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# Macro Weekly

## Week 43

**Harald Magnus Andreassen**
Phone : (+47) 24 13 36 21
Mobile : (+47) 91 14 88 31
E-mail : hma@sb1markets.no

**Tina Norden**
Phone : (+47) 24 13 37 48
Mobile : (+47) 93 22 62 24
E-mail : tina.norden@sb1markets.no

**SpareBank 1 Markets**
Phone : (+47) 24 14 74 00
Visit address : Olav Vs gate 5, 0161 Oslo
Post address : PO Box 1398 Vika, 0114 Oslo

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# Last week, I

- **The War/European Energy/Commodities**
  - Russia is deliberately bombing civilian targets all over Ukraine, and the power supply system is targeted. Peace negotiations does not seem to be likely anytime soon
  - **Metal prices** rose further but other commodity prices fell. **European gas and electricity prices** declined further, including longer dated contracts, as gas stocks are being filled up
- **China**
  - Due to the party congress, the publishing of all Chinese economic data was postponed last week, but the suddenly turned up this morning, without any pre-warning
  - **GDP** surprised at the upside, up 3.9% q/q, following the 2.7% setback in Q2, expected 2.9%. GDP was up 3.9% y/y, 0.5 pp better than expected (quartly and annual figures do not add up in China)
  - **Industrial production** also surprised at the upside, up 6.3% y/y expected 4.8%. Production rose 0.8% m/m, far above a normal growth rate. Steel and cement production rose
  - **Total investments** are growth steady, even if **construction starts** have fallen more than 50% from the peak last year – and starts did not recover in September. **New home** sales rose slightly, but remain 40% down
  - **Retail sales** were weaker than expected, up 2.5% y/y, expected 3.0%. Sales rose 0.4% in volume terms (our est), but the trend is close to flat
- **USA**
  - **The Federal Reserve's Beige Book** reports of flattening activity and a more pessimistic outlook, as demand is weakening. Districts report of a manufacturing sector that is still going strong, easing supply-chain issues, and a tight labour market. Inflation expectations were moderate, however overall inflation remains elevated
  - **Manufacturing production** remains strong and beat expectations again in September, and Aug was revised up. All main sectors were up, and all are now above the pre-pandemic level, even including auto production! Capacity utilisation was unch., and close to the highest in 20 years. The first Oct. manufacturing surveys were mixed, but in sum down. In the Philly Fed survey, expected order inflow is 3rd weakest ever (data from 1968)
  - **The housing market** in the US has hit a rough patch. The Home builders index fell further and month more than expected in October and signals a 50% decline in starts on top of the 20% drop this far. **Building permits** were marginally up in Sept, after for the past 5 months, but **starts** were down 8.1% m/m. Both permits and starts are down 17% – 20% since the local peak in May, held up by building of apartments. **Existing home sales** have fallen for 8 consecutive months so far. House prices were still up 1.1% in Sept, but the trend is down, and the annual rate fell 1.2 pp to 8.5%. Affordability is the worst since 1985
  - **The leading indicators** fell 0.4% in September and the last 6 months' average at the same level has been a safe recession bet
  - In a speech Thursday, NoBa governor Bache explained the Bank's stance on inflation well, and signalled

# Last week, II

- **EMU**
  - **The final inflation** data set showed headline inflation at 9.9% in September, 0.1 pp lower than the preliminary print. The core was up 4.8% y/y and 0.6% m/m, which is the 2nd highest monthly increase ever
  - **Consumer confidence** rose slightly in October but remains extremely weak, at -3.2 st.dev
- **UK**
  - **Headline inflation** came in above expectations in Sept – up 10.1% y/y, but in line with BoE expectations. All major sectors are reporting growth above 2%. Core inflation was 6.5% in Sept, and the market now bets on 100 bps rate hike in Nov
  - The previous chancellor **Rishi Sunak** will probably become the next UK Prime Minister – and no more (stupid) economic experiments are likely
- **Sweden**
  - **House prices** kept falling in September – down 2%, which is the 7th decline in a row. Prices are down 9.4% from the peak in February
  - **Unemployment** rose marginally in September, for the first time since before the pandemic. New and unfilled vacancies have probably peaked but both remain at a very high level
- **Norway**
  - **Norges Bank's lending survey** report lower demand for credit from both households and businesses in Q3, and banks expect a further decline in Q4, especially from households – for obvious reasons. Banks tightened credit standards vs businesses, and widening lending margins
  - **Housing starts are trending down, both as reported by SSB, and the Home builders (**Boligprodusentene). New home sales have fallen more, according to the Home builders, after being trending down since early 2021. A low level of new home sales signals a downturn in new starts/permits the coming months, very likely as a result of the sharp lift in construction costs, higher mortgage rates and broad expectations of falling existing home prices
  - **SSBs Q3 manufacturing survey** fell to -4.4 from 2.3 in Q3, which is close to the levels we see during recessions, signaling a rapid decline in production and zero GDP growth in Mainland GDP. Oil related sectors still report a strong outlook, other sectors fell to well below average. Supply constraints have peaked, but remain elevated (like lack of labour), and very few companies report weak demand. Fewer companies say they plan to lift prices (the share is still astonishingly high)
  - The **trade surplus** fell sharply in September, as gas prices 'collapsed'. But of course, a total surplus at 76% of Mainland GDP is rather unusual

# The Calendar: Oct. PMIs, US+EMU GDP, US housing, empl. costs, ECB + Norw. labour m.

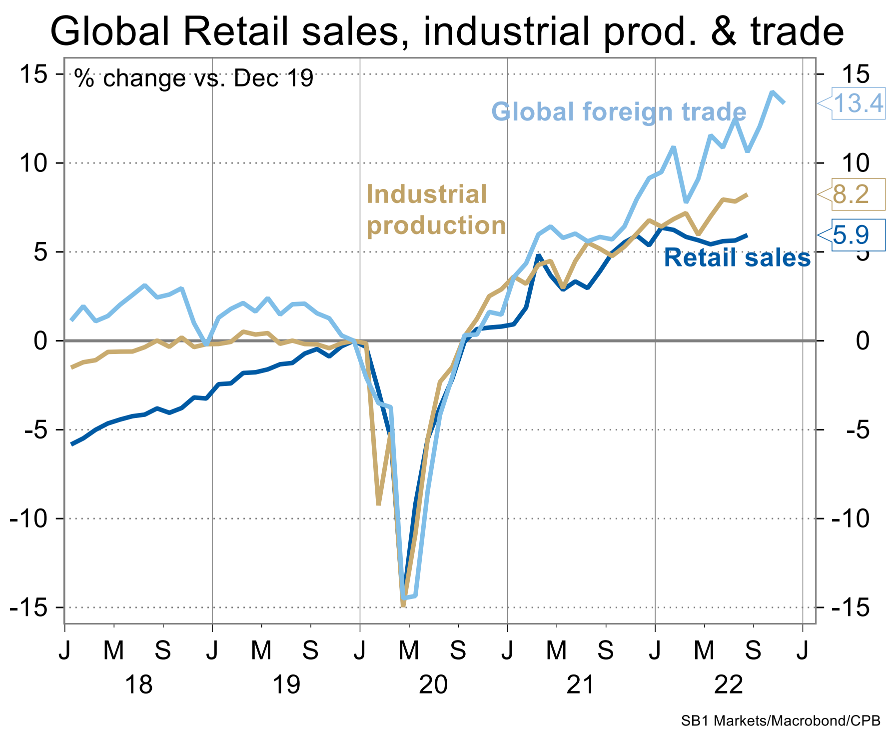
| Time | Count. | Indicator | Period | Forecast | Prior |
|---|---|---|---|---|---|
| **Monday Oct 24** | | | | | |
| 09:30 | GE | Manufacturing PMI | Oct P | 47.0 | 47.8 |
| 09:30 | GE | Services PMI | Oct P | 44.9 | 45.0 |
| **10:00** | **EMU** | **Manufacturing PMI** | **Oct P** | **47.9** | **48.4** |
| **10:00** | **EMU** | **Services PMI** | **Oct P** | **48.2** | **48.8** |
| **10:00** | **EMU** | **Composite PMI** | **Oct P** | **47.7** | **48.1** |
| 10:30 | UK | Manufacturing PMI | Oct P | 48.0 | 48.4 |
| 10:30 | UK | Services PMI | Oct P | 49.0 | 50.0 |
| 14:30 | US | National Activity Index | Sep | | 0.0 |
| **15:45** | **US** | **Manufacturing PMI** | **Oct P** | **51.0** | **52.0** |
| **15:45** | **US** | **Services PMI** | **Oct P** | **49.5** | **49.3** |
| **Tuesday Oct 25** | | | | | |
| 10:00 | GE | IFO Expectations | Oct | 74.9 | 75.2 |
| **15:00** | **US** | **Shiller Home prices** | **Aug** | **-0.8%** | **-0.4%** |
| 16:00 | US | Consumer Confidence, Conf. B | Oct | 105.7 | 108 |
| **Wednesday Oct 26** | | | | | |
| 10:00 | EMU | Credit growth | Sep | 6.1% | 6.1% |
| 14:30 | US | Trade Balance, goods (advanced) | Sep | -$87.7b | -$87.3b |
| **16:00** | **US** | **New Home Sales** | **Sep** | **581k** | **685k** |
| **Thursday Oct 27** | | | | | |
| **08:00** | **NO** | **Unemployment Rate AKU** | **Aug** | **(3.1%)** | **3.1%** |
| **08:00** | **NO** | **Payrolls, wages** | **Sep** | | |
| 09:00 | SW | Economic Tendency Survey | Oct | | 90.8 |
| 09:00 | SW | Consumer Confidence | Oct | | 49.7 |
| **14:15** | **EMU** | **ECB Deposit Facility Rate** | **Oct-27** | **1.50%** | **0.75%** |
| **14:30** | **US** | **GDP Annualized QoQ** | **3Q A** | **2.3%** | **-0.6%** |
| 14:30 | US | Durable Goods Orders | Sep P | 0.6% | -0.2% |
| 14:30 | US | Initial Jobless Claims | Oct-22 | | 214k |
| **Friday Oct 28** | | | | | |
| | NO | Consumer confidence, Opinion | Oct | | |
| **08:00** | **NO** | **Retail Sales MoM** | **Sep** | **-1.5%** | **0.7%** |
| 08:00 | NO | Hotel guest nights | Sep | | |
| 08:00 | SW | GDP Indicator SA MoM | Sep | | -1.3% |
| 08:00 | SW | Retail Sales MoM | Sep | | -0.4% |
| **10:00** | **NO** | **Unemployment Rate, NAV open** | **Oct** | **(1.5%)** | **1.6%** |
| 10:00 | GE | GDP SA QoQ | 3Q P | -0.2% | 0.1% |
| 11:00 | EMU | Economic Confidence | Oct | 92.4 | 93.7 |
| 14:00 | GE | CPI YoY | Oct P | 10.1% | 10.0% |
| **14:30** | **US** | **Employment Cost Index** | **3Q** | **1.2%** | **1.3%** |
| 14:30 | US | Personal Income | Sep | 0.4% | 0.3% |
| 14:30 | US | Personal Spending | Sep | 0.4% | 0.4% |
| **14:30** | **US** | **PCE Core Deflator YoY** | **Sep** | **5.2%** | **4.9%** |
| 16:00 | US | Pending Home Sales MoM | Sep | -5.3% | -2.0% |
| **Monday Oct 31** | | | | | |
| 00:50 | JN | Industrial Production MoM | Sep P | | 3.4% |
| 00:50 | JN | Retail Sales MoM | Sep | | 1.4% |
| 02:30 | CH | Composite PMI | Oct | | 50.9 |
| 02:30 | CH | Manufacturing PMI | Oct | | 50.1 |
| 02:30 | CH | Non-manufacturing PMI | Oct | | 50.6 |

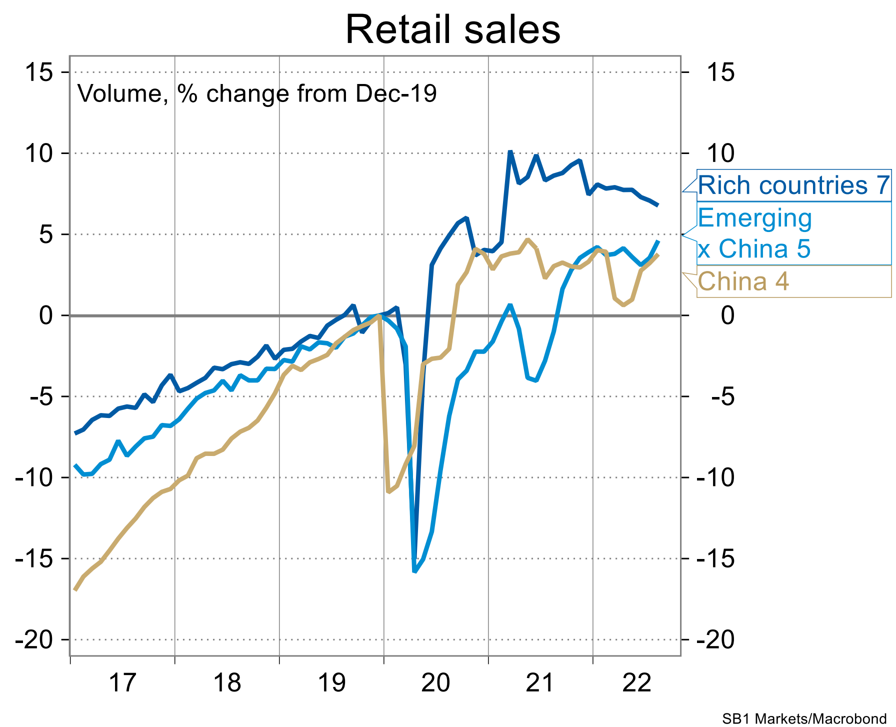
- **Preliminary October DM PMIs**
  - » The trend is down, in all developed markets, and the composite PMIs are below the 50 line both in the US and EMU (but not in Japan). A further decline is expected in Europe, and (just marginally) in the US. Delivery times and price pressures are easing. Early next Monday morning the first Chinese PMI data set (NBS/CFLP) will be published
- **USA**
  - » **GDP** rebounded in Q3, following the decline in H1, mostly due to a much better trade balance which does not seem to have been compensated by rundown on inventories. However, the underlying dynamics are not impressive. Consumption growth probably slowed to below 1% (from 2% in Q2), housing investments fell, and growth in business investments is meagre
  - » The **employment cost index** is just as important (or even more). A slight slowdown is expected, to 1.2% q/q, or a 4.9% annualised pace. The private sector is well above, the public sector below
  - » **More housing data**: New home sales, pending & existing home sales, and the broad home price indices. We are witnessing a housing recession – which normally is followed by broader recession
  - » **PCE prices** are expected to follow CPI prices: Up m/m and the core up y/y – to 5.1%. Still, inflation has peaked – and will very likely come down the coming months/quarters
- **EMU**
  - » **The ECB** will probably lift its signal rates by another 75 bps, to a deposit rate at 1.5%. Fear of a prolonged period of high inflation and a wage-price spiral as claims of wage 'compensation' for loss of buying power are popping up, while the unemployment rate is at the lowest level since 1981 as well as a still very low rate level, are the best argument for the ECB to hurry on. However, we doubt the ECB will need to lift its signal rates very high. So far, wage inflation has been kept in check, and the loss of buying power when inflation is 10%+ and wage inflation remains below 3% will dampen economic activity substantially
  - » **The first Q3 GDP** reports will confirm that growth is slowing, a decline in German GDP is expected
  - » The first preliminary **October CPIs** will also be published. A small uptick is expected in Germany
- **Sweden**
  - » **September and Q3 GDP** will probably confirm that the economy has hit a rough patch. I August GDP fell by 1.3% and Q3 is expected down 0.1% vs. Q1
- **Norway**
  - » **Employment, unemployment and wages:** The most important data ahead of next week's Norges Bank meeting. We expect unemployment to more or less to have flattened, employment growth to be confirmed close the zero line, and perhaps most important: The wage stats not to reveal a wage inflation boost. If so, arguments for Norges Bank to slow down the pace of rate hikes, and deliver a 25 bps next week – which was signalled in September
  - » We expect **retail sales** to decline substantially in September, back to the downward short term trend

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

# Retail sales have stabilised, while manuf. prod. and global trade trend upwards

## Recent global trade data may be too upbeat?

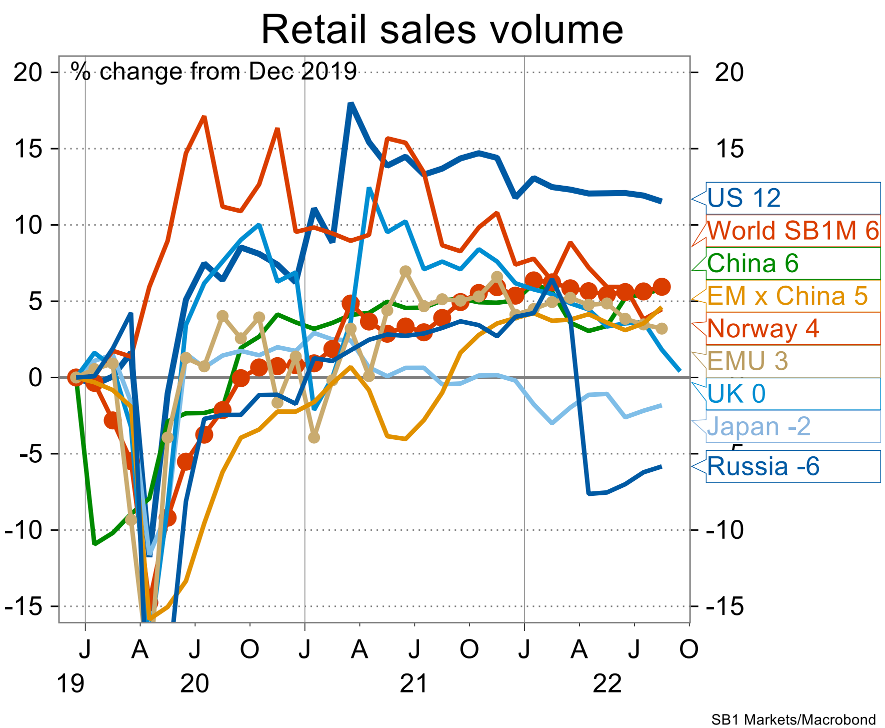


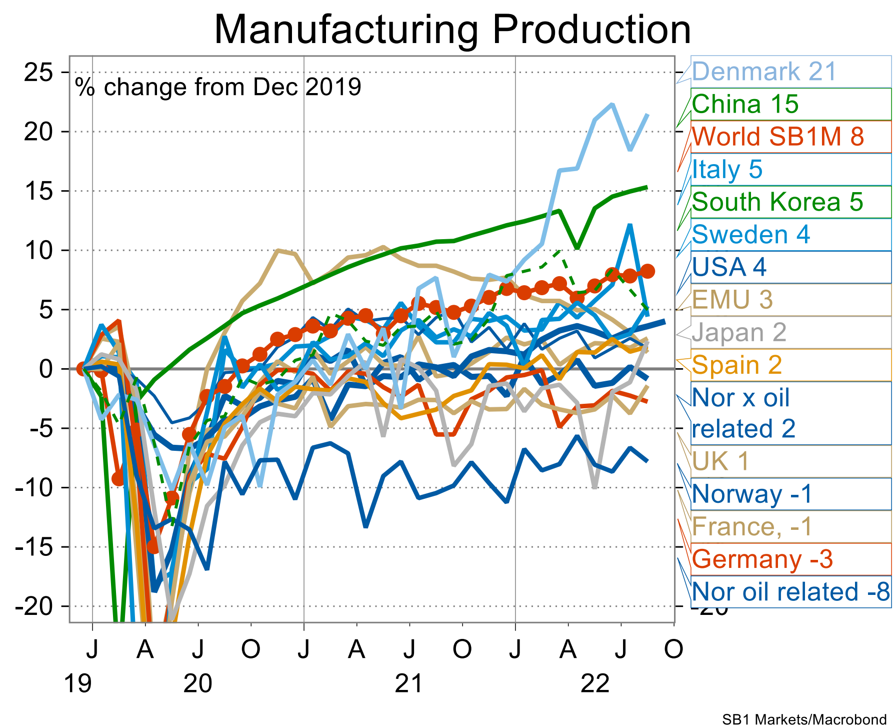




Global foreign trade: The last months are estimates from the Kiel Institute, they are also making a prognoses for the next month based on shipping activity etc.

# A broad slowdown of retail sales, at least in the rich part of the world

Is manufacturing exposed? Surveys, like the PMIs send a warning sign too




US retail sales: Personal consumption of goods, ex auto & energy

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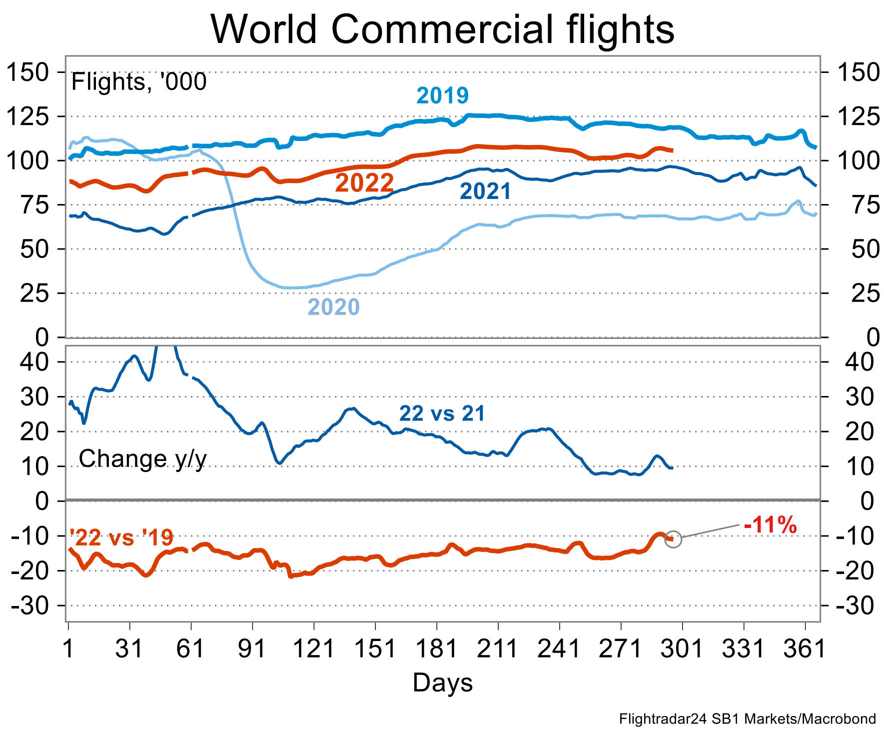
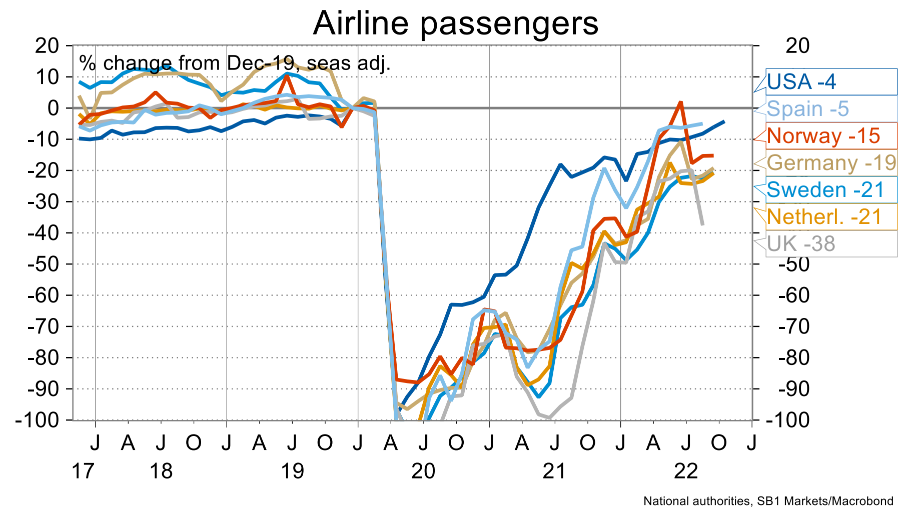
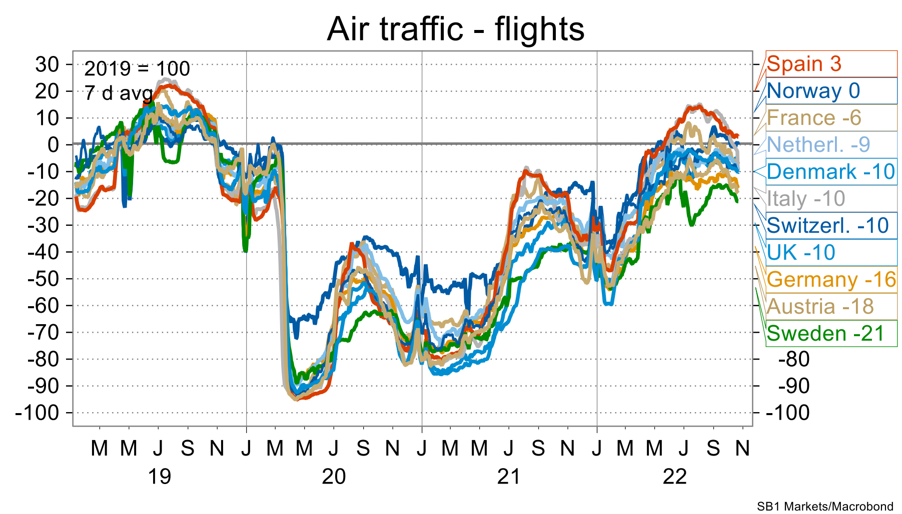
# Global airline traffic lightly up, down 'just' 11% vs. 2019 level

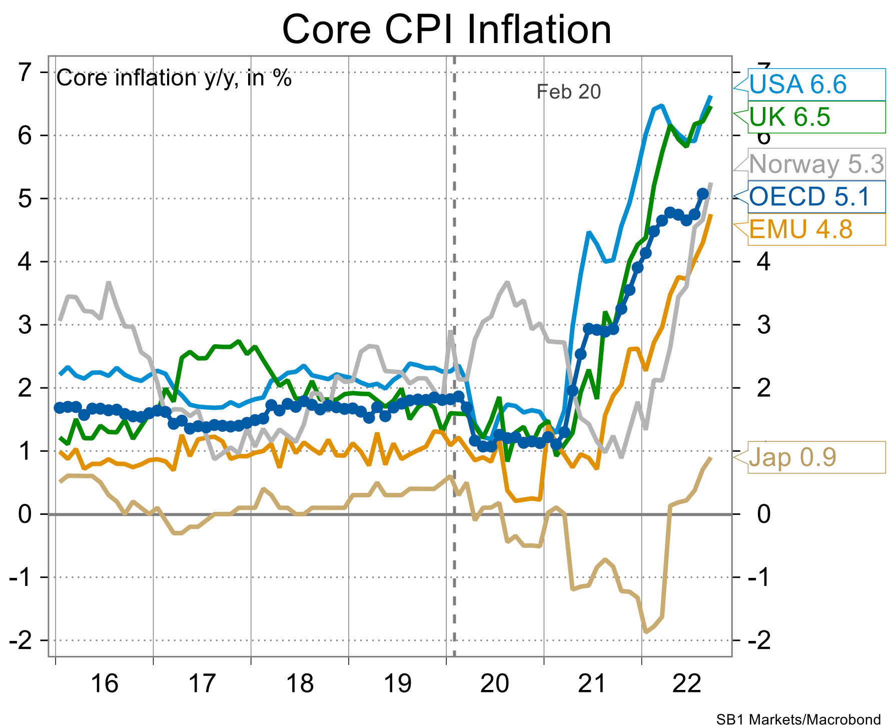


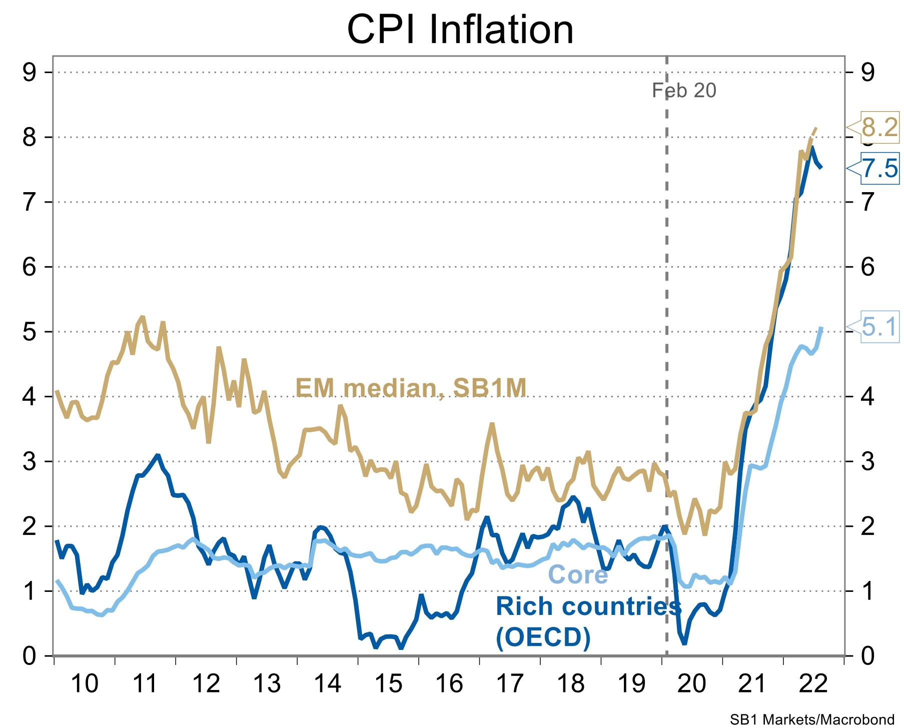



# Peak inflation? Data are not that obvious anymore

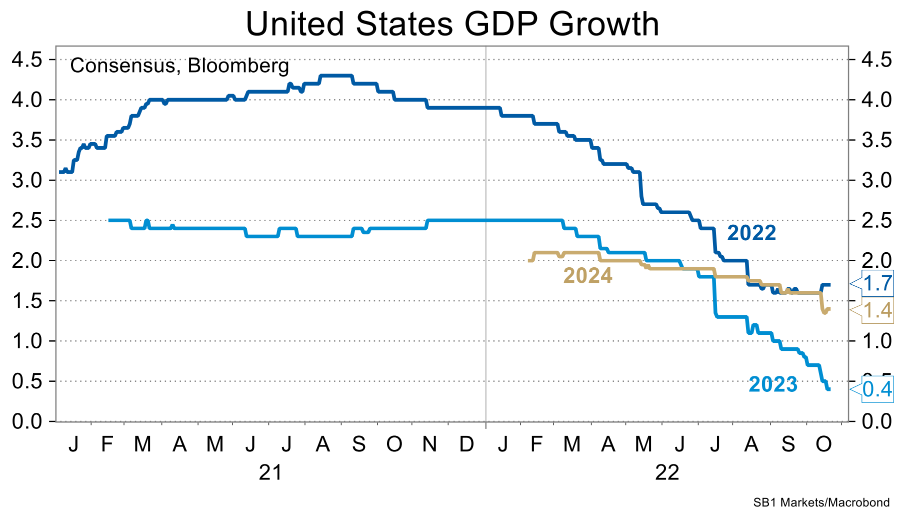
The going rate is 8% headline inflation, and 5% core inflation, and the latter is still on the way up

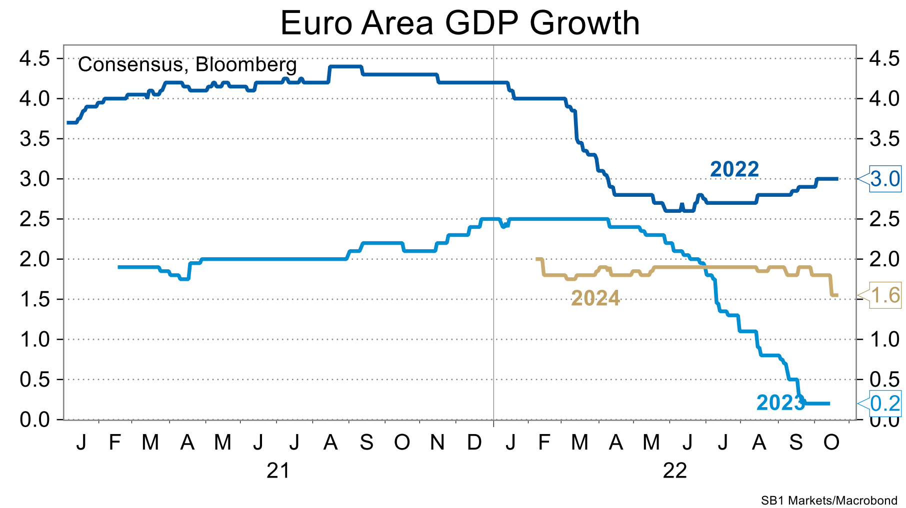


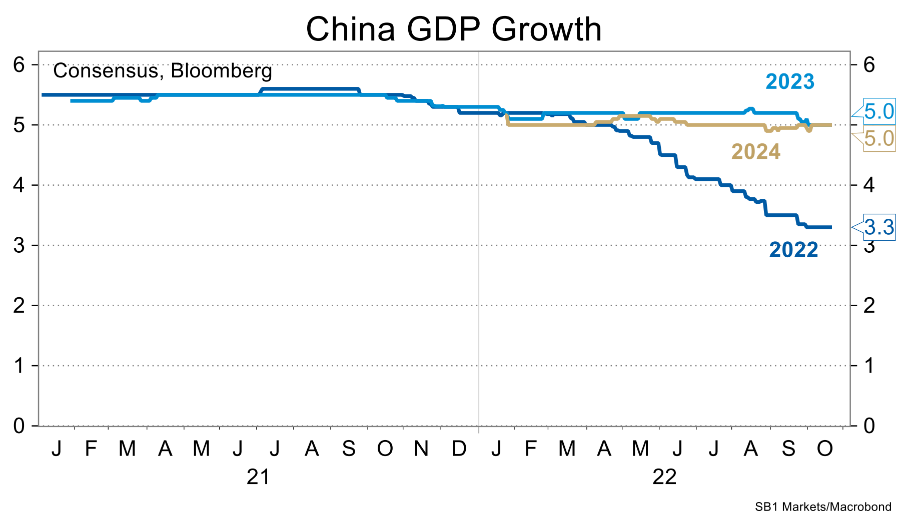



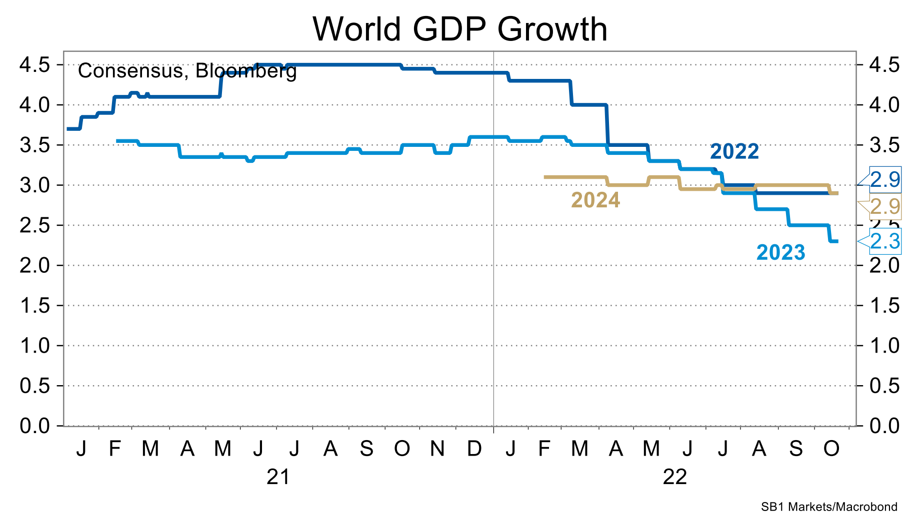
# GDP growth expectations: 2023 forecasts are sliding down in US & EMU

In addition, 2022 will be a 'lost' year in China



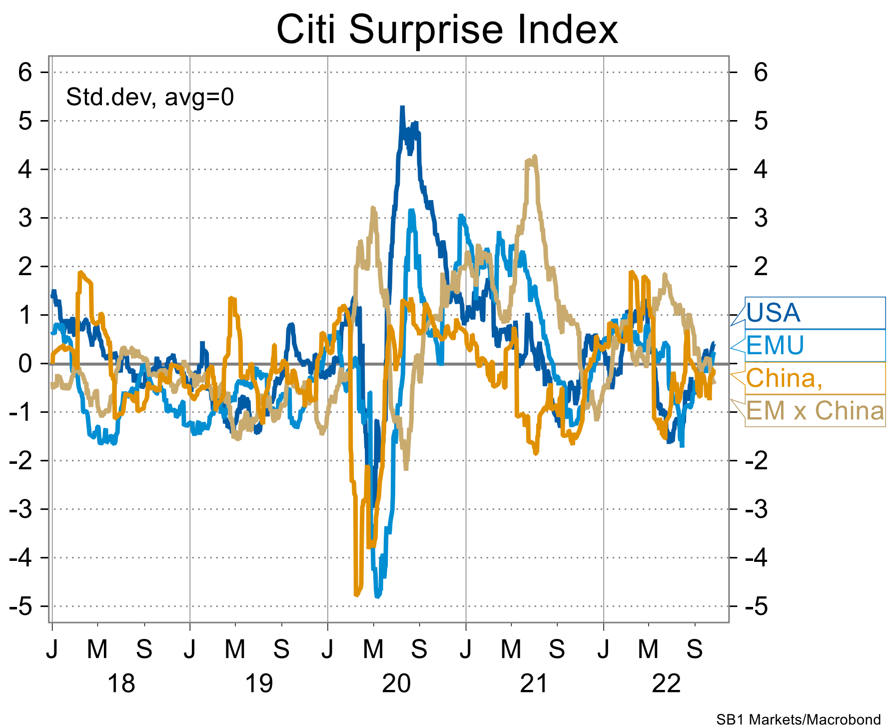



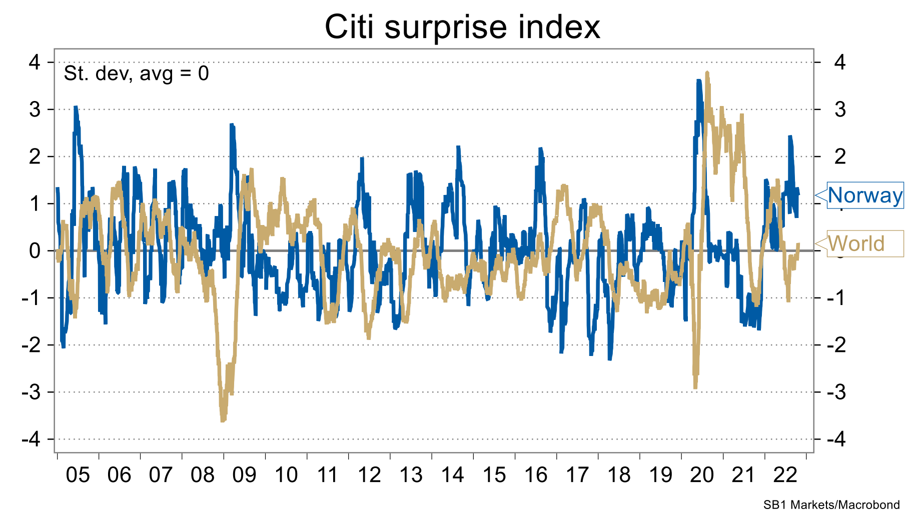



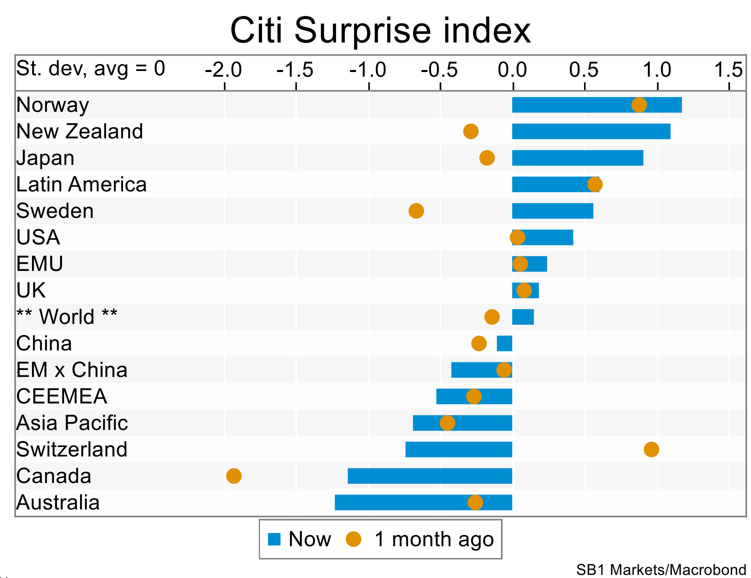



# Data marginally above expectations, according to the Citi surprise index

Norway at the top (but we do not really feel like that is the case…). US, EMU > zero, CN< zero



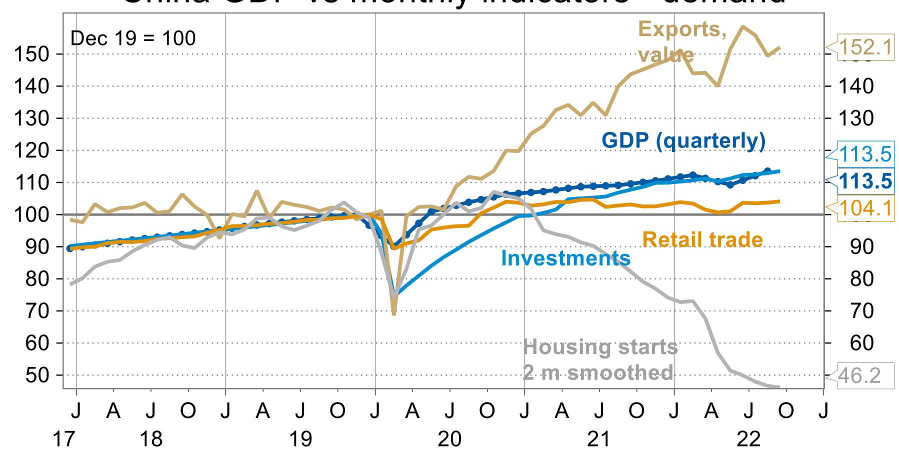

- **Norway** no. 1 on the list, according to Citi
- … even if our super-cycle friends **Australia, Canada** are at the bottom of the list (and NZ is below par too), while Sweden recovered last week (even if GDP surprised at the downside)

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

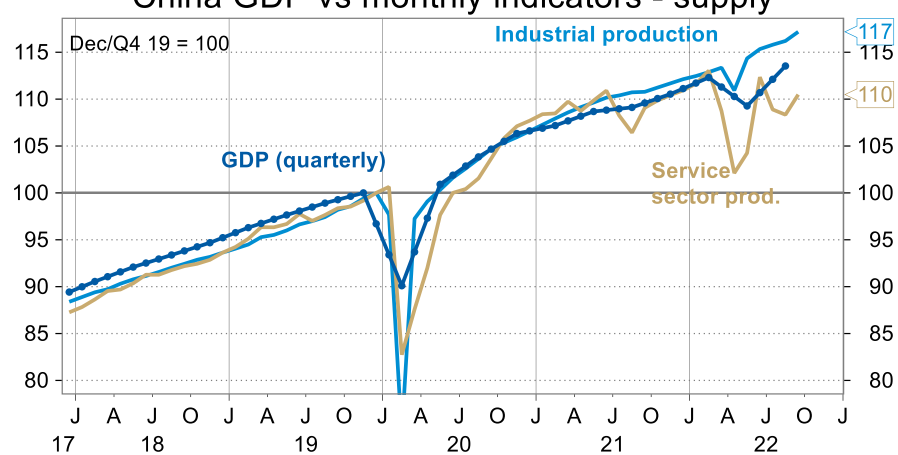
# Q3 GDP better than expected, industrial prod in Sept too

## However, retail sales are sluggish and construction starts remain at a very low level

China GDP vs monthly indicators - demand




China GDP vs monthly indicators - supply




- **GDP** grew 3.9% q/q and y/y, 1 pp and 0.5 pp better than expected. GDP is almost back to the pre-pandemic growth path
- **Industrial production** rose 0.8% in Sept., history was revised up and the level is well above the pre-pandemic trend. Production is up 6.3% y/y, expected 4.8%! Steel and cement surprised us at the upside. Autos still in the lead, due to record high domestic sales
- **Service sector production** rose by 2% but is still down vs the pre-lockdown level, probably as covid measures are still hampering activity
- **Retail sales** rose 0.4% m/m, but the annual rate at 2.5% was below the expected 3.0%. Sales are still surprisingly weak vs the pre-pandemic trend path
- **Investments** rose 0.5% in Sept, and is back on track, even if both **residential and commercial construction starts** have fallen by more than 50% from the peak early last year (the largest contraction ever). **Construction starts** were unch in Sept New home sales grew marginally but is still down 40% from the peak
- **Exports** rose marginally in Sept (and was up 6% y/y, 2 pp above expectations, but has flattened over the recent months both in nominal and real terms – both at very high levels though. **Imports** are still subdued, and the trade surplus is at a record high level. An imbalanced economy?

**In sum:** Q3 was well above expectations, but September data were mixed as retail sales are weak and construction starts remain extremely depressed vs. the 2021 peaks (but perhaps more sustainable levels)

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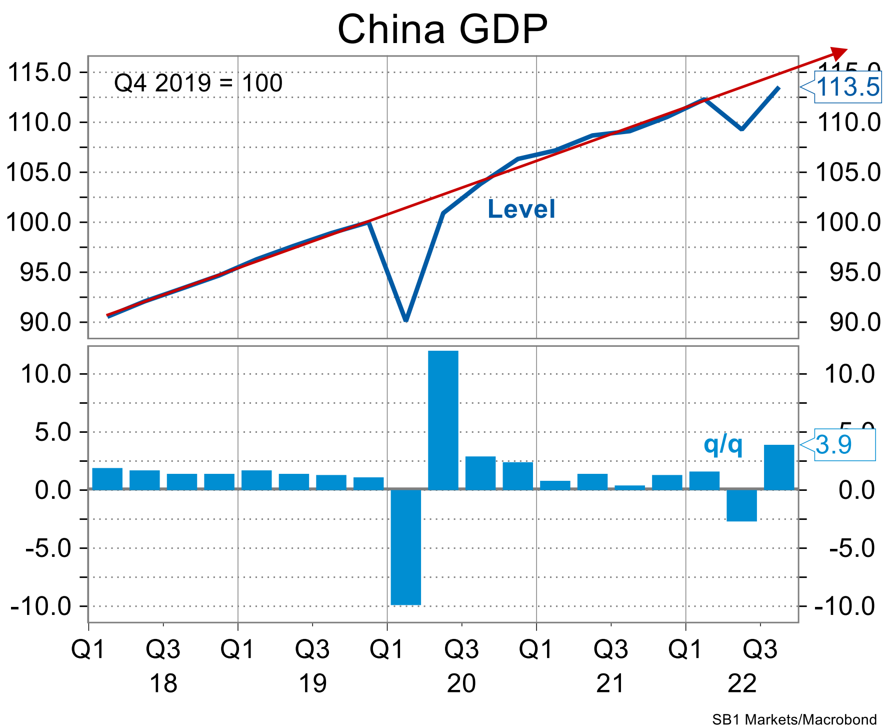
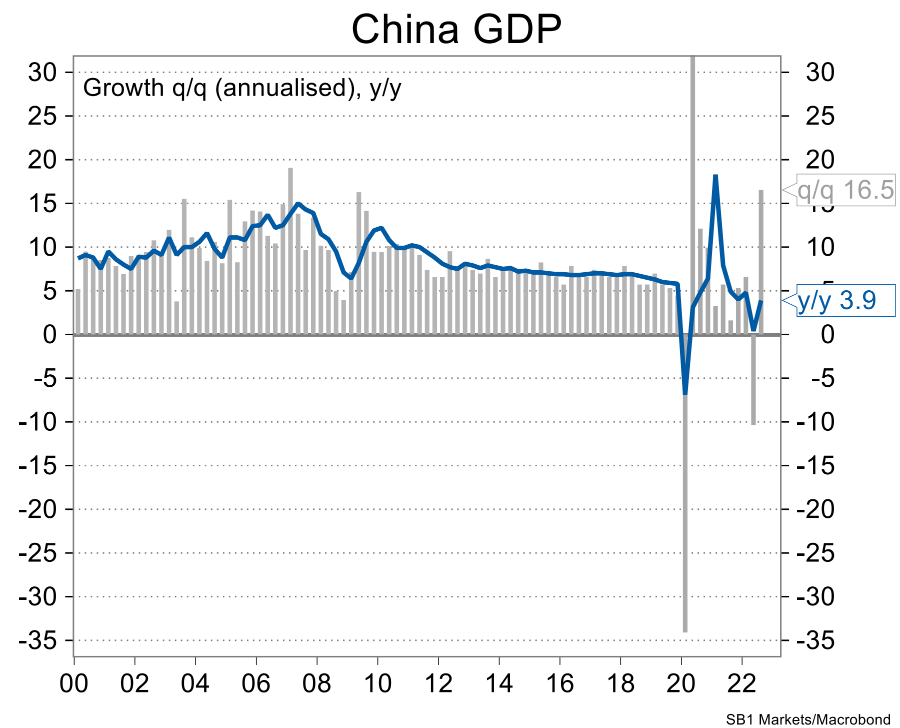
# GDP better than expected in Q3, but still not back on track

GDP rose by 3.9% q/q (16.5% annualised) in Q3, expected 2.9% following the 2.7% setback in Q2

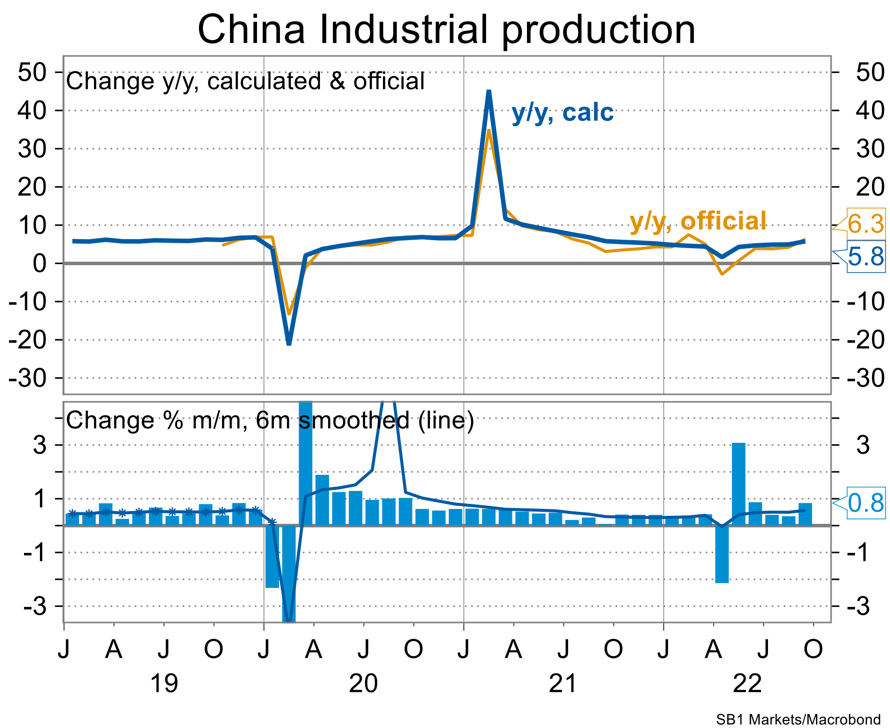


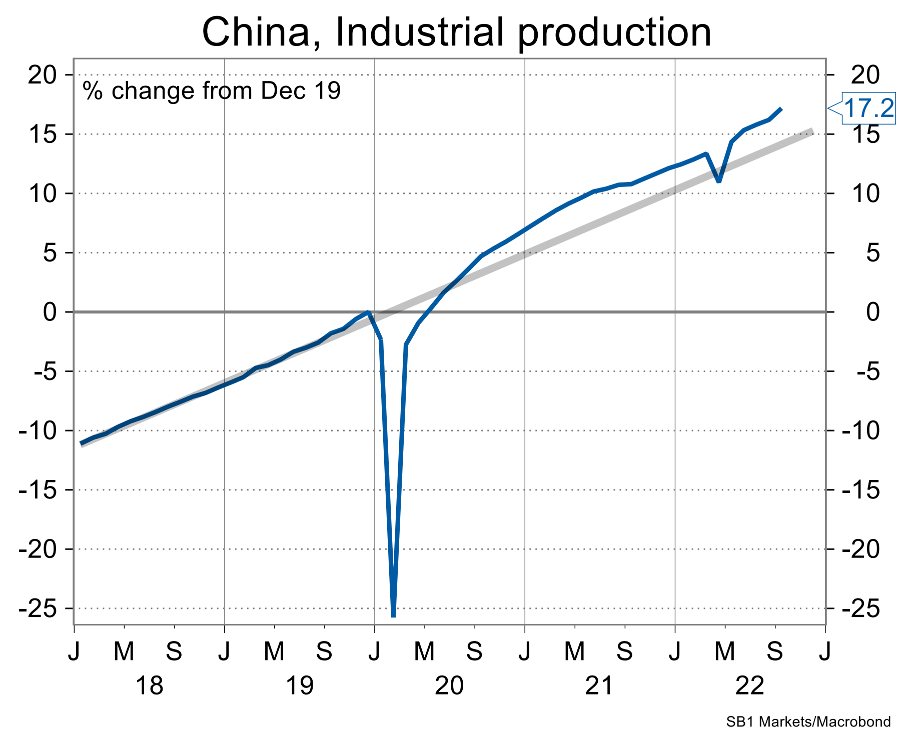




- Measured y/y, GDP was up 3.9% as well, better than the expected 3.4%
- Still, GDP has not recovered fully from the setback in Q2 (during the lockdowns),and GDP is below the pre-pandemic and post-pandemic trend – but not by that much
- In 2022, GDP growth is heading for 3.4 – 3.5% growth, which is far below a ‘normal’ Chinese growth rate

# Industrial production surprised on the upside in September

## Production rose by 0.8% m/m, and by 6.3% y/y, expected 4.8%, and up from 4.2% in August

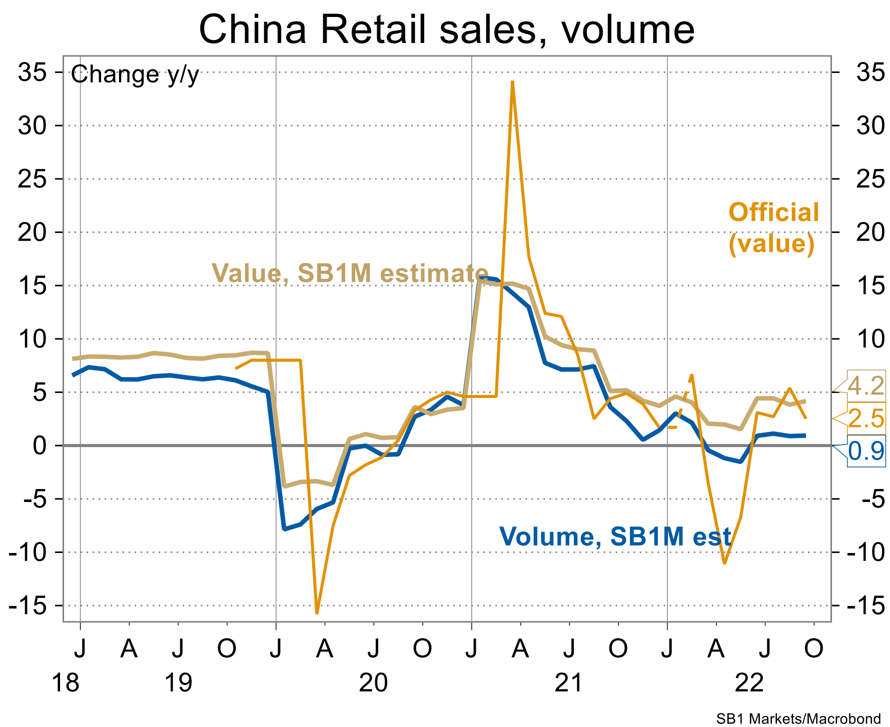


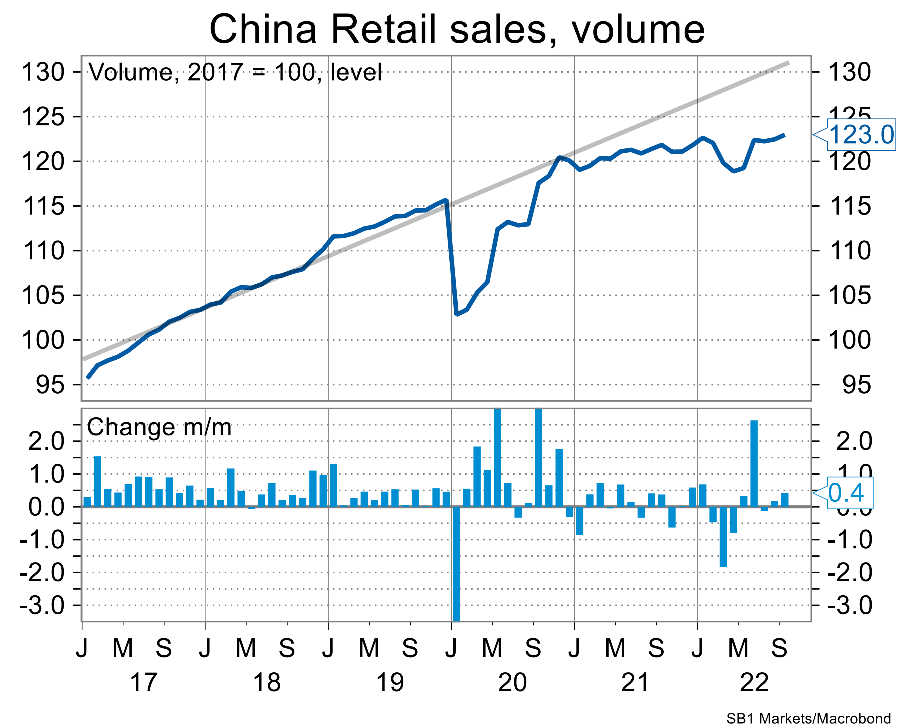




- The 0.8% m/m growth rate was the best since June, and well above a ‘normal’ growth rate
- **Growth in production** over the past year has been revised up by some 0.9 pp, and the production level is now well above the pre-pandemic trend (so much for blaming Chinese lockdowns for high inflation in the West…)

# Retail sales up 0.4 m/m, but the trend is still very weak

Nominal sales up 2.5% y/y, below expectations at 3.0%, expected



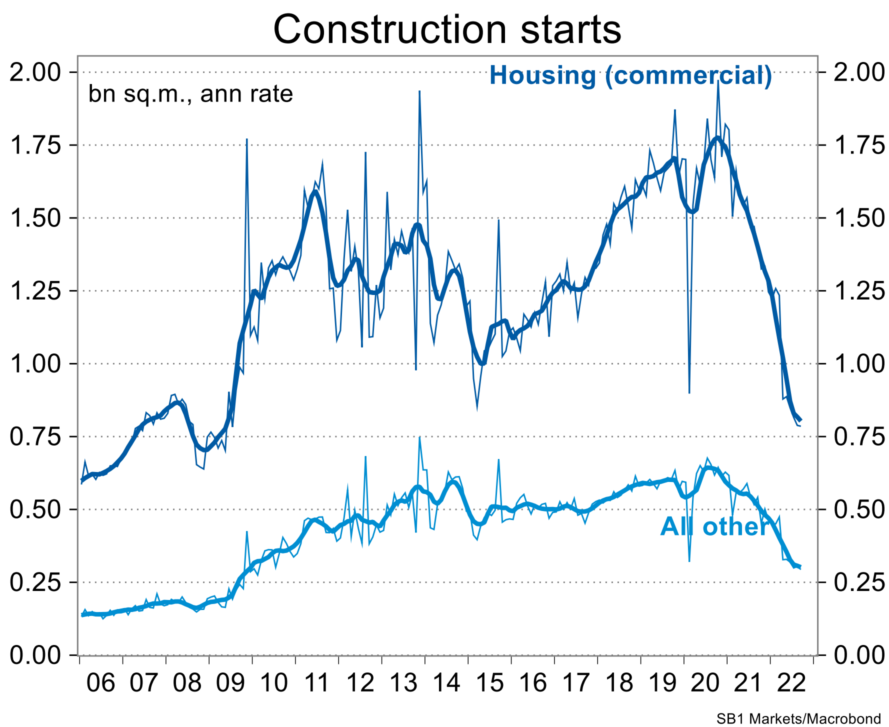



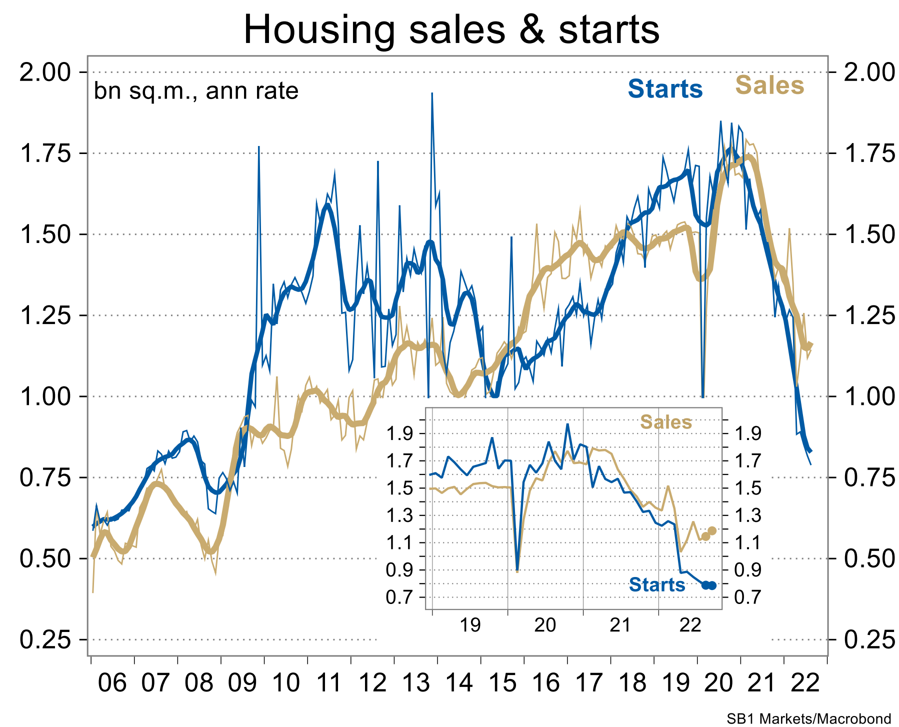

- Sales rose 0.4% m/m in **nominal terms,** and according to our estimate, **volume growth** was 0.4% as well
  - » Sales in volume terms are up 0.9% from September last year (aggregated monthly changes, the official y/y growth in value terms implies a larger increase in volume terms)
- Retail sales volumes are some 6% below the pre-pandemic trend path – and just up 2% vs the late-2020 level!!

