August 1, 2022

Macro Weekly

Week 31/2022

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Last week

- **The War/Sanctions**
  - Few news from the East front. The war (stalemate) continues
  - **Most commodity prices** rose last week for the first time in several weeks. Risk on supported commodity markets too. However, food prices fell further, and they are now well below the level just before the war started – and the real price level is not that frightening. European gas prices are still the main challenge, as the supply from Russia was cut further down
- **PMI/China**
  - The first part of the **Chinese PMI** data sets were weaker than expected but do not signal any setback in GDP (which 'anyway' will grow strongly in Q3, following the 10% lockdown setback in Q2). Both manufacturing sector PMIs fell, and the NBS survey to 49.0, a rather weak print but in sum decent growth is still signalled
- **USA**
  - **The Fed Reserve** hiked the funds rate by 75 bps, to 2.25 – 2.50, up to a neutral level – as everybody expected. The Fed reiterated its commitment to bring inflation down but the market listened more to Powel's recognition that it is more uncertain how far the Fed would have to hike, in order to bring inflation more – and thought that was good news! The bond market even assumed that the Fed would accept higher inflation (break-evens infl. expectations rose, while real rate expectations collapsed further last week! The latter was also supported by recession-like GDP report)
  - The 6.3% growth in the **Employment Cost Index** in the private sector in Q2, 0.4 – 0.8 pp higher than expected – and the overall ECI was up 5% y/y, the highest since 1990, underscores Fed's main challenges: Wage inflation in the tightest labour market in decades – and a broadening CPI/PCE inflation, as the details in the June PCE report showed
  - **Housing data** are deteriorating: Sum of new home sales and building permits have fallen just like we usually see before or just after the economy has entered a recession. Pending home sales fell sharply too, signalling the existing home sales have fallen like in a recession too – even if prices are still inching upwards
  - **GDP** surprisingly fell in Q2 too, by 0.9%, expected up more than 1% (just before the release). A US recession is not decided by back-to-back negative GDP growth, but by a group of economists at the NBER. However, GDP has never fallen two quarters in row without the economy being in a recession, and GDP has fallen back-to-back in 9 of the past 12 recession. So the stats' are not on Powel's side when he said the did not believe the US had entered a recession. As in Q1, there were some GDP excuses, now an inventory adjustment. However, private sector demand slowed almost to zero. In addition, corporate profits probably fell further in Q2, if not by much as the GDP deflator rose almost 9%!
  - **Durable orders** are still on the way up but **manufacturing surveys** report a sharp contraction in new orders in July, like in June
  - **Our base case is unchanged**: <u>Demand for goods, services and labour must be reduced substantially in order to bring price- and wage inflation down</u>. This process is normally called a recession' – and it does not work before the these areas of excess demand is removed. <u>This process has barely started</u>
- **EMU**
  - **GDP** grew 2.8% in Q2 (0.7% not annualised), far more than expected, even if Germany flattened.
  - **HICP (CPI) inflation** was once more higher than expected – and it is broadening if not in the way we see in the US
  - Business sentiment fell in July but remains above average! Consumer confidence is
- **Norway**
  - **NAV unemployment** fell further in July, and much more than we expected. The rate fell to 1.6% - and just marginally above the lowest level since 1980. The **LFS ('AKU') unemployment** rate was flat at 3.2%, also a low level. The no. of employees is still increasing, albeit at a slower pace – a sign the that GDP is drifting upwards too

The Calendar: PMIs/ISMs, US labour market, Chinese trade, BoE to hike, Norw. house prices

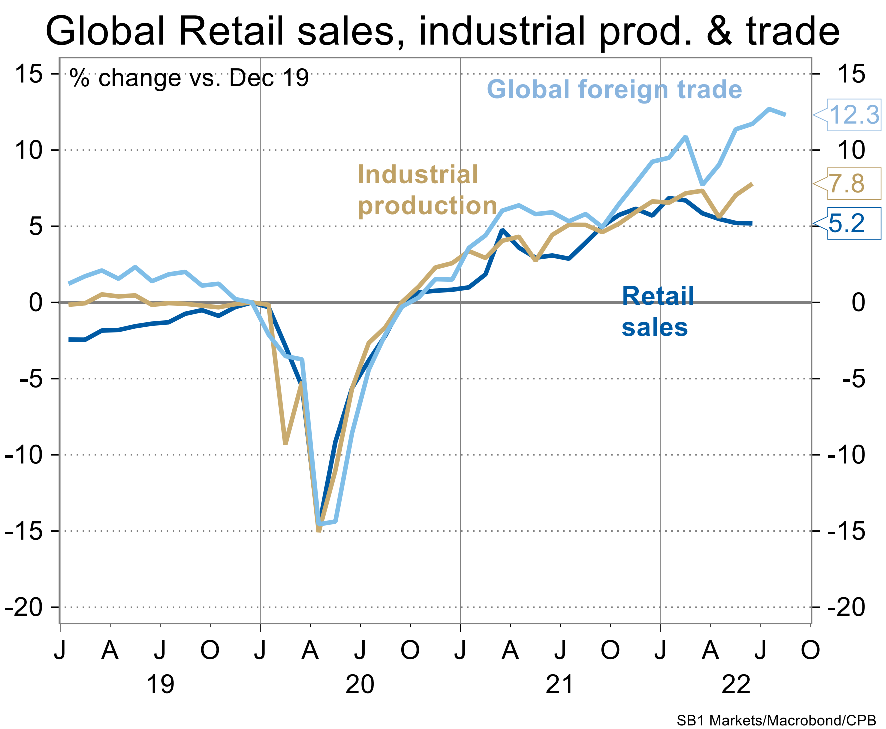
Time	Count.	Indicator	Period	Forecast	Prior
Monday August 1					
08:00	GE	Retail Sales MoM	Jun	0.4%	0.6%
08:30	SW	Manufacturing PMI	Jul		53.7
10:00	EC	Manufacturing PMI	Jul F	49.6	49.6
10:00	NO	Manufacturing PMI	Jul	(53.0)	56.4
10:30	UK	Manufacturing PMI	Jul F	52.2	52.2
11:00	EC	Unemployment Rate	Jun	6.6%	6.6%
15:45	US	Manufacturing PMI	Jul F	52.4	52.3
16:00	US	Construction Spending MoM	Jun	0.2%	-0.1%
16:00	**US**	**ISM Manufacturing**	**Jul**	**52.0**	**53.0**
17:00	**WO**	**Manufacturing PMI**	**Jul**	**(51.1)**	**52.2**
Tuesday August 2					
16:00	**US**	**JOLTS Job Openings**	**Jun**	**10994k**	**11254k**
	US	Auto sales	Jul	13.5m	13.0m
Wednesday August 3					
03:45	CH	Services PMI, Caixin	Jul	54	54.5
08:30	SW	Services PMI	Jul		62.8
10:00	EC	Services PMI	Jul F	50.6	50.6
10:00	EC	Composite PMI	Jul F	49.4	49.4
11:00	EC	PPI YoY	Jun	35.7%	36.3%
11:00	EC	Retail Sales MoM	Jun	0.0%	0.2%
11:00	**NO**	**House prices**	**Jul**	**(0.2%)**	**0.3%**
15:45	US	Services PMI	Jul F	47.1	47
15:45	US	Composite PMI	Jul F	47.6	47.5
16:00	US	ISM Services	Jul	54	55.3
17:00	**WO**	**Composite PMI**	**Jul**	**(50.7)**	**53.5**
Thursday August 4					
08:00	GE	Factory Orders MoM	Jun	-0.7%	0.1%
08:00	NO	Credit Indicator Growth YoY	Jun	(4.7)	4.8%
10:00	EC	ECB Economic Bulletin			
13:00	**UK**	**Bank of England Bank Rate**		**1.8%**	**1.3%**
14:30	US	Trade Balance	Jun	-$81.3b	-$85.5b
14:30	US	Initial Jobless Claims	Jul-30	260k	256k
Friday August 5					
08:00	GE	Industrial Production SA MoM	Jun	-0.2%	0.2%
14:30	**US**	**Nonfarm Payrolls MoM**	**Jul**	**250k**	**372k**
14:30	**US**	**Unemployment Rate**	**Jul**	**3.6%**	**3.6%**
14:30	**US**	**Average Hourly Earnings MoM**	**Jul**	**0.3%**	**0.3%**
14:30	US	Average Hourly Earnings YoY	Jul	4.9%	5.1%
14:30	US	Average Weekly Hours All	Jul	34.5	34.5
14:30	US	Labor Force Participation Rate	Jul	62.2%	62.2%
21:00	US	Consumer Credit	Jun	$25b	$22b
Sunday August 7					
	CH	Trade Balance	Jul		$97.94b
	CH	**Exports YoY**	**Jul**		**17.9%**
	CH	Imports YoY	Jul		1.0%

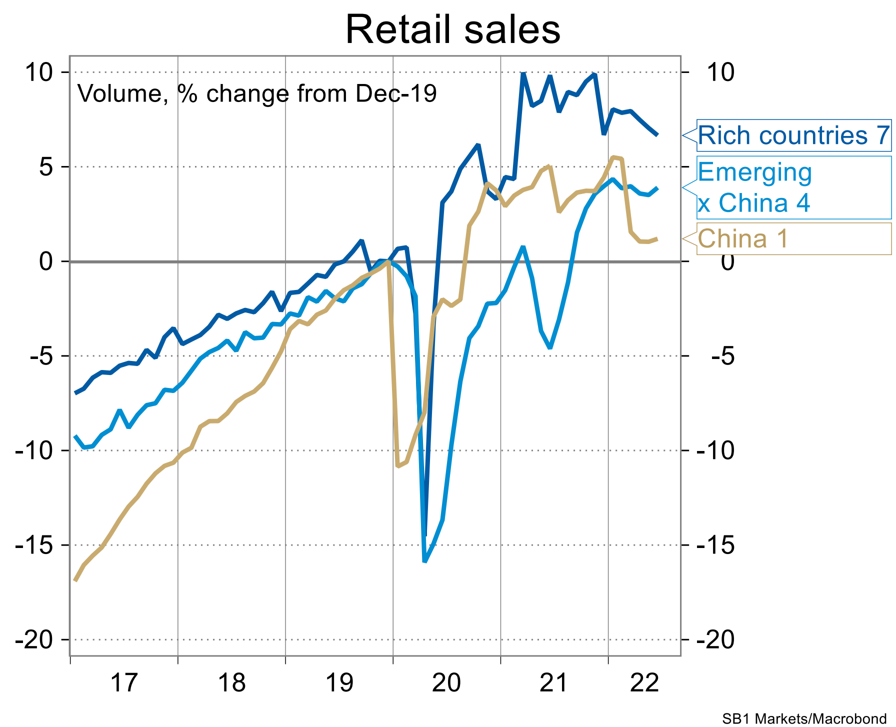
- **PMI/ISM**
  - » **The preliminary PMIs** from the **rich part of the world** were significantly weaker than expected. The first data set from **China** (not included in the global aggregate) was weaker than expected too. We now assume a large decline in the global measures. However, so far **EM x China** have kept up pretty fell. In the US, the composite PMI fell to well below to due to a sharp setback in the services sector, which is not expected to be replicated in the ISM survey. The **manufacturing ISM** is expected further down, in line with the retreat of the whole bunch of regional surveys, and the manuf. PMI. In sum, both the US and the global economy is slowing
- **Global auto sales**
  - » **June sales** were fantastic, due to an incredible lift in Chinese auto sales. Most likely, global sales will slow in July. Production challenges are easing, at least in some countries. Will demand be the next challenge?
- **China**
  - » **Chinese exports** are record high, also in volume term, and does not fit well with the 'value chain'-explanation' for the troublesome high inflation rates in many countries. July data out at Sunday
- **USA**
  - » Several indicators are flashing that the US is in or close to a recession, like the 2 x GDP contraction, and the increase in the weekly inflow of **new jobless claims**. However, **official LFS unemployment** is still on the way down (measured in '000; The rate has been flat, at the first decimal at 3.6% since March). A old saying (Sahm's rule) (correctly) states that a 0.5 pp lift in the 3 m average of the unemployment rate signals a recession – however often well into a recession. Nobody expects such a 'recession'-warning this week. **Employment** growth is expected to slow, as is annual **wage inflation**. Other wage measures do not report slower growth. We think the vacancy rate (JOLTS) is just as important as the nonfarm report, as are businesses reports on filling positions and compensation plans in the NFIB survey (normally at Thursday)
- **EMU**
  - » GDP surprised at the upside in Q2 but the quarter probably ended at a weaker note. **Production and retail sales** data from several countries out this week
- **UK**
  - » A 50 bps hike from **Bank of England**, here too? The economists think so
- **Norway**
  - » **House prices** surprised at the upside in June, up 0.7%. Norges Bank expect prices to start declining in July, we are not so sure. But just wait for the coming 2 x 50 bps, they will probably help the market stabilise. In Sweden house prices have fallen more than 6% already
  - » **Credit growth** remains modest, the best argument for not hiking interest rates that much

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

Retail sales are still stoft, manufacturing production recovered in May and June

Global trade is still going strong

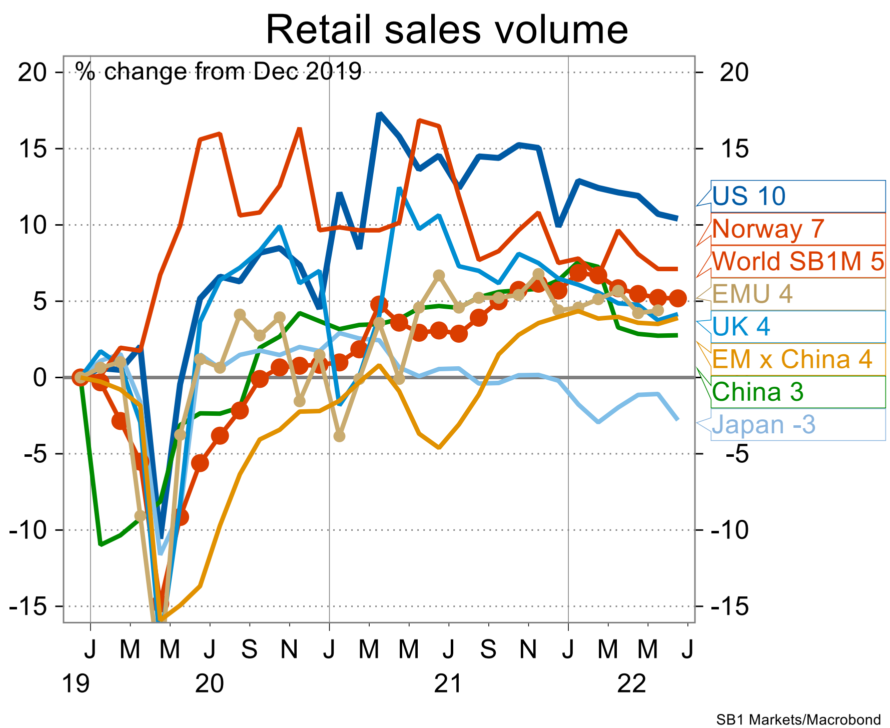


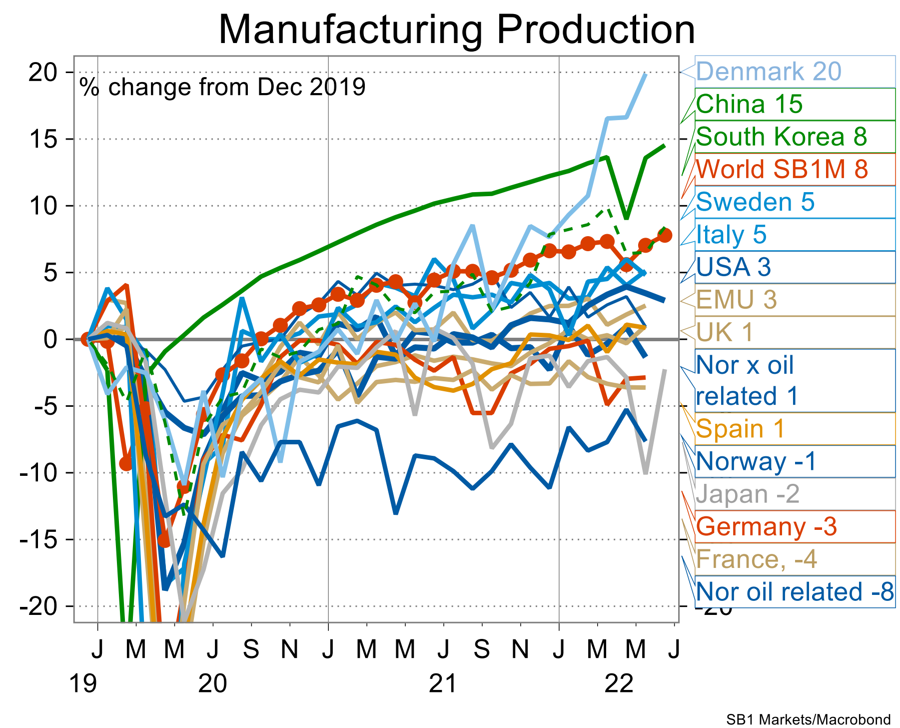


Global trade: The last months are estimates from the Kiel Institute, they are also making a prognoses for the next month based on shipping activity etc.

A broad slowdown of retail sales

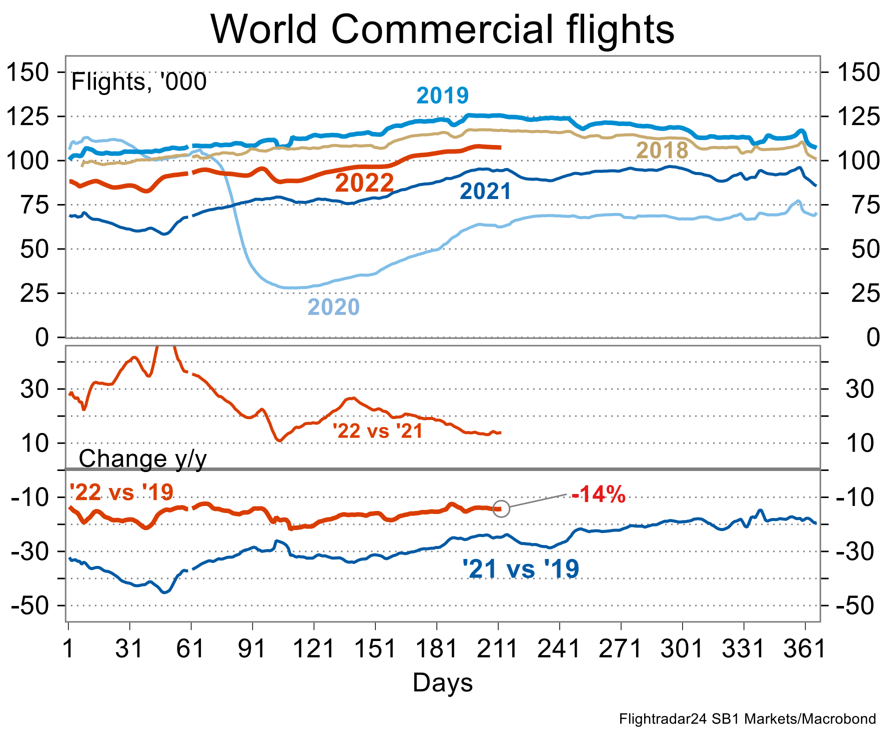
Is manufacturing exposed?

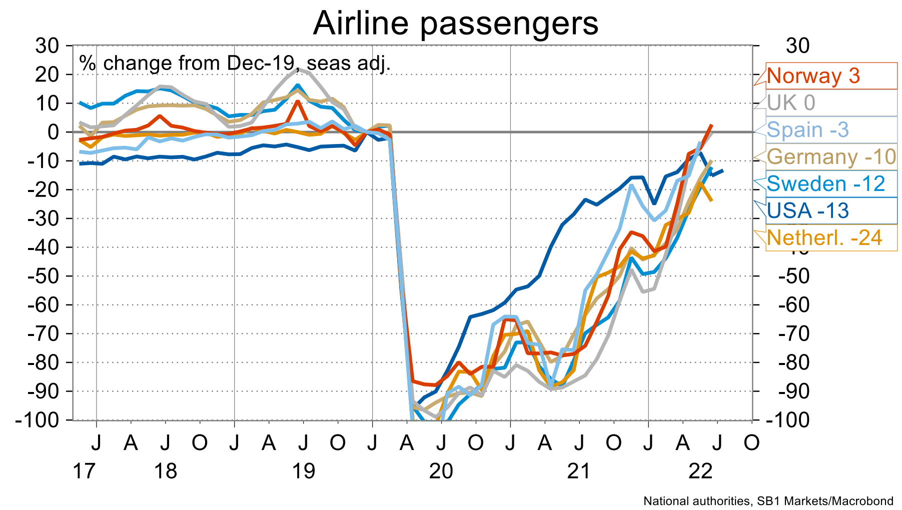


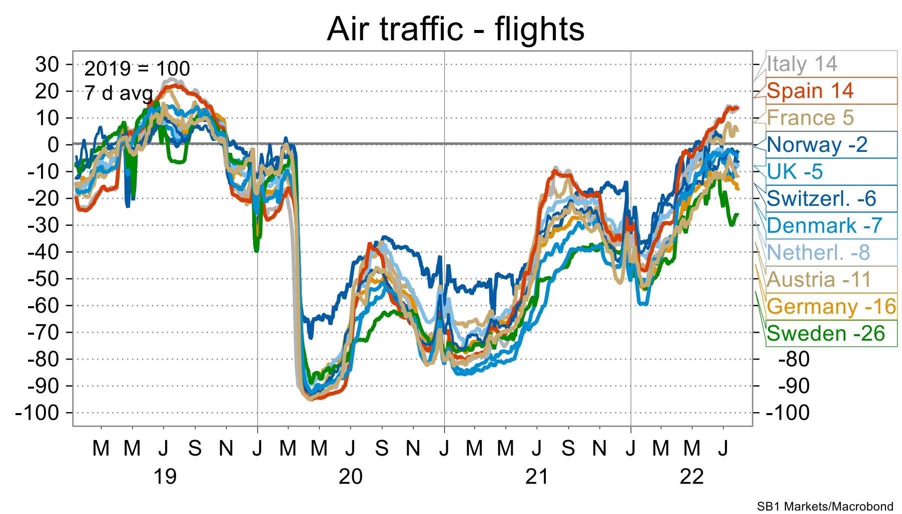


Global airline traffic has flattened recently, still down 14% vs. 2019

and finally marginally more than the seasonal normal



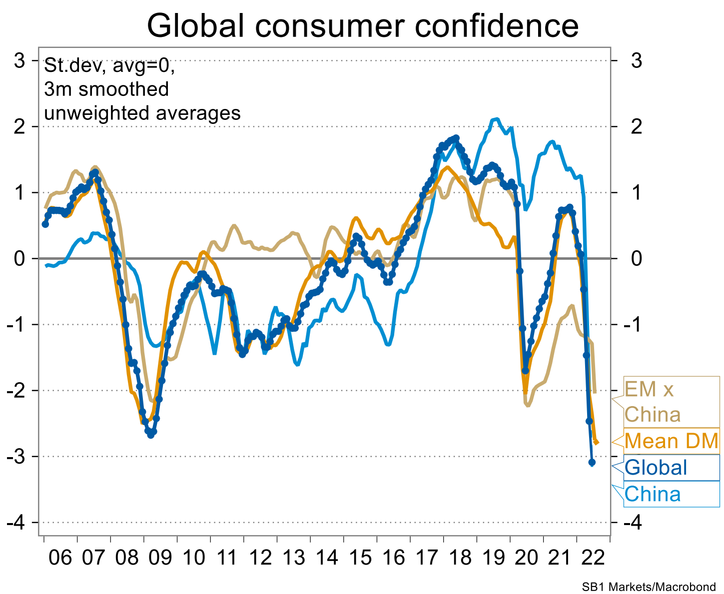


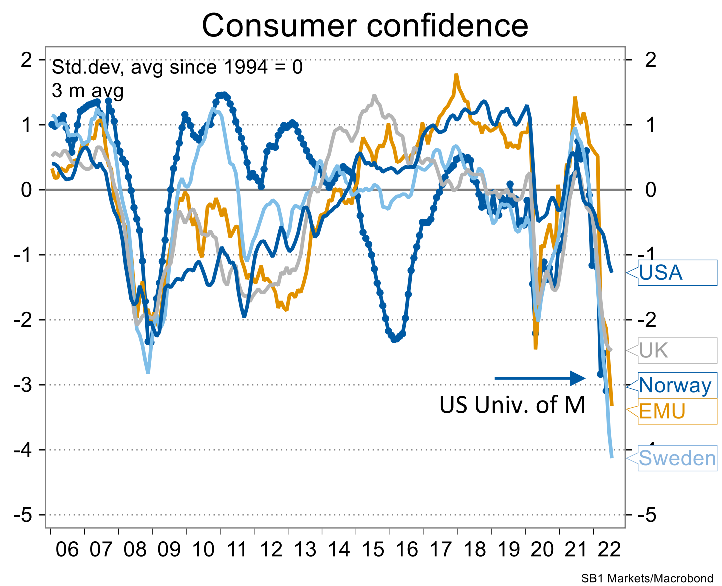


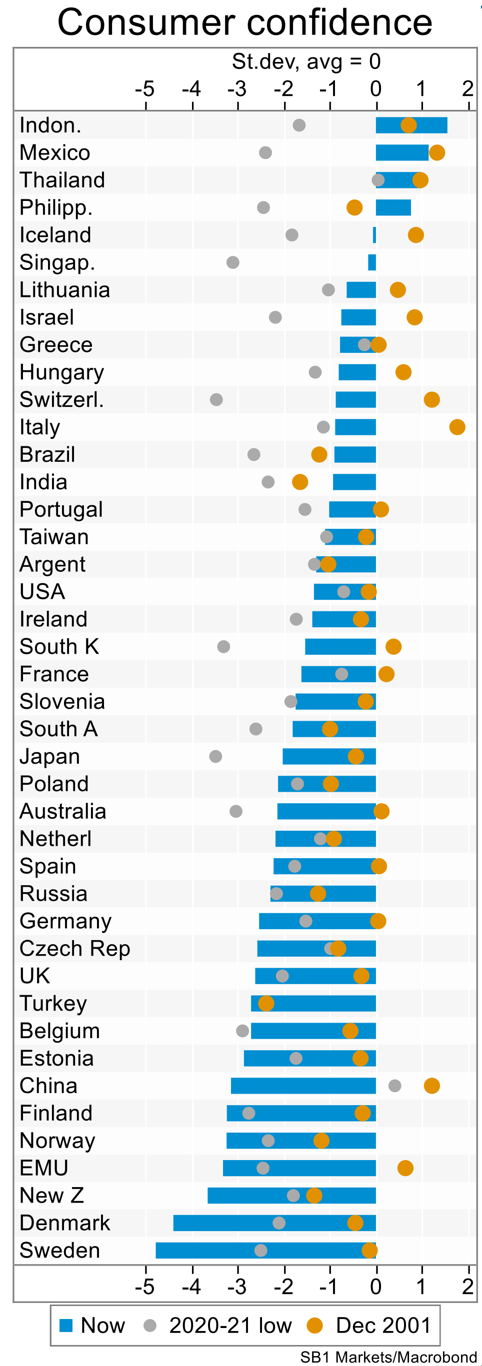
Global trade: The last months are estimates from Kiel Institute

Consumer confidence sharply down almost everywhere

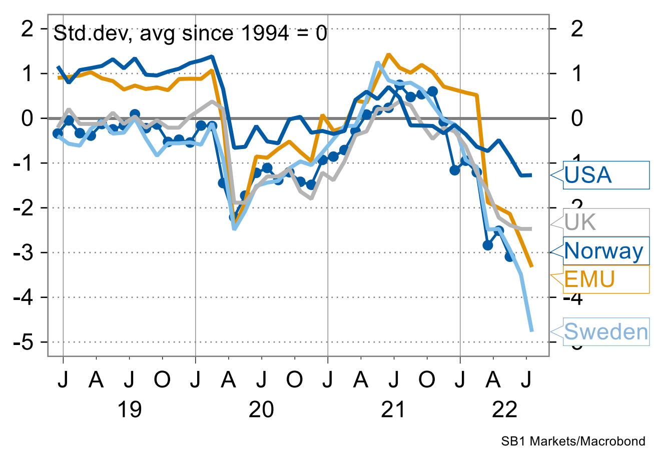
The Scandics at the bottom, with EMU, China (and US Univ. of Mich surv)







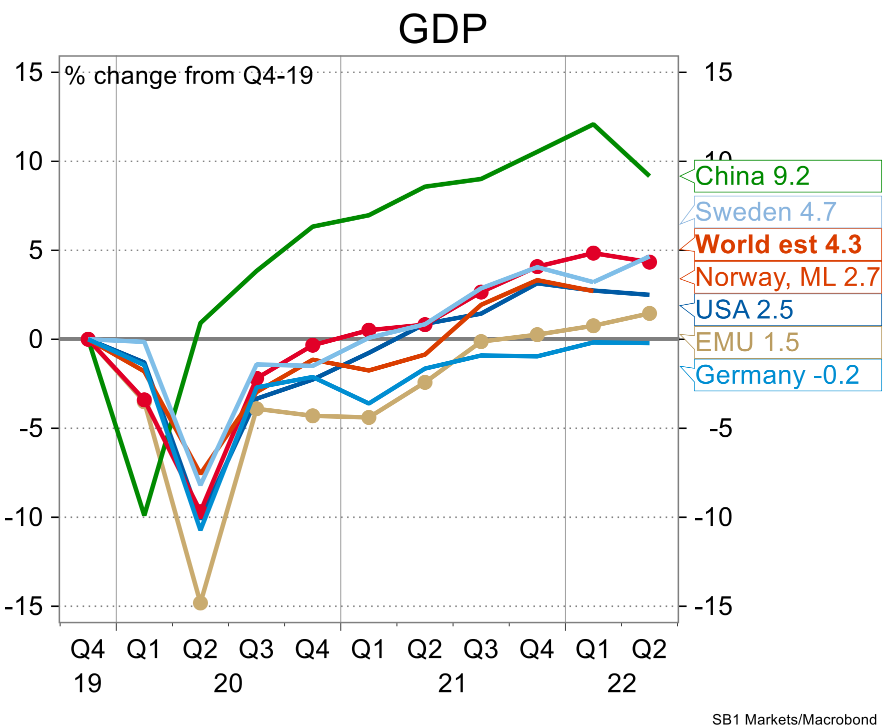
- Most countries are reporting a significant lower confidence level than late last year. Just 4 countries are above average, 35 are below, many at ATL
- In most countries inflation and higher interest rates may to blame, while the collapse in the sentiment in China is very likely due the Covid measures
- **Emerging markets ex China** has not fallen that much recently, but the level is low

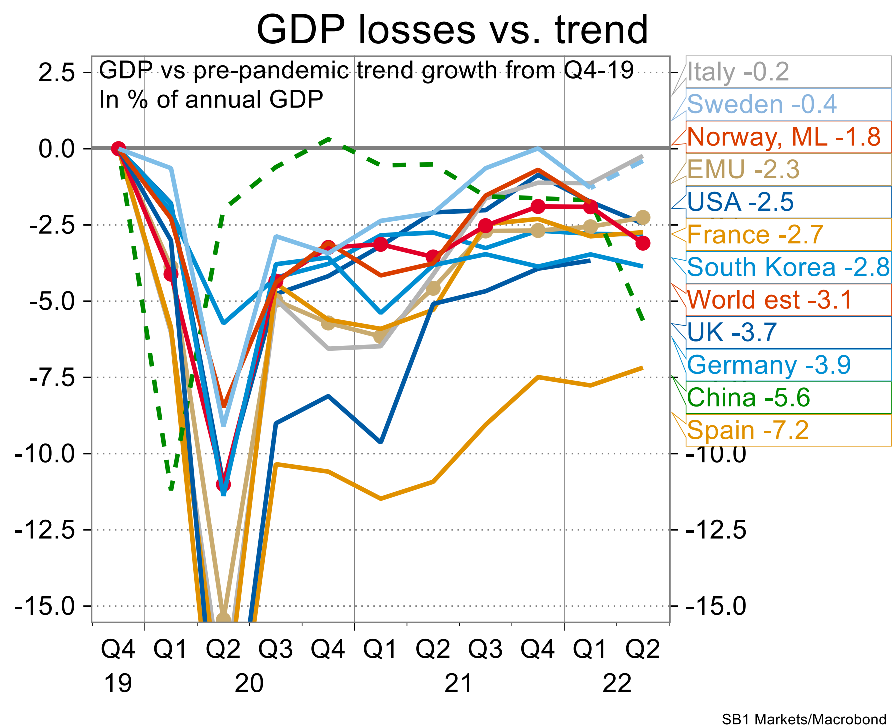


Norway is the average of Finans Norge & Opinion

GDP fell in Q2, mostly due to the Chinese lockdowns, and the US ‘recession’

Global GDP fell at a 2% pace in Q2

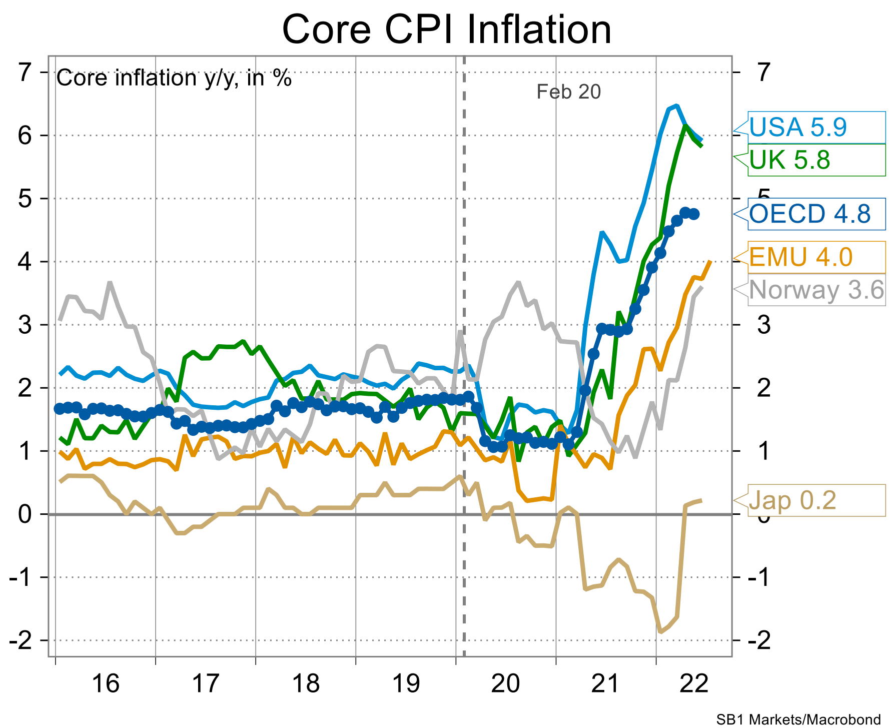


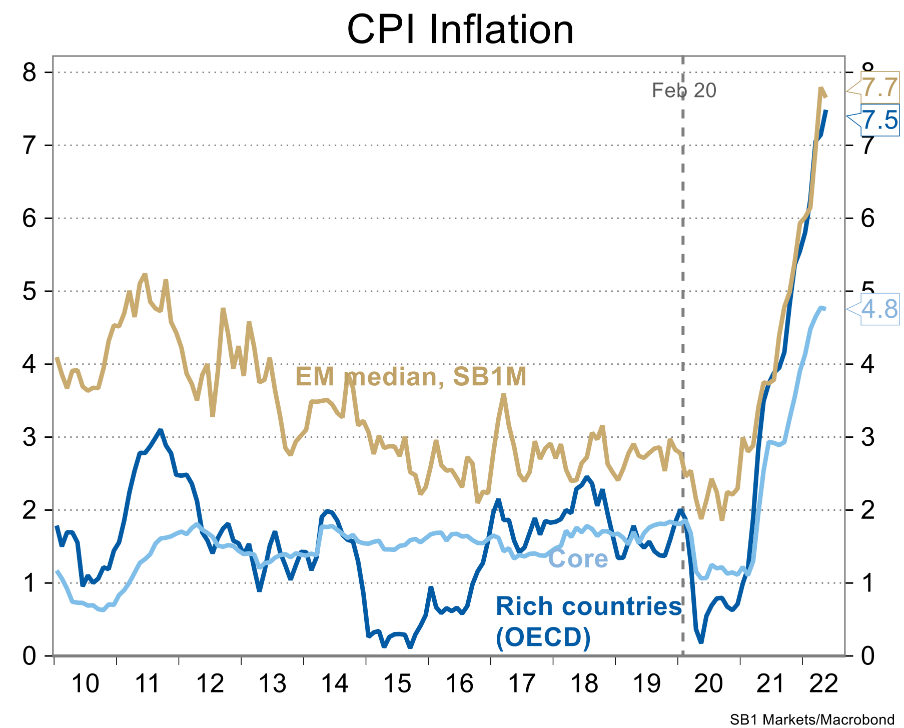


- Global GDP is some 3% below the pre-pandemic growth path

Core CPI has peaked where it is the highest – but it is far to high everywhere

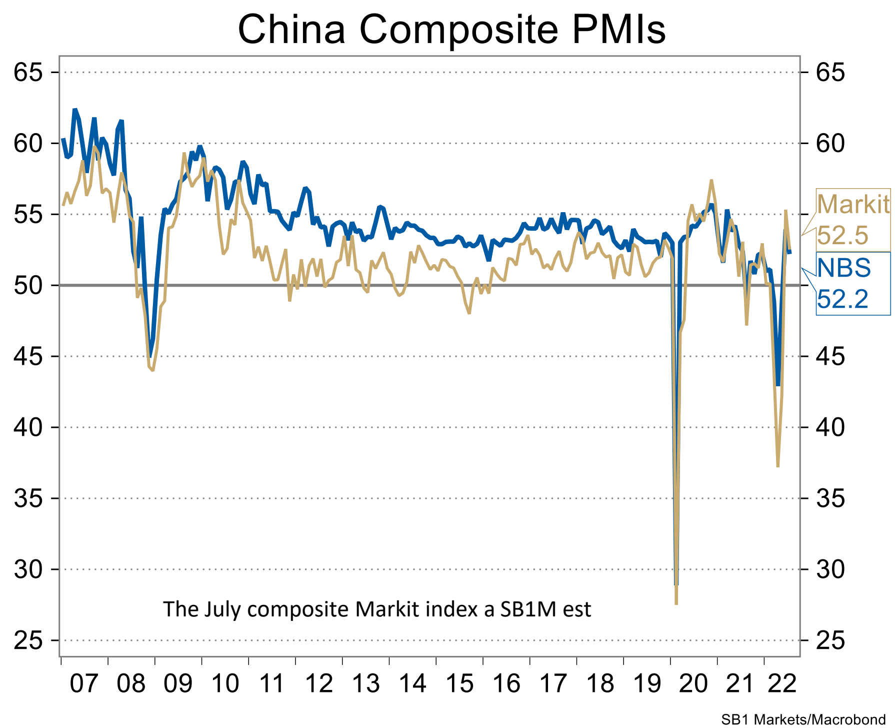
Energy prices the main culprit, but core prices are also contributing. However, some peaks are seen?

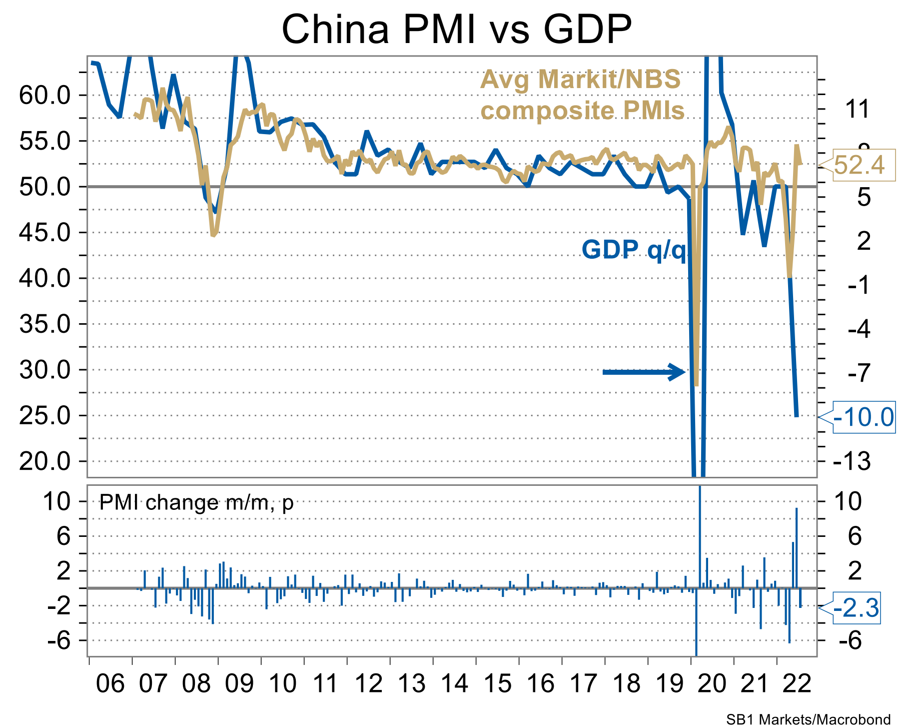




The PMIs down in July but growth close to trend still signalled

Both manufacturing and services report slower growth, but in sum still not far below trend

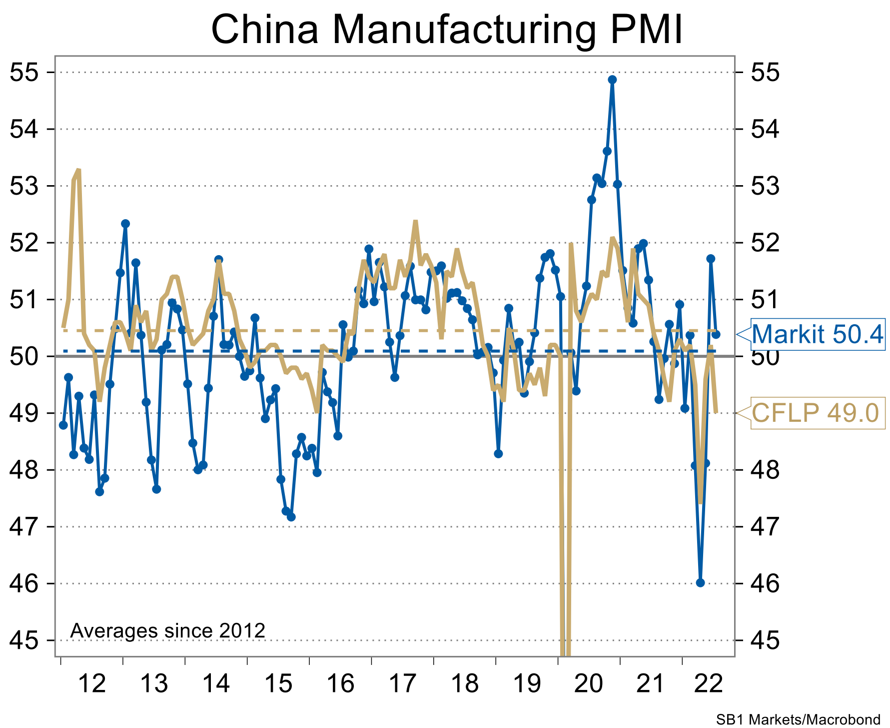


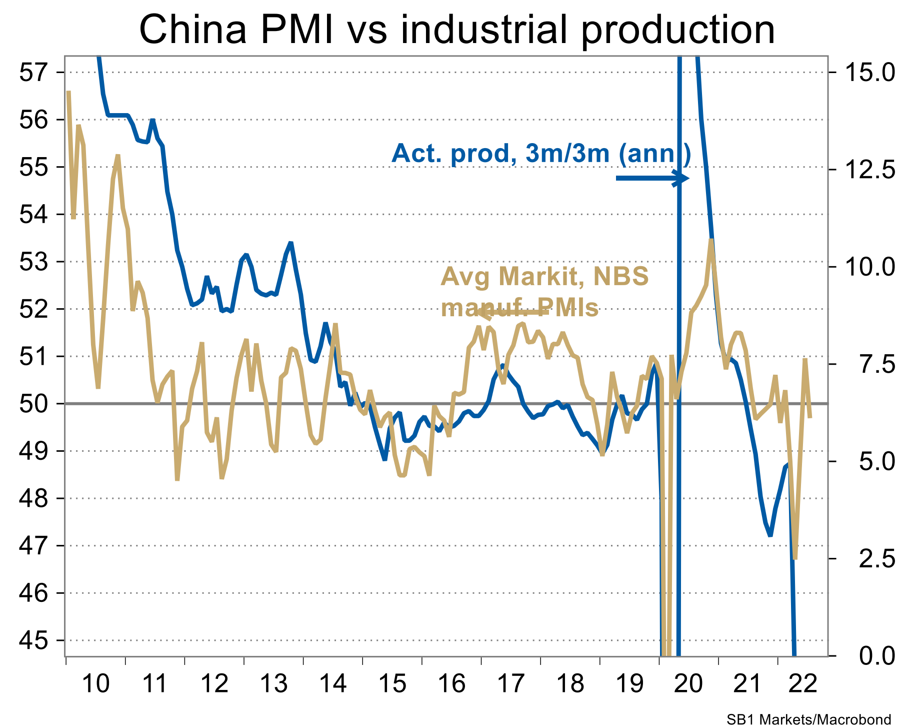


- **NBS/CFLP** PMIs composite fell in July but remains at close to a normal level, signalling 'normal' growth. The composite index fell by 1.7 p to 52.2
  - » The manufacturing index fell by 1.2 p to 49.0, expected up 0.1 p to 50.3, well below an average level and one of the weakest prints, except for the lockdowns in Feb 2020 and April 2022. The steel sector PMI is fell to a very low level – finally some impact from the setback in the construction sector?
  - » The service sector index declined 0.9 p to 53.8, close to expectations
- The S&P Global Chinese manufacturing PMI (which is the confusing name for Markit's PMIs now) fell by 1.2 p to 50.4, expected down 0.2 p. The service index is not yet published, but if we assume the same change as the NBS suryey, the composite index fell by 2.8 p to 52.5, still a strong print (the output component fell more than the total index in the manuf. survey)
- The PMIs are so far clearly weaker than expected with a decline at 2.3 p. Still, they do not signal any contraction in the Chinese economy but rather growth close to trend

Both manufacturing PMIs down 1.2 – 1.3 p in July, the NBS/CFLP to -49.0

The Caixin/Markit (S&P) survey fell to 50.4. In sum growth below avg signalled, but not by much

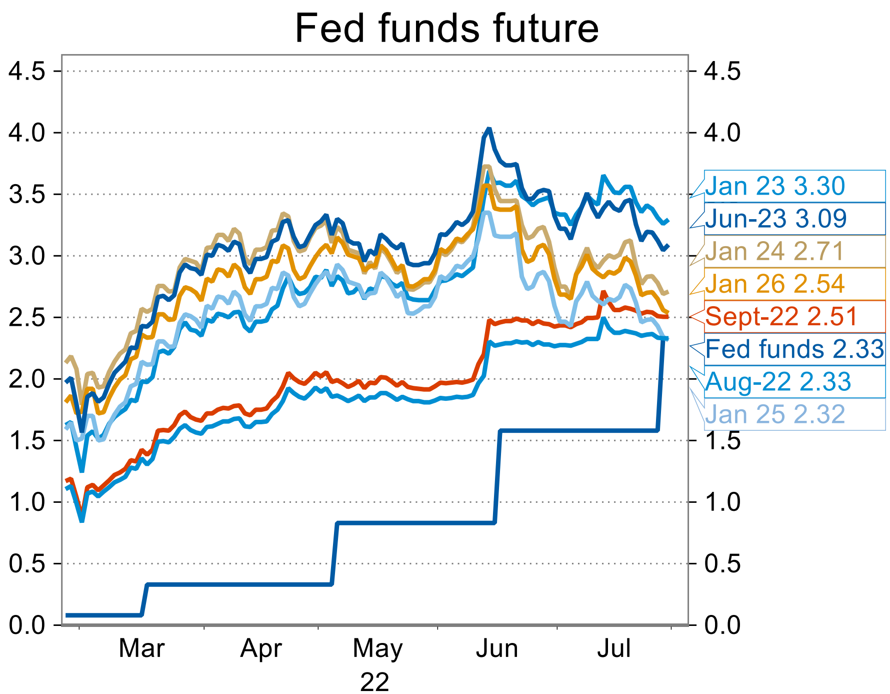


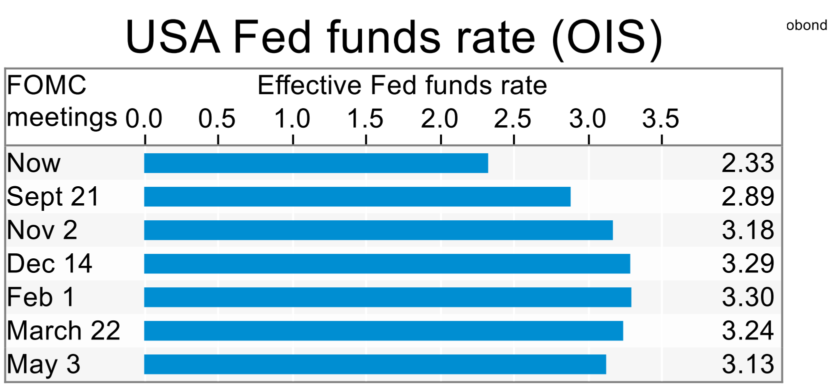


- The Caixin index is close to an average level, the NBS survey is clearly below, in fact on of the weakest print, except for the lockdowns in 2020 and 2022
- Actual industrial production production fell sharply in April but recovered in May and June

Another triple hike; More to come but how much? The Ec. outlook anyway weak

The funds rate up 75 bps to 2.25 – 2.50, and back to a neutral zone.

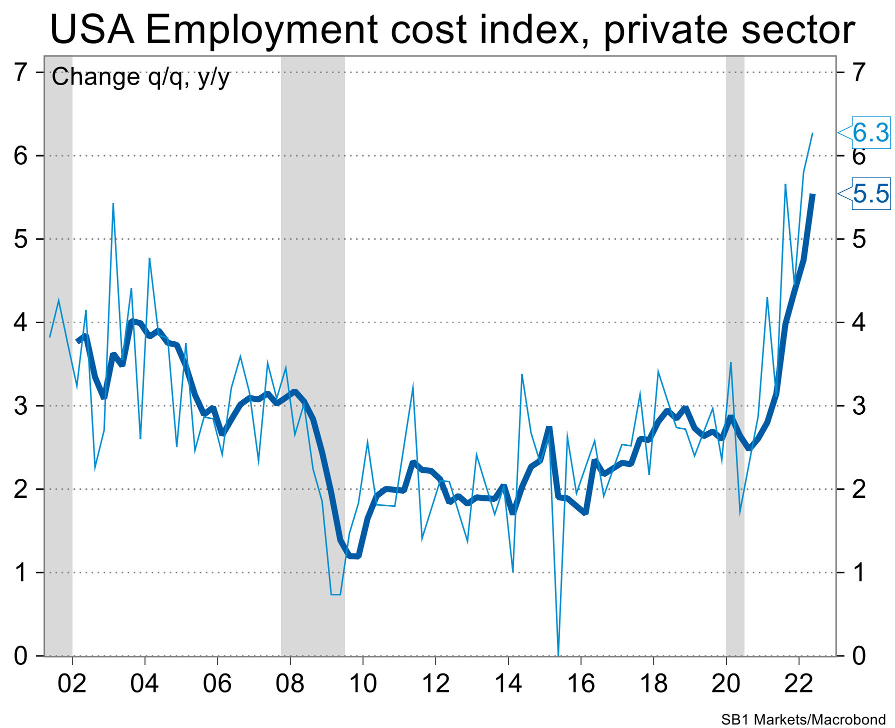


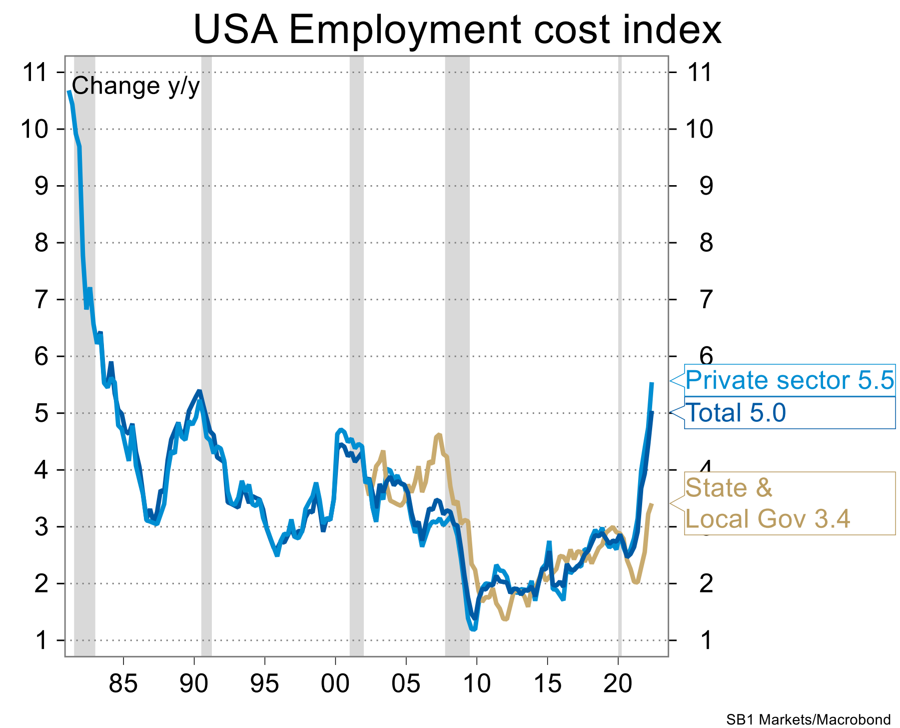


- **The FOMC & Powell** ackowledged that growth in production and spending had softened but the labour market remaines tight and inflation remains elevated
- **The outlook is more uncertain**: How much further tightening after bringing the rate rapidly up to a neutral level is needed is of course dependent on the development in the economy – which is now slowing. Other elements of financial conditions will decide too
- This does not mean that the FOMC has become soft on **inflation**, they do simply not know how much further the signal rate has to be lifted in order to bring inflation down – through what we think is inevitable, a significant weakening in demand for goods, services and labour
- Still, the market responded as if the FOMC does not intend to bring inflation down (inflation expectations rose), and that a much lower real interest rate will be needed to achieve the target (expected real rates fell further) – and that the economy will not be hurt that much anyway (risk markets rallied)
- I risk markets remains buoyant, and rate expectations come down, will the FOMC succeed in bringing inflation down? We doubt something is missing in that equation

Fed's challenge: Private sector employment costs exploded in Q2, at a 6.3% pace

It will not be close to possible to bring inflation down to 2% with a wage cost growth at current levels

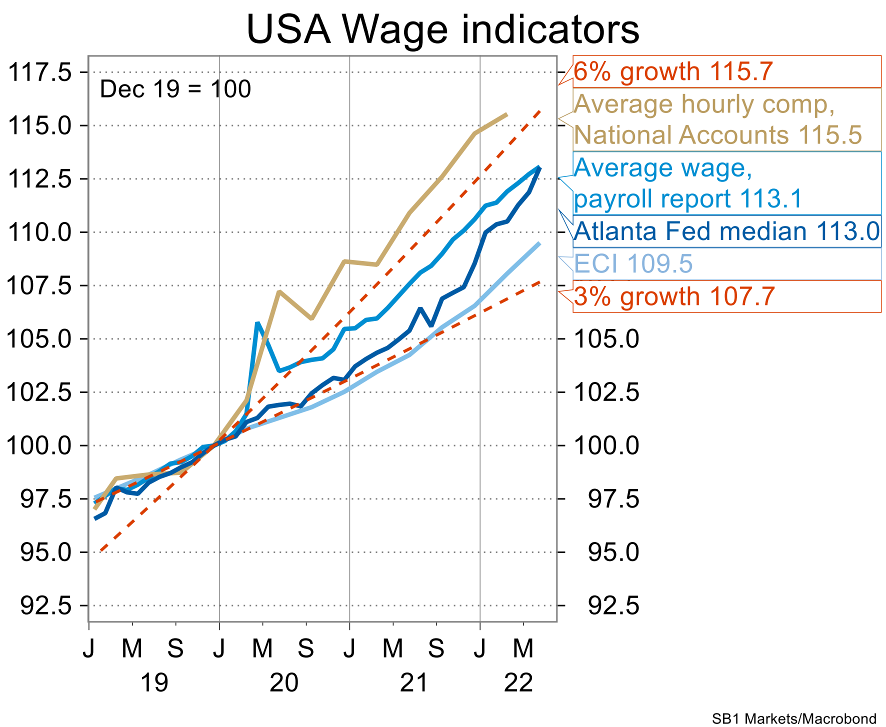


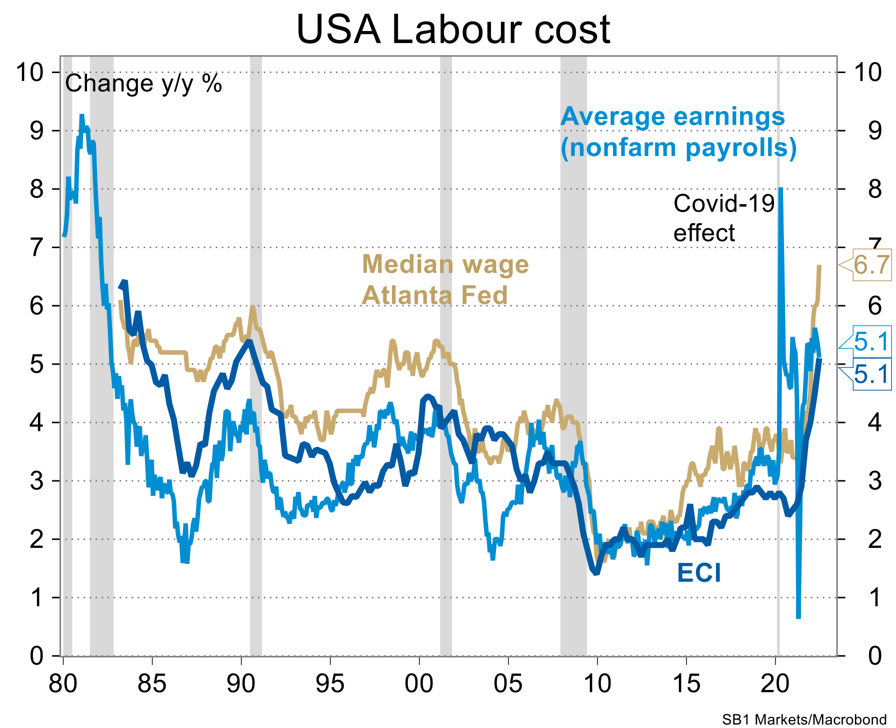


- The **Employment cost index for all civilian workers**, which measures wages and other wage costs for the same types of jobs (and is not influenced by changes in employment between sectors/type jobs), rose by 1.3% q/q in Q2, 0.1 – 0.2 pp faster than expected, or at a 5.3% annualised pace. The annual rate accelerated to 5.0% from 4.5%, the highest since ~~2002~~ 1990
  - In the private sector, the ECI rose by 1.5% q/q (6.3% annualised), and it is up 5.5% y/y
  - State and local gov employment costs are up just 3.4% y/y, the largest discrepancy to the private sector ever
  - In general, low paid services reported the highest wage growth, both q/q & y/y
- **Wage inflation** is the real problem for the Fed, far more than the impact of high energy/food/raw material prices. Those commodity prices are already on the way down, and the contribution to CPI inflation will come down. Will it be possible to bring wage inflation down without a recession? Probably not, check the chart to the right

No clear signal of any slowdown in wage inflation (barring in the payrolls report)

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

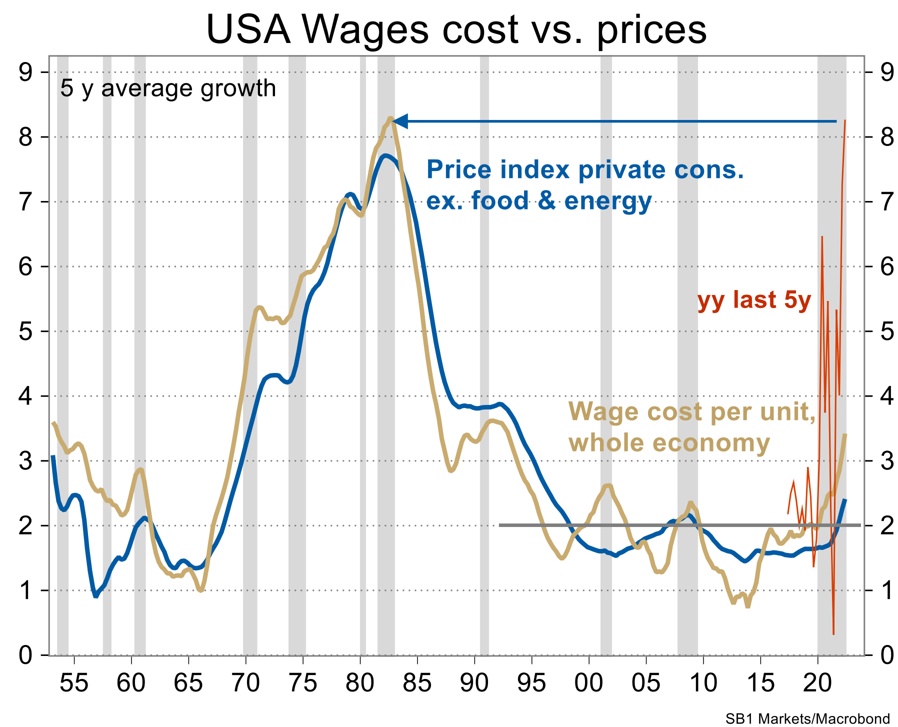


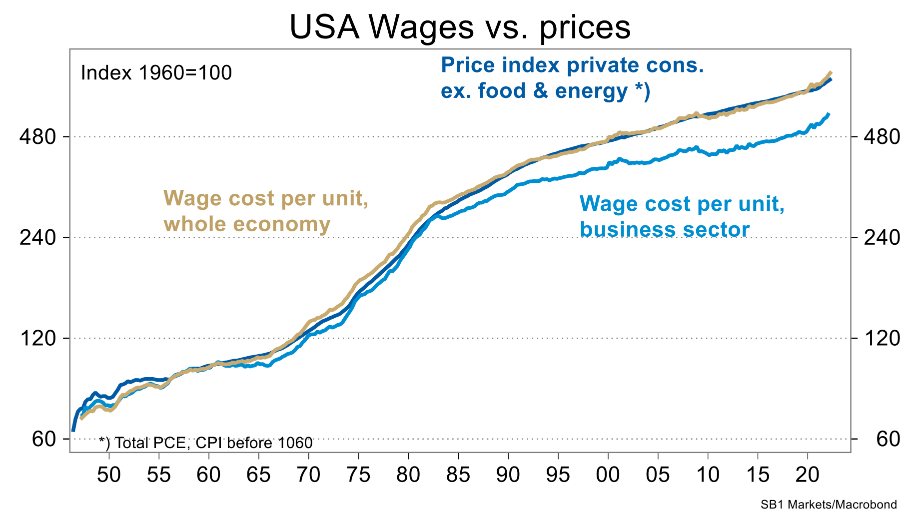


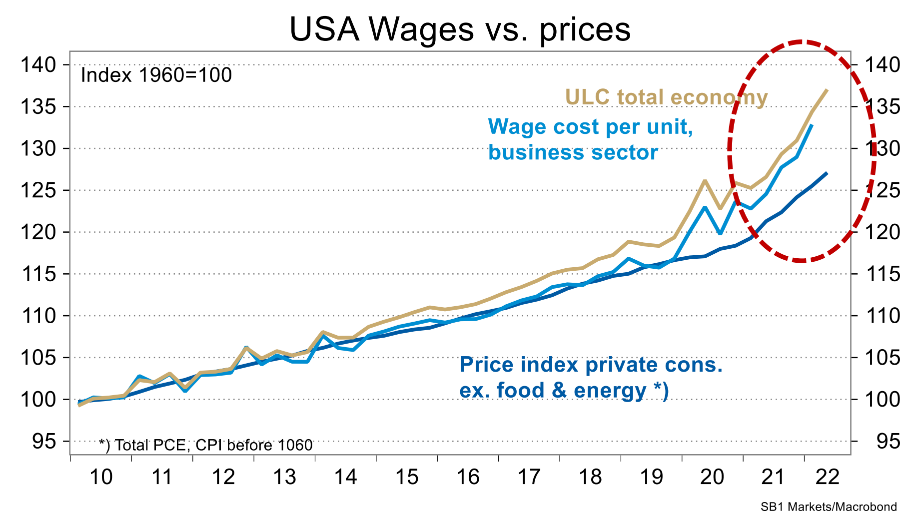
- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years
- Growth in wage/earnings/compensation indicators are up 2.5 – 3.5 pp vs the their respective 10 y averages
- Over the past 10 years, inflation has been close to 2%, and well above 2% if calculated over a shorter period
- It will be a 'challenge' to keep CPI inflation at 2% if wage inflation remains 2.5 – 3.5 pp higher than rates that have produced 2% price inflation. Productivity growth has not accelerated. Profit margins may take a beating – and they no doubt will – but not sufficient to bring inflation down to acceptable levels on their own. Wage inflation will probably not slow by much before demand for labour weakens – and unemployment increases

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

Wage costs per unit produced are up 8%+ in Q2, according to national accounts. INCREDIBLE!

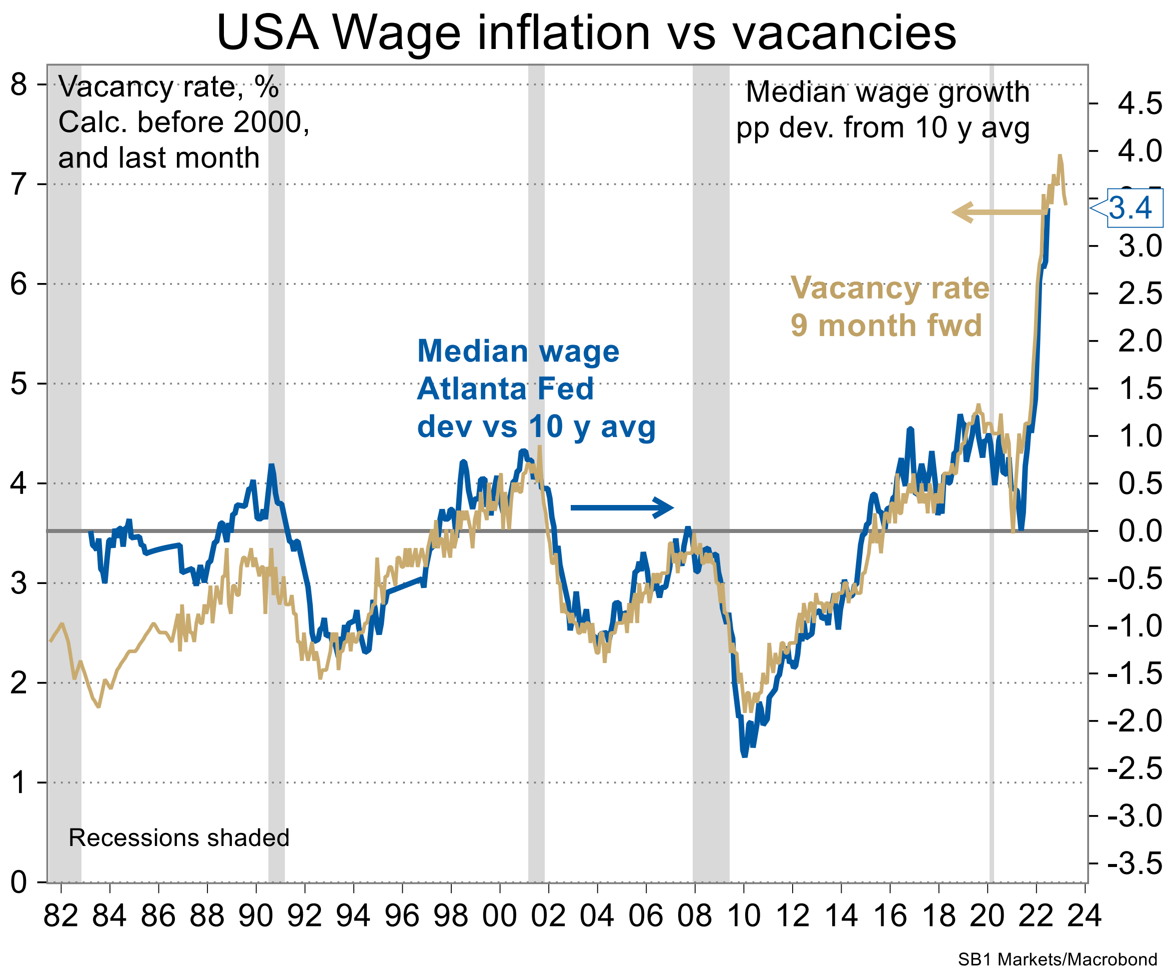






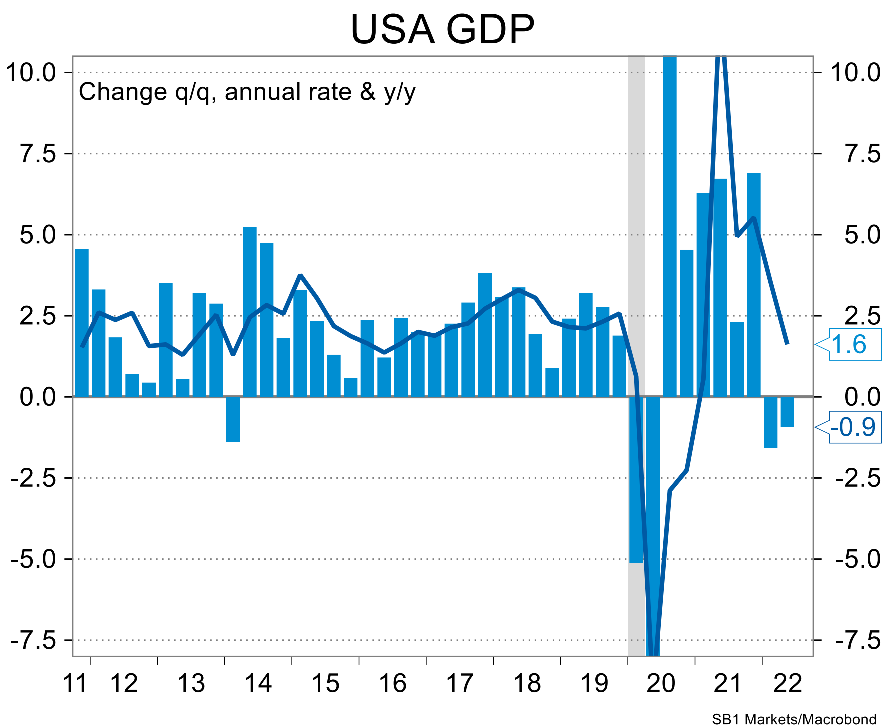
- It we happened to be a member of the FOMC these days, we would really not have felt comfortable at all: <u>This is close to a disaster vs. the outlook for the real (core) inflation and/or corporate profits</u>
- At the next page, we add our favourite Phillips curve chart, with changes in wage growth vs. vacancies. How on Earth will it be possible to bring down wage inflation without taking demand for labour substantially down??

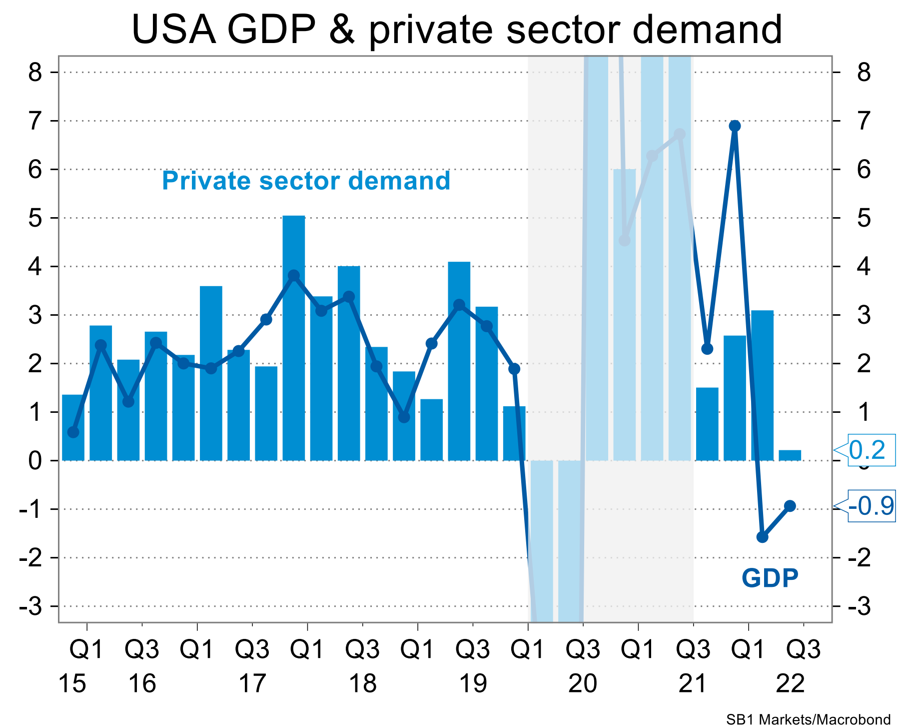
The Best Phillips Curve ever? And what's next for jobs & wages now?



GDP fell in Q2 too, hit by an inventory drawdown. However, demand also slowed

Growth in households' and business' demand slowed sharply in Q2, up just 0.2%. A recession?

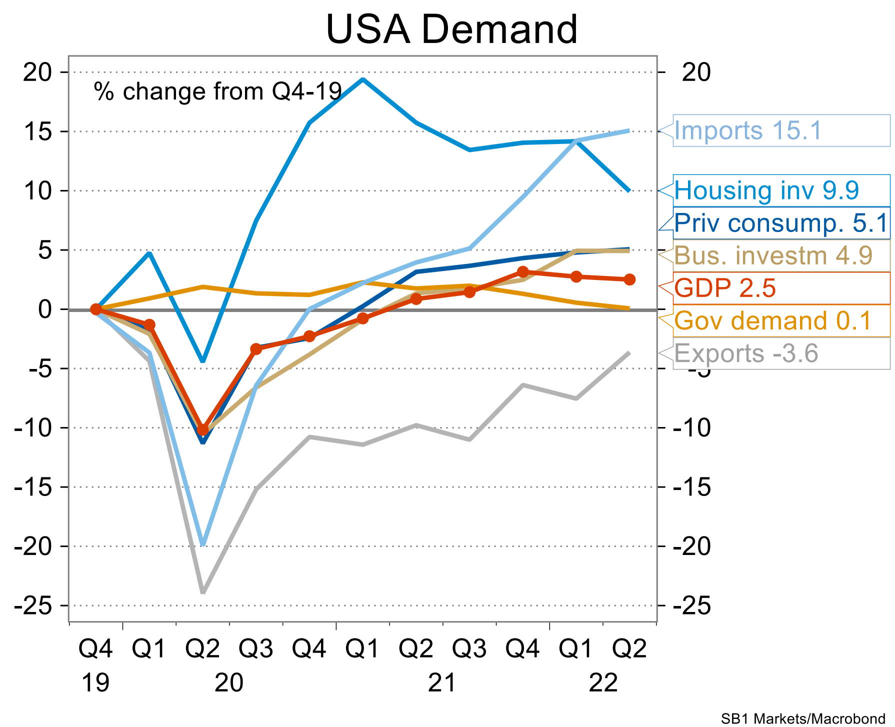


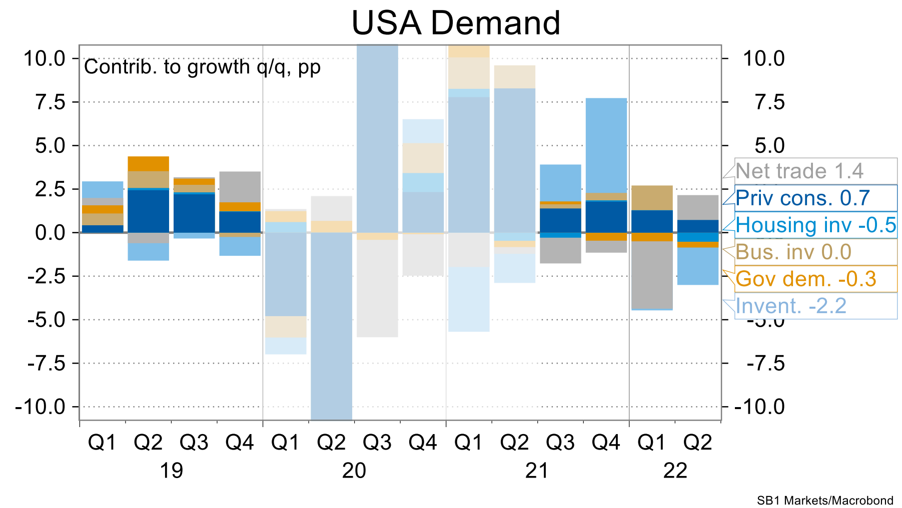


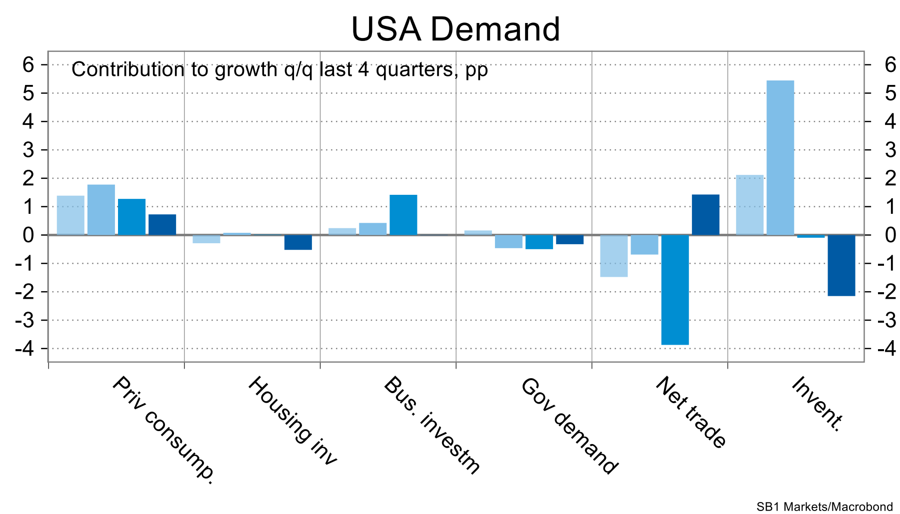
- **GDP** was expected up by 0.4% but just before the release, as stronger foreign trade data as well as strong growth in durable orders, led several analysts to revise their f'casts upwards, some by 1 pp (to >1%). However, GDP turned out to surprise sharply at the downside, with a 0.9% decline, up form -1.6% in Q1
- A back-to-back decline in quarterly GDP is not the 'official' definition of a recession in the US, but US has always been in a recession if GDP fell b-to-b
  - » The y/y growth rate fell but is still not weak at 1.6%, as the lift in GDP in Q4 was impressive, at 6.9%
- **Private sector demand** was strong in Q1, up more than 3%, even if GDP fell by 1.6%. In Q2, private demand just grew by 0.2%. In Q1 net exports fell sharply, in Q2 final demand was met by reduced inventory building, which 'contributed' with a 2.2 pp drag on Q2 GDP
- **Core PCE inflation** (Fed's price measure) was unch. at 5.2%, while the overall GDP deflator grew 8% in Q1
- We assume **corporate profits** fell further in Q2, in spite of the 8% surge in prices, as employment compensation rose rapidly

An inventory drawdown the story in Q2 (-2.2%), in Q1 it was net trade (-3.8 pp!)

