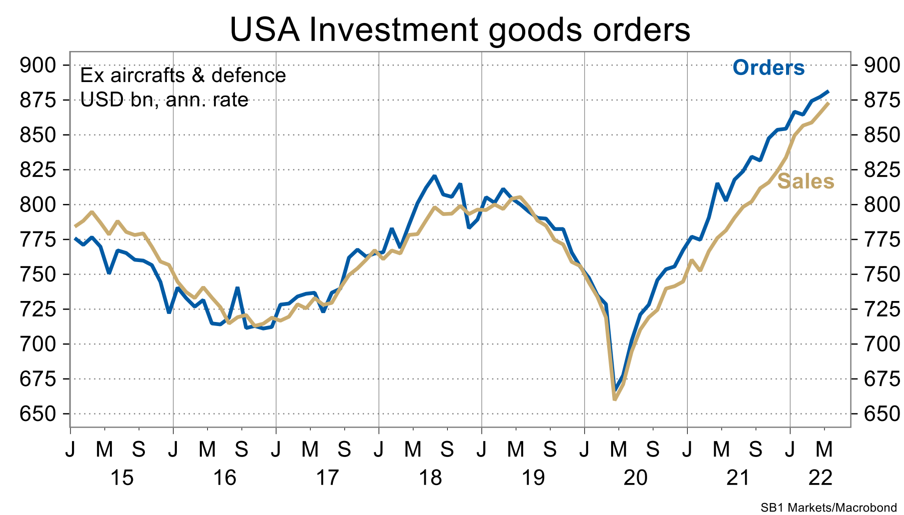


Core capital orders are still going well above trend

Signal decent growth in business investments in Q2



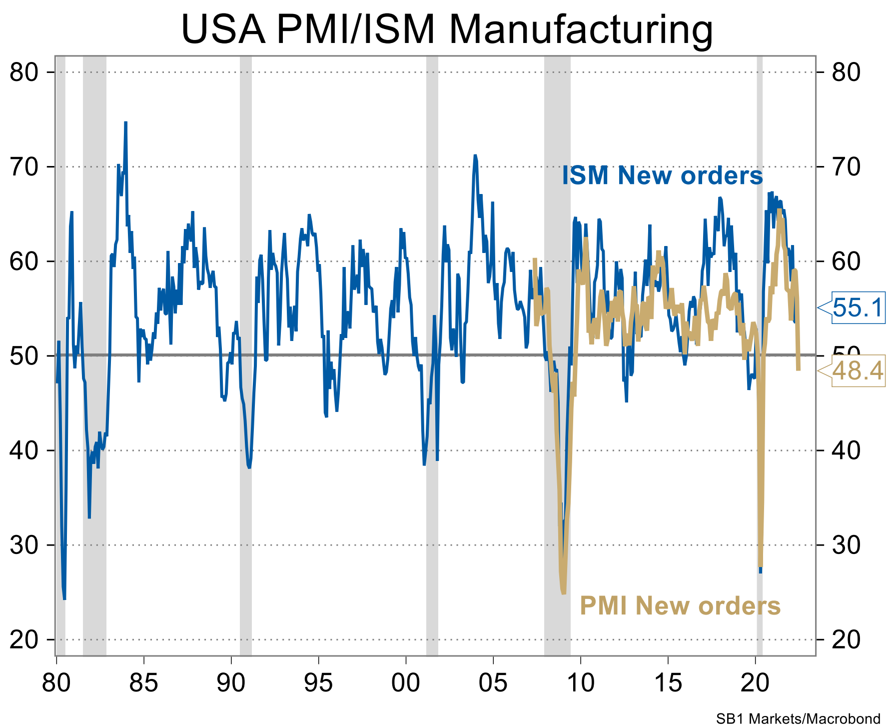


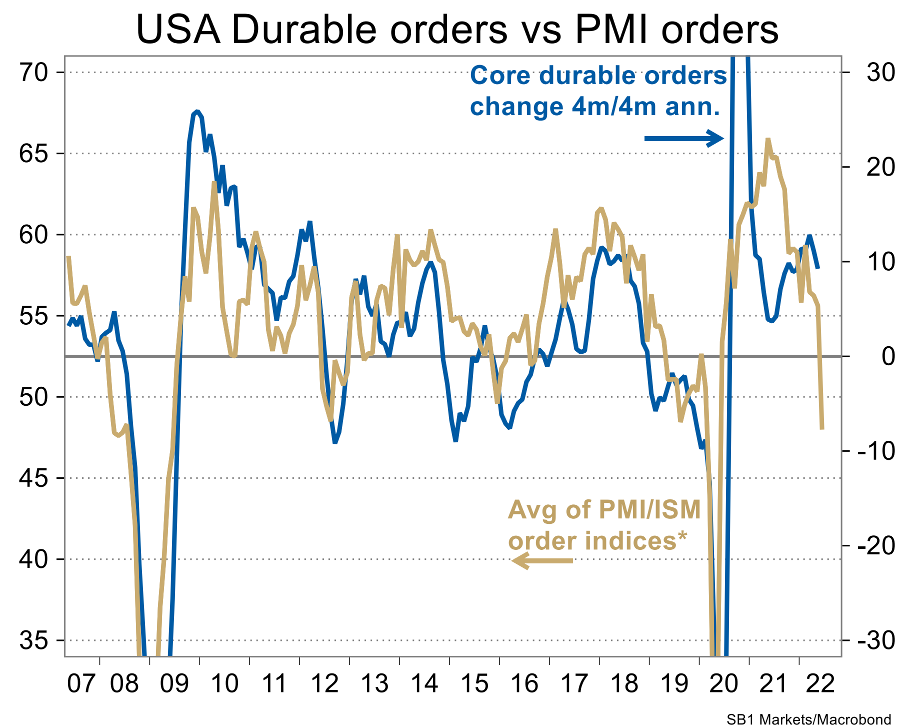


- **Core (x aircraft, defence) capital goods orders** added 0.5% in May. Shipments were up 0.8% m/m. Business investments very likely grew in Q2 (following a rather strong growth in Q1, which was signalled by the (noninal) order inflow recent months)
- **The business investment** level is well <u>above</u> the pre-pandemic level – and not at low vs. a reasonable long term trend

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

XX graf etter ISM fredag!!! XX

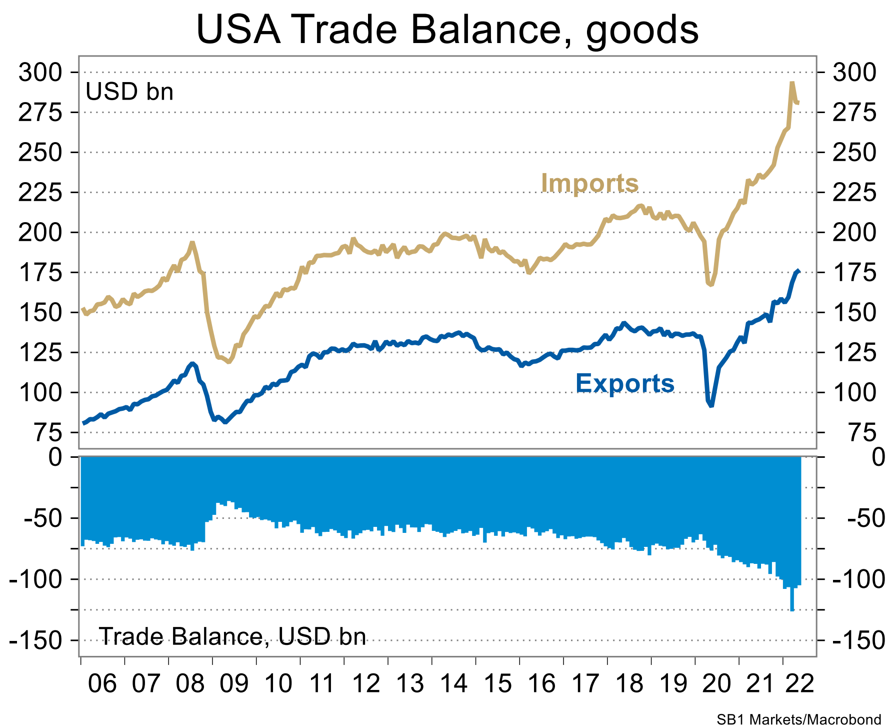


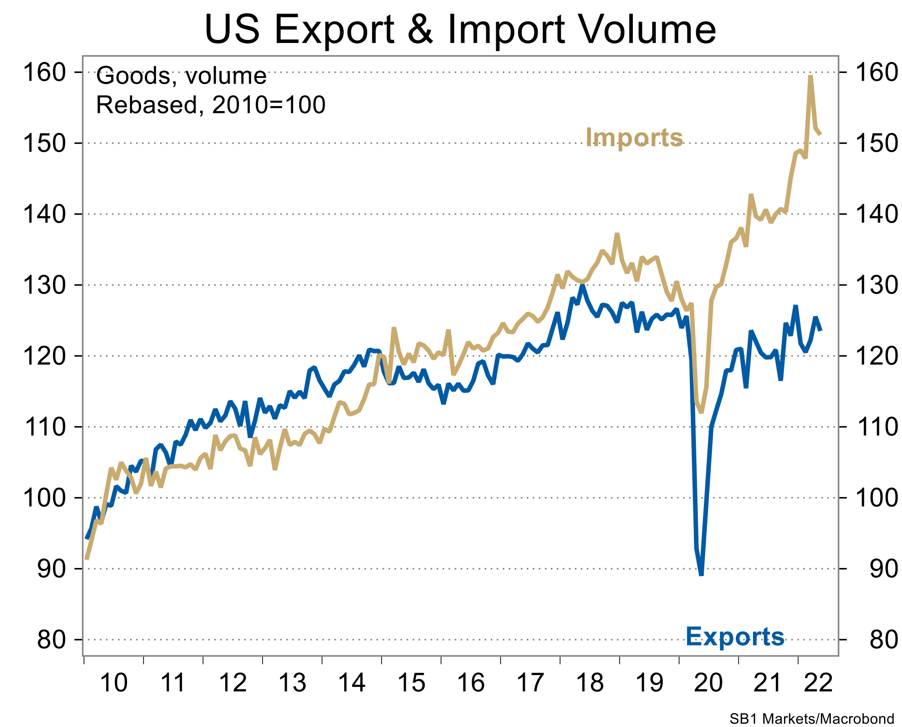


* The ISM order index is

The huge negative foreign trade drag on Q1 GDP probably just partially reversed

The trade deficit widened in volume terms again in May, following the recovery in April

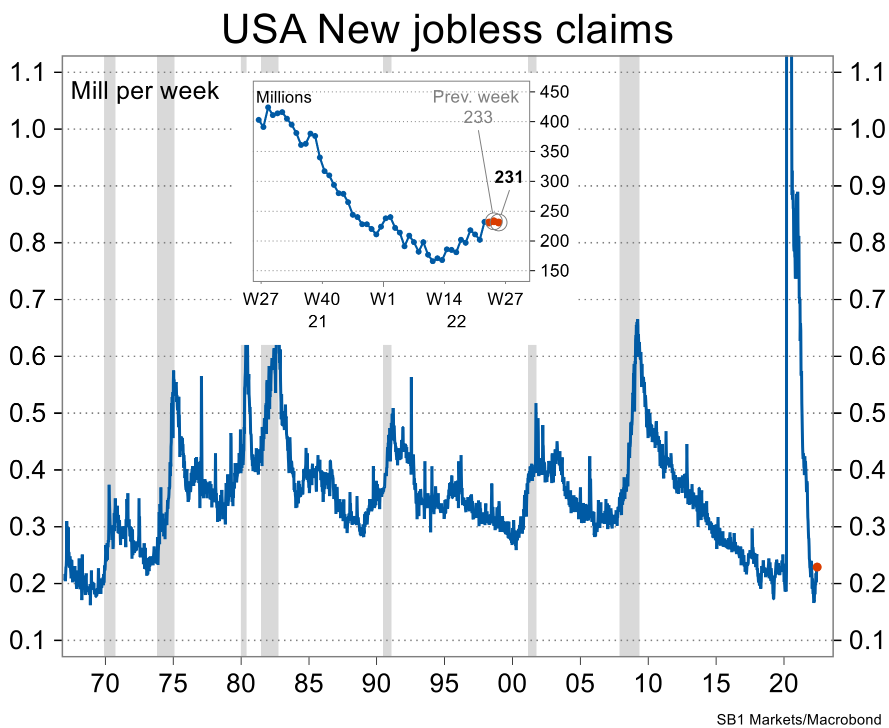


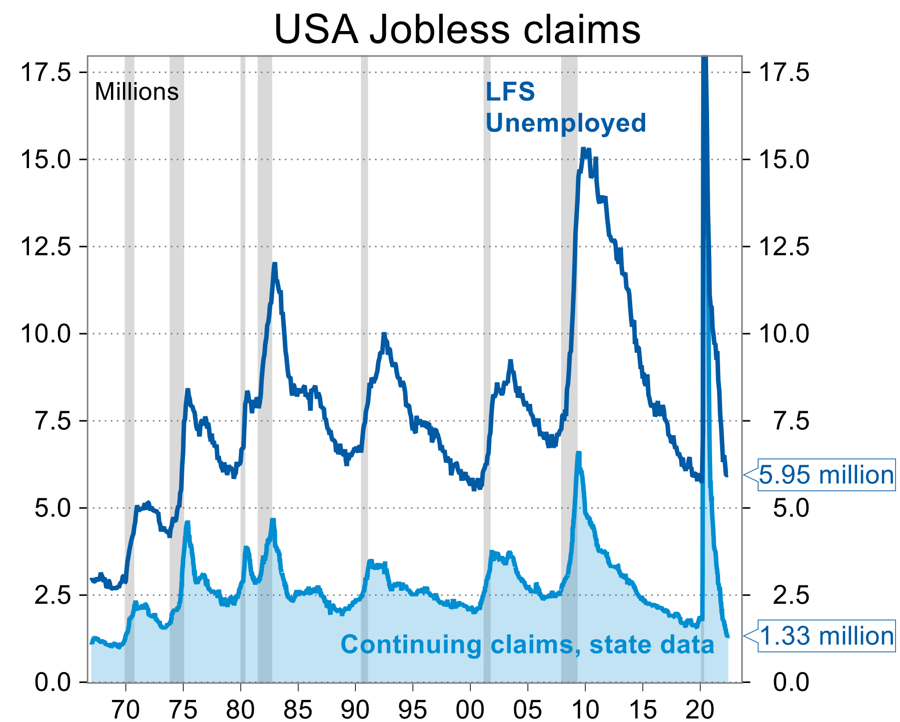


- **Imports of goods** (services not included) fell in nominal and real terms in May, while **export** volumes fell more, even if nominal exports rose further. June may change the picture, but so far just 1/4 of the 4-pp negative drag on GDP will be returned in Q2. Still +1 pp is far better than -4 pp ☺
- **Imports** of goods are 40% higher than before the pandemic, and by 19% in volume terms
  - » We expect US households' demand for goods to slow the coming quarters, from the present very high level – dampening demand for imports too (we said so one month ago too…)
- **Exports** of goods rose 1.2% in May and are up 31% vs the Feb-20 level. However, in volume terms, exports are down 2% vs. Feb-20!
  - » Domestic demand has been strong, while demand abroad has not been that upbeat
- **The trade deficit** fell by USD 3 bn to 104 bn, far below the ATH at 126 bn in March

New jobless claims are trending upwards but have stabilised past two weeks

The increase in not yet ‘recession-like’, but the distance is not that far anymore (check next page)



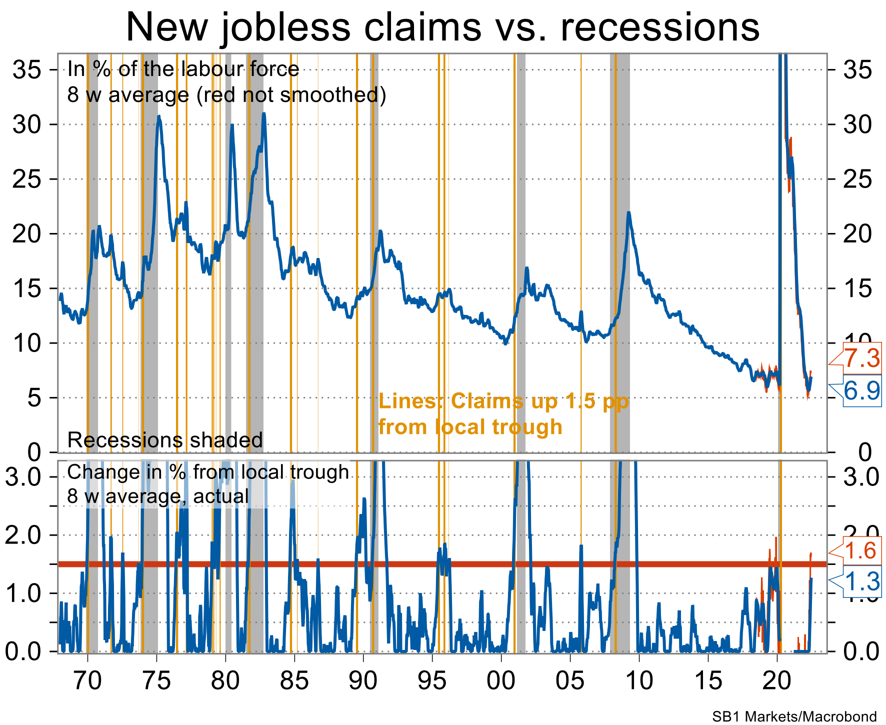


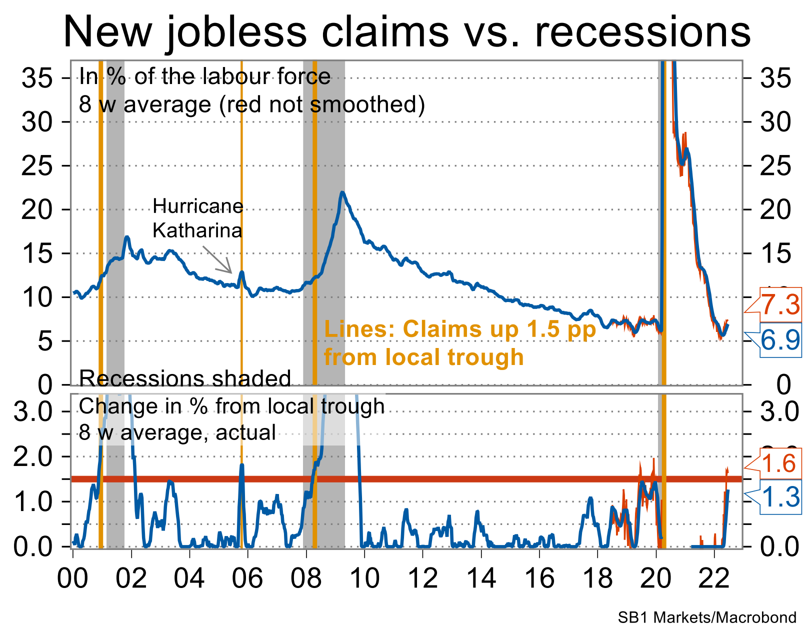
- **New jobless claims** fell by 2’ to 231’ in week 25. Since the bottom in week 11 in mid-March, the inflow has increased by 65’, from 166’ – which was the lowest since 1969
- **Ordinary continuing claims** was unch at 1.32 mill in week 24, an extremely low level

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

The lift in the 8-week average is still not flagging a <u>high</u> recession risk…

…. But the margin is shrinking week by week

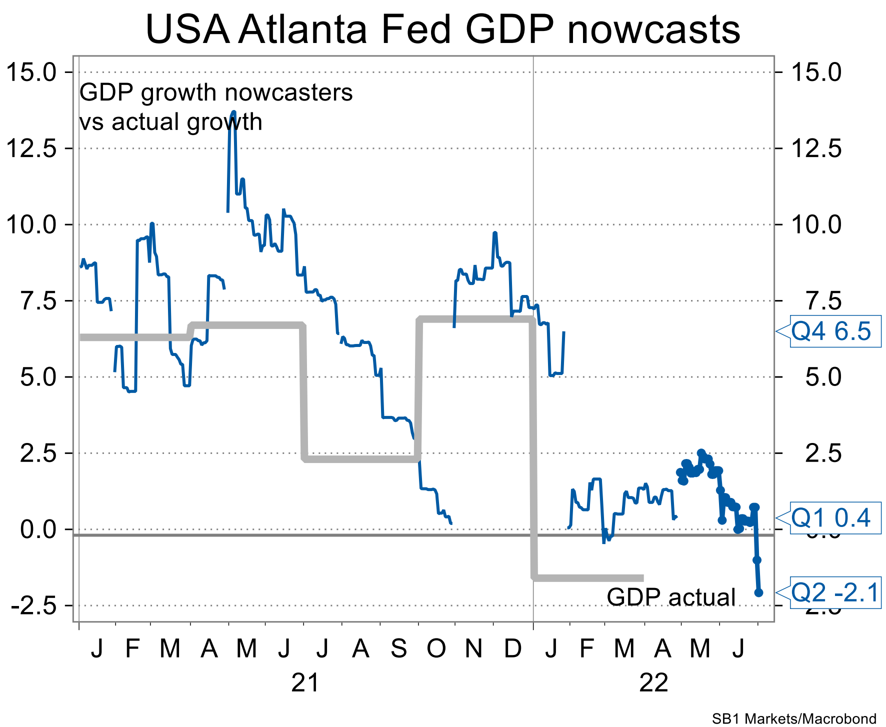


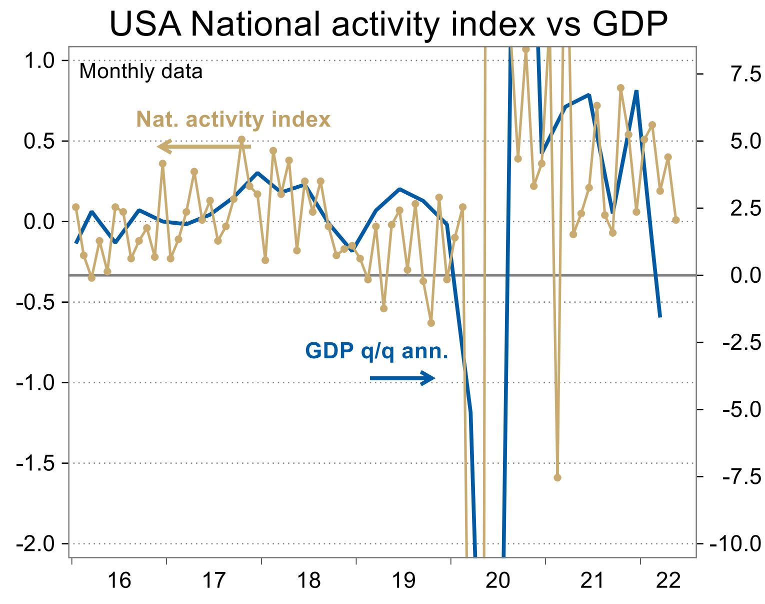


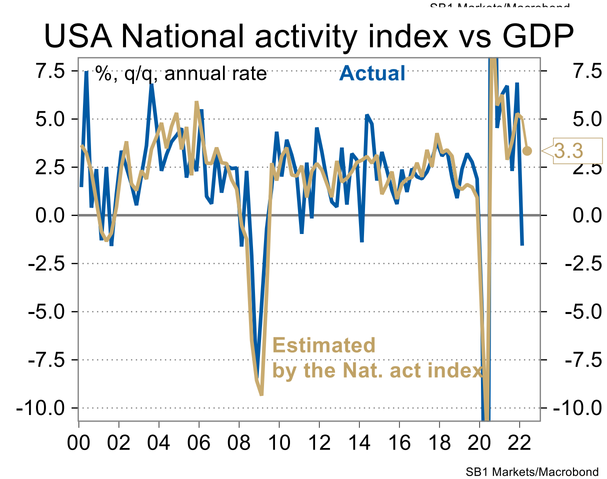
- The yellow lines: New jobless claims (8-week average) up 1.5 pp vs. the labour force
- Now, the average is up 1.3 pp, from 1.1 pp last week
- Our recession signal model based on new jobless claims has sent several false signals, and the signals often comes too late. Even so, the inflow of new unemployed persons is tightly correlated to the economic cycle – <u>and the cycle is now weakening</u>

Atlanta Fed's nowcaster suggests a 2.1% decline in Q2 GDP!!

... while the National Activity index just signals slowdown to some 2% GDP growth in May







- The downward revision to -2.1% from -1.0% calculated by the Atlanta Fed model was due to the weak ISM print
- **In a quarterly model**, the Activity index suggests a 3.3% growth pace, way above Atlanta Fed's nowcaster
- **The consensus** Q2 GDP growth forecasts among economist some few days ago was 3%
- **Q1 GDP** was revised down 0.1 pp to -1.6% as growth in consumption was far lower than so far reported (1.8% vs. 3.1% in the prev. est.)

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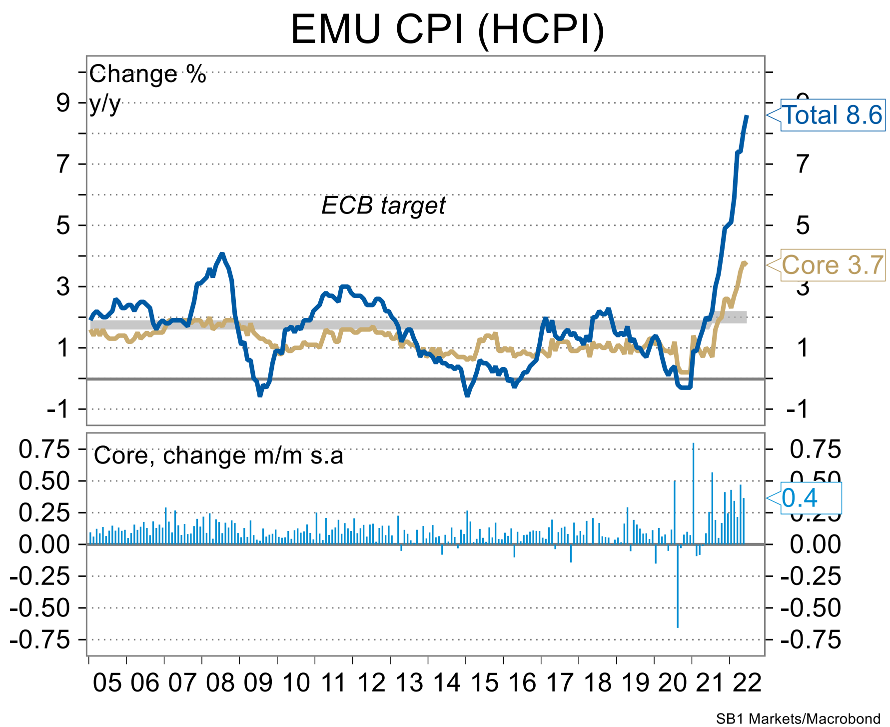
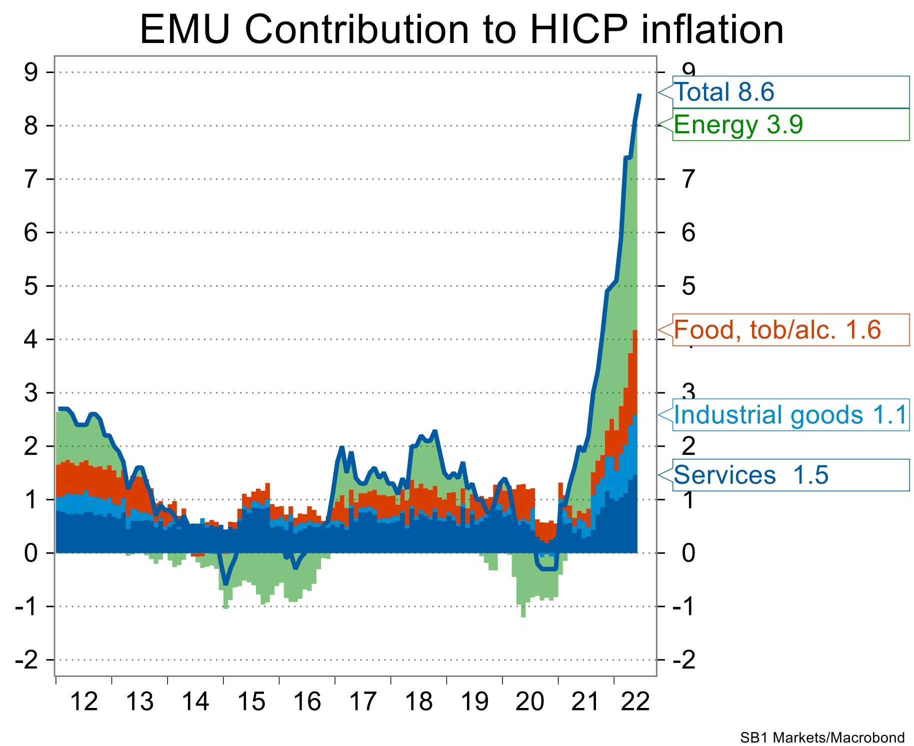
Headline inflation up to an American level, 8,6%. The core slowed a tad, at 3.7%

The headline was 0.1 pp higher than expected, the core 0.2% lower than feared

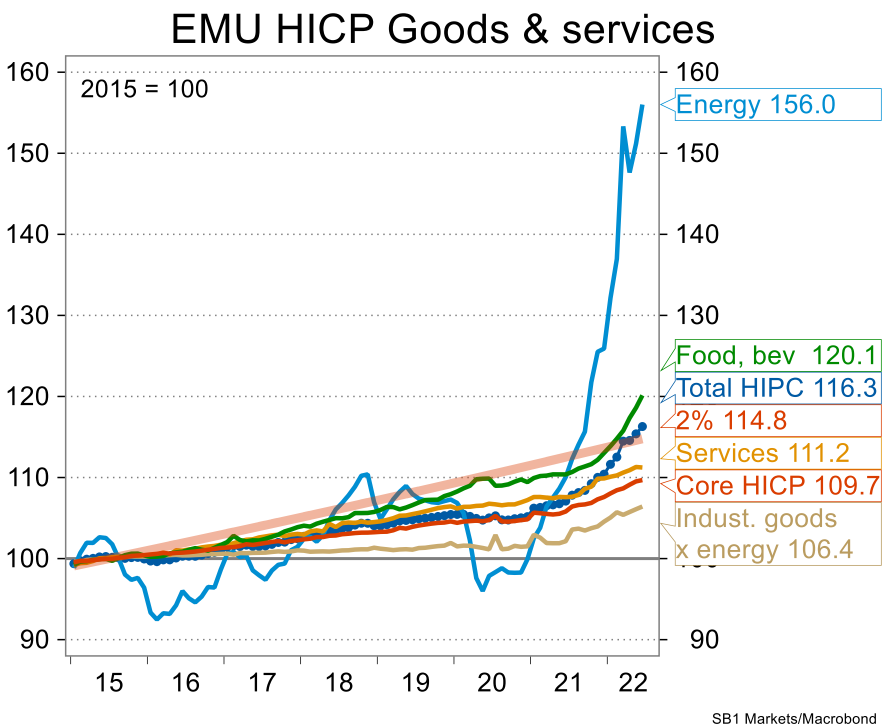


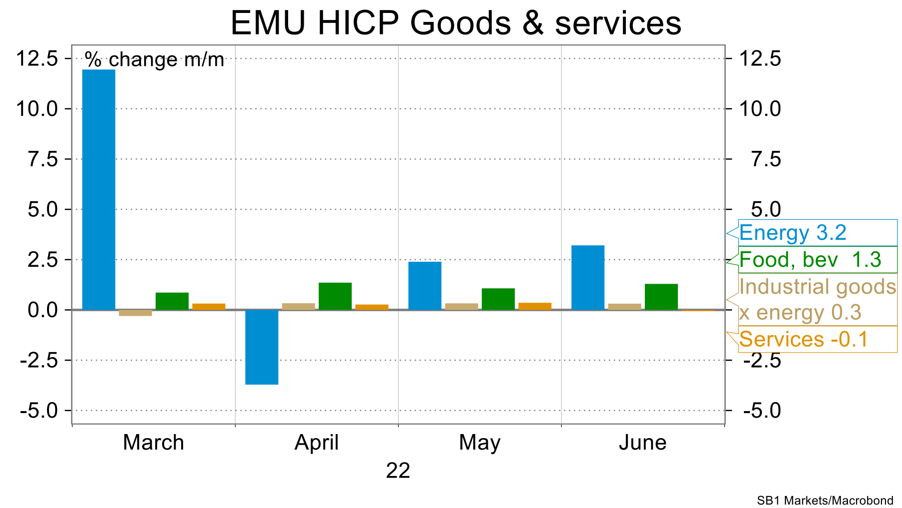


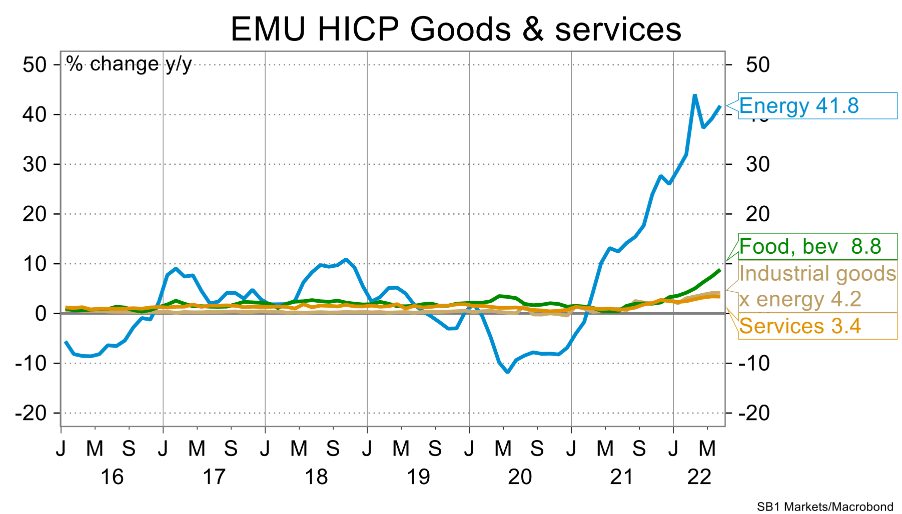
- The **total HICP** rose 0.7% m/m, following the 0.8% lift in May, two extraordinary prints (we hope)
  - » Energy prices rose 3.2% m/m, food prices 1.3% - and the latter is up 8.8% y/y
- **The core rose 0.4% m/m, also a very high number, though less than expected**
- **XXX SJEKK UPDATE XXXXX Energy** 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

Energy prices rose 3.2% in June, and food prices added another 1.3%!

Energy prices are up 42% y/y – but the annual has probably peaked (in March)







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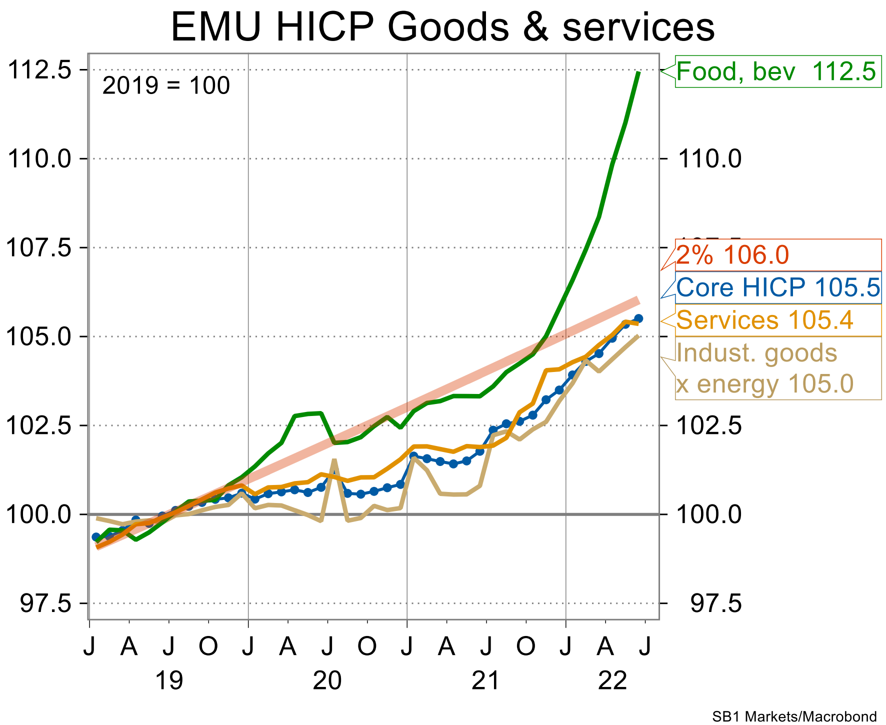
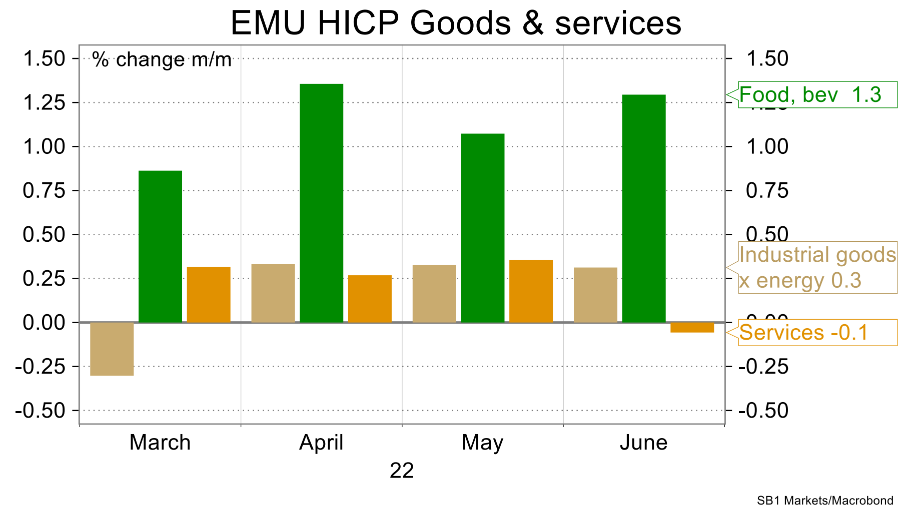
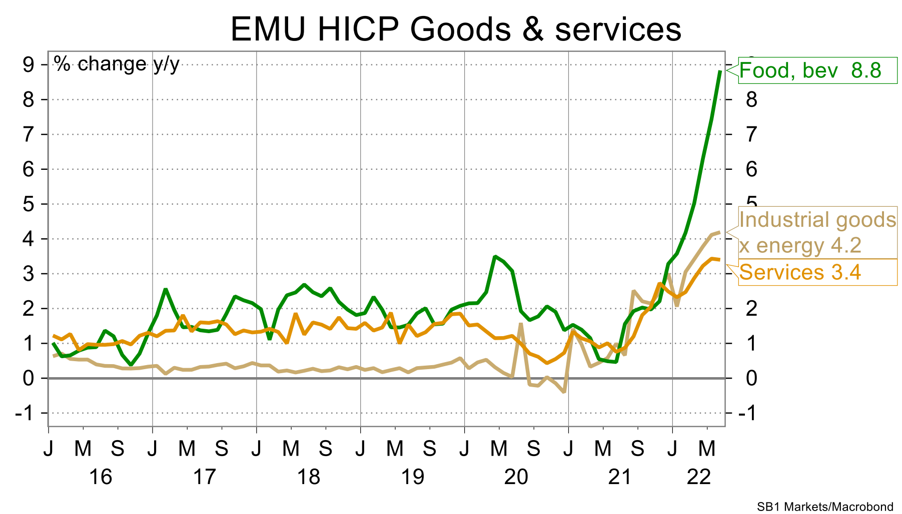
And prices ex energy and food are accelerating too

Food inflation at 8.5%, industrial goods x energy at 4.2%, and services 3.4%. The target? 2%...



