September 5, 2022

Macro Weekly

Week 36

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Last week, I

- **The War/European Energy/Commodities**
  - » Few news from the **war** – and no end in sight
  - » **European gas and electricity prices** fell 30% – 40% last week, at least partly due to signals from the EU Commission on some sort of regulation or measures regarding both gas and electricity. No details are known, but a leakages have both signalled possible price caps, other regulations, and energy saving measures
  - » **Governments in both Sweden and Finland** have announced liquidity guarantees (SEK 250 bn, 10 bn EUR respectively) to energy companies as demand for collateral for future electricity contracts has exploded (probably without solvency at risk, electricity will be sold at high prices in the end). **Germany** has announced a windfall tax on power groups to fund energy aid packages
  - » **Russia** has decided to close down **Nord Stream 1**, until further notice, cutting gas supply by another 0.3 TWh/day (the total cut is almost 4 TWh/day)
    - Since July, EU gas stocks have been increasing by 0.4 TWh more than the normal build-up. Thus, everything else equal, inventories should still be growing faster than normal even it the NS1 is completely closed down. Demand for gas has fallen more than supply – which has been supported by higher LNG import (equalling almost 1/3 of normal Russian exports) – before LNG import/degasification capacity is increased. This capacity will be substantially increased the coming quarters, and global LNG supplies will become the bottleneck (and the price may become high)
    - European gas prices are reported up this morning but so far less than they fell last week
  - » **We add that demand for gas** has fallen more than supply even with gas prices well below the current level. This indicate that an extreme high price level is not an equilibrium – which the market do not believe either, given the steep decline in future prices
  - » **Other commodity prices** also fell last week, at least metals – while food prices rose further, after trending down until some few weeks ago

- **Manufacturing PMIs**
  - » The **global manufacturing PMI** fell 0.8 p to 50.3 in August, with both new orders and output sub-indices below the 50 line, led by a decline in the rich part of the world. Delivery times fell, and both input and output price indices fell sharply, confirming the peak inflation story. In the US, the ISM was unch. at 52.8, expected down like almost all other August surveys. However, the details were weak, confirming the slowdown in the manufacturing sector. The ISM price index fell rapidly, as demand slows
  - » This morning, **China** reported a marginal decline in a service sector PMI – and the two PMI data sets both reported a small decline in their composite indices – but still reporting growth at trend in August

Last week, II

- **USA**
  - » **Employment growth** is gradually slowing, no surprise in August. However, the **participation rate** added 0.3 pp, which is good news (if we forget that the rate was at 63.4% in March too. The employment rate gained 0.1 pp – but is also just trending flat. Still, the **unemployment rate** rose by 0.2 pp to 3.7%, expected unch. **Wage inflation** was 0.1 pp lower than expected, but at 5.2% y/y, 2 pp higher than before the pandemic. Other wage indicators report higher growth. Higher unemployment due to higher participation (and not lower employment) combined with lower wage inflation than expected were good news for markets for a while Friday afternoon, but in the end is was risk off again, perhaps due Russia's closure of the Nord Stream 1 gas pipe line
  - » The number of **unfilled vacancies** rose in July, from an upward revised level in June – expected down. **SME's report** that it is as difficult to fill open positions as it has ever been, and they plan to lift wages rapidly further. So, even if the unemployment rate rose, the labour market remains extremely tight and completely out of balance (not our words only, Powell said so too)
  - » 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
  - » **Case/Shiller's house price index** reported growth in June, but 'just' 0.4% - and data are lagging. Realtors have reported falling prices in both June and July
  - » **The conference board consumer confidence** also rose in August, like many other consumer surveys both in the USA and abroad. Inflation expectations are on the way down, at the same time as jobs still are very easy to get
- **EMU**
  - » **Inflation** rose further in August, and more than expected. Much is explained by food and energy, but not all – increasing the pressure on the ECB to lift rates at fast pace. However, the underlying cost pressure is much lower in the EU, than in the US and UK.
  - » **The unemployment rate** was 6.6% in July, at the lowest level since 1981
- **Norway**
  - » **Open unemployment at NAV fell just slightly in August and remained unchanged at 1.6% (s.a, as expected).** The rate may soon be the lowest since 1980, which is the European standard these days. The monthly inflow of **new vacancies** rose marginally in August, while the no. of Q2 **unfilled vacancy** rose further. All in all, the labour market is extremely tight

The Calendar: Services PMIs/ISM; US Beige Book & wage data; Norw. house prices, CPI, GDP

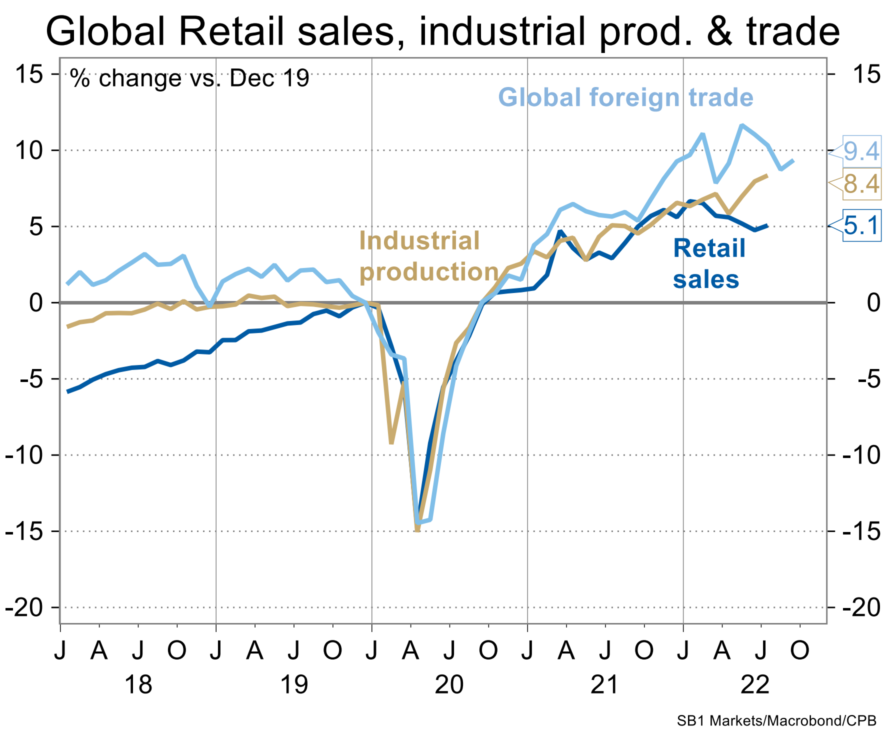
Time	Count.	Indicator	Period	Forecast	Prior
Monday September 5					
08:30	SW	Swedbank/Silf PMI Services	Aug		58.8
10:00	EC	S&P Global Eurozone Services	Aug F	50.2	50.2
10:00	EC	S&P Global Eurozone Composite	Aug F	49.2	49.2
11:00	NO	House prices, MoM	Aug	(-0.5%)	-0.20%
11:00	EC	Retail Sales MoM	Jul	0.4%	-1.2%
Tuesday September 6					
15:45	US	S&P Global US Services PMI	Aug F	44.2	44.1
15:45	US	S&P Global US Composite PMI	Aug F	45.0	45.0
16:00	**US**	**ISM Services Index**	**Aug**	**55.0**	**56.7**
16:00	**WO**	**Composite PMI**	**Aug**	**49.5**	**50.8**
Wednesday September 7					
	CH	Trade Balance	Aug	$91.70b	$101.26b
	CH	Exports YoY	Aug	12.3%	18.0%
	CH	Imports YoY	Aug	1.1%	2.3%
08:00	GE	Industrial Production SA MoM	Jul	-0.3%	0.4%
08:00	NO	Ind Prod Manufacturing MoM	Jul	(0%)	0.3%
08:00	NO	Household savings rate	Q2		
08:00	NO	Current Account Balance	2Q		
08:00	SW	GDP Indicator SA MoM	Jul		0.6%
11:00	EC	GDP SA QoQ	2Q F	0.6%	0.6%
14:30	US	Trade Balance	Jul	-$70.1b	-$79.6b
20:00	**US**	**Fed's Beige Book**			
Thursday September 8					
06:00	SW	House prices Maklarstatistik	Aug		
08:00	NO	GDP MoM	Jul		-0.5%
08:00	**NO**	**GDP Mainland MoM**	**Jul**	**0.2%(0.2)**	**0.3%**
08:00	NO	Household financial transactions	Q2		
08:00	NO	SSB economic forecasts			
14:15	**EC**	**ECB Main Refinancing Rate**	**Sep-08**	**1.25%**	**0.5%**
14:30	US	Initial Jobless Claims	Sep-03	240k	232k
21:00	US	Consumer Credit	Jul	$32.5b	$40.2b
Friday September 9					
03:30	CH	PPI YoY	Aug	3.20%	4.2%
03:30	CH	CPI YoY	Aug	2.80%	2.7%
08:00	**NO**	**CPI YoY**	**Aug**	**7.0%(7.3)**	**6.8%**
08:00	**NO**	**CPI Underlying YoY**	**Aug**	**4.8%(4.6)**	**4.5%**
During the week					
	US	**Atlanta Fed median wage tracker**	**Aug**		**6.7%**
	CH	Aggregate Financing CNY	Aug	2100.0b	756.1b
	CH	New Yuan Loans CNY	Aug	1500.0b	679.0b

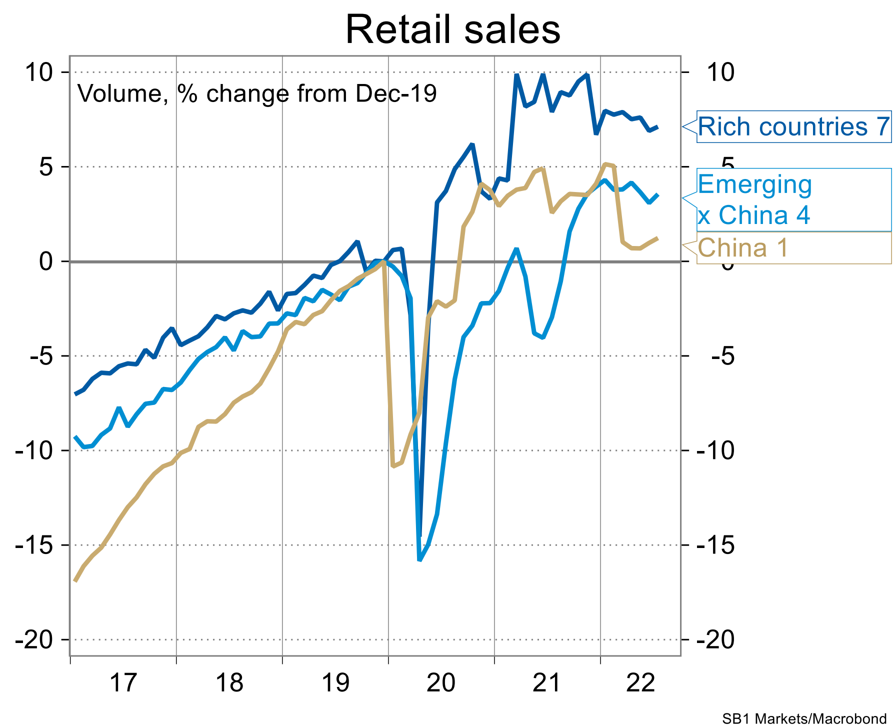
- **Services & composites PMIs + ISM**
  - The manufacturing PMI fell 0.8 p to 50.3 in August. Preliminary data from the rich part of the world , together with the Chinese surveys signal a steeper decline in the service sector, implies a decline in the global composite PMI by 1.3 p to below the 50-line. Until now, the ISM services index has been far stronger than the S&P PMI. Emerging markets – including China, has kept up growth better than the rich part of the world. Delivery times are falling, we think mostly due to reduced demand, and price increases are slowing rapidly
- **Global auto sales**
  - In July, global sales rose and sales were just 6% below the 2019 level due to strong sales in China – in the rich part of the world sales are still down 20%– 35%, mostly due to lack of supply. US has reported a small decline, in August many more will report this week
- **USA**
  - **Wage inflation** is far more important than actual headline price inflation vs the monetary policy outlook. Atlanta Fed's median wage tracker reported a 6.7% wage growth in July, and will probably not signal any decline in August. The current rate of wage inflation is 3.4% above the 10 y average, which yielded 2% CPI inflation
- **EMU**
  - Most economists expect the **ECB** to hike the main signal rate by 75 bps, to 1.25%, still a very low level. The low level is the best argument for taking a big step. The labour market is very tight, but so far without generating a widespread increase in wage inflation (like we are witnessing in the US). Real wages are falling in a way we have not seen before (and much faster than in the US), which should take some steam out of demand the coming months. Surveys are signalling slower growth, and not steep decline in activity
  - **Retail sales** was probably close to unch. in July – but are trending down
- **Norway**
  - **CPI inflation** has surprised on the upside recently, especially in July, where the lift in food prices was underestimated (but not by us ☺). In August, electricity prices rose 25%, while gasoline prices fell 12%. In sum sharply up, and even if we see just a 0.1 pp lift in the core index to 4.6% y/y, headline inflation will climb to above 7%
  - **Mainland GDP** grew 0.7% in Q2, even if activity flattened through the quarter. We (in line with consensus) expect modest growth in July and the coming months – as full employment is reached, and interest rates are on the way up
  - **House prices** fell 0.2% in July, and we expect a further, and larger decline (0.5%) in August – even if OBOS (Oslo co-op apartments) reported an impressive 1.4% lift. Higher mortgage rates will very likely take some air out the market
  - **The households' savings rate** was slightly above a normal level in Q1 but will probably fall below in Q2, as consumer prices rose sharply. Households' financial balance & transactions is also reported this week

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

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

Global trade may have flattened. Both manuf. Prod. & global trade exposed to lower retail sales

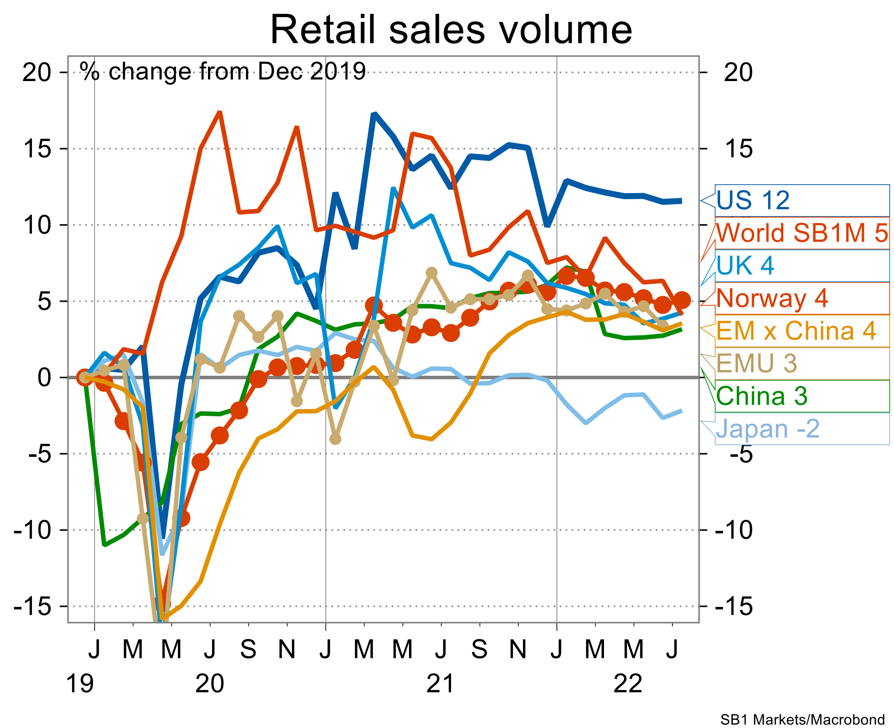


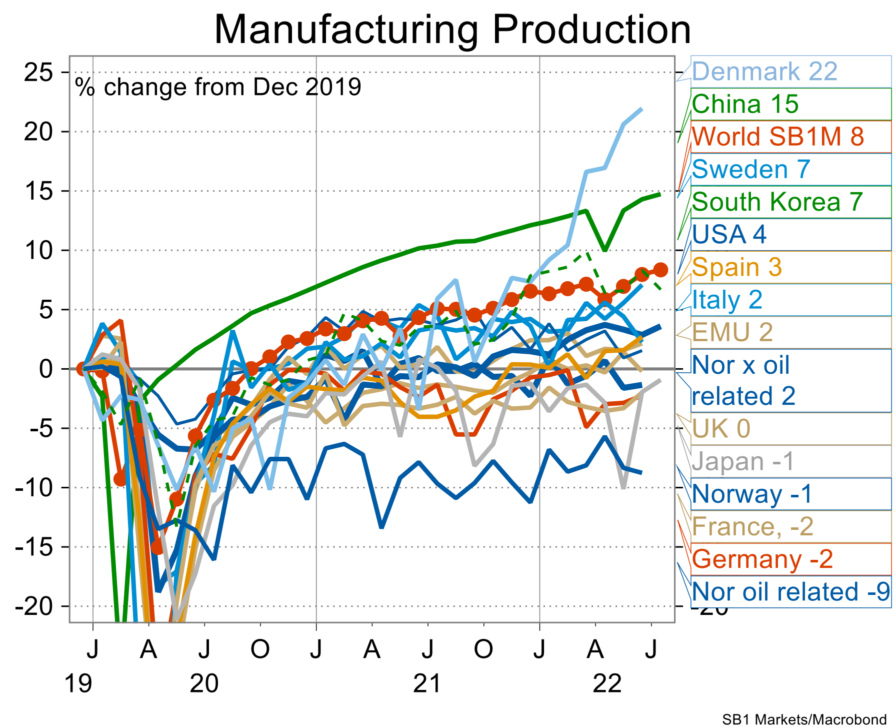


Global trade: The last months are estimates from the Kiel Institute, they are also making a prognoses for the next month based on shipping activity etc.

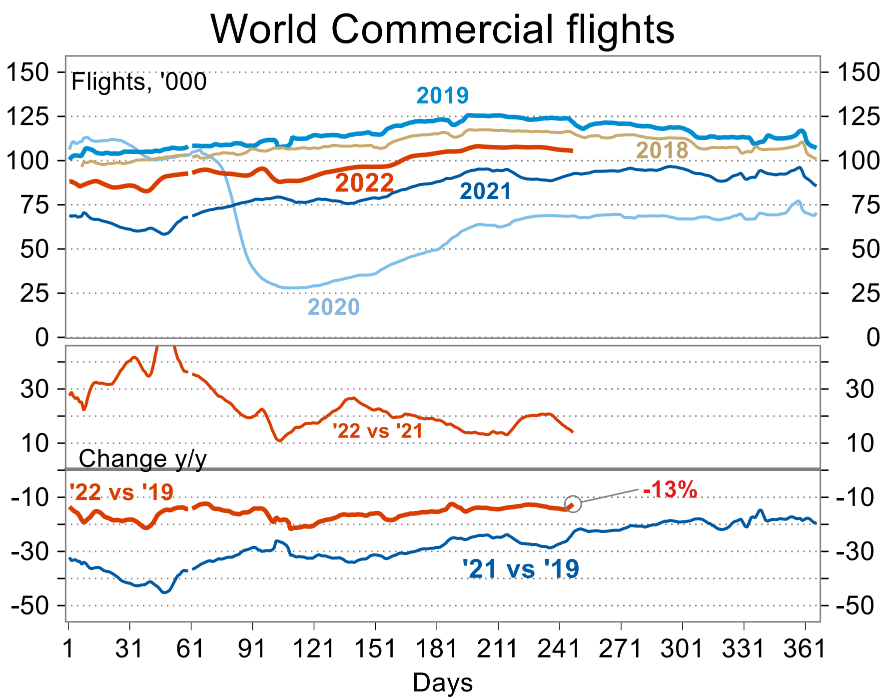
A broad slowdown of retail sales

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

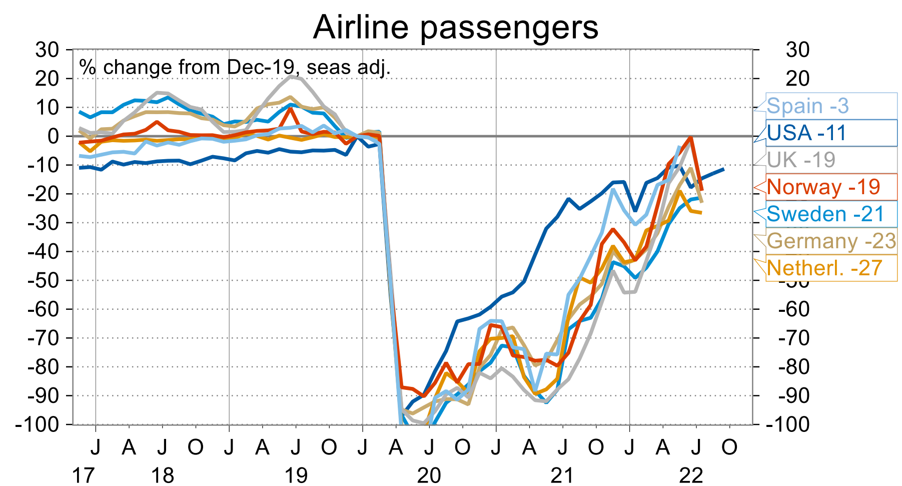




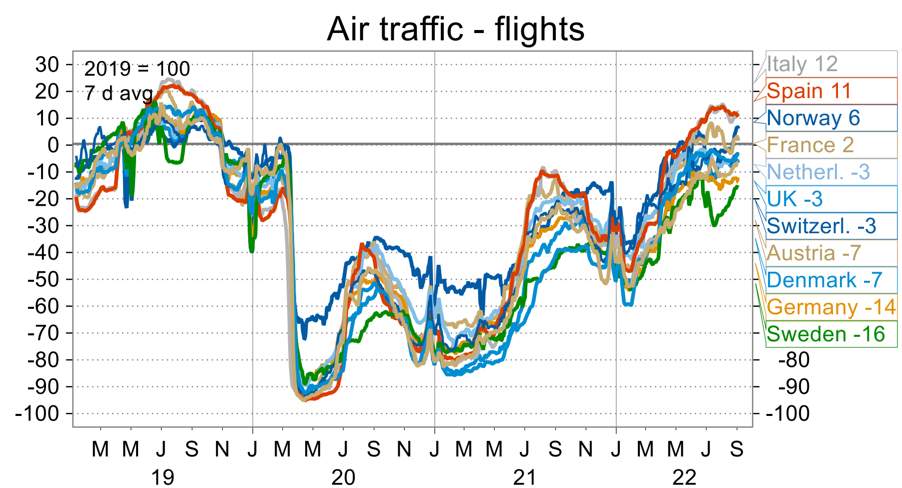
Global airline traffic has flattened recently, still down 13% vs. 2019



Flightradar24 SB1 Markets/Macrobond



National authorities, SB1 Markets/Macrobond



SB1 Markets/Macrobond

Global trade: The last months are estimates from Kiel Institute

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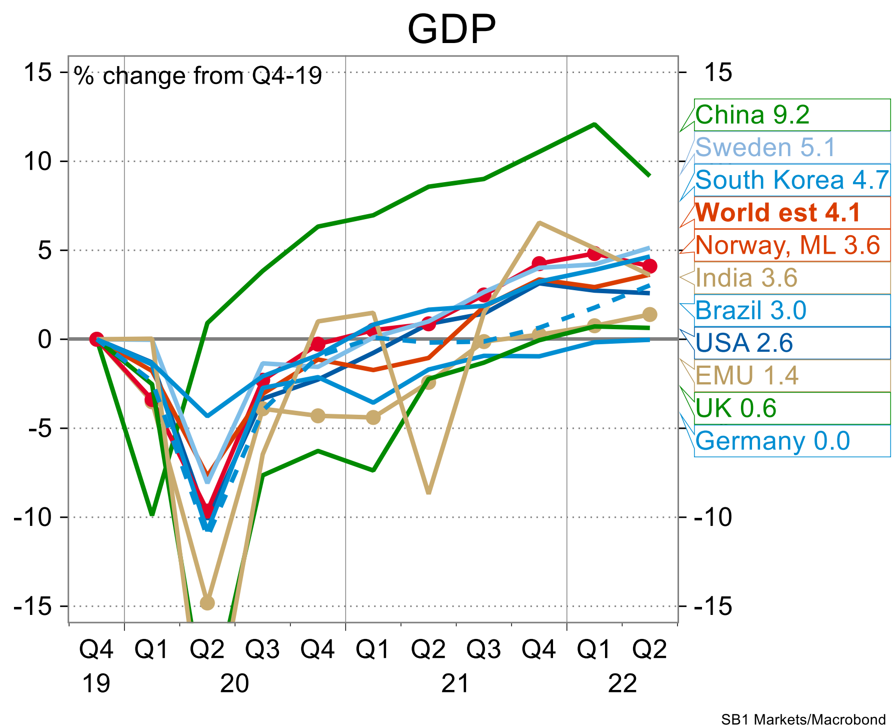
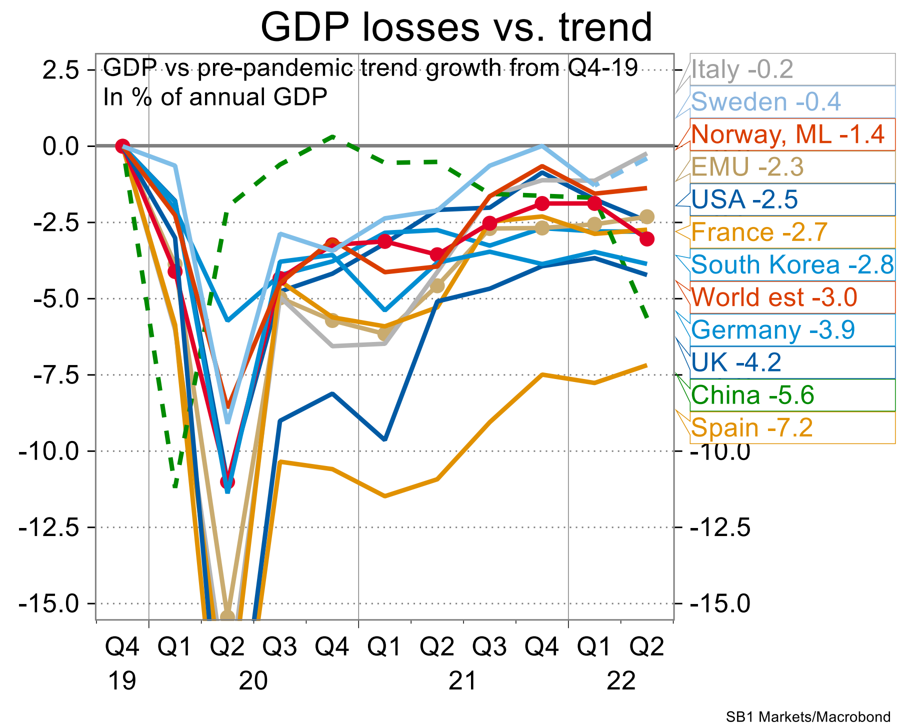
GDP fell in Q2, mostly due to the Chinese lockdowns, and the US ‘recession’

Global GDP fell at a 2.8% pace in Q2 (-0.7% not annualised), revised down due to a setback in India



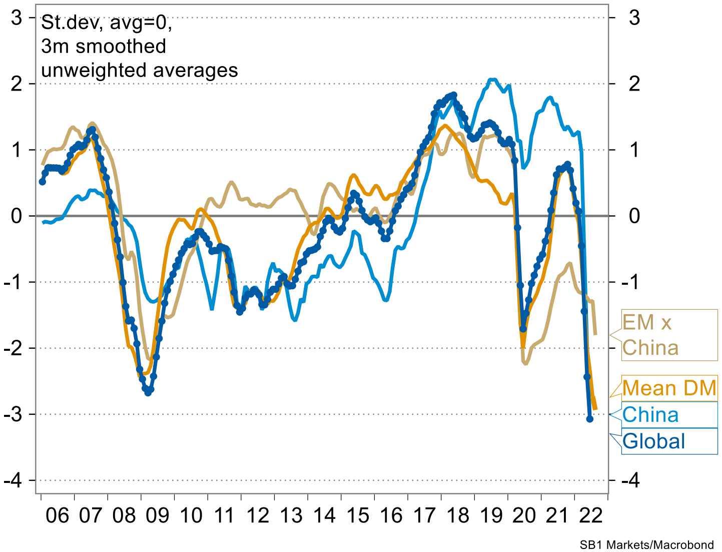


- Global GDP is some 3% below the pre-pandemic growth path

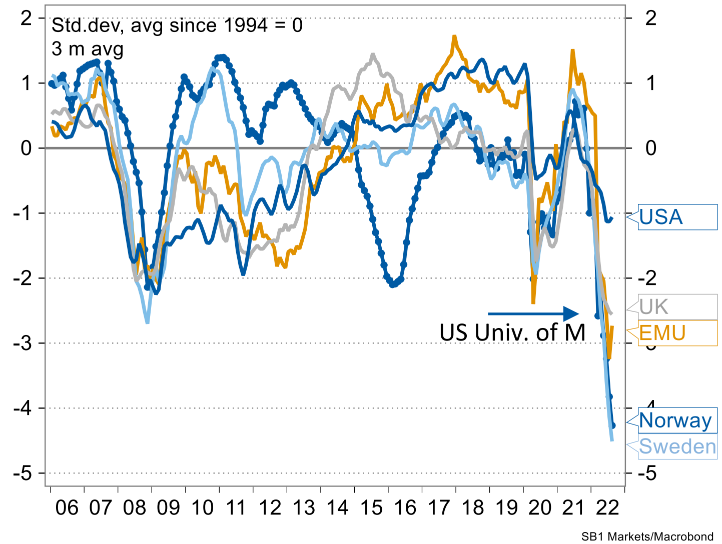
Consumer confidence sharply down almost everywhere

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

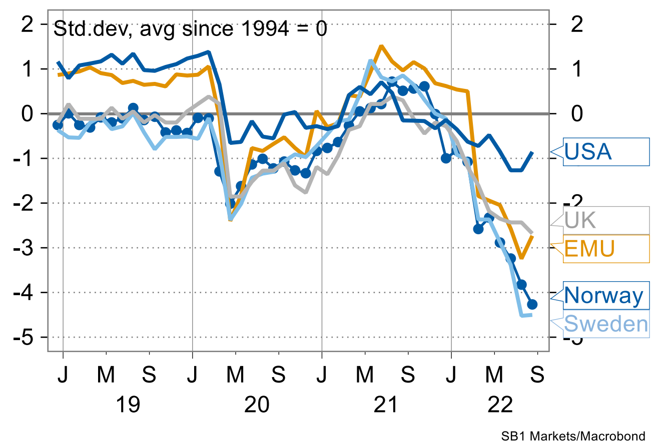
Global consumer confidence



Consumer confidence

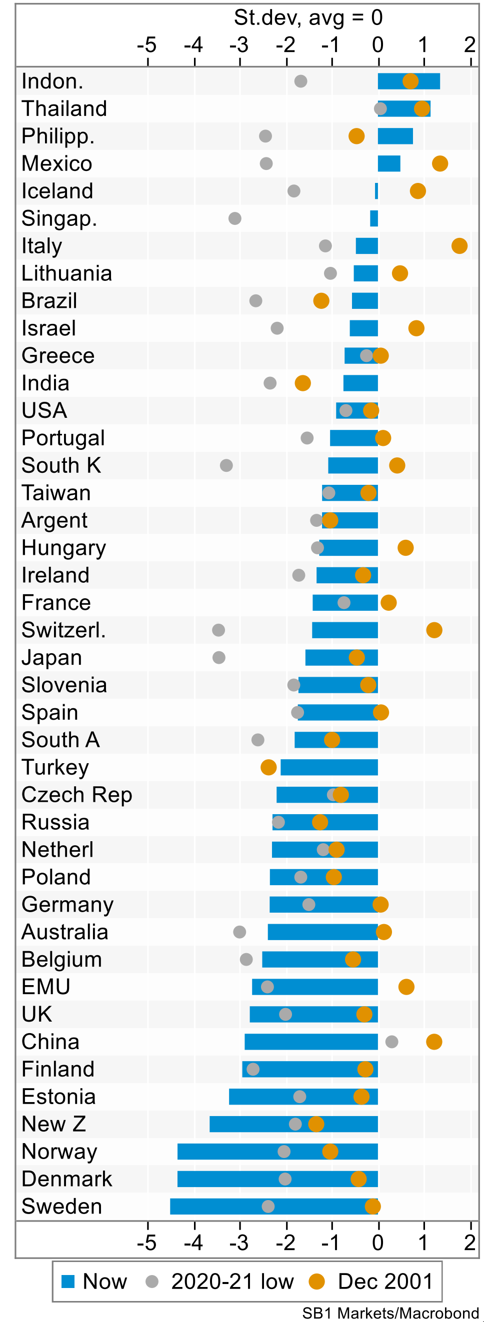


- Most countries are reporting a significant lower confidence level than late last year. Just 4 countries are above average, 35 are below, many at ATL
- In most countries inflation and higher interest rates may to blame, while the collapse in the sentiment in China is very likely due the Covid measures
- 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



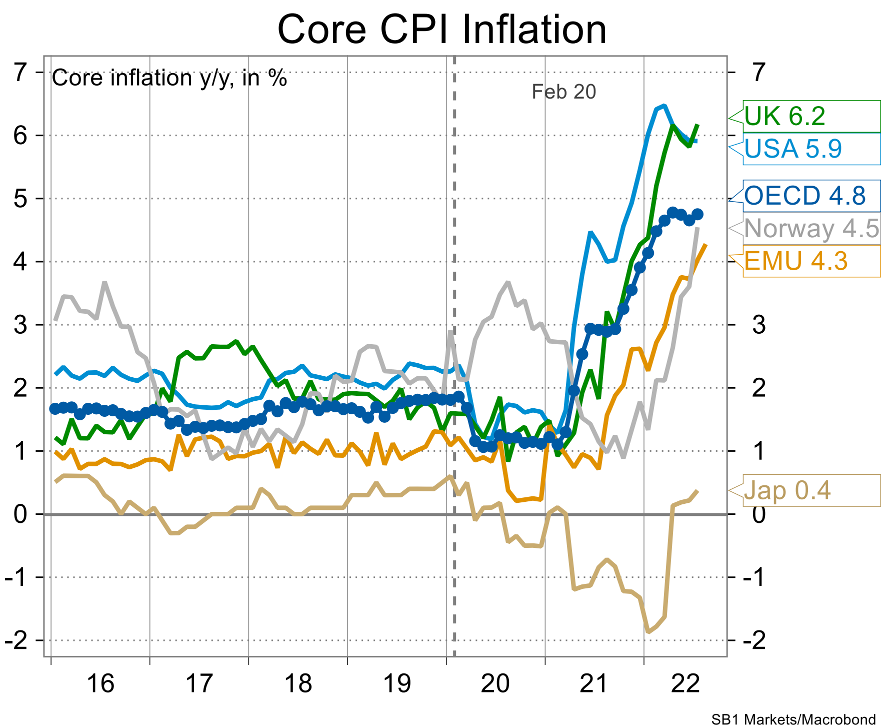
Norway is the average of Finans Norge & Opinion

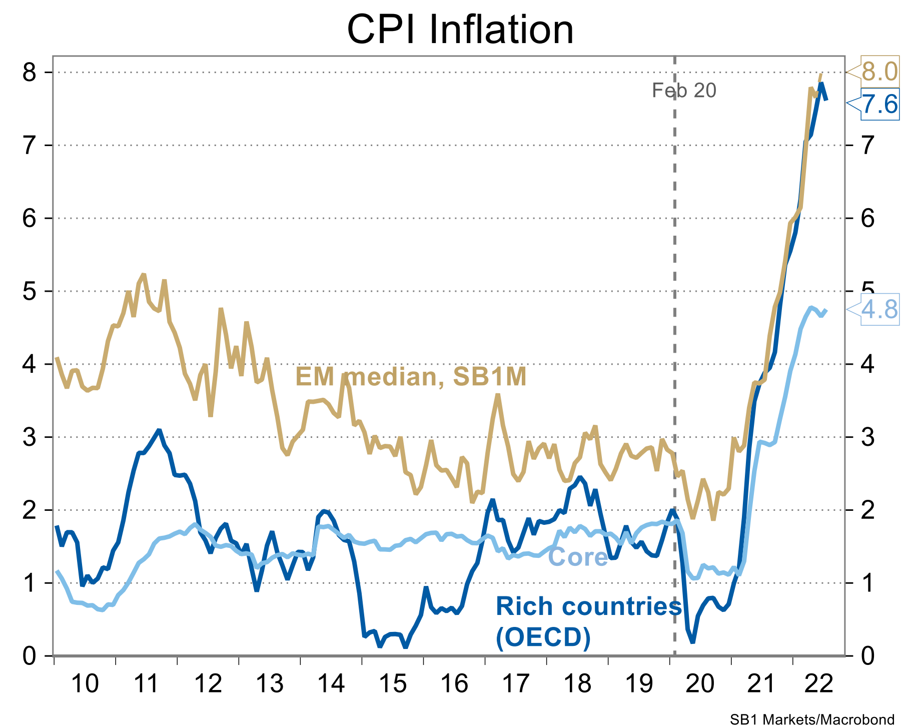
Consumer confidence



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

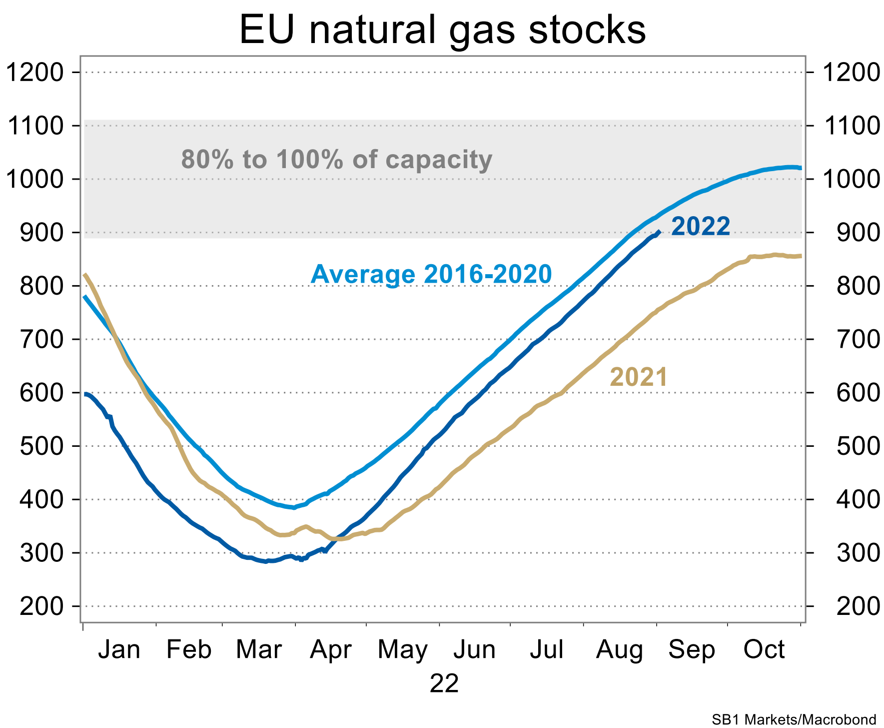
Energy prices the main culprit, but core prices are also contributing. However, some peaks are seen?





European gas stocks are filling up faster than normal

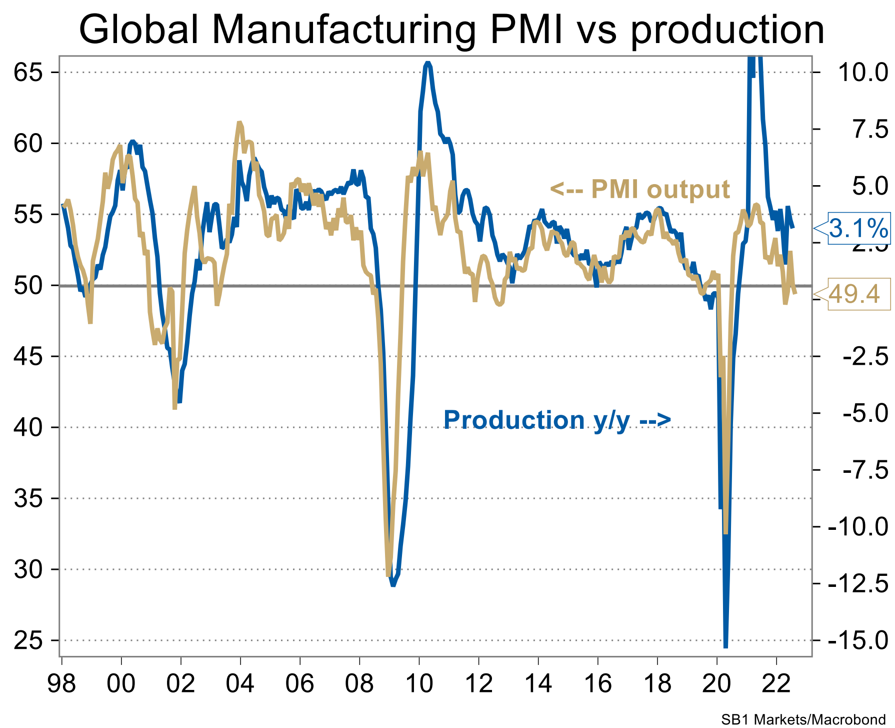
Thus, demand must have fallen more than supply

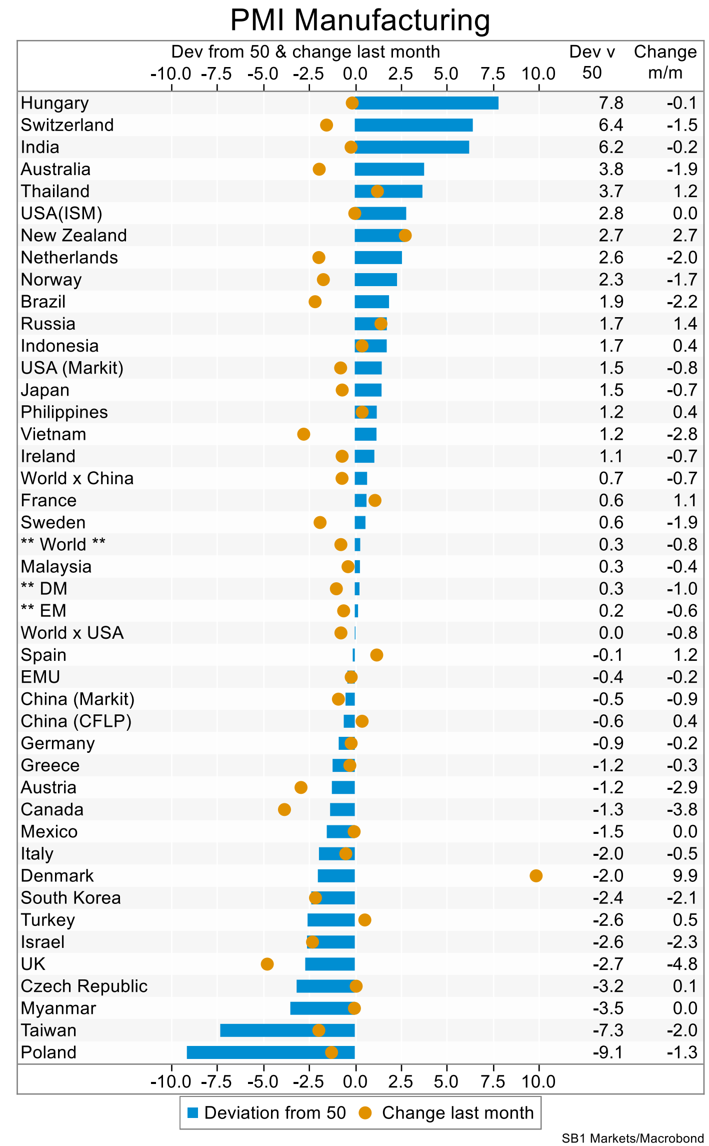


- The challenge: Supply will be cut further as Russia has turned the Nord Stream 1 tap completely
  - » A full closure of NS1 will reduce Russian exports by 33 bcm/d, equalling 0.3 TWh per day. Thus, slightly less than the extra 0.4 TWh stock buildup vs 2016 - since early July
  - » So, given anything else equal, gas inventories should still be built marginally faster than normally, even after the full close-down of Nord Stream 1.

Manufacturing total PMI down 0.8 p to 50.3; down to 49.4

72% down/28% up, still 55% above the 50 line.

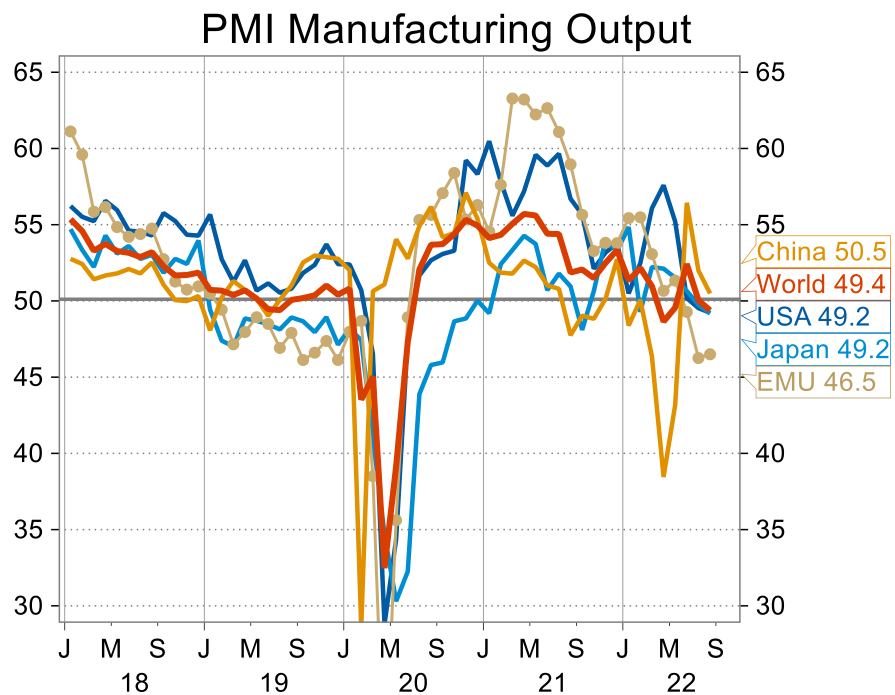


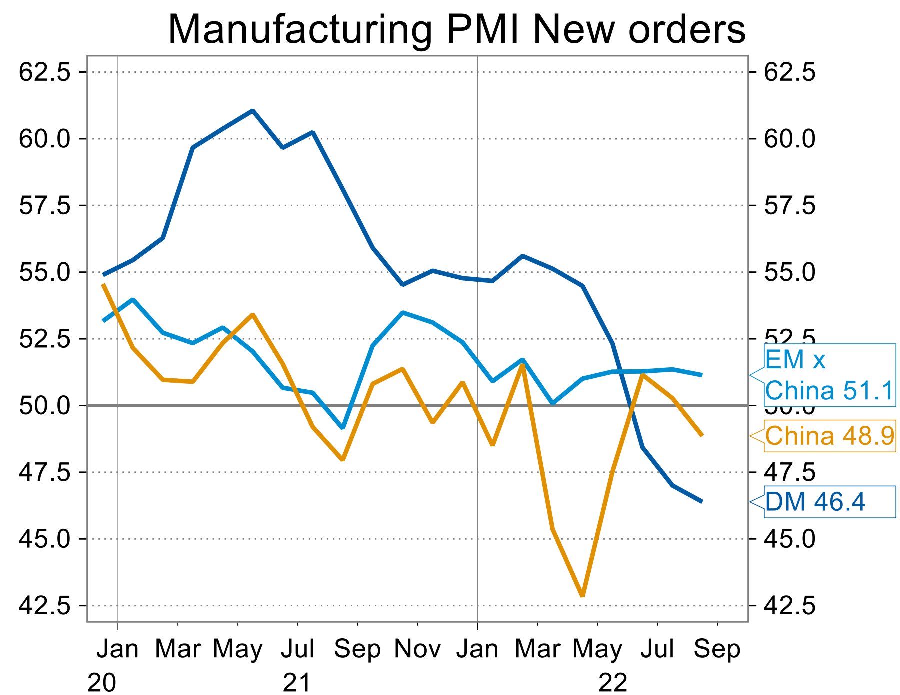


- A large majority of countries reported lower activity in June
  - » We cannot blame China for this drop
- **Rich countries are now even with** Emerging Markets measured by the total index but below EM x China. Measured by the new order index, EM are ahead of DM, which fell below 50
- **Norway** is falling down on the list, but slower than Sweden, which has fallen to an average level

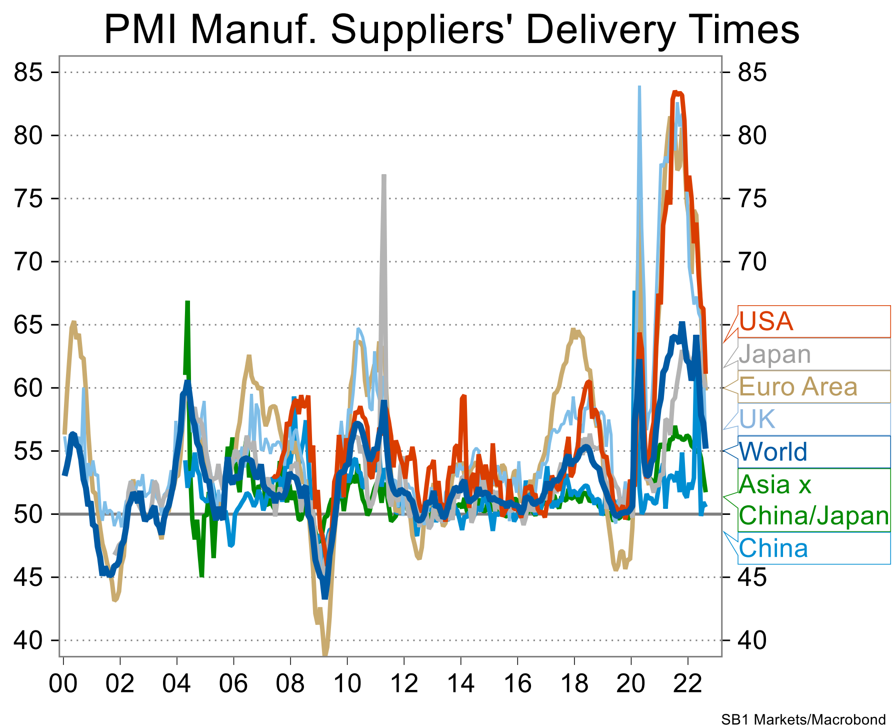
New orders and output is slowing in the rich part of the world, not in EM x China

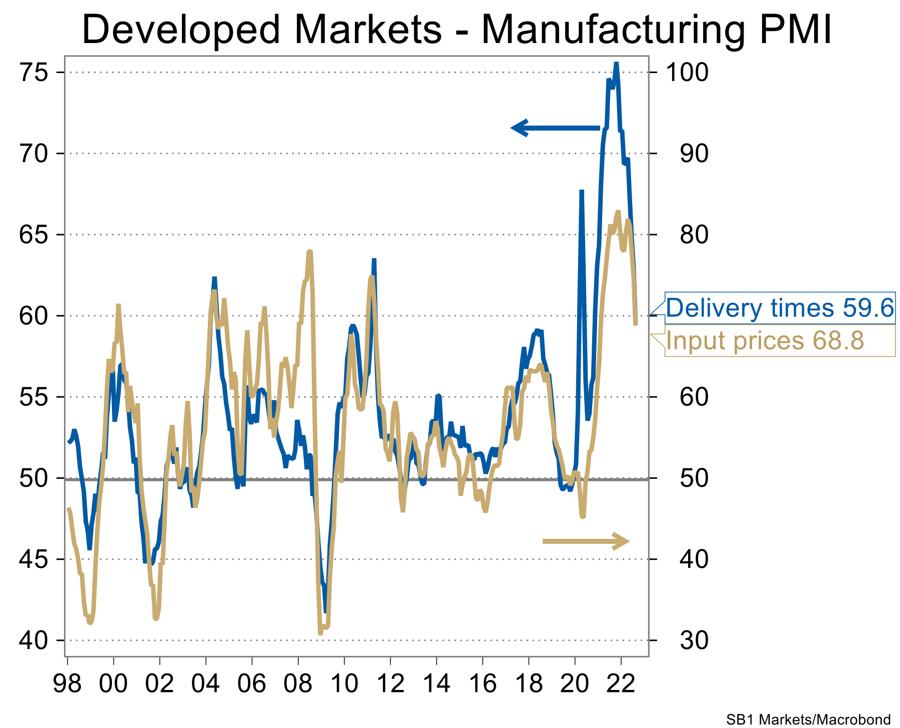
China has more or less stabilised at level signalling modest growth





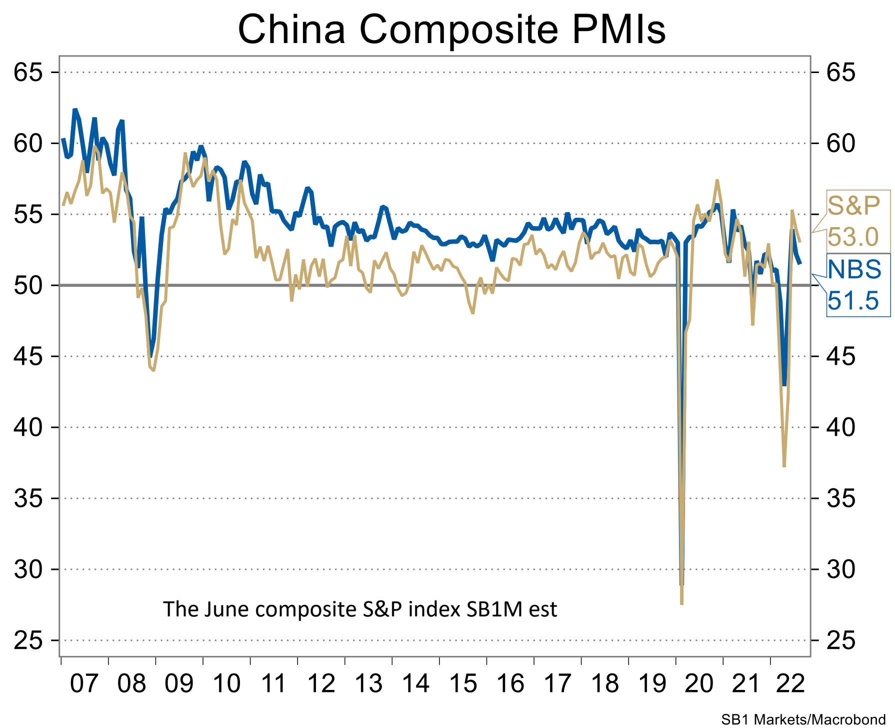
Delivery times and price indices are coming rapidly down, but both remain high

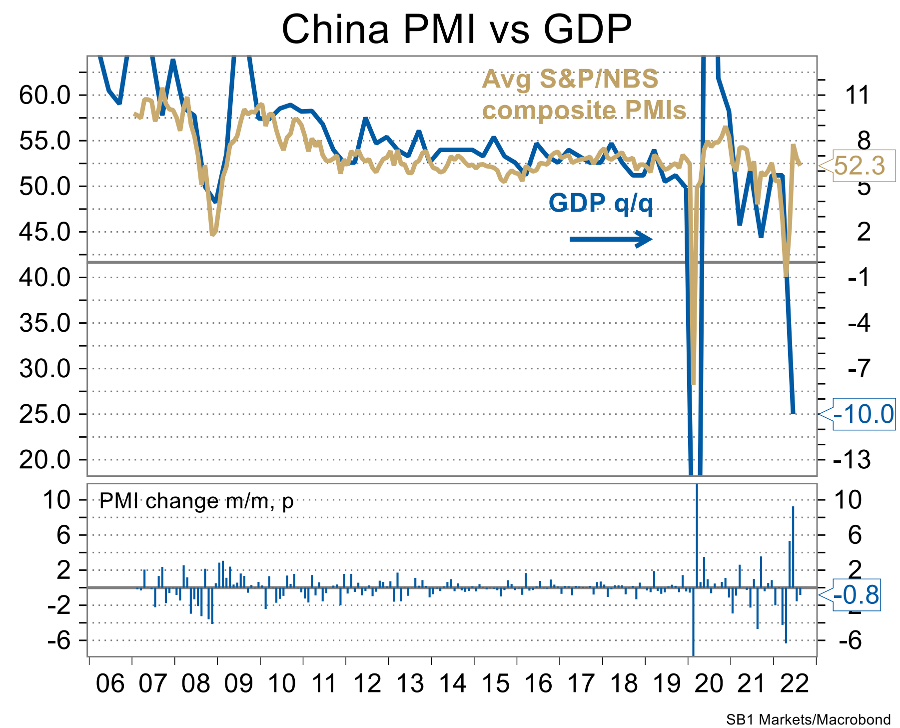




The PMIs down in August but are still reporting 'normal' growth

The manufacturing PMIs fell the most, to below 50, services are still at a normal level

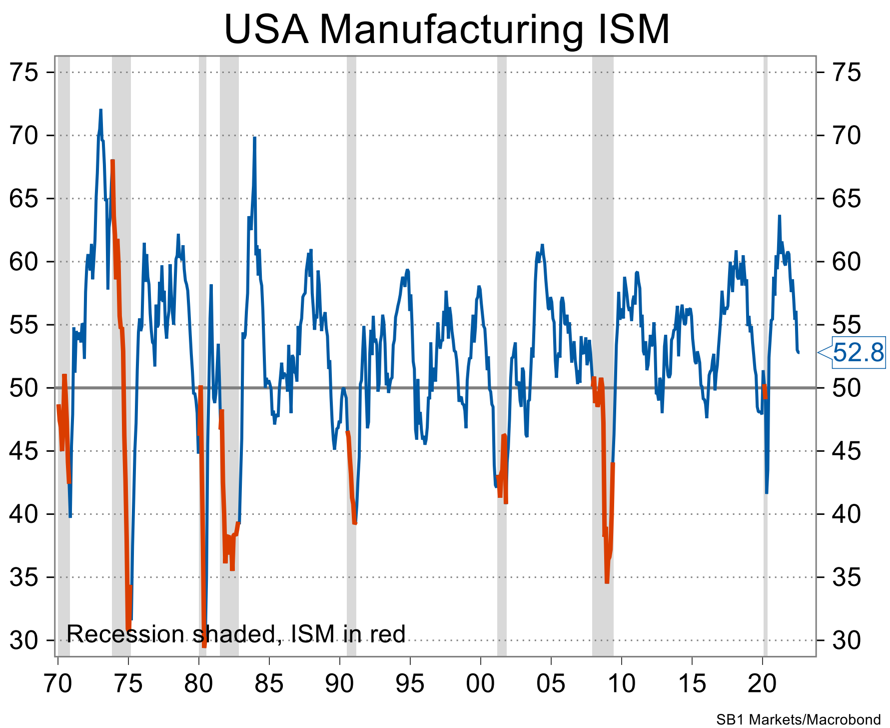


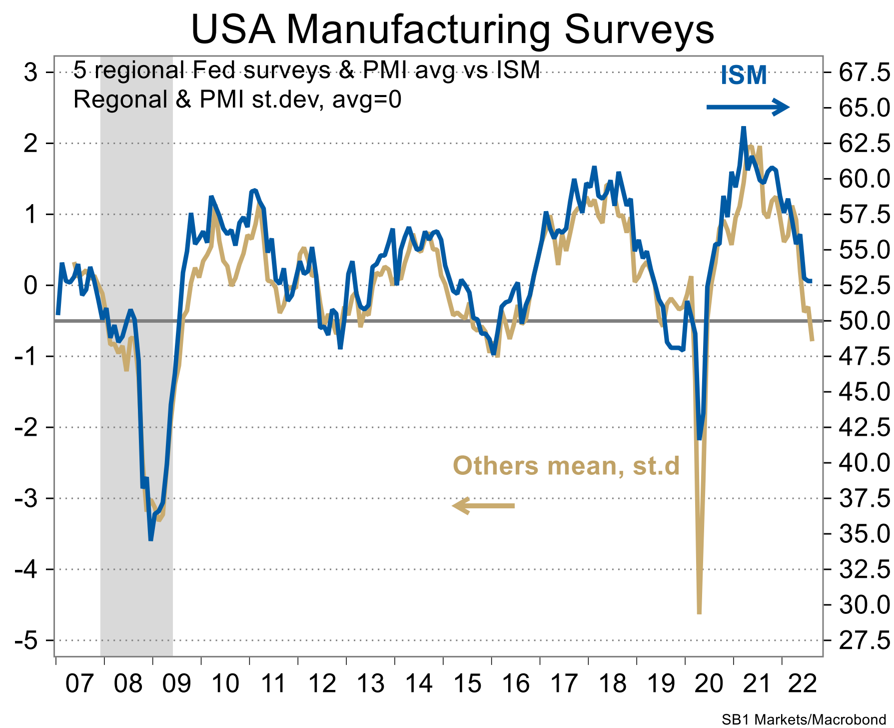


- **Both the NBS/CFLP and Caixin/S&Ps (aka Markit)** PMIs fell in August, by 0.7 – 0.9 p to 51.5 and 53 resp. The average at 52.0 signals a normal GDP growth rate, at some 6% (but Chinese BNP data have been rather volatile lately)
- The manufacturing PMIs fell to below par in August, while services are close to a normal level
- These PMIs confirm that the economy recovers as soon as Covid restrictions are eased. The authorities have announced a less rigid virus regime, hopefully preventing large scale, and extremely expensive lockdowns

The manufacturing ISM did not follow the others down in August either

Unch. at 52.8 in Aug, expected down to 52, we thought 50 was an OK estimate





Even so, the **ISM manufacturing survey** confirms a gradual slowdown in the US economy, but not as much as the average (and median) of other surveys

- In August, 10 of 18 manufacturing sectors reported growth (down from 11 in June), 7 sectors reported a decline (unch.)
- The **new orders index** recovered, up 3.3 p to 51.3 following the 7.2 p drop in June/July. Other surveys are far weaker in August, and the average is still at a recessionary level. In addition, just 6 of 18 ISM sectors reported growth in orders, this an increase from 4/18 in July, but the level way below the number of companies reporting growth some few months ago! The **production index** fell 3.1 p to 50.3, a low level. The employment index surges 4.3 p to 54.2, normally a lagging indicator
- Fewer **supply chain** issues: Just 12 commodities saw **price increases** (from 18 last month (and 40 in May, and 56 at the peak)). 14 were down in price, like aluminium, copper, corn products, freight, steel, crude oil, gasoline, up from 11 in June. Just 8 commodities were reported in **short supply**, down from 14 in June (and far below the peak at 50 commodities a few months ago)
- **Comments** are mixed, but several are acknowledging a slowdown and inventory build-up

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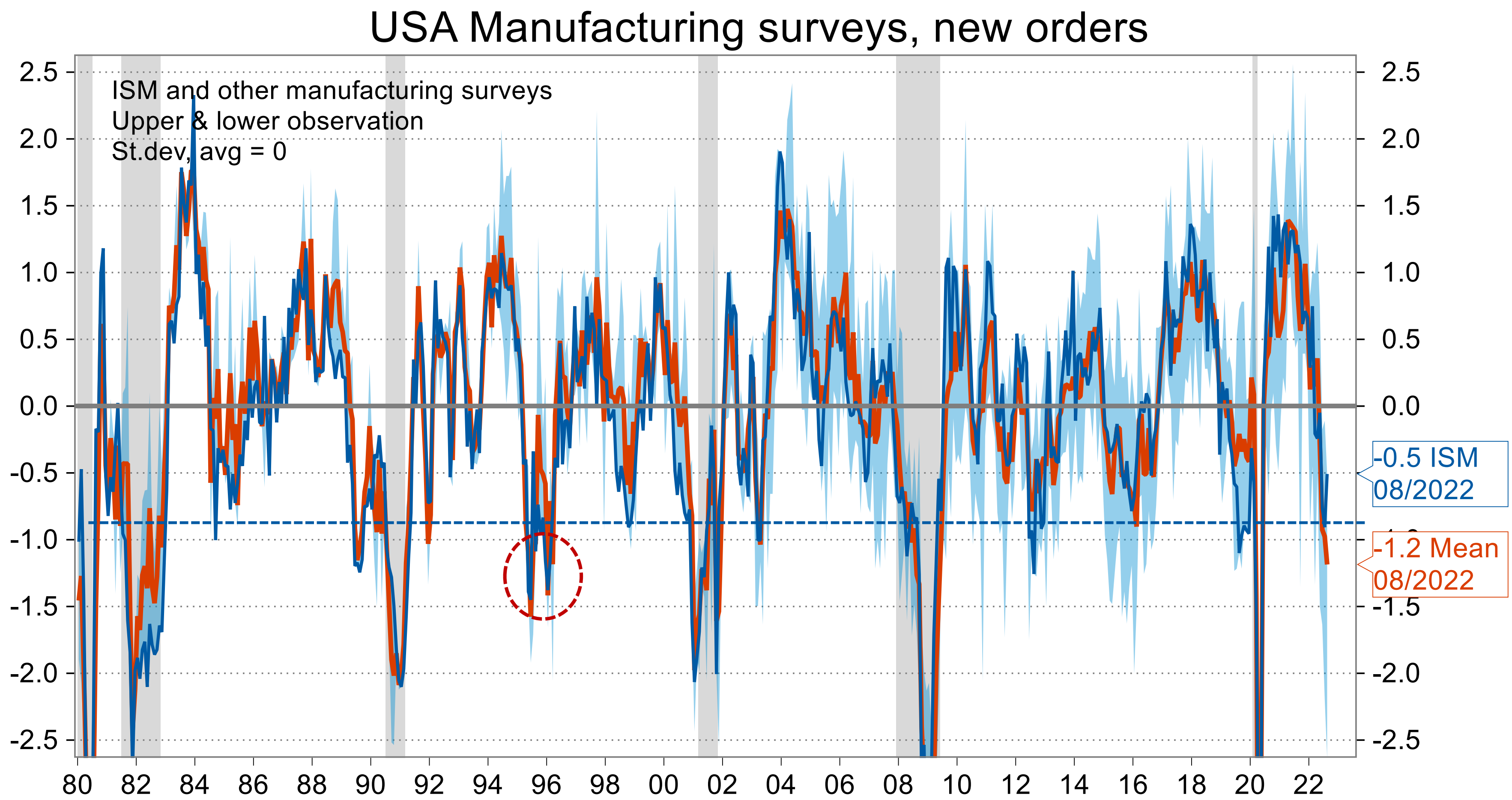
A warning sign: At the current pace of contraction in new orders…

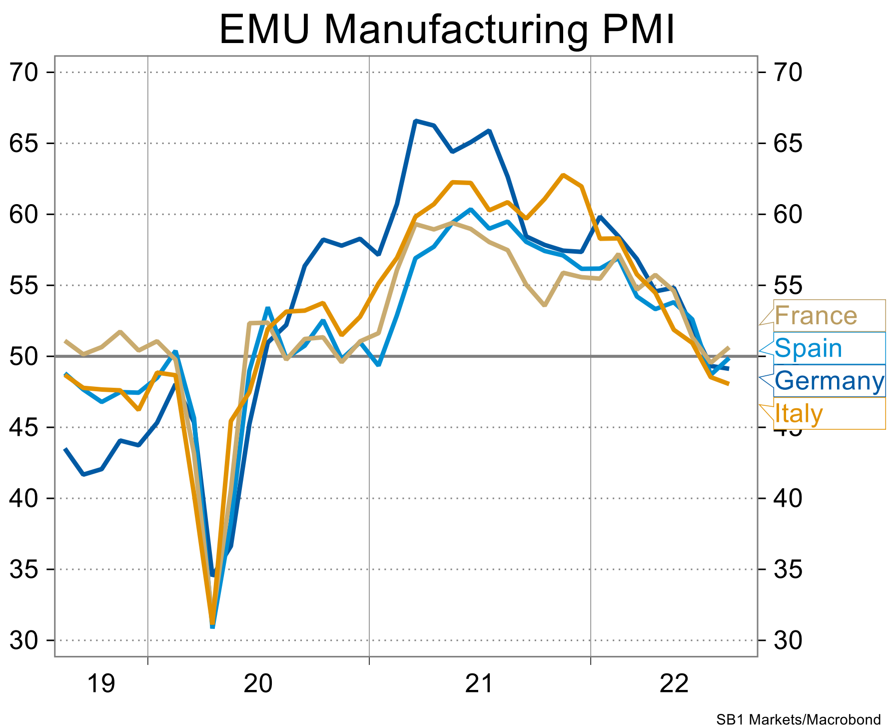
…a recession usually follows. The ‘95 soft landing is the only clear exception.
The other 6 contractions are the past 6 recessions

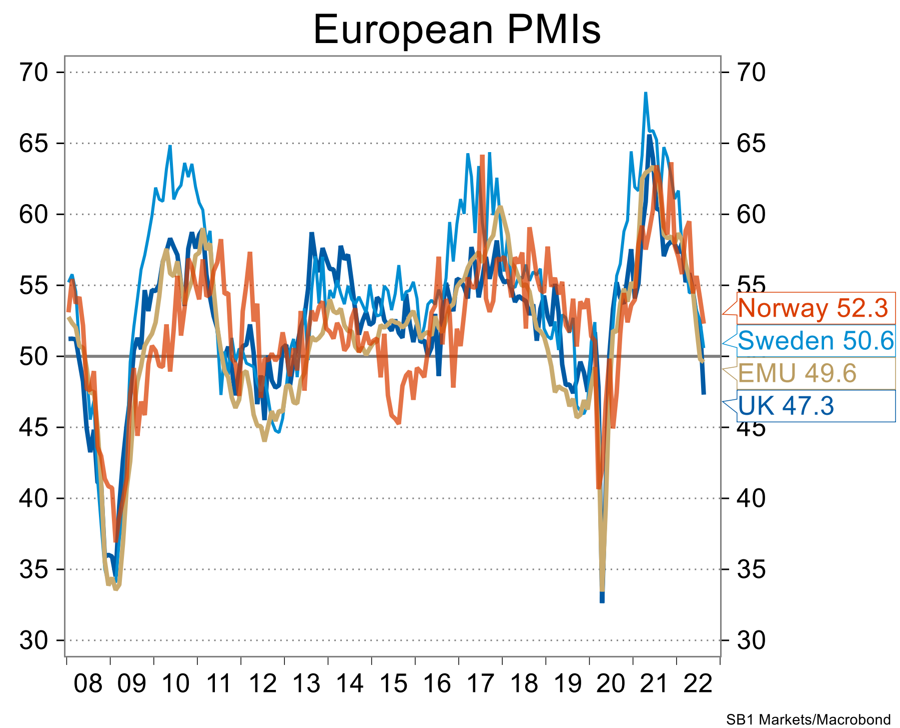


SB1 Markets/Macrobond

Eurozone manuf. PMIs slightly lower than preliminary prints, by and large

Norwegian and Swedish PMIs also weaker, but still above the 50-line





- The decline in the **EMU PMI** in August was confirmed, down 0.2 p to 49.6 (flash est. at 49.7). The German manuf. PMI came in at 49.1, down 0.2 p from July, and 0.7 p lower than the flash estimate. France and Spain reported small upticks
- **The UK PMI** was revised up by 1.3 p to 47.3, down from 52.3 in July
- **The Swedish PMI** fell by 1.9 p to 50.6. Not too long ago, the index was close to 70, and at the top of the global ranking
- **The Norwegian PMI** also declined, by 1.7 p to 52.3

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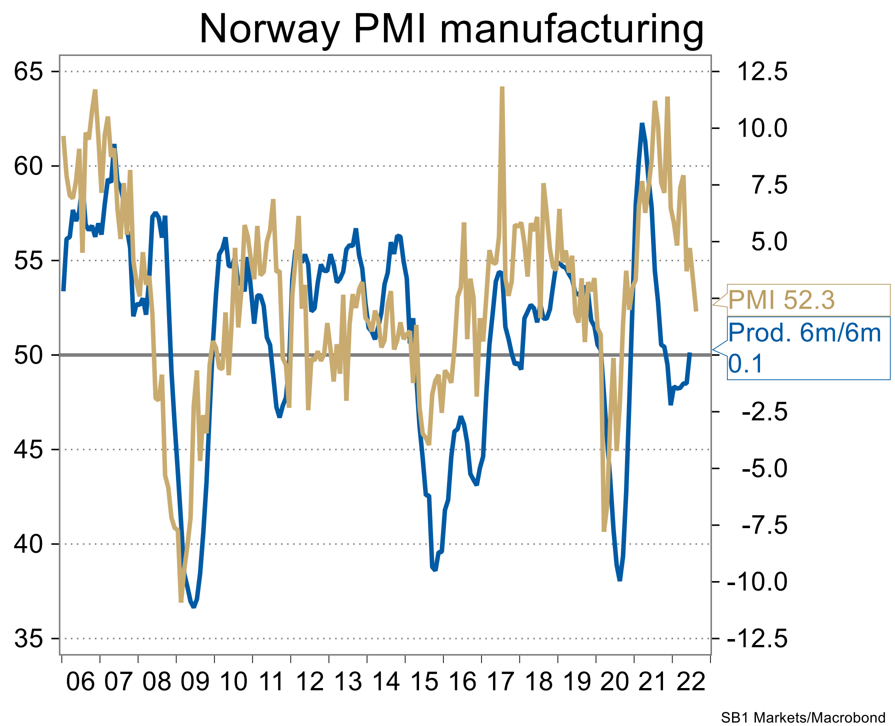
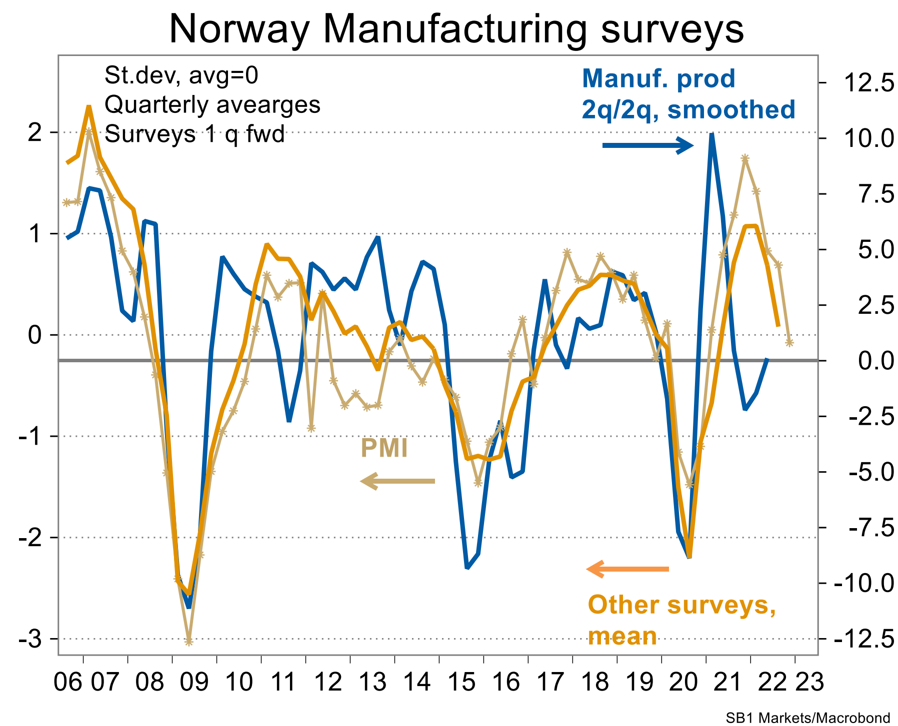
The manufacturing PMI down in August, as we expected

The trend is down, and orders have flattened. Delivery times slows a little, input price infl. still high

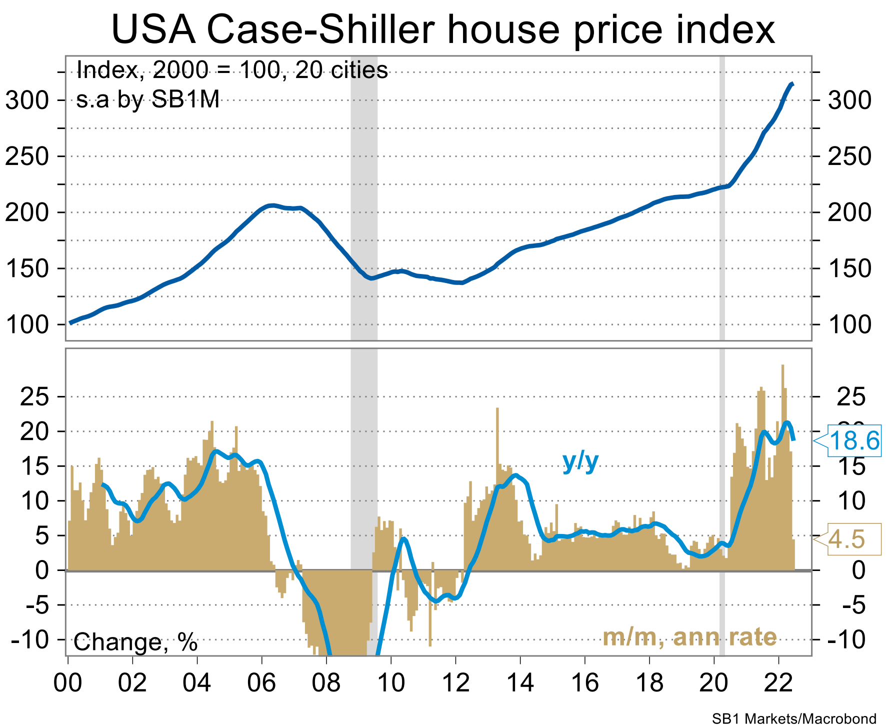


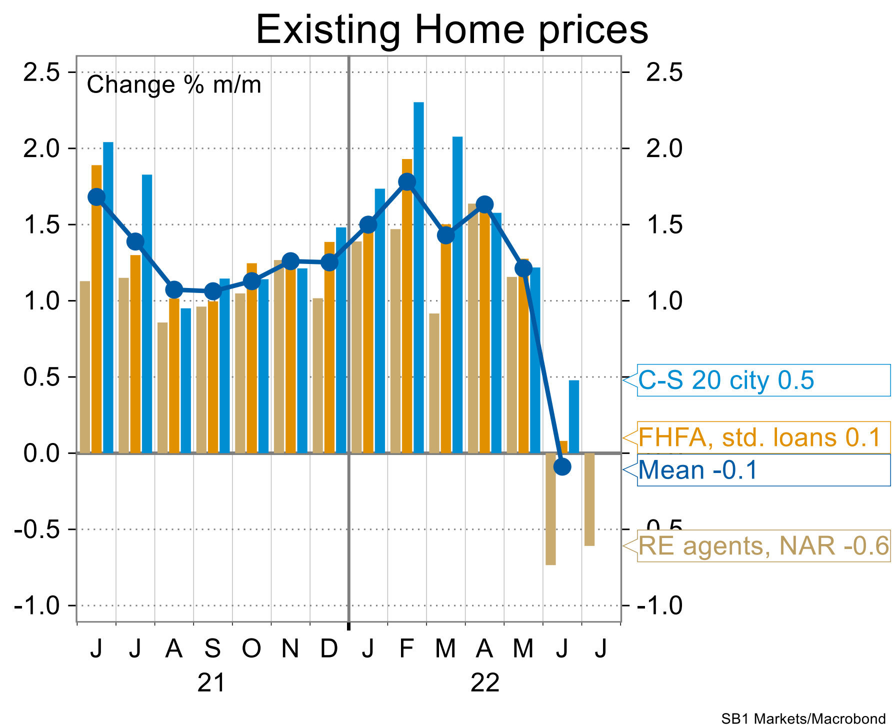


- The **manufacturing PMI index** is trending down but fell less than we expected: -1.7 p to 52.3 (our f’cast 52)
- Other **manufacturing surveys** are also down
- Even if surveys have been reporting growth, **actual production** has so far been on the way down, at least until now

House price inflation is slowing but Case/Shiller still reported a 0.4% lift in June

Realtors reported 1.3% price decrease in June/July





- **S&P's Case/Shiller's 20 cities** price index rose 0.4% m/m in June (May - July avg, our seas. adj) equalling a 4.9% annualised pace, down from the recent peaks but still a further price appreciation. A 1.0% increase was expected. The annual rate fell to 4.5%. The national index is up by 18.6%
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), rose 'just' 0.1% in June, are up 16.2% y/y
- **Realtors** reported a 0.6% decline in July, following a 0.7% drop in June. Prices are still up 10.9% y/y – but the annual rate is now 'collapsing'
- However, even if prices cover transactions closed up to July (included in the May-July average), those deals were mostly agreed upon in June (as for the realtors' index) – and 'something' might have happened since June. Anyway, we still expect prices to yield substantially the coming months, following the unprecedented 40% lift since before the pandemic, and the surge in mortgage rates, up to almost 6% (30 y fixed)

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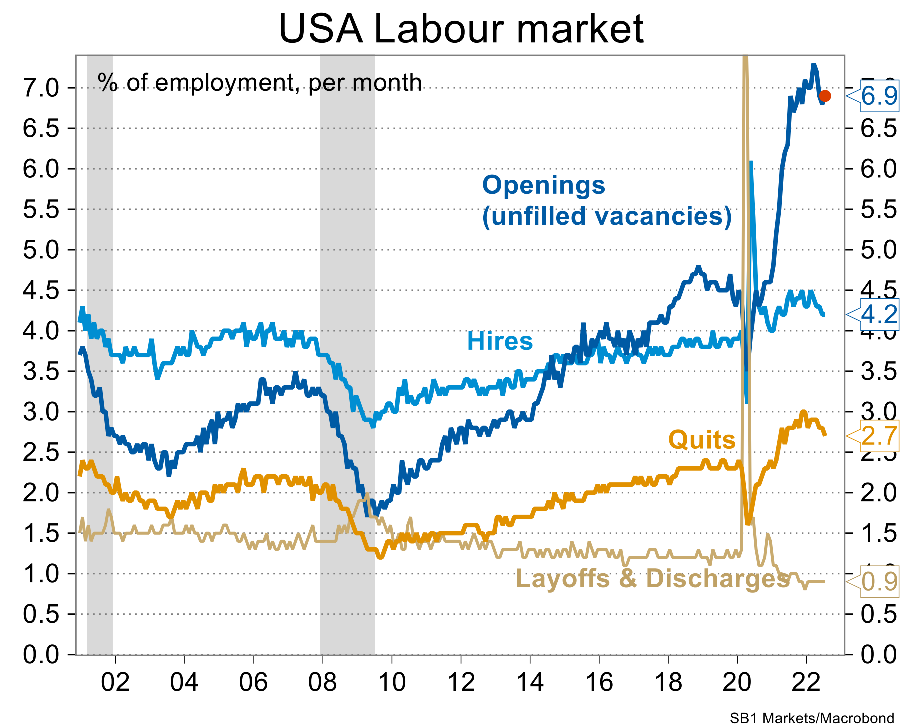
Powell said it: the labour market is completely out of balance

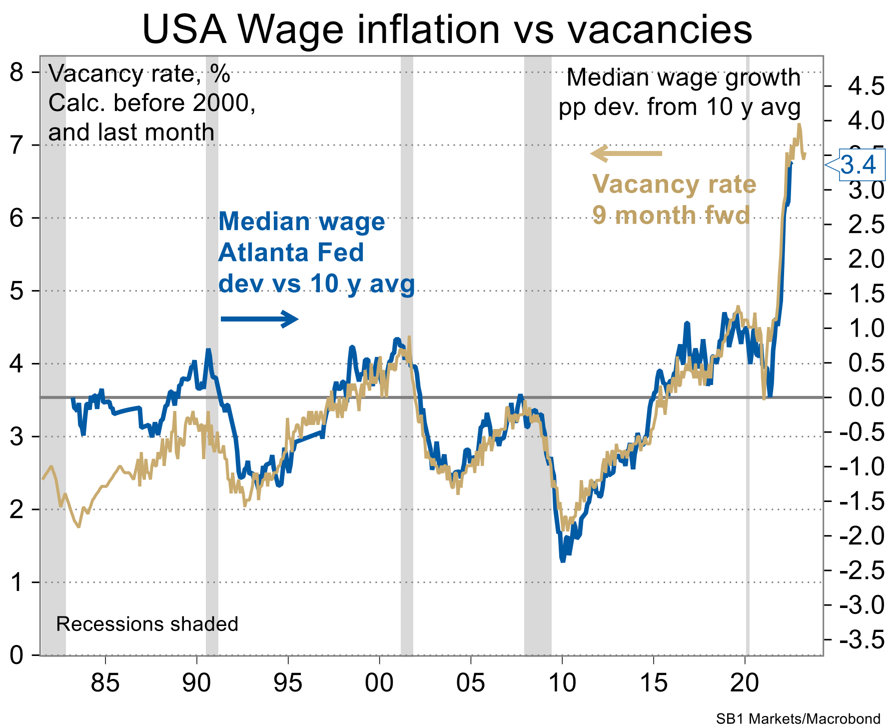
The vacancy rate increased to 6.9% in July from 6.8% in June (revised from 6.6%), expected 6.5%

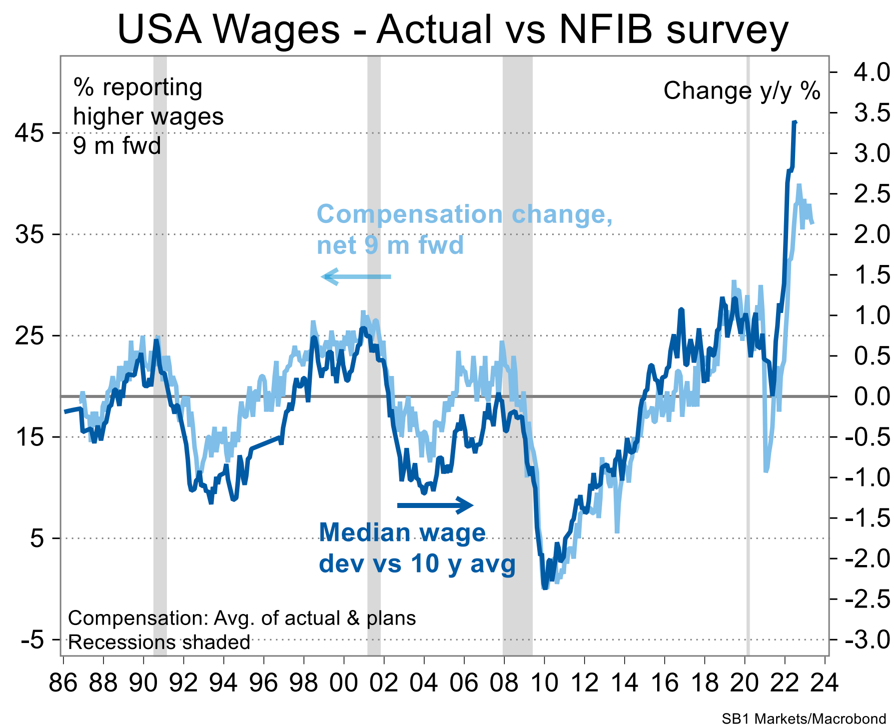


- The number of **unfilled vacancies** increased by 0.2 mill to 11.2 mill in July (June data revised up by 0.3 mill), expected down to 10.5 mill. The rate (vs no. of employed) rose by 0.1 pp to 6.9%
  - » The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit – the current level is extremely high (just like Powell also said)
- **The SMBs (NFIB survey)** reported an unchanged, and close to record high share of companies that were not able to fill positions in August. These two series are very closely correlated – and both are still signalling a very tight labour market
- **New hires** fell 0.1 mill to 6.4 mill in July, equalling 4.2% of the employment level, unch. from June. The trend is now slightly down but the level is high
- The number of **voluntary quits** was down by 700' to 4.2 mill, equalling 2.7%, still a very high level. However, the trend is down, signalling that workers have become somewhat more cautious leaving the current jobs
- **Layoffs** equalled 0.9% of employment in July, at the same level as during the previous months, 0.1 p above the ATL last Dec
- **In sum:** The tide has turned, but the labour market is still very tight, and it is unlikely that wage inflation will come down to a sustainable level without a further weakening

So why is wage inflation soaring like never before?

