August 29, 2022

Macro Weekly

Week 35

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Last week, I

- **The War/Commodities**
  - » Few news from the East front, no end of the war in sight
  - » European gas and electricity prices are soaring, up almost 40% last week, and they have almost doubled over the past 4 weeks. This week is a crucial test, will Russia start sending gas through the pipeline when the announced 3 day maintenance work is done? Too warm rivers to cool nuclear plants in France, too little transport capacity in a 'dried out' Rhine, and still no wind add to the European energy challenges
  - » Other commodity prices rose last week, at least partly due to another Chinese infrastructure stimulus package (see below)
- **China**
  - » Authorities last week announced 19 **infrastructure funding measures** equalling some 0.8% of GDP, both more funds to state banks, more local government bond issuances (in addition to previous decided increases), and more electricity companies bond issuances. The measures are not that large, but adds to earlier stimulus measures directed towards infrastructure and construction so far in 2022, 1.2% of GDP in more credit, several (but still small) interest rate cuts, and a cut in reserve requirements for banks. Alas, nothing in direct central government spending. The authorities are clearly worried, but are still not acting desperately. It remains to be seen if local governments will are willing to take on more debt. So far they have
- **USA**
  - » **Volker II (earlier known as dove Powell):** Demand is far exceeding supply, the labour market is obviously out of balance, it is extremely tight. Growth has to be brought below trend, the labour market must 'soften'. It will bring pain to households and businesses. We will keep at it until we are confident the job is done. The bond market was not shocked by these Jackson Hole comments from Fed chairman Powell, as the short end of the curve has climbed substantially recently. However, the equity marked was not prepared at all, the major US indices fell 3% – 4%
  - » **Another peak inflation: PCE inflation** was 0.1 pp lower than expected, and core rate rose just 0.1%. The annual growth rate fell 0.2 pp to 4.6%. The headline slowed as well, by 0.5% to 6.5% (2 pp below the CPI headline rate, due to different weighting of several components)
  - » **New home sales** fell further, and much more than expected. The total decline now is well into a normal recessionary territory, and prices are down from the April peak. Pending (existing) home sales fell just marginally in July but aggregate decline is also like in recessions. So, <u>the US is well into a housing market recession</u>
  - » **Consumption** rose slightly in volume terms in July, but less than expected (but history was revised slightly up and trend is marginally upwards (1%). **Income** growth slowed more than expected (less transfers, more taxes, but not less wage income!), and the savings rate was flat at 5%, 2.5 pp below the pre-pandemic 'normal'. However, the 12% of disposable Wall of Money build up due to the excessive savings through the pandemic is still almost intact.
  - » **Univ. of Michigan** reported a further uptick in sentiment in August vs the initial estimate. The mood is still weak, but now just 2.4 st.dev below par, from -3.0 at the bottom. Inflation expectations fell vs. the first estimate, perhaps explaining a less downbeat mood
  - » Even if manufacturing surveys have been really weak in June, July and so far in August, **actual order inflow** is still going strong, growth has just slowed marginally, also for investment goods orders
  - » The July **trade balance in goods** was far better than expected, imports are finally falling and exports are increasing. A 3 pp contribution to the Q3 GDP growth is not unlikely (but inventories may contribute with an opposite sign)

Last week, II

- **Preliminary August PMIs from rich countries**
  - The advanced PMIs from Europe & US were much weaker than expected, especially in the US where the composite PMI 2.7 p to 45, expected up 1.3 p to 49. The survey is at recessionary level. The EMU survey also fell but less than expected, by 0.7 p to 49.2. New orders are under water. Delivery times are easing, as are prices increases – but still not at normal way, according the companies. In the US, services surprised at the downside. However, both the PMI and several other regional US manufacturing surveys indicate a further decline in the ISM down to 50
- **EMU**
  - **Consumer confidence** rose in August, event if there were not any good news at the inflation front. Still, sentiment is as bad as it has been at the trough of previous crisis. Now, the unemployment rate is the lowest in more than 4 decades
  - **Credit growth** decelerated in July, but Annual growth rates at 4.5% – 7.6% are well above normal nominal income growth
- **Sweden**
  - **House prices** were confirmed sharply down in July too. Prices are down 6% - 8% from the peak in the spring, and more than that in Stockholm
- **Norway**
  - **Retail sales** fell further in July, by 2.1% - if not that broadly (food, building materials were weak), and consumption of goods by fell by 3%. Both are back to the modest pre-pandemic trend paths. No doubt, high inflation, higher interest rates as well as more spending on services and abroad may explain the decline in consumption of goods
  - **Employment** growth is slowing down towards growth in the working age population; The employment rate has flattened. As has the participation rate, while both at high very levels following the surge during the pandemic. Thus, the **LFS unemployment rate** was unch. in June at 3.2%, we expected an 0.1 pp decline. The labour market is anyway very tight – still without may signs of accelerating **wage growth**, confirmed by two wage/labour stats last week, as well as the national accounts the previous week
  - **Credit growth** (C2) has stabilised, as household debt is growing slower, and businesses are increasing their debts faster. In sum no credit bubble

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The Calendar: Manufacturing PMIs/ISM. US jobs data, wages. US/EU/NOR unemployment

Time	Count.	Indicator	Period	Forecast	Prior
Monday August 29					
08:00	SW	GDP QoQ	2Q	1.4%	-0.8%
08:00	SW	Retail Sales MoM	Jul		-1.2%
Tuesday August 30					
08:00	NO	Hotel guest nights	Jul		101.3
09:00	SW	Economic Tendency Survey	Aug		101.3
09:00	SW	Consumer Confidence	Aug		54.1
11:00	EC	Economic Confidence	Aug	98.0	99
14:00	GE	CPI YoY	Aug P	7.8%	7.5%
15:00	US	S&P CoreLogic CS 20-City MoM	Jun	0.8%	1.3%
16:00	US	Conf. Board Consumer	Aug	97.4	95.7
16:00	US	JOLTS Job Openings	Jul	10300k	10698k
Wednesday August 31					
01:50	JN	Industrial Production MoM	Jul P	-0.5%	9.2%
01:50	JN	Retail Sales MoM	Jul	0.3%	-1.4%
03:30	**CN**	**Manufacturing PMI, NBS**	**Aug**	**49.3**	**49.0**
03:30	**CN**	**Service PMI, NBS**	**Aug**	**52.2**	**53.8**
11:00	EC	CPI Estimate YoY	Aug	9.0%	8.9%
11:00	**EC**	**CPI Core YoY**	**Aug P**	**4.1%**	**4.0%**
14:15	US	ADP Employment Change	Aug		128k
15:45	US	Chicago PMI	Aug	53.1	52.1
Thursday September 1					
03:45	**CN**	**Manufacturing PMI**	**Aug**	**50.1**	**50.4**
08:00	NO	Unfilled vacancies	Q2		
08:00	GE	Retail Sales MoM	Jul	-0.4%	-1.6%
10:00	EC	Manufacturing PMI	Aug F	49.7	49.7
10:00	**NO**	**Manufacturing PMI**	**Aug**	**(52)**	**54.6**
11:00	EC	Unemployment Rate	Jul	6.6%	6.6%
14:30	US	Initial Jobless Claims	Aug-27	250k	243k
15:45	US	S&P Global Manufacturing PMI	Aug F		51.3
16:00	US	Construction Spending MoM	Jul	-0.1%	-1.1%
16:00	**US**	**ISM Manufacturing**	**Aug**	**52.0**	**52.8**
17:00	WO	Manufacturing PMI	Aug	(50.2)	51.1
	US	Auto Sales	Aug	13.55m	13.35m
Friday September 2					
10:00	**NO**	**Unemployment Rate, SA**	**Aug**	**1.5%(1.5)**	**1.6%**
11:00	EC	PPI YoY	Jul	35.8%	35.8%
14:30	**US**	**Nonfarm Payrolls**	**Aug**	**300k**	**528k**
14:30	**US**	**Unemployment Rate**	**Aug**	**3.5%**	**3.5%**
14:30	**US**	**Average Hourly Earnings YoY**	**Aug**	**5.3%**	**5.2%**
Monday September 5					
03:45	**CH**	**Services PMI, Caixin**	**Aug**	**53.7**	**55.5**

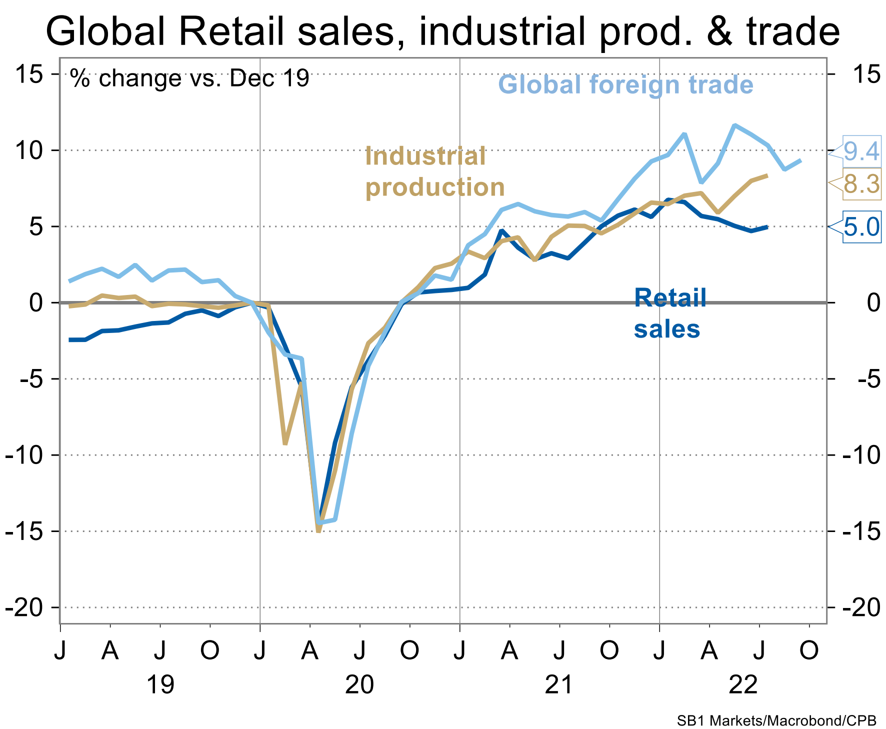
- **PMIs**
  - » The **global manufacturing PMI** will very likely decline further, if Emerging Markets incl. China do not surprise sharply at the upside. The preliminary manufacturing PMIs from Europe and US were on the weak side. Orders are declining. On a positive not, delivery problems eases and price increases are slowing – but remain elevated. The US PMI, together with several regional manufacturing Fed surveys, signal a 3 p decline in the ISM towards the 50 line, well below consensus expectations (52.0). China will report its two service sector PMIs too. We expect a decline in the Norwegian PMI to 52
- **USA**
  - » Most important out of the US this week are the **labour market data.** Even though the no. of unfilled vacancies has fallen bit and is expected to fall further, the labour market is still extremely tight (Powell told us so too!) – last month there were 10.7 mill openings, while the unemployed amounted to 5.8 mill. Wages have also been rising fast and faster than expectations lately. Other wage indicators are even more upbeat than in the payrolls report. Employment growth is slowing, but the unemployment rate is assumed to be unch. at 3.5%, the lowest rate since 1969. The small business survey will also report assessment of the job market, and consumption plans
  - » **Case/Shiller's house price indices** are expected to report slower growth, but still growth, measured as 3 m avg., and lagging by a month or two. Realtors have reported declining prices in both June and July
  - » **The conference board consumer confidence** has been the most positive of the surveys we follow, but the gap to the others is now historically large. However, the Univ. of Mich. survey was clearly better than expected in August (and well above the initial report), perhaps as inflation expectations fell further
- **EMU**
  - » **The inflation** print is expected up 0.1pp to 9%, but emphasis for the ECB will/should be on the core **CPI,** as higher energy prices is already working to soften demand in the Euro zone. Still important to keep in mind that the ECB mandate is not for 4% inflation…
  - » **The unemployment rate** is expected to have flattened out at 6.6%, despite a high number of unfilled vacancies (a further, and steep rise in Q2!). A likely economic downturn should lift unemployment towards the end of the year
- **Norway**
  - » **Open unemployment at NAV** has reached 1.6%, and we expect a further decline in August, if not necessarily at the 1st decimal. The rate may soon be the lowest since 1980, which is the European standard these days. The monthly inflow of **new vacancies** has peaked but the Q2 **unfilled vacancy** stats will still probably report more open positions (if not for large changes in agriculture)

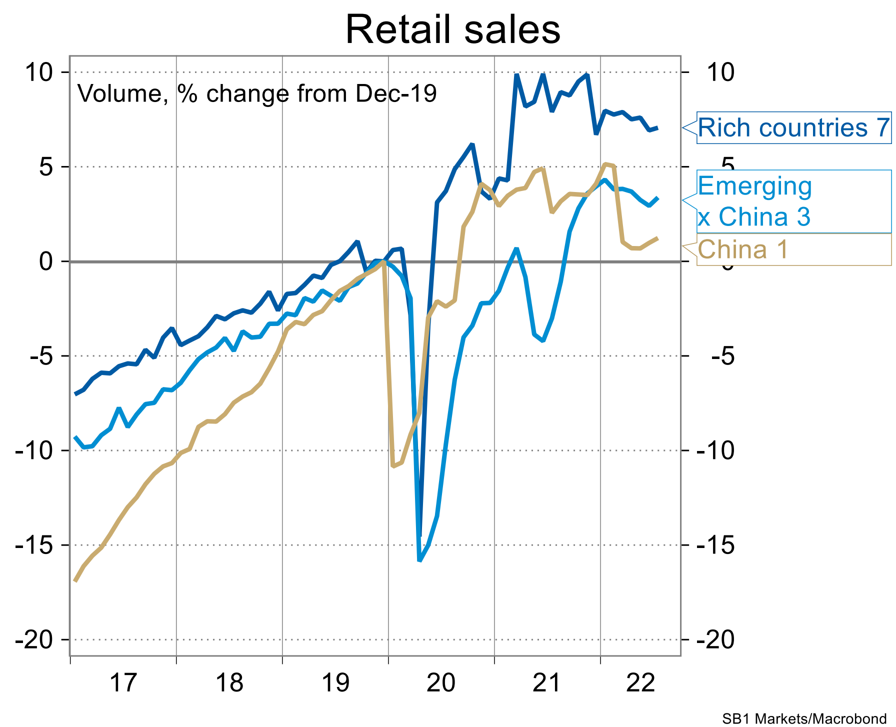
Sources: Bloomberg. SB1M est. in brackets. Key data are highlighted, **the most important in bold**

SpareBank 1 MARKETS

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

Global trade is still going strong. Some risk vs. manufacturing production given trend in retail sales

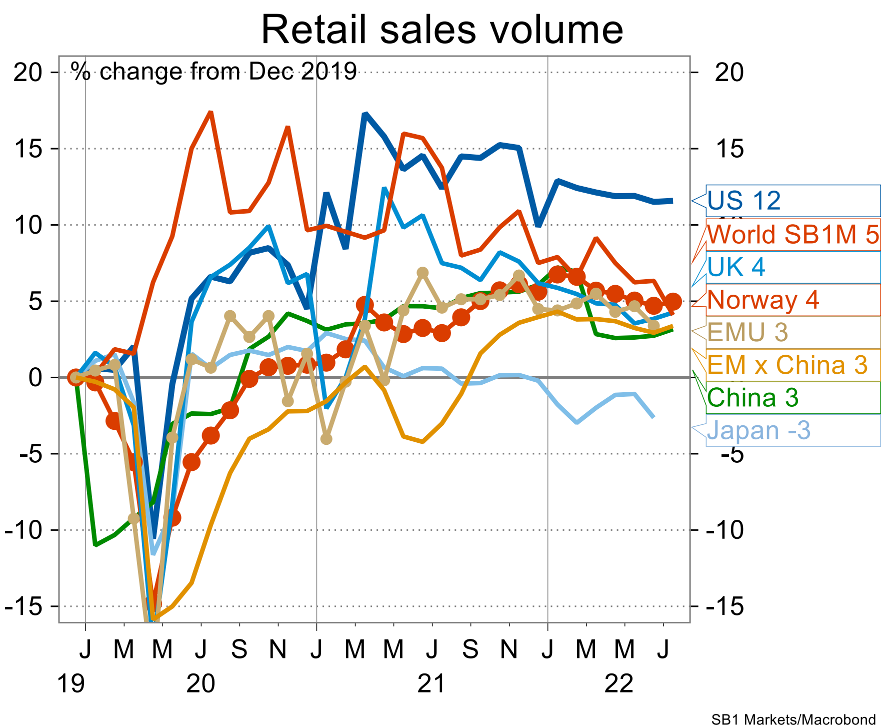


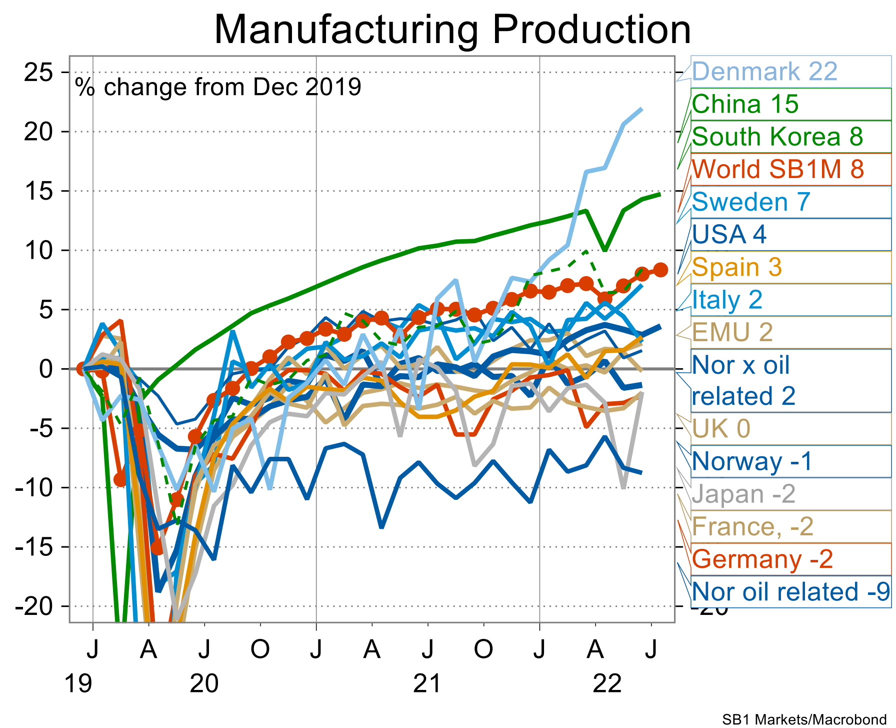


Global trade: The last months are estimates from the Kiel Institute, they are also making a prognoses for the next month based on shipping activity etc.

A broad slowdown of retail sales

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





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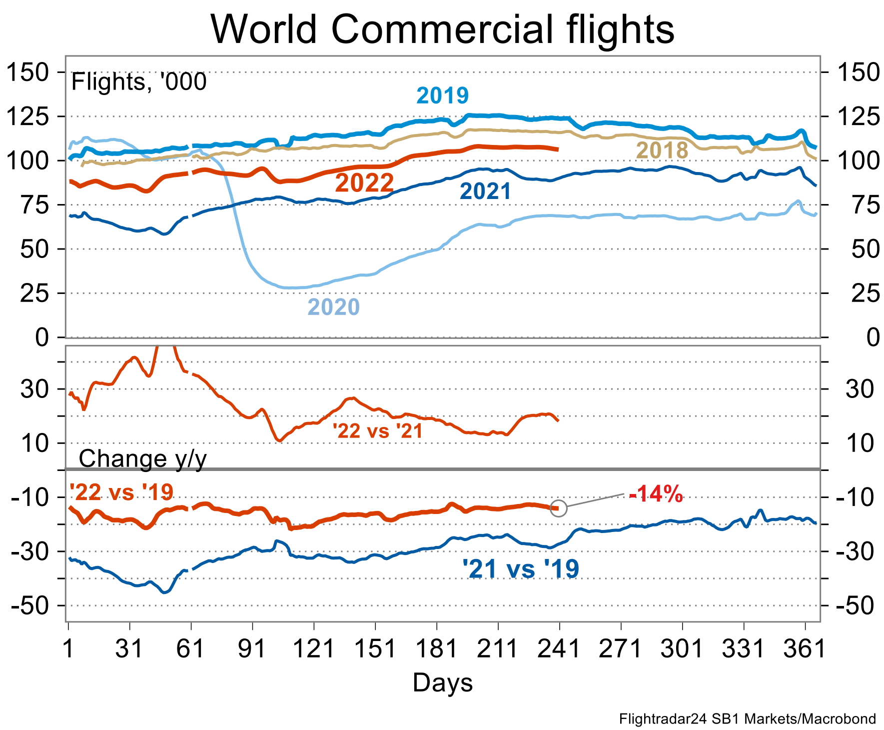
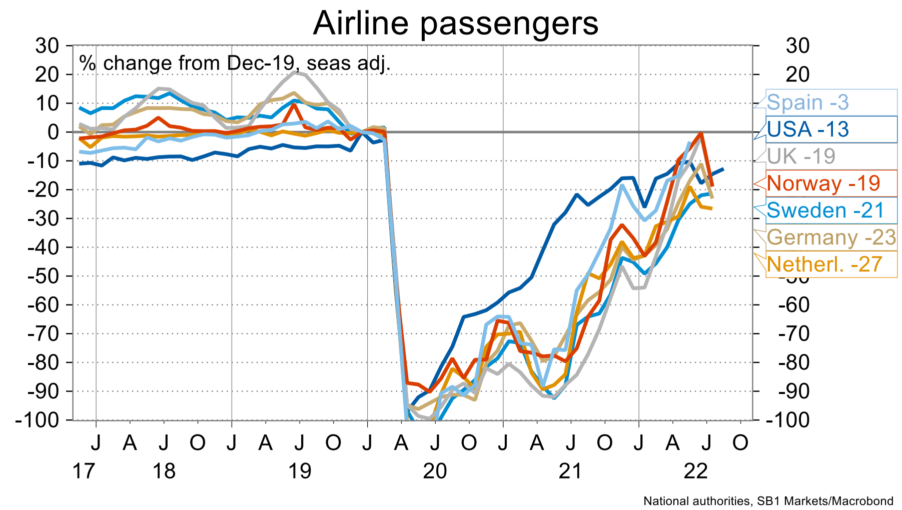
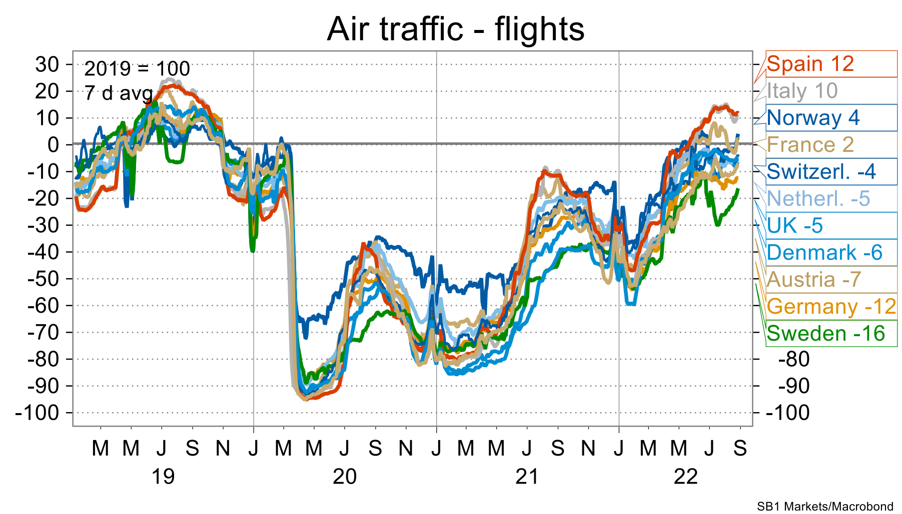
Global airline traffic has flattened recently, still down 13% vs. 2019





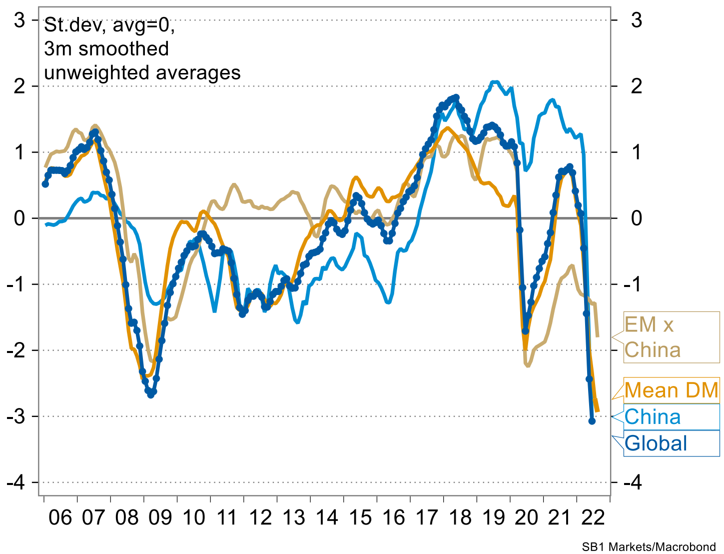


Global trade: The last months are estimates from Kiel Institute

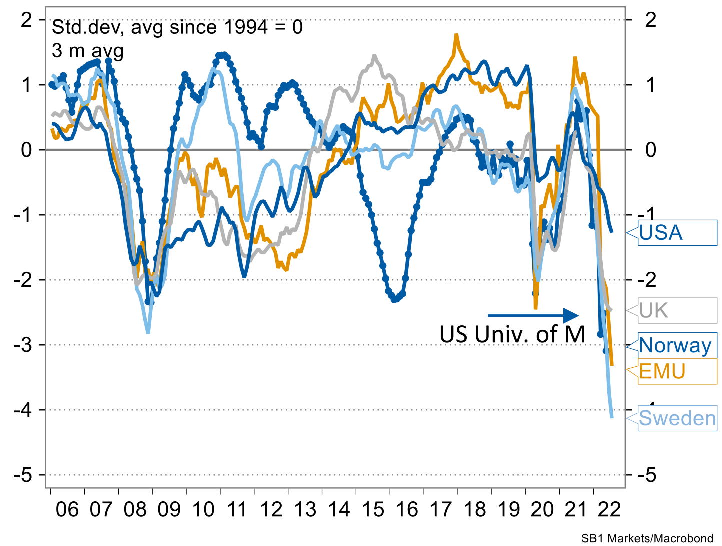
Consumer confidence sharply down almost everywhere

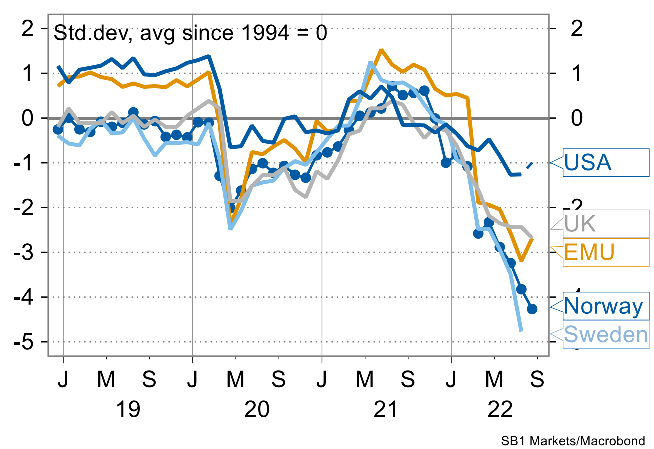
The Nordics at the bottom, but rest of Europe in bad mood too

Global consumer confidence



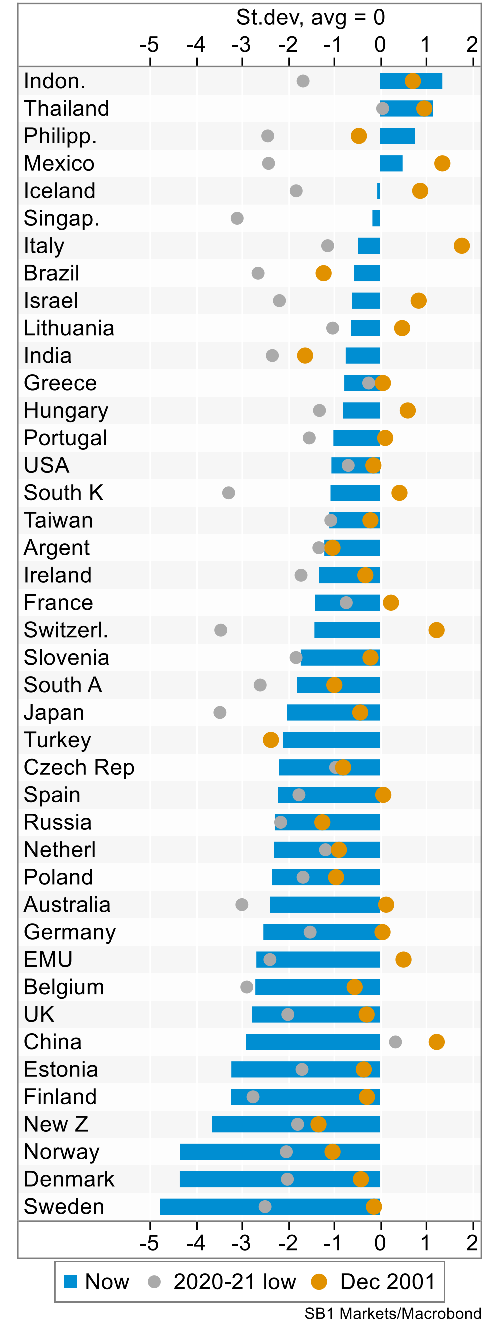
Consumer confidence





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

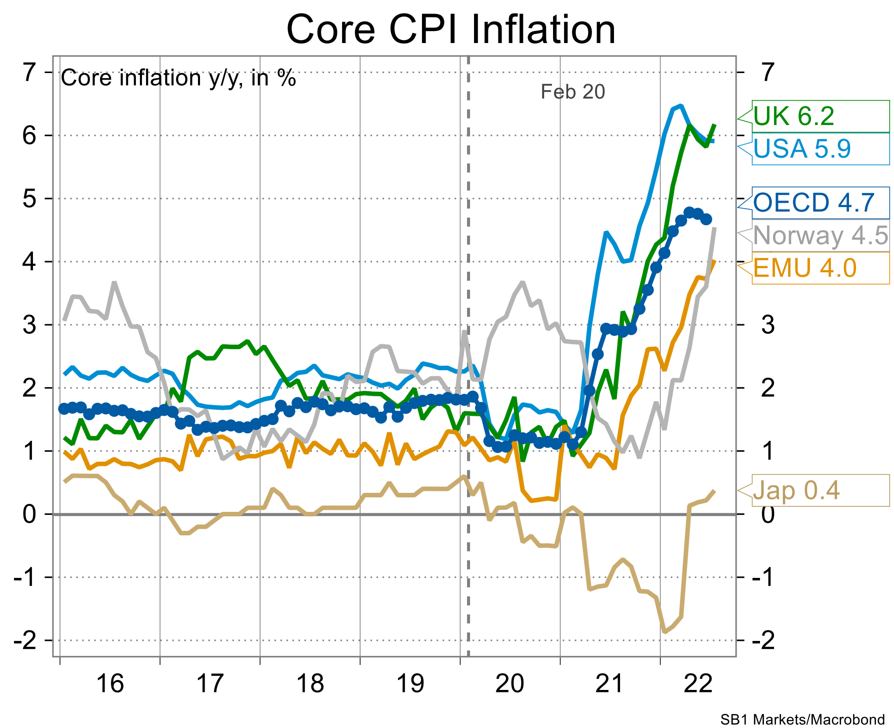
Consumer confidence

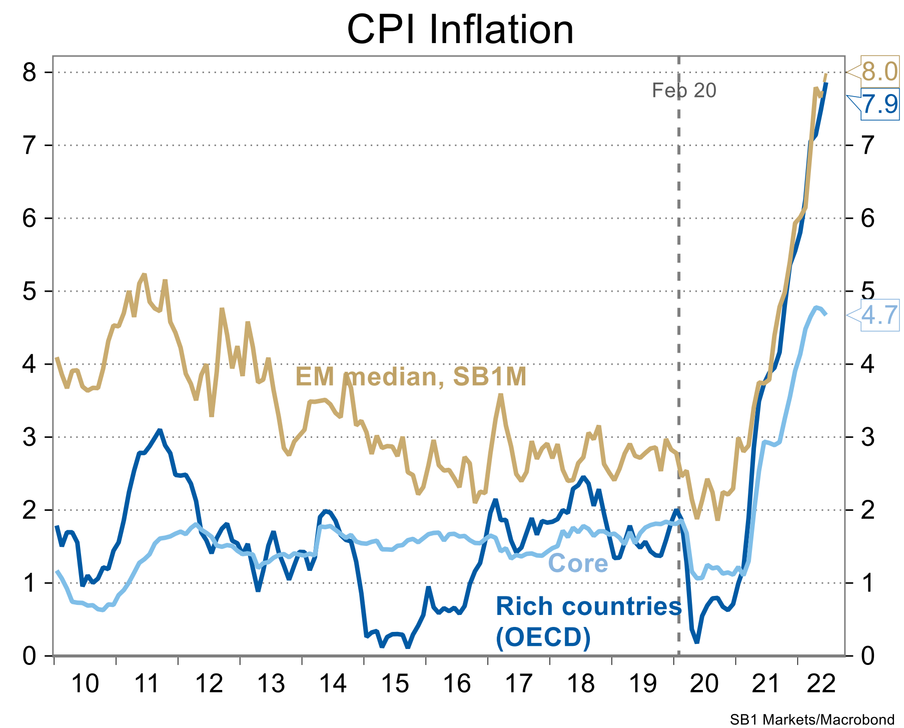


Norway is the average of Finans Norge & Opinion

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

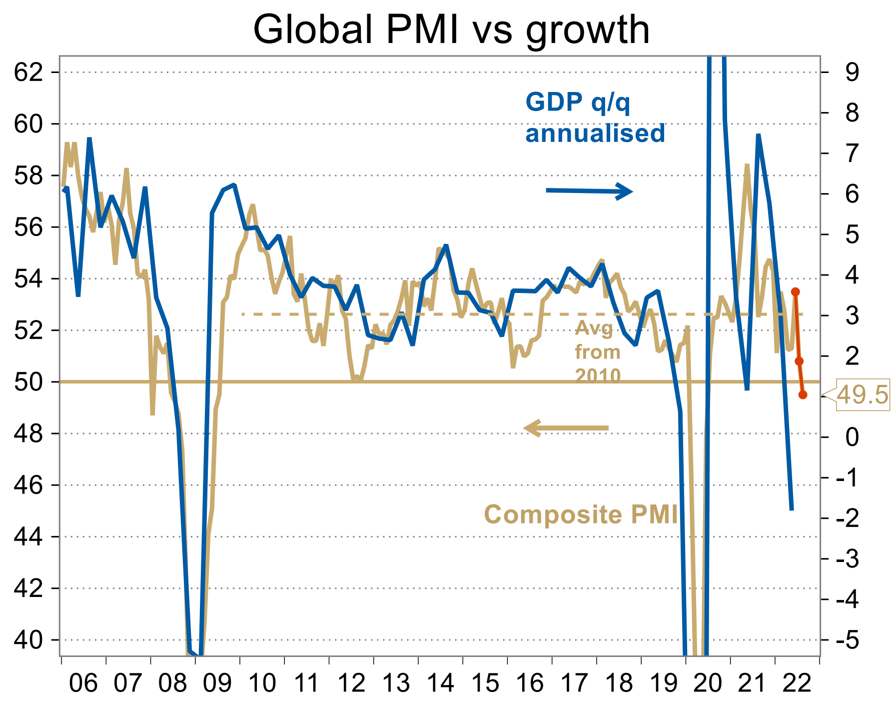
Energy prices the main culprit, but core prices are also contributing. However, some peaks are seen?



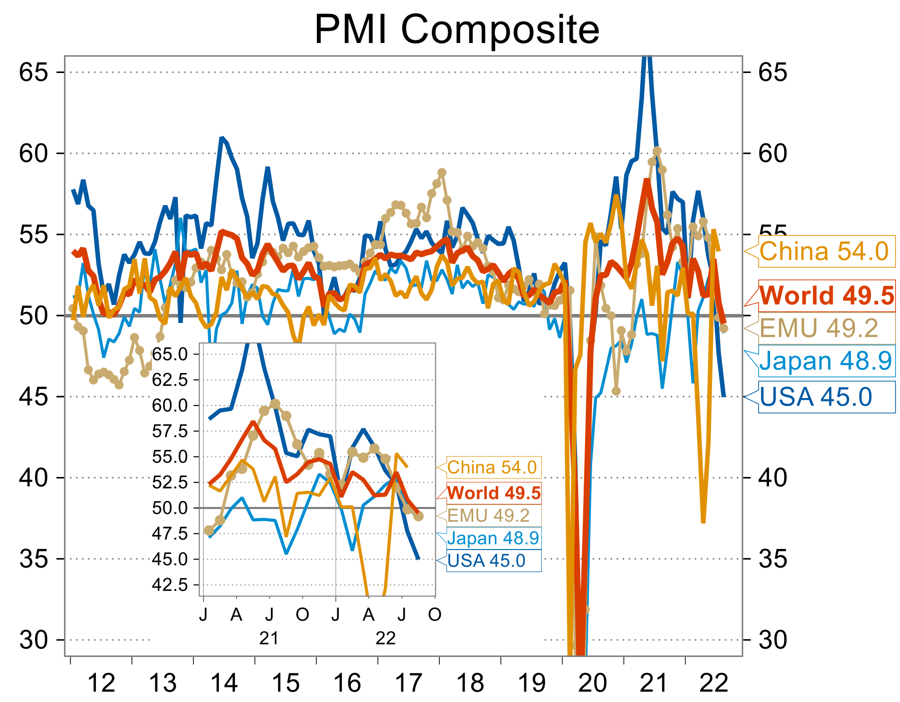


The world composite PMI likely crossed the 50-line in August

Our preliminary est. is for a 1.3 p decline to 49.5, the lowest since '09 (barring Covid crisis)



SB1 Markets/Macrobond



Source: IHS Markit, SB1 Markets, Macrobond

- The composite PMIs fell sharpy in the US, and declined in Japan, the UK, and in the EMU as well. The level signals a global GDP growth rate at around 1%, which is often referred to as a global recession
- The US index is now at the bottom of the league, <u>at 45</u>, down 2.7 p, expected up to 49!
- The Eurozone PMI also fell in August, by 0.7 p to 49.2, due to a fall in both the German and the French PMIs
- China has not yet reported its August figures, and the global estimate is thus still uncertain

Our estimates are based on the preliminary PMIs from US, EMU, Japan UK, Australia. The estimates are uncertain, but usually by less than 0.5 p if the Chinse PMI does not change too much

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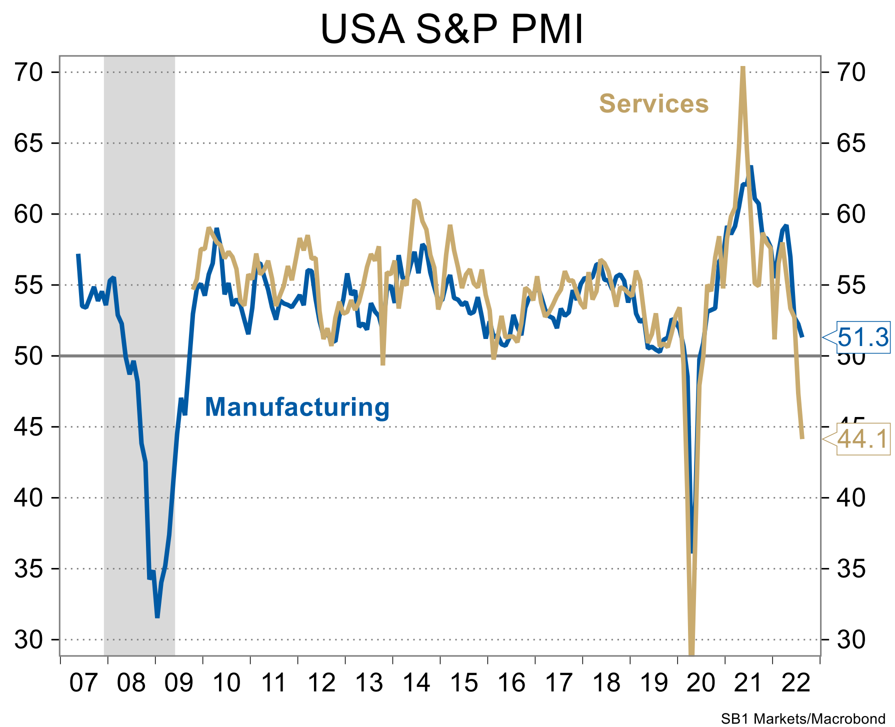
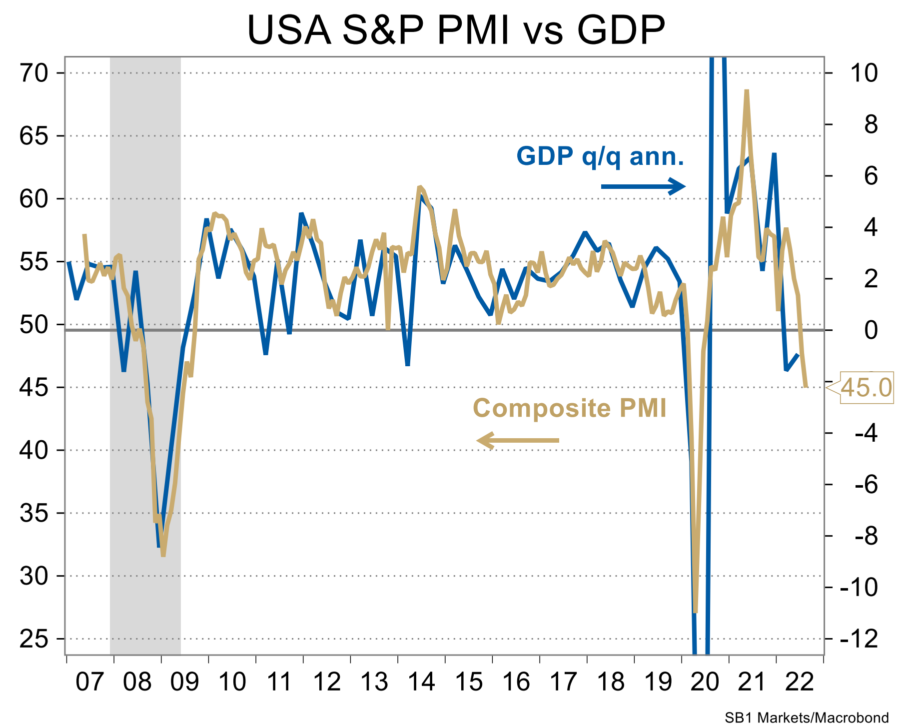
The PMI signals a US recession, with services in the lead

Service PMI slid by an addt'l 3.2 p to 44.1; Composite down to 45, signalling a <u>2% GDP contraction</u>

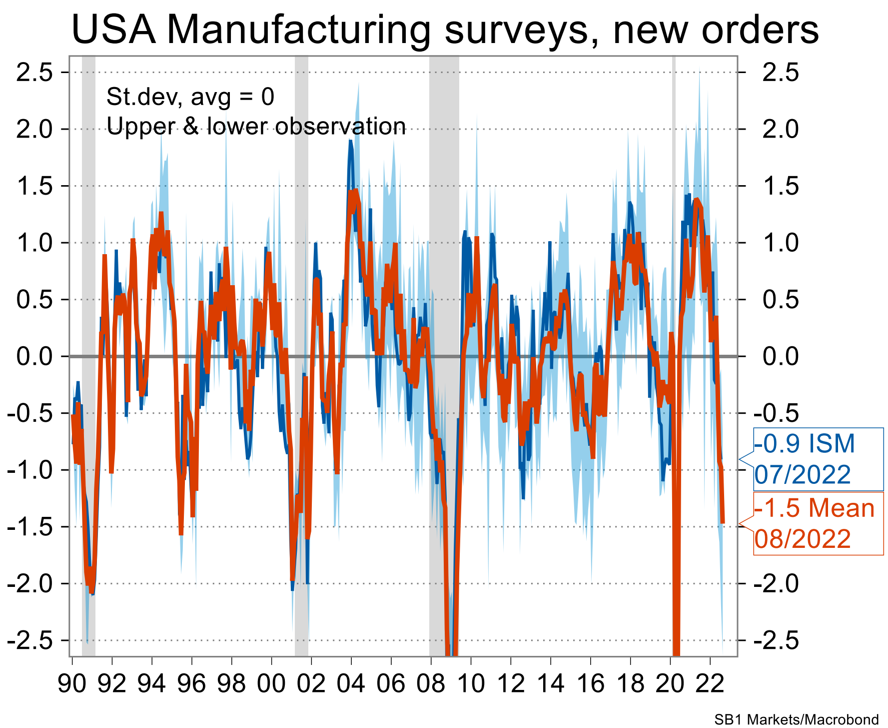


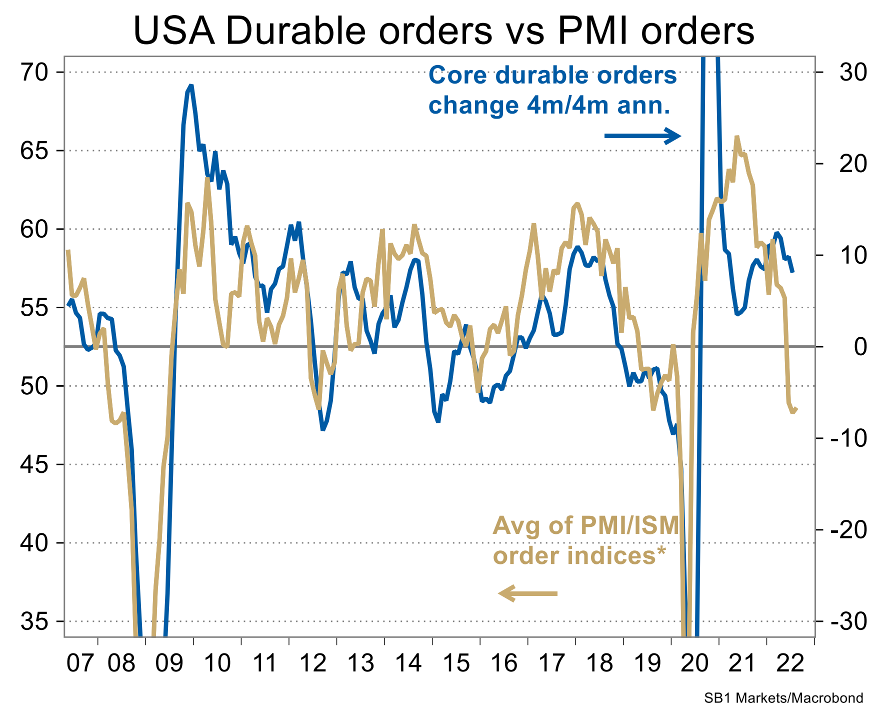


- **The composite PMI** has fallen sharply past three months, and is now the lowest since May-20. Barring the pandemic, we have to go back to the GFC to find similar prints. Both the service and the manufacturing PMIs fell; services by 3.2 p to 44.1, a level not observed before outside of the Covid crisis. The index was expected <u>up</u> to 50. The manuf. PMI was also weaker than expected. The composite index was expected up 1.3 p to 49!
- **The price indices** fell sharply but are still reporting rapid price increases
- **New orders** keep falling, and the prints over the past couple of months are now in recessionary levels. Other surveys agree!
- **The takeaway** for us, and for the Fed, <u>demand is softening but prices (and much more important wages) are still rising</u>

Surveys: New orders are declining rapidly. Actual order inflow still OK

Something hit US manufacturers in June, the decline continued in July and August, surveys report

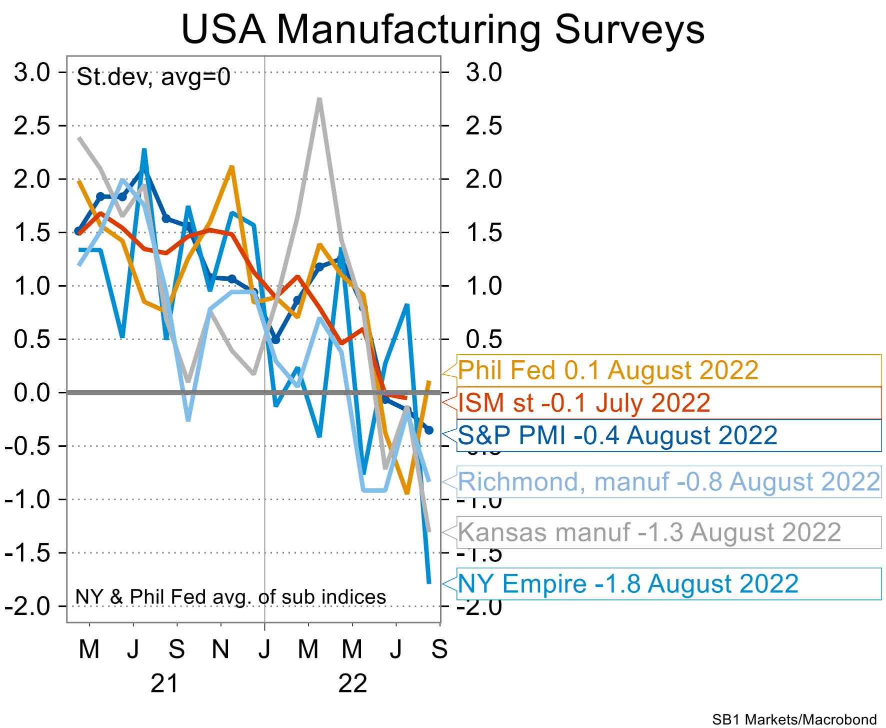


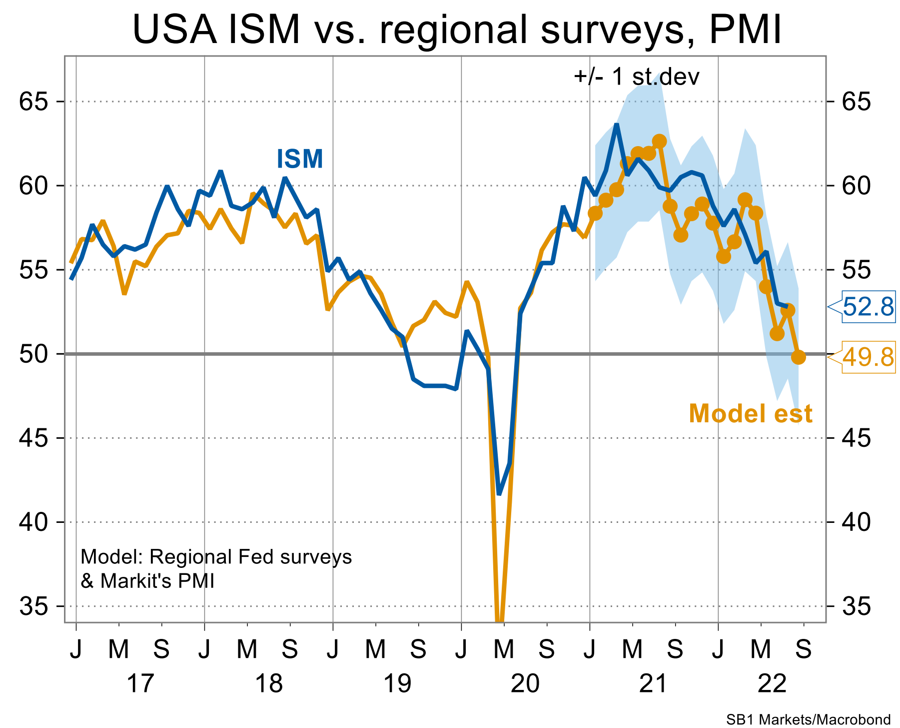


- Recessions have started with better survey data on new orders than the data from June, July and August
- Order inflow indices have been just as weak without a recession once, in 1995/4, when Greenspan's Fed hiked the Fed funds rate to 6% from 3%. However, at that time, inflation peaked at 3% (9% now), the unemployment rate was 6.5% (3.5% now) and the vacancy rate was 2.5% (6.6% now). Cost inflation (Unit Labour Costs) was less than 2% (some 5% underlying now, but close to 10% y/y in Q2). So, Powell has quite another challenge this time
- Just a reminder: Leading indicators sent a rather clear recession signal in June and July

Will the ISM manufacturing cross the 50-line?

Not unlikely, given the PMI and 4 regional surveys published so far



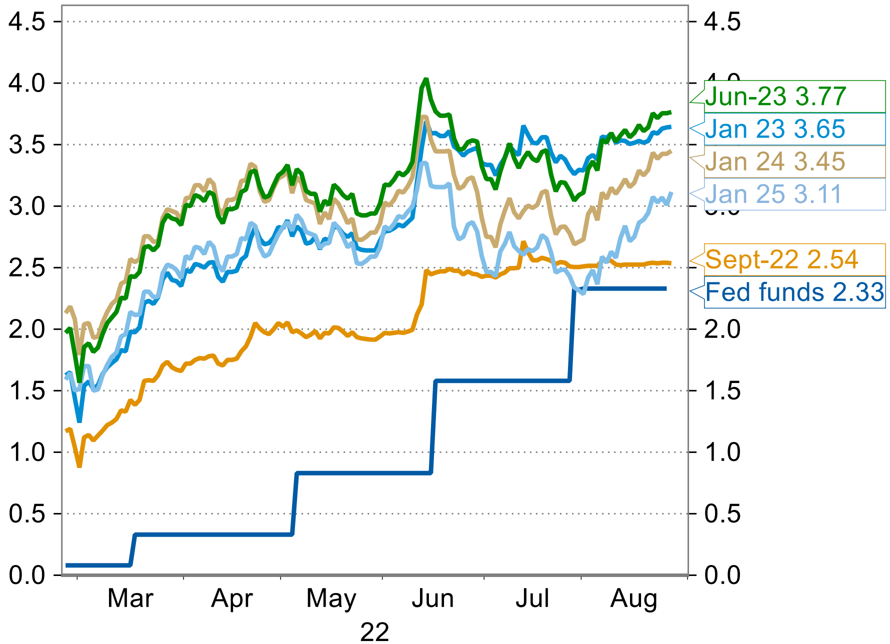


- Big picture: Growth is slowing sharply but manufacturing indices do not signal that the economy has entered a recession (even if order indices are really worrisome)

Powell at Jackson Hole: *We will keep at it until we are confident the job is done*

Powell finally took his gloves off, he is now a 'Volkerish' inflation warrior. It will cause pain

Fed funds future



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USA Fed funds rate (OIS)

FOMC meetings	Effective Fed funds rate
Now	2.33
Sept 21	2.97
Nov 2	3.42
Dec 14	3.66
Feb 1	3.77
March 22	3.81
May 3	3.81

Chairman Powell stated that the Fed's goal is to bring inflation down. In order to achieve price stability, Jay Powell stated that:

- We are taking forceful and rapid steps to moderate demand so that it comes into better alignment with supply. The labour market is obviously out of balance…We will keep at it until we are confident the job is done.
- This is likely to bring sustained period of below-trend growth, with some softening of labour market conditions … Which will bring some pain to households and businesses. These are the unfortunate costs of reducing inflation
- The labour market is extremely tight
- On latest CPI print: A single month's improvement is welcome but not sufficient (Obviously!)
- He has warned of larger hikes at the last press conference and stands by this statement - (*this is your guidance, folks!)*
- Quoted Volcker, saying inflation feeds in part on itself. The longer you wait, the greater the risk that inflation gets intrenched into people's decision making. The cost of bringing inflation down will become even larger
- In current circumstances, with inflation running far above 2 percent and the labor market extremely tight, estimates of longer-run neutral are not a place to stop or pause. The Fed will not pivot anytime soon
- The bond market was obviously better prepared for the 'Volkerish' signals than the stock market: equities fell 3 – 4%, while interest rates/bond yield just rose marginally

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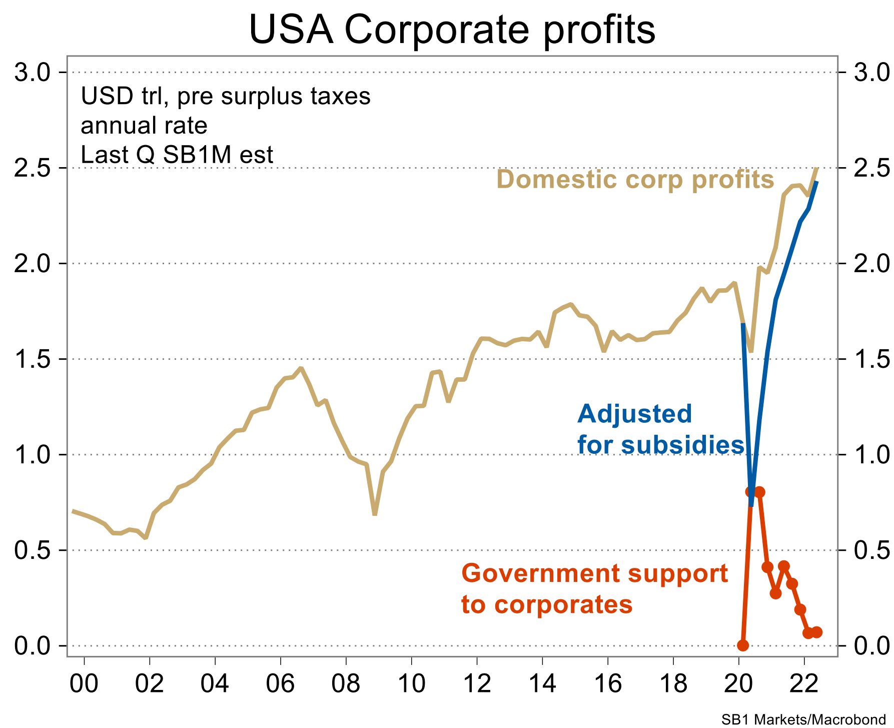
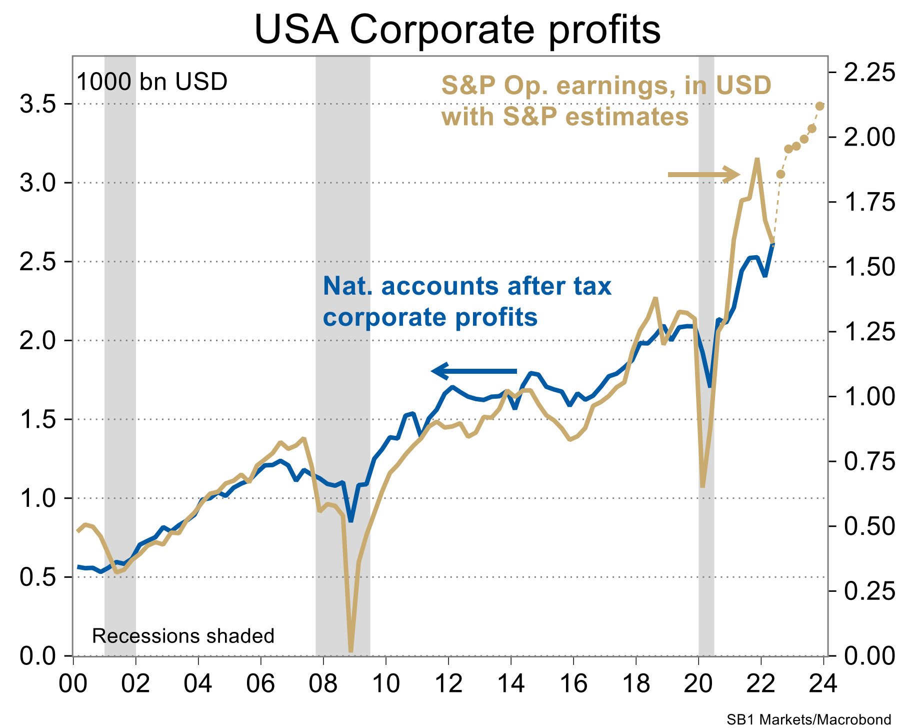
Corporates' profits up in Q2, far better than we assumed

Nominal GDP rose more than we assumed, as price rose even faster, by 11.7% (q/q, 10.5% y/y)

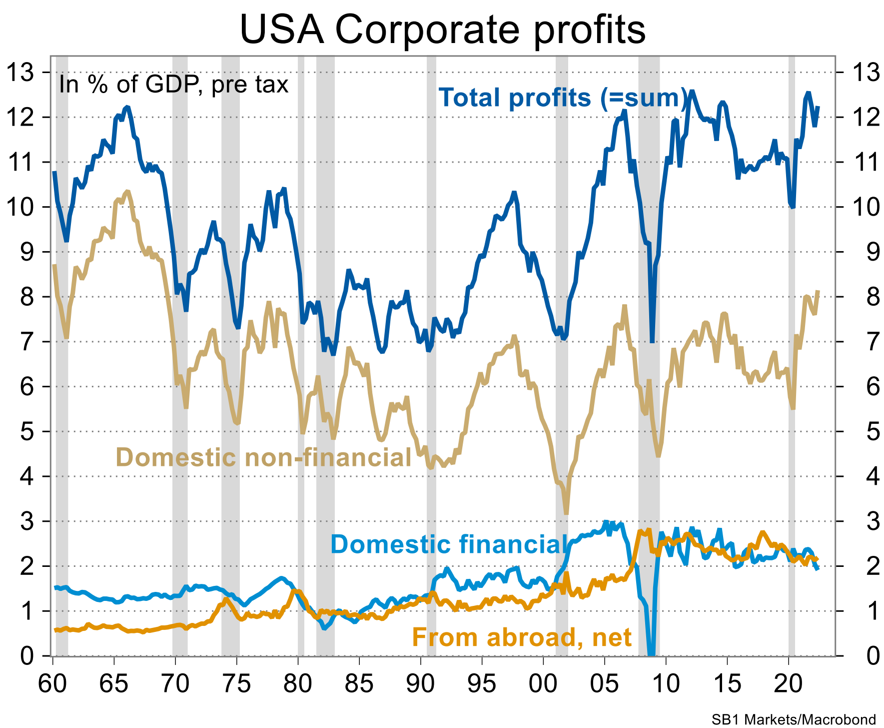


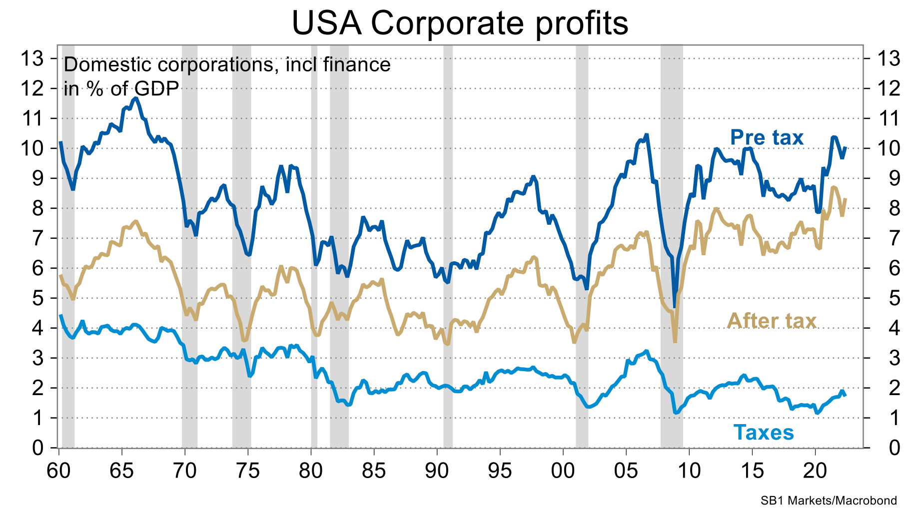


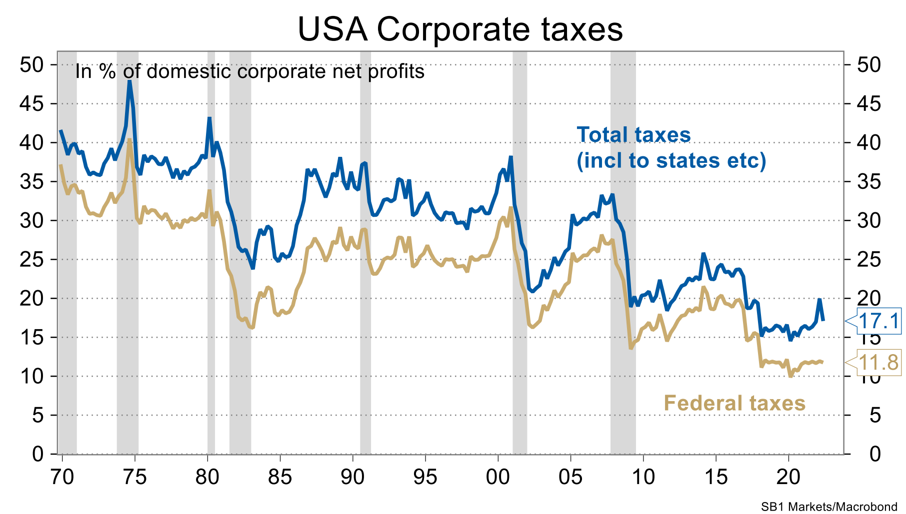
- **Domestic corporate profits** rose 6% q/q in Q2, we assumed a 1.5% decline –our largest miss ever, we believe. Growth nominal corporate GDP was much stronger than we had pencilled, 2.9% vs 1.7%, as prices rose faster than we had estimated. Labour costs rose by 2.0% (all data not annualised). Taxes on corporate income (pre-tax profits) were substantially lower. Net product tax payments/subsidies have almost normalised, as Covid support programs are terminated.
- The **S&P** estimates that S&P 500 profits fell 5% q/q in Q2 (some weeks ago estimated +2%), following the 13% decline in Q1 (seasonally adjusted). S&P profits (including profits from abroad) are almost line vs National Account profits for the total corporate sector (including all corporates operating in the US, domestically or foreign owned)
- We think the **profit outlook** is bleak. Wage inflation will not subside immediately given the super tight labour market – and a continued price inflation at the current 12% pace cannot be tolerated by the Federal Reserve. Exciting times ahead

Profit rates up in Q2, following the setback in Q4/Q1

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



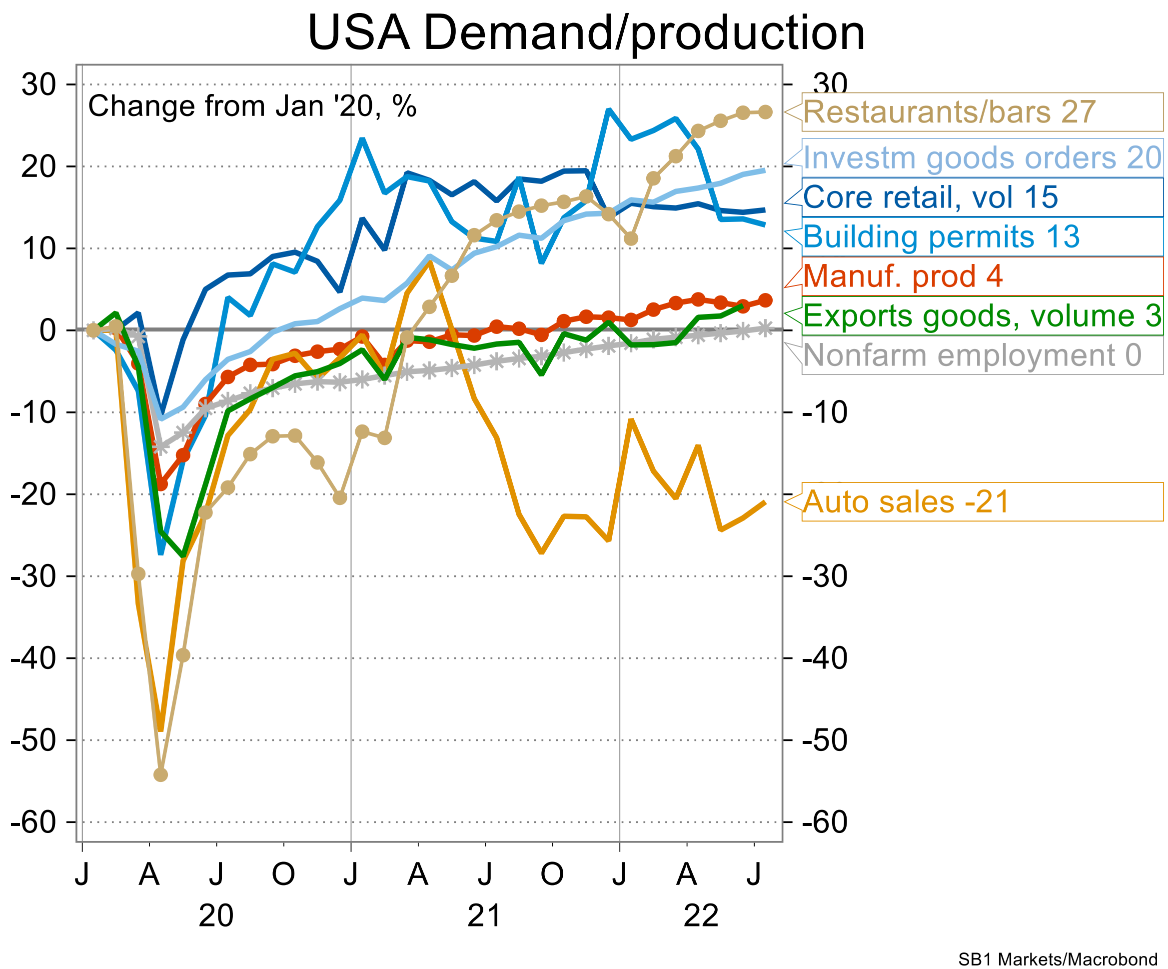




- The domestic corporate profit rate is close to the highest since late 1960s
- The after-tax profit rates are even closer to all time high, as corporate taxes have been cut several times. The effective tax rate fell in Q2, following a lift in Q1

US: Waiting for demand destruction?

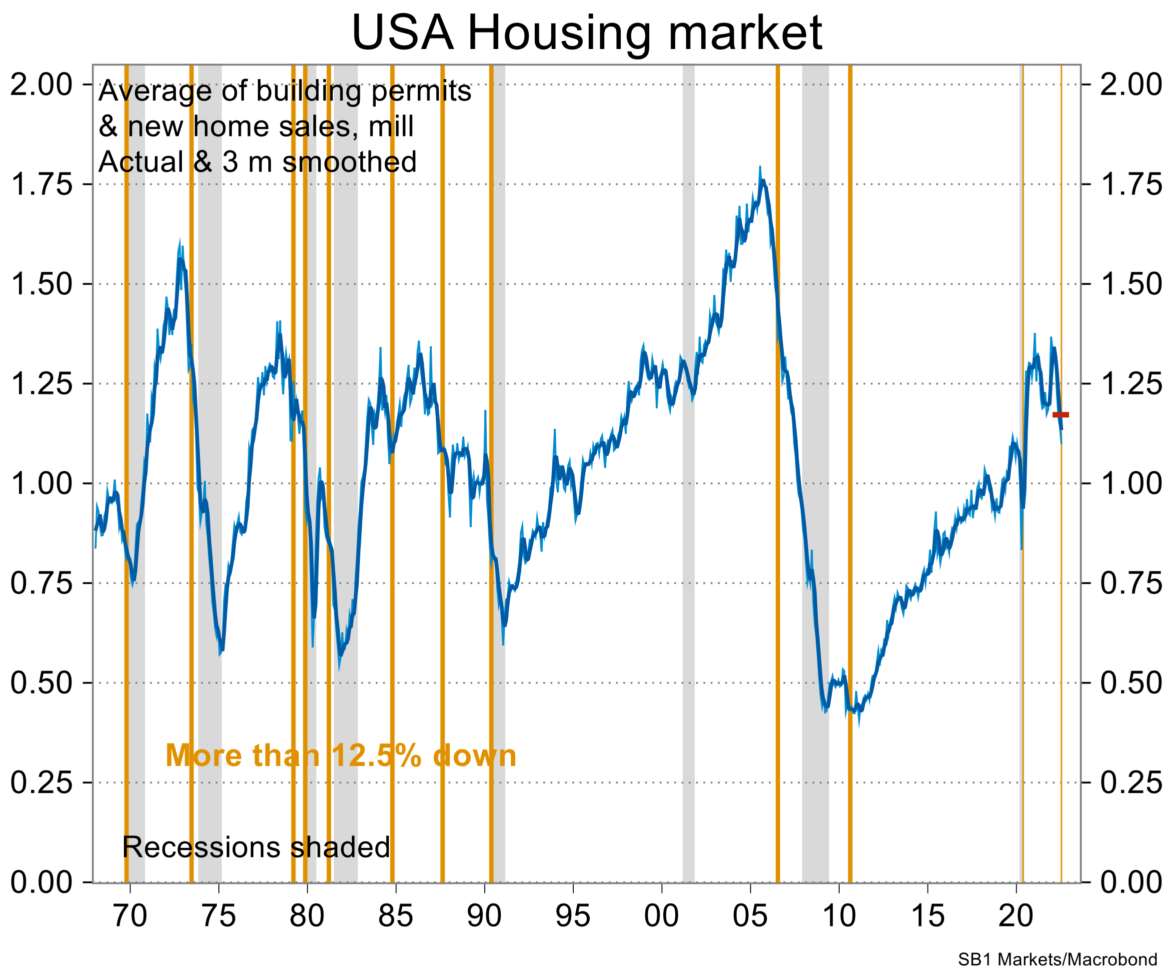
Housing is weakening, and demand for goods ex autos are waning?

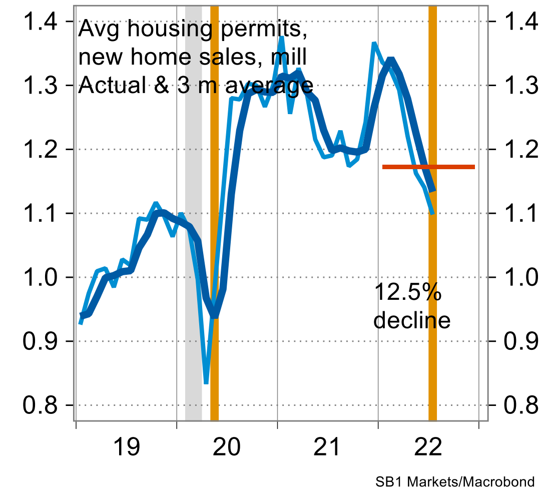


SpareBank 1 MARKETS

Housing vs. recessions: We have crossed the red line!

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





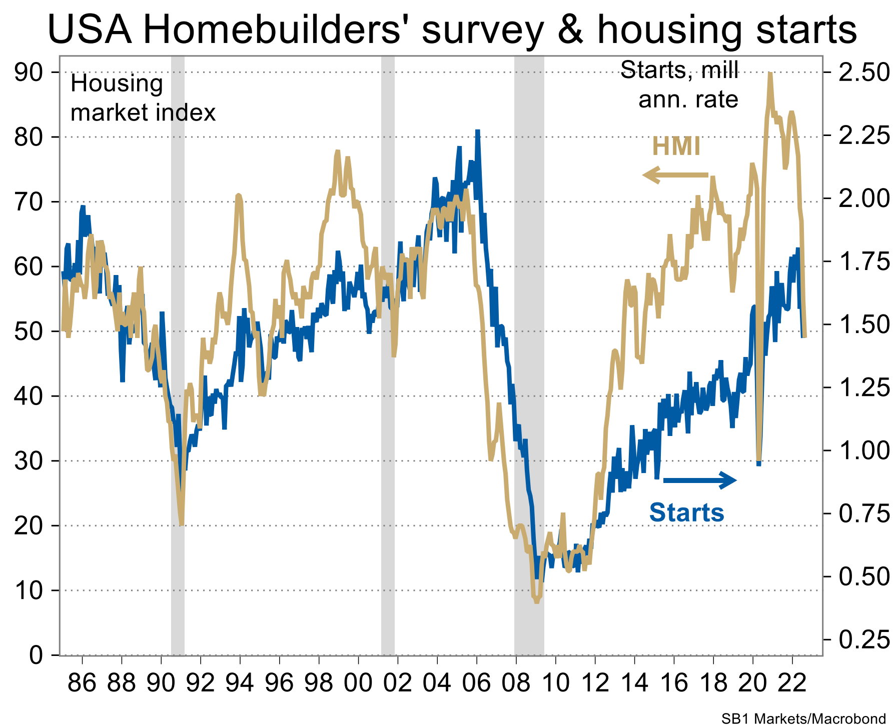
- Most recessions are 'housing recessions' as demand for housing and residential investments declines substantially ahead of and during recessions
  - » The only exception in recent decades was the 'Nasdaq' recession in 2001
  - » In addition, the pandemic recession was not caused by a setback on the housing market
- On the charts, we have marked declines of more than 12.5% in the 3 m average of the average of building permits and new homes sales vs. the recent 12 m peak with a yellow line
  - » 1984 and 1987, where interest rates were hiked, and a soft landing (and no recession) followed even if housing sent a signal (The 2010 decline was just after the GFC)
  - » The other 7 lines: A recession followed

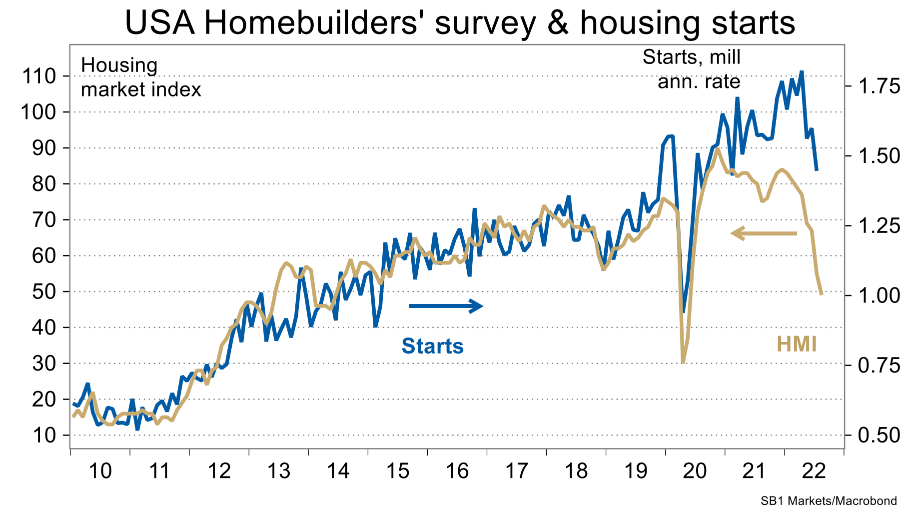
The page was accidentally removed from final version of the Weekly last Monday. It is rather important, so we include it this report

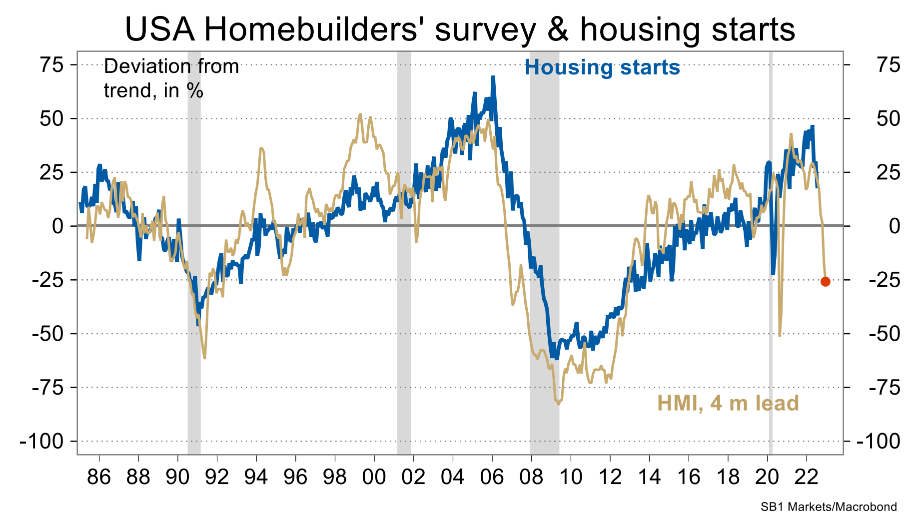
SpareBank 1 MARKETS

Homebuilders' index further down in Aug, signals a housing start crash

The HMI down 6 p to 49, following the 12 p July setback. A further 35% drop in starts, in total 50%?