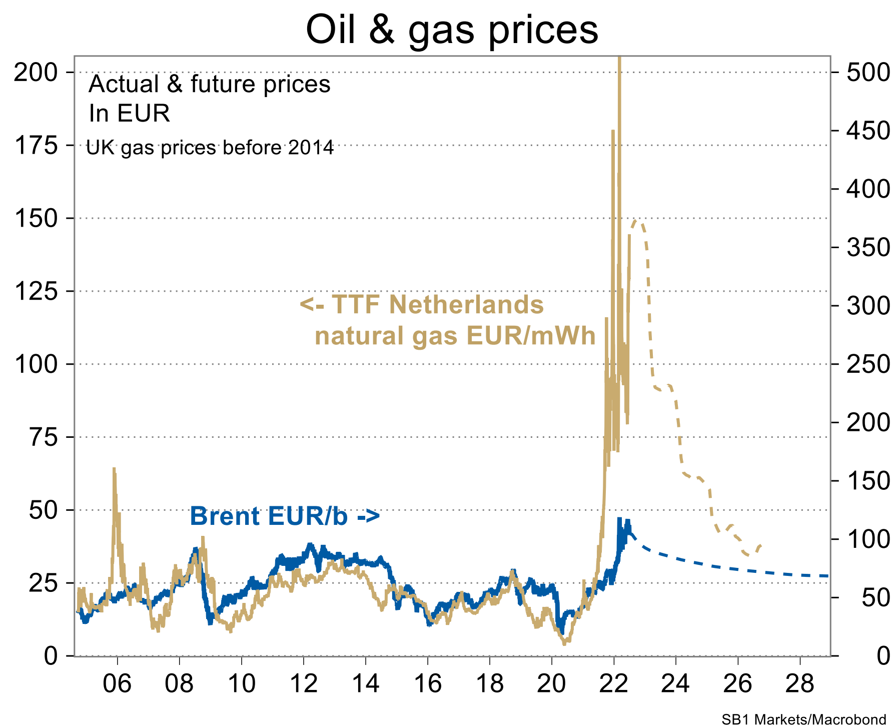


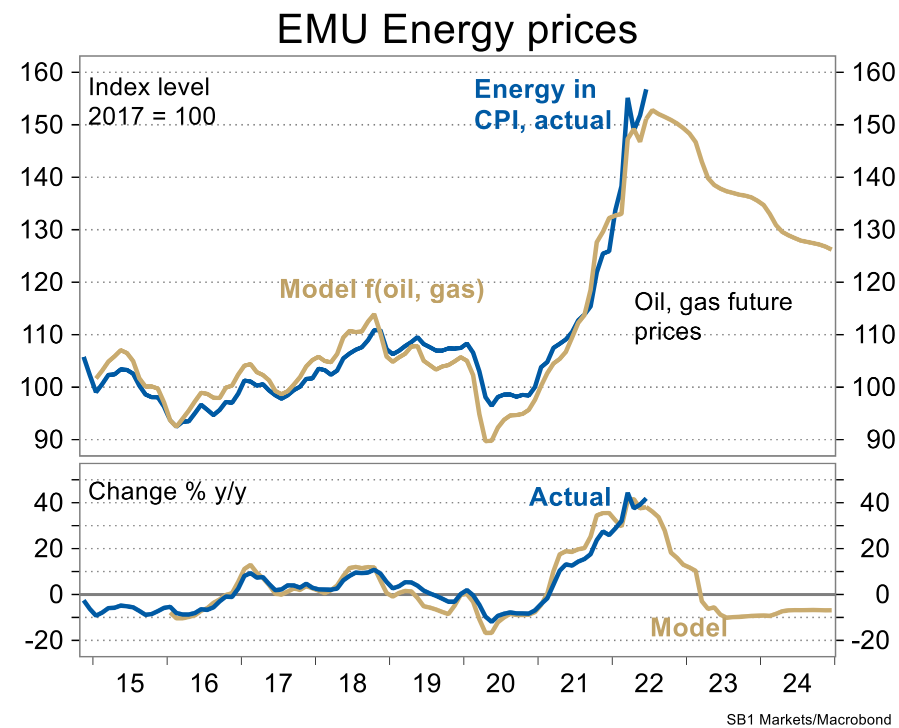


- **Industrial goods** prices increased 0.3% in June too, and are up 4.w% y/. Still, these prices are <u>below</u> a 2% path <u>since 2019</u>
- **Services prices** fell 0.1% in June, and these prices are also below a 2% path vs the 2019 level. Transport and hotels/restaurants have contributed on the upside last year (but no data for June 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 will peak… soon





- 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

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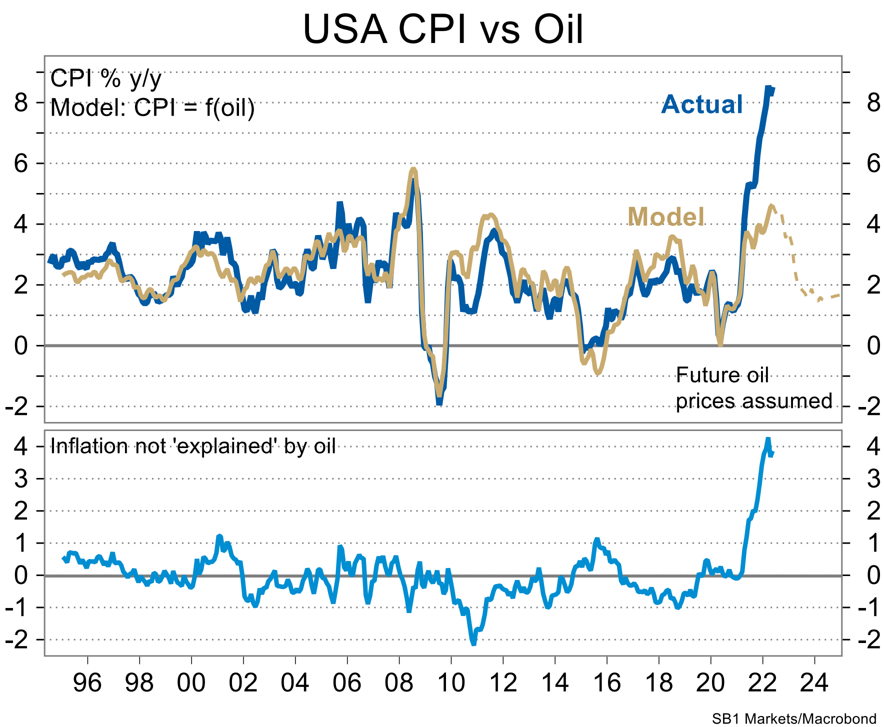
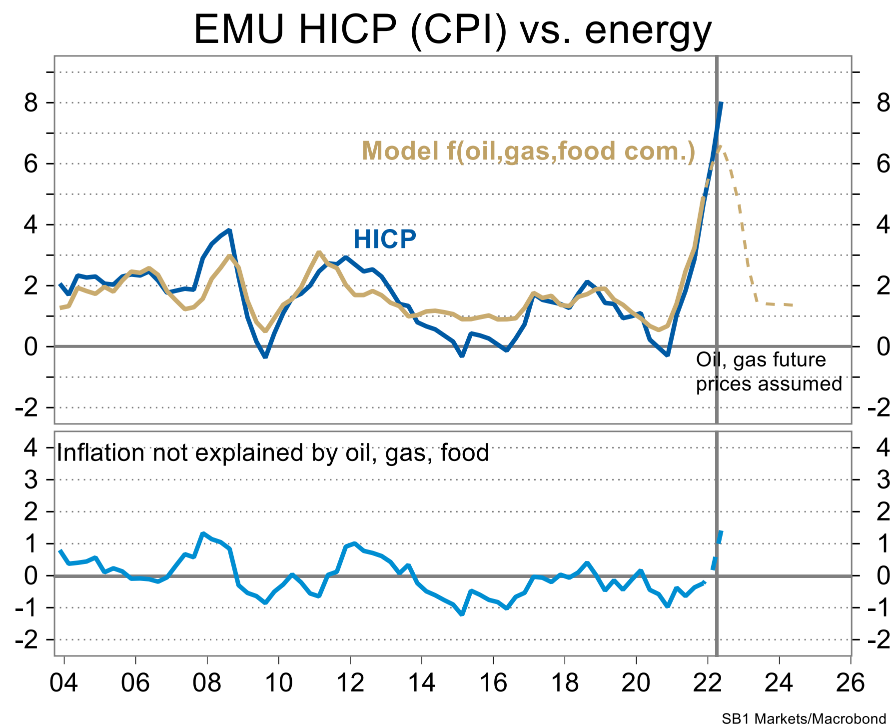
The tale of two different inflation regimes

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





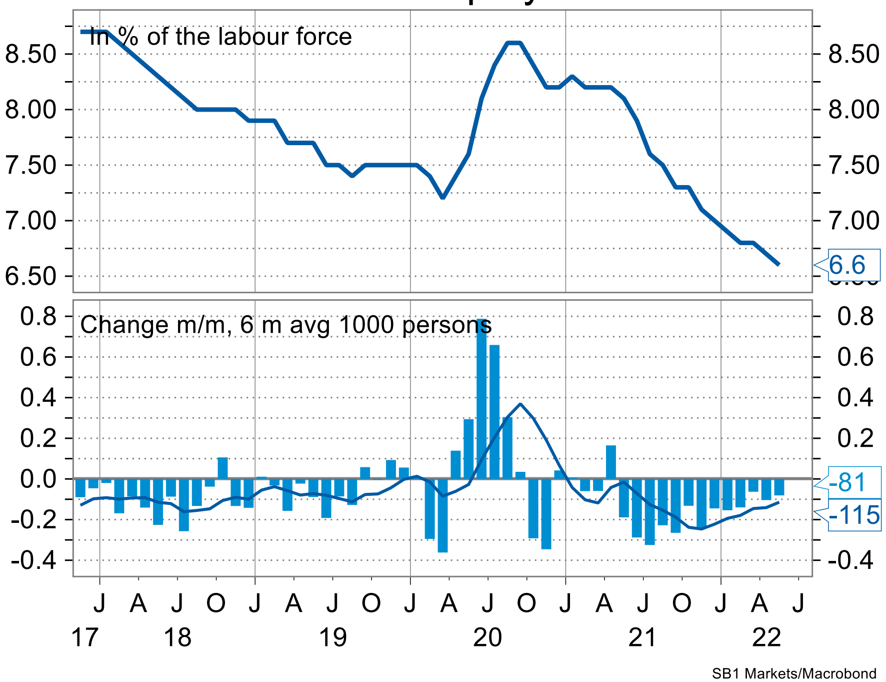
- **In the US, oil price cycles** have – for all practical purposes – explained all of the CPI cycles the past 30 years. Until 2021. The precent 4 pp discrepancy is unprecedented! The current/future oil prices signal a decline in the annual CPI by now. The trouble is the 'gap' or the 8.6% starting point
- **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. If other components were well behaved, the headline annual growth rate would have returned to below 2% in early 2023. However, other price do not behave normally now

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

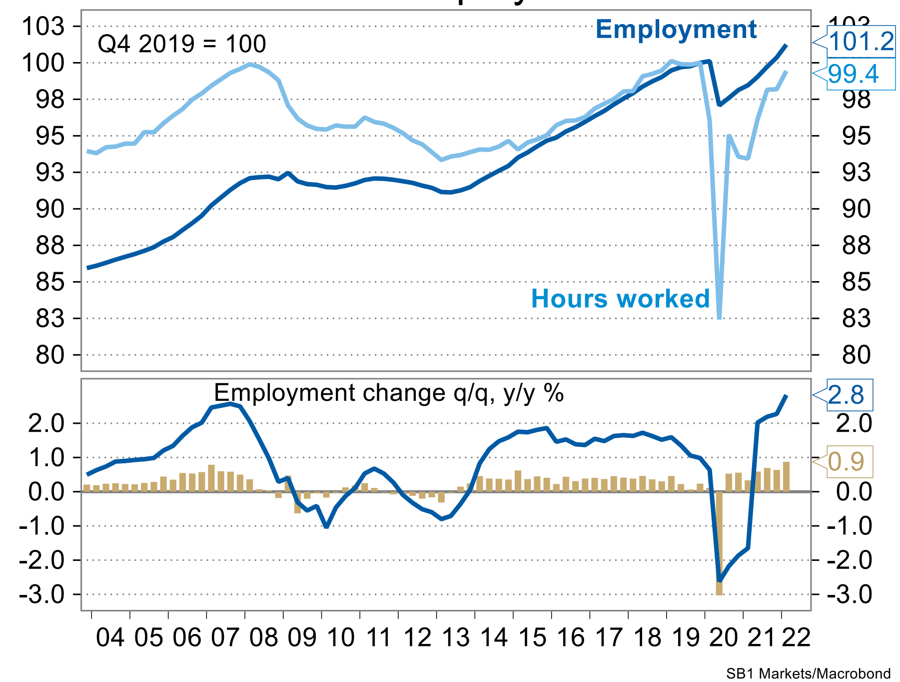
Unemployment surprisingly down 0.1 pp to 6.6% in May, the lowest since 1981

Most likely, the decline in unemployment is slowing

EMU Unemployment



EMU Employment



- **Unemployment** in April was revised down 0.1 pp to 6.7%. An unchanged 6.8% was expected for May. Thus the outcome was 0.2 pp better than expected
- **Employment** rose by 0.9% in Q1 (3.6% annualised pace), and the level is 1.2% above the pre-pandemic level. The employment rate is well above the pre-pandemic level too
  - » However, the best proxy for **demand for labour**, is the number of **hours worked**. In Q1, hours worked was still 0.6% below 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

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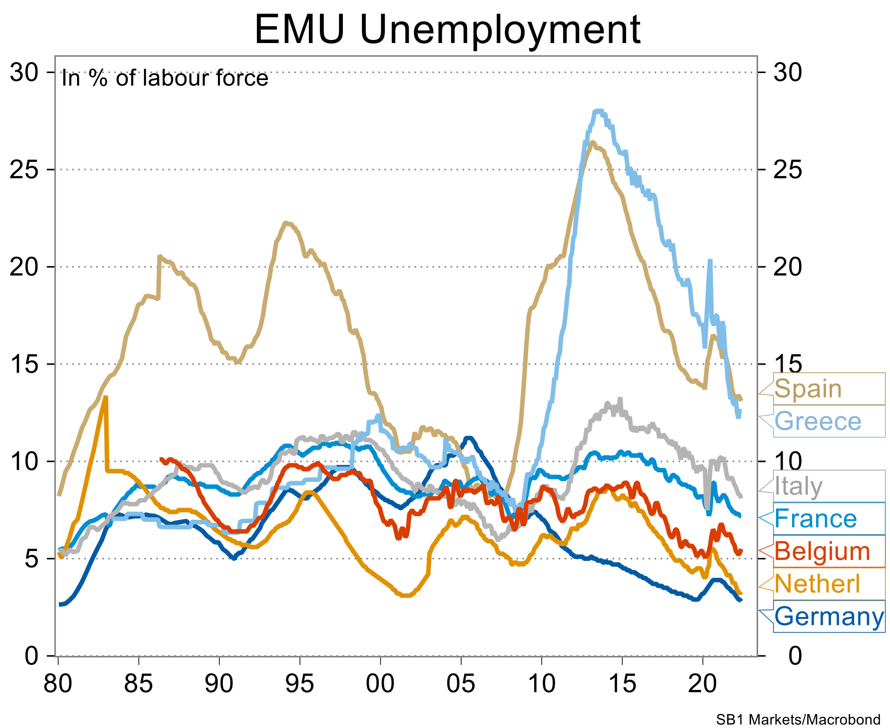
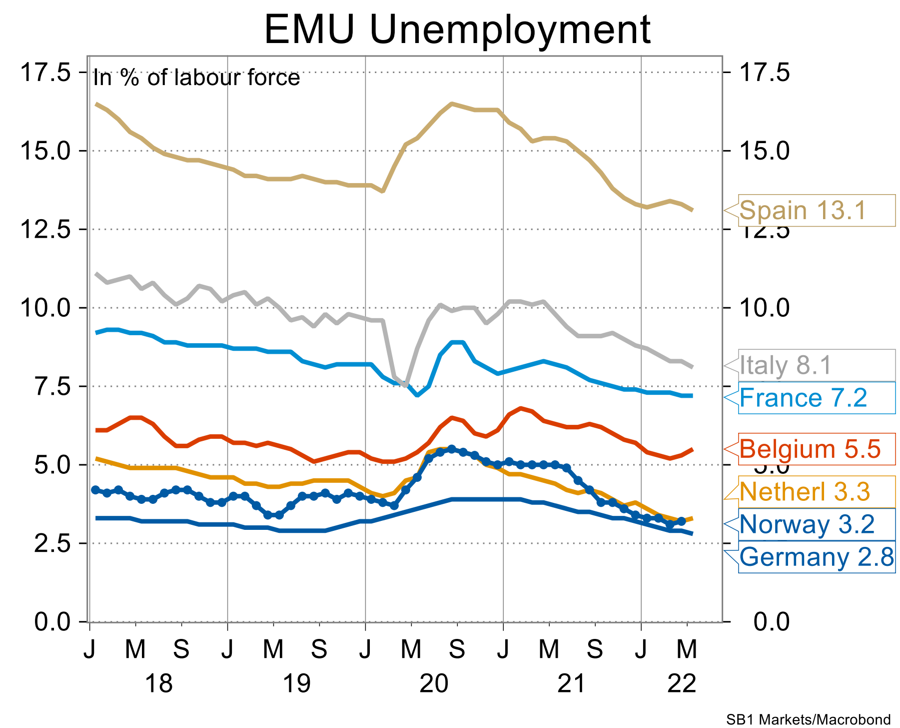
Unemployment is declining all over the region. Almost. Belgium up??





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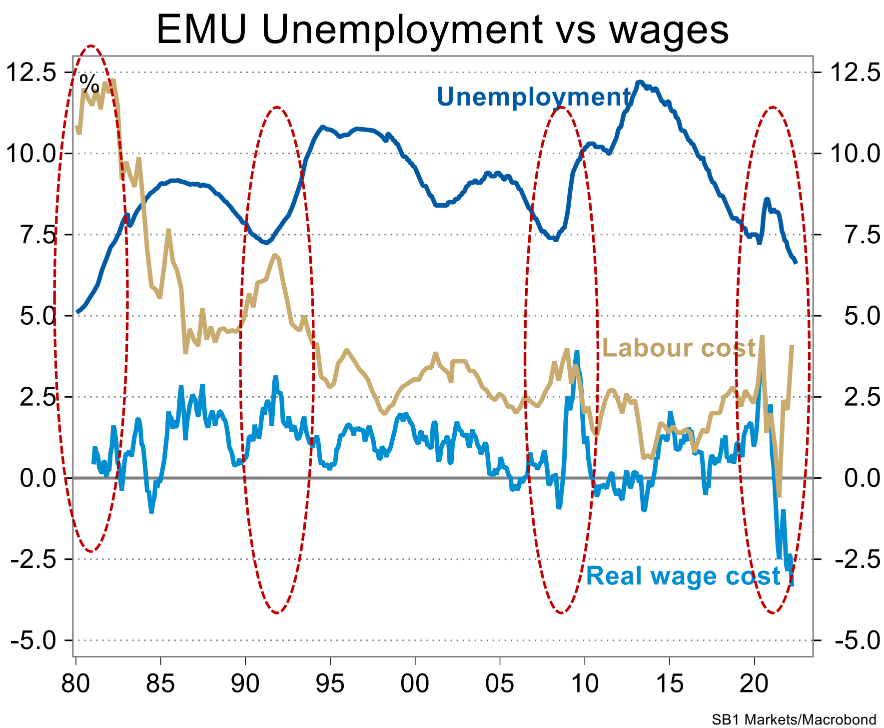
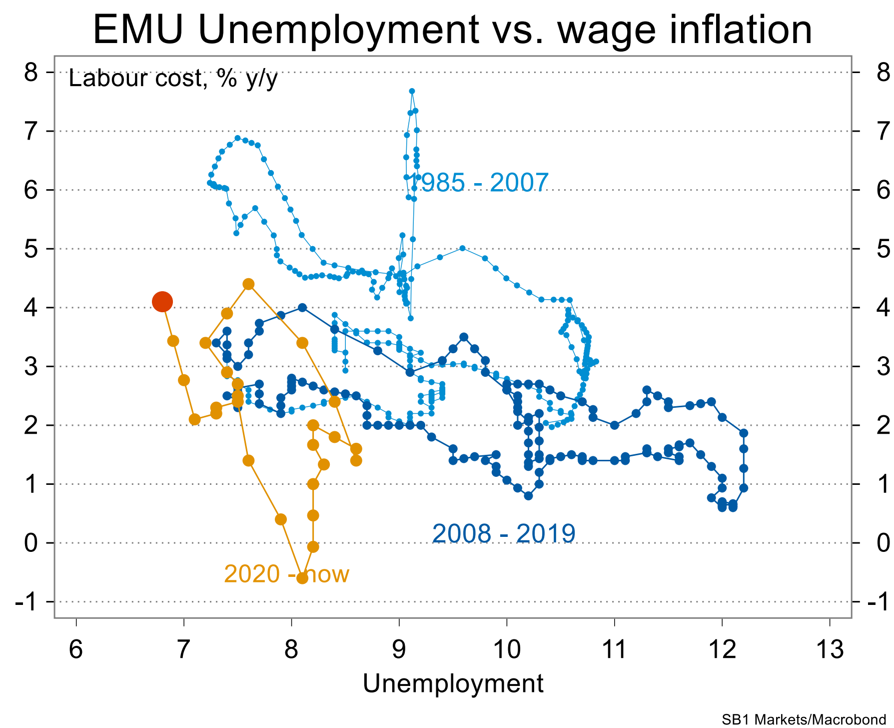
Unemployment is the lowest since 1981, vacancies are at ATH

There may be some wage inflation risk in the EMU too? And now something is visible??

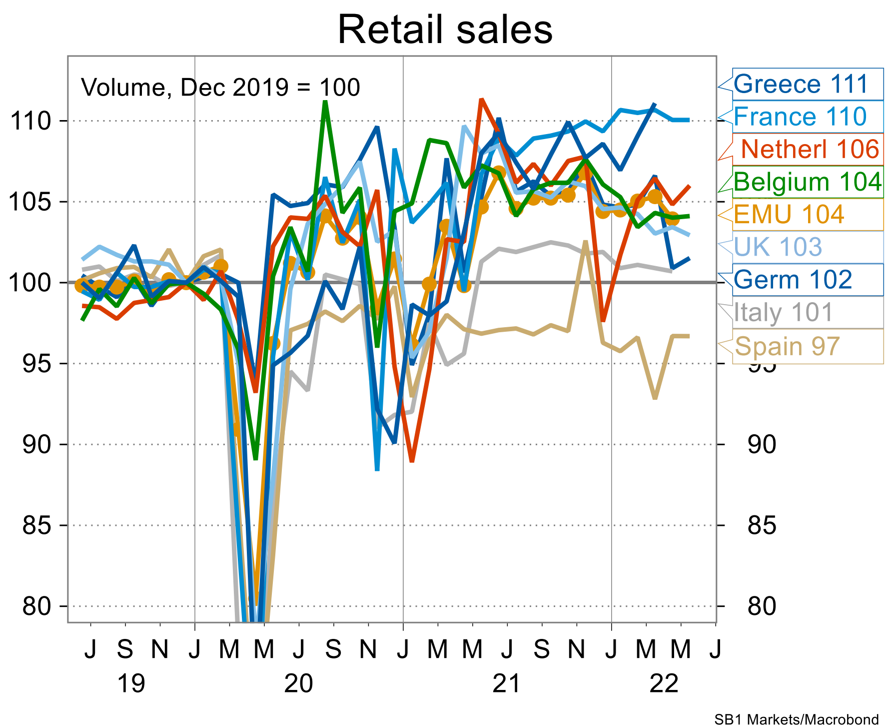




- Labour cost inflation has been revised up. The annual growth rate in Q1 at 4.1 is well above the normal labour cost inflation in the EMU
- The Phillips curve does not seem to be completely dead

Retail sales probably up in May but the trend is down, as most other places

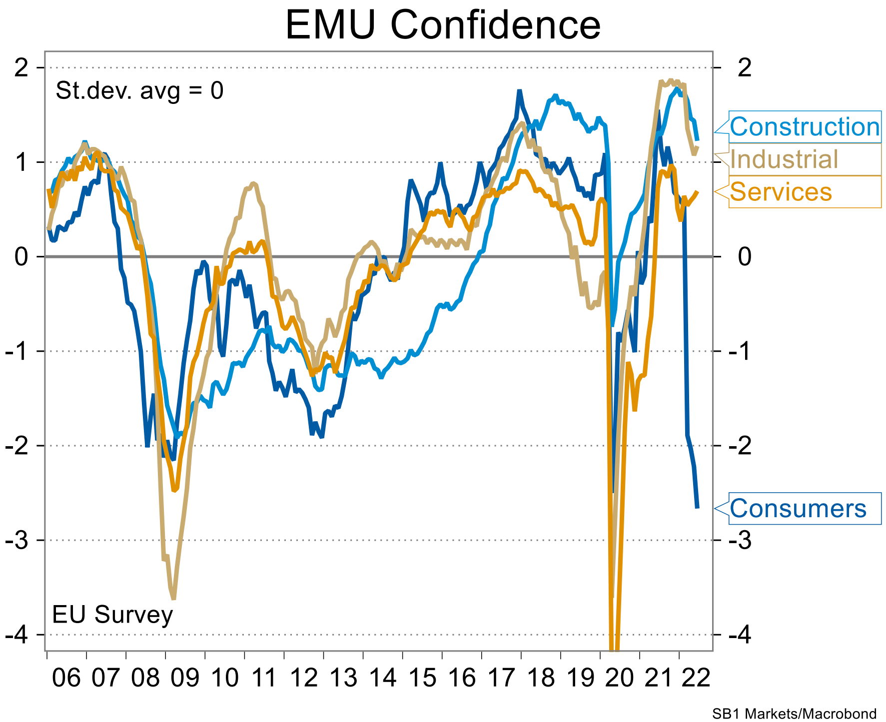
No reports of a decline in sales in May yet – and several countries have reported some growth

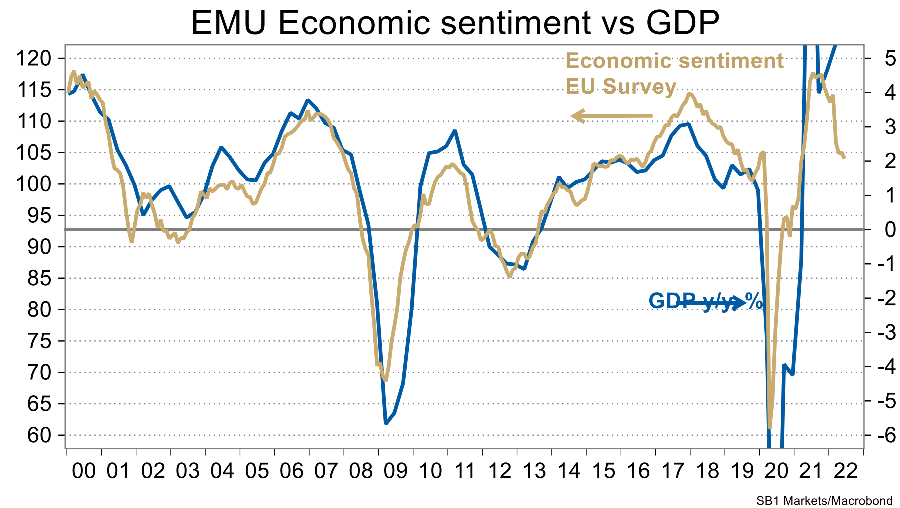


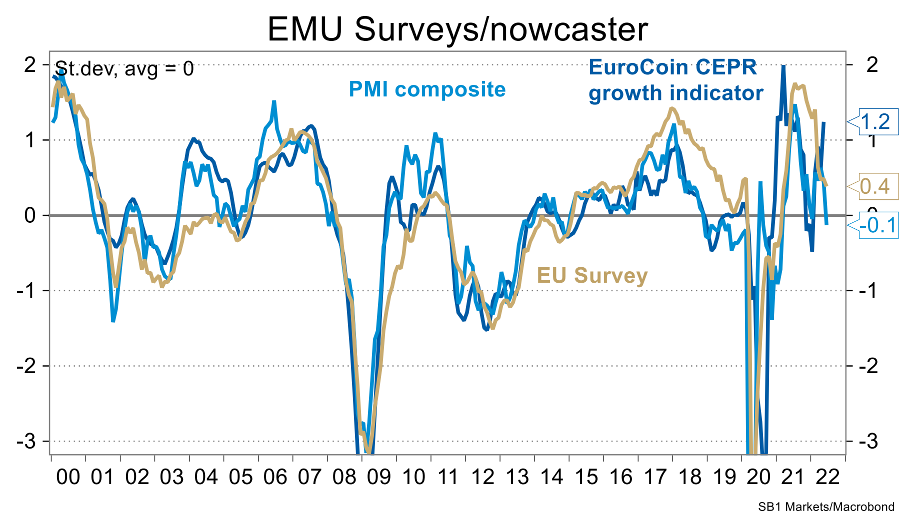
- German sales ‘collapsed’ in April

Consumers lowered the economic sentiment in June, businesses not!

The overall index fell 1 p to 104, expected 103. Sentiment among businesses far above average



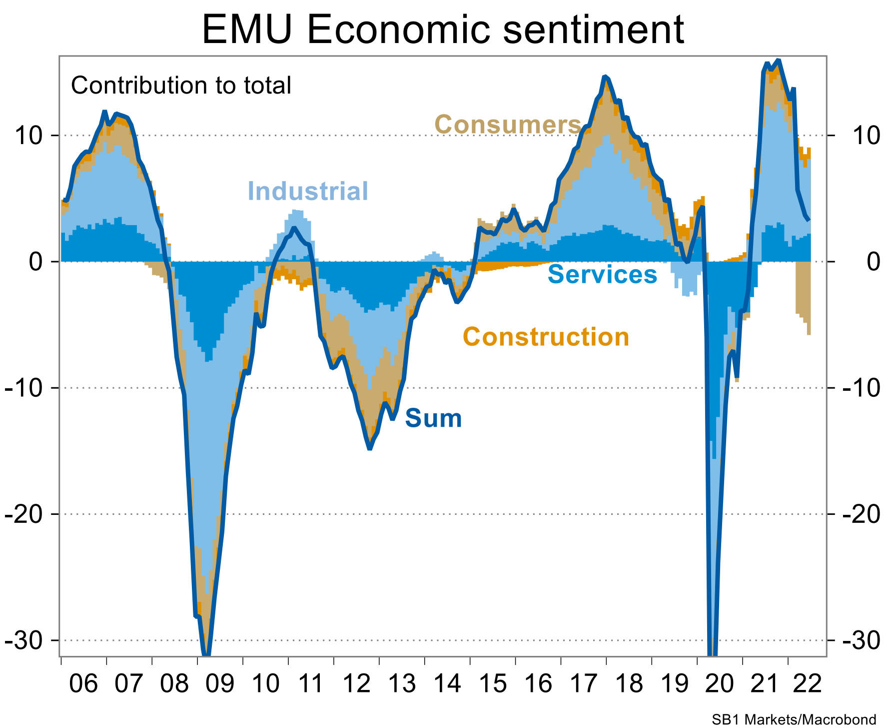




- **EU's confidence survey for the Euro area** fell 1 p to 104, still 0.4 st.dev above an average level. The index signals a 2% GDP growth rate
  - » Households were more pessimistic than ever before, at -2.7 st.dev (data from 1985, after our seas. adj). Businesses sentiment rose, and the level some
  - » **The industrial sector** reported a decline, but not by much, **construction was stable,** and **services reported a small lift in the index**, <u>and all are well above an average level</u>
  - » <u>Thus, war & sanctions have not yet scared businesses much at all</u>
- **The EuroCOIN GDP nowcaster** signals slower growth in line with EUs survey, as do the **PMI reports** – and <u>all report growth above trend</u>

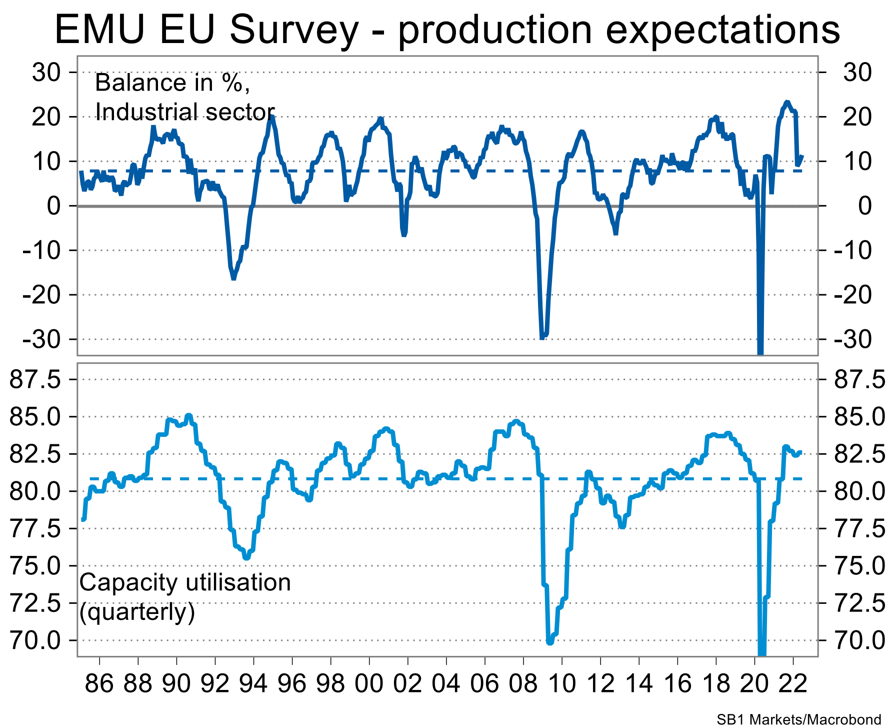
Economic senitment in the business sector rose in June

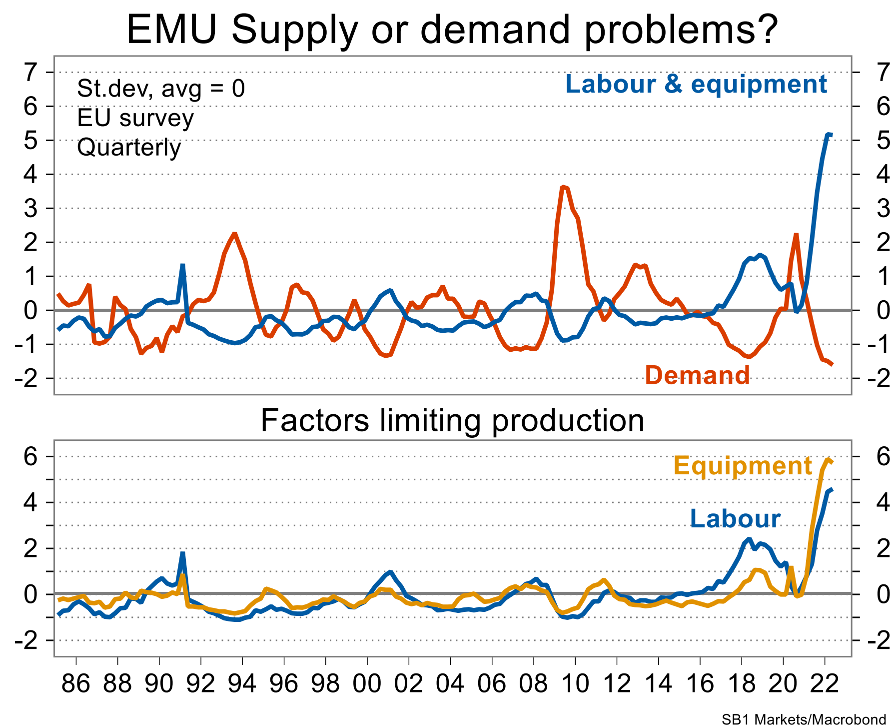
But record bearish households took the overall economic sentiment index down



