Aug 8, 2022

Macro Weekly

Week 32

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Last week

- **The War/Sanctions/Taiwan**
  - » Few news from the East front no end of the war in sight. However, grains are finally being shipped out of Odessa
  - » **Most commodity prices fell last week**. European gas and thus electricity prices are still the main (only?) challenge, as the supply from Russia remains at very low level
  - » **China** has responded aggressively vs. **speaker Pelosi's Taiwan visit**, both by bruising it feathers around Taiwan, and by closed down several lines of dialogue with the US (like vs Pentagon, climate policy). But no hot war
- **PMI/ISM**
  - » **The global composite** PMI fell significantly in July, mostly due to steep declines in the USA and EMU, but also with minor contributions from China and other Emerging Markets – but these two still reported decent growth. Delivery problems are easing, and price increases are slowing – as order growth has turned sharply negative (in rich countries). The US ISM surveys were better than expected though, especially for the service sector (but price increases slowed here too)
- **Auto sales**
  - » Both the US, EMU and so far in an average of Emerging markets that have reported, auto sales rose in July. Sales in China probably fell back to earth, following the rocket strong sales in post-lockdown June
- **China**
  - » **Chinese exports** remained at a very high level in July, way above the pre-pandemic growth path, even in volume terms – which does not fit well with the 'supply chain'-explanation' for the troublesome high inflation rates in many countries. Imports are also at ATH in value terms, but slightly below the p-pandemic trend in volume terms
- **USA**
  - » Stronger growth in **employment** than expected, a surprising 0.1 pp decline in the **unemployment rate** (it has not been lower since 1969) and 0.3 pp higher **wage inflation** than expected. No recessionary signal in the July job report! The **vacancy rate** fell more than expected but remained high in June. In July, SMBs reported they are still **not able to fill job openings**, and that they plan to lift **compensation** at the same pace as until now
  - » Businesses in the US are increasing their prices by 8% and unit labour costs are growing even faster (thus, profits are under pressure already), and <u>something MUST give the coming months & quarters</u>. Raw material prices/energy will very likely help bringing headline inflation down, but that would probably <u>increase</u> the need for a monetary policy tightening, as spending power will recover. Suddenly, the market Friday afternoon recognised that the Fed probably would have to do more in order to slow the economy sufficiently to bring domestic generated inflation down. The expected peak in Fed funds rate was lifted by almost 50 bps last week, and the first cut was postponed – as a 3rd 'triple' hike in September once again became the most likely outcome
- **EMU**
  - » **Retail sales** fell by 1.2% in June, broadly based. **Industrial production** probably rose, equally broad based. Surveys signal a downturn ahead
- **UK**
  - » **Bank of England** hiked the Bank Rate rate by 50 bps, as expected. A spectacular lift in inflation is assumed (to 13%), however mostly due to the energy shock – but not only. Domestic price and costs are contributing too – and the signal rate at 1.75% is still low. The Bank does not publish its own interest rate path but did not argue against market expectations for further hikes, up to 3.25% (down 25 bps vs the assumed peak in June)
- **Norway**
  - » **House prices** fell 0.2% in July, as NoBa expected – while most economists expected a similar increase. Prices rose in Oslo but fell in most other cites, and by more than 2.5% in both Kristiansand and Stavanger. Sales have normalised at a pre-pandemic level. The inventory is slightly up but remains very low. However, higher mortgage rates will very likely lower prices the coming quarters
  - » **Domestic credit (C2)** growth was higher than expected, as the corporate sector borrowed far more than we assumed. Household credit growth is slowly slowing

The Calendar: China in July, US CPI, productivity. Swedish house prices. Norwegian food prices

Time	Count.	Indicator	Period	Forecast	Prior
Monday Aug 8					
08:00	NO	Ind Prod Manufacturing MoM	Jun	1.8%	-2.2%
10:00	NO	DNB/NIMA PMI Manufacturing	Jul	53.0	56.4
Tuesday Aug 9					
08:00	NO	Jobs & wages	Q2		
12:00	US	NFIB Small Business Optimism	Jul	89.3	89.5
14:30	**US**	**Unit Labor Costs QoQ**	**2Q P**	**9.7%**	**12.6%**
14:30	US	Nonfarm productivity QoQ	2Q P	-4.6%	-7.3%
Wednesday Aug 10					
03:30	CH	PPI YoY	Jul	4.9%	6.1%
03:30	CH	CPI YoY	Jul	2.9%	2.5%
06:00	**SW**	**Home prices, Maklarstatistik**	**Jul**		
08:00	NO	CPI YoY	Jul	6.4%(6.6)	6.3%
08:00	NO	CPI Underlying YoY	Jul	3.8% (4.4)	3.6%
14:30	**US**	**CPI Ex Food and Energy MoM**	**Jul**	**0.5%**	**0.7%**
14:30	US	CPI Ex Food and Energy YoY	Jul	6.1%	5.9%
14:30	**US**	**CPI YoY**	**Jul**	**8.7%**	**9.1%**
20:00	US	Monthly Budget Statement	Jul	--	-$88.8b
Thursday Aug 11					
06:00	SW	PES Unemployment Rate	Jul	--	3.1%
10:00	NO	Norges Bank Lending survey	Q2		
14:30	US	PPI Final Demand YoY	Jul	10.4%	11.3%
Friday Aug 12					
08:00	SW	CPI YoY	Jul	8.7%	8.7%
08:00	SW	CPIF Excl. Energy YoY	Jul	6.6%	6.1%
08:00	UK	Monthly GDP (MoM)	Jun	-1.2%	0.5%
08:00	UK	GDP QoQ	2Q P	-0.2%	0.8%
11:00	EU	Industrial Production SA MoM	Jun	0.1%	0.8%
14:30	US	Import Prices ex Petroleum MoM	Jul	--	-0.4%
16:00	US	U. of Mich. Sentiment	Aug P	52	51.5
During the week					
	CN	Aggregate Financing CNY	Jul	1325b	5170b
	CN	New Yuan Loans CNY	Jul	1160b	2810b
Monday Aug 15					
01:50	JN	GDP Annualized SA QoQ	2Q P	2.8%	-0.5%
03:30	CN	New Home Prices MoM	Jul	-0.1%	-0.1%
04:00	**CN**	**Industrial Production YoY**	**Jul**	**4.5%**	**3.9%**
04:00	CN	Service sector Production YoY	Jul		
04:00	CN	Retail Sales YoY	Jul	5.0%	3.1%
04:00	CN	Fixed Assets Ex Rural YTD YoY	Jul	6.2%	6.1%
04:00	CN	Property Investment YTD YoY	Jul	-5.5%	-5.4%

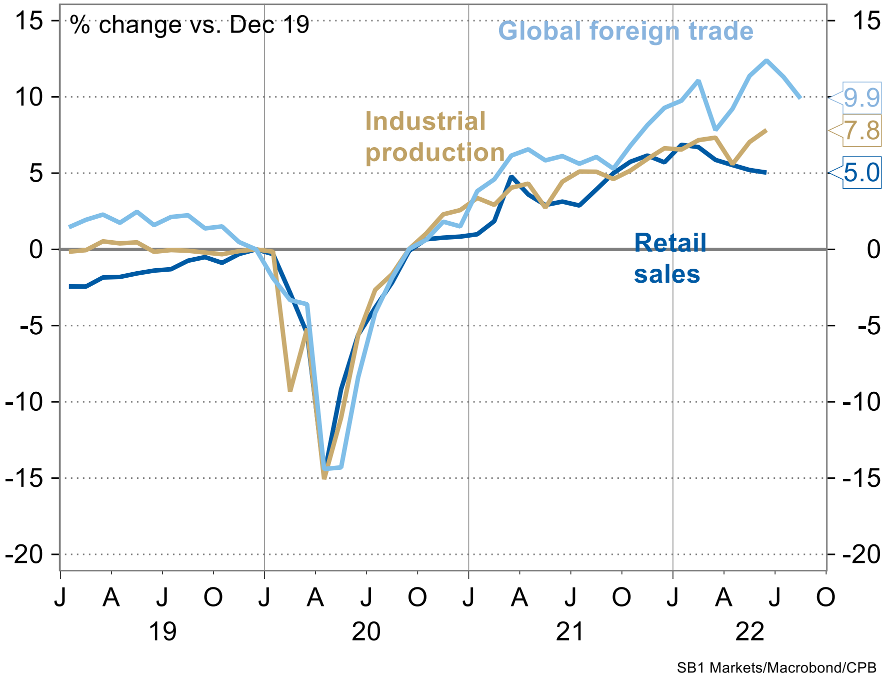
- **Global auto sales**
  - » Auto sales rose marginally in both US and the EMU in July. Sales in Emerging Market countries that have reported so far, is also in plus too. However, we expect Chinese sales to come down to a more normal level, following very strong sales in June, after the lockdowns. Global auto production is gradually on the way up
- **China**
  - » Early next Monday, July data for the real economy will be released. Industrial production was back on track in June but services sector activity was not, even if it grew at a fast pace in June. Retail sales are still really sluggish. During this weekend, the strength in exports was confirmed, another ATH, and 4 pp higher growth y/y than expected in July
- **USA**
  - » **Headline CPI** will most likely come down in July, to below 9% from 9.1% in June as energy prices retreated, and we expect to hear more talk about 'peak inflation' – which formally is correct. However, core CPI is expected up 0.5% m/m, and the annual rate to climb above 6% again. Prices increases are unusually wide spread. In the July SME survey, businesses have reported very aggressive price plans – and so far they have delivered. July data out this week
  - » The real scale of the inflation problem will be revealed in the **Q2 productivity and unit labour cost** report. Productivity fell sharply, as in Q1. A continued very rapid growth in ULC is expected in Q2, following the extreme lift in Q1. For the total economy, the first GDP data revealed a more than 8% growth in labour cost per unit produced. That's the real inflation problem, and has (almost) nothing to do with energy or food prices!
- **UK**
  - » **GDP** is expected down 0.2% in Q2, due to a 1.2% assumed contraction in June. BoE expects as further contraction in Q3, due to an massive decline in real income – and higher interest rates
- **Sweden**
  - » **Watch** out for July house prices. Preliminary reports suggest a further, and rapid decline
- **Norway**
  - » How much did **food prices** climb in July, as a result of the semi-annual negotiation between wholesalers and retailers? Media reports suggested some 16 – 17%, which we deem to be totally unlikely. But what about the half? We have pencilled 8% (5% seasonally adj), other economists far less. Thus, our July **CPI forecast** is well above consensus, the core up 1.4% m/m and 4.4% y/y, up from 3.6% in June. NoBa's forecast is 3.2%. Electricity prices rose slightly m/m, but gasoline prices fell more, in sum close to neutral.

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

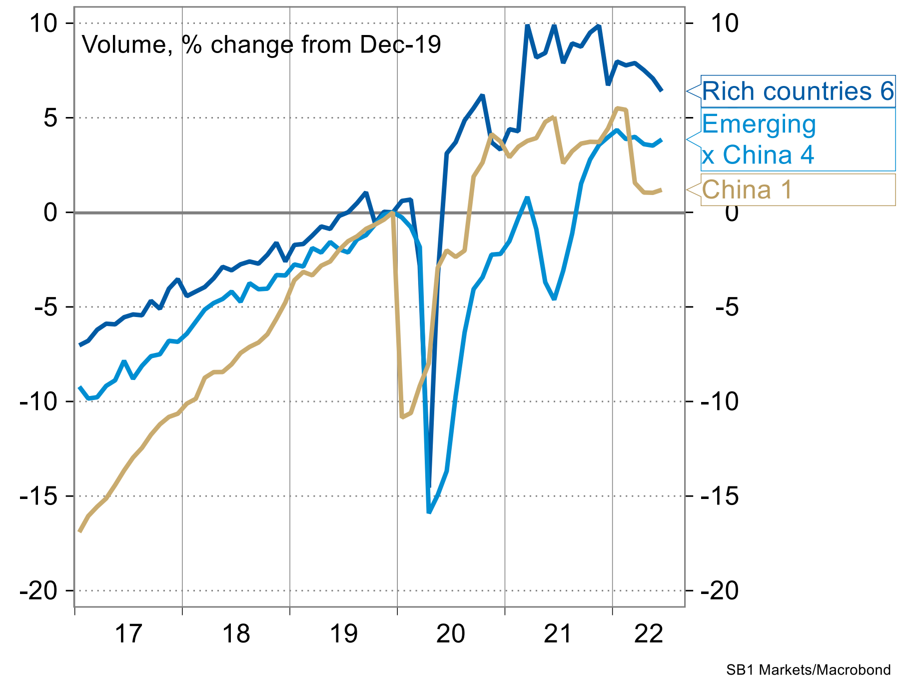
Retail sales are still soft, manufacturing production recovered in May and June

Global trade is still going strong

Global Retail sales, industrial prod. & trade



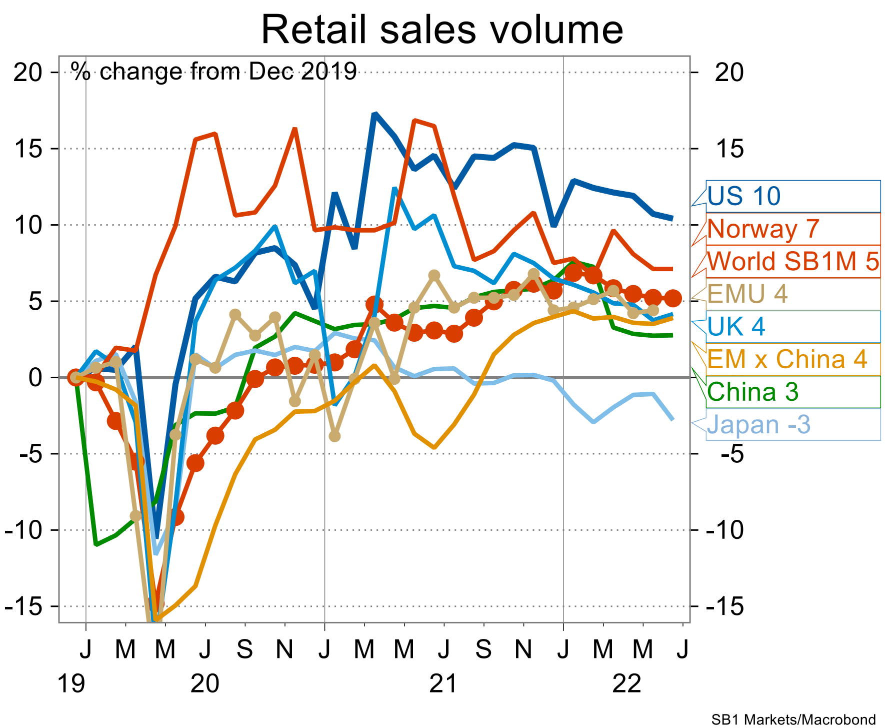
Retail sales

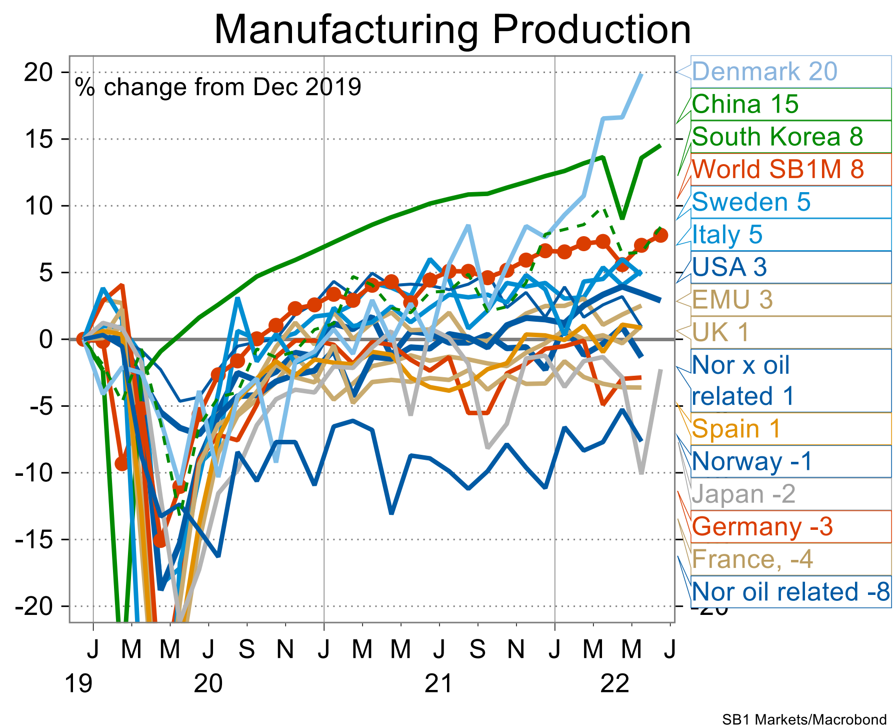


Global trade: The last months are estimates from the Kiel Institute, they are also making a prognoses for the next month based on shipping activity etc.

A broad slowdown of retail sales

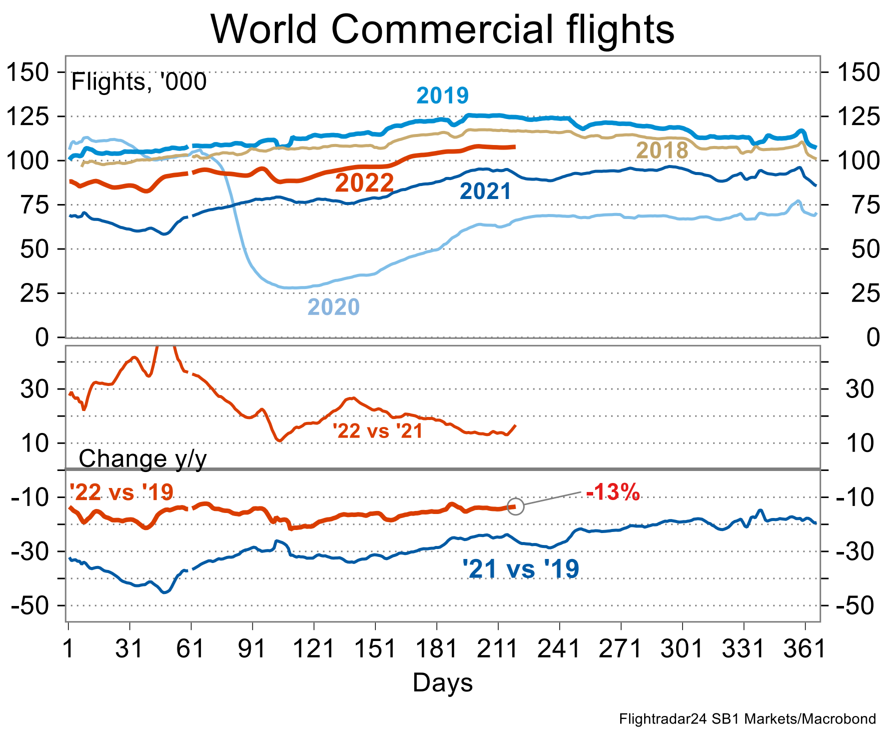
Is manufacturing exposed? Surveys, like the July PMIs are sending a warning sign

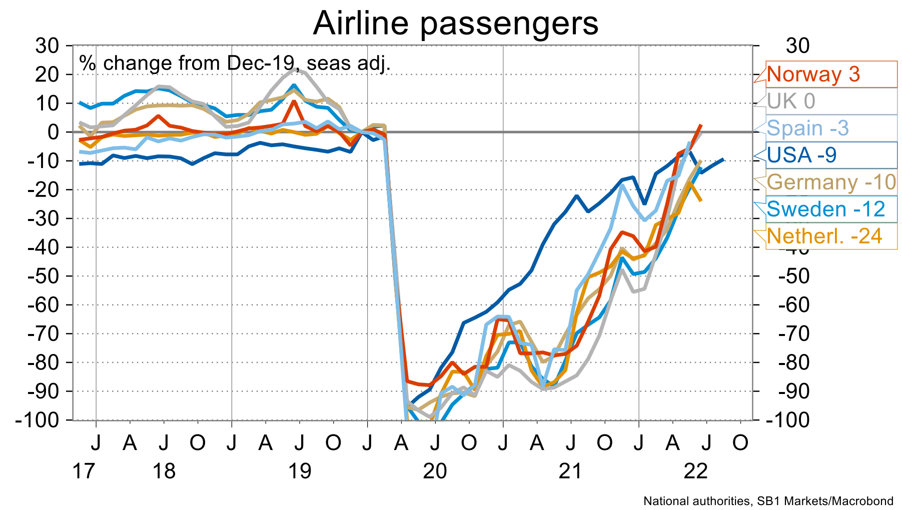


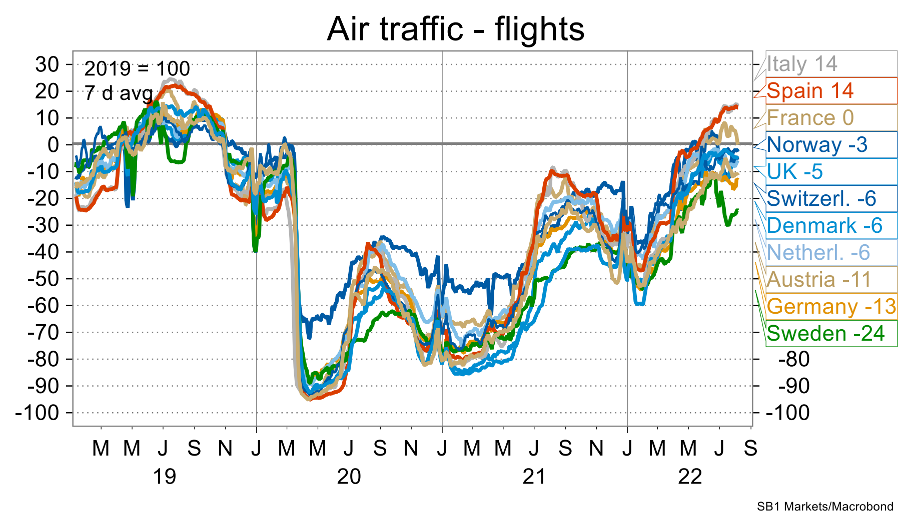


Global airline traffic has flattened recently, still down 13% vs. 2019

Slightly better than the seasonal normal last week







Global trade: The last months are estimates from Kiel Institute

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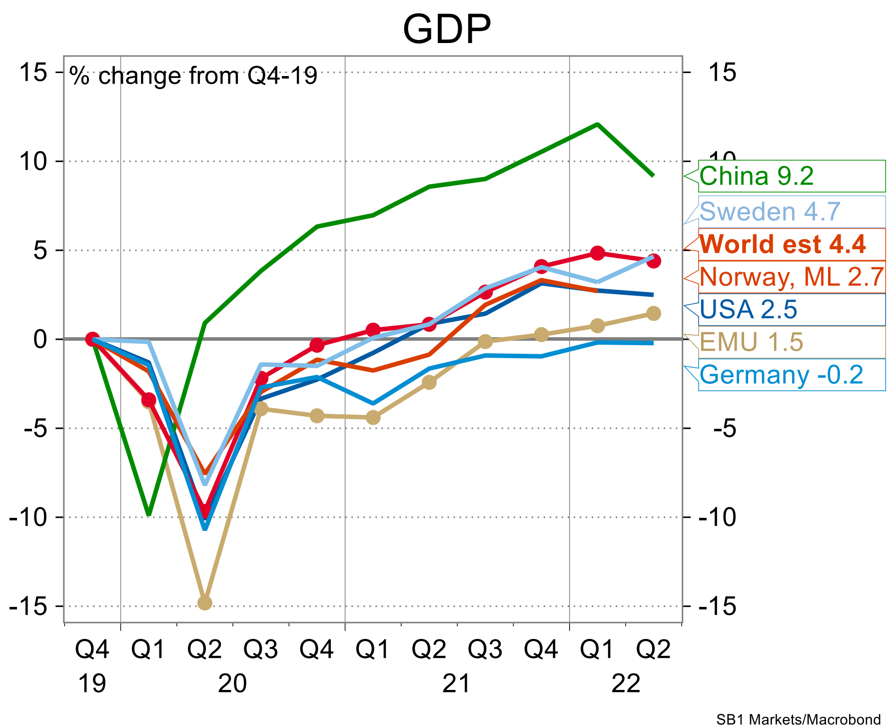
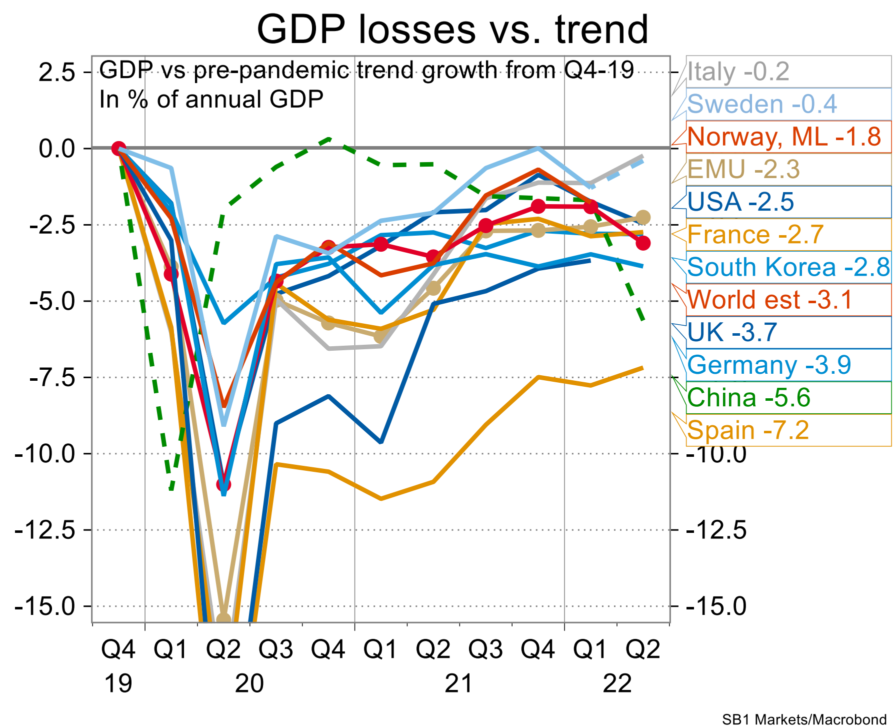
GDP fell in Q2, mostly due to the Chinese lockdowns, and the US 'recession'

Global GDP fell at a 1.6% pace in Q2 (-0.4 not annualised)





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

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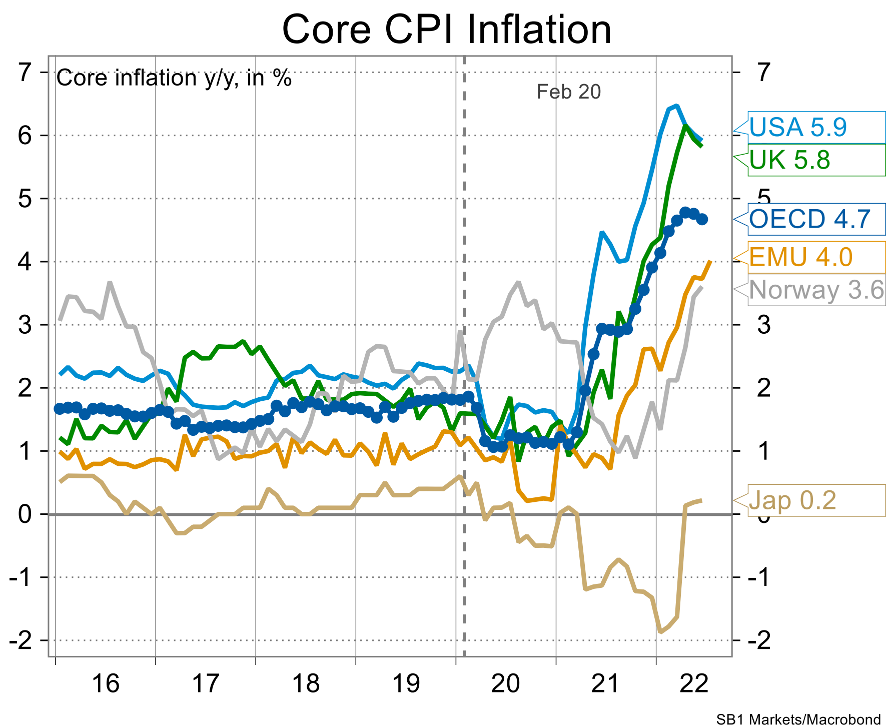
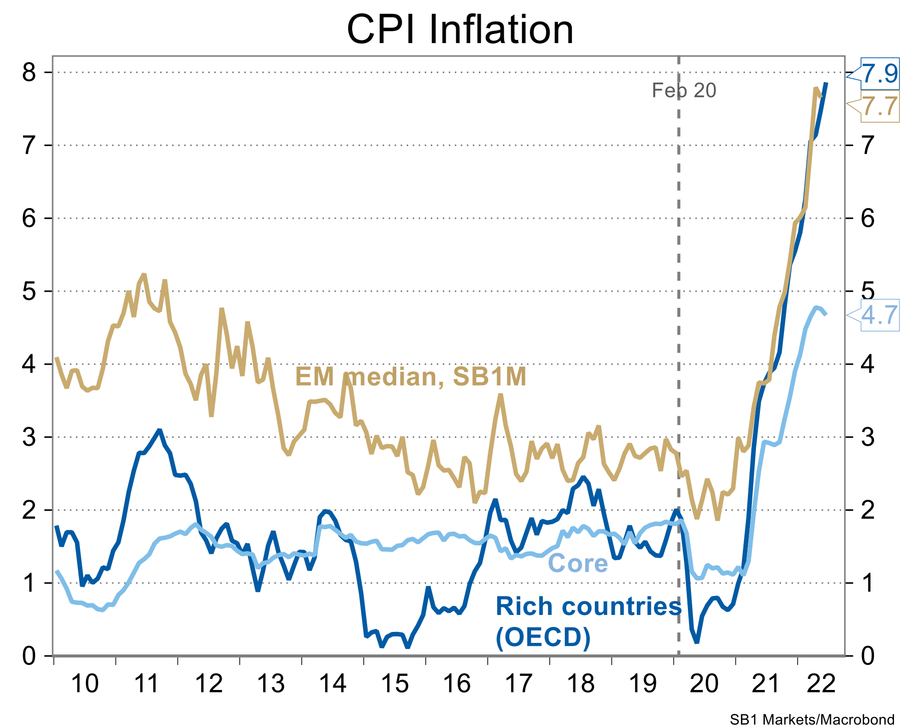
Core CPI has peaked where it is the highest – but it is far to high everywhere

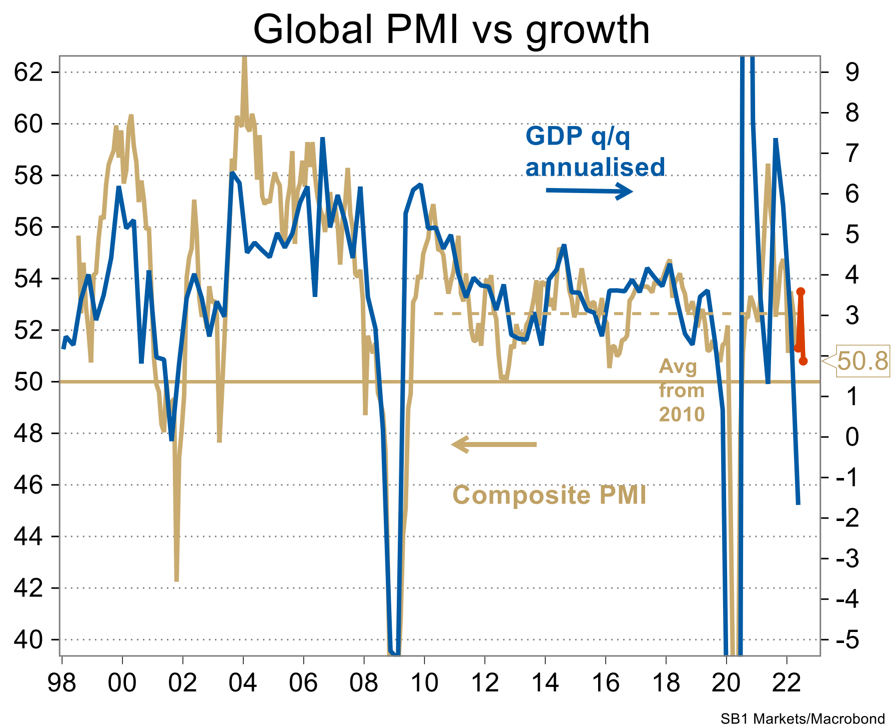
Energy prices the main culprit, but core prices are also contributing. However, some peaks are seen?

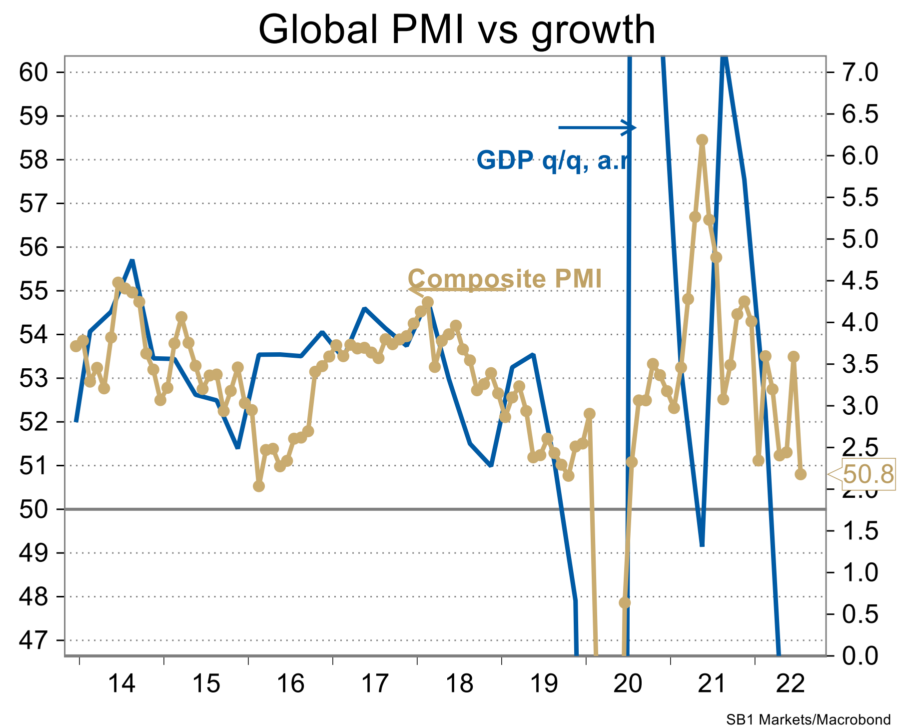




The global PMI sharply in July, with rich countries in the lead

The global index fell by 2.7 p to 50.8, the lowest since June 2020. The trend is steady down

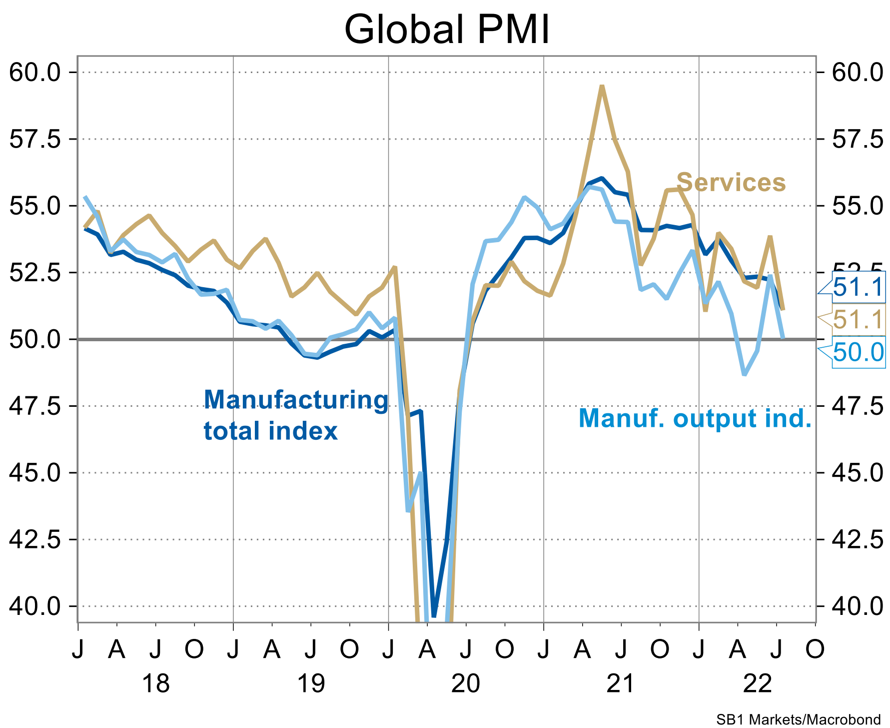


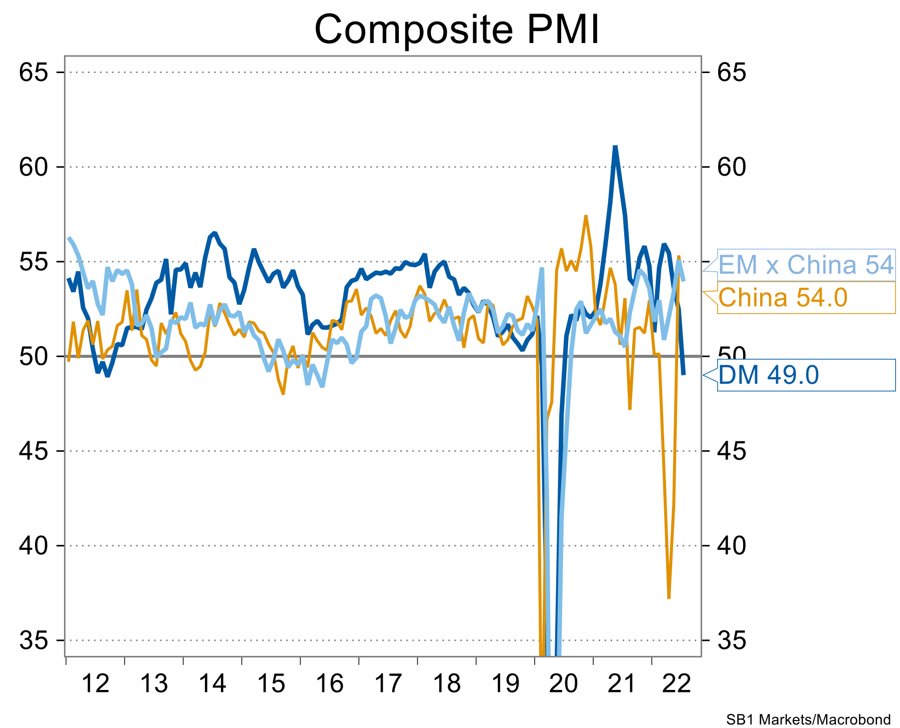


- In Q2, we estimate a 1.6% decline in global BNP (annualised), due to the steep decline in China, and a small contribution from the US

An unusual steep decline in rich countries, by 3.5 p to 49, the US to 47.7

China and Emerging Markets x China kept up far better, both down 1 p to 54, well above avg

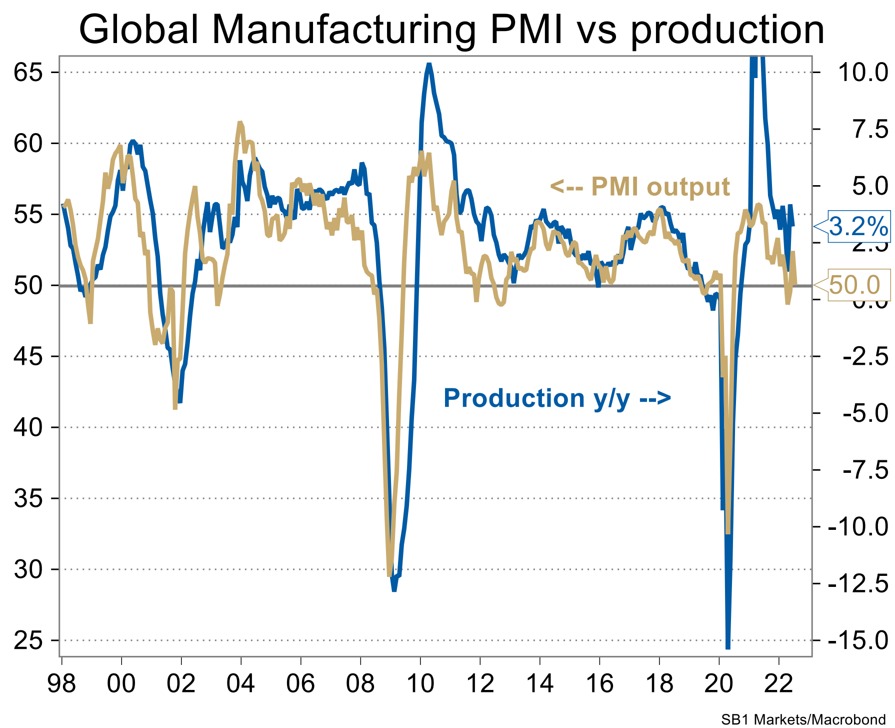


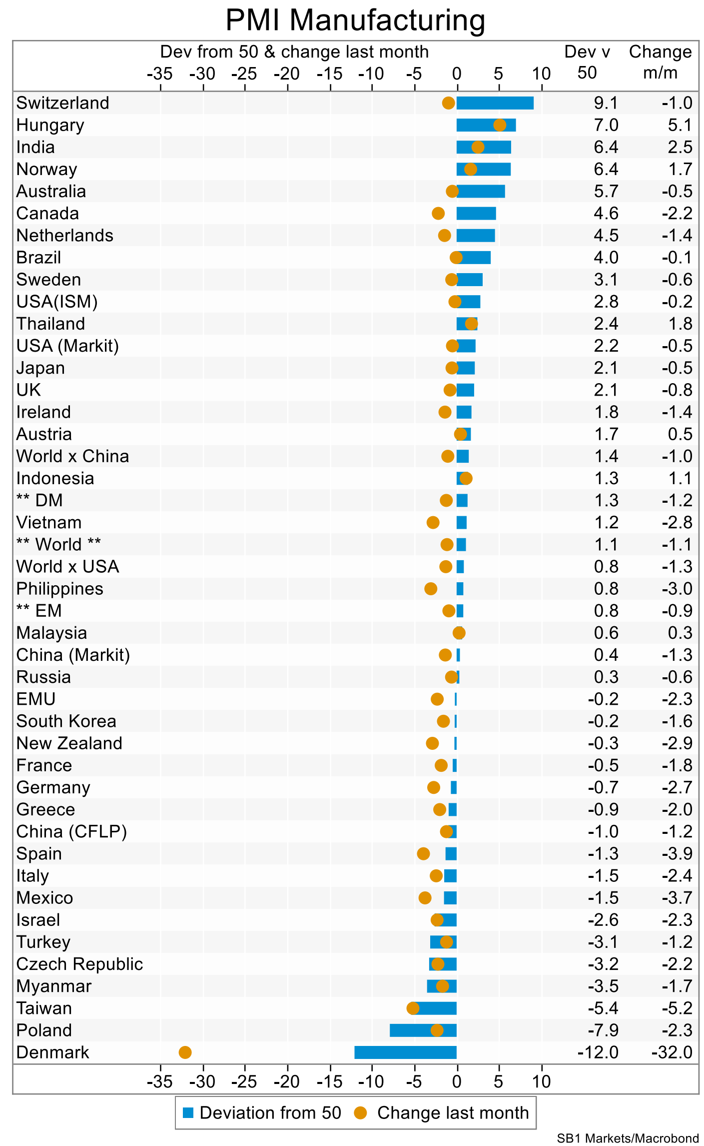


- Both manufacturing & services contributed to the decline in the global aggregate in July

Manufacturing total PMI down 1.1 p to 51.1; the output index down 2.4 p to 50.0

Just 1/6 of countries reported higher PMIs, almost 1/3 has fallen below the 50-line

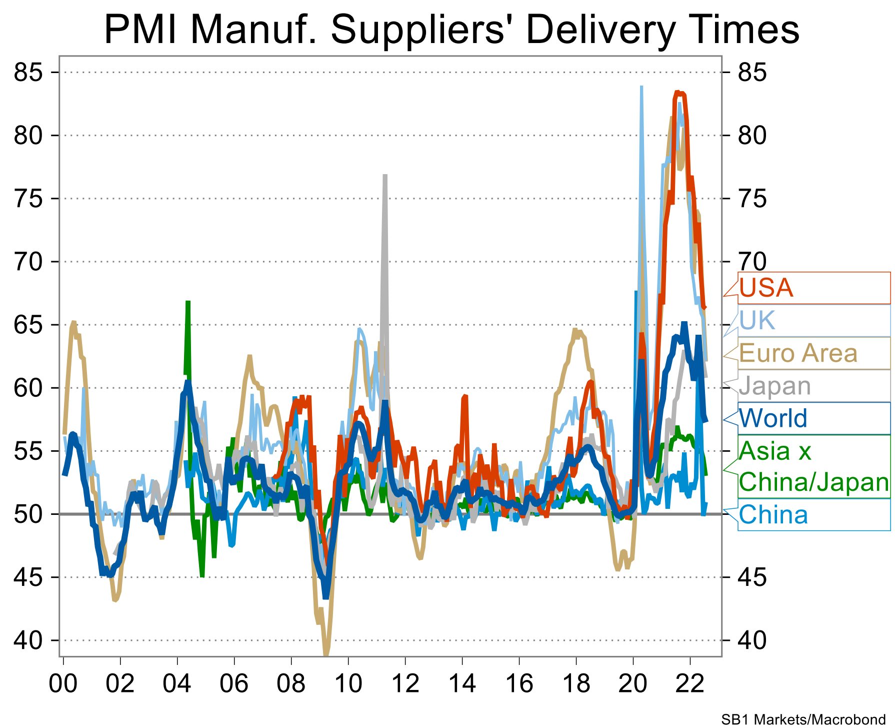


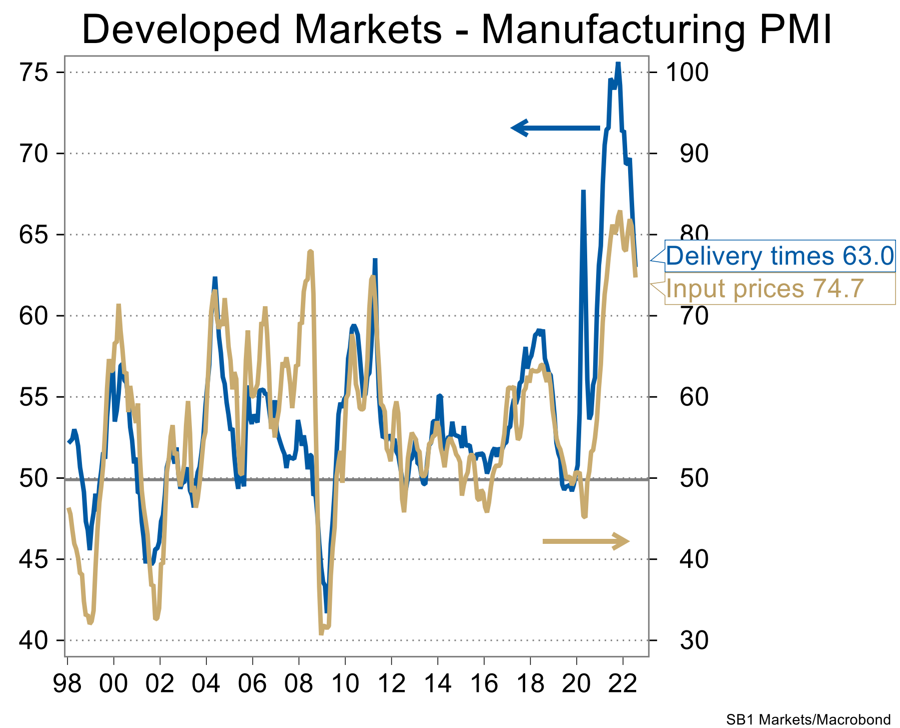


- The decline in manufacturing PMIs was unusual broad, but EM x China kept up well – as India is still going trend
  - » A large majority of countries reported lower activity in June
  - » **Rich countries** are still stronger than EM measured by the total index but the gap is narrowing. Measured by the new order index, EM are ahead of DM, which fell below 50
  - » **Norway** is close to the top of the list – but just with June data. The **Danish PMI** collapsed but we should wait for the August data

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

…and input prices inflation is slowing but also remains fell above normal levels





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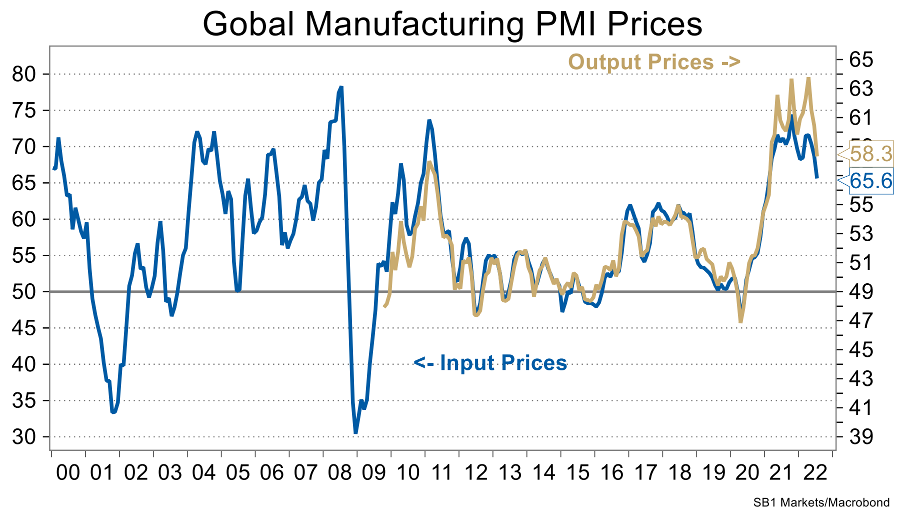
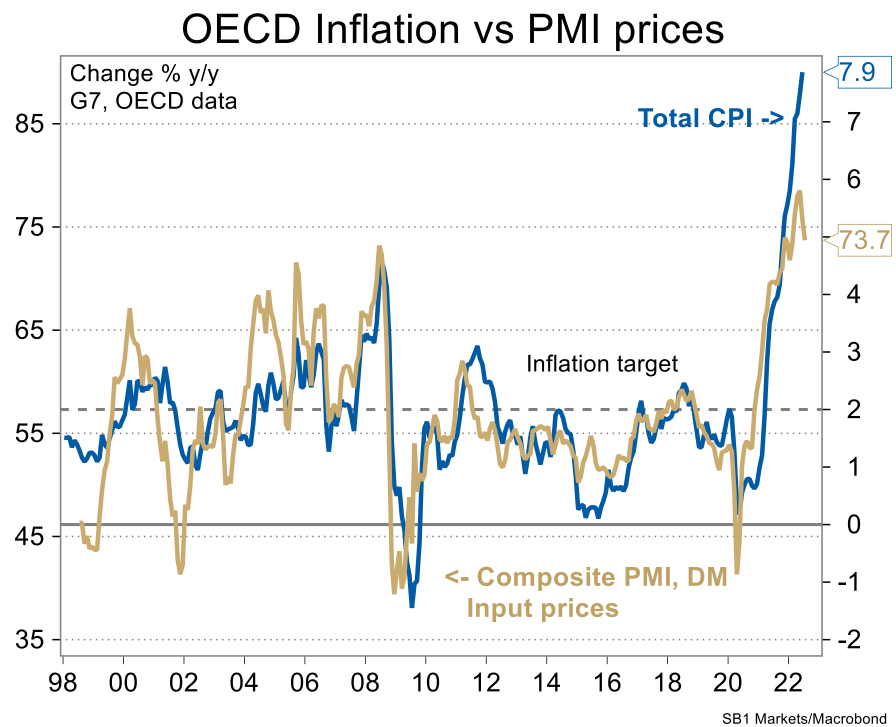
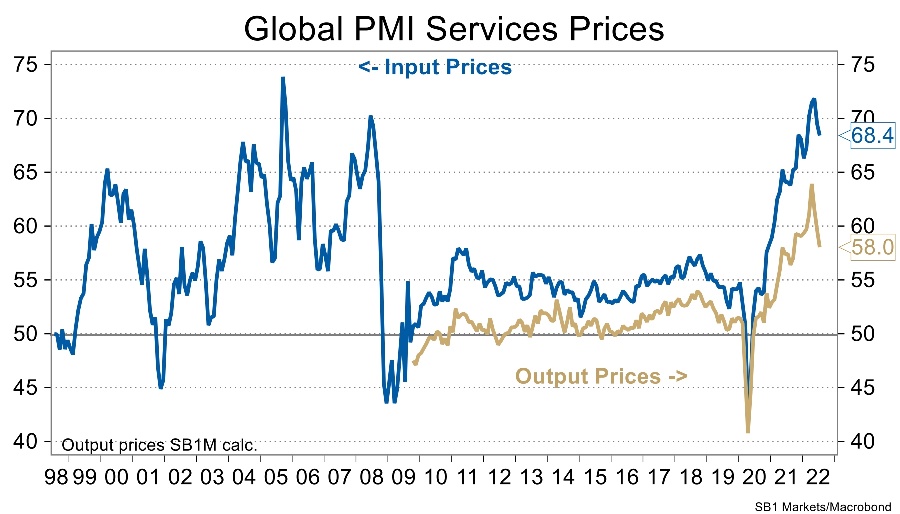
Price increase are slowing, say the PMIs

All price indices remain at very high levels, though

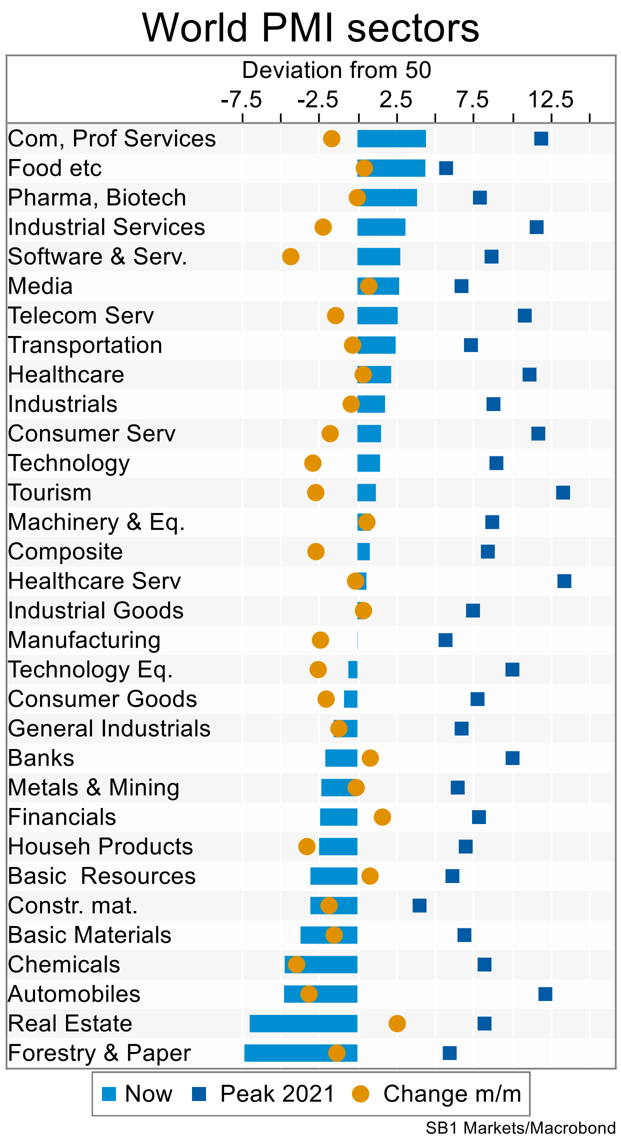


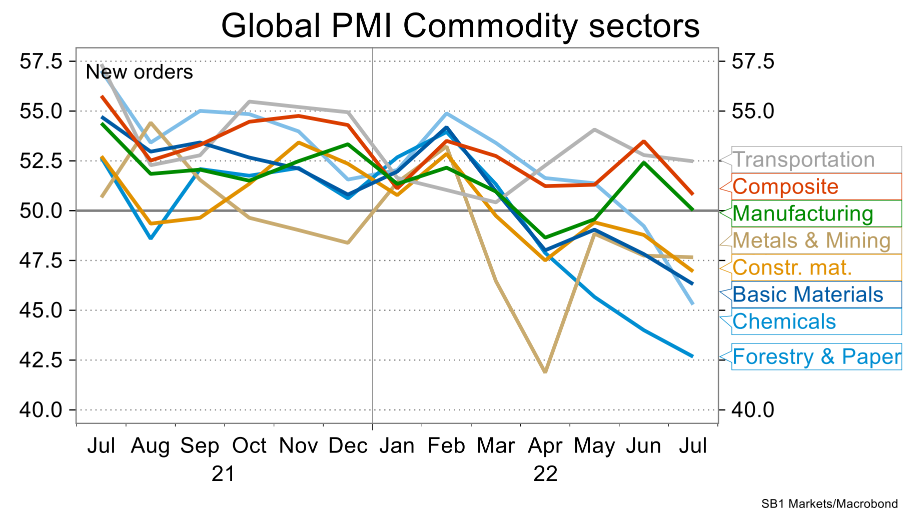


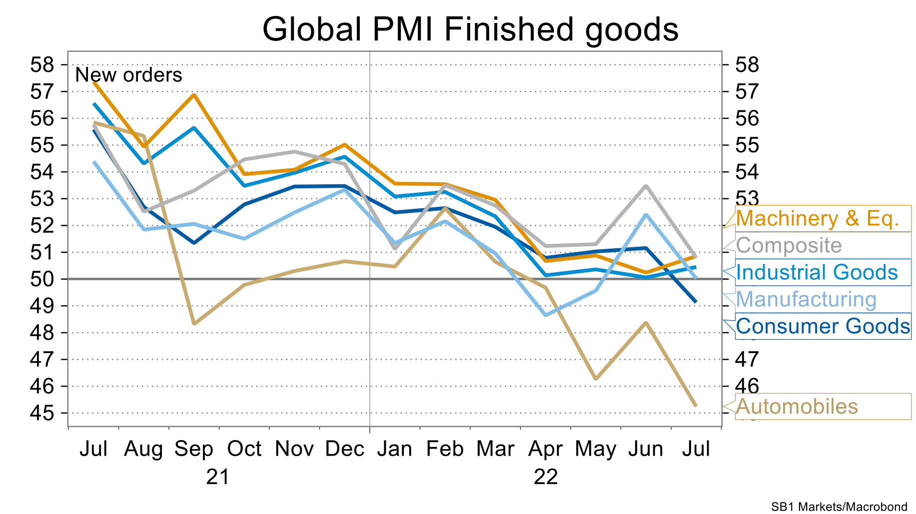


Almost all sectors reported slower growth in July, close to half below 50!

9 sectors up, 21 down. 14 sectors are below the 50-line, 16 are still above







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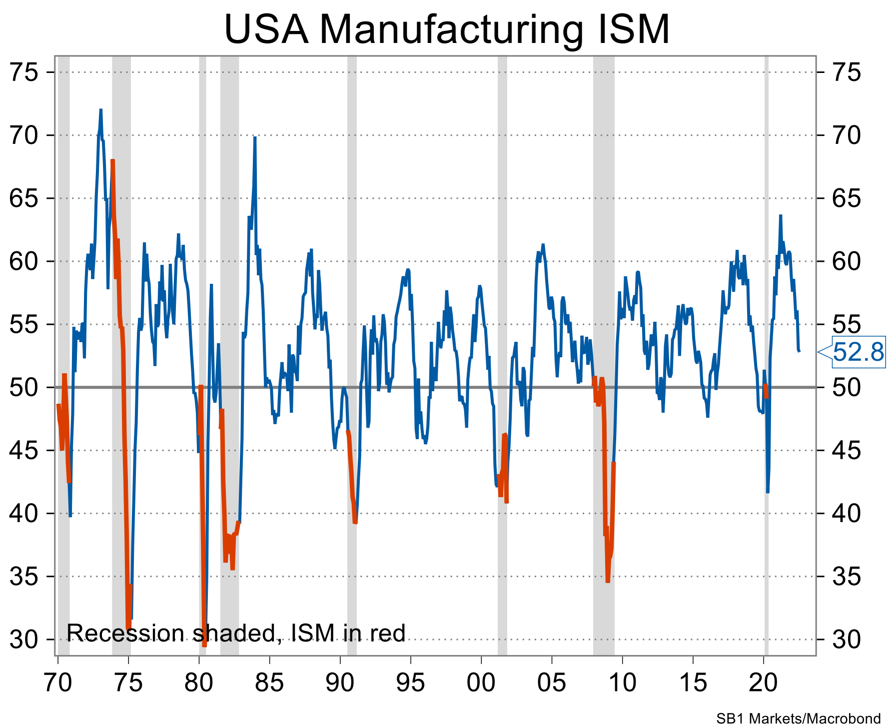
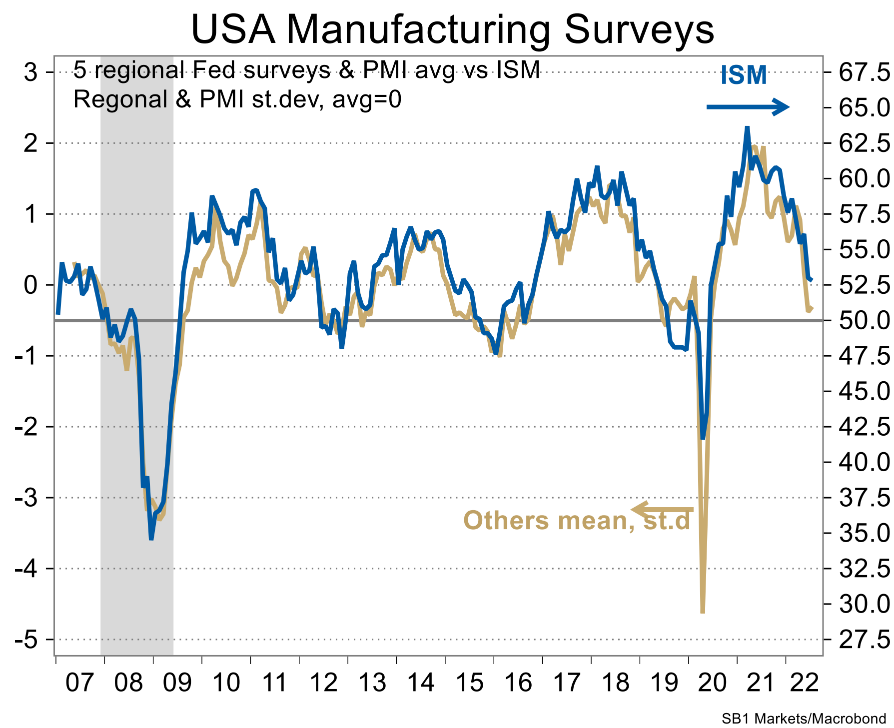
The manufacturing ISM fell less than expected in July but the trend is set

Down just 0.2 pp to 52.8, expected 52.0. Prices pressures are easing – as new orders are contracting



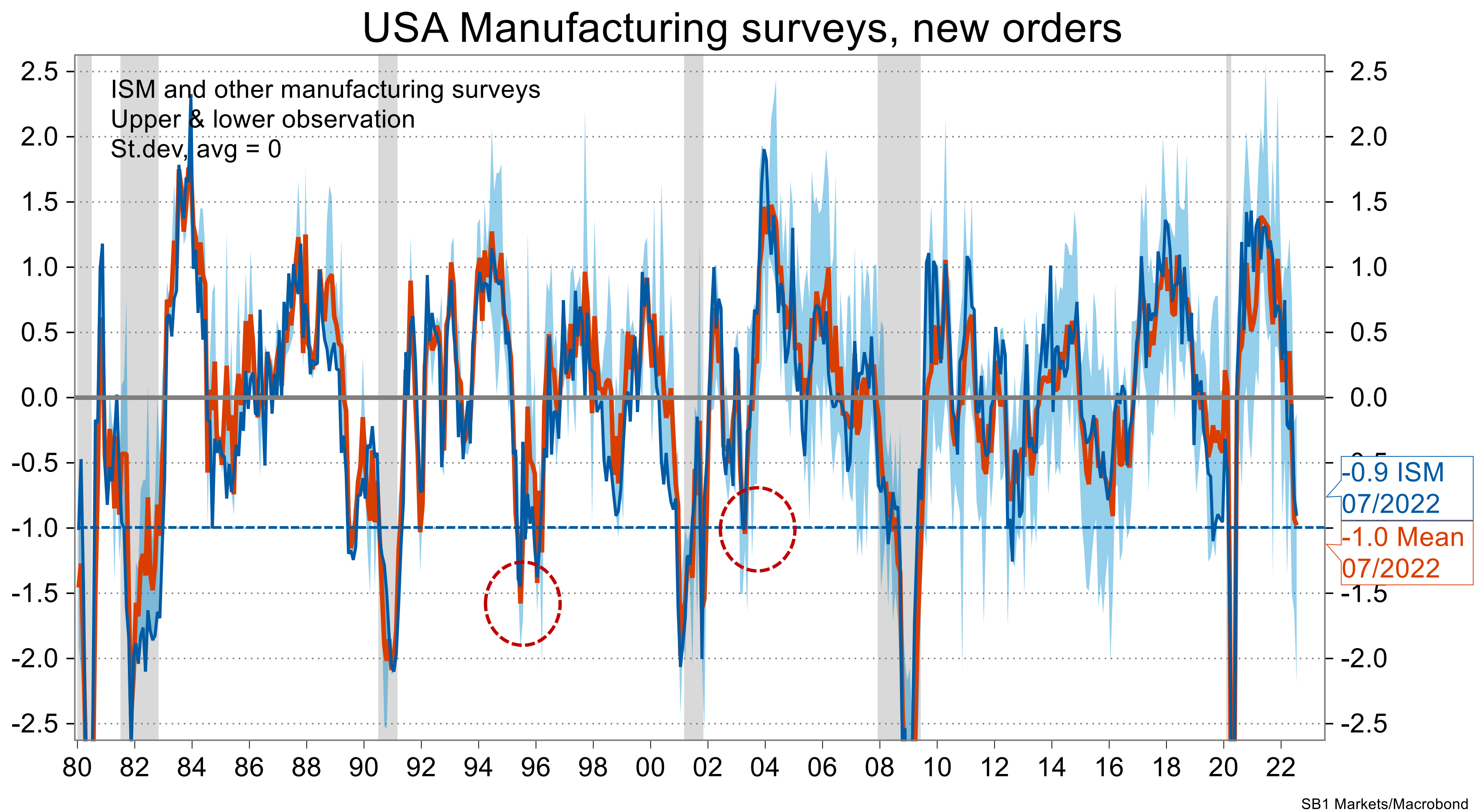


The ISM manufacturing survey has fallen from a 60+ level last spring, down to an average level. Other surveys are marginally lower, and below average

- Last month, 11 of 18 manufacturing sectors reported growth (down from 15 in June), 7 sectors reported a decline (furniture, wood, paper), up from 3 (and 1 in May!)
- The **new orders index** fell sharply, by 1.2 p to 48, following the 6 drop in June – in line with the sharp decline in new orders recorded in other surveys. Normally in early recessionary signal? (*check next page*)
- Fewer **supply chain** issues: 'Just' 18 commodities saw **price increases** (from 29 last month (and 40 in May, and 56 at the peak). 11 were down in price, like aluminium, timber, freight, steel, nat. gas, diesel, up from 7 in June. 11 commodities were reported in **short supply**, down from 13 in June (and far below the peak at 50 commodities a few months ago)
- **Comments are mixed, and 'stronger' than the actual data suggests – but several are acknowledging a slowdown**

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

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



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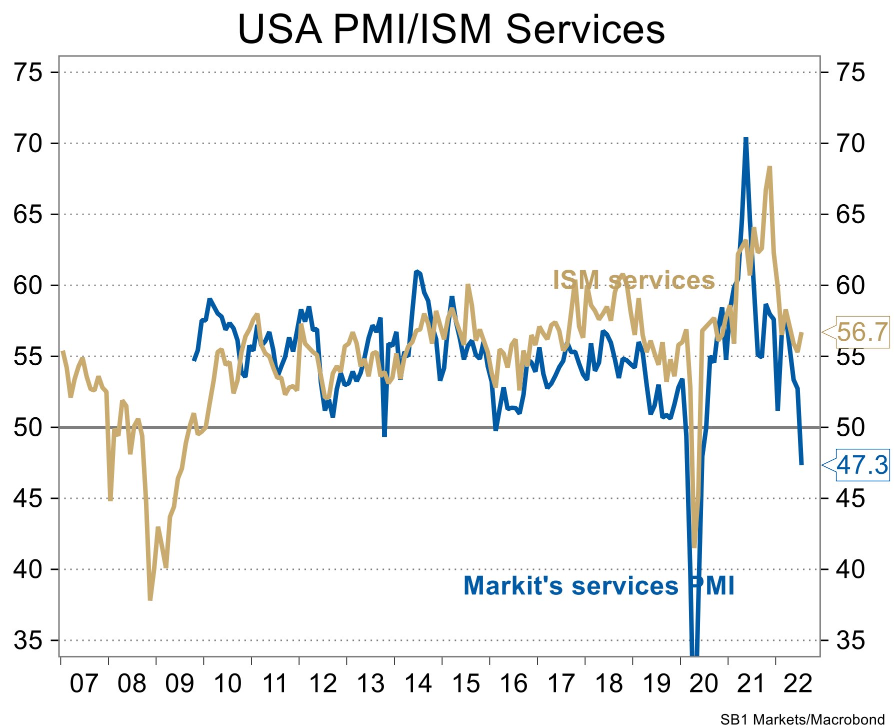
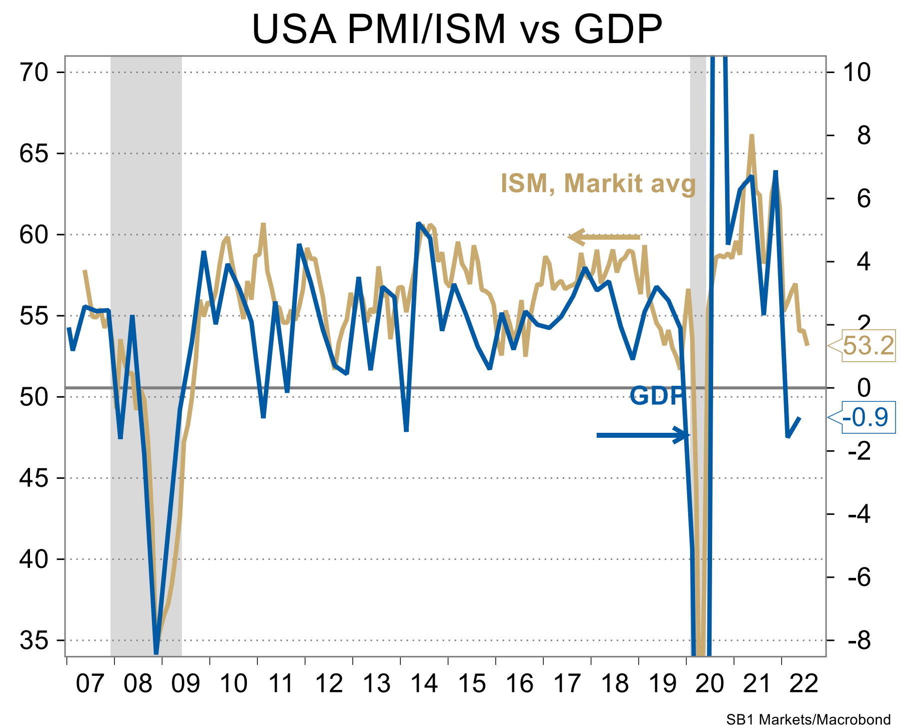
Mind the gap: Markit says services are contracting. ISM report full speed ahead

The history of the two surveys are too similar and too short to judge which is the best survey

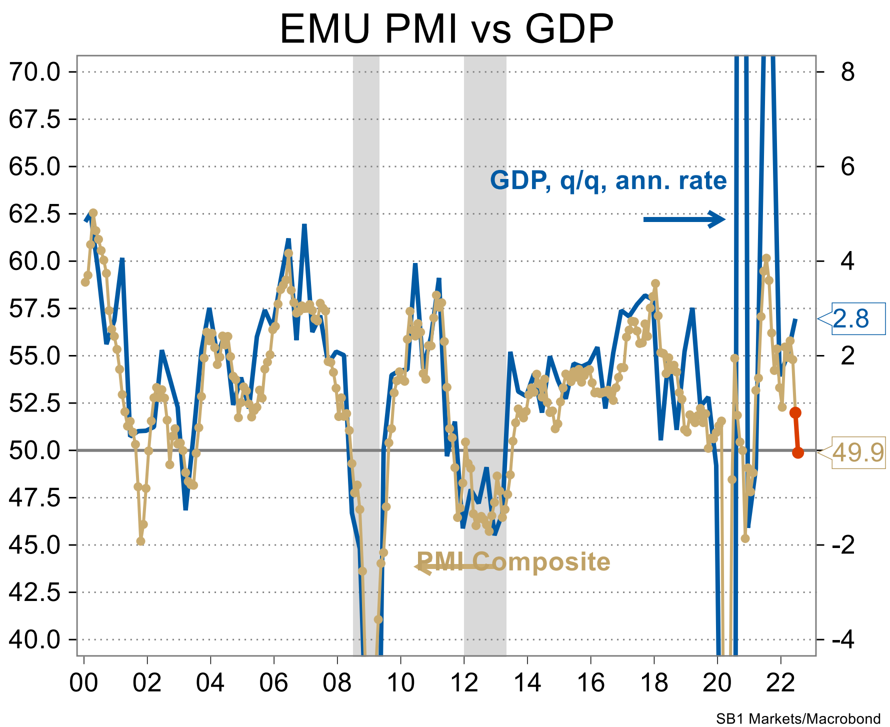


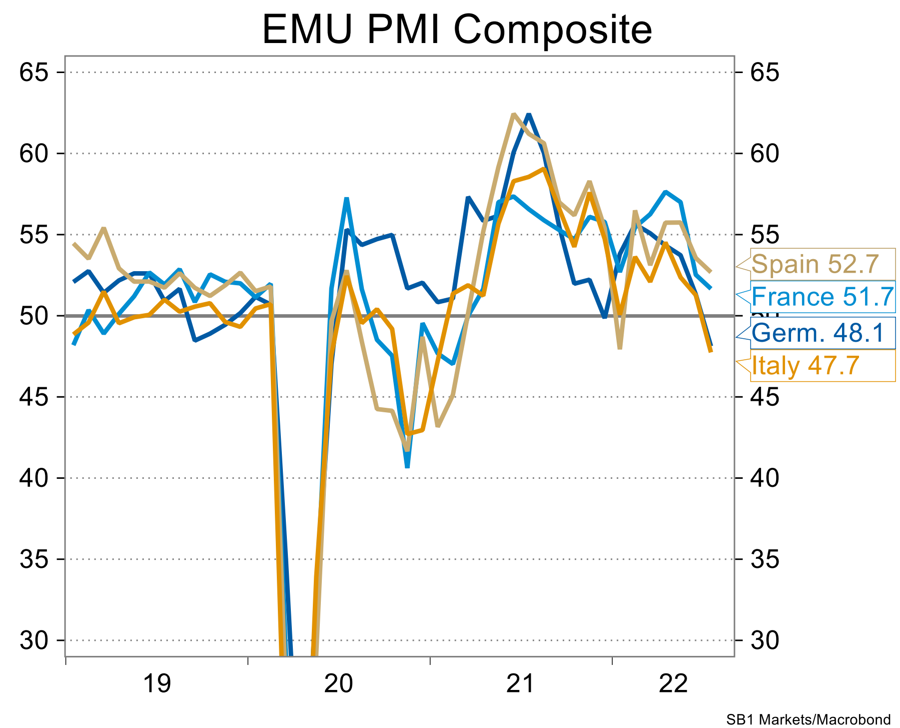


- … but in some few months we will find out ☺
- The ISM services index gained 1.4 p to 56.7
- Markit/S&P’ PMI fell 5.4 to 47.3!
- The average of the ISMs and PMIs is down – but is not signalling any recession at all (thanks to ISM services)

The final PMIs: Down but a tad less than first reported

The composite down 2.1 p to 49.9, not a positive growth signal. Italy, Germany the bad guys, at 48ish





- The decline in the flash EMU PMIs was confirmed. The Germany, Italiy, and the manufacturing sector in general are the weak links
- The **manufacturing output** index fell further, to 46.3, a refession-like level

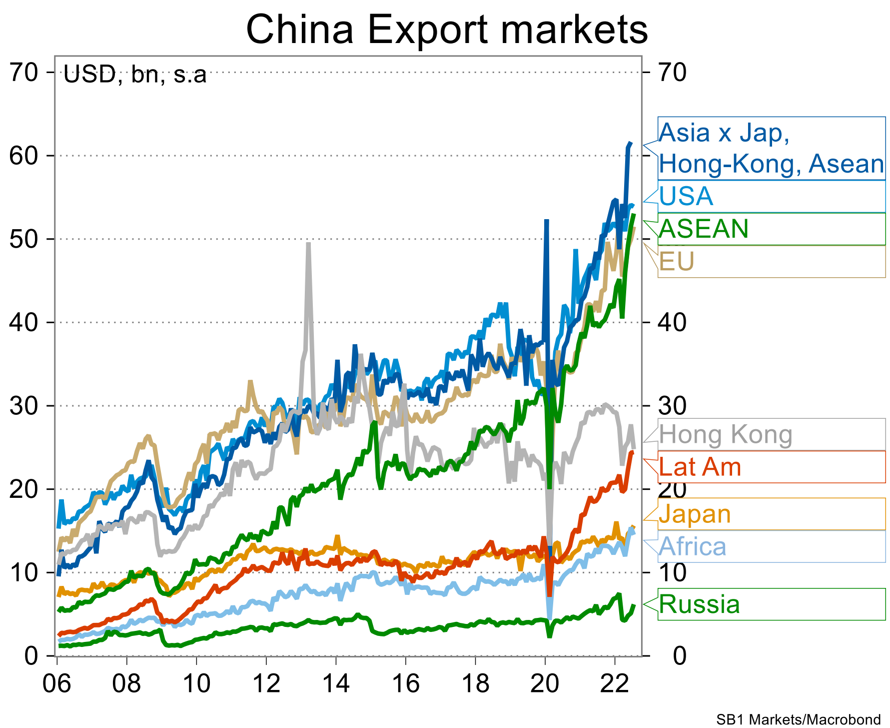
Exports up to another ATH, imports too but have flattened (in volume terms)

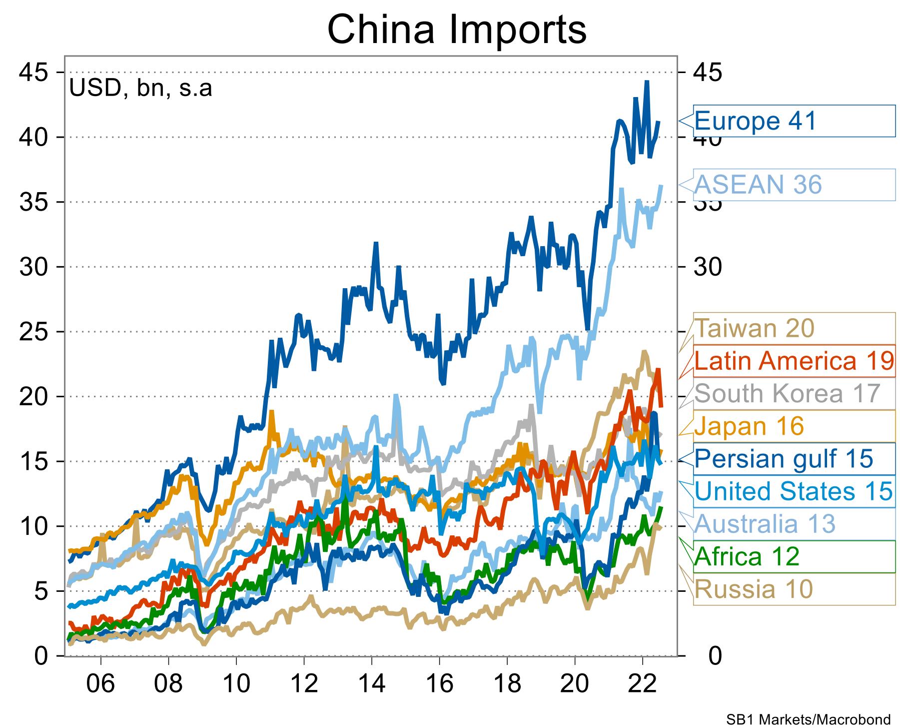
The trade surplus remained at the highest level ever. So much for the supply chain challenges…

- **Export values** grew just marginally in July (0.6%) following two strong post lockdown gains in May and June – and up to another ATH. Exports were up 18% y/y, 4 pp above expectations. Export values are up more than 50% from before the pandemic**. Export volumes** are up 30%! *Serious supply chain problems???*
- **Import** gained 2% m/m in July, and are up 2% y/y, 2 pp below expectations –and imports were at ATH in value terms! However, in **volume terms** imports are down by 8% from the peak level last spring – and somewhat below (3%) the pre-pandemic trend
- The **trade surplus** at USD 101 bn was 11 bp larger than expected, and the highest ever. In seasonally adjusted terms, the surplus equalled USD 88 in line with the ATH from last month, or some 6% of GDP, the highest since 2008! Growth has become export led, again? At least partially as a higher trade surplus in goods have lifted GDP by some 2% since before the pandemic

Chinese exports to Russia are still well below the pre-war level

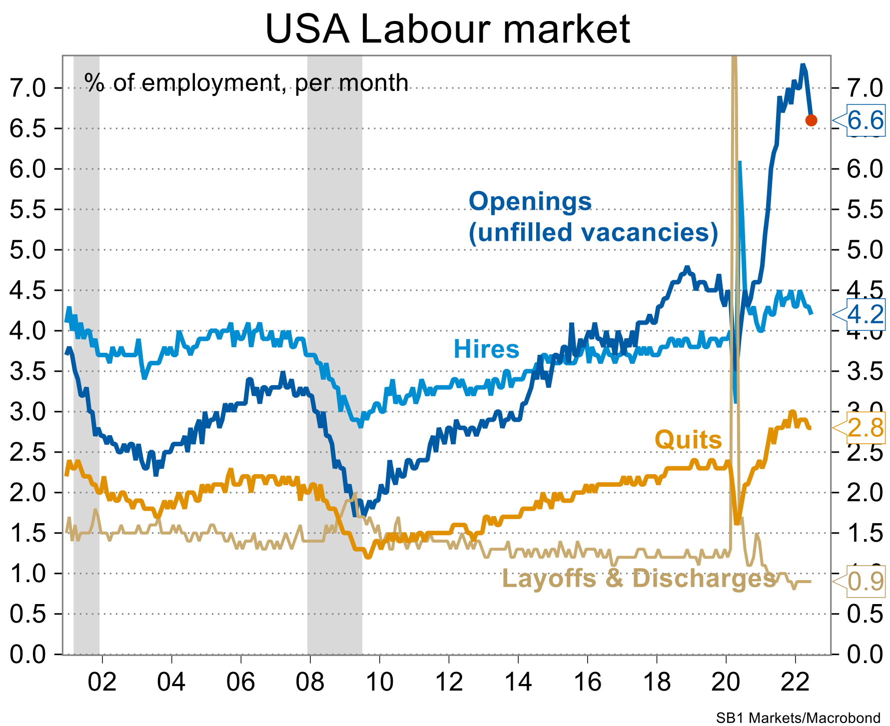
Imports from Russia are <u>much higher</u> than before the invasion in Ukraine, due to more oil imports





The vacancy rate further down in June, still very high

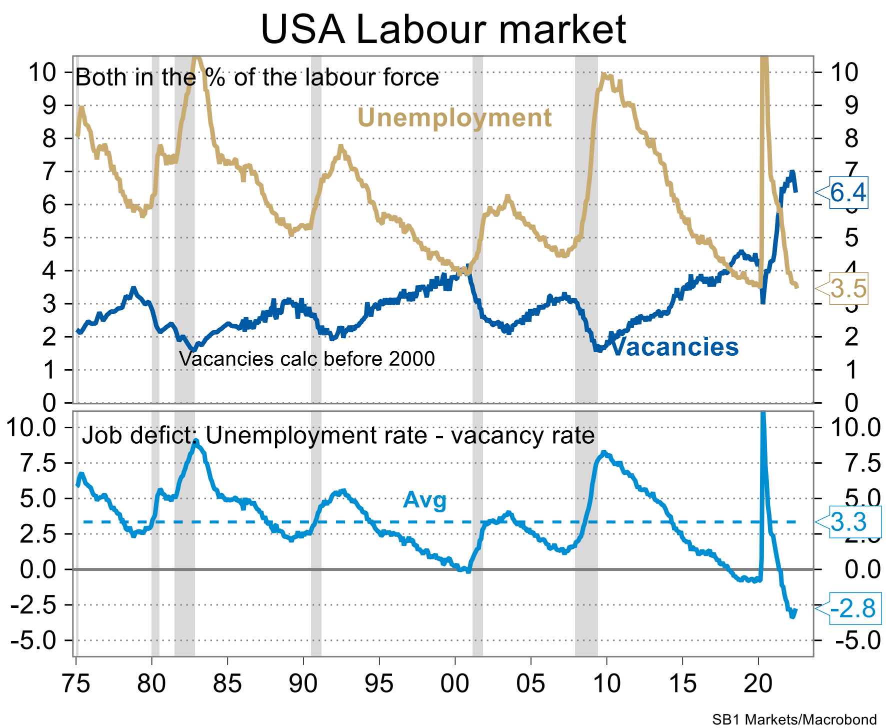
Hiring slows, fewer quit voluntarily – all signs of a slightly less tight labour market

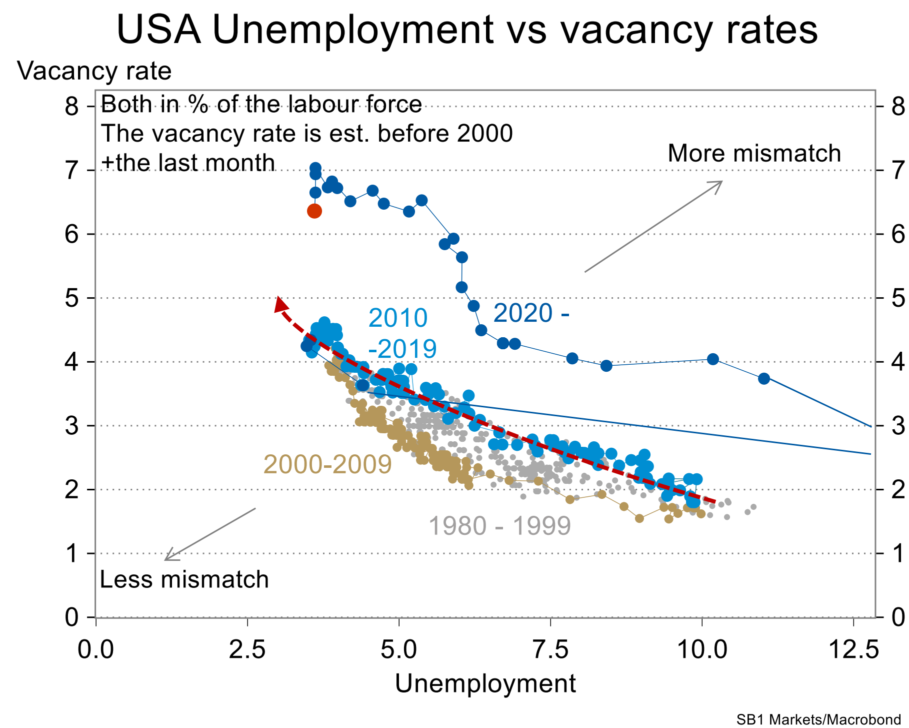


- The number of **unfilled vacancies** declined 0.6 mill to 10.7 mill in June (and this time the prev. month was not revised up), expected down to 11.0 mill. The rate (vs no. of employed) fell by 0.3 pp to 6.6%
  - » The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit – and the level is still very high
- **The SMBs (NFIB survey)** reported an unchanged, and close to record high share of companies that were not able to fill positions in July. These two series are very closely correlated – and both are still signalling a very tight labour market
- **New hires** fell 0.1 mill to 6.3 mill in May, equalling 4.1% of the employment level, down 0.1 pp. The trend is now slightly down but the level is high
- The number of **voluntary quits** also fell marginally to 4.2 mill, equalling 2.8%, still a very high level
- **Layoffs** equalled 0.9% of employment in June, at the same level as during the previous months, 0.1 p above the ATL last Dec
- **In sum:** The tide has turned, but the labour market is still very tight, and it is unlikely that wage inflation will come down to a sustainable level without a further weakening

Will it be possible to bring vacancies down, without creating a recession?