Memo: Monthly sales data are still somewhat to difficult of decipher, and they are not consistent with annual growth rates - so do not take out interpretation of them too literally. Several revisions, the last one this month upwards, has made the analysis even more complicated

# New home sales slightly up in Sept, but are still down 40% vs the 2021 peak

Starts were close to unch m/m – and are down more than 50%, the largest setback ever

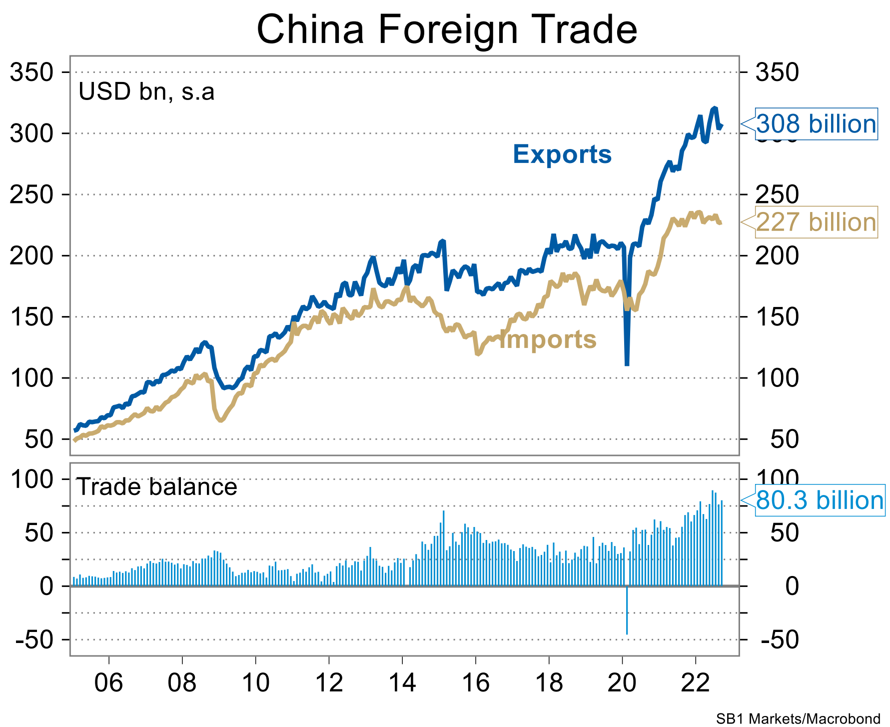



- **Non-residential construction starts** are also more than cut in half, and the level is the lowest since 2009
- This unprecedented decline in construction starts will lower growth in the Chinese economy substantially – spread over time, as it takes some 3 years from a home is started until it is completed

# Exports are flattening, at a very high level, imports are trending slowly down

Exports up 1% m/m, imports flat. Exports up 6% y/y (expected 4%), imports flat y/y, as expected

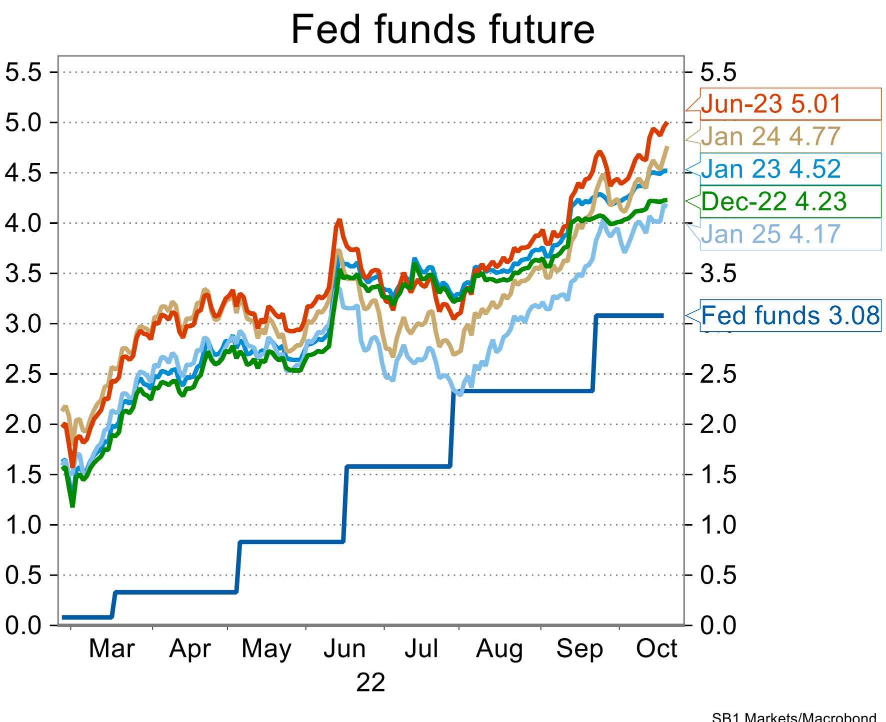


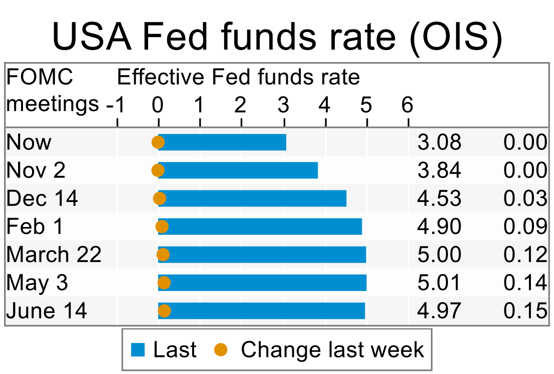


- In volume terms, we assume small changes m/m in September. Import volumes in August were better than we assumed one month ago. The trend is still weak
- The trade surplus was a tad larger than expected – and not far below ATH

# Fed's Beige book again expresses a flattening of activity; outlook more pessimistic

## … and wage, price pressures are easing, but remain elevated

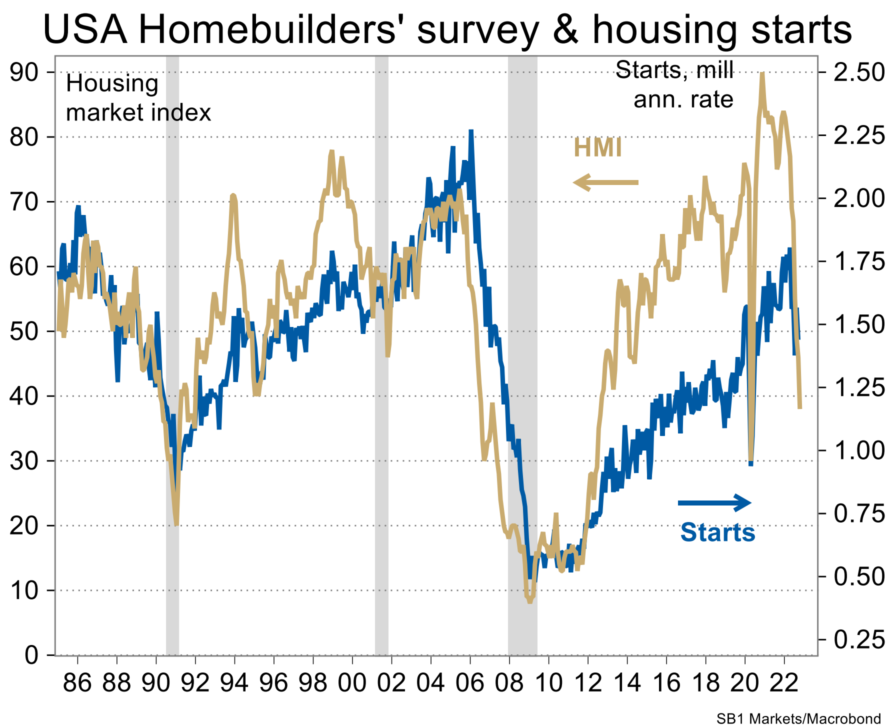


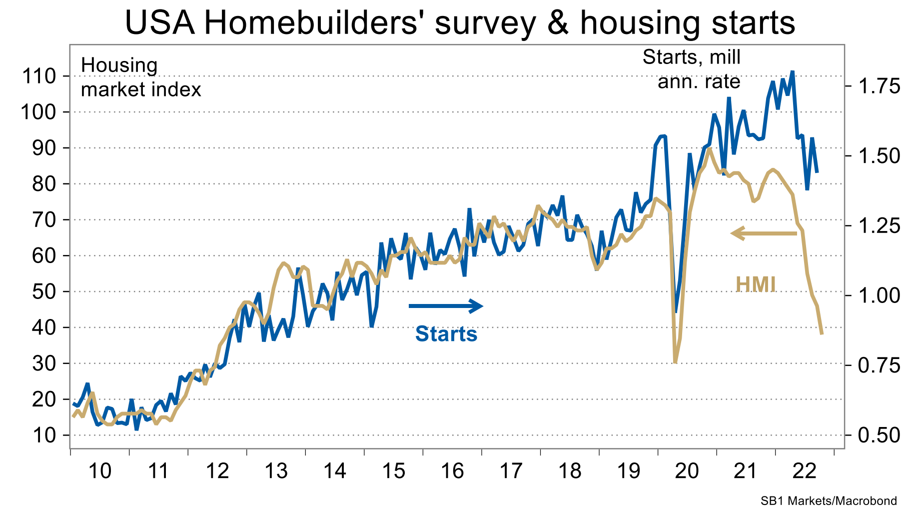



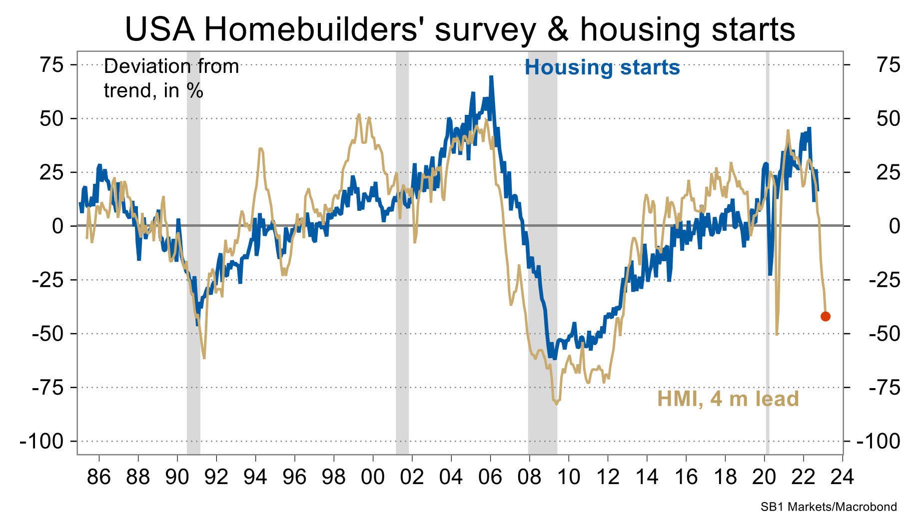

- Main messages from the regional survey
  - On average, economic activity was marginally stronger. 2 districts report that activity contracted modestly, and 4 districts said growth had stalled, and the remaining 6 reported modest growth – last report 5 reported a decline in activity, 2 flat, and 5 modest growth
  - Outlook more pessimistic over concerns of weakening demand
  - Loan volumes declined partly due to less residential real estate lending
  - Manufacturing activity continued at the same pace or expanded as supply-chain issues eased
  - The labour market was still very tight, but half of the districts saw some easing. Wage growth remained widespread, but there were also reports of businesses being hesitant to expand payrolls due to a negative outlook on the economy
  - Overall inflation remained elevated, with some easing reported. Future inflation expectations were moderate
- Taken face value, the Beige book confirms that growth has halted, price pressures are easing somewhat, and that the economy is a recession as of now
- Even so, the interest rate market is now pricing in a 100% likelihood for at least a 4th 75 bps hike in November
- The Fed clearly stated that it will keep at it until inflation is under control, and they consider the risk of not doing enough outweighs the risk of doing too little, i.e. they are not pivoting anytime soon with headline inflation at 8.2% and the core at 6.6% - and the labour market remaining as thigh as it is
  - Bigger-than-normal rate hikes are to be expected, and rates will remain higher for longer. The market is expecting ~~close to~~ a 5% rate next summer
  - Still, in the end, the data will decide

# Homebuilders' index further down in October, signals a housebuilding crash

## The HMI down 8 p to 38, expected down to 3p to 43. A further 50% drop in starts, in total 60%?



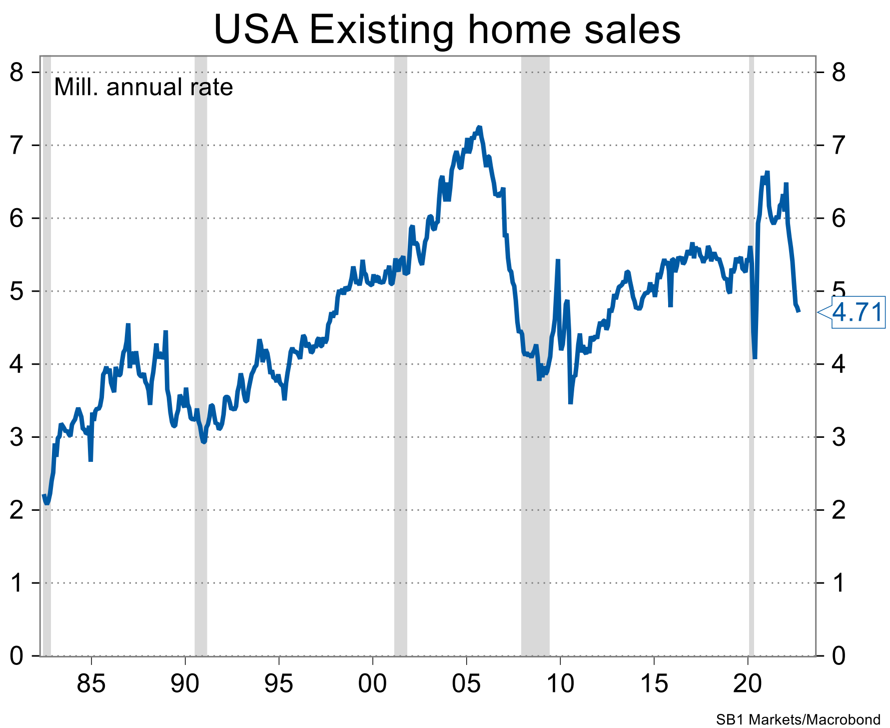



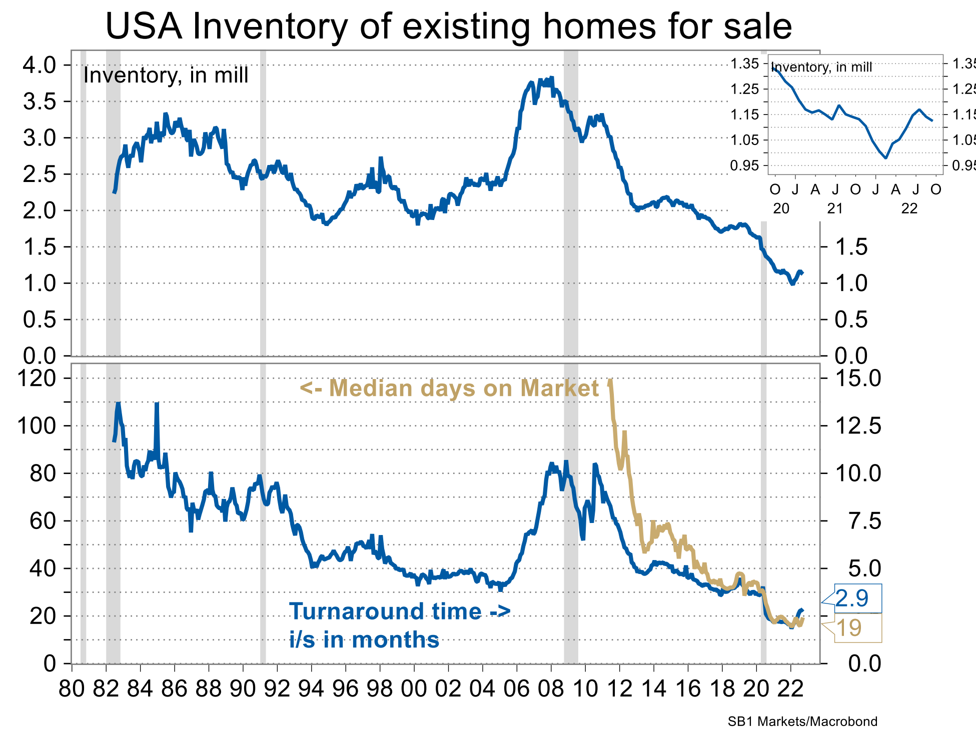




- **The Homebuilders' Housing Market Index (HMI)** declined 8 p to 38 in Oct, expected down 3 p! The decline recent months – and since Dec last year – is the steepest ever, barring the covid shock in 2029. It is still not the largest decline, that took place from June 2005 to Jan 2009
  - » Affordability is still the challenge, due to higher mortgage rates, and soaring new home prices (at least until now), check here
- The decline in the index recent months signal at 50% decline in housing starts following the 20% drop so far - in sum a 60% setback, which we have never seen except for before or during the deepest recessions

# Existing home sales have fallen for 8 consecutive months

## Sales are down 27% from January, but prices were up m/m – as the inventory is shrinking again!



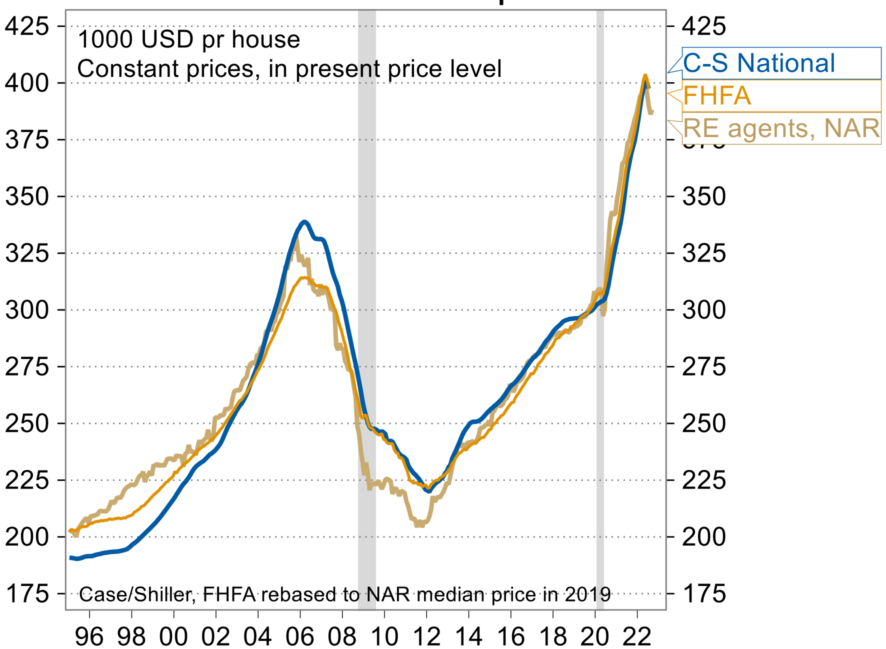




- Sales of **existing homes** fell to 4.71 mill in September (annualised rate), from 4.78 mill in August (revised down by 20'), expected down to 4.70 mill. Sales have fallen by 27% from local peak in January. Sales are down 16% vs. Feb-20. **Pending sales** signal a further decline in actual transactions
- **The inventory of unsold homes** fell by 1.5% in Sept, following a 2.5% decrease in Aug, but as sales are declining, the inventory equals 2.9 months of sales (up from 2.8 last month, and 1.8 in January). During the 2005 boom, the i/s ratio was 4 months, in bad times it has been as high as 10 months
  - » Very likely, the steep rise in mortgage rates are now locking prospective home movers in, if they sell, they have to pay a <u>much</u> higher mortgage rate for the next home. Thus, fewer sellers, at least for now (but also few buyers, of course!)
  - » A signal of a still hot market: The median time on the market for those homes actually sold is just 19 days, and still close to ATL. Before the pandemic the time on market was at 30 days (and 120 days in 2011!)
- **Prices** surprised (us at least) on the upside, big time: Prices <u>rose</u> 1.1%, and the decline the previous 3 months were smaller than so far reported. Still, the trend is down. We are very likely witnessing a housing market recession

# House prices are up in September, but the short-term trend is down

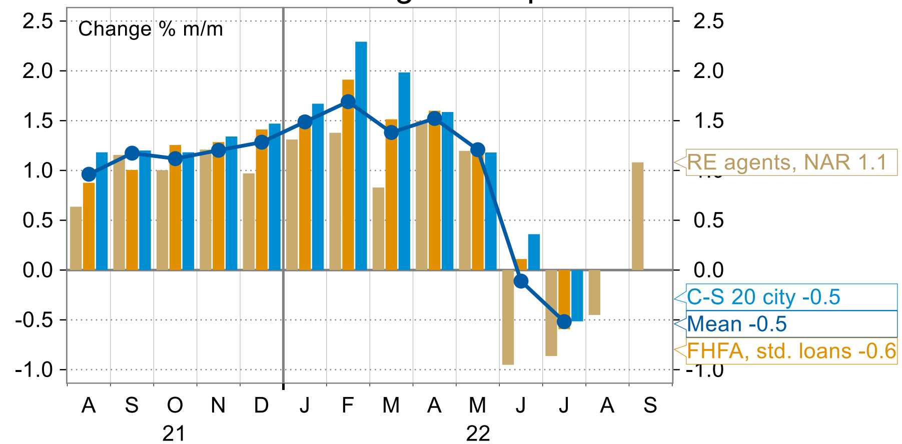
## Prices are up 8.5% y/y – but the negative sign is coming closer

USA Home prices



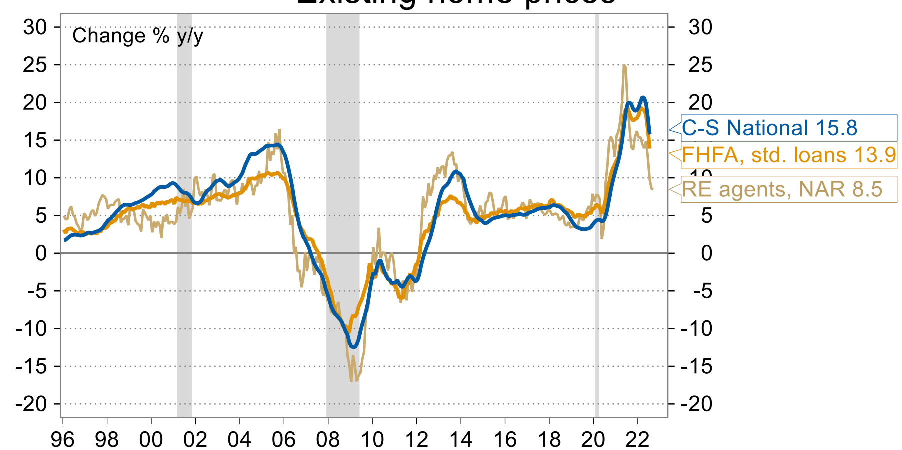

SB1 Markets/Macrobond

Existing Home prices




SB1 Markets/Macrobond

Existing home prices



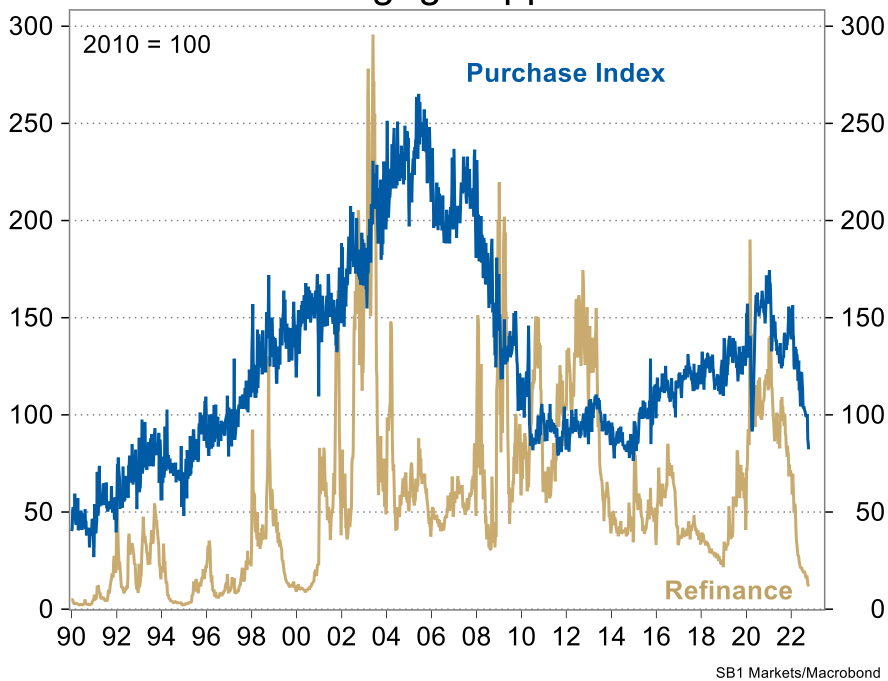

SB1 Markets/Macrobond

- **Prices** rose 1.1% in Sept, following a 0.5% decline in July (revised up from -1%). The seasonal adjustment of these data is not perfect, so some caution on our m/m data. The annual rate fell 1.2 pp to 8.5% (from a 1.8 pp (!)( upward revised rate in Aug)
- Other indices still are up 14% - 16% y/y, but prices fell all across the board in July (Jun-Aug, the last obs). Prices are normally lagging sales by almost 1 year. This time, prices followed sales down much earlier, we think it's due the rapid deterioration of affordability
- Home prices are up 40% from before the pandemic, and are way above the 2006 level, even in constant prices. The downside risk is HUGE! 2020 prices were sufficient to keep housing starts at a decent level

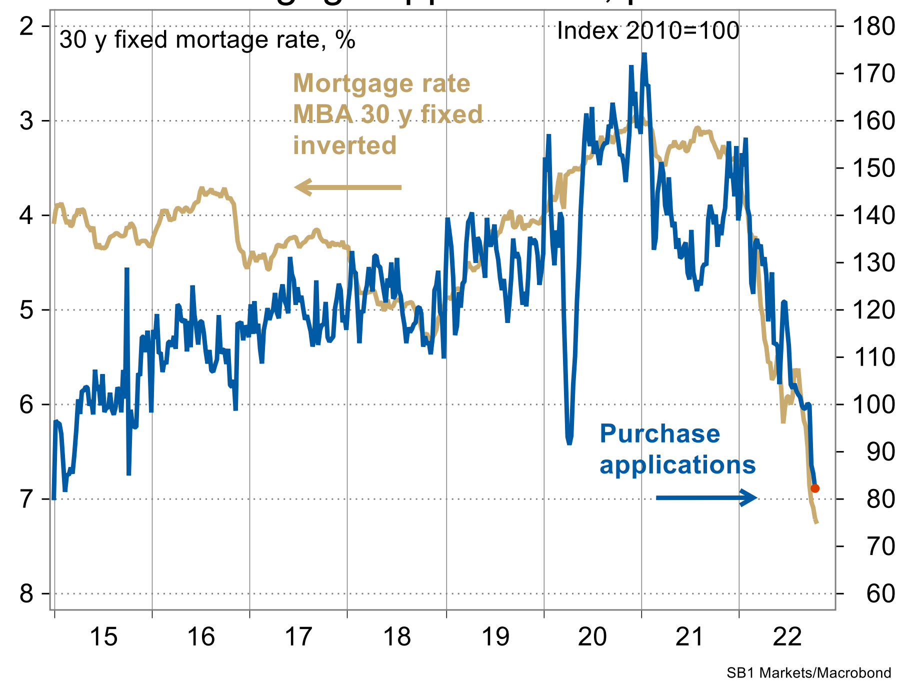
# Mortgage applications have plummeted, for good reasons

Applications for new loans are down by 47% from the local peak in January, and are still falling

USA Mortgage Applications




USA Mortgage applications, purchases




- Demand is now on the low end – 40% below the pre-pandemic level
- Recently, mortgage rates have risen, alongside the increase in the 30-year treasury bond rate
- 'Nobody' is refinancing, for good reasons, given the current mortgage rate

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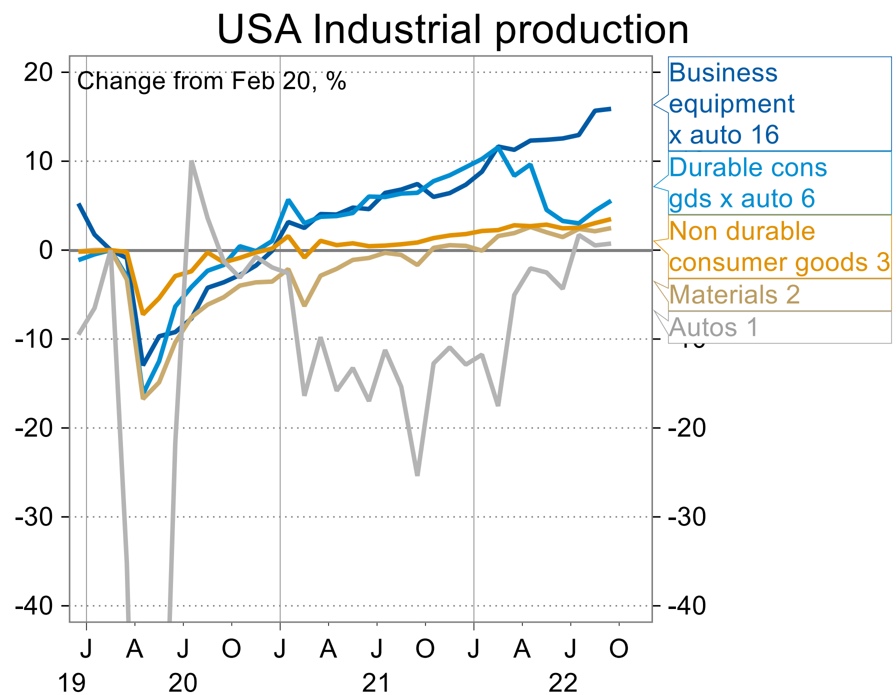
# Manufacturing production keeps beating expectations

## Production in all main sectors were up in September


SB1 Markets/Macrobond

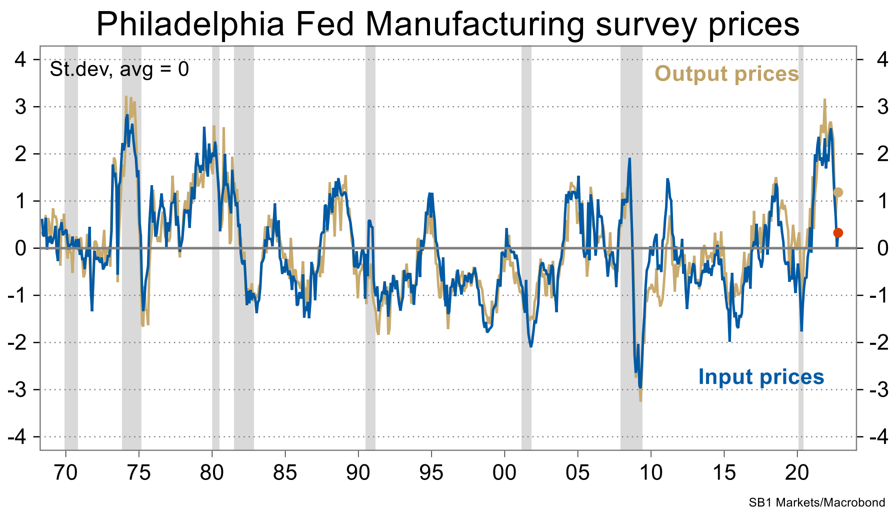


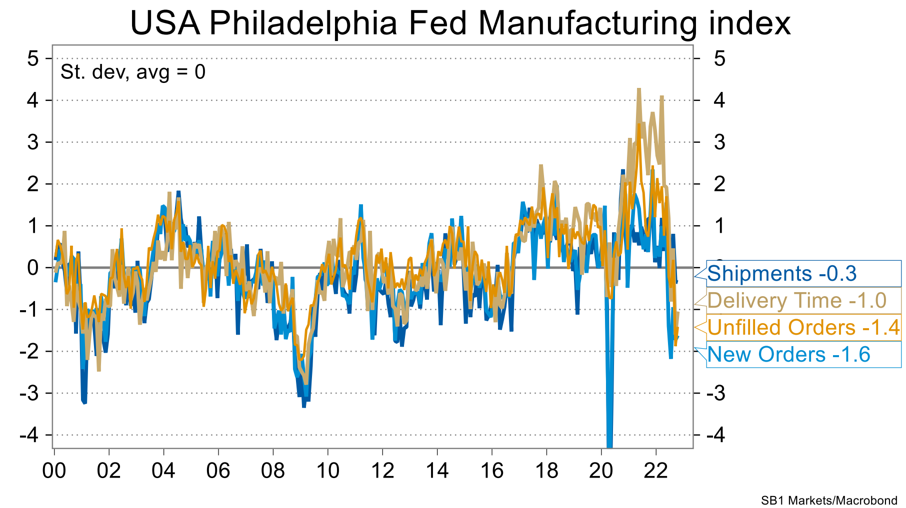

SB1 Markets/Macrobond

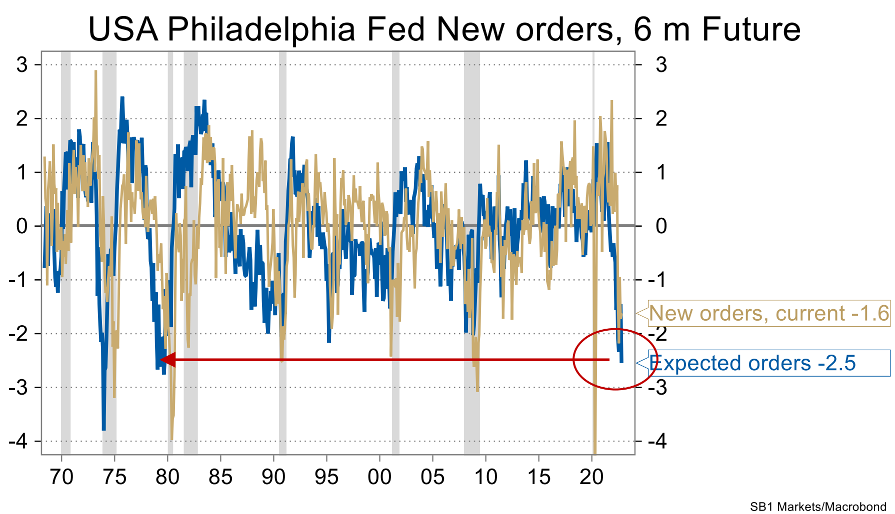
- **Manufacturing production** was up 0.4% in Sept, 0.2 pp above expectations. In addition, the Aug print was revised up by 0.3 pp to 0.4%. Production is finally back above April level, and the 3m/3m rate at +1.9%
  - » Production in all main sectors were up in Sept, and all are now above the pre-pandemic level, even including auto production!
- **Total industrial production**, including utilities, mines/oil production, was also up 0.4% m/m, expected 0.1% (Aug data revised up by 0.1 pp to -0.1%)
- **Capacity utilisation** was unch., and the level is close to the highest in 20 years (the peak was in April)
- **Surveys** have weakened substantially since May. The two first October surveys are mixed but the downward trend is confirmed

# Philly Fed: Orders are falling rapidly, and the outlook the worst since 1979!!

## Both the input and output price indices rose, after having come down over the past 5 months



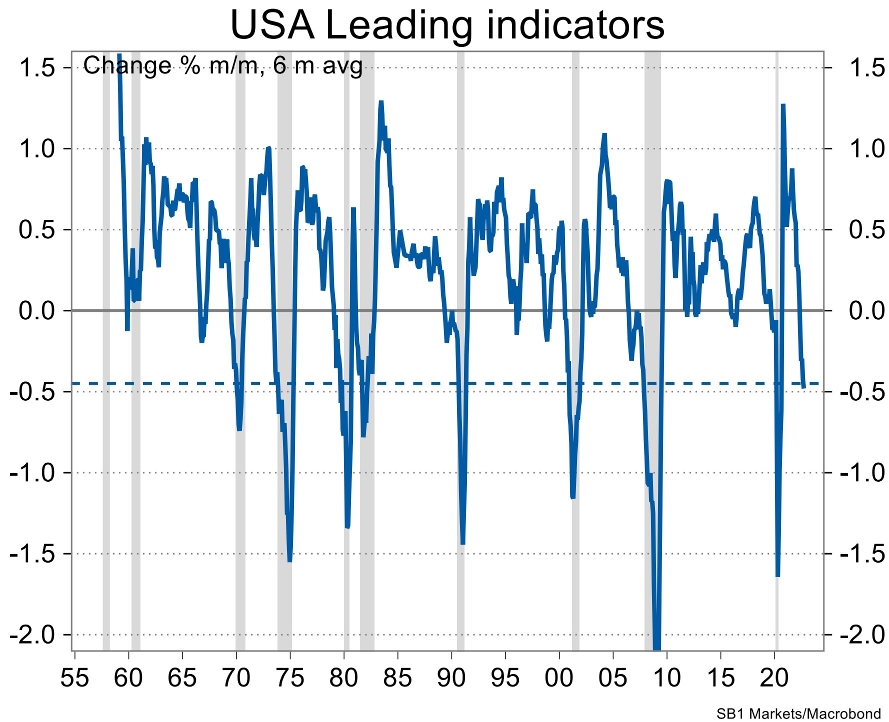



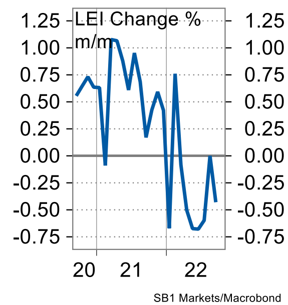



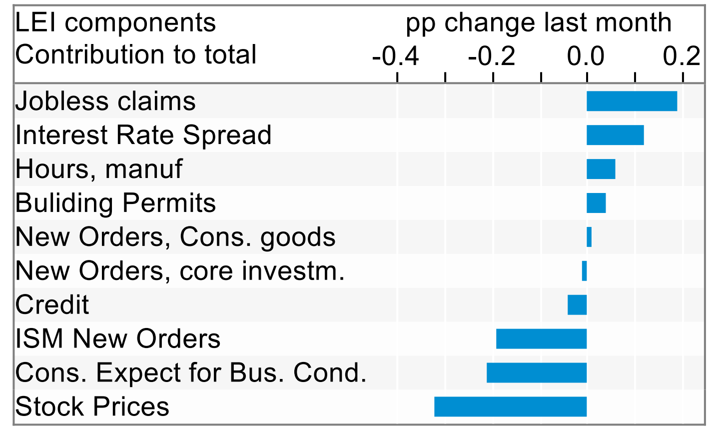

- **Price indices** are still signalling price increases, but not more than normal for input prices (st.dev just above 0). Growth in output prices rose in Oct, but has come down notably since the peak in April – still at a much higher level than normal
- **The new orders** index is zig-zagging downwards, but was marginally up in Oct, to 1.6 st.dev below average from 1.7 st.dev below average. The expected orders index fell sharply, to -2.5 st.dev from -1.4 st.dev. That's the lowest print since 1979, and the 3rd lowest ever!
- **Shipments** slowed marginally, while delivery times and unfilled orders increased. All are below average

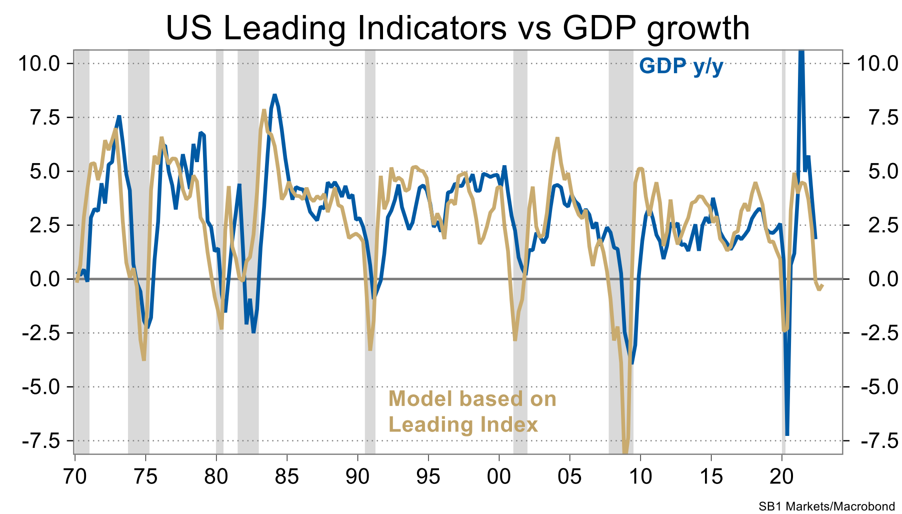
# The Leading Economic Indicators suggest US is in or close to a recession

A 6-month avg of -0.4% level detected 8 of the 8 past recessions. And there were no false warnings!




- The LEI fell 0.4% in Sept, 0.1 pp more than expected from unch. in Aug, revised up from -0.3%. LEI has more or less stabilised the recent months. The 6 m average at is at -0.4%. The LEI has fallen to this level 8 times since 1965
  - On these 8 occasions the US economy was very close to entering or had entered a recession
  - Thus, the LEI 6 m avg at -0.4 'detected' all 8 recessions since 1965; no false positives, and no false negatives. In 1960, US entered a recession without any clear warning sign from the LEI

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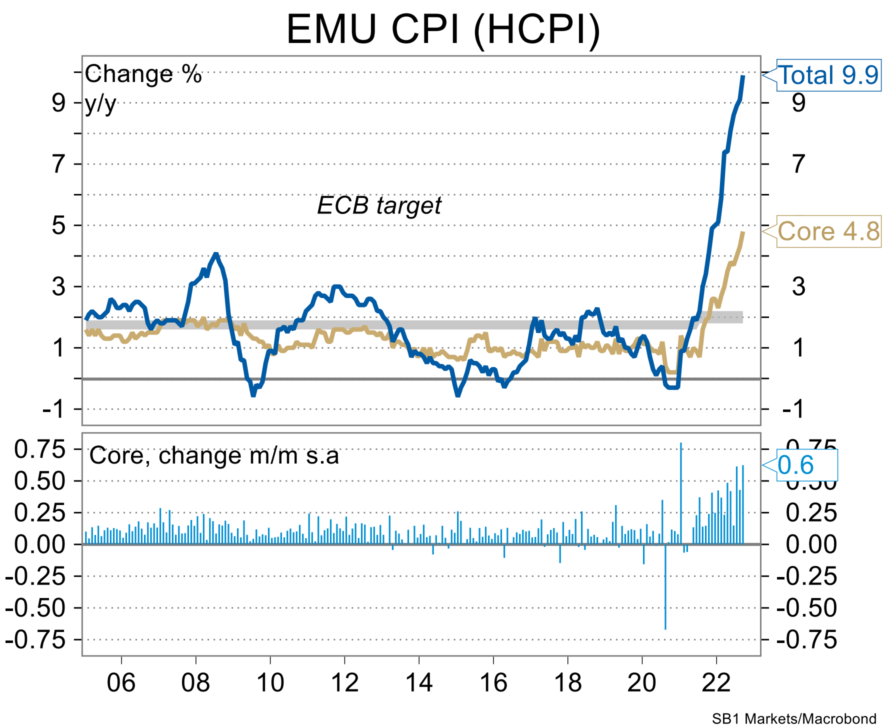
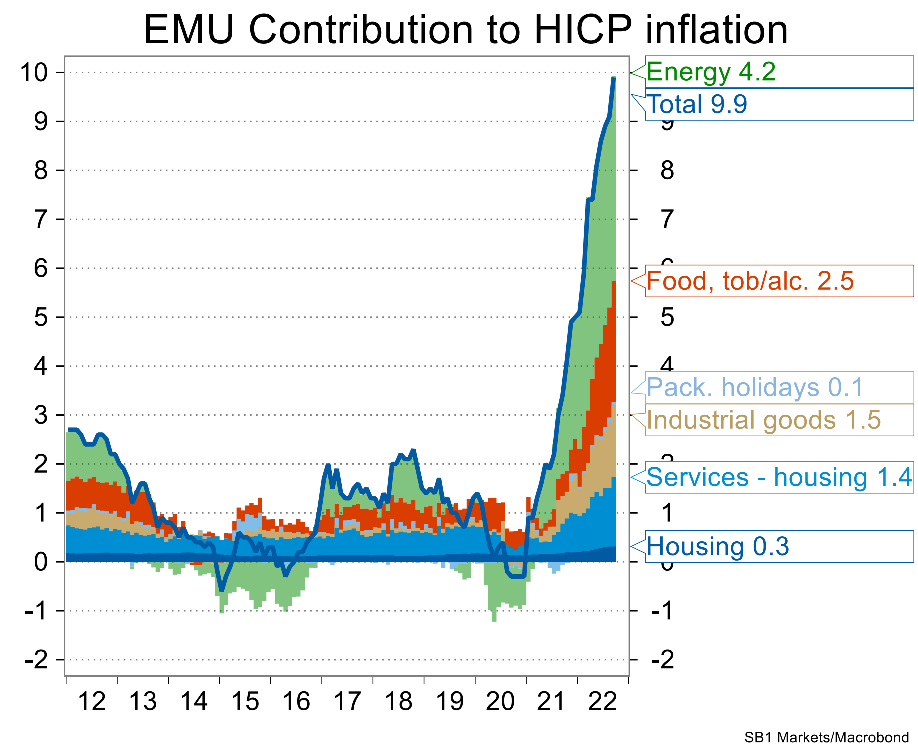
# Headline inflation at 9.9% in September – 0.1 pp lower than preliminary print

The headline index up 1.2% m/m, the core 0.7%, the 2nd highest ever

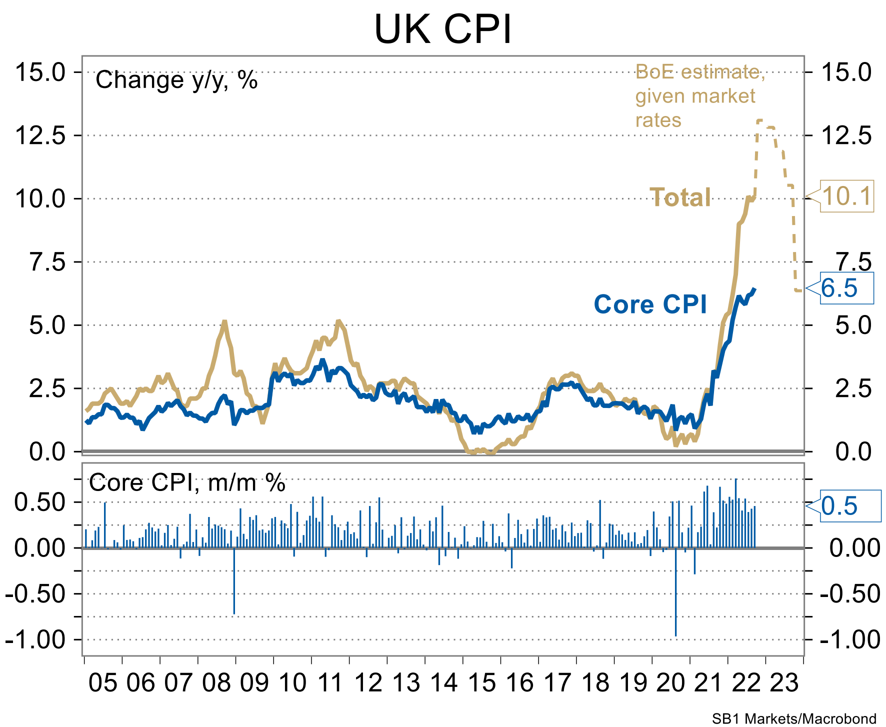


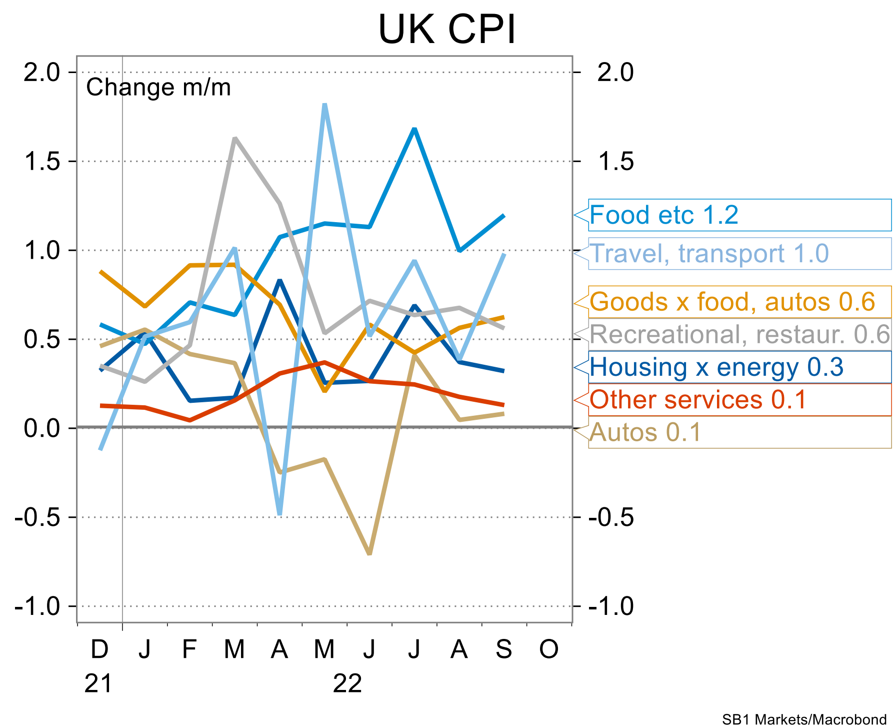




- **Energy prices** directly explains 4.2 pp of the headline of 9.9%. In Sept, energy prices were up 2.4%, while services were up 2.1%. Most likely, energy prices will decline in October, check 3 pages forward

# UK headline inflation above expectations in September – up 10.1% y/y

Data in line with BoE expectations – market bets on 100 bps rate hike in November

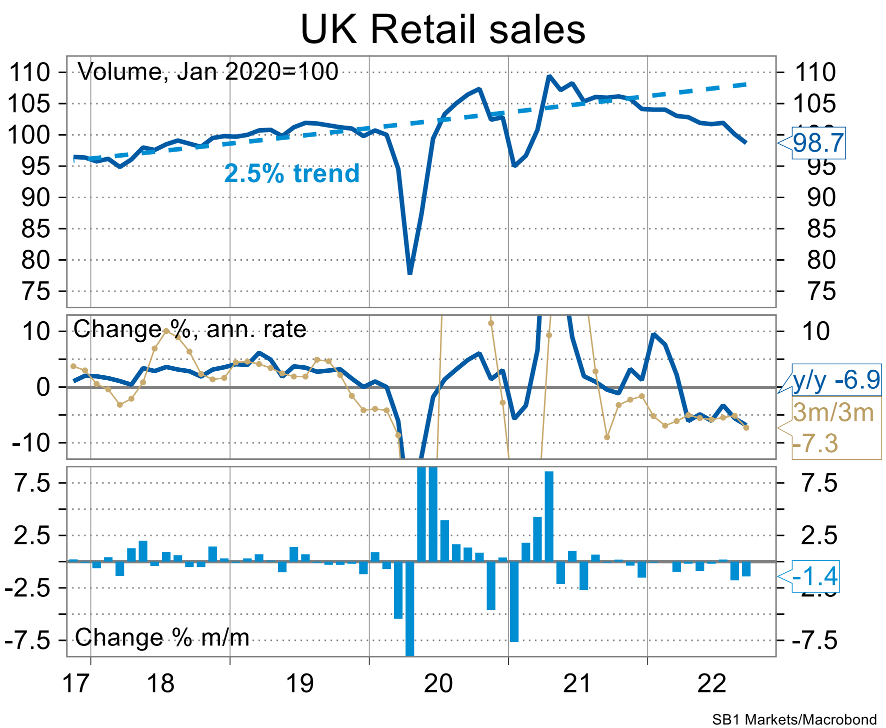


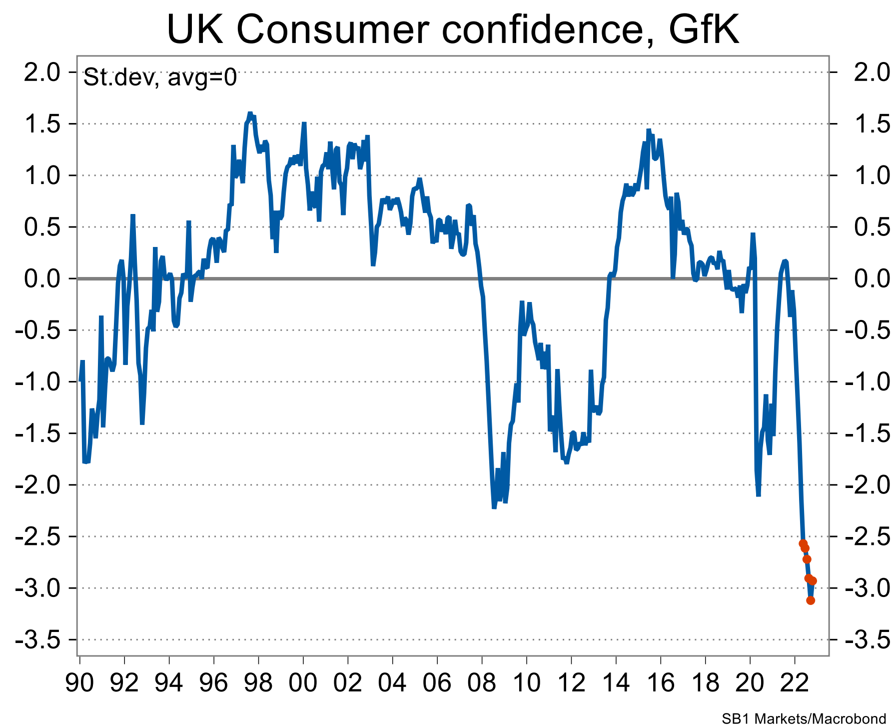




- **The total CPI** rose 0.5% m/m in September. The annual rate accelerated 0.2 pp to 10.1%, expected up 0.1 pp to 10.0%
- **Energy prices** were down 1% in Sept, after falling 2.9% in Aug, but are up by 50% y/y and has lifted the headline y/y rate by 3.3 pp. The regulated price cap for energy was lifted substantially in April (a semi-annual adjustment, the next in October – and then Bank of England expects 13% headline inflation). Energy subsides may lower inflation – if decided
- **Food prices** rose 1.2% m/m, and they are up 11.8% y/y (like in Norway), lifting the headline by 1.9 pp!
- The **core CPI** (ex food and energy) rose 0.6% m/m, and is up 6.5% y/y, up from 6.3% in Aug
- **Auto prices** have flattened
- **All major sectors** are reporting growth above 2%, and almost all up by more than a 2% pace since before the pandemic. This is BoE's problem, inflation is broadening, and are also driven by home-made factors. The gas problem cannot be slowed by the bank, of course

# Retail sales are trending downwards – and are lower than before the pandemic

Sales declined by 1.4% m/m in September, expected down 0.5%... And confidence is still record low

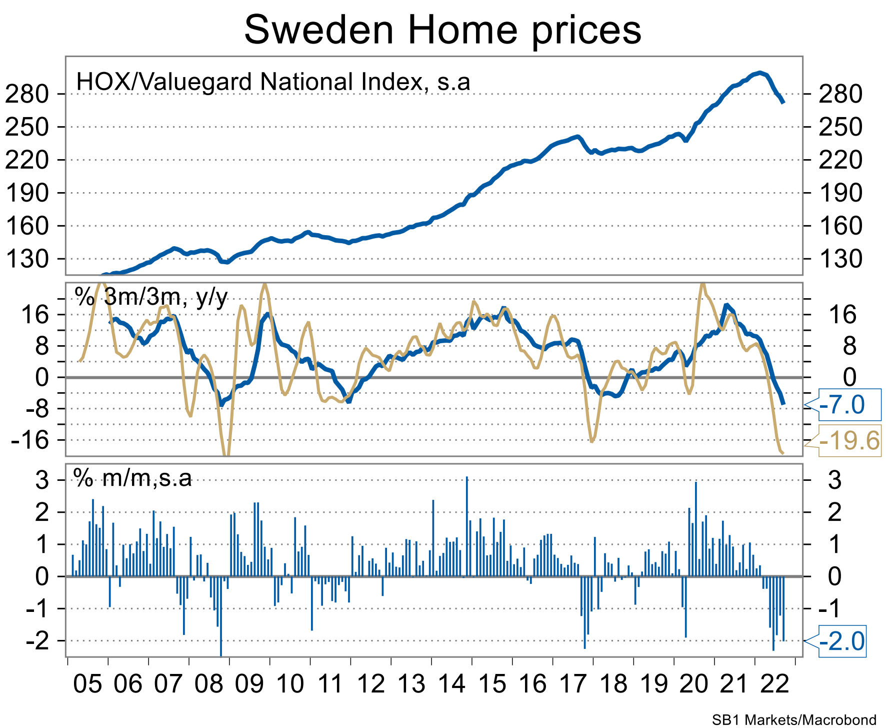


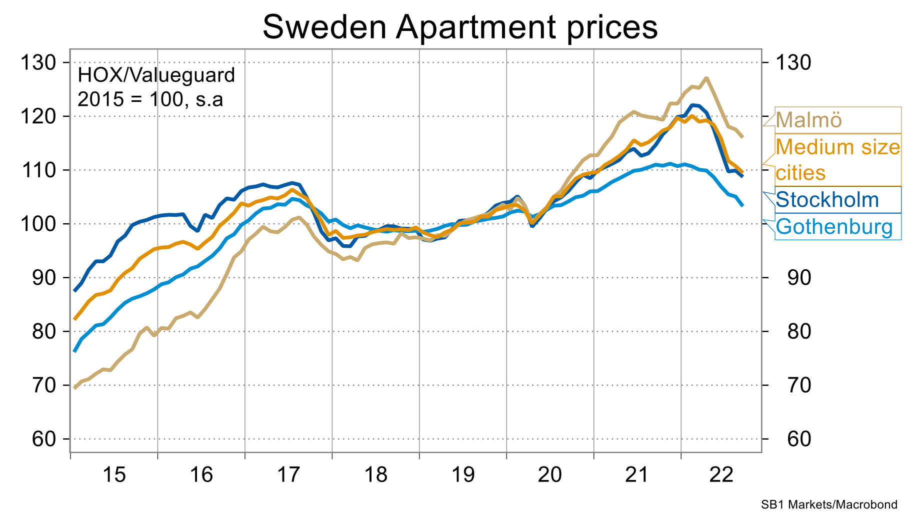



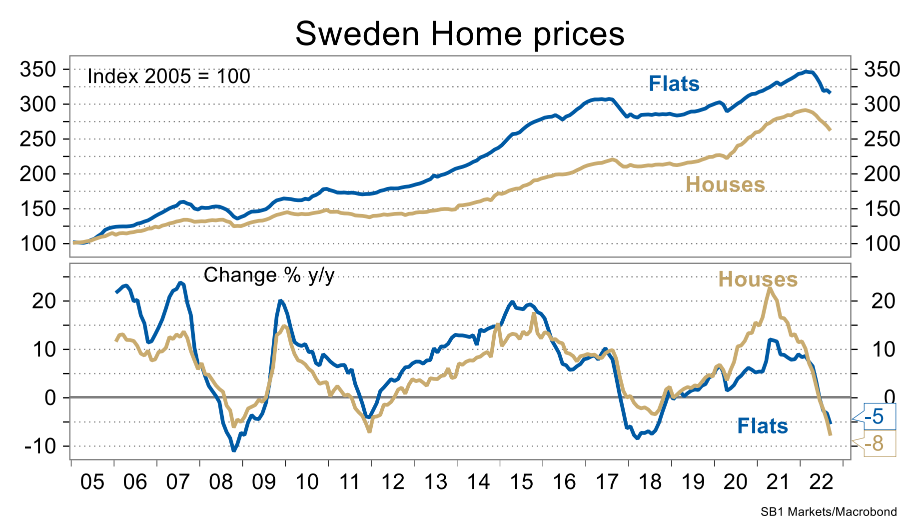

- **Retail sales** peaked Apr-21, and the gradual decline brought sales down to well below the pre-pandemic 2.5% growth path – and now even 1.3% below the pre-pandemic level! Sales are down at a 7.3% pace measured 3m/3m, a substantial drag on GDP growth
- **Consumer confidence** increased slightly in October, to 2.9 st.dev below average, from an ATL of 3.1 in Sept
  - » High inflation, and an unprecedented decline in real wages and higher interest rates are likely reasons for the historically low consumer confidence. Political turmoil is probably not helping. Besides that, the labour market is strong, the unemployment rate the lowest in 4 decades