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

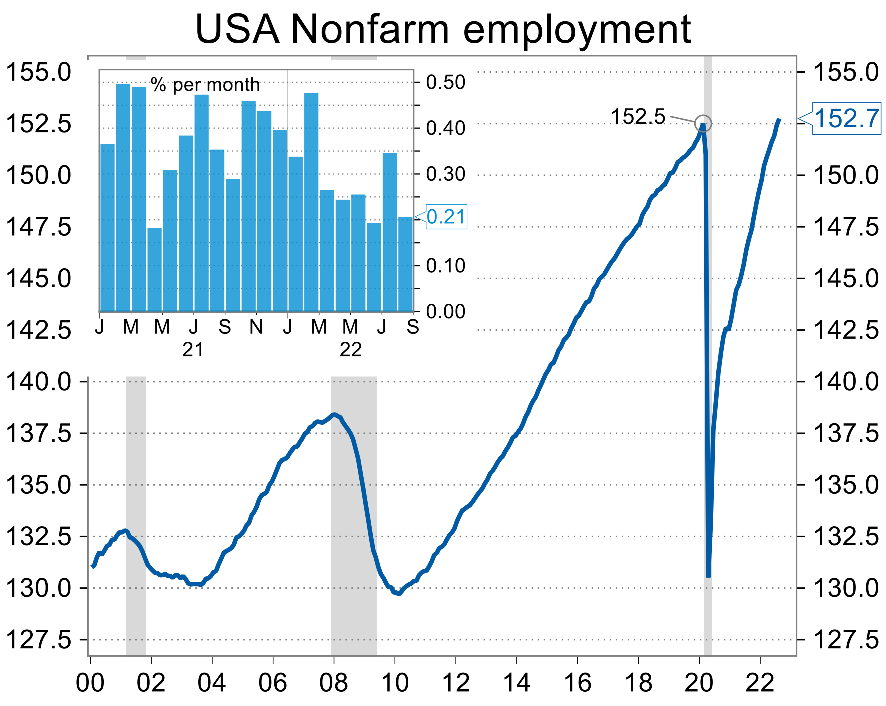


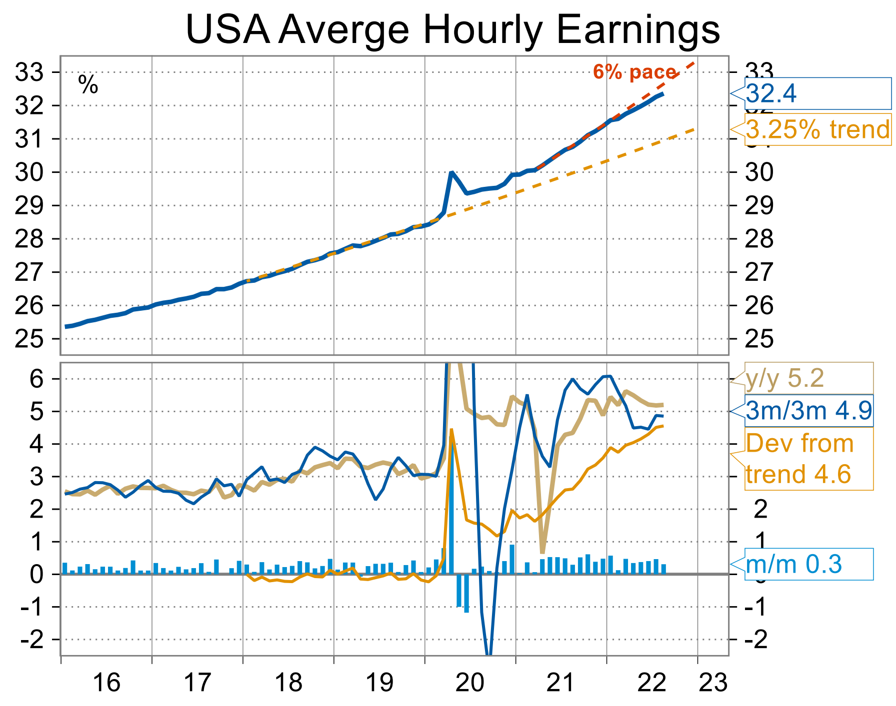


- **Our 'Phillips curve'** based on the vacancy rate signals a further increase in wage inflation the coming quarters even if vacances may have peaked, as the vacancy rate leads changes in wage inflation quite consistently by 3 quarters. However, we would not be surprised if the current extraordinary high wage inflation turns out to be the peak
  - » Companies (SMEs) compensation plans signal continued high wage inflation but not faster than the present
- **Wage inflation** has already accelerated by almost 3.4 pp vs the 10 y average (Atlanta Fed median) and cannot possibly generate a 2% price inflation rate over time. This is Fed's main headache, not the current high CPI inflation print. And it will become the stock owners' headache too, of course
- **Demand for labour has to be reduced sharply in order to get wage inflation back to a sustainable level! That's the recipe for an unavoidable RECESSION**
  - » Check under which circumstances wage inflation slows on the charts above (hint: find the shaded areas, follow the blue wage line - as well as the vacancy rate or the wage hike plans ☺). Fed will not be able to control inflation if demand for labour is not cut sharply. Exactly what Powell told us at Jackson hole!

Employment growth slows but the unempl. rate rose due to higher participation

In sum: probably not as strong of a report as the Fed feared – but 75 bps still likely on the table

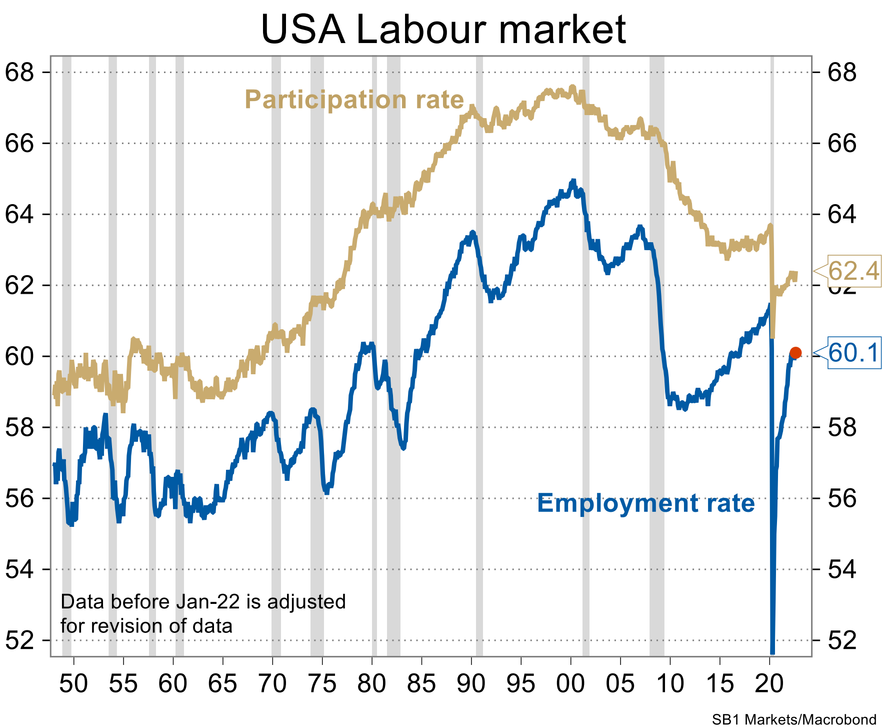


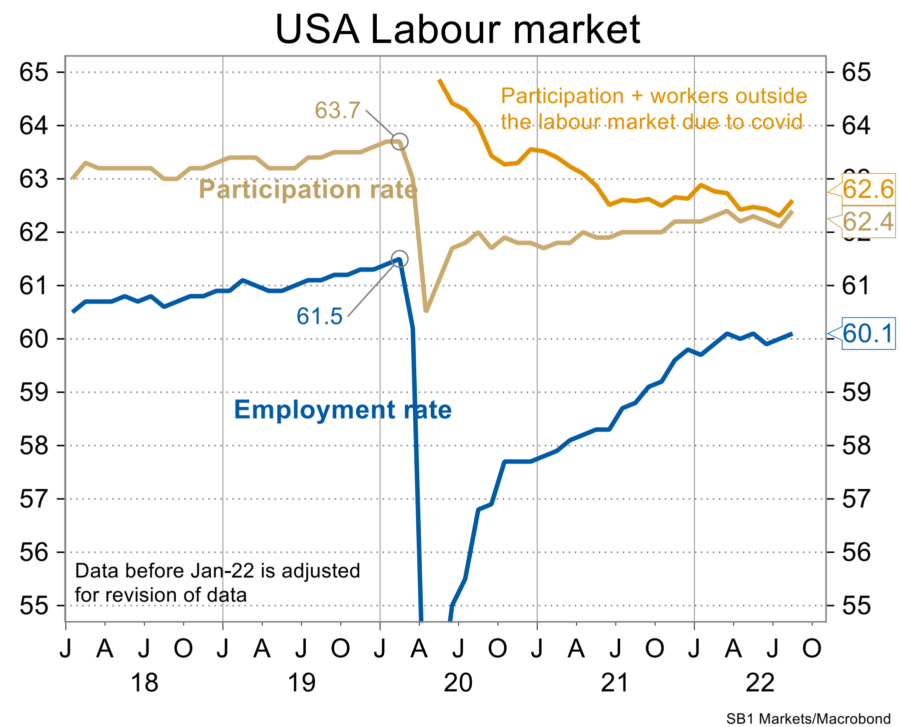


- **Nonfarm payrolls** rose by 315' in Aug, expected 300' (no important revisions). Payrolls are back to the Feb-20 level. The LFS employment rose by just 132', and employment has almost flattened since March. The **employment rate** increased by 0.1 pp to 60.1% but has flattened since March – not a signal of strength. The US may not be in a recession but employment normally increases until the economy has entered a recession
- **The participation rate** gained 0.3 pp to 62.4%, which is good news – but the rate is still just back to the March level - the trend is flat. Thus, the unemployment rate, added 0.2 pp to 3.7% in August, expected unch. In June, the FOMC lifted it's Q4-22 f'cast by 0.2 pp to 3.7% (and to 4.1%, 0.1 pp above the assumed NAIRU, by the end of 2024, no recession was assumed).
- **Wages** rose 0.3% in Aug, expected 0.4%. Measured 3m/3m, wages rose 4.9% in Aug. The annual rate was unch. at 5.2%, 0.1 pp lower than expected. Before the pandemic, average wages rose by 3¼% in 2019, and below 3% in the years before, and the wage level is now 4.6% above this trend
- **Maximum employment:** Both the participation and the employment rates have flattened recent months, at the same time as the demand for labour is very strong, witnessing the extreme level of unfilled vacancies. The supply side is obviously the bottleneck at the labour market. For the time being, maximum employment is more than reached – and wage inflation is well above a sustainable level

Labour force survey: Both participation & employment up in August

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

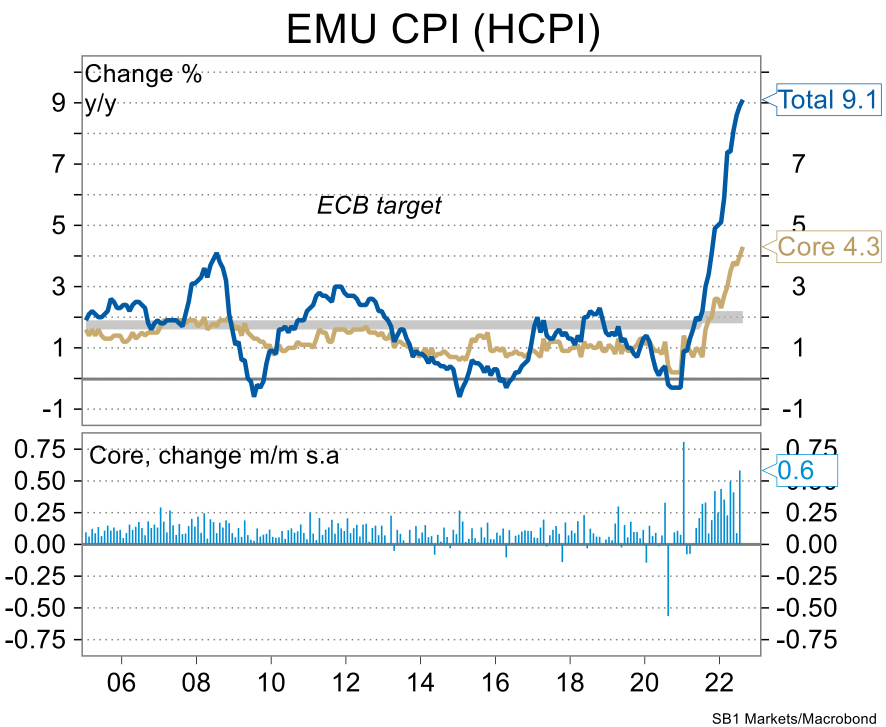


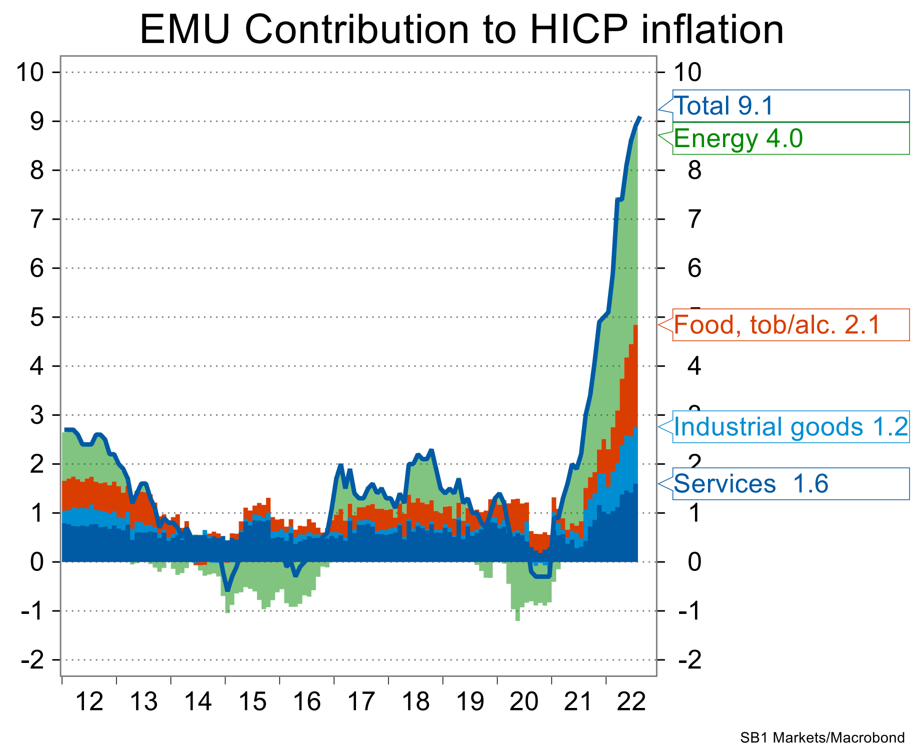


- In August, **the labour force participation rate** rose 0.3 pp to 62.4%, expected up 0.1 pp – a pleasant surprise! However, the participation rate is still just back to the same level as in March – and it is 1.3 pp (2%) below the pre-pandemic local peak – which again was way below the pre-IT bubble peak, in year 2000 – as the population ages (*check next page*)
- **The employment rate** gained 0.1 pp to 60.1%, back to the same level as in March and May – and the short term trend is flat, as growth in employment has slowed. This rate is 1.4 pp (2.3%) below the pre-pandemic local peak
- **The conundrum:** Why does not the participation rate increase when demand for labour is extremely strong (JOLTS job openings, SME's not able to fill vacancies). <u>The only reasonable explanation is that all persons that want to have a job and are able to work - at least for the time being – have now entered the labour market, there is no more spare capacity</u>

Prices are increasing at record pace, and it is not just energy

Both headline and core inflation slightly higher than expected, again…





- The **total HICP** rose 0.5% m/m July, up 9.1% y/y, expected 9.0%
  - » Energy prices rose 0.7% m/m, they are up 38%, and contributes with around 4 pp to the headline rate. Food prices rose 1.1% - and the latter is up 10.5% y/y, contributing more than 2 pp (contribution data on the chart to the right is only updated as per the previous month)
- **The core** rose 0.6% m/m, both goods and services contributed, an unusual high print, the 2nd highest ever!
- **The ECB** is facing tough choices: The bank clearly has to tackle inflation head on (as it is broad based), while acknowledging that the high energy prices are biting for both households and businesses. We believe that the latest inflation data and a record-tight labour market may push the bank towards a 75-bps hike on Thursday, like the market expects, up to 1.25%, still a low level! The best counter-argument is that labour cost inflation remains muted, the EMU does not have cost problem

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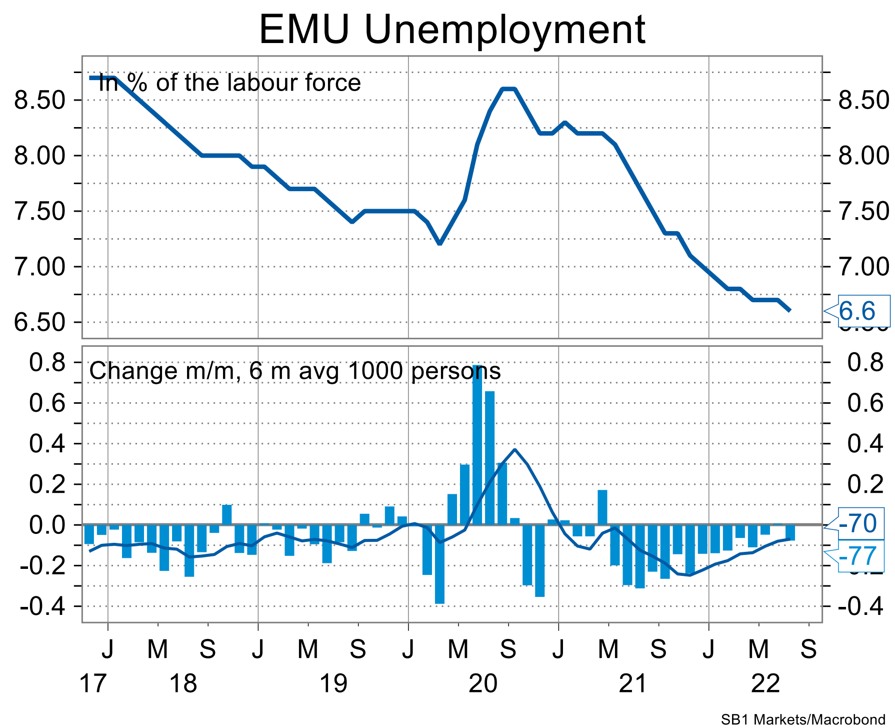
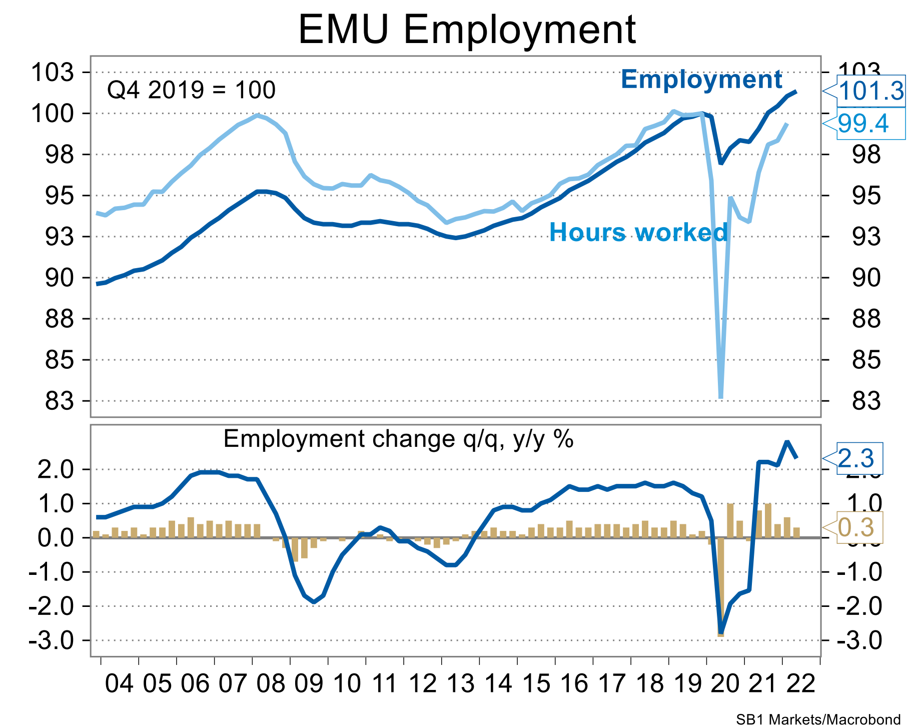
Unemployment down to 0.1 pp to 6.6% in July

June revised 0.1 pp up though, and the level was as expected – at the lowest level since early 80s

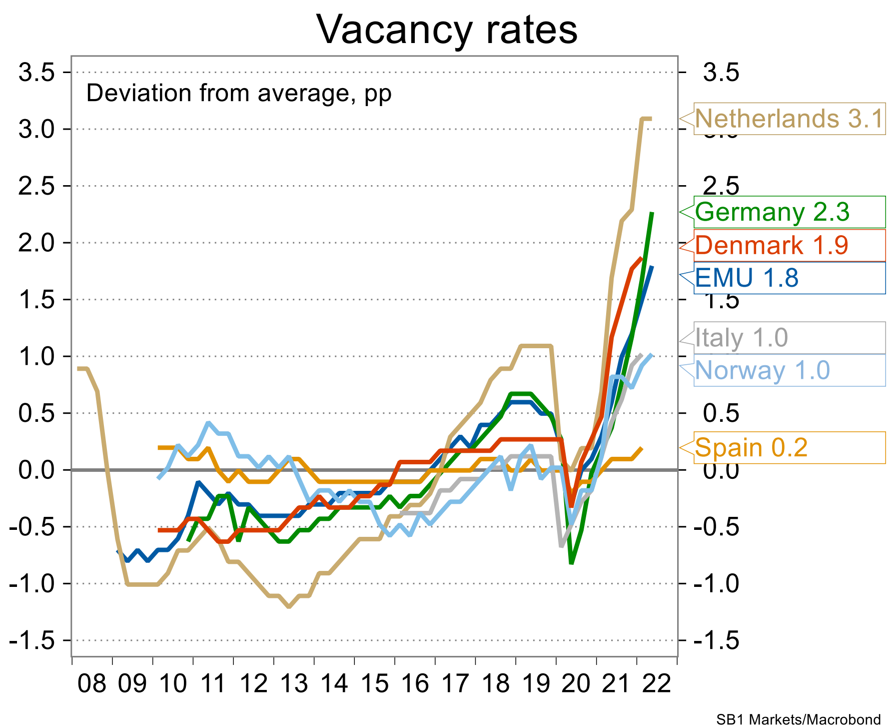


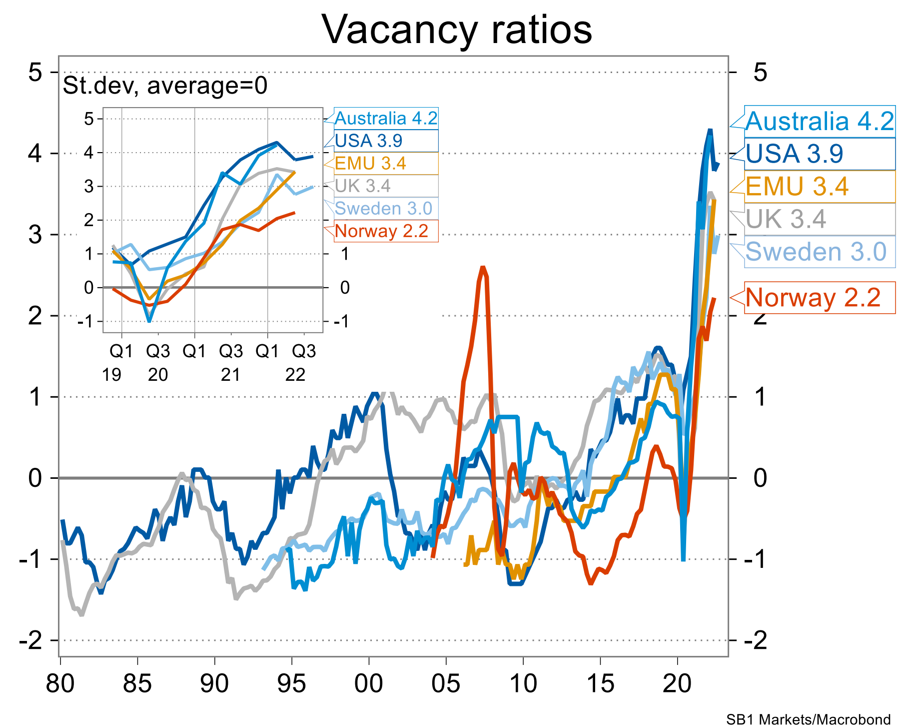


- **The number or unemployed declined in July**
- **Employment** grew by 0.3% in Q2 (not annualised), and hours worked very likely gained too
  - » The employment level & the employment rate is higher than before the pandemic
- The number of **unfilled vacancies** soared to the highest level ever in Q2, by far
- The labour market is no doubt tight
- **Wage inflation** may have accelerated somewhat but remains moderate, way below US wage inflation, and lower than in UK. No cost explosion to be seen

Vacancies have been surging almost everywhere

Within the union. And outside. Now we are probably close to the peak, 'globally'





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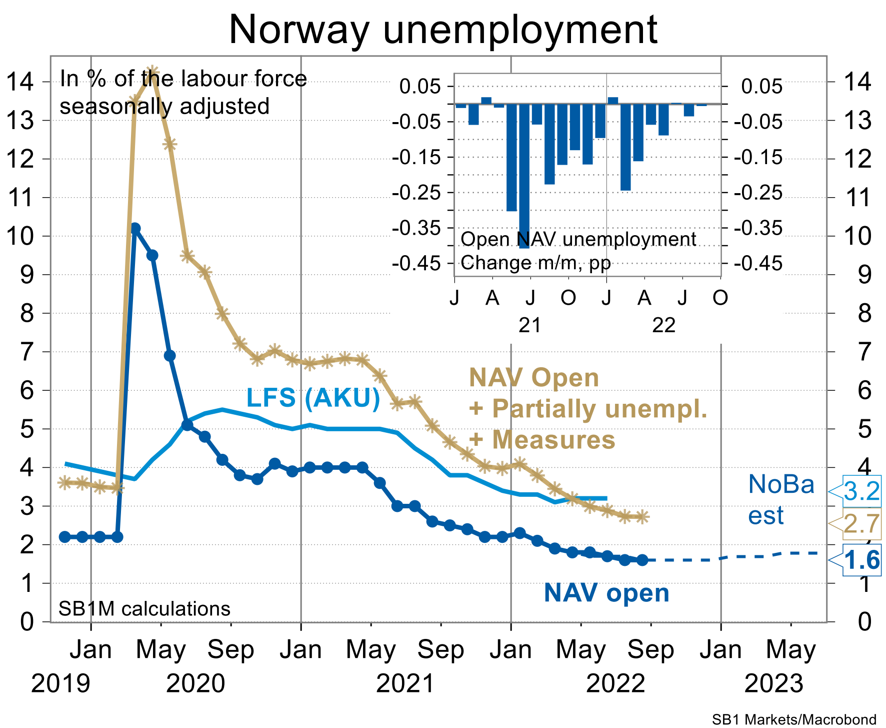
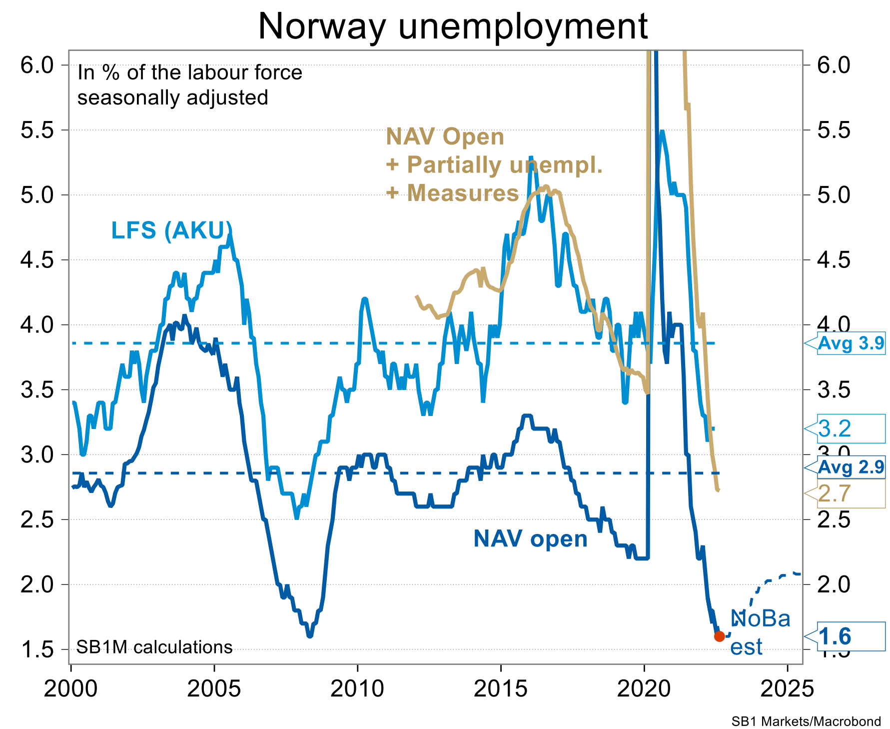
NAV unemployment just a tiny touch down in August

Open unemployment unch. at 1.6%, as expected

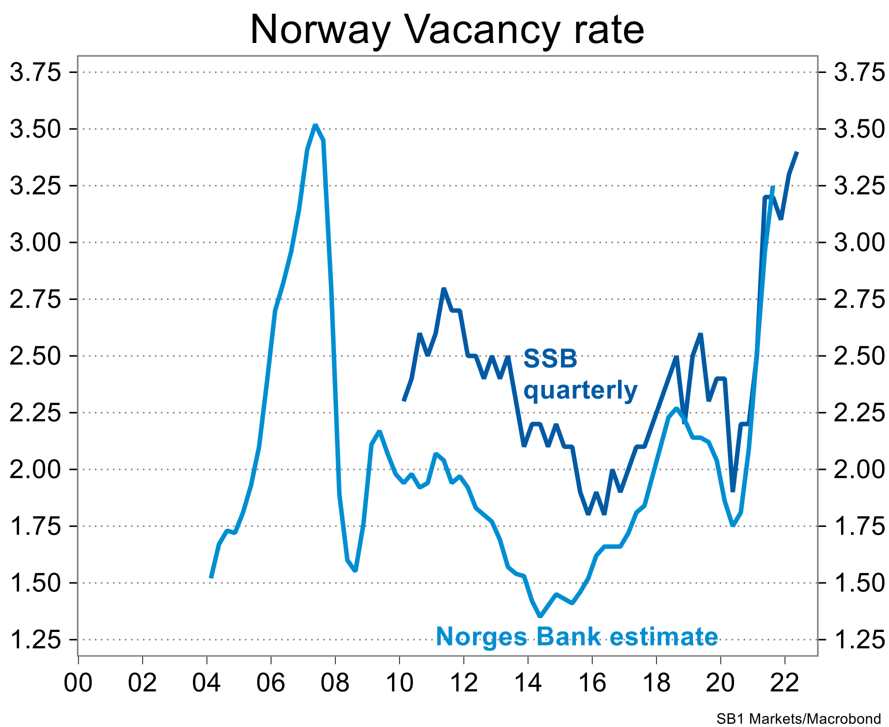


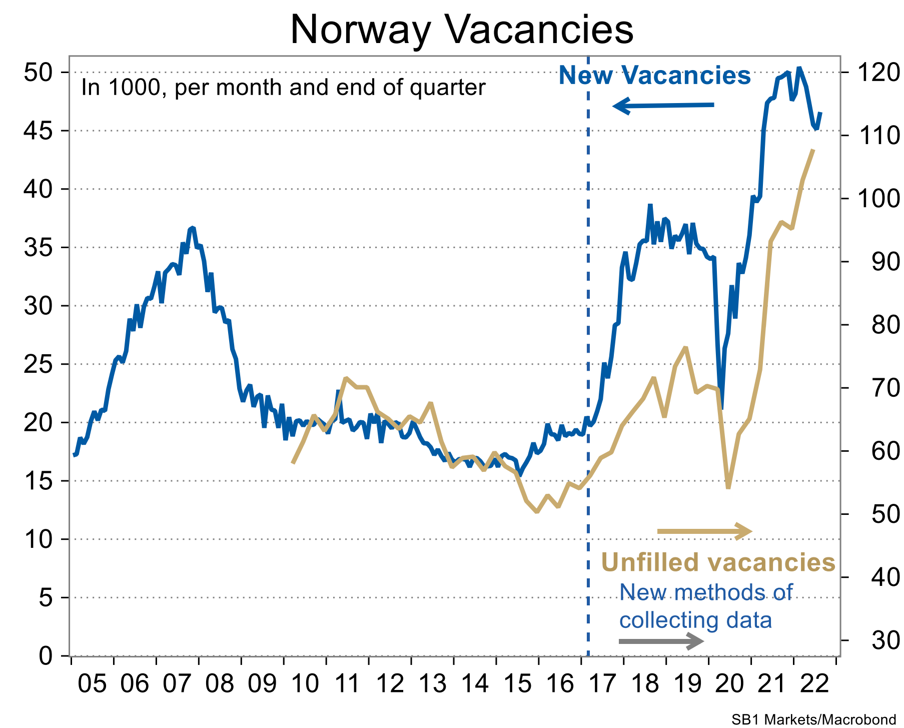


- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by some 500 persons in Aug (seas. adj) to 46.5', we expected a 1.5' decline. In addition, history was revised upwards by almost 1'. The rate at 1.6% (s.a) is equal to the lowest level before the financial crisis in 2008, and almost the lowest level since 1980 (check next page), and in line with NoBa's estimate
- Including labour market measures, unemployment fell by close to 1' persons, and the rate is at 2.0%
- The inflow of **new job seekers** have bottomed at a low level. The **inflow of new vacancies** increased marginally in August, but is down from the peak before the summer. Even so, the level remains very high
- **The LFS (AKU) unemployment rate** was stable at 3.2% in June. **Employment growth** is slowing

The vacancy rate further up 0.1 pp to 3.3%

Unfilled job openings is at very high level

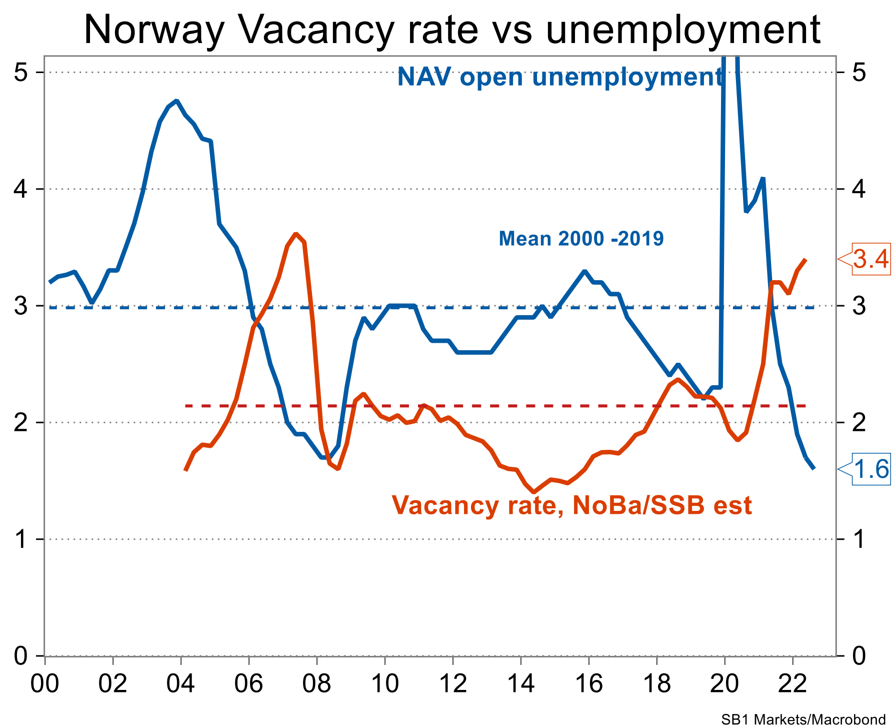


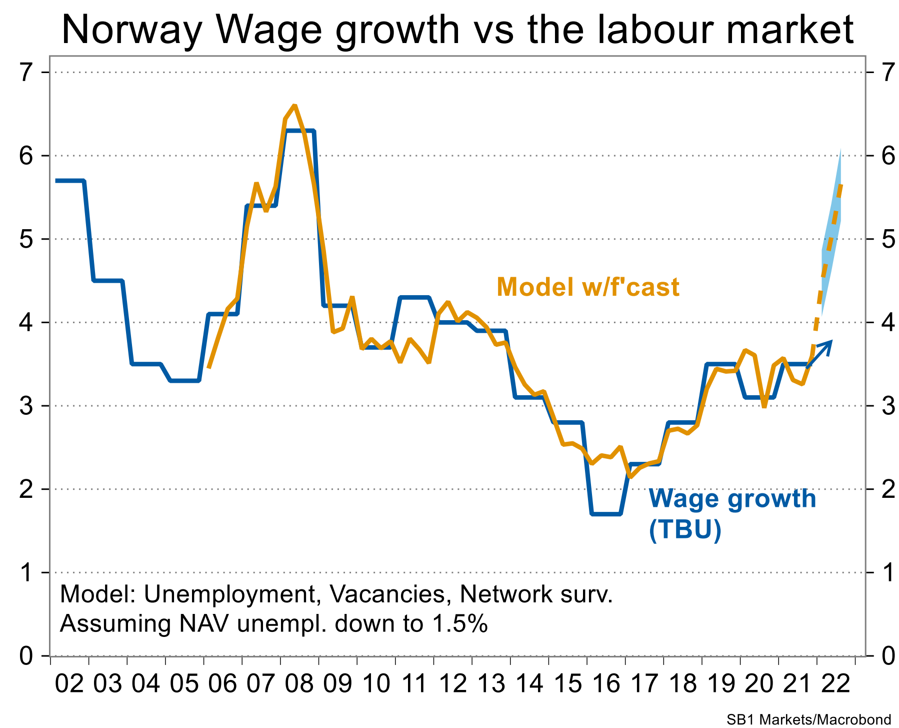


- Now more foreign workers have returned, and we cannot blame the lack of foreigners – and besides: Whatever reason, the lack of labour is the highest in more than a decade. (SSBs stats date back to 2010, Norges Bank has published some data back to 2004 – and they are not identical)

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

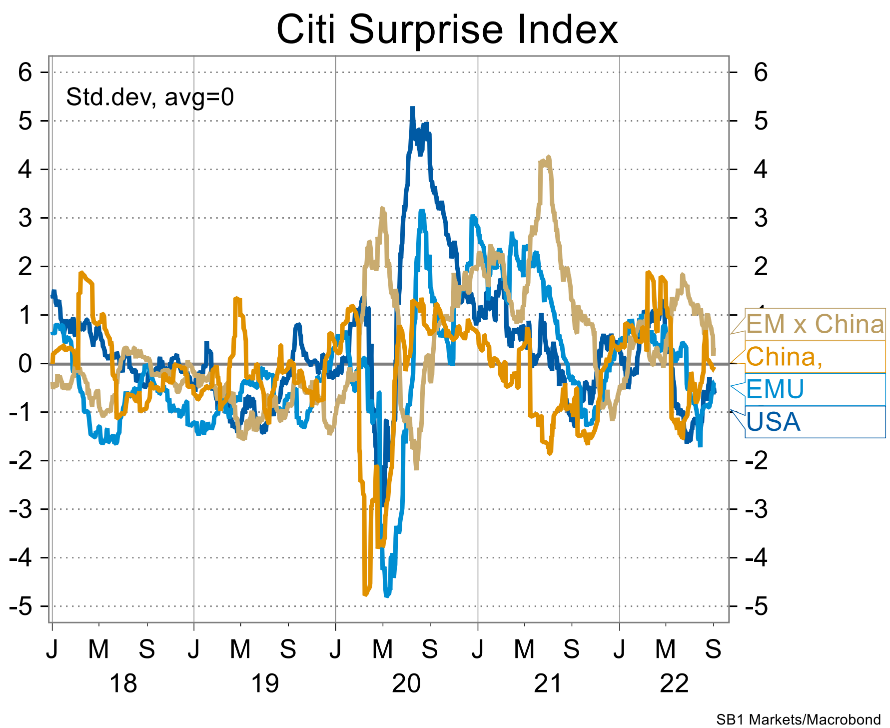
The labour market is tight – and it is still tightening

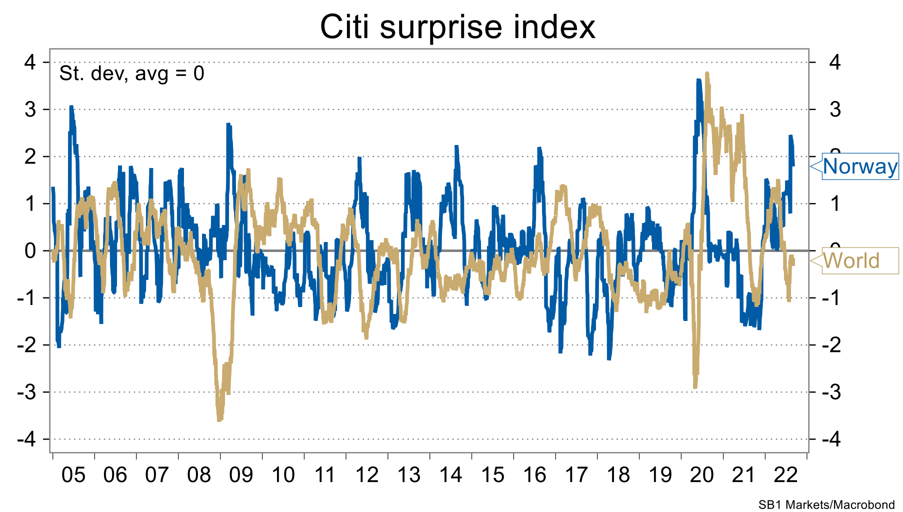




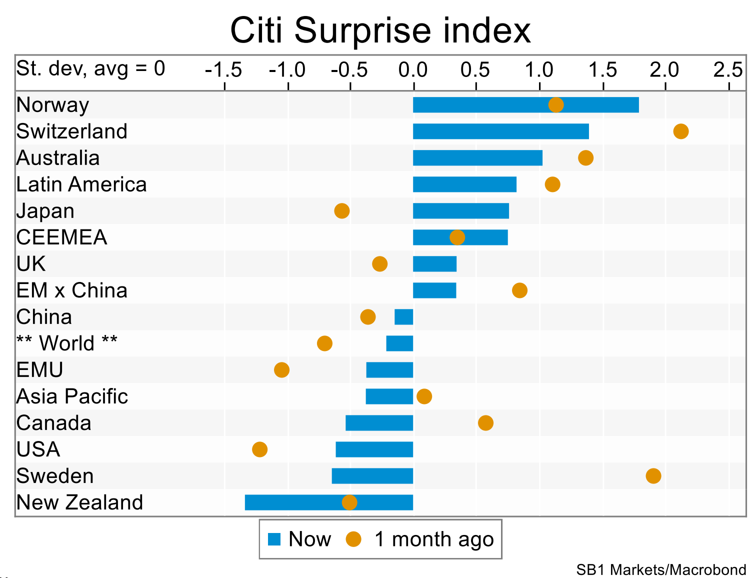
Globally, fewer disappointments past 3 weeks – but EM x China and China down

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





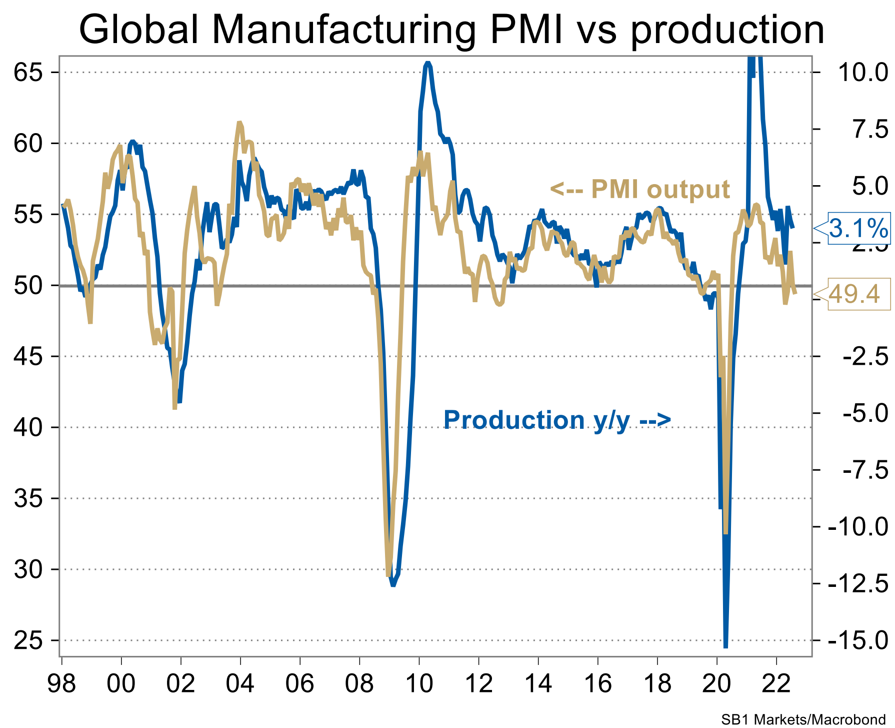
- **Norway** is suddenly at the top, we guess mostly due to the July inflation report

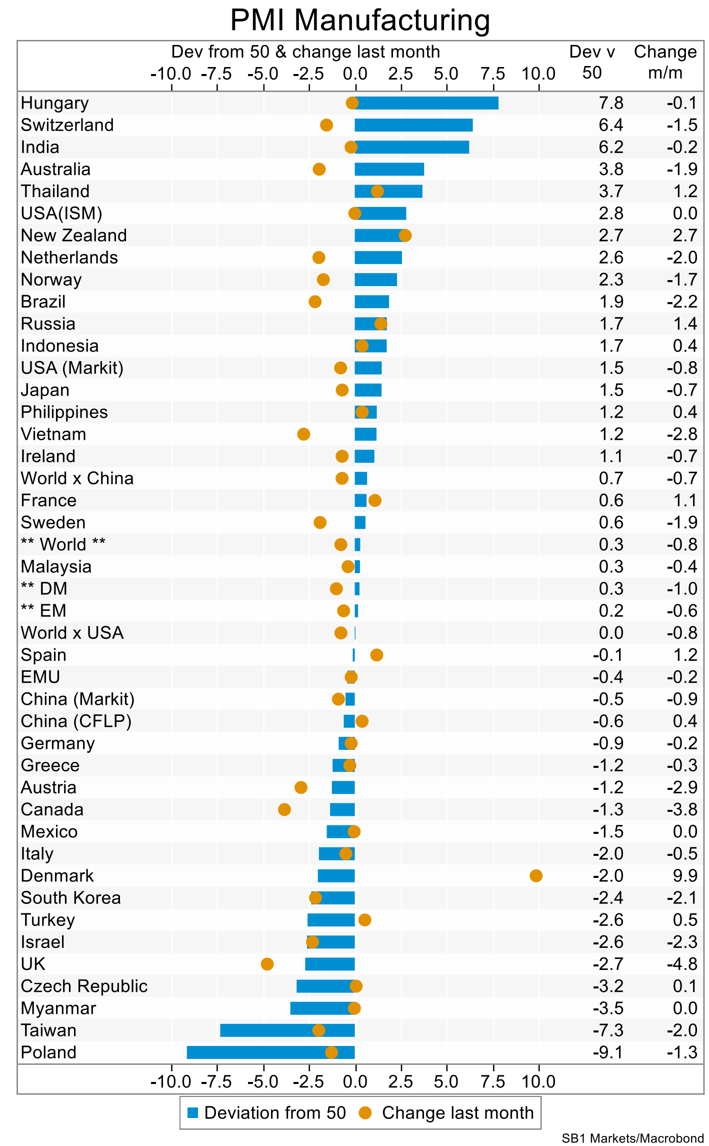


Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3-month rolling window

Manufacturing total PMI down 0.8 p to 50.3; down to 49.4

72% down/28% up, still 55% above the 50 line.

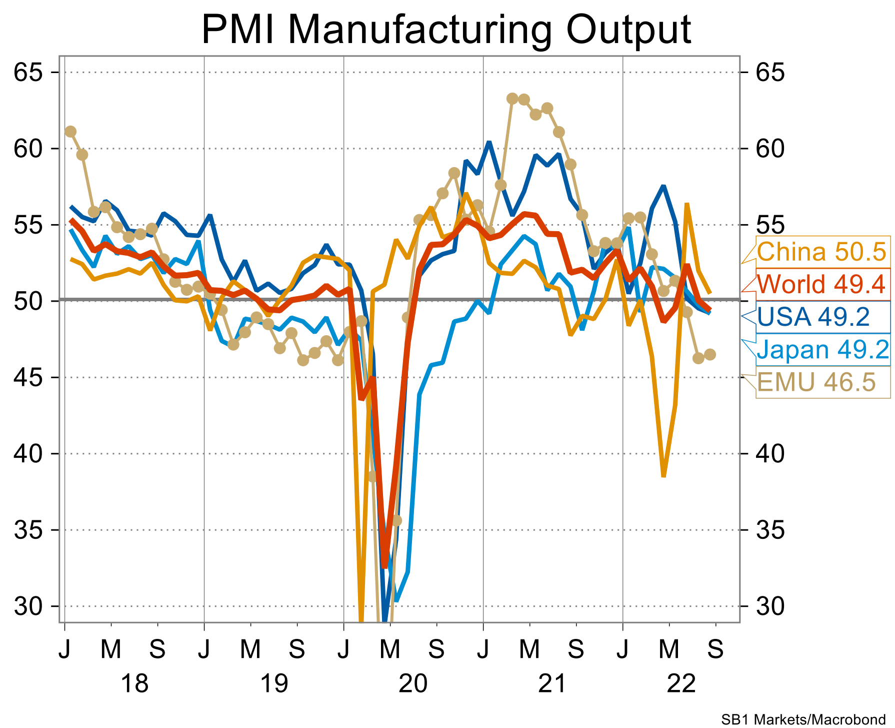


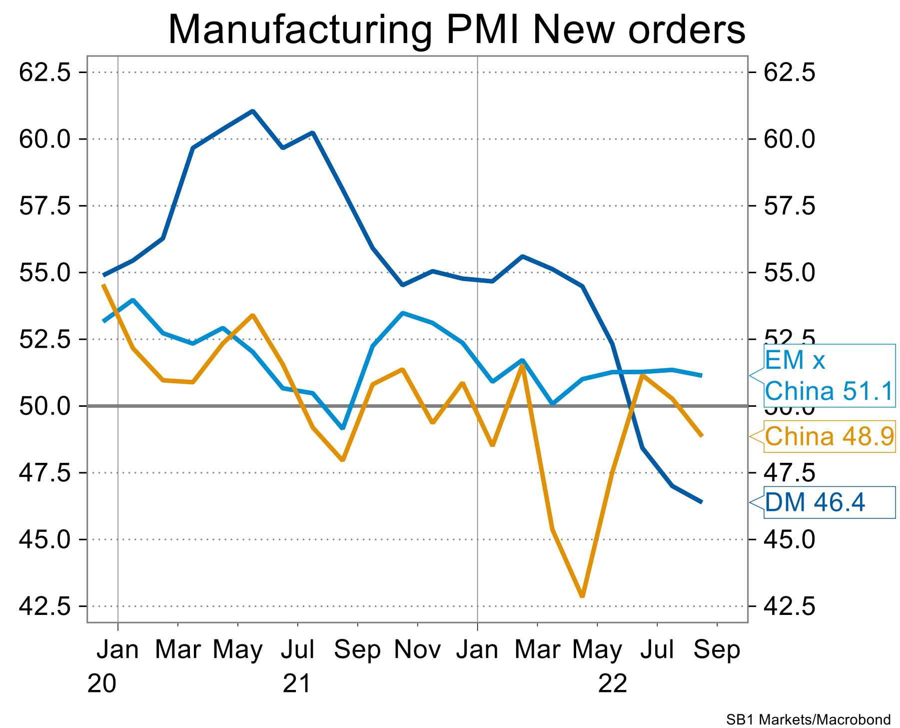


- A large majority of countries reported lower activity in June
  - » We cannot blame China for this drop
- **Rich countries are now even with** Emerging Markets measured by the total index but below EM x China. Measured by the new order index, EM are ahead of DM, which fell below 50
- **Norway** is falling down on the list, but slower than Sweden, which has fallen to an average level

New orders and output is slowing in the rich part of the world, not in EM x China

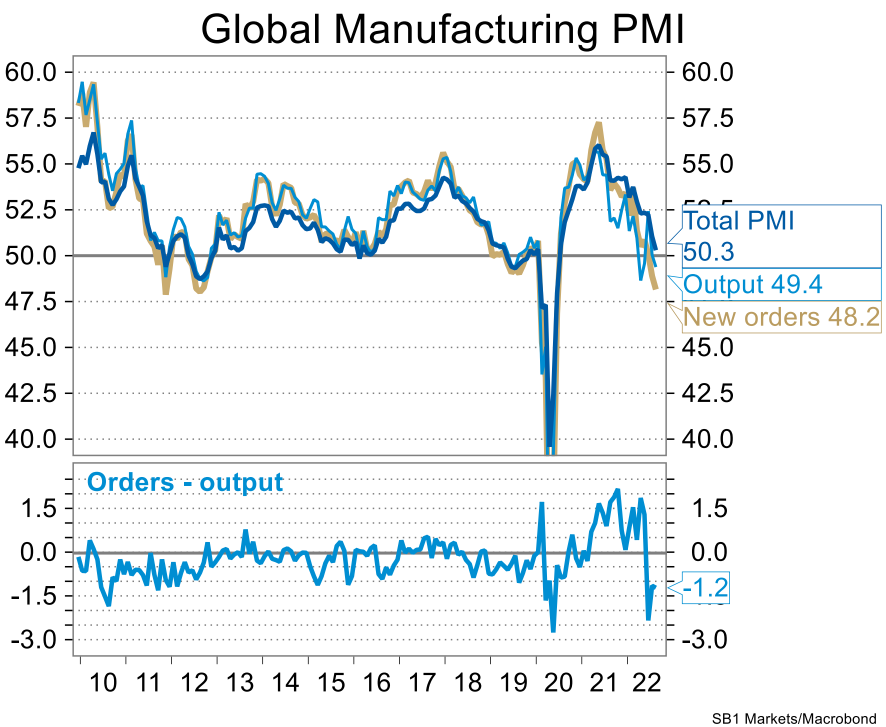
China has more or less stabilised at level signalling modest growth

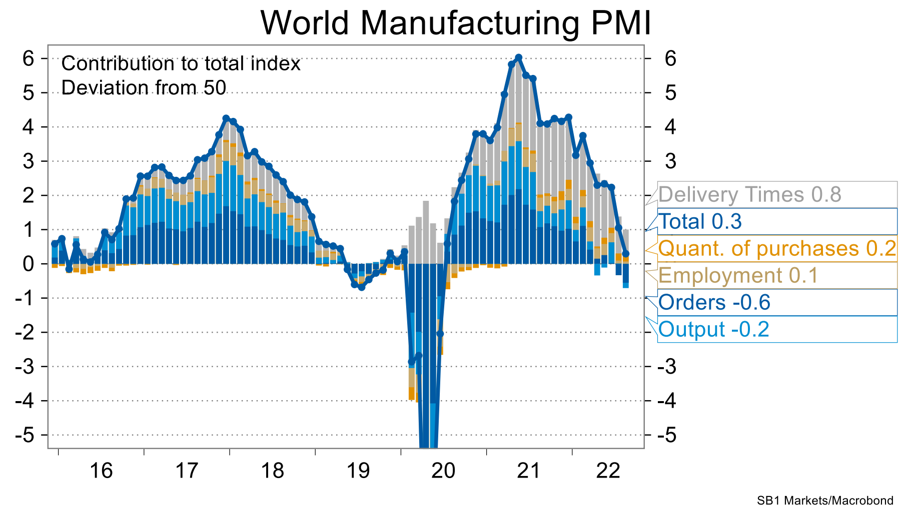


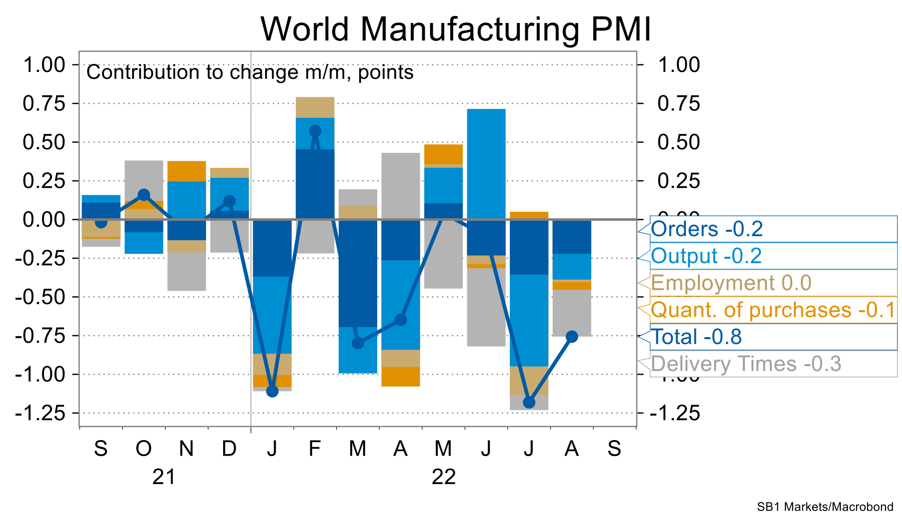


All sub-components of the total index down in July and August

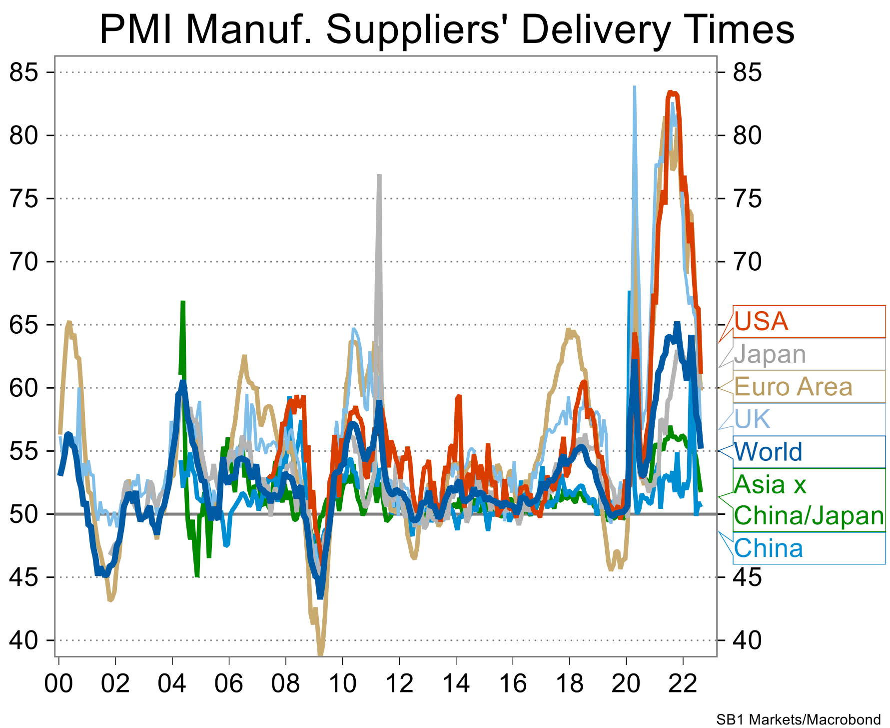
Easing supply problems are good news but may also be due to waning demand & activity

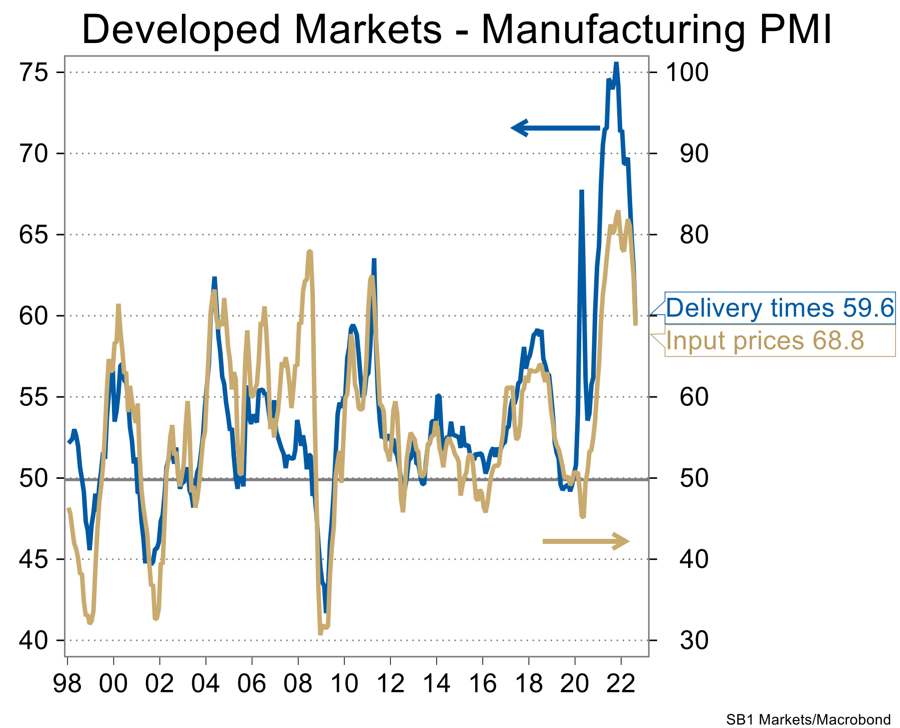






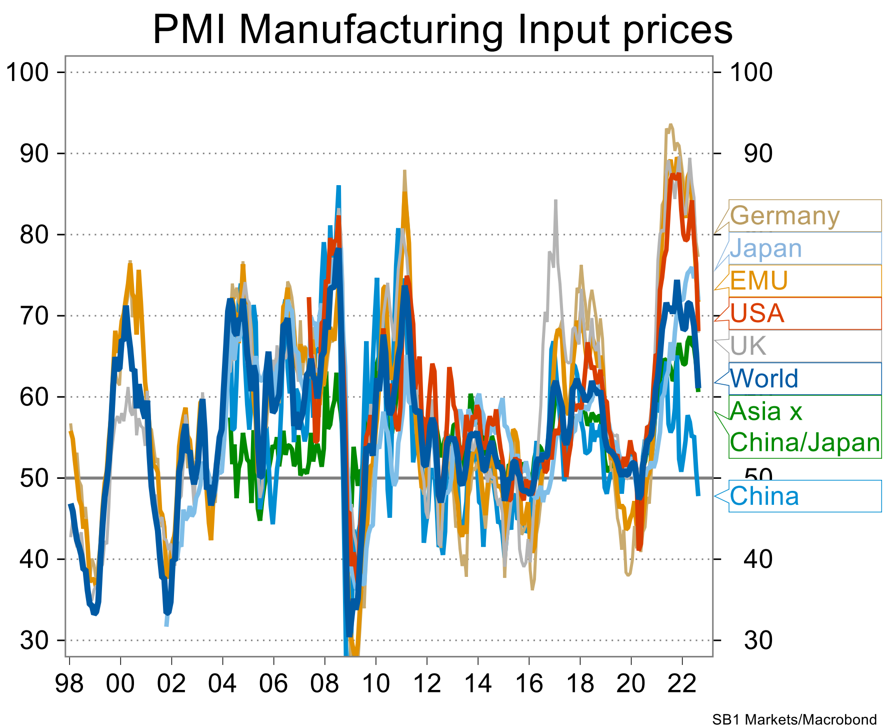
Delivery times and price indices are coming rapidly down, but both remain high

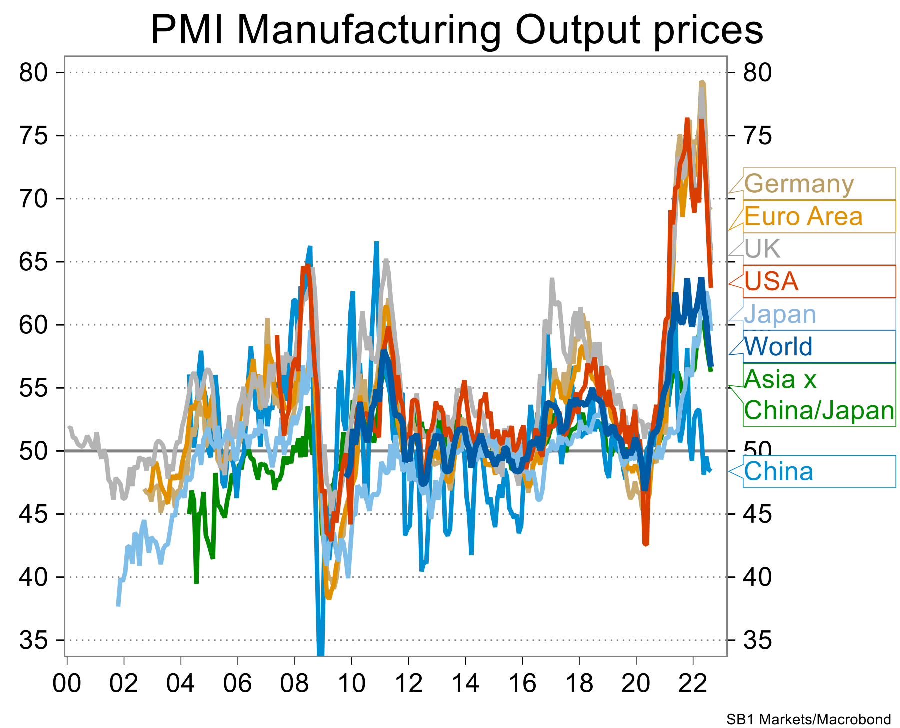




Both input and output prices fell the fastest in the US & UK

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





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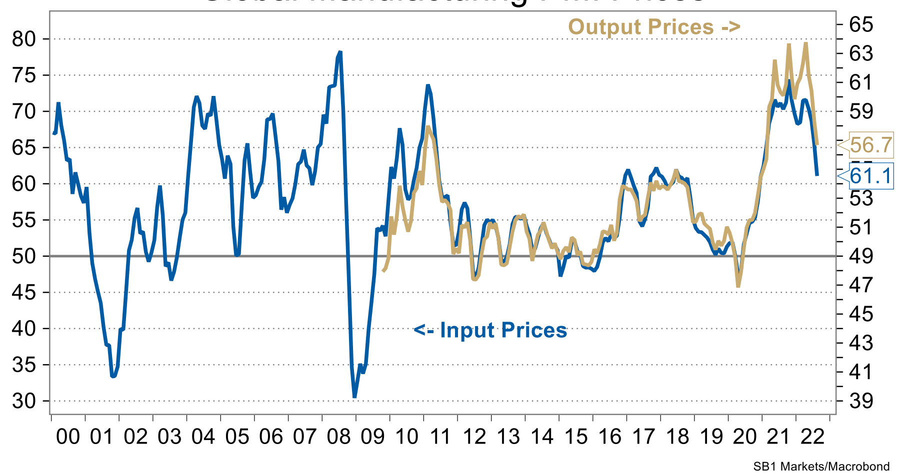
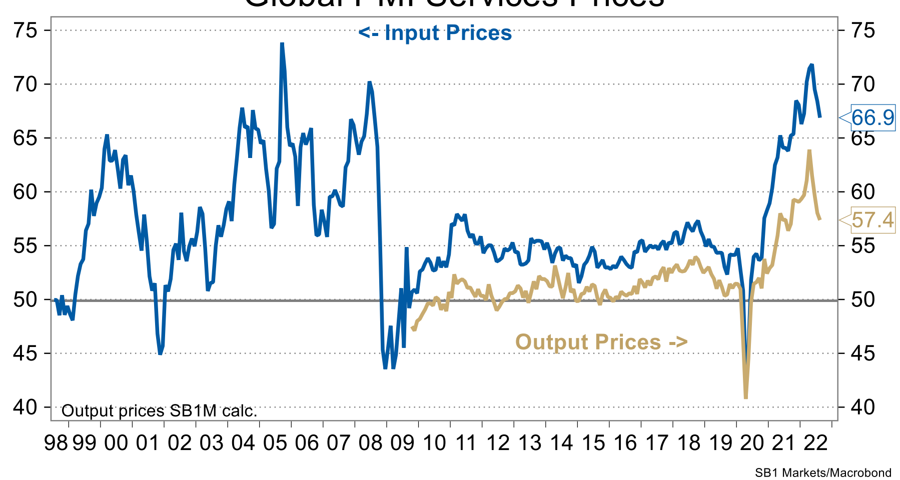
Peak inflation? No doubt, inflation will come down!

However, the real inflation problem is wage inflation, not commodity price inflation

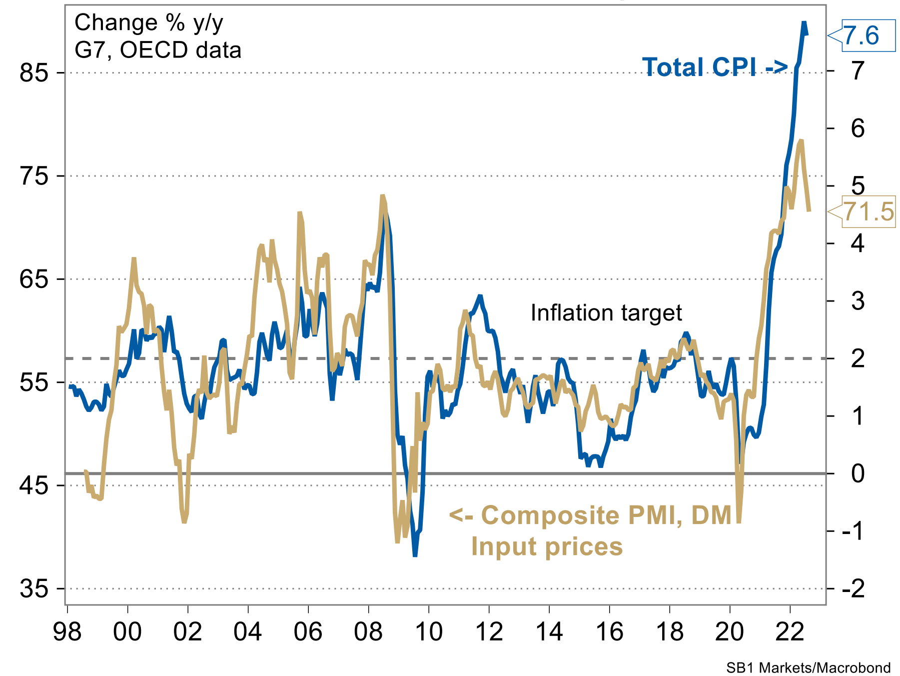
Global Manufacturing PMI Prices



Global PMI Services Prices

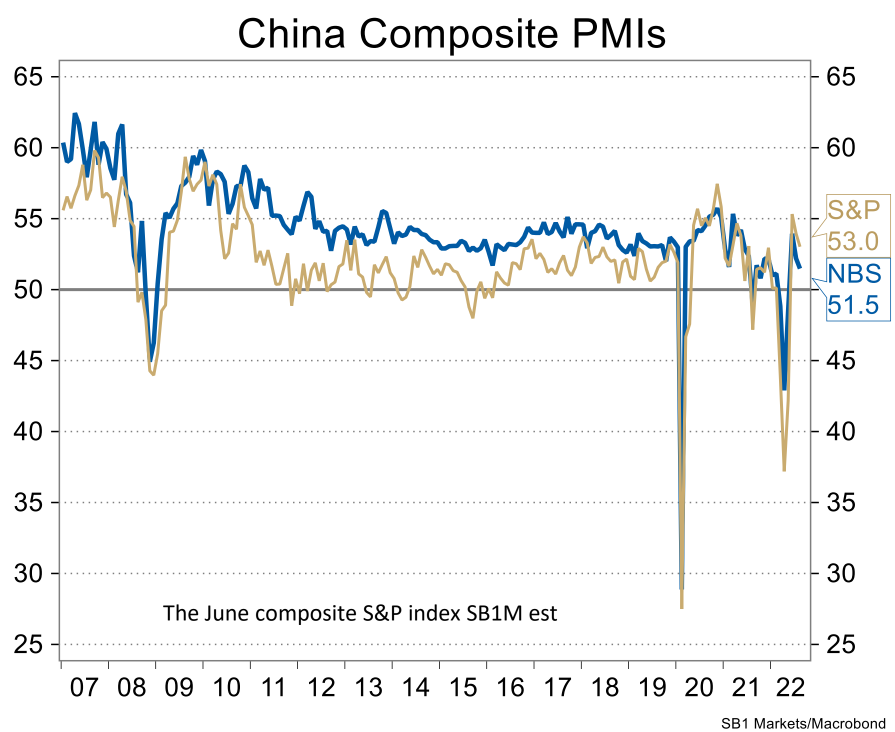


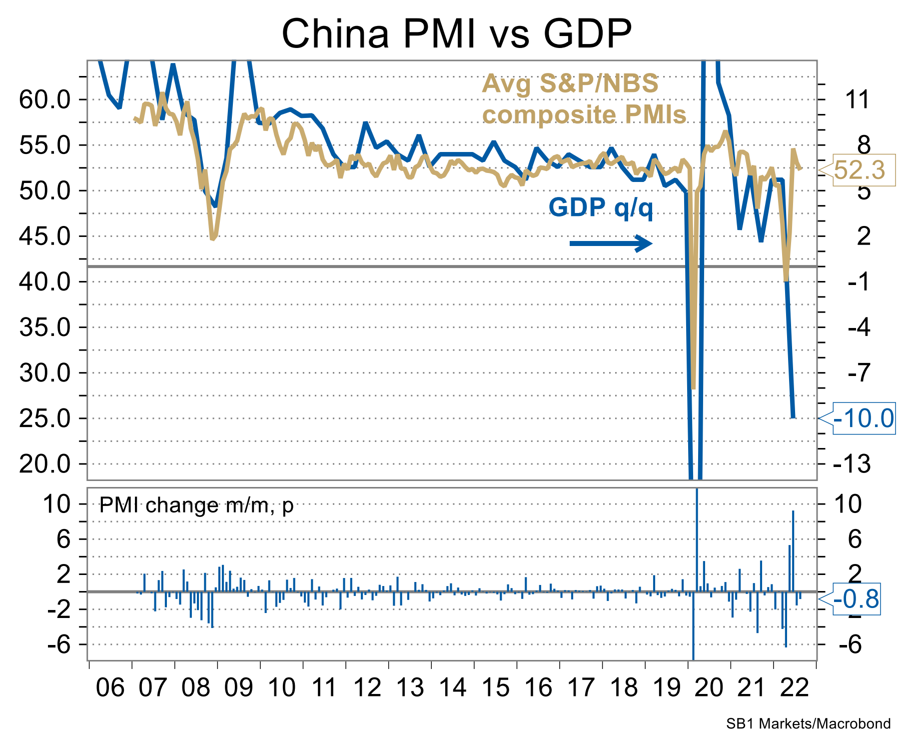
OECD Inflation vs PMI prices



The PMIs down in August but are still reporting 'normal' growth

The manufacturing PMIs fell the most, to below 50, services are still at a normal level

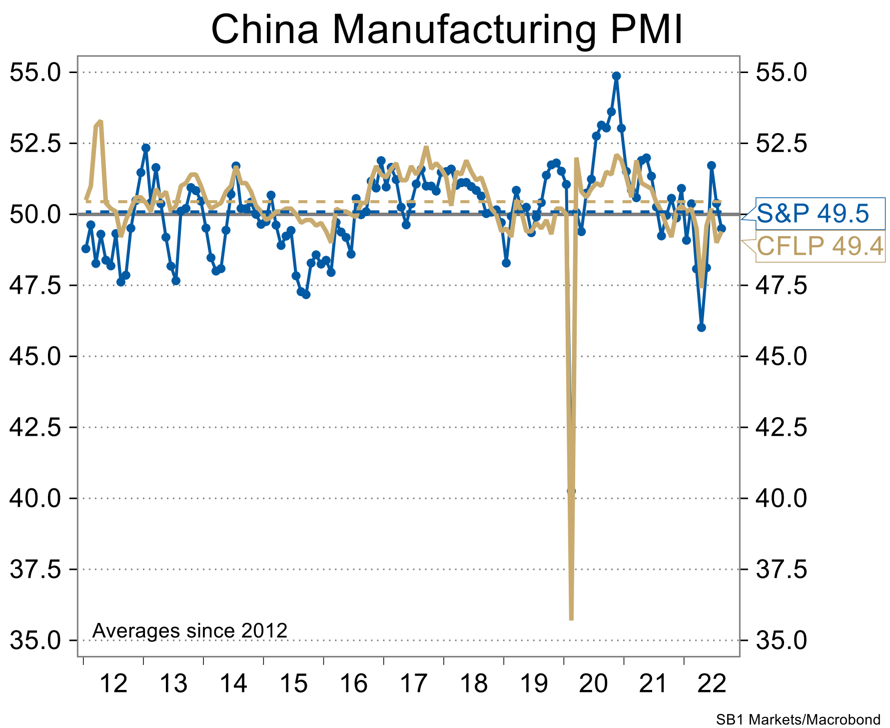


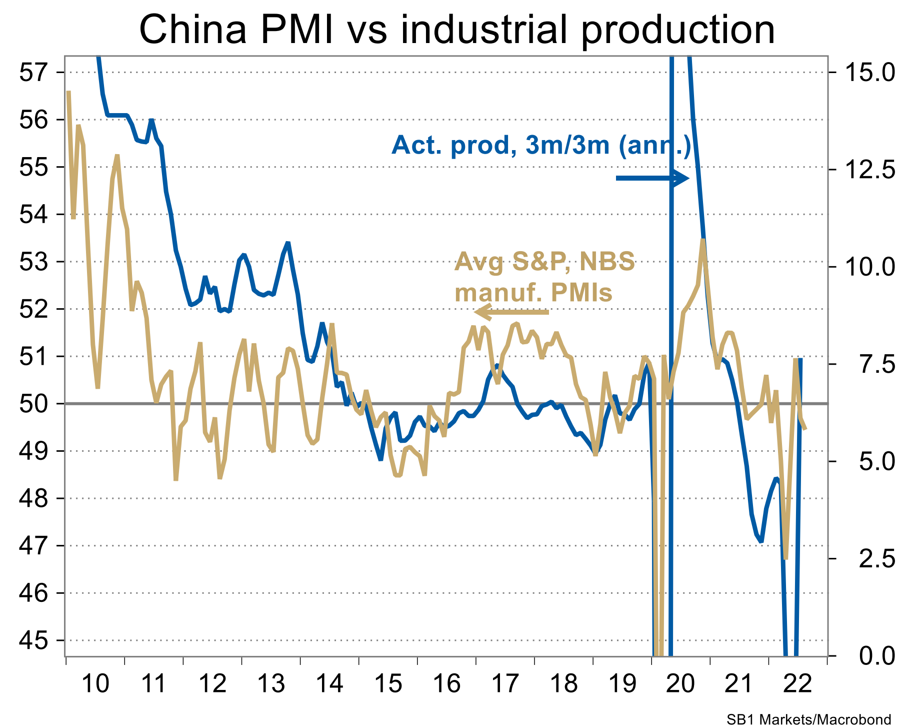


- **Both the NBS/CFLP and Caixin/S&Ps (aka Markit)** PMIs fell in August, by 0.7 – 0.9 p to 51.5 and 53 resp. The average at 52.0 signals a normal GDP growth rate, at some 6% (but Chinese BNP data have been rather volatile lately)
- The manufacturing PMIs fell to below par in August, while services are close to a normal level
- These PMIs confirm that the economy recovers as soon as Covid restrictions are eased. The authorities have announced a less rigid virus regime, hopefully preventing large scale, and extremely expensive lockdowns

Both manufacturing data sets below 50, and well below their averages

Signals growth below trend but no decline in production



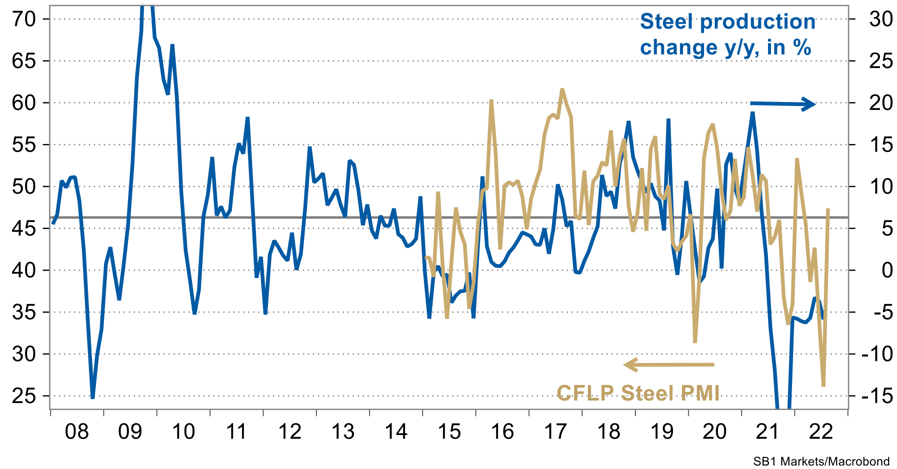


- Actual production rose sharply in May, and further in June and July

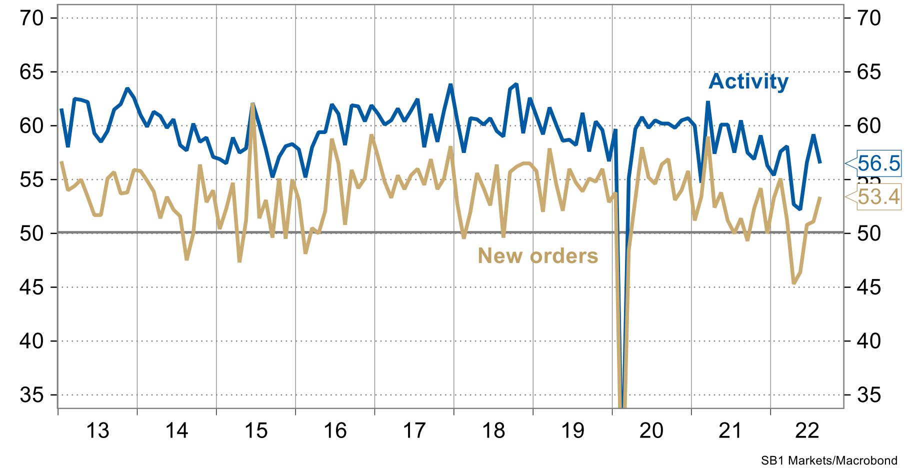
The steel sector report a stabilisation in August, rather remarkable

Order inflow to the construction further up in August, almost a normal growth rate reported

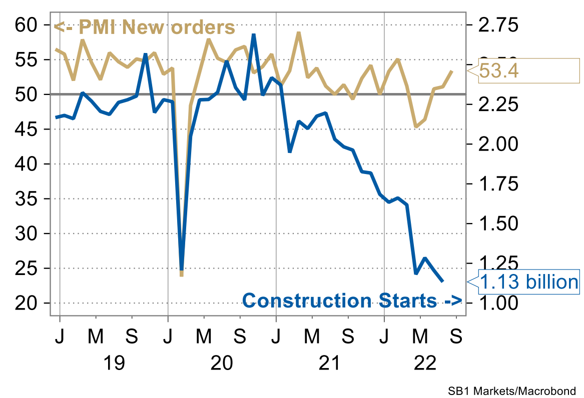
China Steel Production vs PMI



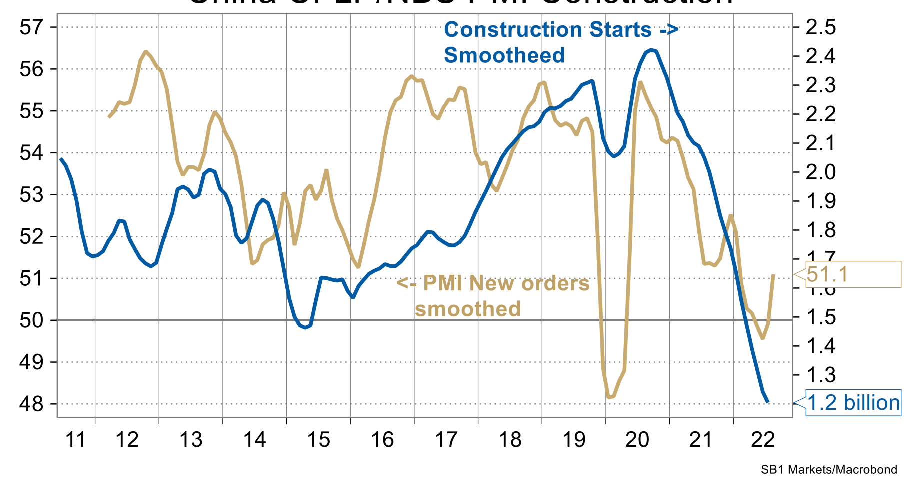
China CFLP/NBS PMI Construction



- Construction starts have continued downwards after the major lockdowns during the spring, and prices are falling. Still, the construction sector receives more orders in August?