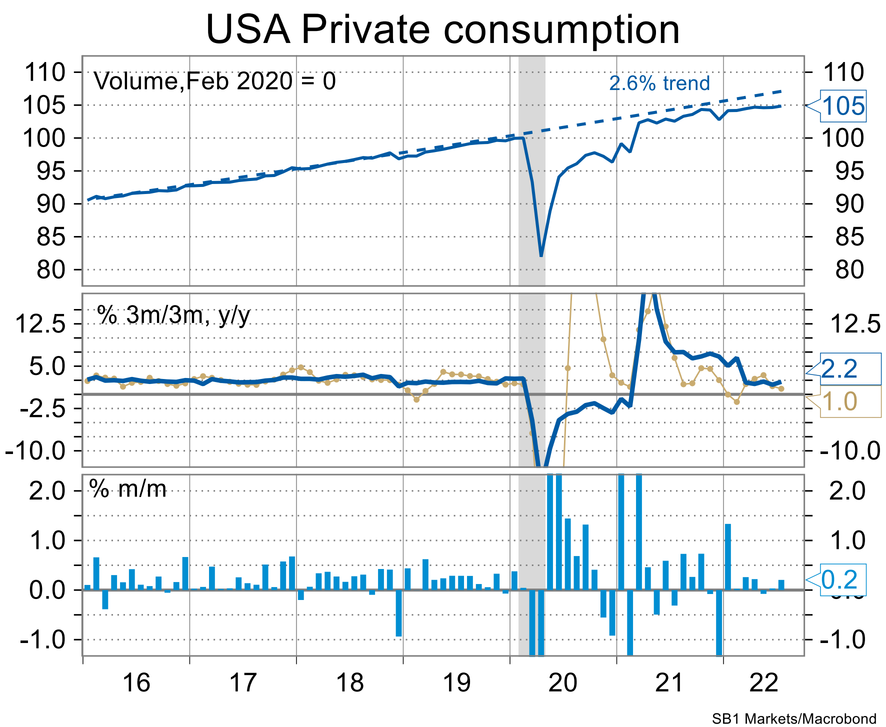


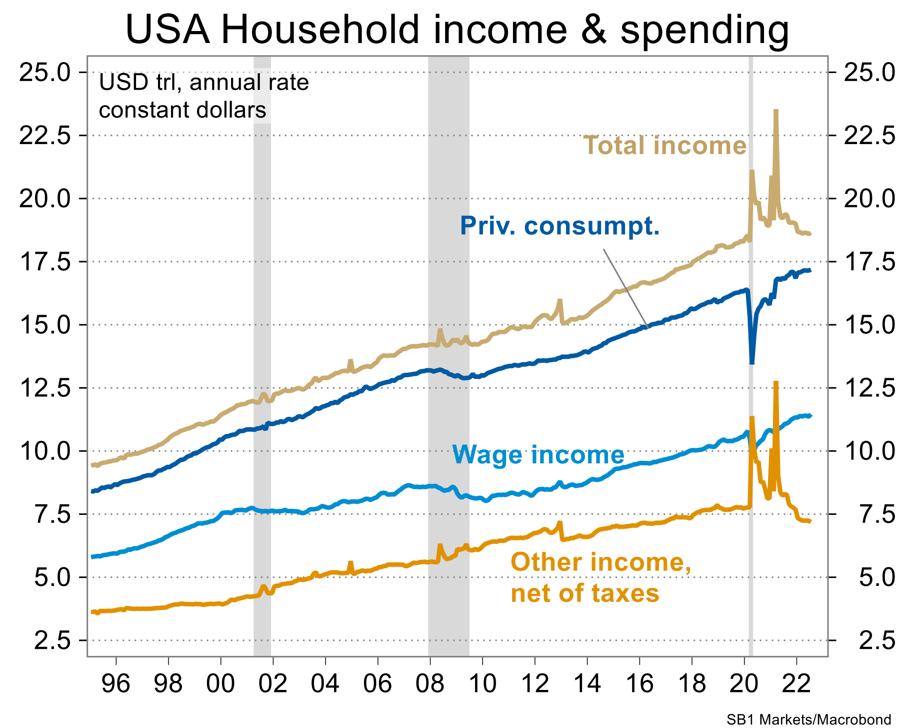


- **The Homebuilders' Housing Market Index (HM)** declined 6 p to 49 in July, expected unch.! The decline of 18 p over the past 2 months is the highest ever, barring the 44 p Apr-20 drop (which was followed by an 55 p lift in May and June. That trick will not be repeated now!)
  - » Affordability is still the challenge, due to higher mortgage rates, and soaring new home prices (at least until now)
- <u>The decline in the index recent months signal more than a 1/3 decline in housing starts following the 20% drop so far - in sum a 50% setback, which we have never seen except for before or during recessions</u>

Consumption has almost flattened – just a 1% underlying growth

Consumption grew 0.2% in July, less than expected, and June revised down

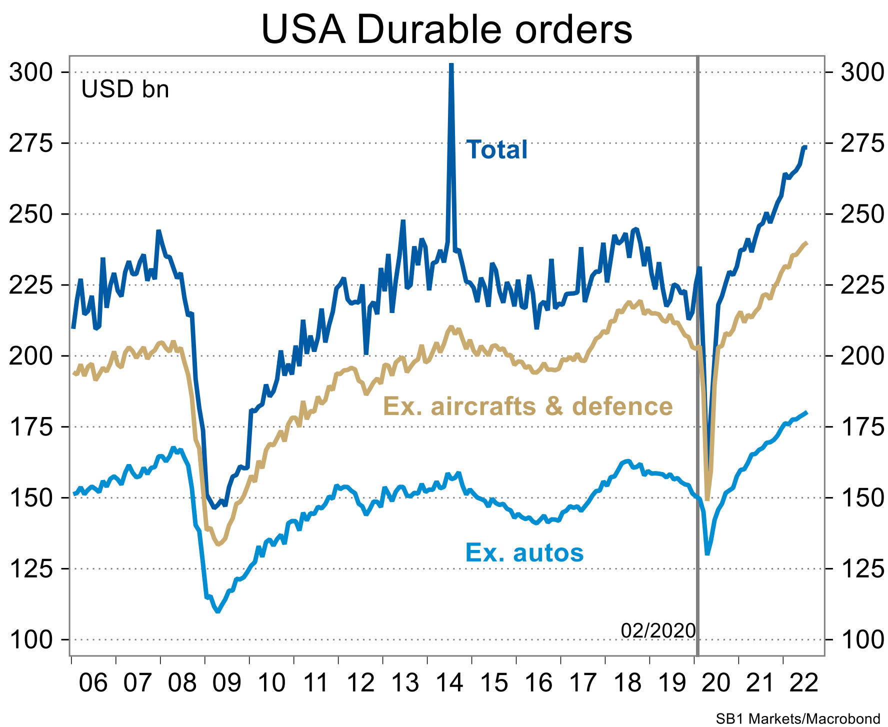


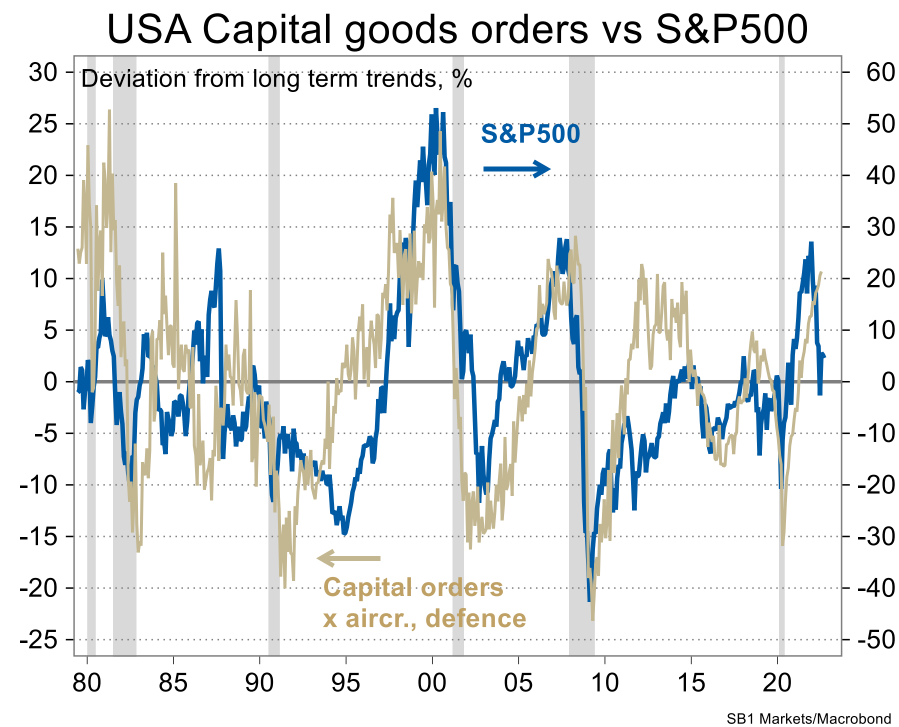


- **Private consumption** rose 0.2% in real terms in July. Nominal spending rose 0.1%, expected 0.4%, down from 1% in June – where prices rose 1% as well. In July, prices fell by 0.1% m/m
  - » Consumption of goods fell, services are still on the way up
- **Personal nominal disposable income** gained 0.2% in July, and was up by 0.3% in real terms. Real disposable income is trending down, due to normalisation of transfers, and higher taxes
- **The savings rate** was flat at 5% and some 2.5% below the pre-pandemic level. However, accumulated extraordinary savings through the pandemic are still almost fully intact, which may make it possible for households to keep up the level of spending

Durable goods orders still decent – core up 0.4% in July

Growth is slowing but just slowly, no signs of a recession thus far



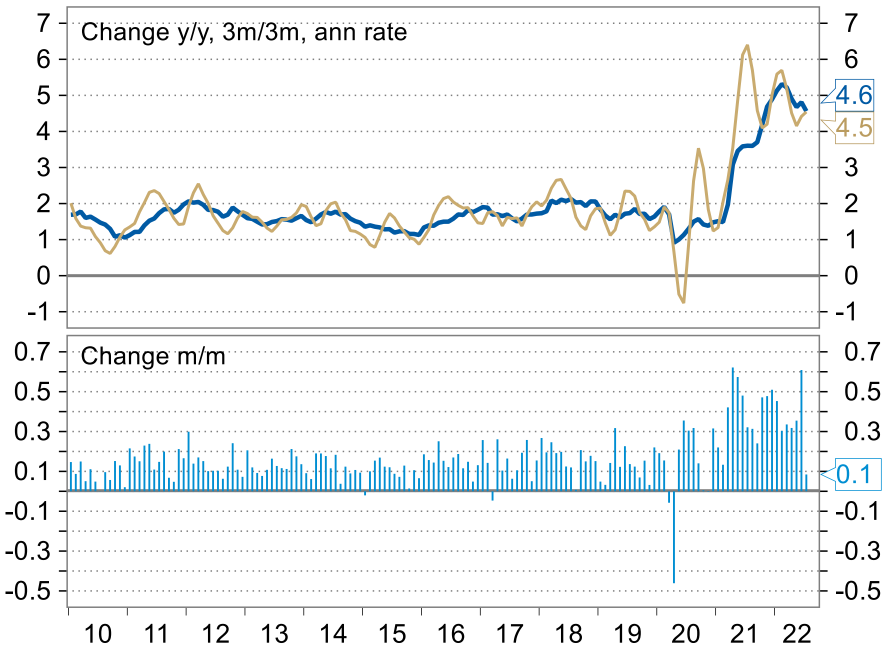


- **Total durable** orders were flat in July, down from +2% in June (revised up from 1.9%), expected up 0.6%
- The volatile aircraft & defence orders rose marginally, and **other orders** (our core concept) was up 0.3%, while the June print was revised up 0.2 pp to 0.9%
- **Core <u>investment</u> goods orders** grew 0.5, expected down 0.1%. Underlying growth is slowing but remain well above trend
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders, but surveys have now turned the tide and are <u>suggesting a decline in orders going into the fall</u>

Core inflation lower than expected in July - has very likely peaked

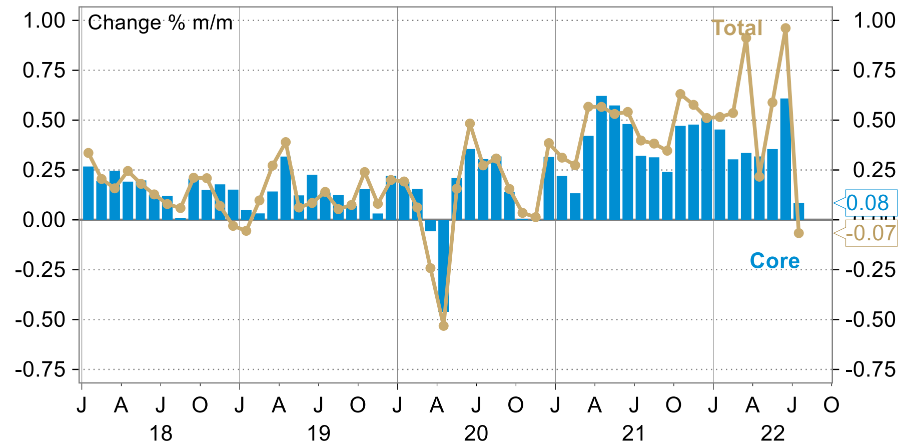
Prices rose by 0.1%, expected up 0.3% - but is still up 4.6% y/y, 2.6 pp above Fed target

USA Core PCE deflator



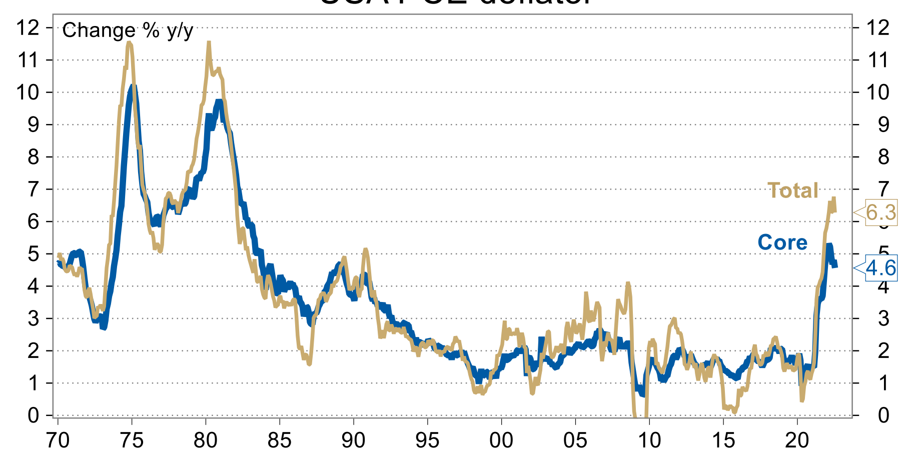
SB1 Markets/Macrobond

USA PCE deflator



SB1 Markets/Macrobond

USA PCE deflator

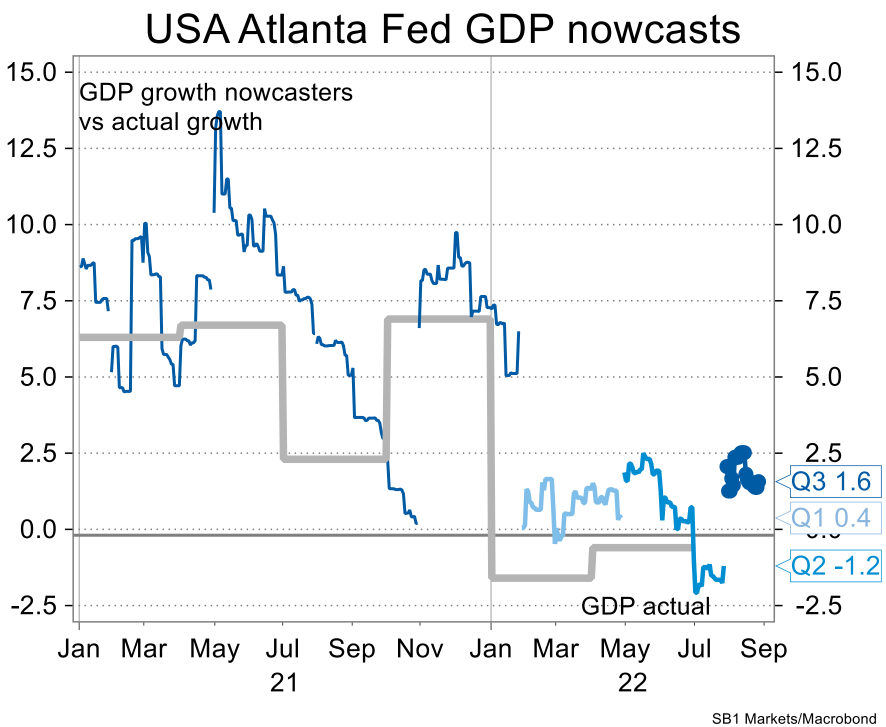


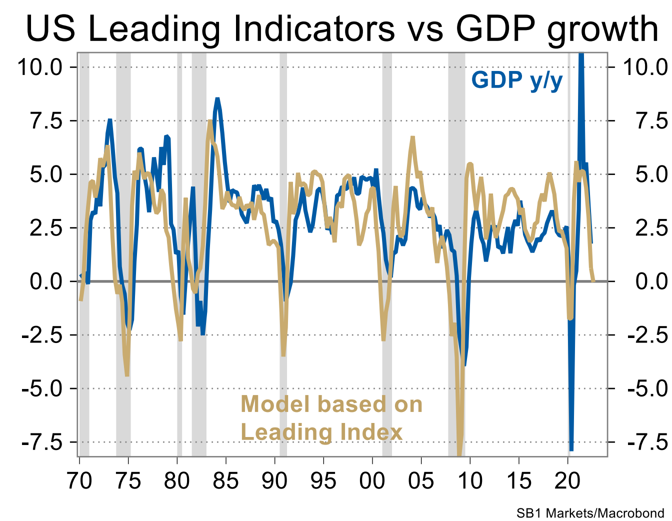
SB1 Markets/Macrobond

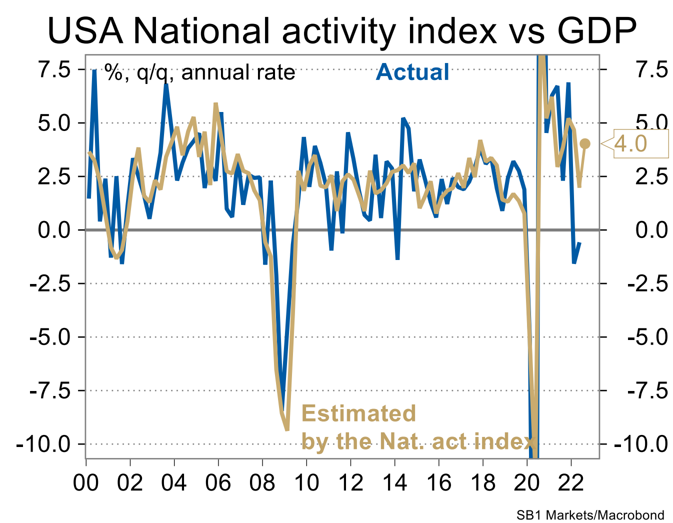
- **The total PCE deflator** fell by 0.1% in July, down from 0.9% in June, which was the highest in this cycle. The annual rate fell 0.5 pp to 6.3%, back to the May level. Energy prices declined (gasoline). Food prices rose 1.3% m/m
- **The core PCE** rose by 0.1% in July, expected 0.3%. The annual rate decelerated 0.2 pp to 4.6%
  - » Financial services contributed at the downside, but most groups reported rather low growth – a positive signal

Atlanta Fed's nowcaster was right on Q2 GDP. Now it reports 1.6% growth in Q3

The National Activity index suggests 4% (the July pace). Leading indicators say zero!



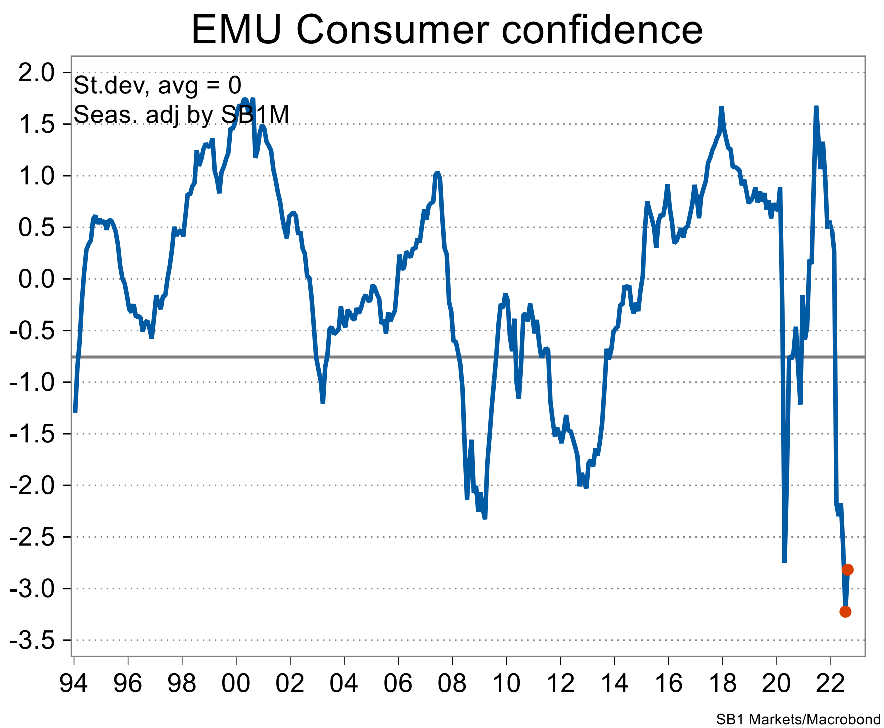


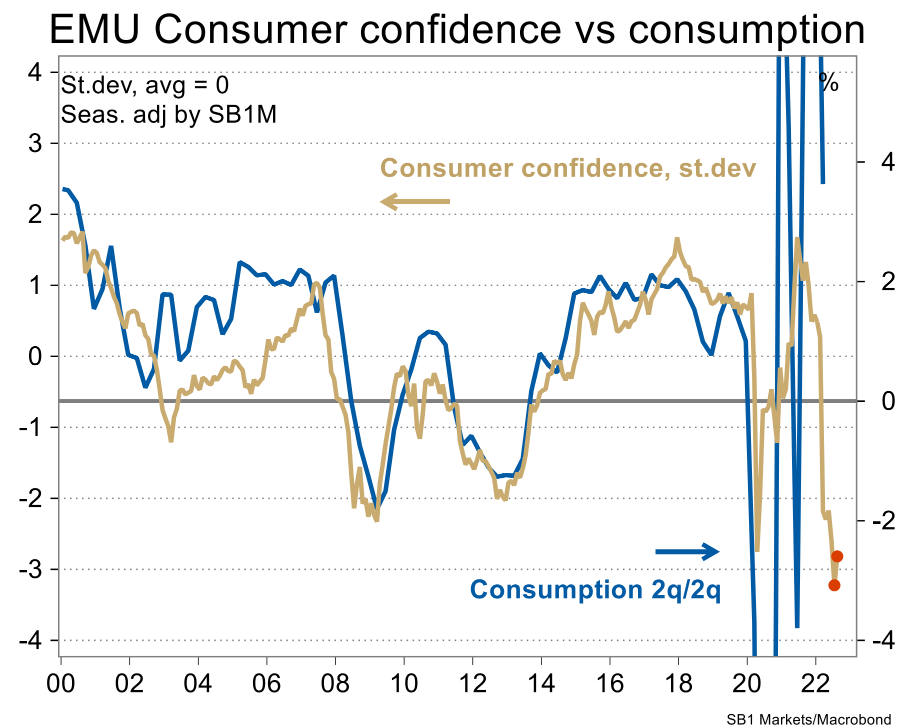


- **In Q2 GDP** fell 0.6%, revised up from -0.9%

Consumer confidence marginally better in August, but still depressing

Inflation and a war nearby is more important than the lowest unemployment rate since 1980

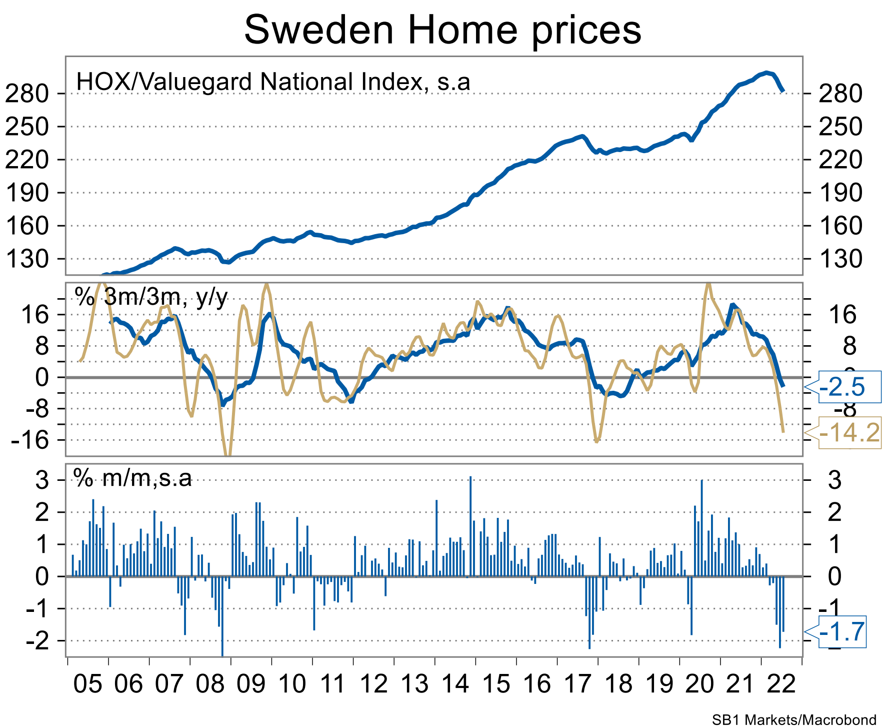


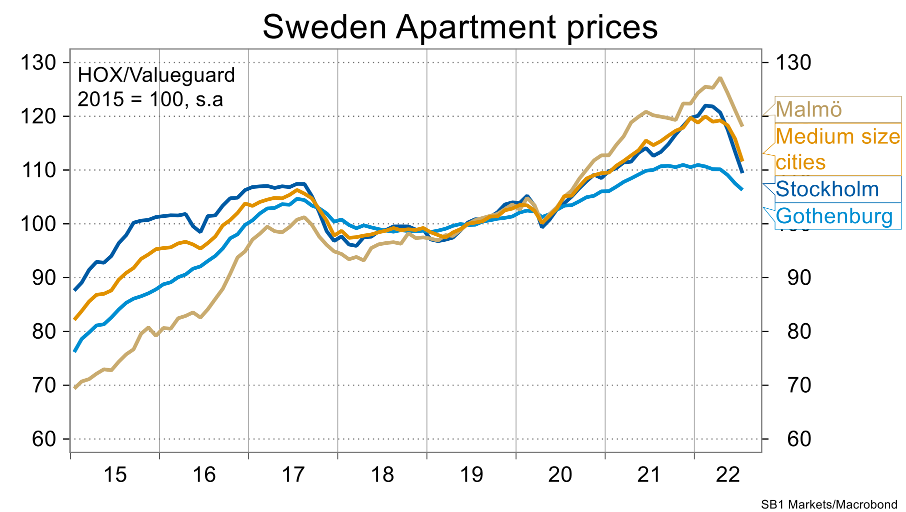


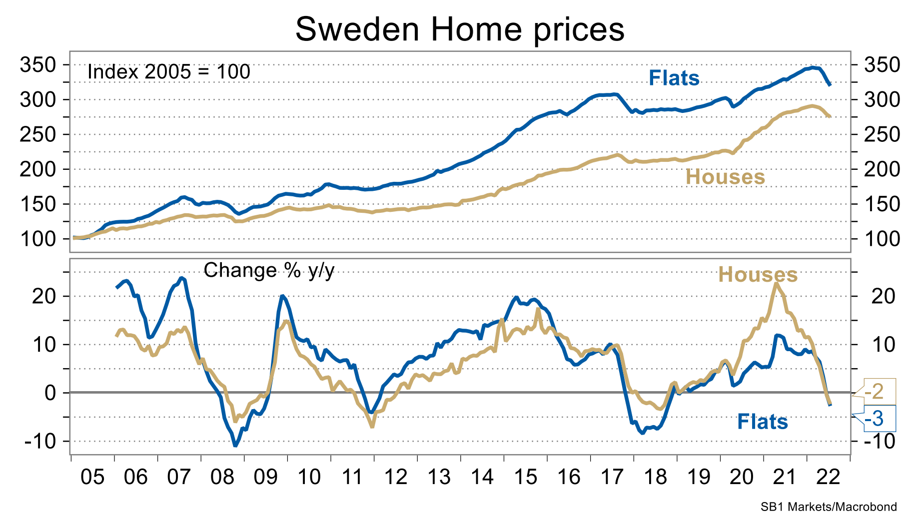
- **The confidence index** rose 2.1 p to -24.9 in August, according to the preliminary estimate, expected down to 28. The level in July is -2.8 st.dev below avg. – still historically very low, and only beaten by the sentiment in the previous month
- **Inflation** is probably to blame. **Interest rates** are now being hiked – and the rest of the yield curve has taken big leaps upwards – and sentiment is plummeting
- Usually, consumer confidence is tightly correlated to growth in household demand. If that's the case now as well...

Swedish house prices keep falling, down 6% from the peak

Prices fell 1.7% in July, the 5th decline in row. Stockholm flats 3.2% m/m, down 9.3% since March



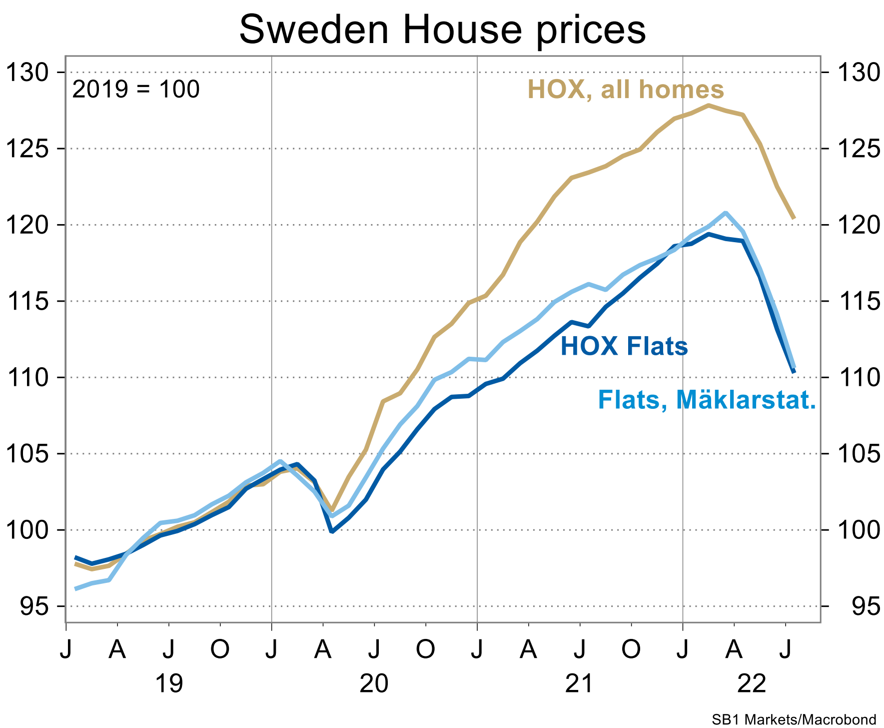


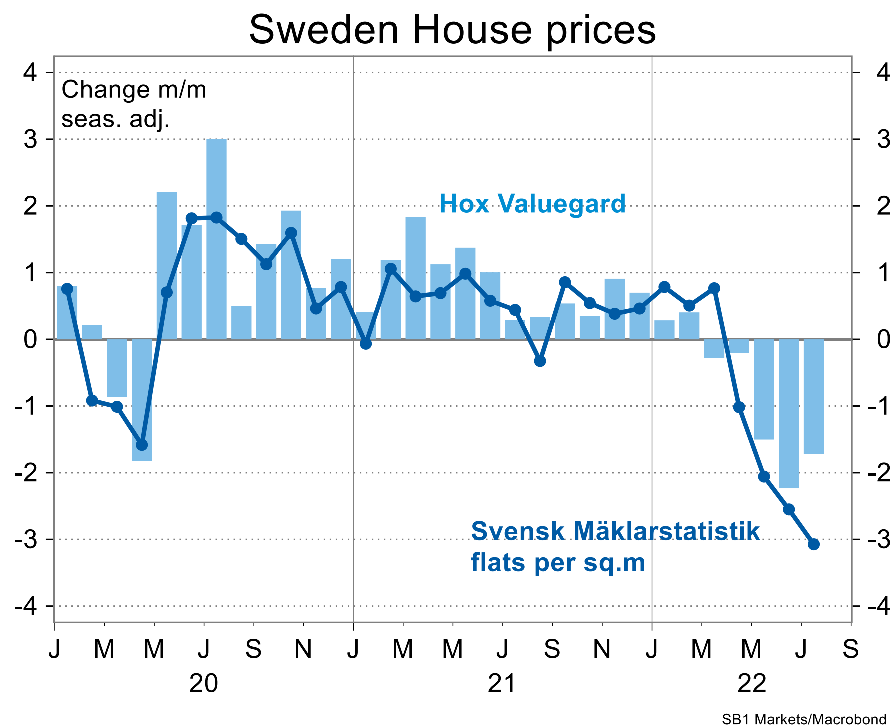


- **Prices are down** 5.8% from the peak in February. In Stockholm, apartment prices are down 9.3% from the peak
  - In July, prices in Stockholm fell by 3.2% (seas. adj) (but turned positive at the beg. of Aug, according to Valuegard)
  - Prices are down in all the major cities as well
- **The annual rate** declined to -2.5% from 6.2% in April
  - The underlying price growth (3m/3m) is now -14%!
- The **Riksbank's** abrupt change of tack in late April has no doubt hit the housing market hard

A x-check with Svensk Mäklarstatistik

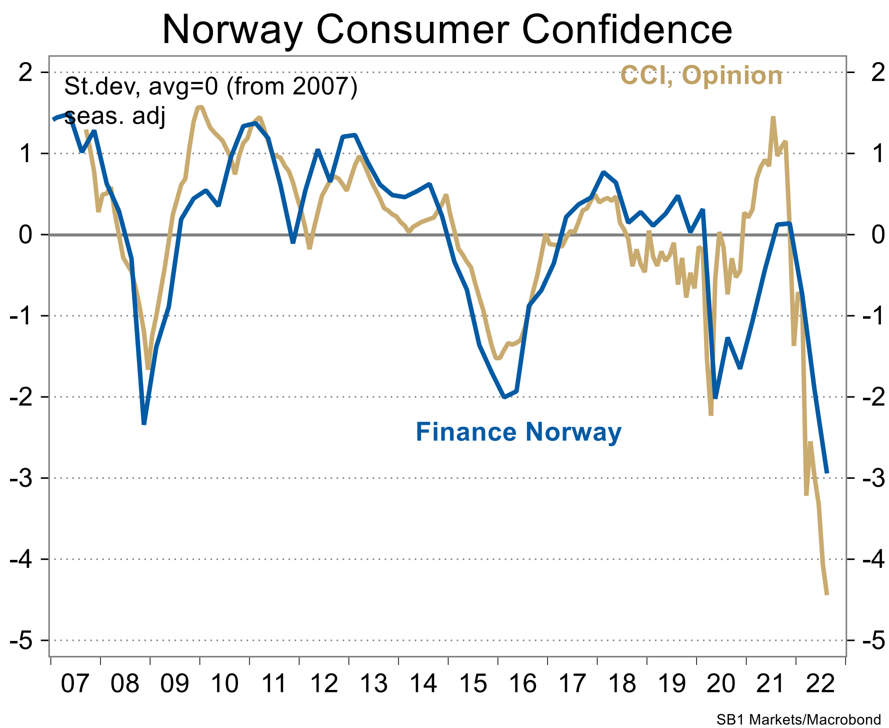
The realtors reported a 3.1% decline in flat apartment prices in July, and a 8.4% drop since March





Consumer confidence down to ATL in August…

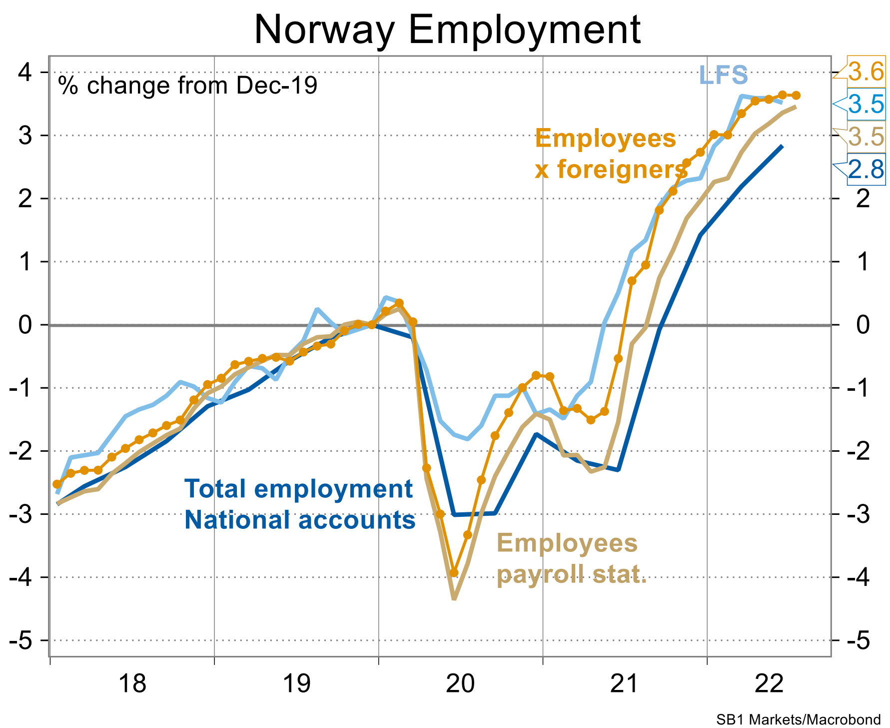
… and ‘twice as weak” as when the corona first attacked

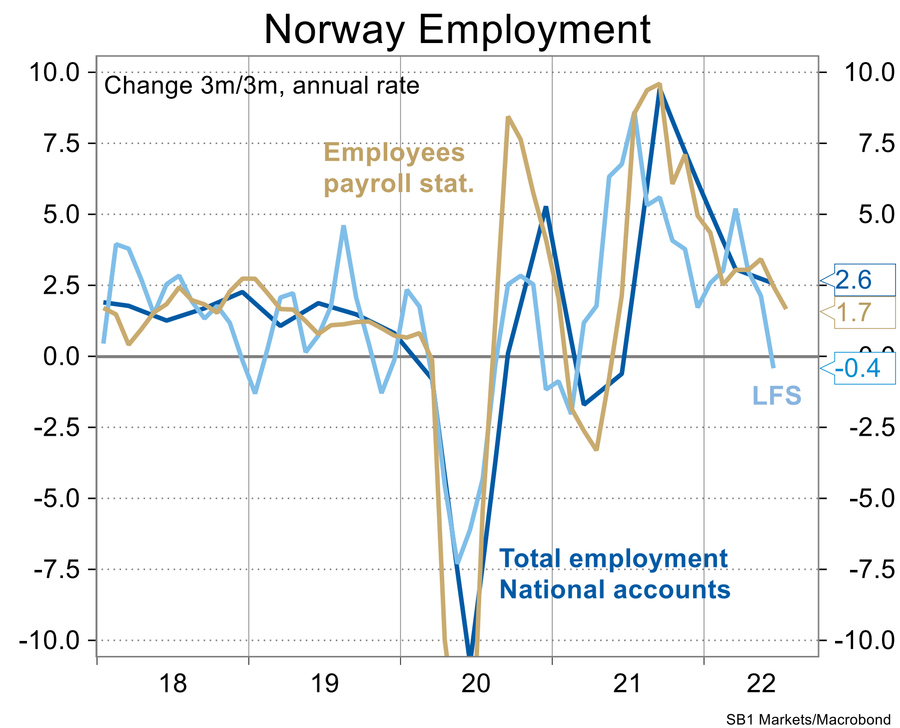


- **The CCI print** from Opinion in August was the lowest ever recorded – high inflation and higher interest rates are biting
- The index recovered somewhat in April, but fell again in May - Aug, and is now 4.4 st.dev below average. The bottom during the pandemic was 2.2 st. dev. below average
- **Will households stop spending or retreating from the housing market?** So far, the housing market has held up well, while retail sales data from July showed a slowdown in the demand
  - » The actual net of optimists vs. pessimists is -27%, implying that there are still many optimists out there

Employment growth is calming down, and LFS employment has flattened

The no. of employees up by 0.1% in July

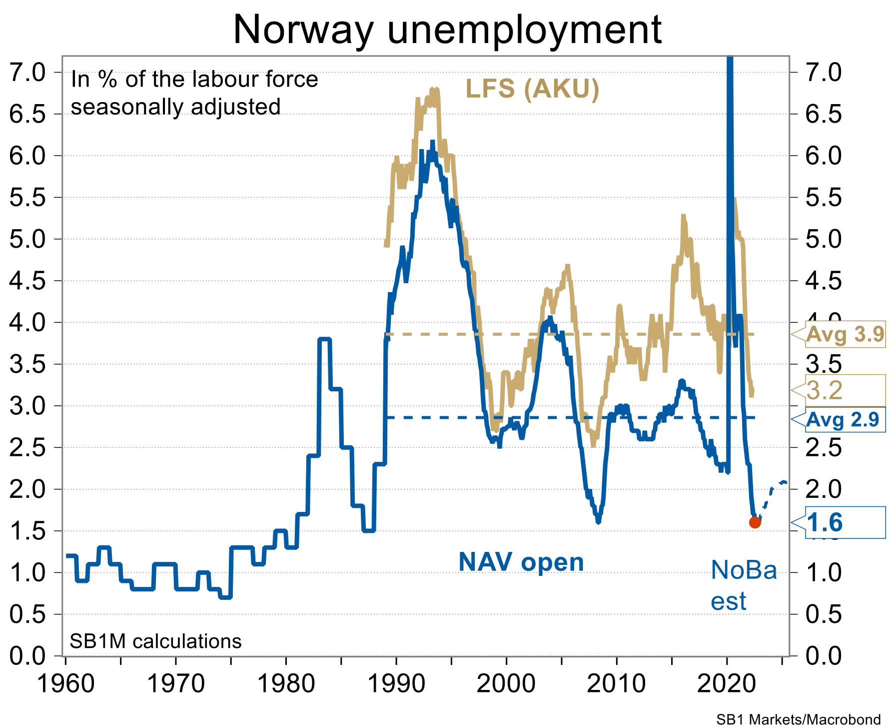


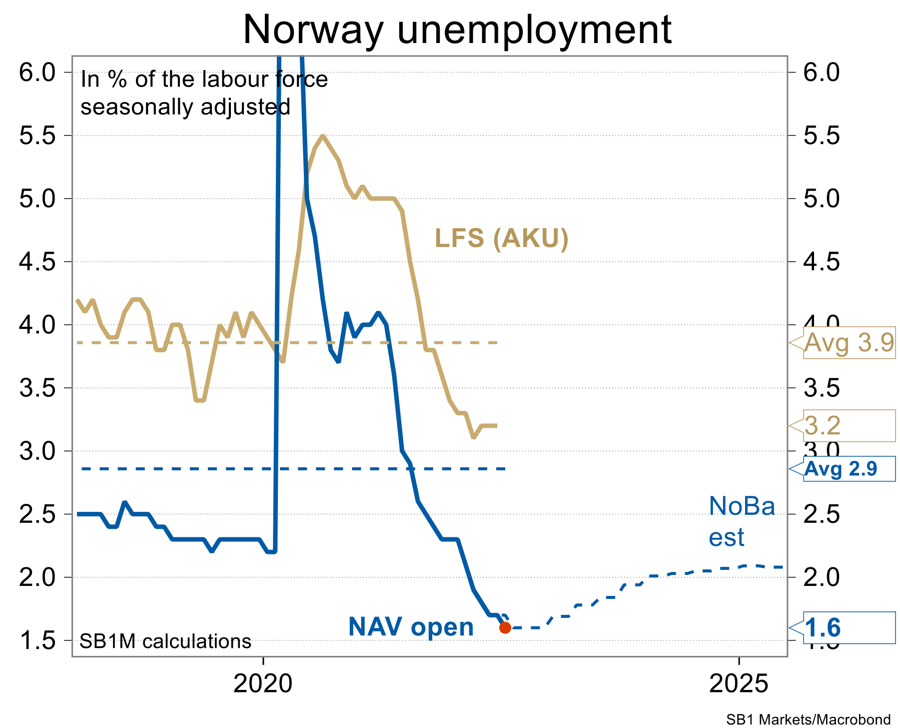


- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) reported fell by 0.1% in June (avg May – July), and is down 0.2% vs the ATH in March
  - » LFS employment is up 3.5% from before the pandemic
- The **register based employee stats ('A-ordningen)**, report 0.1% growth in the no. of employees in July, down from 0.2% in May and June, and a 3.5% growth since Q4-19. Excluding foreigners on short term stay, the no. of employees is up 3.7% (July is our est.)
  - » The growth in total no. of employees is higher than for Norwegian residents (Norwegian or foreign boards) as foreign workers on temporary stay are returning, check the chart at the next page
- **National accounts** reported a 2.8% lift in employment to Q3-22 from Q4-19 (and a 0.6% increase q/q in Q2)

LFS unemployment unchanged at 3.2%, far from record low

... but well above an average level

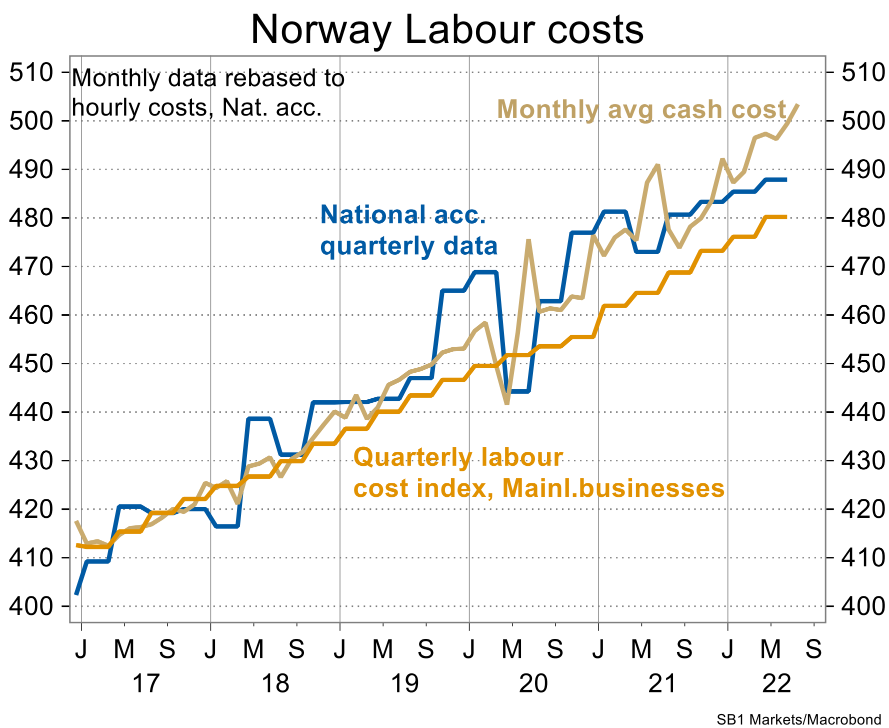


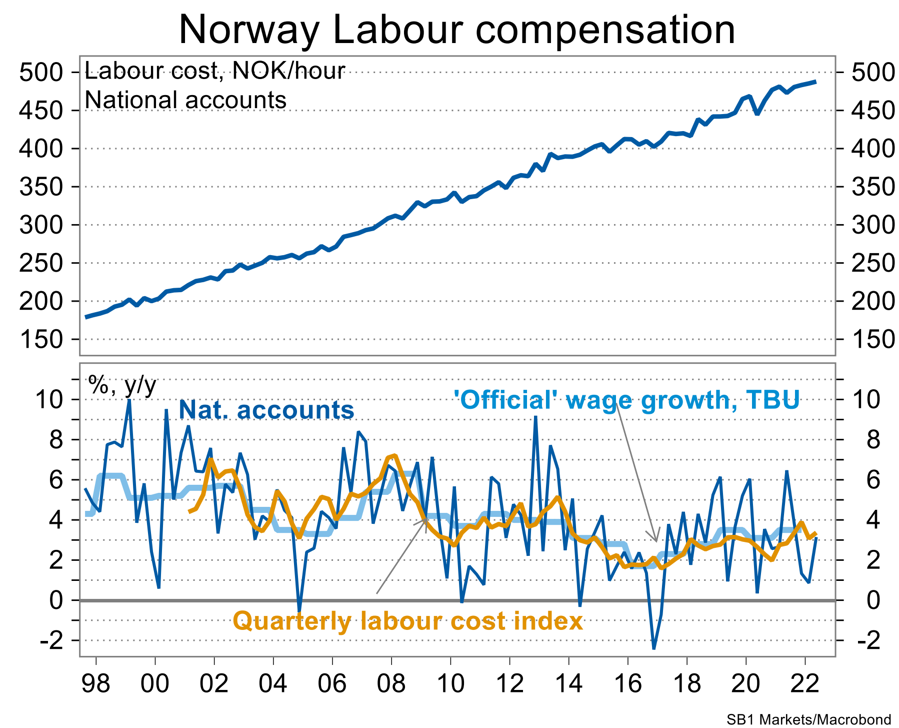


- **The LFS (AKU) unemployment rate** was unch. in 3.2 in June, we expected a 0.1 pp decline
- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell to 1.6% of the labour force in July

Wage data are volatile and not not always consistent

Taken together: No signs of a sharp acceleration in wage inflation

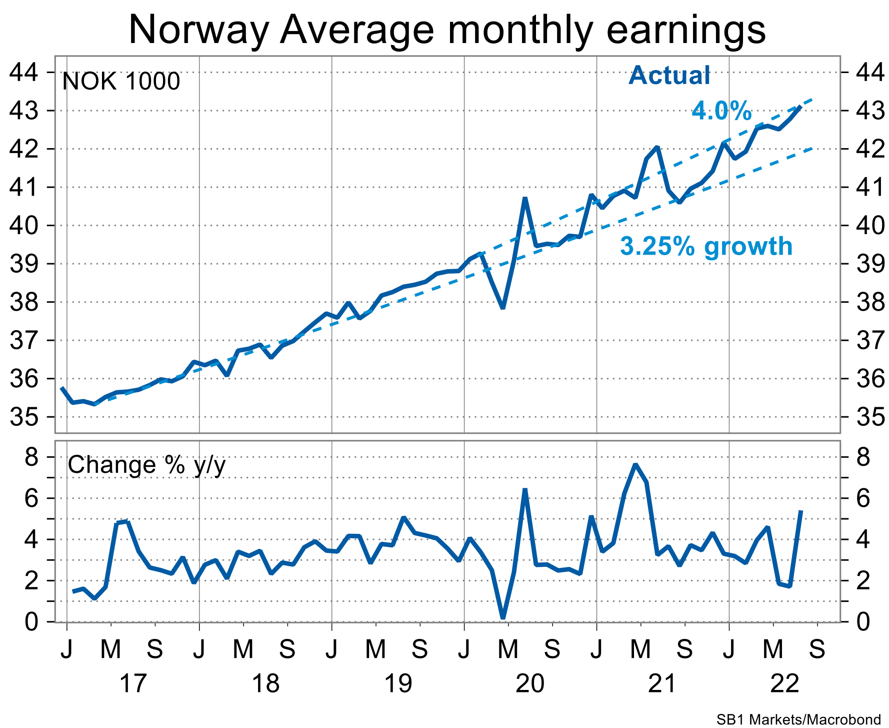


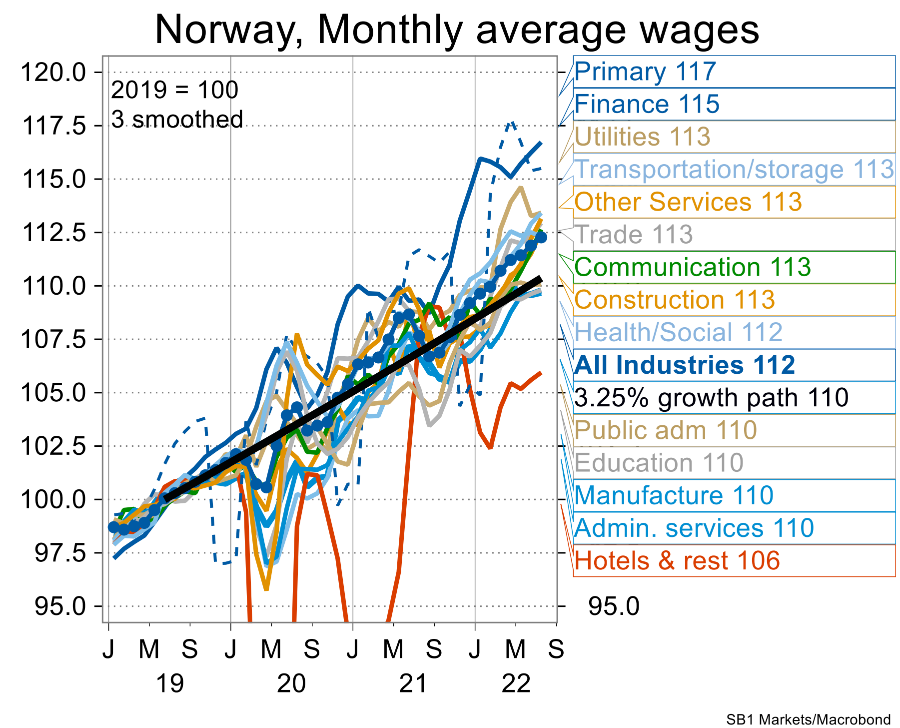


- The quarterly labour cost index correlates the best with the ‘official’ wage growth as calulated by the TBU

Wage inflation may be accelerating somewhat

Average wages have been volatile through the pandemic – and monthly data are rather useless

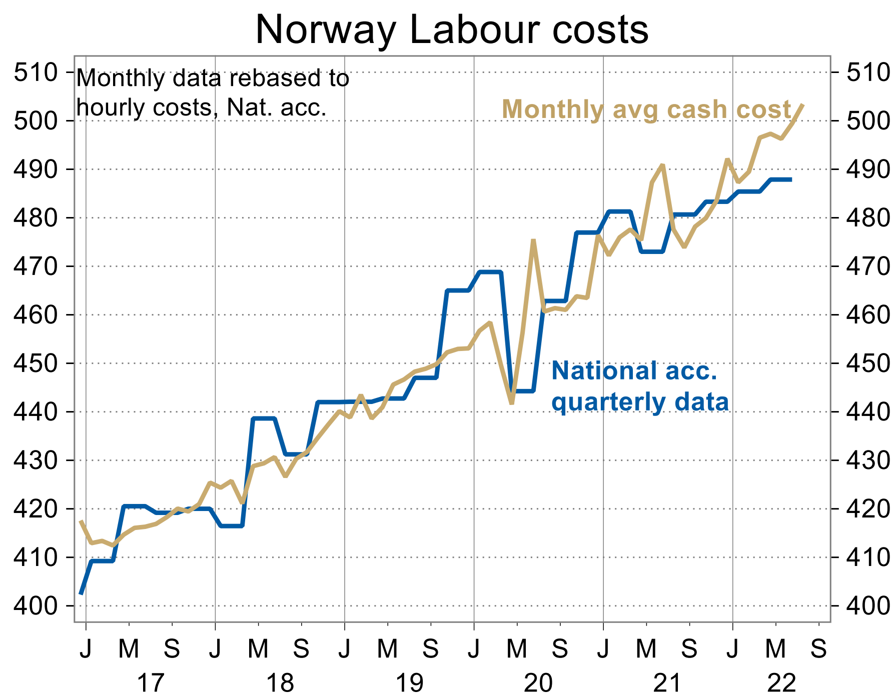




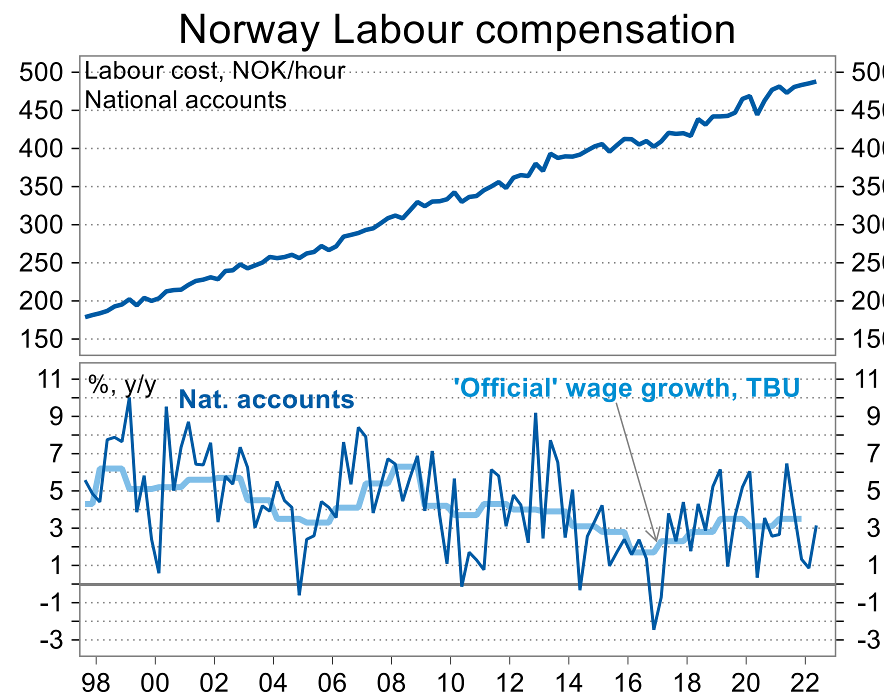
- **Monthly average cash earnings** are rather volatile, also depending on hours worked, bonuses – and data are often substantially revised
  - » Last year the monthly stats reported a 4.4% growth rate – while the average wage inflation was 3.5%, according to SSB
  - » Changes in the mix of employees between and even within sectors will have an impact on these data
- However, earnings growth measured this way has been quite consistently above the 3.25% growth path from the start of the pandemic. . Just earnings in hotels & restaurants are clearly below the 3.25% path. That could signal some acceleration in wage inflation, up to a 4% path, according to these regrettably uncertain data
- A quarterly labour cost index is up 3½% in Q2, and growth is not accelerating. Volatile quarterly national accounts report some 2.5% wage growth in H1

Wage data are volatile and not not always consistent

Taken together: No signs of a sharp acceleration in wage inflation



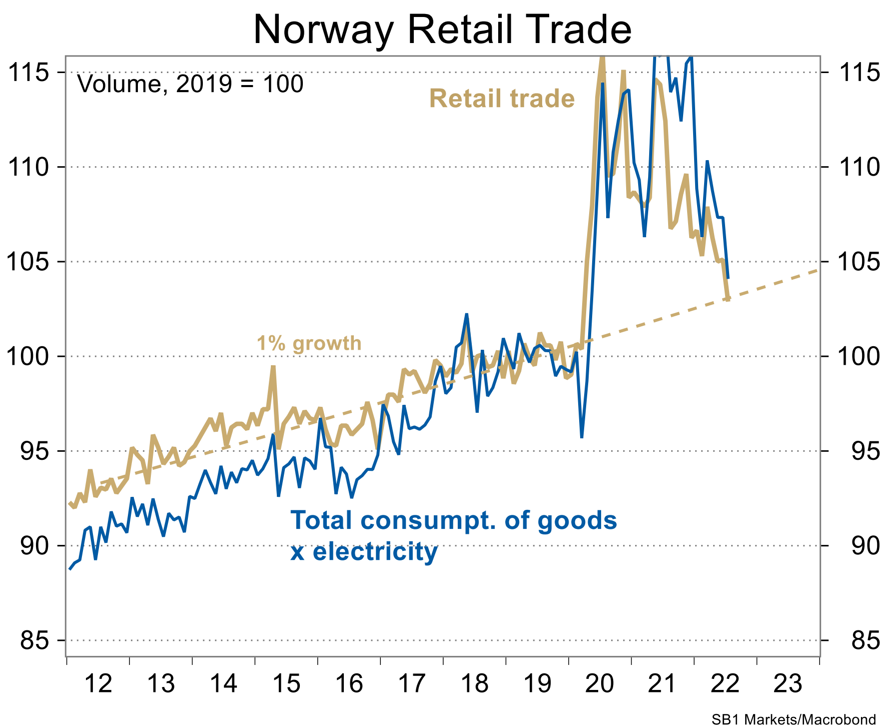
SB1 Markets/Macrobond

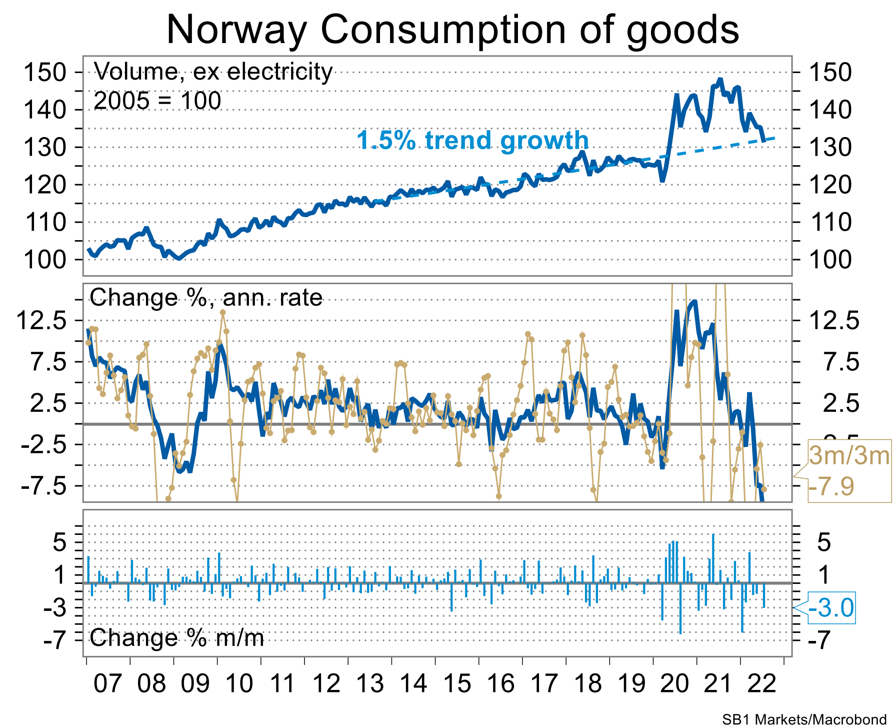


SB1 Markets/Macrobond

Retail sales surprised on the downside in July

Retail sales were down 2.1% (expected -0.5%); total consumption of goods fell by 3%



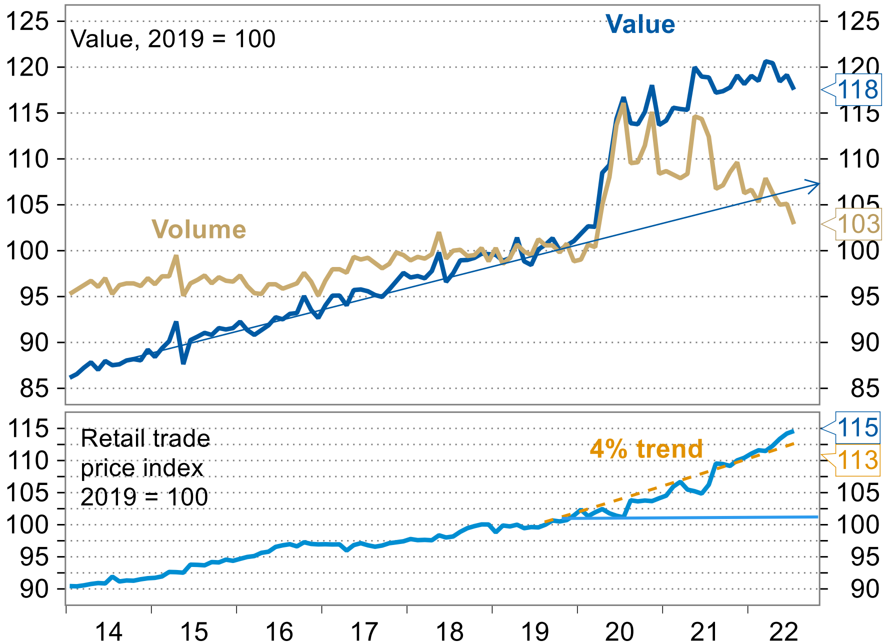


- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth paths.
- The lift in inflation and higher interest rates now seem to have aided sales back down to the pre-pandemic trend
- Both household equipment (building materials) and food store sales contributed on the downside in July

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

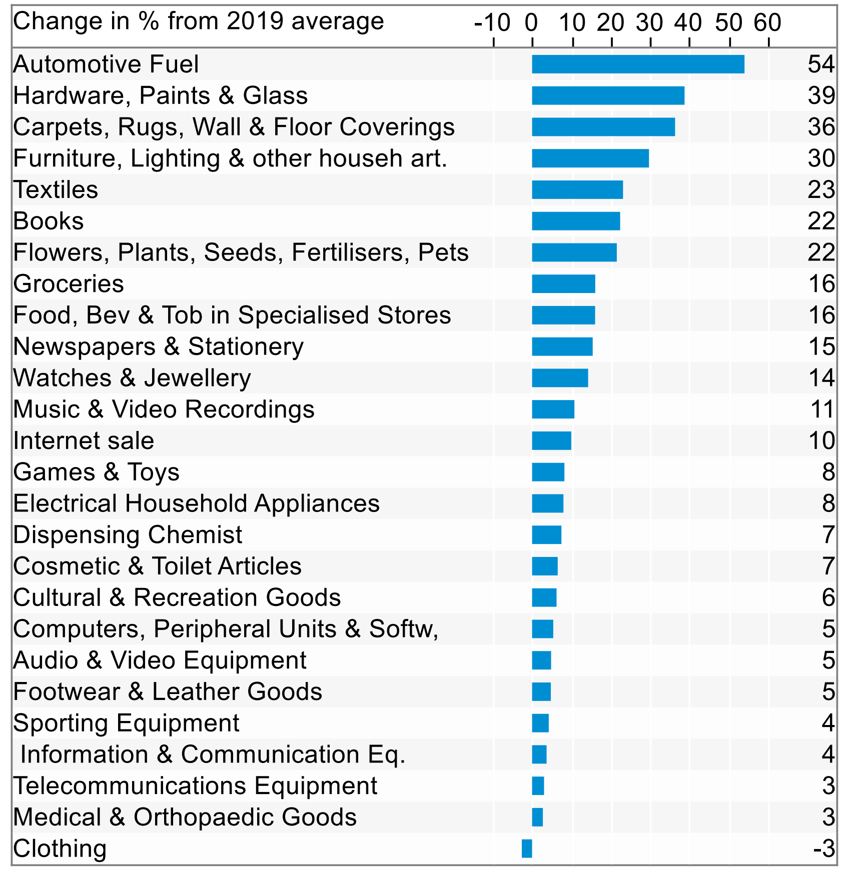
Retail prices have been increasing at well above 4% pace since 2019, in sum by 15%!

Retail sales - value vs volume



SB1 Markets/Macrobond

Norway Retail prices

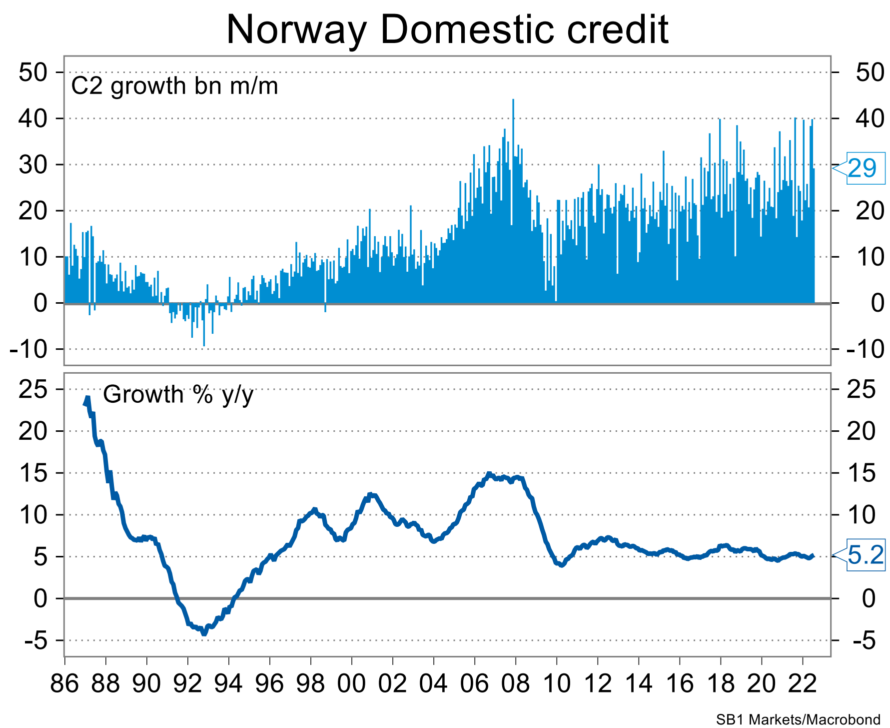


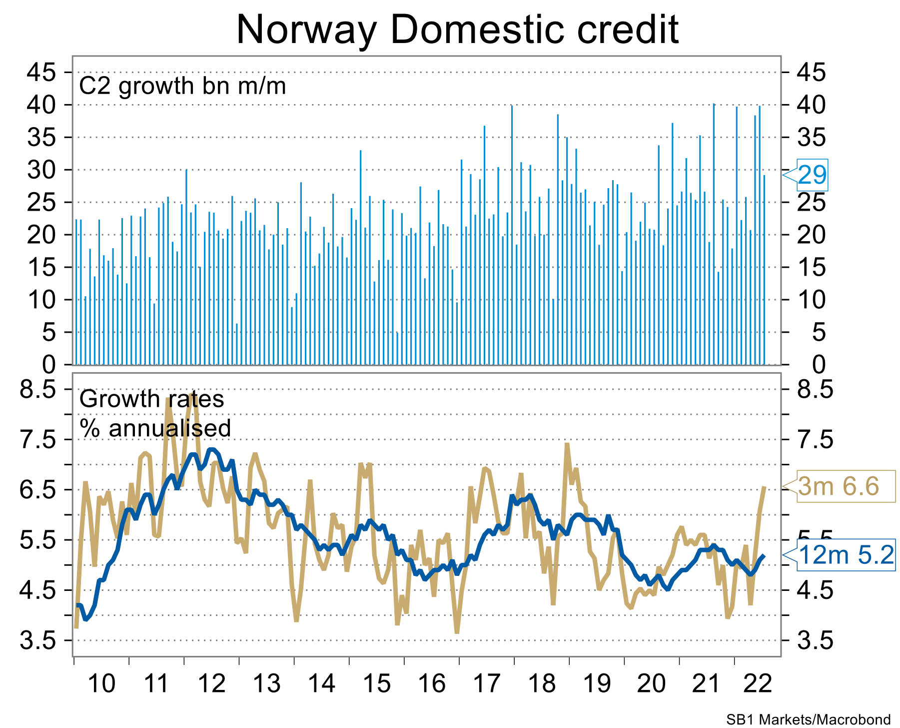
SB1 Markets/Macrobond

- Retail sales, measured in value terms, are 18% above the 2019 level and close to 10% above the pre-pandemic trend
- Huge differences is **price changes**:
  - Gasoline up 54%, floor coverings, hardware (building materials) are up 36% – 39%, furniture 30%
  - Close to the bottom of the list: Sport equipment prices are up just 4% and clothing is down 3%!

Continued strong demand for credit from corporate sector

Growth in household debt is gradually slowing, and is now slightly under the NoBa estimate from June

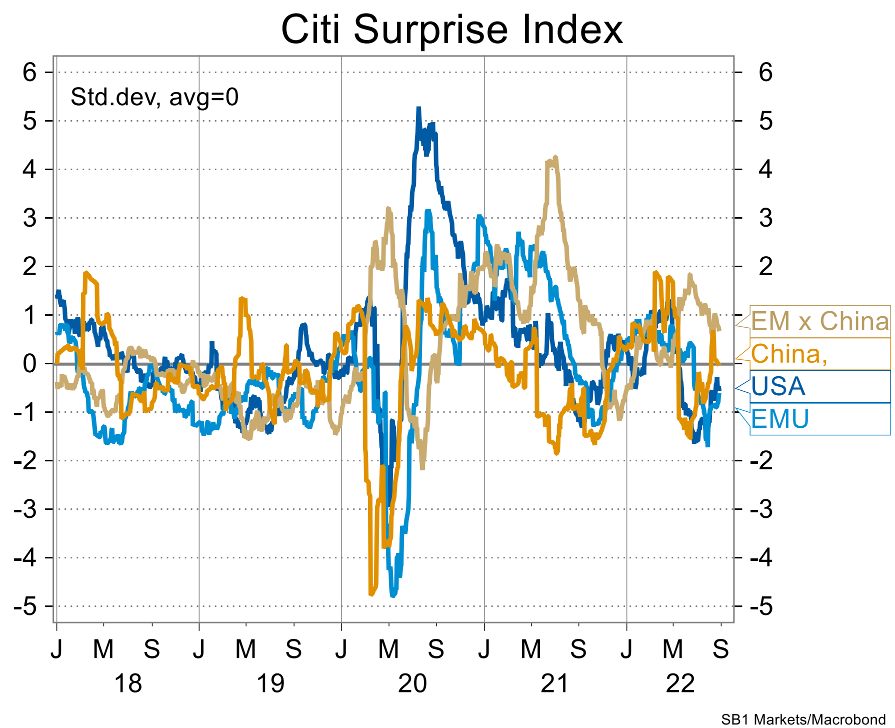


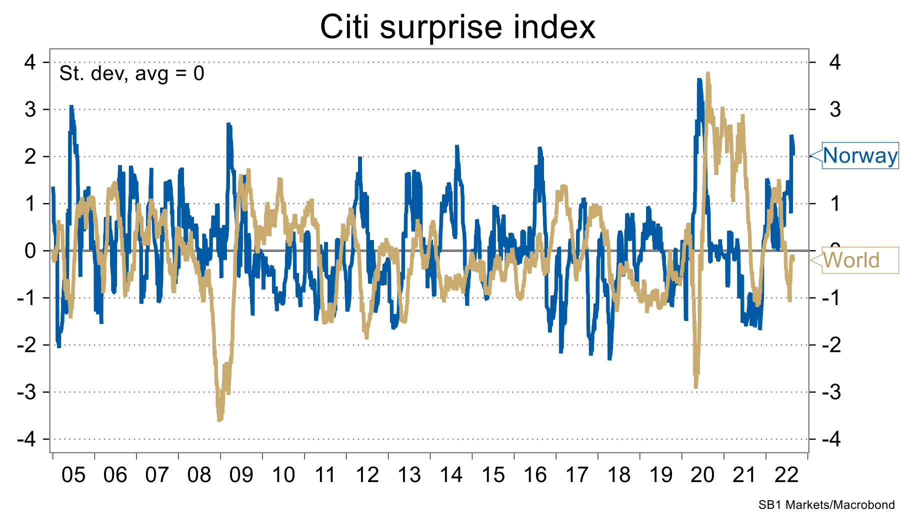


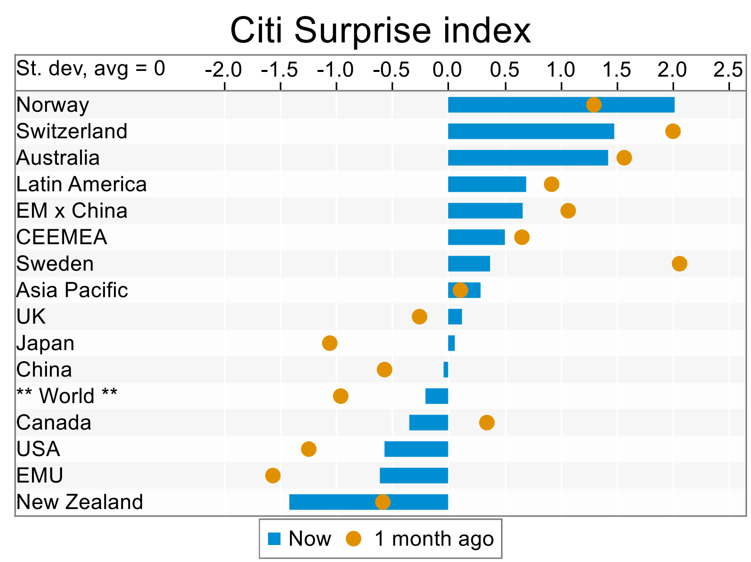
- **Total domestic debt** (C2) rose by NOK 29 bn in July, down from 40 bn in June, we expected 22 bn. The annual growth rate accelerated by 0.1 pp to 5.2%, we expected it to remain unchanged. The 3m/3m growth rate is at 6.6%. Even if credit growth was strong in June, we are not witnessing any credit boom. However, debt levels are high, especially in the household sector
- **Household credit** rose by NOK 15.5 bn in July, 1.5 bn more than we expected (and up 0.8 bn form June). The annual rate retreated 0.1 pp to 4.4%, as we assumed
- **Corporate C2 credit**, rose by NOK 8.9 bn, following a NOK 24 hike in June, roughly 3 bn more than we expected. The annual growth rate shot up to 8.3% from 6.6%
- **Local governments** added NOK 4.9 bn in July, 1.9 bn more than we expected. The annual growth rate rose 0.7 pp to 4.4%. Last summer the rate was 8%! Finally, local gov's at not increasing their debt/income ratio

Globally, fewer disappointments past 3 weeks – even if China came back to Earth

US and EMU is still below par, but less so than some weeks ago





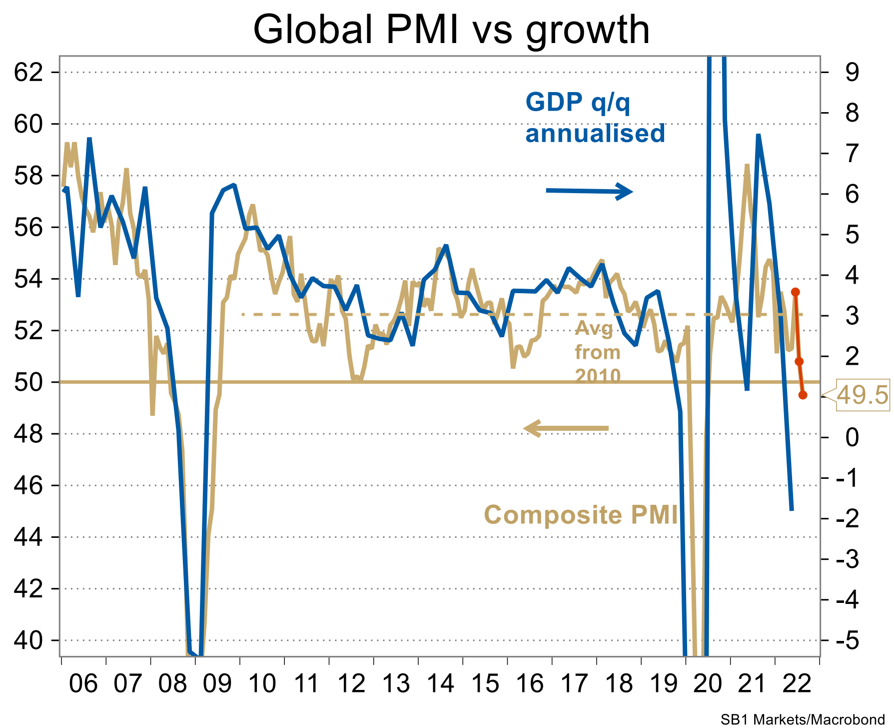


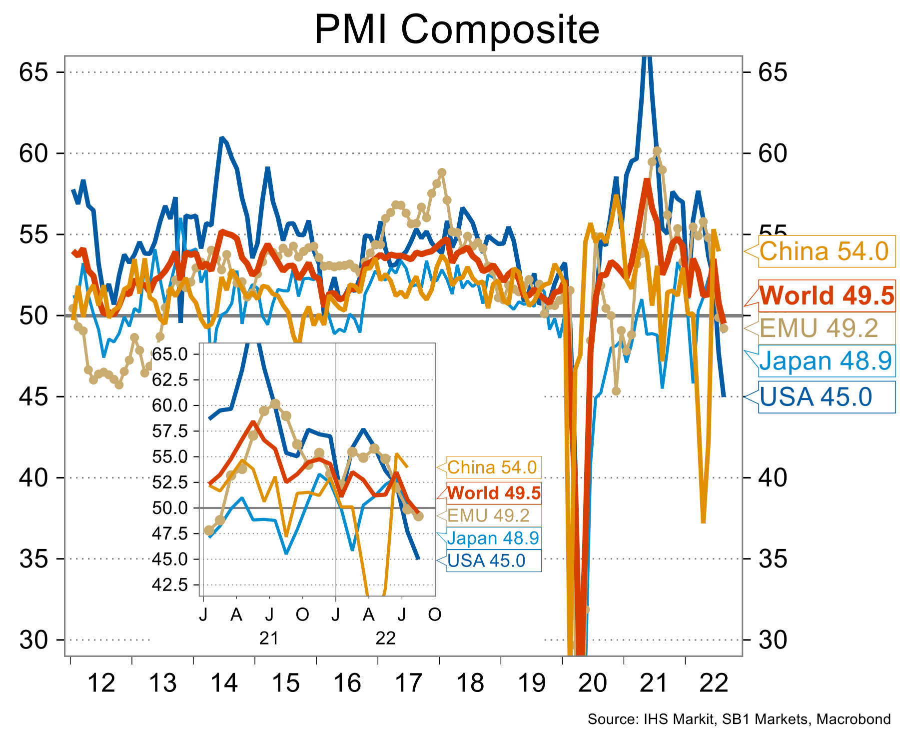
- **Emerging markets** x China are still delivering better results than excepted
- **Norway** is suddenly at the top, we guess mostly due to the July inflation report

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

The world composite PMI likely crossed the 50-line in August

Our preliminary est. is for a 1.3 p decline to 49.5, the lowest since '09 (barring Covid crisis)



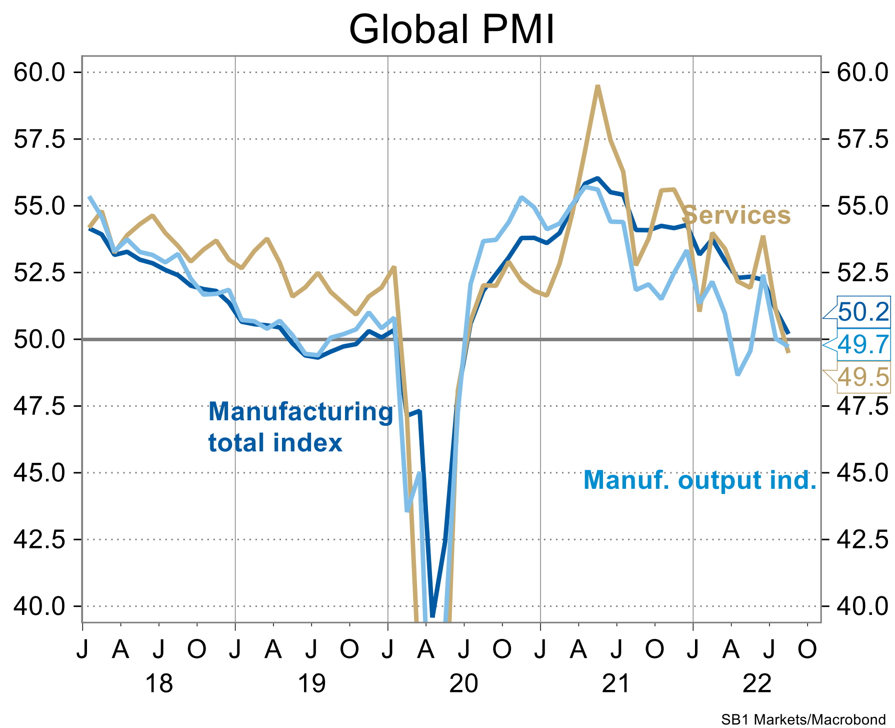


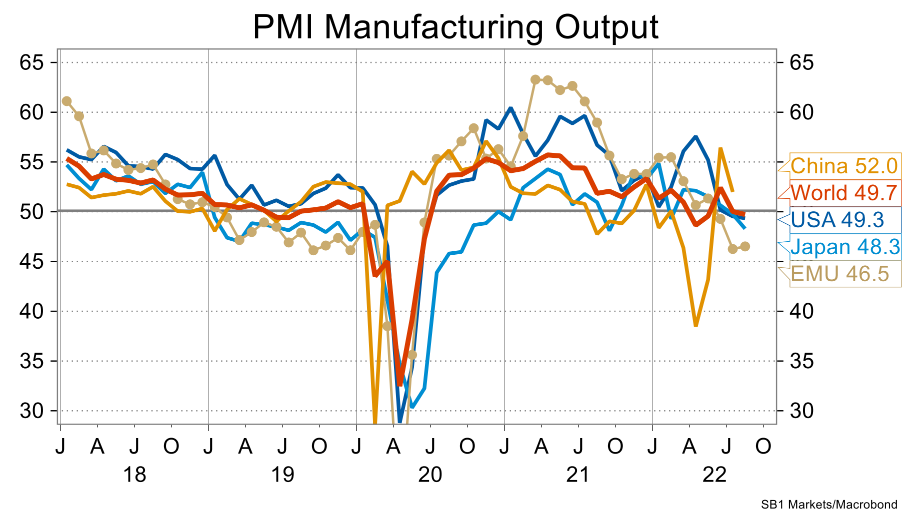
- The composite PMIs fell sharpy in the US, and declined in Japan, the UK, and in the EMU as well. The level signals a global GDP growth rate at around 1%, which is often referred to as a global recession
- The US index is now at the bottom of the league, at 45, down 2.7 p, expected up to 49!
- The Eurozone PMI also fell in August, by 0.7 p to 49.2, due to a fall in both the German and the French PMIs
- China has not yet reported its August figures, and the global estimate is thus still uncertain

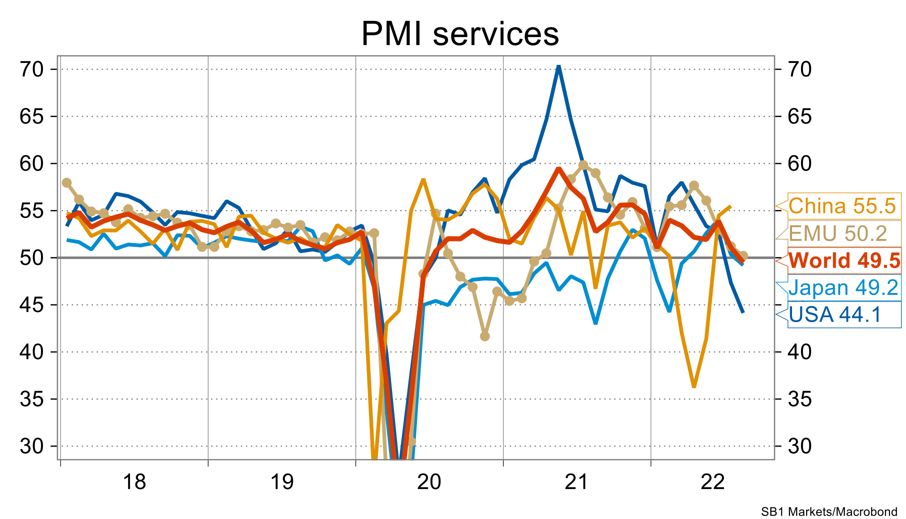
Our estimates are based on the preliminary PMIs from US, EMU, Japan UK, Australia. The estimates are uncertain, but usually by less than 0.5 p if the Chinse PMI does not change too much

US services kept contracting at a faster pace in August

Both global manufacturing & services PMIs are trending down, and services fell the most in August



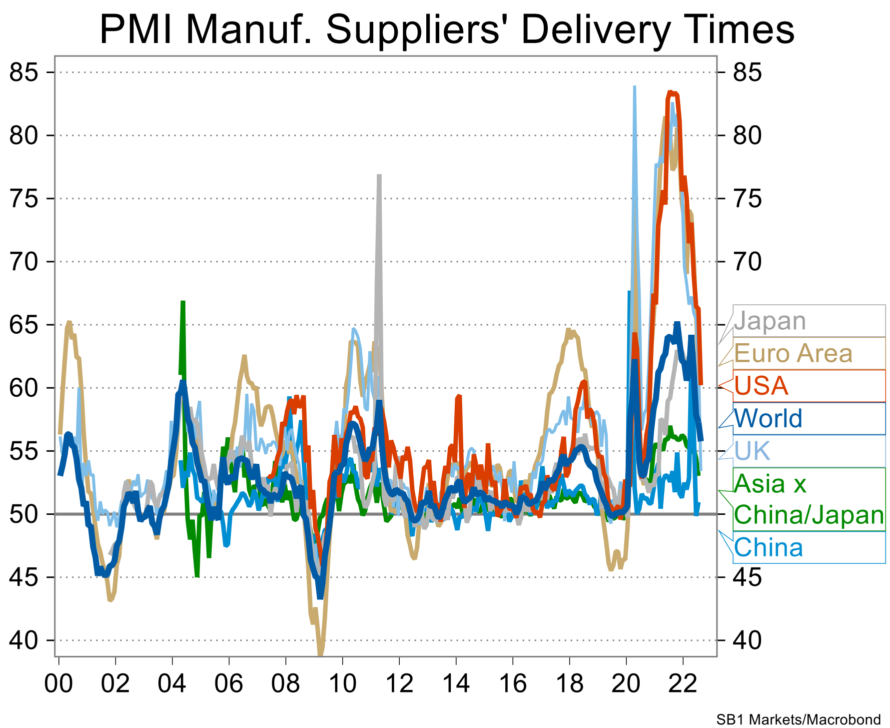


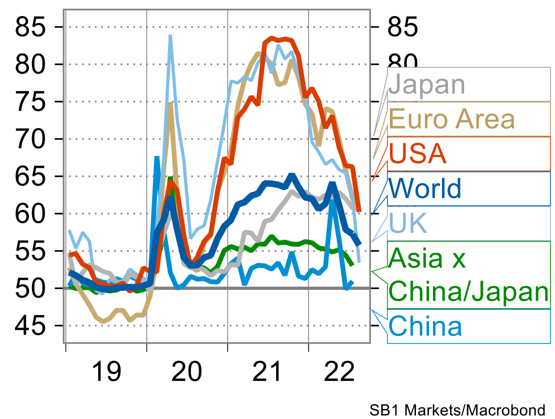


- We assume that the global service sector PMI crossed the 50-line in Aug, following a 1.6 p drop. The manufacturing output index fell some 0,3 p to 49.7
- The EMU services index fell 1 p to 50.2, and the US service sector index by 3.2 p to 44.1, the weakest ever observed except for at the start of the pandemic. The ISM services index, which in principle should yield the same result, has so far kept up much better