Based on history, it seems to be impossible, the two indicators are quite closely correlated

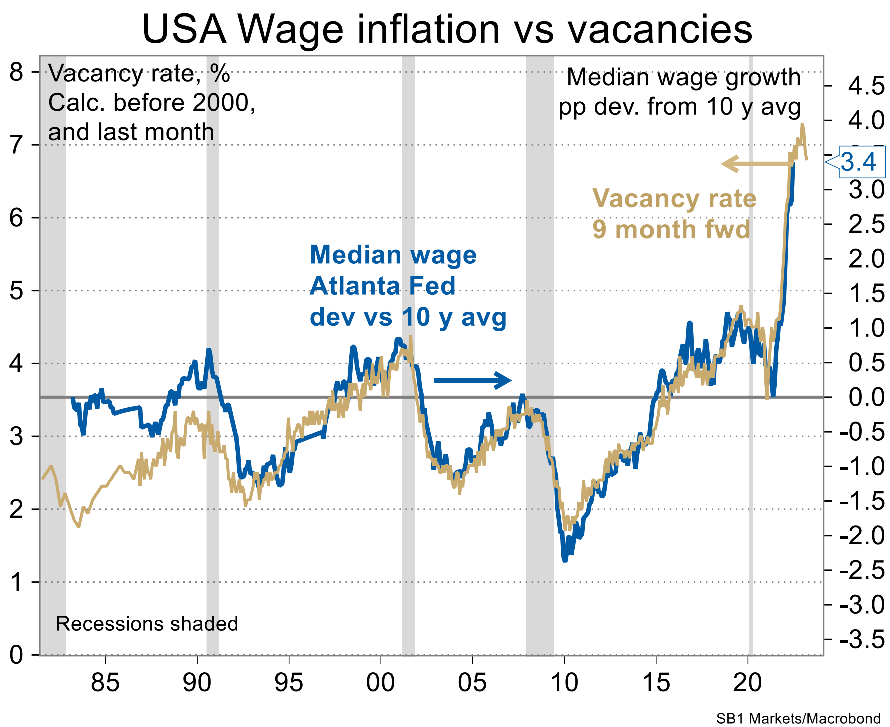


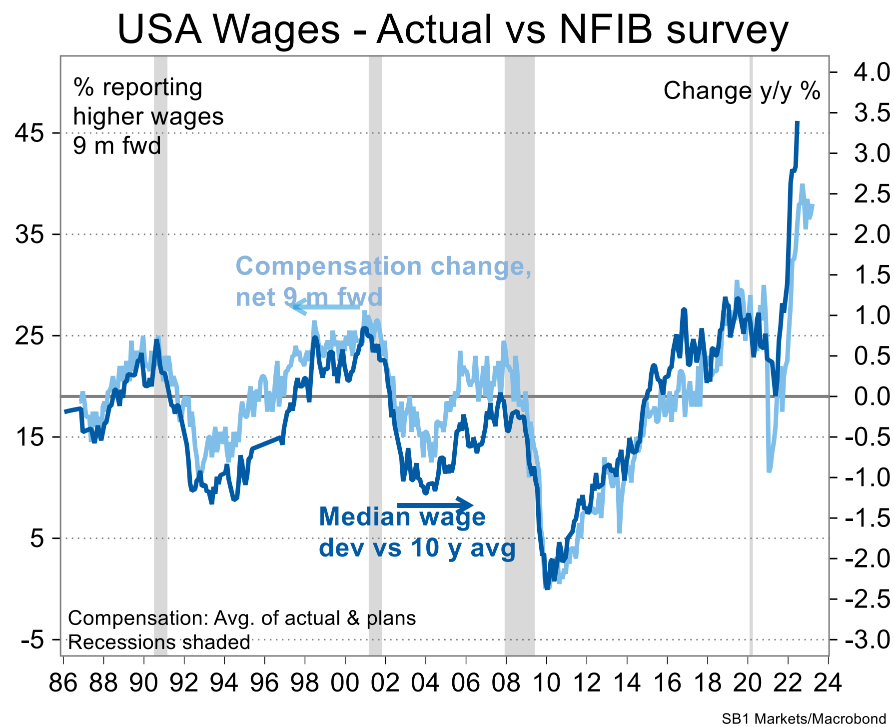


- **The Unemployment - Vacancy-curve** (UV, Beveridge curve) far up in the north-west quadrant, signalling both a tight labour market but also a higher vacancy rate than normal vs. the unemployment rate
- In principle vacancies may be reduced without pushing the unemployment rate up (aka recession), as the vacancy rates is so much higher than normal. But it seems very unlikely, as policies that reduce overall demand for goods and service and thus demand for labour – which is needed in order to bring wage inflation down (check two pages forward) – will hit both companies that have vacancies, and those which do not. The labour market is very not so flexible that redundant labour will seamlessly be transferred to fill still vacant positions in other companies/sectors/regions. <u>If such transfer had been easy, it would have happened already, and the unemployment rate would have been lower</u>

So why are wage inflation soaring like never before?

Because vacancies are higher than anytime before, it seems like. How to bring wage inflation down?

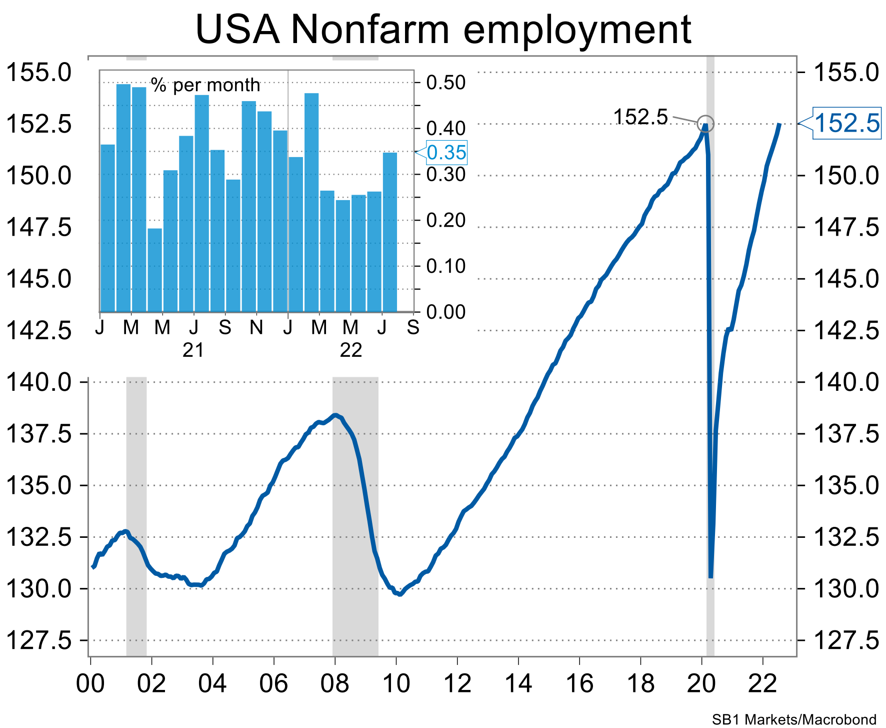


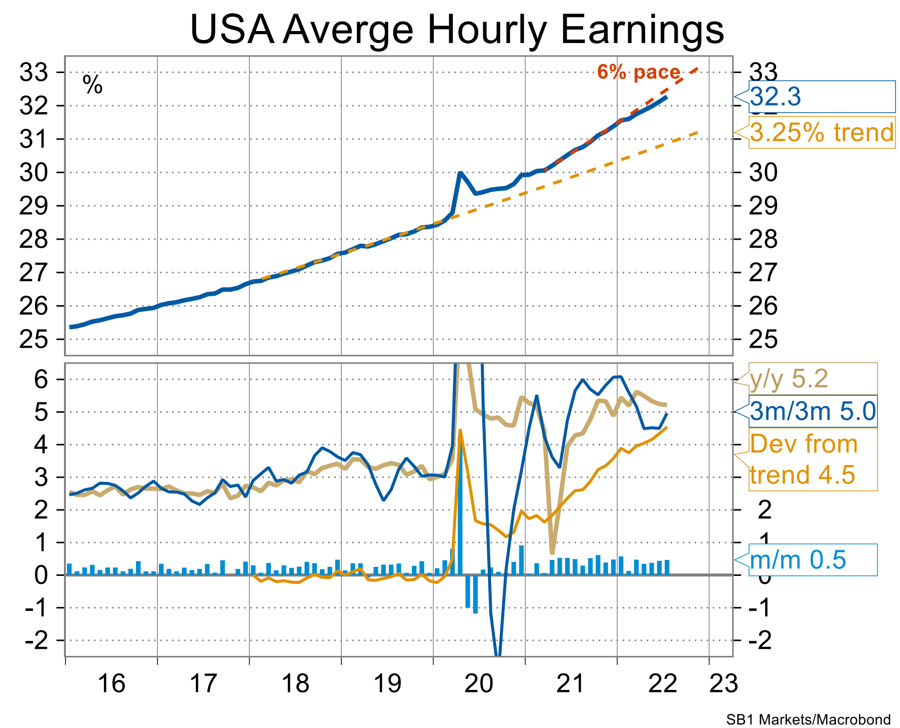


- **Our 'Phillips curve'** based on the vacancy rate signals a further increase in wage inflation the coming quarters even if vacances may have peaked, as the vacancy rate leads changes in wage inflation quite consistently by 3 quarters. However, we would not be surprised if the current extraordinary high wage inflation turns out to be the peak
  - » Companies (SMEs) compensation plans signal continued high wage inflation but not faster than the present
- **Wage inflation** has already accelerated by almost 3.5 pp vs the 10 y average (Atlanta Fed median) and cannot possibly generate a 2% price inflation rate over time. This is Fed's main headache, not the current high CPI inflation print. And it will become the stock owners' headache too, of course
- **Demand for labour has to be reduced sharply in order to get wage inflation beck to a sustainable level! That's the recipe for an unavoidable RECESSION**
  - » Check under which circumstances wage inflation slows on the charts above (hint: find the shaded areas, follow the blue wage line - as well as the vacancy rate or the wage hike plans ☺). Fed will not be able to control inflation if demand for labour is not cut sharply

Strong employment growth, unemployment down; Wages up, participation not

The unemployment rate has not been lower in 53 years. *The Federal Reserve is not finished yet*

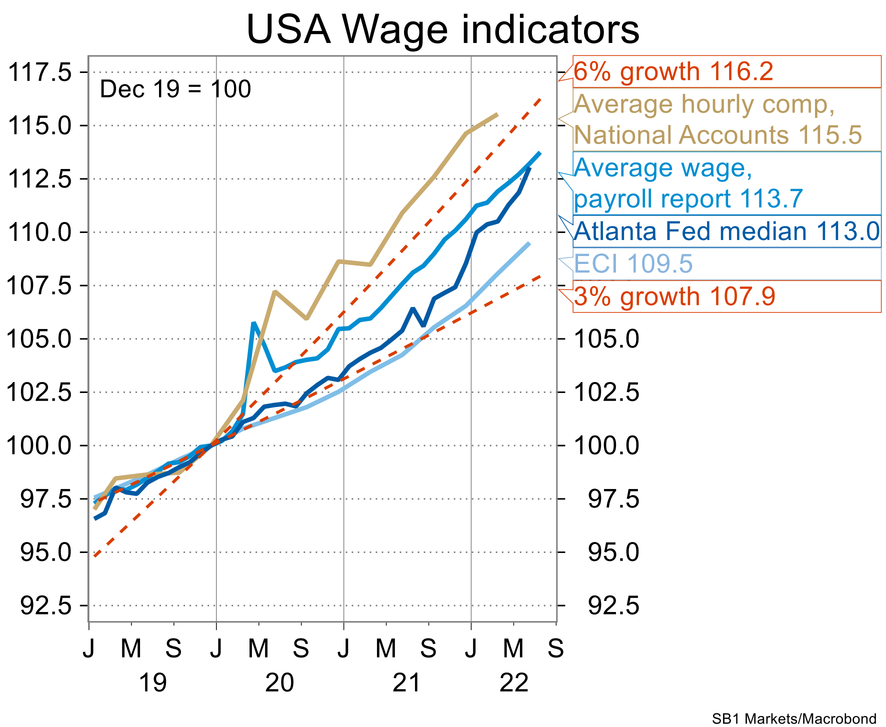


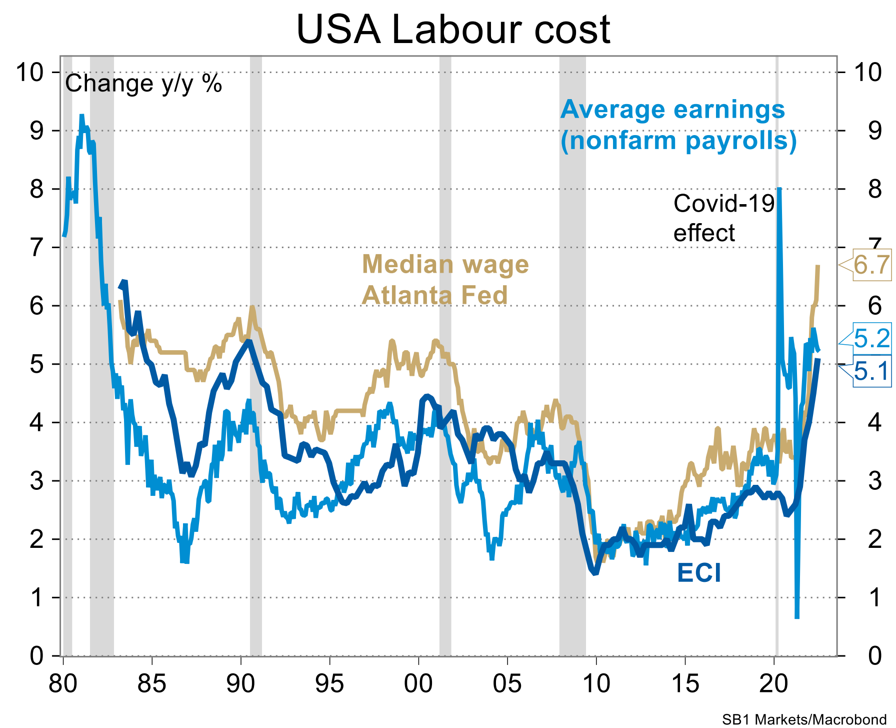


- **Nonfarm payrolls** rose by 528' in July, twice as much as expected (258'), and the most since February. Payrolls are finally back to the Feb-20 level. The LFS employment rose by just 117', and employment has flattened since Feb/Mar. In July, the **employment rate** gained 0.1 pp to 60.0% but it is trending down rather than up – not a signal of strength. The US may not be in a recession but employment normal increases until the economy has entered a recession
- **The participation rate** lost another 0.1 pp to 62.1%. The peak was in March, and has been heading down, slightly faster than the employment – and
- … unemployment is still heading down, by 0.1 pp to 3.5% in July, expected unch. In June, the FOMC lifted it's Q4-22 f'cast by 0.2 pp to 3.7% (and to 4.1%, 0.1 pp above the assumed NAIRU, by the end of 2024.
- **Wages** rose 0.47% in July, expected 0.3%. The two previous months were revised marginally upwards, to 0.4%. Measured 3m/3m, wages rose 5.0% in July, up from previously reported 4.3% in June. The annual rate was 5.2%, 0.3 pp higher than expected. The assumed slowdown in wage inflation became less obvious… Before the pandemic, average wages rose by 3¼%, and the wage level is now 4.5% above this trend
- **Maximum employment:** Both the participation and the employment rates have flattened recent months, at the same time as the demand for labour is very strong, witnessing the extreme level of unfilled vacancies. The supply side is obviously the bottleneck at the labour market. For the time being, maximum employment is more thatn reached – and wage inflation is well above a sustainable level

All indicators combined: No signal of any slowdown in wage inflation

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

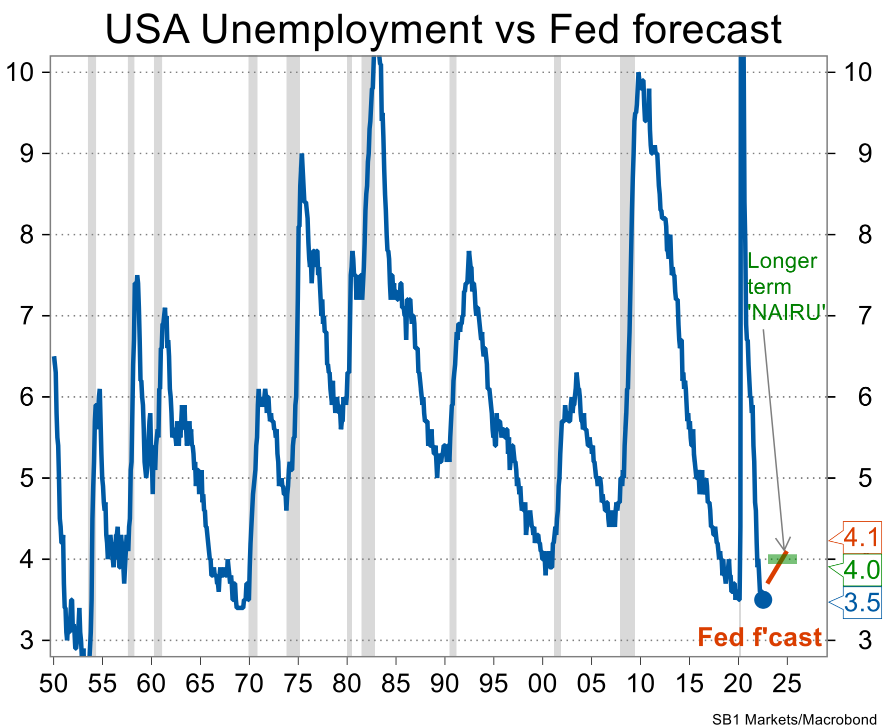


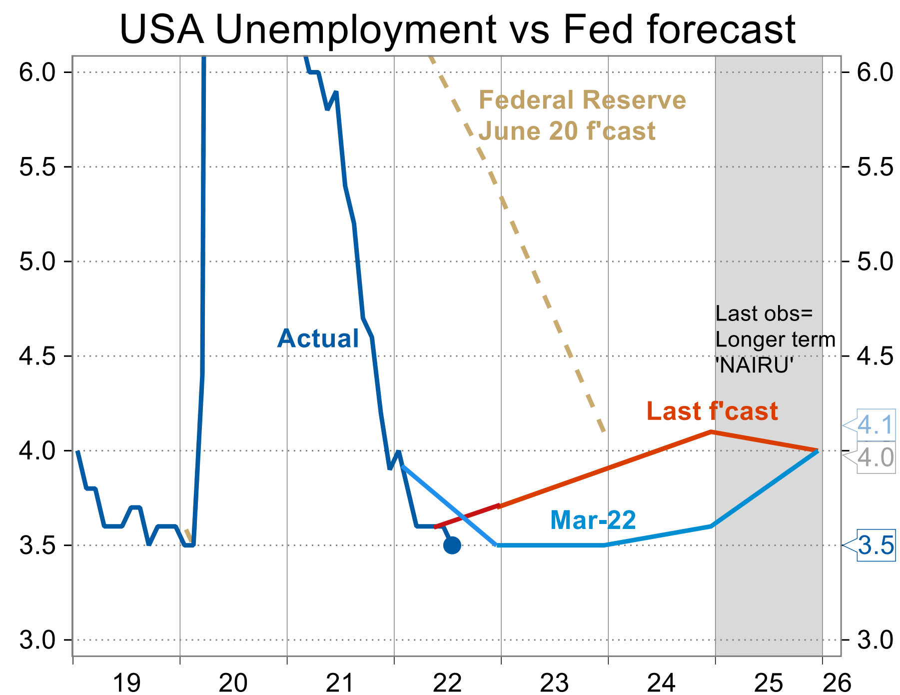


- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years
- Growth in wage/earnings/compensation indicators are up 2.8 – 4 pp+ vs the their respective 10 y averages before the pandemic
- Over the past 10 years, inflation has been close to 2% (before the pandemic, that is)
- It will be a 'challenge' to keep inflation at 2% if wage inflation remains at 5% - 6 %. Productivity growth has not accelerated. Profit margins may take a beating – and they 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

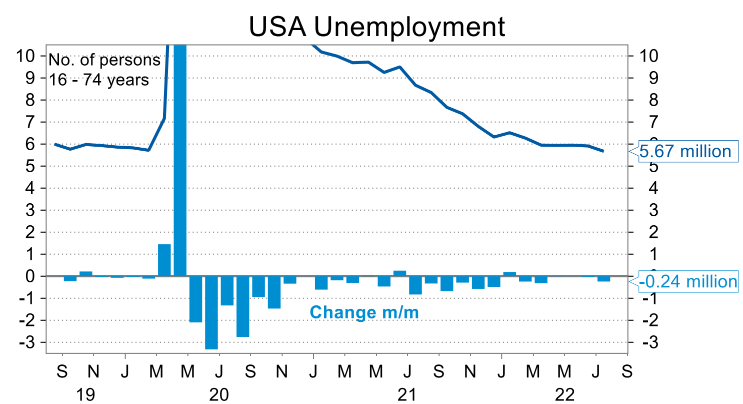
Fed's hope: just a marginal increase in unemployment the coming years

Not impossible but not likely



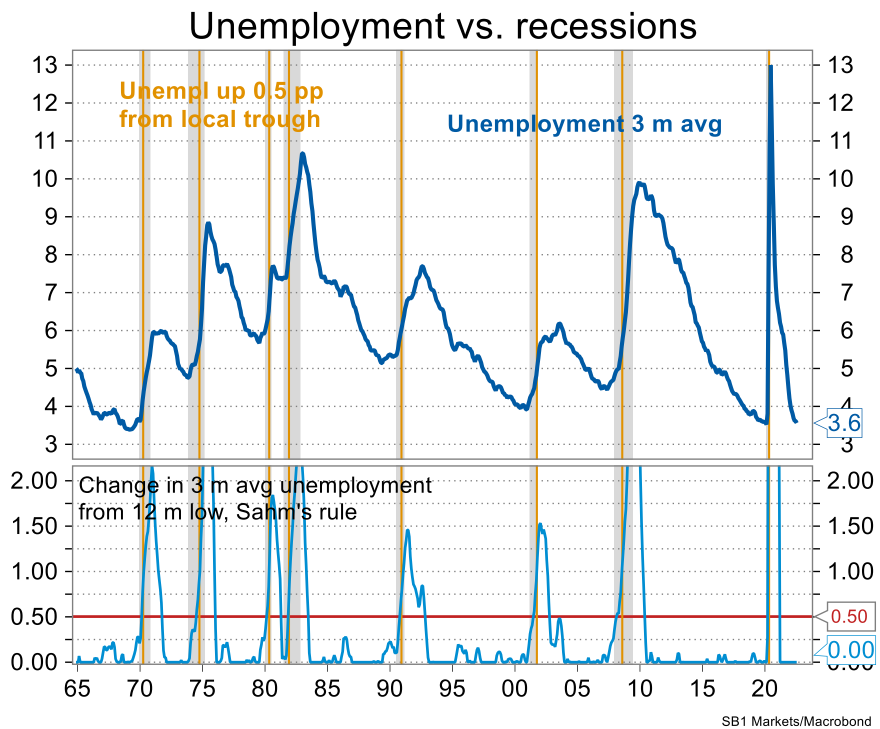


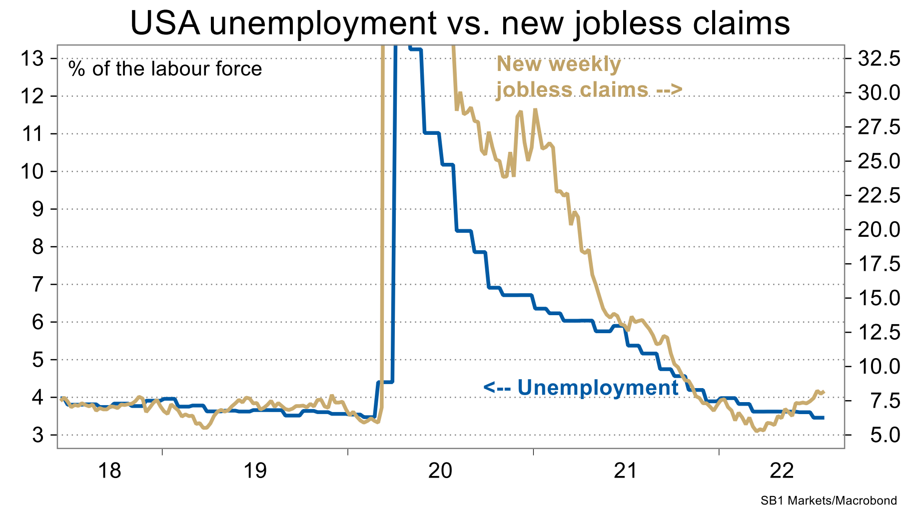
- Unemployment the previous months was revised marginally up (but almost not visible), and fell by 240' persons in July

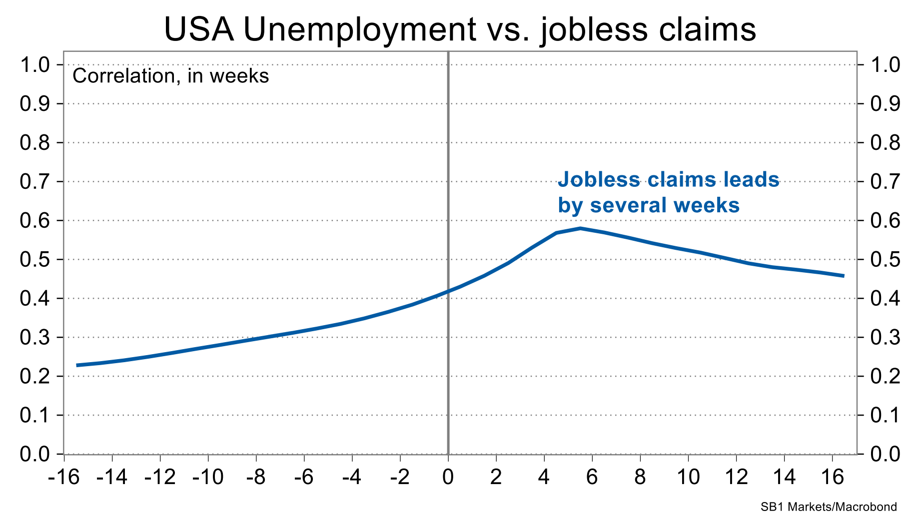


The LFS survey has not yet reported any increase in the unemployment rate

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



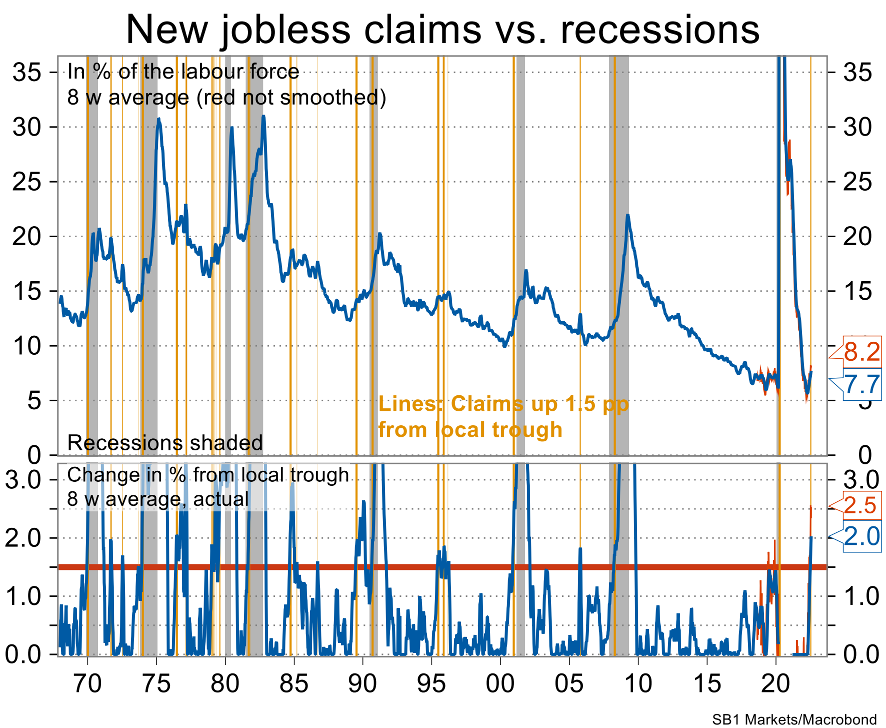


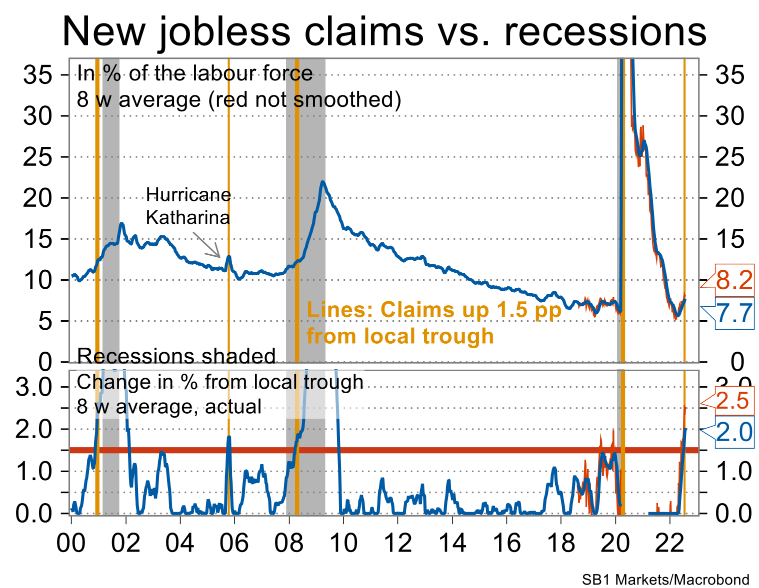


- Still, unemployment will have to start increasing rather soon, if it one day turns out that the US was in a recession in July 2022
- Weekly new claims are telling another story, though *(check the two net pages too)*

A warning line is drawn:

The lift in the 8-week average crossed an important threshold (4 weeks ago)

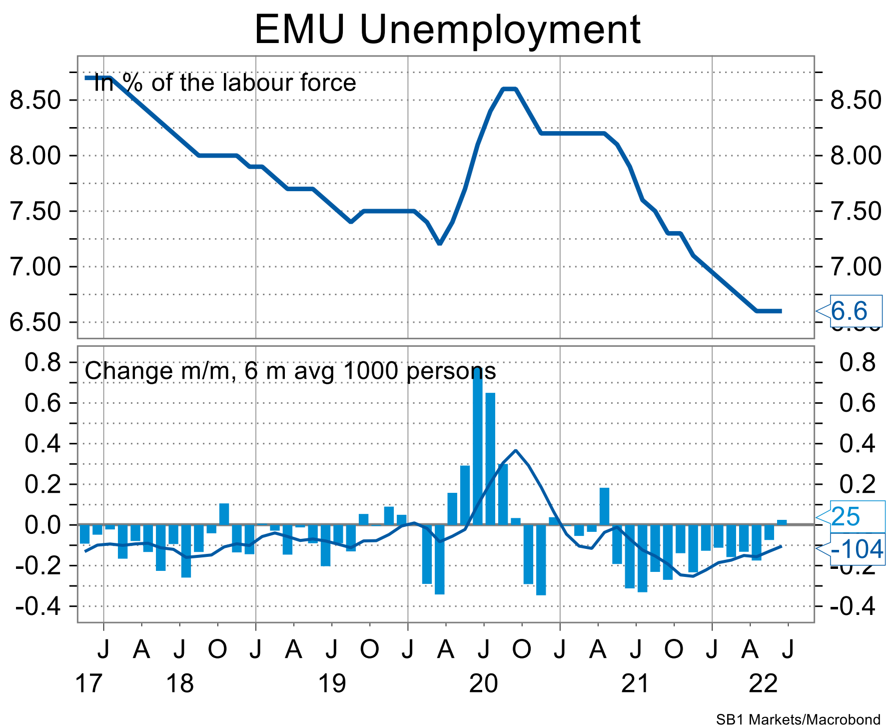


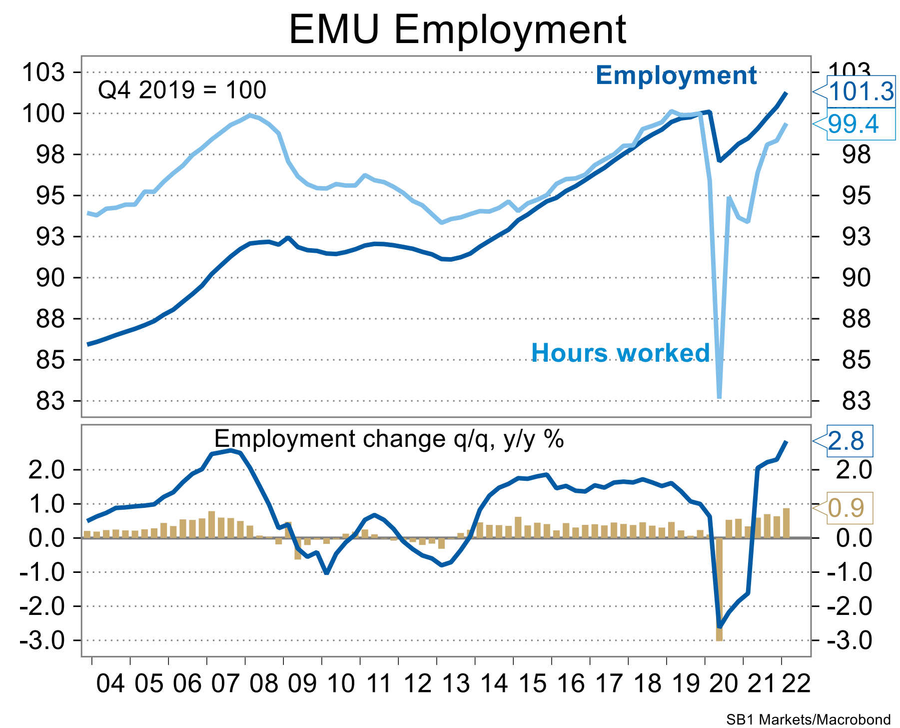


- The yellow lines: New jobless claims (8-week average) up 1.5 pp vs. the labour force
- Now, the average is up 2.0 pp, from 1.9 pp the previous week. Thus, a yellow line is now drawn at the charts above, for the first time since 2005 (Hurricane Katharina), without a recession around the corner (the 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)

Unemployment flat at 6.6% in June, but a marginal increase in no. of unemployed

May was the bottom? Possibly – at the lowest level since 1981

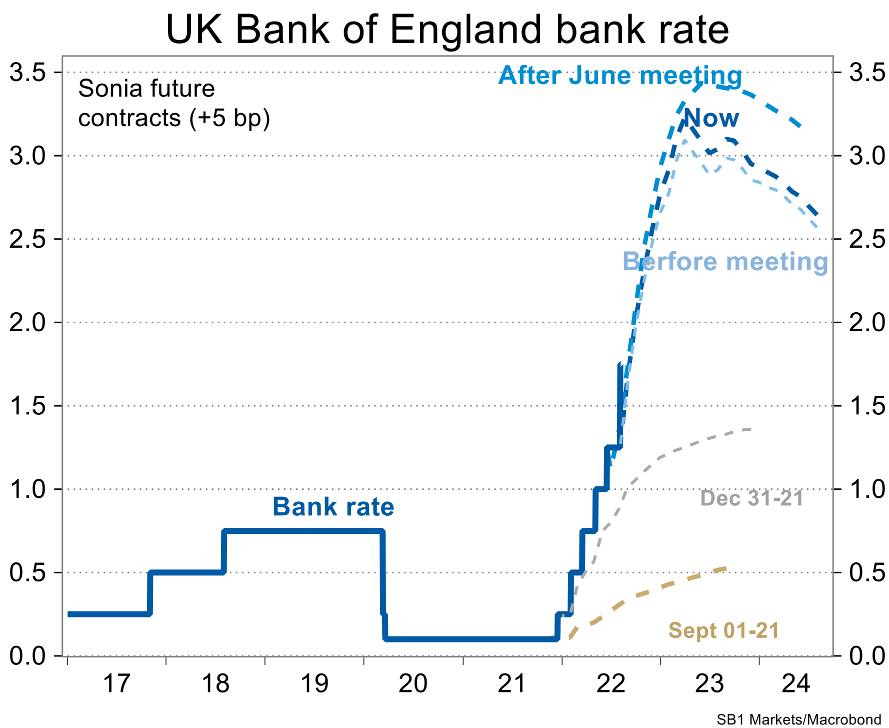




- **The unemployment** rate unchanged in June, as expected
- Very likely, **employment and hours worked** grew in Q2, as GDP expanded at a 2.8% pace (0.7% q/q). The employment level & the employment rate is higher than before the pandemic
- The number of **unfilled vacancies** soared to the highest level ever in Q1, by far
- The labour market is no doubt tight
- **Wage inflation** has accelerated somewhat

Bank of England: Inflation may reach ~~10~~ 13%. A recession is inevitable

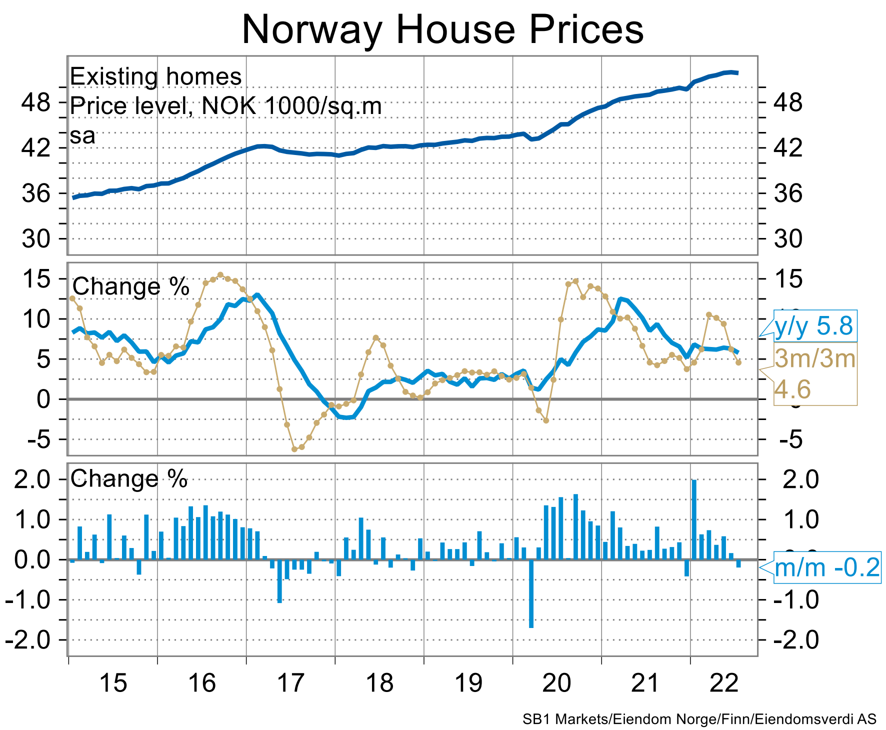
The Bank Rate lifted 50 bps to 1.75%, as expected. The gas/electricity shock is monumental

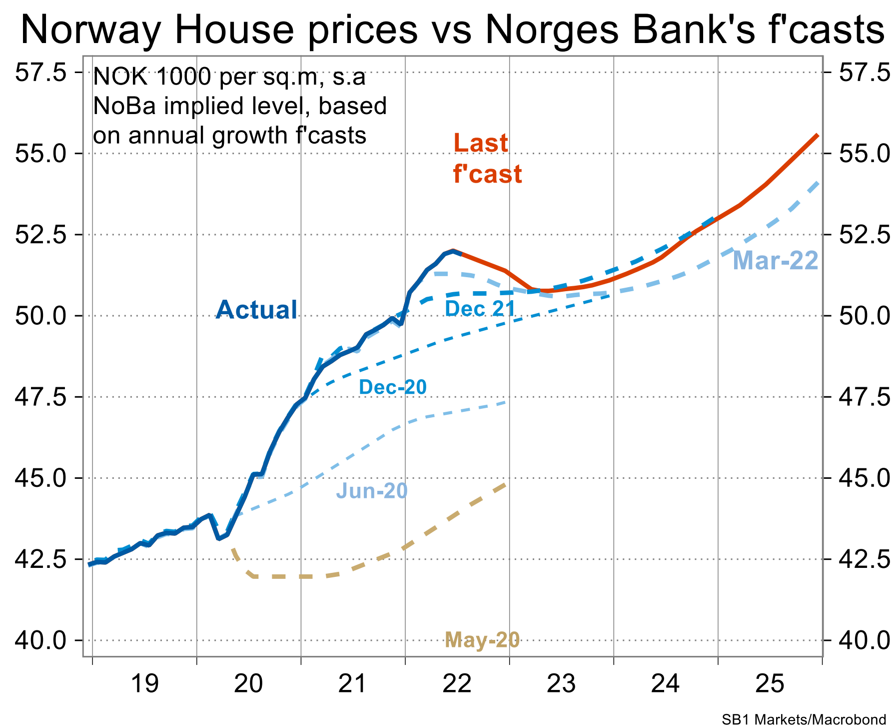


- **The bank rate** was lifted by 25 bps to 1.25%, as widely expected
  - » 1 of 9 members voted for a 25 bps hike
  - » The Bank is considering reducing the holding of gov bonds by GBP 10 bn/month from September (but no final decisions taken)
  - » No forward guidance: The Bank's further actions will depend on incoming data
- **The Bank** is in a terrible squeeze:
  - » It expects inflation to accelerate further, though mostly due to higher energy prices that gradually feeds into the CPI though the semi-annual 'Ofgem' energy price cap adjustments, up to above 13% in late 2022, some 3 pp above the June forecast. However, some parts of the surge in inflation is caused by domestic factors, due to accelerating wage inflation in a very tight labour market, and businesses' strong pricing power
  - » The surge in inflation is now reducing, and will continue to reduce disposable income sharply, and the BoE expects a very sharp economic slowdown, and higher unemployment
  - » In Q3, GDP is expected down 2.3% y/y, implying a 4% drop from Q1. This seems very pessimistic. No growth is expected over the next 4 quarters
- **Inflation** is expected to decline rapidly from next year, but the Bank does not seem to disagree with the market expectation of a further rise in the signal rate to 3%+ early next year
- The **short end of the UK curve** rose slightly last week (and after the meeting)
- The **GBP** fell 0.6% last week

House prices fell 0.2% in July, in line with NoBa’s f’cast. Prices fell in 11 cities but not Oslo

A new direction is set? Very likely, given the substantial increase in mortgage rates underway

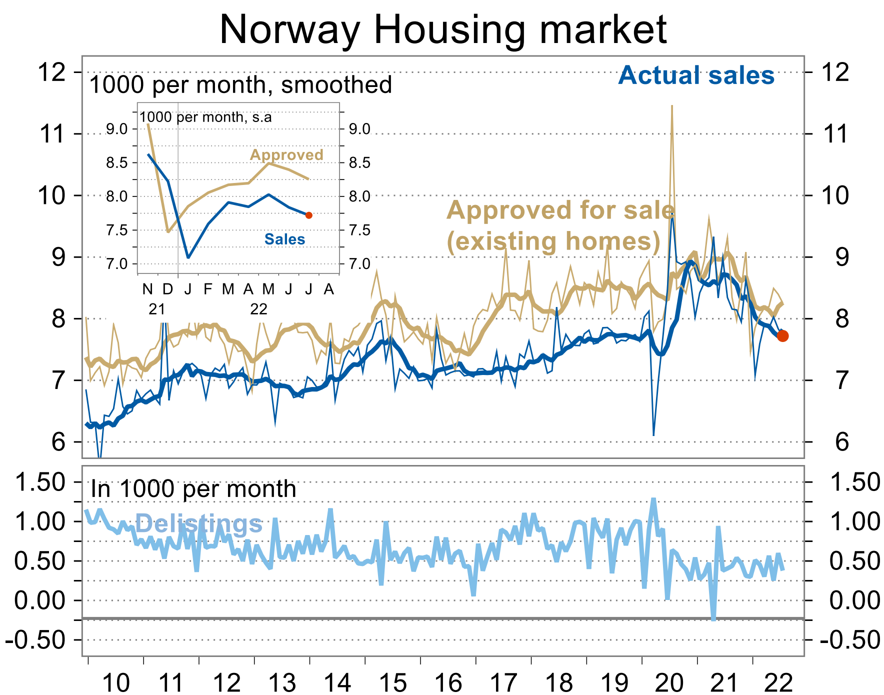




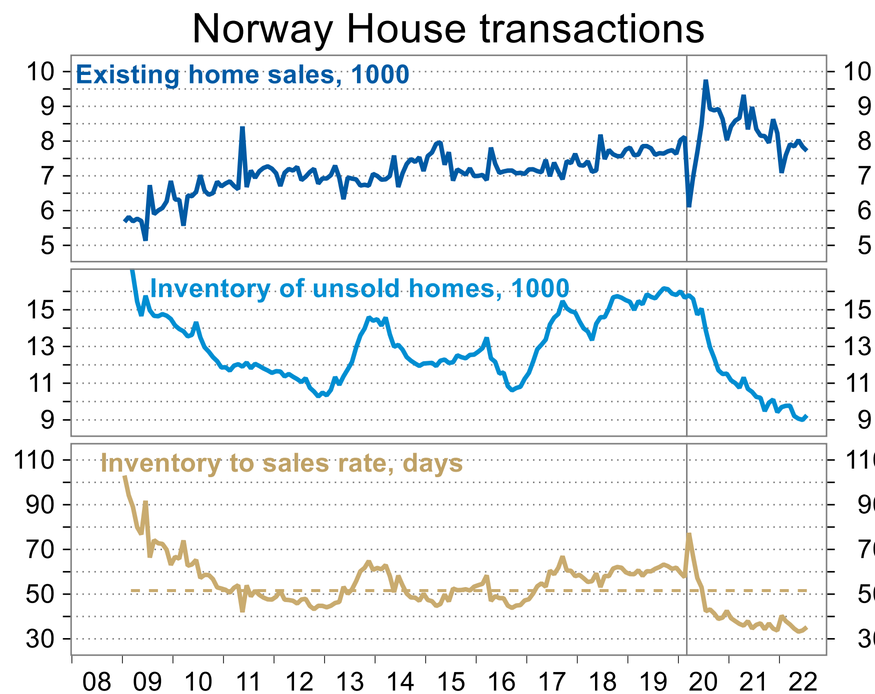
- **House prices** were weaker than we and most economist expected in July (we assumed +0.2%), but in line with NoBa’s f’cast. June was revised marginally down, to 0.2% from 0.3%. Prices fell in most cities, but rose slightly in Oslo
- The no. of transactions has come down to a normal level, following the early pandemic surge. The inventory rose just marginally in July, and remains low
- In the June MPR, **Norges Bank** expected that prices start declining in July, and continued downwards until Q2 next year, in sum by approx. 2¼%. The well announced interest rate ‘shock’ should lead to some weakening. If the current plan is not sufficient, rates will probably continue upwards until they bite. The reason: The main transmission mechanisms between interest rates and the real economy is through the housing market, and the impact on household disposable income. The currency link has not been working for a long while
- In Sweden, prices have fallen sharply recent months, especially in Stockholm. Preliminary data signals a further, and large decline in July

The number of transactions has normalised, and the inventory has bottomed?

Still, the inventory of listed homes is very low (and the increase in July not significant at all!)



SB1 Markets/Macrobond



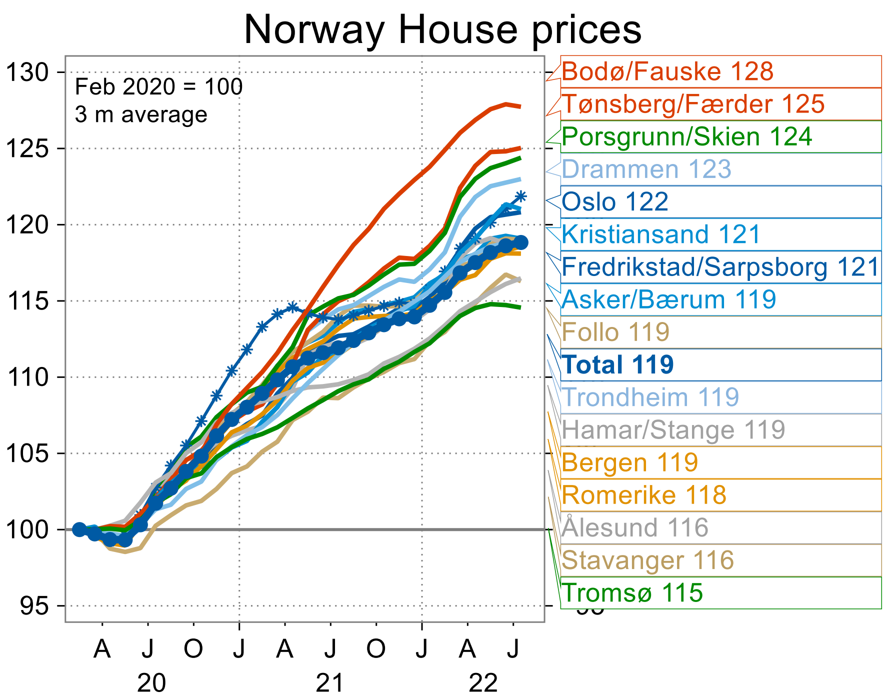
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- **The number of transactions** has come back to a 'normal' 2019 level, following the surge in the first part of the pandemic
- The **supply of new existing homes for sale (approvals)** is lower than 'normal' but not by much, and there are fewer de-listings than before the pandemic-
- The **inventory of unsold homes** increased in July but just marginally – and the level is still very low, at just above 9' units
- The **inventory/sales ratio** added 1 day to 35 days, vs an average at 52 days
- The **actual time on market** for those homes actually sold added 3 days, to 35 days (average 42 days)

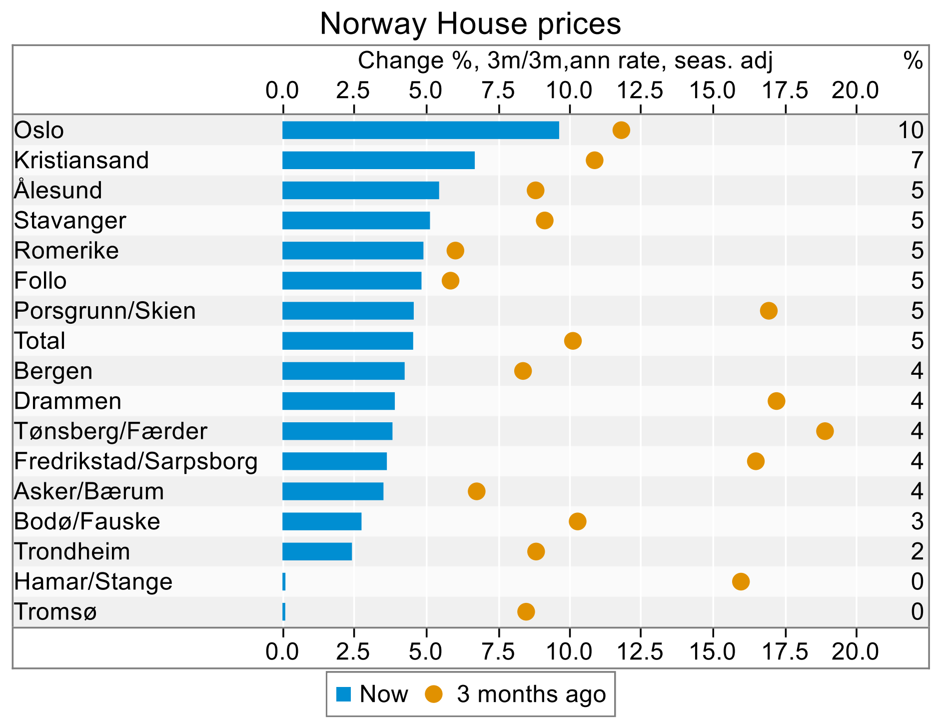
SpareBank 1 MARKETS

The big picture: Price increases have slowed everywhere

Oslo in the lead recent months, up at 10% pace. Bodø has slowed. Hamar & Tromsø have flattened.



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS



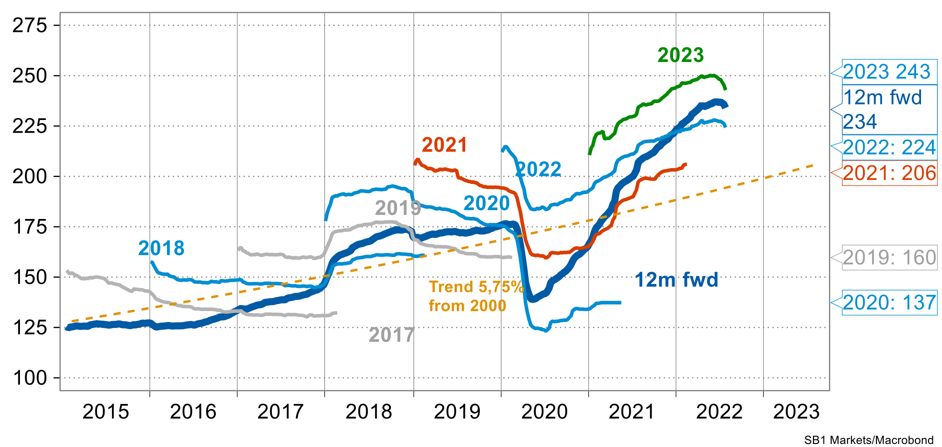
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- Bodø the winner through the pandemic (but Oslo since 2016, check the previous page)
- After Bodø, eastern towns have been the winners since the start of the pandemic, Tønsberg, Porsgunn/Skien, Drammen and Fredrikstad/Sarpsborg, and prices are still climbing the fastest here
- Tromsø, Stavanger, Ålesund and the bottom of the list (vs. early 2020)
- Now: Prices are slowing/flattening everywhere – and in July prices fell in most cities

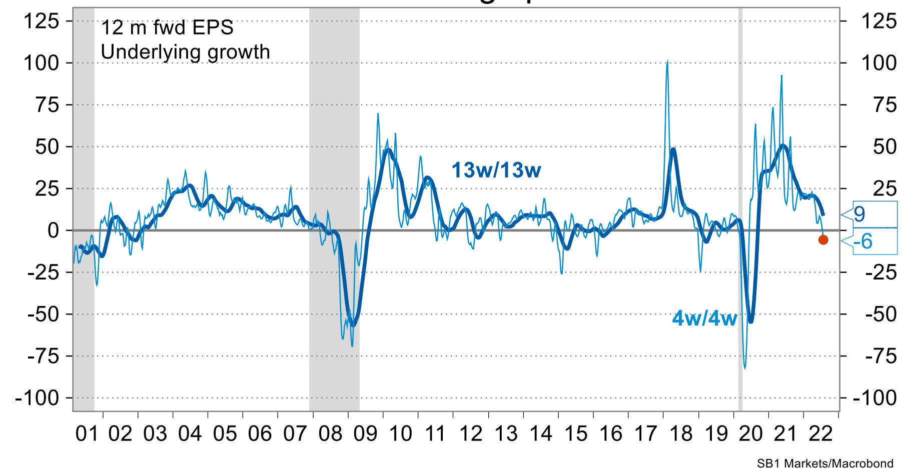
Earnings forecasts finally on the way down – and more is likely to come

S&P500 expected 12 m fws EPS is some 15% above trend – and it falls below in recessions

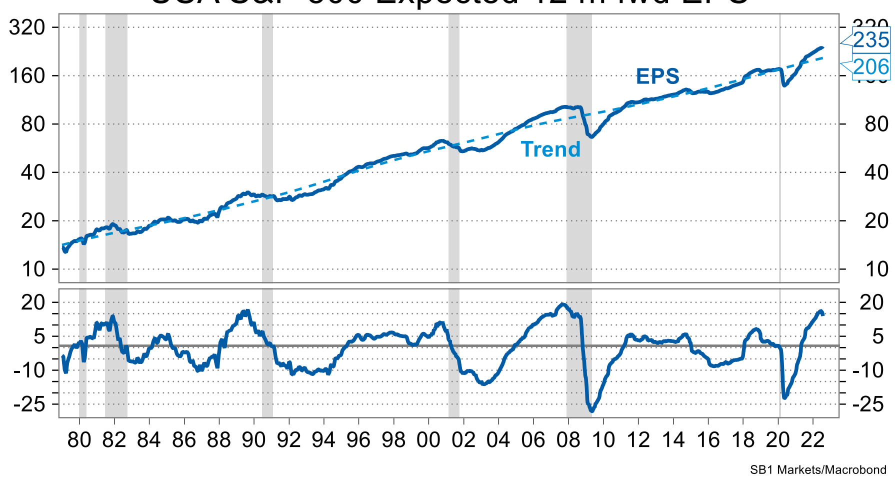
Annual S&P 500 EPS consensus (Factset)



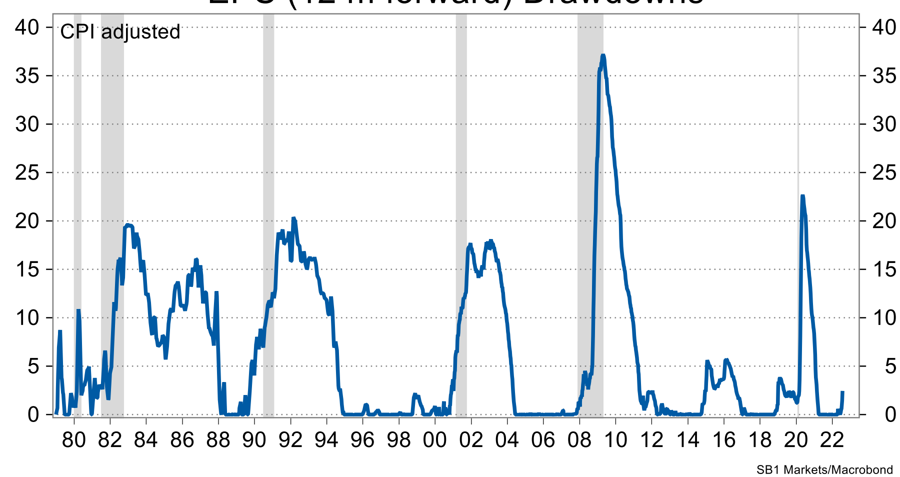
S&P500 Earnings per share



USA S&P 500 Expected 12 m fwd EPS

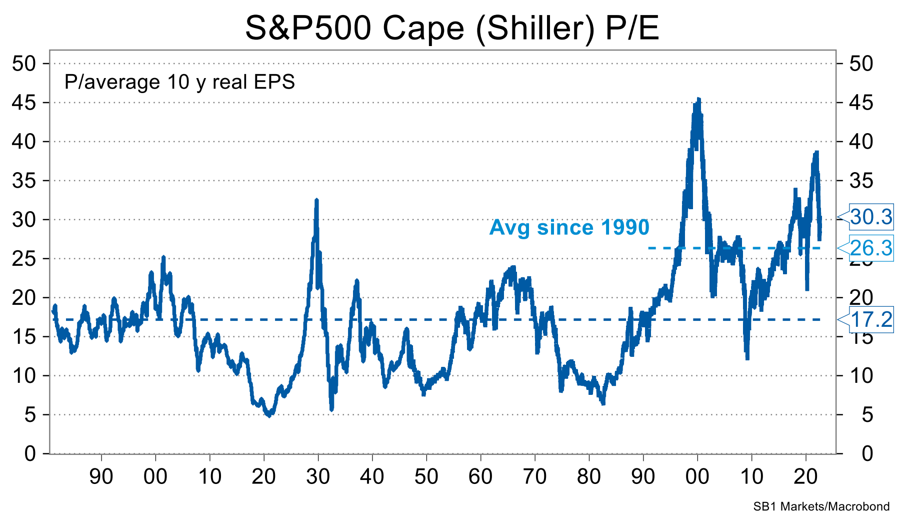


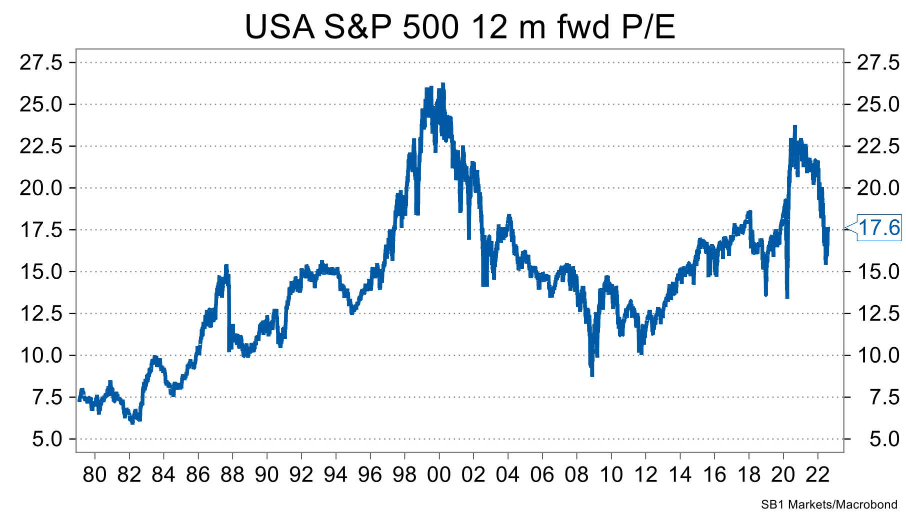
EPS (12 m forward) Drawdowns

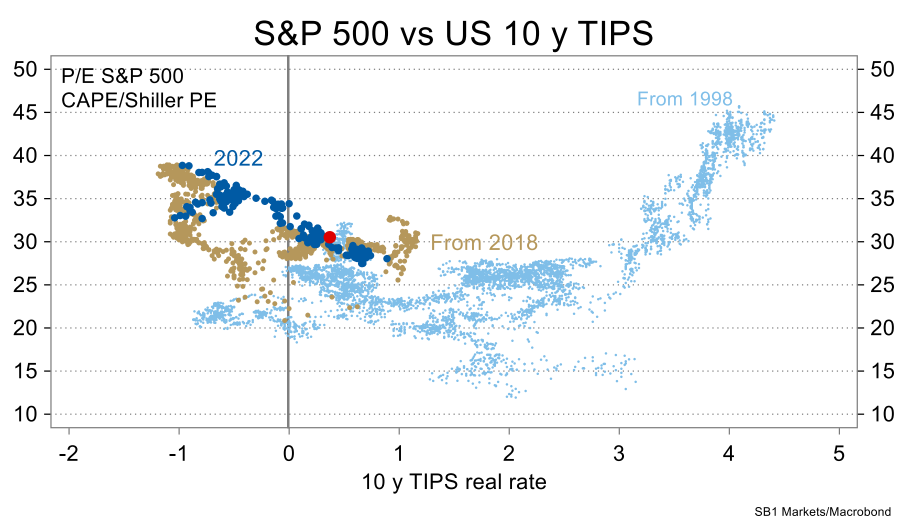


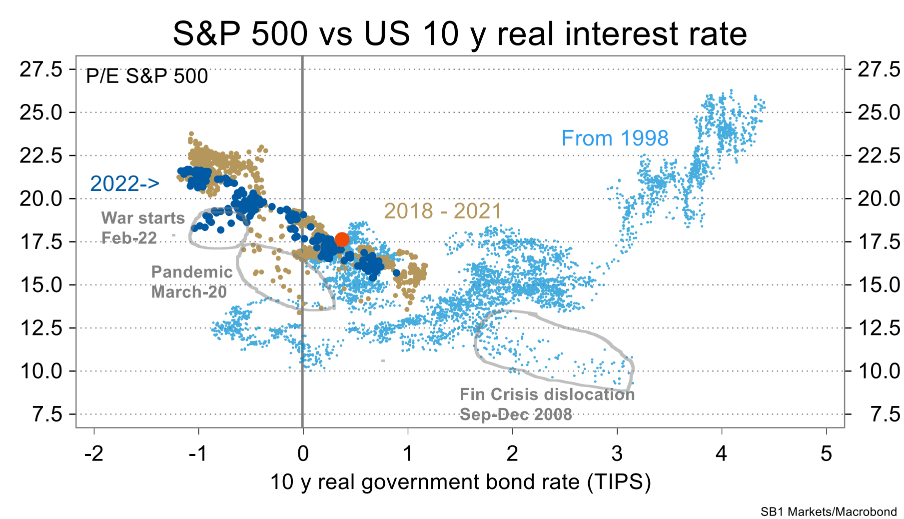
4 valuation charts

The TIPS real rate has been the main driver for the P/E since 2018



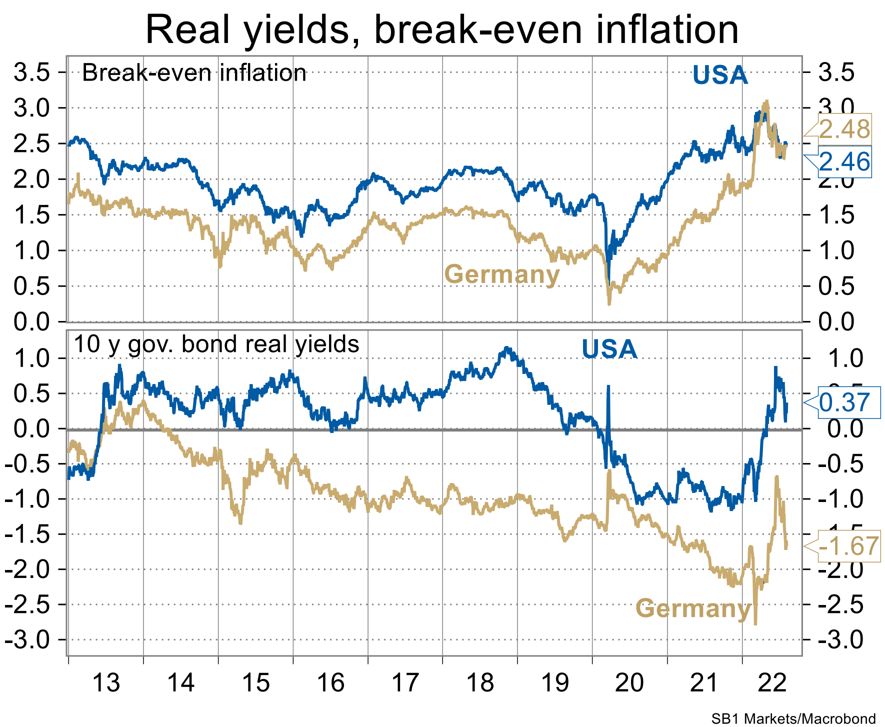


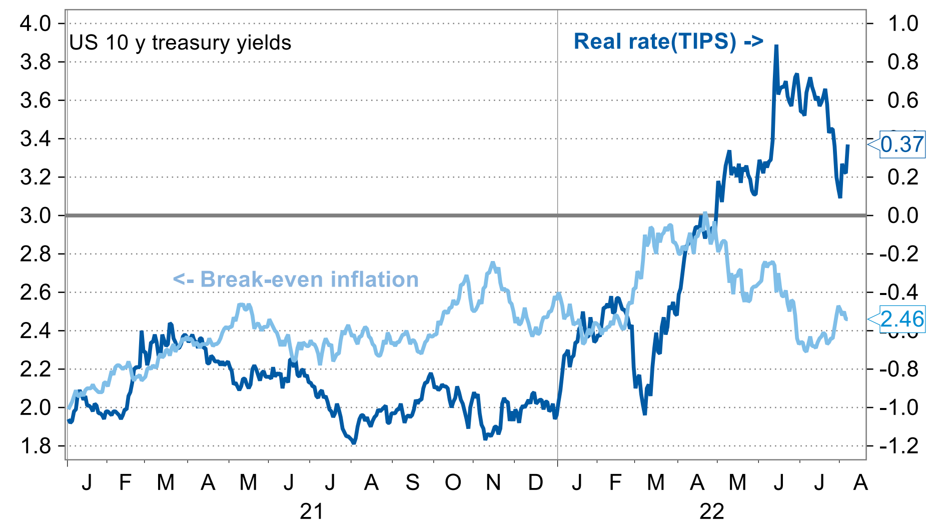




And then real rates surged again (in the US)

Rather impressive: Long term inflation expectations fell, even if the US labour market is still hot





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	2.83	0.16	0.01	0.91	0.52
.. break-even inflation	2.46	-0.07	0.16	0.05	1.06
.. TIPS real rate	0.37	0.23	-0.15	0.86	-1.19
Germany nominal bund	0.81	-0.10	-0.46	0.59	-0.65
.. break-even inflation	2.48	0.02	-0.02	0.50	0.40
.. real rate	-1.67	-0.12	-0.44	0.09	-2.80

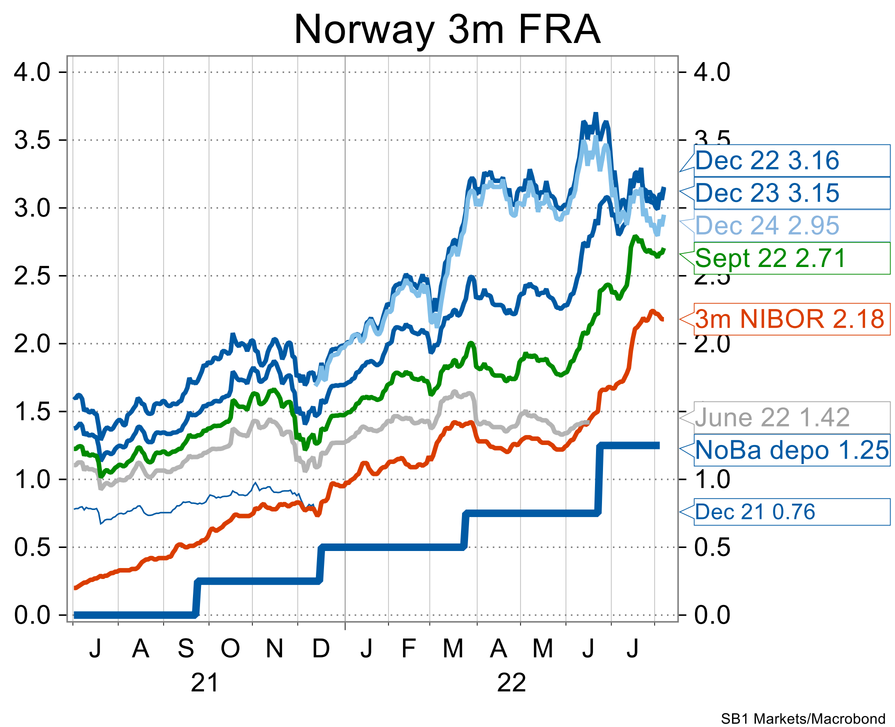
SB1 Markets/Macrobond

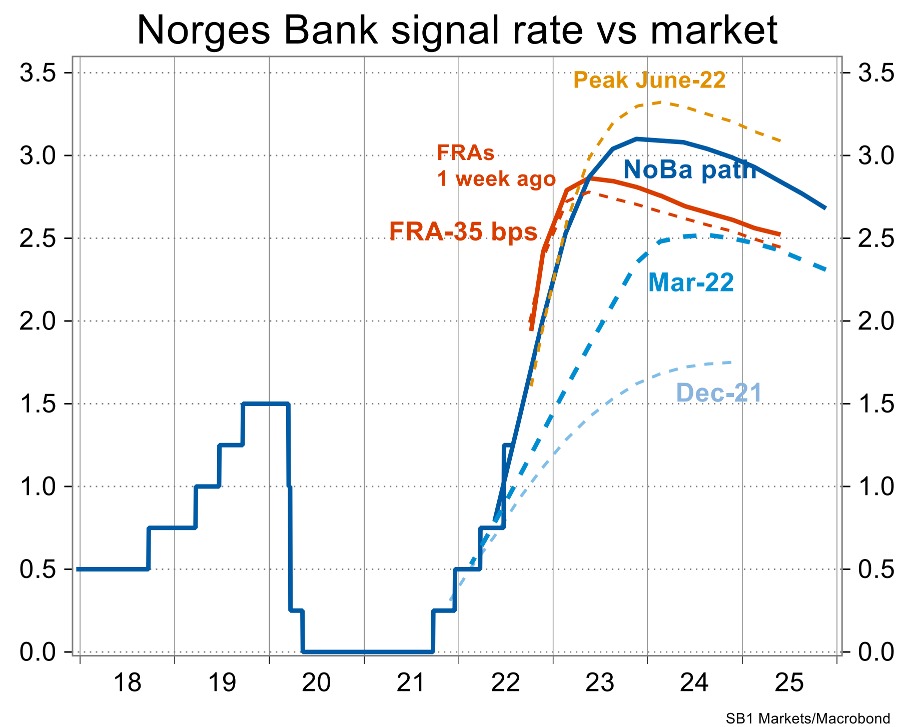
- The 10 y **US nominal bond** yield rose 16 bps last week, the real rate (TIPS) up 23 bps, inflation expectations down 7 bps
  - » The decline in the (spot) oil price is a likely explanation for the decline in (long-term) inflation expectations
  - » Inflation expectations are at the same level as more than one year ago, even if all short term inflation indicators/expectation have surges
- **In Germany** the 10 y gov Bund fell 10 bps, with a 12 bps drag from the real rate – down to -1.7%

SpareBank 1 MARKETS

FRAs up again, by up to 11 bps last week

The 3 m NIBOR at 2.18% implies a 60% for a 50 bps hike in Aug…

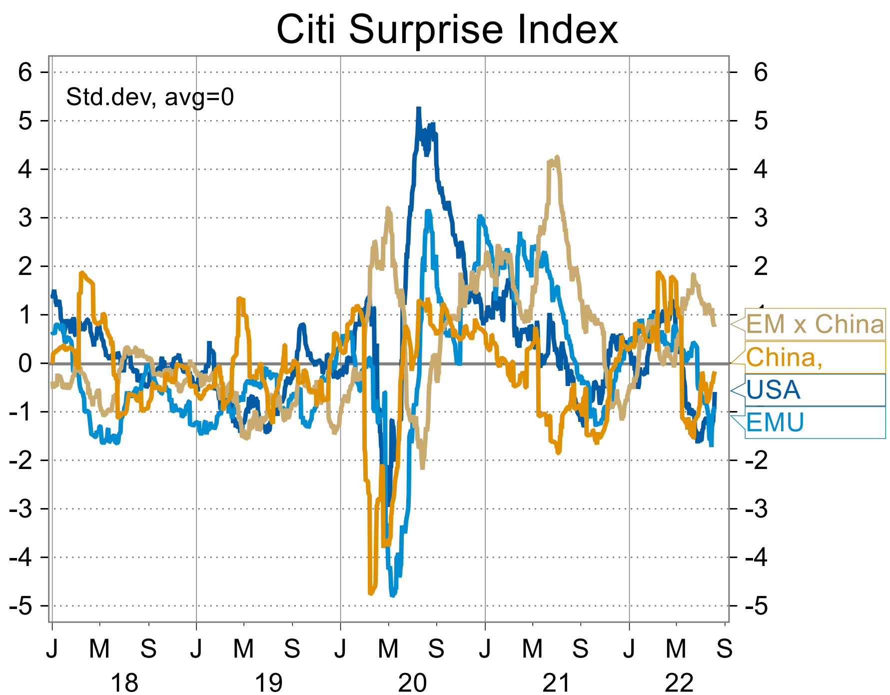




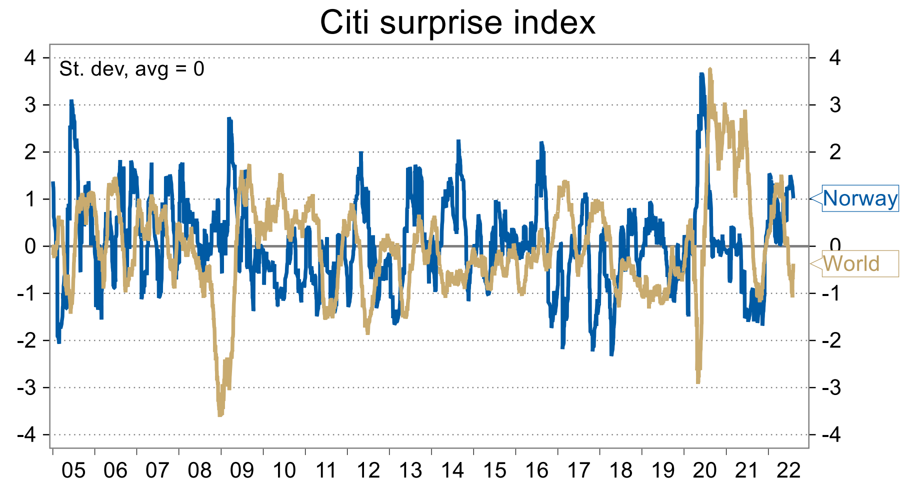
- **… but the Sept 3 FRA at 2.71%** requires a 100 bps lift in the signal rate from the present level to 2.25% at the Sept. NoBa meeting – so two 50 bps hikes, that is in both Aug and Sept, seem to be the market's main scenario
- Thereafter, at 25 bp hike in both Nov and Dec is discounted in the FRA curve, up to 2.75%. The peak in H1 is slightly higher but 25 bps below the (late 2023) peak in Norge Bank's June MPR interest rate path
- We still think the 50 + 50 bps hikes in August and September are the most aggressive Norges Bank may deliver. Thus, we think the upside risk for FRA rates is less than the risk at the downside, at the short end of the curve

Now, EMU surprises most at the downside, the US less

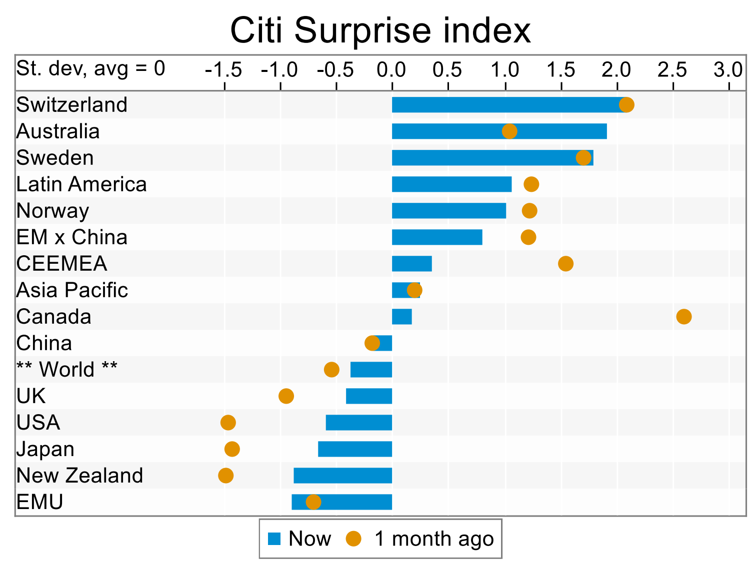
… as is the world



SB1 Markets/Macrobond



SB1 Markets/Macrobond



SB1 Markets/Macrobond

- **Emerging markets** x China are still delivering better results than excepted but the margin is narrowing
- **Norway** is surprising significantly on the upside, according to Citi

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

Highlights

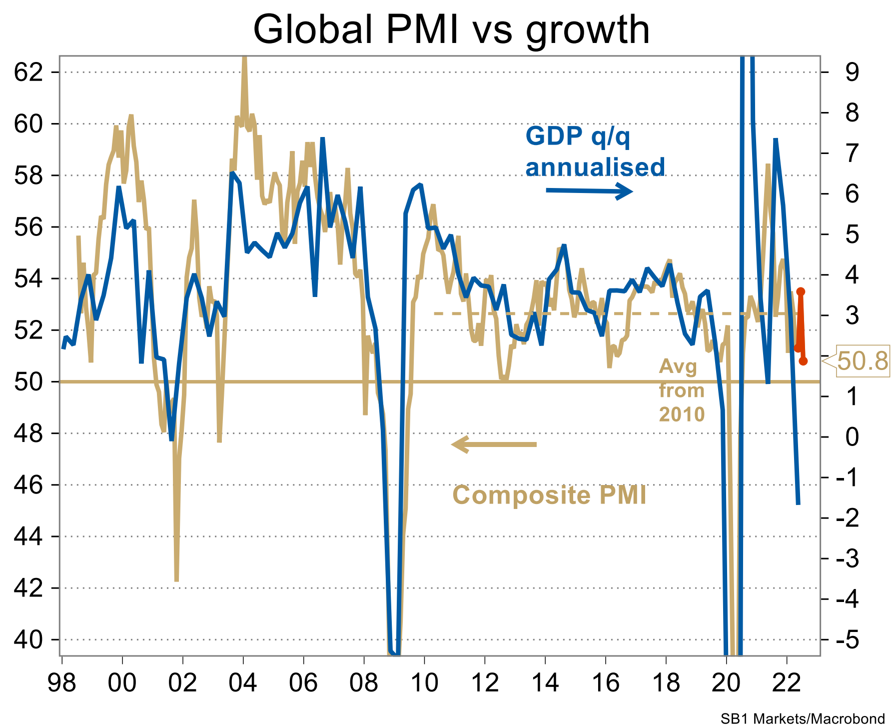
The world around us

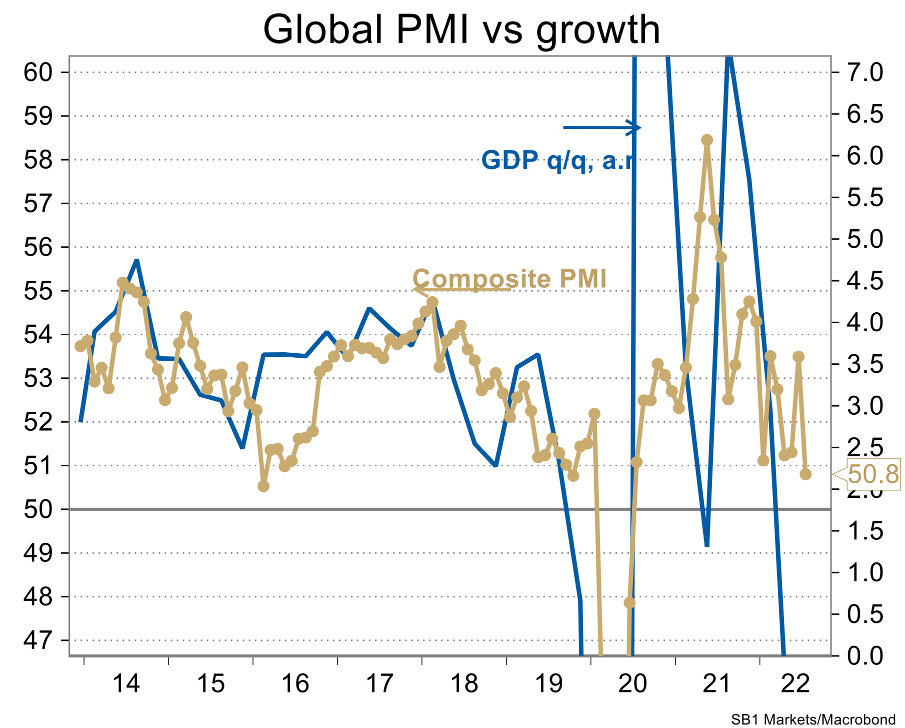
The Norwegian economy

Market charts & comments

The global PMI sharply in July, with rich countries in the lead

The global index fell by 2.7 p to 50.8, the lowest since June 2020. The trend is steady down

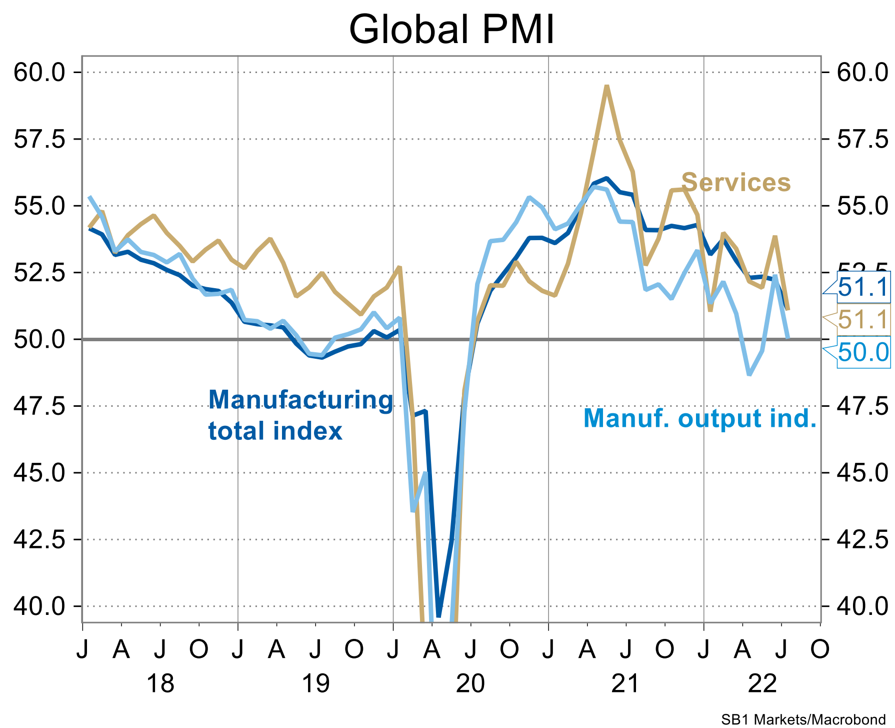


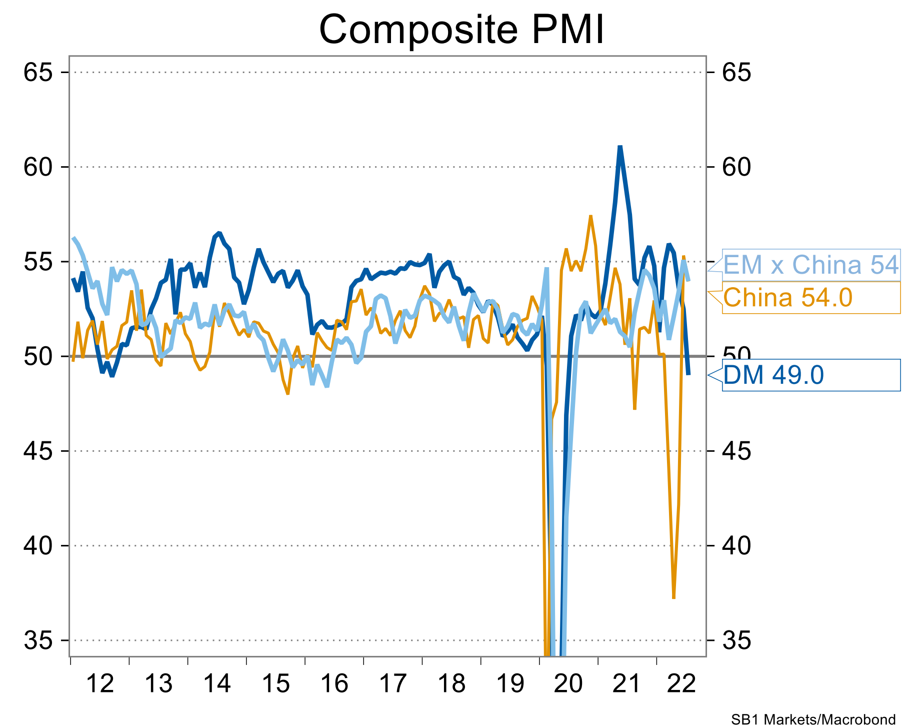


- In Q2, we estimate a 1.6% decline in global BNP (annualised), due to the steep decline in China, and a small contribution from the US

An unusual steep decline in rich countries, by 3.5 p to 49, the US to 47.7

China and Emerging Markets x China kept up far better, both down 1 p to 54, well above avg

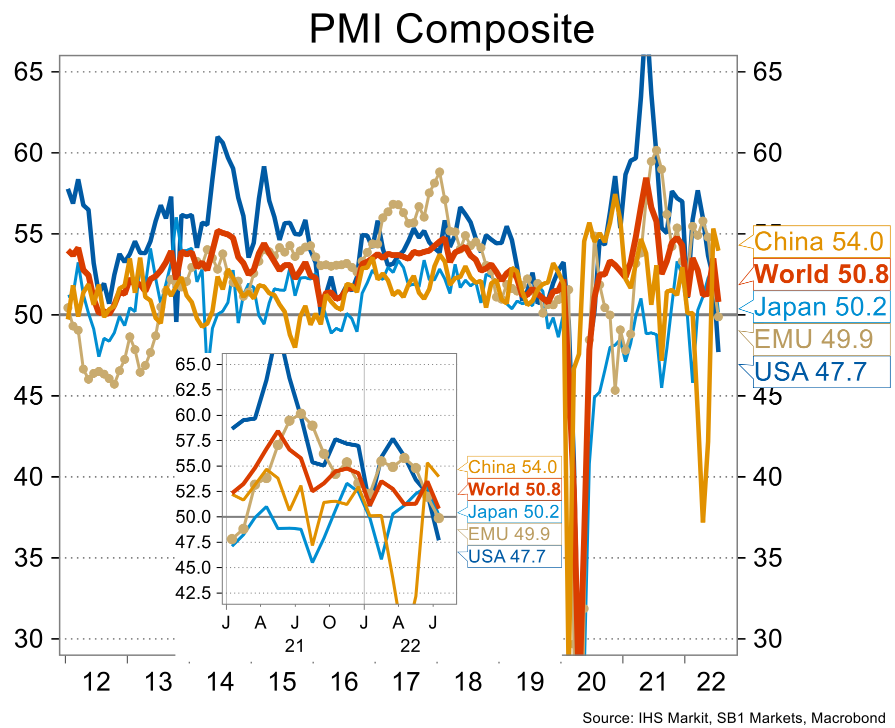


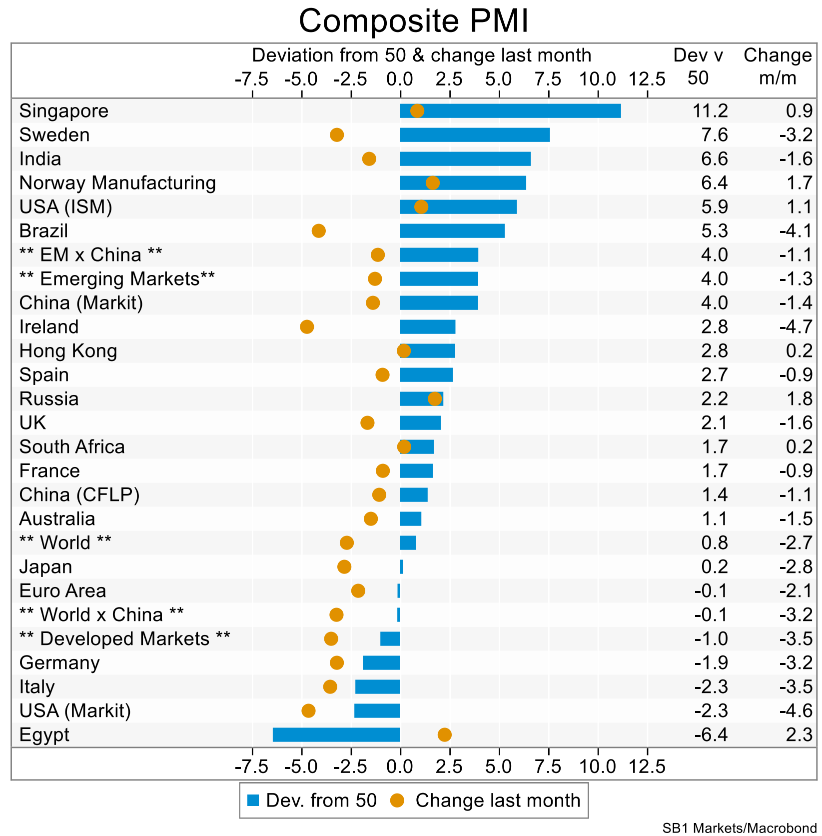


- Both manufacturing & services contributed to the decline in the global aggregate in July

Just 7 countries reported a higher composite PMI, 20 countries/region a decline

8 countries below the 50 line (including EMU, US, Japan), the rest is still above