However, housing investments are falling, business investments flattening & consumption slowing



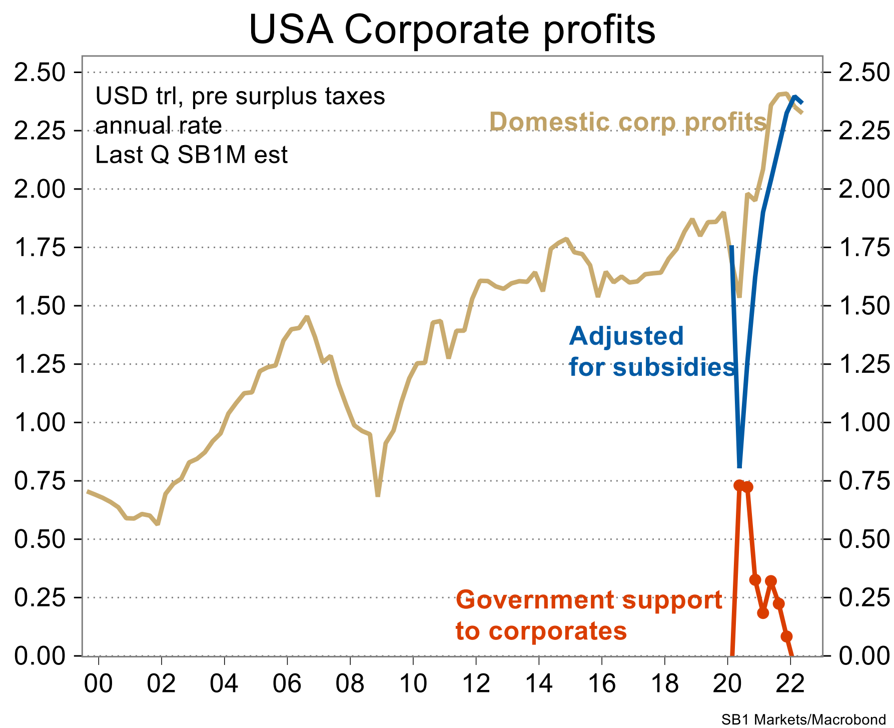


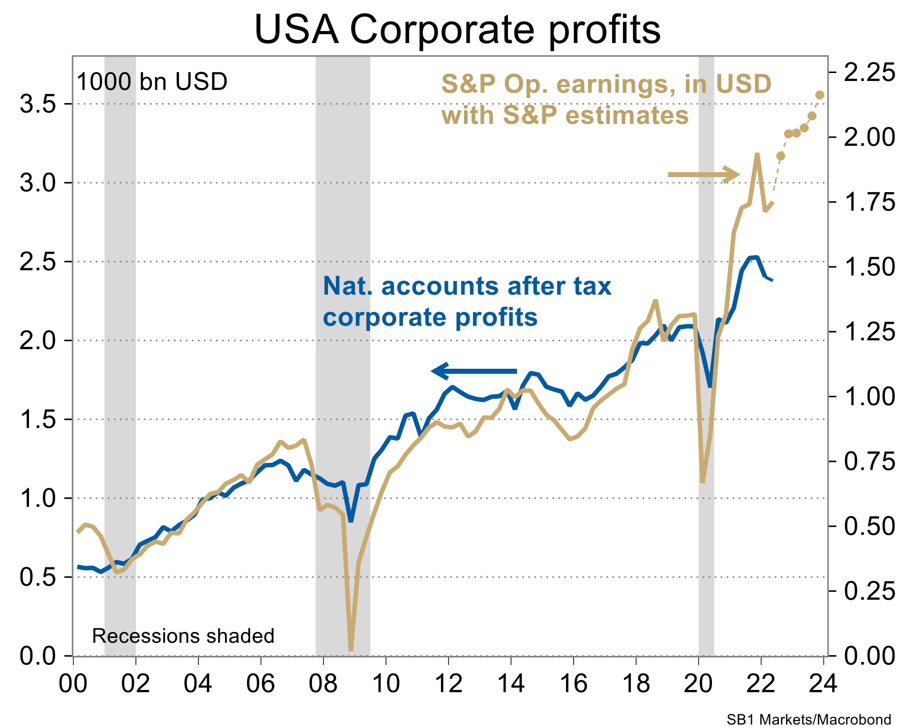


We have shaded the 'hard' pandemic quarters at the chart on the top

Corporates' profits probably fell further in Q2 – and the downside is substantial

Profits fell even if prices rose faster than in 4 decades. *Because wage costs grew even faster*

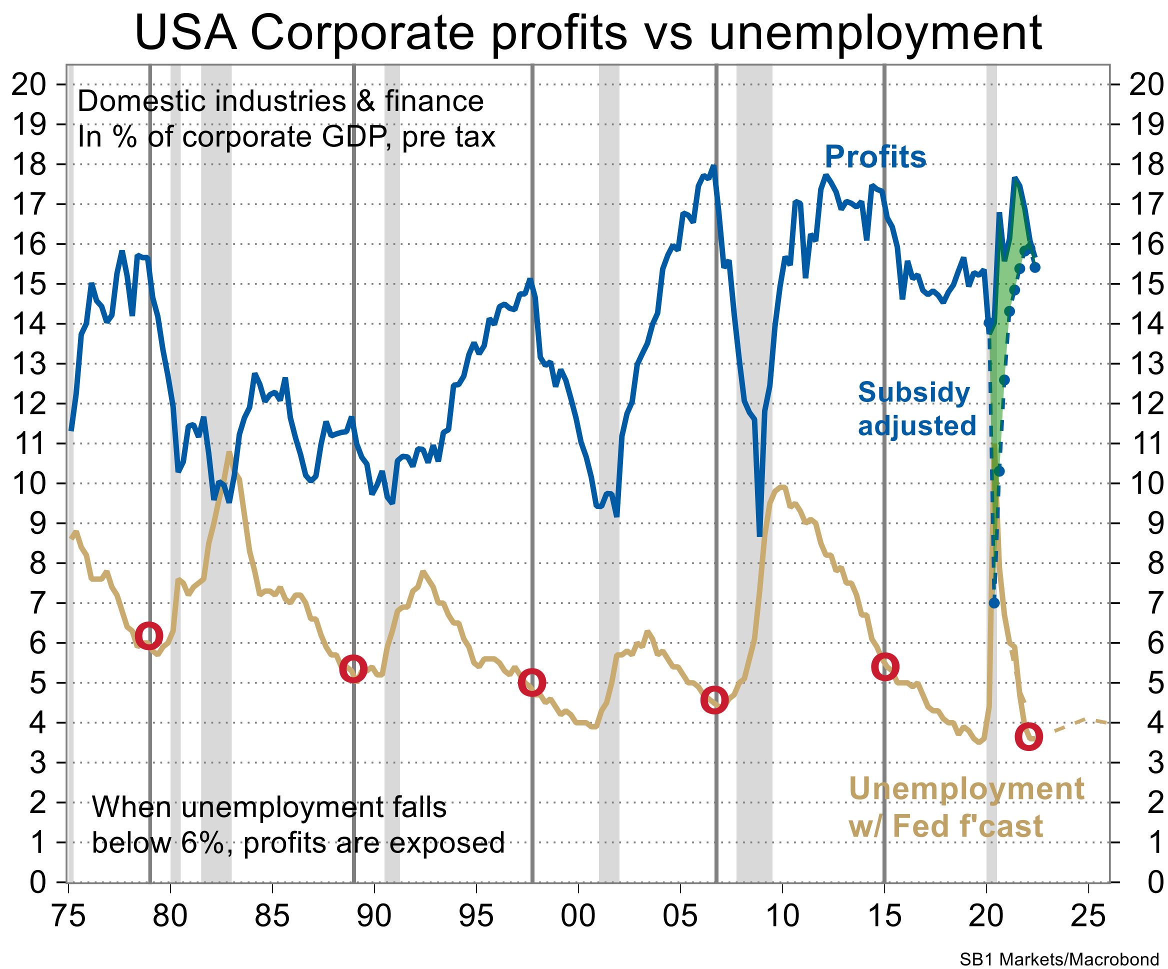




- **We assume domestic corporate profits** fell marginally, some 1% (5% annualised) in Q2, following a 6% drop in Q2. Growth in nominal corporate GDP slowed (we assume to 1.7%, but the estimate is uncertain!), and that labour costs rose by 1.9%. Net tax payments/subsidies have normalised, no more 'corona support'
- The **S&P** estimates that S&P 500 profits rose by some 2% in Q2 following the more than 10% decline in Q1 (seasonally adjusted). S&P profits (including profits from abroad) are still way above normal vs National Account profits for the total corporate sector (including all corporates operating in the US, domestically or foreign owned). Thus, a downside risk for S&P 500 earnings
- We think the **profit outlook** is bleak. Wage inflation will not subside immediately given the super tight labour market – and a continued price inflation at the current 9% pace cannot be tolerated by the Federal Reserve. Exciting times ahead

The profit share has peaked. Now, make ready for the next leg

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

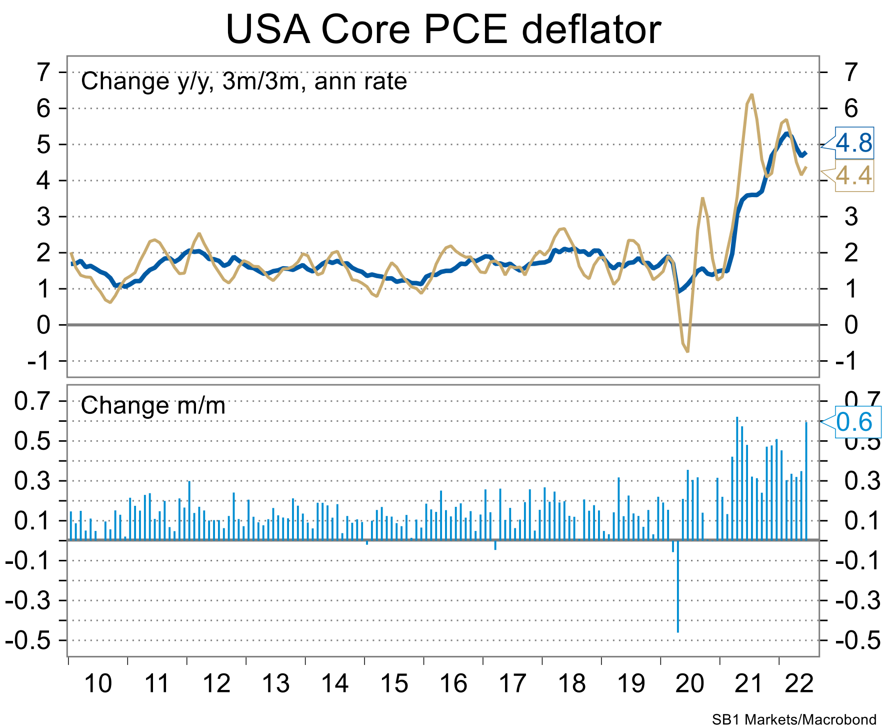


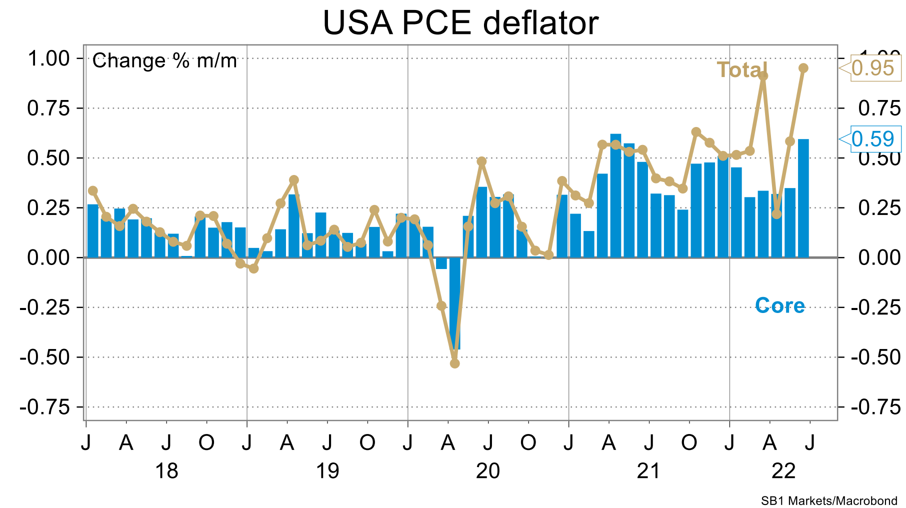
- Prices are increasing at an incredible pace but so are wage costs, and government support is on the way down
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - » Unemployment is now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

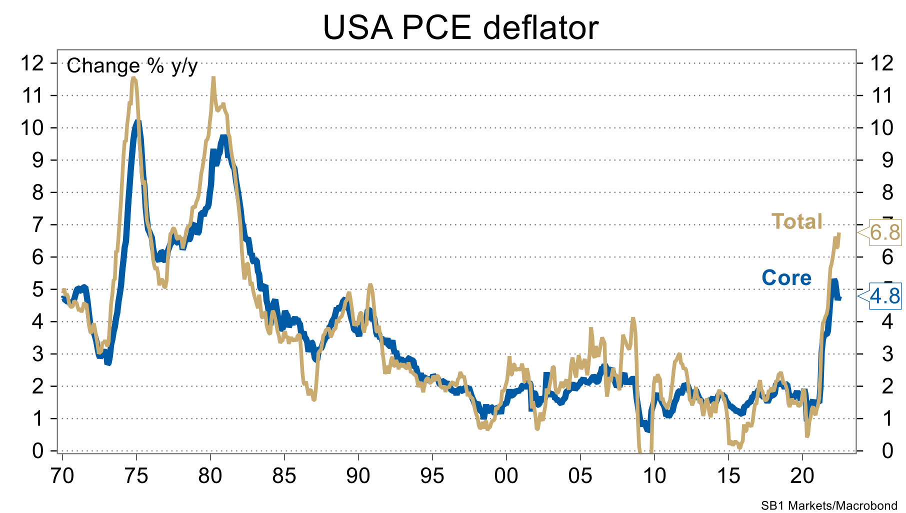
All data are not yet published, and the Q1 numbers are just our estimate

Core inflation has very likely peaked. But it is still far way too high

In June, prices once more rose more than expected, by 0.6%, <u>has not been higher since 1984</u>



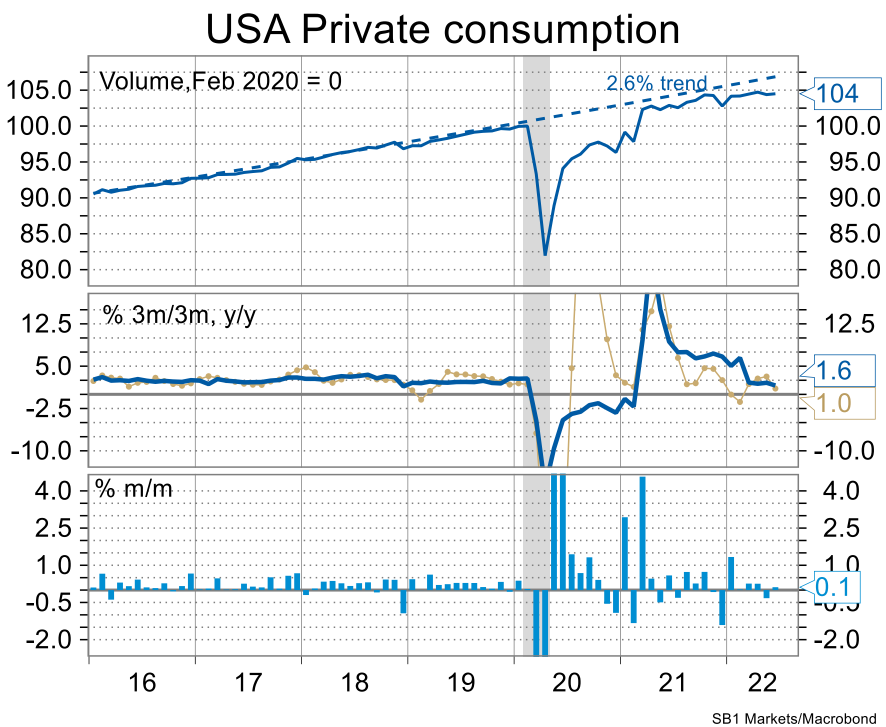


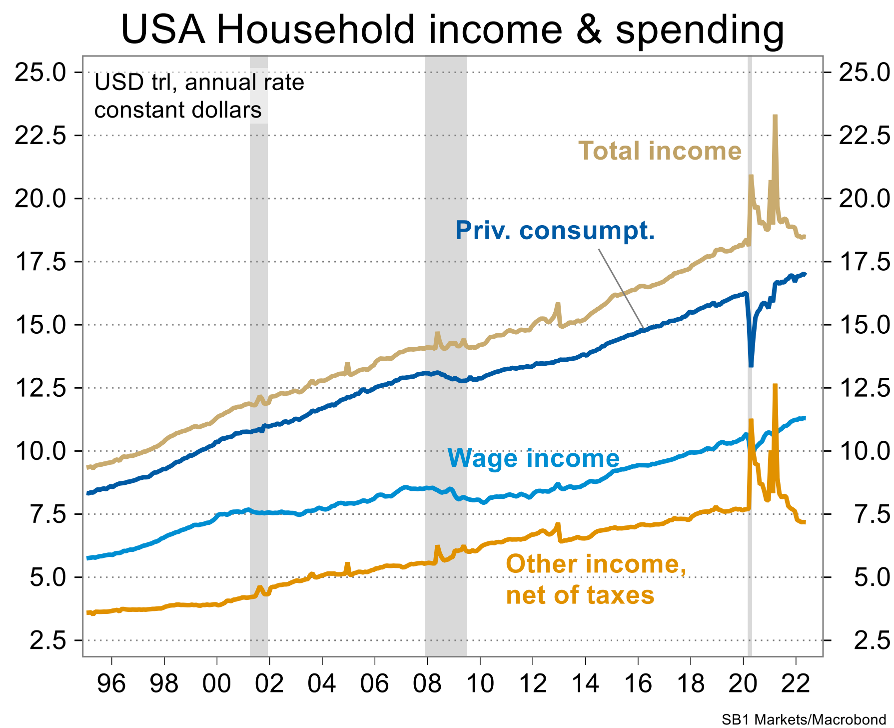


- **The total PCE deflator** rose by 1.0% in June, to the highest rate in this cycle, expected 0.9% - and energy prices shot up. The annual rate accelerated 0.5 pp to 6.8%, a new cycle high. In July, gasoline prices headed down, and the headline PCE should follow suit
- **The core PCE** rose by 0.6% in June expected 0.5%. The annual rate accelerated 0.1 pp to 4.8%, still down from the 5.3% peak in February

Consumption is flattening

Up 0.1% in June, by 1% in Q2, but enters Q3 below the Q2 average level. Real incomes are falling

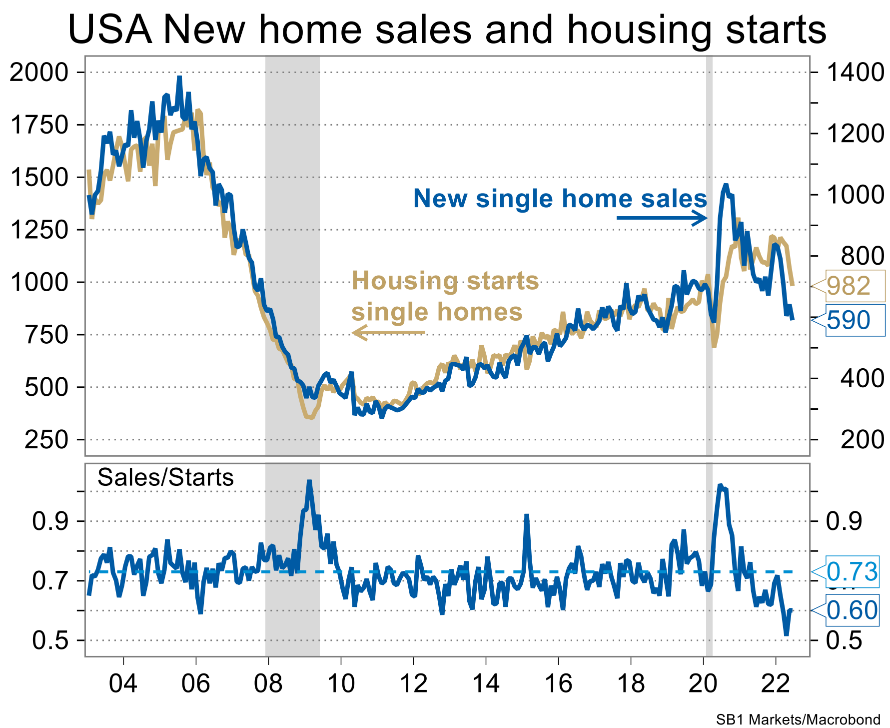


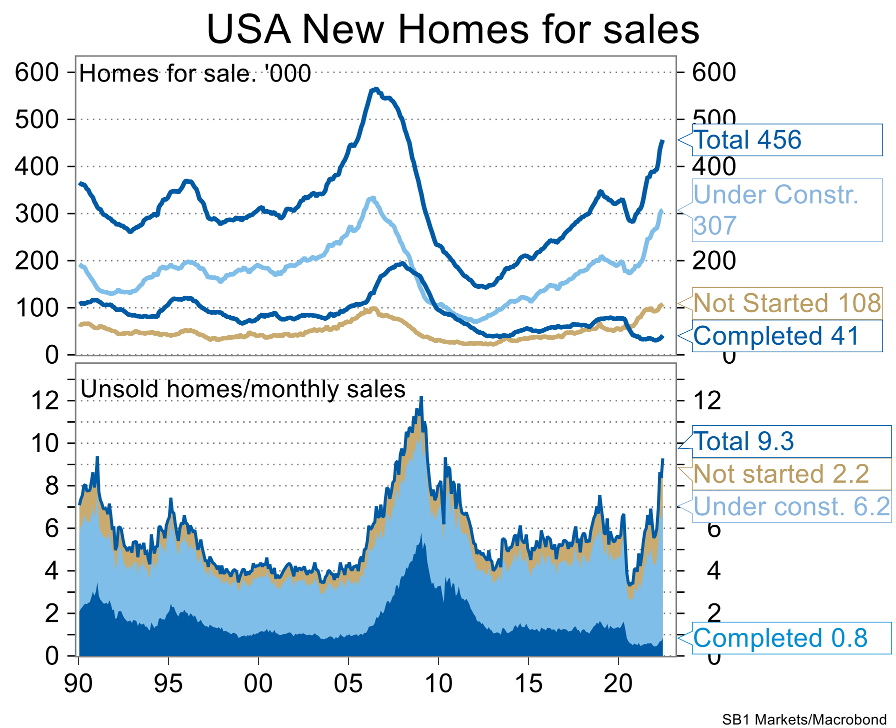


- **Private consumption** rose 0.1% in June, expected flat. Nominal spending rose 1.1%, expected 1.0%. Consumption grew just 1.0% in Q2, far less than expected before the May report was published, one month ago
  - » Consumption of goods fell, services are still on the way up
- **Personal nominal disposable income** gained 0.7% in June, but fell by 0.3% in real terms
- **The savings rate** fell 0.4% to 5.1% and is 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

New home sales far lower than expected in June, previous months revised down

Sales are down 30% from December, a substantial downside risk for starts. Just like in recessions

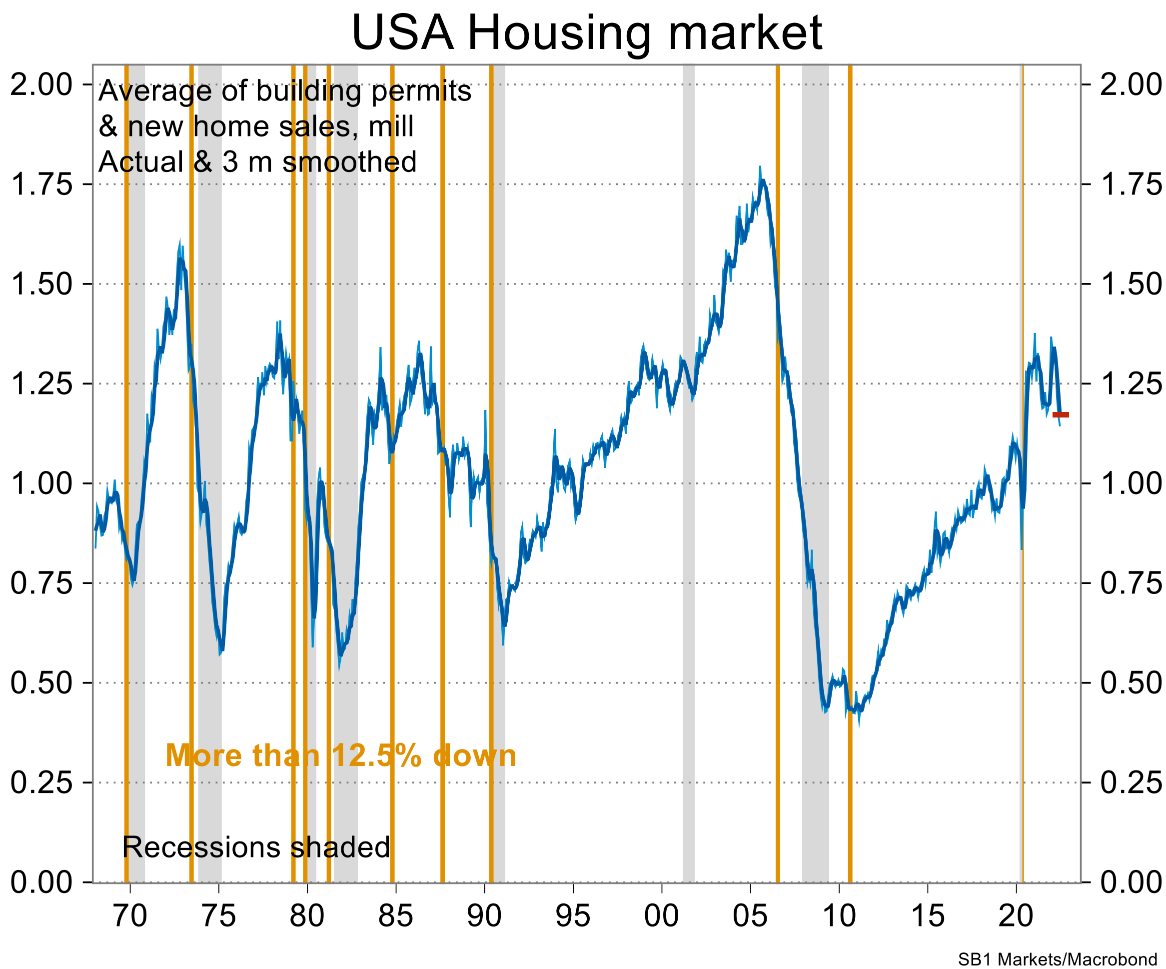


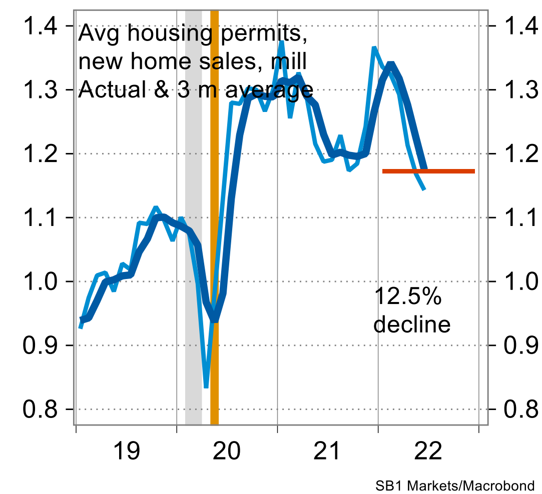


- **New single home sales** fell to 590' in June (annual rate), from 642' in May. A decline to 660' was expected, from previously reported 696' in May. In sum 9% lower than assumed/expected. The total decline, together with the decline in building permits now sends a recession warning (*check 2 pages forward*)
- **The inventory of unsold homes** is climbing rapidly, now up to 456' units, up from below 300' in Aug-20. Measured in month's of sales, inventories equal 9.3 months, from the record low at 3 in Aug-20. Most of the inventory is 'for real', either completed homes (but the level in this category is still very low) or under construction (and these homes will be completed) – as the supply side responded to the strong increase in demand. A steep increase in number of homes for sales that are not yet started, also confirms the strength of the potential supply side (but most of these projects will very likely not be started the before after the 'recession'
- Prices fell slightly in May, and the underlying growth pace has slowed. Still, prices are up 14% y/y

Housing vs. recessions: The red line is approached

The combined decline in new home sales & building permits has hit a recession warning line

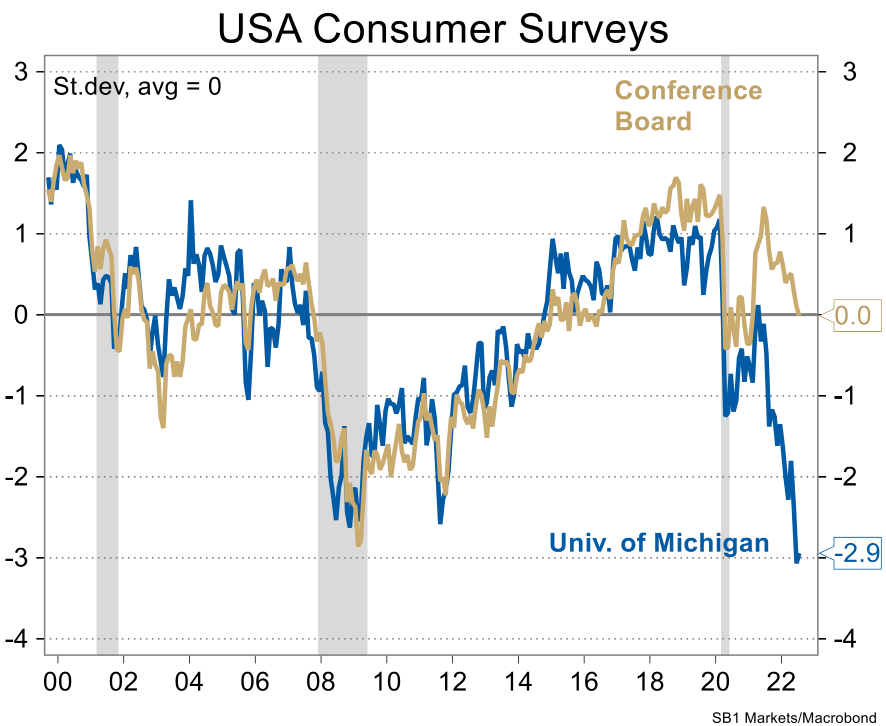




- Most recessions are 'housing recessions' as demand for housing and residential investments declines substantially ahead of and during recessions
  - » The only exception in recent decades was the 'Nasdaq' recession in 2001
  - » In addition, the pandemic recession was not caused by a setback on the housing market
- At the charts, we have marked declines of more than 12.5% in the 3 m average of the average of building permits and new homes sales vs. the recent 12 peak with a yellow line
  - » 1984 and 1987, where interest rates were hiked, and a soft landing (and now recession) followed even if housing sent a signal (The 2010 decline was just after the GFC)
  - » The other 7 lines: A recession followed

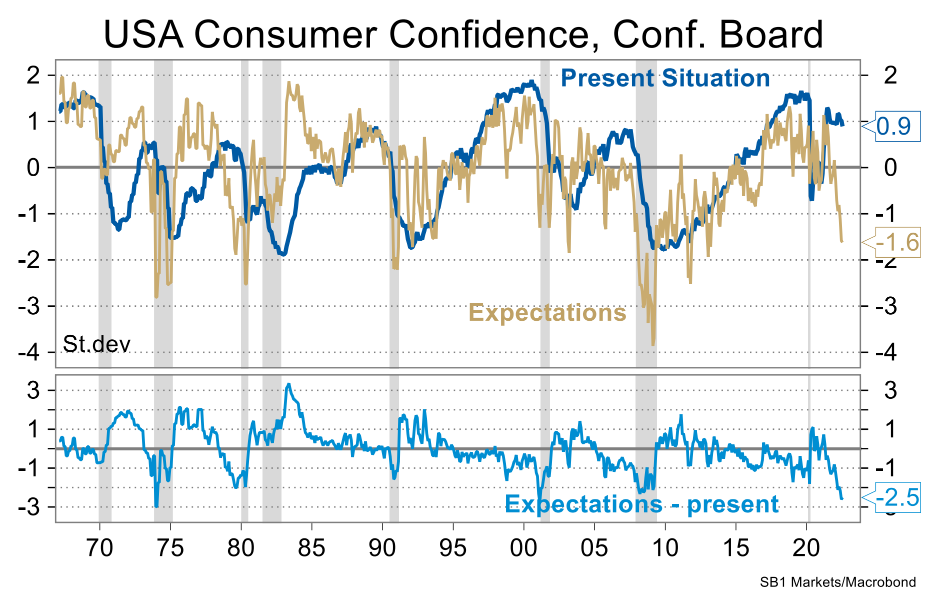
Conference Board's confidence further down in July – but just to an average level

However, expectations have collapsed, normally a warning sign



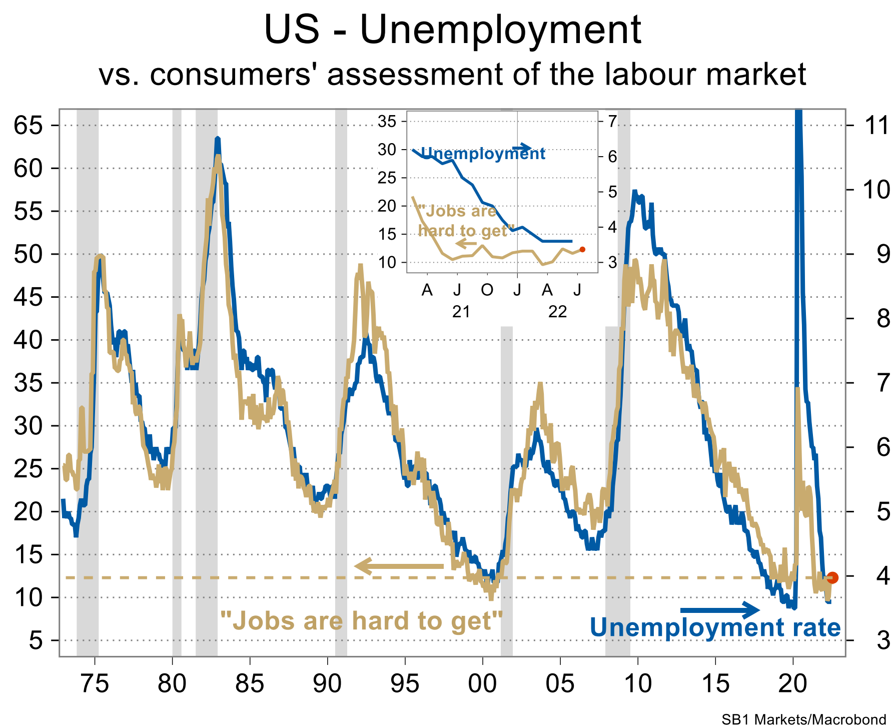
- **The other consumer** surveys we follow are on another planet, University of Michigan's sentiment being the weakest at -2.9 st.dev below avg (the final July print was marginally revised up), and June/July is at the lowest level ever, with data from 1953
  - » Two other confidence surveys, from IBD/TPP and Univ. Florida are not much better than the UM survey – and <u>Conf. Board's survey is still an outlier – even if it is now heading downwards</u>

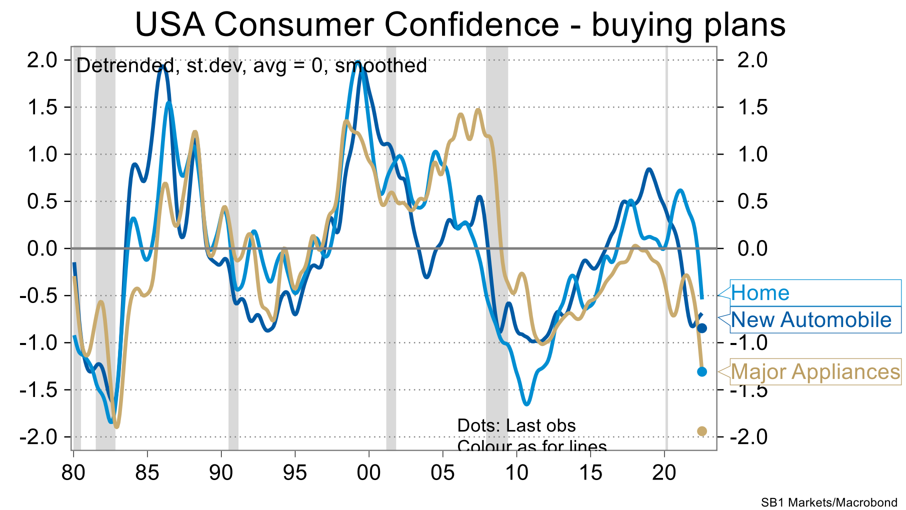
- **The main index** fell to 95.7 in July, down from 98.4 in June, expected down to 97.2. Households assessment of the present conditions fell the most, but the decline in the headline index recent months is almost entirely due to a steep decline in the expectation component
  - » The decline in the main index equalled 0.1 st.dev, down to an average level
  - » **Expectations** are weak, -1.6 st.dev below average, which is normally seen in recessions (but not only)
  - » **The difference** between households assessment of the present situation, and expectations is the 3rd widest ever. <u>The gap is always the largest just before or when a recession hit, check the chart below</u>

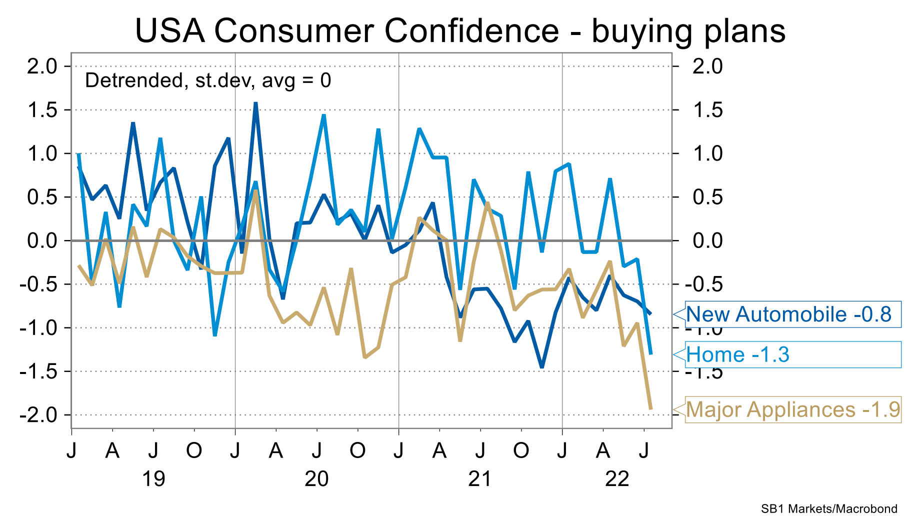


Buying plans sharpy down, towards ATL levels in July

Slightly harder to find job, says households – but jobs are still very easy to get

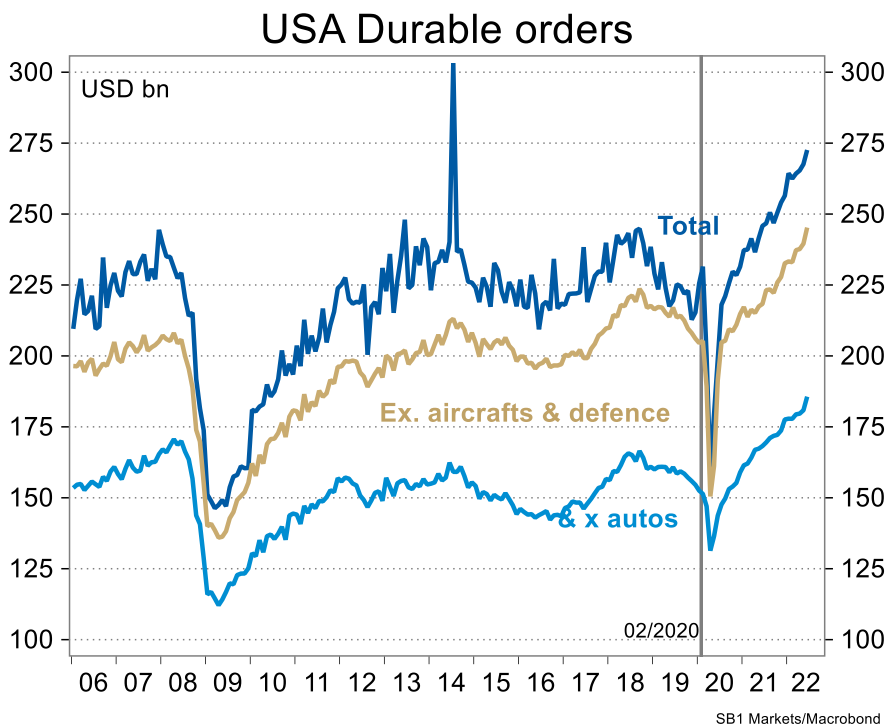


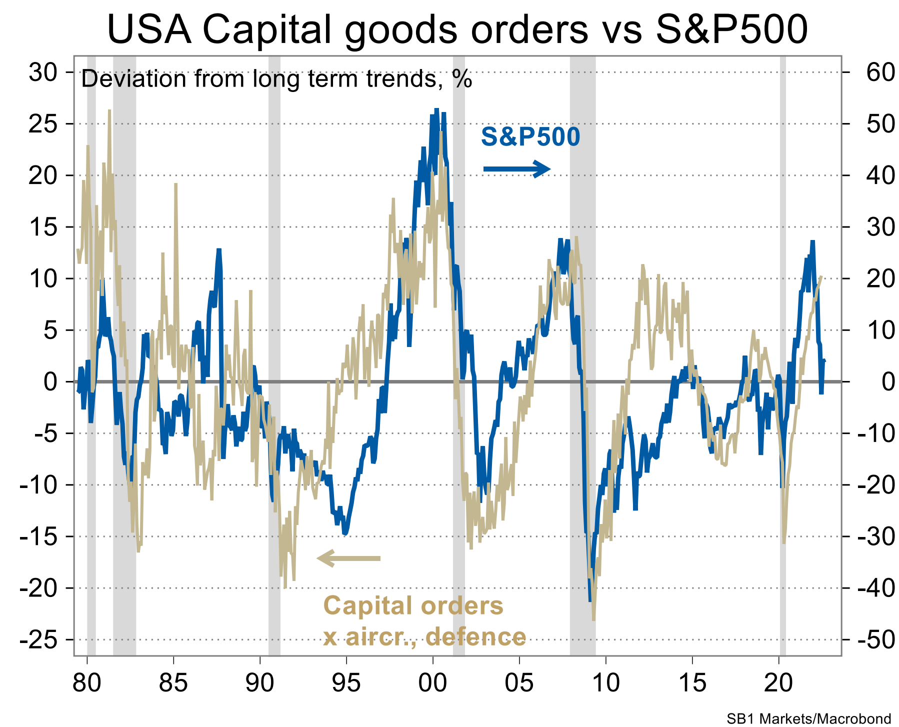




- **Household spending plans** are volatile, but the decline since the spring is significant, and in July 'huge', especially for homes and major appliances

Not a recession signal: Strong growth in durable orders in June

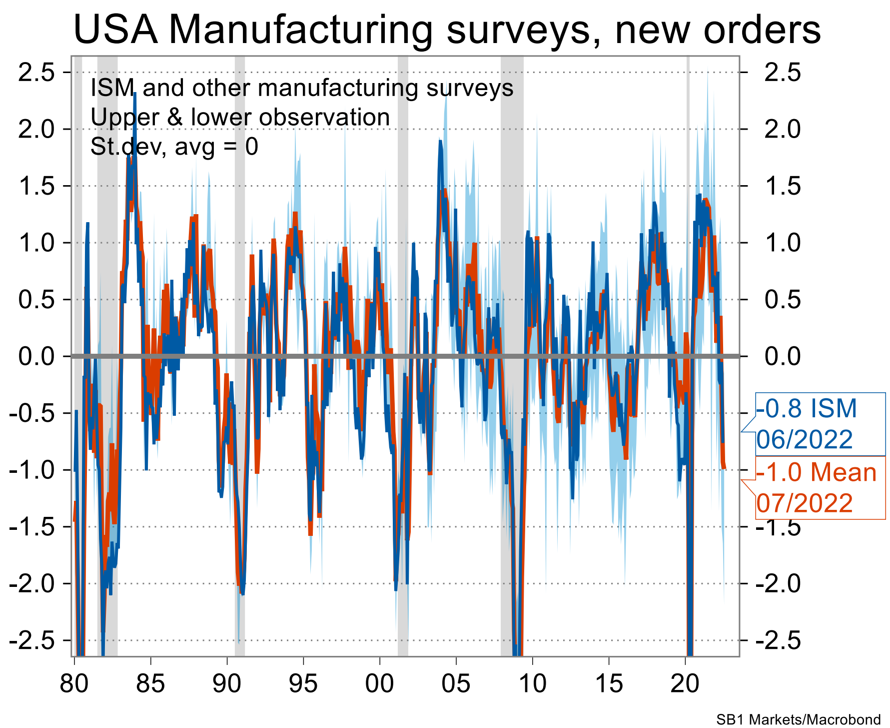


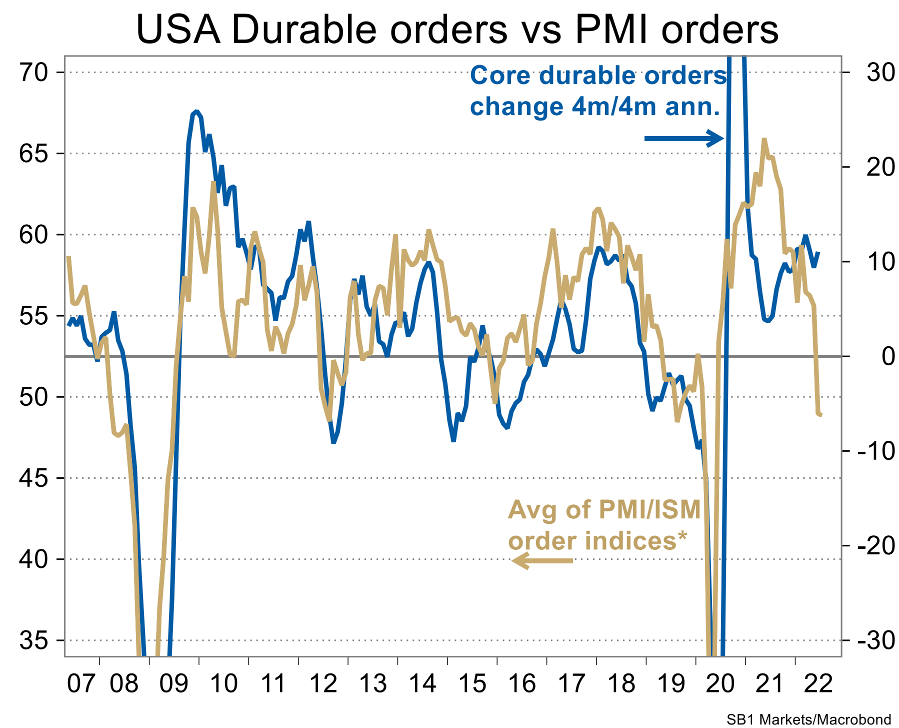


- **Total durable** orders rose 1.9% in June, far above the expected 0.5% decline
- The volatile aircraft & defence orders in sum rose fell marginally, and other orders (our core concept) shot up 2.4%
- **Core investment goods orders** grew 0.5, expected down 0.1%. Underlying growth is slowing but remain 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

Surveys are signalling a steep decline in new orders

… which so far has not materialised

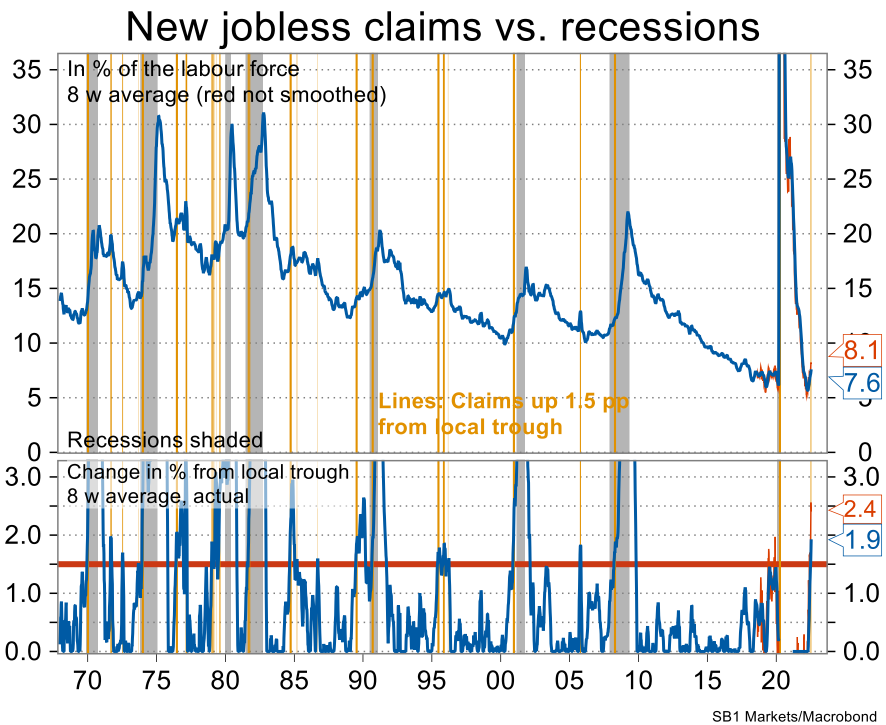


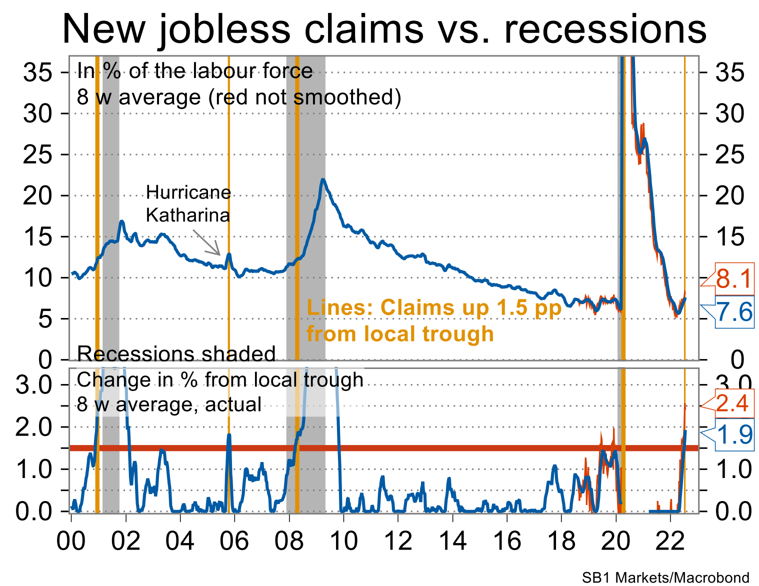


* The ISM order index is

A warning line is drawn:

The lift in the 8-week average crossed an important threshold (three weeks ago)

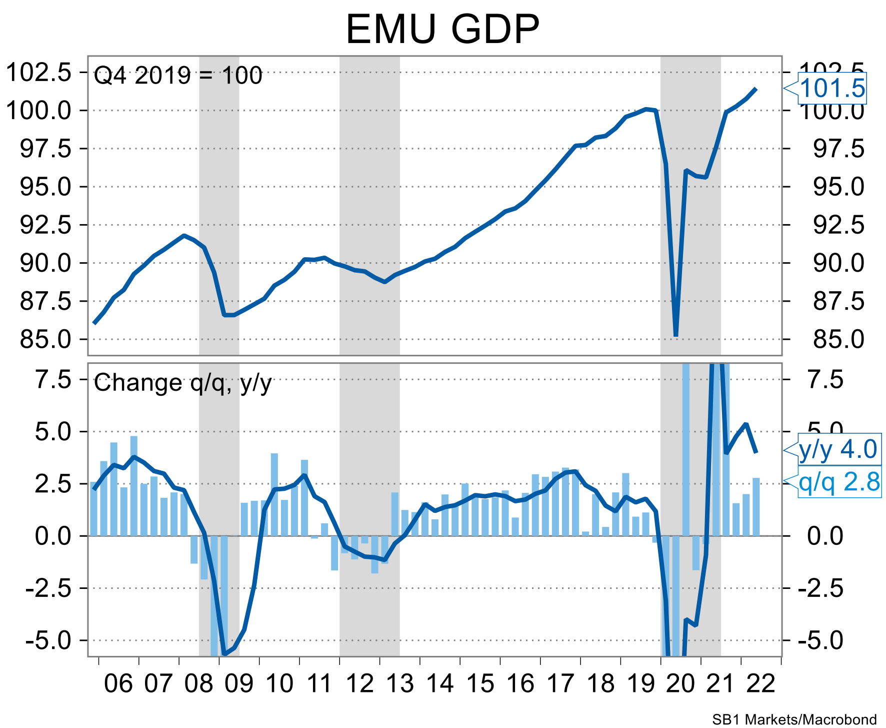


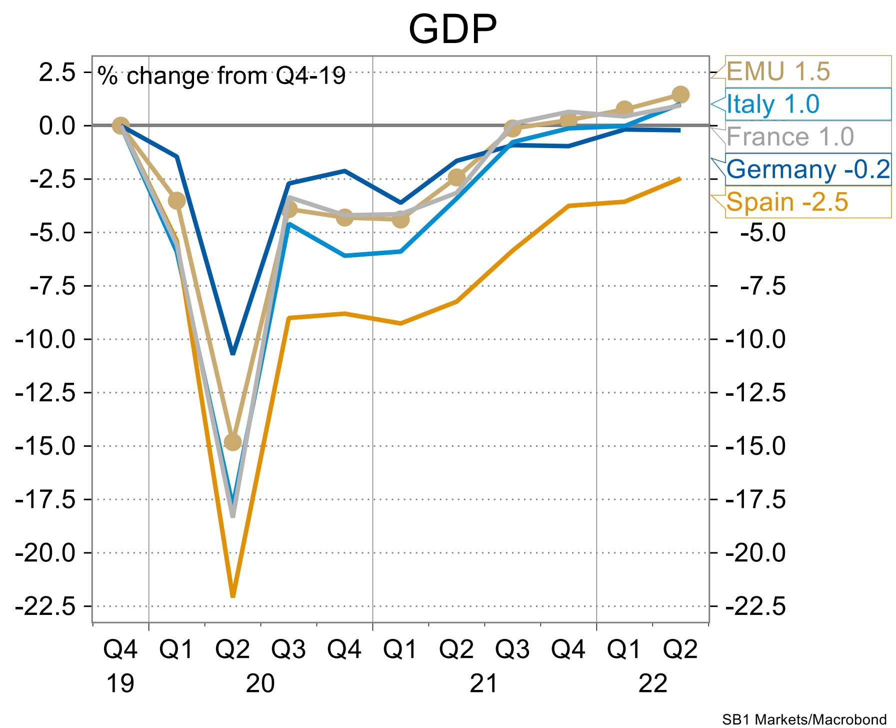


- The yellow lines: New jobless claims (8-week average) up 1.5 pp vs. the labour force
- Now, the average is up 1.9 pp, from 1.7 pp the previous week. Thus, a yellow line is now drawn at the charts above, for the first time since 2005 (Hurricane Katharina), without a recession around the corner (the lines in 2008, 2020), and before that in 1996
- Our recession signal model based on new jobless claims has sent several false signals (false positives), and even the correct signals often comes too late for a real time conclusion. Even so, the inflow of new unemployed persons is tightly correlated to the economic cycle – and the cycle is now weakening (Lifting the threshold to say 2% would strengthen the signal/noise ratio substantially. We may be there pretty soon)

GDP up 2.8% in Q2 (0.7% not annualised), far better than expected 0.8% (0.2%)

Italy and Spain contributed the most (4%, 4.4%), France grew 2%, while <u>Germany stagnated</u>

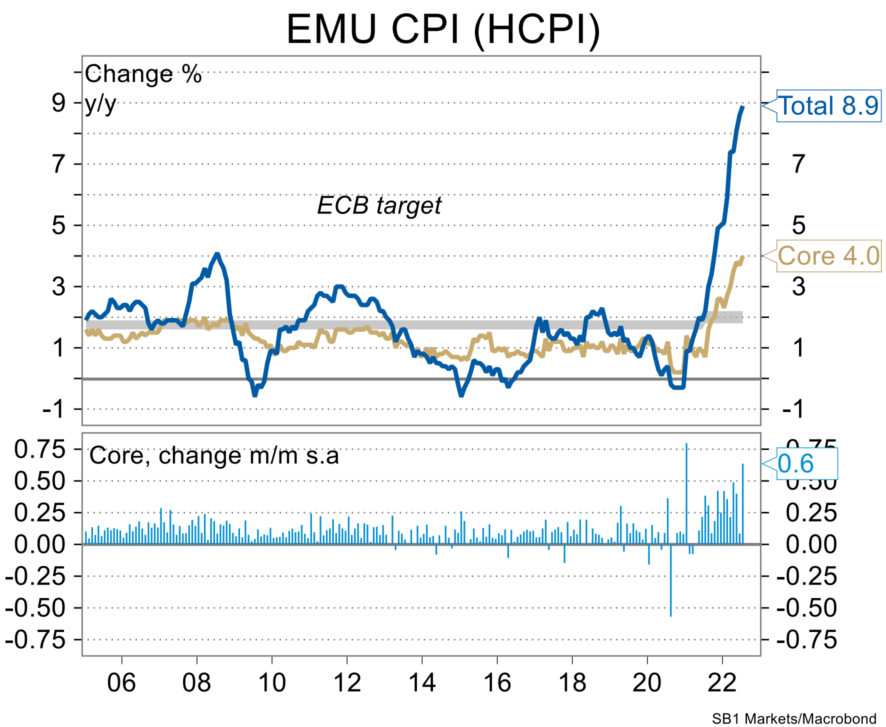


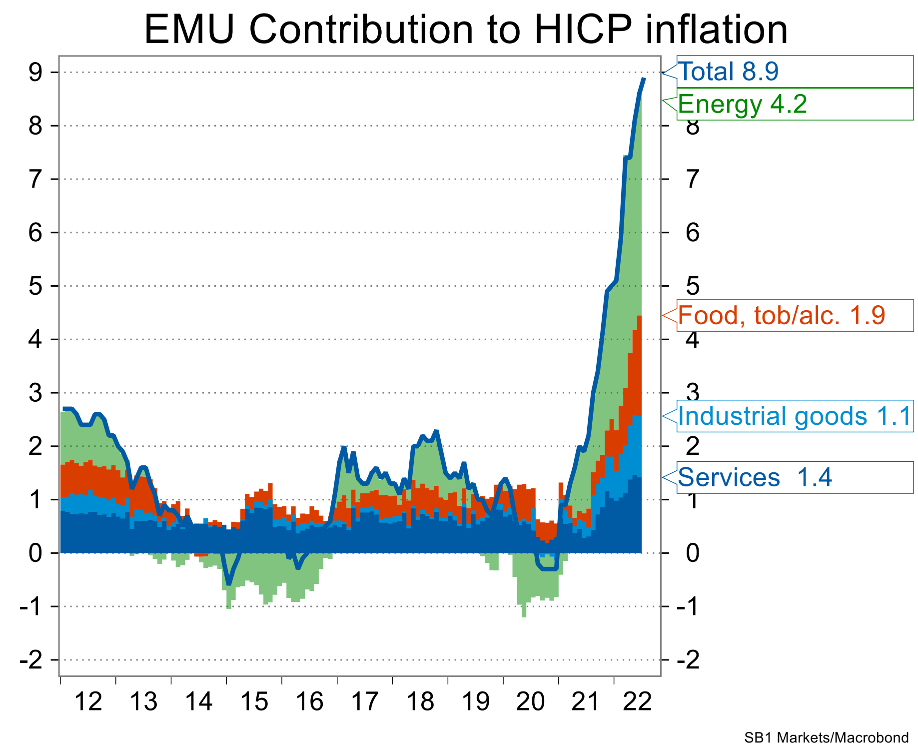


- A rather unusual positive piece of news from Europe these days.
- Spain grew rapidly in Q2, but is still the laggard, GDP is still 2.5% below the pre pandemic level

Inflation further up in July, and higher than expected: Total 8.9%, core at 4.0%

Both higher than expected, again. Energy prices the main culprit but inflation is broadening, here too

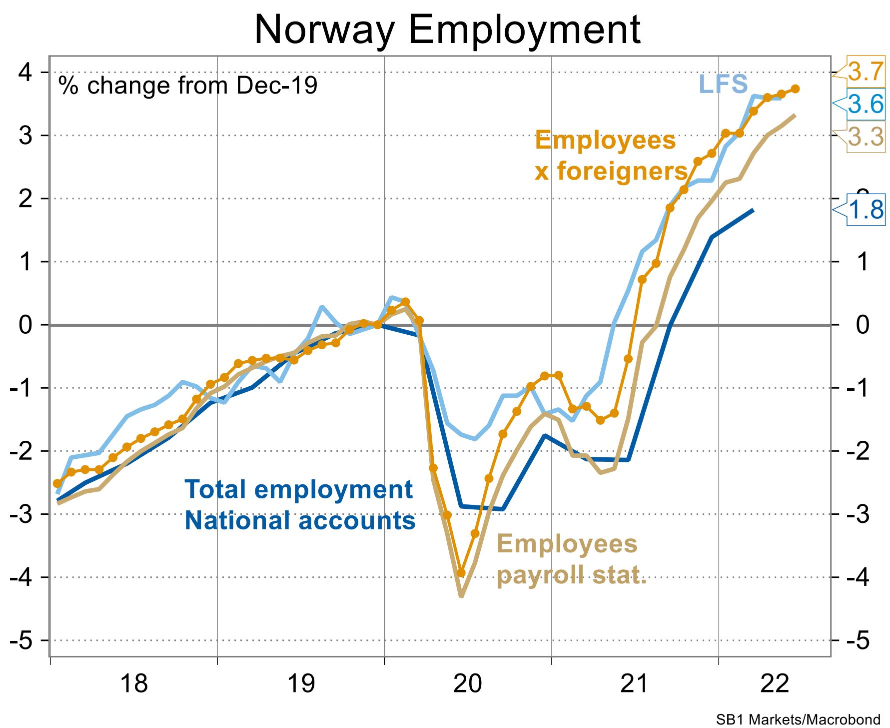




- The **total HICP** rose 0.7% m/m July, in line with the price increases the previous two months
  - » Energy prices rose 0.5% m/m, they are up 40%, and contributes with more than 4% to the headline rate. Food prices rose 1.1% - and the latter is up 9.8% y/y, contributing more than 2% (all data at the chart to the right is not updated=
- **The core** rose 0.6% m/m, both goods and services contributed

Employment growth is calming down, and LFS employment has flattened

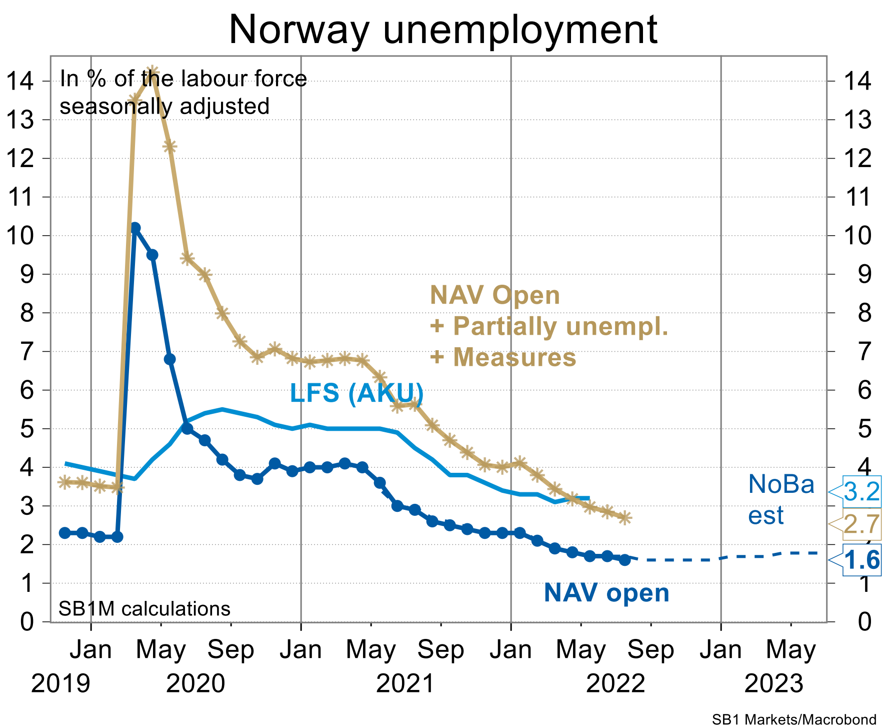
The no. of employees is still on the way up by 0.2% per month

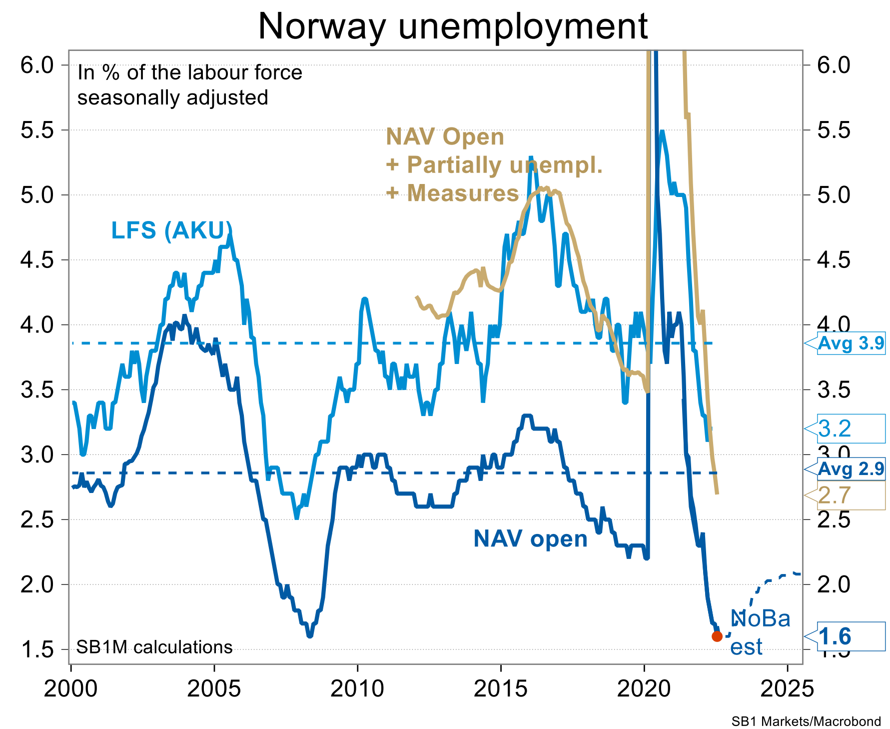


- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) reported zero growth in May (avg. April – June) as in April
  - » LFS employment is up 3.7% from before the pandemic
- The **register based employee stats**, report 0.2% growth in the no. of employees in June, as in May, and a 3.3% growth since Q4-19. Excluding foreigners on short term stay, the no. of employees is up 3.7% (our estimate for the past 3 months)
- **National accounts** reported a 1.8% lift in employment to Q1-22 from Q4-19

NAV unemployment further down in July, soon down to the lowest level since ‘80

The LFS unemployment rate has stabilised at 3.2%, also a very low level

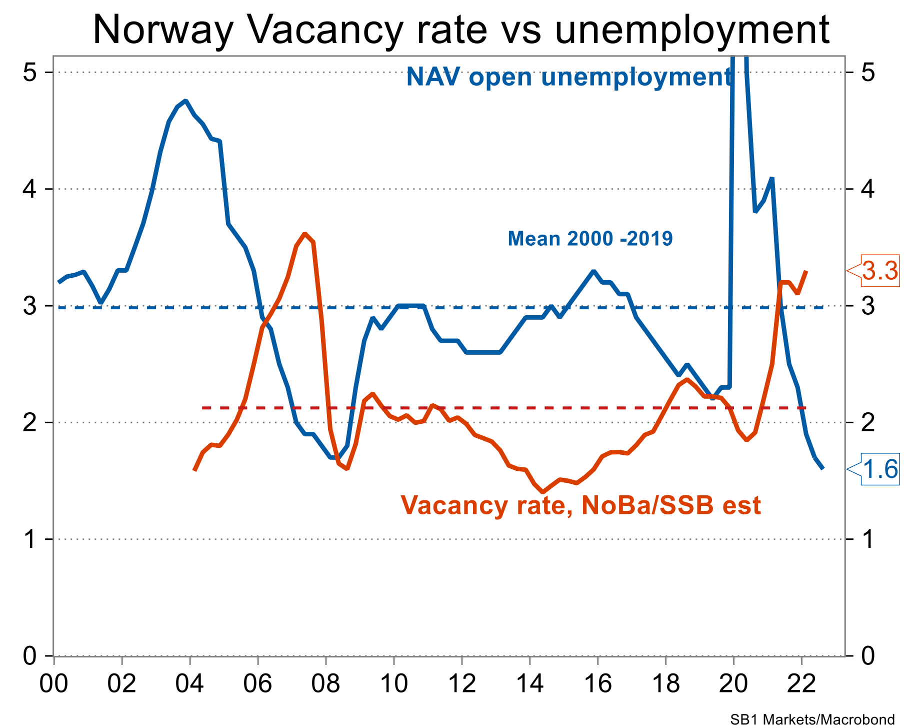


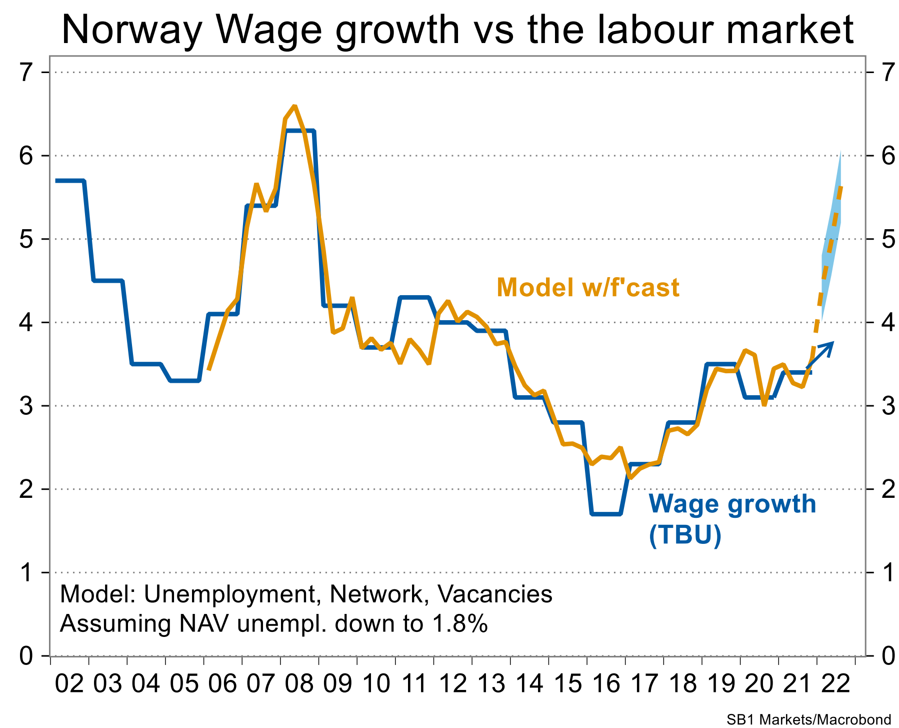


- **The ‘full time’ open NAV unemployment**, which includes furloughed workers, fell by almost 3’ persons in July (seas. adj) to 46’, far below our 49’ forecast as June was revised down by 1’ persons. The rate at 1.6% (s.a) is equal to the lowest level before the financial crisis in 2008, and almost the lowest level since 1980 (check next page) – and below NoBa’s expected 1.7%. However, NoBa expects a 1.6% rate for the rest of 2022
- The number of **partially unemployed** (not incl . in the ordinary unemployment no.) fell by almost 2’ to 20’, and including measures, the **total unemployment** fell by 4.5’ to 79, 21’ below the pre-pandemic level. <u>The overall unemployment rate fell by 0.2 pp to 2.7%</u>
- 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** was stable at 3.2% in May, we expected a 0.1 pp decline – as employment flattened

Can wage inflation climb further? Our simple model suggests it will

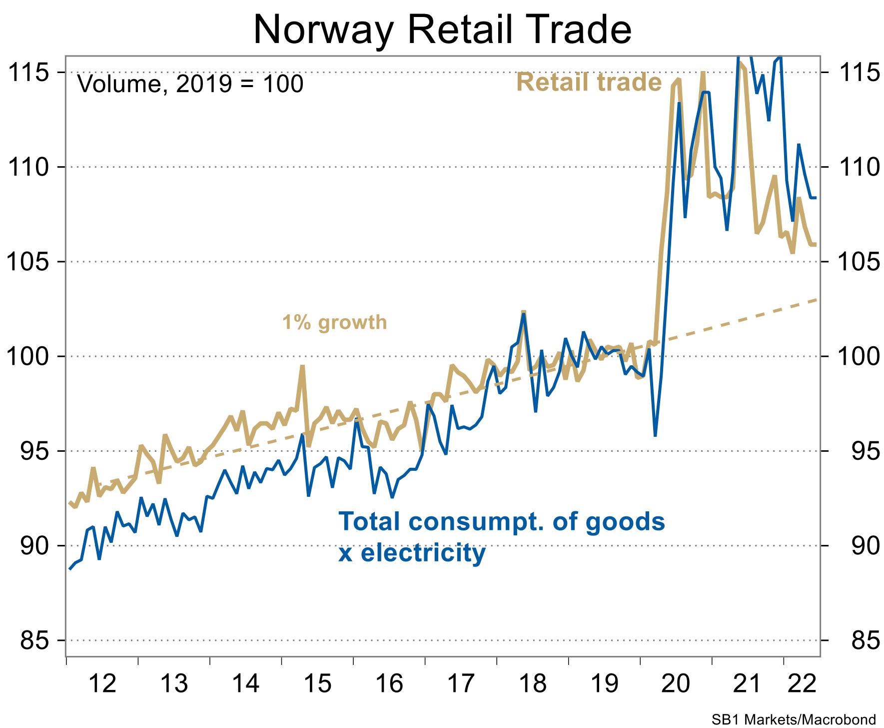
The labour market is tight – and it is still tightening

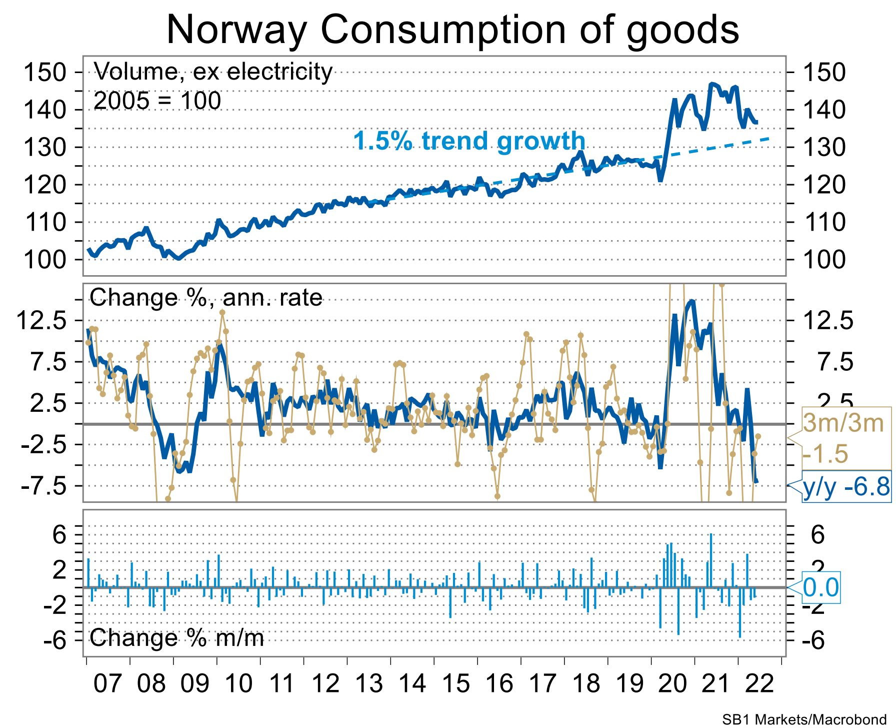




Retail sales flattened in June, are trending down

Both retail sales and total consumption of goods flat m/m

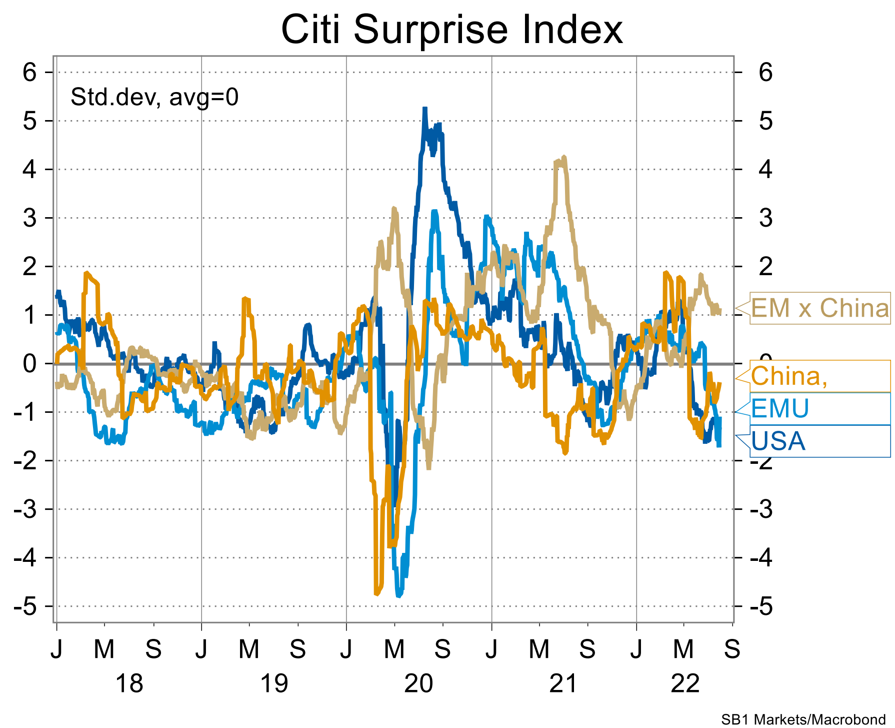


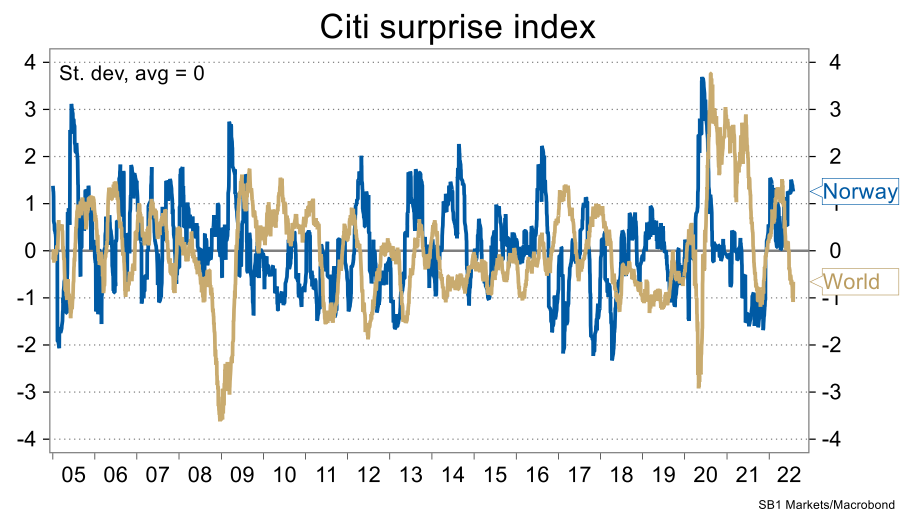


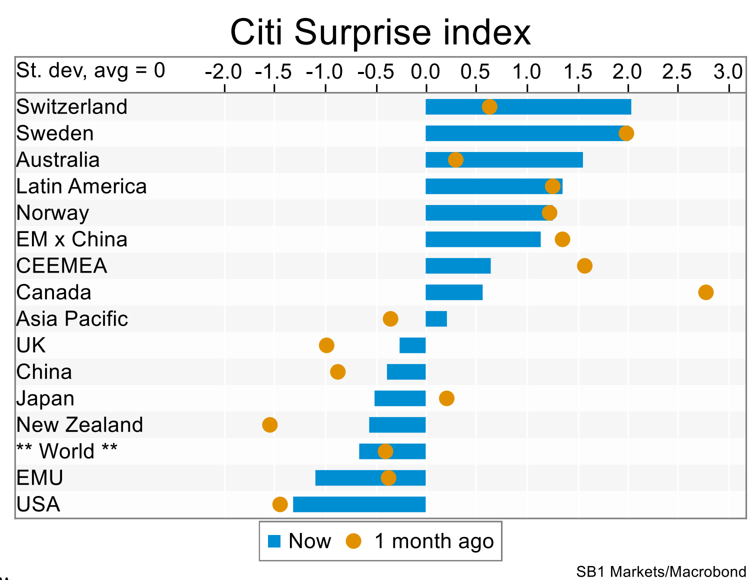
- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth paths. Sales may still be somewhat 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 goods back down to the pre-pandemic trend
- No sector story in June

The US surprises the most on the downside – but EMU and China also below par

… as is the world (but less than last week). EMU GDP surprised at the upside







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

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

Highlights

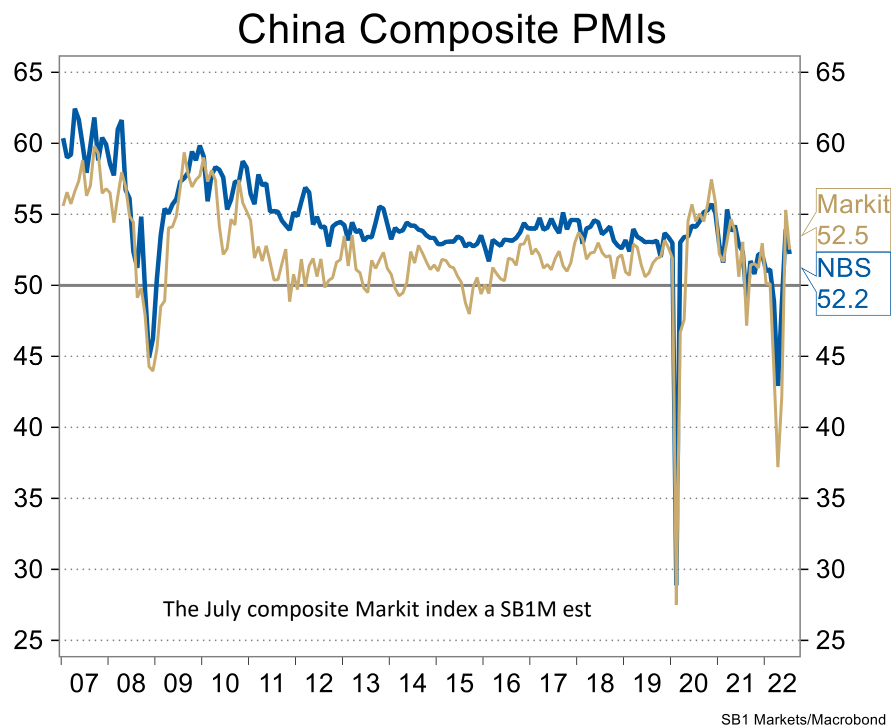
The world around us

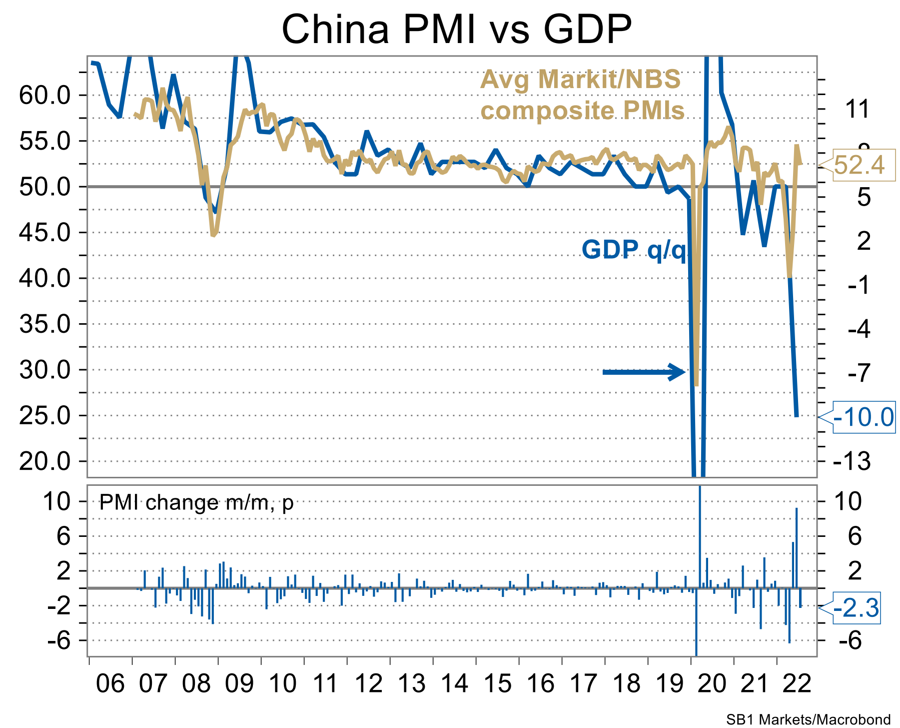
The Norwegian economy

Market charts & comments

The PMIs down in July but growth close to trend still signalled

Both manufacturing and services report slower growth, but in sum still not far below trend

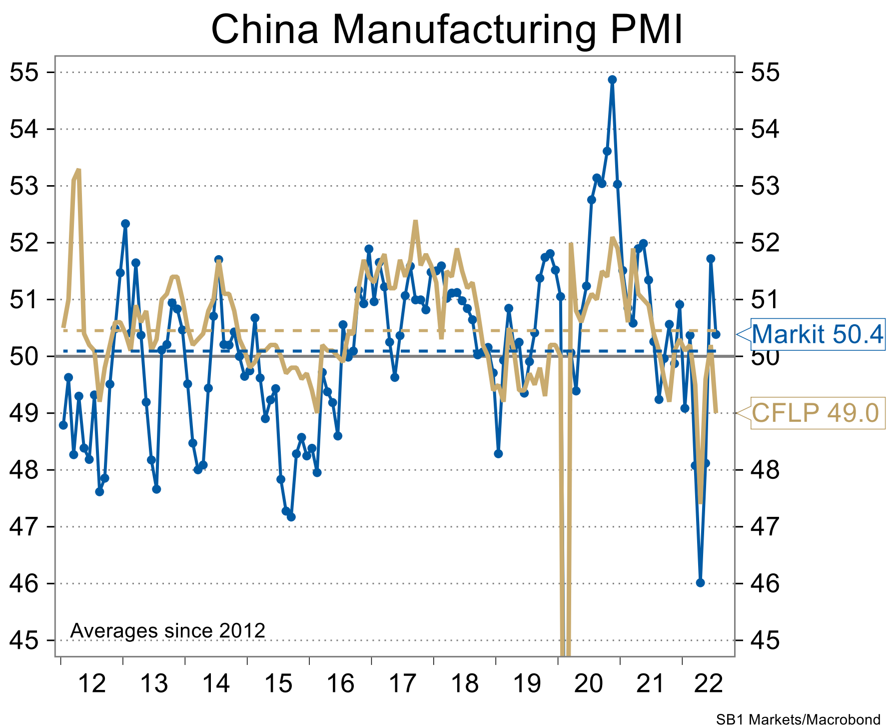


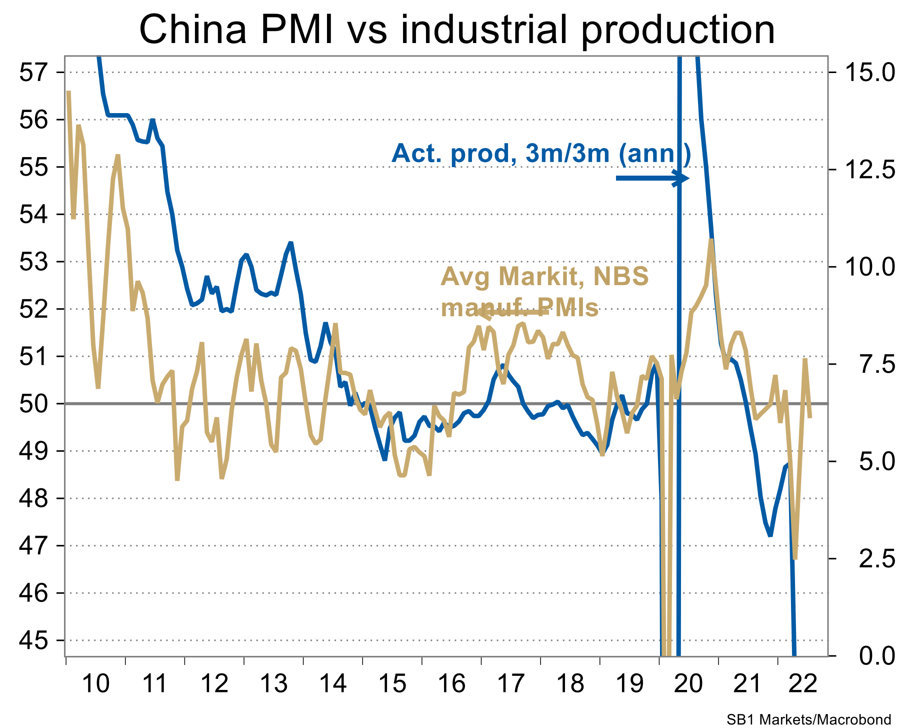


- **NBS/CFLP** PMIs composite fell in July but remains at close to a normal level, signalling 'normal' growth. The composite index fell by 1.7 p to 52.2
  - » The manufacturing index fell by 1.2 p to 49.0, expected up 0.1 p to 50.3, well below an average level and one of the weakest prints, except for the lockdowns in Feb 2020 and April 2022. The steel sector PMI is fell to a very low level – finally some impact from the setback in the construction sector?
  - » The service sector index declined 0.9 p to 53.8, close to expectations
- The S&P Global Chinese manufacturing PMI (which is the confusing name for Markit's PMIs now) fell by 1.2 p to 50.4, expected down 0.2 p. The service index is not yet published, but if we assume the same change as the NBS suryey, the composite index fell by 2.8 p to 52.5, still a strong print (the output component fell more than the total index in the manuf. survey)
- The PMIs are so far clearly weaker than expected with a decline at 2.3 p. Still, they do not signal any contraction in the Chinese economy but rather growth close to trend

Both manufacturing PMIs down 1.2 – 1.3 p in July, the NBS/CFLP to -49.0

The Caixin/Markit (S&P) survey fell to 50.4. In sum growth below avg signalled, but not by much

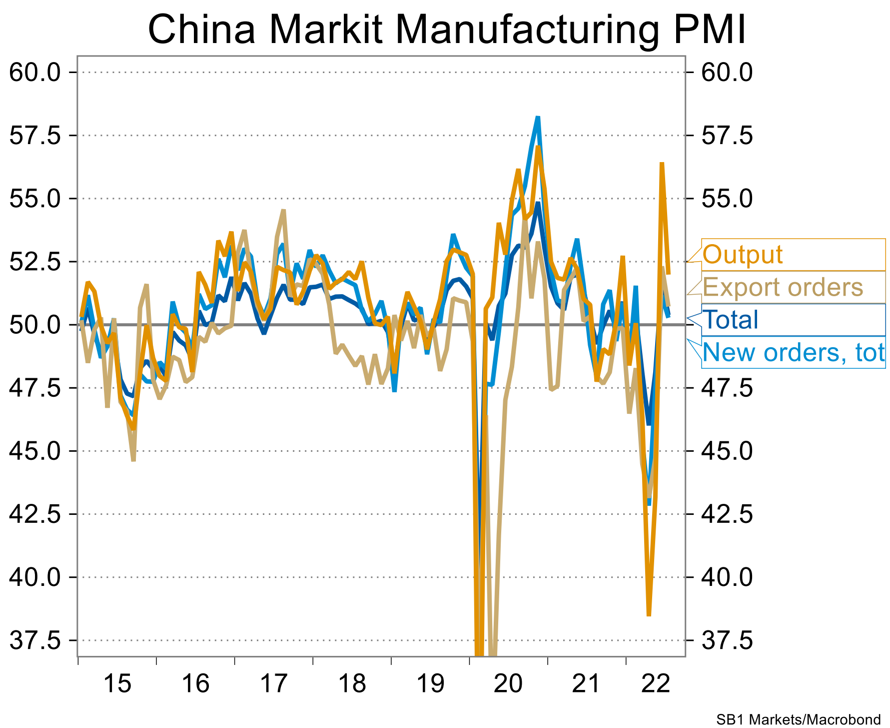


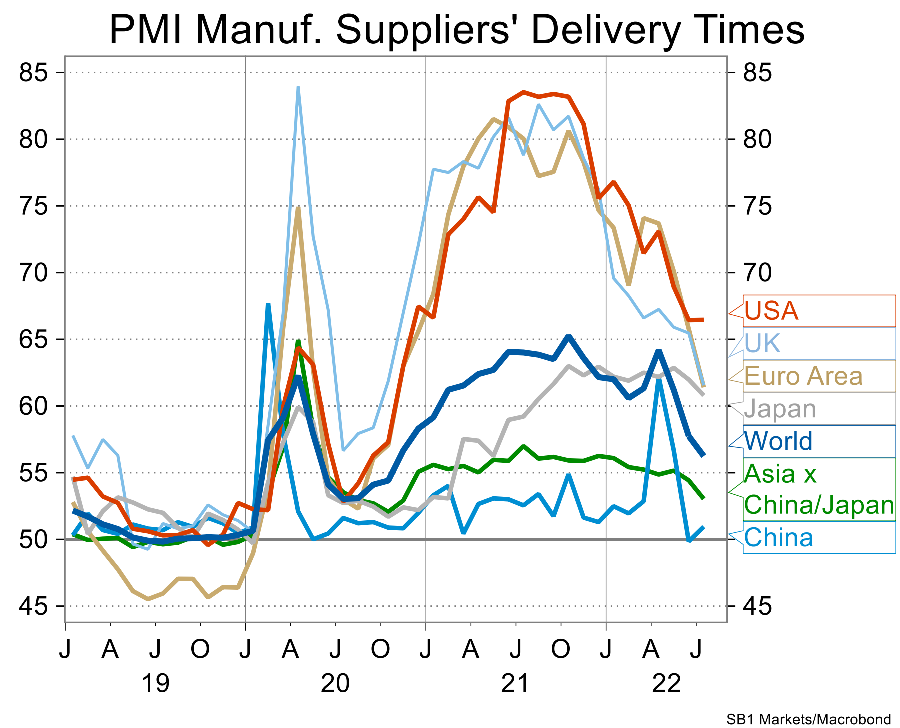


- The Caixin index is close to an average level, the NBS survey is clearly below, in fact on of the weakest print, except for the lockdowns in 2020 and 2022
- Actual industrial production production fell sharply in April but recovered in May and June

The output index in Caixin's manuf. survey fell sharply but remains strong

The output index was the 2nd best ever in June, and is still above average





- Businesses are still reporting growth in **new orders**, both export orders and total orders
- **Delivery times** havefallen back to 'normalised' (where it hat been most of the time, during the pandemic, except for the two lockdowns, in 2020 and 2022

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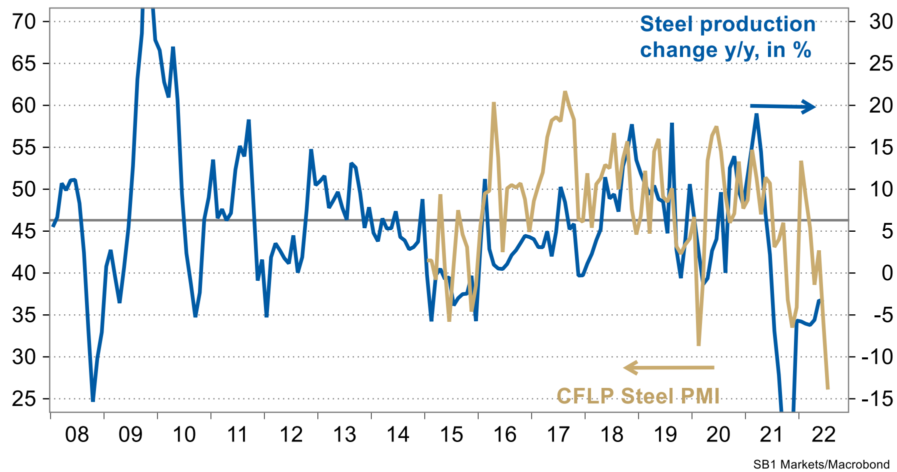
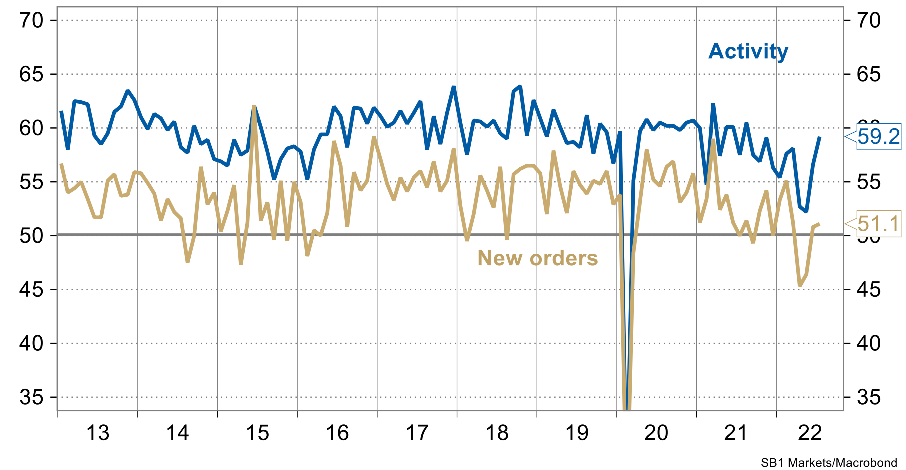
The steel sector PMI further down in July, to ATL (26!). Construction to blame?