Delivery times index probably further down in August

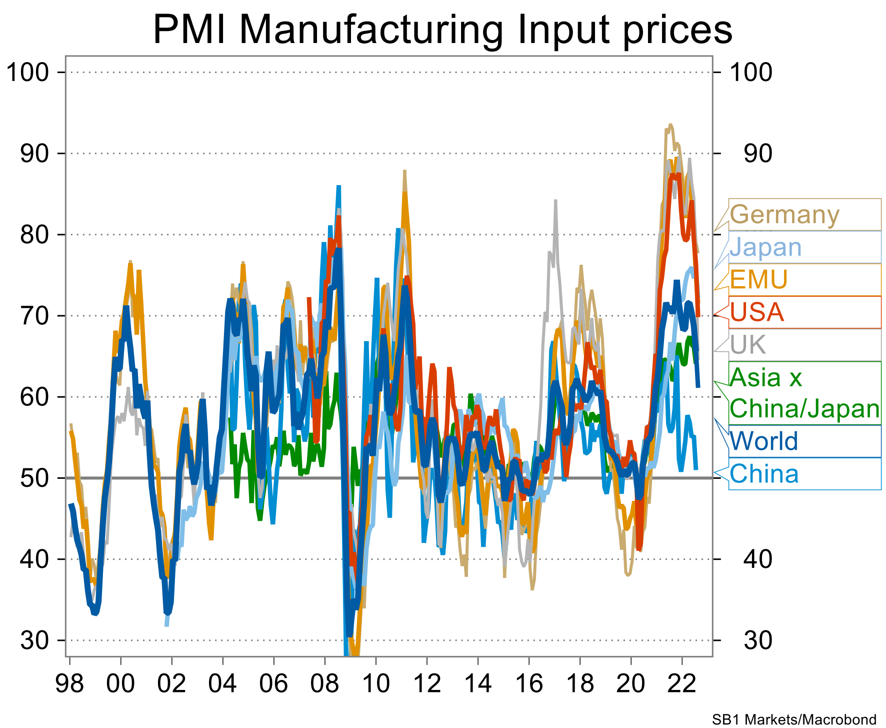
However, delivery times are still on the higher end historically in both the US and the EMU

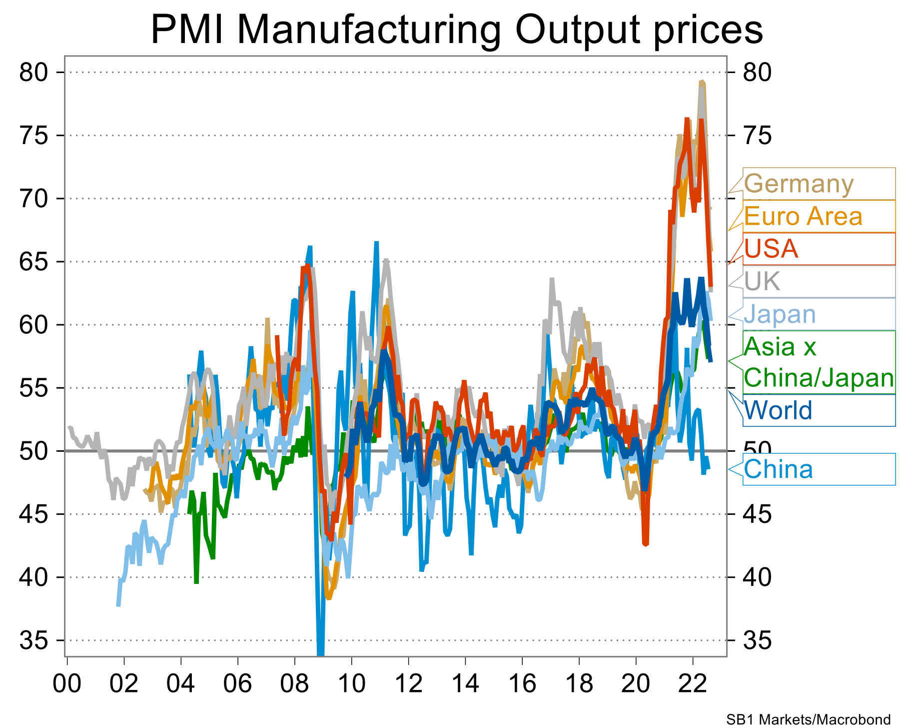




- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) has been inching down since the peak last October. The decline is broad among the Western rich countries
- **The interpretation of this index is uncertain** – are companies really reporting changes in delivery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

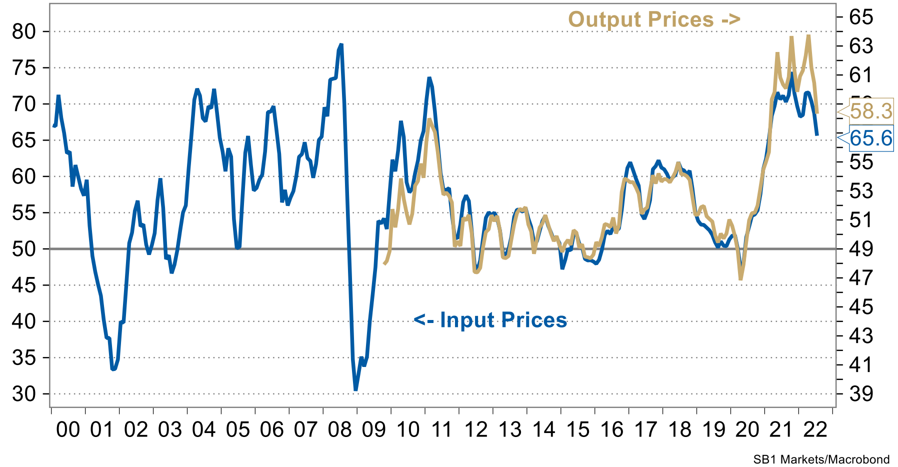
Manufacturing price inflation is heading downwards but remains elevated



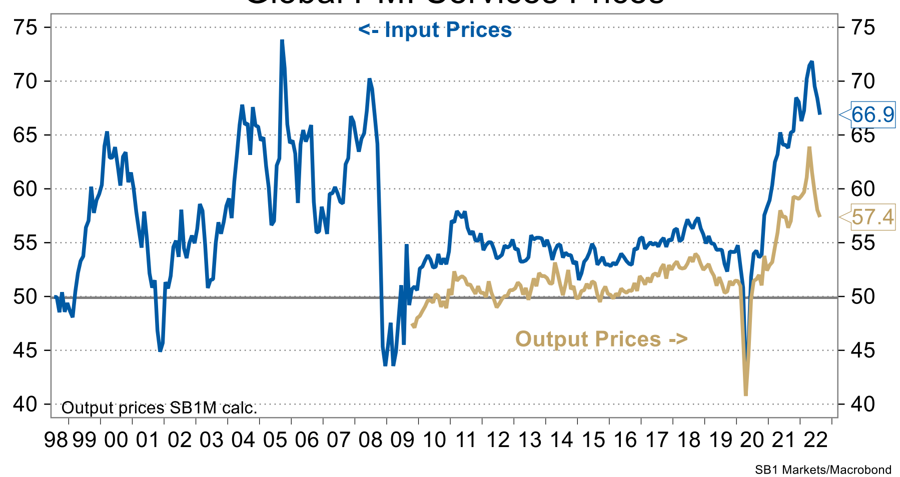


Price indices have peaked but are still reporting rapid price increases

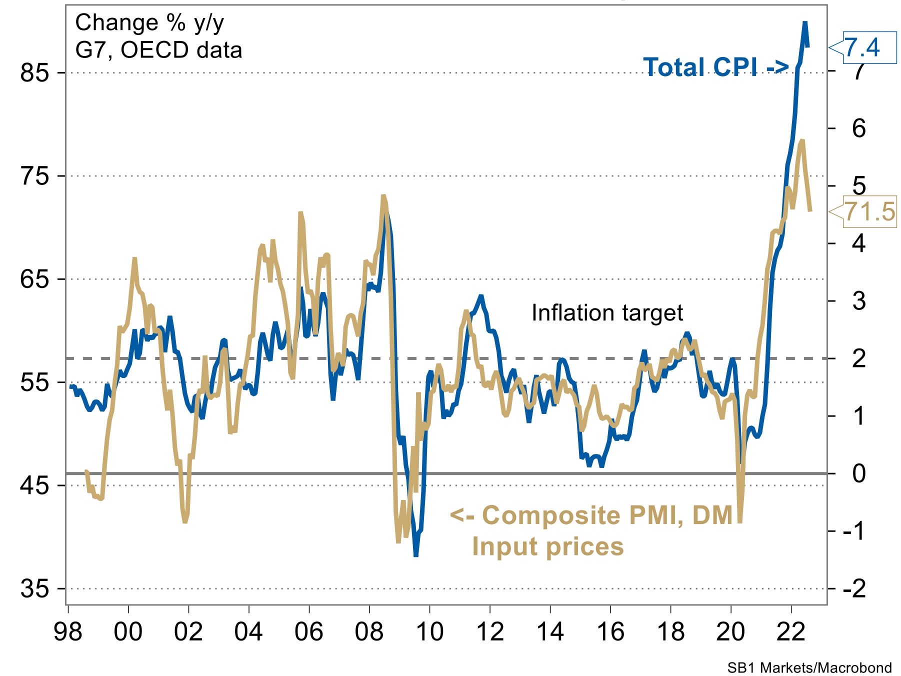
Gobal Manufacturing PMI Prices



Global PMI Services Prices



OECD Inflation vs PMI prices

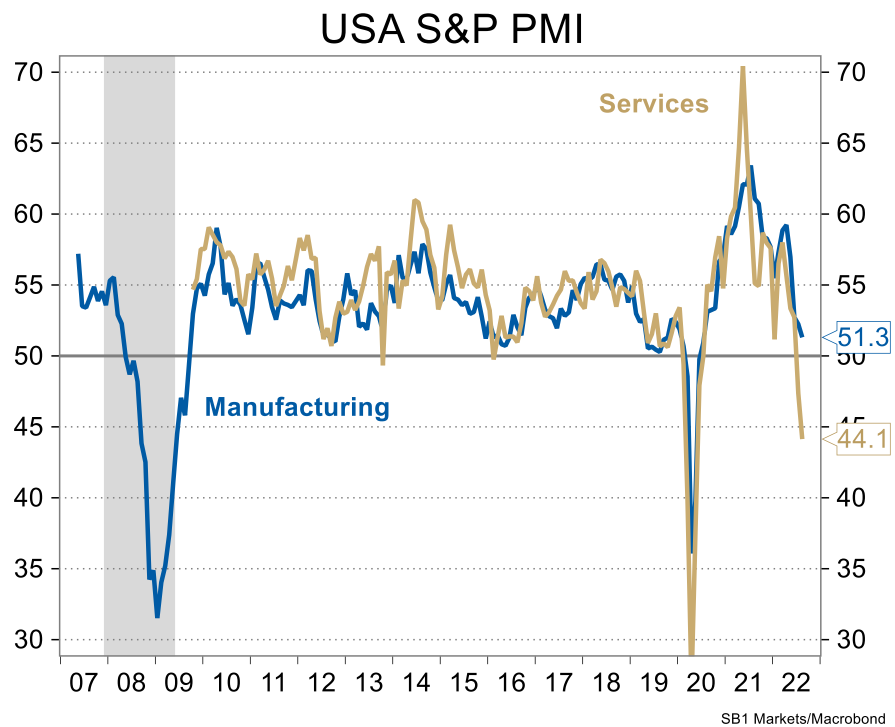


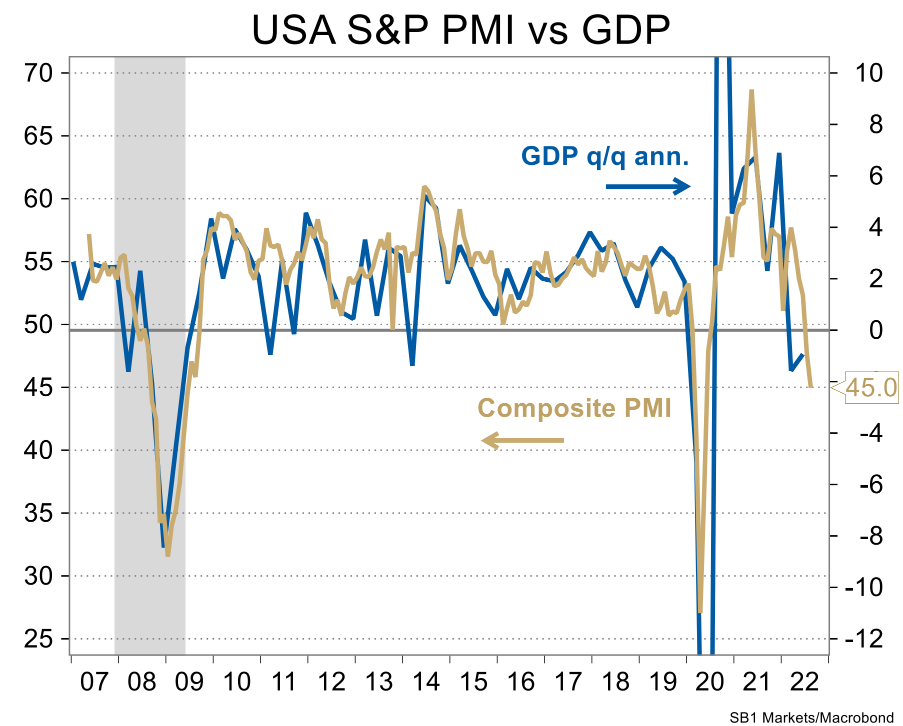
- These PMIs signal a substantial price pressure the coming months
- We are still much more concerned about wage inflation than the actual price inflation due to factors that are most likely transitory, like hikes in raw material prices, freight cost or short lived margins expansion when demand is surprisingly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

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

The PMI signals a US recession, with services in the lead

Service PMI slid by an addt'l 3.2 p to 44.1; Composite down to 45, signalling a 2% GDP contraction

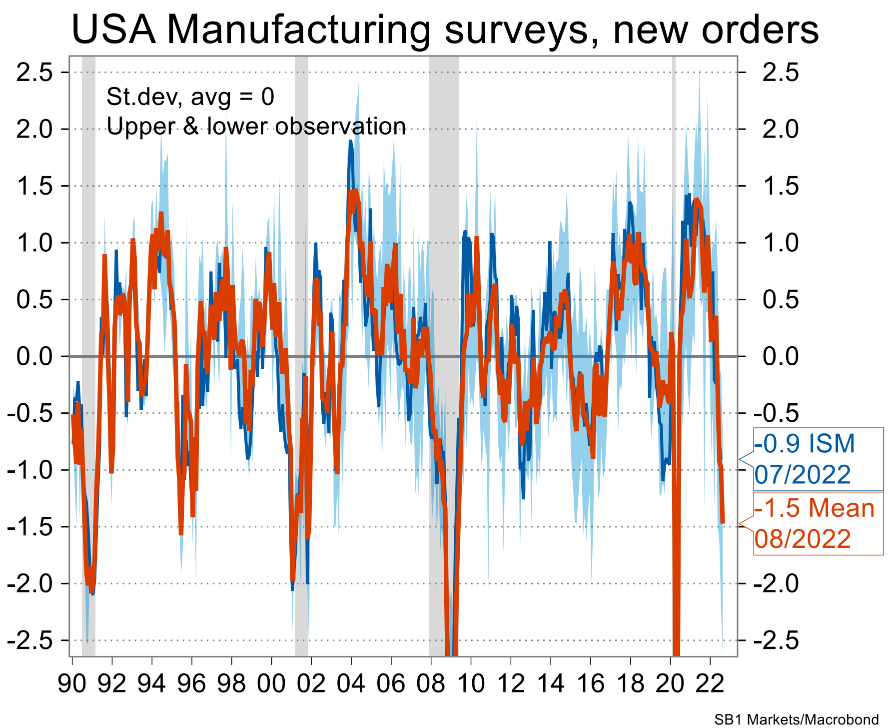


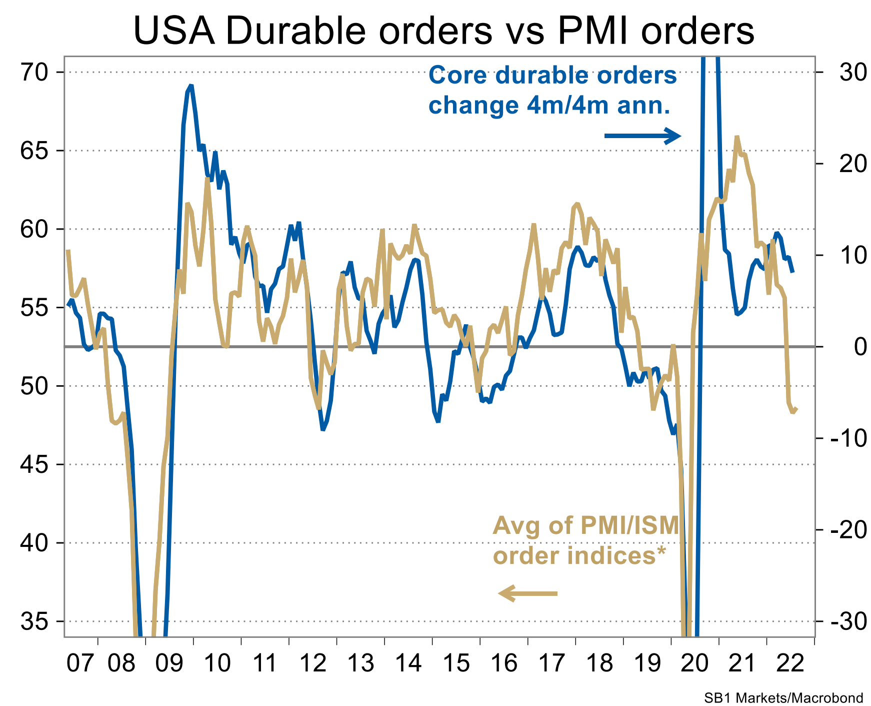


- **The composite PMI** has fallen sharply past three months, and is now the lowest since May-20. Barring the pandemic, we have to go back to the GFC to find similar prints. Both the service and the manufacturing PMIs fell; services by 3.2 p to 44.1, a level not observed before outside of the Covid crisis. The index was expected up to 50. The manuf. PMI was also weaker than expected. The composite index was expected up 1.3 p to 49!
- **The price indices** fell sharply but are still reporting rapid price increases
- **New orders** keep falling, and the prints over the past couple of months are now in recessionary levels. Other surveys agree!
- **The takeaway** for us, and for the Fed, demand is softening but prices (and much more important wages) are still rising

Surveys: New orders are declining rapidly. Actual order inflow still OK

Something hit US manufacturers in June, the decline continued in July and August, surveys report

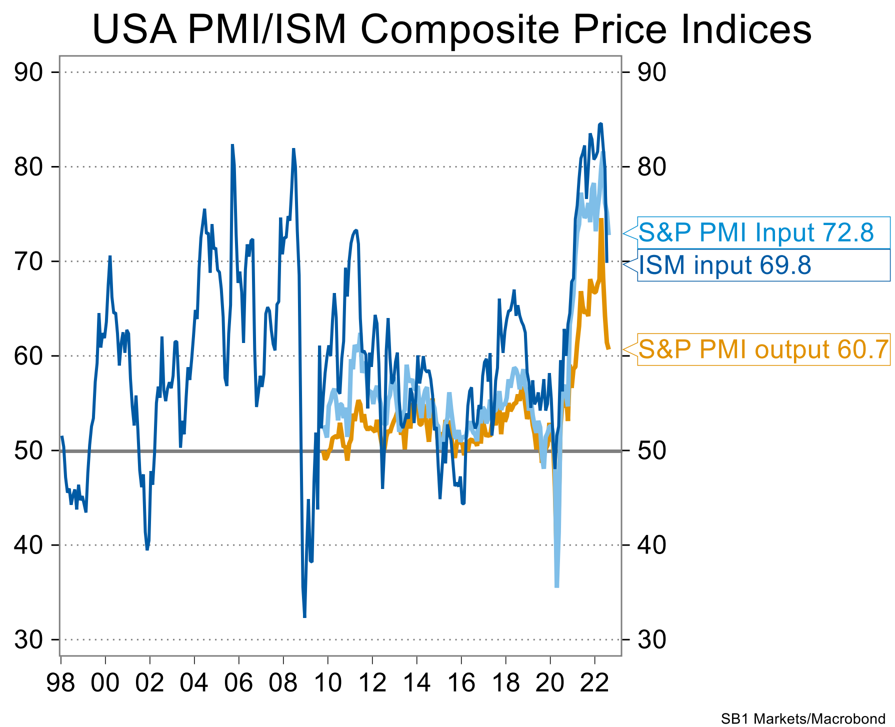


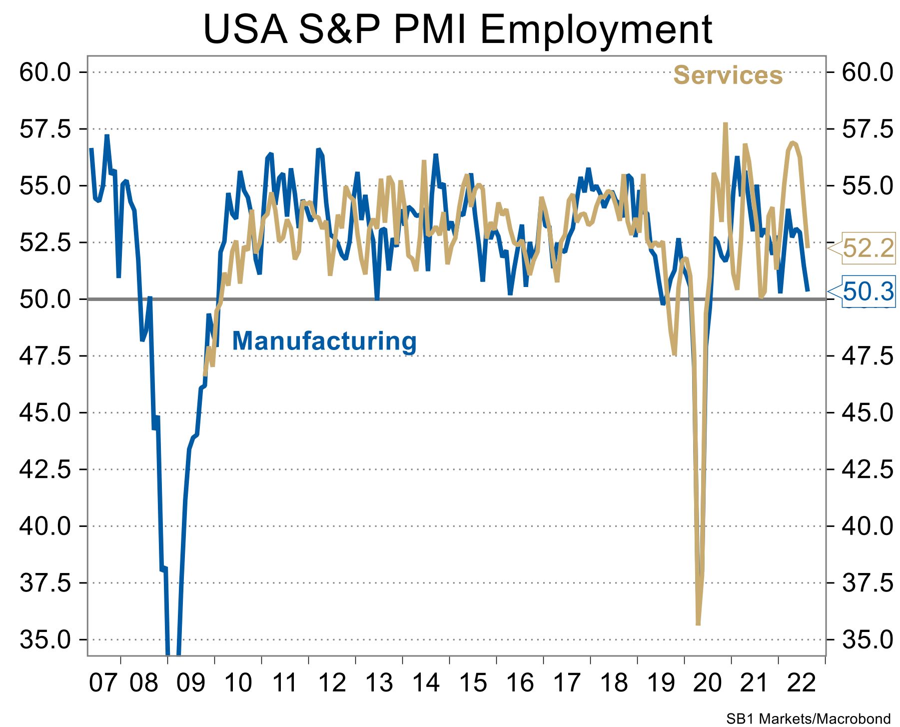


- Recessions have started with better survey data on new orders than the data from June, July and August
- Order inflow indices have been just as weak without a recession once, in 1995/4, when Greenspan's Fed hiked the Fed funds rate to 6% from 3%. However, at that time, inflation peaked at 3% (9% now), the unemployment rate was 6.5% (3.5% now) and the vacancy rate was 2.5% (6.6% now). Cost inflation (Unit Labour Costs) was less than 2% (some 5% underlying now, but close to 10% y/y in Q2). So, Powell has quite another challenge this time
- Just a reminder: Leading indicators sent a rather clear recession signal in June and July

Peak price inflation? Companies are reporting slower price increases in August

But far from slow…





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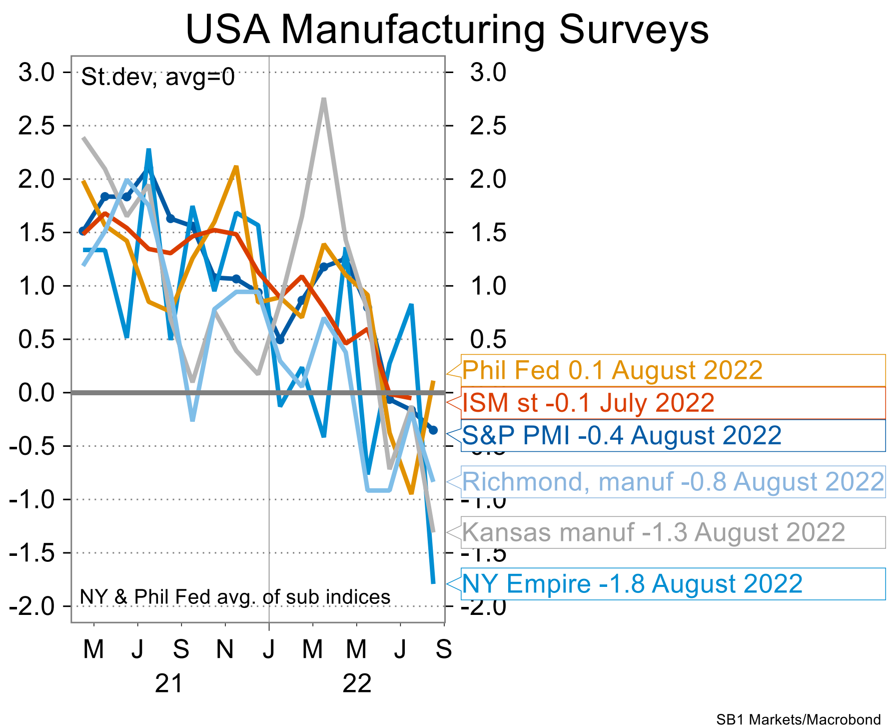
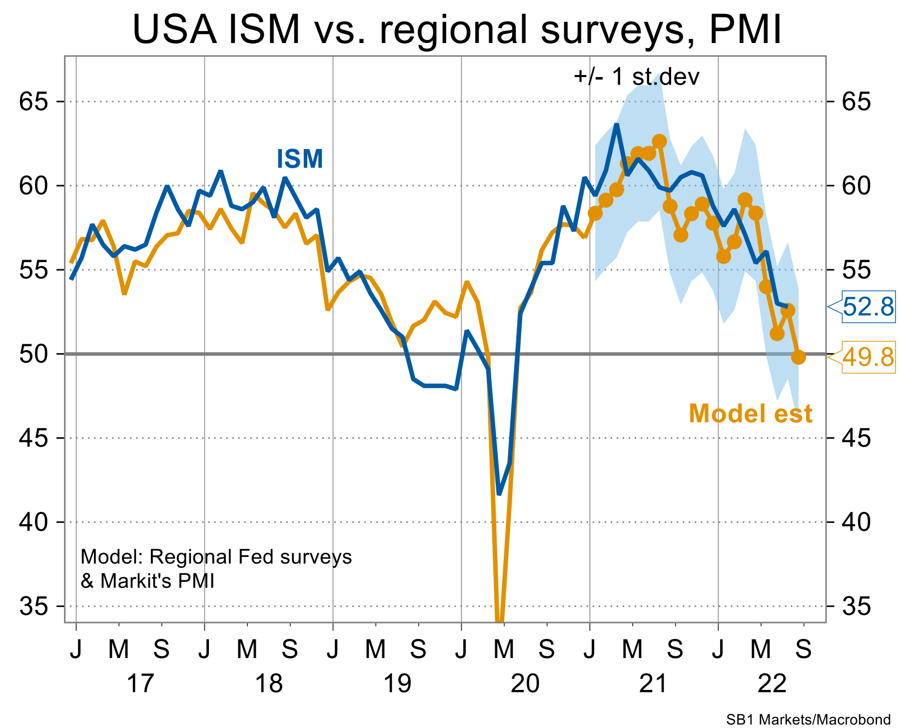
Will the ISM manufacturing cross the 50-line?

Not unlikely, given the PMI and 4 regional surveys published so far

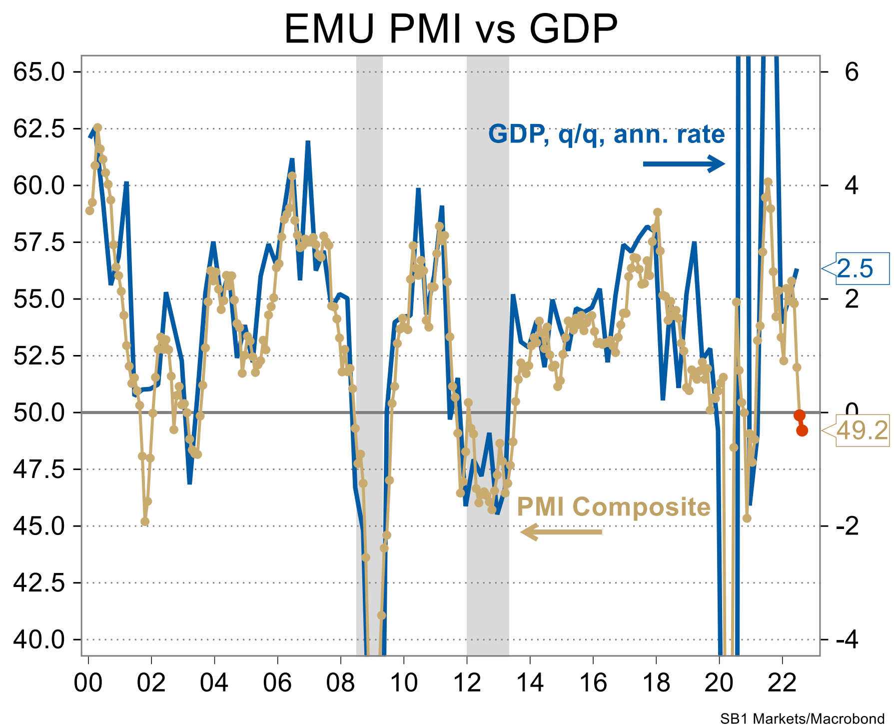


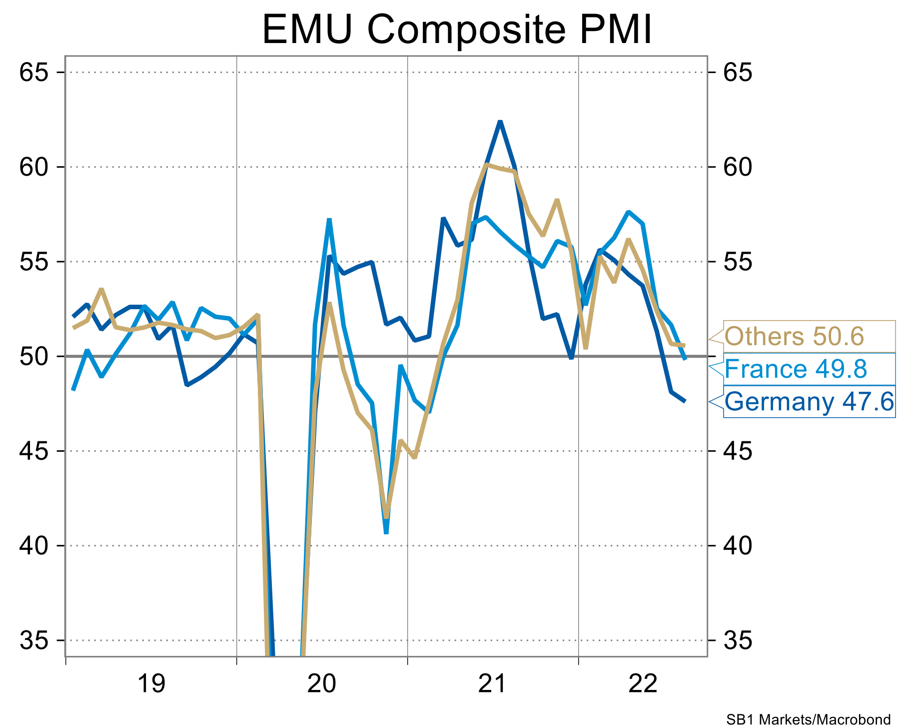


- Big picture: Growth is slowing sharply but manufacturing indices do not signal that the economy has entered a recession (even if order indices are really worrisome)

Eurozone PMI further into contraction territory as France dips below the 50-line

Apart from France and Germany, the PMIs close to unchanged in the rest of EMU

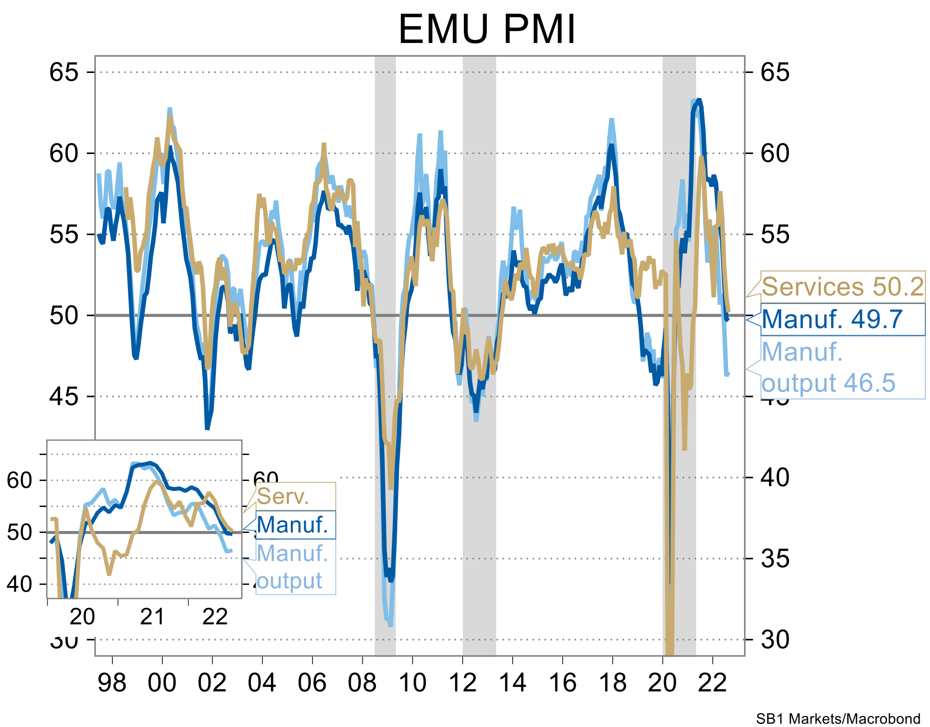


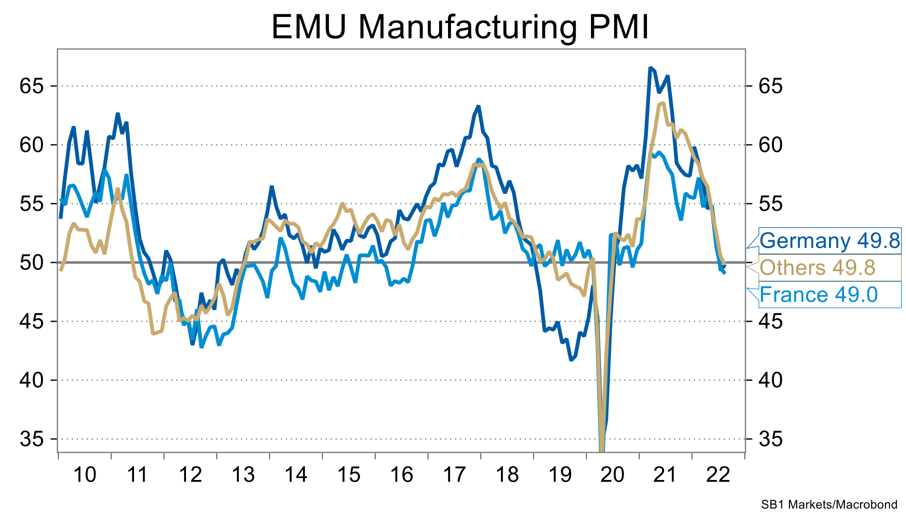


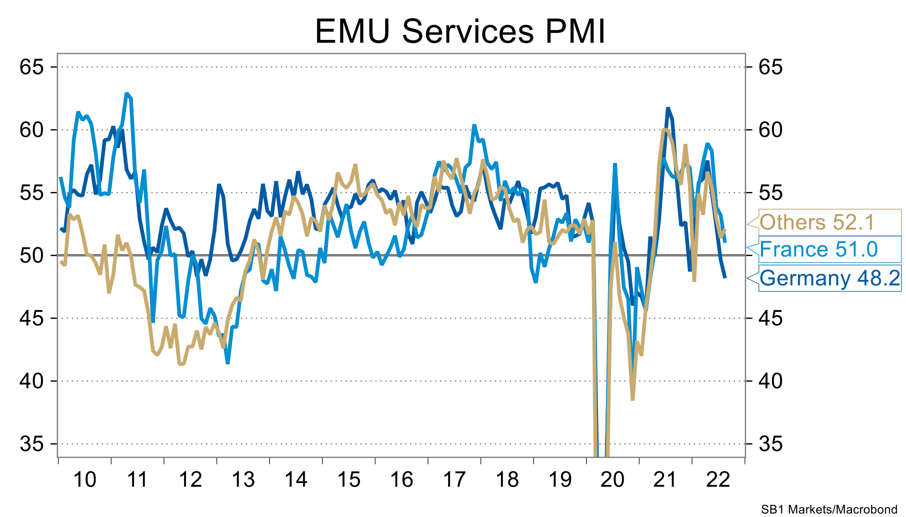
- **The composite PMI** declined 0.7 p in July, to 49.2, expected 49.0 – signalling a contraction in GDP. High inflation and higher interest rates are dampening demand, according to S&P
- **Services** reported slower growth for the 4th month in a row, as the index fell 1 p to 50.2, 0.3 p below the consensus forecast
- Manufacturing also slowed further; the PMI fell 0.1 p to 49.7. However, the print was 0.7 p above consensus. The output index climbed 0.2 p to 46.5, <u>and the new order index added 1.1 p to 43.7 – which is still a very weak print!</u>
- **The delivery times** and price indices both fell substantially but still remain higher than normal. However, as new orders and production are both is declining, supply chains problems and pricing power will very likely be further reduced the coming months
- If the PMIs and other surveys continues down at the current pace, the pressure on (and within) the ECB to hike rates rapidly will no doubt fade, even if inflation is high and unemployment is low. Wage inflation has not yet exploded, and the underlying cost pressure is not like in the US

Manufacturing sector likely contacting for the second month

The output index increased 0.2 p, but at 46.5, a sharp decline in production is reported



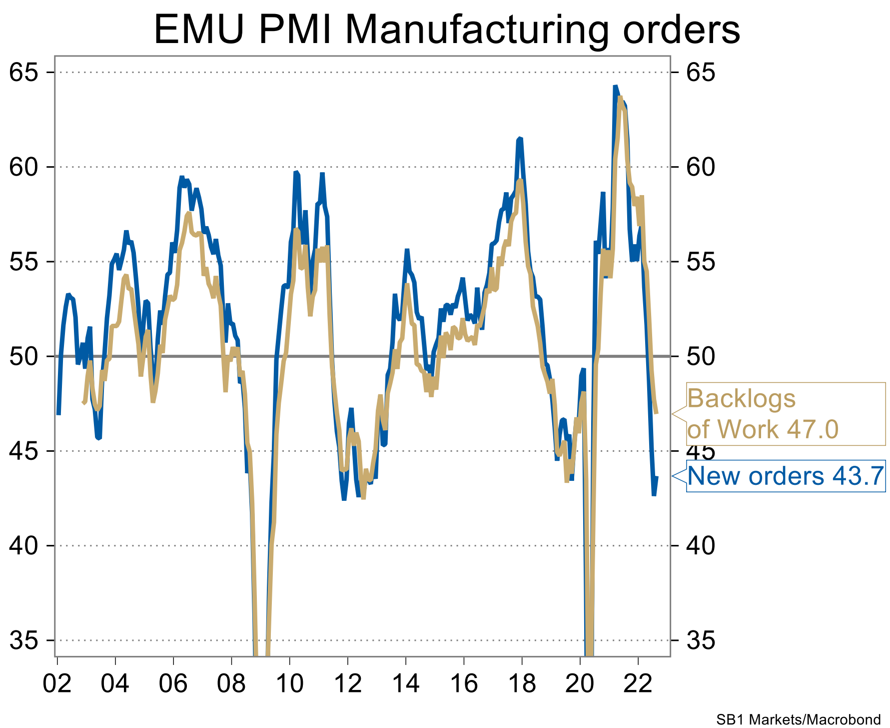


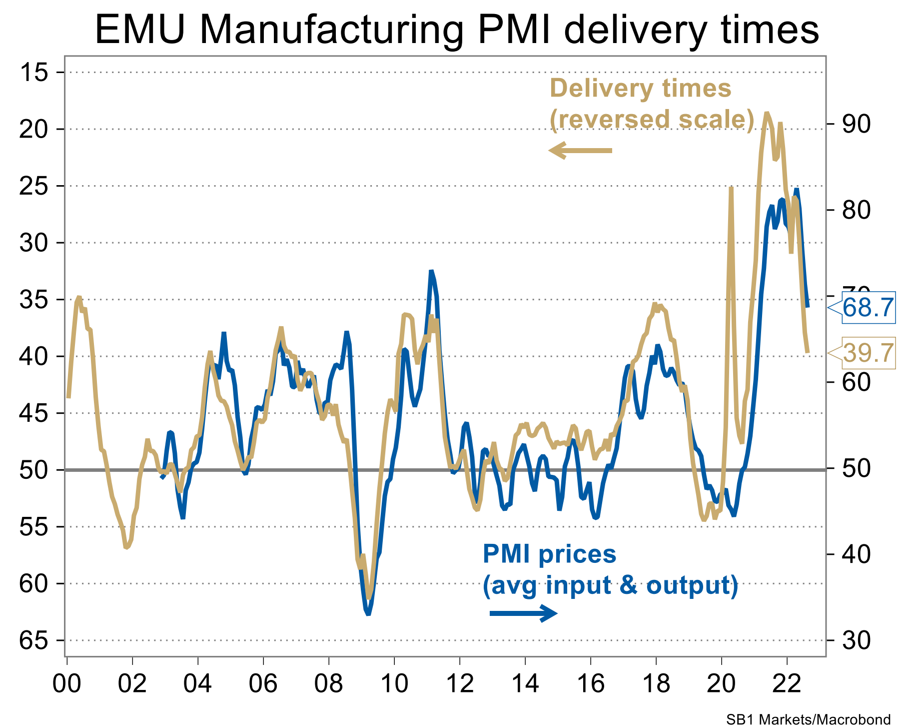


» German manuf. PMI increased by 0.5 p to 49.8, but the sector is still in contraction mode, while the French manuf. PMI fell into contraction territory for the first time since Nov-20

New orders index slightly up but still signal a rapid decline in orders

The order backlog fell further. Delivery times are declining, and prices increases are slowing

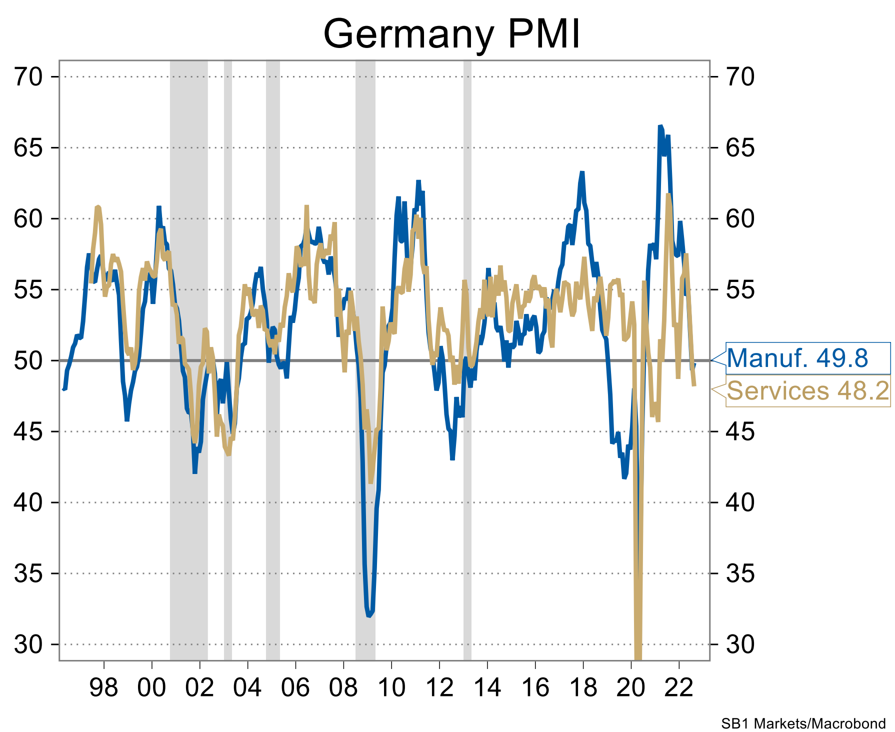


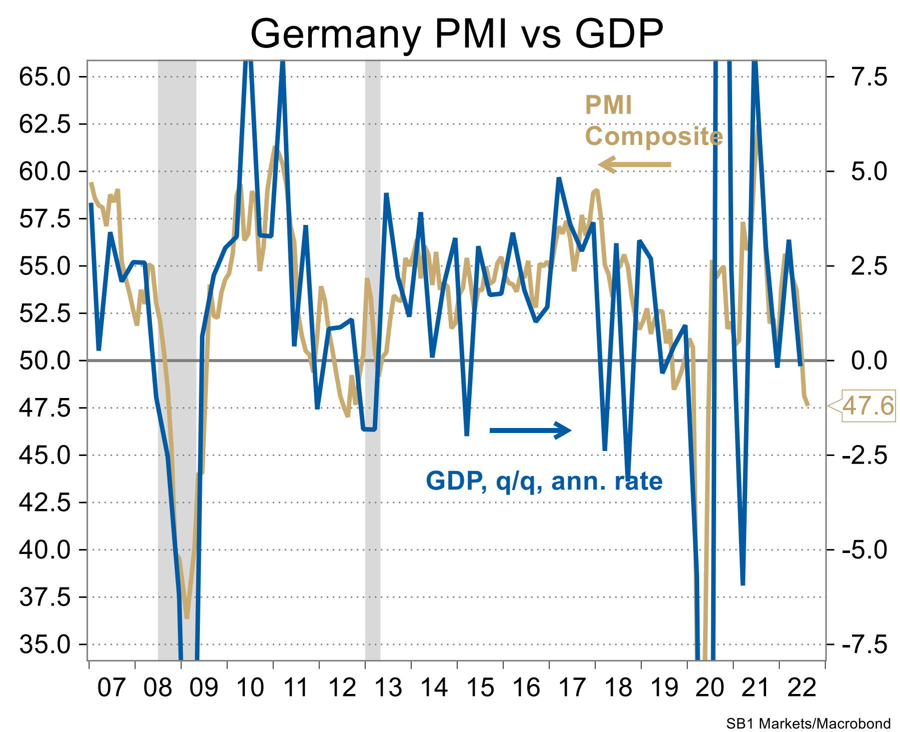


- However, companies are still reporting unusual widespread price increases!

Germany: The composite PMI down 47.6, a GDP contraction is signalled

Both the manufacturing sector and service are reporting lower activity





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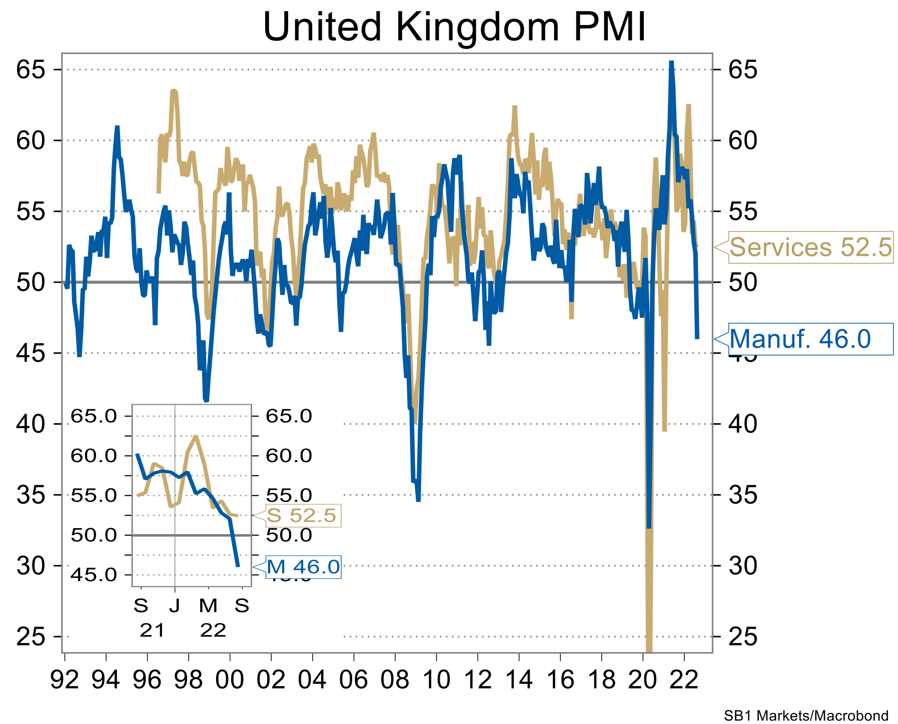
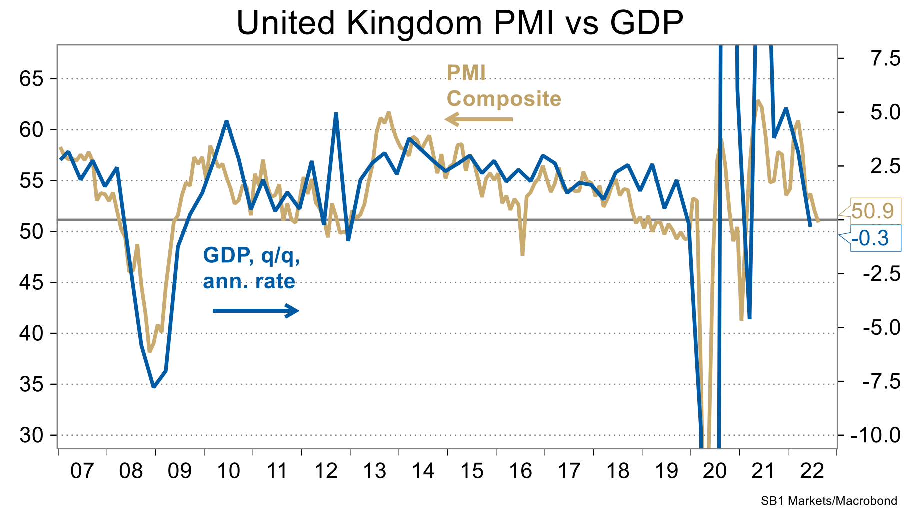
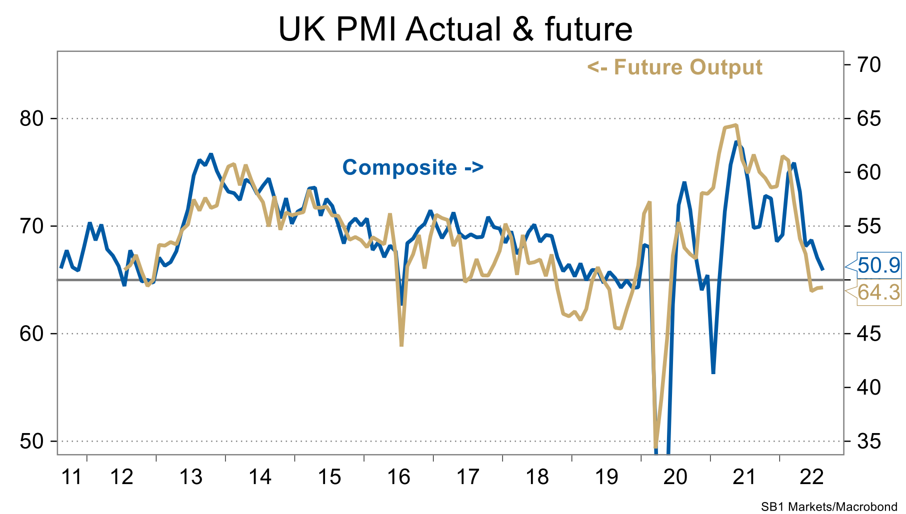
Manufacturing PMI surprised heavily on the downside in August

The composite index further down – the UK economy is in stagnation



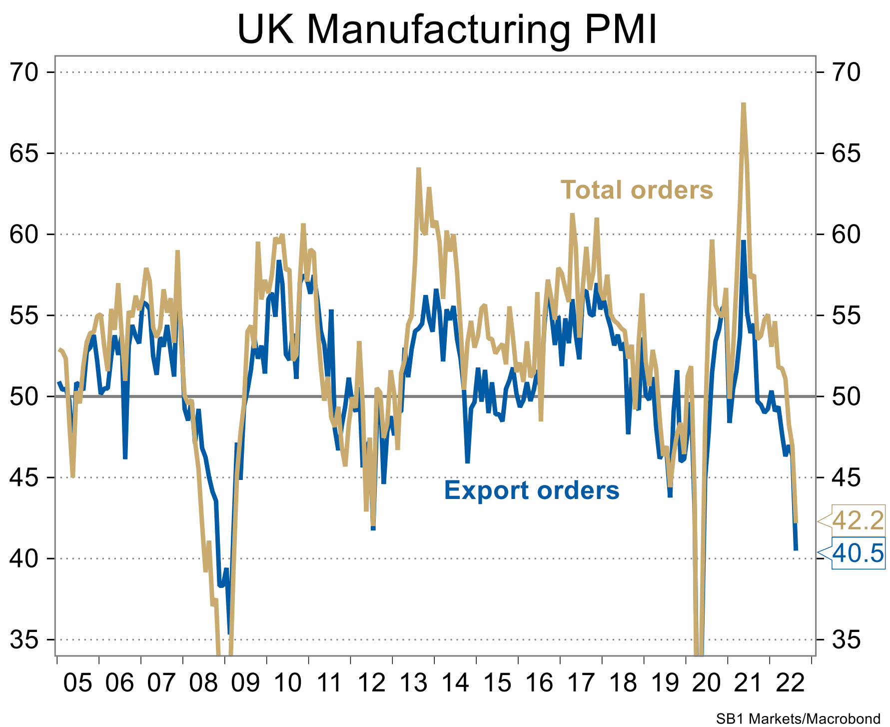


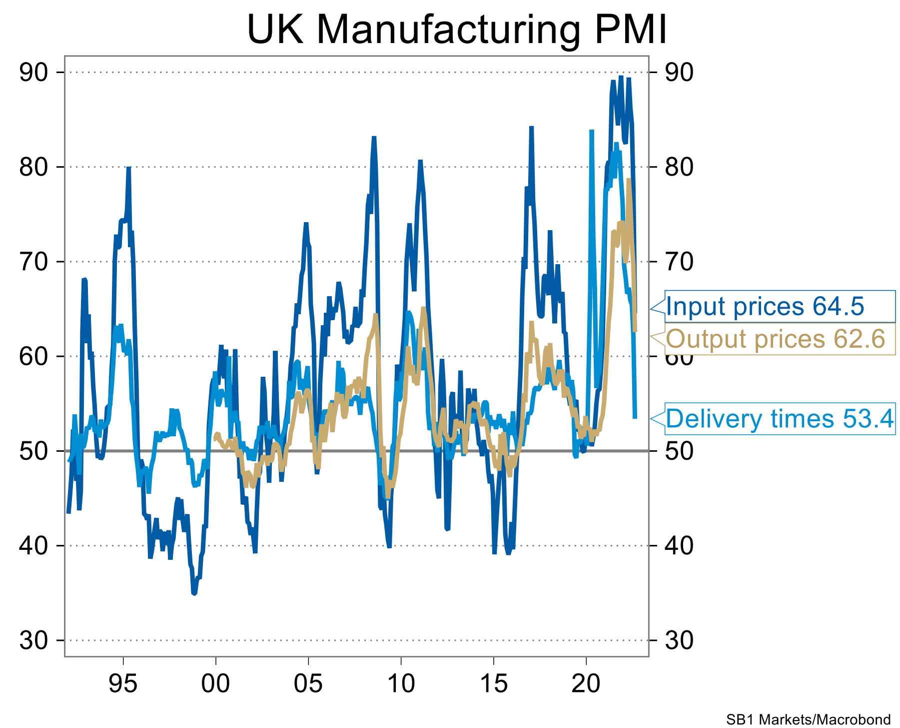


- The UK composite index fell 1.2 p to 50.9, expected at 51.3, as the manufacturing PMI came in at 46, down 6.1 p from July
- Growth is clearly coming to a halt, while the latest inflation print was at 10.1% (core at 6.2%), putting the BoE in a bit of a squeeze. A recession is unavoidable? That what's the BoE thinks too

Orders collapsed in August

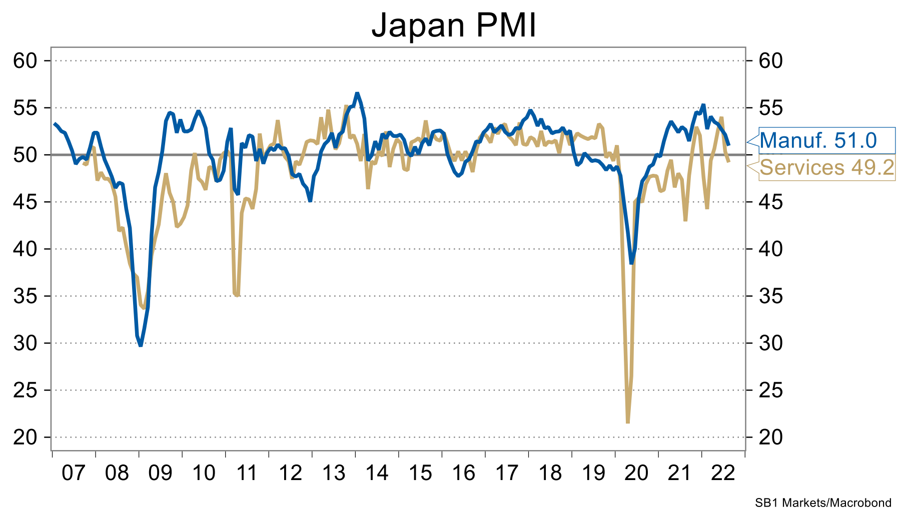
The price indices fell sharply as well, but are still above normal levels. No more delivery problems

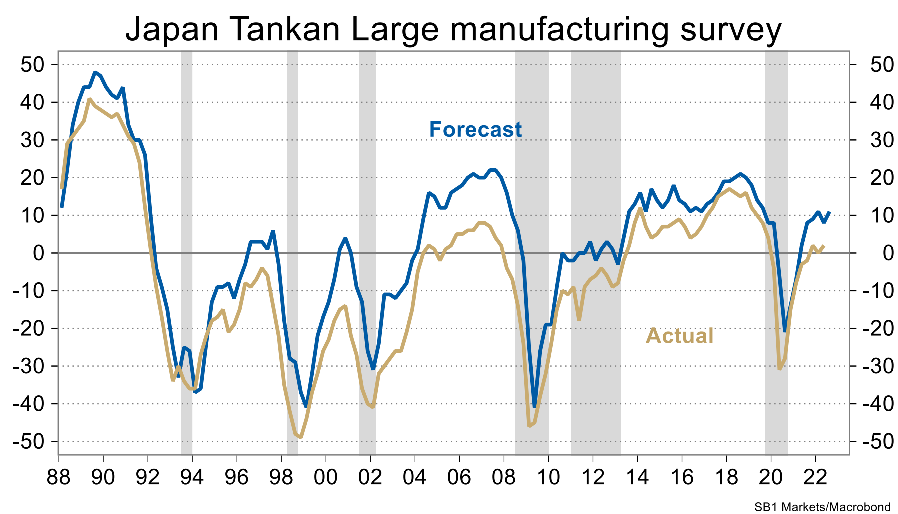


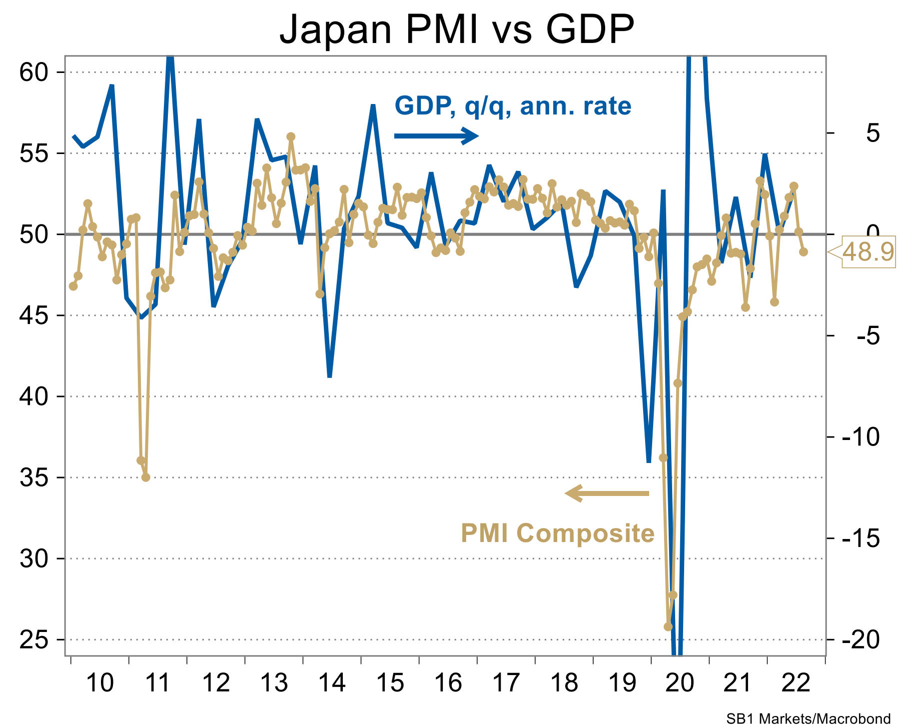


The service sector contracted in August, sending the composite PMI below 50

The manufacturing index also continued downwards, but is still above the 50-line



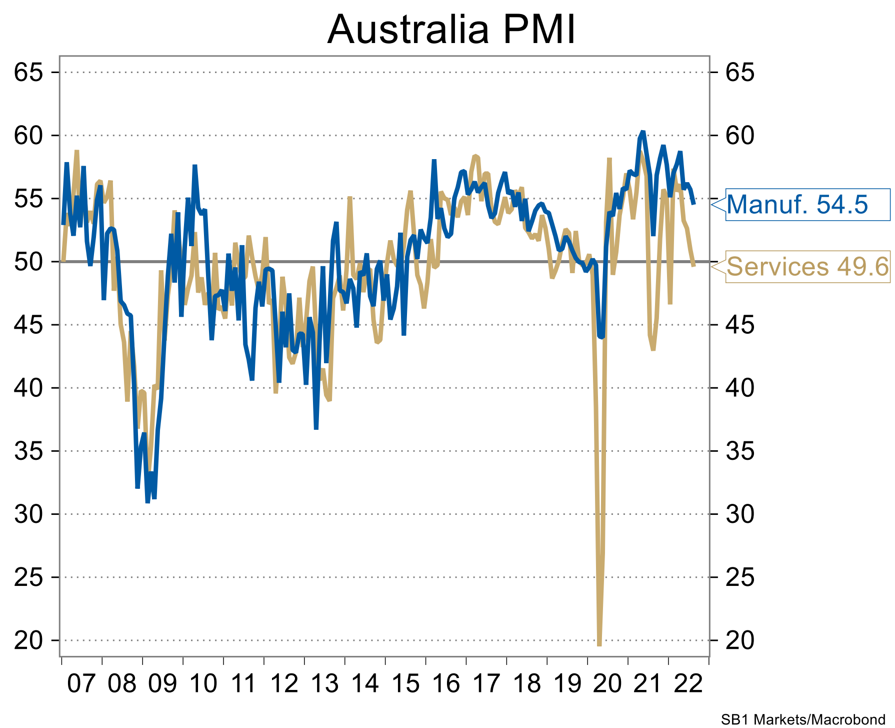


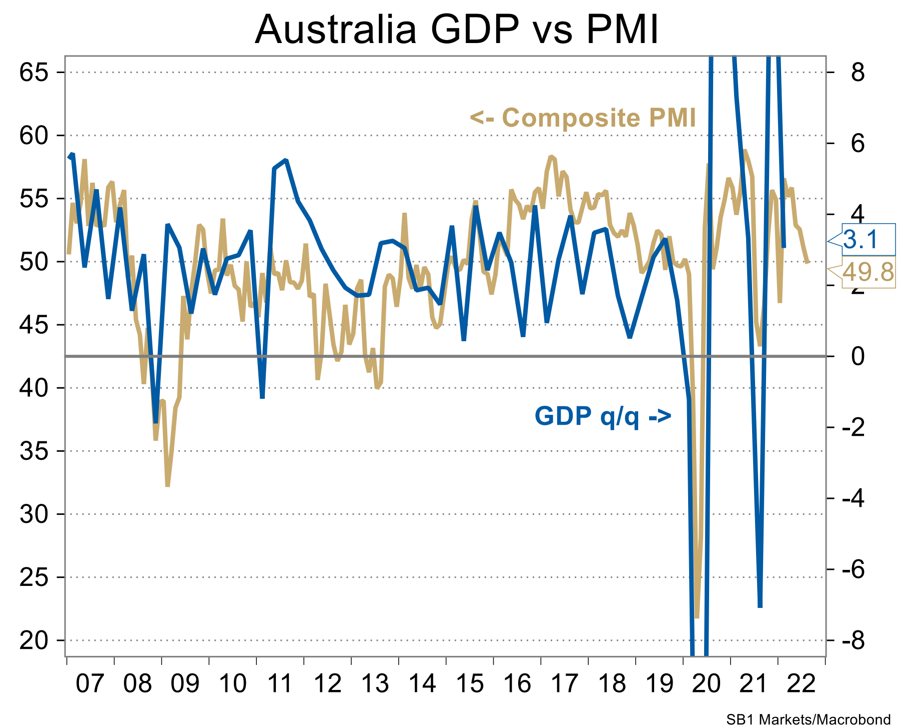


- Most of the positive reopening effects for the service sector have probably already taken place, even if tourism is reported to be just slowly recovering. The composite PMI now suggests that the Japanese economy is contracting

Growth in the service sector is muted; manufacturing sector is still going strong

The composite index fell 1.3 p to 49.8, but in Australia this normally signals OK growth

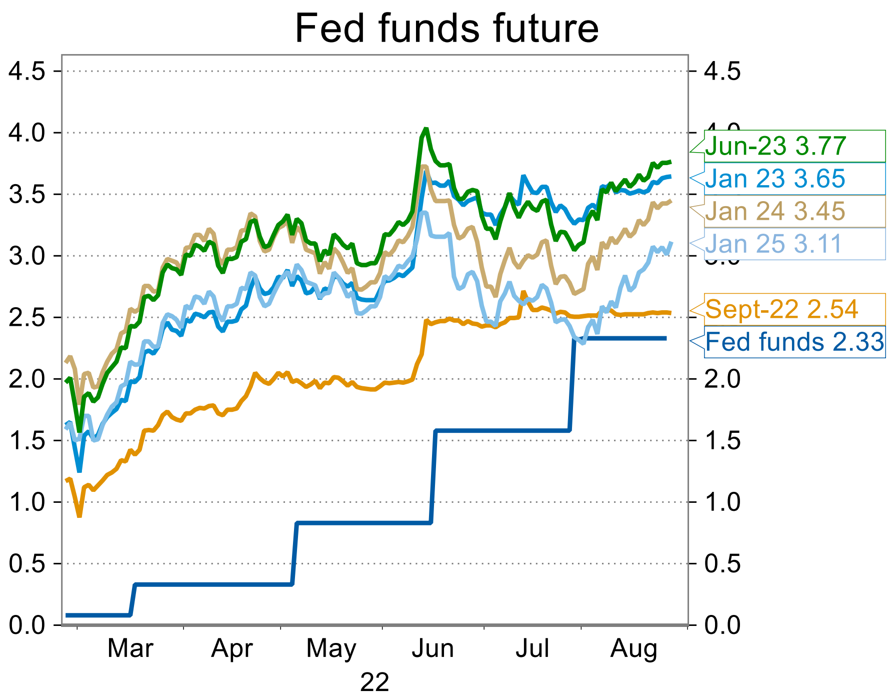


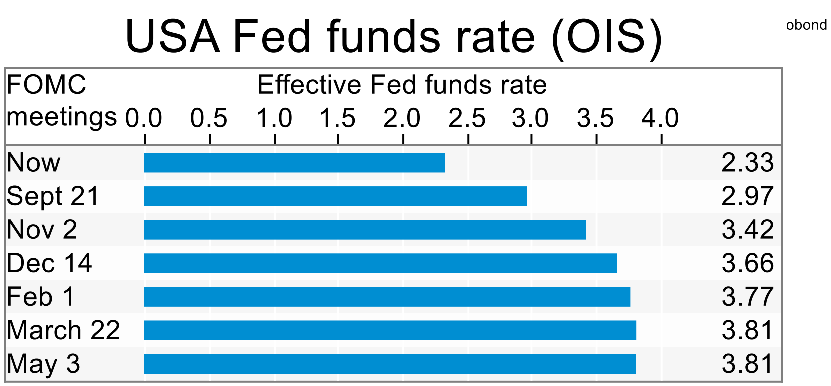


- Disclaimer: The correlation between the PMIs and actual GDP growth is not that impressive
- The manufacturing sector has not been hurt by the temporary lockdown setback in China

Powell at Jackson Hole: *We will keep at it until we are confident the job is done*

Powell finally took his gloves off, he is now a 'Volkerish' inflation warrior. It will cause pain



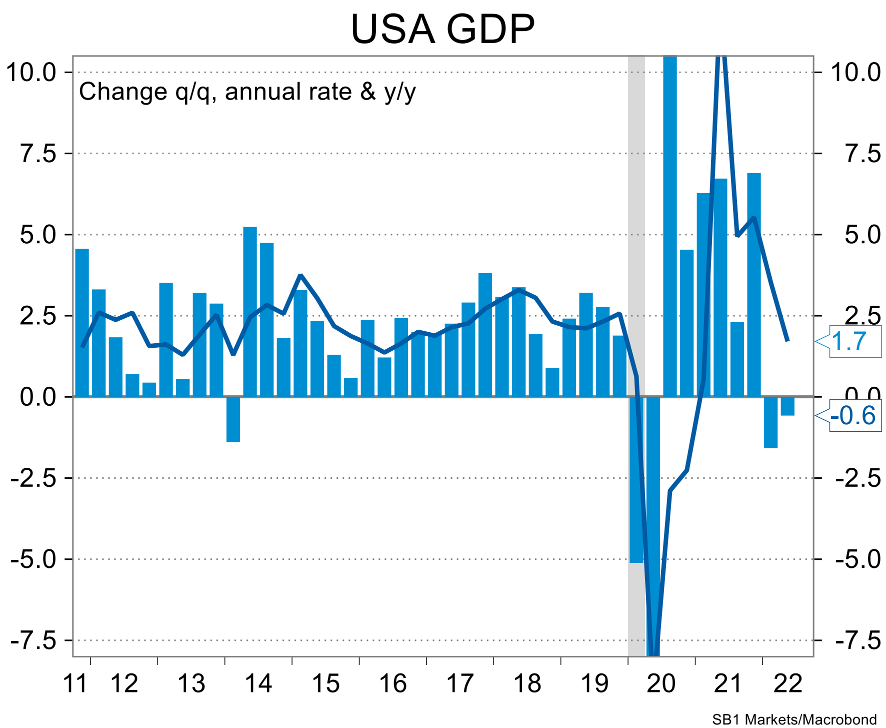


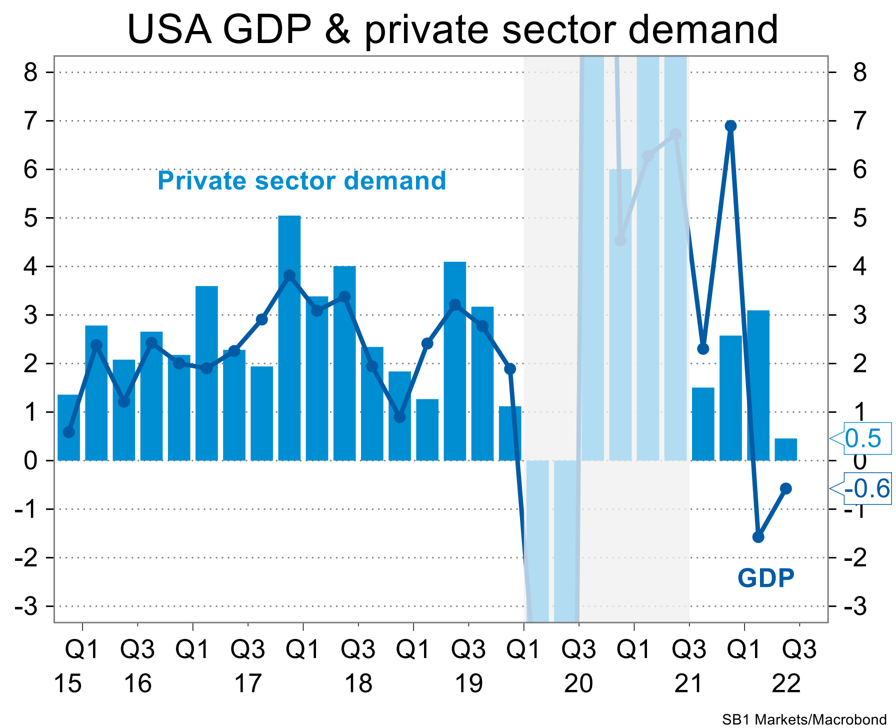
Chairman Powell stated that the Fed's goal is to bring inflation down. In order to achieve price stability, Jay Powell stated that:

- We are taking forceful and rapid steps to moderate demand so that it comes into better alignment with supply. The labour market is obviously out of balance…We will keep at it until we are confident the job is done.
- This is likely to bring sustained period of below-trend growth, with some softening of labour market conditions … Which will bring some pain to households and businesses. These are the unfortunate costs of reducing inflation
- The labour market is extremely tight
- On latest CPI print: A single month's improvement is welcome but not sufficient (Obviously!)
- He has warned of larger hikes at the last press conference and stands by this statement - (*this is your guidance, folks!)*
- Quoted Volcker, saying inflation feeds in part on itself. The longer you wait, the greater the risk that inflation gets intrenched into people's decision making. The cost of bringing inflation down will become even larger
- In current circumstances, with inflation running far above 2 percent and the labor market extremely tight, estimates of longer-run neutral are not a place to stop or pause. The Fed will not pivot anytime soon
- The bond market was obviously better prepared for the 'Volkerish' signals than the stock market: equities fell 3 – 4%, while interest rates/bond yield just rose marginally

The decline in Q3 GDP less than initially reported but still a decline

Growth revised up to -0.6%, from -0.9% due to less weak growth in private consumption

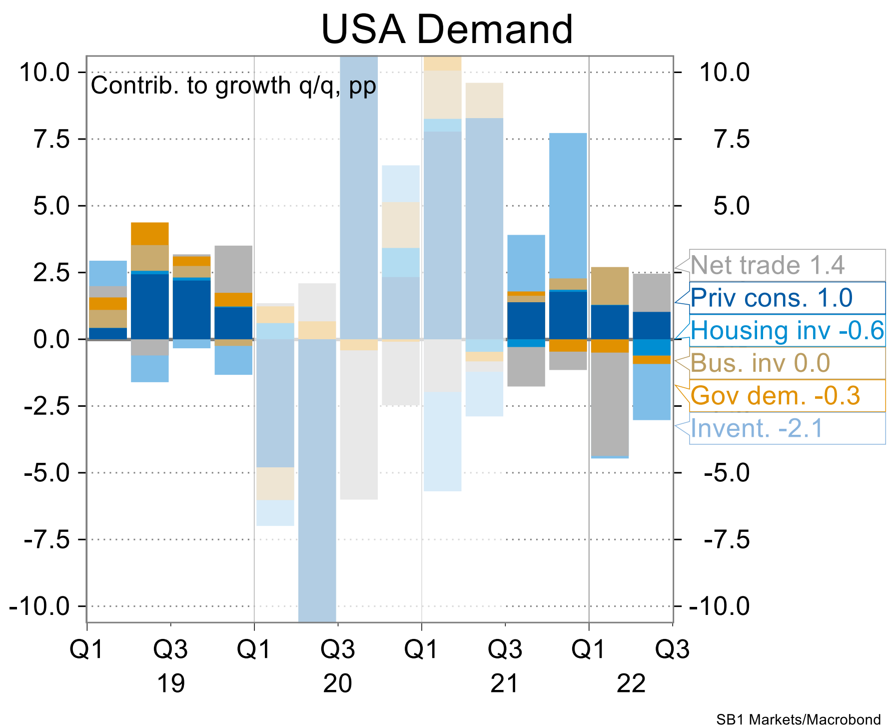


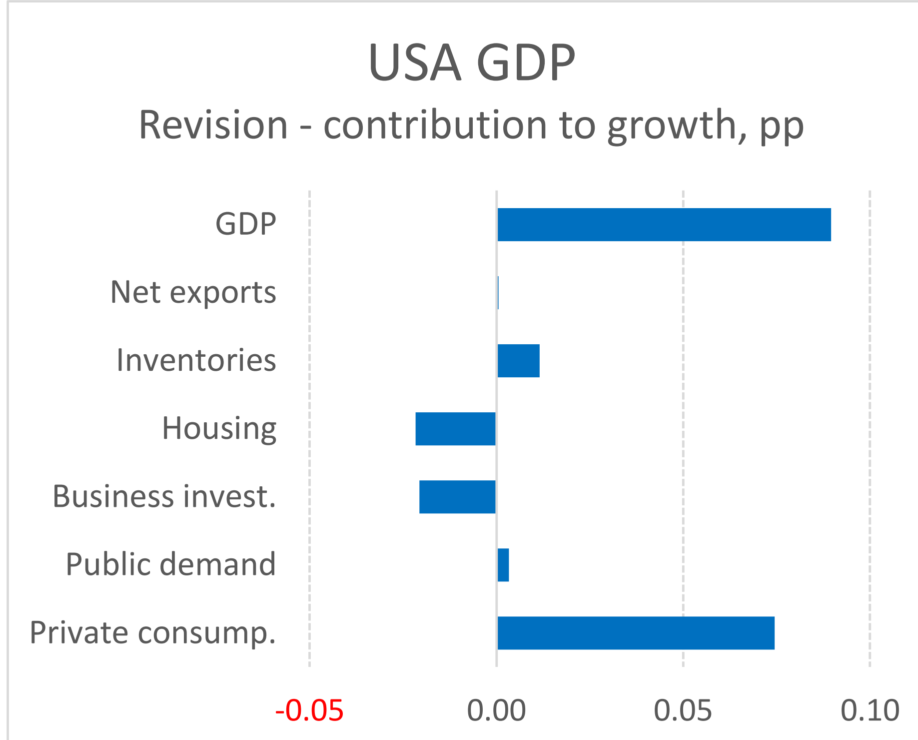


- **Other revisions were minimal**
- Growth in **private consumption still s**lowed substantially, while business investments flattened. Housing investments fell
- **Corporate profits** were stronger than we assumed

Domestic demand in Q2 low in Q2 – and inventories contributed negatively

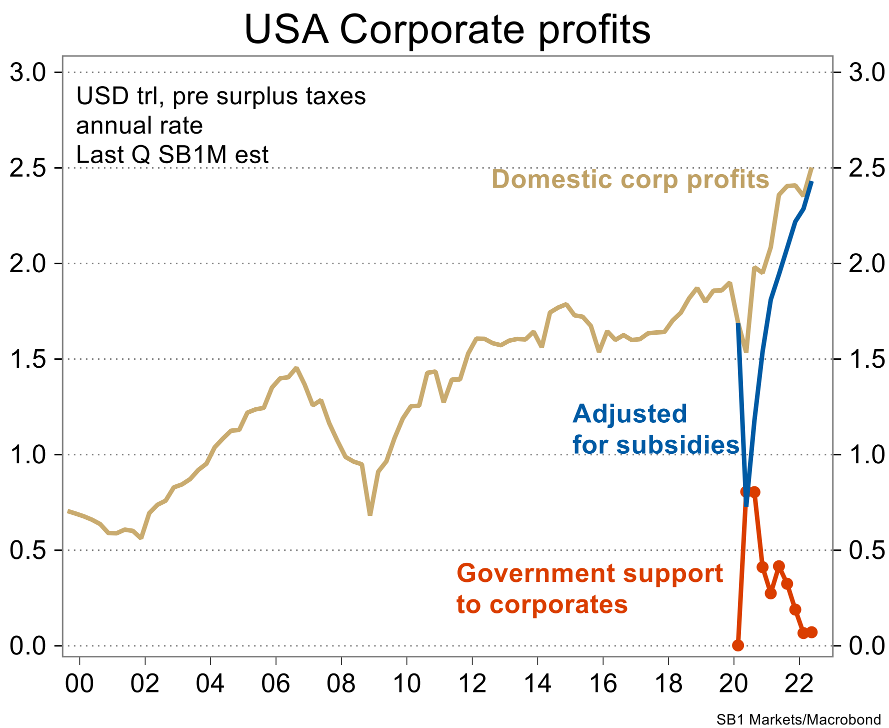
Revisions: Just an upward revision of private consumption

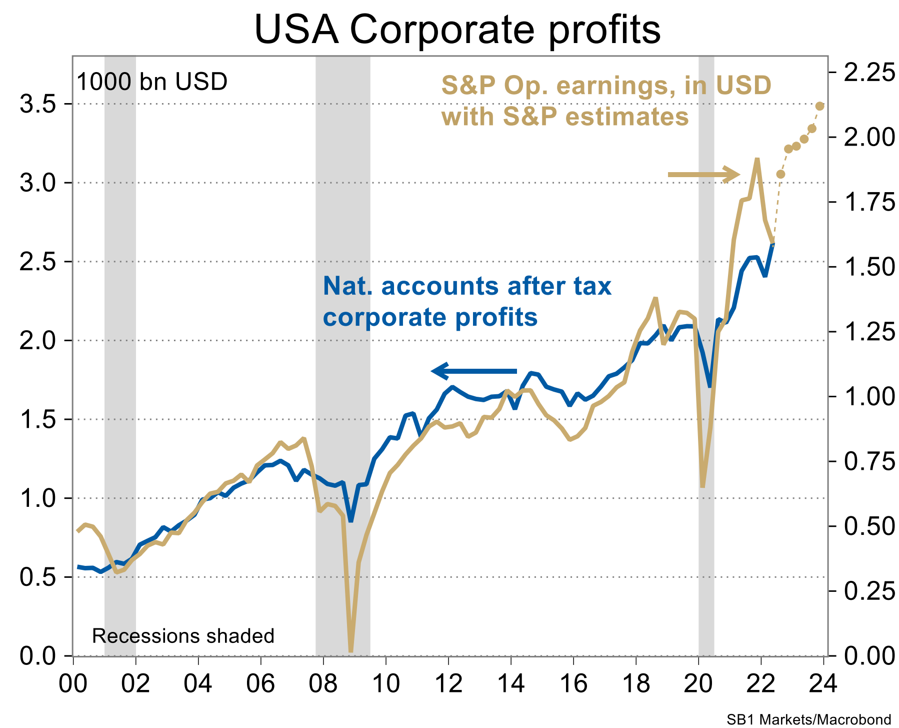




Corporates' profits up in Q2, far better than we assumed

Nominal GDP rose more than we assumed, as price rose even faster, by 11.7% (q/q, 10.5% y/y)

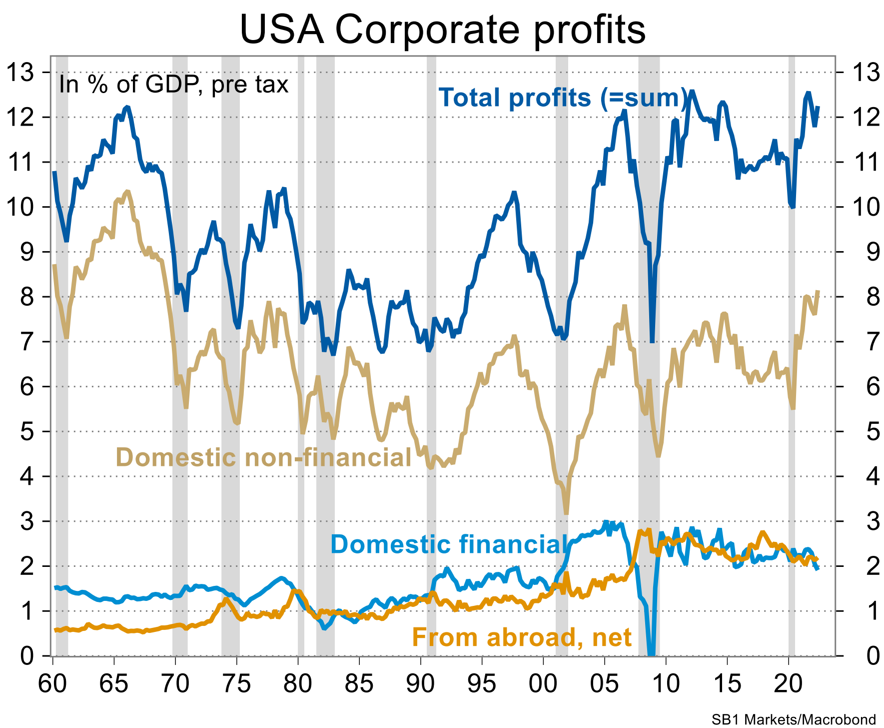


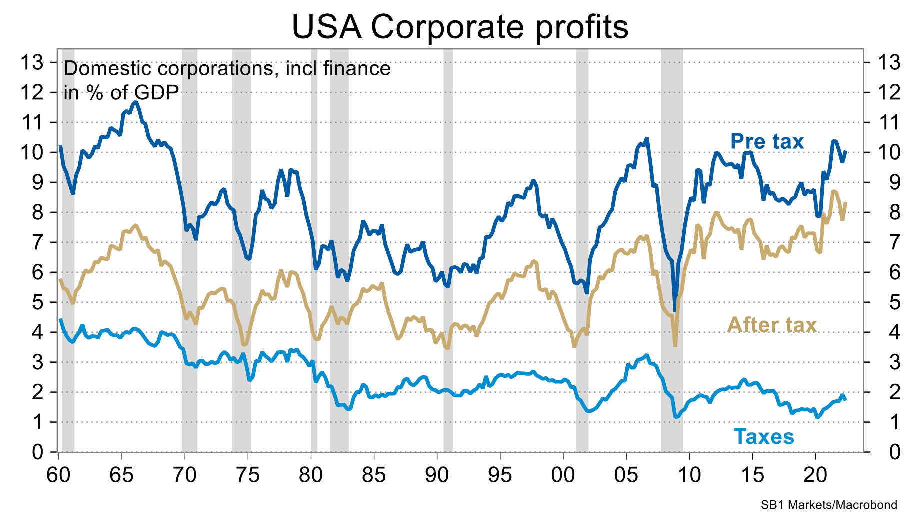


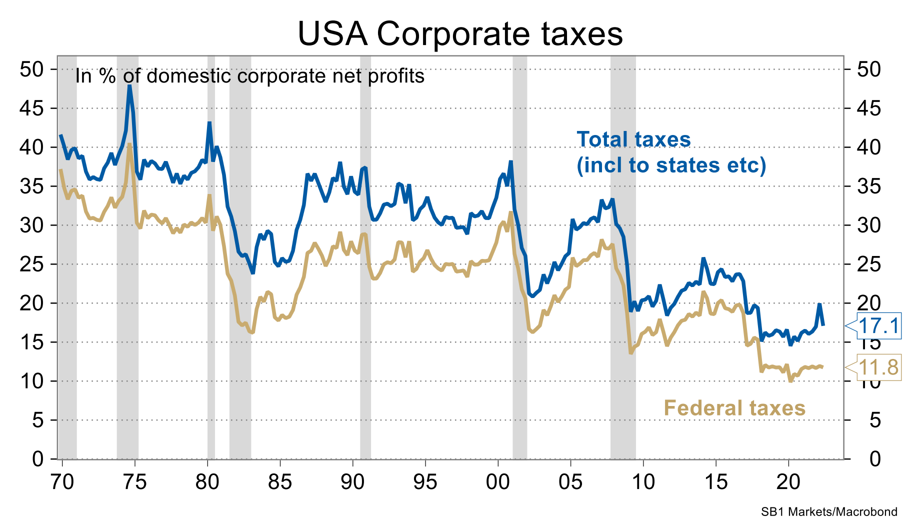
- **Domestic corporate profits** rose 6% q/q in Q2, we assumed a 1.5% decline –our largest miss ever, we believe. Growth nominal corporate GDP was much stronger than we had pencilled, 2.9% vs 1.7%, as prices rose faster than we had estimated. Labour costs rose by 2.0% (all data not annualised). Taxes on corporate income (pre-tax profits) were substantially lower. Net product tax payments/subsidies have almost normalised, as Covid support programs are terminated.
- The **S&P** estimates that S&P 500 profits fell 5% q/q in Q2 (some weeks ago estimated +2%), following the 13% decline in Q1 (seasonally adjusted). S&P profits (including profits from abroad) are almost line vs National Account profits for the total corporate sector (including all corporates operating in the US, domestically or foreign owned)
- We think the **profit outlook** is bleak. Wage inflation will not subside immediately given the super tight labour market – and a continued price inflation at the current 12% pace cannot be tolerated by the Federal Reserve. Exciting times ahead

Profit rates up in Q2, following the setback in Q4/Q1

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



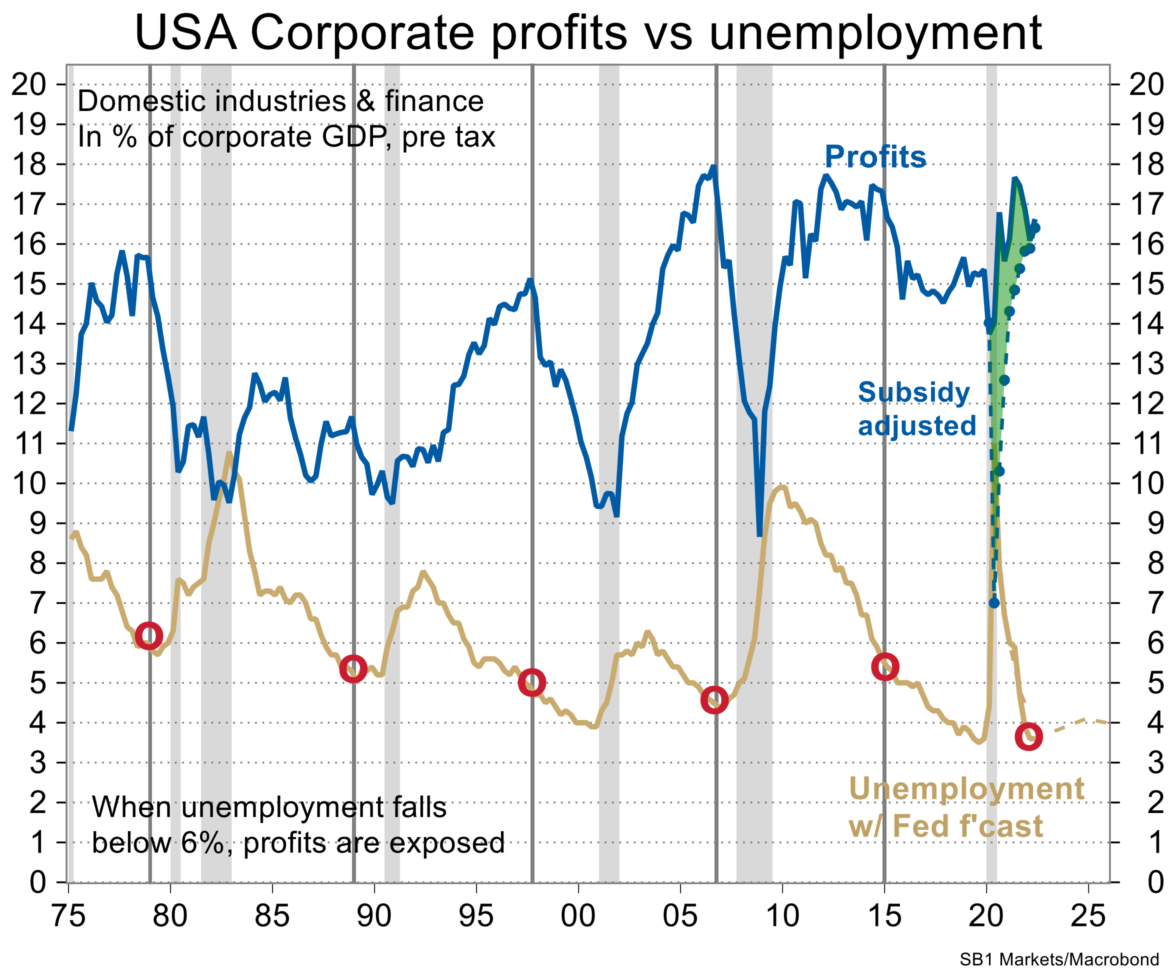




- The domestic corporate profit rate is close to the highest since late 1960s
- The after-tax profit rates are even closer to all time high, as corporate taxes have been cut several times. The effective tax rate fell in Q2, following a lift in Q1

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

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

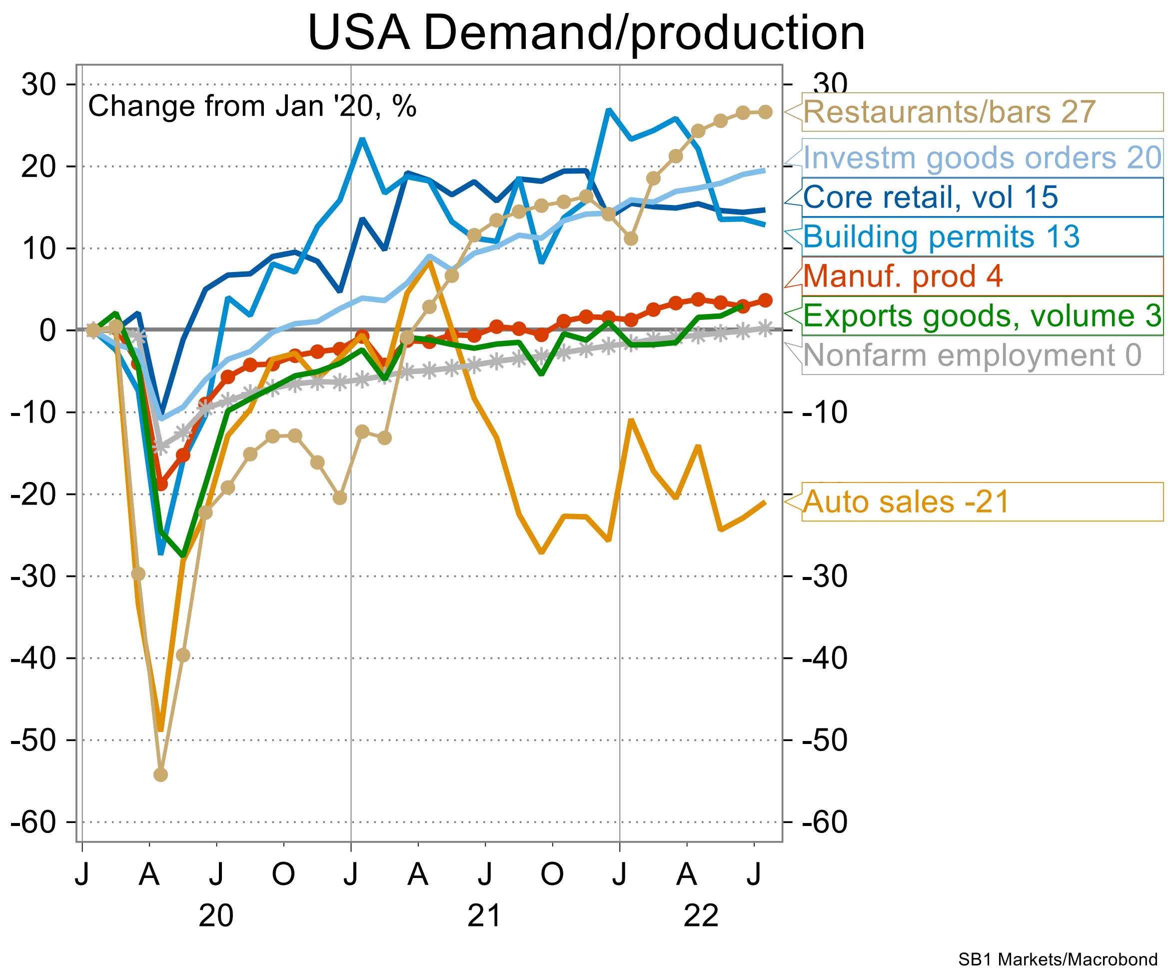


- Prices are increasing at an incredible pace but so are wage costs, and government support is on the way down
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - » Unemployment is now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

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

US: Waiting for demand destruction?