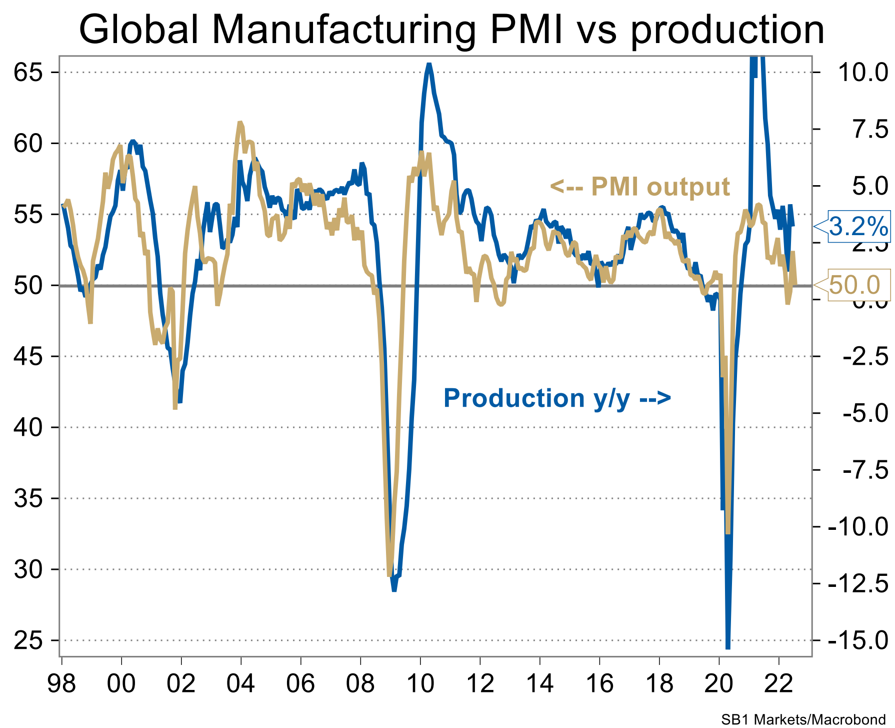


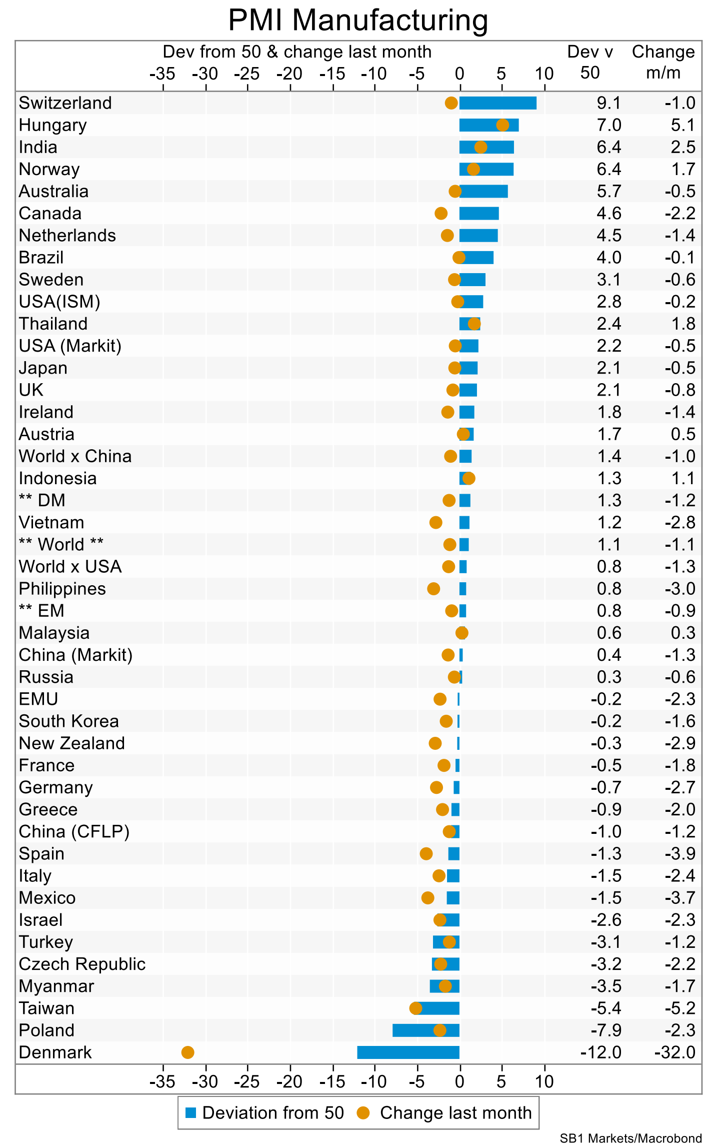


- **The rich countries** (Developed Markets, DM) PMI has fallen to the bottom of the list (just Egypt even weaker)
- **The Russian PMI** rose the most in July, due to the service sector
- The **ISM survey** is far better than Markit/S&P's US survey – the ISM 'composite' gained 1.1 to 55.0! This discrepancy is more than strange – and is entirely due to the diverging service sector indices
- (**Norway** does not compete here, we just have a manufacturing PMI. The June index (no July published yet) would have yielded a 4th place in the composite race)

Manufacturing total PMI down 1.1 p to 51.1; the output index down 2.4 p to 50.0

Just 1/6 of countries reported higher PMIs, almost 1/3 has fallen below the 50-line

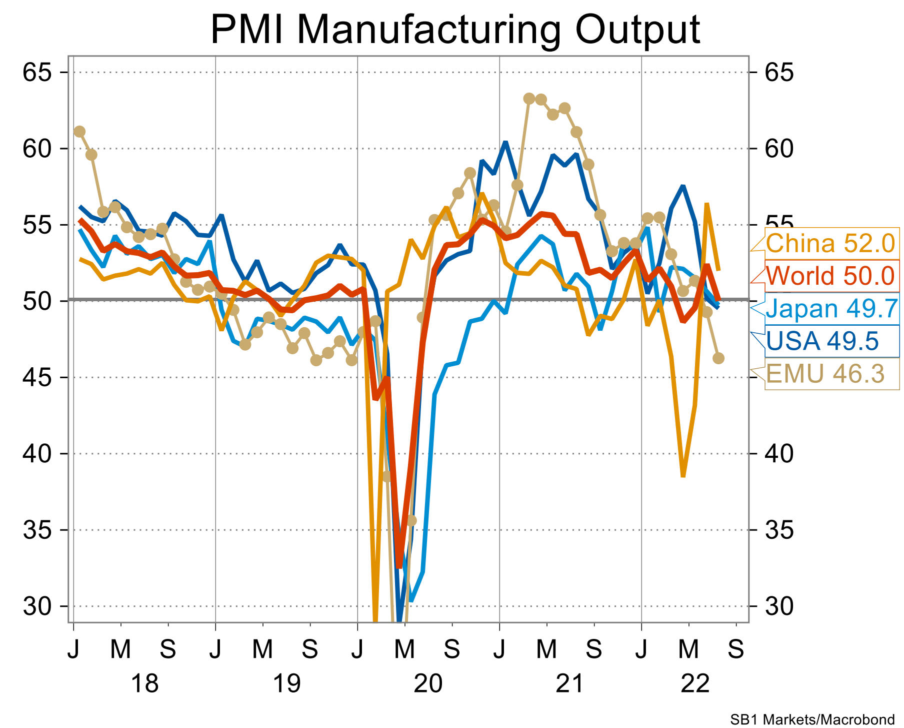


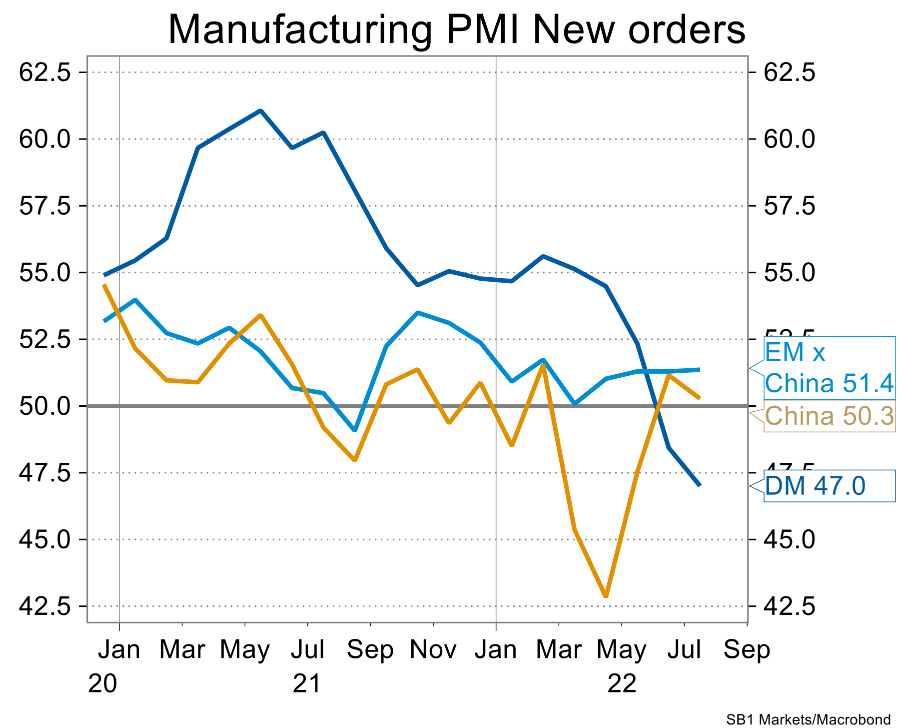


- The decline in manufacturing PMIs was unusual broad, but EM x China kept up well – as India is still going trend
  - » A large majority of countries reported lower activity in June
  - » **Rich countries** are still stronger than EM measured by the total index but the gap is narrowing. Measured by the new order index, EM are ahead of DM, which fell below 50
  - » **Norway** is close to the top of the list – but just with June data. The **Danish PMI** collapsed but we should wait for the August data

All main countries down – but not EM x China

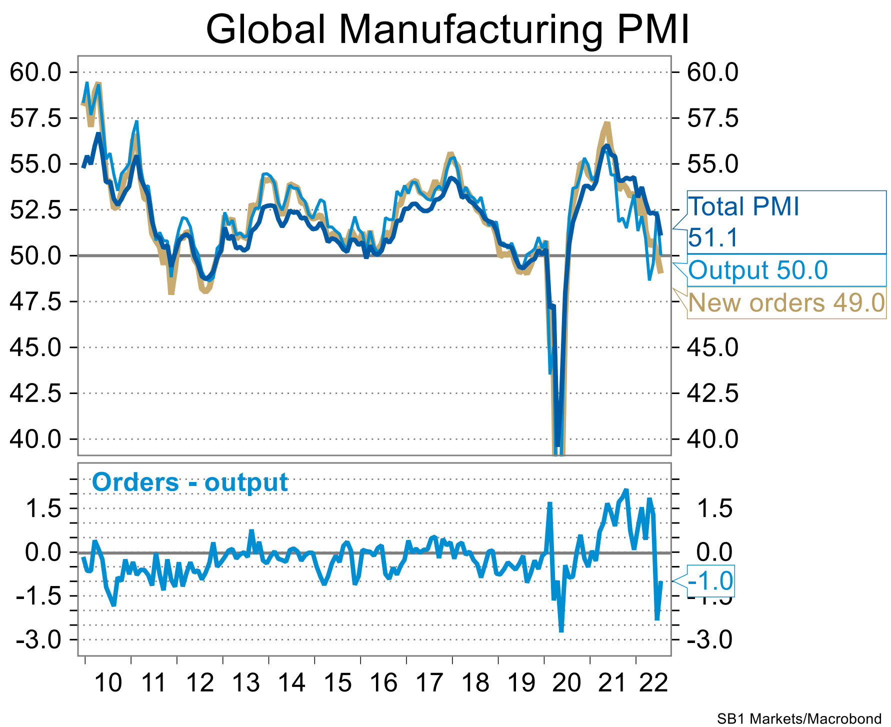
China is still reporting OK growth, at least via the Caixin/Markit index

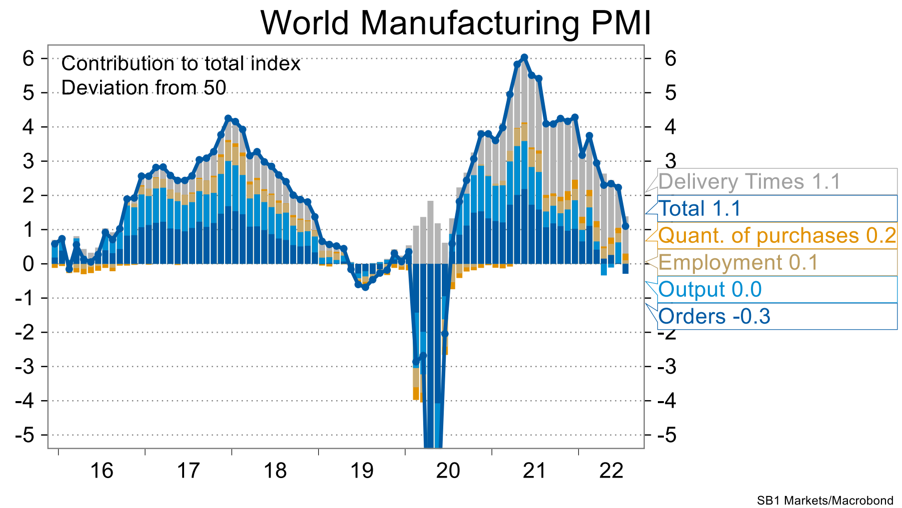


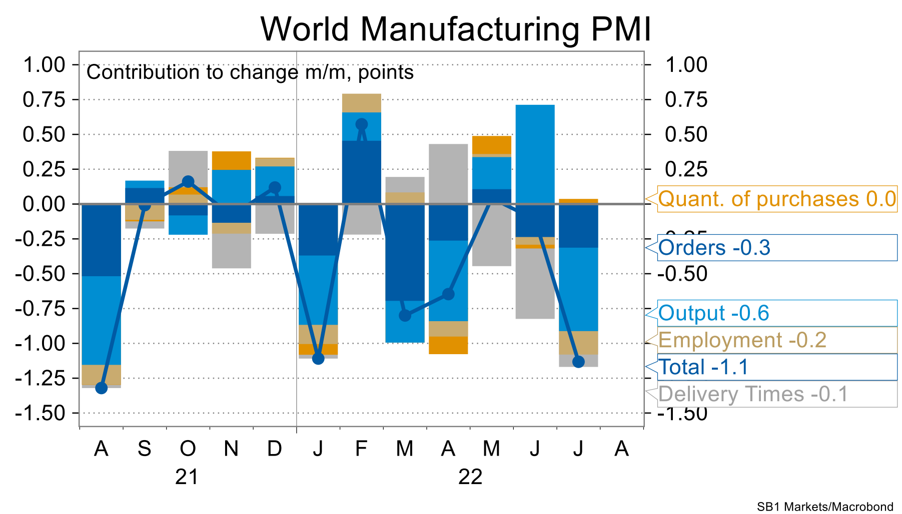


Manuf. delivery times index down, (Chinese) output up in June

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

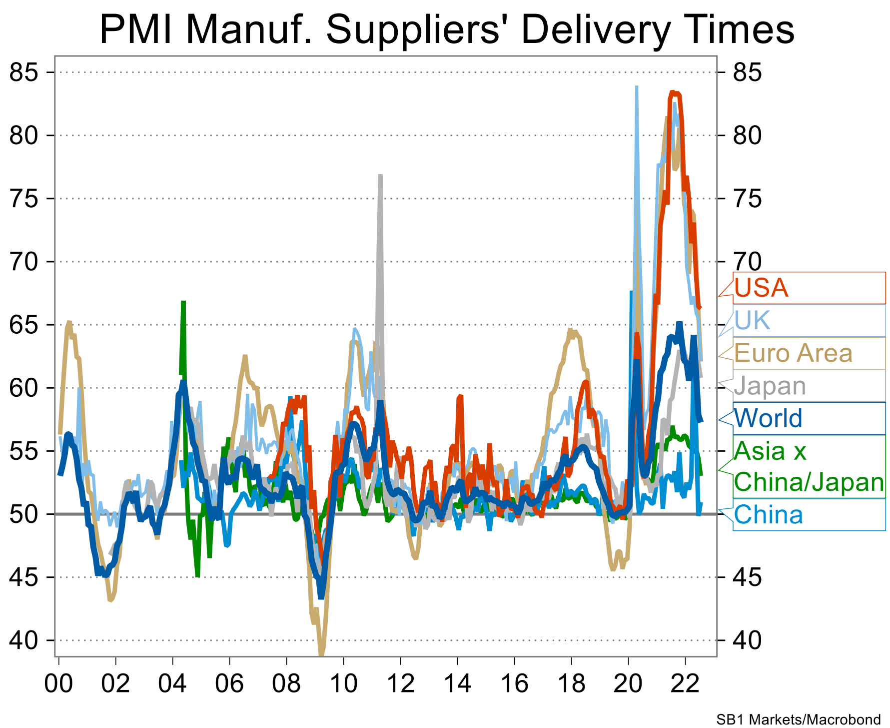


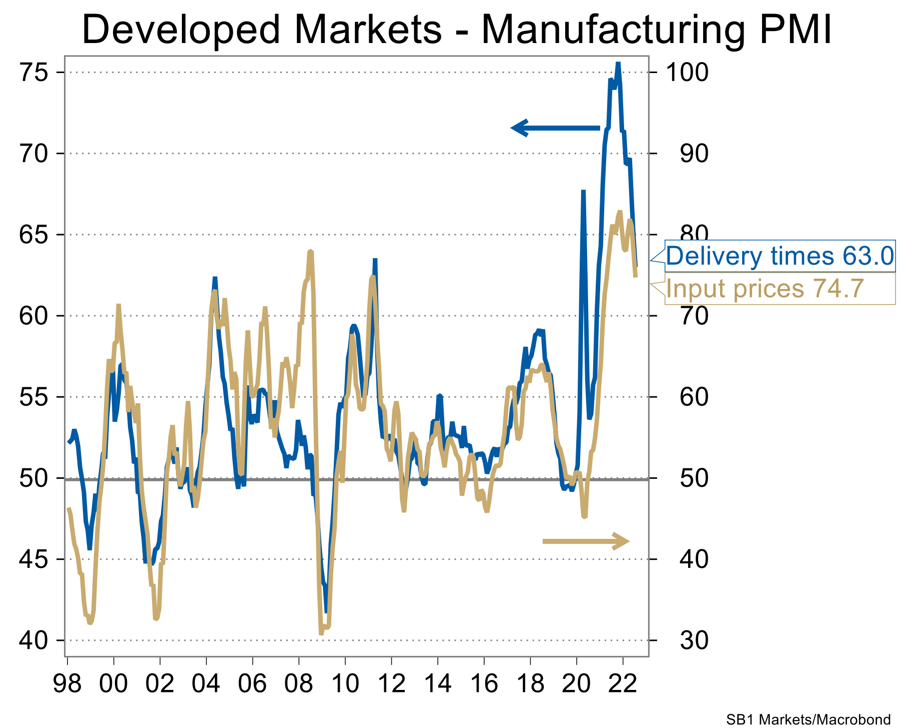




Delivery times indices are coming rapidly down, but are still high

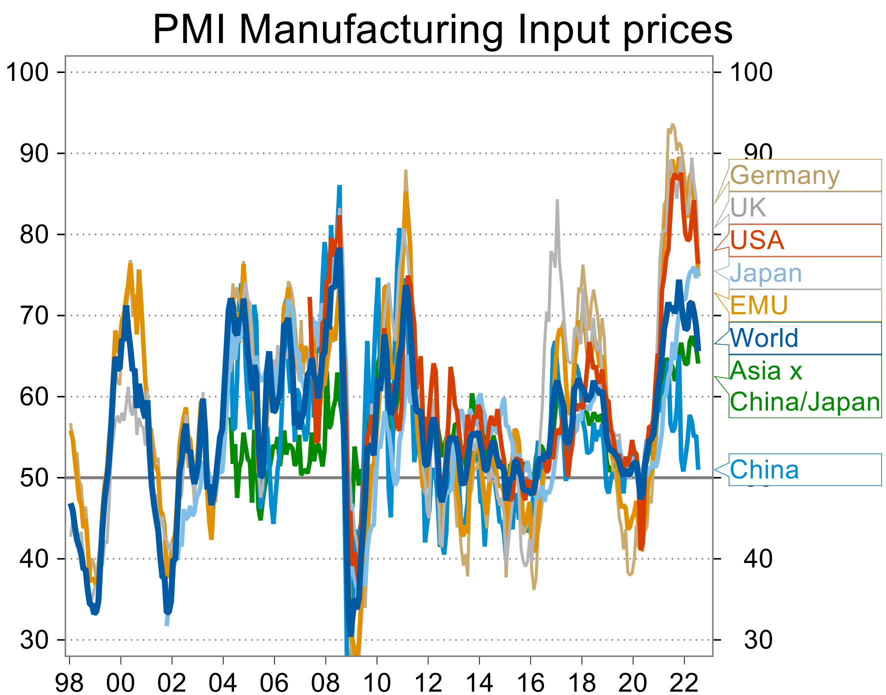
…and input prices inflation is slowing but also remains fell above normal levels



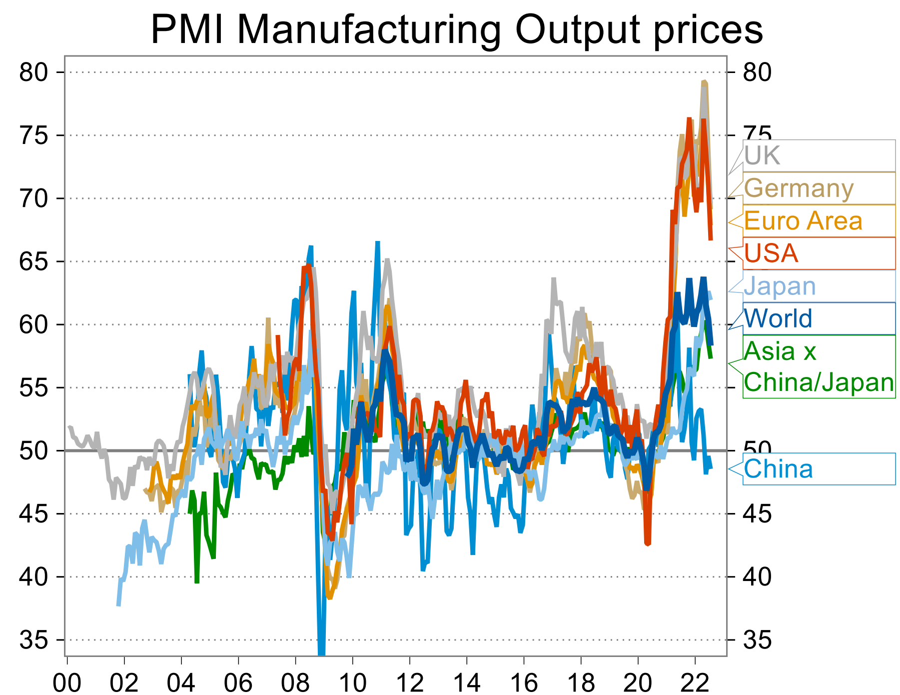


Both input and output prices rose at a slower pace in July

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



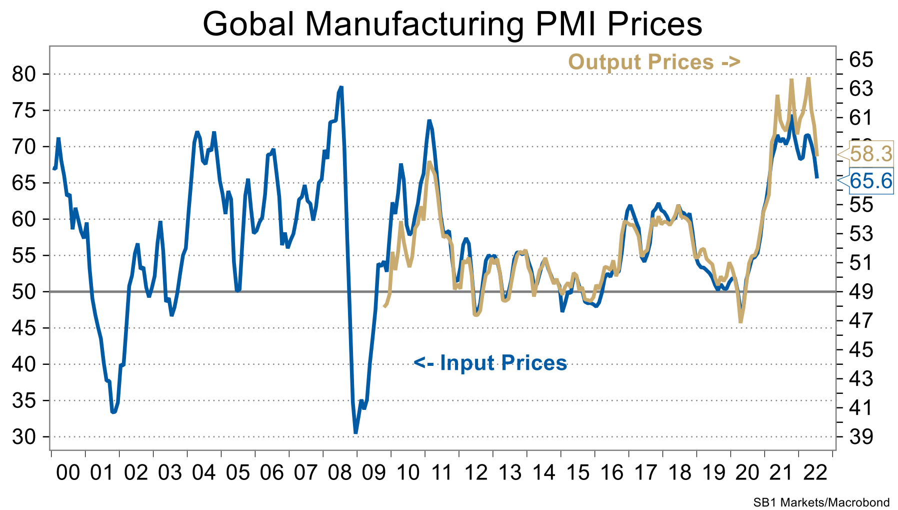
SB1 Markets/Macrobond

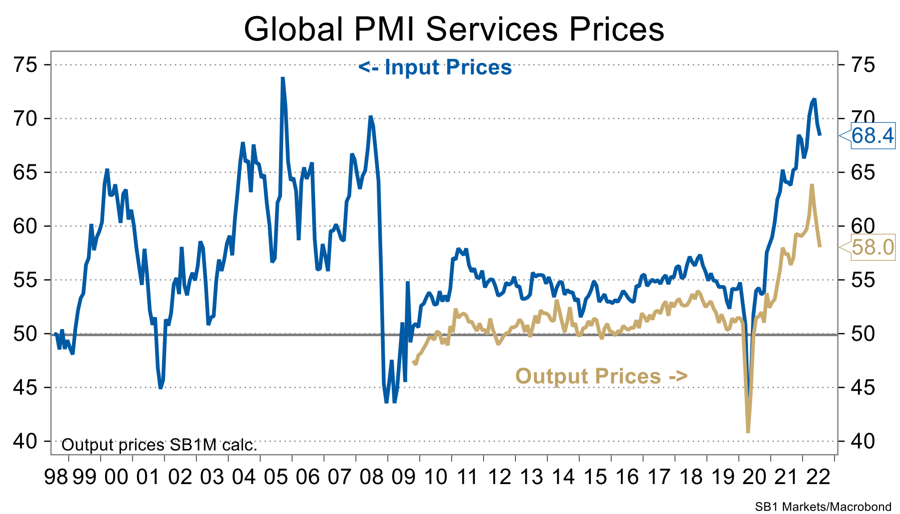


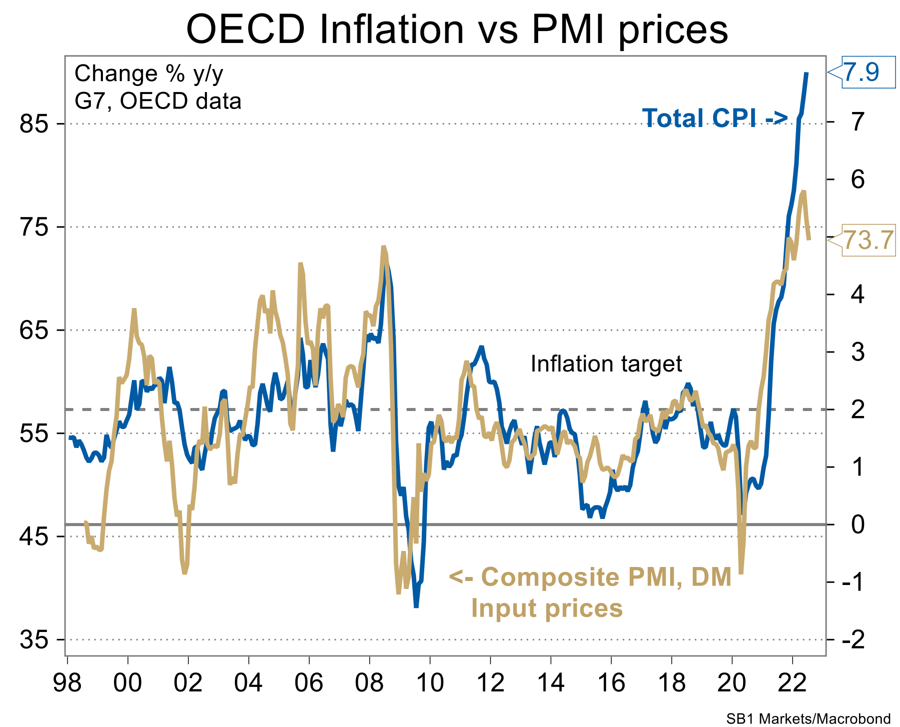
SB1 Markets/Macrobond

Price increase are slowing, say the PMIs

All price indices remain at very high levels, though







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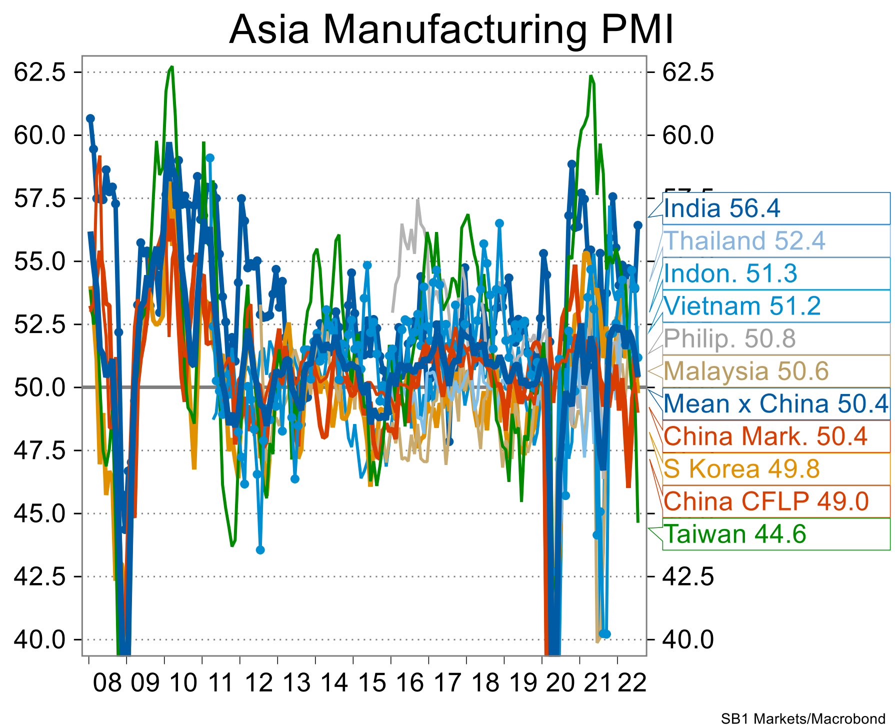
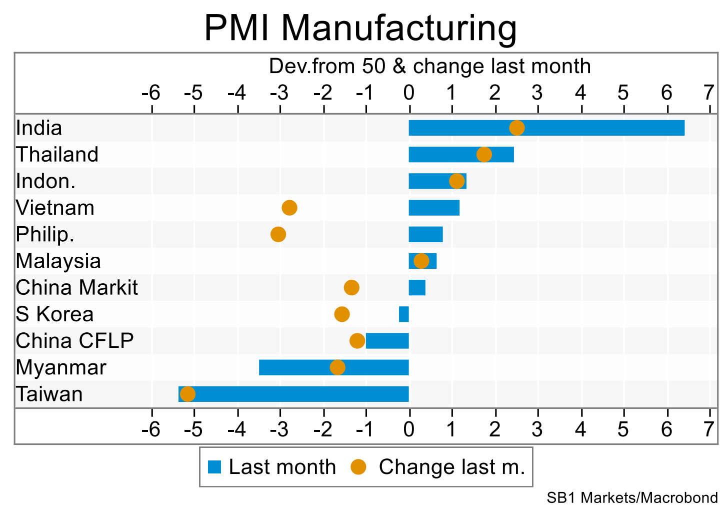
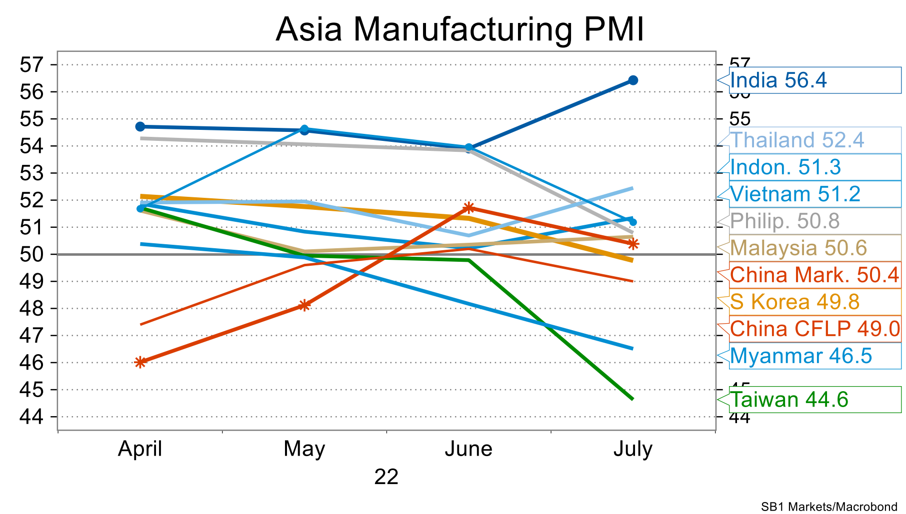
Mixed: India up to a very high level while Taiwan reported an unusual setback

Taiwan fell below the 50-line. South Korea also fell below, but not by much



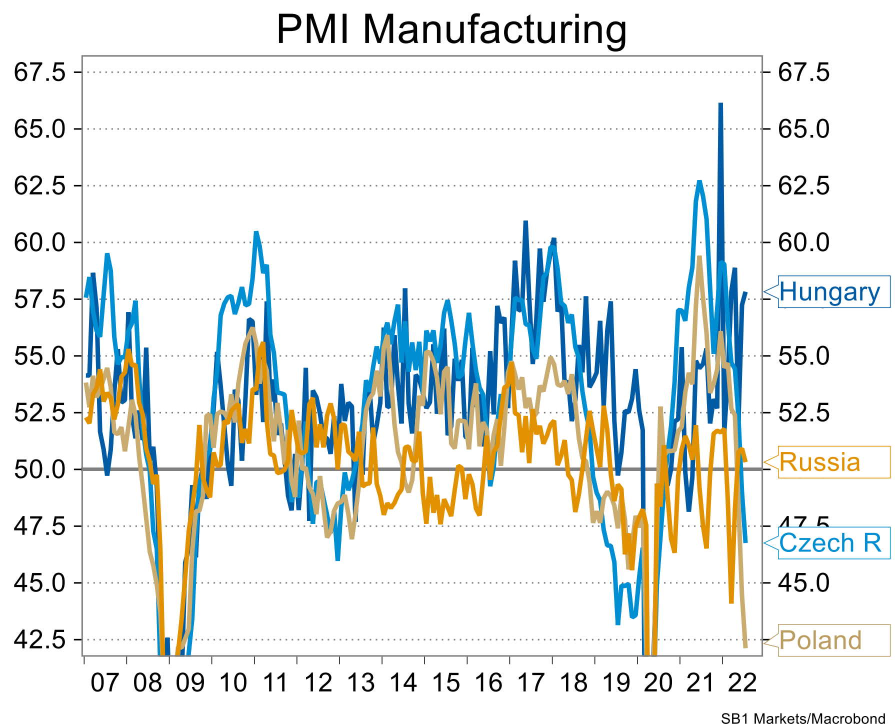


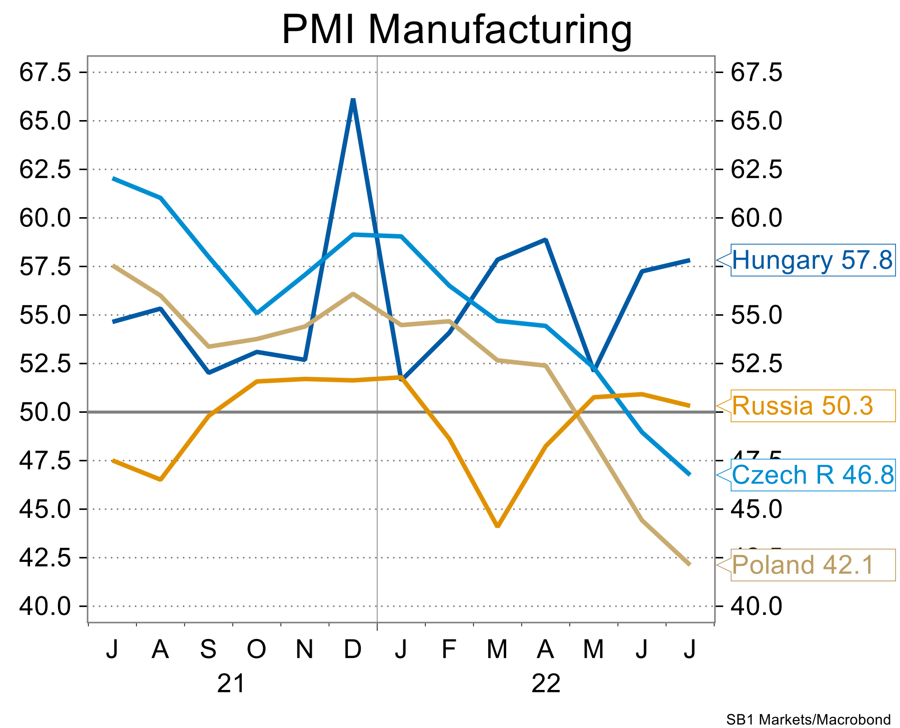


- South Korea also sown – and to below 50 in July

Russia stays above 50, but Poland, the Czech Rep are slowing

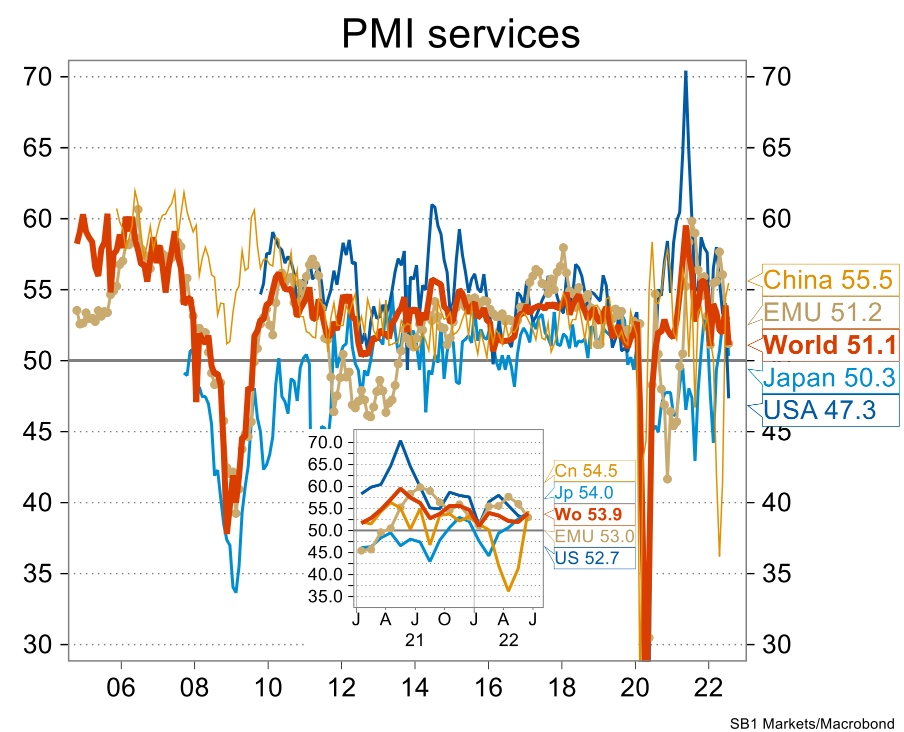
The activity level in Russia is still low, even according to official statistics

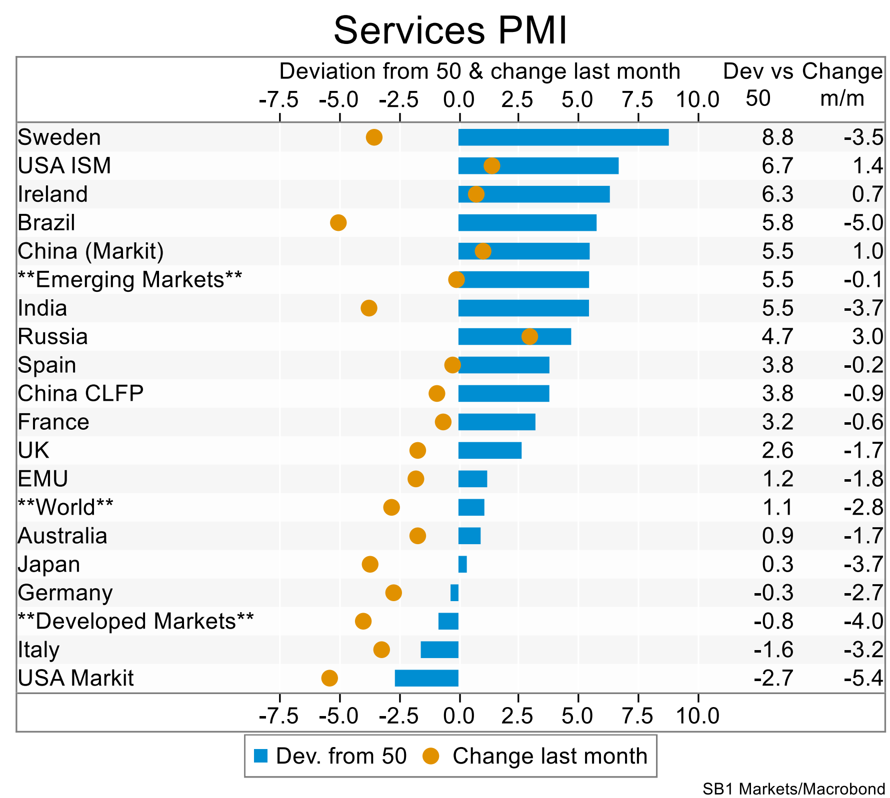




Services PMI down 2.8 p to 51.1, with just 3 countries report an uptick; 17 fell

US up almost to the top of the list, or down to the bottom. Rather confusing





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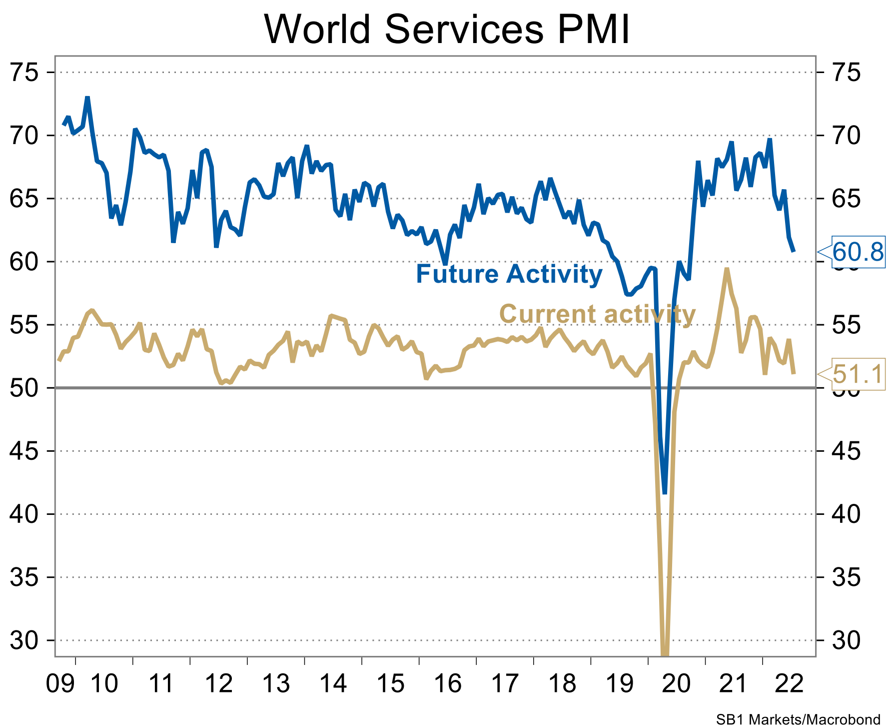
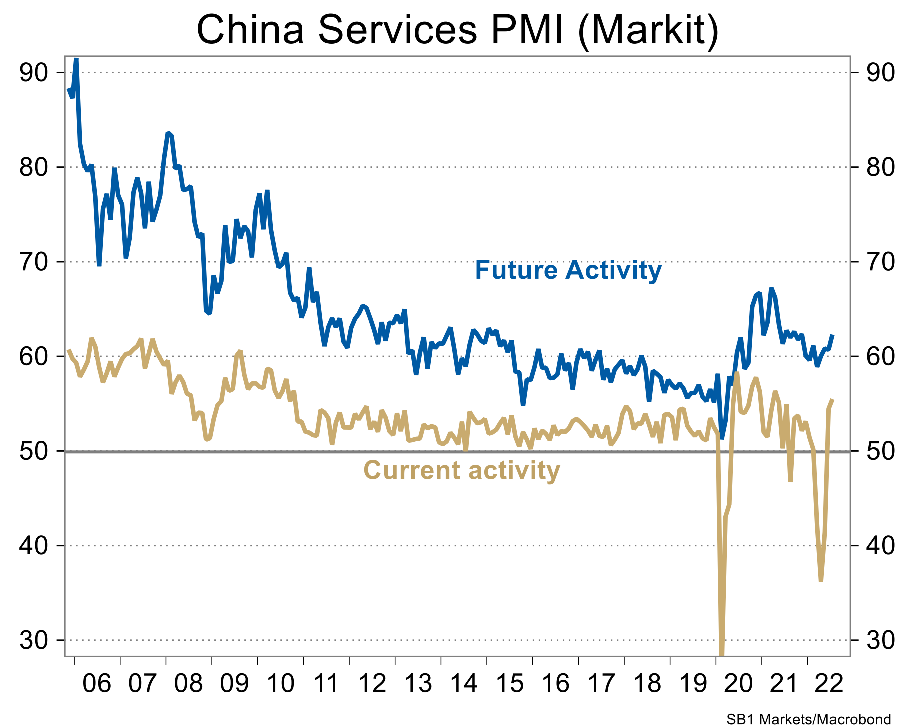
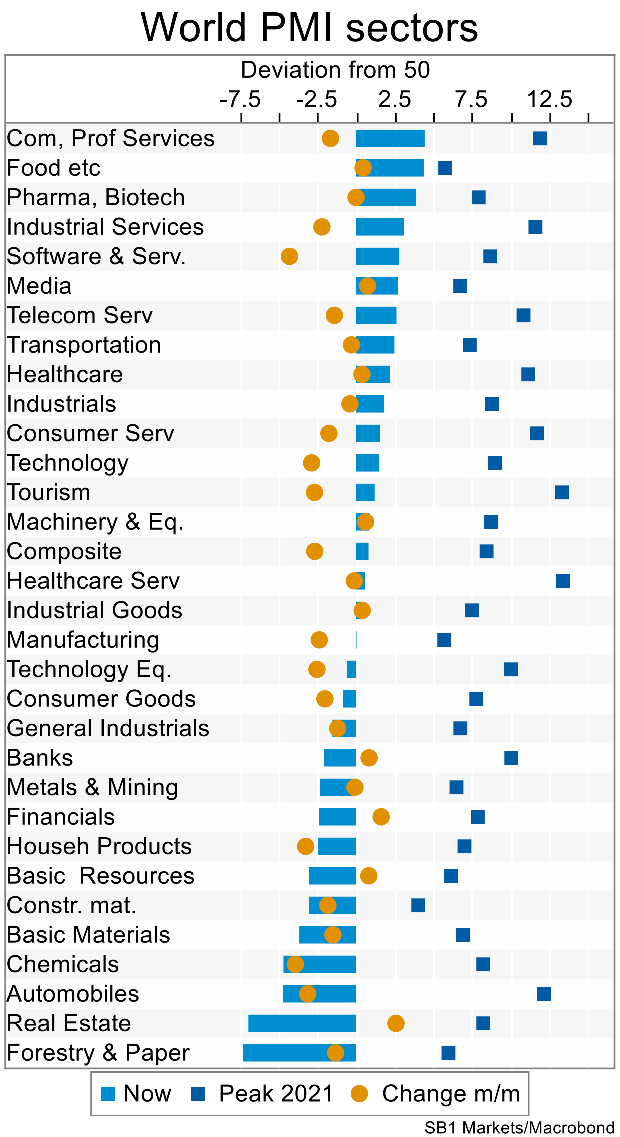
The service sector report that the future is not that bright anymore

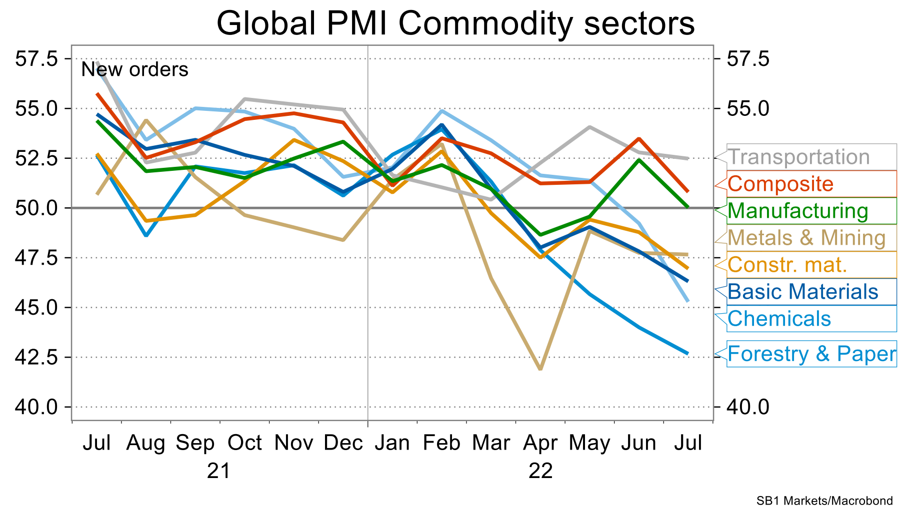


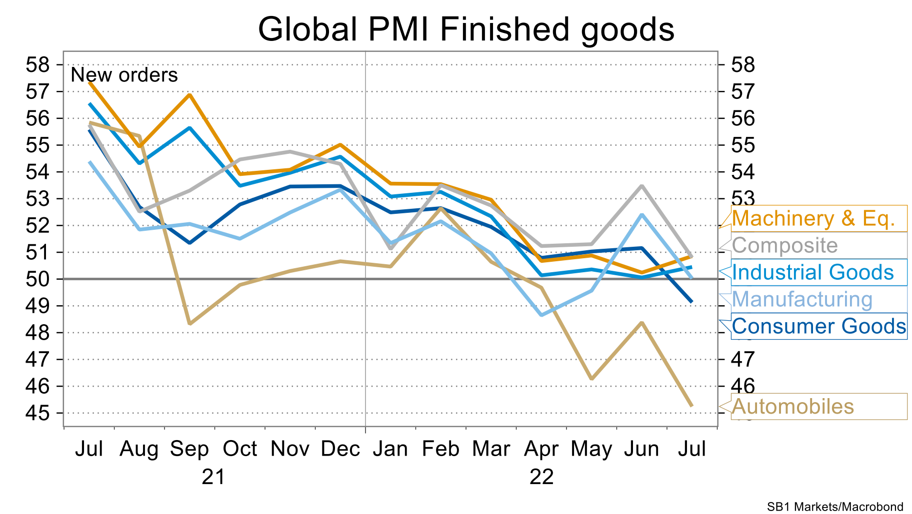


Almost all sectors reported slower growth in July, close to half below 50!

9 sectors up, 21 down. 14 sectors are below the 50-line, 16 are still above

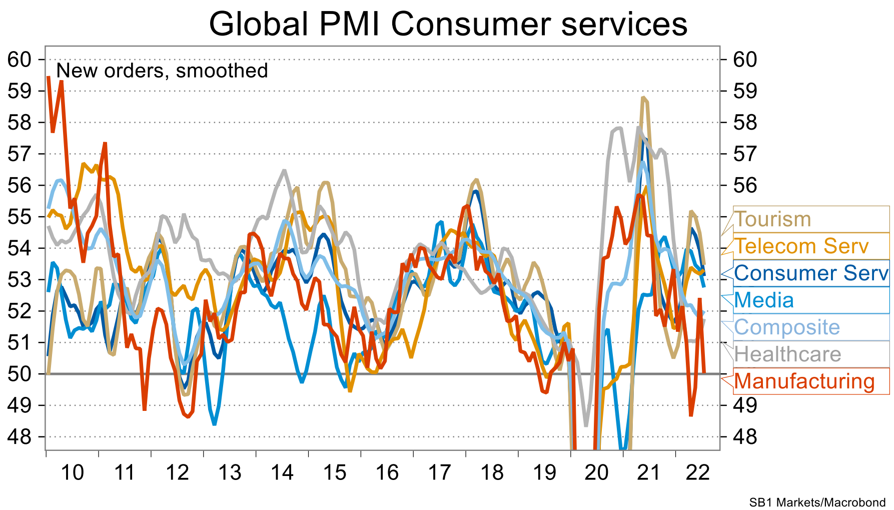


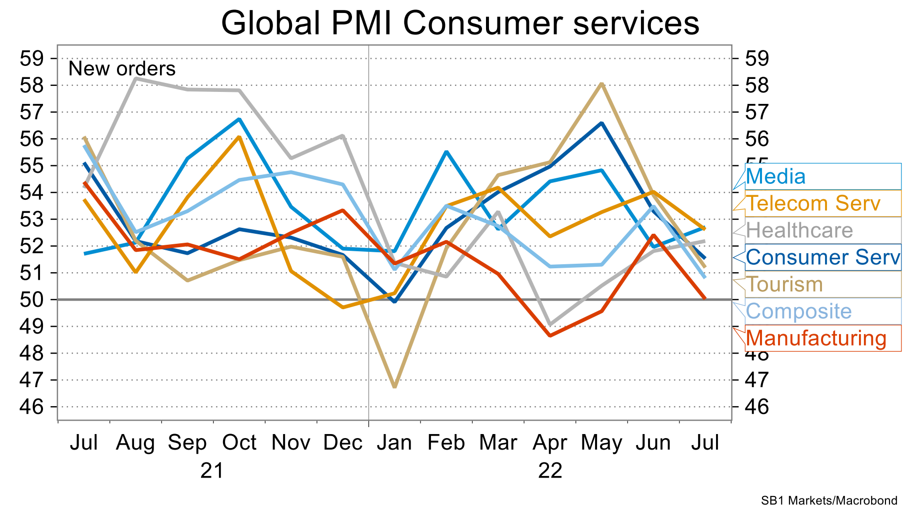


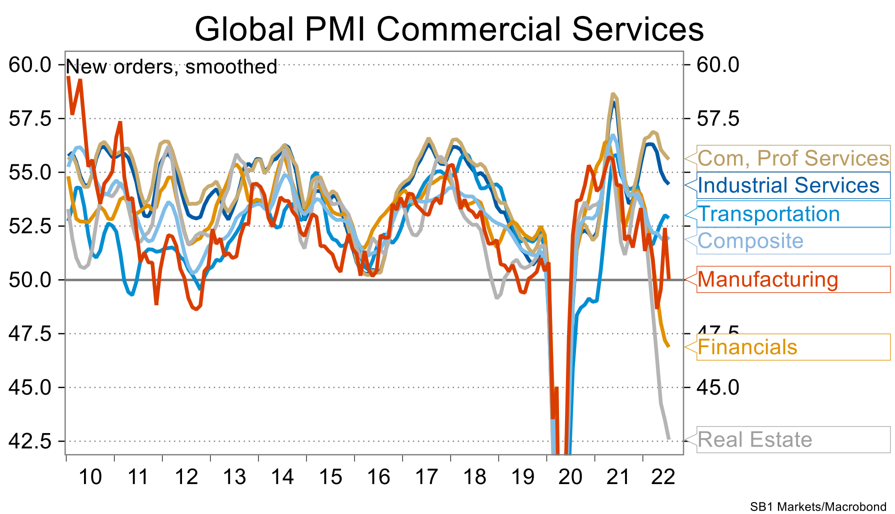


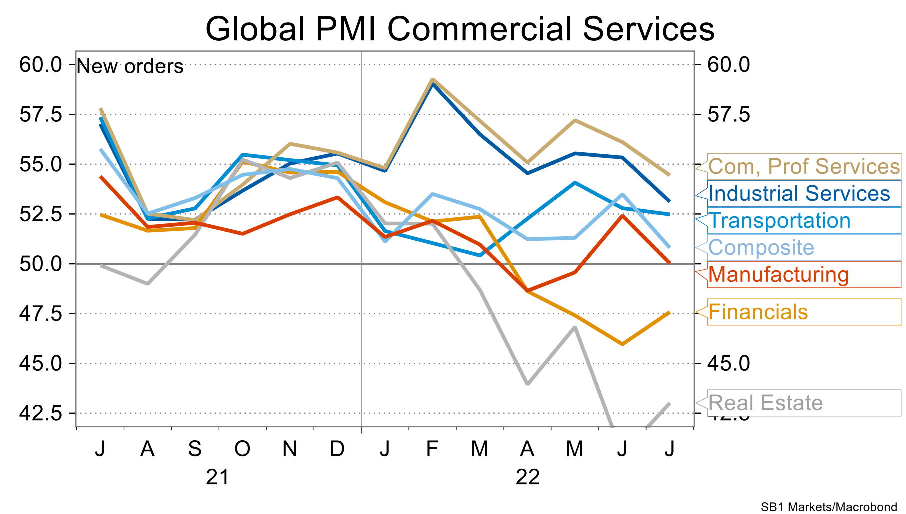
Services are reporting growth, but most sectors slowed in July

Beware real estate: has fallen sharply recent months



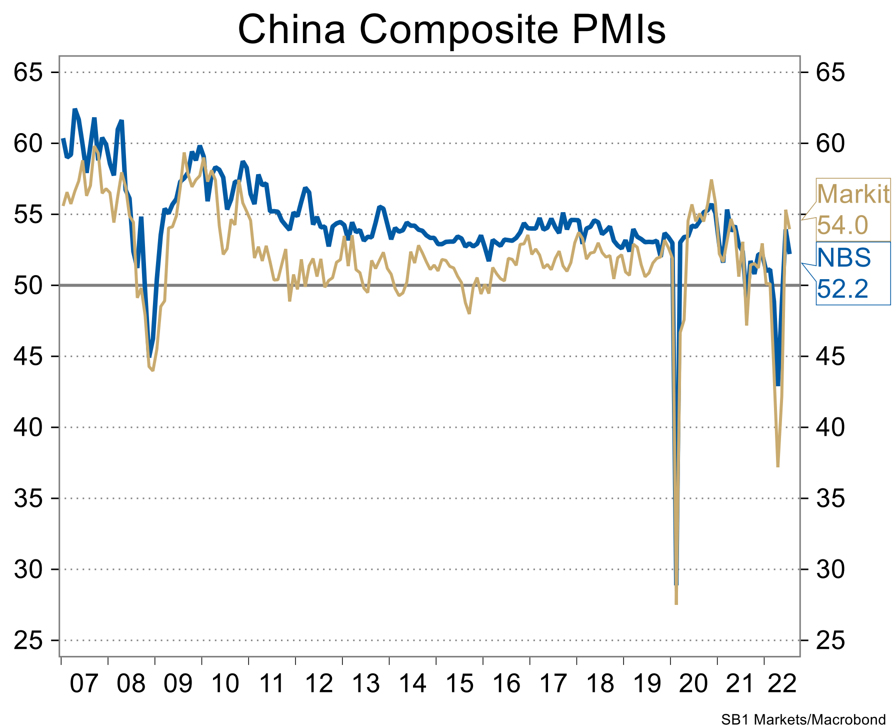


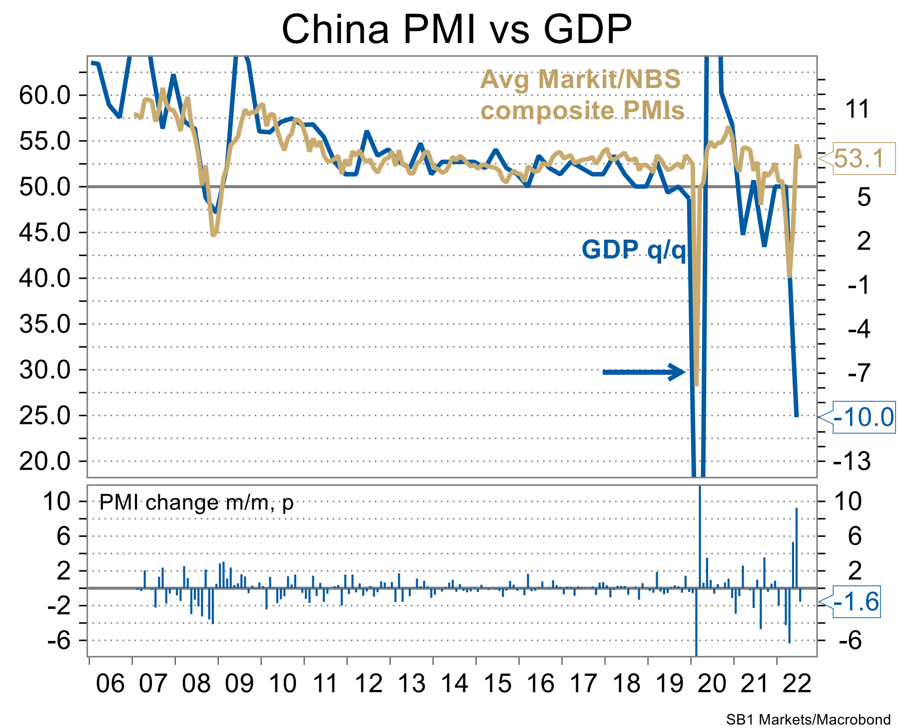




Both PMI data sets down but Markit’s service sector PMI climbed further

In sum, the two PMI reports signal continued strong growth in China in July

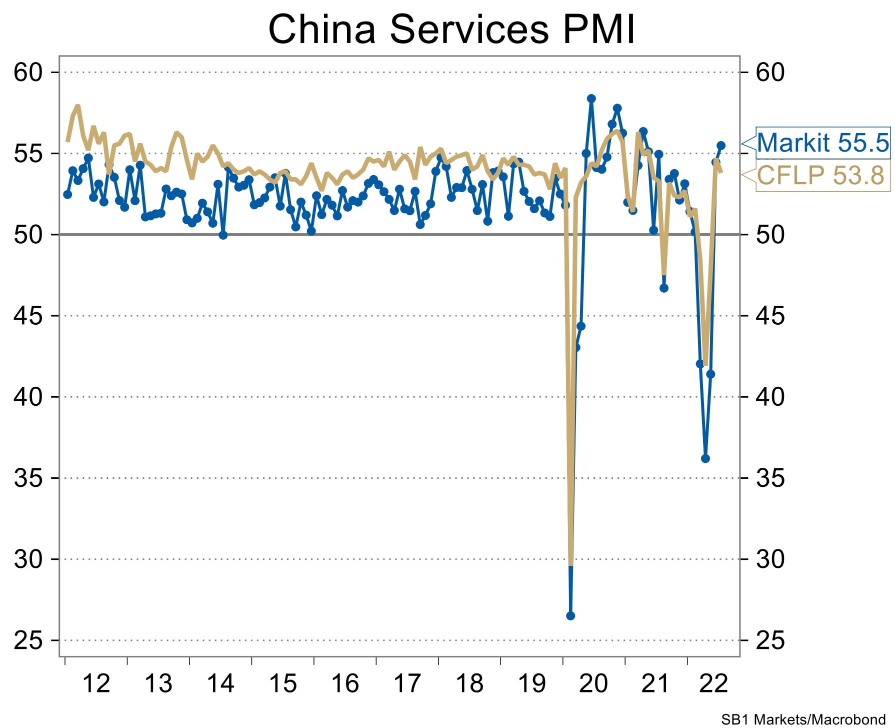


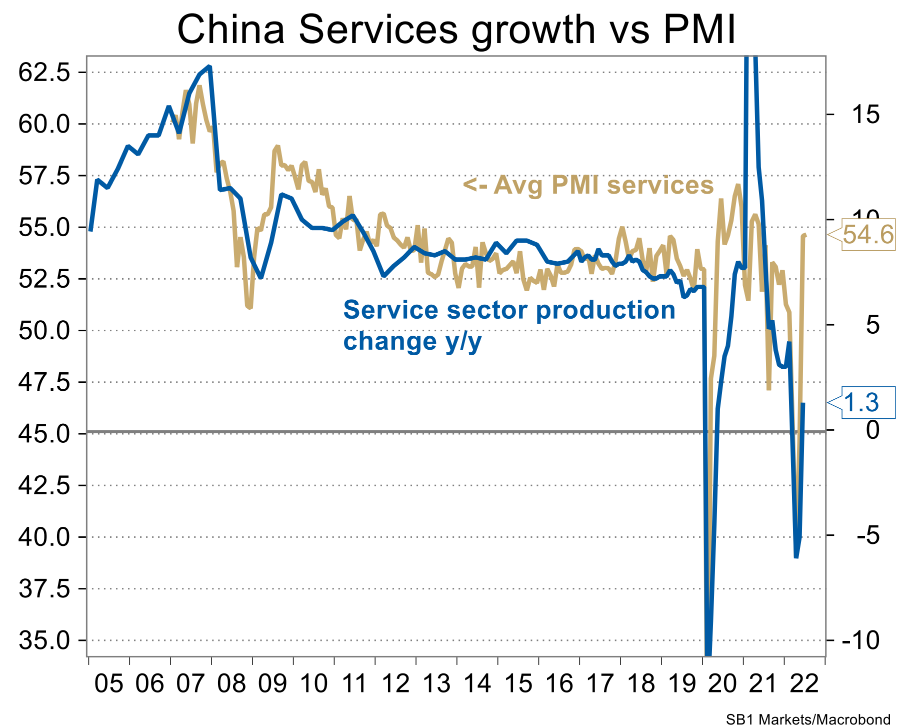


- … even if parts of the manufacturing sector and construction are facing challenges

Services report strong growth in July too

– which is needed, level still below par in June, after the lockdowns





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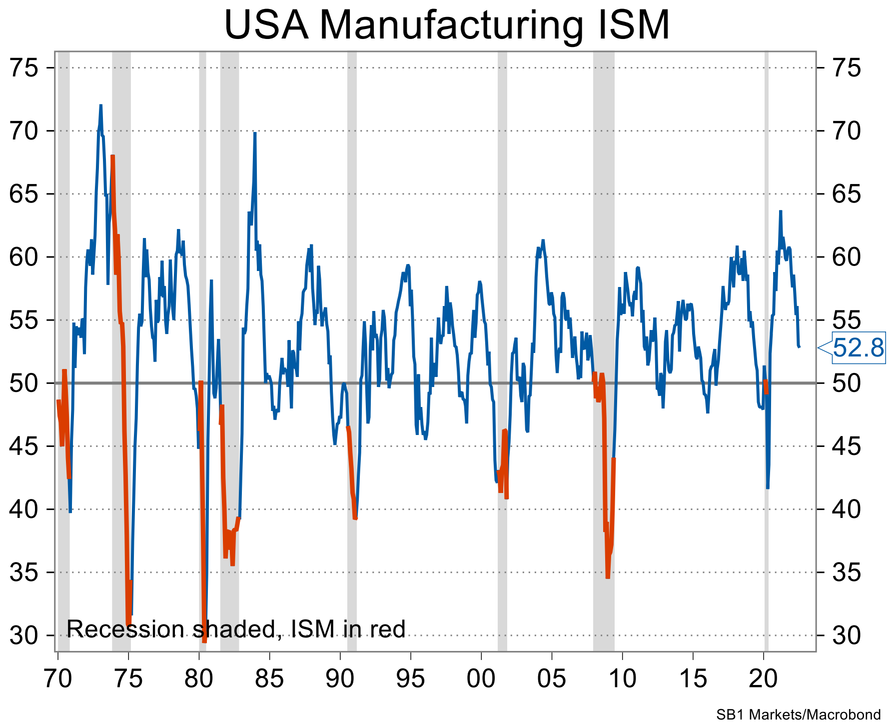
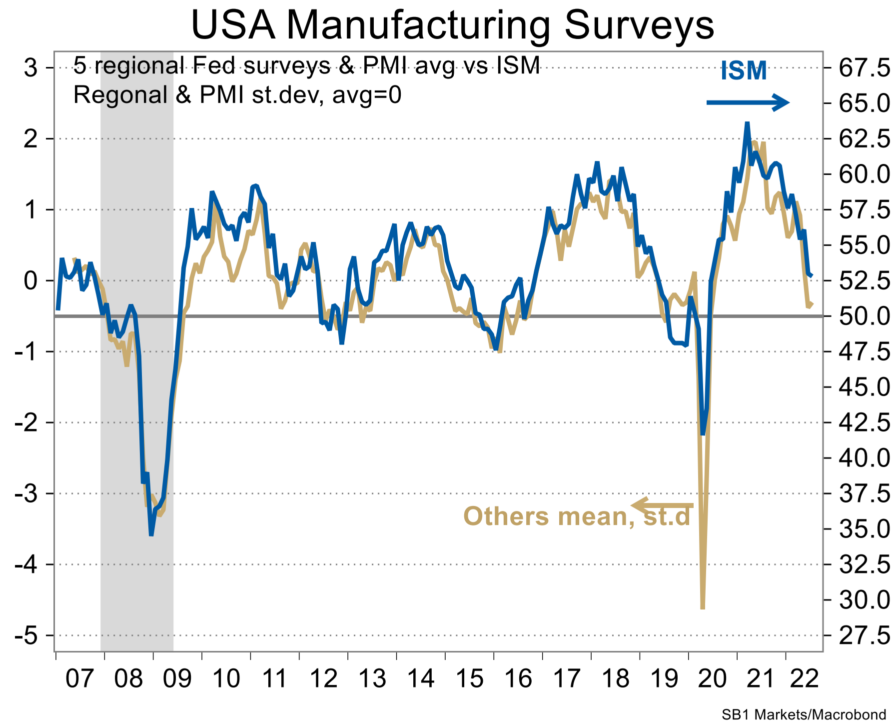
The manufacturing ISM fell less than expected in July but the trend is set

Down just 0.2 pp to 52.8, expected 52.0. Prices pressures are easing – as new orders are contracting





The ISM manufacturing survey has fallen from a 60+ level last spring, down to an average level. Other surveys are marginally lower, and below average

- Last month, 11 of 18 manufacturing sectors reported growth (down from 15 in June), 7 sectors reported a decline (furniture, wood, paper), up from 3 (and 1 in May!)
- The **new orders index** fell sharply, by 1.2 p to 48, following the 6 drop in June – in line with the sharp decline in new orders recorded in other surveys. Normally in early recessionary signal? (*check next page*)
- Fewer **supply chain** issues: 'Just' 18 commodities saw **price increases** (from 29 last month (and 40 in May, and 56 at the peak). 11 were down in price, like aluminium, timber, freight, steel, nat. gas, diesel, up from 7 in June. 11 commodities were reported in **short supply**, down from 13 in June (and far below the peak at 50 commodities a few months ago)
- **Comments are mixed, and 'stronger' than the actual data suggests – but several are acknowledging a slowdown**

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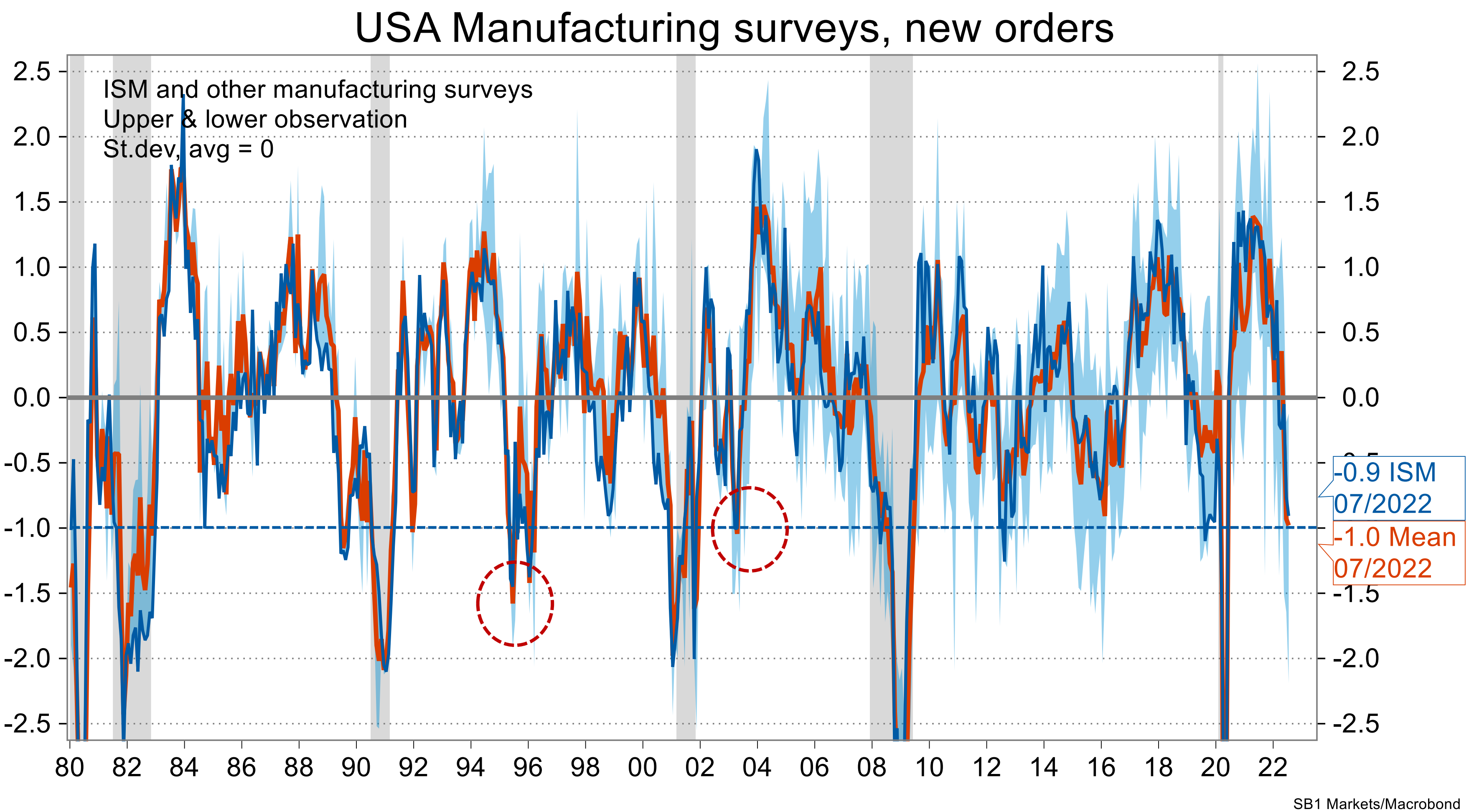
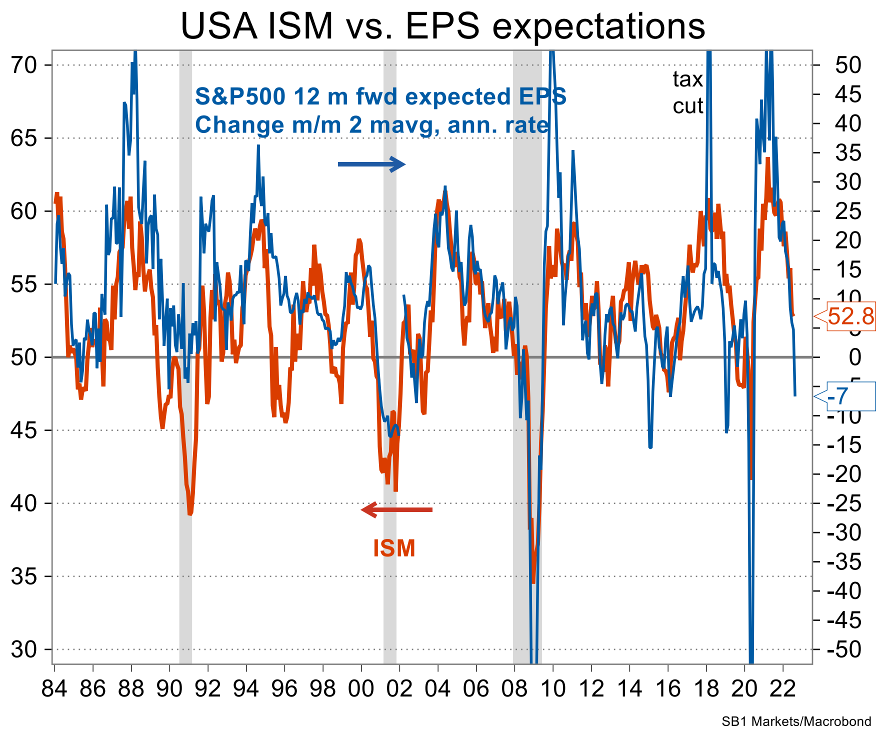
A warning sign: At the current pace of contraction in new orders…

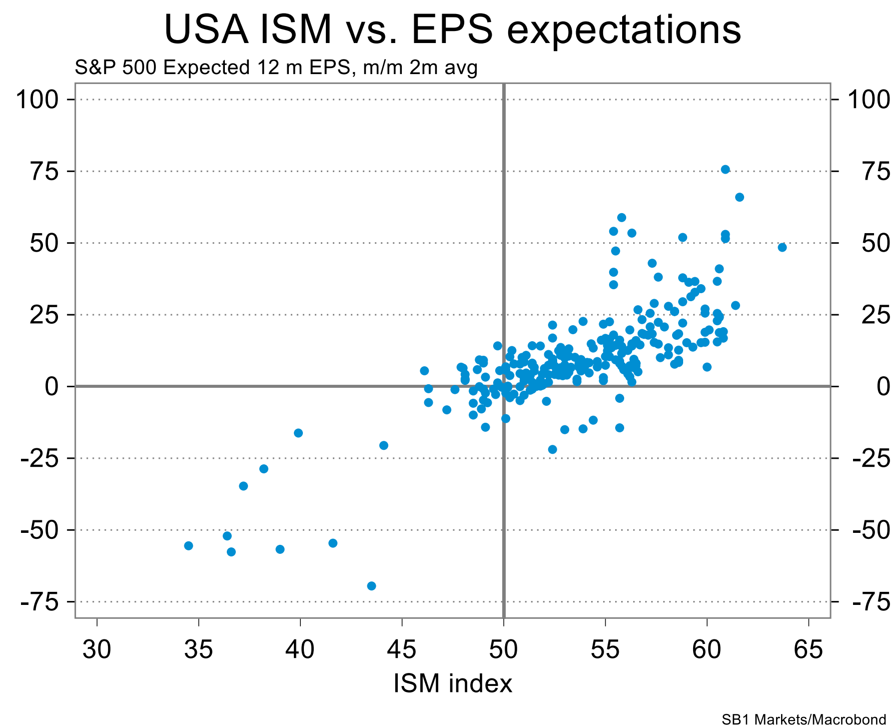
… a recession usually follows. The 1995 soft landing is the only clear exception. The other 6 contractions are the past 6 recessions. Orders were weak in 2003 too, a borderline case without a recession



Corporate earnings: Analysts change their mind in July, earnings f'casts finally cut

Weaker growth – or a recession – has finally been recognised by analysts. More to come, very likely





- ..but will probably require a further softening of the economy – that is a weaker ISM index

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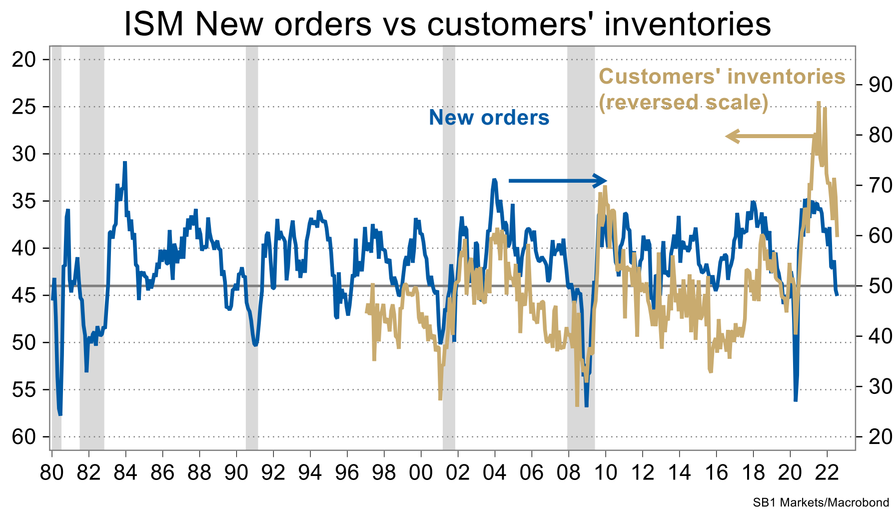
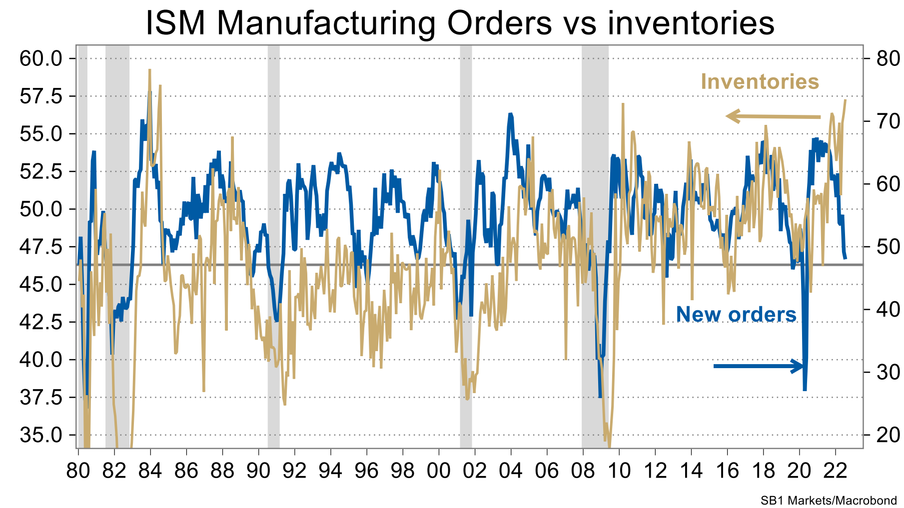
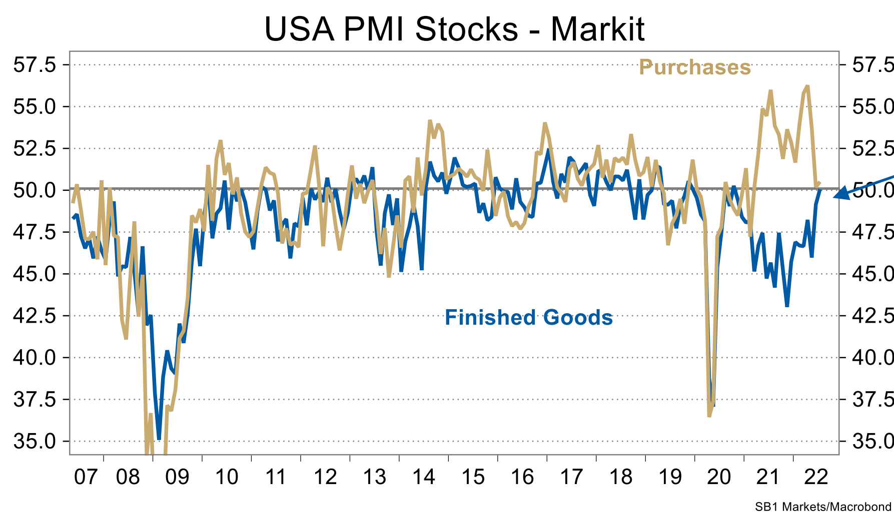
Split reports on inventories– but customers' stocks are normalising?

ISM report rapid growth in stocks of purchases, Markit's PMI not – but report more fin. goods stocks?



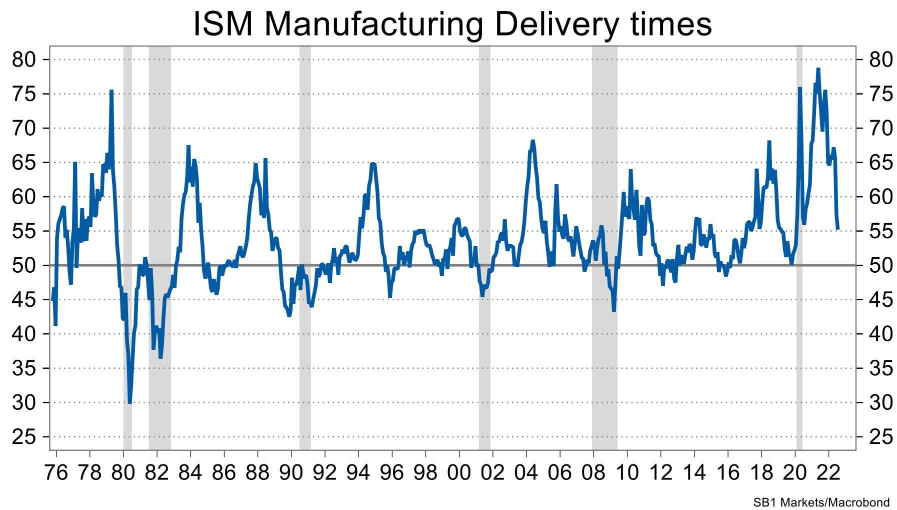


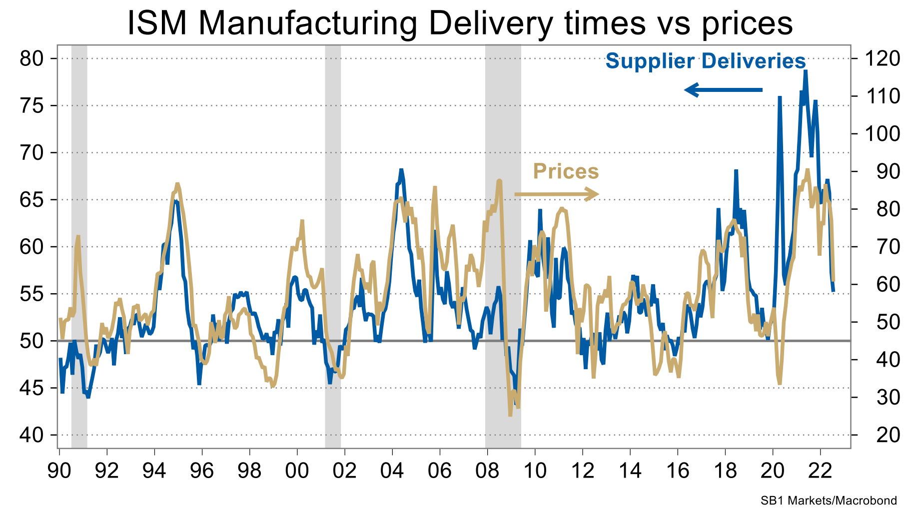


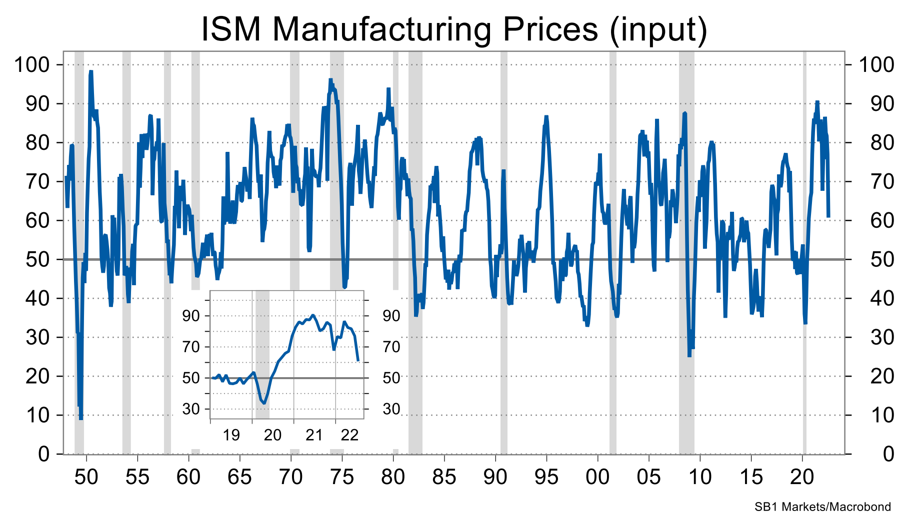
- At least, Markit is reporting no more decline in finished goods inventories

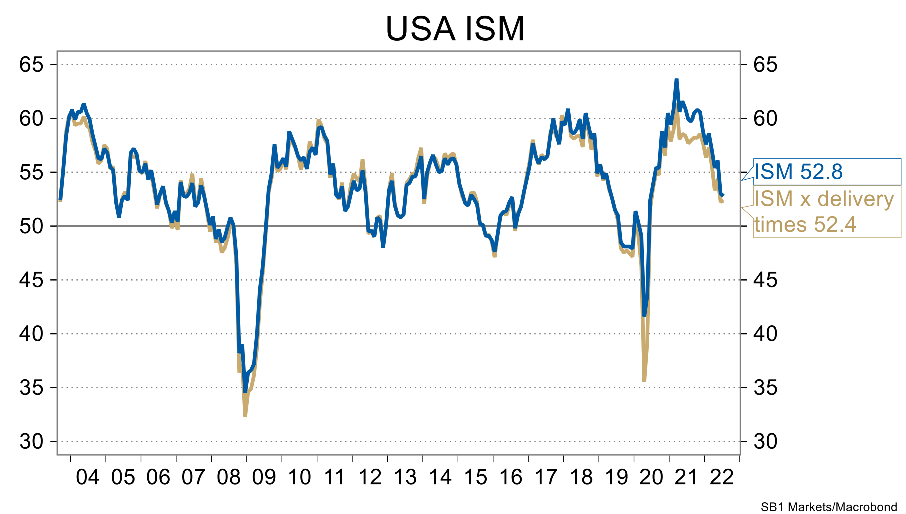
The delivery times index down to a normal level – as are price indices

Surely good news: Both indices higher than normal but not by much! The price index to 60, from 77!