# Swedish house prices kept falling in September, down 9.4% from February

## Prices fell 2% in Sept, the 7th decline in a row, before Riksbank's 100 bp Sept hike…



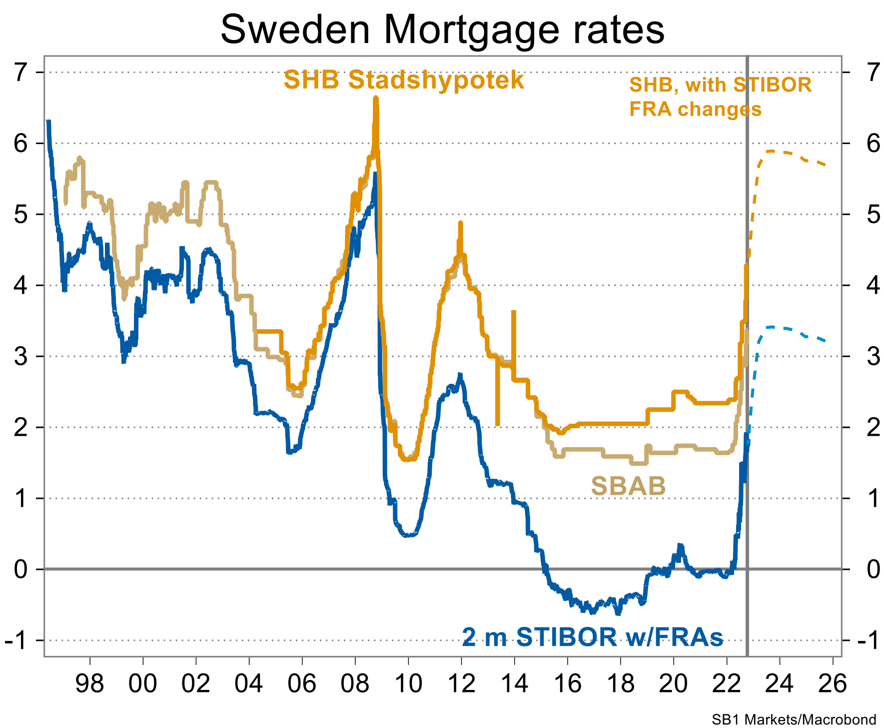



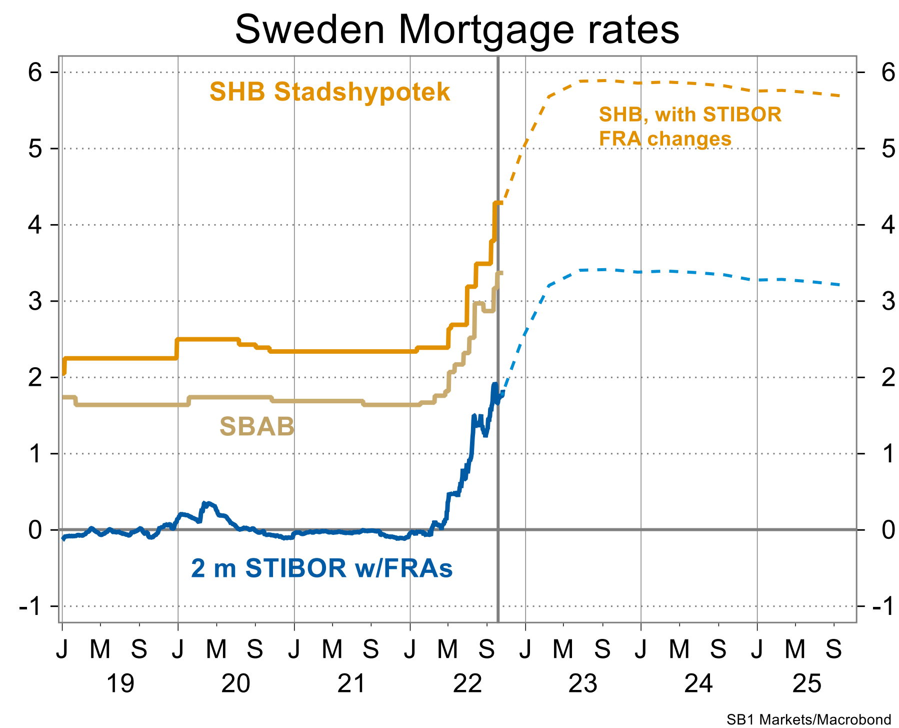




- **Prices are down** 9.4% from the peak in February. In Stockholm, apartment prices are down 8.8% from the peak
  - » In Sept, apartment prices in Stockholm fell 1.7% (seas. adj), while single-home prices fell by 2.5%
- **The annual rate** declined to -7% from -4.2% in Aug
  - » The underlying price growth (3m/3m) is now <u>-20%!</u>
- The **Riksbank's** abrupt change of tack in late April has no doubt hit the housing market hard. The rest of the real estate sector is hit by higher long term rates, and the sharp widening of credit spreads

# Mortgage rates are climbing at a murderous pace – and more to come

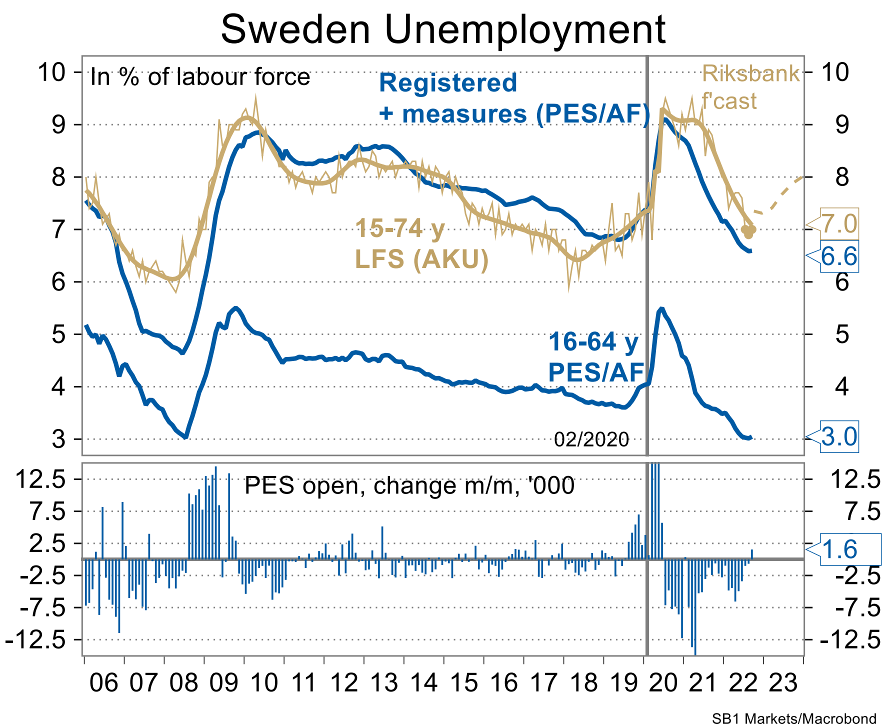
At least according to the FRA market. Mortgage rates have increased more or less in line whith STIBOR

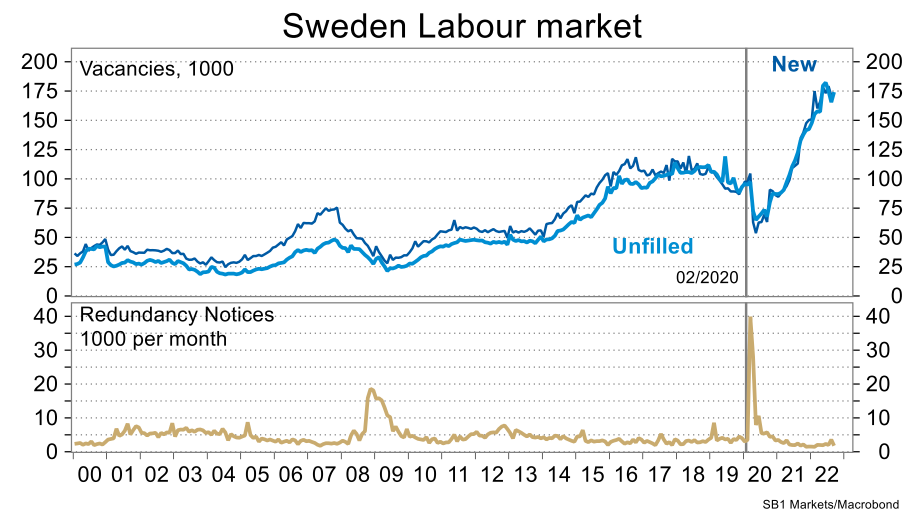


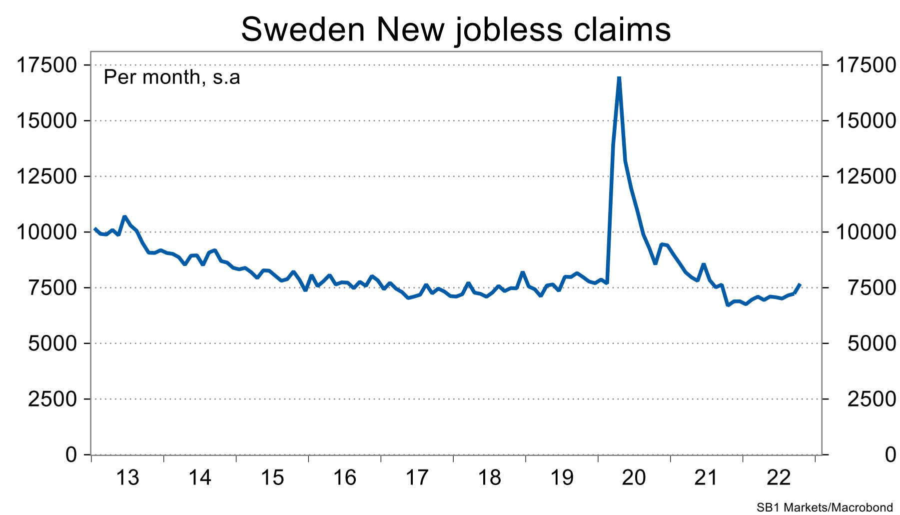



# The cycle has turned? PES Unemployment marginally up in September

## Employment is now coming down, while vacancies remain at extreme levels



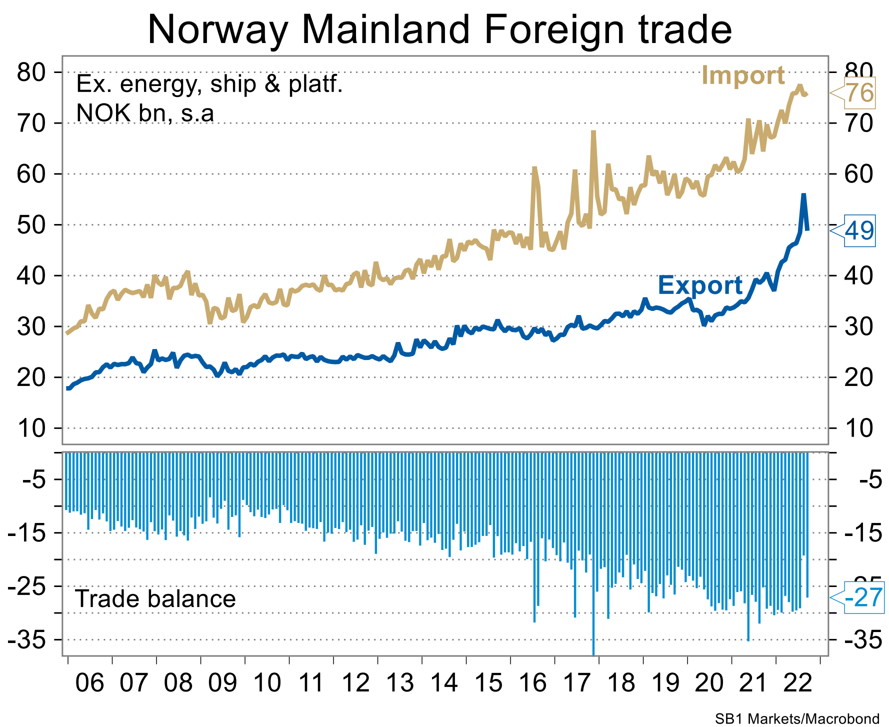



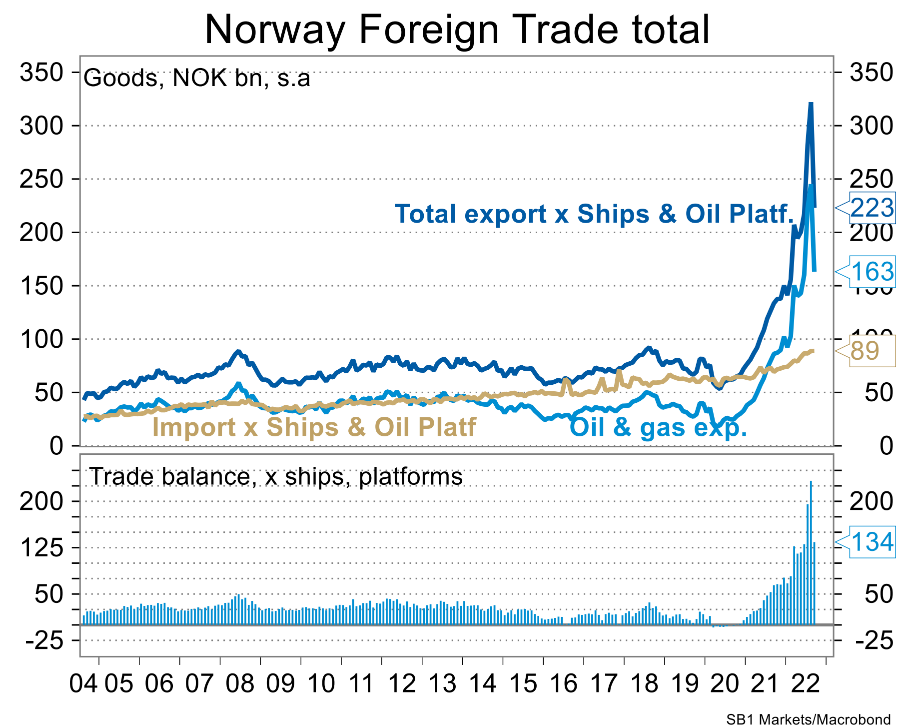




- The **'open' registered unemployment rate** at 3.0% is far below the pre-pandemic level – and very likely soon at the lowest levels since 1990, before the housing/banking crisis. In September, the no. of unemployed increased marginally, for the first time since June 2020. In addition, the inflow of **new jobless registrations** has increased slowly since the start of the year, and probably visibly in October
  - » **Unemployment including labour market** measures has fallen to 6.6% - which is finally below the level just before the pandemic hit
- The number of **new vacancies** fell marginally in Sept, while the no. of **unfilled vacancies** increased and the level is very high, yet employment decreased last month

# Trade surplus lower due to falling oil & gas prices, but still historically high

## The Mainland x energy balance has strengthened over the summer

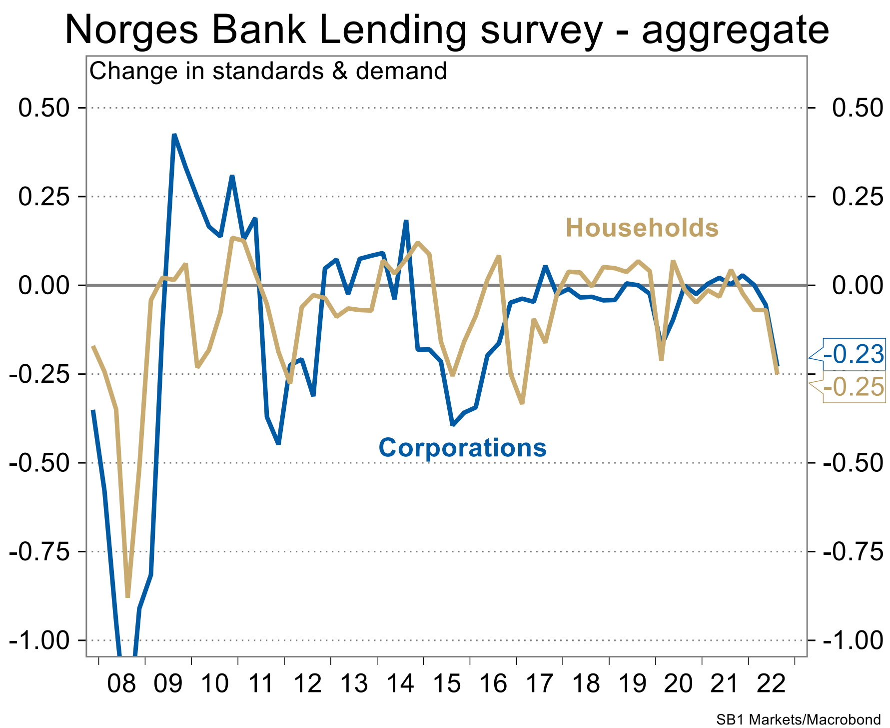


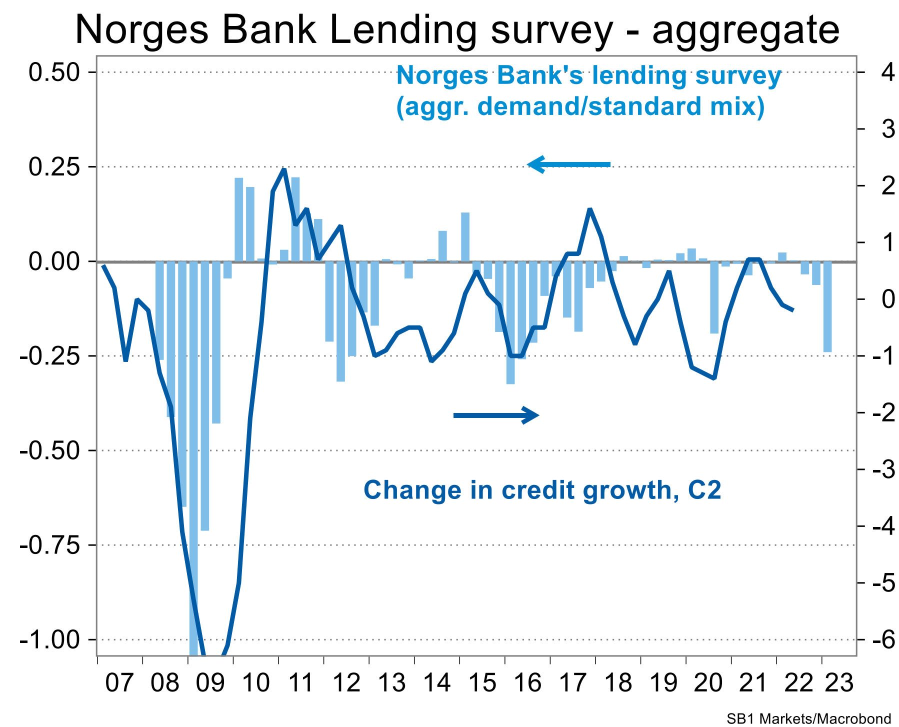




- The seasonally adjusted September **overall trade surplus** in goods at NOK 134 bn is the 3rd highest ever, down from an upward revised ATH of 233 bn in August. The surplus in Sept still equals 47% of Mainland GDP
- **Oil & natural gas exports** were down 33% in Sept, after a 25% increase in Aug, due to lower gas prices. From Aug, production of LNG from Melkøya is again running at full capacity, adding to the already high volume produced (but LNG will still amount to less than 5% of total gas exports in '23). So far in October, gas prices have come down further, but higher-than-average future prices towards early 2023 signal extreme trade surpluses the coming months too
- **The <u>Mainland (and non-energy) trade deficit in goods</u>** decreased by 8 bn to NOK 27 bn, equalling 10% of Mainland GDP (however, deliveries from the Mainland to the oil sector (cap. ex and op.ex) are not counted as exports from the Mainland but imported intermediate goods for producing 'exports' to the oil sector are counted as imports – and the 'real' Mainland trade balance is far, far stronger)
- **Non-energy exports** fell by some 7 bn, to NOK 49 bn. Mainland exports have been very strong during and after the pandemic, and the underlying growth rate over the past year is some 30%. Exports are up 48% since the end of 2020, almost entirely due to higher prices. Fish, metals & chemicals are reporting strong growth. Measured in volume terms, non-energy exports are close to flat. (Check next page, volume data through August)
- **Imports** also rose by 1 bn to 76 bn in September, and at an 13% growth pace, in value terms, that is

# The credit cycle has turned – both from the demand and the supply side

Significantly lower demand from households, tighter standards/higher spreads vs businesses



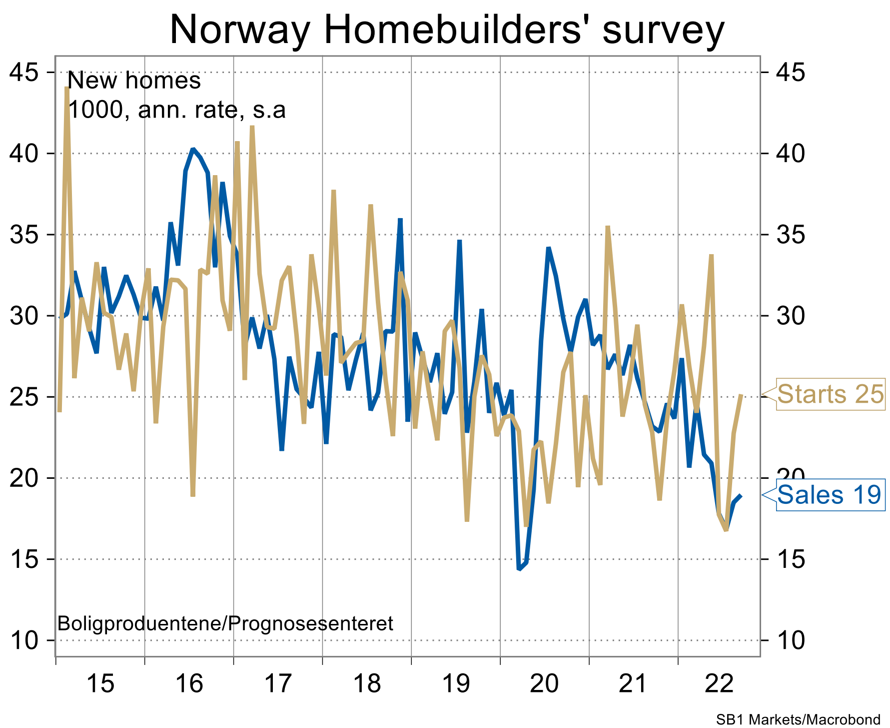



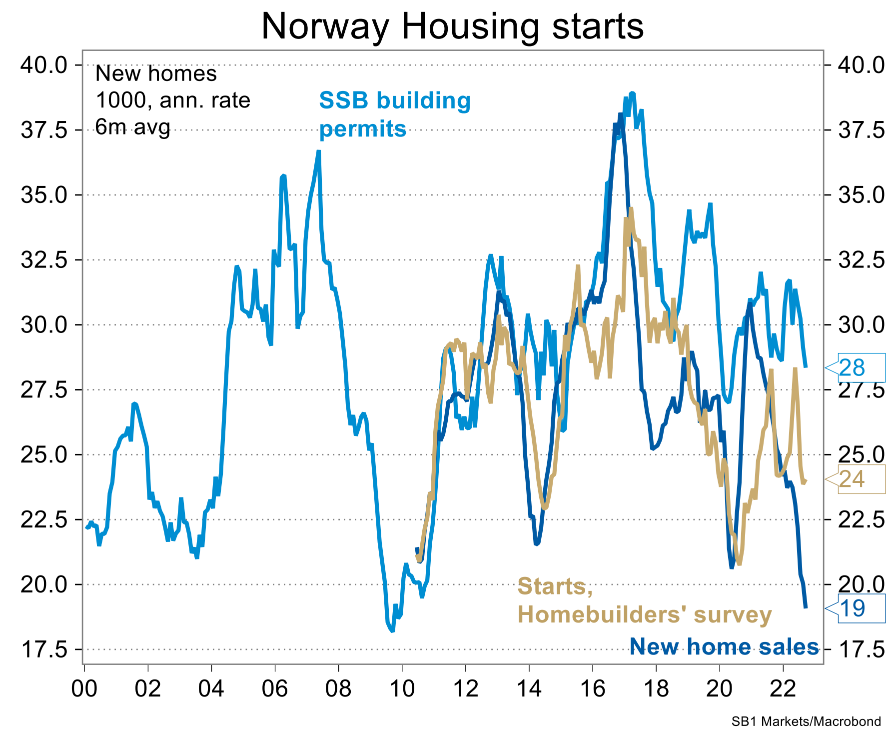

- Finally, some news from Norges Bank's lending survey – it has been rather boring the previous 2½ years

Data in this section are seasonally adjusted

# New home sales marginally up in September too, but are trending sharply down

… according to the home builders. SSB reports declining building permits

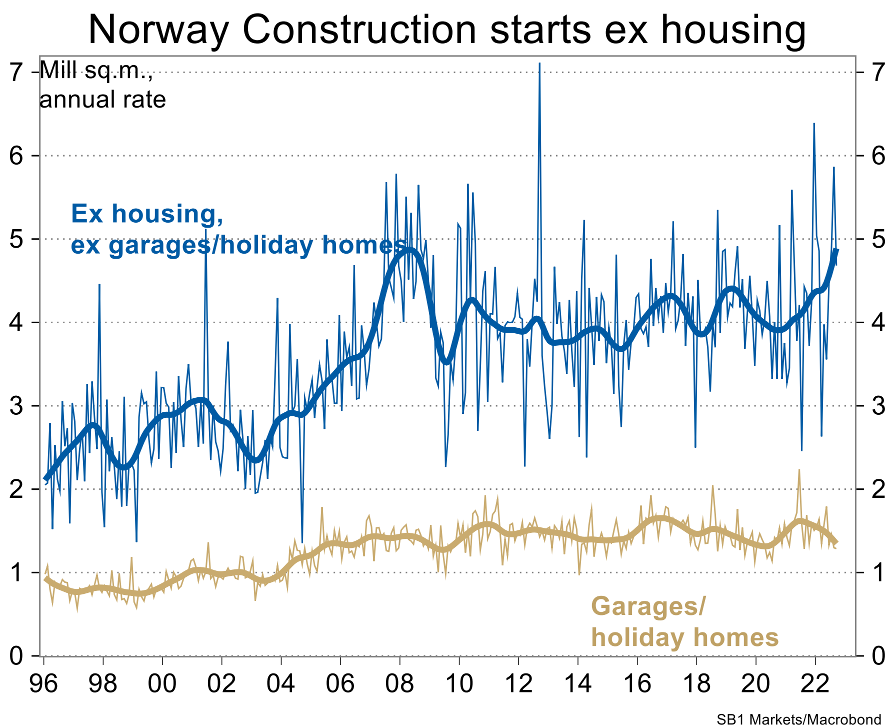


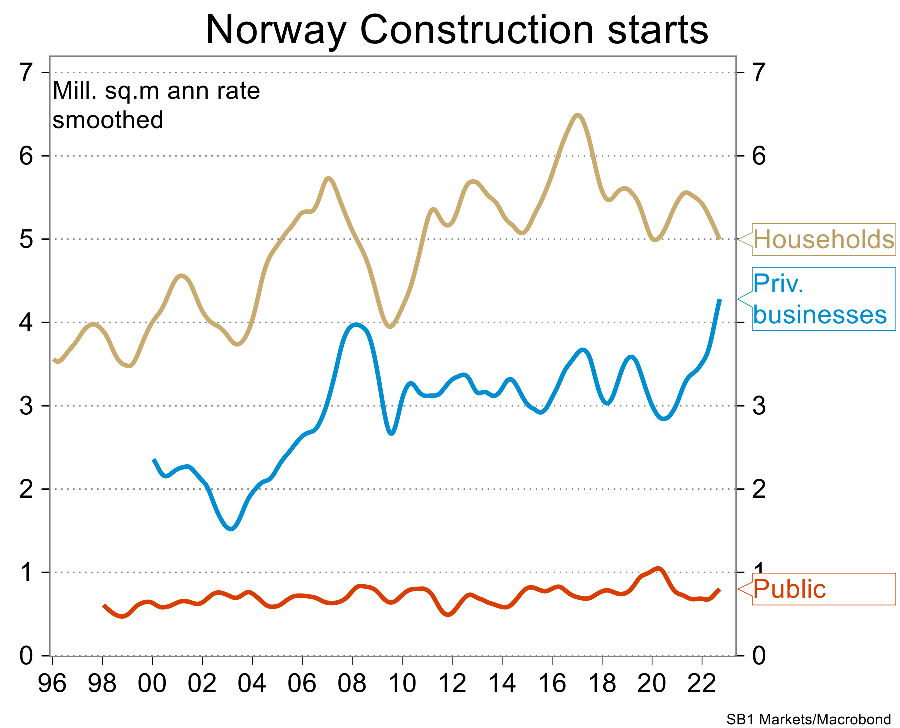




- Boligprodusentene (Home builders) reported a small increase in new home sales in September, but the level is rather low at 19' and the trend has been down since early 2021. The average over the past 6 months is 19', the lowest on record from the Home builders
- Starts increased by 2' to 25' in Sept. The average over the past 6 months is at 24', while SSBs building permits gained 5' to 30' in Sept, though with a 6 m average at 28 – which is trending down
- The rather steady decline in new home sales signals a downturn in new starts/permits the coming months. The sharp lift in construction costs and now much higher mortgage rates are reasonable explanations

# Non-residential construction still going strong

Both the private and the public sector are starting up more projects, the private sector level is high



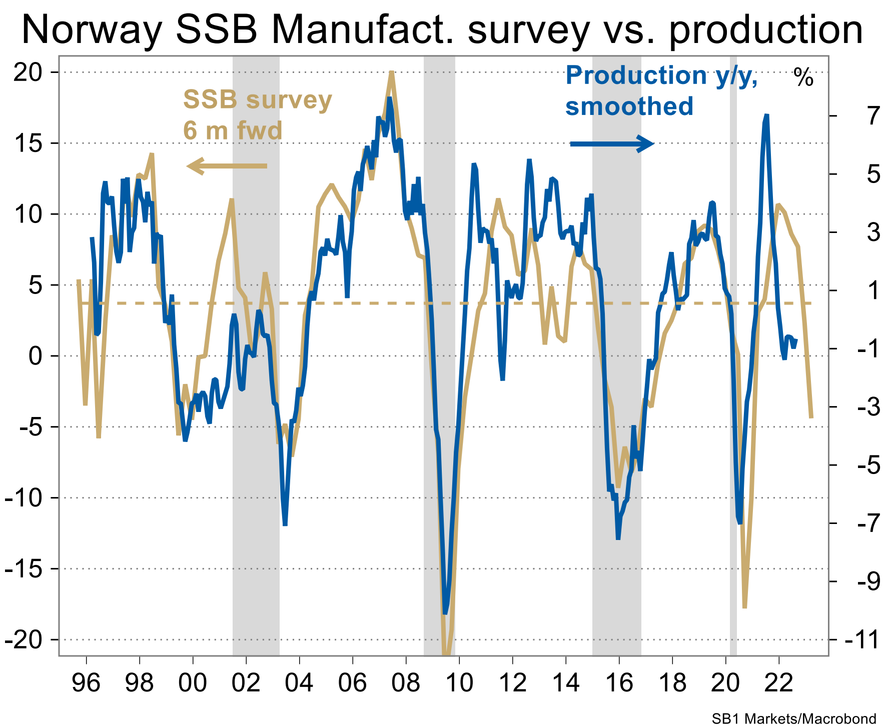



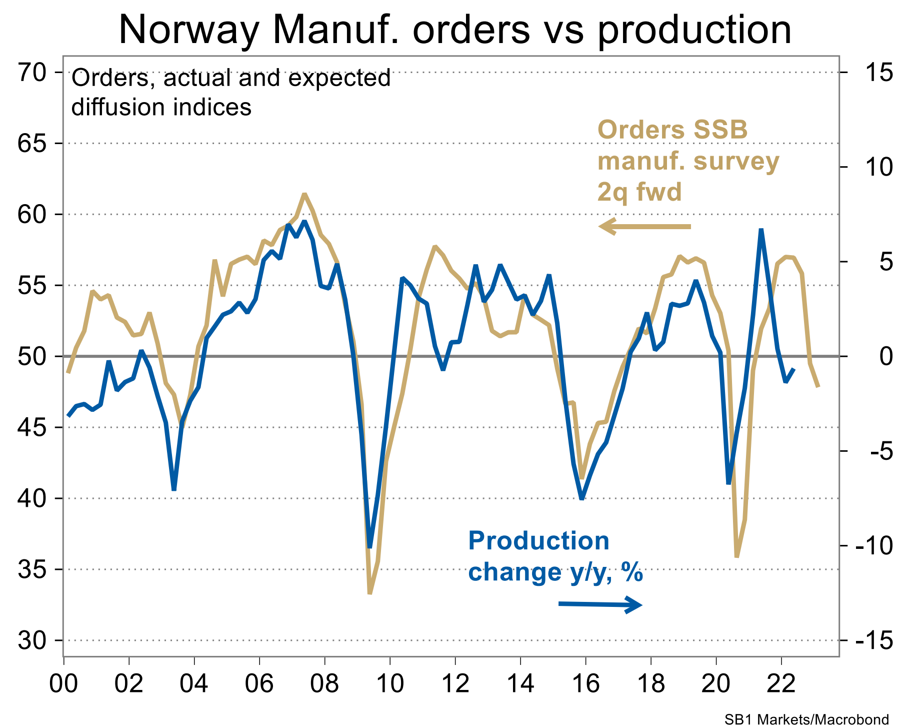

- **Construction starts ex housing & garages/cabins** are very volatile, short term, influenced by single projects
  - » **Private non-residential starts** climbed and are trending upwards, and the level is on par with the highest ever
  - » **Public sector construction starts** have recovered recently, following a decline in 2021
  - » **Construction starts of cabins/garages** climbed 30% – 40% from early 2020 until late 2021– but are now trending slowly down

SpareBank 1 MARKETS

# SSB's manufacturing survey confirms the slowdown, just oil related still OK

A rapid decline in manufacturing production is signalled, and zero growth in Mainland GDP

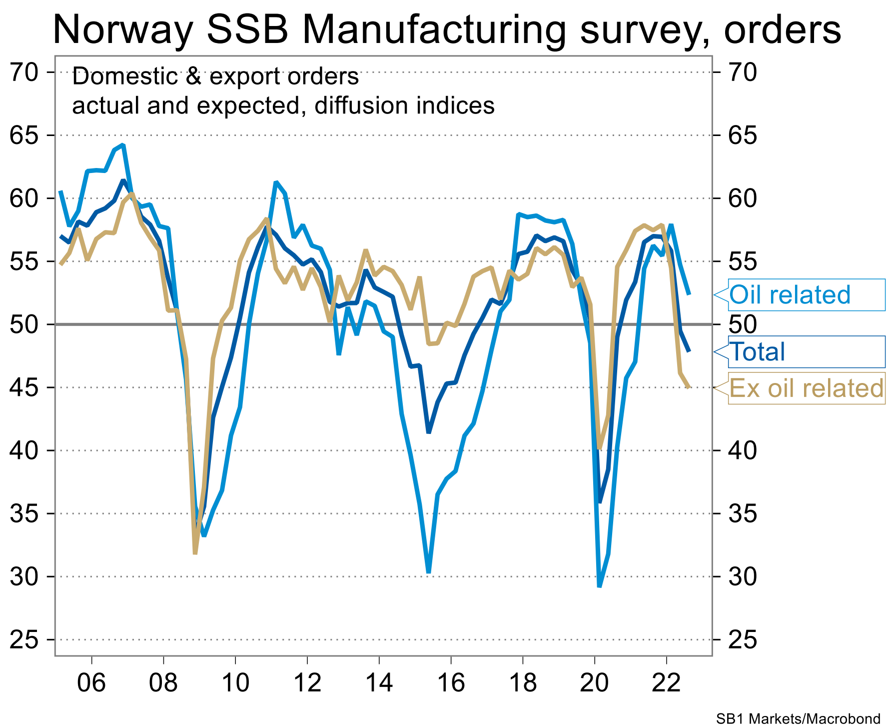


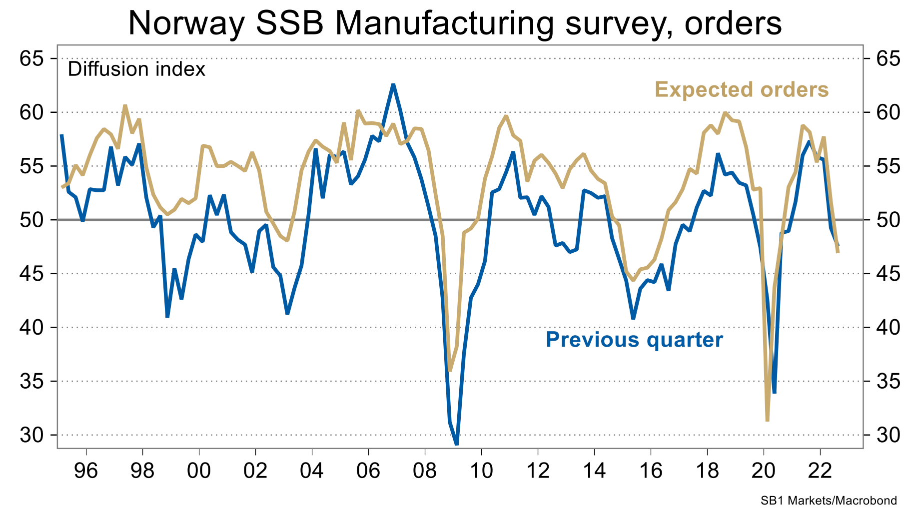



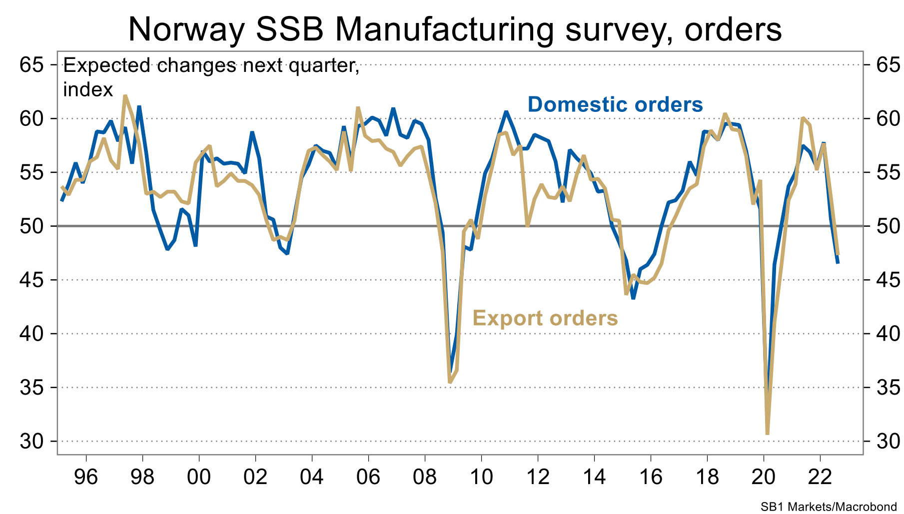

- The **composite index ('confidence')** in SSB's manufacturing survey fell to -4.4 from 2.3 in Q3, which is close to the levels we see during recessions. We expected a decline to 0 (from prev reported 3.2, no consensus). Oil related sectors report a still strong outlook (like order expectations), other sectors fell to well below average
  - » The index signals a 3% pace of contraction in the manufacturing sector, and zero growth in the Mainland. Due to still high oil and gas prices, an OSE 12 m fwd EPS growth at 13% is signalled (if not for petroleum prices, a sharp decline in EPS, of course). Analysts expect 84% growth, from the current elevated level
- **Supply constraints** eased marginally (not for labour), but are still the most serious since 2008. **Demand/competition** is far less of a problem than normal
- Fewer companies reported they plan to lift prices – but the share is still was off anything seen before (barring the recent quarters)

# Oil related manufacturers kept the pace up, other sectors not

Both domestic & export orders are slowing sharply

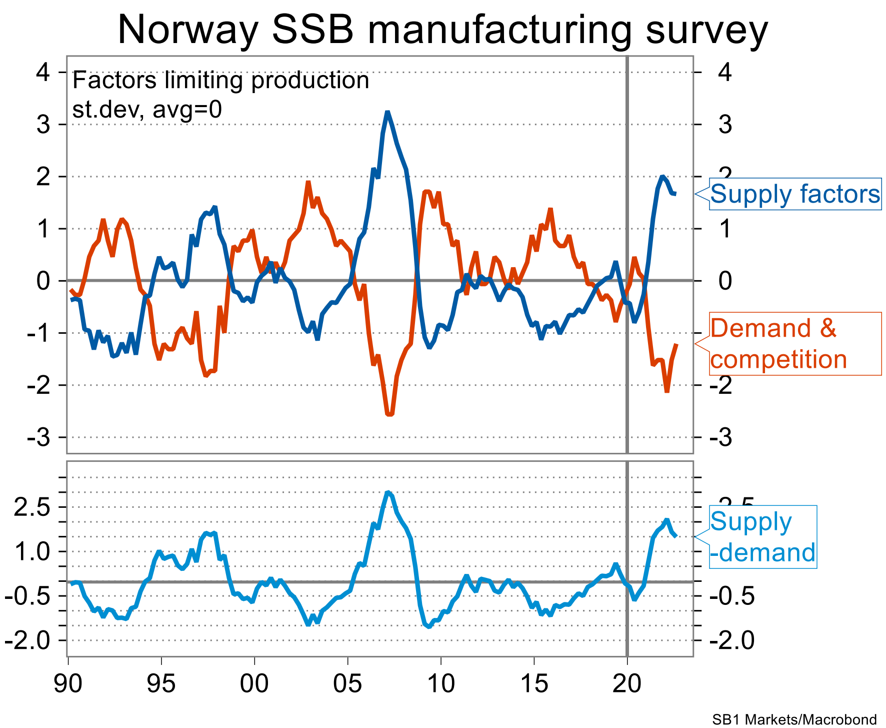


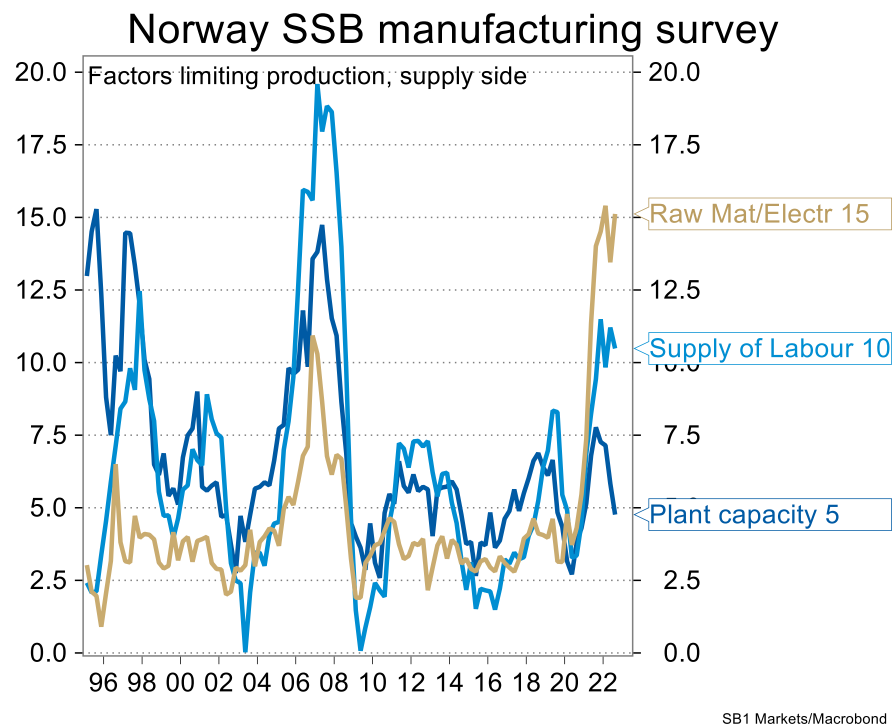



# Limiting production: Supply factors still far above average, demand still far below

However, in Q3 the gap between the two narrowed somewhat

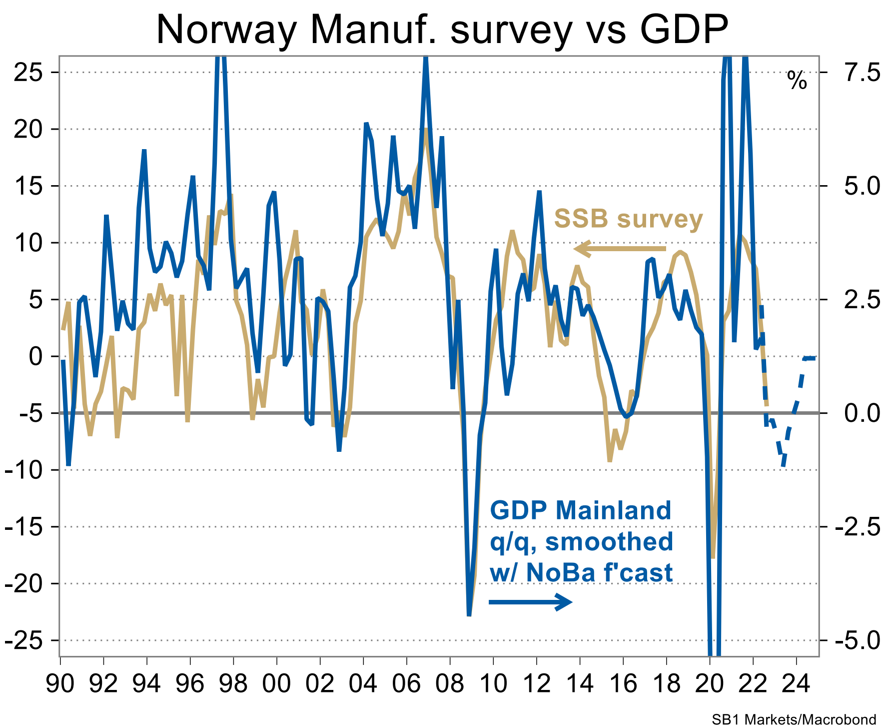


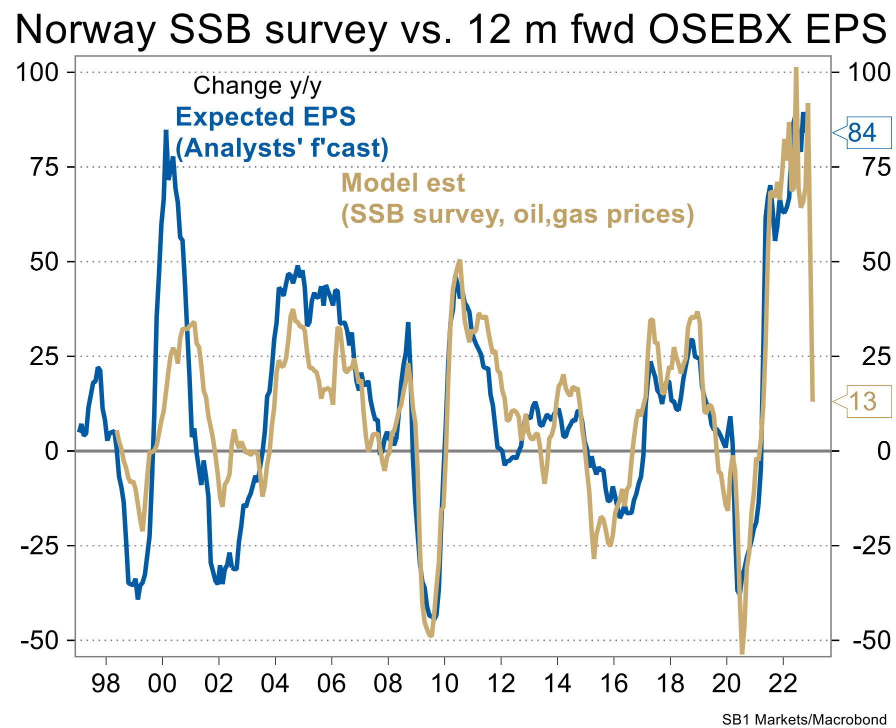




- The share of companies that report lack of labour as a factor limiting production fell marginally in Q3, but far less than we expected – and the short term trend is flat – at a very high level
- Fewer companies reported plant capacity as limiting production. However, more say raw materials and electricity are constraints
- More companies reported lack of demand or competition as limiting factors, but the share is still unusually low
- ***No demand crisis – yet***

# SSB's manuf. survey signals close to 0% GDP growth, and still positive EPS growth

As oil and gas prices are still elevated. However, the current 13% growth f'cast is below consensus at 84%




- The manufacturing survey is quite closely correlated the Mainland GDP cycle
- The survey is closely correlated to the OESEBX earnings cycle too – and even better if oil & gas prices are added in the equation

Highlights

The world around us

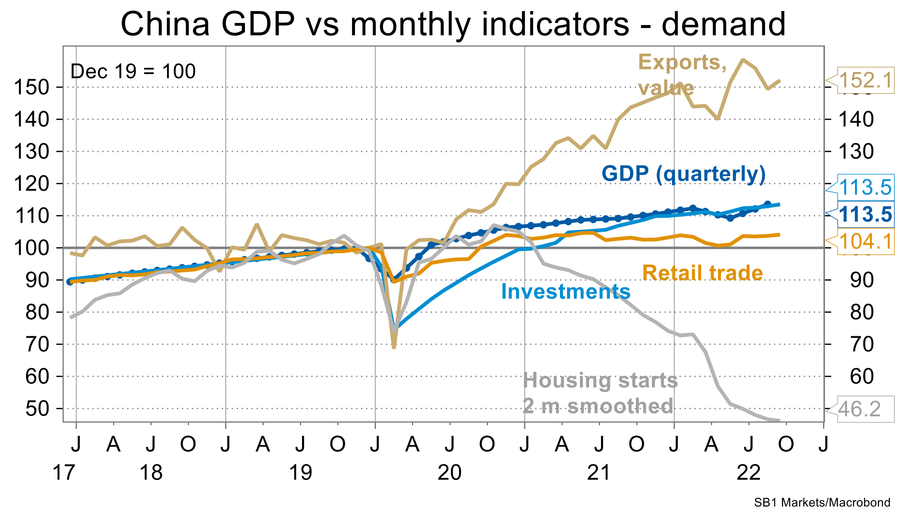
The Norwegian economy

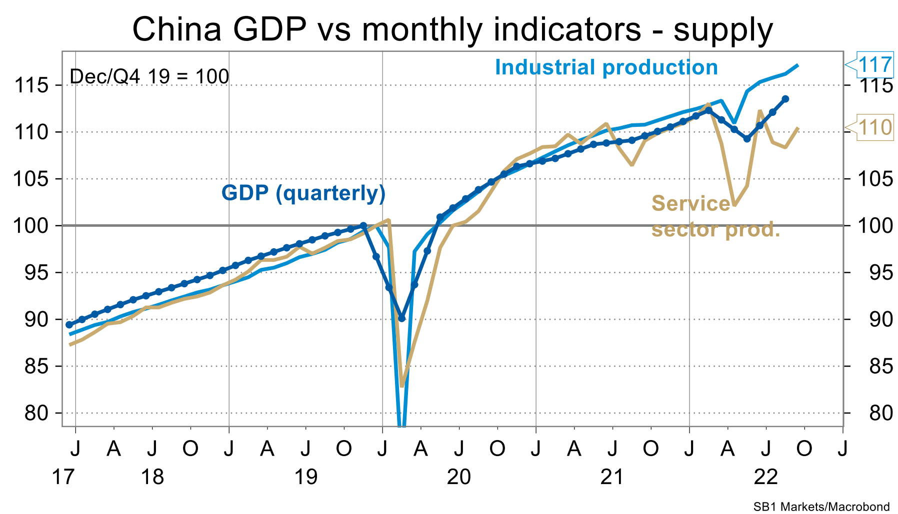
Market charts & comments

SpareBank 1 MARKETS

# Q3 GDP better than expected, industrial prod in Sept too

## However, retail sales are sluggish and construction starts remain at a very low level




- **GDP** grew 3.9% q/q and y/y, 1 pp and 0.5 pp better than expected. GDP is almost back to the pre-pandemic growth path
- **Industrial production** rose 0.8% in Sept., history was revised up and the level is well above the pre-pandemic trend. Production is up 6.3% y/y, expected 4.8%! Steel and cement surprised us at the upside. Autos still in the lead, due to record high domestic sales
- **Service sector production** rose by 2% but is still down vs the pre-lockdown level, probably as covid measures are still hampering activity
- **Retail sales** rose 0.4% m/m, but the annual rate at 2.5% was below the expected 3.0%. Sales are still surprisingly weak vs the pre-pandemic trend path
- **Investments** rose 0.5% in Sept, and is back on track, even if both **residential and commercial construction starts** have fallen by more than 50% from the peak early last year (the largest contraction ever). **Construction starts** were unch in Sept New home sales grew marginally but is still down 40% from the peak
- **Exports** rose marginally in Sept (and was up 6% y/y, 2 pp above expectations, but has flattened over the recent months both in nominal and real terms – both at very high levels though. **Imports** are still subdued, and the trade surplus is at a record high level. An imbalanced economy?

**In sum:** Q3 was well above expectations, but September data were mixed as retail sales are weak and construction starts remain extremely depressed vs. the 2021 peaks (but perhaps more sustainable levels)

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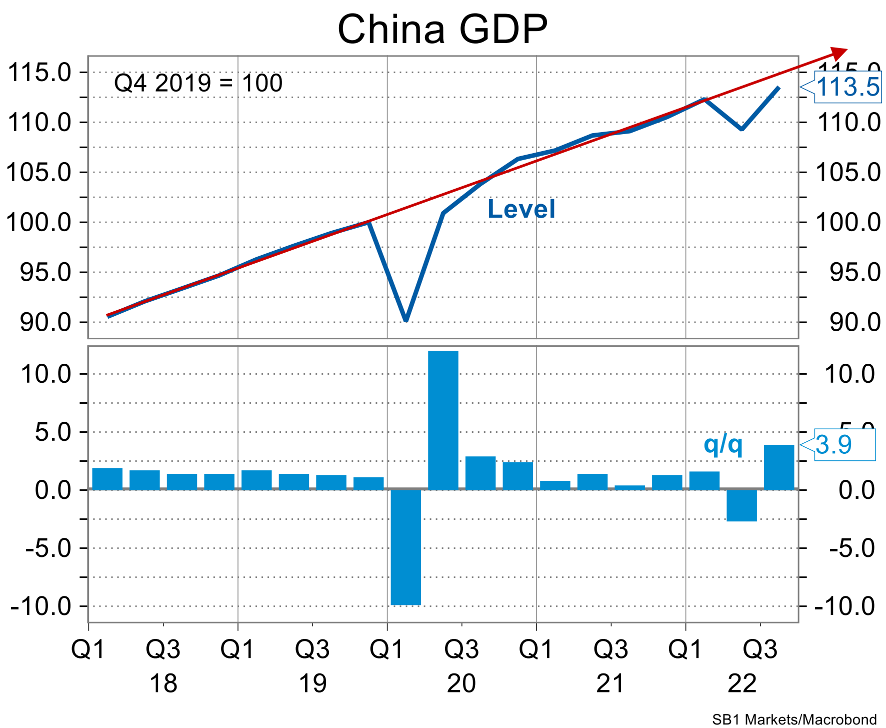
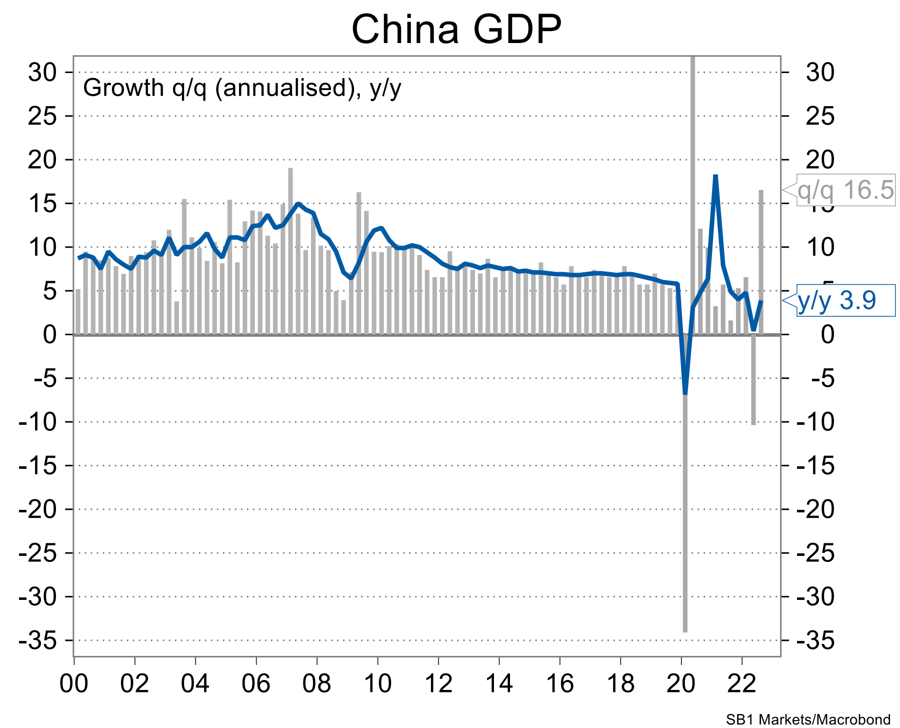
# GDP better than expected in Q3, but still not back on track

GDP rose by 3.9% q/q (16.5% annualised) in Q3, expected 2.9% following the 2.7% setback in Q2



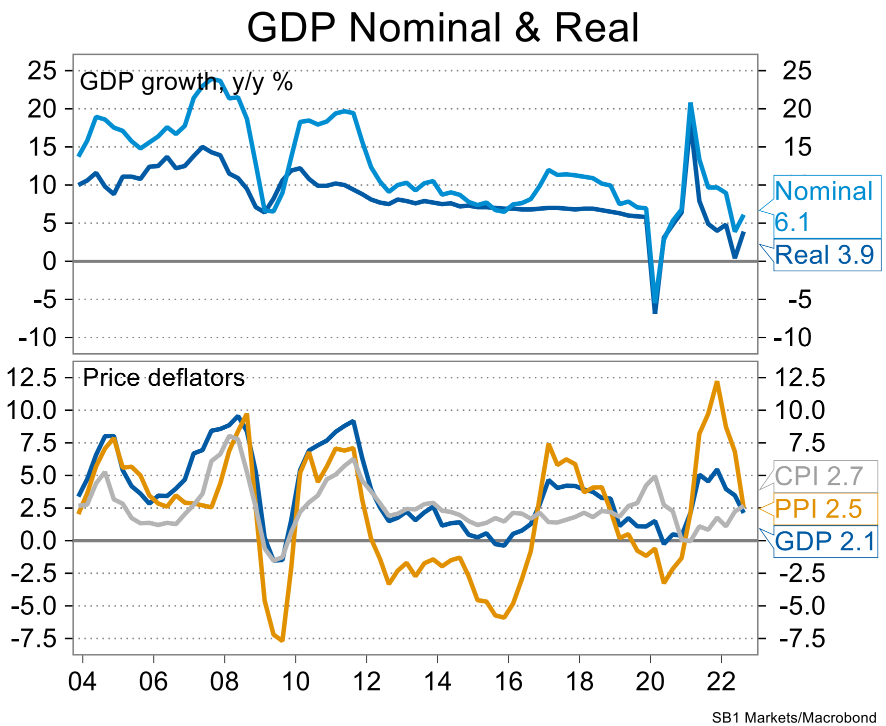

- Measured y/y, GDP was up 3.9% as well, better than the expected 3.4%
- Still, GDP has not recovered fully from the setback in Q2 (during the lockdowns),and GDP is below the pre-pandemic and post-pandemic trend – but not by that much
- In 2022, GDP growth is heading for 3.4 – 3.5% growth, which is far below a 'normal' Chinese growth rate

# Both consumption, investments and net exports contributed to growth in Q3

Growth in consumption is well below 'normal' levels – as is overall GDP growth

# The GDP price deflator up just 2.1% y/y, was above 5% in Q4 last year

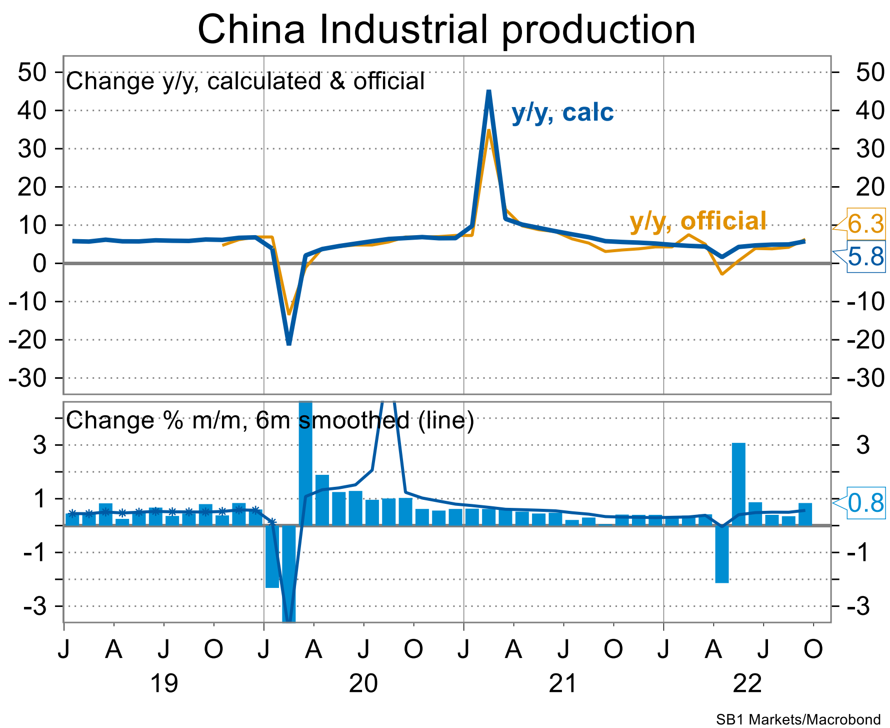
Nominal GDP up by 6.1% y/y – CPI inflation is still just slightly above 2% (and core is below 1%)