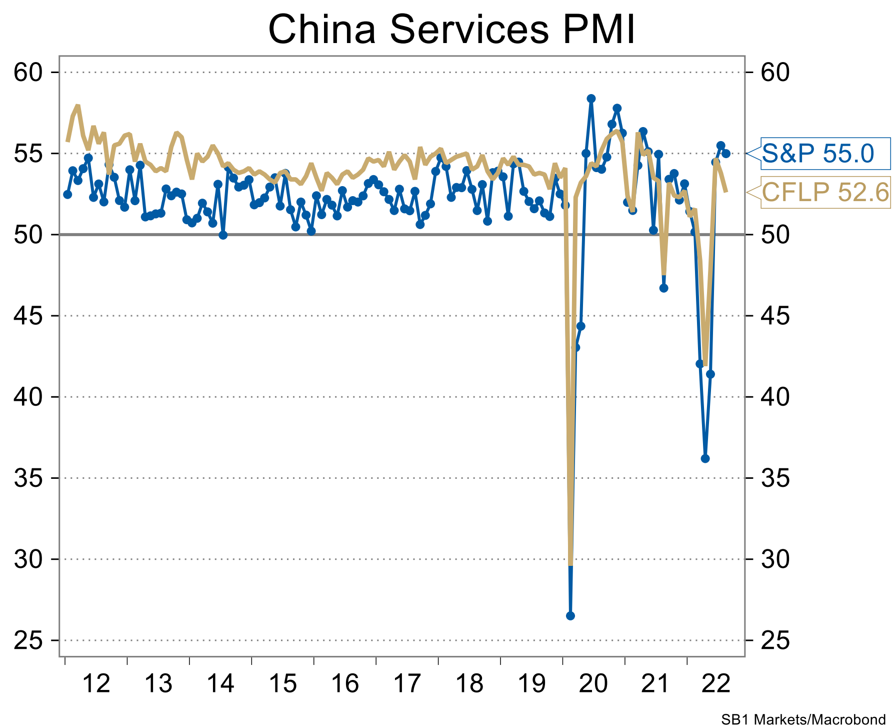


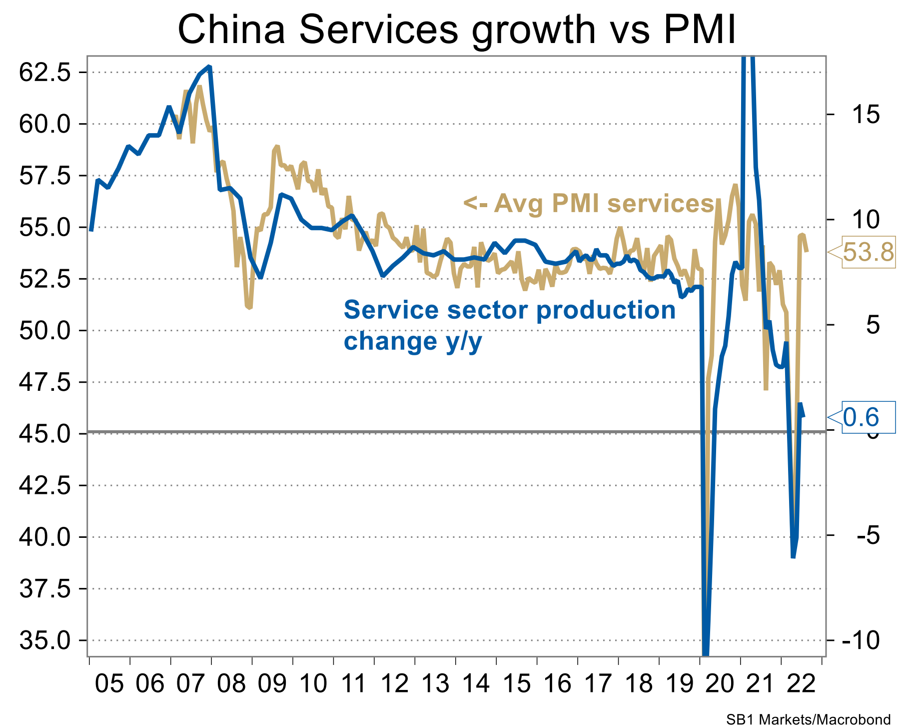
China CFLP/NBS PMI Construction



Both service sector PMIs down in August but not by much

These surveys are signalling a normal growth rate in services. Actual activity is still well below par

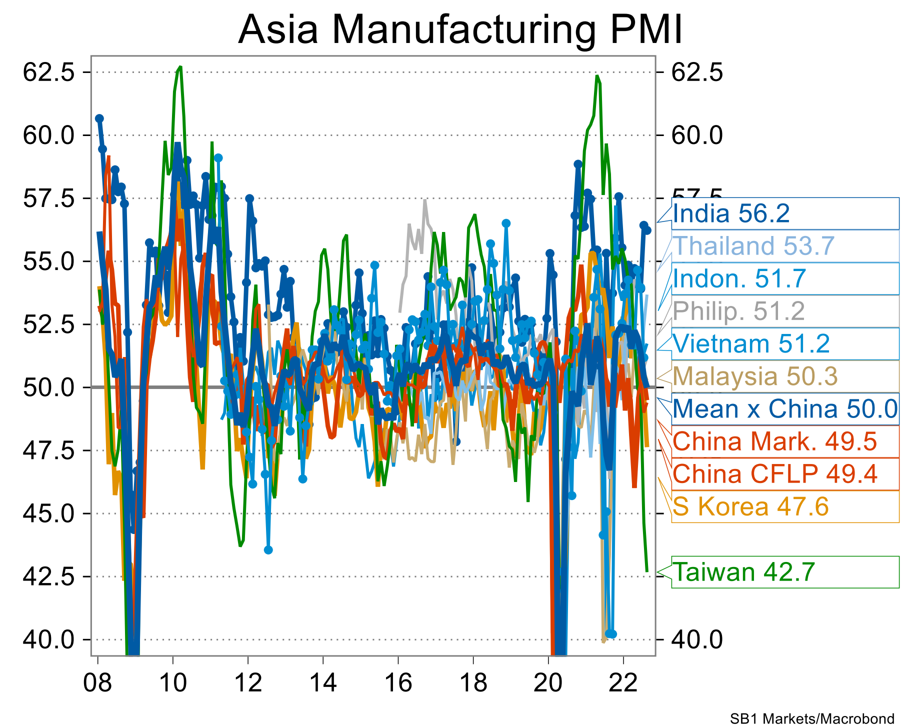


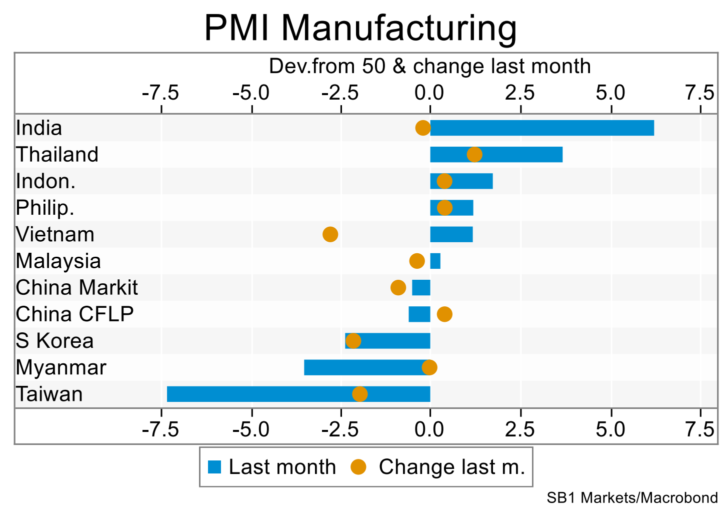


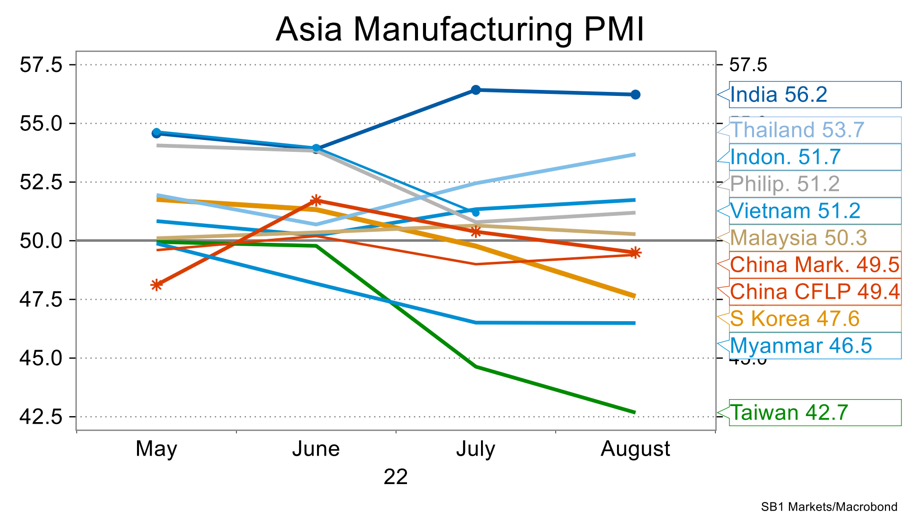
- … following the lockdowns. Service production is some 5% below the pre-pandemic growth path. It was almost in line in February

Taiwan reports lower activity, like South Korea

However, no broad decline in the Asian PMIs in August



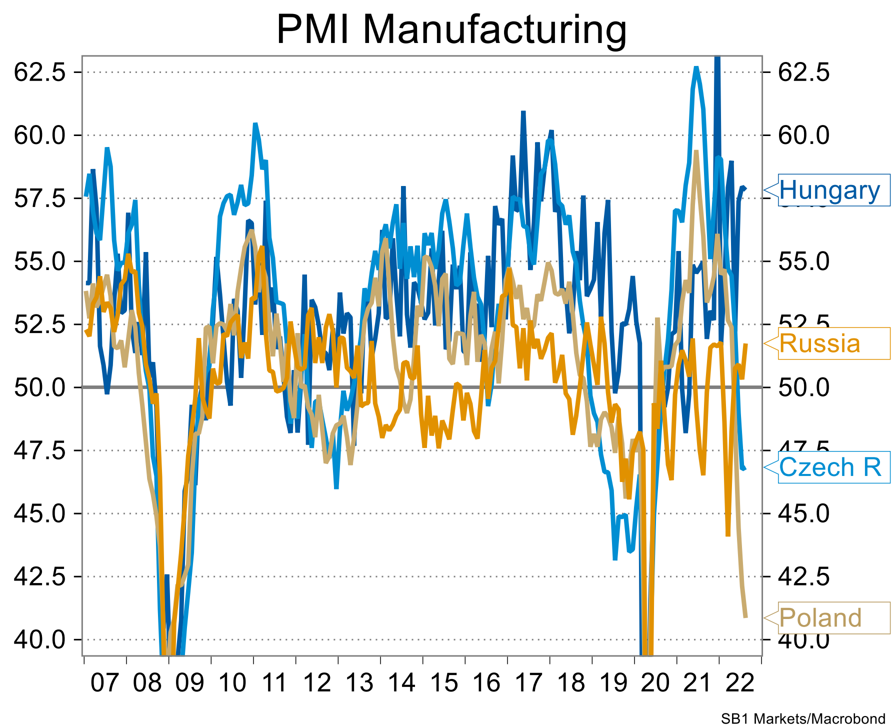


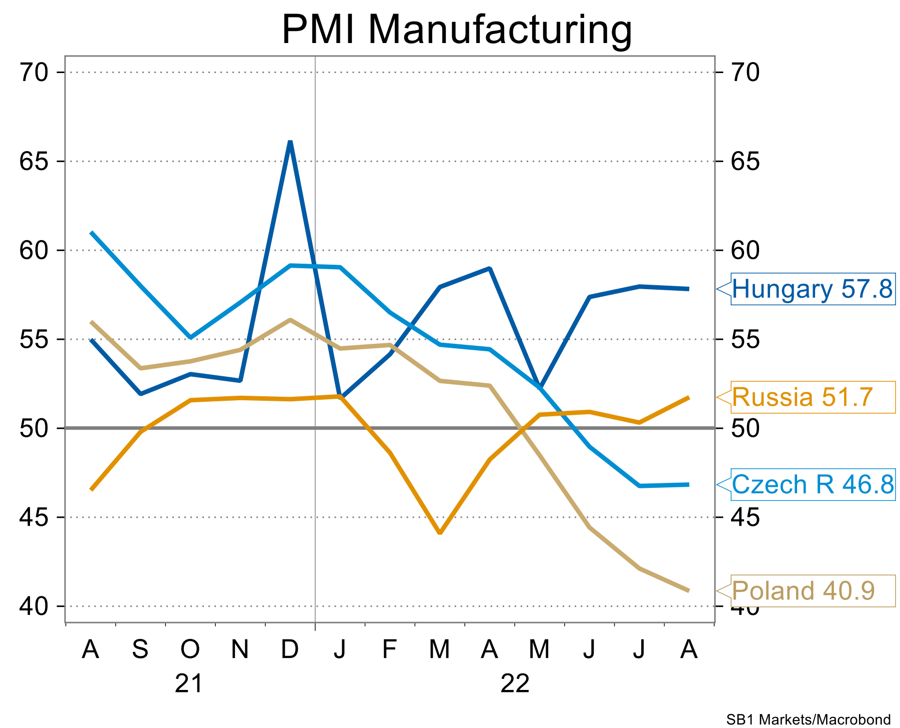


- India is still reporting very strong growth

Poland and the Czech Republic suffering from lack of energy?

Russia stayed above 50, but the production level remains low, according to official stats





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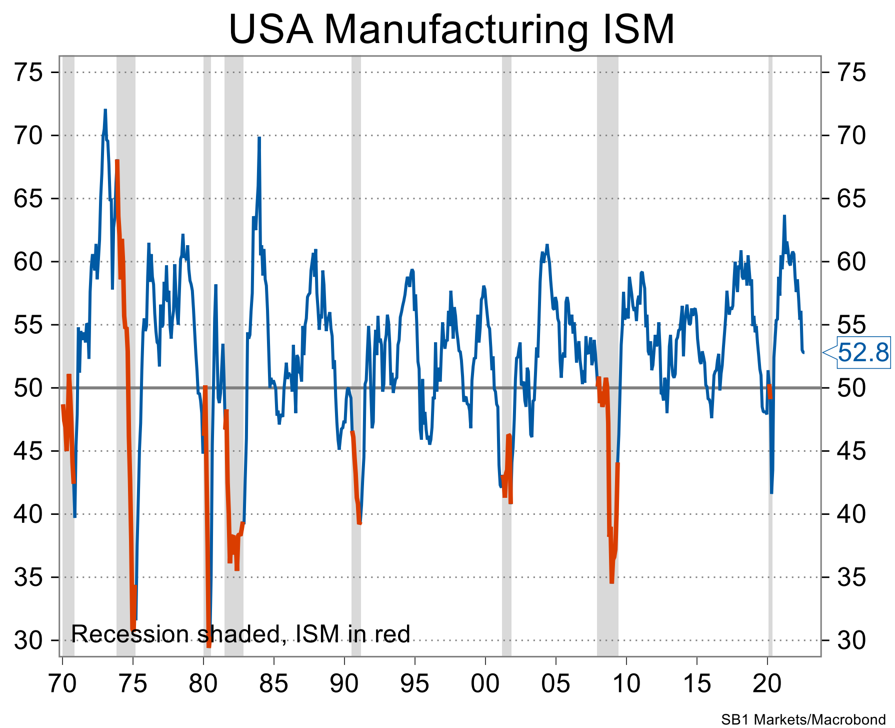
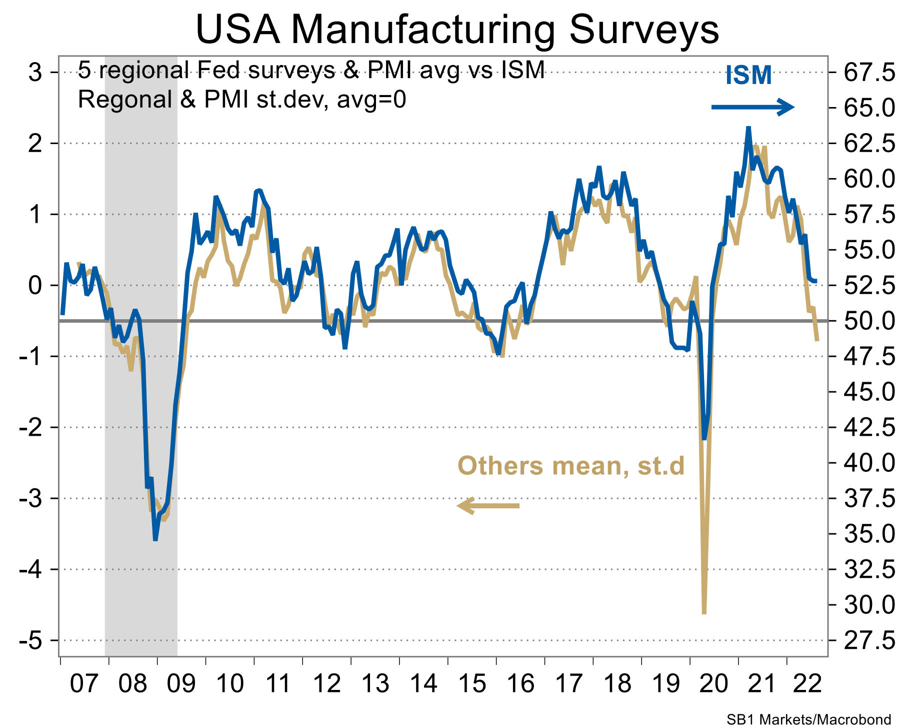
The manufacturing ISM did not follow the others down in August either

Unch. at 52.8 in Aug, expected down to 52, we thought 50 was an OK estimate





Even so, the **ISM manufacturing survey** confirms a gradual slowdown in the US economy, but not as much as the average (and median) of other surveys

- In August, 10 of 18 manufacturing sectors reported growth (down from 11 in June), 7 sectors reported a decline (unch.)
- The **new orders index** recovered, up 3.3 p to 51.3 following the 7.2 p drop in June/July. Other surveys are far weaker in August, and the average is still at a recessionary level. In addition, just 6 of 18 ISM sectors reported growth in orders, this an increase from 4/18 in July, but the level way below the number of companies reporting growth some few months ago! The **production index** fell 3.1 p to 50.3, a low level. The employment index surges 4.3 p to 54.2, normally a lagging indicator
- Fewer **supply chain** issues: Just 12 commodities saw **price increases** (from 18 last month (and 40 in May, and 56 at the peak)). 14 were down in price, like aluminium, copper, corn products, freight, steel, crude oil, gasoline, up from 11 in June. Just 8 commodities were reported in **short supply**, down from 14 in June (and far below the peak at 50 commodities a few months ago)
- **Comments** are mixed, but several are acknowledging a slowdown and inventory build-up

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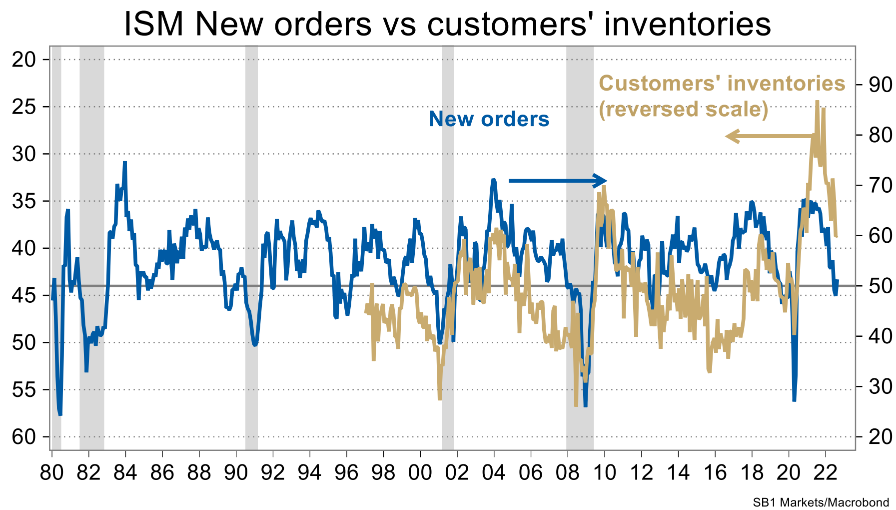
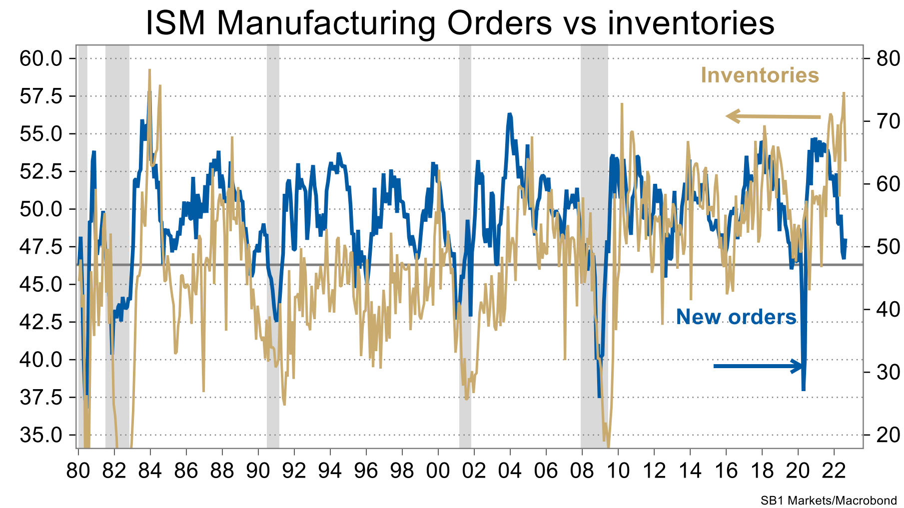
A warning sign: At the current pace of contraction in new orders…

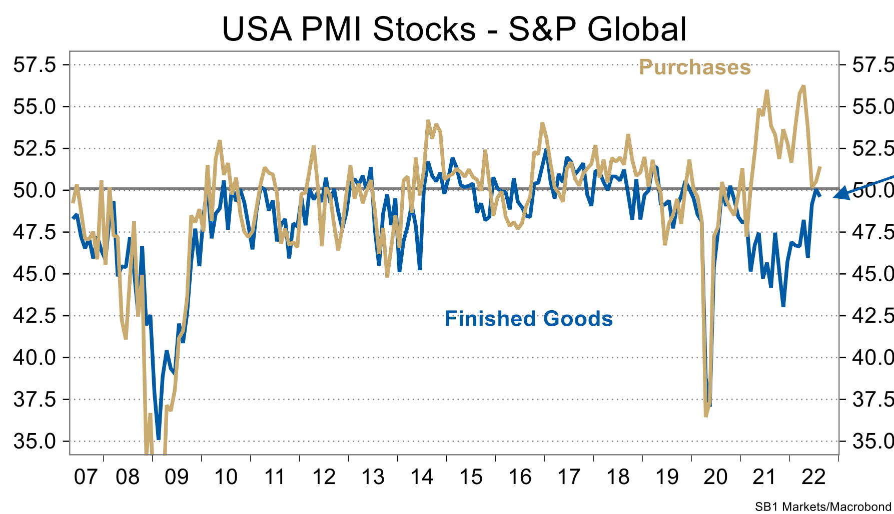
…a recession usually follows. The '95 soft landing is the only clear exception.
The other 6 contractions are the past 6 recessions

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

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



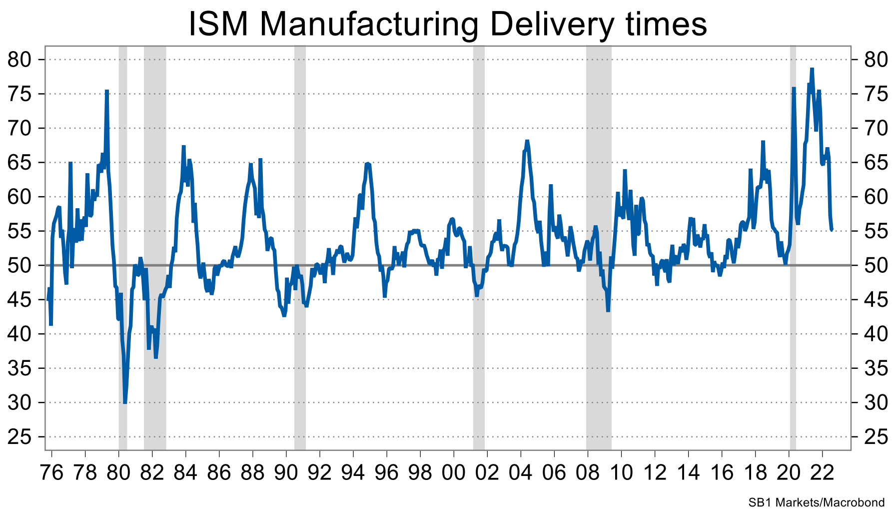


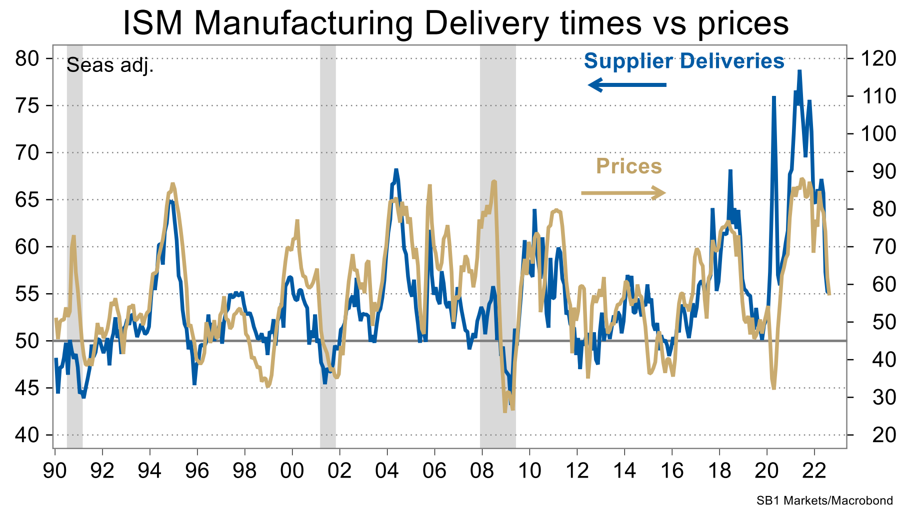


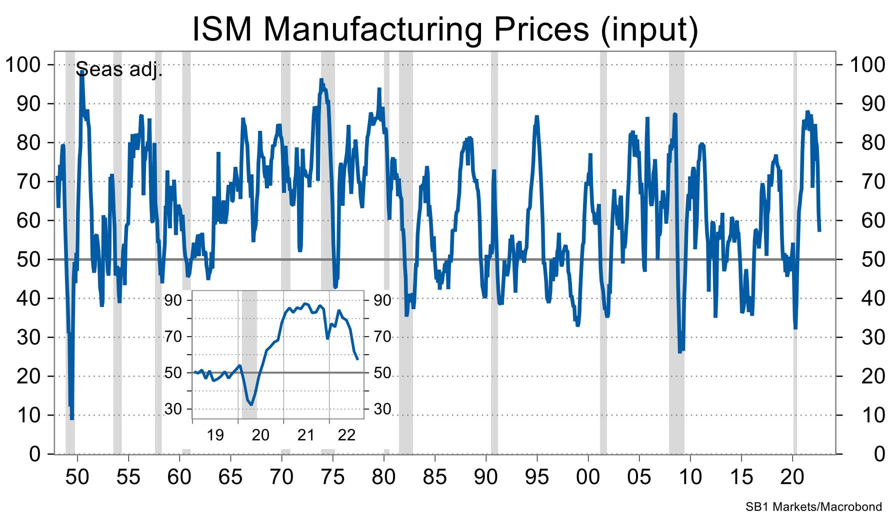
- At least, S&P Global is not reporting a further decline in finished goods inventories

The delivery times index down to a normal level – as is the input price index!

Surely good news: Both indices higher than normal but not by much! The price index to 57, from 62



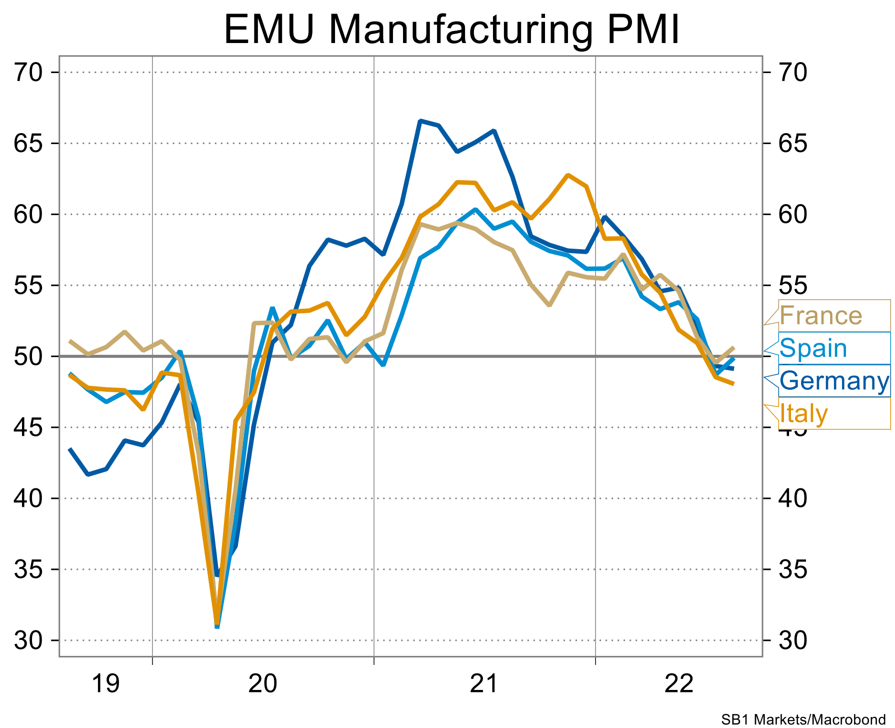


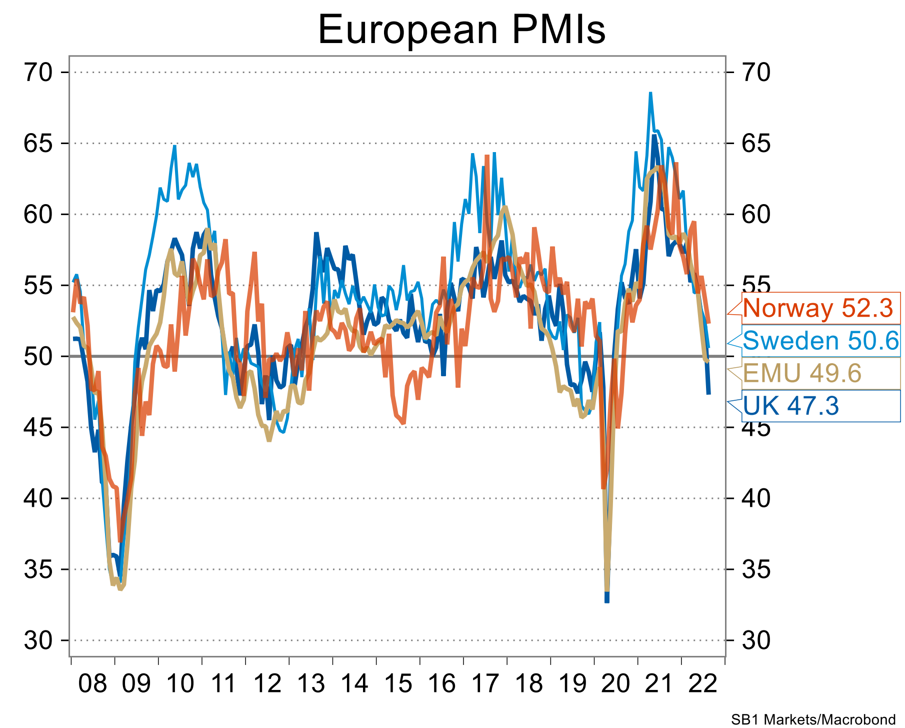


- Price increased are far less widespread, according to the ISM manufacturers (we have seasonally adjusted these data)

Eurozone manuf. PMIs slightly lower than preliminary prints, by and large

Norwegian and Swedish PMIs also weaker, but still above the 50-line

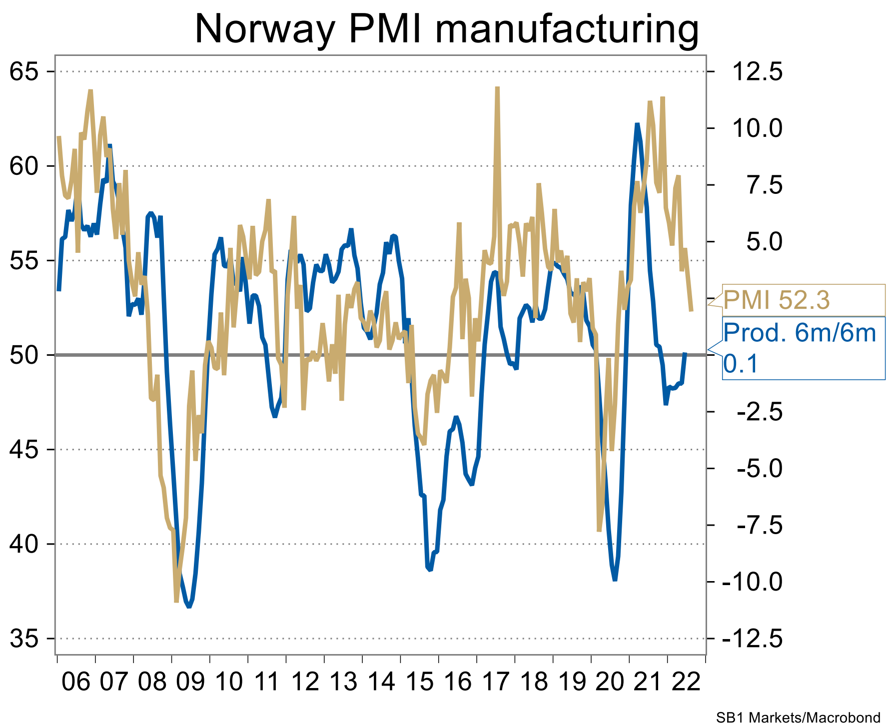


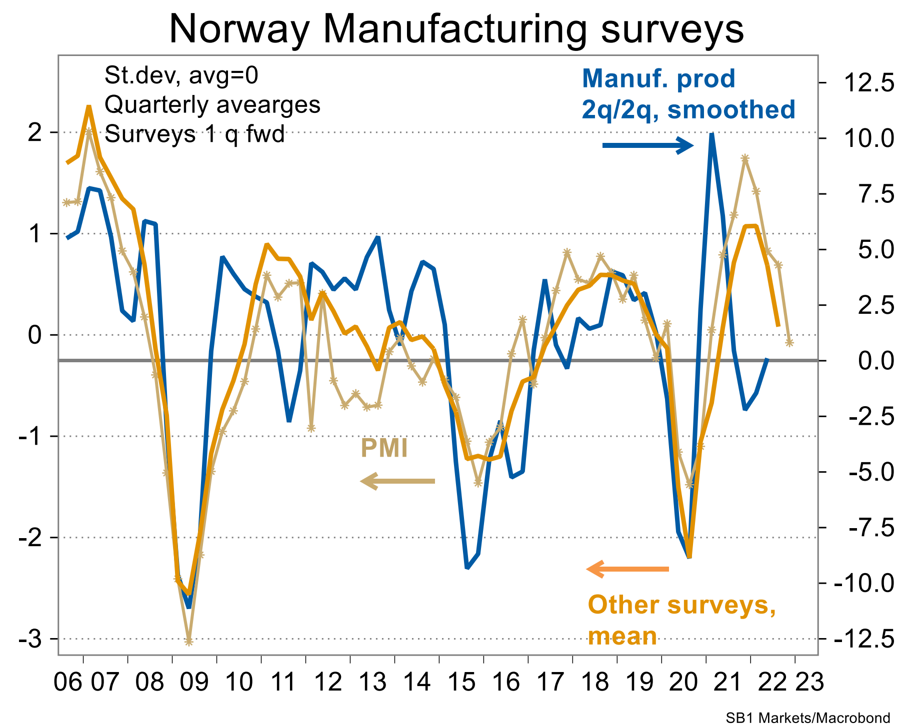


- The decline in the **EMU PMI** in August was confirmed, down 0.2 p to 49.6 (flash est. at 49.7). The German manuf. PMI came in at 49.1, down 0.2 p from July, and 0.7 p lower than the flash estimate. France and Spain reported small upticks
- **The UK PMI** was revised up by 1.3 p to 47.3, down from 52.3 in July
- **The Swedish PMI** fell by 1.9 p to 50.6. Not too long ago, the index was close to 70, and at the top of the global ranking
- **The Norwegian PMI** also declined, by 1.7 p to 52.3

The manufacturing PMI down in August, as we expected

The trend is down, and orders have flattened. Delivery times slows a little, input price infl. still high

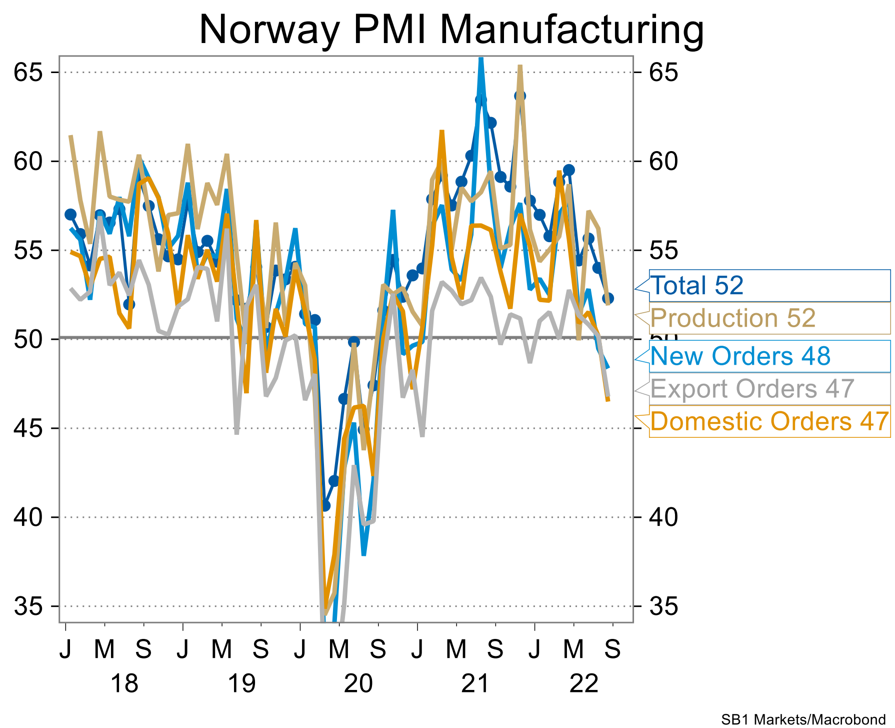


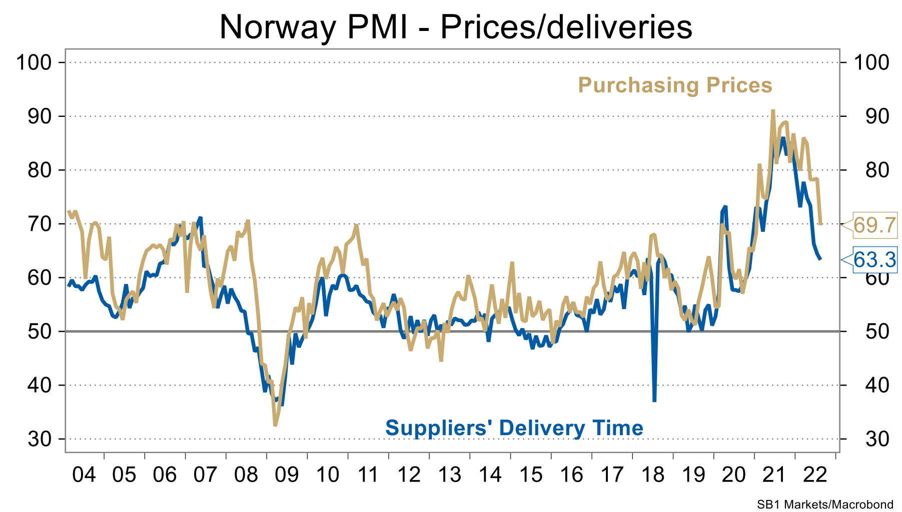


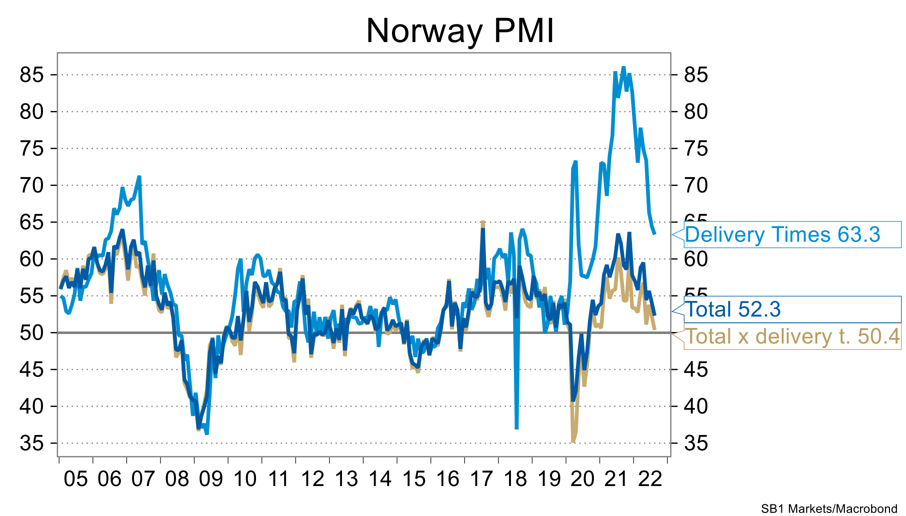
- The **manufacturing PMI index** is trending down but fell less than we expected: -1.7 p to 52.3 (our f'cast 52)
- Other **manufacturing surveys** are also down
- Even if surveys have been reporting growth, **actual production** has so far been on the way down, at least until now

Orders on the decline, production lower, and prices are not rising as fast

The delivery index down, but still at a high level – and now the input price index has also come down







- **The input goods price index** declined by 8.7 p down to 69.7, and although many are still reporting of increasing prices, an increasing number of goods' prices are falling, according to NIMA/DNB
- The 'core' PMI, the PMI x the delivery times index has fallen to close to the 50-line

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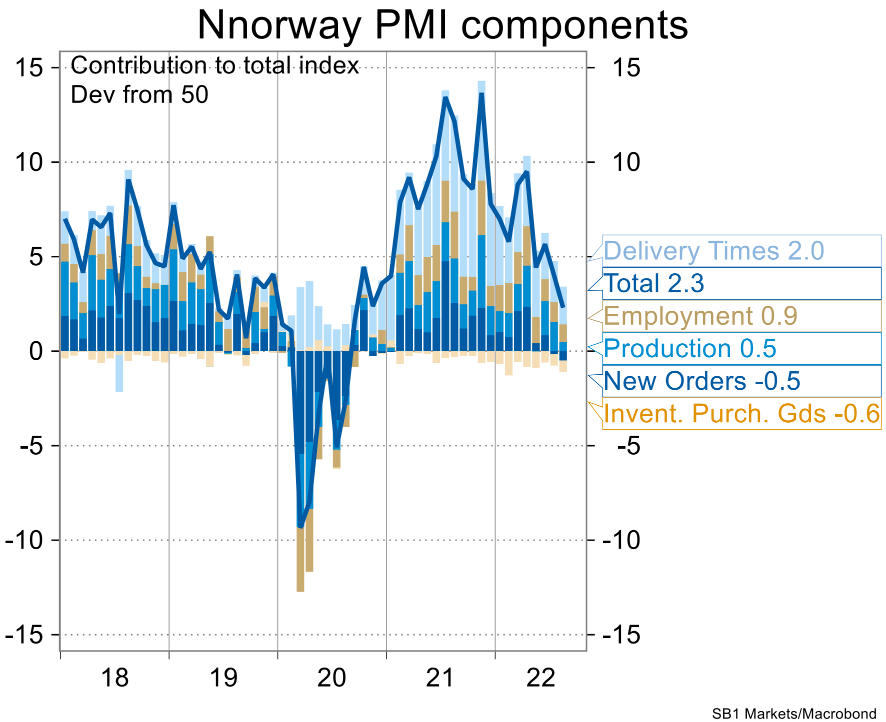
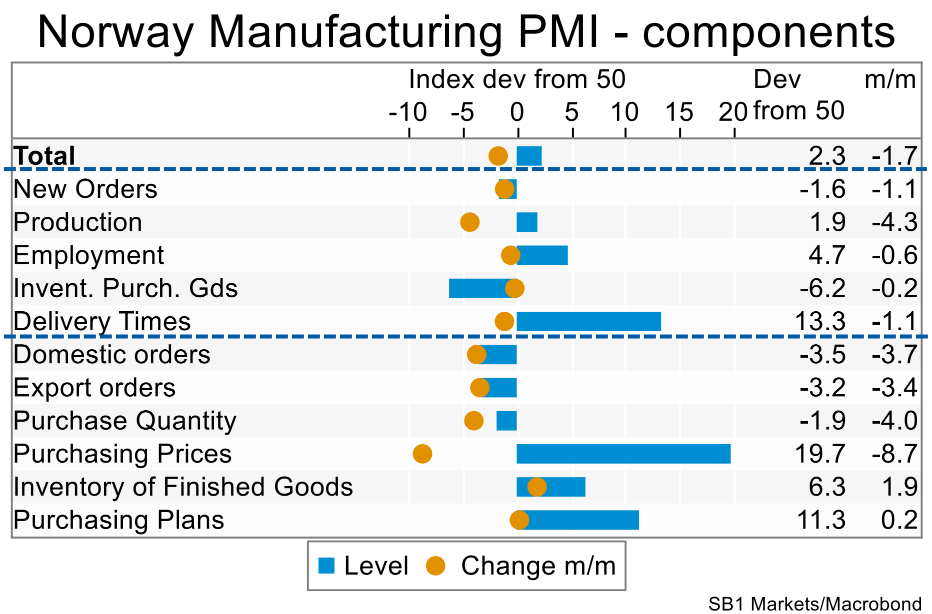
The delivery times index still lifts the headline PMI 'artificially'

.. But just by 2.0 p in August





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

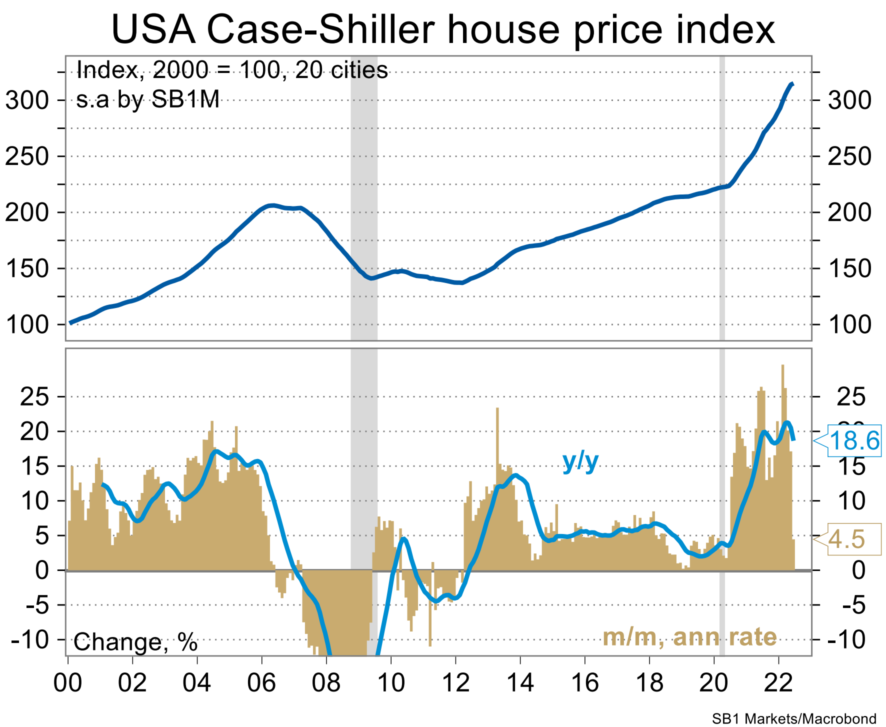
- Normally, the **delivery times index** has not had any significant impact on the total PMI index as the delivery times index has been quite closely correlated other components in the headline index. Now, it makes a substantial difference, by 4 pp to the total index

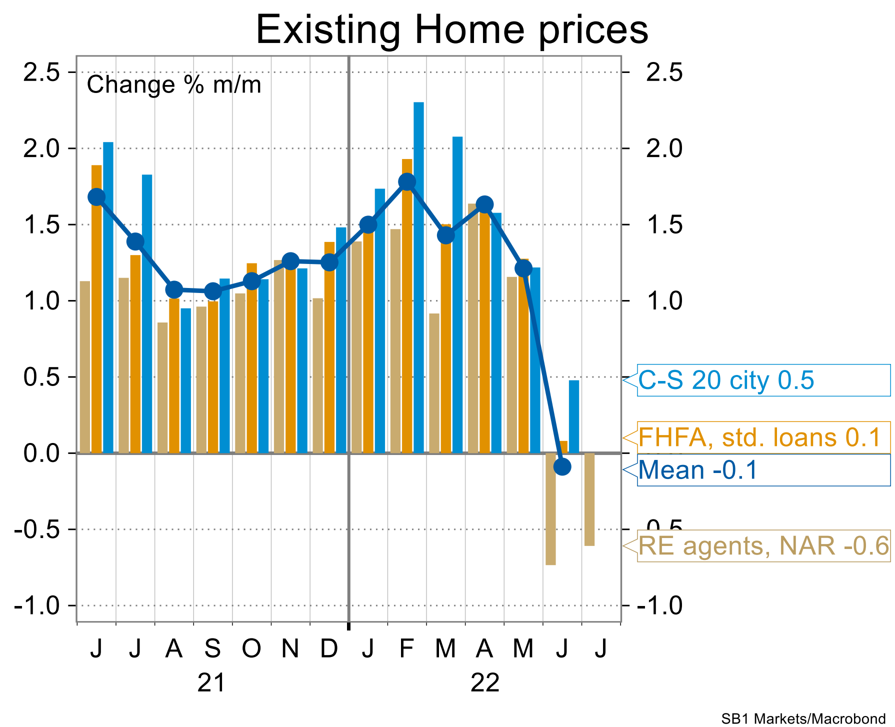
The total PMI index is a weighted index of new orders, production, employment, inventory of purchased goods, and delivery time. The 6 next sub indices at the table to the right are not included in the total index calculus

SpareBank 1 MARKETS

House price inflation is slowing but Case/Shiller still reported a 0.4% lift in June

Realtors reported 1.3% price decrease in June/July

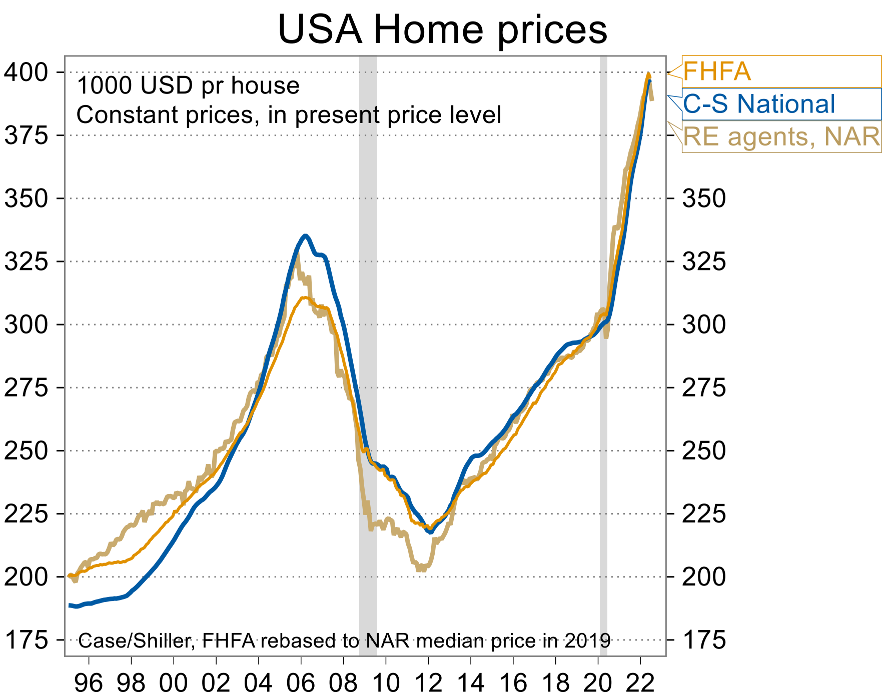




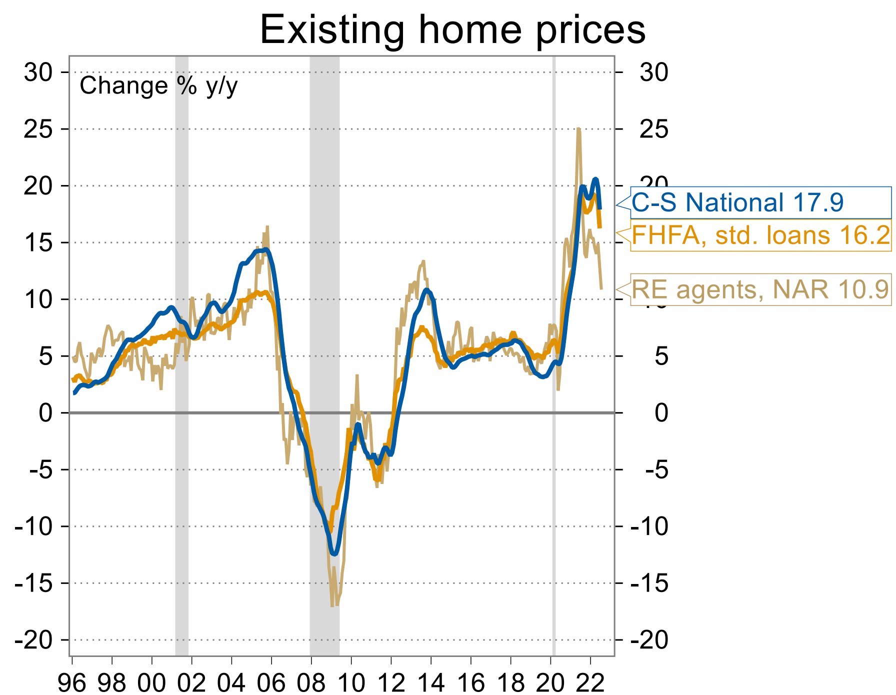
- **S&P's Case/Shiller's 20 cities** price index rose 0.4% m/m in June (May - July avg, our seas. adj) equalling a 4.9% annualised pace, down from the recent peaks but still a further price appreciation. A 1.0% increase was expected. The annual rate fell to 4.5%. The national index is up by 18.6%
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), rose 'just' 0.1% in June, are up 16.2% y/y
- **Realtors** reported a 0.6% decline in July, following a 0.7% drop in June. Prices are still up 10.9% y/y – but the annual rate is now 'collapsing'
- However, even if prices cover transactions closed up to July (included in the May-July average), those deals were mostly agreed upon in June (as for the realtors' index) – and 'something' might have happened since June. Anyway, we still expect prices to yield substantially the coming months, following the unprecedented 40% lift since before the pandemic, and the surge in mortgage rates, up to almost 6% (30 y fixed)

Peak house price inflation – and peak house prices as well?

<u>Real</u> prices are 18% – 28% above the pre-financial crisis peak, <u>and up 33% from before the pandemic</u>!



SB1 Markets/Macrobond

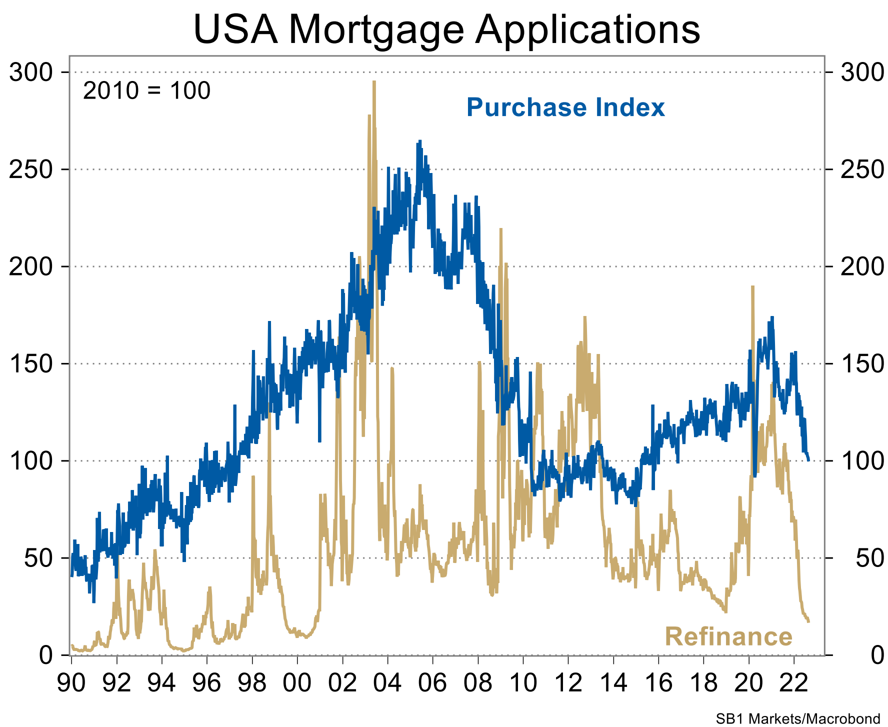


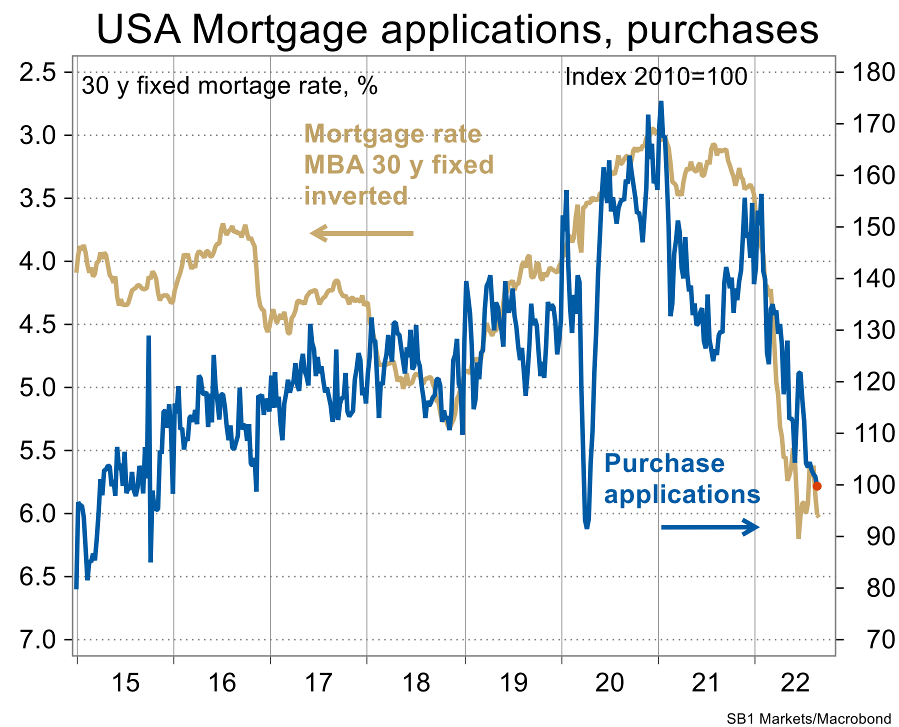
SB1 Markets/Macrobond

- Both the Case-Shiller National index, FHFA's index for homes with government sponsored mortgages (which includes most homes), and the realtors' price index have been reporting the highest house price appreciation ever (or since 1948) during the past months
- Real prices are far above the 2006 peak, by some 18% – 28%
- There are still some big differences vs the mid 2000 housing bubble
  - » **Housing starts** are at a lower level. The **inventory** of second-hand homes for sale is record low (vs high 15 – 16 years ago). However, the inventory of <u>new homes</u> for sale is climbing rapidly
  - » Households average **debt/income ratio** has fallen sharply since the peak before the financial crisis, and their cash positions have soared (on average) to above debts. However, credit growth has accelerated rapidly during the pandemic
  - » The **savings rate/net financial investments rate** has now fallen to well below the pre-pandemic level – but the ratios are far above the level in 2005

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

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

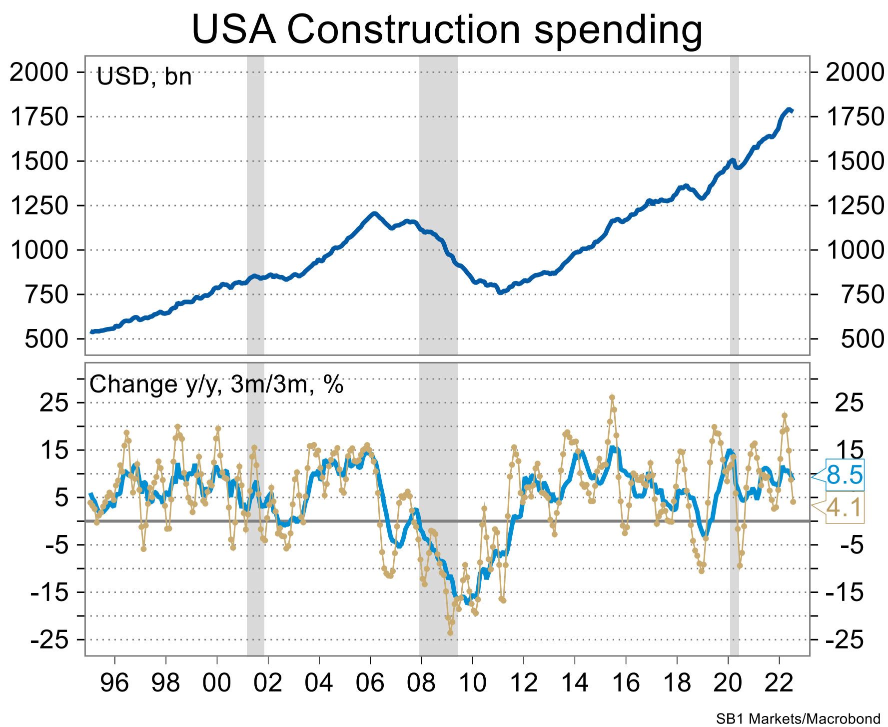


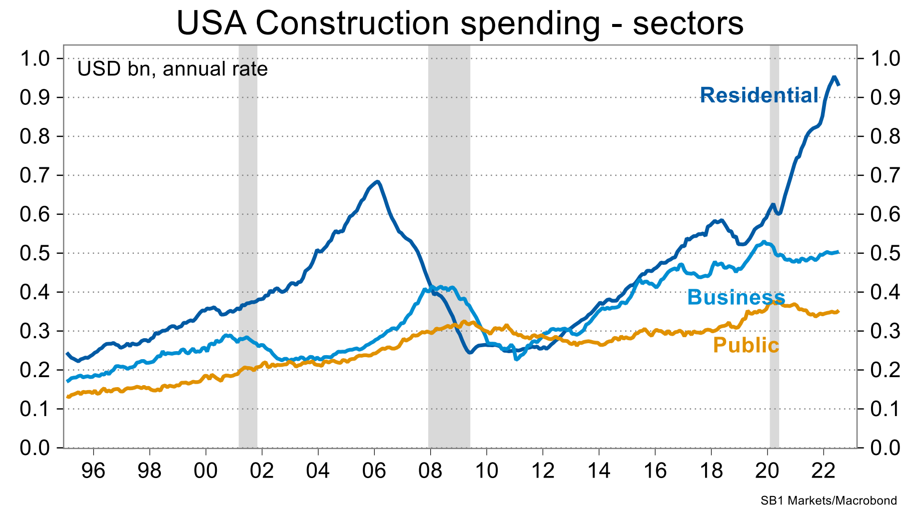


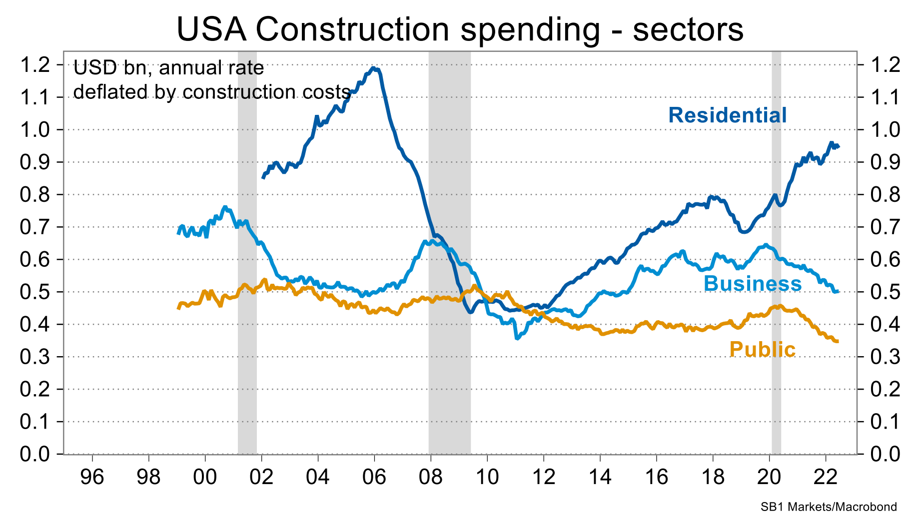
- Demand is not yet extremely low – and the level is 'just' 20% below the pre-pandemic level
- Recently, mortgage rates have fallen, alongside the decline in the 30 y treasury bond rate (*check next page too*)

USA construction spending is flattening, even in nominal terms

Volumes are down, now even for residential construction, as starts already has fallen 20%

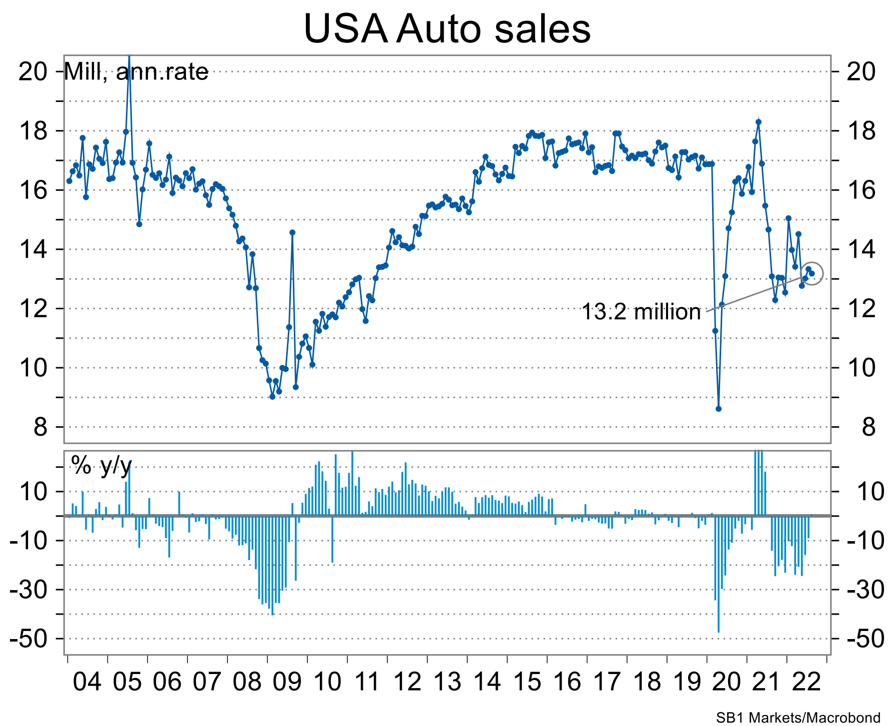


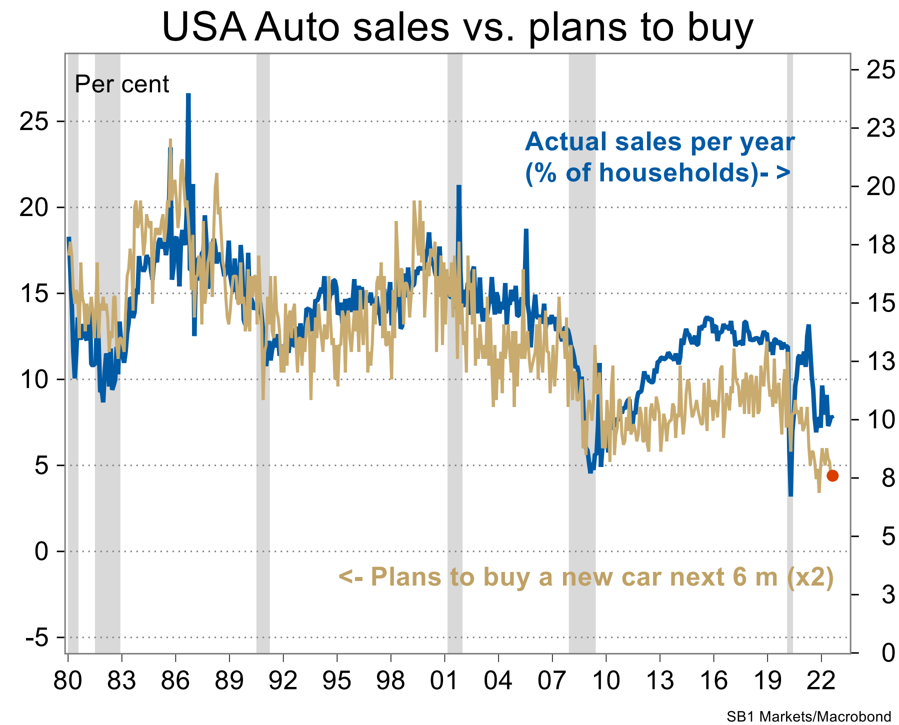




US auto sales marginally down in August, to 13.2 mill, expected 13.6 mill

Supply is still very likely the big problem, not demand

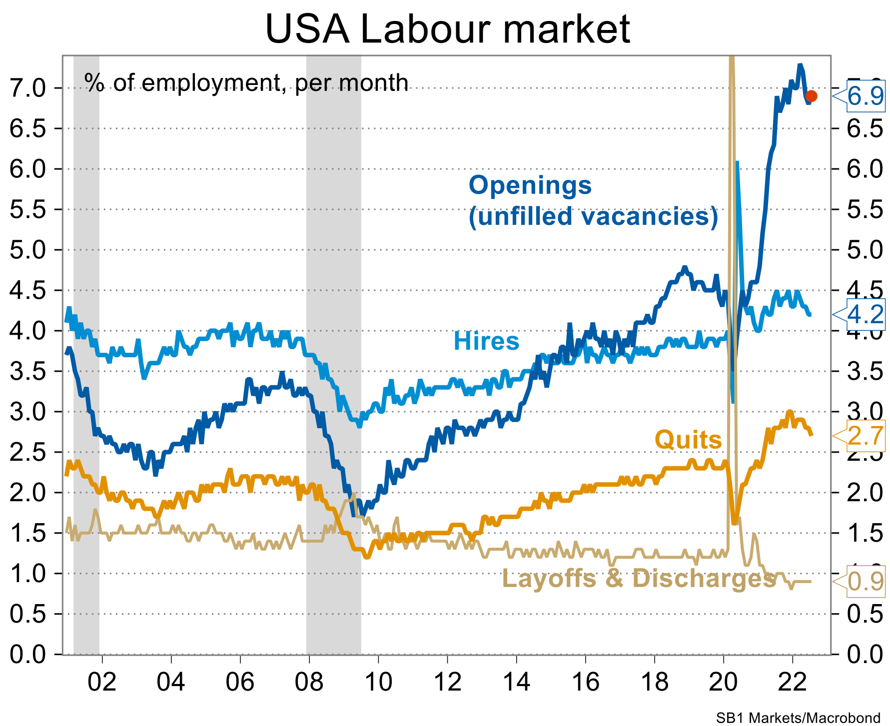




- Sales are down 22% vs. the 2019 level
- Plans for buying a new car has been stable at a record low level over the past year – but is now trending slowly down

Powell said it: the labour market is completely out of balance

The vacancy rate increased to 6.9% in July from 6.8% in June (revised from 6.6%), expected 6.5%

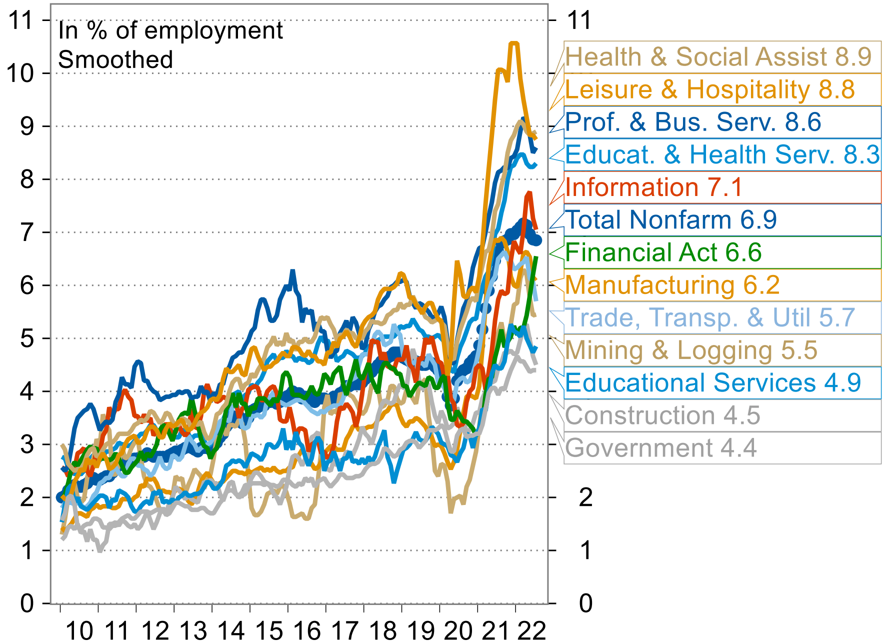


- The number of **unfilled vacancies** increased by 0.2 mill to 11.2 mill in July (June data revised up by 0.3 mill), expected down to 10.5 mill. The rate (vs no. of employed) rose by 0.1 pp to 6.9%
  - » The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit – the current level is extremely high (just like Powell also said)
- **The SMBs (NFIB survey)** reported an unchanged, and close to record high share of companies that were not able to fill positions in August. These two series are very closely correlated – and both are still signalling a very tight labour market
- **New hires** fell 0.1 mill to 6.4 mill in July, equalling 4.2% of the employment level, unch. from June. The trend is now slightly down but the level is high
- The number of **voluntary quits** was down by 700’ to 4.2 mill, equalling 2.7%, still a very high level. However, the trend is down, signalling that workers have become somewhat more cautious leaving the current jobs
- **Layoffs** equalled 0.9% of employment in July, at the same level as during the previous months, 0.1 p above the ATL last Dec
- **In sum:** The tide has turned, but the labour market is still very tight, and it is unlikely that wage inflation will come down to a sustainable level without a further weakening

Most sectors are reporting fewer vacancies than at the peak

However, almost all sectors report more vacancies since before the pandemic

USA Unfilled vacancies (JOLTS job openings)



SB1 Markets/Macrobond

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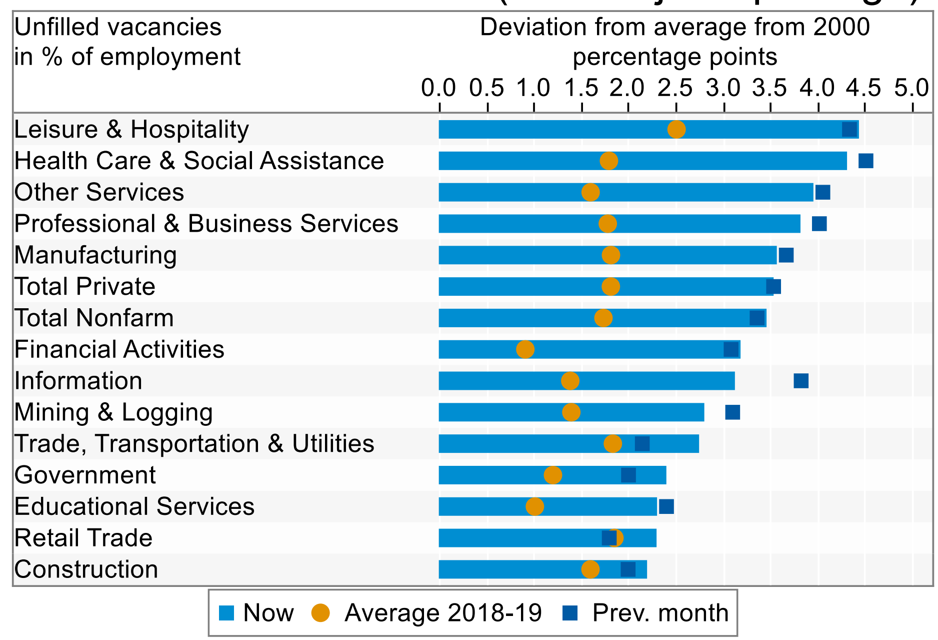
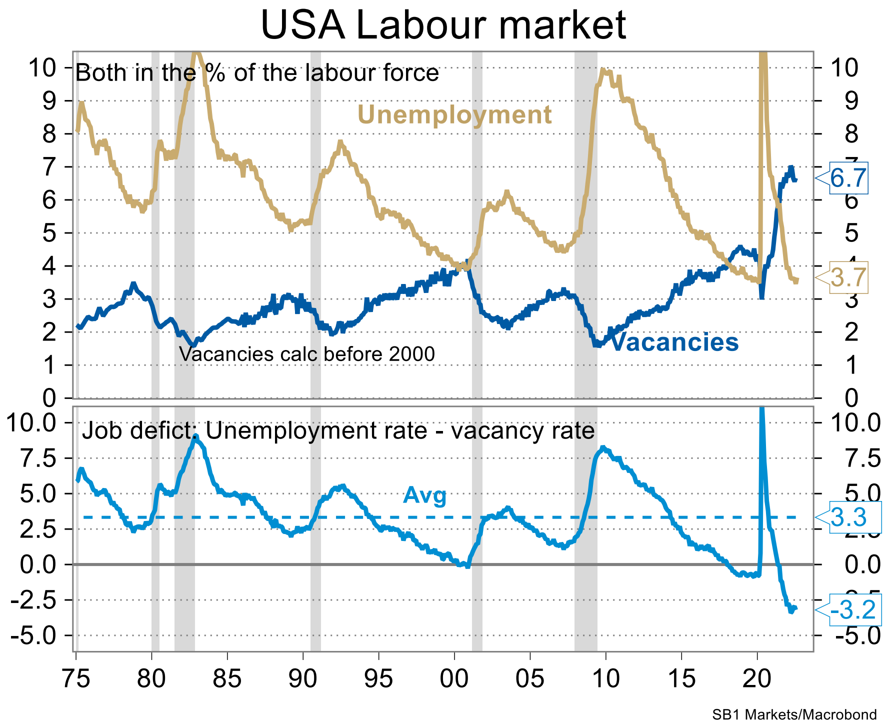
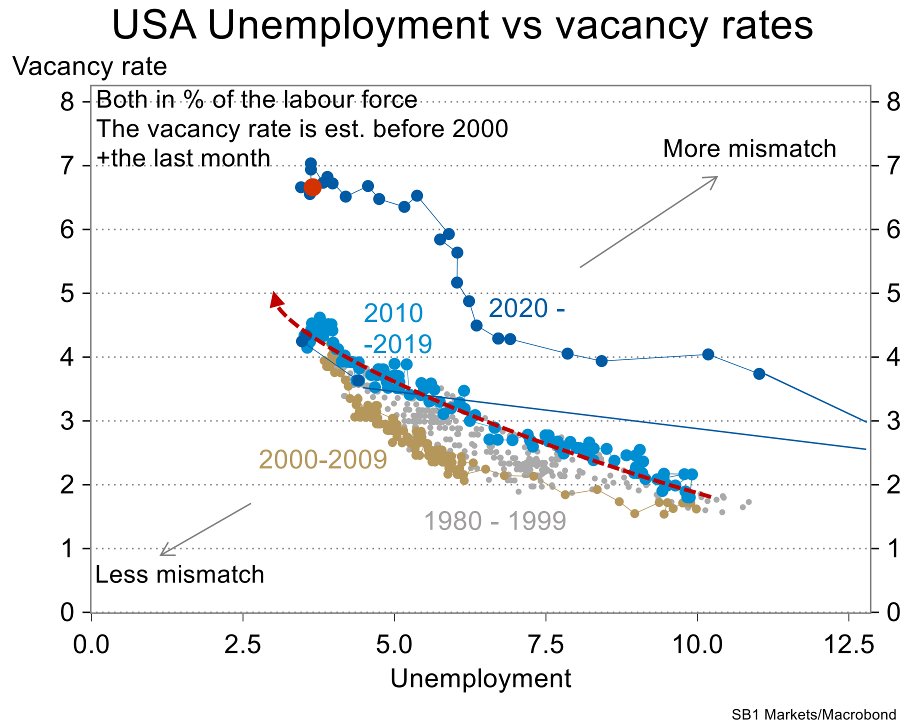


SB1 Markets/Macrobond

Will it be possible to bring vacancies down, without increasing unemployment?