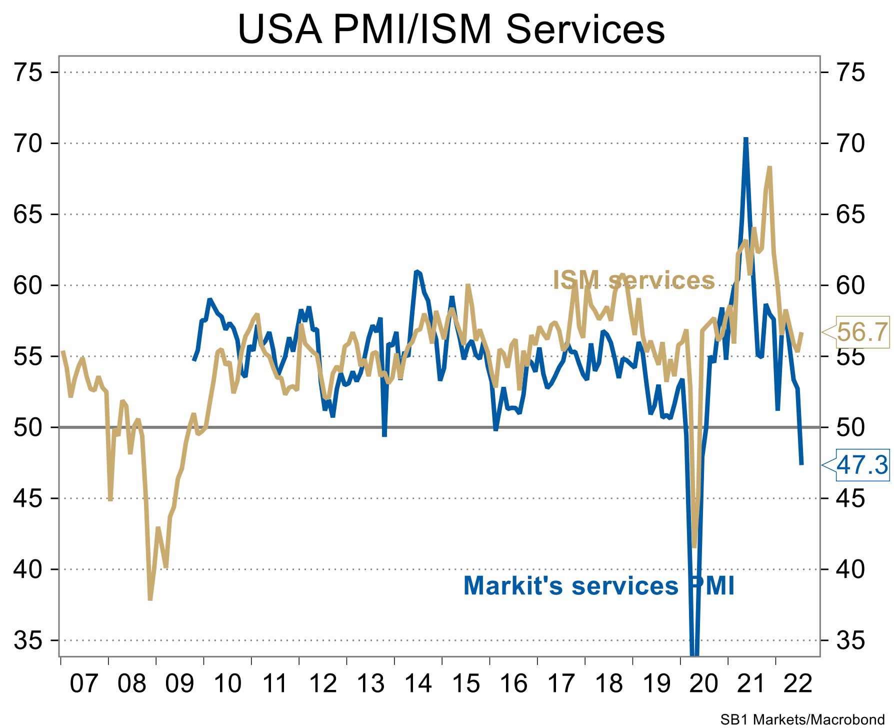


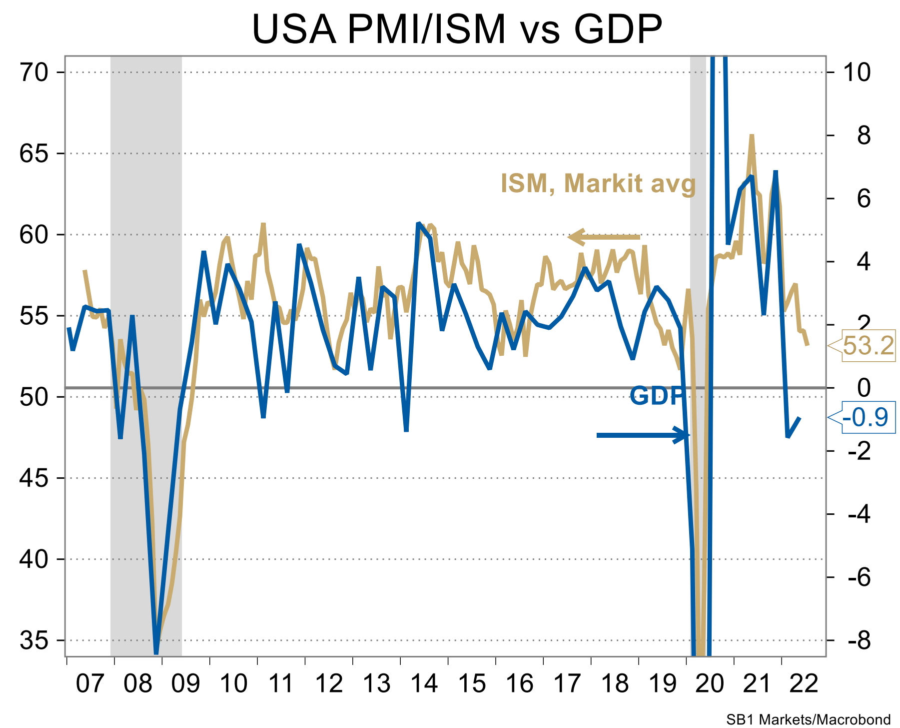


Price increased are far less widespread, according to the ISM manufacturers

Mind the gap: Markit says services are contracting. ISM report full speed ahead

The history of the two surveys are too similar and too short to judge which is the best survey

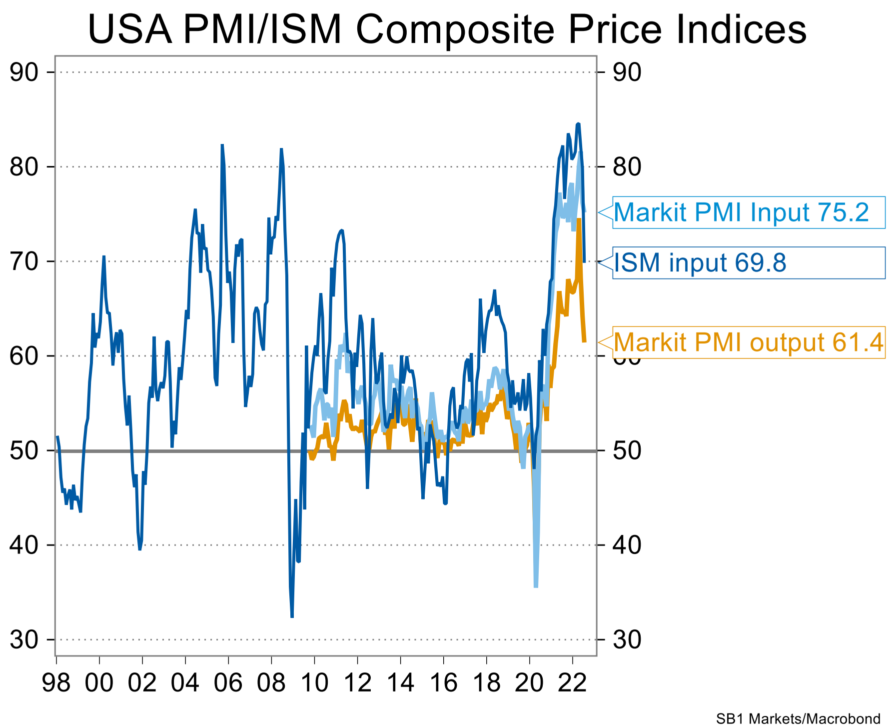


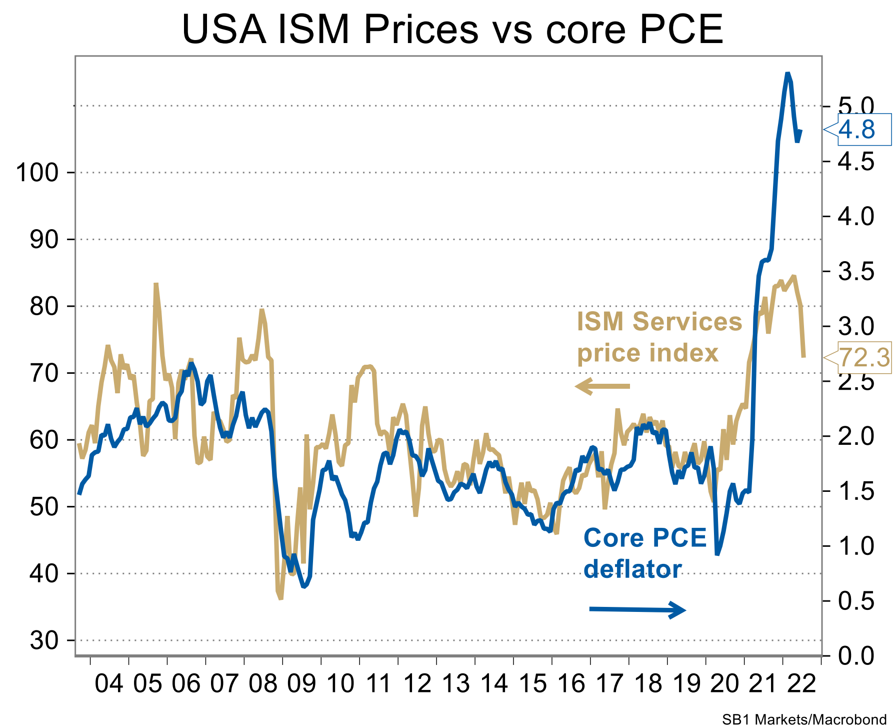


- … but in some few months we will find out ☺
- The ISM services index gained 1.4 p to 56.7
- Markit/S&P' PMI fell 5.4 to 47.3!
- The average of the ISMs and PMIs is down – but is not signalling any recession at all (thanks to ISM services)

Both input and output price indices sharply down in July

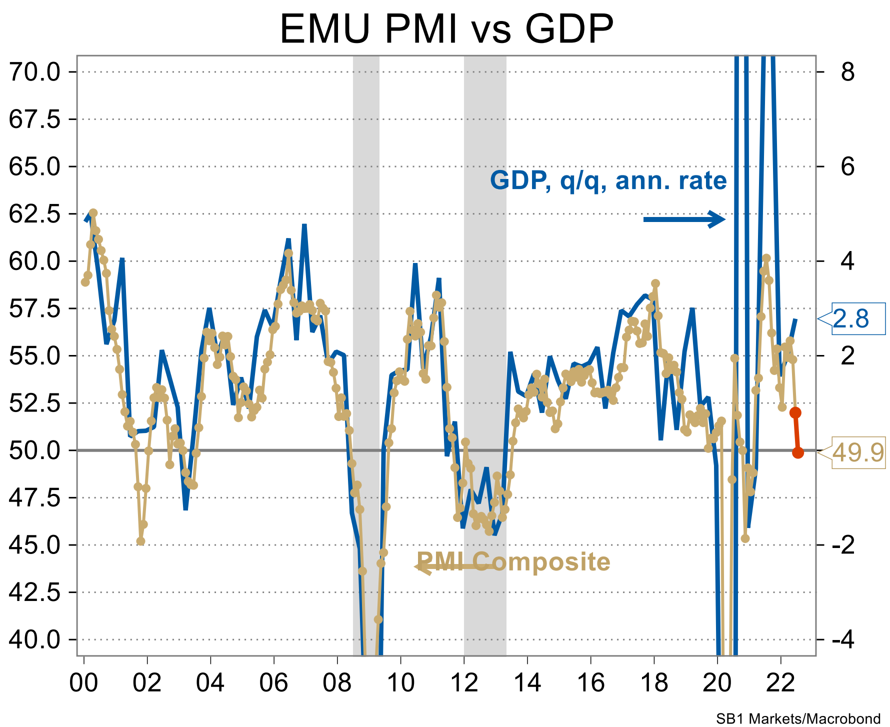
Price pressures are easing, at least from the raw material side – and inflation will come down!!

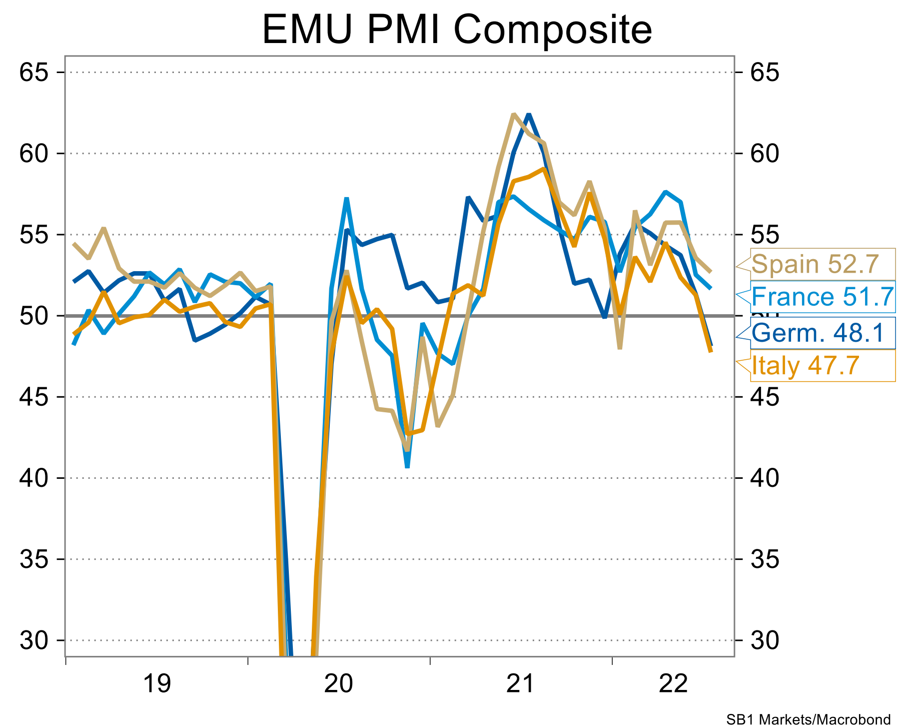




The final PMIs: Down but a tad less than first reported

The composite down 2.1 p to 49.9, not a positive growth signal. Italy, Germany the bad guys, at 48ish





- The decline in the flash EMU PMIs was confirmed. The Germany, Italiy, and the manufacturing sector in general are the weak links
- The **manufacturing output** index fell further, to 46.3, a refession-like level

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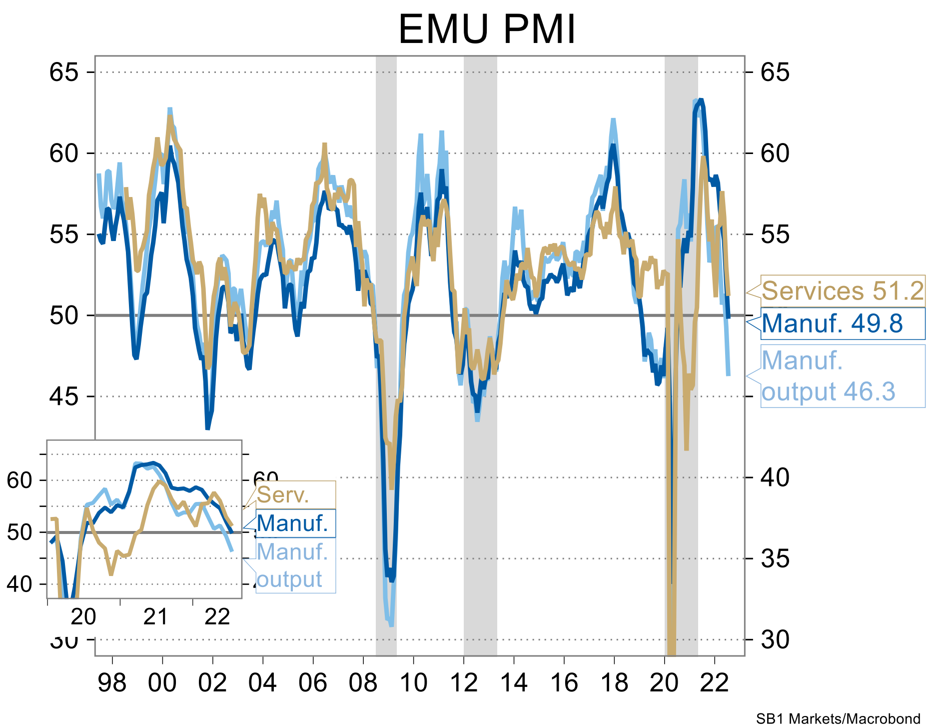
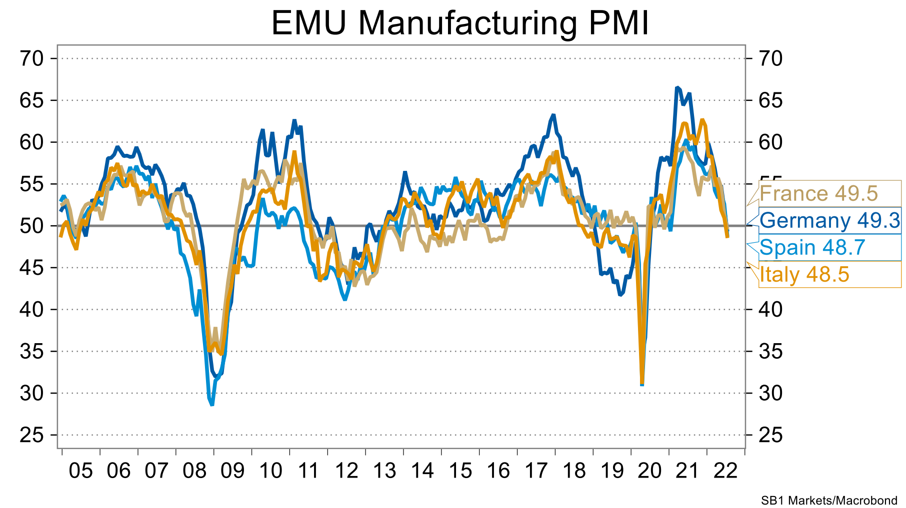
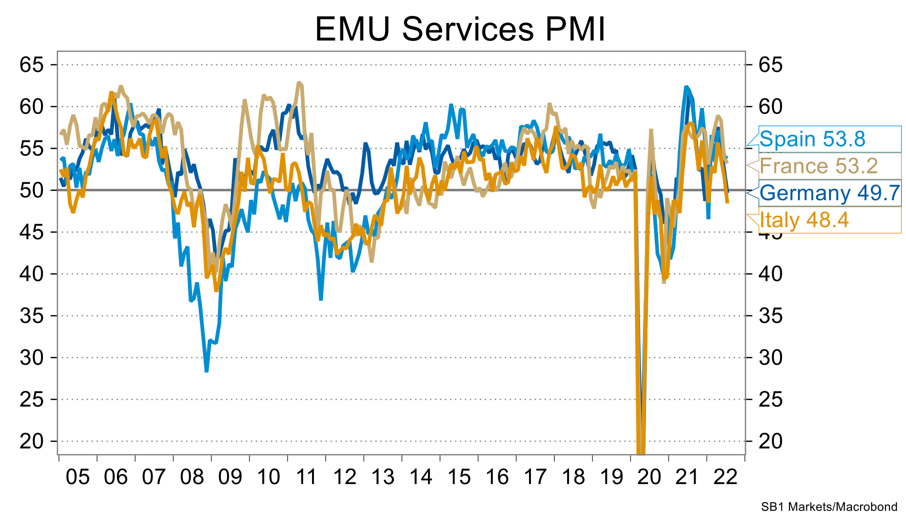
Manufacturing confirmed straight down, service revised up by 0.6 p to 51.1

Services in Spain and France are still reporting OK growth, Italian services not. All manuf. PMIs <50



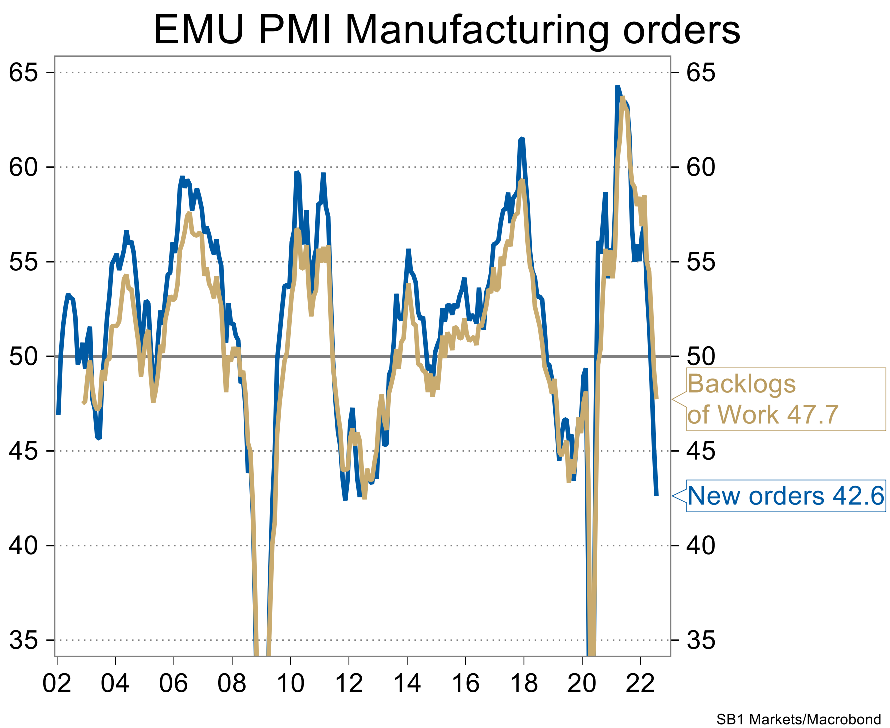


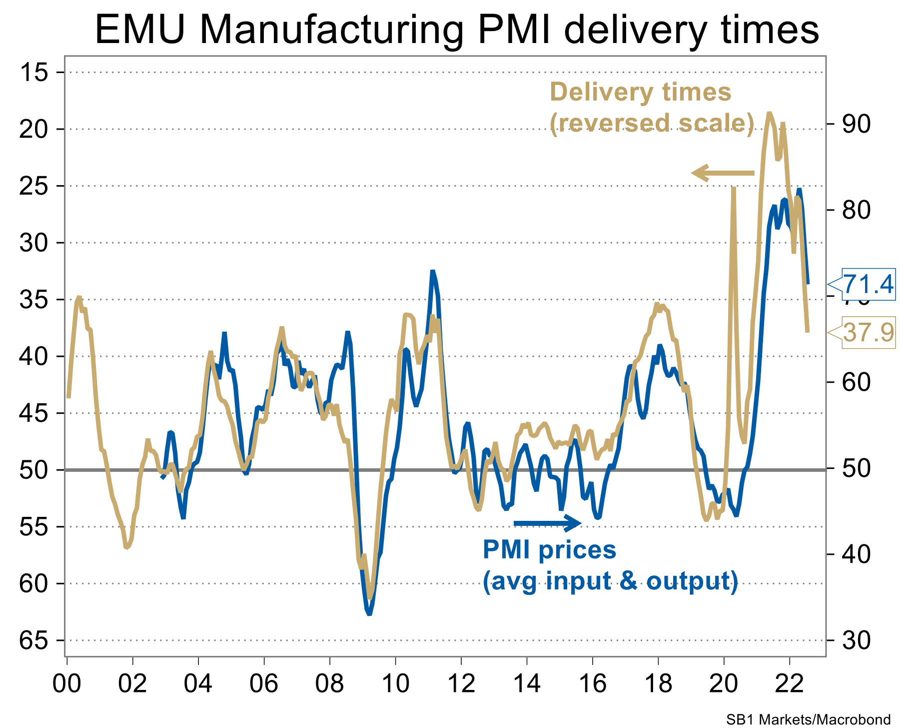


- The manufacturing output component is a warning sign. And even more the order index, *check next page*

The new orders index sharply down to 42.6, and even the backlog is contracting

Both the delivery times and price indices are falling rapidly, signalling less prices pressures

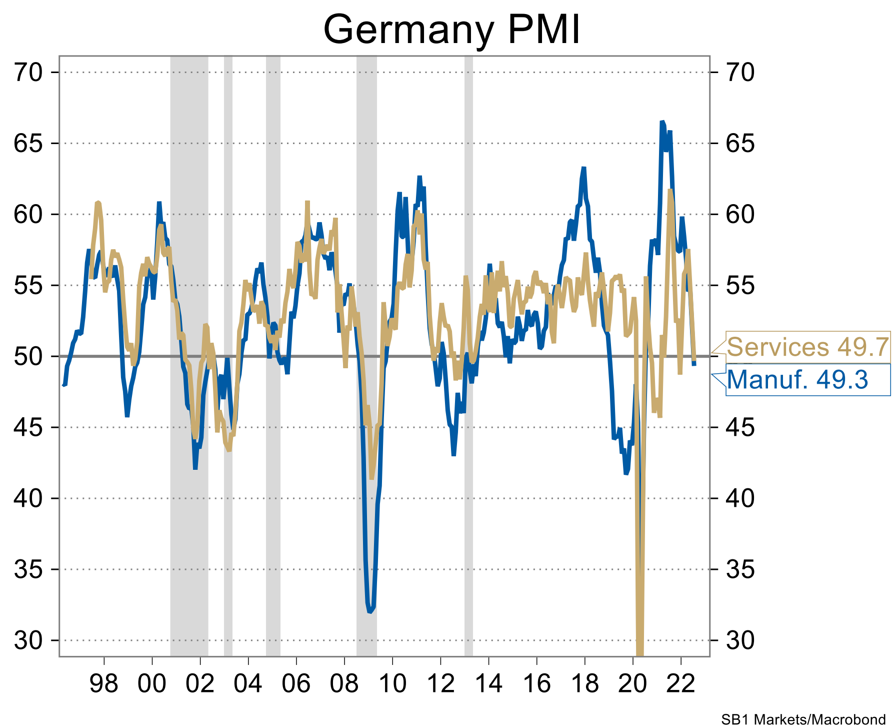


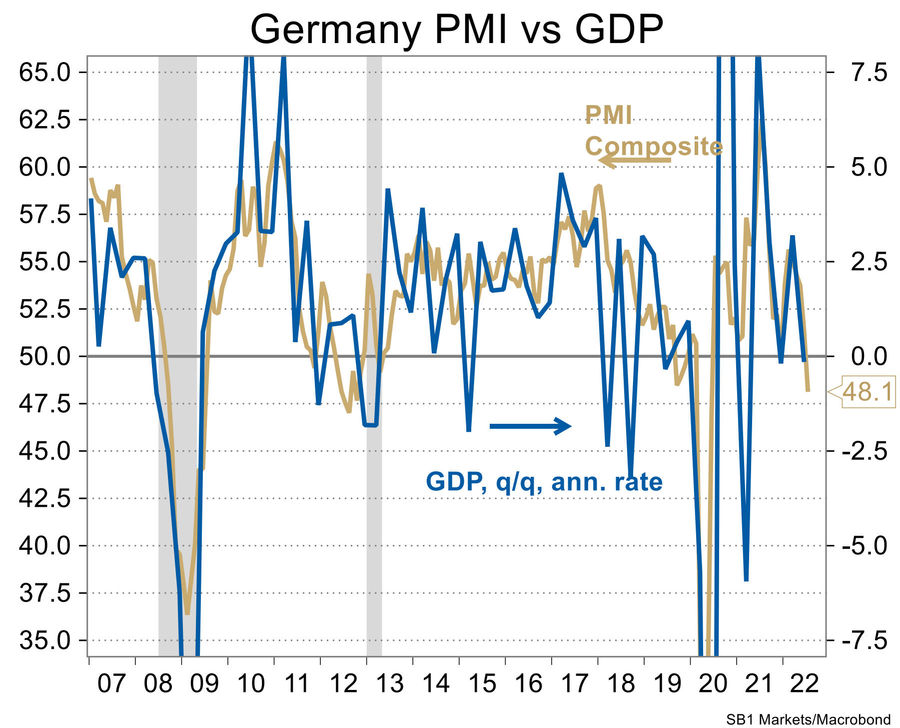


- However, companies are still reporting unusual widespread price increases, and much more than in the US

Germany: The composite PMI well below 50, a mild contraction signalled

Both manufacturers and the service sector reported lower activity in July

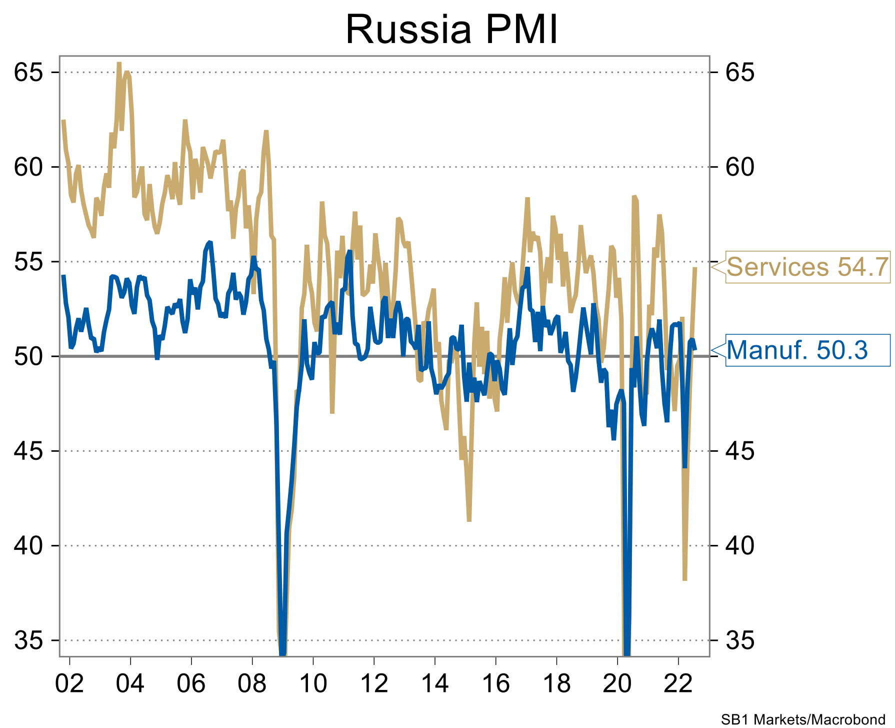


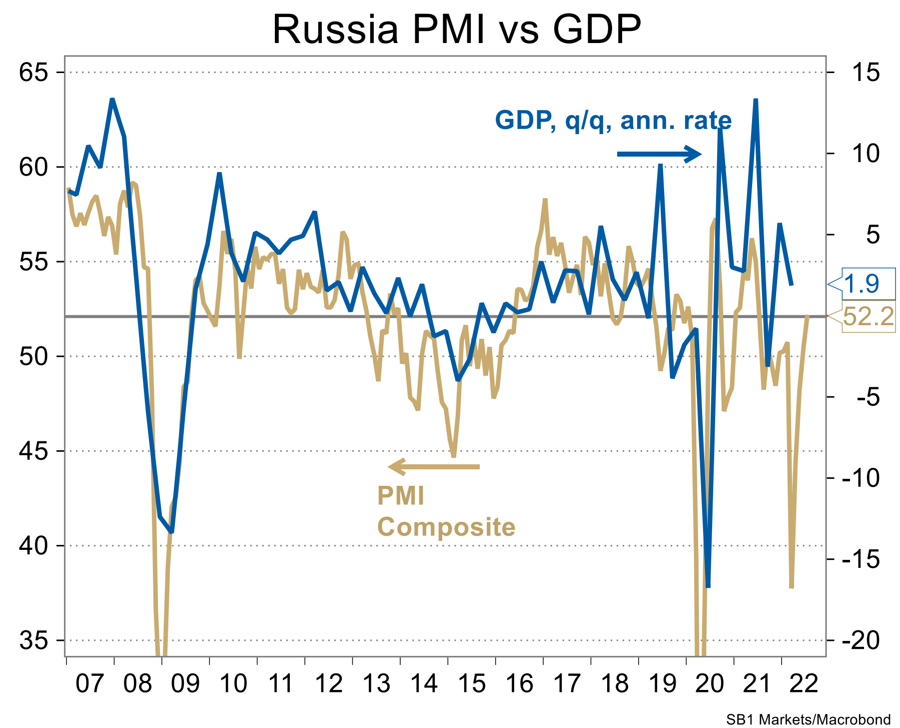


- All 3 indices were far lower than expected

Growth in Russia in July, at least in the service sector

The composite PMI rose further to 52.2, signalling close to a flat GDP

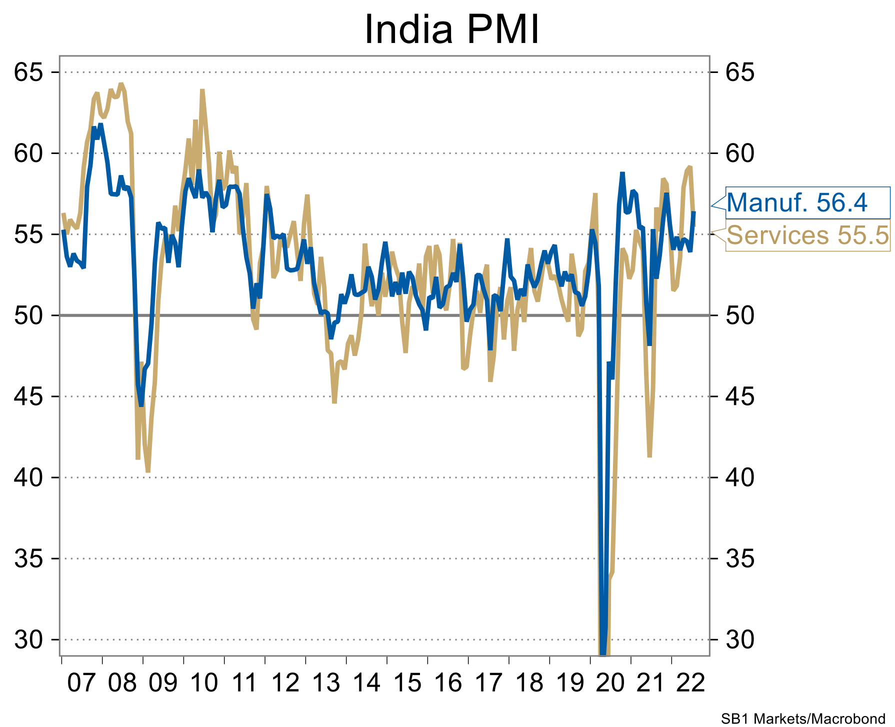


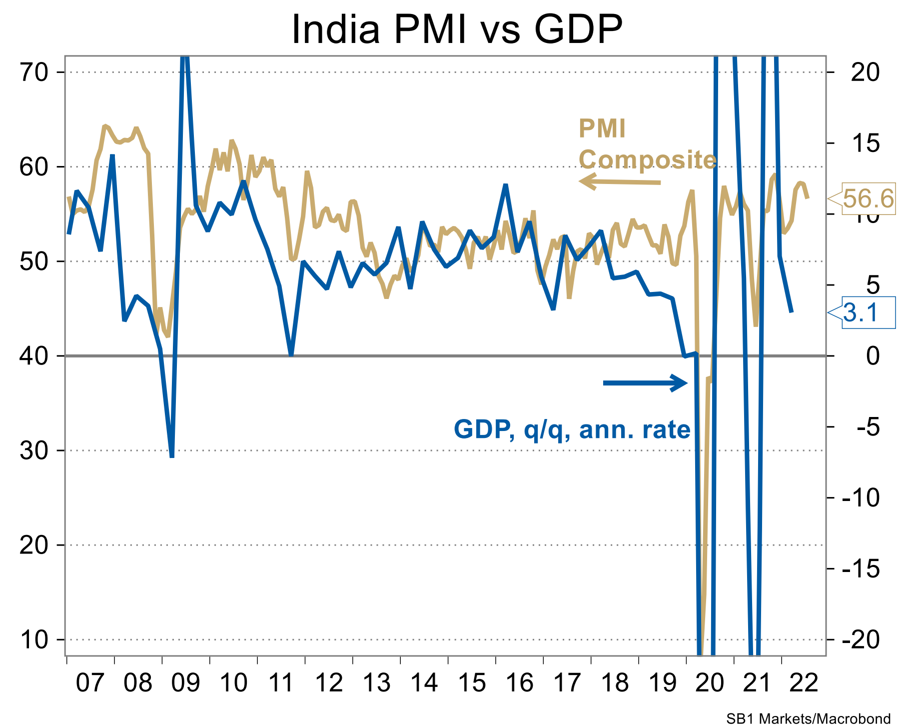


- **Both the manufacturing sector and services** – and the composite PMI have crossed the 50 line
- **A reminder:** The PMIs are not sentiment surveys – respondents are asked about in changes in actual activity (new orders, output, employment, inventories) from the previous month

The composite PMIs close to unch. in July, manufacturing up, services down

And both are at high levels – and the composite at 56.6, normally signalling very strong growth

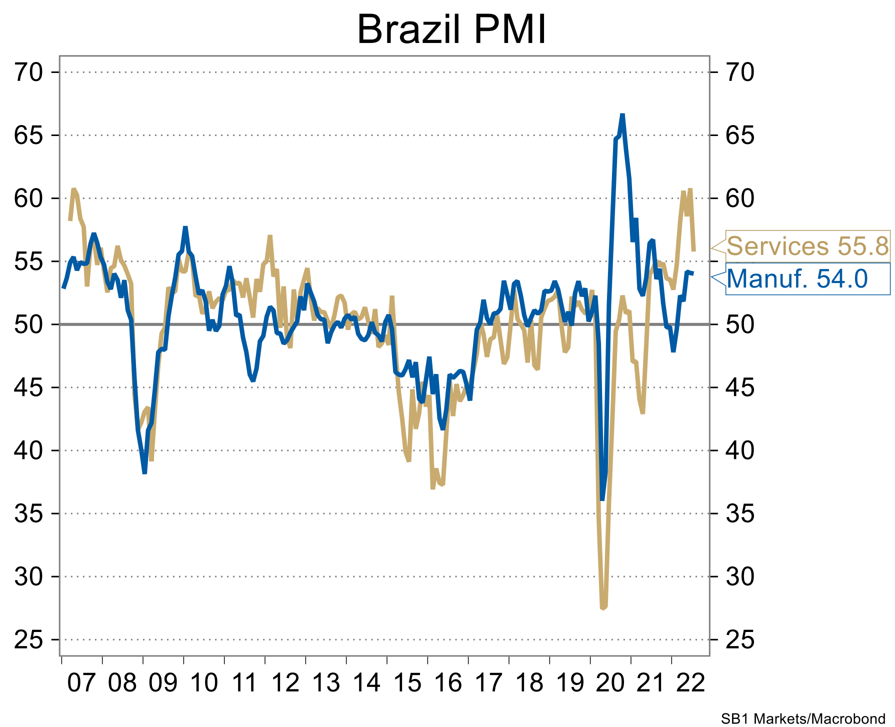


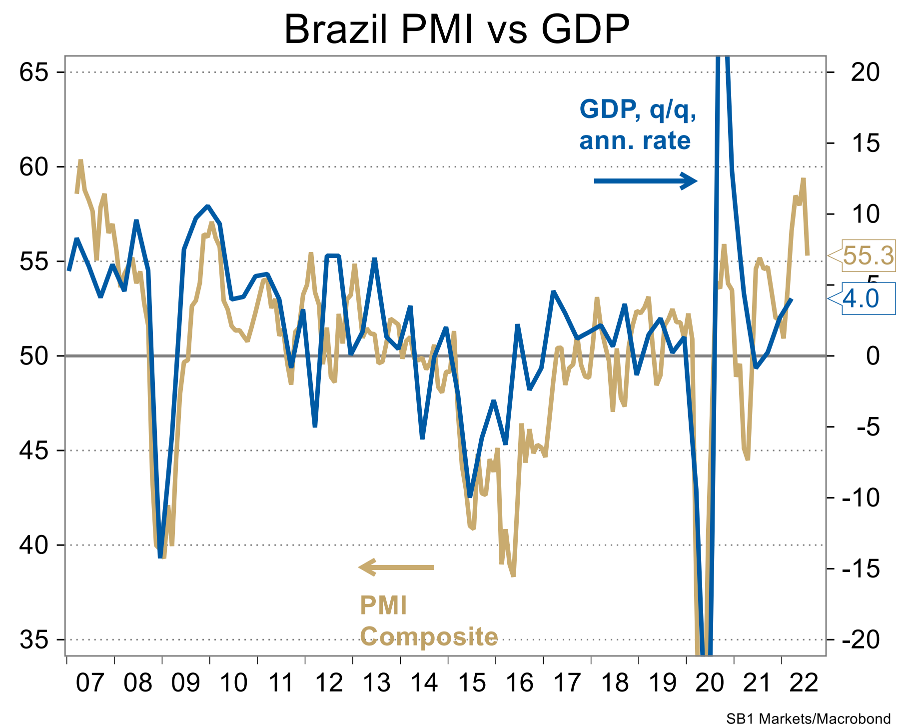


- In Q1, **Indian GDP growth** slowed to a 3.1% pace, down from 7% in Q4. The PMI signals higher growth in Q2
  - » However, the correlation between the PMIs and GDP is rather weak – and due to the pandemic, growth rates have been all over the place the past 2 years

The service sector PMI down from the highest level eve, still strong

Manuf. is still reporting rapid growth too – and the composite PMI at 55.3 signals growth >> trend

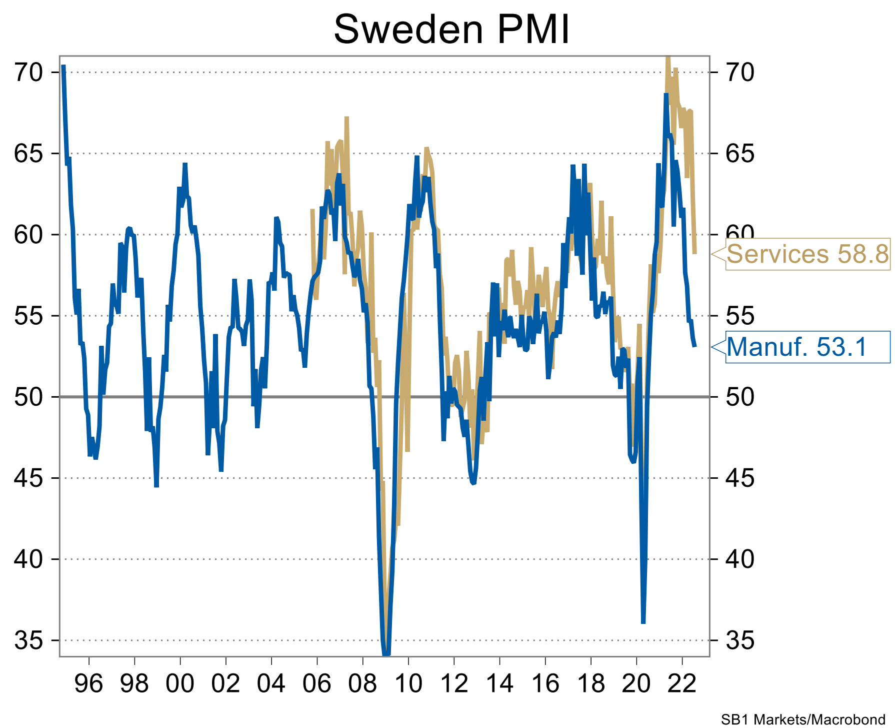


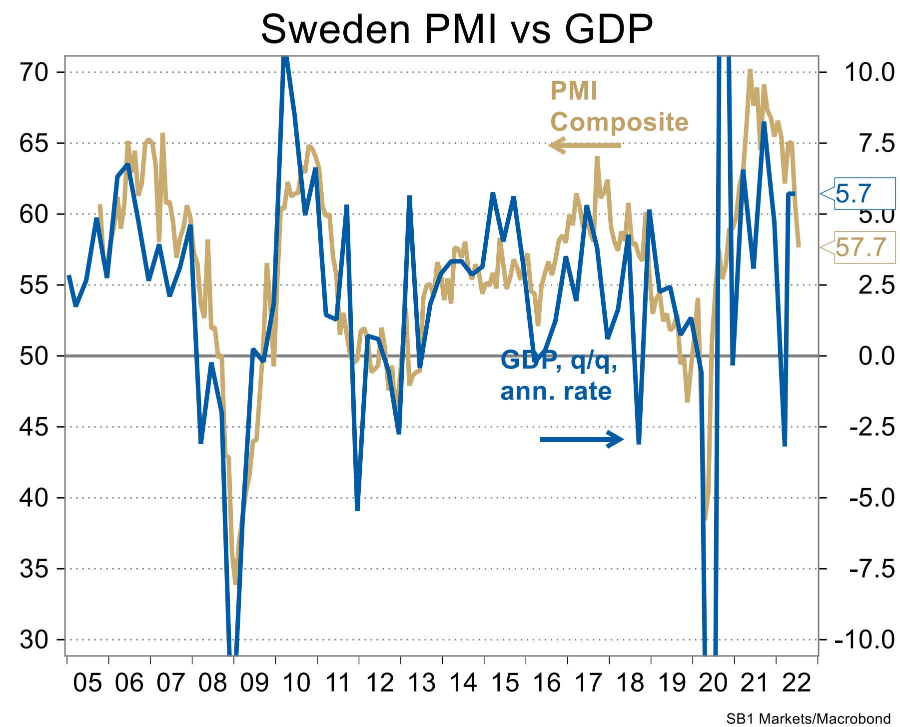


- GDP growth has picked up some steam the past 2 quarters

The PMIs are tumbling, but 4% GDP growth is still signalled

The composite index fell by 4.8 p but is still at 57.5. Services fell sharply in July too, to 58.8…

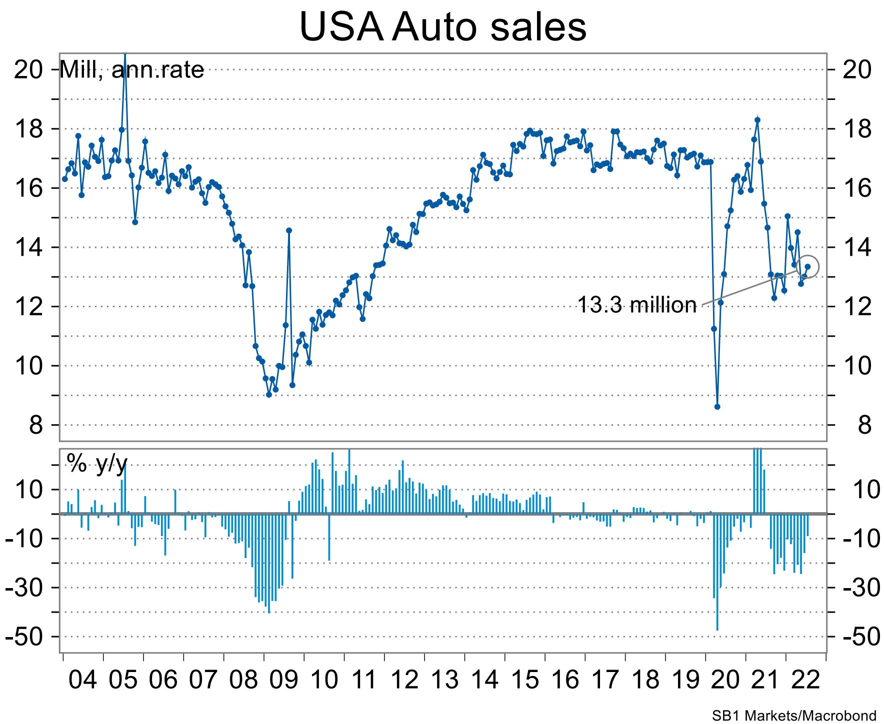


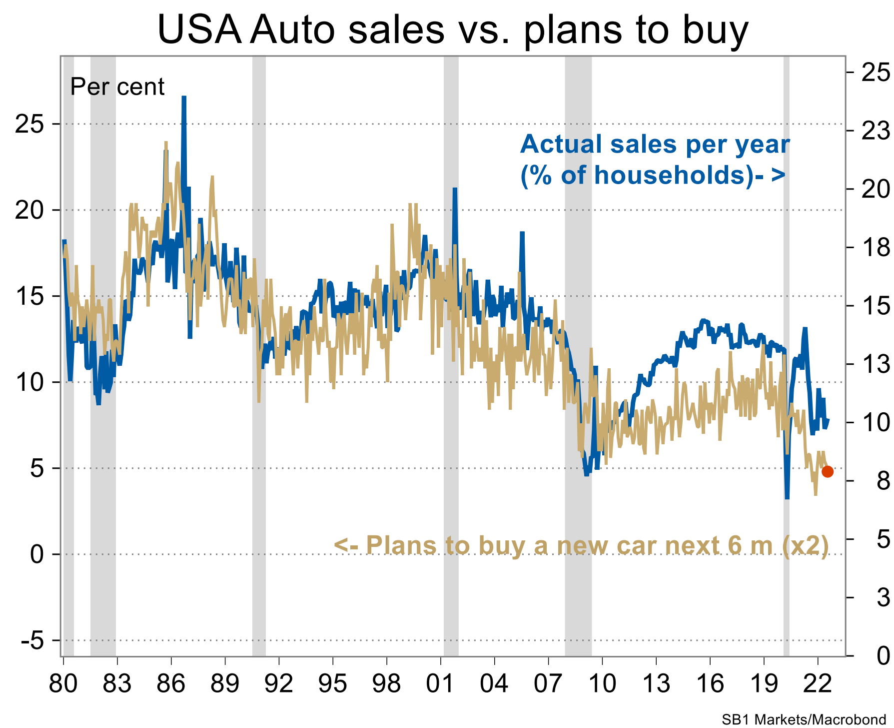


- In Q2, **GDP** shot up at a 5.7% pace (1.4% not annulised), way better than expected (but not vs. the strong business surveys) – and the 3.2% Q1 contractions was more than reversed

US auto sales marginally up in July, by 0.3 mill to 13.3 mill, still a low level

Sales were marginally lower than expected. Supply is still the big problem, not demand

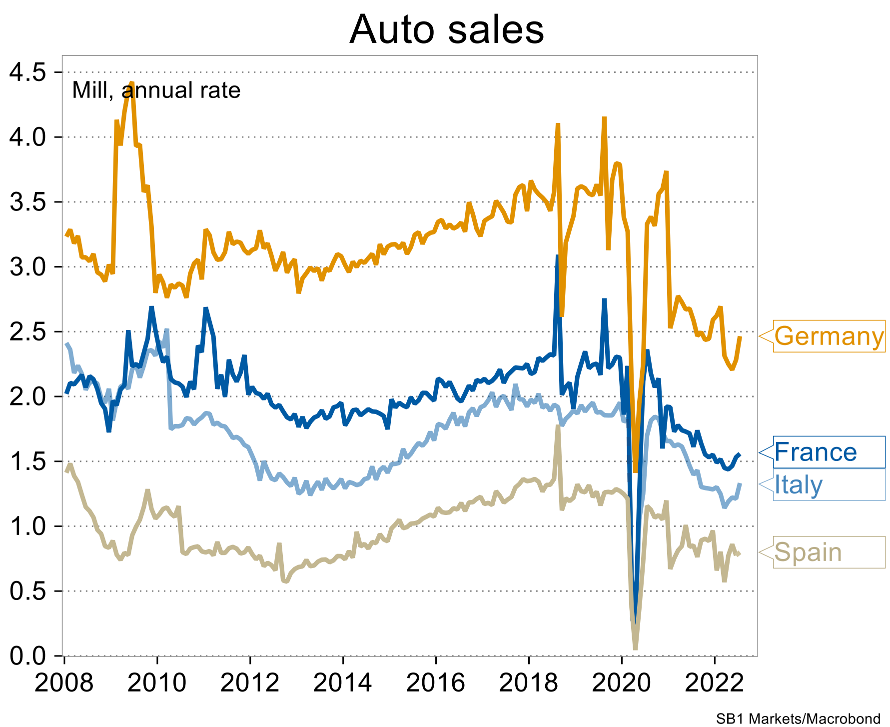


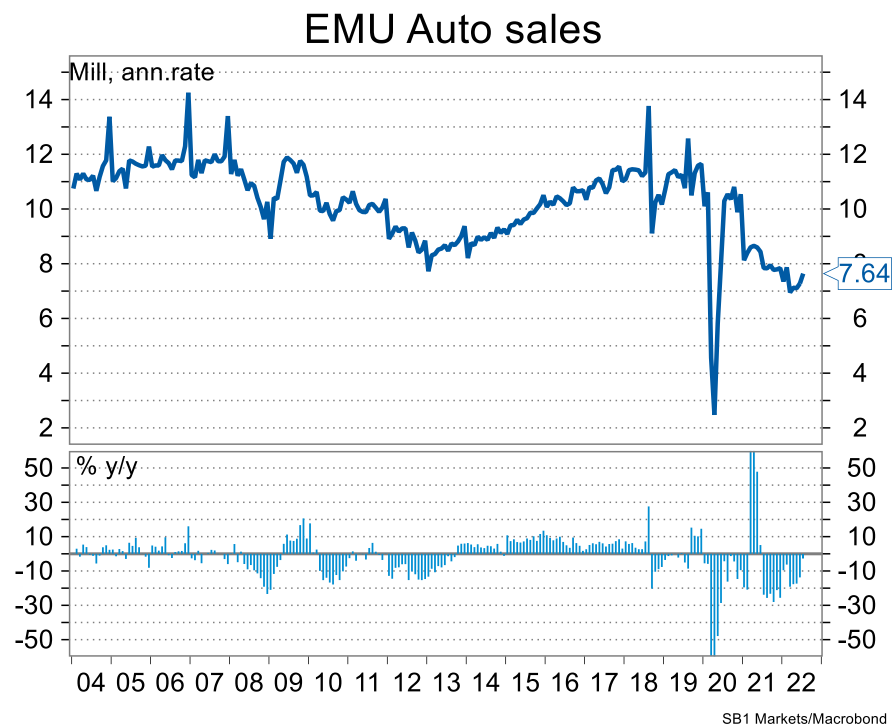


- Sales are down almost 25% vs. the 2019 level
- Plans for buying a new car has been stable at a record low level over the past year – but is now trending slowly down

EMU: Sales further up in July – but the level is still very low

Sales rose the most in Germany, following two very weak months. Total sales up 0,3 mill to 7.6



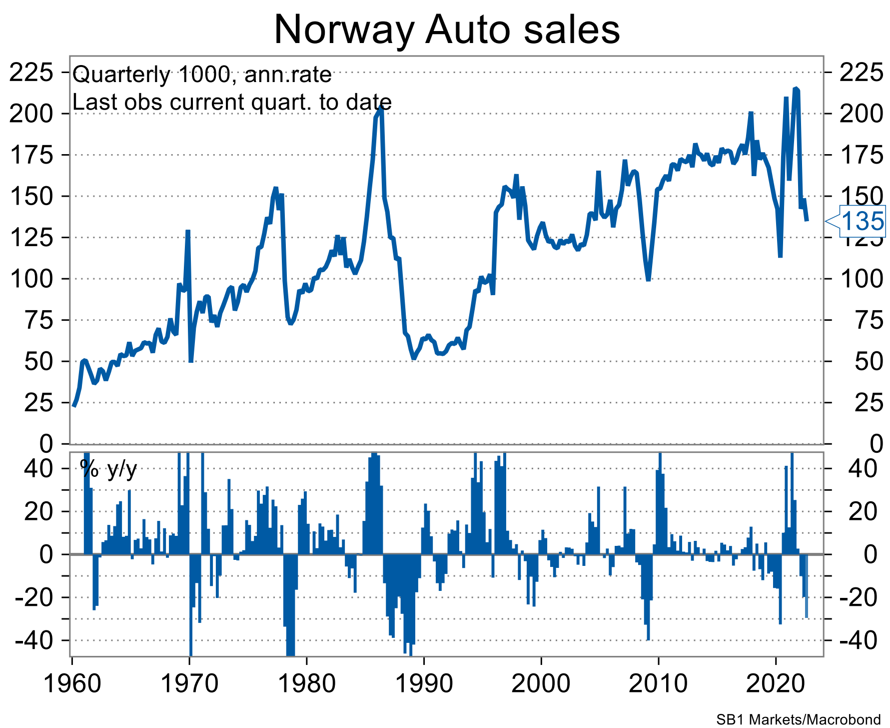


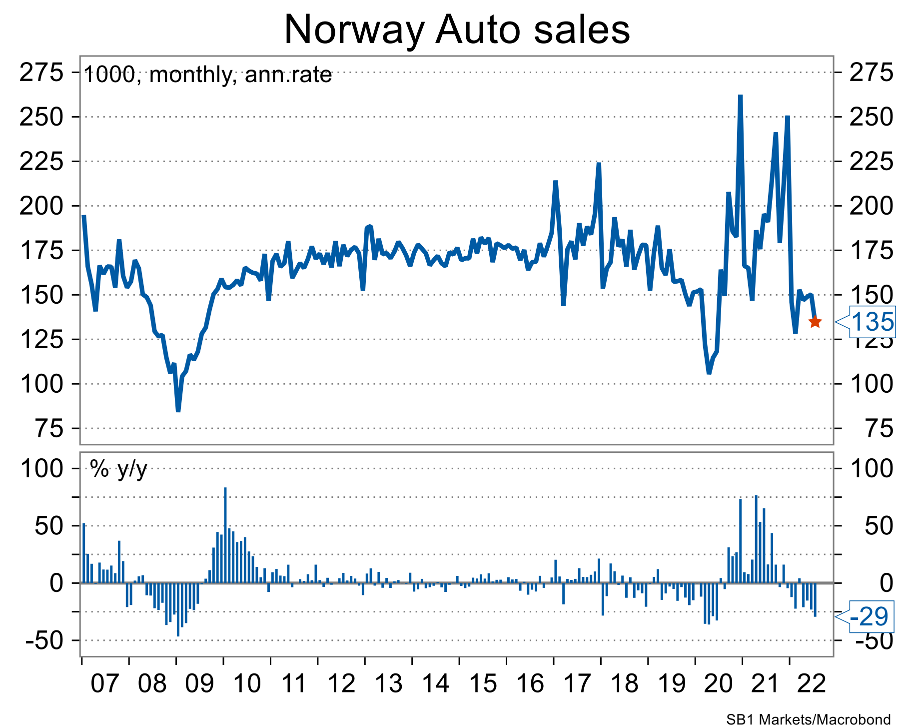
- These are just preliminary data – especially for total EMU sales!

SpareBank 1 MARKETS

Norway: Sales down to a more ‘normal’ level (that is, in line with other countries)

Media reports indicate that demand is no problem, but deliveries are the real challenge

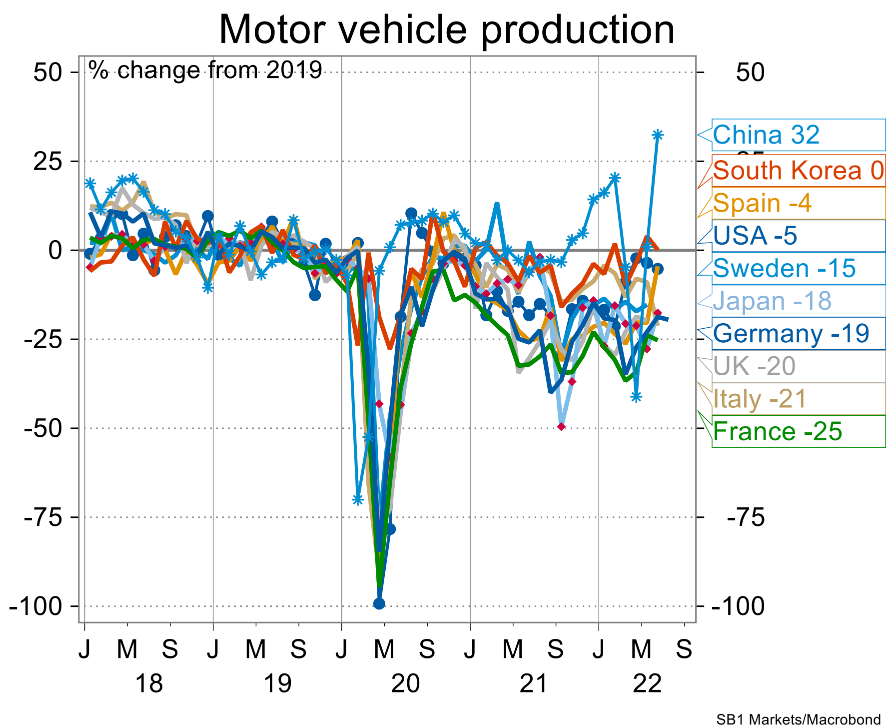




- New registrations fell to a 135’ pace in July, down from 150’ in June (revised down from 160’)

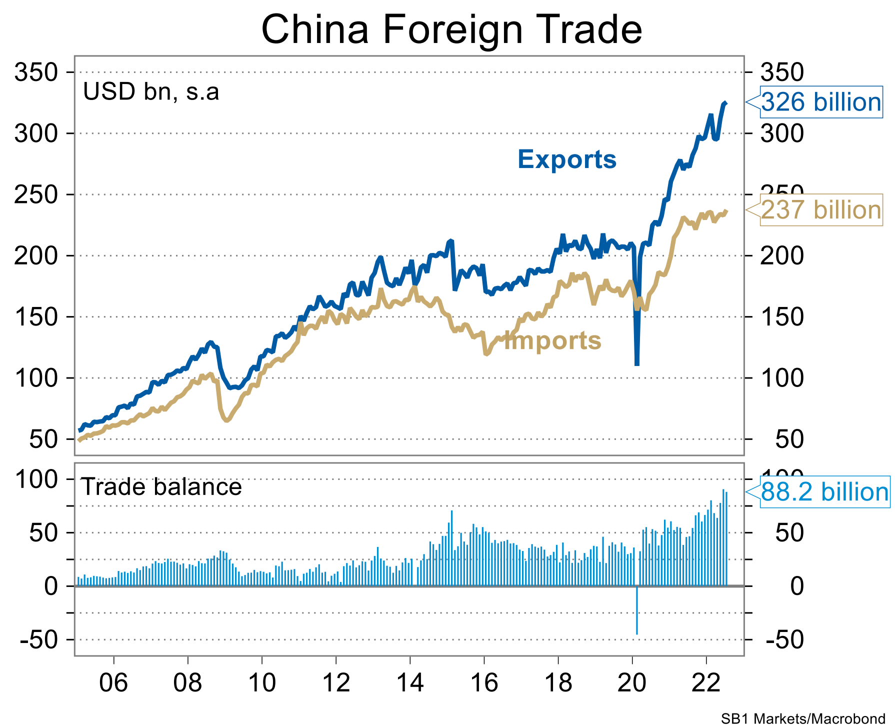
Full speed ahead in China, Korea OK too. US just 5% below the 2019 level

Auto production in most of Europe and Japan still down 18 – 25%



Exports up to another ATH, imports too but have flattened (in volume terms)

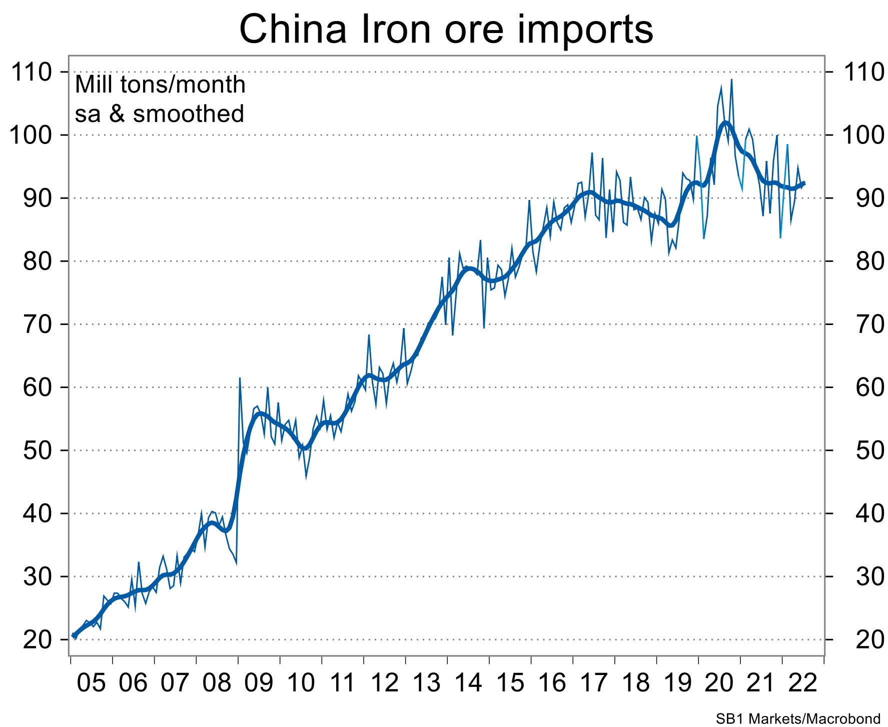
The trade surplus remained at the highest level ever. So much for the supply chain challenges…

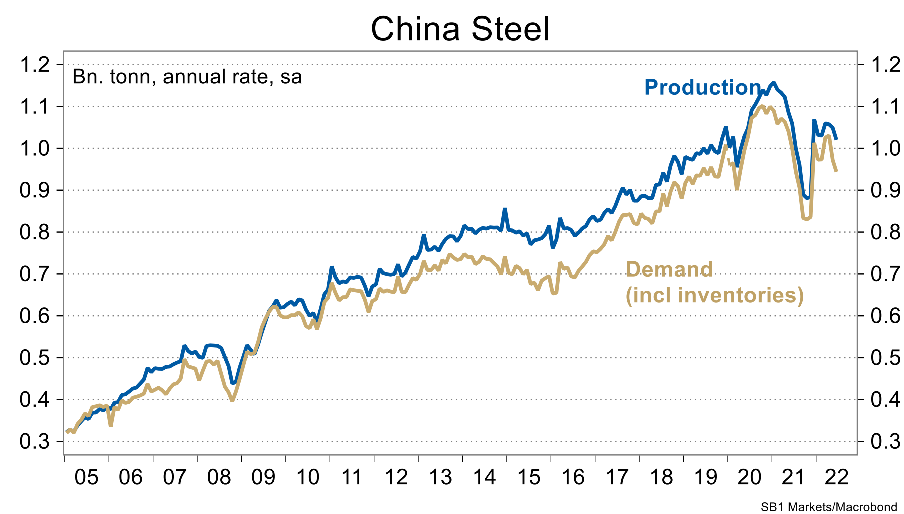


- **Export values** grew just marginally in July (0.6%) following two strong post lockdown gains in May and June – and up to another ATH. Exports were up 18% y/y, 4 pp above expectations. Export values are up more than 50% from before the pandemic**. Export volumes** are up 30%! *Serious supply chain problems???*
- **Import** gained 2% m/m in July, and are up 2% y/y, 2 pp below expectations –and imports were at ATH in value terms! However, in **volume terms** imports are down by 8% from the peak level last spring – and somewhat below (3%) the pre-pandemic trend
- The **trade surplus** at USD 101 bn was 11 bp larger than expected, and the highest ever. In seasonally adjusted terms, the surplus equalled USD 88 in line with the ATH from last month, or some 6% of GDP, the highest since 2008! Growth has become export led, again? At least partially as a higher trade surplus in goods have lifted GDP by some 2% since before the pandemic

Iron ore imports have flattened, 10% down from the peak in 2020

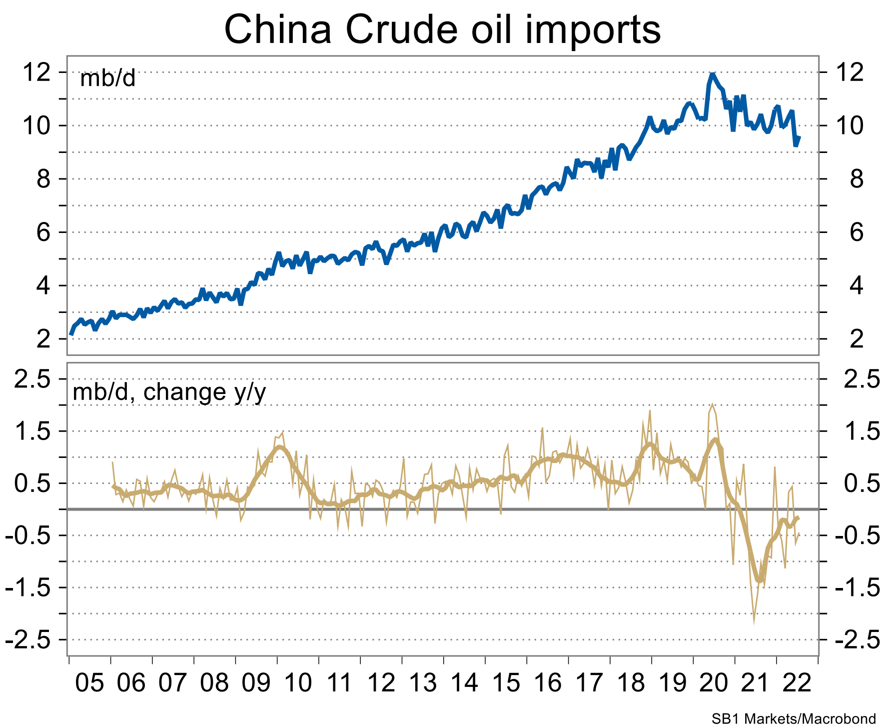
Steel production has stabilised too, although almost 10% below the peak in early 2021

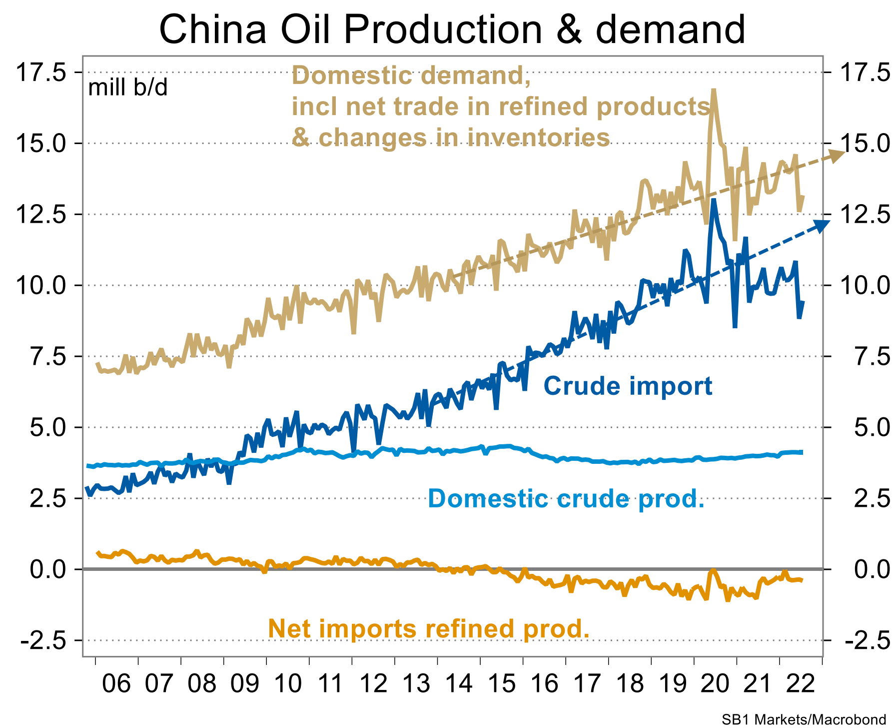




- **Production and domestic demand** (incl. inventories) fell sharply in Q2-Q3 last year – by 25% – due to public regulations and probably the setback in the construction sector
- Activity recovered sharply in December – and was stable through Q1
- **Domestic demand** has slowed past 3 months, probably due to the sharp contraction in construction starts

Crude oil imports remained low in July

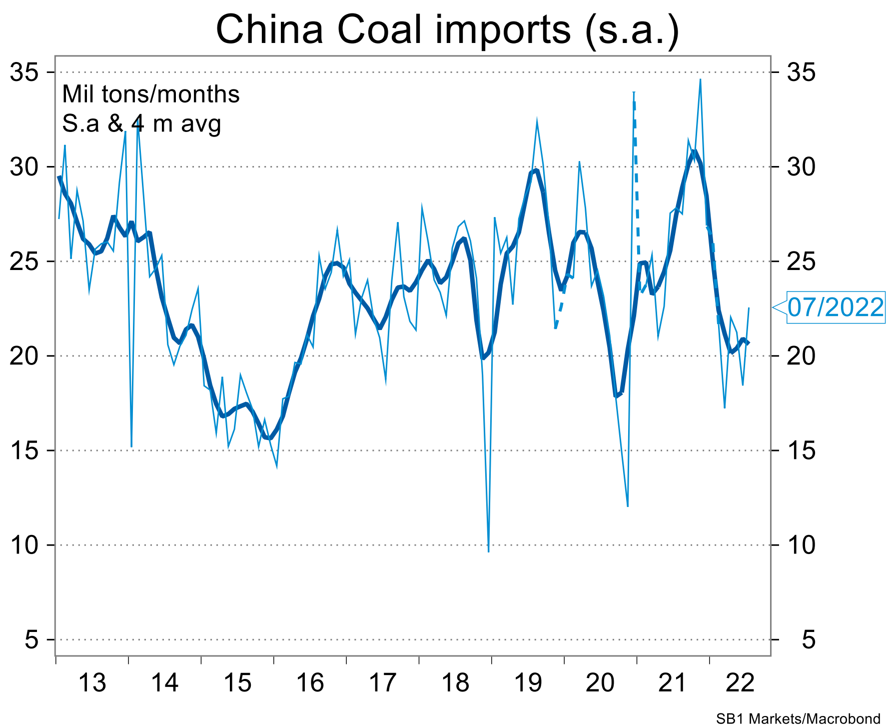


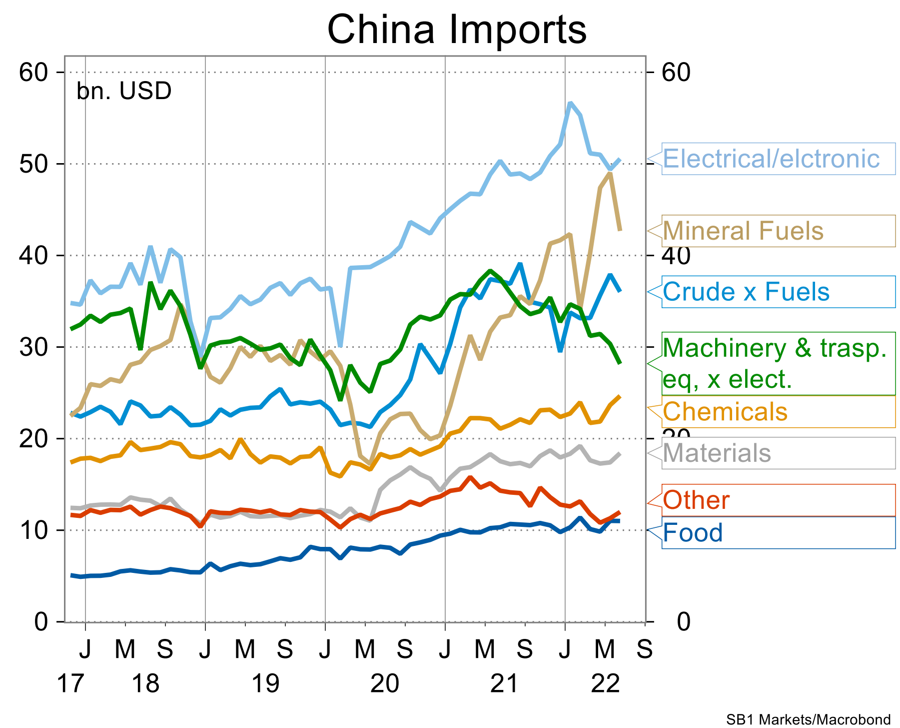


- 4 years without growth in **crude oil** import or domestic demand is rather surprising?
- However, higher net imports of **refined products** since early 2020 (almost 1 mb/d) and a small increase in domestic crude production have partly compensated for the flattening in crude imports - implying that domestic demand for oil/oil products is still increasing – but still at a slower pace
- Some **inventory/reserve building/drawdowns** may explain short term deviations but probably not the whole slowdown in apparent domestic demand

Coal imports still well below a ‘normal’ level in July

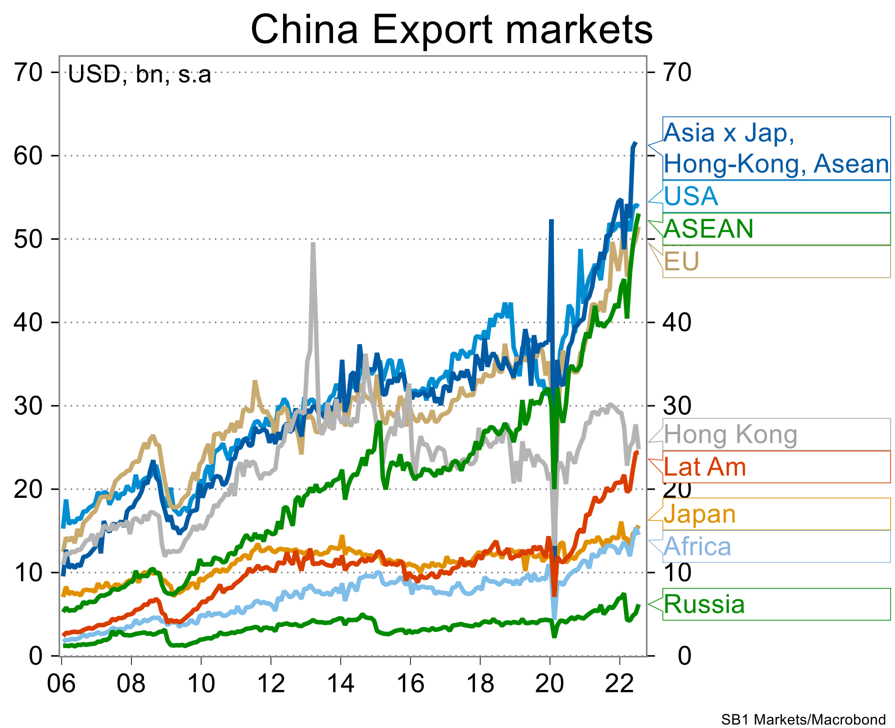
Imports of most goods x mineral fuels rose in June

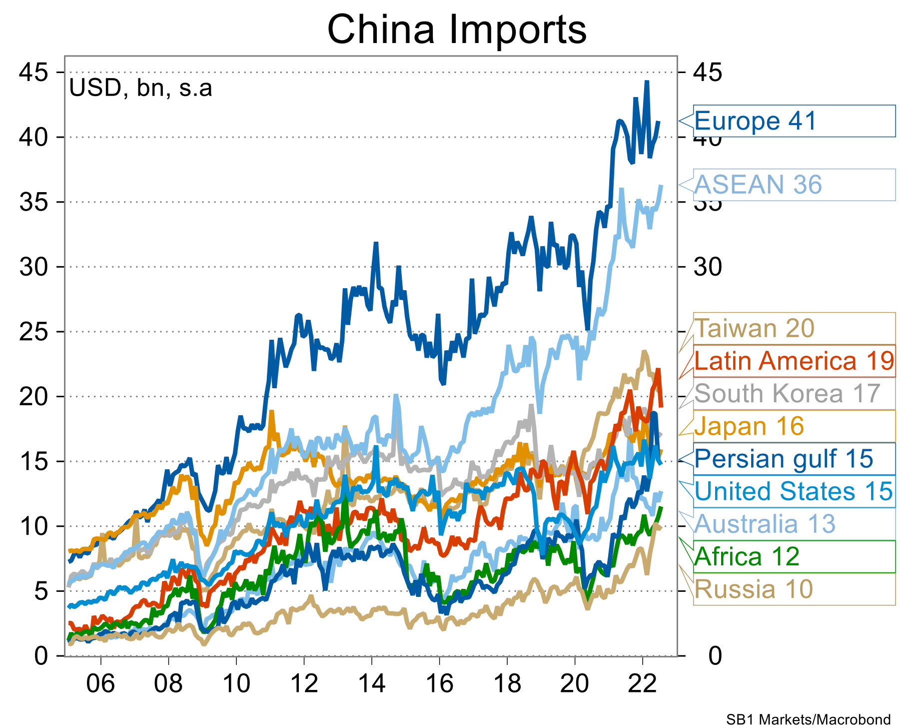




Chinese exports to Russia are still well below the pre-war level

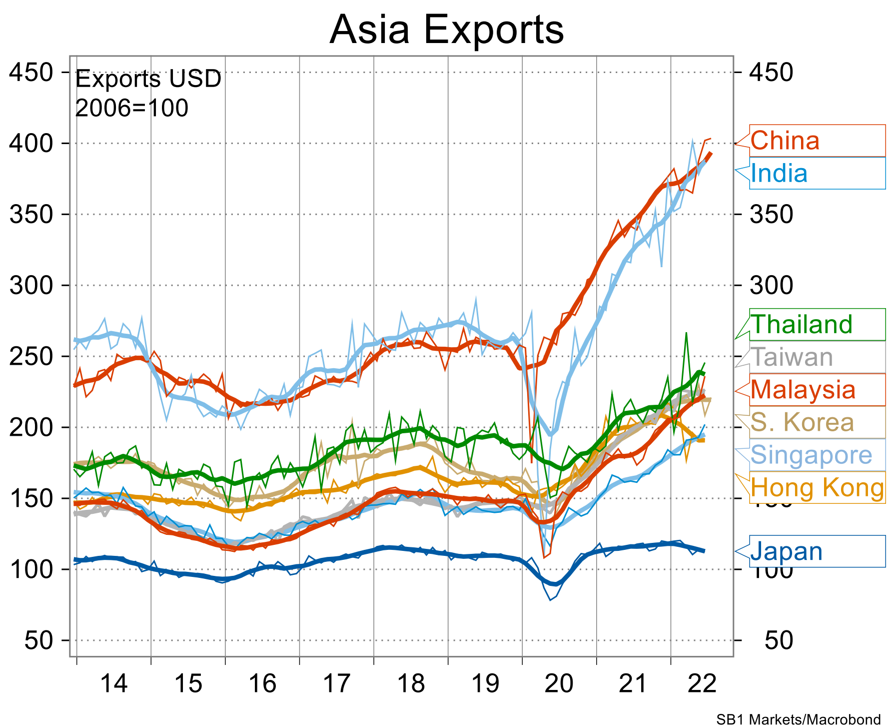
Imports from Russia are much higher than before the invasion in Ukraine, due to more oil imports

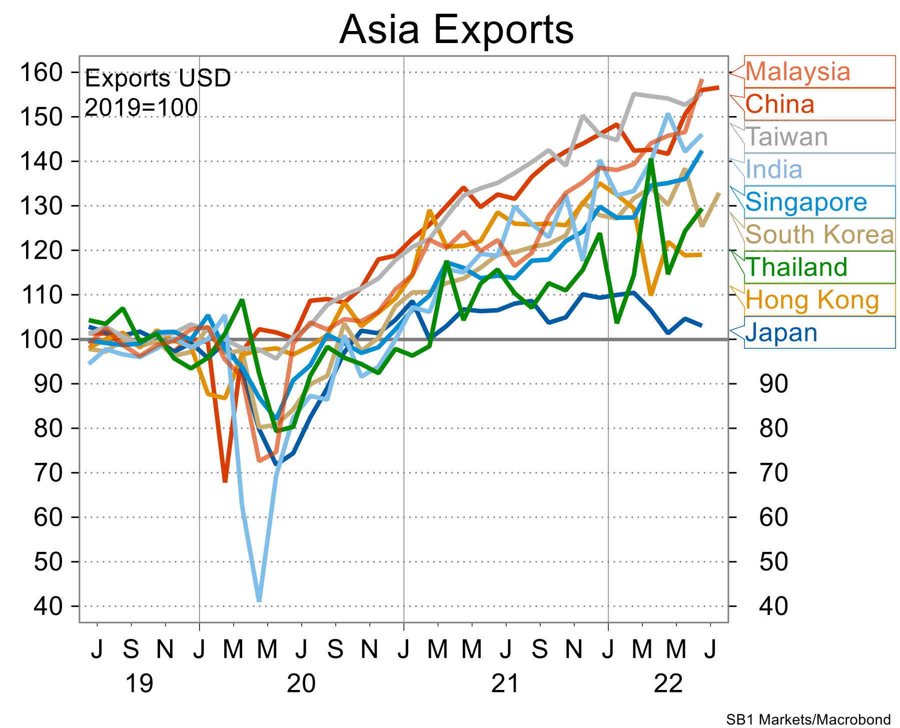




Exports from other Asian countries are mostly trending up (ex Japan, Hong Kong)

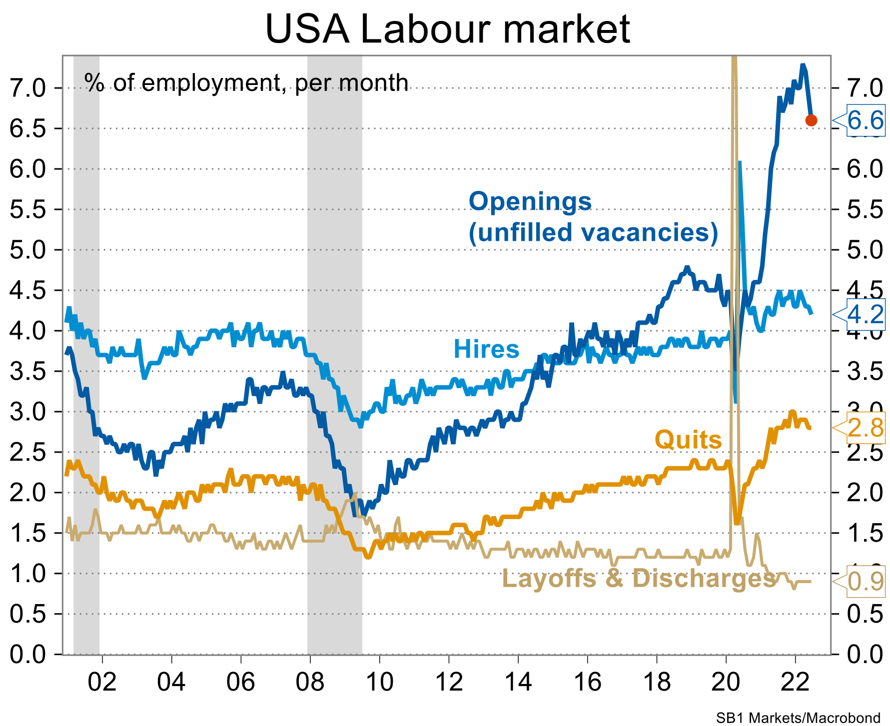
South Korean exports were weak in June too but has been trending up





The vacancy rate further down in June, still very high

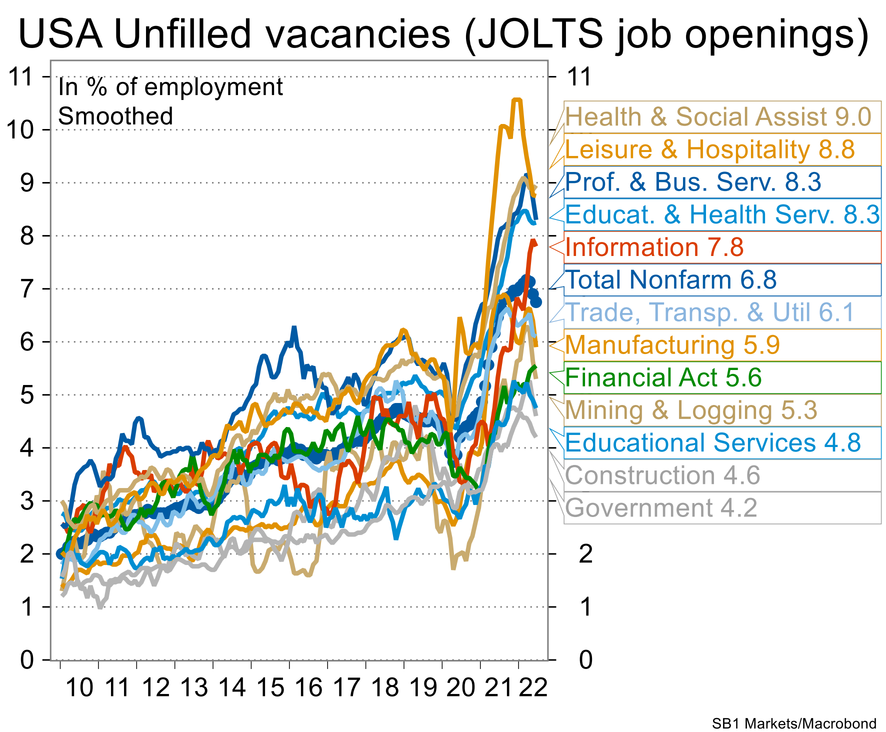
Hiring slows, fewer quit voluntarily – all signs of a slightly less tight labour market

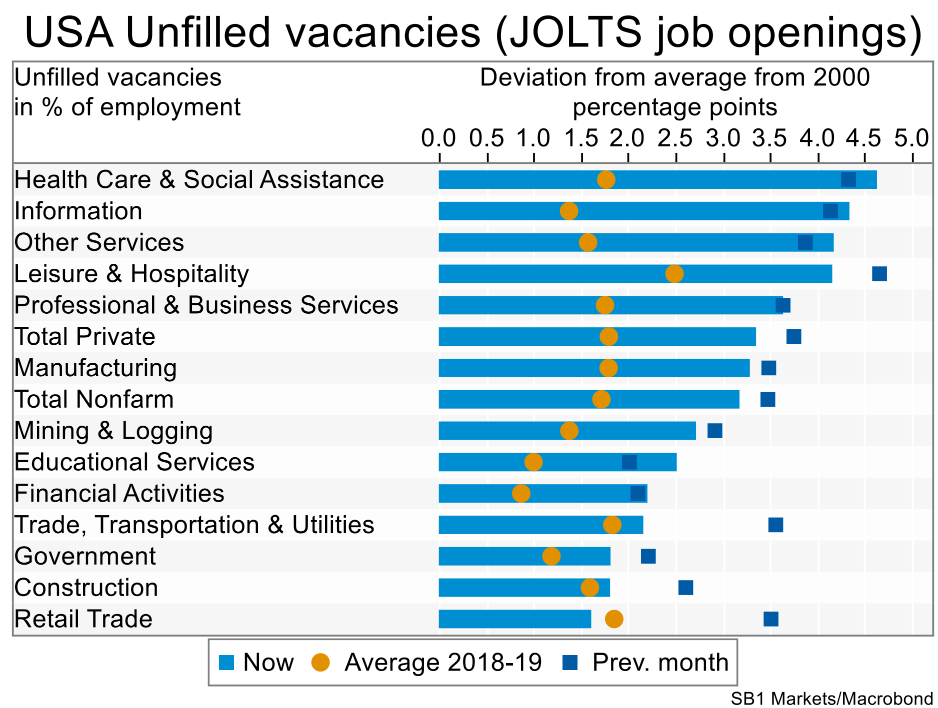


- The number of **unfilled vacancies** declined 0.6 mill to 10.7 mill in June (and this time the prev. month was not revised up), expected down to 11.0 mill. The rate (vs no. of employed) fell by 0.3 pp to 6.6%
  - » The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit – and the level is still very high
- **The SMBs (NFIB survey)** reported an unchanged, and close to record high share of companies that were not able to fill positions in July. These two series are very closely correlated – and both are still signalling a very tight labour market
- **New hires** fell 0.1 mill to 6.3 mill in May, equalling 4.1% of the employment level, down 0.1 pp. The trend is now slightly down but the level is high
- The number of **voluntary quits** also fell marginally to 4.2 mill, equalling 2.8%, still a very high level
- **Layoffs** equalled 0.9% of employment in June, at the same level as during the previous months, 0.1 p above the ATL last Dec
- **In sum:** The tide has turned, but the labour market is still very tight, and it is unlikely that wage inflation will come down to a sustainable level without a further weakening

Transport & retail trade report far fewer vacancies in June. Other services not

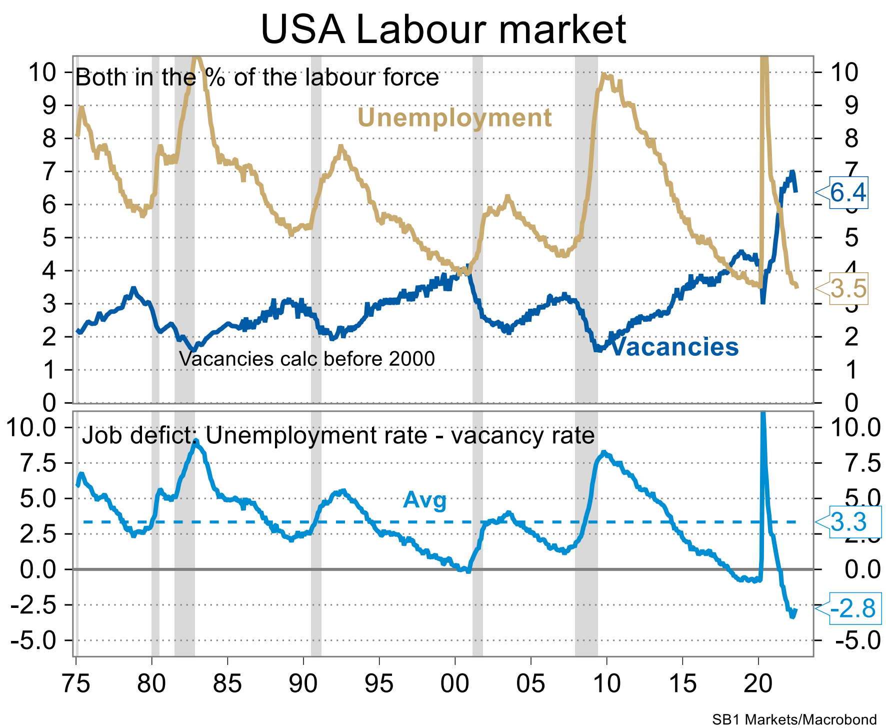
Almost all sectors report more vacancies since before the pandemic

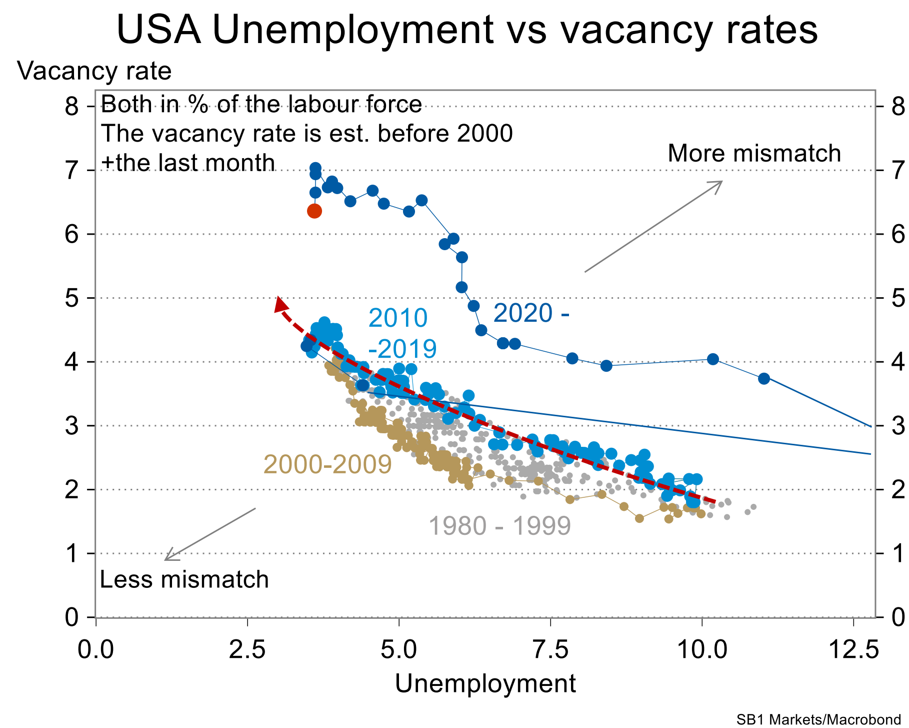




Will it be possible to bring vacancies down, without creating a recession?