The construction PMI has stabilised, at a not too low level. However, constr. starts are extremely weak

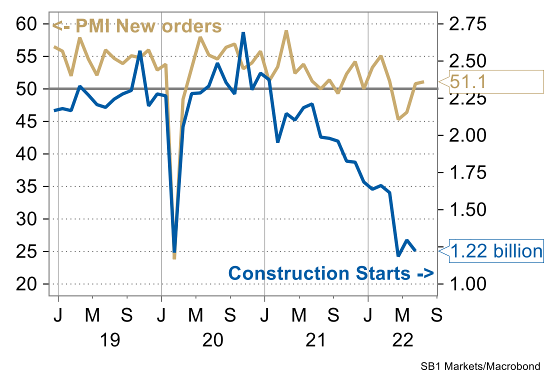
China Steel Production vs PMI



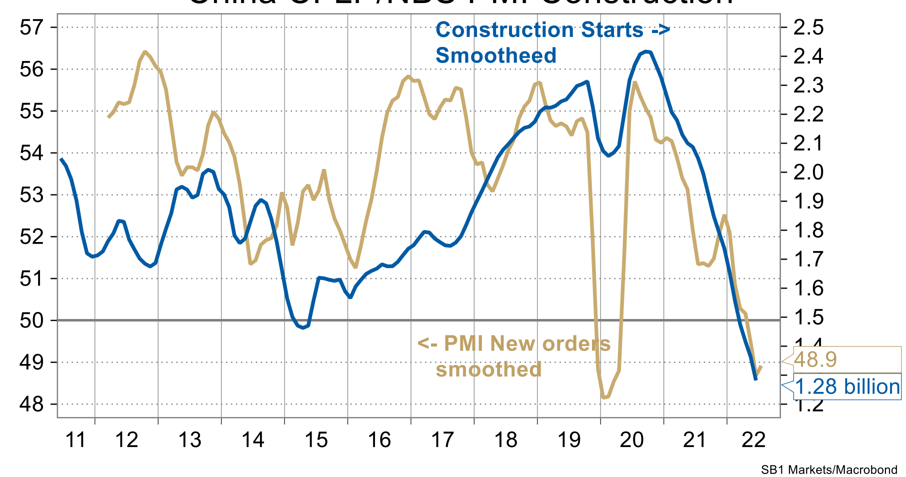
China CFLP/NBS PMI Construction



- **Construction starts** have stabilised in May and June, though at a very low level, following the largest decline ever. Supply does still not seem to be short, as house prices are falling
- **The authorities** last week established another mechanism to finance builders, and unfinished building projects

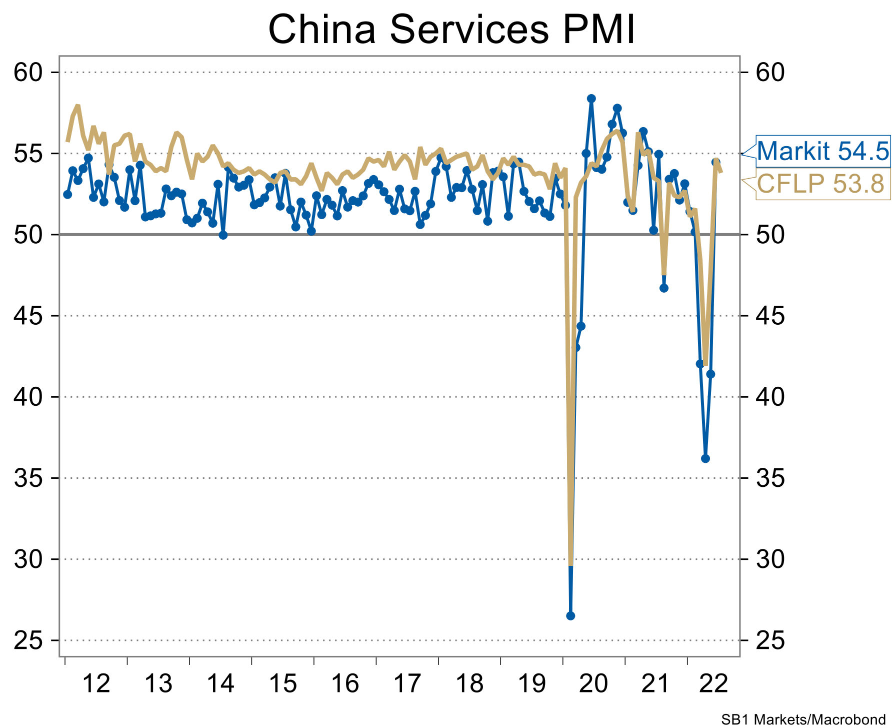


China CFLP/NBS PMI Construction



July was probably still OK in the service sector

The recovery from the lockdowns continued



- S&P (Markit) has not yet reported

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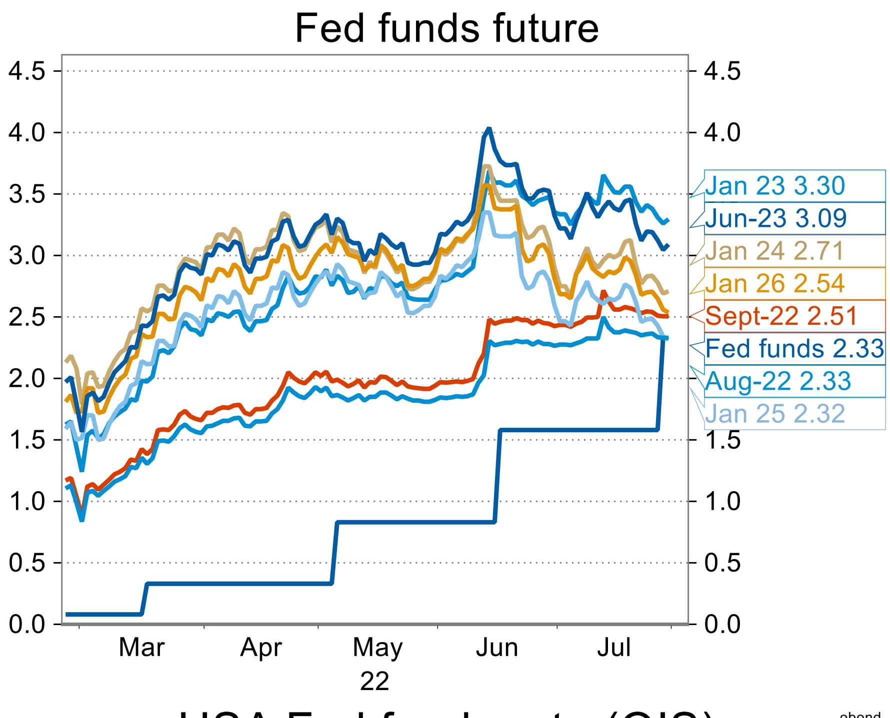
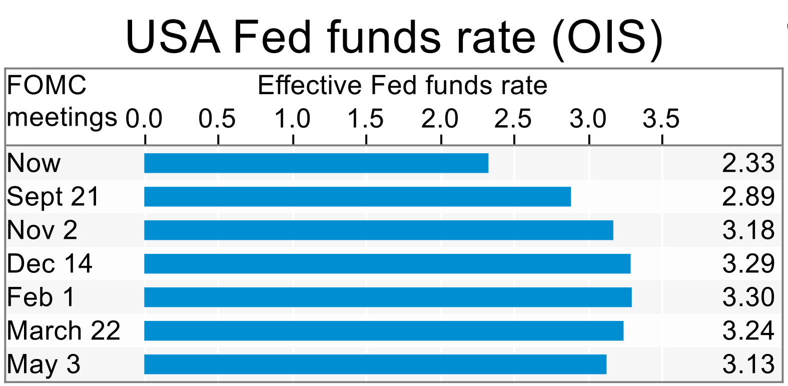
Another triple hike; More to come but how much? The Ec. outlook anyway weak

The funds rate up 75 bps to 2.25 – 2.50, and back to a neutral zone.

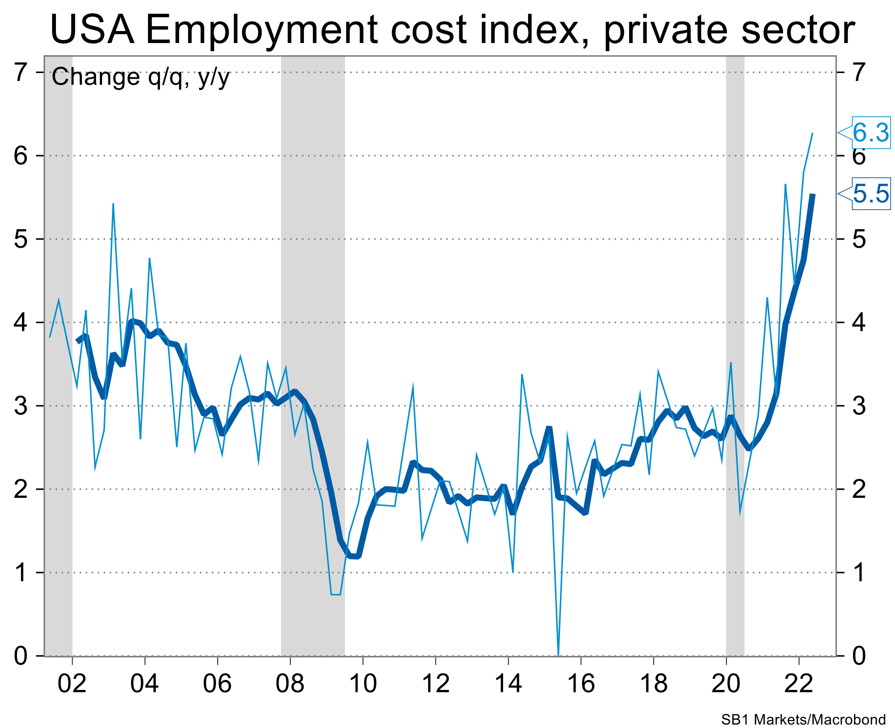


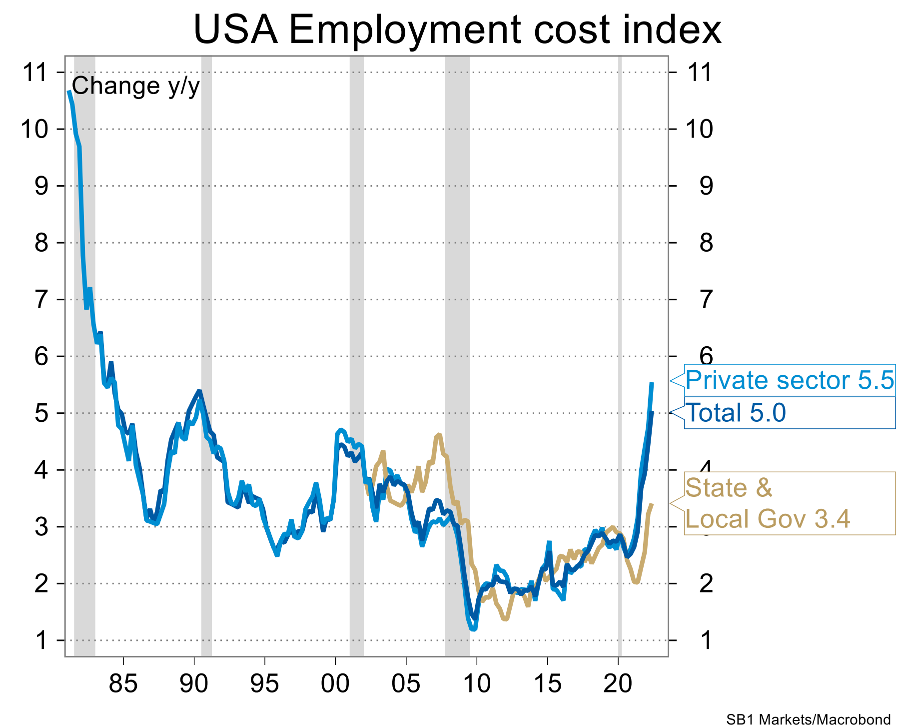


- **The FOMC & Powell** ackowledged that growth in production and spending had softened but the labour market remaines tight and inflation remains elevated
- **The outlook is more uncertain**: How much further tightening after bringing the rate rapidly up to a neutral level is needed is of course dependent on the development in the economy – which is now slowing. Other elements of financial conditions will decide too
- This does not mean that the FOMC has become soft on **inflation**, they do simply not know how much further the signal rate has to be lifted in order to bring inflation down – through what we think is inevitable, a significant weakening in demand for goods, services and labour
- Still, the market responded as if the FOMC does not intend to bring inflation down (inflation expectations rose), and that a much lower real interest rate will be needed to achieve the target (expected real rates fell further) – and that the economy will not be hurt that much anyway (risk markets rallied)
- I risk markets remains buoyant, and rate expectations come down, will the FOMC succeed in bringing inflation down? We doubt something is missing in that equation

Fed's challenge: Private sector employment costs exploded in Q2, at a 6.3% pace

It will not be close to possible to bring inflation down to 2% with a wage cost growth at current levels

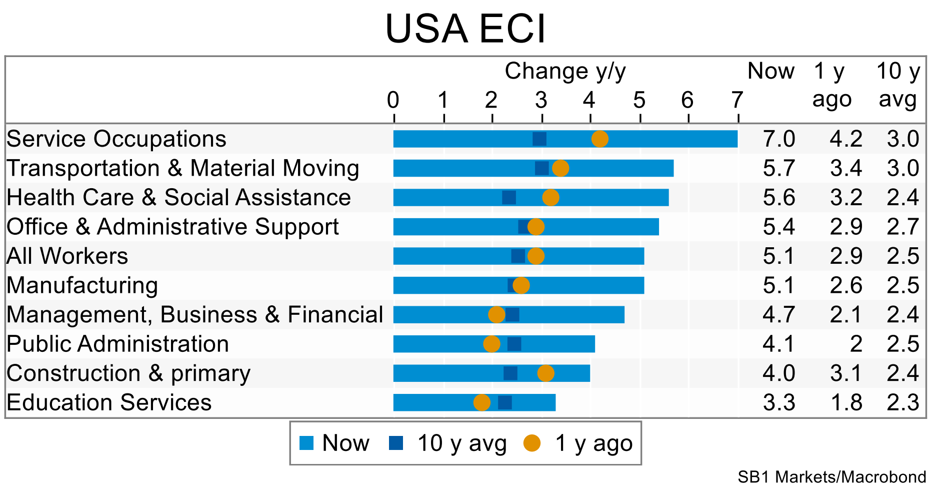




- The **Employment cost index for all civilian workers**, which measures wages and other wage costs for the same types of jobs (and is not influenced by changes in employment between sectors/type jobs), rose by 1.3% q/q in Q2, 0.1 – 0.2 pp faster than expected, or at a 5.3% annualised pace. The annual rate accelerated to 5.0% from 4.5%, the highest since ~~2002~~ 1990
  - » In the private sector, the ECI rose by 1.5% q/q (6.3% annualised), and it is up 5.5% y/y
  - » State and local gov employment costs are up just 3.4% y/y, the largest discrepancy to the private sector ever
  - » In general, low paid services reported the highest wage growth, both q/q & y/y
- **Wage inflation** is the real problem for the Fed, far more than the impact of high energy/food/raw material prices. Those commodity prices are already on the way down, and the contribution to CPI inflation will come down. Will it be possible to bring wage inflation down without a recession? Probably not, check the chart to the right

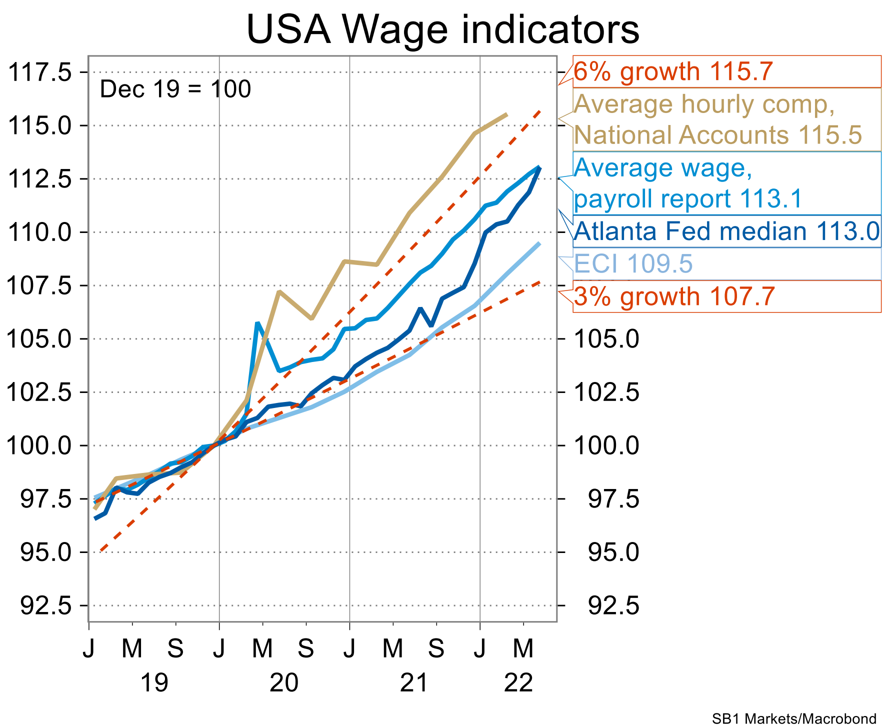
Employment costs are on the way up in all sectors, most in services

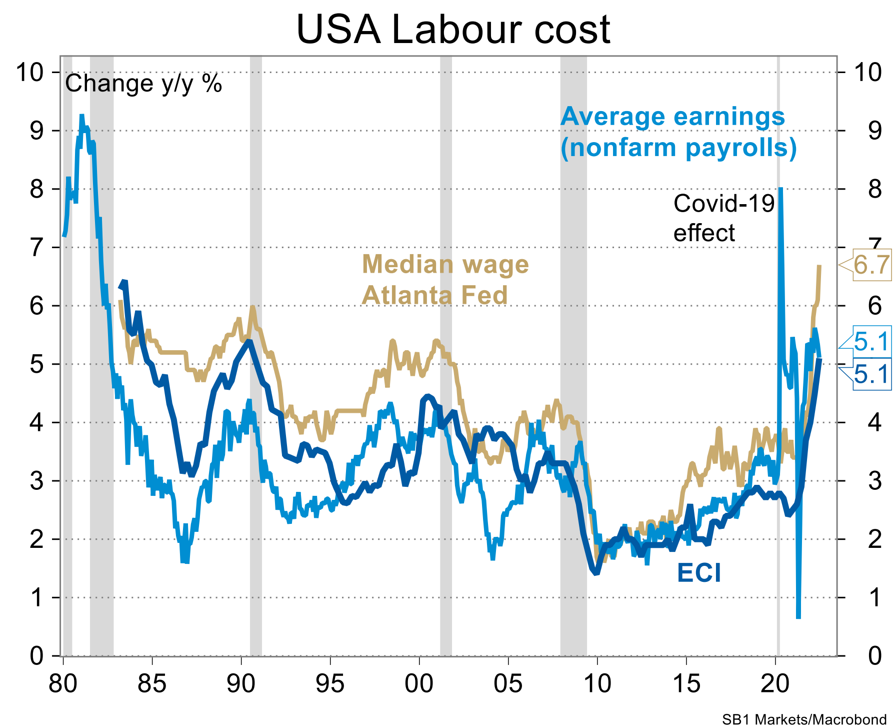
… a substantial cost push risk vs inflation



No clear signal of any slowdown in wage inflation (barring in the payrolls report)

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

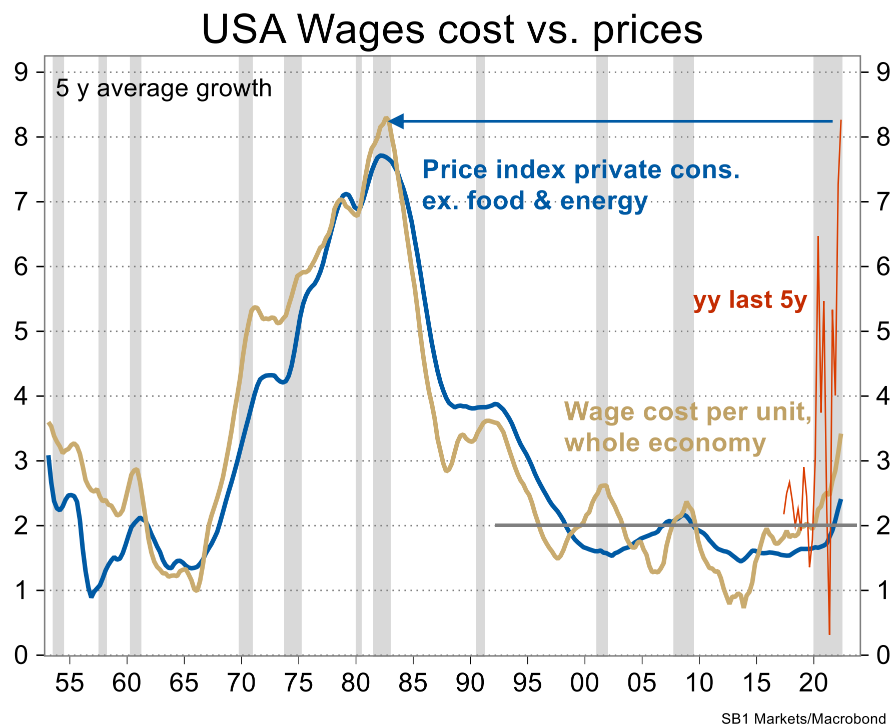


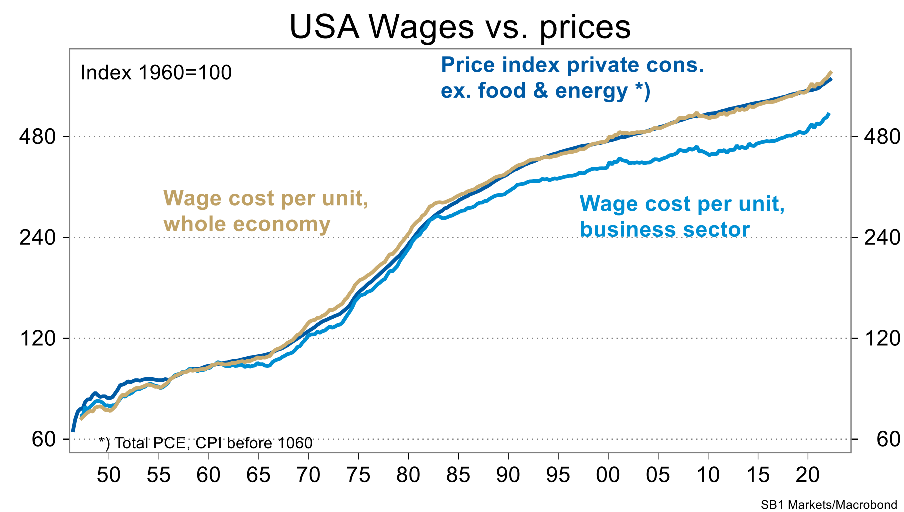


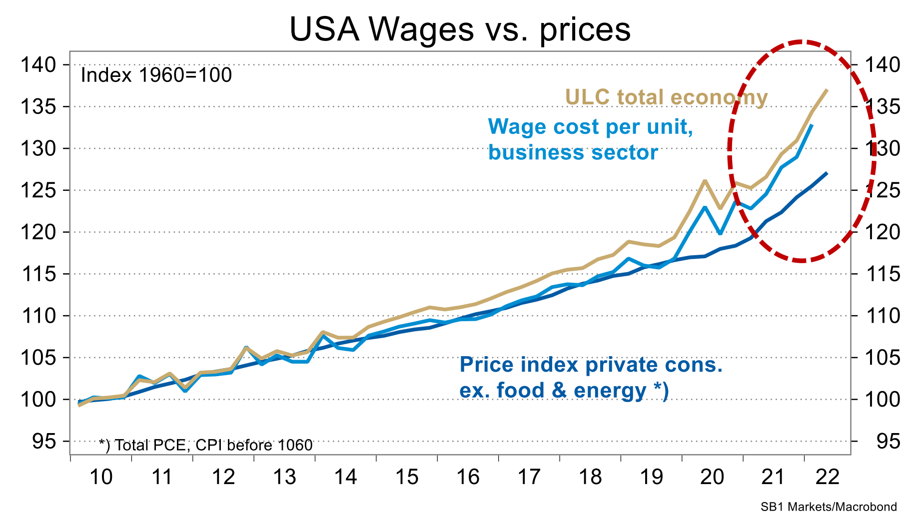
- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years
- Growth in wage/earnings/compensation indicators are up 2.5 – 3.5 pp vs the their respective 10 y averages
- Over the past 10 years, inflation has been close to 2%, and well above 2% if calculated over a shorter period
- It will be a 'challenge' to keep CPI inflation at 2% if wage inflation remains 2.5 – 3.5 pp higher than rates that have produced 2% price inflation. Productivity growth has not accelerated. Profit margins may take a beating – and they no doubt will – but not sufficient to bring inflation down to acceptable levels on their own. Wage inflation will probably not slow by much before demand for labour weakens – and unemployment increases

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

Wage costs per unit produced are up 8%+ in Q2, according to national accounts. INCREDIBLE!

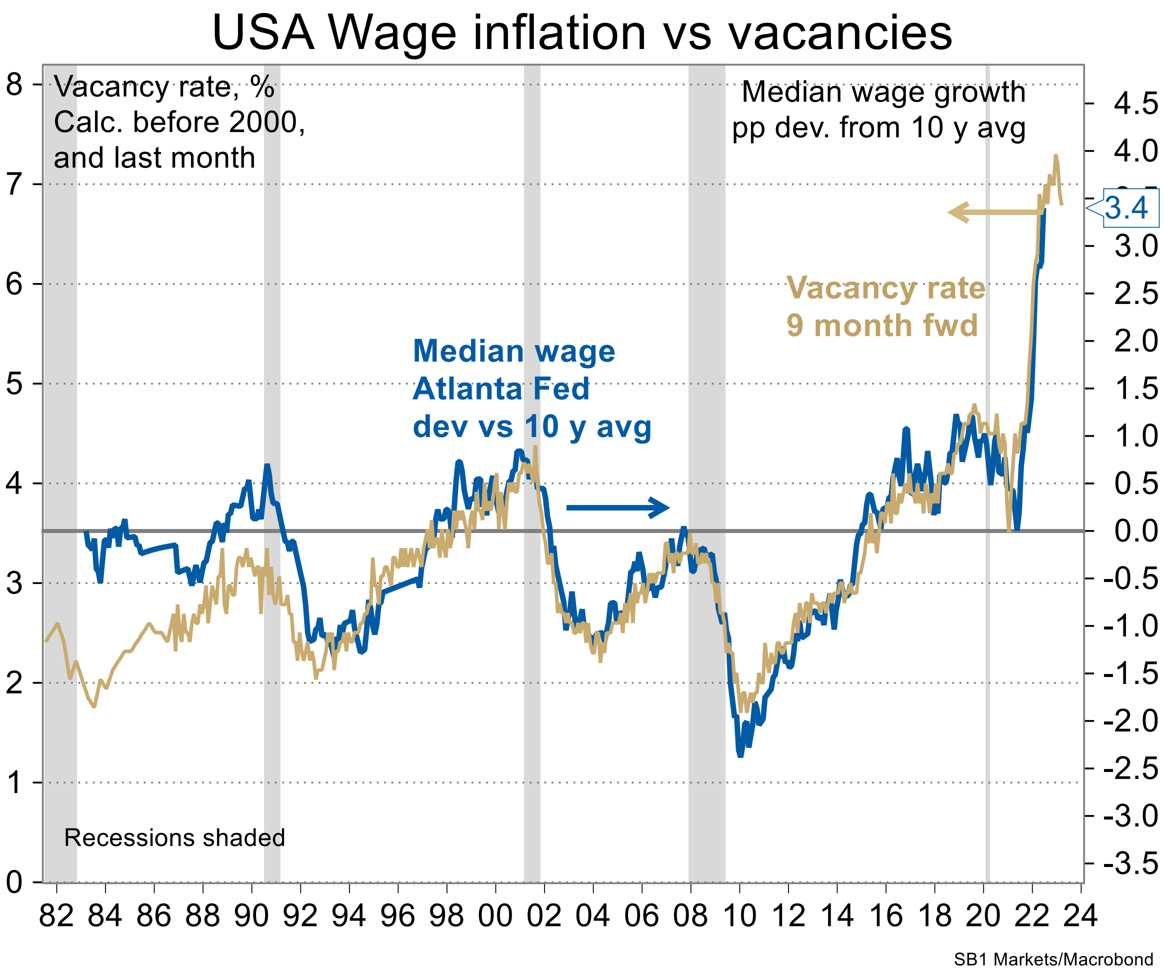






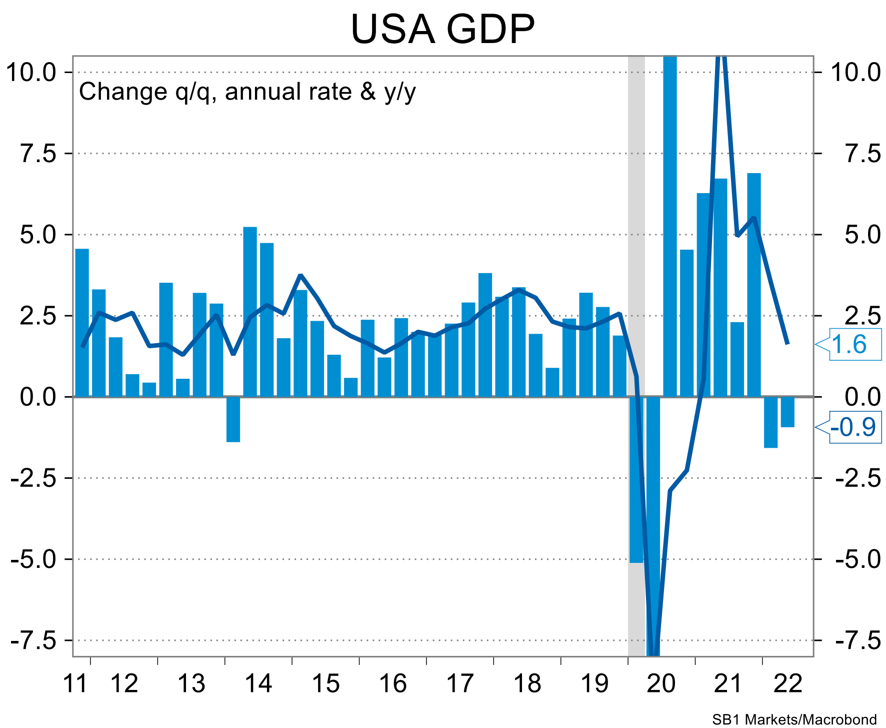
- It we happened to be a member of the FOMC these days, we would really not have felt comfortable at all: This is close to a disaster vs. the outlook for the real (core) inflation and/or corporate profits
- At the next page, we add our favourite Phillips curve chart, with changes in wage growth vs. vacancies. How on Earth will it be possible to bring down wage inflation without taking demand for labour substantially down??

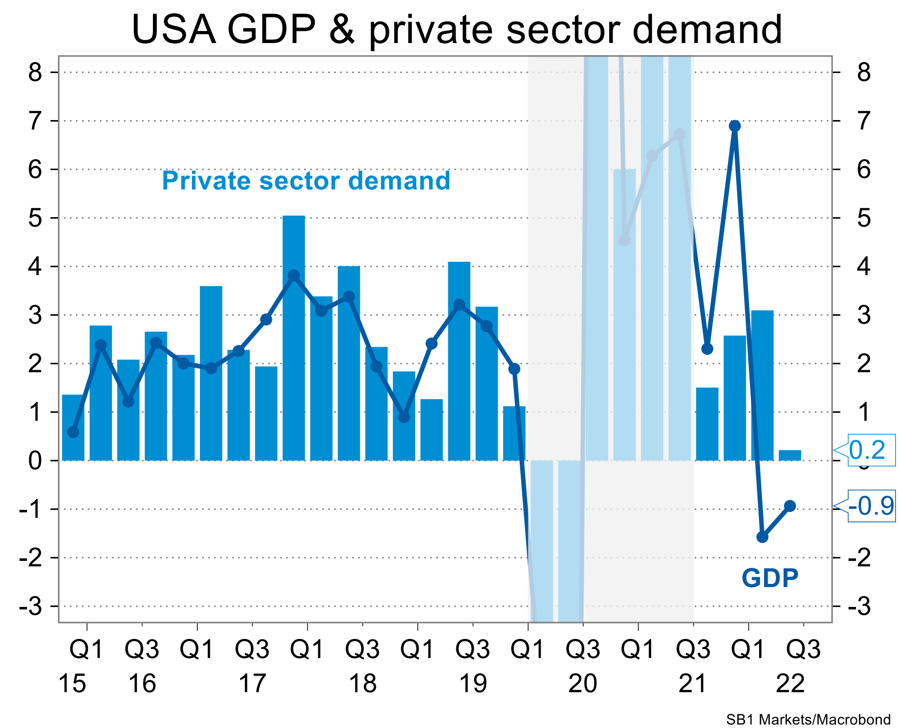
The Best Phillips Curve ever? And what's next for jobs & wages now?



GDP fell in Q2 too, hit by an inventory drawdown. However, demand also slowed

Growth in households' and business' demand slowed sharply in Q2, up just 0.2%. A recession?





- **GDP** was expected up by 0.4% but just before the release, as stronger foreign trade data as well as strong growth in durable orders, led several analysts to revise their f'casts upwards, some by 1 pp (to >1%). However, GDP turned out to surprise sharply at the downside, with a 0.9% decline, up form -1.6% in Q1
- A back-to-back decline in quarterly GDP is not the 'official' definition of a recession in the US, but US has always been in a recession if GDP fell b-to-b
  - The y/y growth rate fell but is still not weak at 1.6%, as the lift in GDP in Q4 was impressive, at 6.9%
- **Private sector demand** was strong in Q1, up more than 3%, even if GDP fell by 1.6%. In Q2, private demand just grew by 0.2%. In Q1 net exports fell sharply, in Q2 final demand was met by reduced inventory building, which 'contributed' with a 2.2 pp drag on Q2 GDP
- **Core PCE inflation** (Fed's price measure) was unch. at 5.2%, while the overall GDP deflator grew 8% in Q1
- We assume **corporate profits** fell further in Q2, in spite of the 8% surge in prices, as employment compensation rose rapidly

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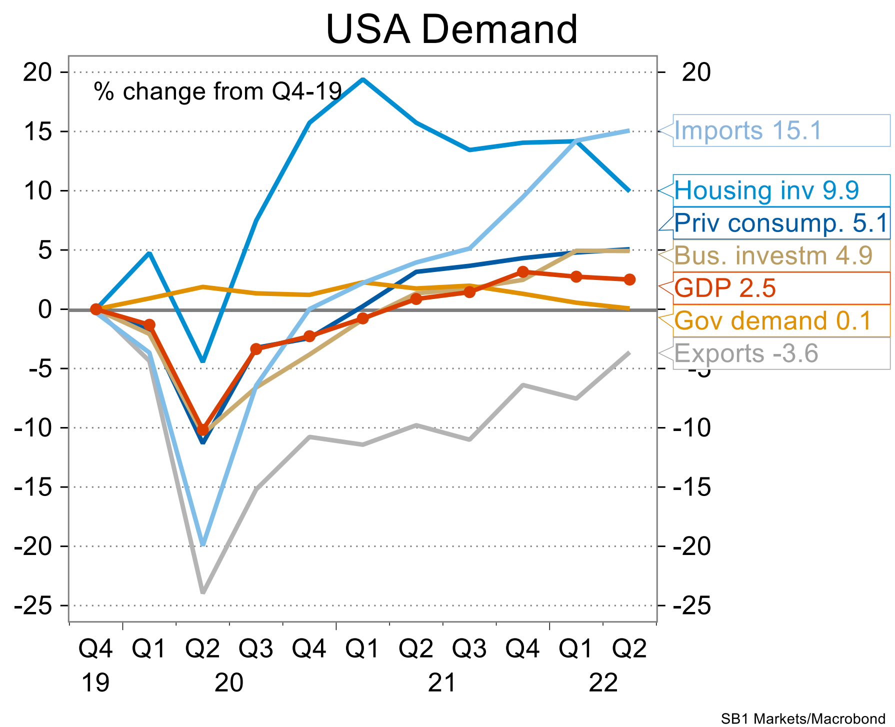
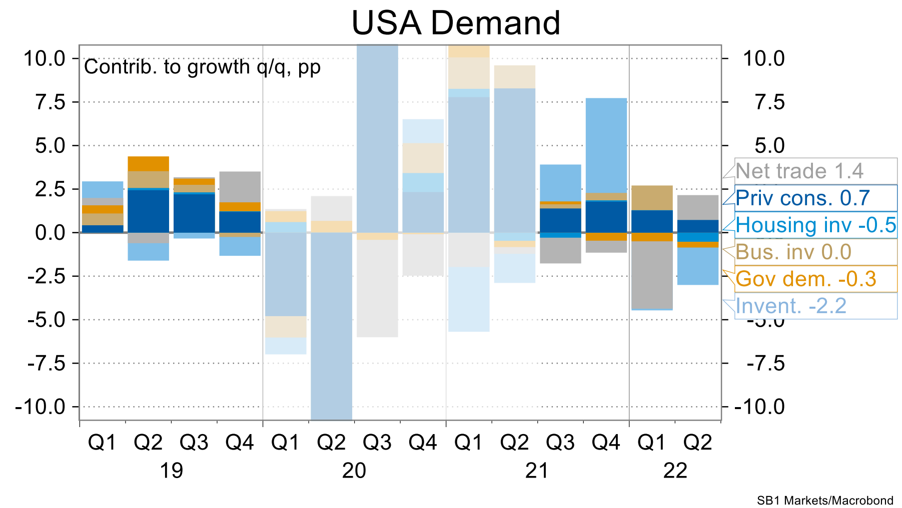
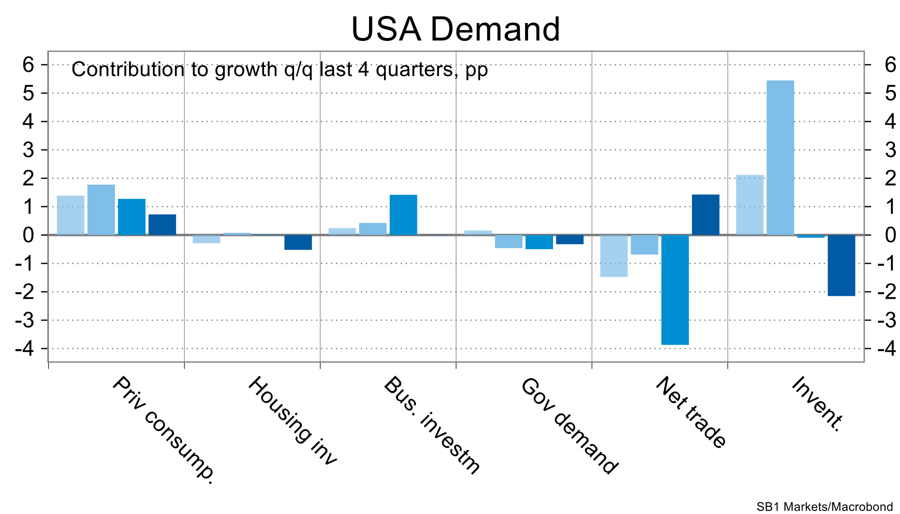
An inventory drawdown the story in Q2 (-2.2%), in Q1 it was net trade (-3.8 pp!)

However, housing investments are falling, business investments flattening & consumption slowing



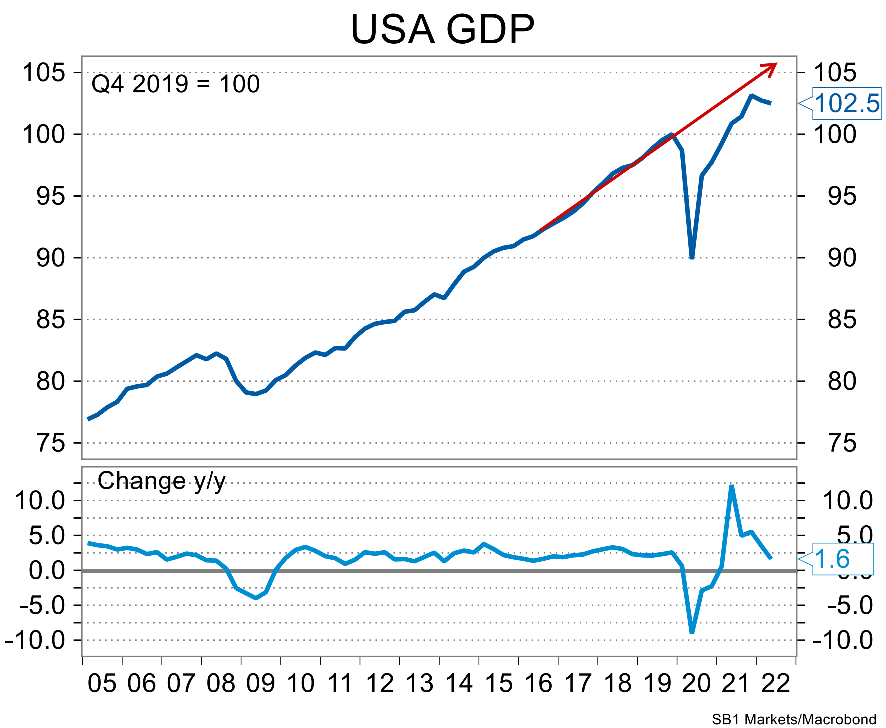


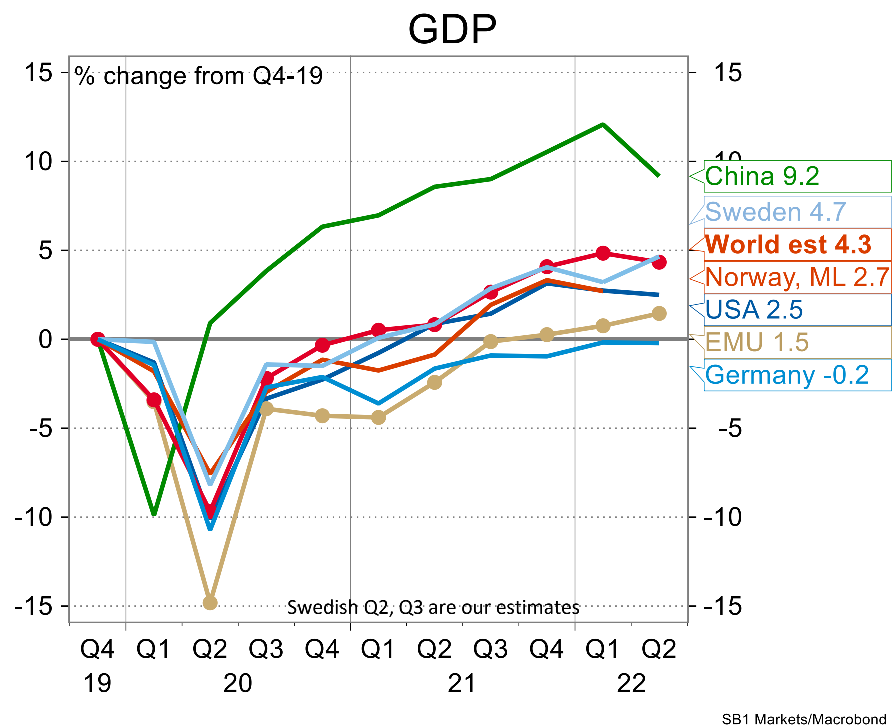


We have shaded the 'hard' pandemic quarters at the chart on the top

GDP up 1.6% y/y, and the level is 2.5% above the pre-pandemic level

However, GDP is some 2% below the pre-pandemic trend. The gap vs EMU is in reality closed?

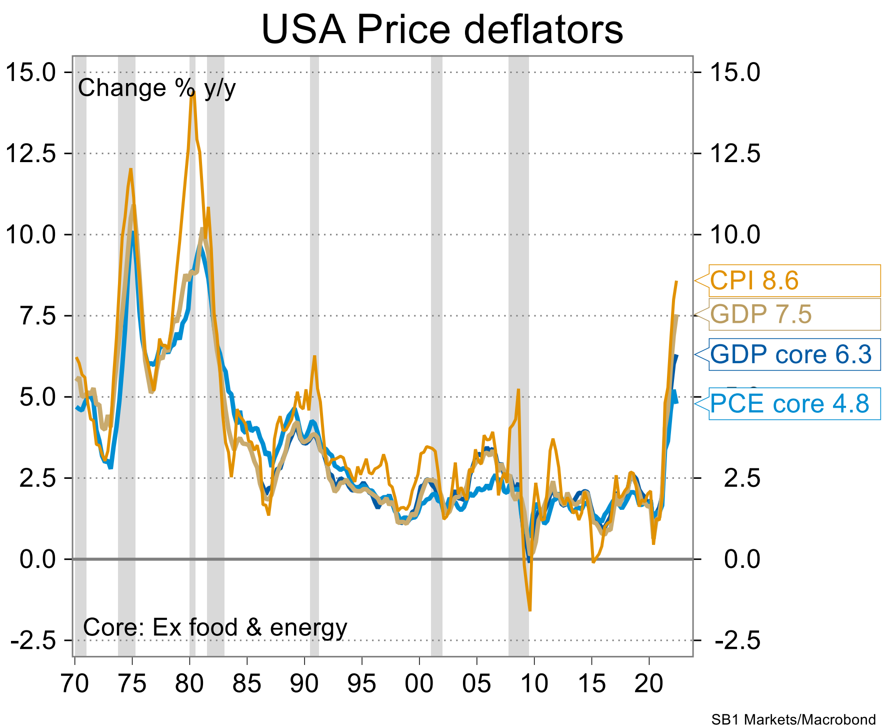


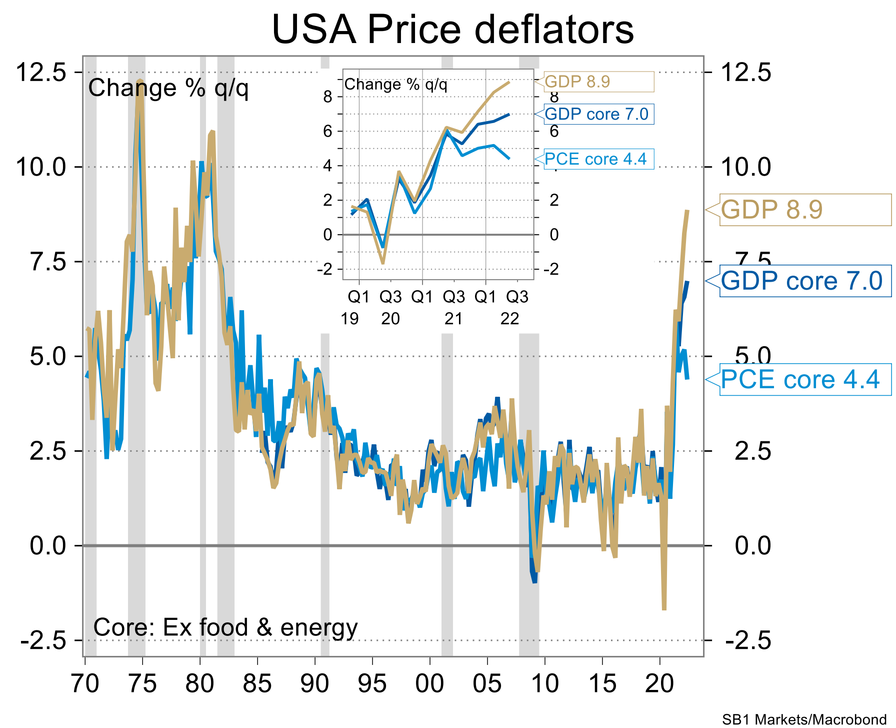


- EMU GDP surprised at the upside in Q2, up 2.8% (0.7% not annualised, expected 0.2%) The gap between US and EMU vs. the pre-pandemic starting point fell to 1% in Q2, down from 3% in Q4 last year
  - Measured pr capita vs the pre-pandemic level or vs. their respective pre-pandemic trend growth rates, GDP in US is now weaker than in EMU

Goods, services produced in the US are up 8.9% in price in Q2 (at least the GDP deflator)

.. And even 7.0% excluding energy and food! The core PCE still softened, up at a 4.4% pace in Q2

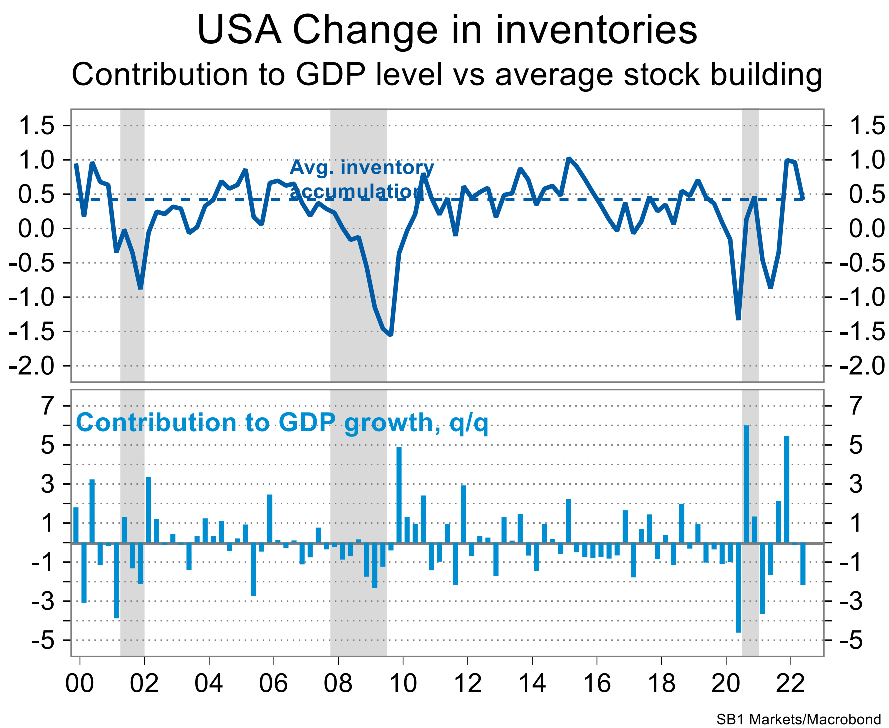


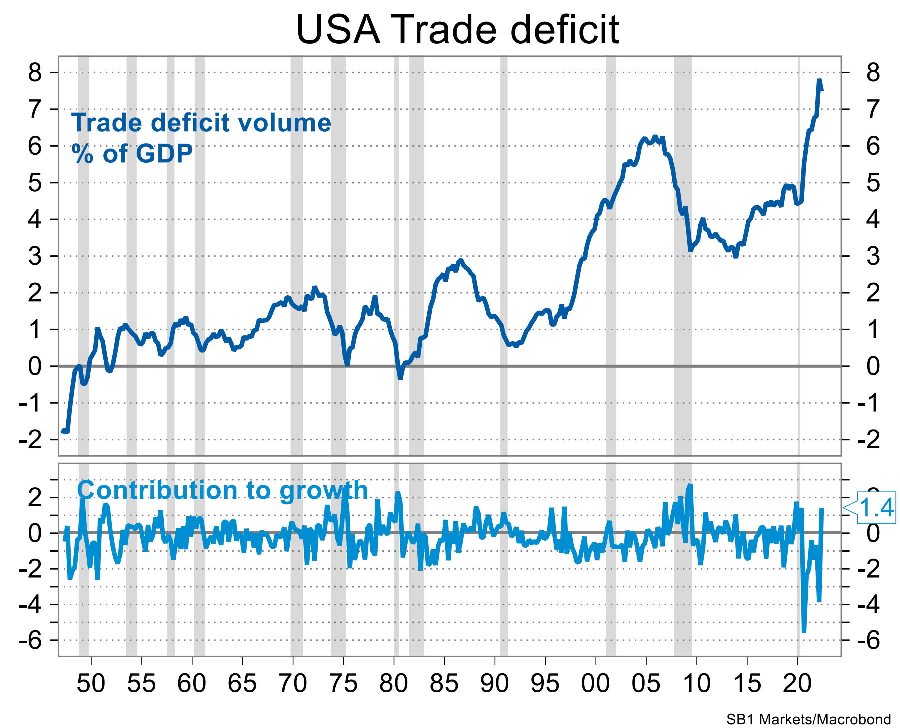


- Higher energy prices are of course to blame for the steep rise in prices but other prices also contributed massively to the almost 9% lift in prices in Q2 – the highest since 1980
- The core (x energy, food) PCE (private consumption) deflator, Fed's preferred inflation measure rose 4.4% in Q2, down from 5.2% in Q1, as expected. So one peak was seen!

Inventory growth slowed – as inventories just rose at average pace

There is probably not much left of an inventory overhang inventories in sum has not increased much

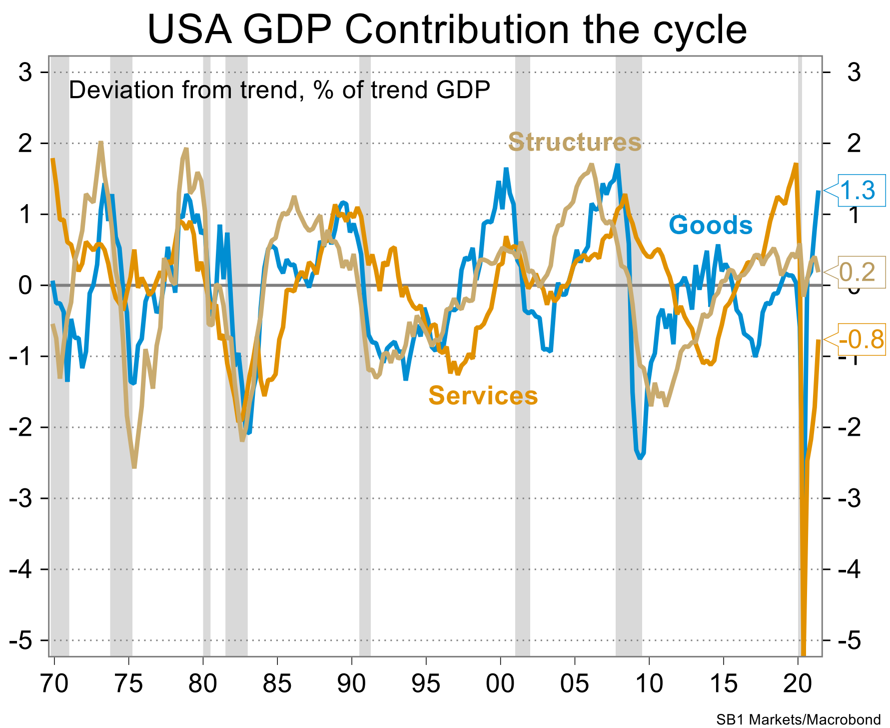


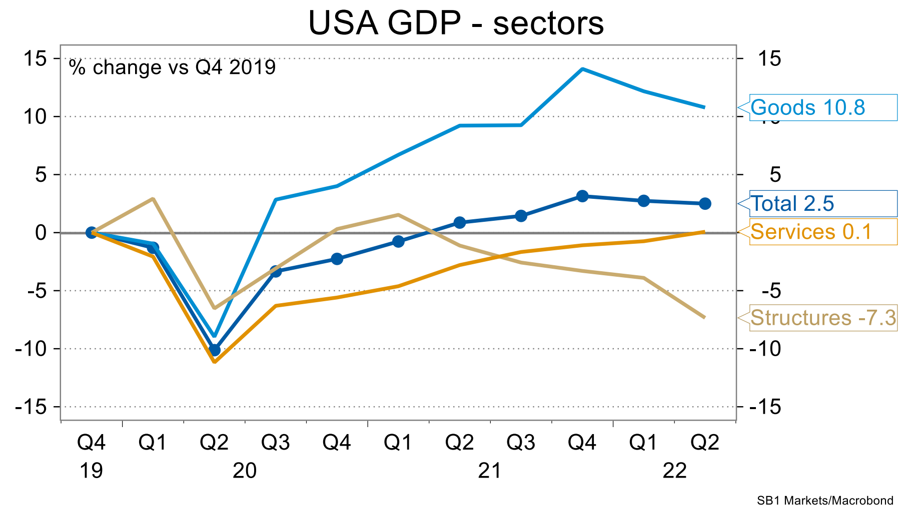


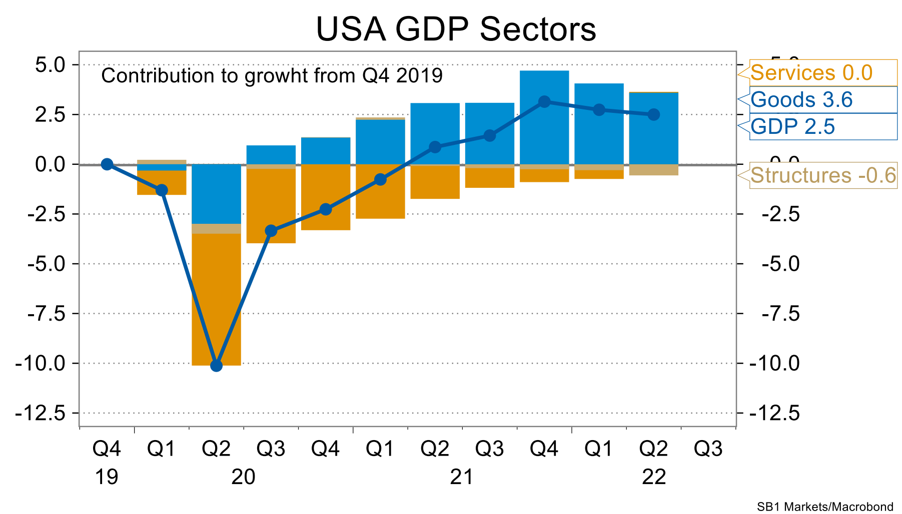
- … over the recent quarters (or during the pandemic)
- **The trade deficit** narrowed marginally in Q2, following the surge in Q1, which then represented an unusual 3.8 pp drag on GDP growth. In Q2, a 1.4 pp positive contribution to growth

Goods, structures took GDP down in Q2. Services grows, but level still low

Goods production is 10.8% above the pre-pandemic level, the total is up 2.5%. Services are up 0.1%

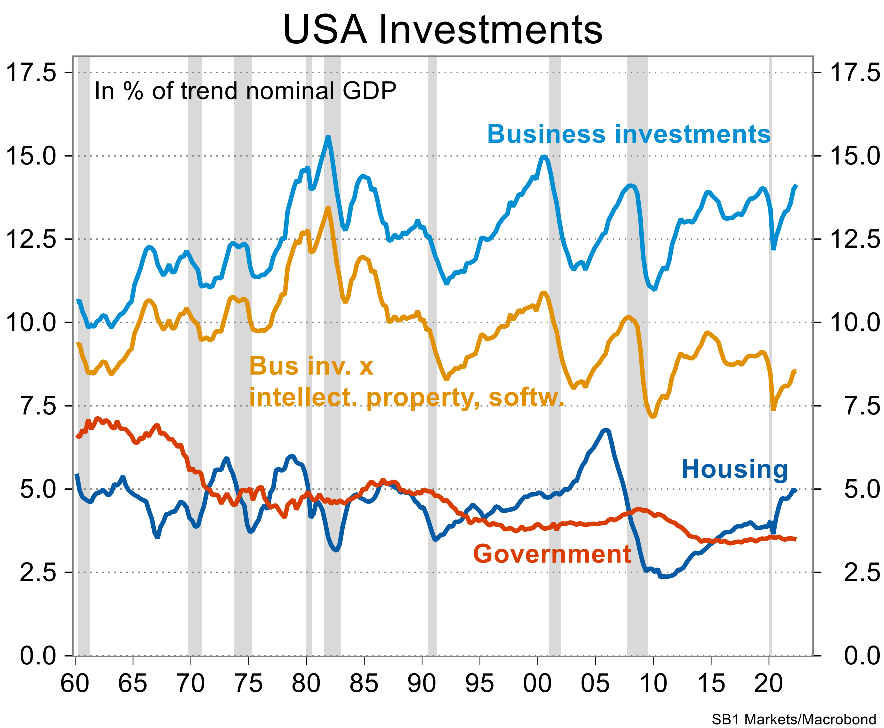


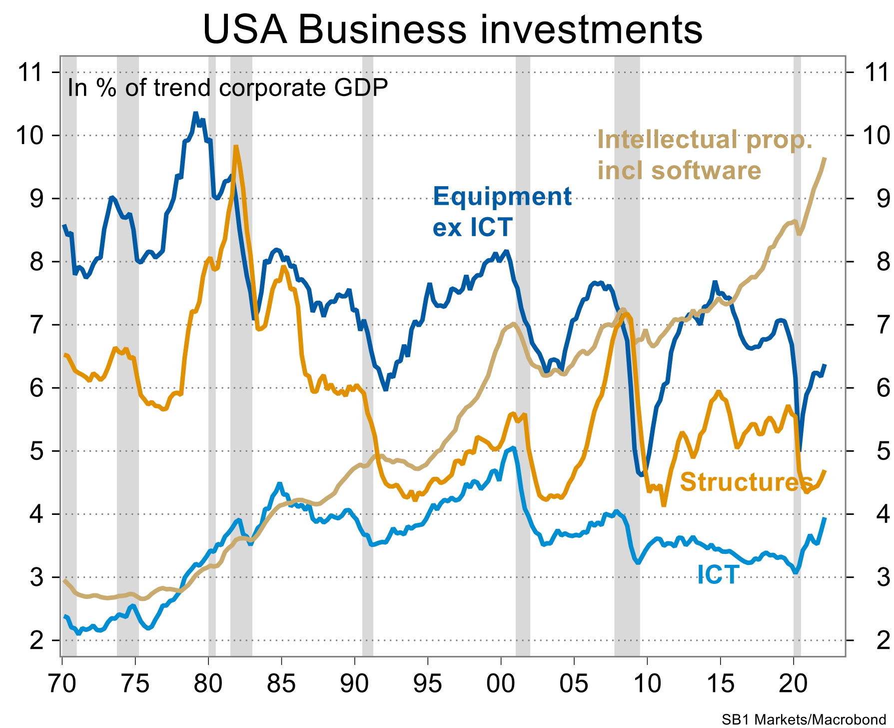




Investments: Business investments flattened – at a rather high level

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

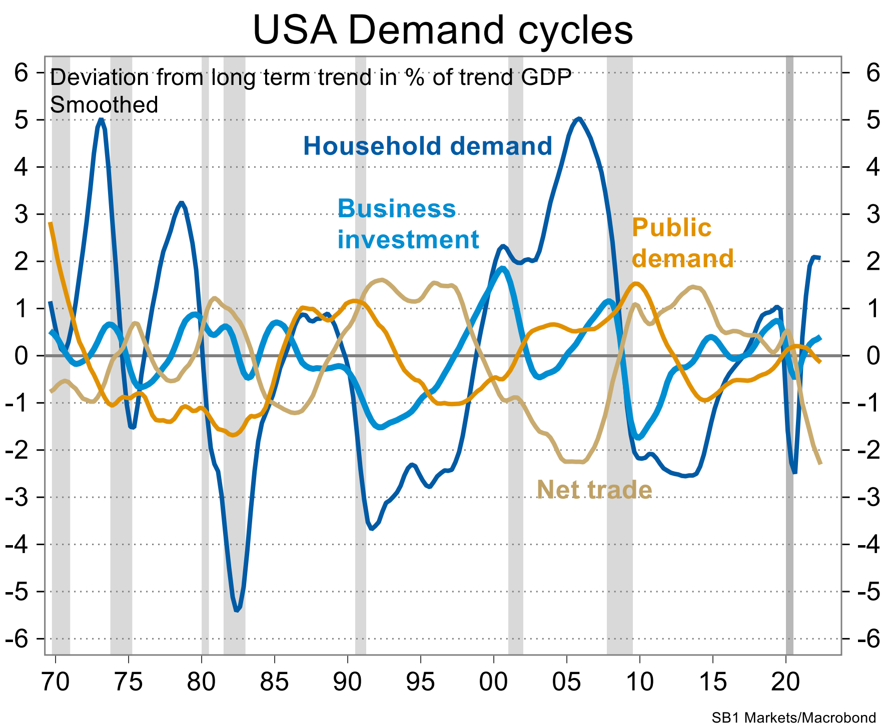


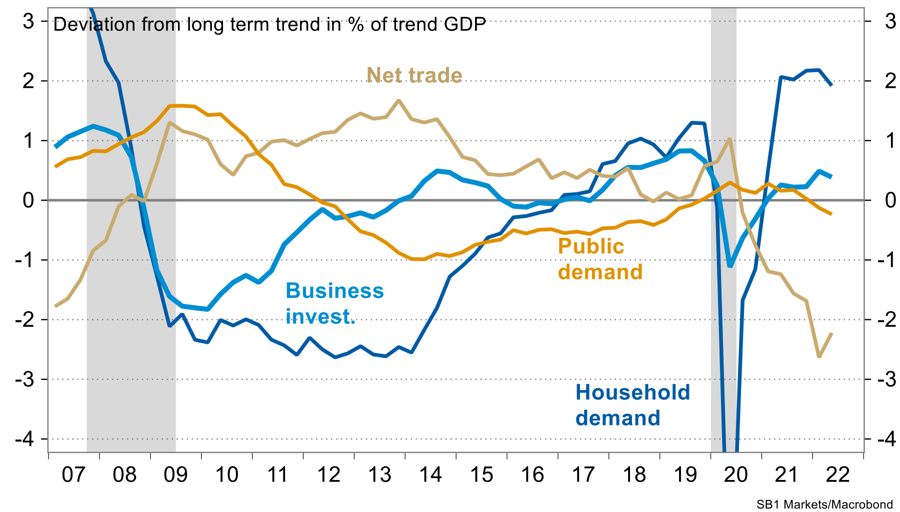


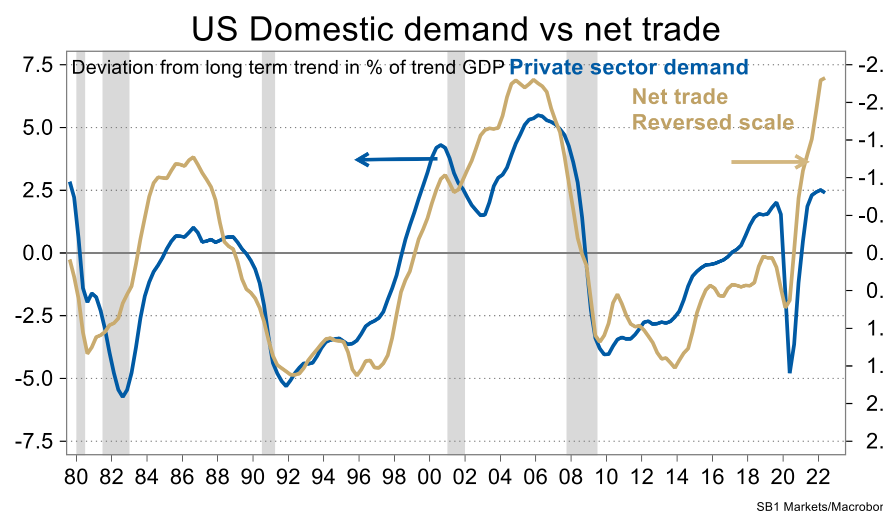
- **Business investments** are up 4.9% vs. the Q4-19 level (in volume terms), driven IP/software and ICT equipment. Investments in structures are still very low. Investments in equipment x ITC may is most likely below trend
  - » Thus the outlook for business investments is not clear: The boom in IP/software/ICT may well continue, even if the levels are high. There is still upside for other equipment and structures, at least vs the normal cycles in these sectors
  - » However, higher interest rates, and weaker growth in demand does not normally support business investment, and we are probably close to the peak in Q1
- **Housing investments** fell 14% in volume terms (annualised), but housing investments/GDP fell just marginally. We expect more to come, also as construction prices will come down
- **Government investments** as share of GDP are rather trending down than up

Both private sector demand and public demand is slowing, and is falling vs. trend

The downside risk is probably the largest for household demand



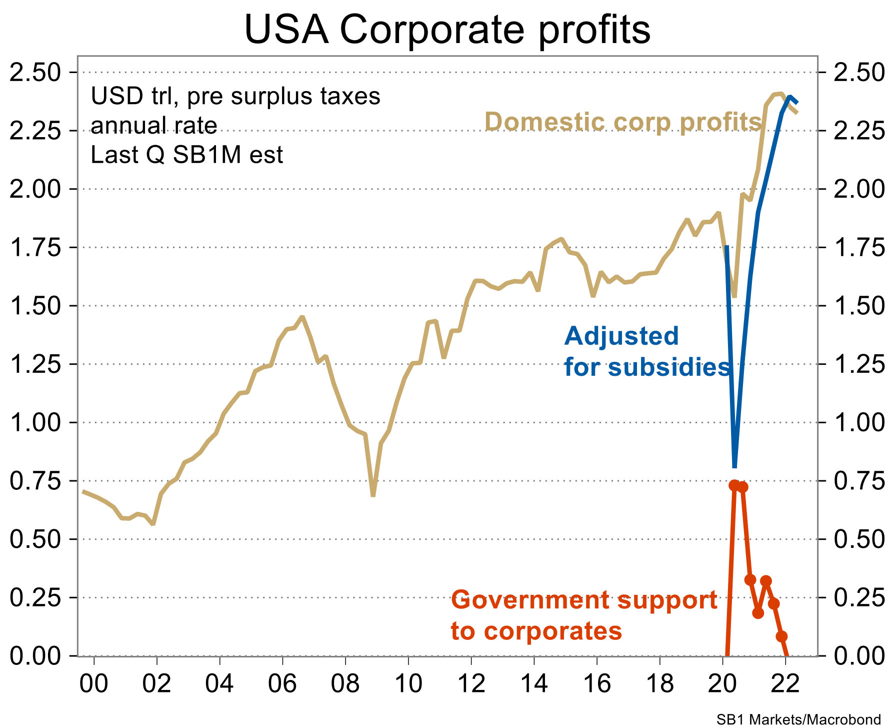


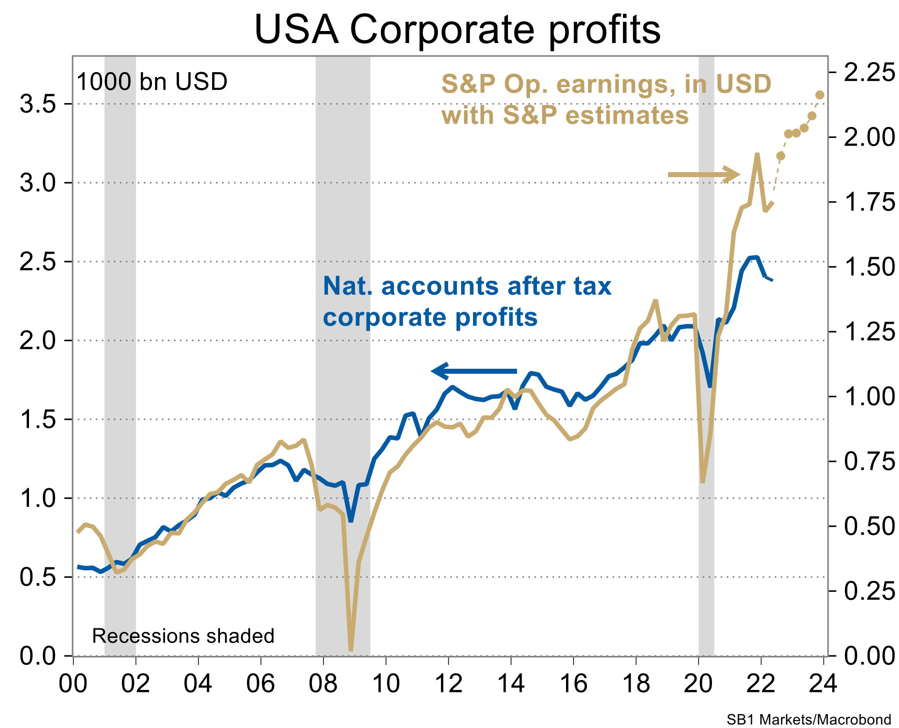


- Net trade has declined more than normal vs. the increase in domestic demand
- *Check more on the household sector some few pages forward*