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

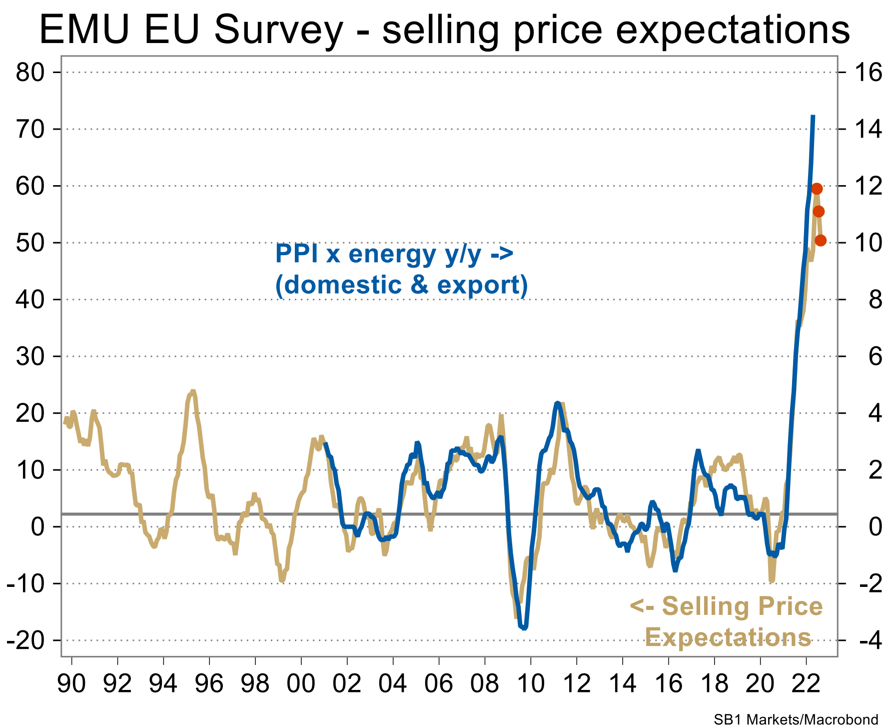
Capacity utilisation well above average – and 'nobody' says demand limits production





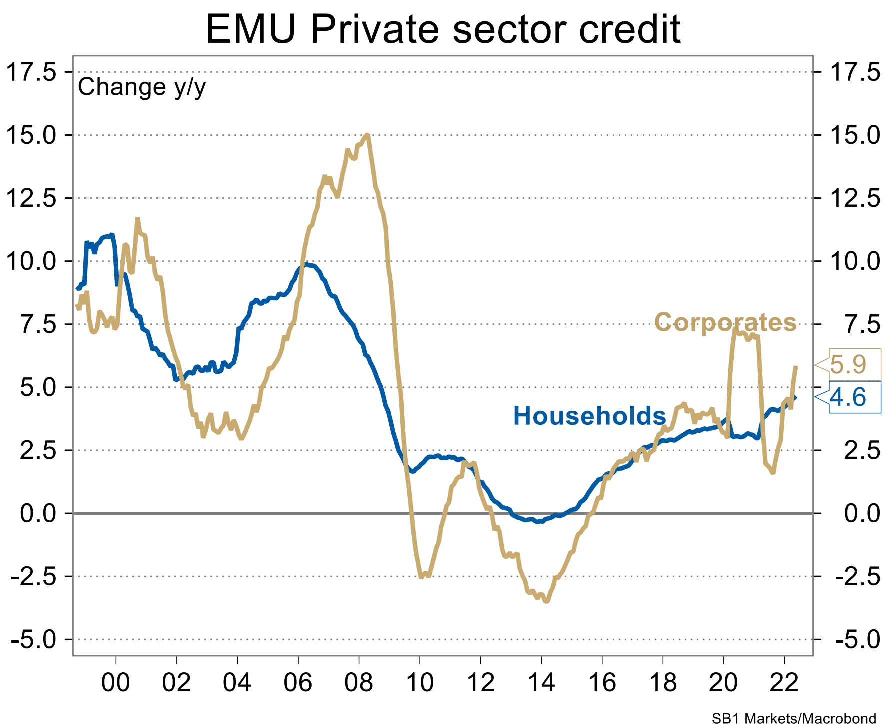
Companies report slightly lower selling price increases

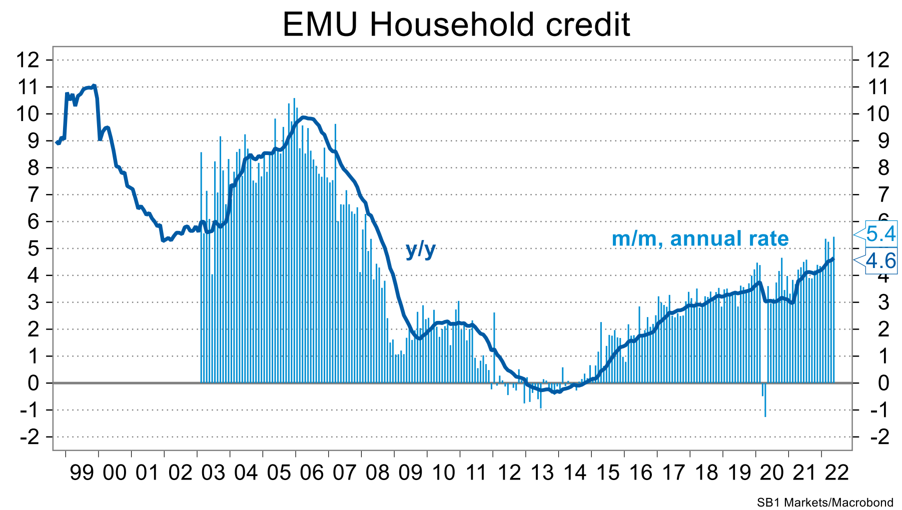
... But still very rapid increases

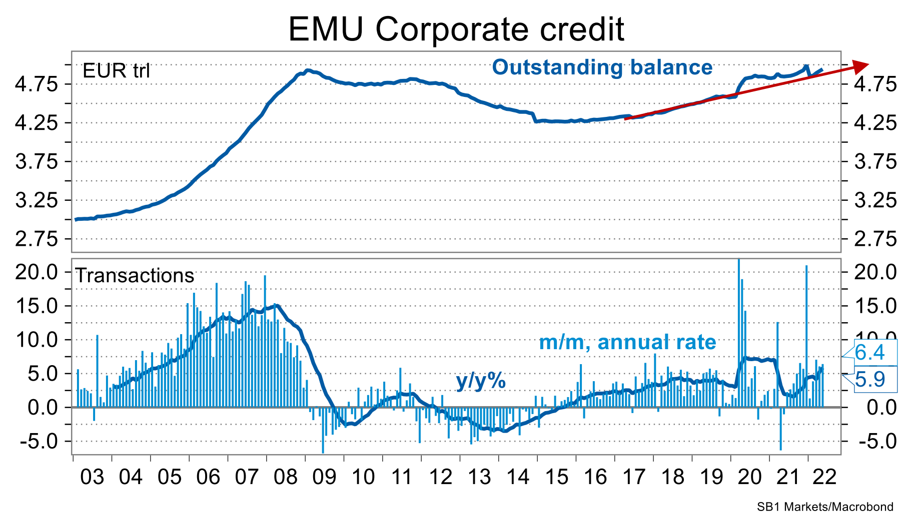


Credit growth is slowly accelerating? Still, no credit boom to be seen

Household debt up at 5.4% pace in May, businesses are taking on somewhat more too (6.4%)



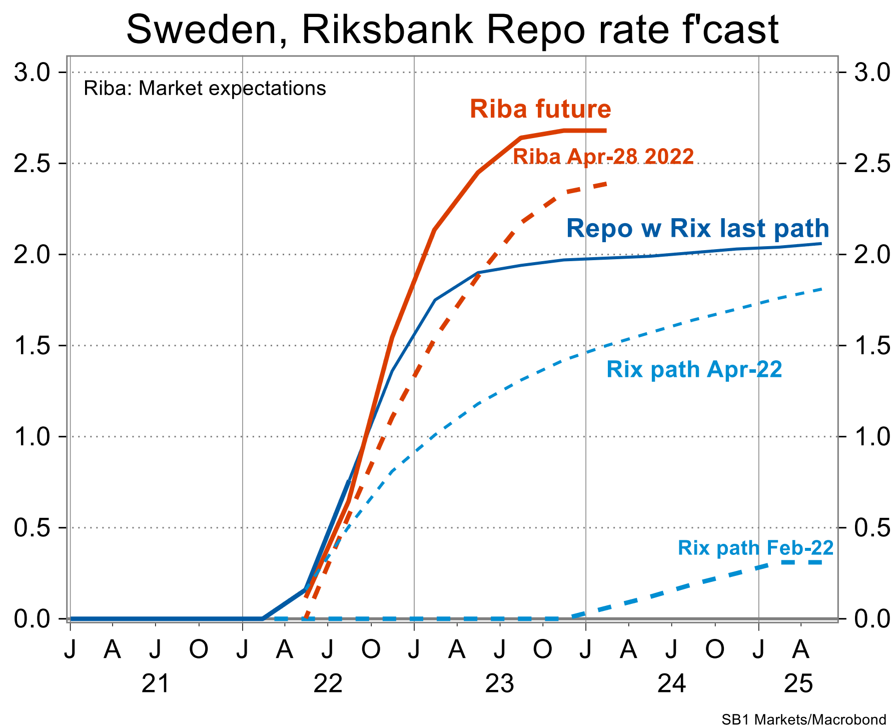




- Annual growth rates at 4.6 – 5.9%, well above normal nominal income growth. Now, incomes are growing much faster due to high inflation (and even higher wage inflation)
- The corporate debt level close to the pre-pandemic trend growth path

The Riksbank lifted the signal rate by 50 bps, still just at 0.75%. More to come

The path was lifted by up to 90 bps, and the peak by 30 bps to 2.1%. Inflation still up, growth down



- **The Riksbank** had to speed up, as most other central banks these days. Even if the interest rate path was lifted substantially, and market rates have fallen somewhat recently, the market is some 70 bps above the Bank's new interest rate path (following a huge retreat recent days, from well above 100 bps above
- **Inflation** was revised further up, **GDP growth** down but the **unemployment rate** was revised just slightly upwards, signalling a downward revision of the output capacity (like in Norway, and most other places).
- The Riksbank will speed up its **QT program**, somewhat, as another part of the monetary tightening

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

Annual percentage change, annual and quarterly averages respectively

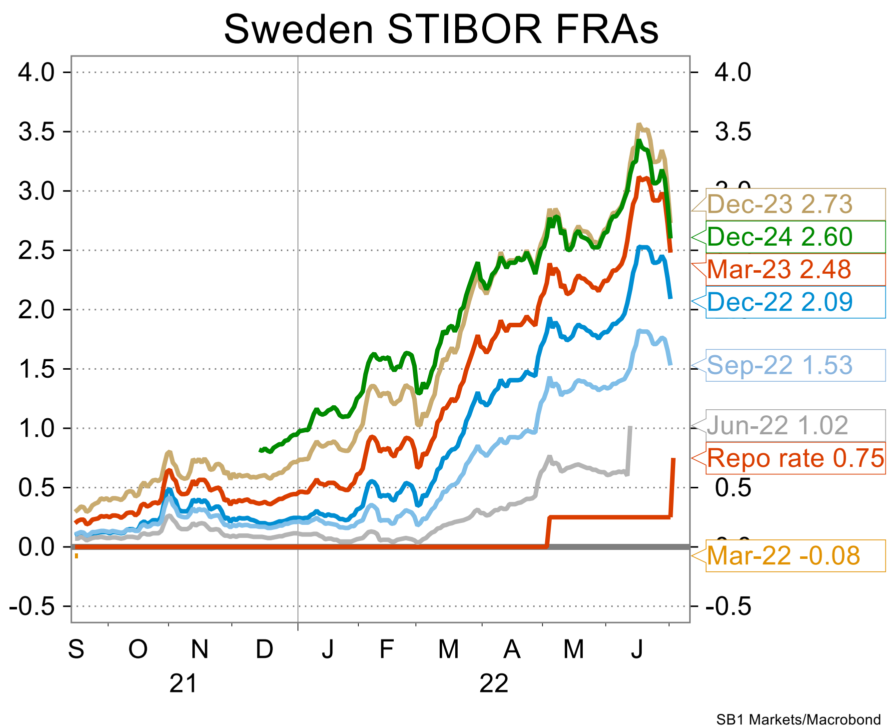
	2021	2022	2023	2024	2025 Q2*
CPI	2.2 (2.2)	7.6 (6.0)	7.1 (5.0)	2.7 (2.8)	2.1 (2.3)
CPIF	2.4 (2.4)	6.9 (5.5)	4.2 (3.3)	2.0 (2.0)	2.0 (2.1)
GDP	5.1 (4.8)	1.8 (2.8)	0.7 (1.4)	1.3 (1.4)	1.8 (1.5)
Unemployment, per cent	8.8 (8.8)	7.5 (7.6)	7.7 (7.4)	7.9 (7.4)	8.0 (7.4)
Policy rate, per cent	0.0 (0.0)	0.6 (0.4)	1.9 (1.2)	2.0 (1.6)	2.1 (1.8)

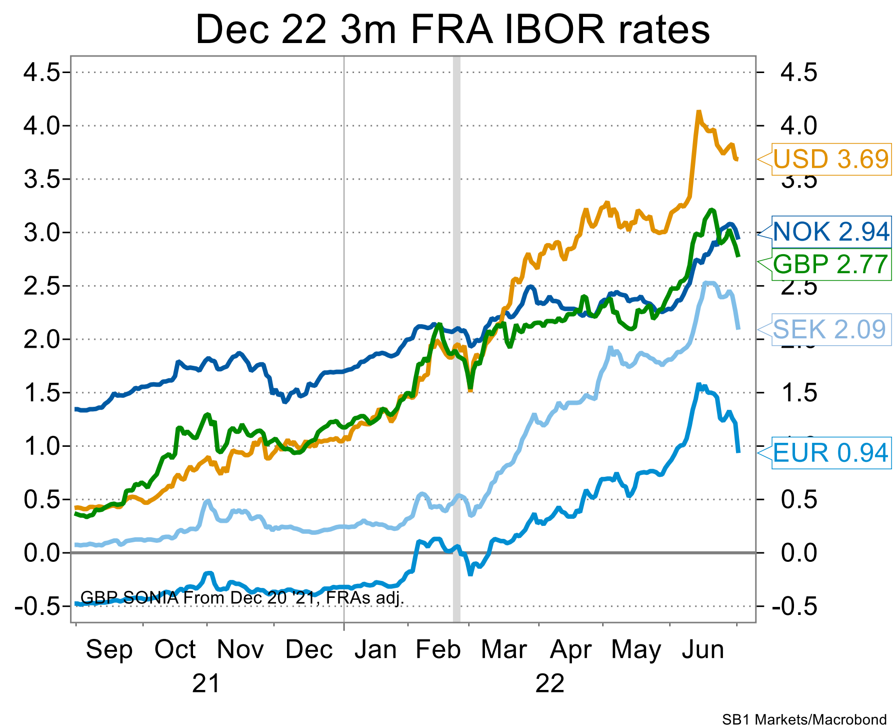
Forecast for the policy rate

Per cent, quarterly mean values

	2022 Q2	2022 Q3	2022 Q4	2023 Q2	2024 Q2	2025 Q2
Policy rate	0.16 (0.16)	0.76 (0.51)	1.36 (0.81)	1.90 (1.18)	1.99 (1.57)	2.06 (1.81)

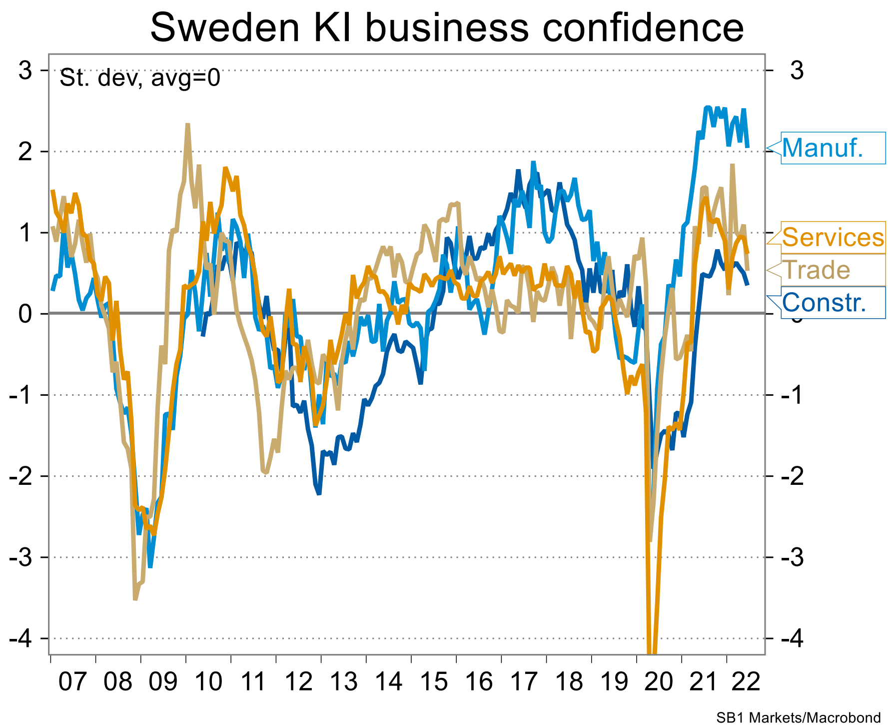
Rate expectations further down through last week, like abroad

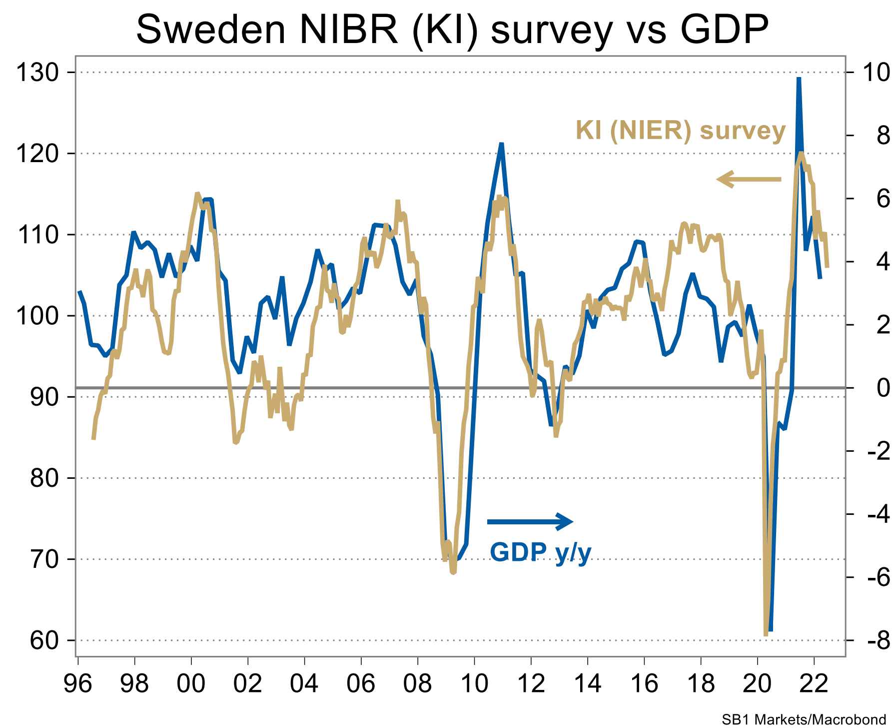




Business confidence is slowly retreating, construction at the bottom, still > avg!

Trade lost the most in June. Confidence in the manuf. sector still close to ATH, 2 st.d. above avg

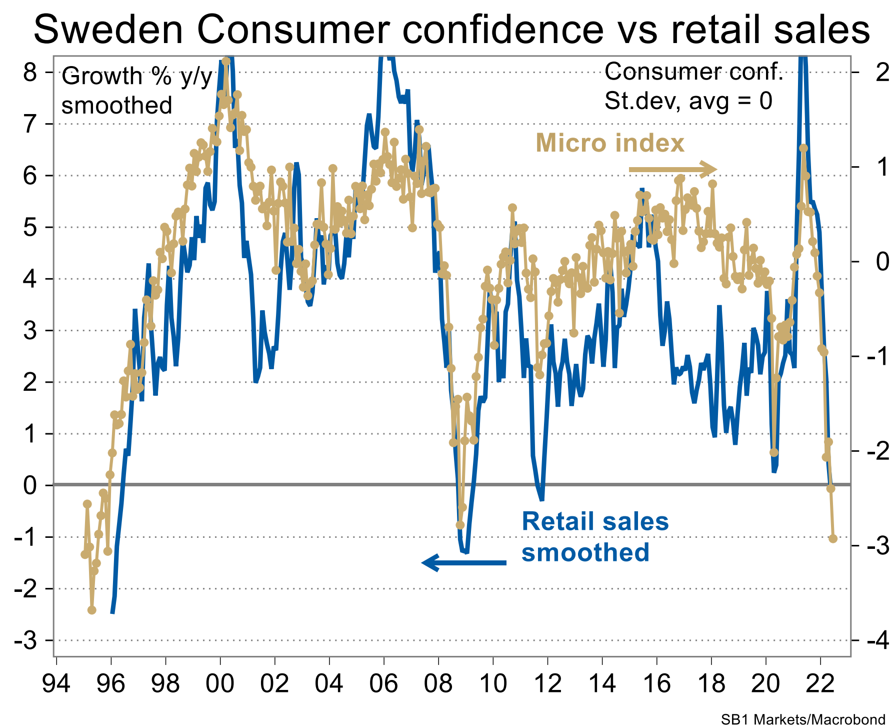


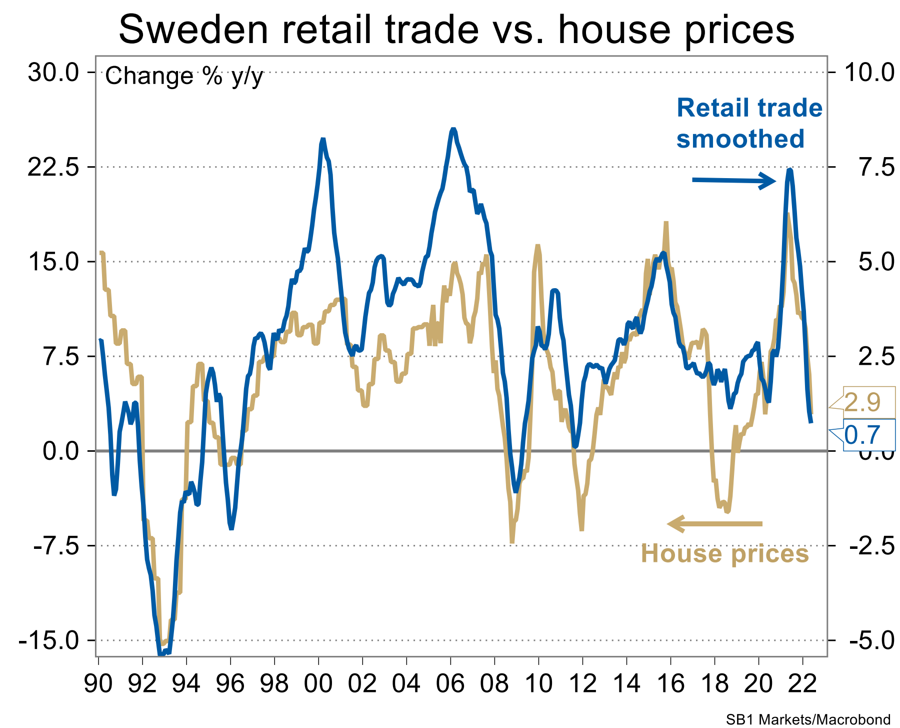


- **The composite index** rose fell to 105.9 in June from 110.3 in May, expected down to 108,0, equalling a 0.4 st.dev decline to +0.6 st.dev above average. The index signals a 4% GDP growth rate, down from 5% in May
- **All 4 main sub-sectors** are reporting growth above average. The **manufacturing index** remains at a very high level, +2 st.dev, not far below ATH
- Even the **construction** sector

Consumer conf. further down in ~~May~~ June, to the lowest level since ~~2008~~ 1995

Inflation, interest rates & falling house prices – and a war nearby. Household demand exposed?

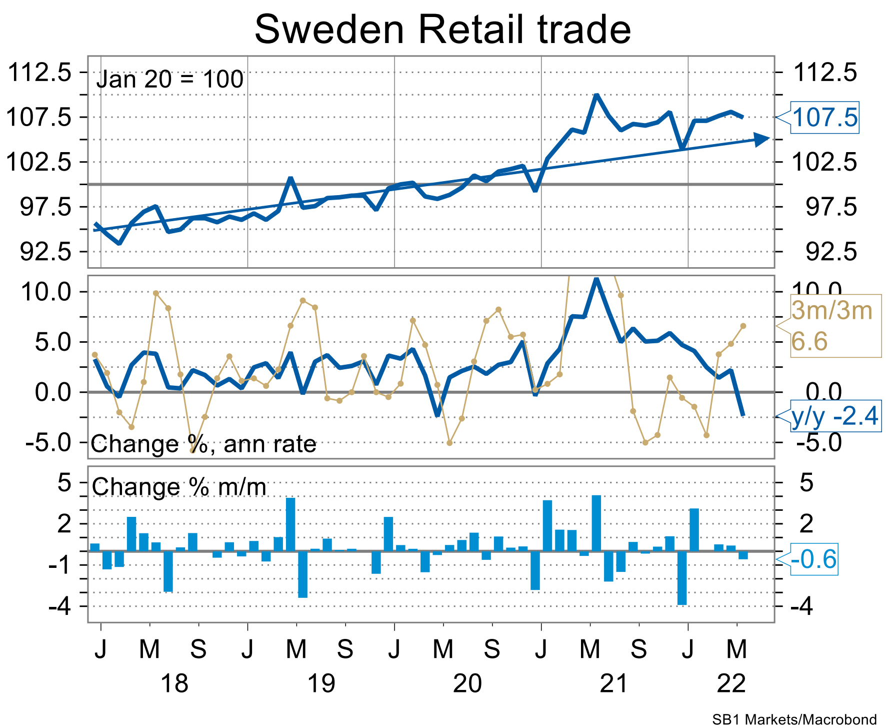


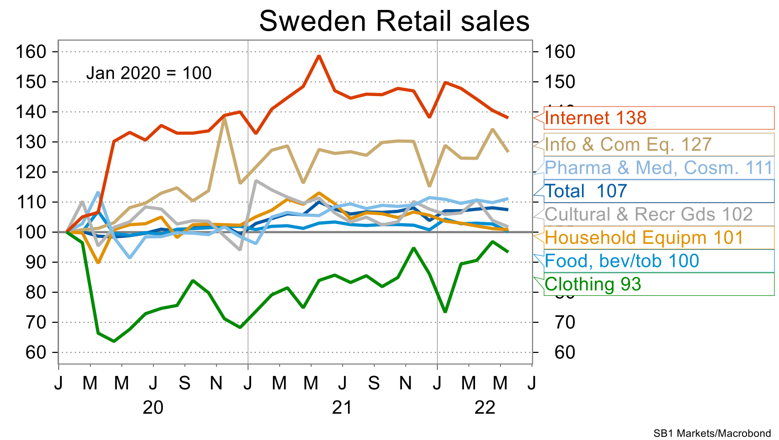


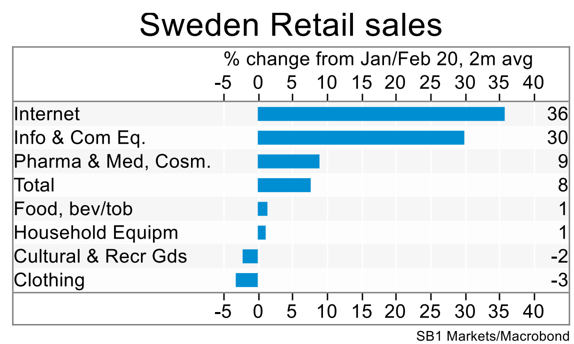
- **Consumer confidence** fell by 4.9 p to 65.5 in June, or by 0.4 st.dev to -2.4 st.dev below average. The level is the lowest since 1995 (the micro index, covering the personal econo9my fell by 0.5 st.dev, to -2.9 st.dev)
- Even if the annual growth rate in retail sales (and house price inflation) have fallen alongside the decline in consumer confidence, sales have not slowed measured m/m recent months (check next page)
- However, given high inflation and loss of real income, higher interest rates and now also falling house prices and a waning confidence, the outlook for household demand is rather bleak

Retail sales a tick down in May, trend still up – level not that high

Sales are 7.5% higher than before the pandemic, some 3% above the pre-pandemic trend



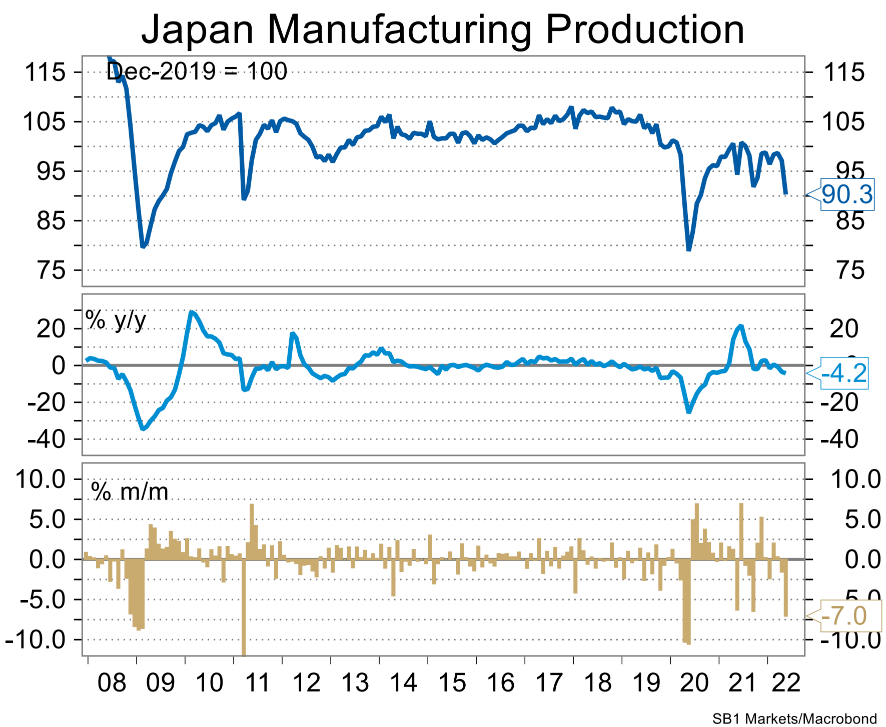


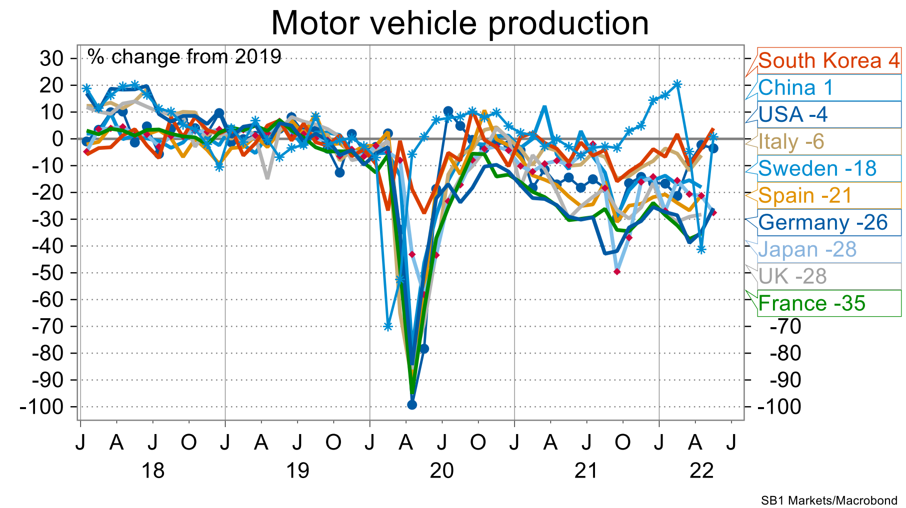


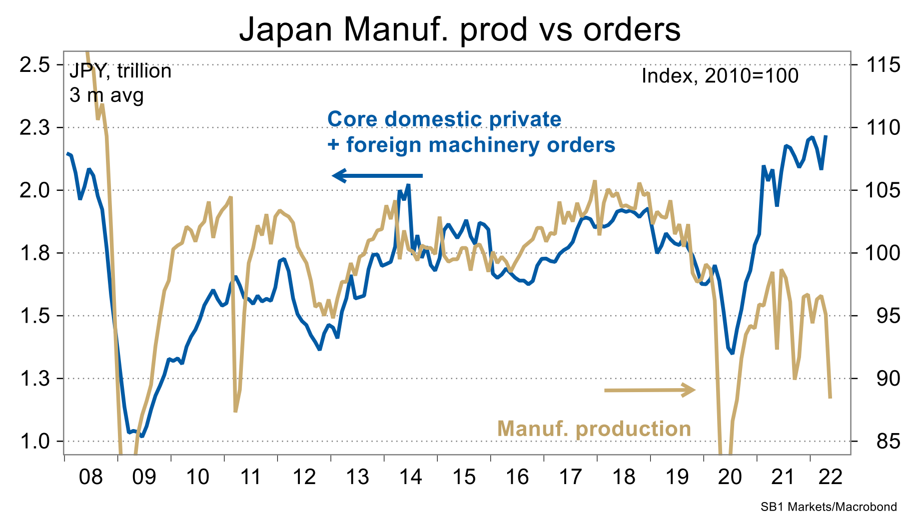
- Sales fell 0.6% m/m following the 0.4% increase in April. The underlying trend is still slightly upwards
- Clothing is still down 3% vs. the pre-pandemic level, rather surprising

Manufacturing production down 7 (-seven-) % in May, expected -0.3%

The decline was broad, and not caused just by the auto industry. A solid rebound (12%) is exp. in June



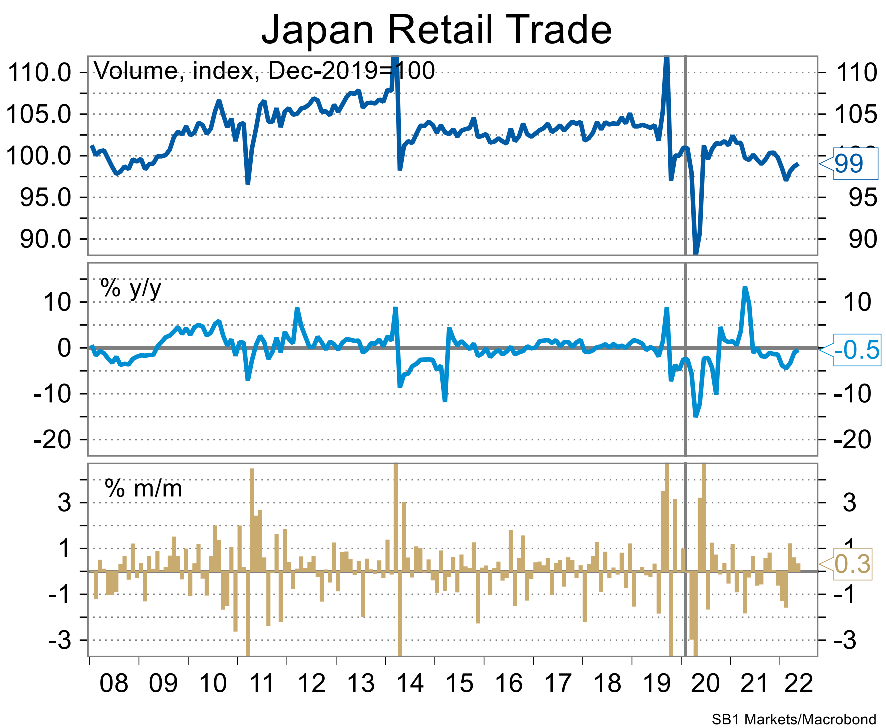


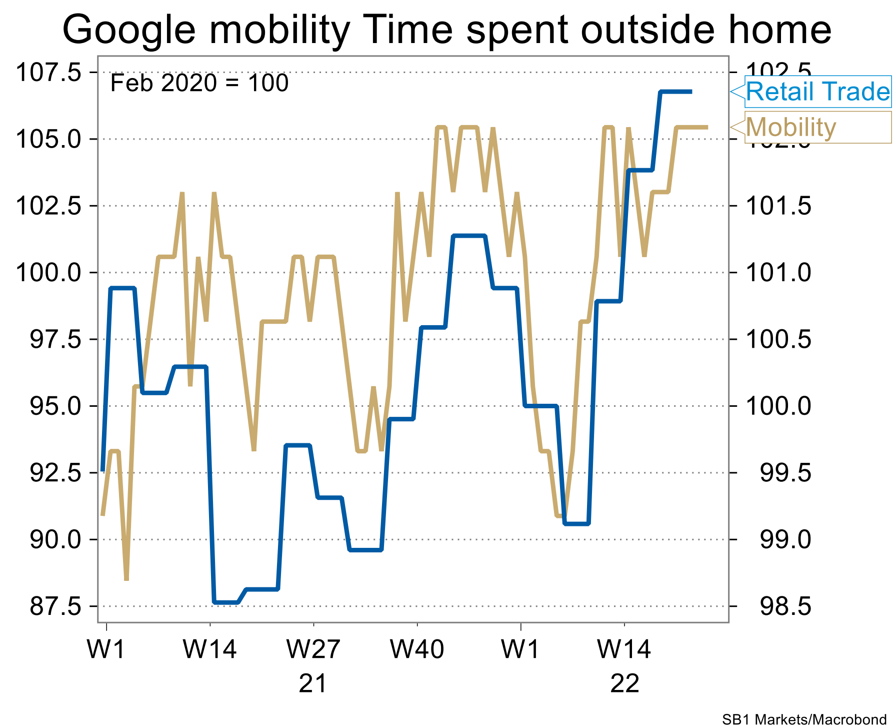


- **Production** fell more than since the first Covid wave. Disruptions due to lack of supplies from China is reported to have contributed
- **Overall order inflow** has strengthened substantially through 2021, and into 2022 signals a much higher production level than the present
- **Companies** report they expect a sharp recovery in June, by 12%. Usually they exaggerate but given orders and surveys, the May data 'have to' be an outlier