Based on history, it seems to be impossible, the two indicators are quite closely correlated

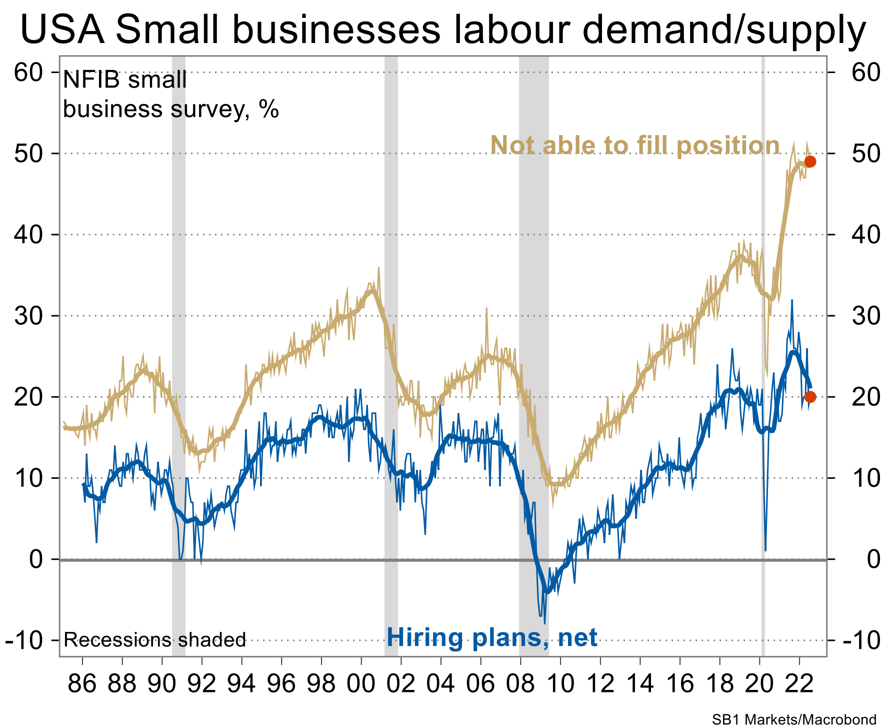


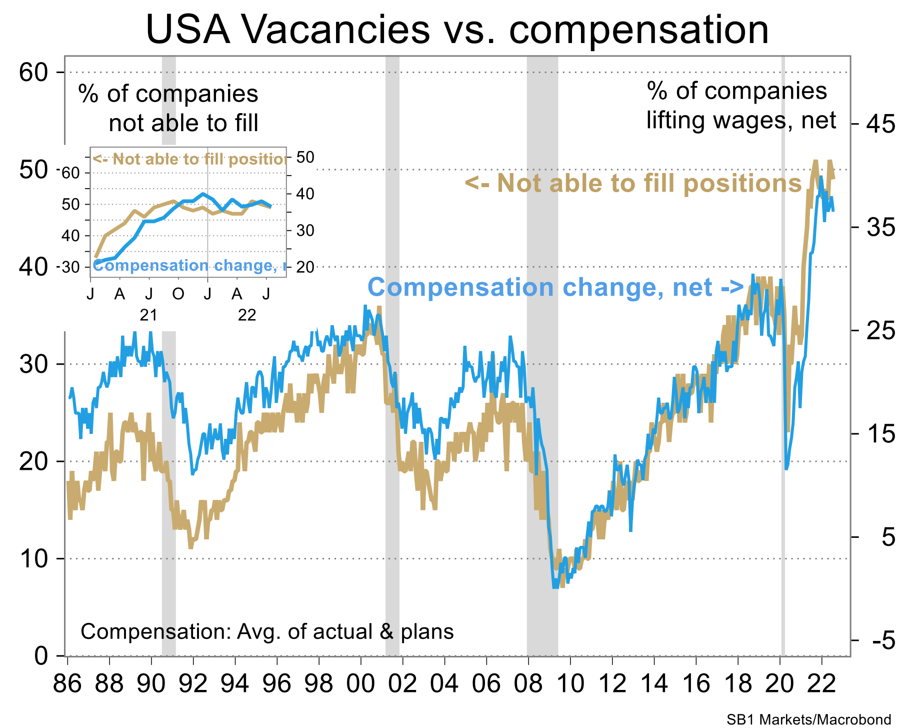


- **The Unemployment - Vacancy-curve** (UV, Beveridge curve) far up in the north-west quadrant, signalling both a tight labour market but also a higher vacancy rate than normal vs. the unemployment rate
- In principle vacancies may be reduced without pushing the unemployment rate up (aka recession), as the vacancy rates is so much higher than normal. But it seems very unlikely, as policies that reduce overall demand for goods and service and thus demand for labour – which is needed in order to bring wage inflation down (check two pages forward) – will hit both companies that have vacancies, and those which do not. The labour market is very not so flexible that redundant labour will seamlessly be transferred to fill still vacant positions in other companies/sectors/regions. <u>If such transfer had been easy, it would have happened already, and the unemployment rate would have been lower</u>

SMEs still unable to fill vacant positions, wage plans still very aggressive

However, somewhat fewer companies plan to hire – still an unusual high proportion

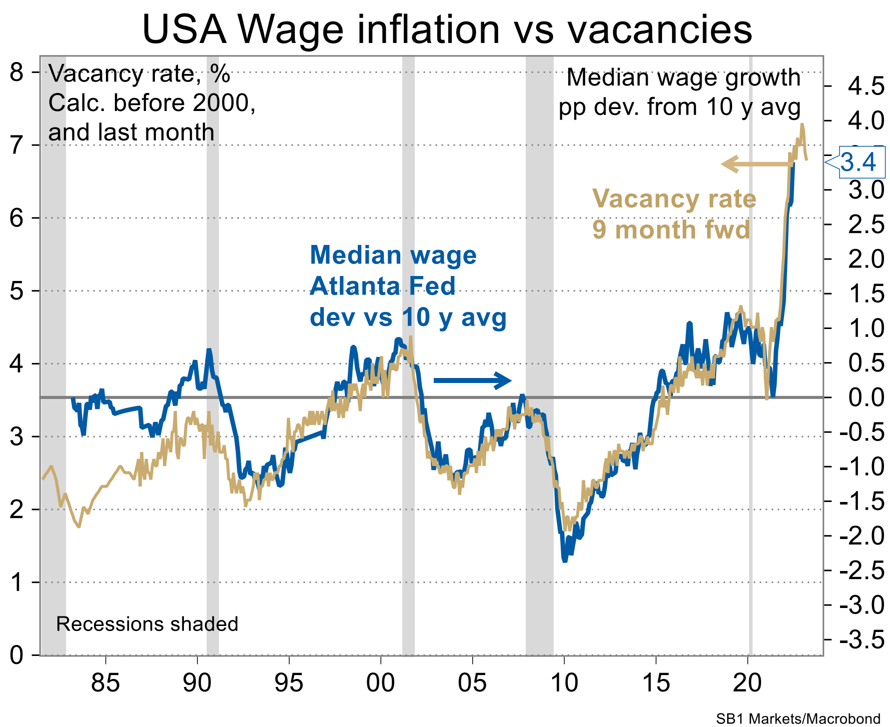


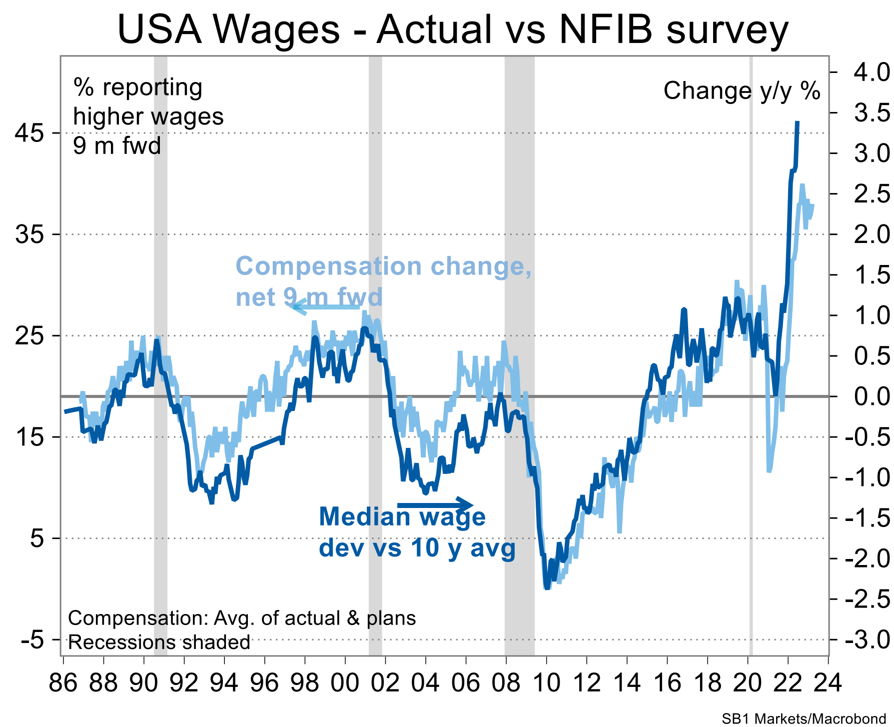


- Close to 50% of SME's report they are **not able to fill open positions**. The share is still at a peak level (just marginally down, and at ATH slightly smoothed)
- 20% of companies **plan to hire**, down 10 pp from the peak (5 pp if smoothed) – still in line with ATH before the post pandemic surge)
- 37% of companies report that they **plan to lift compensation** in the coming months, down from 38% in June. The peak was at 40% in last December. Before that, the ATH was at 27%, while the average – signalling no acceleration in wage growth – has been at some 20%
- There is still a way to go…

So why are wage inflation soaring like never before?

Because vacancies are higher than anytime before, it seems like. How to bring wage inflation down?



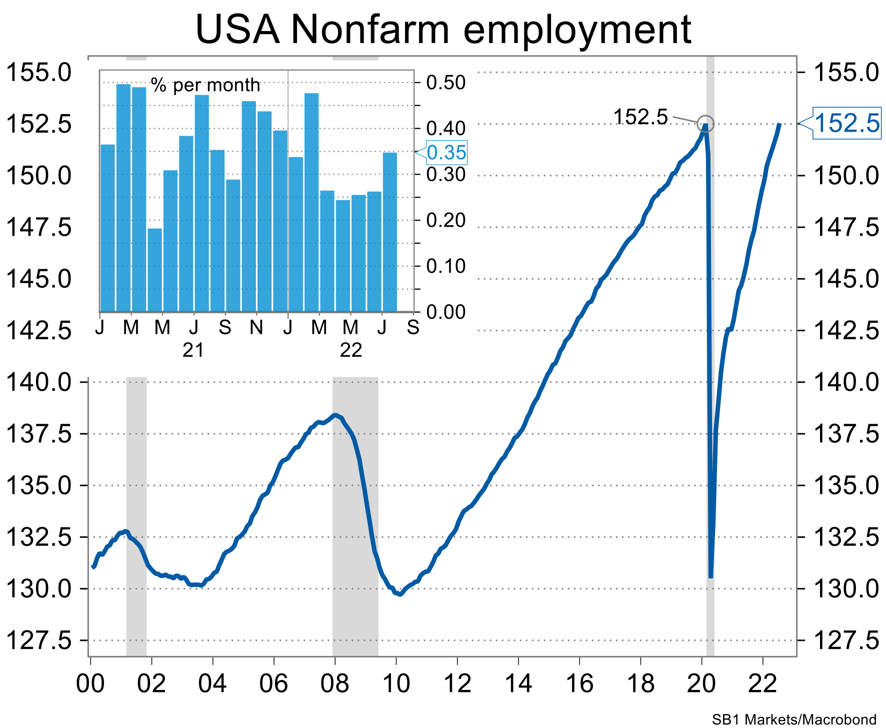


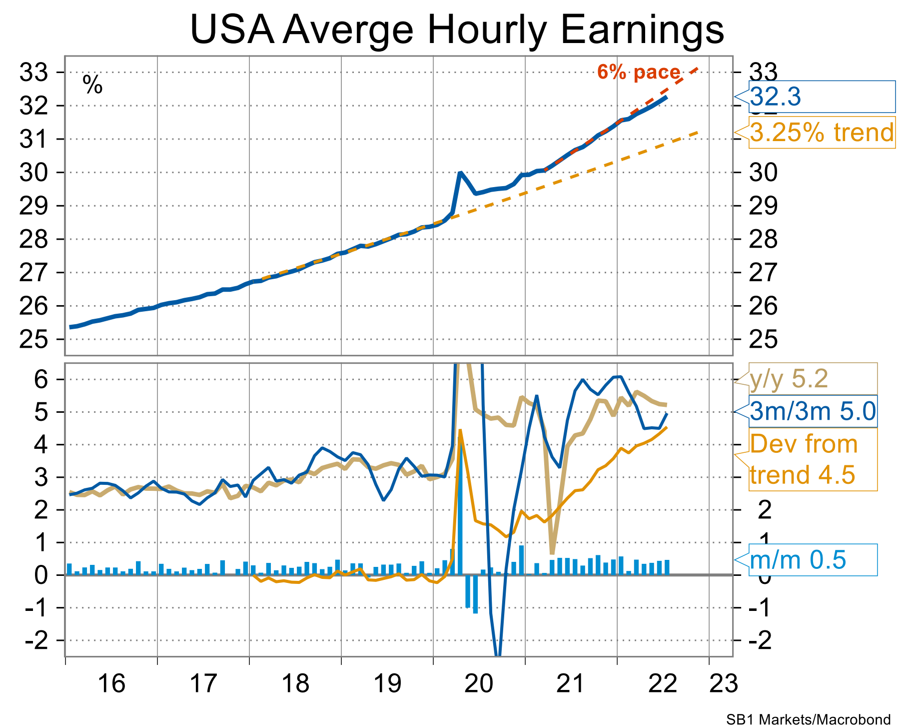
- **Our 'Phillips curve'** based on the vacancy rate signals a further increase in wage inflation the coming quarters even if vacances may have peaked, as the vacancy rate leads changes in wage inflation quite consistently by 3 quarters. However, we would not be surprised if the current extraordinary high wage inflation turns out to be the peak
  - Companies (SMEs) compensation plans signal continued high wage inflation but not faster than the present
- **Wage inflation** has already accelerated by almost 3.5 pp vs the 10 y average (Atlanta Fed median) and cannot possibly generate a 2% price inflation rate over time. This is Fed's main headache, not the current high CPI inflation print. And it will become the stock owners' headache too, of course
- **Demand for labour has to be reduced sharply in order to get wage inflation beck to a sustainable level! That's the recipe for an unavoidable RECESSION**
  - Check under which circumstances wage inflation slows on the charts above (hint: find the shaded areas, follow the blue wage line - as well as the vacancy rate or the wage hike plans ☺). Fed will not be able to control inflation if demand for labour is not cut sharply

SpareBank 1 MARKETS

Strong employment growth, unemployment down; Wages up, participation not

The unemployment rate has not been lower in 53 years. *The Federal Reserve is not finished yet*

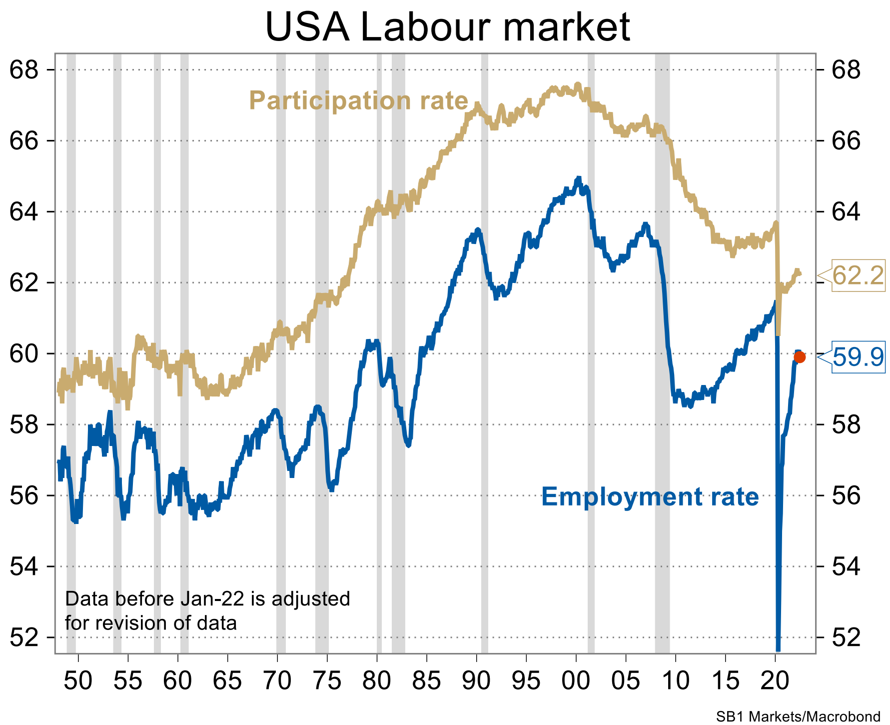


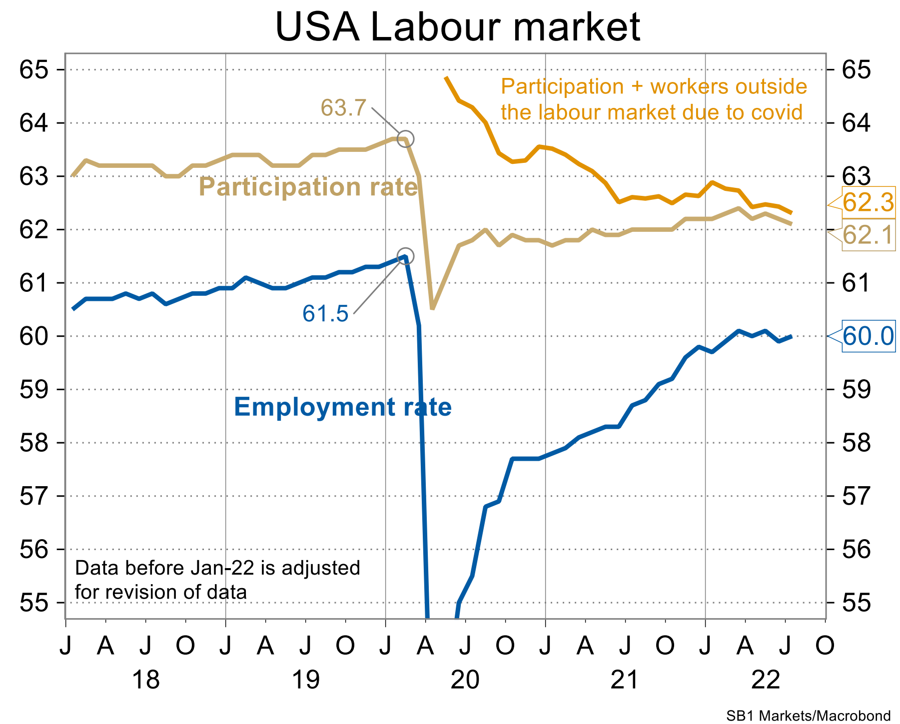


- **Nonfarm payrolls** rose by 528' in July, twice as much as expected (258'), and the most since February. Payrolls are finally back to the Feb-20 level. The LFS employment rose by just 117', and employment has flattened since Feb/Mar. In July, the **employment rate** gained 0.1 pp to 60.0% but it is trending down rather than up – not a signal of strength. The US may not be in a recession but employment normal increases until the economy has entered a recession
- **The participation rate** lost another 0.1 pp to 62.1%. The peak was in March, and has been heading down, slightly faster than the employment – and
- … unemployment is still heading down, by 0.1 pp to 3.5% in July, expected unch. In June, the FOMC lifted it's Q4-22 f'cast by 0.2 pp to 3.7% (and to 4.1%, 0.1 pp above the assumed NAIRU, by the end of 2024.
- **Wages** rose 0.47% in July, expected 0.3%. The two previous months were revised marginally upwards, to 0.4%. Measured 3m/3m, wages rose 5.0% in July, up from previously reported 4.3% in June. The annual rate was 5.2%, 0.3 pp higher than expected. The assumed slowdown in wage inflation became less obvious… Before the pandemic, average wages rose by 3¼%, and the wage level is now 4.5% above this trend
- **Maximum employment:** Both the participation and the employment rates have flattened recent months, at the same time as the demand for labour is very strong, witnessing the extreme level of unfilled vacancies. The supply side is obviously the bottleneck at the labour market. For the time being, maximum employment is more thatn reached – and wage inflation is well above a sustainable level

Weak labour force survey data in July too, both participation, employment weak

Participation is trending down even if demand for labour is extremely strong

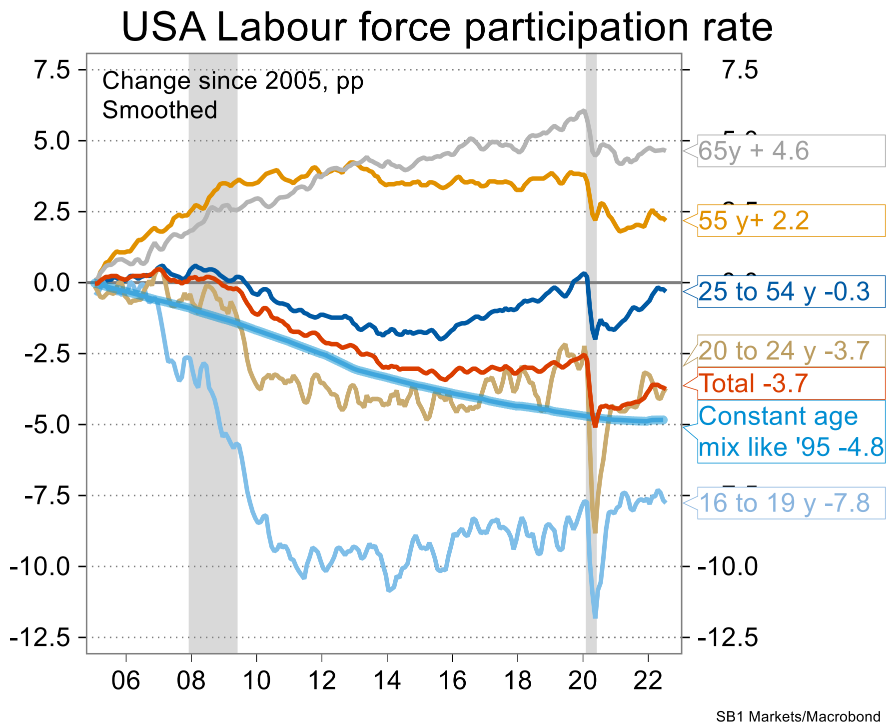


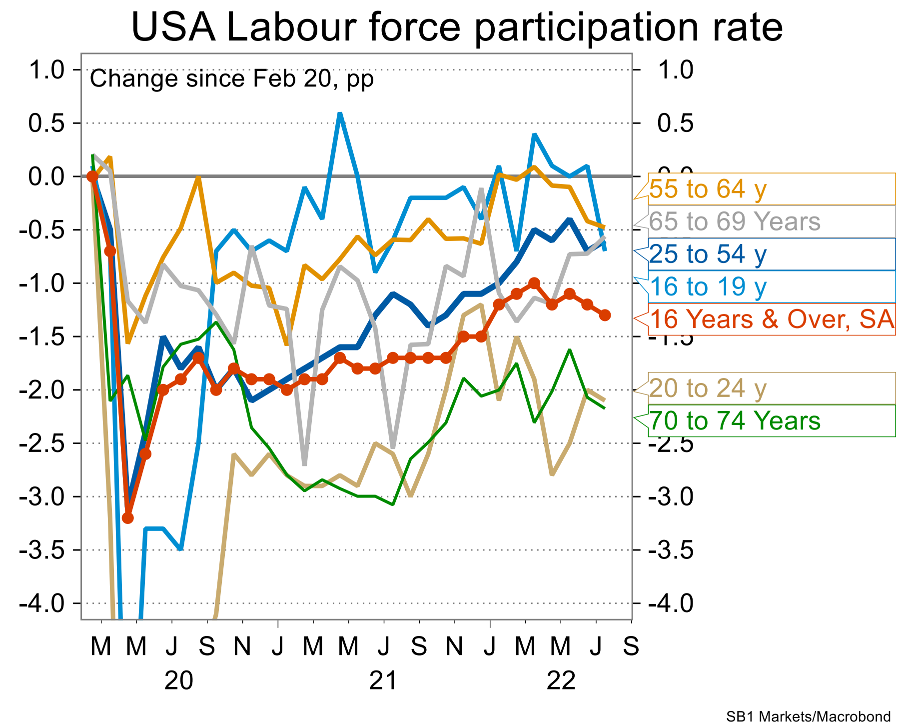


- In July, **the labour force participation rate** fell further, by 0.1 pp to 62.1%. This rate is still 1.6 pp (2.5%) below the pre-pandemic local peak – which again was way below the pre IT bubble peak, in year 2000 – as the population ages (*check next page*)
- **The employment rate** recovered half of the 0.2 pp loss in June, up to 60.0%. This rate has flattened since February, at best. This rate is 1.5 pp (2.5%) below the pre-pandemic local peak
- The conundrum: Was is not the participation rate increase when demand for labour is extremely strong (JOLTS job openings, SME's not able to fill vacancies). <u>The only reasonable explanation is that all persons that want to have a job and are able to work - at least for the time being – have now entered the labour market, there is no more spare capacity</u>

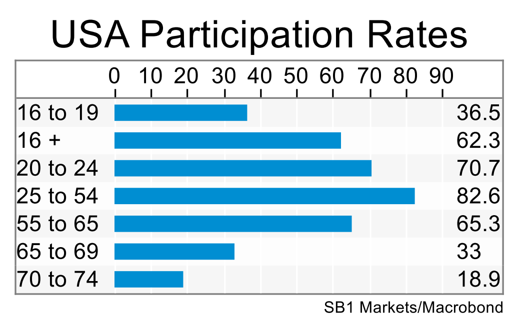
Participation rates: Core age groups almost back to pre-Covid & pre-GFC levels

Thus, the core reserve may be limited. The 65+ segment seems hard to get back



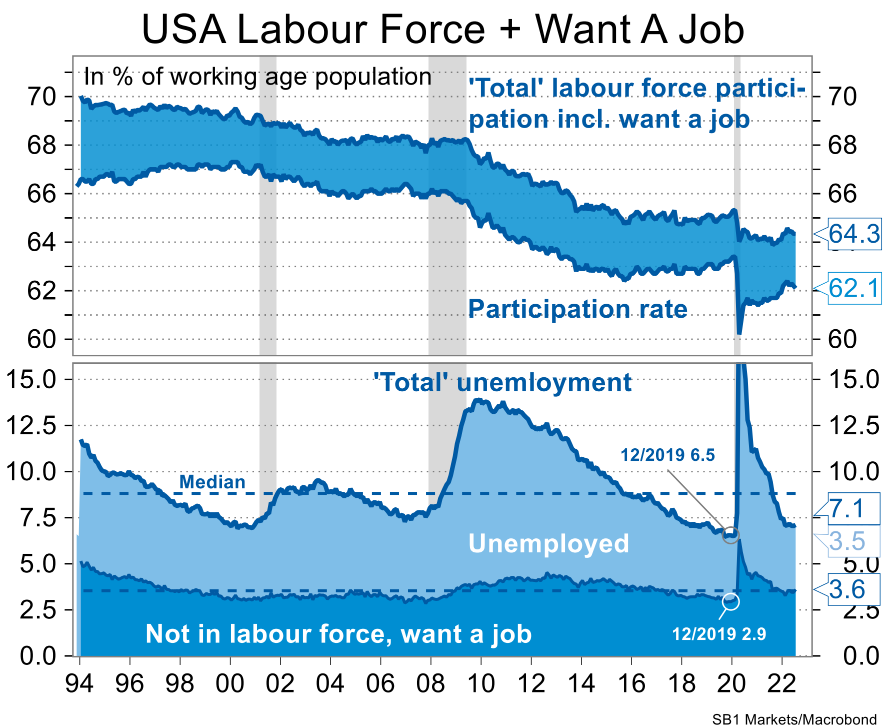


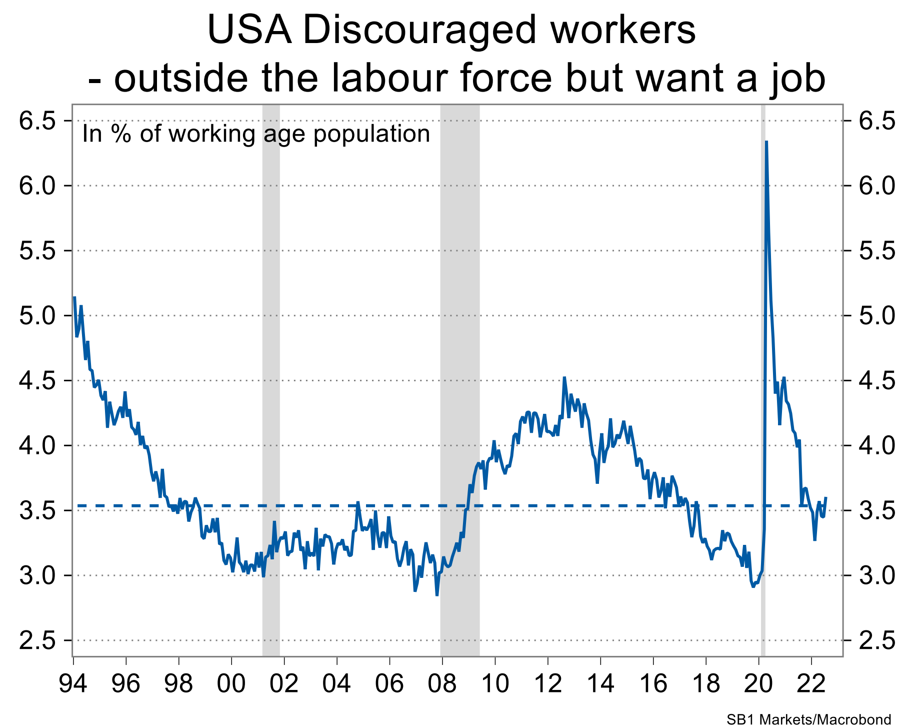
- The **participation rate** among the 25 – 64 y group is now almost back to the level from before the pandemic. The 20 – 24 y group remains well below. The 65+ group is still below the early 2020 level
- As the US population is aging, and a decline in the average participation rate <u>over time</u>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



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

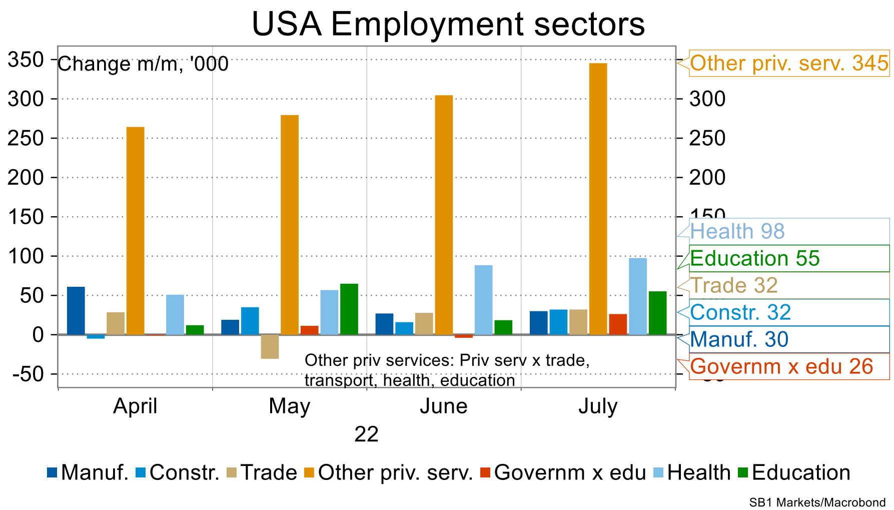
These outsiders equal 3.6% of the labour force, which is at the historical average

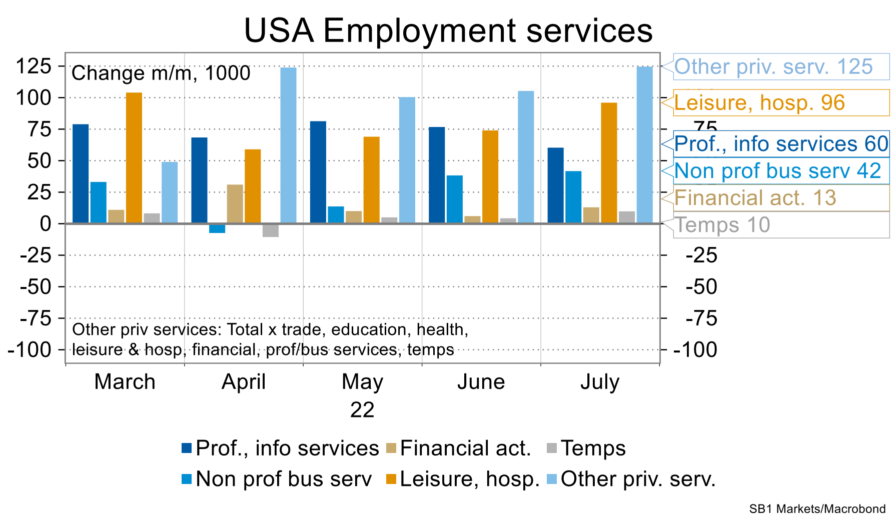




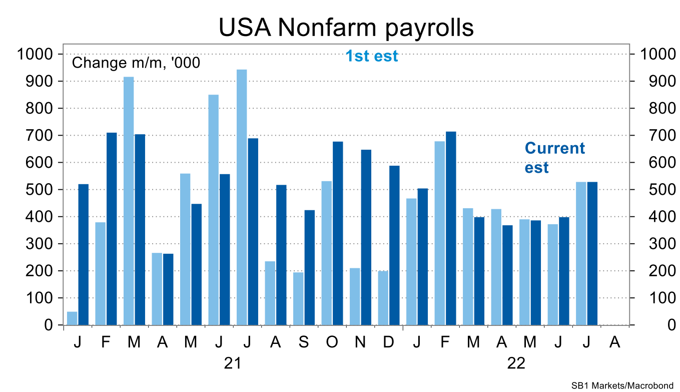
- Normally, the 'discouraged workers' rate is lower than average in booming times – and it 'should' have been below average by now. Those who sat they cannot work due covid now constitutes just a small fraction of the 3.5% rate
- Given the present high vacancy rate it seems to be rather challenging to squeeze this part of the population into the labour market

In July: Solid growth in most sectors, services in the lead – as normal



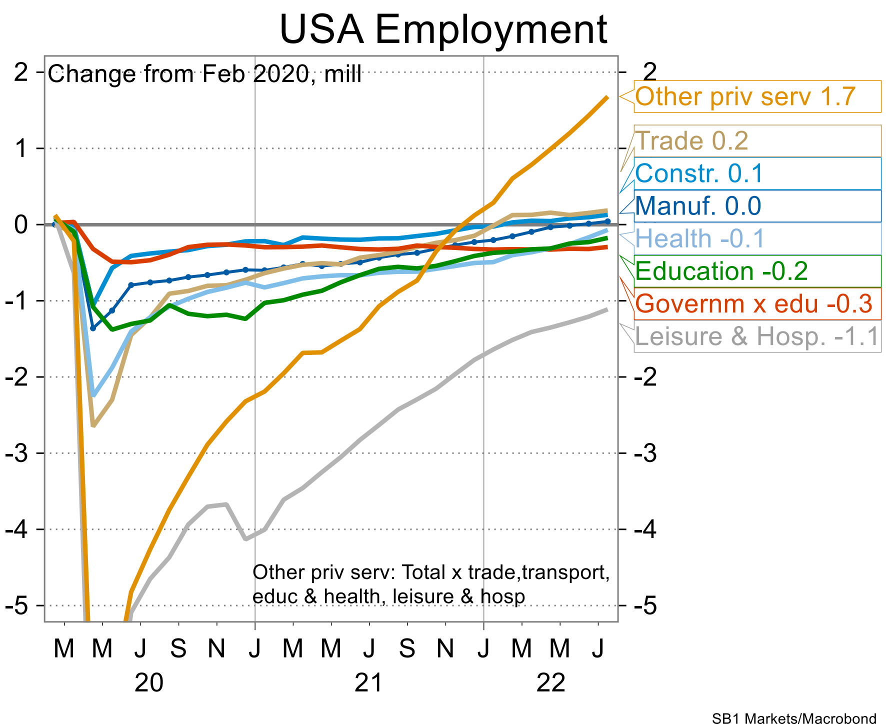


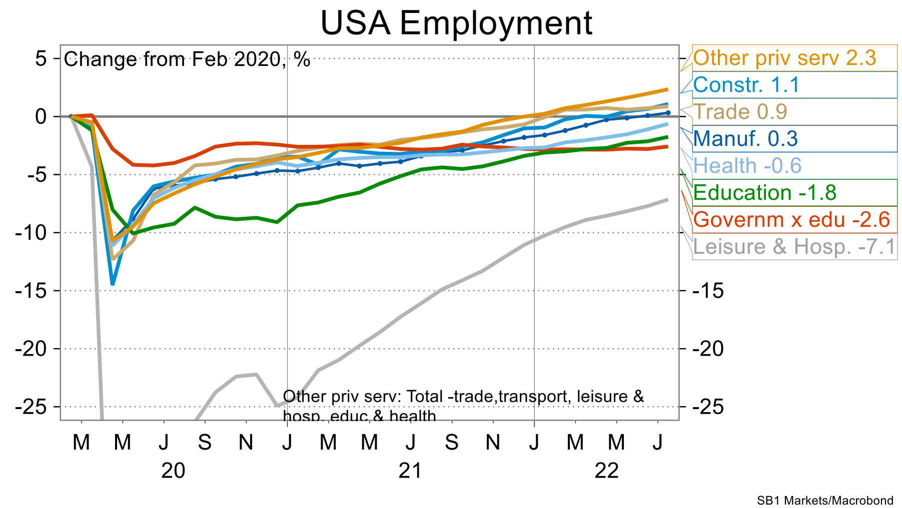
- **Last month:**
  - » **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 96' jobs. Still, the no. of employed is 7% below the pre-Covid level. A permanent change in demand vs. this sector?
  - » **Trade added 32**' jobs but growth is slowing, alongside flattening retail sales of goods
  - » A broad increase in payrolls in other **private services**
  - » **Manufacturing** added 30', better than a 'normal' growth figure
  - » **Construction** sector employment up by 32', more than normal, even if construction activity is falling
  - » **Education** (private & public) up by 55', more than normal, from a level that is well below normal
  - » Employment in **government** (ex education) rose by 26', better than normal
  - » No major revisions

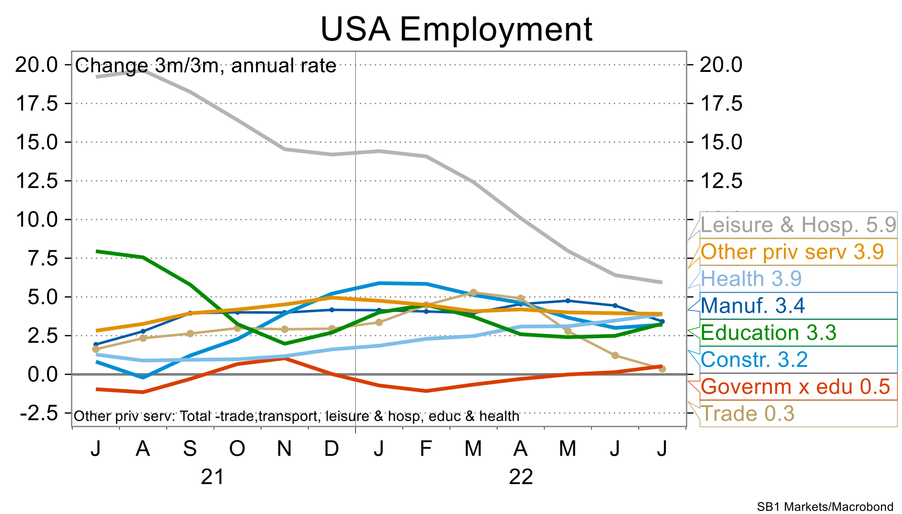


Vs. Feb-20: Several private services are up, but leisure/hospitality still down 7%

Manufacturing and construction are back to their pre-pandemic levels



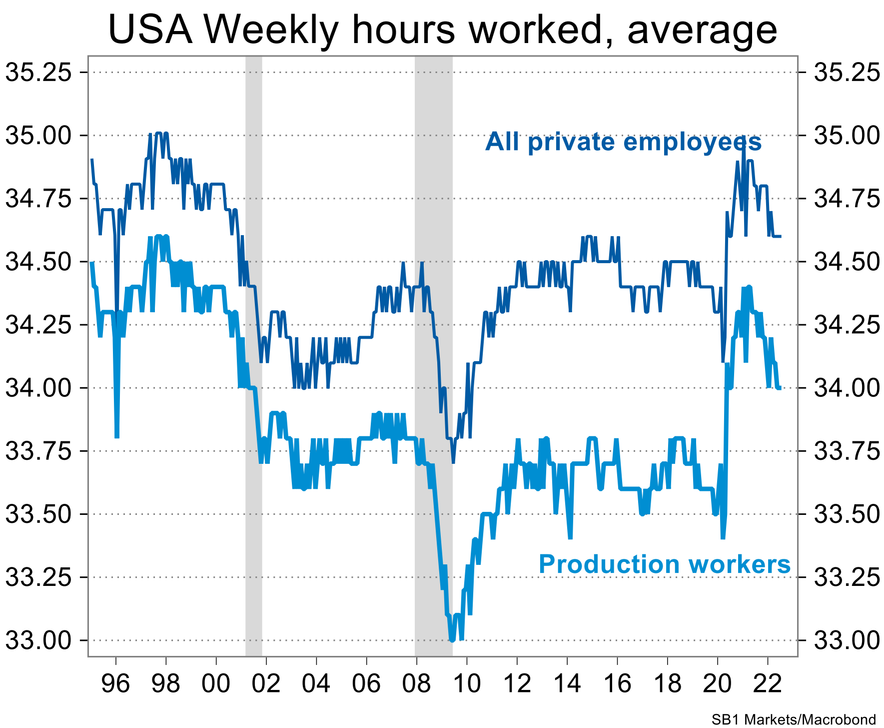


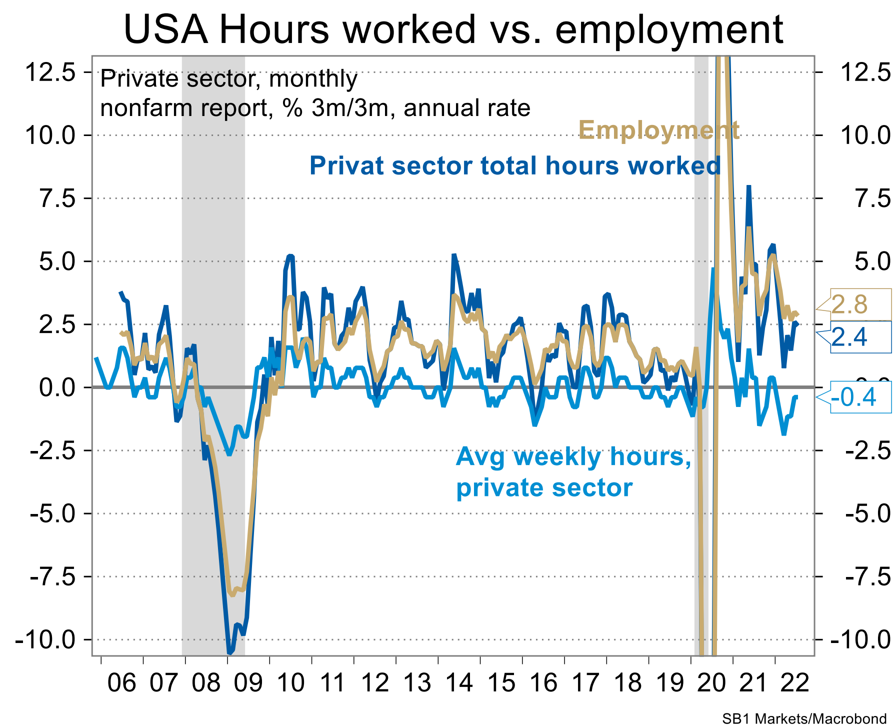


- Recent months, underlying growth (3m/3m) is slowing in trade, manufacturing and leisure & hospitality, the latter from a very high level. Trade is approaching zero

Average weekly hours has flattened, after a steep decline

The decline, was a bit strange, given lack of labour. Are part-time workers returning to work?





- June average hours worked an total hours worked were revised upwards – signalling lacklustre productivity growth in Q2 (or rather, a substantial decline, like in Q1, data out this week)

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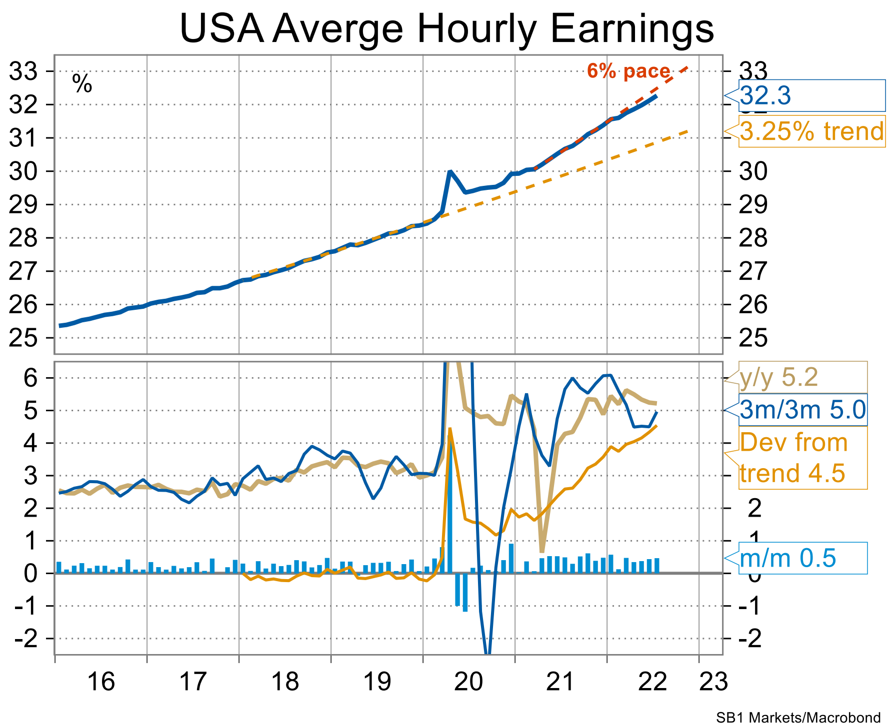
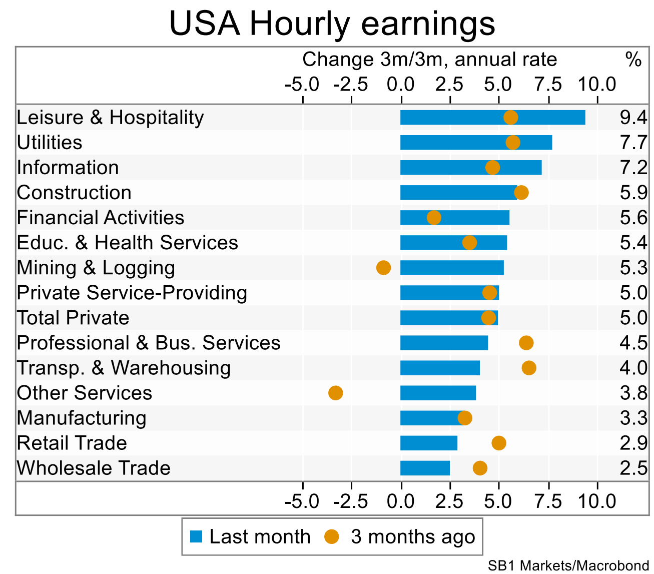
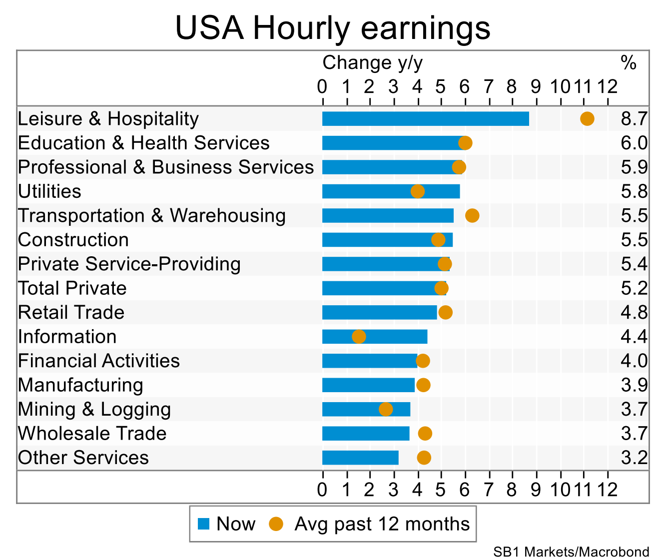
Wage growth is perhaps not slowing

Wage inflation has slowed but less than assumed – and it remains well above a sustainable level (vs the2% infl. target)



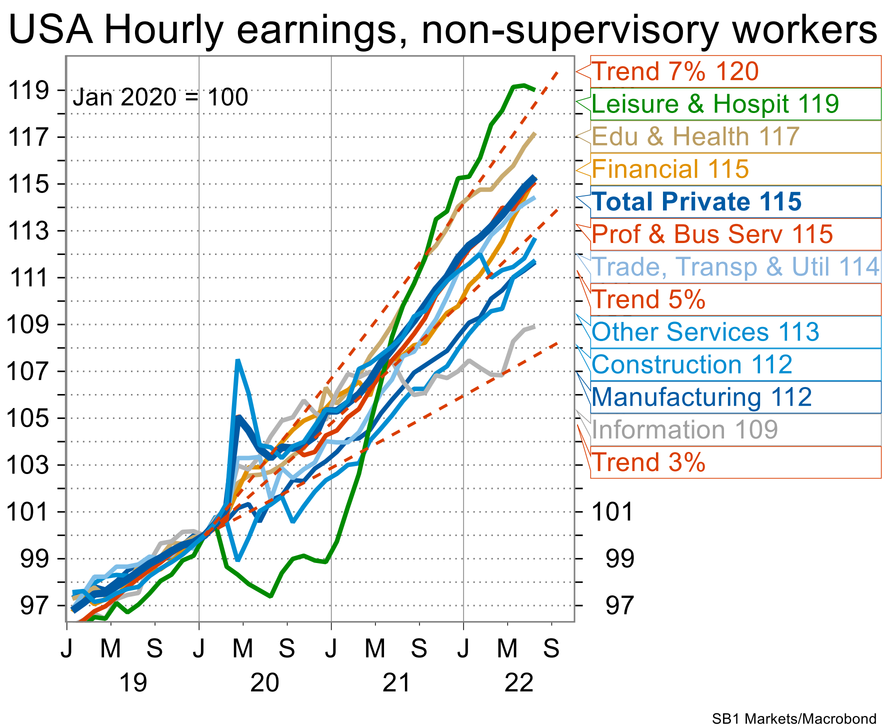
- The **average wage** rose by 0.47% in June, 0.2 pp more than expected, and the history was revised upwards. Annual wage inflation unch at upward revised 5.2%, exp. down to 4.9%
  - » Underlying (3m/3m) growth accelerated to 5%, from originally reported 4.3% in June
  - » Before the pandemic, wage inflation was at approx. 3¼%
- A large majority of sectors are still reporting a declining underlying wage growth – and just construction and utilities an accelerating rate
- *These monthly wage data are not adjusted for the change in employment mix between sectors or within sectors, like the ECI or the Atlanta median wage*





Wages are climbing at 4% – 7% growth pace, the average at 6.0% since Jan-20

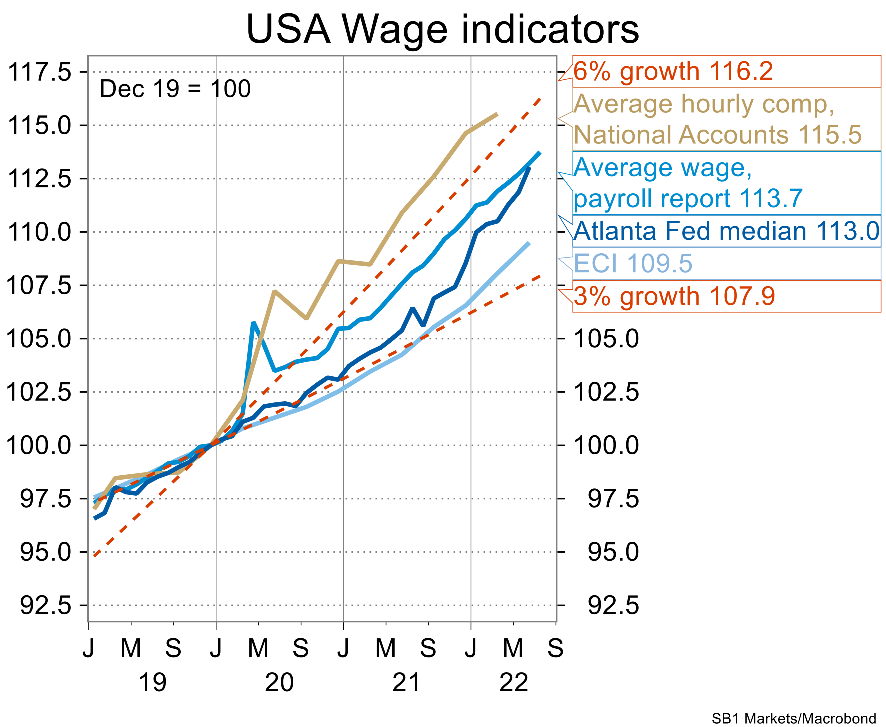
… And well above the pre-pandemic growth paths in all sectors (barring information)

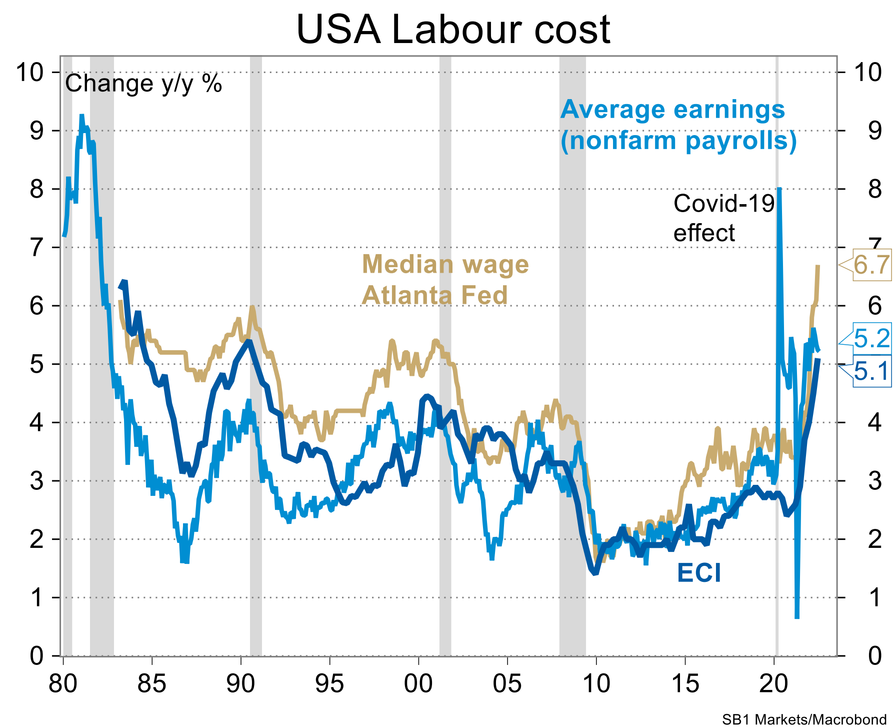


Memo: On the chart above, wages for non-supervisory workers are shown. When all employees are included, growth is slightly lower in most sectors

All indicators combined: No signal of any slowdown in wage inflation

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

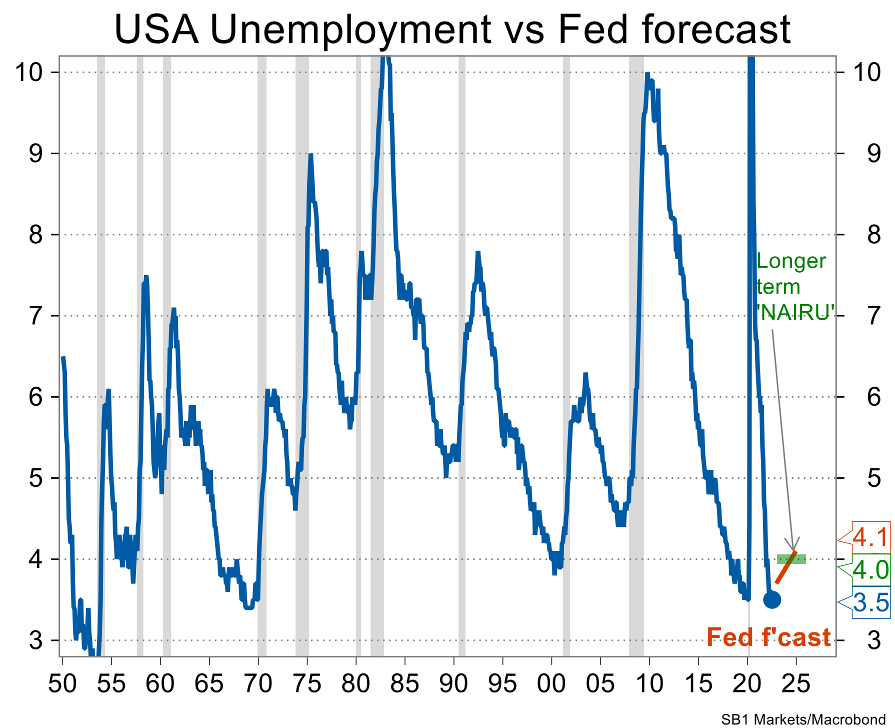


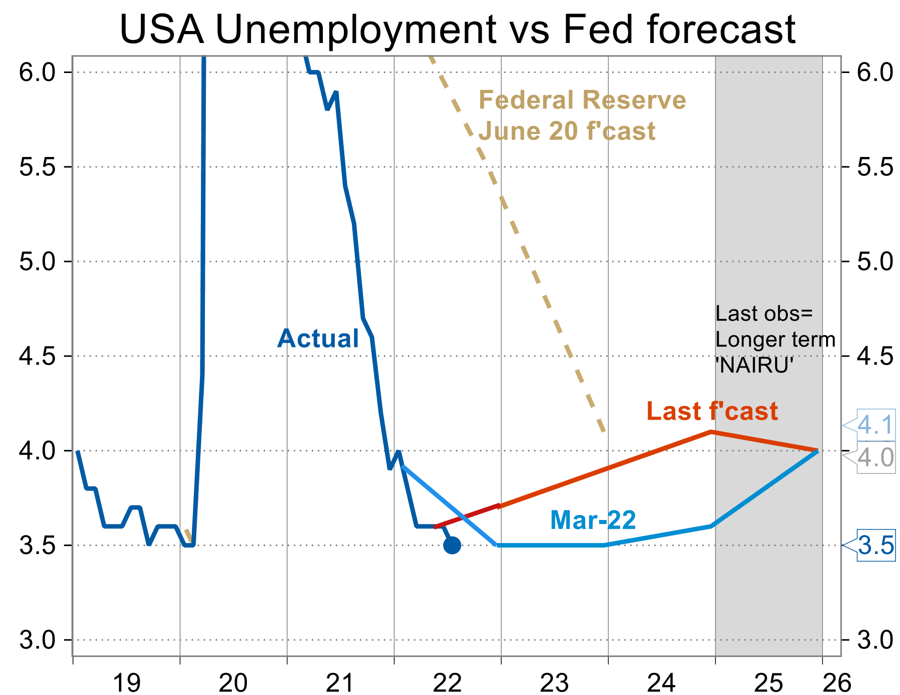


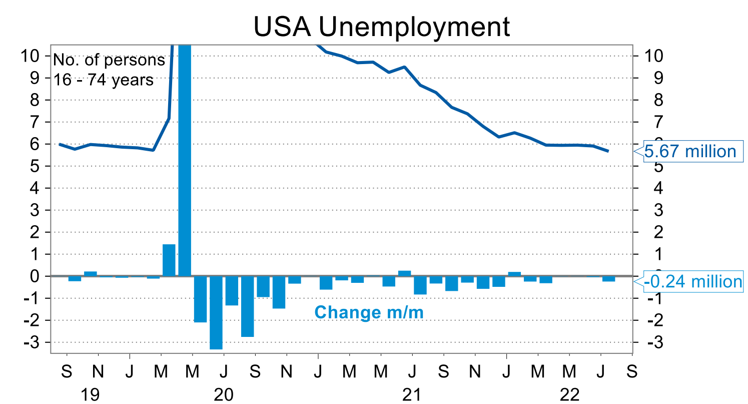
- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years
- Growth in wage/earnings/compensation indicators are up 2.8 – 4 pp+ vs the their respective 10 y averages before the pandemic
- Over the past 10 years, inflation has been close to 2% (before the pandemic, that is)
- It will be a 'challenge' to keep inflation at 2% if wage inflation remains at 5% - 6 %. Productivity growth has not accelerated. Profit margins may take a beating – and they 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

Fed's hope: just a marginal increase in unemployment the coming years

Not impossible but not likely



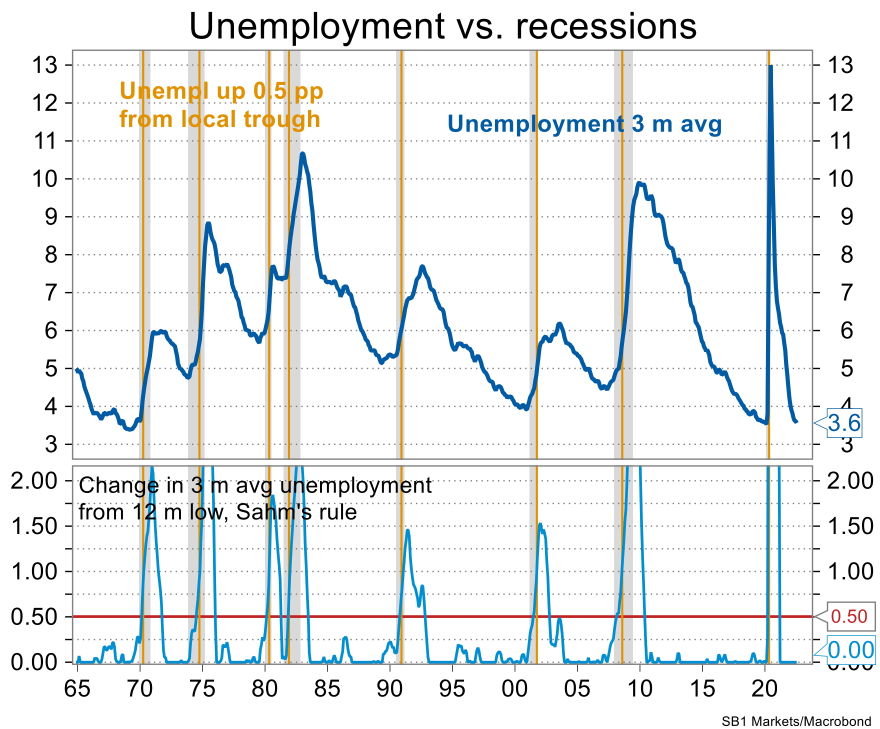


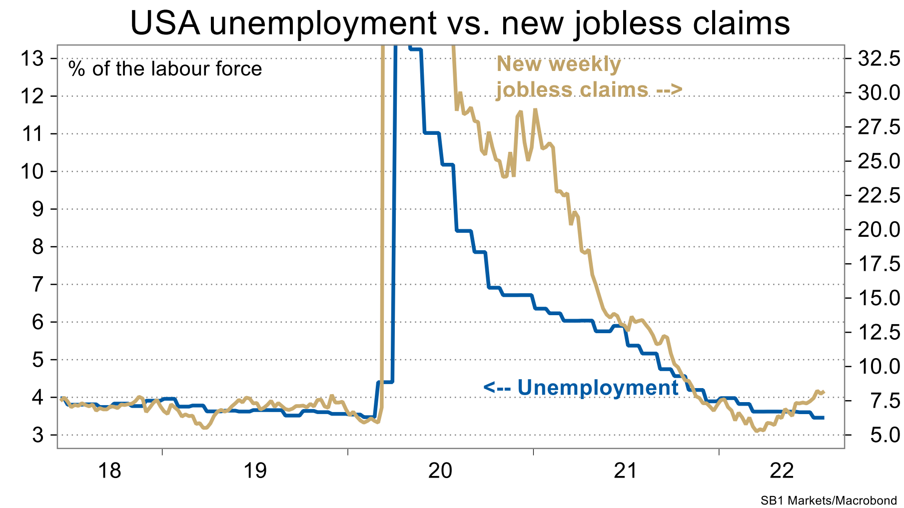


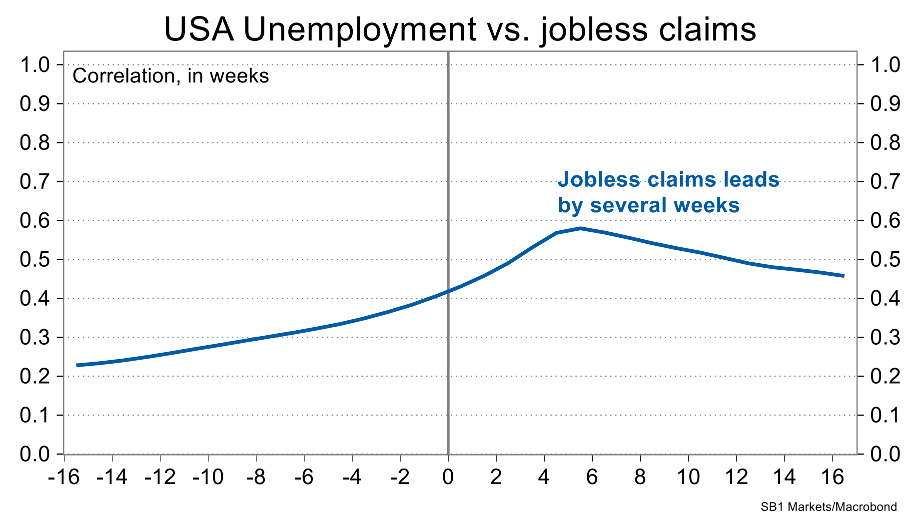
- Unemployment the previous months was revised marginally up (but almost not visible), and fell by 240' persons in July

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







- Still, unemployment will have to start increasing rather soon, if it one day turns out that the US was in a recession in July 2022
- Weekly new claims are telling another story, though *(check the two net pages too)*

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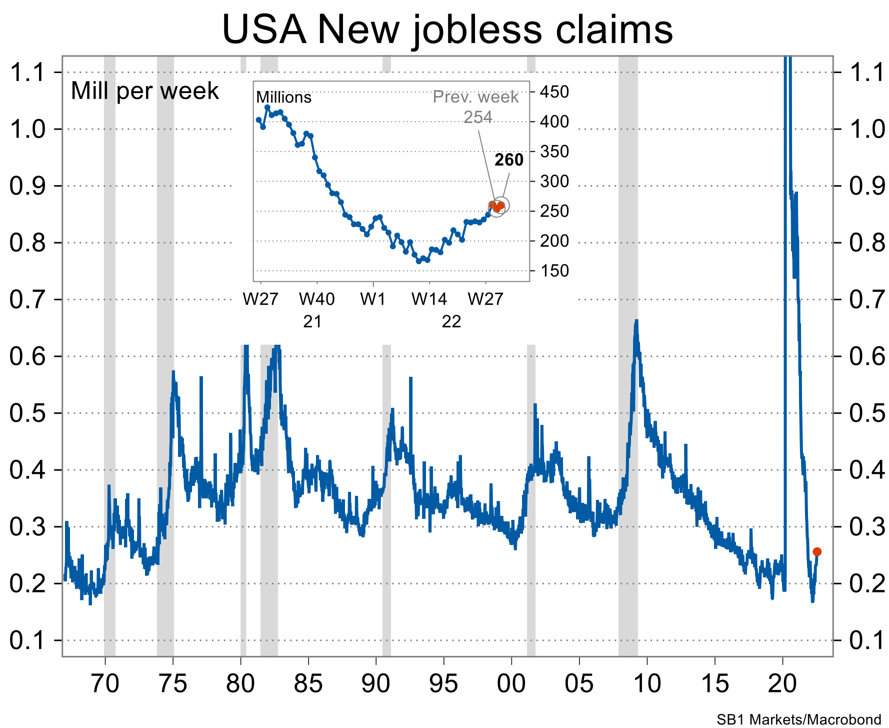
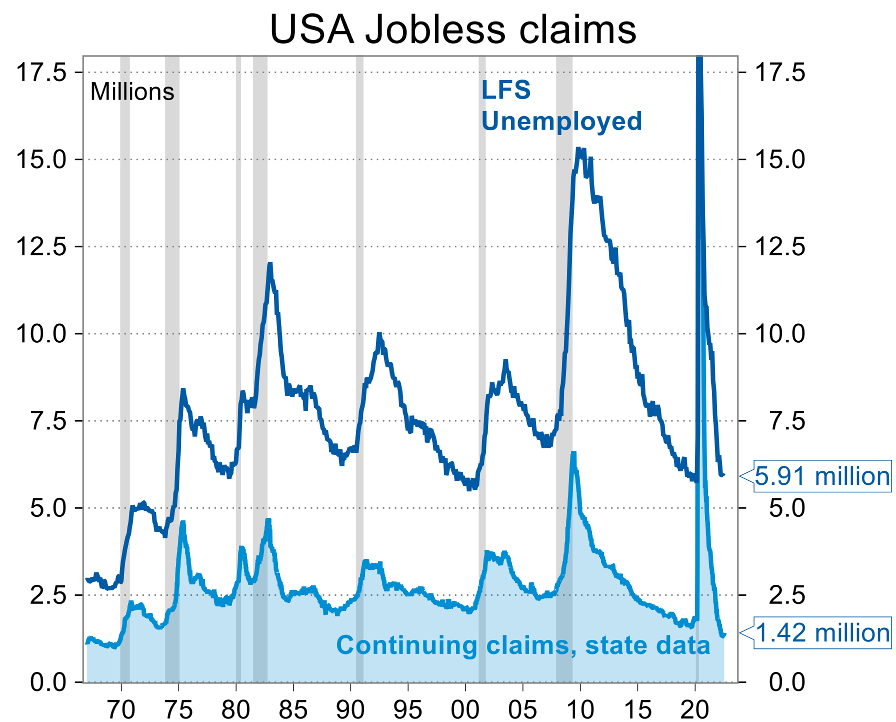
New jobless claims are sending a warning signal: A recession not unlikely at all

New claims are on the way up, normal not a signal of strength…

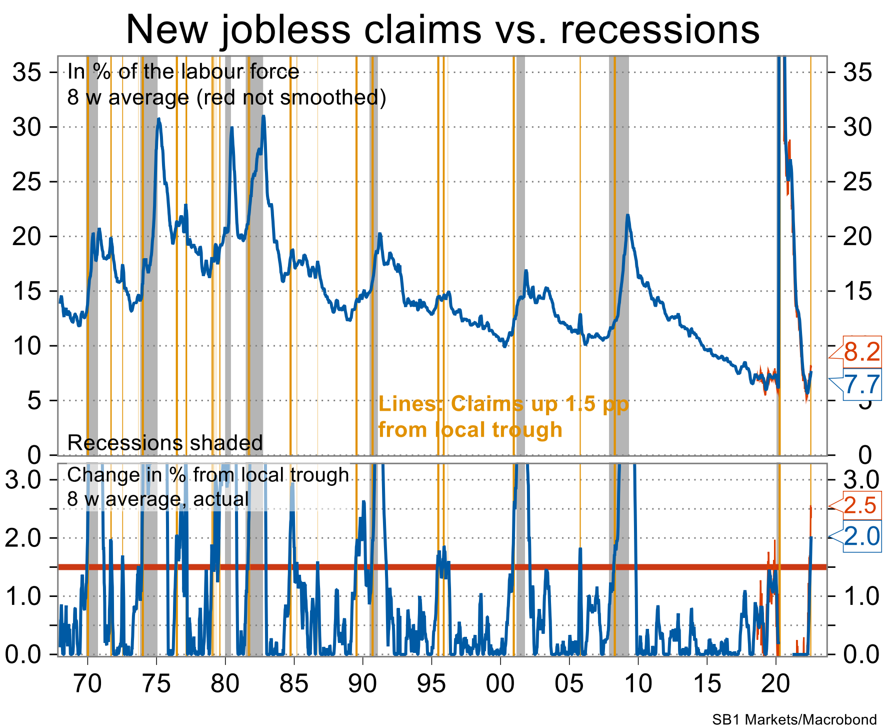


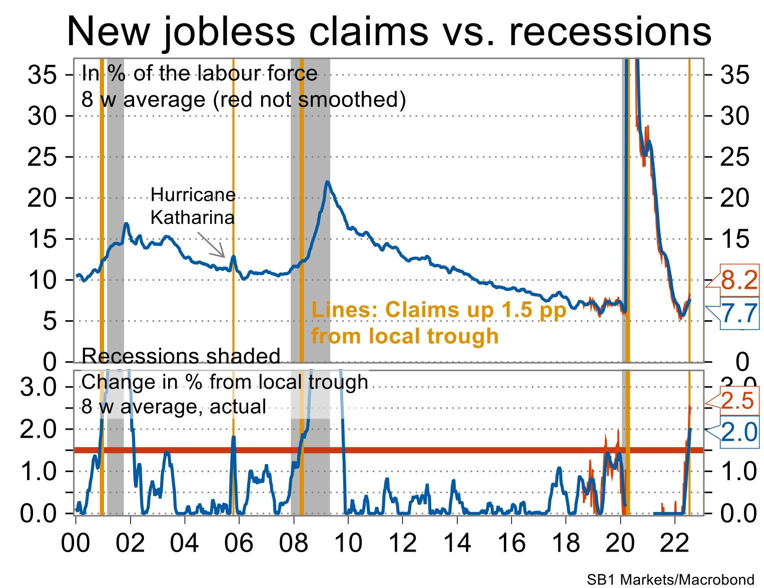


- **New jobless claims** rose by 6' in week 30 to 260'. Since the bottom in week 11 in mid-March, the weekly inflow has increased by 94', from 166' – which was the lowest level since 1969
- **Ordinary continuing claims** is still close to rock bottom but rose by 48' the previous week

A warning line is drawn:

The lift in the 8-week average crossed an important threshold (4 weeks ago)

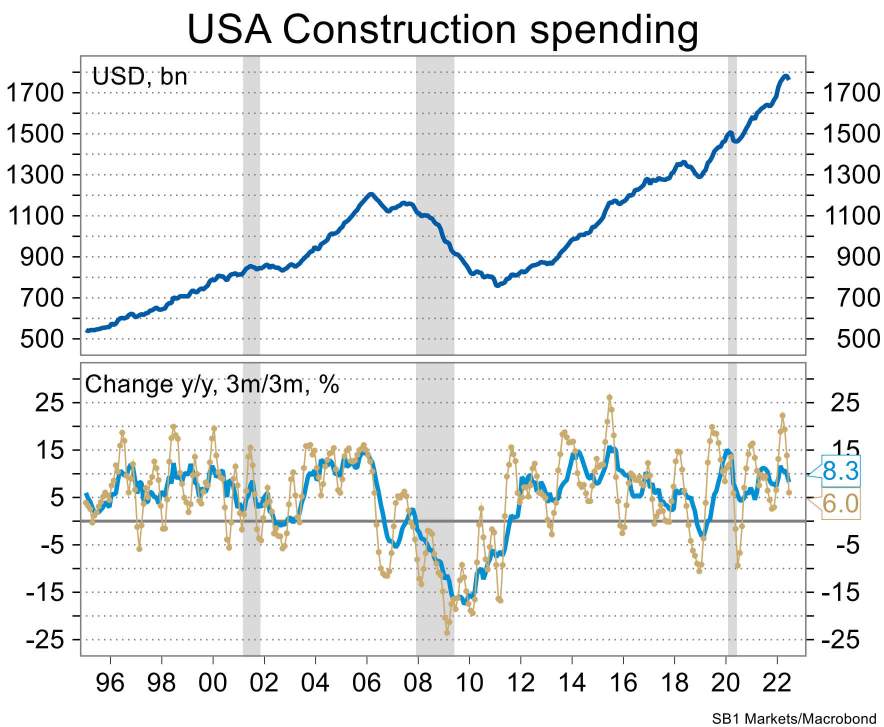


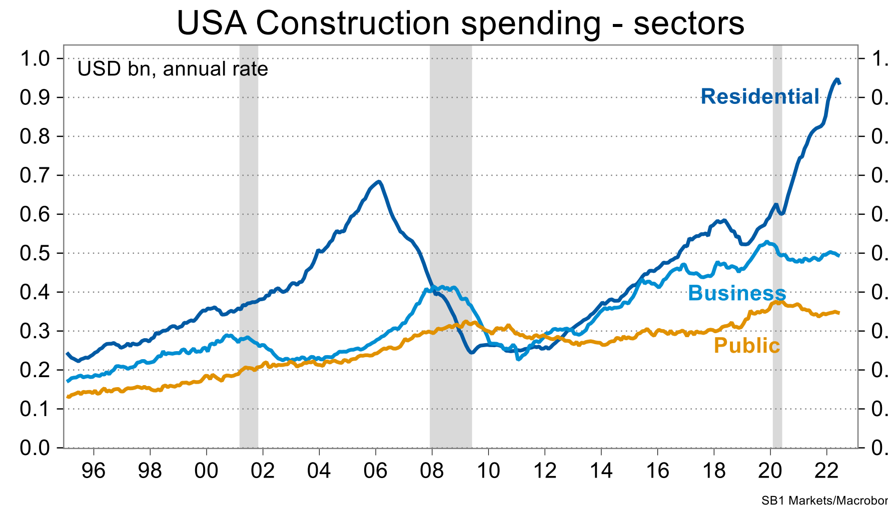


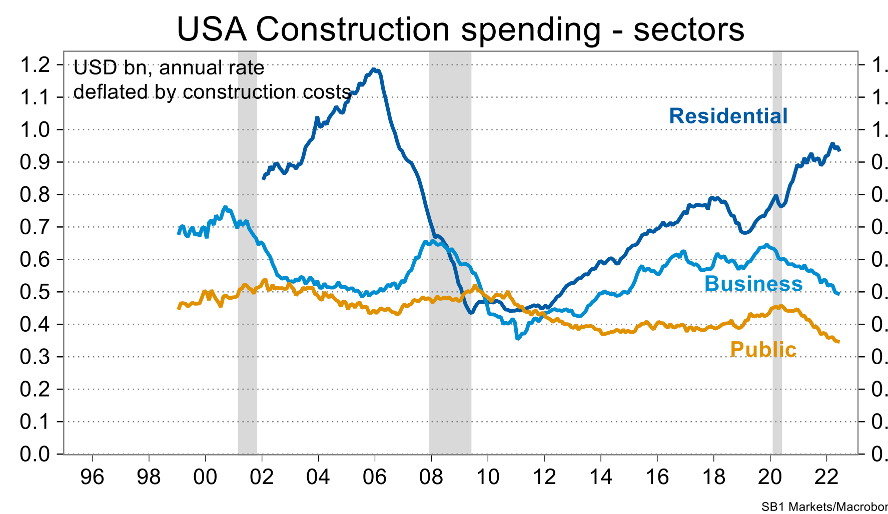
- The yellow lines: New jobless claims (8-week average) up 1.5 pp vs. the labour force
- Now, the average is up 2.0 pp, from 1.9 pp the previous week. Thus, a yellow line is now drawn at the charts above, for the first time since 2005 (Hurricane Katharina), without a recession around the corner (the 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)

Construction spending has peaked?

Spending fell 1.1% in June, with residential activity in the lead, down 2.2% - *in nominal terms*



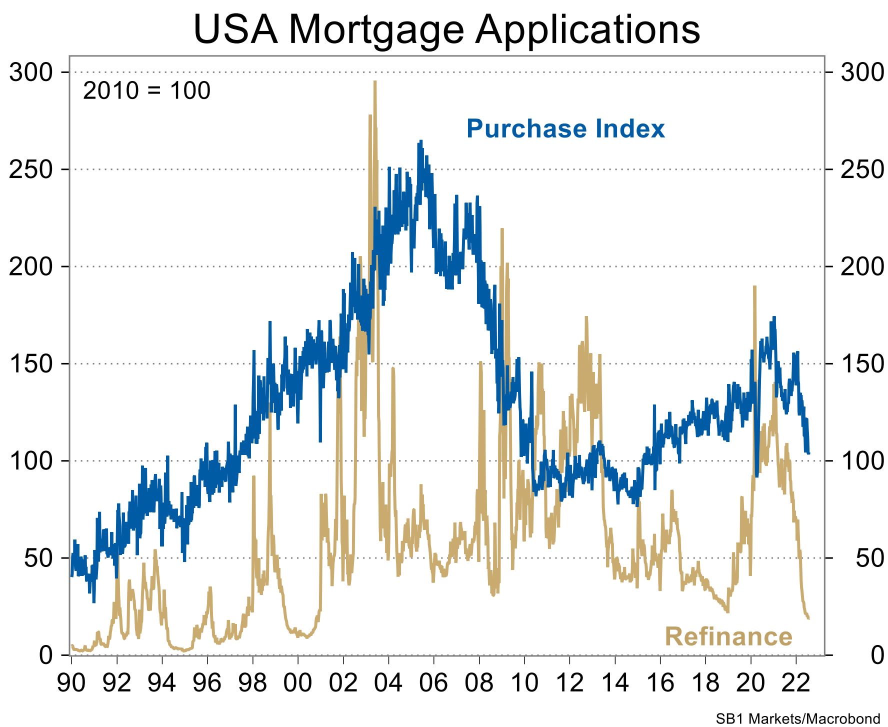


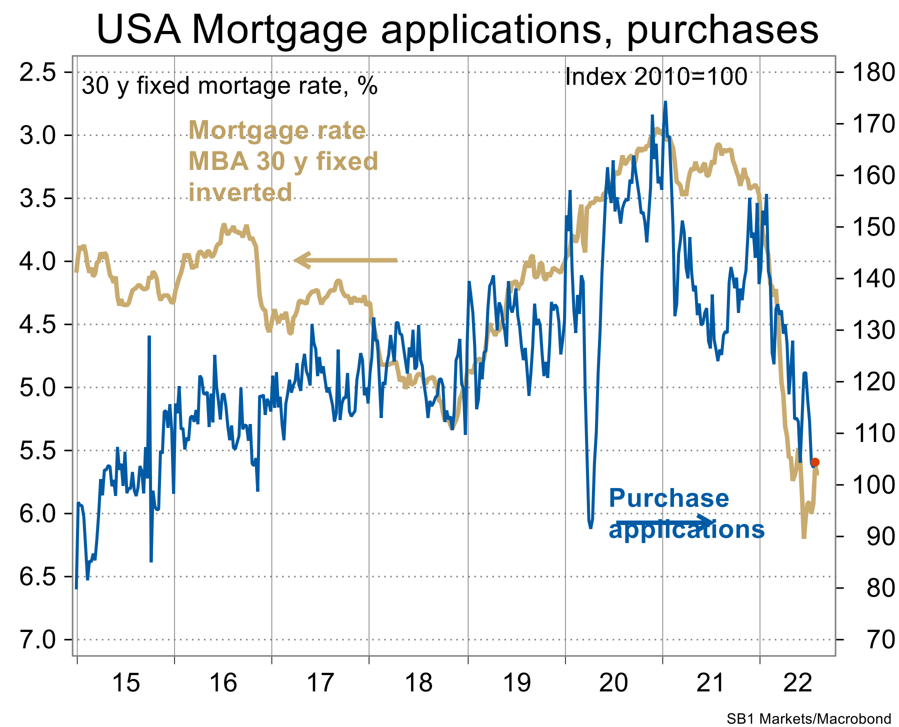


- Measured in real terms, construction spending has been weak in both business and public sector – but now housing is following suit. Housing investments fell at 14% pace in Q2, and all indicators so far signal a further contraction in Q3

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 – but not further last week

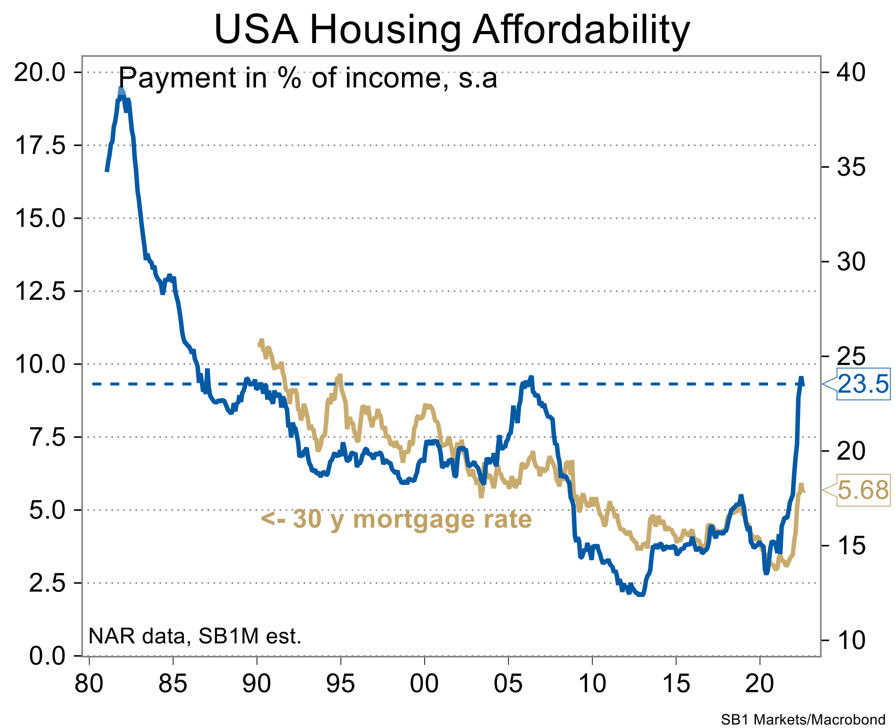


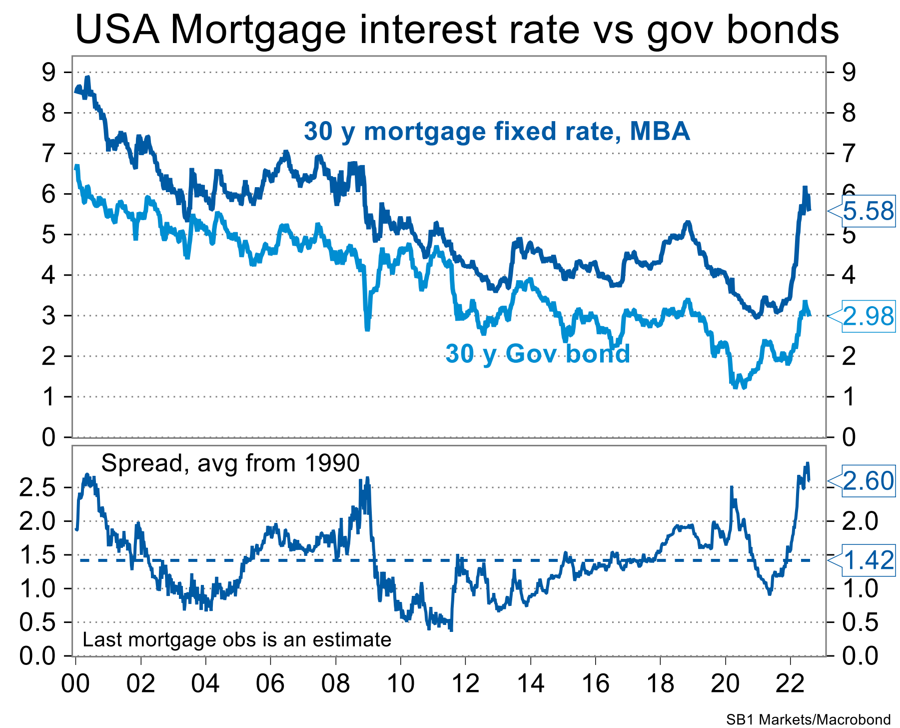


- Demand is not yet extremely low – and the level is 'just' 20% below the pre-pandemic level
- Recently, mortgage rates have fallen, alongside the decline in the 30 y treasury bond rate (*check next page too*)

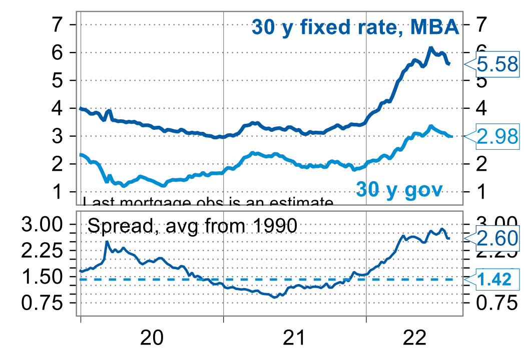
The least affordable housing market since 2008 (almost since 1987)

Prices are up 37% since before the pandemic, the mortgage rate is up 50%. In sum….