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

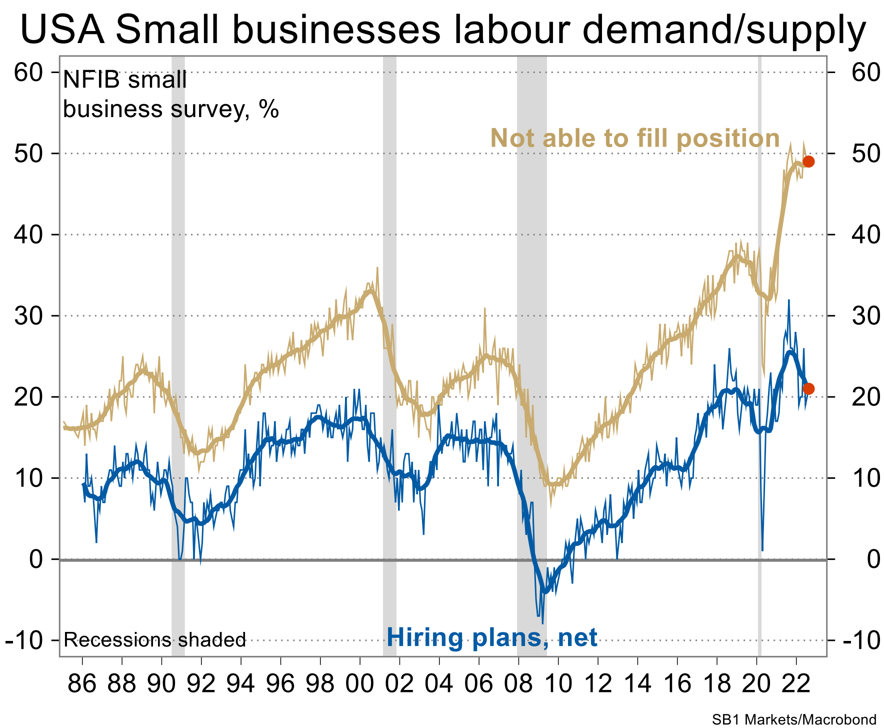


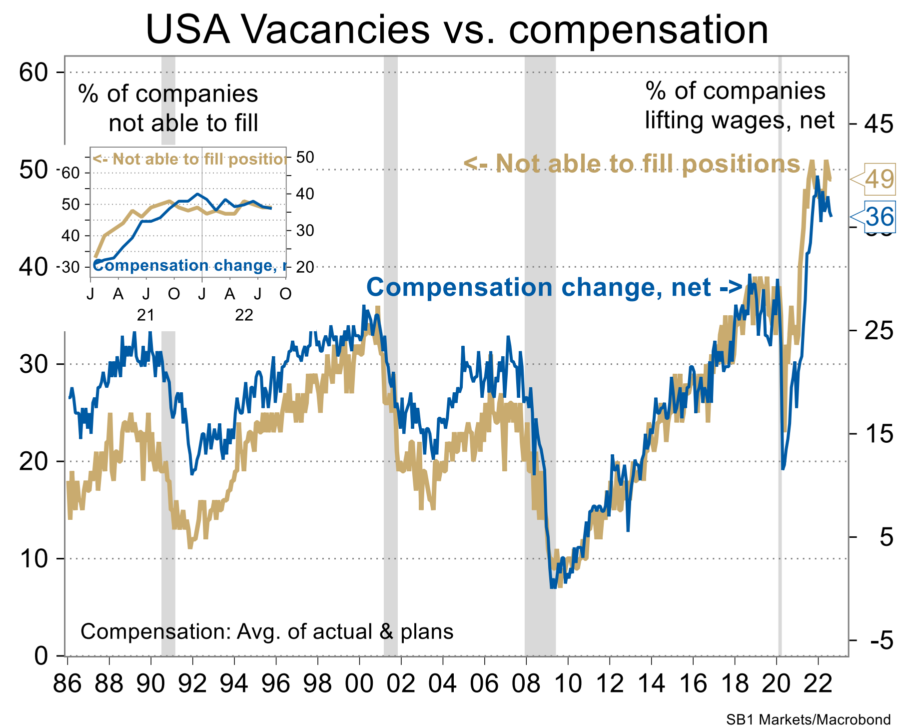


- **The Unemployment - Vacancy-curve** (UV, Beveridge curve) far up in the north-west quadrant, signalling both a tight labour market but also a higher vacancy rate than normal vs. the unemployment rate
- In principle **vacancies may be reduced without pushing the unemployment rate** up (aka recession),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

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

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

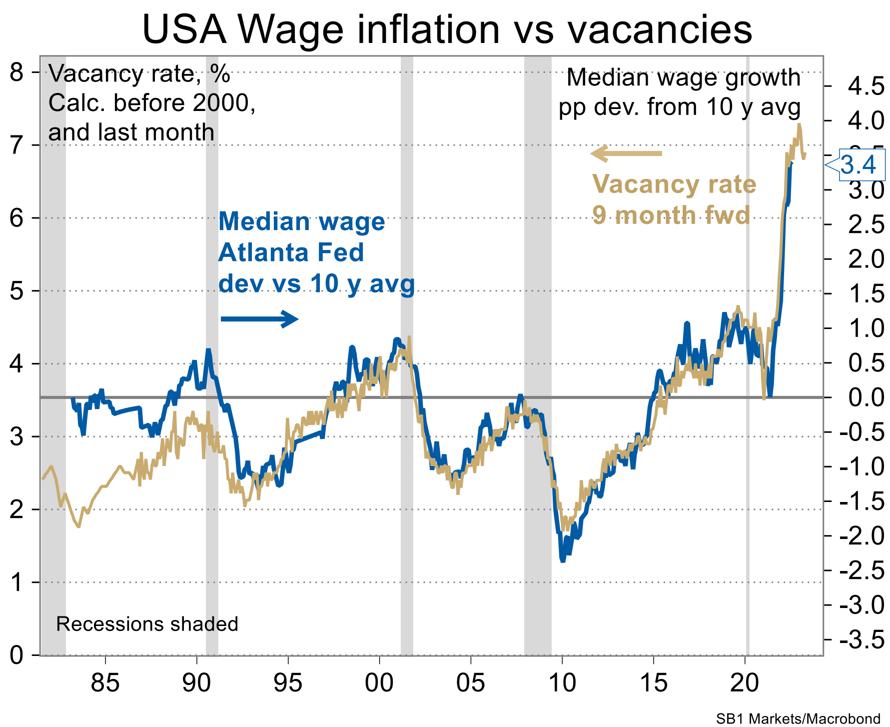


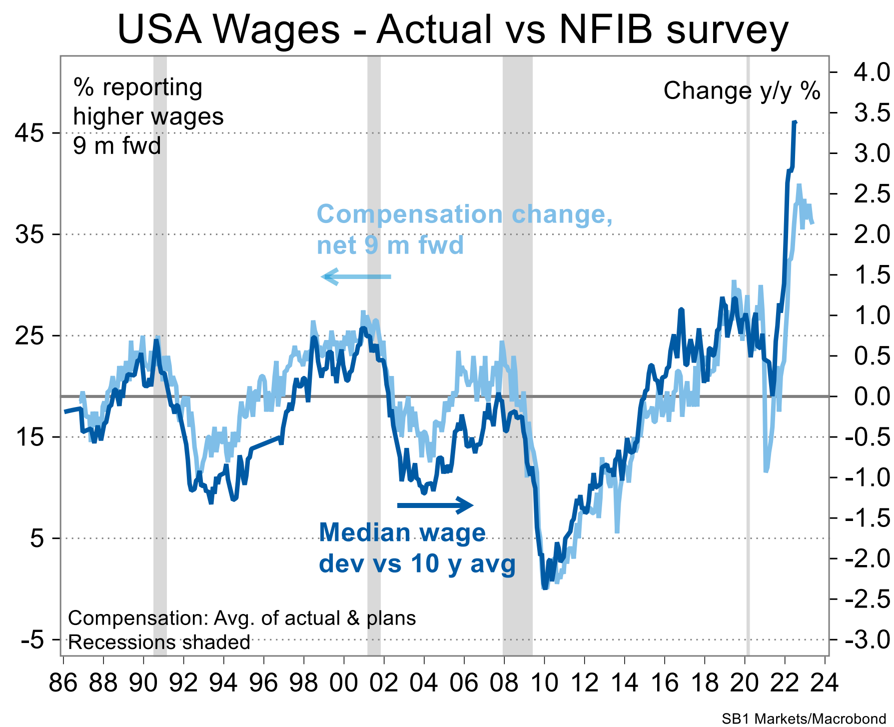


- Close to 50% of SME's report they are **not able to fill open positions**. The share is still at a peak level (just marginally down, and at ATH slightly smoothed)
- 21% of companies **plan to hire**, down 10 pp from the peak (5 pp if smoothed) – still in line with ATH before the post pandemic surge
- 36% of companies report that they **plan to lift compensation** in the coming months, down from 37% in July. The peak was at 40% last December. Before that, the ATH was at 27%, while the average – signalling no acceleration in wage growth – has been at some 20%
- <u>There is still a way to go…</u>

So why is wage inflation soaring like never before?

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

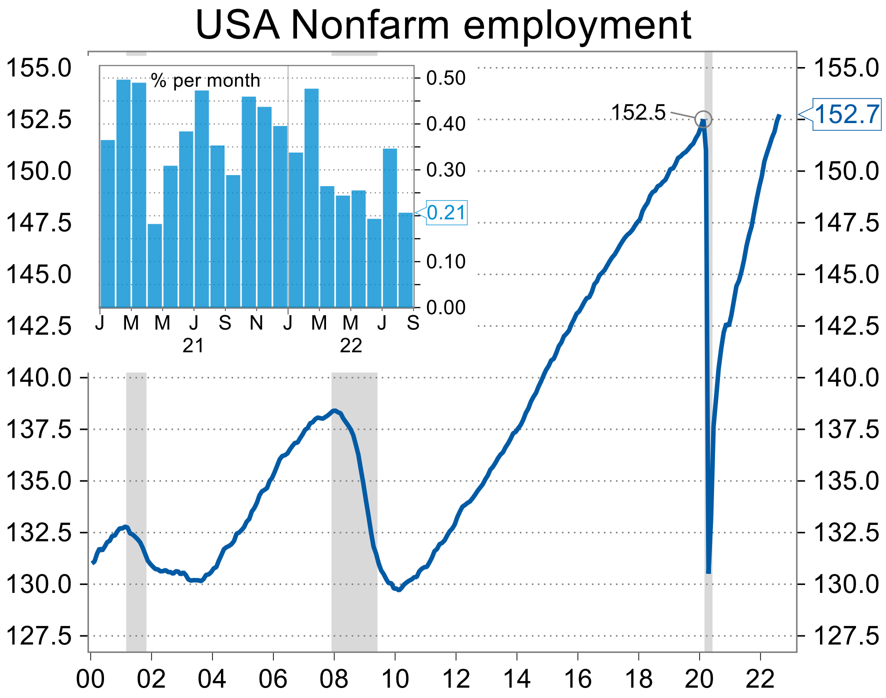


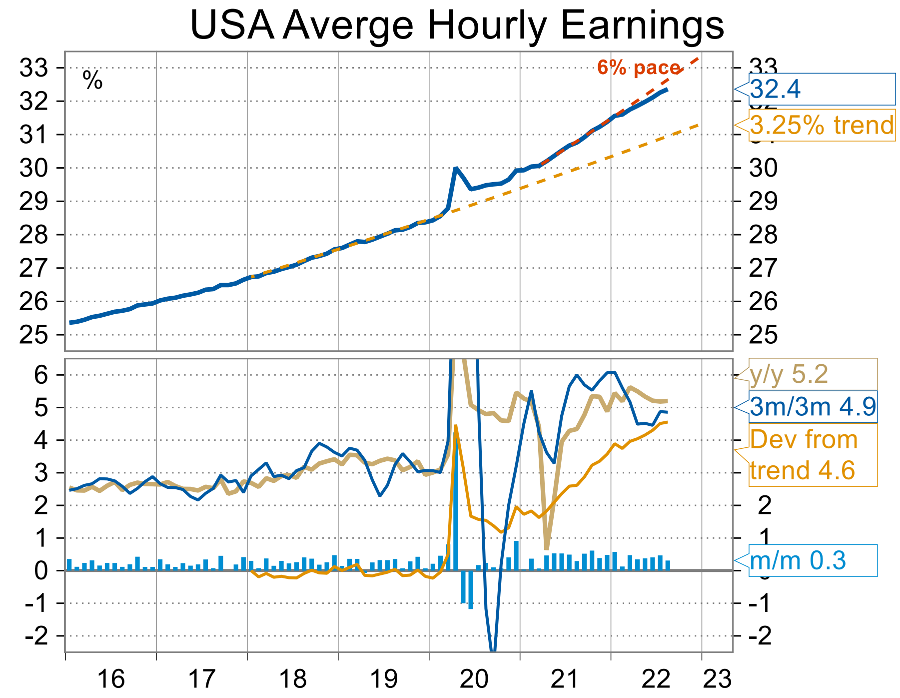


- **Our 'Phillips curve'** based on the vacancy rate signals a further increase in wage inflation the coming quarters even if vacances may have peaked, as the vacancy rate leads changes in wage inflation quite consistently by 3 quarters. However, we would not be surprised if the current extraordinary high wage inflation turns out to be the peak
  - Companies (SMEs) compensation plans signal continued high wage inflation but not faster than the present
- **Wage inflation** has already accelerated by almost 3.4 pp vs the 10 y average (Atlanta Fed median) and cannot possibly generate a 2% price inflation rate over time. This is Fed's main headache, not the current high CPI inflation print. And it will become the stock owners' headache too, of course
- **Demand for labour has to be reduced sharply in order to get wage inflation back to a sustainable level! That's the recipe for an unavoidable RECESSION**
  - Check under which circumstances wage inflation slows on the charts above (hint: find the shaded areas, follow the blue wage line - as well as the vacancy rate or the wage hike plans ☺). Fed will not be able to control inflation if demand for labour is not cut sharply. Exactly what Powell told us at Jackson hole!

Employment growth slows but the unempl. rate rose due to higher participation

In sum: probably not as strong of a report as the Fed feared – but 75 bps still likely on the table

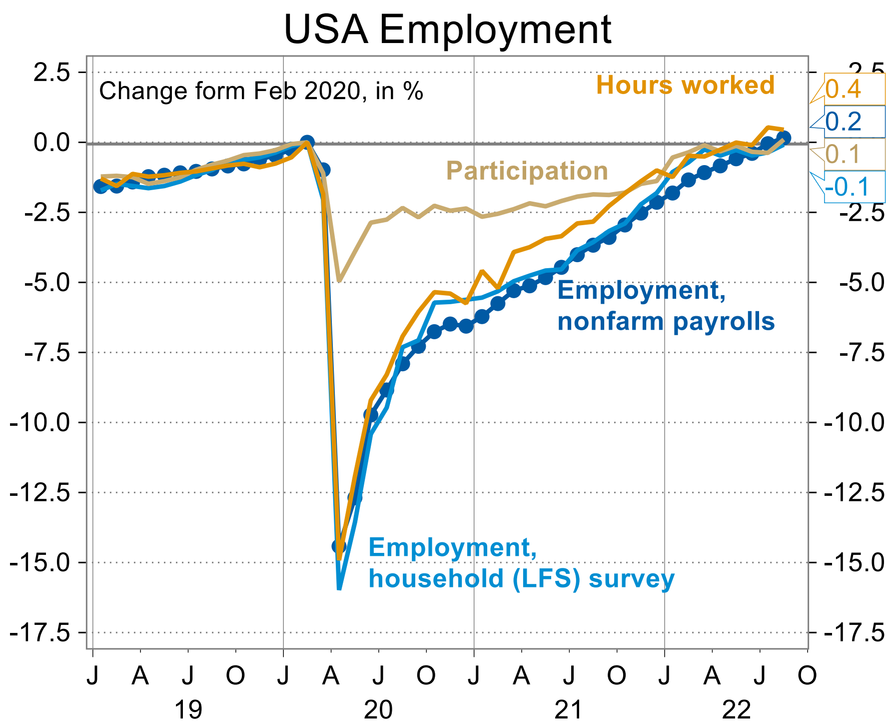




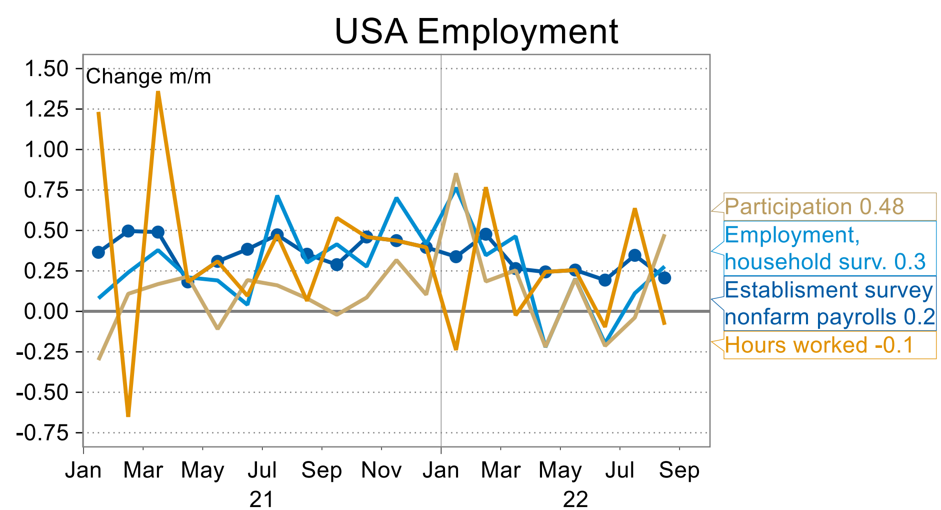
- **Nonfarm payrolls** rose by 315' in Aug, expected 300' (no important revisions). Payrolls are back to the Feb-20 level. The LFS employment rose by just 132', and employment has almost flattened since March. The **employment rate** increased by 0.1 pp to 60.1% but has flattened since March – not a signal of strength. The US may not be in a recession but employment normally increases until the economy has entered a recession
- **The participation rate** gained 0.3 pp to 62.4%, which is good news – but the rate is still just back to the March level - the trend is flat. Thus, the unemployment rate, added 0.2 pp to 3.7% in August, expected unch. In June, the FOMC lifted it's Q4-22 f'cast by 0.2 pp to 3.7% (and to 4.1%, 0.1 pp above the assumed NAIRU, by the end of 2024, no recession was assumed).
- **Wages** rose 0.3% in Aug, expected 0.4%. Measured 3m/3m, wages rose 4.9% in Aug. The annual rate was unch. at 5.2%, 0.1 pp lower than expected. Before the pandemic, average wages rose by 3¼% in 2019, and below 3% in the years before, and the wage level is now 4.6% above this trend
- **Maximum employment:** Both the participation and the employment rates have flattened recent months, at the same time as the demand for labour is very strong, witnessing the extreme level of unfilled vacancies. The supply side is obviously the bottleneck at the labour market. For the time being, maximum employment is more than reached – and wage inflation is well above a sustainable level

The labour market is back to square one

… Before we adjust for growth in population since early 2020



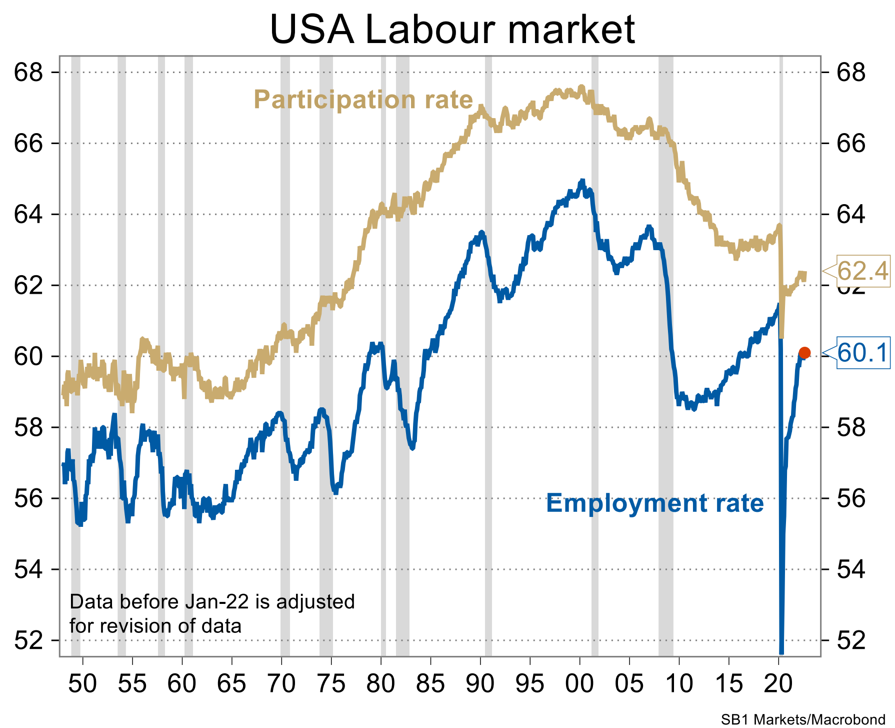
- **Nonfarm payrolls** (employees) are now 0.2% above the Feb '20 level, while **total employment** measured by the **household survey** (LFS/'AKU') is down 0.1% - and it has flattened since Q1. The survey data are more volatile the payrolls stats, but the two measures are quite similar over time. The **employment rate** is 2.3% below the pre-pandemic level
- **Labour market participation** is 0.1% above the Feb-20 level. **The participation rate** was reported up by 0.3 pp to 62.4%, still down 2%
- **Aggregate hours worked in private sector** declined by 0.1% in August, as average hours worked continued downwards

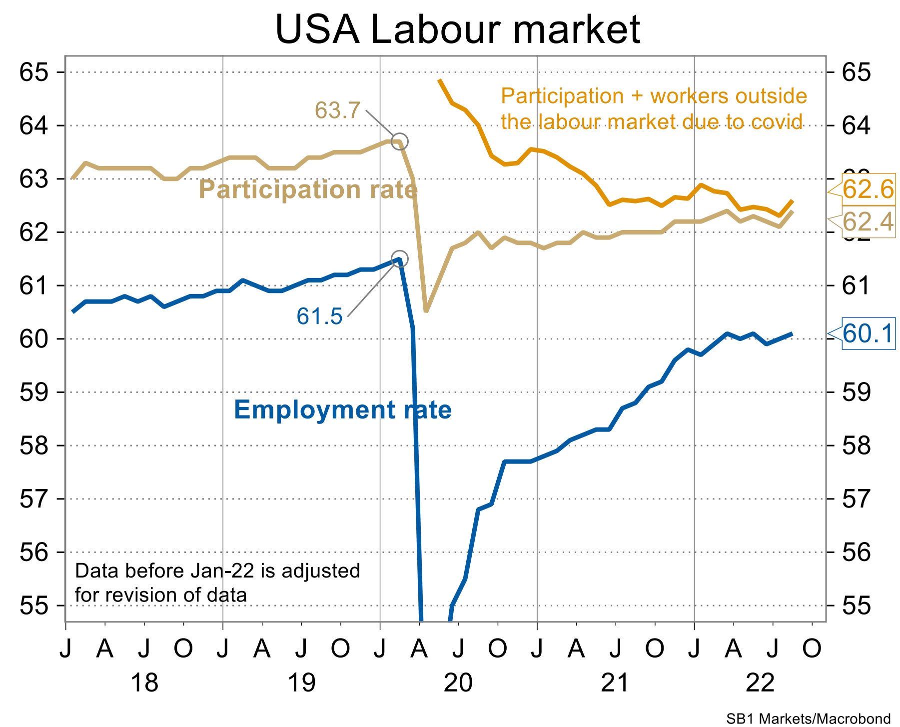


SB1 Markets/Macrobond

Labour force survey: Both participation & employment up in August

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

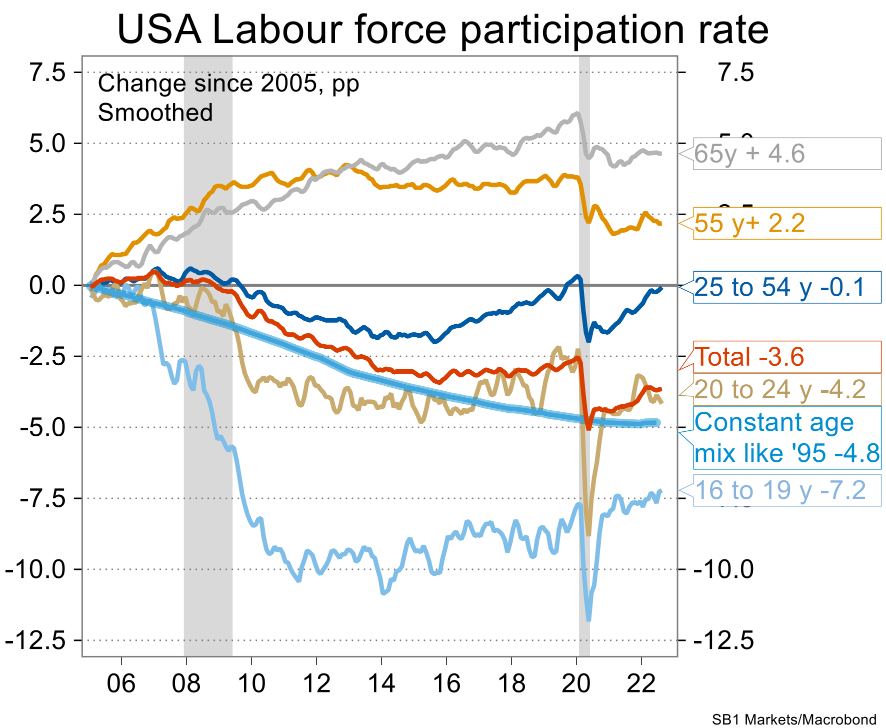


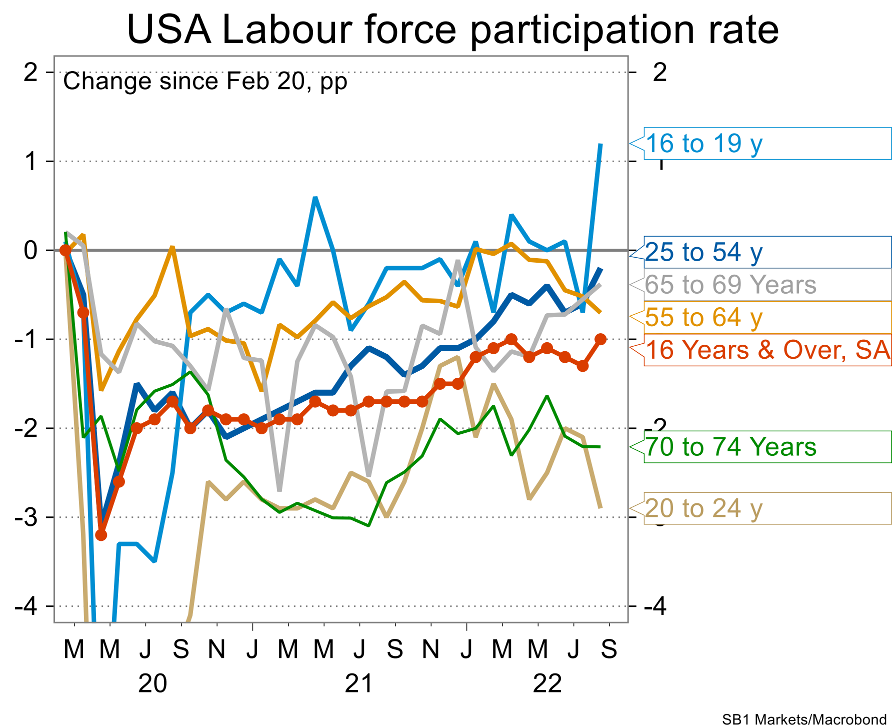


- In August, **the labour force participation rate** rose 0.3 pp to 62.4%, expected up 0.1 pp – a pleasant surprise! However, the participation rate is still just back to the same level as in March – and it is 1.3 pp (2%) below the pre-pandemic local peak – which again was way below the pre-IT bubble peak, in year 2000 – as the population ages (*check next page*)
- **The employment rate** gained 0.1 pp to 60.1%, back to the same level as in March and May – and the short term trend is flat, as growth in employment has slowed. This rate is 1.4 pp (2.3%) below the pre-pandemic local peak
- **The conundrum:** Why does not the participation rate increase when demand for labour is extremely strong (JOLTS job openings, SME's not able to fill vacancies). <u>The only reasonable explanation is that all persons that want to have a job and are able to work - at least for the time being – have now entered the labour market, there is no more spare capacity</u>

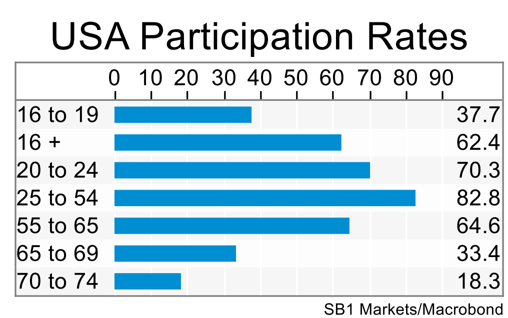
Participation rates: Core age groups almost back to pre-Covid & pre-GFC levels

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



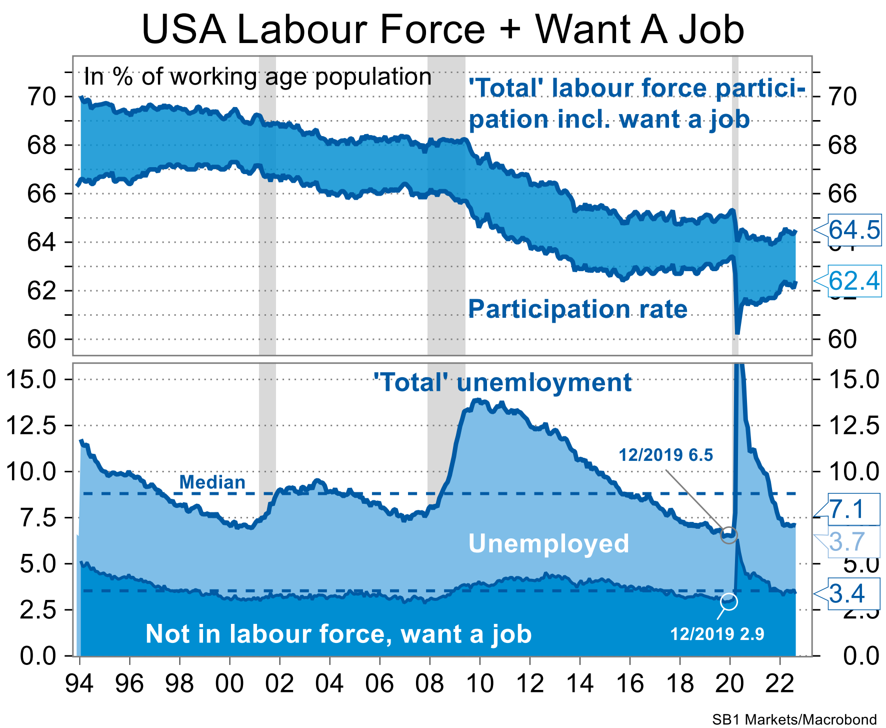


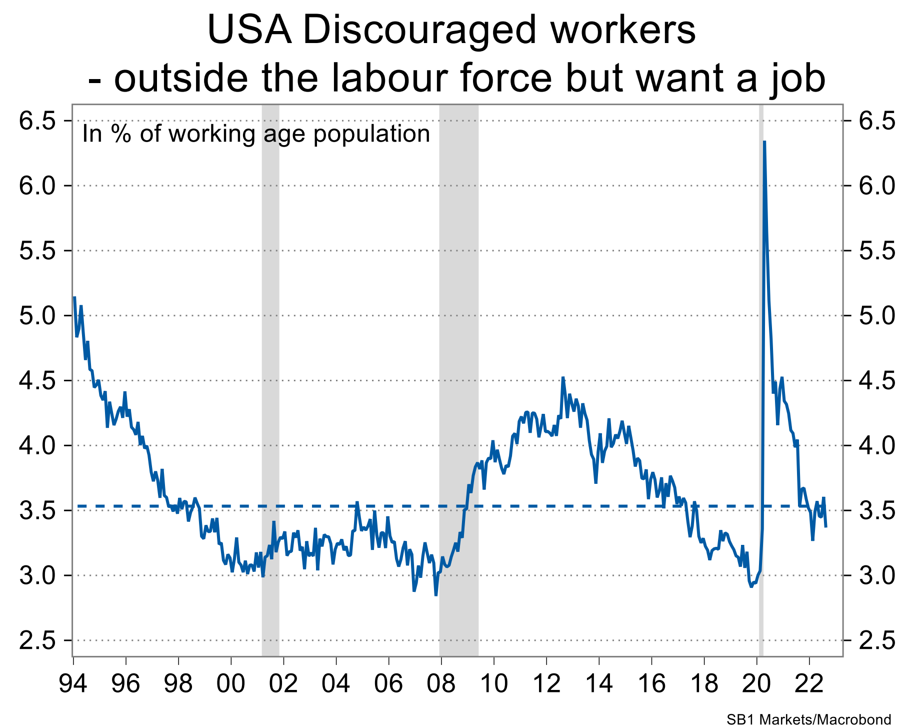
- The **participation rate** among the 25 – 64 y group is now almost back to the level from before the pandemic. The 20 – 24 y group remains well below. The 65+ group is still below the early 2020 level
- As the US population is aging, and a decline in the average participation rate over time is no surprise.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



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

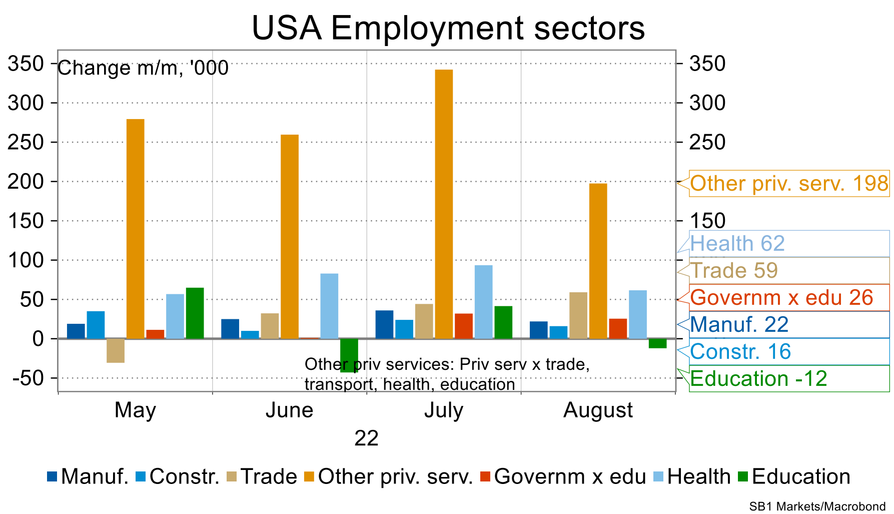
These outsiders equal 3.4% of the labour force, which is below the historical average

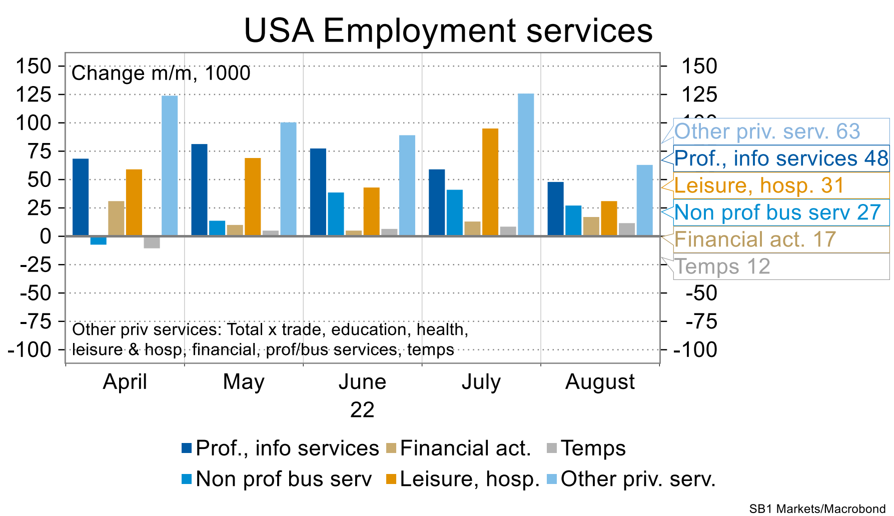




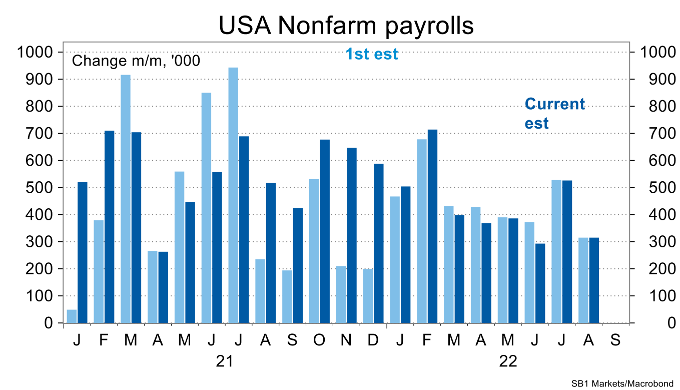
- Normally, the 'discouraged workers' rate is lower than average in booming times. Those who sat they cannot work due covid now constitutes just a small fraction of the 3.4% rate
- Given the present high vacancy rate it seems to be rather challenging to squeeze this part of the population into the labour market (Qualification mismatch etc.)

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



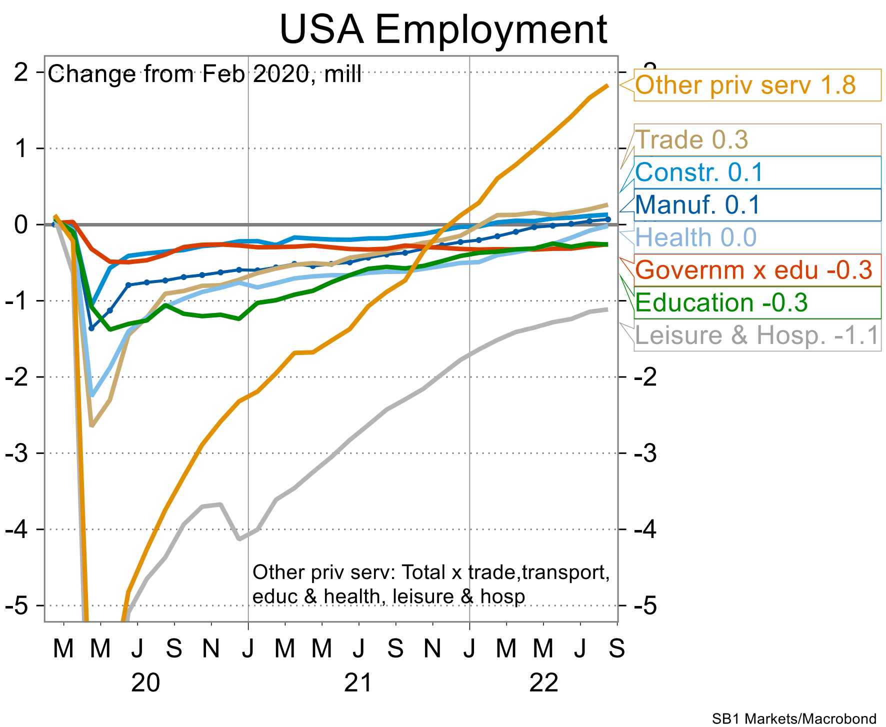


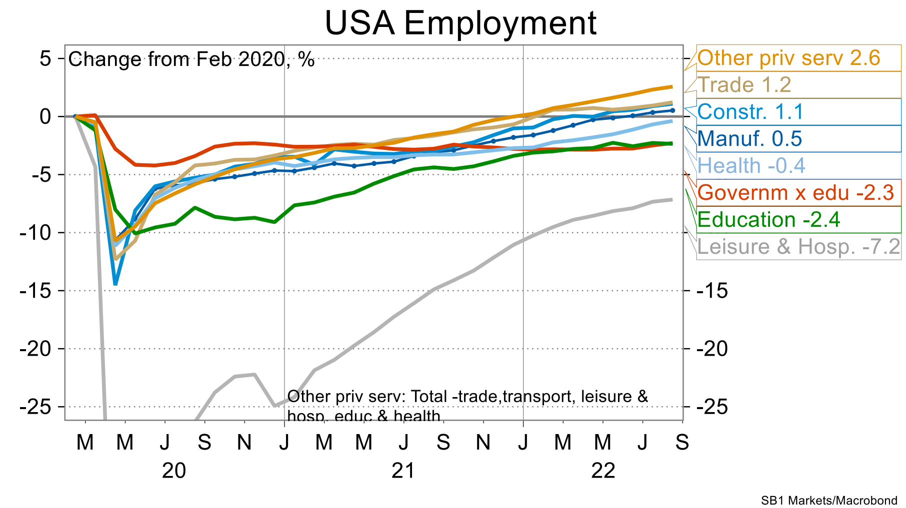
- **Last month:**
  - » **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added just 31' jobs – and growth is slowing, even if the no. of employed is 7% below the pre-Covid level. A permanent change in demand vs. this sector?
  - » **Trade** added 59' jobs but growth will likely, alongside flattening retail sales of goods, come down
  - » A broad increase in payrolls in other **private services**
  - » **Manufacturing** added 22'; growth is slowing but it is still higher than normal
  - » **Construction** sector employment up by 16', less than normal, as construction activity is falling. A decline in employment is quite likely
  - » **Education** (private & public) down by 12'
  - » Employment in **government** (ex education) rose by 26', better than normal – and growth has turned positive recently

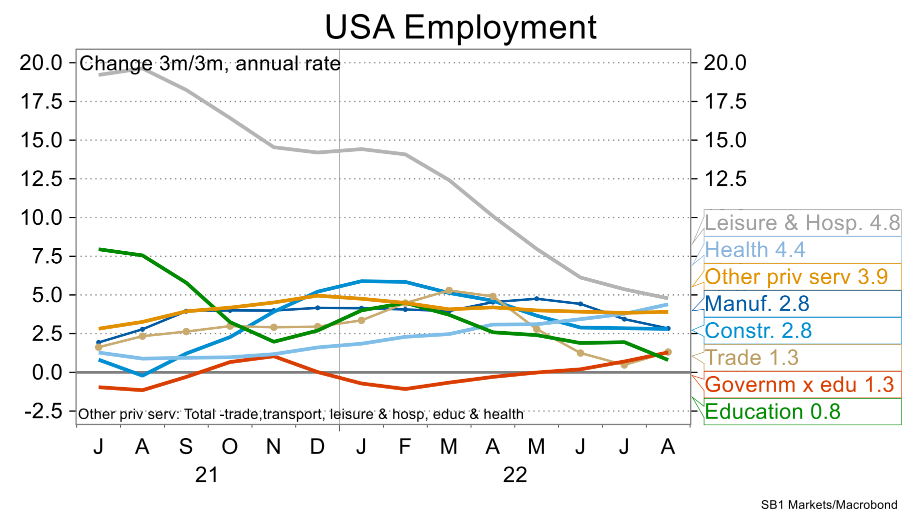


Vs. Feb-20: Several private services are up, but leisure/hospitality still down 7.2%

Manufacturing and construction are back to their pre-pandemic levels



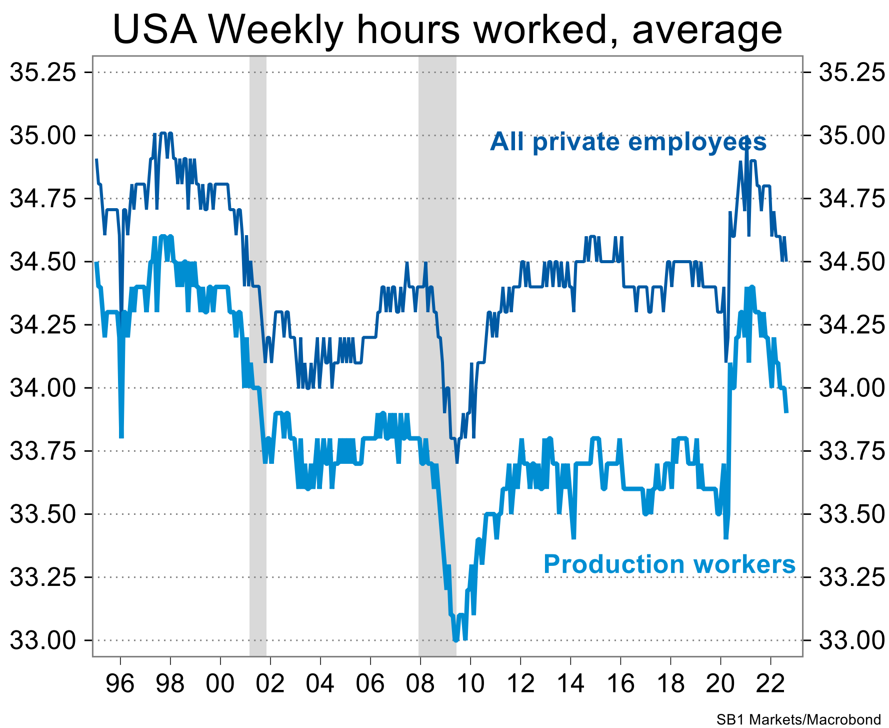


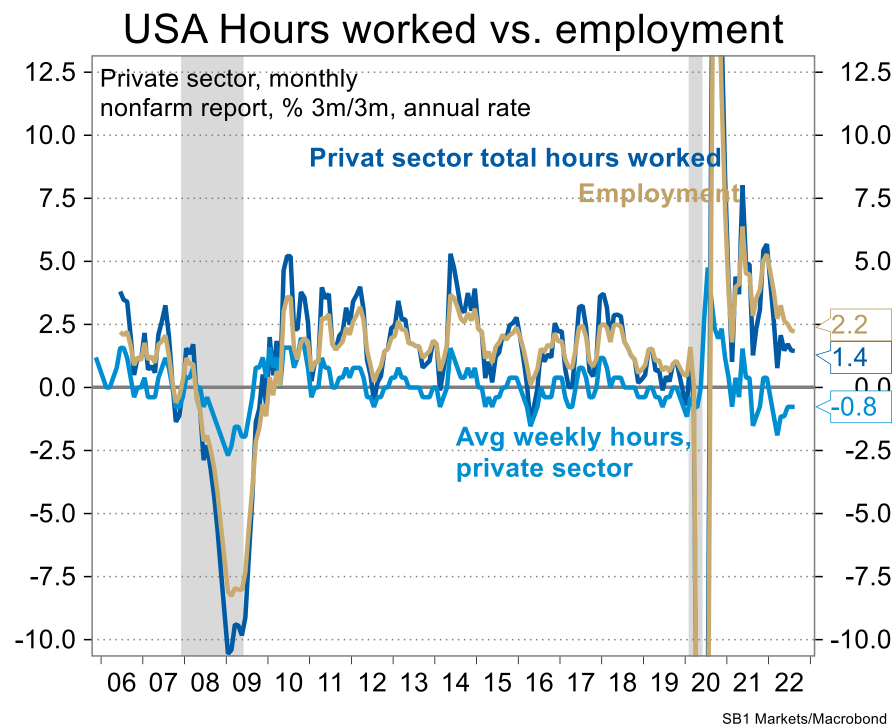


- Recent months, underlying growth (3m/3m) has slowed in trade, manufacturing, education, and leisure & hospitality, the latter though from a very high level

Average weekly hours is trending down, and fell further in August

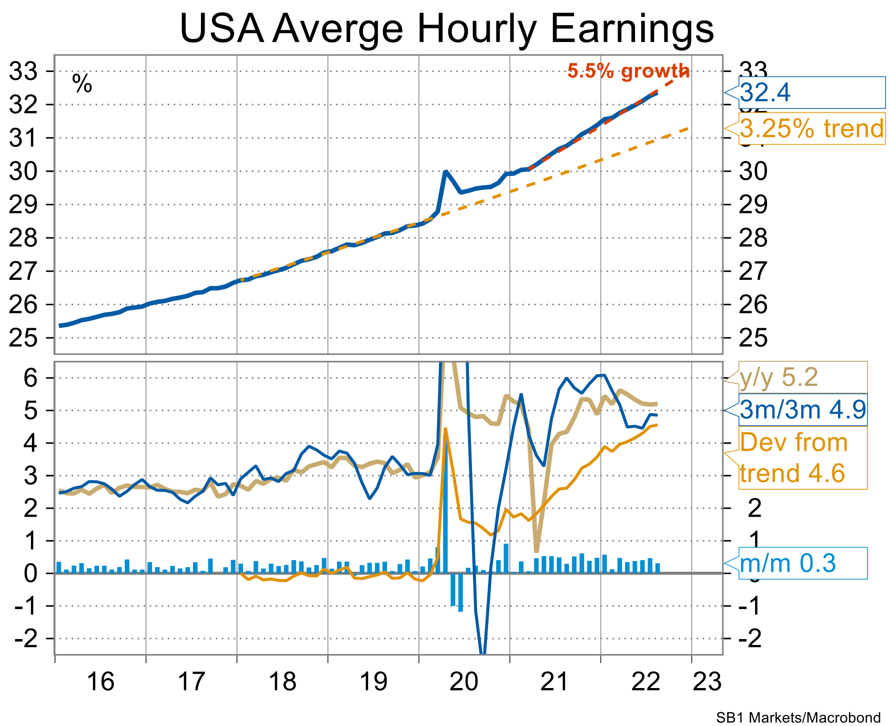
The decline from Nov-21 is strange, given lack of labour. Total hours worked up at a 1.4% pace



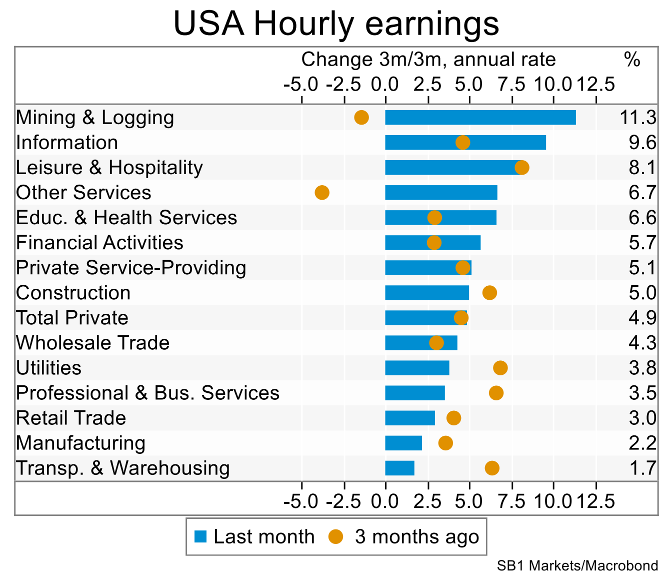


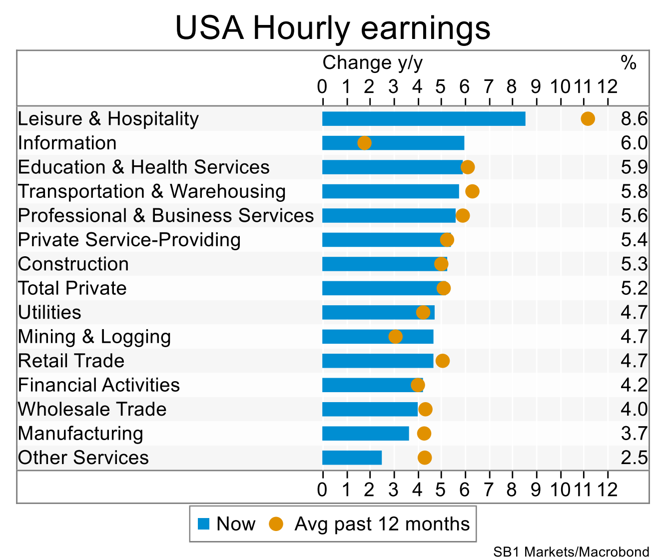
Wage growth slowing? If so, that is good news for the Fed

Wage inflation may have slowed but is anyway too high
-- and other wage indicators do not report slower growth



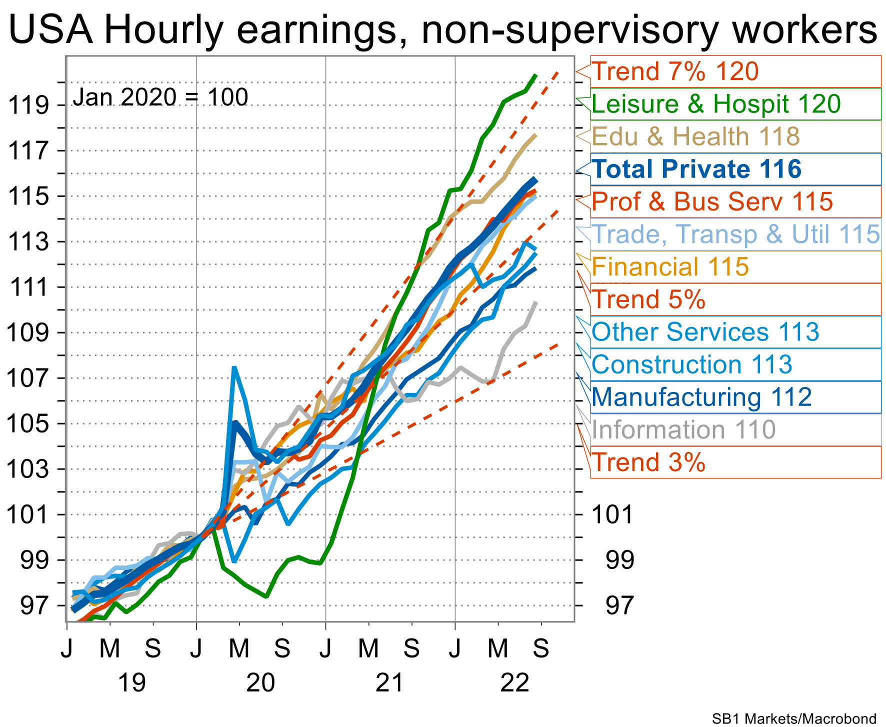
- The **average wage** rose by 0.3% in August, 0.1 pp less than expected. Annual wage inflation unch. at 5.2%, exp. up to 5.3%
  - » Underlying (3m/3m) growth came down 0.1 pp to 4.9%
  - » Just before the pandemic, wage inflation was at approx. 3¼%, but it was below 3% until 2019
- Wage growth accelerated (measured 3m/3m vs 3 months ago) in 8 sectors, slowed in 6 sectors
- *These monthly wage data are not adjusted for the change in employment mix between sectors or within sectors. Check more wage indicators at the next page*





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

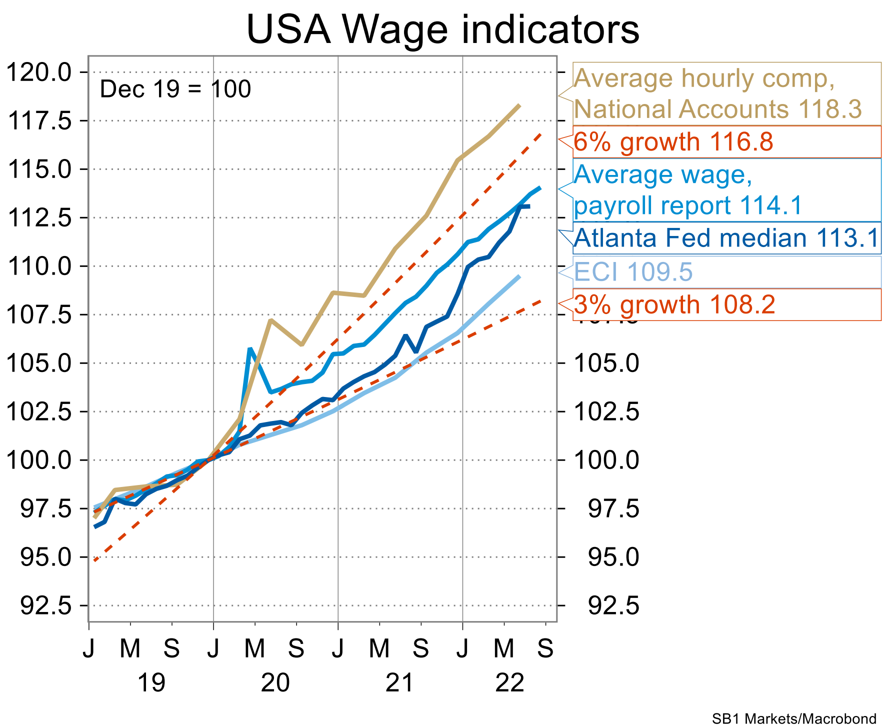
… And well above the pre-pandemic growth paths <u>in all sectors</u> (barring information)

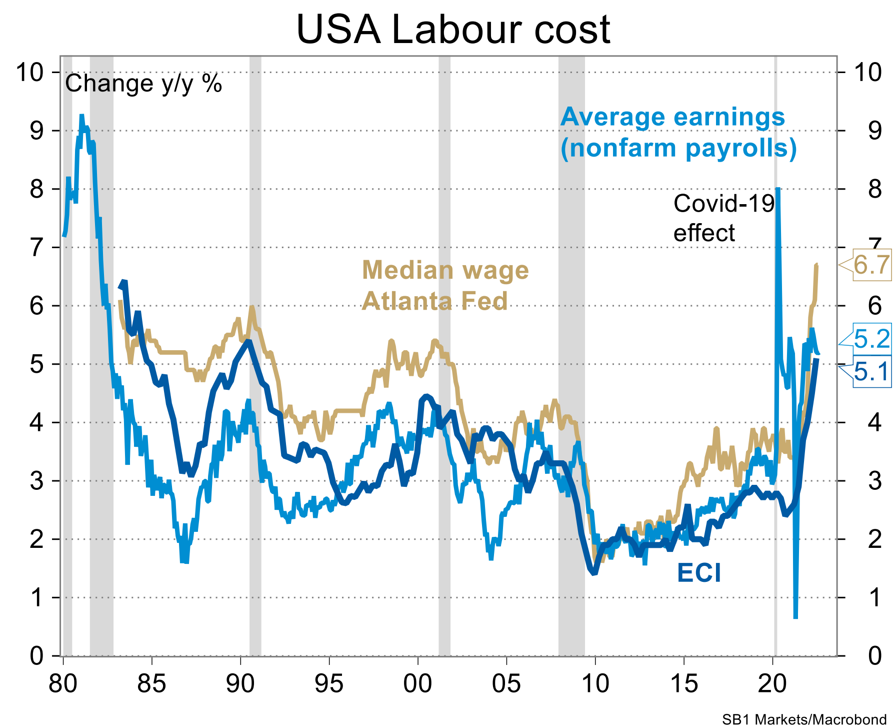


Memo: On the chart above, wages for <u>non-supervisory workers</u> are shown. When all employees are included, growth is slightly lower in most sectors

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

… and all are reporting much higher wage inflation than before the pandemic. 2% wage inflat. ‘impossible’

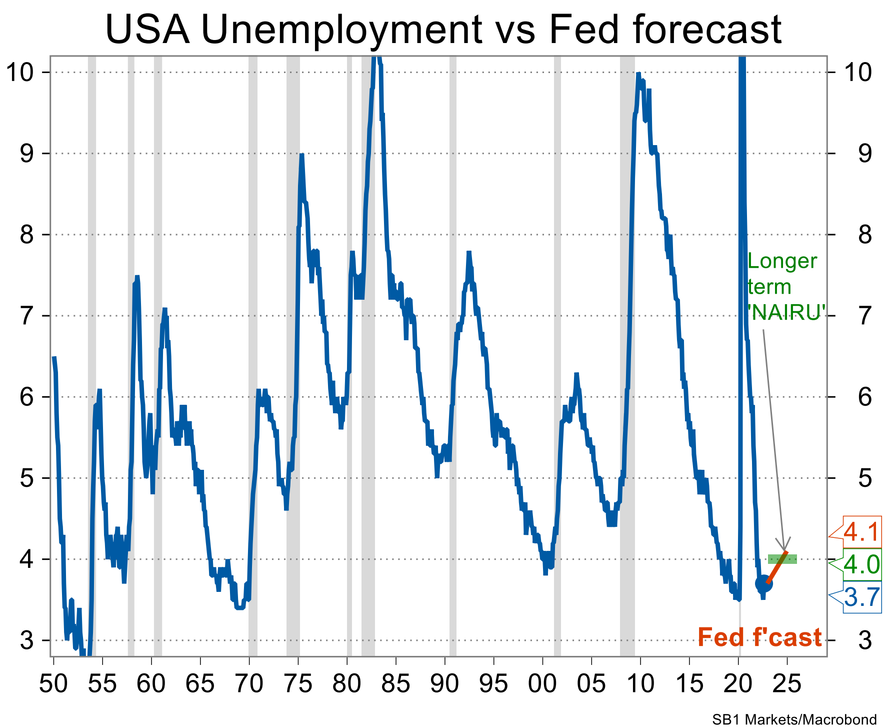


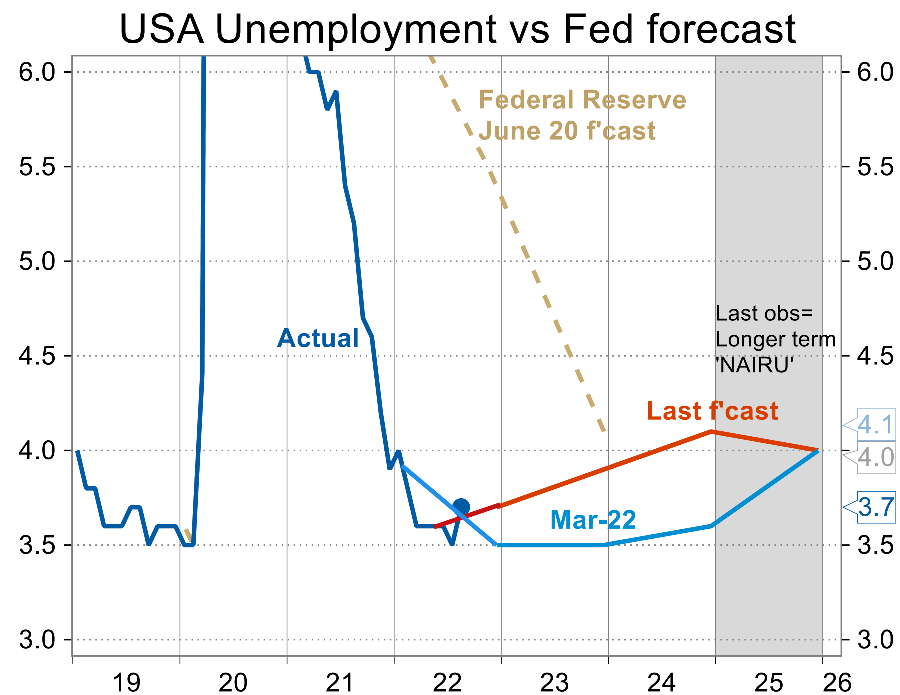


- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years
- Growth in wage/earnings/compensation indicators are up 2.5 – 4 pp vs the their respective 10 y averages before the pandemic
- Over the past 10 years, inflation has been close to 2% (before the pandemic, that is)
- It will be a ‘challenge’ to keep inflation at 2% if wage inflation remains at 5% - 6 %. Productivity growth has not accelerated. Profit margins may take a beating – and they no doubt will – but not sufficient to bring inflation down to acceptable levels on their own. Wage inflation will probably not slow by much before demand for labour weakens – and unemployment increases

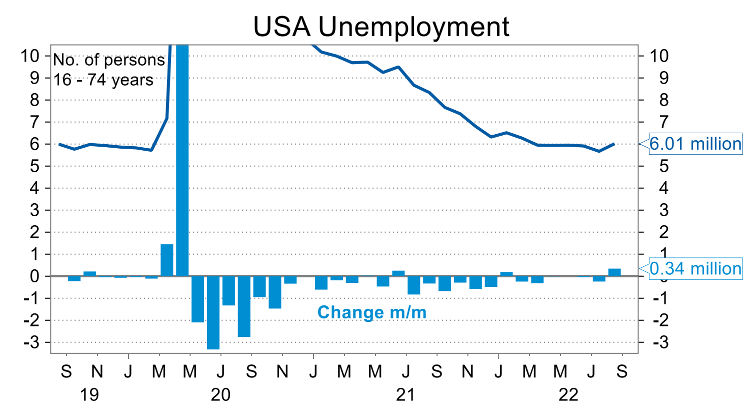
Fed's hope: just a marginal increase in unemployment the coming years

Even if excess demand for labour has to be cut dramatically. Not impossible. But not likely



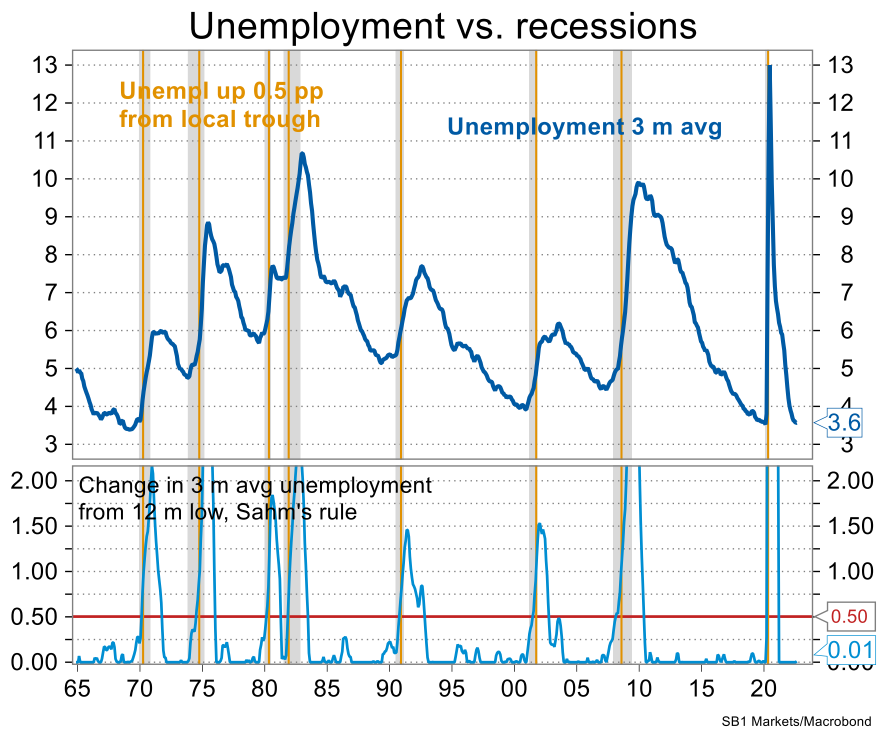


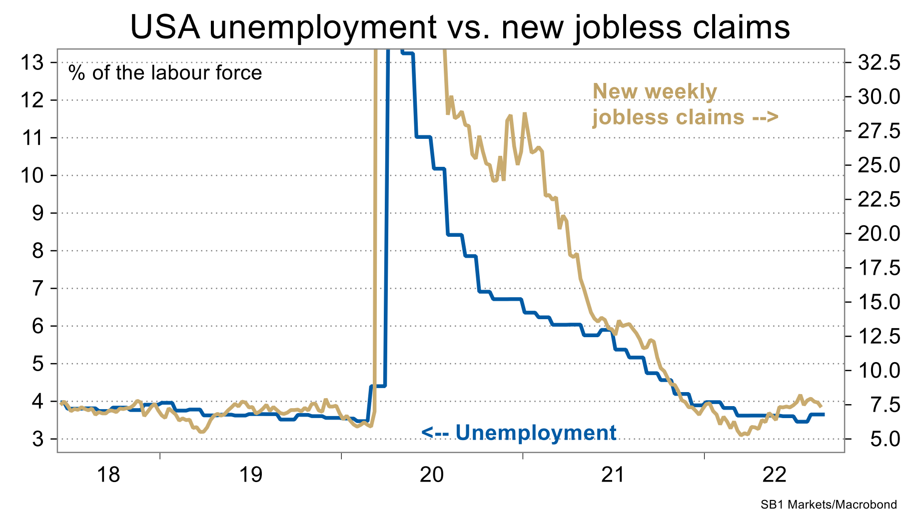
- Unemployment increased by 340' persons in August



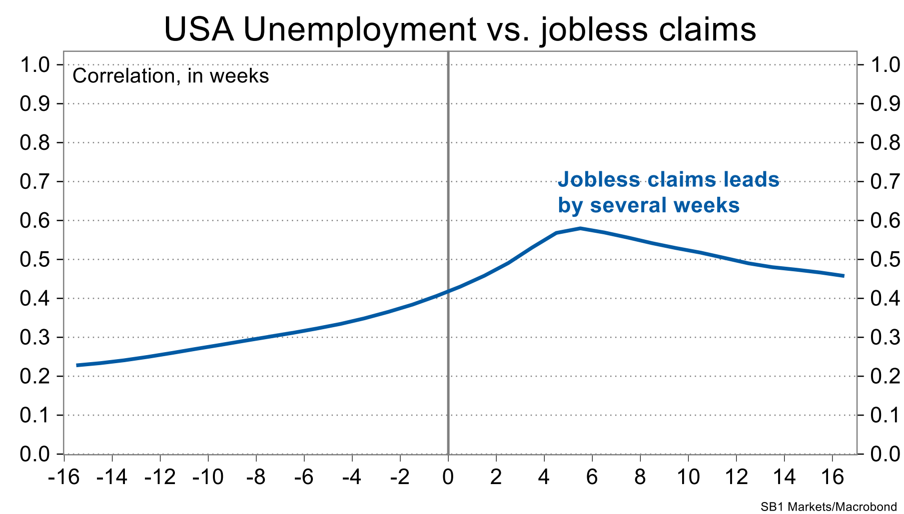
A 0.2 pp lift in the unemployment rate in one month is no recession signal

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

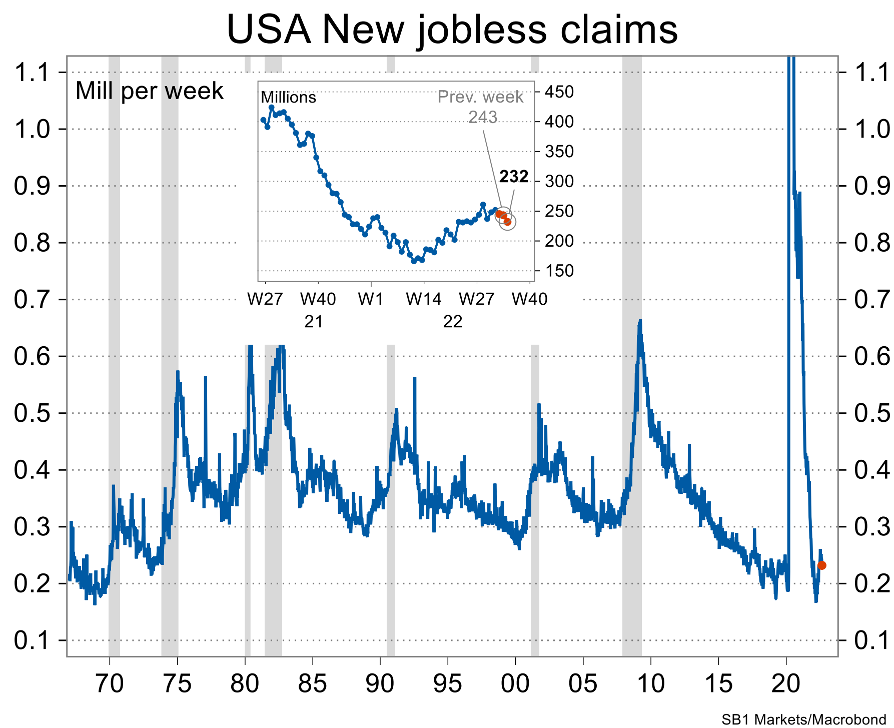


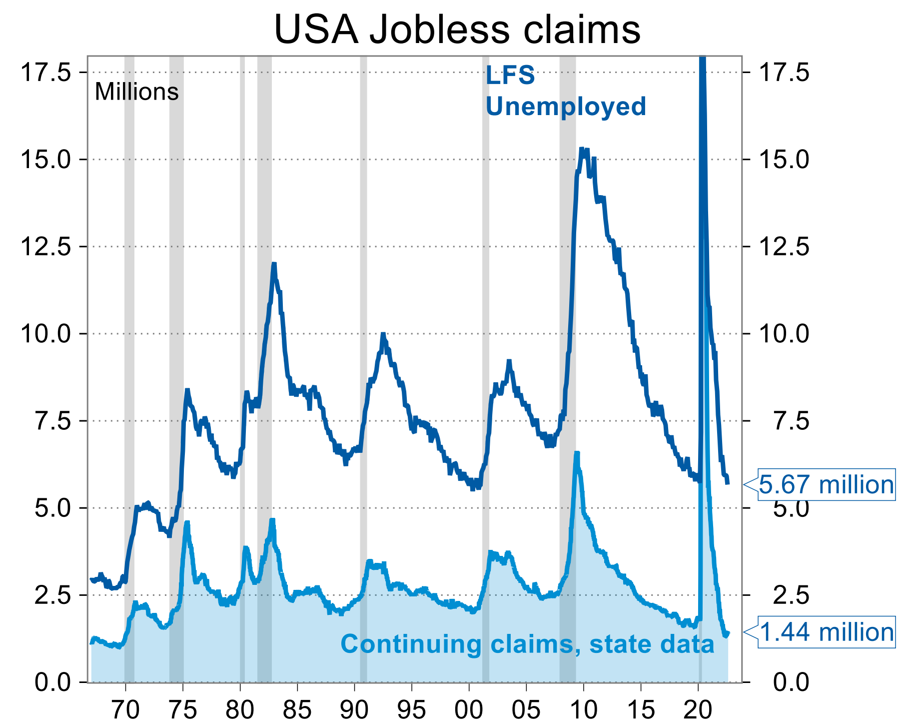


- Still, unemployment will have to start increasing rather soon, if it one day turns out that the US was in a recession in August 2022
- Weekly new claims were on the way up until some weeks ago but is now inching down again *(check the two net pages too)*



New jobless claims keep inching down

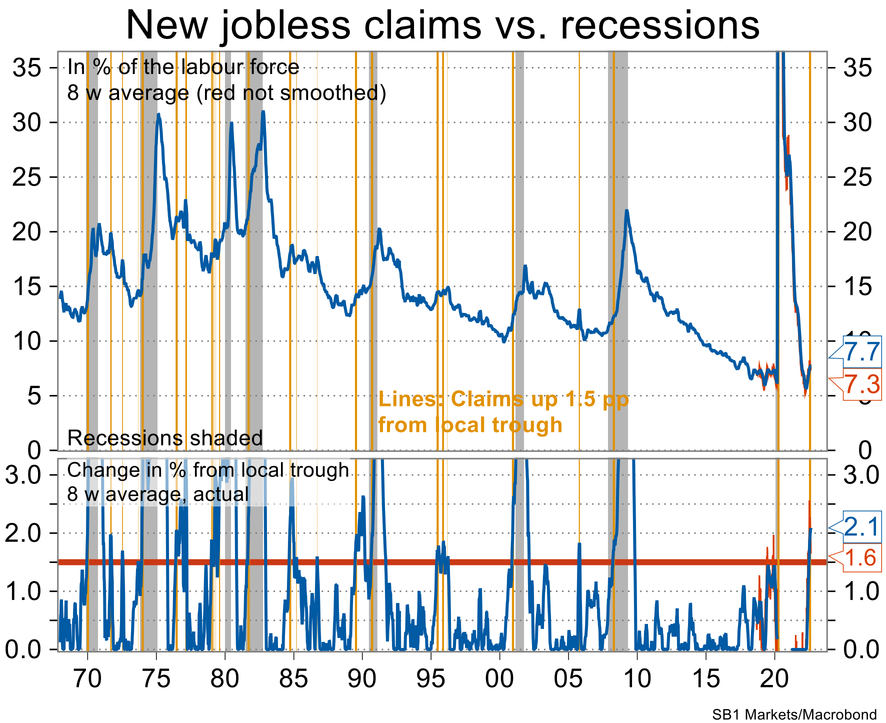


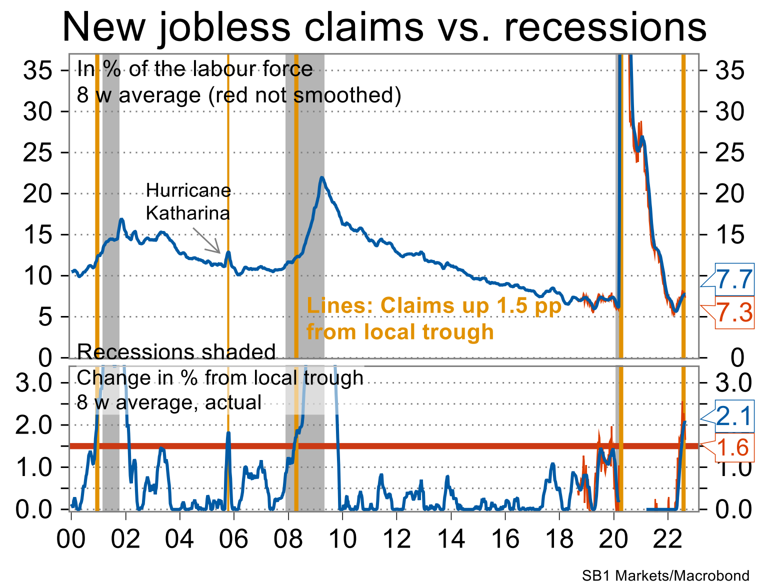


- **New jobless claims** fell by 5’ in week 34 to 232’ (from a 6’ downward revised level the prev. week!). New claims have fallen by 20’ from 4 weeks ago!
- **Continuing claims** rose by 26’– but remain at a very low level