Retail sales up 0.3% in May, level still low

Sales are still 1% below a low level before the pandemic hit

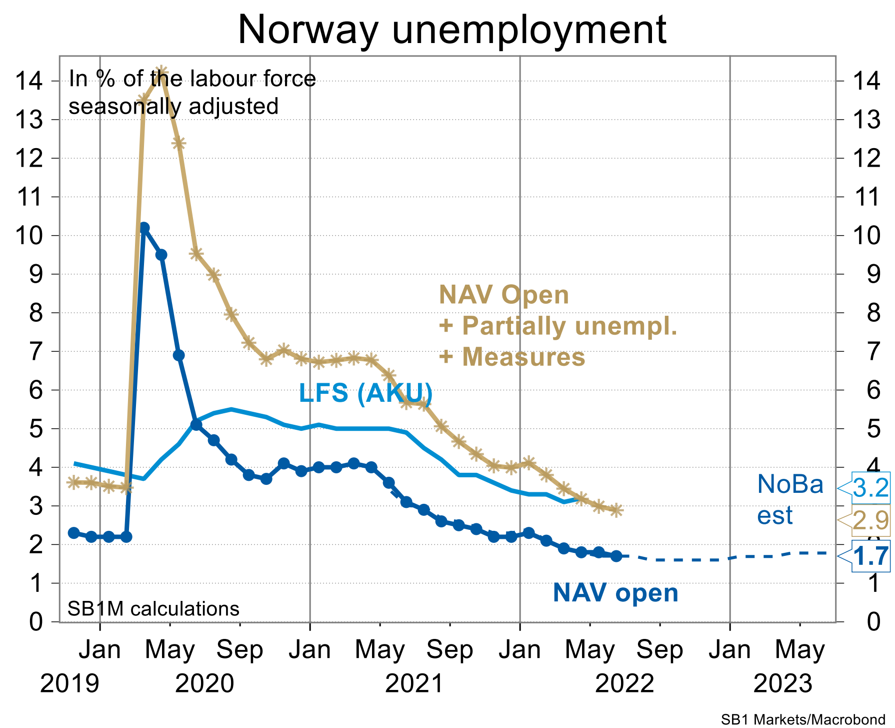


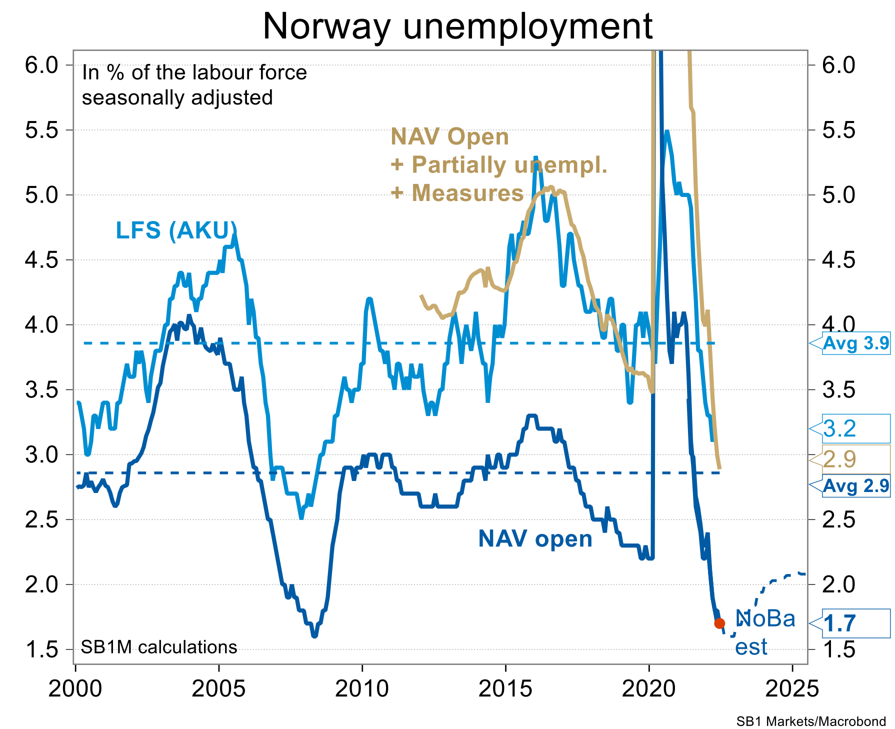


- **Retail sales** have been quite closely correlated to mobility (time spent outside home) recent months – and now mobility is close to normal

NAV unemployment still on the way down but at a slower pace in June

A small upward revision of May but a further decline in June. New vacancies have probably peaked

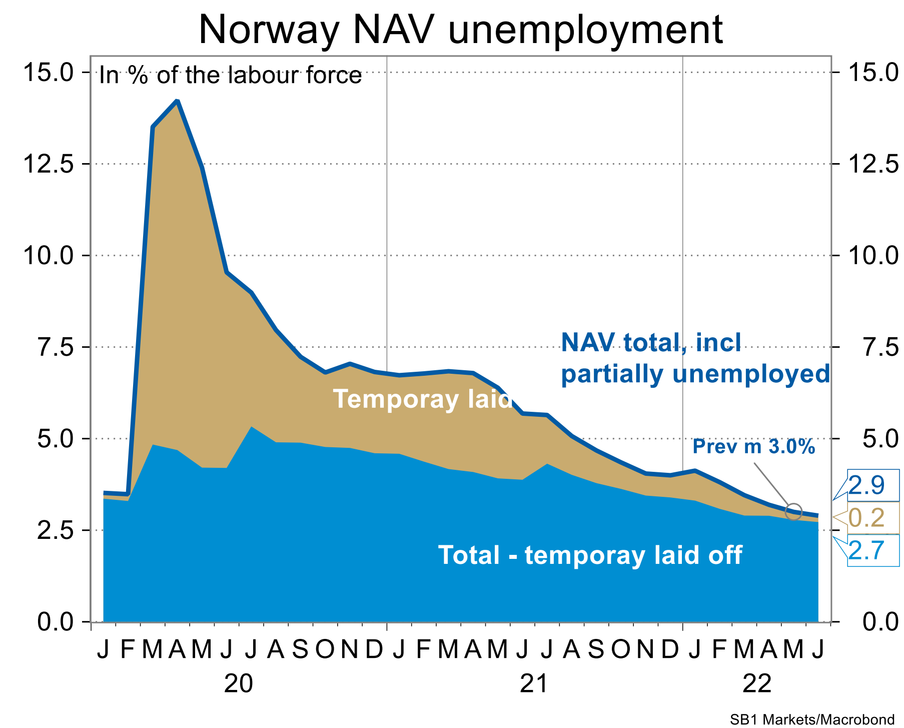


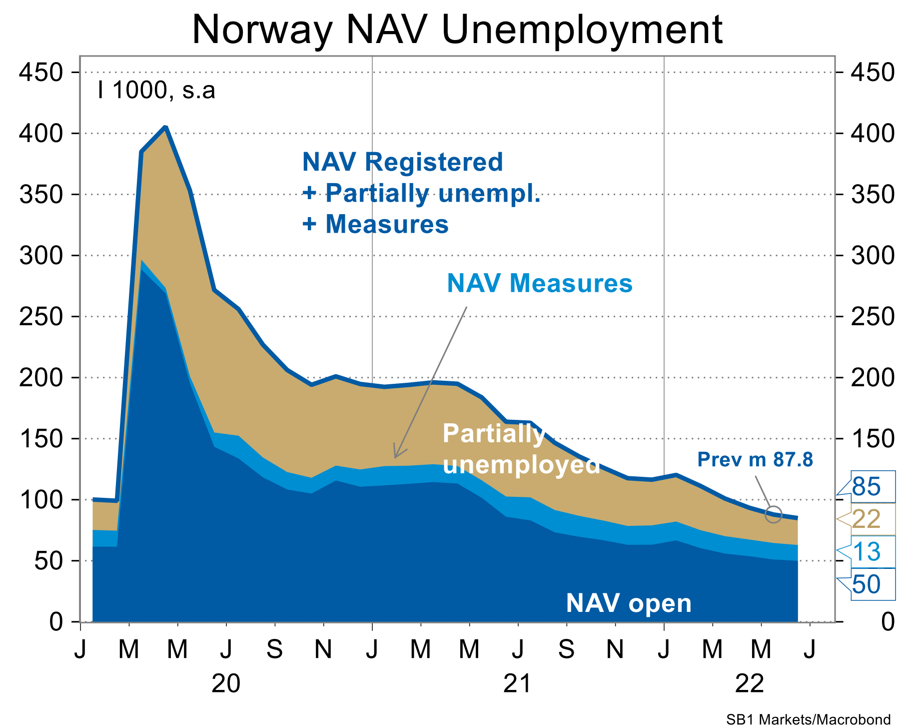


- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by 1' persons in June (seas. adj) to 50', slightly above our forecast, and to 1.8% of the labour force, down 0.1 pp from the 0.1 pp upward revised rate in May. We expected 1.7%. Unadjusted, the rate fell 0.3 pp to 1.6% , 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 below the average since 2000. Norges Bank revised it's forecasts down in the June MPR. In May, the March forecast was 0.3 pp off mark!
- The number of **partially unemployed** (not incl . in the ordinary unemployment no.) fell by 1' to 22', and including measures, the **total unemployment** fell by 3' to 85', 16' below the pre-pandemic level. The overall unemployment rate fell by 0.1 pp to 2.9%
- The inflow of **new job seekers** may have bottomed at a low level. The **inflow of new vacancies** fell further in June, but remains at a very high level
- **The LFS (AKU) unemployment rate** fell to 3.2% in April, while employment flattened. The no. of employees rose further in May

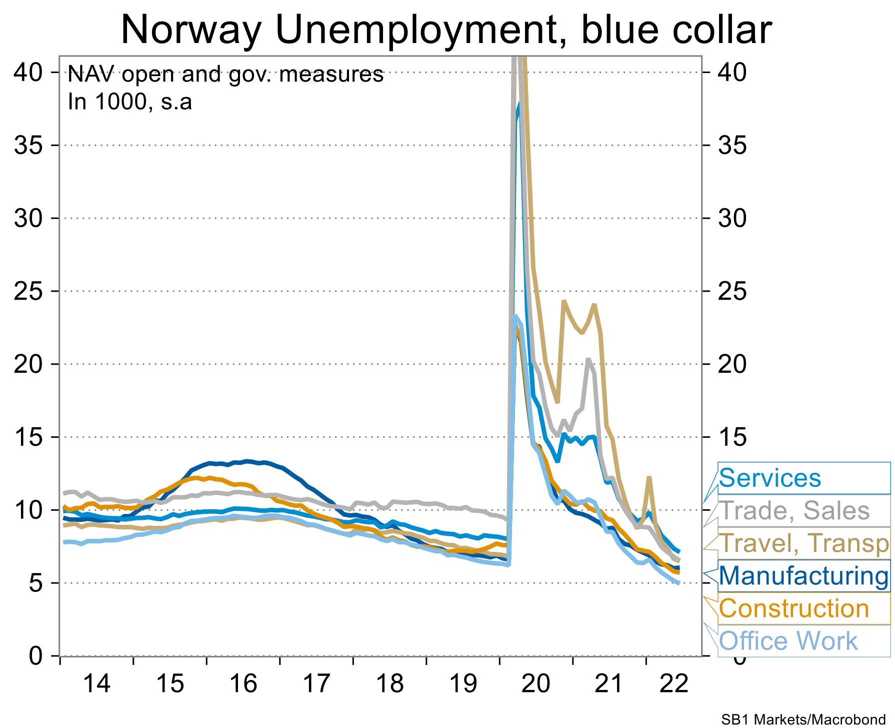
Down, down, down – whatever measure we apply

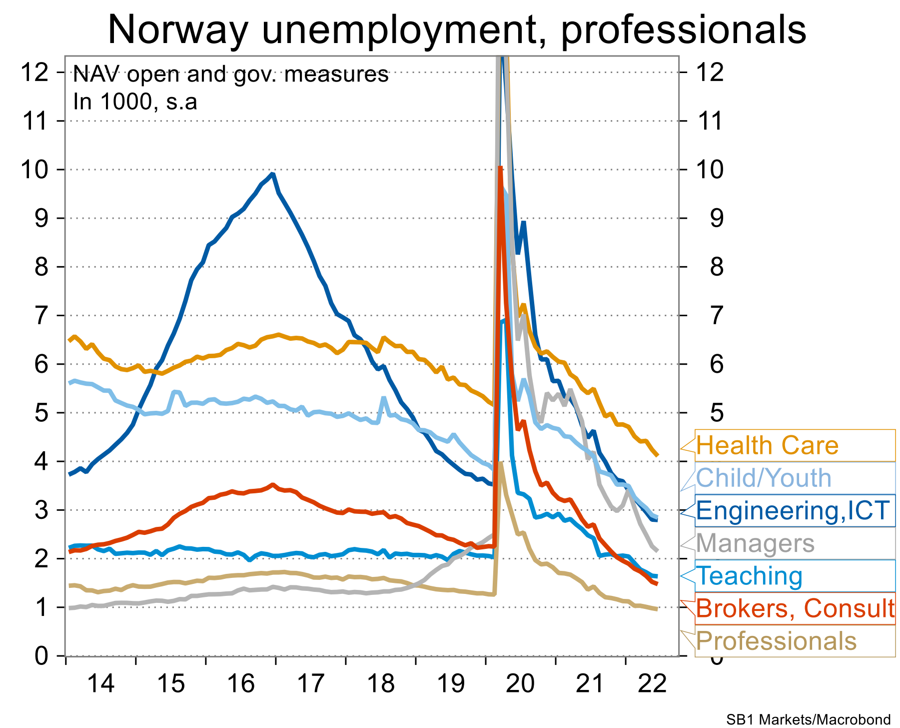
Grand total unemployment is now 16' below the pre-pandemic level, an the lowest since 2008





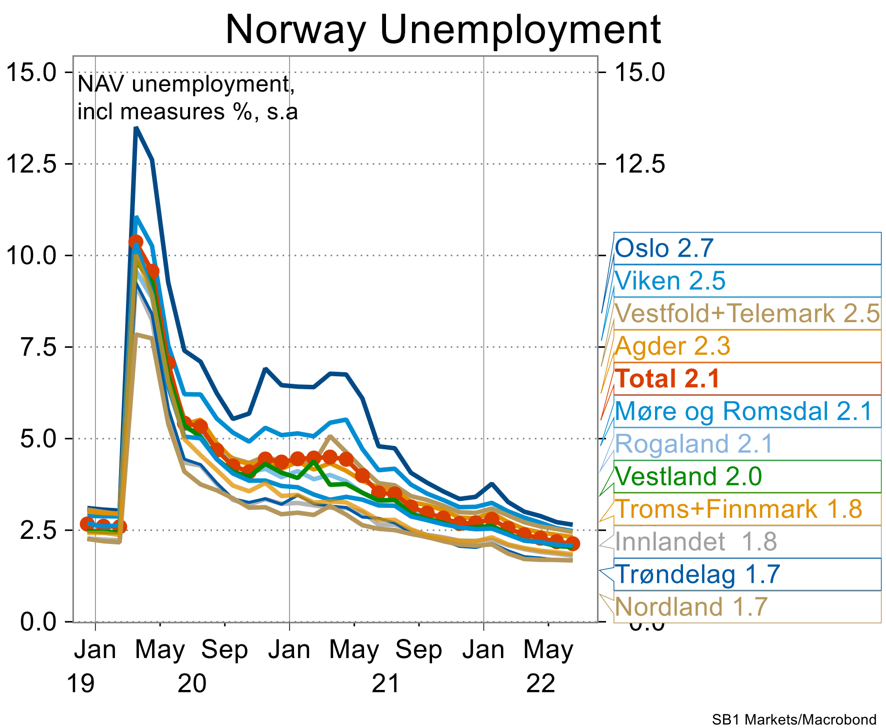
Unemployment is still declining for all sorts of labour

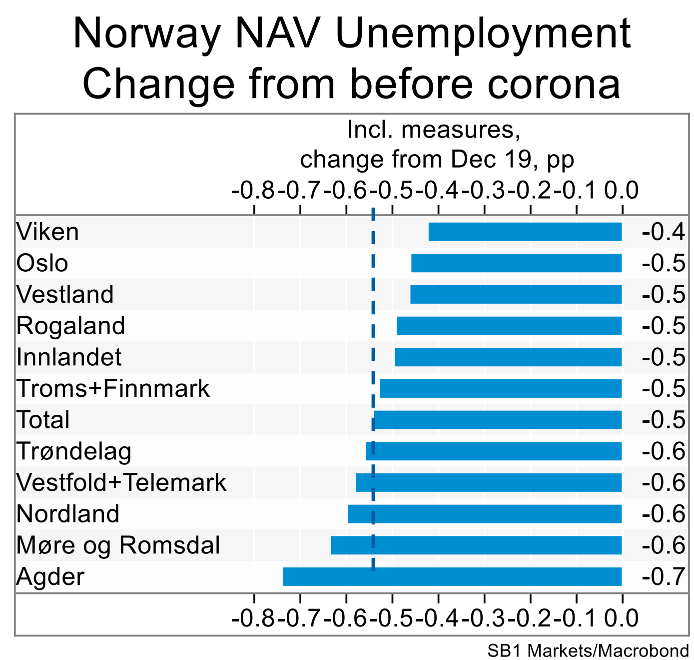




Unemployment is falling everywhere – and to well below pre-pandemic levels

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

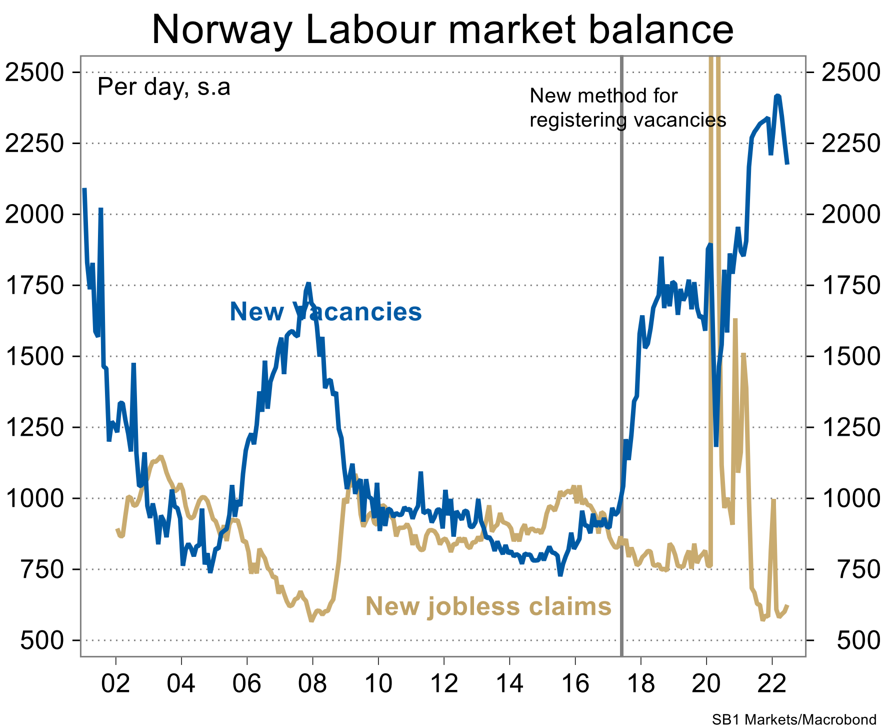


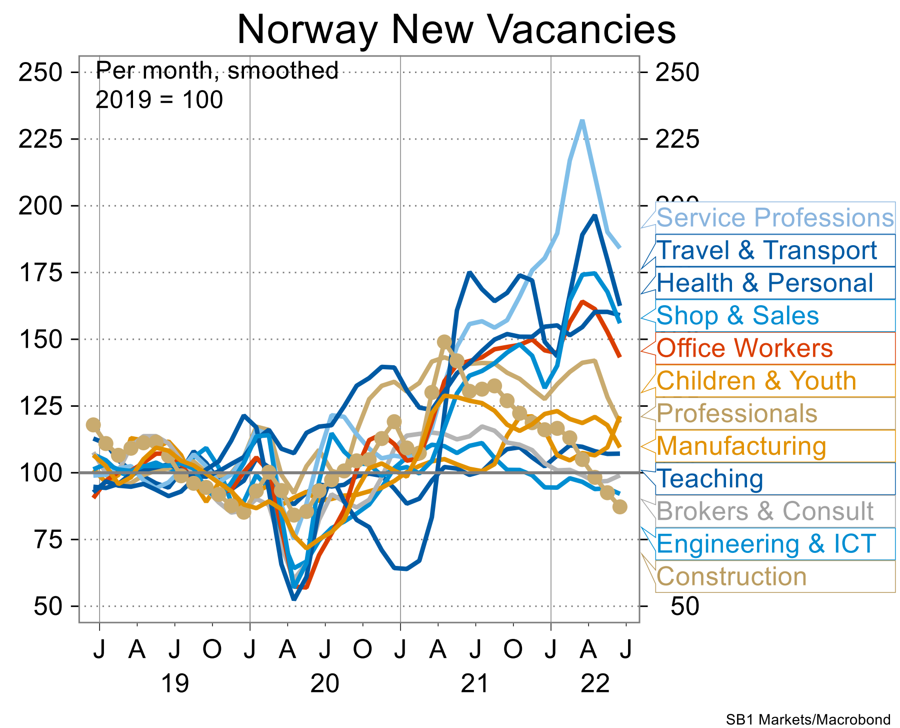


- Nordland and Trøndelag at the bottom – Oslo at the top, as usual

New job openings have peaked, at a very high level – broad based

Also, the number of new jobless claims may have bottomed

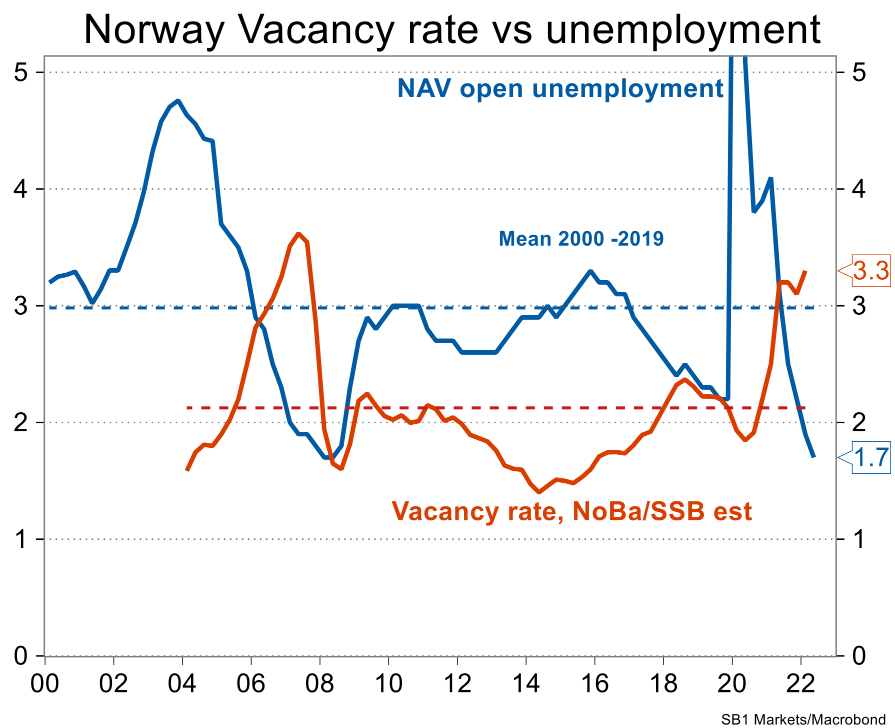


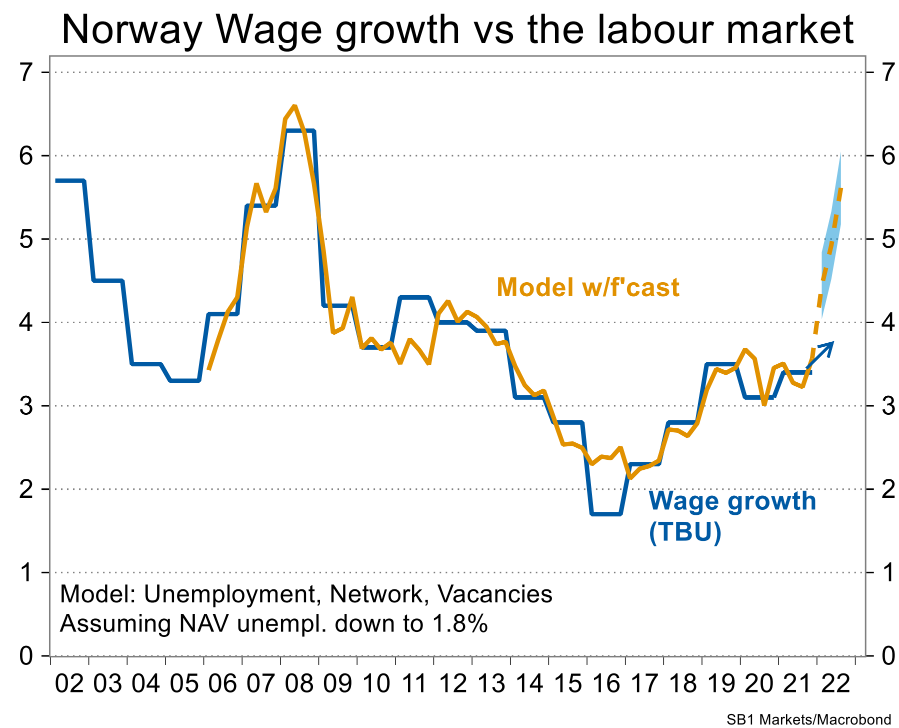


- Most sectors have announced somewhat fewer new vacancies recently, most <u>pronounced in the construction sector</u>
- Most sectors are reporting a higher number of new vacancies than in 2019

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

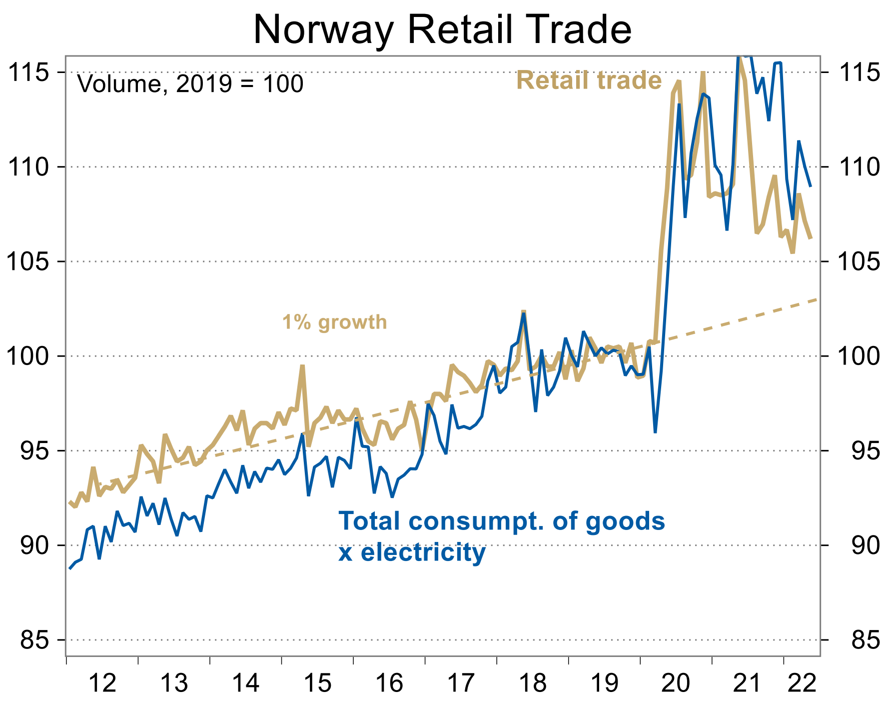
The labour market is tight – and it is still tightening further



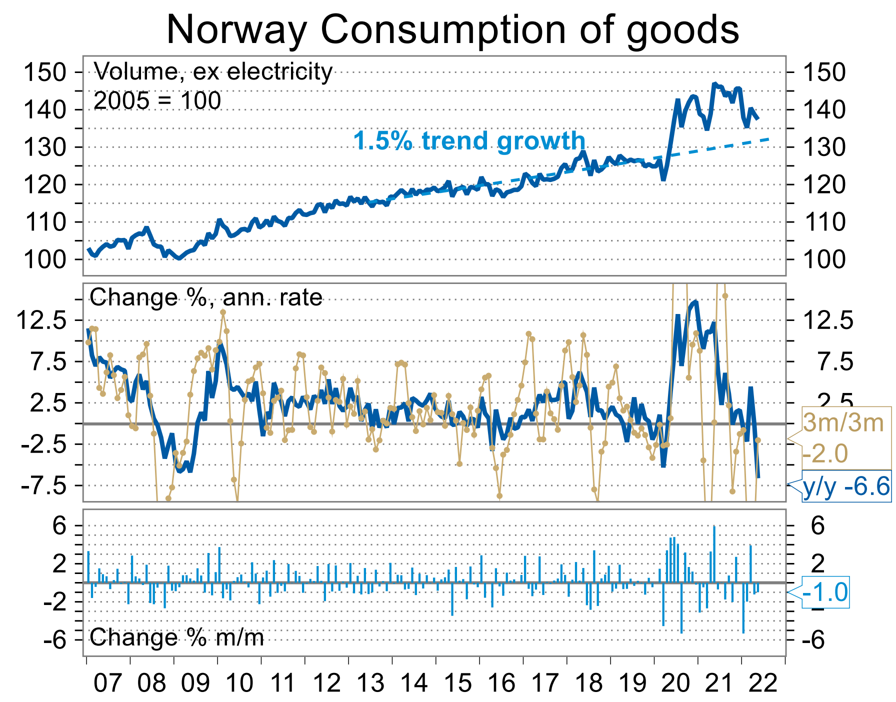


Retail sales further down in May, trend is down too, as most places now

Sales down 0.9%, we expected flat. Sales are still above a pre-pand. Trend, the that trend was modest



SB1 Markets/Macrobond

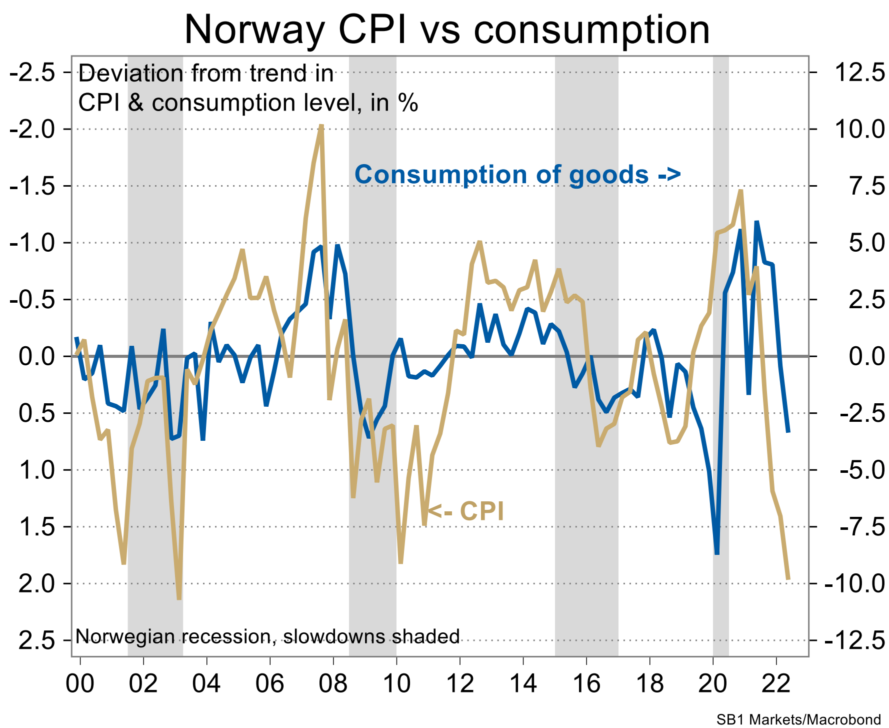


SB1 Markets/Macrobond

- **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 back down to the pre-pandemic trend
- Sales fell 0.9% in May following a 1.3% decline in April (revised from -1.0%). Consumption of goods (including autos, ex electricity) fell 1.0%, as in April
- The decline was broad based

Higher consumer prices contributes to lower consumption

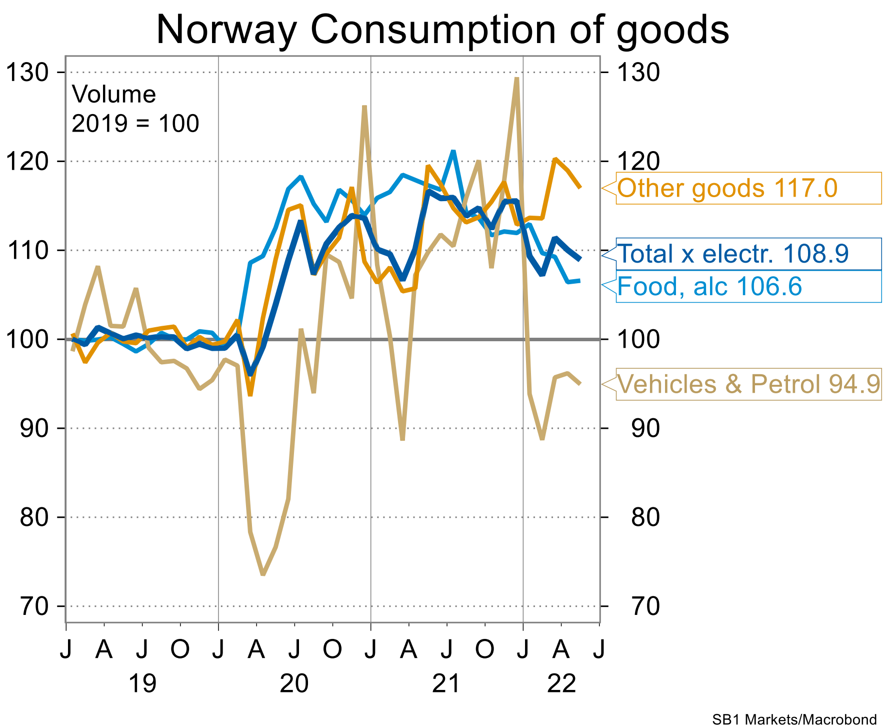
Consumption of goods (volume) are negatively correlated to changes in consumption prices

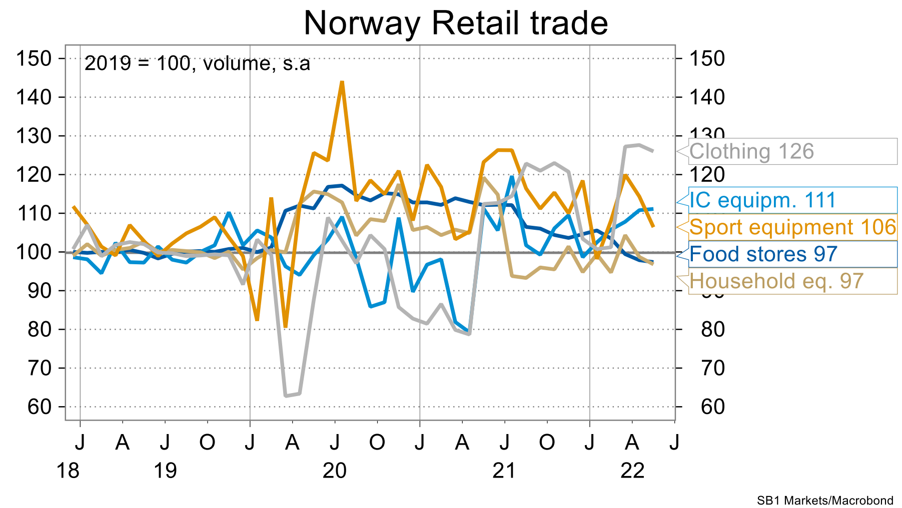


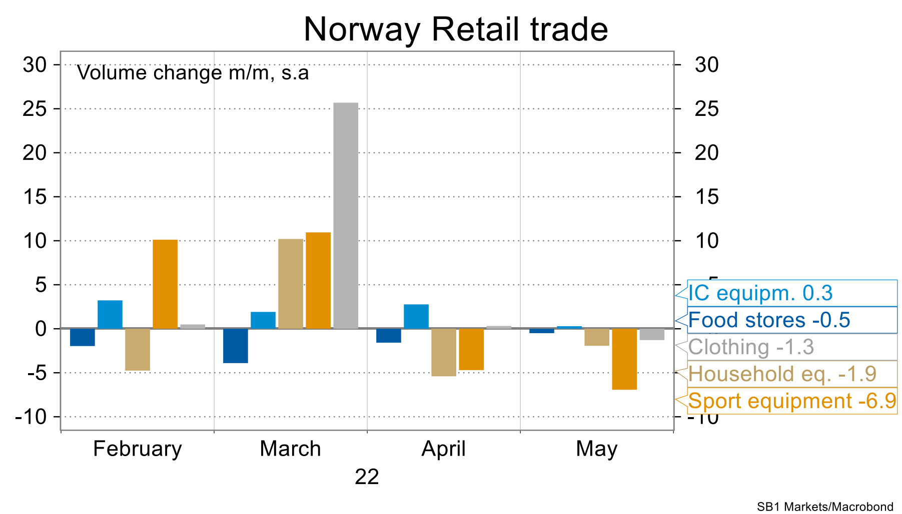
- The elasticity for consumption of goods vs. changes in headline CPU is some -2, probably as consumption of services normally are more stable than goods – and because high prices normally are associated with a weak Norwegian economy (like oil prices down, NOK weaker, higher imported inflation
- So far, 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