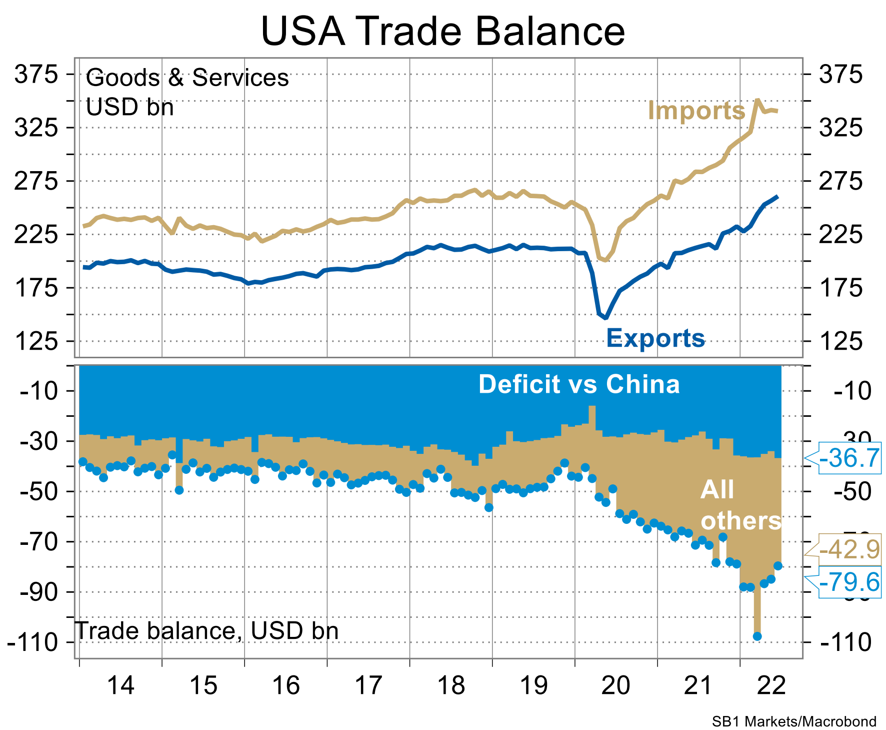


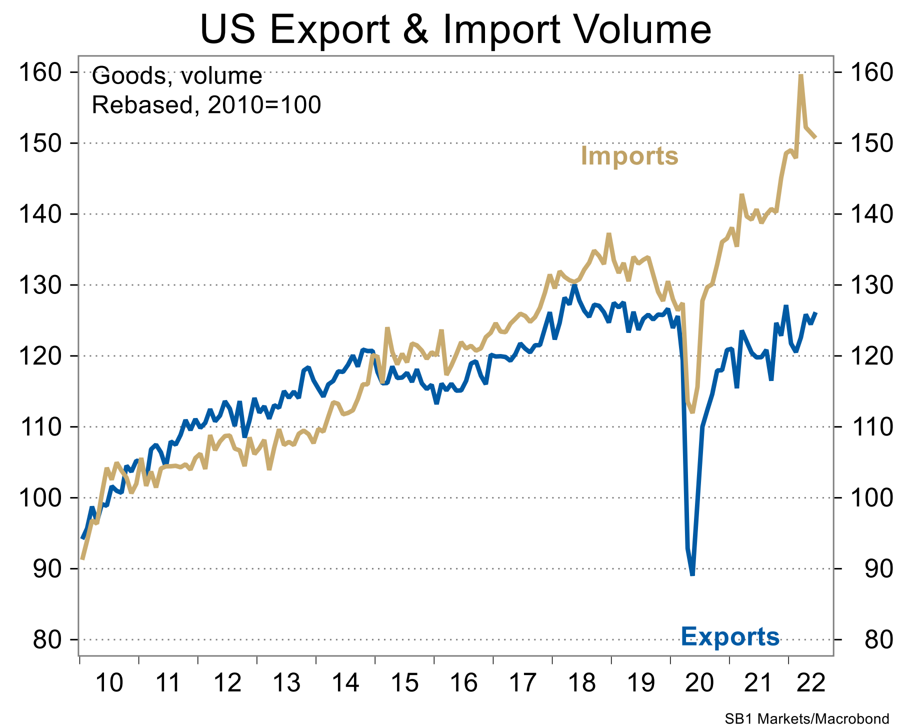
- **The 30 y fixed mortgage rate** has climbed to 5.96% (effective rate) from 3.0% last summer, from 3.5% at the start of 2022. Before the pandemic, the rate was 4.0%
- The **Federal Reserve** concluded its mortgage backed bonds buying campaign in March - <u>and is now reducing its holdings. No doubt, this shift explains the surge in the spread, to 2.60 pp, way above the average at 1.41 pp</u> (and very likely far higher than the future average)



The trade deficit fell sharply in June, and trade supported GDP in Q2

Import volumes are still very high – and exports have just recovered to the pre-pandemic level

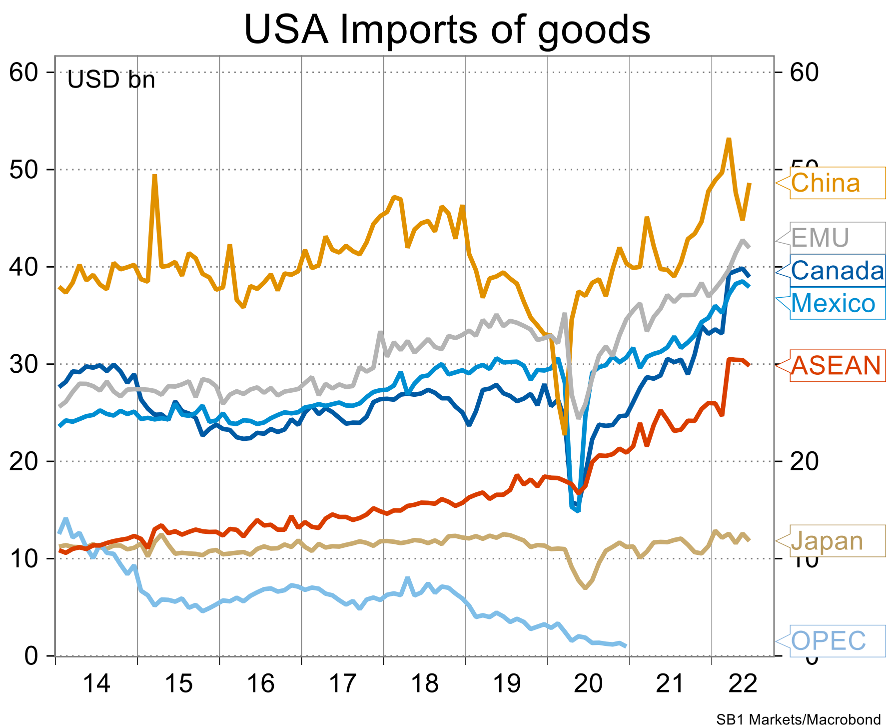


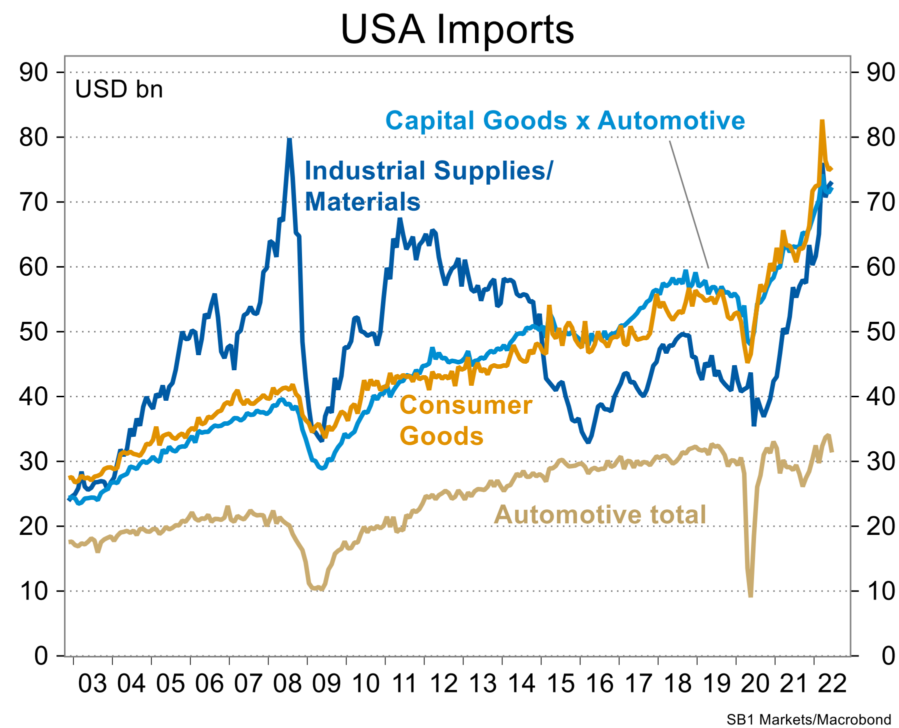


- **Imports** fell by 0.3% in June but are still 36% above the pre-pandemic level! In volume terms (and just for goods), the decline in June was a tad larger and the volume is just up 20% vs Feb-20! Demand for goods has been strong during the pandemic, driving imports – even if auto imports have been low. We expect US households' demand for goods to slow the coming quarters, from the present very high level – dampening demand for imports too
- **Exports** rose 2% m/m in June, and the level is up above 20% vs Feb-20. However, in volume terms exports for goods are just back to the pre-pandemic level – but may now be trending slowly upwards
- **The trade deficit** shrank to USD 80 bn, from 85 bn in May, close to expectations (goods data was already published). However, at 4% of GDP, the deficit is of course still HUGE

Imports from China up in June, not far below ATH

No weakness from other exporting countries

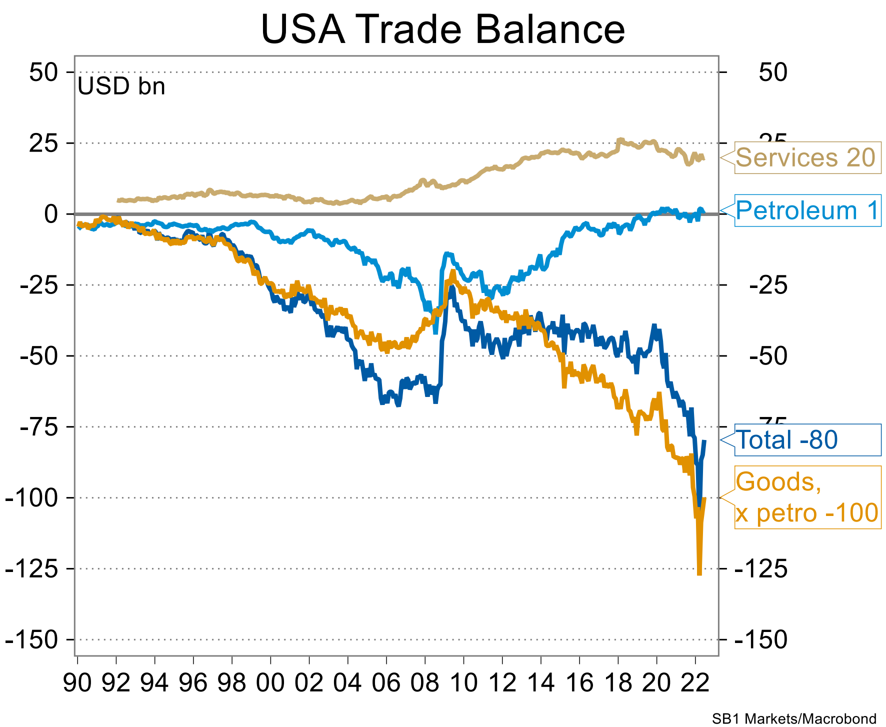


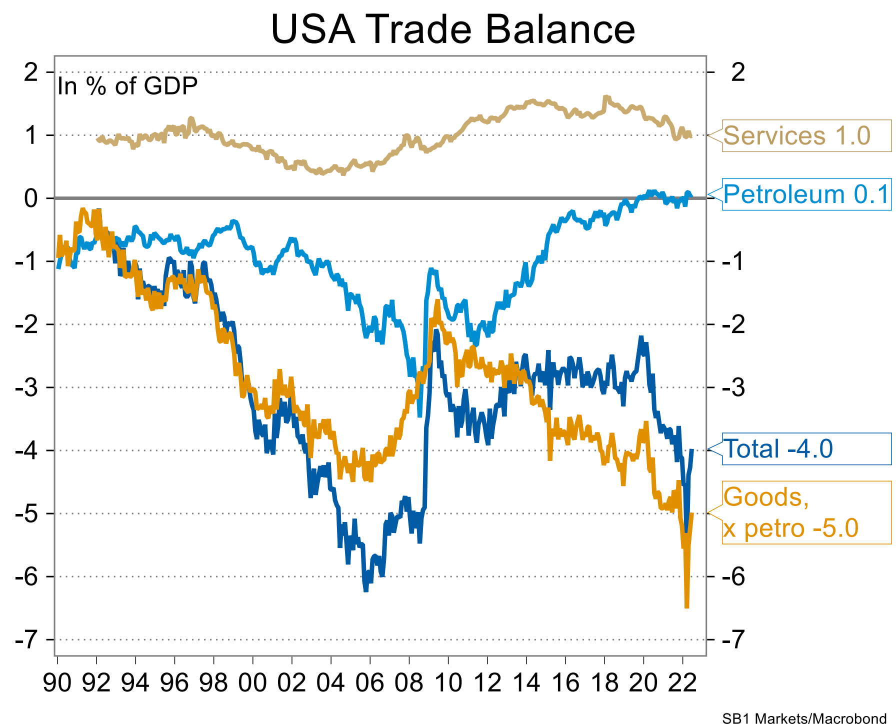


- **Imports from regions:**
  - » Imports from China recovered some of the April/May losses (which may have been due to the lockdowns in China)
  - » Imports from ASEAN (the minor Asians) are trending sharply up – as are imports from Canada – and both spiked in March
  - » Imports from the EMU has been growing rapidly during the pandemic, and are still trending rapidly upwards
- **Imports by type of goods:**
  - » Consumer goods imports are surging, but so is imports of capital goods (up >40% vs the pre-pandemic level, and industrial supplies are up more than 80% (all figures in value terms))

Goods x petroleum deficit very high, even in % of GDP

Surplus in services keeps narrowing

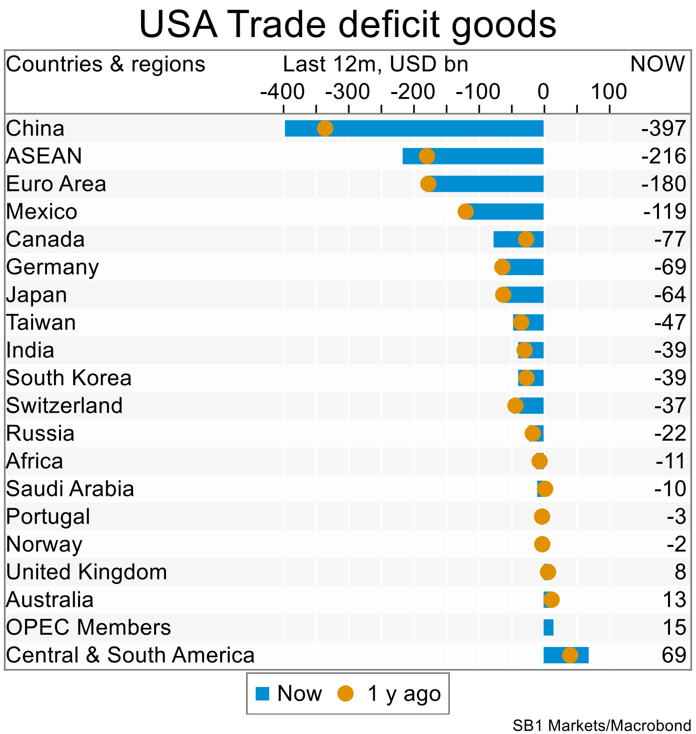


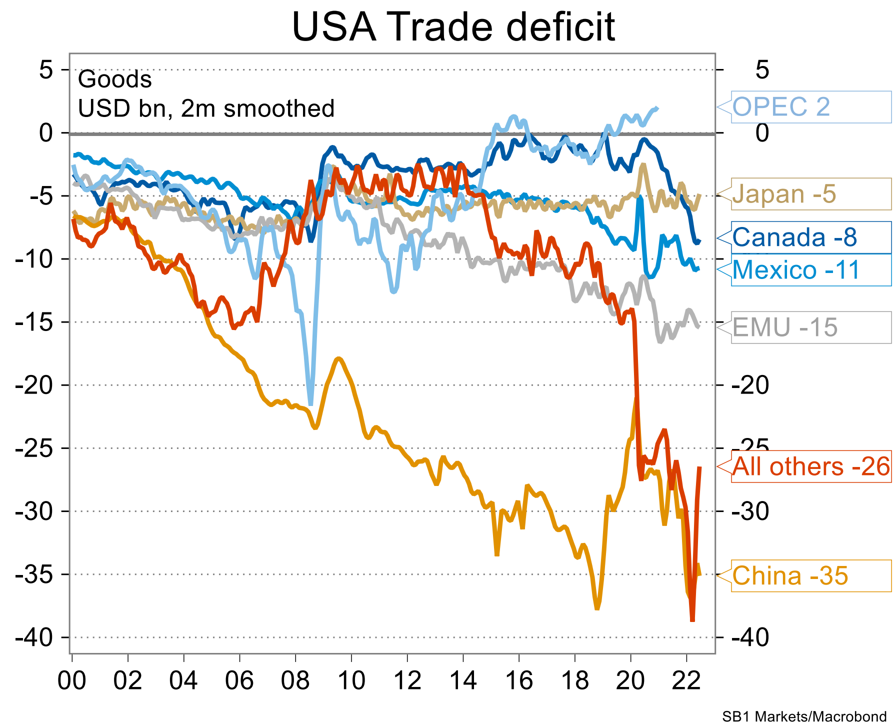


- The **total trade deficit** at USD 87 bn equals 4.4% of GDP. The deficit has widened from 2.5% in early 2020 – as domestic demand has been stronger in the US than abroad
- **The US runs a surplus in services** at USD 21 bn, equalling 1.0% of GDP, but this surplus is trending down (and the downturn started well before Covid)

The deficit vs. China is widening rapidly again, to ATH

The deficit is increasing in most directions

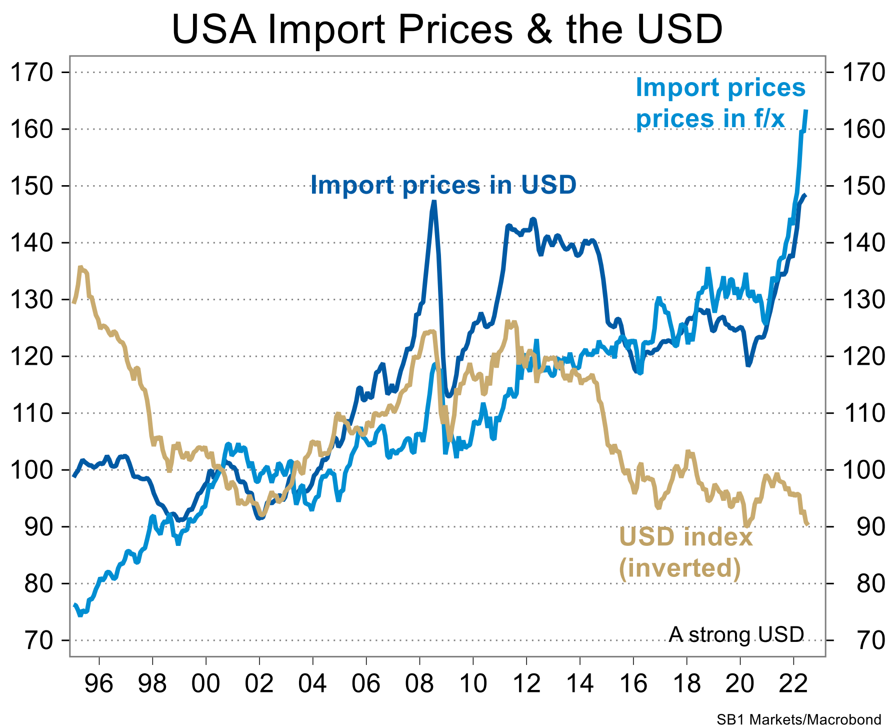


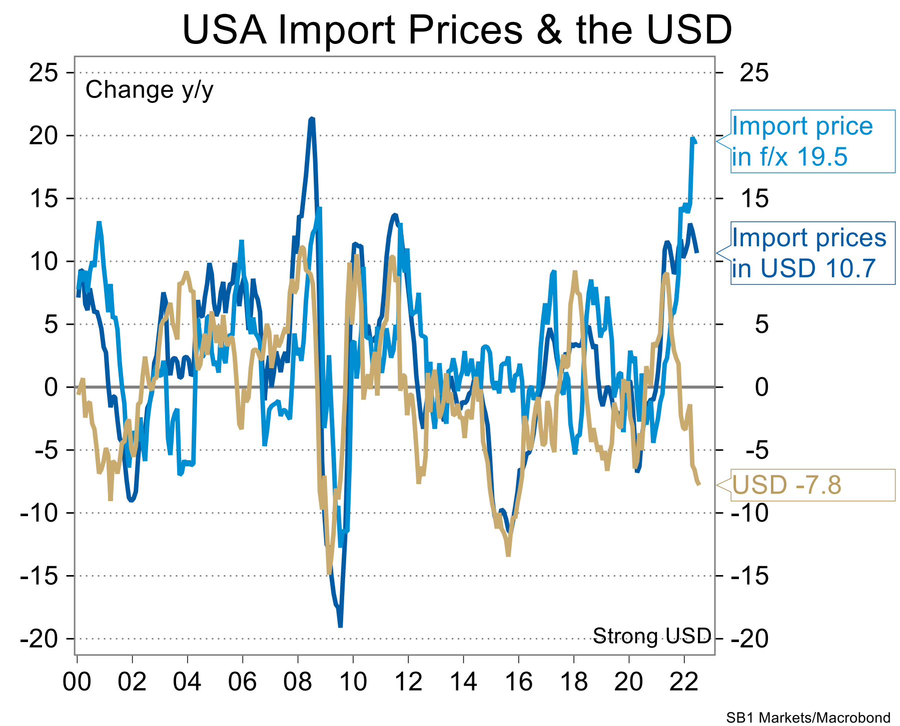


- The US deficit in goods (no services in these country stats) vs China equals more than 43% of the total deficit in goods, still lower than before the trade war started
- The deficit vs EMU has flattened during the pandemic – at a record high level
- The balance vs 'others' rose sharply in 2020

Import prices are still on the way up, and now even measured in f/x

Import prices are up 10.7% y/y, but the level still not much higher than in 2012 – 2014!

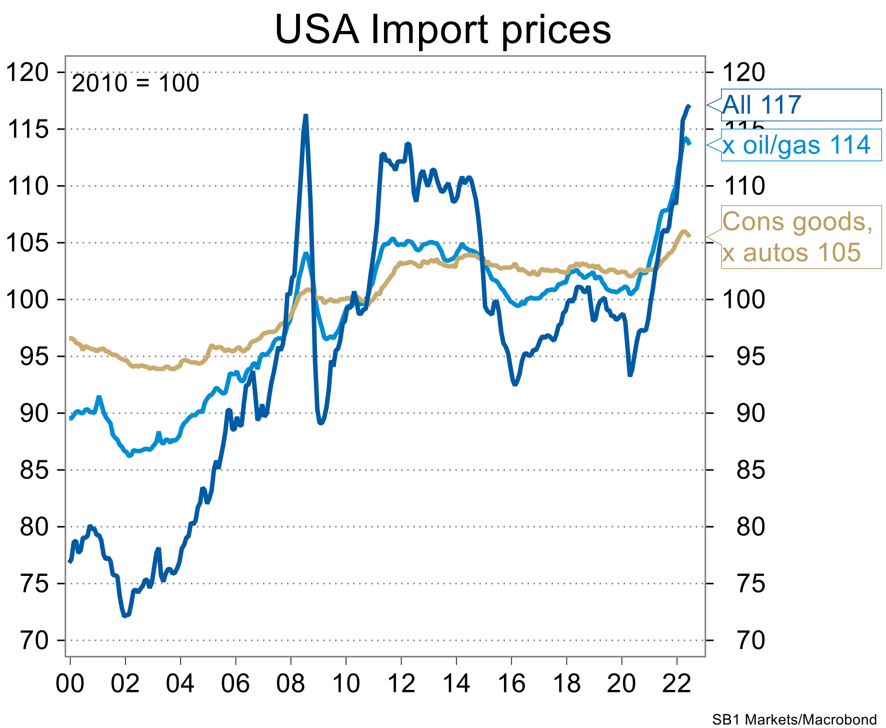


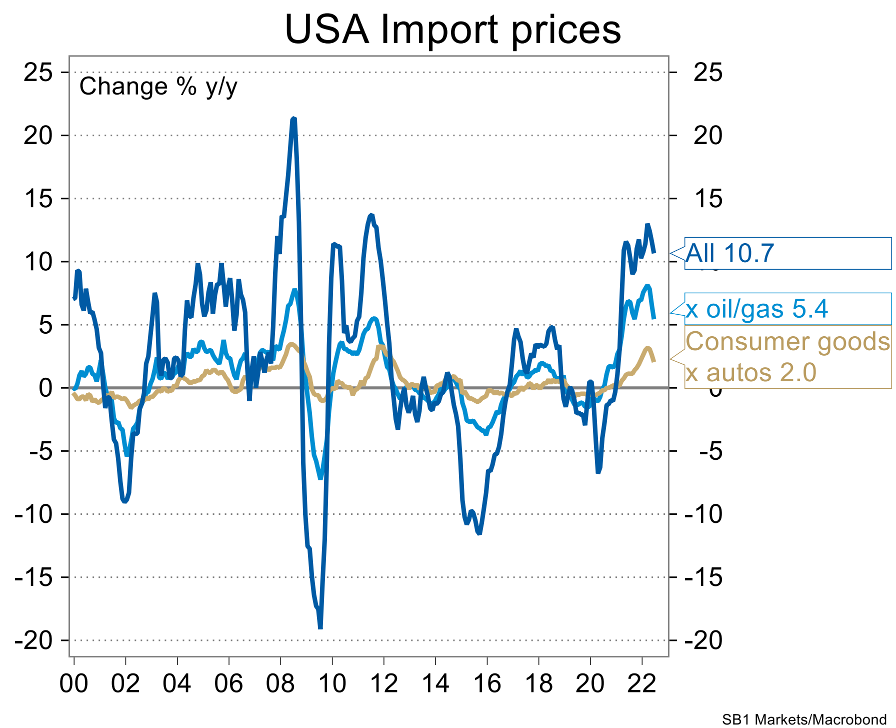


- Import prices, measured in sellers' currencies have been accelerating past months, to 19.5% (which should be appreciated by the sellers ☺). The USD is down almost 8% y/y

Import prices have peaked? In July, even import prices incl. oil/gas declined?

Prices ex oil/gas fell in June, including consumer goods ex autos – which are up just 2% y/y



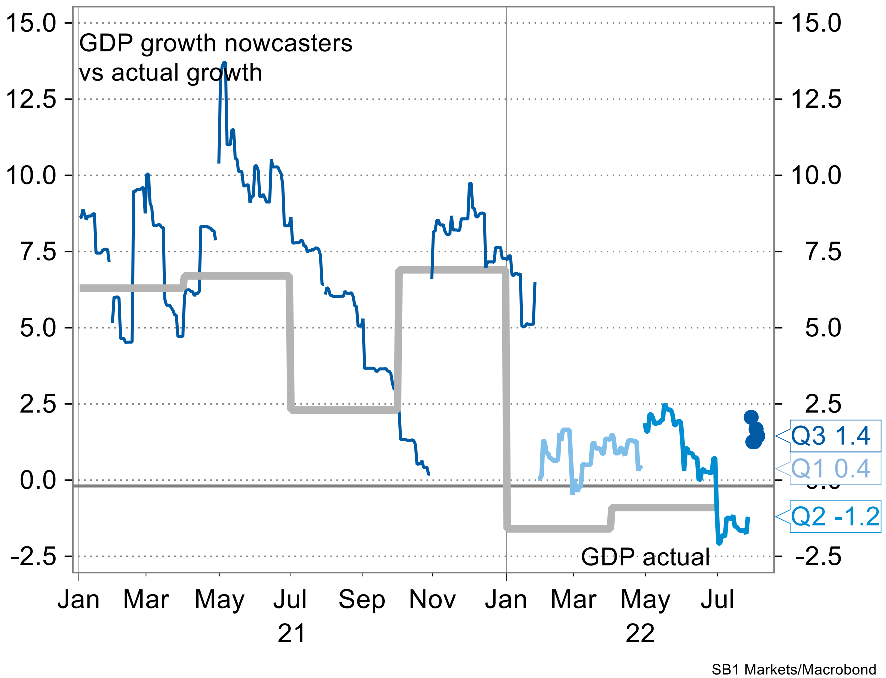


- The impact on CPI in the US is limited – but the sign is 'correct'. These times, all help is needed

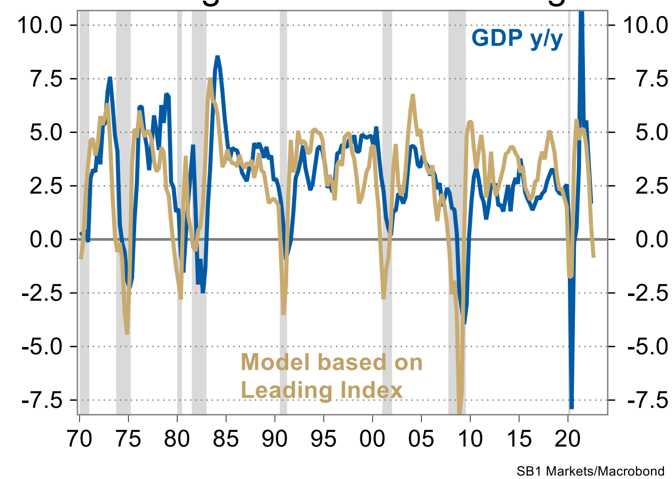
Atlanta Fed's nowcaster was right on Q2 GDP. Now it report 1.4% growth in Q3!

However, leading indicators are signalling a further decline in GDP

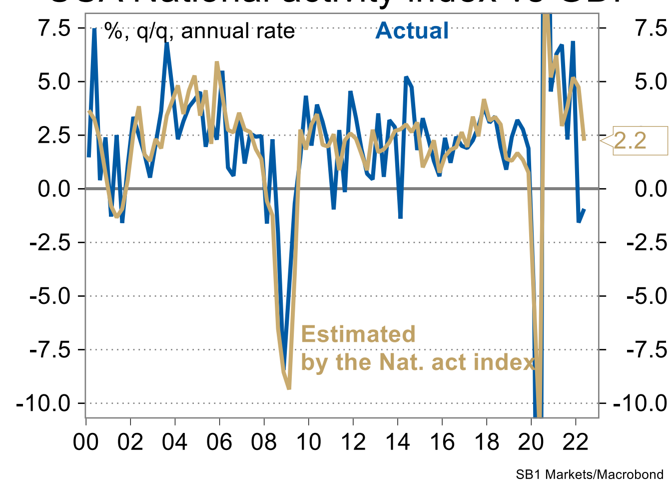
USA Atlanta Fed GDP nowcasts



US Leading Indicators vs GDP growth



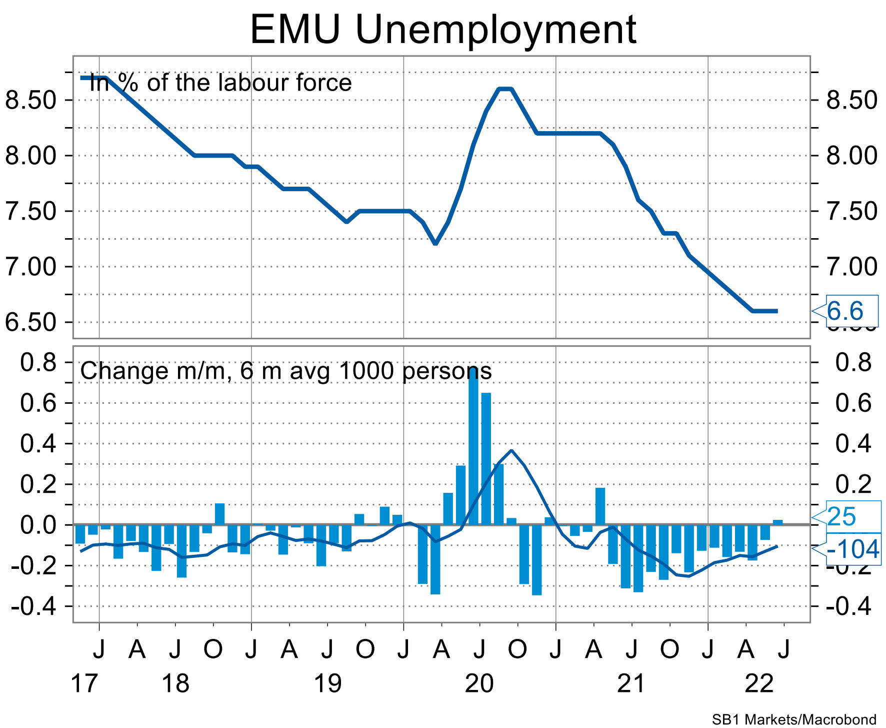
USA National activity index vs GDP

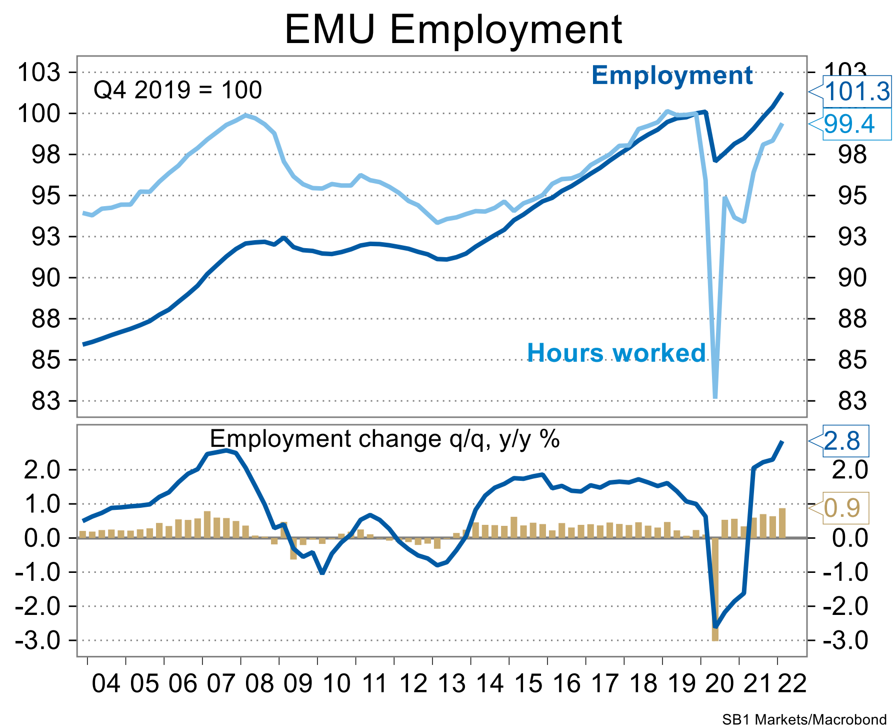


- **In a quarterly model**, the National Activity index (a 3rd nowcaster) suggested a 2.2% growth pace in Q2, way above any other forecast and way to optimistic. In May and June alone, a 1% growth signal was sent
- **In Q2 GDP** fell 0.9%

Unemployment flat at 6.6% in June, but a marginal increase in no. of unemployed

May was the bottom? Possibly – at the lowest level since 1981



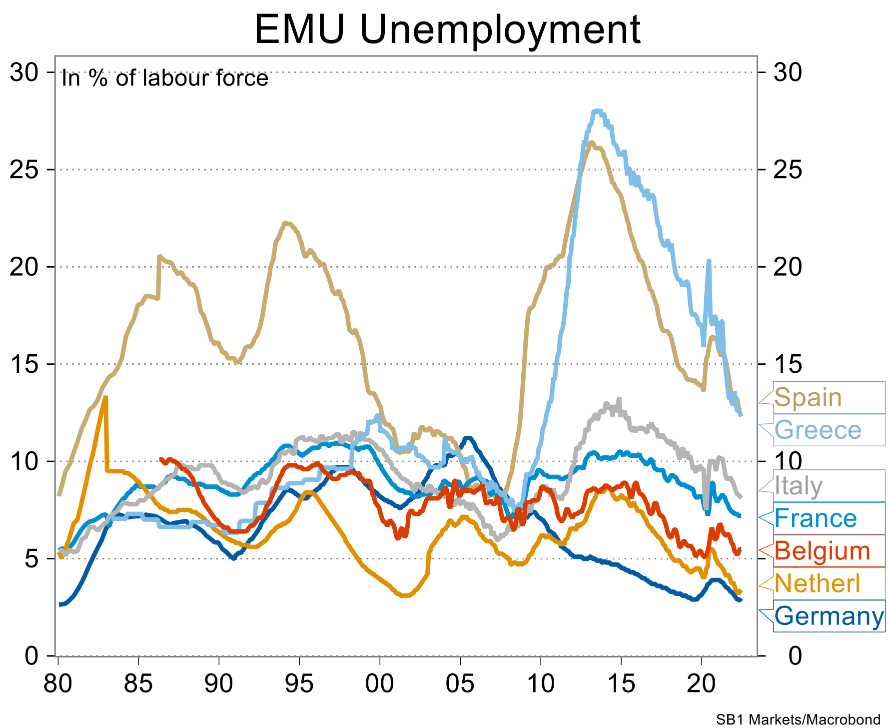


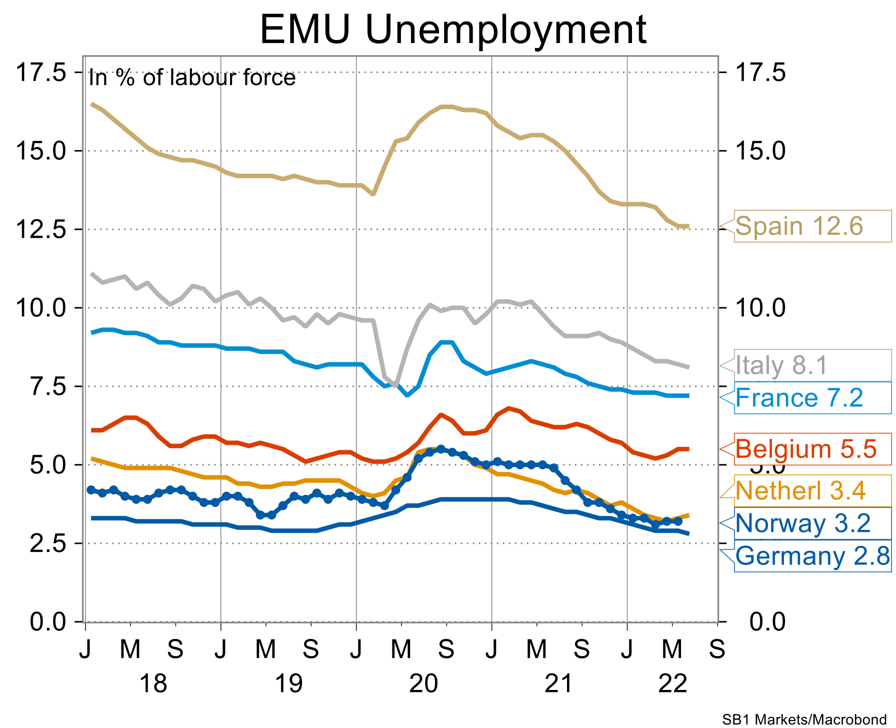
- **The unemployment** rate unchanged in June, as expected
- Very likely, **employment and hours worked** grew in Q2, as GDP expanded at a 2.8% pace (0.7% q/q). The employment level & the employment rate is higher than before the pandemic
- The number of **unfilled vacancies** soared to the highest level ever in Q1, by far
- The labour market is no doubt tight
- **Wage inflation** has accelerated somewhat

SpareBank 1 MARKETS

Unemployment is declining all over the region. Almost

Belgium has been marginally on the way up – and now the Netherlands followed suit



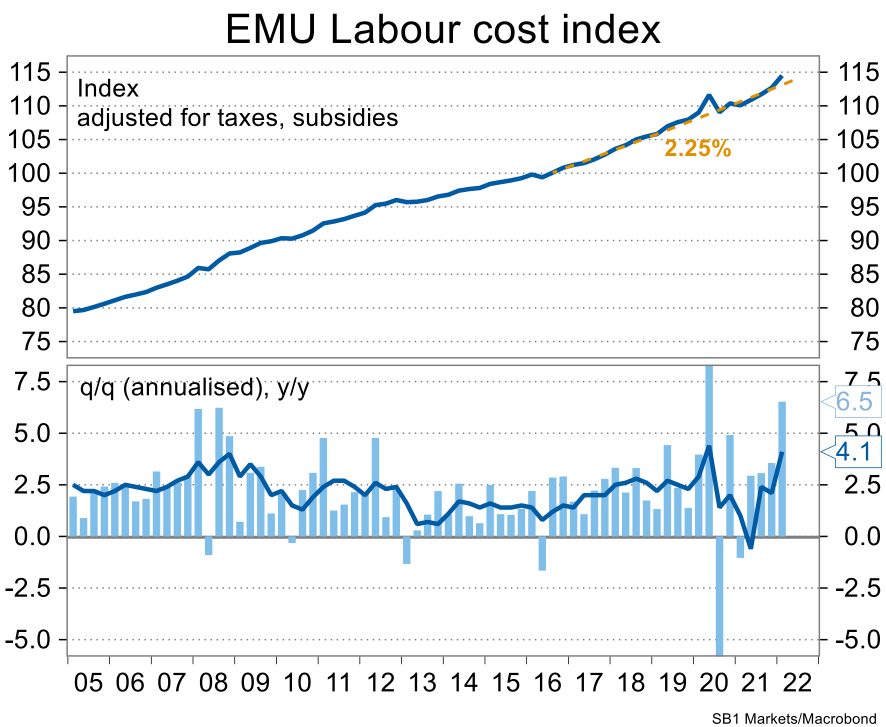


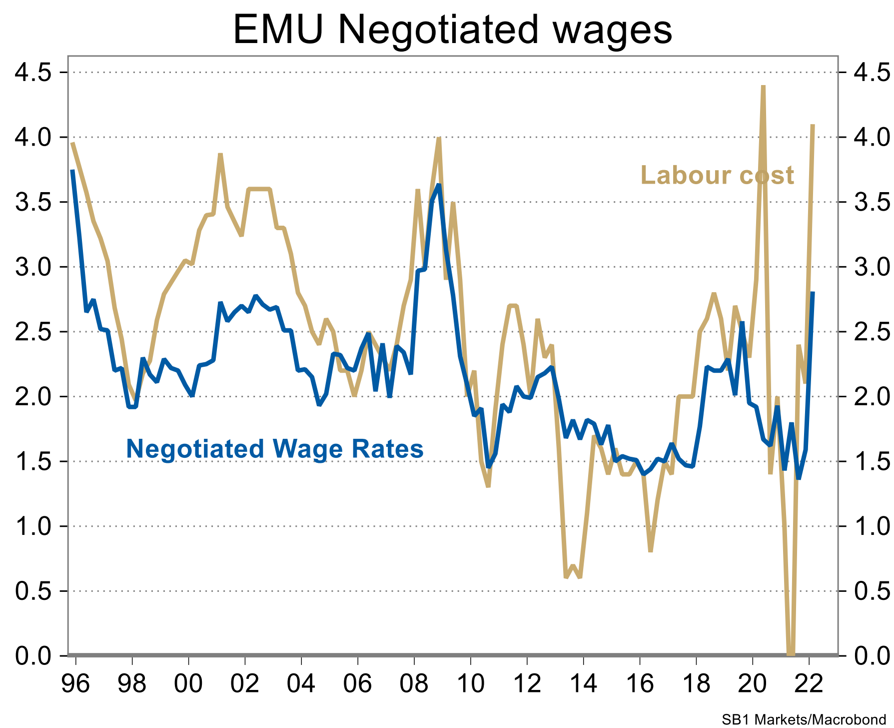
- In Germany unemployment is still on the way down, even if the economy stagnated in Q2

SpareBank 1 MARKETS

Wage inflation is on the way up in the EMU too

History revised up, and wage inflation was not 2% (or below), but rather 3% – and now up to 4%++

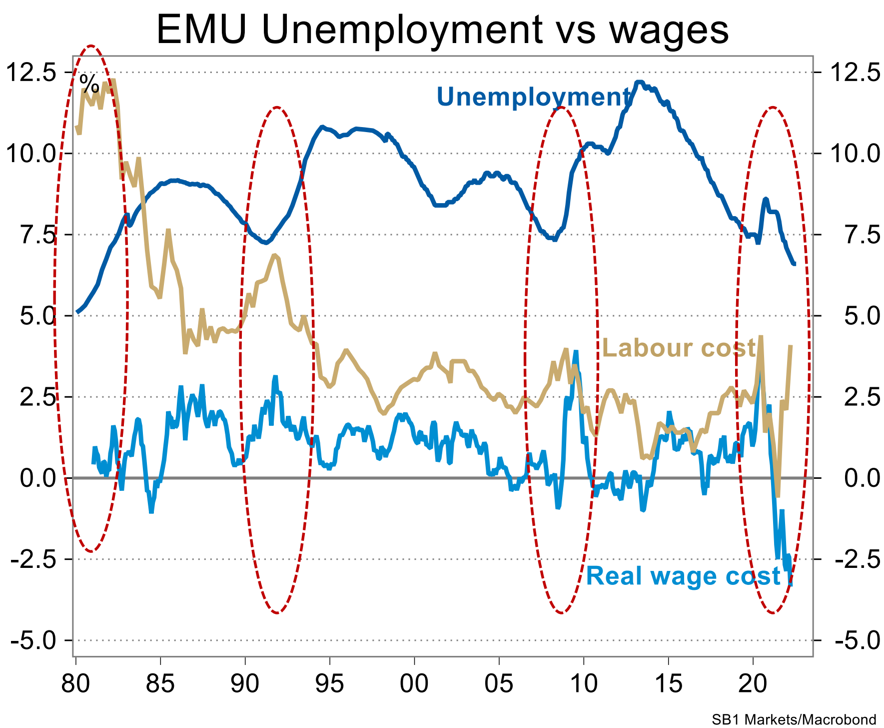


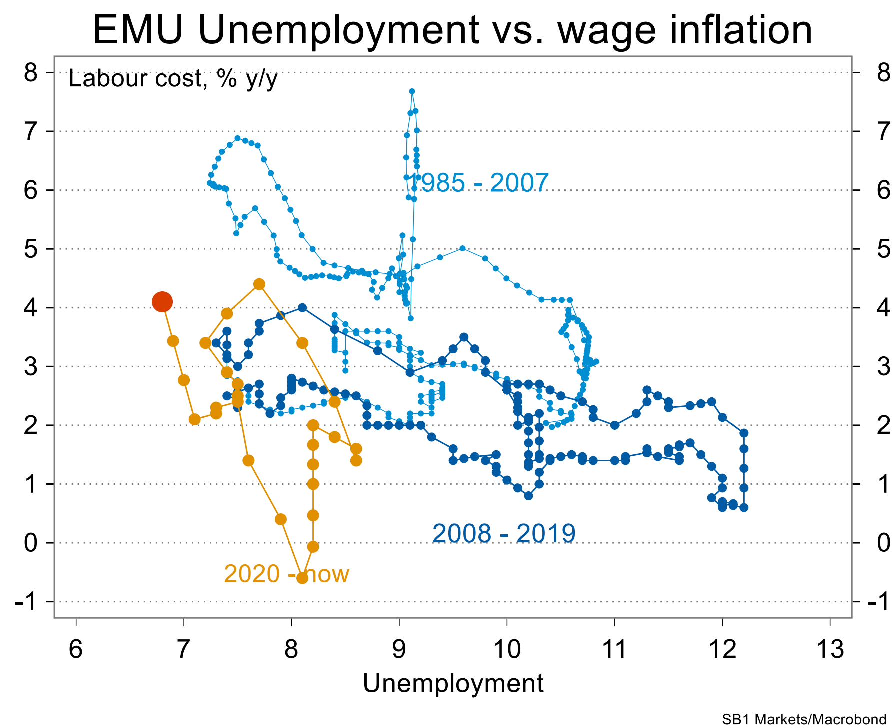


- EMU labour cost data are rather confusing but the story is clear: Wage inflation is probably on the way up
- The labour cost index is up 4.1% (taxes and subsidies included, 3.9% if not included). Paid wages and salaries rose unusually fast in Q1
- Negotiated wages rose 2.8% y/y in Q1

Unemployment is the lowest since 1981, vacancies are at ATH

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

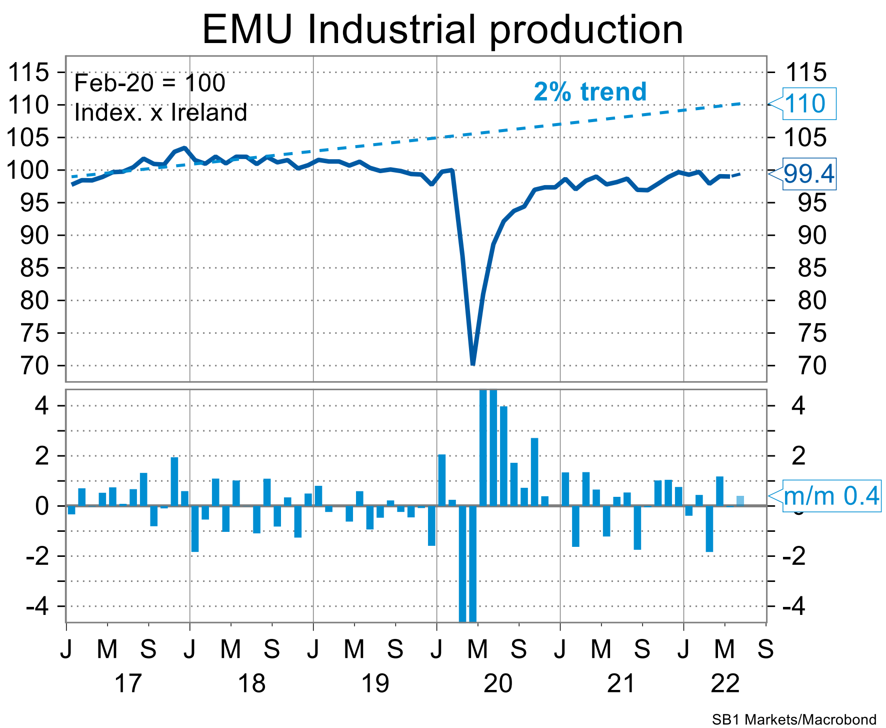


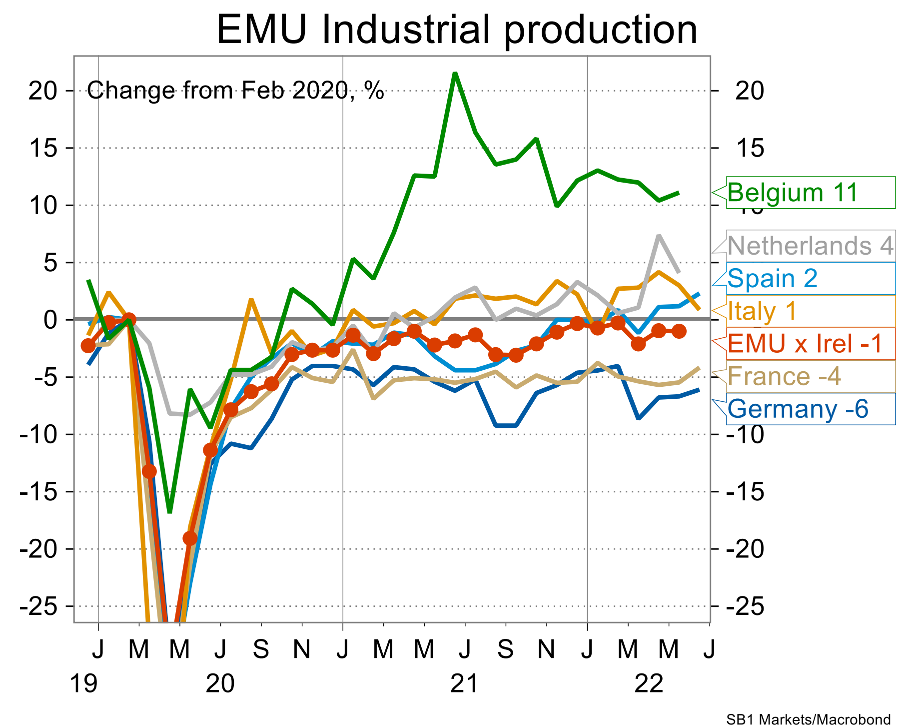


- Labour cost inflation has been revised up. The annual growth rate in Q1 at 4.1 is well above the normal labour cost inflation in the EMU
- The Phillips curve does not seem to be completely dead

Industrial production probably up in June, just Italy has reported a decline

France 1.4%, Spain 1.1%, Germany 0,6% - but Italy down 2.1%. In sum +0.4% (at least x Ireland)

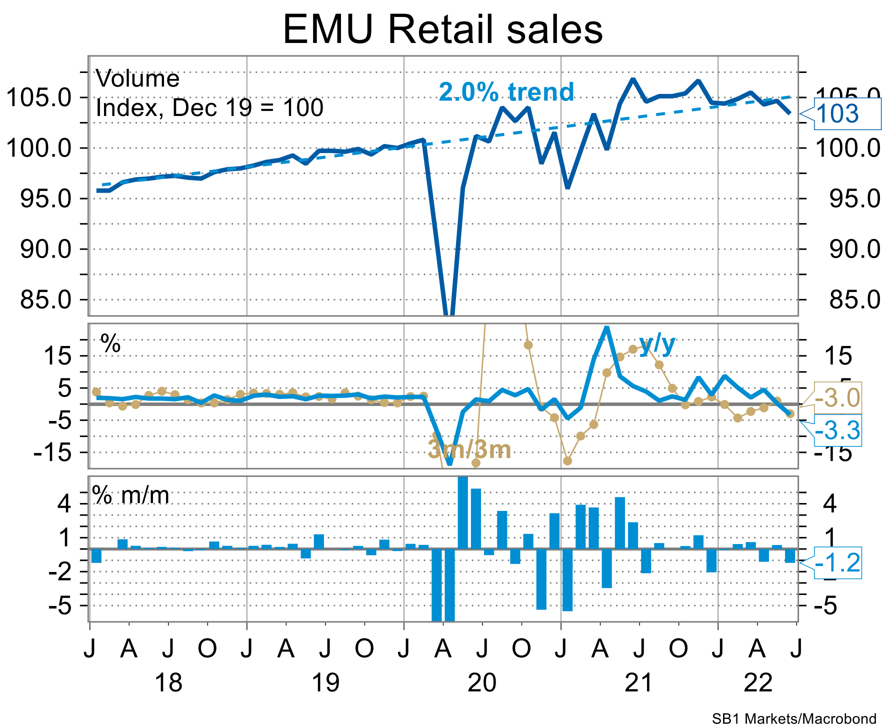


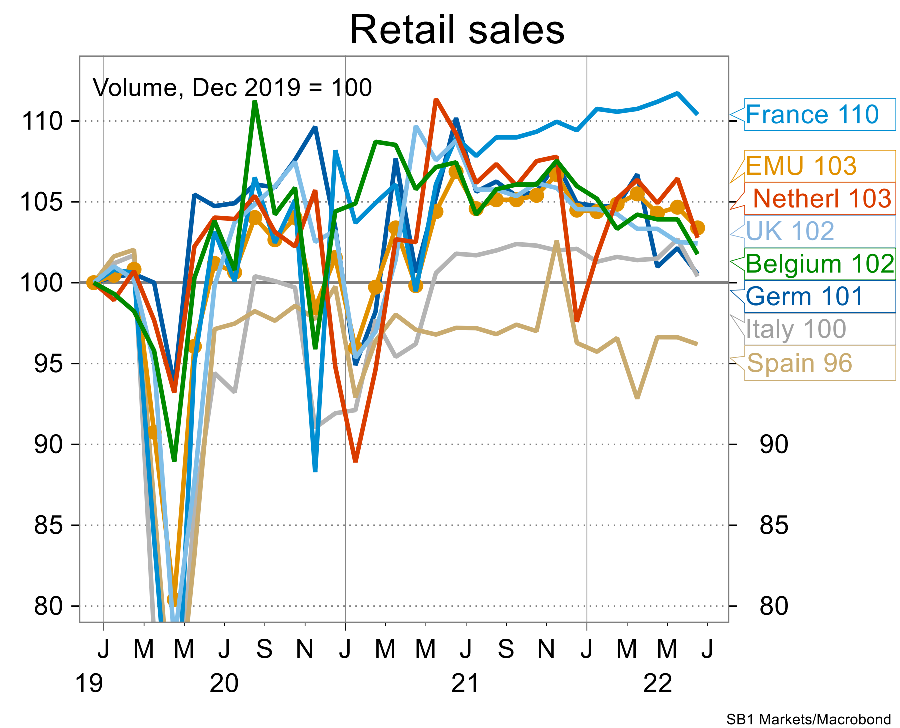


- Production is still down 0.5% vs. Feb-20
  - » German manufacturing production is down 6% vs the pre-pandemic level. Italy is still up 1%! The auto industry mostly to blame (but auto production was strong in May)

Retail sales down 1.2% in June, all big 4 contributed

Sales are trending down and are below the pre-pandemic 2% growth path

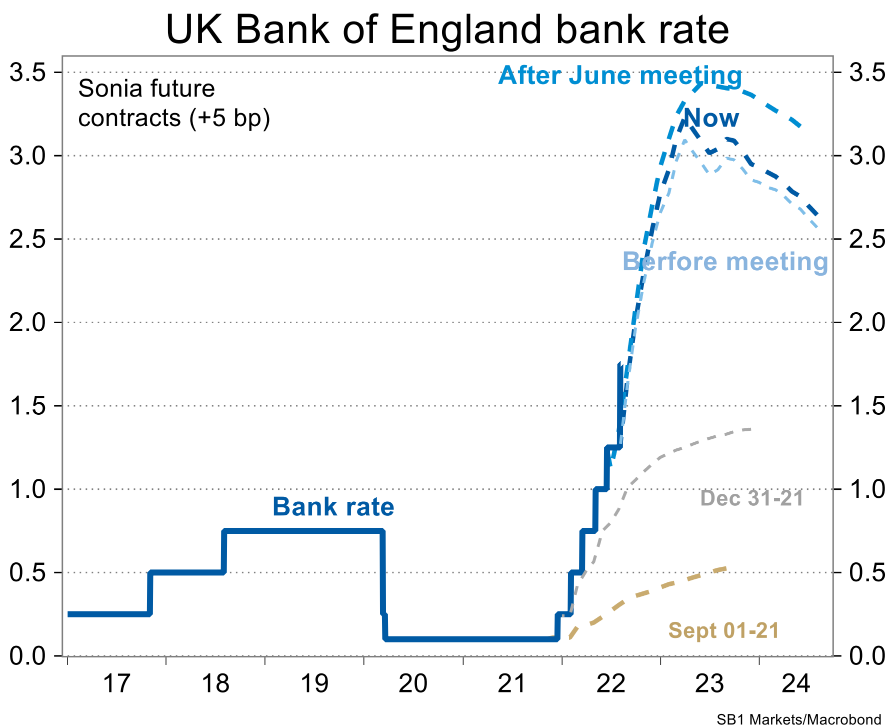




- Sales were expected unchanged, and most countries surprised at the downside
  - » Germany sales fell 1.6%, expected up 0.4%. Since Q1, German retail sales have fallen by 5% - and by the most in the region
- Since before the pandemic: EMU sales are up 3%, and the level is 2% below to the pre-pandemic growth path. The surge in inflation no doubt hurts buying power sharply
- There may still be more downside risks, like a prolonged and eventually deeper energy/inflation crisis and war/sanctions, and the weakest consumer sentiment, ever

Bank of England: Inflation may reach ~~10~~ 13%. A recession is inevitable

The Bank Rate lifted 50 bps to 1.75%, as expected. The gas/electricity shock is monumental



- **The bank rate** was lifted by 25 bps to 1.25%, as widely expected
  - » 1 of 9 members voted for a 25 bps hike
  - » The Bank is considering reducing the holding of gov bonds by GBP 10 bn/month from September (but no final decisions taken)
  - » No forward guidance: The Bank's further actions will depend on incoming data
- **The Bank** is in a terrible squeeze:
  - » It expects inflation to accelerate further, though mostly due to higher energy prices that gradually feeds into the CPI though the semi-annual 'Ofgem' energy price cap adjustments, up to above 13% in late 2022, some 3 pp above the June forecast. However, some parts of the surge in inflation is caused by domestic factors, due to accelerating wage inflation in a very tight labour market, and businesses' strong pricing power
  - » The surge in inflation is now reducing, and will continue to reduce disposable income sharply, and the BoE expects a very sharp economic slowdown, and higher unemployment
  - » In Q3, GDP is expected down 2.3% y/y, implying a 4% drop from Q1. This seems very pessimistic. No growth is expected over the next 4 quarters
- **Inflation** is expected to decline rapidly from next year, but the Bank does not seem to disagree with the market expectation of a further rise in the signal rate to 3%+ early next year
- The **short end of the UK curve** rose slightly last week (and after the meeting)
- The **GBP** fell 0.6% last week

Highlights

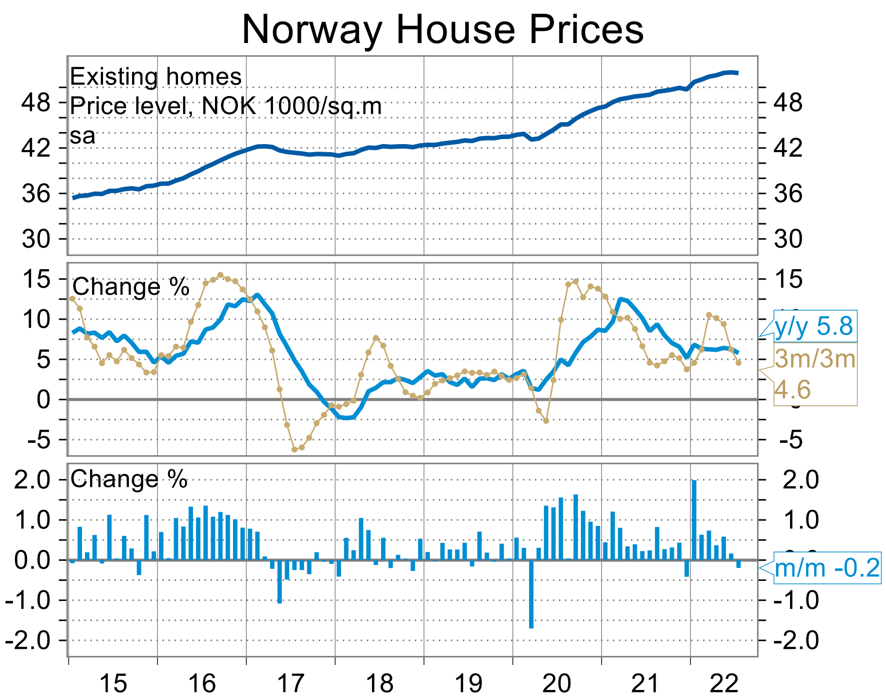
The world around us

The Norwegian economy

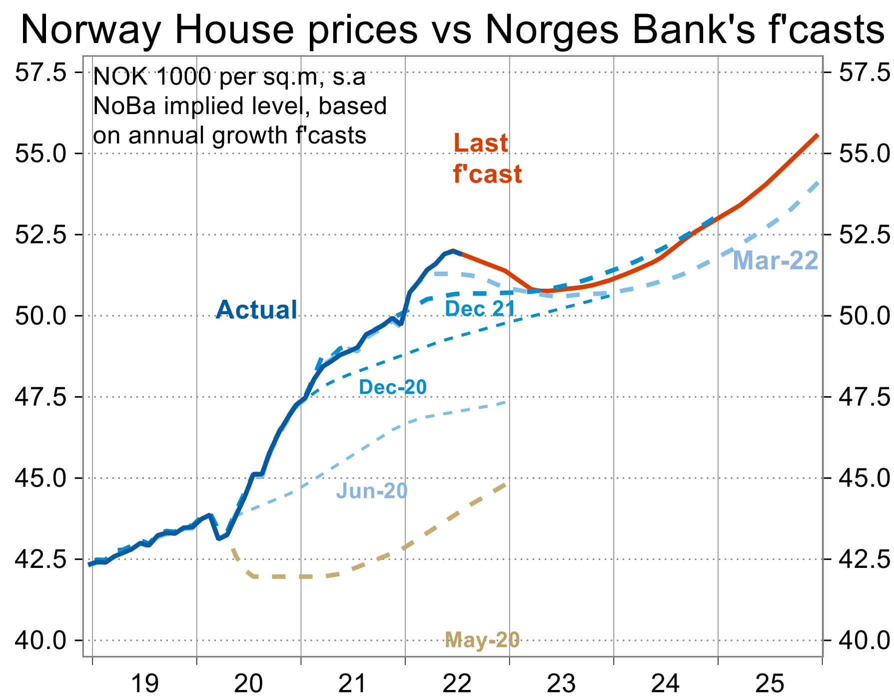
Market charts & comments

House prices fell 0.2% in July, in line with NoBa's f'cast. Prices fell in 11 cities but not Oslo

A new direction is set? Very likely, given the substantial increase in mortgage rates underway



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

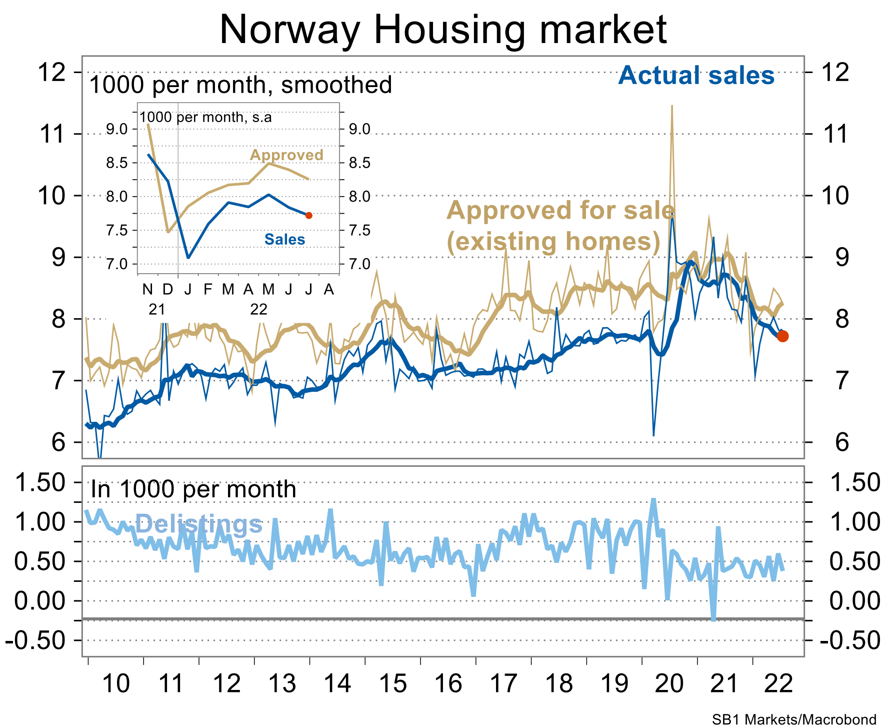


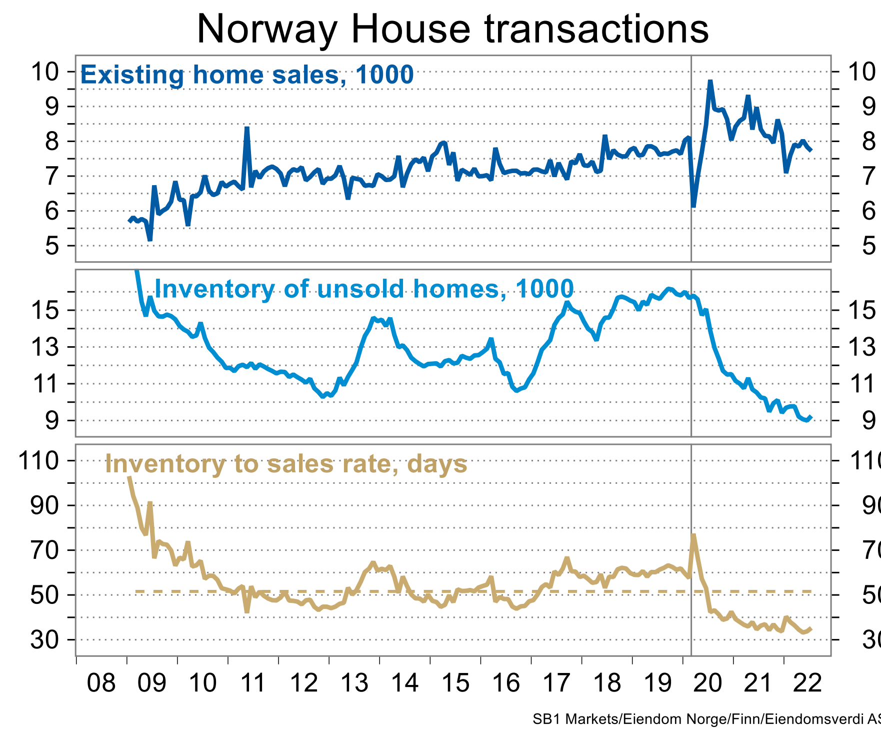
SB1 Markets/Macrobond

- **House prices** were weaker than we and most economist expected in July (we assumed +0.2%), but in line with NoBa's f'cast. June was revised marginally down, to 0.2% from 0.3%. Prices fell in most cities, but rose slightly in Oslo
- The no. of transactions has come down to a normal level, following the early pandemic surge. The inventory rose just marginally in July, and remains low
- In the June MPR, **Norges Bank** expected that prices start declining in July, and continued downwards until Q2 next year, in sum by approx. 2¼%. The well announced interest rate 'shock' should lead to some weakening. If the current plan is not sufficient, rates will probably continue upwards until they bite. The reason: The main transmission mechanisms between interest rates and the real economy is through the housing market, and the impact on household disposable income. The currency link has not been working for a long while
- In Sweden, prices have fallen sharply recent months, especially in Stockholm. Preliminary data signals a further, and large decline in July

The number of transactions has normalised, and the inventory has bottomed?

Still, the inventory of listed homes is very low (and the increase in July not significant at all!)



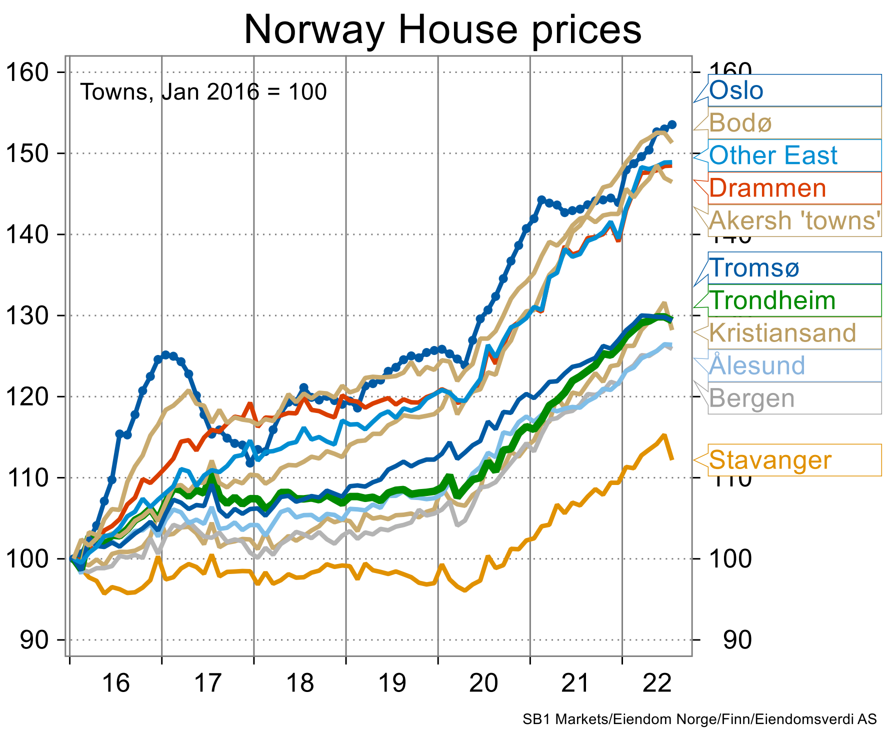


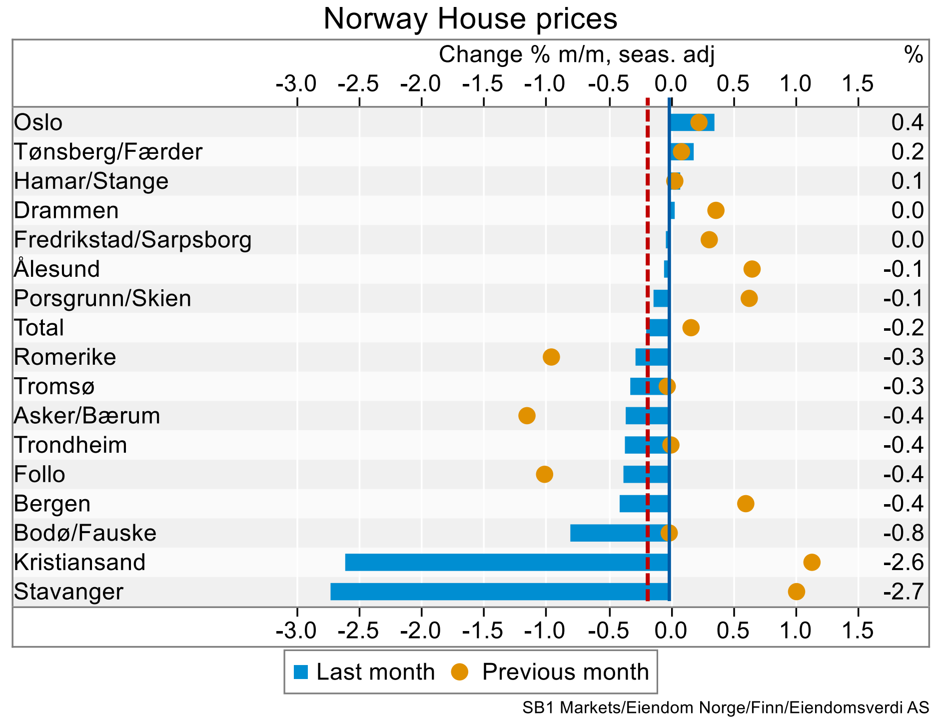
- **The number of transactions** has come back to a 'normal' 2019 level, following the surge in the first part of the pandemic
- The **supply of new existing homes for sale (approvals)** is lower than 'normal' but not by much, and there are fewer de-listings than before the pandemic-
- The **inventory of unsold homes** increased in July but just marginally – and the level is still very low, at just above 9' units
- The **inventory/sales ratio** added 1 day to 35 days, vs an average at 52 days
- The **actual time on market** for those homes actually sold added 3 days, to 35 days (average 42 days)

SpareBank 1 MARKETS

Most cities report lower prices but not Oslo

The decline in prices in Stavanger and Kristiansand surprisingly large vs other cities (2.5 – 3%)

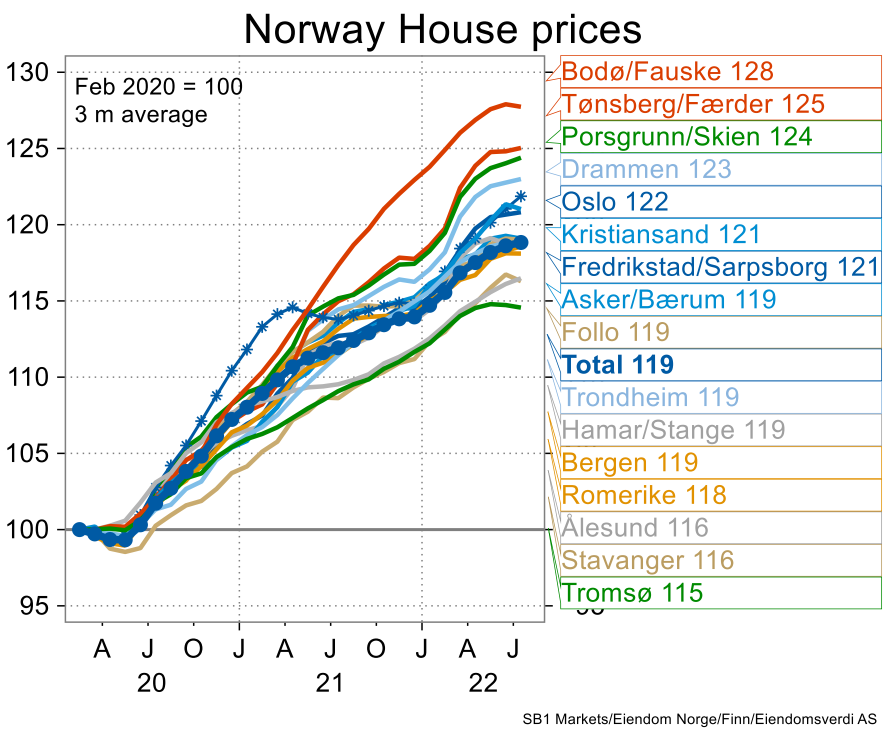


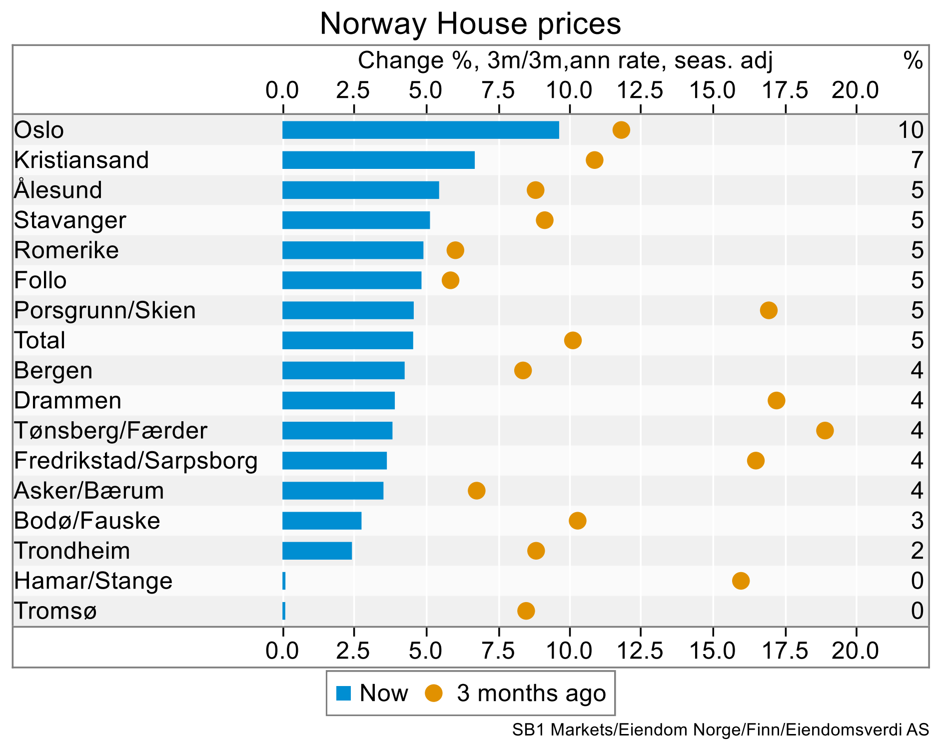


- The inventories of unsold homes have fallen rapidly in both Stavanger and Kristiansand over the past year. A reversal in August is not unlikely – in a region supported by the recovery in the oil industry (but not by the highest electricity prices in Norway...)

The big picture: Price increases have slowed everywhere

Oslo in the lead recent months, up at 10% pace. Bodø has slowed. Hamar & Tromsø have flattened.



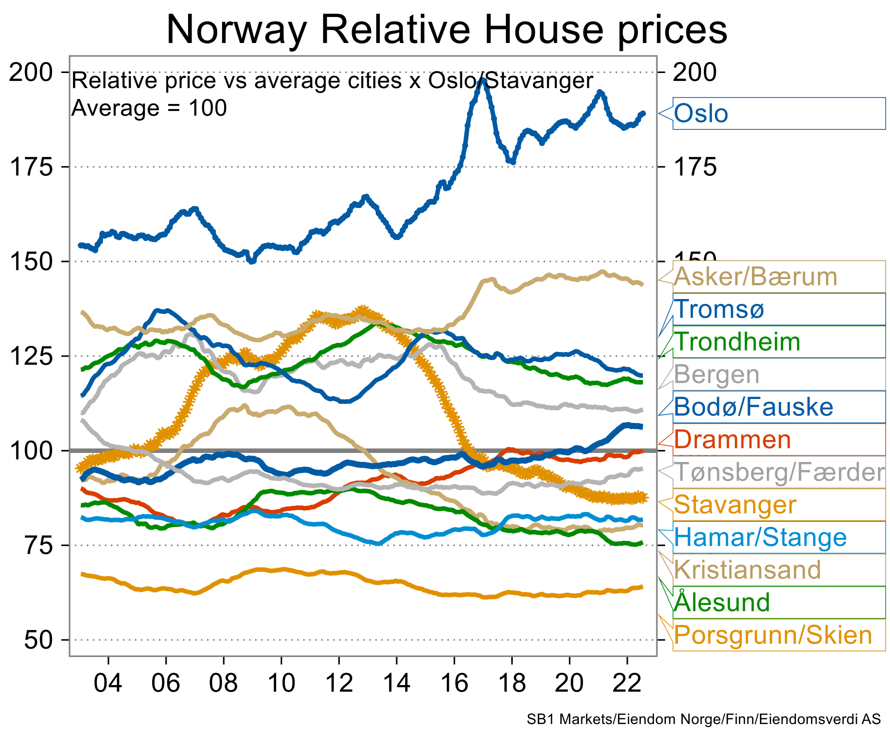


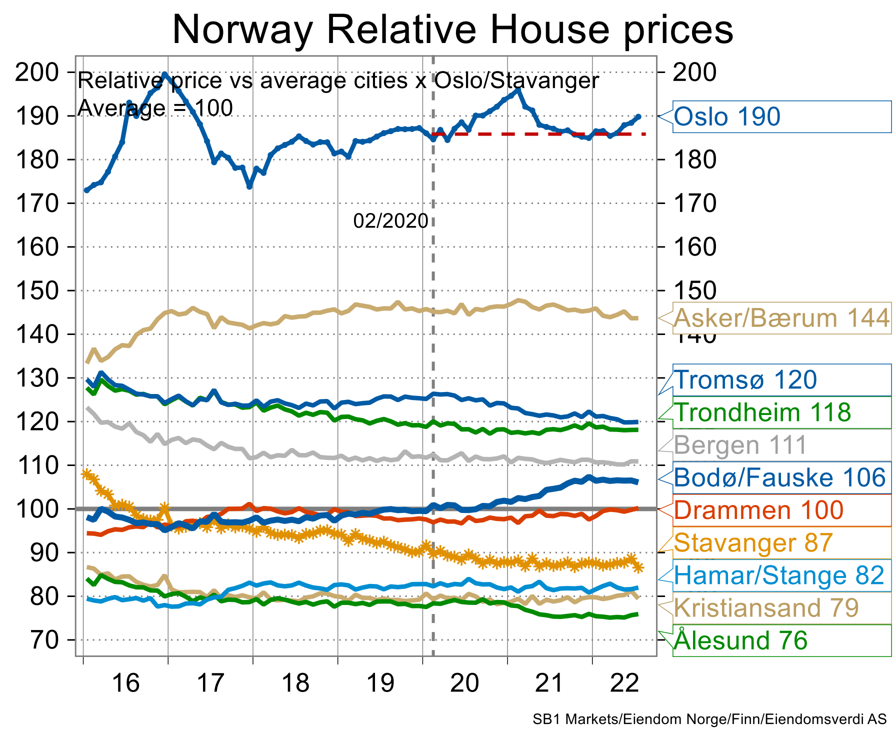
- Bodø the winner through the pandemic (but Oslo since 2016, check the previous page)
- After Bodø, eastern towns have been the winners since the start of the pandemic, Tønsberg, Porsgunn/Skien, Drammen and Fredrikstad/Sarpsborg, and prices are still climbing the fastest here
- Tromsø, Stavanger, Ålesund and the bottom of the list (vs. early 2020)
- Now: Prices are slowing/flattening everywhere – and in July prices fell in most cities

SpareBank 1 MARKETS

Oslo relative prices above the pre-pandemic level again

Stavanger had been slowly recovering – until the July drop

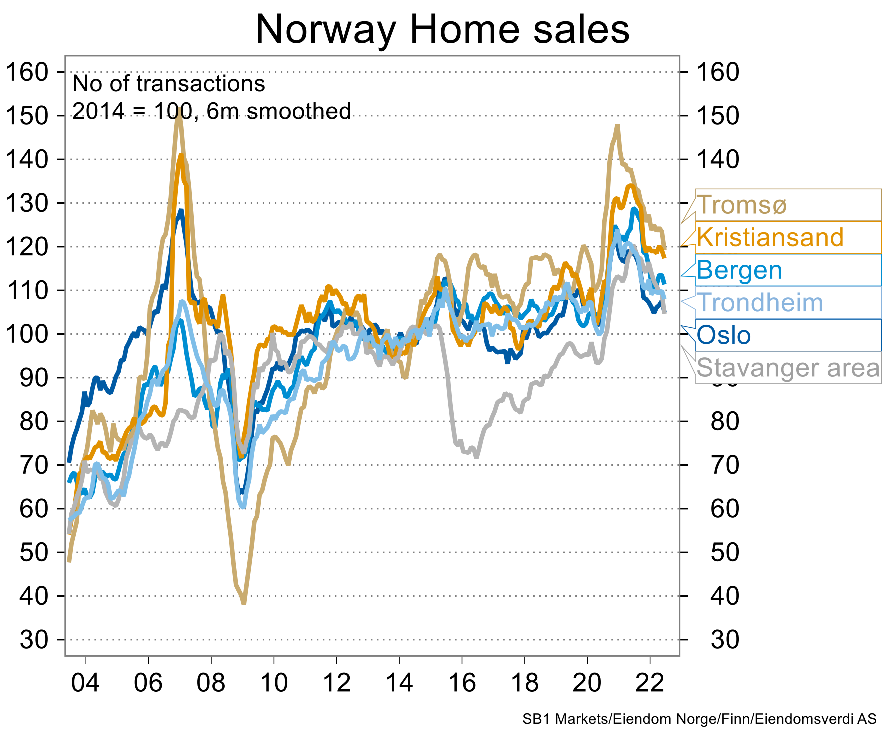


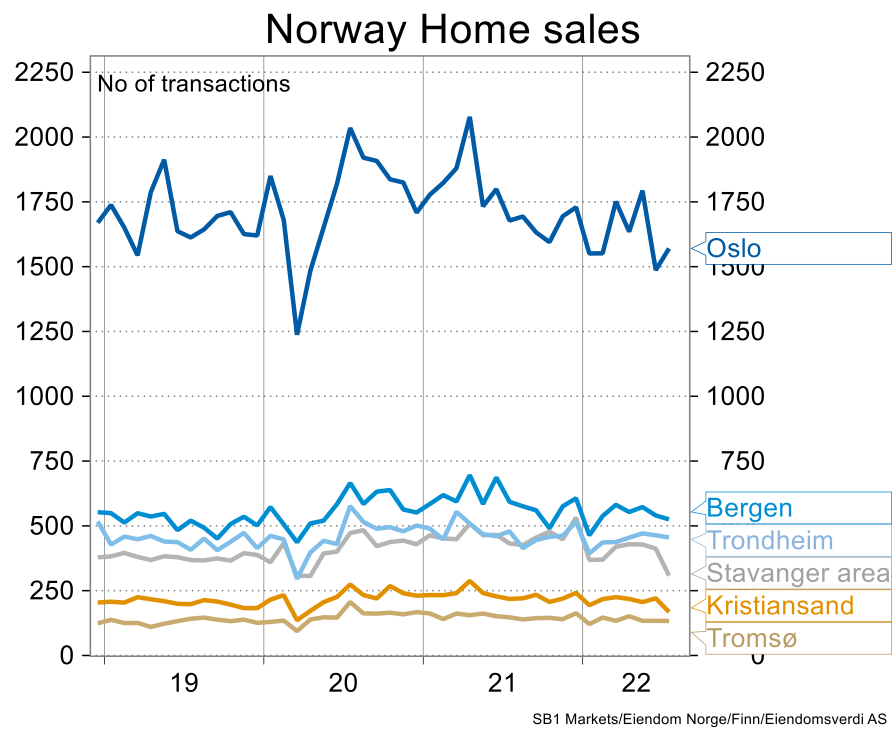


- Housing starts in Stavanger/Rogaland are still not lower than normal. It is still profitable to build, even at 'Hamar/Stange' prices! And why shouldn't it??