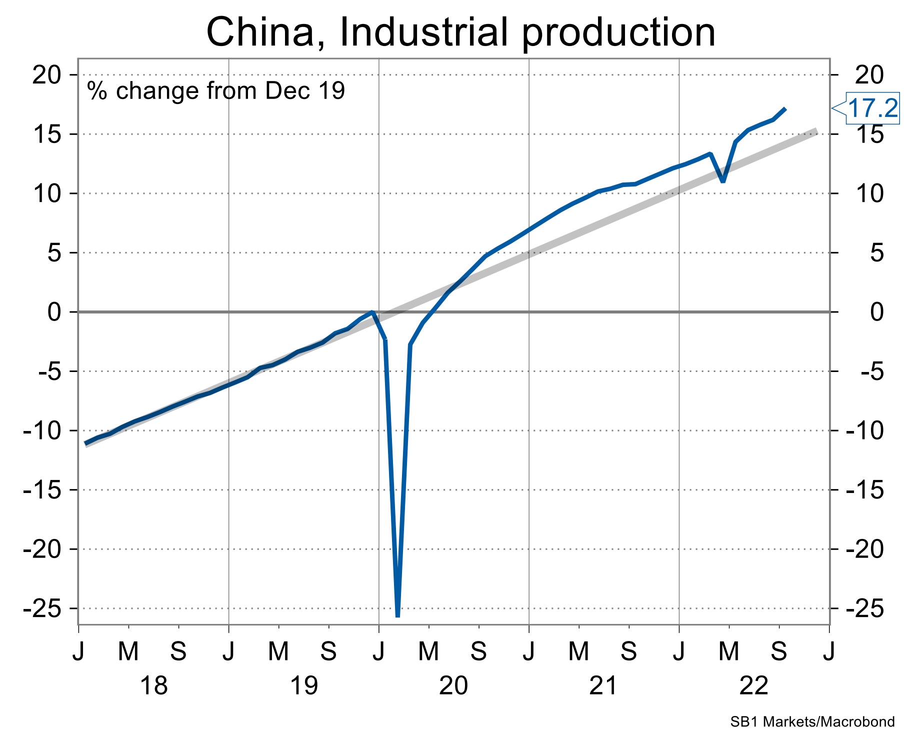



- Manufacturing producer prices (PPI) are up 2.7% y/y (quarterly avg), well down from the peak at above 12% in Q4
- China is not struggling with inflation at all

# Industrial production surprised on the upside in September

## Production rose by 0.8% m/m, and by 6.3% y/y, expected 4.8%, and up from 4.2% in August

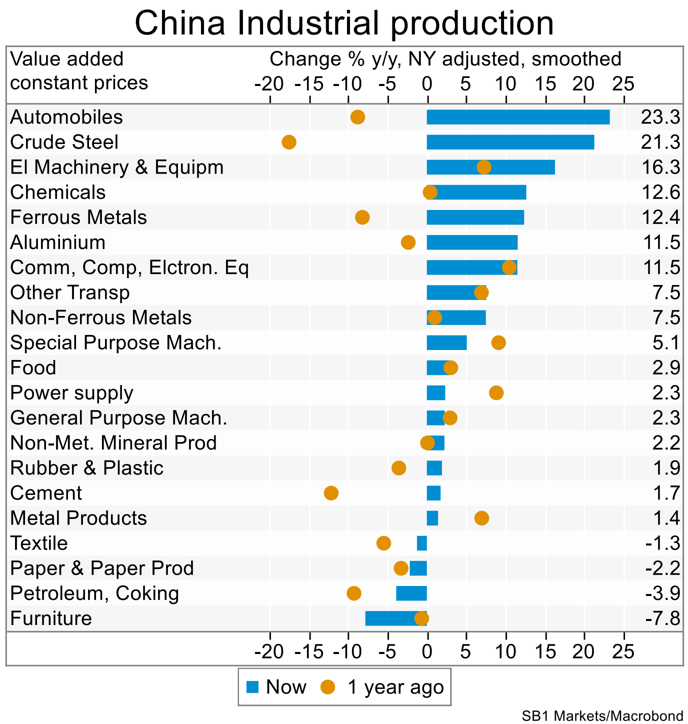


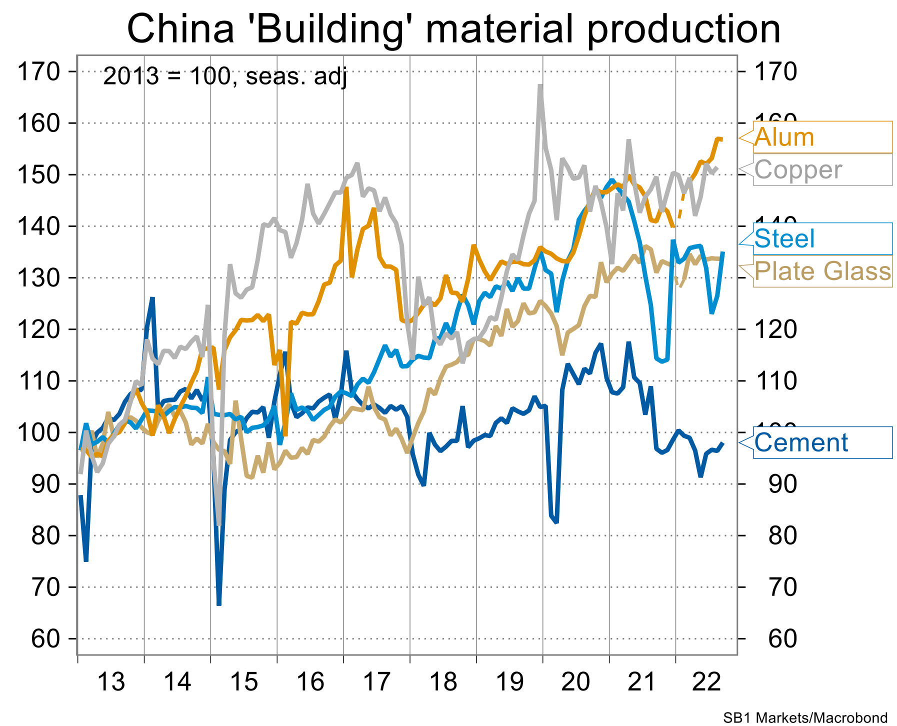




- The 0.8% m/m growth rate was the best since June, and well above a 'normal' growth rate
- **Growth in production** over the past year has been revised up by some 0.9 pp, and the production level is now well above the pre-pandemic trend (so much for blaming Chinese lockdowns for high inflation in the West…)

# Growth in most sectors, both m/m, y/y. Steel and cement up m/m, alum. flat

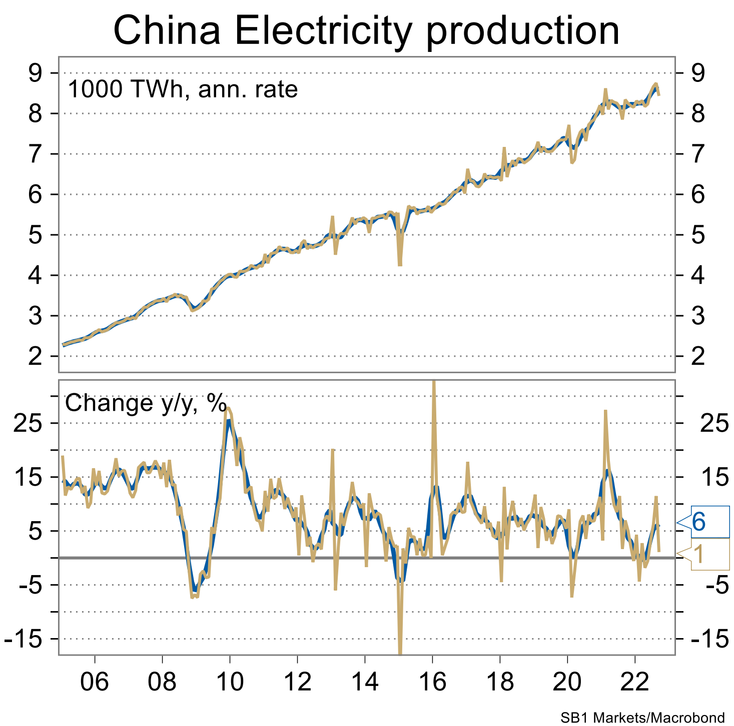
Both steel and cement better than we expected. Autos on the top, as domestice sales are booming

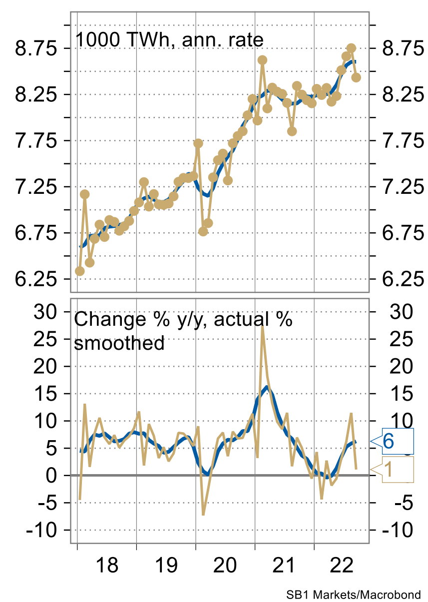


# Electricity production down in September, and transport indices not that impressive

## However, electricity production is up 6% y/y, smooted



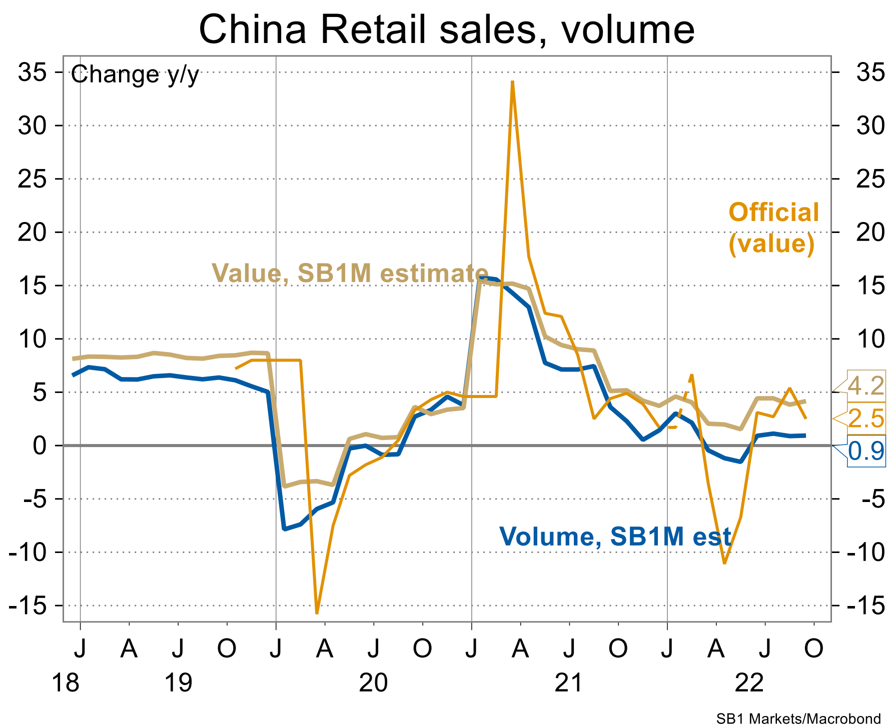



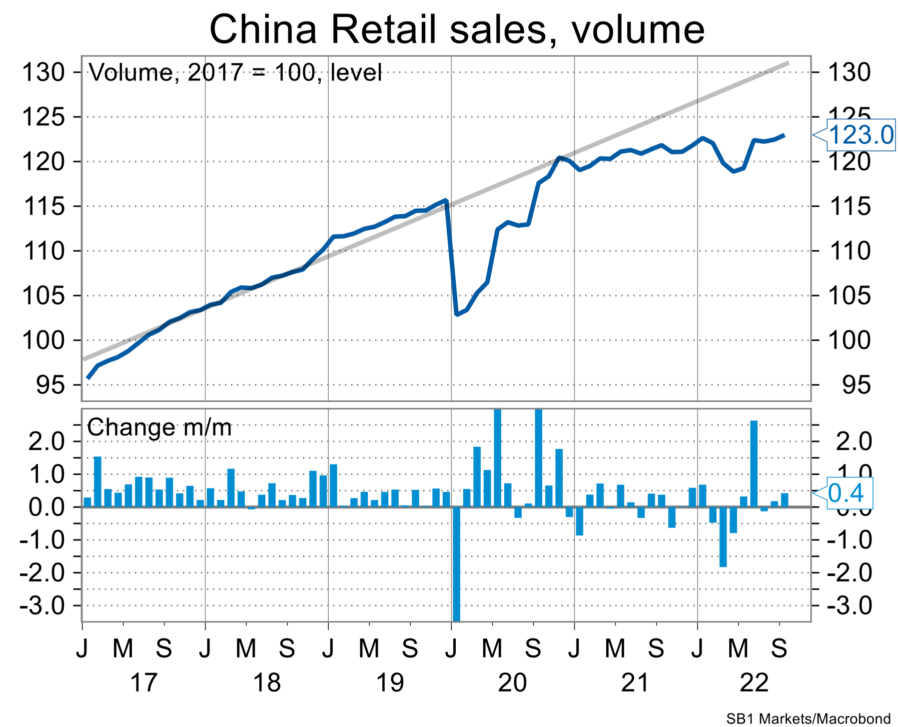


- Seaport traffic has flattened, even if export data are very strong (but imports are not, as domestic demand is weak)

# Retail sales up 0.4 m/m, but the trend is still very weak

## Nominal sales up 2.5% y/y, below expectations at 3.0%, expected



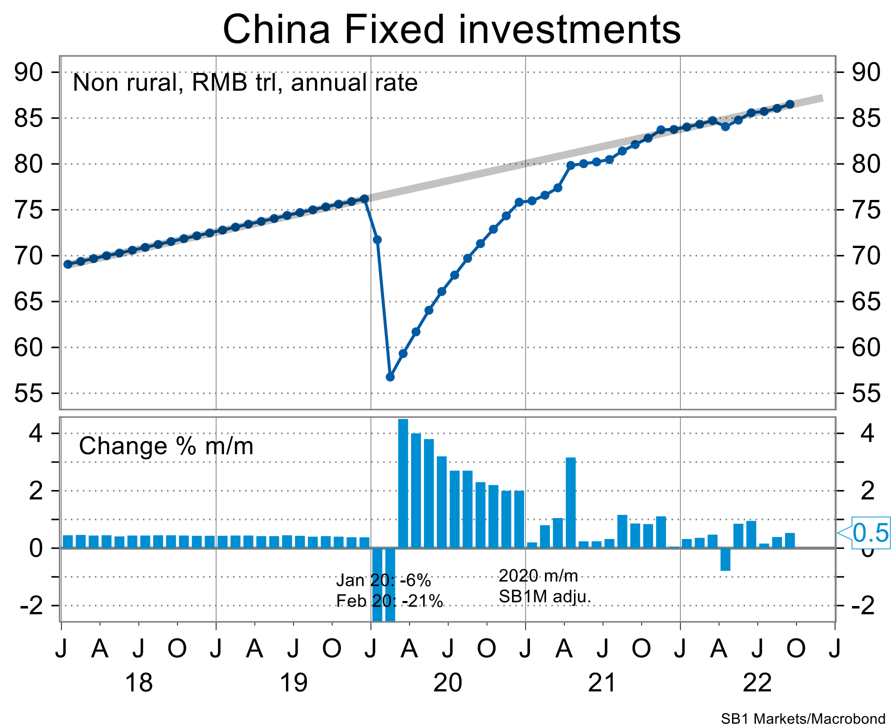




- Sales rose 0.4% m/m in **nominal terms,** and according to our estimate, **volume growth** was 0.4% as well
  - » Sales in volume terms are up 0.9% from September last year (aggregated monthly changes, the official y/y growth in value terms implies a larger increase in volume terms)
- Retail sales volumes are some 6% below the pre-pandemic trend path – and just up 2% vs the late-2020 level!!

Memo: Monthly sales data are still somewhat to difficult of decipher, and they are not consistent with annual growth rates - so do not take out interpretation of them too literally. Several revisions, the last one this month upwards, has made the analysis even more complicated

# Investments up 0.5% in September, steady growth

## Overall investments are still (strangely) robust, given the downturn in construction starts

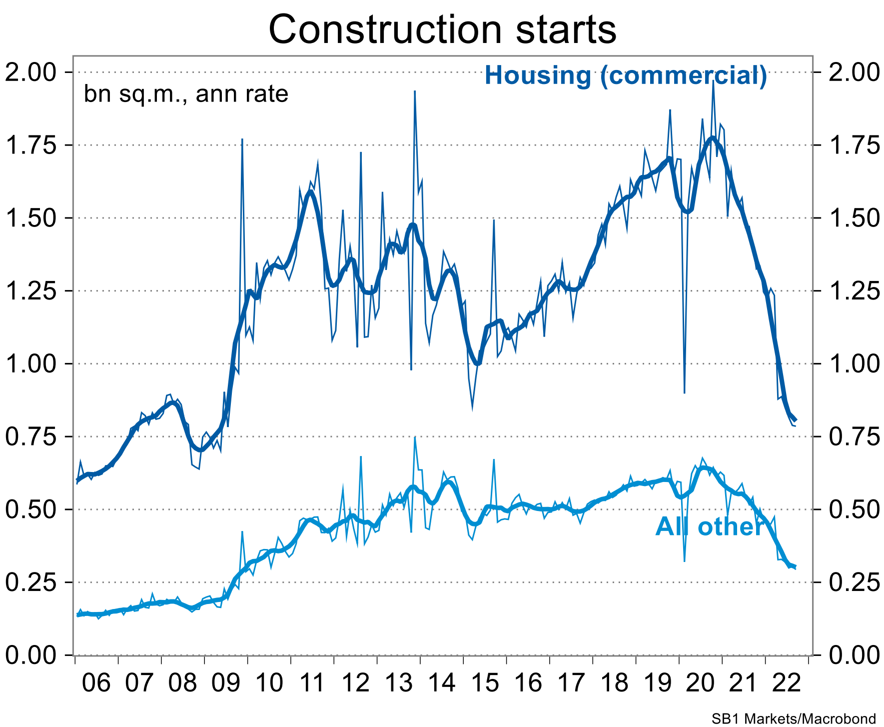


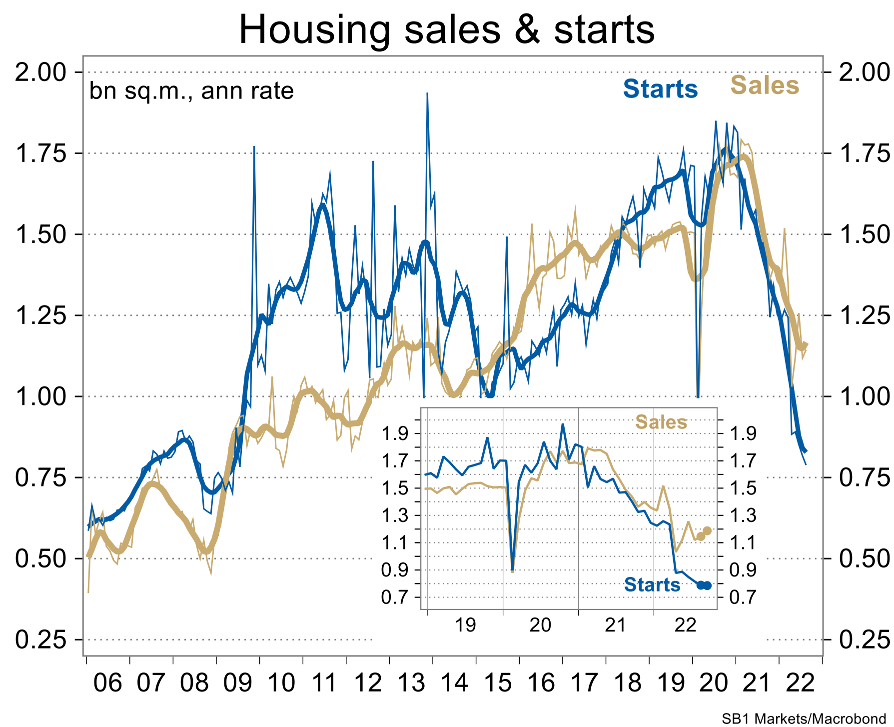


- **Measured YTD,** nominal urban investments rose 5.9% in September, expected up 6%. Growth y/y in September was 5%. We estimate a 4% growth in real terms
- The **investment level** is back to the pre-pandemic growth path
- The decline in construction starts should dampen overall investments the coming quarters (but the correlation has never been impressive)

# New home sales slightly up in Sept, but are still down 40% vs the 2021 peak

## Starts were close to unch m/m – and are down more than 50%, the largest setback ever



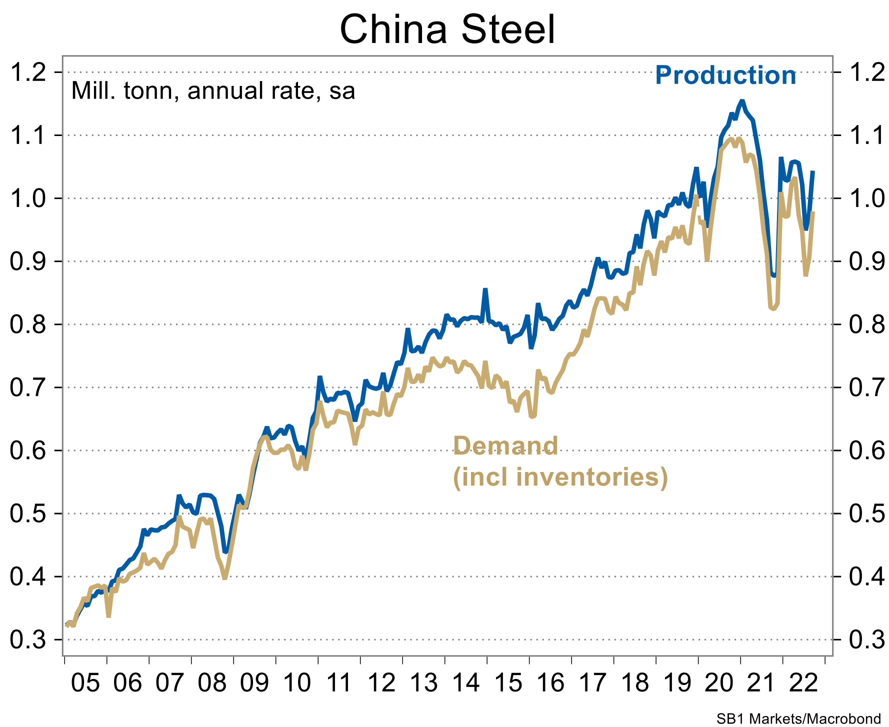

- **Non-residential construction starts** are also more than cut in half, and the level is the lowest since 2009
- This unprecedented decline in construction starts will lower growth in the Chinese economy substantially – spread over time, as it takes some 3 years from a home is started until it is completed

# Sentiment in the real estate sector is the worst ever

However, this survey is hardly leading

# Steel demand/production surprised at the upside in September

## Where is steel demand increasing? In auto production perhaps, but construction is far more important

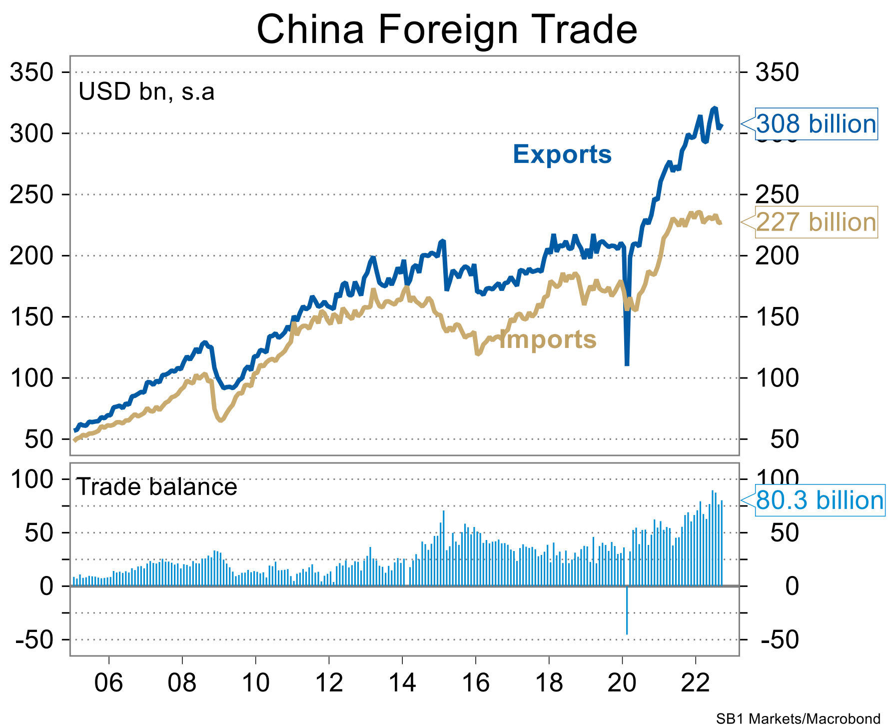




- Construction activity will be under pressure as new starts have fallen sharply. Demand for steel comes early in the building process as well

# Exports are flattening, at a very high level, imports are trending slowly down

## Exports up 1% m/m, imports flat. Exports up 6% y/y (expected 4%), imports flat y/y, as expected

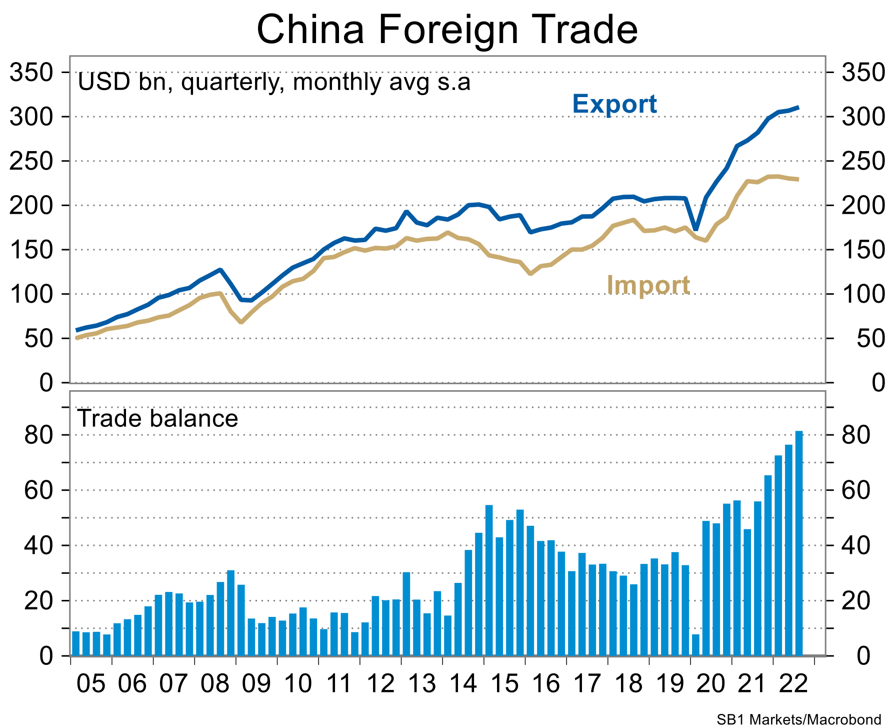




- In volume terms, we assume small changes m/m in September. Import volumes in August were better than we assumed one month ago. The trend is still weak
- The trade surplus was a tad larger than expected – and not far below ATH

# Q3: Export volumes slightly down, import volume slightly up

However, exports are still at a very high level vs. pre-pandemic trends

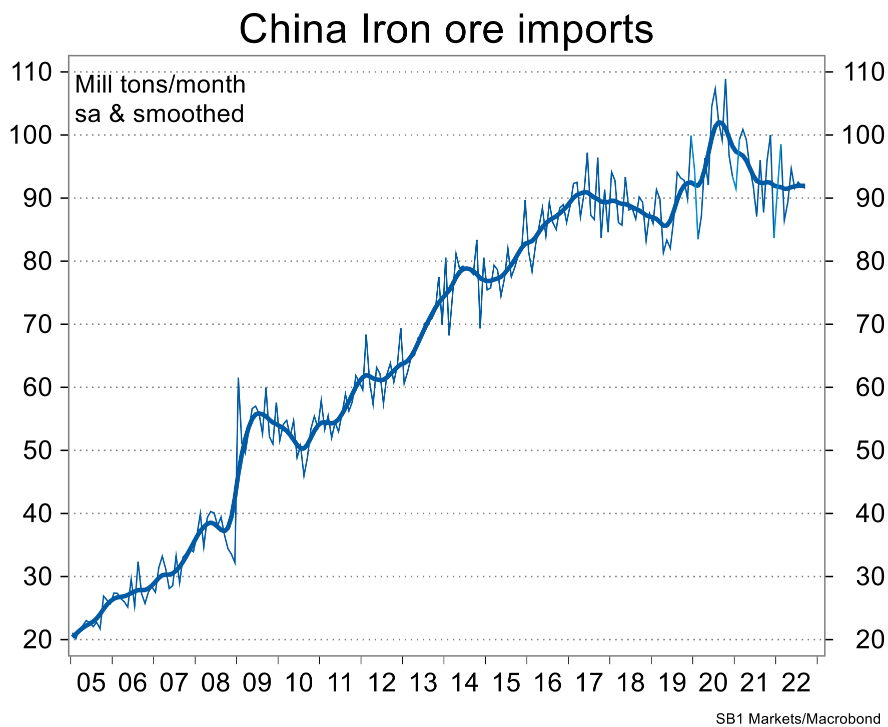


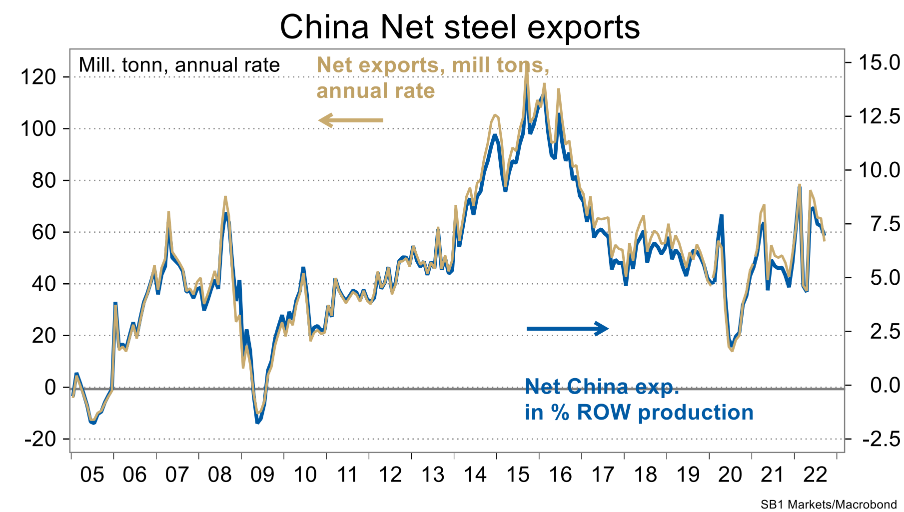


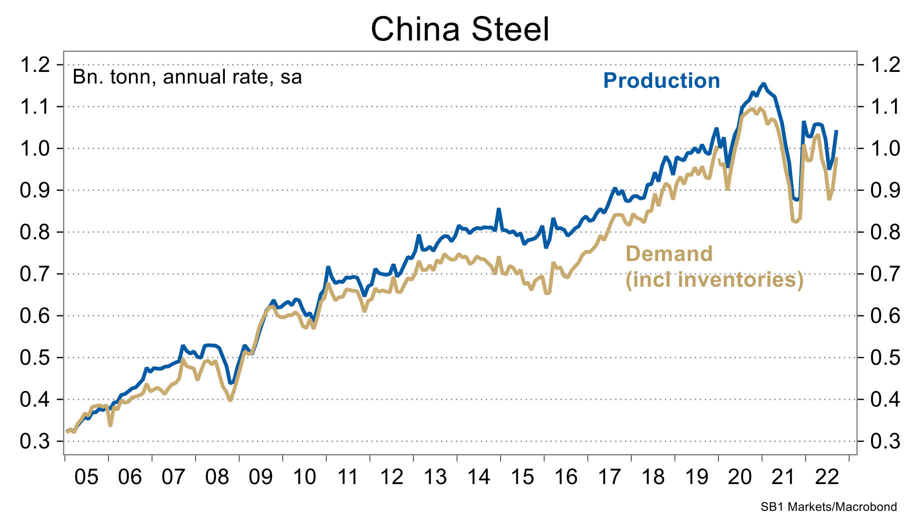
- The lockdowns are not visible in Q2 export stats!
- Import volumes peaked in Q2-21 but are not far (and not significantly) below the pre-pandemic growth path in Q3

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

## Steel production recovered in September

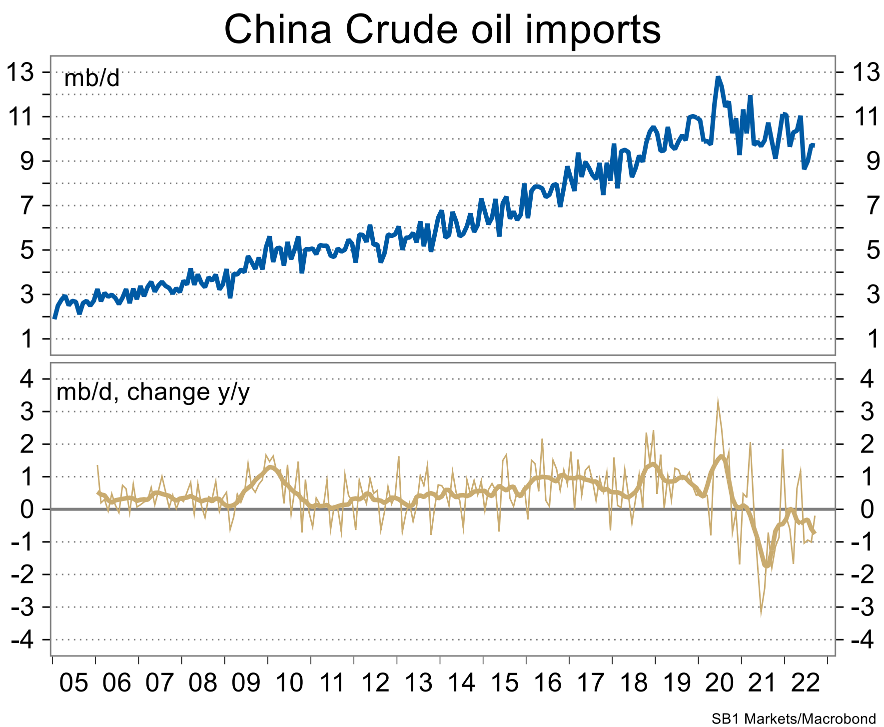


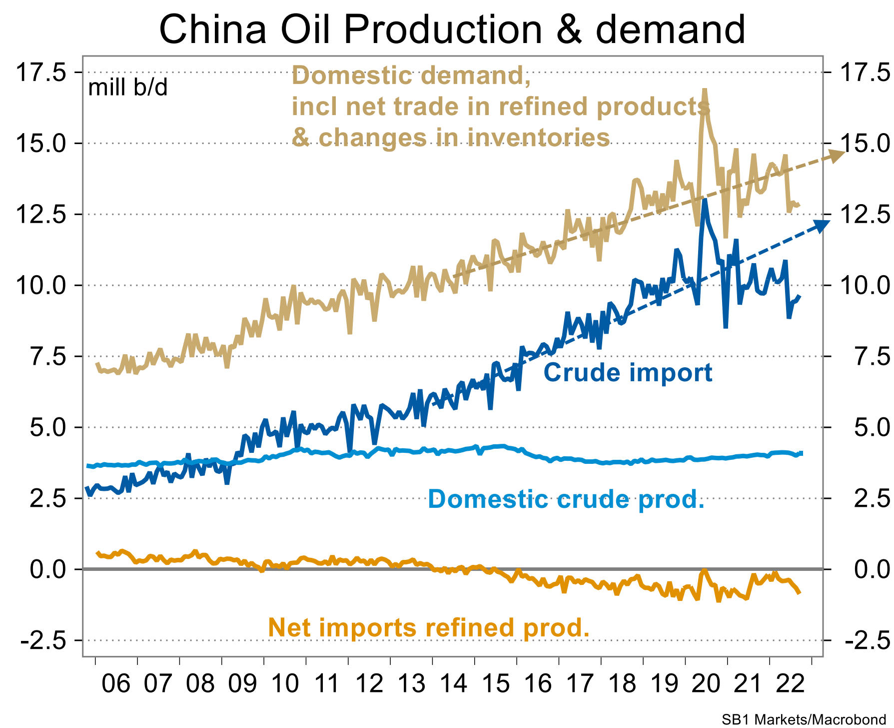




- **Steel production and domestic demand** (incl. inventories) fell sharply in Q2-Q3 last year – by 25% – due to public regulations and probably the setback in the construction sector
- Production recovered last December and has remained fairly stable in 2022, though with a dip in June. Now production is almost back on track, while demand is still somewhat below the 2022 average – and more than 10% down from the peak in 2021

# Crude oil imports stable at a rather low level in September

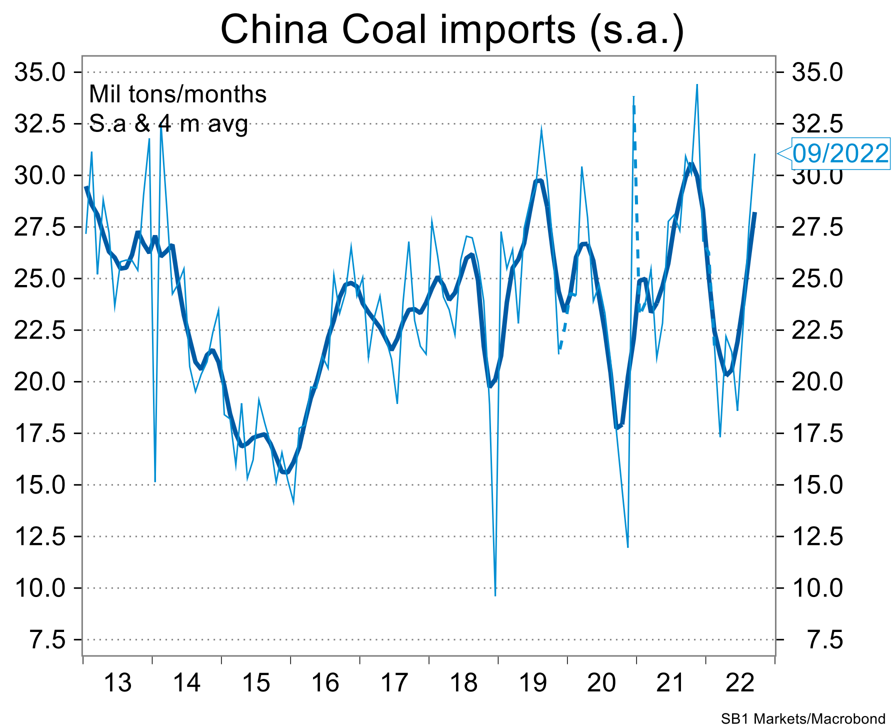


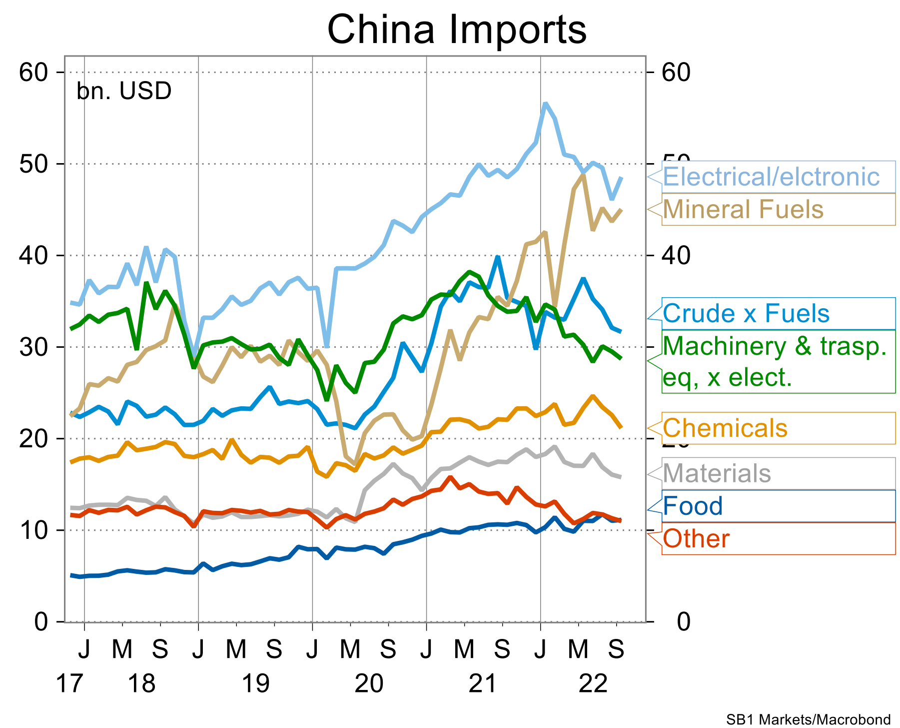




- 4 years without growth in **crude oil** import or domestic demand is rather surprising?
- However, higher net imports of **refined products** since early 2020 (almost 1 mb/d) and a small increase in domestic crude production have partly compensated for the flattening in crude imports - implying that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

# Coal imports further up in September

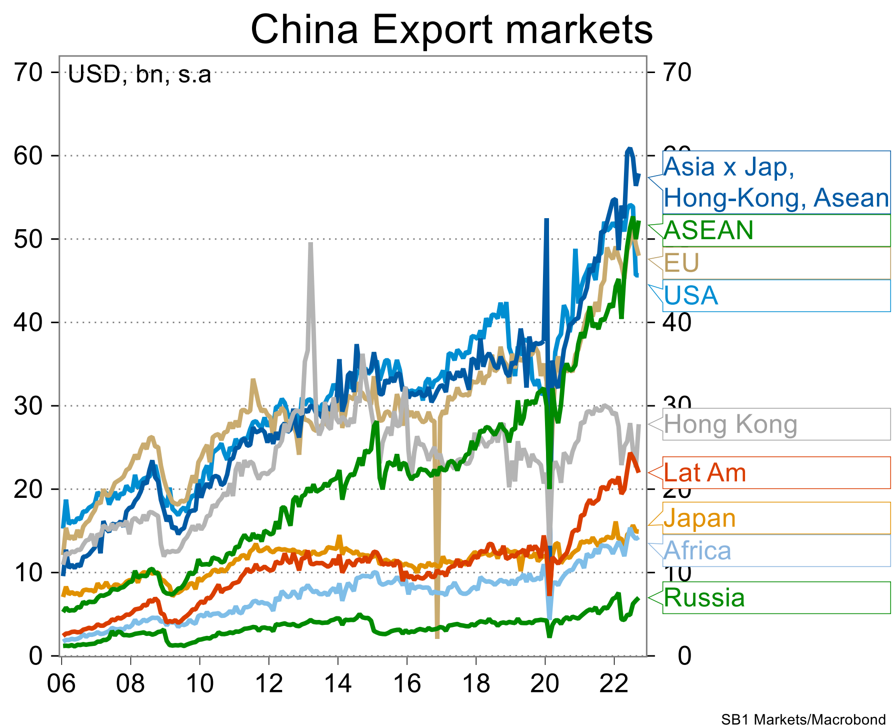
## Imports of most goods hare heading down

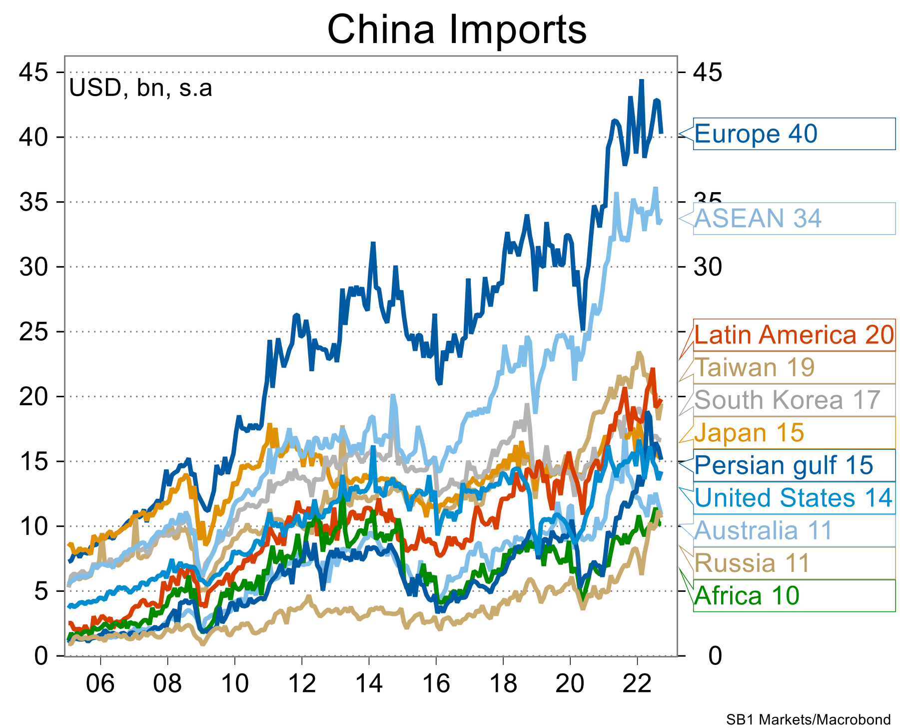


# Imports from Russia are surging, Russian oil has found a new market

Exports to Russia have also picked up recent months

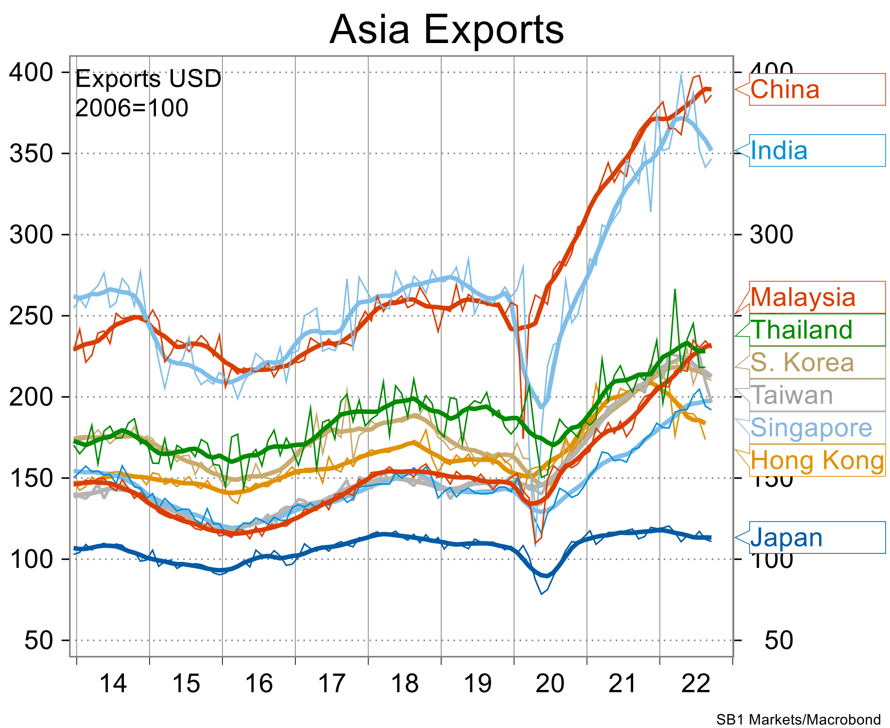


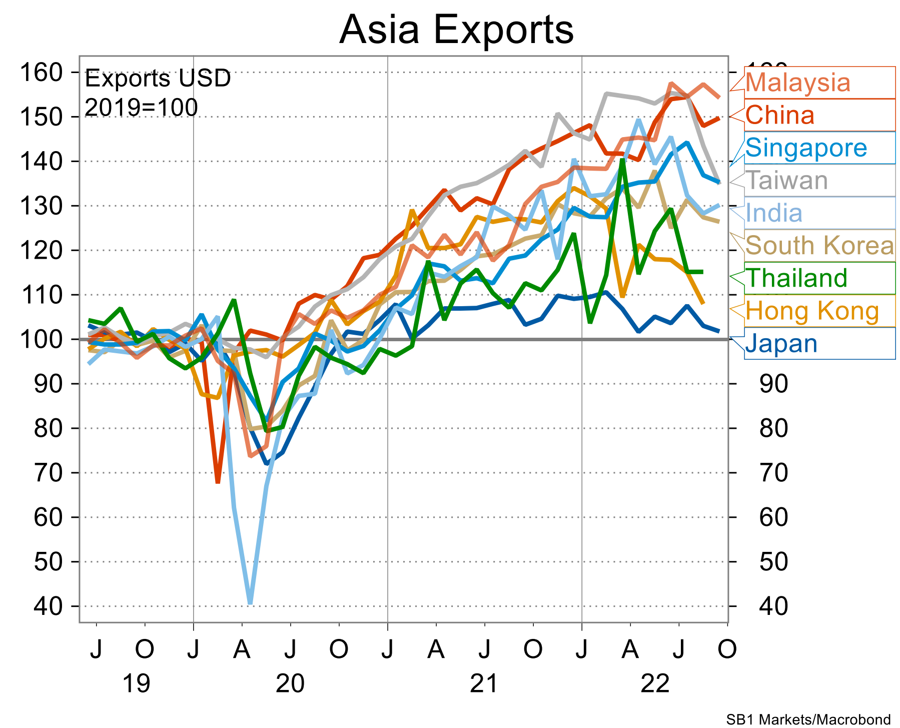




- However, Russia is not an important market for China

# Exports from other Asian countries on the weak side recent months

South Korea, Taiwan, Hong Kong, Japan are all trending down

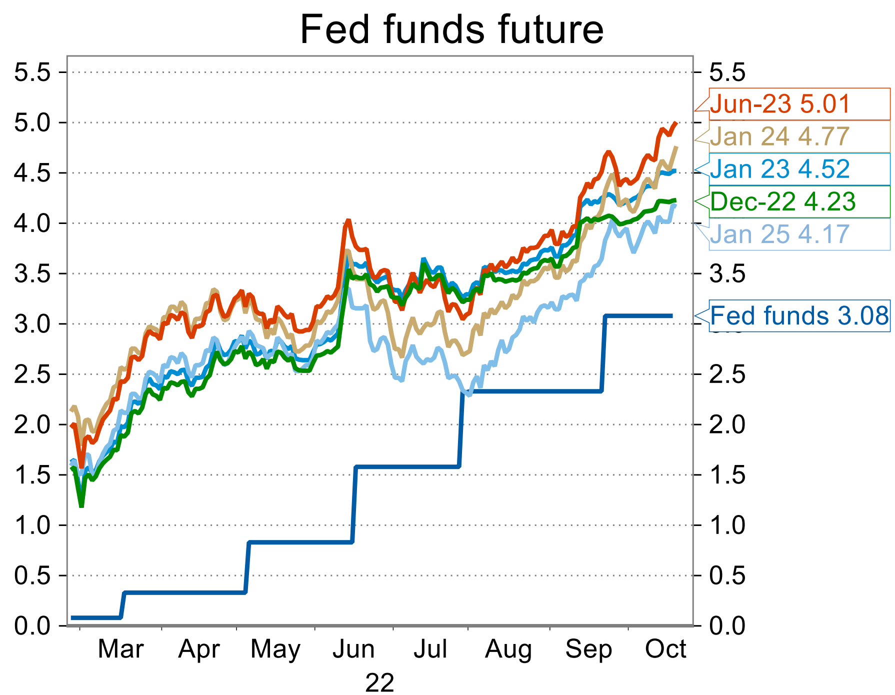


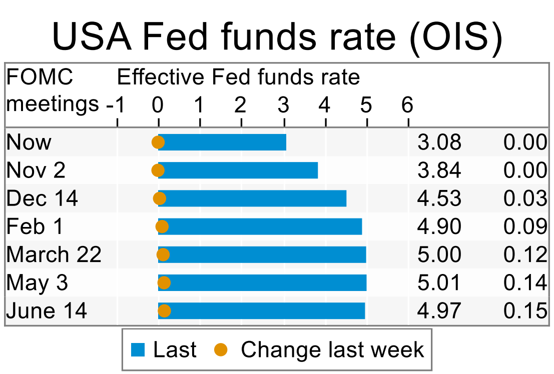
SpareBank 1 MARKETS

# Fed's Beige book again expresses a flattening of activity; outlook more pessimistic

## … and wage, price pressures are easing, but remain elevated



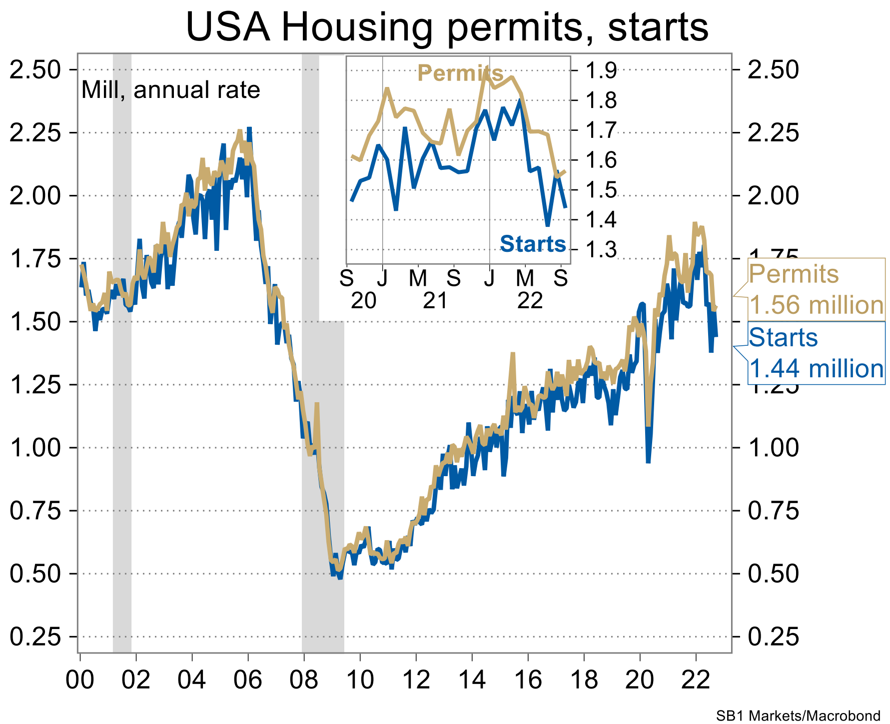

SB1 Markets/Macrobond

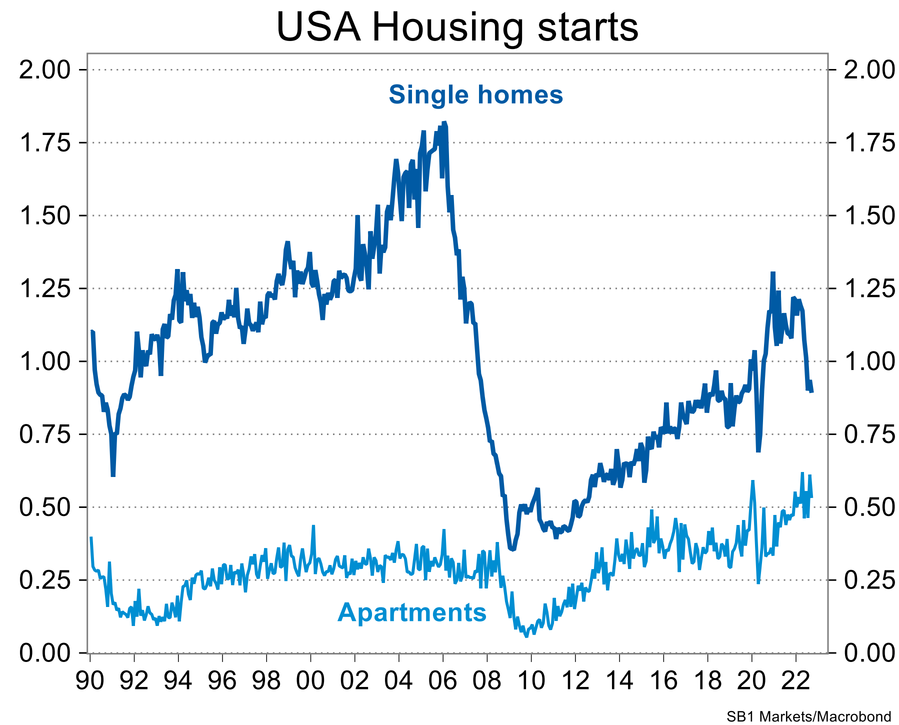



- Main messages from the regional survey
  - » On average, economic activity was marginally stronger. 2 districts report that activity contracted modestly, and 4 districts said growth had stalled, and the remaining 6 reported modest growth – last report 5 reported a decline in activity, 2 flat, and 5 modest growth
  - » Outlook more pessimistic over concerns of weakening demand
  - » Loan volumes declined partly due to less residential real estate lending
  - » Manufacturing activity continued at the same pace or expanded as supply-chain issues eased
  - » The labour market was still very tight, but half of the districts saw some easing. Wage growth remained widespread, but there were also reports of businesses being hesitant to expand payrolls due to a negative outlook on the economy
  - » Overall inflation remained elevated, with some easing reported. Future inflation expectations were moderate
- Taken face value, the Beige book confirms that growth has halted, price pressures are easing somewhat, and that the economy is a recession as of now
- Even so, the interest rate market is now pricing in a 100% likelihood for at least a 4th 75 bps hike in November
- The Fed clearly stated that it will keep at it until inflation is under control, and they consider the risk of not doing enough outweighs the risk of doing too little, i.e. they are not pivoting anytime soon with headline inflation at 8.2% and the core at 6.6% - and the labour market remaining as thigh as it is
  - » Bigger-than-normal rate hikes are to be expected, and rates will remain higher for longer. The market is expecting ~~close to~~ a 5% rate next summer
  - » Still, in the end, the data will decide

# Permits marginally up post 5 months of decline – Starts down 8.1% m/m

Both are down 17% – 20% since before the steep decline that started in the spring

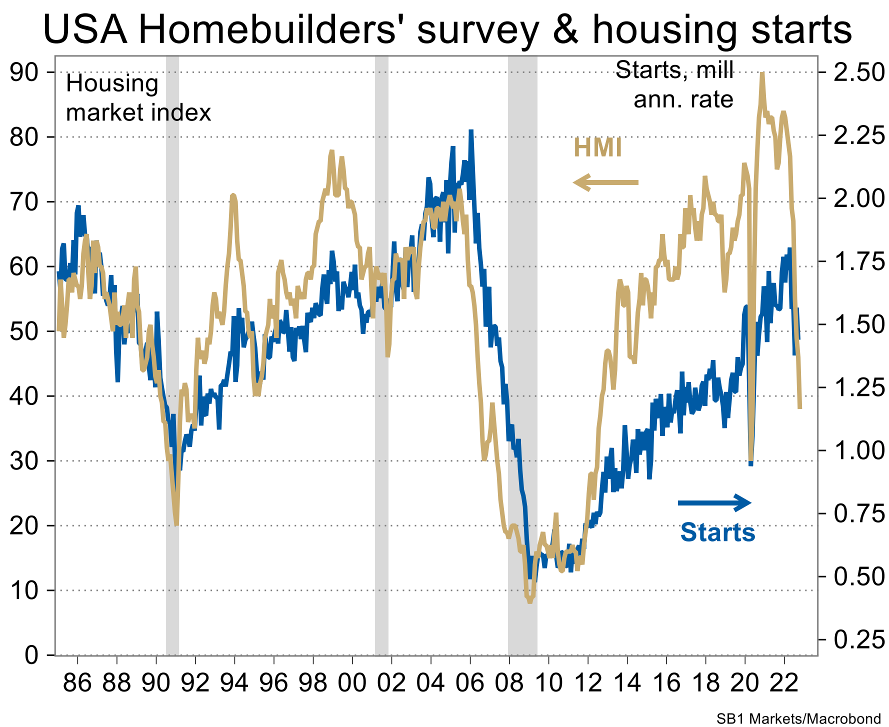


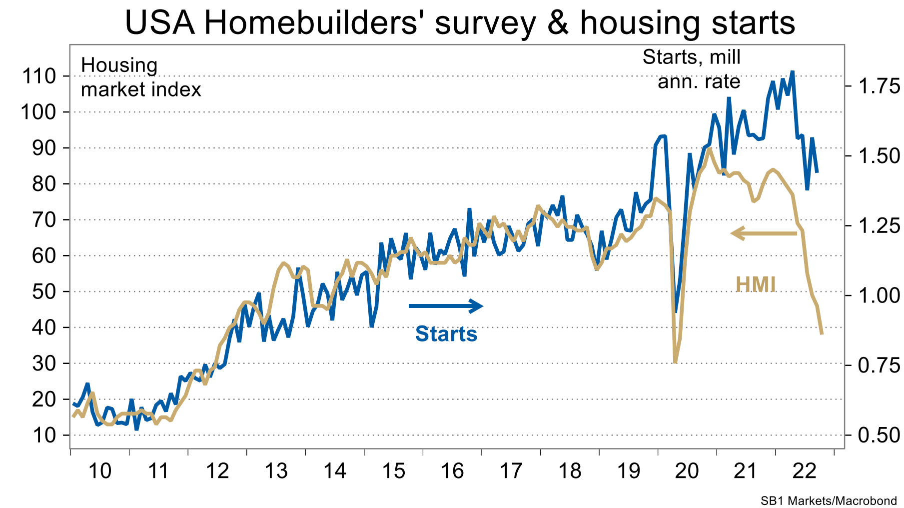



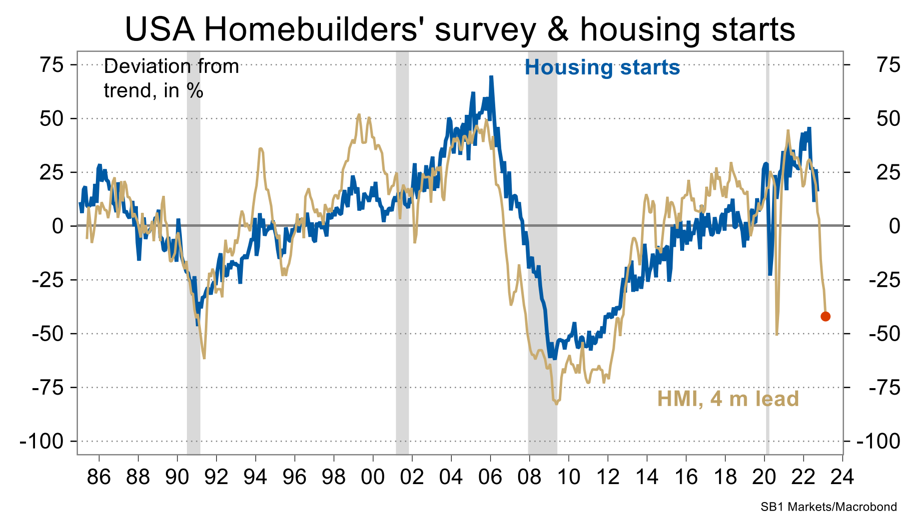

- **Housing starts** fell to 1.44 mill in Sept from 1.57, expected 1.48 mil, still above the July level. **Building permits** rose to 1.56 mill, above expectations at 1.53 mill, from 1.54 mill in Aug. However, permits have fallen in the 5 months prior to Sept, and the trend is clearly down, suggesting fewer starts in the coming months or quarters. If Homebuilders are right (next page), US will very likely soon be close to a recession
  - » Starts of **single homes** fell to the lowest level since after the start of the pandemic, down 25% since February. Starts of **apartments** also declined in September but have so far not come significantly down from the peak, these starts are just trending flat – with substantial downside ahead, we assume
- Building **material cost inflation** has come to a sudden halt. **Lumber prices** are back to a normal level (or even below), steel prices have fallen substantially recent months too

# Homebuilders' index further down in October, signals a housebuilding crash

## The HMI down 8 p to 38, expected down to 3p to 43. A further 50% drop in starts, in total 60%?



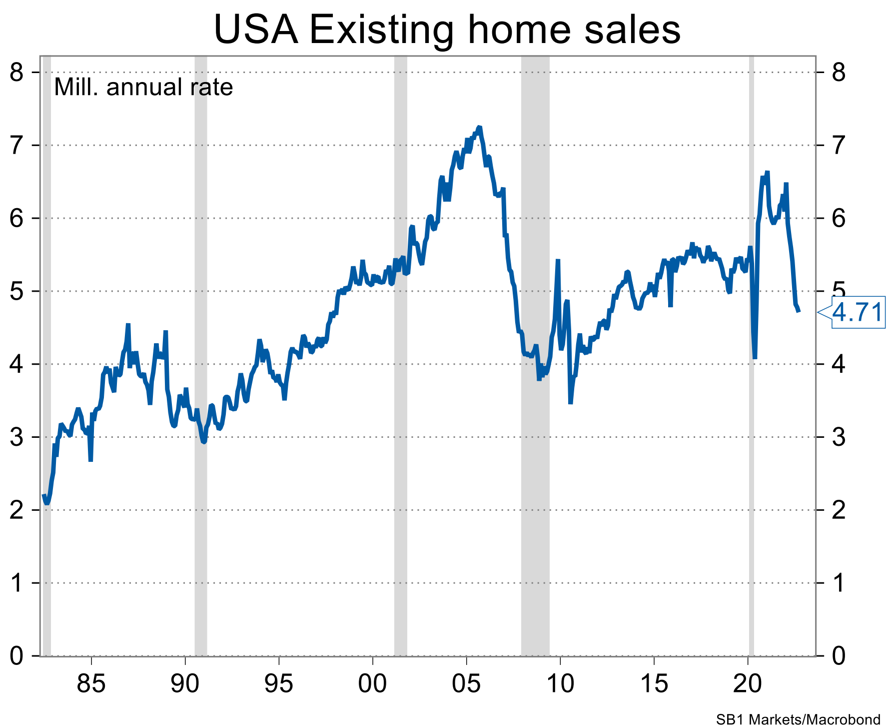



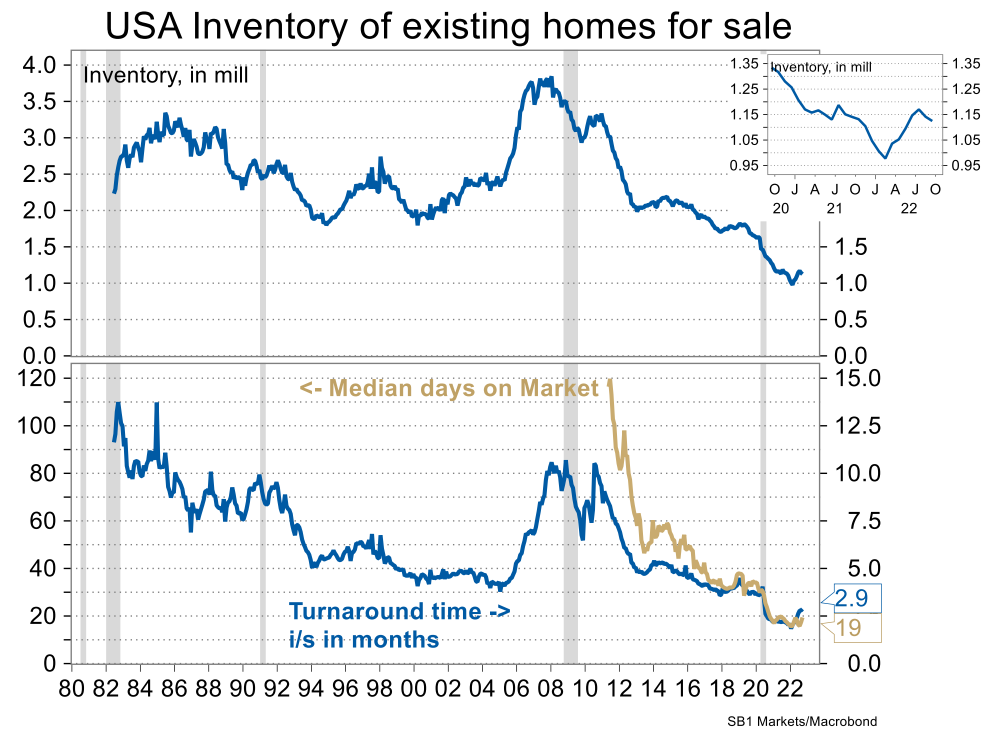




- **The Homebuilders' Housing Market Index (HMI)** declined 8 p to 38 in Oct, expected down 3 p! The decline recent months – and since Dec last year – is the steepest ever, barring the covid shock in 2029. It is still not the largest decline, that took place from June 2005 to Jan 2009
  - » Affordability is still the challenge, due to higher mortgage rates, and soaring new home prices (at least until now), check here
- The decline in the index recent months signal at 50% decline in housing starts following the 20% drop so far - in sum a 60% setback, which we have never seen except for before or during the deepest recessions

# Existing home sales have fallen for 8 consecutive months

Sales are down 27% from January, but prices were up m/m – as the inventory is shrinking again!