Most sectors contributed at the downside in May

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







- Clothing sales are finally well above the 2019 level, +26%

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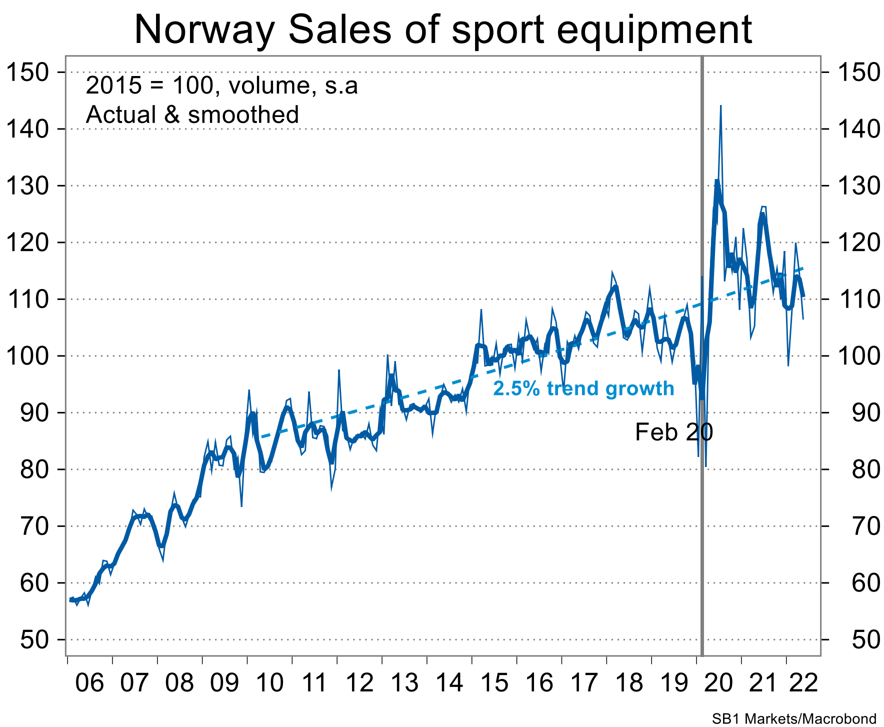
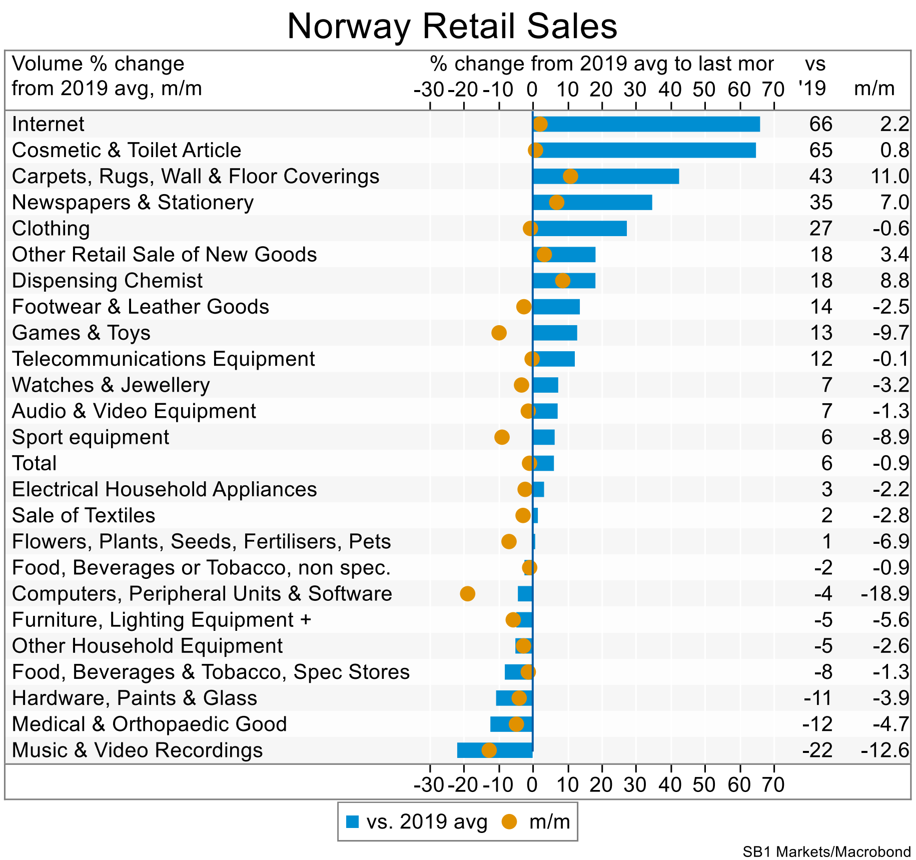
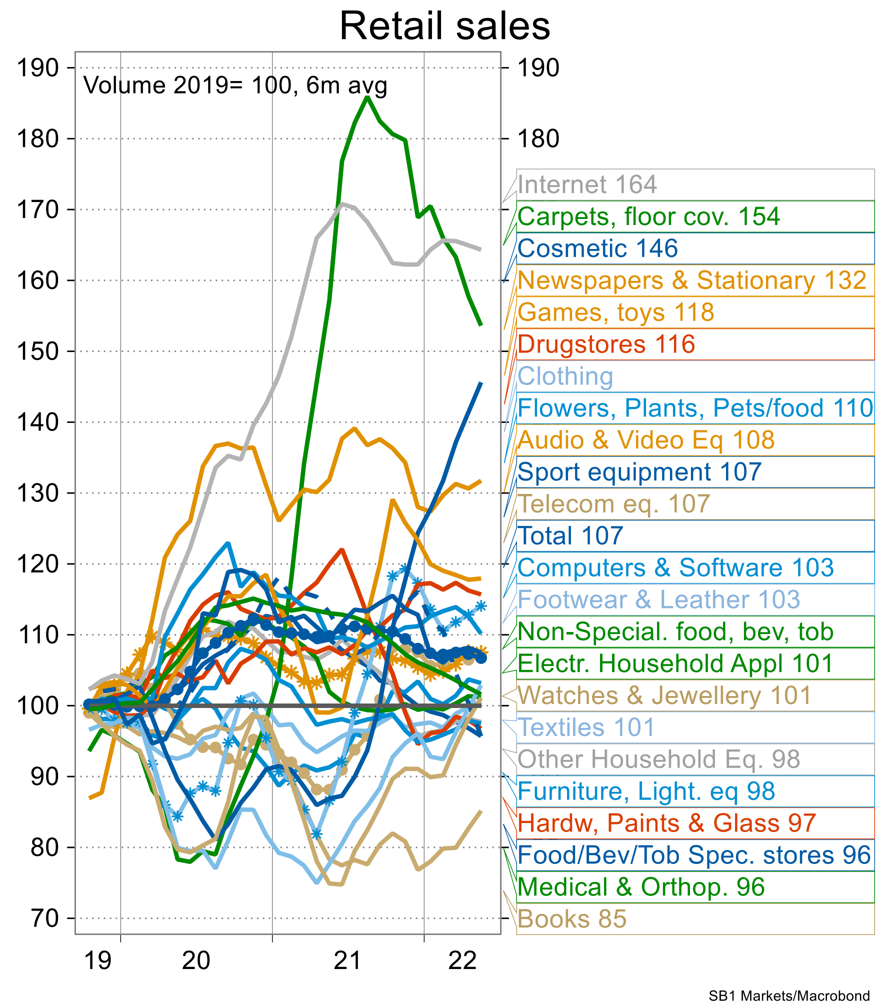
Sports equipment: Below a normal level – and a limited downside?



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



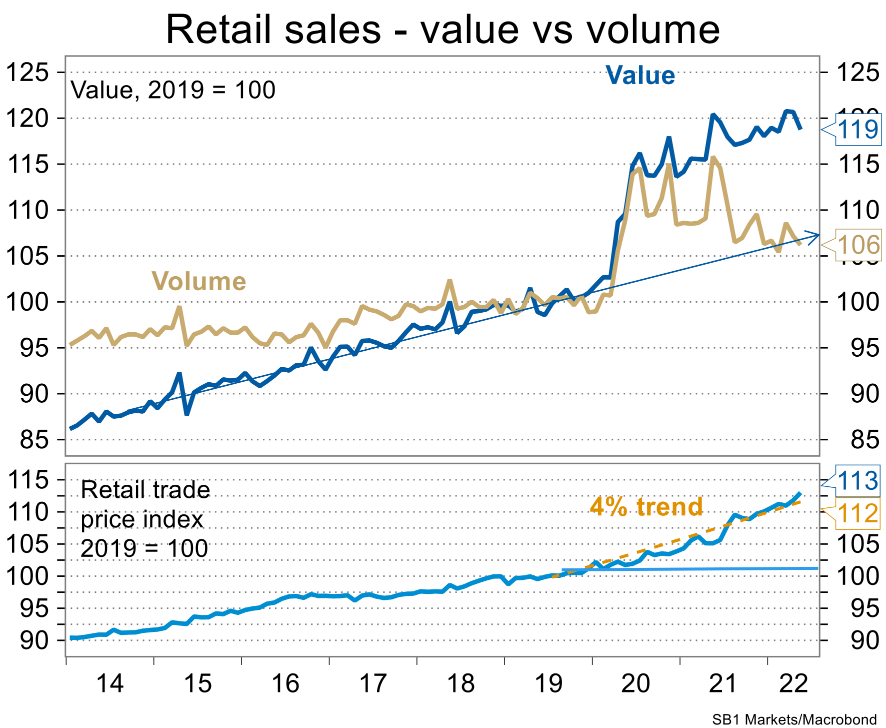


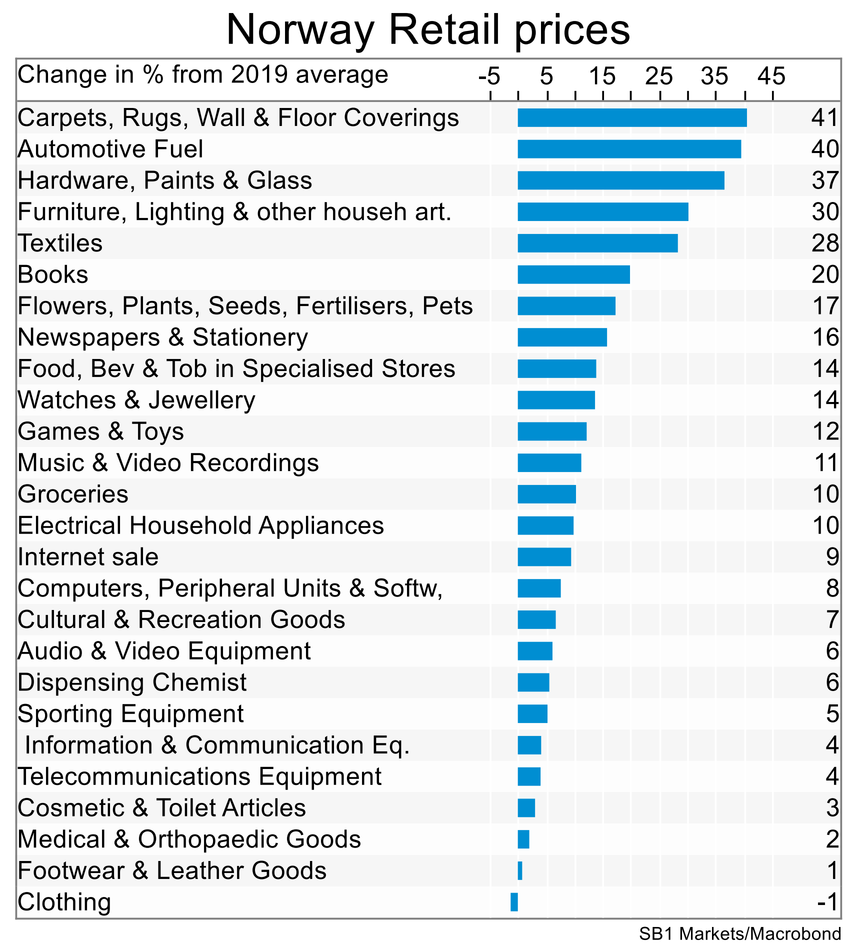
Where is the risk now?

- 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 13%





- Retail sales, measured in value terms, are 19% above the 2019 level and some 11% above the pre-pandemic trend
- Huge differences is **price changes**:
  - Floor coverings, hardware (building materials) are up 37% – 41%, furniture 30%
  - Close to the bottom of the list: Sport equipment prices are up just 5% and clothing is down 1%!

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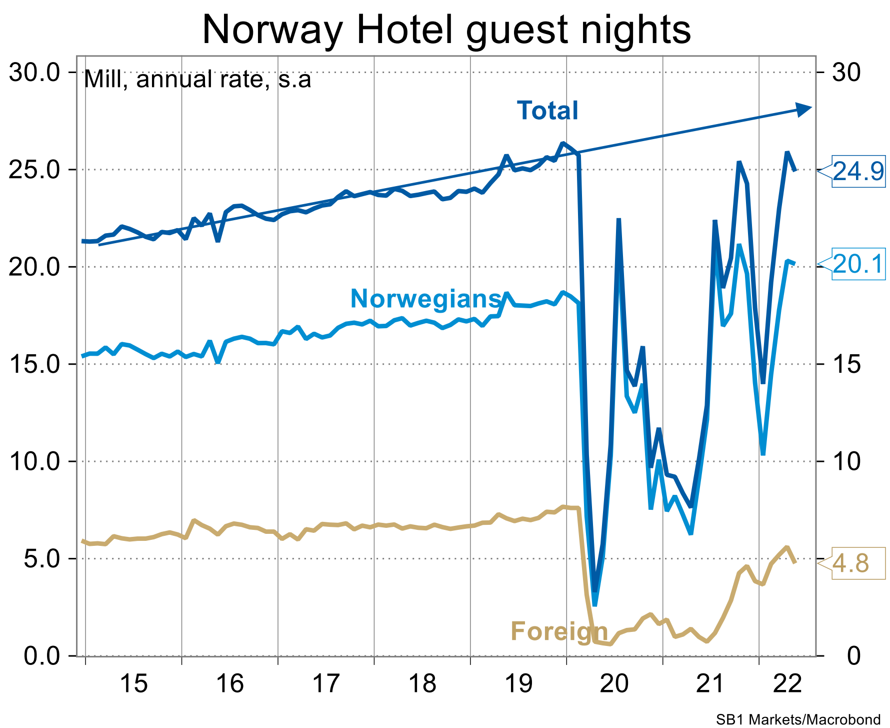
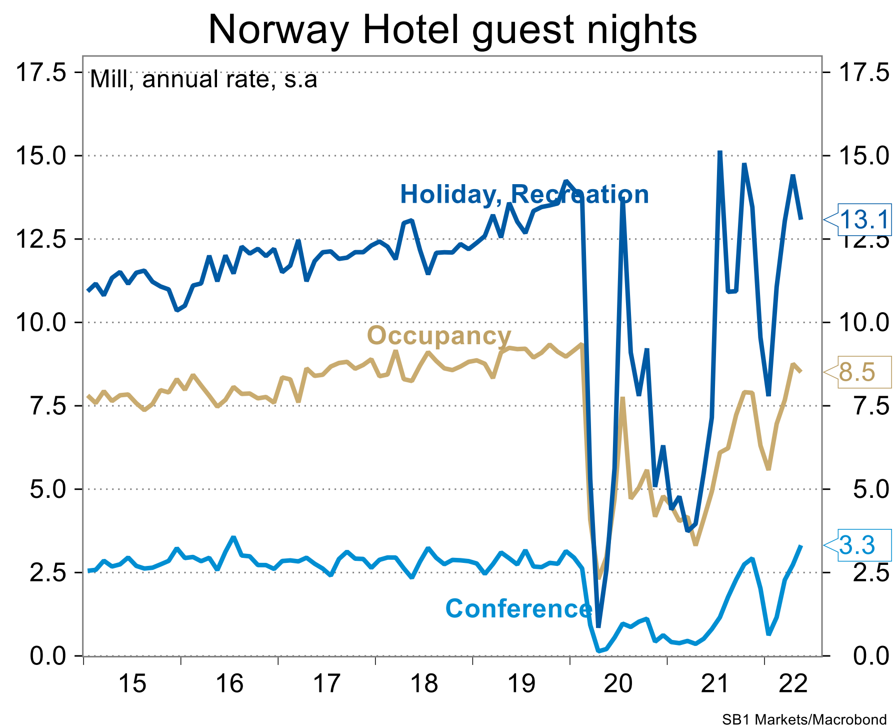
Marginally fewer hotel guests in May, level is close to the pre-pandemic level

Foreign guest nights are still down 1/3 but more Norwegians guest nights compensates





- Recreational traffic is back to a normal level, even if the total number of foreigners are still down 1/3 vs the pre-pandemic level
- The conference market is back the pre-pandemic level – it took just some few weeks after restrictions were lifted
- Other business guest nights are just marginally below the pre-pandemic level
- The no. of guest nights is still below the pre-pandemic trend growth path, but less than 5%, and just due to fewer foreigners

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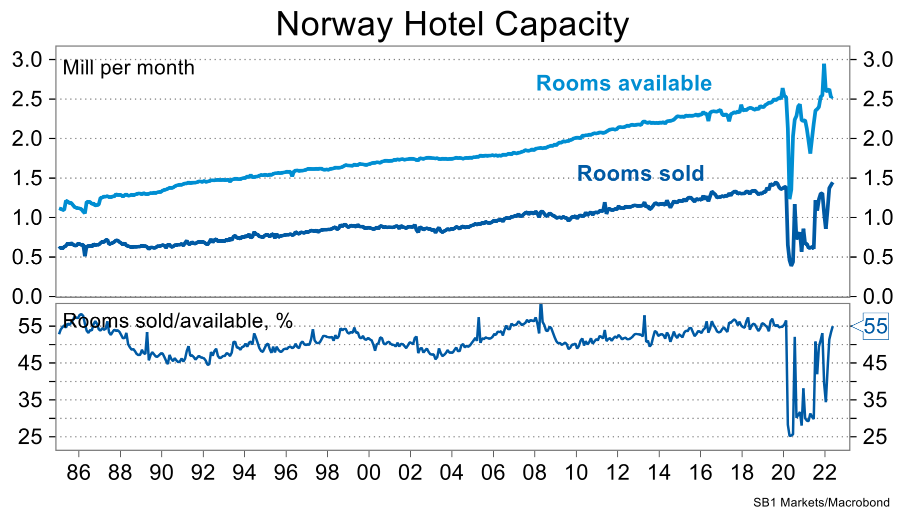
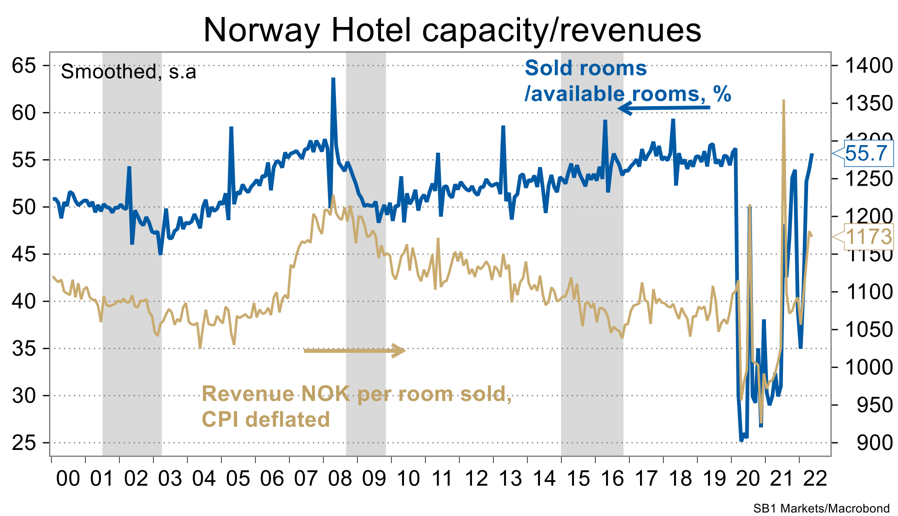
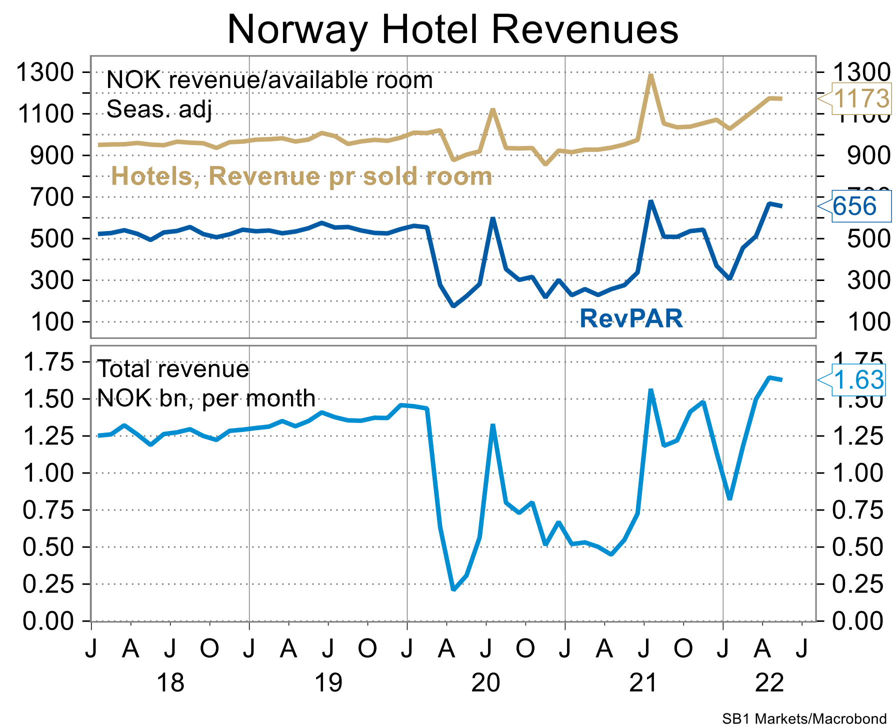
Capacity utilisation still back to normal, prices are up 17% since Feb-20…

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







- **Capacity utilisation** (room sold vs. rooms available) was 55.7% in May, in line with the normal level ahead of the pandemic
- **Revenue per sold room** is up 17% from the Feb-20 level, a substantial increase (it is also called inflation)
- **RevPAR** (revenue pre available room) also fell above the pre-pandemic level

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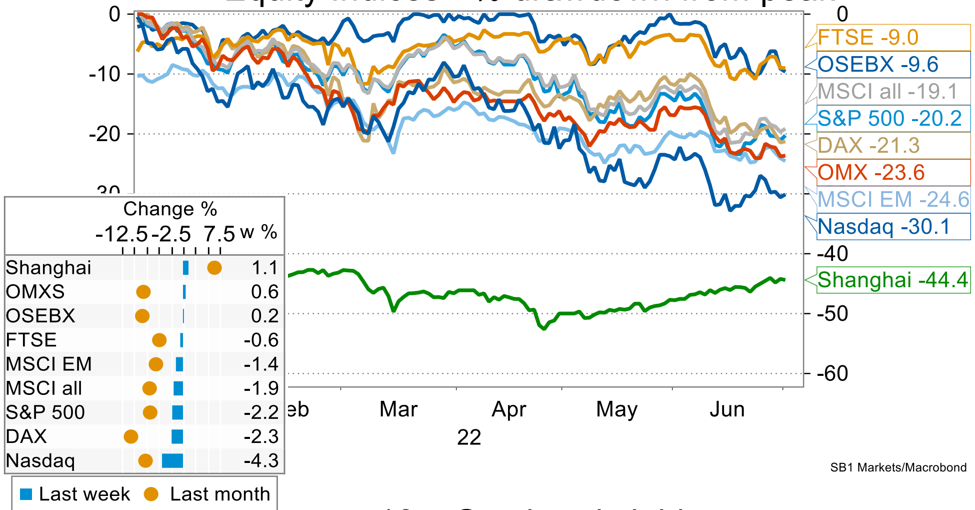
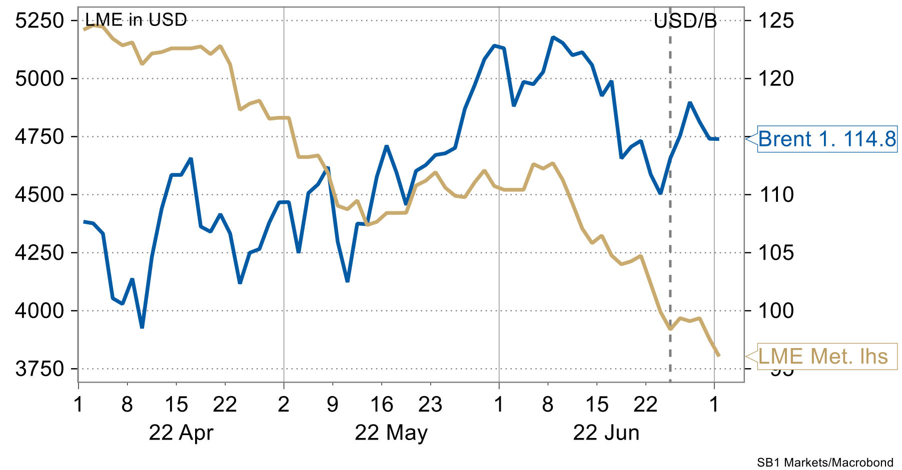
Equities, bond yields & commodities down as recession fears build

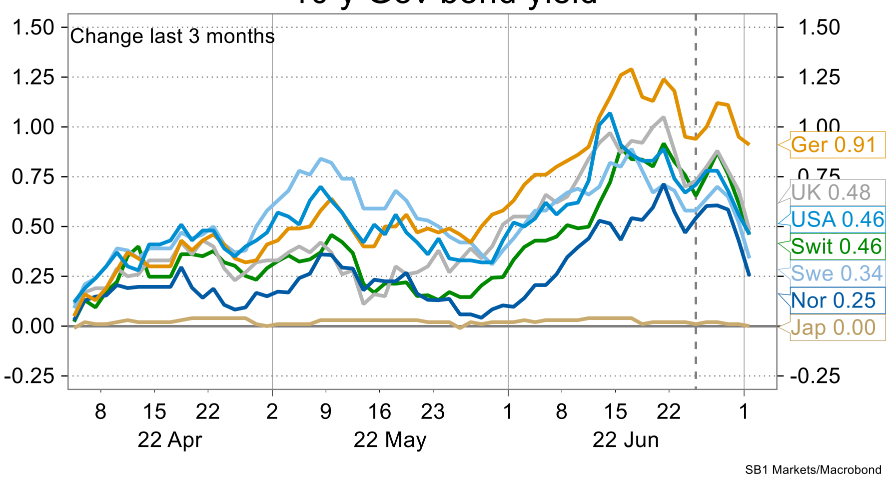
Equity Indices - % drawdown from peak



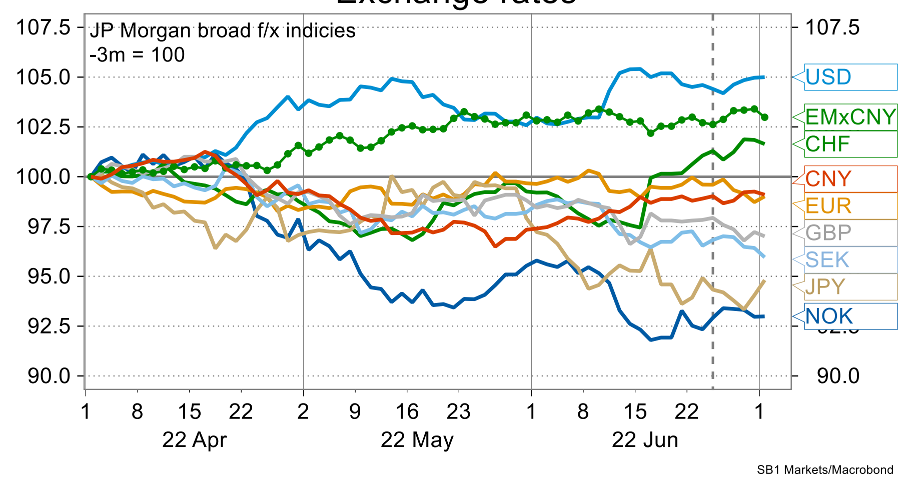
Oil vs. metals



10 y Gov bond yield



Exchange rates



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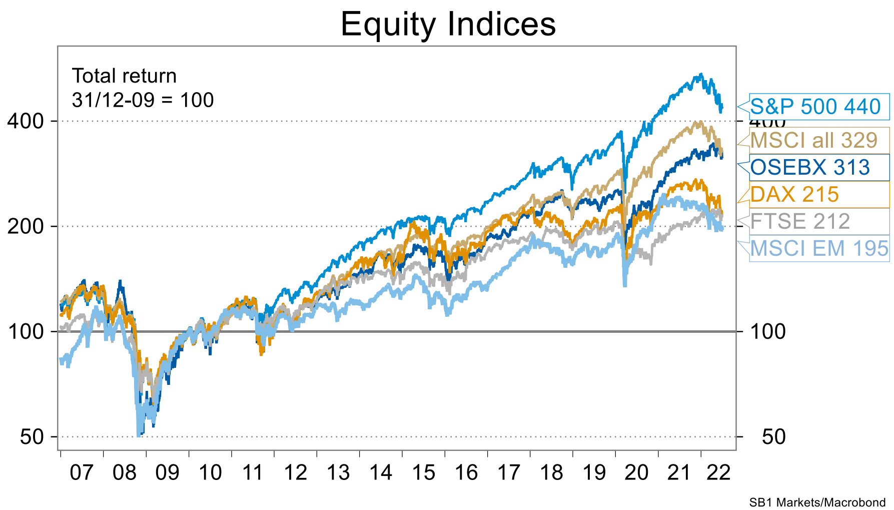
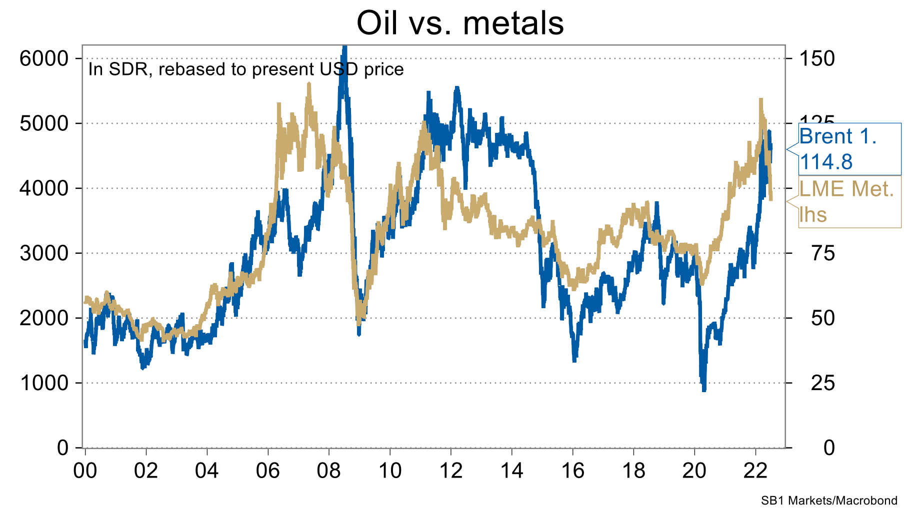
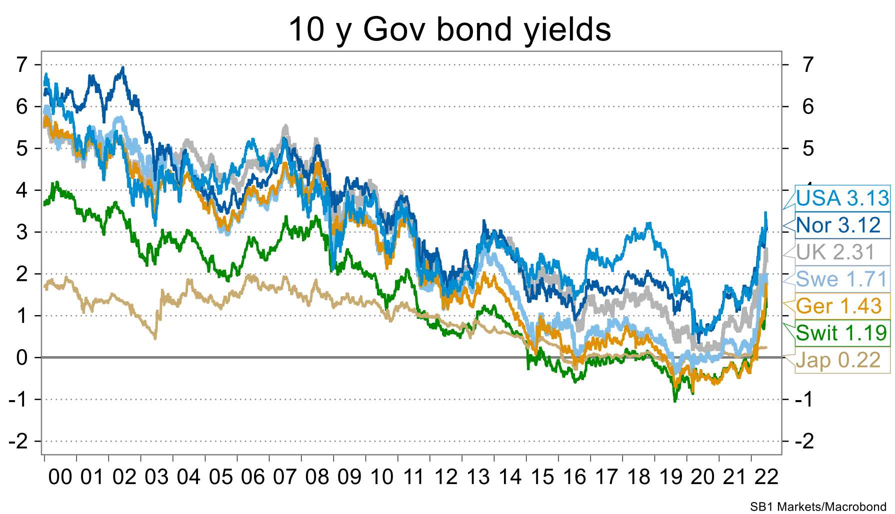
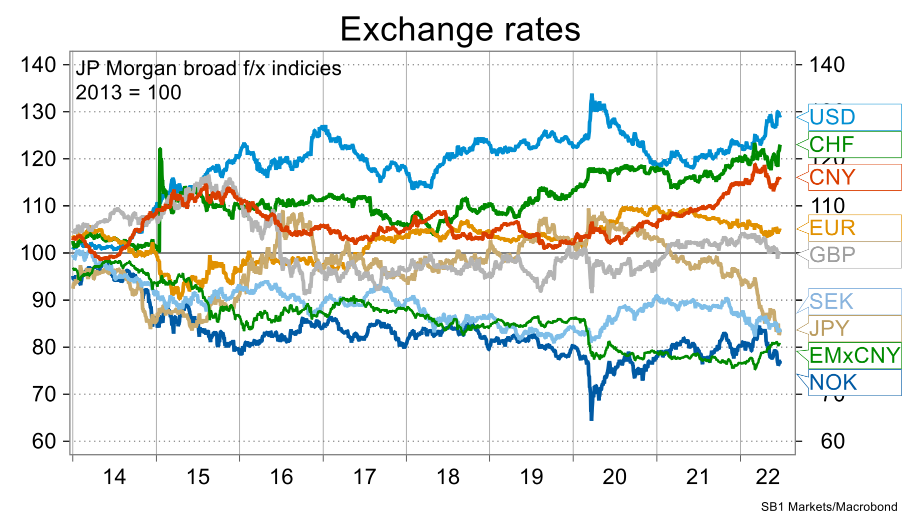
The big picture: Stock markets down (-oil rich OSEBX, FTSE), bond yields up

Commodities on the way up until early March: and most down thereafter, barring oil & gas









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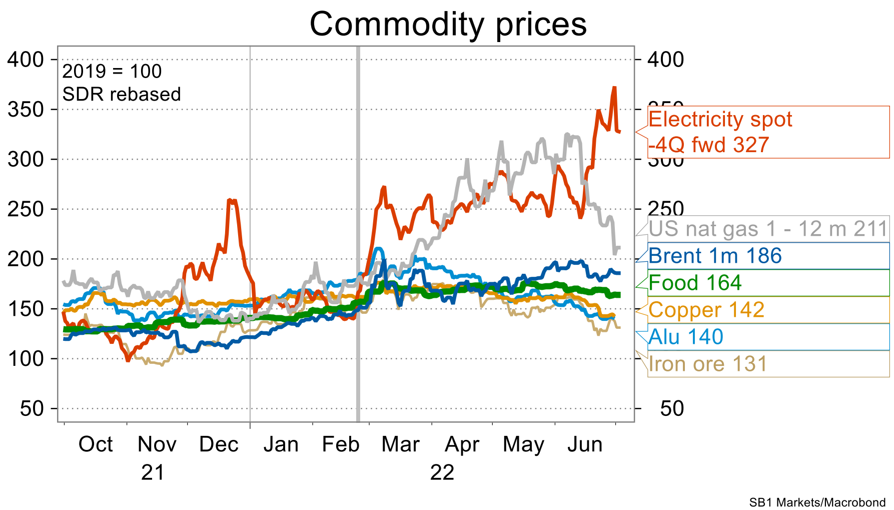
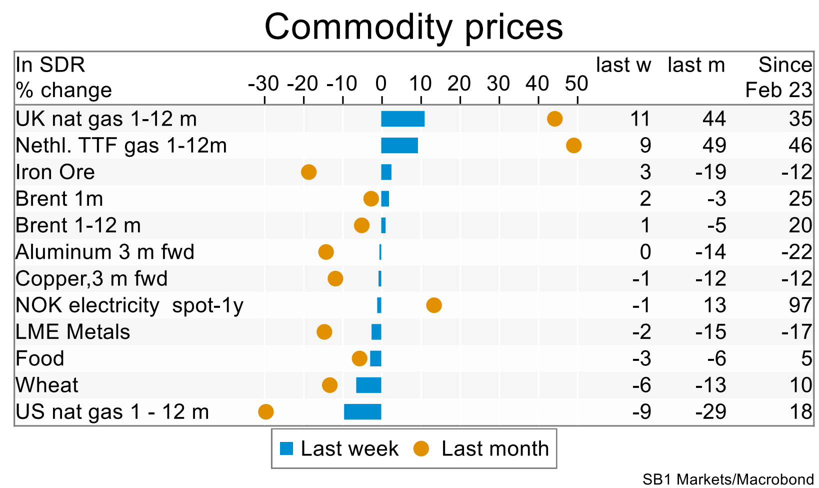
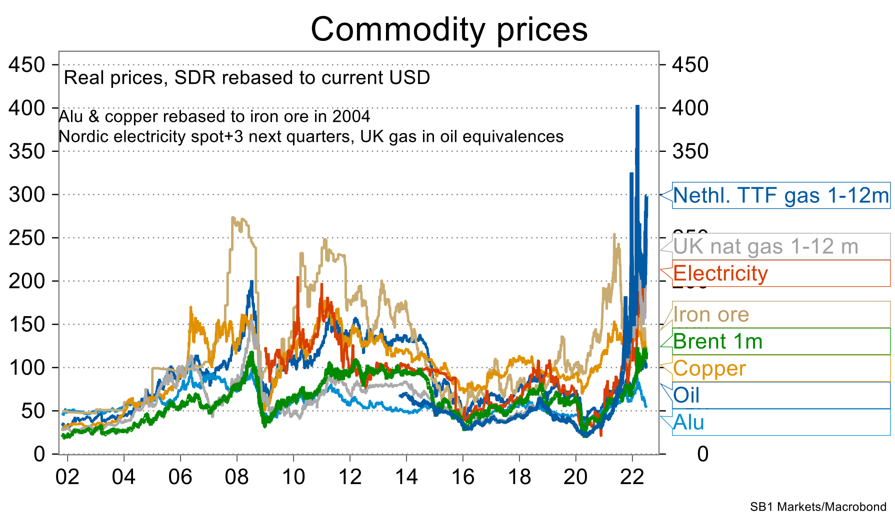
Most commodity prices are on the way down, except European gas prices