Housing is weakening, and demand for goods ex autos are waning?



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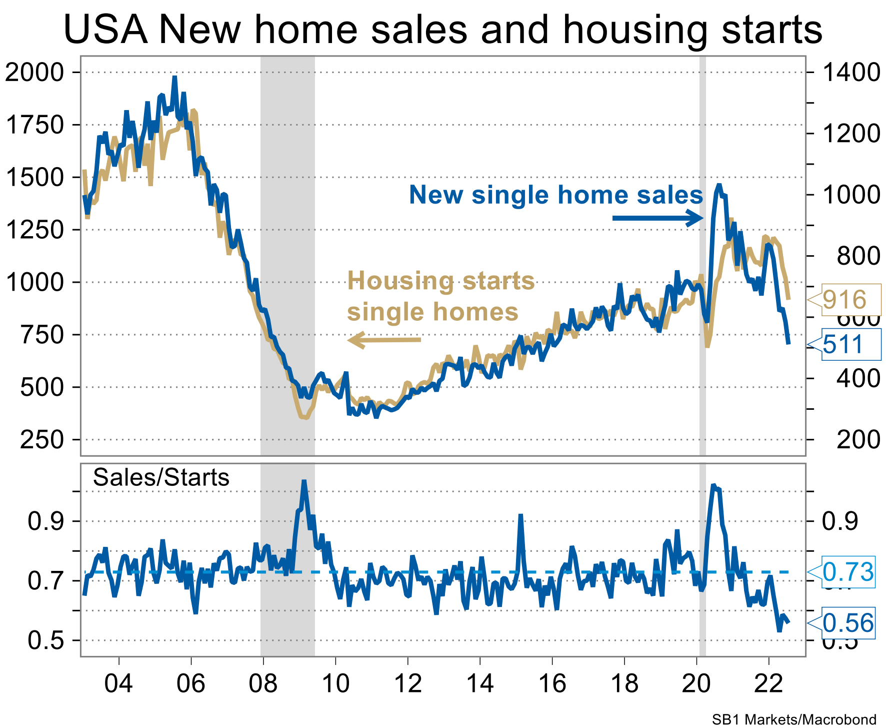
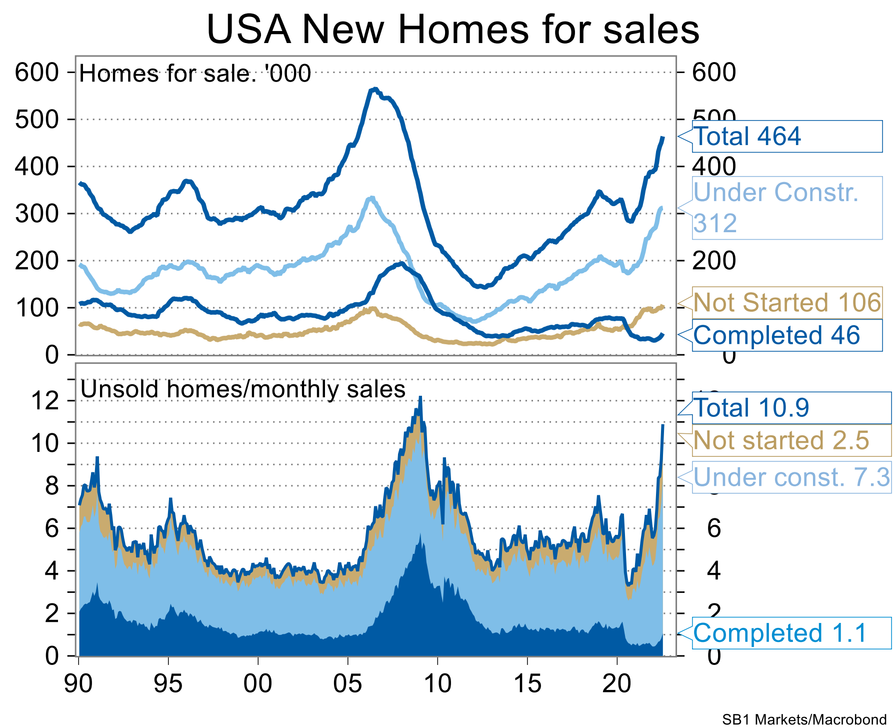
New home sales are plunging – down 40% from the local peak last Dec

Sales far below starts – and starts will very likely decline further. Just like in recessions

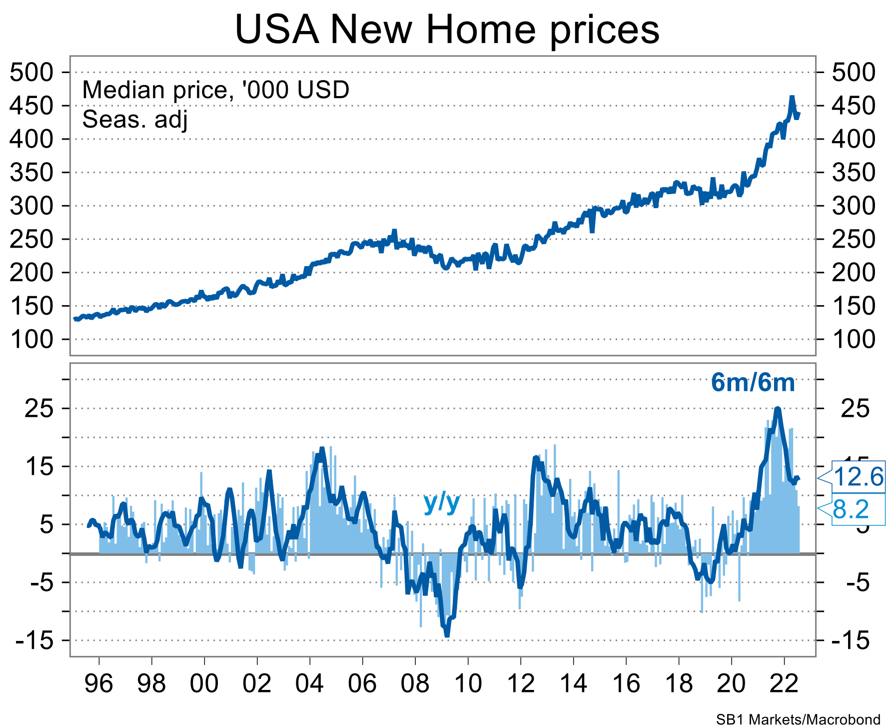


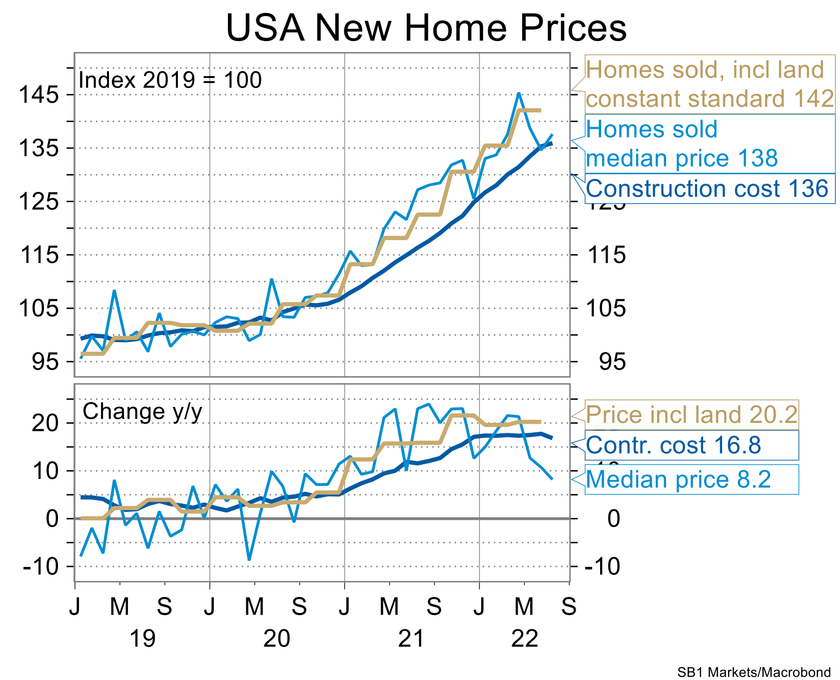


- **New single home sales** fell to 511' in July (annual rate), by 11% from 585' in June (revised down from 590'), missing consensus expectations at 575'. The total decline, together with the decline in building permits now sends a recession warning (*check 2 pages forward*)
- **The inventory of unsold homes** is climbing rapidly, now up to 464' units, up from below 300' in Aug-20. Measured in month's of sales, inventories equal 10.9 months, from the record low at 3 months in Aug-20, close to the peak level in 2008. Most of the inventory is 'for real', either completed homes (but the level in this category is still very low) or under construction (and these homes will be completed) – as the supply side responded to the strong increase in demand & prices. A steep increase in number of homes for sales that are not yet started, also confirms the strength of the potential supply side (but most of these projects will very likely not be started the before after the 'recession'
- Prices increased slightly in July but prices are now on the way down, the peak was in April. Still, prices are up 8% y/y

New home prices increased slightly in July, but are down 5% from the April peak

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

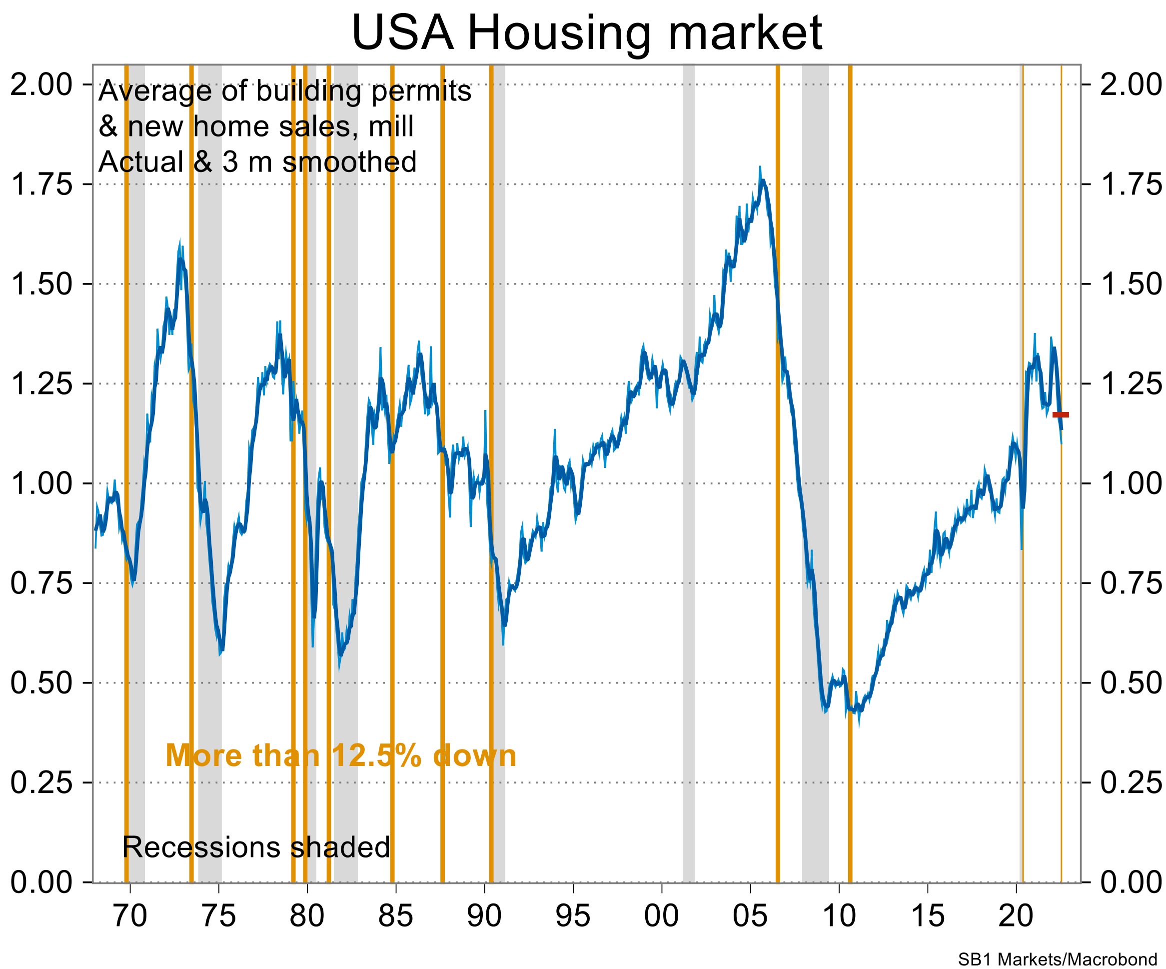


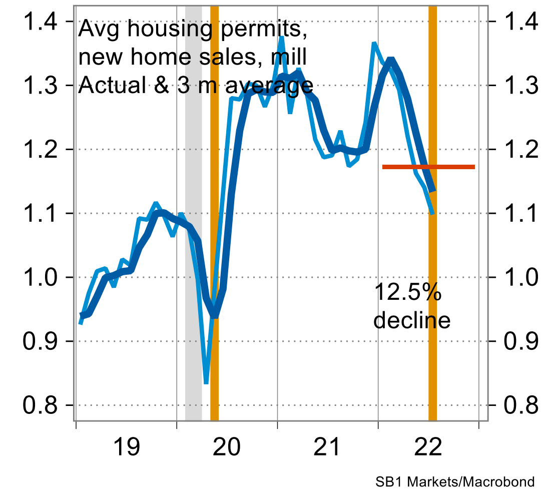


- The monthly **median new home sales prices** are very volatile, as they are not adjusted for changes in the mix of homes sold. In July, prices were up 8.2% y/y, down from 10.9% in June (revised from 7.6%)
- The **construction price index** is adjusted for changes in standard & size, as is the **new homes sold price index**, which also includes cost of land: they are up by 17% (in July) and 20% (Q2) resp. Construction cost inflation is very likely peaking now, as material prices are nosediving
  - Prices incl. land is still growing faster than construction costs, signalling strong demand for new homes. We expect the sign soon to change, as land prices should ease more than construction cost if demand for housing eases

Housing vs. recessions: We have crossed the red line!

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



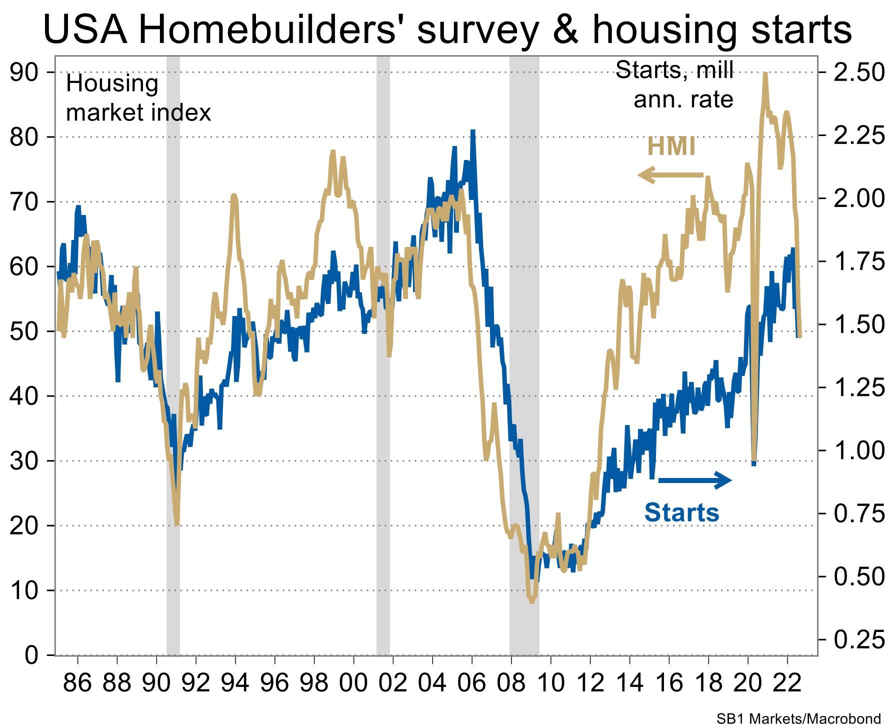


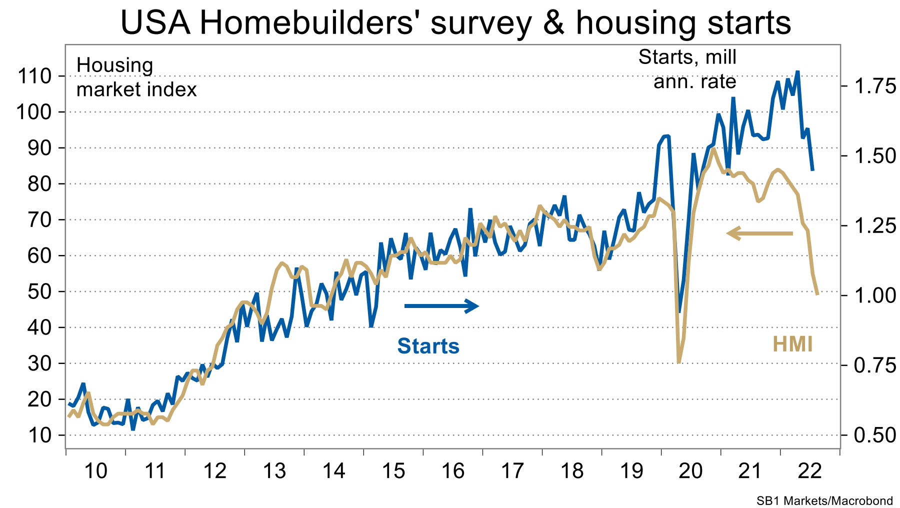
- Most recessions are 'housing recessions' as demand for housing and residential investments declines substantially ahead of and during recessions
  - » The only exception in recent decades was the 'Nasdaq' recession in 2001
  - » In addition, the pandemic recession was not caused by a setback on the housing market
- On the charts, we have marked declines of more than 12.5% in the 3 m average of the average of building permits and new homes sales vs. the recent 12 m peak with a yellow line
  - » 1984 and 1987, where interest rates were hiked, and a soft landing (and no recession) followed even if housing sent a signal (The 2010 decline was just after the GFC)
  - » The other 7 lines: A recession followed

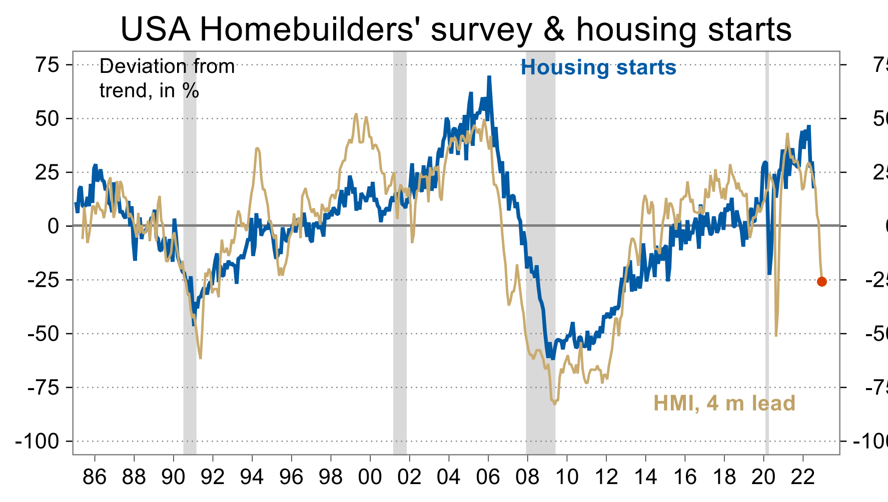
The page was accidentally removed from final version of the Weekly last Monday. It is rather important, so we include it this report

Homebuilders' index further down in Aug, signals a housing start crash

The HMI down 6 p to 49, following the 12 p July setback. A further 35% drop in starts, in total 50%?





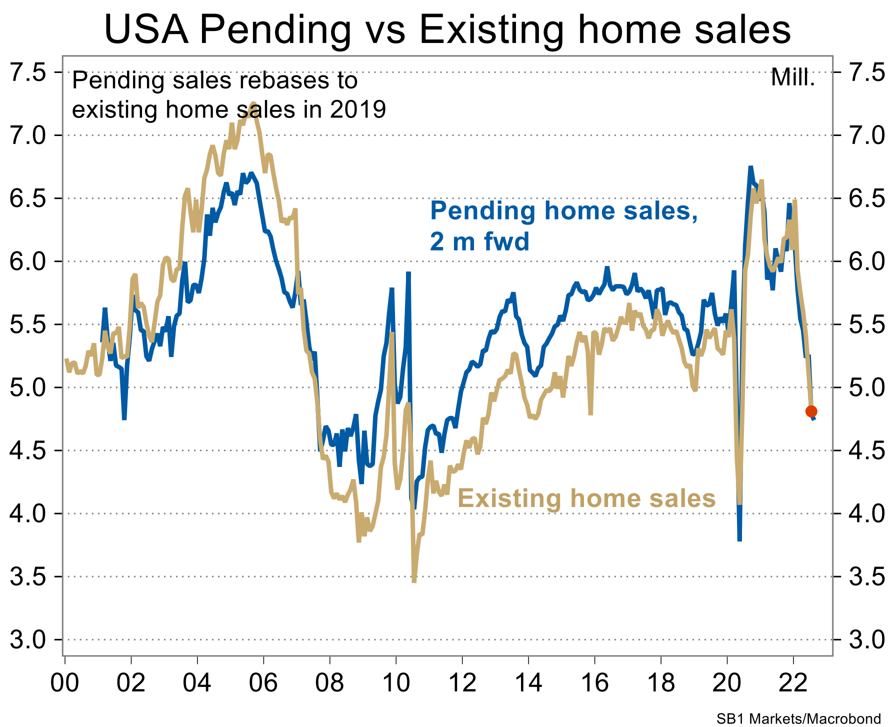


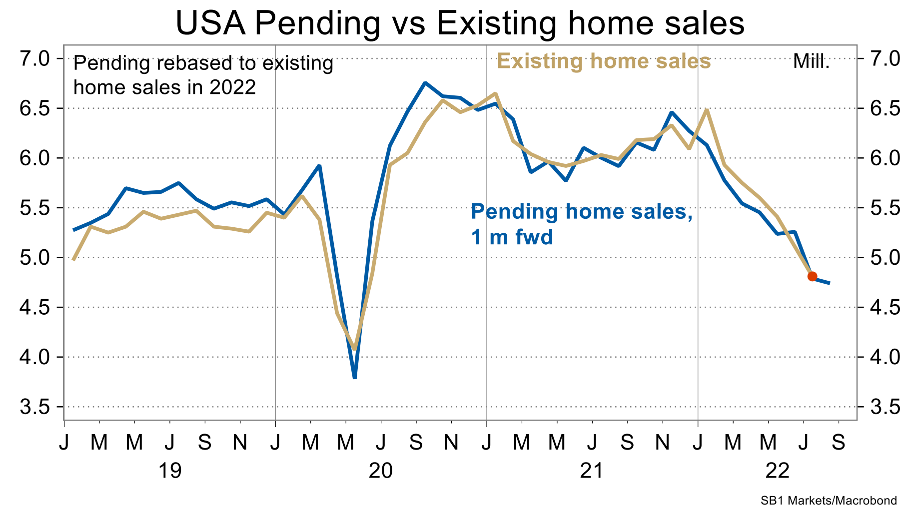
- **The Homebuilders' Housing Market Index (HM)** declined 6 p to 49 in July, expected unch.! The decline of 18 p over the past 2 months is the highest ever, barring the 44 p Apr-20 drop (which was followed by an 55 p lift in May and June. That trick will not be repeated now!)
  - » Affordability is still the challenge, due to higher mortgage rates, and soaring new home prices (at least until now)
- <u>The decline in the index recent months signal more than a 1/3 decline in housing starts following the 20% drop so far - in sum a 50% setback, which we have never seen except for before or during recessions</u>

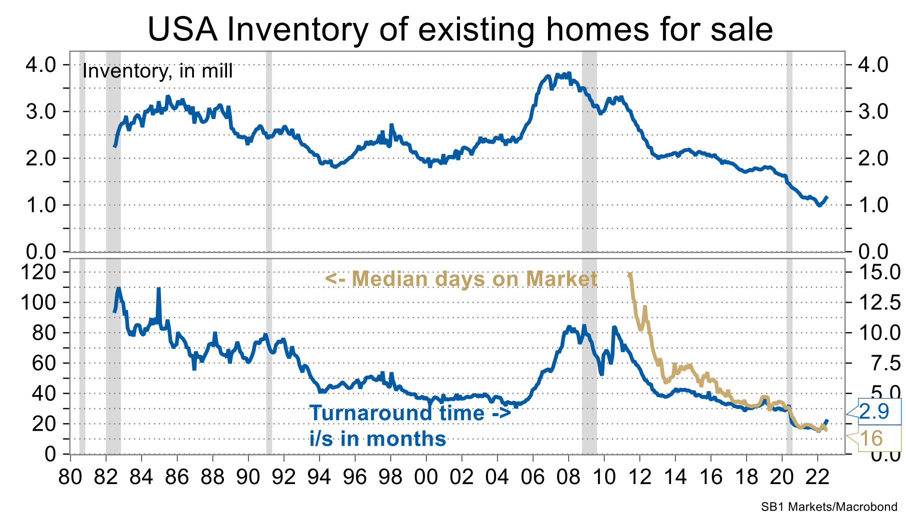
SpareBank 1 MARKETS

Pending home sales further down in July – higher rates are effective

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





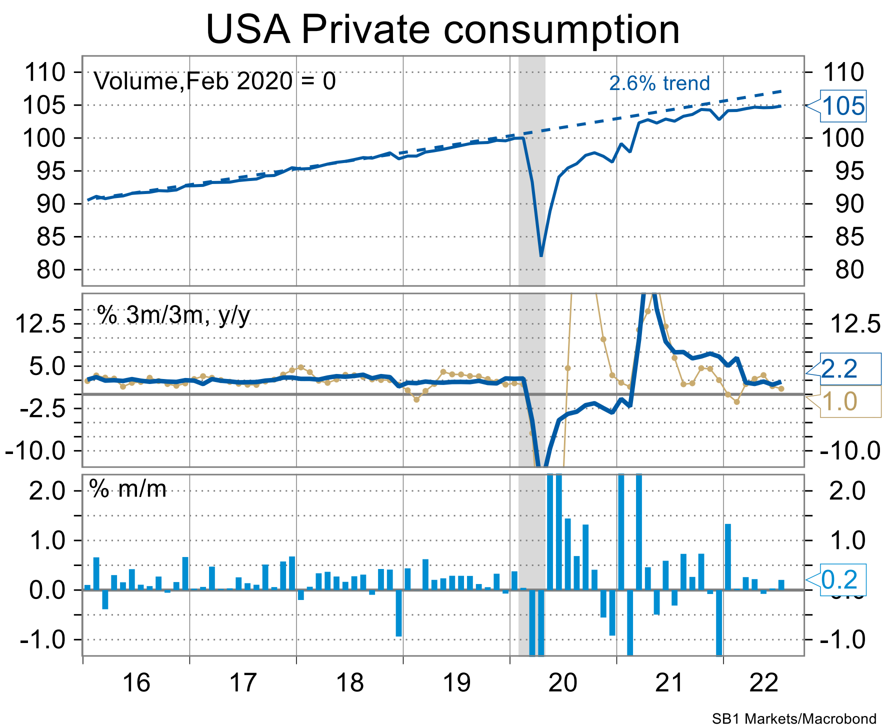


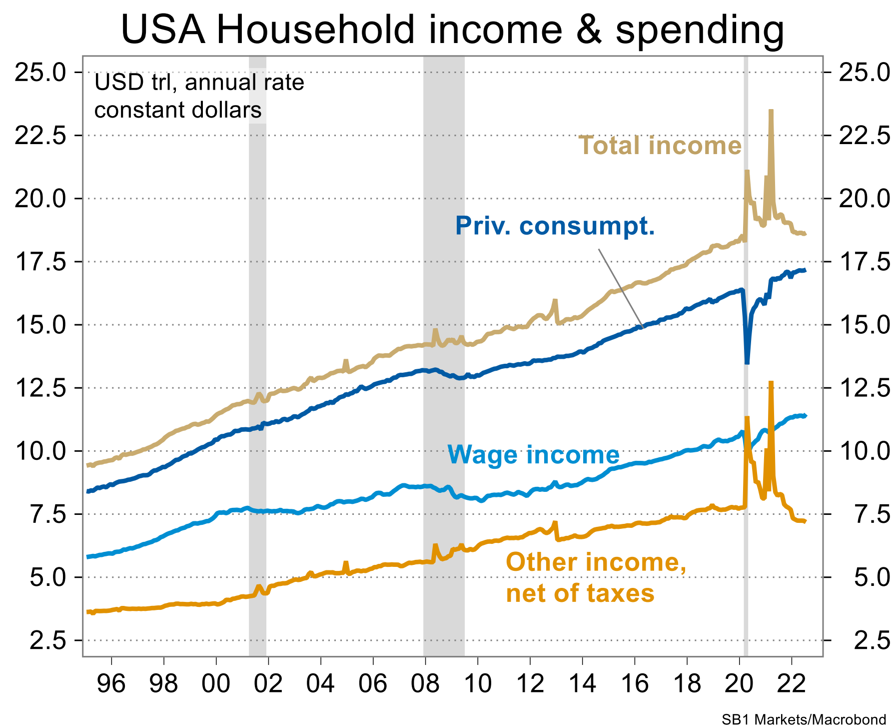
- The decline in June was less than expected (-4%) – but the 7th month in row with a lower number of signed deals
- The decline confirms that higher mortgage rates are slowing the housing market
- Normally, **prices** are lagging sales by several months, by up to 1 year (check next page)

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

Consumption has almost flattened – just a 1% underlying growth

Consumption grew 0.2% in July, less than expected, and June revised down

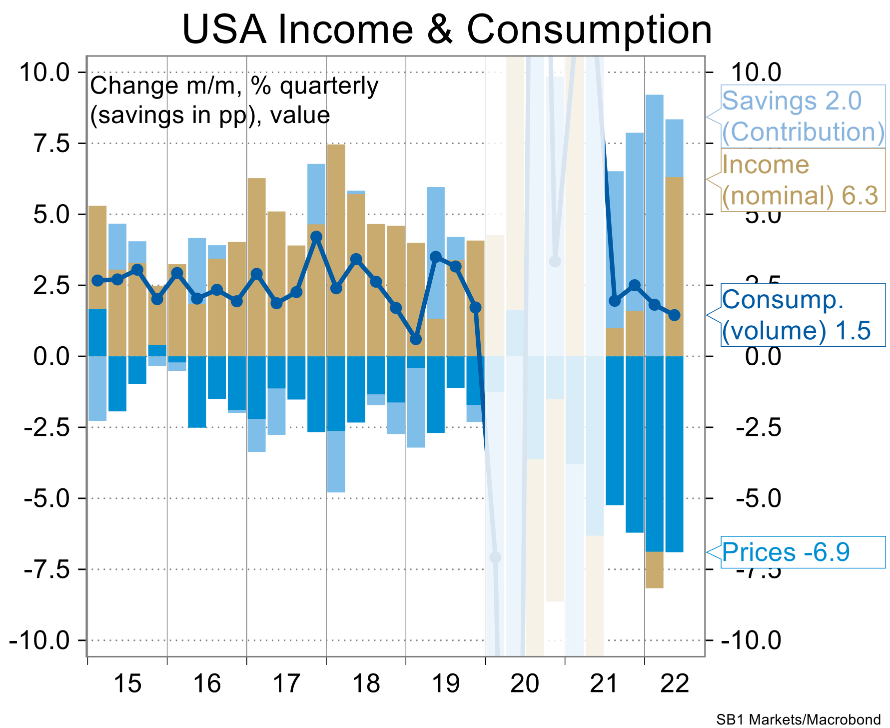


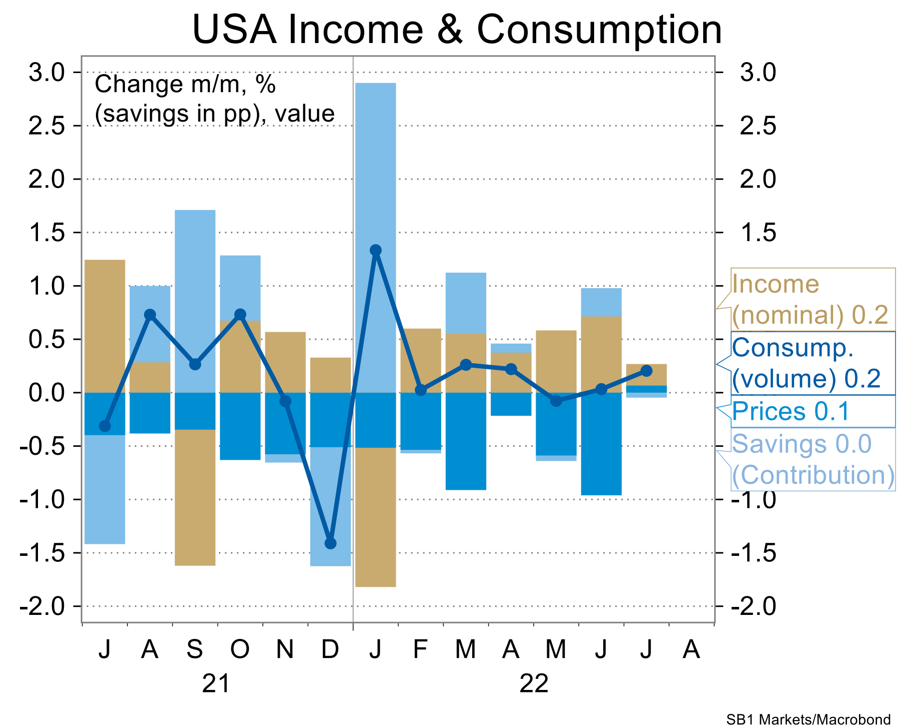


- **Private consumption** rose 0.2% in real terms in July. Nominal spending rose 0.1%, expected 0.4%, down from 1% in June – where prices rose 1% as well. In July, prices fell by 0.1% m/m
  - » Consumption of goods fell, services are still on the way up
- **Personal nominal disposable income** gained 0.2% in July, and was up by 0.3% in real terms. Real disposable income is trending down, due to normalisation of transfers, and higher taxes
- **The savings rate** was flat at 5% and some 2.5% below the pre-pandemic level. However, accumulated extraordinary savings through the pandemic are still almost fully intact, which may make it possible for households to keep up the level of spending

Finally, prices added 0.1% to disposable income

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



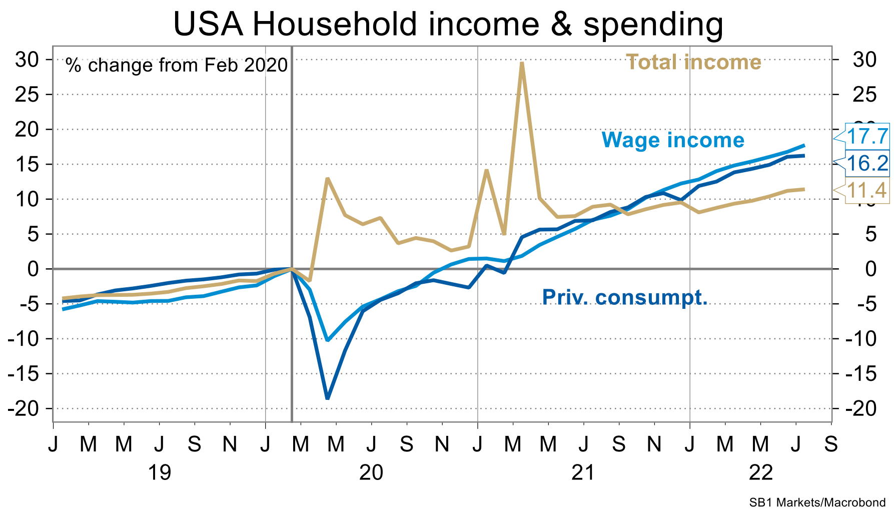


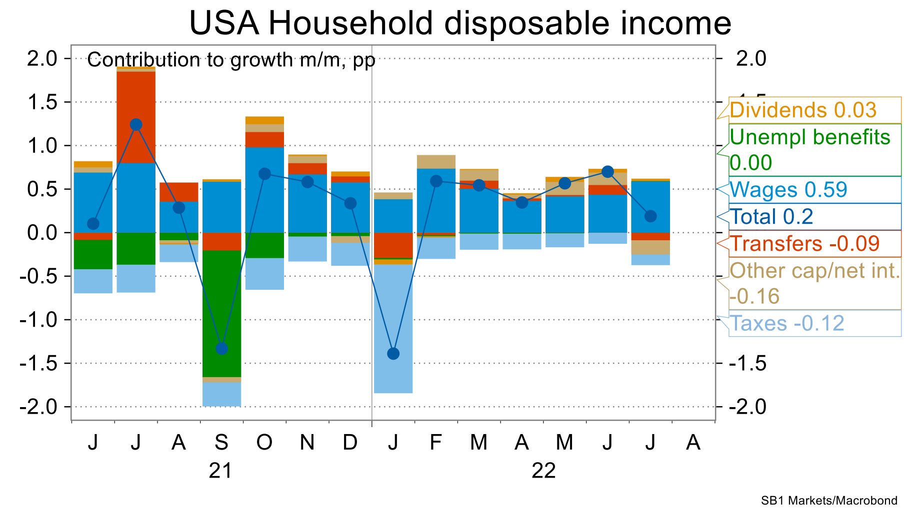
- Growth in consumption in Q2 was 1.0%. Prices rose at 6.9% pace. Income rose at 6.3% in Q2, far better than in Q1 (see more next page)
- I July, real consumption gained 0.2%, up from 0.0% in June (revised down by 0.1 pp). Prices fell 0.1% vs a 1% lift in July, partly due to the decline in gasoline prices. Disposable income grew 0.2%. The savings rate was flat at 5%

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

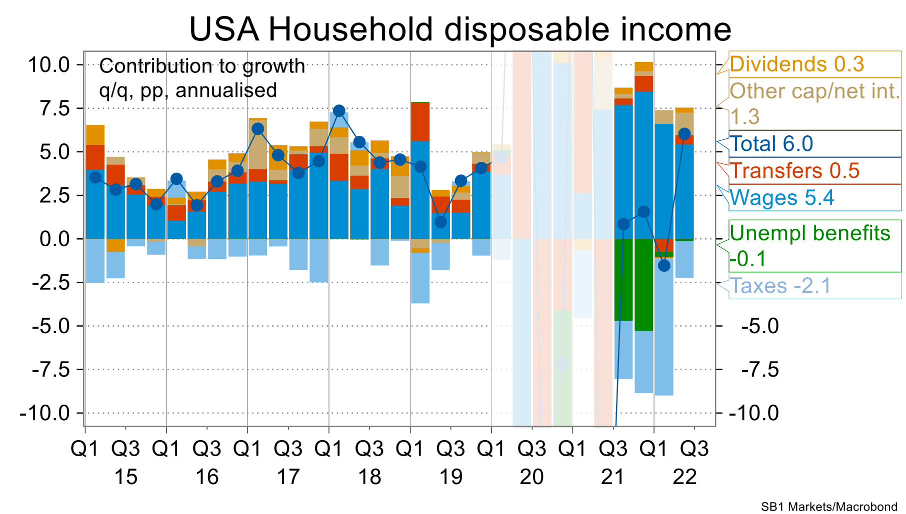
Nominal income growth lower than the ‘normal’ 0.6% m/m in July

Wage revenues continued upwards, but less transfers, and other income weaker



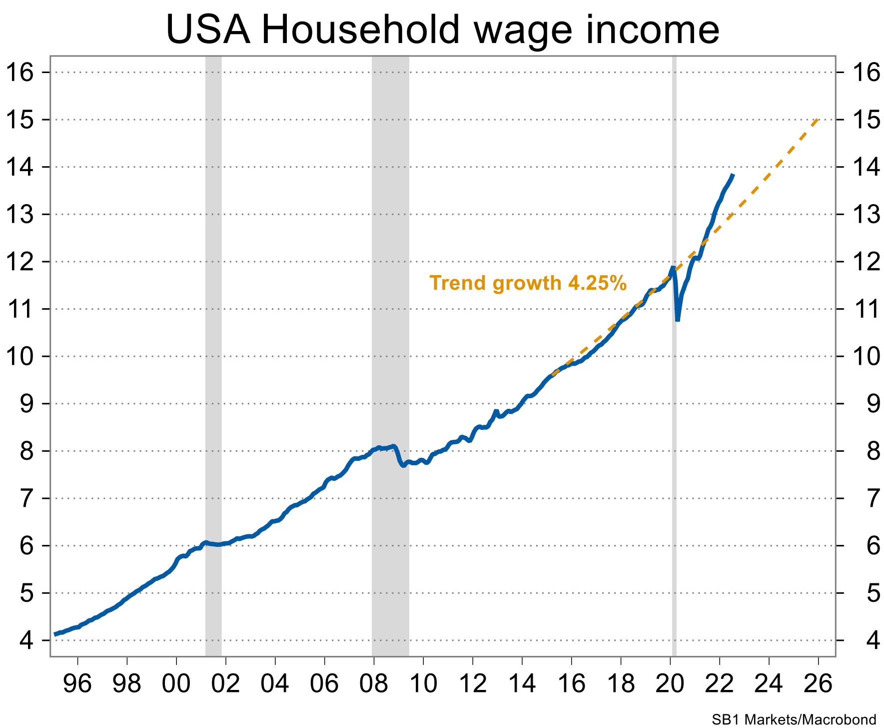


- **Total income has** almost flattened since last spring as ordinary public transfers and unemployment benefits have gradually normalised. Household income fell in Q1 due to higher tax payments but rose sharply again in Q2
- **Total wage income** is growing rapidly and level is far above the pre-pandemic growth path at 4.25%, even if employment & hours worked remain below the pre-pandemic level, check the chart on the next page. The reason is of course the sharp increase in wage inflation



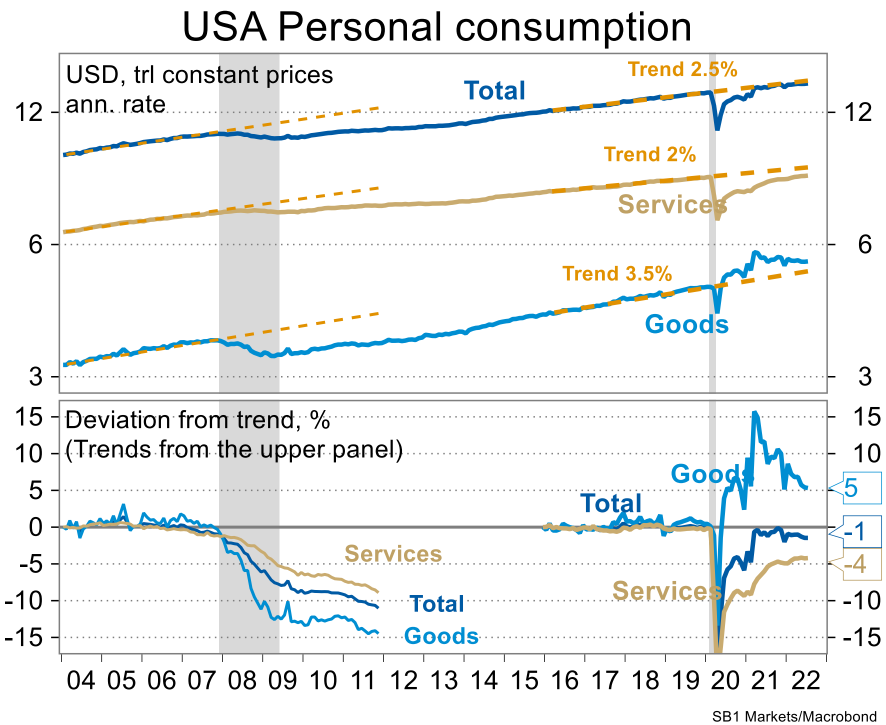
We have shaded the ‘hard’ pandemic quarters at the lower right chart, as these data make no sense now

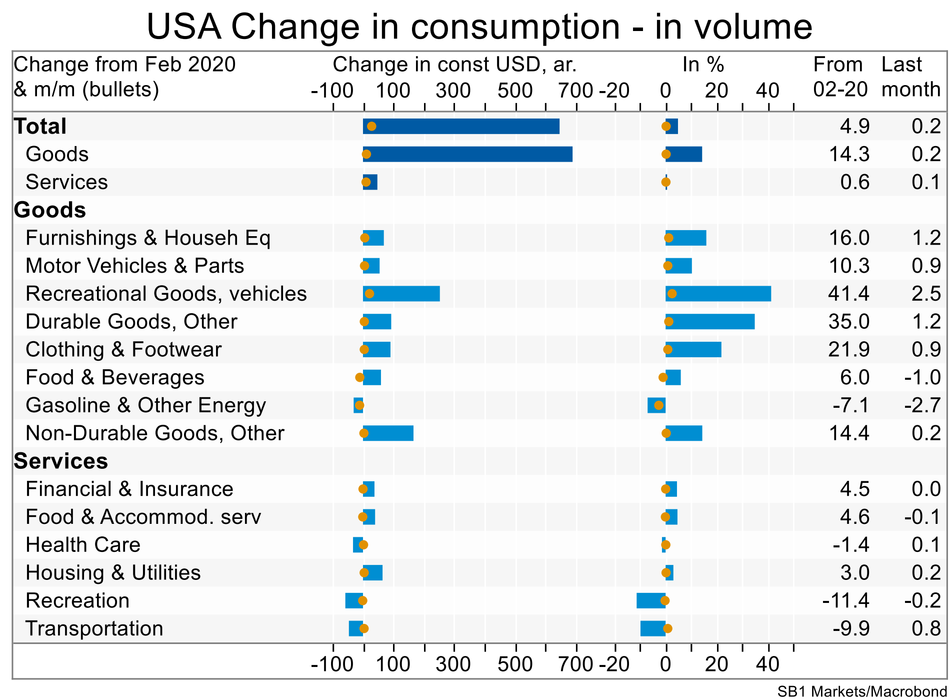
Something is happening with wage revenues (=wage costs for others…)



Services are 1% above the pre-pand. level; goods are still 14% above

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



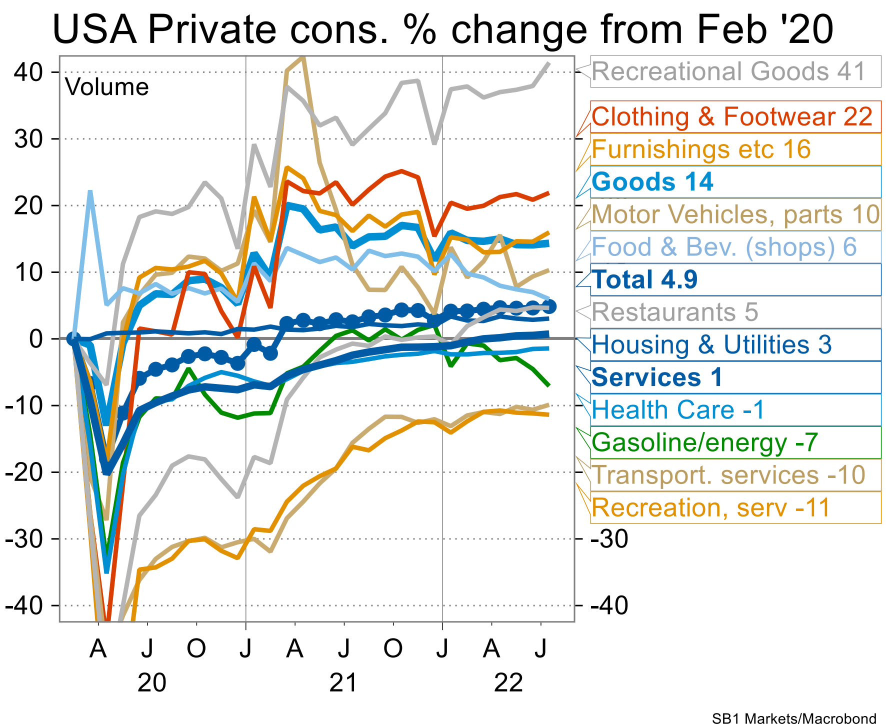


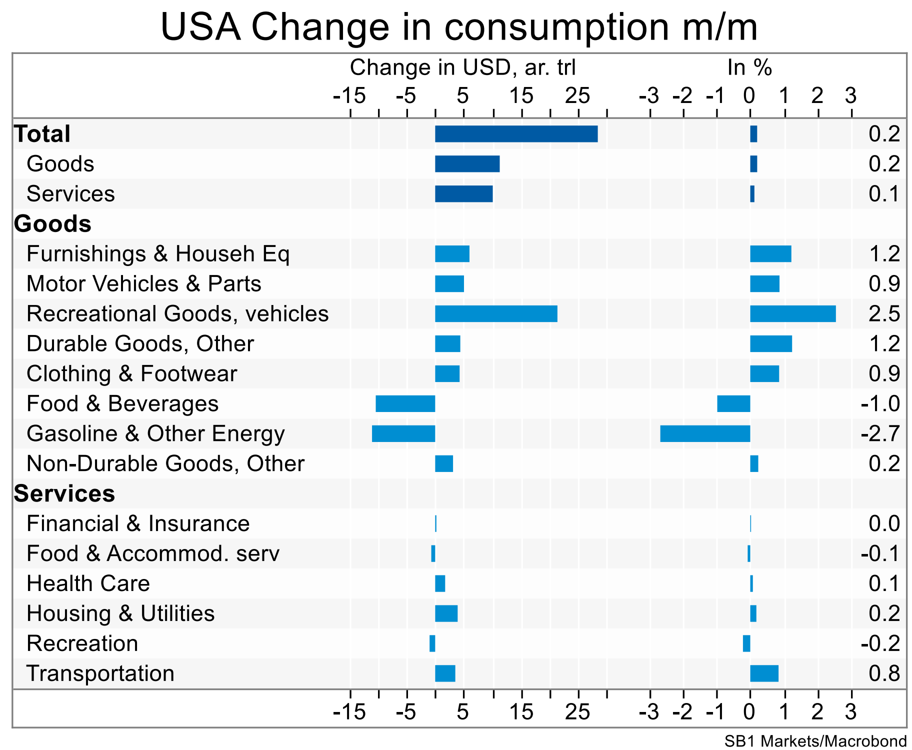
- Guess the normalisation will continue, services will continue to grow faster than goods

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

Mixed July consumption data, strong growth in recreational goods

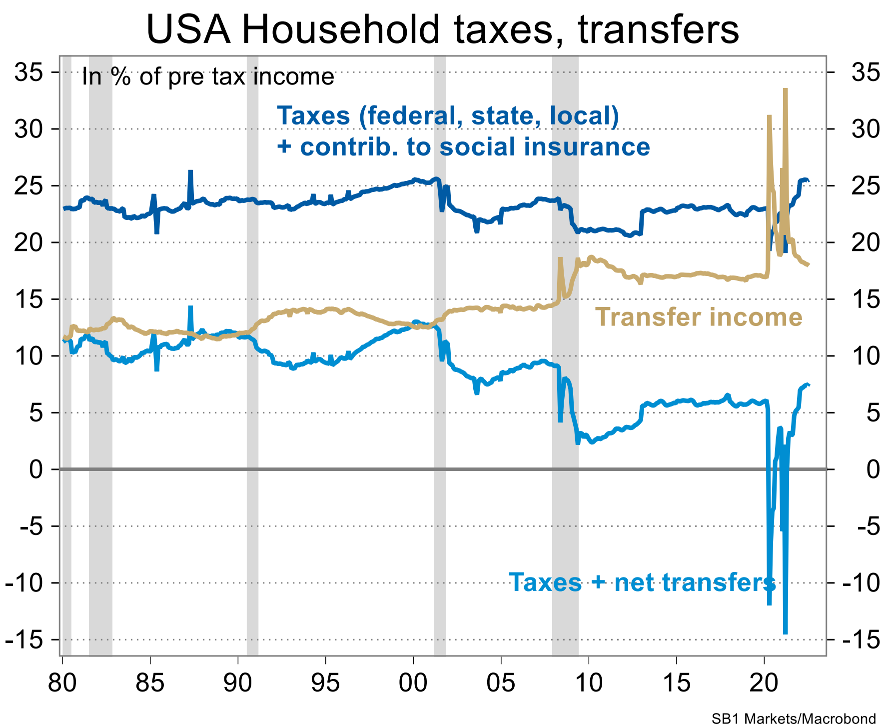
Spending on both services and goods rose marignally in July

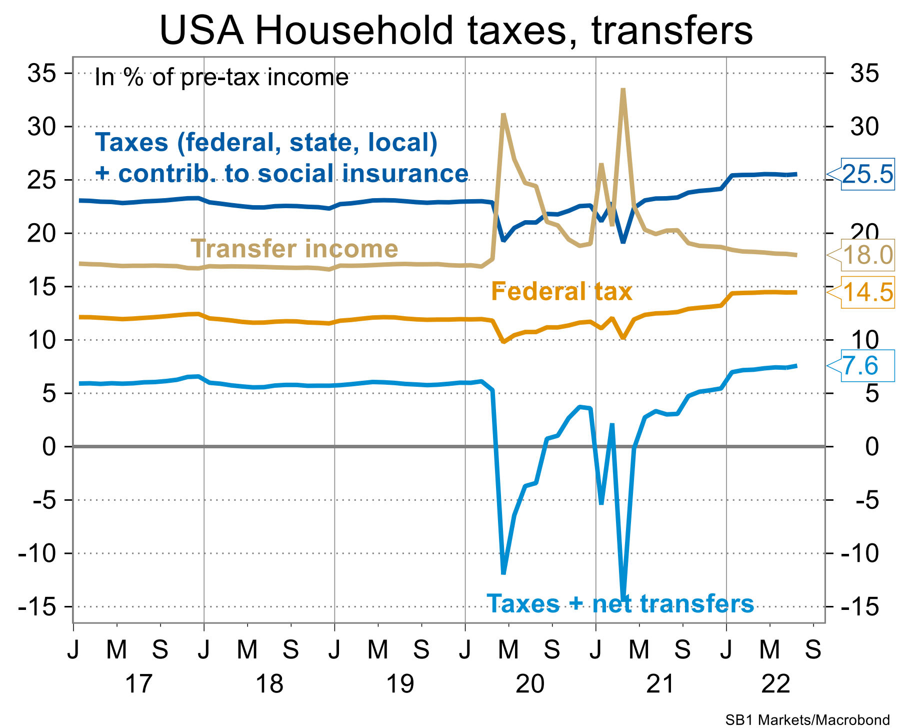




Households contribute more to the Federal coffers than before the pandemic!

Net taxes up to 7.6% of pre-tax income, best since 2009. Gross taxes at 25.5% equal to the 2001 ATH!

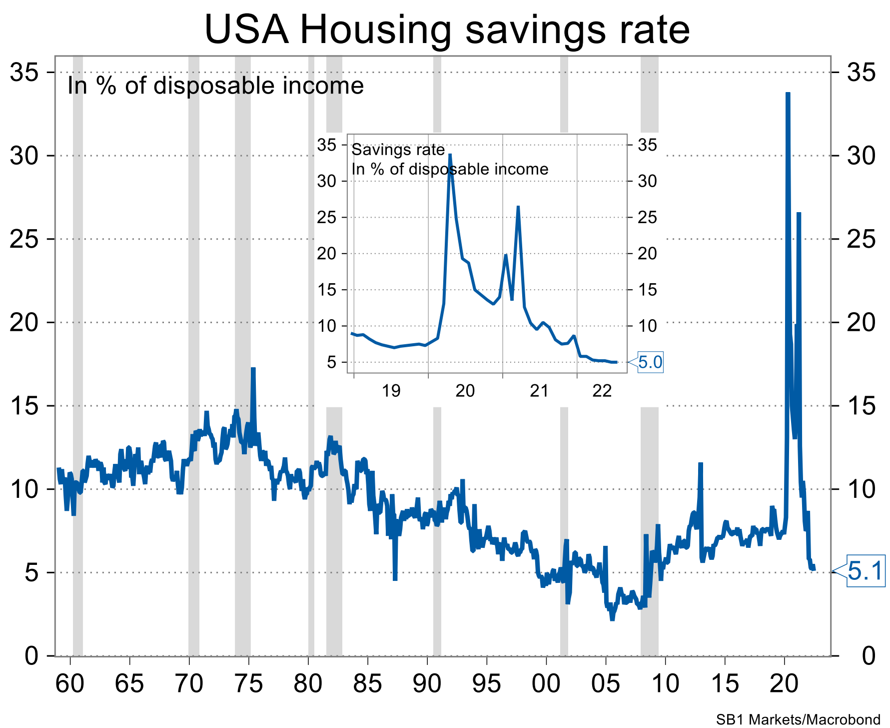


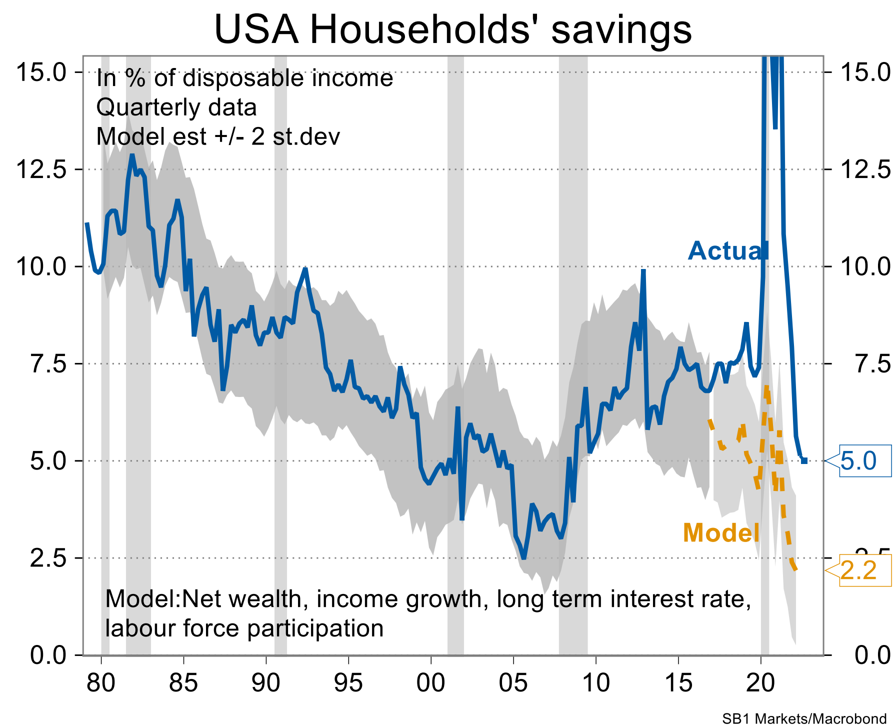


- Transfers are trending down but are still higher than before the pandemic (vs total pre-tax income). However, the total tax rate is climbing faster. The total gross federal income tax rate at 25.5% of pre-tax disposable income is equal to the ATH in 2021!
- Thus, the net tax rate is on the way up, and has recovered to 7.4%, above the 6% pre-pandemic level – but far below the 10% – 12% from before year 2000 – as the transfer rate is at 18%, up from below 15% from before the Financial Crisis

The savings rate has flattened at 5%, some 2.5% below a 'normal' level

But not that low, given the extraordinary high rate of inflation (and acc. savings during the pandemic)

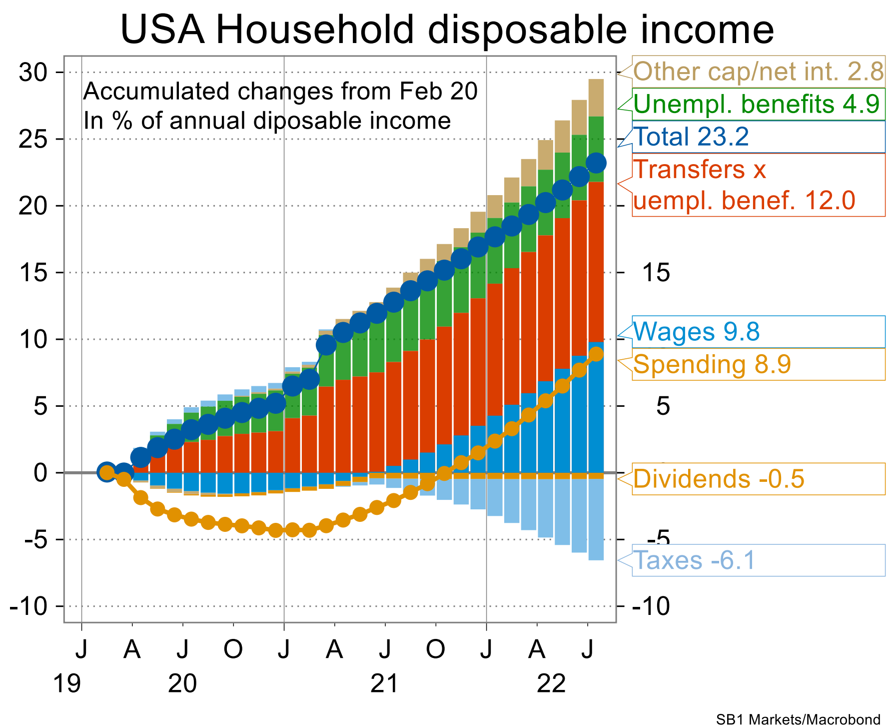


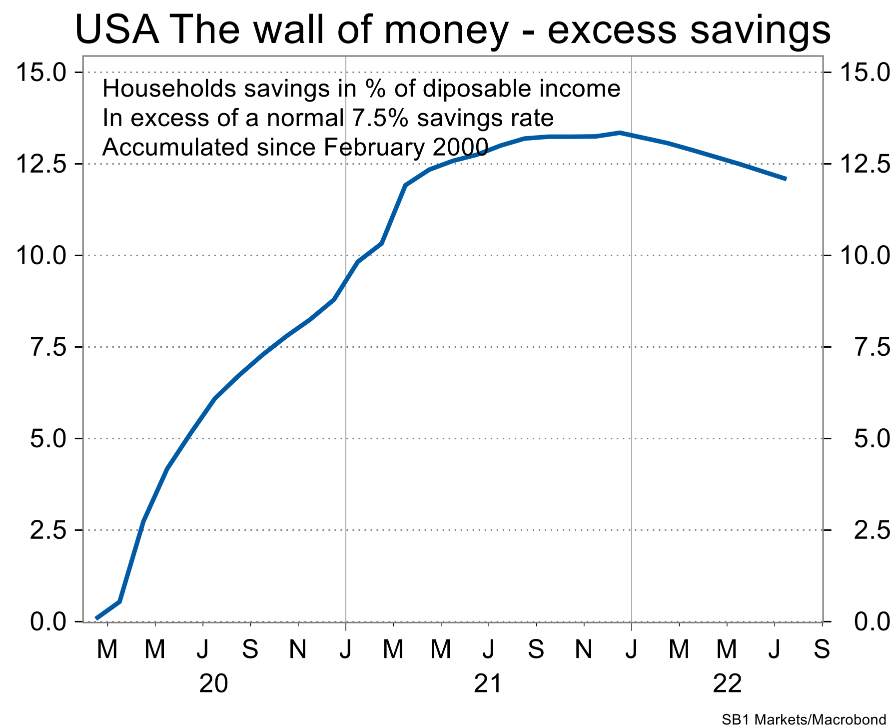


- The savings rate was unch. at 5.0% (June was revised down by 0.1 pp)
- Households are now dipping into 'normal' savings in order to keep consumption up, as their real incomes are not keeping up, due to the high rate of inflation. The savings rate is now 2.5 pp lower than before the pandemic
- However, household have saved much more than normal during the pandemic, equalling to some 13% of disposable income – on average for all households, that is. This 'Wall of Money' is now shrinking, but just slowly (at a 2.5 pp pace per year, if the savings rate stabilises at 5%)
- Our old savings model, yielded a 2.2% savings rate in Q1. During the 2016 – 2019 period our model has underestimated the savings rate systematically by some 2 pp

The Wall of Money is far from depleted. In average for all households, that is

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

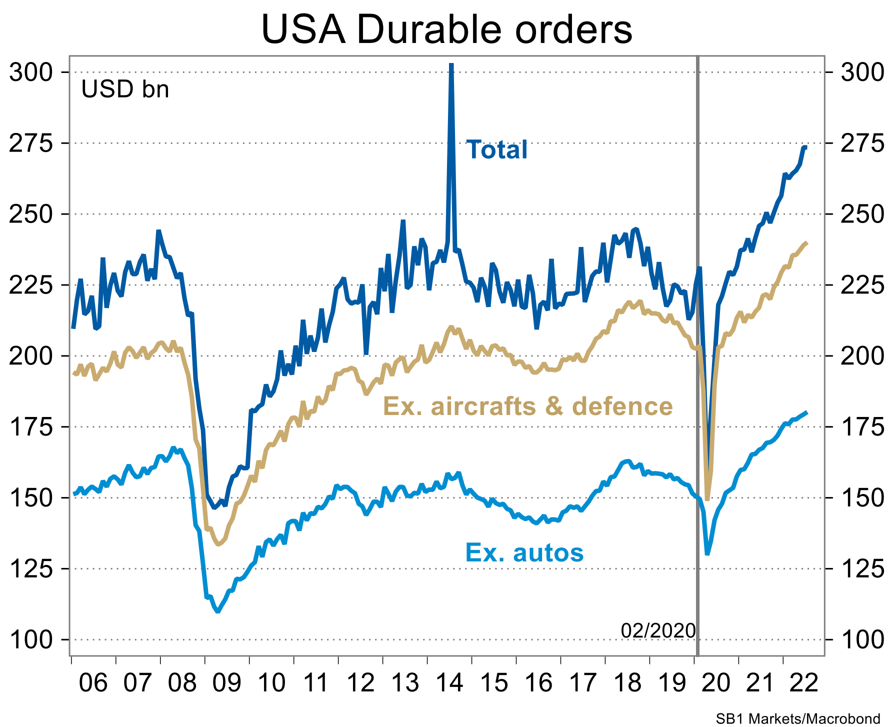


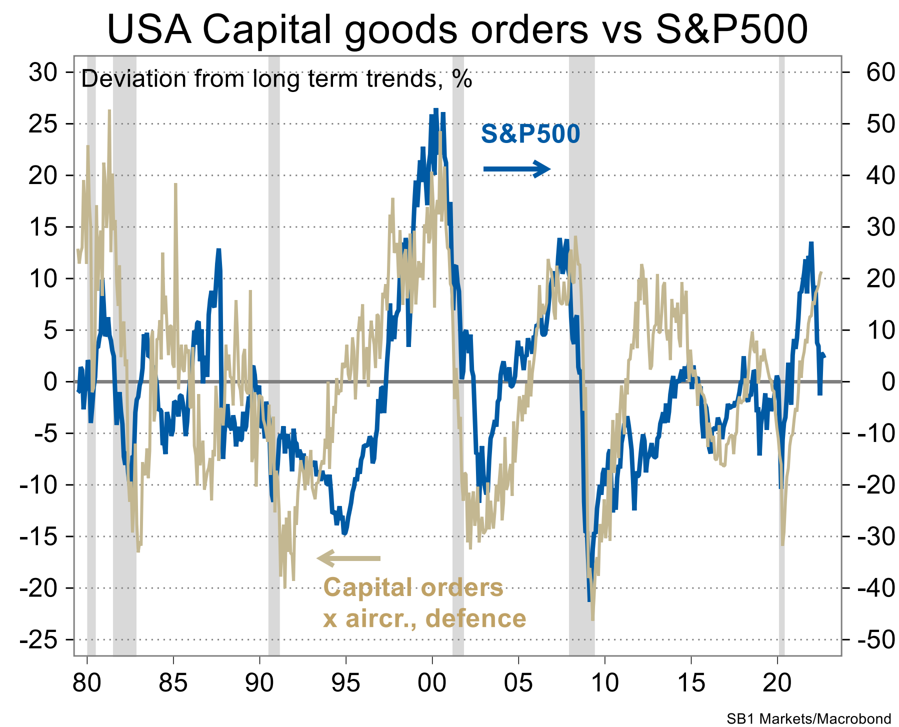


- Transfers from the government and low spending (on services) explained the lift in savings - but now spending is coming back, and the savings rate is now lower than before the pandemic

Durable goods orders still decent – core up 0.4% in July

Growth is slowing but just slowly, no signs of a recession thus far

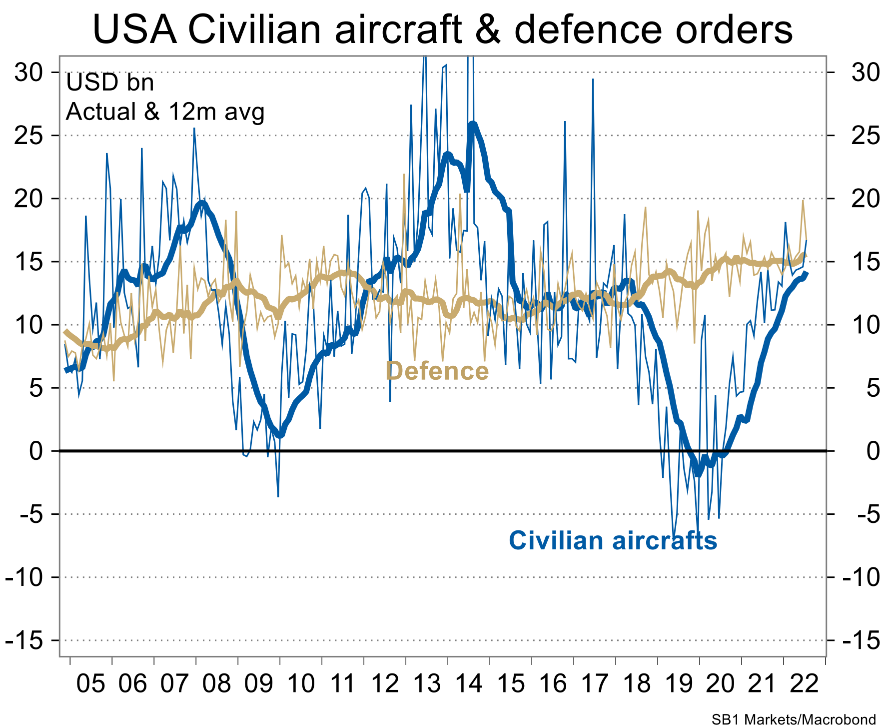


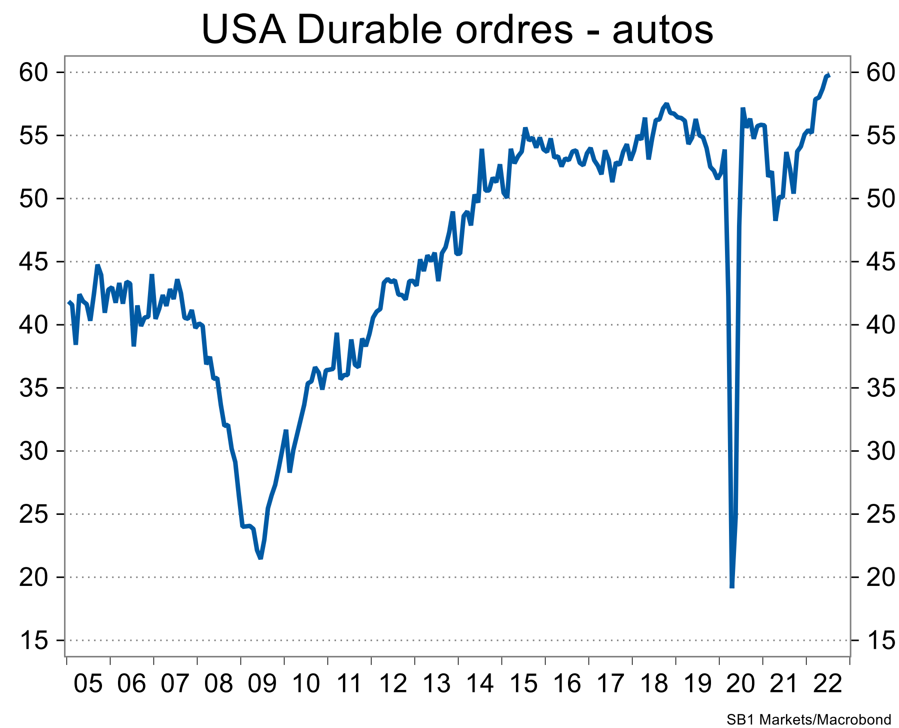


- **Total durable** orders were flat in July, down from +2% in June (revised up from 1.9%), expected up 0.6%
- The volatile aircraft & defence orders rose marginally, and **other orders** (our core concept) was up 0.3%, while the June print was revised up 0.2 pp to 0.9%
- **Core <u>investment</u> goods orders** grew 0.5, expected down 0.1%. Underlying growth is slowing but remain well above trend
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders, but surveys have now turned the tide and are <u>suggesting a decline in orders going into the fall</u>

Aircraft & defence orders at normal levels

... while auto orders rose further in July, up to a yet another ATH!