- Sales of **existing homes** fell to 4.71 mill in September (annualised rate), from 4.78 mill in August (revised down by 20'), expected down to 4.70 mill. Sales have fallen by 27% from local peak in January. Sales are down 16% vs. Feb-20. **Pending sales** signal a further decline in actual transactions
- **The inventory of unsold homes** fell by 1.5% in Sept, following a 2.5% decrease in Aug, but as sales are declining, the inventory equals 2.9 months of sales (up from 2.8 last month, and 1.8 in January). During the 2005 boom, the i/s ratio was 4 months, in bad times it has been as high as 10 months
  - » Very likely, the steep rise in mortgage rates are now locking prospective home movers in, if they sell, they have to pay a <u>much</u> higher mortgage rate for the next home. Thus, fewer sellers, at least for now (but also few buyers, of course!)
  - » A signal of a still hot market: The median time on the market for those homes actually sold is just 19 days, and still close to ATL. Before the pandemic the time on market was at 30 days (and 120 days in 2011!)
- **Prices** surprised (us at least) on the upside, big time: Prices <u>rose</u> 1.1%, and the decline the previous 3 months were smaller than so far reported. Still, the trend is down. We are very likely witnessing a housing market recession

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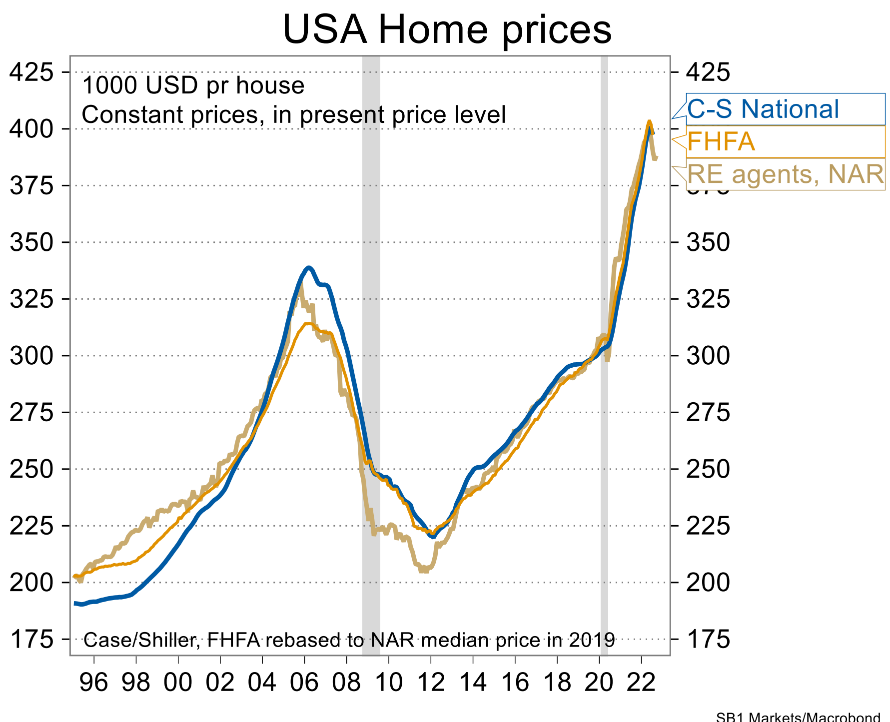
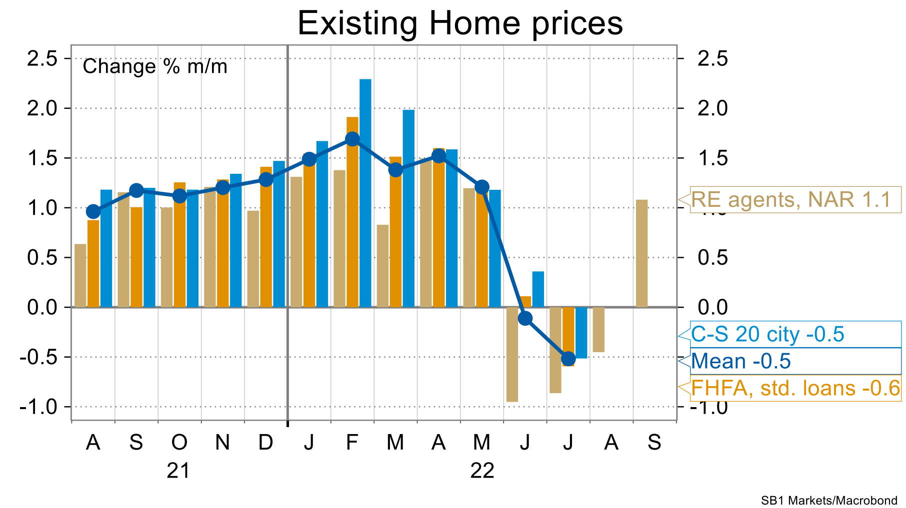
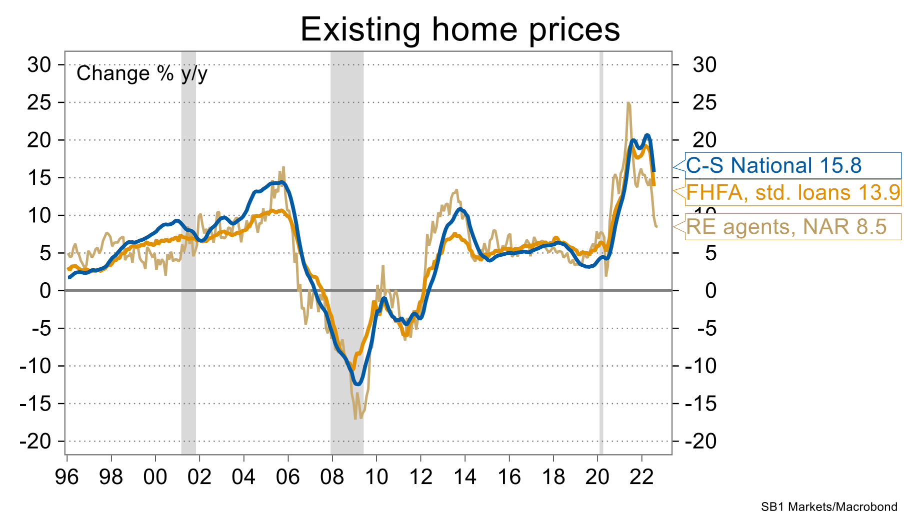
# House prices are up in September, but the short-term trend is down

## Prices are up 8.5% y/y – but the negative sign is coming closer



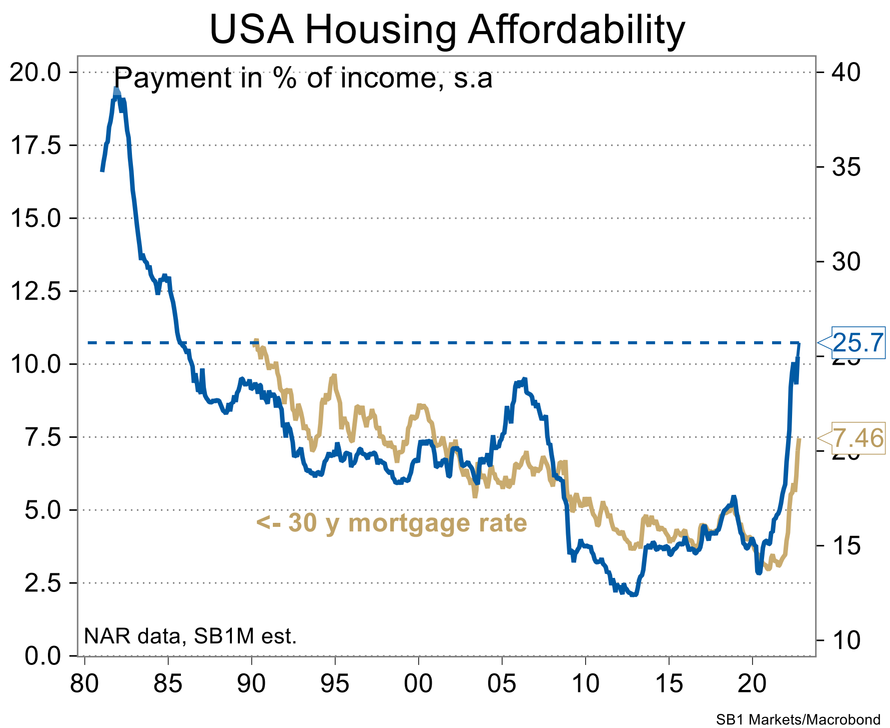



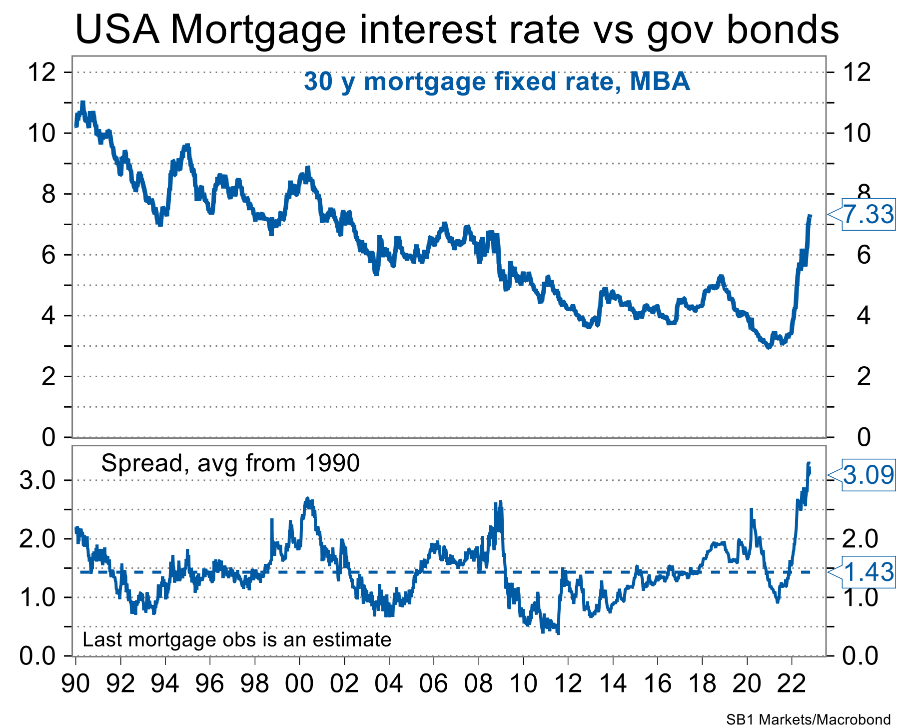




- **Prices** rose 1.1% in Sept, following a 0.5% decline in July (revised up from -1%). The seasonal adjustment of these data is not perfect, so some caution on our m/m data. The annual rate fell 1.2 pp to 8.5% (from a 1.8 pp (!)( upward revised rate in Aug)
- Other indices still are up 14% - 16% y/y, but prices fell all across the board in July (Jun-Aug, the last obs). Prices are normally lagging sales by almost 1 year. This time, prices followed sales down much earlier, we think it's due the rapid deterioration of affordability
- Home prices are up 40% from before the pandemic, and are way above the 2006 level, even in constant prices. The downside risk is HUGE! 2020 prices were sufficient to keep housing starts at a decent level

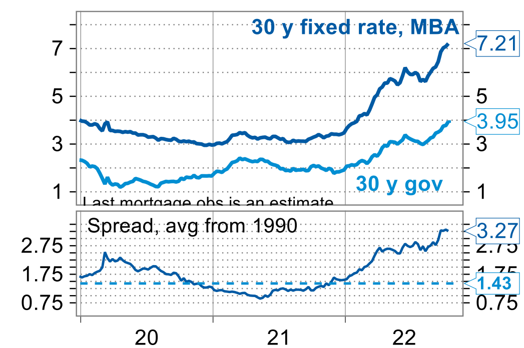
# The least affordable housing market since 1986

Prices are up 40% since before the pandemic, the mortgage rate is up 80%...



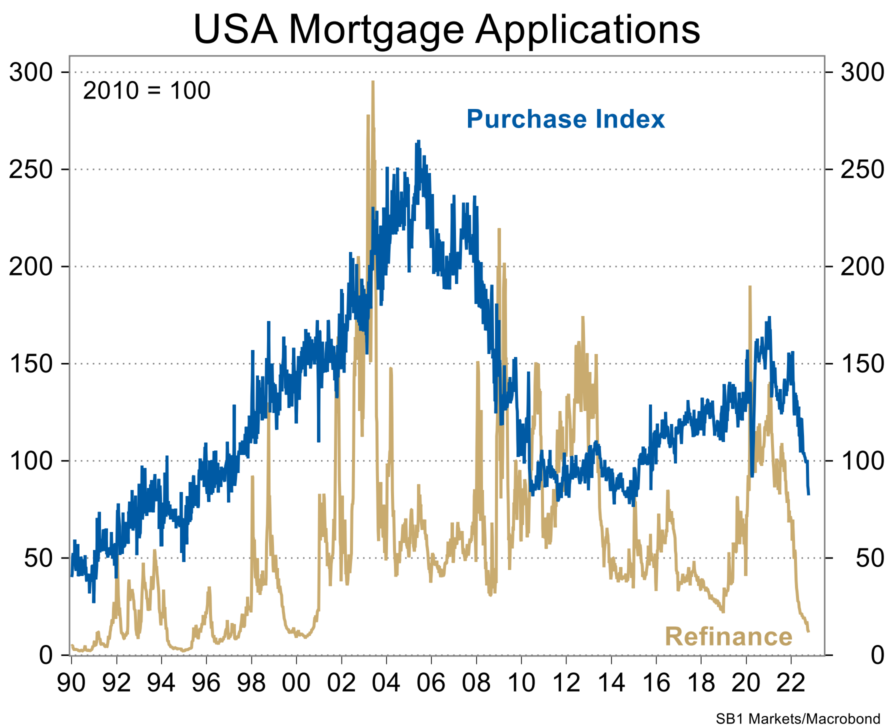



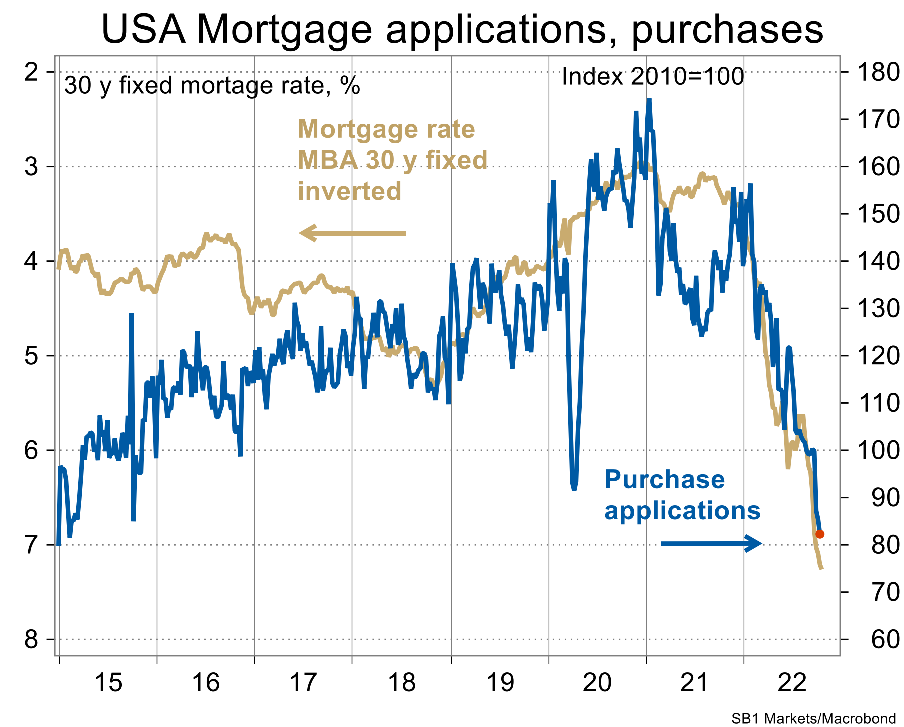

- **The 30 y fixed mortgage rate** has climbed to 7.21% (effective rate) from 3.0% last summer, from 3.5% at the start of 2022. Before the pandemic, the rate was 4.0%
- The **Federal Reserve** concluded its mortgage backed bonds buying campaign in March - and is now reducing its holdings. No doubt, this shift explains much of the surge in the mortgage spread, to 3.27 pp, way above the average at 1.43 pp. <u>This spread is the highest on record, and far too high, from a long term, credit risk perspective</u>



# Mortgage applications have plummeted, for good reasons

Applications for new loans are down by 47% from the local peak in January, and are still falling

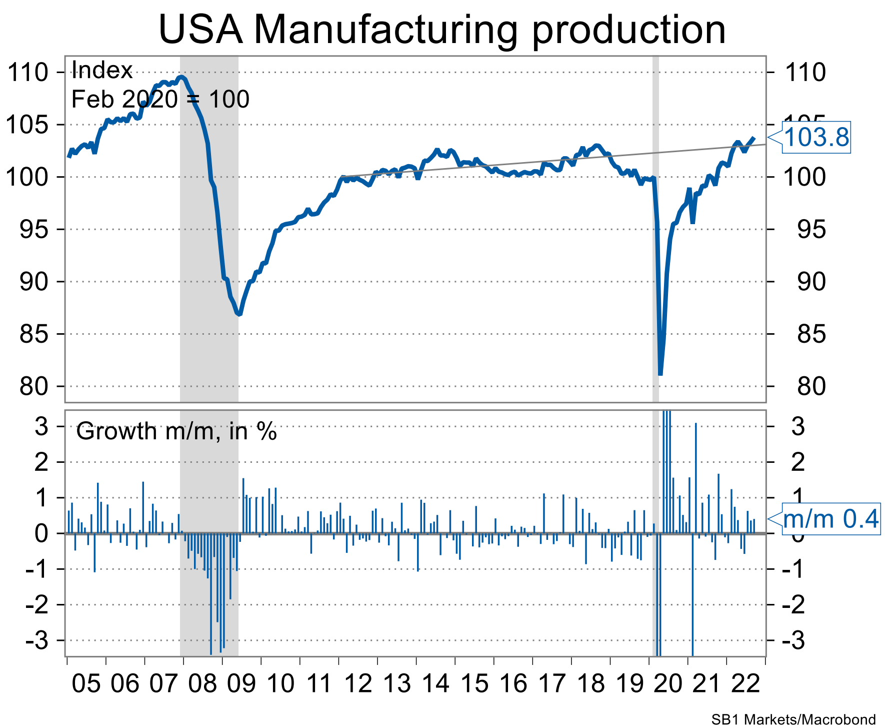


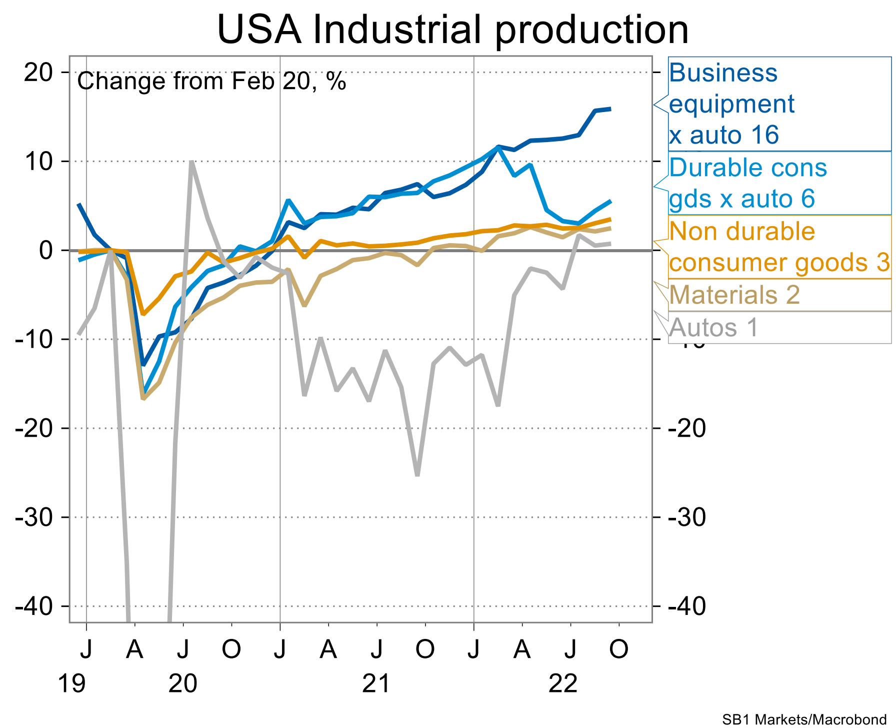




- Demand is now on the low end – 40% below the pre-pandemic level
- Recently, mortgage rates have risen, alongside the increase in the 30-year treasury bond rate
- 'Nobody' is refinancing, for good reasons, given the current mortgage rate

# Manufacturing production keeps beating expectations

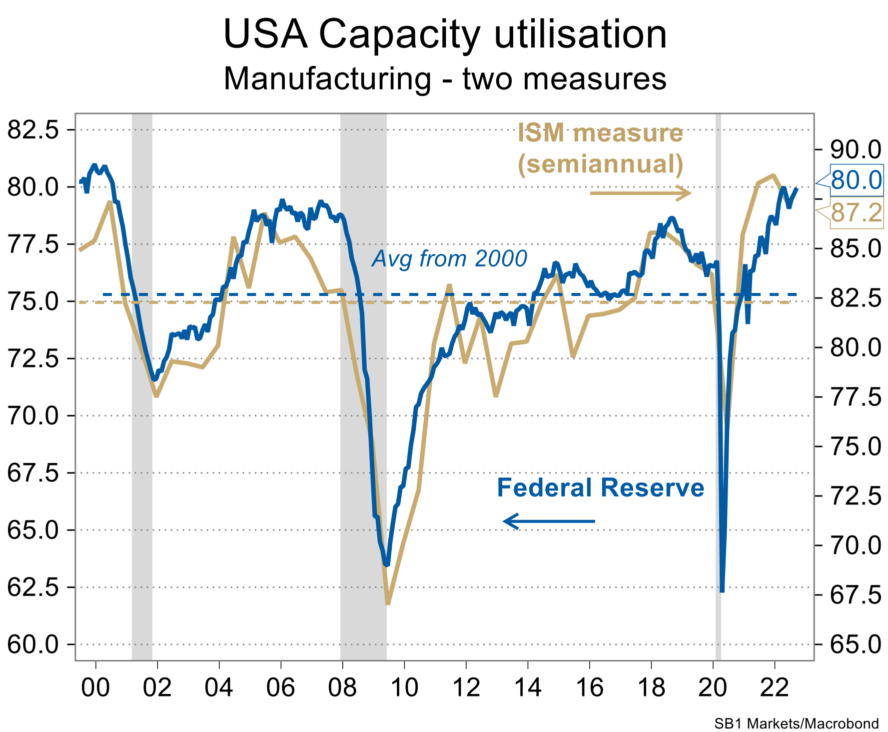
Production in all main sectors were up in September



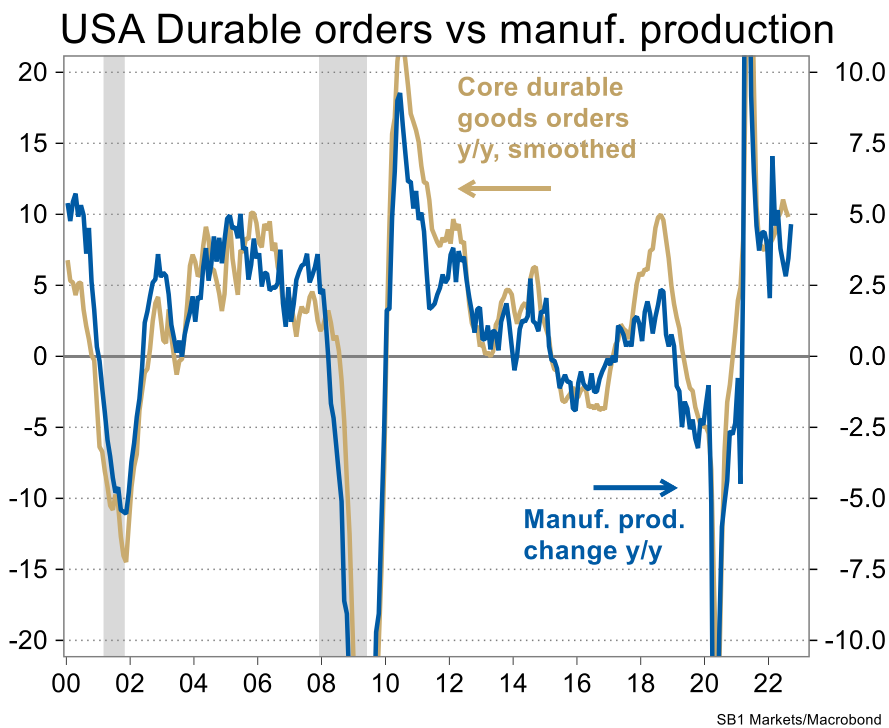

- **Manufacturing production** was up 0.4% in Sept, 0.2 pp above expectations. In addition, the Aug print was revised up by 0.3 pp to 0.4%. Production is finally back above April level, and the 3m/3m rate at +1.9%
  - Production in all main sectors were up in Sept, and all are now above the pre-pandemic level, even including auto production!
- **Total industrial production**, including utilities, mines/oil production, was also up 0.4% m/m, expected 0.1% (Aug data revised up by 0.1 pp to -0.1%)
- **Capacity utilisation** was unch., and the level is close to the highest in 20 years (the peak was in April)
- **Surveys** have weakened substantially since May. The two first October surveys are mixed but the downward trend is confirmed

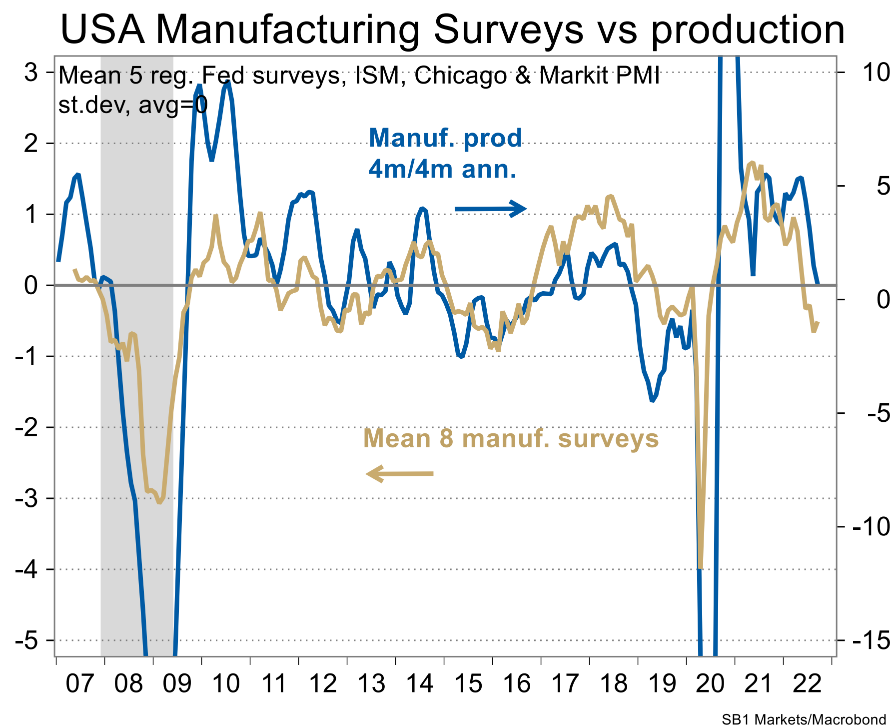
# Capacity utilisation remains very high




- **The Federal Reserve** reported a small increase in capacity utilisation in September and the level is the 2nd highest since June-01 (only April this year was higher)
- **ISM's semi-annual** survey reported a decline in the cap. utilisation to 87.2% in H1/May
  - » These two measures have not been 100% correlated but they now agree that assessing the growth outlook
- The Fed's estimate is model based, while the ISM survey is based on companies assessment of their own capacity utilisation

# Order inflow signals further growth in production, surveys not



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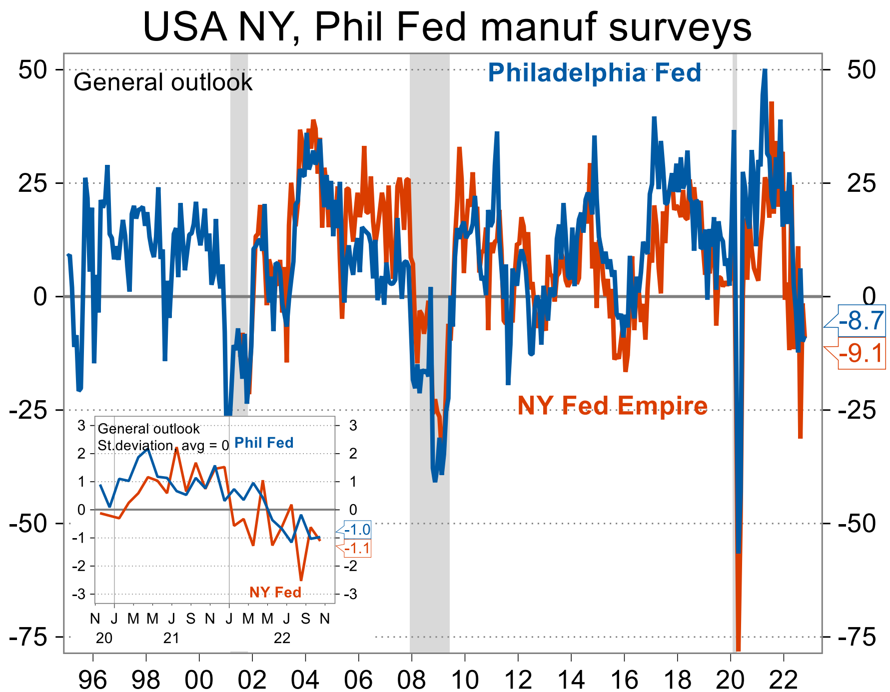
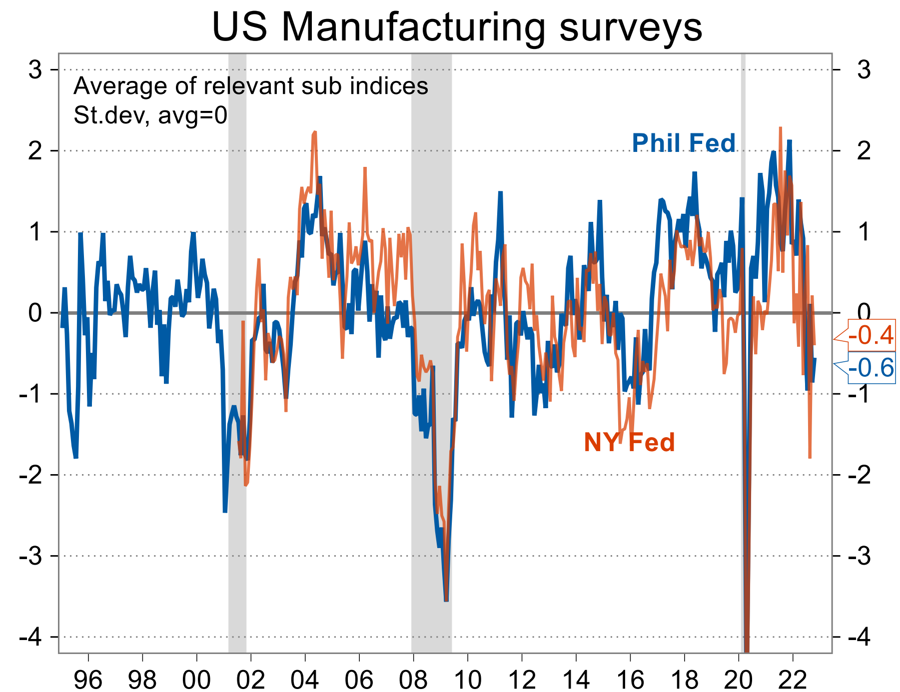
# Flip flop: NY Fed’s index down, Phil Fed up in October. In sum down

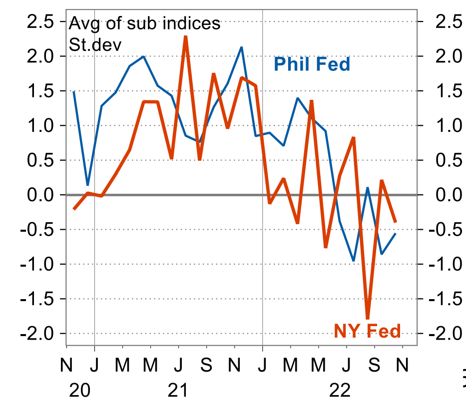
Once again the two surveys differ from month to month. <u>The trend is down for both of them</u>




SB1 Markets/Macrobond



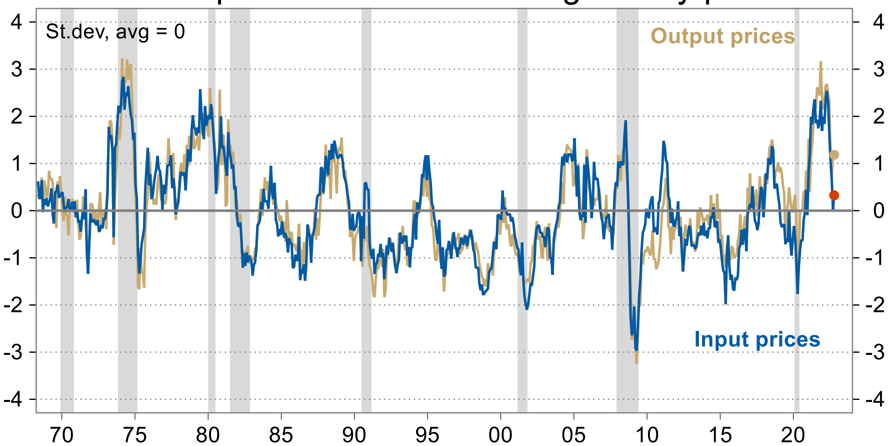

- **NY Fed Empire State manufacturing index** fell to 1.1 st.dev below avg. in October from 0.6 st.dev below the previous month (down to -9.1 in absolute terms, expected -4)
- **Philadelphia Fed’s manufacturing index** was marginally up in October to -8.7 from -9.9. However the market expected an increase to -5.0 and the index is still 1 st.dev below average
  - » Both indices report an increase in input prices, lower shipments and a bleaker outlook
  - » <u>Expected order inflow is the weakest since 1979</u>
- **The average of the subindices** in the two surveys followed their respective headline indices, and both are below average
- **Taken together:** Slightly weaker and but not a negative signal for the ISM, according to our model



# Philly Fed: Orders are falling rapidly, and the outlook the worst since 1979!!

## Both the input and output price indices rose, after having come down over the past 5 months

Philadelphia Fed Manufacturing survey prices

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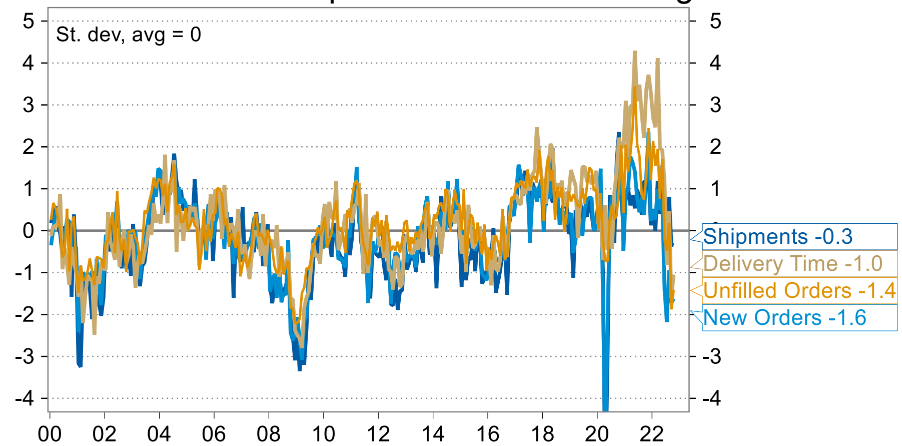
USA Philadelphia Fed Manufacturing index

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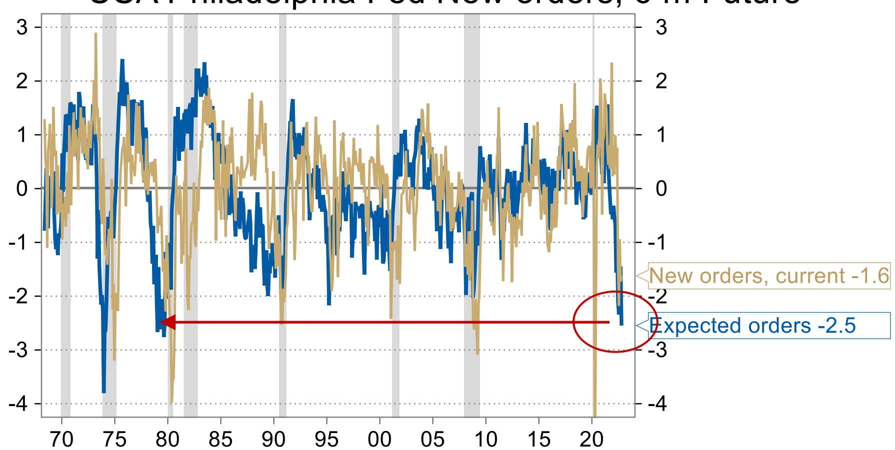
USA Philadelphia Fed New orders, 6 m Future

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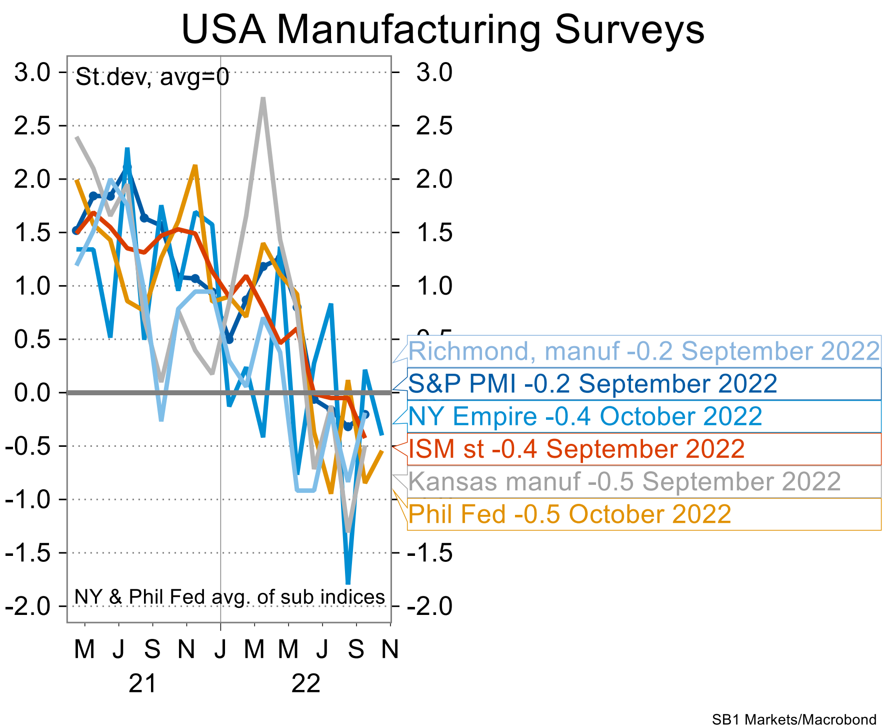
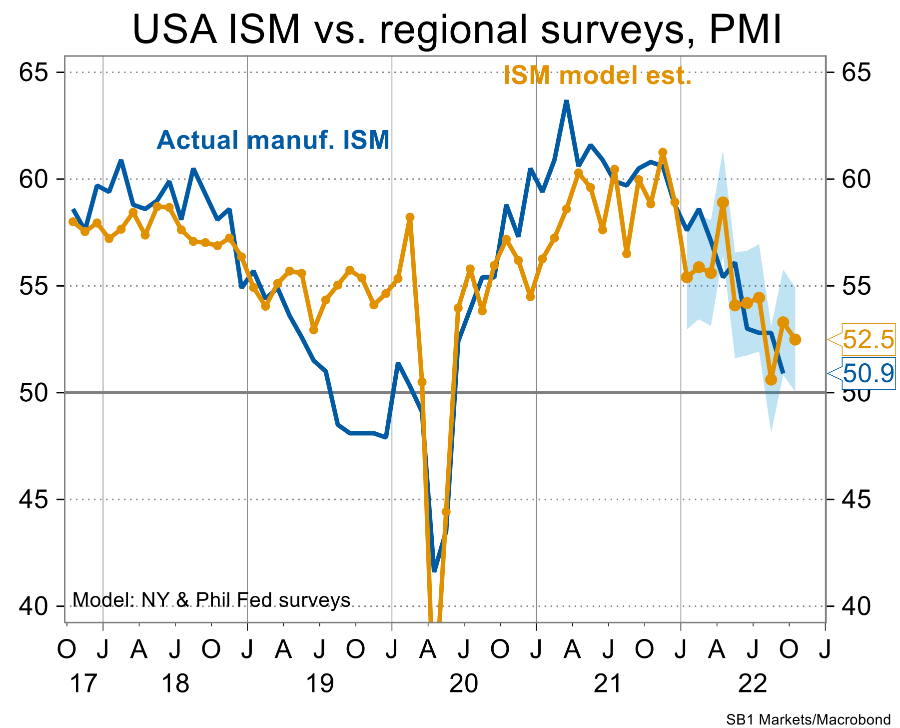
- **Price indices** are still signalling price increases, but not more than normal for input prices (st.dev just above 0). Growth in output prices rose in Oct, but has come down notably since the peak in April – <u>still at a much higher level than normal</u>
- **The new orders** index is zig-zagging downwards, but was marginally up in Oct, to 1.6 st.dev below average from 1.7 st.dev below average. The expected orders index fell sharply, to -2.5 st.dev from -1.4 st.dev. <u>That's the lowest print since 1979, and the 3rd lowest ever!</u>
- **Shipments** slowed marginally, while delivery times and unfilled orders increased. <u>All are below average</u>

# NY & Phil Fed in sum down in October

## Still, the two first surveys do not signal a weaker October ISM index

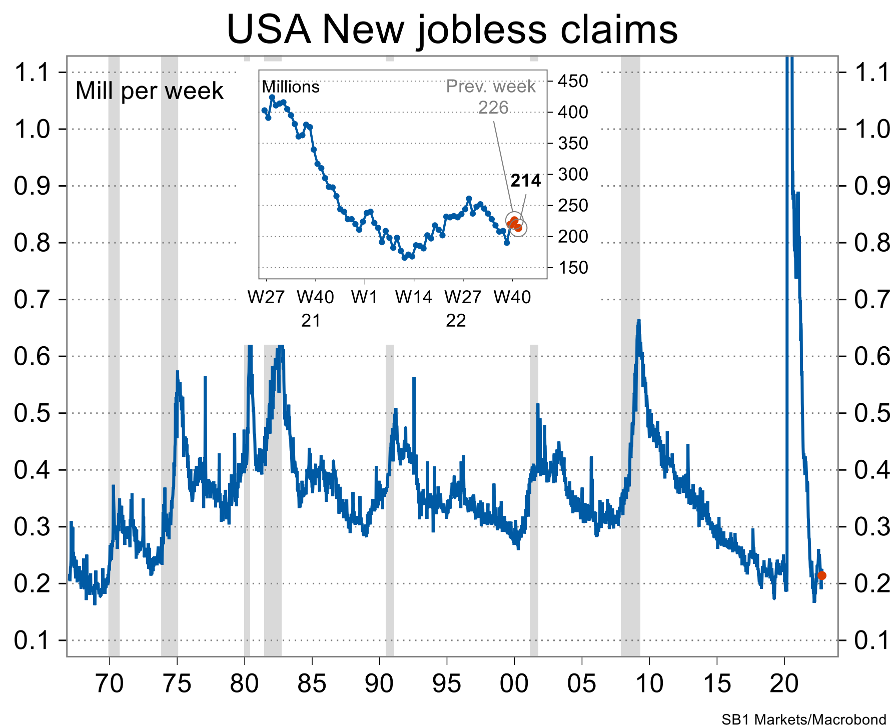


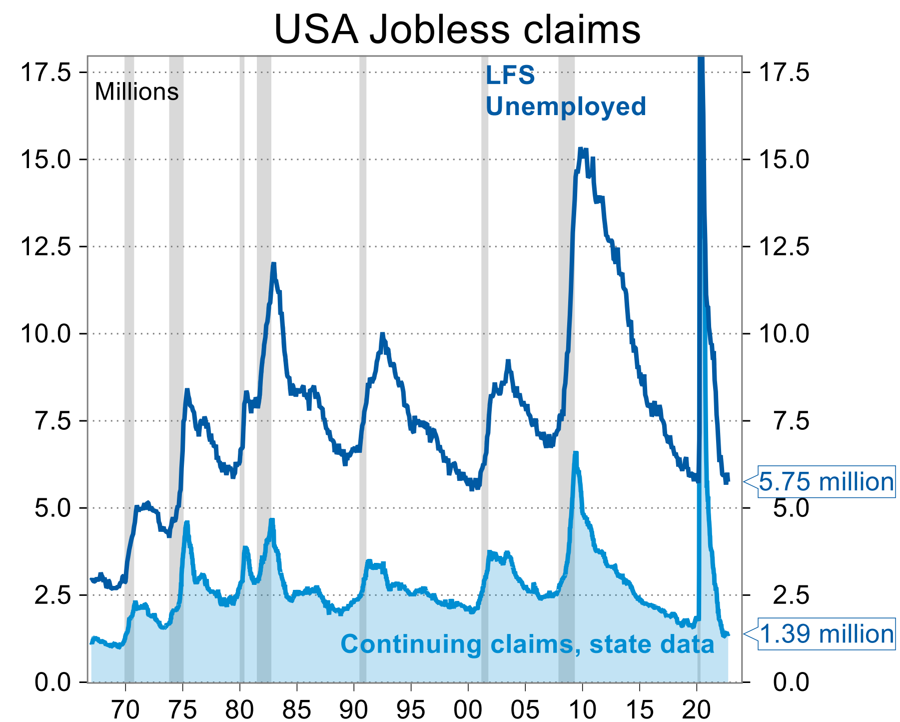




- Big picture: Growth is slowing but manufacturing indices do not signal that the economy has entered a recession (even if order indices are really worrisome, and even more expected order inflow)

# The economy is slowing – Jobs market didn't get the memo

New jobless claims were down by 12' to 214', expected 230'

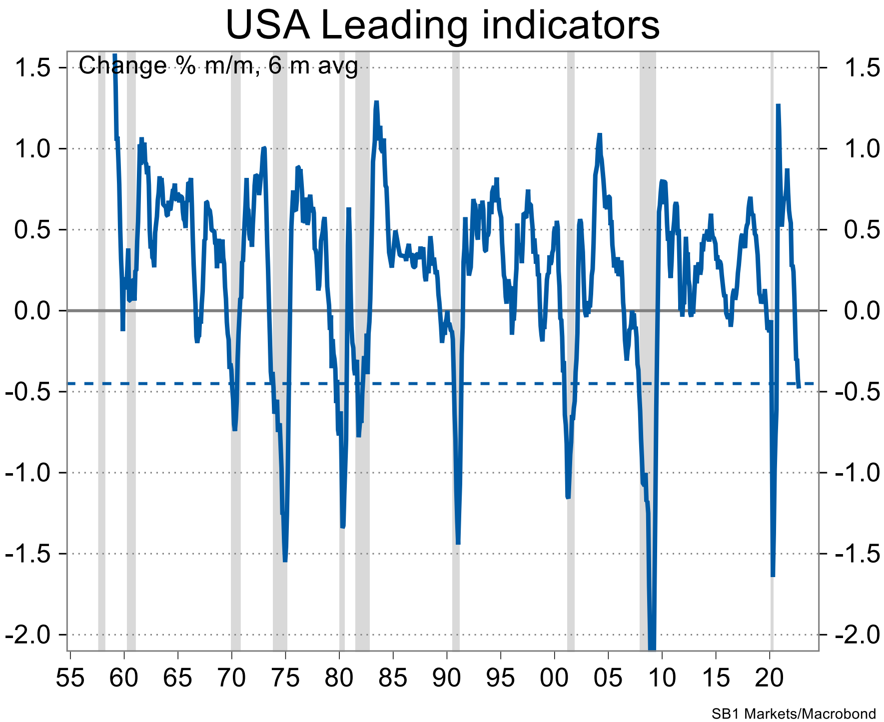


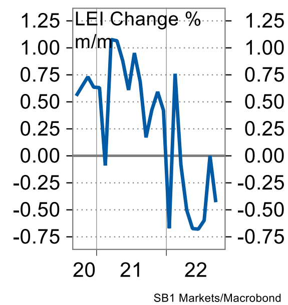



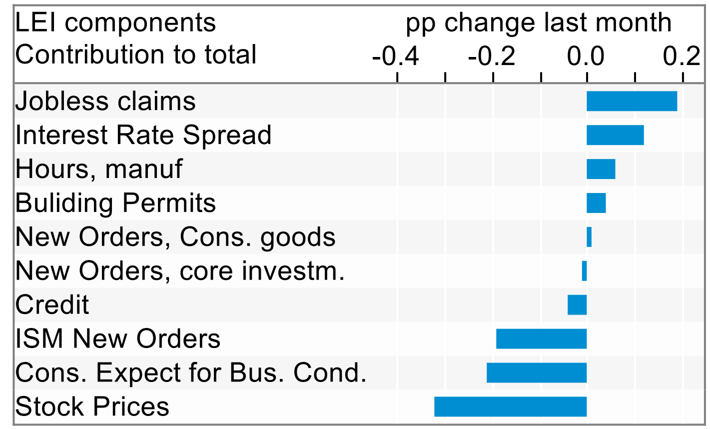

- **New jobless claims** fell to 214' down from a downward revised 226'
- **Continuing claims** rose by 21' to 1,385' in week 40 – still a very low level
- Both indicate a very tight labour market

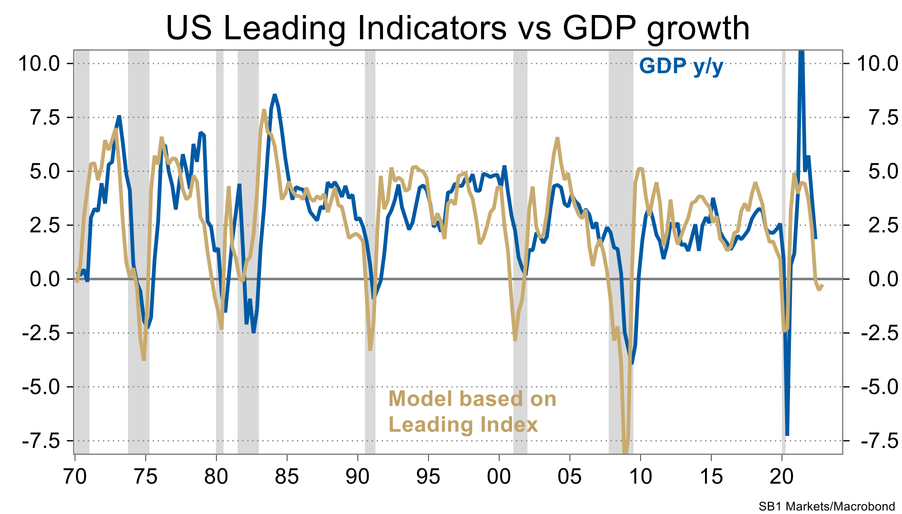
# The Leading Economic Indicators suggest US is in or close to a recession

A 6-month avg of -0.4% level detected 8 of the 8 past recessions. And there were no false warnings!