Corporates' profits probably fell further in Q2 – and the downside is substantial

Profits fell even if prices rose faster than in 4 decades. *Because wage costs grew even faster*

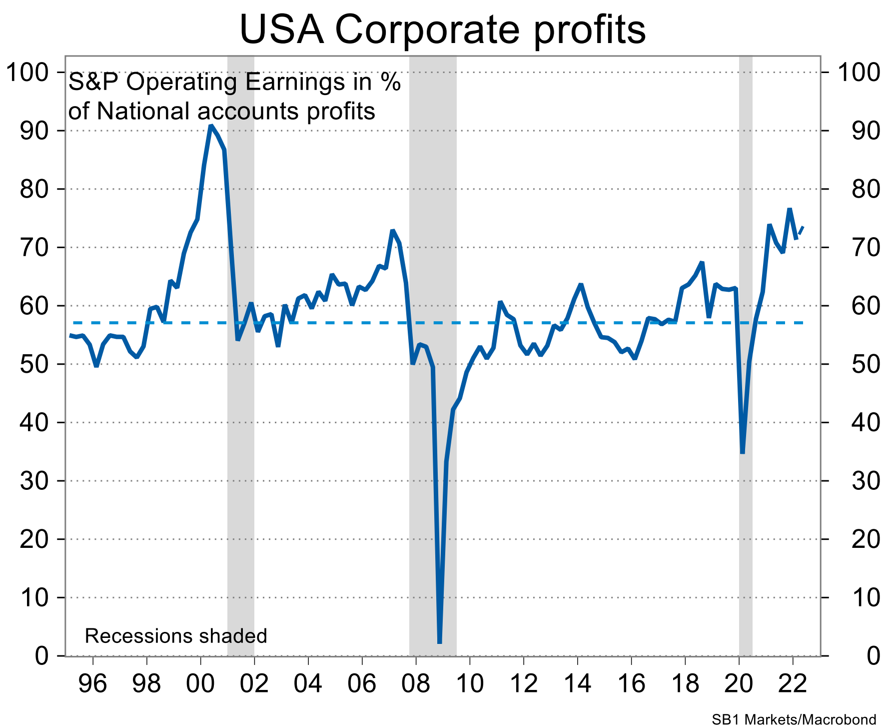


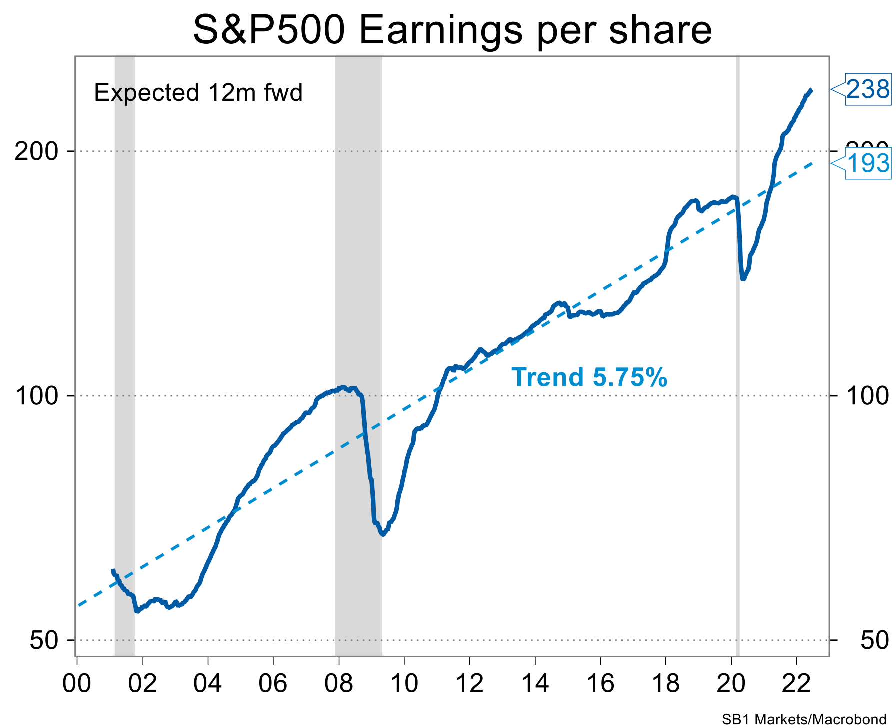


- **We assume domestic corporate profits** fell marginally, some 1% (5% annualised) in Q2, following a 6% drop in Q2. Growth in nominal corporate GDP slowed (we assume to 1.7%, but the estimate is uncertain!), and that labour costs rose by 1.9%. Net tax payments/subsidies have normalised, no more 'corona support'
- The **S&P** estimates that S&P 500 profits rose by some 2% in Q2 following the more than 10% decline in Q1 (seasonally adjusted). S&P profits (including profits from abroad) are still way above normal vs National Account profits for the total corporate sector (including all corporates operating in the US, domestically or foreign owned). Thus, a downside risk for S&P 500 earnings
- We think the **profit outlook** is bleak. Wage inflation will not subside immediately given the super tight labour market – and a continued price inflation at the current 9% pace cannot be tolerated by the Federal Reserve. Exciting times ahead

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

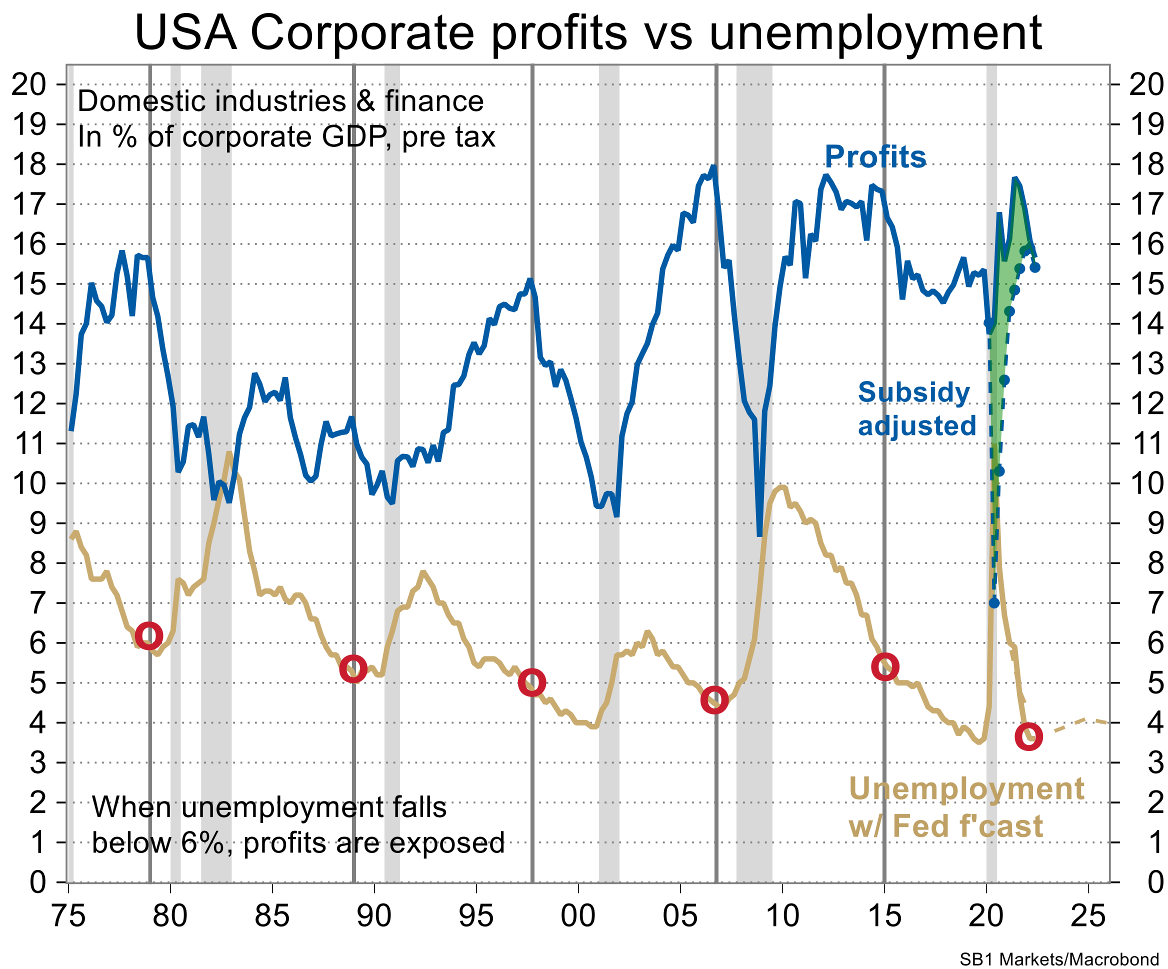
Until further notice





The profit share has peaked. Now, make ready for the next leg

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

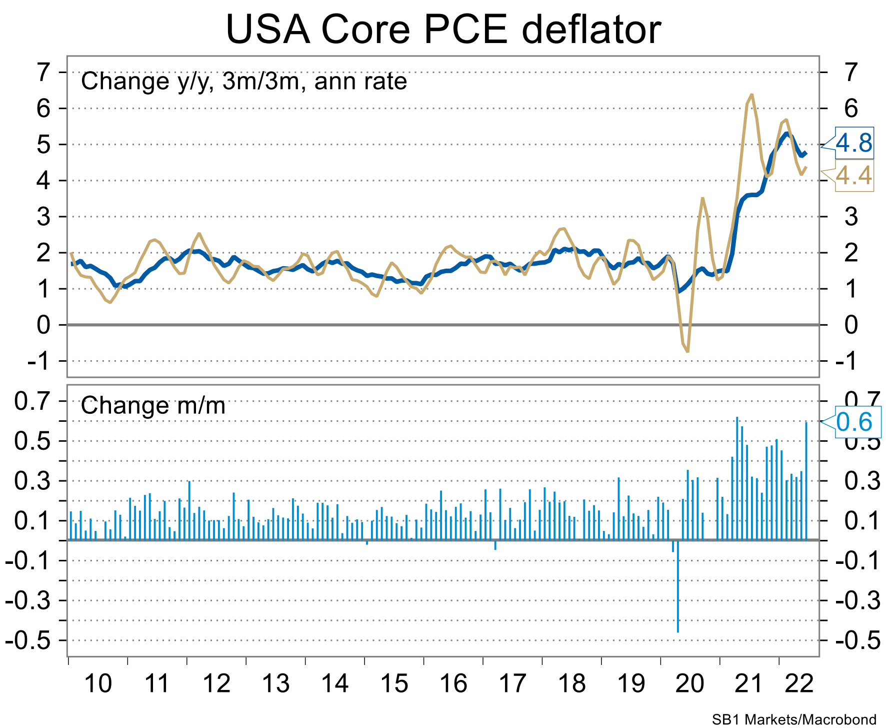


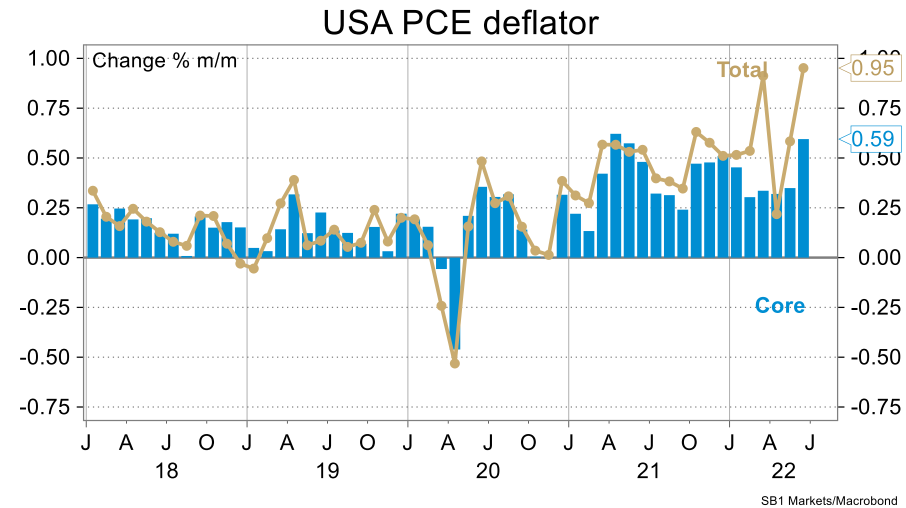
- Prices are increasing at an incredible pace but so are wage costs, and government support is on the way down
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - » Unemployment is now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

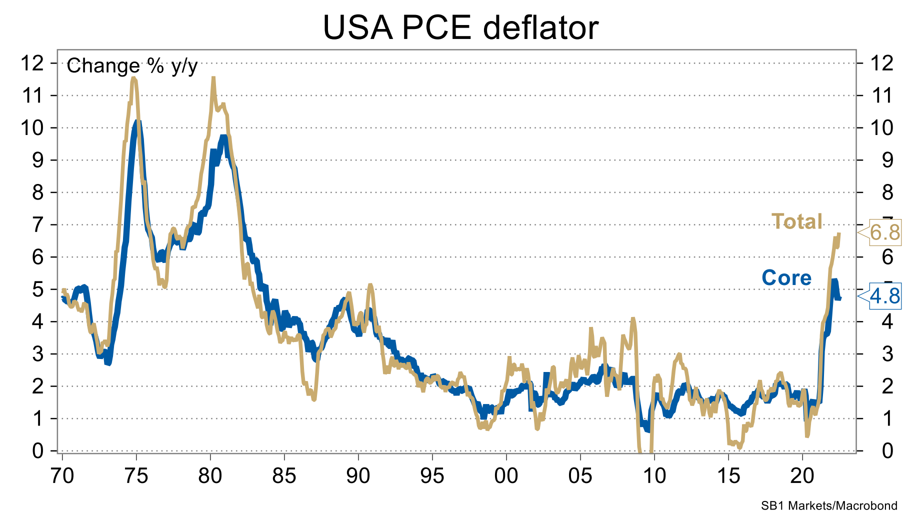
All data are not yet published, and the Q1 numbers are just our estimate

Core inflation has very likely peaked. But it is still far way too high

In June, prices once more rose more than expected, by 0.6%, has not been higher since 1984





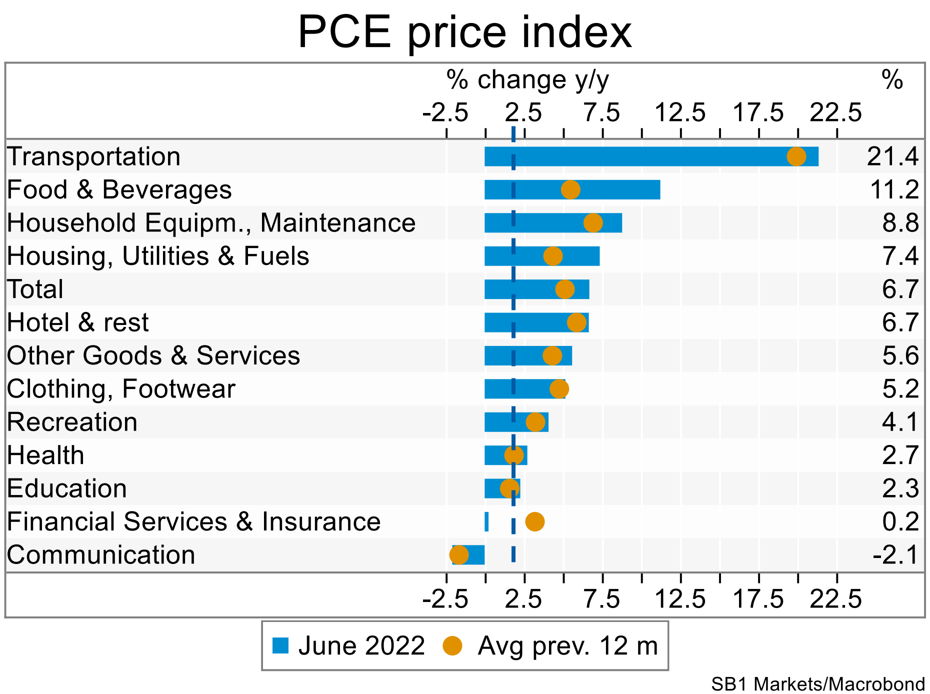


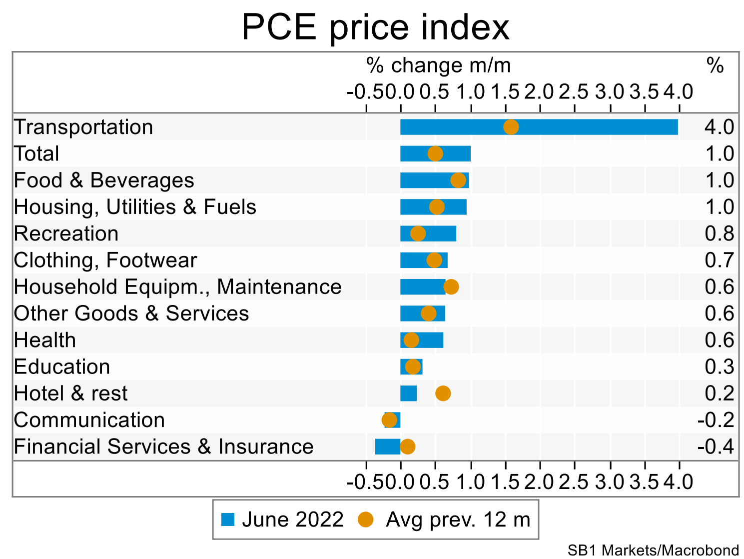
- **The total PCE deflator** rose by 1.0% in June, to the highest rate in this cycle, expected 0.9% - and energy prices shot up. The annual rate accelerated 0.5 pp to 6.8%, a new cycle high. In July, gasoline prices headed down, and the headline PCE should follow suit
- **The core PCE** rose by 0.6% in June expected 0.5%. The annual rate accelerated 0.1 pp to 4.8%, still down from the 5.3% peak in February

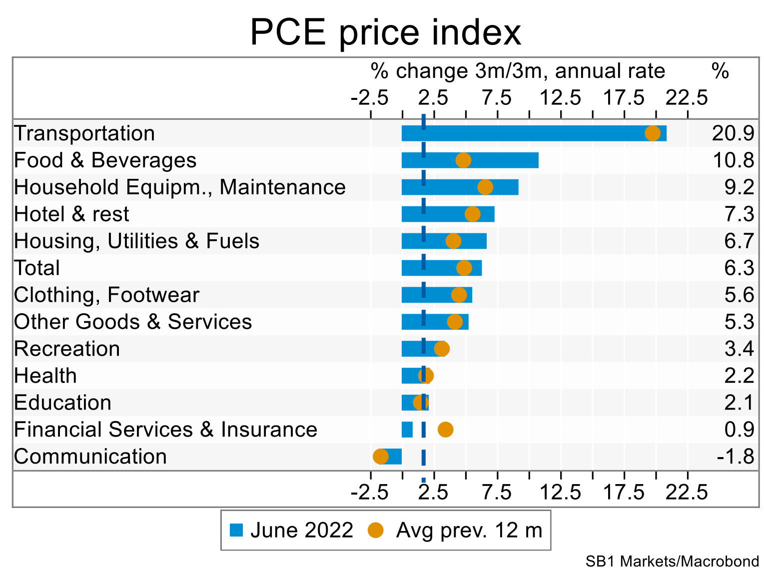
SpareBank 1 MARKETS

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

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

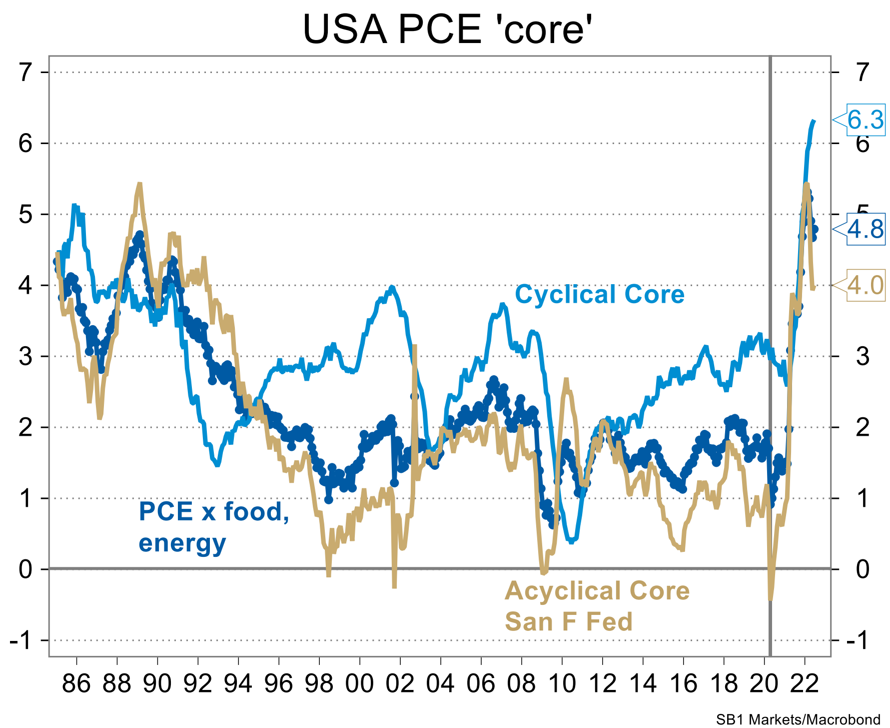


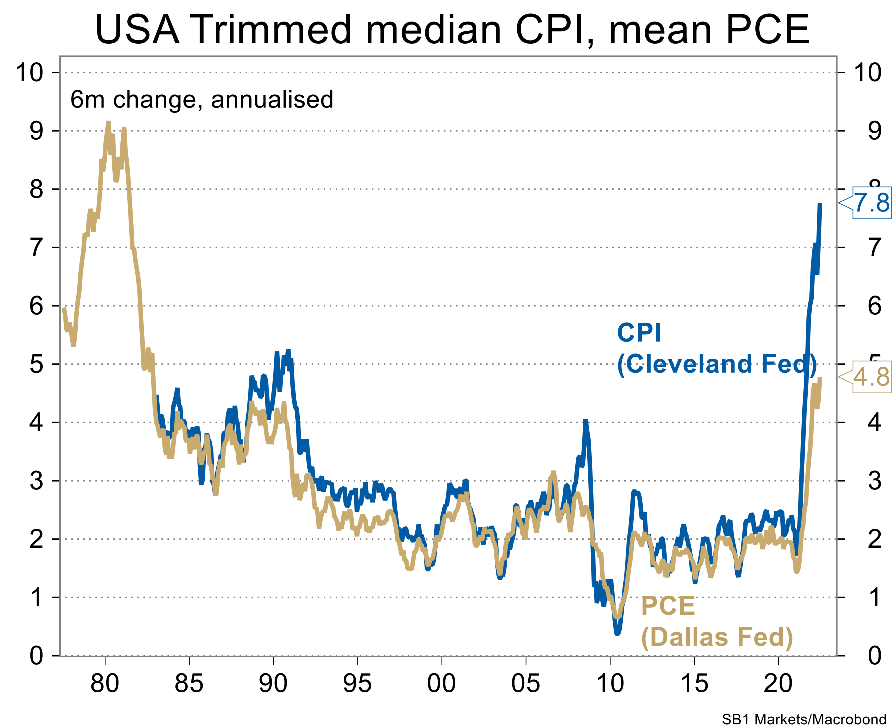




- Food prices are up 11% y/y!!
- The momentum is still strong, almost sectors report accelerating price growth (the 3m/3m is above the annual rate)

Inflation may be peaking but remains extremely high – and is still broadening!

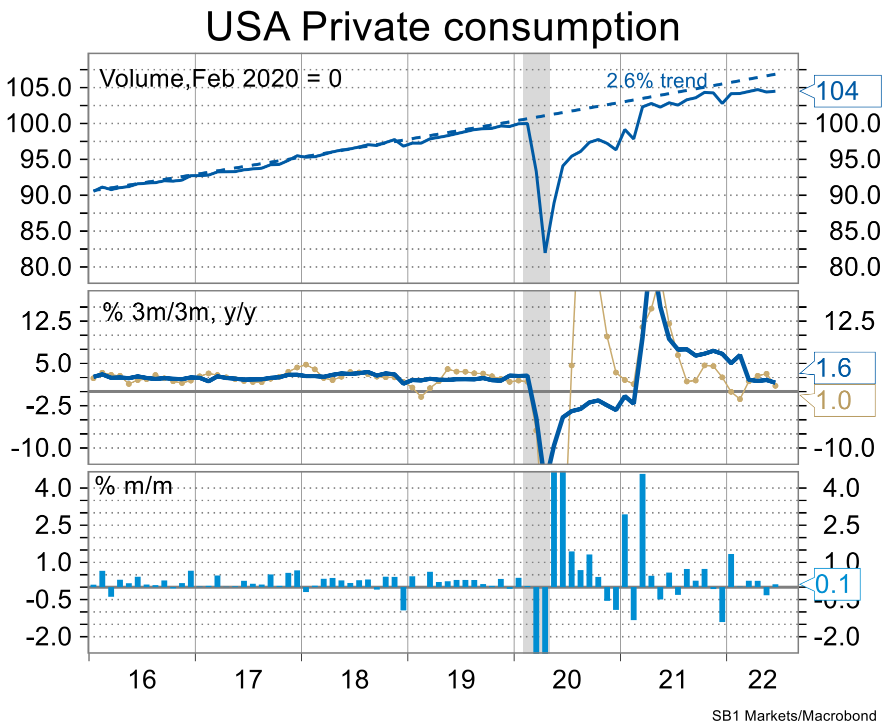


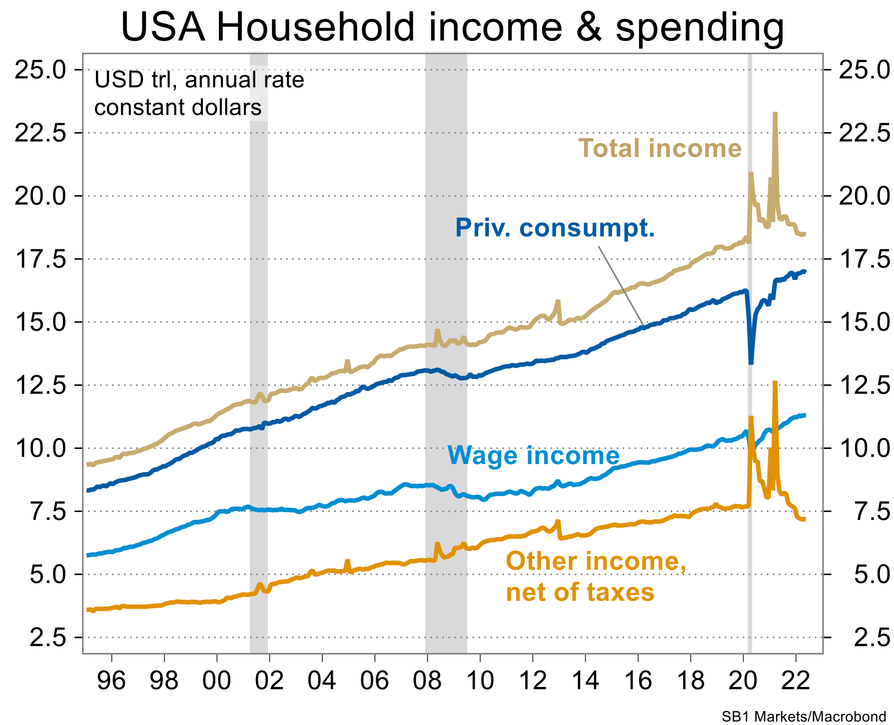


- The **trimmed PCE mean** (Dallas Fed) added 0.4 pp to a 4.8% pace over the past 6 months, the highest since 1983
- **The trimmed median CPI (Cleveland Fed)** is up 7.8% over 6 months, the highest rate ever
- **Core cyclical and acyclical PCE** prices are up 3.9% – 6.3%, and the cyclicals are still on the way up
- Other measures of underlying inflation are also at the highest levels in 30 – 40 years

Consumption is flattening

Up 0.1% in June, by 1% in Q2, but enters Q3 below the Q2 average level. Real incomes are falling

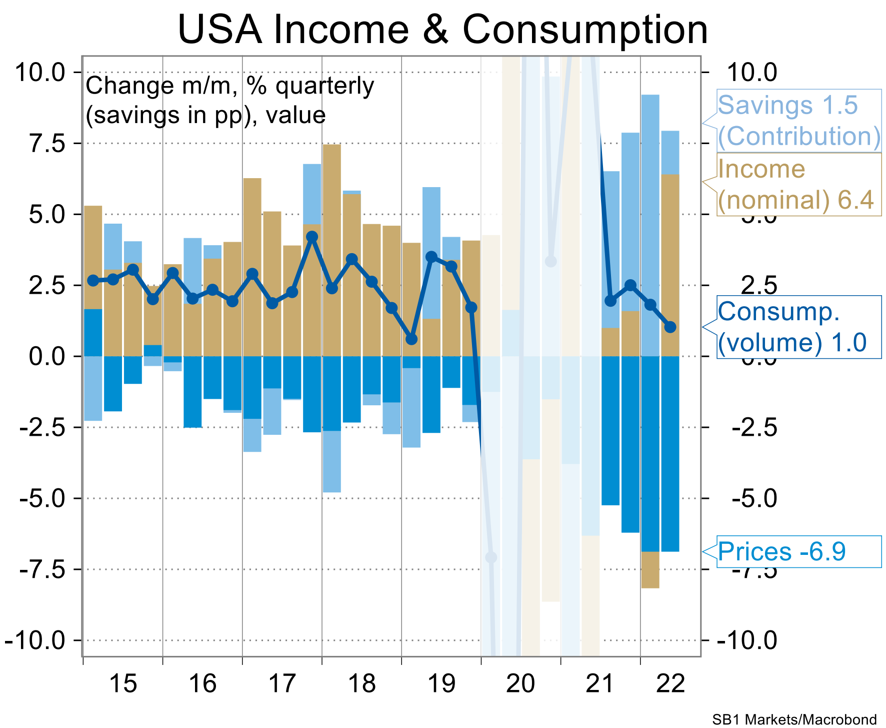


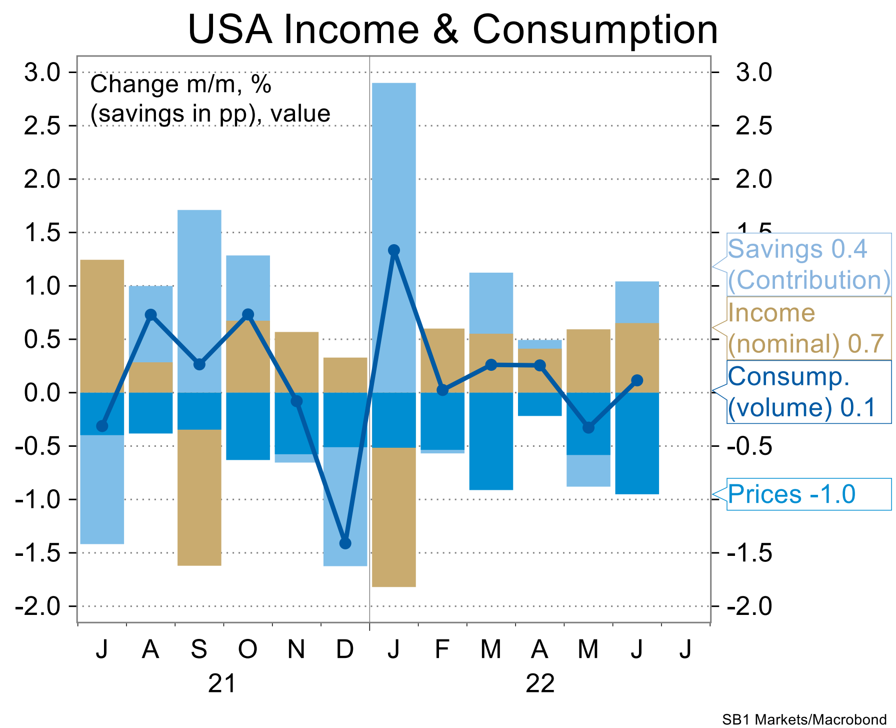


- **Private consumption** rose 0.1% in June, expected flat. Nominal spending rose 1.1%, expected 1.0%. Consumption grew just 1.0% in Q2, far less than expected before the May report was published, one month ago
  - » Consumption of goods fell, services are still on the way up
- **Personal nominal disposable income** gained 0.7% in June, but fell by 0.3% in real terms
- **The savings rate** fell 0.4% to 5.1% and is 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

The 1% June price hike almost brought real spending to a halt

Income growth recovered in Q2, and funded growth in (very expensive) spending



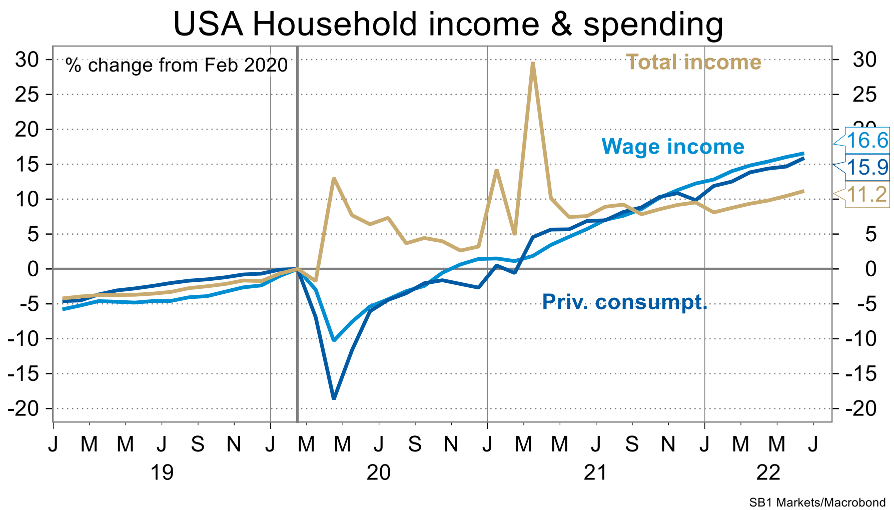


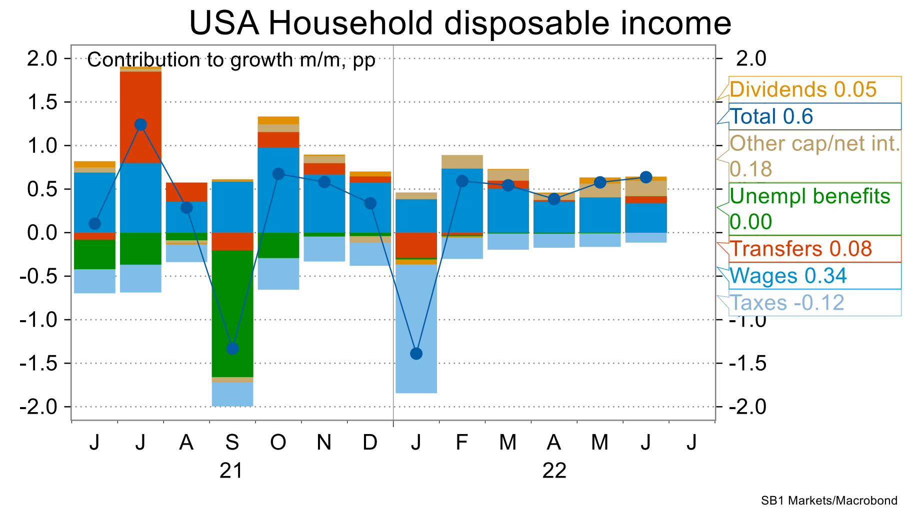
- Growth in consumption in Q2 was 1.0%, in line with expectation, which had been lowered substantially vs. some few weeks ago. Prices rose at 6.9% pace. Income rose at 6.4% in Q2, far better than in Q1 (see more next page)
- I June, real consumption gained 0.1%. Prices cut 1.0% into real consumption! Disposable income grew 0.7%. Savings funded 0.4 pp consumption growth

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

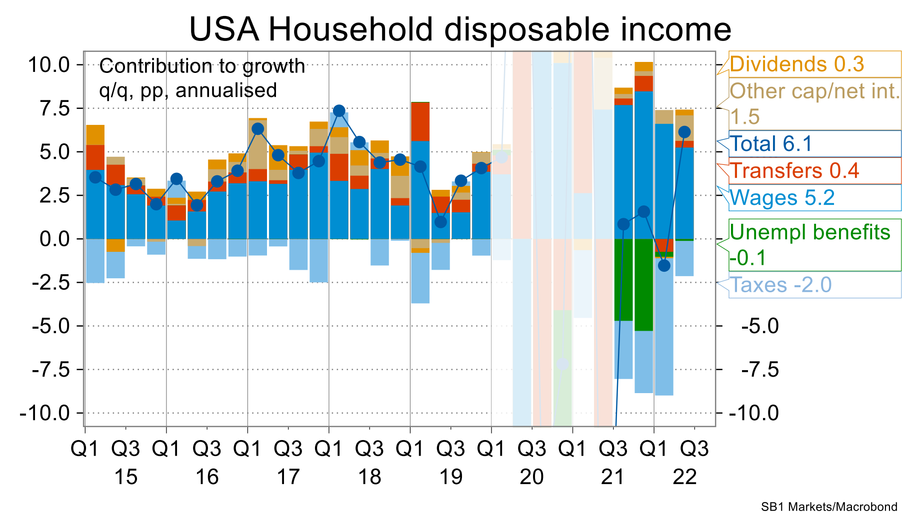
Nominal income growth at some 0.6% per month

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



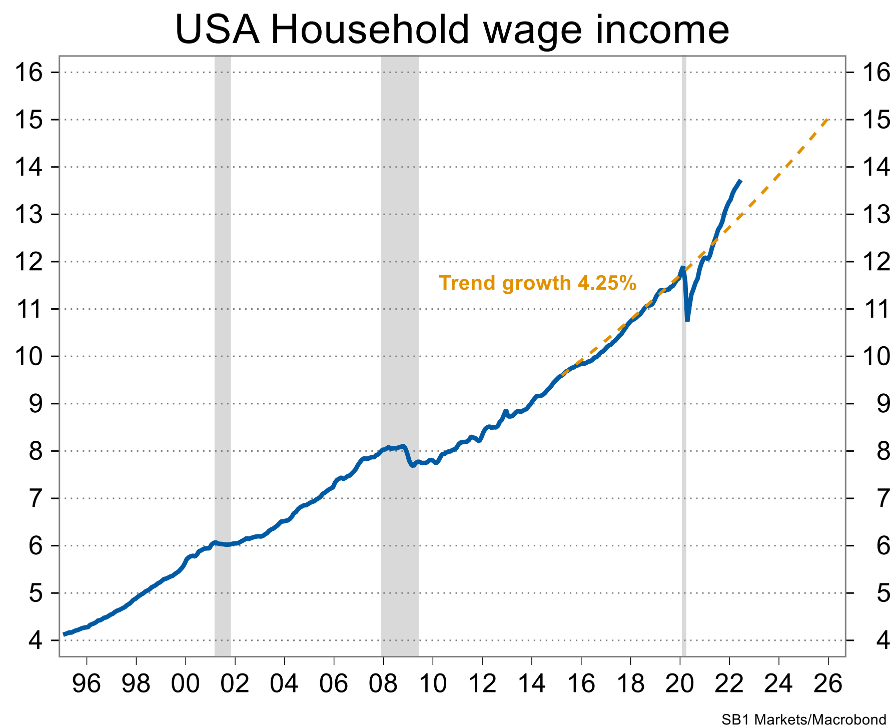


- **Total income has** flattened since last spring as ordinary public transfers and unemployment benefits have gradually normalised. Household income fell in Q1 due to higher tax payments
- **Total wage income** is growing rapidly and level is above the pre-pandemic growth path at 4.25%, even if employment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



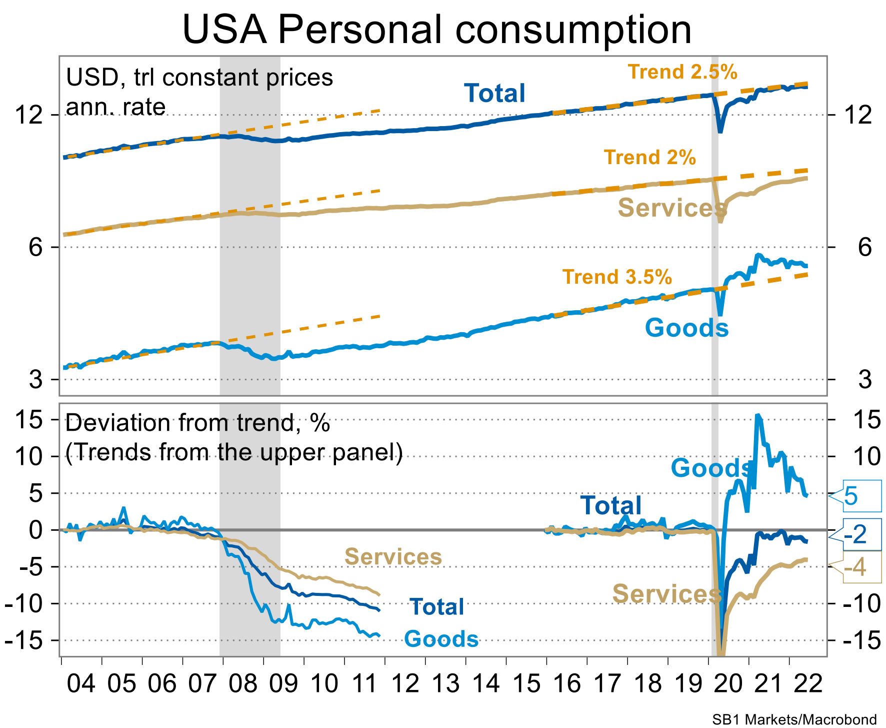
We have shaded the 'hard' pandemic quarters at the lower right chart, as these data make no sense now

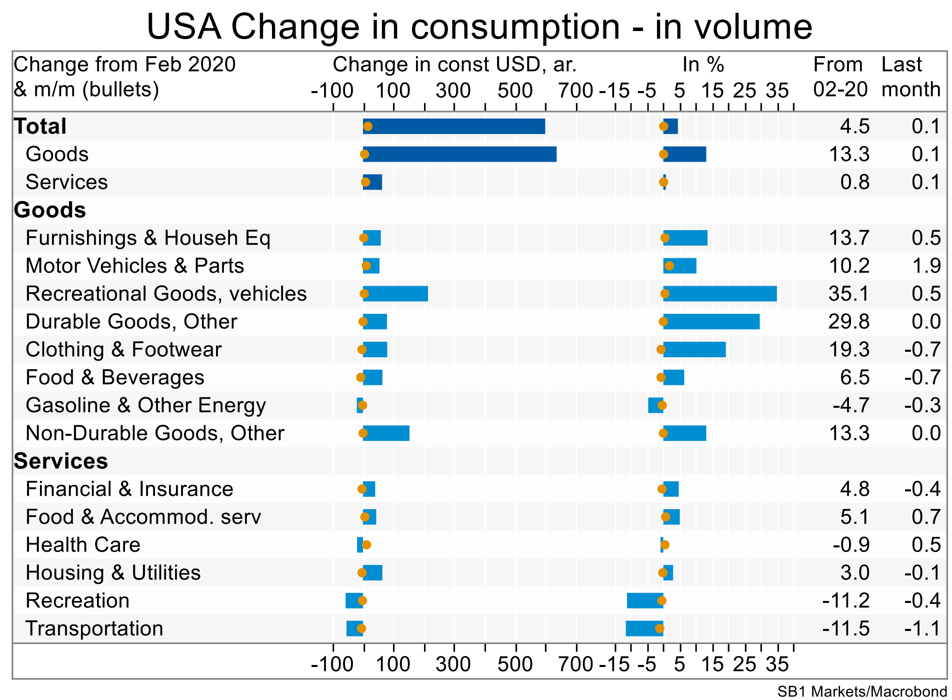
Something is happening with wage revenues (=wage costs for others…)



Services are 1% above the pre-pand. level; goods are still 13% above

Spending on services is still 4% below the pre-pandemic trend, spending on goods are 5% above!



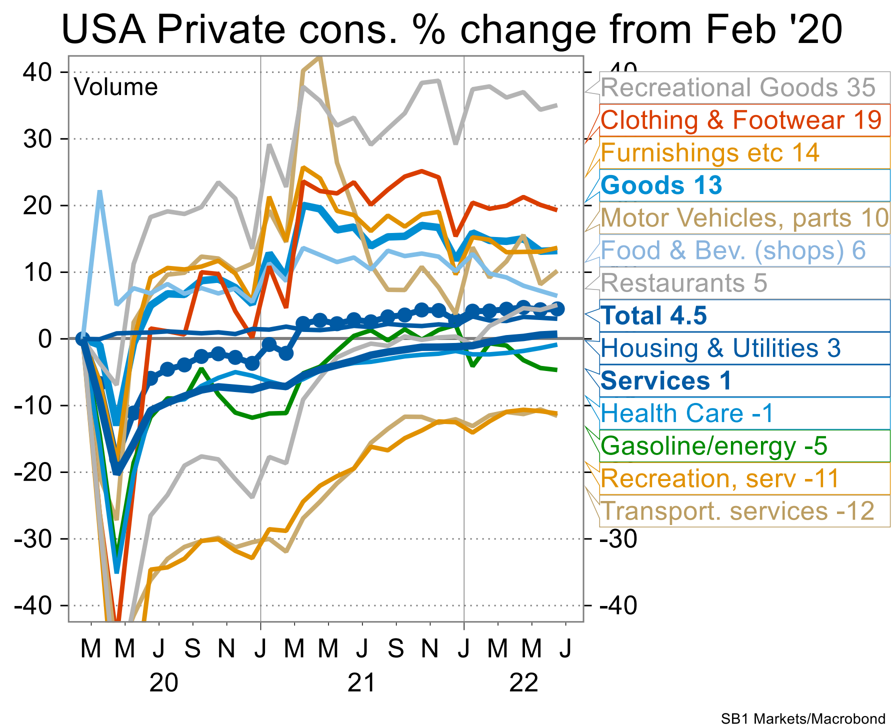


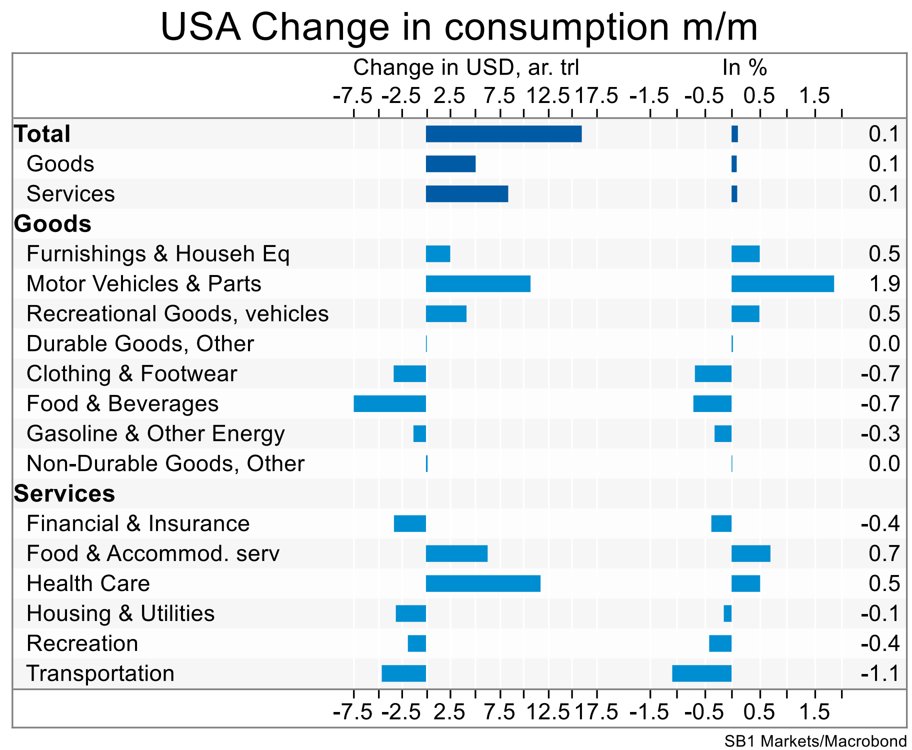
There are some larger aggregating differentials than usual in the PCE accounts, and the sums do not add up to the total

SpareBank 1 MARKETS

Mixed June consumption data, autos and health care at the top, food at the bottom

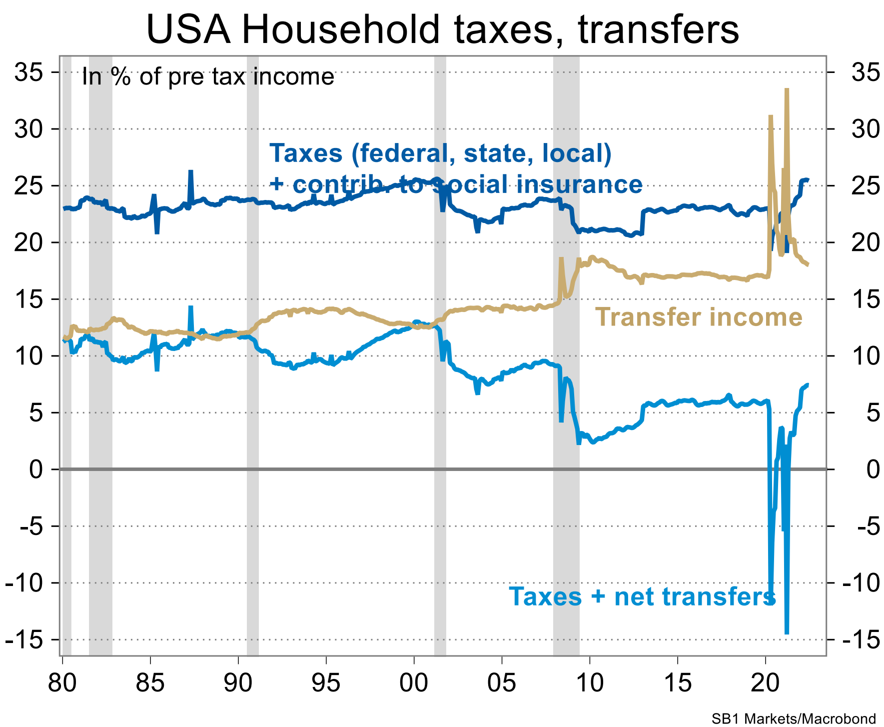
Spending on both services and goods rose marignally in June

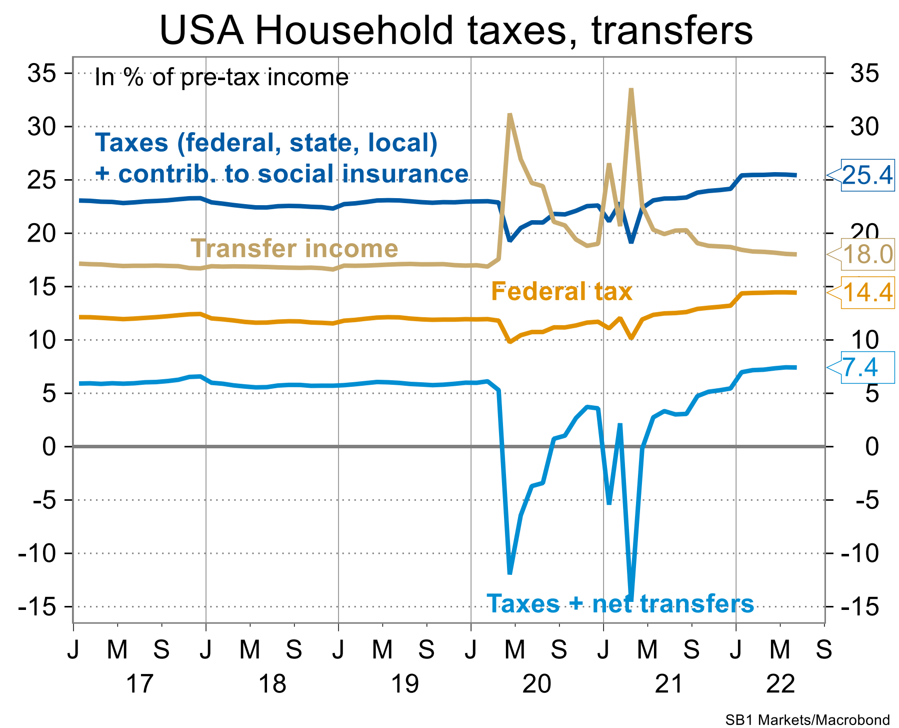




Households contribute more to the Federal coffers than before the pandemic!

Net taxes up to 7.4% of pre-tax income, best since 2009 – though well below the pre Fin. Crisis level

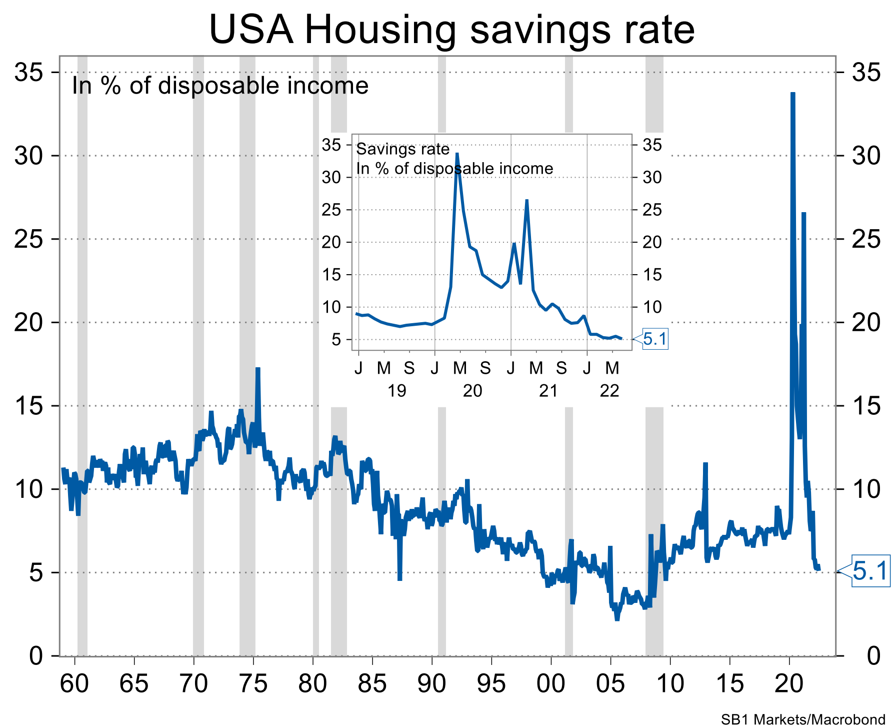


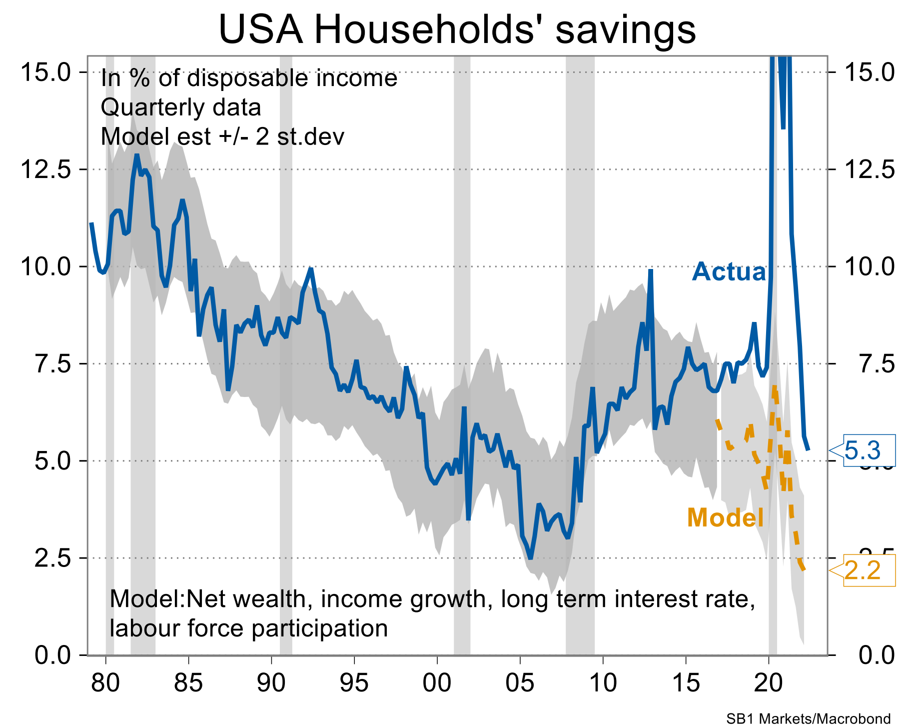


- Transfers are trending down but are still higher than before the pandemic (vs total pre-tax income). However, the total tax rate is climbing faster, and has crossed the 25% line, for the first time since year 2000!
- Thus, the net tax rate is on the way up, and has recovered to 7.4%, above the 6% pre-pandemic level – but far below the 10% – 12% from before year 2000

The savings rate has flattened at 5%, somewhat below a 'normal' level

But not that low, given the extraordinary high rate of inflation

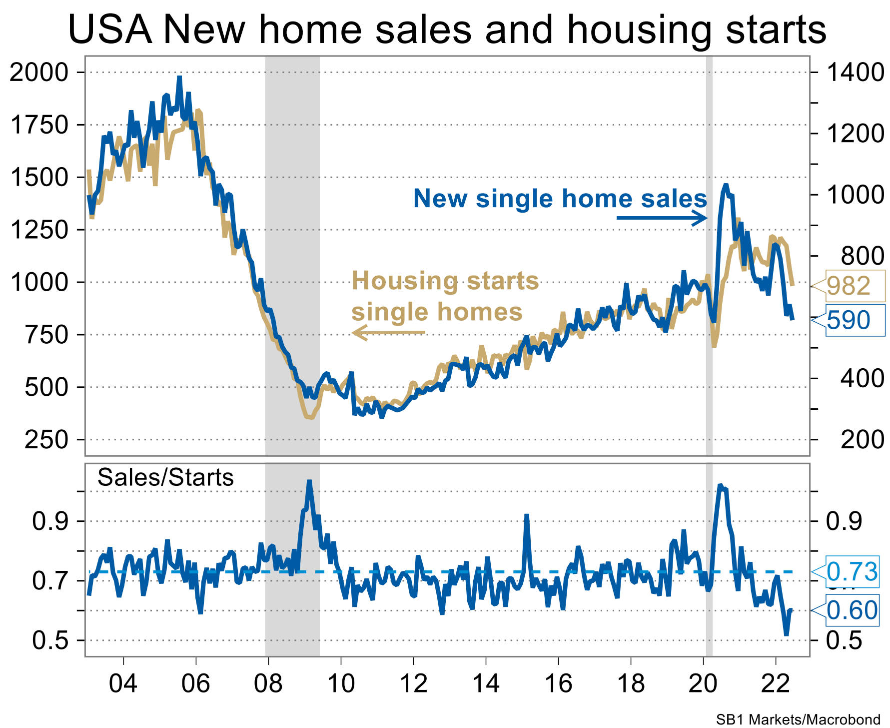


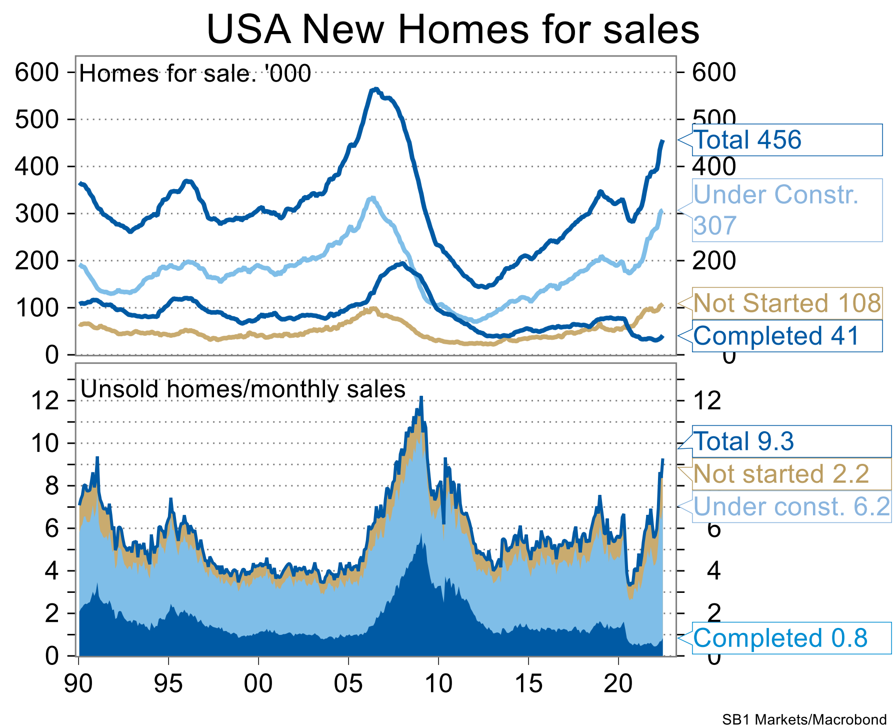


- The savings rate rose fell 0.4 pp in June, to 5.1%
- Households are dipping into 'normal' savings in order to keep consumption up, as their real incomes are not keeping up, due to the high rate of inflation. The savings rate is now 3 pp lower than before the pandemic
- However, household have saved 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 just 2.5 pp per year, if the savings rate stabilises at 5%)
- Our old savings model, yielded a 2.2% savings rate in Q1. During the 2016 – 2019 period our model has underestimated the savings rate systematically by some 2 pp

New home sales far lower than expected in June, previous months revised down

Sales are down 30% from December, a substantial downside risk for starts. Just like in recessions

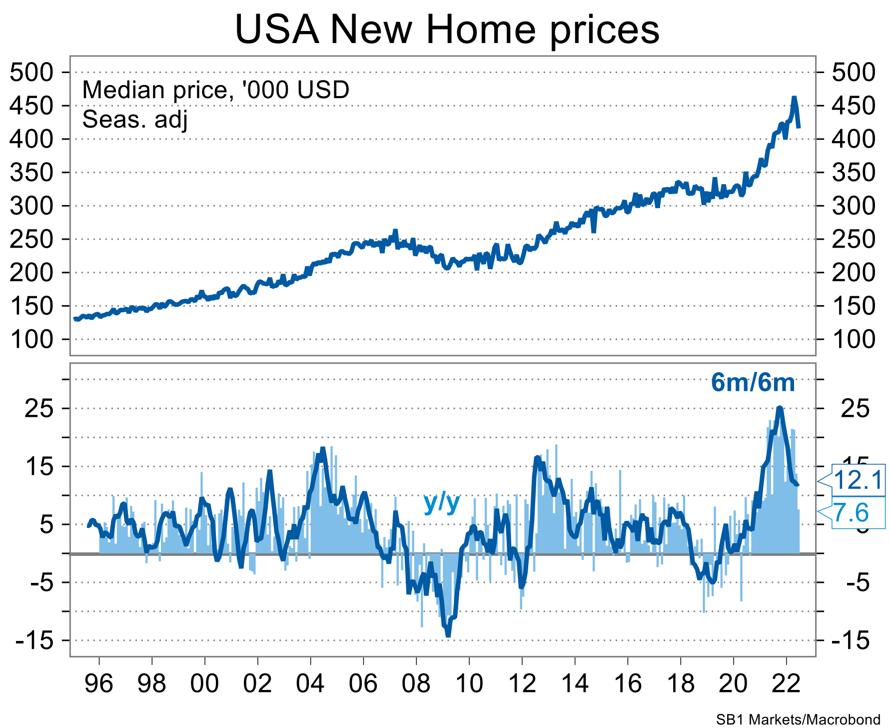


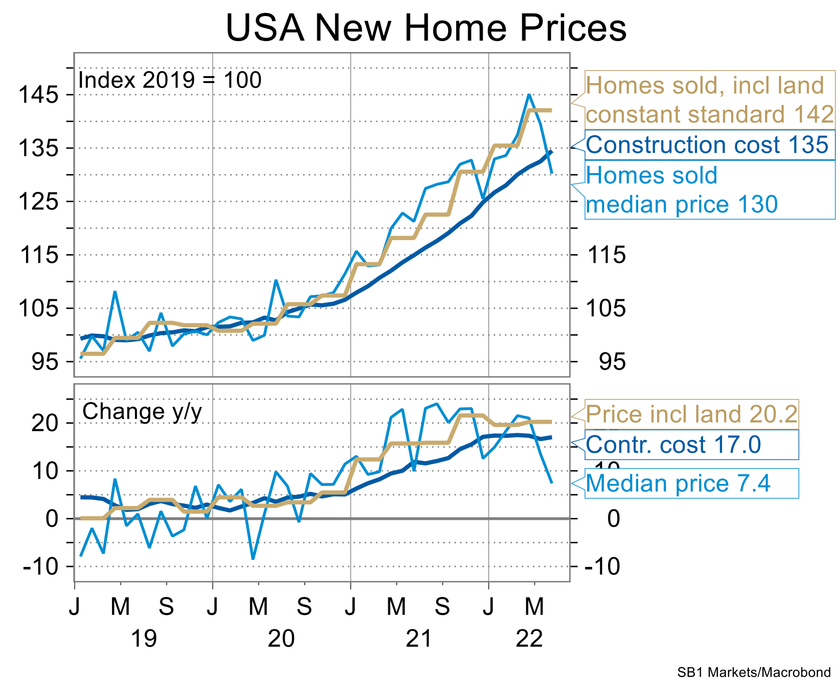


- **New single home sales** fell to 590' in June (annual rate), from 642' in May. A decline to 660' was expected, from previously reported 696' in May. In sum 9% lower than assumed/expected. The total decline, together with the decline in building permits now sends a recession warning (*check 2 pages forward*)
- **The inventory of unsold homes** is climbing rapidly, now up to 456' units, up from below 300' in Aug-20. Measured in month's of sales, inventories equal 9.3 months, from the record low at 3 in Aug-20. Most of the inventory is 'for real', either completed homes (but the level in this category is still very low) or under construction (and these homes will be completed) – as the supply side responded to the strong increase in demand. A steep increase in number of homes for sales that are not yet started, also confirms the strength of the potential supply side (but most of these projects will very likely not be started the before after the 'recession'
- Prices fell slightly in May, and the underlying growth pace has slowed. Still, prices are up 14% y/y

New home prices suddenly down 10% from the April peak

These volatile prices not size/standard adjusted – but there is very likely a shift underway

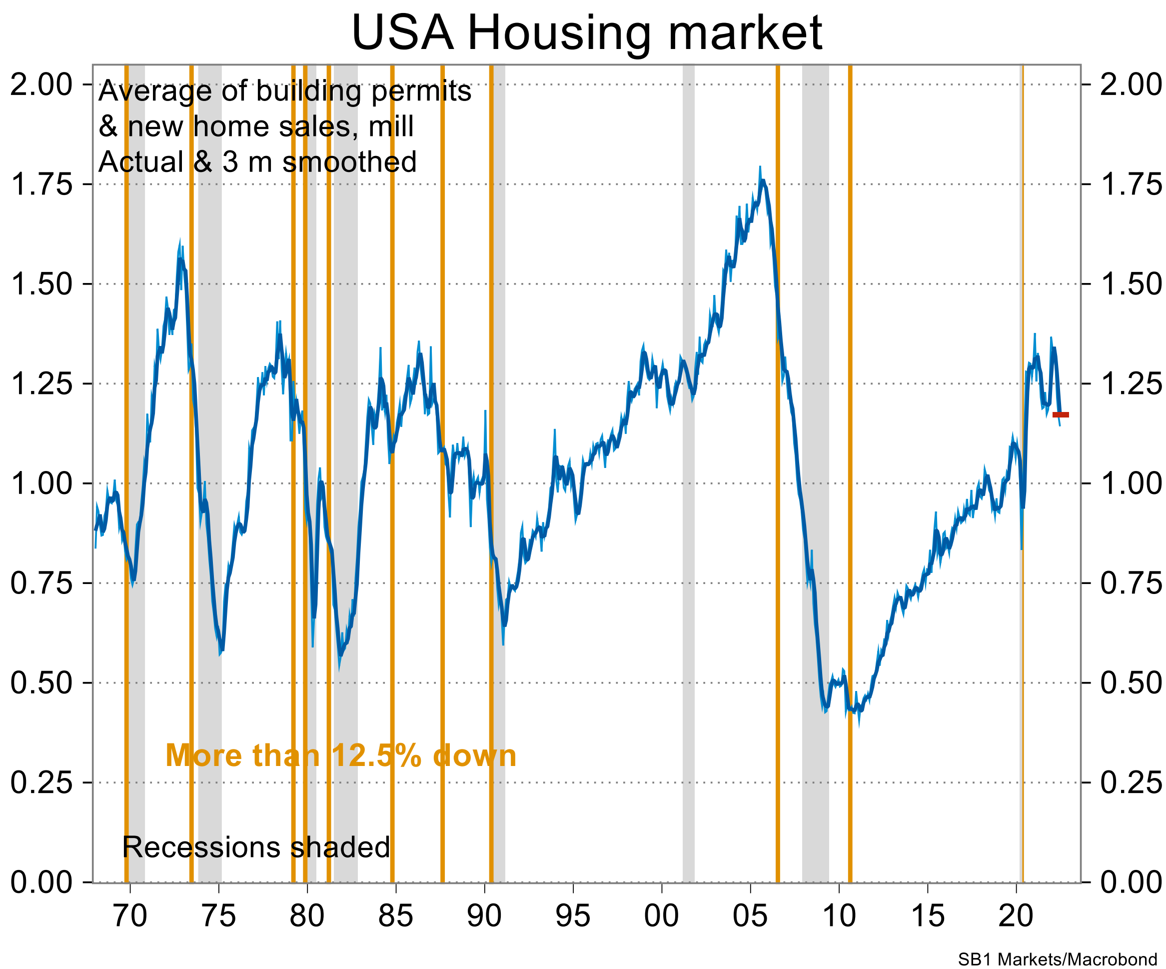


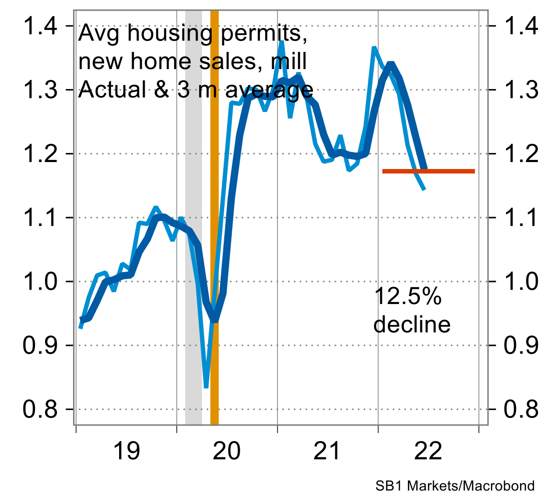


- The monthly **median new home sales prices** are very volatile, as they are not adjusted for changes in the mix of homes sold. In June, prices were up 7.6% y/y, down from 13.7% in May (revised from 14.7%)
- The **construction price index** is adjusted for changes in standard & size, as is the **new homes sold price index**, which also includes cost of land: they are up by 17% (in June) and 20% (Q2) resp. Construction cost inflation is very likely peaking now, as material prices are nosediving
  - » Prices incl. land is still growing faster than construction costs, signalling strong demand for new homes. We expect the sign soon to change, as land prices should ease more than construction cost if demand for housing eases

Housing vs. recessions: The red line is approached

The combined decline in new home sales & building permits has hit a recession warning line



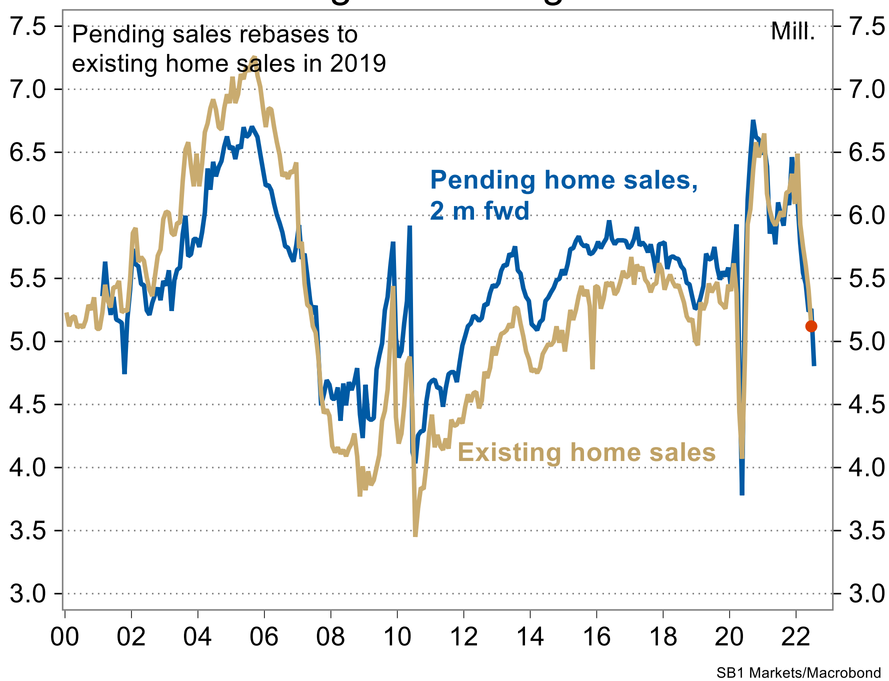


- Most recessions are 'housing recessions' as demand for housing and residential investments declines substantially ahead of and during recessions
  - » The only exception in recent decades was the 'Nasdaq' recession in 2001
  - » In addition, the pandemic recession was not caused by a setback on the housing market
- At the charts, we have marked declines of more than 12.5% in the 3 m average of the average of building permits and new homes sales vs. the recent 12 peak with a yellow line
  - » 1984 and 1987, where interest rates were hiked, and a soft landing (and now recession) followed even if housing sent a signal (The 2010 decline was just after the GFC)
  - » The other 7 lines: A recession followed

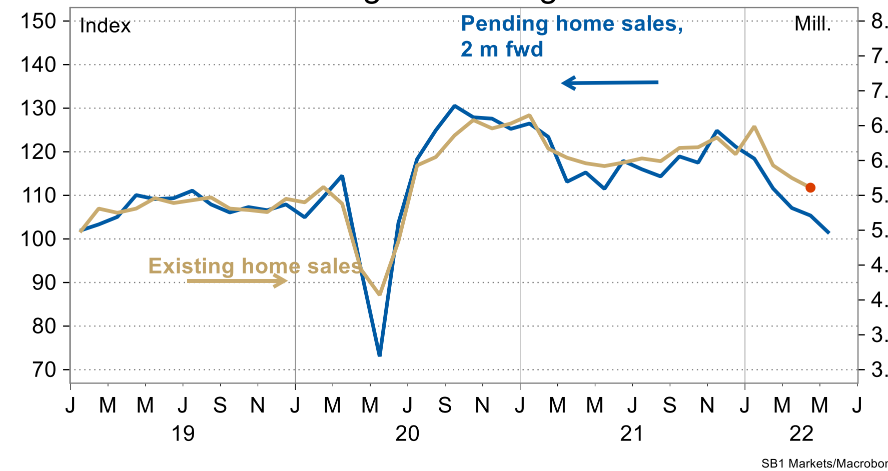
Pending home sales further down in June, signals fewer existing home sales

No. of agreed transactions fell 8.6%, and is down 1/3 from last November, a substantial decline

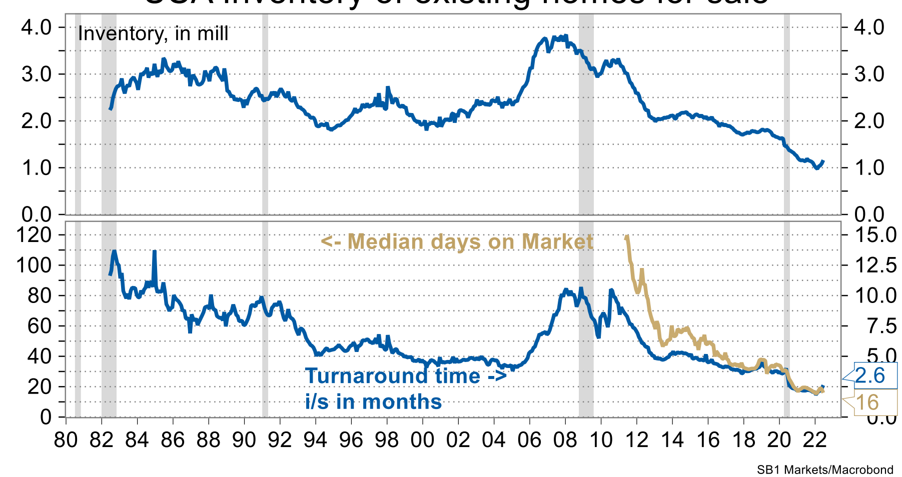
USA Pending vs Existing home sales



USA Pending vs Existing home sales



USA Inventory of existing homes for sale



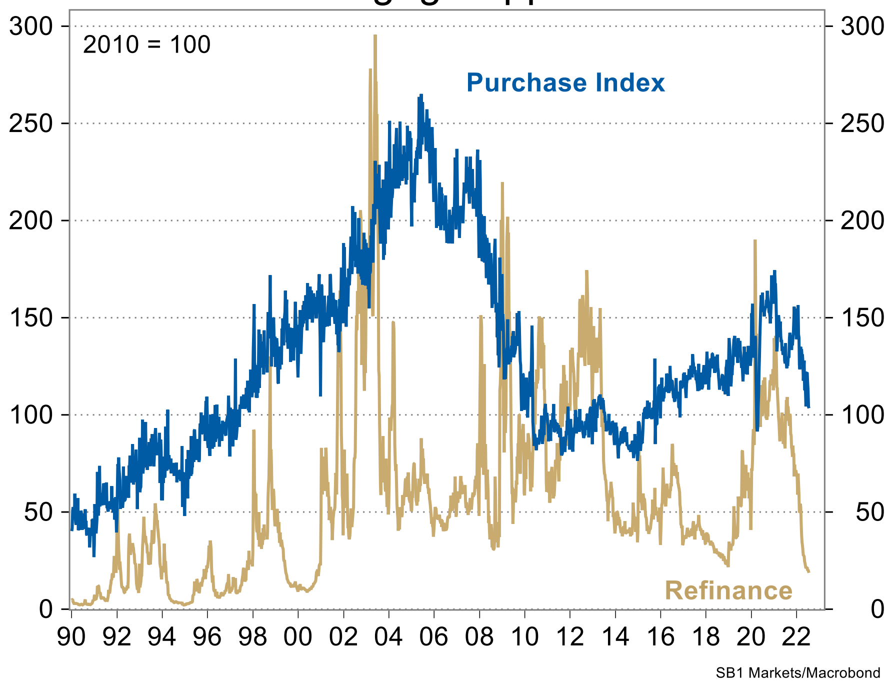
- The decline in June was far larger than expected (-1%) – and the 6th month in row with a lower number of signed deals
- The decline confirms that higher mortgage rates are slowing the housing market
- Normally, **prices** are lagging sales by several months, by up to 1 year (check next page)

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

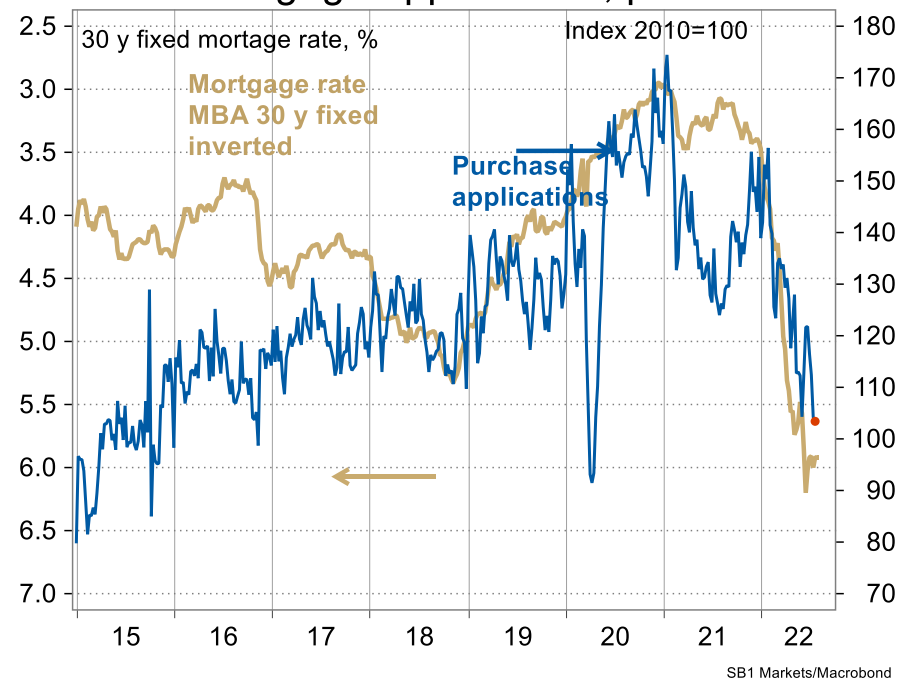
Mortgage applications are rapidly on the way down, for good reasons

Applications for new loans are down by 1/3 from the local peak in January

USA Mortgage Applications



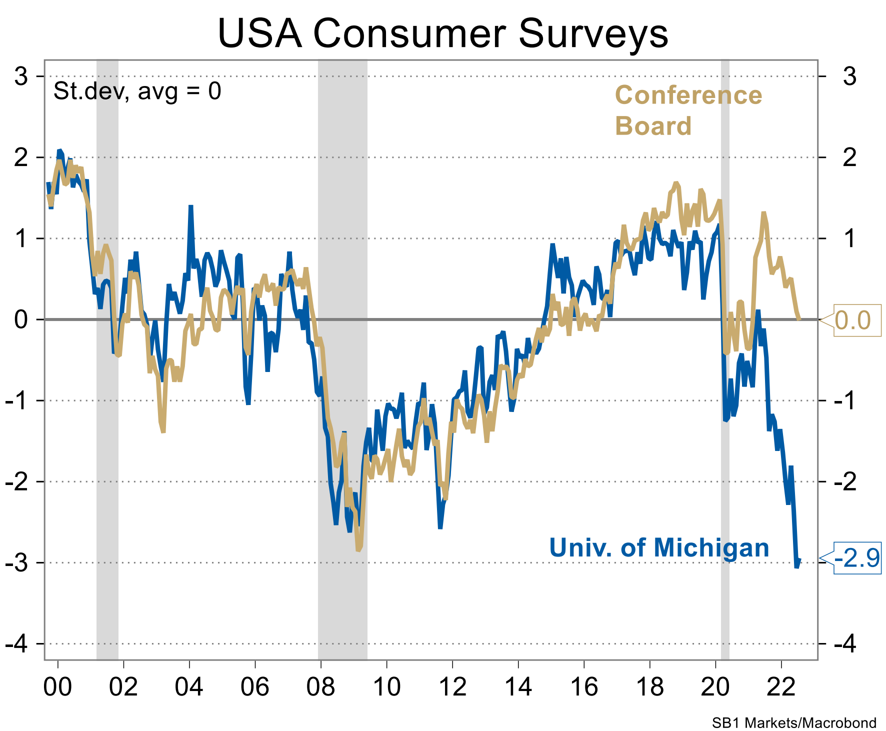
USA Mortgage applications, purchases



- Demand is not yet extremely low – and the level is 'just' 20% below the pre-pandemic level