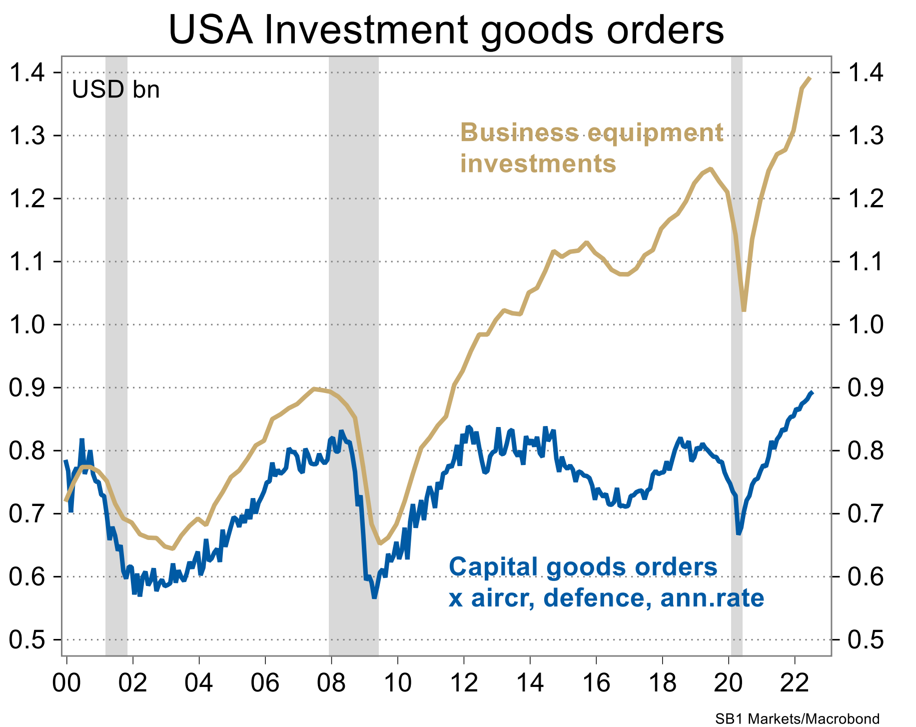


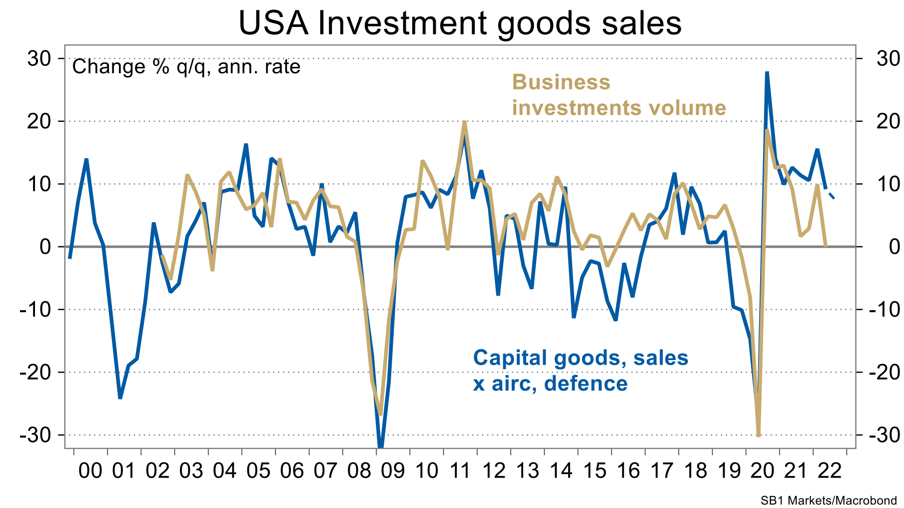
- Memo: New aircraft orders during the pandemic have been heavily revised but the level now is not adjusted

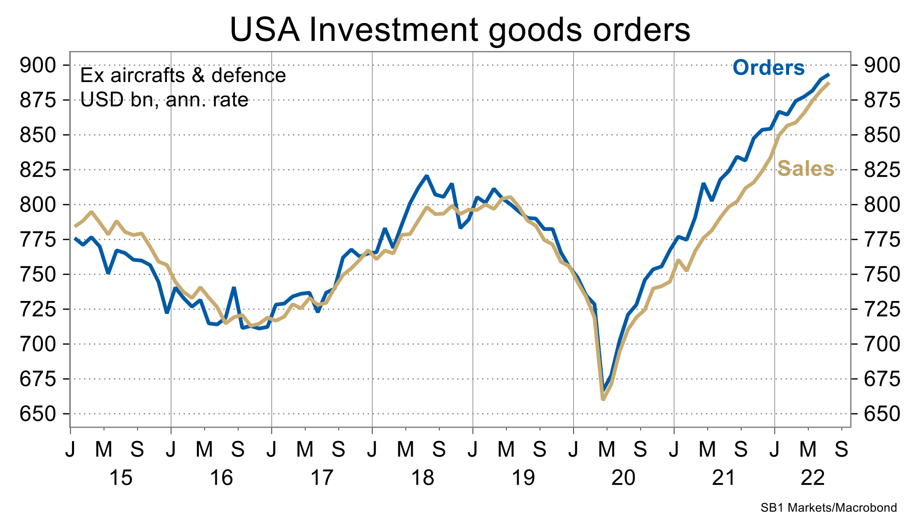
SpareBank 1 MARKETS

Core capital orders are still growing well above trend

Signal decent growth in business investments in Q3 (at least in nominal terms)



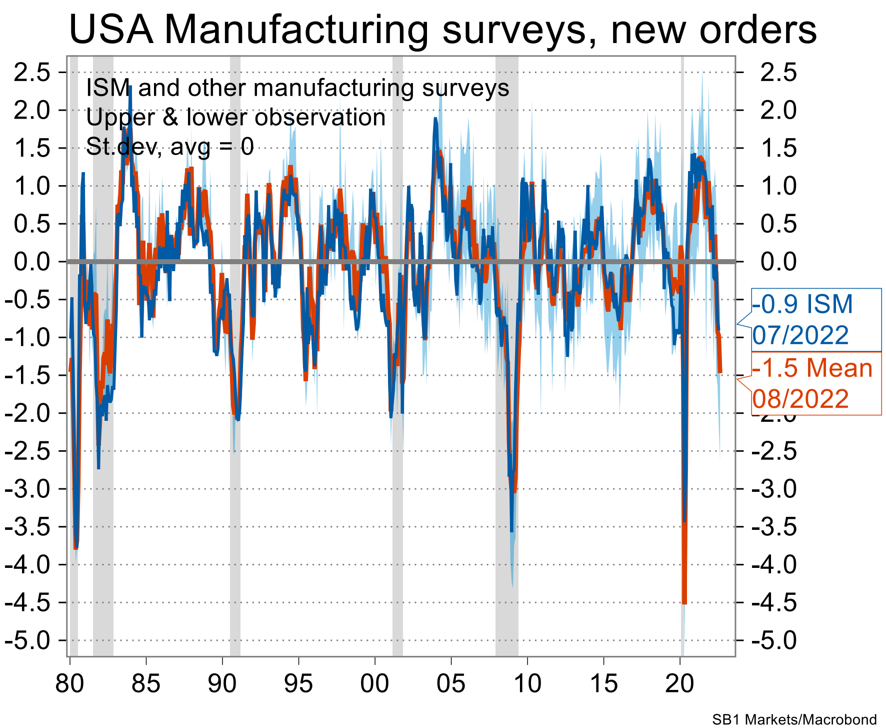


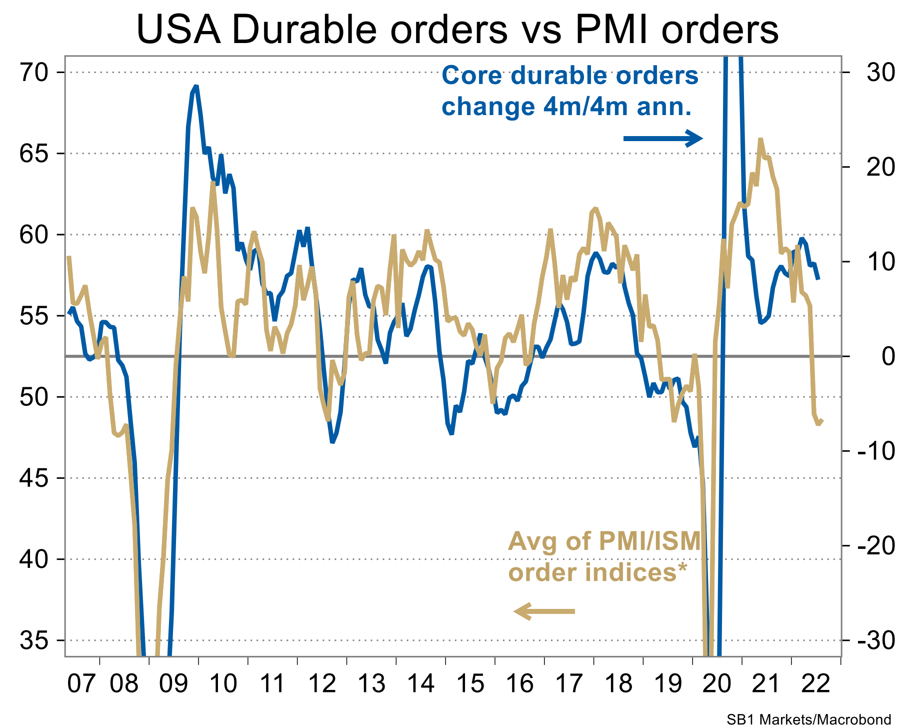


- **Core (x aircraft, defence) capital goods orders** grew by 0.4% in July, close to expectations at 0.3%. June data was revised up 0.2 pp to 0.9%. Shipments were up 0.7% m/m. All data are in nominal terms
- **The business investment** level is well <u>above</u> the pre-pandemic level – and not at low vs. a reasonable long term trend (both in nominal and volume terms)

Surveys are signalling a steep decline in new orders

… which so far has not materialised

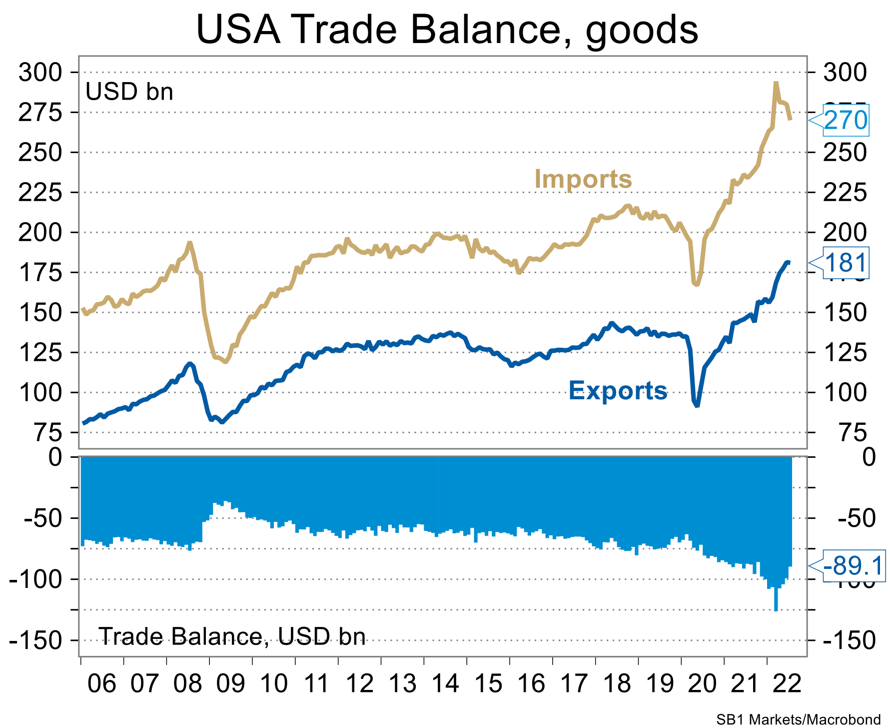


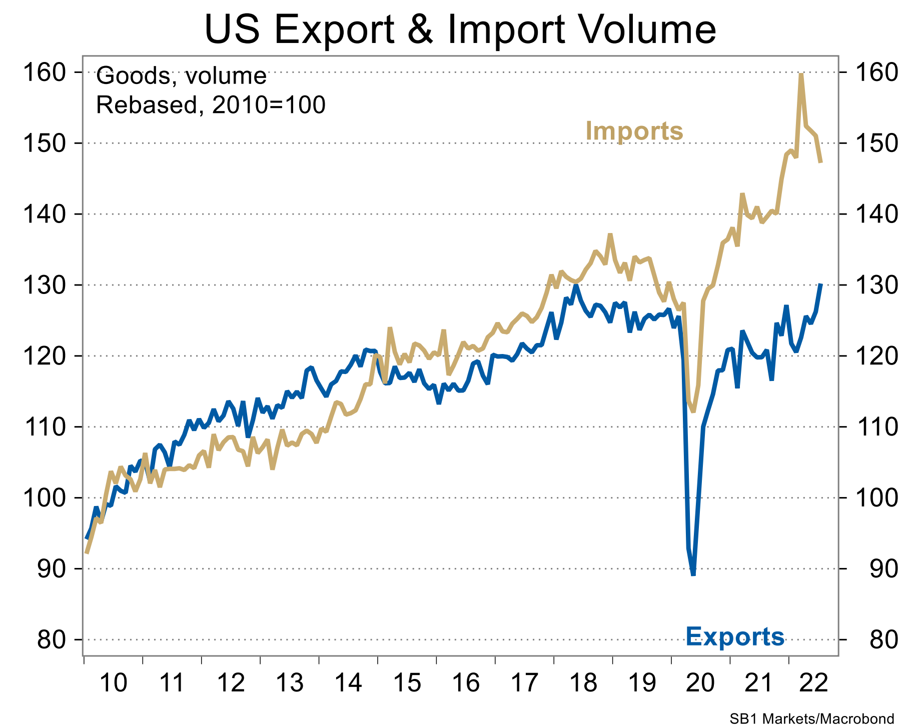


* The ISM order index is

The trade deficit is shrinking, even in volume terms. Will support growth in Q3

The trade deficit narrowed by USD 10 bn to 89 bn in July, much better than expected

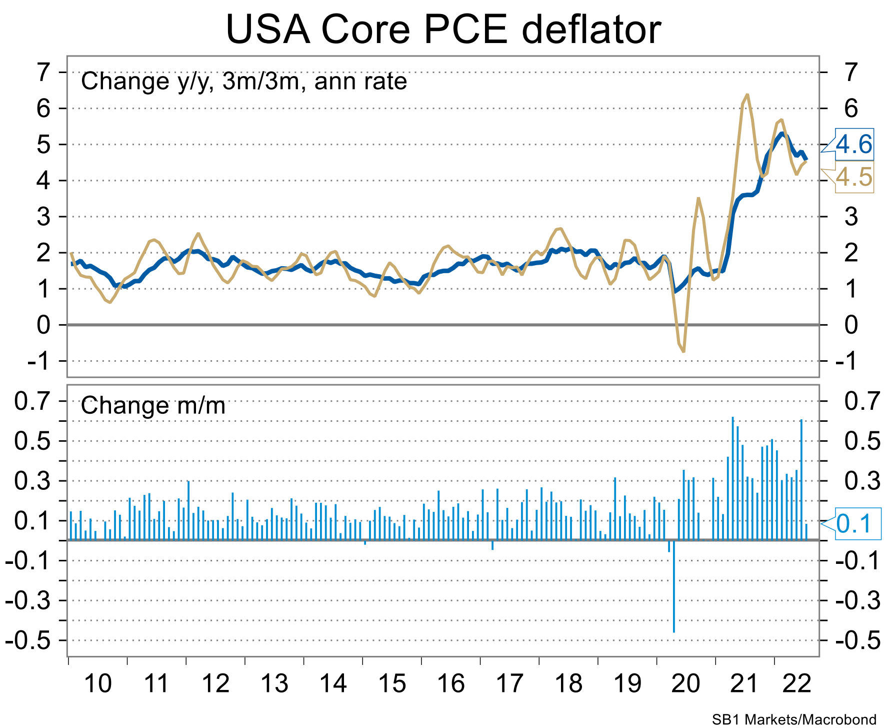


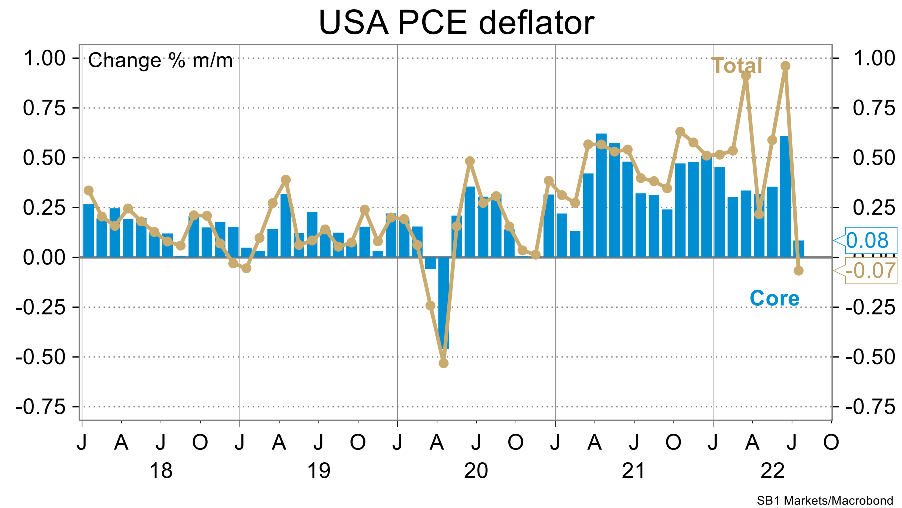


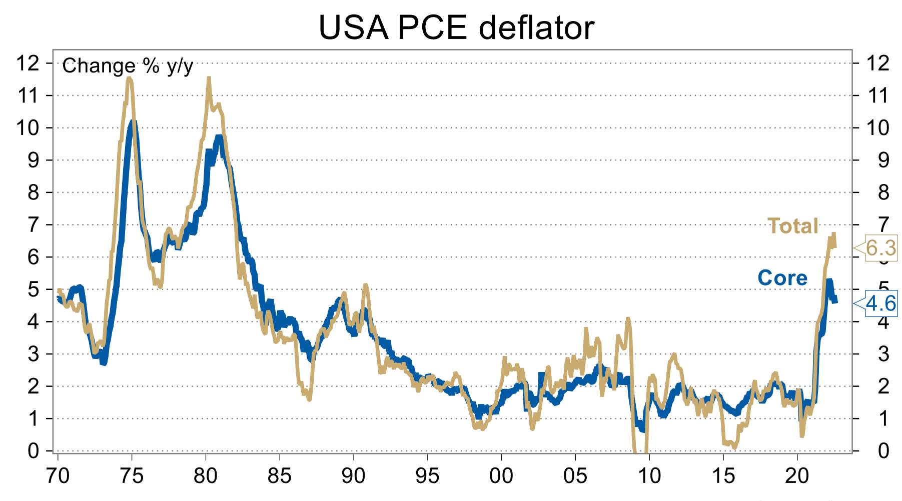
- The trade balance in <u>goods</u> fell USD 10 bn to 99 bn in July, as imports fell 3.5%, and exports were close to unch.
- Recent months, the growth in exports have been rather impressive, now even in volume terms. Export volumes are up some 3% from before the pandemic. Imports have fallen sharply from the March peak, by 7.5% - but imports are still up 16% from early 2020. The slowdown in import volumes is due to weaker domestic demand, probably also a destocking
- If export and import volumes are unchanged in Aug and Sept, exports of goods will be up 16%, while imports will be down 11%. If so, a 3.3 pp contribution to GDP growth in Q3! Inventories will very likely be run down, so the net impact will be smaller – but still very likely positive

Core inflation lower than expected in July - has very likely peaked

Prices rose by 0.1%, expected up 0.3% - but is still up 4.6% y/y, 2.6 pp above Fed target



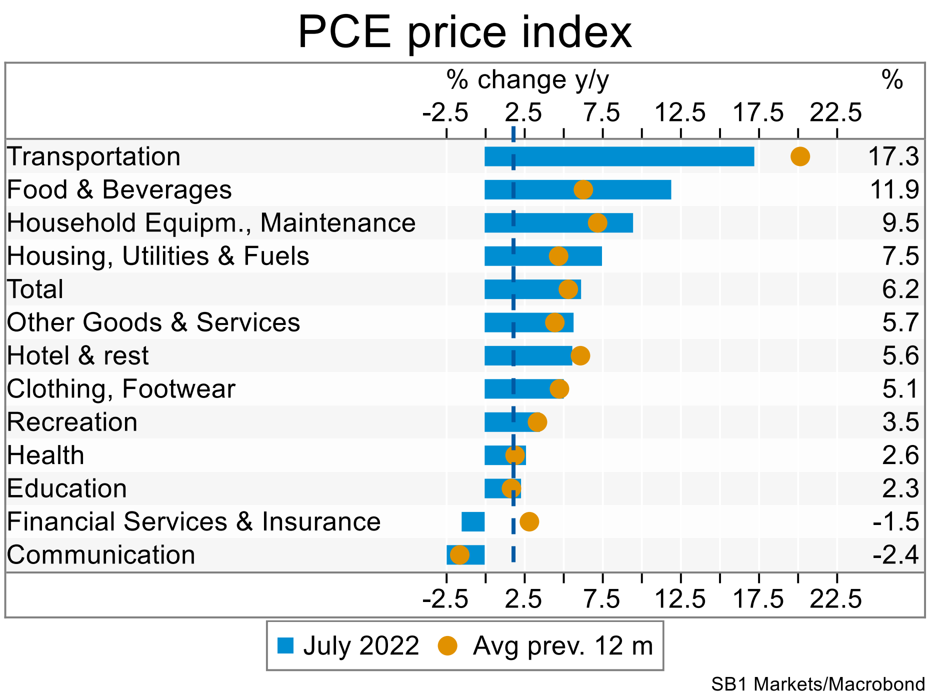


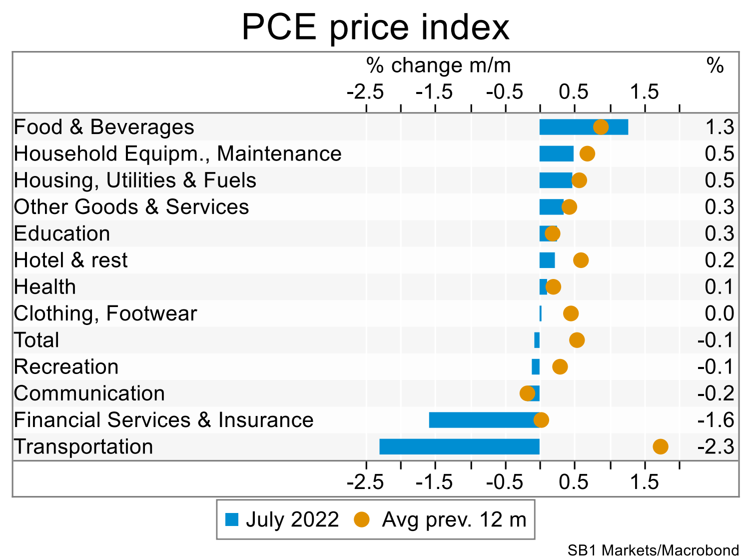


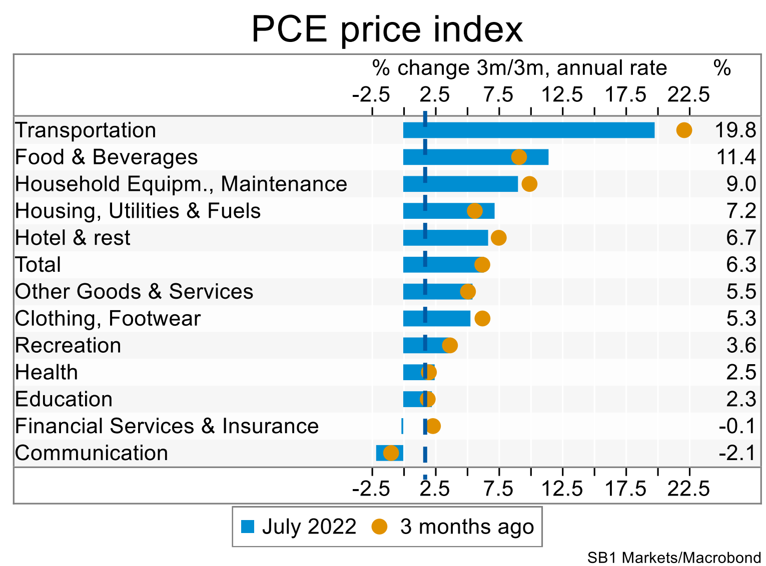
- **The total PCE deflator** fell by 0.1% in July, down from 0.9% in June, which was the highest in this cycle. The annual rate fell 0.5 pp to 6.3%, back to the May level. Energy prices declined (gasoline). Food prices rose 1.3% m/m
- **The core PCE** rose by 0.1% in July, expected 0.3%. The annual rate decelerated 0.2 pp to 4.6%
  - » Financial services contributed at the downside, but most groups reported rather low growth – a positive signal

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

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



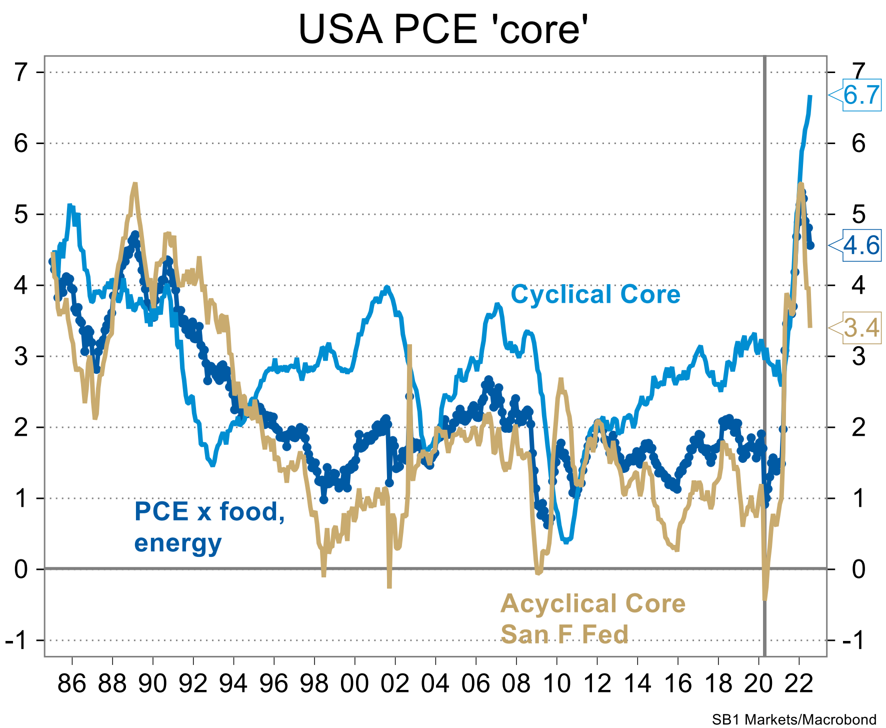


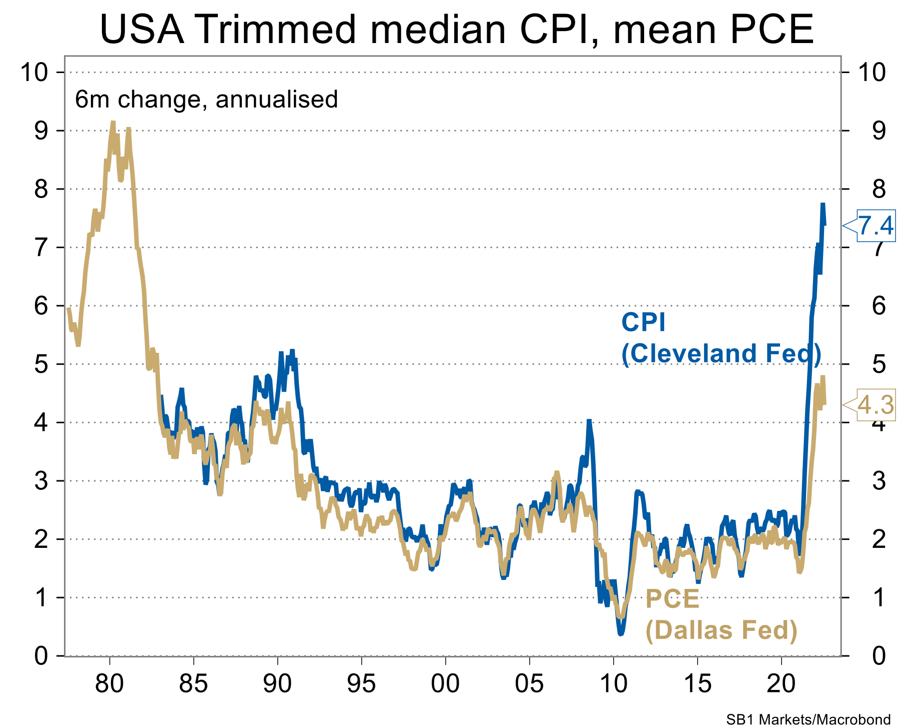


- Food prices are up 12% y/y!!
- All but 2 (of 12) main sectors report growth above 2%
- The momentum is still strong, with 5 sectors reporting accelerating price growth, just 3 are clearly slowing (measured 3m/3m now vs 3 months ago)

Inflation has peaked but remains high – and broad

A couple of months’ of ‘better’ data is not going to cut it for the Fed. Anyway, wages are more import.

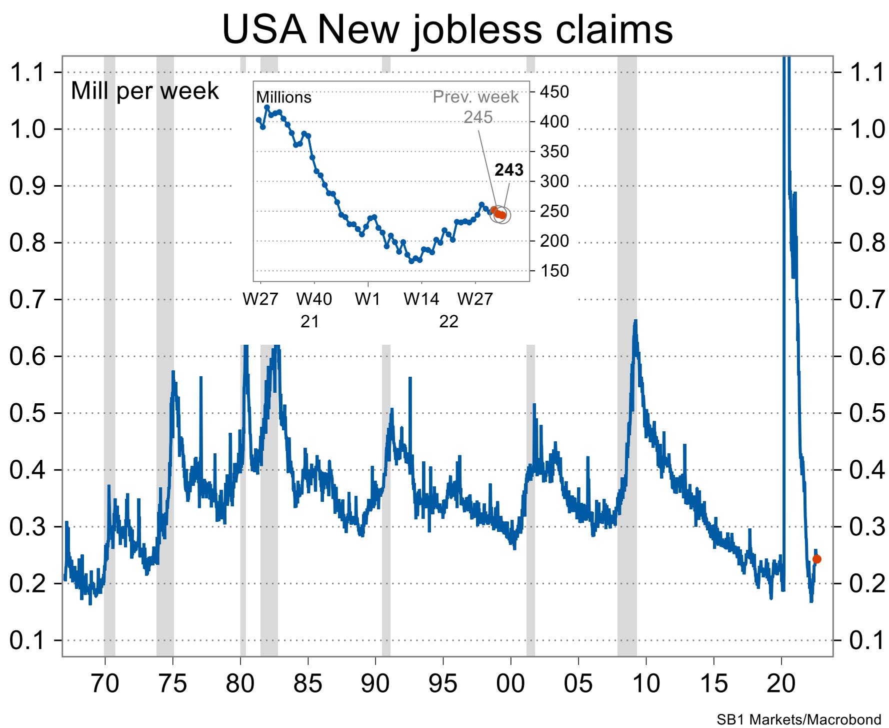


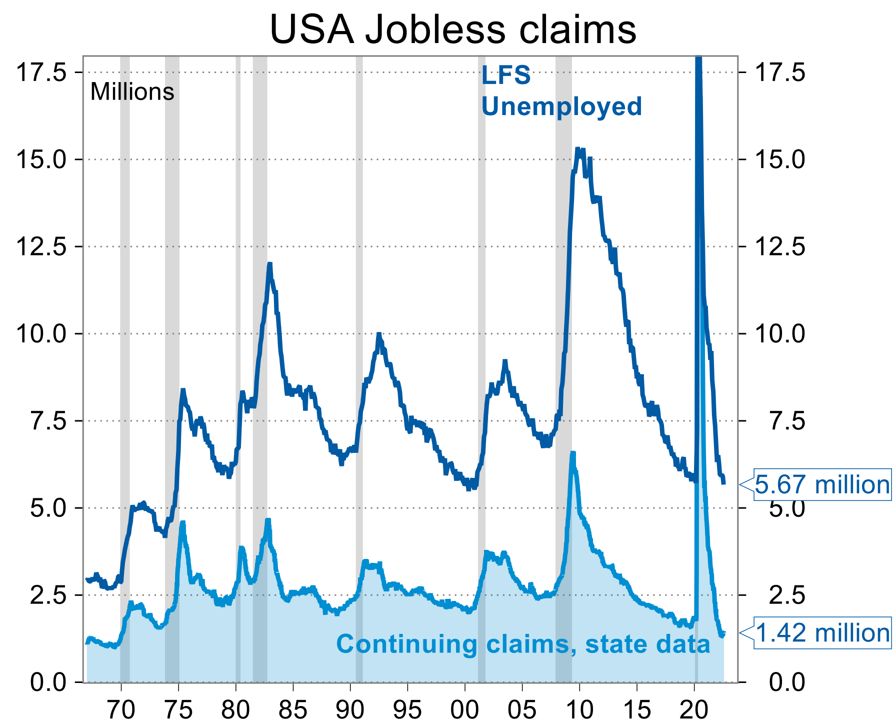


- The **trimmed PCE mean** (Dallas Fed) fell by 0.5 pp to a 4.3% pace over the past 6 months, down from the June peak at 4.8%
- **The trimmed median CPI (Cleveland Fed)** is up 7.4% over 6 months, from 7.8% in June
- **Core cyclical and acyclical PCE** prices are up 6.7% – 3.4% resp., and the cyclicals are still on the way up
  - » The really good news is the decline in the acyclical core to 3.4%, down from the peak at 5.4% in the spring!
- Other measures of underlying inflation are also still among the highest levels in 30 – 40 years

New jobless claims on the way down again??

If so, someone has more to do (read: The Federal Reserve)

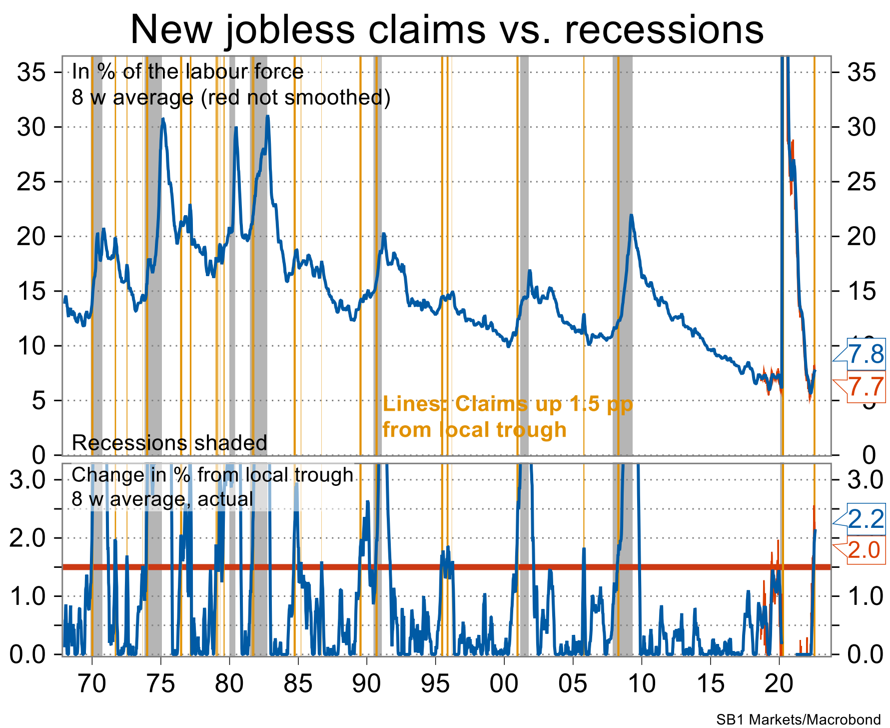


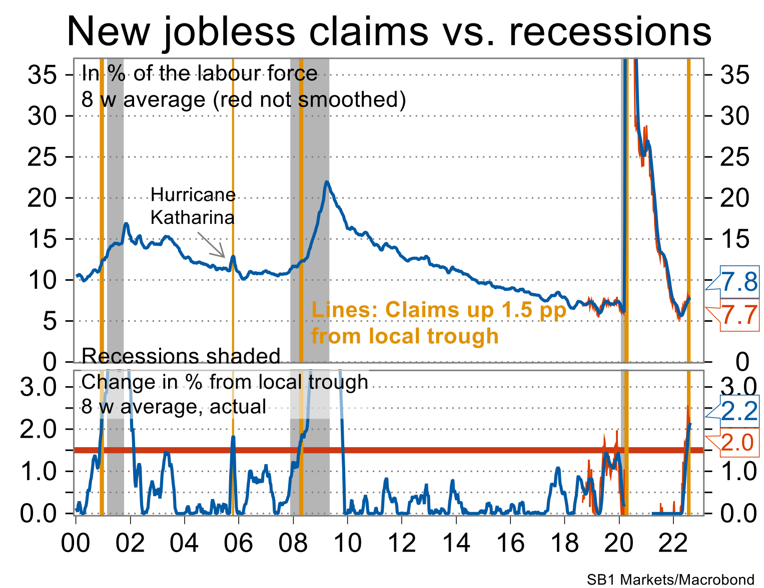


- **New jobless claims** fell by 2' in week 33 to 243' (from a 7' downward revised level the prev. week!). New claims have fallen by almost 20'
- **Continuing claims** fell slightly as well – and remain at a very low level

A warning line ~~is~~ was drawn: New claims are still significantly up

But the upward trend is not confirmed recent weeks

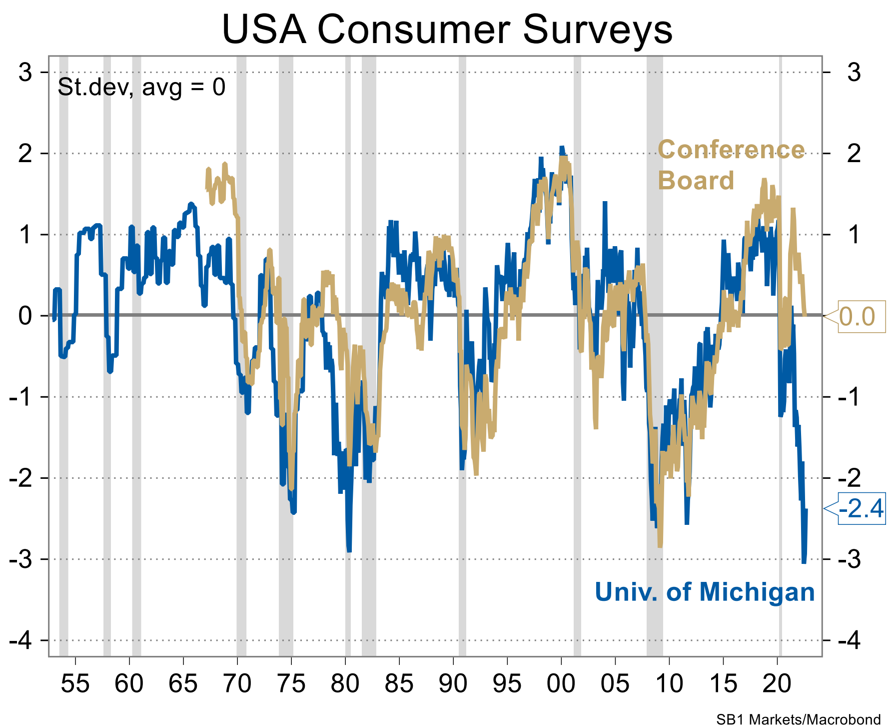




- The yellow lines: New jobless claims (8-week average) up 1.5 pp vs. the labour force
- Now, the 8-week average still gained 0.1 pp to 2.2 pp – which is well above the threshold value
- Our recession signal model based on new jobless claims has sent several false signals (false positives), and even 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)

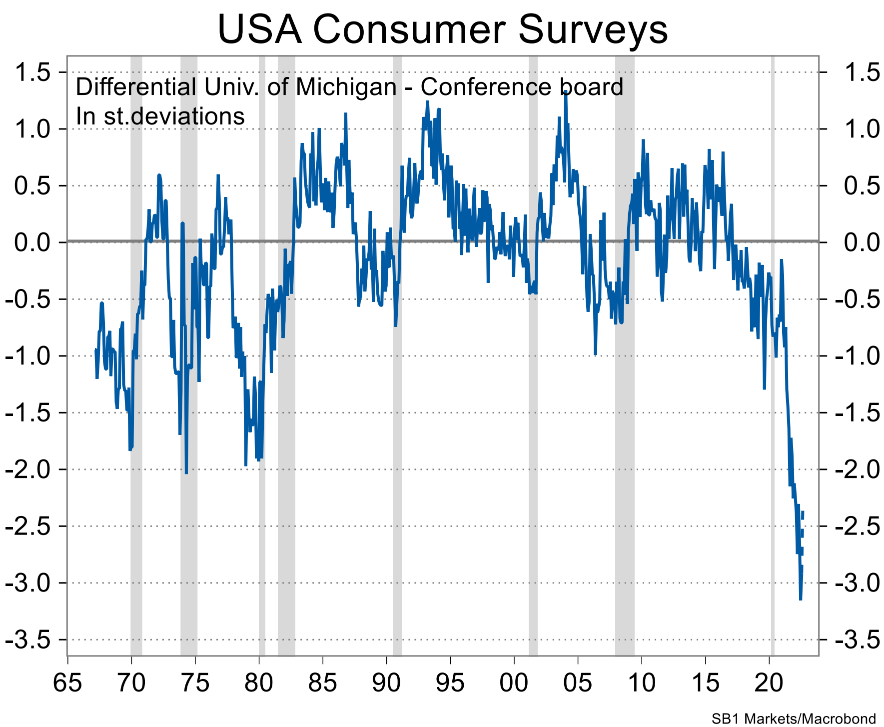
Univ. of Mich. sentiment revised up in August, as inflation expectations retreats

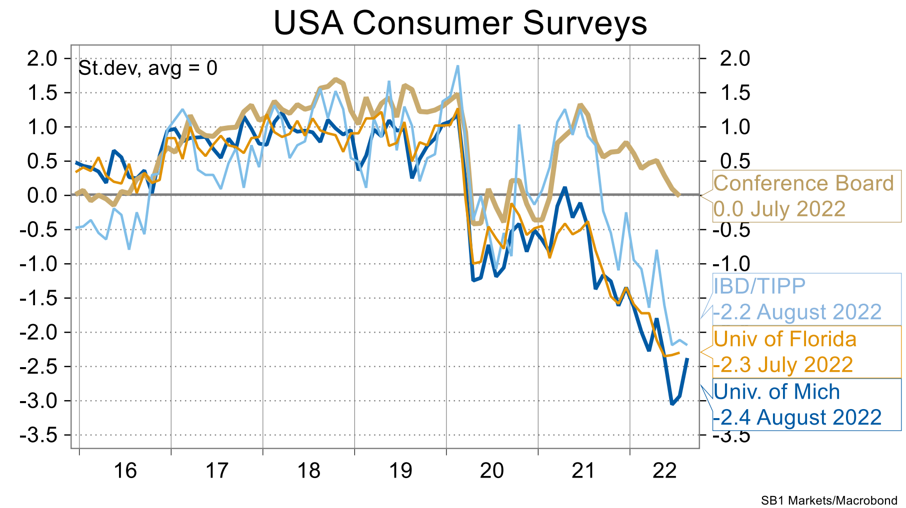
Still, the mood is really bad, 2.4 st.dev below average, as if the US was in a deep economic crisis



- **University of Michigan's consumer sentiment** fell to ATL at 50.0 in June, equalling 3.1 st.dev below average. Sentiment has since improved, but only marginally. In Aug the index gained 6.7 p to 58.2, which is 2.4 st.dev below average. In the preliminary report, the August index stood at 55.1. So something happened over the past two weeks of the month
  - » Both households' assessment of the current situation and expectations improved in Aug, from an extreme low level
- **2 of the other 3 consumer surveys** we are following also flattened in July/August, but are is still deep in negative territory, at below -2 st.dev
  - » None of the surveys are above average (Conference board is at par). The discrepancy between the two 'main' surveys is still significant
- **Longer-term inflation expectations** remained unchanged in the UM survey in August, and they are not at that high (5 years at 2.9%), while short term expectations fell visibly, by 0.4 pp to 4.8%. The peak was at 5.4%. This decline may explain the lift in general expectations
- **The risk:** The UM survey often has been an early bird in the cycle, and the survey may be 'right'

The gap between Conf. Board & Univ. of Mich is larger than ever before



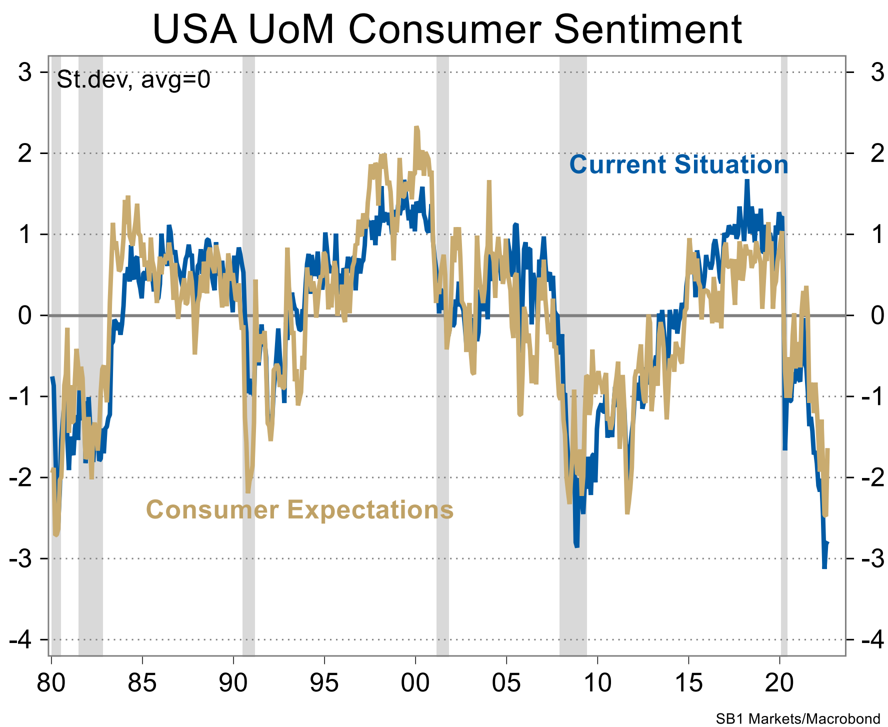


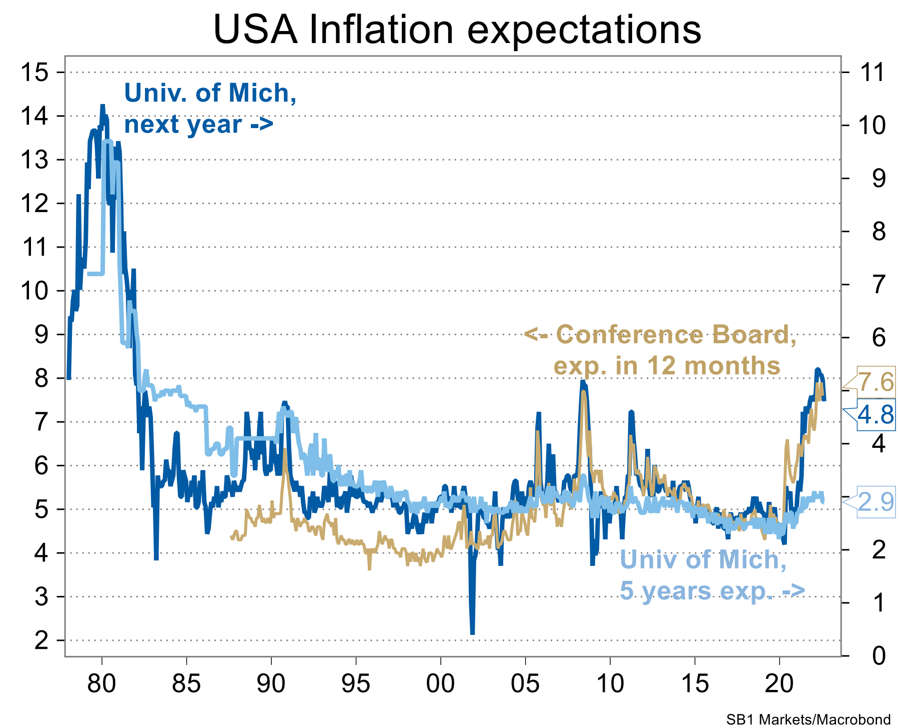
- Quite often, the UM survey has been the canary in the mine vs. recessions, it yields earlier than Conference Board's survey, and the current stance is a VERY bad sign – we have never seen anything like it!
- The IBD/TIPP the Univ. of Florida surveys are down below -2 st.dev. But has stabilised recently in June/July/August

SpareBank 1 MARKETS

Univ of M: Finally, expectations up – but still at a rather low level

Short term inflation expect. fell further, and 4.8% next year is not that high, given the actual 8.5%

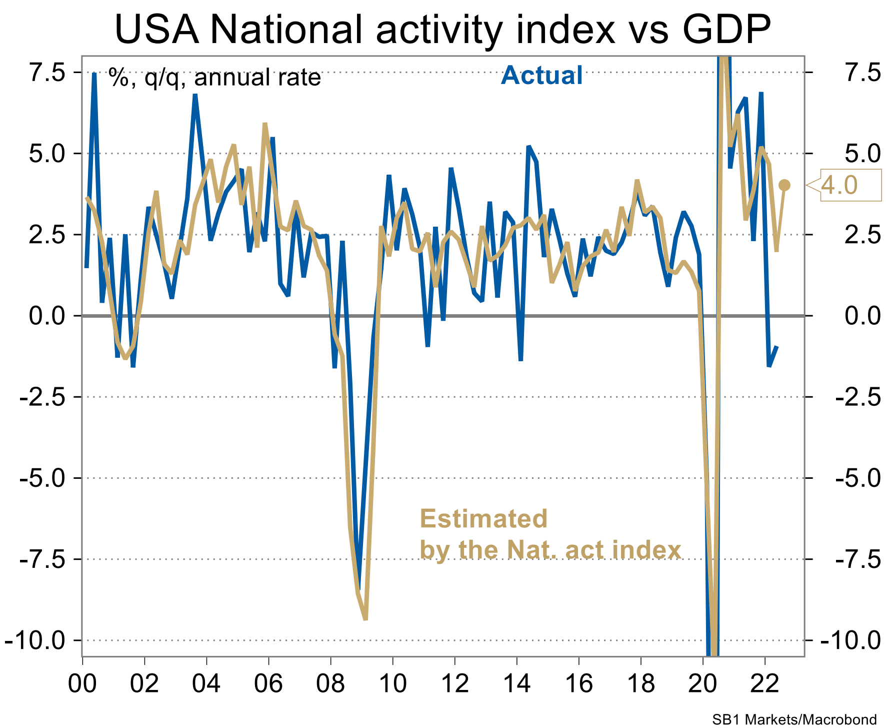


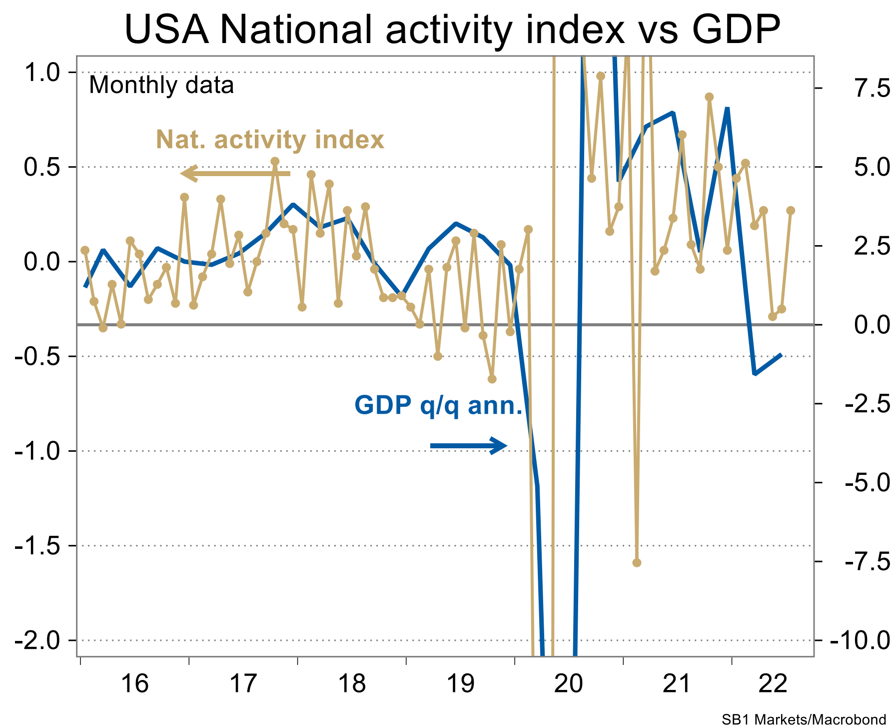


- **The 12 m inflation expectation** fell 0.4 p to 4.8% in August, down from 5.2% in July (and the initial estimate of 5.0%) . The peak was at 5.4%. Expectations are far below the current 8.5% y/y CPI print
- **The 5 y inflation expectation** fell one tick to 2.9%, 0.1 pp below the initial estimate
  - » The 2.9% is clearly above the average over the past 10 years – but not much higher than several times during the 2005 – 2012 period

The National activity index signals a 4% (!!) Q3 growth pace

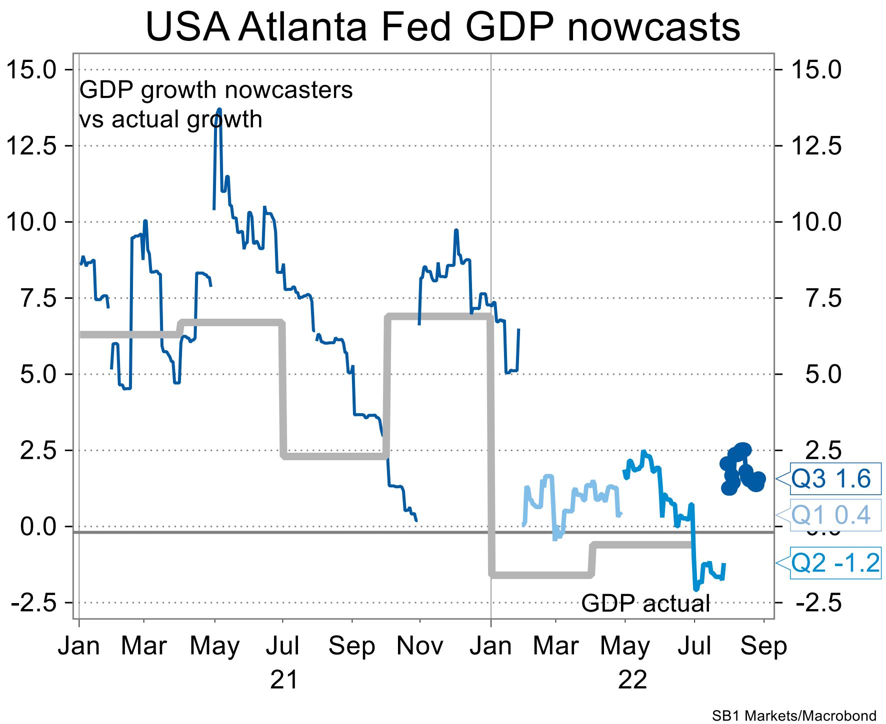
The sum of 80-some indicators far better in July



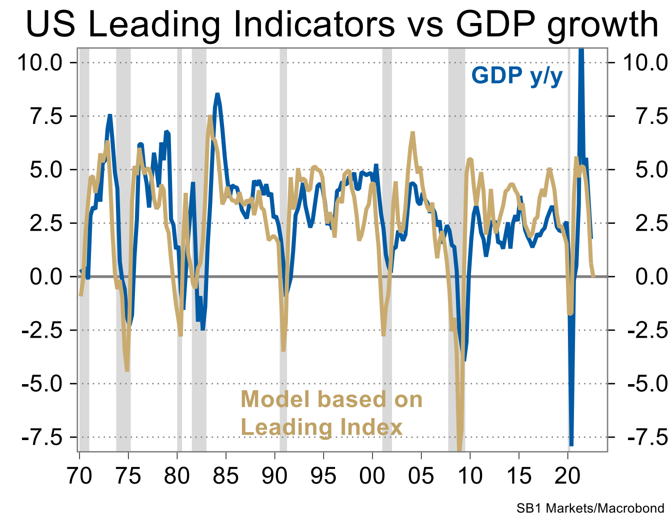


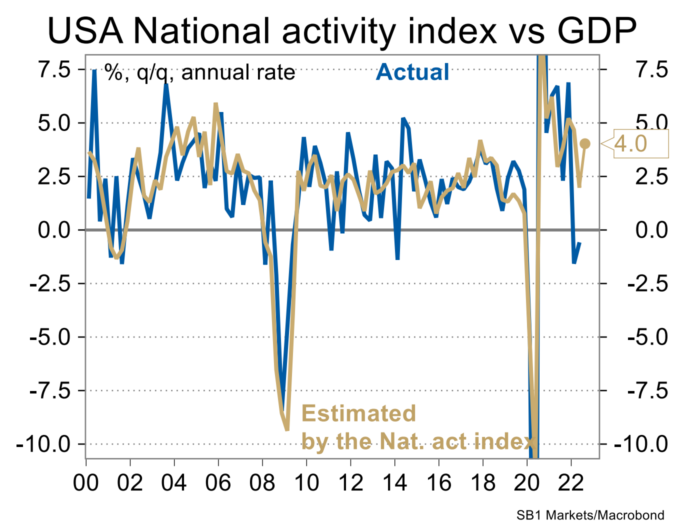
Atlanta Fed's nowcaster was right on Q2 GDP. Now it reports 1.6% growth in Q3

The National Activity index suggests 4% (the July pace). Leading indicators say zero!



- **In Q2 GDP** fell 0.6%, revised up from -0.9%





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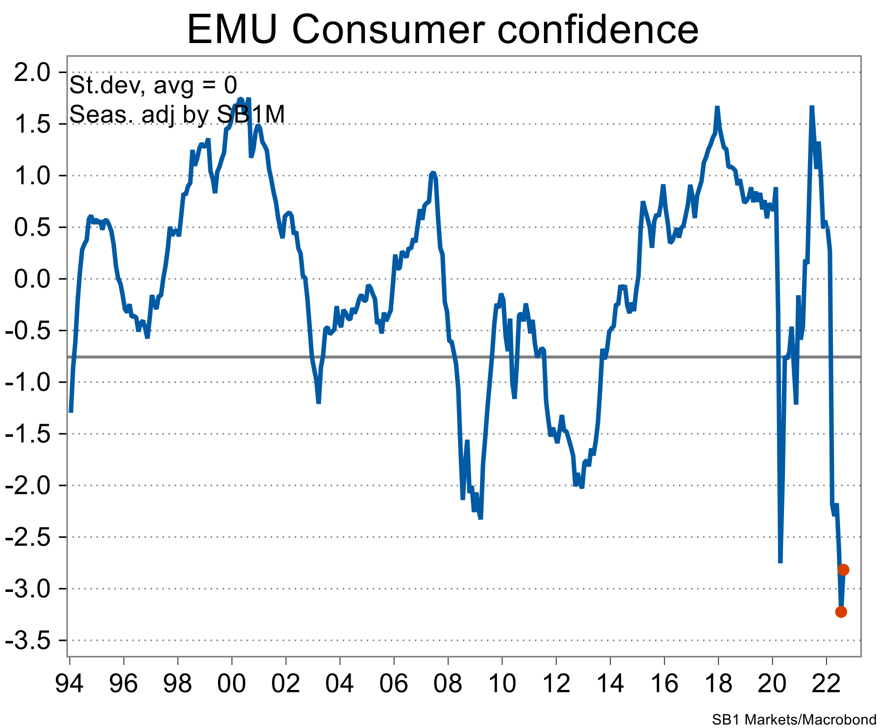
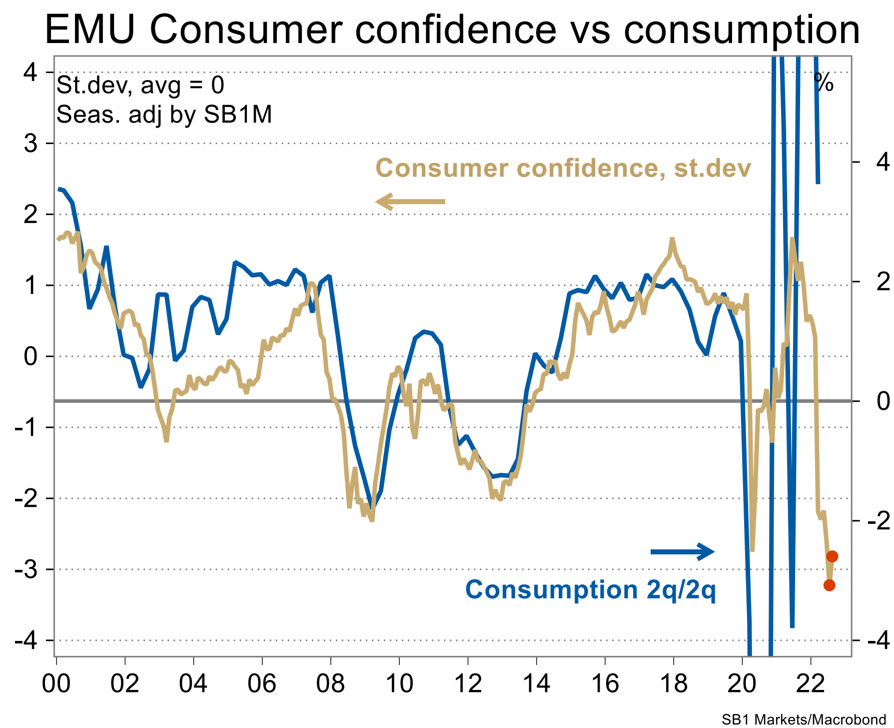
Consumer confidence marginally better in August, but still depressing

Inflation and a war nearby is more important than the lowest unemployment rate since 1980

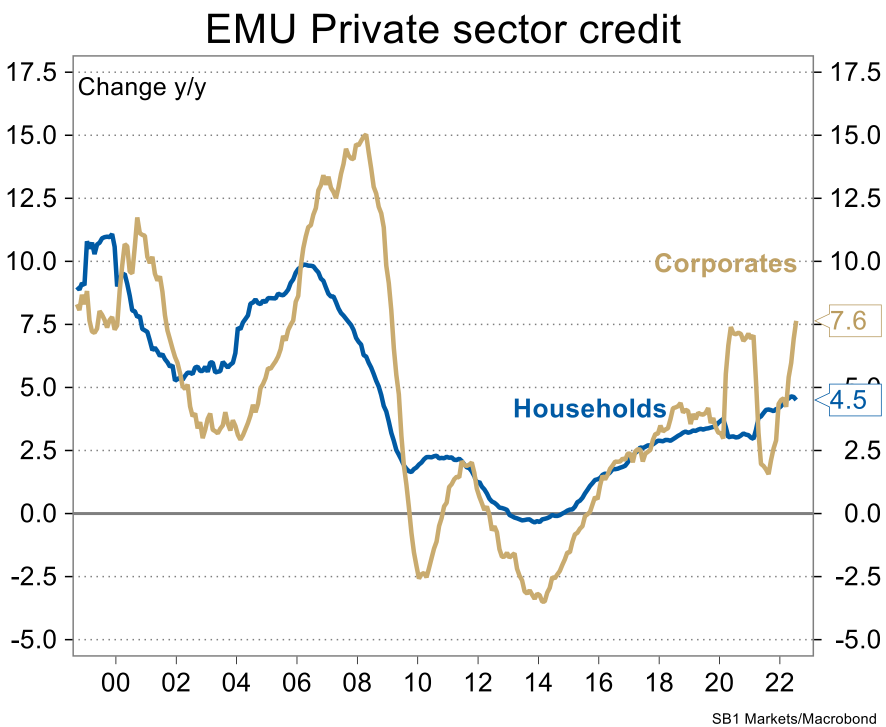




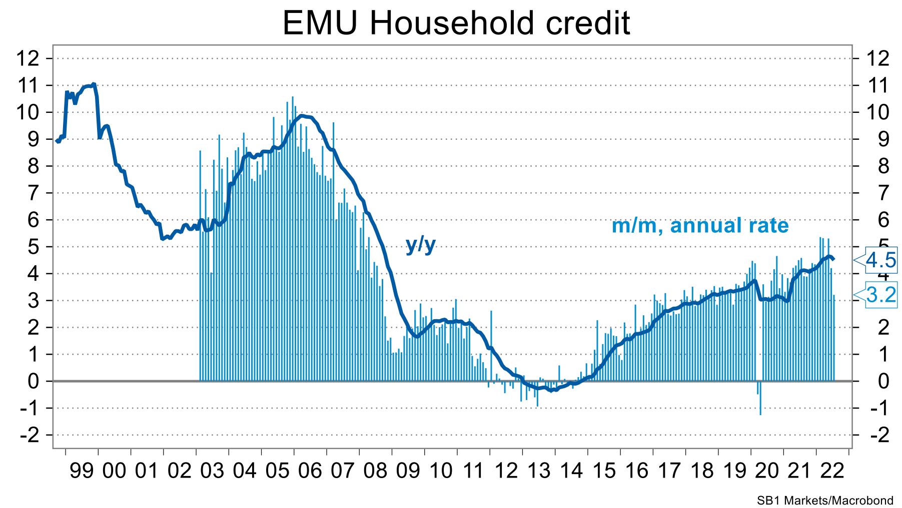
- **The confidence index** rose 2.1 p to -24.9 in August, according to the preliminary estimate, expected down to 28. The level in July is -2.8 st.dev below avg. – still historically very low, and only beaten by the sentiment in the previous month
- **Inflation** is probably to blame. **Interest rates** are now being hiked – and the rest of the yield curve has taken big leaps upwards – and sentiment is plummeting
- Usually, consumer confidence is tightly correlated to growth in household demand. If that's the case now as well...

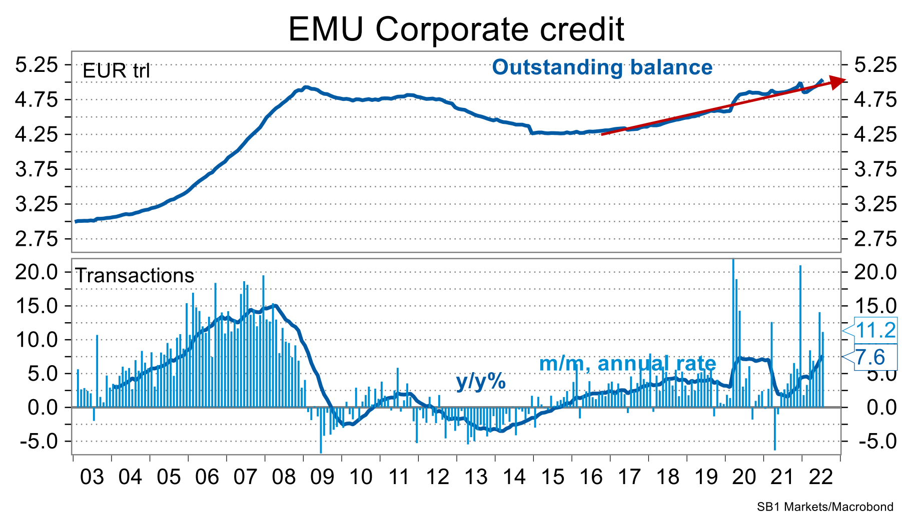
Credit growth has accelerated. But slowing now?

Growth in household debt slowed in June/July



- **Annual growth rates** at 4.5% – 7.6% are well above normal nominal income growth. Now, incomes are growing much faster due to high inflation (=income for the corporate sector) and strong growth in employment, out of the pandemic
  - » The **corporate debt** level marginally above the pre-pandemic trend growth path, **household debt** is well above
- In June and even more in July, household credit growth slowed significantly. A warning sign?
- The last **banking survey** was mixed, check next page





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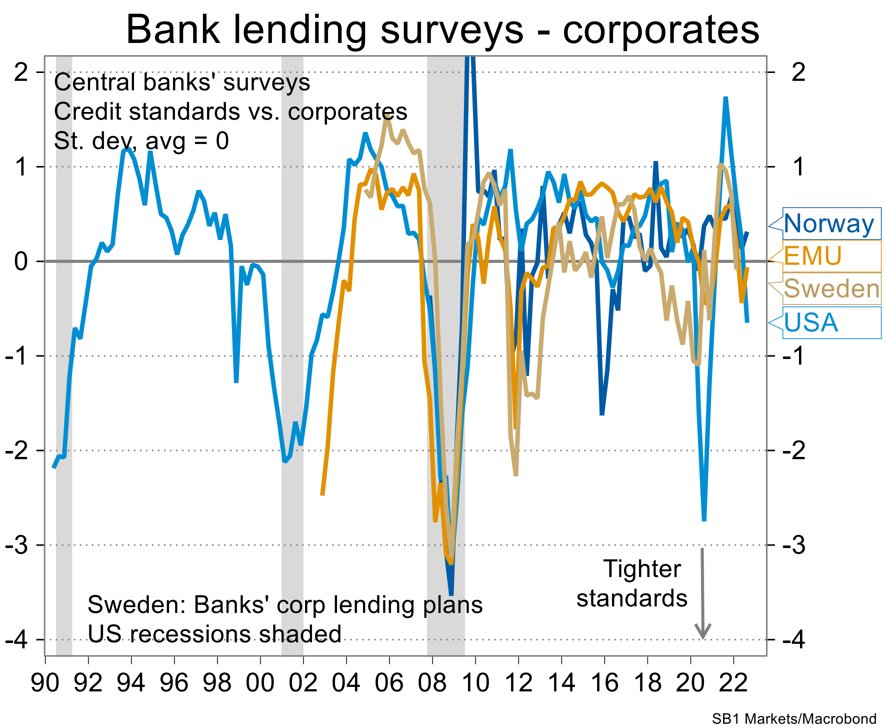
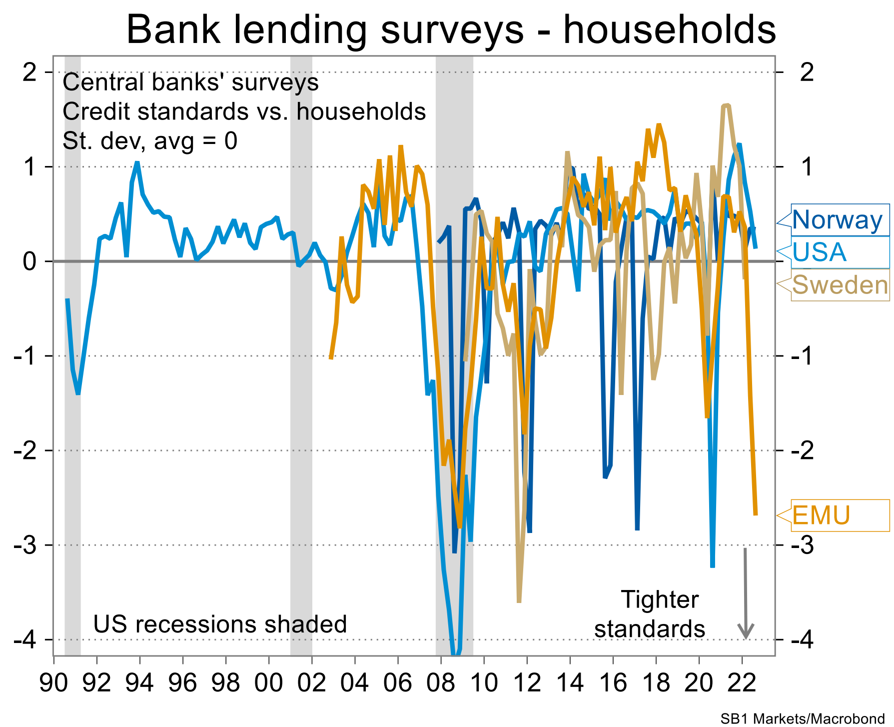
Banks report tighter standards vs. households but not vs. the corporate sector

A rather unusual divergence in banks' credit policies

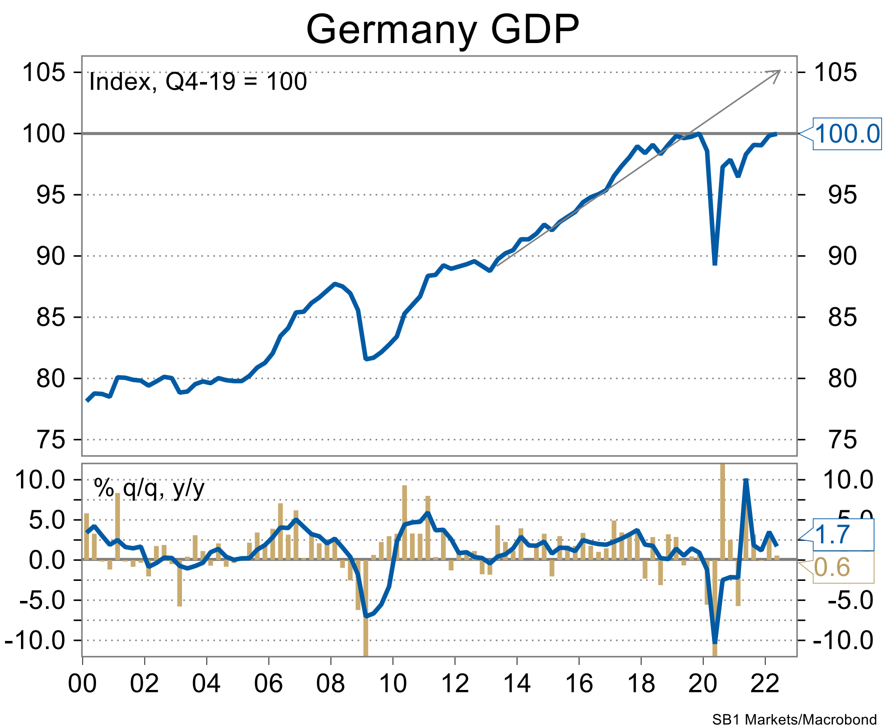


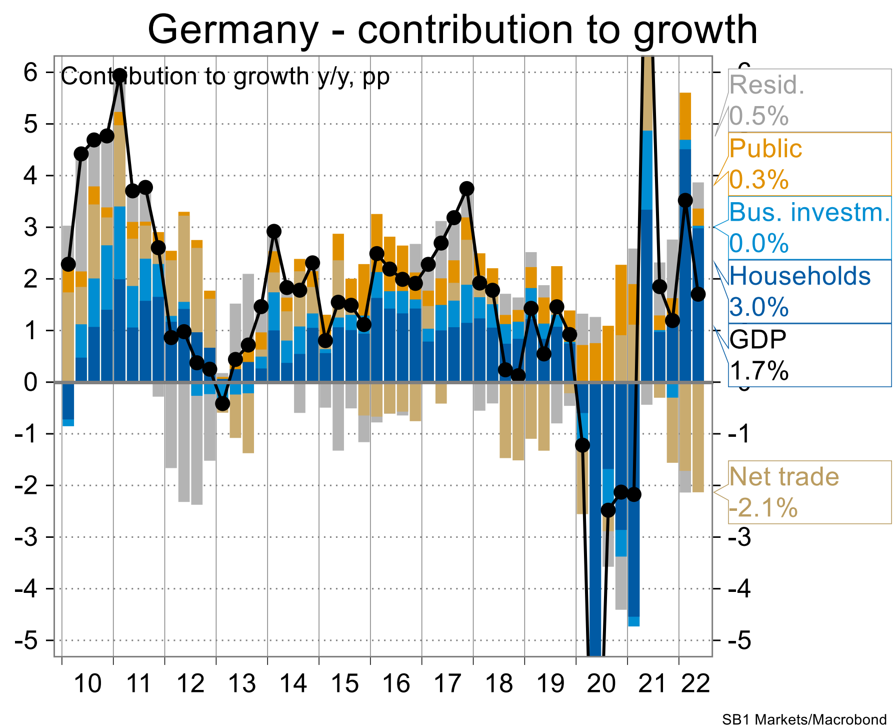


- **US banks** are signalling tighter lending standards vs corporate sector but not vs households
- Norwegian banks are close to neutral

German GDP revised up 0.6% q/q in Q2, but expectations for H2 gloomy

GDP is even with the Q4-19 level, that is 2 ½ year without growth!