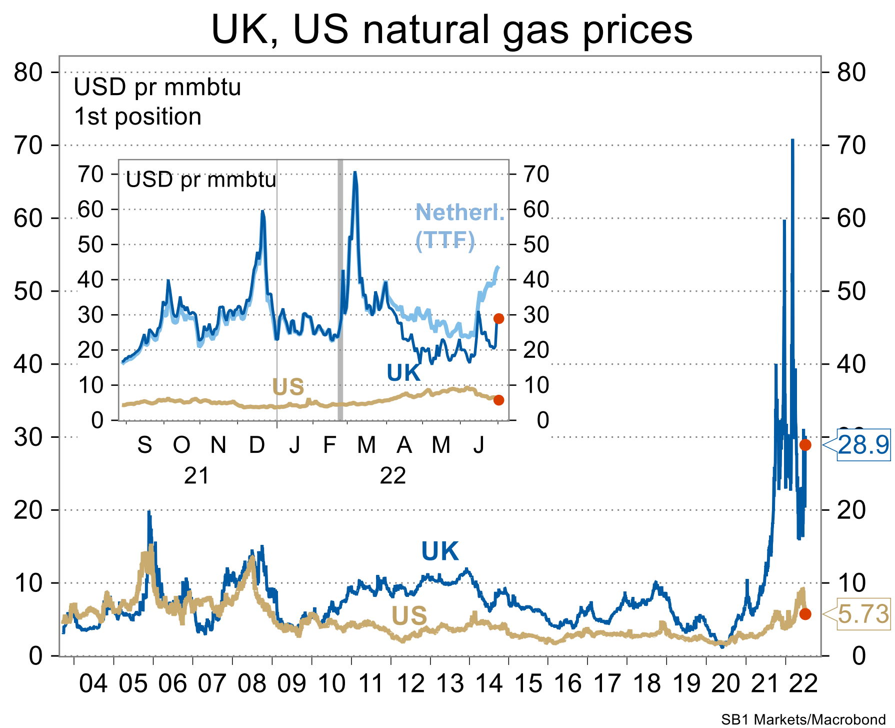


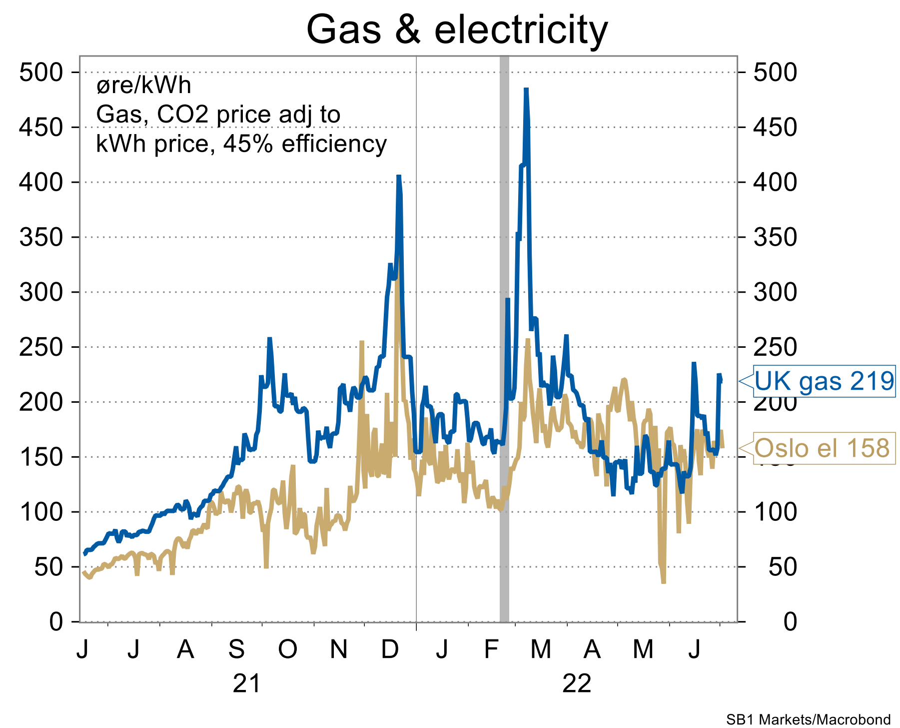
- Oil prices stabilised in the short end, prices fell further out of the curve
- European natural gas prices rose further last week – lack of Russian gas – and less US LNG the coming months due to the fire in a LNG plant
- US natural gas fell further, due to less export capacity
- The Economists food commodity index fell 3% in SDR terms last week but is trending gradually down

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

European natural gas prices rose further, while prices are falling in US

Lack of piped gas from Russia and less LNG from US the coming months

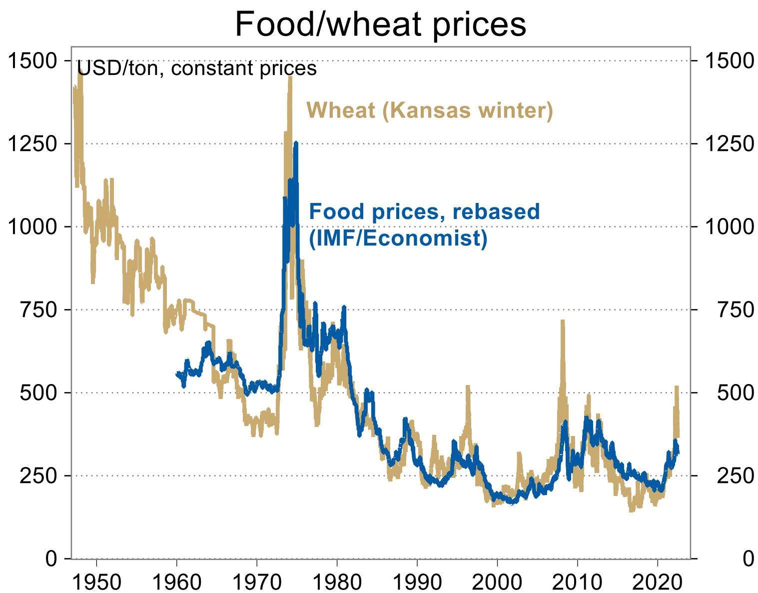


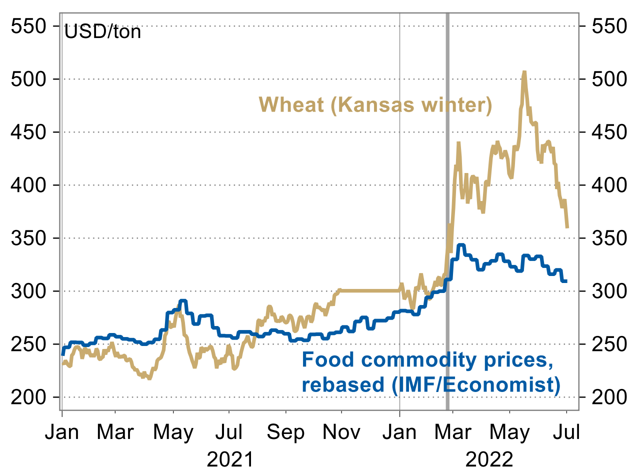


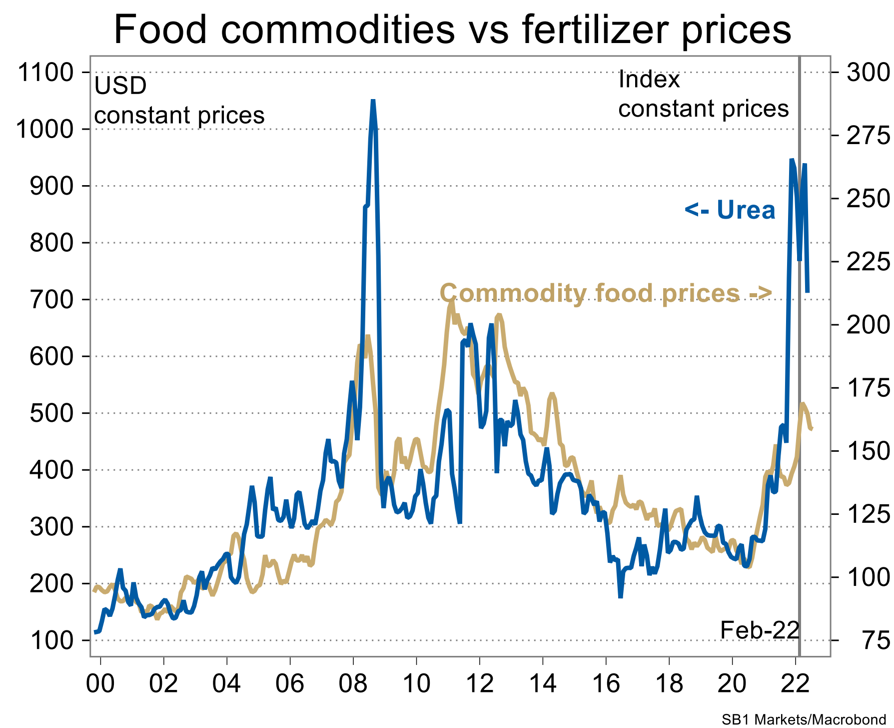
- Continental gas prices are almost 50% higher than UK gas prices, due to lack of transfer capacity, and risk for restrictions on UK gas exports to Europe

Food prices are trending lowly downwards

Wheat prices are falling rather rapidly and are up just 15% from before the war, from +60% at the top

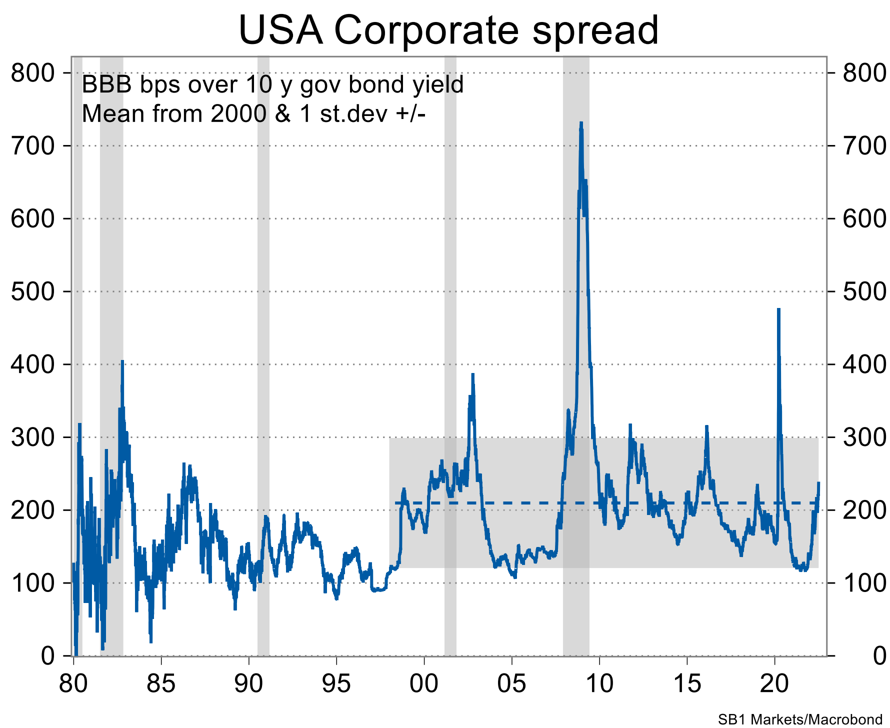


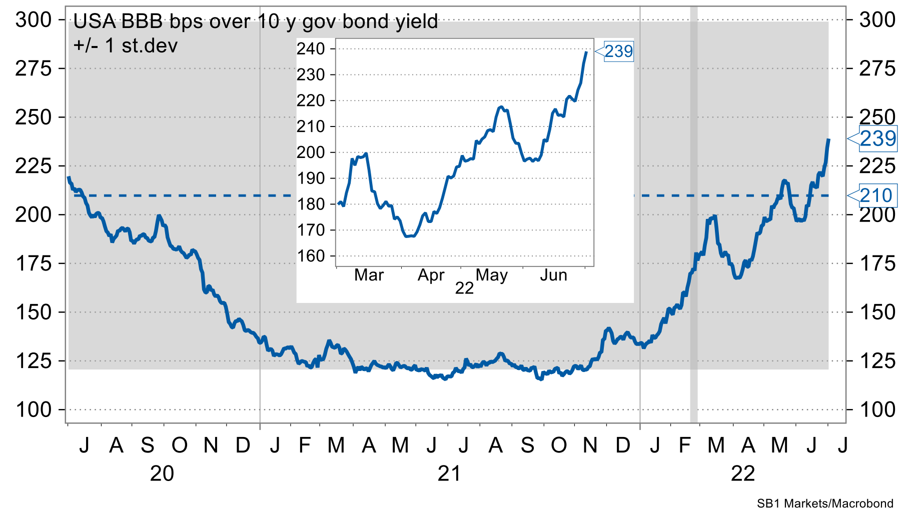




Credit spreads further up last week

Credit spreads are above the average level past 25 years, from a very low level last autumn

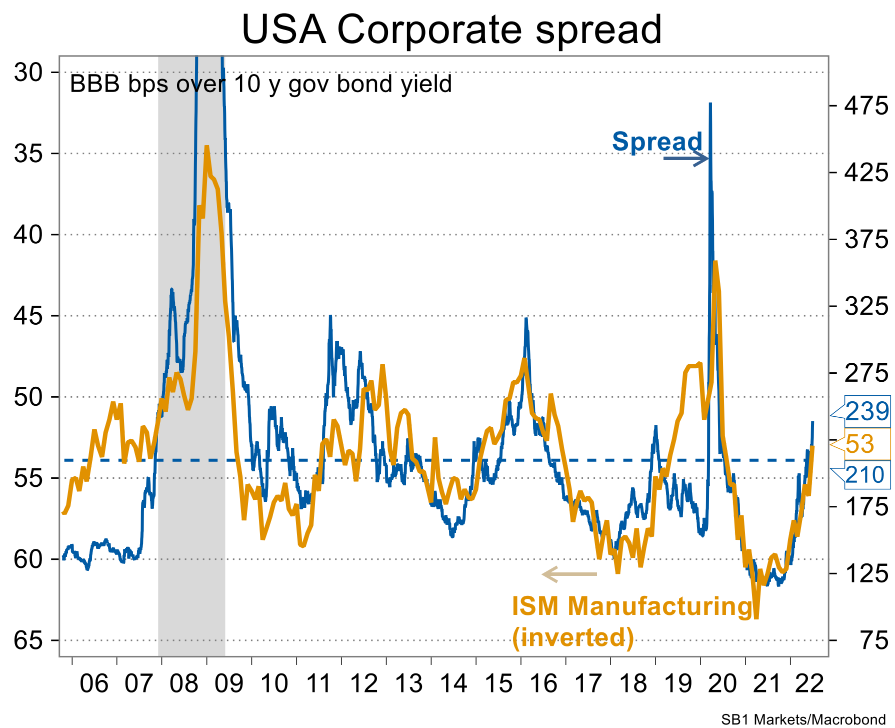


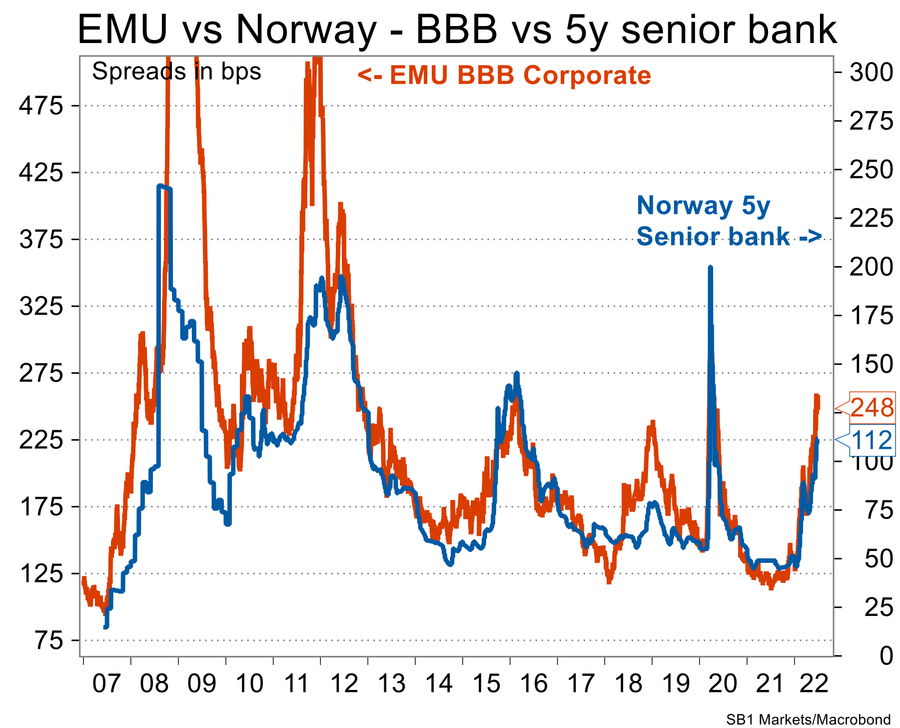


- The US BBB spread is up 120 bps from the bottom last autumn, more than a doubling

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

What do you think is more likely: An ISM at ~~50~~ 45 or 60 in some few months time? We are quite sure..

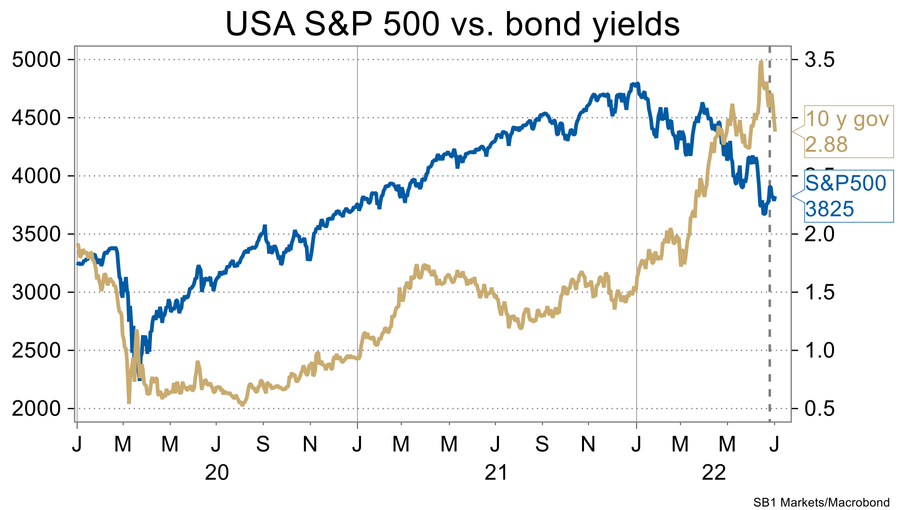


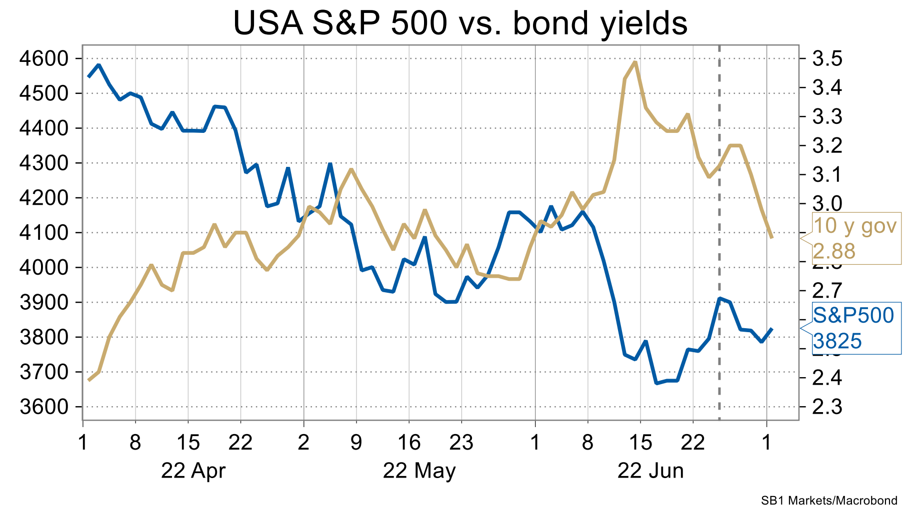


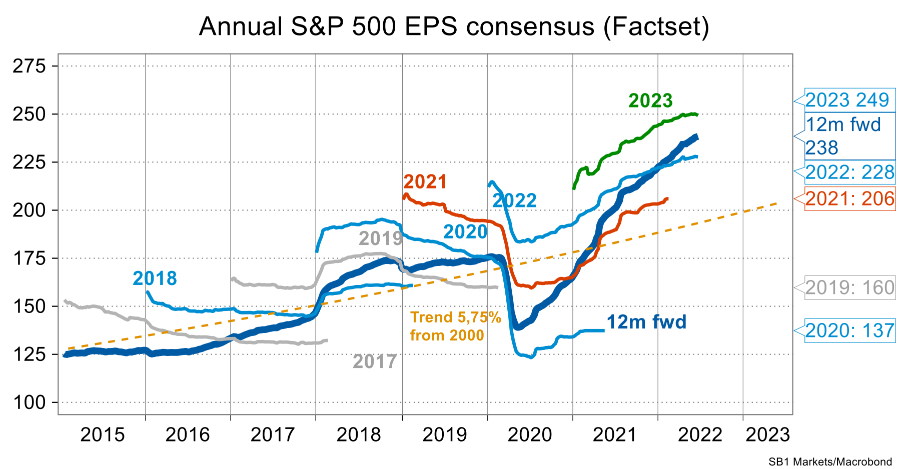
- The answer is not irrelevant for your view on the outlook for spreads, we think
- And do you think Norwegian spreads will be influenced by changes in the global credit market?

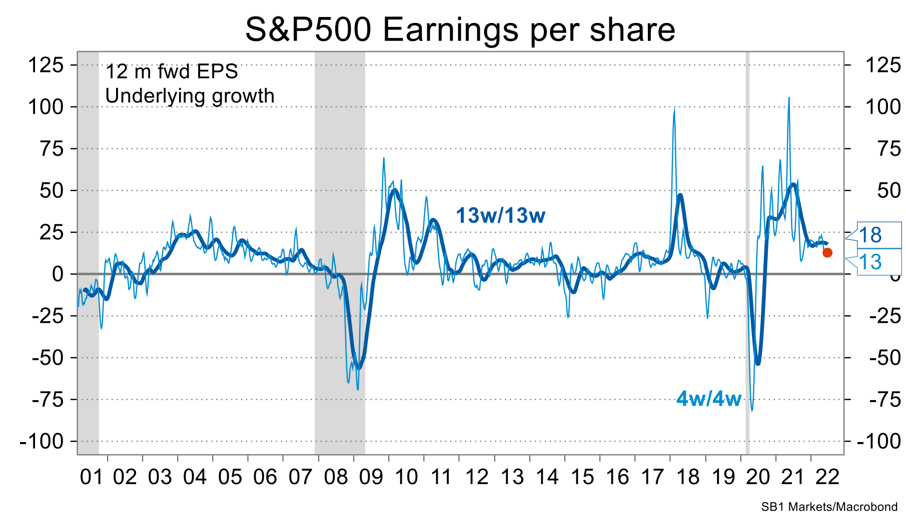
The S&P 500 down 2.2%, the 10y bond yield down 25 bps. Recession is coming

Inflation xxx





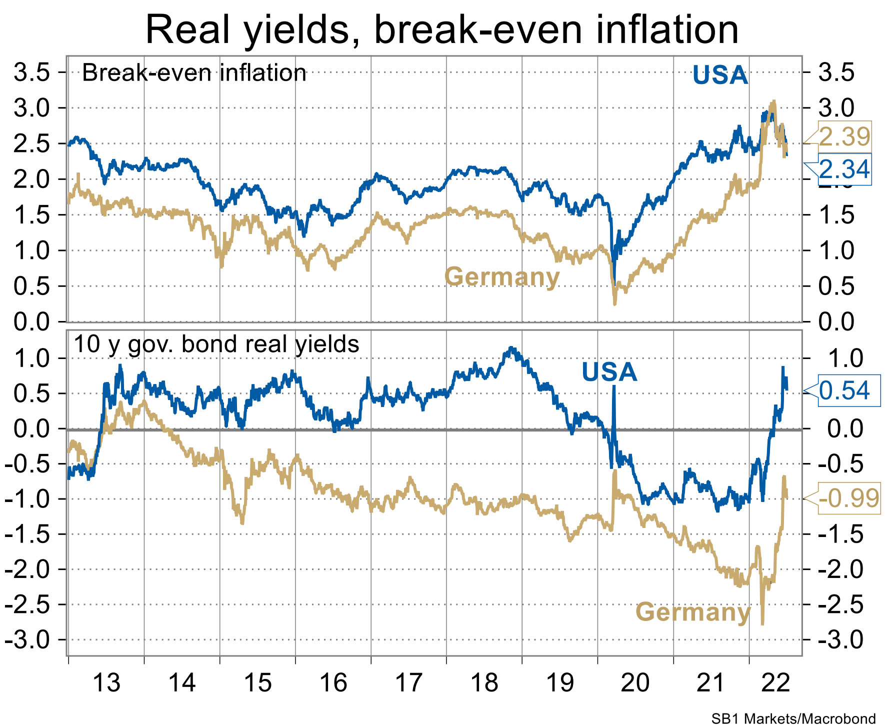


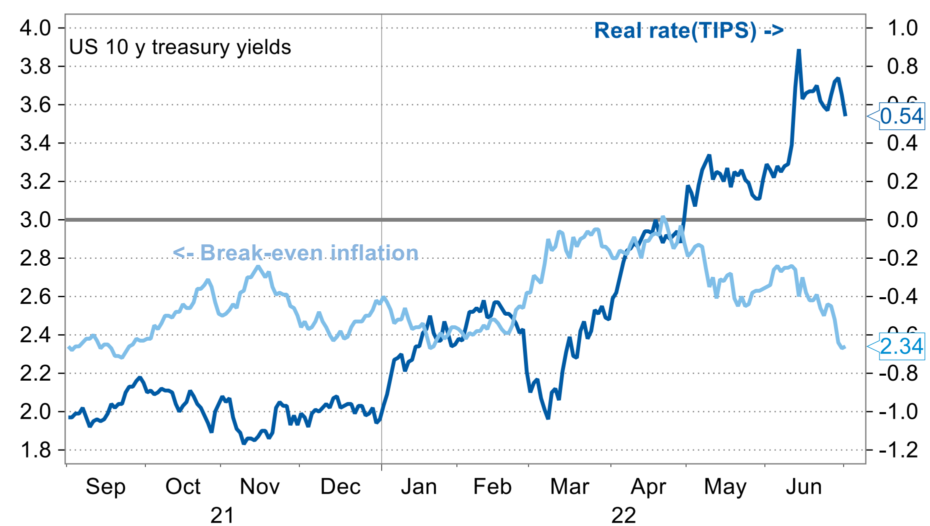


US inflation expectations are retreating rapidly, real yields just marginally down

Both central bank aggressiveness, falling commodity prices and recession fears reduces infl. Expectat.

… at the cost of higher real rates, of course





US & Germany 10 y Gov bond yield

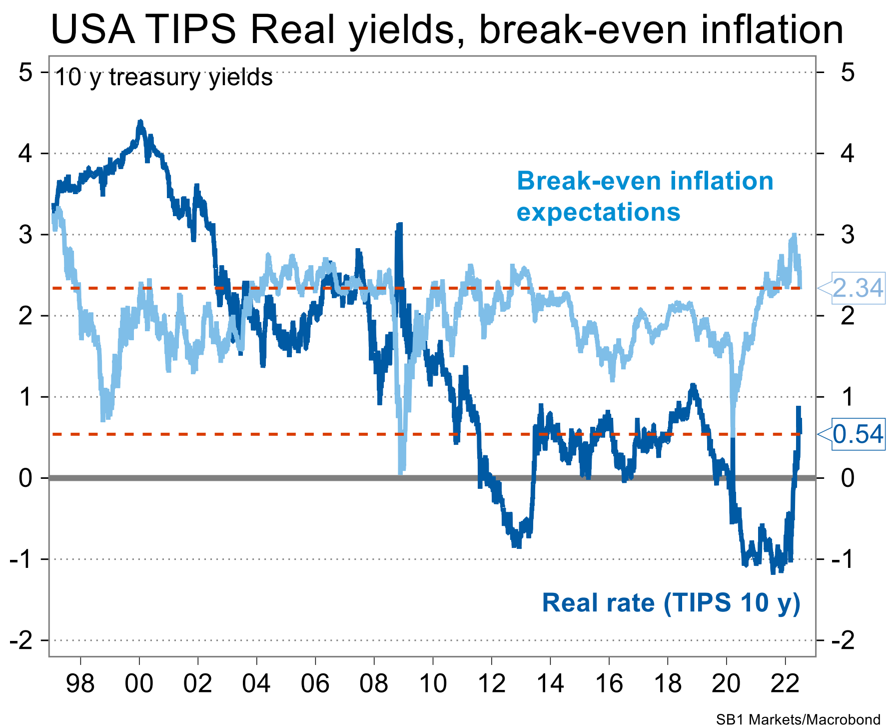
	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	2.88	-0.25	-0.06	0.96	0.52
.. break-even inflation	2.34	-0.22	-0.31	-0.07	1.06
.. TIPS real rate	0.54	-0.03	0.25	1.03	-1.19
Germany nominal bund	1.40	-0.03	0.28	1.18	-0.65
.. break-even inflation	2.39	0.01	-0.19	0.41	0.40
.. real rate	-0.99	-0.04	0.47	0.77	-2.80

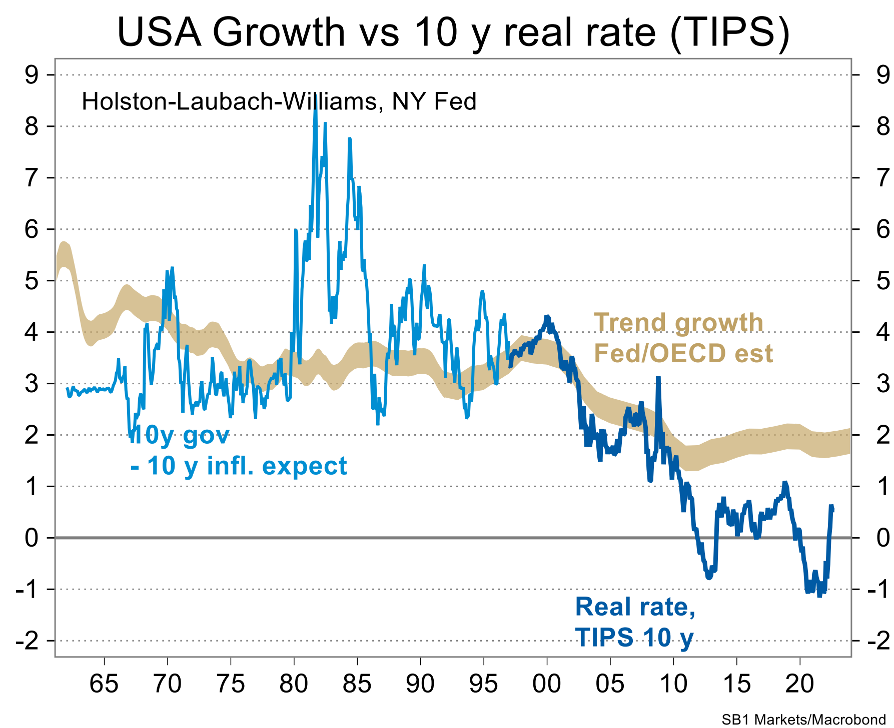
SB1 Markets/Macrobond

- **The US nominal 10 y bond** yield fell 25 bps to 2.88%, the lowest since XXX
  - » **Real rates** fell 3 bps, to 0.54%. Inflation expectations fell by 22 bps to 2.34%, to a level first reached in Sept XX last year
- **The 10 y German bund** XXXX
  - » **Real rates** fell 17 bps following the 55 bps surge the previous week, to -0.95%
  - » Inflation expectations fell 4 bps to 2.28% - not that far above the target anymore – and down from above 3% at the peak

Mind the gap: It's rapidly closing!

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

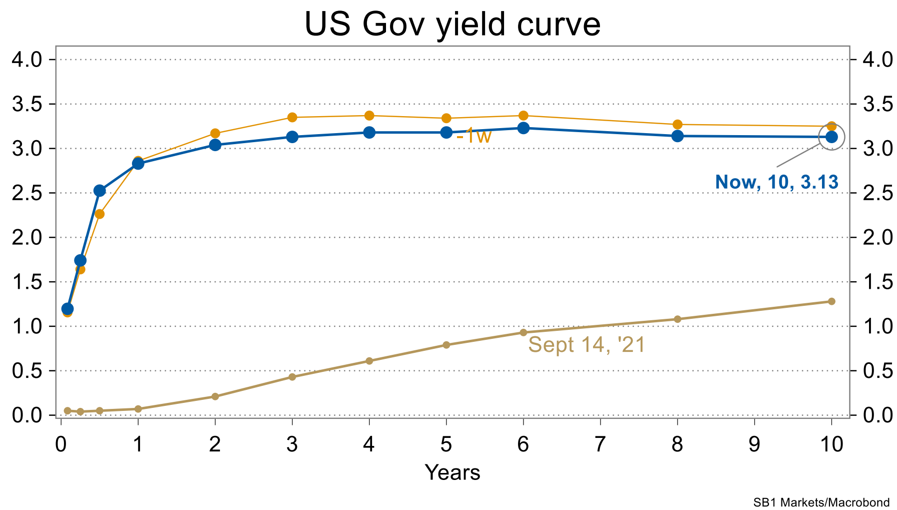


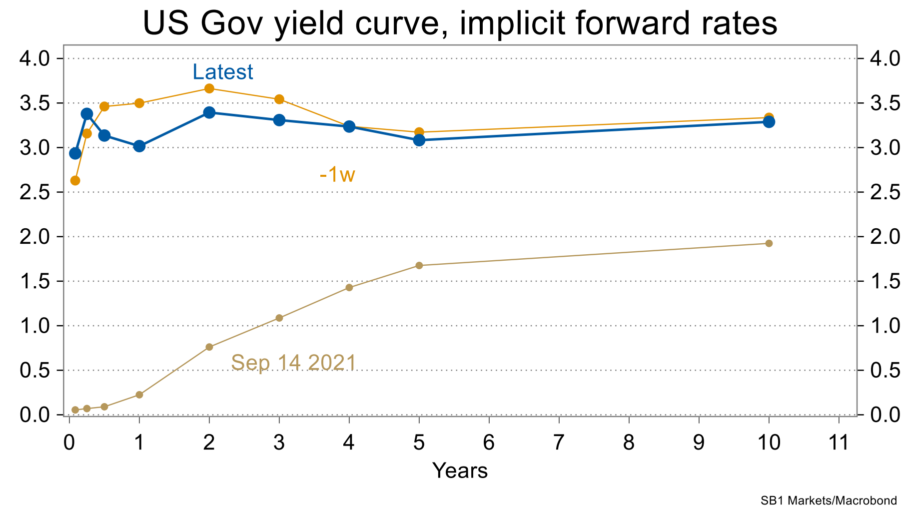


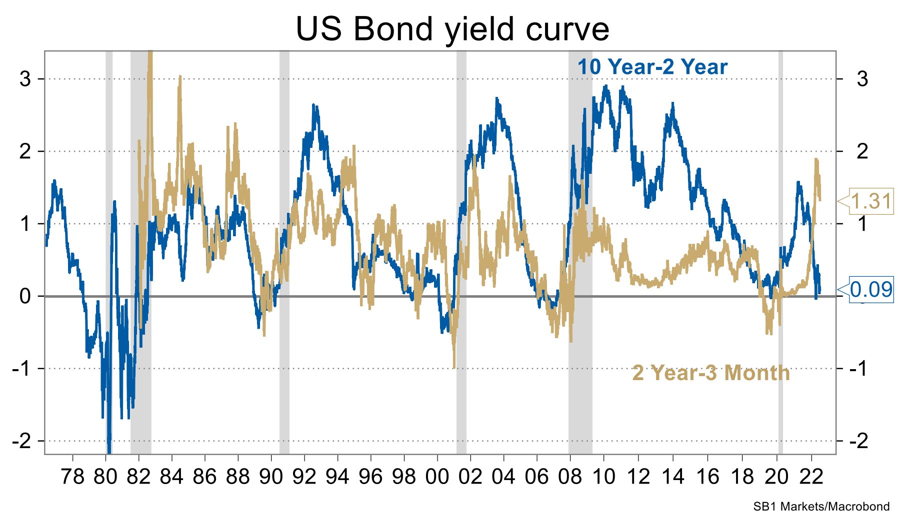
- There is no reason to believe that the current surge in real rates is due to an equivalent increase in growth expectations. It is of course the opposite: At least the short to medium-term outlook is now weakening as central banks finally enter the fight against inflation by at least bringing growth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

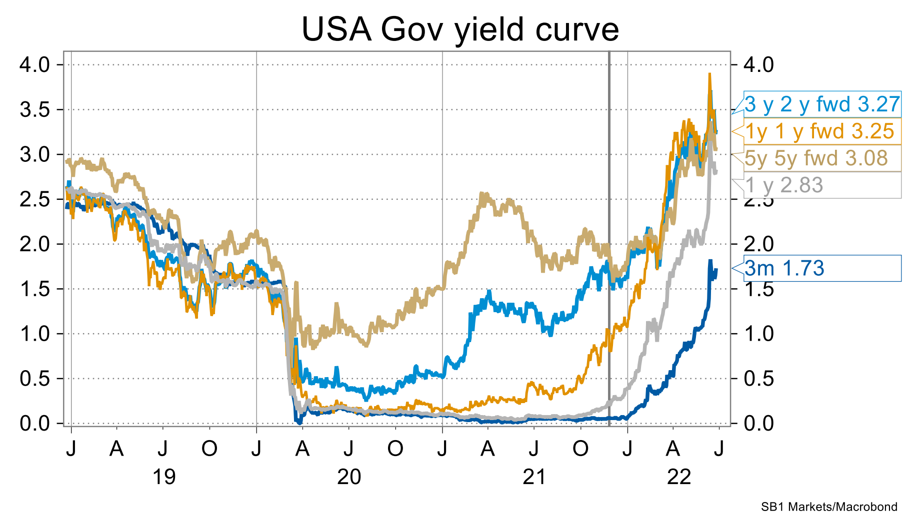
Another lift in the whole curve last week – most in the short end

Will the 10y - 2y soon invert?