A warning line was drawn, but claims have come down again recently

Jobs are plentiful; the labour market is extremely tight – but data still give a recession warning

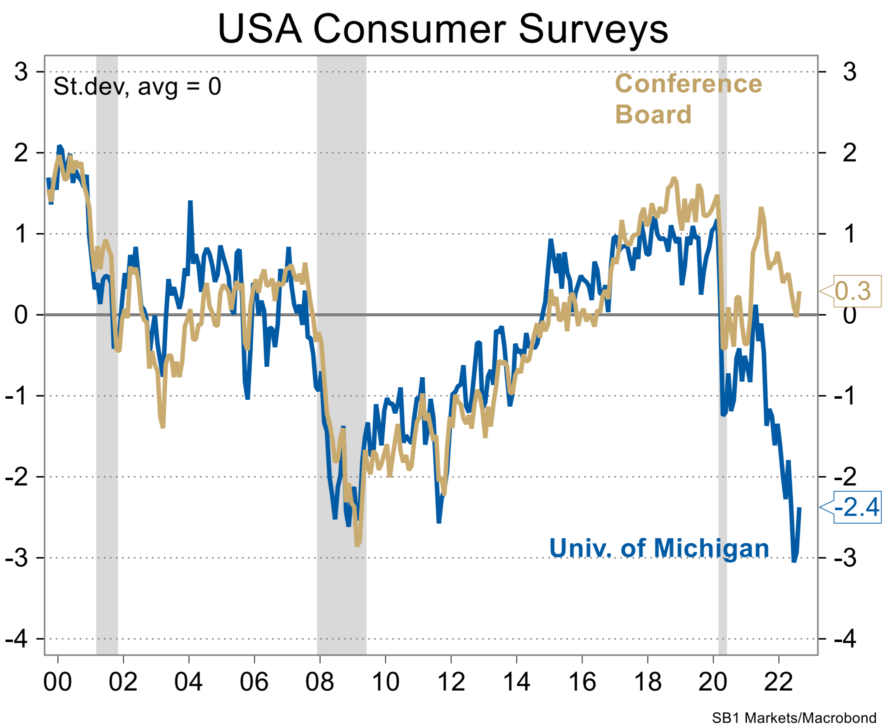




- The yellow lines: New jobless claims (8-week average) up 1.5 pp vs. the labour force
- Now, the 8-week average is down 0.1 pp to 2.1 pp – which is well above the threshold value
- Our recession signal model based on new jobless claims has <u>sent several false signals (false positives)</u>, and even 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 – <u>and the cycle is now weakening</u> (Lifting the threshold to say 2% would strengthen the signal/noise ratio substantially. We may be there pretty soon)

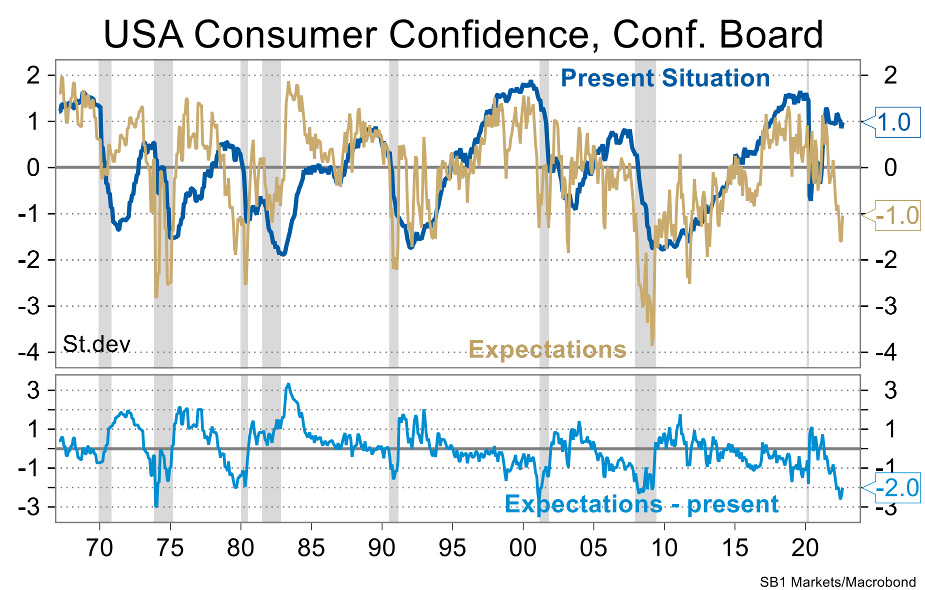
Consumer confidence improved in August, according to the Conference Board

However, expectations have collapsed, normally a warning sign



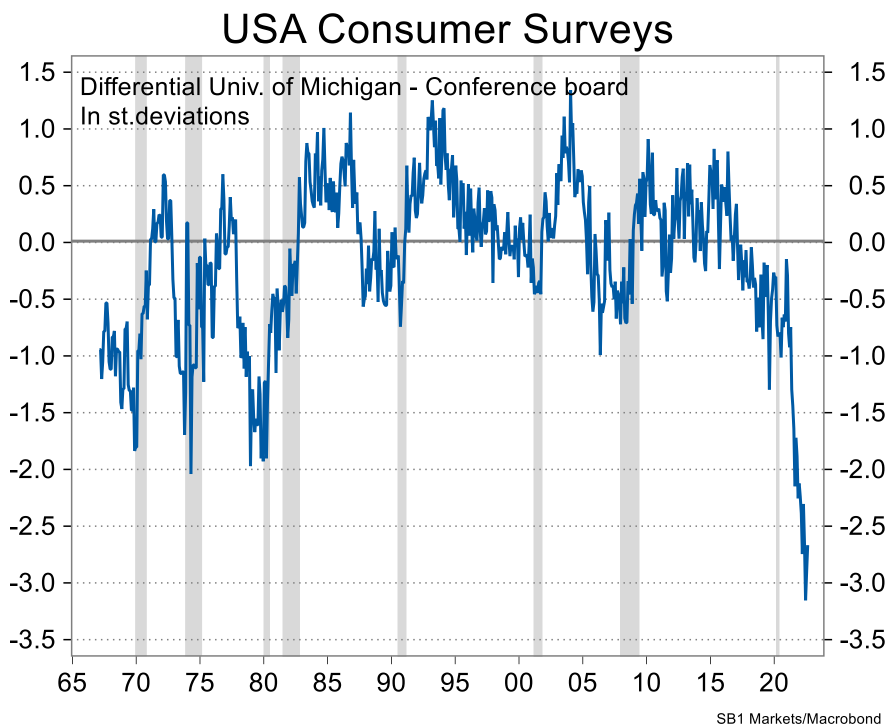
- **The other consumer** surveys we follow are on another planet (even if sentiment was up in all surveys in Jul/Aug) and University of Michigan's sentiment being the weakest at -2.4 st.dev below avg., and June/July/Aug is at the lowest level ever, with data from 1953
  - » Two other confidence surveys, from IBD/TPP and Univ. Florida are not much better than the UM survey – and Conf. Board's survey is an outlier

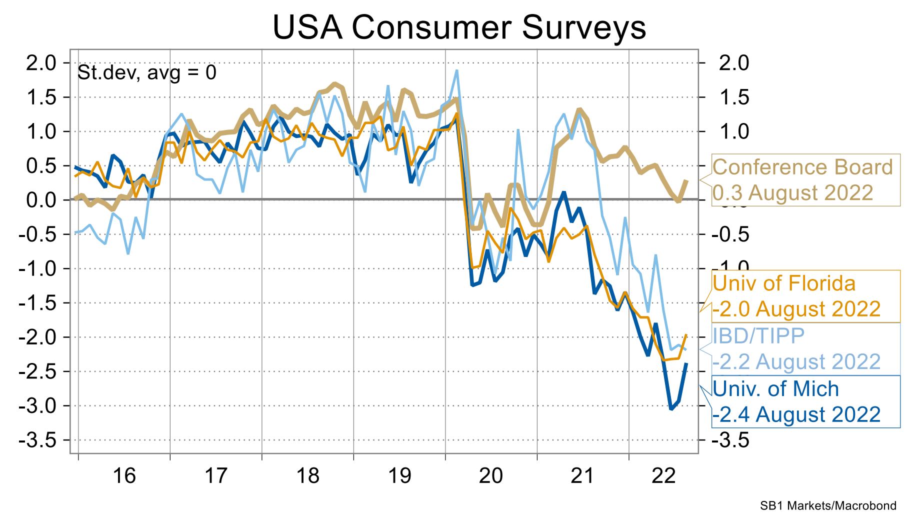
- **The main index** rose to 103.2 in Aug, up from 95.3 in July, expected up to 97.9. Households assessment of the future expectations rose the most
  - » The increase in the main index equalled 0.3 st.dev, up from an average level
  - » **Expectations** are weak, 1 st.dev below average, which is normally seen in recessions (but not only)
  - » **The difference** between households assessment of the present situation is at -2. The gap is always the largest just before or when a recession hit, check the chart below



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

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

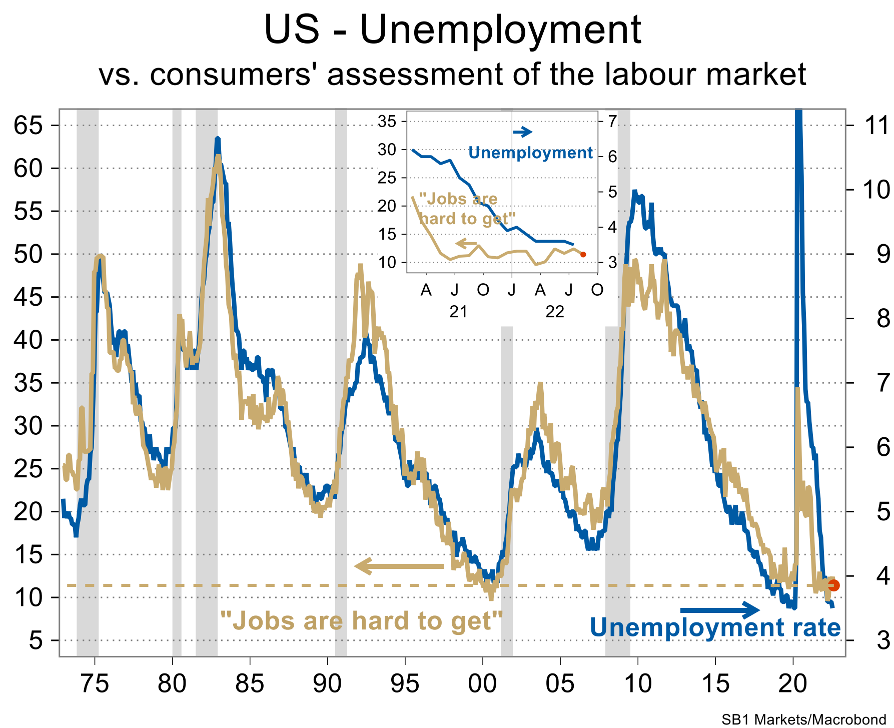


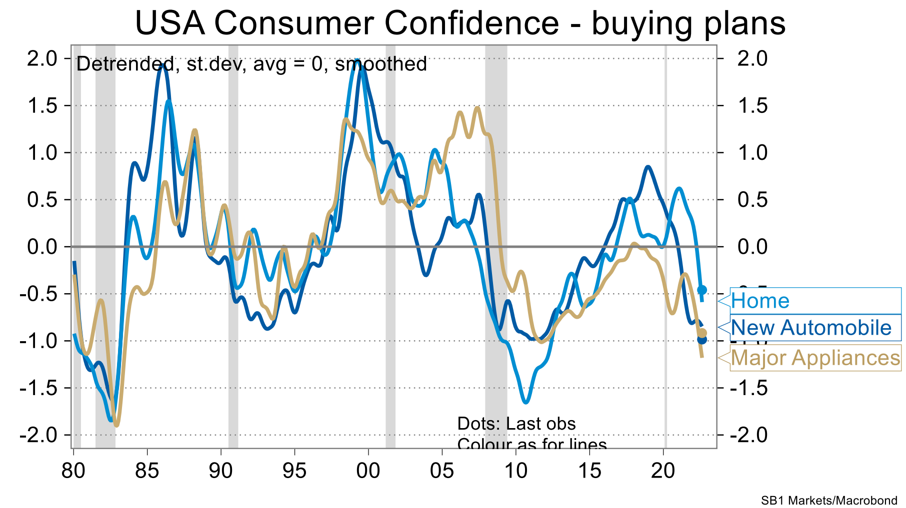


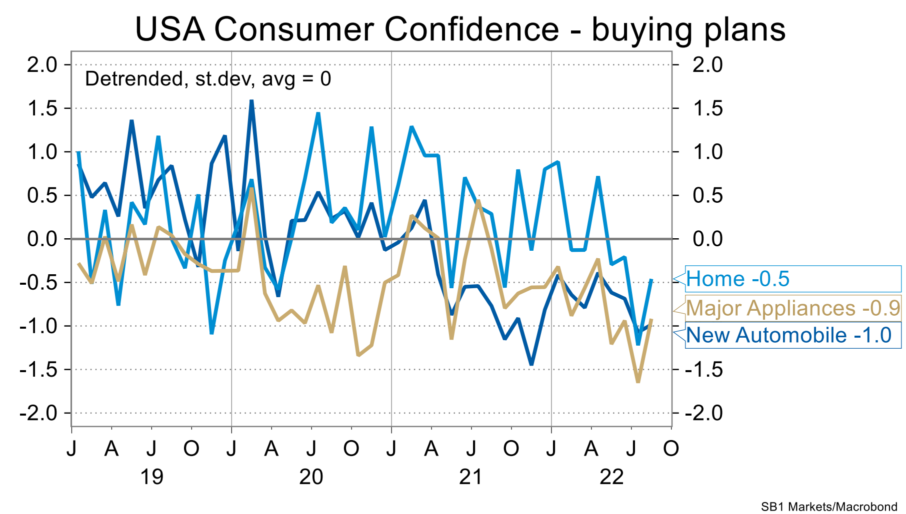
- High inflation is normally not welcomed, but we have not been able to explain the drop in UM sentiment by the traditional factors (including also inflation expectations, growth, unemployment, mortgage rates etc.).
- Simply, we do not have good explanations! Actual behavior – so far – indicate that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

Buying plans back up in August, but plans are still well below average

Jobs are still very easy to get, and easier in August than in July, according to households



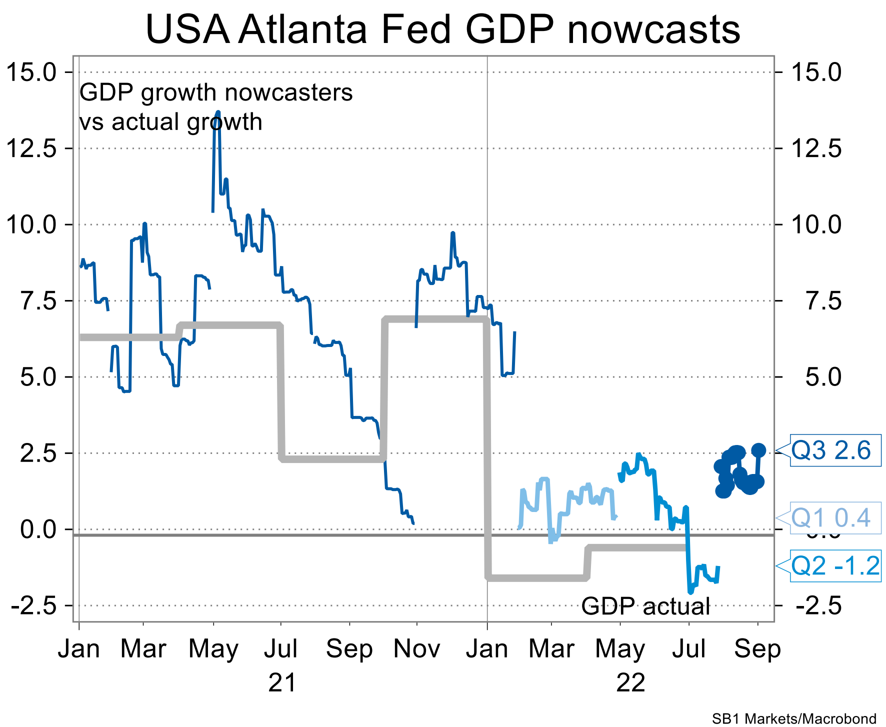


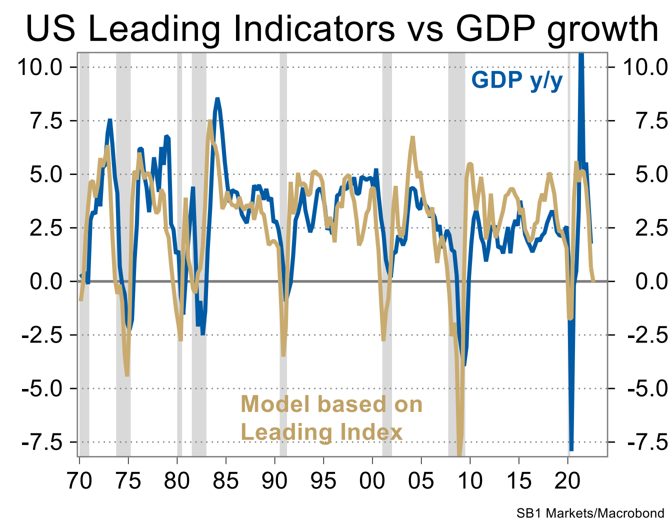


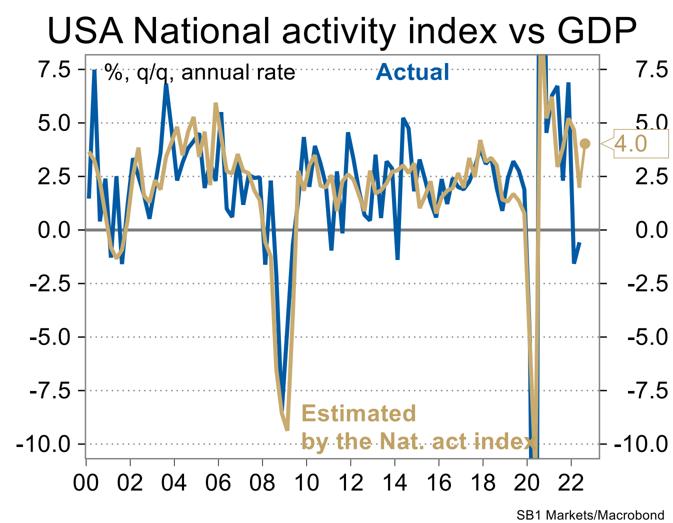
- **Household spending plans** are volatile, but the decline since the spring is significant, especially for homes and major appliances, despite the August increase

Atlanta Fed's nowcaster was right on Q2 GDP. Now it reports 2.6% growth in Q3

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



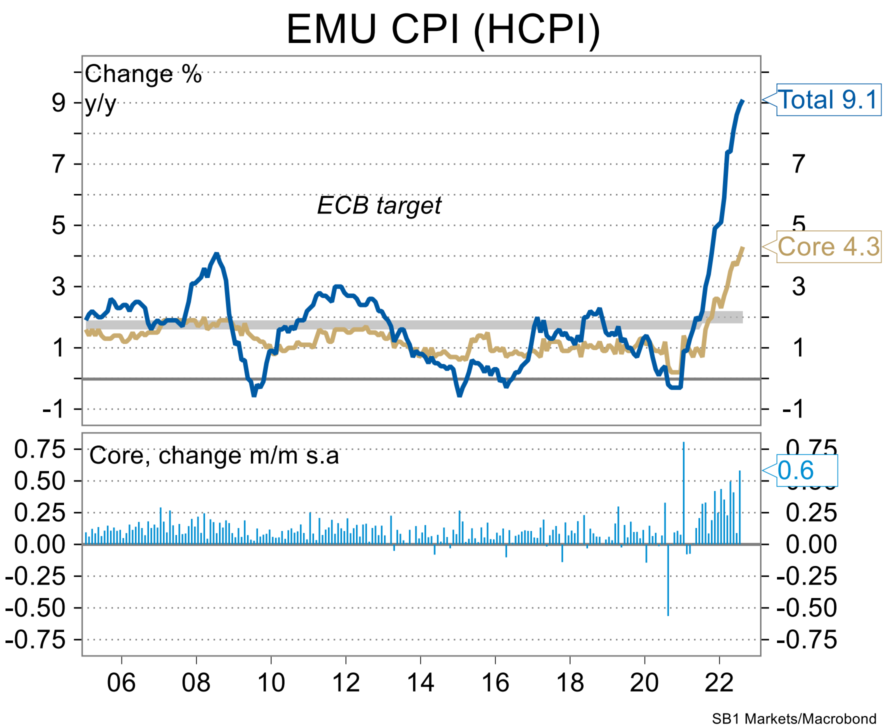


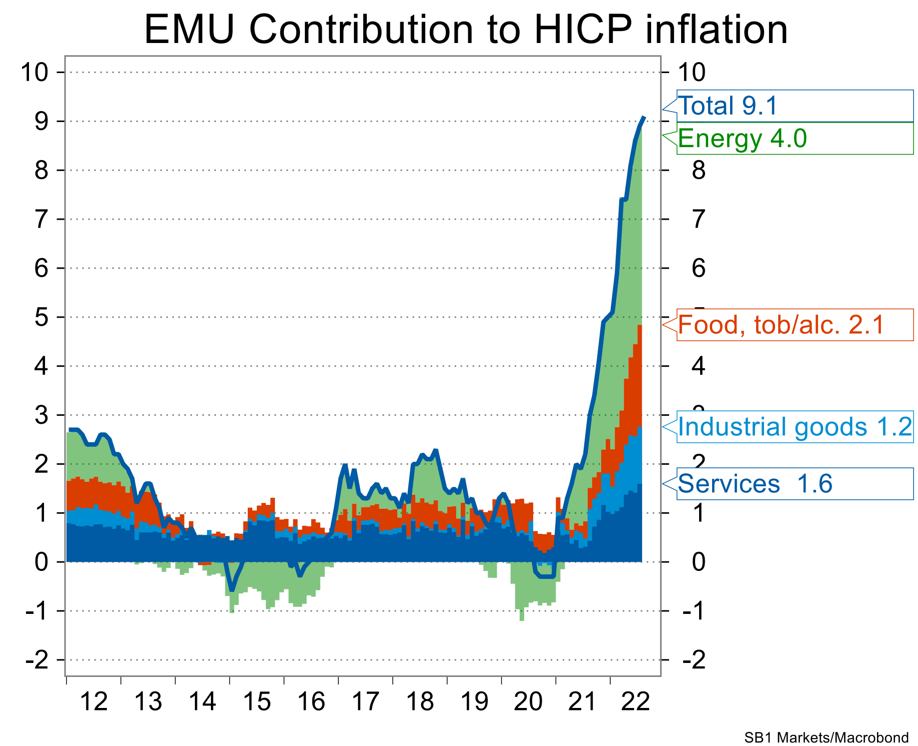


- **In Q2 GDP** fell 0.6%, revised up from -0.9%

Prices are increasing at record pace, and it is not just energy

Both headline and core inflation slightly higher than expected, again…

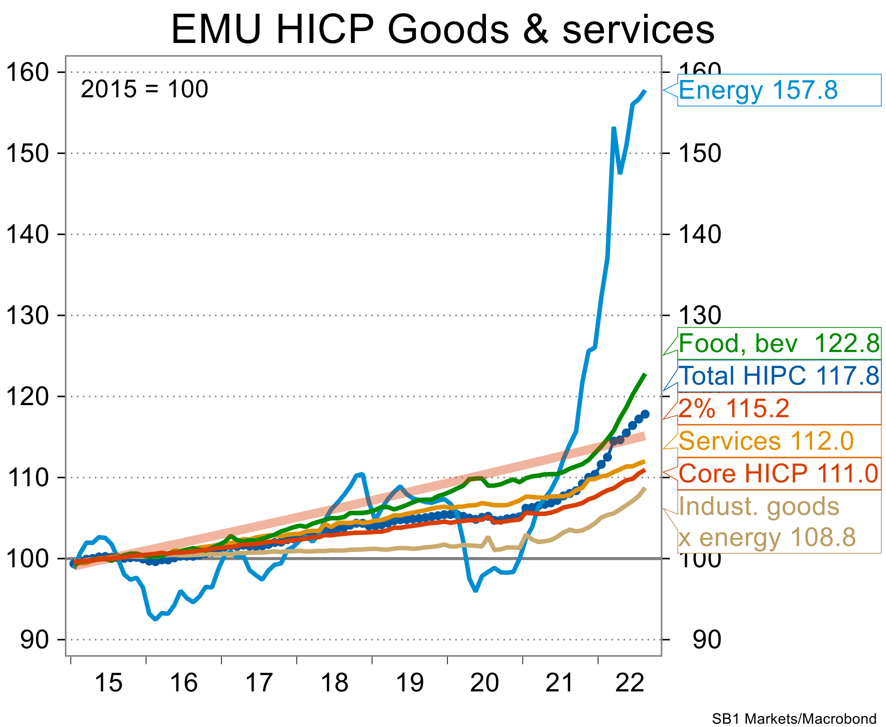


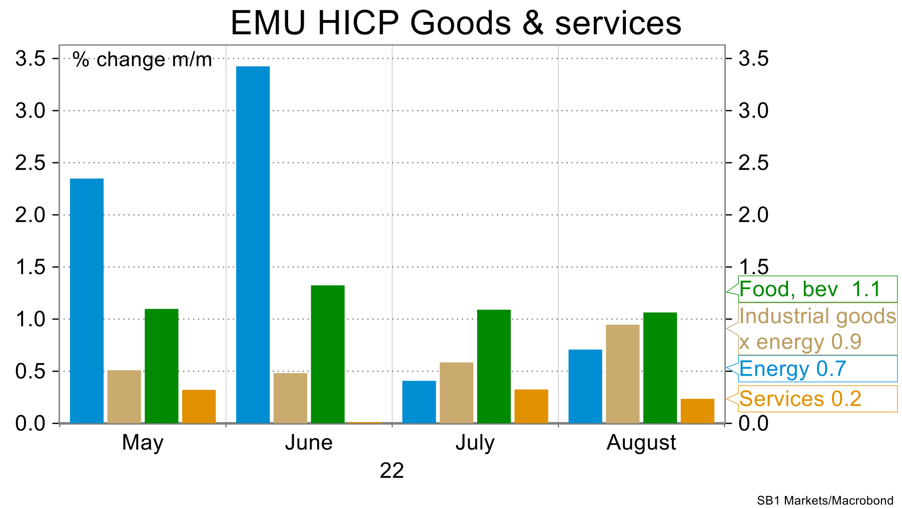


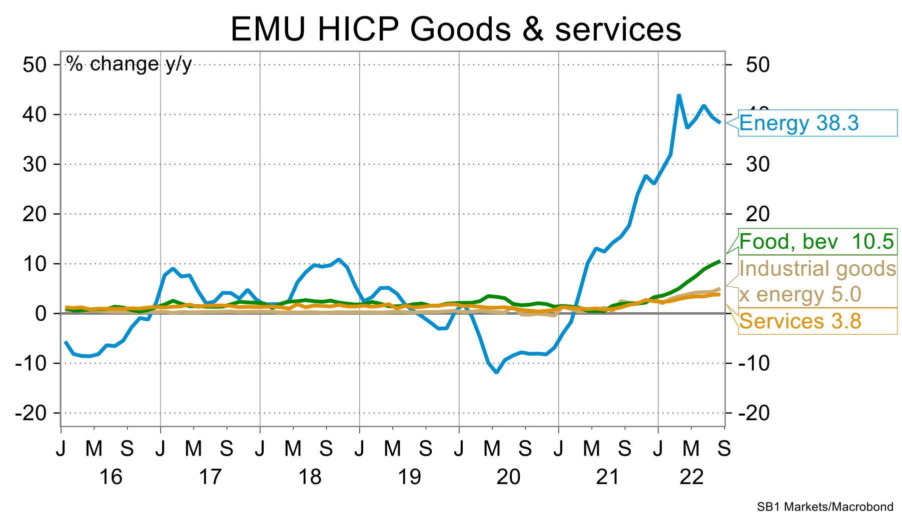
- The **total HICP** rose 0.5% m/m July, up 9.1% y/y, expected 9.0%
  - Energy prices rose 0.7% m/m, they are up 38%, and contributes with around 4 pp to the headline rate. Food prices rose 1.1% - and the latter is up 10.5% y/y, contributing more than 2 pp (contribution data on the chart to the right is only updated as per the previous month)
- **The core** rose 0.6% m/m, both goods and services contributed, an unusual high print, the 2nd highest ever!
- **The ECB** is facing tough choices: The bank clearly has to tackle inflation head on (as it is broad based), while acknowledging that the high energy prices are biting for both households and businesses. We believe that the latest inflation data and a record-tight labour market may push the bank towards a 75-bps hike on Thursday, like the market expects, up to 1.25%, still a low level! The best counter-argument is that labour cost inflation remains muted, the EMU does not have cost problem

Energy prices rose 0.7% in August, and food prices added another 1.1%!

Energy prices are up 38% y/y, food up 10.5%



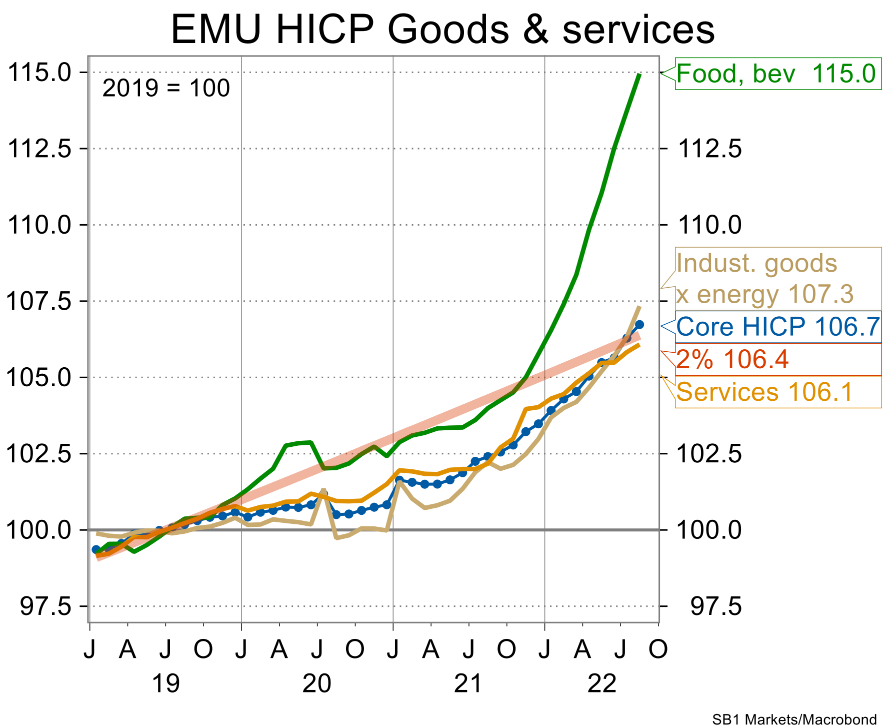


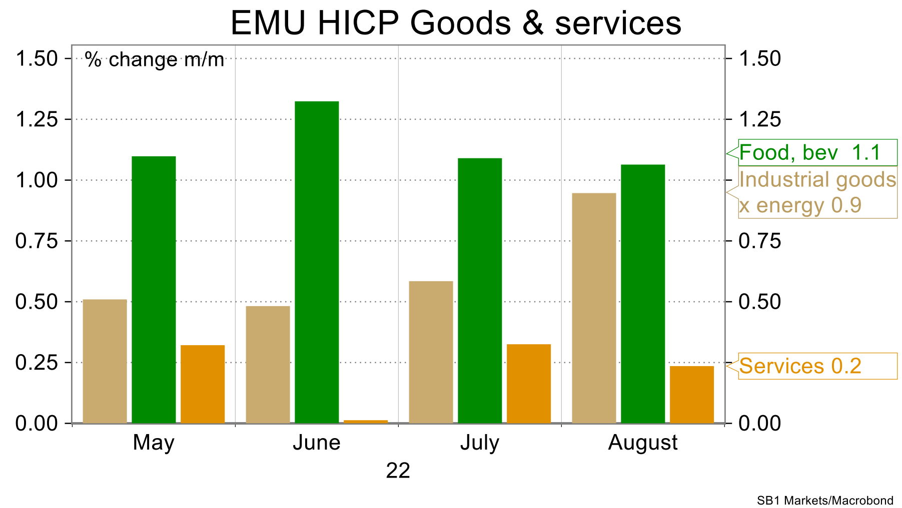


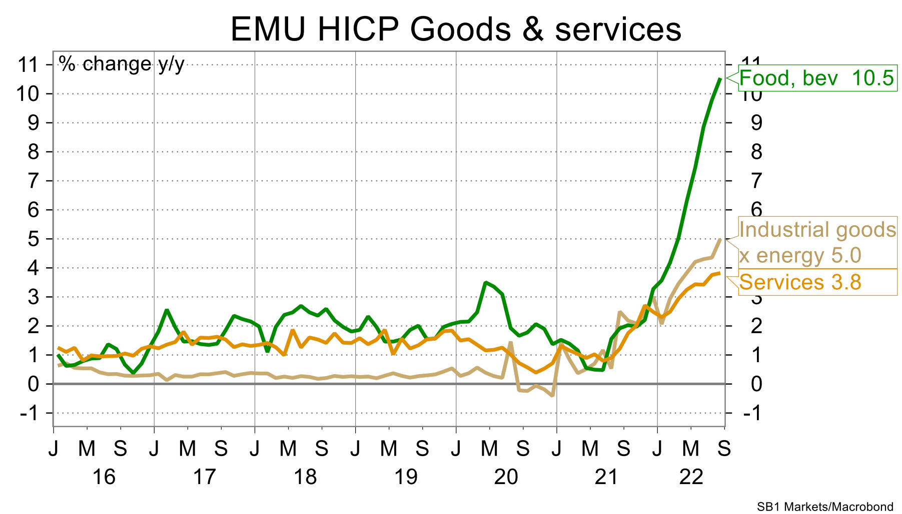
- Energy price inflation has slowed somewhat, but the recent hike in gas prices (even after the sharp decline last week) will probably lift the annual rate further the coming months

Inflation ex. energy and food is accelerating too

Food inflation at 10.5%, industrial goods x energy at 5%, and services 3.8%. The target? 2%...







- **Industrial goods** prices increased 0.9% in August, up 5% y/y. and are now above a 2% path since 2019
- **Services prices** gained 0.2% in Aug, and these prices are below a 2% path vs the 2019 level – even if they are up 3.8% y/y. Transport and hotels/restaurants have contributed on the upside last year (but no detailed data for Aug yet)
- (No further details in the preliminary HICP report)

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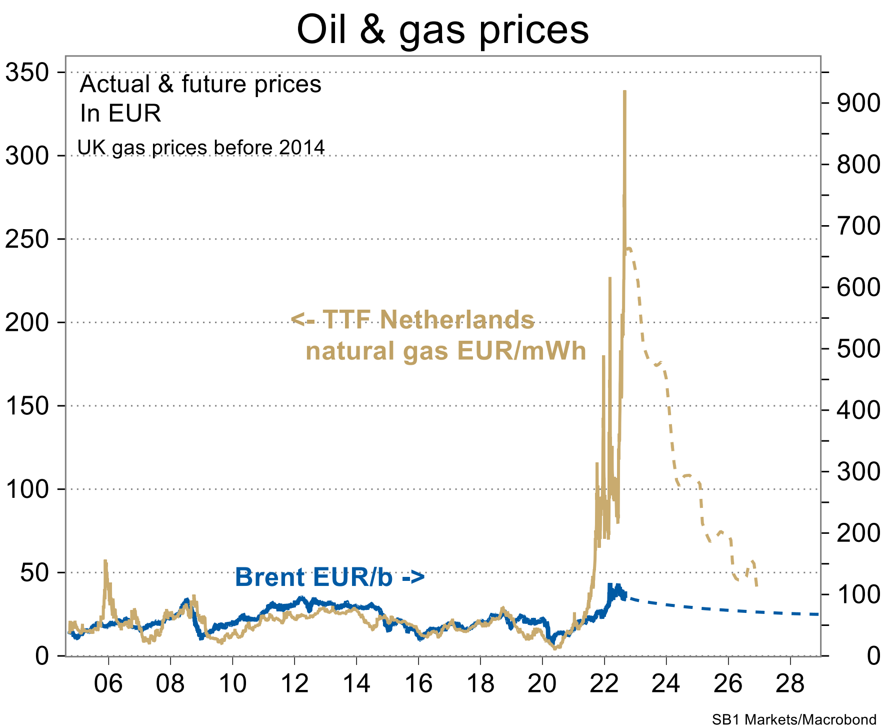
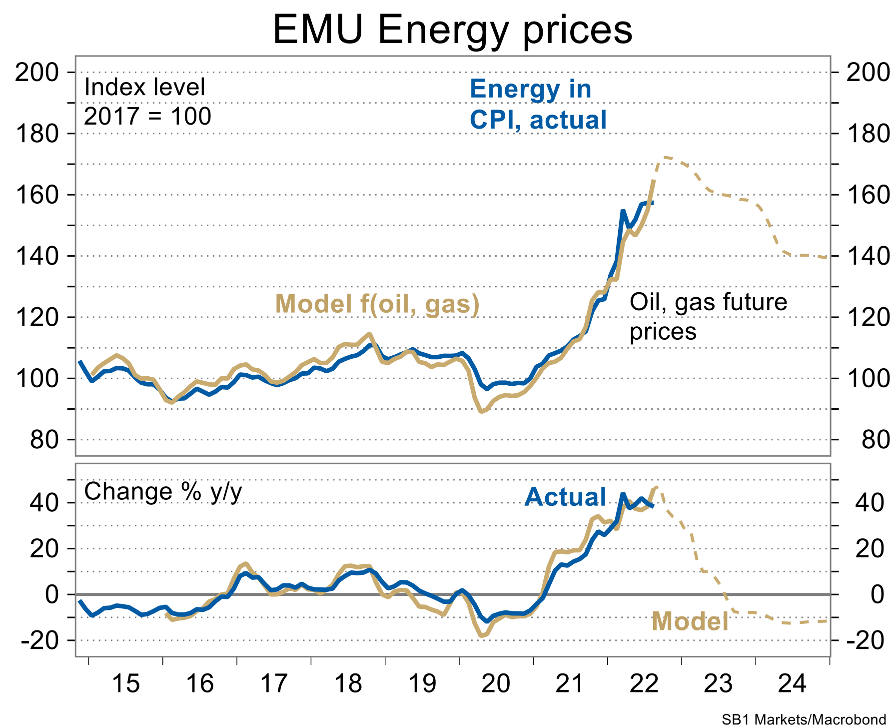
Gas, oil prices have lifted 'energy CPI inflation' up to 38% but….

…if futures markets were correct on Friday (and not the prev. Friday) energy inflation will soon peak





- The European gas market is so volatile that forecasts are rather useless (more on the gas market in the Market section)
  - However, it is not unlikely that the gas price 'bubble' will deflate even faster than the future market now assumes, even if Russian supplies are totally cut off, due to large decline in demand for electricity (where gas is the swing producer), and lower demand for gas in all other usages, even at much lower prices than today's. More LNG imports as has strengthened and will strengthened supply too
  - There is some potential/risk for political interventions too, of course. Let's hope home prices decline so rapidly, that politicians' panic will ease before bad decisions are taken

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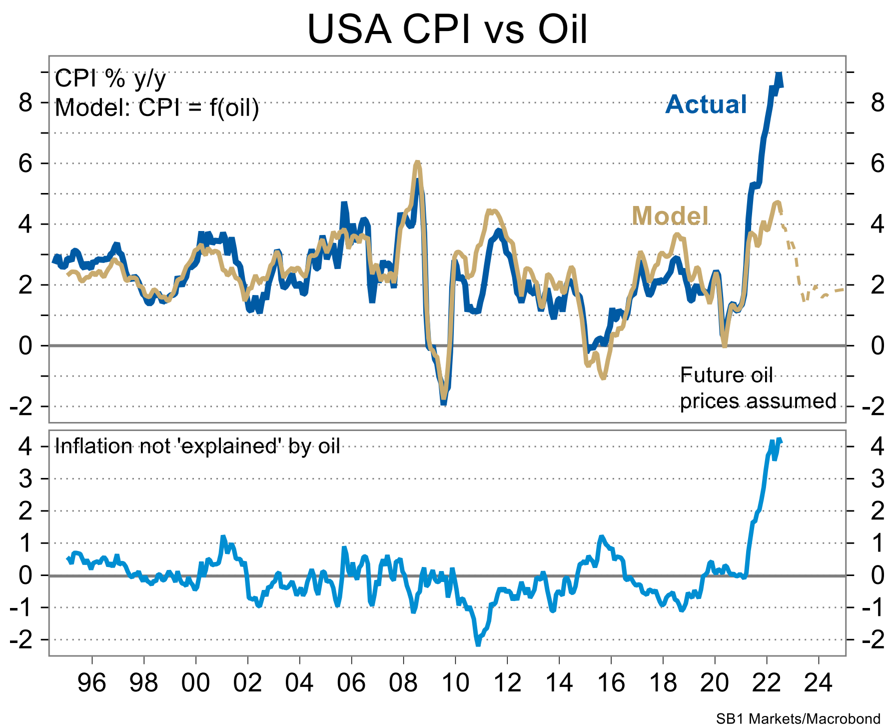
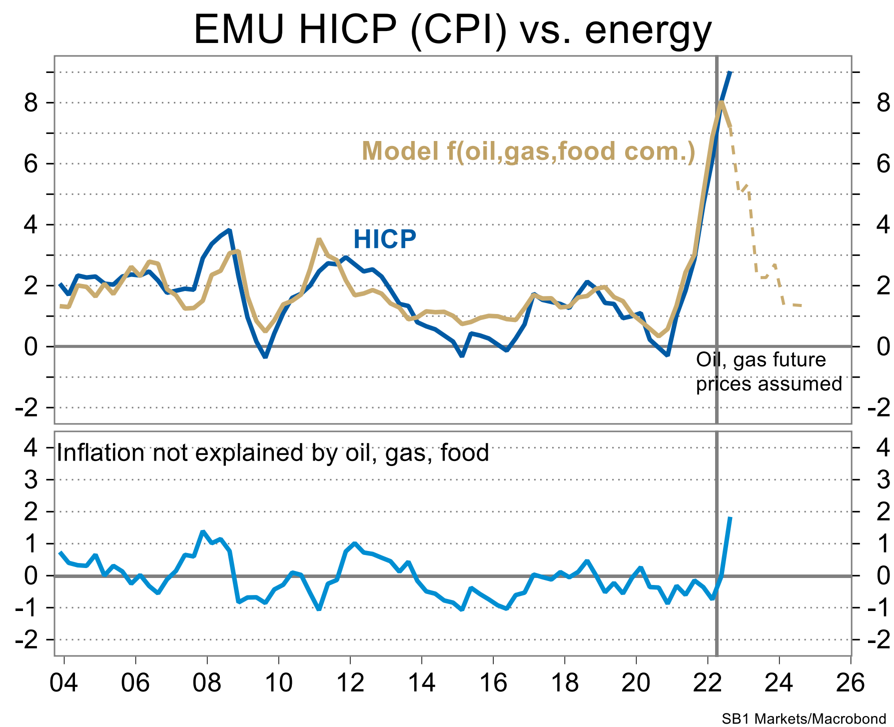
The tale of two different inflation regimes, even if they have narrowed

More of the EMU inflation is explained by other factors than energy than in the US





- **In the US, oil price cycles** have – for all practical purposes – explained all of the CPI cycles the past 30 years. Until 2021. The present 4 pp+ discrepancy is unprecedented! The current/future oil prices signal a decline in the annual CPI going forward. The trouble is the 'gap' or the 8.6% starting point
- **In EMU**, the CPI acceleration until late last year could be fully explained by the increase in energy prices (with a small contribution also from food commodity prices). Now, other goods and services are also contributing, but still far less than in the US
- If **oil/natural gas** prices follow the futures prices from here, inflation is now close to the peak. If other components are behaved as normal, the headline annual growth rate would return to below 2% in 2023. However, other prices do not behave normally now

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

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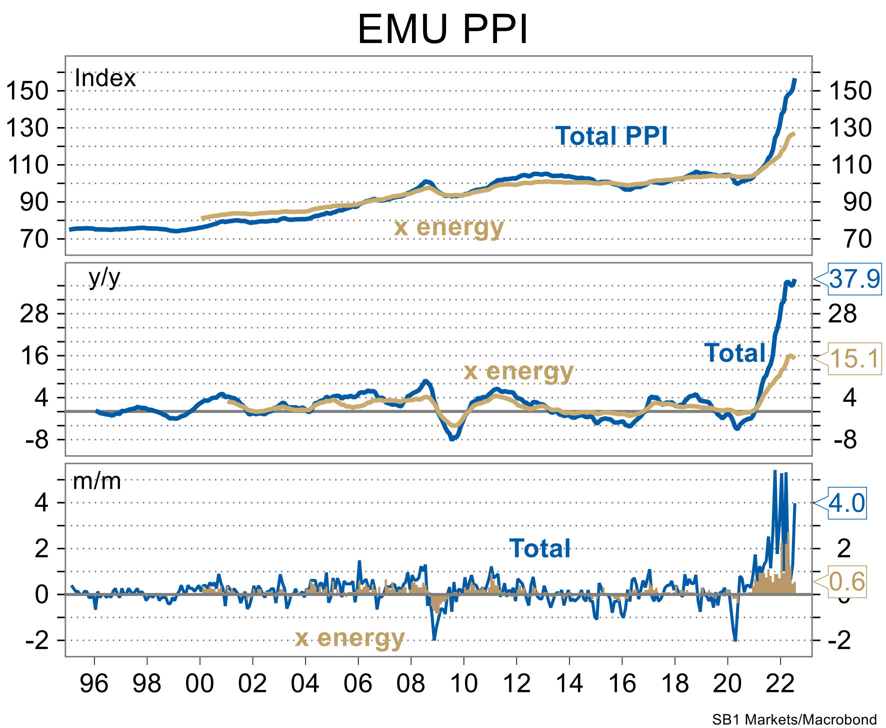
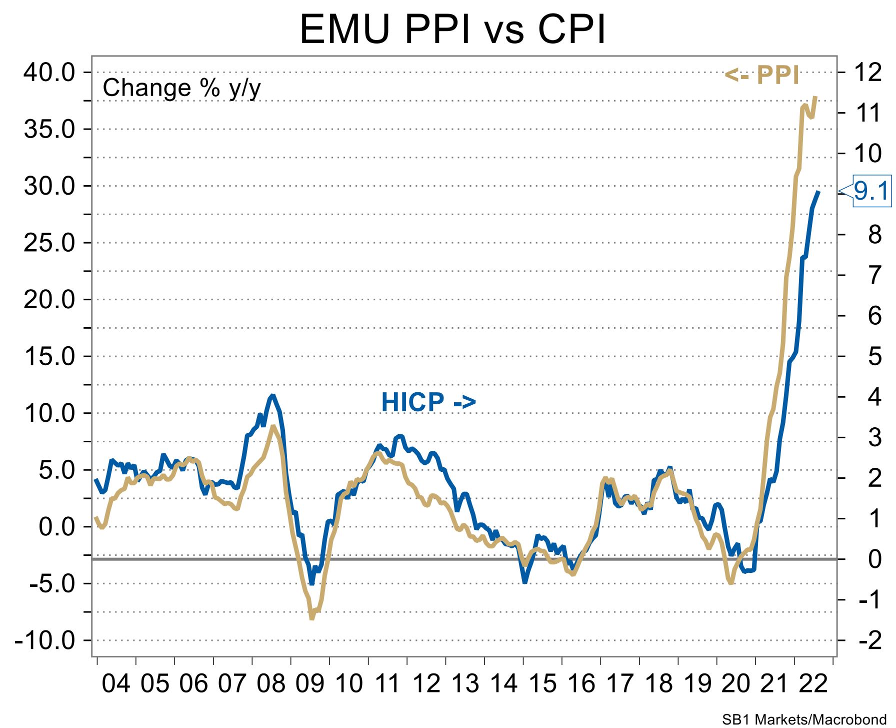
Producer prices keep rising

The total PPI rose 4% m/m in July, the core index added 0.6%

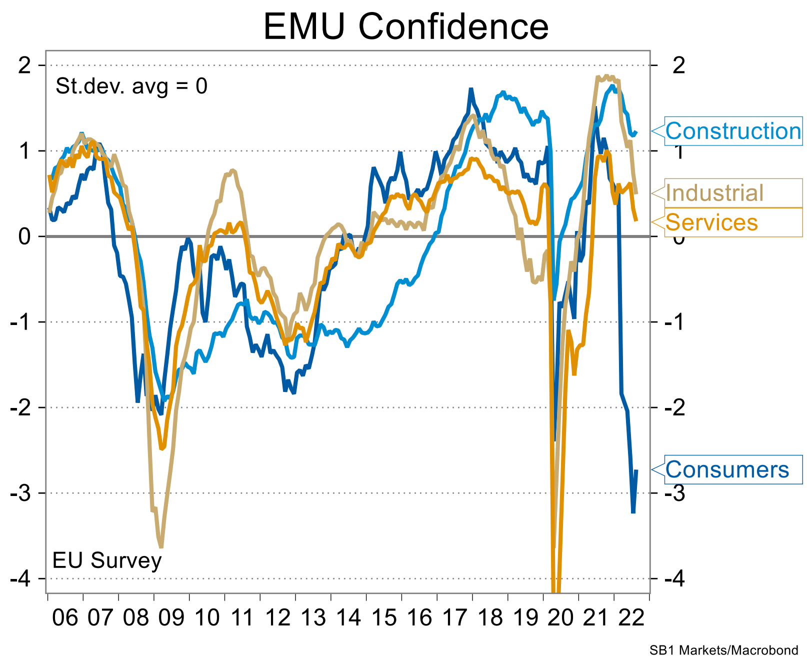


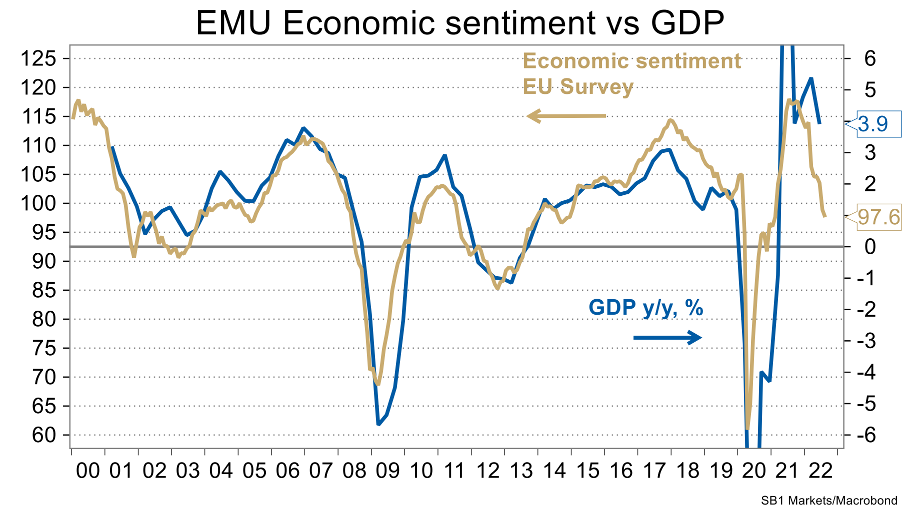


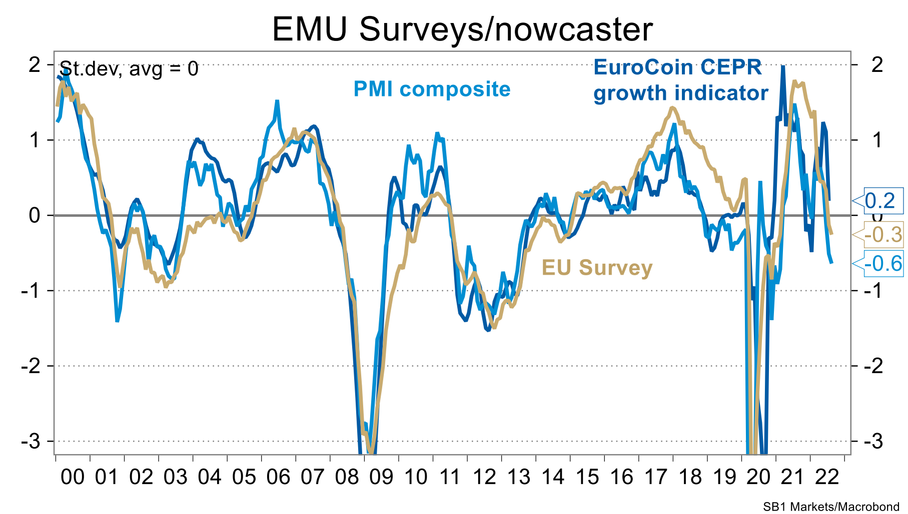
- PPI was up 38% y/y, all included, and 15% x energy
- No signs of lower inflation pressures here

Economic sentiment further down in August but businesses are still above par!

The overall index fell 2.3 p to 97.6 expected 98. Business sentiment down, still above average







- **EU's consumer confidence survey for the Euro area** rose 2.8 p in August. The index is still 2.7 st.dev below par. The total index is 0.3 st.dev below average, with a large contribution from households, businesses are above (but rapidly on the way down)
- **Both services and industry** report a slowdown, levels are still above average, signalling growth above trend. **Construction** reported a marginal increase and the index is strong
  - » Thus, war, energy angst or high inflation have not yet scared businesses that much. However, the total sentiment index now signals GDP growth at a mere 1%
- **The EuroCOIN GDP nowcaster** signals growth above trend, but the EMU PMIs as well as some national surveys signal growth below trend or and outright recession (like the German Ifo survey)

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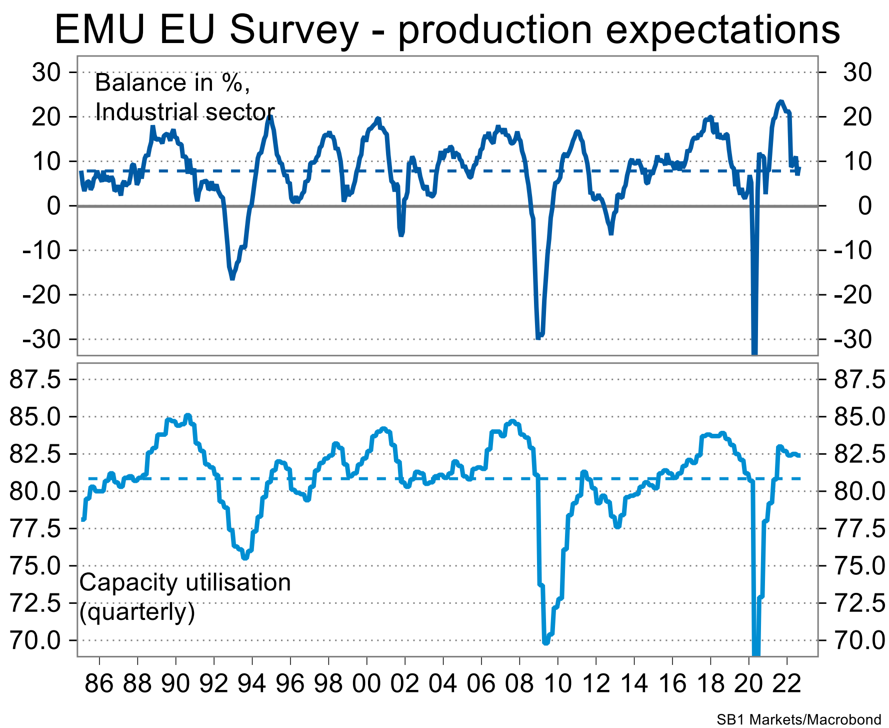
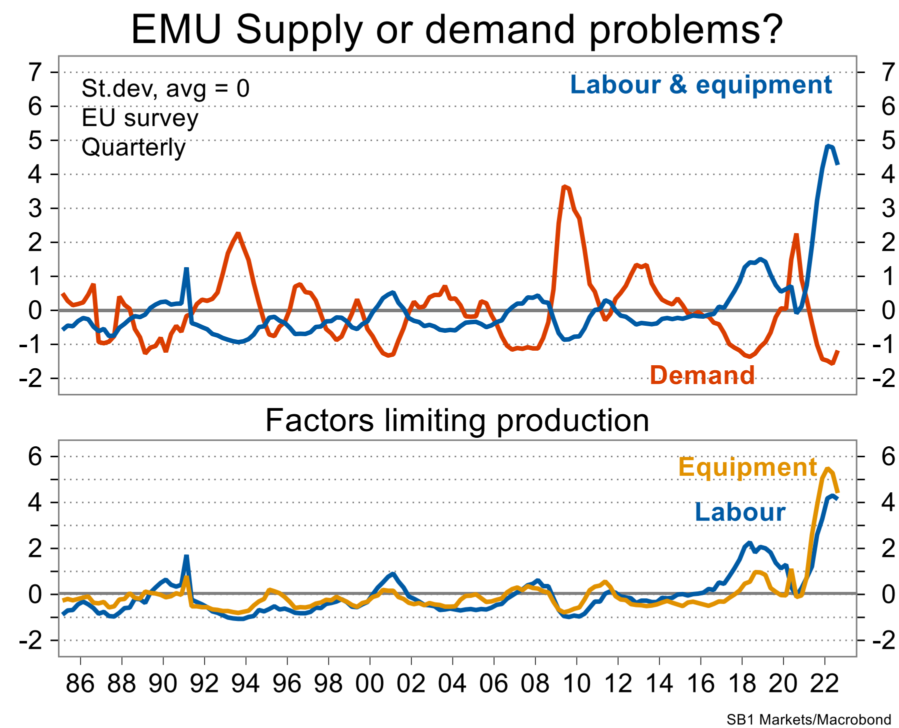
Production expectations down to just below average

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

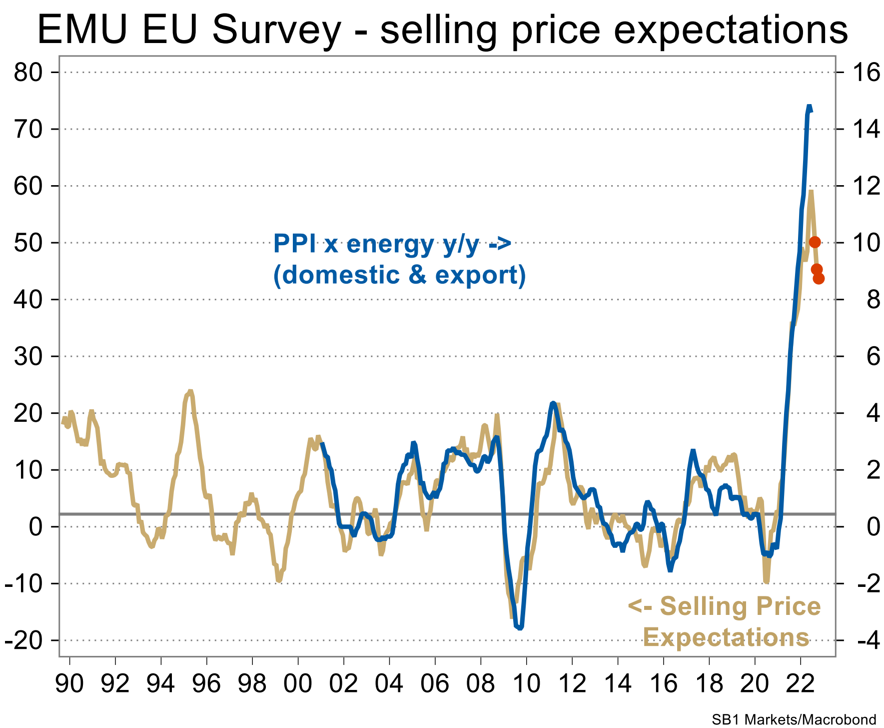




- But there are still many more complaining about supply shortages, primarily labour and equipment than normal and far fewer than normal about demand (although demand problems ticked up in the Aug survey)
- If we take the business part of this survey at face value, a good argument for a substantial monetary policy move this week

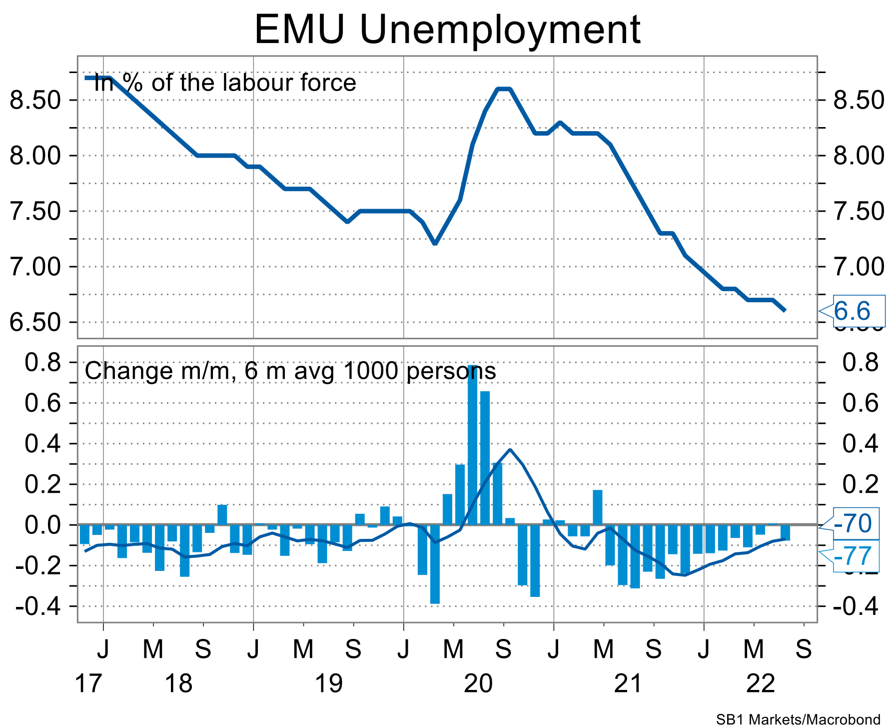
Companies report slightly lower selling price increases

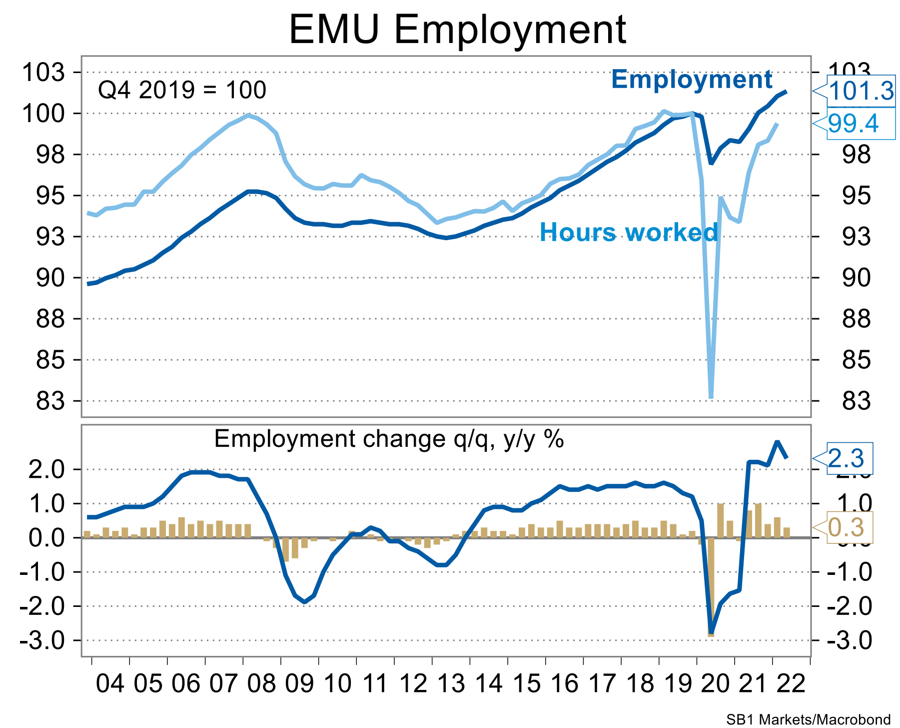
... But still very rapid increases



Unemployment down to 0.1 pp to 6.6% in July

June revised 0.1 pp up though, and the level was as expected – at the lowest level since early 80s

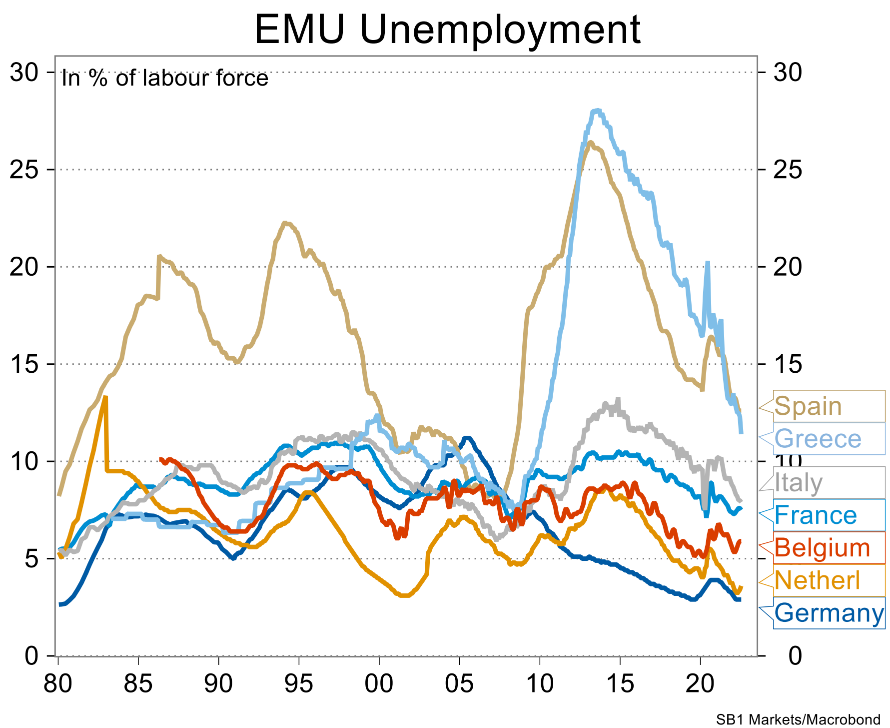


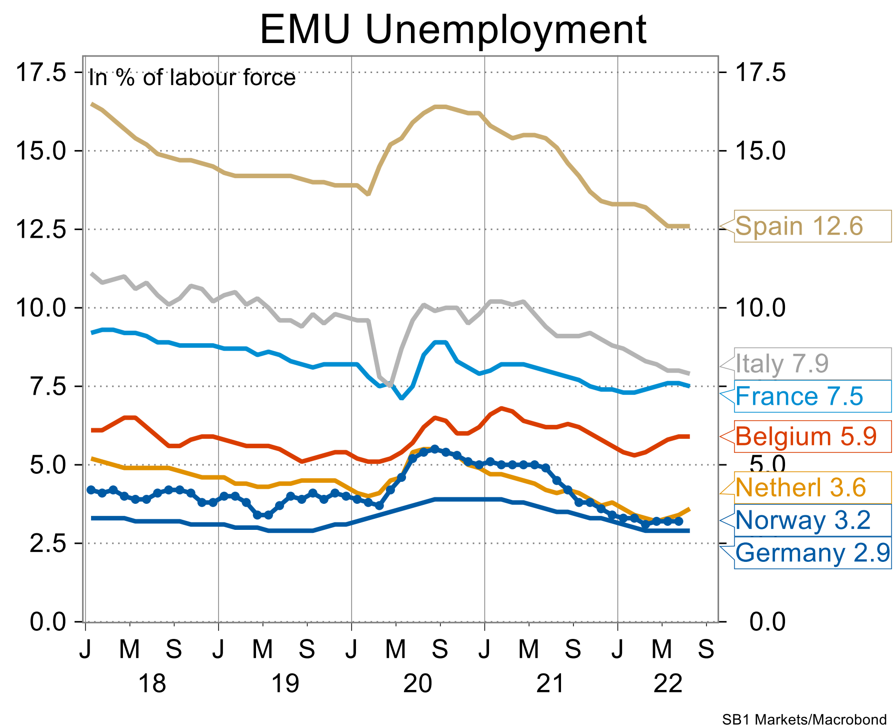


- **The number or unemployed declined in July**
- **Employment** grew by 0.3% in Q2 (not annualised), and hours worked very likely gained too
  - » The employment level & the employment rate is higher than before the pandemic
- The number of **unfilled vacancies** soared to the highest level ever in Q2, by far
- The labour market is no doubt tight
- **Wage inflation** may have accelerated somewhat but remains moderate, way below US wage inflation, and lower than in UK. No cost explosion to be seen

Unemployment is lower than average everywhere

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

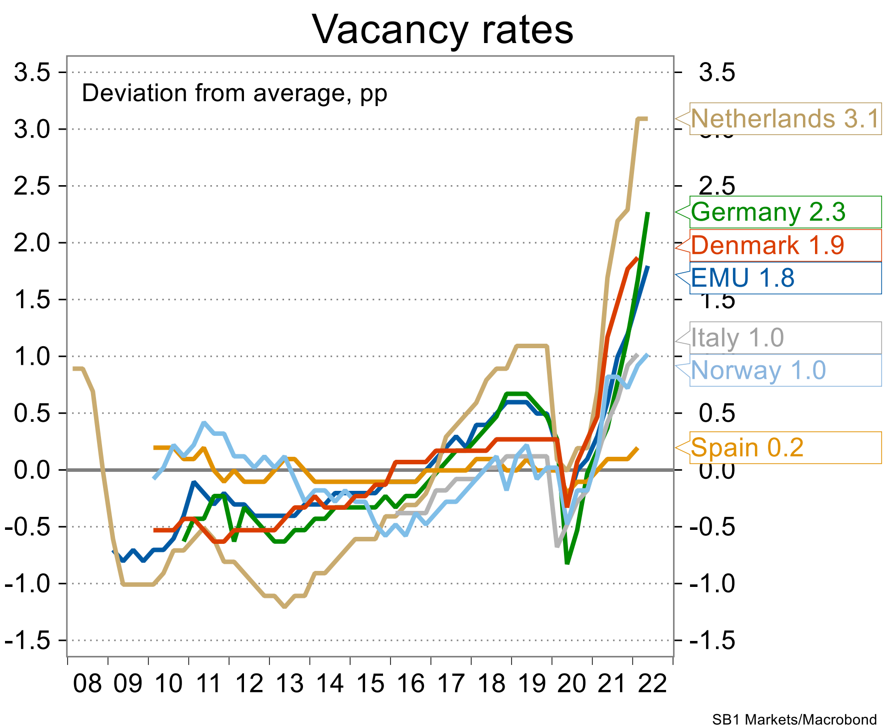


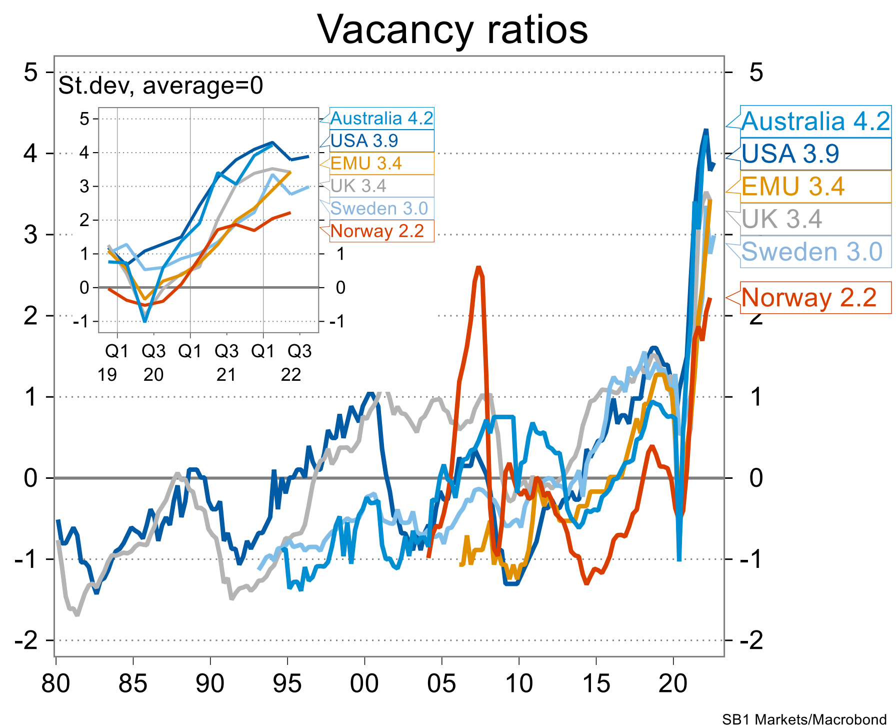


- In Germany, unemployment is still on the way down, even if the economy stagnated in Q2 (GDP up 0.4% q/q)

Vacancies have been surging almost everywhere

Within the union. And outside. Now we are probably close to the peak, 'globally'





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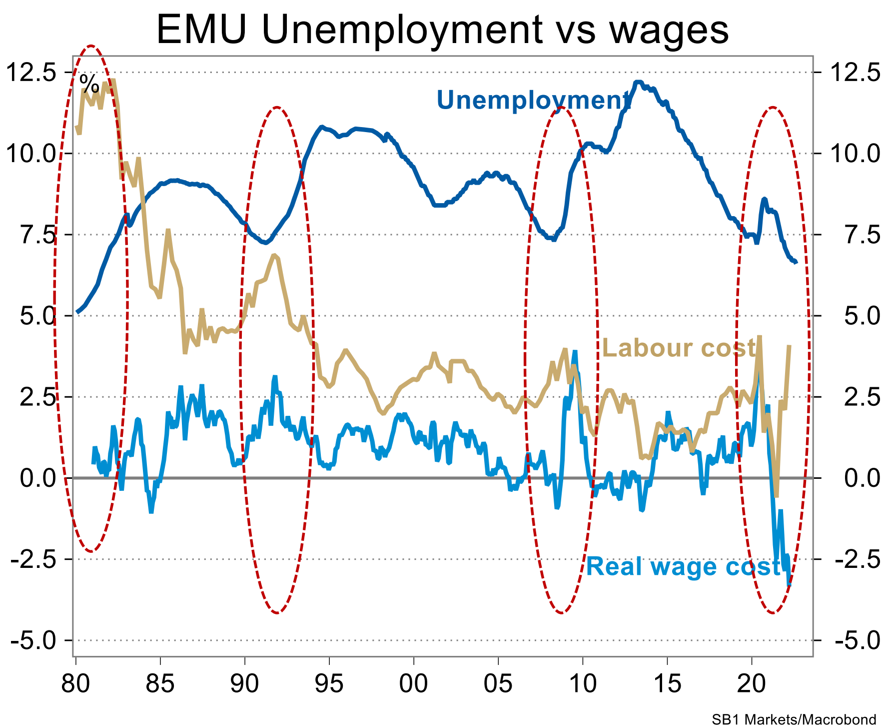
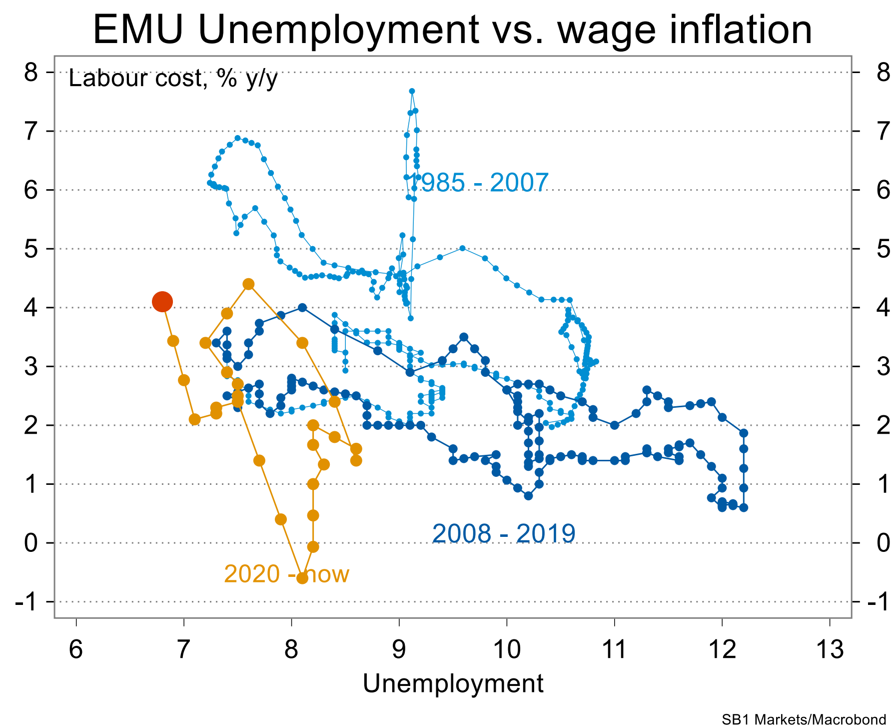
Unemployment is the lowest since 1981, vacancies are at ATH

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

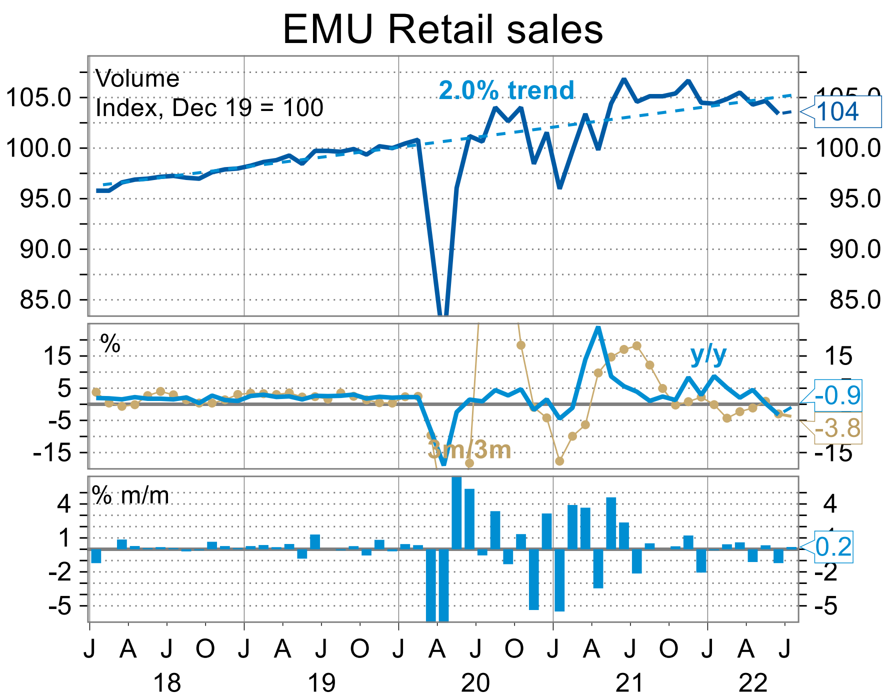


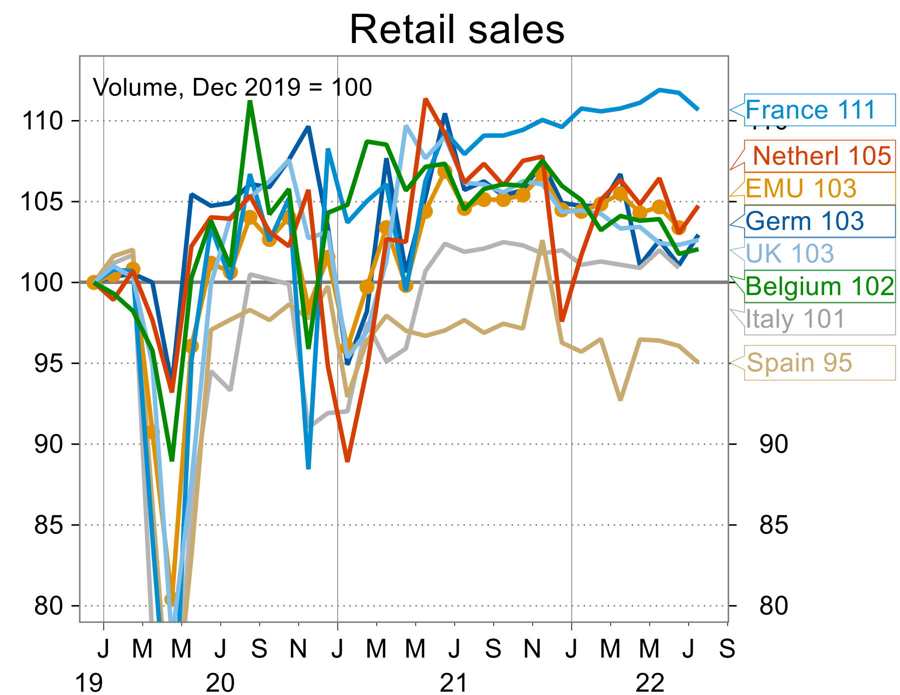


- Labour cost inflation has been revised up. The annual growth rate in Q1 at 4.1 is well above the normal labour cost inflation in the EMU but recent wage indicators suggest this print was too high – underlying wage growth is slower
- Even sio, the Phillips curve does not seem to be completely dead

Retail sales mixed in July; Spain and France down, Germany up. The total unch.?