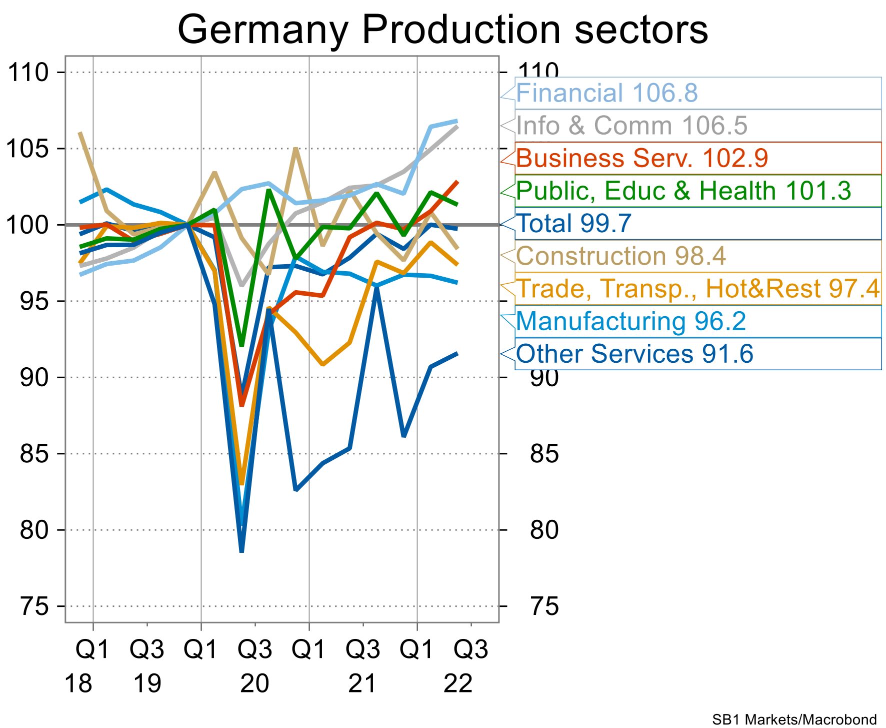




- Growth was initially reported to flat q/q. Now up 0.1% q/q, equalling a 0.6% growth pace, annualised
- GDP is up 1.7% y/y
- Public and household demand was positive y/y in Q2; net trade in the neg.
- Business investments were flat
- Exports were up 0.3%, but net trade contributed on the downside, as imports were up 1.6% in Q2

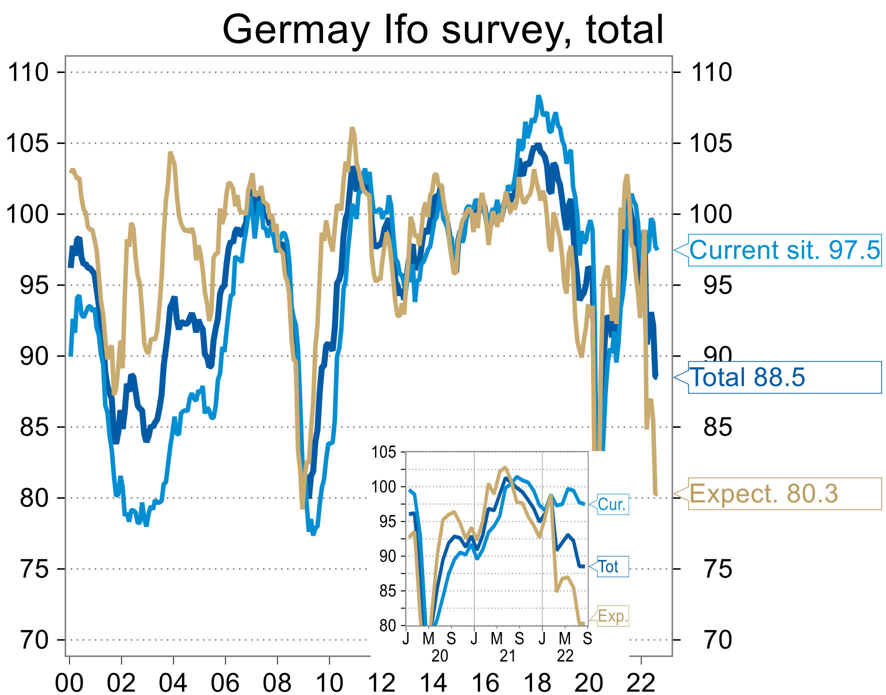
Biggest growth in services – manufacturing sector struggles amid energy squeeze

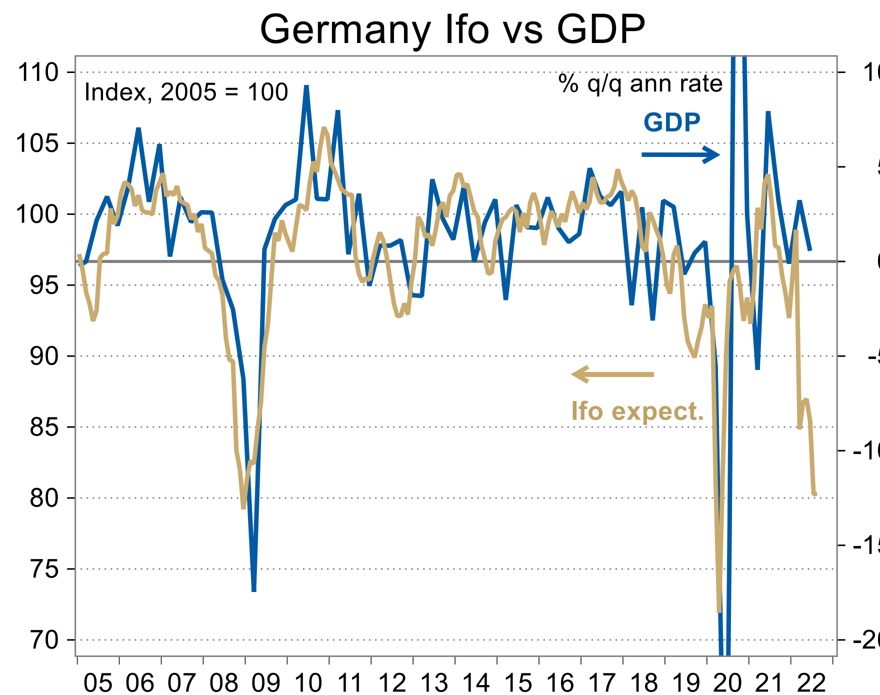
Overall, services have taken the hardest hits, in Germany as everywhere



Ifo expectations marginally down in August – sentiment is still dire

The index fell 0.1 p to 80.3, better than expectations at 79, but signals a substantial fall in GDP





- **The expectation index** fell 0.1 p to 80.3, 1.3 p higher than expected. The level is very low, at 3.1 st.dev below average, almost down to the lowest level during the financial crisis. The correlation to GDP is not perfect but a huge decline in GDP is signalled, at a 12.5% pace!
- The **assessment of the current situation** fell 0.2 p to 97.5, 1.5 p above expectations. The level is still above average, at 0.4 st.dev
- The total Ifo business climate index fell by 0.2 p to 88.5; expected 86.8

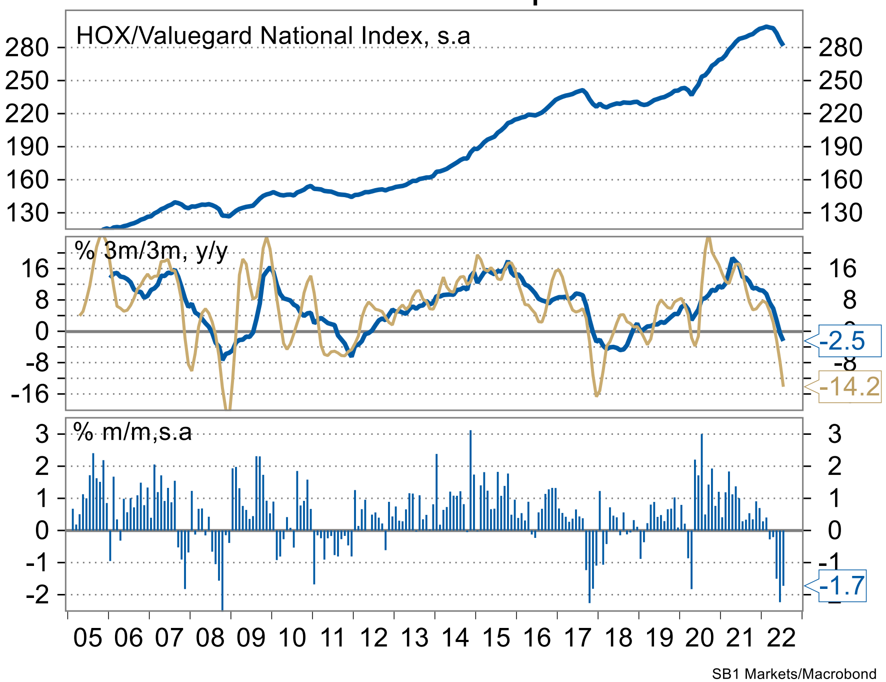
Business climate: the average of the current situation and expectations

SpareBank 1 MARKETS

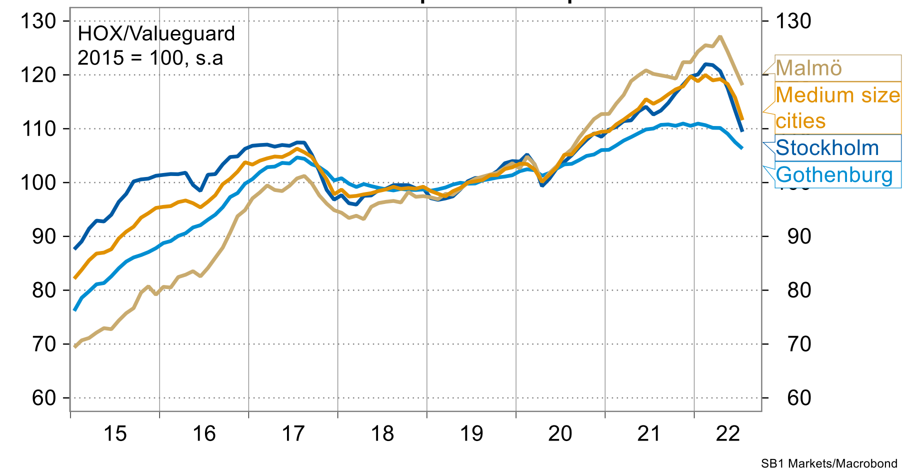
Swedish house prices keep falling, down 6% from the peak

Prices fell 1.7% in July, the 5th decline in row. Stockholm flats 3.2% m/m, down 9.3% since March

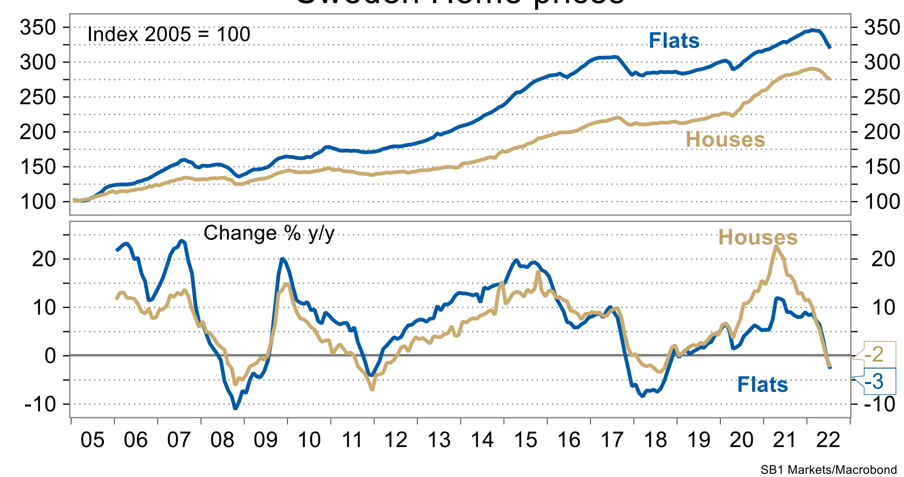
Sweden Home prices



Sweden Apartment prices



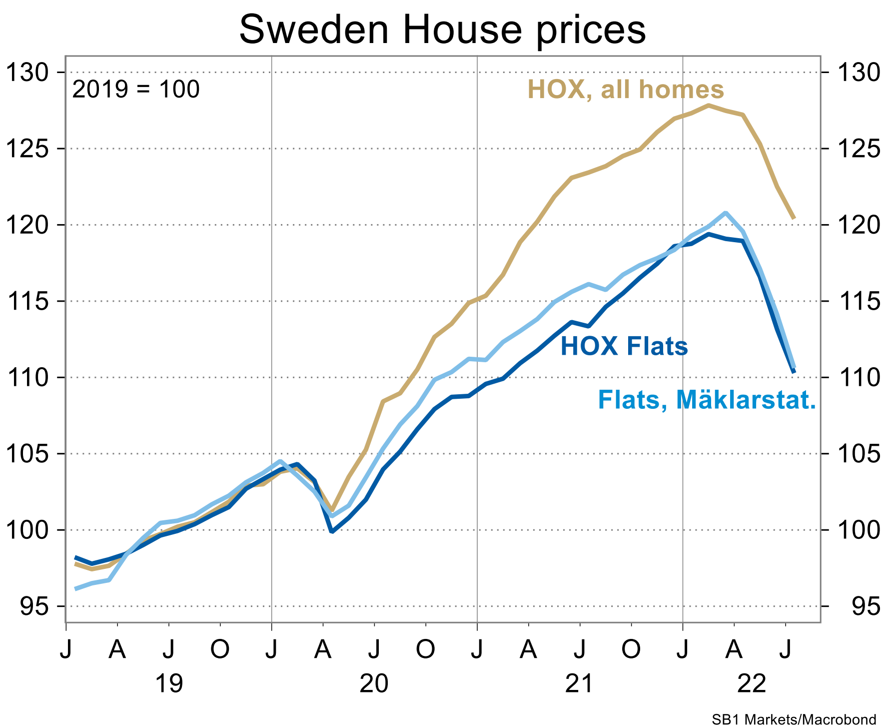
Sweden Home prices

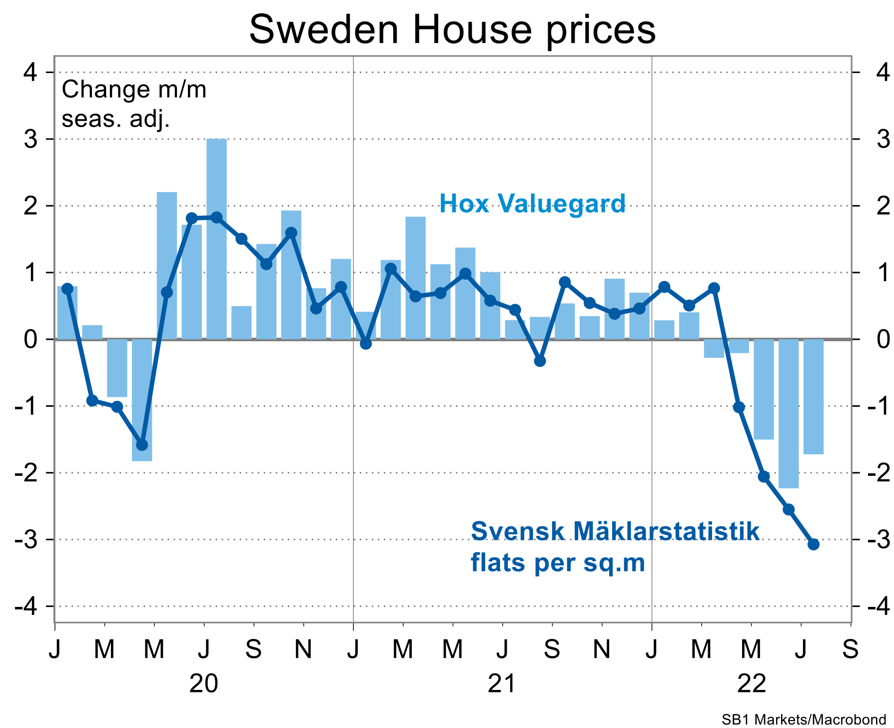


- **Prices are down** 5.8% from the peak in February. In Stockholm, apartment prices are down 9.3% from the peak
  - » In July, prices in Stockholm fell by 3.2% (seas. adj) (but turned positive at the beg. of Aug, according to Valuegard)
  - » Prices are down in all the major cities as well
- **The annual rate** declined to -2.5% from 6.2% in April
  - » The underlying price growth (3m/3m) is now -14%!
- The **Riksbank's** abrupt change of tack in late April has no doubt hit the housing market hard

A x-check with Svensk Mäklarstatistik

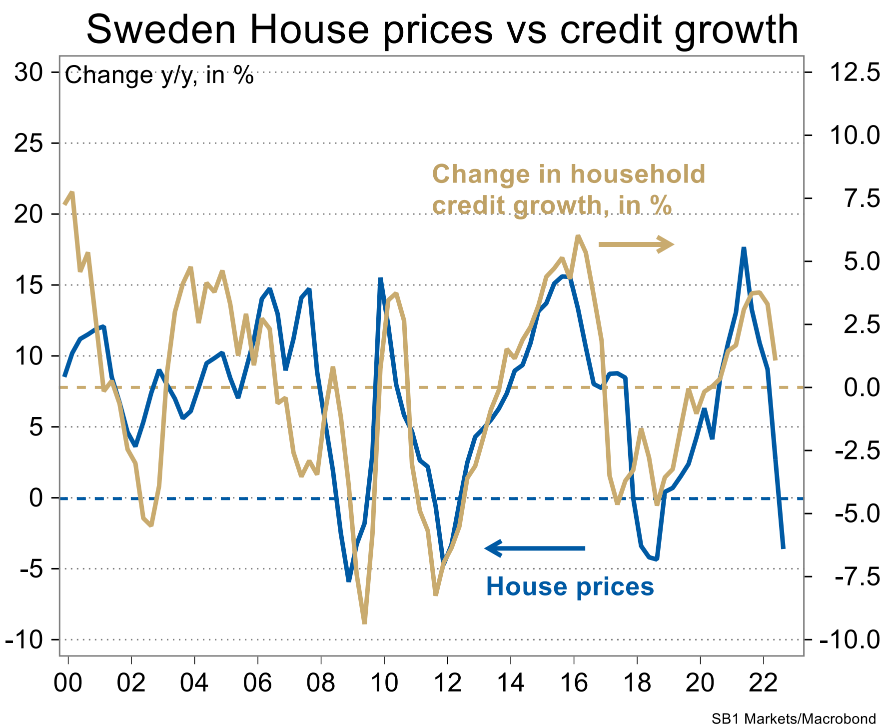
The realtors reported a 3.1% decline in flat apartment prices in July, and a 8.4% drop since March

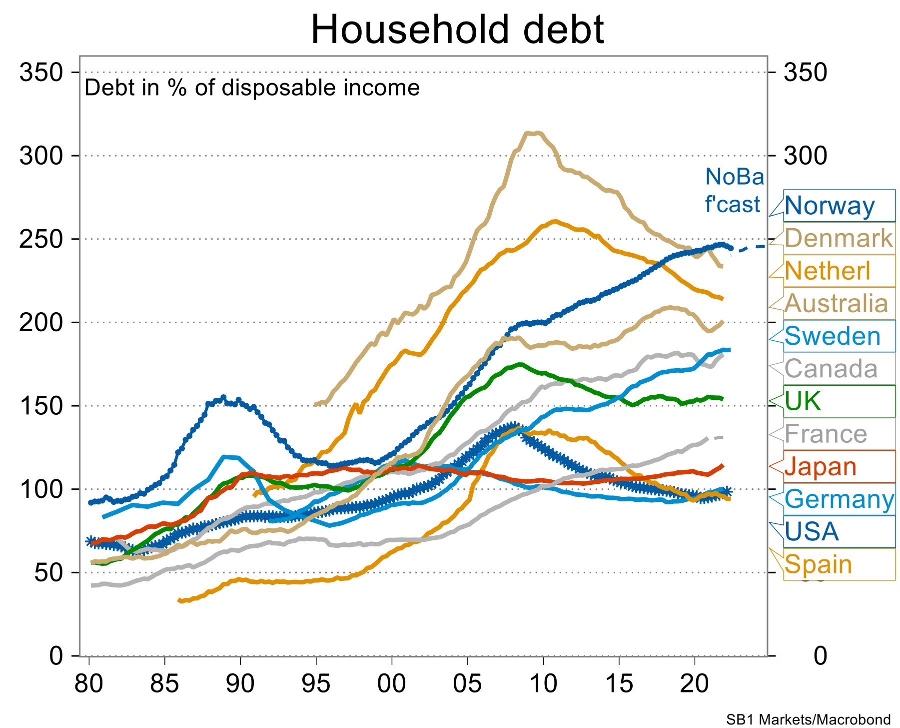




Credit growth is slowing too, as always when the housing market calms down

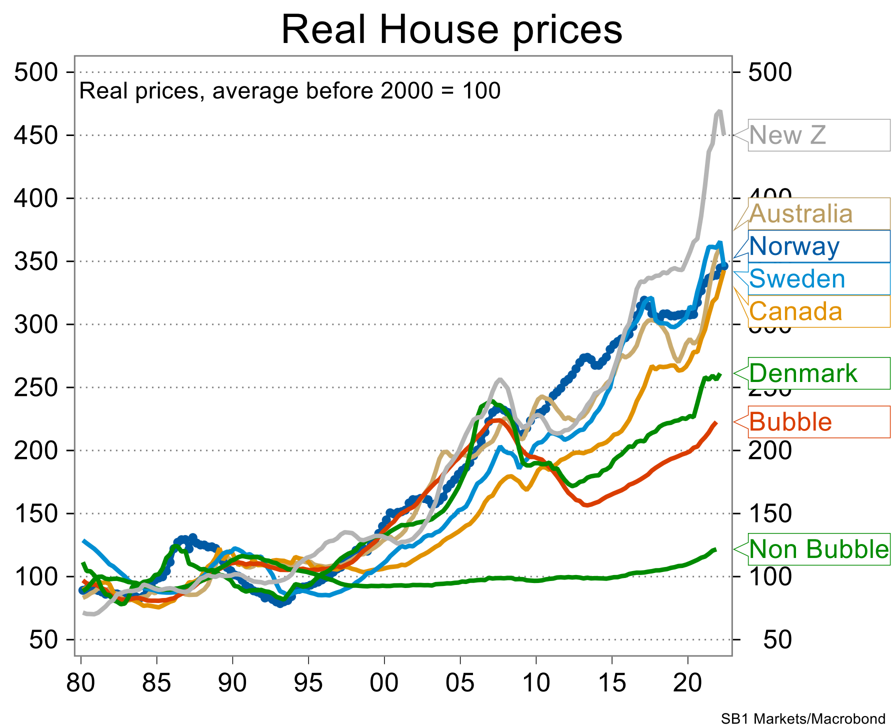
And more slowing is in the cards if house prices decline further

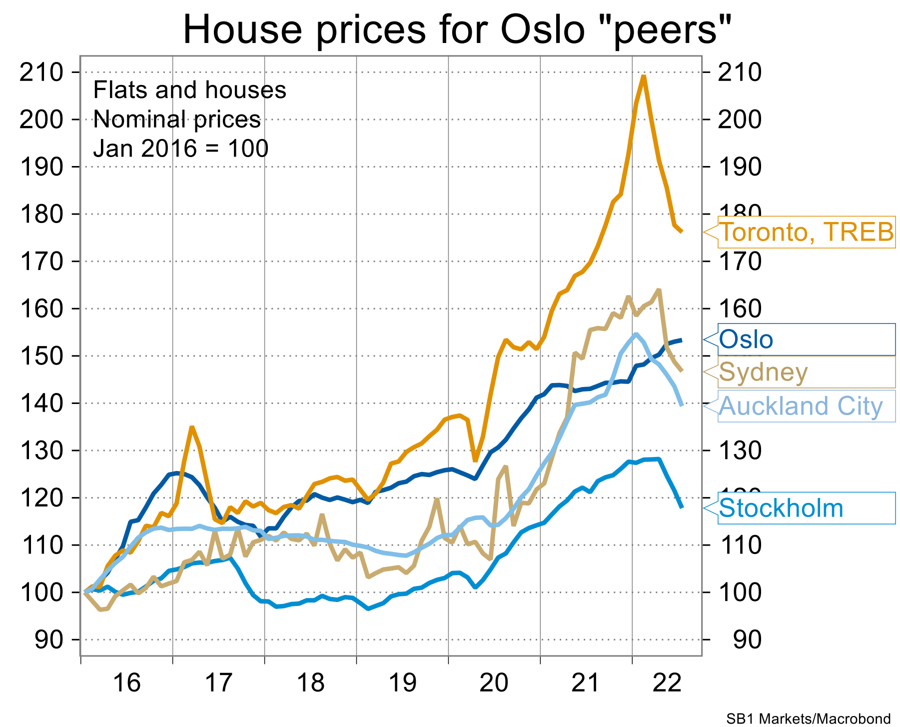




Prices are falling in the 'supercyclical' capitals, except for in Oslo

Prices have peaked in cities comparably to Oslo, where prices are still rising despite higher rates

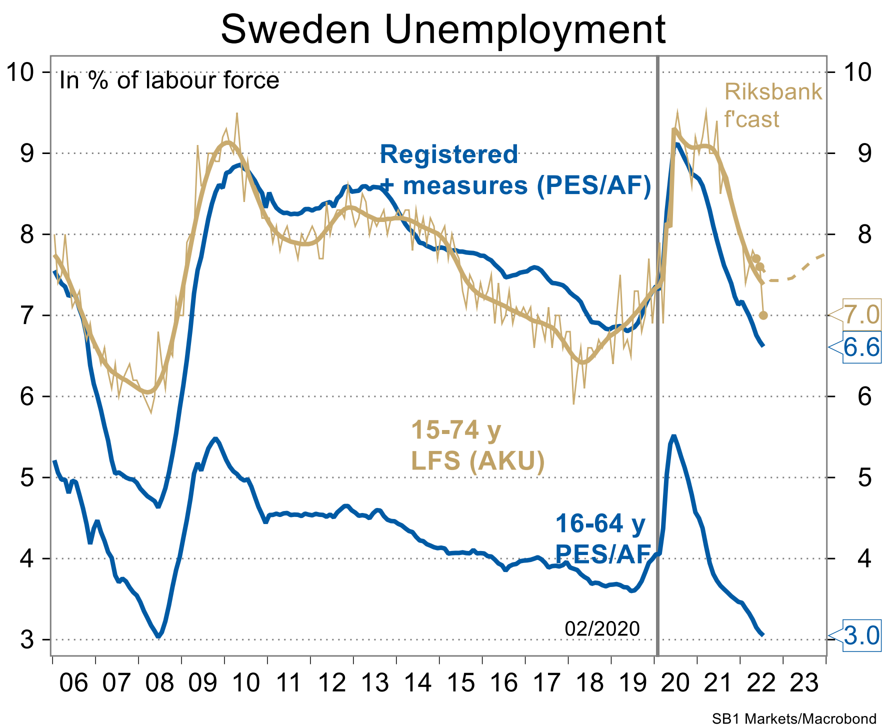


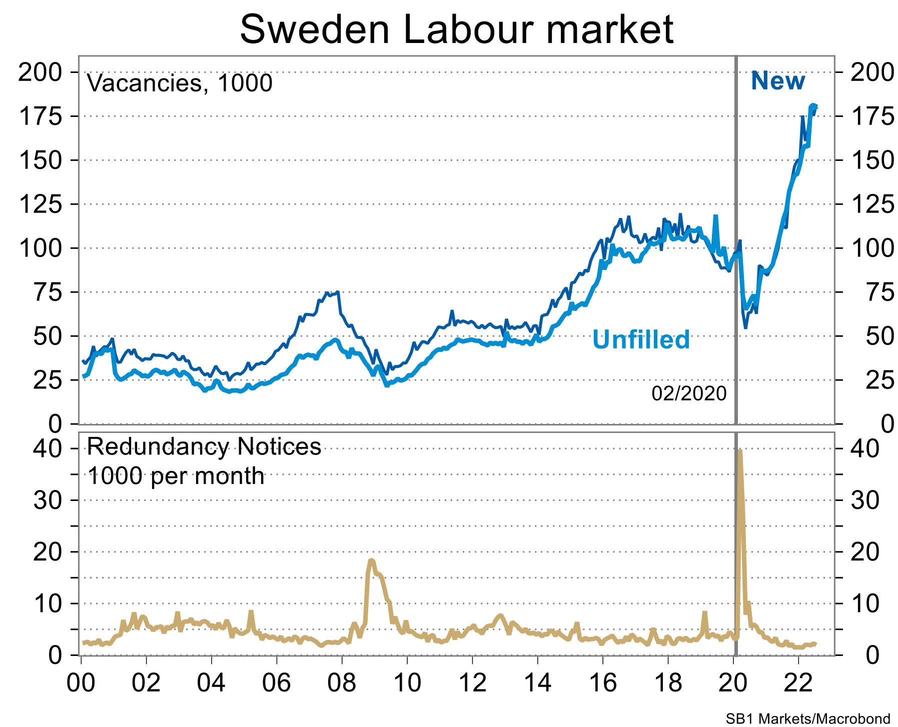


- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden
- Now, the capital cities in these countries may signal a change is underway. Except for Oslo, of course, where prices can never decline… We believe Oslo will most likely soon follow suit

LFS unemployment down 0.6 pp to 7.0%, finally below the pre-pandemic level

Employment is surging, the employment rate is very high. Vacancies remain at extreme levels

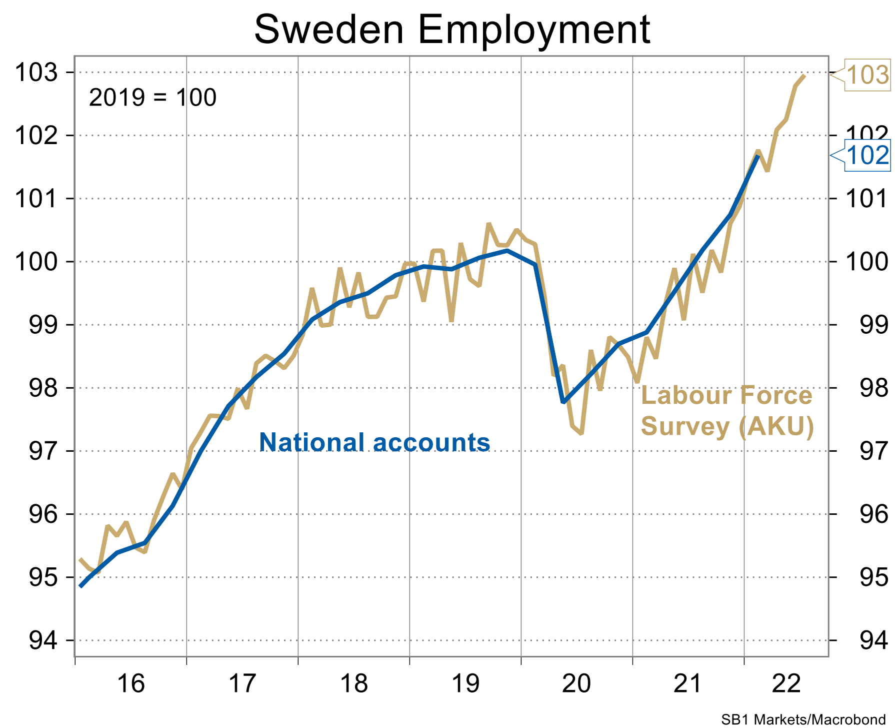


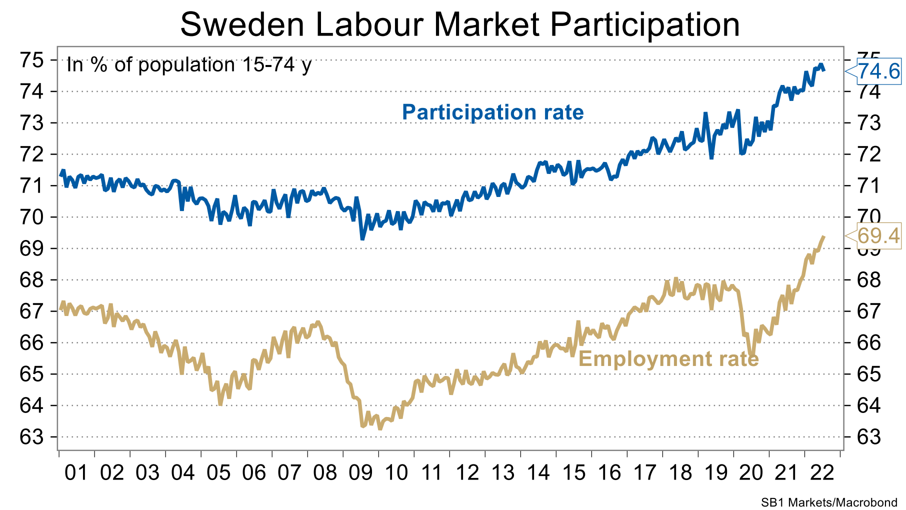


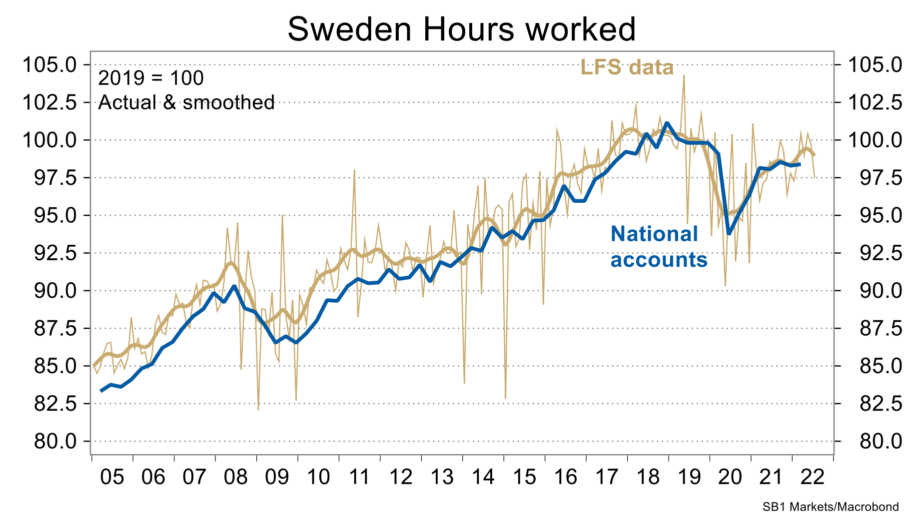
- The **'open' registered unemployment rate** at 3.0% is far below the pre-pandemic level – and very likely soon at the lowest levels since 1990, before the housing/banking crisis
  - » **Unemployment including labour market** measures has fallen to 6.6% - which is finally below the level just before the pandemic hit
- Both the number of new vacancies rose to ATH in July, while the no. of unfilled vacancies fell marginally, from ATH in June

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

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







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

Highlights

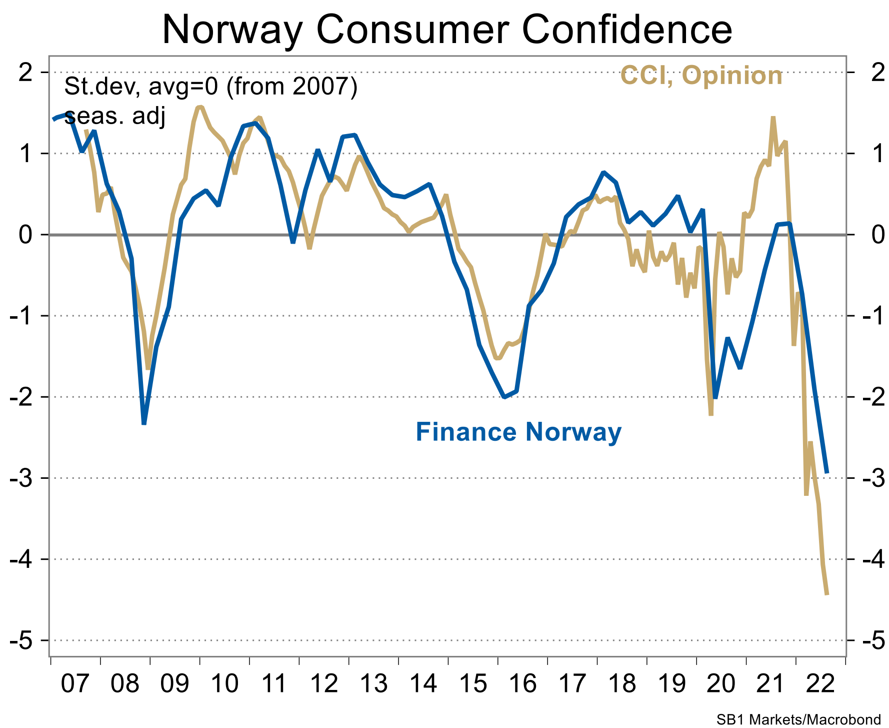
The world around us

The Norwegian economy

Market charts & comments

Consumer confidence down to ATL in August…

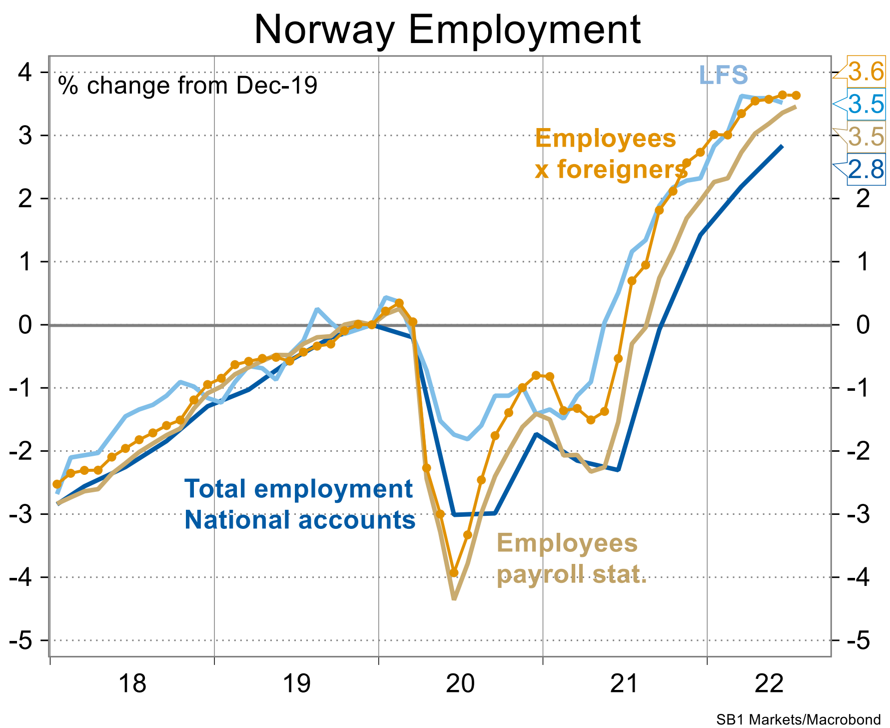
… and 'twice as weak" as when the corona first attacked

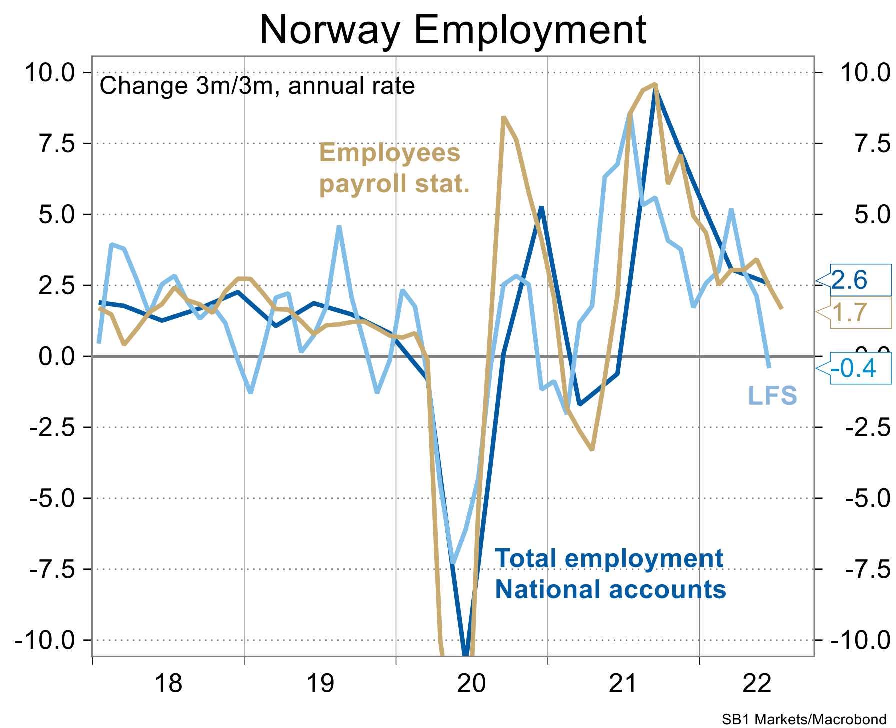


- **The CCI print** from Opinion in August was the lowest ever recorded – high inflation and higher interest rates are biting
- The index recovered somewhat in April, but fell again in May - Aug, and is now 4.4 st.dev below average. The bottom during the pandemic was 2.2 st. dev. below average
- **Will households stop spending or retreating from the housing market?** So far, the housing market has held up well, while retail sales data from July showed a slowdown in the demand
  - » The actual net of optimists vs. pessimists is -27%, implying that there are still many optimists out there

Employment growth is calming down, and LFS employment has flattened

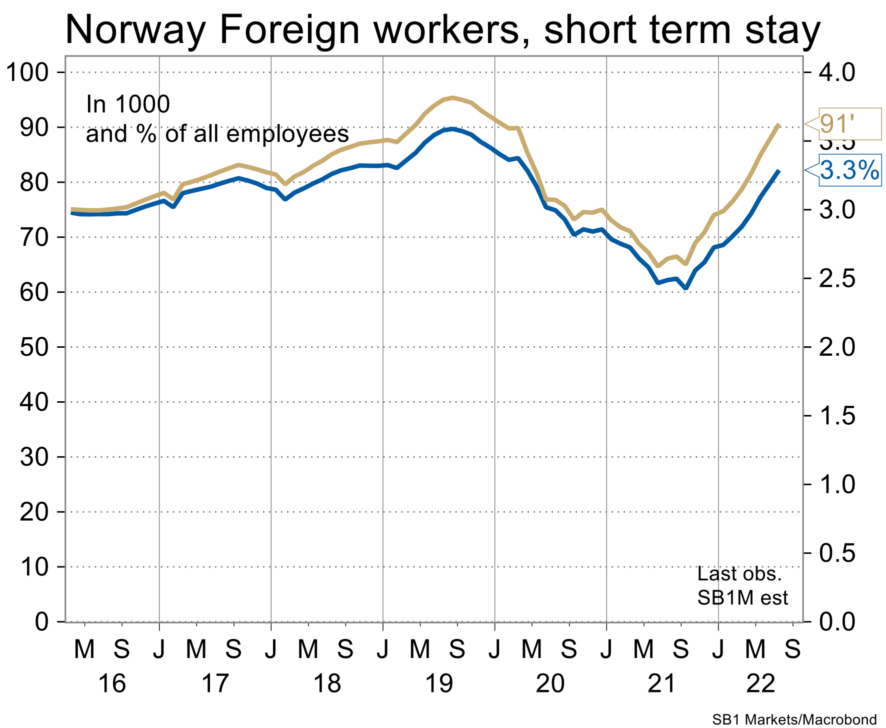
The no. of employees up by 0.1% in July





- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) reported fell by 0.1% in June (avg May – July), and is down 0.2% vs the ATH in March
  - » LFS employment is up 3.5% from before the pandemic
- The **register based employee stats ('A-ordningen)**, report 0.1% growth in the no. of employees in July, down from 0.2% in May and June, and a 3.5% growth since Q4-19. Excluding foreigners on short term stay, the no. of employees is up 3.7% (July is our est.)
  - » The growth in total no. of employees is higher than for Norwegian residents (Norwegian or foreign boards) as foreign workers on temporary stay are returning, check the chart at the next page
- **National accounts** reported a 2.8% lift in employment to Q3-22 from Q4-19 (and a 0.6% increase q/q in Q2)

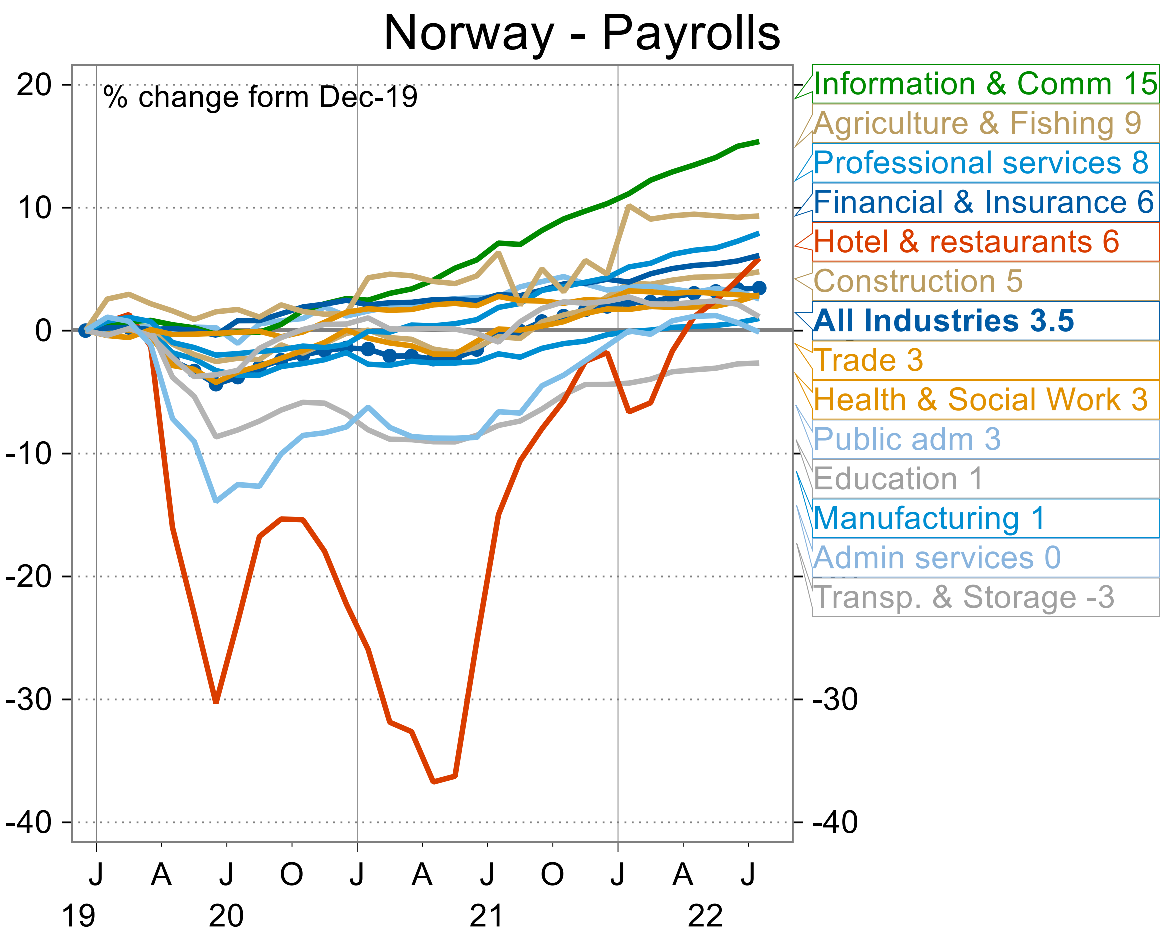
Foreign ‘temps’ are returning – but still well below the pre-pandemic trend



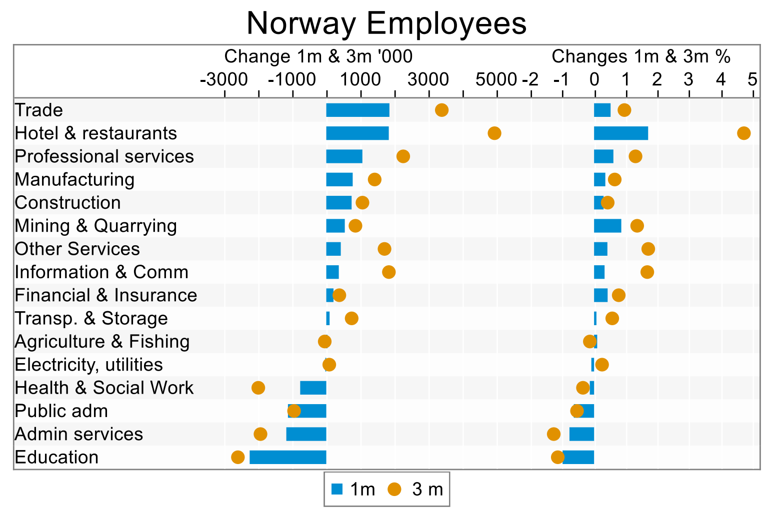
SpareBank 1 MARKETS

Employees: A public sector retreat? Health, public admin, and education down

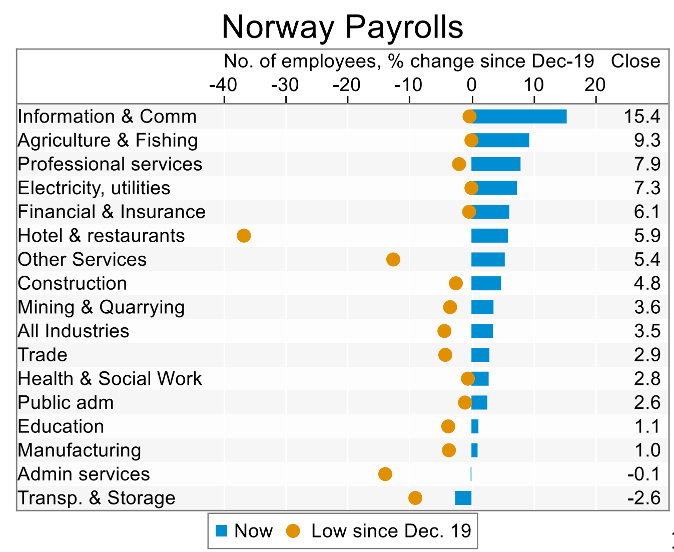
Hotels and restaurants report the strongest growth. Just transport & storage below the Dec-19 level



SB1 Markets/Macrobond



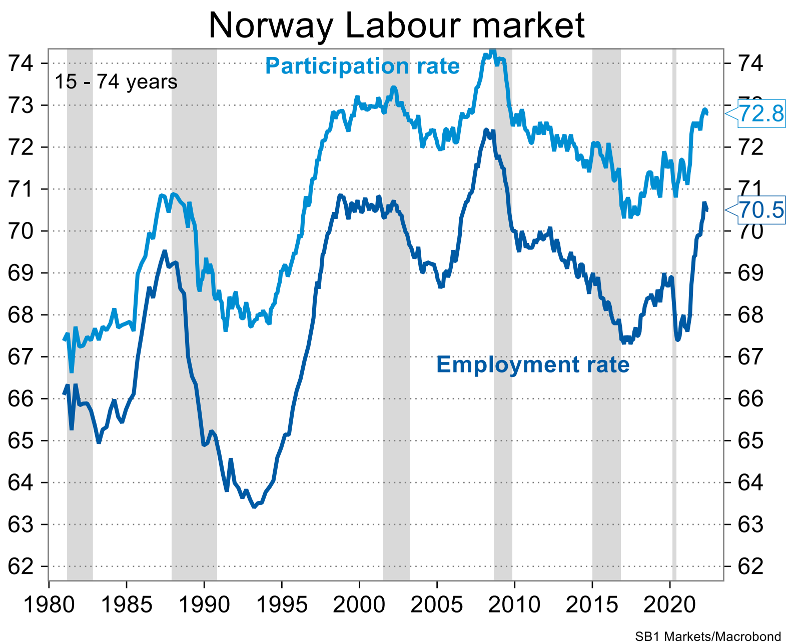
SB1 Markets/Macrobond

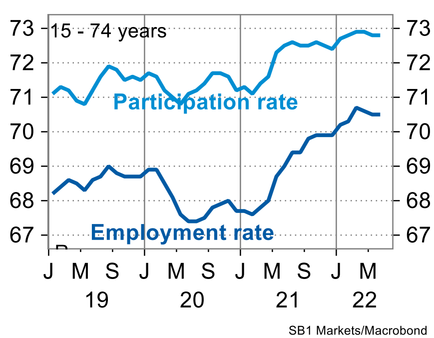


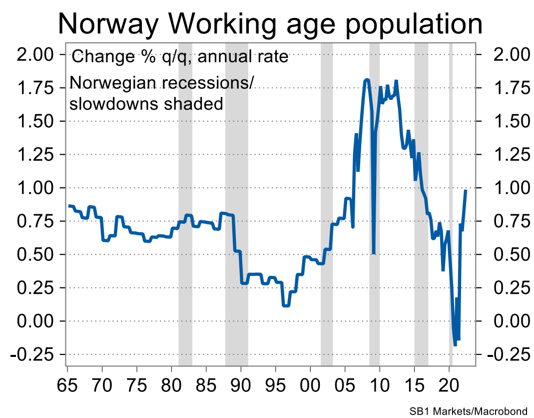
SB1 Markets/Macrobond

Both participation & employment rates have flattened

... and thus, unemployment too



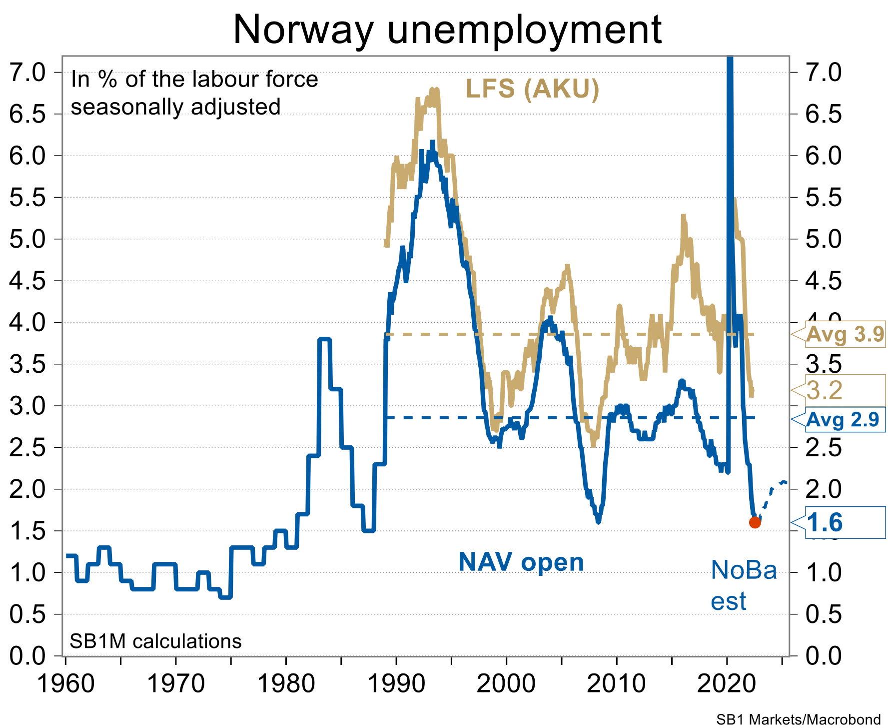


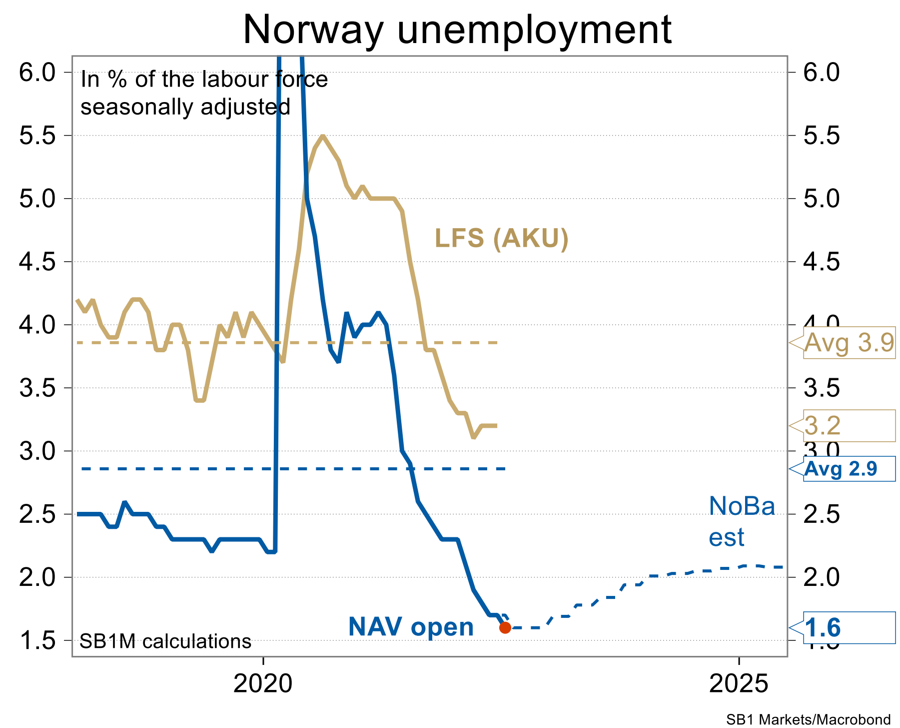


- **The employment rate** was flat at 70.5% in June
  - » Ahead of the pandemic the rate was almost 69%, and it is up from the 67.4% through in early 2021 (and from the same level in 2017, after the 'oil crisis'). The employment rate is measured in % of the working age 15 - 74 y population
  - » The employment rate is the highest since 2009
- **The participation rate** was unch. at 72.8% in June
  - » Until the substantial lift in January, participation had been flat since last summer. Are there still reserves out there? <u>If so, why are they not turning up now, given the very high vacancy level, 'everywhere'?</u>
- **Working age population** is up 1.0% over the last year (Q2 est), in fact a higher growth rate than just before the pandemic
  - » Labour immigration has accelerated, possible as a ketchup effect after low immigration during the pandemic. Given the tight labour markets in the rest of Europe, we doubt labour immigration will solve the labour deficit in Norway. However, Ukrainian refugees immigrated in Q2, and has contributed to the increase in total working age population

LFS unemployment unchanged at 3.2%, far from record low

… but well above an average level





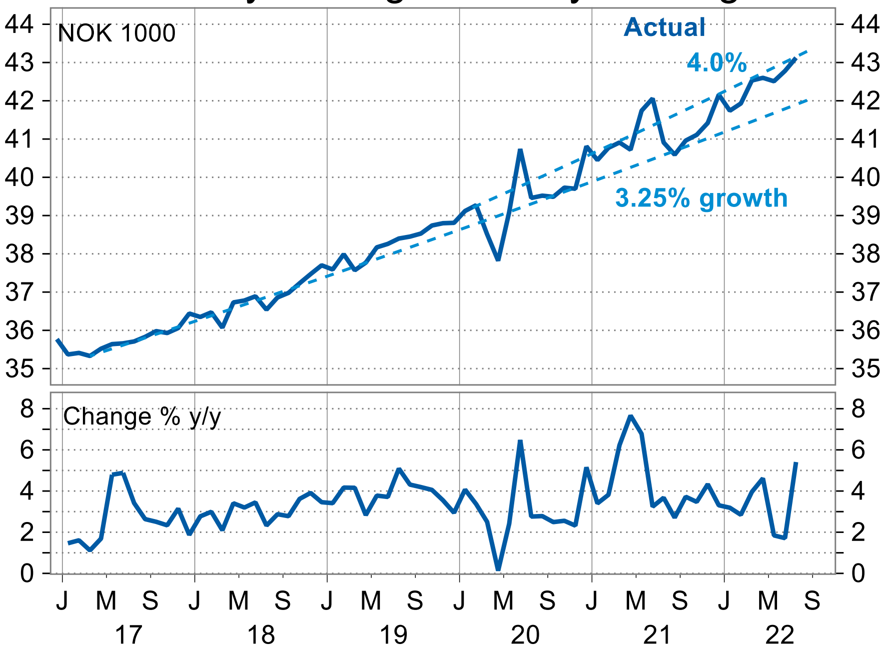
- **The LFS (AKU) unemployment rate** was unch. in 3.2 in June, we expected a 0.1 pp decline
- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell to 1.6% of the labour force in July

SpareBank 1 MARKETS

Wage inflation may be accelerating somewhat

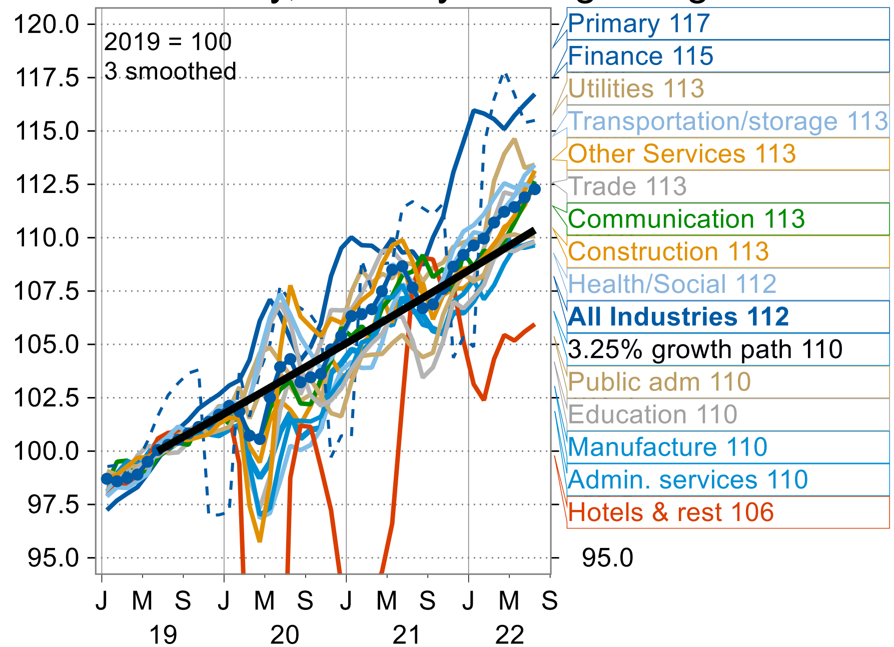
Average wages have been volatile through the pandemic – and monthly data are rather useless

Norway Average monthly earnings



SB1 Markets/Macrobond

Norway, Monthly average wages

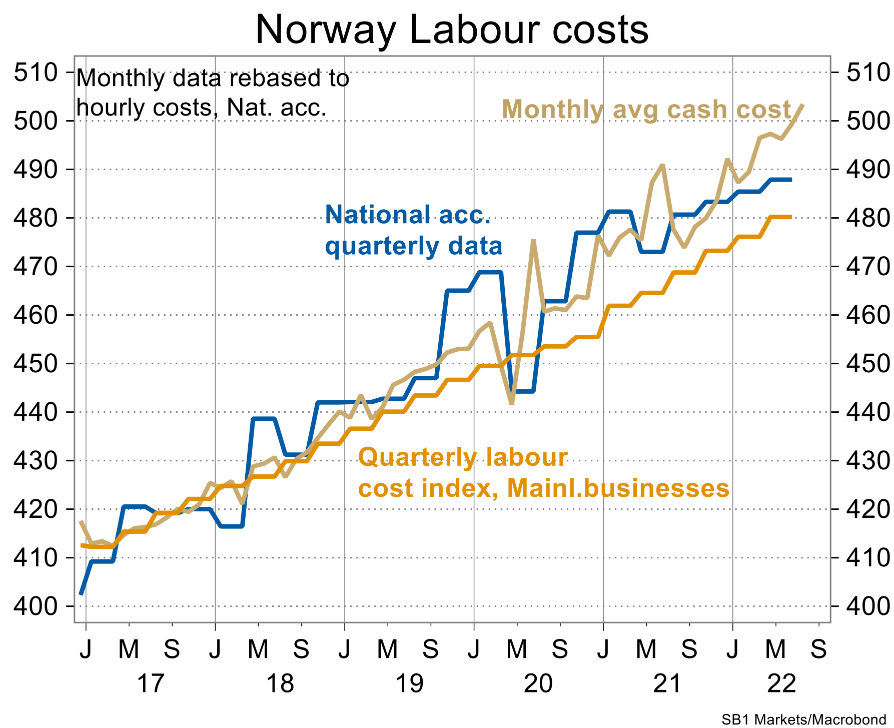


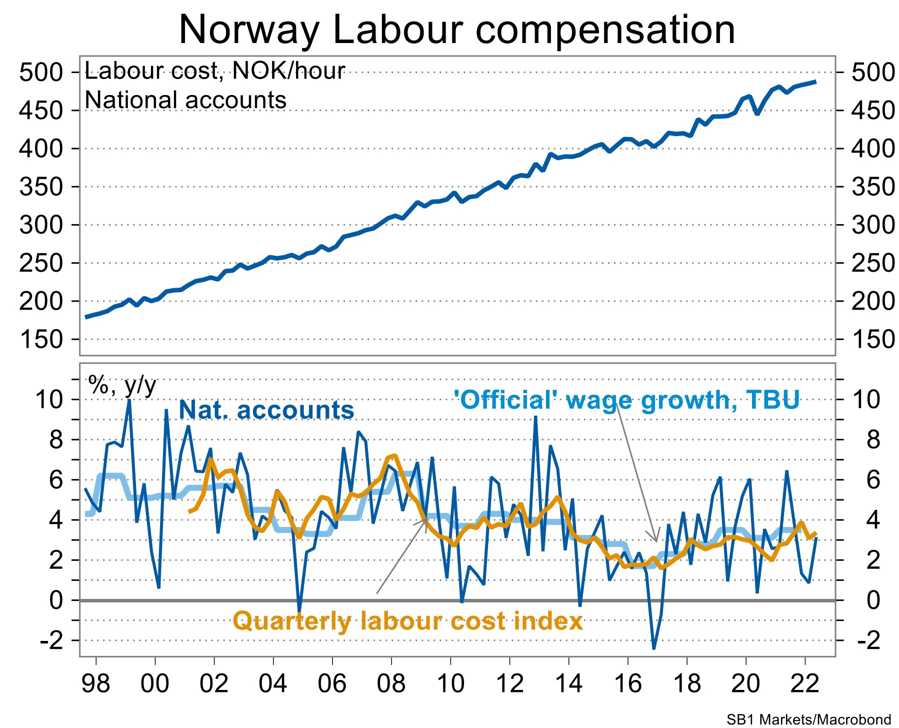
SB1 Markets/Macrobond

- **Monthly average cash earnings** are rather volatile, also depending on hours worked, bonuses – and data are often substantially revised
  - » Last year the monthly stats reported a 4.4% growth rate – while the average wage inflation was 3.5%, according to SSB
  - » Changes in the mix of employees between and even within sectors will have an impact on these data
- However, earnings growth measured this way has been quite consistently above the 3.25% growth path from the start of the pandemic. . Just earnings in hotels & restaurants are clearly below the 3.25% path. That could signal some acceleration in wage inflation, up to a 4% path, according to these regrettably uncertain data
- A quarterly labour cost index is up 3½% in Q2, and growth is not accelerating. Volatile quarterly national accounts report some 2.5% wage growth in H1

Wage data are volatile and not not always consistent

Taken together: No signs of a sharp acceleration in wage inflation

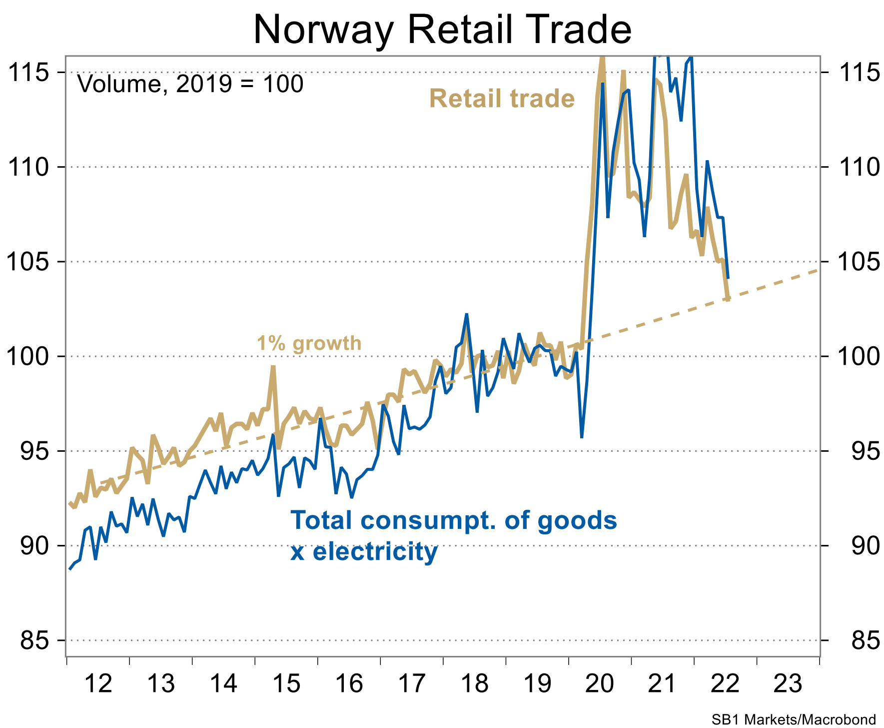


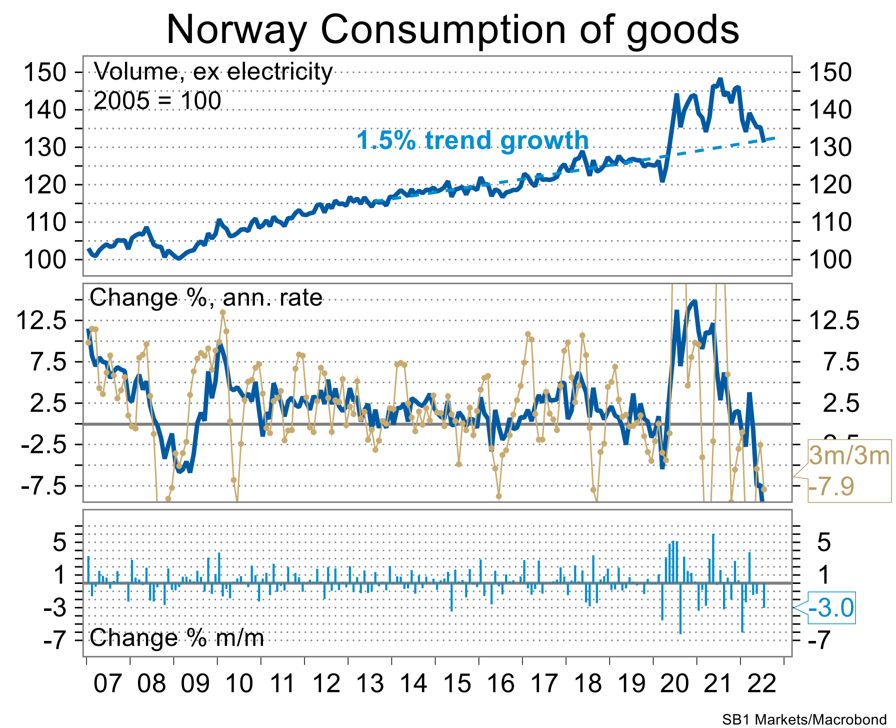


- The quarterly labour cost index correlates the best with the ‘official’ wage growth as calulated by the TBU

Retail sales surprised on the downside in July

Retail sales were down 2.1% (expected -0.5%); total consumption of goods fell by 3%

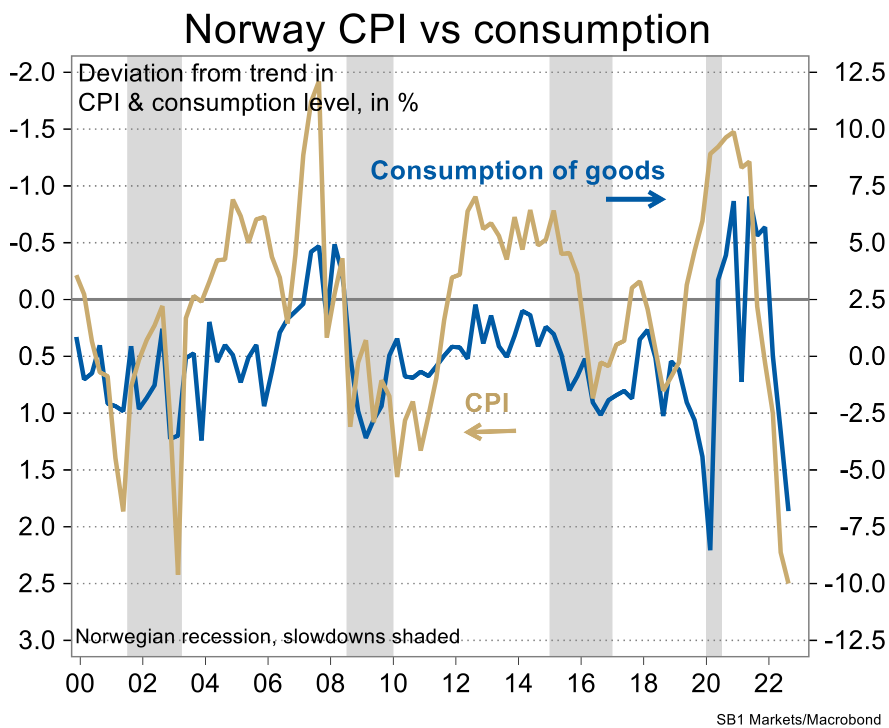




- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth paths.
- The lift in inflation and higher interest rates now seem to have aided sales back down to the pre-pandemic trend
- Both household equipment (building materials) and food store sales contributed on the downside in July

Higher consumer prices contributes to lower consumption

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



- The elasticity for consumption of goods vs. changes in headline CPU is some -2, probably as consumption of services normally are more stable than goods – and because high prices normally are associated with a weak Norwegian economy (like oil prices down, NOK weaker, higher imported inflation)
- This time too, consumption of goods has come down as the level of inflation has remained elevated – in conjunction with most of the pent-up demand after the pandemic seems to have dissipated
- In addition, interest rates are rapidly on the way up. The market expects 3 x 50 before Christmas: In September, November and December. As electricity prices are still expected to be on the way up. Who knows what the sentiment will be then??

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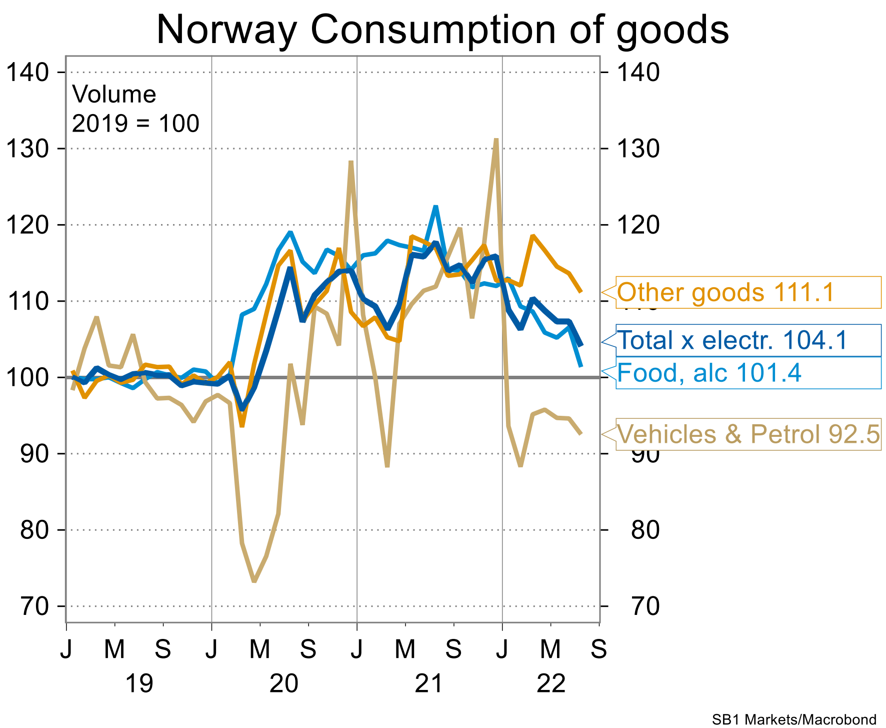
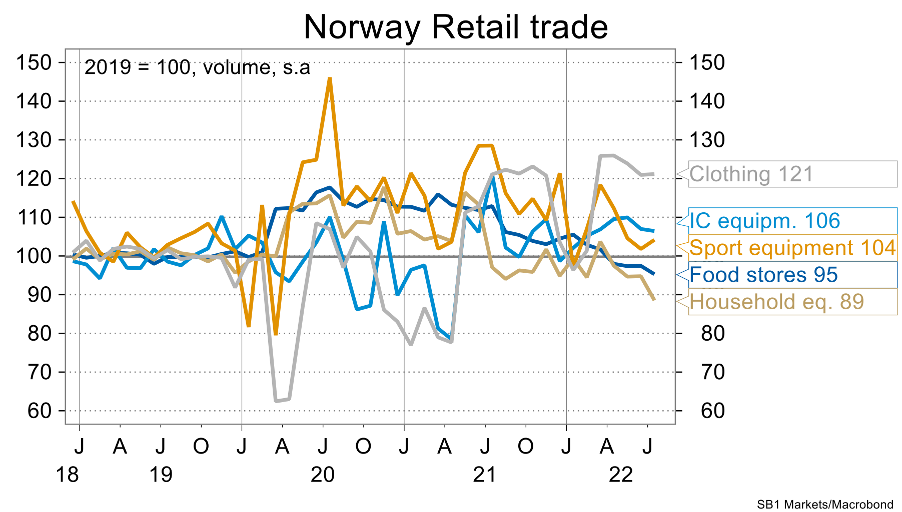
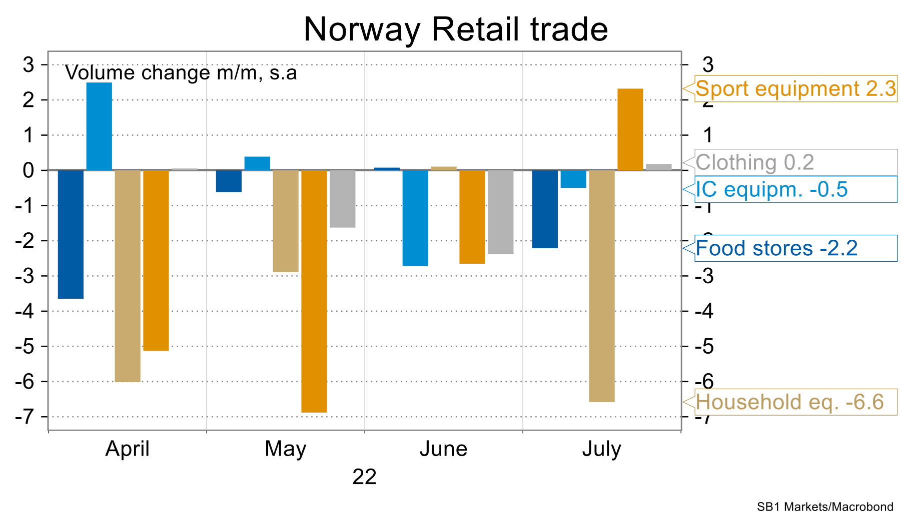
Household equipment down 6.6% in July; Food sales down 2.2% (in volume terms)

Clothing and sports equip. contributed on the upside. Clothing is strong, sports equip. trends down







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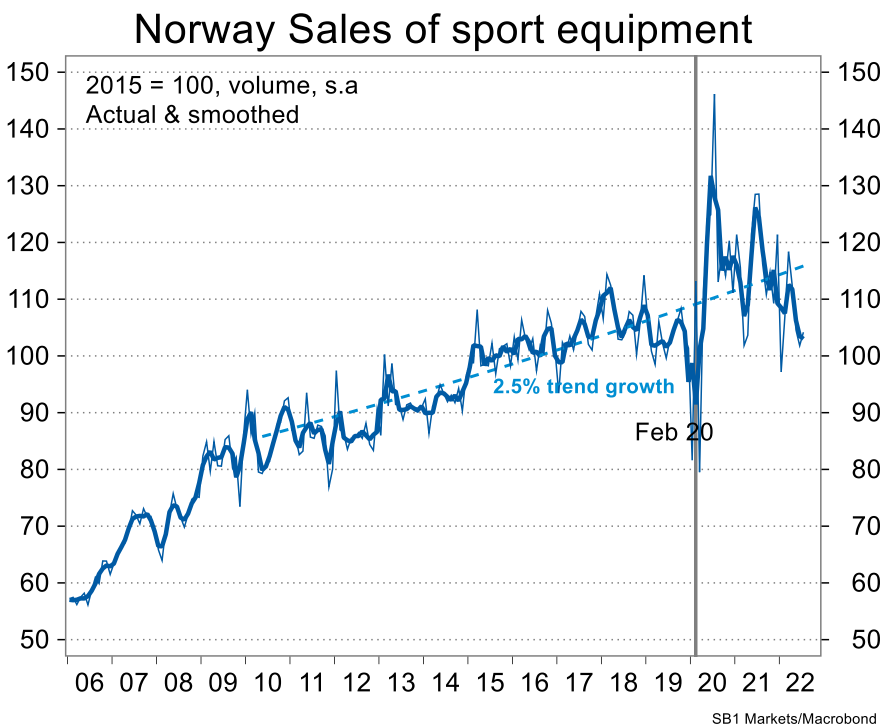
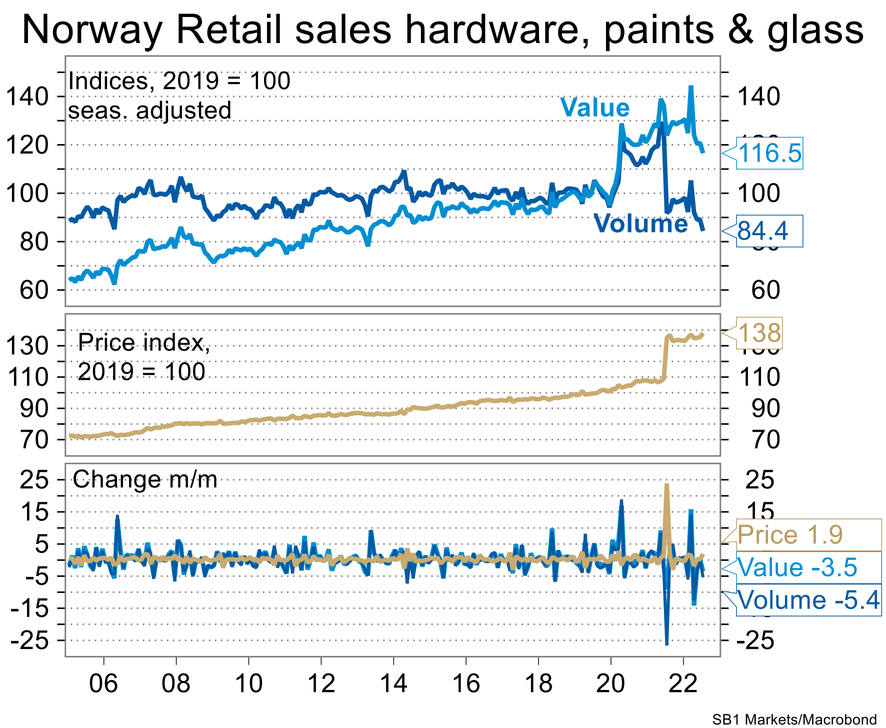
Sports equipment: Below a normal level – and a limited downside from here?



Sales of building materials are down the drain. They are too expensive?

However, sales are down more than 10% from early 2022, even if prices have flattened



- A decline in new home sales and construction starts – may explain some of the decline in sales of hardware, paints & glass
    - » Until the decline last summer, the level almost was 20% above the pre-pandemic levels – obviously not sustainable

- **Households** buy just a small fraction of total retail sales of building materials, homebuilders and professionals are the main clients, and households' consumption is not much influenced by the ups and downs of retail sales of building materials

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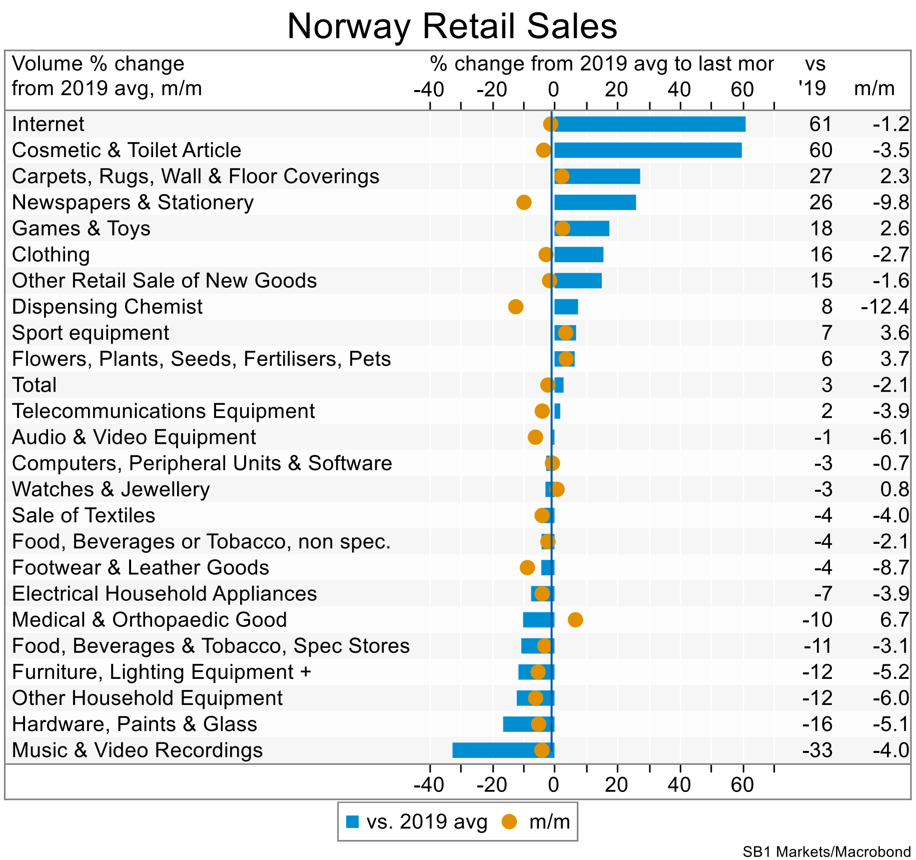
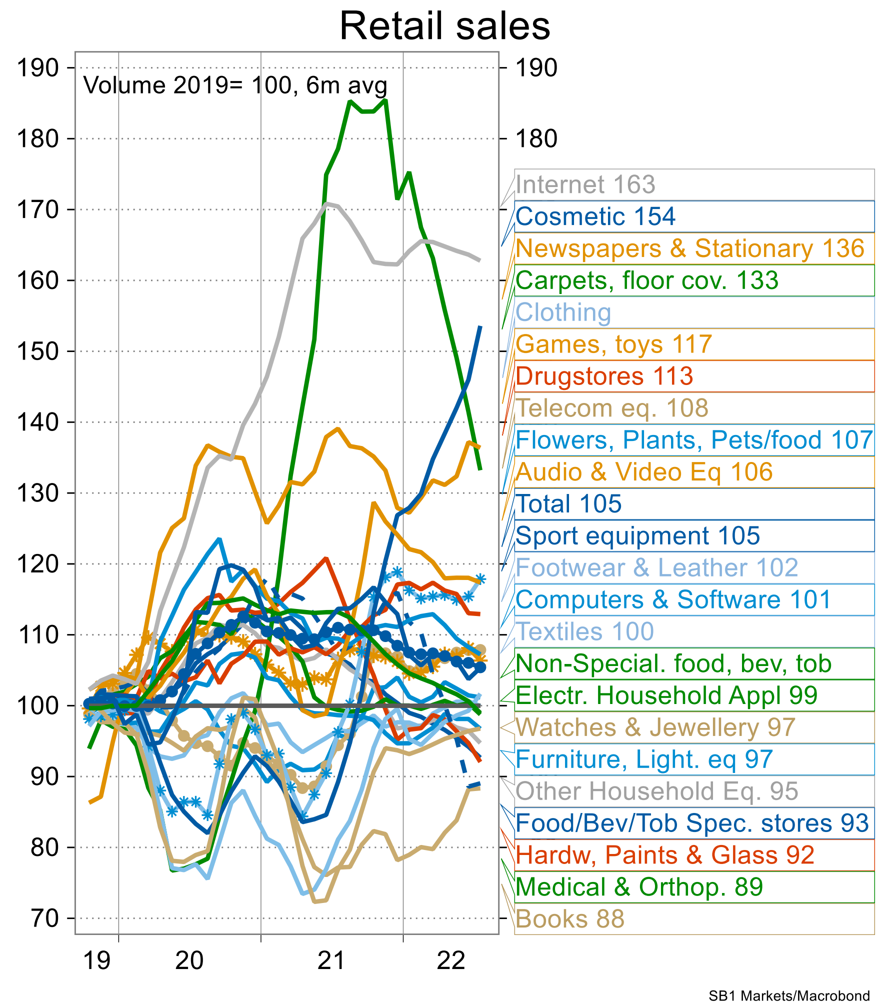
Since before the pandemic: Still huge sectoral differences in sales volumes

Cosmetics, Internet sales at the down. Home refurbishing still strong but down by 1/3 from the peak

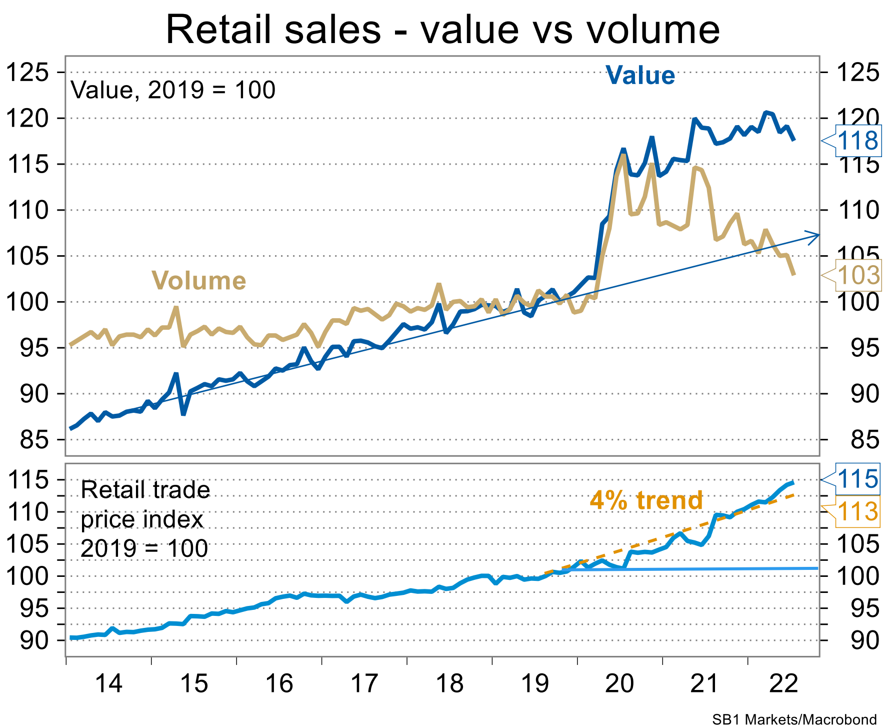


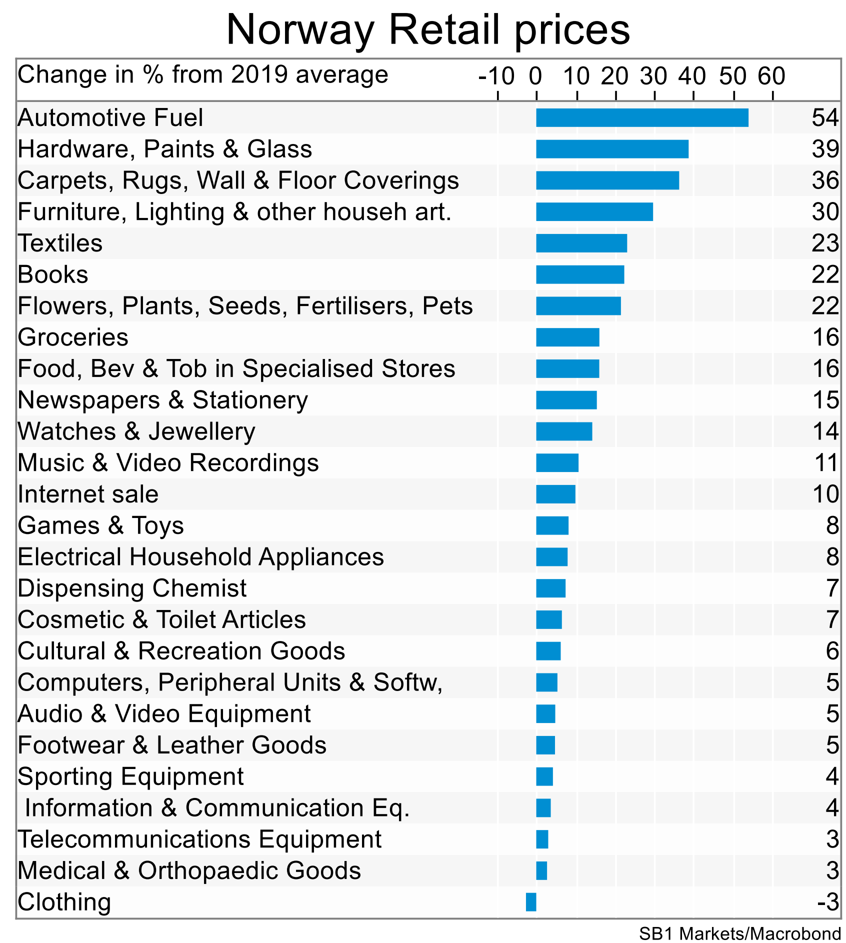
- The losers were mainly losers before the pandemic too
- Where is the risk now
  - Guideline: Start at the top of the list.
  - There are excuses, but probably not that many



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

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

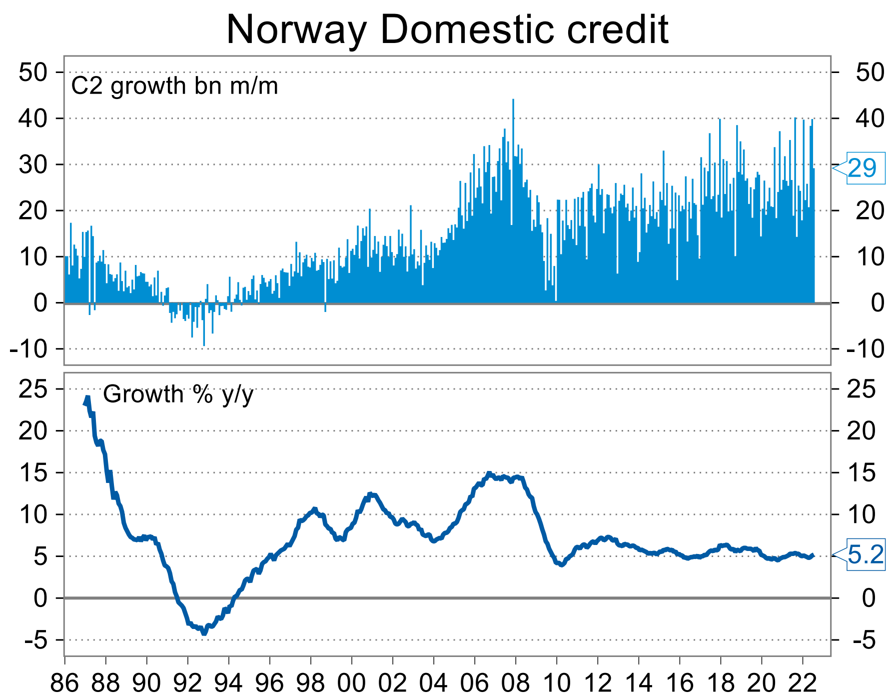


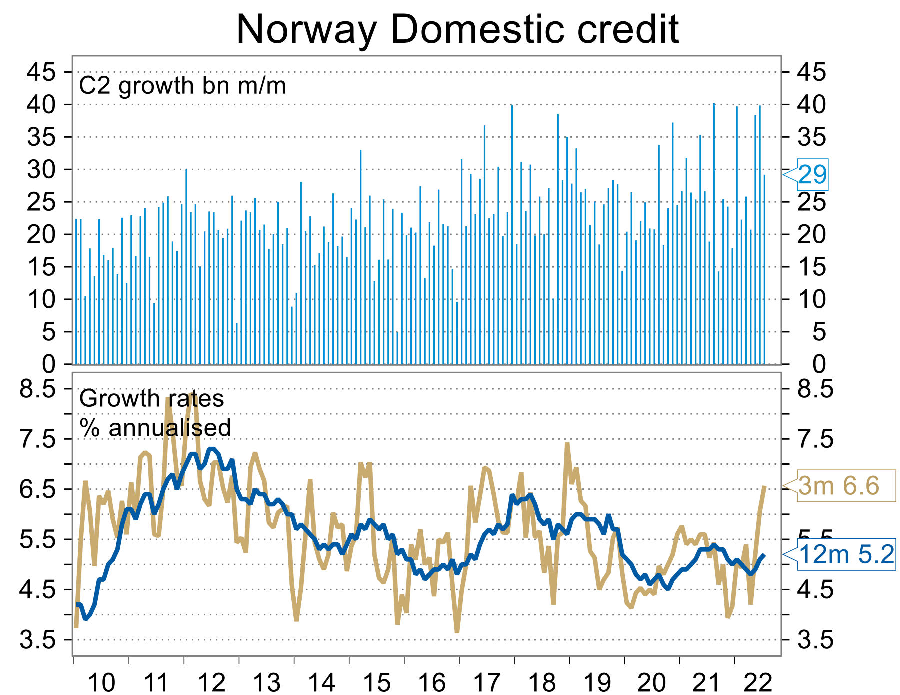


- Retail sales, measured in value terms, are 18% above the 2019 level and close to 10% above the pre-pandemic trend
- Huge differences is **price changes**:
  - » Gasoline up 54%, floor coverings, hardware (building materials) are up 36% – 39%, furniture 30%
  - » Close to the bottom of the list: Sport equipment prices are up just 4% and clothing is down 3%!