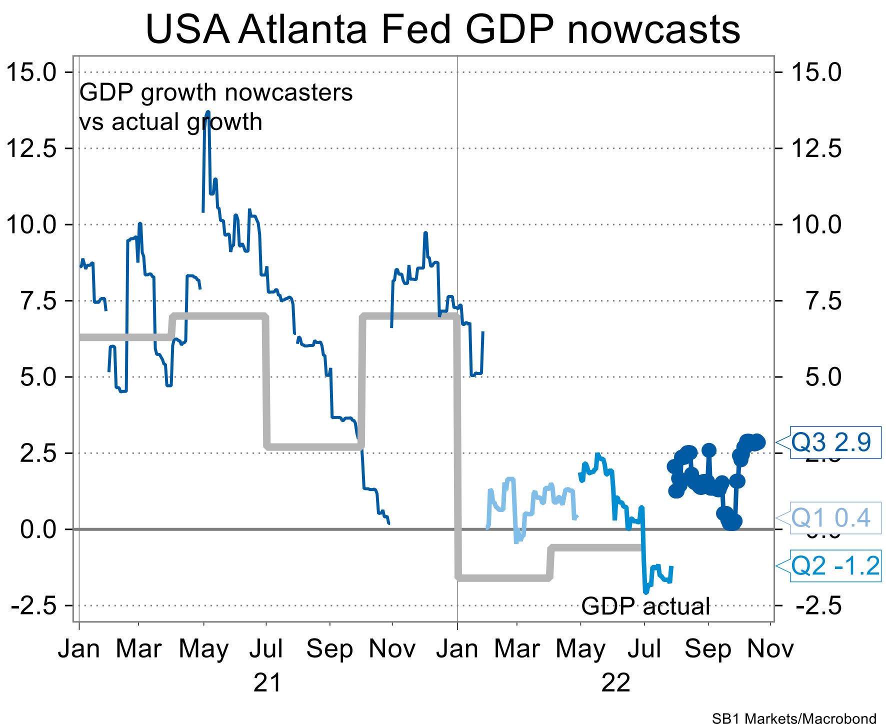



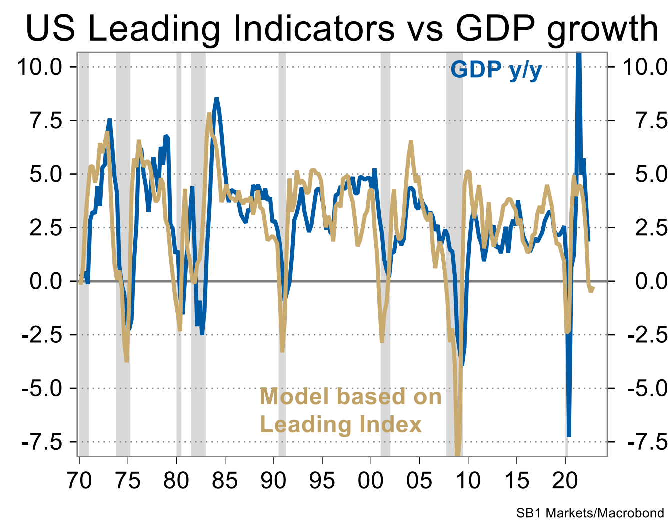



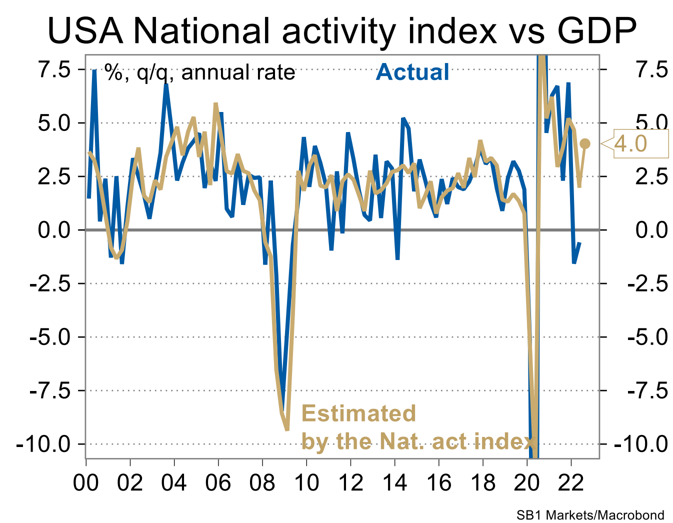

- The LEI fell 0.4% in Sept, 0.1 pp more than expected from unch. in Aug, revised up from -0.3%. LEI has more or less stabilised the recent months. The 6 m average at is at -0.4%. The LEI has fallen to this level 8 times since 1965
  - On these 8 occasions the US economy was very close to entering or had entered a recession
  - Thus, the LEI 6 m avg at -0.4 'detected' all 8 recessions since 1965; no false positives, and no false negatives. In 1960, US entered a recession without any clear warning sign from the LEI

# Atlanta Fed's Q3's forecast stable at 2.8%

Net foreign trade will contribute substantially, but also private consumption & business investments




- National Activity index suggests 4% (the July pace). Leading indicators say zero!
- **Q2 GDP** fell 0.6%, revised up from -0.9%

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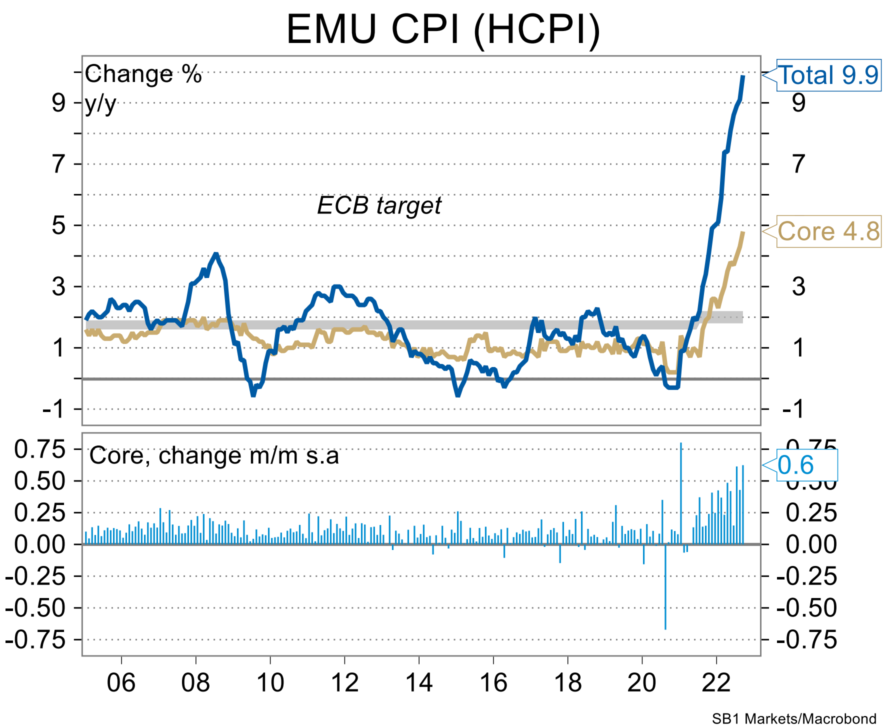
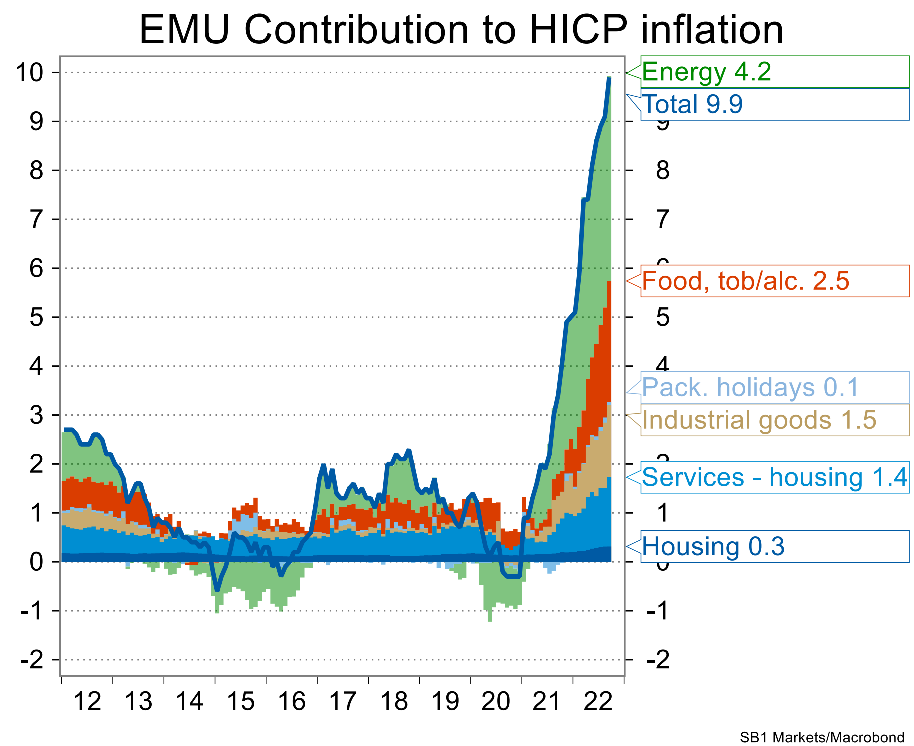
# Headline inflation at 9.9% in September – 0.1 pp lower than preliminary print

The headline index up 1.2% m/m, the core 0.7%, the 2nd highest ever




- **Energy prices** directly explains 4.2 pp of the headline of 9.9%. In Sept, energy prices were up 2.4%, while services were up 2.1%. Most likely, energy prices will decline in October, check 3 pages forward

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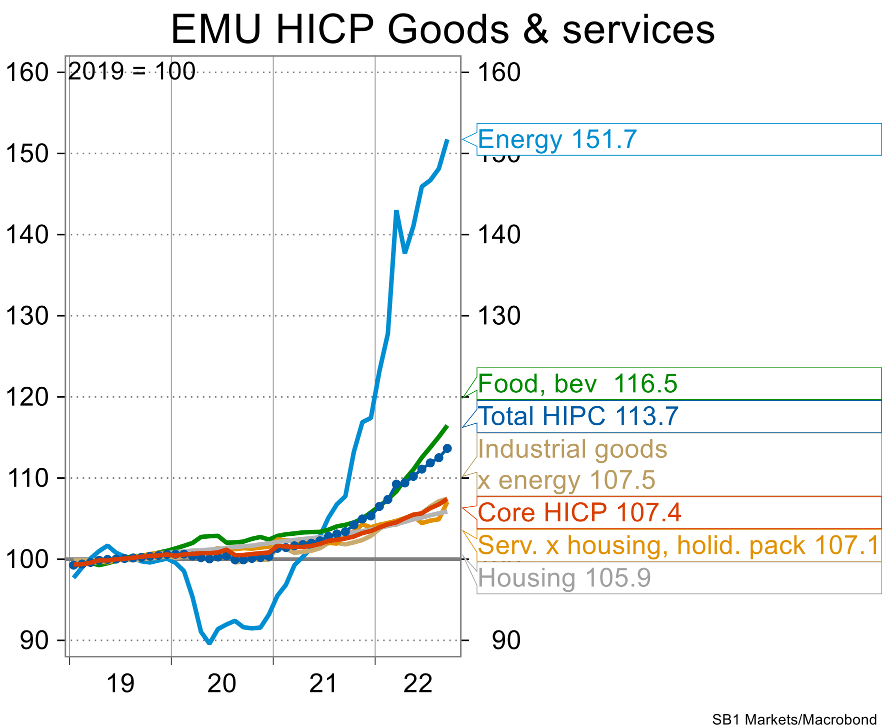
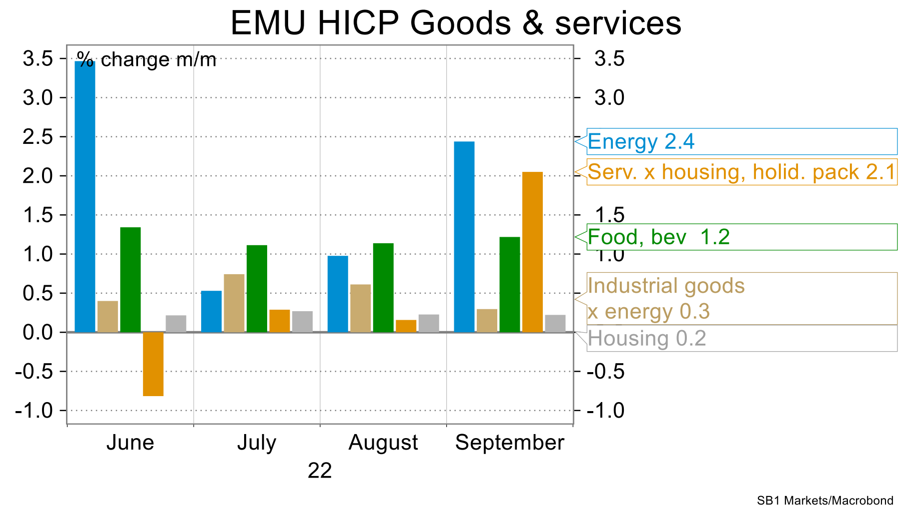
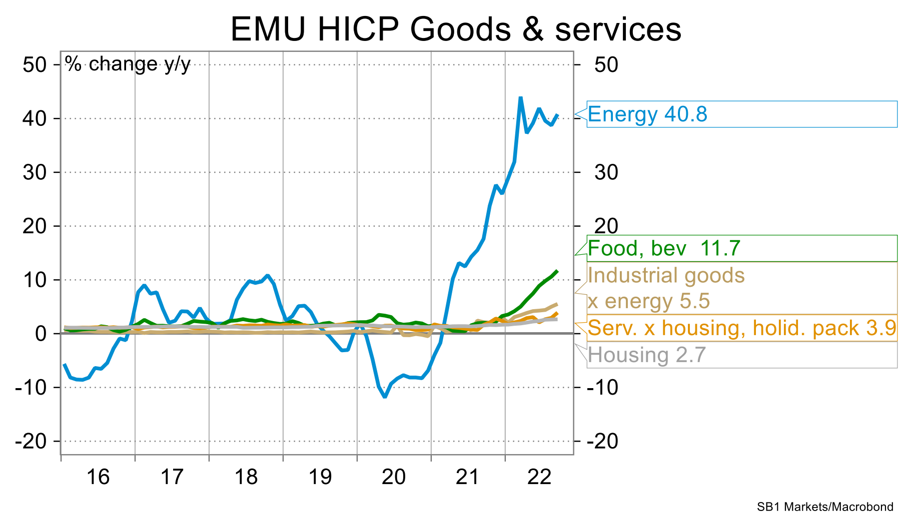
# Energy prices have exploded. Food prices are climbing >1% m/m, up 11.7% y/y



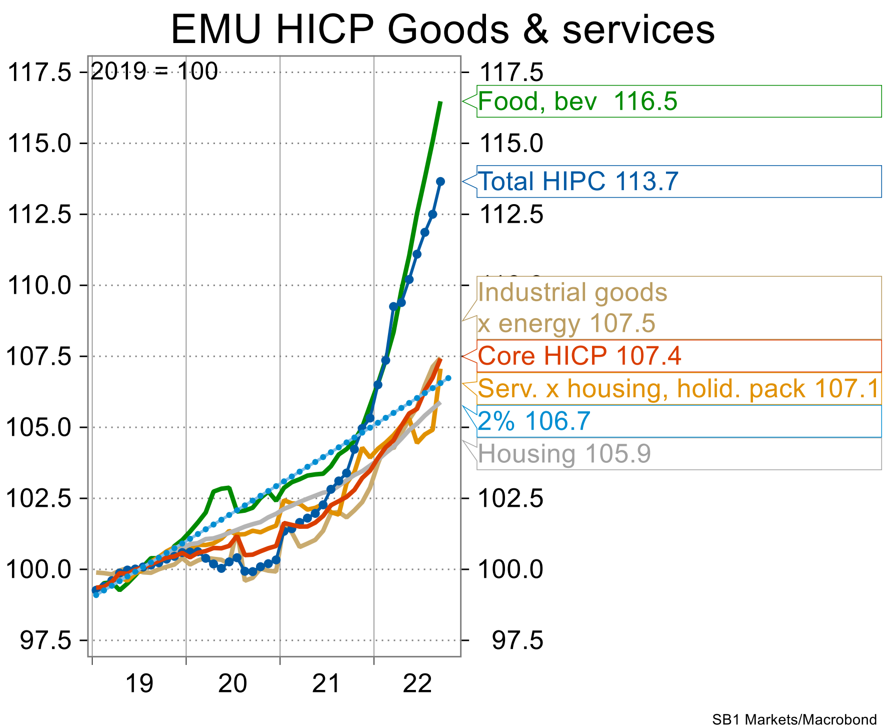



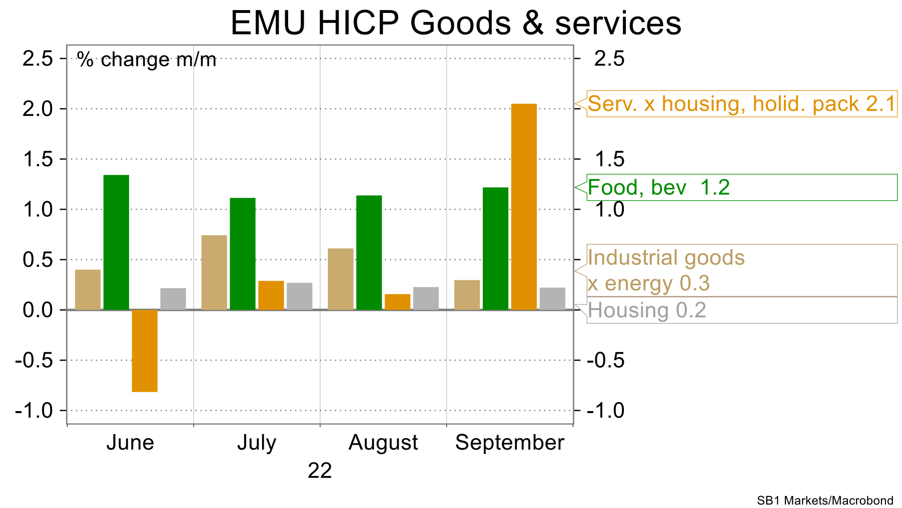



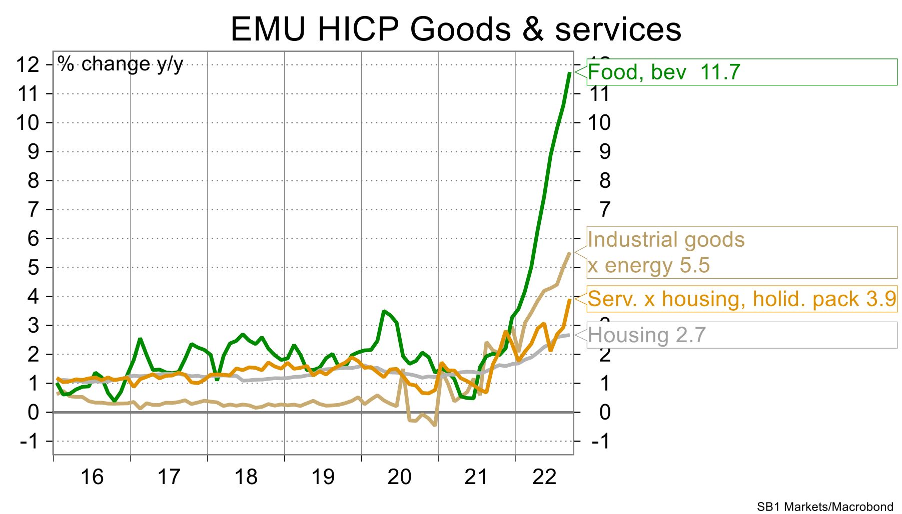

- But the peak is behind us, check two pages forward

# And prices ex energy and food are accelerating too. Service prices shot up in Sept

Industrial goods x energy at 5.5% y/y, and services ex housing 3.9%. Housing is up 2.7%



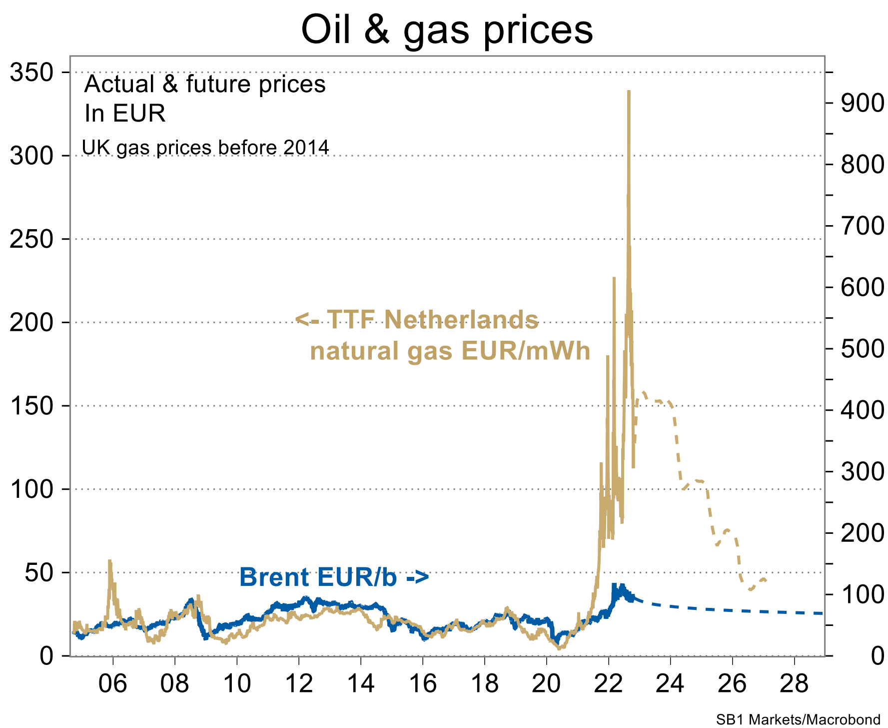



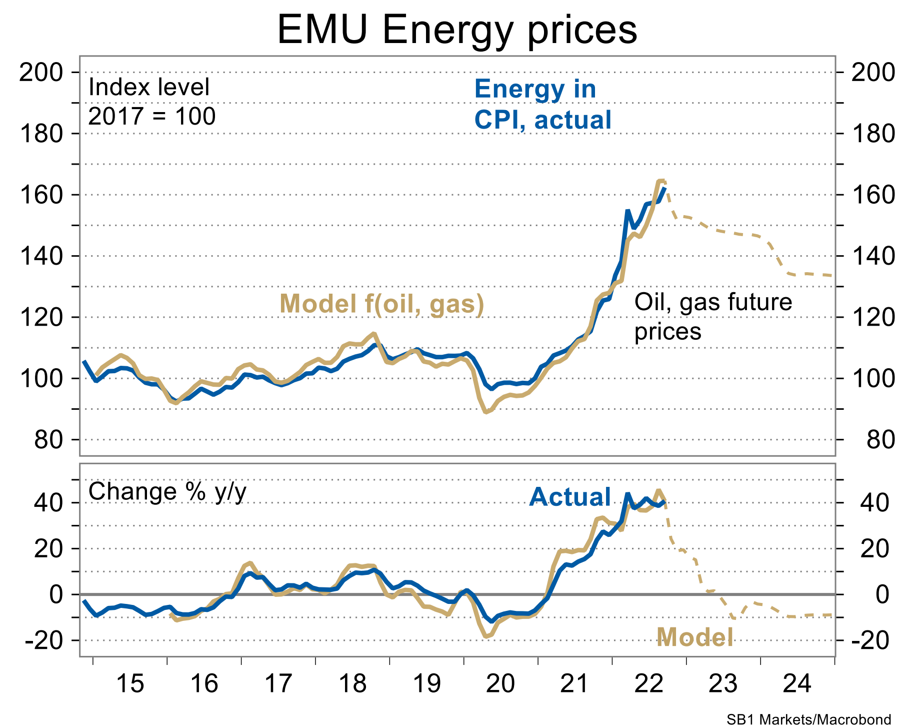




- Industrial goods prices increased by 0.3% in Sept, and are up 5.5% y/y. Still, these prices are up 'just' at a 2.4% path since 2019
- Service prices (ex housing, holiday travel) rose 2.1% in Sept, and these prices are now above a 2% path vs the 2019 level too. Transport services, hotels/restaurants, education, and several other sectors contribute to the high service sector inflation

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

… the peak is very likely behind us, given the retreat in oil and even more gas prices recent weeks



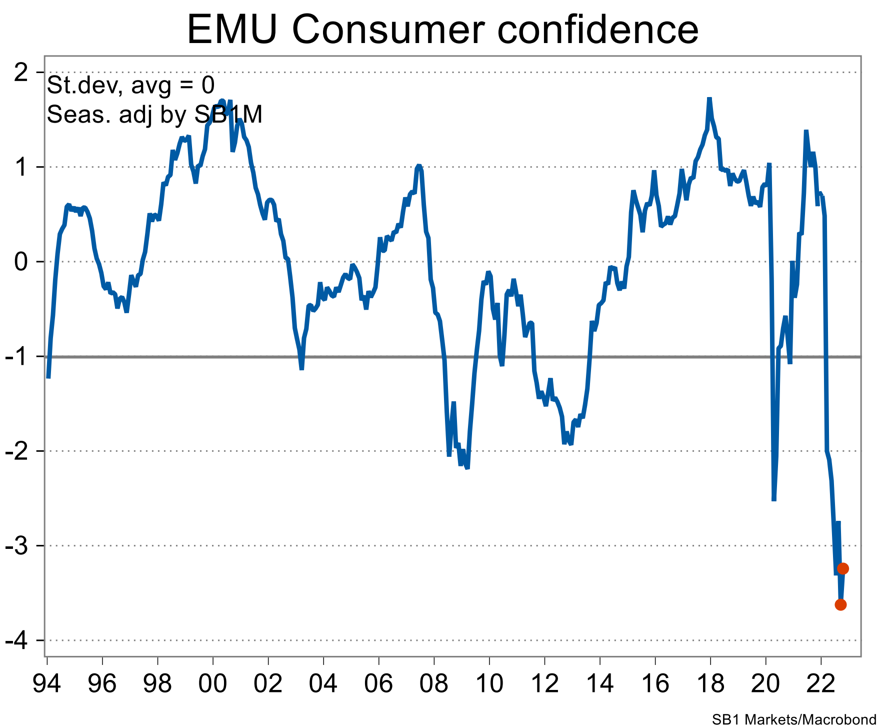



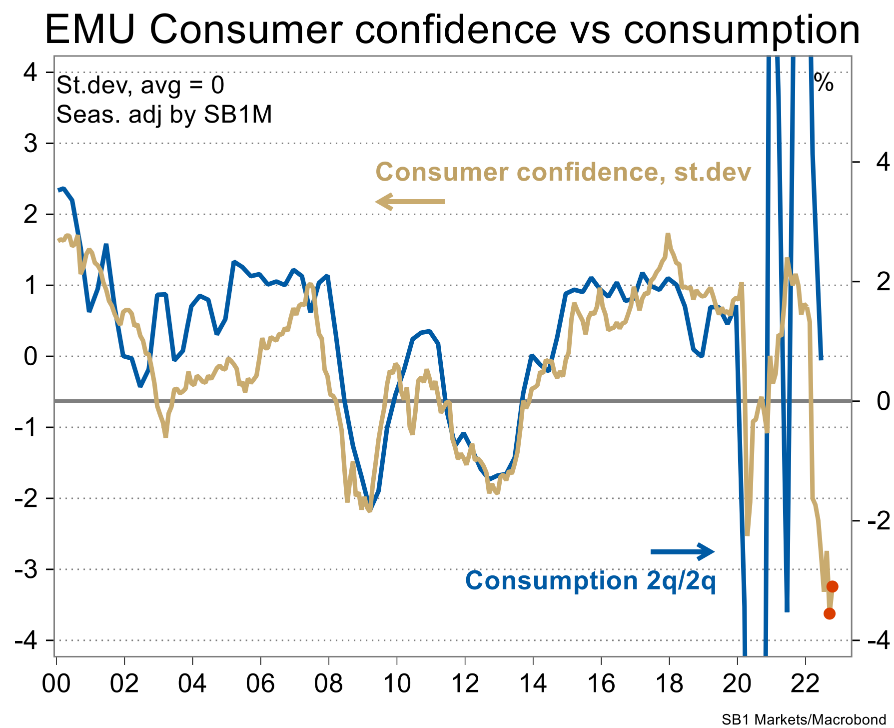

- The short end of the gas price curve has collapsed since the late August peak, and future prices fell substantially as well

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

# Consumer confidence up in October but sill extremely weak

Consumer confidence +0.2 to 3.2 st.dev below average. Signals deep cuts in household demand

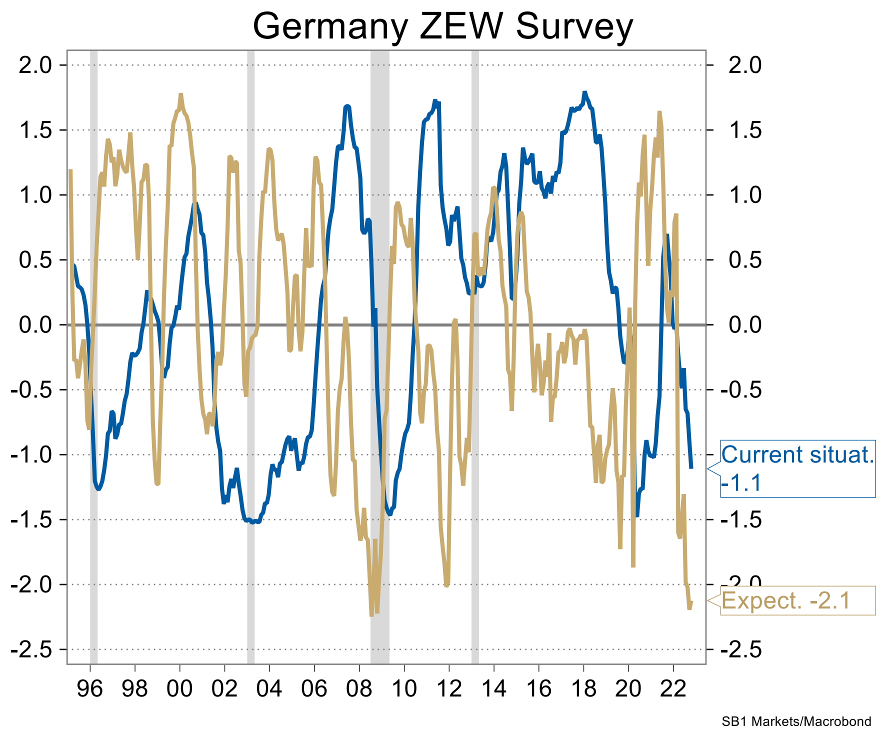


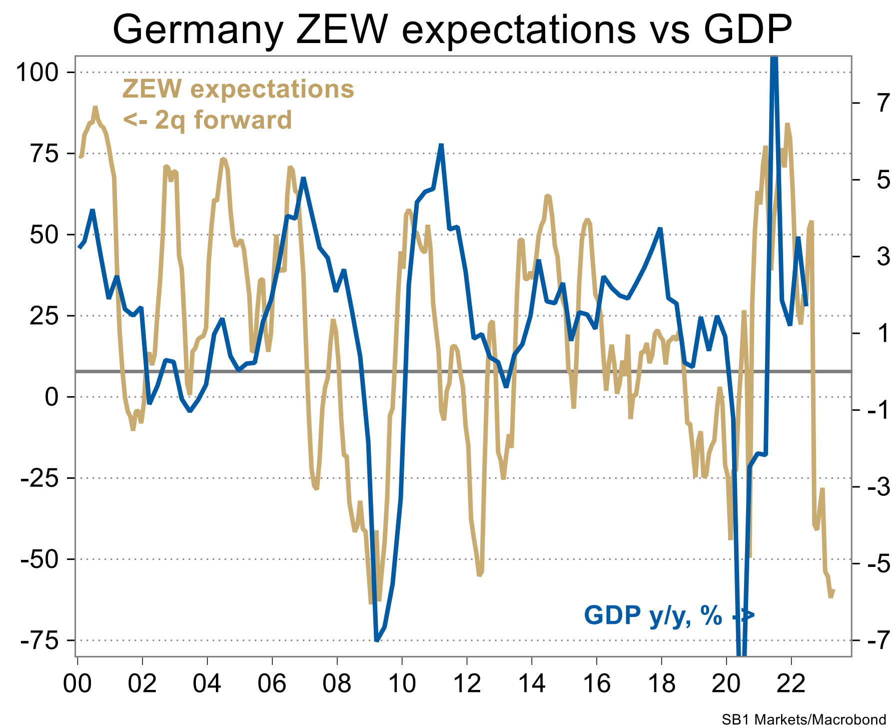




- **The confidence index** rose 1.2 p to -27.6 in Oct, according to the preliminary estimate, expected down to 30,0. The level is still -3.2 st.dev below avg, not far above the ATL in Sept
- **Inflation** fuelled by super high energy prices and fear of lack of supplies are probably to blame. **Interest rates** are now being hiked – and the rest of the yield curve has taken big leaps upwards – and sentiment is plummeting
- Usually, consumer confidence is tightly correlated to growth in household demand. If that's the case now as well...

# ZEW expectations marginally higher in October, but the sentiment is dire

German investors/analysts are extremely negative vs. the outlook; The current situation is weakening



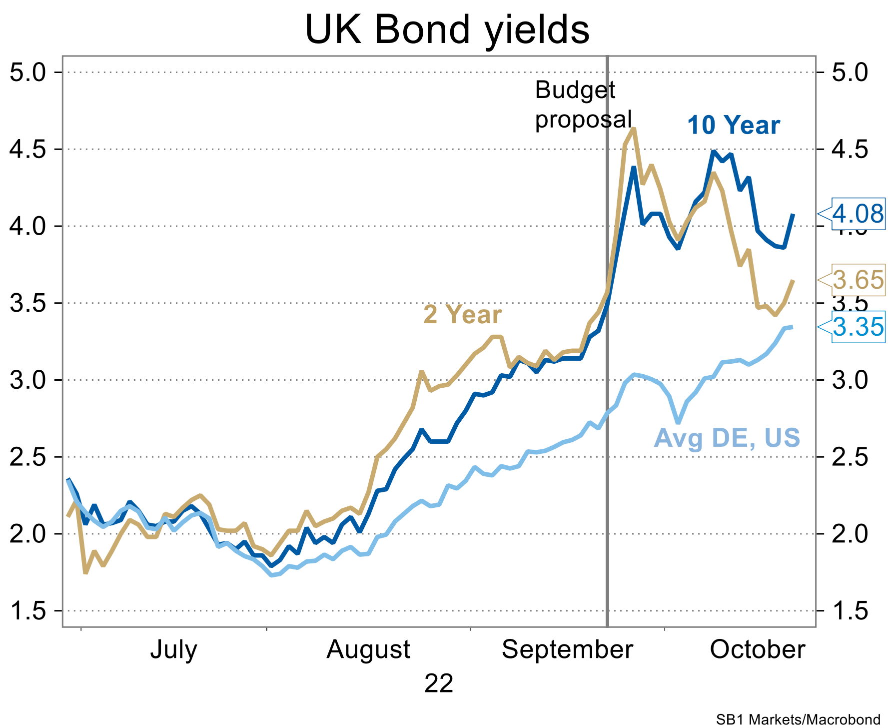




- The **ZEW expectation** rose 2.7 p to -59.2, expected down to -65.7. The level is 2.1 st.dev below average. It has only been lower for two months before, in July and October 2008
- The **current situation** index fell quite significantly for the second month, by 11.7 p to -72.2, to 1.1 st.dev below par
- <u>ZEW of course signals a deep recession in Germany</u>
- Business surveys are not that negative, at least not yet

SpareBank 1 MARKETS

# Another (not so) funny week in British politics. Markets are calming down

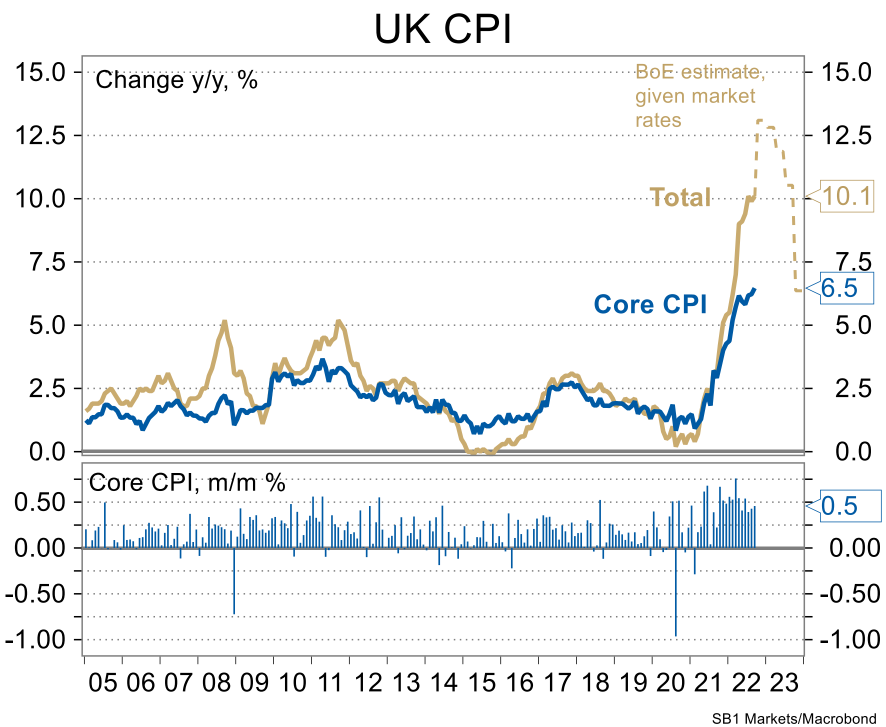
PM Truss was forced out, and another fight for the Tory leadership is on

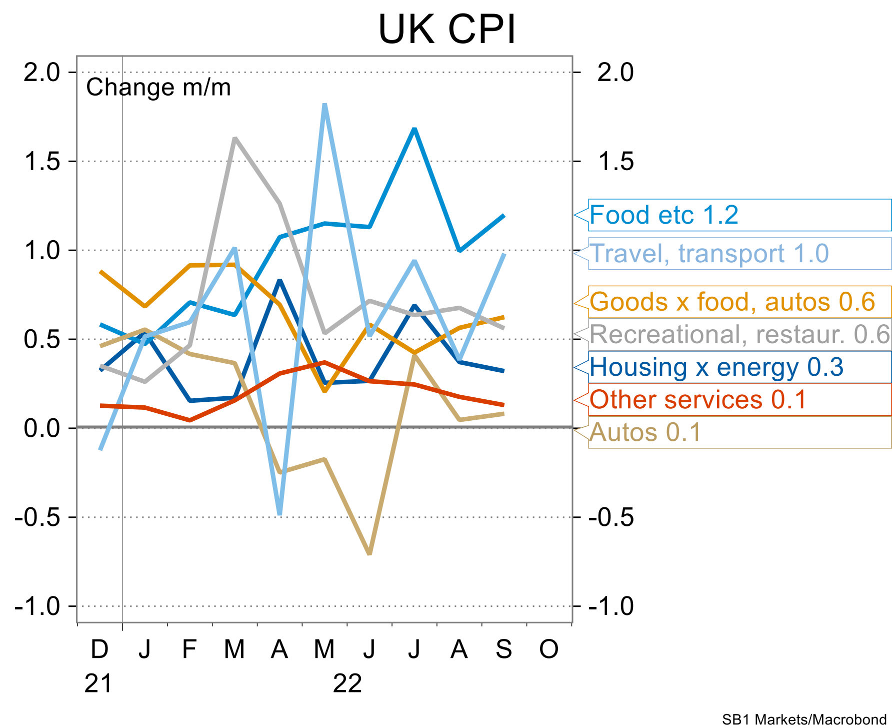



- Markets are calming down but the 10 y UK bond yield is still 75 bp higher than the German/US average. In early August, the spread was zero
- UK yields rose Friday, but are lower than one week ago. In the short end of the curve (2 y), yields are down 100 bps from the peak – which seems reasonable
- The former chancellor, Rishi Sunak, has the lead among the Tory MPs with the support from well above 100 MP. Late yesterday Boris Johnson dropped out of the race as he was able to gather support from 100 MPs. The 3rd candidate, Penny Mordaunt, has gathered support from just some few MPs.
- Thus, it now seems likely that Sunak will become the new PM. During the campaign where he lost the vote among Tory members to Truss, he promised a responsible economic policy. Given the recent experiences, a steady hand on economic policy seems likely. We expect UK yields to decline further today

# UK headline inflation above expectations in September – up 10.1% y/y

## Data in line with BoE expectations – market bets on 100 bps rate hike in November

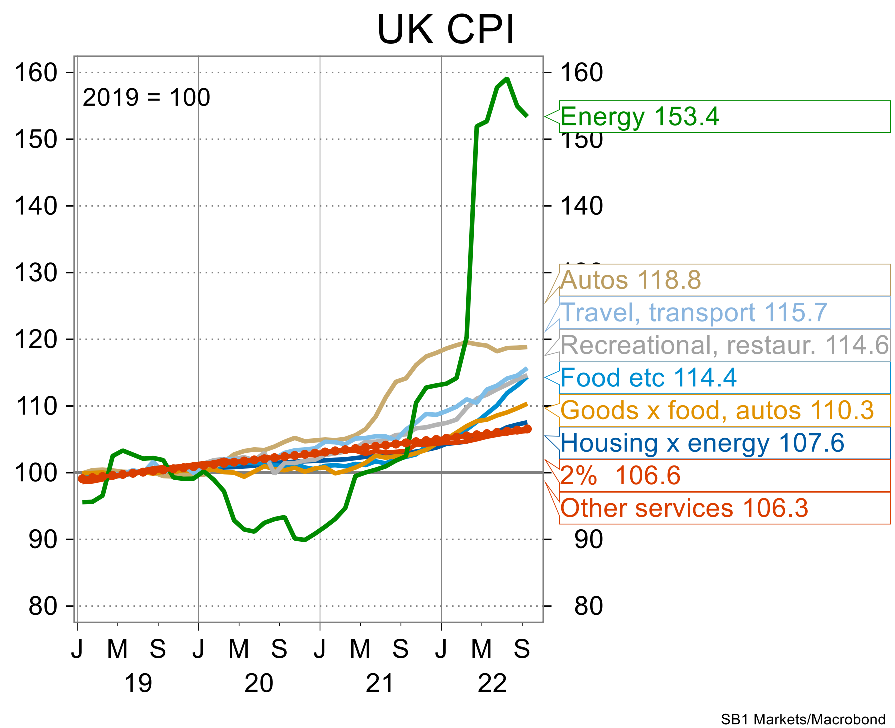


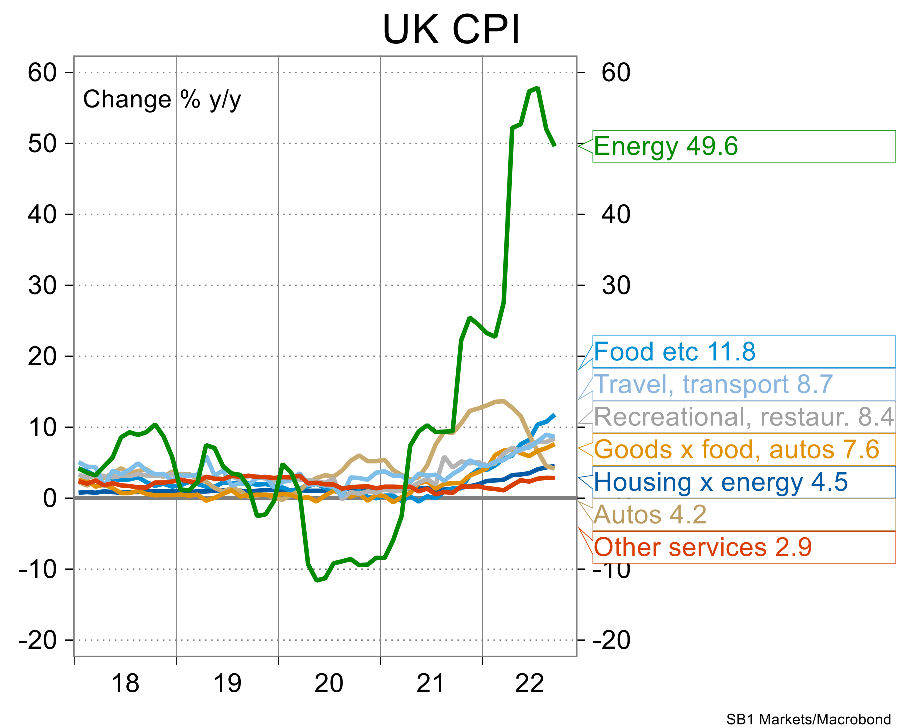




- **The total CPI** rose 0.5% m/m in September. The annual rate accelerated 0.2 pp to 10.1%, expected up 0.1 pp to 10.0%
- **Energy prices** were down 1% in Sept, after falling 2.9% in Aug, but are up by 50% y/y and has lifted the headline y/y rate by 3.3 pp. The regulated price cap for energy was lifted substantially in April (a semi-annual adjustment, the next in October – and then Bank of England expects 13% headline inflation). Energy subsides may lower inflation – if decided
- **Food prices** rose 1.2% m/m, and they are up 11.8% y/y (like in Norway), lifting the headline by 1.9 pp!
- The **core CPI** (ex food and energy) rose 0.6% m/m, and is up 6.5% y/y, up from 6.3% in Aug
- **Auto prices** have flattened
- **All major sectors** are reporting growth above 2%, and almost all up by more than a 2% pace since before the pandemic. This is BoE's problem, inflation is broadening, and are also driven by home-made factors. The gas problem cannot be slowed by the bank, of course

# Energy is the main culprit, but far from the only problem

... but most main components are above the 2% growth path

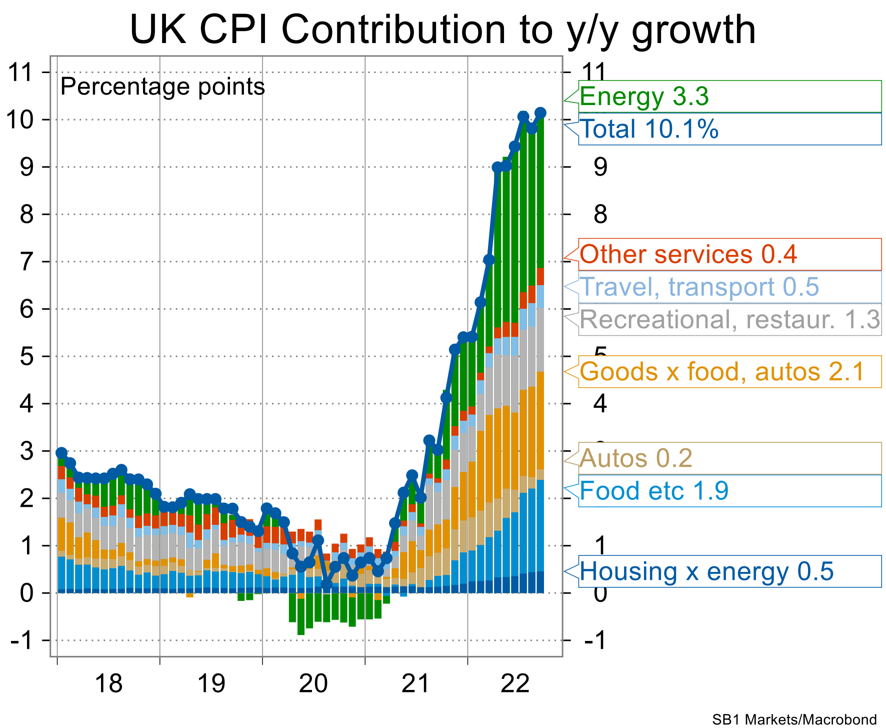


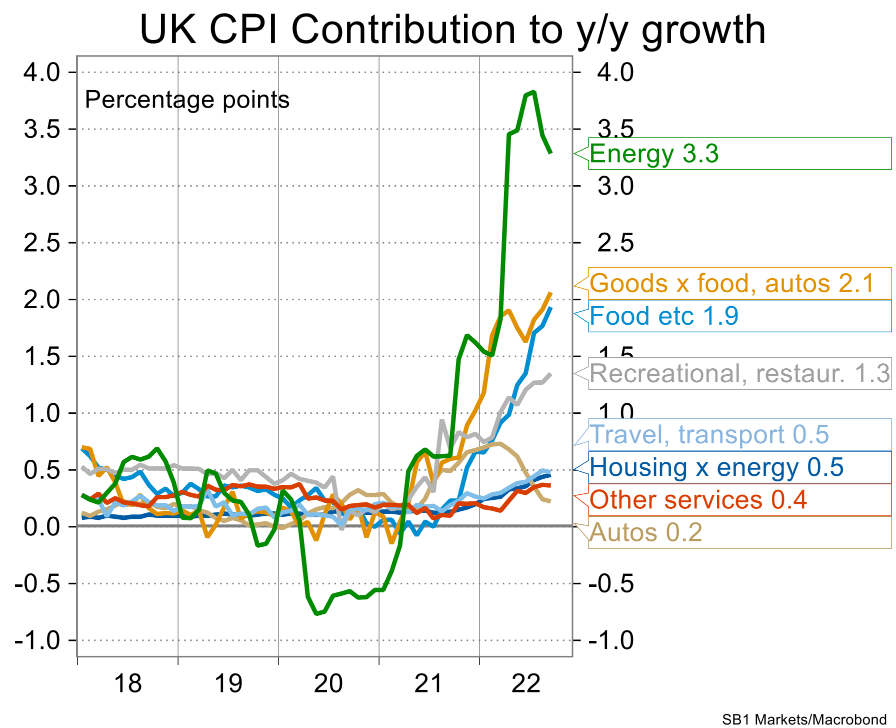




- **Energy prices** are up 50% y/y, much of it due to the 26% m/m surge in April, when semi-annual price cap adjustments were undertaken (the next adjustment is scheduled for next month)
- Some positive signs: Auto prices have peaked, and prices for goods x food are not accelerating. Services x housing is up ‘just’ 2.9%

# Energy is important, but the inflation problem is broad based

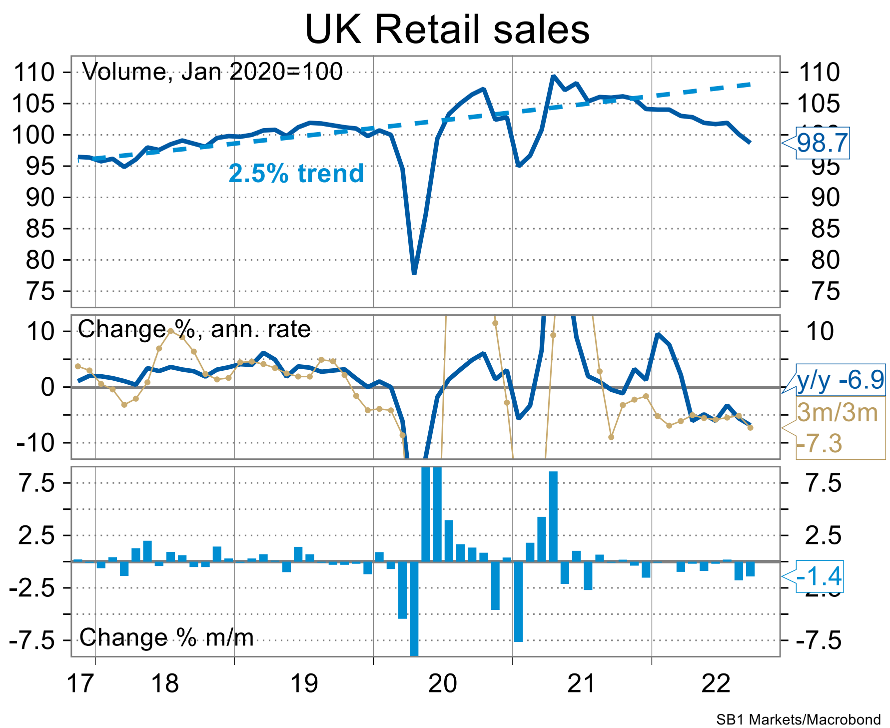
Food and goods are contributing 4 pp to the headline

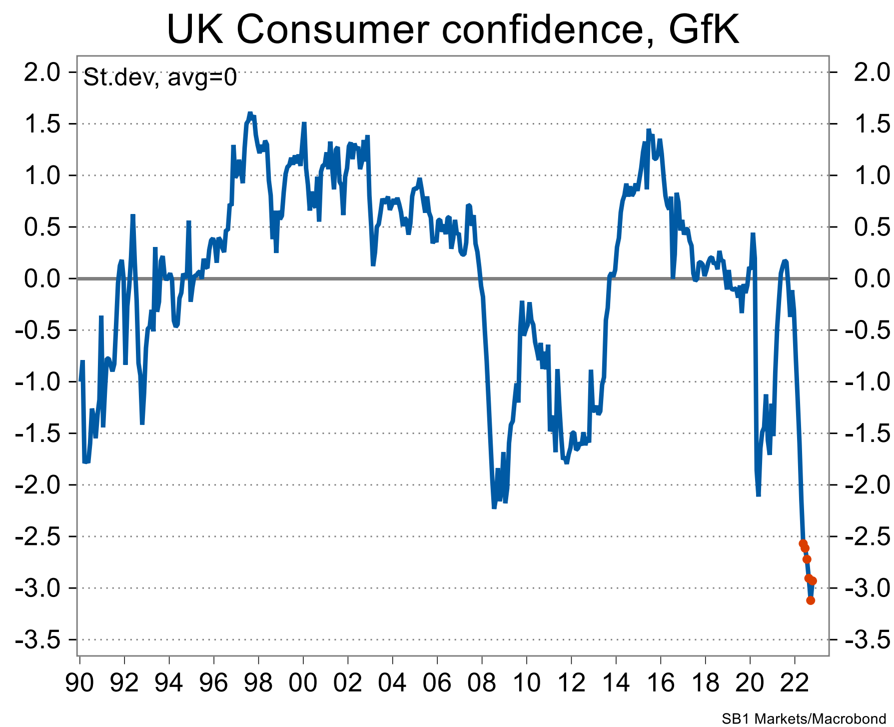


# Retail sales are trending downwards – and are lower than before the pandemic

## Sales declined by 1.4% m/m in September, expected down 0.5%... And confidence is still record low

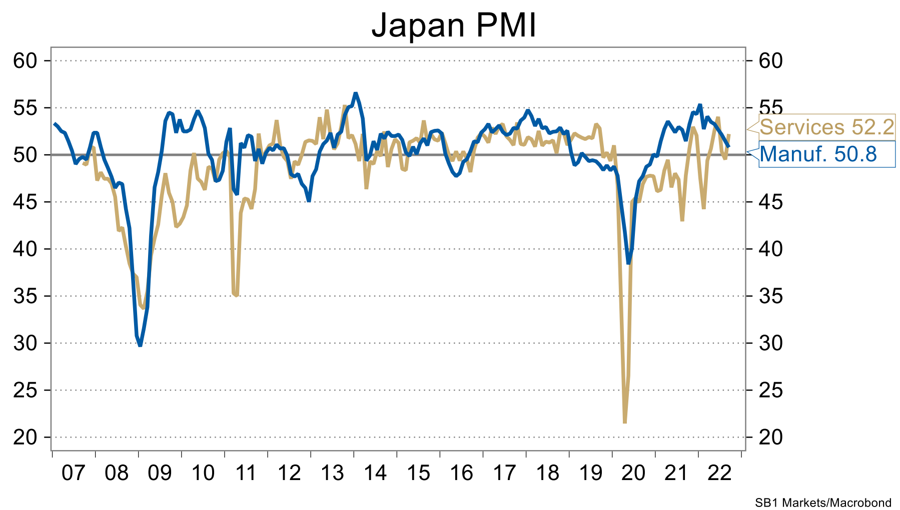


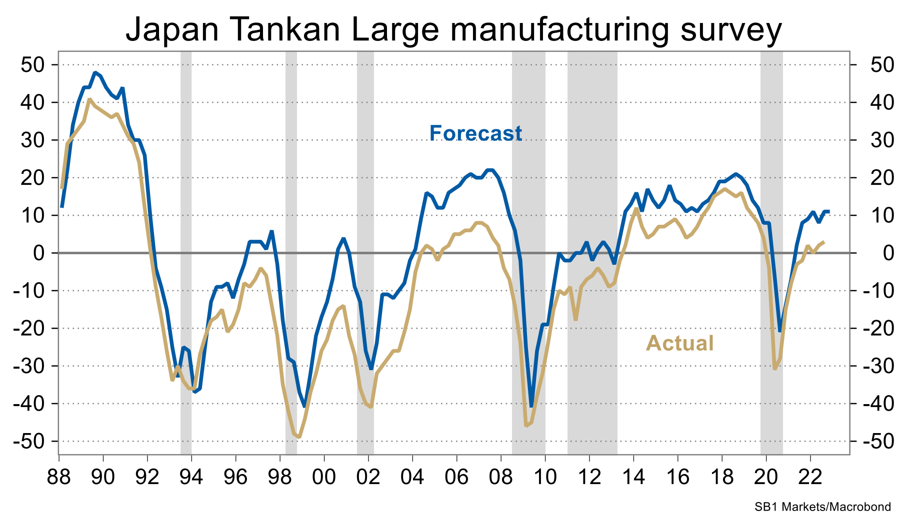



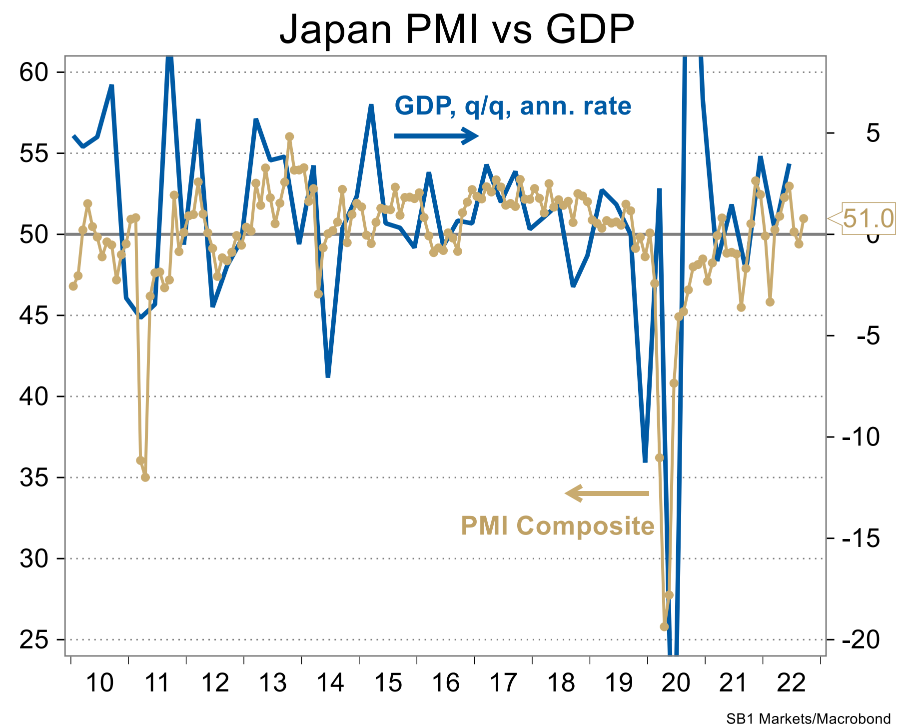

- **Retail sales** peaked Apr-21, and the gradual decline brought sales down to well below the pre-pandemic 2.5% growth path – and now even 1.3% below the pre-pandemic level! Sales are down at a 7.3% pace measured 3m/3m, a substantial drag on GDP growth
- **Consumer confidence** increased slightly in October, to 2.9 st.dev below average, from an ATL of 3.1 in Sept
  - » High inflation, and an unprecedented decline in real wages and higher interest rates are likely reasons for the historically low consumer confidence. Political turmoil is probably not helping. Besides that, the labour market is strong, the unemployment rate the lowest in 4 decades

# The services PMI ticked up for the 2nd month, manufacturing is slowing further

Both indices are at 51.8 – 52.2, and signal a marginal growth in GDP (which is the Japanese norm)

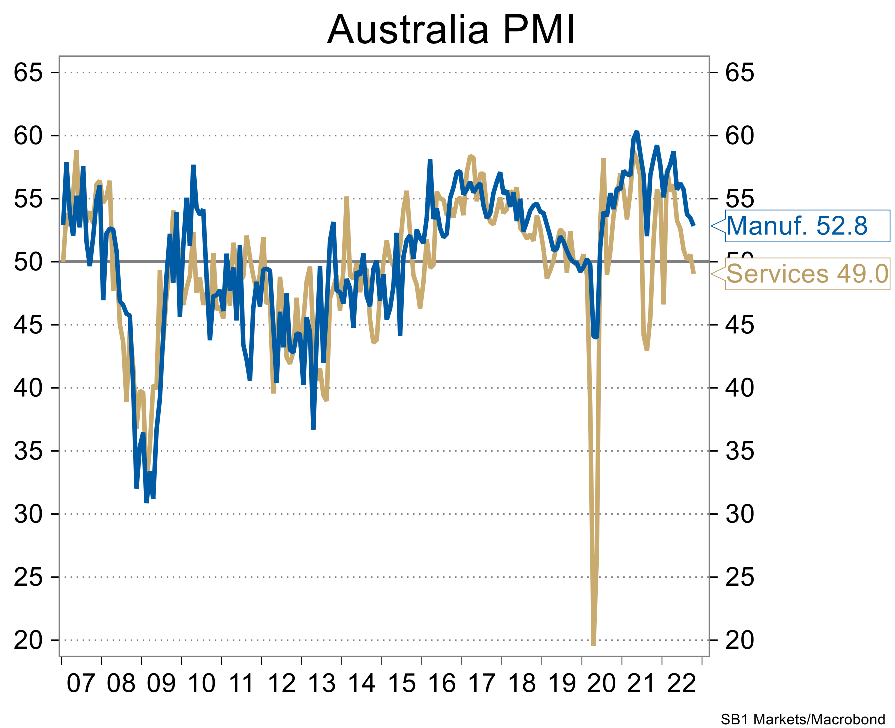


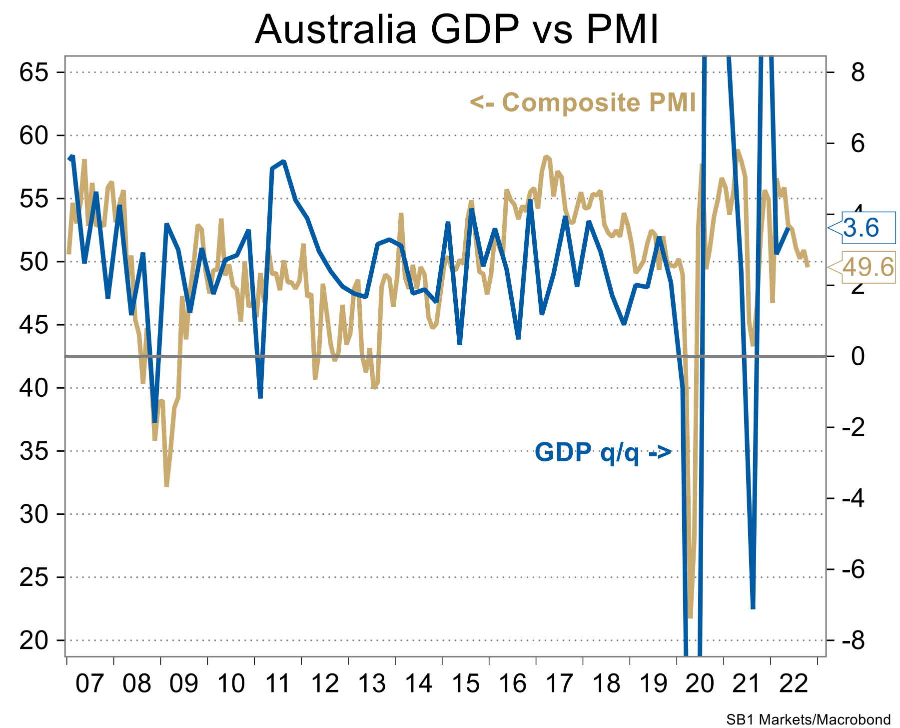



# The composite PMI dropped below the 50-line in October, due to services

The composite index declined 1.2p to 49.6 – which does not signal any GDP contraction

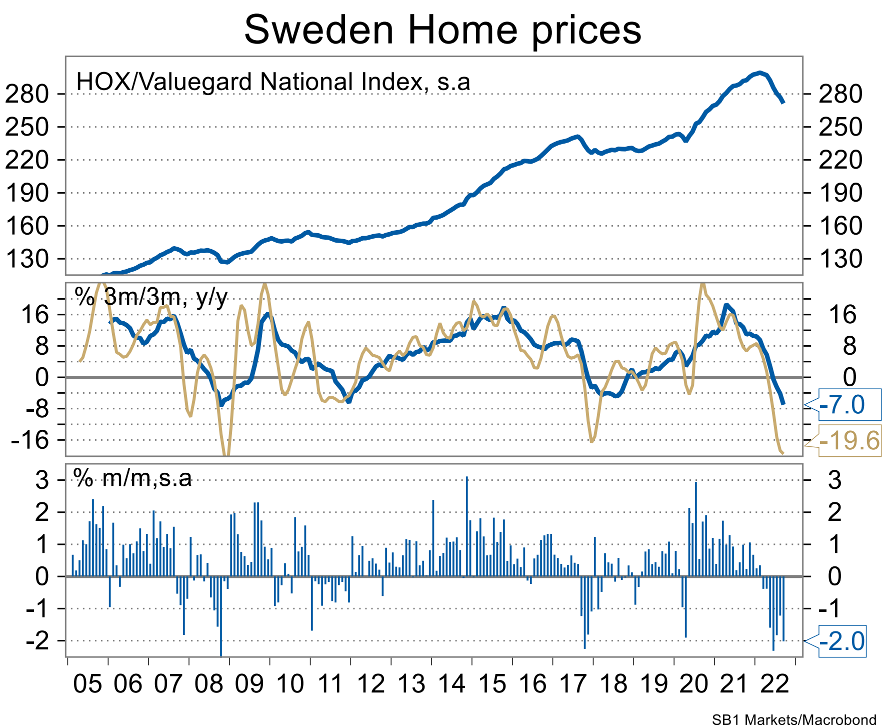


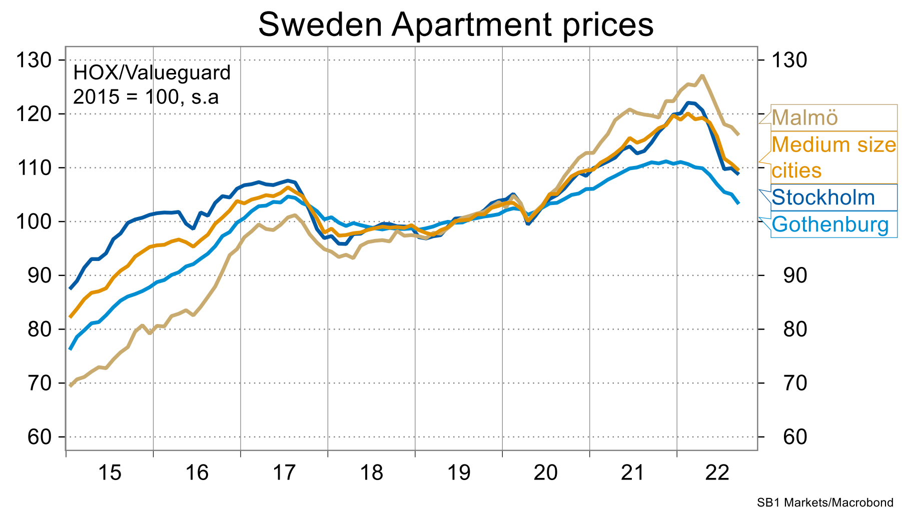



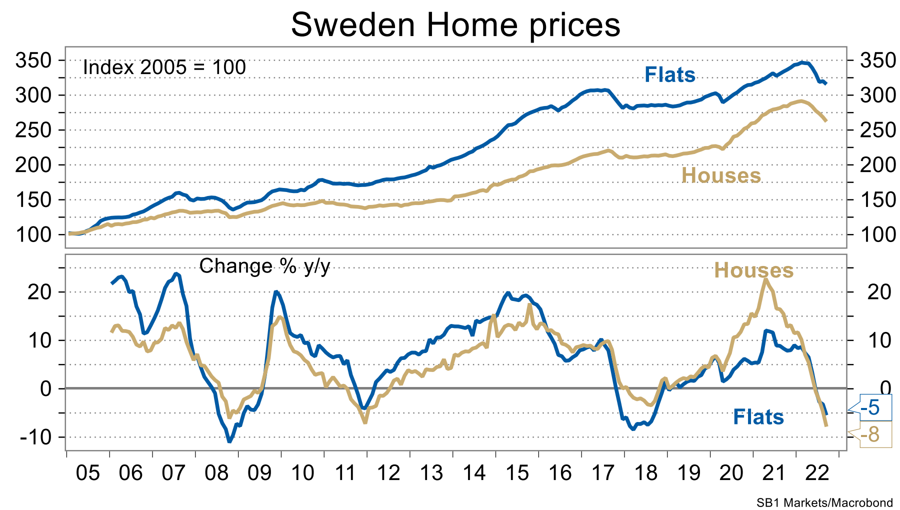

- Both the manufacturing and the services sector PMI retreated in October
- Disclaimer: The correlation between the PMIs and actual GDP growth is not that impressive