Sales in Germany rose 1.9%, expected <u>down</u> 0.4%, but the trend is down, like most places

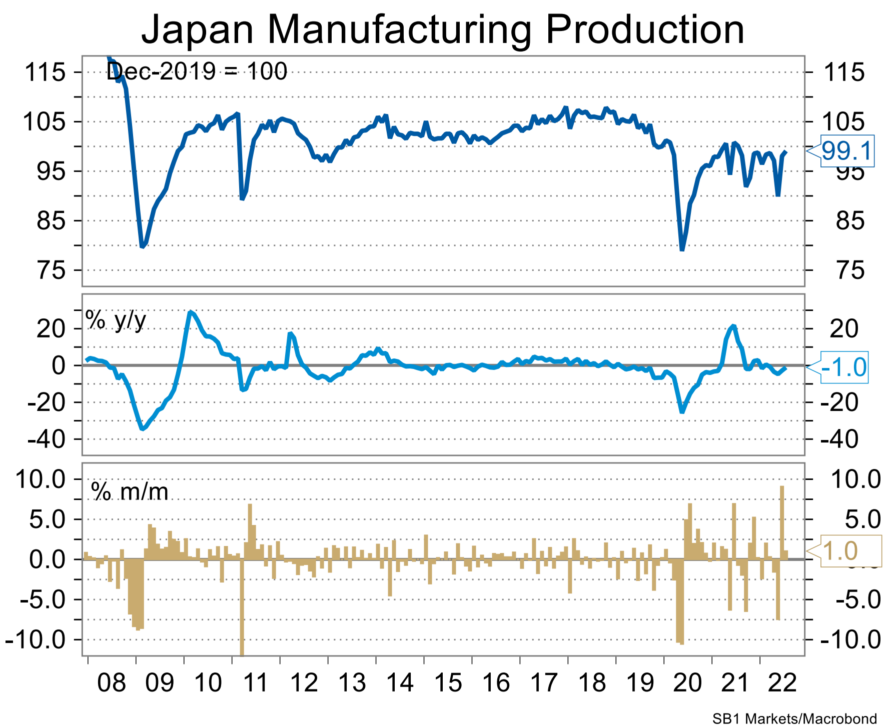


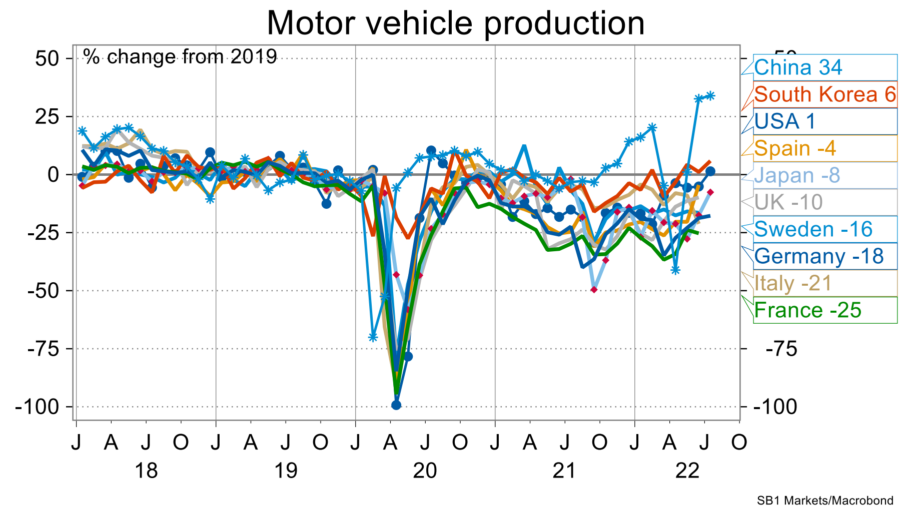


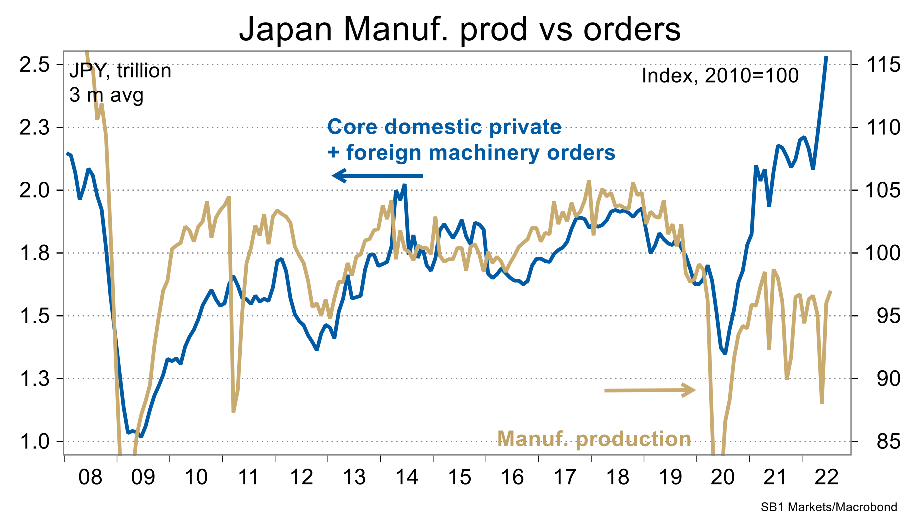
- Italy has not yet reported, and EMU report the aggregated data this week. We assume something close to unchanged. If so, the downward trend is confirmed

Manufacturing production continued to improve in July

Production rose 1.0% m/m, expected to fall by 0.5%



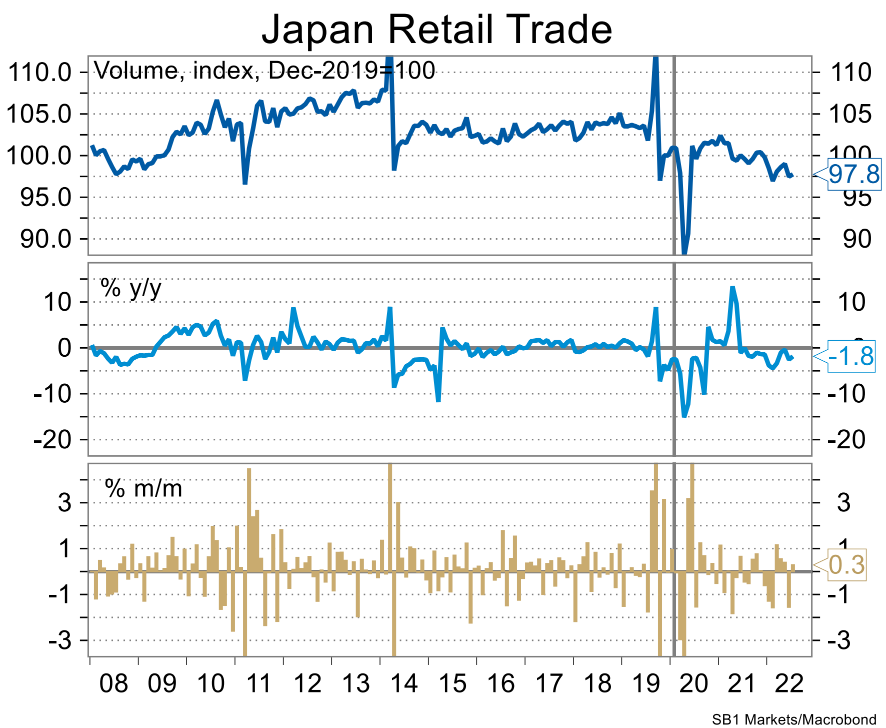


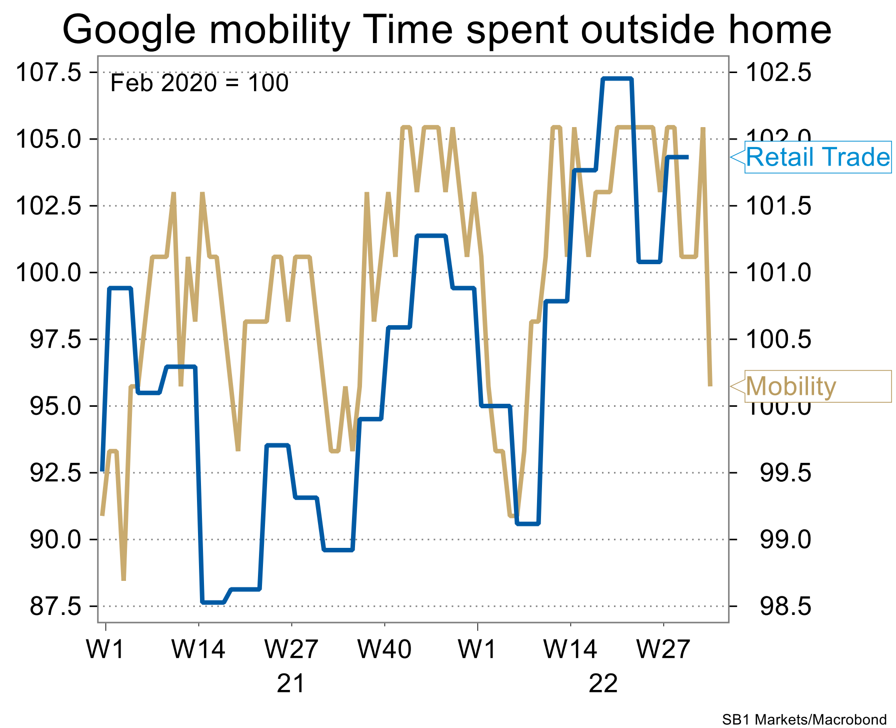


- **Production** fell more than since the first Covid wave in May but recovered in June and July. Disruptions due to lack of supplies from China is reported to have contributed to the temporary setback
- **Overall order inflow** has strengthened substantially through 2021, and into 2022 signals a much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

Retail sales up 0.3% m/m in July, in line with expectations

Sales have been trending down. Mobility fell in August, due to the holiday season? If not…

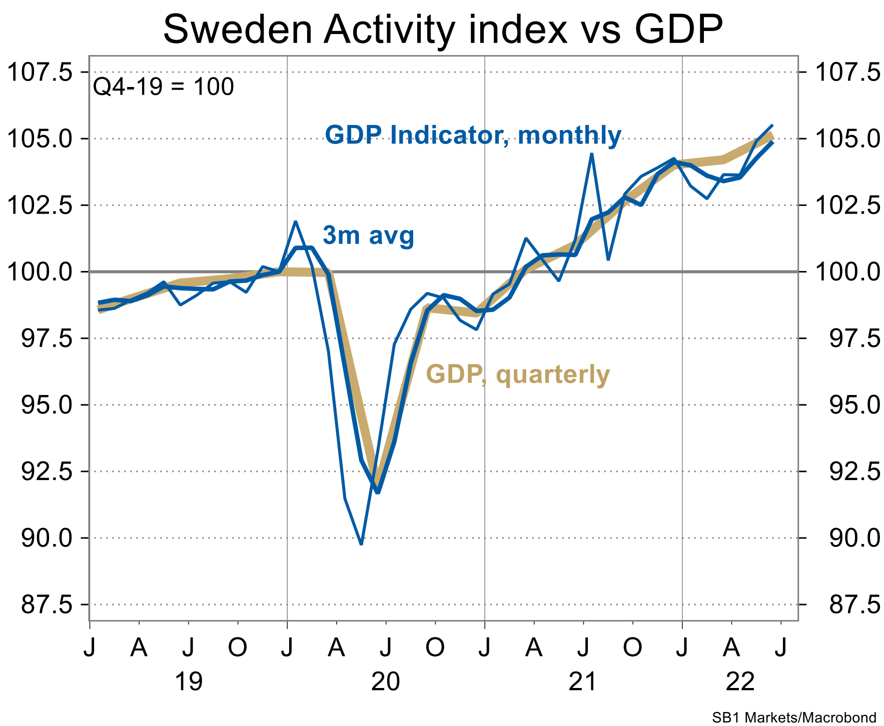


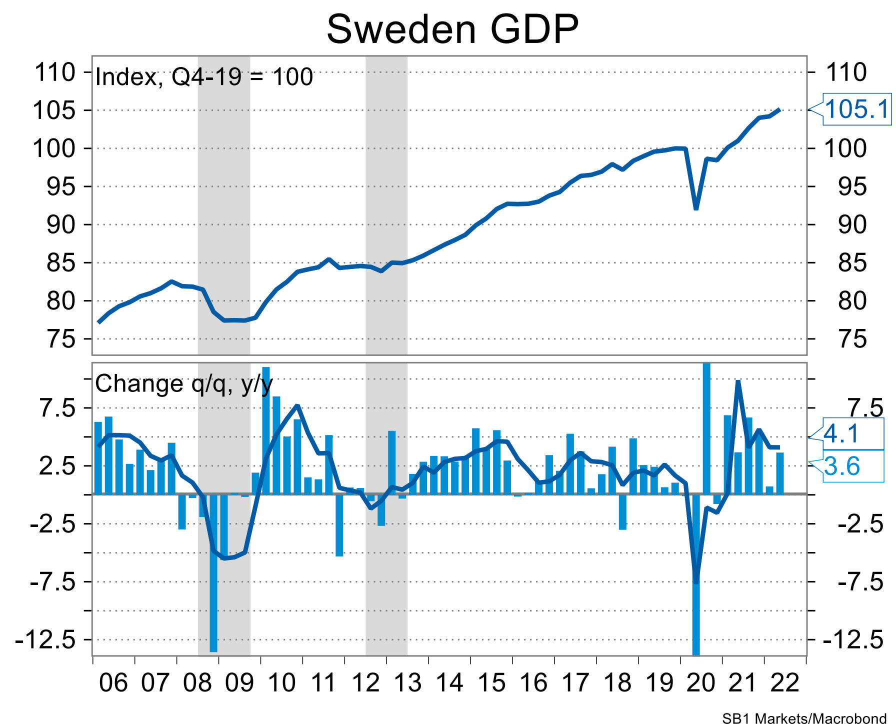


- **Retail sales** have been quite closely correlated to mobility (time spent outside home) recent months – and in August, mobility fell quite noticeably

GDP on the way up again, up 3.6% in Q2 (0.9% not annualised)

…though revised down from 5.7% initial est. An even larger revision: Q1 growth rev up +3.9 pp to 0.7%





- **GDP** grew at a 0.7% pace in Q1, revised up from -3.2% (3.9 pp revision!!) and following the 3.6% recovery in Q2, activity is back on track and the level is now above the pre-pandemic level – even if Q2 was revised down substantially. The June level is 0.5% above the Q2 average level (that is, if GDP is unch. through Q3, GDP still will grow by 0.5% in Q3 or at a 2% annualised pace from Q2)
- **The outlook** is weakening, according to Swedish companies. The KI (NIER) has fallen to below average, signalling growth below trend

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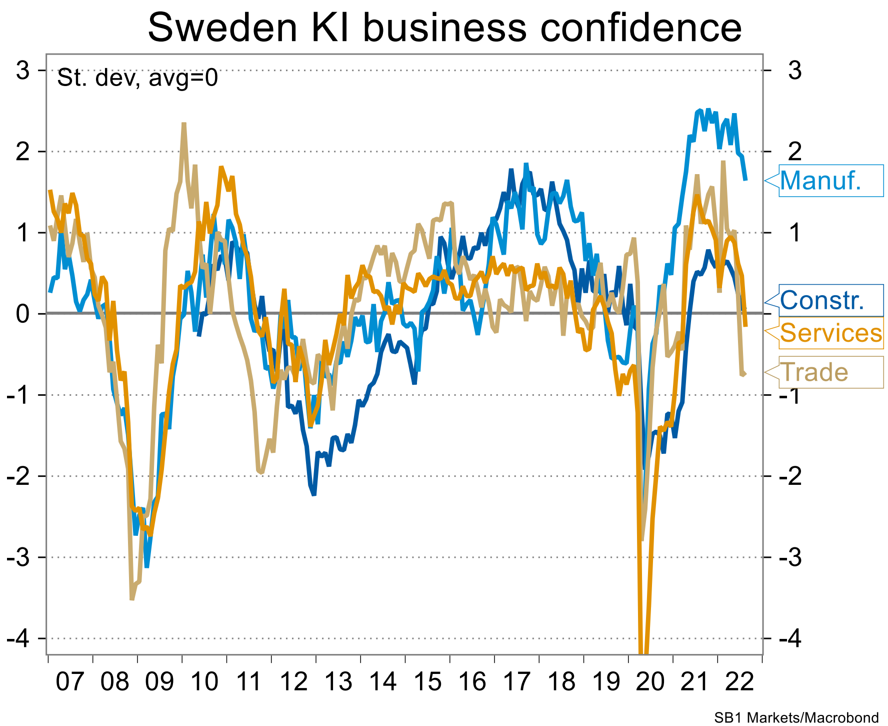
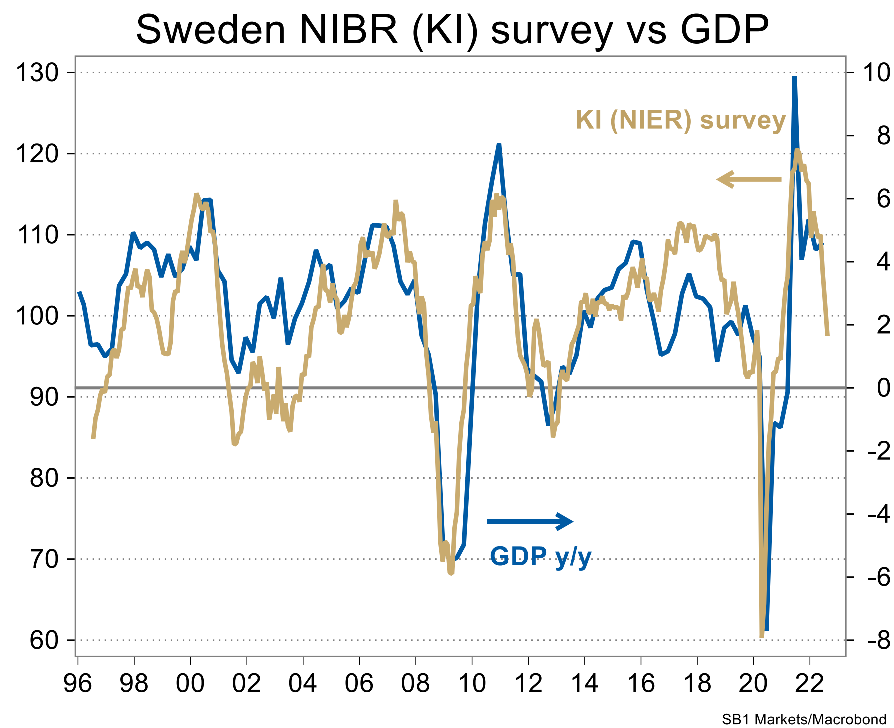
Business confidence below average for the first time since January 2021

Confidence in the manuf. sector fell, but is still strong at 1.6 st.d. above average

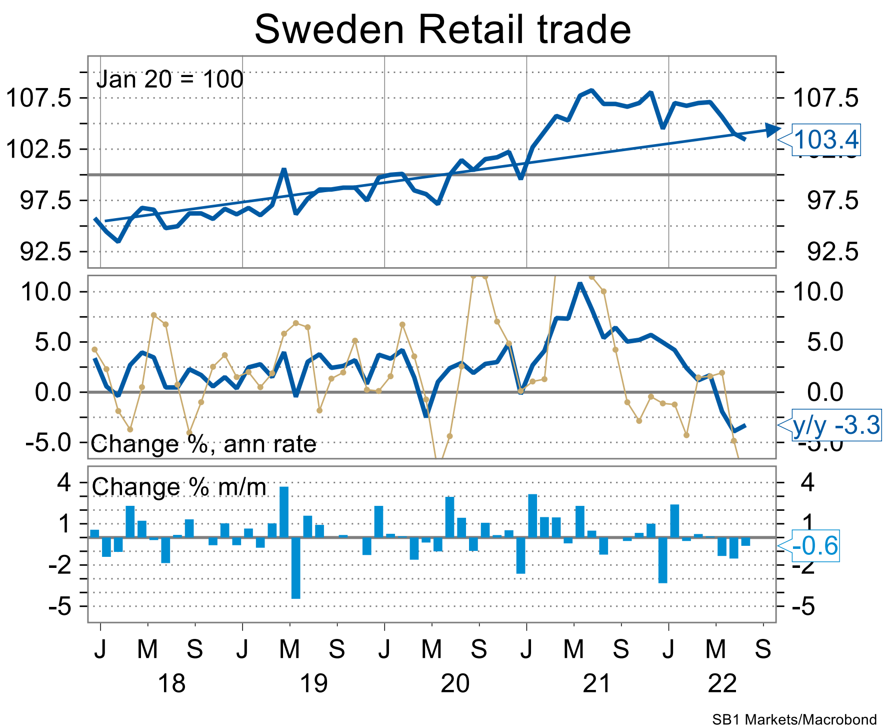


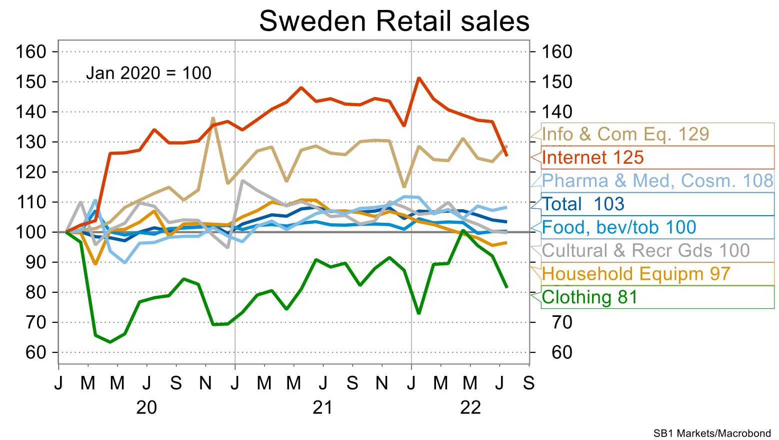


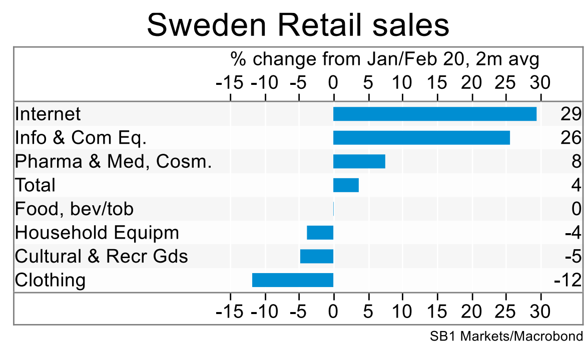
- **The composite index** fell to 97.5 in August from 101.4 in July, expected down to 104,0. The decline equals 0.4 st.dev decline to -0.25 st.dev above average. The index signals a 2% GDP growth rate, down from 2.5% in July
- **2 out of 4 main sub-sectors** are reporting declining confidence
  - » The **trade sector** confidence increased marginally, but is still 0.7 st.dev under water
  - » The **manufacturing and services indices** declined, however, manufacturing sector sentiment remains strong

Retail sales down for the 3rd month in July. Sales are declining, like elsewhere

Sales are 3.4% higher than before the pandemic, but some 1% below the pre-pandemic trend



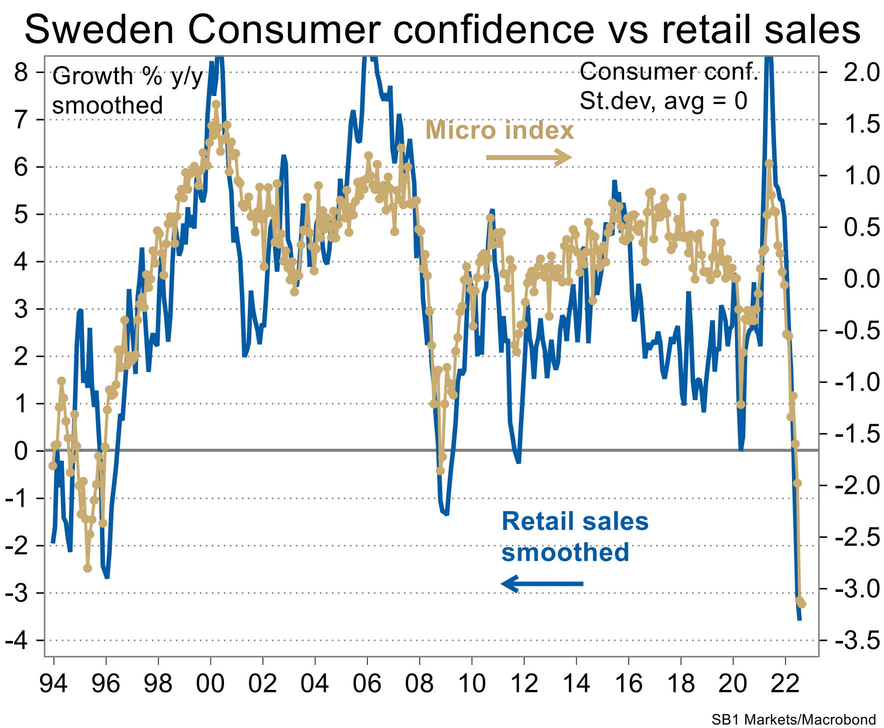


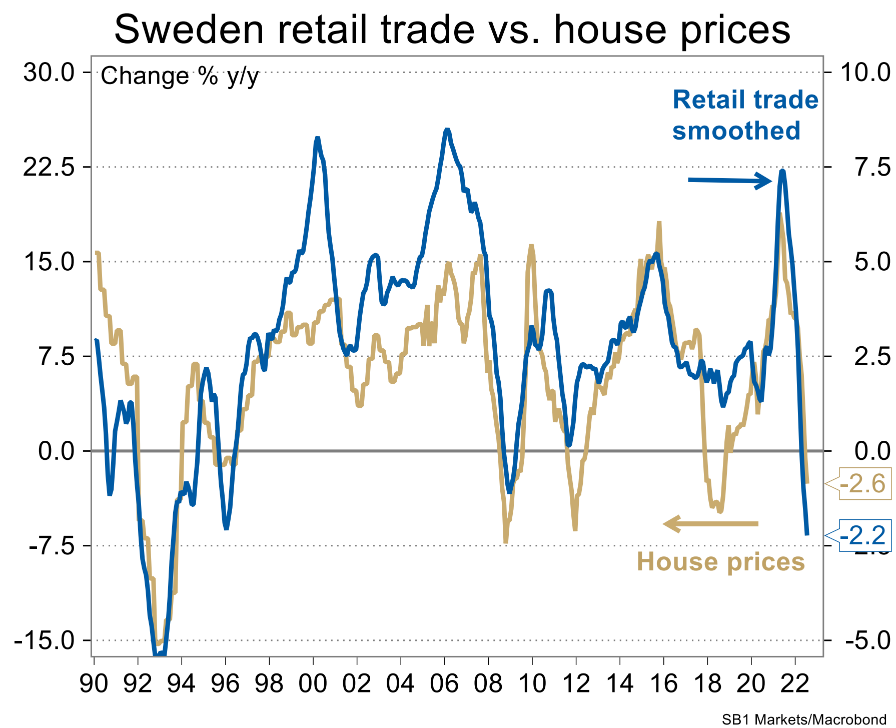


- Sales fell 0.6% m/m following the 1.6% drop in June, and the 1.3% drop in May. Sales are down 4% from the peak last spring – and the underlying trend is down

Consumers are not just saying they are pessimistic: They walk the walk

House prices and retail sales down in tandem with consumer confidence

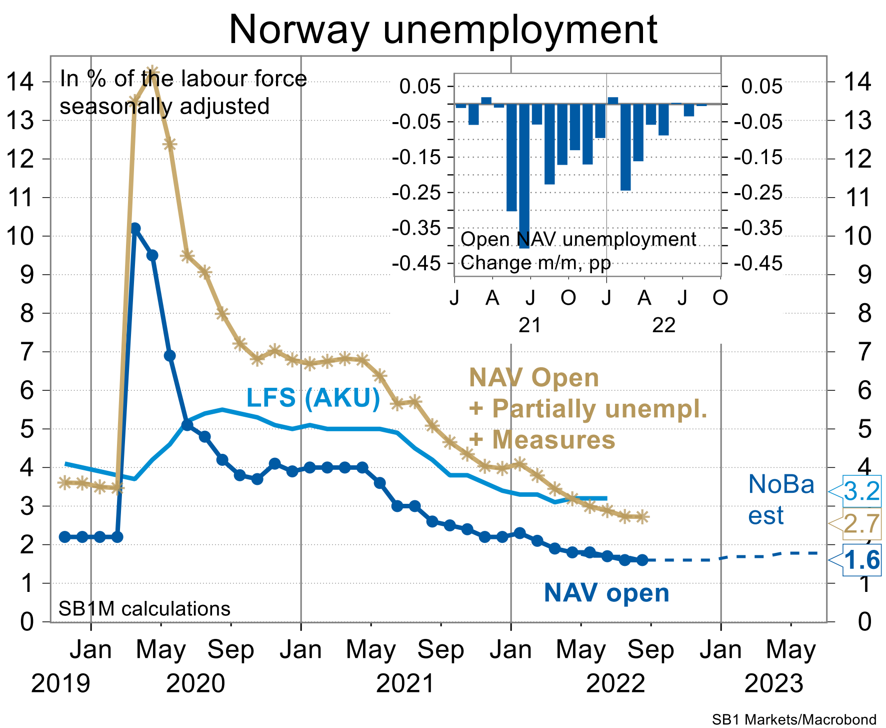


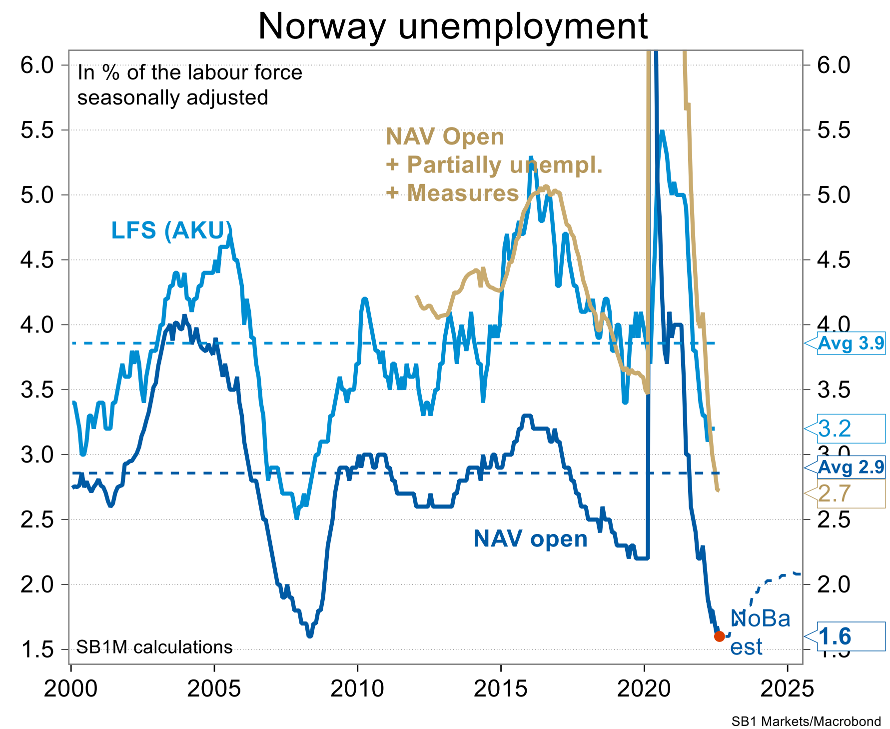


- **Consumer confidence** (the micro index)) rose by 0.2 p to 56.3 in Aug from 56.1 in July (revised up from 54.1). The print was well above expectations, <u>but it is still at dismal levels at 3.1 st.dev below average</u>! The macro index improved marginally to 1.9 st.dev below average from 2 st.dev below average, resulting in a total confidence index that was virtually unchanged
- Both retail sales and house prices have fallen alongside the decline in consumer confidence – higher rates and high inflation is softening both sentiment and ultimately demand - <u>the outlook is rather bleak</u>

NAV unemployment just a tiny touch down in August

Open unemployment unch. at 1.6%, as expected

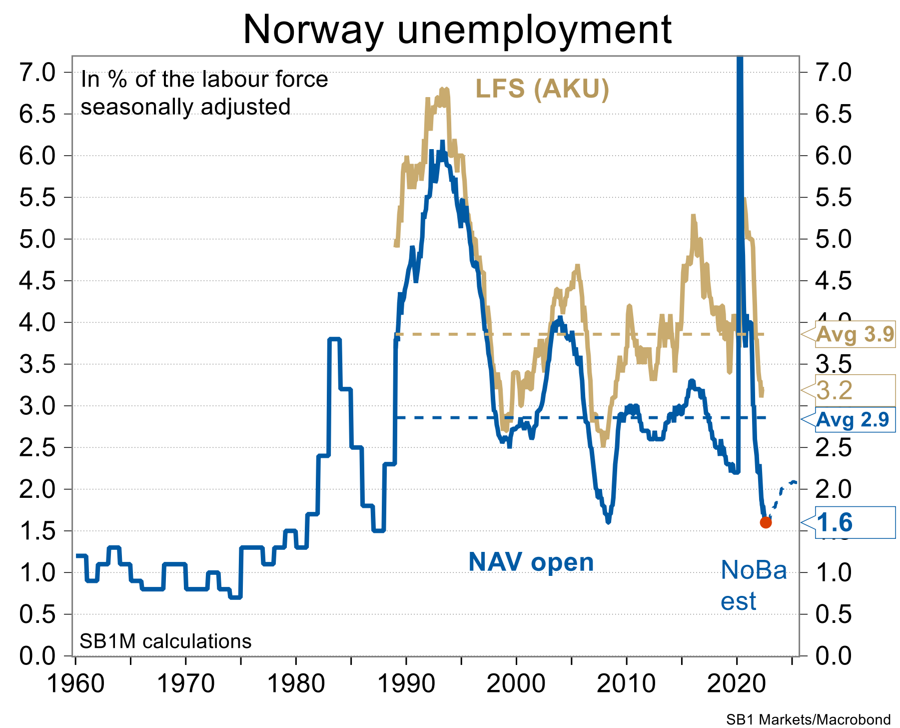




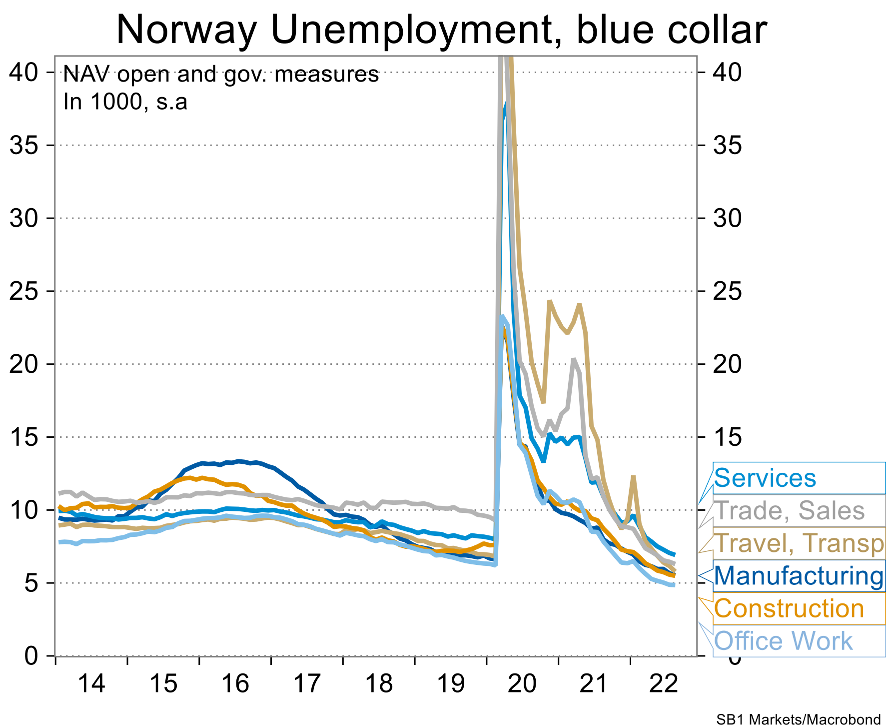
- **The 'full time' open NAV unemployment**, which includes furloughed workers, fell by some 500 persons in Aug (seas. adj) to 46.5', we expected a 1.5' decline. In addition, history was revised upwards by almost 1'. The rate at 1.6% (s.a) is equal to the lowest level before the financial crisis in 2008, and almost the lowest level since 1980 (check next page), and in line with NoBa's estimate
- Including labour market measures, unemployment fell by close to 1' persons, and the rate is at 2.0%
- The inflow of **new job seekers** have bottomed at a low level. The **inflow of new vacancies** increased marginally in August, but is down from the peak before the summer. Even so, the level remains very high
- **The LFS (AKU) unemployment rate** was stable at 3.2% in June. **Employment growth** is slowing

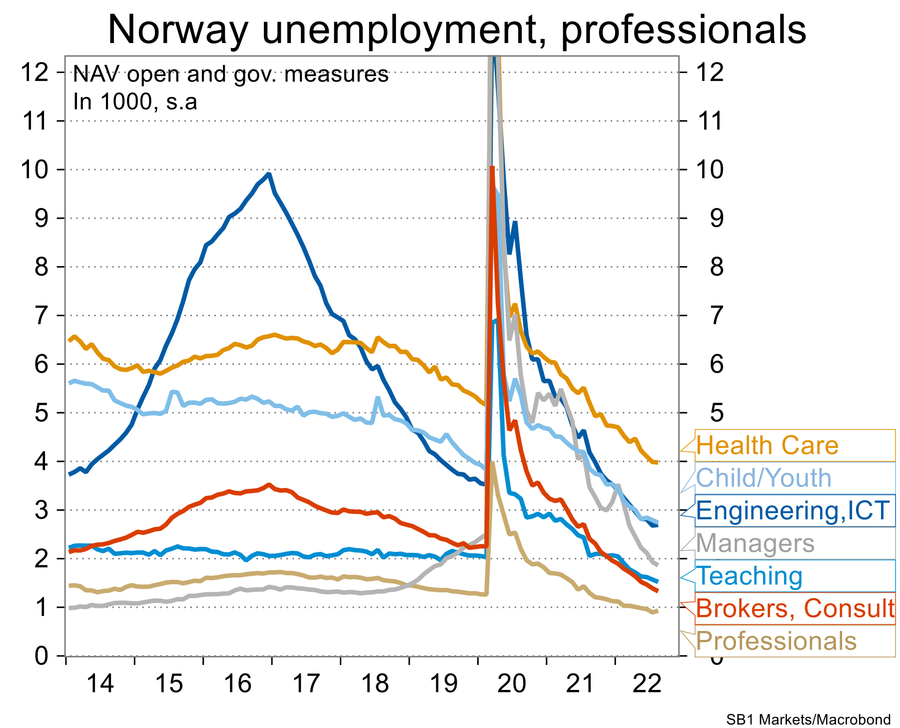
NAV unemployment soon at the lowest level since 1981?

If further down 0.2 pp: The lowest level since 1980



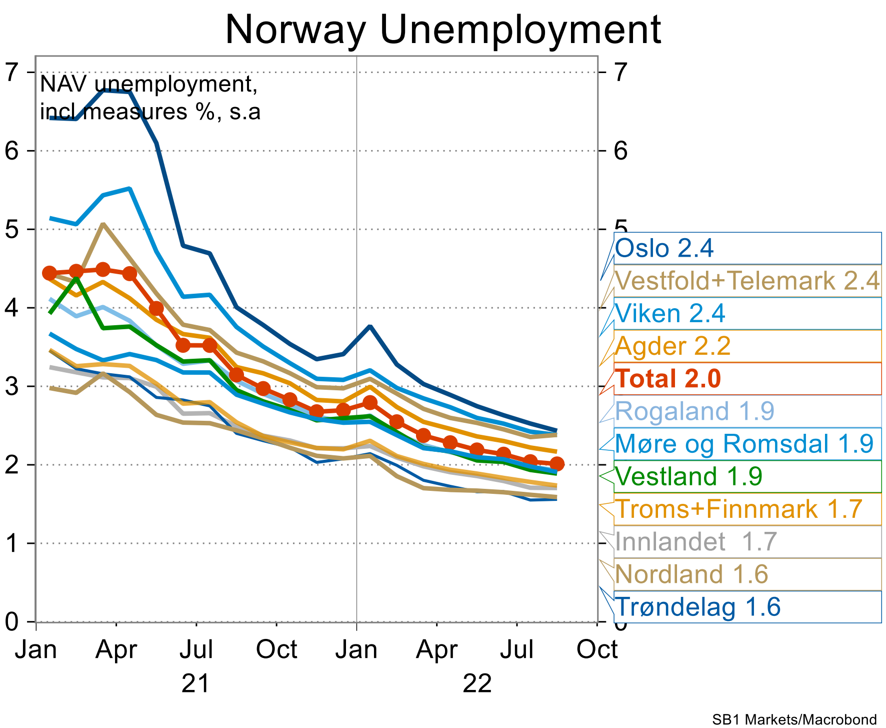
Unemployment is declining for all sorts of labour

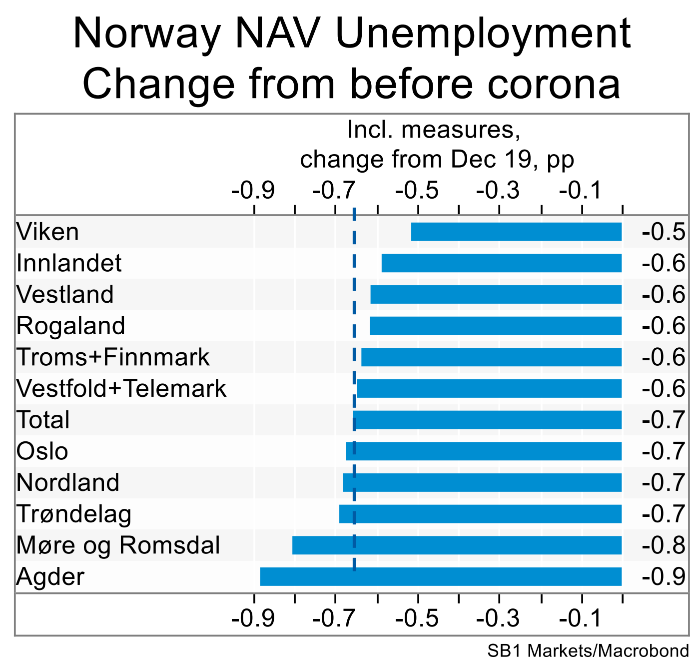




Unemployment is falling everywhere – and to well below pre-pandemic levels

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

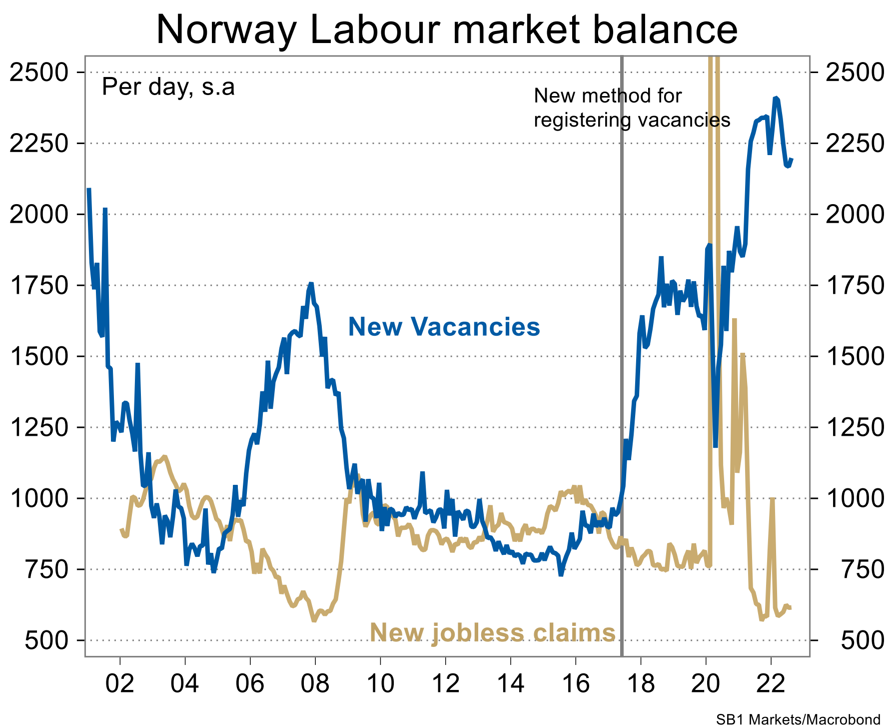


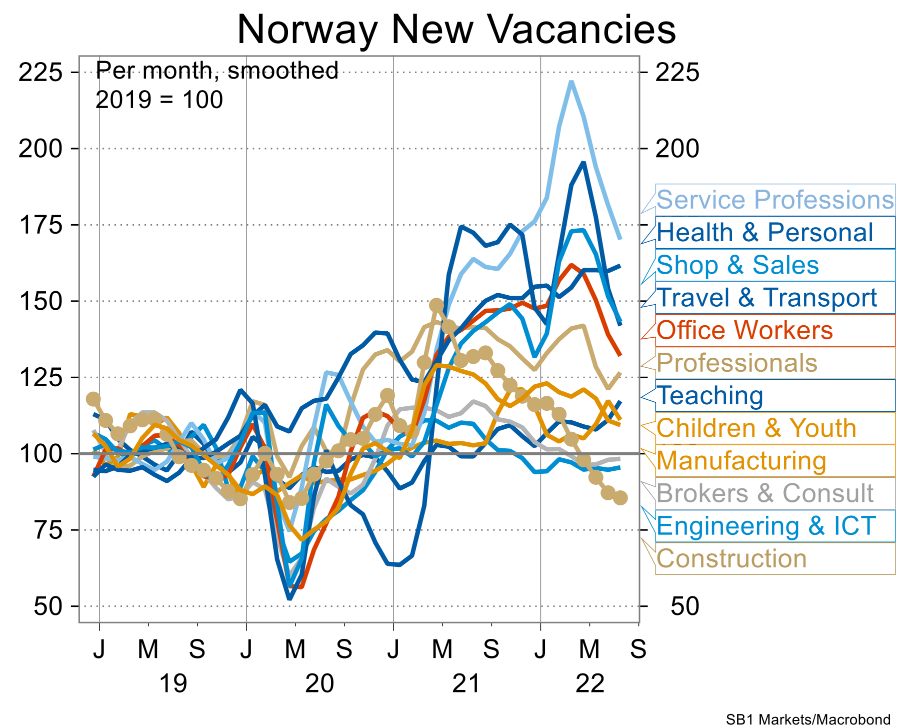


- In Vestfold and Telemark the unemployment rate rose slightly in August
- Nordland and Trøndelag at the bottom – Oslo at the top, as usual

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

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





- The no. of new vacancies rose marginally in August, but is down from the peak before the summer
- Most sectors have announced somewhat fewer new vacancies recently, most <u>pronounced in the construction sector</u>
- The no. of new jobless claims have probably bottomed at a very low level

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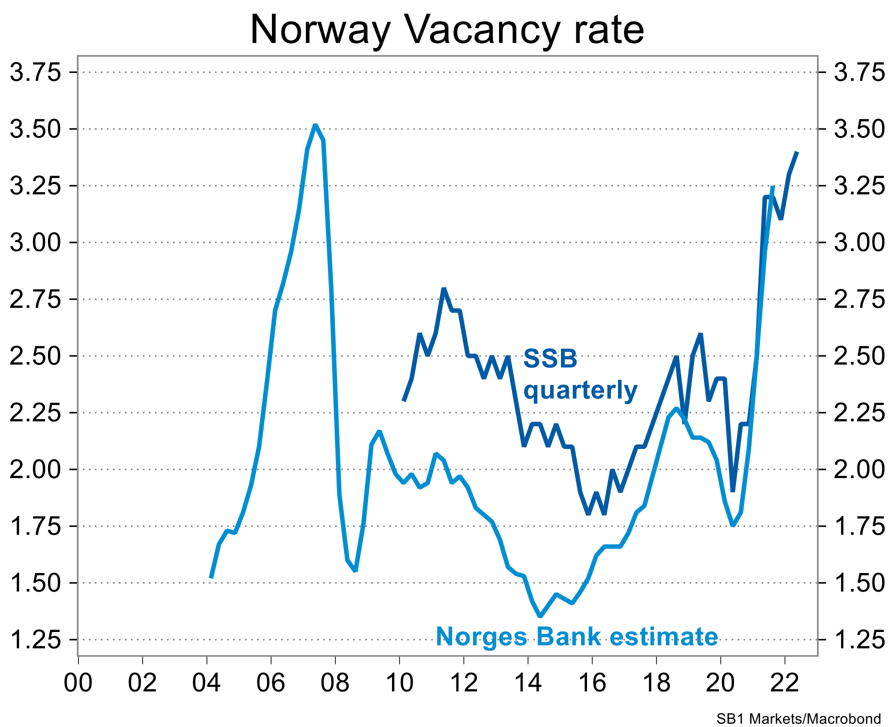
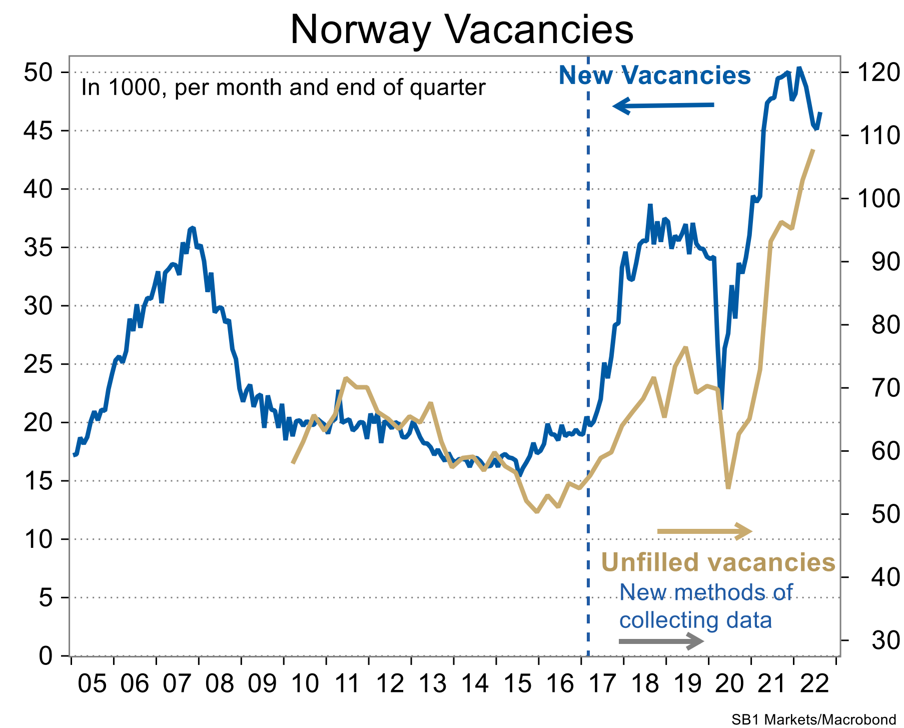
The vacancy rate further up 0.1 pp to 3.3%

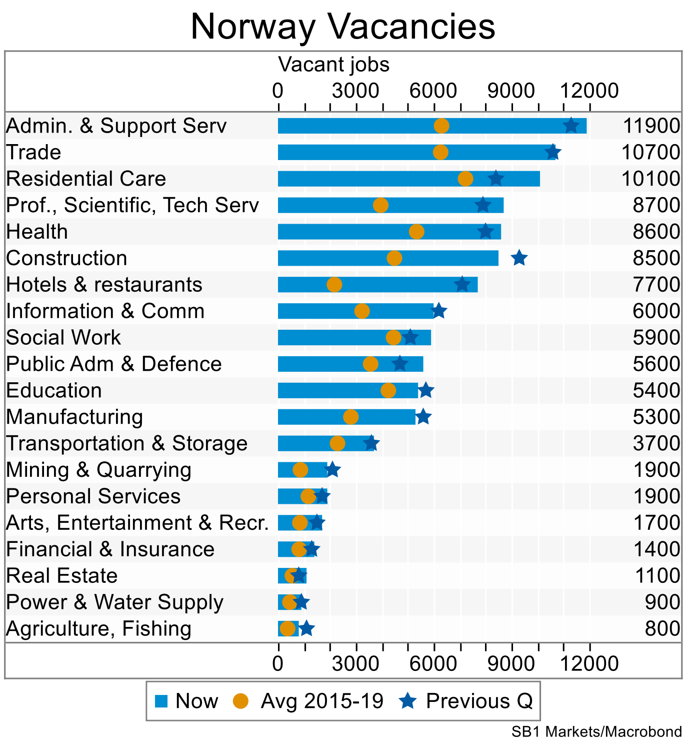
Unfilled job openings is at very high level

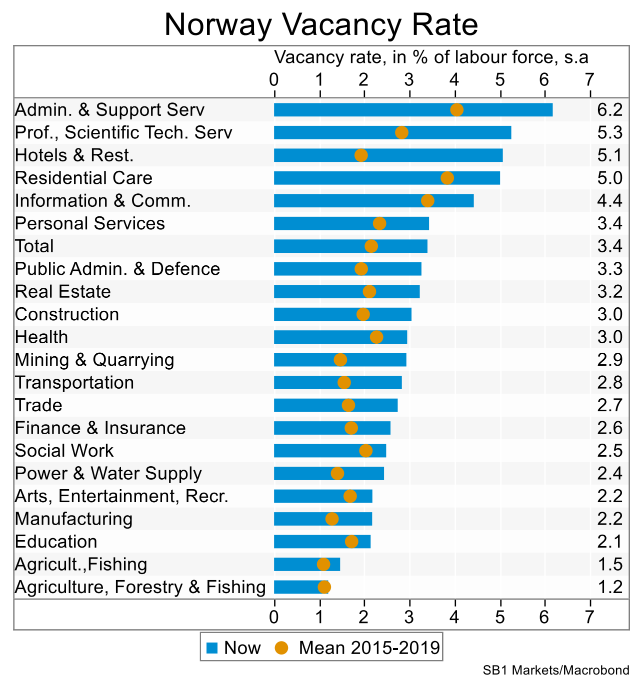


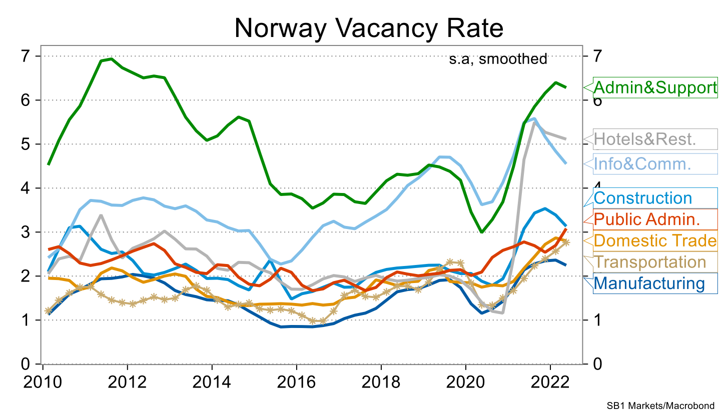


- Now more foreign workers have returned, and we cannot blame the lack of foreigners – and besides: Whatever reason, the lack of labour is the highest in more than a decade. (SSBs stats date back to 2010, Norges Bank has published some data back to 2004 – and they are not identical)

More vacancies than normal everywhere – and most sectors report growth in Q2



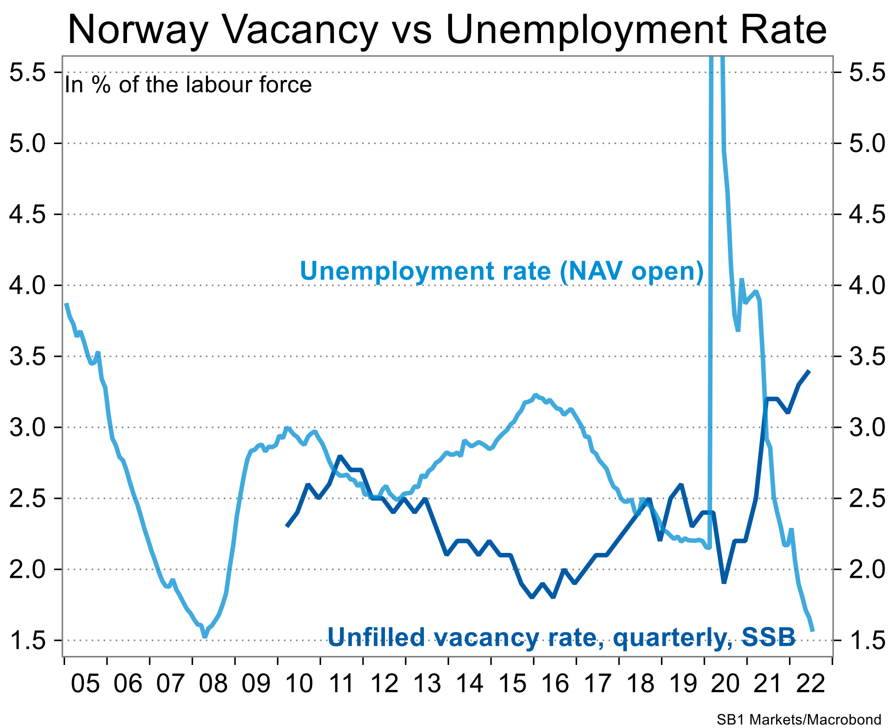


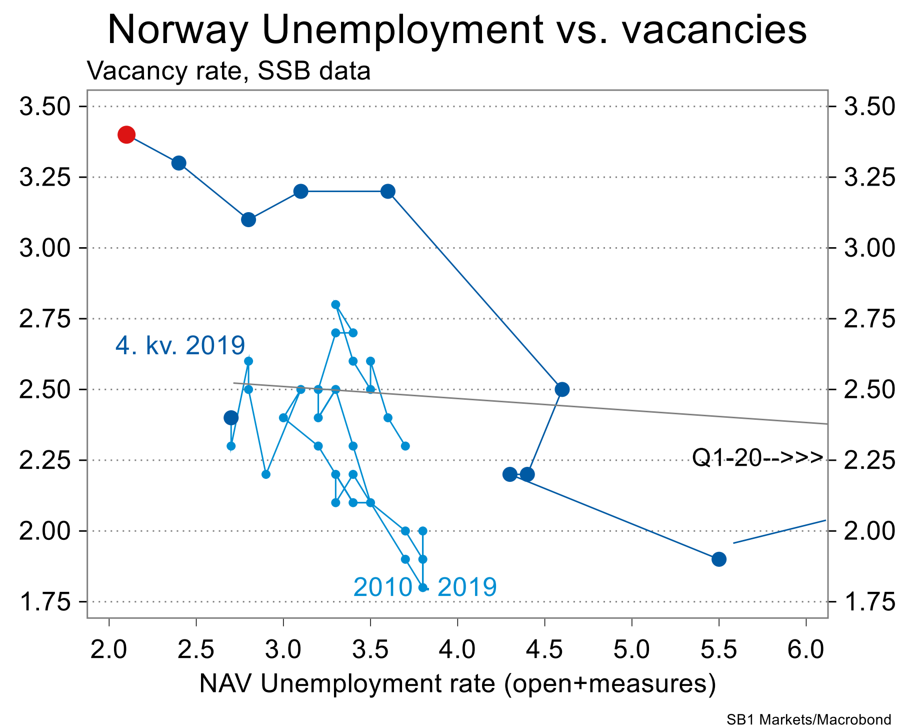


- The highest **no. of vacancies, and the highest vacancy rate** are found in admin. & supportive services, even if activity in the latter is still lower than before the pandemic

'Some' mismatch or just a very tight labour market

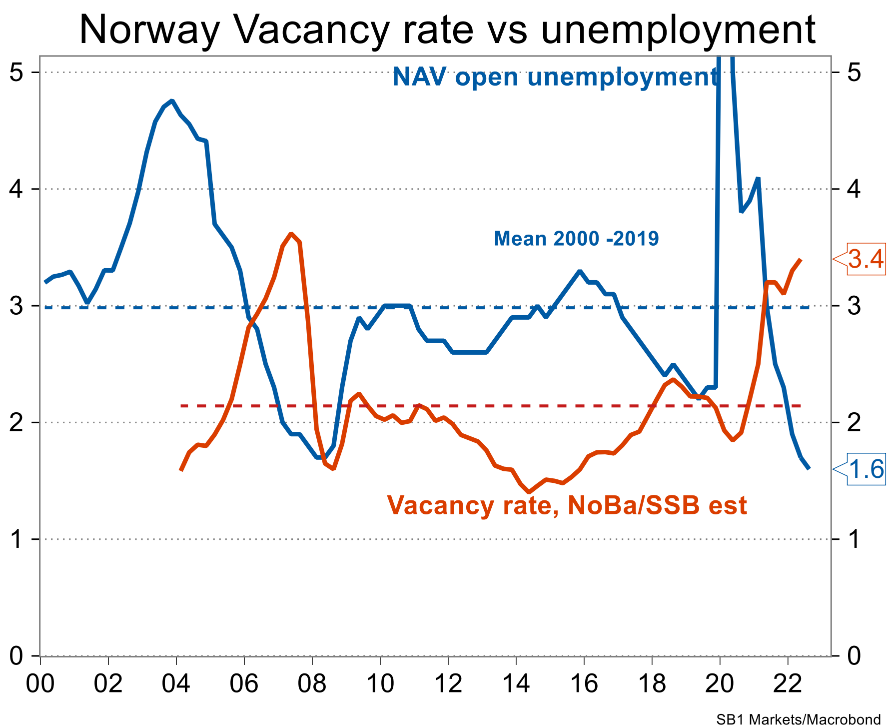
... when unemployment is <u>not</u> record low?

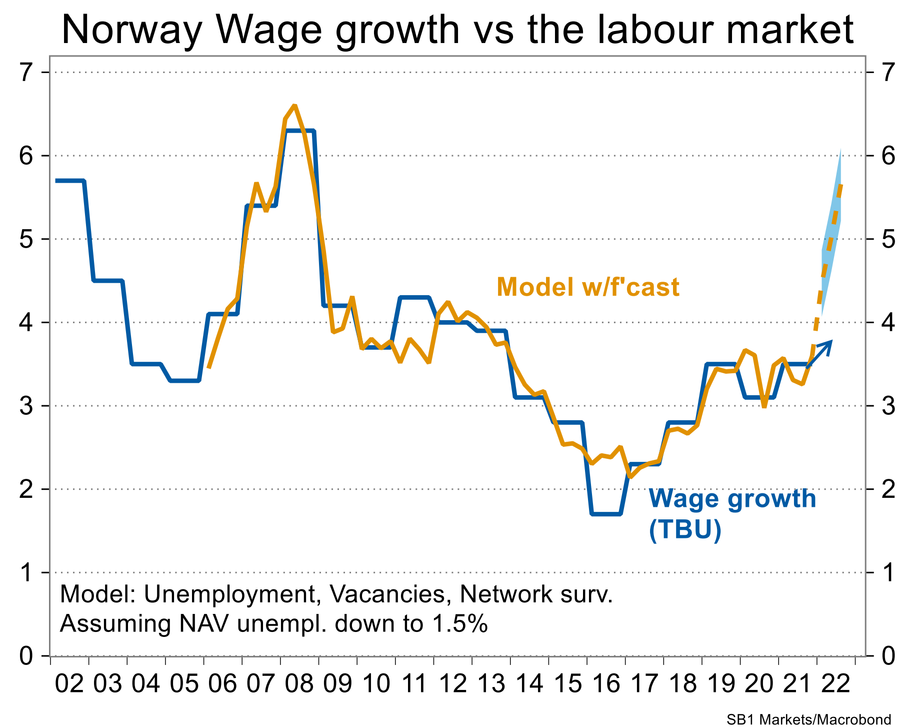




Can wage inflation climb further? Our simple model suggests it will

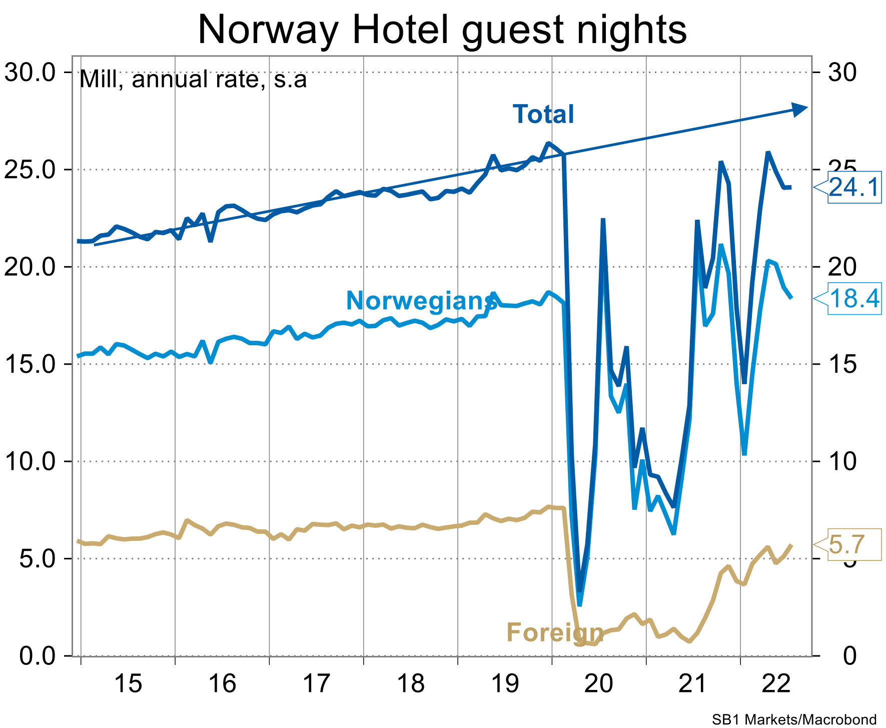
The labour market is tight – and it is still tightening

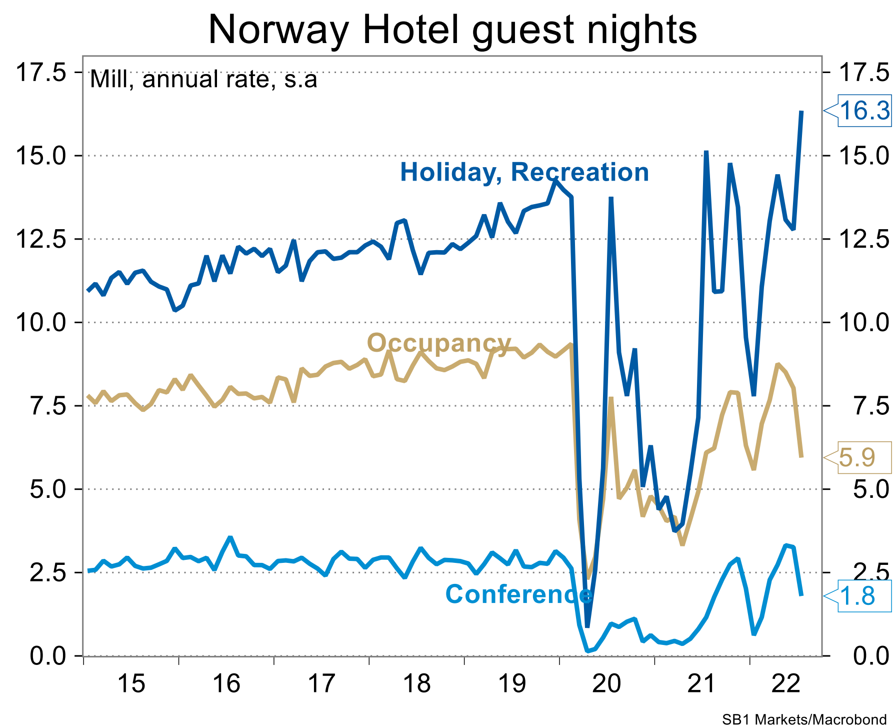




A slight increase in hotel guest nights in July, saved by Norwegian tourists

Foreign guest nights are still down 1/4 but more Norwegians guest nights compensate

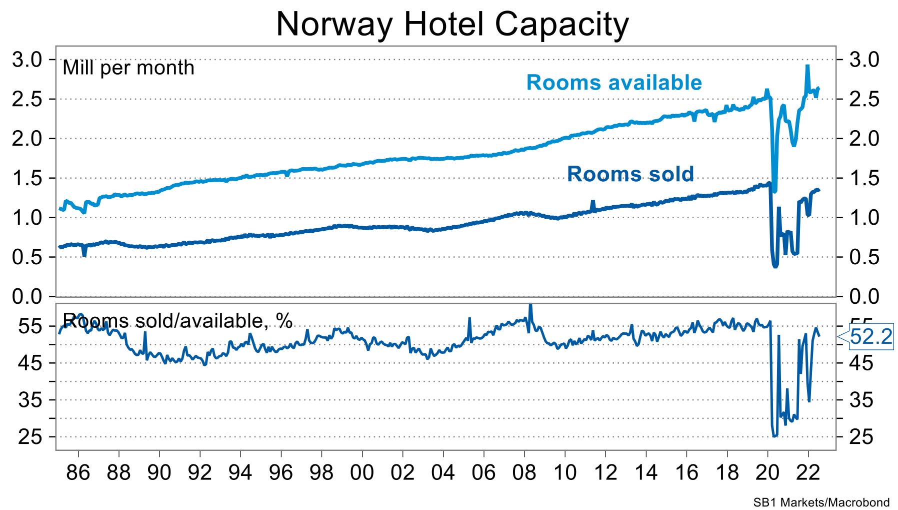


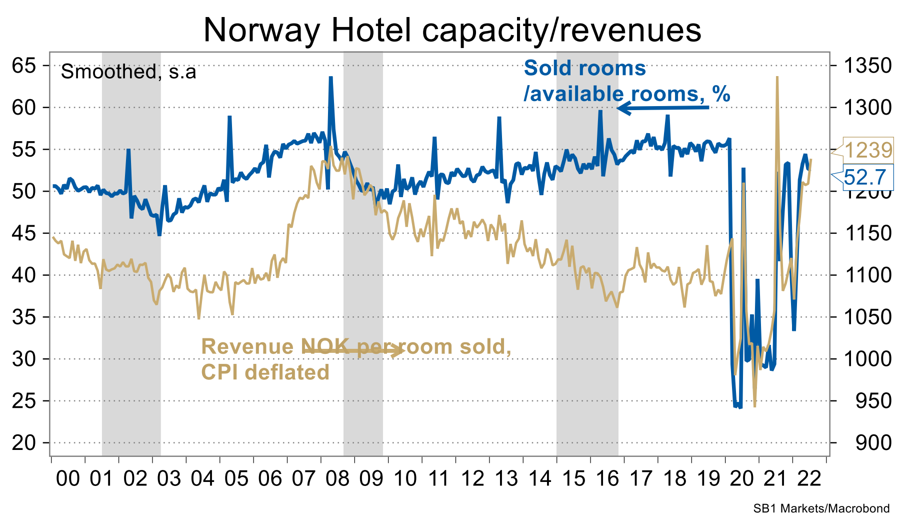


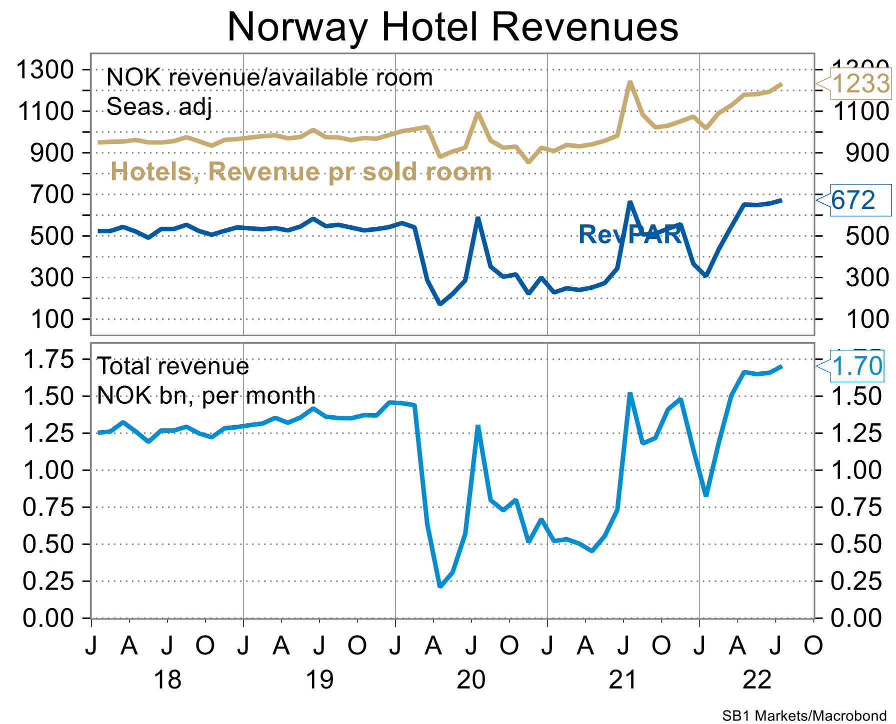
- Recreational demand is back to a normal level (or well above in July), even if the total number of foreigners are still down 25% vs the pre-pandemic level
- The conference market is back the pre-pandemic level – it took just some few weeks after restrictions were lifted
- Other business guest nights are some 10 –15 % below the pre-pandemic level (monthly date are volatile, even after seas. adj.
- The no. of guest nights is still below the pre-pandemic trend growth path, by some 10% and just due to fewer foreigners

Capacity utilisation still back to normal, prices are up 23% since Feb-20…

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



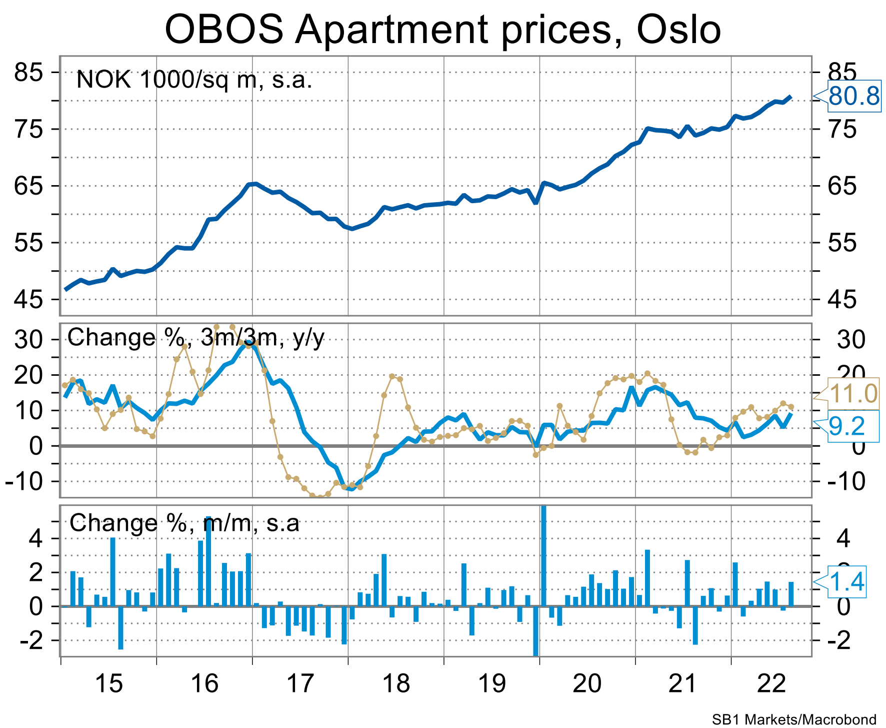


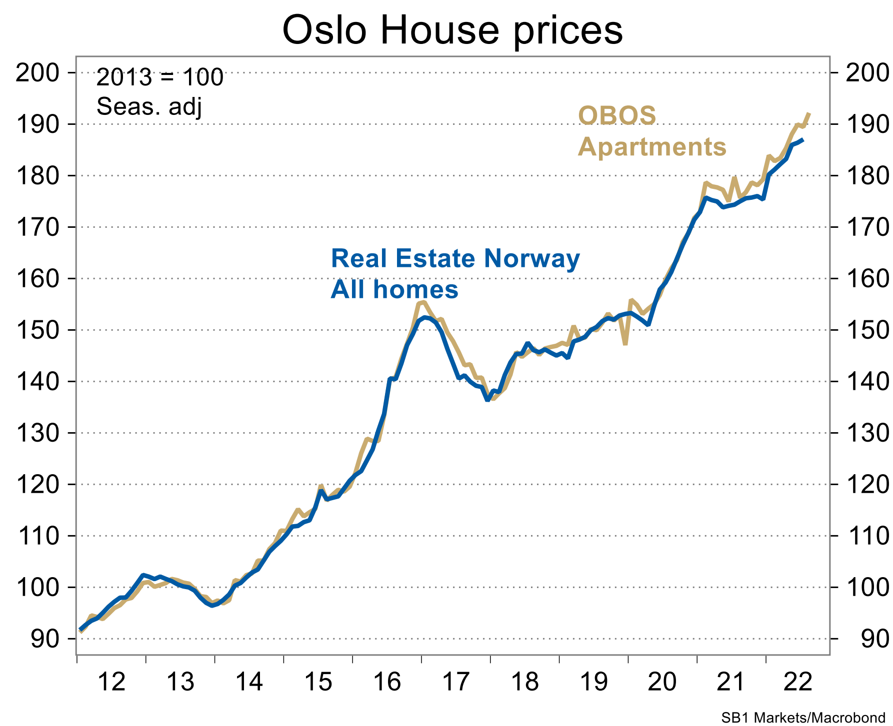


- **Capacity utilisation** (room sold vs. rooms available) was 52.7% in July, somewhat below the normal level ahead of the pandemic
- **Revenue per sold room** is up 23% from the Feb-20 level, a substantial increase (aka inflation)
- **RevPAR** (revenue per available room) is also far above the pre-pandemic level

OBOS co-op apartment prices up 1.4% in August, 9.5% y/y, way above our expect.