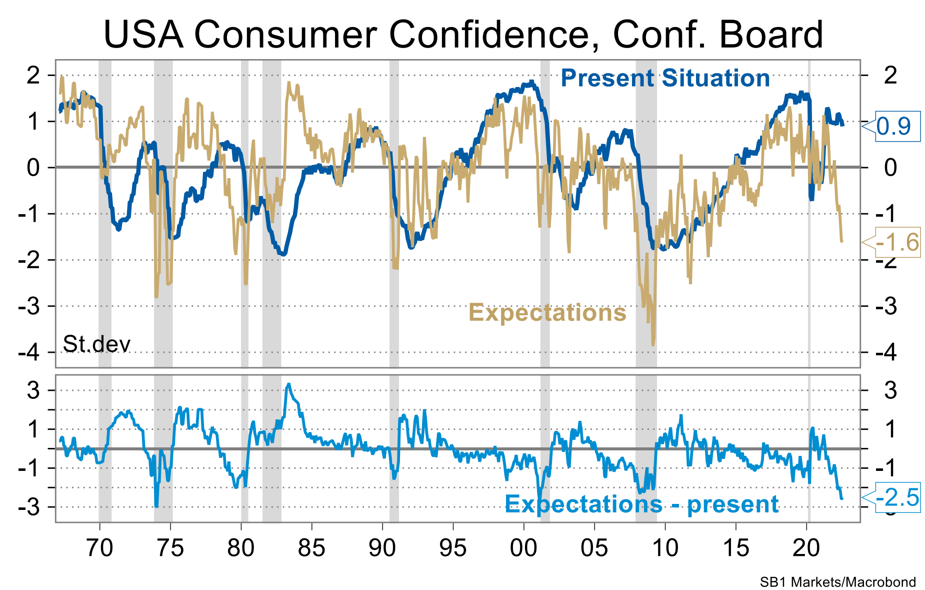
Conference Board's confidence further down in July – but just to an average level

However, expectations have collapsed, normally a warning sign



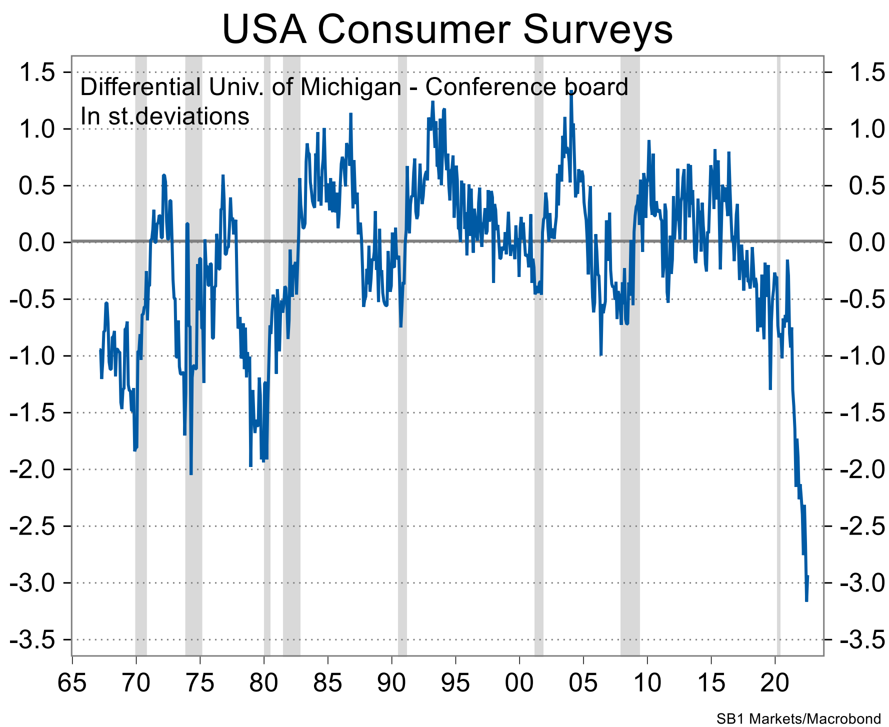
- **The other consumer** surveys we follow are on another planet, University of Michigan's sentiment being the weakest at -2.9 st.dev below avg (the final July print was marginally revised up), and June/July is at the lowest level ever, with data from 1953
  - » Two other confidence surveys, from IBD/TPP and Univ. Florida are not much better than the UM survey – and Conf. Board's survey is still an outlier – even if it is now heading downwards

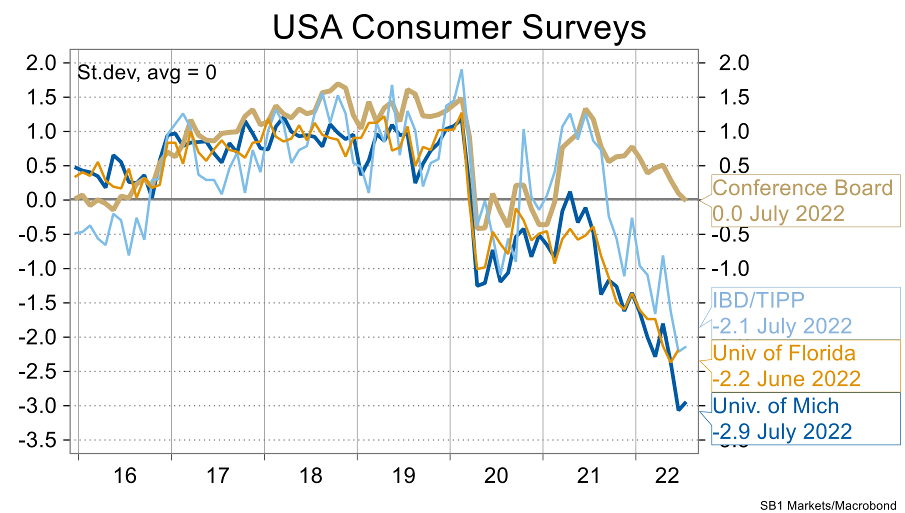
- **The main index** fell to 95.7 in July, down from 98.4 in June, expected down to 97.2. Households assessment of the present conditions fell the most, but the decline in the headline index recent months is almost entirely due to a steep decline in the expectation component
  - » The decline in the main index equalled 0.1 st.dev, down to an average level
  - » **Expectations** are weak, -1.6 st.dev below average, which is normally seen in recessions (but not only)
  - » **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



The Conf. Board – Univ of Mich. differential still incredibly large

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

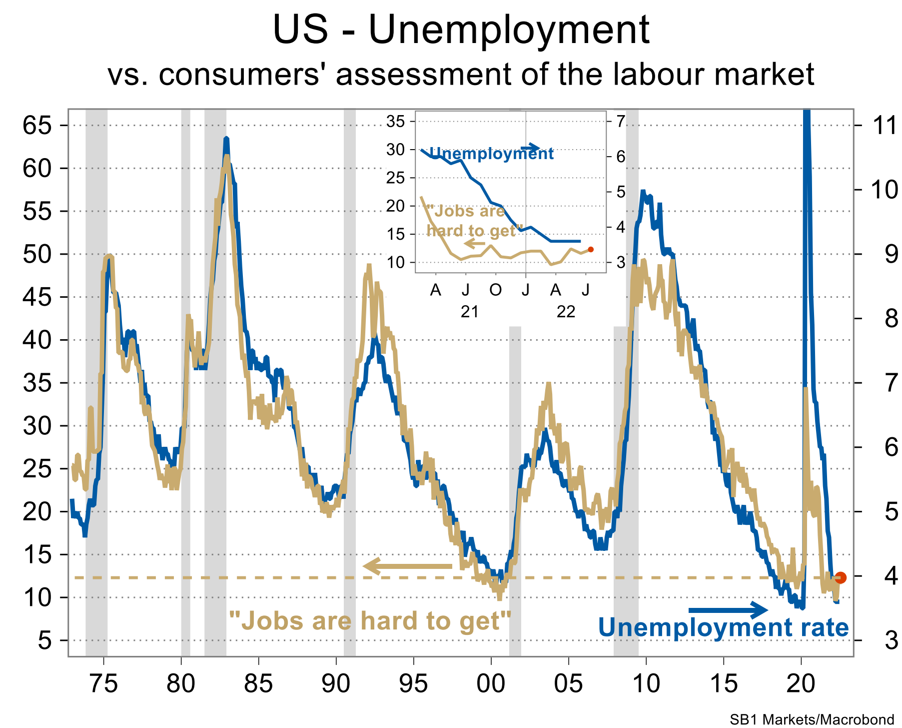


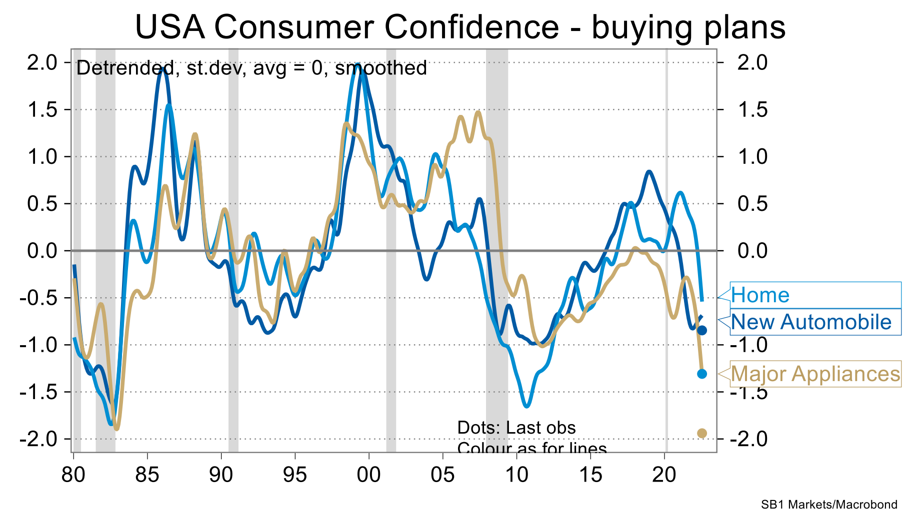


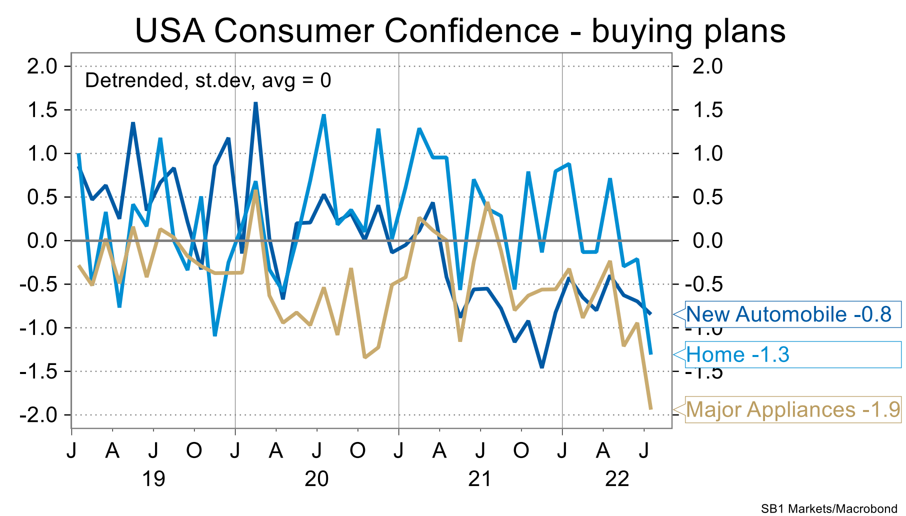
- High inflation is normally not welcomed, but we have not been able to explain the drop in UM sentiment by the traditional factors (including also inflation expectations, growth, unemployment, mortgage rates etc).
- Simply, we do not have good explanations! Actual behavior – so far – indicate that Conference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

Buying plans sharpy down, towards ATL levels in July

Slightly harder to find job, says households – but jobs are still very easy to get



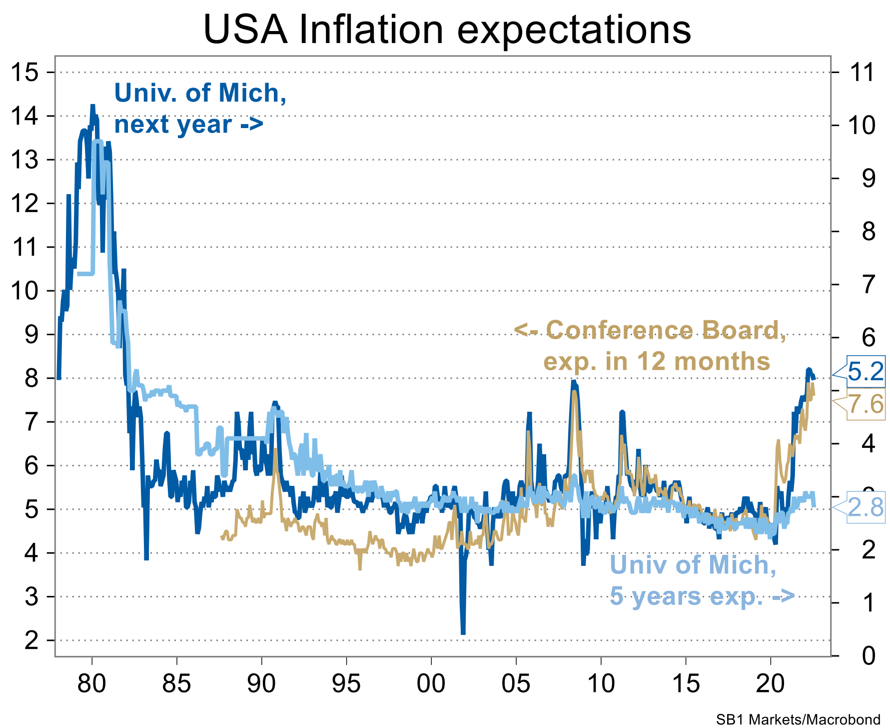




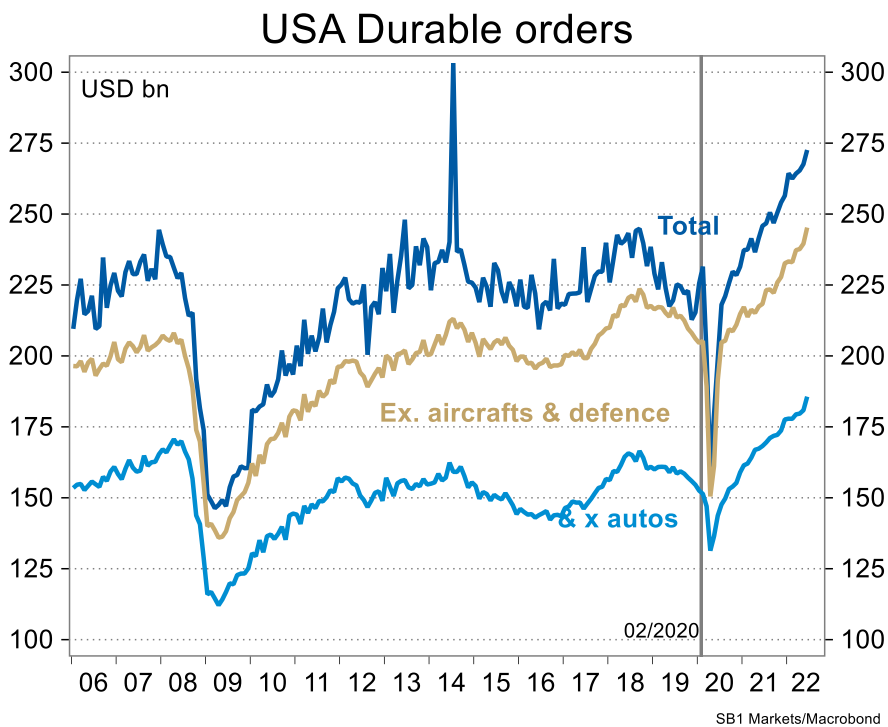
- **Household spending plans** are volatile, but the decline since the spring is significant, and in July 'huge', especially for homes and major appliances

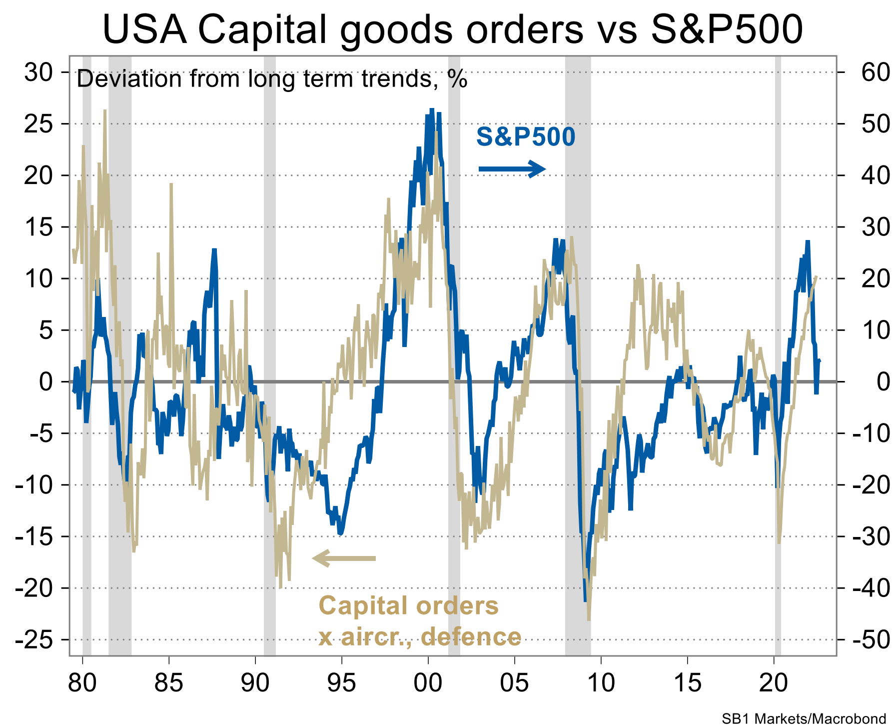
Short term inflation expectations have peaked

Long-term expectations fell in July, UM reported



Not a recession signal: Strong growth in durable orders in June

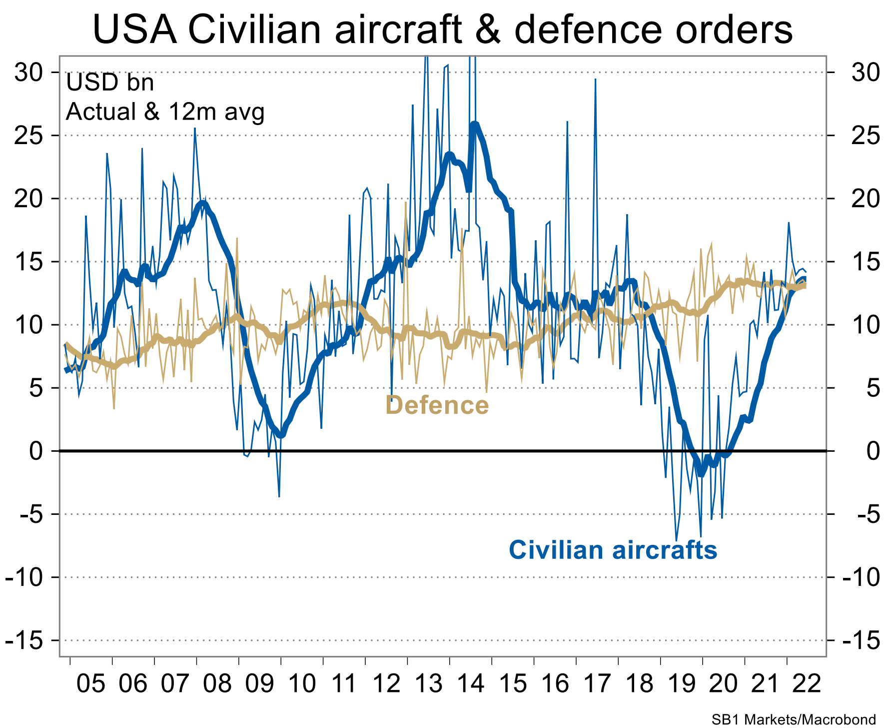


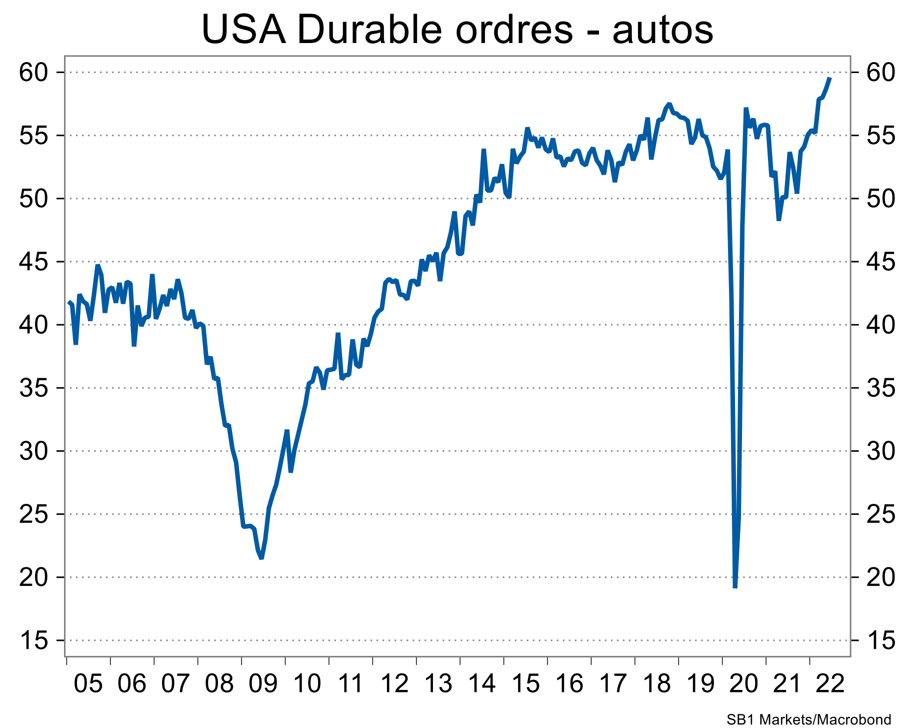


- **Total durable** orders rose 1.9% in June, far above the expected 0.5% decline
- The volatile aircraft & defence orders in sum rose fell marginally, and other orders (our core concept) shot up 2.4%
- **Core investment goods orders** grew 0.5, expected down 0.1%. Underlying growth is slowing but remain 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 June, up to a new ATH!

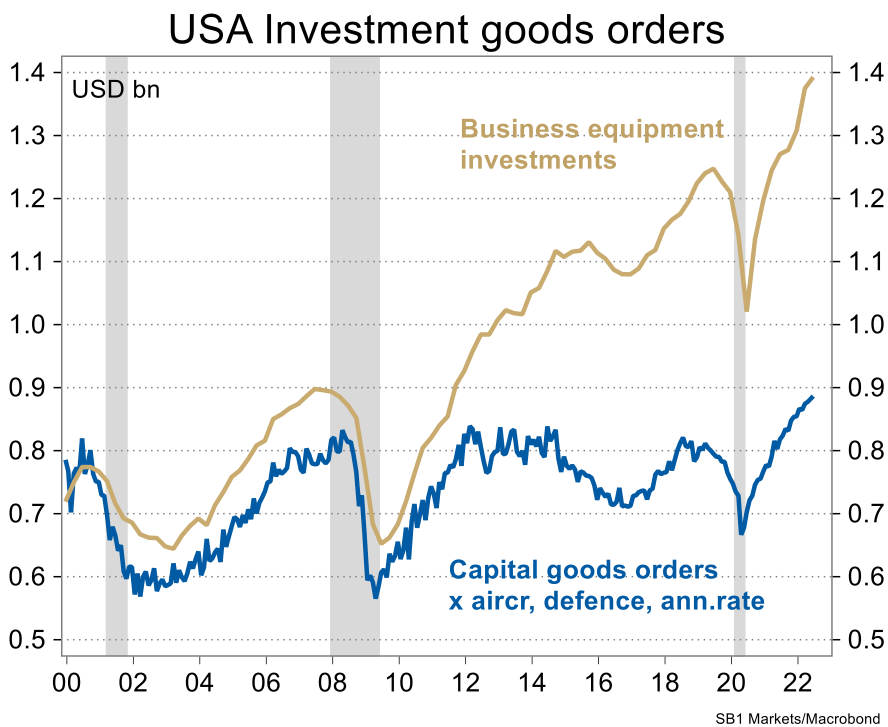


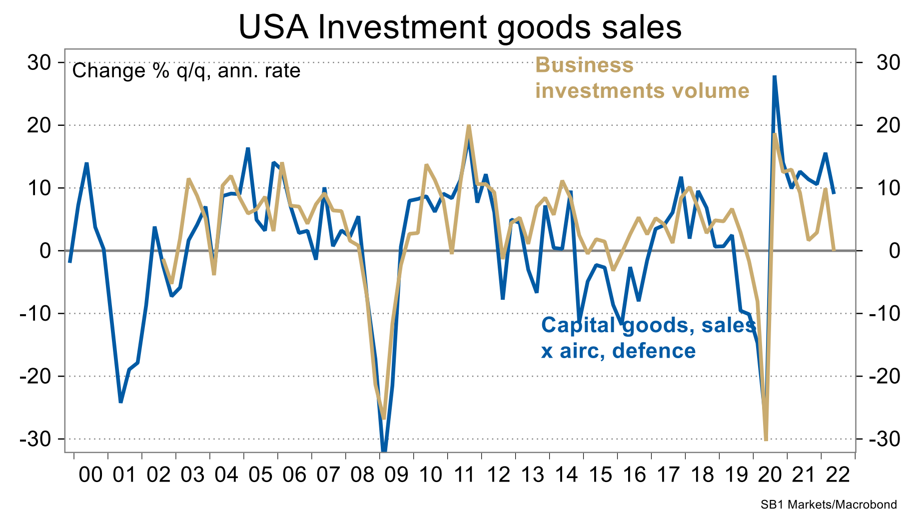


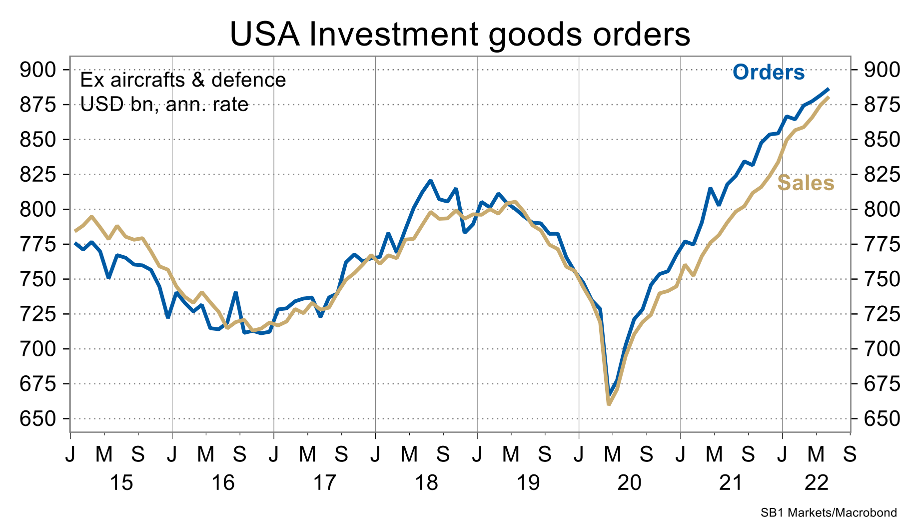
- Memo: New aircraft orders during the pandemic have been heavily revised but the level now is not adjusted

Core capital orders are still going well above trend

Signal decent growth in business investments into Q3



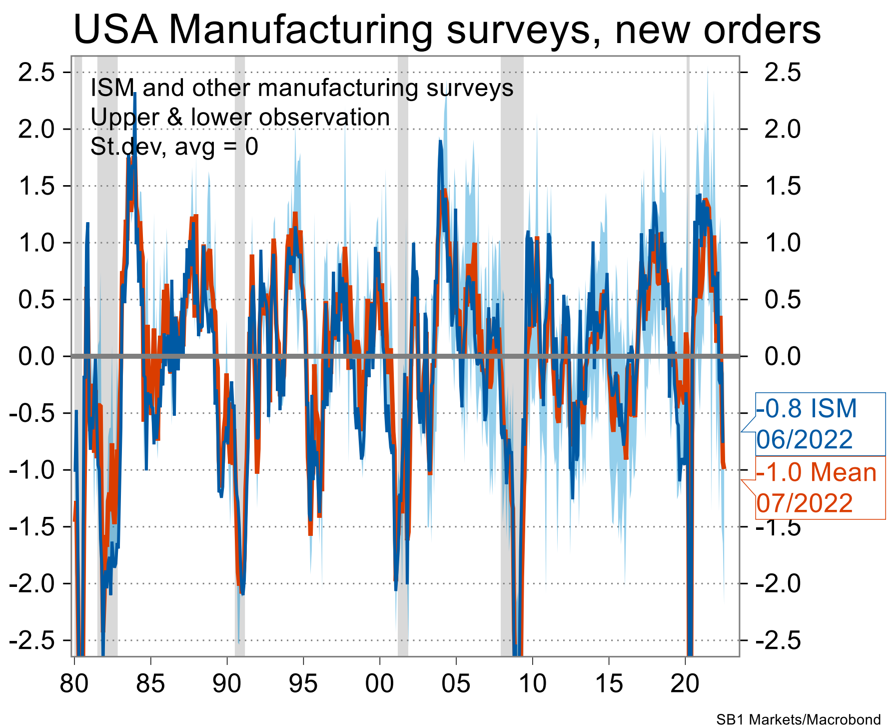


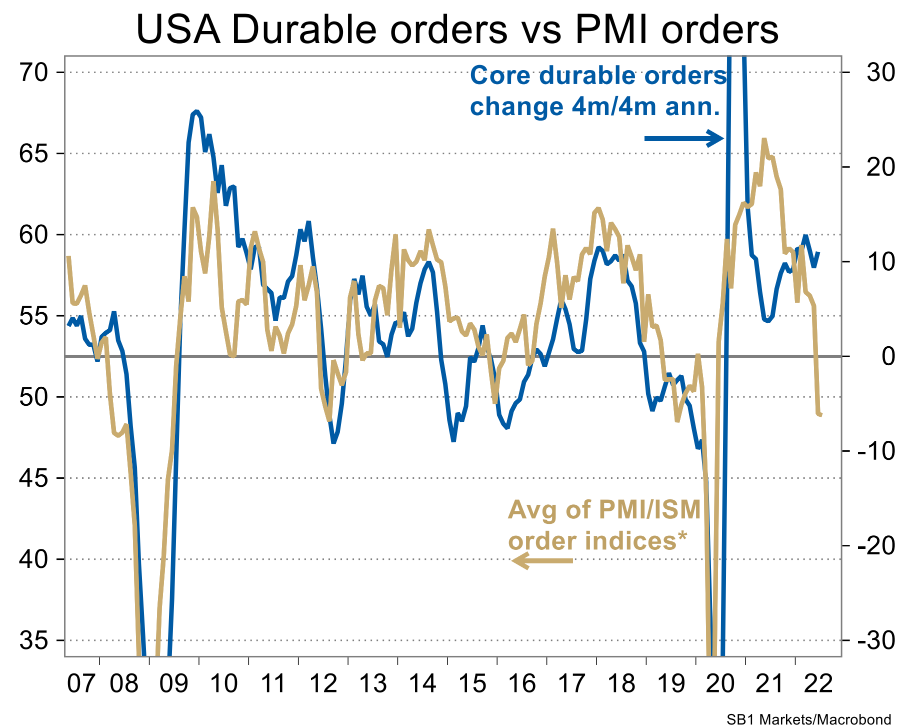


- **Core (x aircraft, defence) capital goods orders** added 0.5% in June. Shipments were up 0.7% m/m. All data are in nominal terms. Business investments flattened in Q2, in volume terms, weaker than the order inflow suggested
- **The business investment** level is well above the pre-pandemic level – and not at low vs. a reasonable long term trend

Surveys are signalling a steep decline in new orders

… which so far has not materialised

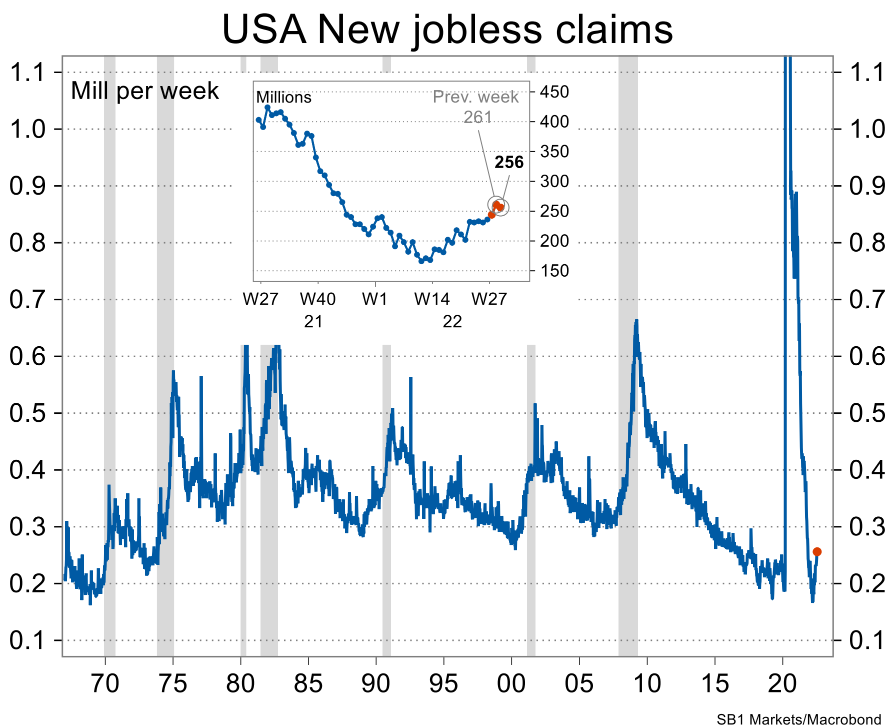


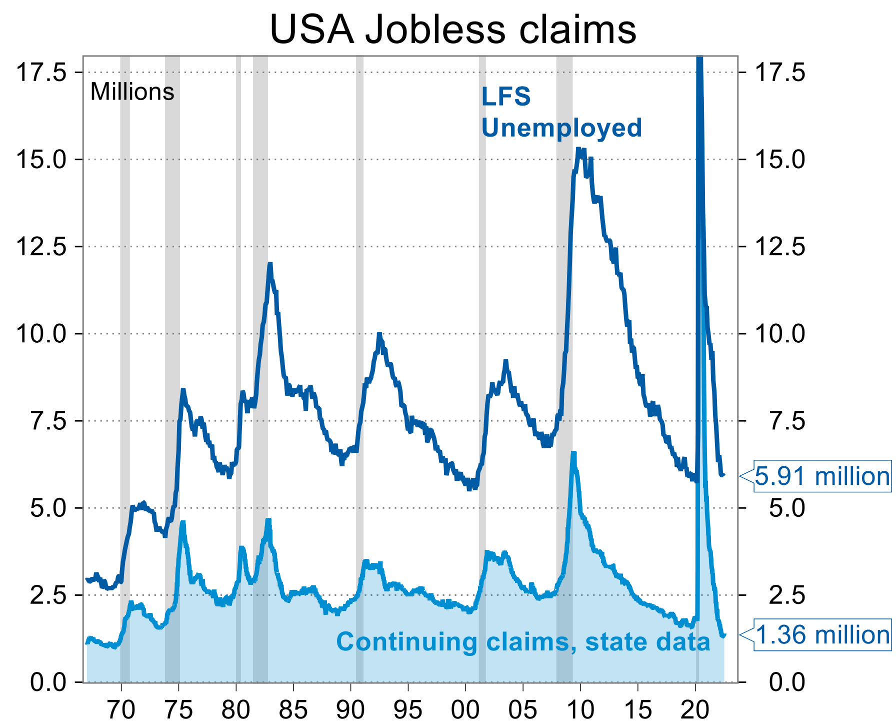


* The ISM order index is

New jobless claims are sending a warning signal: A recession not unlikely at all

New claims are on the way up, normal not a signal of strength… *Check the charts at the next page*





- **New jobless claims** fell by 5’ in week 29 but from a 10’ upward revised level the previous week. Since the bottom in week 11 in mid-March, the weekly inflow has increased by 90’, from 166’ – which was the lowest level since 1969
- **Ordinary continuing claims** is still close to rock bottom

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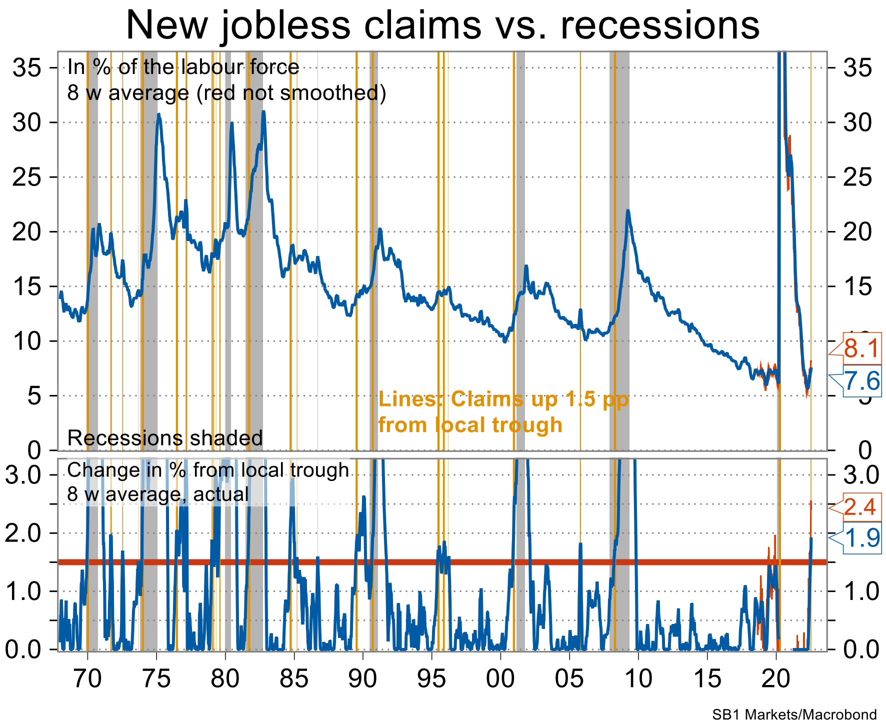
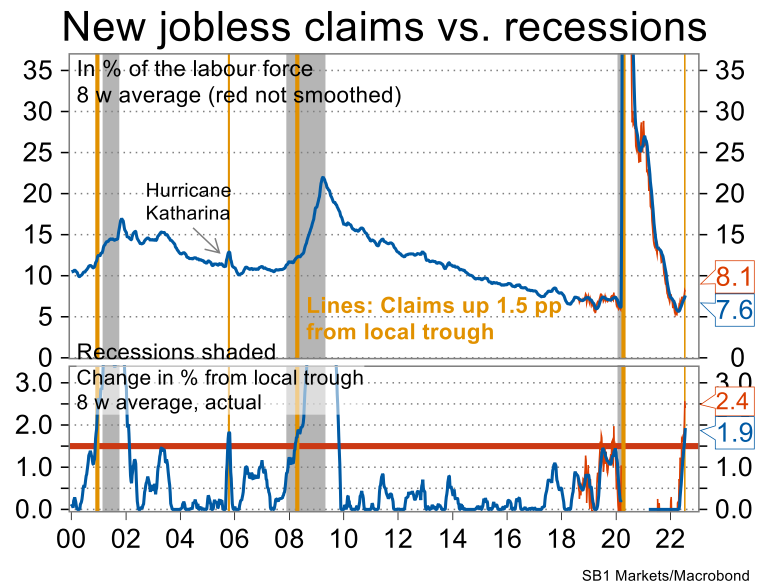
A warning line is drawn:

The lift in the 8-week average crossed an important threshold (three weeks ago)





- The yellow lines: New jobless claims (8-week average) up 1.5 pp vs. the labour force
- Now, the average is up 1.9 pp, from 1.7 pp the previous week. Thus, a yellow line is now drawn at the charts above, for the first time since 2005 (Hurricane Katharina), without a recession around the corner (the lines in 2008, 2020), and before that in 1996
- Our recession signal model based on new jobless claims has sent several false signals (false positives), and even the correct signals often comes too late for a real time conclusion. Even so, the inflow of new unemployed persons is tightly correlated to the economic cycle – and the cycle is now weakening (Lifting the threshold to say 2% would strengthen the signal/noise ratio substantially. We may be there pretty soon)

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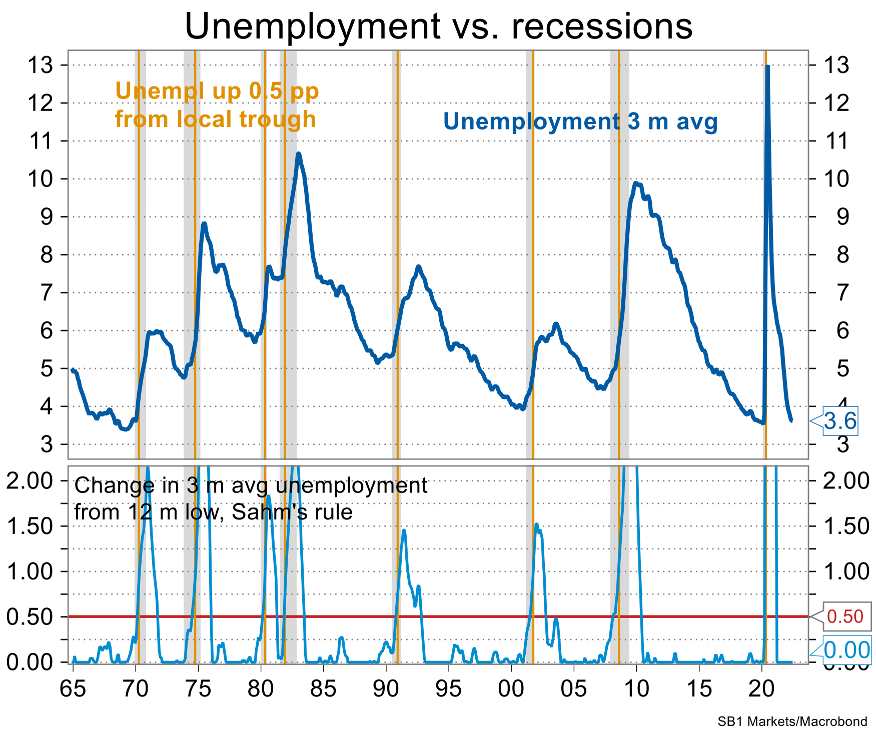
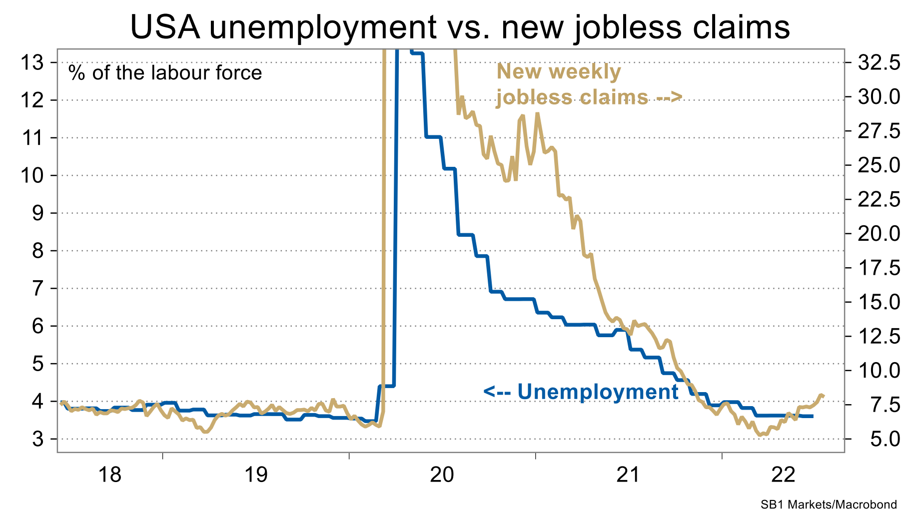
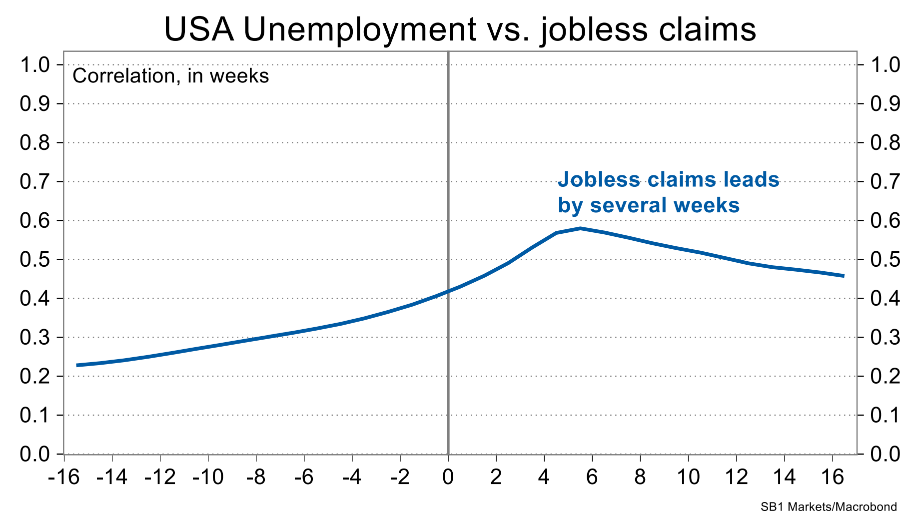
The LFS survey has not yet reported any increase in the unemployment rate

A 0.5 pp lift in the 3 m avg rate has been a waterproof recession signal. However, quite often, too late



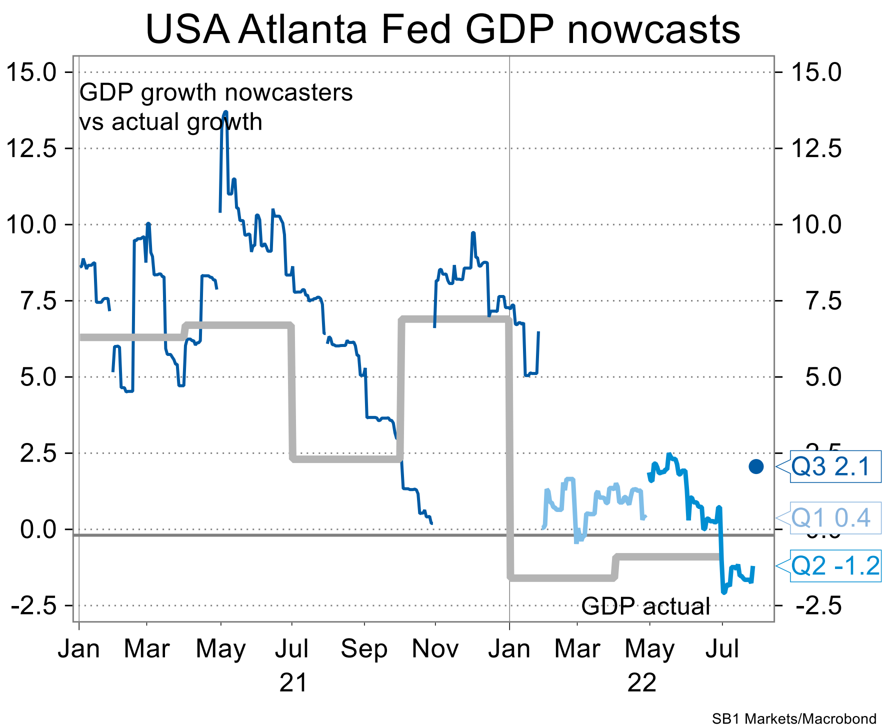


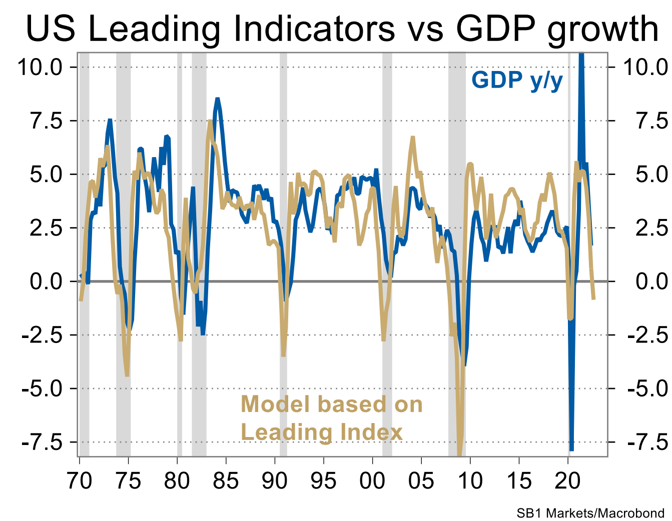


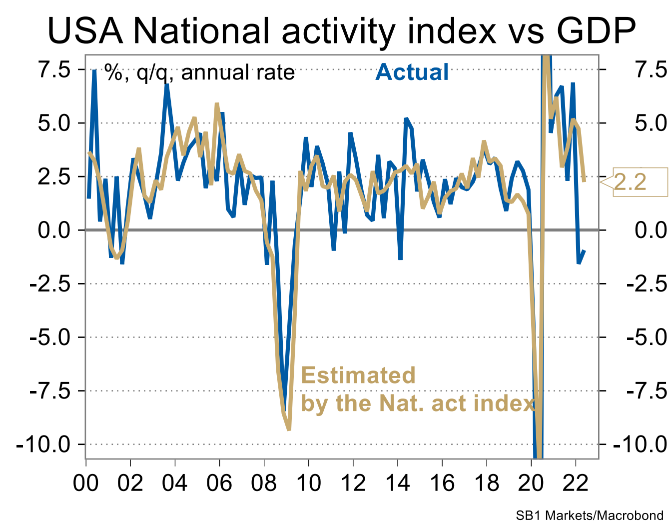
- New data out on Friday, in the labour market report

Atlanta Fed's nowcaster was right on Q2 GDP. Now it report 2.1% growth in Q3!

However, leading indicators are signalling a further decline in GDP







- **In a quarterly model**, the National Activity index (a 3rd nowcaster) suggested a 2.2% growth pace in Q2, way above any other forecast and way to optimistic. In May and June alone, a 1% growth signal was sent
- **In Q2 GDP** fell 0.9%

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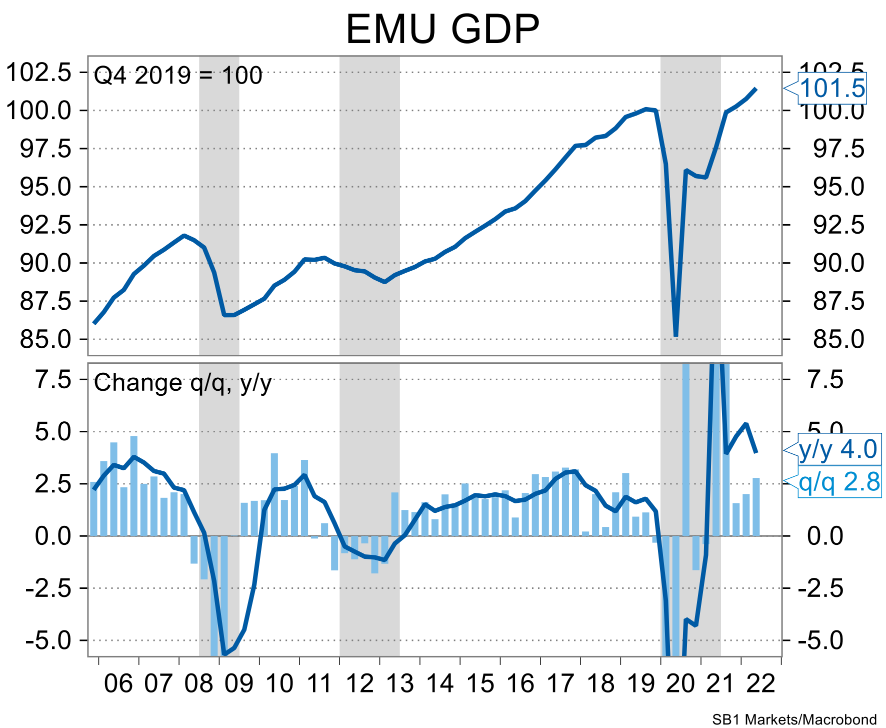
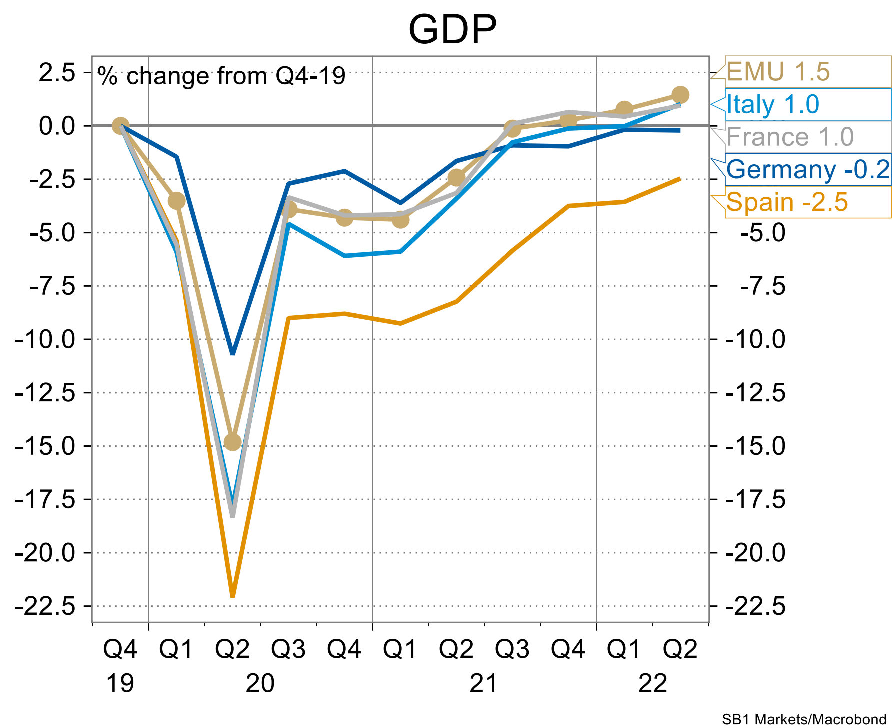
GDP up 2.8% in Q2 (0.7% not annualised), far better than expected 0.8% (0.2%)

Italy and Spain contributed the most (4%, 4.4%), France grew 2%, while Germany stagnated





- A rather unusual positive piece of news from Europe these days.
- Spain grew rapidly in Q2, but is still the laggard, GDP is still 2.5% below the pre pandemic level

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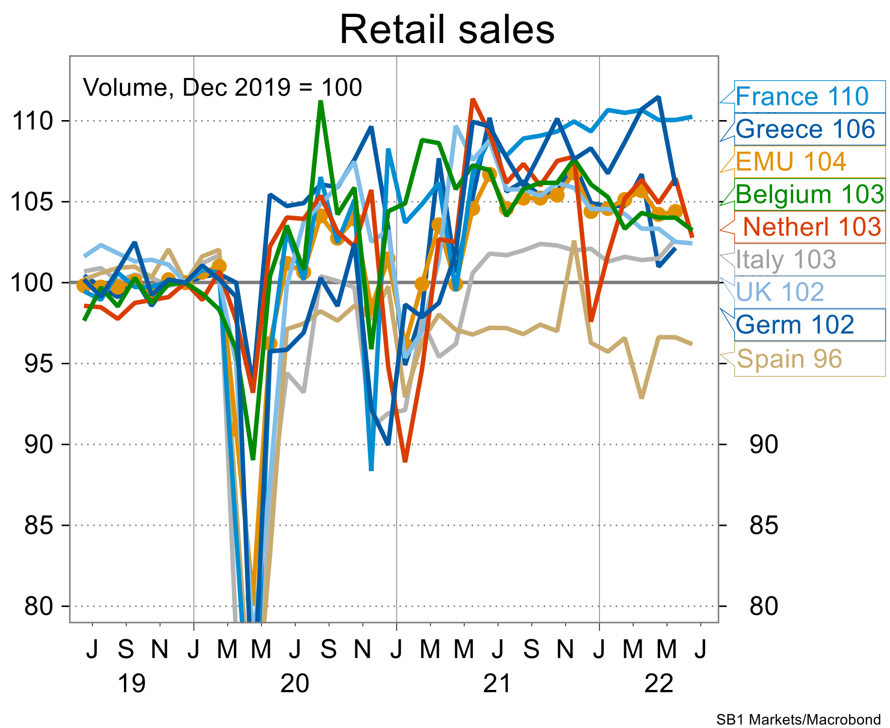
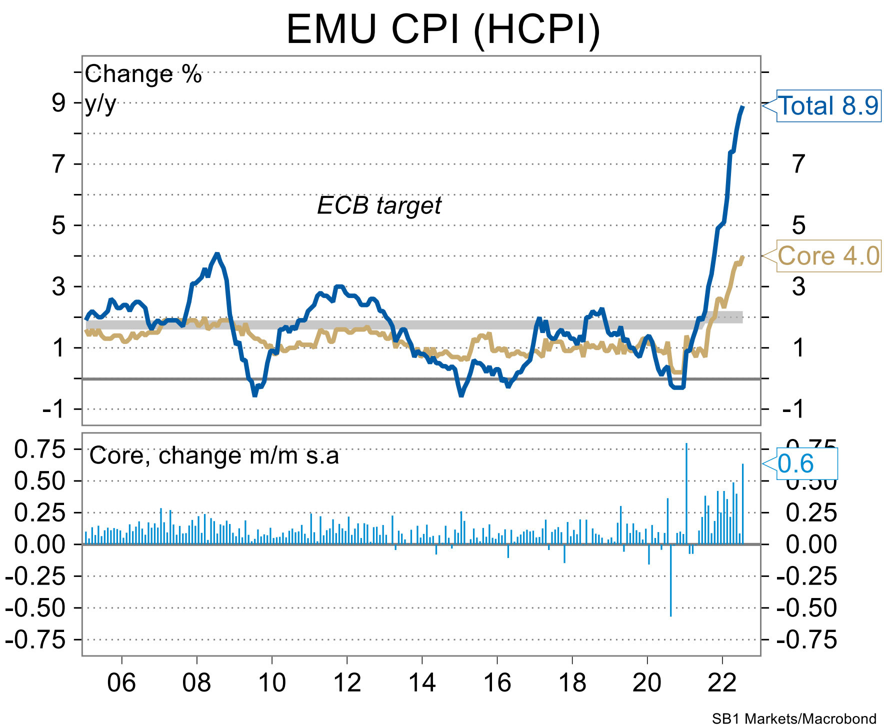
Retail sales so far on the soft side in June

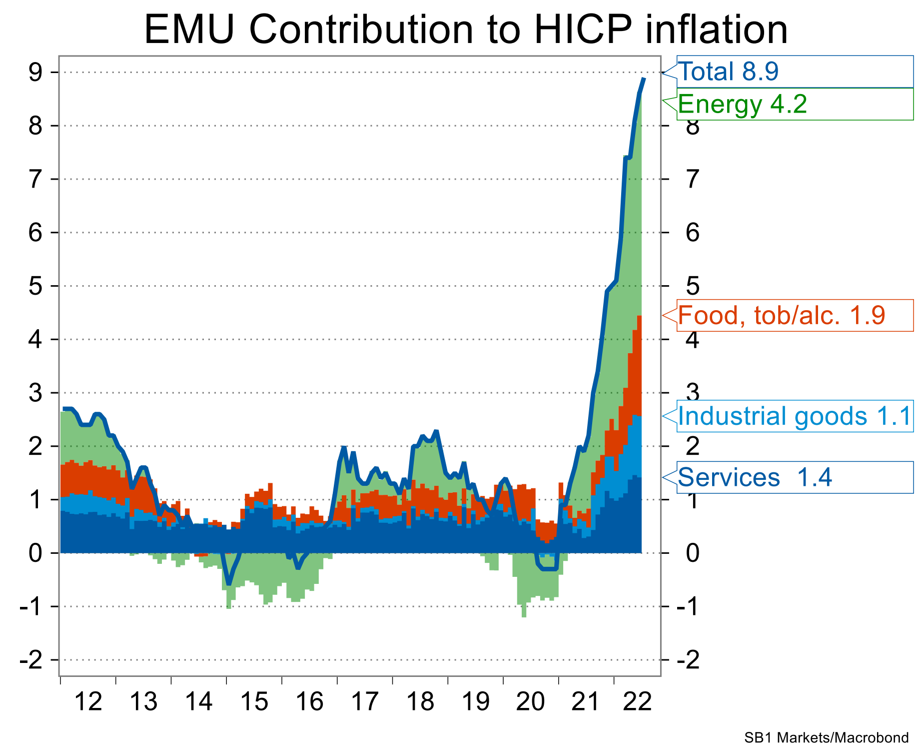
However, several countries have not yet reported



Inflation further up in July, and higher than expected: Total 8.9%, core at 4.0%

Both higher than expected, again. Energy prices the main culprit but inflation is broadening, here too

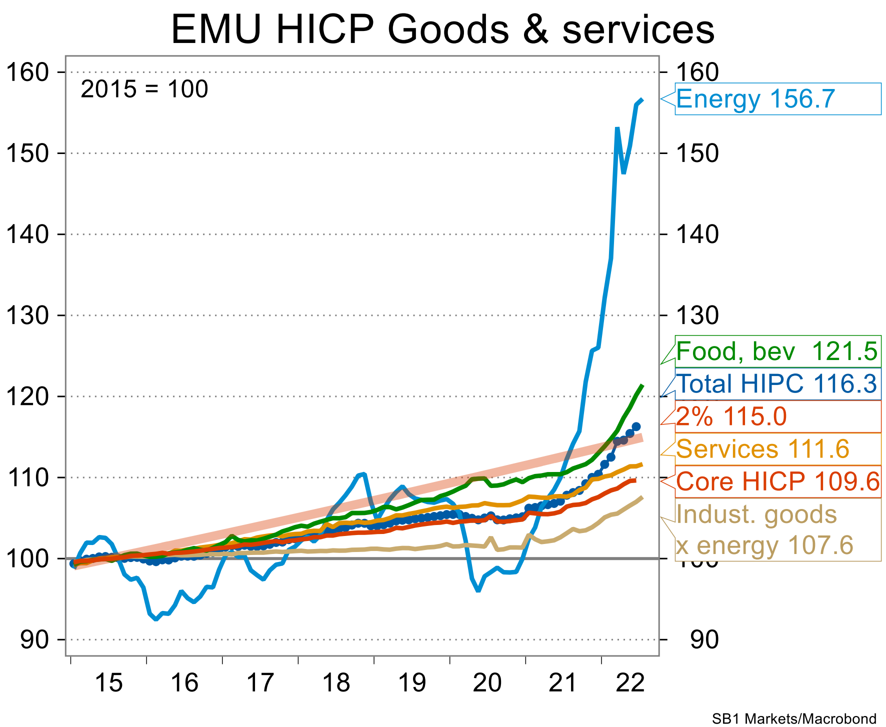


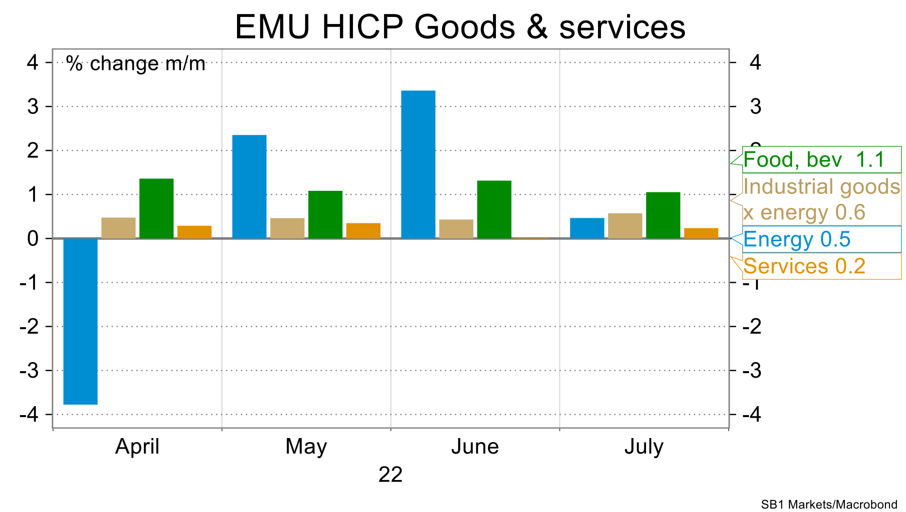


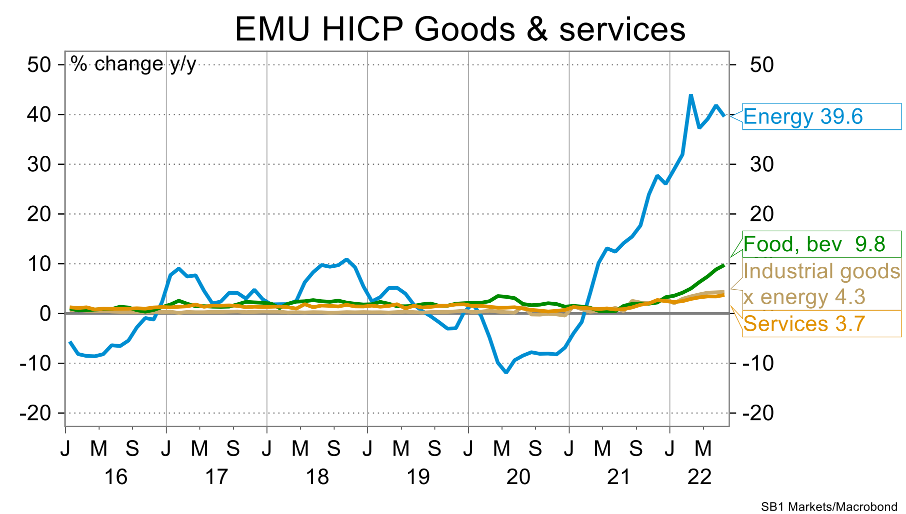
- The **total HICP** rose 0.7% m/m July, in line with the price increases the previous two months
  - » Energy prices rose 0.5% m/m, they are up 40%, and contributes with more than 4% to the headline rate. Food prices rose 1.1% - and the latter is up 9.8% y/y, contributing more than 2% (all data at the chart to the right is not updated=
- **The core** rose 0.6% m/m, both goods and services contributed

Energy prices rose 0.5% in July, and food prices added another 1.1%!

Energy prices are up 39.6% y/y – but the recent hike in gas prices will lift prices further



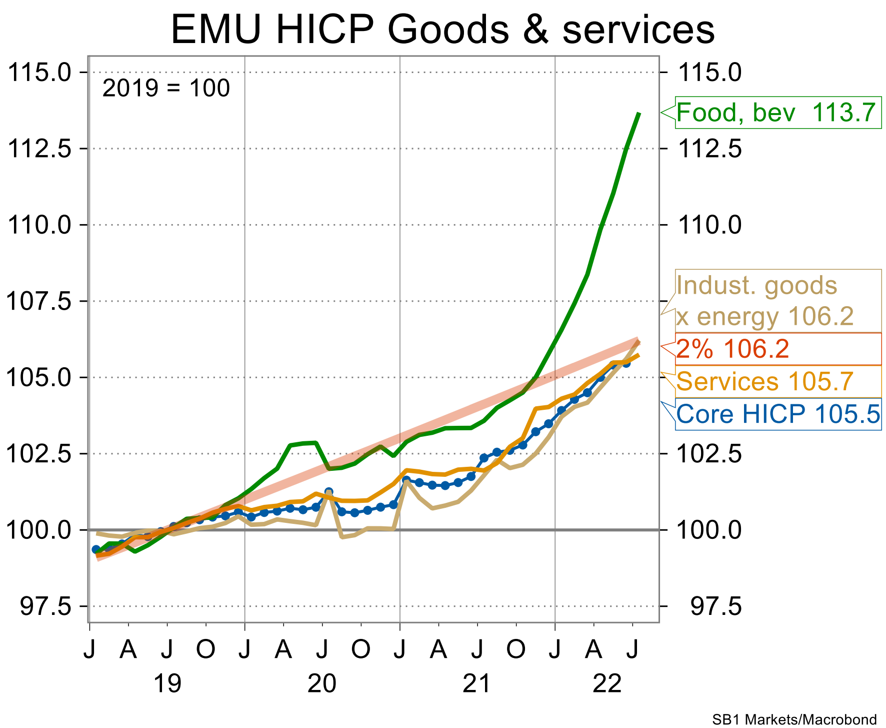


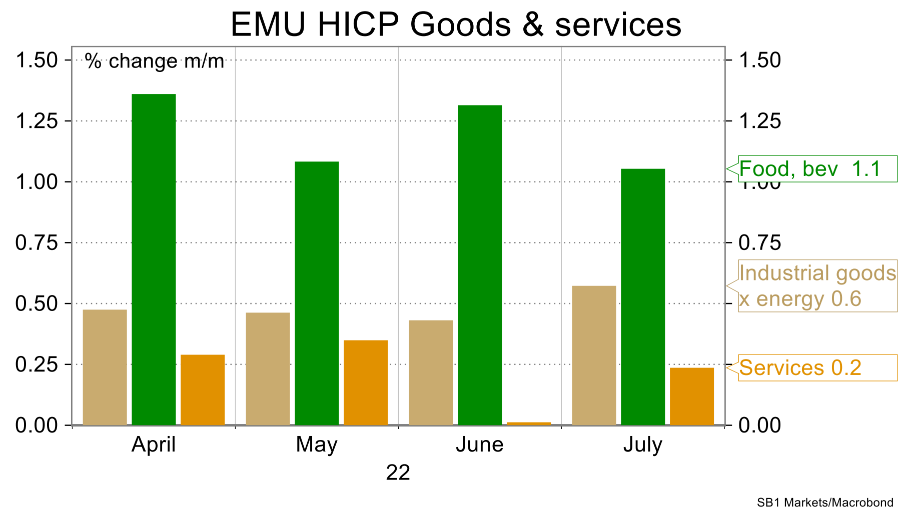


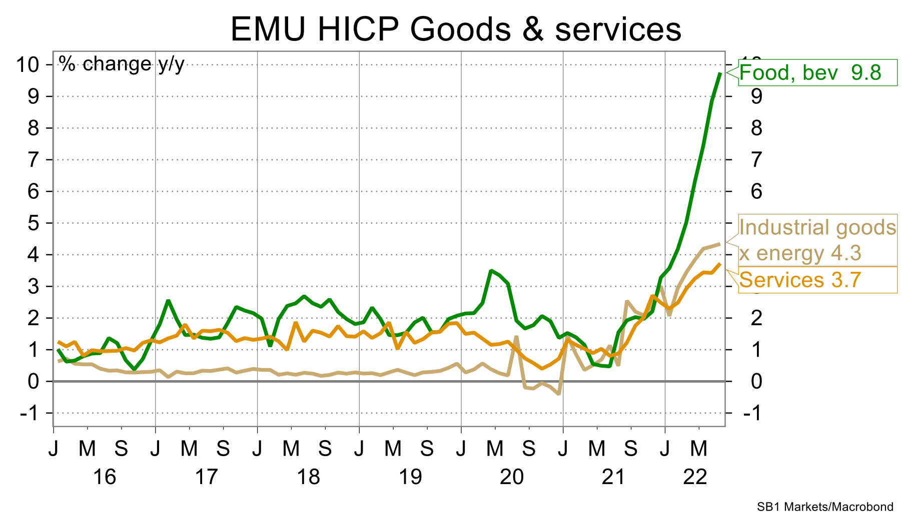
- Food prices rose 1.1% in July, more or less in line with price hikes recent months – and they are up 9.8% m/m

Inflation ex energy and food is accelerating too

Food inflation at 9.8%, industrial goods x energy at 4.3%, and services 3.7%. The target? 2%...







- **Industrial goods** prices increased 0.6% in July, and are up 4.3% y/y. Still, these prices are not above a 2% path since 2019
- **Services prices** gained 0.2% in July, and these prices are also below a 2% path vs the 2019 level – even if they are up 3.4% y/y. Transport and hotels/restaurants have contributed on the upside last year (but no detailed data for July yet)
- (No further details in the preliminary HICP report)

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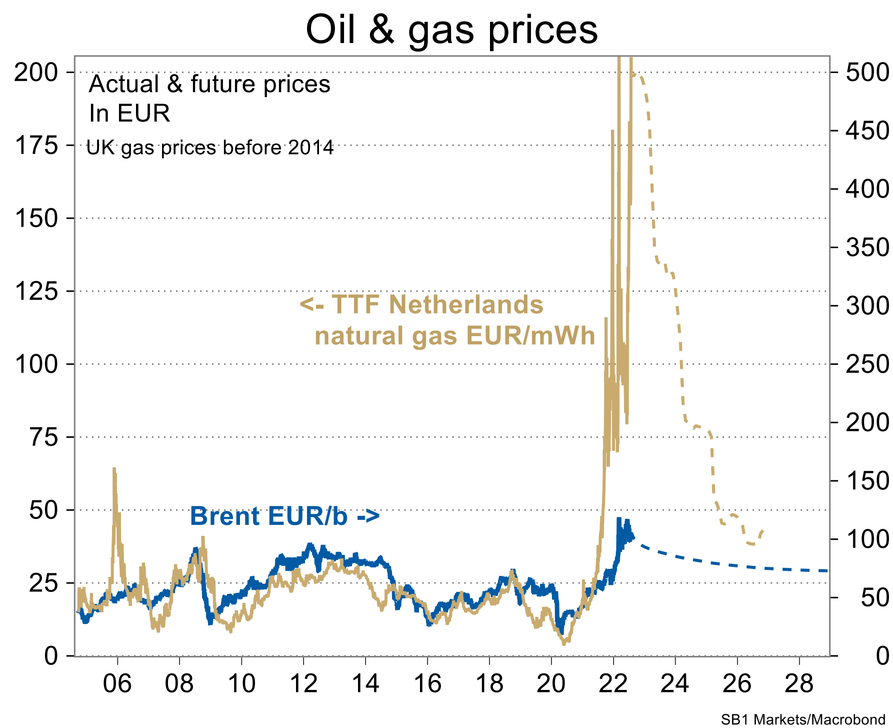
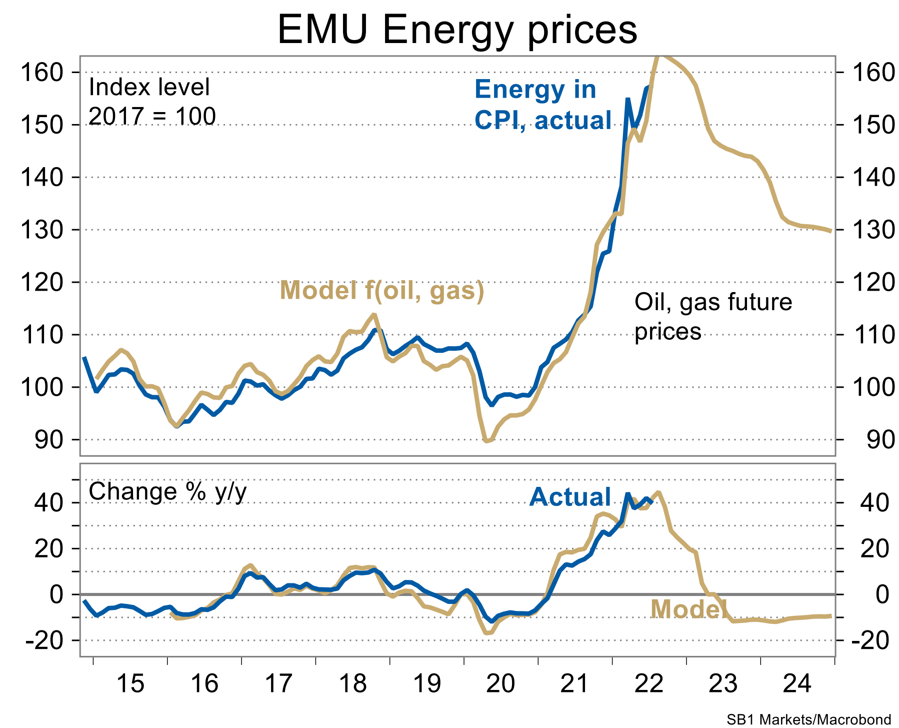
Gas, oil prices have lifted 'energy CPI inflation' up to 40% but….

…if futures markets are correct (this time…), annual energy inflation is close to the peak





- Futures have shot up recent weeks, as Russian gas deliveries are more or less gradually cut
- Early next year, energy prices will be down, measured y/y – even after the current surge
- Gas and oil have contributed equally to the lift in energy prices measured at the consumer level, according to our models

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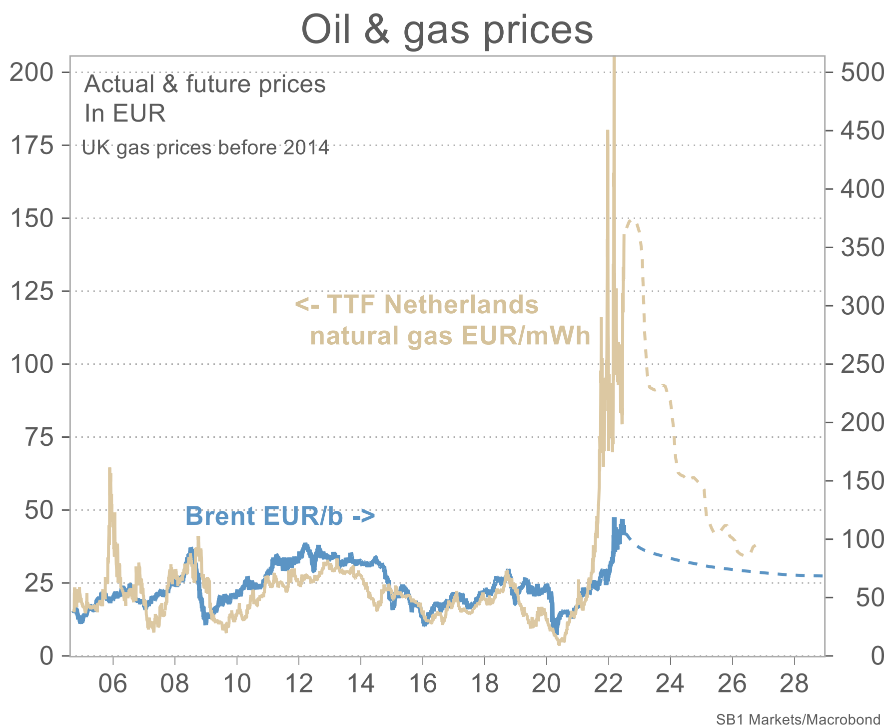
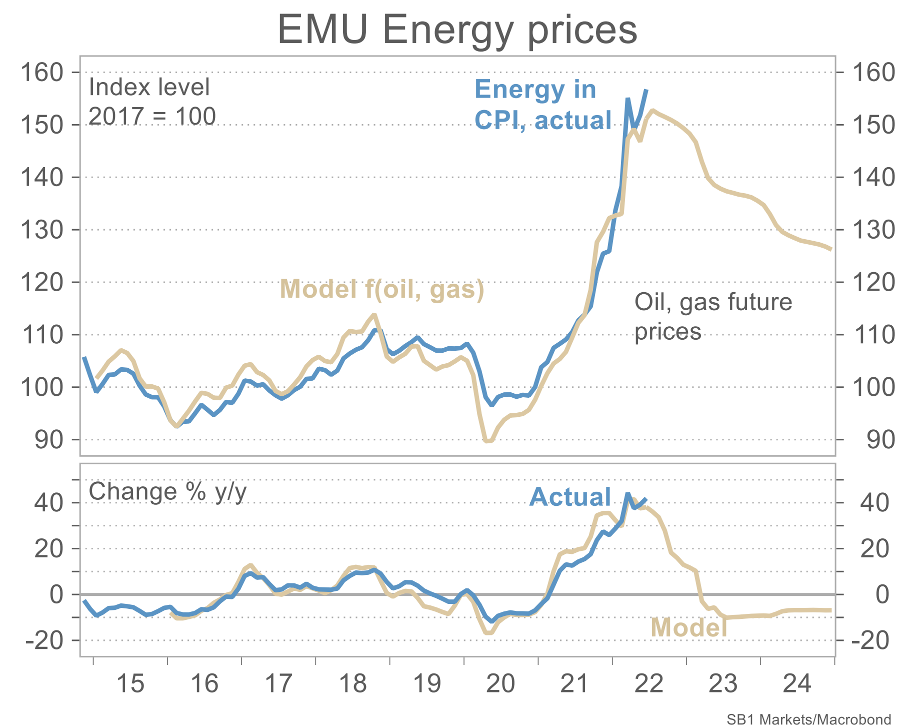
Check the impact of the surge in Europe gas prices last month

This is how in looked like in early July (flip back one page for the updated charts)





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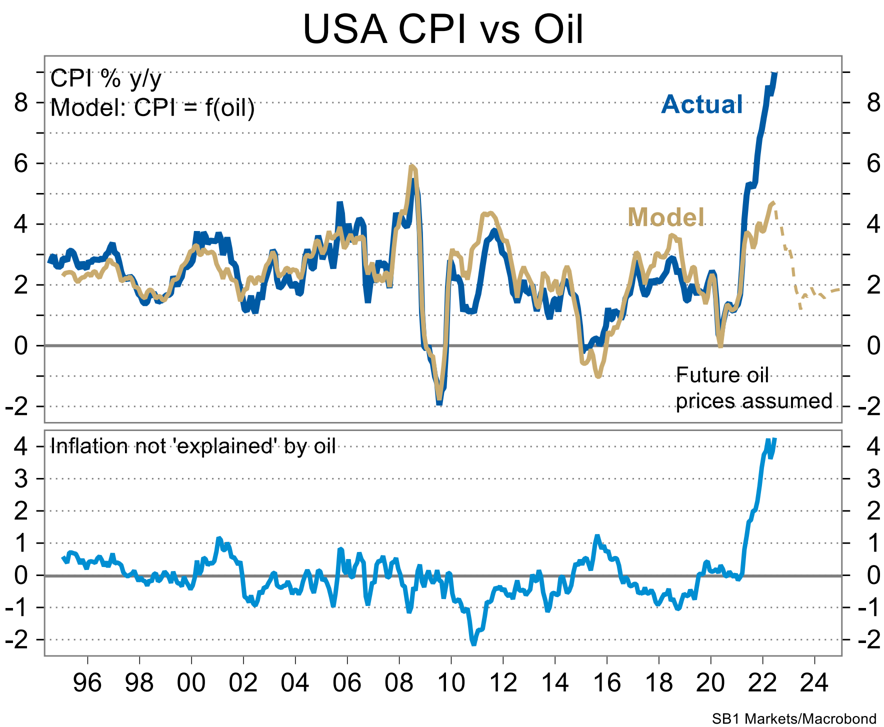
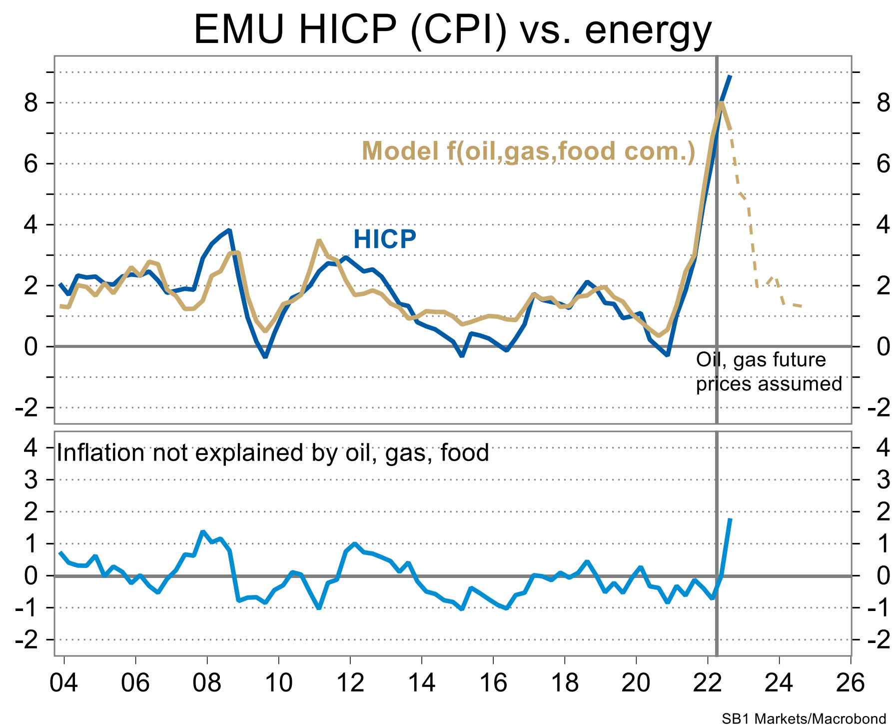
The tale of two different inflation regimes: But they are narrowing?