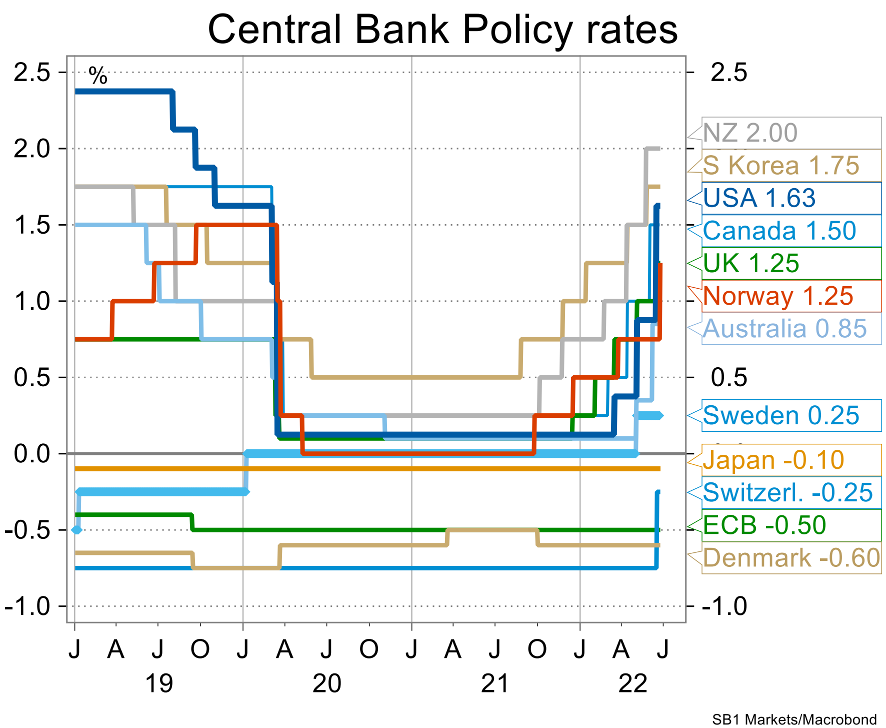


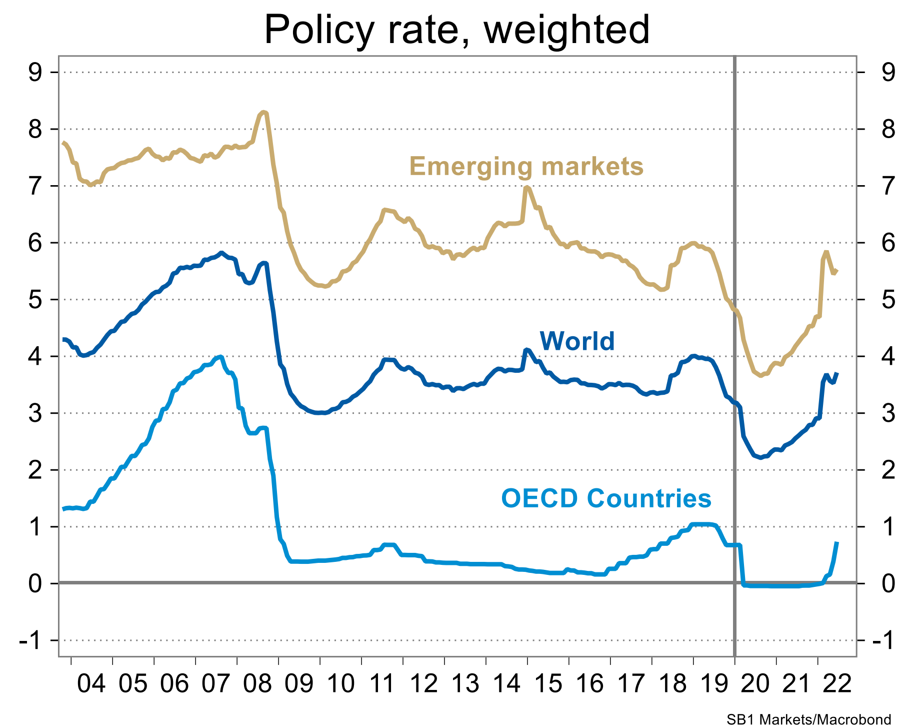




Central banks on the move

Norway is now at split 5th position among rich countries



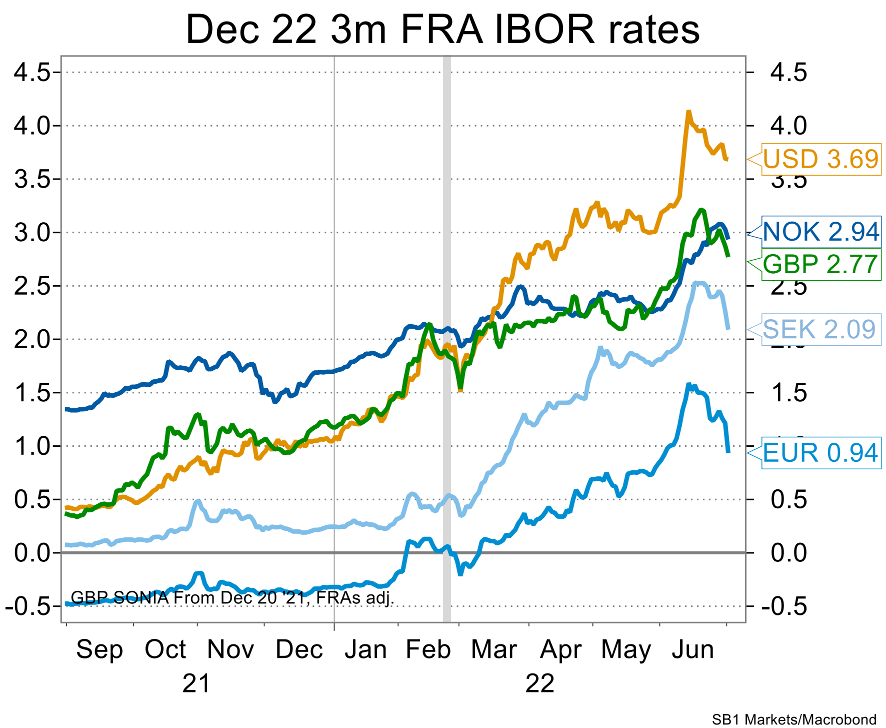


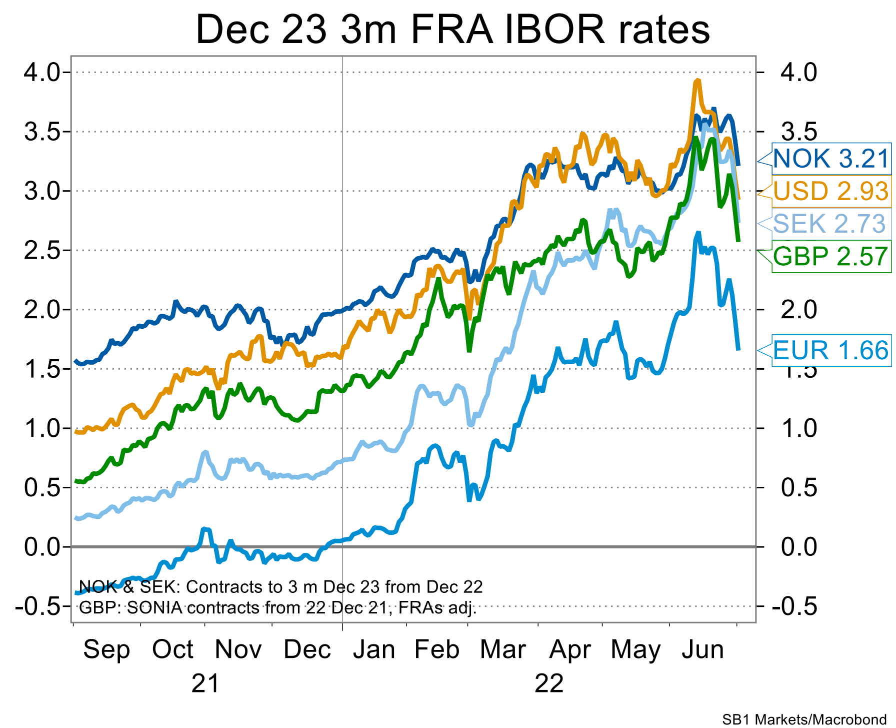
- In addition to rate hikes, central banks (x Japan and the Riksbank) have abolished their QE buying programs
- The EM average policy rate has come down due to the Russian cuts – but the trend is straight up

SpareBank 1 MARKETS

Rate expectations sharply down on recession fears

In the end, even in Norway. Rates down by up to 50 bps

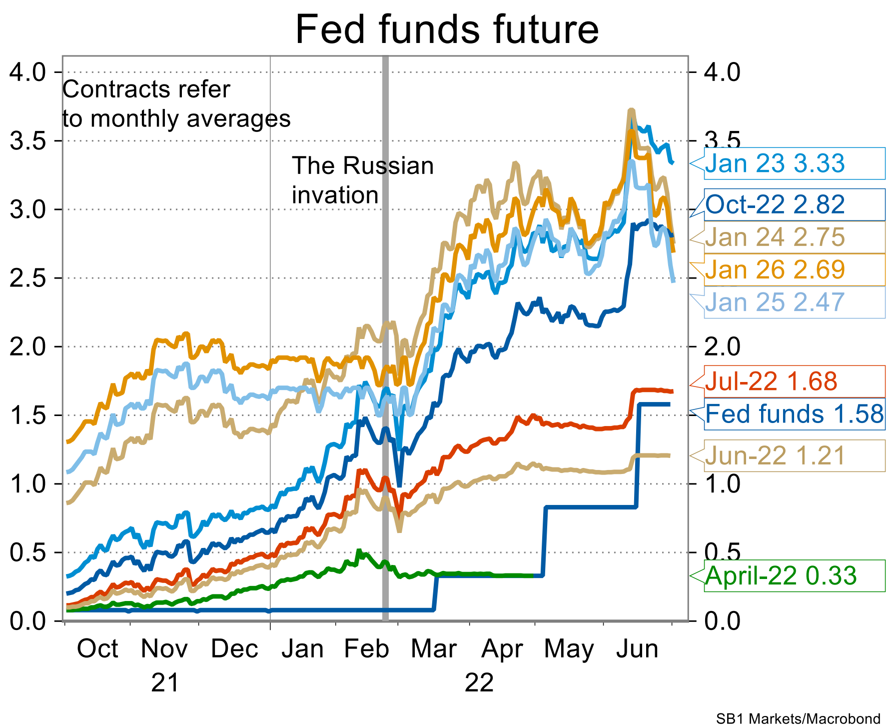


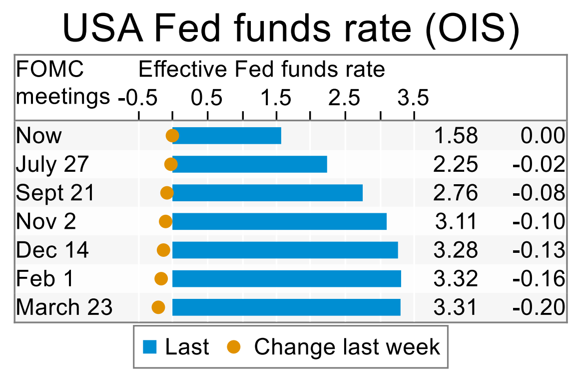


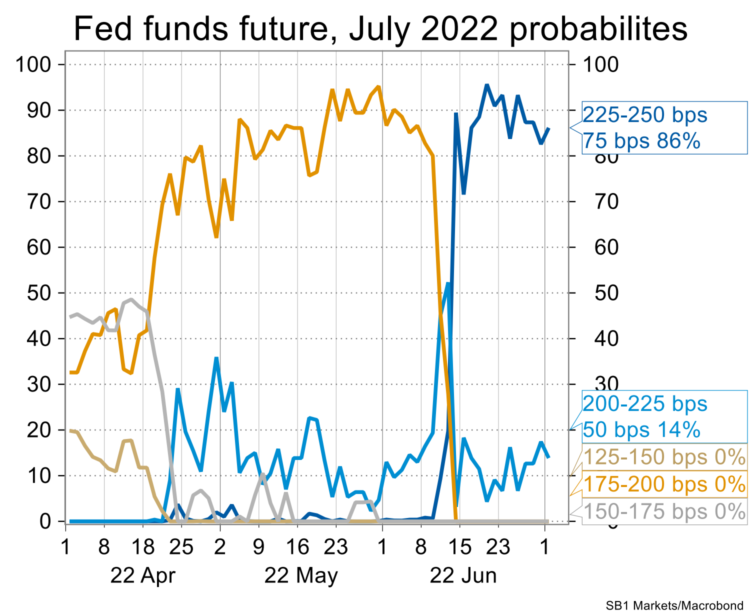
- *Is the peak near, for this cycle? Financial conditions are tightening and signs of a slowdown are visible some places.* We asked so two weeks ago, and a retreat has occurred. Will the market (and central banks) gather more information on whether tighter financial conditions has a sufficient impact on household and business demand (which is needed to get demand driven price increased down)

The Fed funds futures down but unch 85% probability for another 75 bps in July

… and 50 bps more in September. But the peak is lowered, to 3.3%, in early 2023



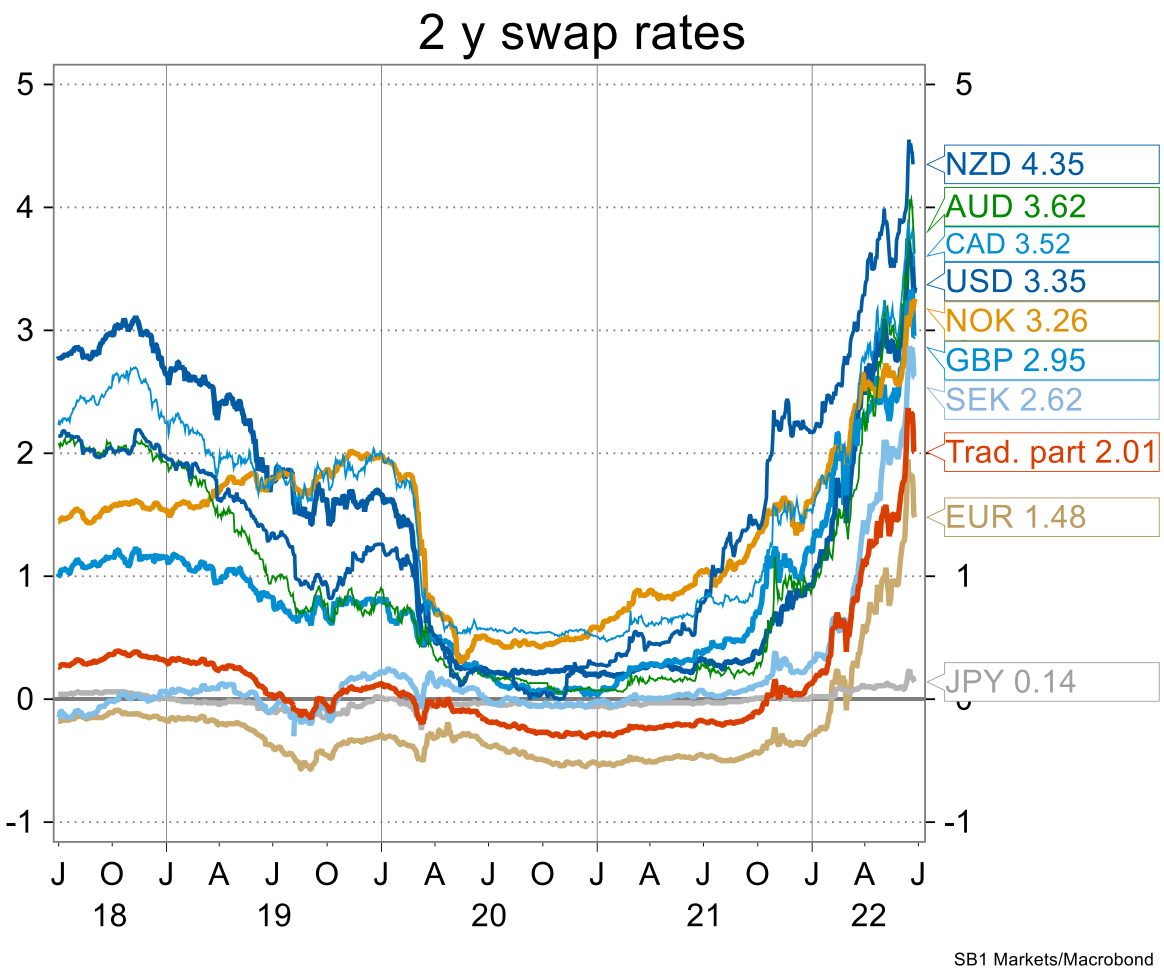


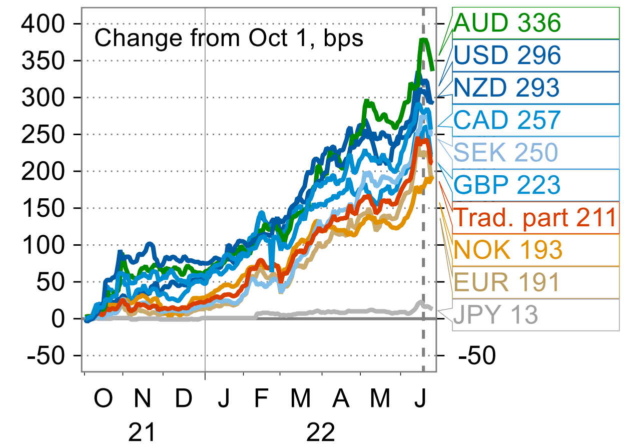


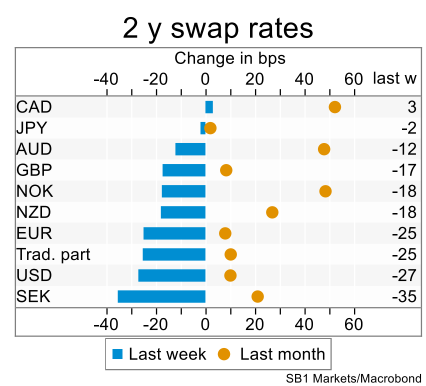
- How much weakness in the housing or labour market will the FOMC need in order to slow down the pace of tightening?
- XXX LEGG INN JUNI 23

SpareBank 1 MARKETS

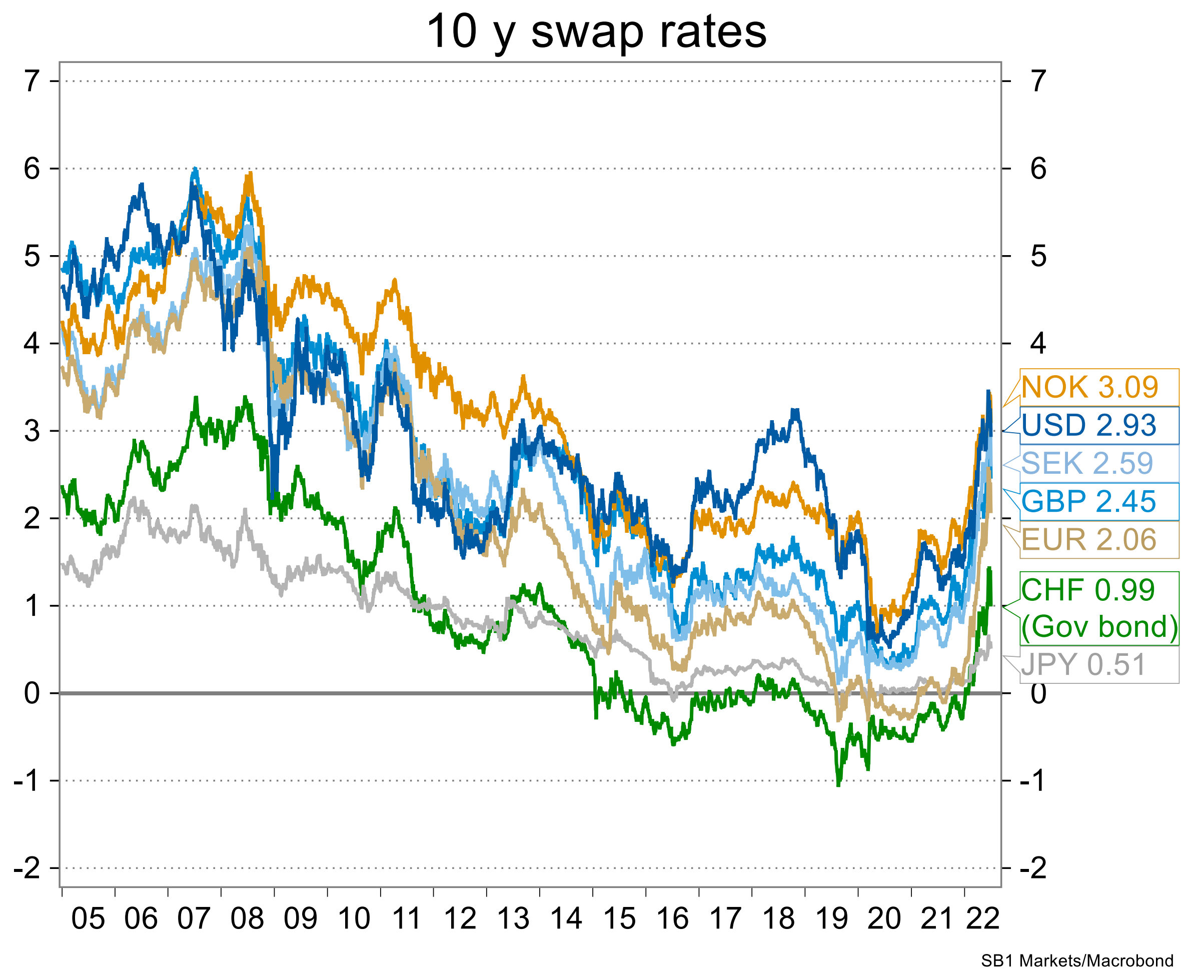
2 y swaps sharply down almost everywhere

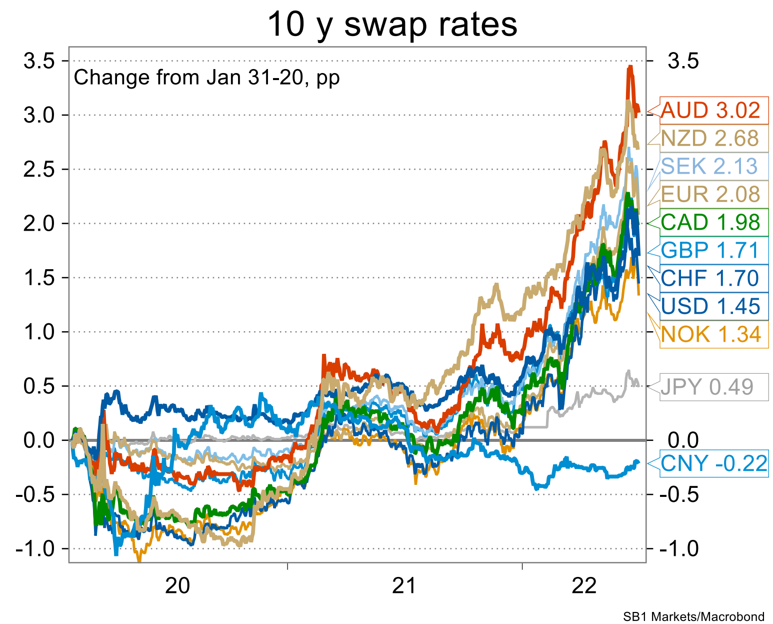


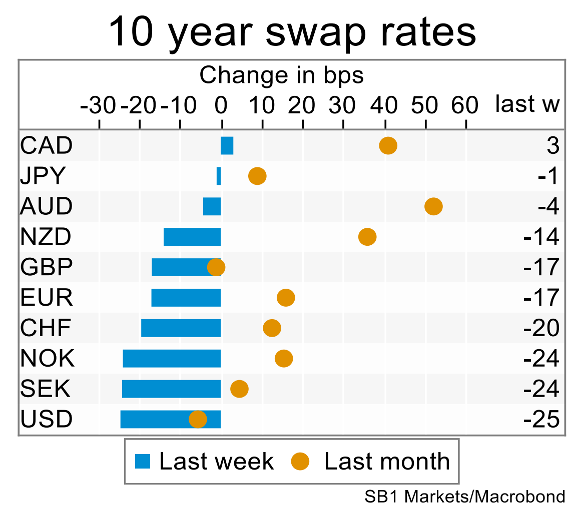




10 y swaps sharply down almost everywhere



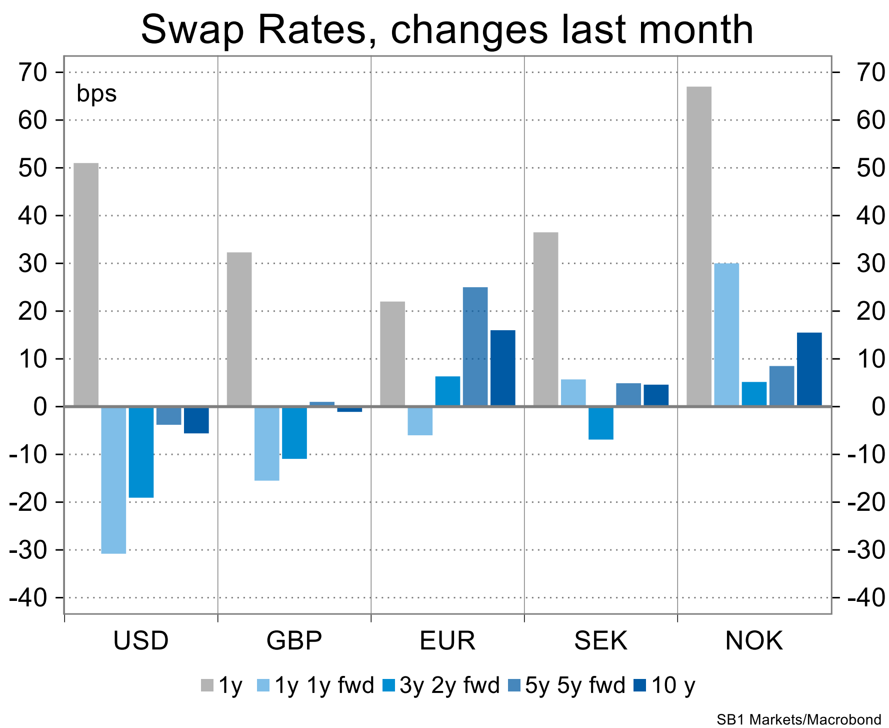


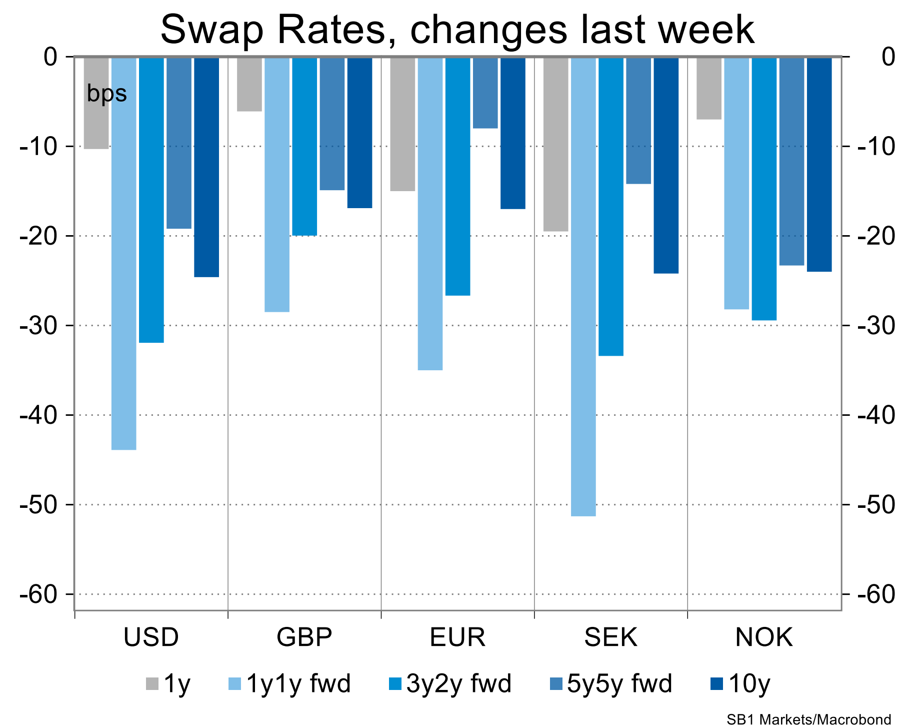


CHF: 10 y government bond yield

All rates down, all over the place. The least in the very short end of the curve

.. But the most in the 1y 1y fwd segment, as central banks are expected to start cutting next year

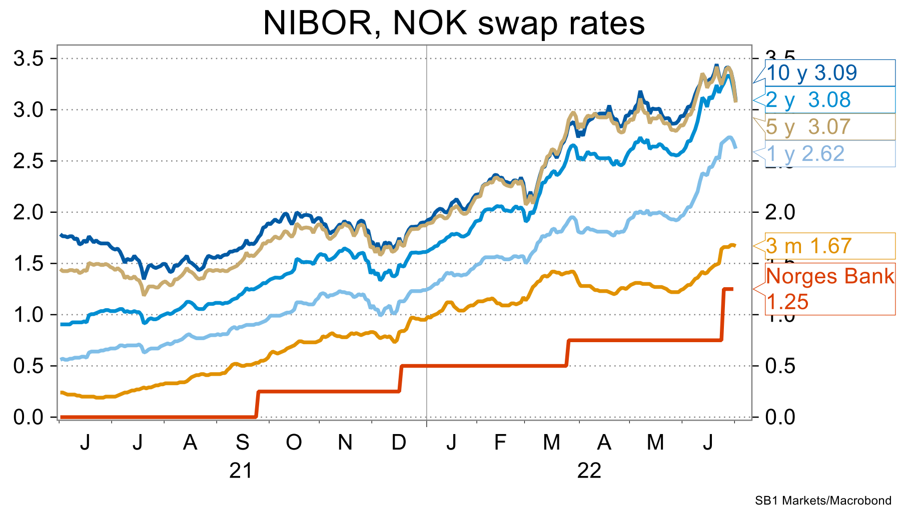


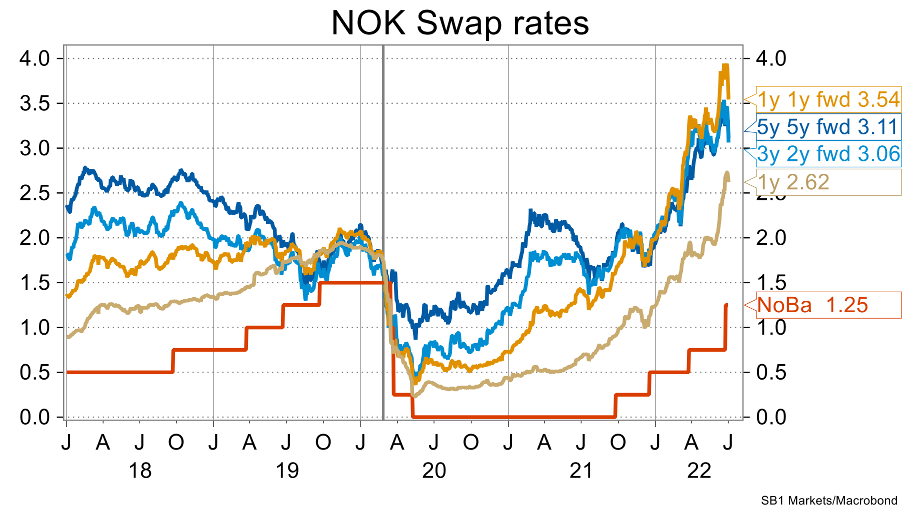


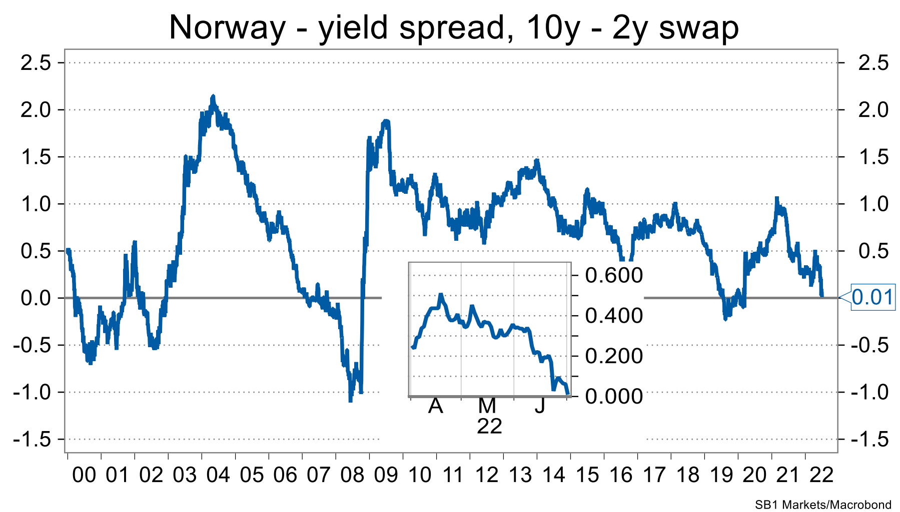
... in order to fight the recession

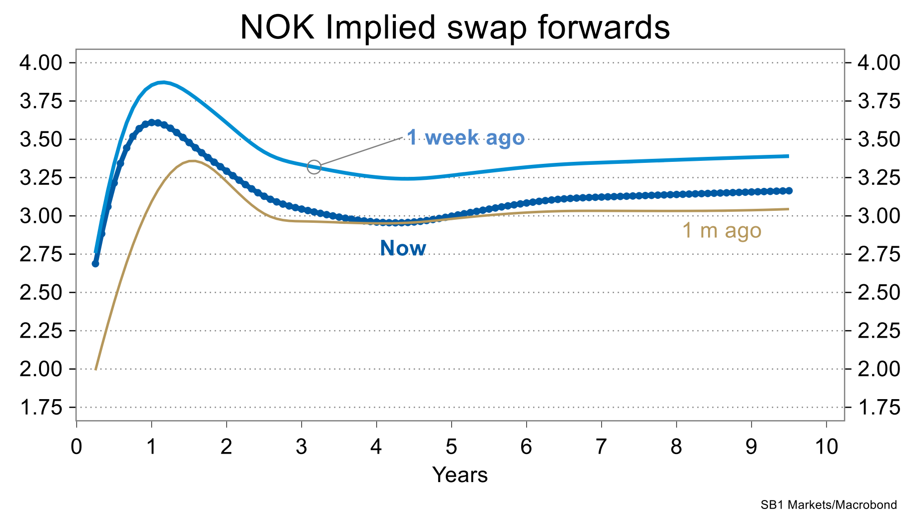
A lower peak, and thereafter lower rates all along the curve