Growth recent months has been slightly above the annual rate. No impact from higher mortgage rates



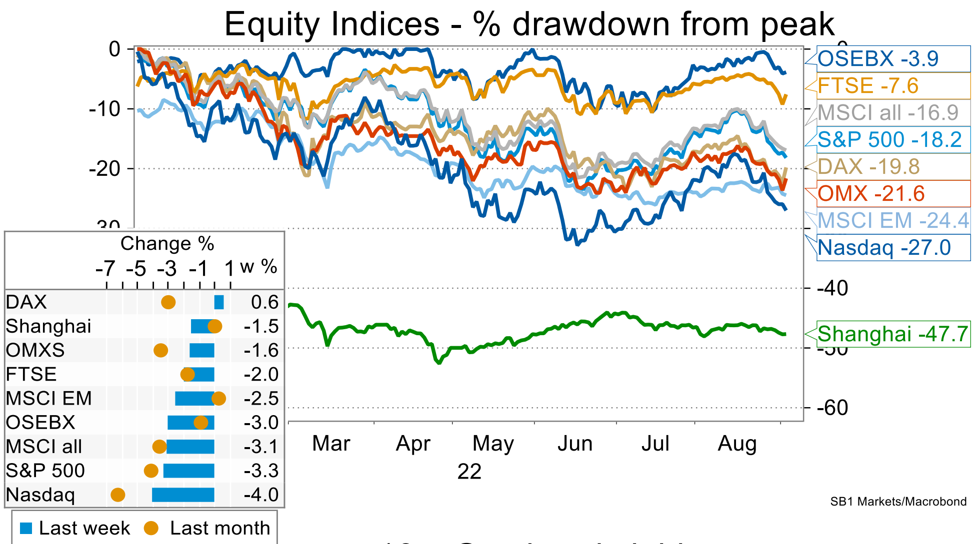


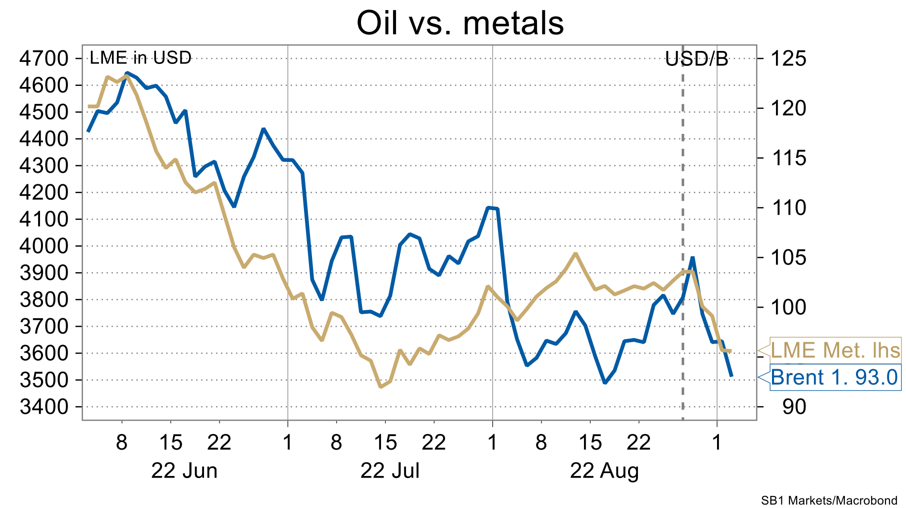
Co-op apartment prices follow the overall Oslo market quite closely, the average price level is somewhat lower than total Oslo market

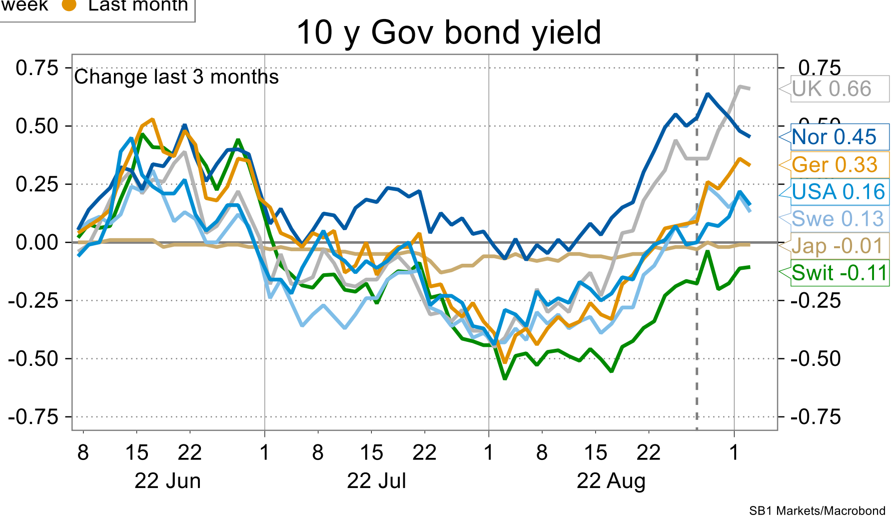
SpareBank 1 MARKETS

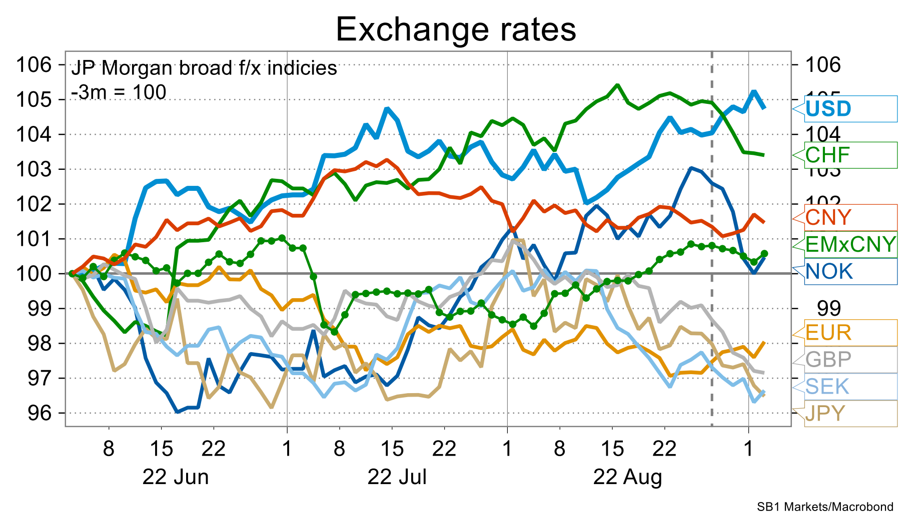
Equity markets further down, alongside commodity prices (and the NOK)

Bond yields climbed further (x Norwegian yields), real yields rose sharply





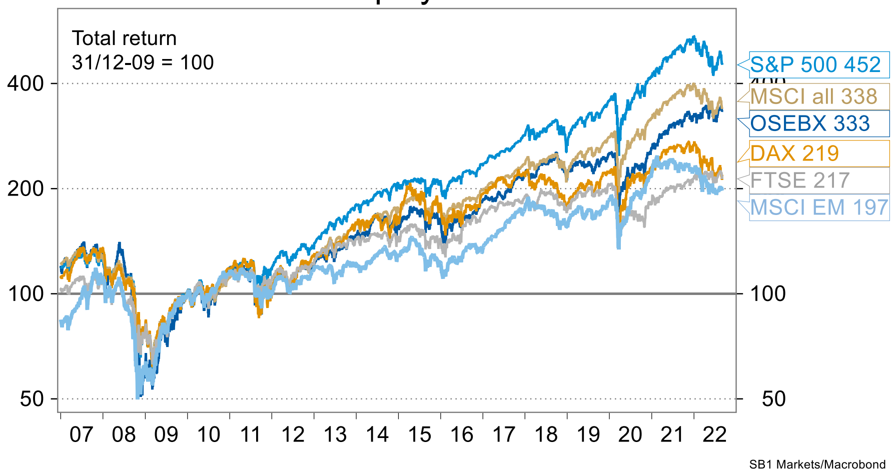




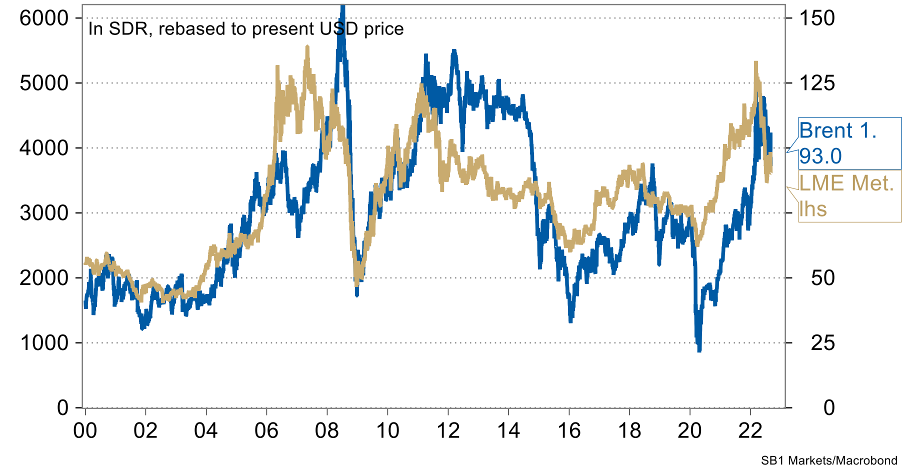
The big picture: Stock markets down, bond yields up

Commodities are on the way down again. The USD is very strong, most other DMs are slipping. EM OK

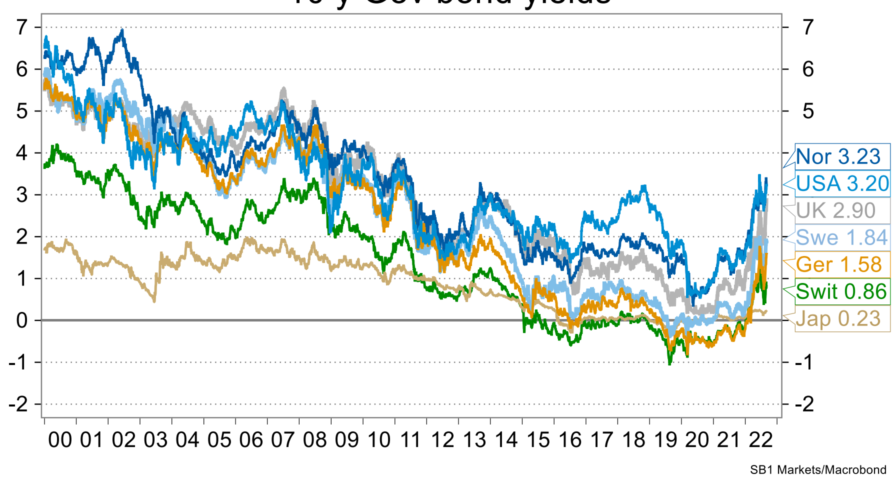
Equity Indices



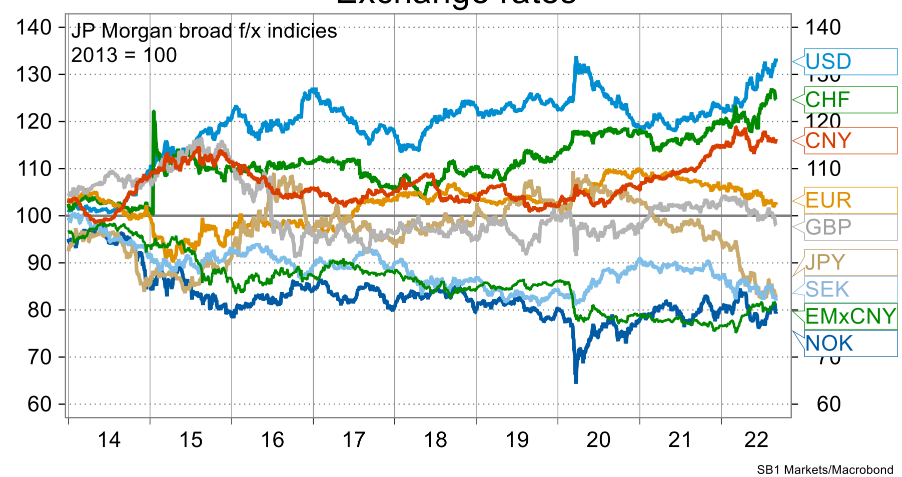
Oil vs. metals



10 y Gov bond yields



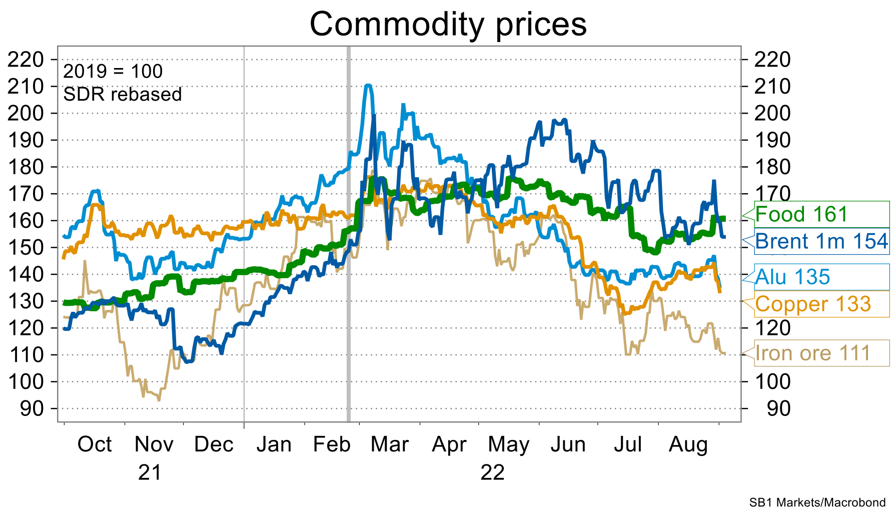
Exchange rates

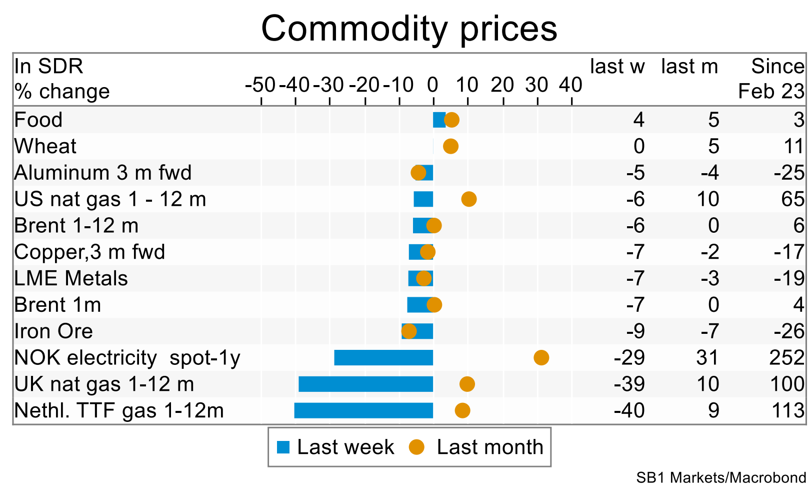


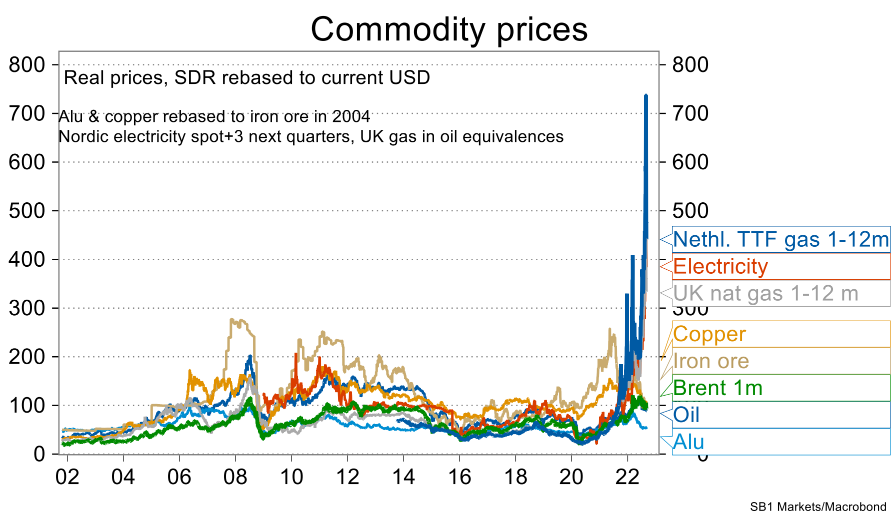
SpareBank 1 MARKETS

European gas/electricity prices collapsed. Back to the mid Aug level…

Last Monday we said something had to turn up. Something did: EU will regulate? A better gas balance?







Last week

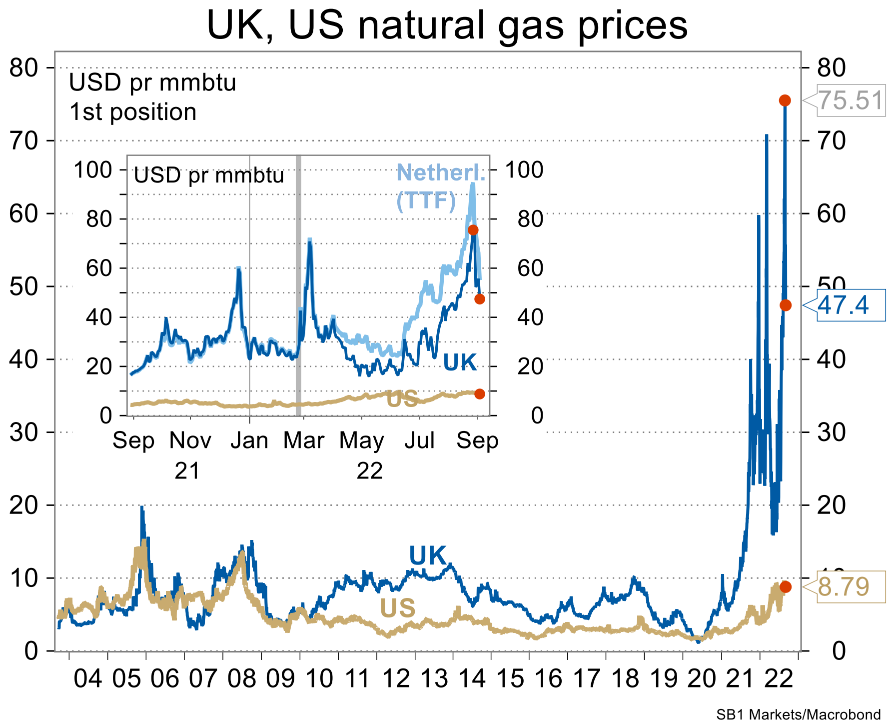
- **Brent oil** is falling all over the curve, towards USD 90 in the short end
- **European natural gas** prices – and thus electricity prices – fell 30% – 40%, probably mostly due to signals from the EU Commission that some sort of price regulations could be introduced (which of course will not help bringing demand in line with supply)
- The Economists **food commodity** rose marginally last week and is up 5% m/m (in SDRs). Prices are now higher than before the war started. Some fear of impact of the serious draughts on several continents?
- **Metal prices** fell again last week, after a lift the previous week which probably was at least partly due to news on more Chinese infrastructure lending

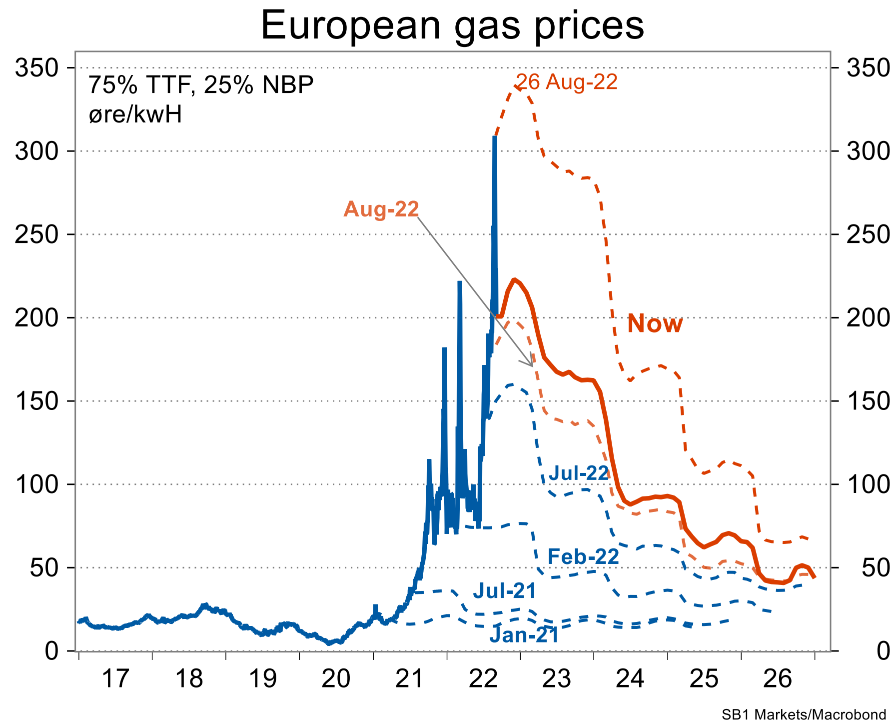
SDR: IMF's Special Drawing Rights – a 'global currency'

SpareBank 1 MARKETS

Extreme volatility in European gas/electricity markets – and it ain't over yet

Now we know that Russia has closed down Nord Steam 1, and just 10% of Russia's gas exports is left



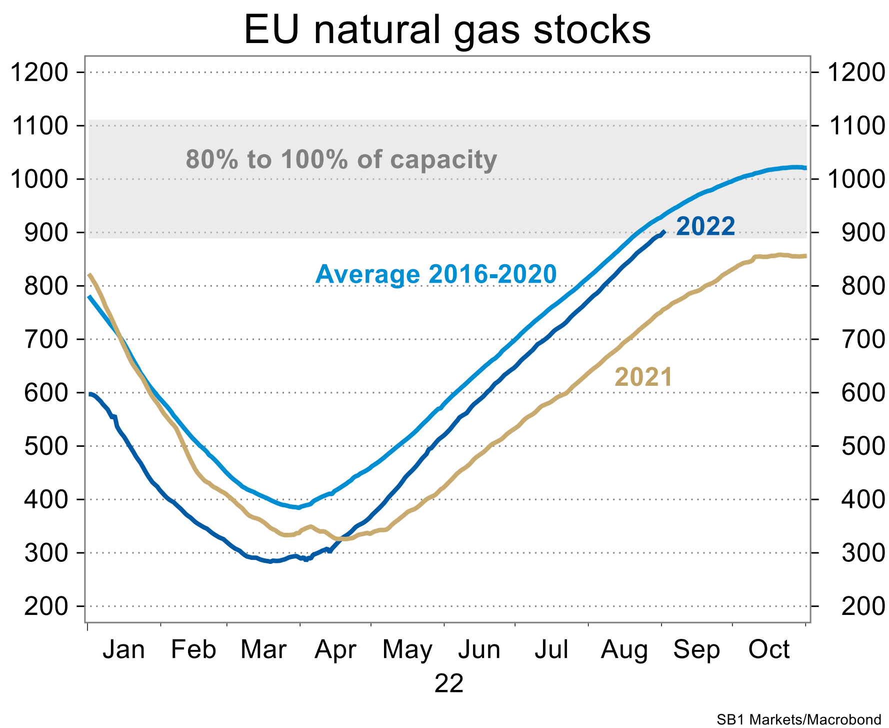


- And the remaining 10% is probably exposed too
  - » There are of course other problems as well: Nuclear electricity plants in France are lacking cold cooling water, and a maintenance program has to run its course. Coal transport up the Rhine is hurt by too little water. Less wind than normal
- However:
  - » At prices well below current prices (even after the decline last week), **demand for gas has fallen more than 20%, equalling more than half of normal exports from Russia** - and we assume demand will decline further the longer prices stay high (more measures will be taken, including temporarily closing down high energy activities. Gas inventories in EU has been building up faster than normally, even with the 80% cut in Russian exports since July: that is, <u>demand has been cut more than total supply, at prices well below current prices (even given the more or less temporary supply problems for hydro, nuclear and wind generated electricity)</u>
  - » **LNG imports** have increased sharply recent months, by some 60% as current capacity is much better utilised or equalling 25 – 30% of the normal imports from Russia. The coming quarters, several import- and degasification facilities will come on-stream all over Europe, and the capacity will increase substantially. The global supply of LNG will probably be the limiting factor

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

European gas stocks are filling up faster than normal

Thus, demand must have fallen more than supply

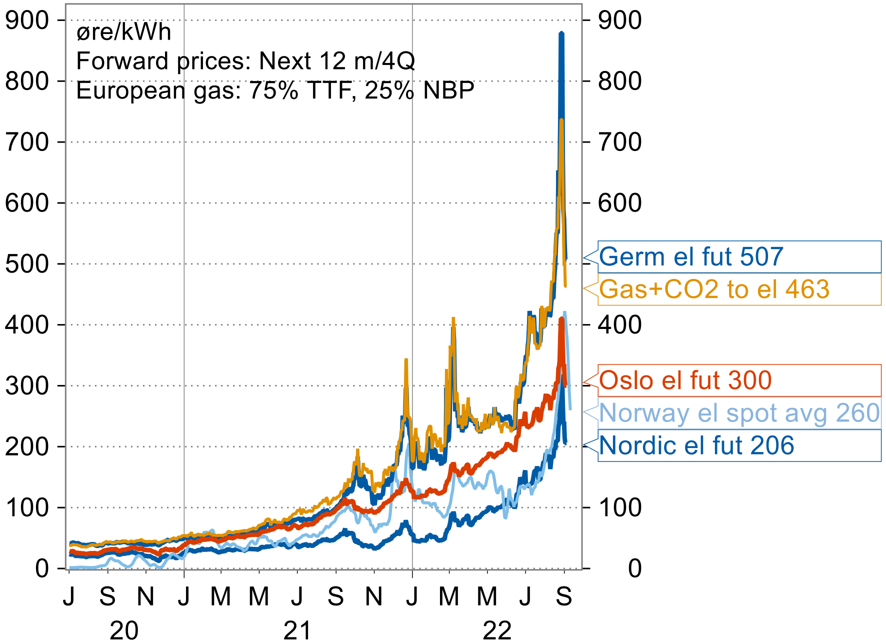


- The challenge: Supply will be cut further as Russia has turned the Nord Stream 1 tap completely
  - A full closure of NS1 will reduce Russian exports by 33 bcm/d, equalling 0.3 TWh per day. Thus, slightly less than the extra 0.4 TWh stock buildup vs 2016 - since early July
  - So, given anything else equal, gas inventories should still be built marginally faster than normally, even after the full close-down of Nord Stream 1.

European gas & electricity prices are ~~skyrocketing~~ nosediving

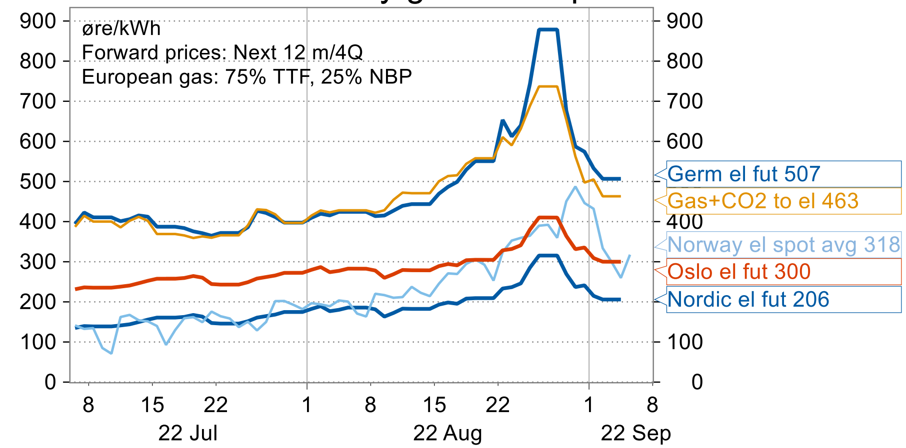
… but this morning they are reported sharply up, though far less than the decline last week

Electricity/gas future prices



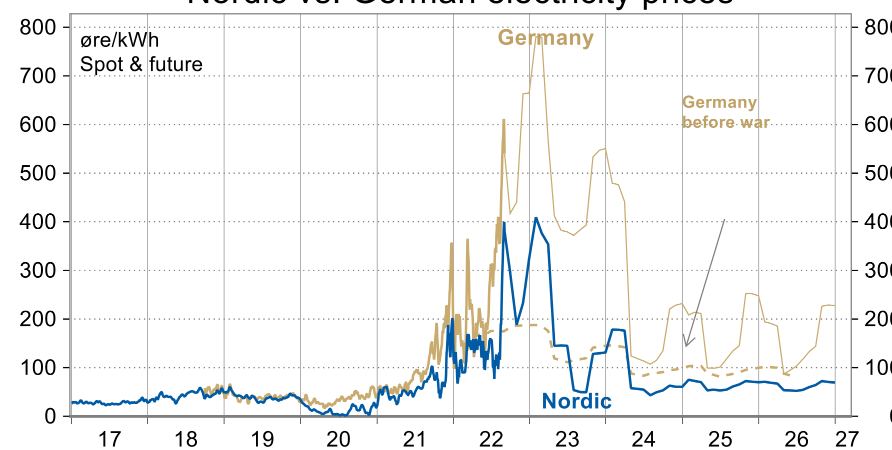
SB1 Markets/Macrobond

Electricity/gas future prices



SB1 Markets/Macrobond

Nordic vs. German electricity prices



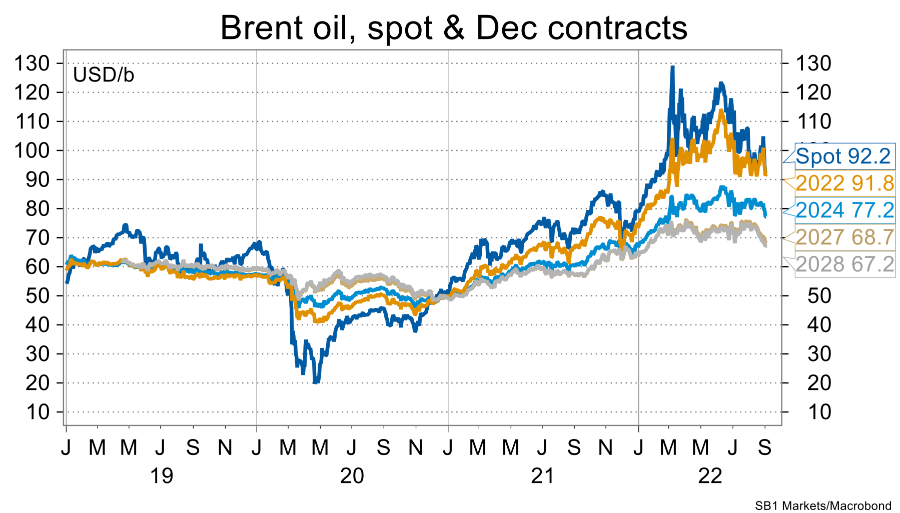
SB1 Markets/Macrobond

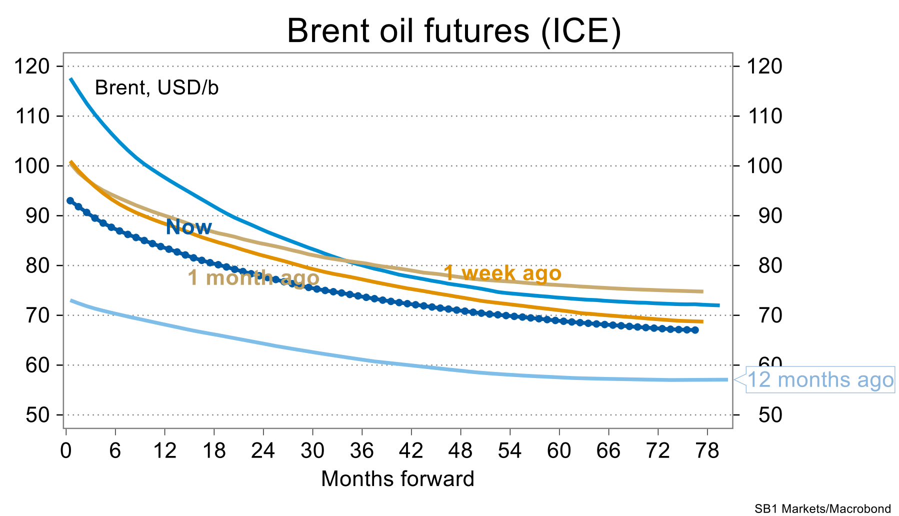
- European gas and electricity prices fell by 30% – 40% last week, back to the mid-Aug (!!) level
  - » EU signal ambitions to regulate gas and electricity prices – but has said nothing about the preferred mechanism
  - » The real problem, lack of available energy, will of course just worsen if price caps or other price regulations are introduced

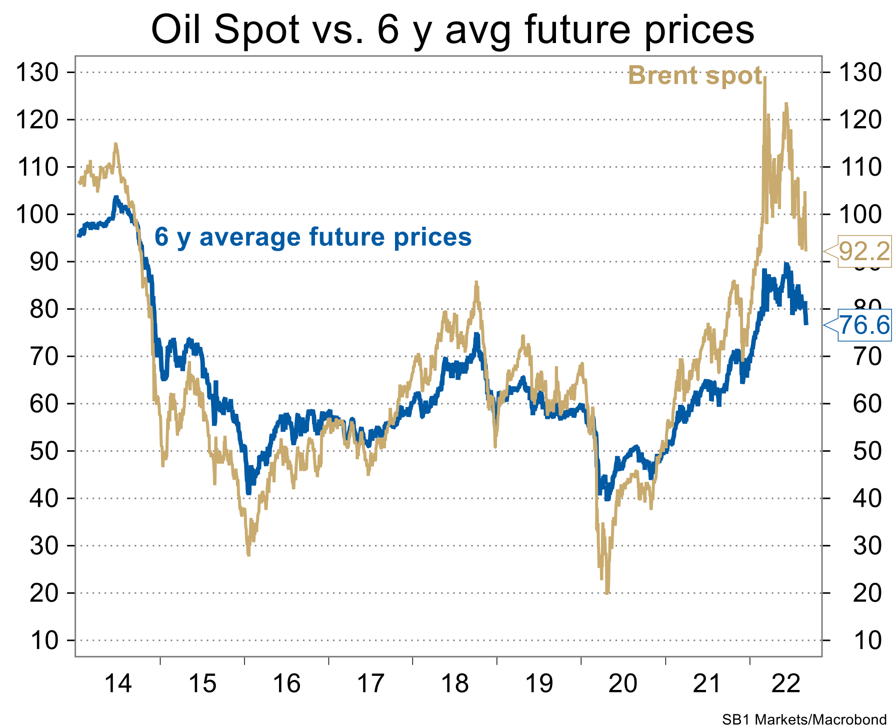
European gas: 75% Dutch TTF, 25% UK NBP, excl. CO2 cost

Oil prices down, all over the curve – even for longer dated contracts

… to well below USD 70/b. Even if Saudi Arabia briefly talked prices up the previous week

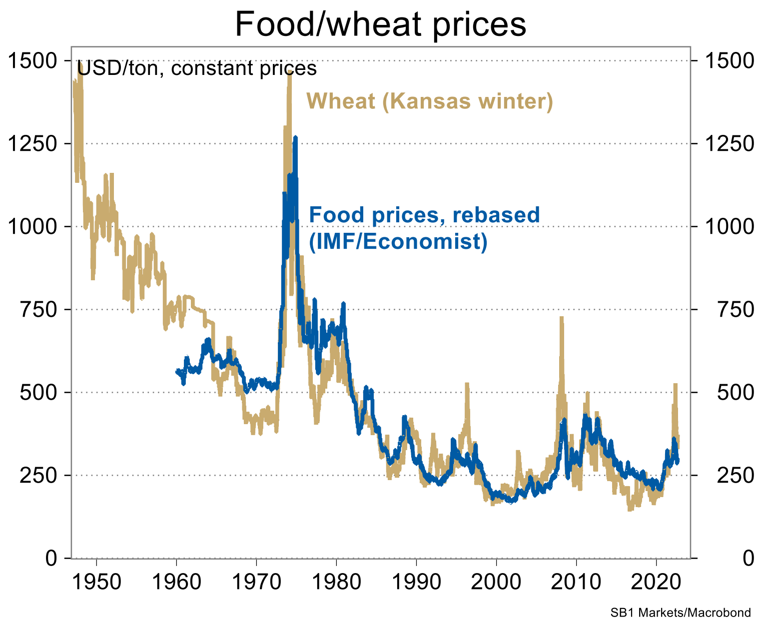


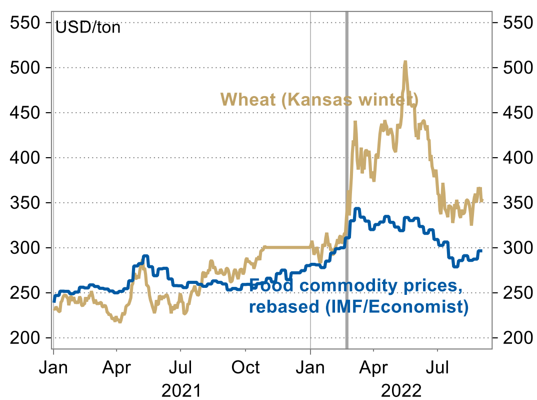


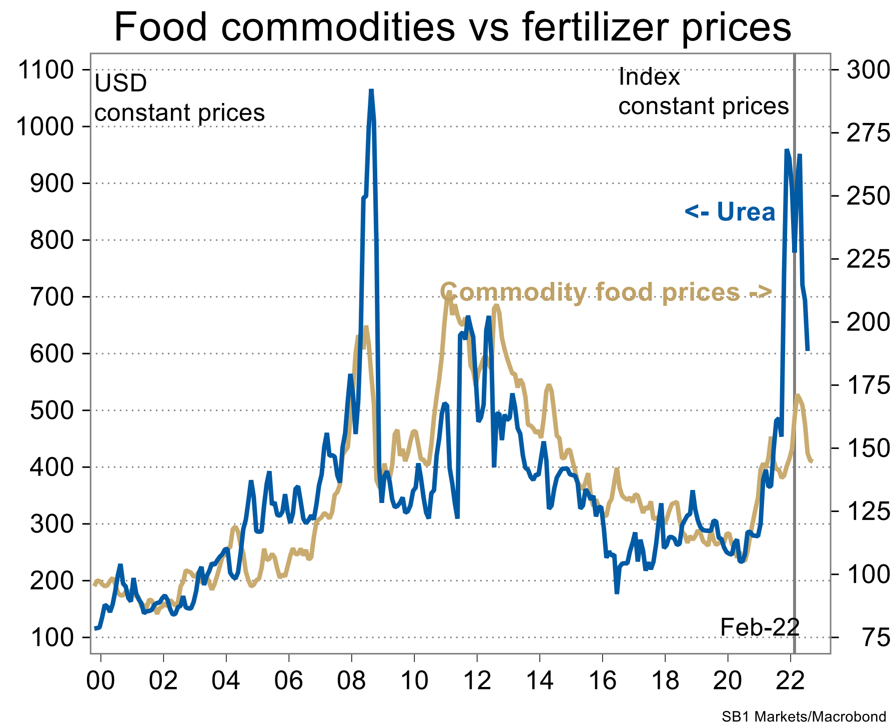


Food prices slightly up last few weeks, but are trending down

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



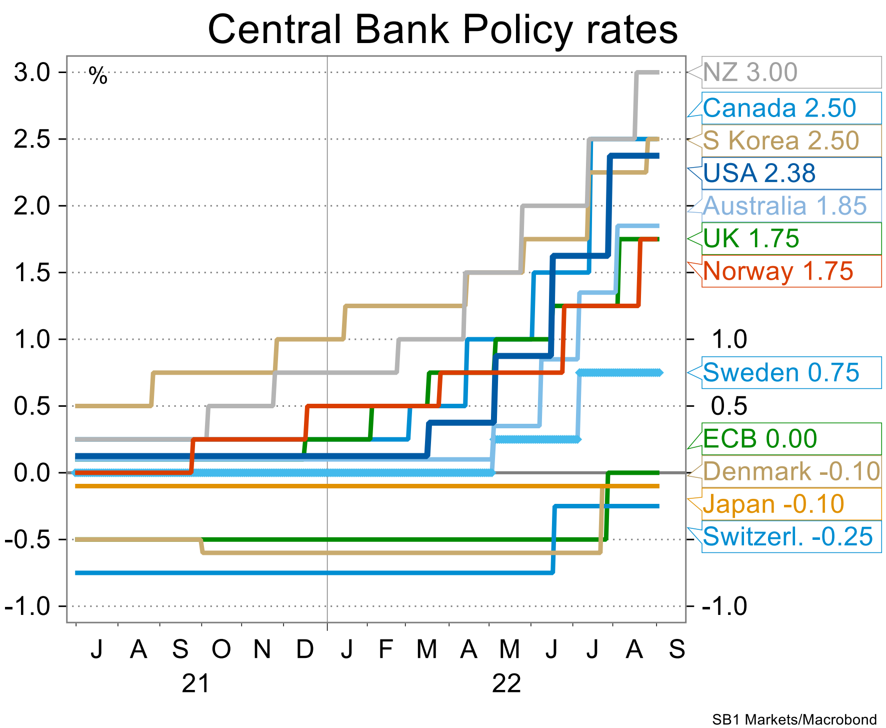


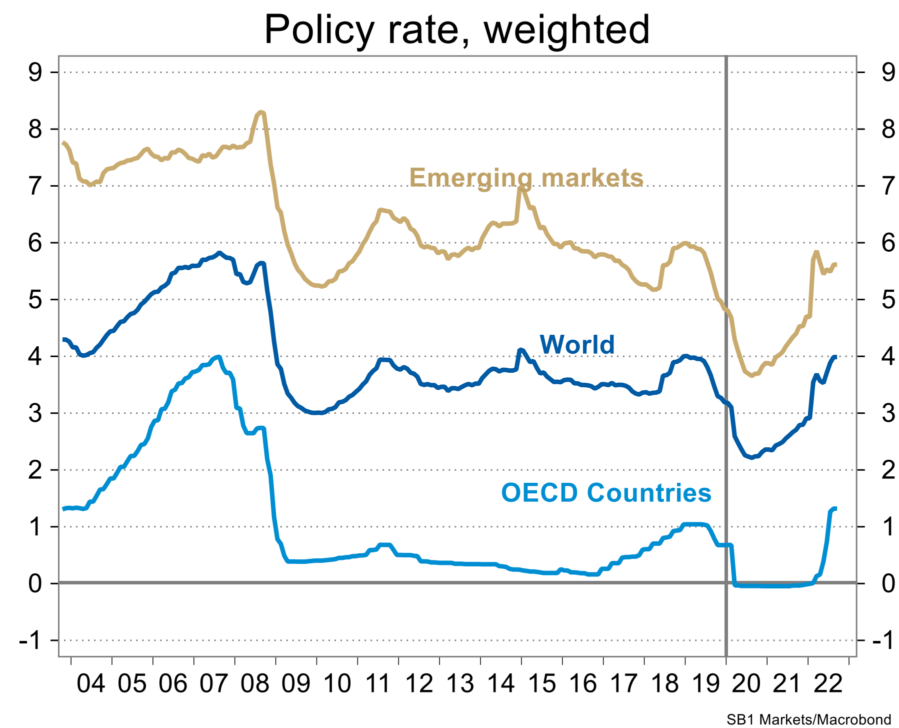


Urea prices are falling rapidly too (but are not low vs. food prices)

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

No more hikes last week



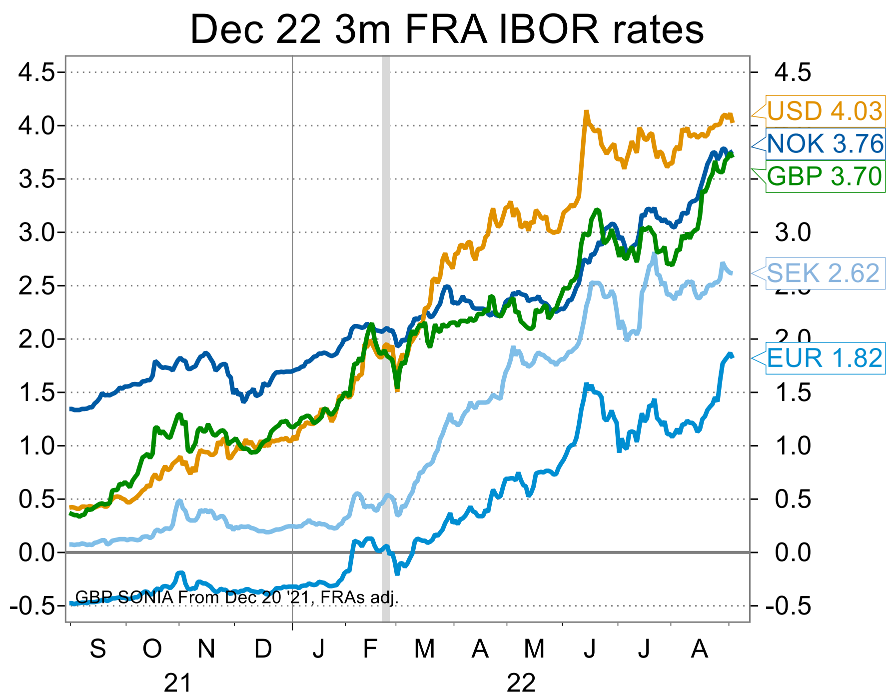


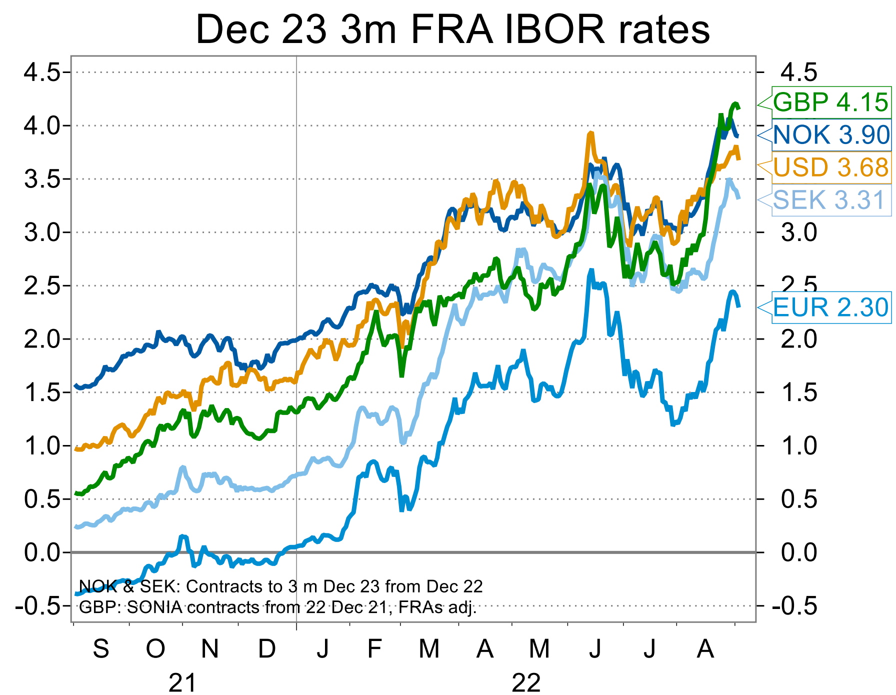
- In addition to rate hikes, most central banks have ended their QE buying programs (well, the ECB established a new program two weeks ago, the Transmission Protection Instrument, TPI (and not TIP as we named it ☹). Some banks will start reducing their holdings
- The EM average policy rate has come down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

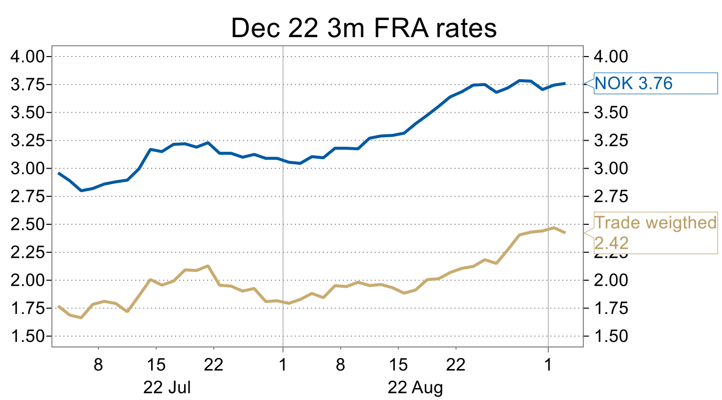
SpareBank 1 MARKETS

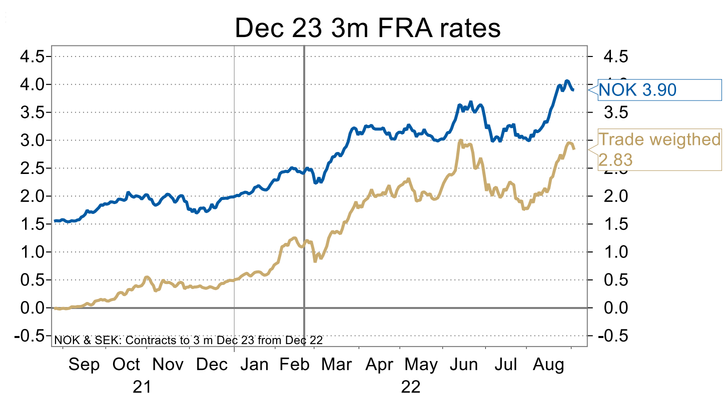
FRAs mostly up last week – but not the longer contracts in NOK, SEK

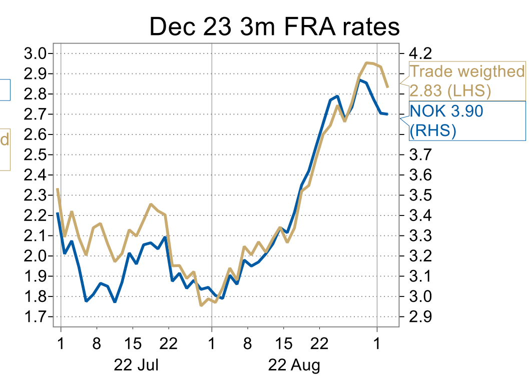
Markets are still very closely correlated, check the Dec-23 FRA contracts, NOK vs. trading partners





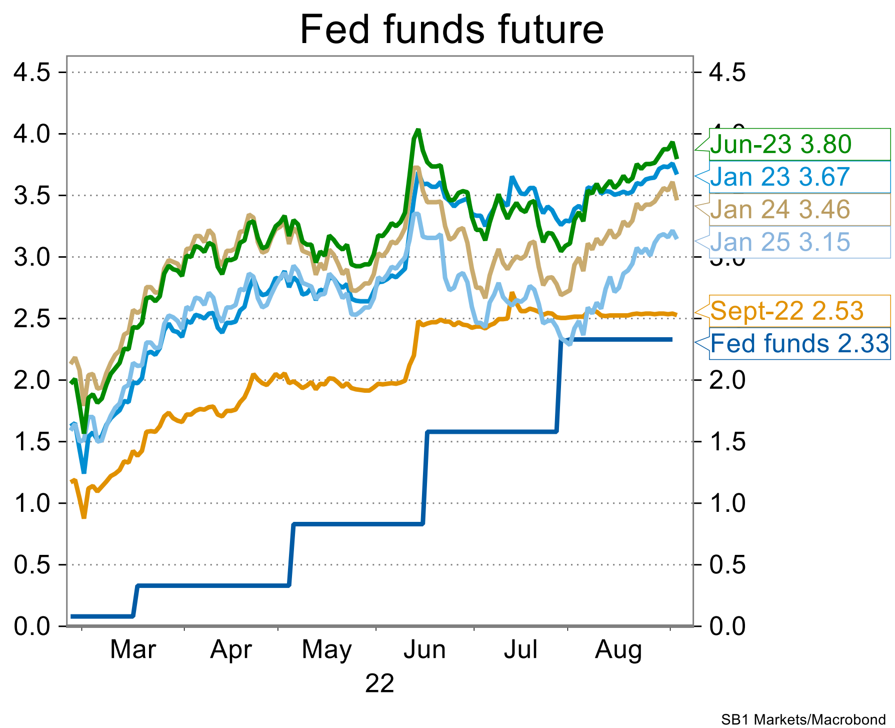


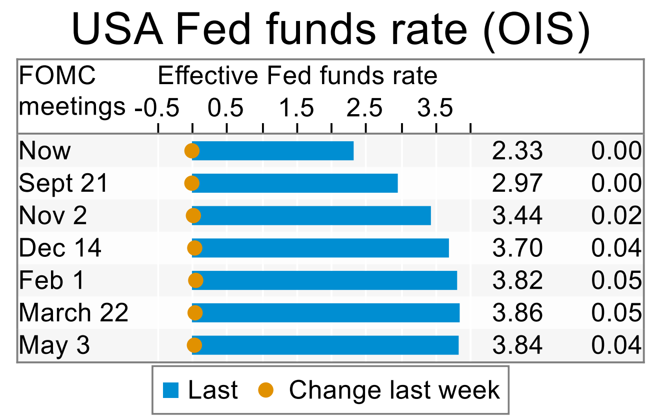


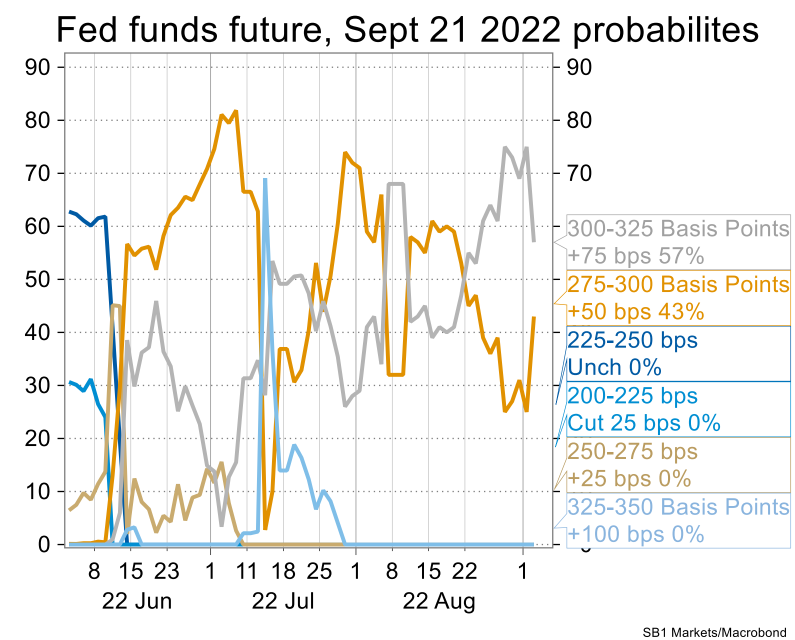


SpareBank 1 MARKETS

The market still assumes a 75-bps hike in Sept, even if labour data lowered expect.

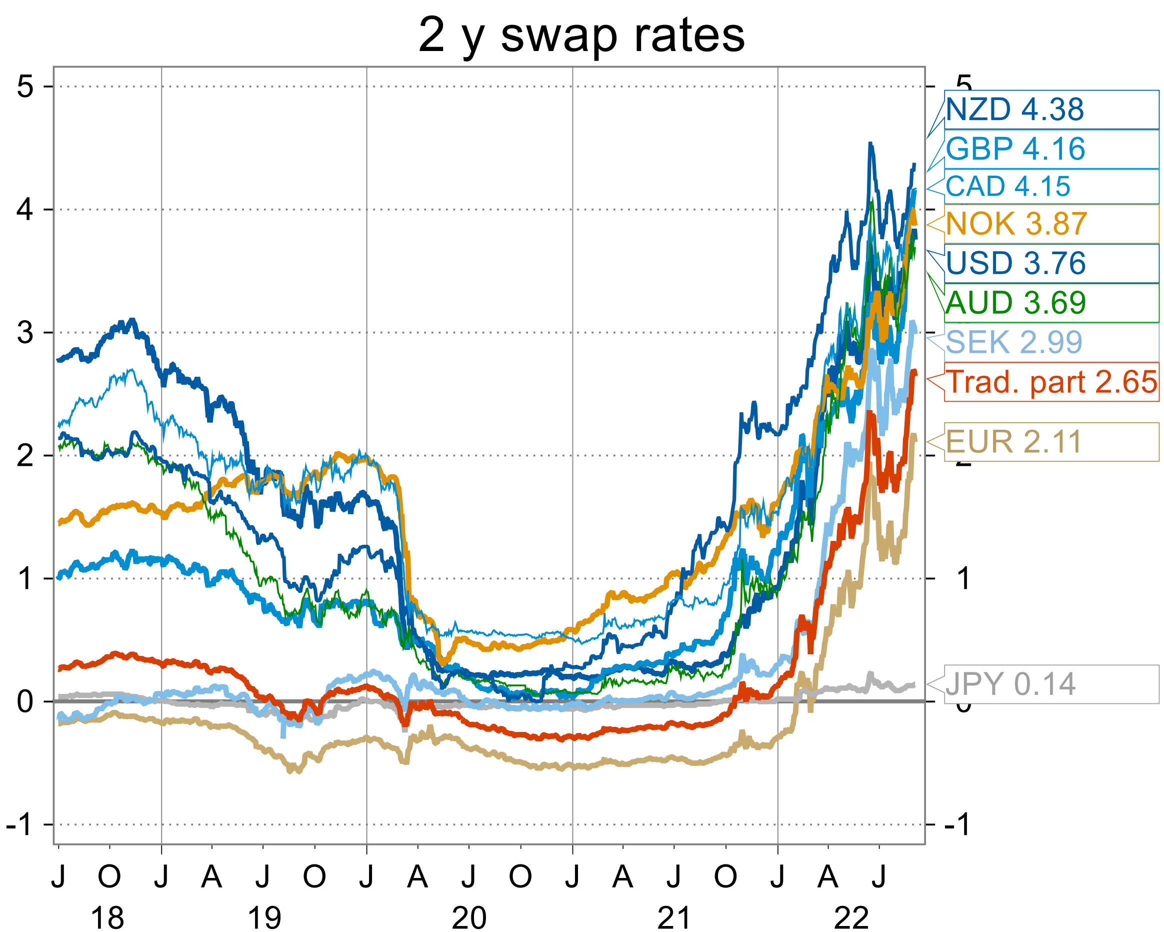


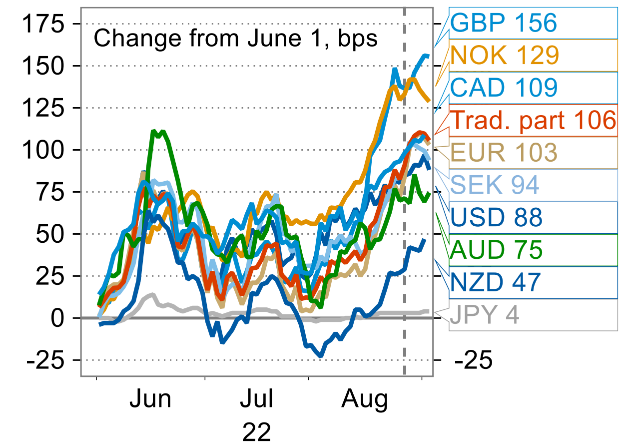


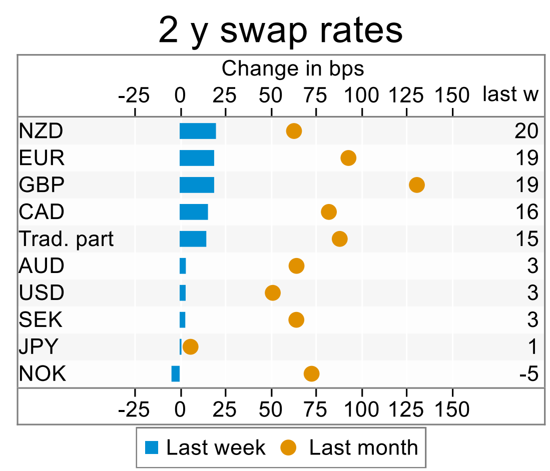


Some extreme weeks: Short-term rates up everywhere, except in NOK

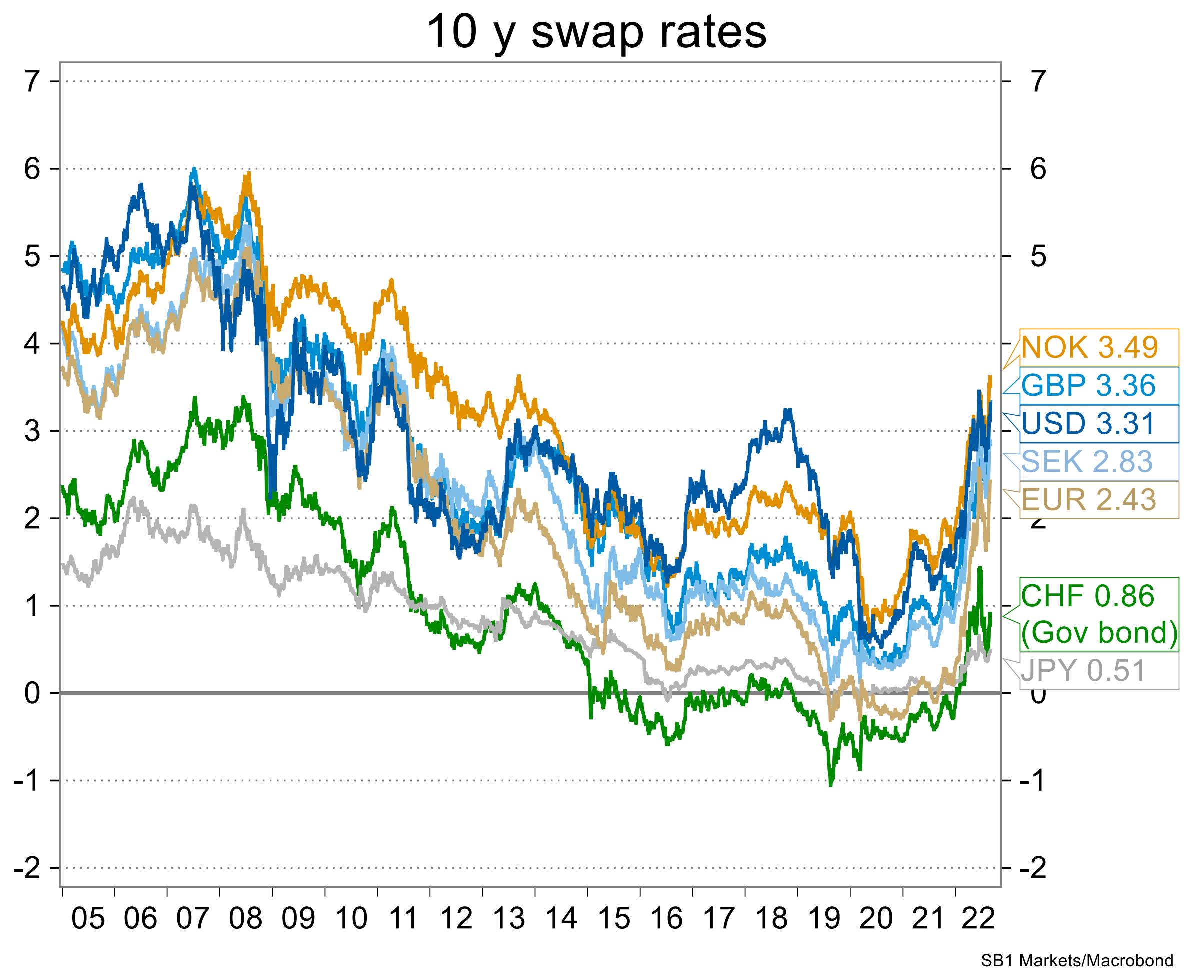
The 130 bps surge in 2 y GBP swaps in 4 weeks is the highest ever. NOK swaps up ‘just’ 75 bps

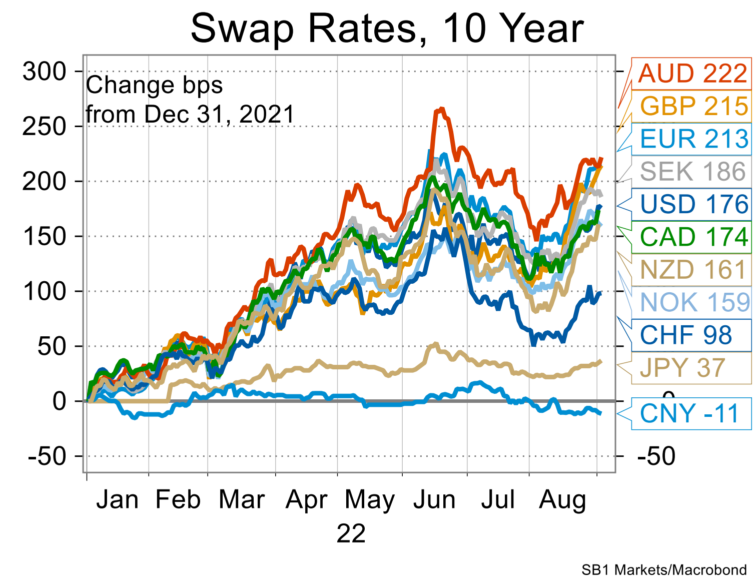


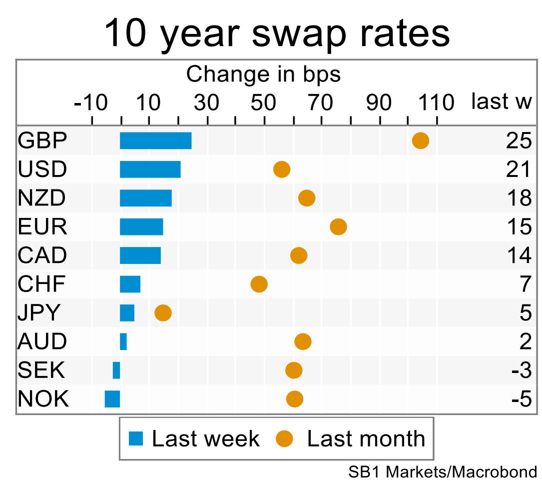




Longer dated swap rates further up too, almost everywhere (x NOK, SEK)

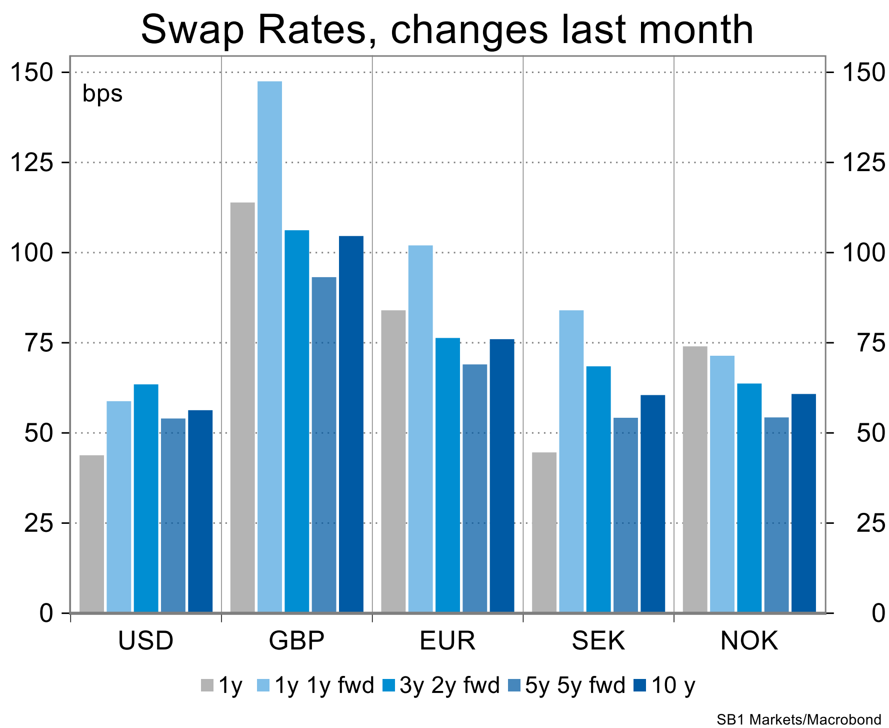


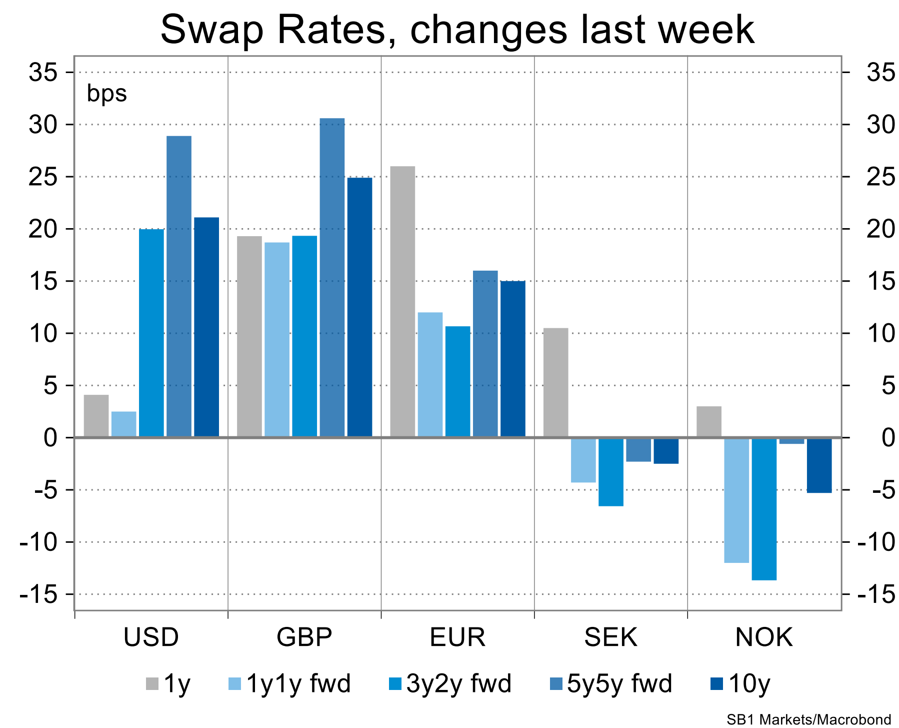




CHF: 10 y government bond yield

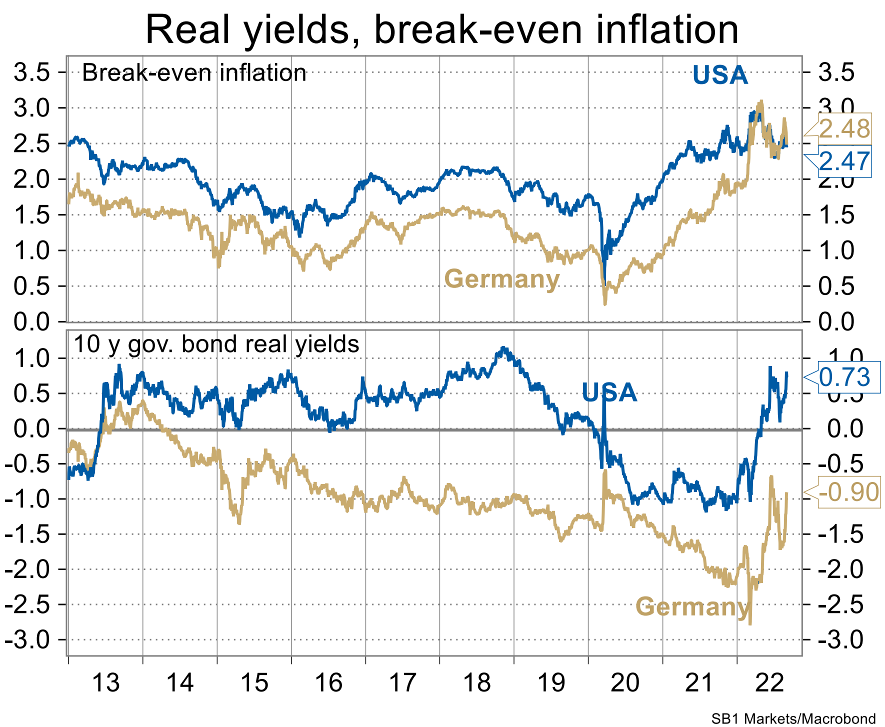
Swap rates up everywhere last week, except for NOK & SEK rates

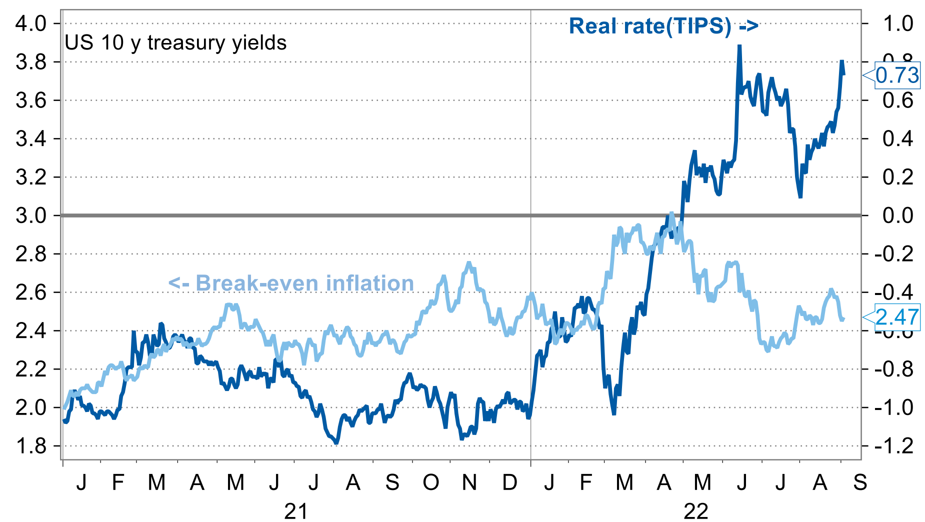




US 10 y real rate up 26 bps, the German real rate 49 bps!

Inflation expectations fell at least partly due to lower oil, gas prices





US & Germany 10 y Gov bond yield

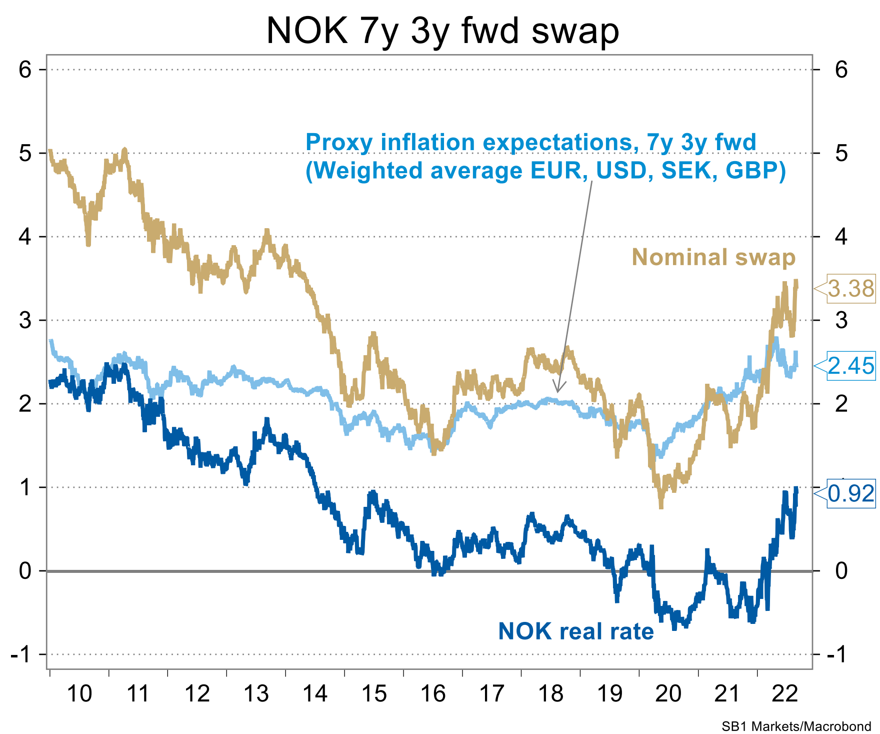
	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	3.20	0.16	0.45	1.28	0.52
.. break-even inflation	2.47	-0.10	-0.01	0.06	1.06
.. TIPS real rate	0.73	0.26	0.46	1.22	-1.19
Germany nominal bund	1.58	0.24	0.85	1.36	-0.65
.. break-even inflation	2.48	-0.25	0.03	0.50	0.40
.. real rate	-0.90	0.49	0.82	0.86	-2.80

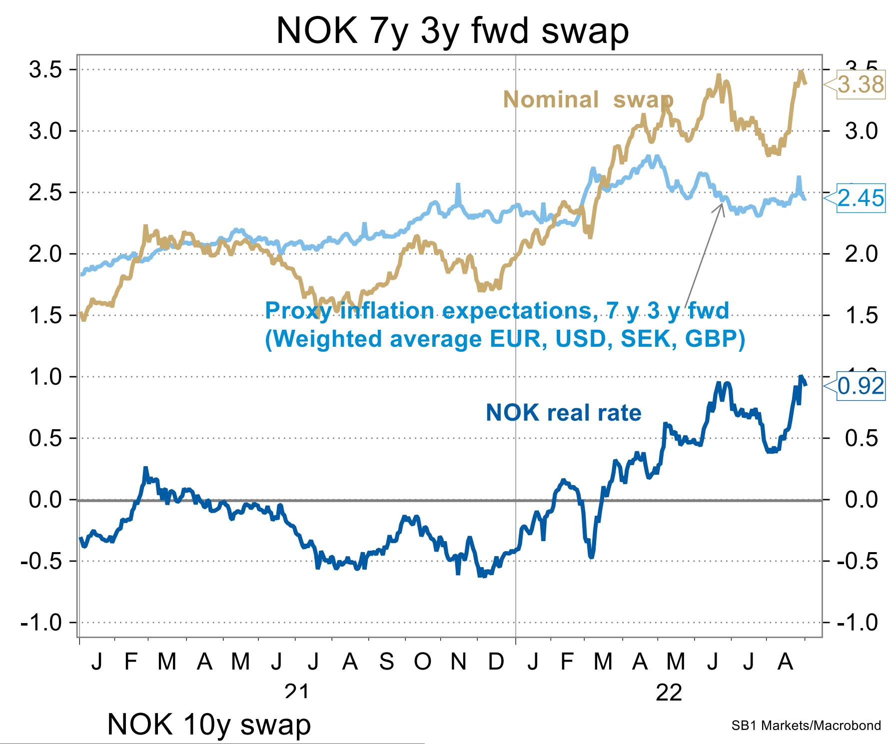
SB1 Markets/Macrobond

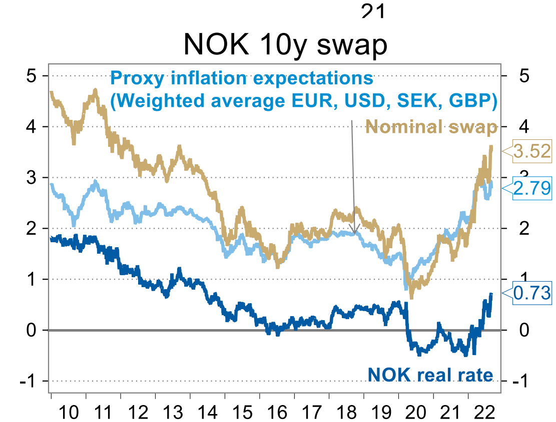
- **The 10 y German inflation expectation** at 2.48% is primarily driven by high expected inflation the first year (8%, measured via inflation swaps). Thereafter, inflation is rapidly expected to fall to 2% and below again. Real rates move the opposite direction – they are turning positive

Norway: Our inflation expectation proxy implies a steep increase in NOK real rates

Inflation expect. (7y 3 y fwd) have increased to 2.5% from 2%. Real rates are back to 1%, from -0.5%





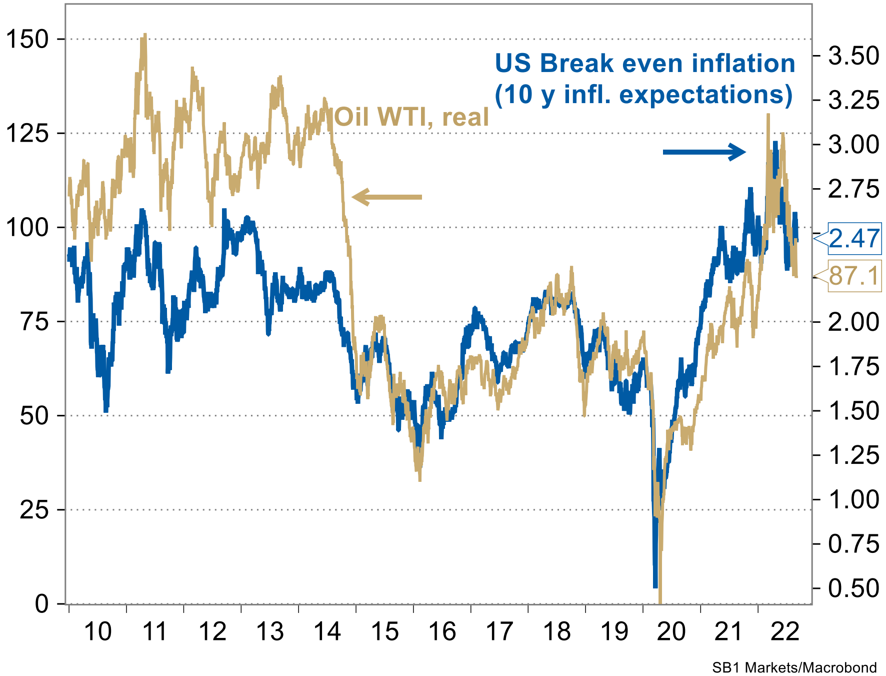


- Thus most of the lift in nominal swap rates recent months is due to higher real rate expectations, not higher inflation expectations
- Our NOK inflation expectation proxy is a weighted average of EUR, SEK, GBP, and USD inflation swaps, cross-checked vs actual inflation differentials and inflation expectations from surveys

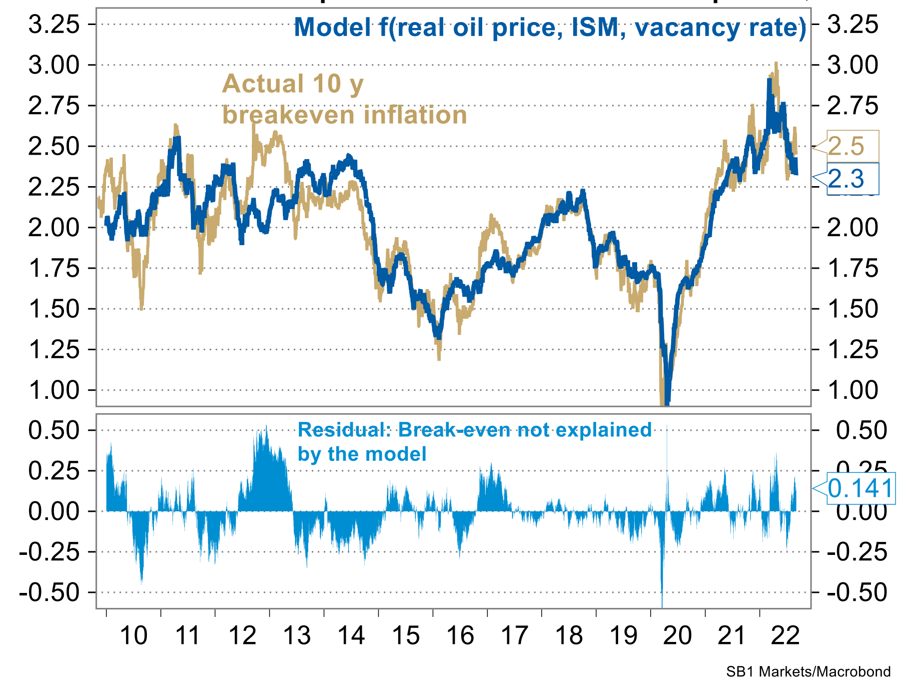
(Longer-term) Inflation expectations marginally down – still somewhat too high?