More of the EMU inflation is explained by the external factors than the high inflation in the US?



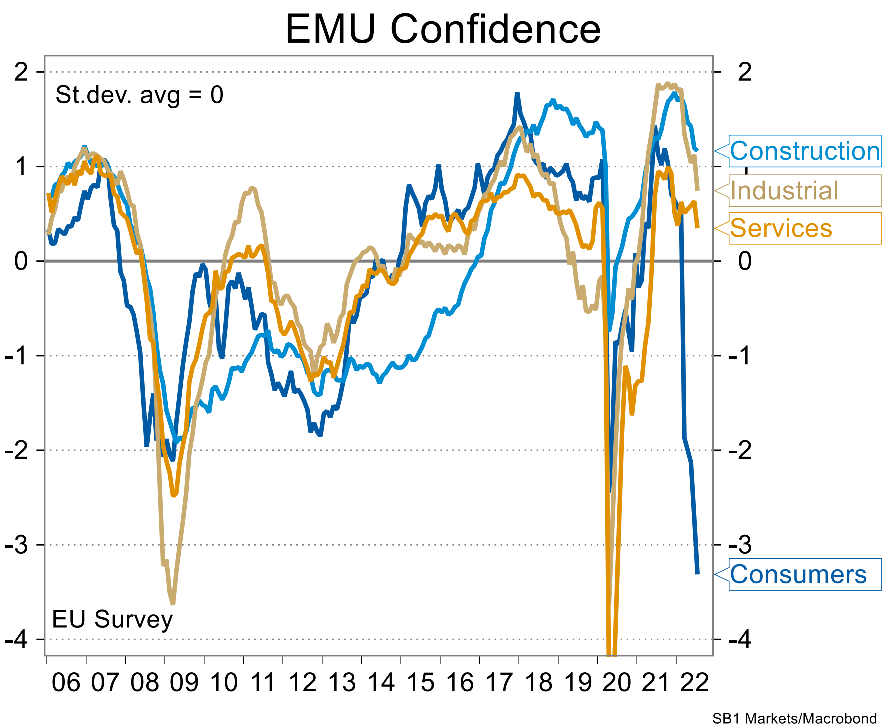


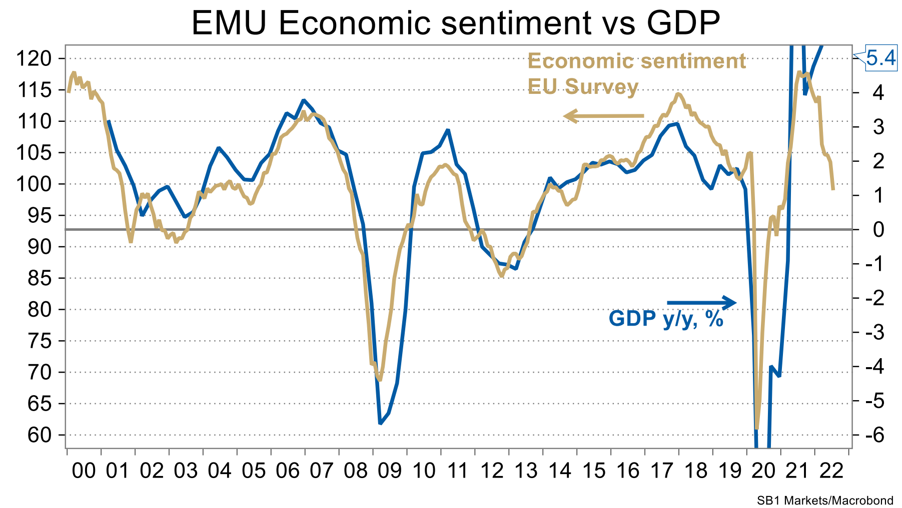
- **In the US, oil price cycles** have – for all practical purposes – explained all of the CPI cycles the past 30 years. Until 2021. The precent 4 pp+ discrepancy is unprecedented! The current/future oil prices signal a decline in the annual CPI by now. The trouble is the 'gap' or the 8.6% starting point
- **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

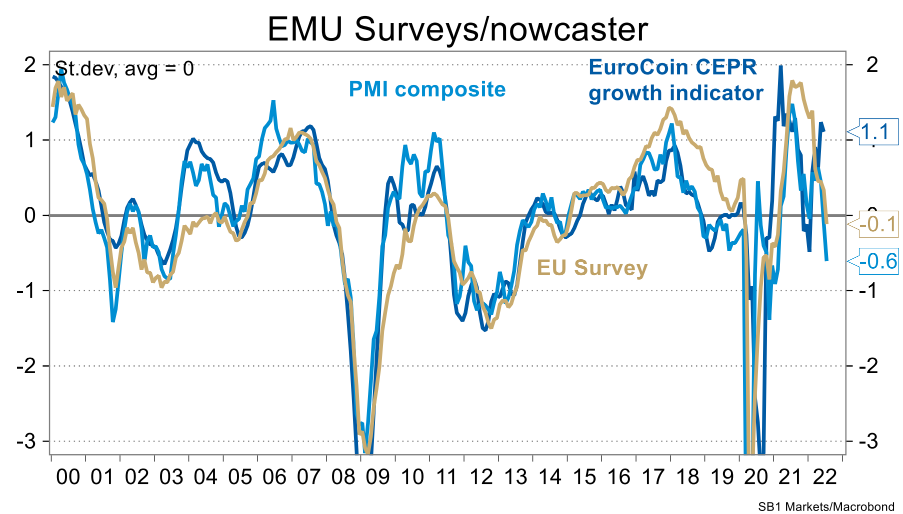
In these models we incorporate all direct impacts from changes in the oil price – as well as the impact from other factors that influence inflation which correlates to the oil price

Consumer confidence confirmed sharply down, businesses are not that downbeat

The overall index fell 4.5 p to 99 expected 102. Business sentiment down, still above average







- **EU's confidence survey for the Euro area** fell much more than expected. The estimate was strange, given the already published sharp decline in consumer confidence, down to a record low level, at -3.3 st.dev below par. The total index is marginally below average
  - » **Both services, industry and construction** report a slowdown but not as dramatic as seen in some other surveys, and levels are still well above average, signalling growth above trend
  - » <u>Thus, war, energy angst or high inflation have not yet scared businesses that much</u>
- **The EuroCOIN GDP nowcaster** signals growth well above trend, but the EMU PMIs as well as some national surveys signal growth below trend or and outright recession (like the German Ifo survey)

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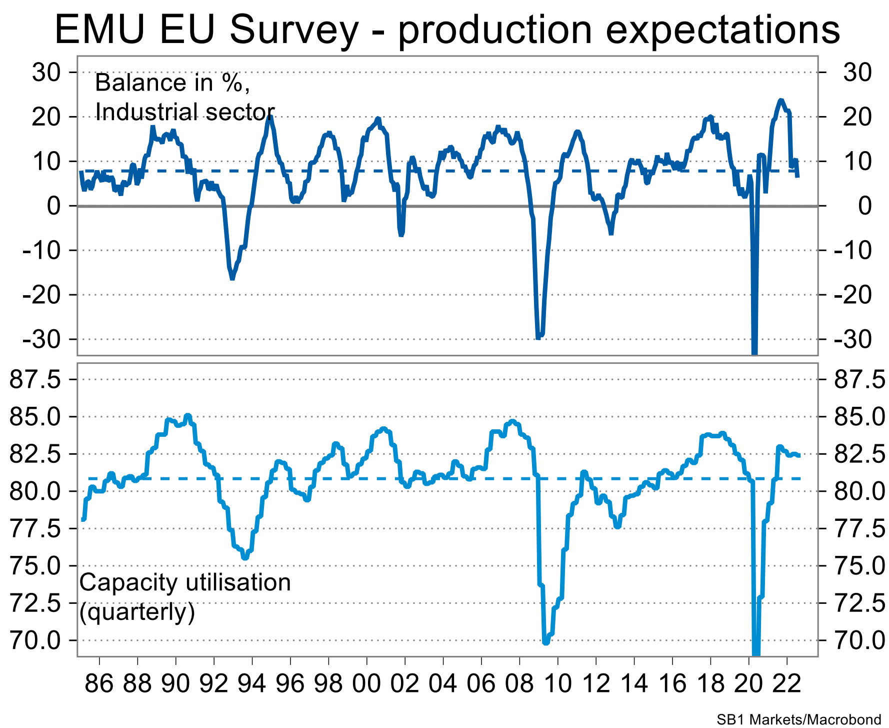
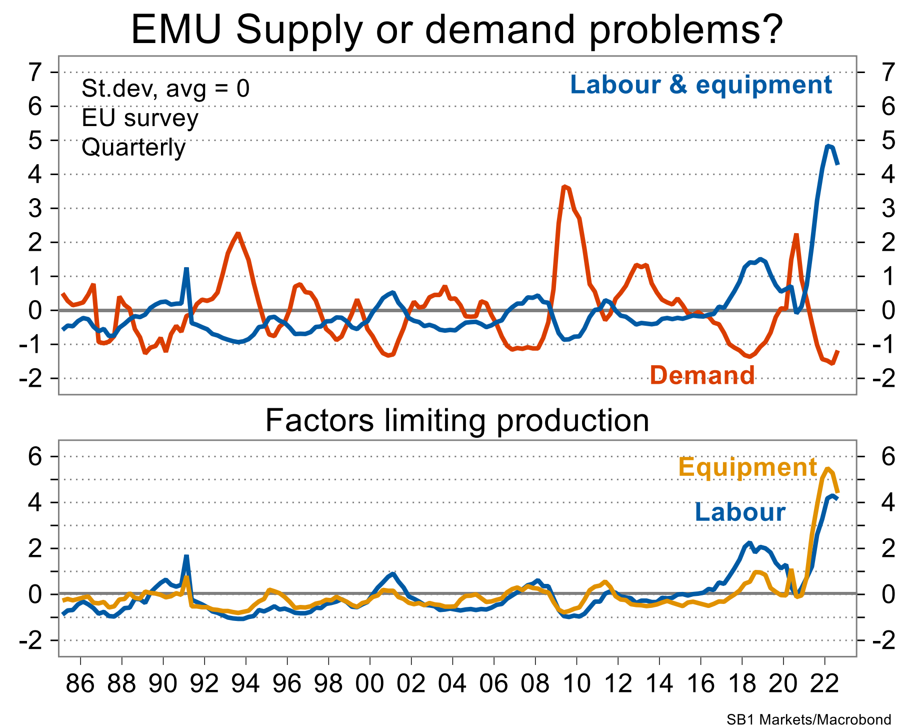
Production expectations down to just below average

Capacity util. well above average. Some more complain about sales, fewer about supply shortages

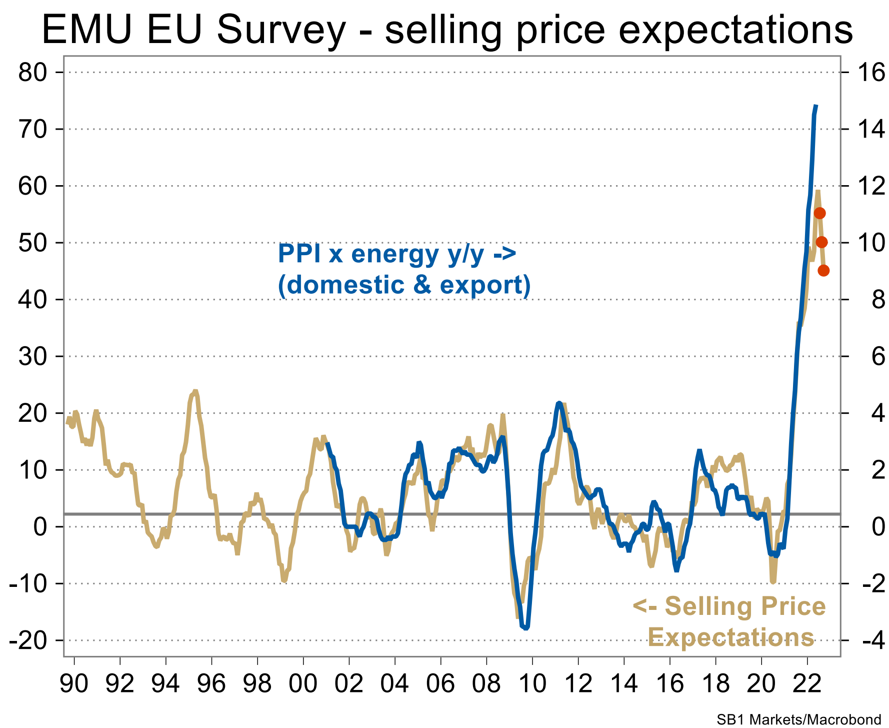




- But there is still many more complaining about supply shortages, primarily labour and equipment than normal and far fewer than normal about demand

Companies report slightly lower selling price increases

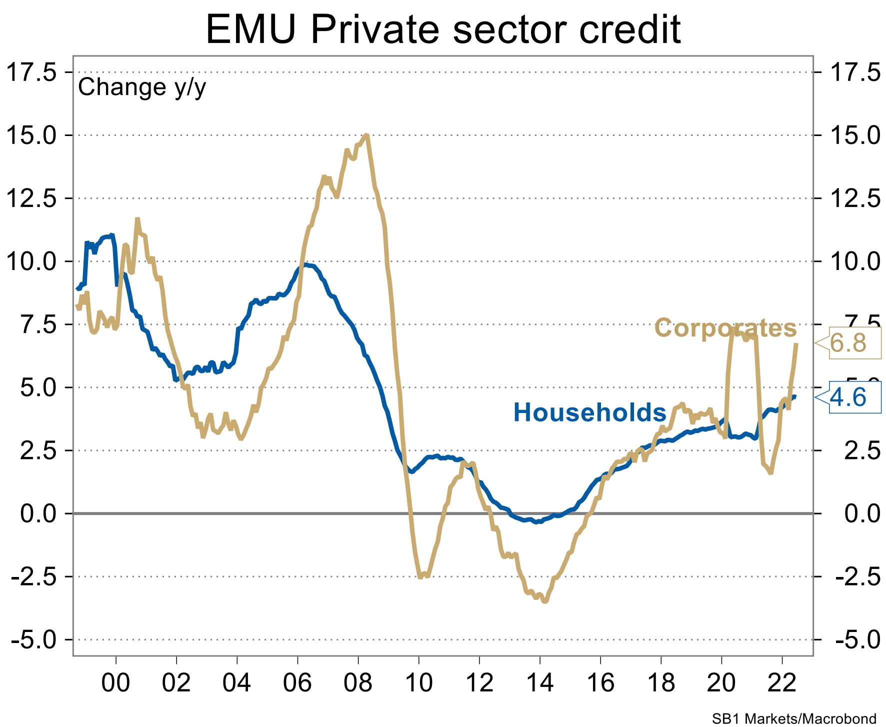
... But still very rapid increases

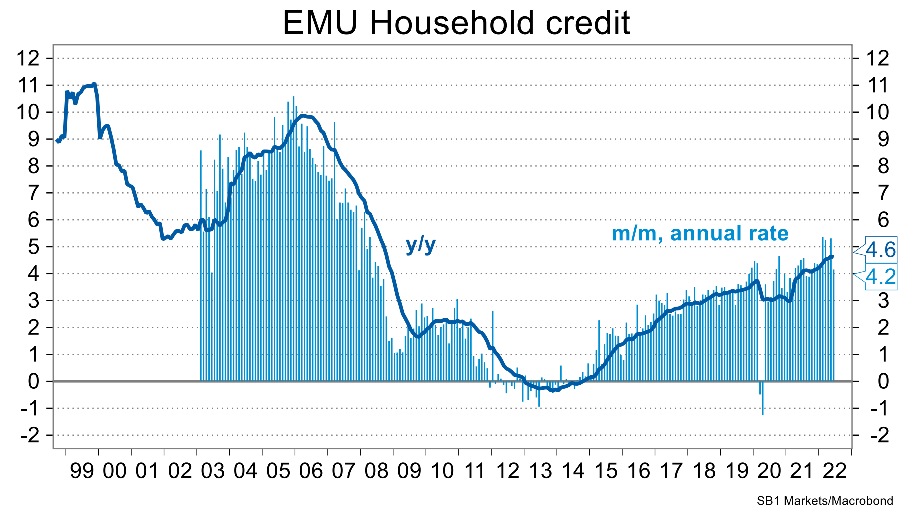


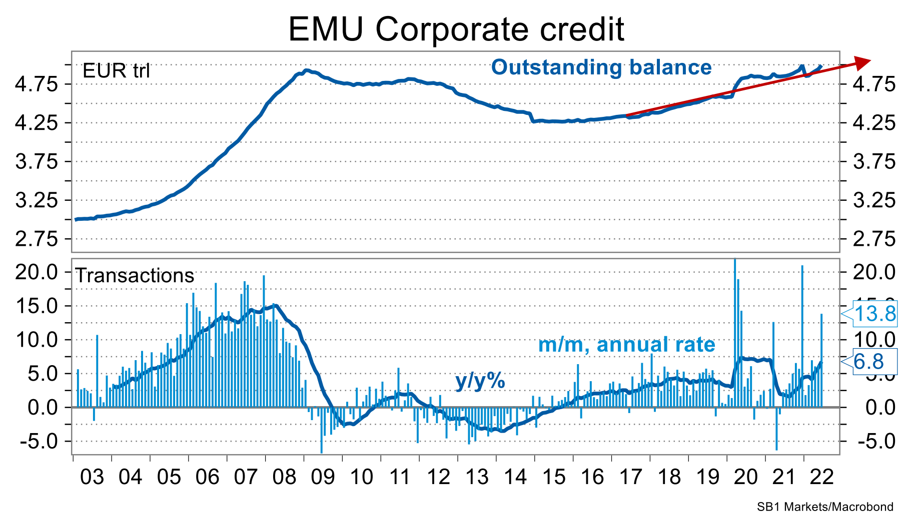
SpareBank 1 MARKETS

Credit growth is slowly accelerating? At least not any signs of a credit squeeze

Household debt up at 4.2% pace in June, businesses took in 13.8%



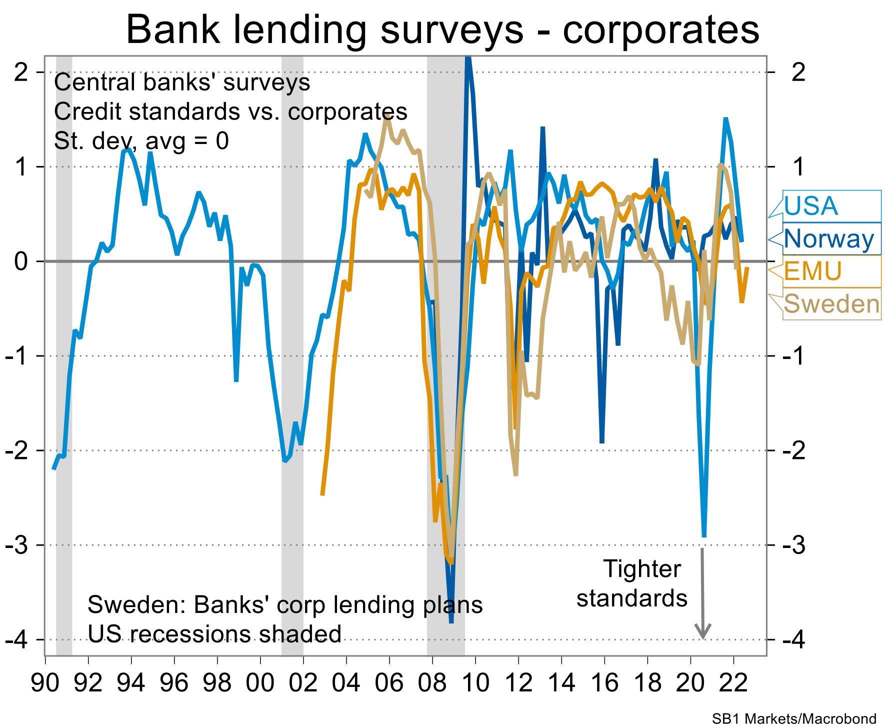


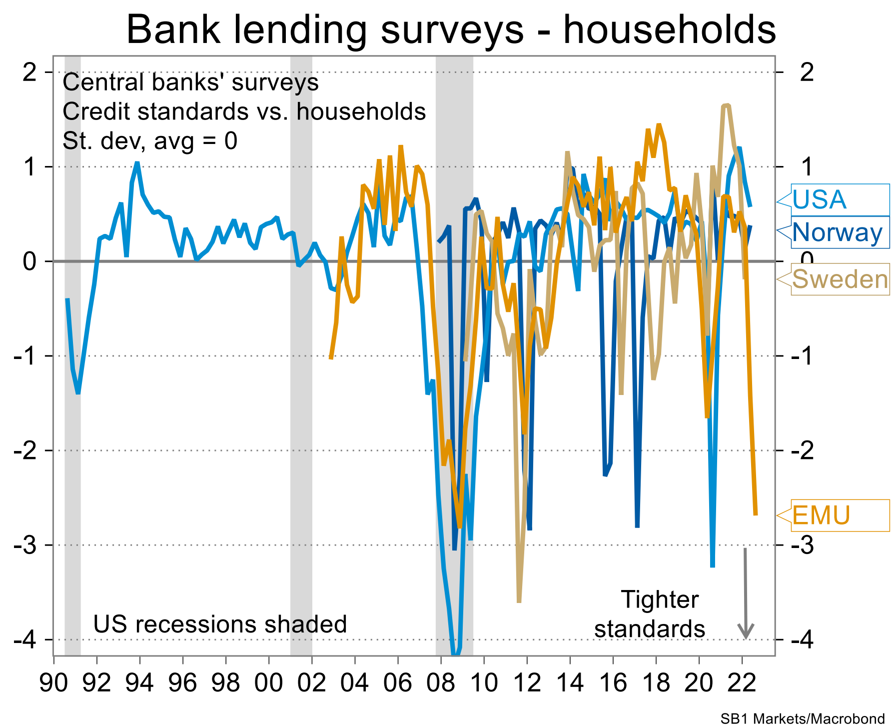


- **Annual growth rates** at 4.6 – 6.8%, well above normal nominal income growth. Now, incomes are growing much faster due to high inflation (and even higher wage inflation, strong growth in employment)
- The **corporate debt** level marginally above the pre-pandemic trend growth path, **household debt** is well above
- The last **banking survey** was mixed, check next page

Banks report tighter standards vs. households but not vs. the corporate sector

A rather unusual divergence in banks' credit policies

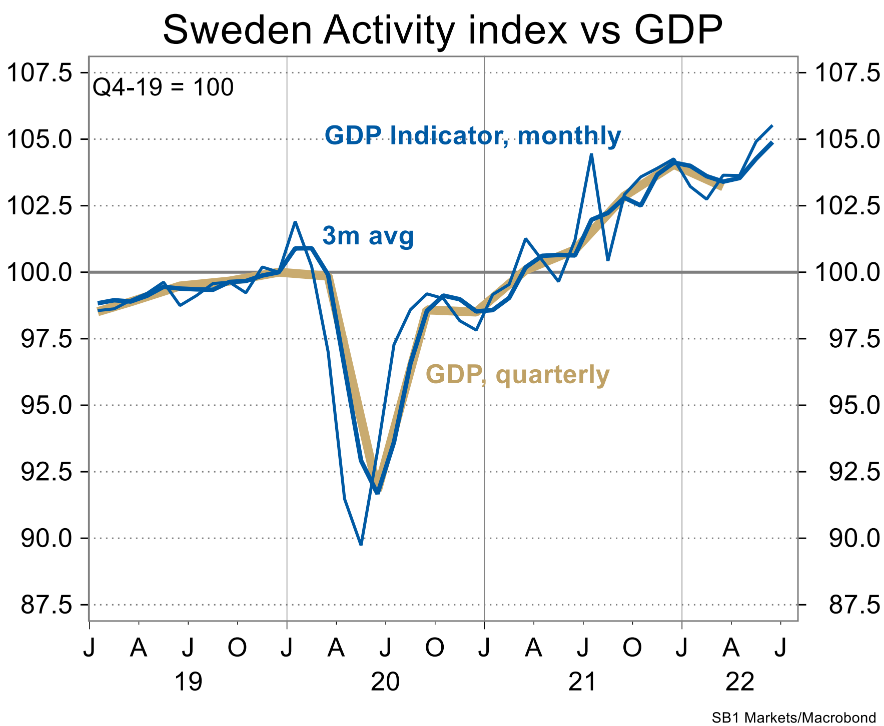


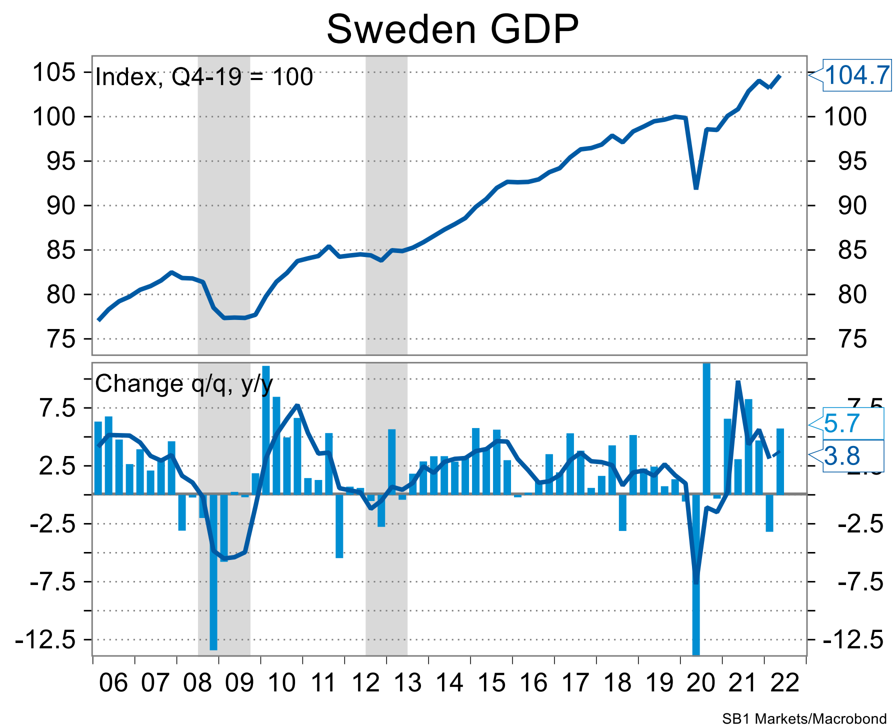


- **US banks** are signalling easing lending standards, both vs. households and the corporate sector – as are banks in **Norway** (but not in **Sweden**)

GDP suddenly on the way up again, up 5.9% in Q2 (1.4% not annualised)

… and twice the expected pace. GDP grew 0.6% in June, May revised up to 1.2%

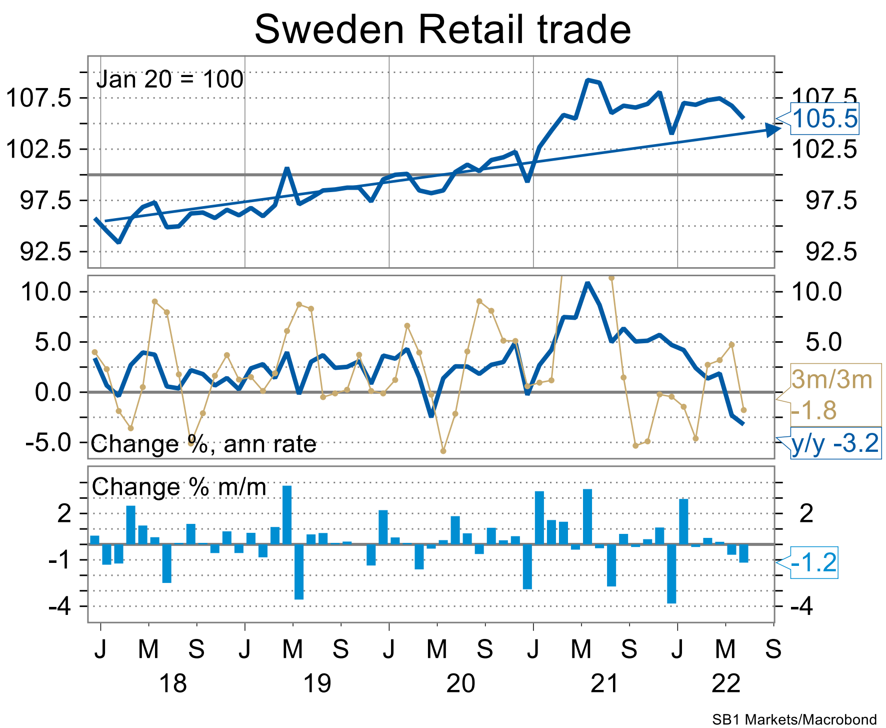


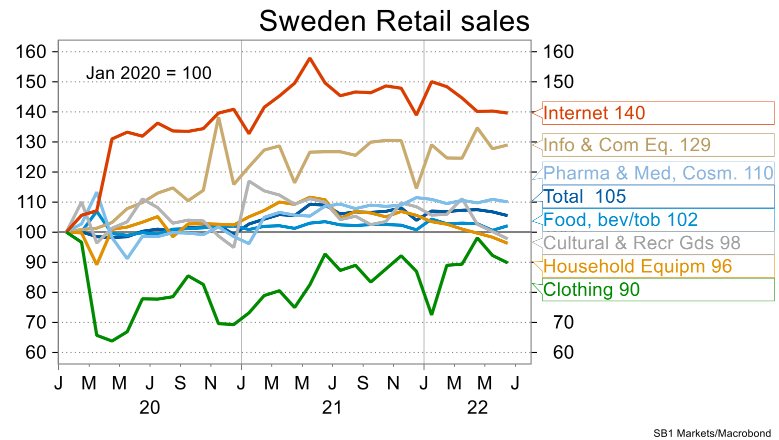


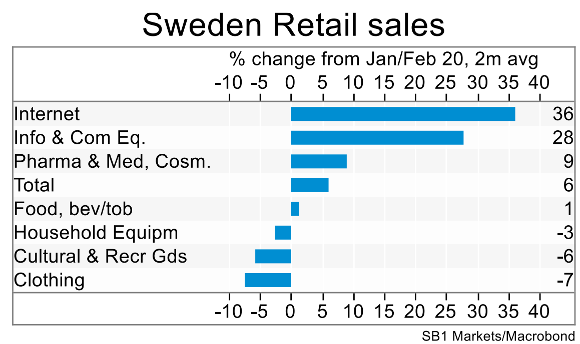
- **GDP** fell at a 3.2% pace in Q1 (-0.8% not annualised) but following the recovery in Q2, activity is almost back on track – at least before SCB revise its data (it has happened before)
- **The outlook** remains excellent, according to Swedish companies. The KI (NIER) is down from the peak but is still at a very high level, and the March PMI was the best in the world
- Still, growth is very likely slowing, even if the business sector is extremely bullish on the outlook

Retail sales further down in June – the trend is probably downwards

Sales are 5.5% higher than before the pandemic, some 1.5% above the pre-pandemic trend



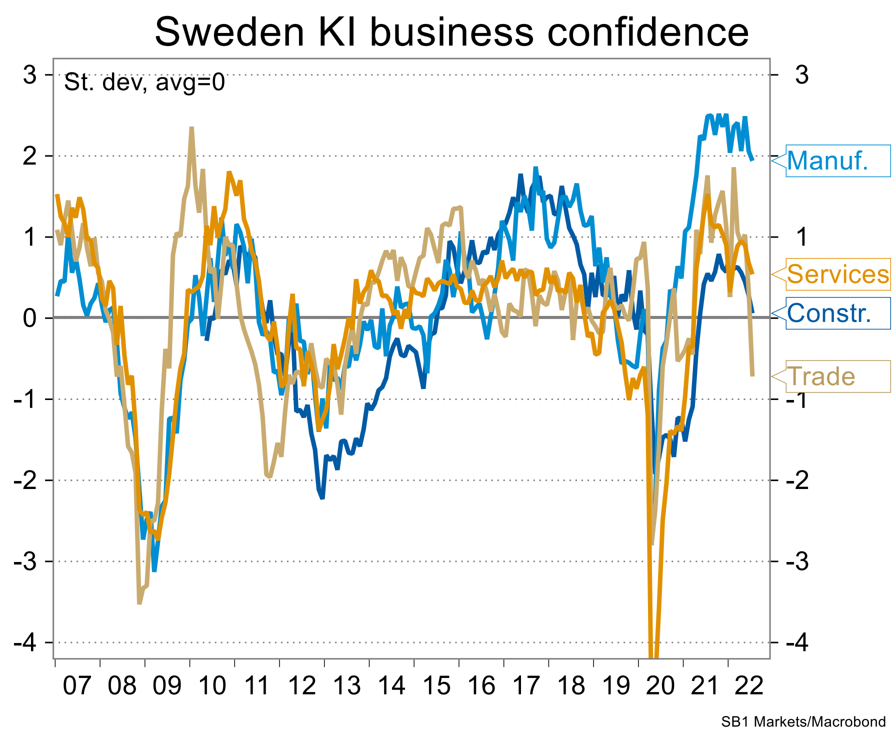


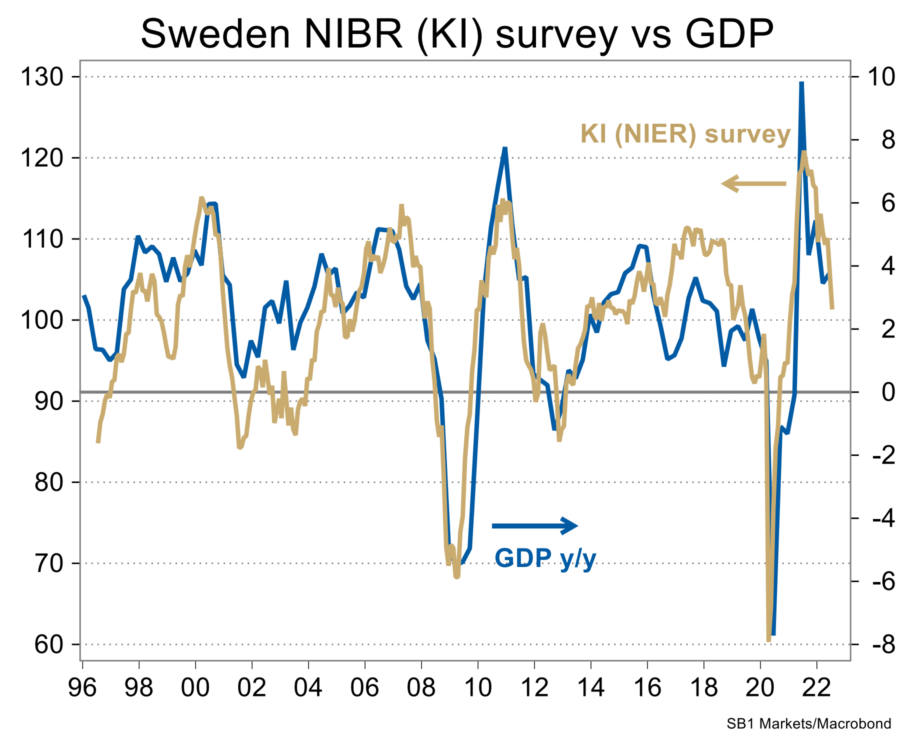


- Sales fell 1.2% m/m following the 0.7% decline in May. Sales are down 4% from the peak last spring – and underlying trend is slightly down

Business confidence on the way down, trade lost the most in July too

Confidence in the manuf. sector strong, 2 st.d. above avg. And the average signals 2.5% growth





- **The composite index** rose fell to 101.3 in July from 105.7 in June, expected down to 104,0. The decline equals 0.5 st.dev decline to +0.1 st.dev above average. The index signals a 2.5% GDP growth rate, down from 4% in June (and 5% in May)
- **All 4 main sub-sectors** are reporting declining confidence
  - » The **trade sector** plunged well into negative territory, signalling a decline in lower retail ales
  - » The **manufacturing index** remains at a very high level, +2 st.dev, not far below ATH
  - » **Services and construction** are in between

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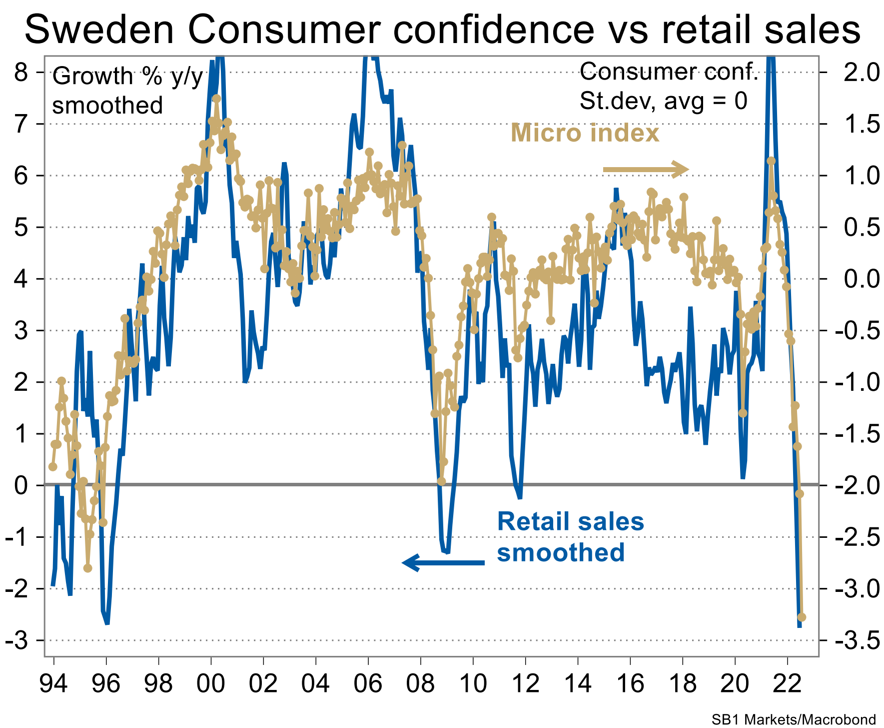
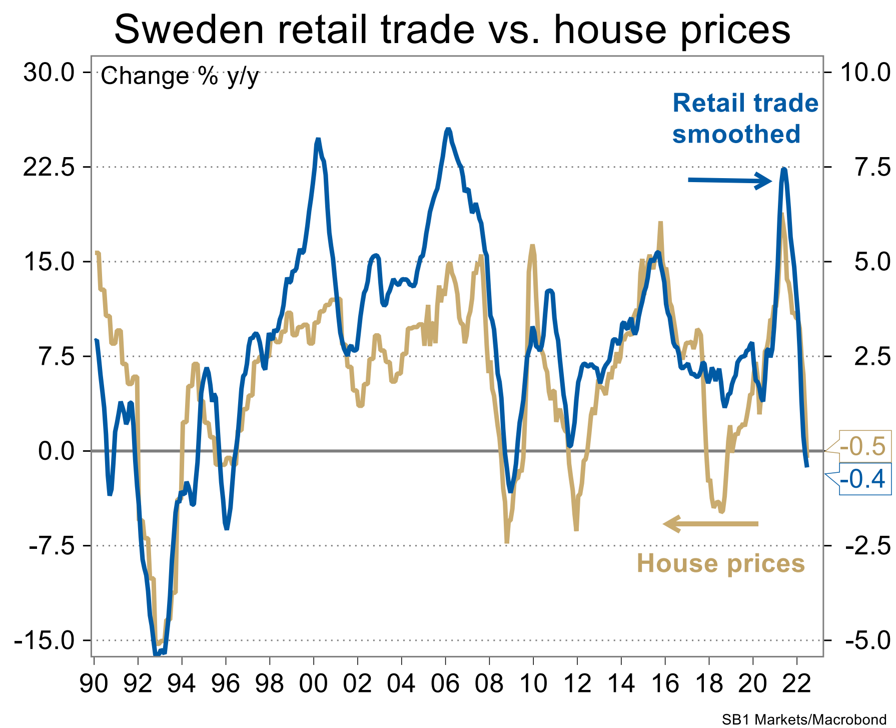
Consumer confidence collapsed in July, to an ATL!

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

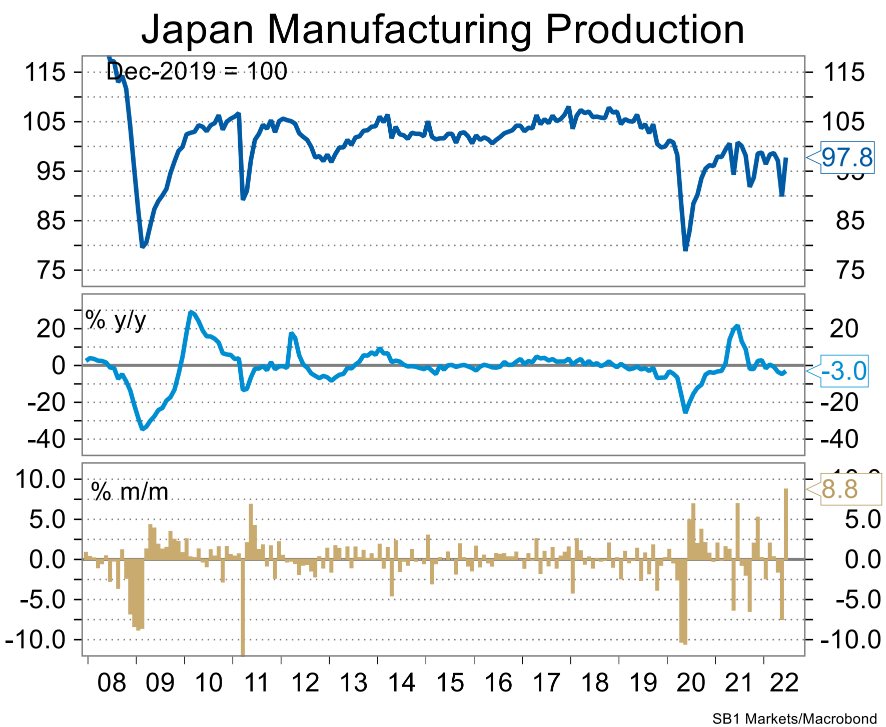


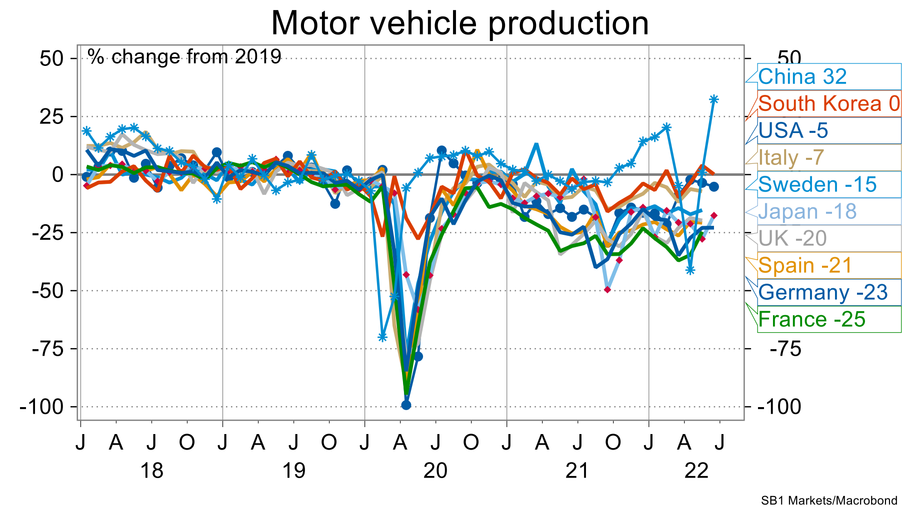


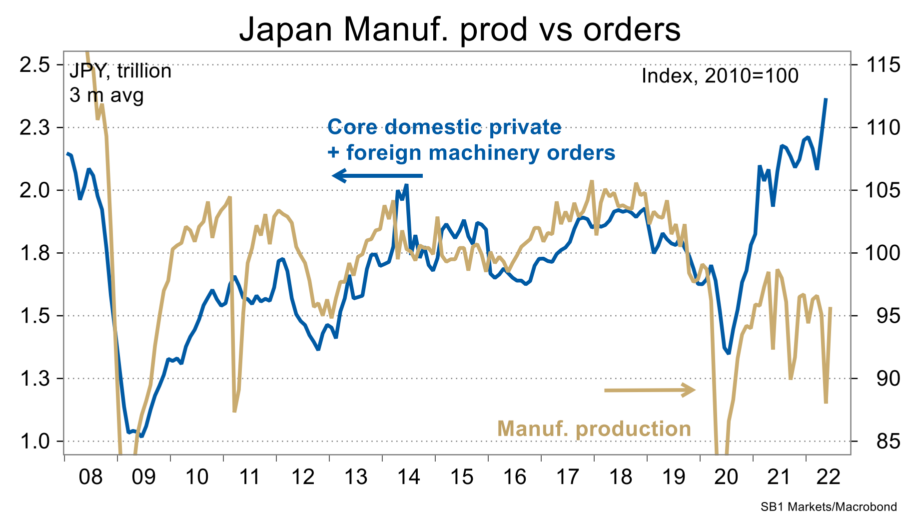
- **Consumer confidence** (the micro index) fell to 47.5 in July from 64.8 in July, way below expectations or by 1.2 st.dev in one go, to - the lowest level ever, 3.3 st.dev below average! The macro index, as well as the total confidence index collapsed
- Even if the annual growth rate in retail sales (and house price inflation) have fallen alongside the decline in consumer confidence, sales have not slowed that much measured m/m recent months
- However, given high inflation and loss of real income, higher interest rates and now also falling house prices and a waning confidence, <u>the outlook for household demand is rather bleak</u>

Manufacturing production recovered fully from the May setback, up 8.8%

A recovery was expected but the lift was twice as large as expected. Trend still down



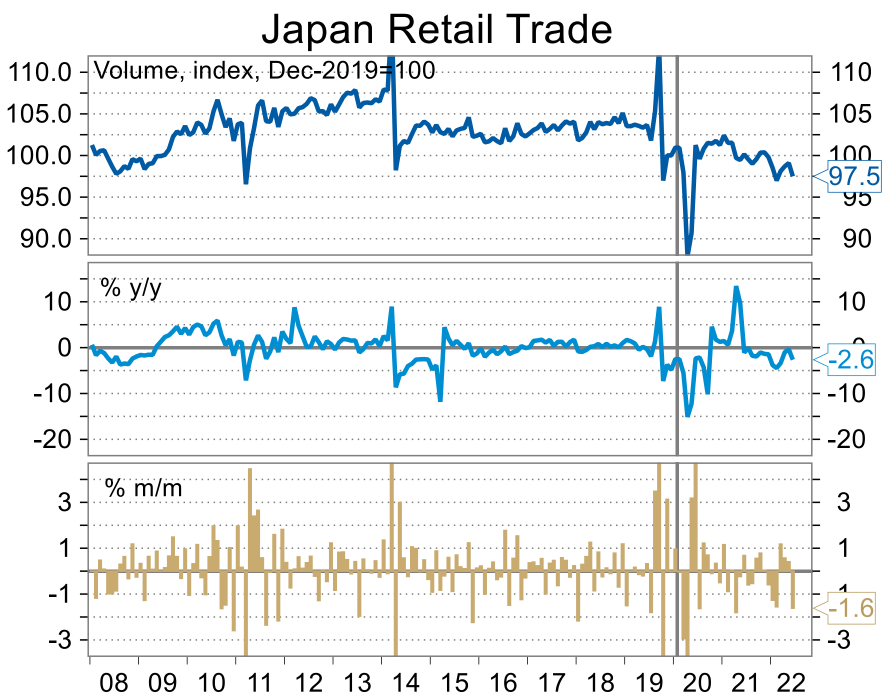




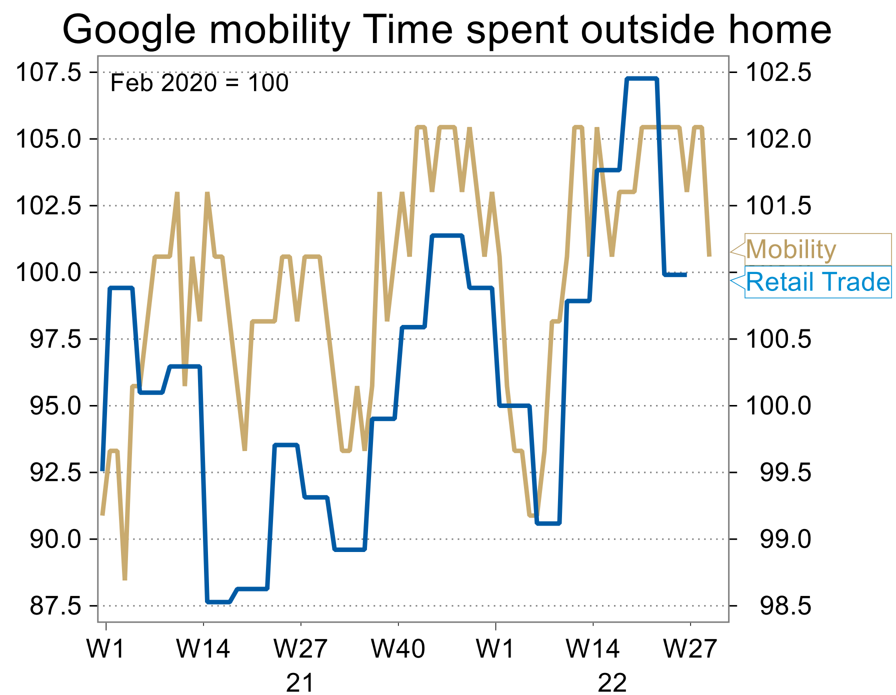
- **Production** fell more than since the first Covid wave in May but recovered in June. Disruptions due to lack of supplies from China is reported to have contributed to the temporary setback
- **Overall order inflow** has strengthened substantially through 2021, and into 2022 signals a much higher production level than the present

Retail sales down 1.6% in June, and the trend is weak

Sales were expected up 0.2%, a visible deviation



SB1 Markets/Macrobond



SB1 Markets/Macrobond

- **Retail sales** have been quite closely correlated to mobility (time spent outside home) recent months – and in June, mobility fell somewhat

Highlights

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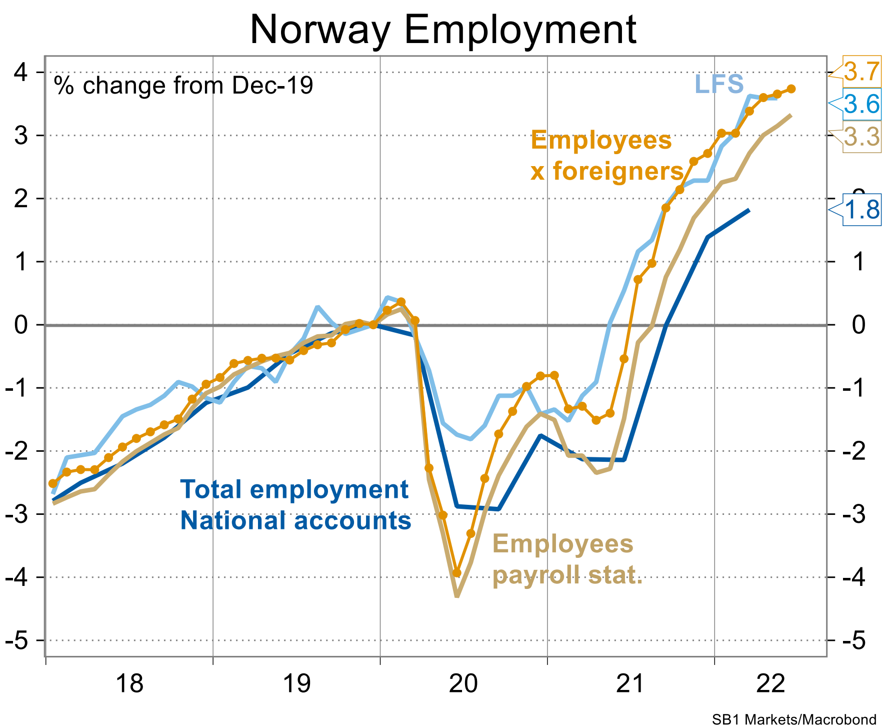
Employment growth is calming down, and LFS employment has flattened

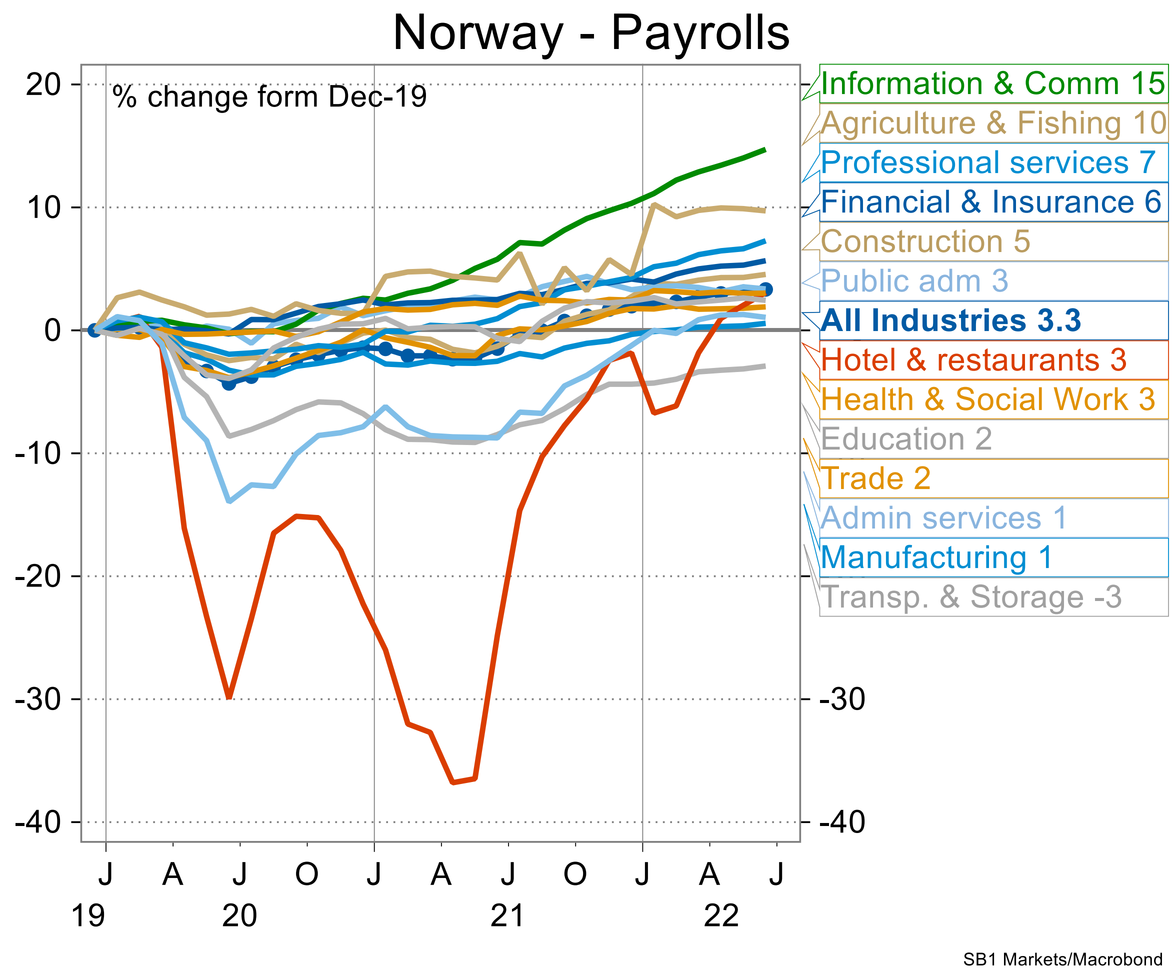
The no. of employees is still on the way up by 0.2% per month

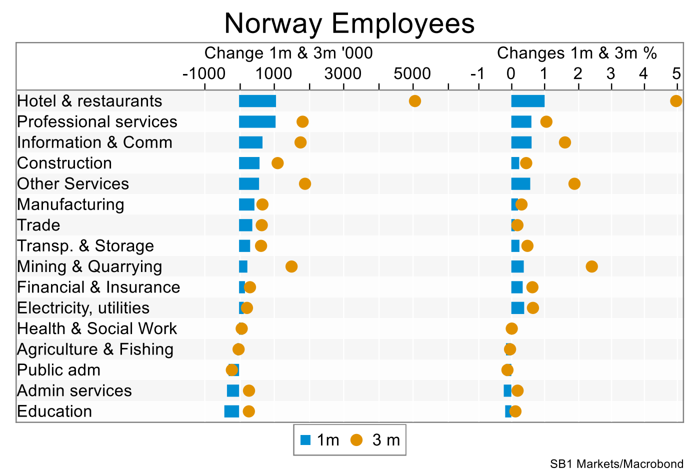


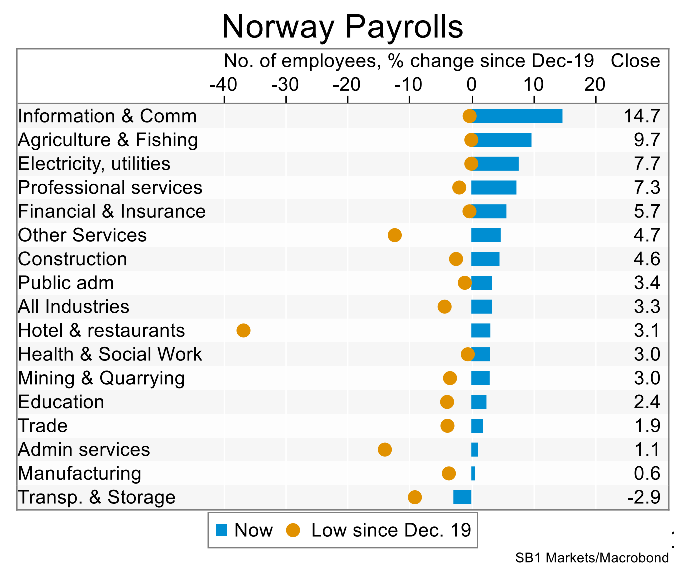
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) reported zero growth in May (avg. April – June) as in April
  - » LFS employment is up 3.7% from before the pandemic
- The **register based employee stats**, report 0.2% growth in the no. of employees in June, as in May, and a 3.3% growth since Q4-19. Excluding foreigners on short term stay, the no. of employees is up 3.7% (our estimate for the past 3 months)
- **National accounts** reported a 1.8% lift in employment to Q1-22 from Q4-19

Employees: Still growth in most sectors in June, hotels & rest. in the lead

Transport & storage the only sector below the Dec-19 level

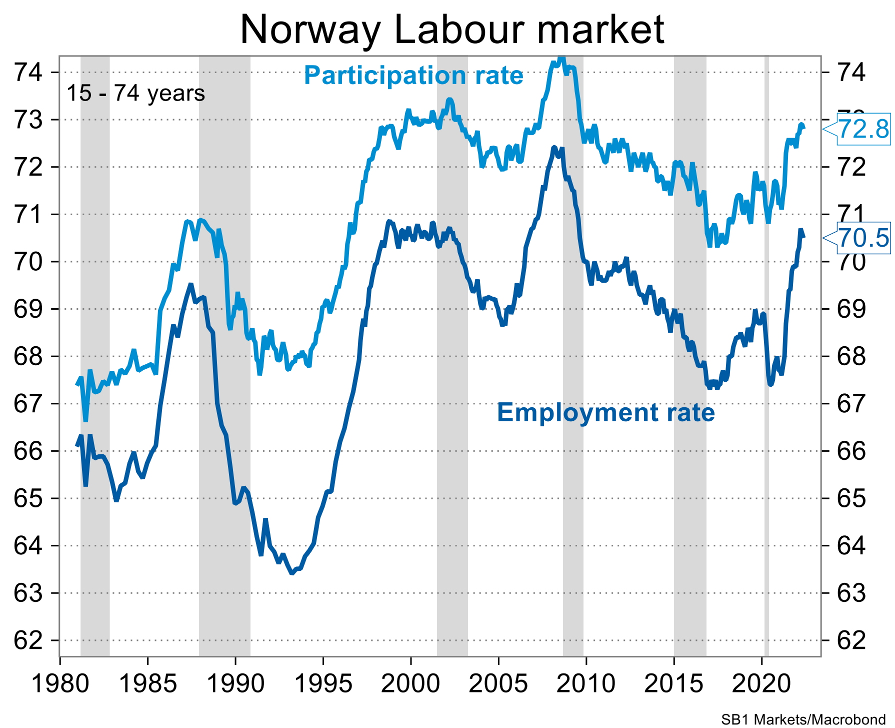




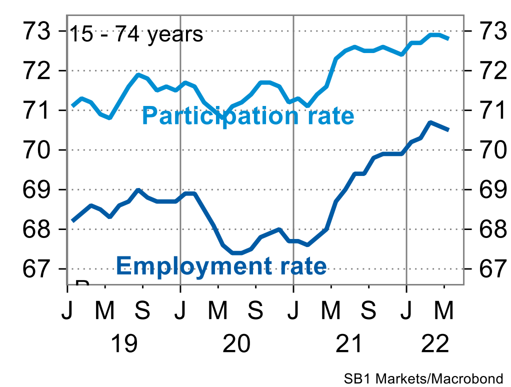


The employment rate slightly down in May too

... while the participation also fell – and has flattened. Less reserves left?

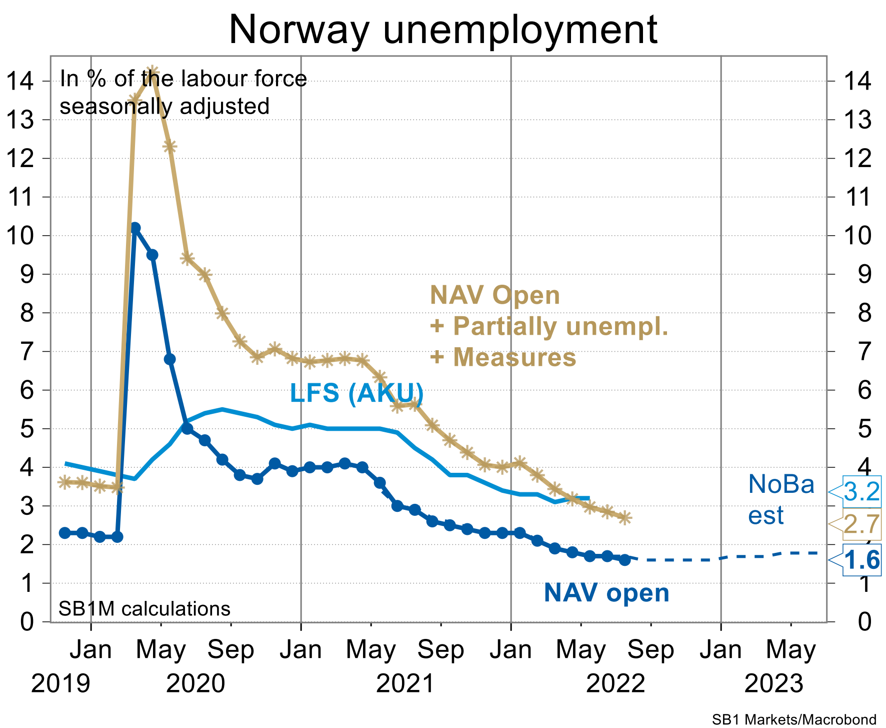


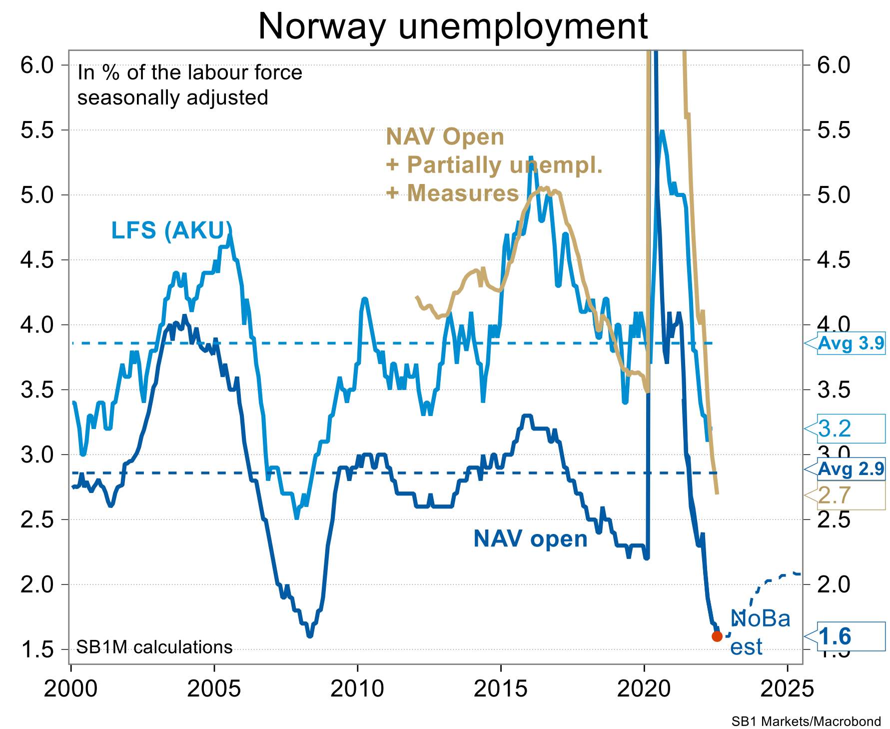
- **The employment rate** fell 0.1 p to 70.5%
  - » Ahead of the pandemic the rate was almost 69%, and it is up from the 67.4% through in early 2021 (and from the same level in 2017, after the 'oil crisis'). The employment rate is measured in % of the working age 15 - 74 y population
  - » The employment rate is the highest since 2009
- **The participation rate** declined 0.1 p to 72.8% in May
  - » Until the substantial lift in January, participation had been flat since last summer. Are there still reserves out there? If so, why are they not turning up now, given the very vacancy level, 'everywhere'?
- **Working age population** is up 0.8% over the last year (Q1 est), in fact a higher growth rate than just before the pandemic
  - » Labour immigration has accelerated somewhat, possible as a ketchup effect after low immigration during the pandemic. Given the tight labour markets in the rest of Europe, we doubt labour immigration will solve the labour deficit in Norway



NAV unemployment further down in July, soon down to the lowest level since ‘80

The LFS unemployment rate has stabilised at 3.2%, also a very low level

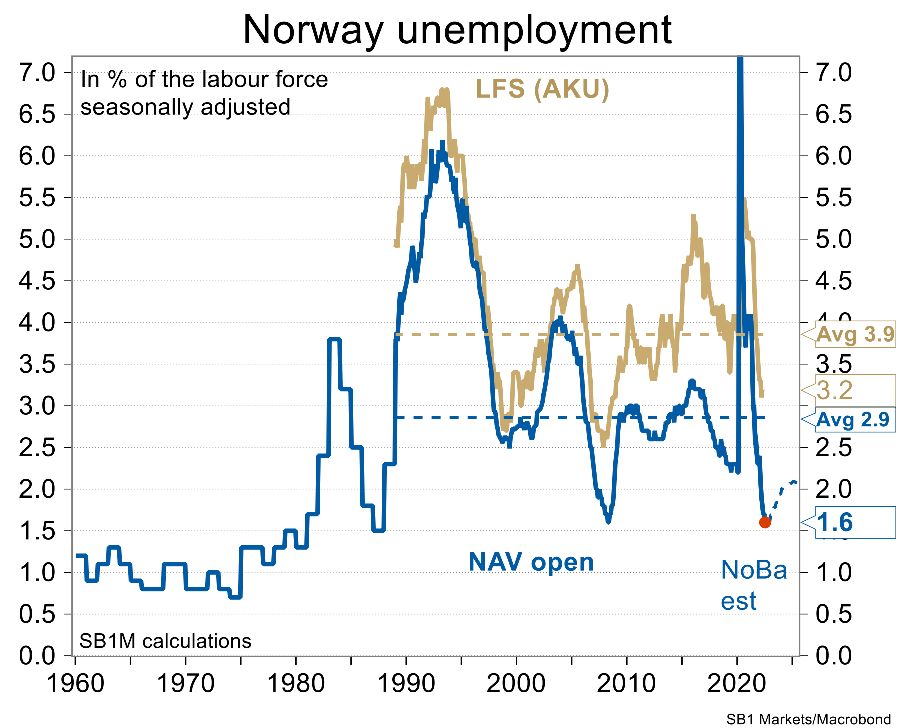




- **The ‘full time’ open NAV unemployment**, which includes furloughed workers, fell by almost 3’ persons in July (seas. adj) to 46’, far below our 49’ forecast as June was revised down by 1’ persons. The rate at 1.6% (s.a) is equal to the lowest level before the financial crisis in 2008, and almost the lowest level since 1980 (check next page) – and below NoBa’s expected 1.7%. However, NoBa expects a 1.6% rate for the rest of 2022
- The number of **partially unemployed** (not incl . in the ordinary unemployment no.) fell by almost 2’ to 20’, and including measures, the **total unemployment** fell by 4.5’ to 79, 21’ below the pre-pandemic level. <u>The overall unemployment rate fell by 0.2 pp to 2.7%</u>
- 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** was stable at 3.2% in May, we expected a 0.1 pp decline – as employment flattened

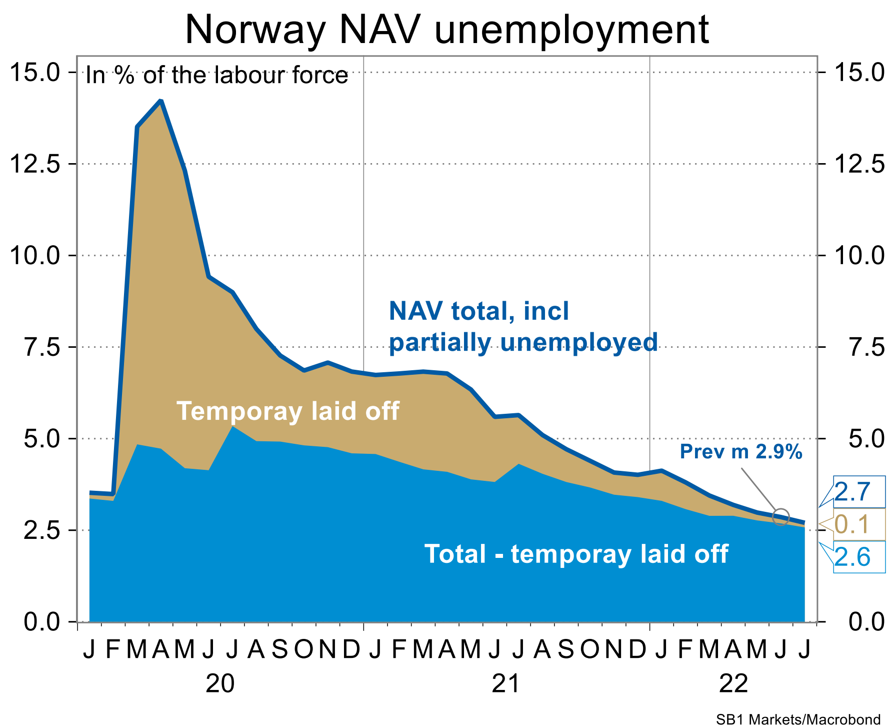
NAV unemployment down 0.1 pp – at the pre banking cirisis level (1988)

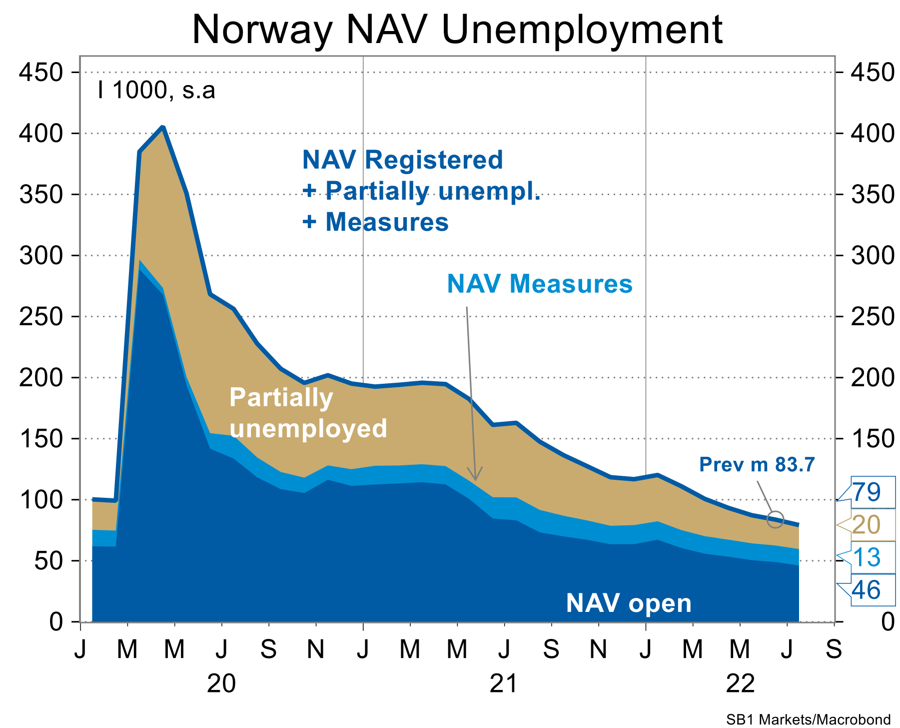
If further down 0.2 pp: The lowest level since 1980



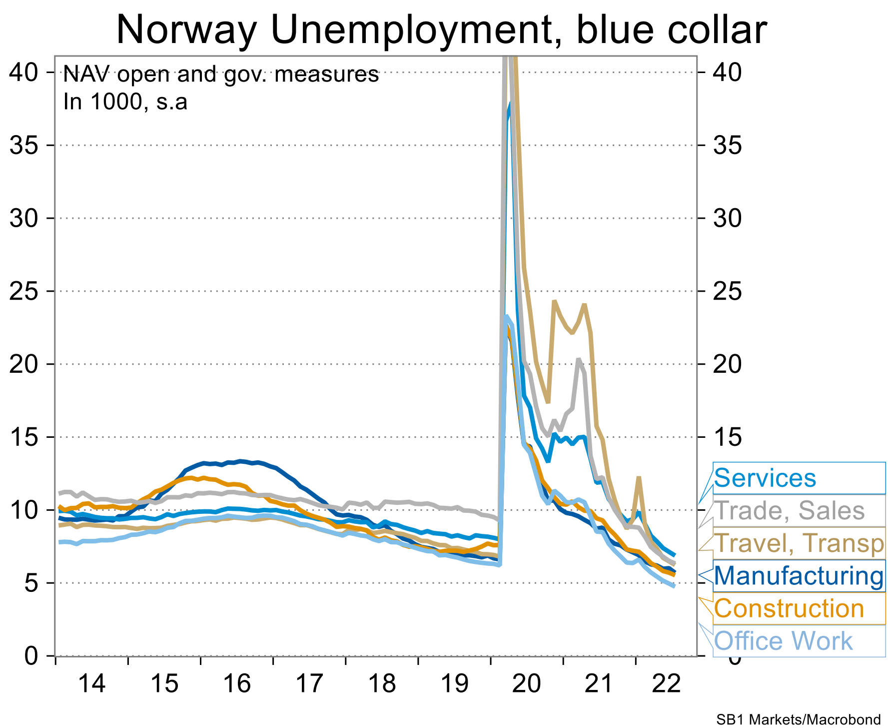
Down, down, down – whatever measure we apply

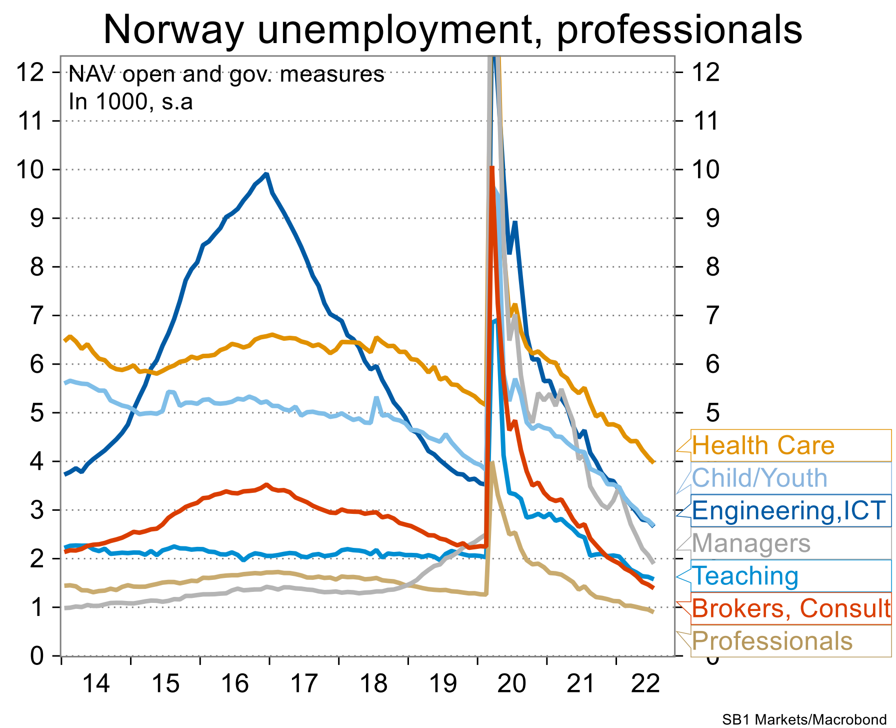
Grand total unemployment is now 21' below the pre-pandemic level





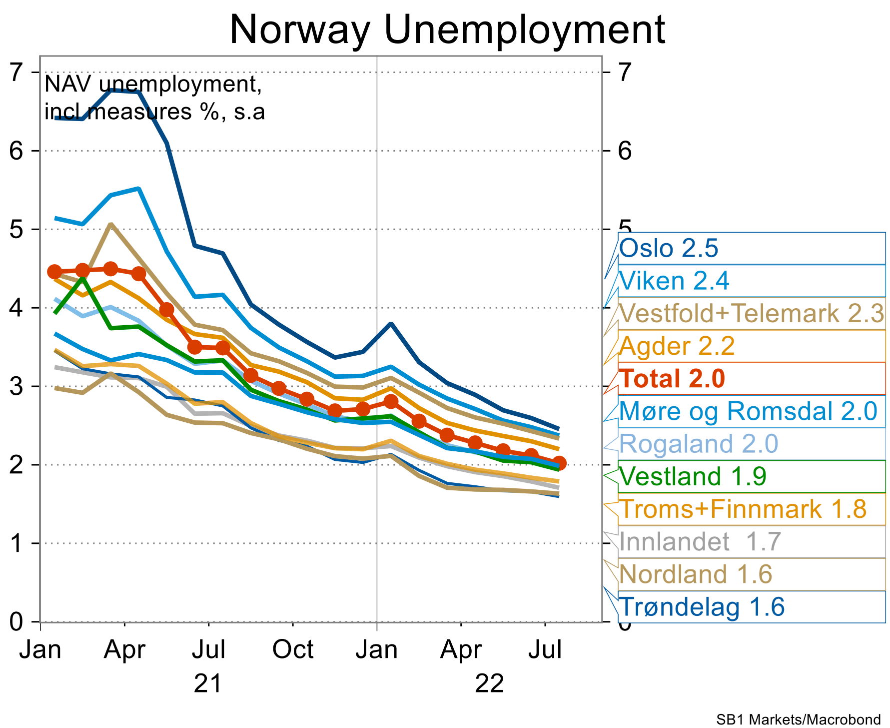
Unemployment is still declining for all sorts of labour