Continued strong demand for credit from corporate sector

Growth in household debt is gradually slowing, and is now slightly under the NoBa estimate from June

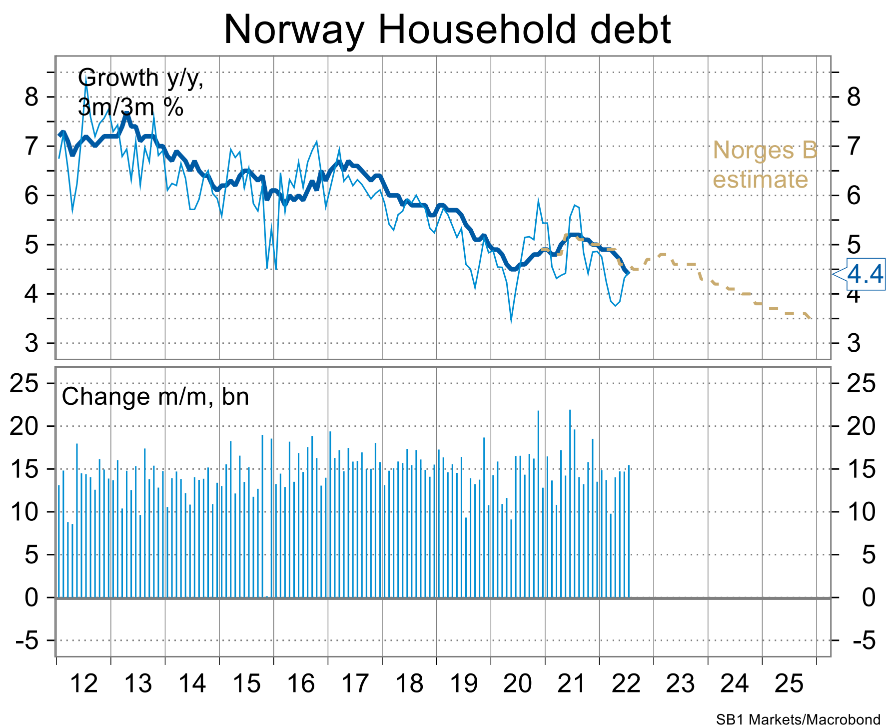


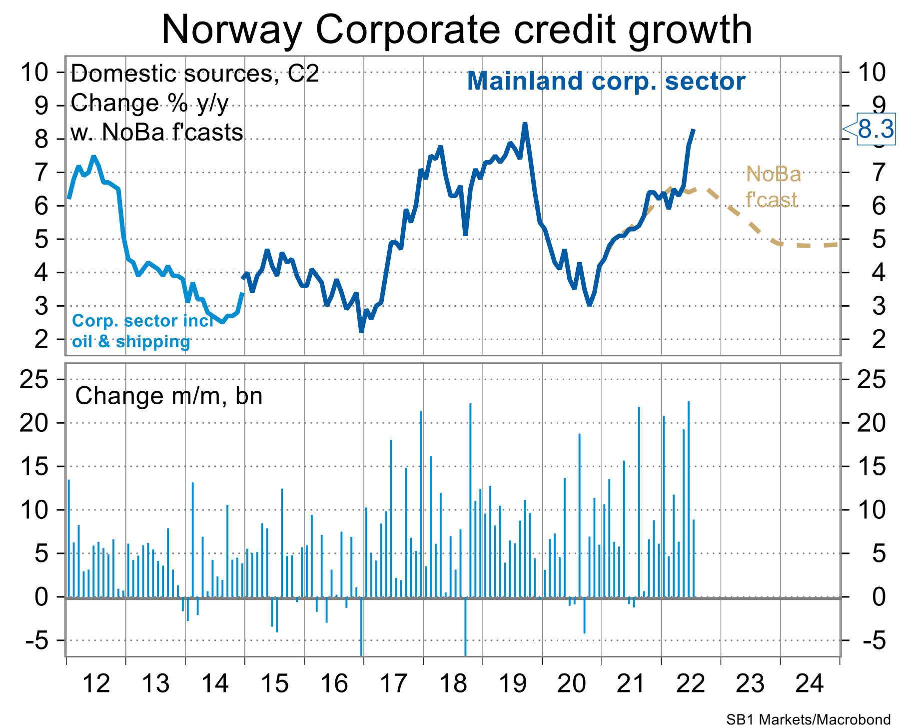


- **Total domestic debt** (C2) rose by NOK 29 bn in July, down from 40 bn in June, we expected 22 bn. The annual growth rate accelerated by 0.1 pp to 5.2%, we expected it to remain unchanged. The 3m/3m growth rate is at 6.6%. Even if credit growth was strong in June, we are not witnessing any credit boom. However, debt levels are high, especially in the household sector
- **Household credit** rose by NOK 15.5 bn in July, 1.5 bn more than we expected (and up 0.8 bn form June). The annual rate retreated 0.1 pp to 4.4%, as we assumed
- **Corporate C2 credit**, rose by NOK 8.9 bn, following a NOK 24 hike in June, roughly 3 bn more than we expected. The annual growth rate shot up to 8.3% from 6.6%
- **Local governments** added NOK 4.9 bn in July, 1.9 bn more than we expected. The annual growth rate rose 0.7 pp to 4.4%. Last summer the rate was 8%! Finally, local gov's at not increasing their debt/income ratio

Corporate credit growth is still strong, households are slowing

… as interest rates are creeping upwards

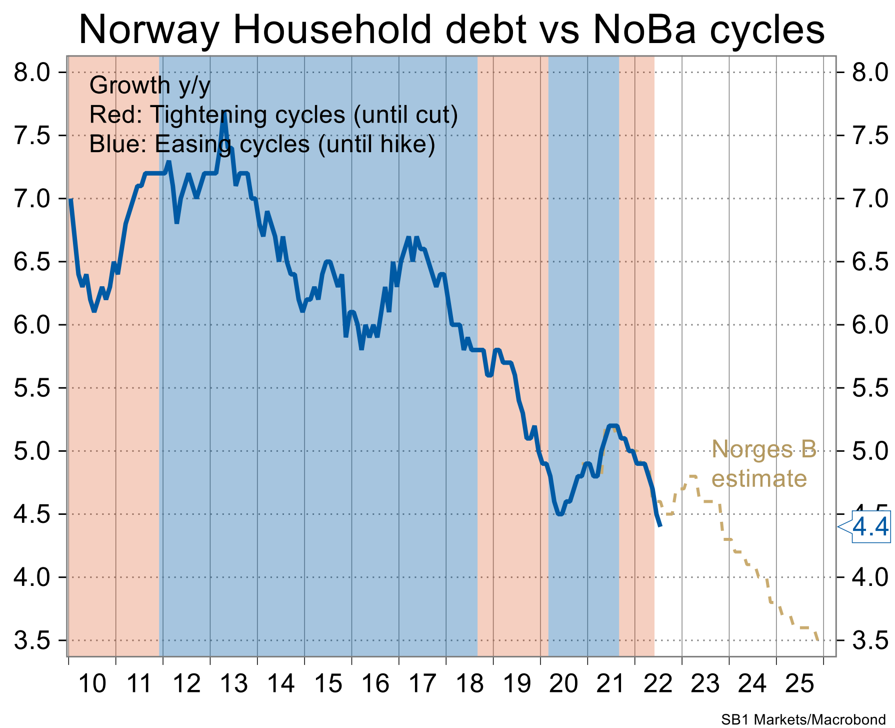




- **Household credit** growth has been slowing marginally recent months, the 3m/3m rate is at some 4.5%
- Monthly growth in **corporate domestic credit** is volatile. May and June were surprisingly strong, while the growth in July was close to long-term average. The annual growth rate has accelerated substantially, and mainland businesses' debt is up 8.3% y/y up from 7.9% in June, 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



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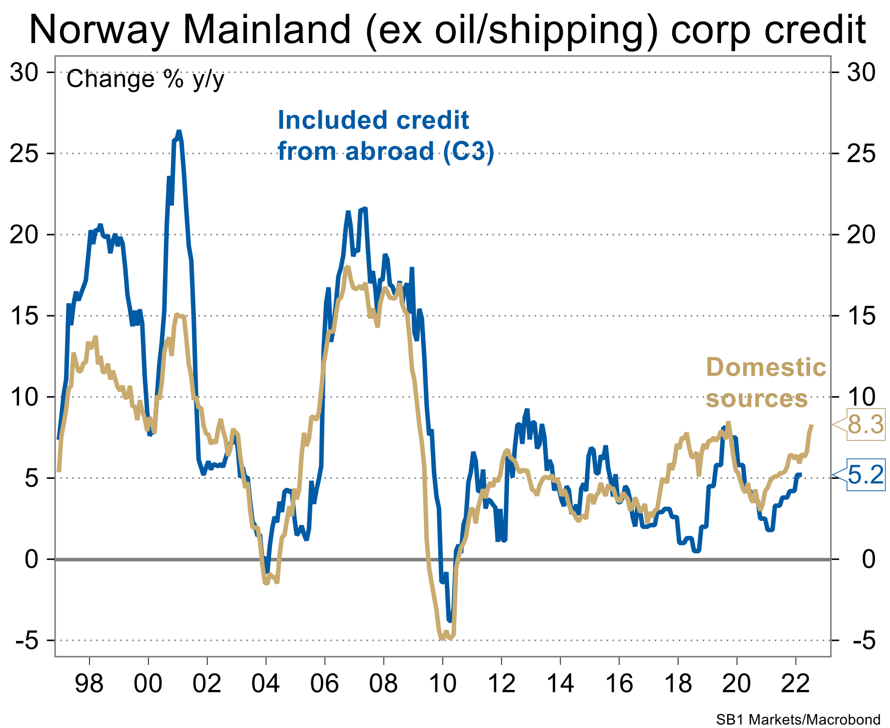
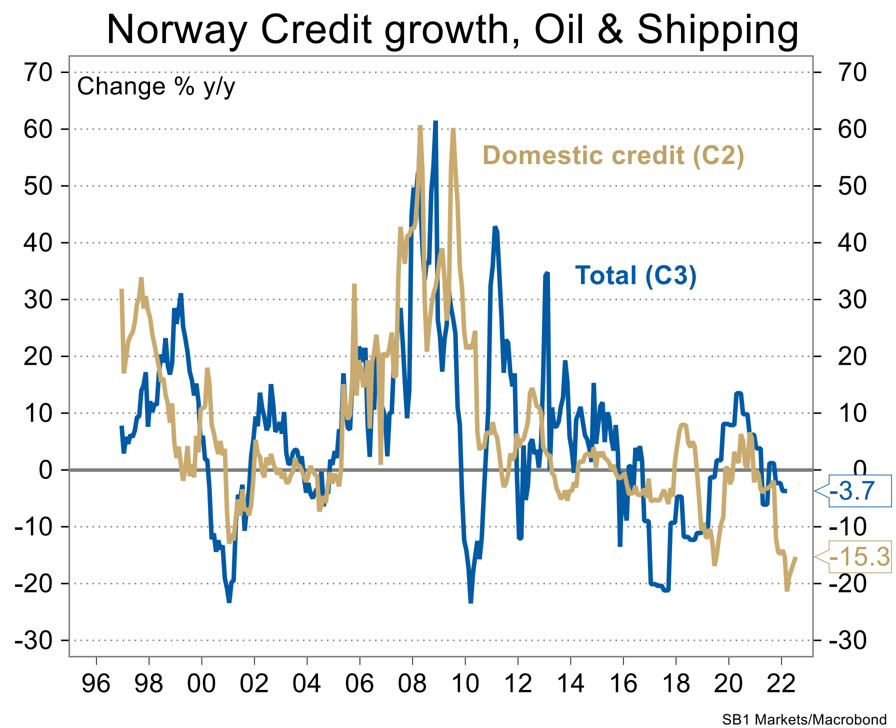
Mainland corporates increased their total debt (including foreign credit) by 5.2%

… in Q1. Debt from domestic sources (in C2) was up 8.3% in July





- **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 15% (via transactions)!

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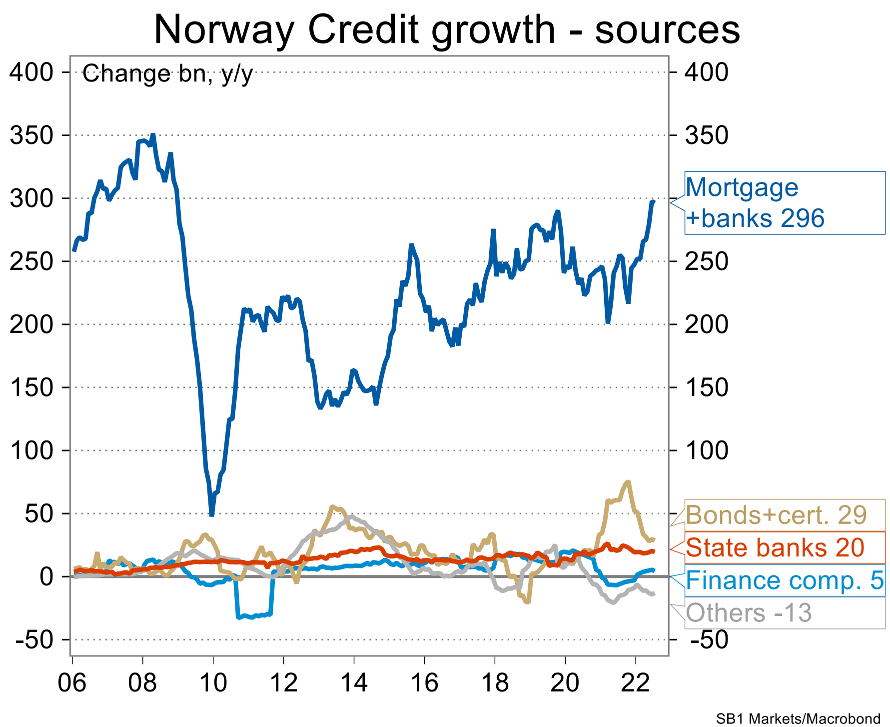
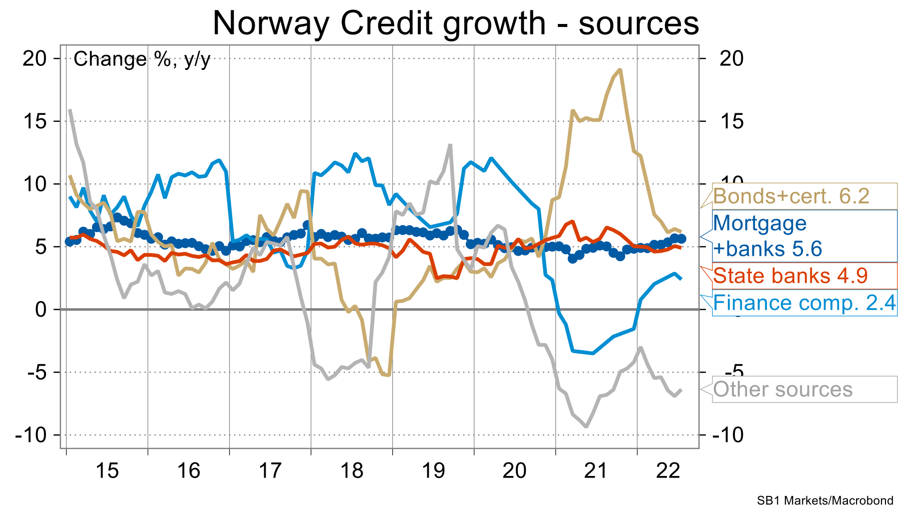
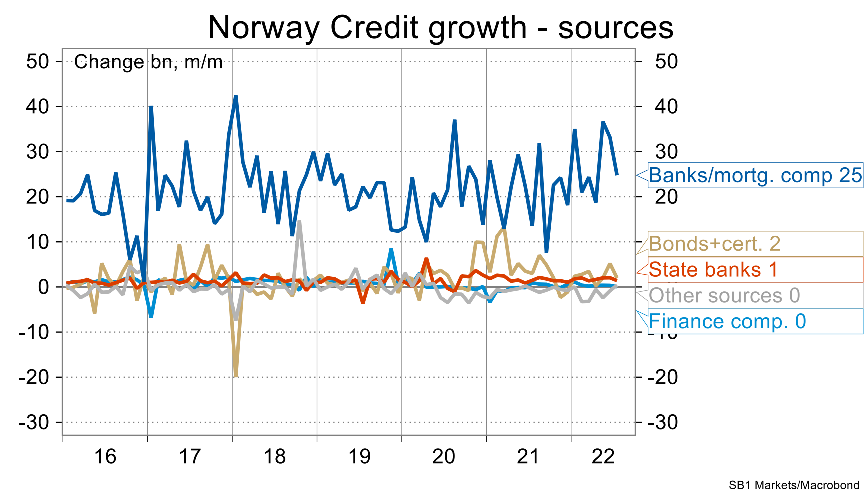
Banks are increasing their large market share further

Bond market borrowing has slowed substantially recently



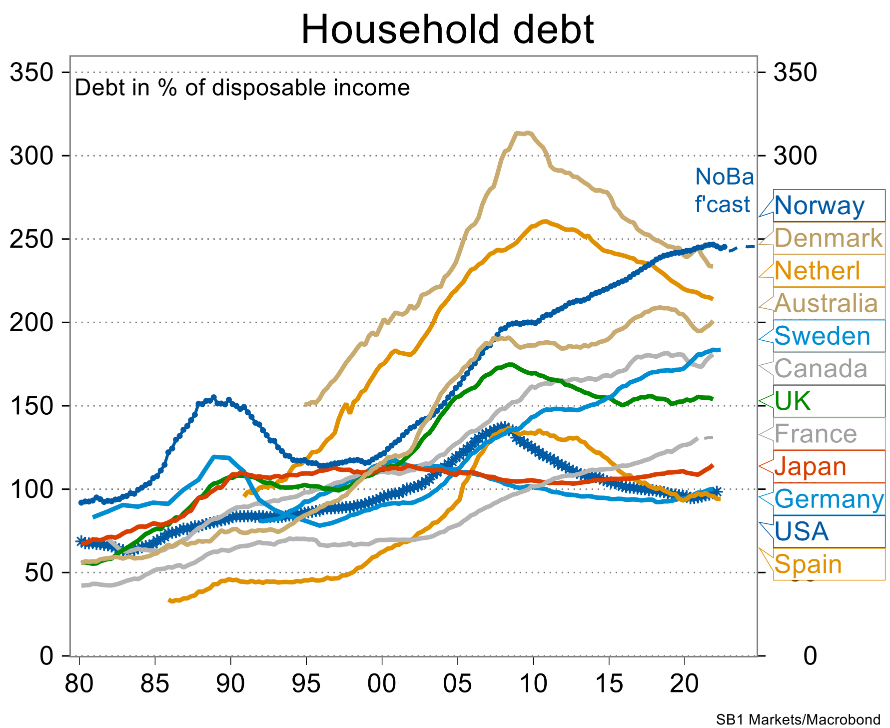


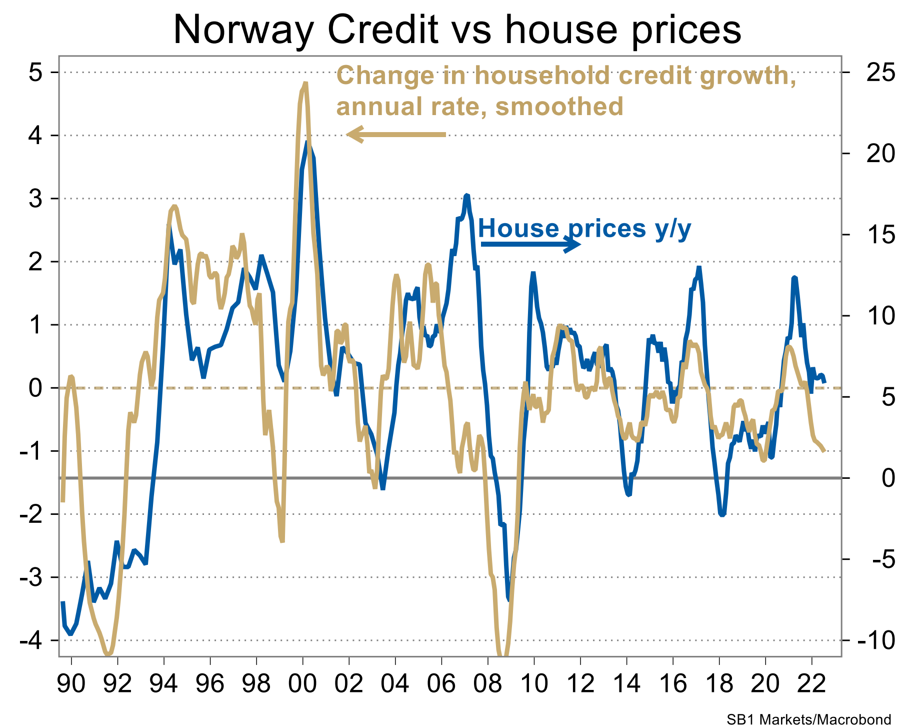


- Banks/mortgage companies are up NOK 296 bn (5.6%) y/y
- Net issuance of bonds (to non-financial sector) is up NOK 29 bn (6.2%) y/y – higher growth rates than normal but well down from the peak (75 bn, 19%)
- Finance companies and 'others' have reduced their lending
  - » Both insurance/pension funds 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

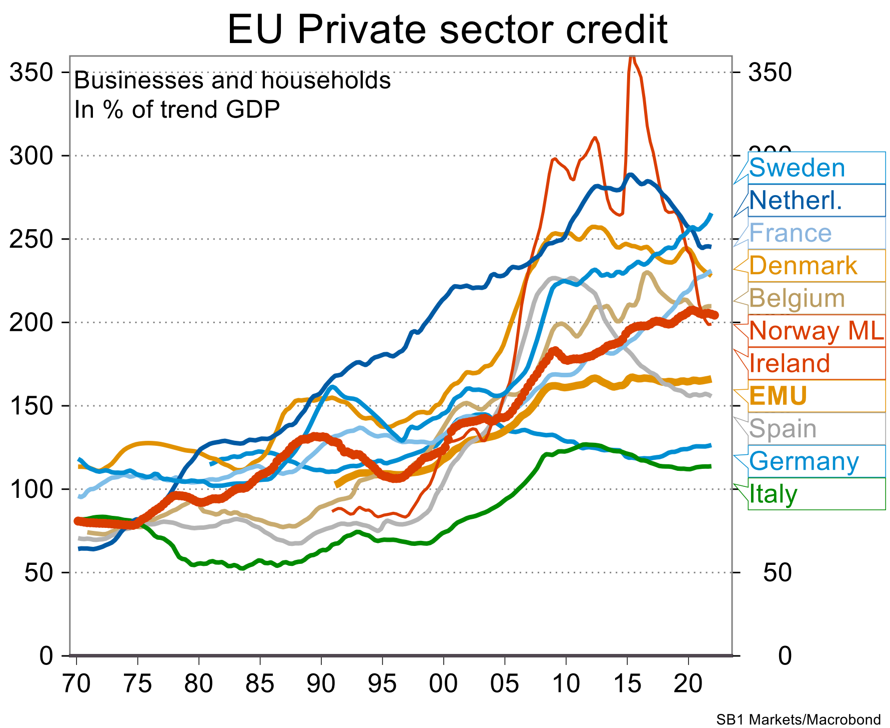


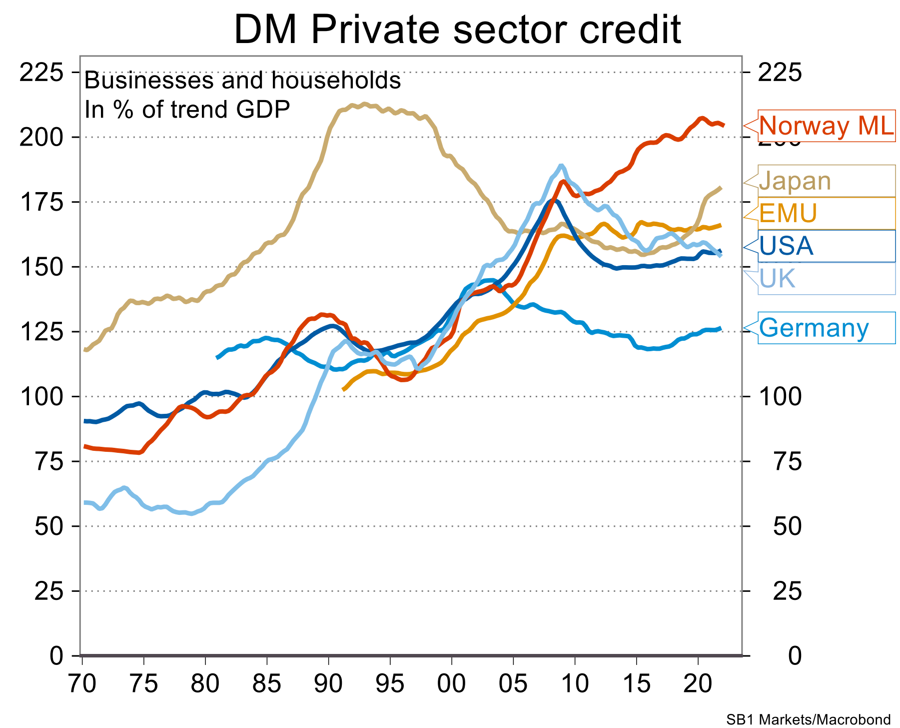


- **Norwegians households' debt** steady been growing faster than income but not more since
  - » Debt/income ratios in many countries have been influenced policy measures vs. households during the pandemic
- **Changes** in credit **growth** (the 2nd derivative) is usually correlated to economic growth, 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

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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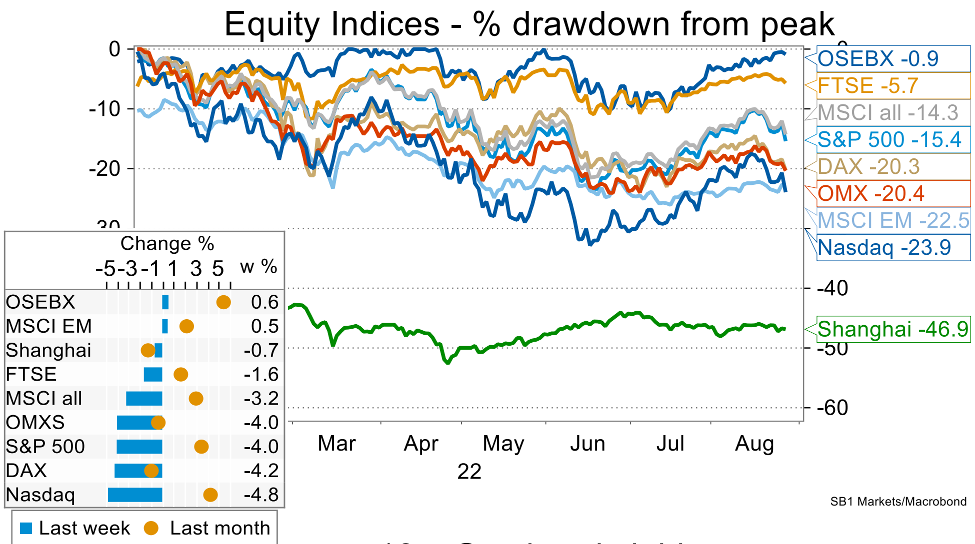
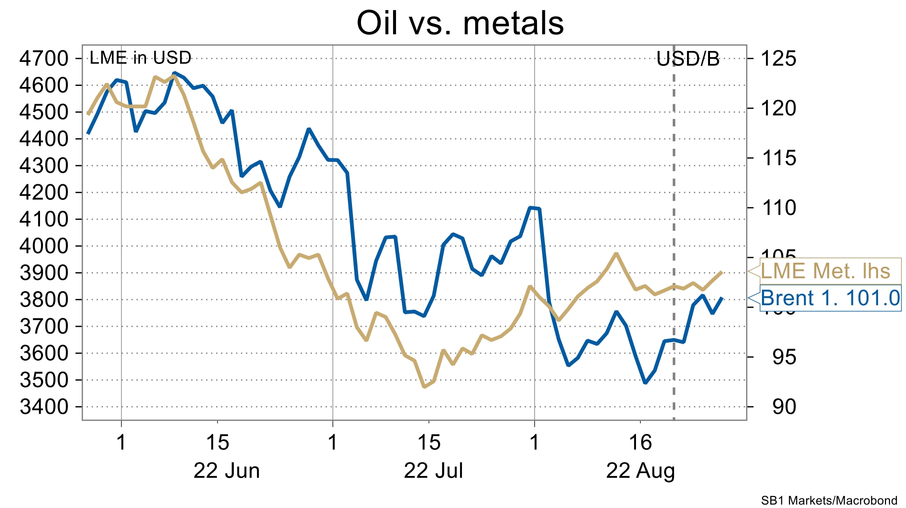
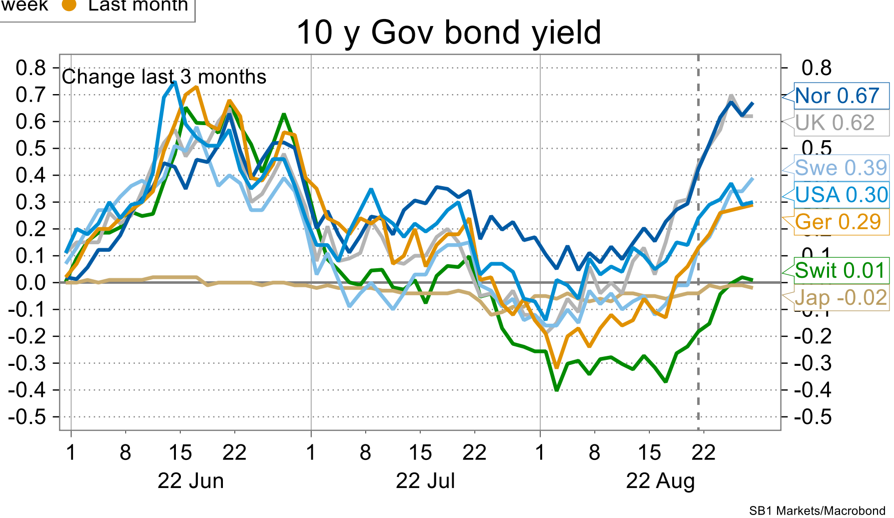
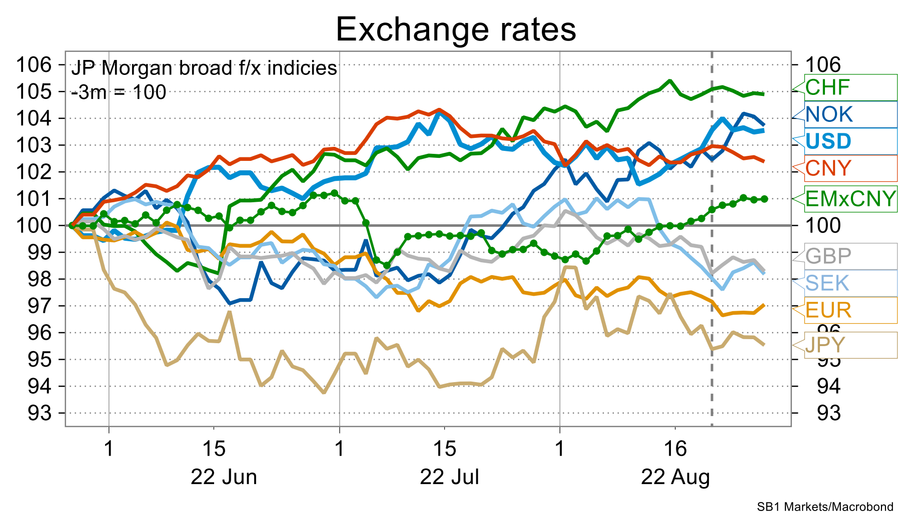
Equity markets down, especially Friday evening. Just Oslo & EM up last week

Bond yields rose, as did commodity prices. NOK appreciated





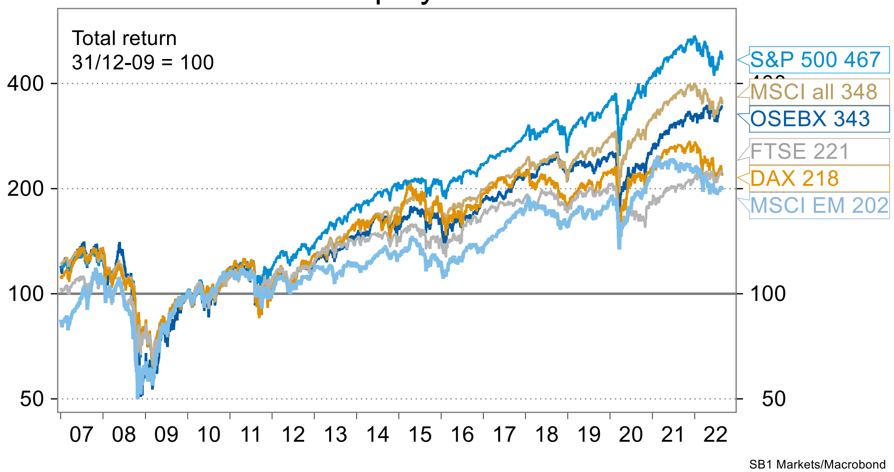




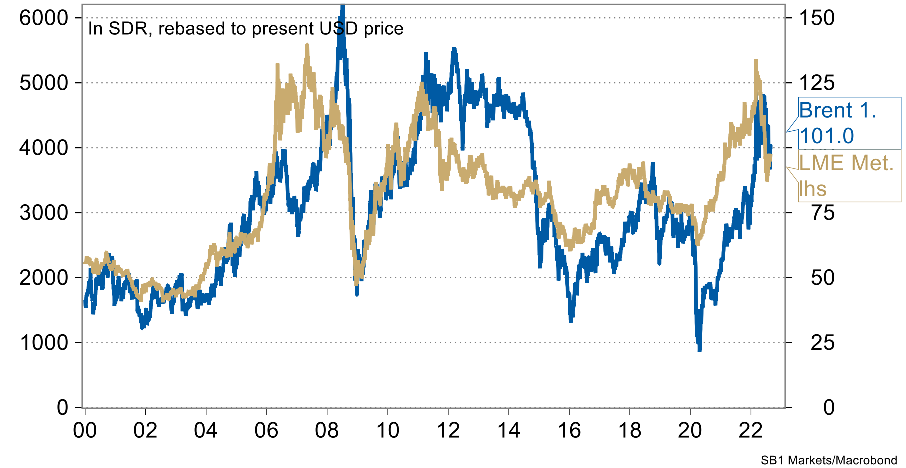
The big picture: Stock markets down, bond yields up

Commodities are on the way down again

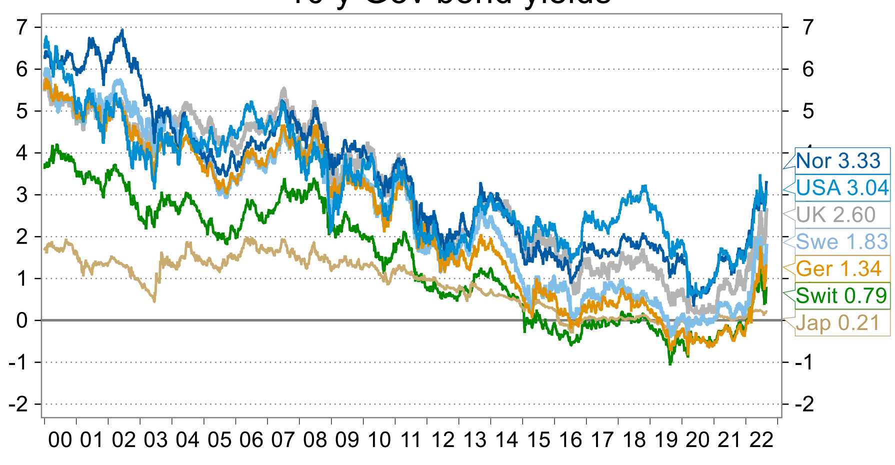
Equity Indices



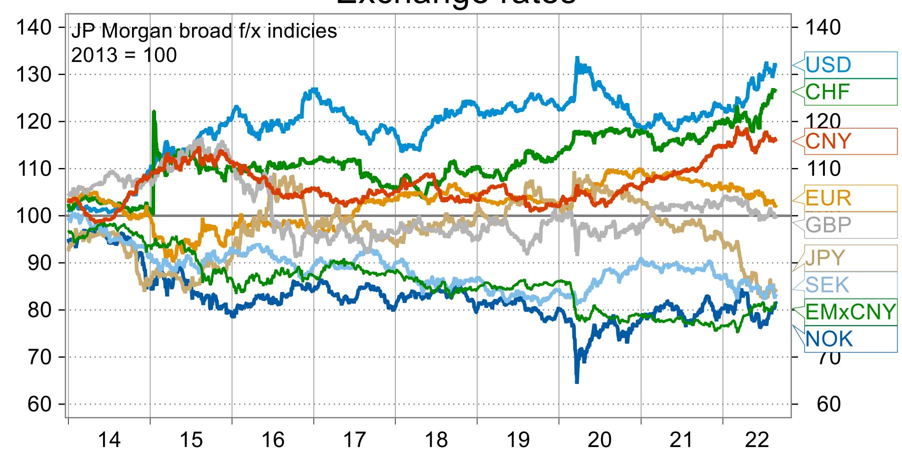
Oil vs. metals



10 y Gov bond yields



Exchange rates



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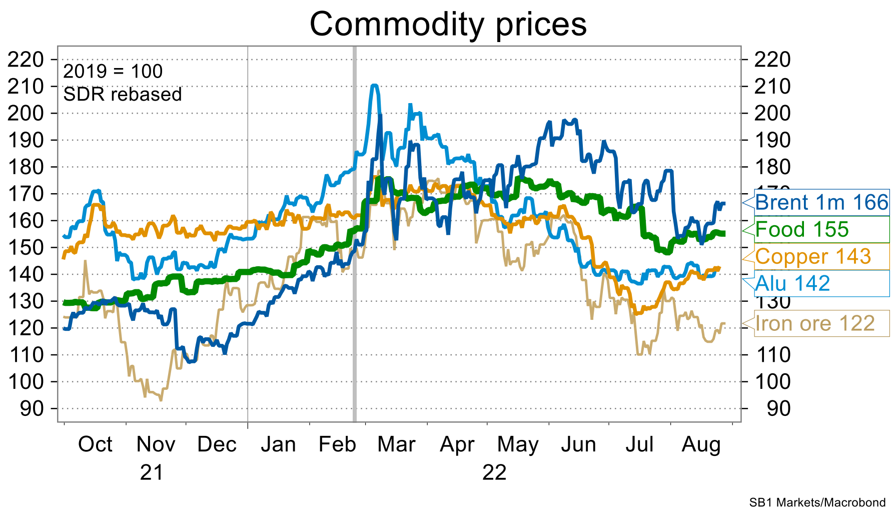
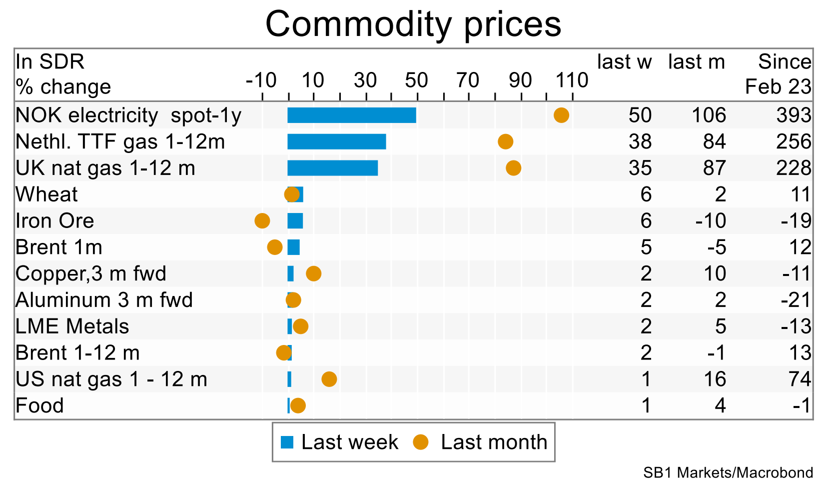
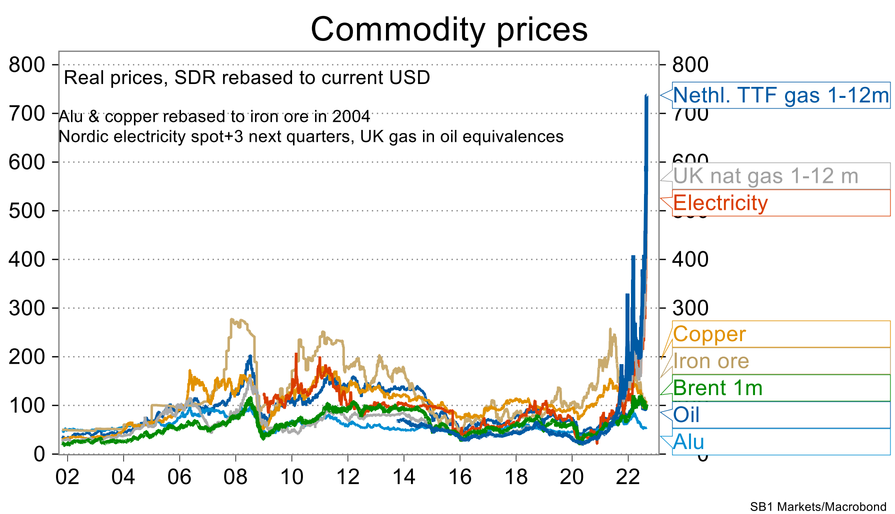
Commodity prices up last week, all of them! European gas & el. prices the most

Europe cannot survive for long with the current energy prices. Something will turn up. But what??







Last week

- **Brent oil** climbed to above USD 100/again, as Saudi Arabia signalled willingness to push prices up
- **European natural gas** prices – and thus electricity prices – shot up some 40 % last week, and are up 80% – 90% last month. Will Russia reopen the (very limited) gas flow when the 3 days maintenance period is over next week?
- The Economists **food commodity** rose marginally last week and is up 4% m/m (in SDRs). Some fear of impact of the serious draughts on several continents?
- **Metal prices** also rose, at least partly due to China's announcement of another infrastructure stimulus package, equalling some 1% of GDP

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

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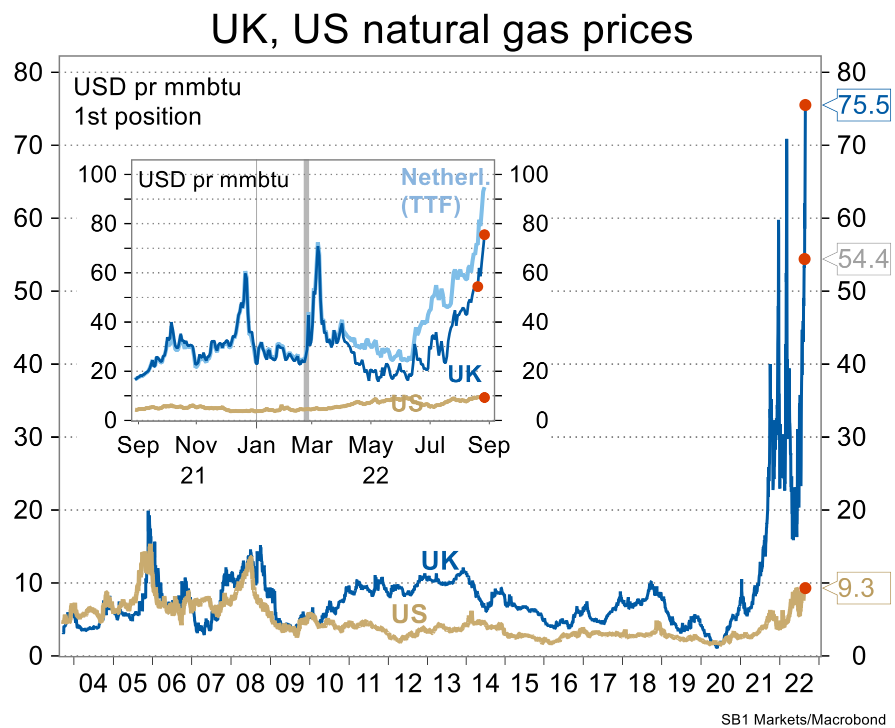
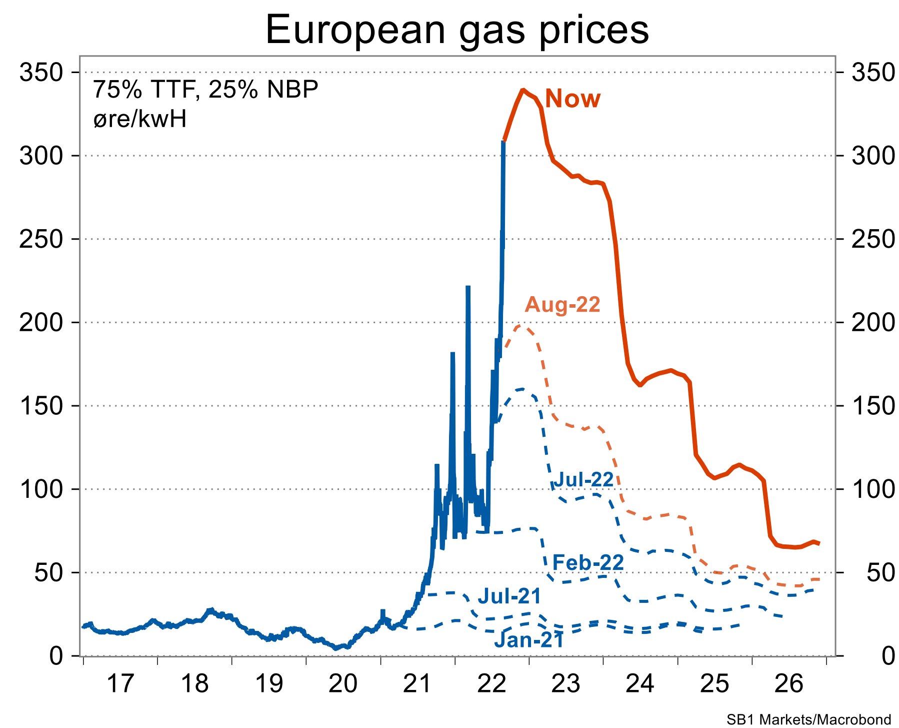
The main challenge: European gas prices up 40% last week. And +350% since Feb

Russian gas exports remain at a very low level. Most likely Russia has decided to 'freeze out' Europe





- Gas prices are extremely high, as supply from Russia is running very low – and may be fully closed down
- More bad news: Nuclear electricity plants in France are lacking cooling water due to empty rivers, coal transport up the Rhine may be hurt by too little water. And Russia will stop gas export for 3 days in late August

European gas: 75% Dutch TTF, 25% UK NBP, excl. CO2 cost. Red dots: Last and 1 week ago

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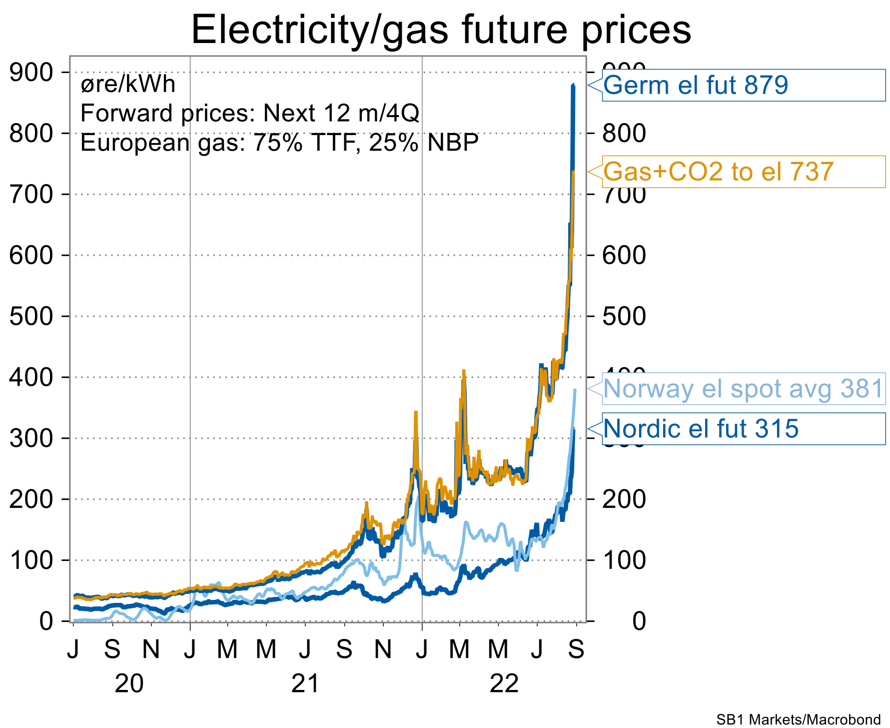
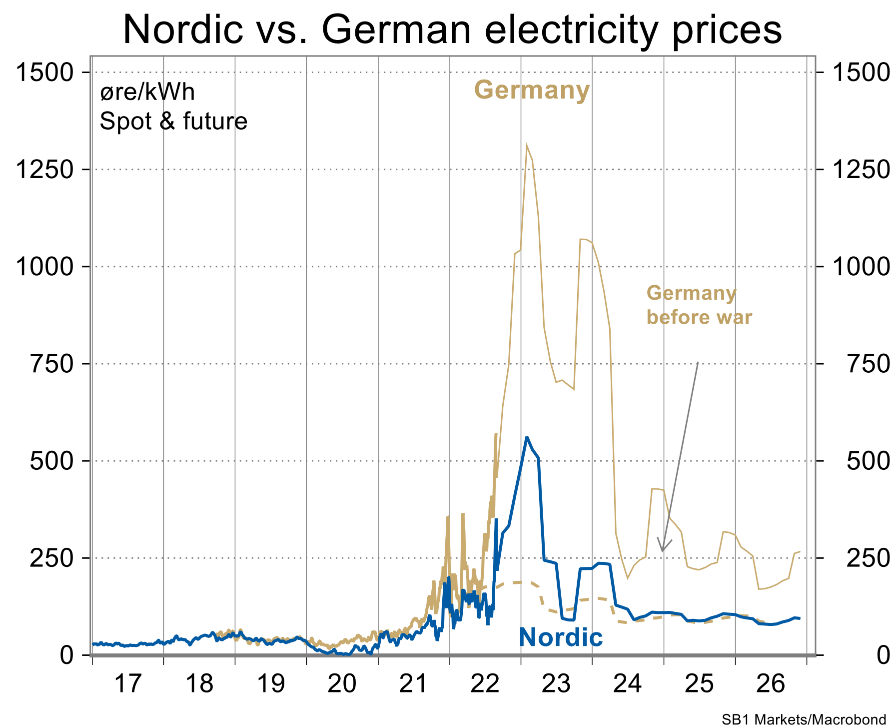
European gas & electricity prices are skyrocketing – up to 30 x a normal level





- Nordic (Nordic average) future electricity prices for the coming 12 months are almost 30% below the present average spot level in Norway – which is at a record high level
- Even included price differentials to Southern Norway (by up to 90 øre/kWh), future prices are far lower here than in Germany

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

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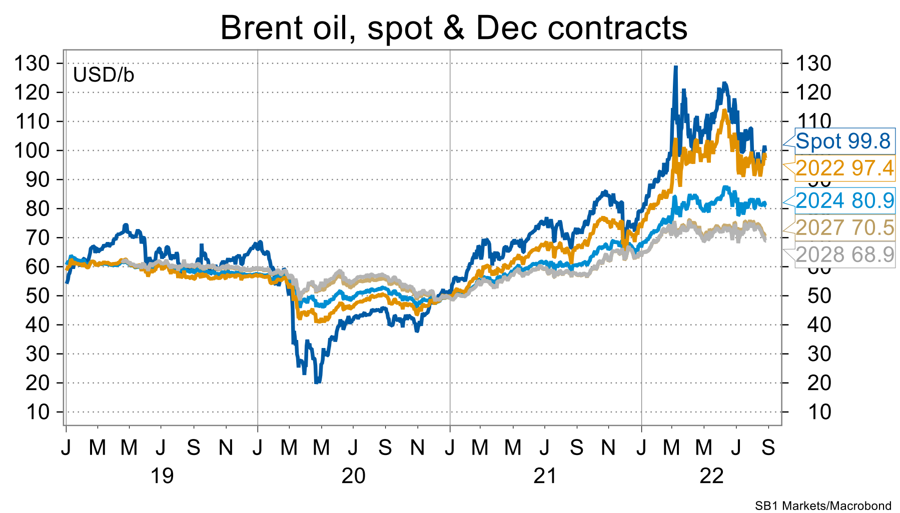
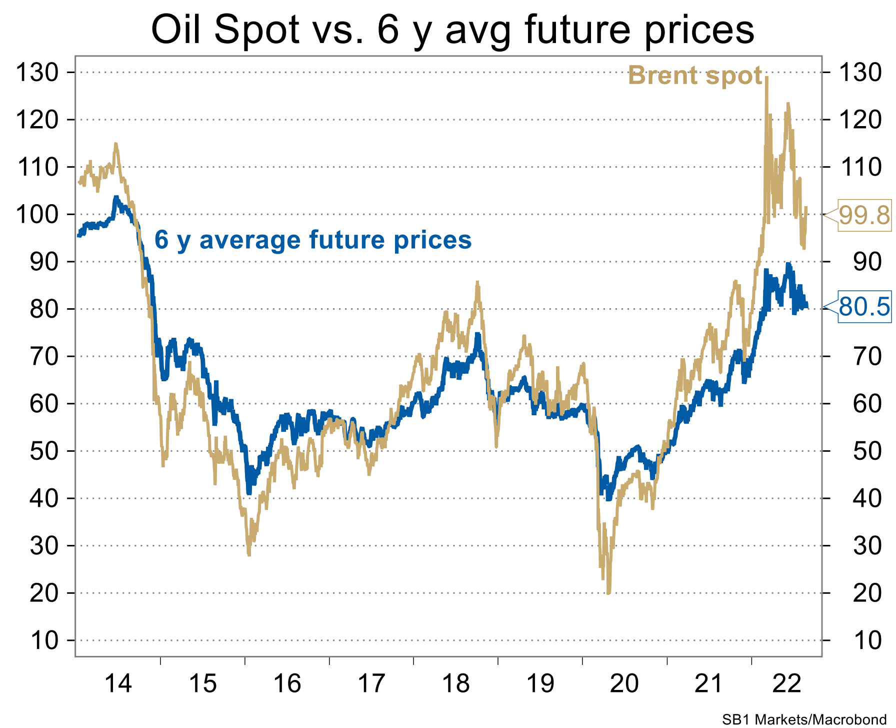
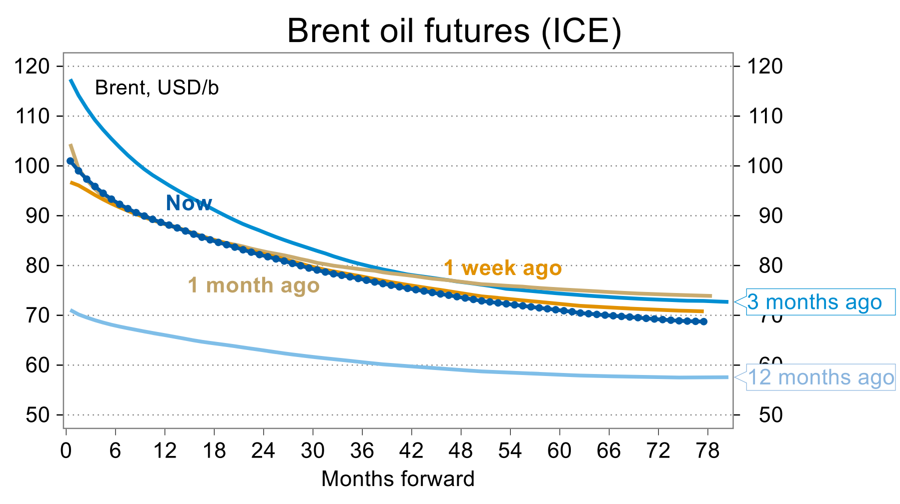
The short end of the oil curve up to USD 100/b last week; The long end down

… to below USD 70/b. Saudi Arabia is talking about keeping production down, to get prices up

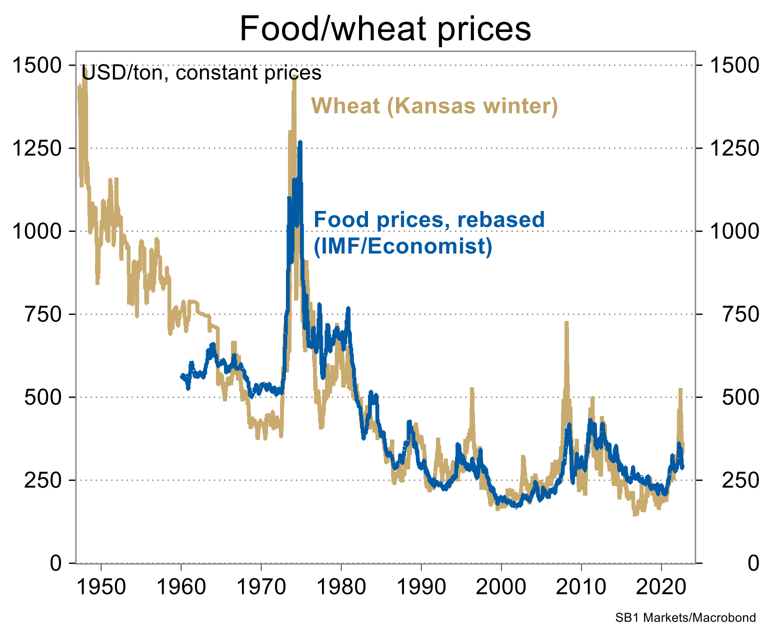


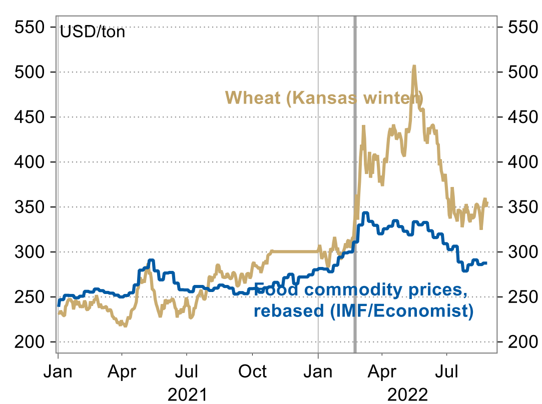


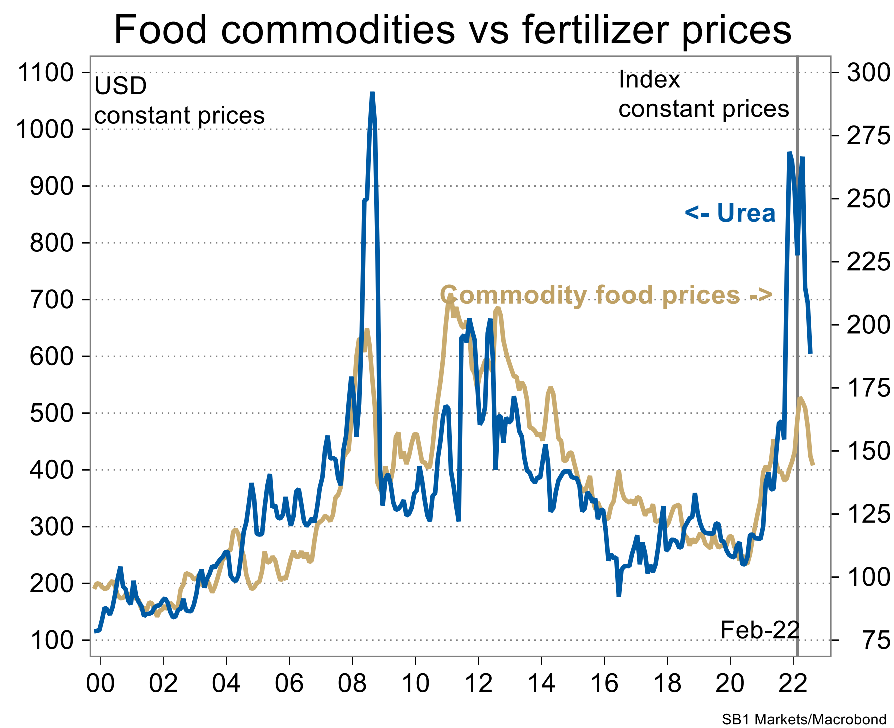


Food prices slightly up last weeks but are trending down

The real price level is not that high, *and below the 10 y average. A global food crisis??*



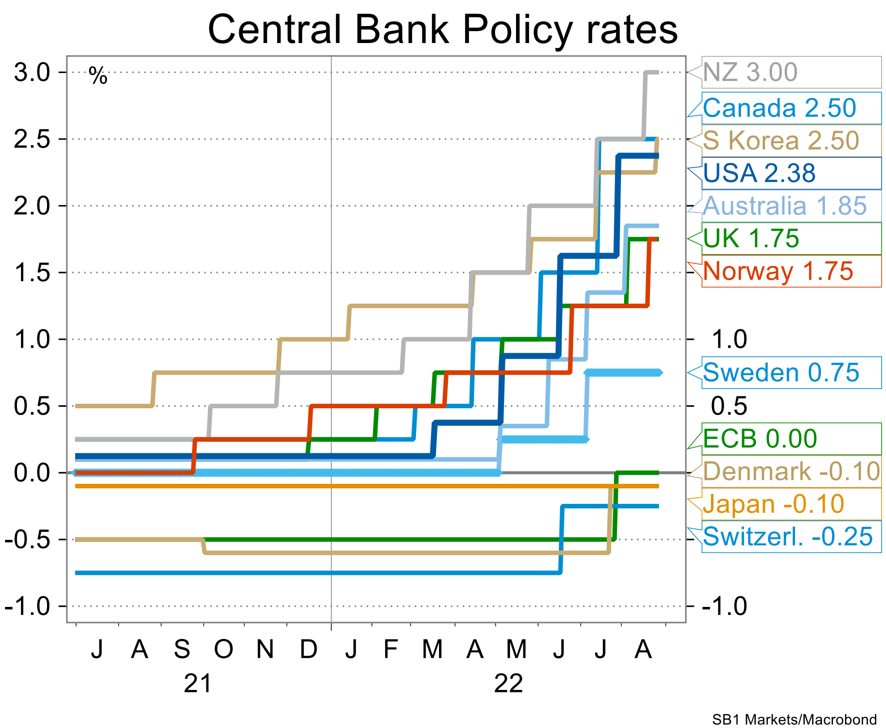


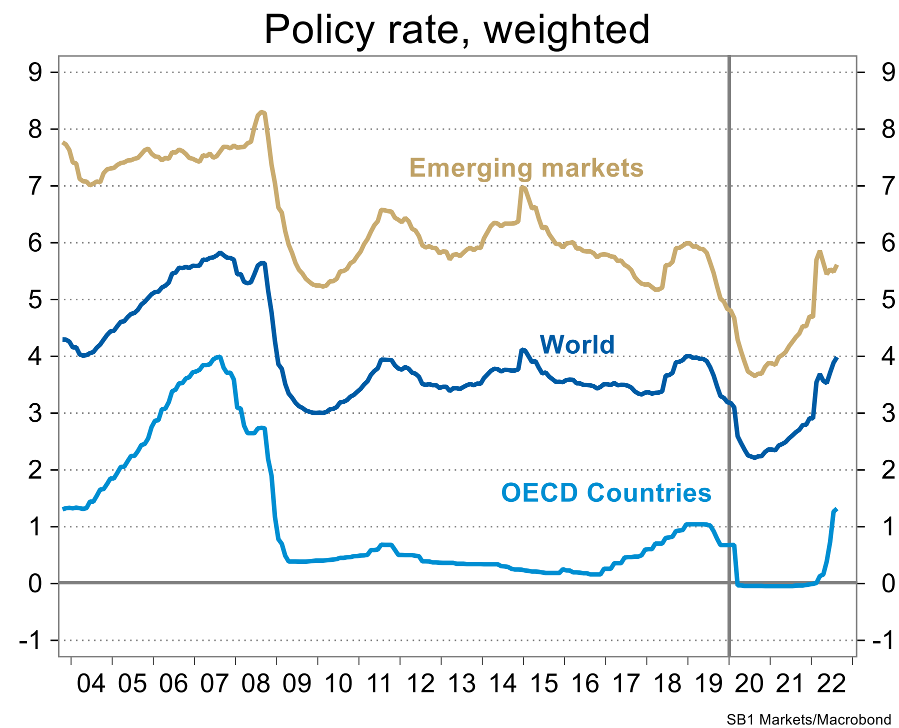


Urea prices are falling rapidly too (but are not low vs. food prices)

Short term rates in the rich part of the world the highest since 2008

South Korea hiked by 25 bps last week but signals some hesitance vs. further hikes



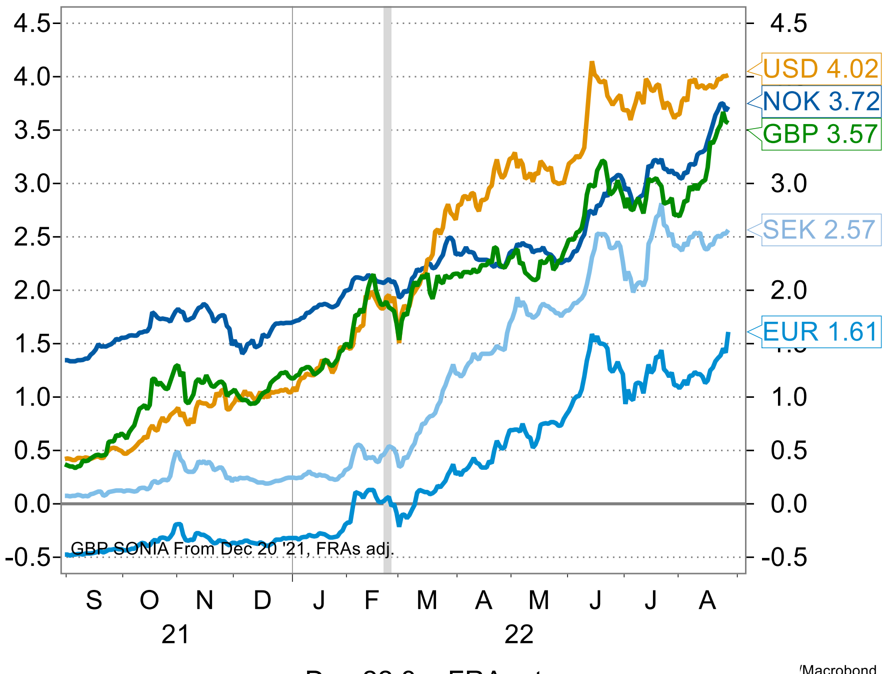


- In addition to rate hikes, most central banks have ended their QE buying programs (well, the ECB established a new program two weeks ago, the Transmission Protection Instrument, TPI (and not TIP as we named it ☹). Some banks will start reducing their holdings
- The EM average policy rate has come down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

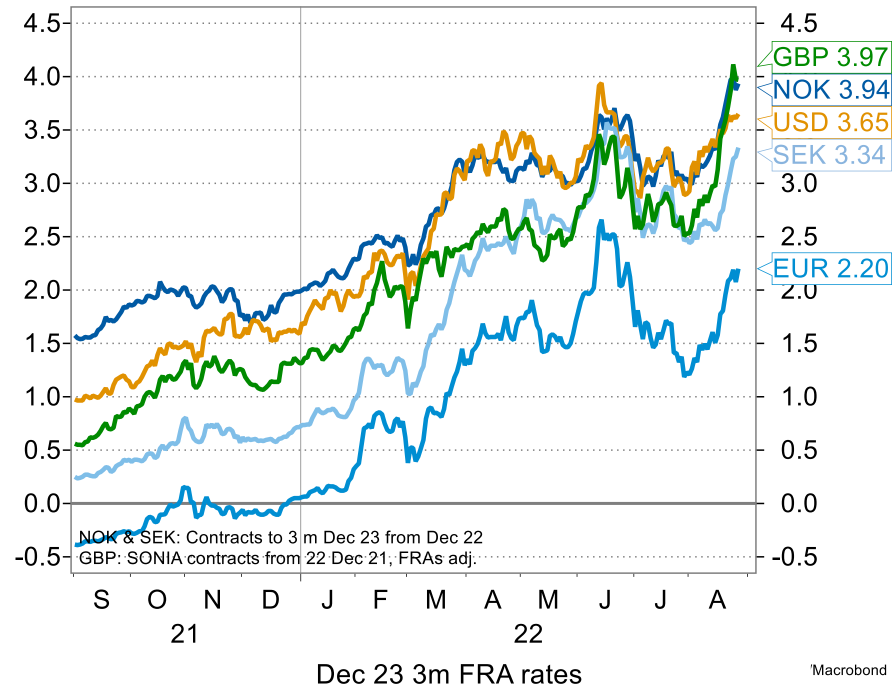
FRAs up everywhere last week – and more in the rest of Europe than in Norway

Even if Powell sent a clear message on Friday, USD FRAs rose less than European rates (also on Friday)

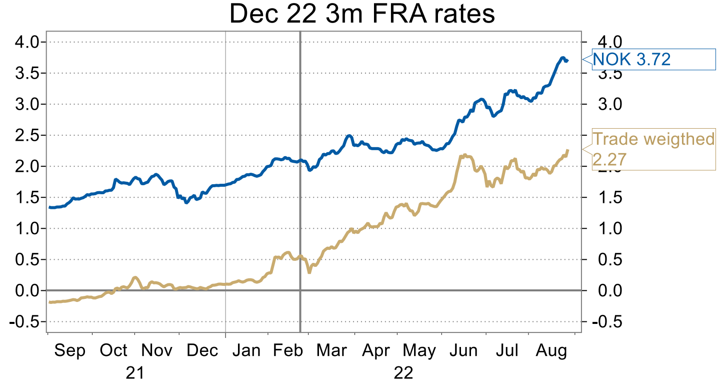
Dec 22 3m FRA IBOR rates



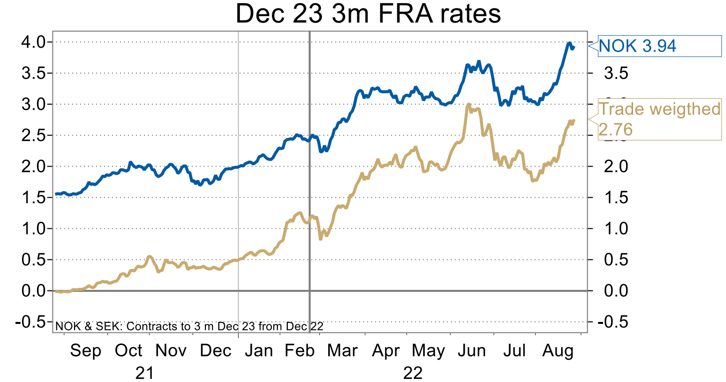
Dec 23 3m FRA IBOR rates



Dec 22 3m FRA rates

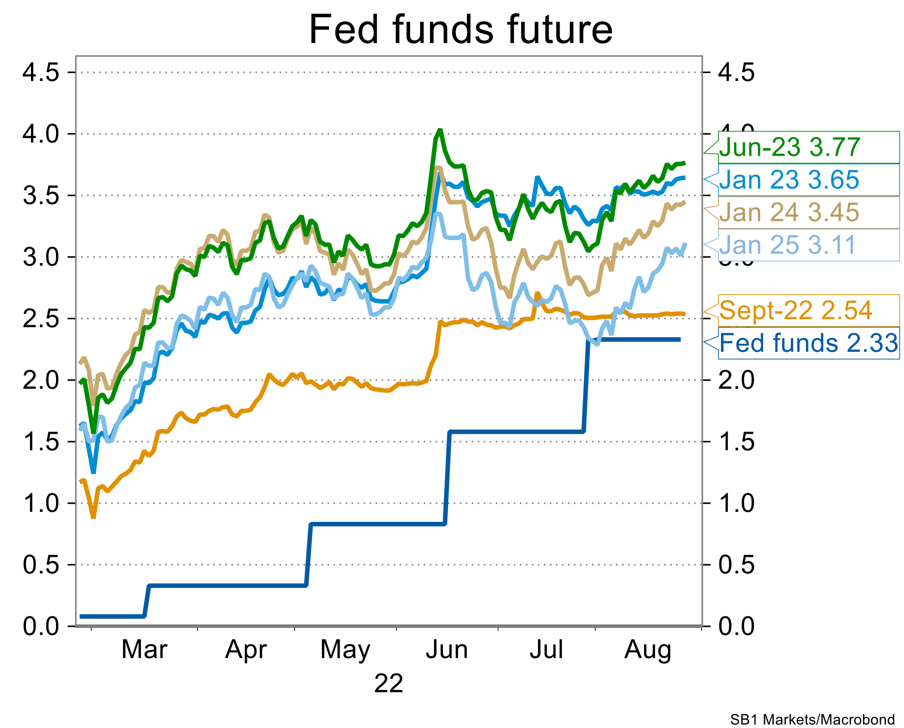


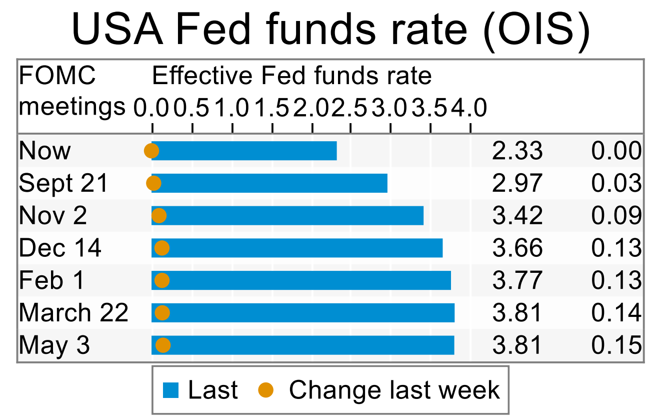
Dec 23 3m FRA rates

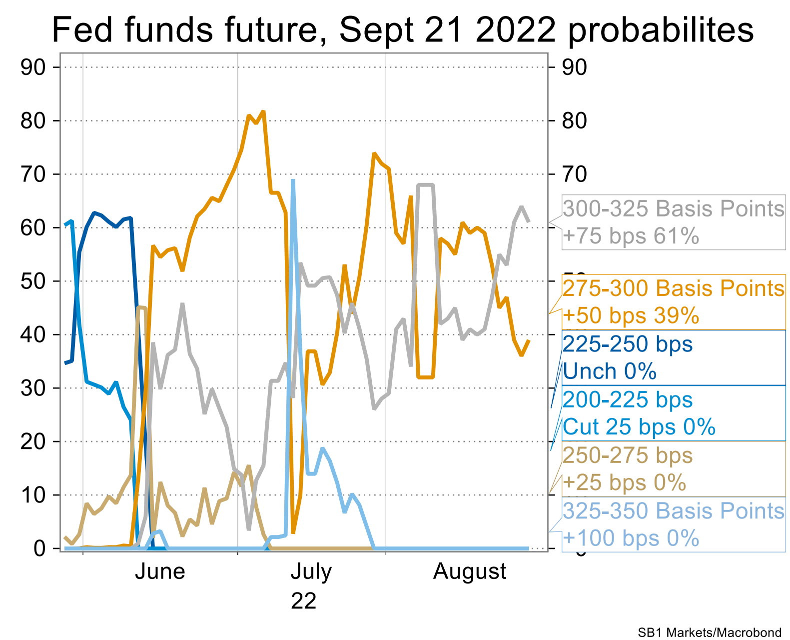


The market assumes a 75-bps hike in Sept, and a peak at 3.8%, from 2.33% now

Fed's Powell lifted the rates most at the 'mid' segment. Rates will be kept higher for longer

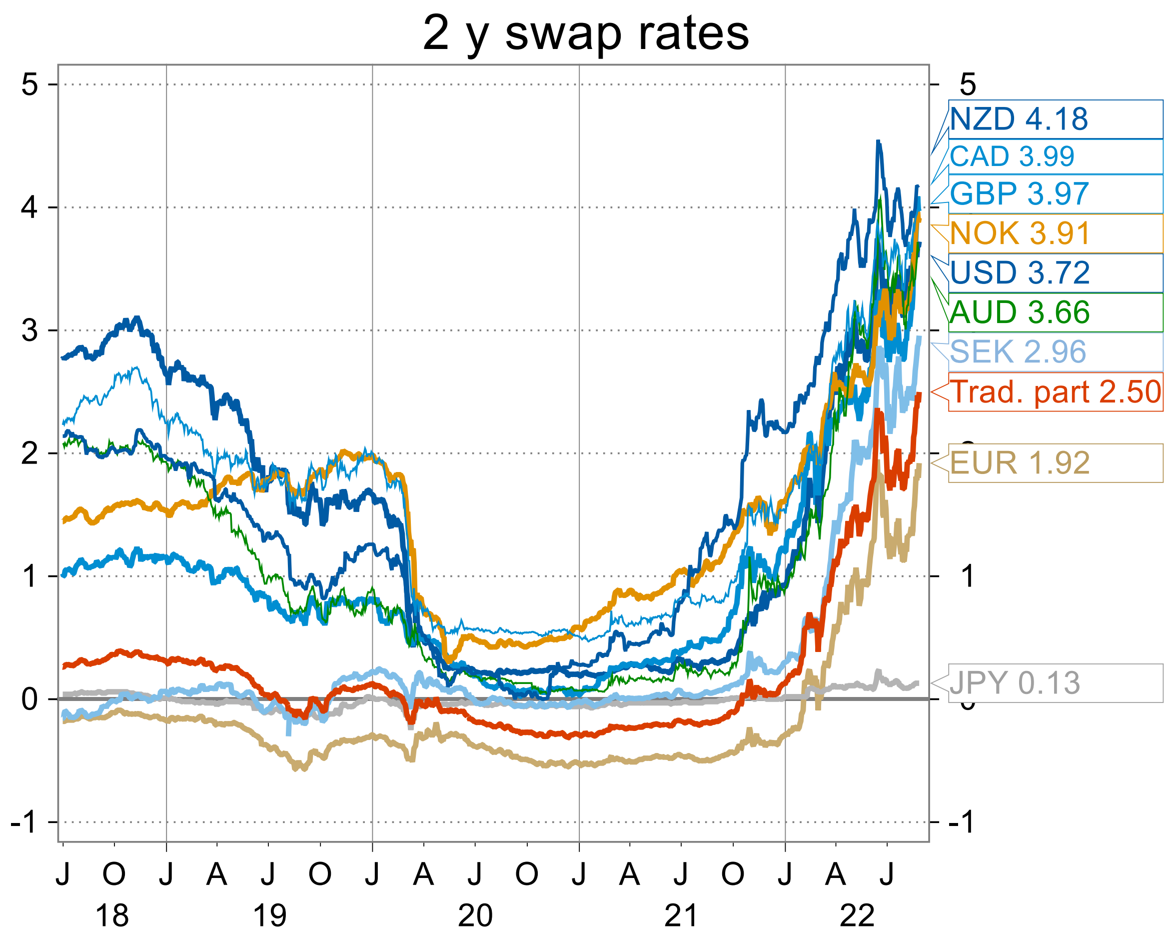






Short term rates up everywhere, more abroad than in Norway

The 2 y GBP swap rate up 31 bps, following the 49 bps lift the previous week



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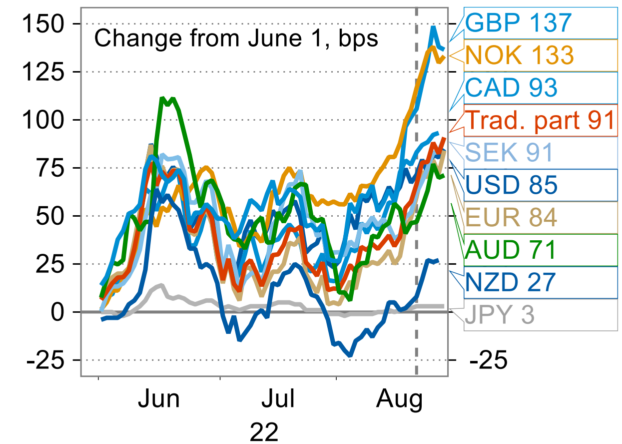

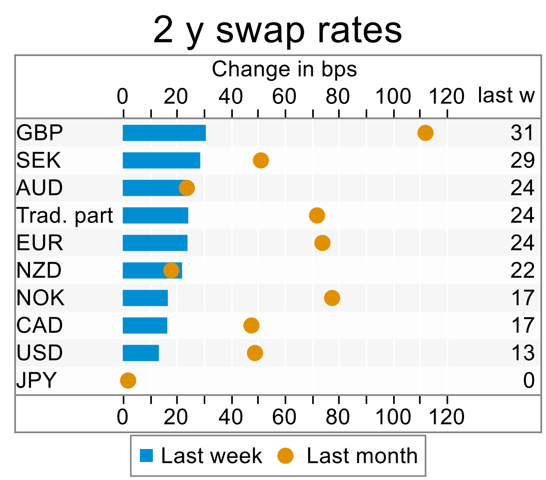

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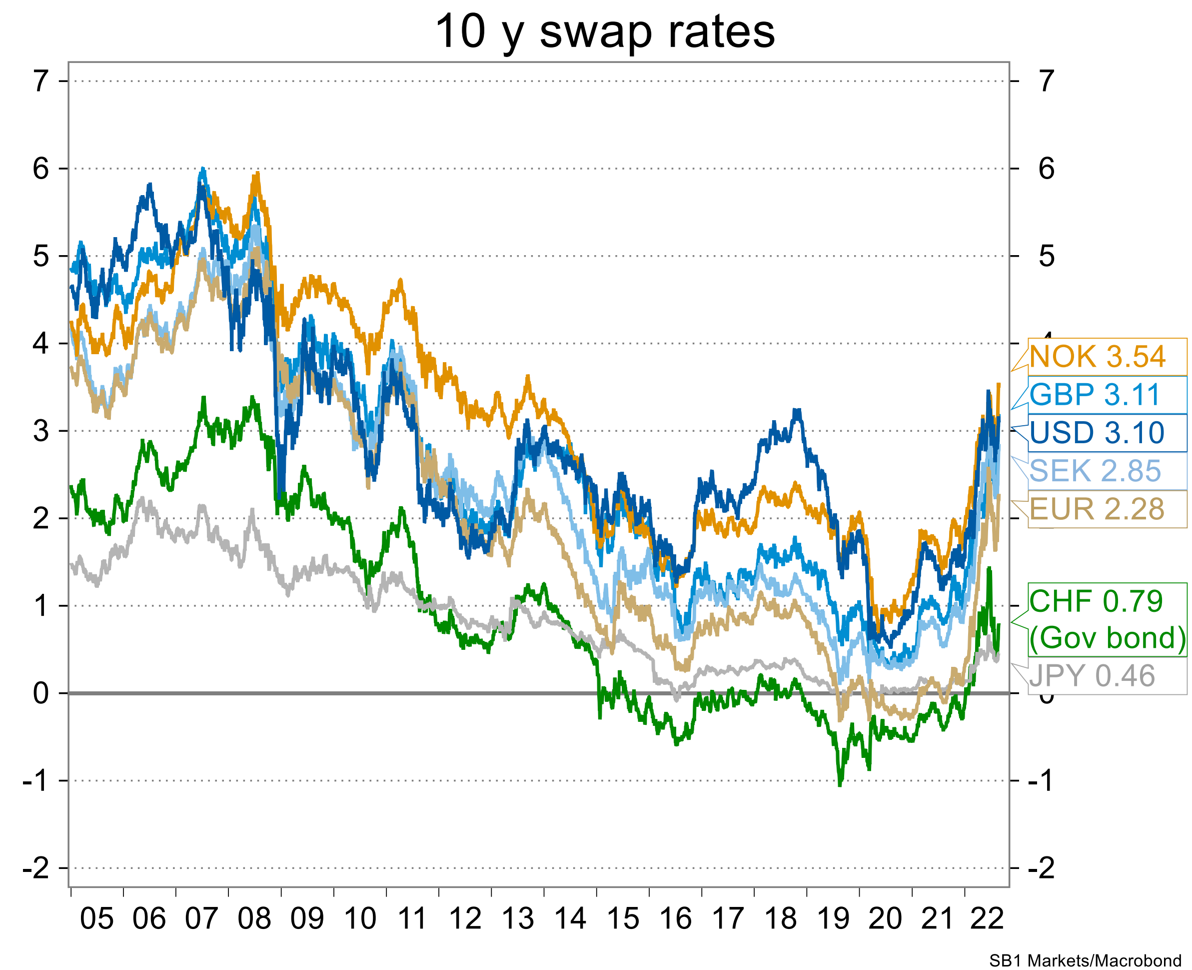
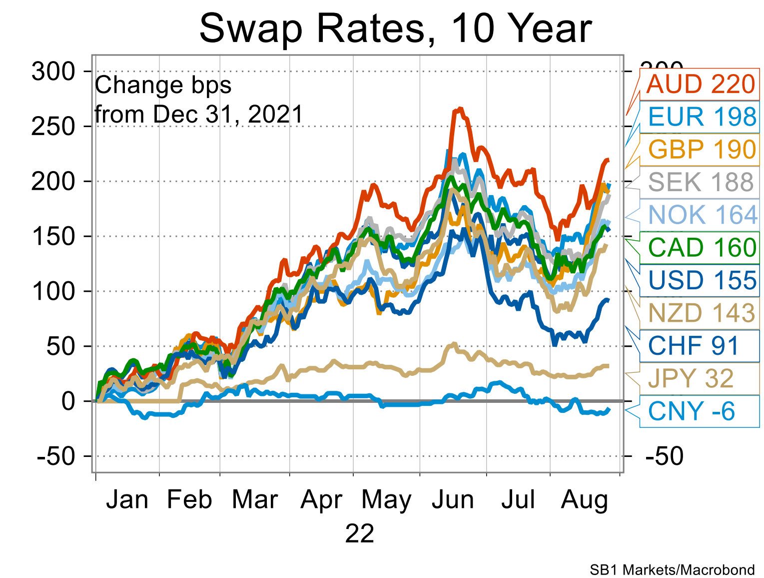
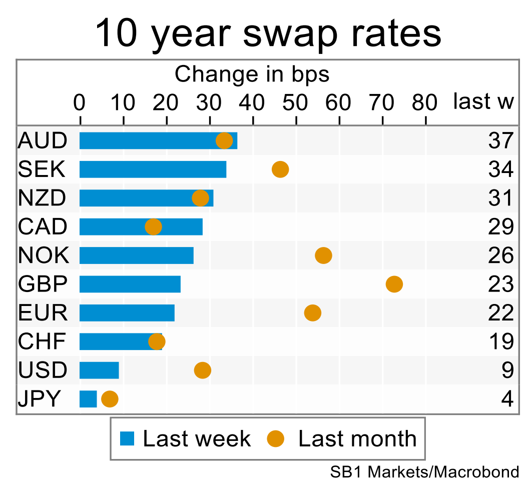
Longer dated rates sharply up too, but 10 y swap rates still below the June peaks