The curve is flat to 10 from 2 years

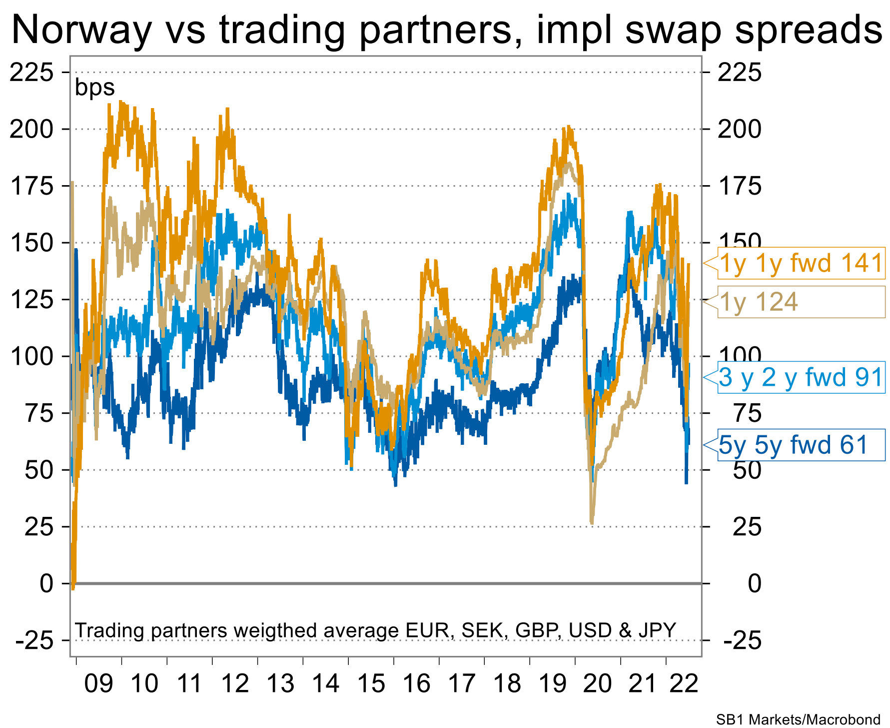


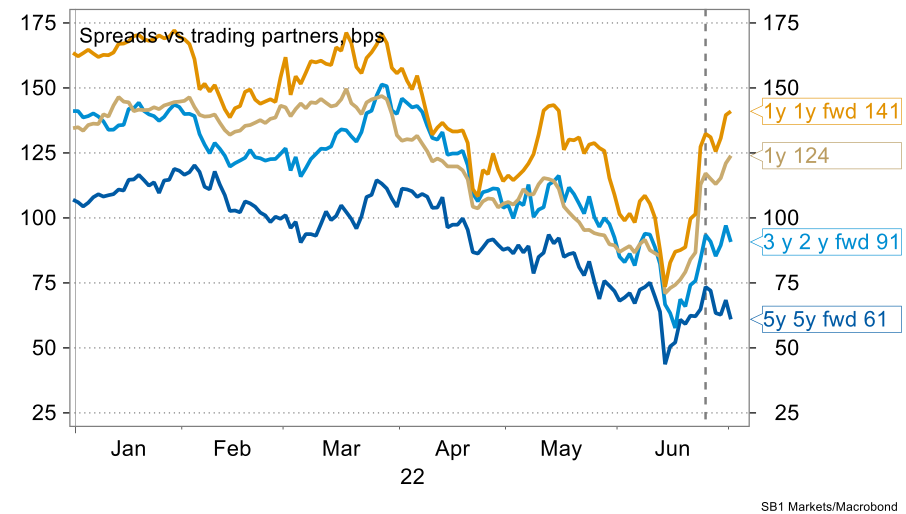


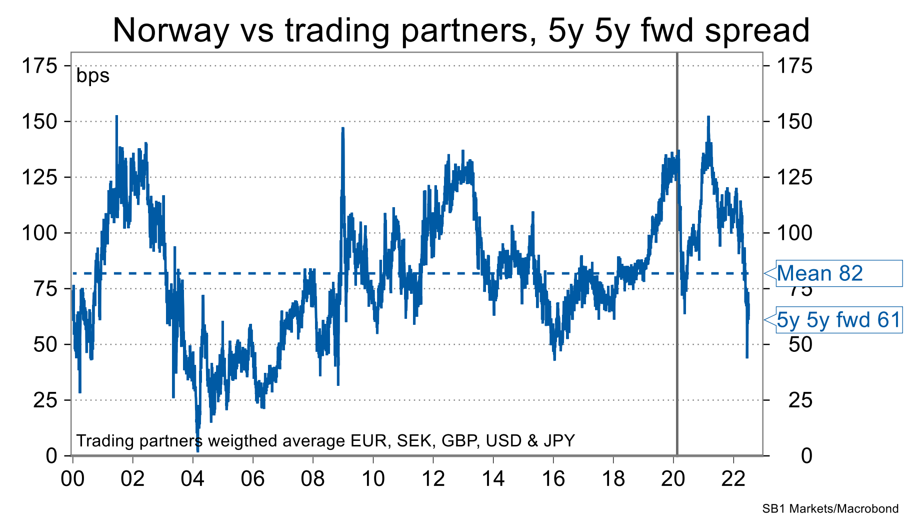




Spreads out in the short end of the curve, while they narrowed in the long end

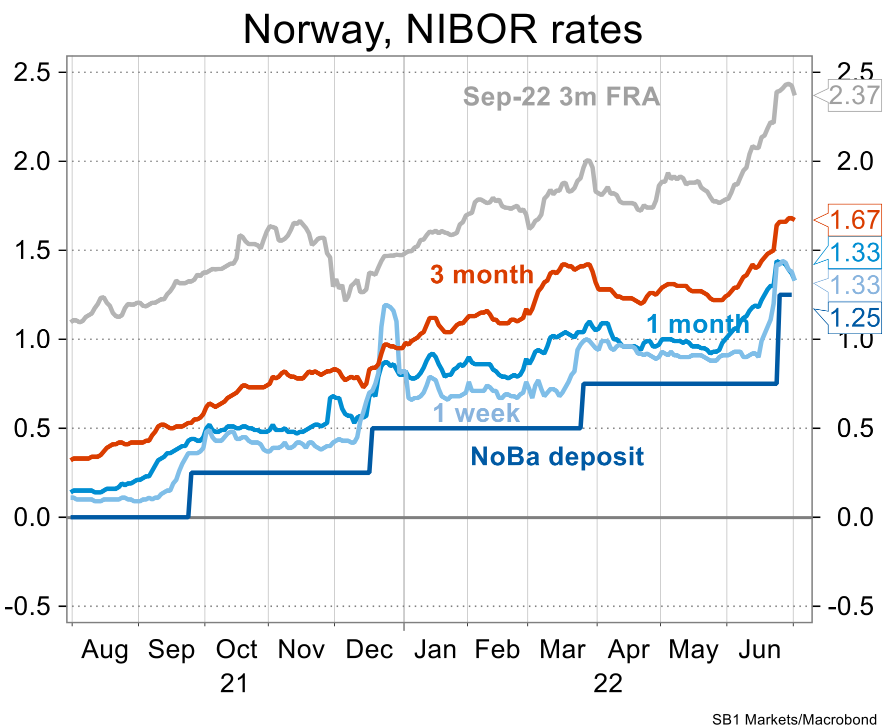


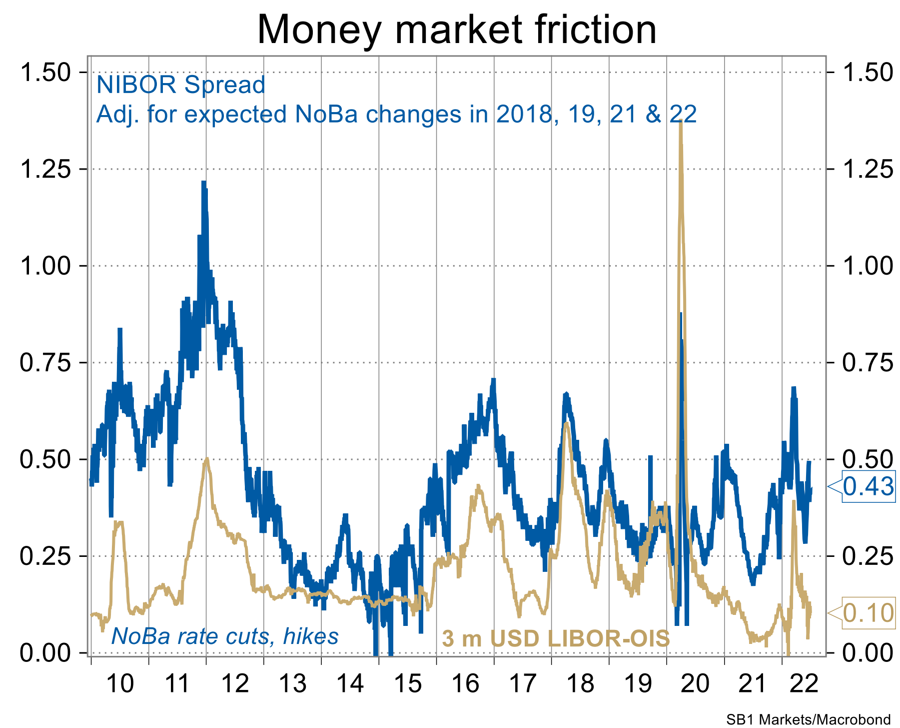




The 3m NIBOR up 1 bp to 1.67%

Without a hike in August, the NIBOR spread is 41 bp, if an Aug. hike, the spread in 30 bps

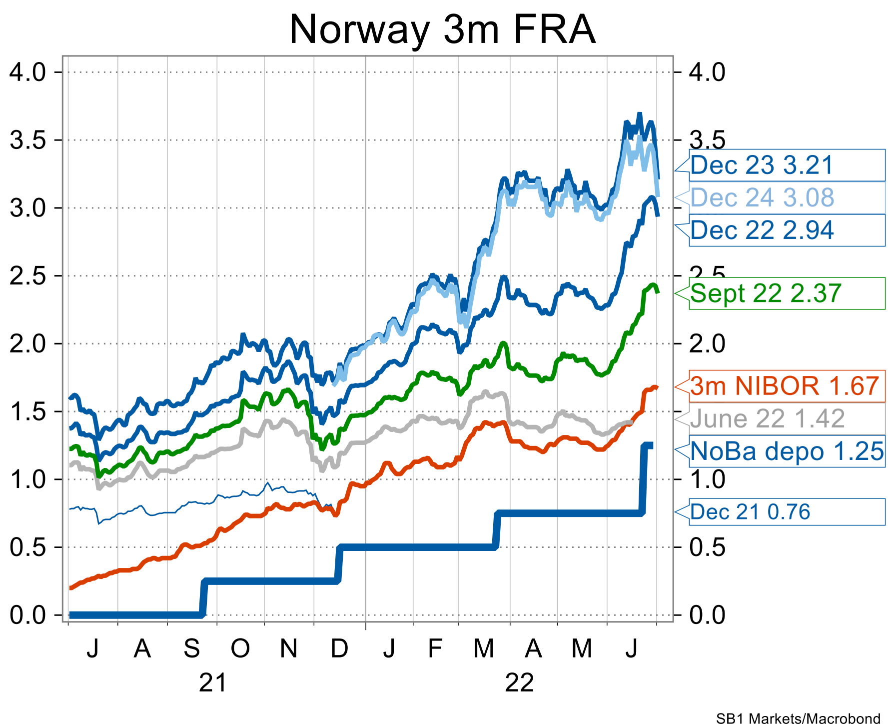


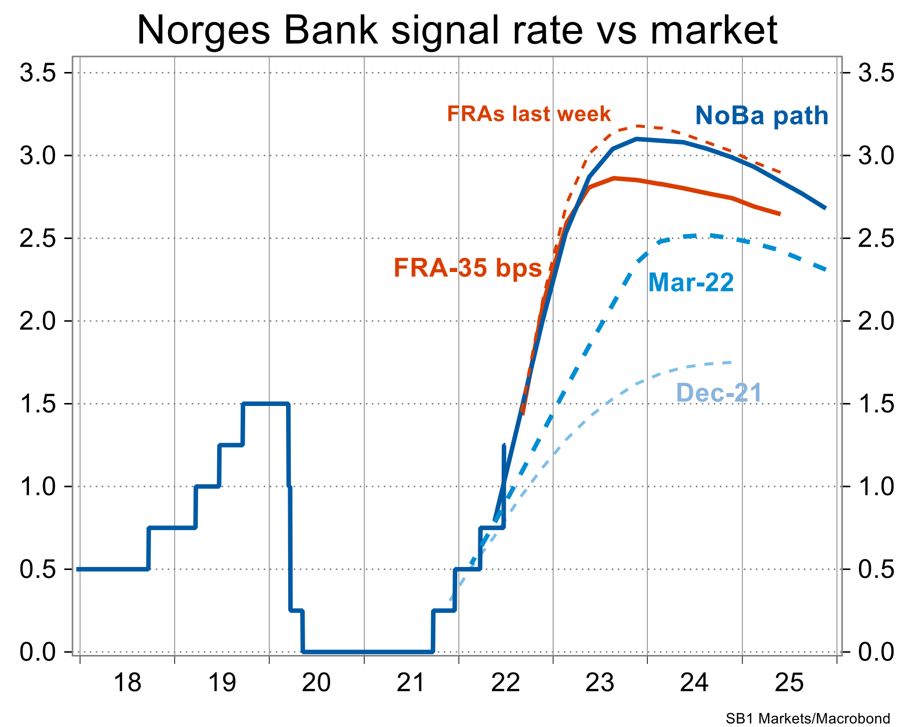


- The USD LIBOR-OIS spread fell 3 bps to 10 bps last week – which is a low level!

And then the FRA-curve fell below NoBa's path. But not before in Q2-2023

(More than) 25 bps hikes at the upcoming 5 NoBa meetings are still accepted, then the FRAs yields



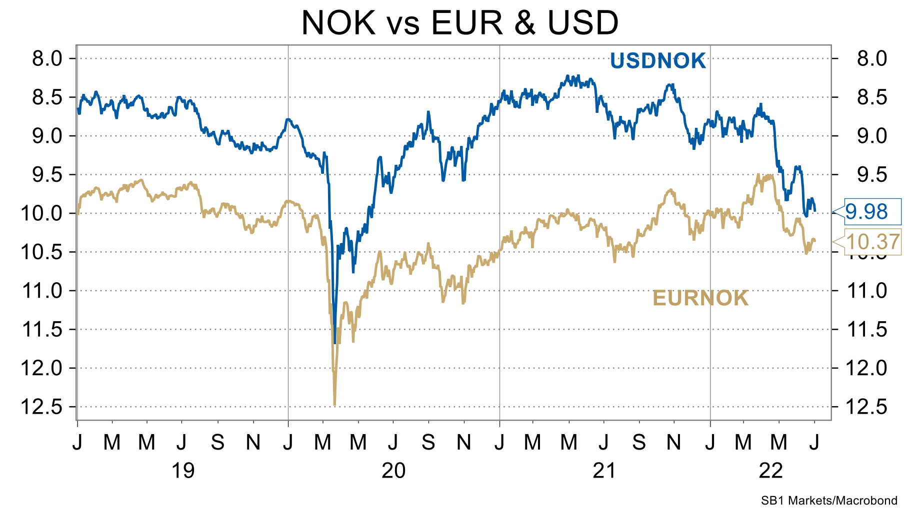


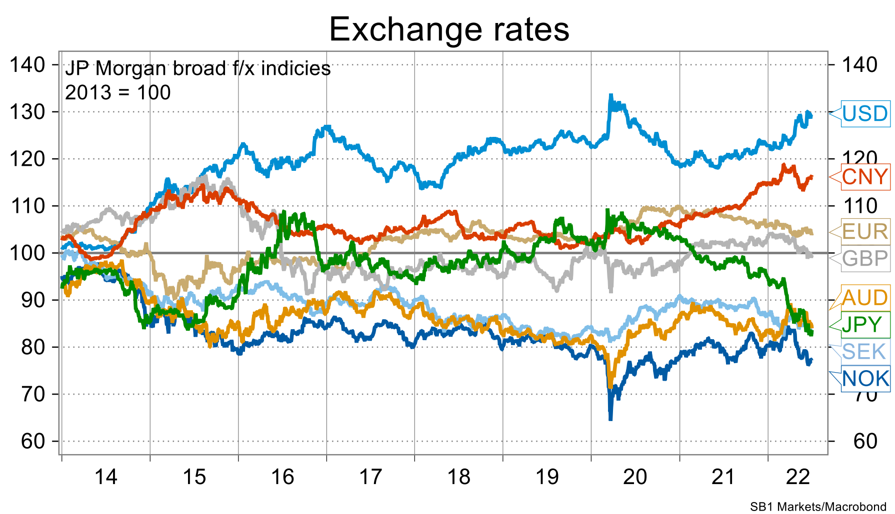
- **If NoBa hikes** in August and September, which was clearly signalled in the June MPR, the average signal rate will be 1.39% the coming 3 months. The current 3m NIBOR is at 1.67%, implying a 28 bps spread, which is a rather low. If NoBa does not hike in August (but hikes in Sept), the spread in 40 bps. Thus, the present 1.67% NIBOR seems to be on the low side
- **If NoBa** hikes in November too, the average signal rate from the start of the Sept 3m FRA contract will equal 1.90%. If NoBa hikes by 50 bps in Sept, the average will be 2.15%. The Sept 3m contract yields 2.37%. If we deduct a 35 bps spread, a 2.02% avg NoBa rate is assumed. Thus, the market is discounting a 50 bps hike by close to 50 bps probability. We think the probability for a 50 bps hike is far less than 50%. The same goes for the Dec 3m FRA contract at 2.94%, which is 11 bps above NoBa's path
- However, thereafter the FRA rates flattens and turn south earlier than NoBa's path – as the FRA-rates fell sharply last week, by up to 34 bps!

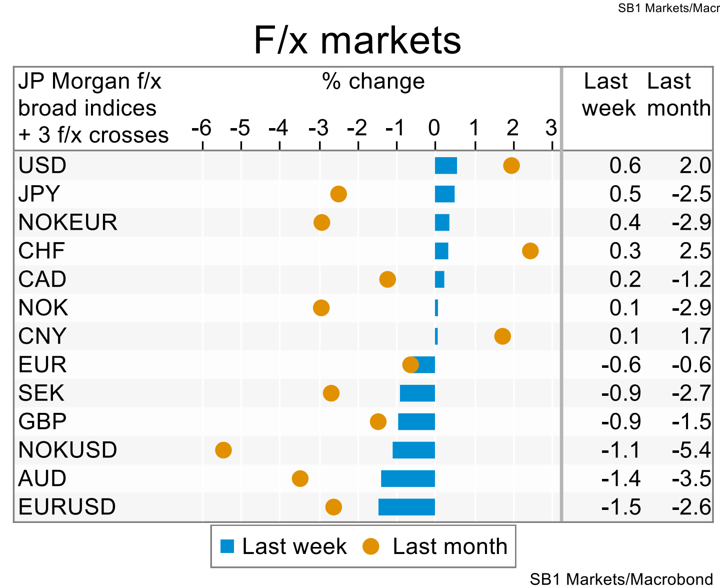
SpareBank 1 MARKETS

NOK on the middle of the road last week

The USD up even as recession fears built. However, the risk is not contained to the US economy…

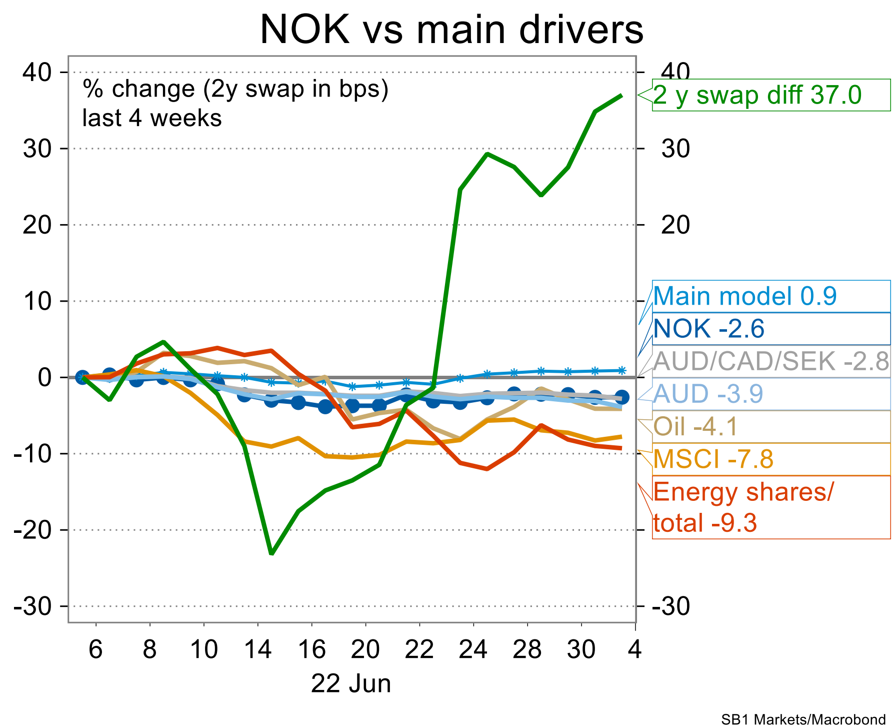


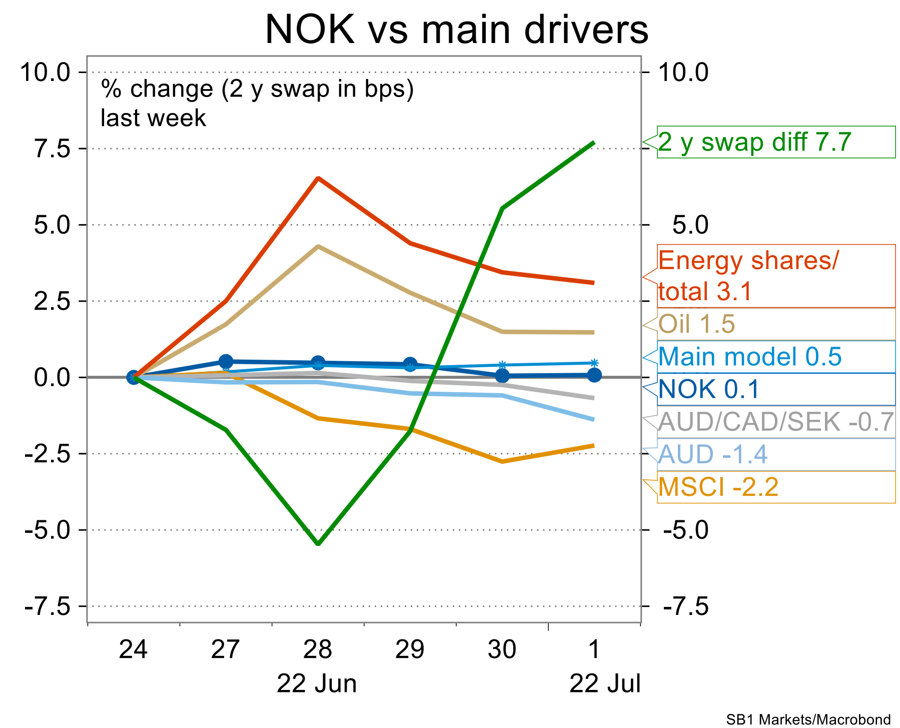




NOK flat even as the oil price rose, and the interest rate spread widened

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





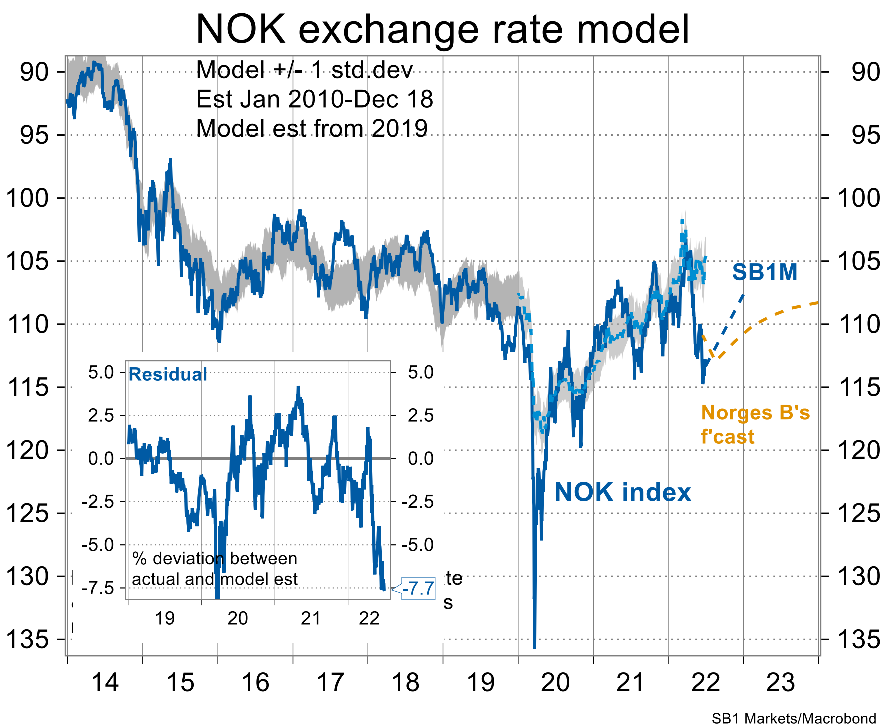
Gaps vs. out model estimates are extremely wide

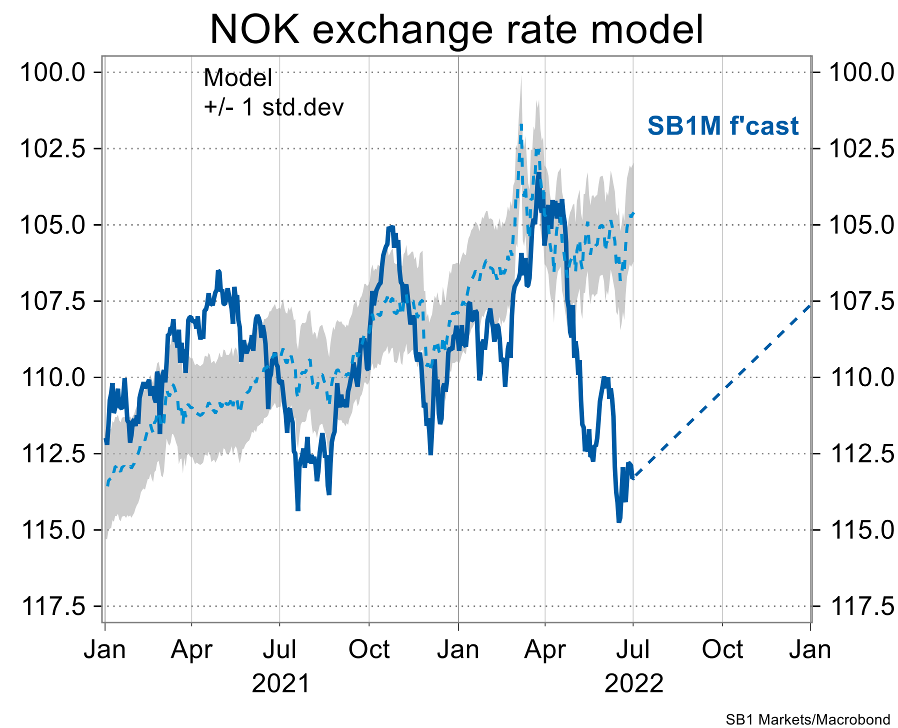
- ***The NOK +0.1%, our main model said +0.5% - and NOK is 7.3% <u>below</u> our main model estimate (from –6.8%)***
- The NOK is 9.5% <u>weaker</u> than our AUD/CAD/SEK-model, our ‘super-cycle peers’, predicts (from 10)
- NOK is 5% <u>weaker</u> than a model which includes global energy companies equity 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 7.7% below our model estimate

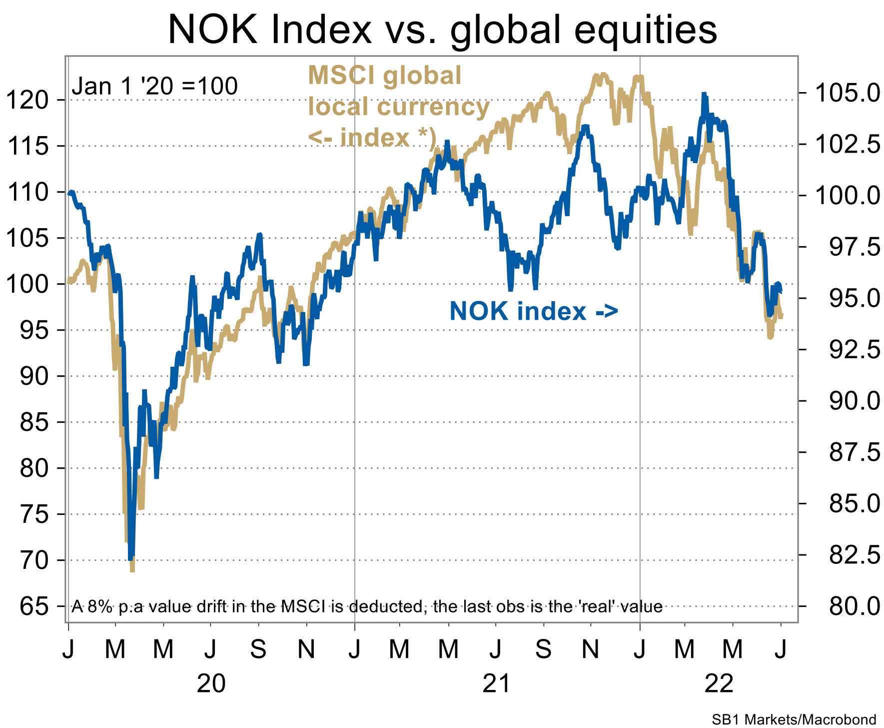
Rather unusual…

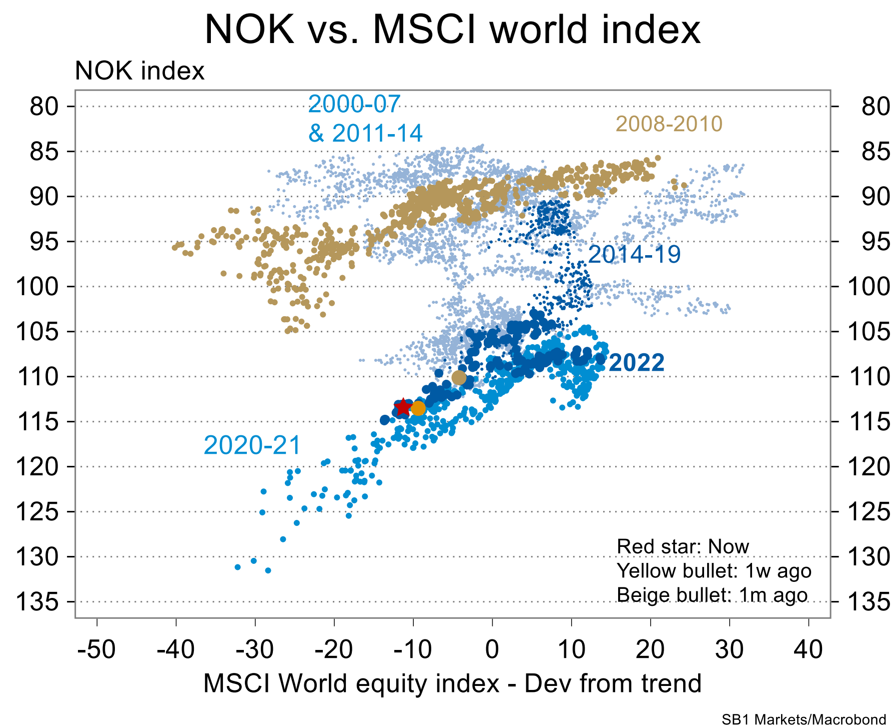




The NOK has been closely correlated to the stock market. Since April

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

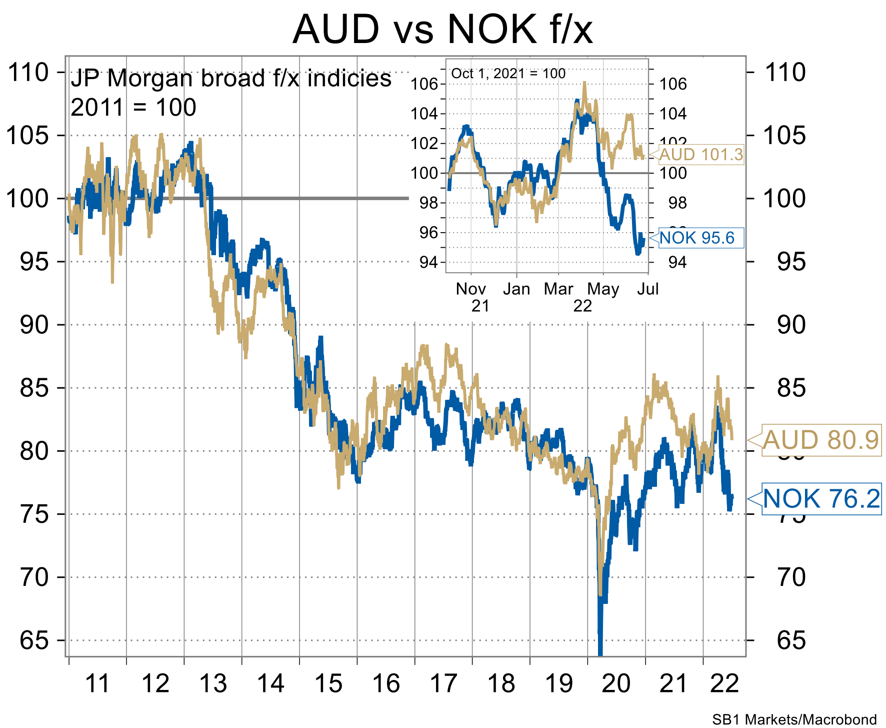


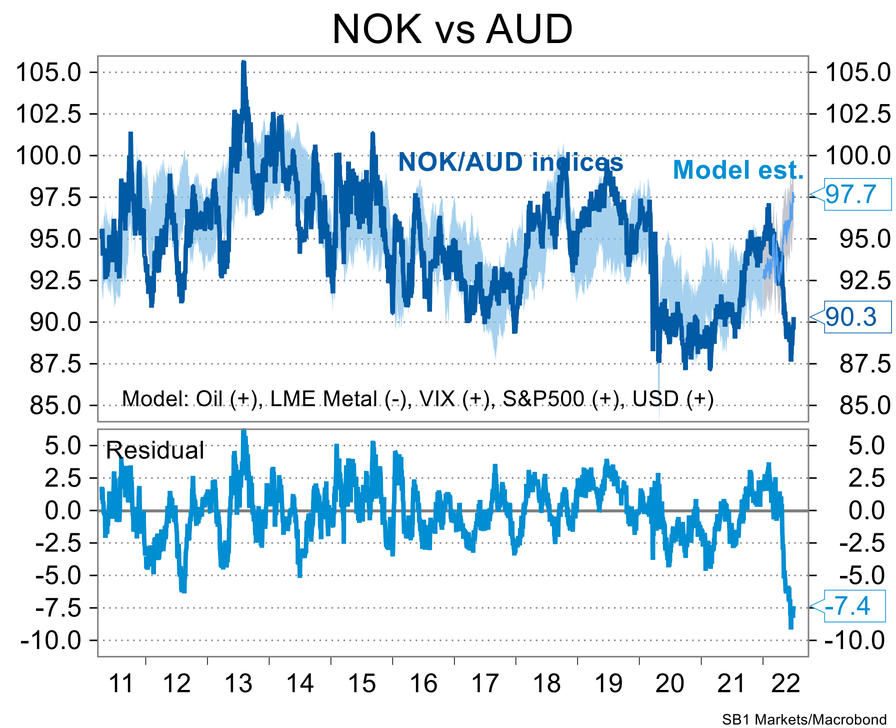


- However, since April oil has not contributed at all vs. the decline in the NOK. So it is RISK OFF again, also vs the NOK?

AUD down, NOK not. But the gap is large and - vs our NOK/AUD model ATL

The gap is now among the largest, even in metal prices have been falling for a while, oil & gas not

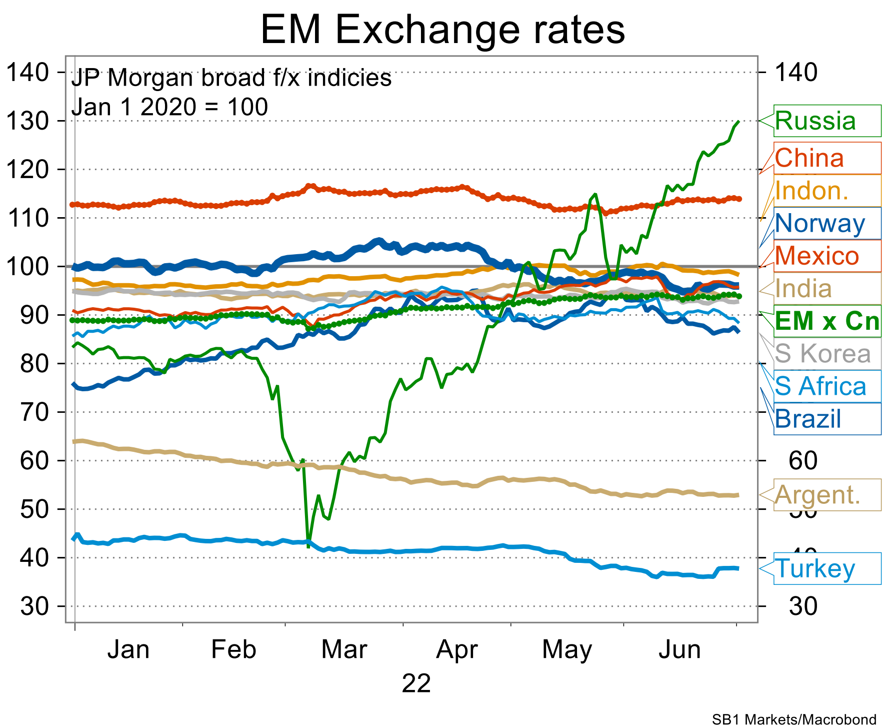


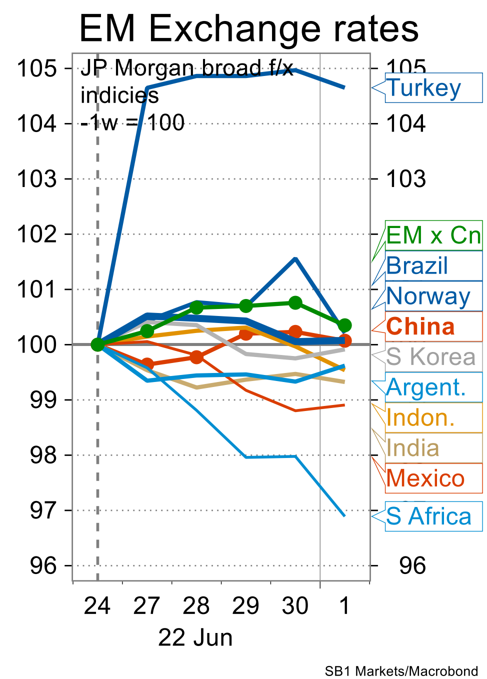


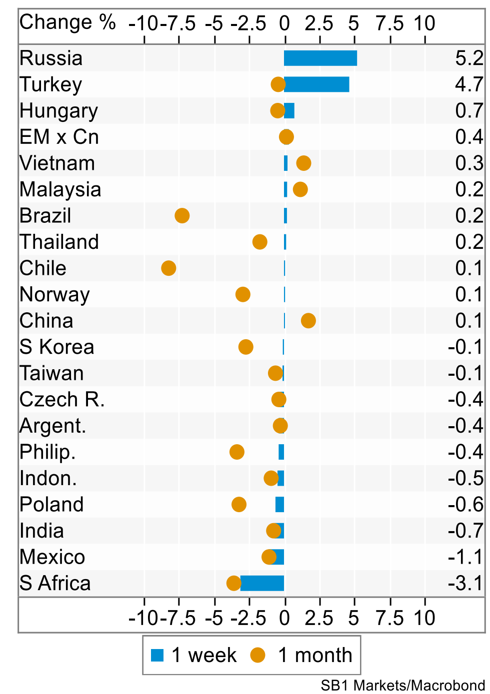
- The discrepancy between the NOK and AUD is highly unusual, given the normal factors that decide the gap
- Normally, NOK strengthens vs the AUD when the oil prices rises vs. the LME metal index, when VIX, and the S&P500 index increases, and the USD index appreciates. Seem like we need a new model. Until we find it, buy the NOK index (and short the AUD index)

EM f/x mostly down: But the winners were TRY & RUB!

Turkey introduced new capital controls, and the TRY appreciated 5%. The CNY slowly on the way back







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