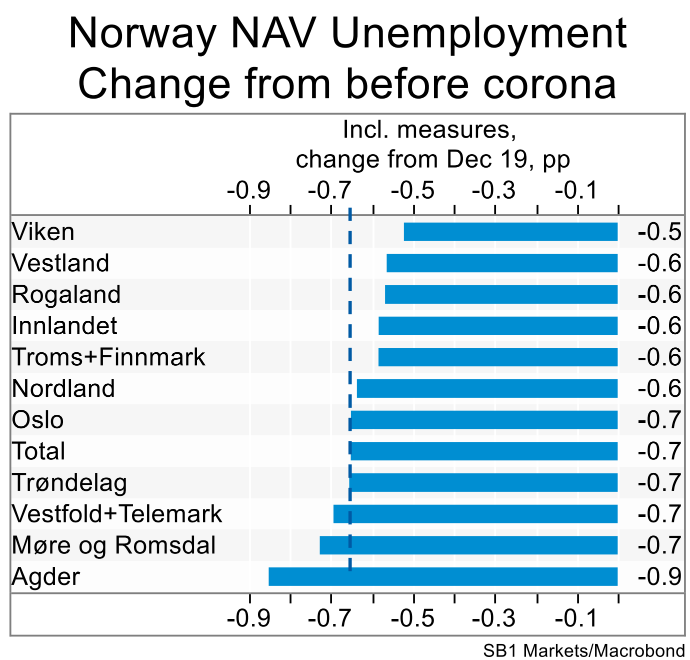




Unemployment is falling everywhere – and to well below pre-pandemic levels

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

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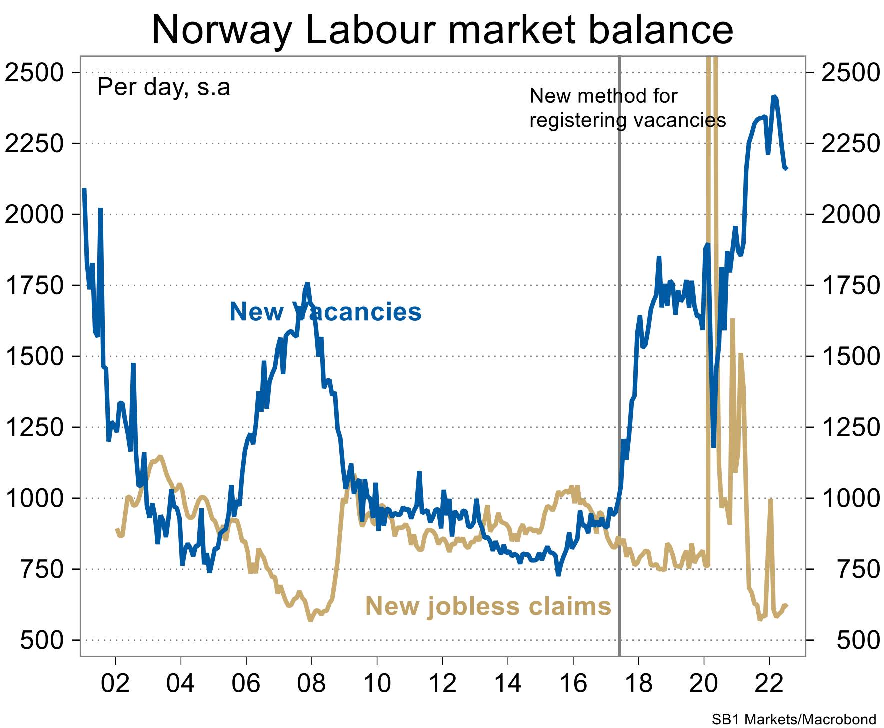
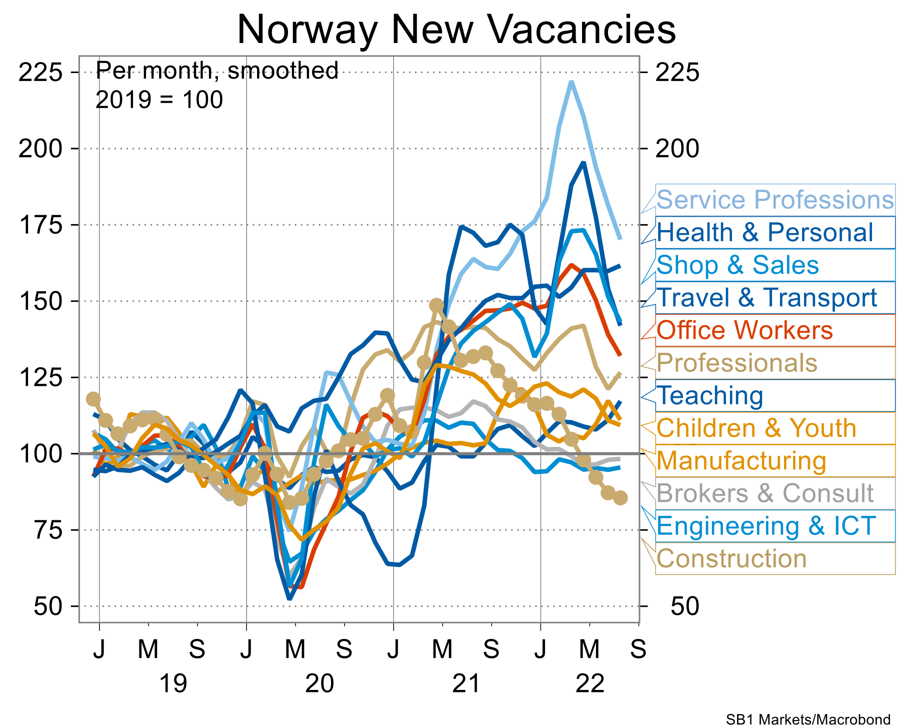
New job openings have peaked, but are still at a very high level – broad based

Fewer vacancies in construction than in 2019, engineering in line, others above the 2019 level



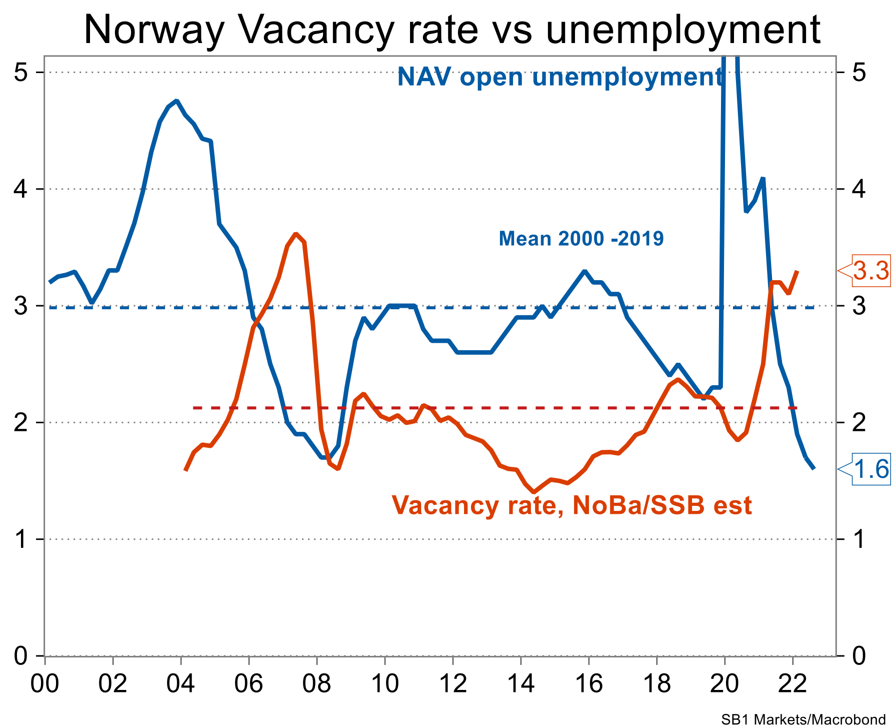


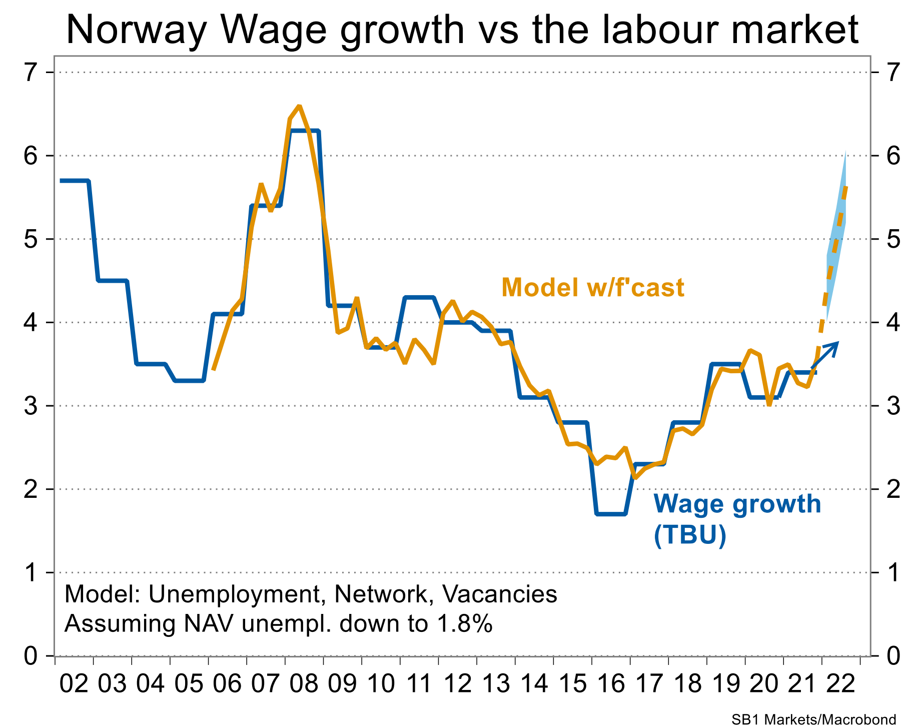
- Most sectors have announced somewhat fewer new vacancies recently, most pronounced in the construction sector
- The no of new jobless claims have probably bottomed

SpareBank 1 MARKETS

Can wage inflation climb further? Our simple model suggests it will

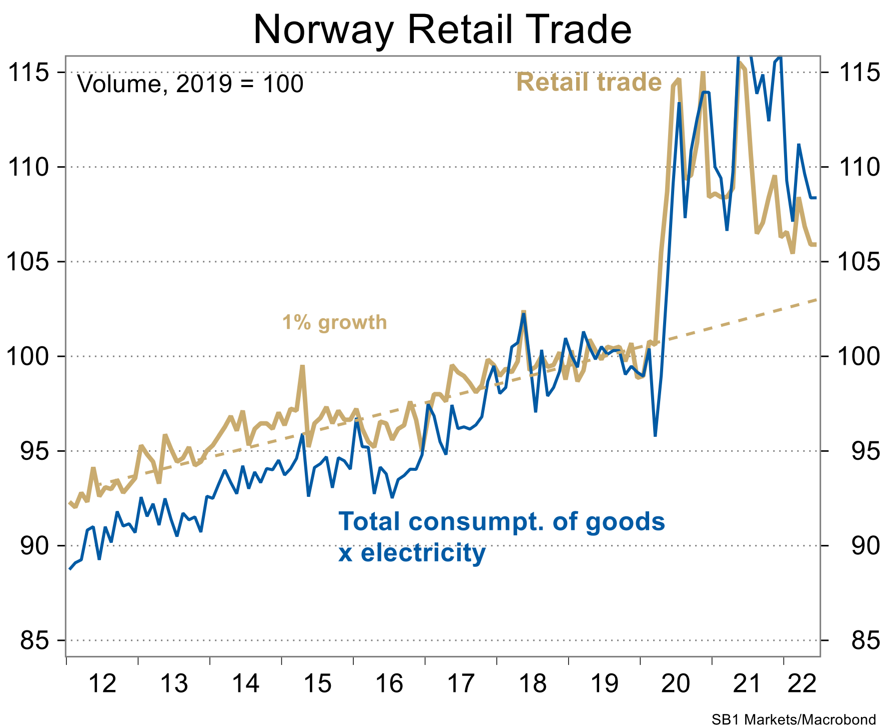
The labour market is tight – and it is still tightening

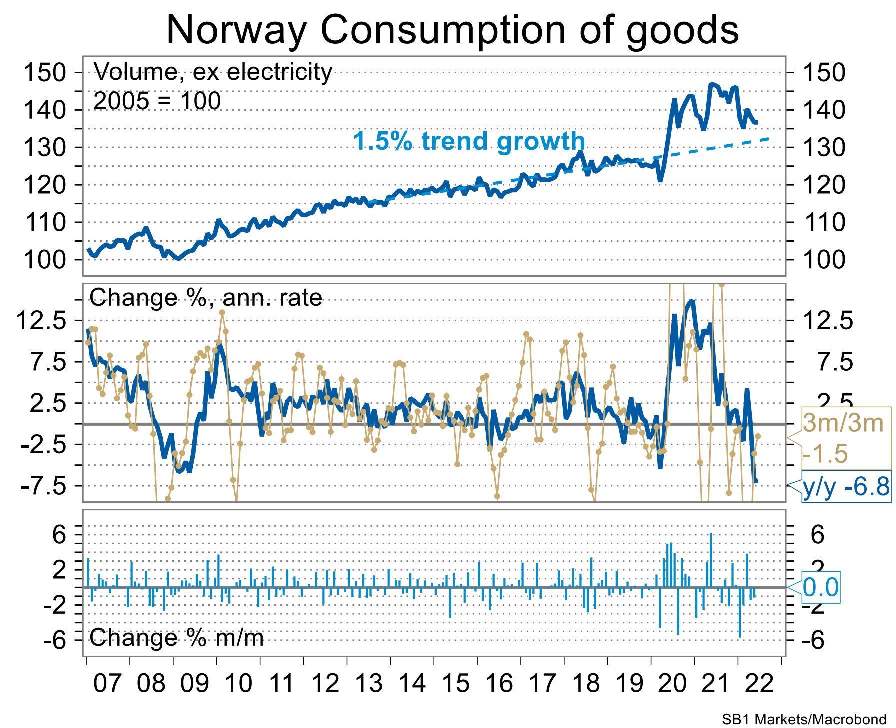




Retail sales flattened in June, are trending down

Both retail sales and total consumption of goods flat m/m

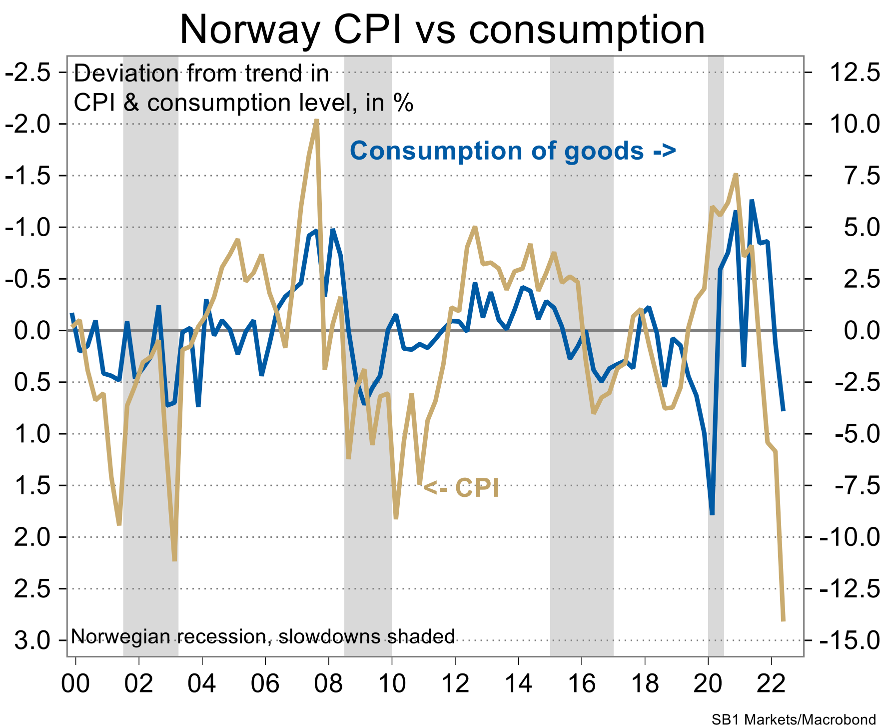




- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth paths. Sales may still be somewhat 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 goods back down to the pre-pandemic trend
- No sector story in June

Higher consumer prices contributes to lower consumption

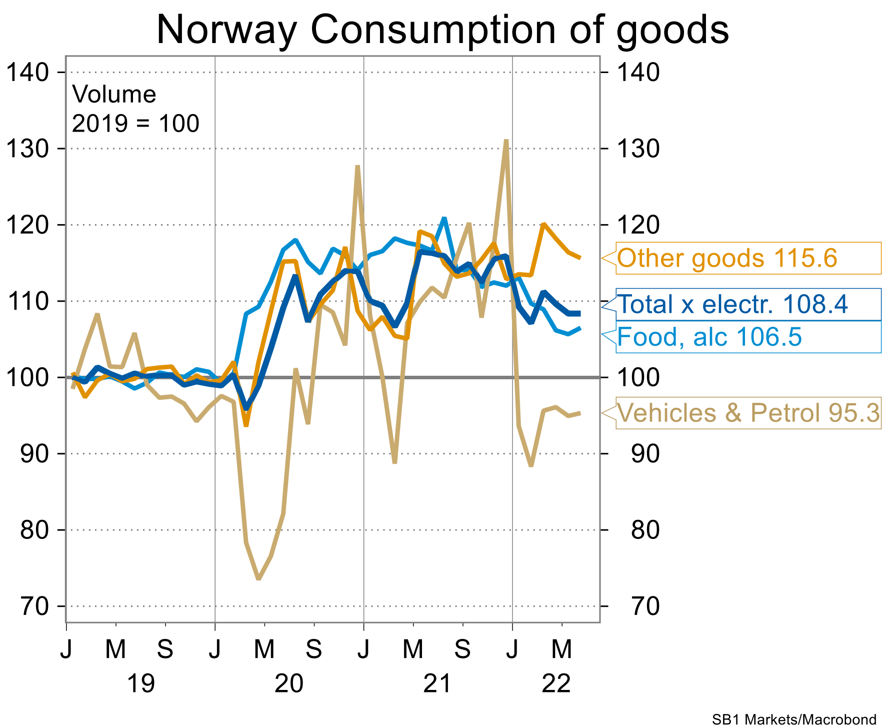
Consumption of goods (volume) are negatively correlated to changes in consumption prices

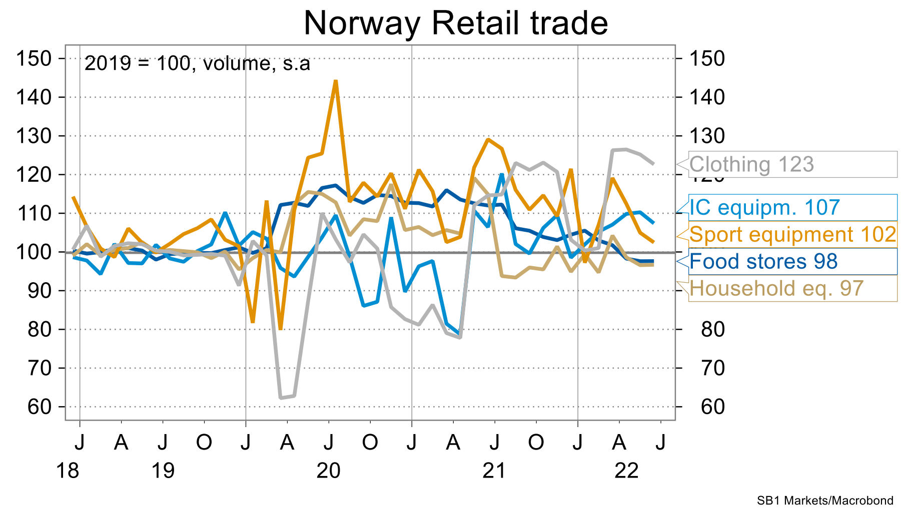


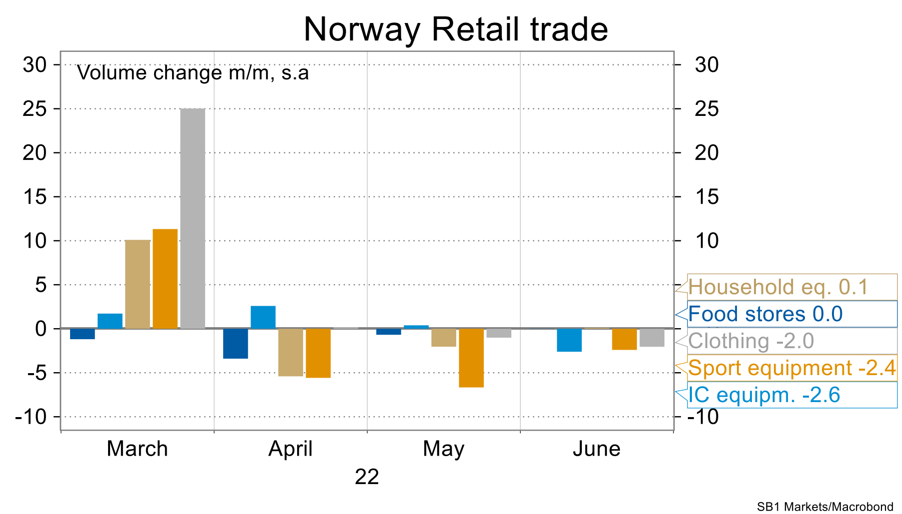
- The elasticity for consumption of goods vs. changes in headline CPU is some -2, probably as consumption of services normally are more stable than goods – and because high prices normally are associated with a weak Norwegian economy (like oil prices down, NOK weaker, higher imported inflation
- So far, 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 June but not by much

Food consumption rose slightly in June – in volume terms







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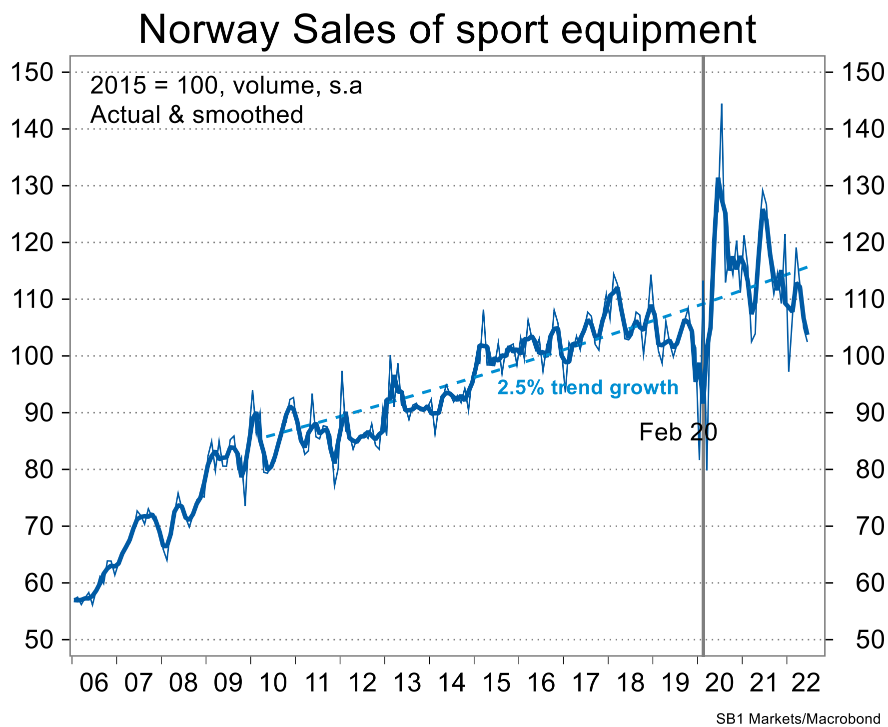
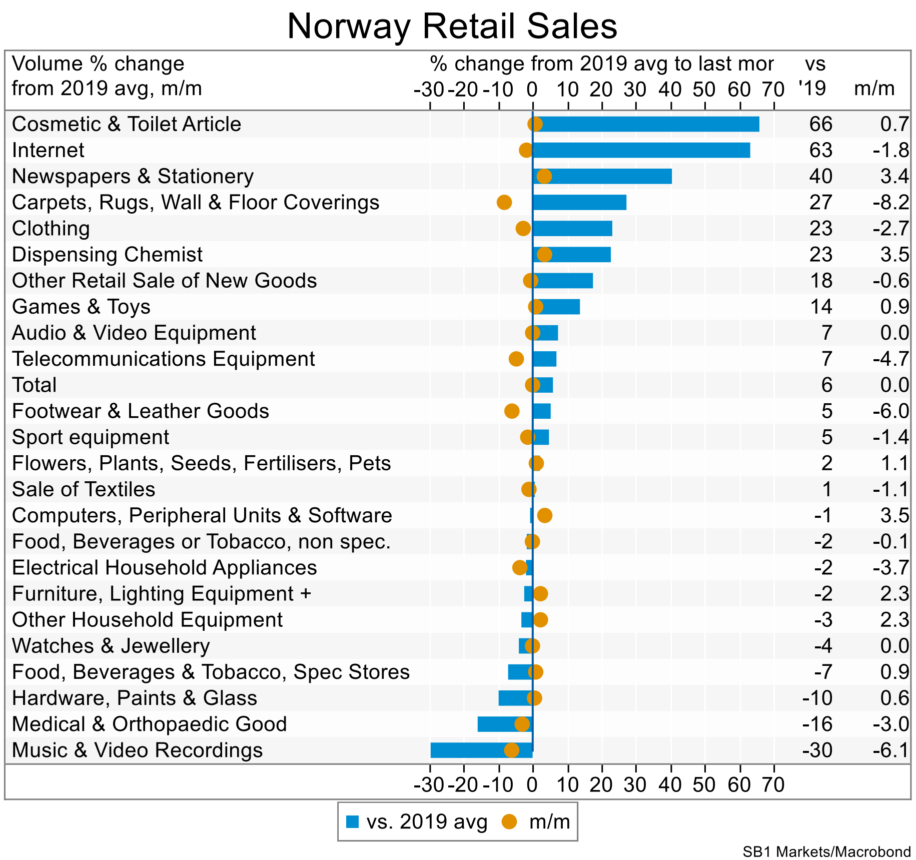
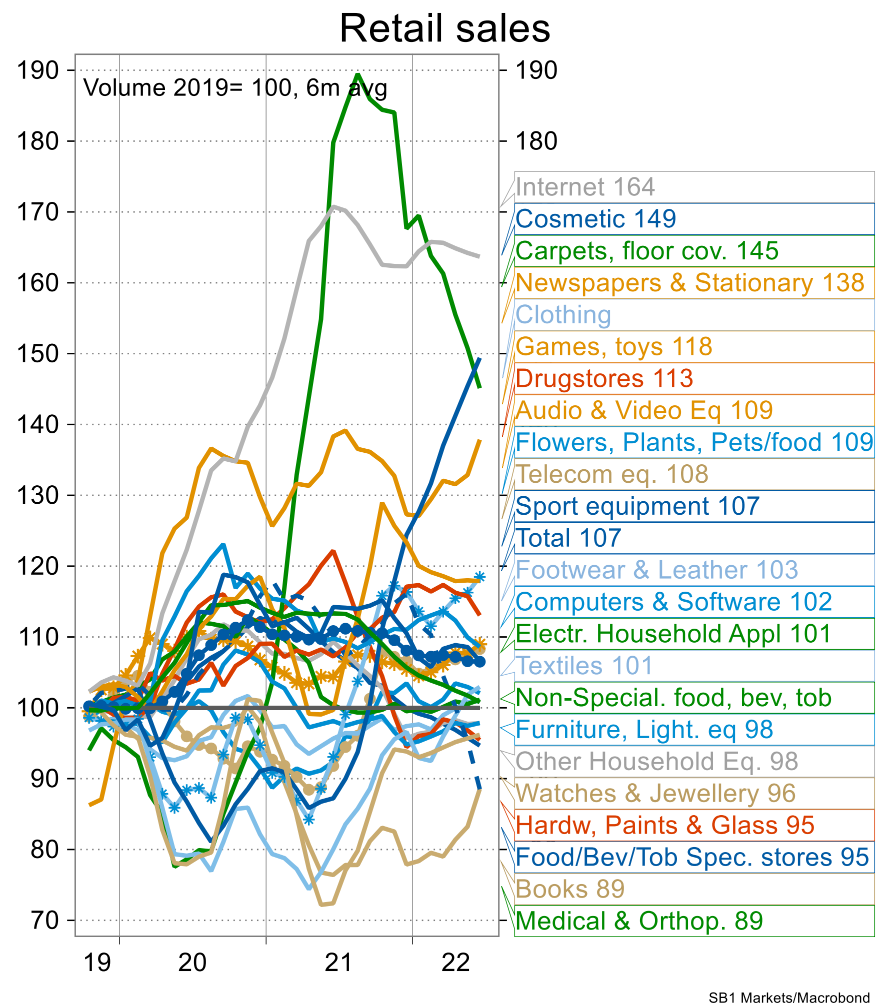
Sports equipment: Below a normal level – and a limited downside from here?



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

Cosmetics, Internet sales & home refurnishing at the top



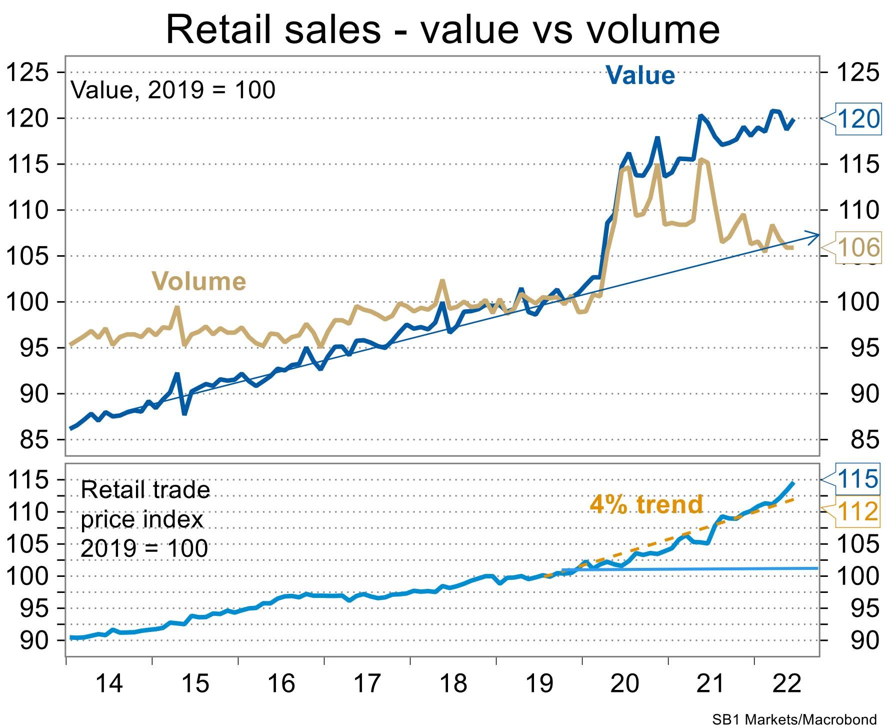


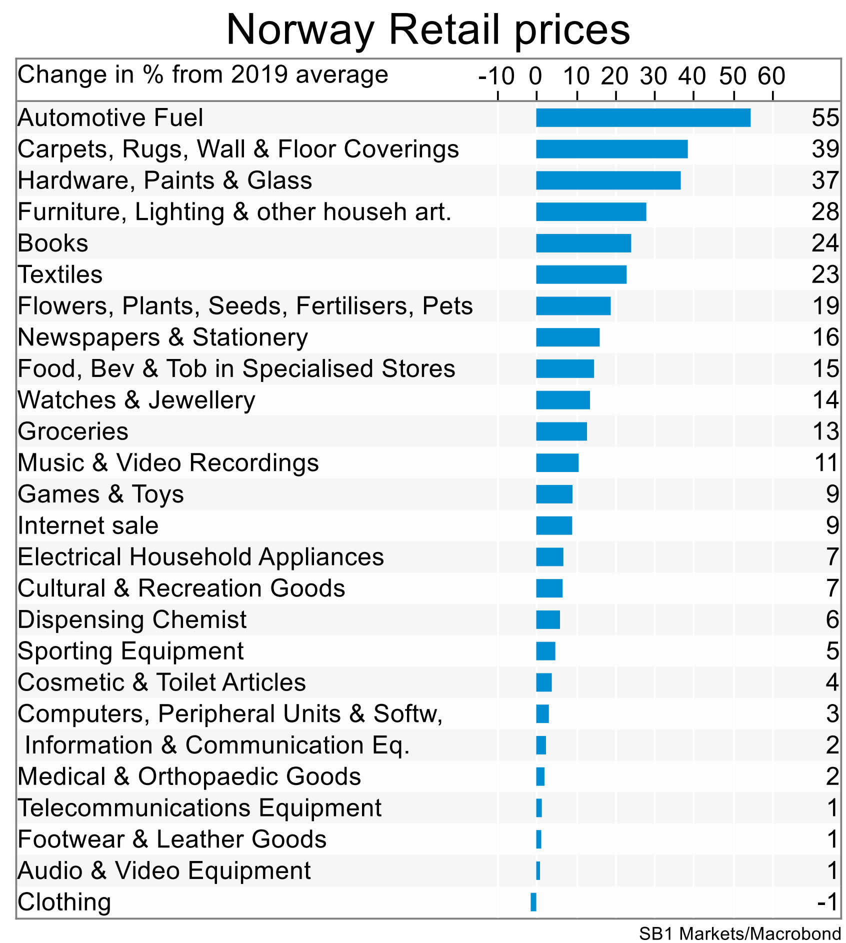
- The losers were mainly losers before the pandemic too
- Where is the risk now
  - » Guideline: Start at the top of the list.
  - » There are excuses, but probably not that many

SpareBank 1 MARKETS

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

Retail prices have been increasing at well above 4% pace since 2019, in sum by 15%!

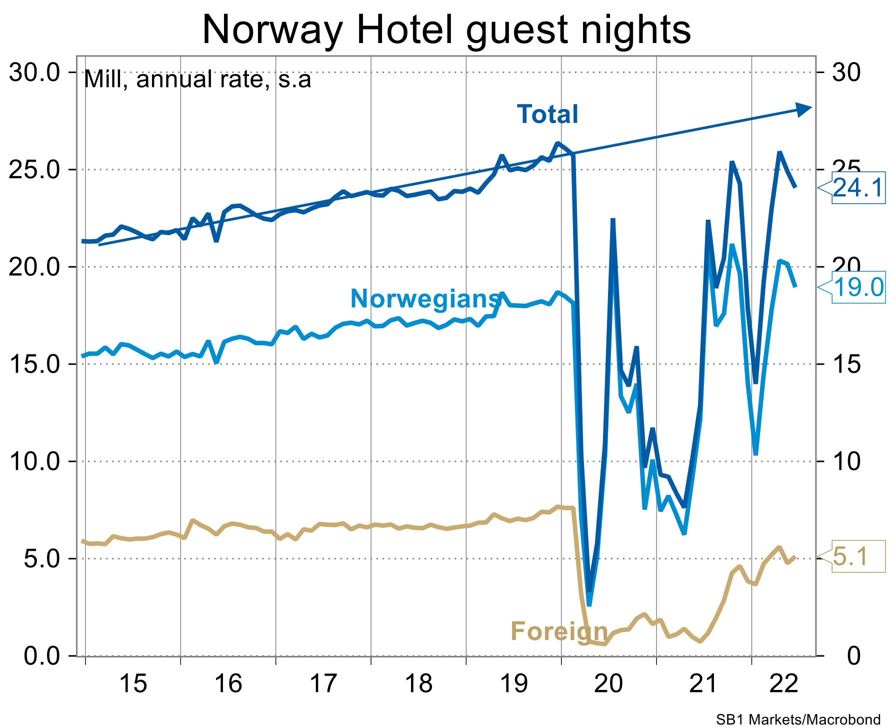


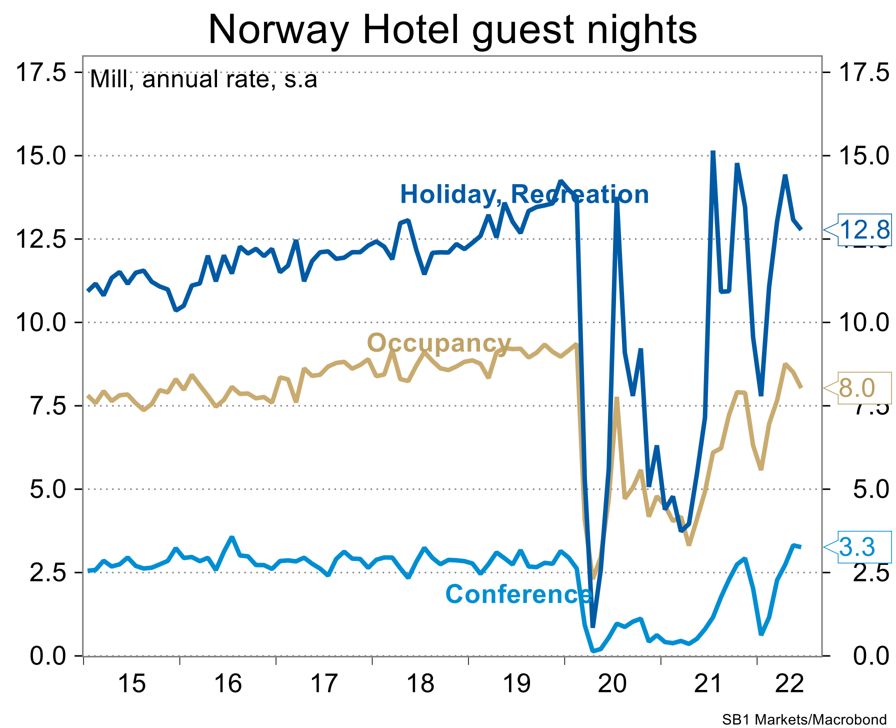


- Retail sales, measured in value terms, are 20% above the 2019 level and some 13% above the pre-pandemic trend
- Huge differences is **price changes**:
  - » Gasoline up 55%, floor coverings, hardware (building materials) are up 37% – 39%, furniture 28%
  - » Close to the bottom of the list: Sport equipment prices are up just 5% and clothing is down 1%!

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

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

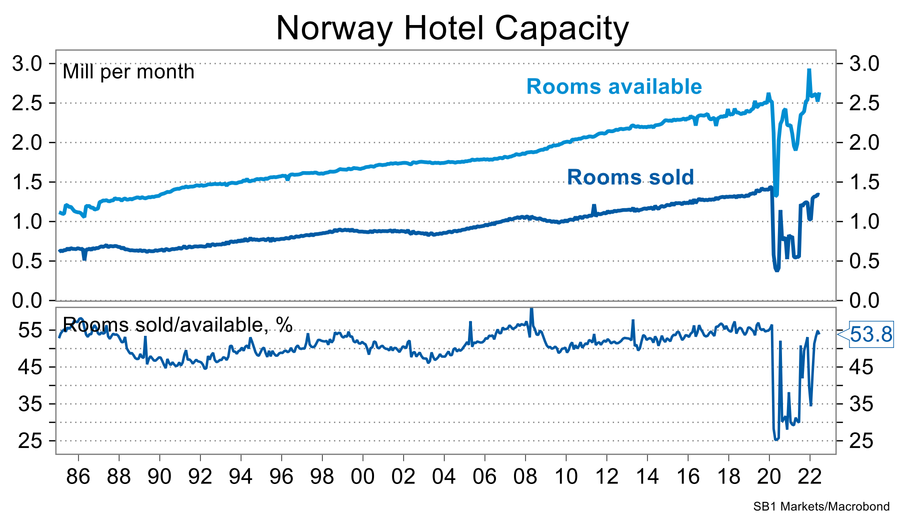


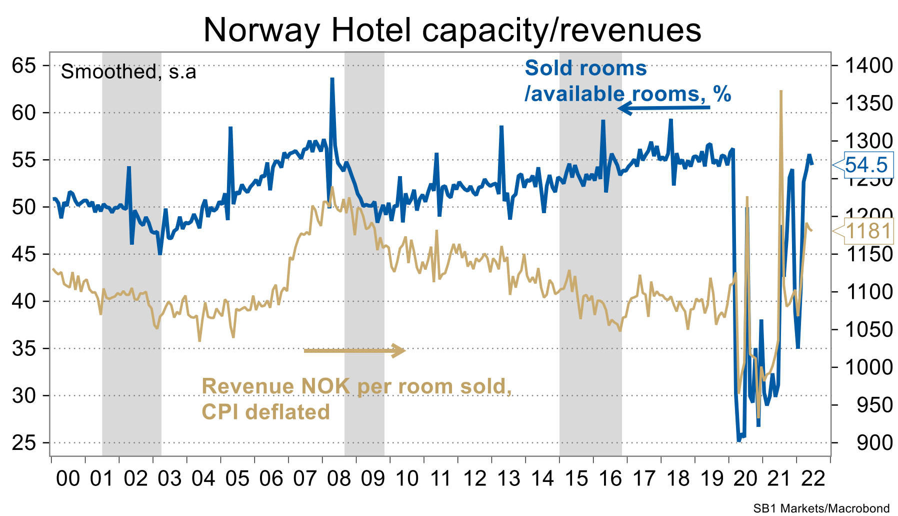


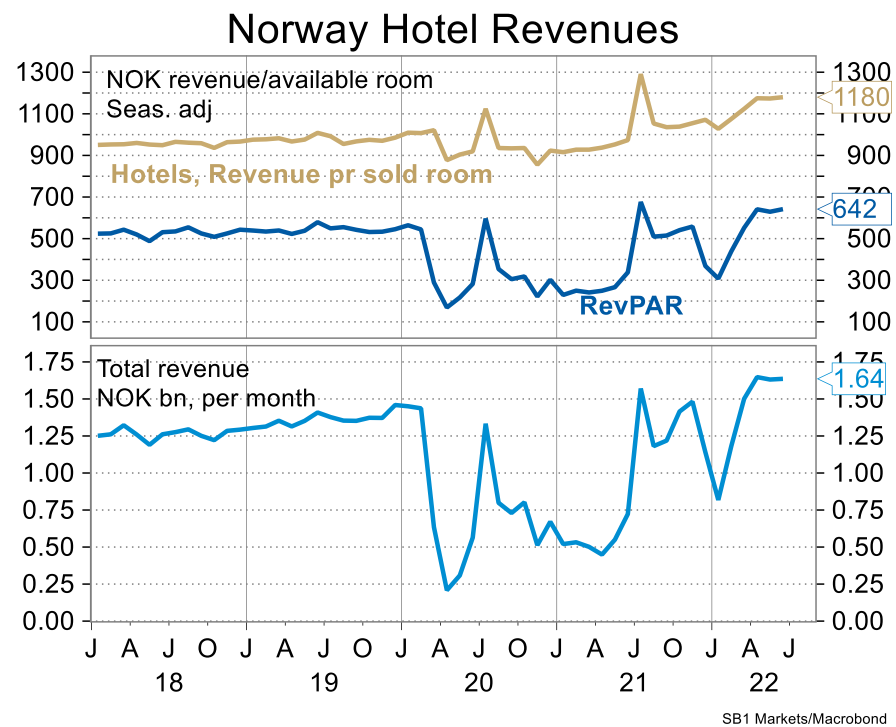
- Recreational traffic is back to a normal level, even if the total number of foreigners are still down 1/3 vs the pre-pandemic level
- The conference market is back the pre-pandemic level – it took just some few weeks after restrictions were lifted
- Other business guest nights are some 10% below the pre-pandemic level – no dramatic change in
- The no. of guest nights is still below the pre-pandemic trend growth path, but less than 5%, and just due to fewer foreigners

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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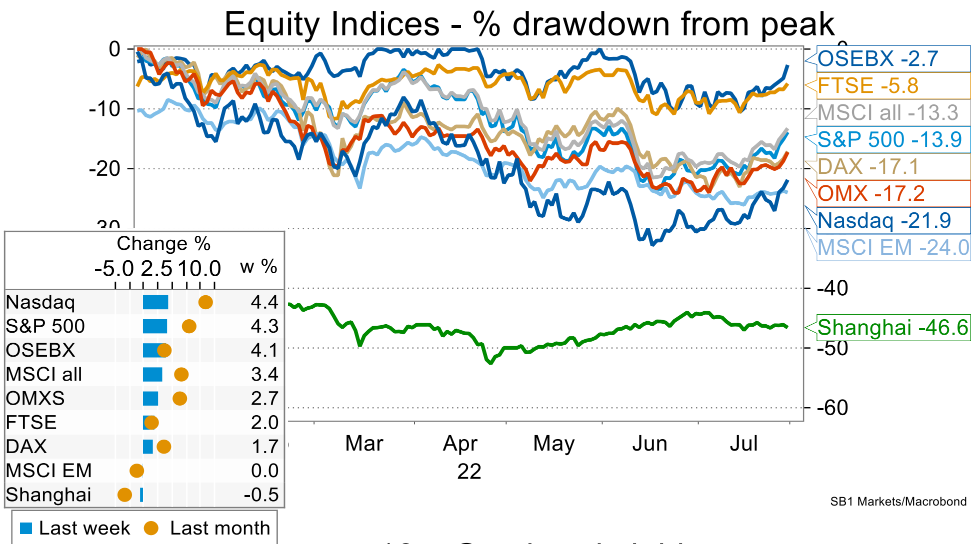
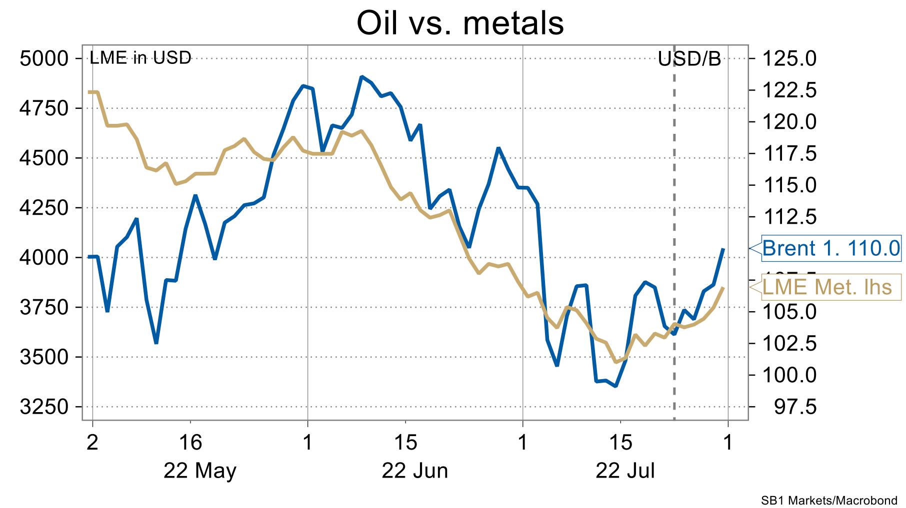
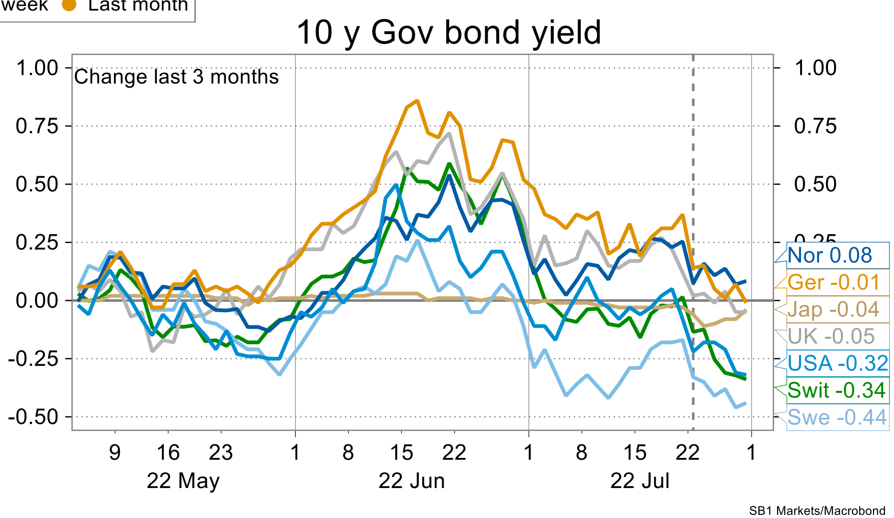
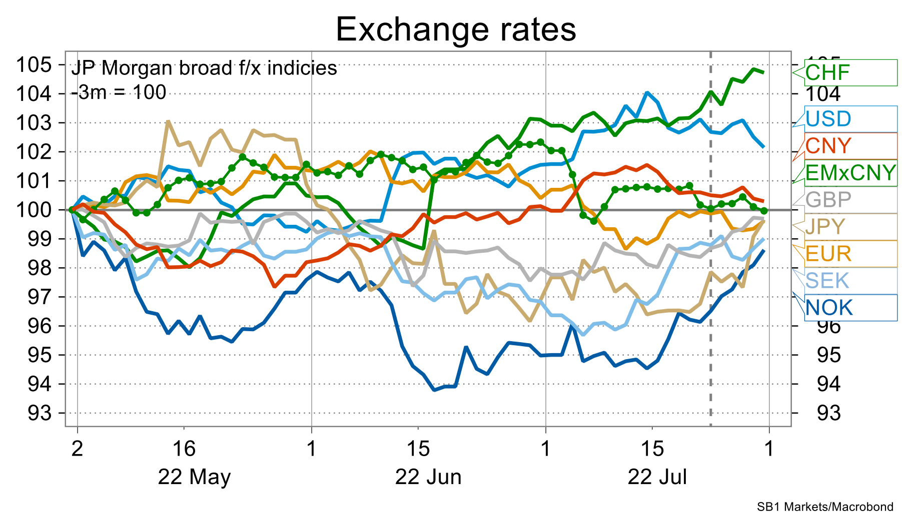
Risk on! A strong recovery in equities; Metals, oil up too – but yields down

Has central banks really turned dovish? We doubt – but the party is on. NOK is thriving!



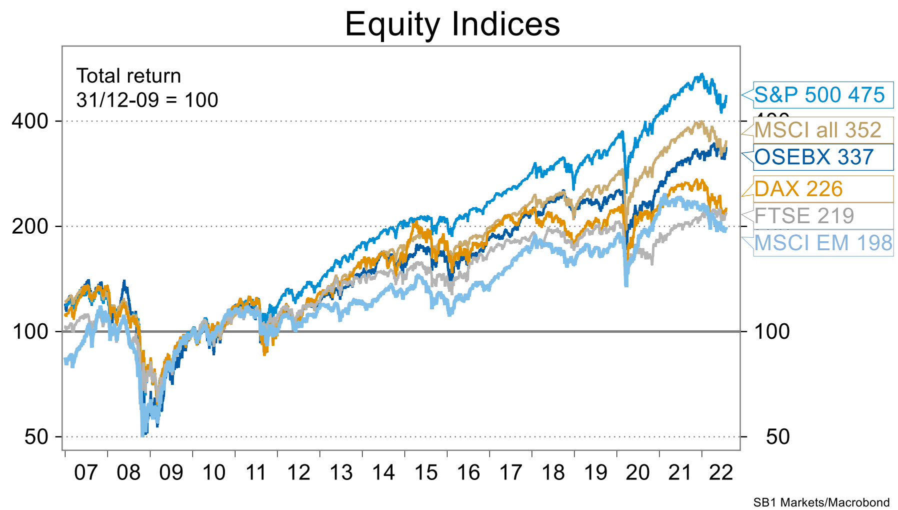


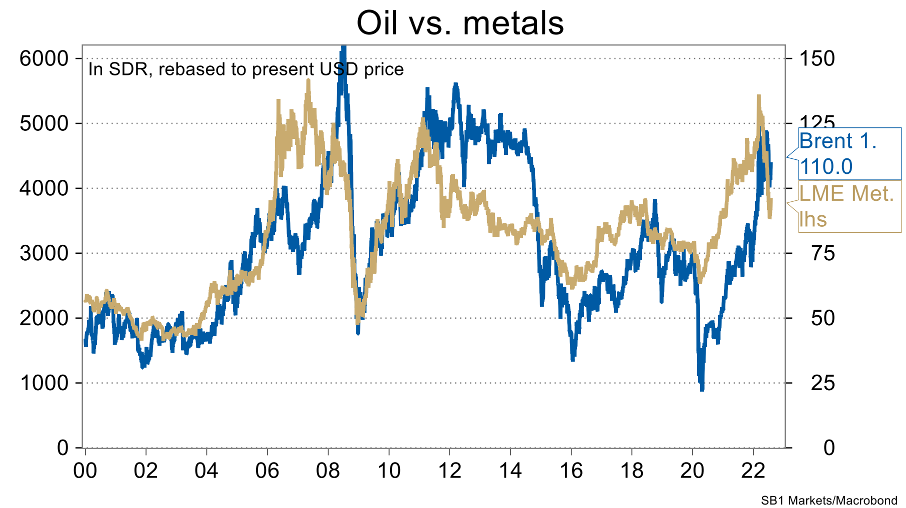


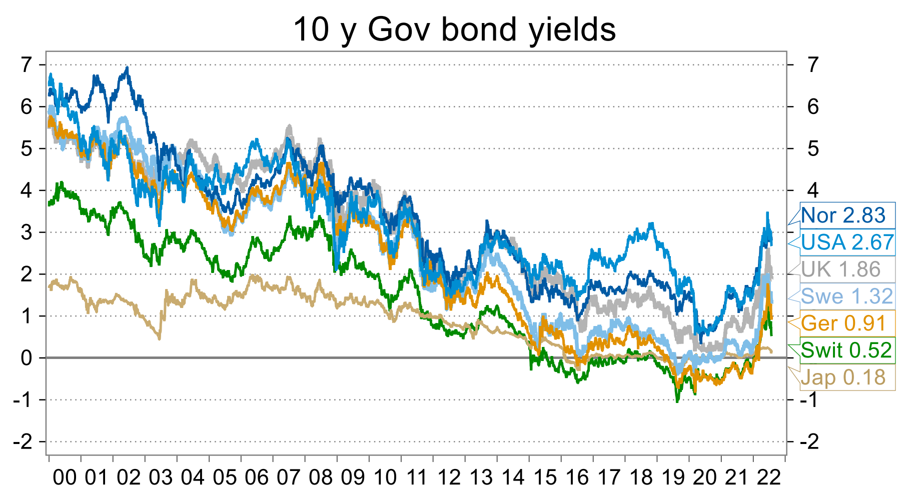


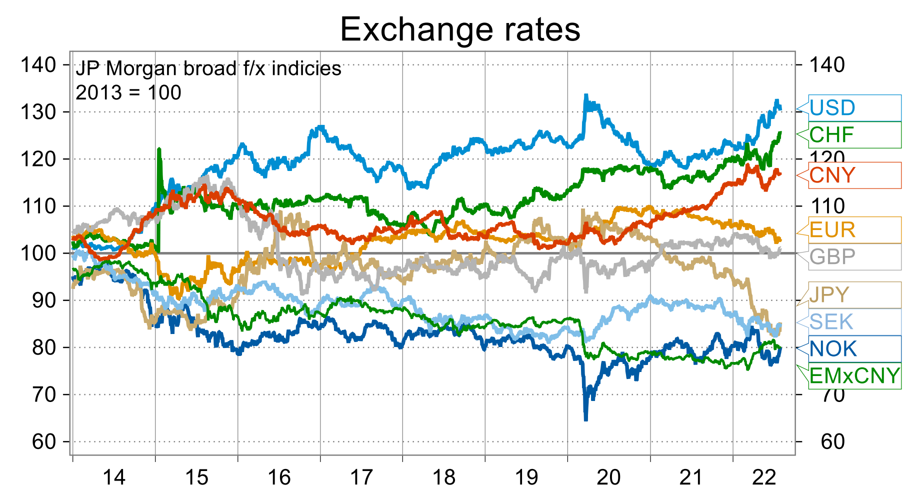
The big picture: Stock markets down, bond yields up

Commodities are on the way down again





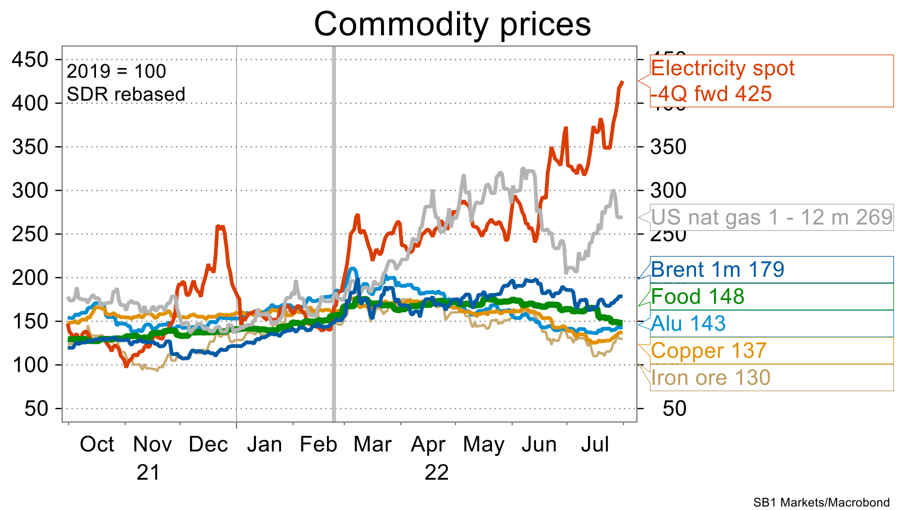


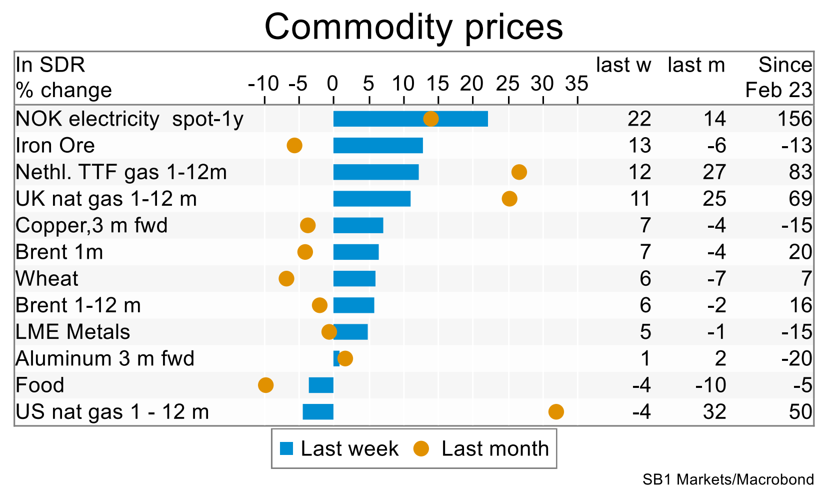


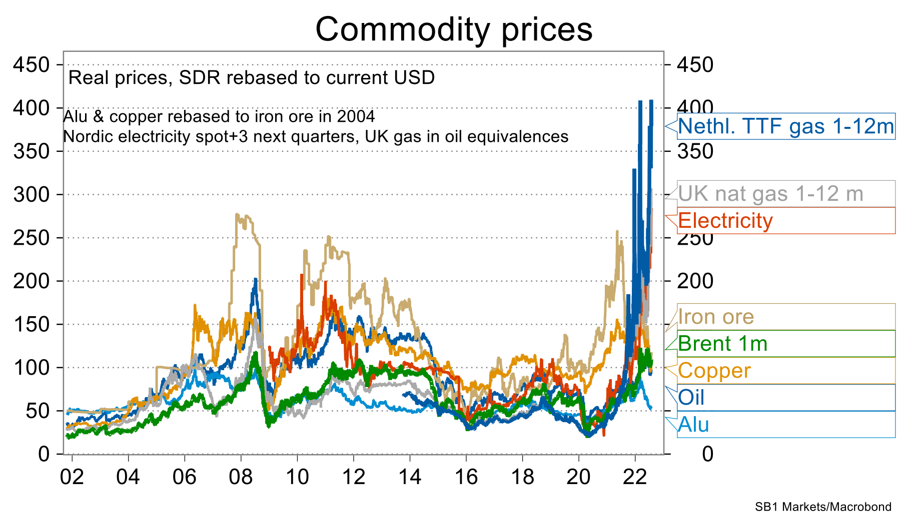
SpareBank 1 MARKETS

European gas/electricity prices up – and now metal prices rose too

However, food prices declined last week too







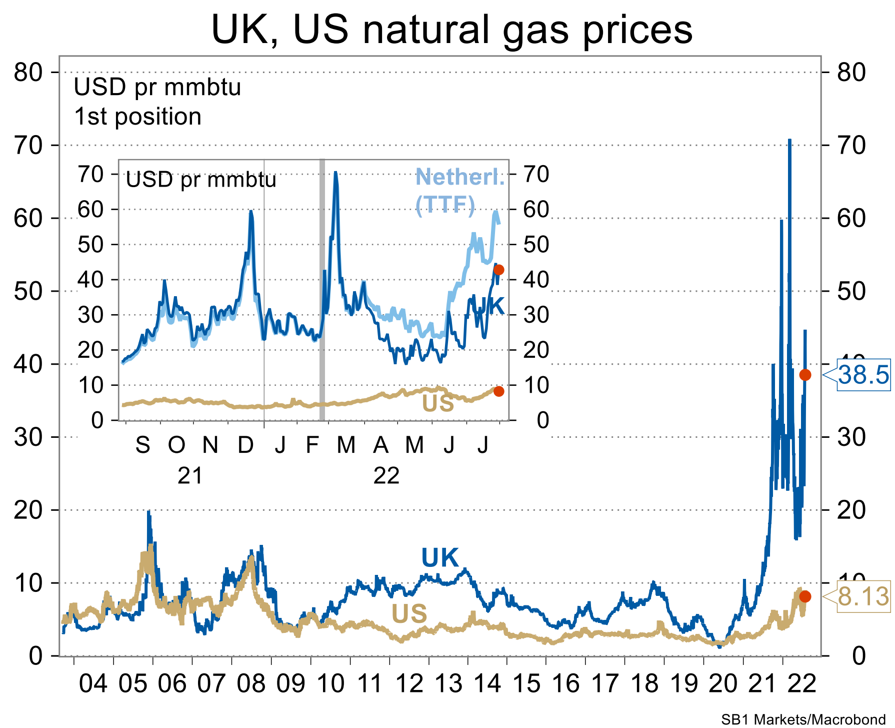
- Oil prices have stabilised, following the decline
- European natural gas prices rose further last week
- The Economists food commodity index fell sharply last week, by 4%, and they are lower than before the war started
- Metal prices have been on the way down but rose last week – in tandem with stronger stock markets

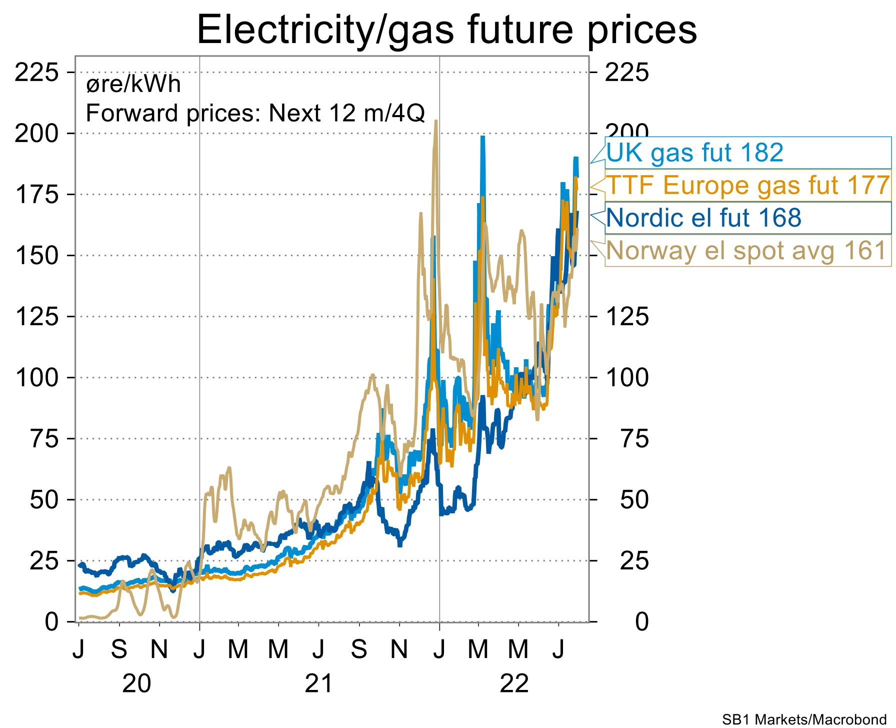
SDR: IMF's Special Drawing Rights – a 'global currency'

SpareBank 1 MARKETS

The main challenge: European gas supplies & prices

Russia has reduced exports to Europe again, and gas/electricity prices climbs further

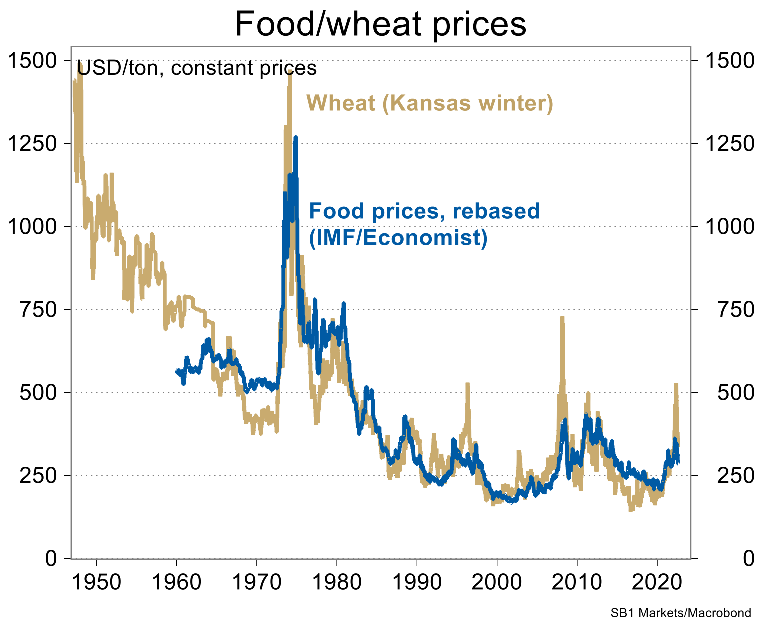


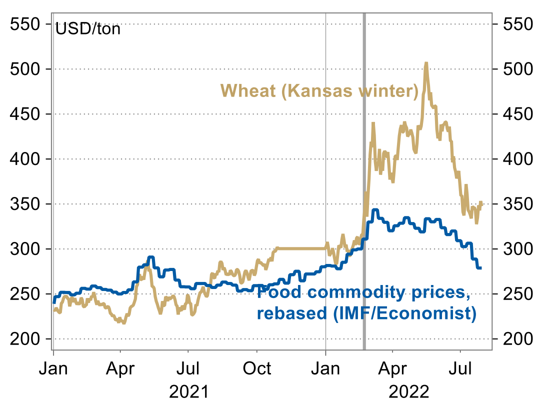


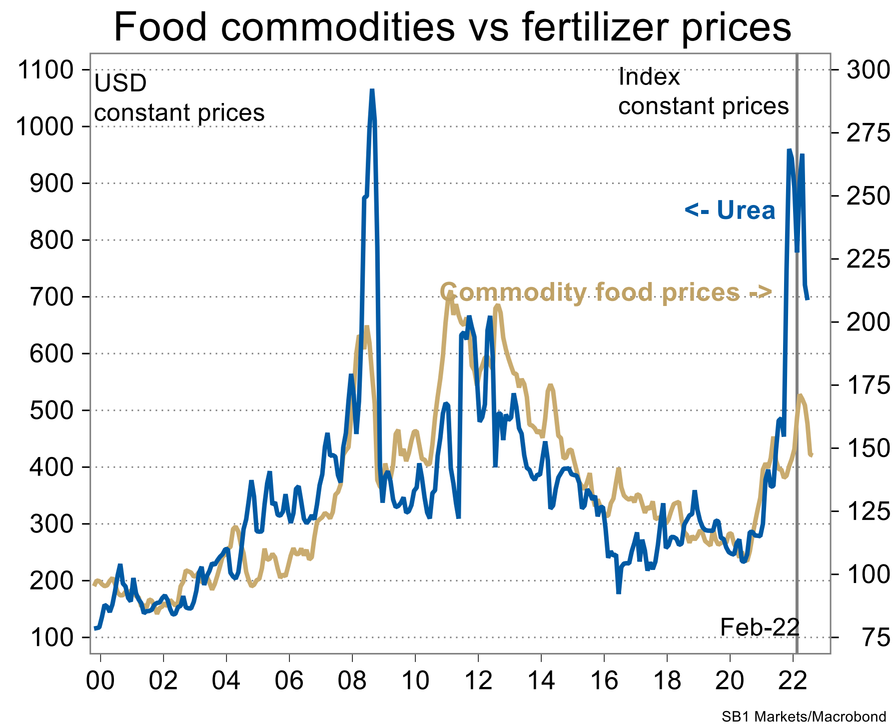
- Nordic future electricity prices for the coming 12 months are in line with the current average price level in Norway, and future prices are up 3 – 4 times!

Food prices are trending downwards

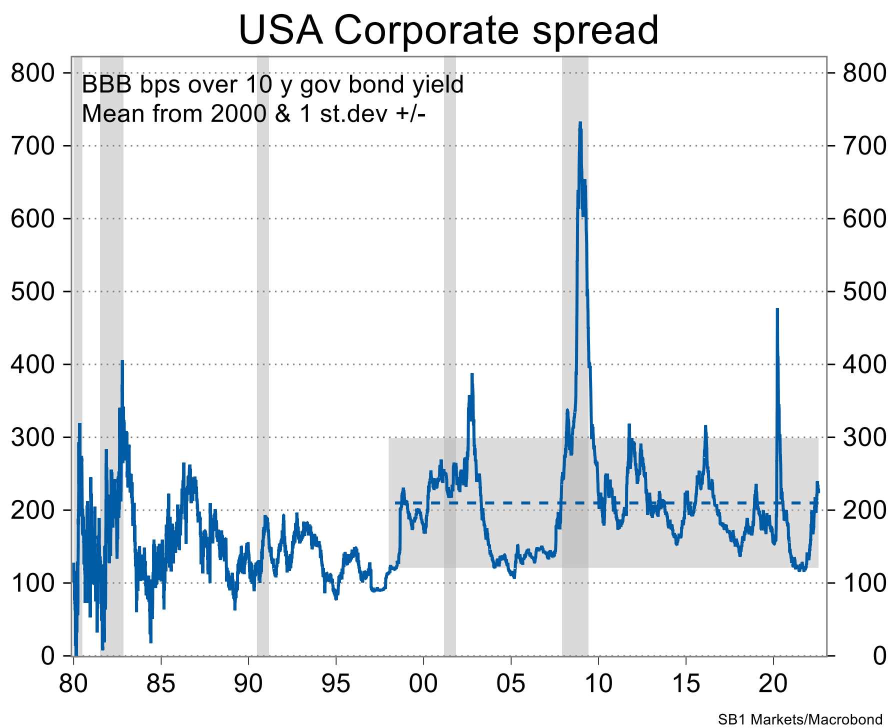
Where is the global food crisis??

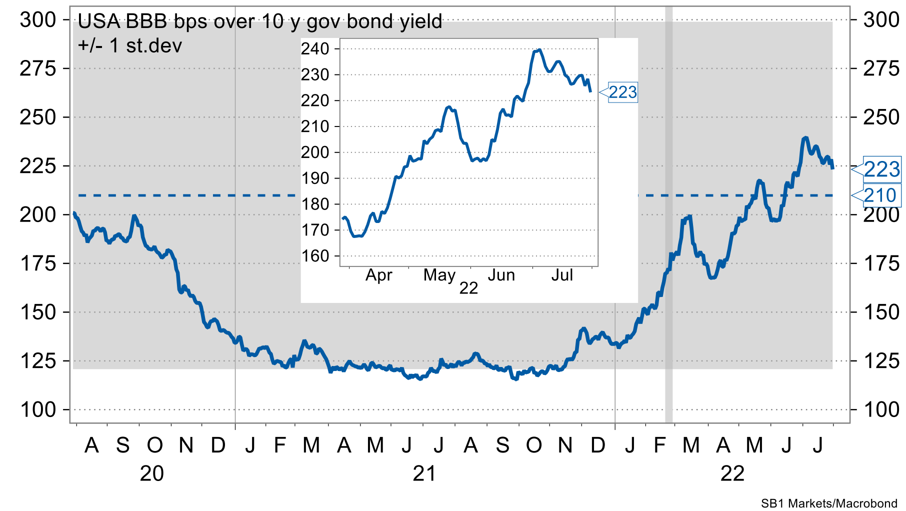






Risk on! Credit spreads have fallen slightly through July





- The US BBB spread is still up 100 bps from the bottom last autumn, almost a doubling

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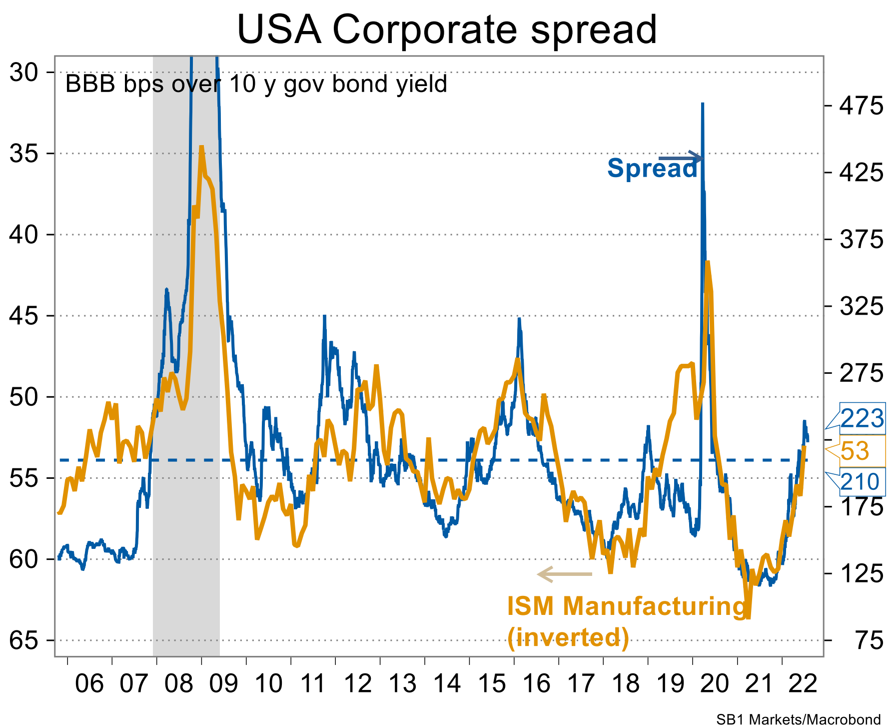
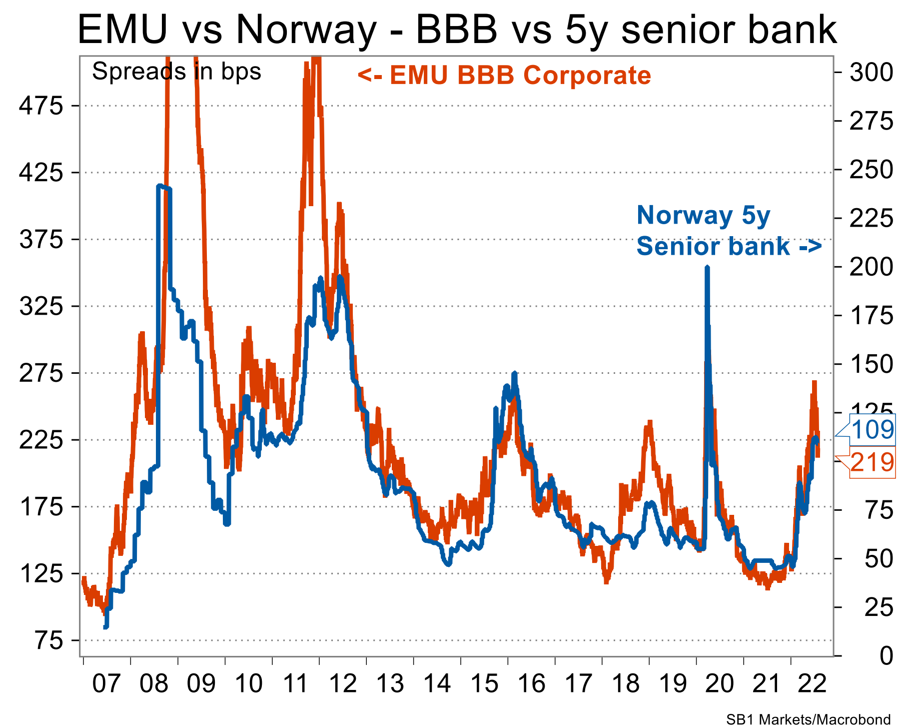
Why have credit spreads widened past months? Could it be the slowing economy?

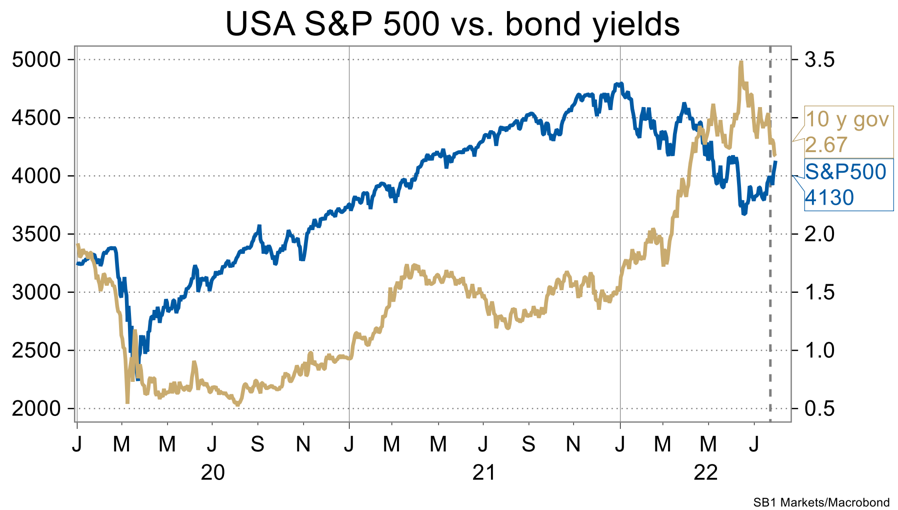
What do you think is more likely: An ISM at ~~50~~ 45 or 60 in some few months time? We are quite sure...

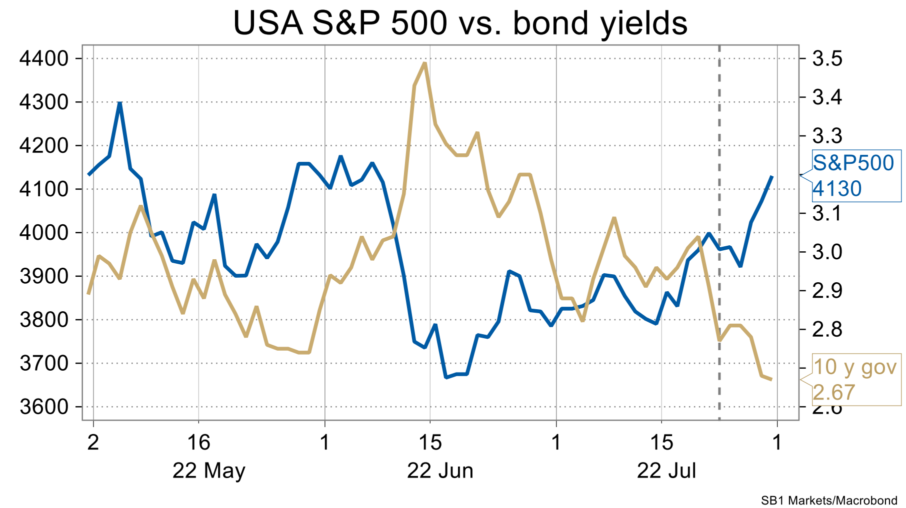


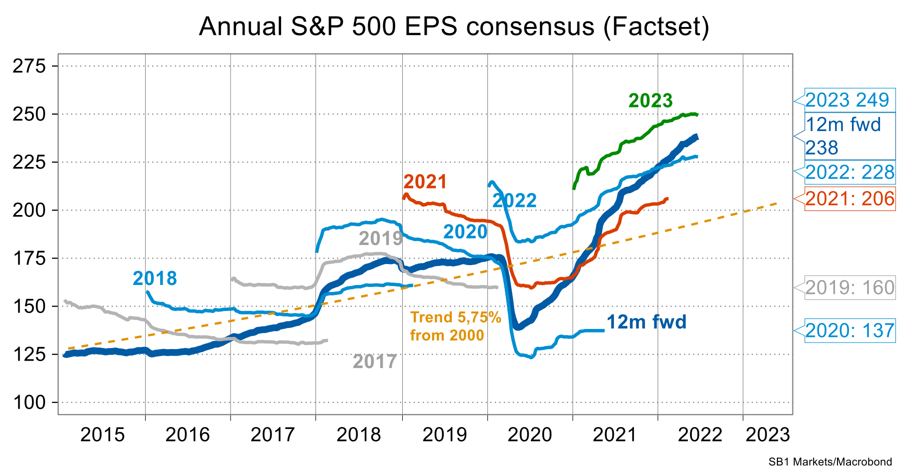


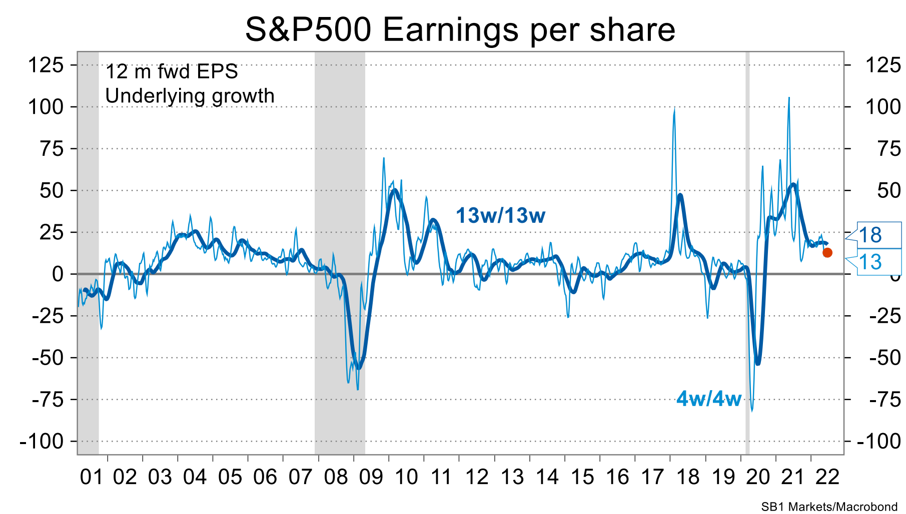
- The answer is not irrelevant for your view on the outlook for spreads, we think
- And do you think Norwegian spreads will be influenced by changes in the global credit market?

A decent recovery at the stock market in July, as yields are tumbling





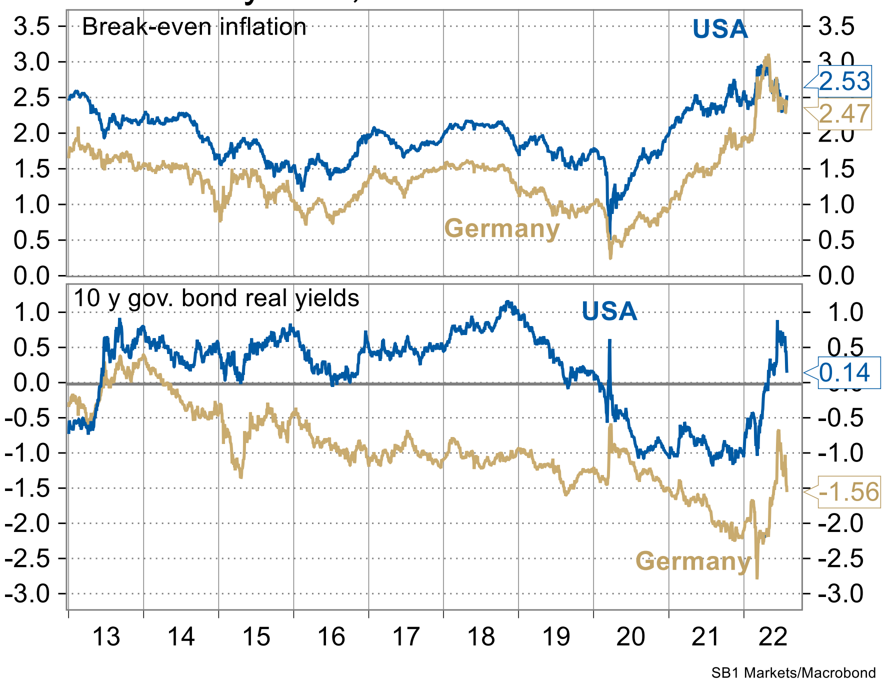


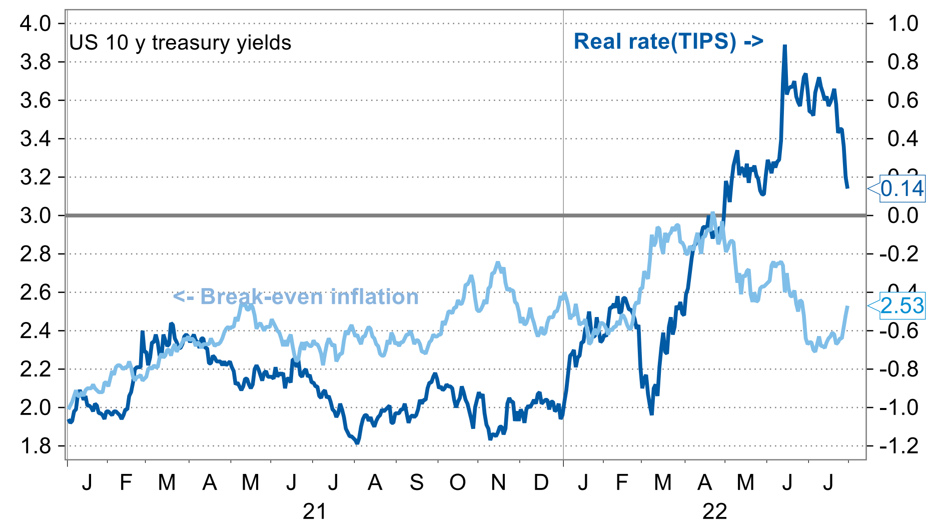


The rapid reversal: US real rates down 29 bps last week, expected inflation +19 bps!