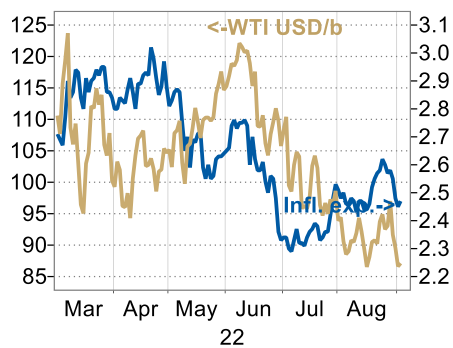
If the economy slows – and the oil price does not surge – inflation expectations should come down

USA Inflation expectations vs. the oil price



USA Inflation expectations vs. the oil price, CPI

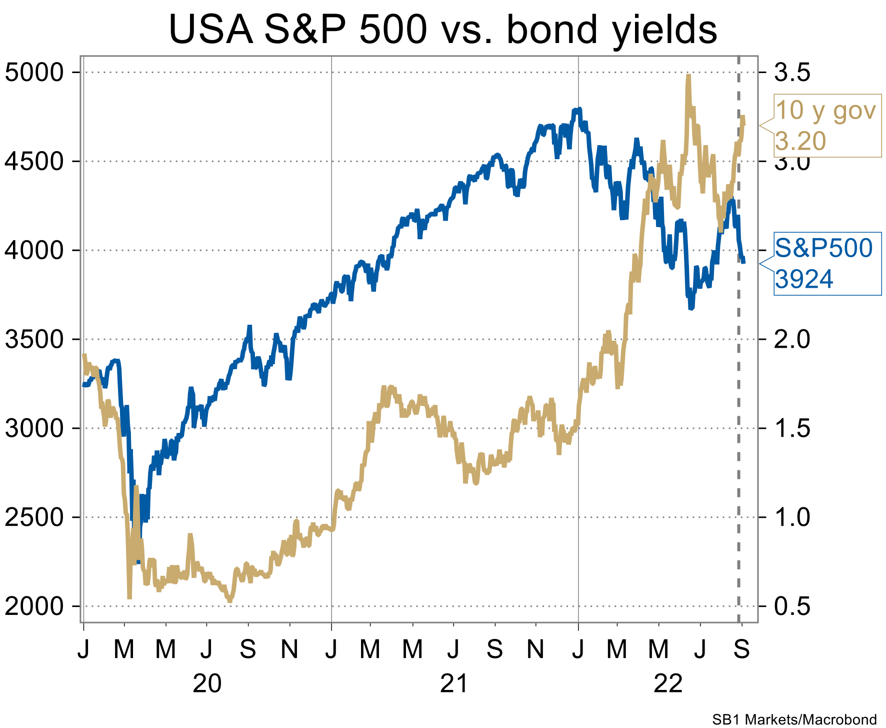


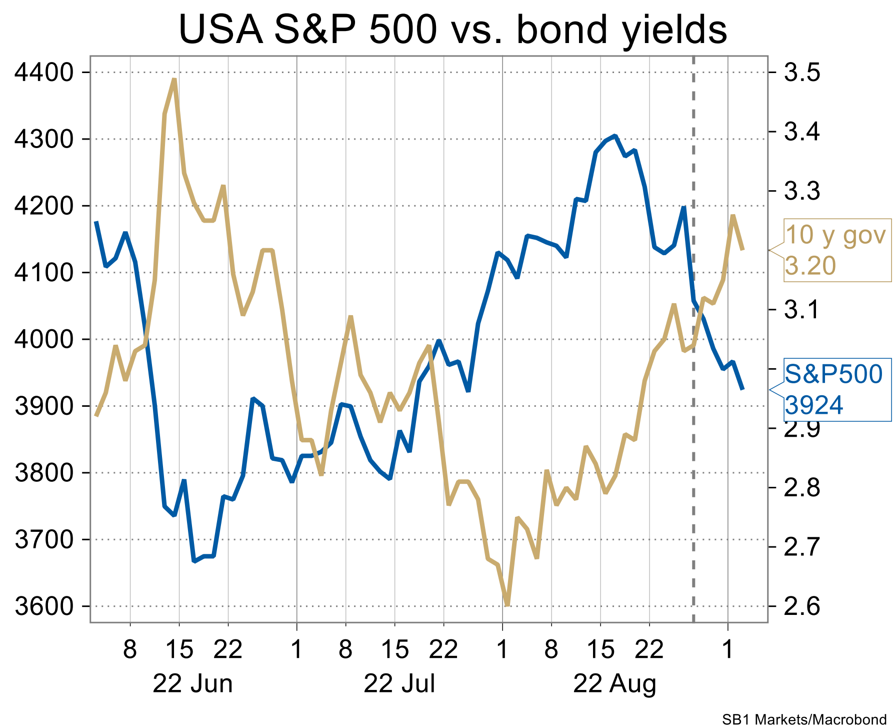


- A simple model including the spot oil price, the current ISM and the current vacancy rate pretty well explains the long-term breakeven inflation expectation in the bond yield curve
- What now? We are uncertain on the oil price, but rather confident that both the ISM, and the vacancy rate will decline. 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

Still a risk-off mode: equities down. Almost 2/3 of the summer rally reverses

Bond yields rose further, as real interest rates rose sharply



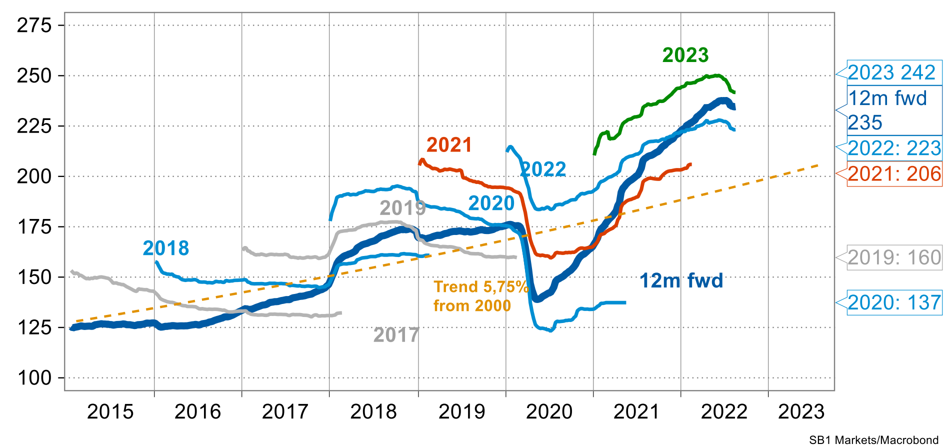


SpareBank 1 MARKETS

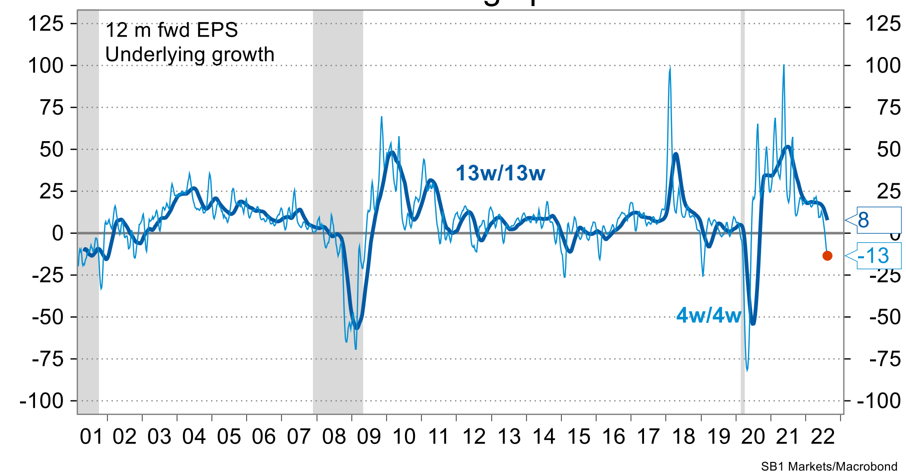
Earnings forecasts finally on the way down – and more is likely to come

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

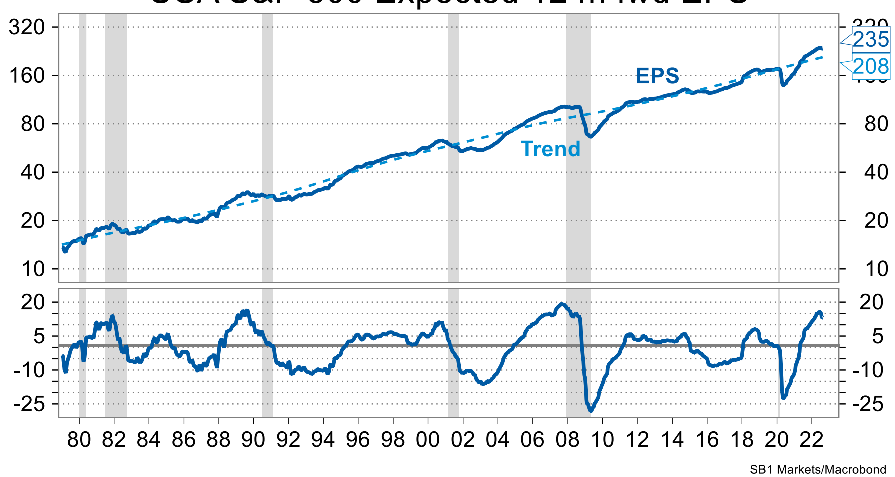
Annual S&P 500 EPS consensus (Factset)



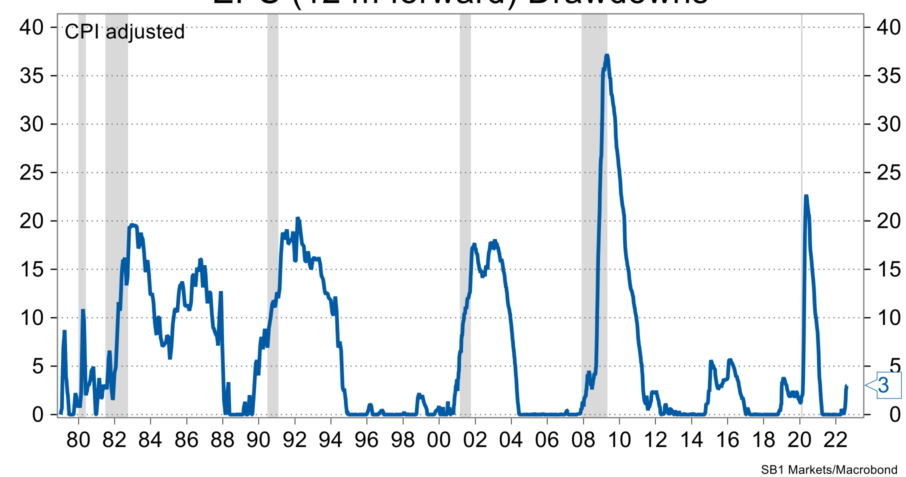
S&P500 Earnings per share



USA S&P 500 Expected 12 m fwd EPS

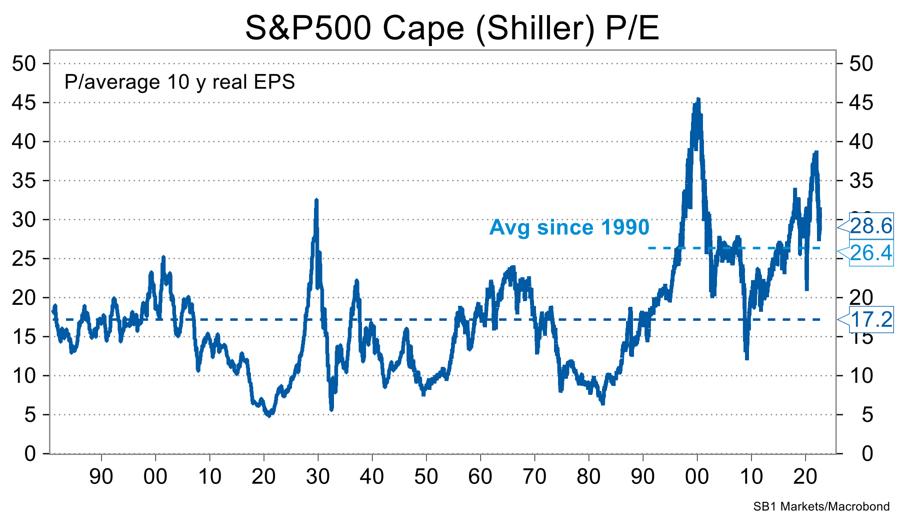


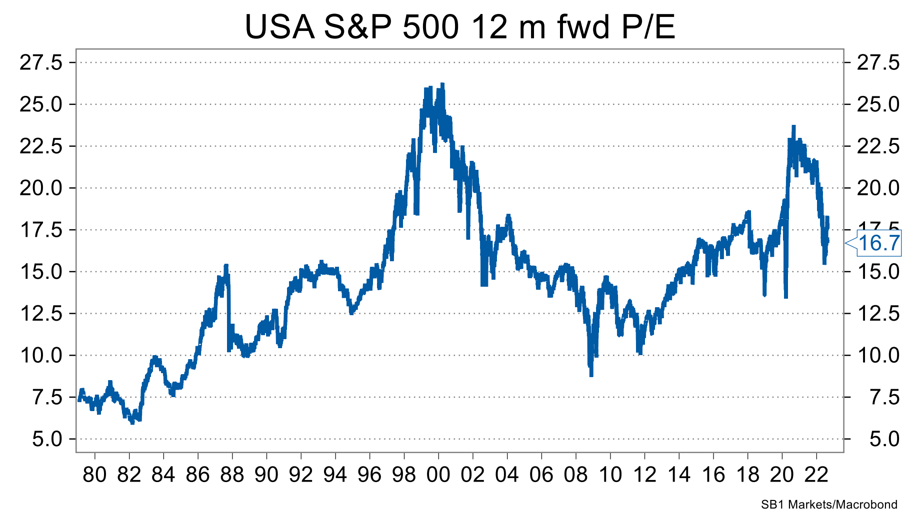
EPS (12 m forward) Drawdowns

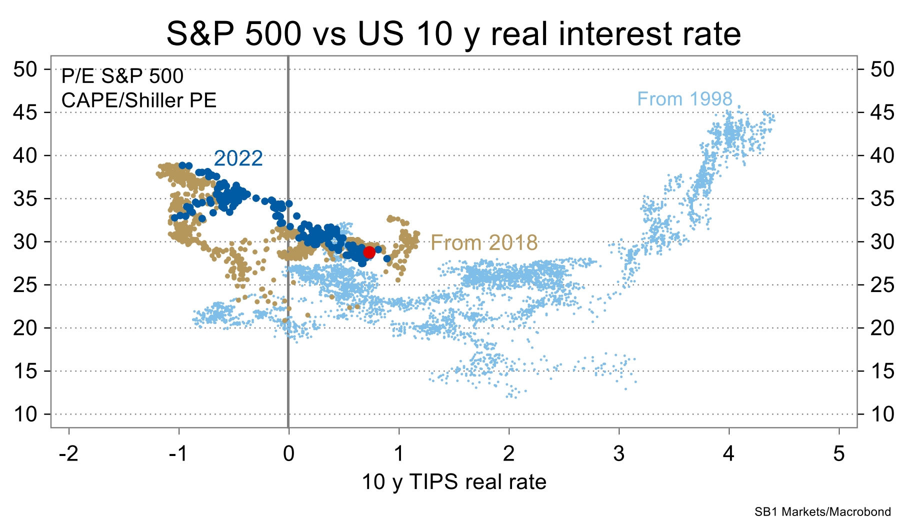


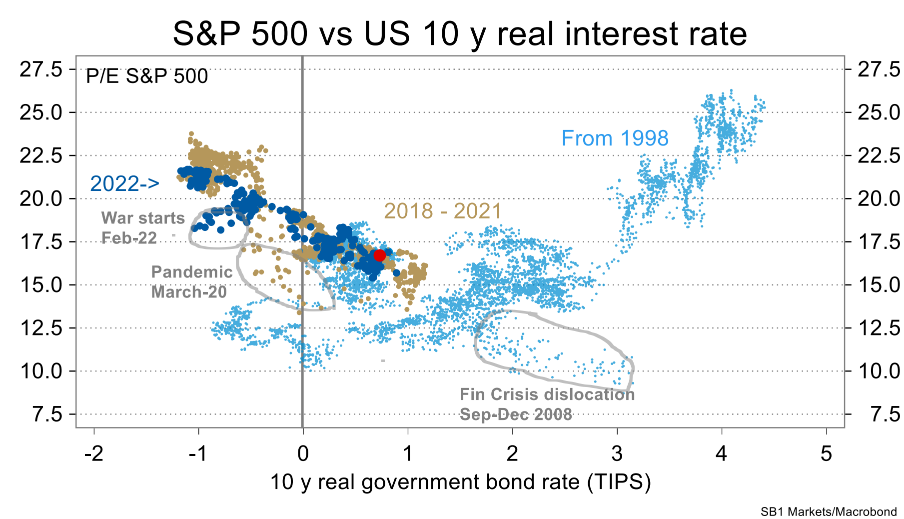
4 valuation charts

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





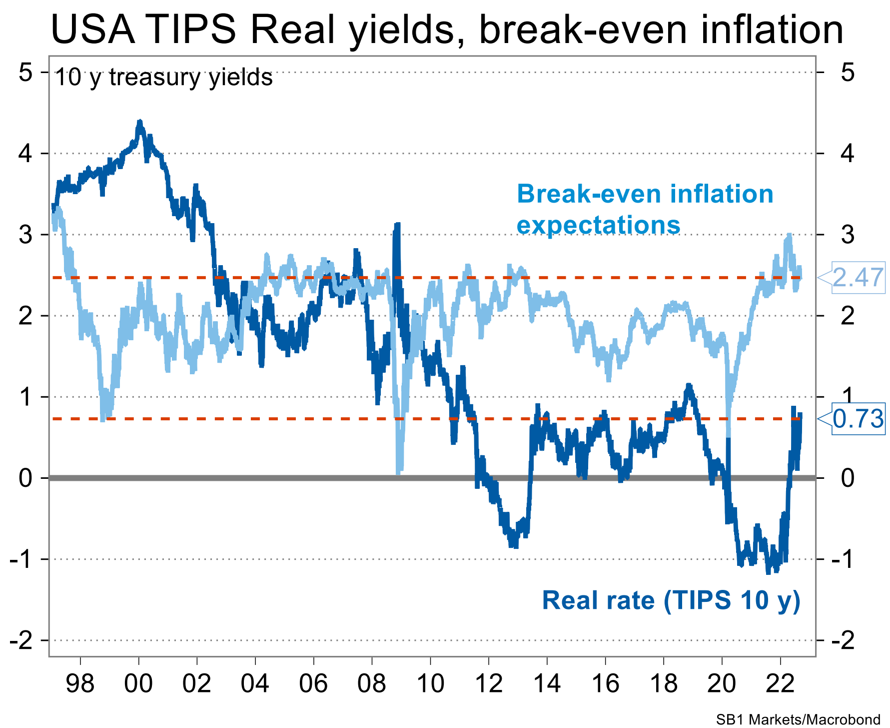


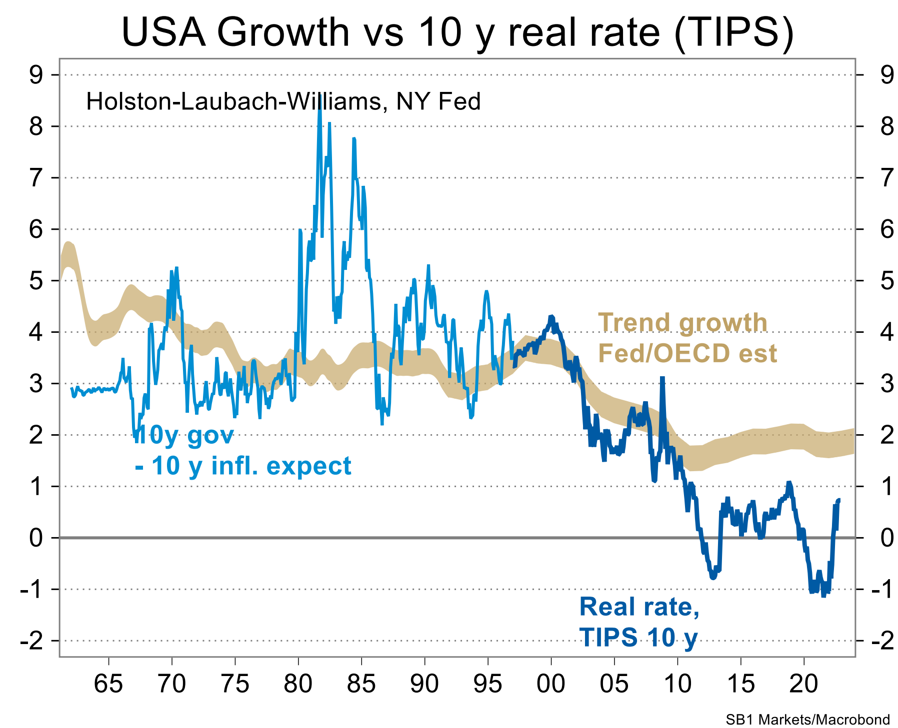


SpareBank 1 MARKETS

Growth vs real rates: Mind the gap, it’s closing, from both sides

Real rates are up, while short/medium-term growth expectations are declining



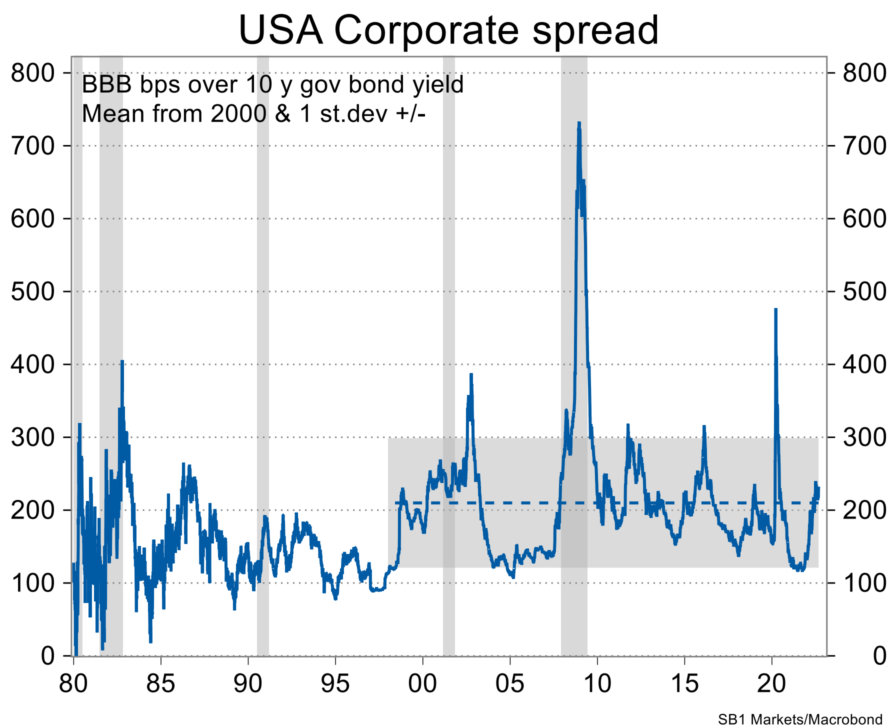


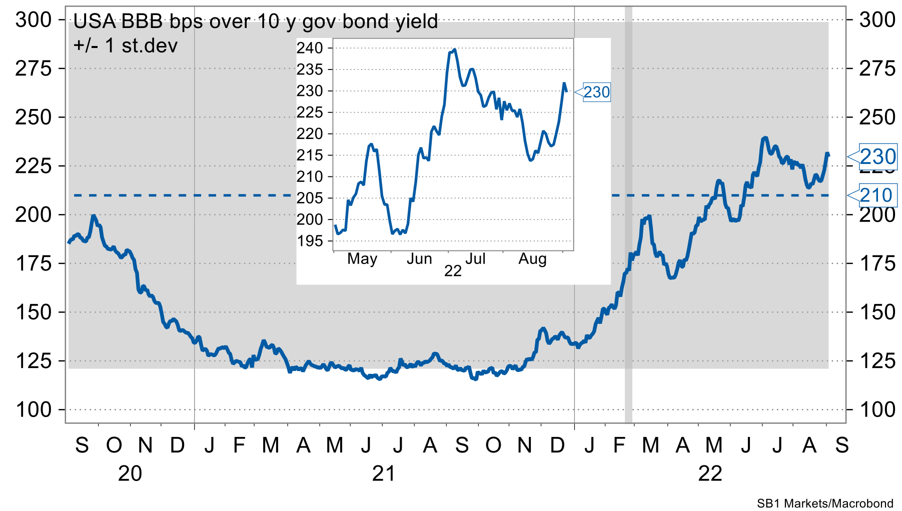
- But what if the growth outlook is weakening, at least short/medium term?

SpareBank 1 MARKETS

Risk off: Credit spreads up last week, still below the June peaks

However, spreads are marginally above an average level: The real capital cost has 'exploded'





- The US BBB spread is up 110 bps from the bottom last autumn, almost a doubling
- Thus, the basis for all valuation metrics has changed dramatically, check the chart two pages forward!

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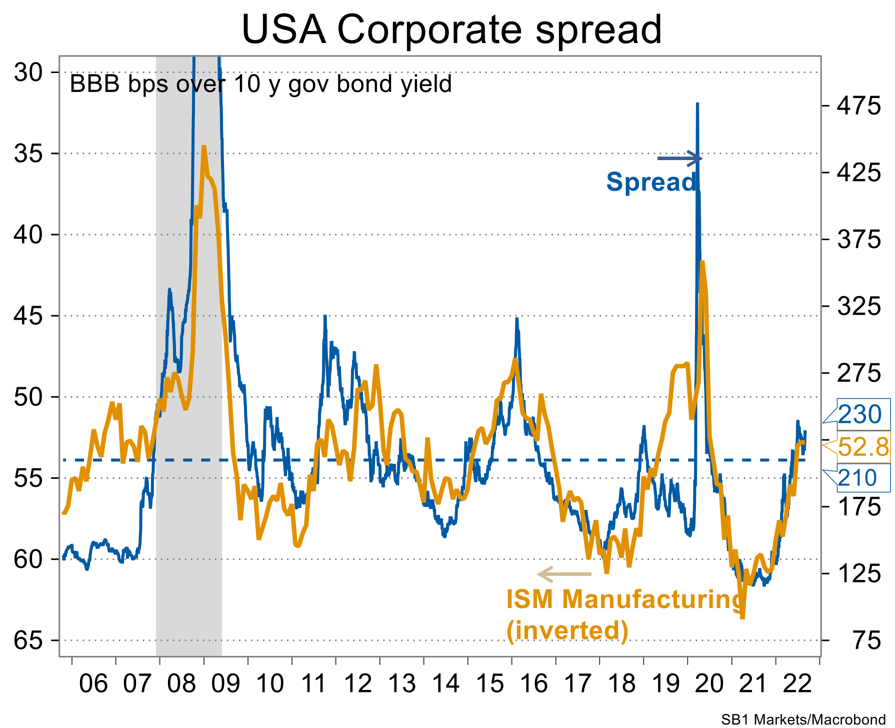
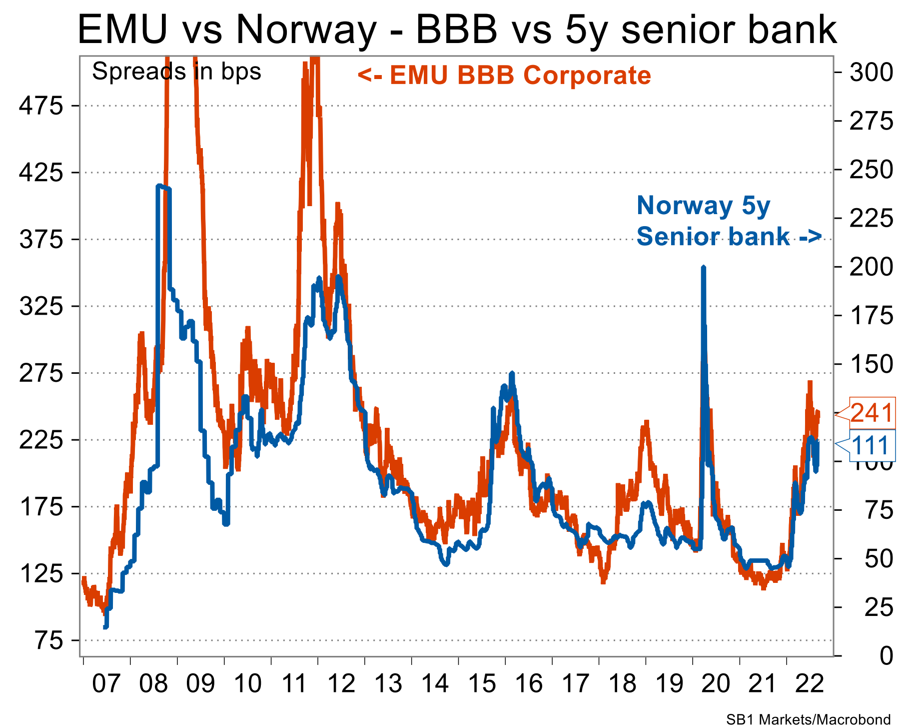
Why have credit spreads widened in 2022? Could it be the slowing economy?

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

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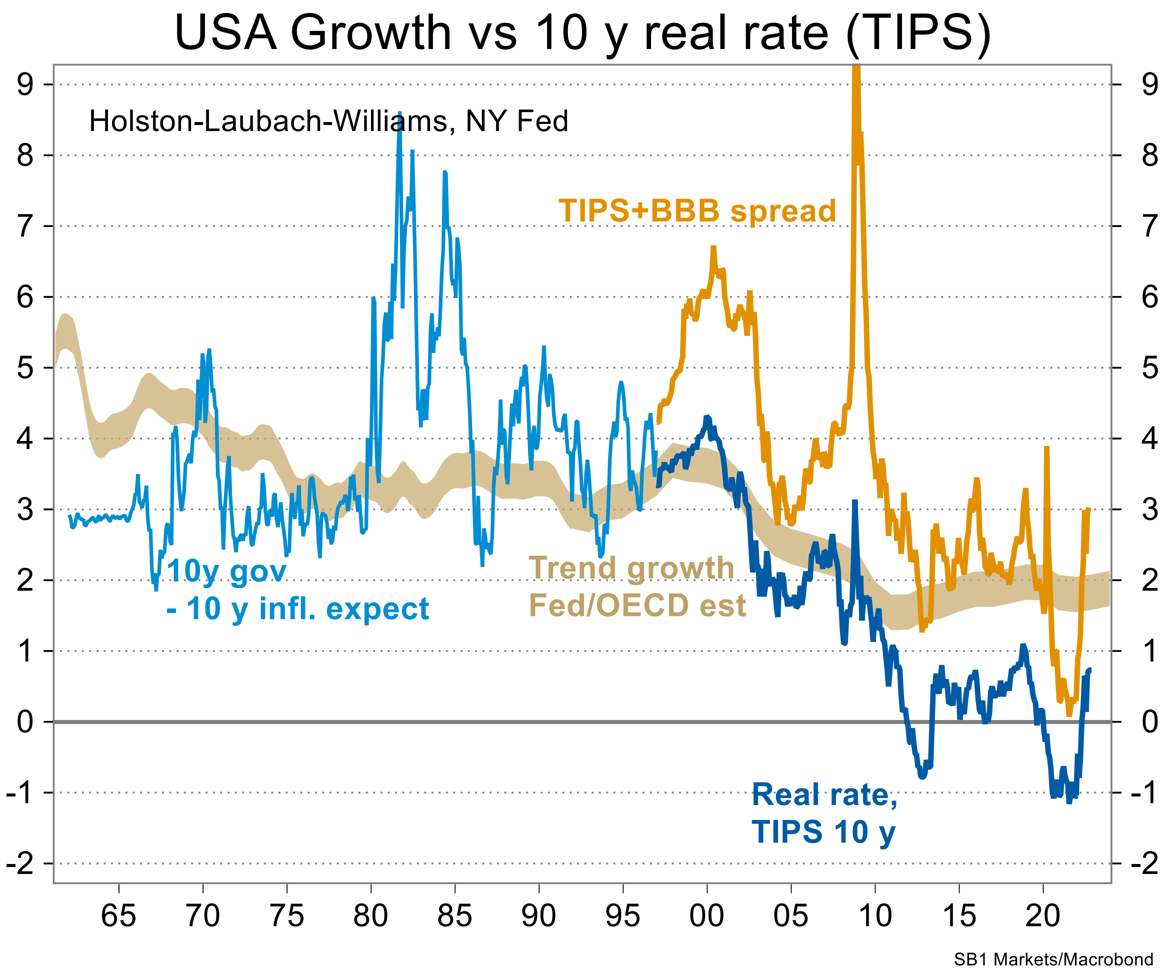
The cost of capital is not like it was some few months ago

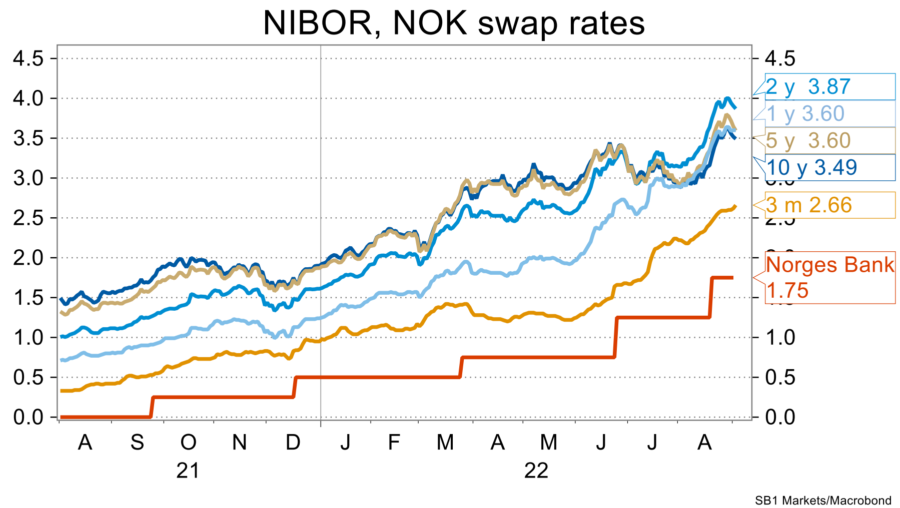
The basis for all valuation metrics has changed dramatically

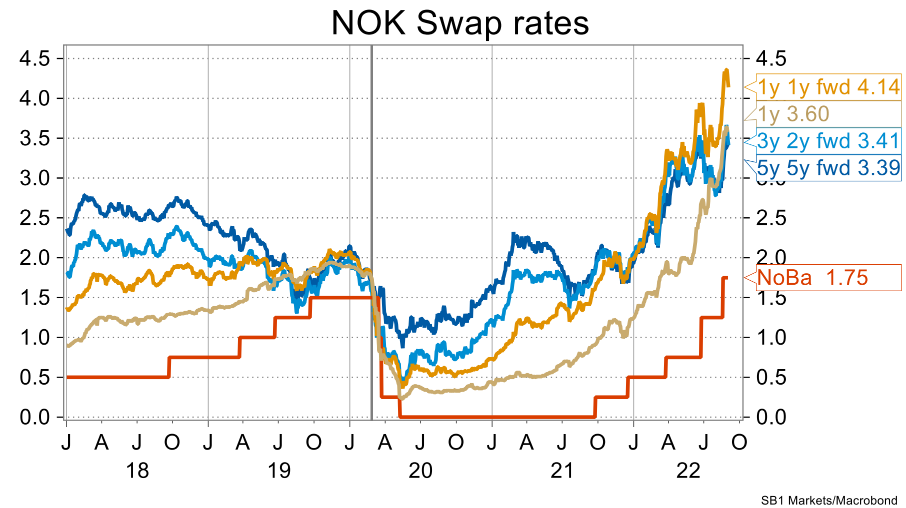


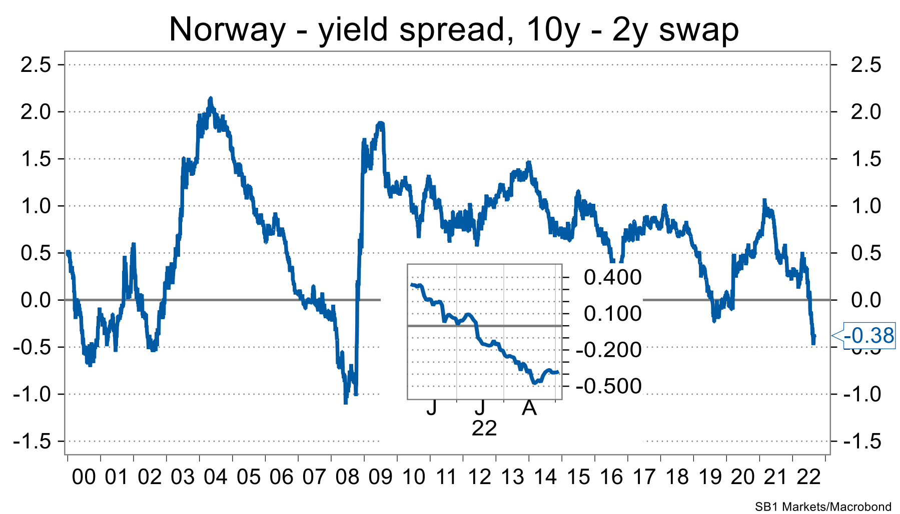
- The total real borrowing cost has increased to 300 bps from zero by the end of last year:
  - » The TIPS real rate is up from -100 to + 70 bpd
  - » The spread is up from 120 to 230

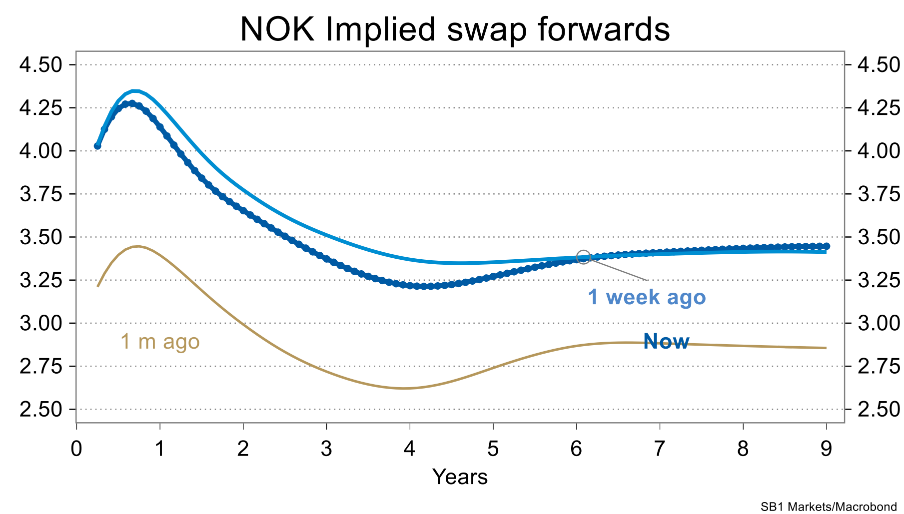
Rates marginally down, except in the very short end

The 10 - 2y is inverted, by 38 bps



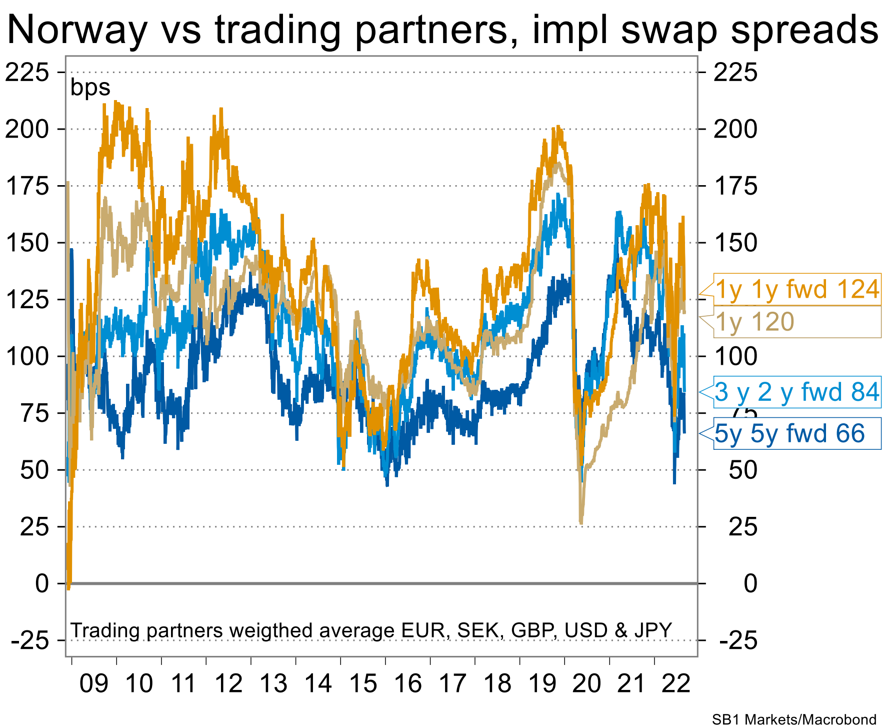


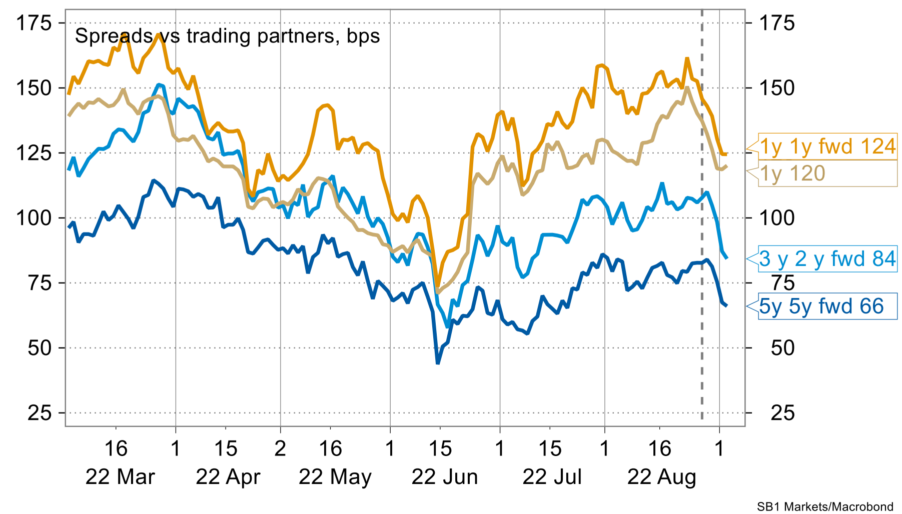


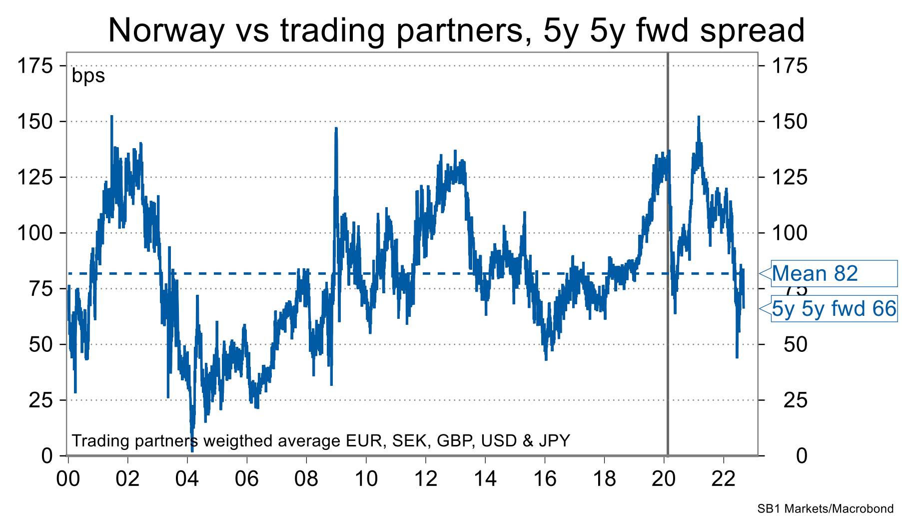


Spreads vs trading partners down last week

From 2 years forward, implied spreads are lower than average – which they should be



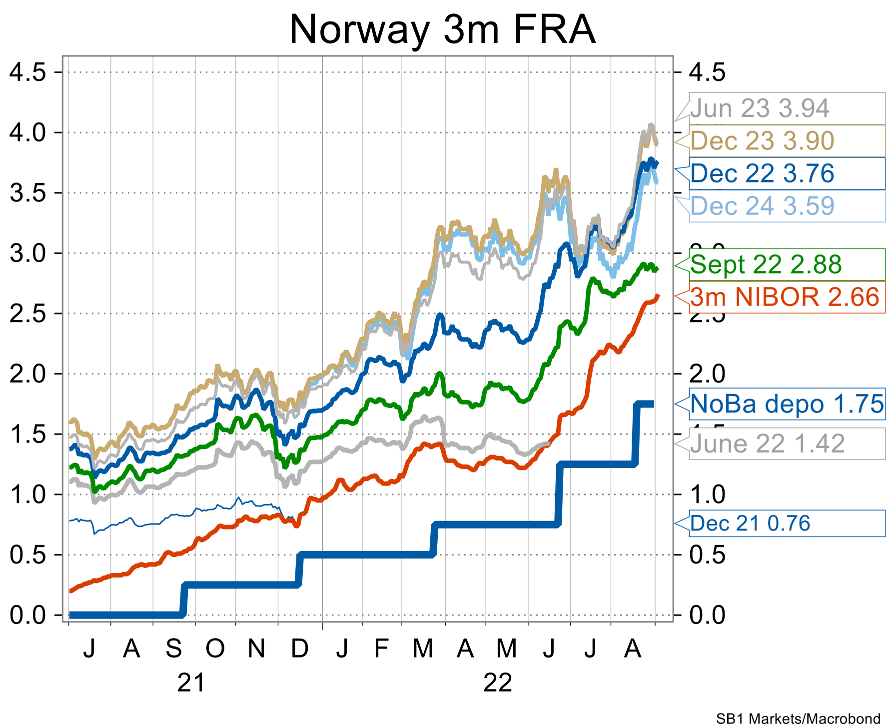


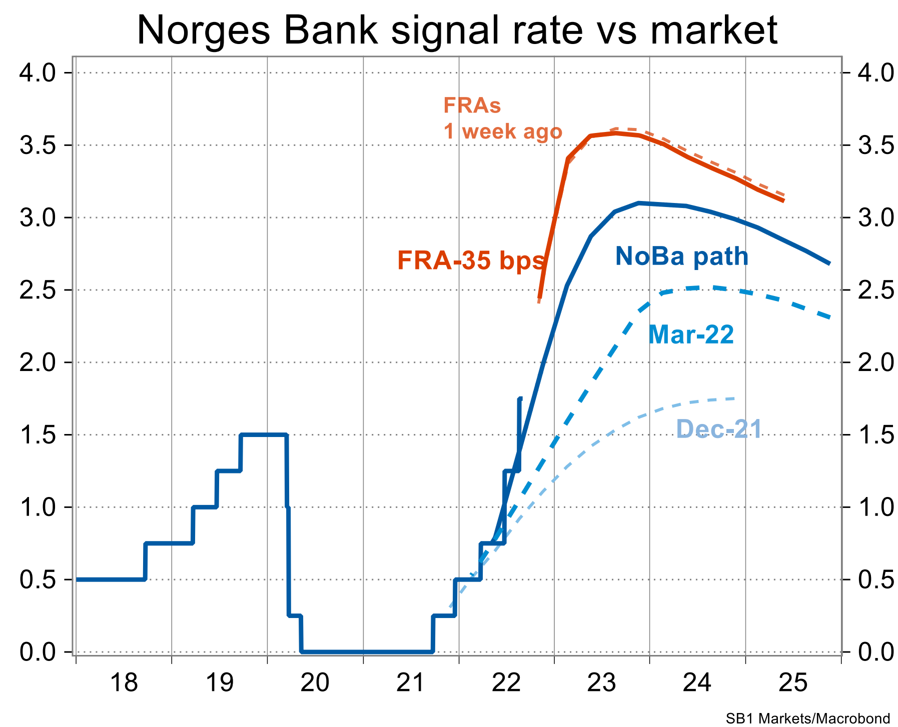


- The 8 y - 2 y fwd spread is 73 bps, below the 90 bps average since 2000. However, the current spread is probably not too narrow:
  - » Long term, Norway will not have that much high real rates or inflation than the world around us

Finally, a pause – FRAs flattened last week. Still 3 x 50 bps, in Sep, Nov & Dec

And one more hike in H1 – and a mortgage rate well above 5% in the spring. That's too much





- The short end of the curve tilted upwards up to 4 bps, while the FRAs from March-23 onwards fell slightly, up to 5 bps
  - » As we have commented the last two weeks, the fear of a liquidity squeeze in the NOK money market due to the mismatch between oil companies NOK buying (to pay their unprecedented taxes) and NoBa NOK selling (to buy NOK for the Oil Fund) was totally unwarranted, as NoBa easily could adjust its f/x buying or compensate with other measures. Last week it did, by announcing 3.5 bn/d in f/x buying in Sept, up from 1.5 bn/day in Aug. NOK fell just slightly, as did the short end of the FRA-curve – but the FRAs ended the week up! So much for all the noise!
- We think the current FRA rates anyway are too aggressive. 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 (and 2.4% in July). 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

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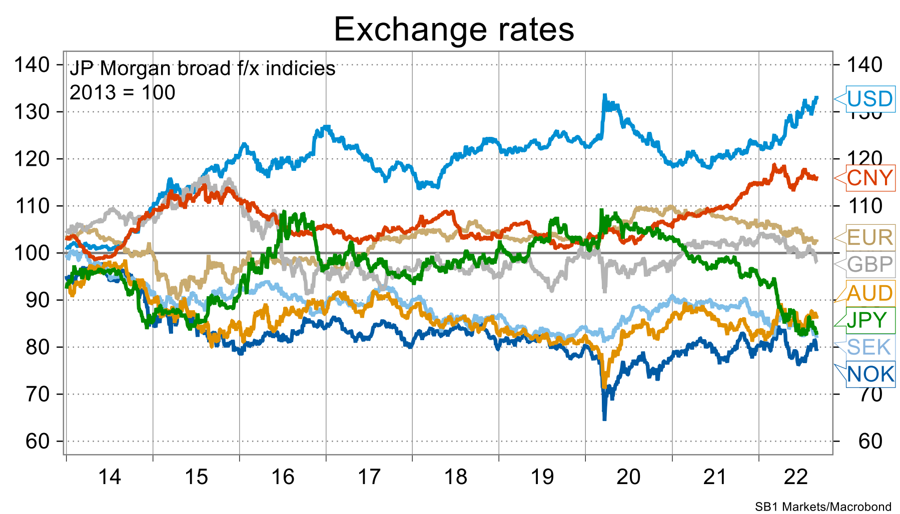
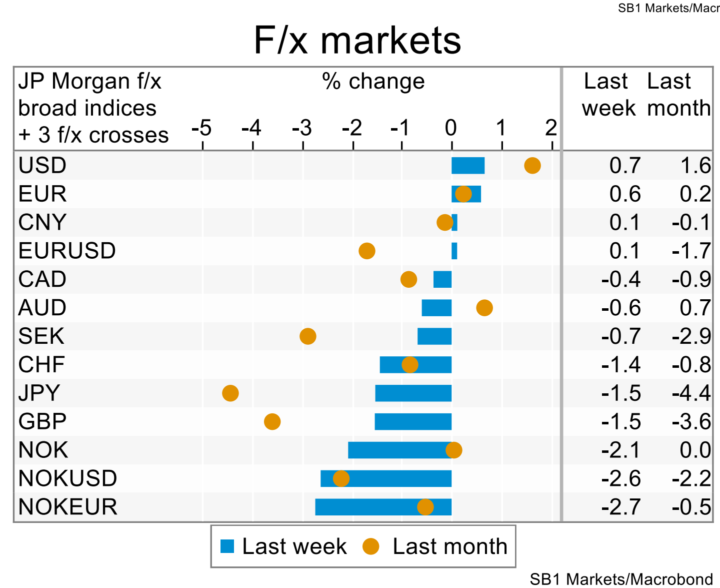
NOK from top to bottom, once more. The USD, and the EUR (!) at the top

The other super-cyclicals (AUD, CAD, SEK) fell too: Oil/gas prices down, risk off in financial markets





JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
USD	0.7	1.6
EUR	0.6	0.2
CNY	0.1	-0.1
EURUSD	0.1	-1.7
CAD	-0.4	-0.9
AUD	-0.6	0.7
SEK	-0.7	-2.9
CHF	-1.4	-0.8
JPY	-1.5	-4.4
GBP	-1.5	-3.6
NOK	-2.1	0.0
NOKUSD	-2.6	-2.2
NOKEUR	-2.7	-0.5

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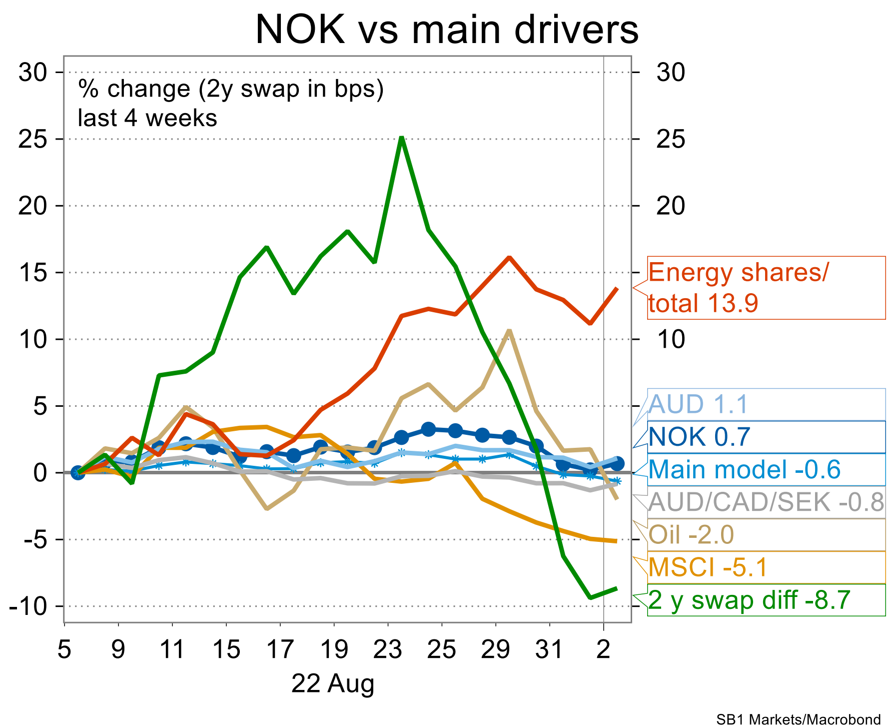
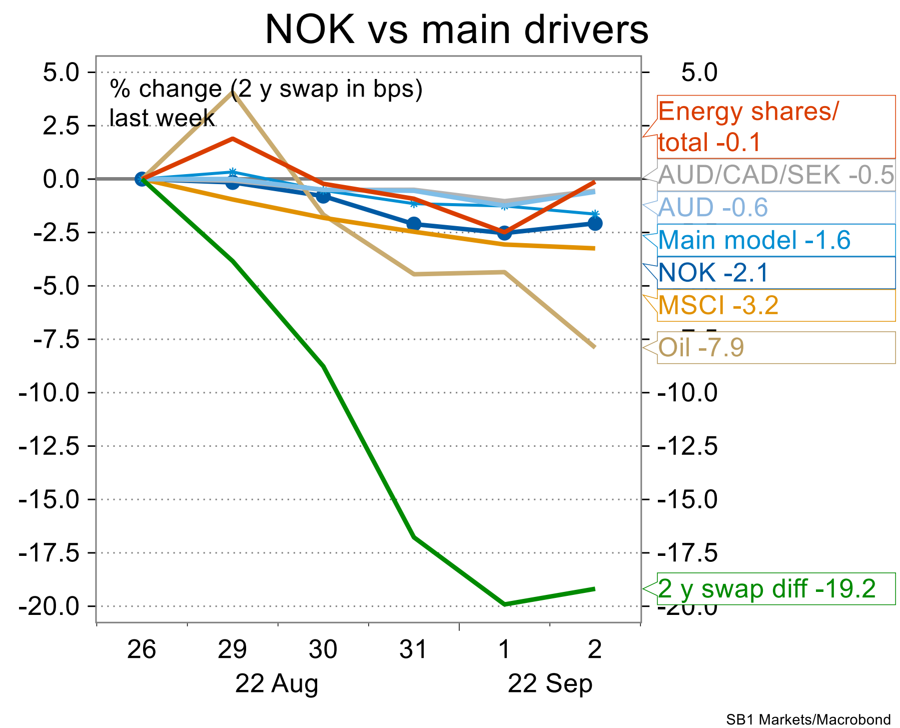
NOK down 2%, our model suggested 1.6%. Oil (and gas), int. rate spread down

NoBa's 3.5 bn/d f/x buying to the Oil Fund lowered NOK some 1% (see next page)





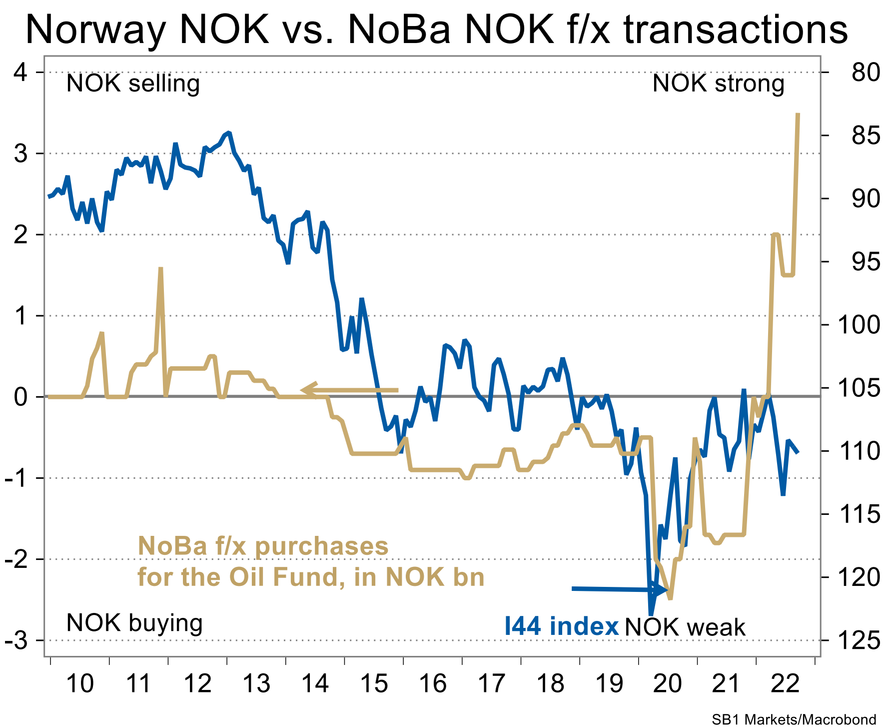
Gaps vs. out model estimates have narrowed – but not last week

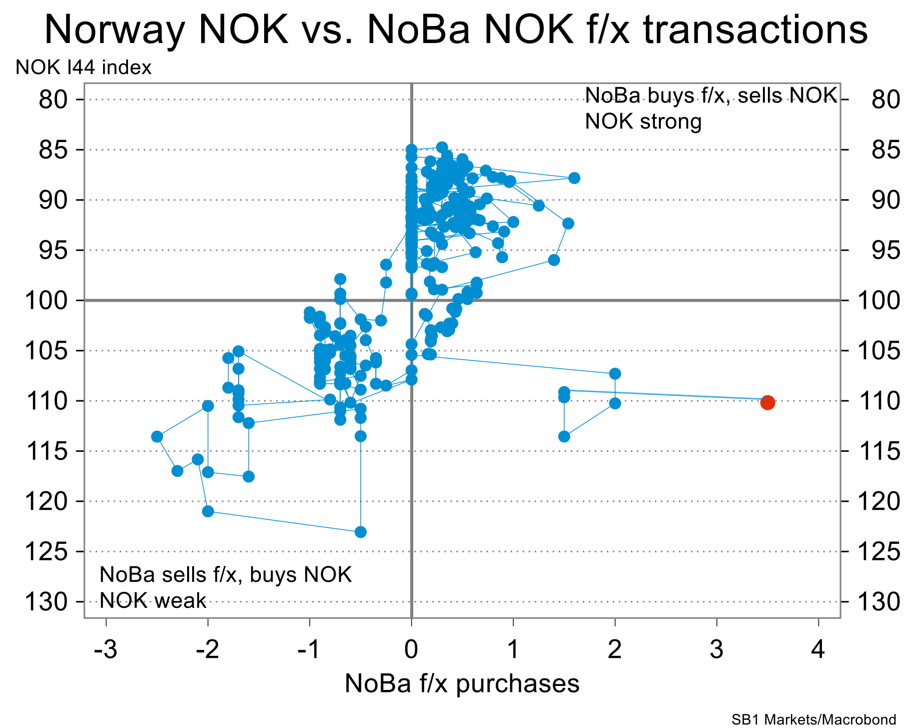
- ***NOK is 1.4% <u>below</u> our main model estimate (from –0.9%)***
- The NOK is 7% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts, a substantial weakening (from -4.4%)
- NOK is 3.3% <u>weaker</u> vs an estimate from a model that includes global energy companies equity prices (vs the global stock market) (from -1.4%)

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

NoBa ramped up f/x-buying for the Oil Fund, big time! NOK 3.5 bn/day in Sept

… as oil (or gas?) companies have to buy unprecendeted amounts of NOK to pay their taxes





- Petroleum tax payments have exploded as record high gas prices boost companies revenues – the windfall ends up in the government's coffers. Companies have to buy NOK in order to pay their taxes, and the Norwegian money market is drained
- Then, after a while, the government transfers these NOK to Norges Bank, which buys f/x before transferring the money to the Oil Fund
  - » There has been a lot of debate whether the mismatch in timing between NOK buying and selling could push the NIBOR spread sharply up and/or strengthen the NOK, and some dramatic forecasts have been presented
  - » We have argued that the Ministry of Finance and NoBa do not want to create instability on the domestic money market due to these (in practice unnecessary) exchange procedures – and that they had several options to smooth out the unwarranted impacts – like supplying the money market with liquidity by selling more NOK. Which they did by lifting the daily f/x buying to equalling 3.5 bn/day in September, up from 1.5 bn in August. If needed, a weekly adjustment could be implemented
- NOK fell slightly on the announcement, as did short term FRAs. However, the long term relation is the opposite: the more NoBa sells NOK, the stronger it gets – as NoBa sells NOK when the oil (or gas) price is high. Now, the NOK is far weaker than the oil/gas prices and NOK selling suggests

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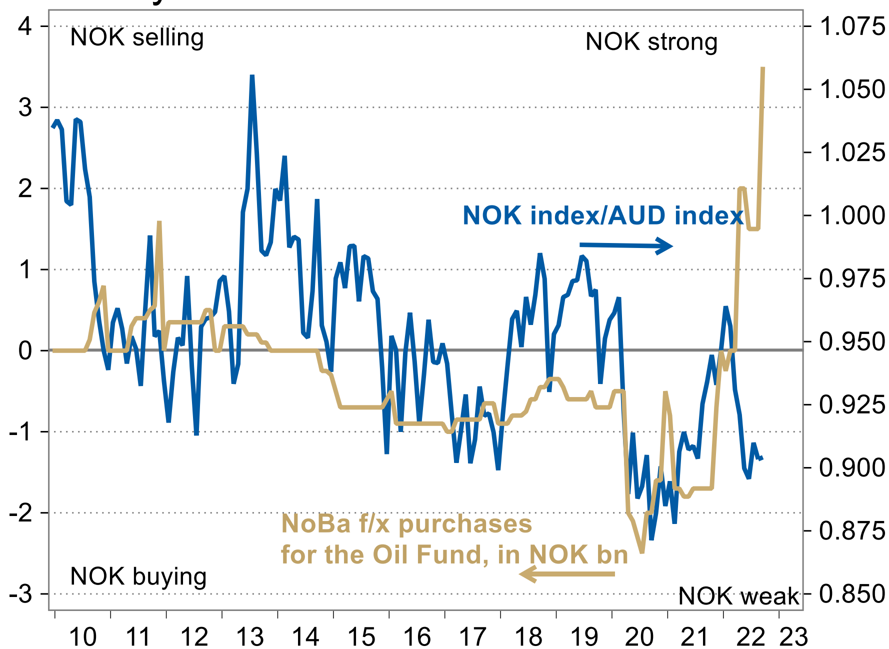
NOK is weak vs the AUD when NoBa is buying NOK (and not selling)

However, now the NOK is weak, even if NoBa is selling NOK, big time

Norway NOK vs. NoBa NOK f/x transactions



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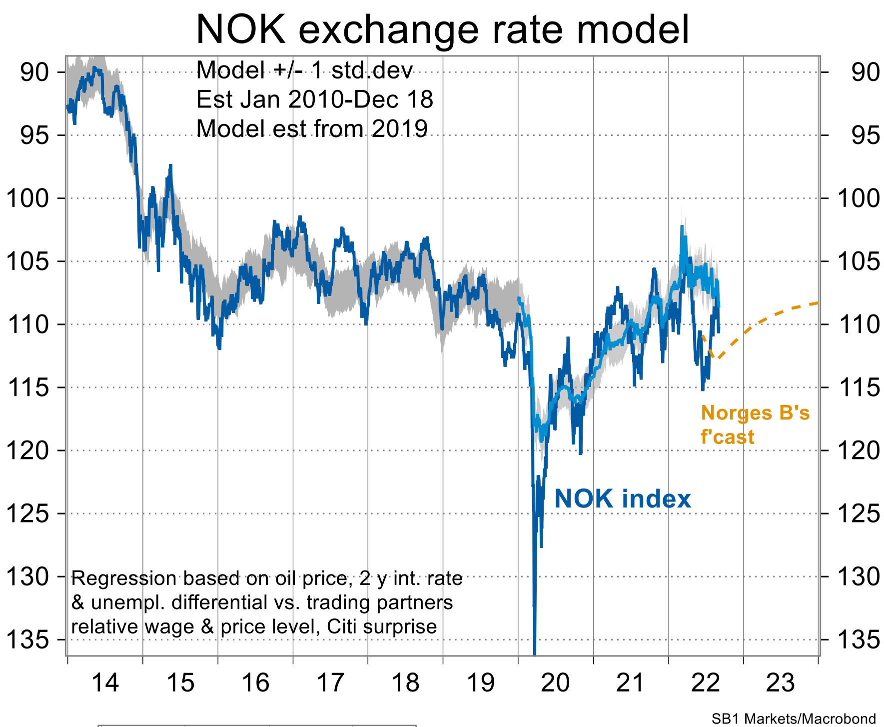
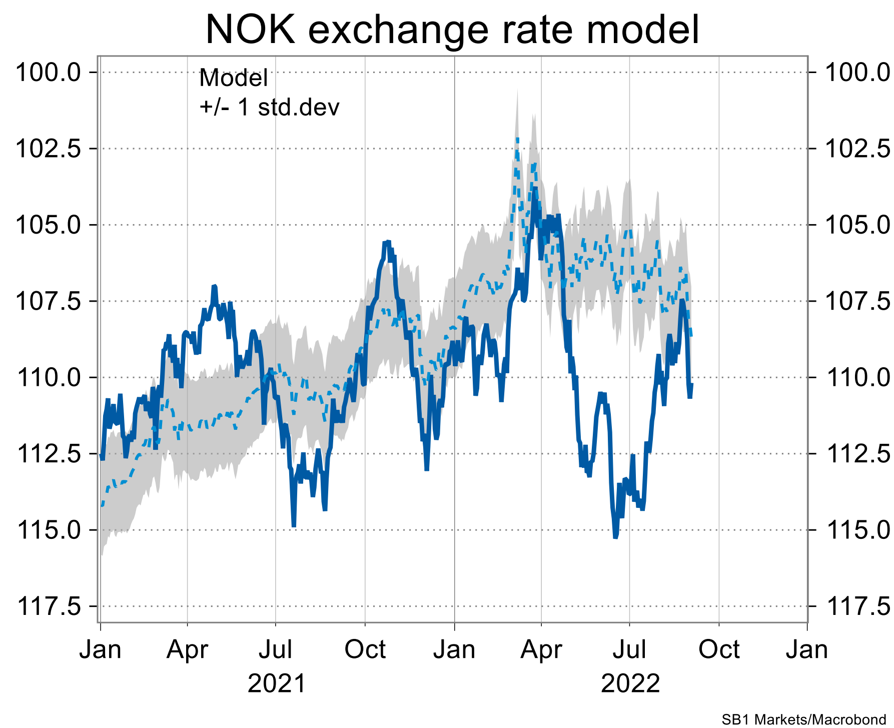
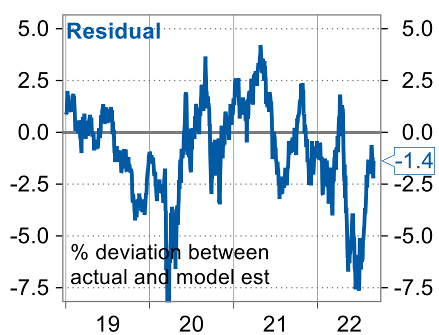
- …

The NOK is 1.4% below our model estimate, which does not include the gas price

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

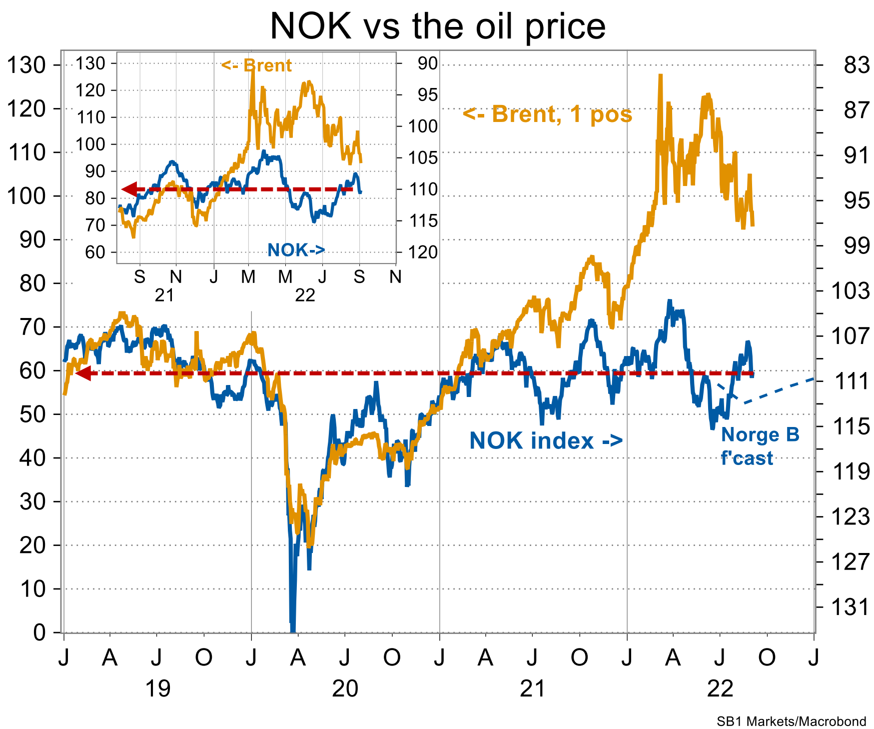


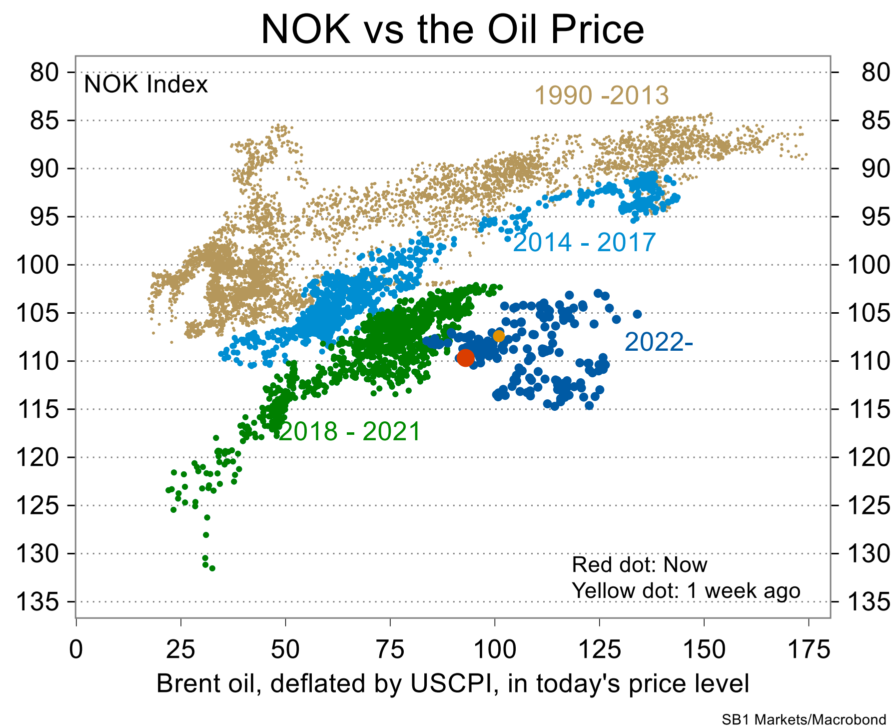




Both oil (and gas) and NOK down last week – but no correlation so far in 2022

The NOK is weak vs the oil price but gaps are narrowing (NOK is approaching the 'green zone')

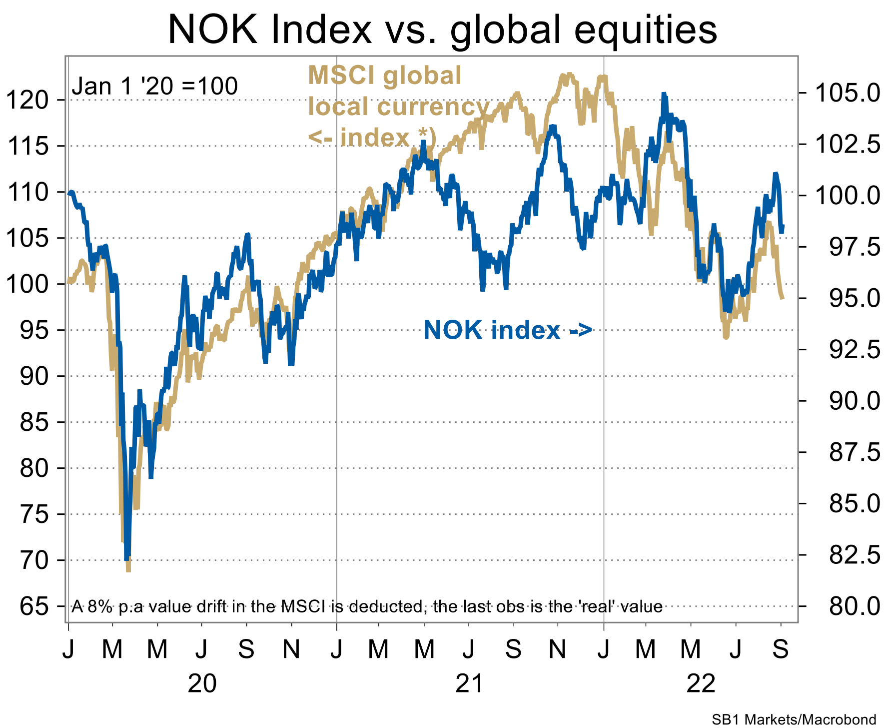


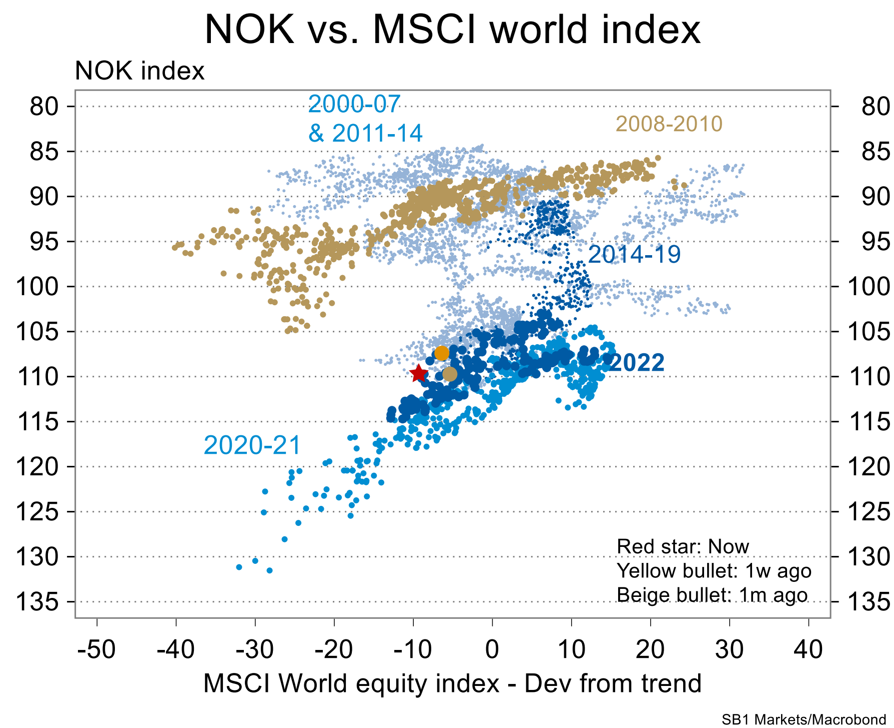


- The x/y chart to the right, the NOK vs the oil price has come closer to the 2018 – 2021 pricing regime
- However, the correlation between the NOK and the oil price has been non-existent since the start of 2022

The NOK down in sympathy with stock markets

The NOK has been more in sync with stock markets than normal since April

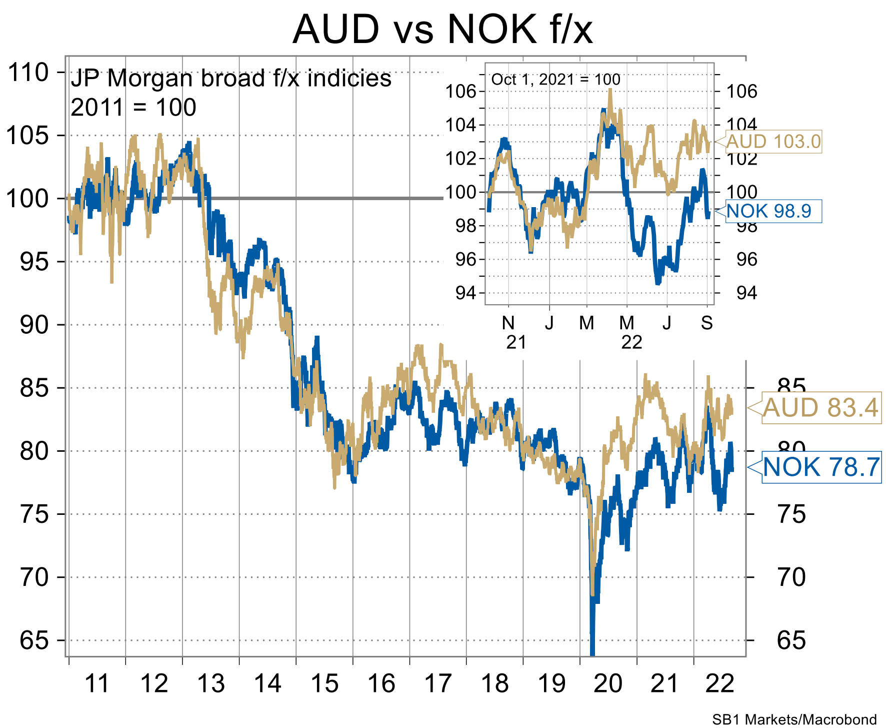


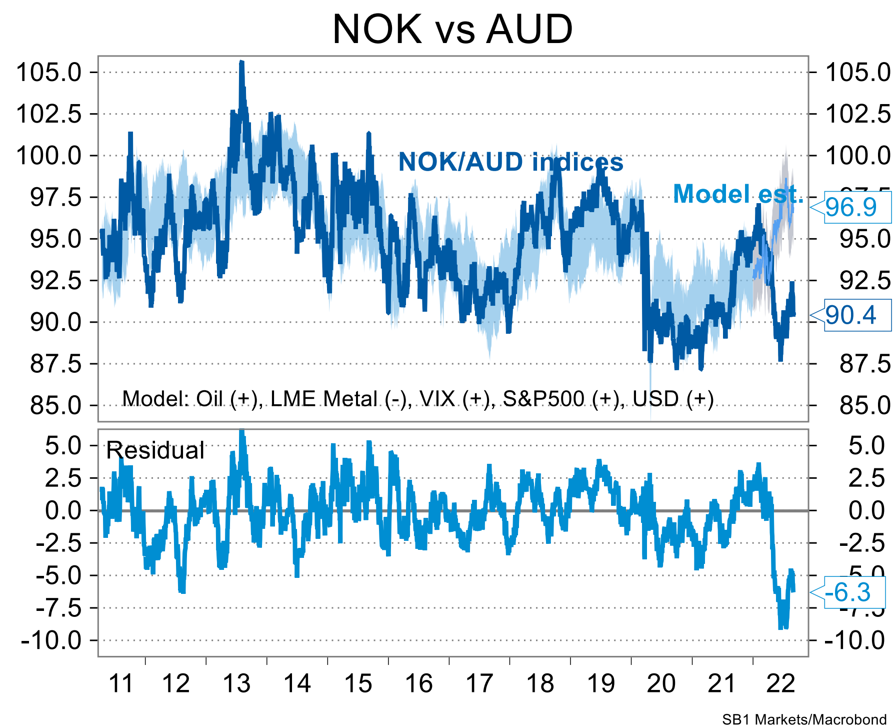


- There is no stable correlation over time, and when it is, the oil price is normally the real driver

NOK & AUD down last week – NOK the most

NOK is 6% below our model f'cast vs AUD, even if the gas price is not included

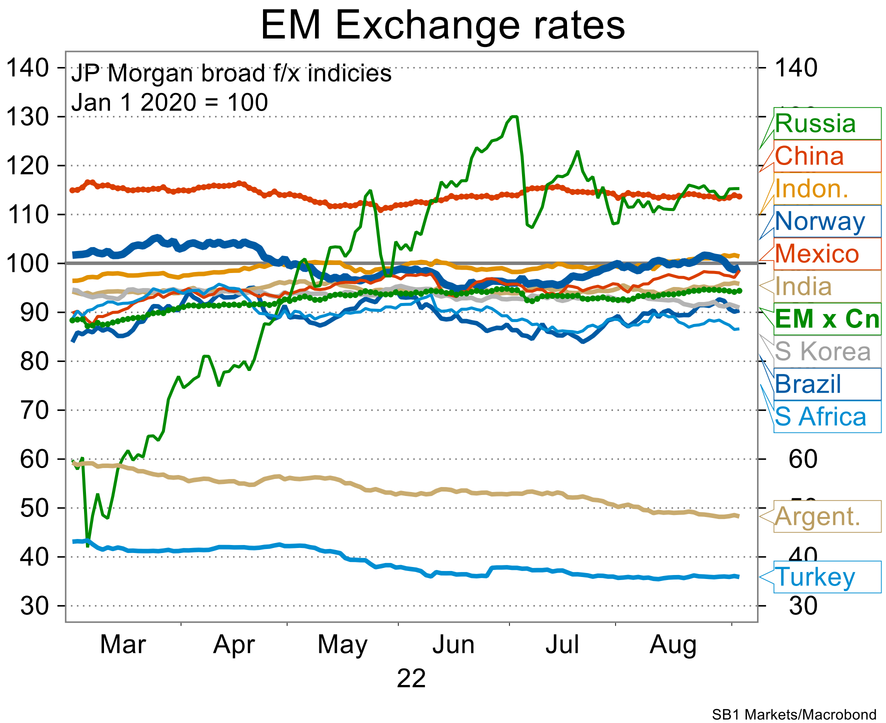


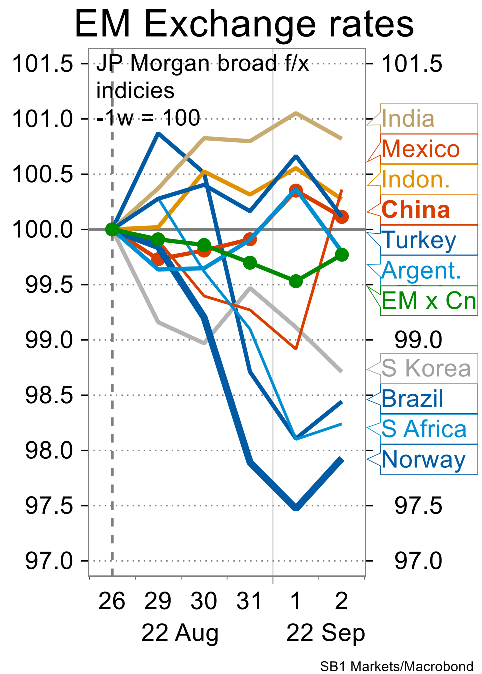


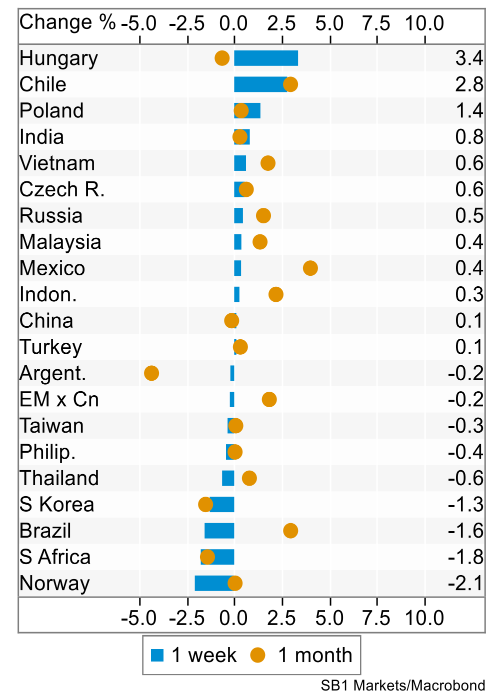
- The discrepancy between the NOK and AUD is highly unusual, given the normal factors that decide the limited gap
- Normally, NOK strengthens vs the AUD when the oil price rises vs. the LME metal index, when VIX, and the S&P500 index increases, and the USD index appreciates. Seem like we need a new model.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

EM f/x: In sum slightly down

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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