# Swedish house prices kept falling in September, down 9.4% from February

## Prices fell 2% in Sept, the 7th decline in a row, before Riksbank's 100 bp Sept hike…



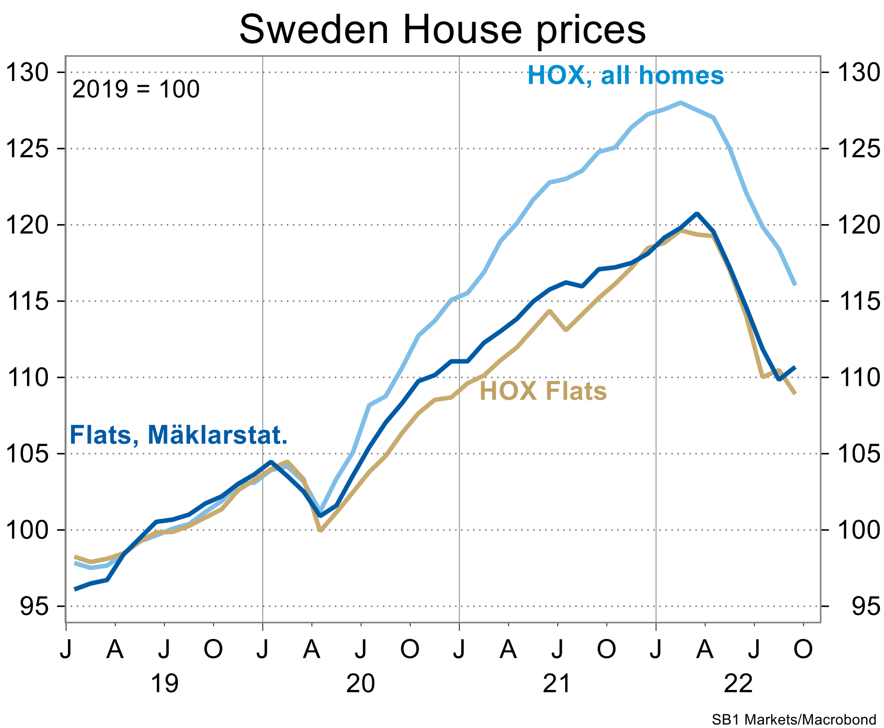



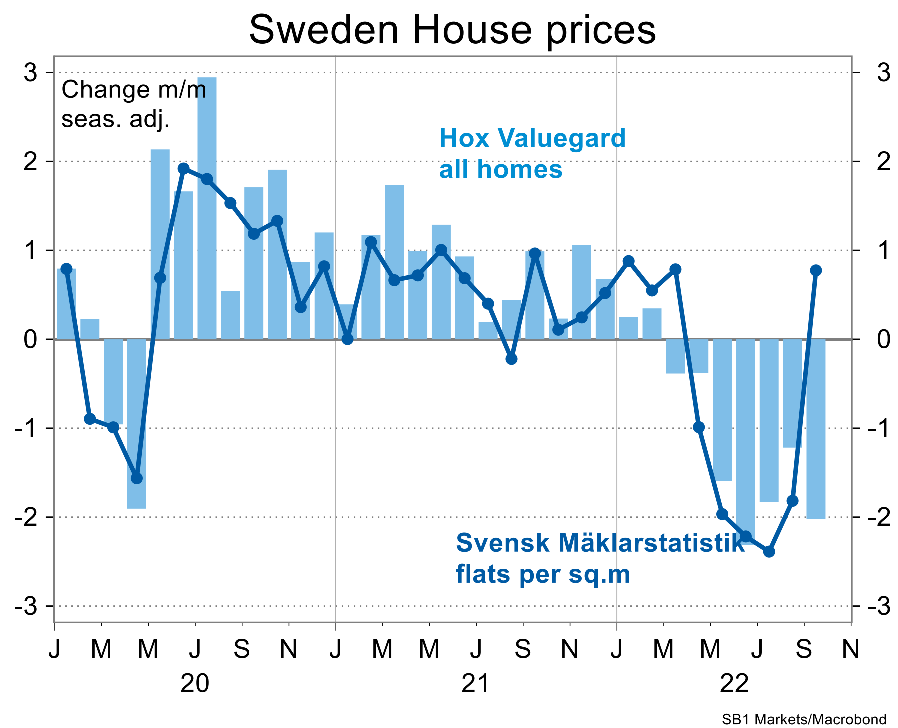




- **Prices are down** 9.4% from the peak in February. In Stockholm, apartment prices are down 8.8% from the peak
  - » In Sept, apartment prices in Stockholm fell 1.7% (seas. adj), while single-home prices fell by 2.5%
- **The annual rate** declined to -7% from -4.2% in Aug
  - » The underlying price growth (3m/3m) is now -20%!
- The **Riksbank's** abrupt change of tack in late April has no doubt hit the housing market hard. The rest of the real estate sector is hit by higher long term rates, and the sharp widening of credit spreads

# A x-check with Svensk Mäklarstatistik

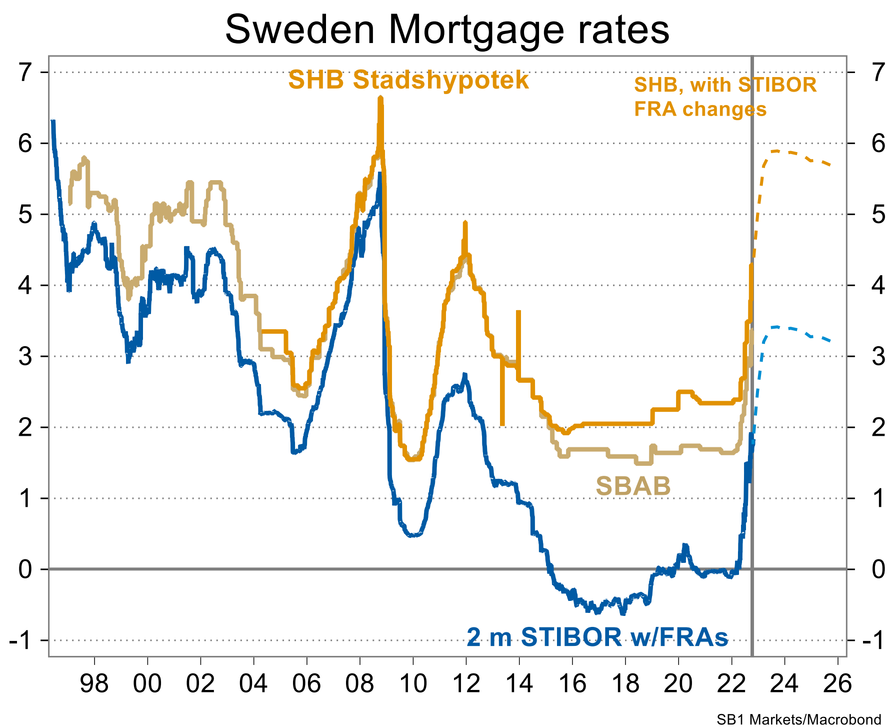
The realtors reported a <u>0.8% increase</u> in flat apartment prices in September, HOX a decline

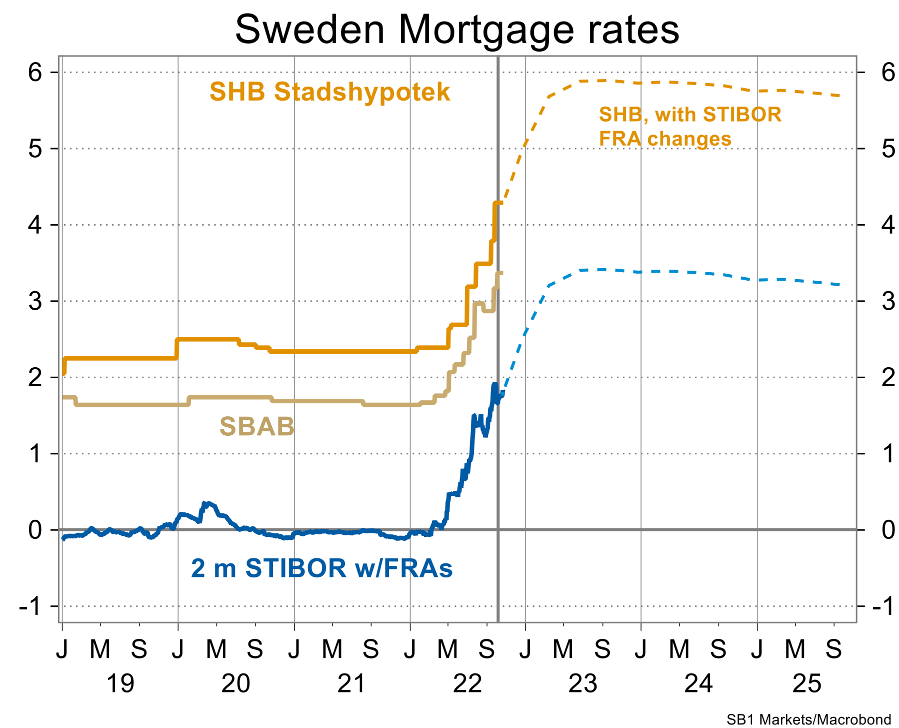


# Mortgage rates are climbing at a murderous pace – and more to come

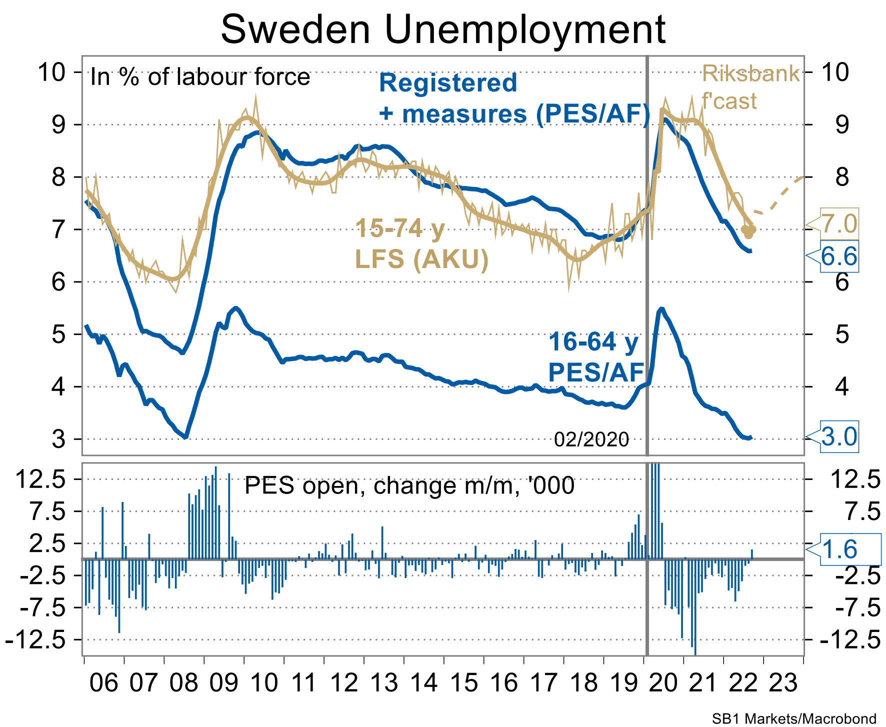
At least according to the FRA market. Mortgage rates have increased more or less in line whith STIBOR

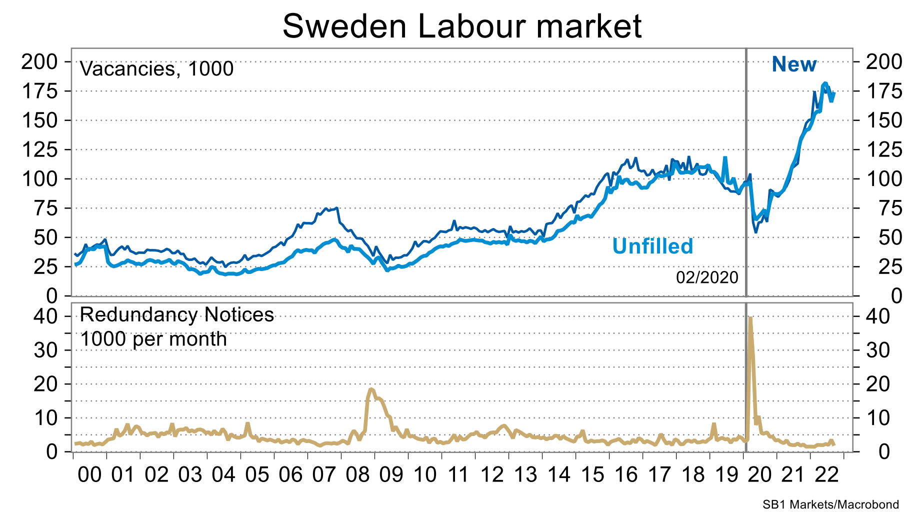


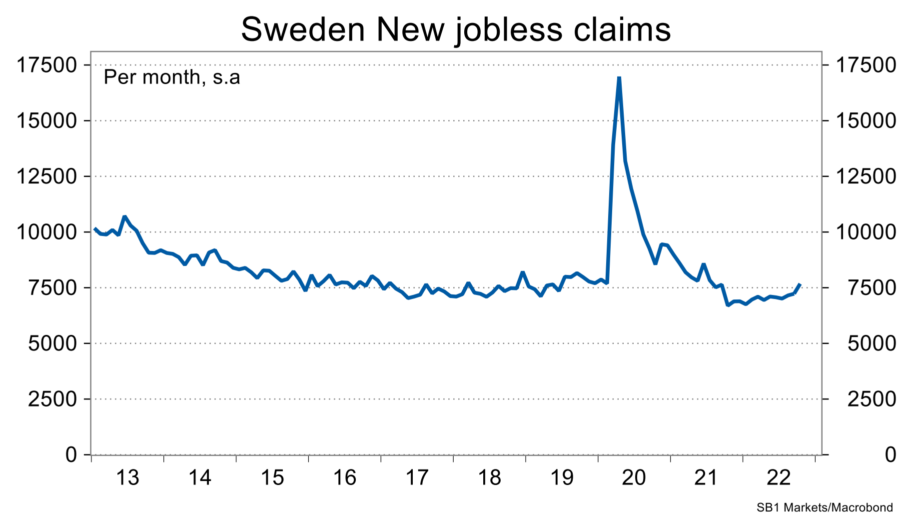



# The cycle has turned? PES Unemployment marginally up in September

## Employment is now coming down, while vacancies remain at extreme levels



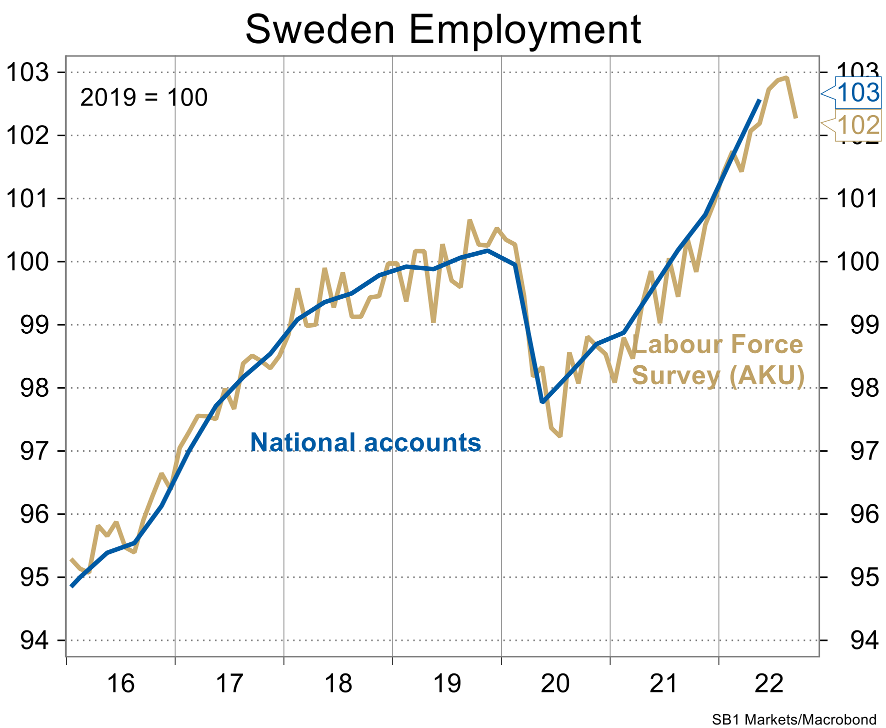



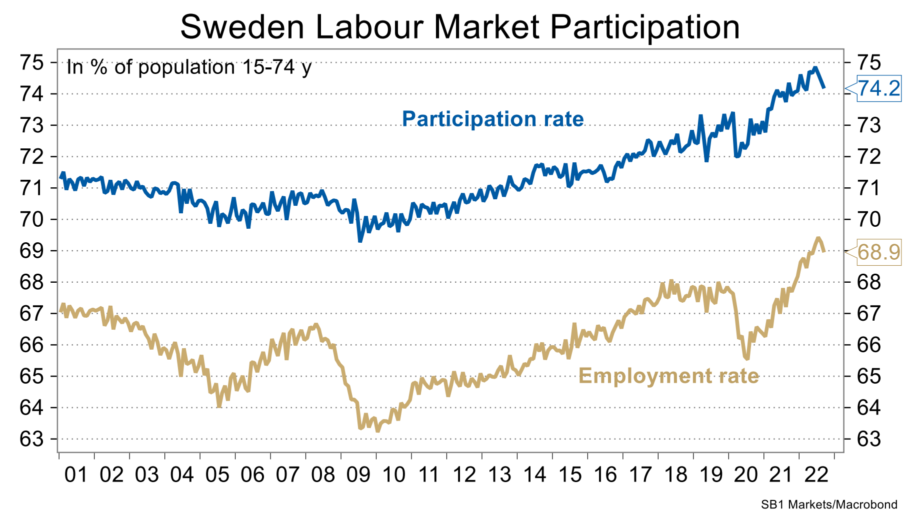



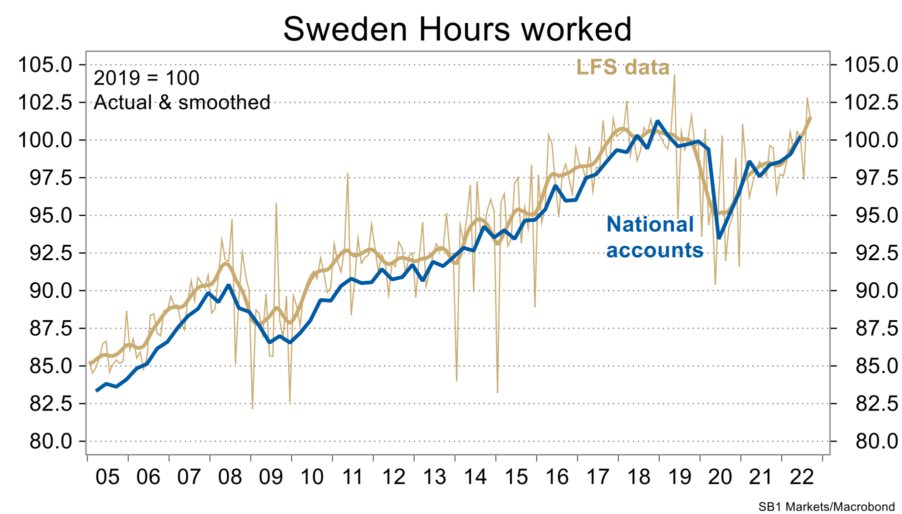

- The **'open' registered unemployment rate** at 3.0% is far below the pre-pandemic level – and very likely soon at the lowest levels since 1990, before the housing/banking crisis. In September, the no. of unemployed increased marginally, for the first time since June 2020. In addition, the inflow of **new jobless registrations** has increased slowly since the start of the year, and probably visibly in October
  - » **Unemployment including labour market** measures has fallen to 6.6% - which is finally below the level just before the pandemic hit
- The number of **new vacancies** fell marginally in Sept, while the no. of **unfilled vacancies** increased and the level is very high, yet employment decreased last month

# Employment, participation and hours worked were all down in September

However, the LFS data are far too volatile short term – but the Sept signal may indicate a slowdown



Highlights

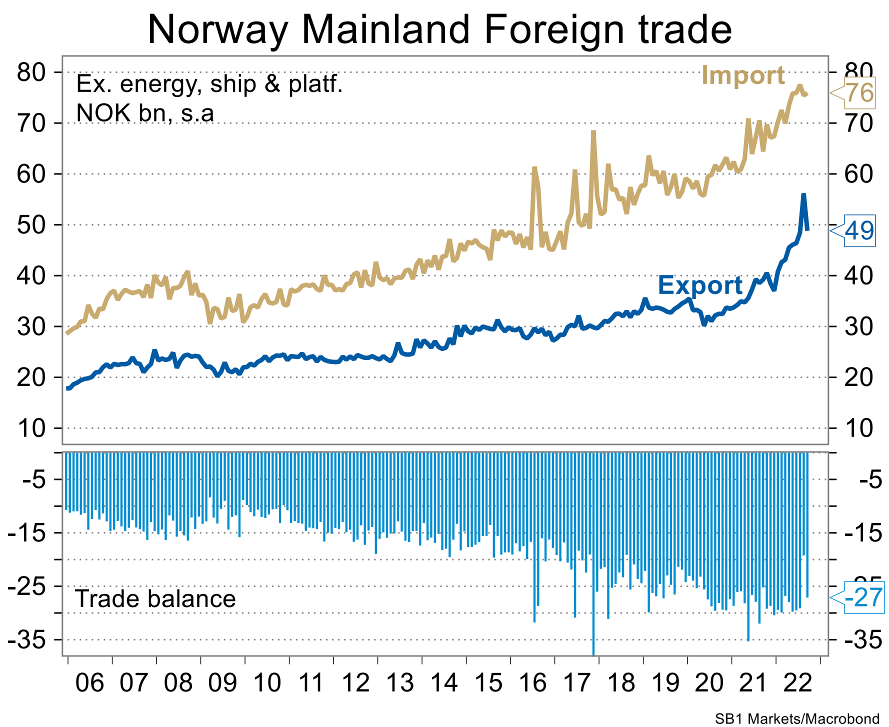
The world around us

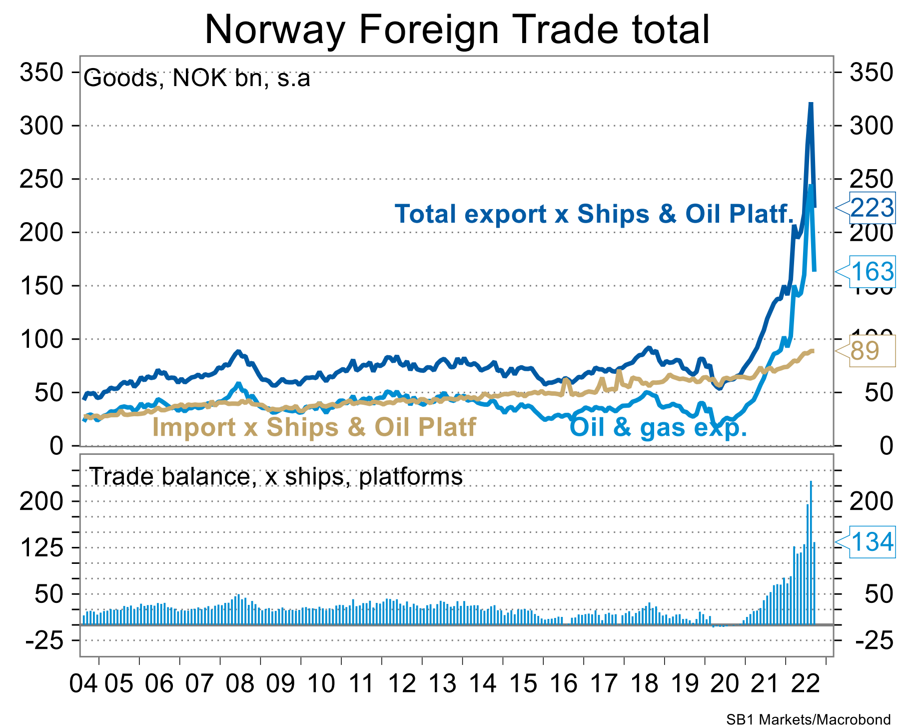
The Norwegian economy

Market charts & comments

# Trade surplus lower due to falling oil & gas prices, but still historically high

## The Mainland x energy balance has strengthened over the summer

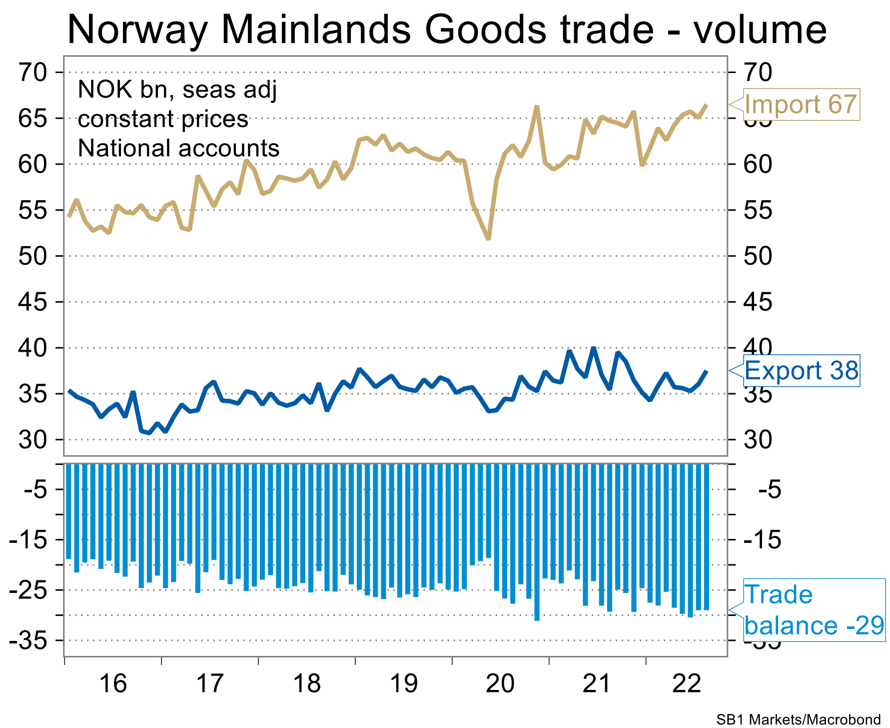



- The seasonally adjusted September **overall trade surplus** in goods at NOK 134 bn is the 3rd highest ever, down from an upward revised ATH of 233 bn in August. The surplus in Sept still equals 47% of Mainland GDP
- **Oil & natural gas exports** were down 33% in Sept, after a 25% increase in Aug, due to lower gas prices. From Aug, production of LNG from Melkøya is again running at full capacity, adding to the already high volume produced (but LNG will still amount to less than 5% of total gas exports in '23). So far in October, gas prices have come down further, but higher-than-average future prices towards early 2023 signal extreme trade surpluses the coming months too
- **The Mainland (and non-energy) trade deficit in goods** decreased by 8 bn to NOK 27 bn, equalling 10% of Mainland GDP (however, deliveries from the Mainland to the oil sector (cap. ex and op.ex) are not counted as exports from the Mainland but imported intermediate goods for producing 'exports' to the oil sector are counted as imports – and the 'real' Mainland trade balance is far, far stronger)
- **Non-energy exports** fell by some 7 bn, to NOK 49 bn. Mainland exports have been very strong during and after the pandemic, and the underlying growth rate over the past year is some 30%. Exports are up 48% since the end of 2020, almost entirely due to higher prices. Fish, metals & chemicals are reporting strong growth. Measured in volume terms, non-energy exports are close to flat. (Check next page, volume data through August)
- **Imports** also rose by 1 bn to 76 bn in September, and at an 13% growth pace, in value terms, that is

# In volume terms, Mainland trade data are not that impressive

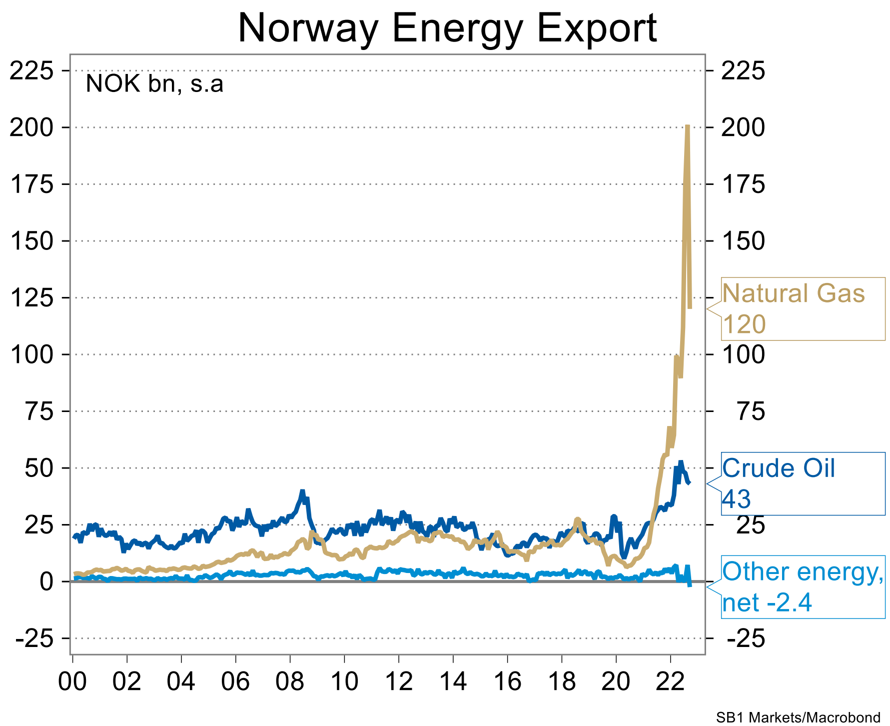
Both export and imports have more or less flattened

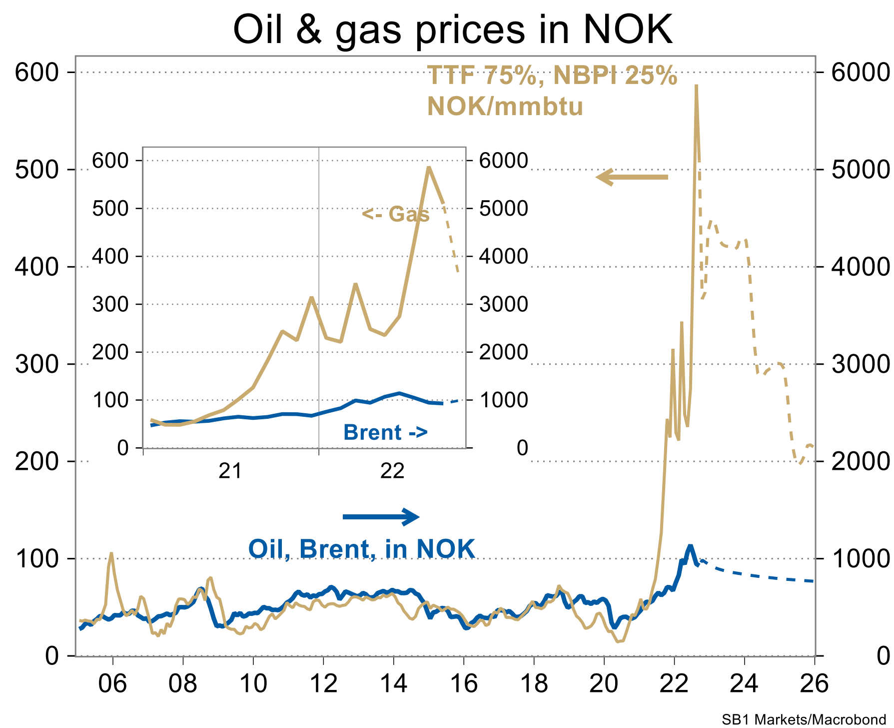



- (Data through august)

# Gas exports down 36% from August due to falling prices, lower volumes

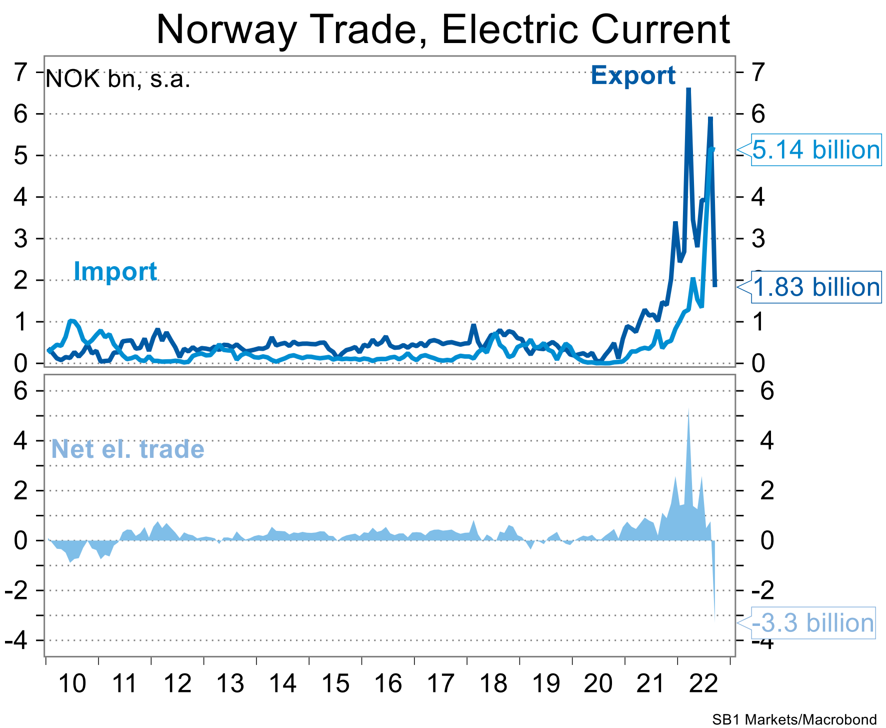
## Gas prices will probably decline further in October




- **Gas prices** (75% TTF Netherland gas prices, 25% NBP UK prices) climbed 10x above a normal level to August, from early 2021, of course because Russian exports to Europe have been almost completely cut off. In Sept, prices fell 13%. Actual gas exports fell by 36% to NOK 113, down from ATH at NOK 176 bn in Aug. Volume wise, gas exports are down 19%
- **Crude oil exports** fell by 1 bn to NOK 43 bn (-1.8%)(seas.adj.), due to lower exported volumes
- In sum, **petro exports** have been sky high, and although the NOK 163 bn is a ways down from ATH, it is still far above average. Some of it is due to higher volumes, as more capacity was utilised to supply Europe with gas post the Russian cut off. However, the majority of the increase is due to higher gas prices. Most of the new earned fortunes will end up in the Government's coffers and thereafter transferred directly to the Oil fund – before being returned to the budget via the long term 3% (of the Fund's capital) spending rule
- **Other energy exports** were also down in September

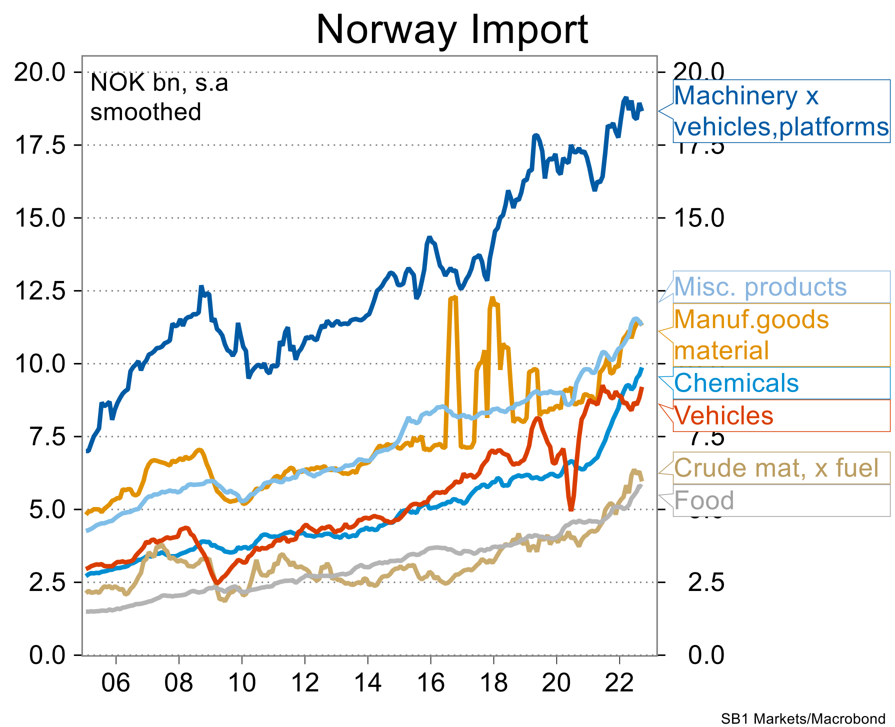
# In September, the largest net import of electricity, ever

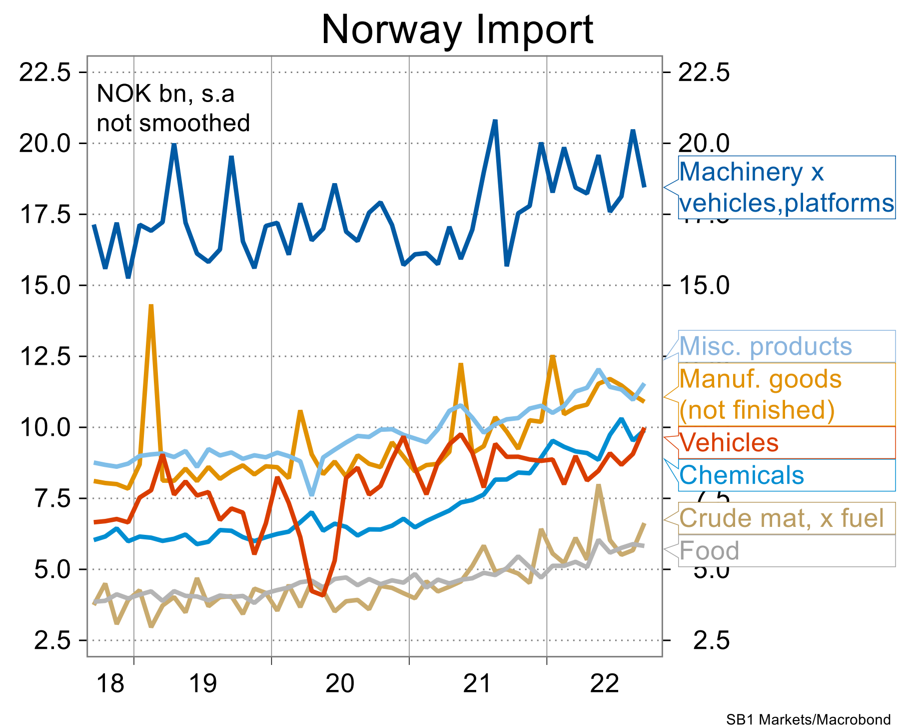



- In Sept, el. exports amounted to NOK 1.8 bn (seas. adj.) down from NOK 5.9 bn in Aug
- Imports equalled 5.1 bn, the highest ever

# Most imports are trending rapidly upwards – as domestic demand is strong

## Vehicle imports have also turned back up

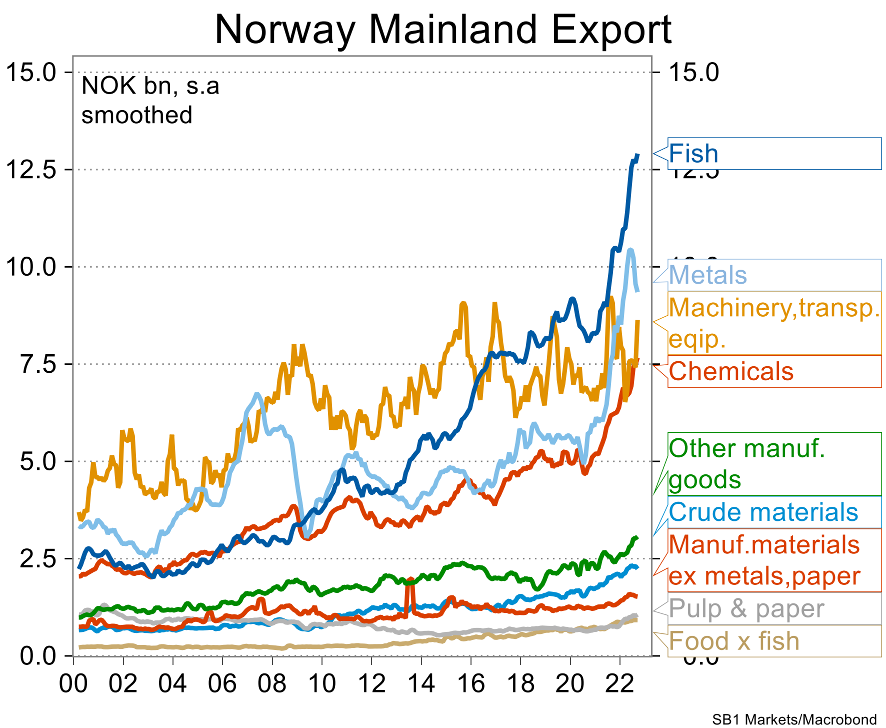


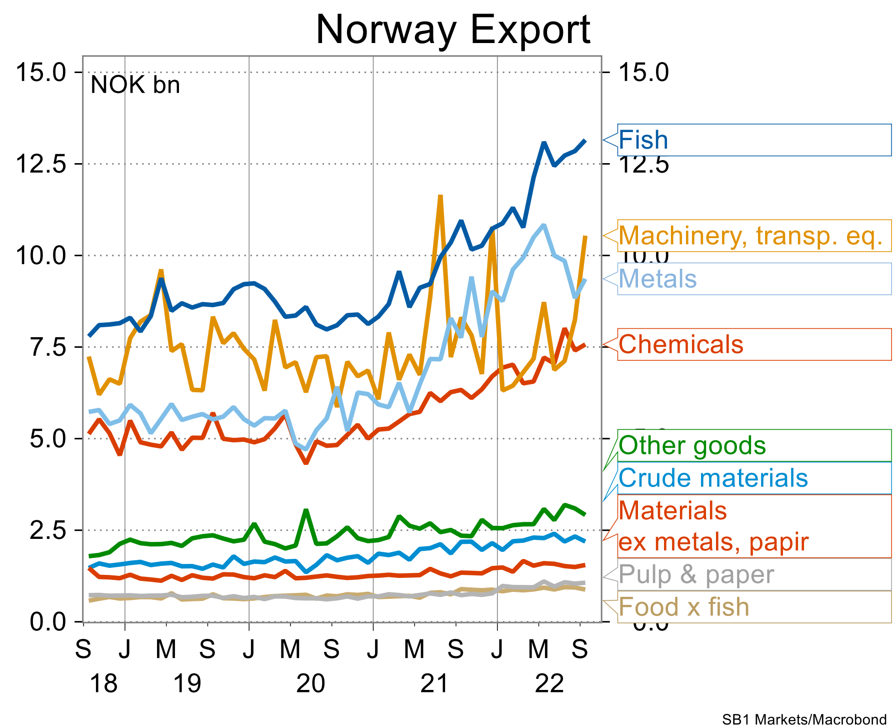




- The spikes in imports of manufactured goods are due to unfinished platforms or ships

# Mainland exports: Fish exports are surging, and chemicals exports are strong too

Metals exports were up 5.9% in Sept and are up 21% y/y. Machinery exports not that impressive



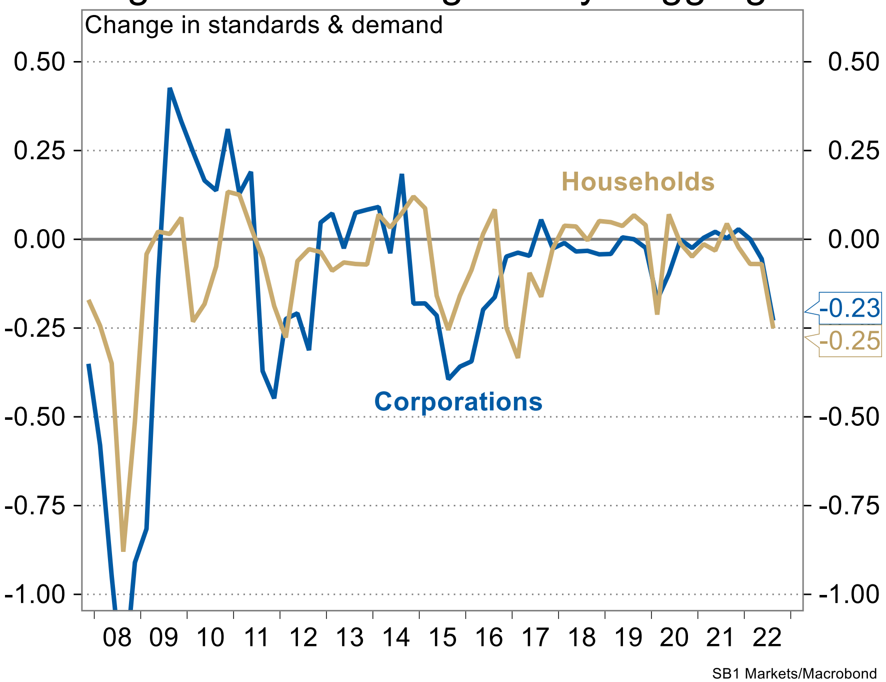




- Raw material prices are now turning south, and exports for metals are down from the peak

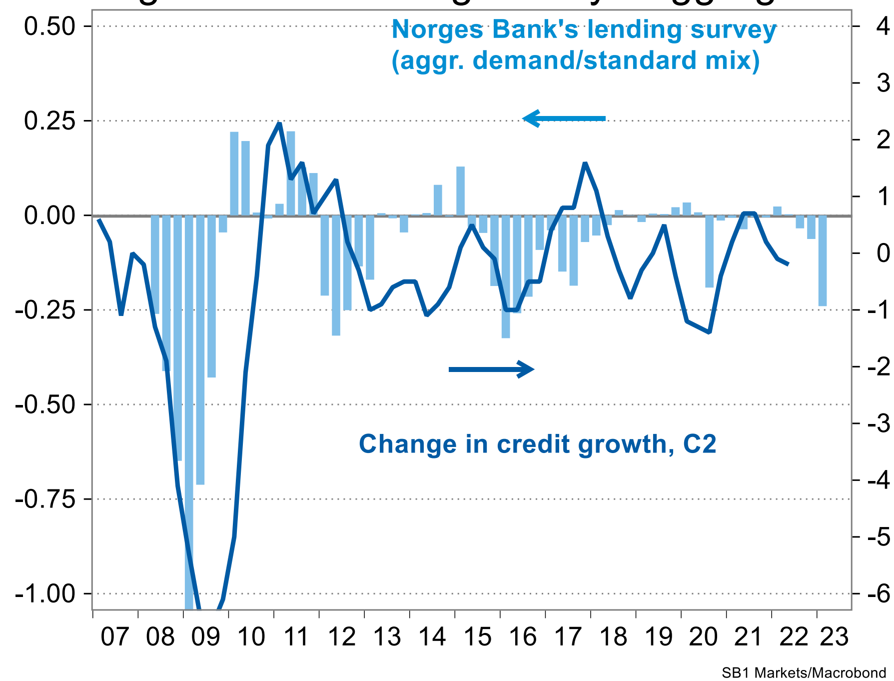
# The credit cycle has turned – both from the demand and the supply side

## Significantly lower demand from households, tighter standards/higher spreads vs businesses

Norges Bank Lending survey - aggregate




Norges Bank Lending survey - aggregate

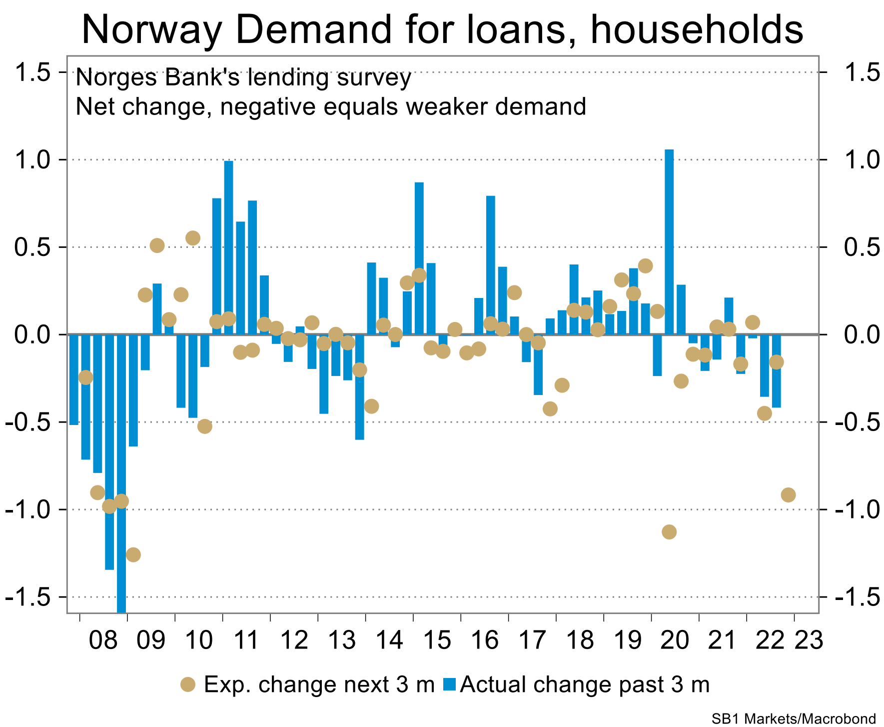


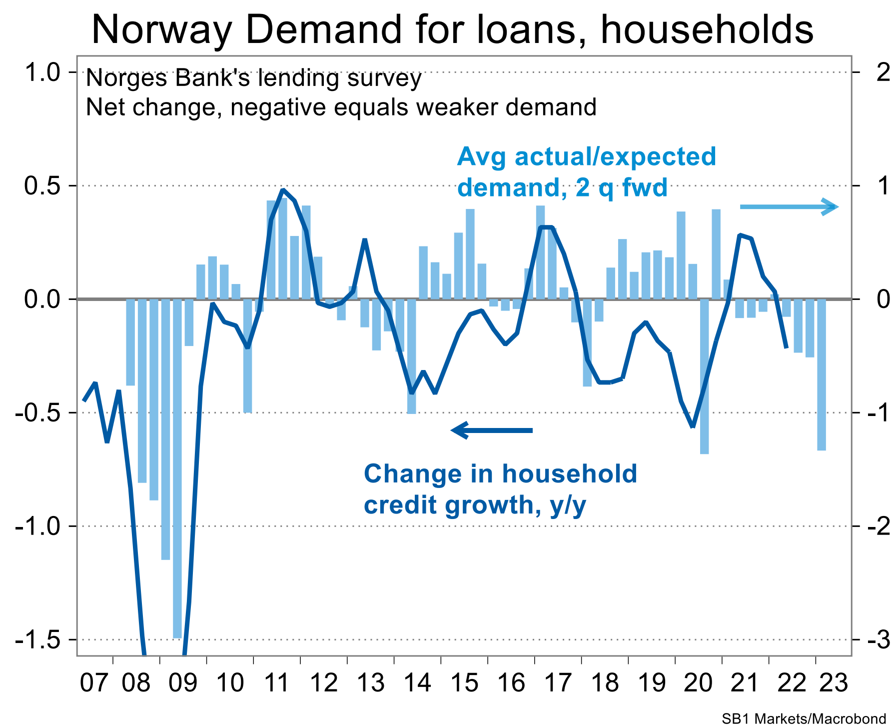

- Finally, some news from Norges Bank's lending survey – it has been rather boring the previous 2½ years

Data in this section are seasonally adjusted

# Demand from households weaker in Q3, and is expected sharply down in Q4

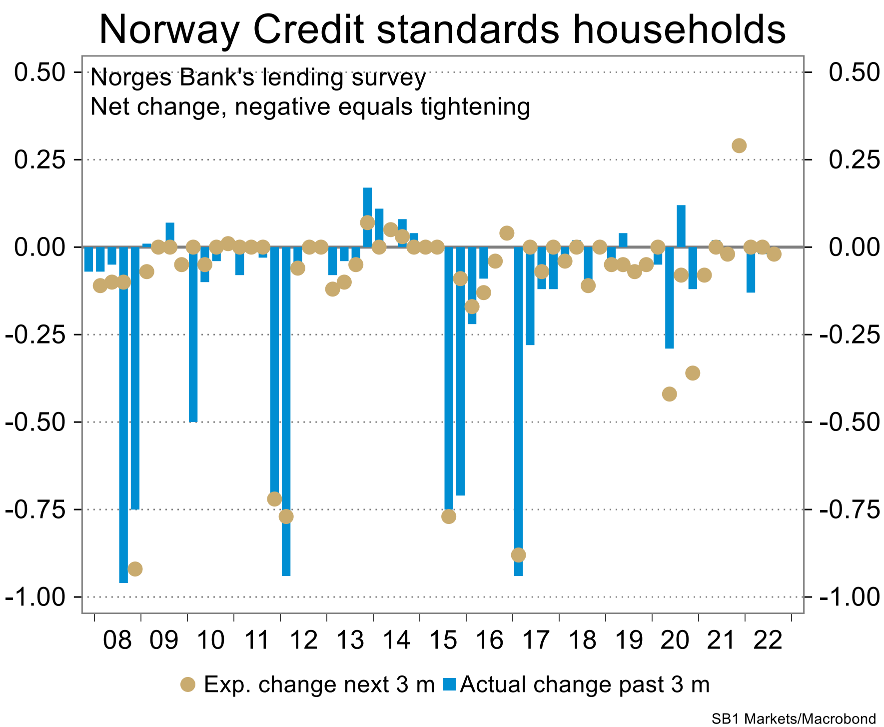
## The expected decline in demand in Q4 is among the larger (expected) contractions

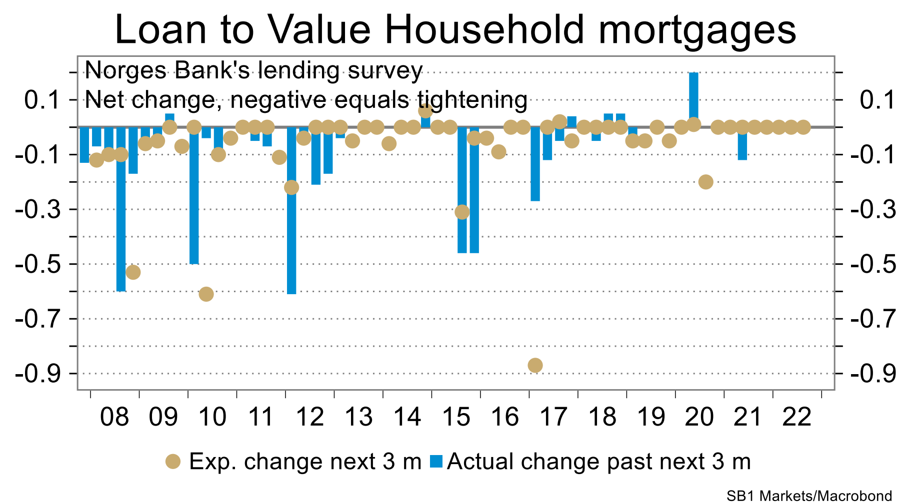


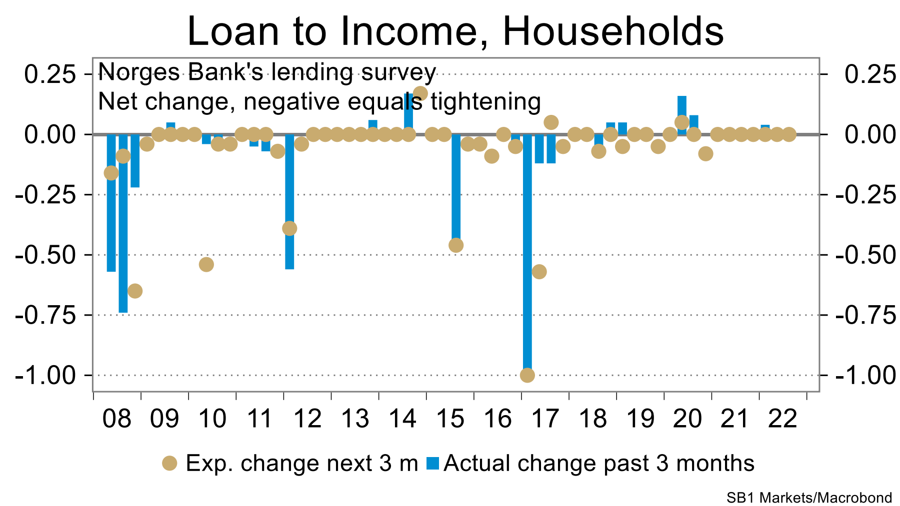




- There is not any tight correlation between banks' expectations for household demand for credit or their assessment of actual growth and the realised growth in households credit, as measured by the C2 credit indicator)
  - » Still, the lending survey probably tells the sentiment among bankers pretty well

# No tightening vs households



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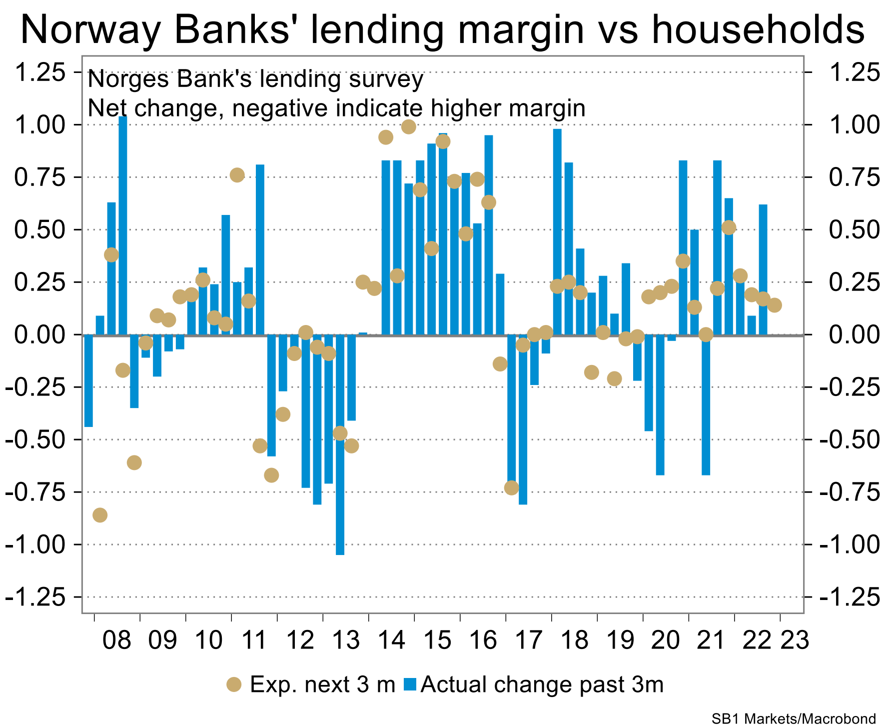
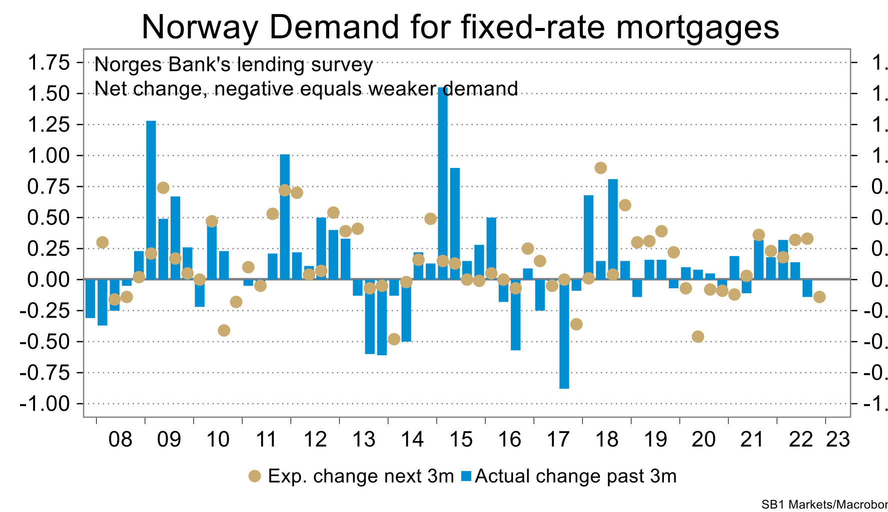
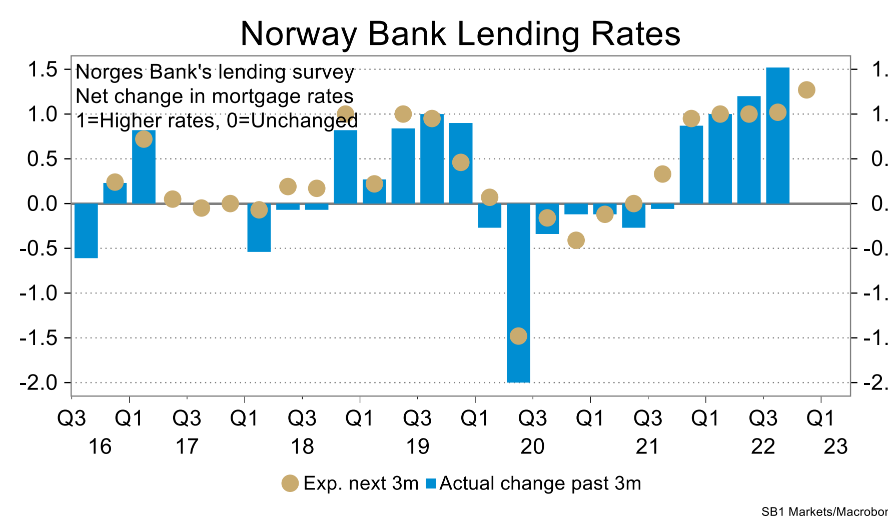
# Banks increased their lending margins vs households in Q3, more to come in Q4

## Actual margins vs NIBOR have fallen, while spreads vs. deposits have increased, and in sum up



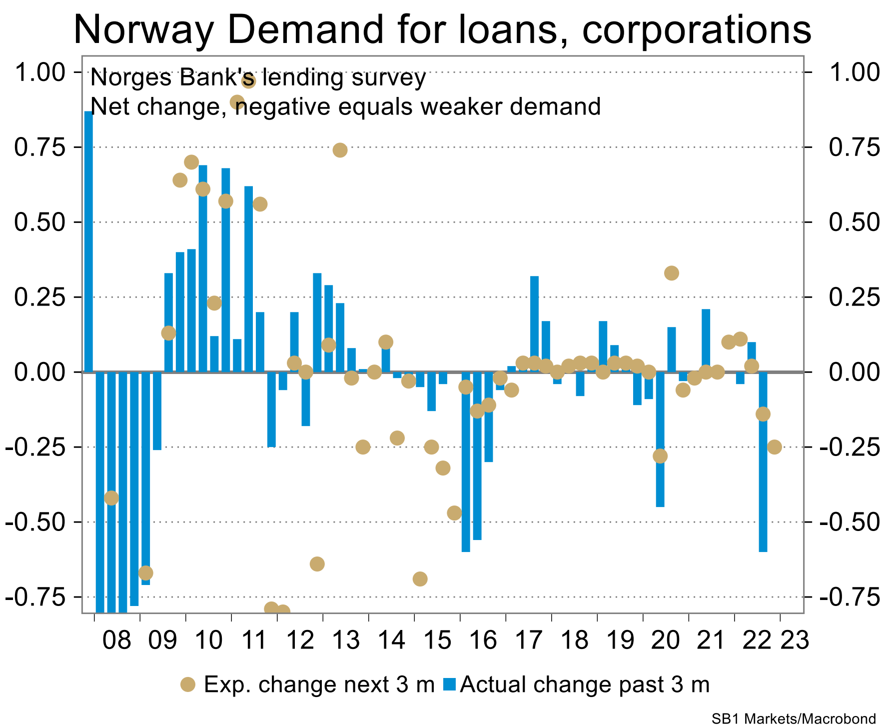



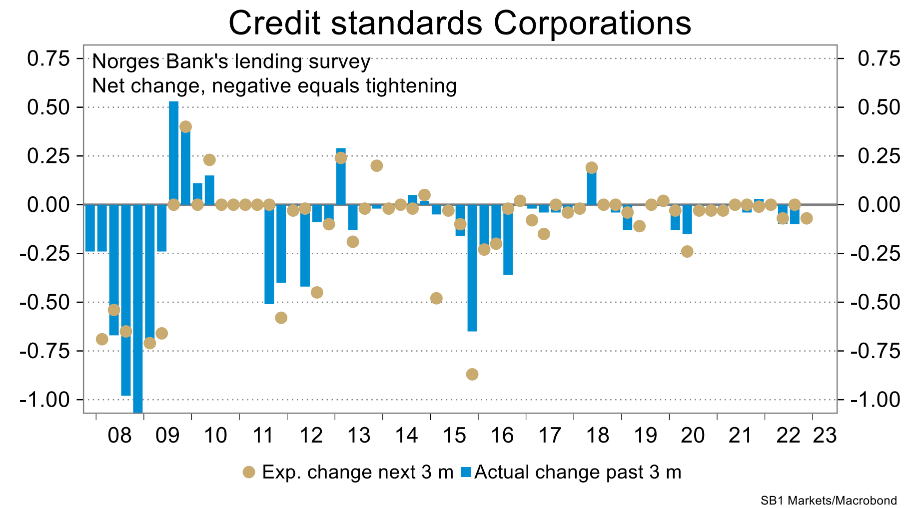



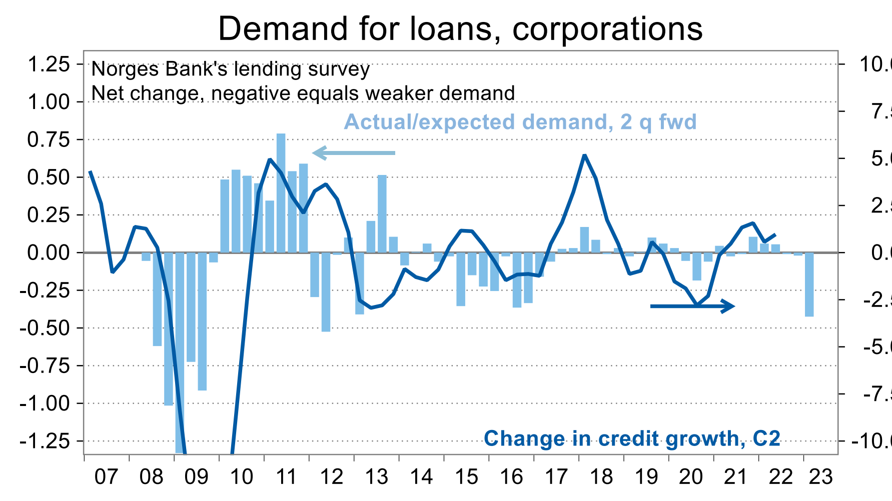

- Lending rates are of course on the way up – and are expected further up
- Demand for fixed rate loans fell in Q3, and is expected decline further in Q4. The fixed rate has become too hight for comfort – or are households just smarter than the 'street' - and assume that the term premium is too high?