Number of transactions mostly down in July

However, levels are not low anywhere – just back to the pre-pandemic level, take or give

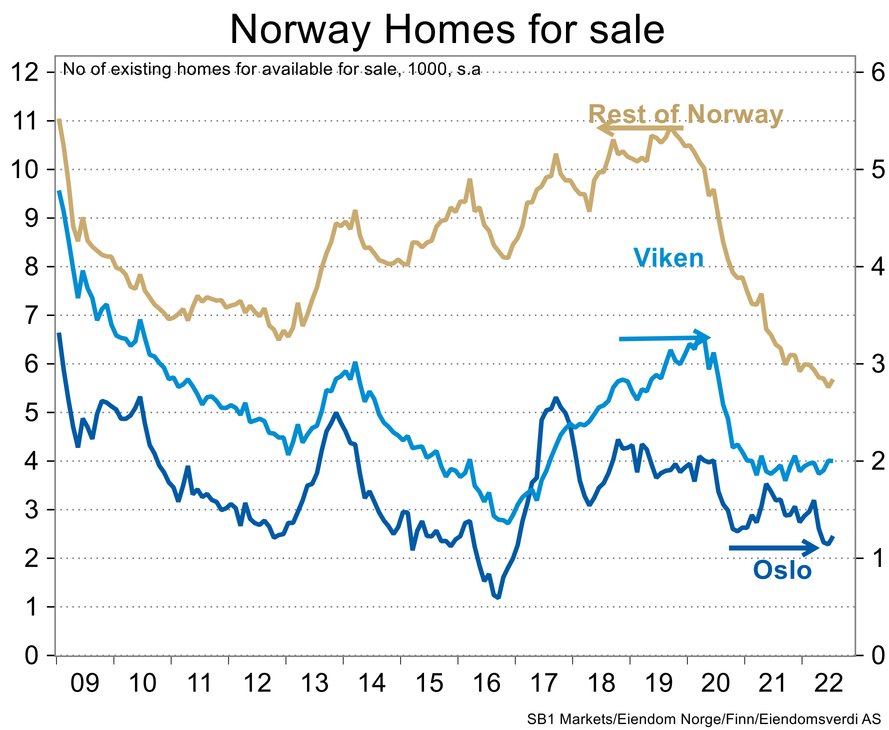


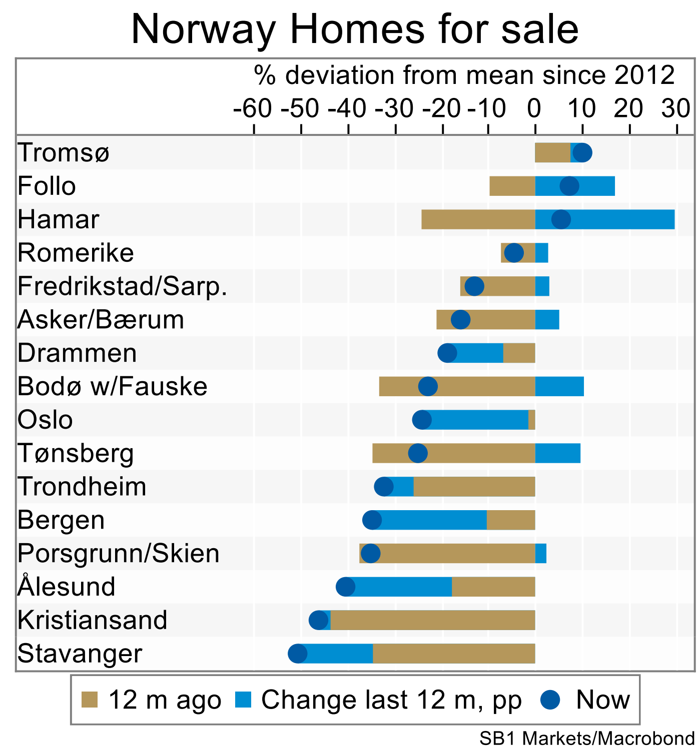


SpareBank 1 MARKETS

The inventory up marginally in July, still very low most places

9 cities reported higher inventories than one year ago, up from 5 in June. 7 are down (from 8)

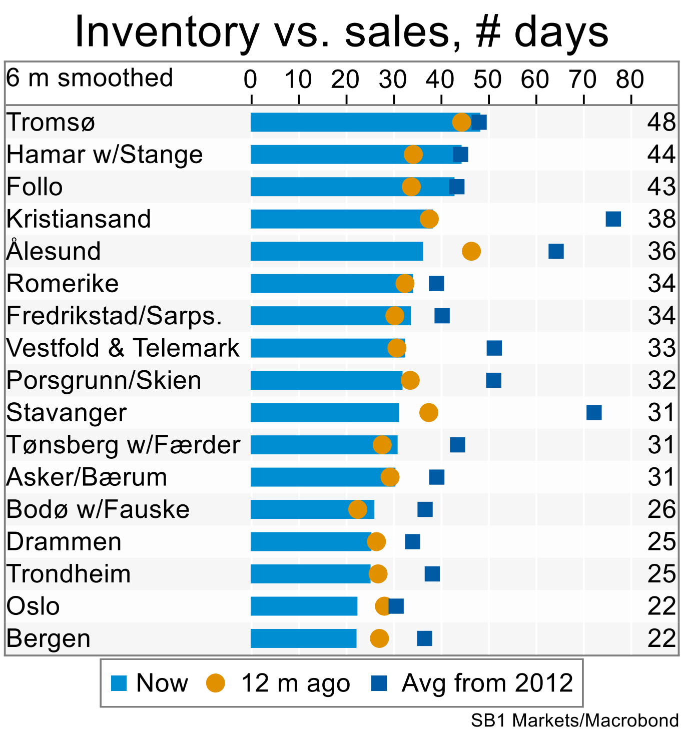




- Last year, the inventory has fallen the most in Oslo, Bergen and Ålesund
- Hamar is reporting the largest increase

The inventory is turned around faster than normal almost everywhere

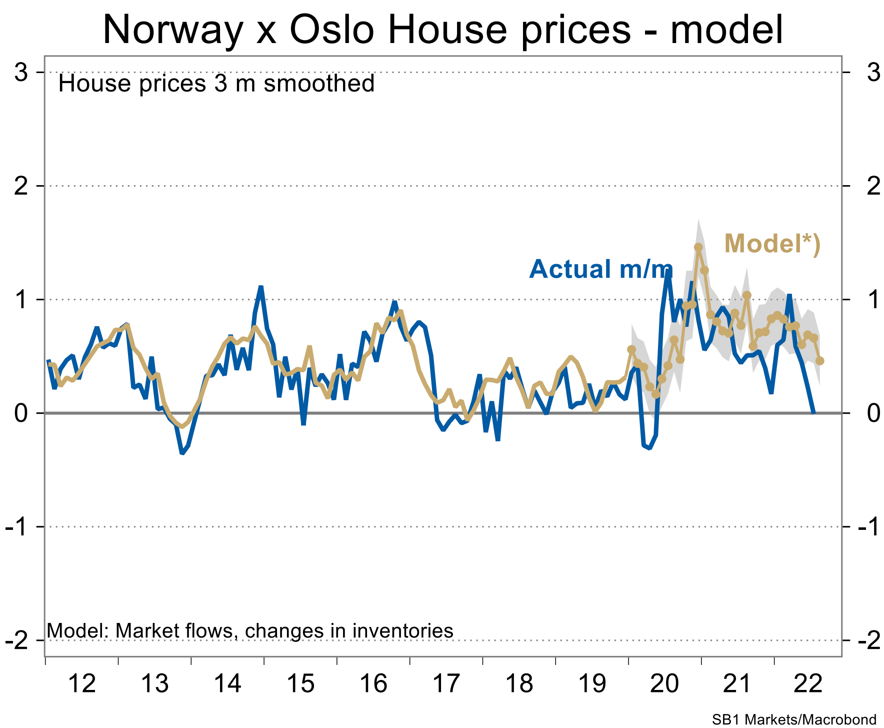
Though with substantial regional differences – and some cities are reporting a slower turnaround

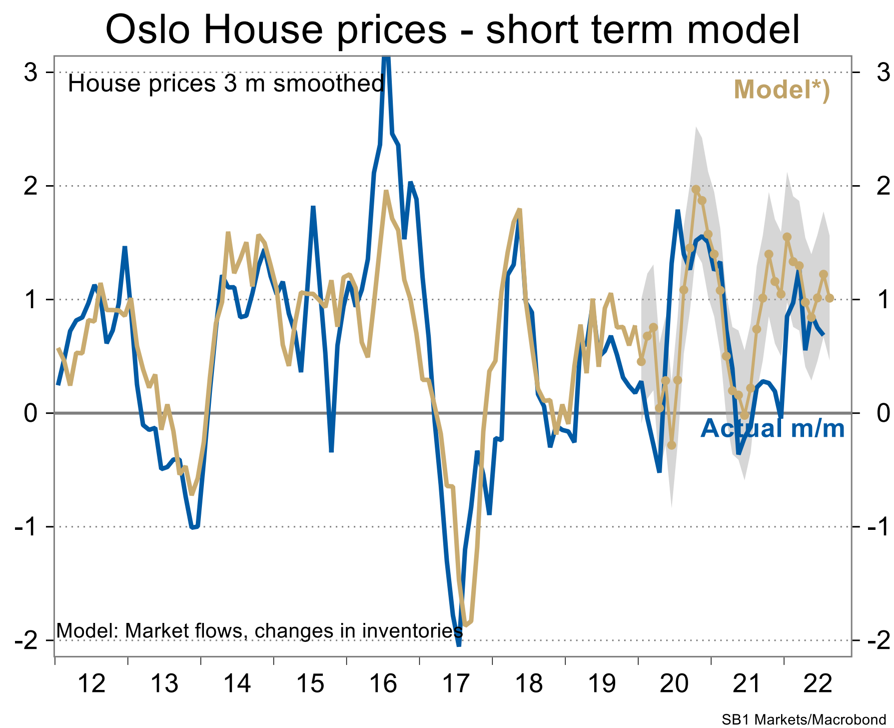


- On average, the i/s ratio has fallen the past 12 months – the most in Stavanger, Kristiansand and Ålesund – the oil coast is recovering?
- Tromsø, Hamar, Follo, Fredrikstad and Bodø are reporting a higher turnaround time than one year ago

Short term market flows suggest decent price growth, especially in Oslo

... at least until we take into account the increase in mortgage rates

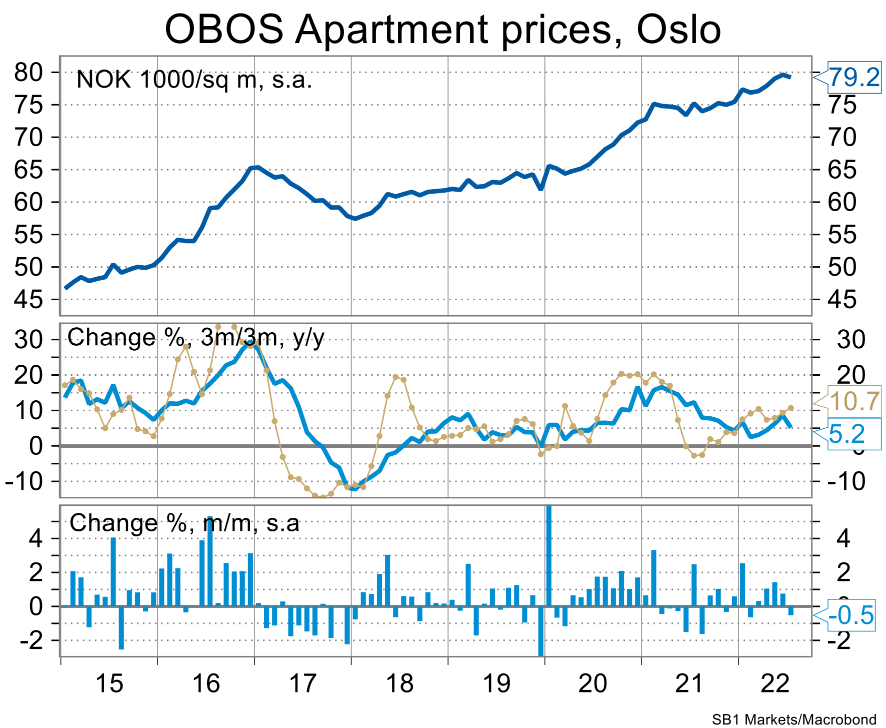


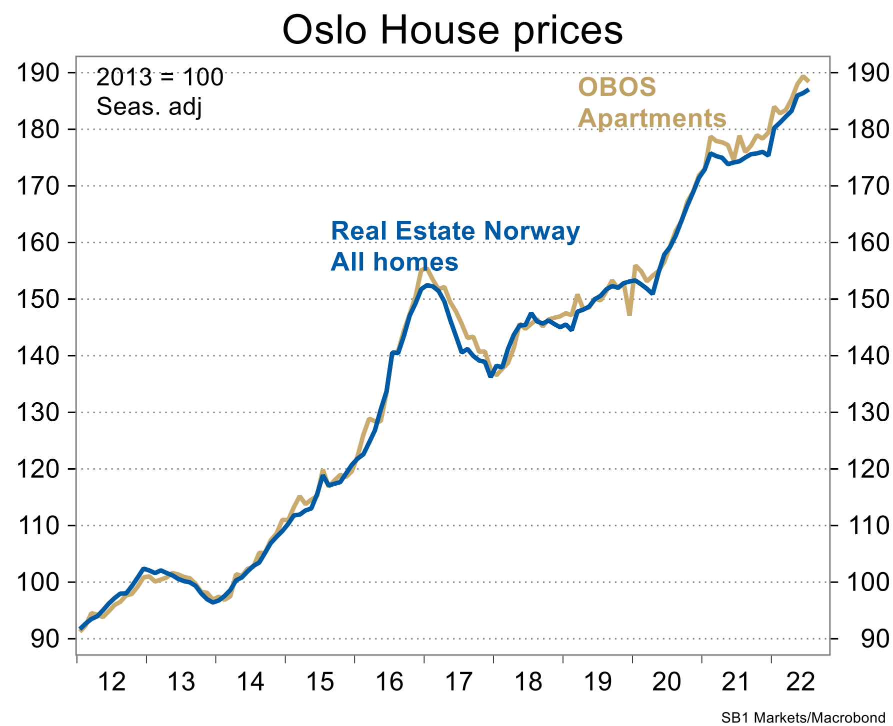


- Our **national x Oslo model** based on flows and the inventory signals a 0.4% growth in house prices per month, clearly above the zero reported growth past 3 months
- Our **Oslo model** signals 1% m/m growth, above the 0.7% lift per month the past 3 months
- **Mortgage rates** are not included in these short-term market models, because they have not consistently added to the models' performance. Still, over time, mortgage rates and credit growth are important driver for house prices, and now rates are on the way up. The current gap is very likely due to the ongoing hikes in mortgage rates
- *These models are not long-term price models, just short-term models based on flows of (existing) houses approved for sale, actual sales and changes in inventories – which are normally correlated to prices*

OBOS co-op apartment prices down 0.5% in July, up 5.2 y/y

… following some strong months. Realtors reported a further increase in Oslo prices

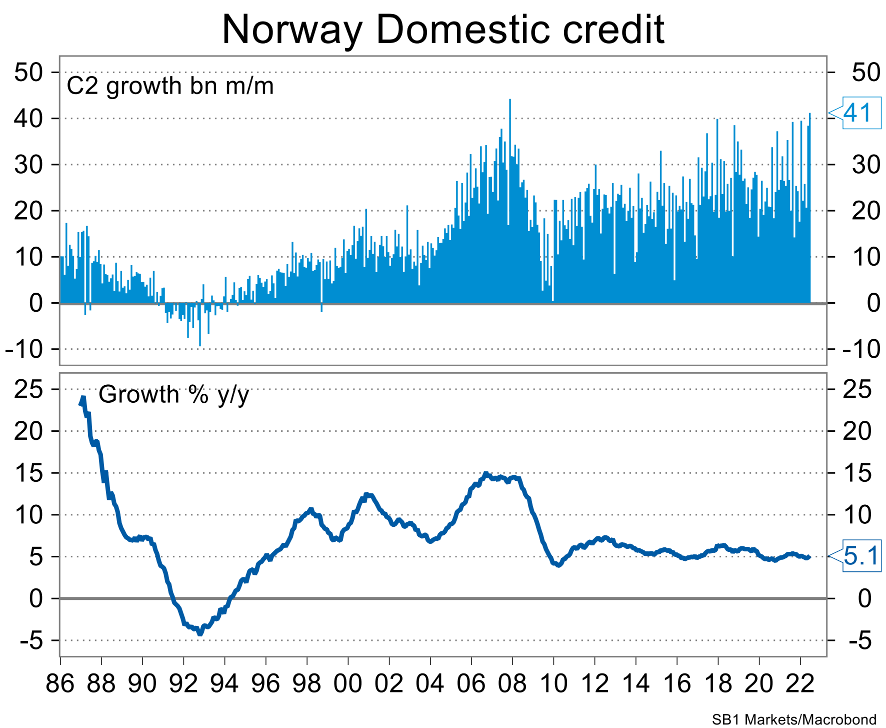


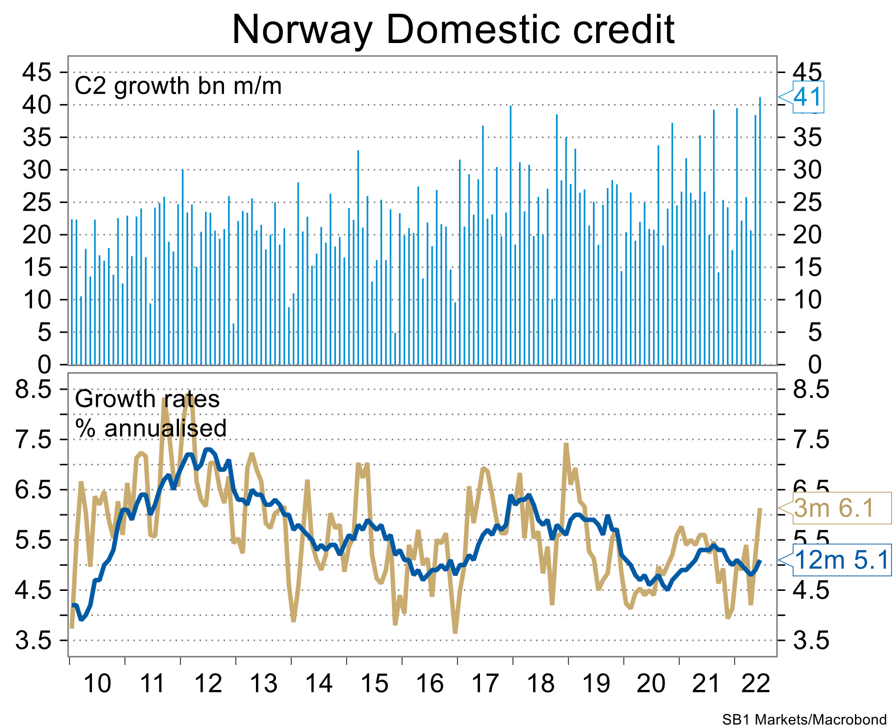


Co-op apartment prices follow the overall Oslo market quite closely, the average price level is somewhat lower than total Oslo market

Strong credit growth in June – as the corporate sector picked up more debt

Growth in household debt is gradually slowing, while businesses are still keeping their demand up

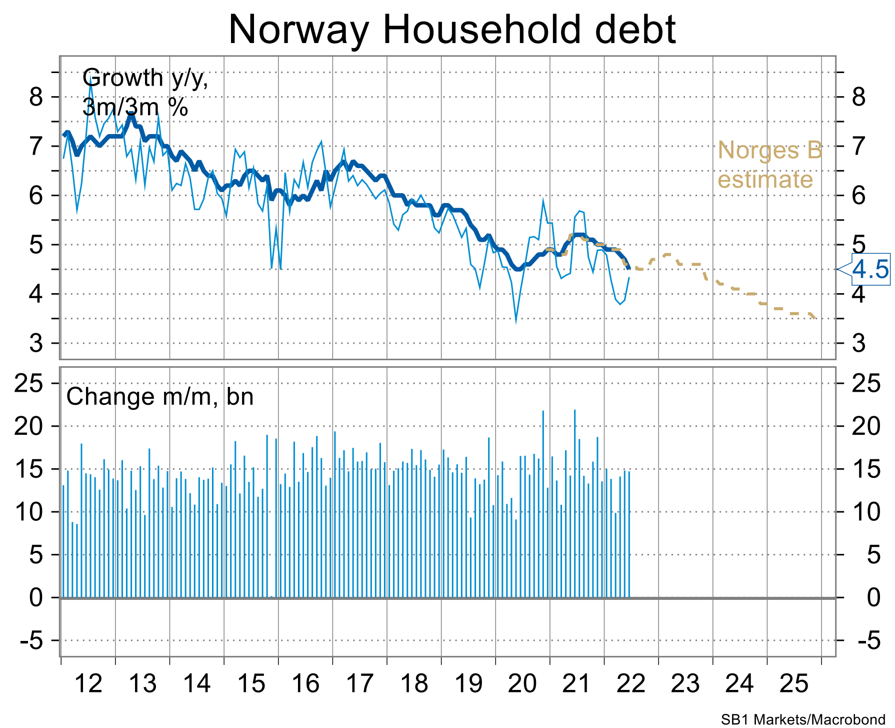


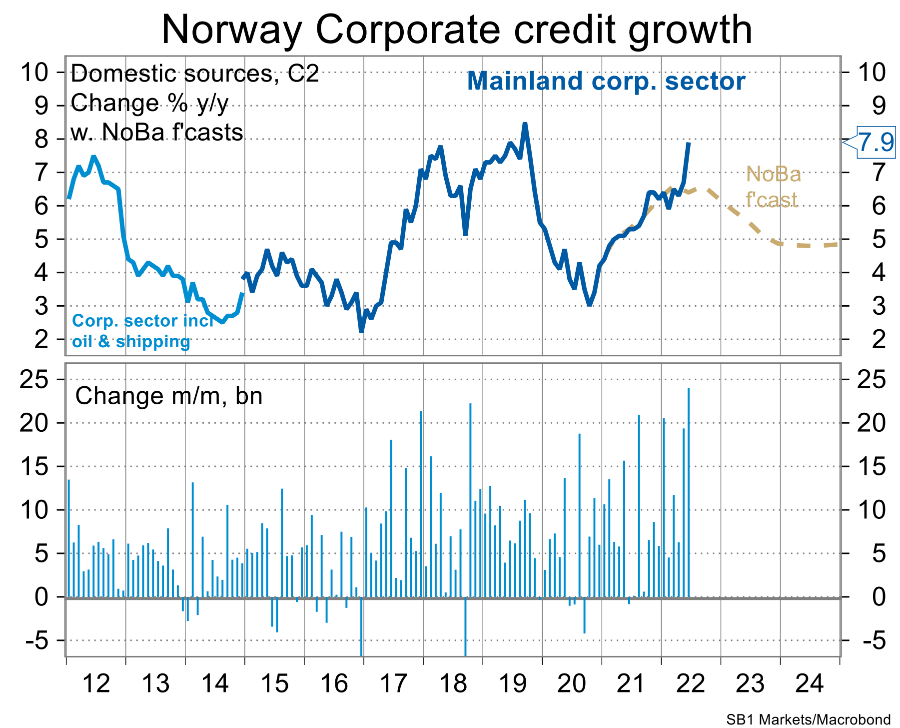


- **Total domestic debt** (C2) rose by NOK 41 bn in June, up from 38 bn in May (rev. up by 3 bn), we expected 26 bn. The NOK 41 bn lift was the 2. highest in history, just behind Nov 2007. The annual growth rate accelerated by 0.2 pp to 5.1%, we expected one tick down to 4.8%. The 3m/3m growth rate is at 6%. Even if credit growth was strong in June, we are not witnessing any credit boom. However, debt levels are high, especially in the household sector
- **Household credit** rose by NOK 15 bn in June, 1 bn more than we expected (and up 1 bn form May). The annual rate retreated 0.2 pp to 4.5%, as we assumed
- **Corporate C2 credit**, rose by NOK 24 bn, following a NOK 19 hike in May, 3 times more than we expected. The annual growth rate shot up to 6.6% from 5.3%
- **Local governments** added NOK 2 bn, less than we expected. The annual growth rate fell 0.2 pp to 3.7%. Last summer the rate was 8%! Finally, local gov's at not increasing their debt/income ratio

Corporate credit growth is accelerating sharply, households are slowing

… as interest rates are creeping upwards

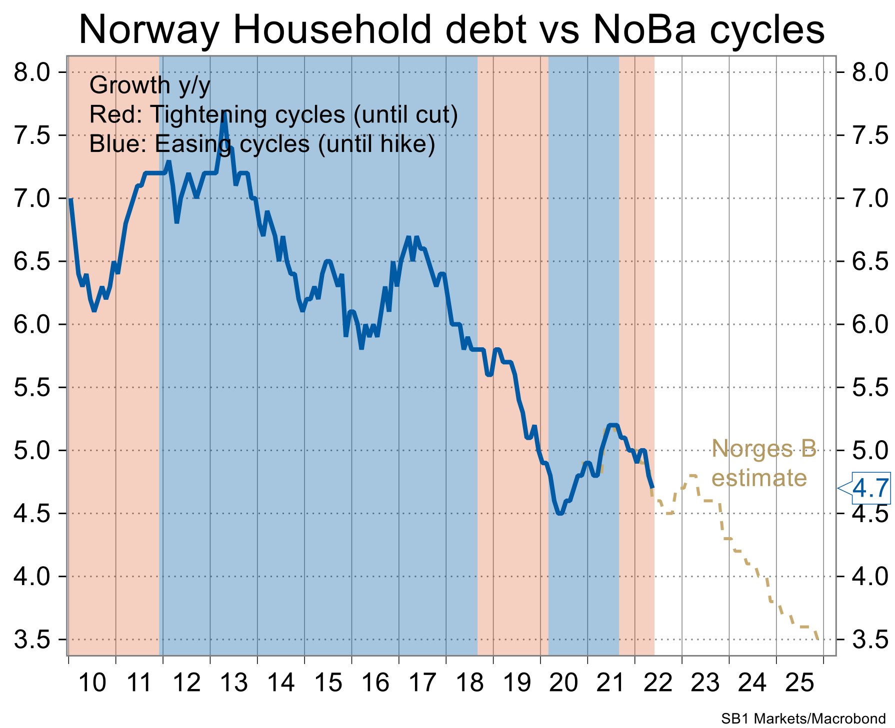




- **Household credit** growth has been slowing marginally recent months, the 3m/3m rate has some 4%
- Monthly growth in **corporate domestic credit** is volatile. The two past months have been surprisingly strong, and the annual growth rate has accelerated substantially. Mainland businesses debt is up 7.9% up from 6.7% in May, way above NoBa's f'cast

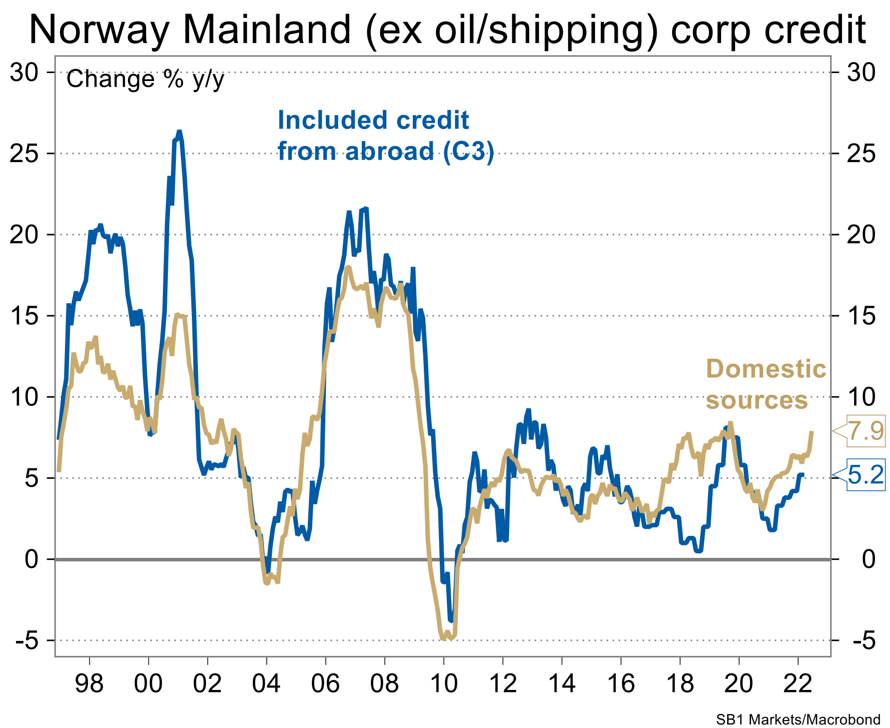
Will higher rates slow down borrowing?

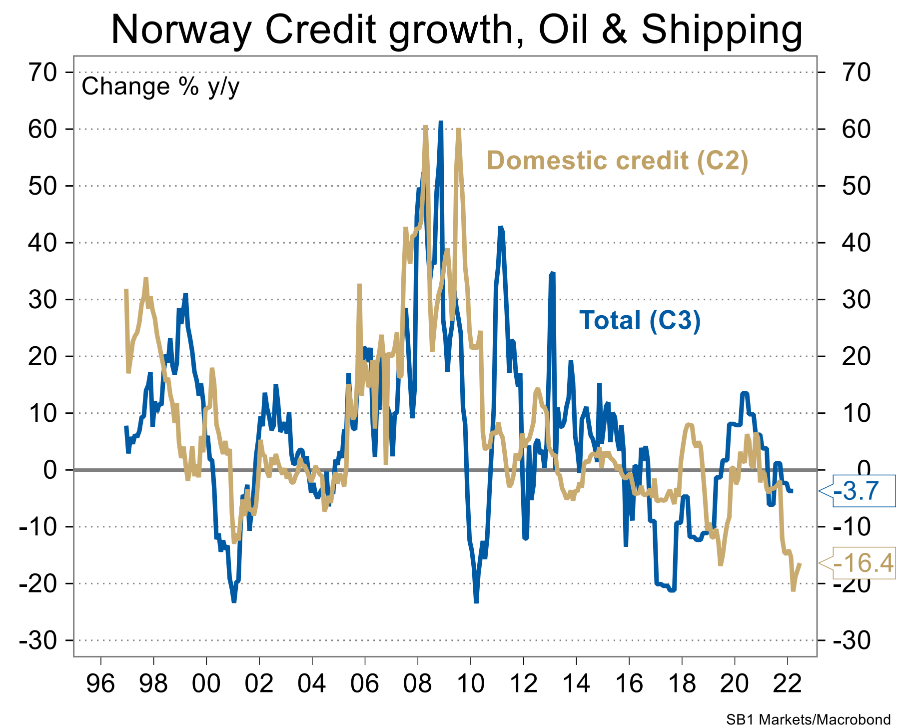
Quite likely, even if there are several stories – and mortgage regulations have impacted borrowing too



Mainland corporates increased their total debt (including foreign credit) by 5.2%

… in Q1. Debt from domestic sources (in C2) was up 7.9% in June

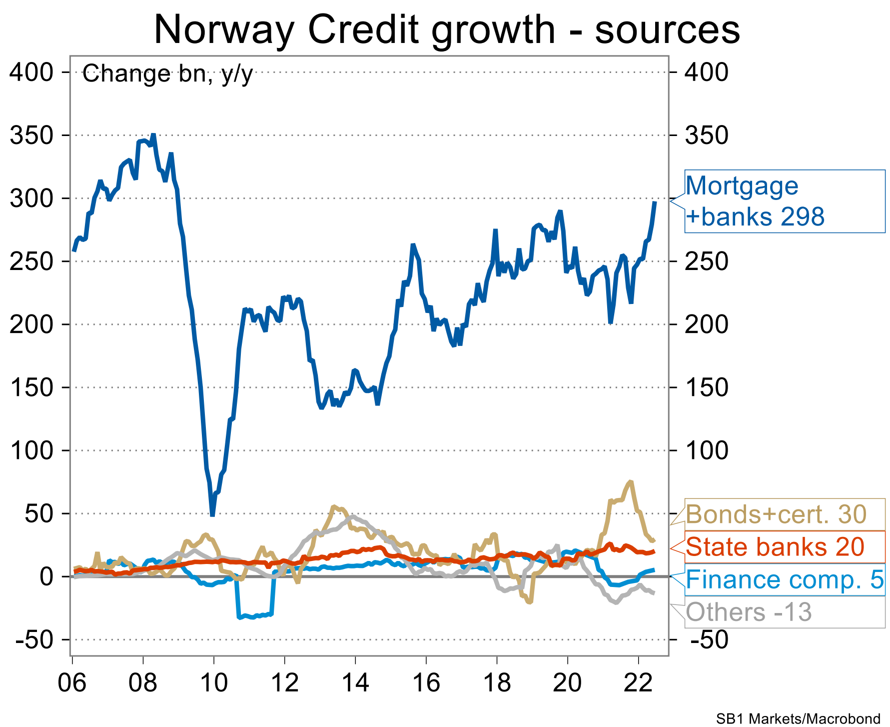


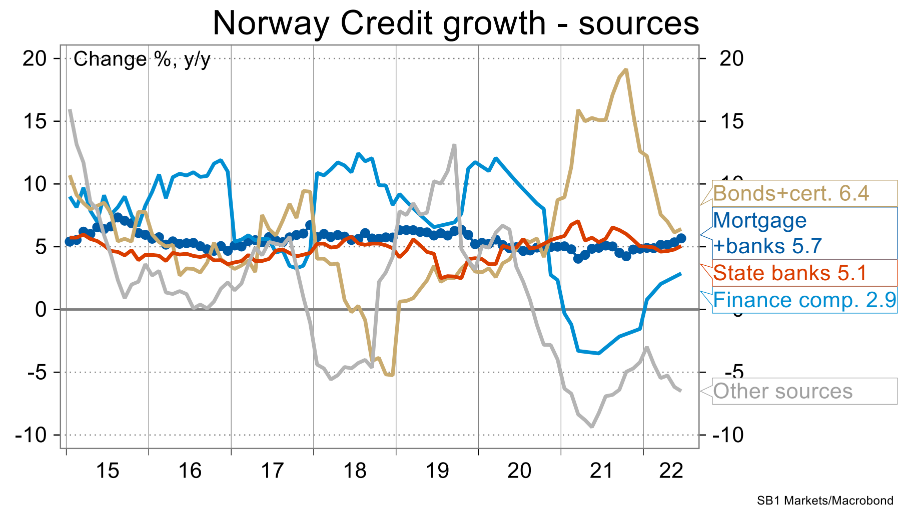


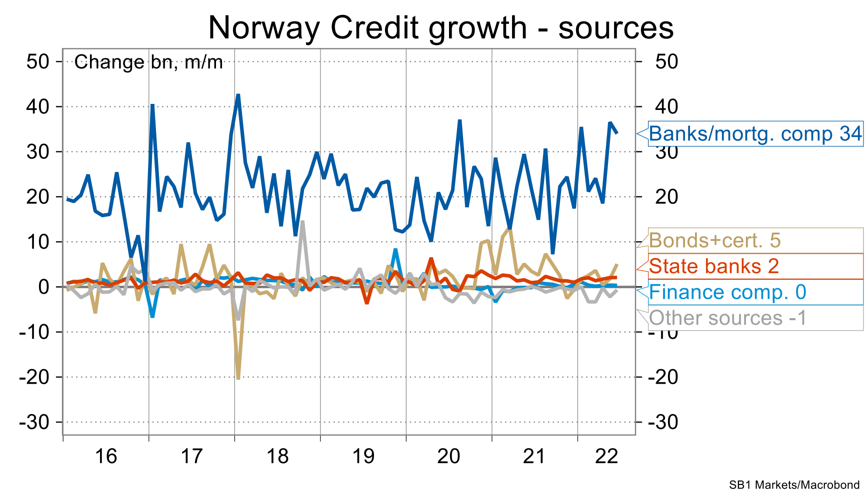
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway. The sum is down 3.7% (Q1), even if domestic debt is down 16% (via transactions)!

Banks are increasing their large market share further

Bond market borrowing has slowed substantially recent months but contributed more in June



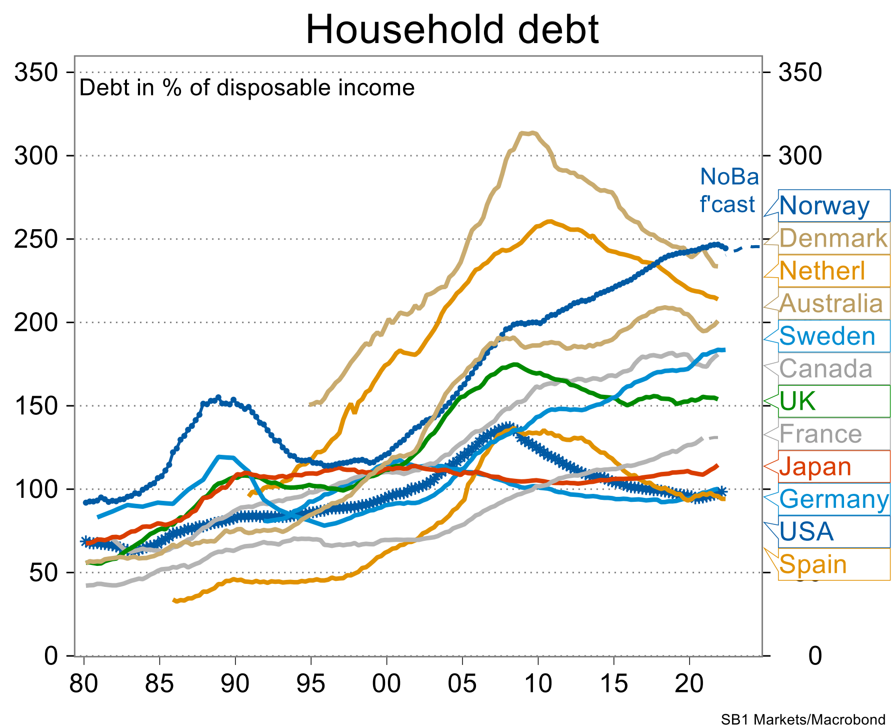


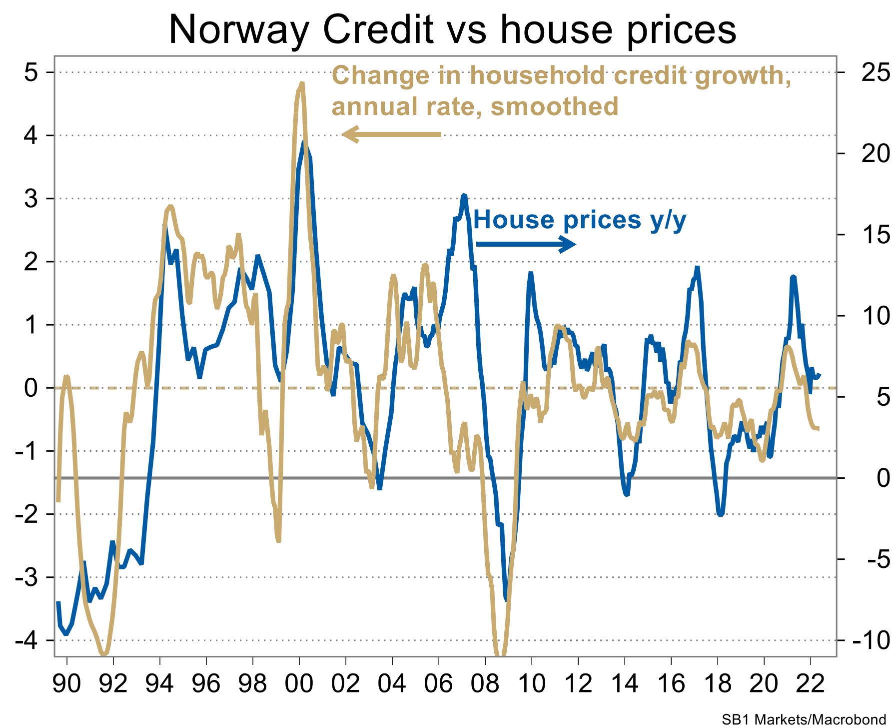


- Net issuance of bonds (to non-financial sector) is up NOK 30 bn (6%) y/y, unusual high growth rates but well down from the peak (75 bn, 19%)
- Banks/mortgage companies are up NOK 298 bn (5.7%) y/y
- Finance companies and 'others' have reduced their lending
  » Both insurance/pension funds as well as Statens Lånekasse, Eksportkreditt are included in our residual 'others', but just the sum of SL & Eksportkreditt is down

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

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

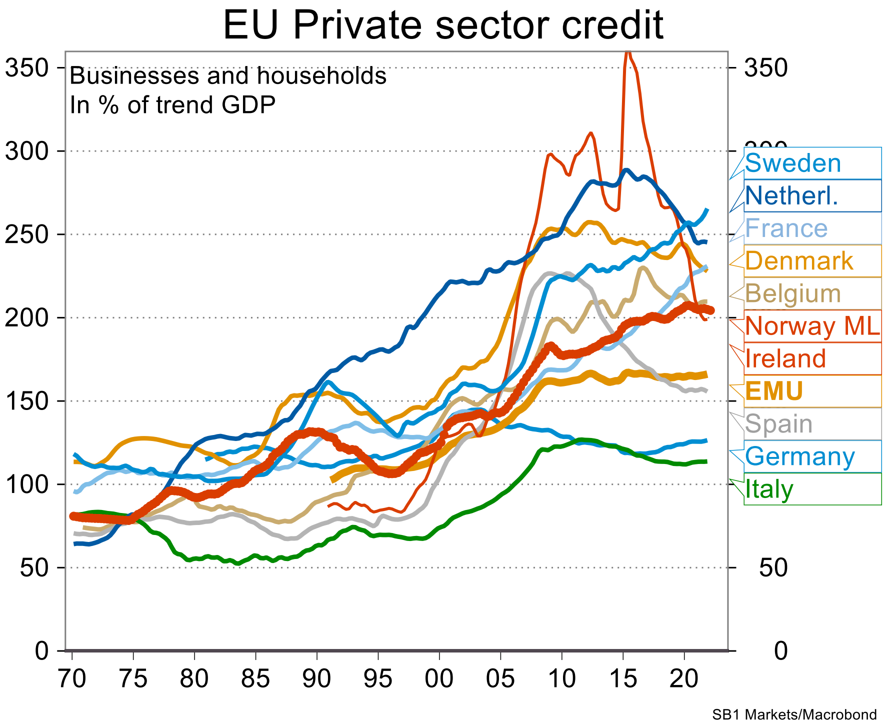


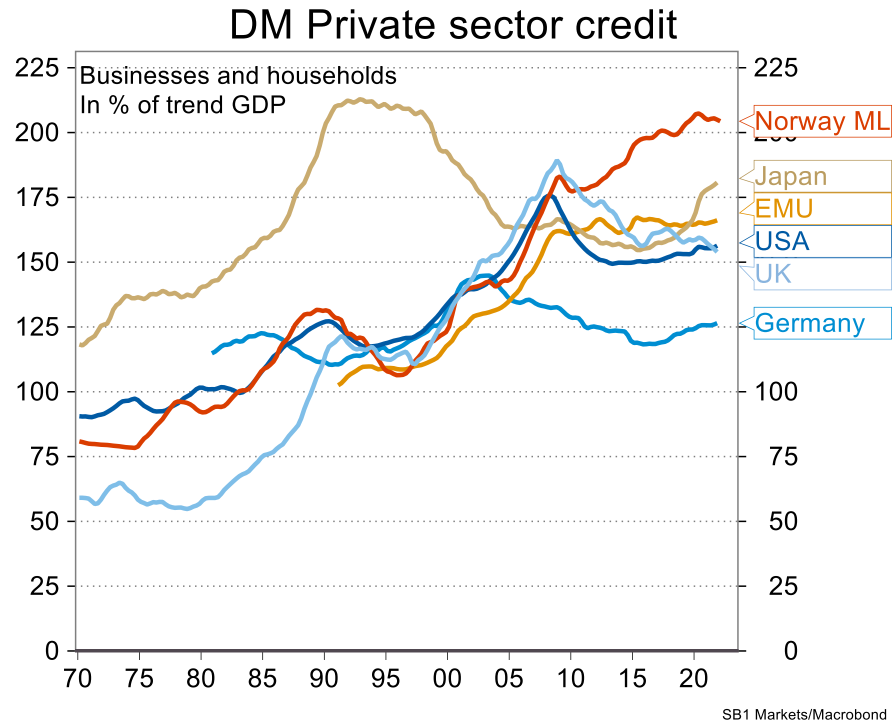


- **Norwegians households' debt** steady been growing faster than income but not more since
  - » Debt/income ratios in many countries have been influenced policy measures vs. households during the pandemic
- **Changes** in credit **growth** (the 2nd derivative) is usually correlated to economic growth,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

The private sector has mostly been deleveraging since the Financial crisis

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





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

Highlights

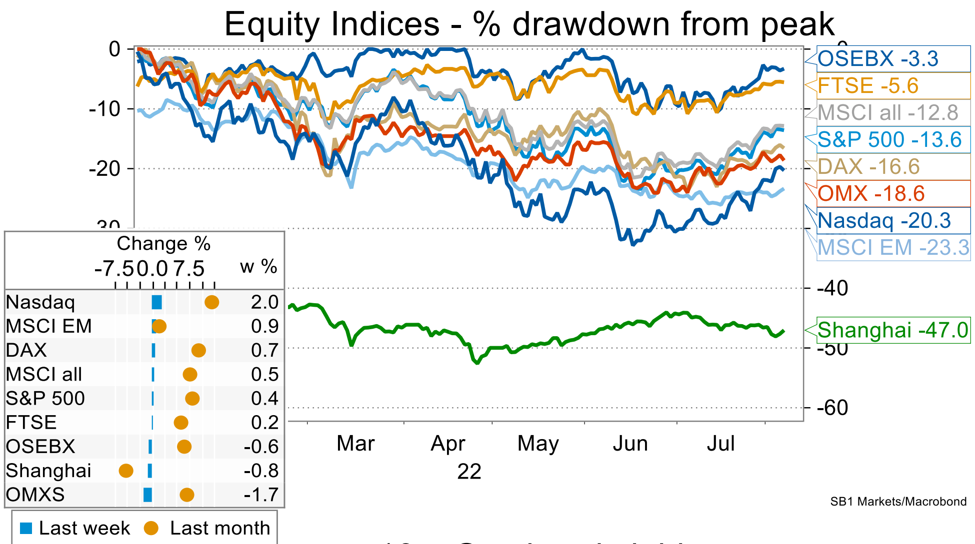
The world around us

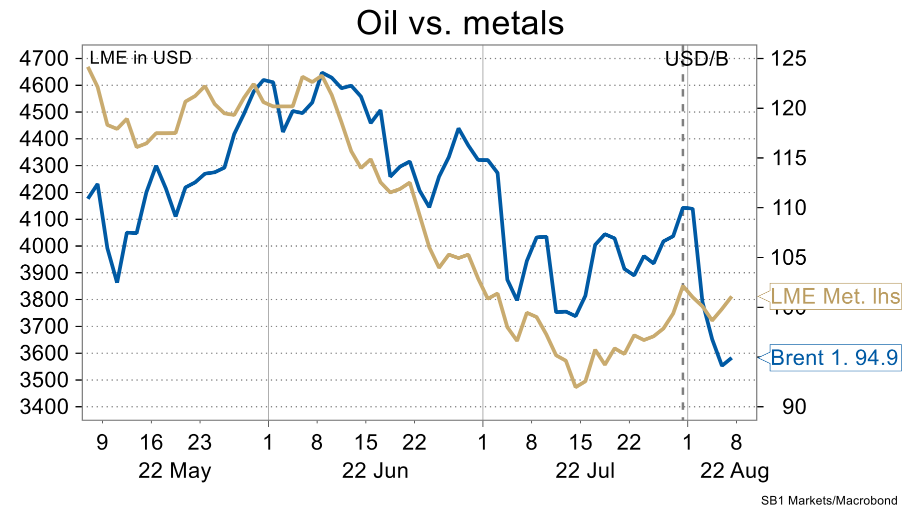
The Norwegian economy

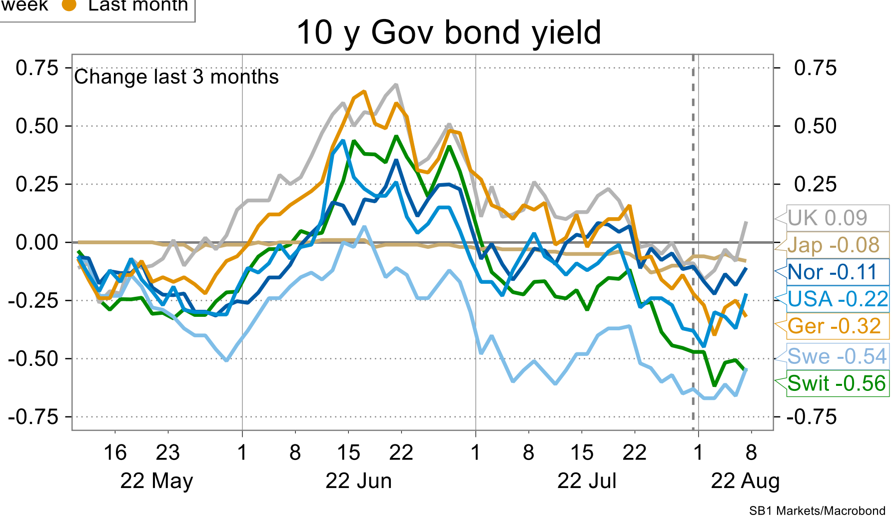
Market charts & comments

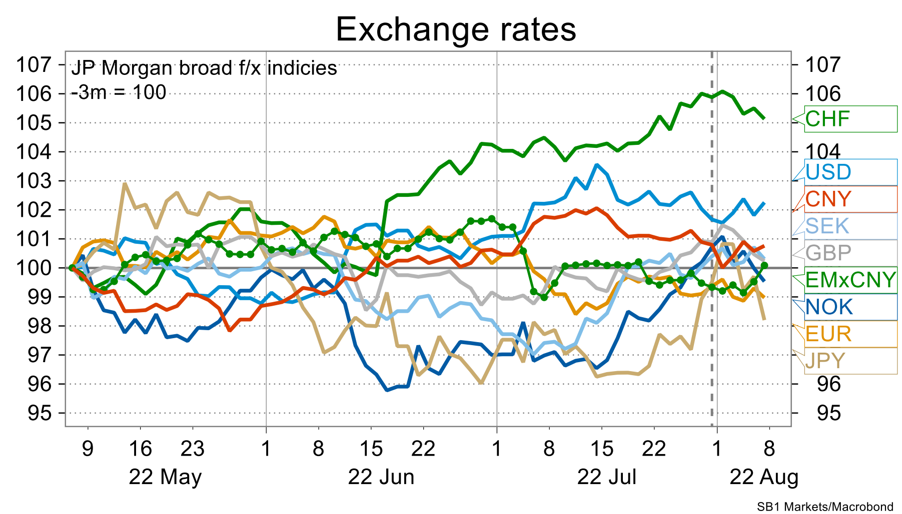
Equity markets just marginally up, as yields rose. The oil price sharply down

Central banks signal willingness to tighten more – and some data are suggests they are far from finished



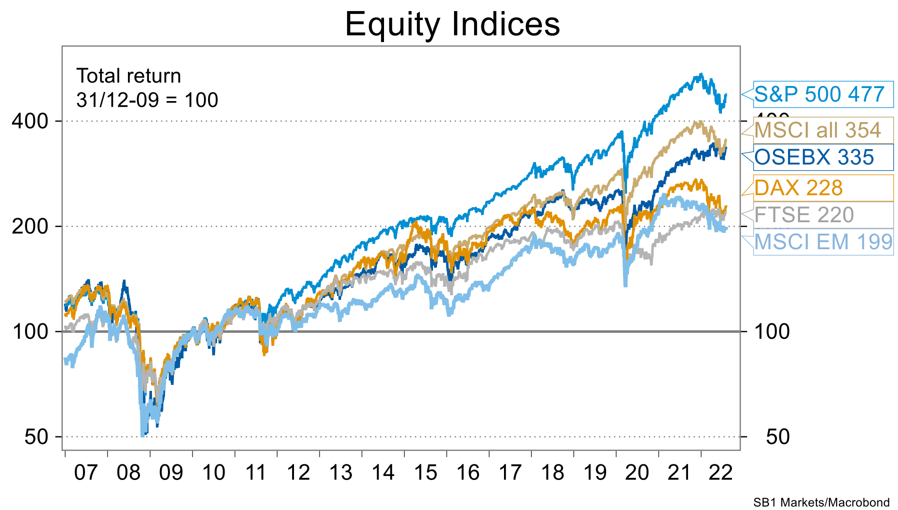


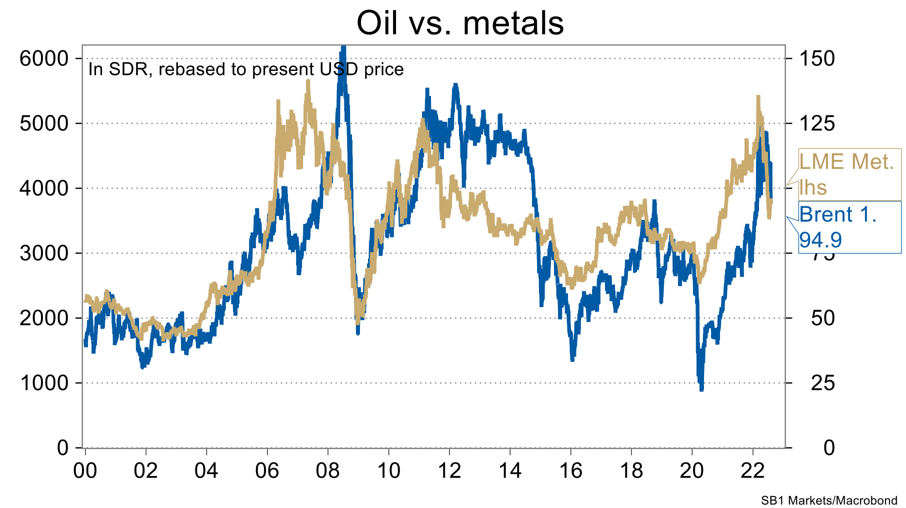


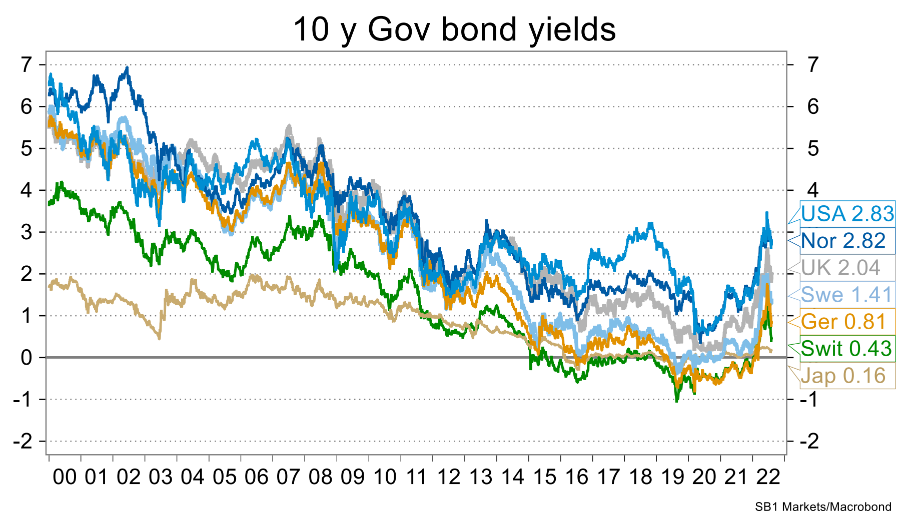


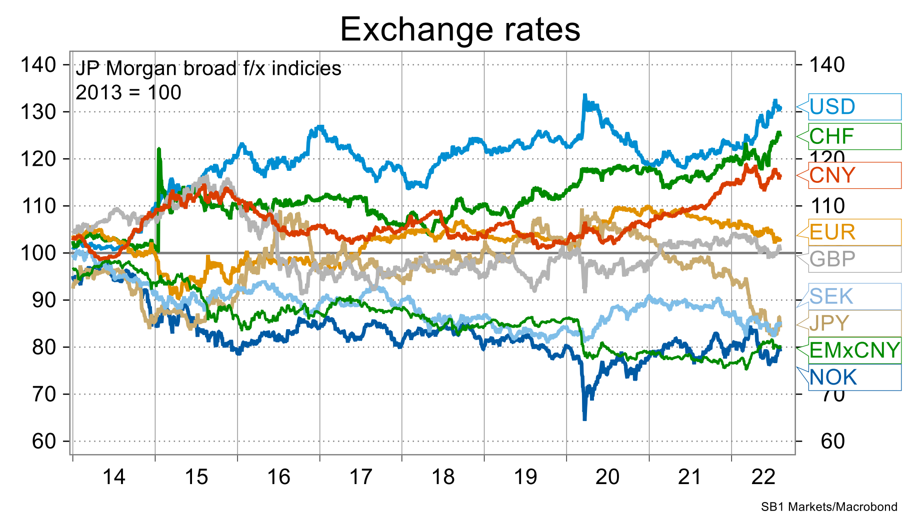
The big picture: Stock markets down, bond yields up

Commodities are on the way down again

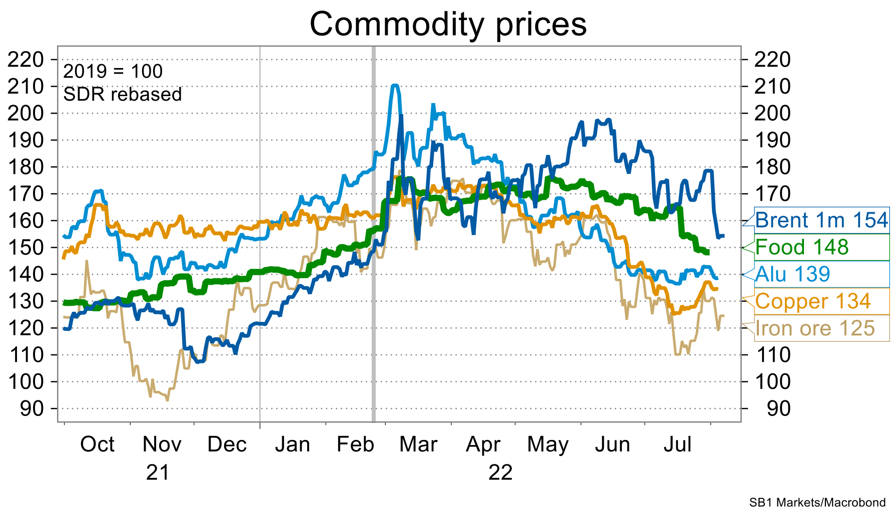


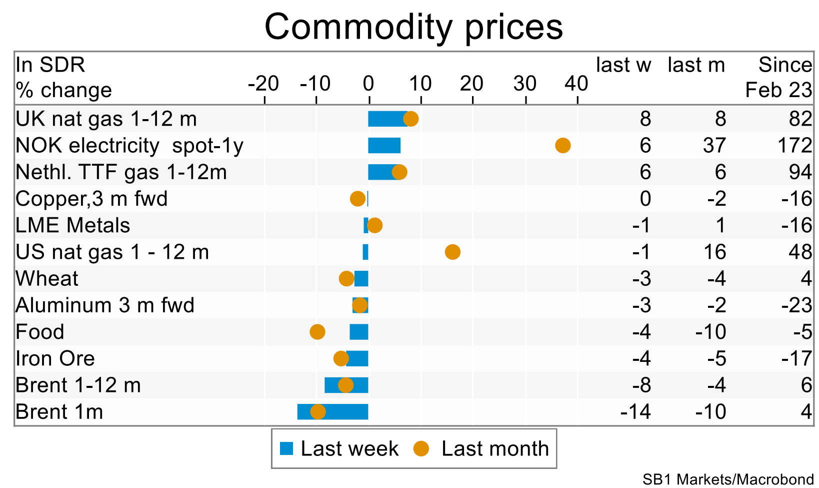


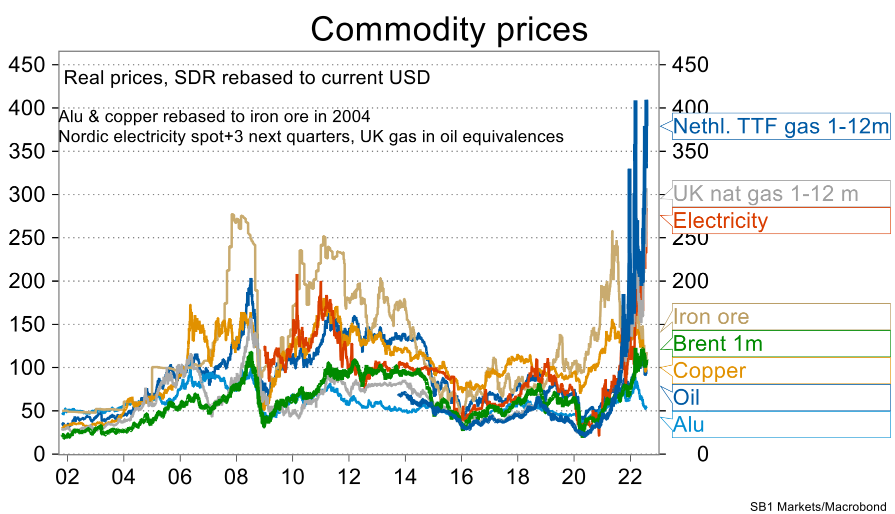




Most commodity prices down last week, barring European gas/electricity prices





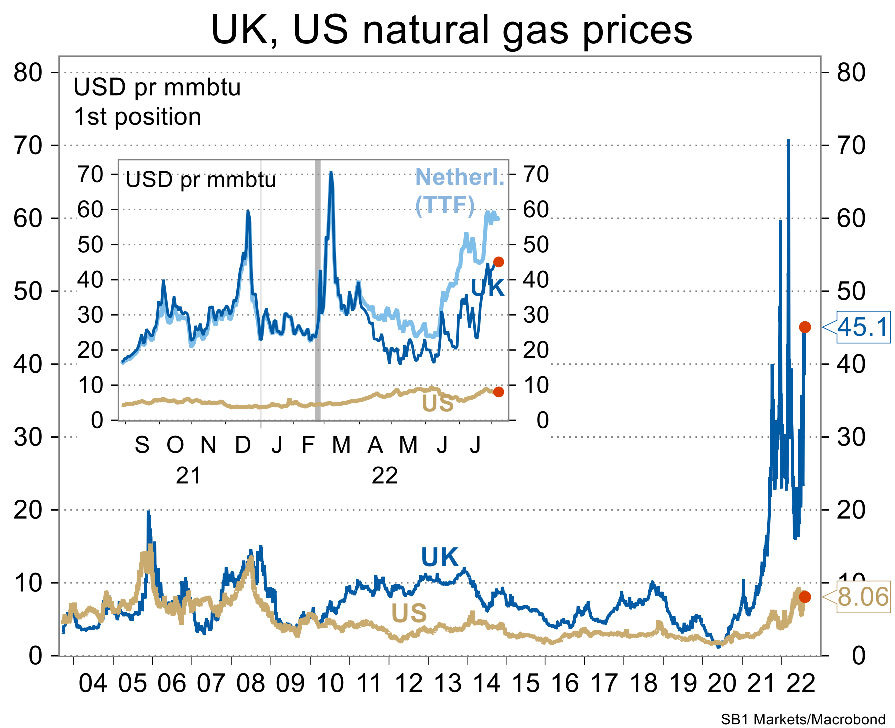


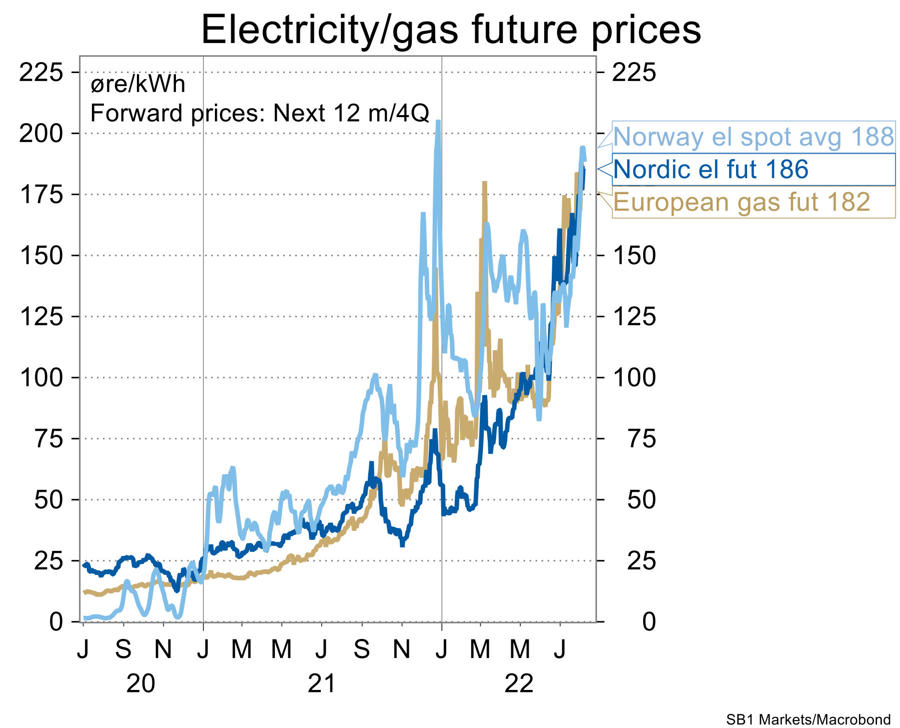
- Oil prices have stabilised, following the decline
- European natural gas prices – and thus electricity prices - rose further last week (charts next page)
- The Economists food commodity index is still trending down (no data for last week)
- Metal fell last week following an uptick the previous week. The trend is down (but prices have flattened last month)

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

The main challenge: European gas supplies & prices

Russian gas exports remain at a very low level, the parties are quarrelling over gas turbines





- Nordic (Nordic average) future electricity prices for the coming 12 months are in line with the current average price level in Norway – which is rather high
- More measures will probably be announced this week, even for businesses – which is a rather complicated matter

European gas: 75% Dutch TTF, 25% UK NBP, excl. CO2 cost

SpareBank 1 MARKETS

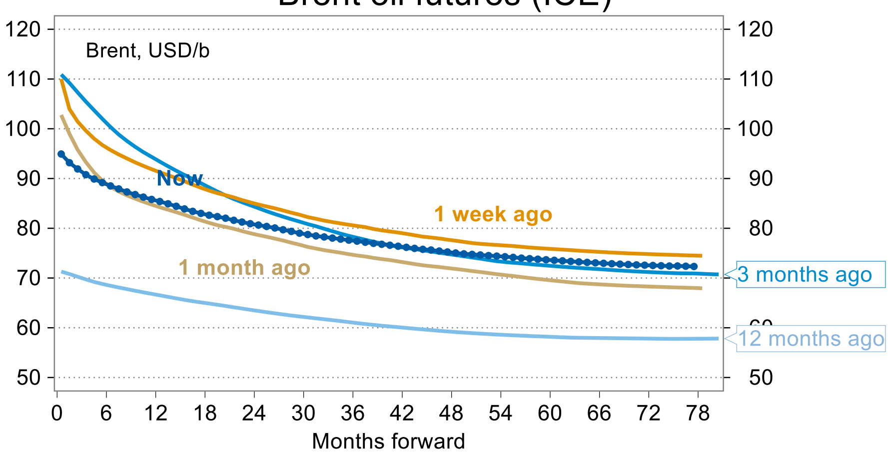
The short end of the oil curve down last week; The long end quite stable

... at USD 75 – 80/b

Brent oil, spot & Dec contracts

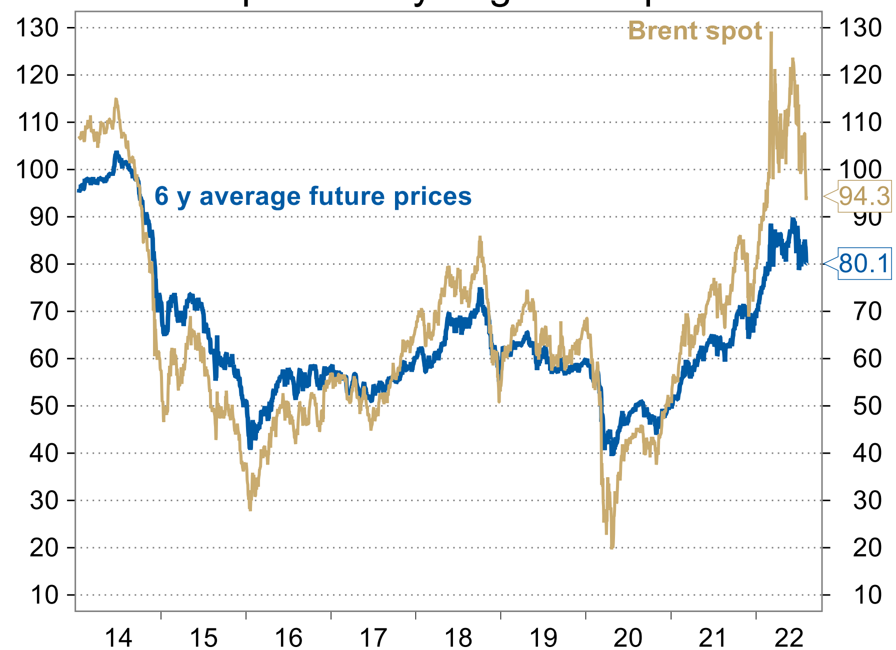
SB1 Markets/Macrobond

Brent oil futures (ICE)



SB1 Markets/Macrobond

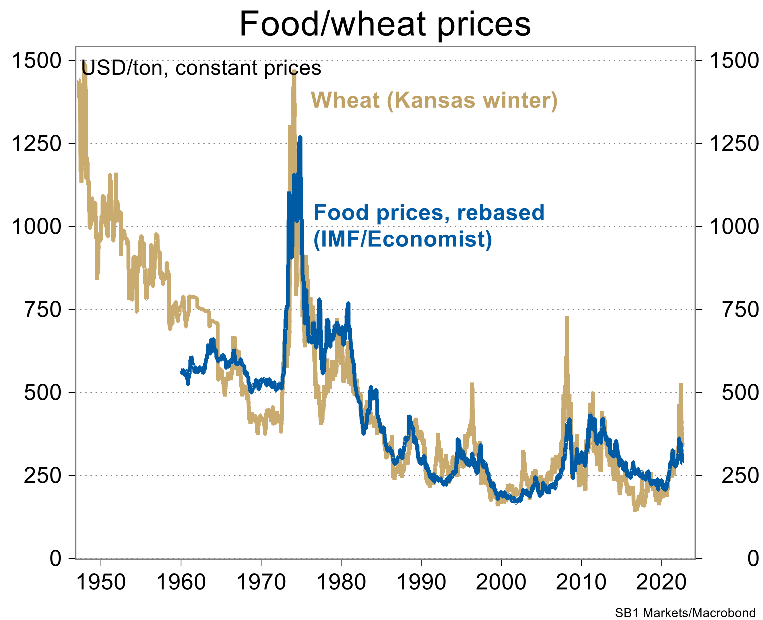
Oil Spot vs. 6 y avg future prices

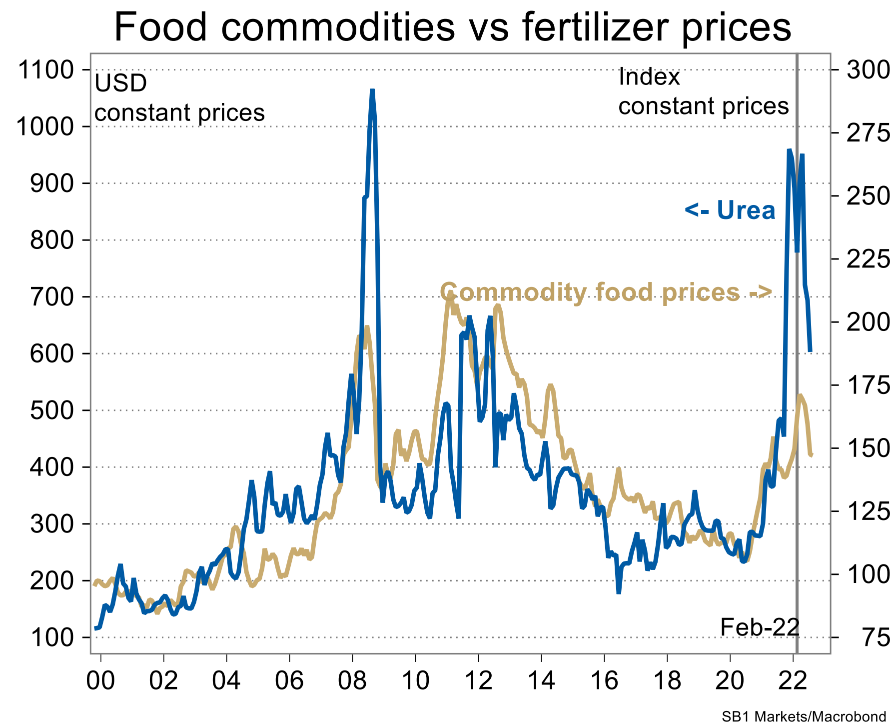


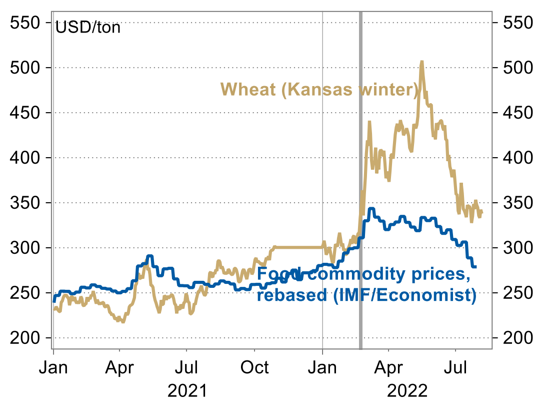
SB1 Markets/Macrobond

Food prices are trending downwards – from a level that never was that high

Where is the global food crisis?? Urea prices are falling rapidly too (but are not low vs. food prices)

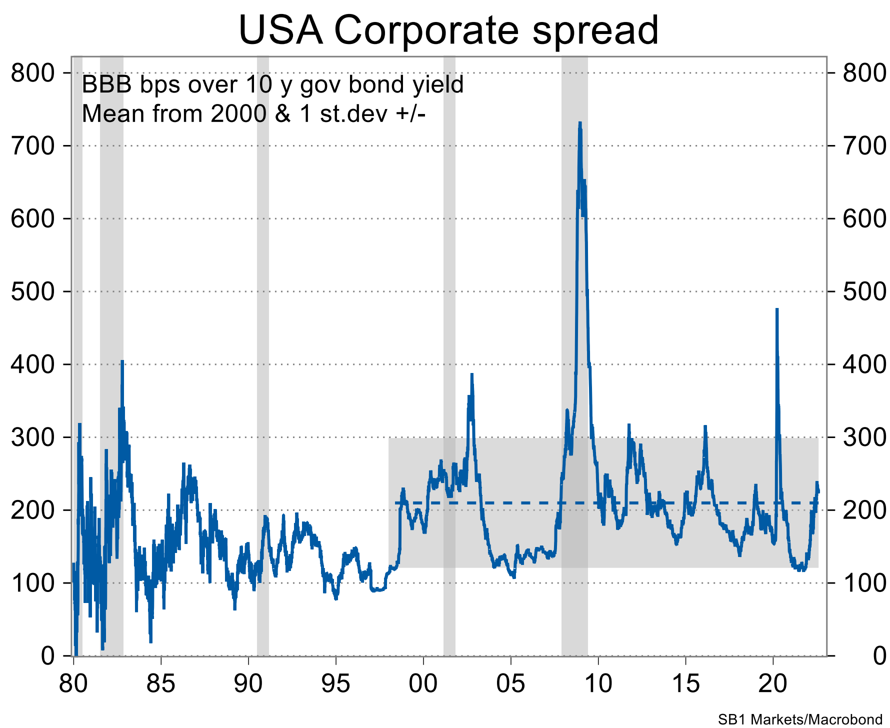


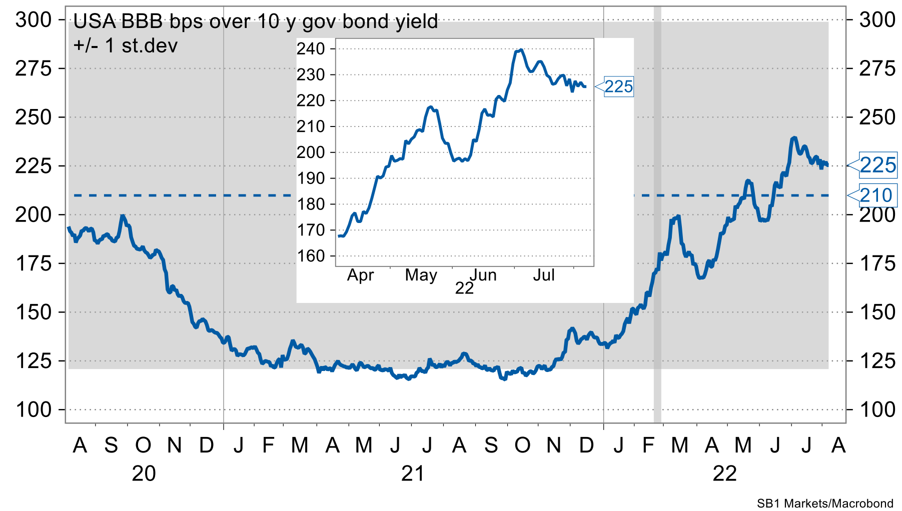




Credit spreads flattened last week – at an above average level

… following the steep increase the previous months

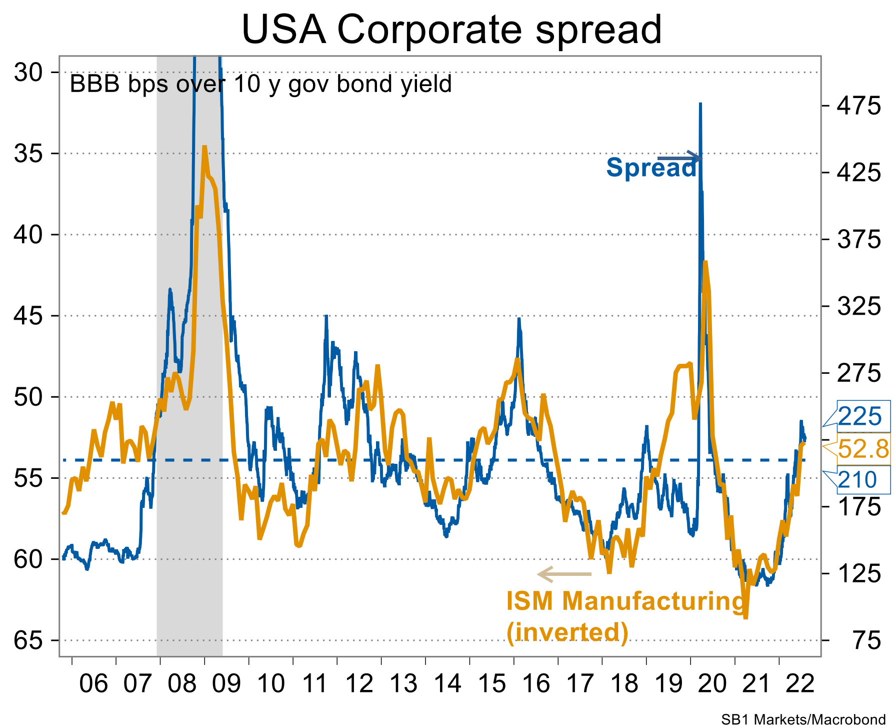


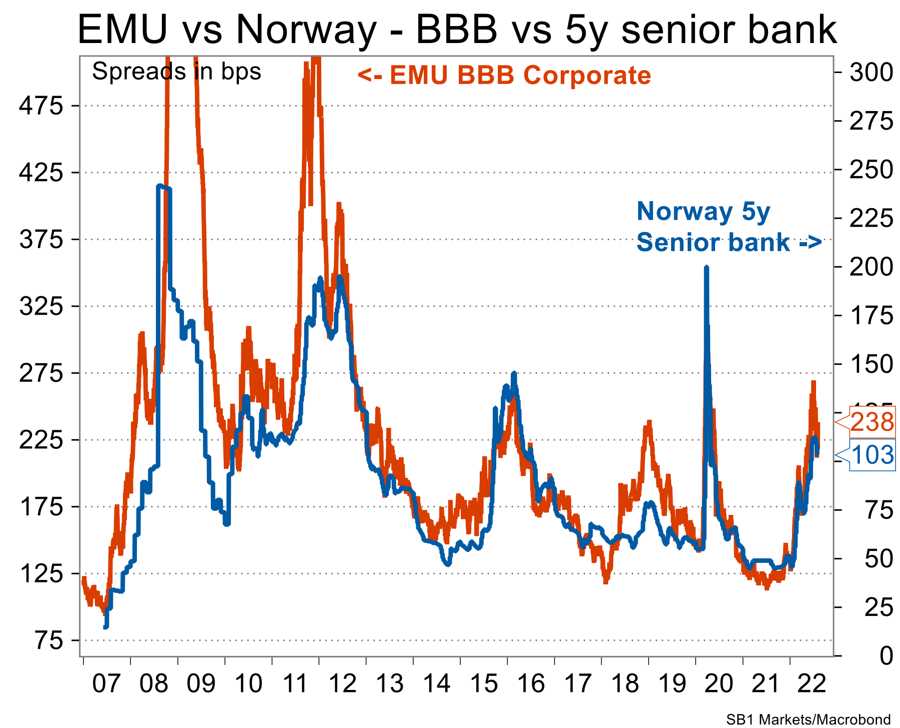


- The US BBB spread is still up more than 100 bps from the bottom last autumn, almost a doubling

Why have credit spreads widened? 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..