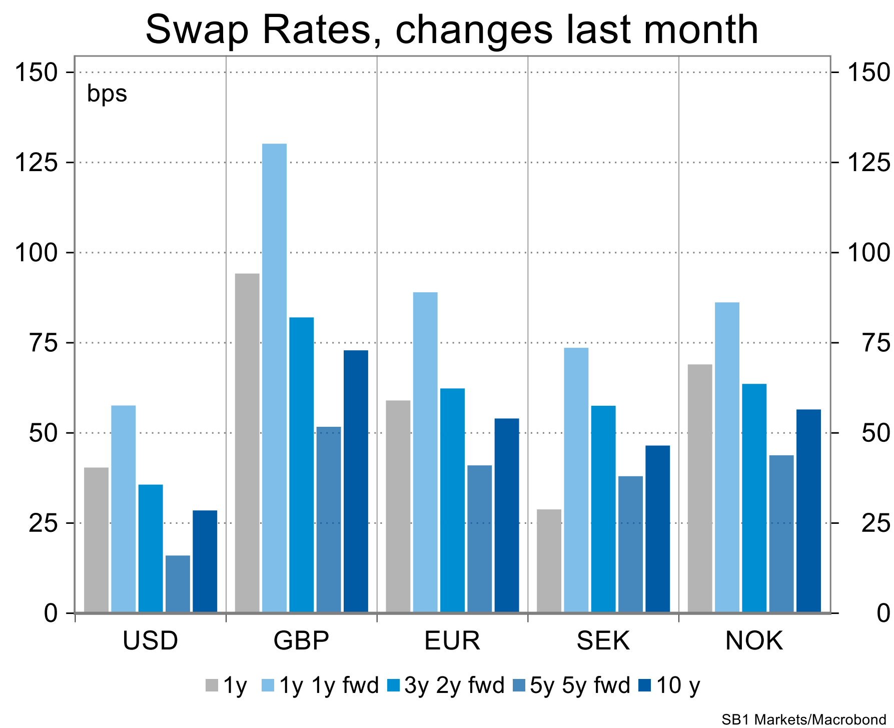


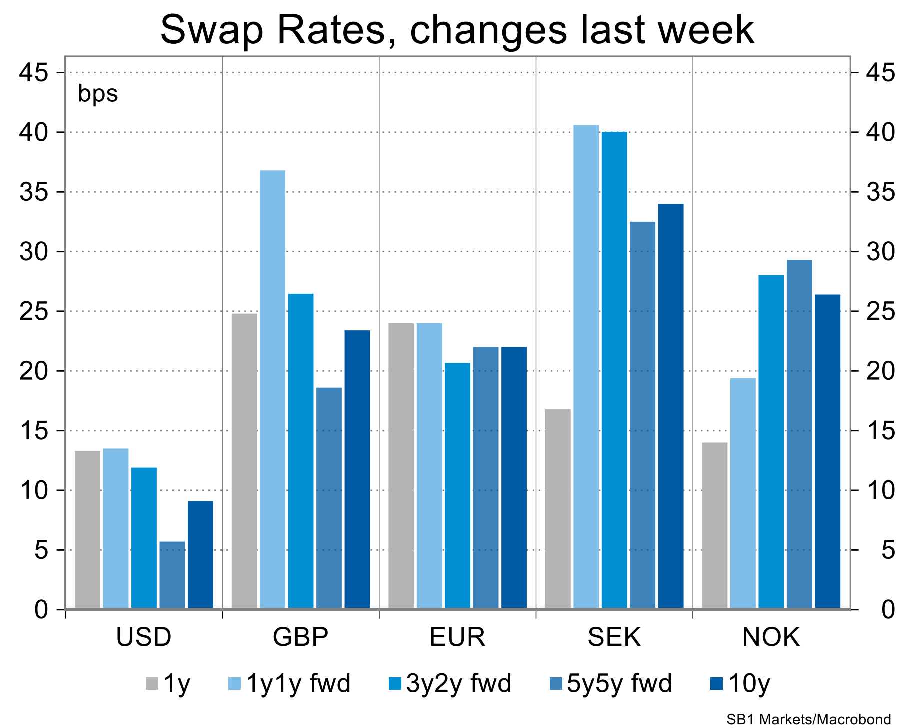




CHF: 10 y government bond yield

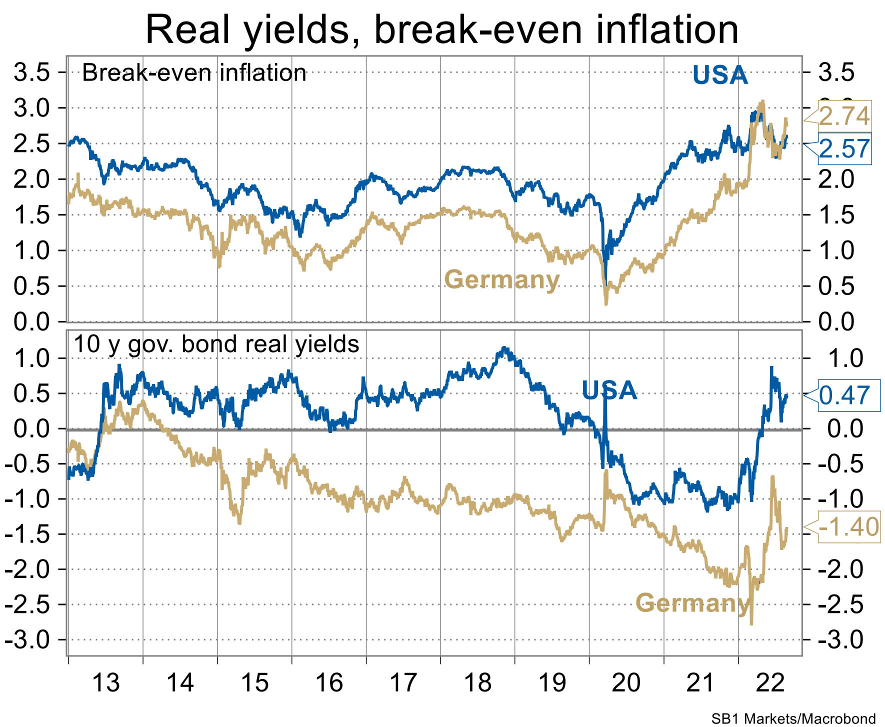
All rates up everywhere: and the most in Europe. NOK rates not in the lead

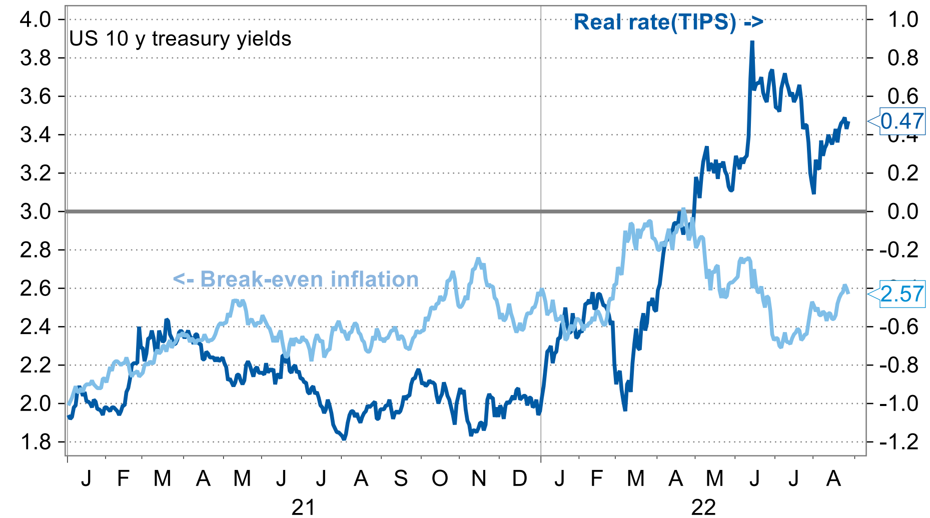




US 10 y real rates are approaching 0.5% again. German real rates sharply up

Still, German rates are at an 'impossible' level, at -1.4% - however now heavily influenced by the short end





- **The 10 y inflation expectation** at 2.74% is primarily driven by high expected inflation the first year (8%, measured via inflation swaps). Thereafter, inflation is rapidly expected to fall to 2% an below again. Real rates move the opposite direction – they are turning positive

US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	3.04	0.06	0.23	1.12	0.52
.. break-even inflation	2.57	0.02	0.21	0.16	1.06
.. TIPS real rate	0.47	0.04	0.02	0.96	-1.19
Germany nominal bund	1.34	0.16	0.37	1.12	-0.65
.. break-even inflation	2.74	-0.04	0.38	0.76	0.40
.. real rate	-1.40	0.21	-0.01	0.36	-2.80

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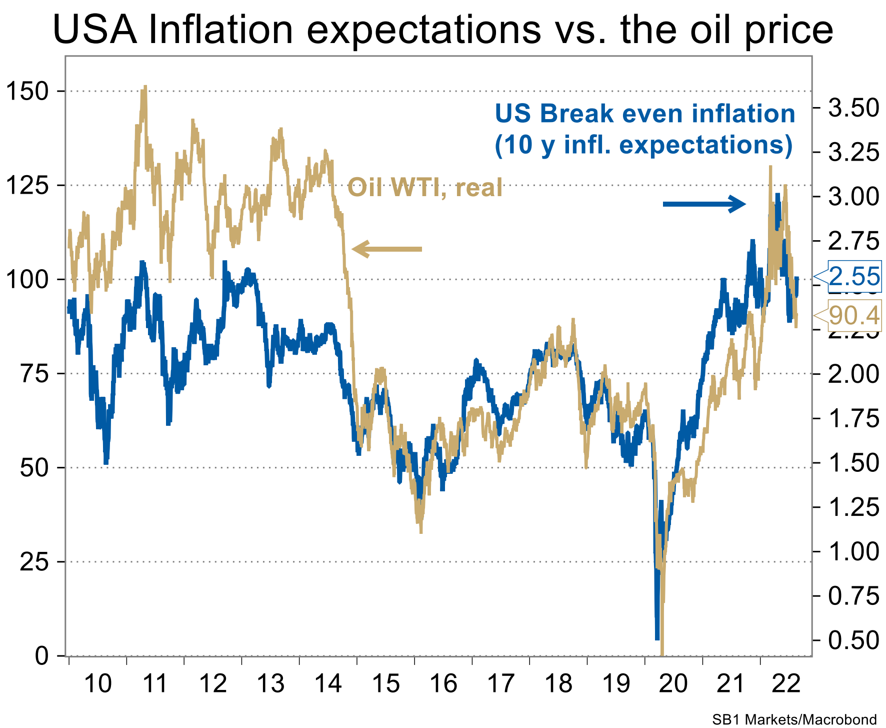
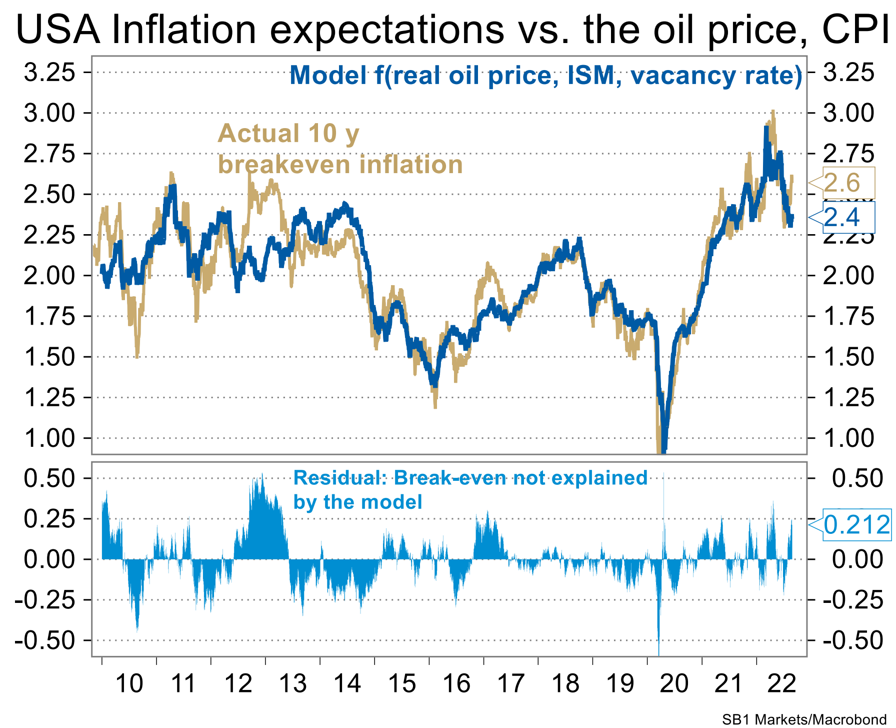
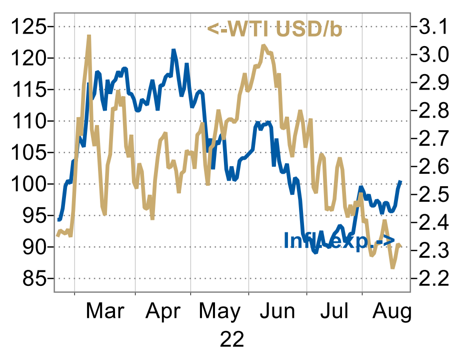
(Longer-term) Inflation expectations up, slightly too high?

If the economy slows – and the oil price does not surge – inflation expectations should come down



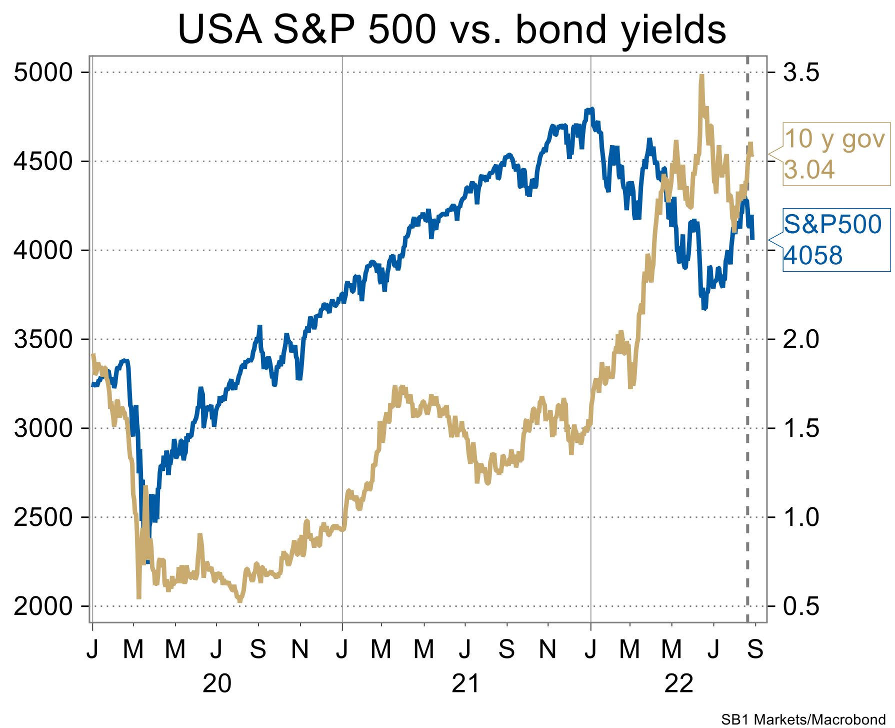


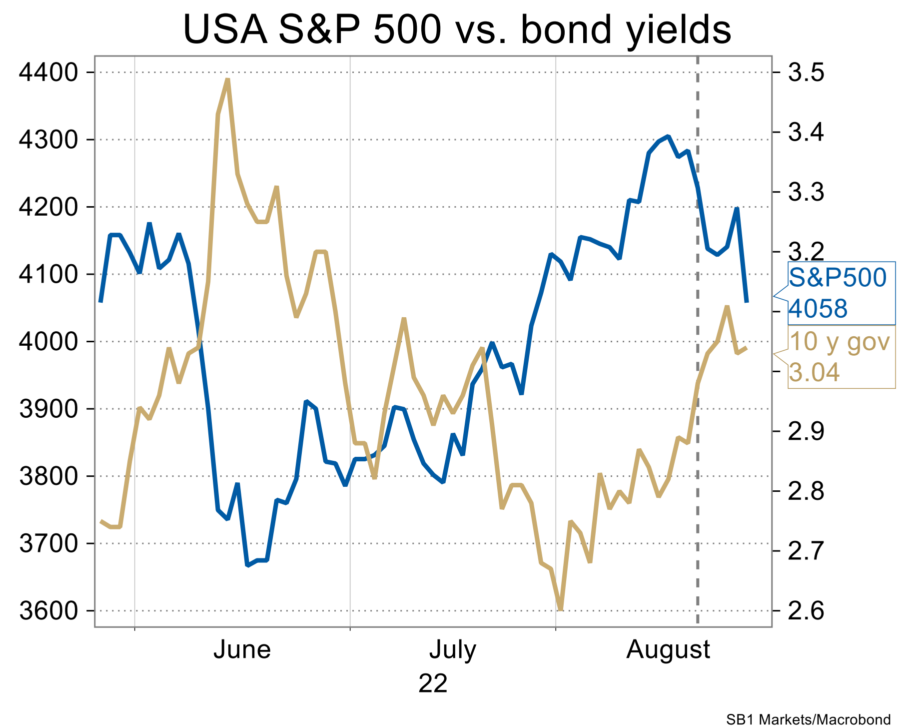


- A simple model including the spot oil price, the current ISM and the current vacancy rate pretty well explains the long-term breakeven inflation expectation in the bond yield curve
- What now? We are uncertain on the oil price, but rather confident that both the ISM, and the vacancy rate will decline. Impact vs the 10 y break-even expected inflation rate
  - -5 ISM points: -12 bps
  - -3 vacancy pts, (to 3.6% from 6.6%): -36 bps
  - - 10 USD/b: -10 bps

Powell talked the stock marked down – without talking up rates by much

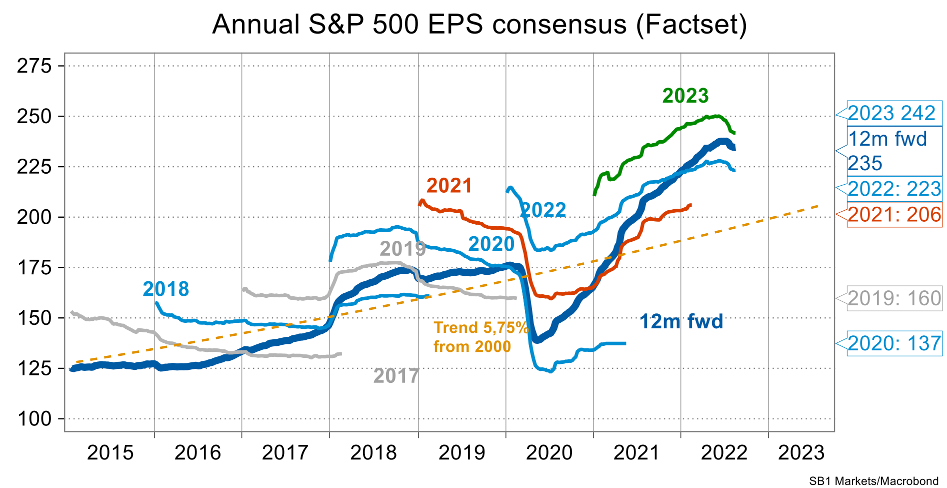
>1/3 of the summer rally wiped out. The bond marked was better prepared for a ‘recession’ message

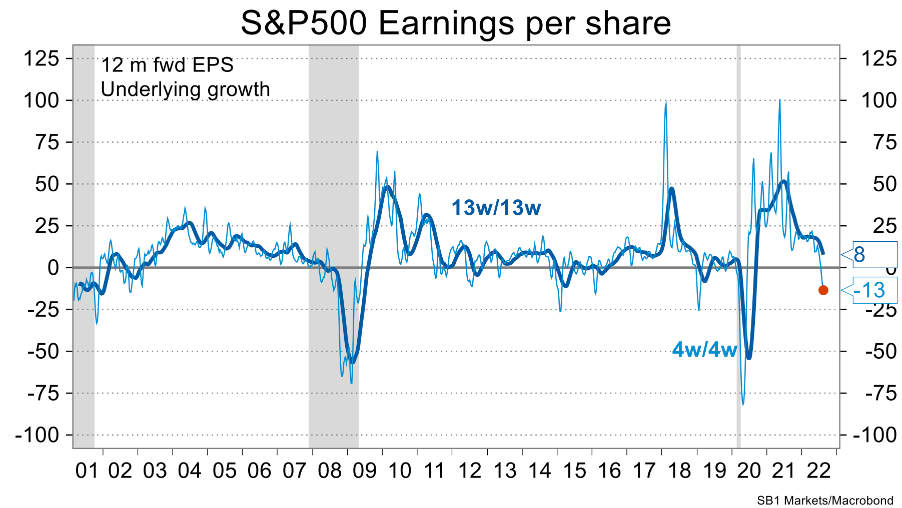


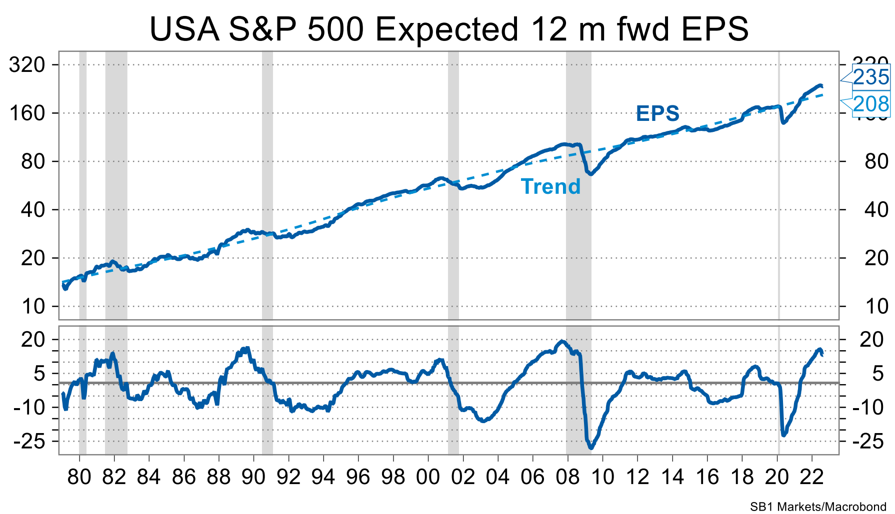


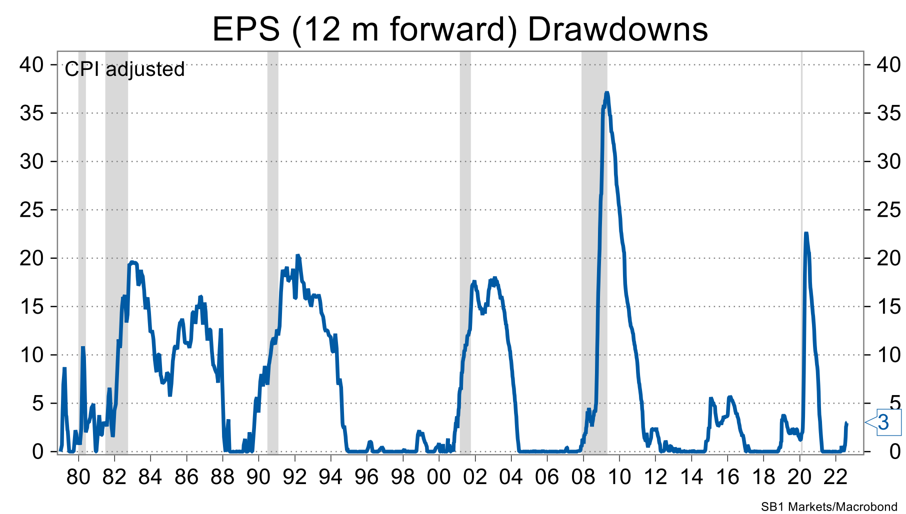
Earnings forecasts finally on the way down – and more is likely to come

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









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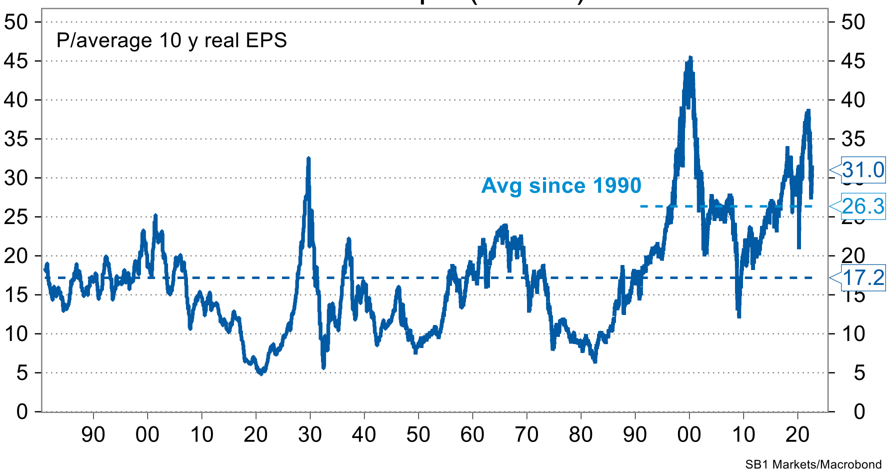
4 valuation charts

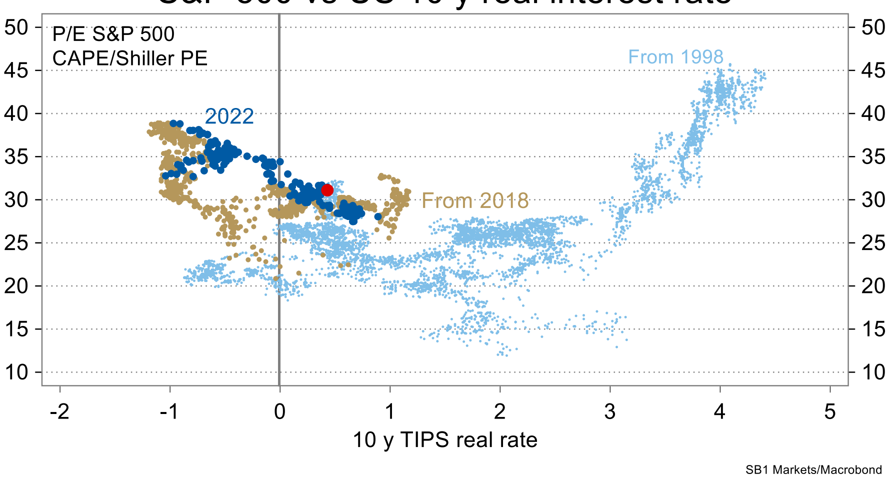
The TIPS real rate has been the main driver for the P/E since 2018. And still probably is

S&P500 Cape (Shiller) P/E

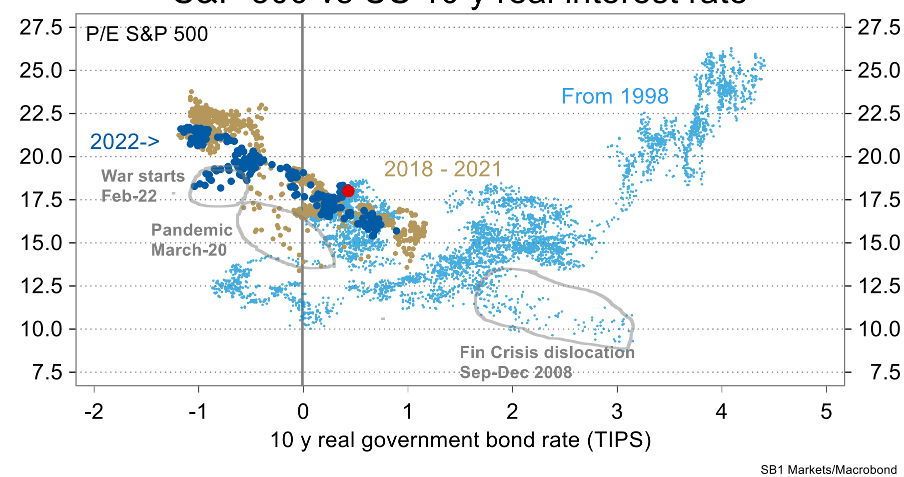


USA S&P 500 12 m fwd P/E

S&P 500 vs US 10 y real interest rate

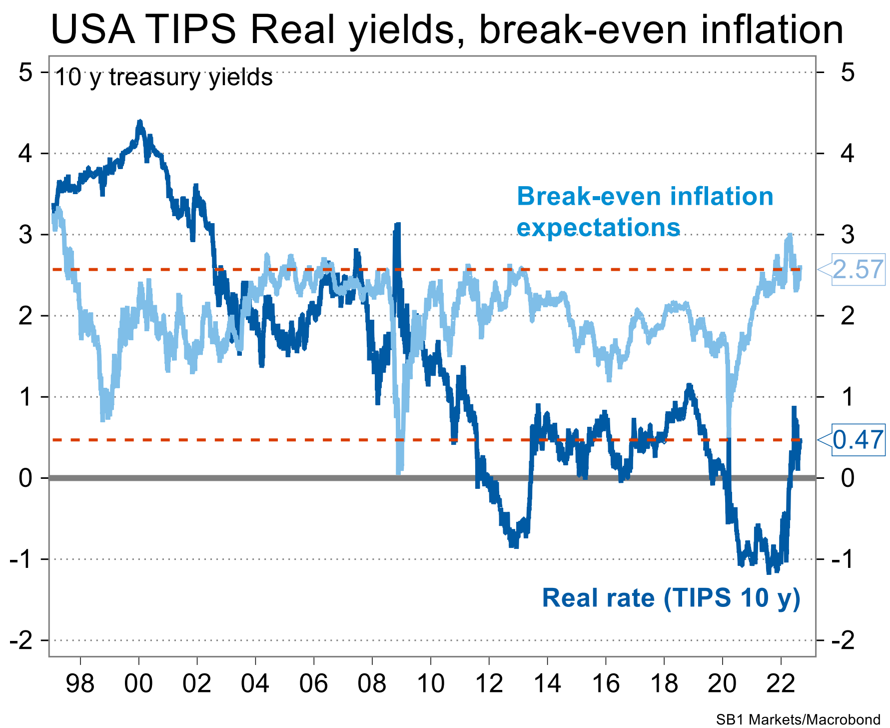


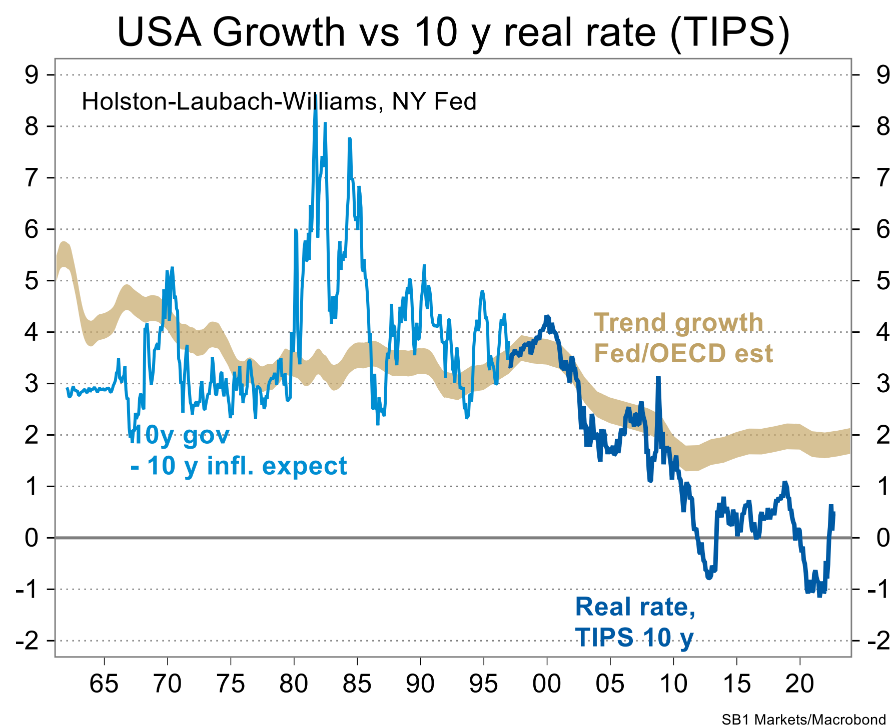
S&P 500 vs US 10 y real interest rate



Growth vs real rates: Mind the gap, is closing, from both sides

Real rates have fallen from the June local peak but are well up from the through last year





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

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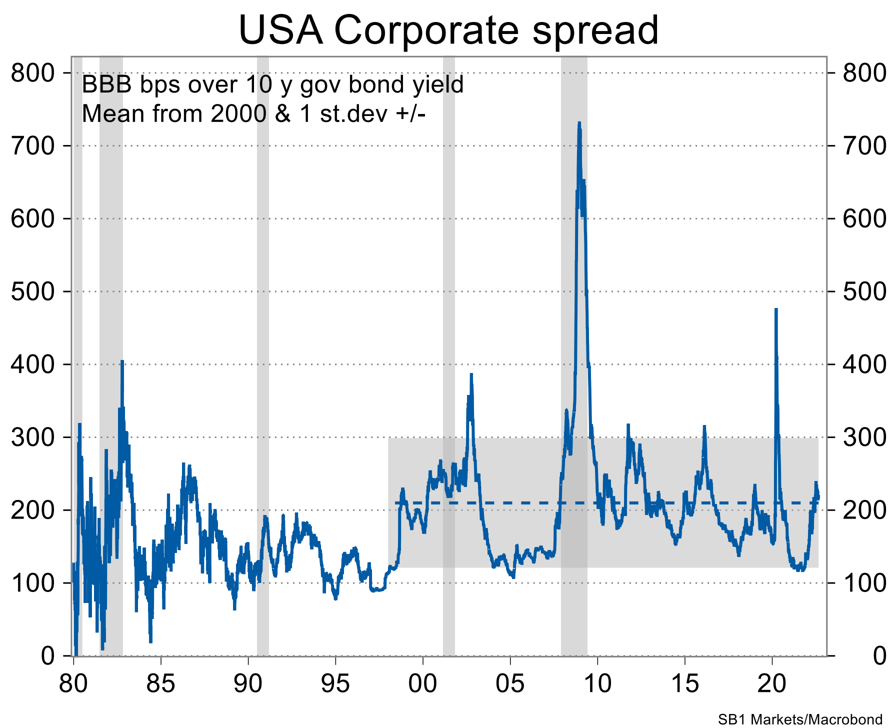
Risk on: Credit spreads unchanged last week

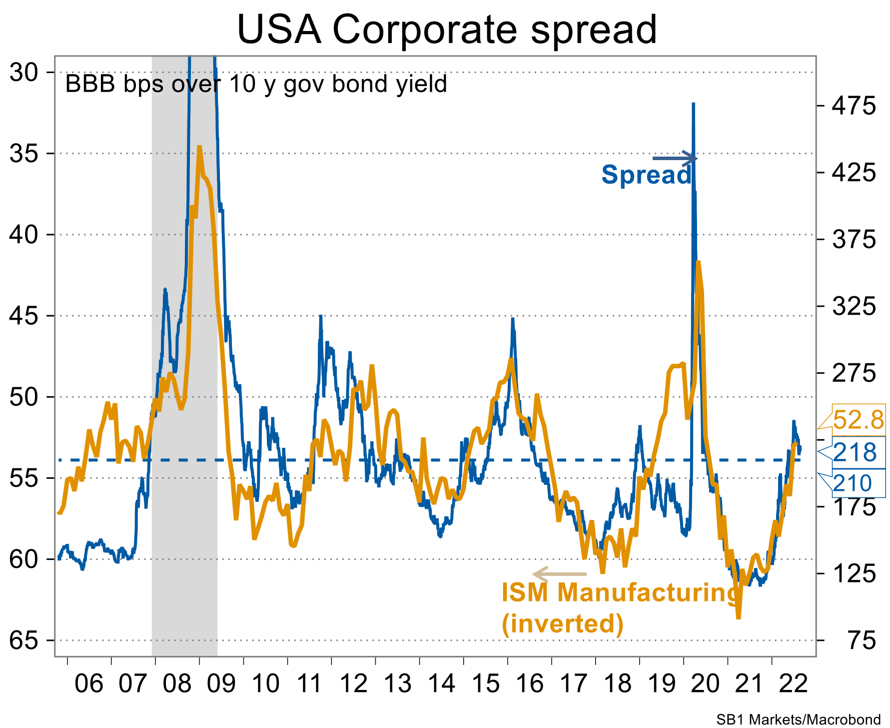
Spreads are close to an average level

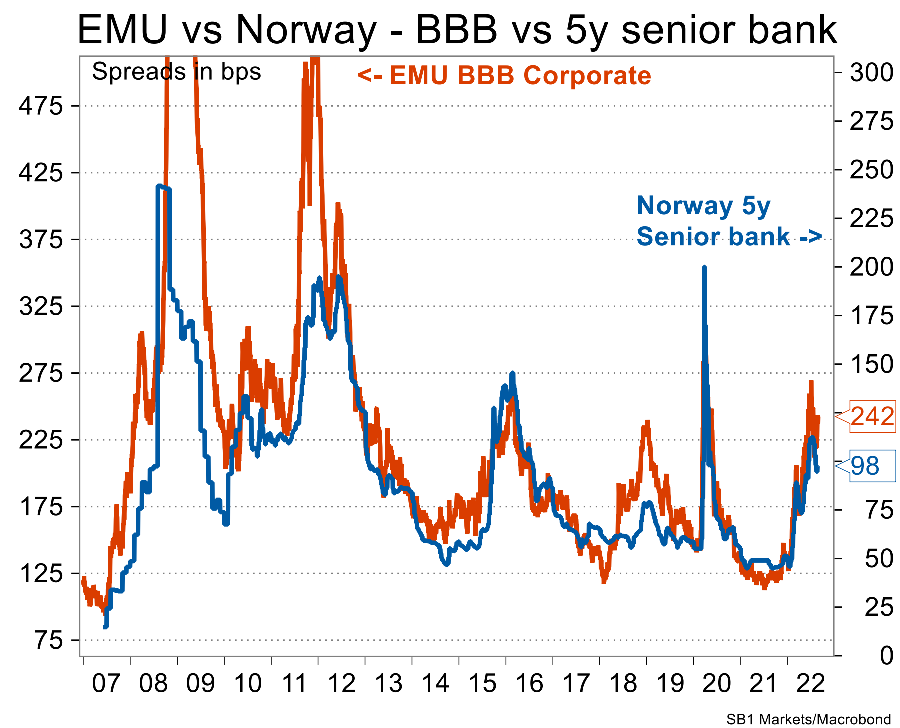


- The US BBB spread is still up almost 100 bps from the bottom last autumn, almost a doubling

Why have credit spreads widened in 2022? 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..

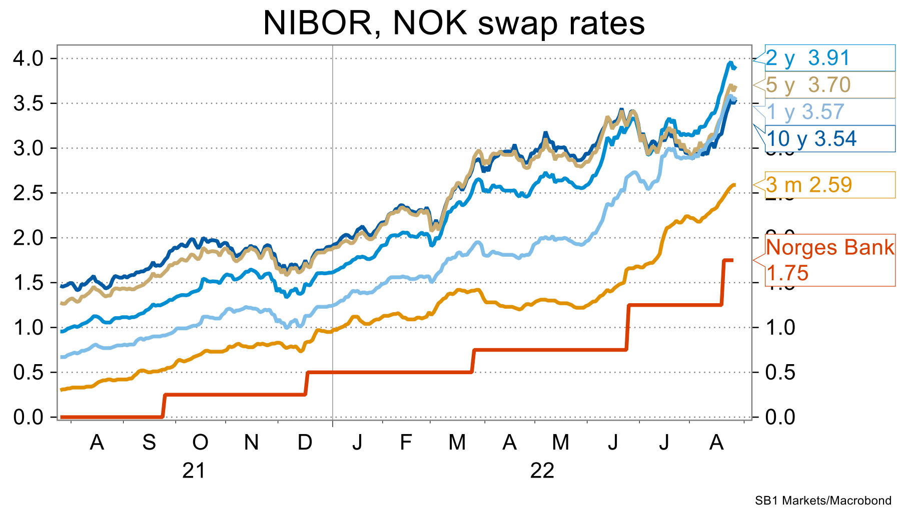


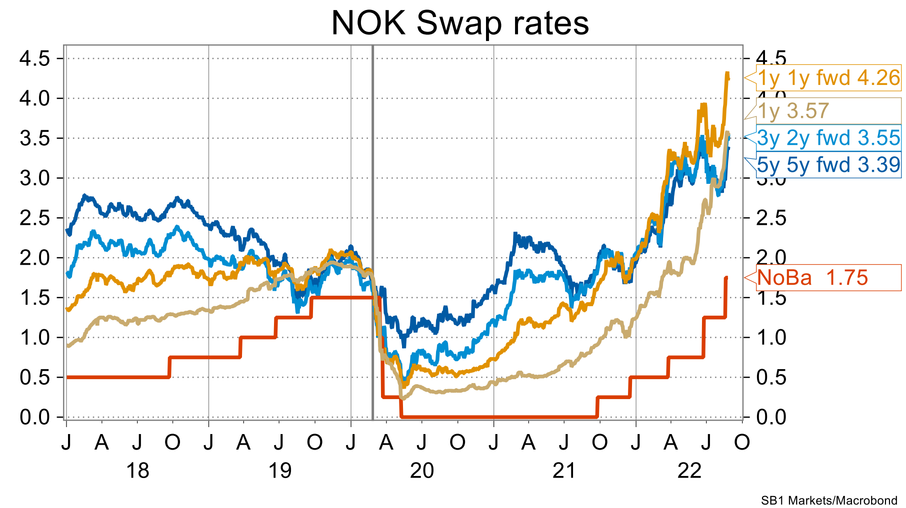


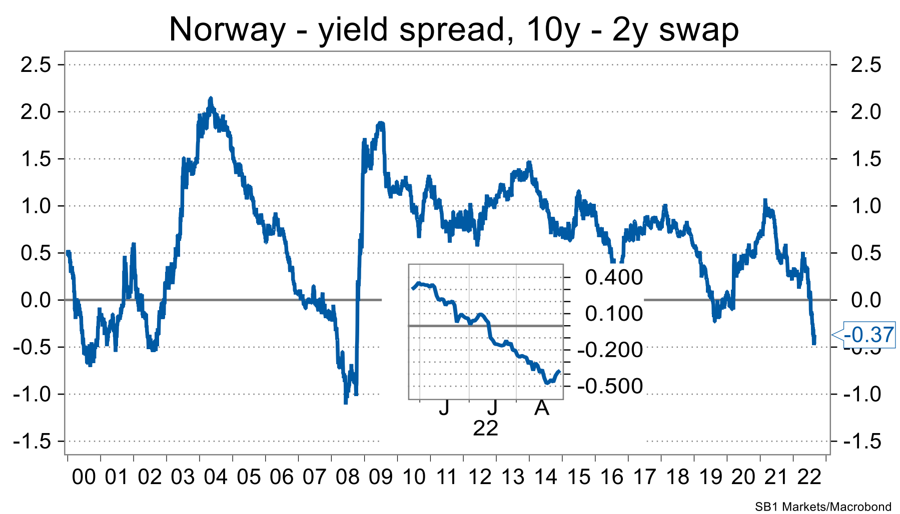
- The answer is not irrelevant for your view on the outlook for spreads, we think
- And do you think Norwegian spreads will be influenced by changes in the global credit market?
- Last week: Norwegian credit spreads rose in sympathy with higher spreads abroad the previous week

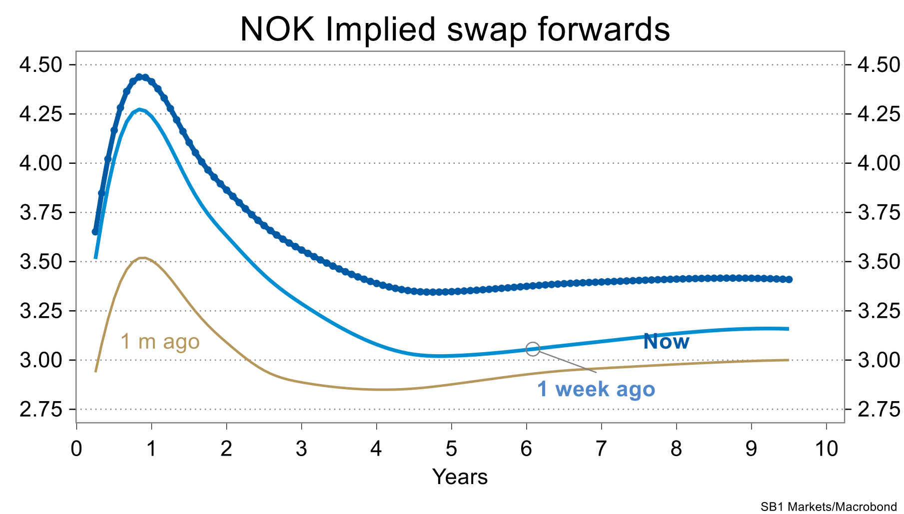
Rates up all over the curve

The 10 - 2y is inverted, by 37 bps





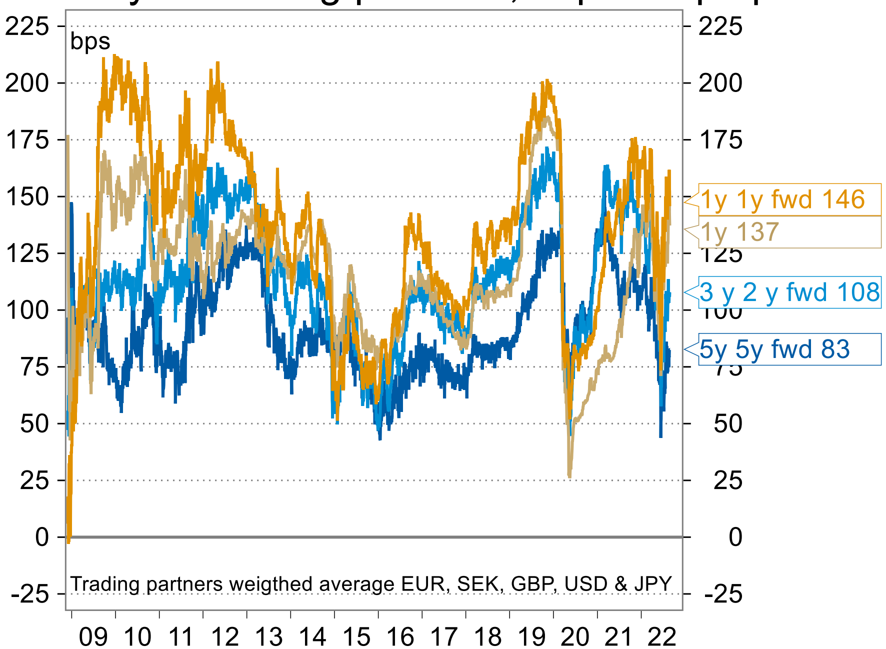




Spreads vs trading partners up but just in the very short end

Spread are once more on the high side, following the upward trend since mid June

Norway vs trading partners, impl swap spreads



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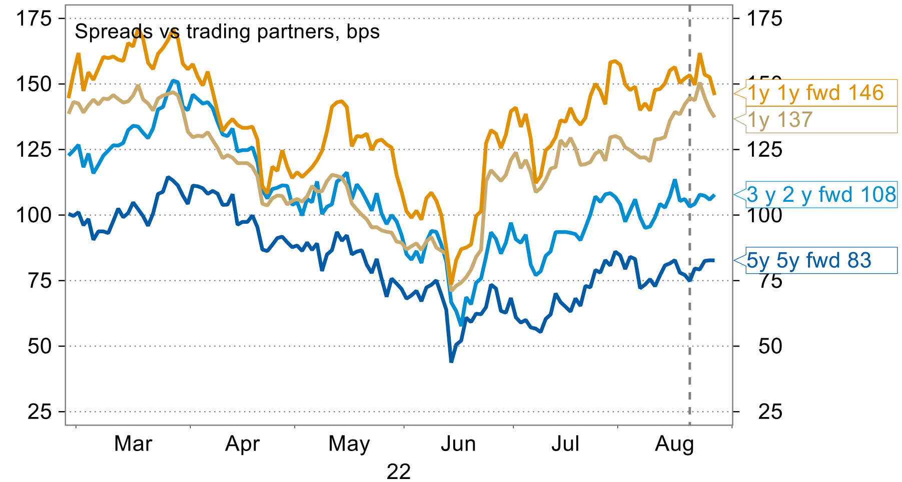

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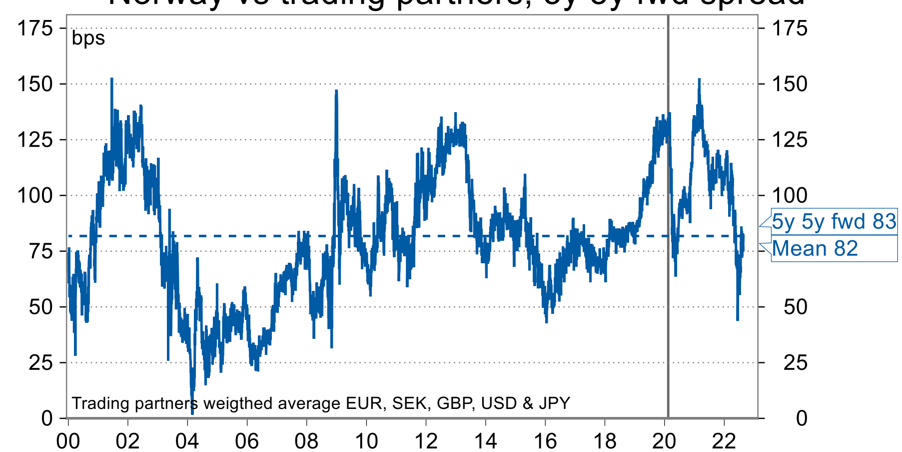
Norway vs trading partners, 5y 5y fwd spread



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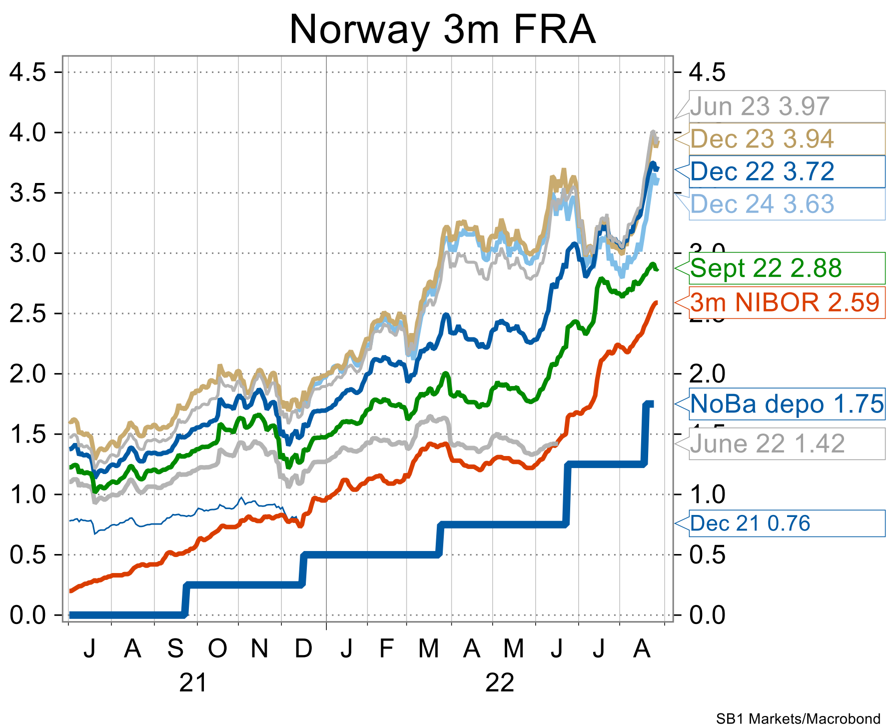
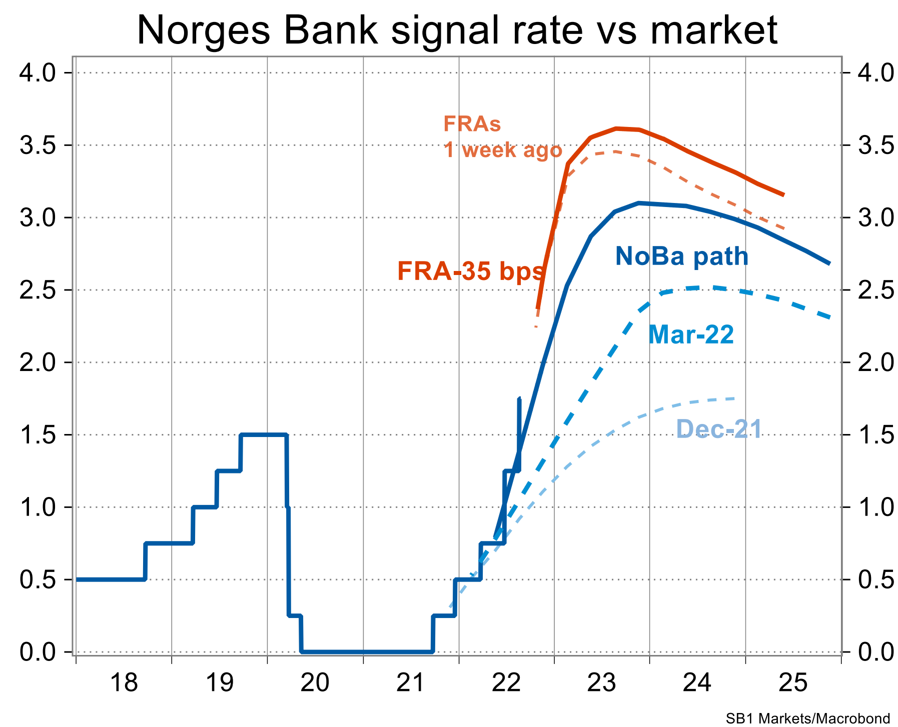
FRAs further up, even if we thought they were too high

If the NIBOR spread has not exploded: +50 bps in Sep, Nov & Dec + 25 bps in March



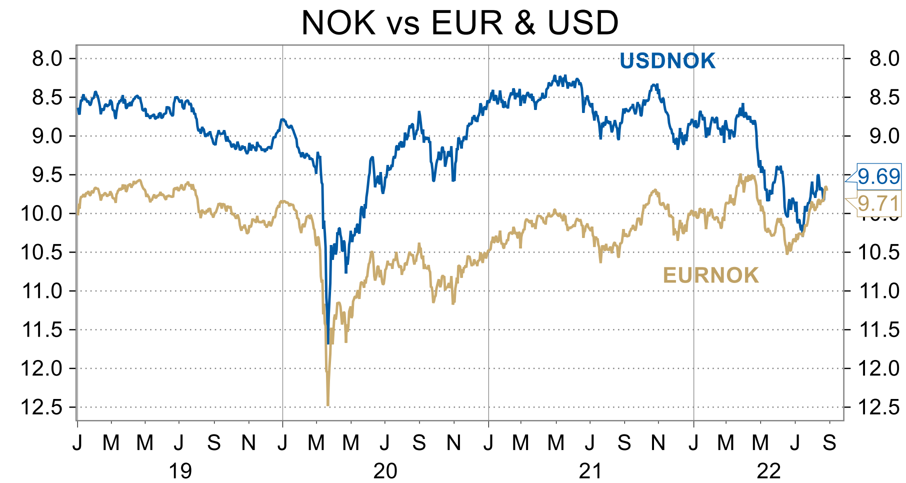


- FRA rates climbed by up to 23 bps last week, but less than the average among out trading partners (the UK in the lead)
- The expected NIBOR spread may have increased due fear of a possible liquidity squeeze on the Norwegian money marked, due to a mismatch between payment of oil (& gas) taxes and transfers to the Oil fund. We think Norges Bank will be able to adjust its liquidity measures or timing of FX buying if an unwarranted surge in NIBOR rates should take place
- We think the current FRA rates anyway are too aggressive, whatever reason. A 3 m NIBOR at 4% will lift the average mortgage rate to well above 5%, up from the 1.7% level at the rock bottom. Given the average debt level, as well as the proportion of households within the 'fat tail to the right', household demand will hurt too much, and house prices could fall faster and more than is needed to take the inflationary pressure out of the Norwegian economy. Real wages are under pressure as well, and growth impulses from abroad will very likely calm down as well

NOK at the top of the list again. The EURUSD reached parity

The surge in gas prices may be supporting the NOK but the oil price rose too. The AUD even stronger

SB1 Markets/Macrobond



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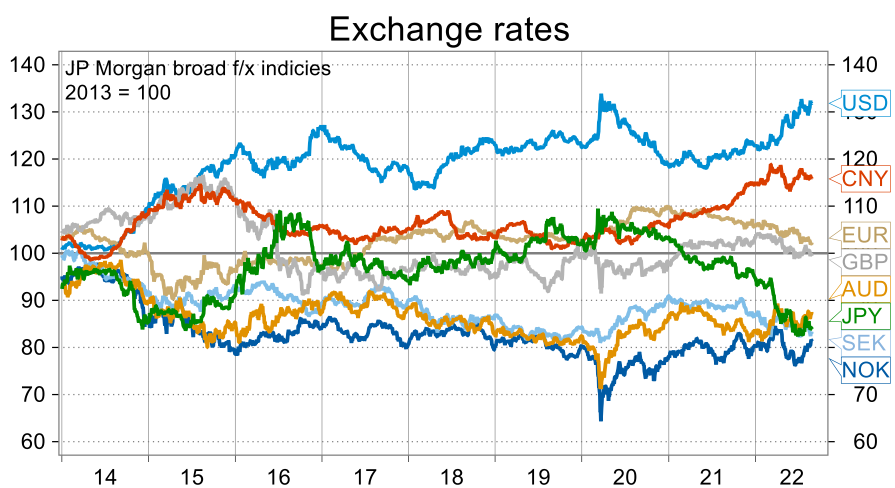

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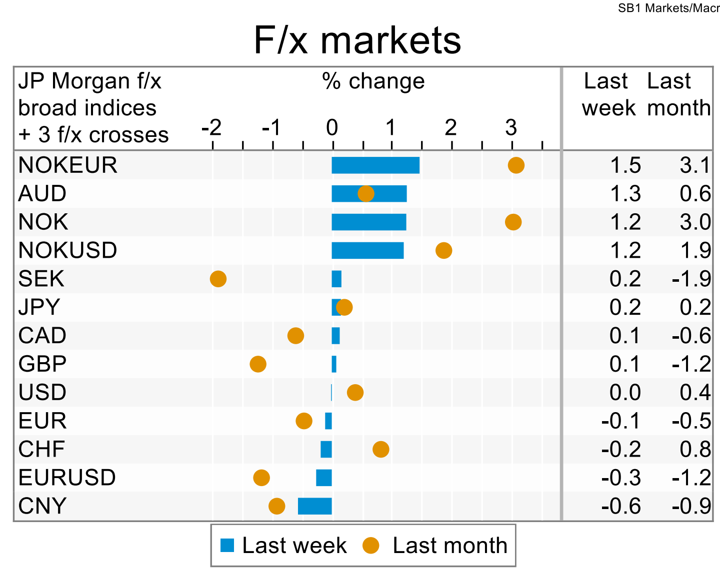

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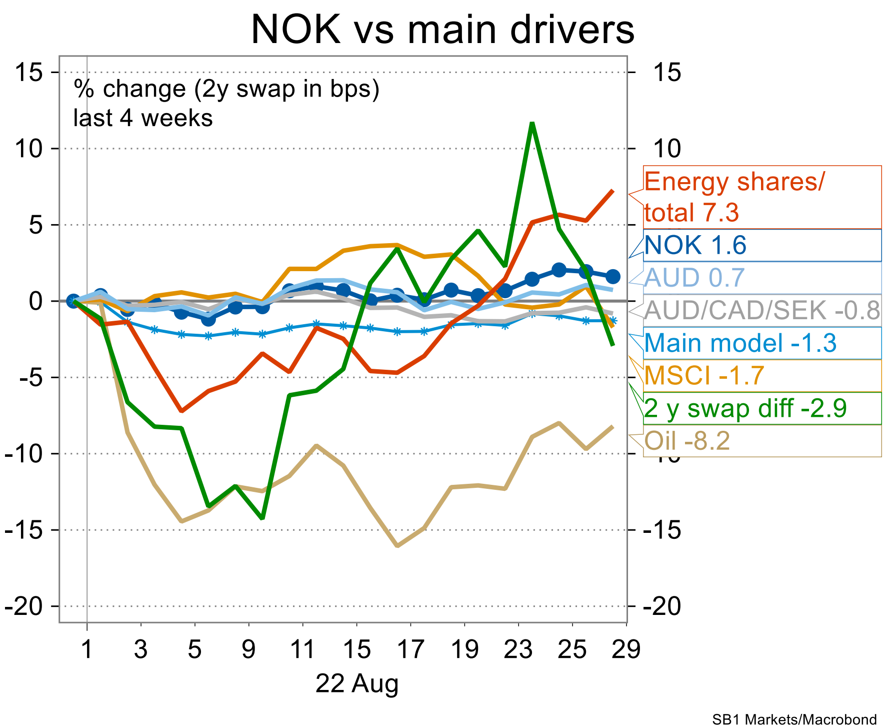
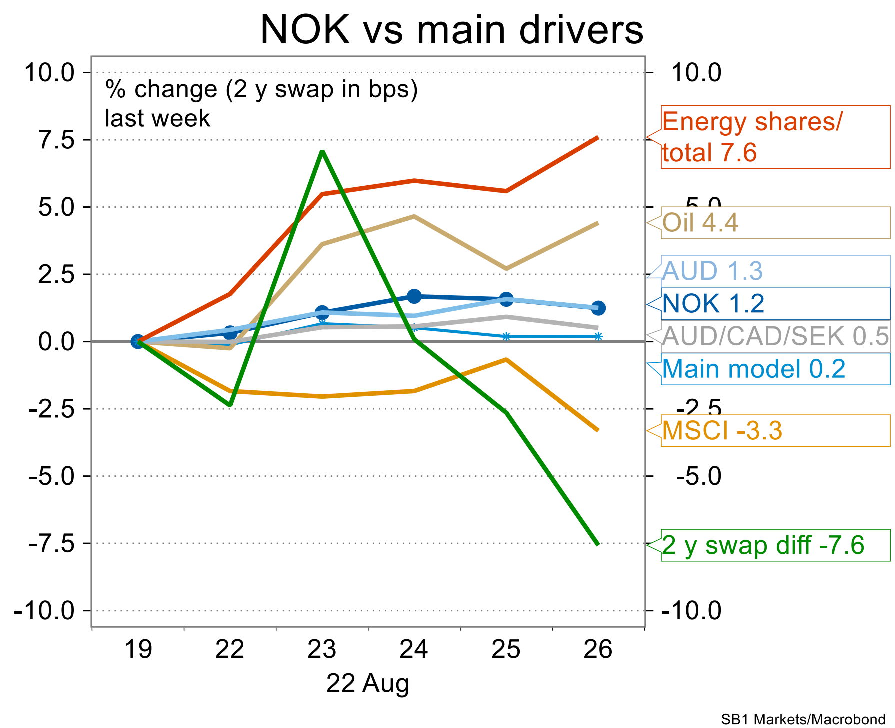
NOK up 1.2%, our model suggested +0.2%. Oil contributed on the upside





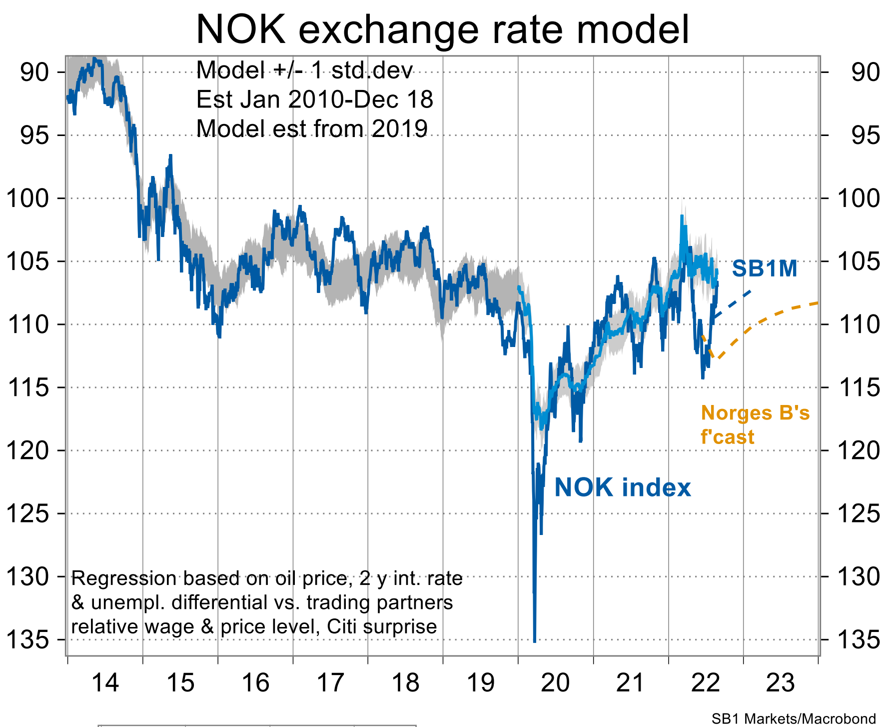
Gaps vs. out model estimates are narrowing

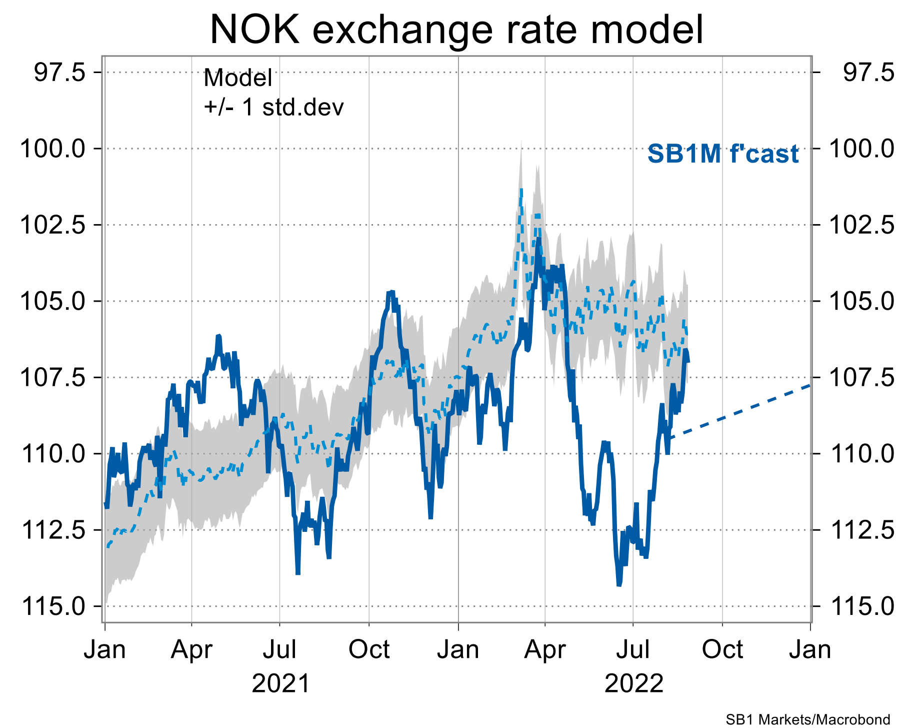
- ***The NOK up 1.2%, our main model said +0.2%% - and NOK is just 0.9% below our main model estimate (from –1.9%)***
- The NOK is 4.3% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -5.7%)
- NOK is 1.4% weaker vs an estimate from a model that includes global energy companies equity prices (vs the global stock market) (from -1.6%)

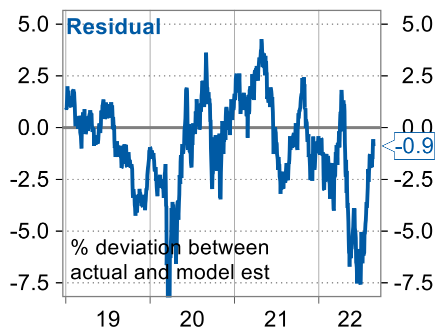
At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for f/x crosses. There are no substantial difference between these two indices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

The NOK is 0.9% below our model estimate, which does not include the gas price

The NOK has recovered recent weeks, alongside the surge in gas prices

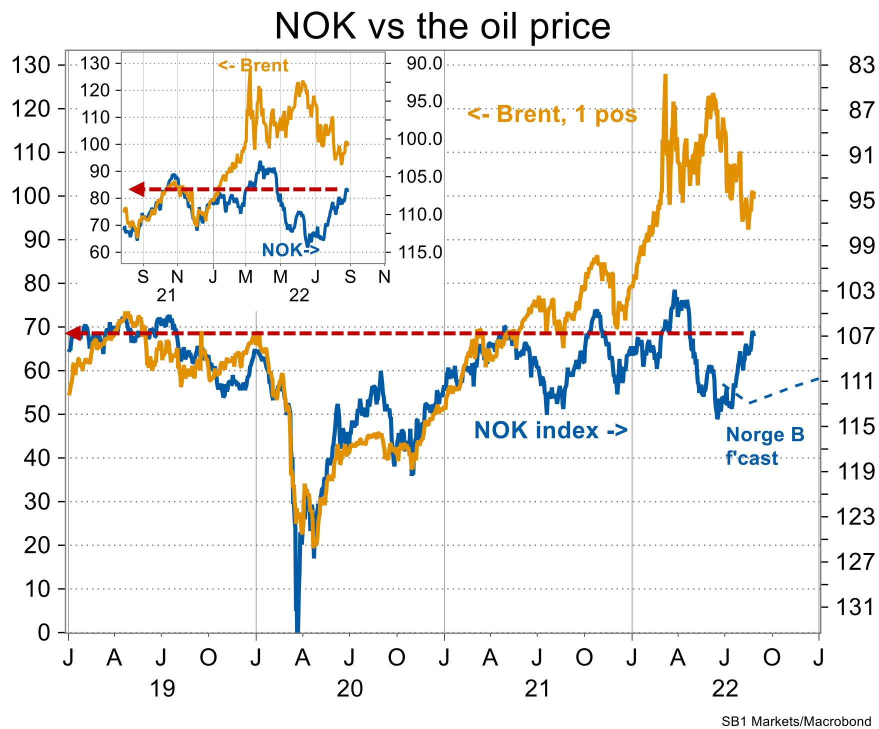


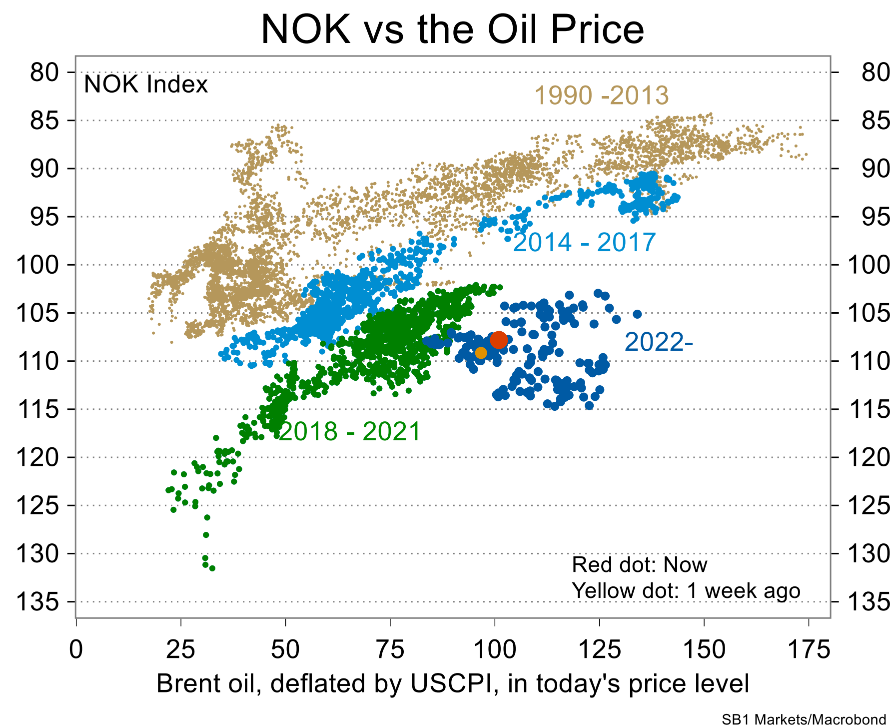




Both oil (and gas) and NOK up last week – but no correlation so far in 2022

The NOK is weak, as if the oil price was USD 80/b (rebased to early Jan) or USD 70/b (rebased to May-21)

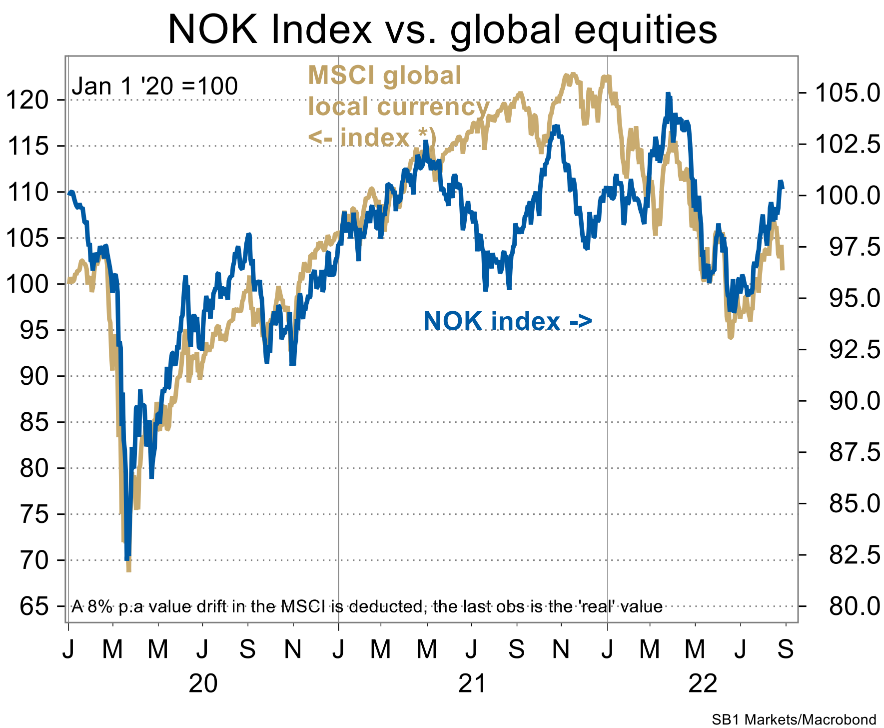


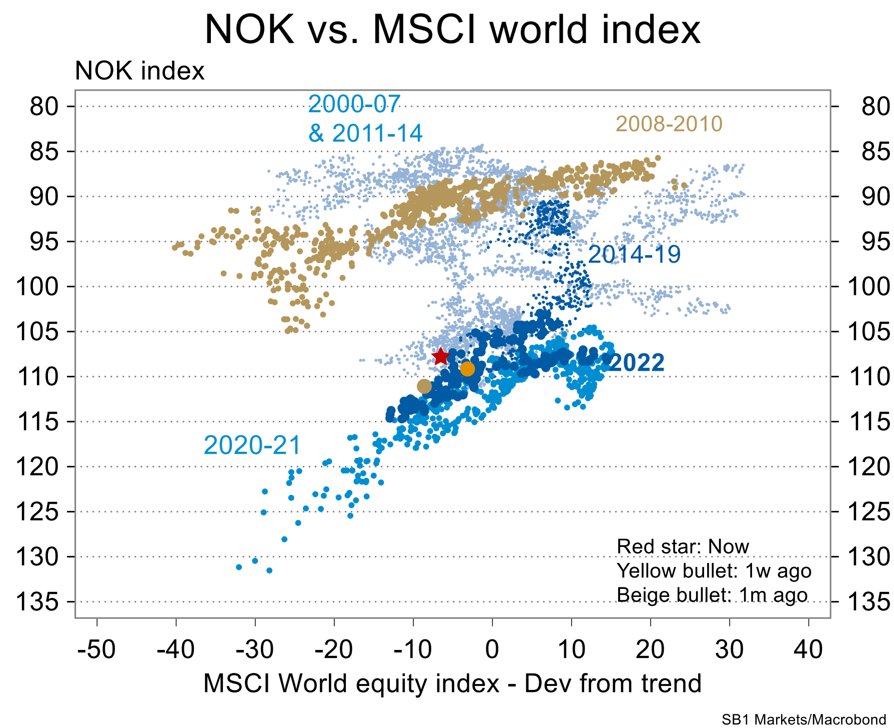


- The the x/y chart to the right, the NOK vs the oil price has come closer to the 2018 – 2021 pricing regime
- However, the correlation between the NOK and the oil price has been non-existent since the start of 2022

The NOK up, is spite of 'risk off' in other markets

The NOK has been well in sync with stock markets since April – but not the two past weeks

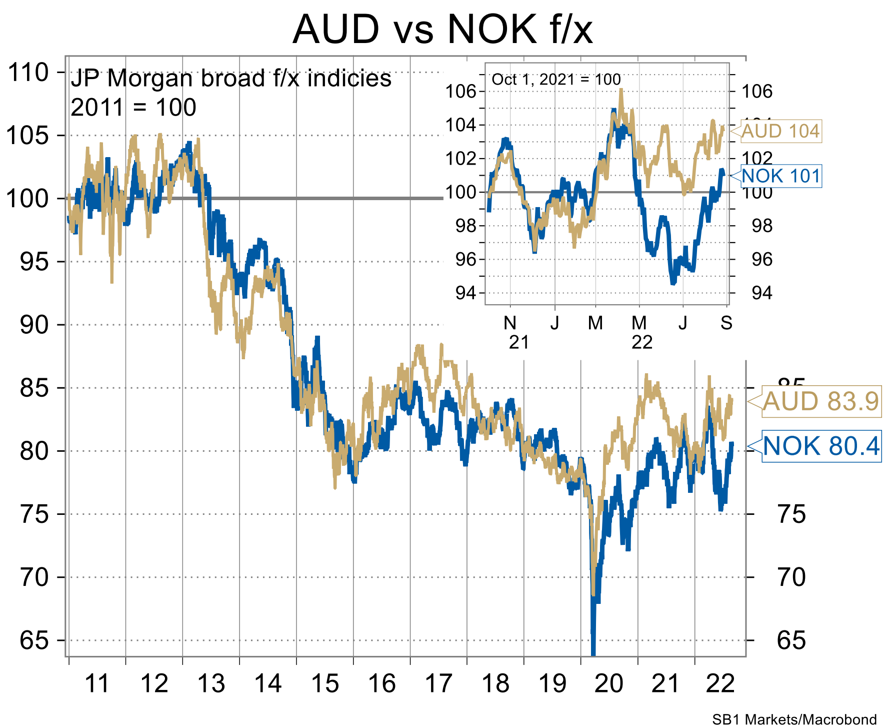


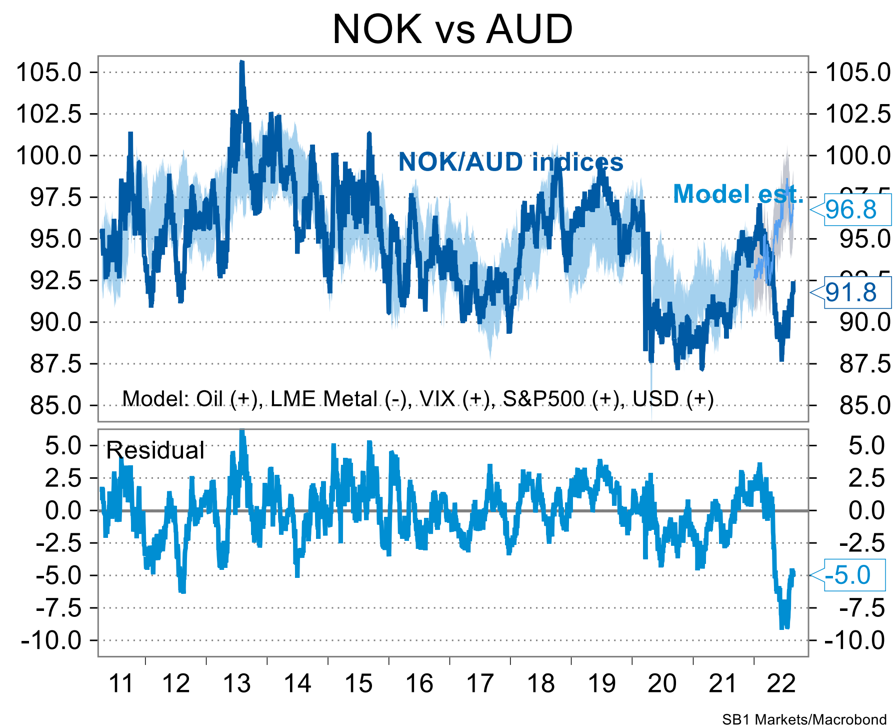


- There is no stable correlation over time, and when it is, the oil price is normally the real driver

NOK & AUD up last week – and the AUD-NOK gap is slowly narrowing

However, NOK is still 5% below our model f'cast vs AUD, even if the gas price is not included





- 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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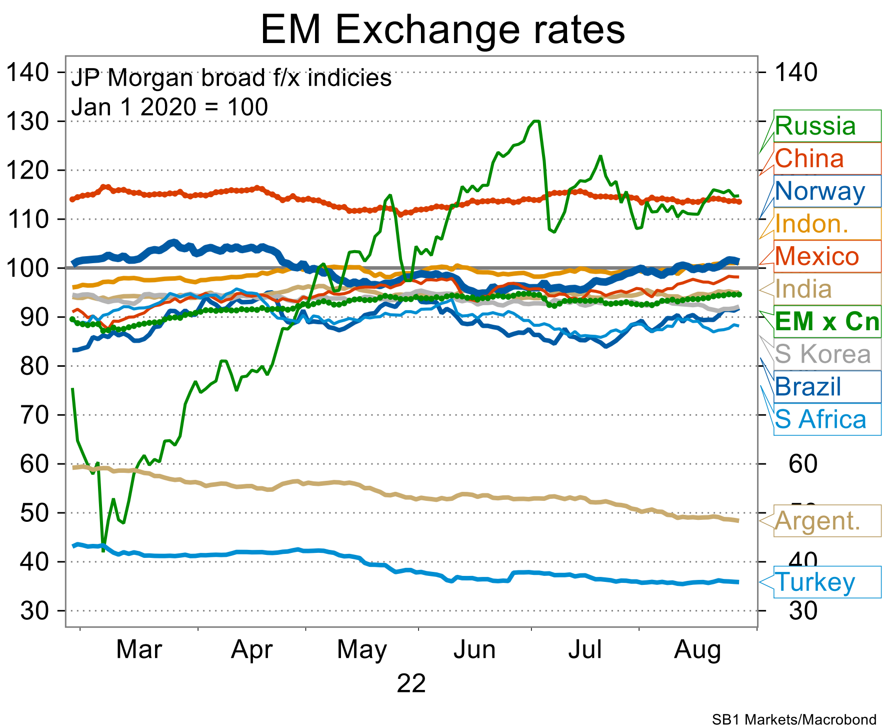
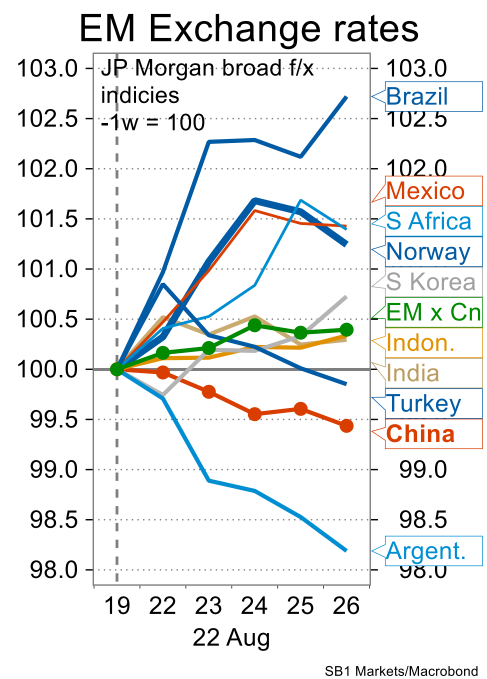
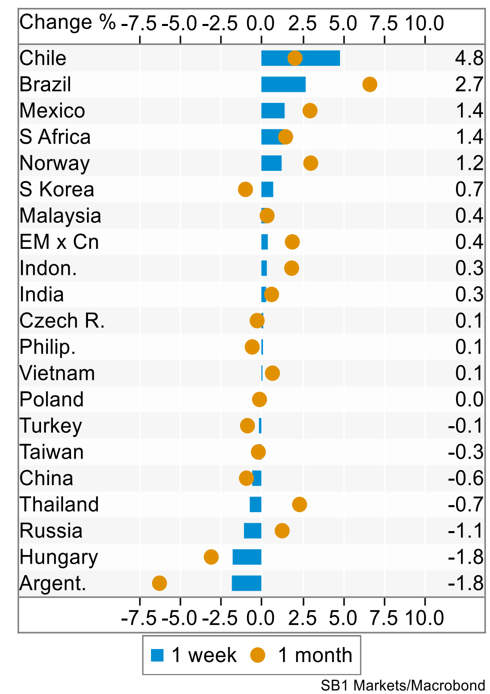
EM f/x: In sum further up, with the Lat-Am in the lead

The EM f/x markets in aggregate has been stable recent months, is spite of DM rate hikes







- The CNY has been slightly on the weak side recent weeks

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