The real rate down on a weaker growth outlook – or just because Powell has softened on inflation?

Real yields, break-even inflation





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	2.67	-0.10	-0.43	0.75	0.52
.. break-even inflation	2.53	0.19	0.17	0.12	1.06
.. TIPS real rate	0.14	-0.29	-0.60	0.63	-1.19
Germany nominal bund	0.91	-0.15	-0.69	0.69	-0.65
.. break-even inflation	2.47	0.18	0.02	0.48	0.40
.. real rate	-1.56	-0.33	-0.71	0.21	-2.80

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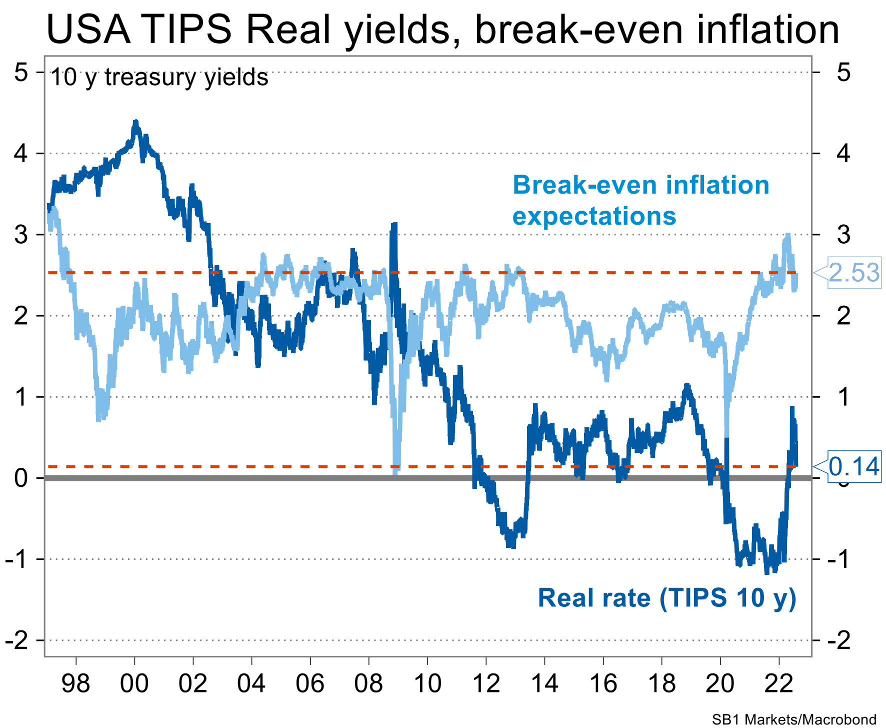
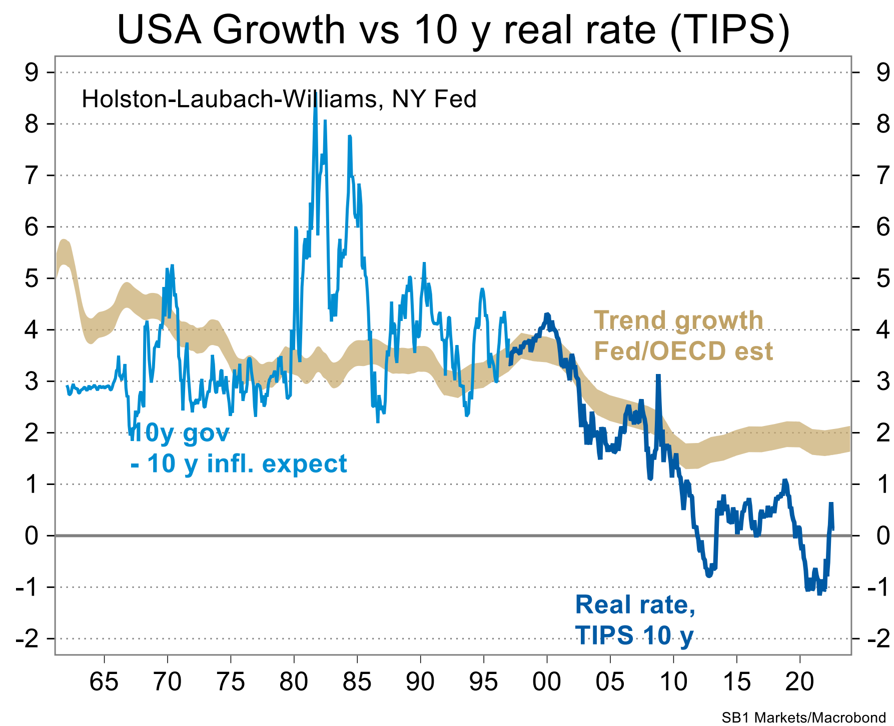
- The 10 y TIPS real has fallen 60 bp last month, while 10 y breakeven inflation expectations are up 12 bps
- Lower real rates and higher inflation expectations at the same time, makes the Powell story more likely, that the Fed has softened on inflation
- Is this interpretation of the Fed likely? We doubt. Sure, future interest rate hikes must take the development in the economy into account, especially as growth is has slowed – or have turned negative. <u>But that this not imply that the Fed is willing to let inflation go</u>
- However: A parallel shift in real rates/inflation in <u>Germany</u>, without softish signals from the ECB

The gap real yield growth gap is widening again. Or is it??

Real rates have fallen sharply recent weeks – and asset markets are thriving!

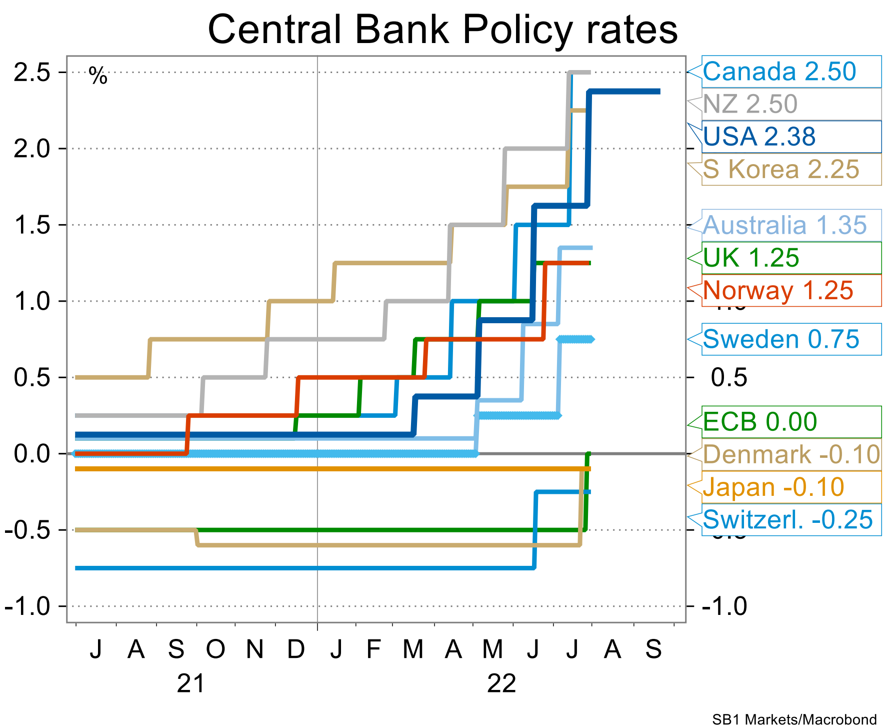


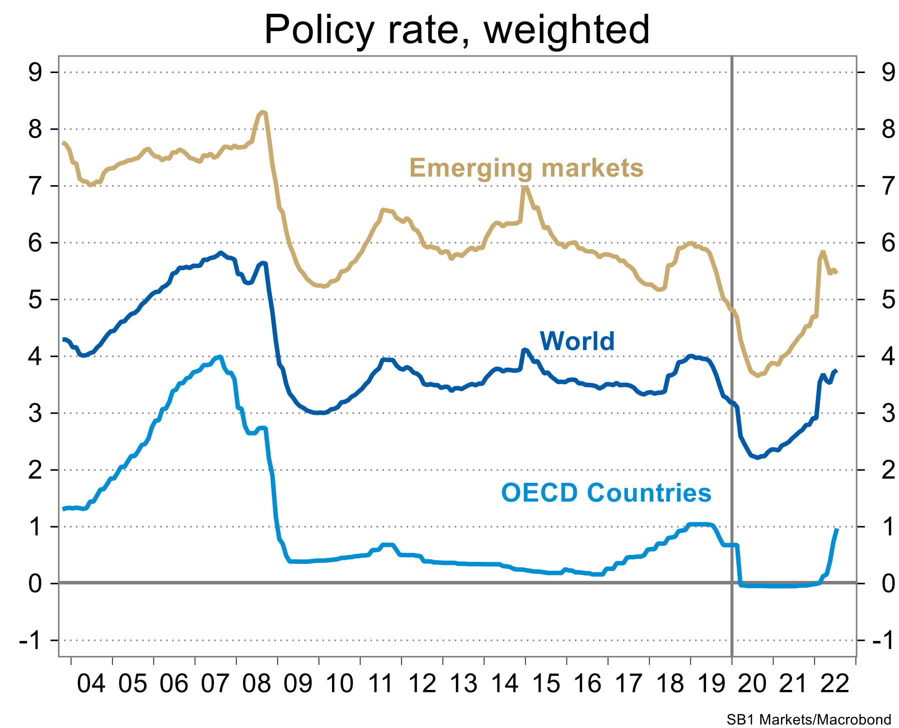


- But what if the growth outlook is weakening, at least short/medium term?

Central banks on the move

Norway is now at a split 6th position among rich countries





- In addition to rate hikes, most central banks have abolished their QE buying programs (well, the ECB established a new program two weeks ago, the Transmission Protection Instrument, TPI (and not TIP as we named it ☹)
- The EM average policy rate has come down due to the Russian cuts – but the trend is straight up

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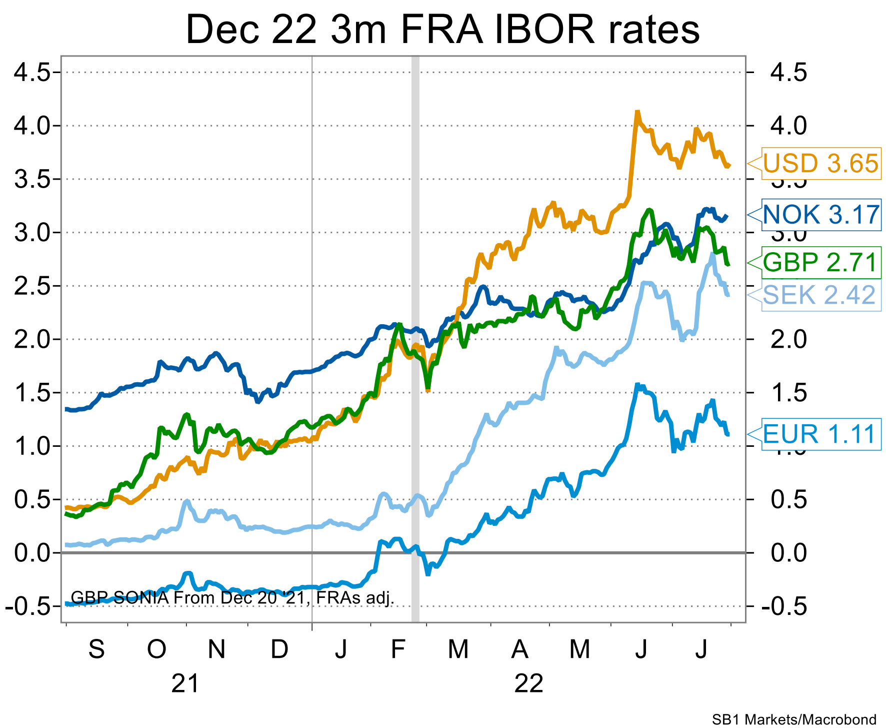
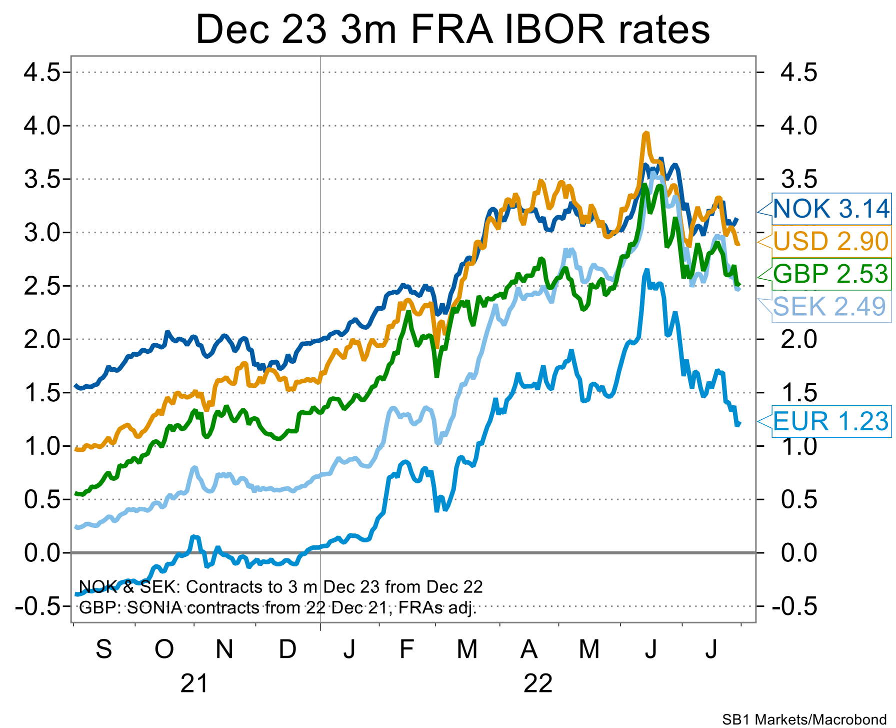
A forceful frontloading is still expected – but longer dated FRAs are falling sharply

The decline has been the largest in EUR, as the region is struggling with its energy supplies

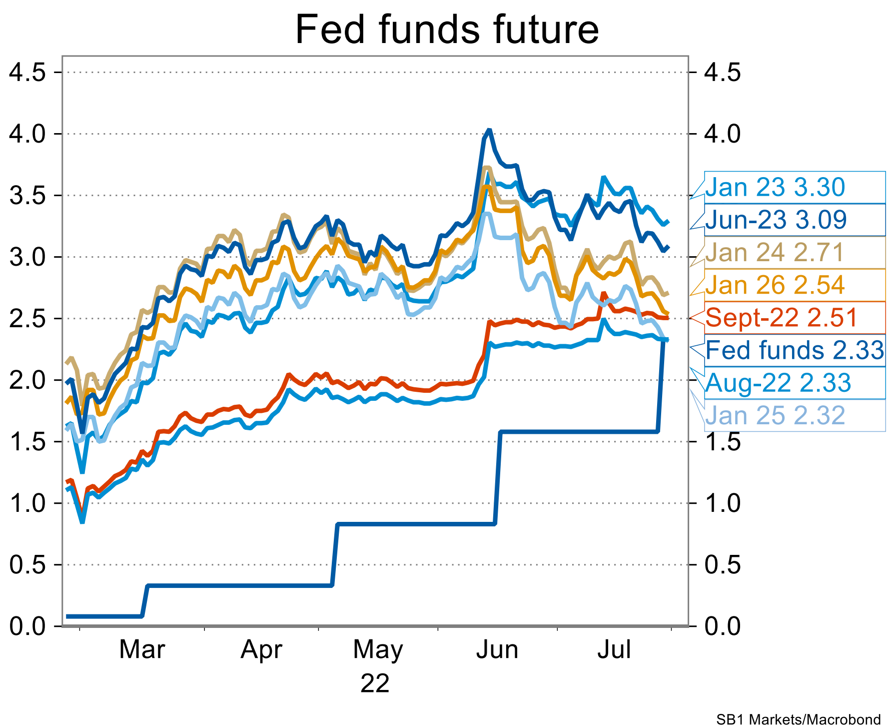


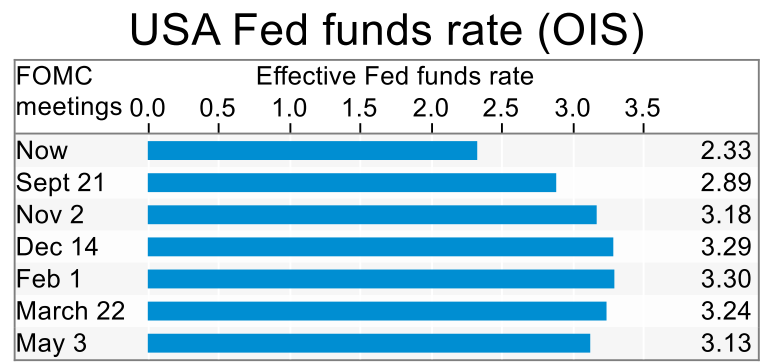


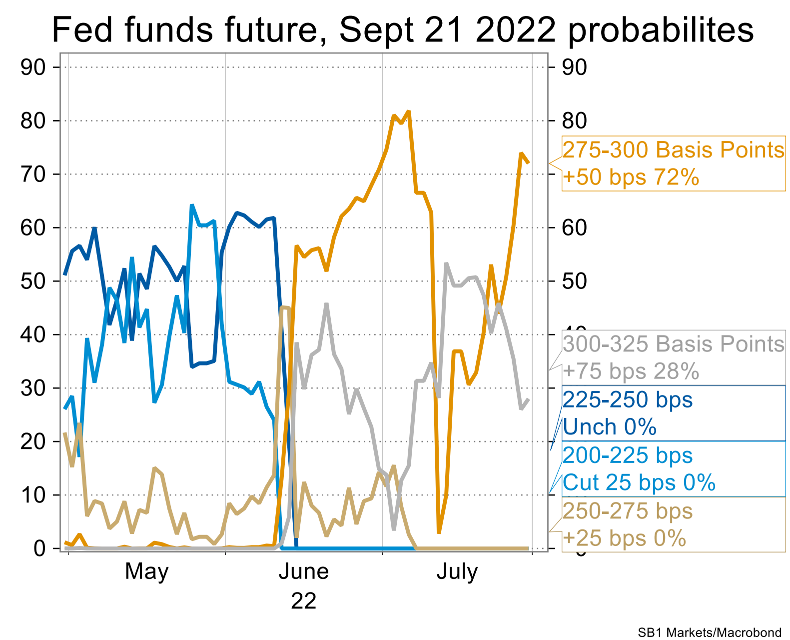
- 3 m EURIBOR Dec-23 contracts are more than cut in half – down to 1.23% from 2.66% at June 14!
- During the summer, Norwegian FRAs have kept up better than all others. Some downside potential (for NOK FRA rates?)

Fed funds future rates slightly down, peaks in February

A 50-bps hike is assumed to be the most likely in September, 28% probability for another 'triple' hike



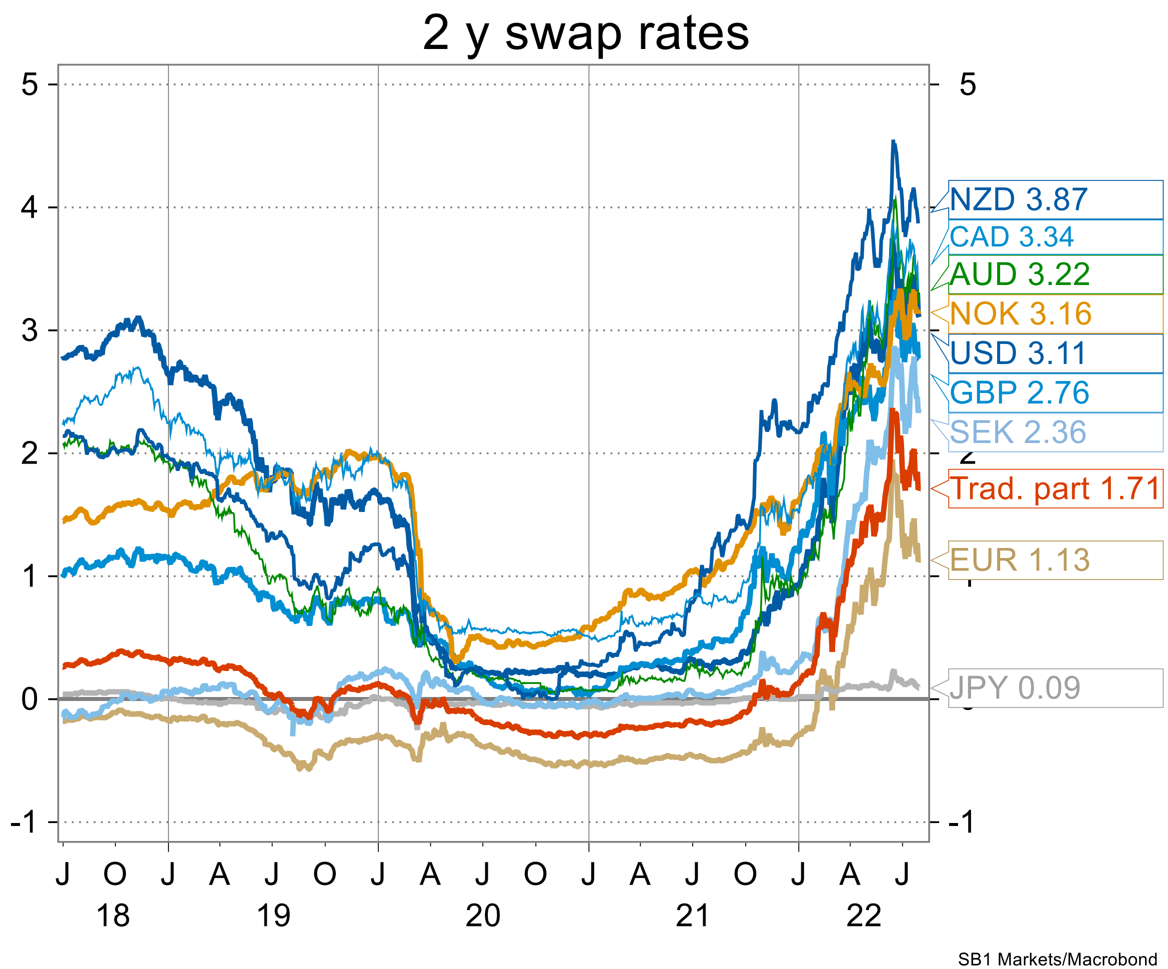


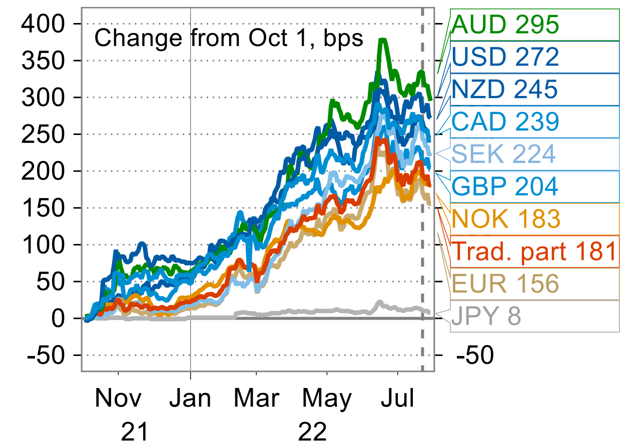


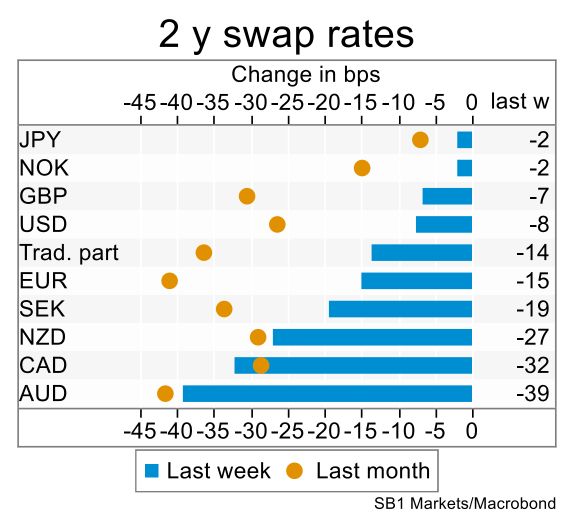
- The peak at the curve at 3.30% in February – and then down 60 bps through 2023

A broad decline in 2 y swaps as the economic cycle weakens most places

..or that’s the fear, at least

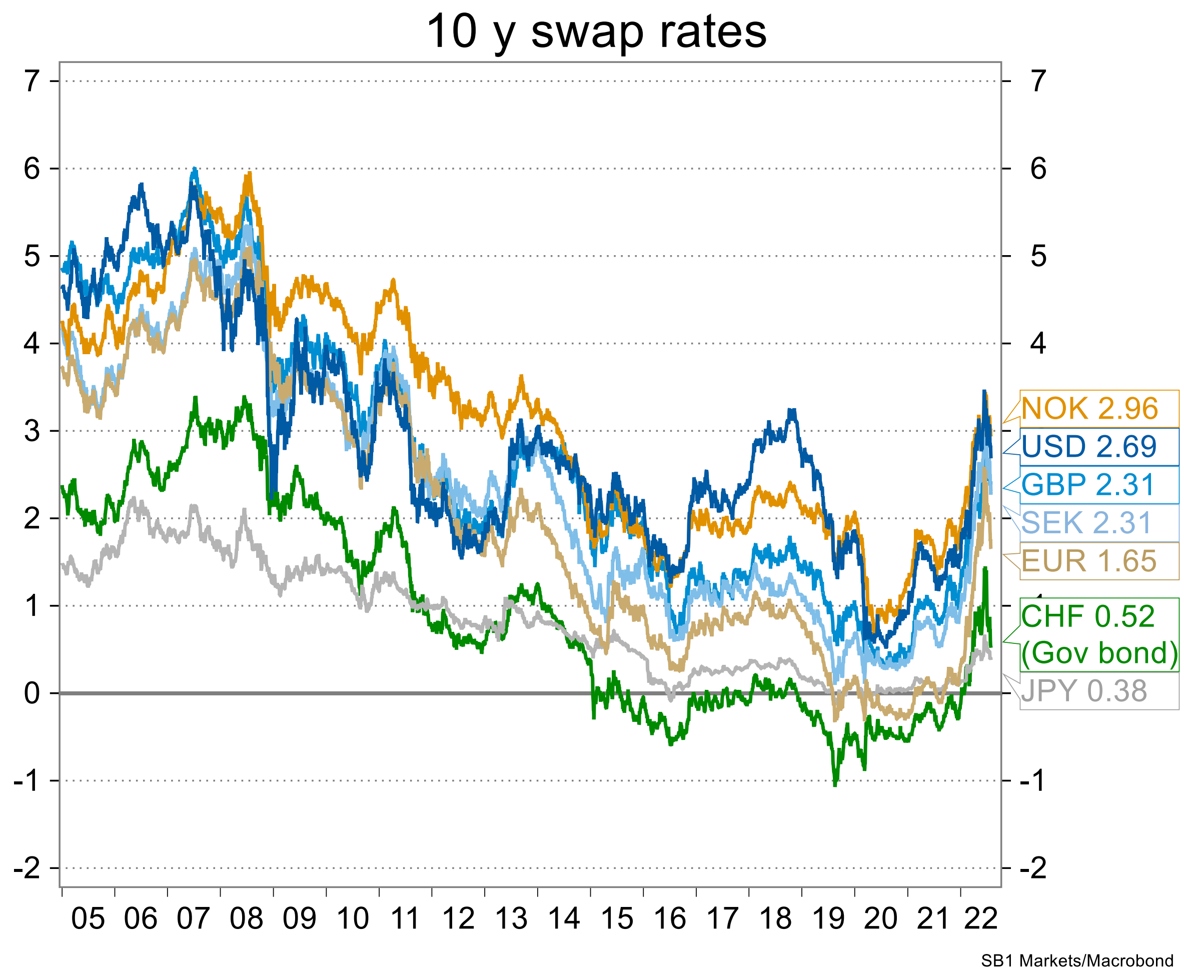


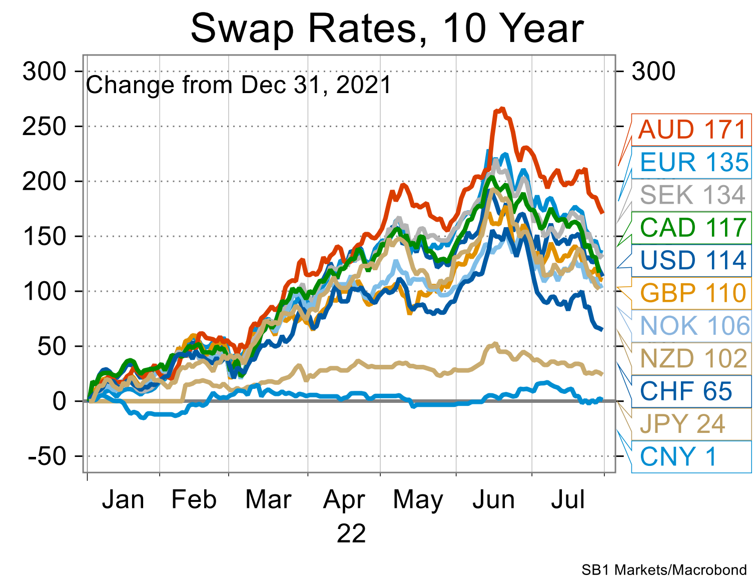


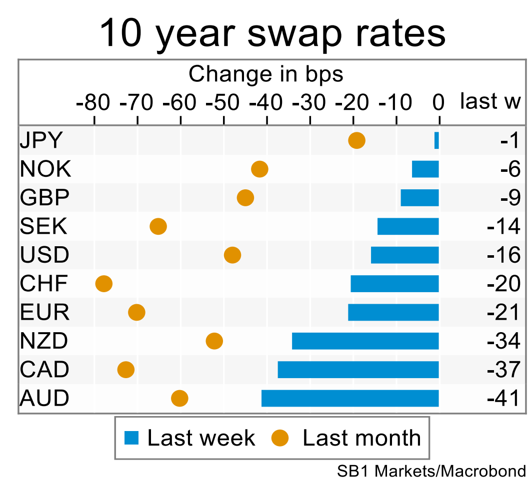


10 y swaps down everywhere – and by up to 75 bps from the June peak

Winter (aka recession) is coming



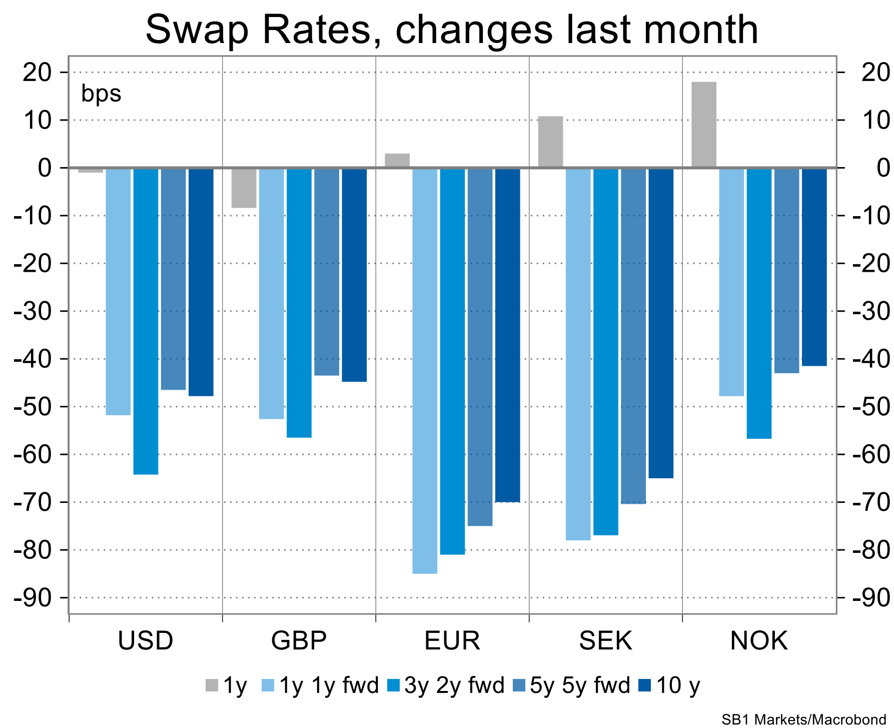


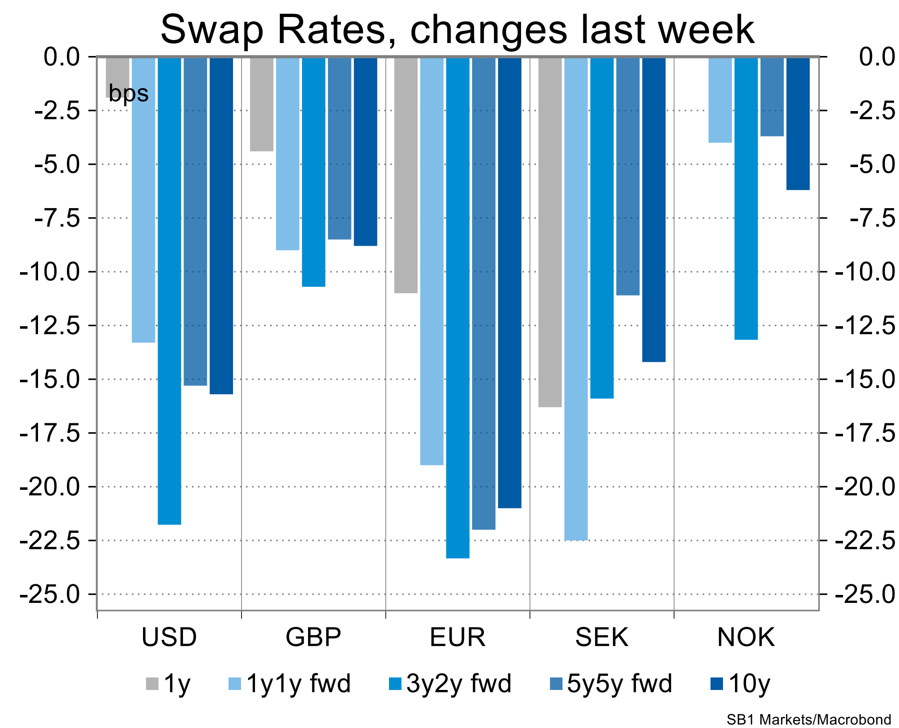


CHF: 10 y government bond yield

Another massive movement down, at least abroad. NOK rates more resilient

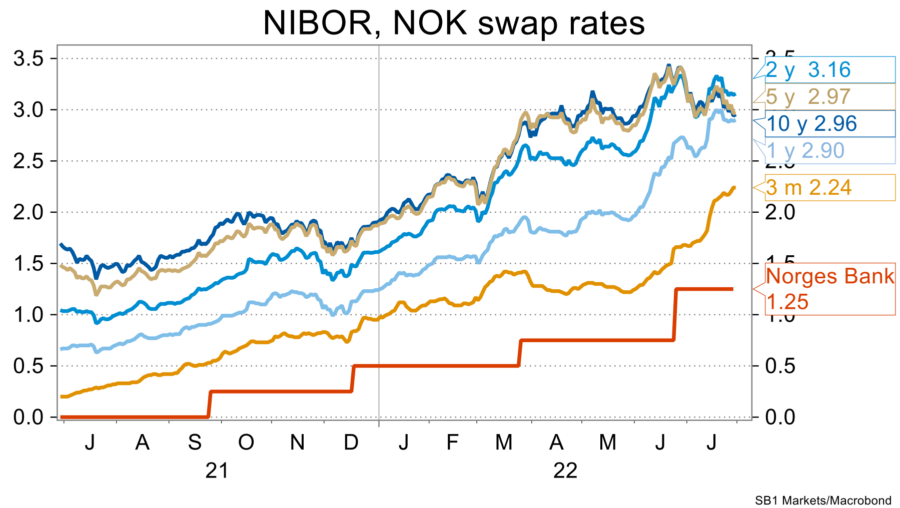
Winter (aka recession) is coming

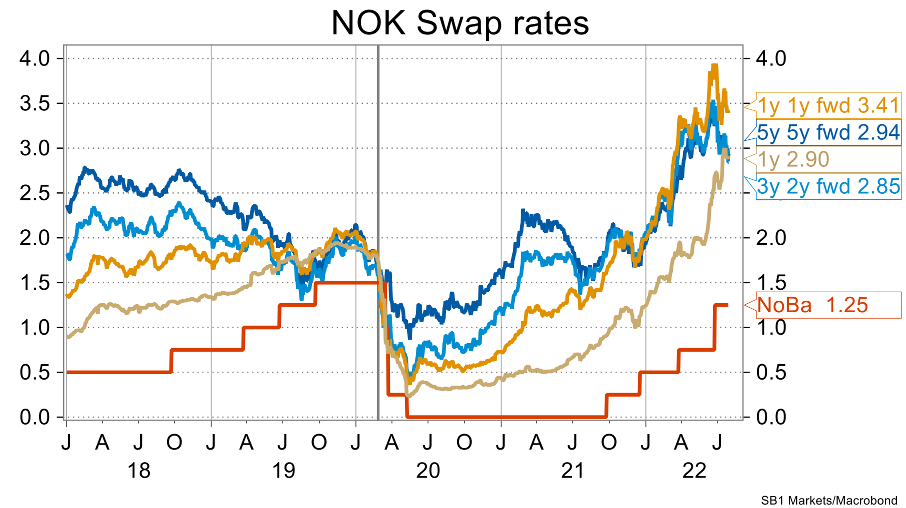


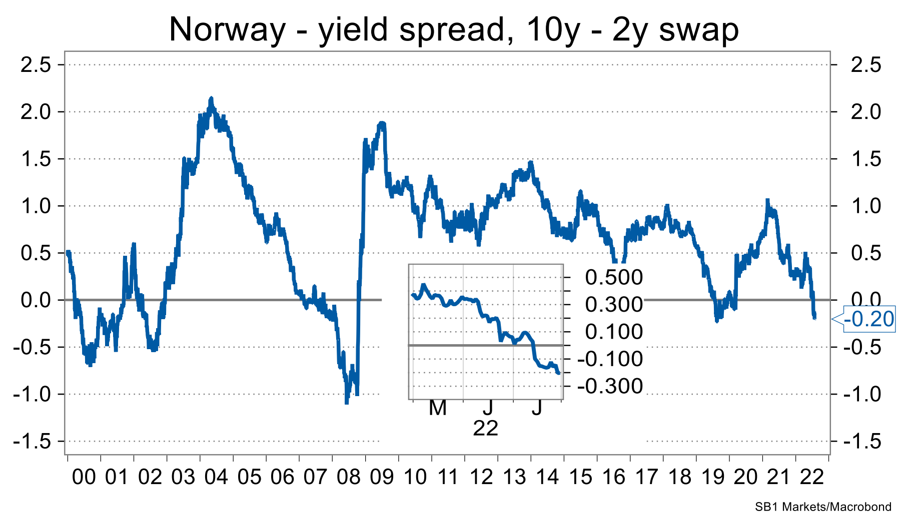


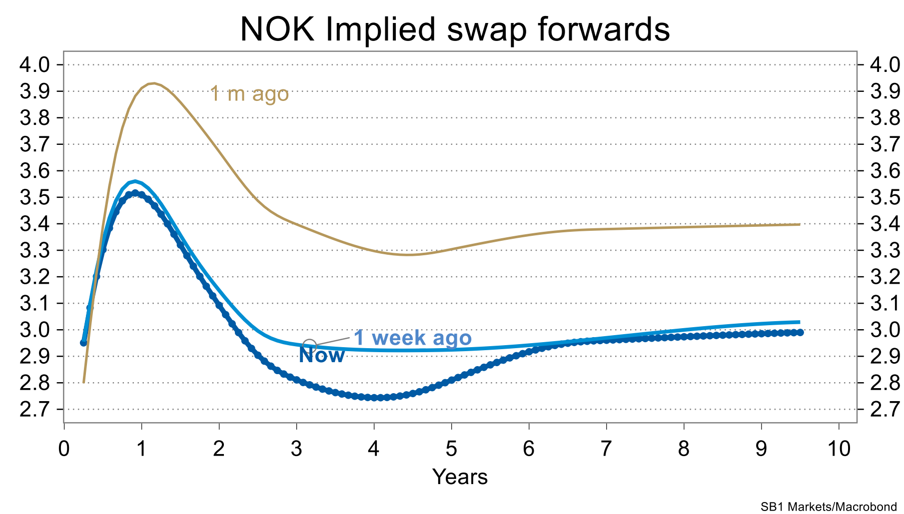
Rates down but implied just at the 3 – 5 y segment

The 10 - 2y is finally inverted



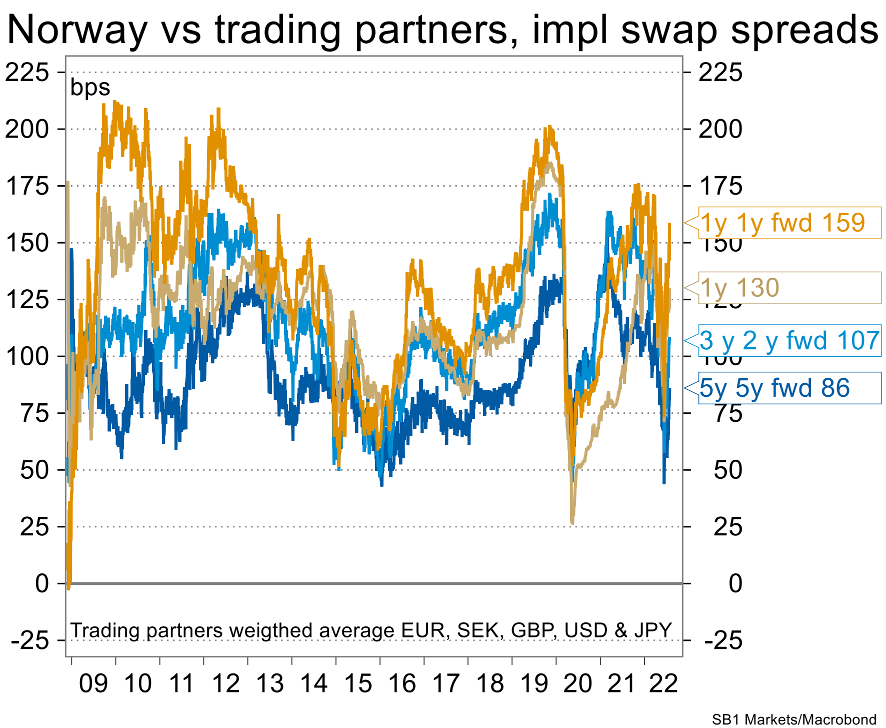


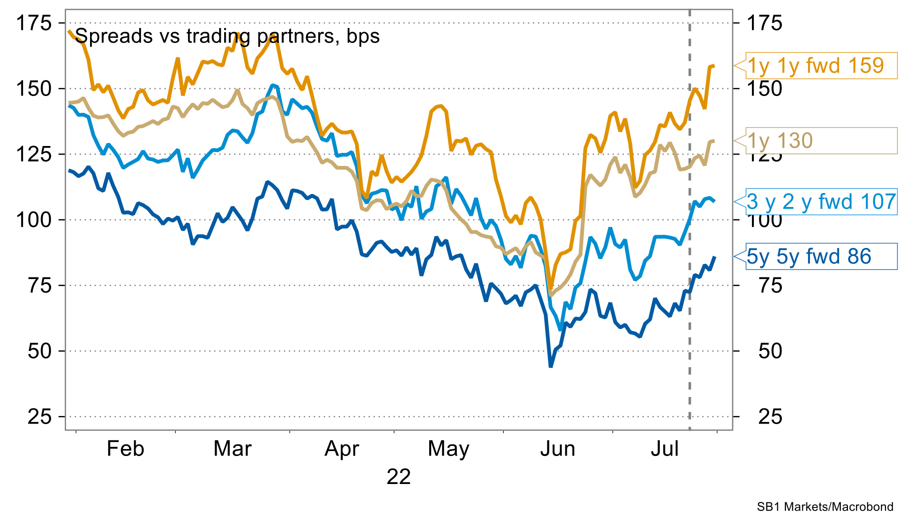


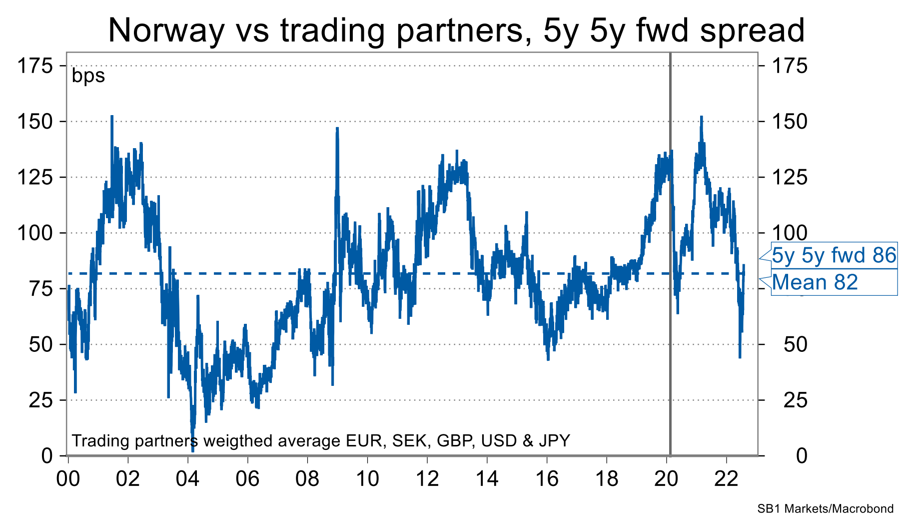


Spreads out all over the curve

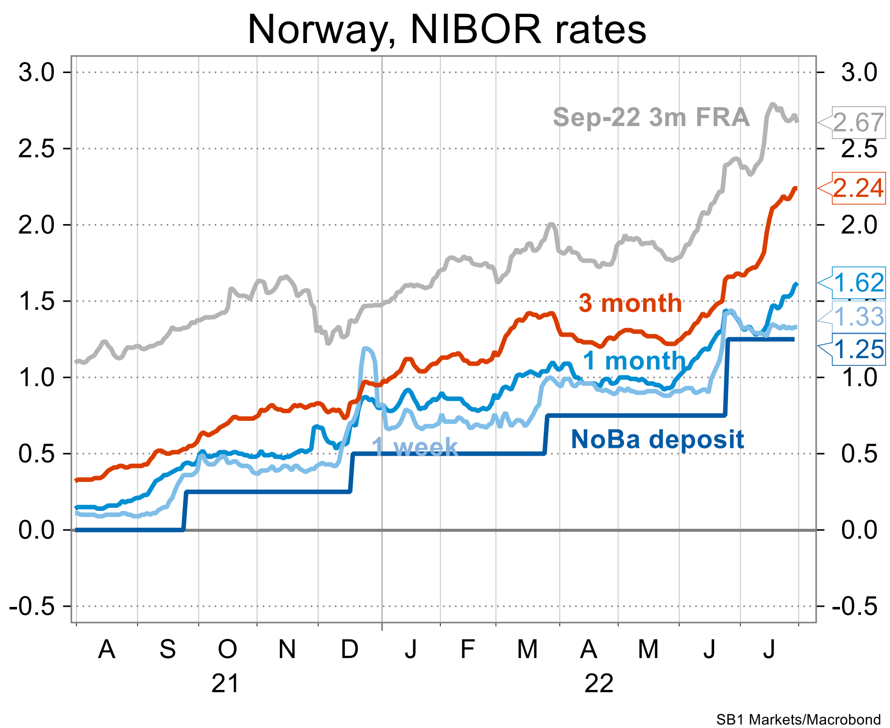
Implied forward spreads vs trading partners are close to average levels in from 2 years outward







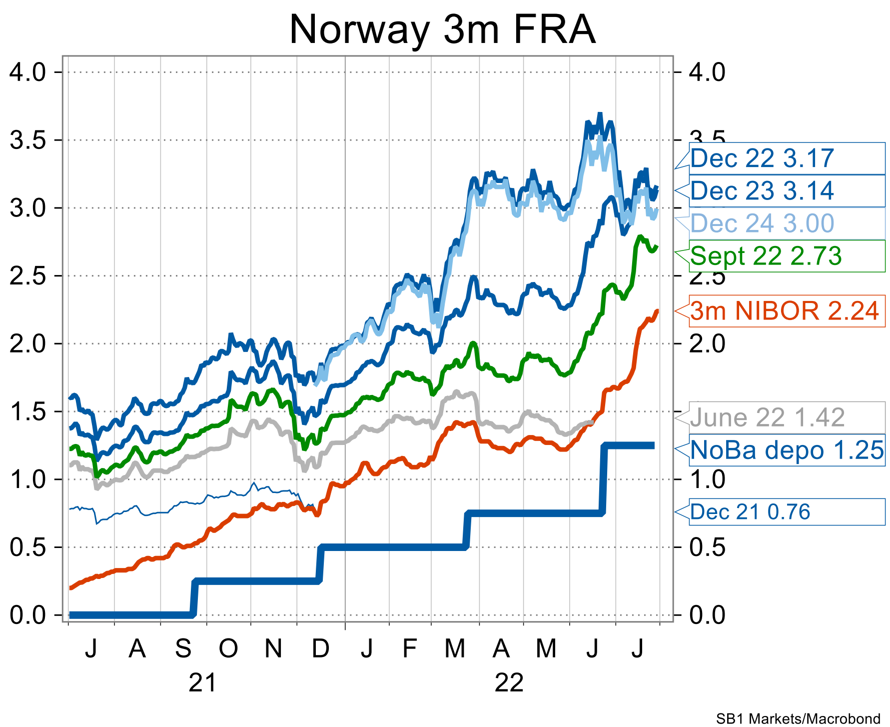
The 3m NIBOR up to 2.24% as 50 bps NoBa hikes in both Aug, Sept are priced in

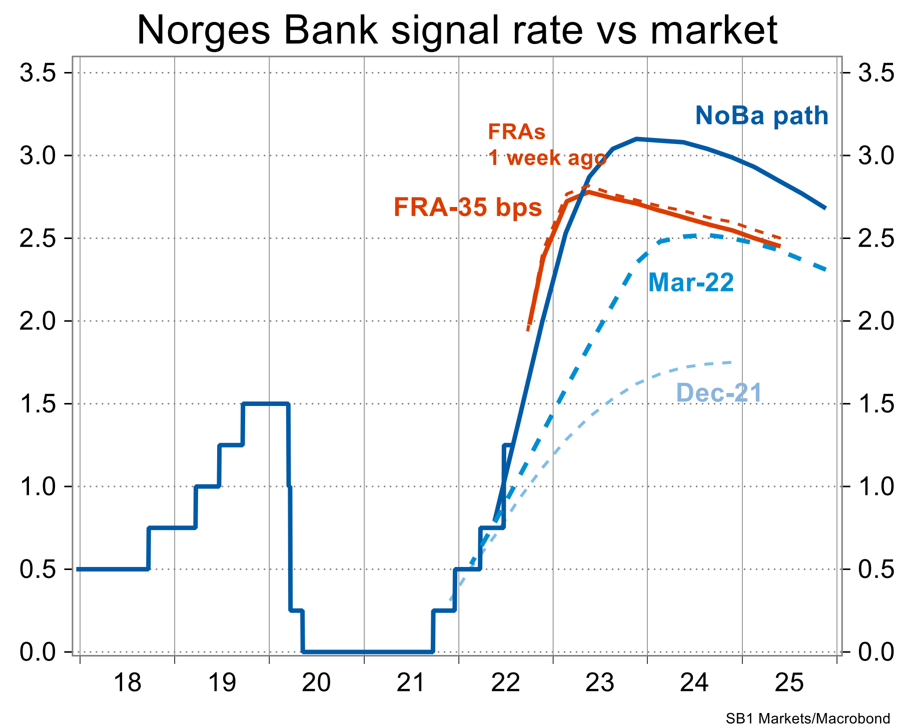


- The USD LIBOR-OIS spread fell 3 bps to 10 bps last week – which is a low level!

Rate expectations down from early 2023, but first +150 bps up to 2.75% in Dec

50 bps hike in both August and September, and then 25 bps in both Nov and Dec still discounted

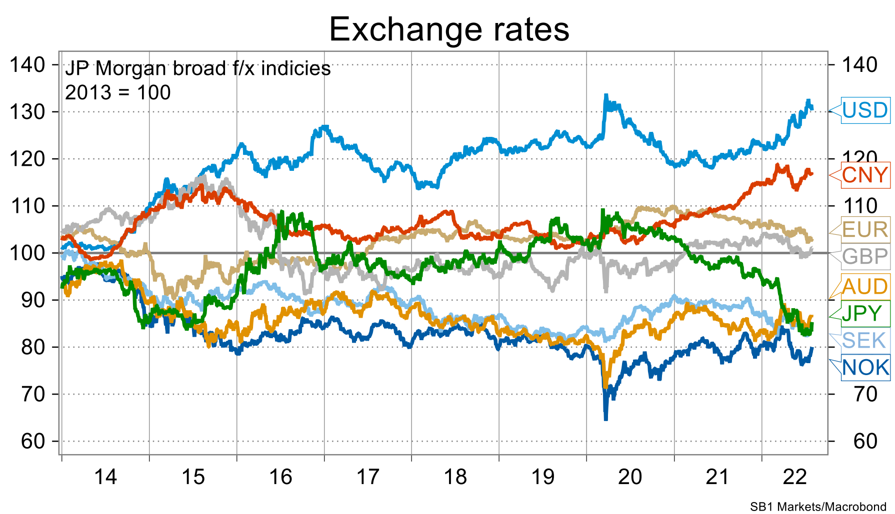


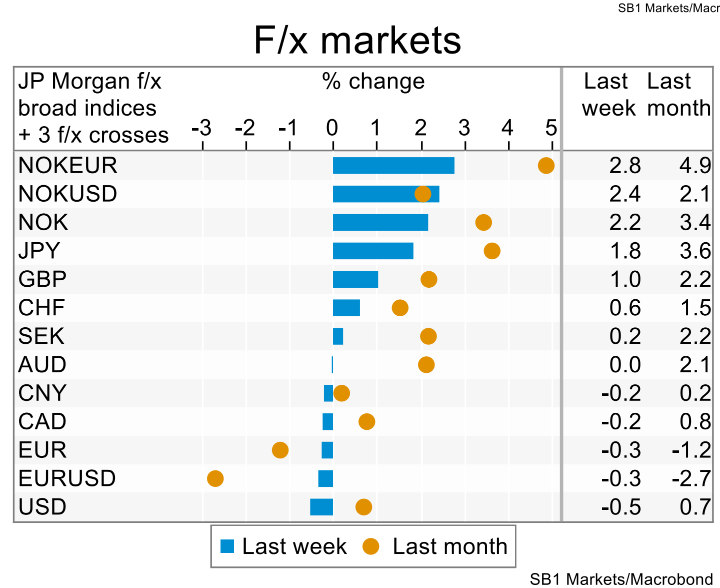


- **If NoBa hikes by 25 bps** in August and September, which was clearly signalled in the June MPR, the average signal rate would be 1.54% the coming 3 months. The current 3m NIBOR is at 2.24%, and the Sept 3 m FRA is at 2.73%. If not money market spreads have exploded, 50 bps hikes in both August and September is discounted – and further 25 bps hikes in November, December – up to 2.75%
- Thus, the market now expects a frontloaded but shorter hiking process, and with a 20 - 25 bps lower peak level than NoBa assumed in June – and far earlier, just as in the world around us
- *We think the 50 + 50 bps hikes in August and September are more aggressive than Norges Bank will deliver,* we said last week
  - » FRA rates fell just marginally last week and the initial 2 x 50 bps, which is still discounted
  - » **We still think the risk at the upside is less than the risk at the downside vs. current market expectations, at the short end of the curve**

NOK last week's winner too, from a low starting point

USD last weeks loser, as the previous week – still the winner so far in 2022

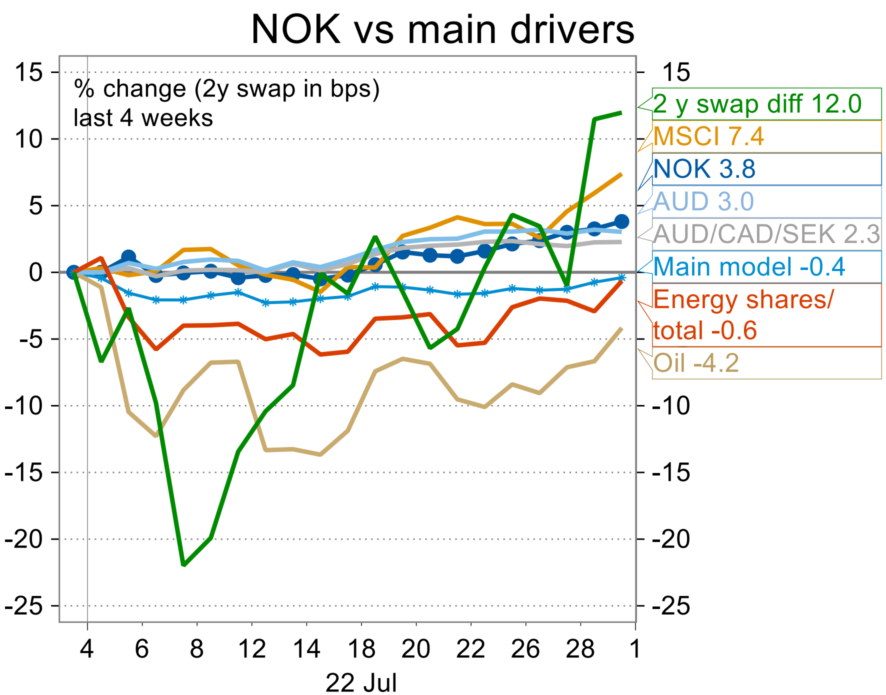




JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
NOKEUR	2.8	4.9
NOKUSD	2.4	2.1
NOK	2.2	3.4
JPY	1.8	3.6
GBP	1.0	2.2
CHF	0.6	1.5
SEK	0.2	2.2
AUD	0.0	2.1
CNY	-0.2	0.2
CAD	-0.2	0.8
EUR	-0.3	-1.2
EURUSD	-0.3	-2.7
USD	-0.5	0.7

NOK up 2.2% more than anything but a too low starting point can explain

NOK is still below our model estimates – but far less than one – and 2 and 3 – weeks ago



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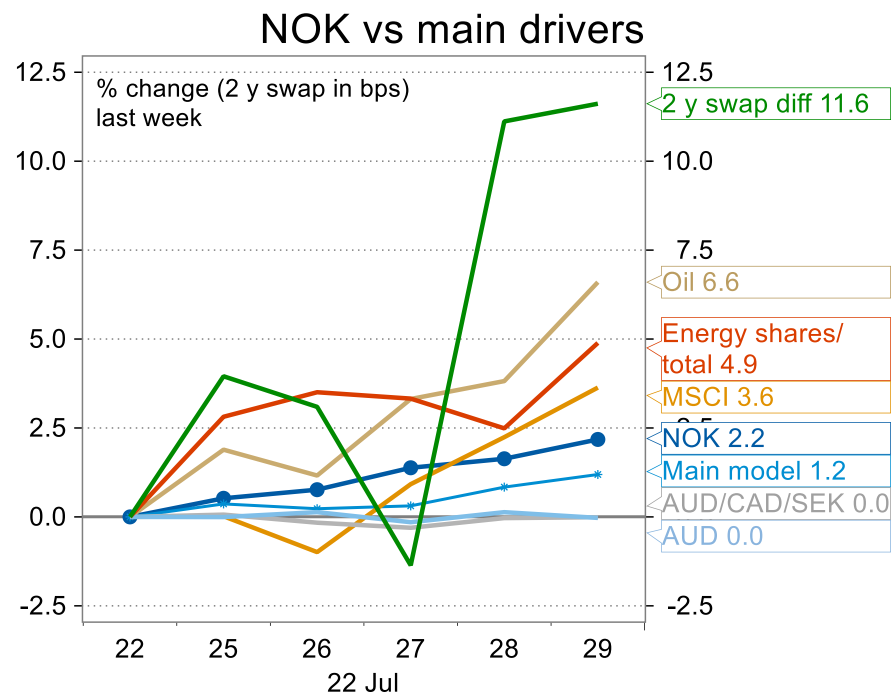

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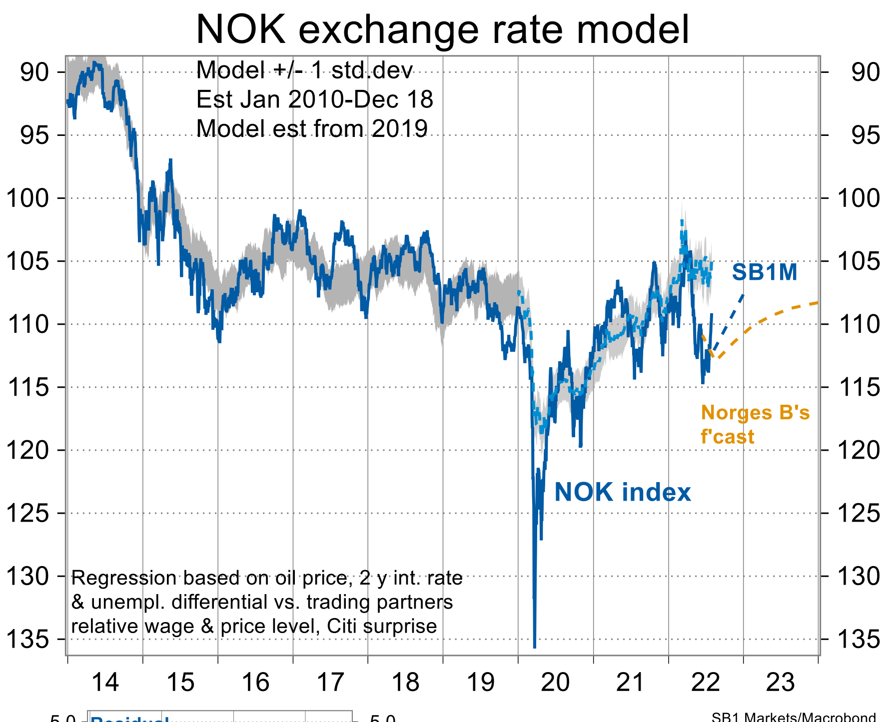
Gaps vs. out model estimates are extremely wide

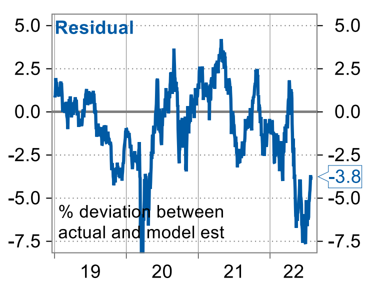
- ***The NOK +2.2%, our main model said +1.2% - and NOK is 3.8% below our main model estimate (from –4.5%)***
- The NOK is 7% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from 10)
- NOK is 1.7% weaker than a model which includes global energy companies equity prices (vs the global stock market) (from 2.5)

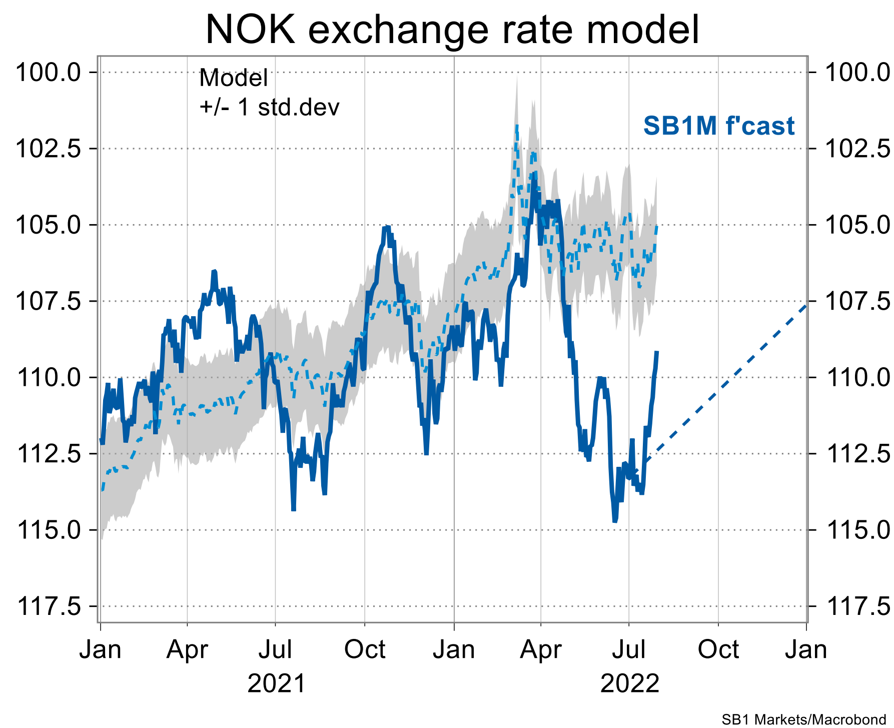
At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for f/x crosses. There are no substantial difference between these two indices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

The NOK is 3.8% below our model est – and week ahead of our (early July) f'cast

The NOK has recovered somewhat but is still weak vs the oil price/our models







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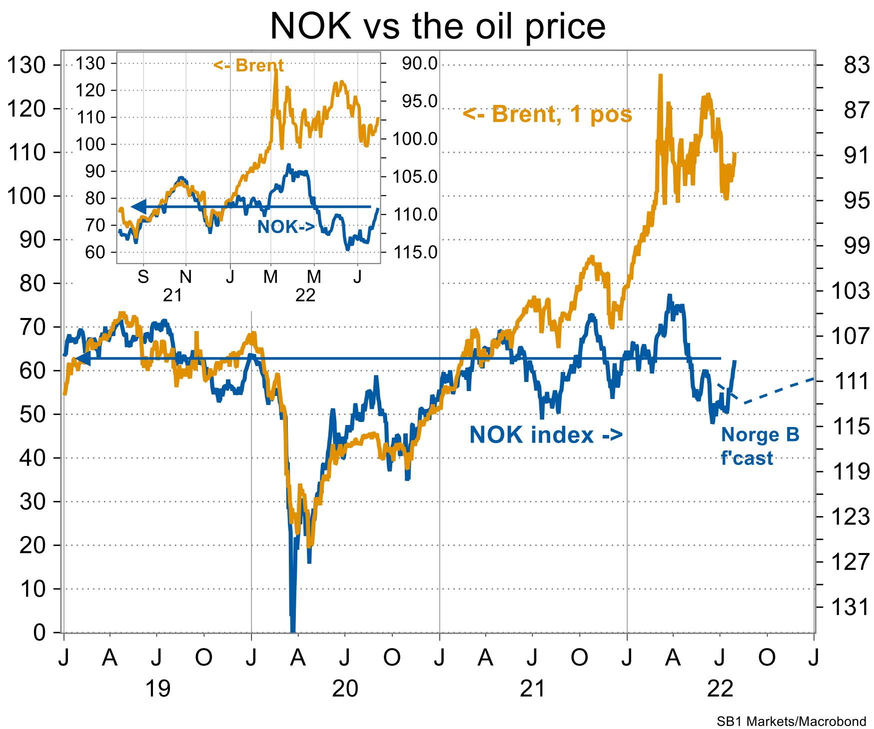
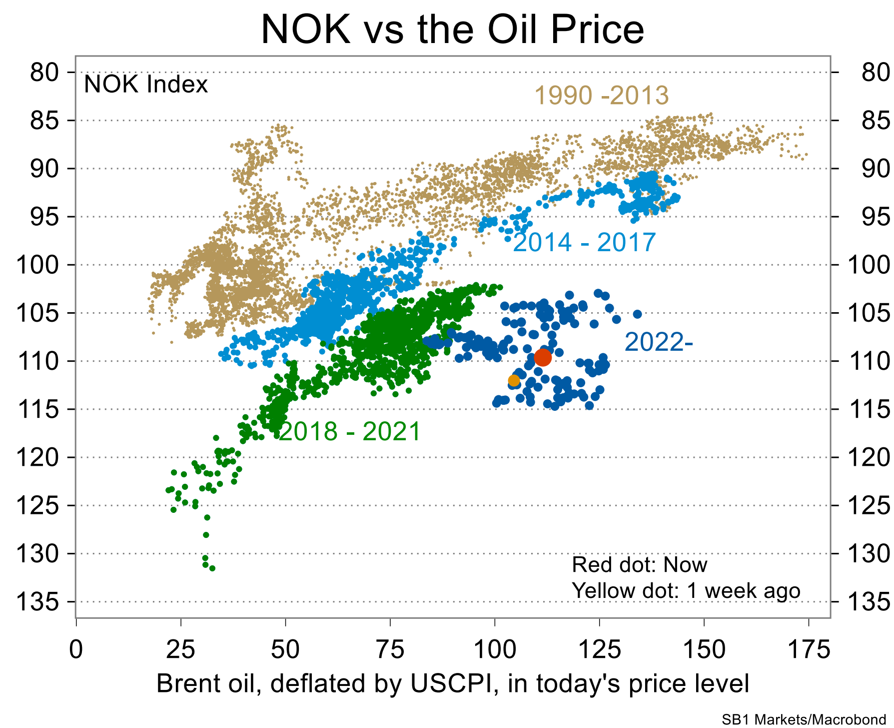
NOK up, oil up last week. Still, the NOK is weak vs the oil price

.. as if the oil price was USD 80/b (rebased to early Jan) or USD 60/b (rebased to May-21)





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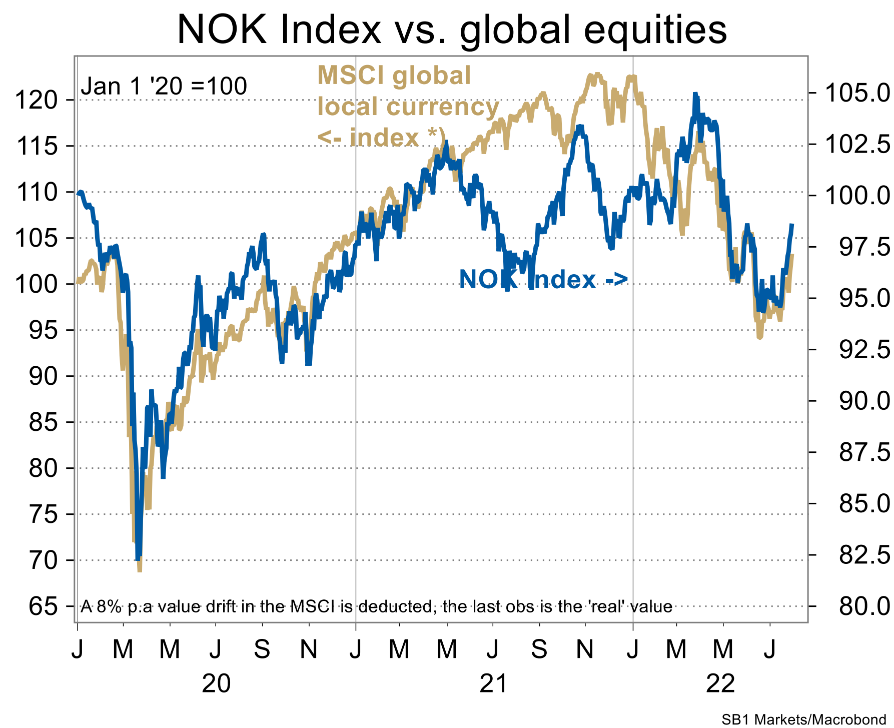
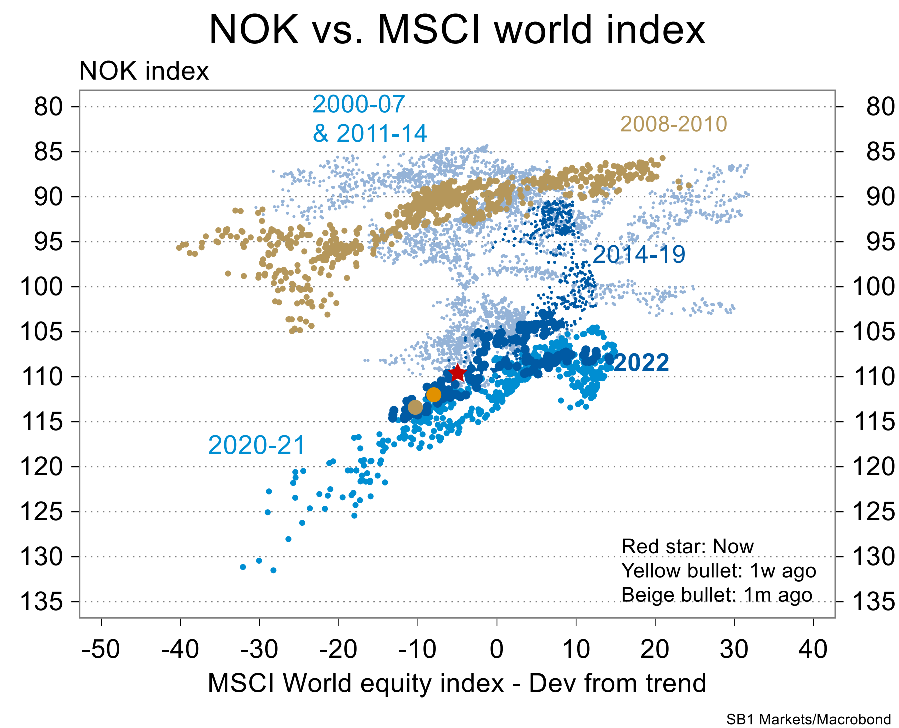
The NOK has been closely correlated to the stock market. Since April

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

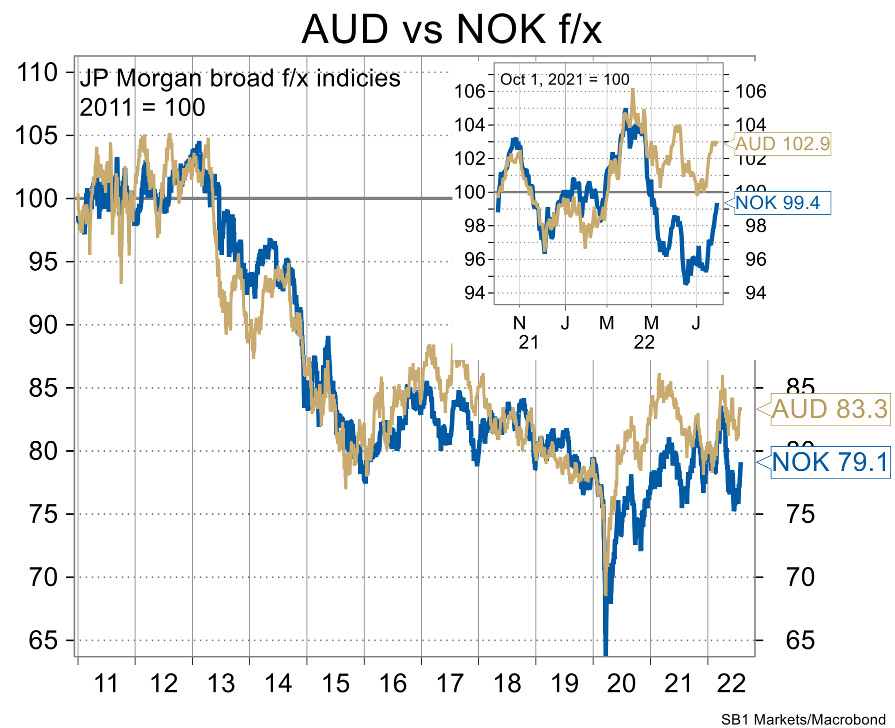


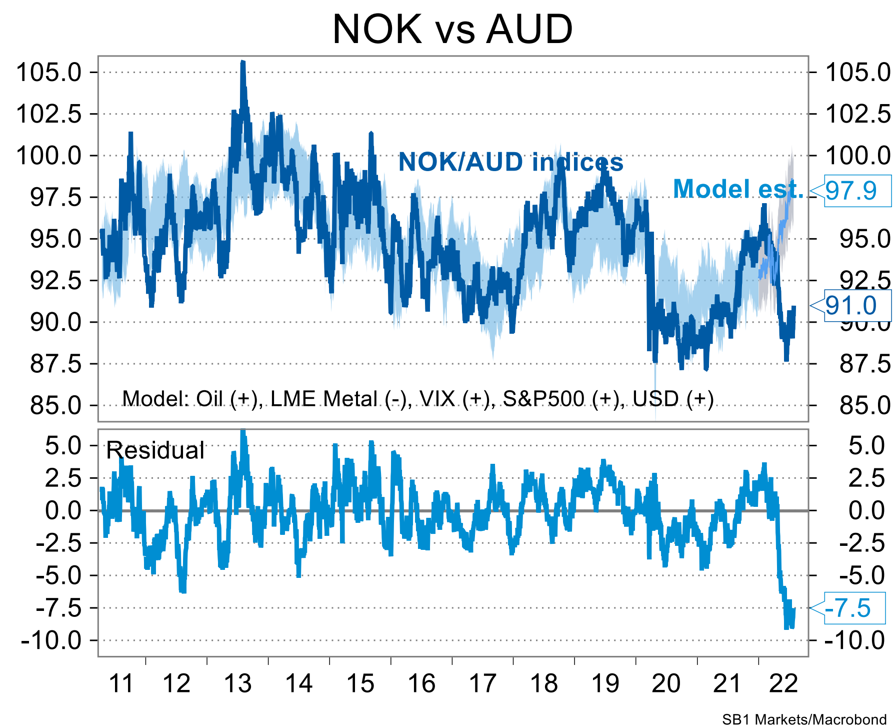


- However, since April oil has not contributed at all vs. the decline and then the recovery in the NOK. So there is 'something' here

NOK up but is still lagging the AUD

The gap is among the largest, without any good explanation (according to our models)

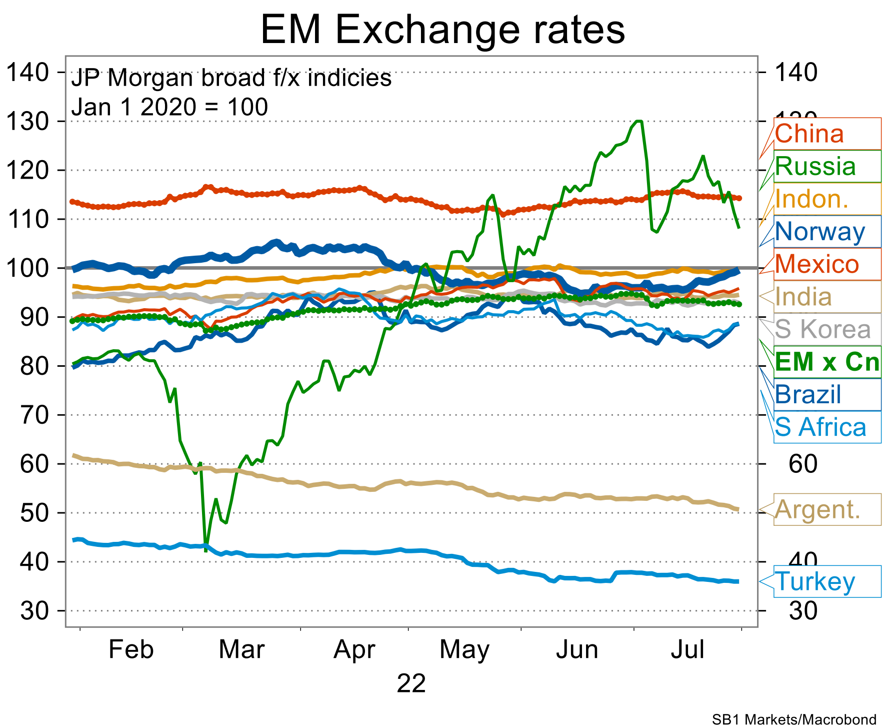


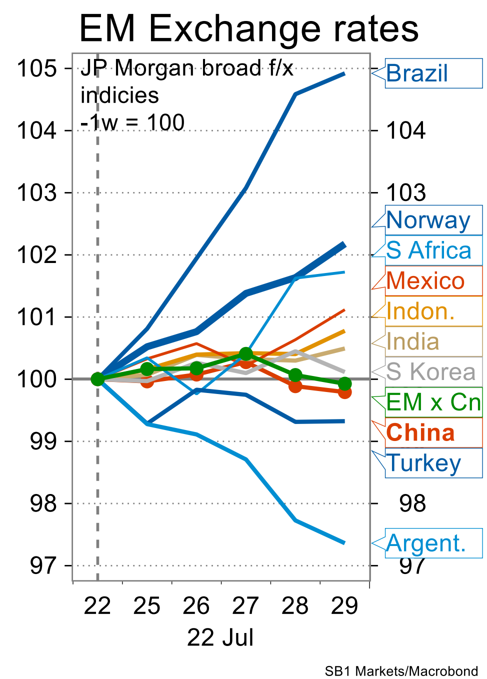


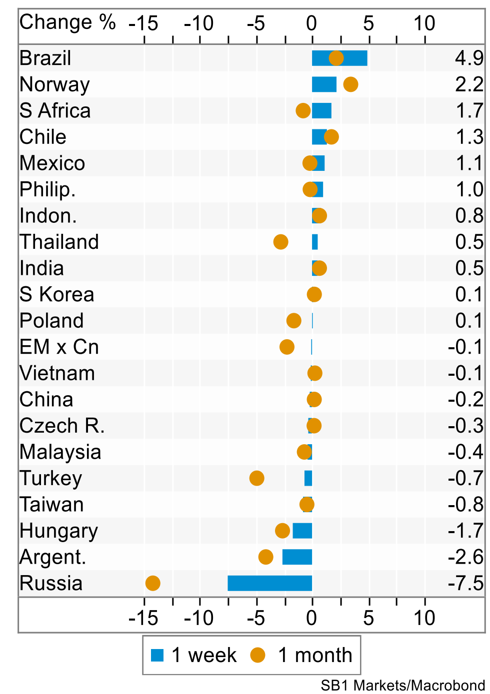
- The discrepancy between the NOK and AUD is highly unusual, given the normal factors that decide the limited gap
- Normally, NOK strengthens vs the AUD when the oil prices rises vs. the LME metal index, when VIX, and the S&P500 index increases, and the USD index appreciates. Seem like we need a new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

EM f/x mixed: If not for Russia, the EM f/x space mostly up – 'risk on'

However, EM f/x markets have not been weak in aggregate recent months, is spite of DM rate hikes







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