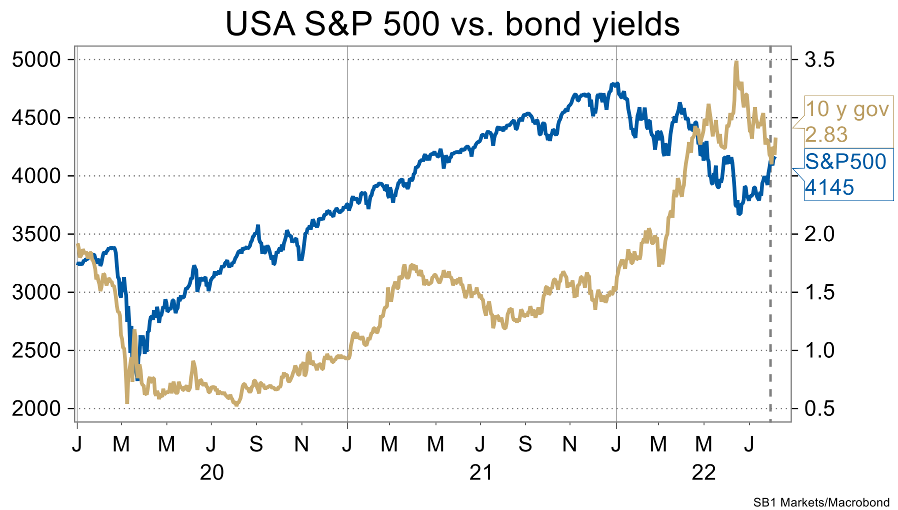


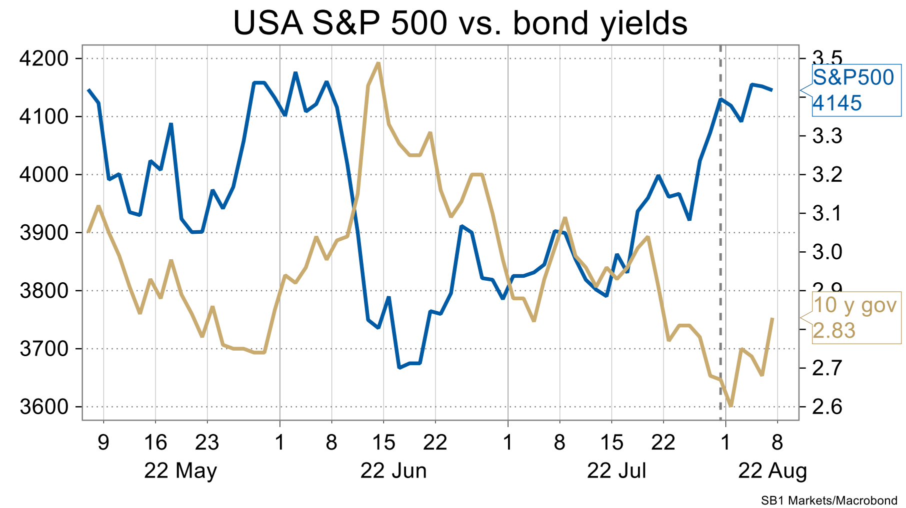


- The answer is not irrelevant for your view on the outlook for spreads, we think
- And do you think Norwegian spreads will be influenced by changes in the global credit market?
- Last week: Norwegian credit spreads adjusted downwards following the decline abroad the previous weeks

A 13% stock market recovery, back up to the early June level

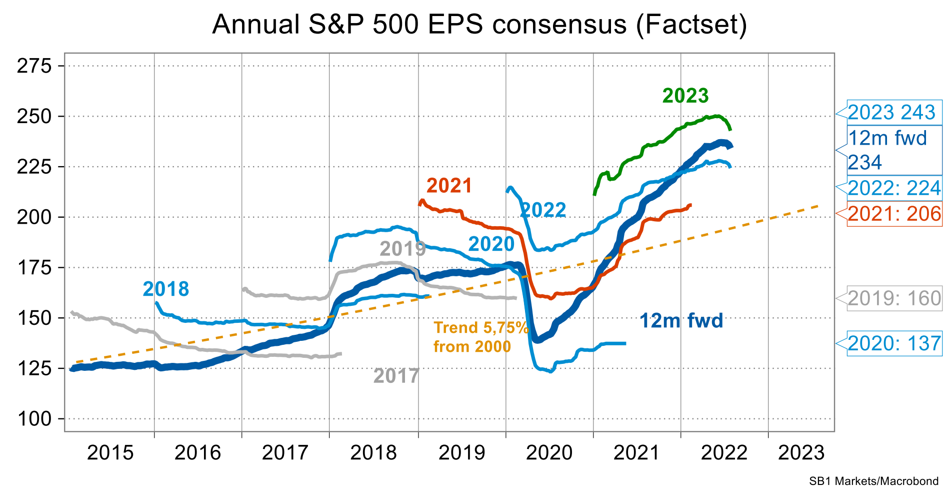
Bond yields gained 16 bps last week to 2.83% but is still down from the mid June local peak at 3.50%

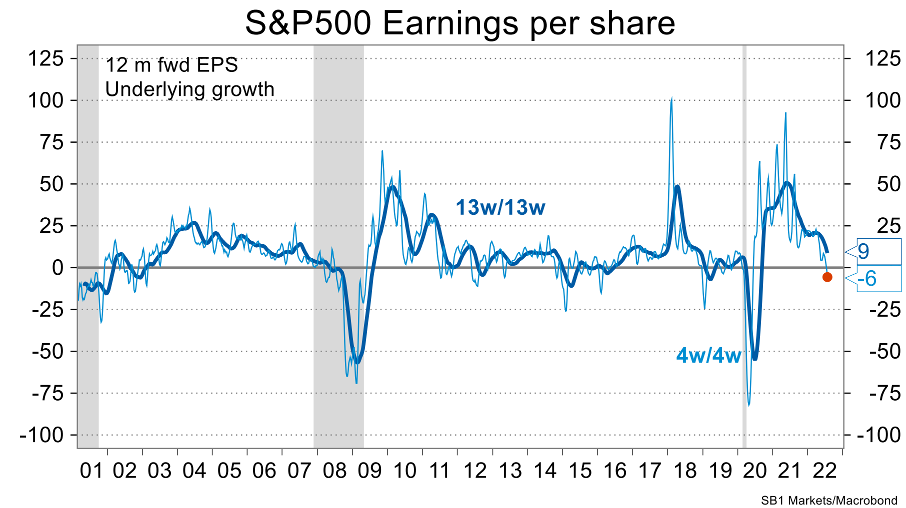


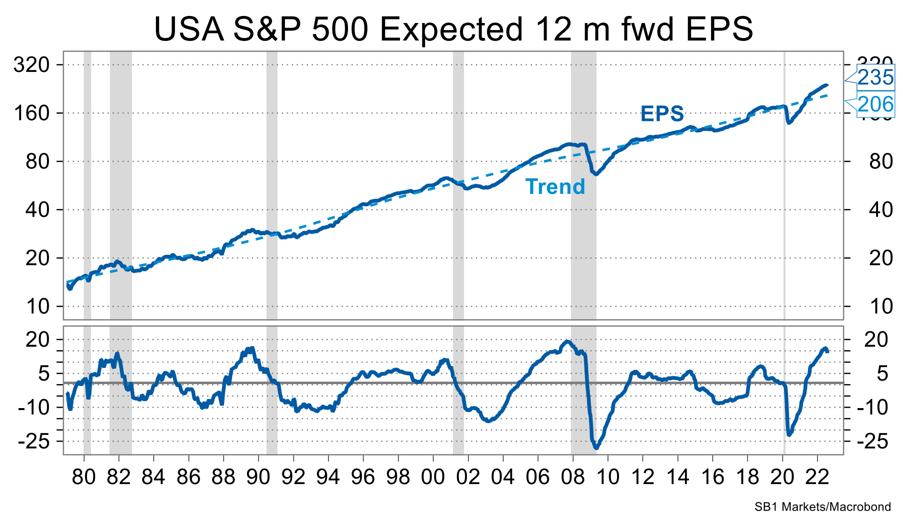


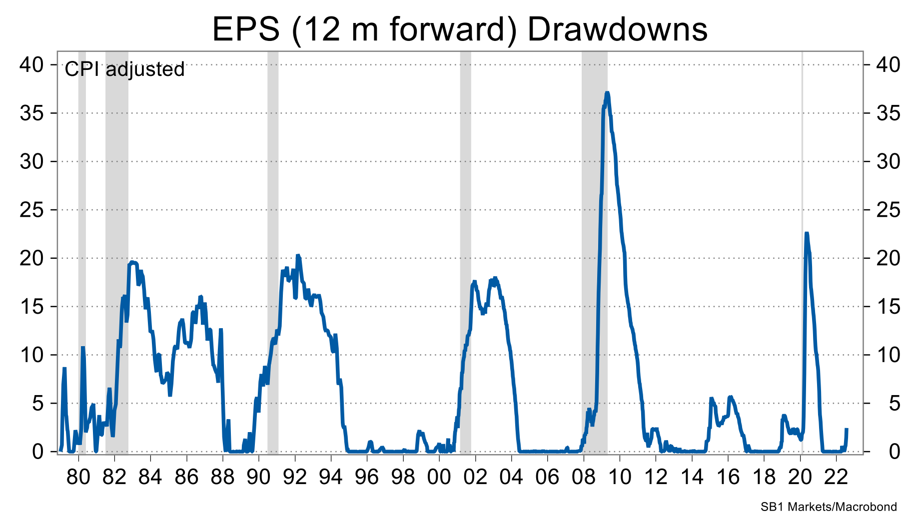
Earnings forecasts finally on the way down – and more is likely to come

S&P500 expected 12 m fws EPS is some 15% above trend – and it falls below in recessions



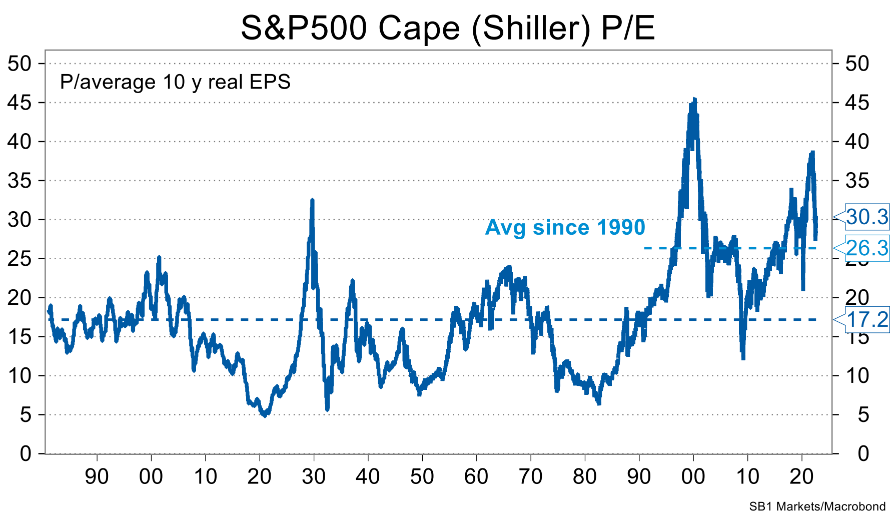


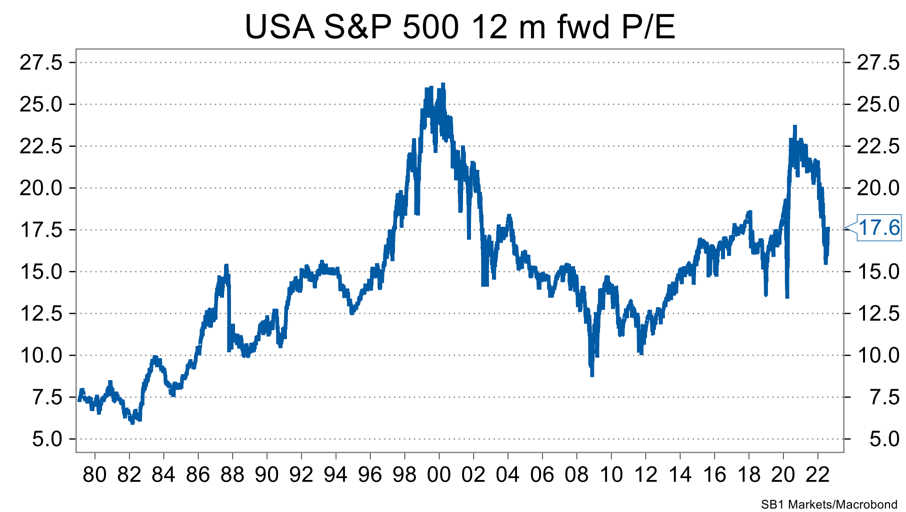


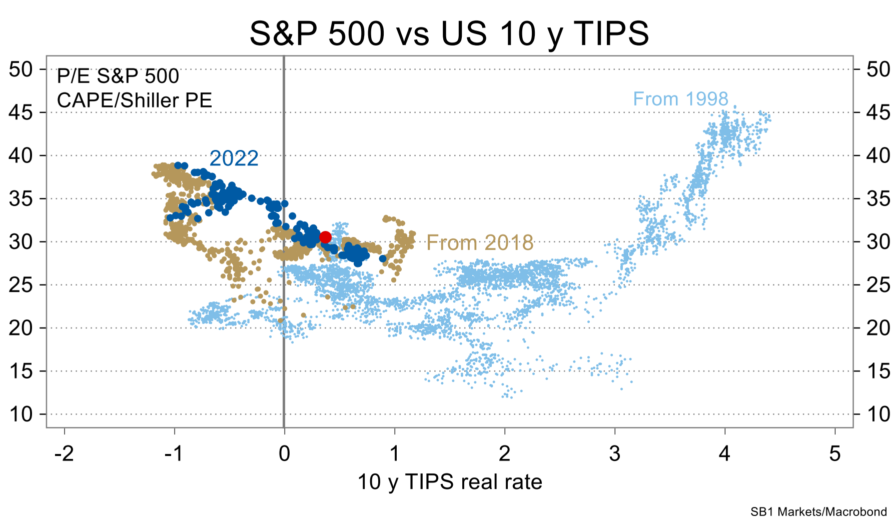


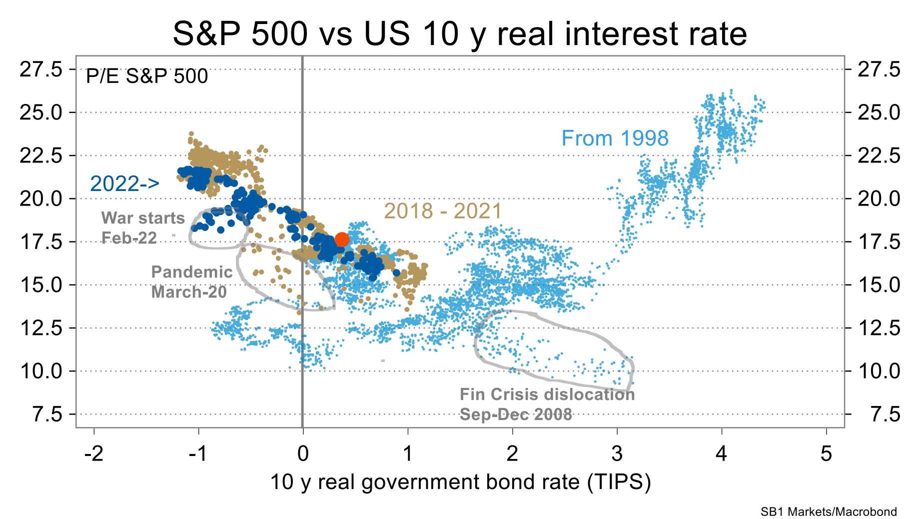
4 valuation charts

The TIPS real rate has been the main driver for the P/E since 2018



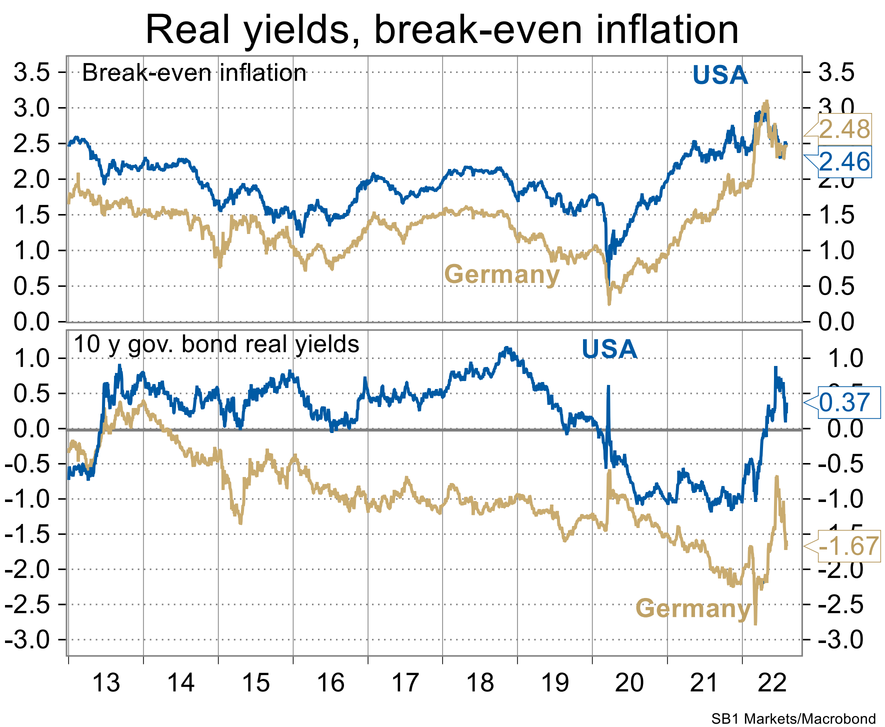


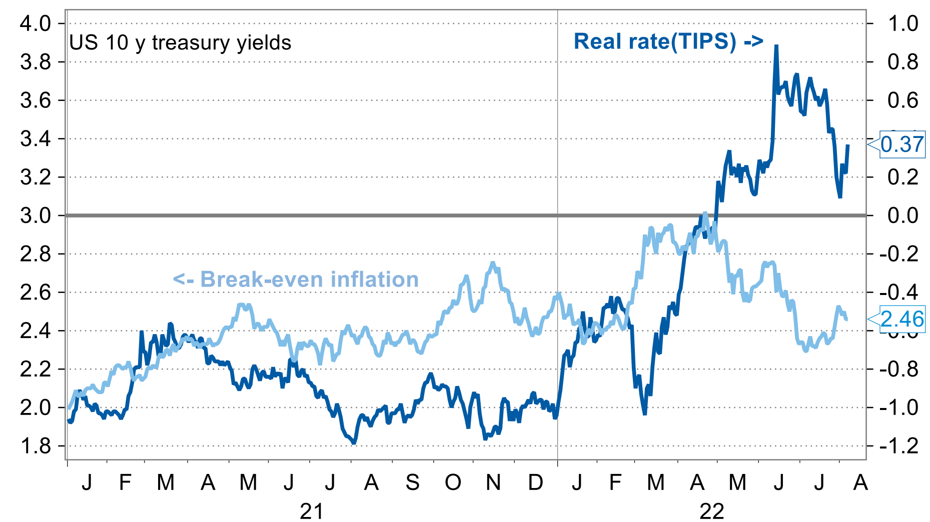




And then real rates surged again (in the US)

Rather impressive: Long term inflation expectations fell, even if the US labour market is still hot





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	2.83	0.16	0.01	0.91	0.52
.. break-even inflation	2.46	-0.07	0.16	0.05	1.06
.. TIPS real rate	0.37	0.23	-0.15	0.86	-1.19
Germany nominal bund	0.81	-0.10	-0.46	0.59	-0.65
.. break-even inflation	2.48	0.02	-0.02	0.50	0.40
.. real rate	-1.67	-0.12	-0.44	0.09	-2.80

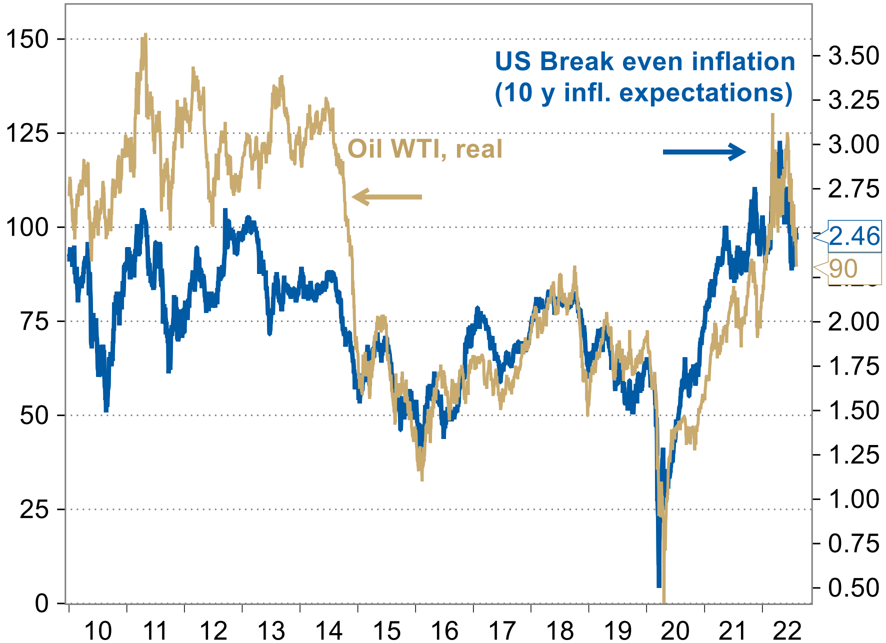
SB1 Markets/Macrobond

- The 10 y **US nominal bond** yield rose 16 bps last week, the real rate (TIPS) up 23 bps, inflation expectations down 7 bps
  - » The decline in the (spot) oil price is a likely explanation for the decline in (long-term) inflation expectations
  - » Inflation expectations are at the same level as more than one year ago, even if all short term inflation indicators/expectation have surges
- **In Germany** the 10 y gov Bund fell 10 bps, with a 12 bps drag from the real rate – down to -1.7%

SpareBank 1 MARKETS

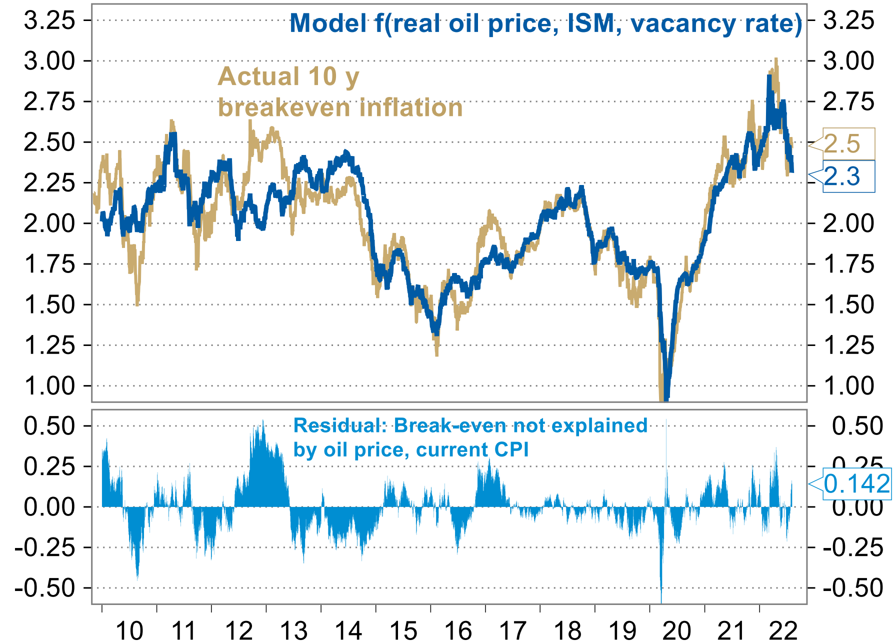
(Longer-term) Inflation expectations down as the (spot) oil price retreats

USA Inflation expectations vs. the oil price



SB1 Markets/Macrobond

USA Inflation expectations vs. the oil price, CPI



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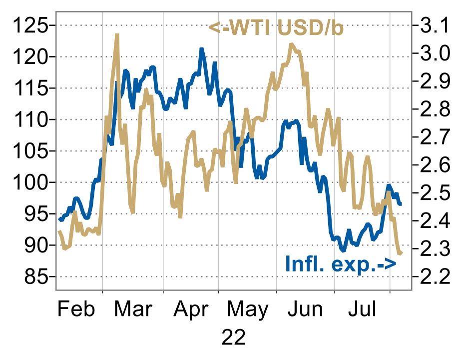
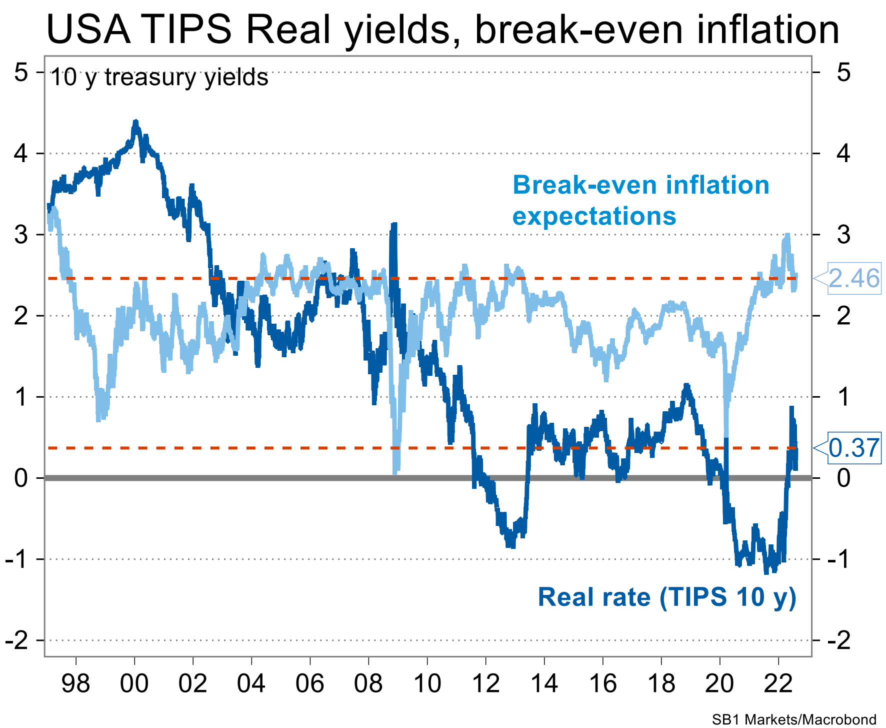
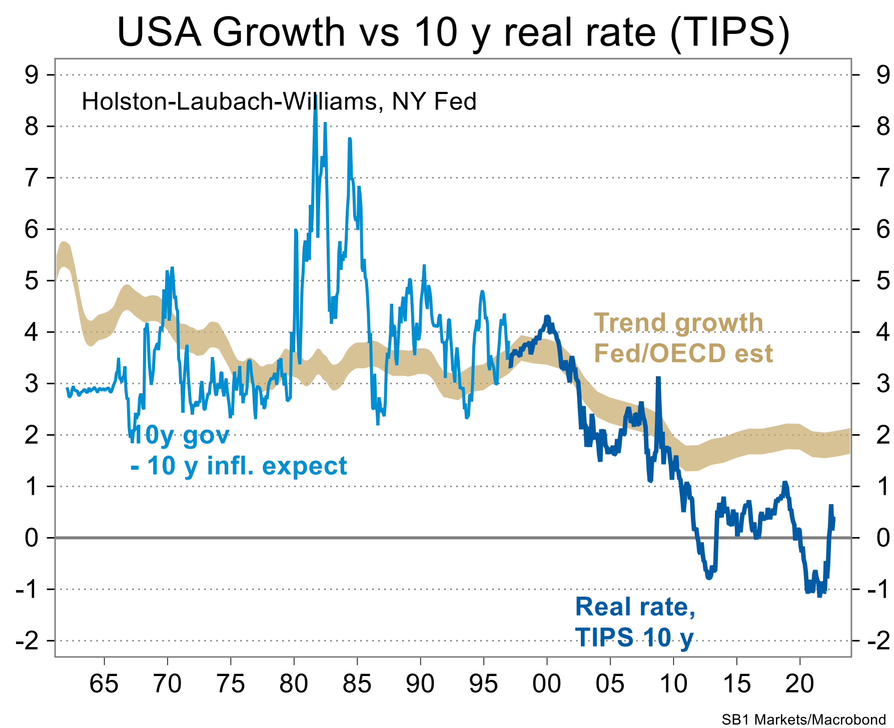


- A simple model including the oil price, the ISM and the vacancy rate pretty well explains the long-term breakeven inflation expectation in the bond yield curve

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

Real rates have fallen from the June local peak – and asset markets are thriving!

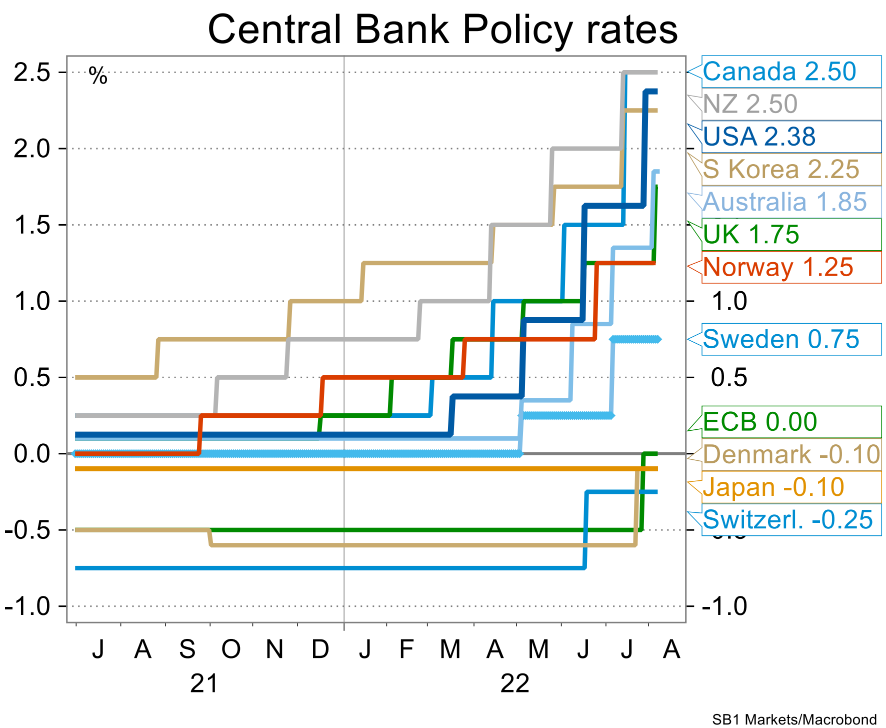


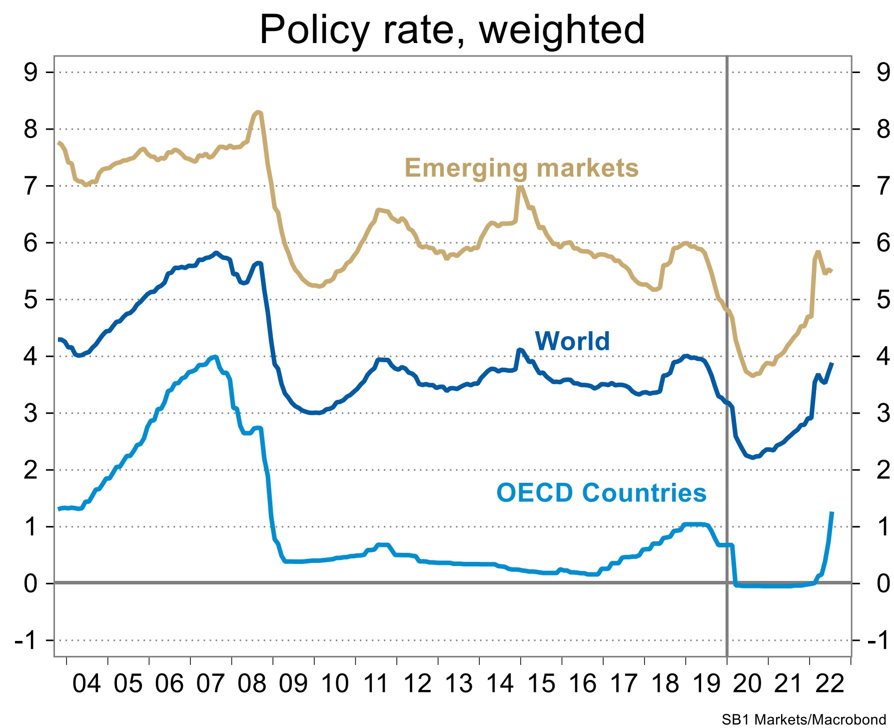


- But what if the growth outlook is weakening, at least short/medium term?

Central banks on the move

Norway is now at the 7th position among rich countries

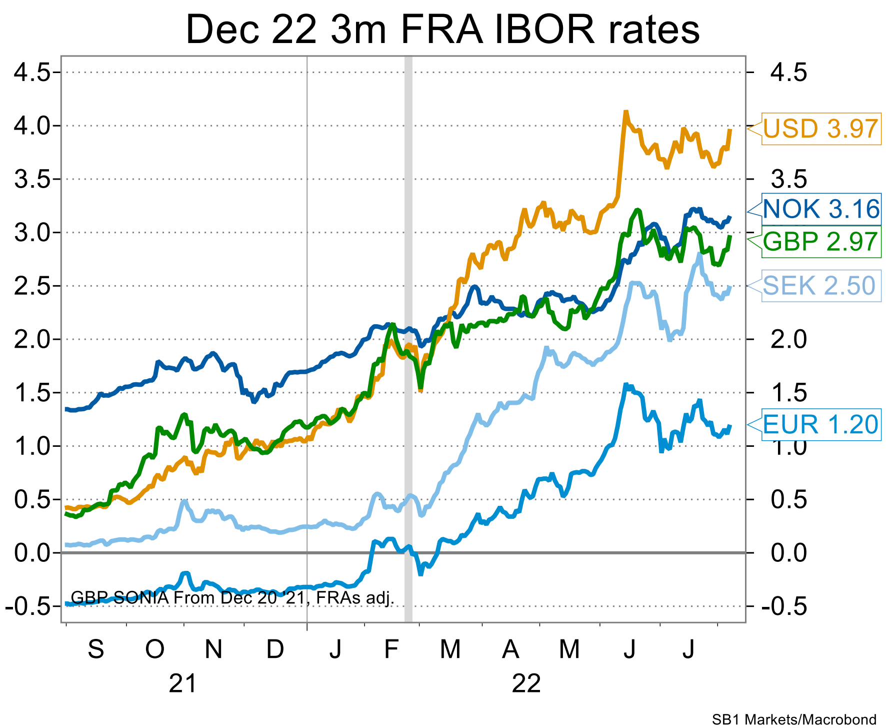


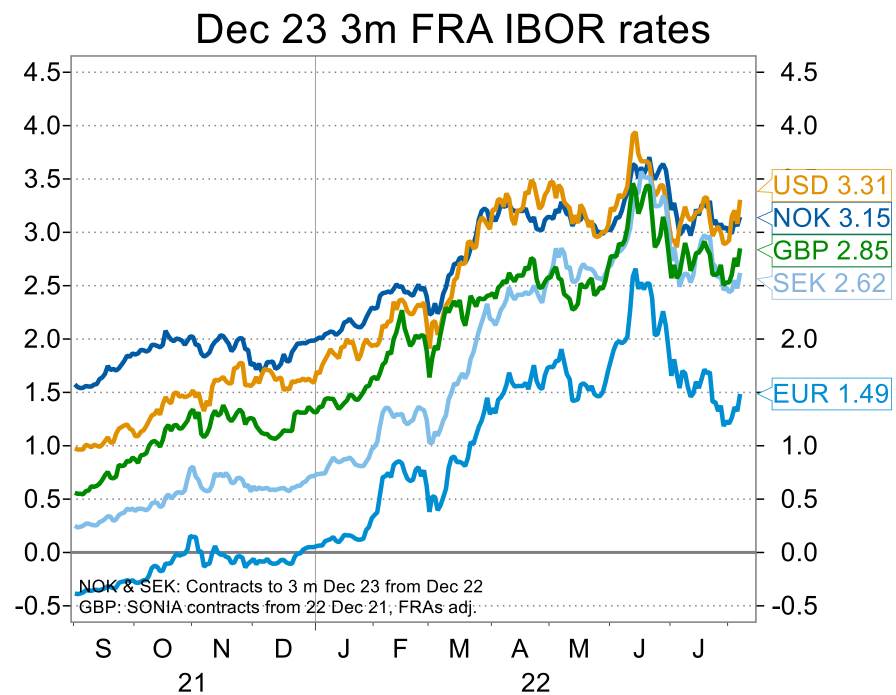


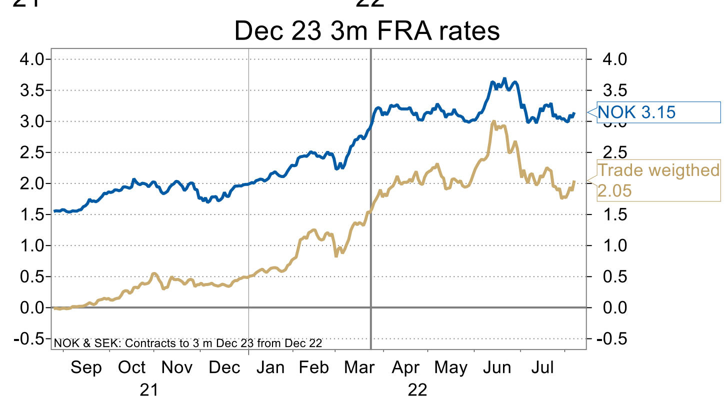
- In addition to rate hikes, most central banks have abolished their QE buying programs (well, the ECB established a new program two weeks ago, the Transmission Protection Instrument, TPI (and not TIP as we named it ☹)
- The EM average policy rate has come down due to the Russian cuts – but the trend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

FRAs up last week, Friday was particularly supportive (due to US labour market data)

However, the very short end has flattened while longer dated FRAs are well down from the peak in June



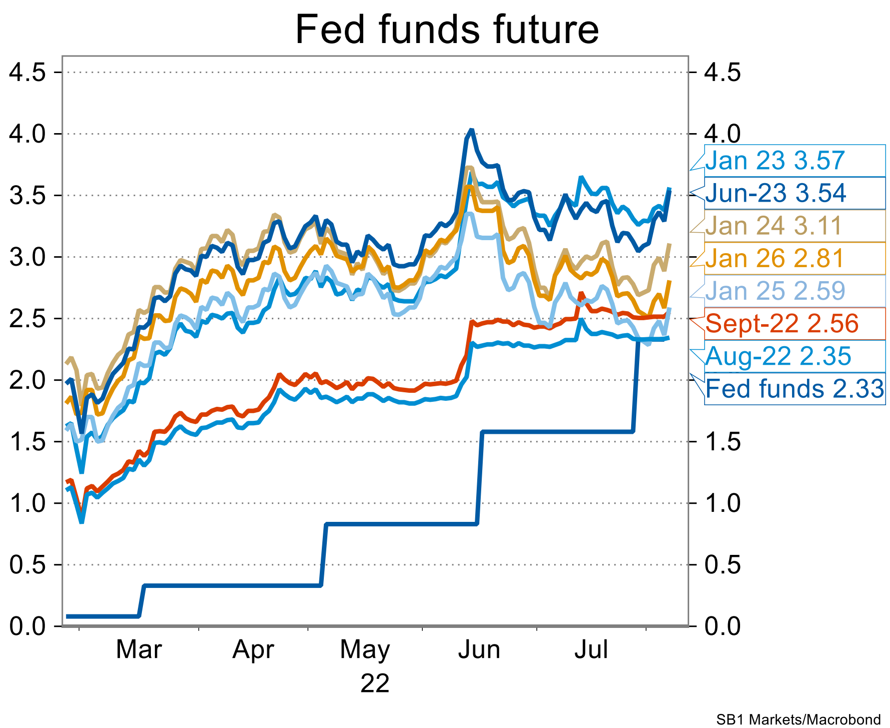


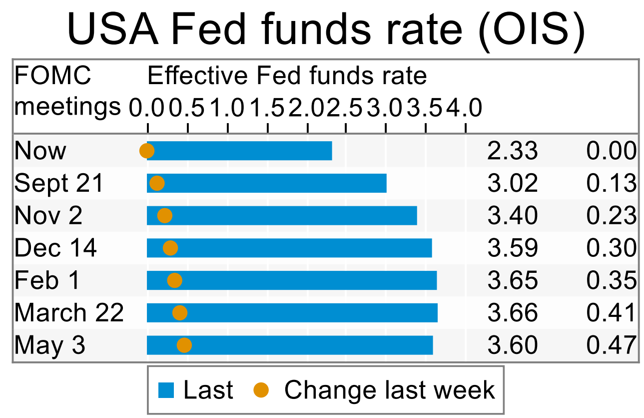


- During the summer, longer dated Norwegian FRAs have kept up better than most others (ex the US).
  <u>Some downside potential (for NOK FRA rates?)</u>

Rate expectations up last week – FOMC members talked, unemployment fell

Fed funds future contracts up by up to 47 bps, as the Fed will have to tighten monetary policy more

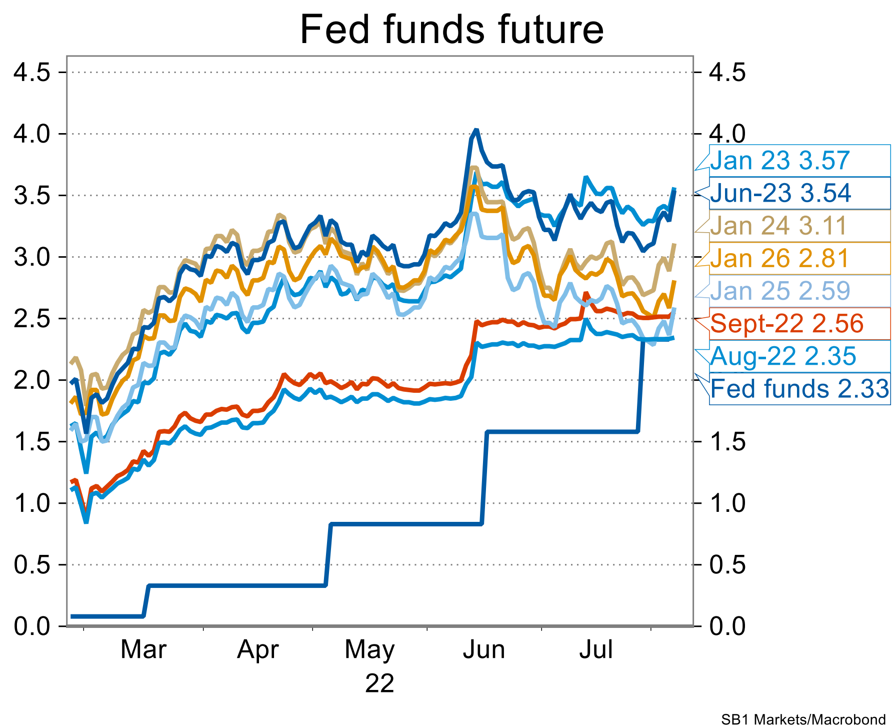


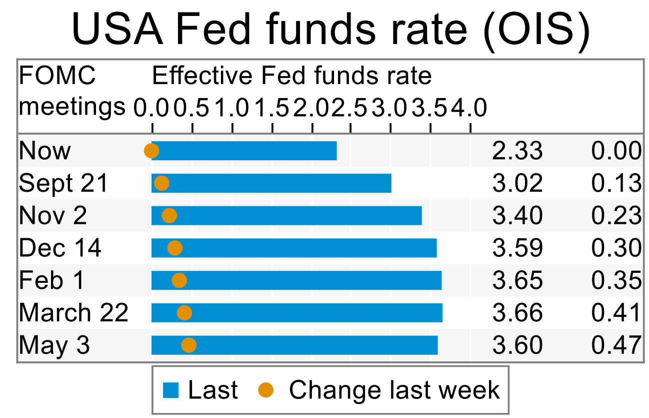


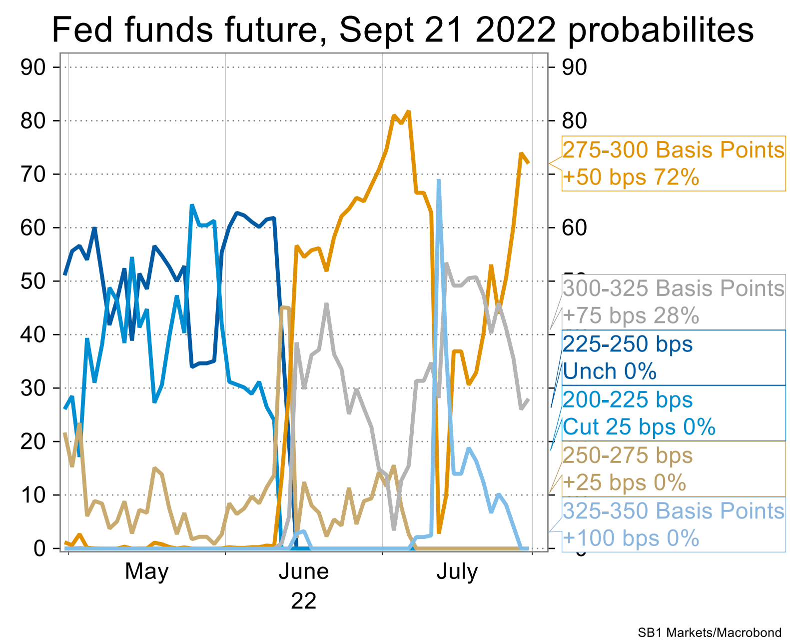
- A 92% probability for a 3rd 75 bps ‘triple’ hike at the Sept FOMC meeting, up from 25% one week ago!
- The peak at the curve at 3.66% in March – and then down 55 bps through 2023

Rate expectations up last week – FOMC members talked, unemployment fell

Fed funds future contracts up by up to 47 bps, as the Fed will have to tighten monetary policy more



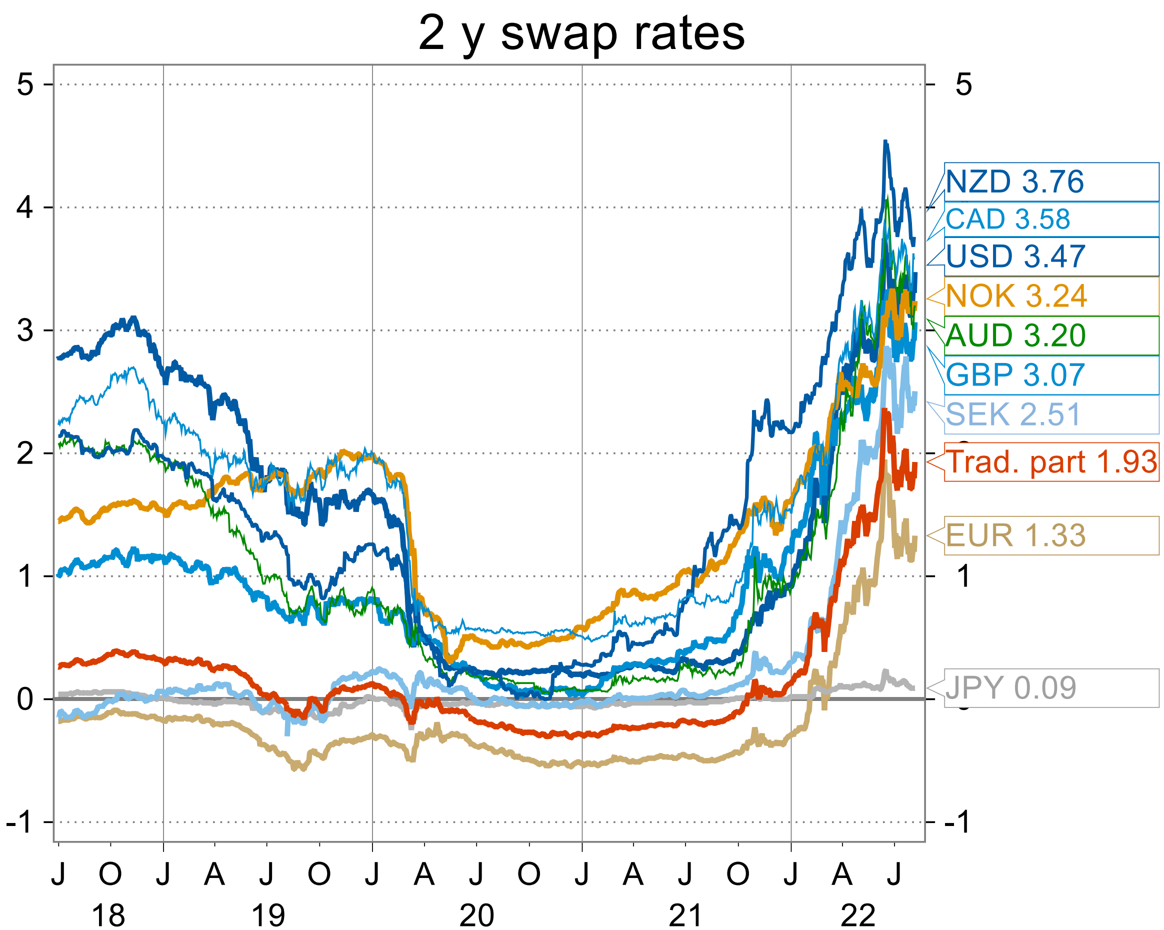




- The peak at the curve at 3.30% in February – and then down 60 bps through 2023

Parts of the decline in the short end reversed last week

NOK rates gained less than rates among our trading partners



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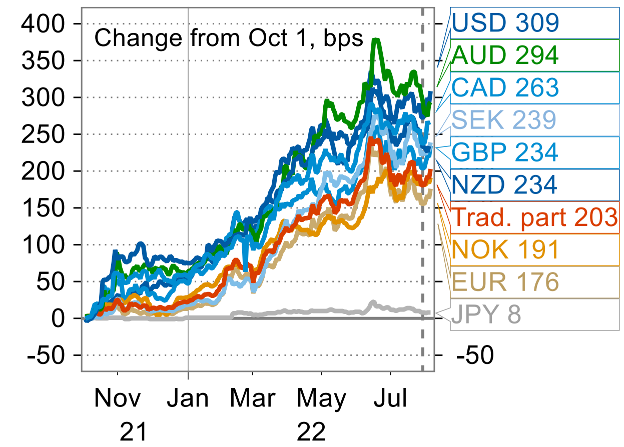

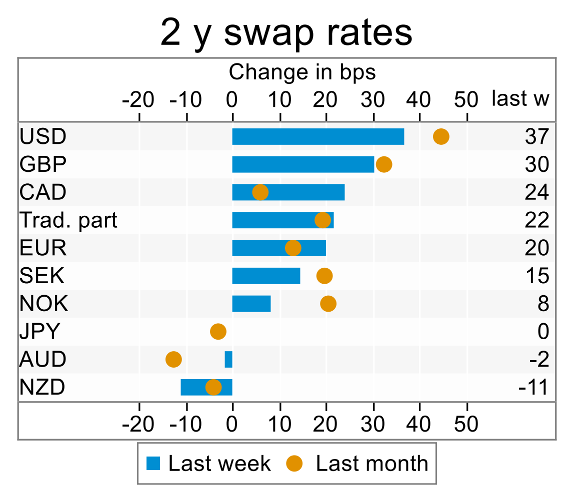

SB1 Markets/Macrobond

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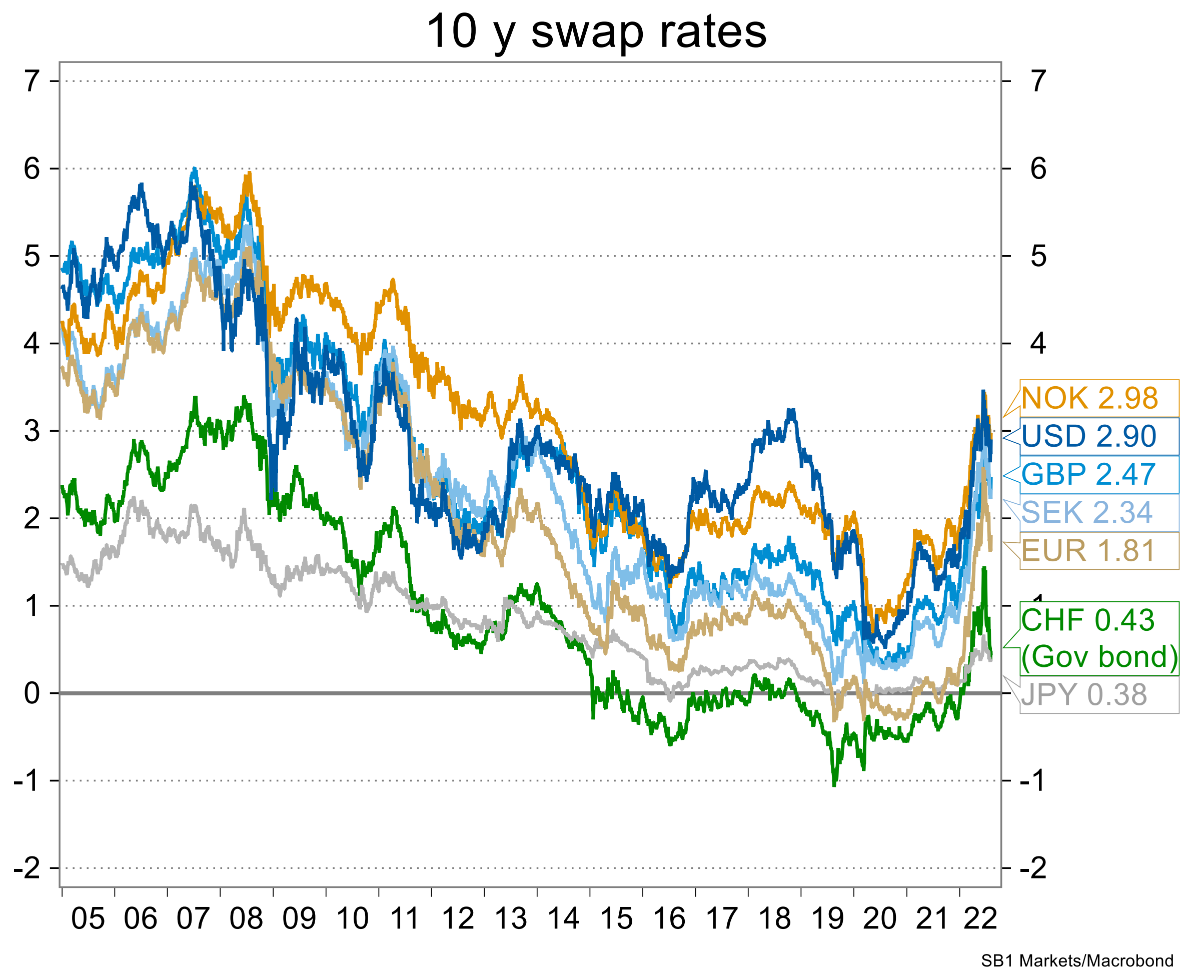
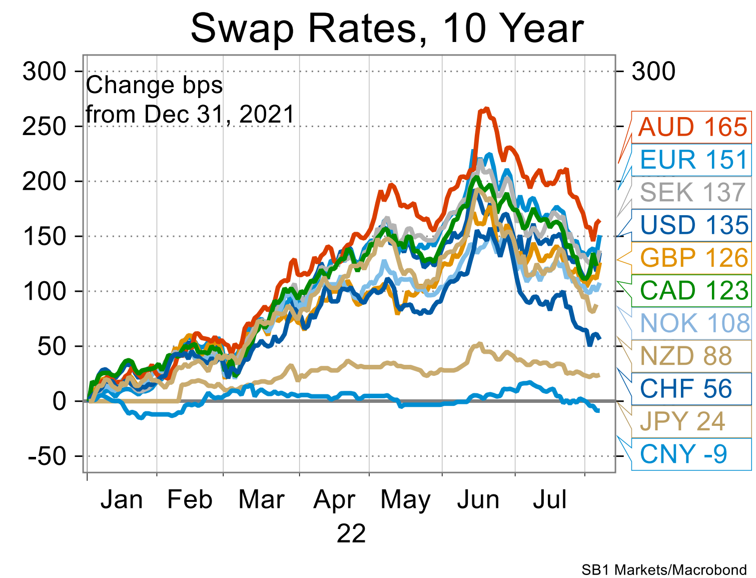
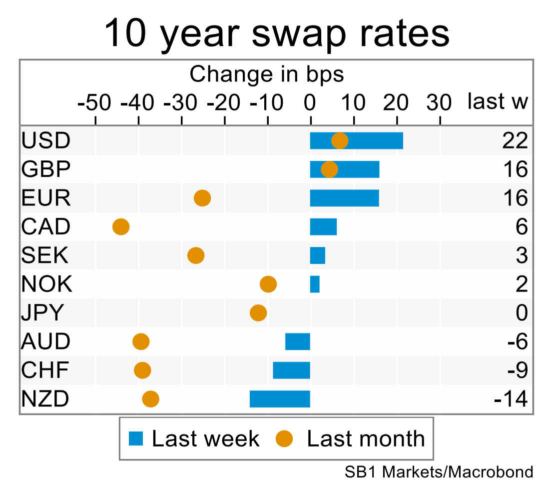
A small correction upwards in the long end too



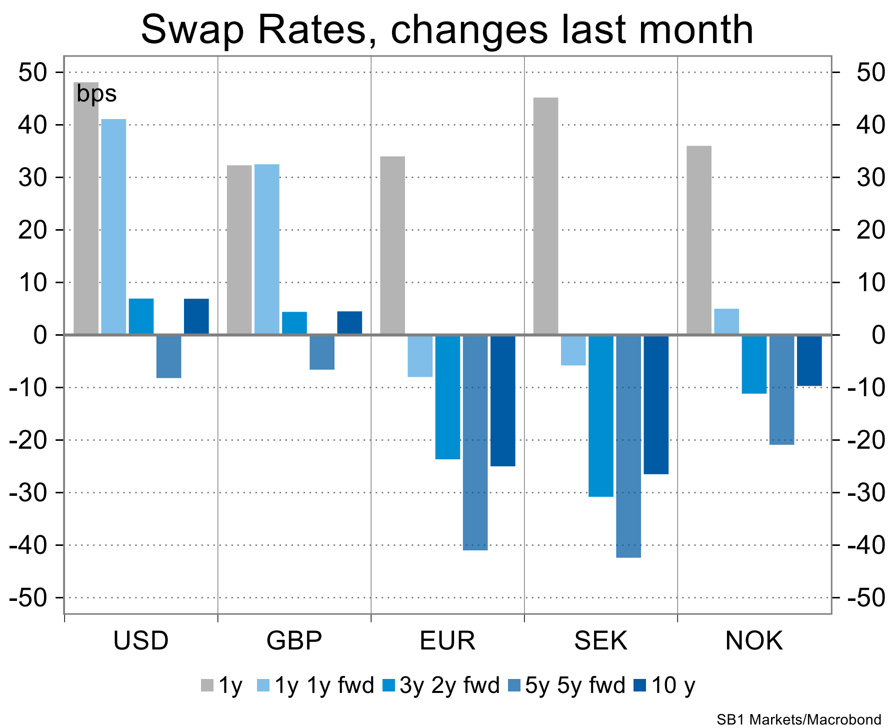


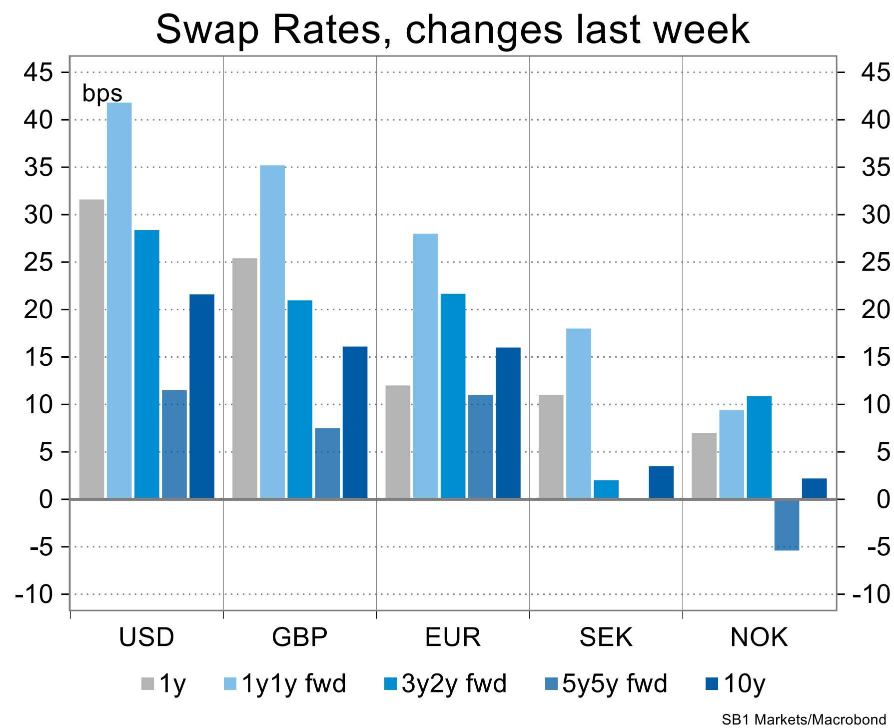


CHF: 10 y government bond yield

A visible reversal in the short end of the curve – and the long end yielded too

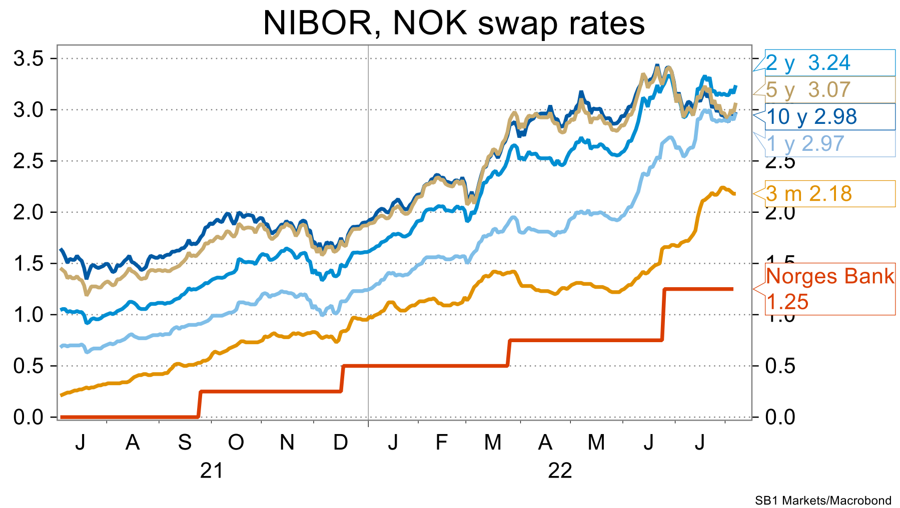
… and curves become more inverted more, everywhere

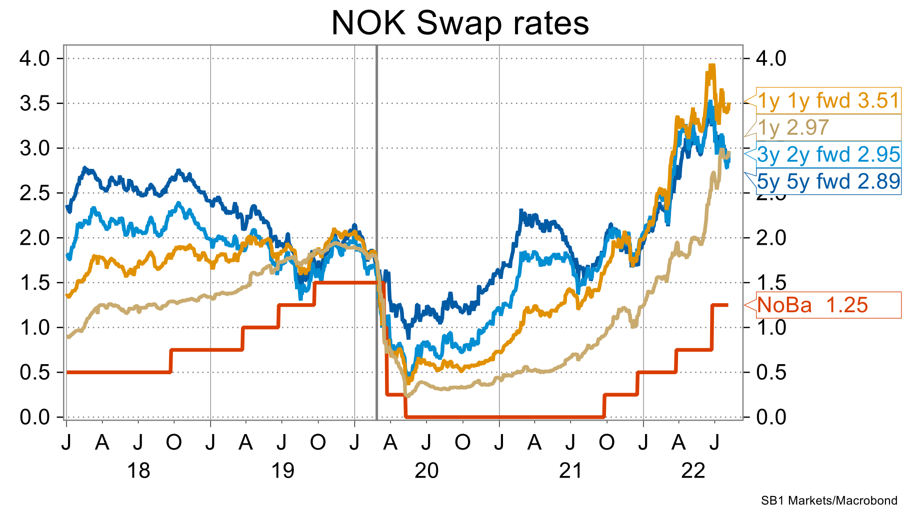


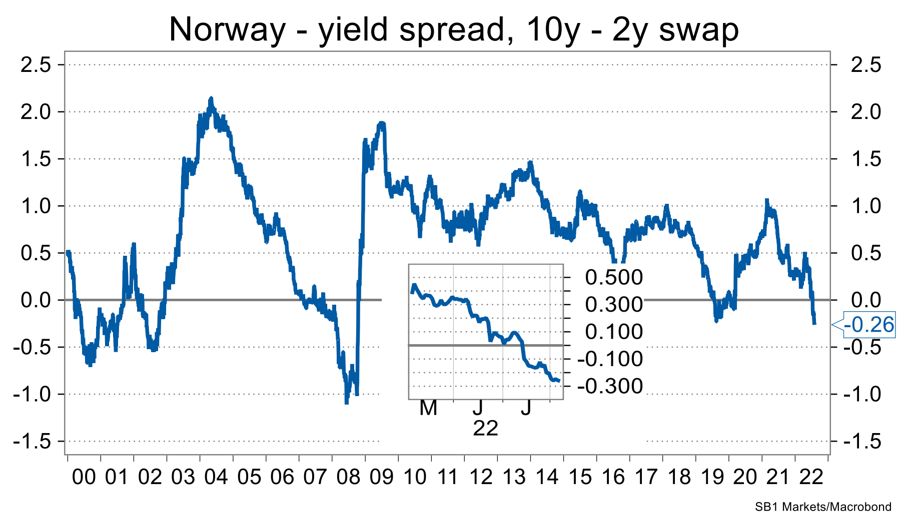


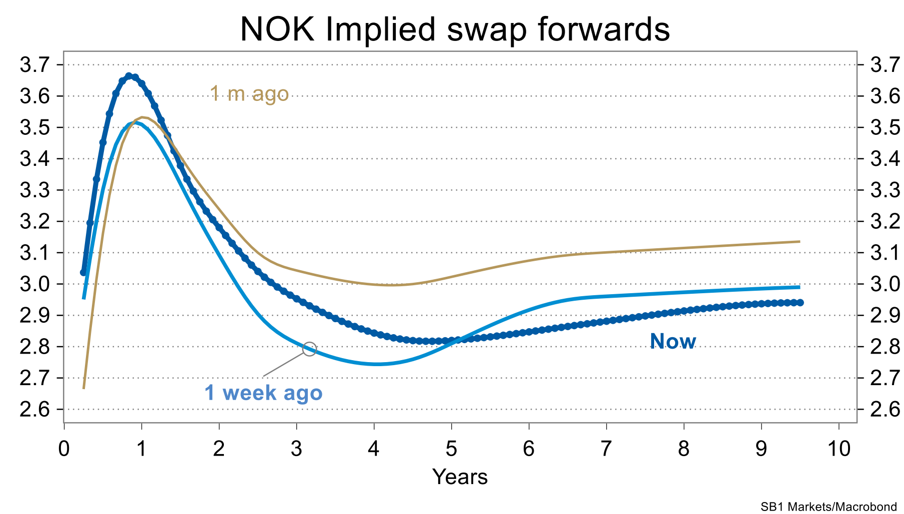
Rates up but not implied from 5 years forward

The 10 - 2y become even more inverted

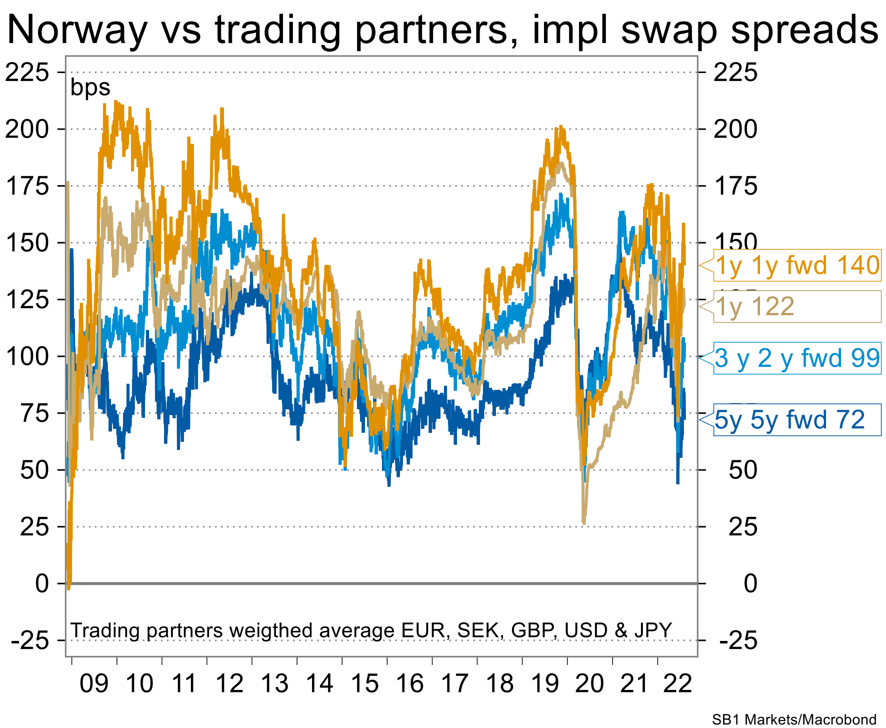


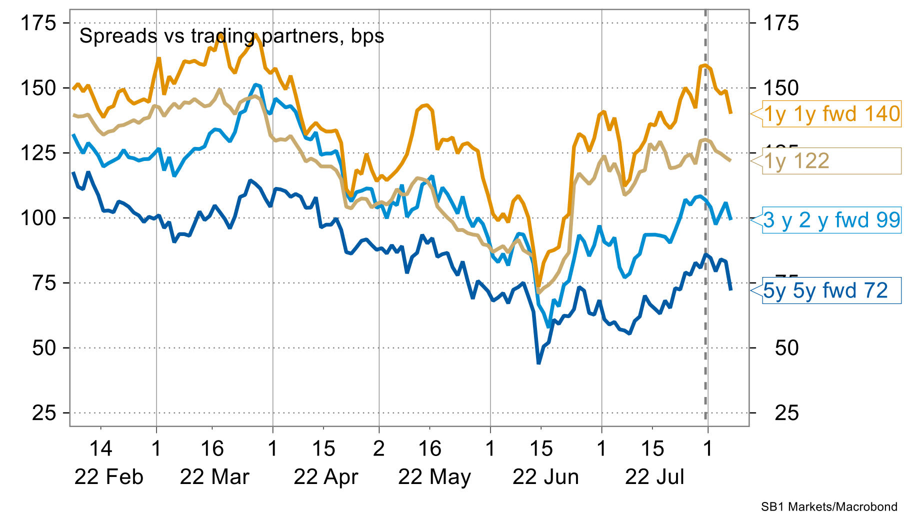


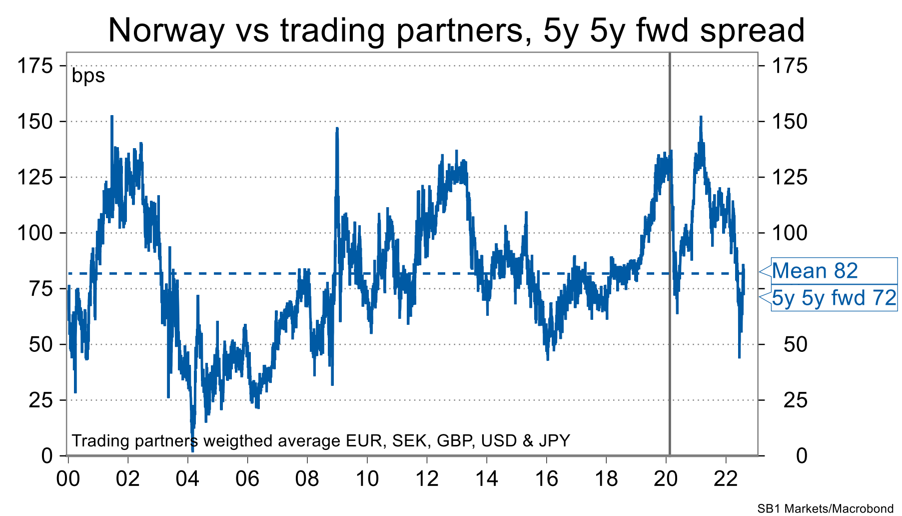




Spreads down all over the curve – but they remain rather high in the short end

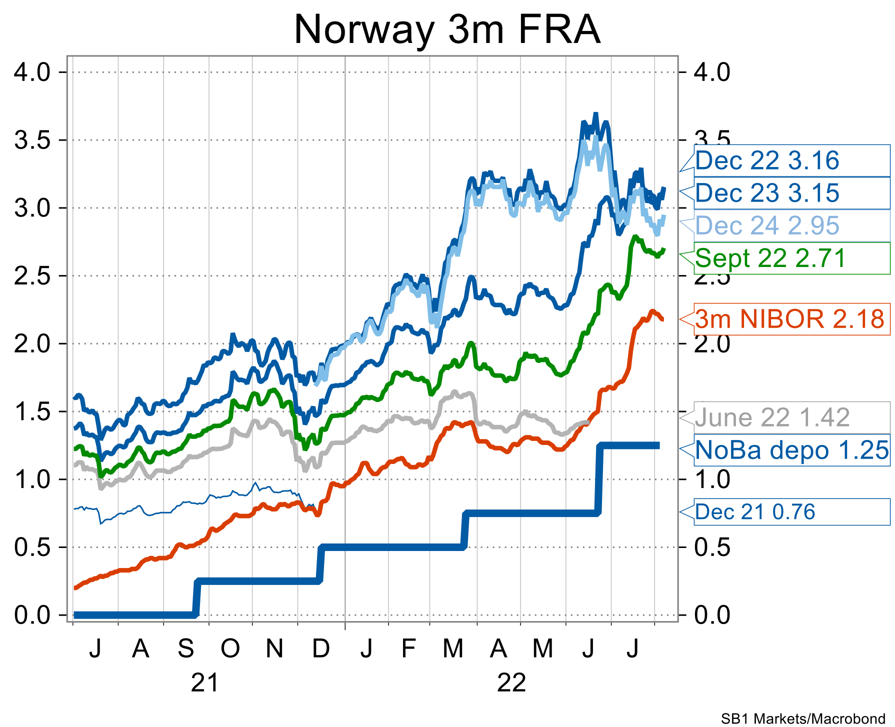


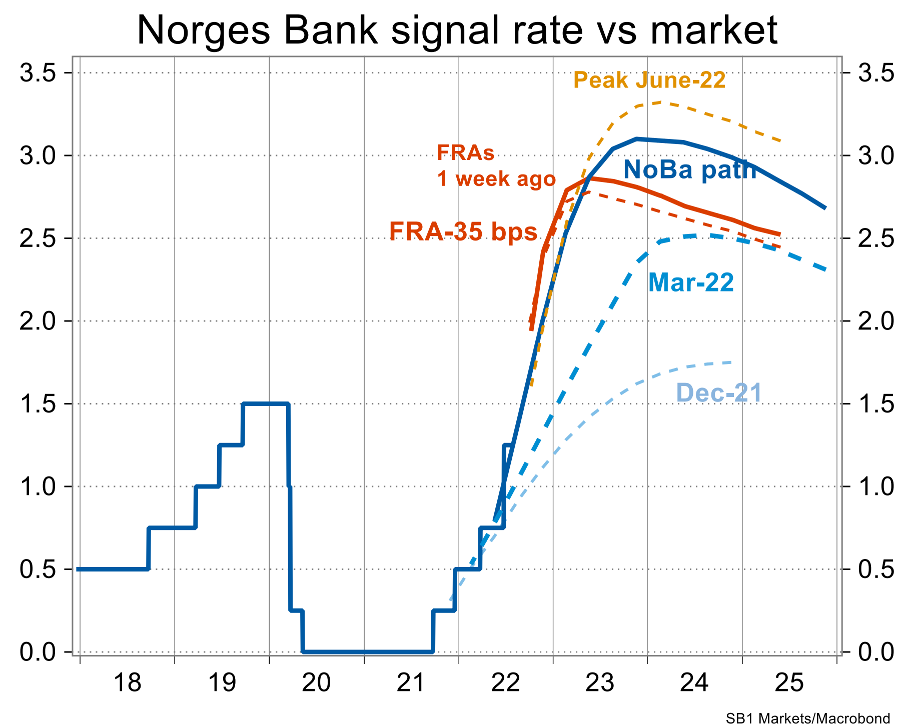




FRAs up again, by up to 11 bps last week

The 3 m NIBOR at 2.18% implies a 60% for a 50 bps hike in Aug…





- **… but the Sept 3 FRA at 2.71%** requires a 100 bps lift in the signal rate from the present level to 2.25% at the Sept. NoBa meeting – <u>so two 50 bps hikes, that is in both Aug and Sept, seem to be the market's main scenario</u>
- Thereafter, at 25 bp hike in both Nov and Dec is discounted in the FRA curve, up to 2.75%. The peak in H1 is slightly higher but 25 bps below the (late 2023) peak in Norge Bank's June MPR interest rate path
- We still think the 50 + 50 bps hikes in August and September are the most aggressive Norges Bank may deliver. Thus, we think the <u>upside risk for FRA rates is less than the risk at the downside, at the short end of the curve</u>

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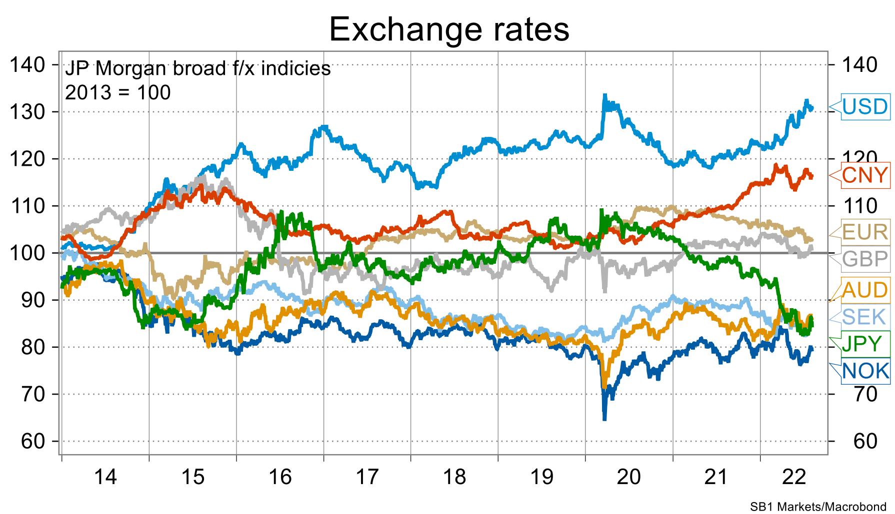
NOK last week's loser, USD the winner (the role changed from the prev. week)



F/x markets

JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
USD	0.6	1.0
CNY	0.0	-0.2
SEK	-0.1	2.9
EURUSD	-0.3	-0.7
EUR	-0.4	-1.6
CAD	-0.6	-0.1
GBP	-0.6	1.2
CHF	-0.7	1.2
AUD	-0.9	1.4
NOKEUR	-1.1	3.8
NOK	-1.2	1.4
JPY	-1.3	1.5
NOKUSD	-1.3	3.0

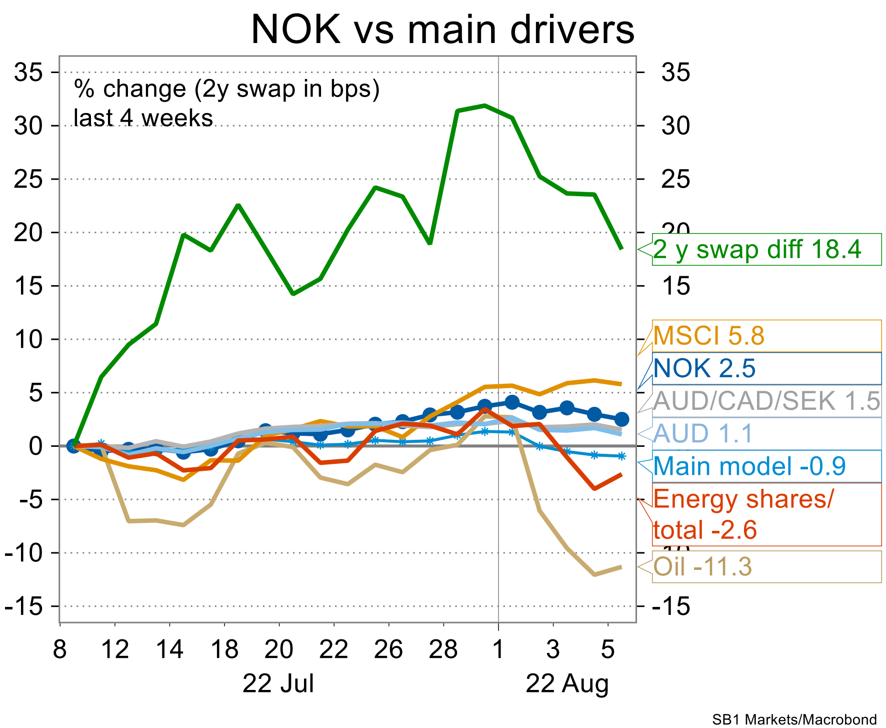
% change: -2 -1 0 1 2 3 4

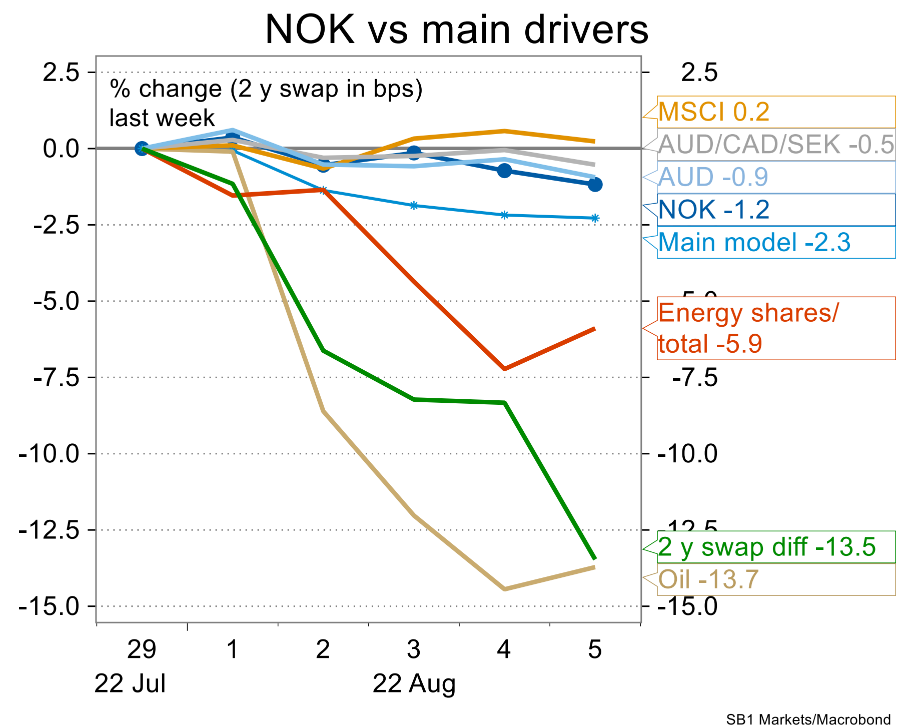
Last week ● Last month

SB1 Markets/Macrobond

NOK down 1.2%, our model signalled -2.3%. The oil price down 14%

In addition, the short end of the curve climbed less than abroad





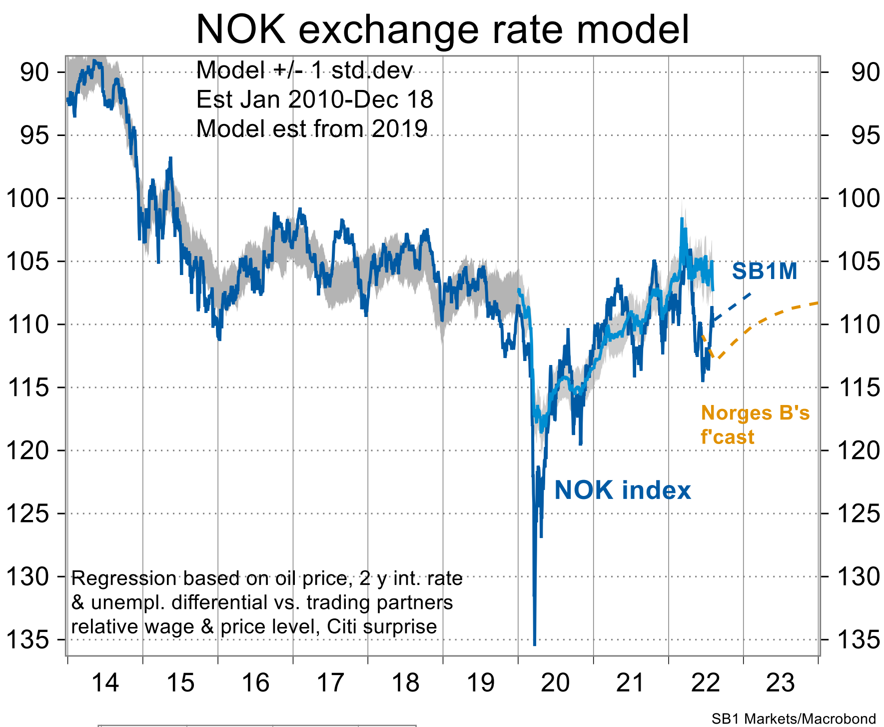
Gaps vs. out model estimates are extremely wide

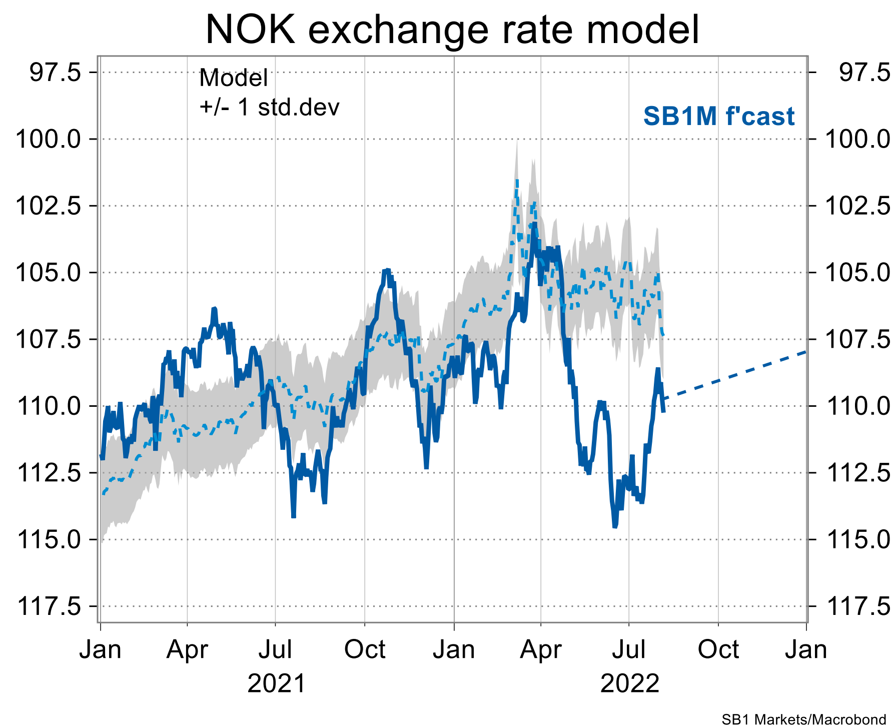
- ***The NOK -1.2%, our main model said -2.3% - and NOK is 2.6% below our main model estimate (from –3.8%)***
- The NOK is 7.5% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (unch)
- NOK is 0.2% stronger than a model which includes global energy companies equity prices (vs the global stock market) (from 1.7% weaker)

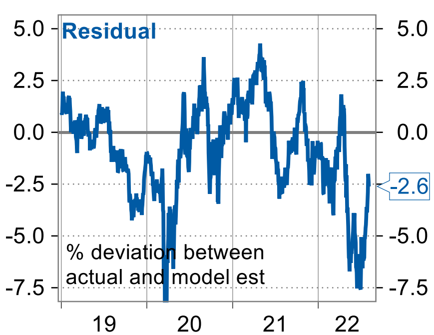
At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for f/x crosses. There are no substantial difference between these two indices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

The NOK is 2.6% below our model estimate

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







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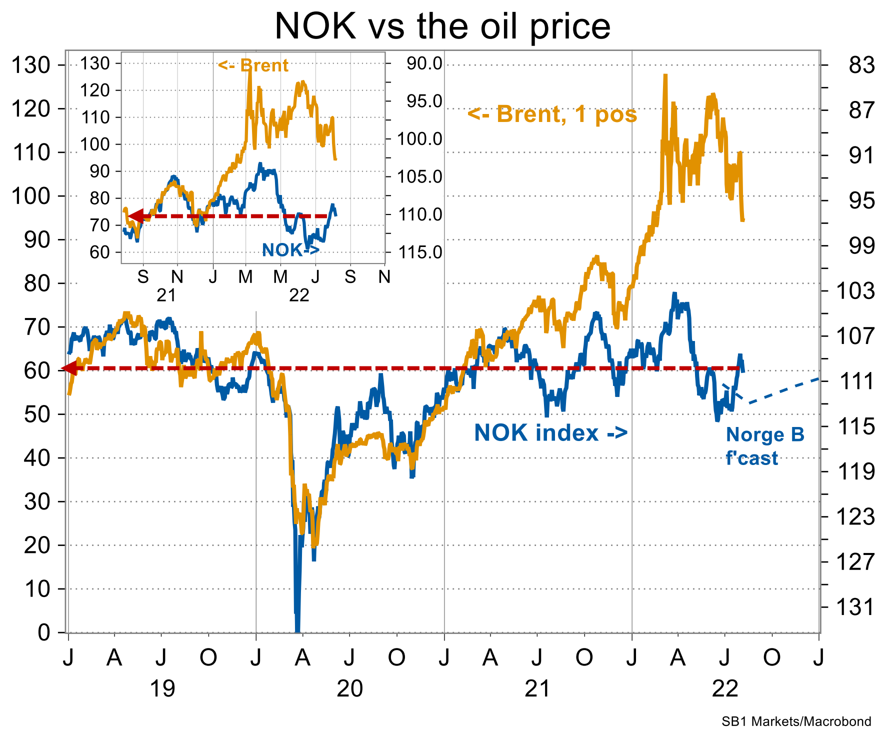
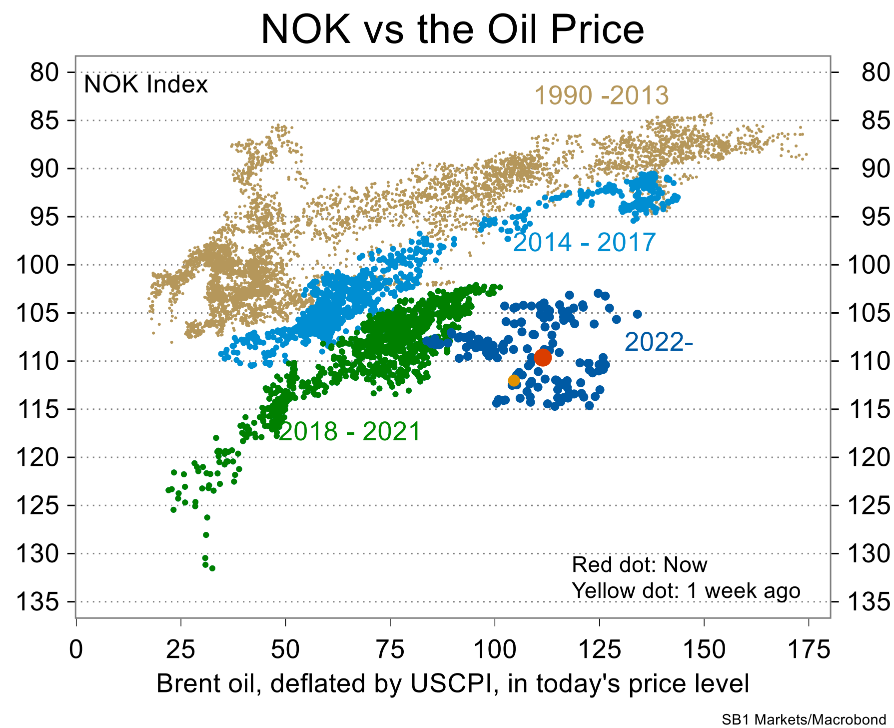
NOK down together with the oil price last week. The NOK is still weak

.. as if the oil price was USD 70/b (rebased to early Jan) or USD 60/b (rebased to May-21)





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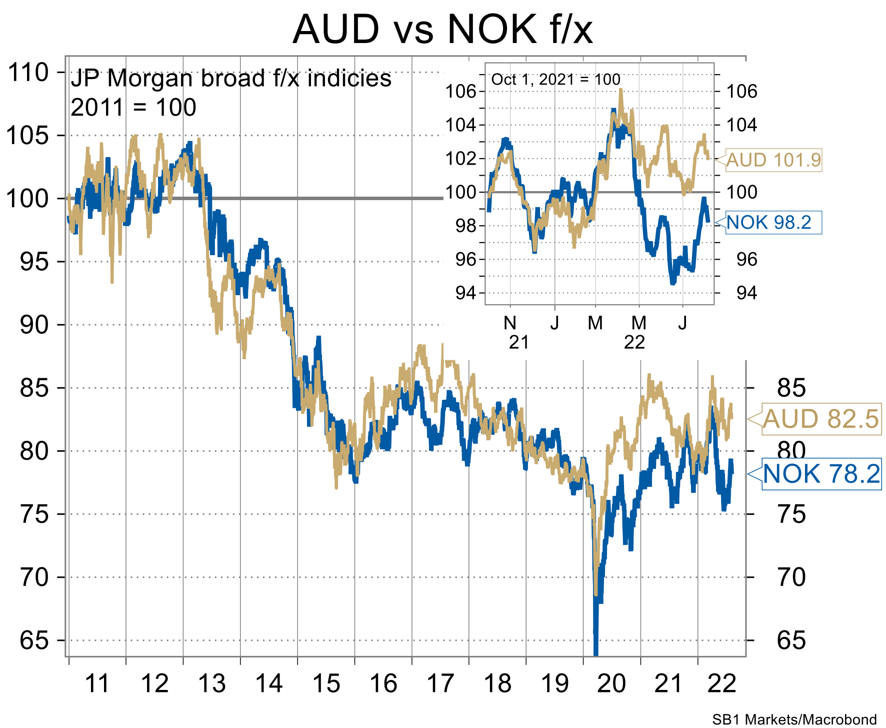
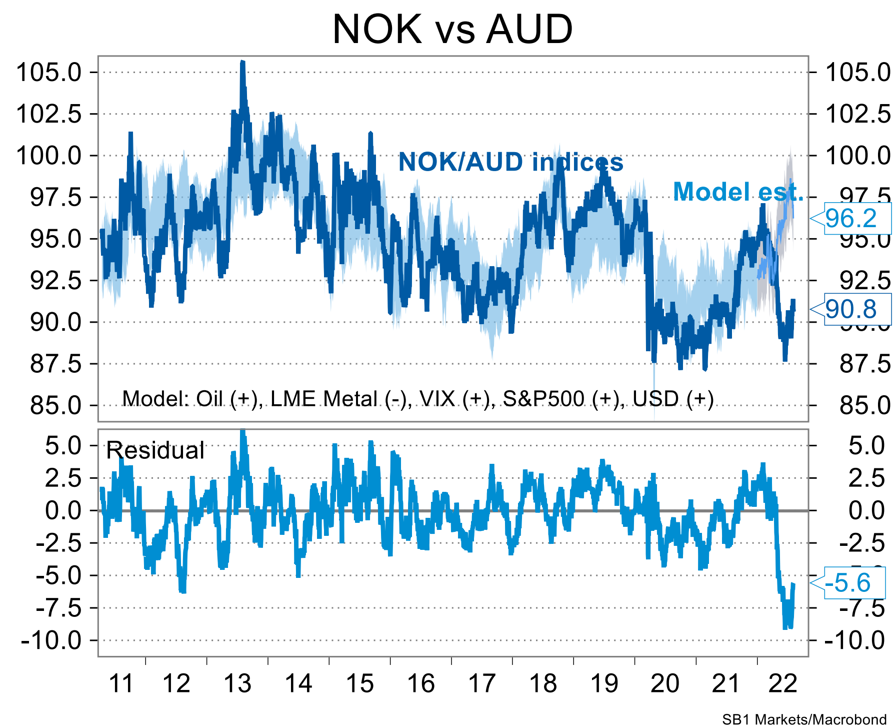
NOK down but the model gap to AUD narrowed

.. But it remains very large





- 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)

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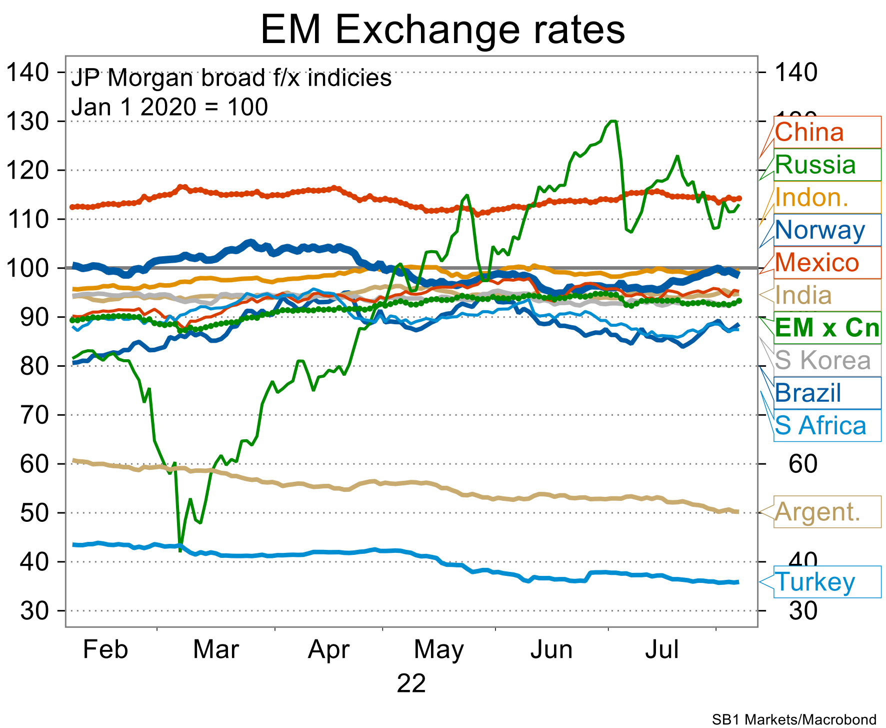
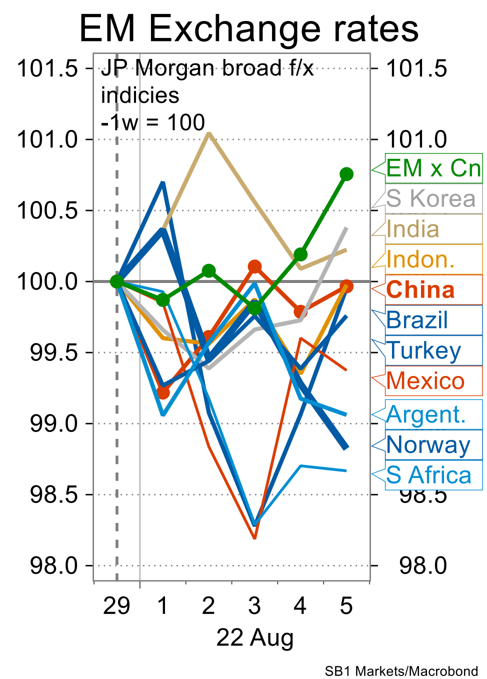
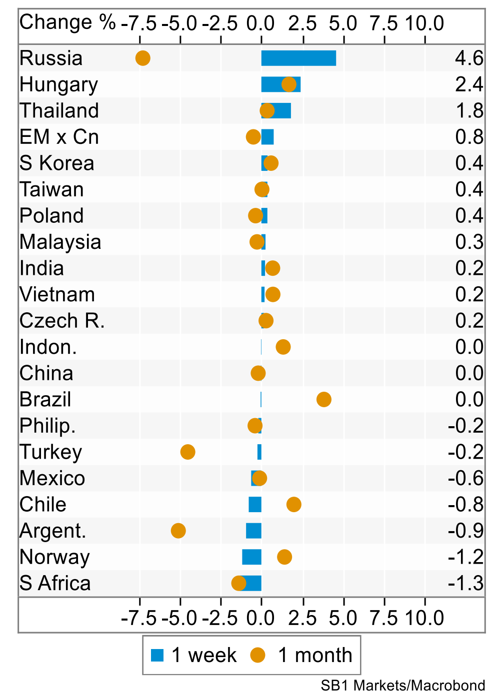
EM f/x mixed: If not for Russia, the EM f/x space mostly down - less risk appetite

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







- The Taiwanese dollar was not hurt by speaker Pelosi's visit last week

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