# Demand for loans from businesses sharply down in Q3, more to come in Q4

## Demand fell far more than expected in Q3, no signs yet in credit aggregates




- Actual credit growth has accelerated recent quarters but given this survey, a slowdown is likely
- However, credit standards have not yet been tightened by much

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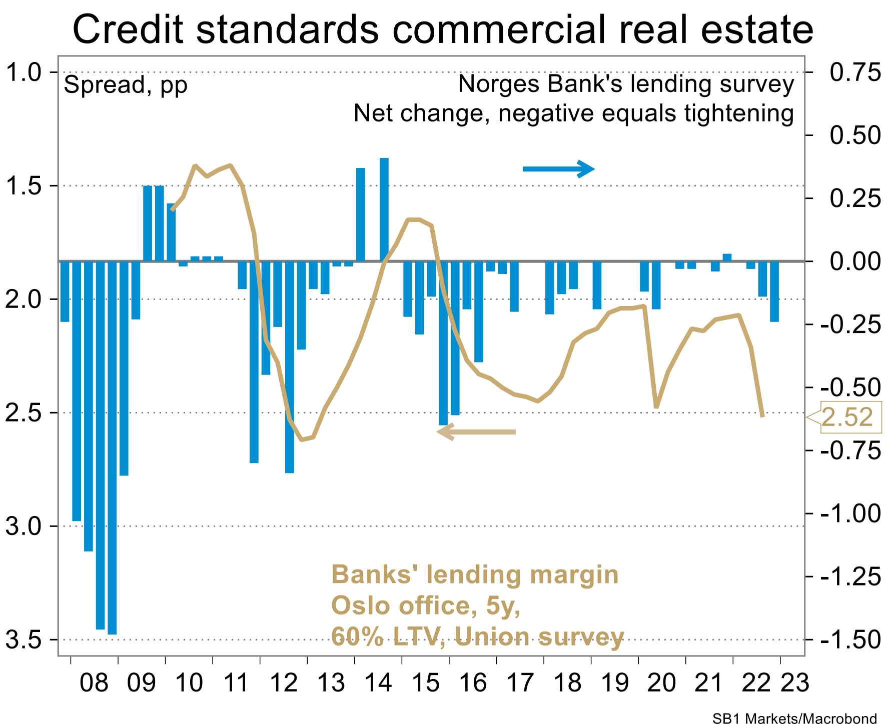
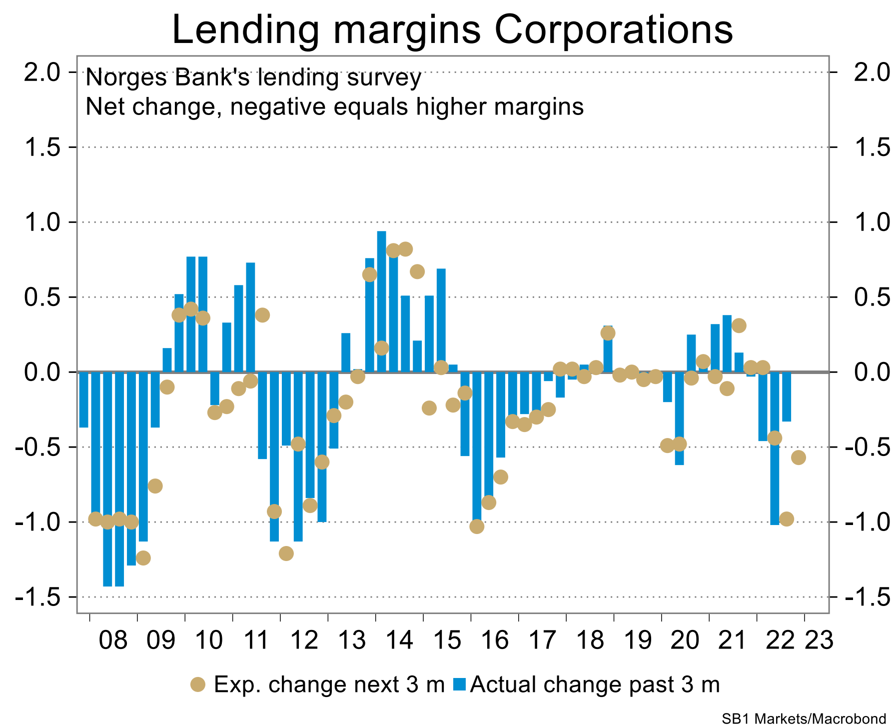
# Tighter standards, higher margins vs. real estate. And higher margins vs. all corps.

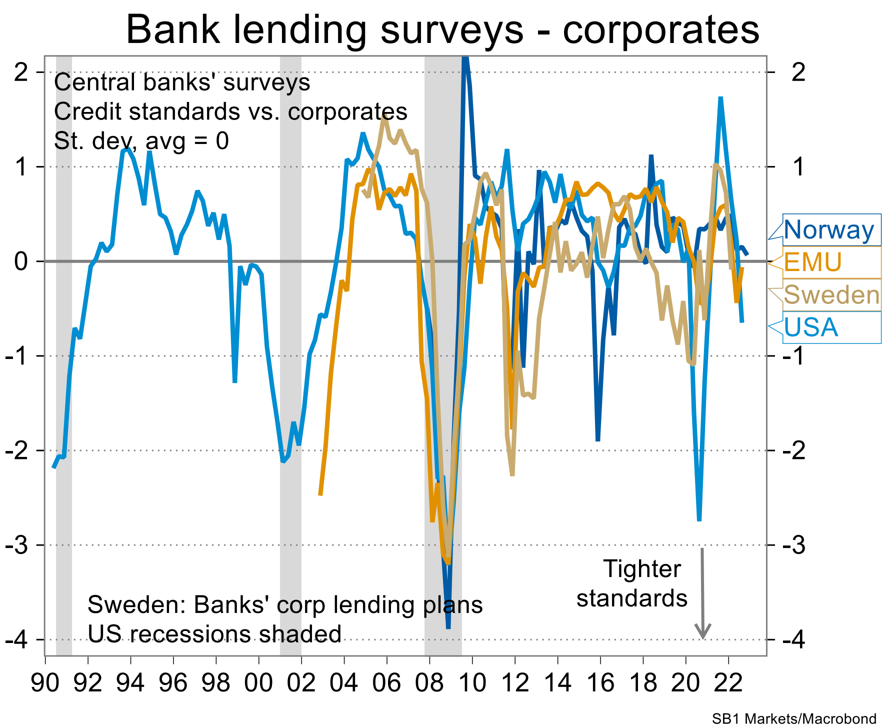
Banks increased their lending margin vs. businesses in Q3 but less than we expected. More to come in Q4

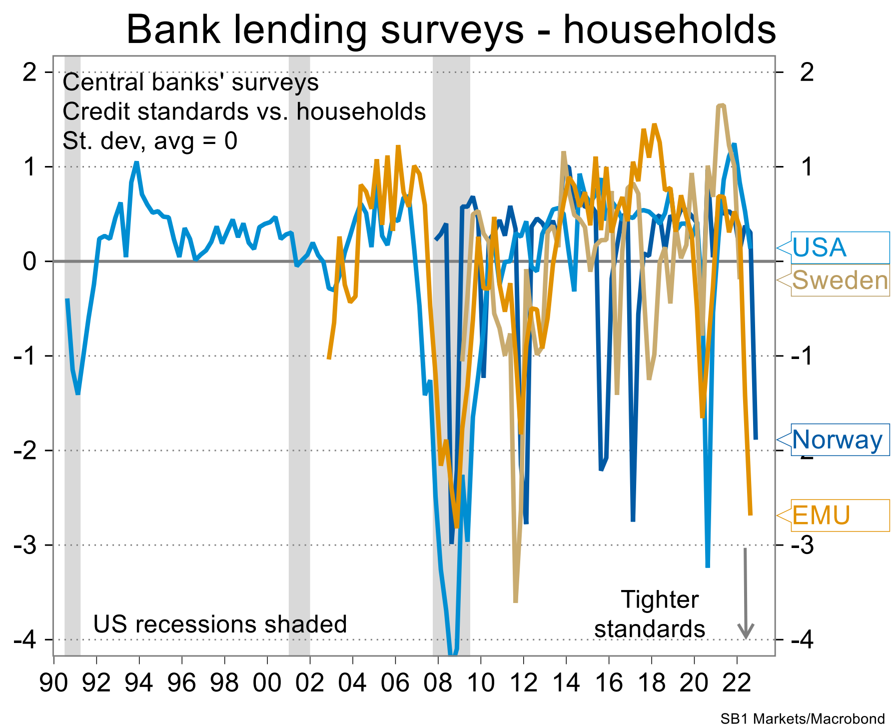


# Global view: A European tightening vs households, Norwegian banks incl.

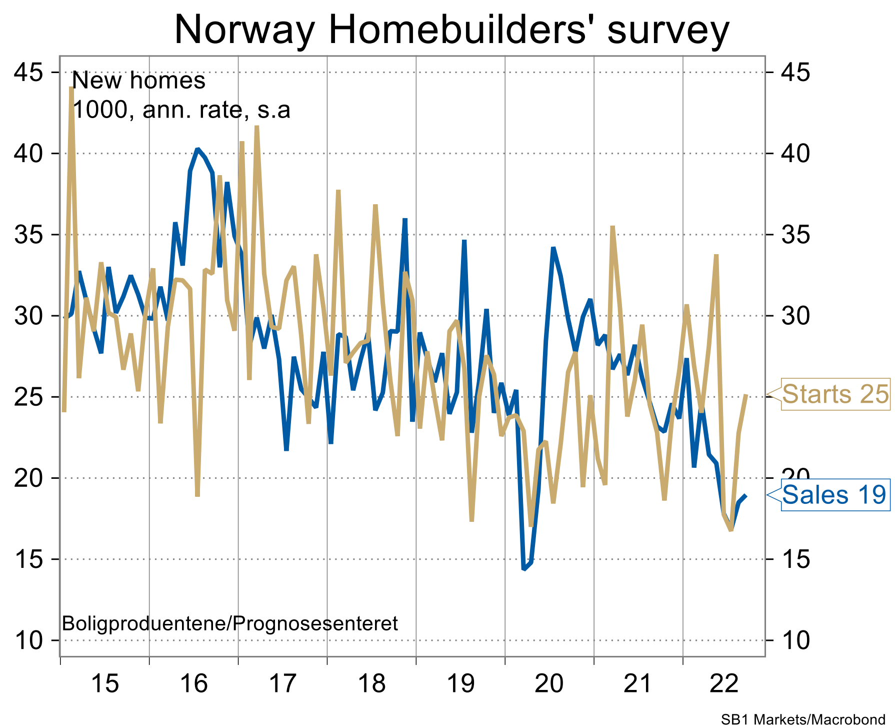
And US banks has started to tighten vs. the corporate sector. Others will probably follow

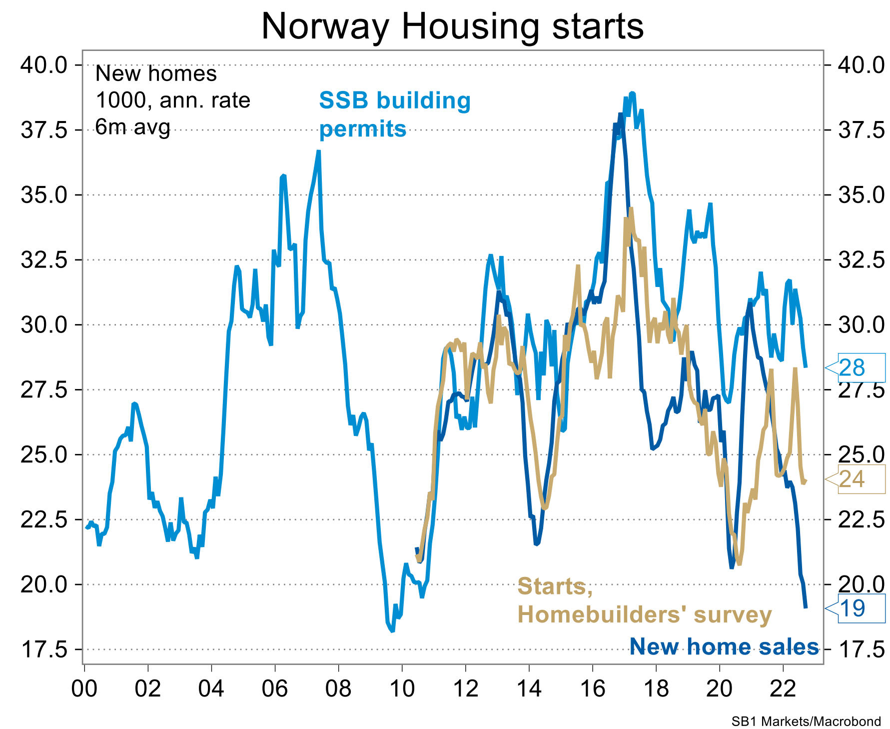


# New home sales marginally up in September too, but are trending sharply down

... according to the home builders. SSB reports declining building permits

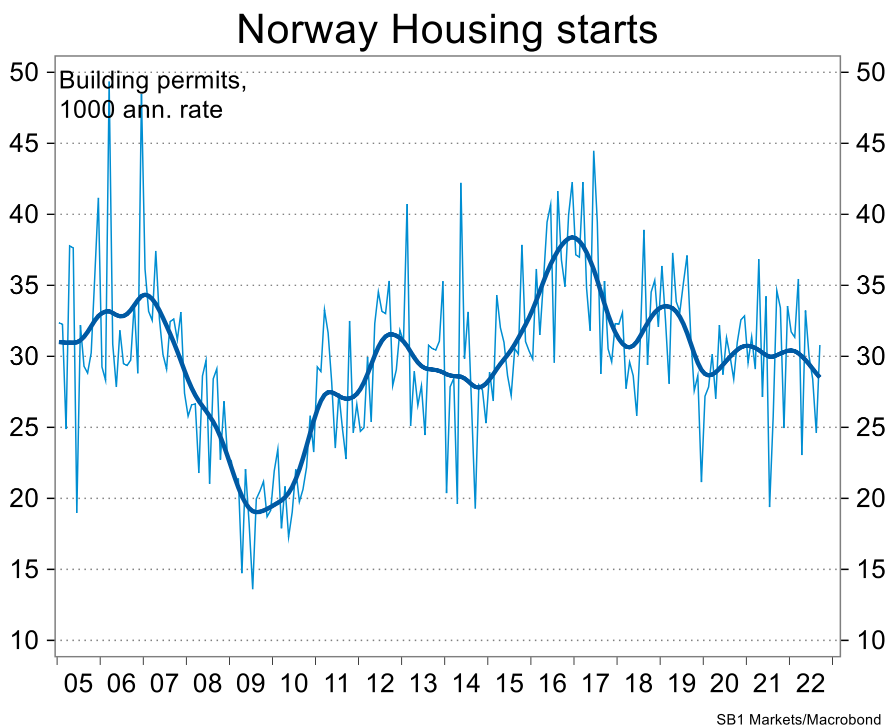



- Boligprodusentene (Home builders) reported a small increase in new home sales in September, but the level is rather low at 19' and the trend has been down since early 2021. The average over the past 6 months is 19', the lowest on record from the Home builders
- Starts increased by 2' to 25' in Sept. The average over the past 6 months is at 24', while SSBs building permits gained 5' to 30' in Sept, though with a 6 m average at 28 – which is trending down
- The rather steady decline in new home sales signals a downturn in new starts/permits the coming months. The sharp lift in construction costs and now much higher mortgage rates are reasonable explanations

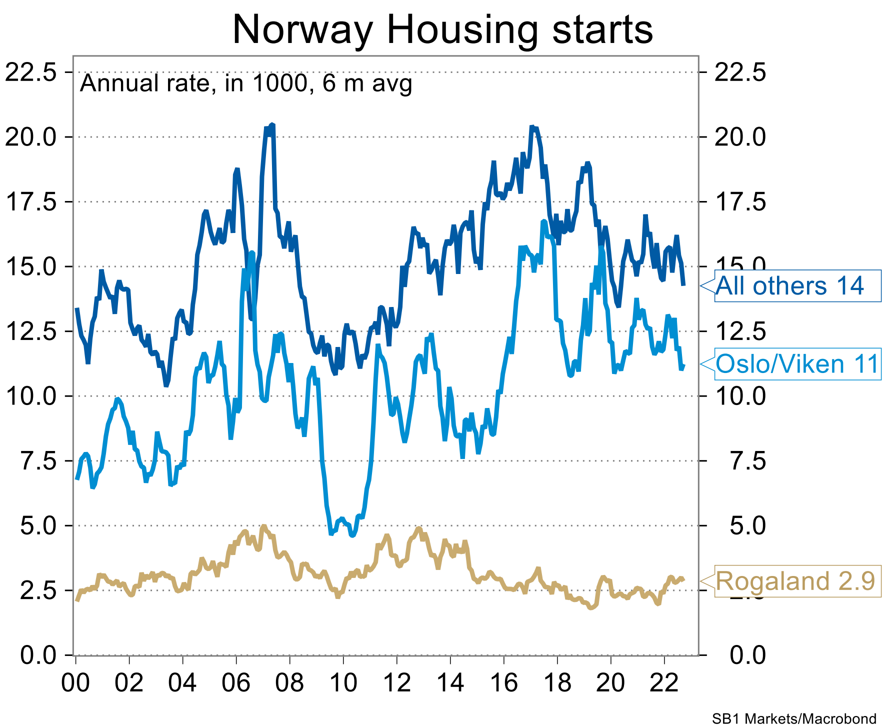
# SSB: Housing permits up in September but the trend is slightly down

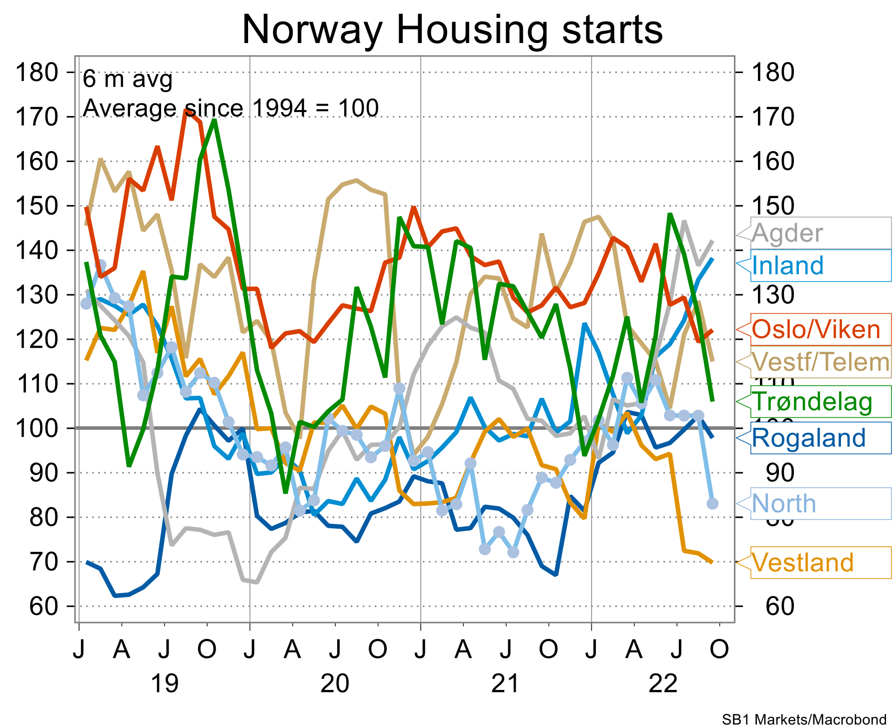
Permits up to 30’ from 25’ – but the trend has turned south, to below 30’




- The average no. of permits the past 6 months is at 28’ (annualised), while Home builders (Boligprodusentene) report a 24’ pace in actual starts
- Student homes and assisted-living/nursing homes are not included in data from the Home builders. Some larger players do not report their activity to the Home builders’ association either

# Housing starts is trending down in most regions

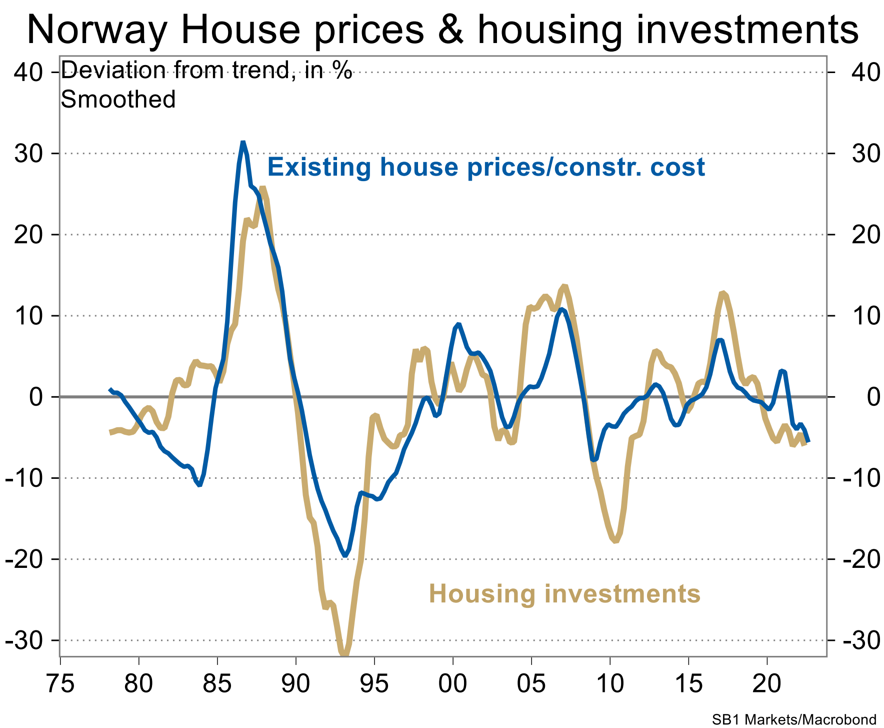


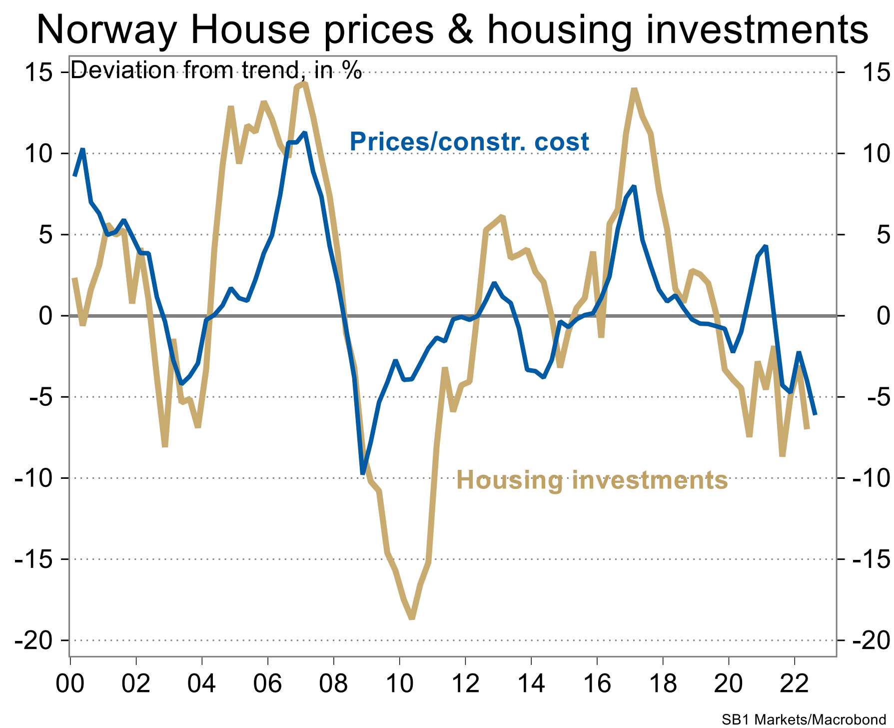




- Vestland, Northern Norway, and Rogaland are reporting less starts than past 25 y avg. (measured over the past 6 m average)

# Housing starts/investments normally in tandem with house prices, no surprise

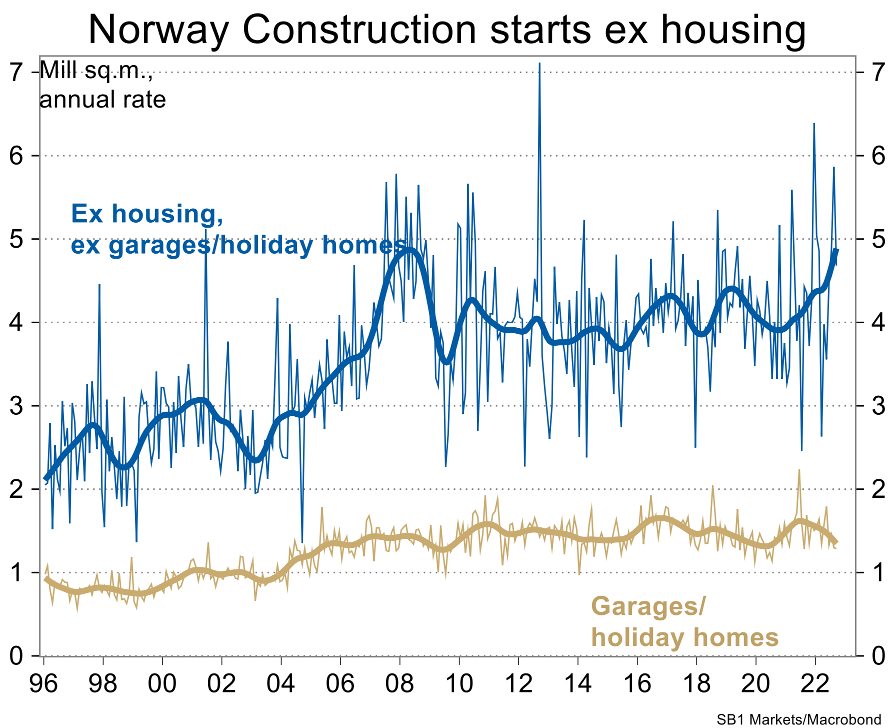
…and now prices are falling

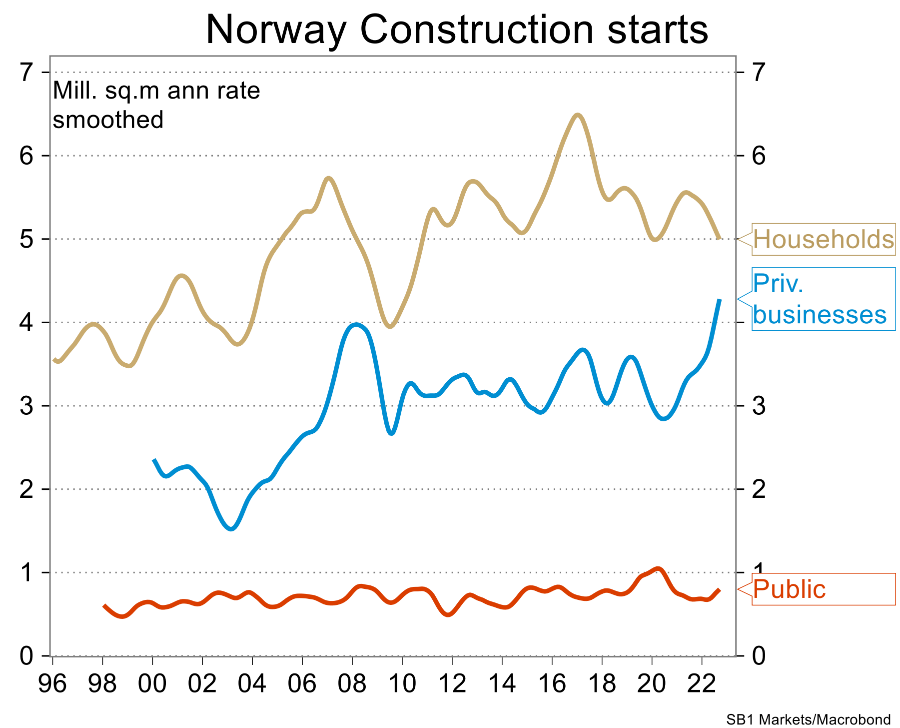


# Non-residential construction still going strong

## Both the private and the public sector are starting up more projects, the private sector level is high

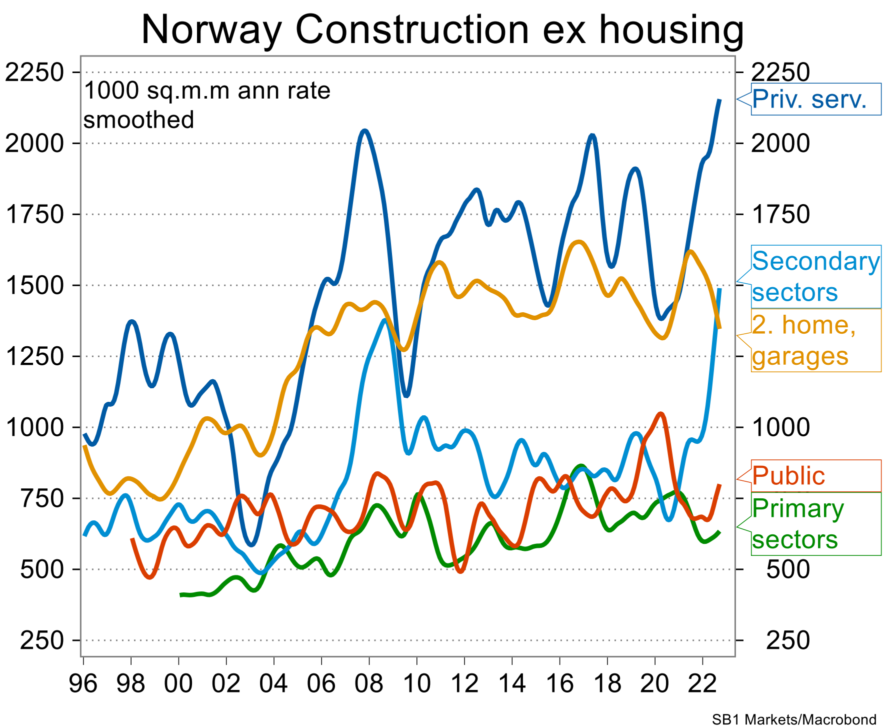


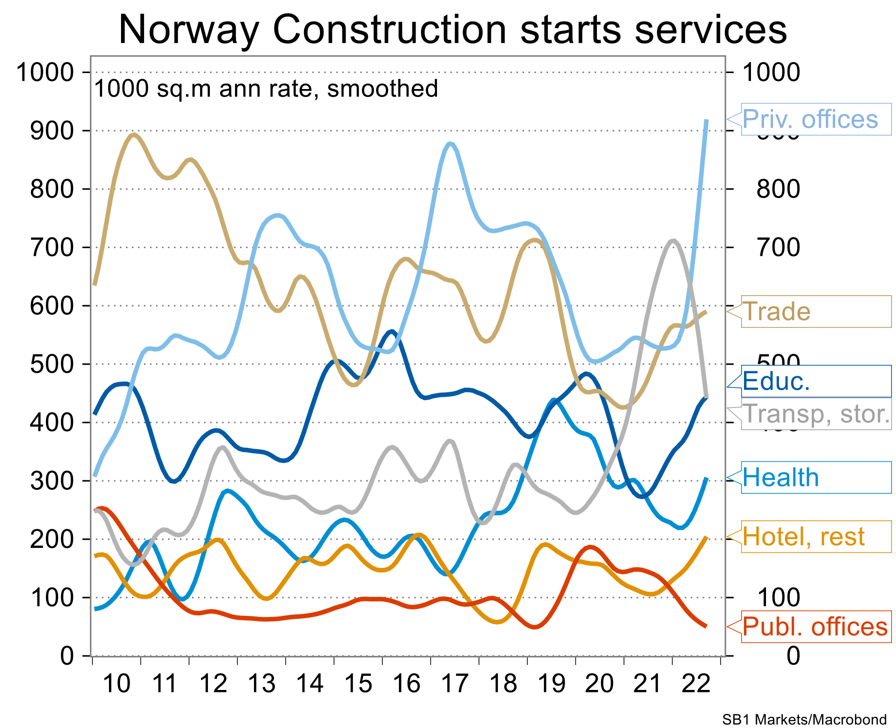




- **Construction starts ex housing & garages/cabins** are very volatile, short term, influenced by single projects
  - » **Private non-residential starts** climbed and are trending upwards, and the level is on par with the highest ever
  - » **Public sector construction starts** have recovered recently, following a decline in 2021
  - » **Construction starts of cabins/garages** climbed 30% – 40% from early 2020 until late 2021– but are now trending slowly down

# Both private services and manufacturers are building 'like crazy'

Both well above their pre-financial crisis peak levels




- **Secondary sectors** (read: manufacturing) sharply up, to the best level ever, at least with data back to 1996
- Starts in **private services** are very strong led by private offices and trade but also construction starts in education. Starts for transport & storage, although still at a high level, has fallen since Jan-20
- Starts of **public offices** have fallen sharply

Public on the chart to the left, and at the previous page: Construction starts in public administration, education and health

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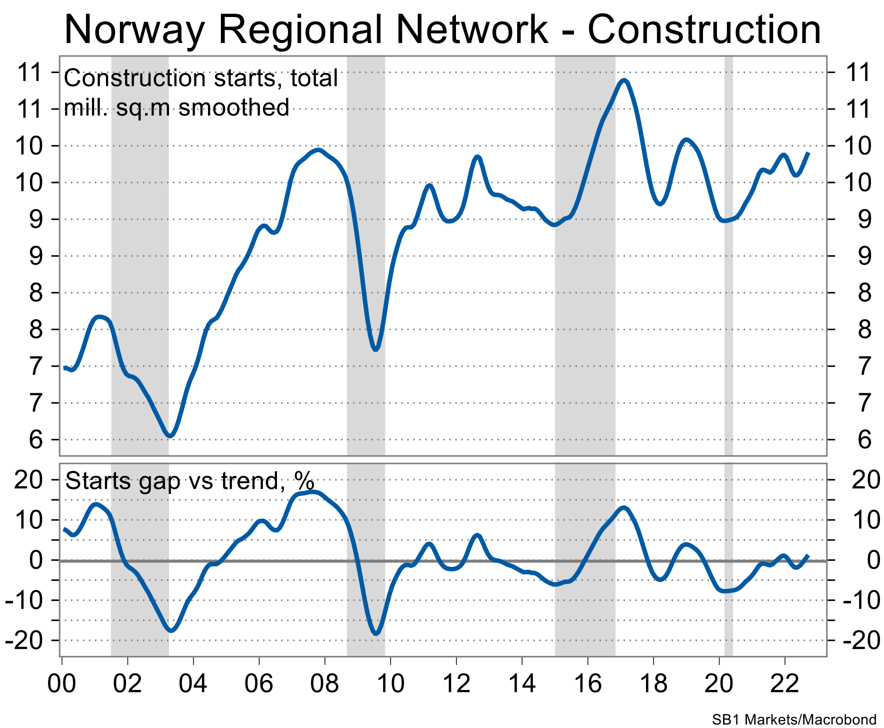
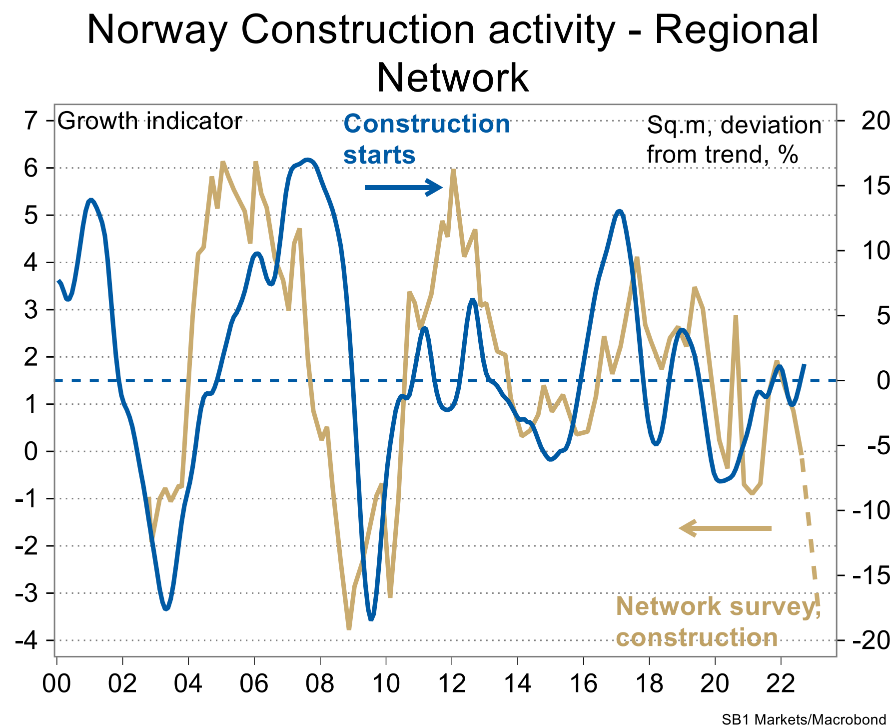
# The Q3 NoBa Regional Network signals a hard landing in the construction sector

… while total construction starts just have flattened, so far.

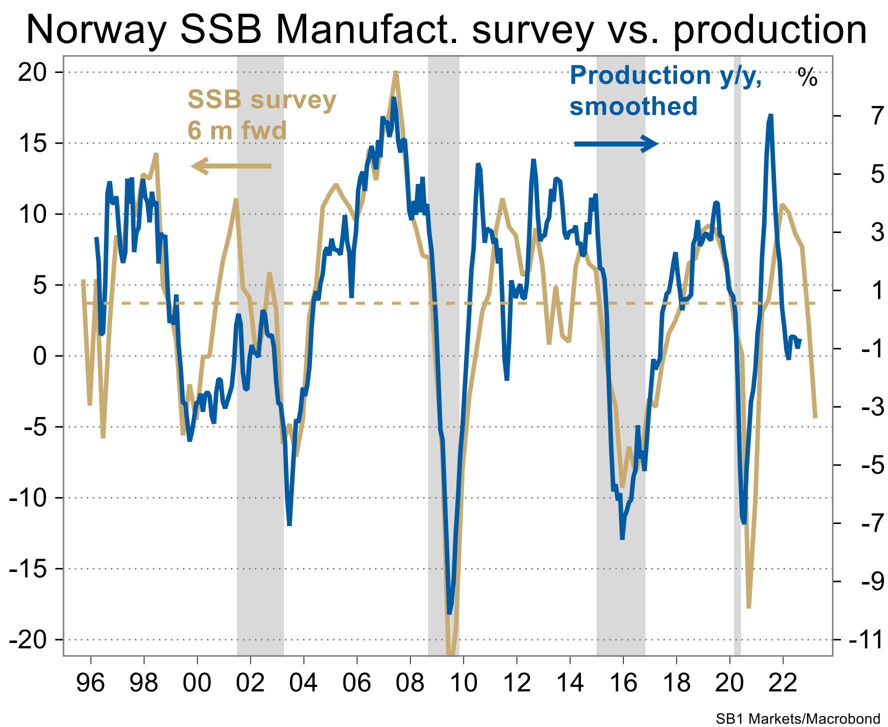


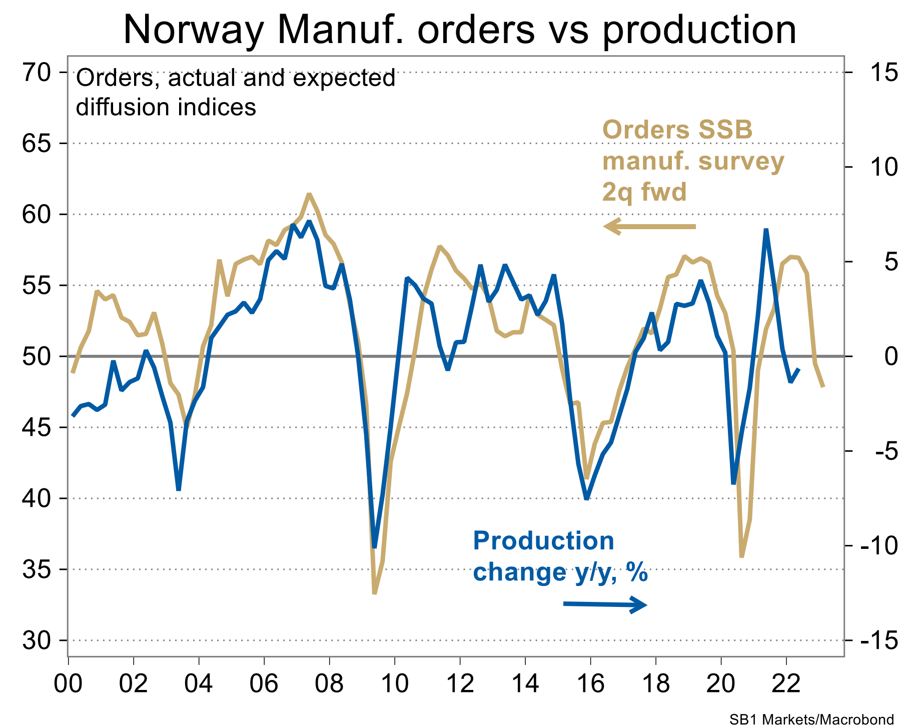




- Companies in the sector now report the sharpest contraction since the Financial Crisis. Back then, starts fell almost 30%
- The ‘long term’ trend in total starts is down since early 2017

# SSB's manufacturing survey confirms the slowdown, just oil related still OK

## A rapid decline in manufacturing production is signalled, and zero growth in Mainland GDP

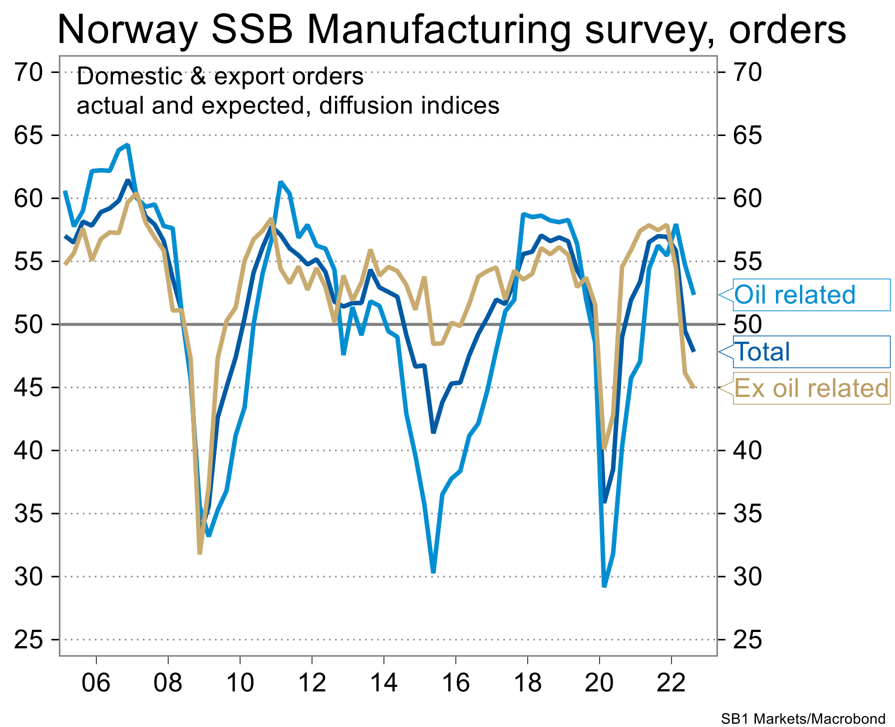


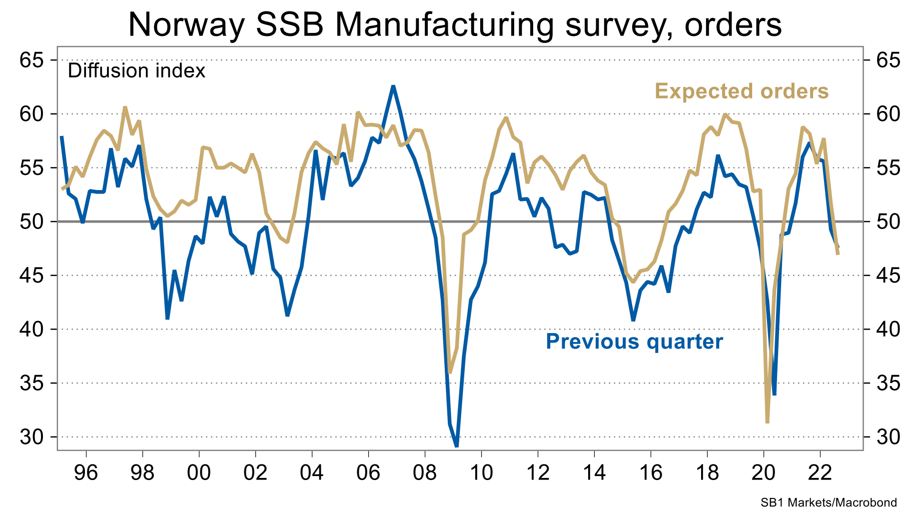



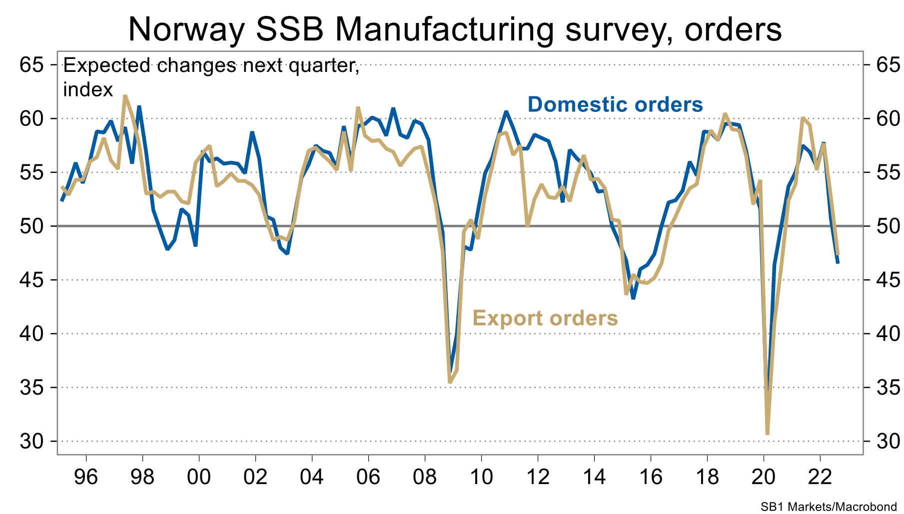

- The **composite index ('confidence')** in SSB's manufacturing survey fell to -4.4 from 2.3 in Q3, which is close to the levels we see during recessions. We expected a decline to 0 (from prev reported 3.2, no consensus). Oil related sectors report a still strong outlook (like order expectations), other sectors fell to well below average
  - » The index signals a 3% pace of contraction in the manufacturing sector, and zero growth in the Mainland. Due to still high oil and gas prices, an OSE 12 m fwd EPS growth at 13% is signalled (if not for petroleum prices, a sharp decline in EPS, of course). Analysts expect 84% growth, from the current elevated level
- **Supply constraints** eased marginally (not for labour), but are still the most serious since 2008. **Demand/competition** is far less of a problem than normal
- Fewer companies reported they plan to lift prices – but the share is still was off anything seen before (barring the recent quarters)

# Oil related manufacturers kept the pace up, other sectors not

## Both domestic & export orders are slowing sharply



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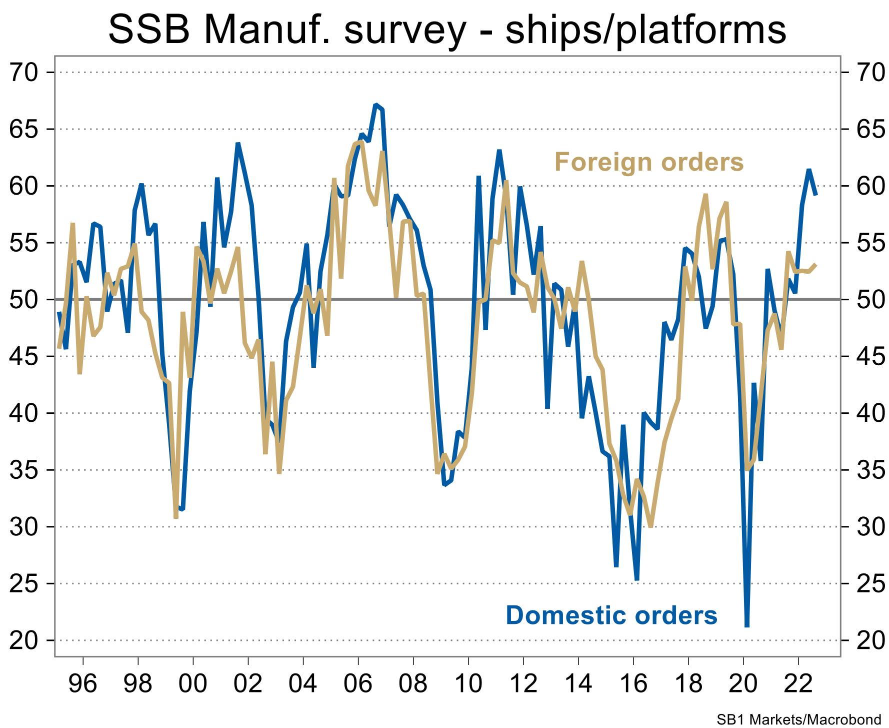
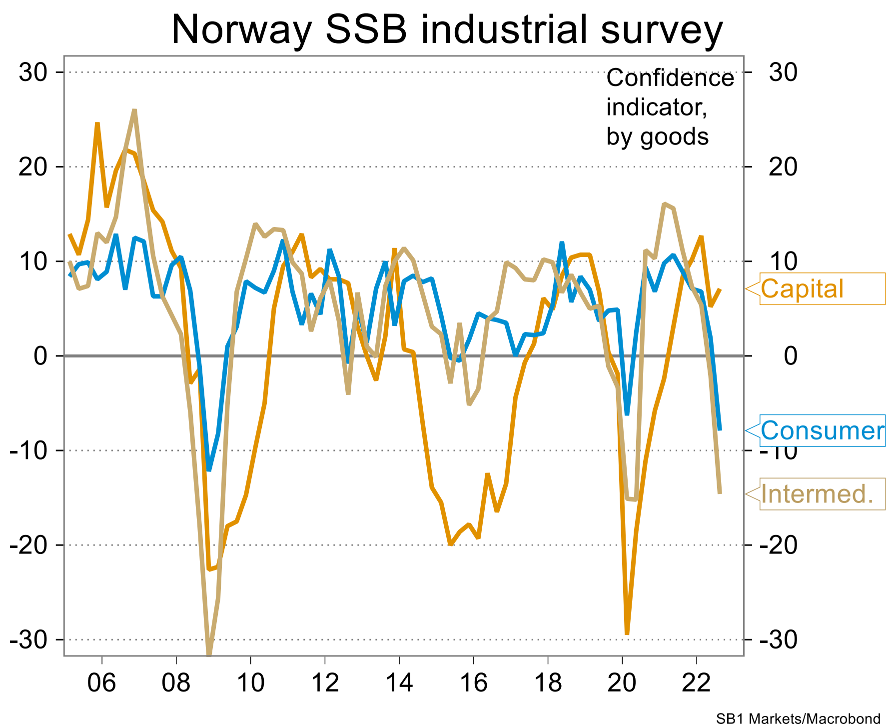
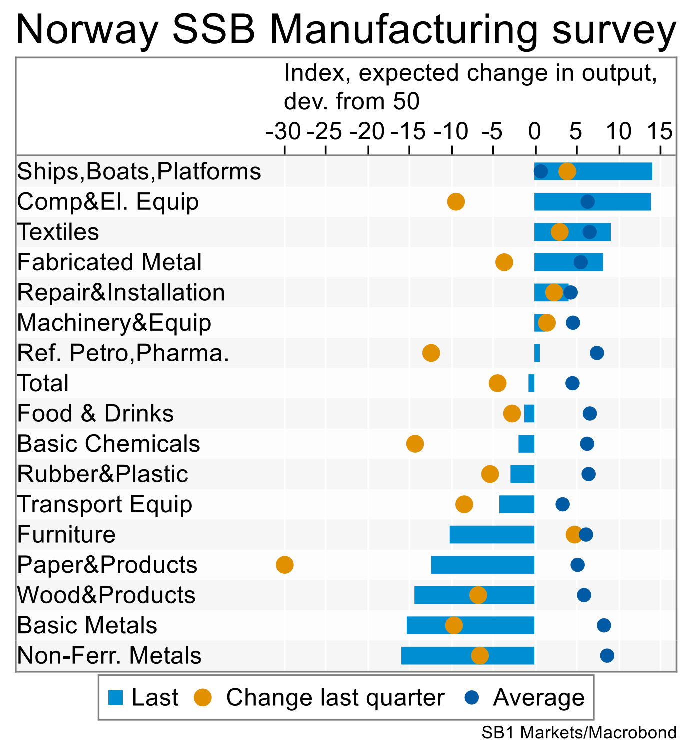
# Ships/platforms: Domestic orders on the way down, but level is not low



# Most sectors report slower growth, and expect growth well below trend

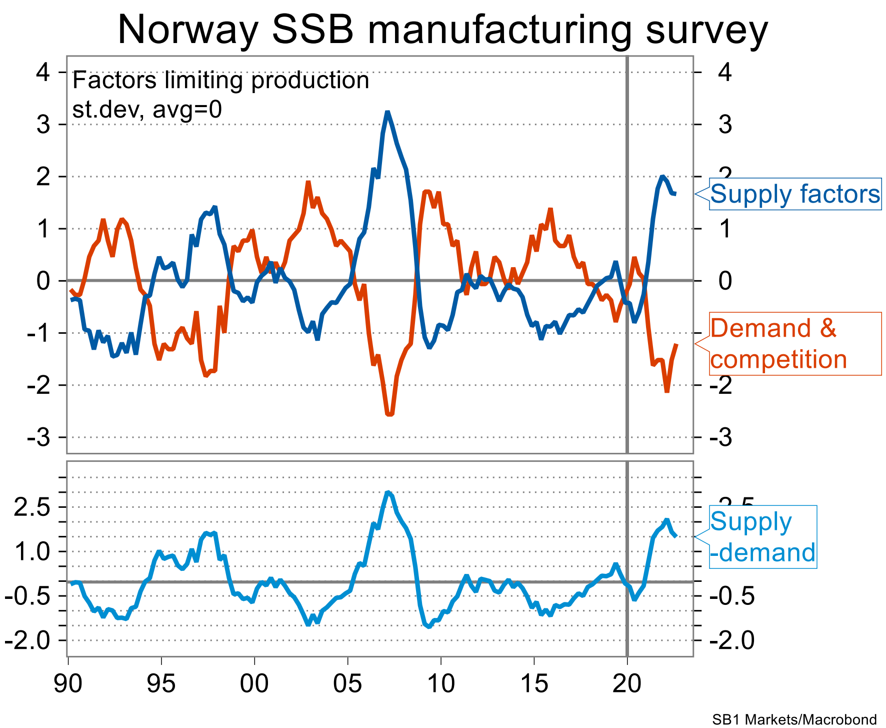
Oil related sectors are still on the way up, others not. Metals, wood products, paper at the bottom

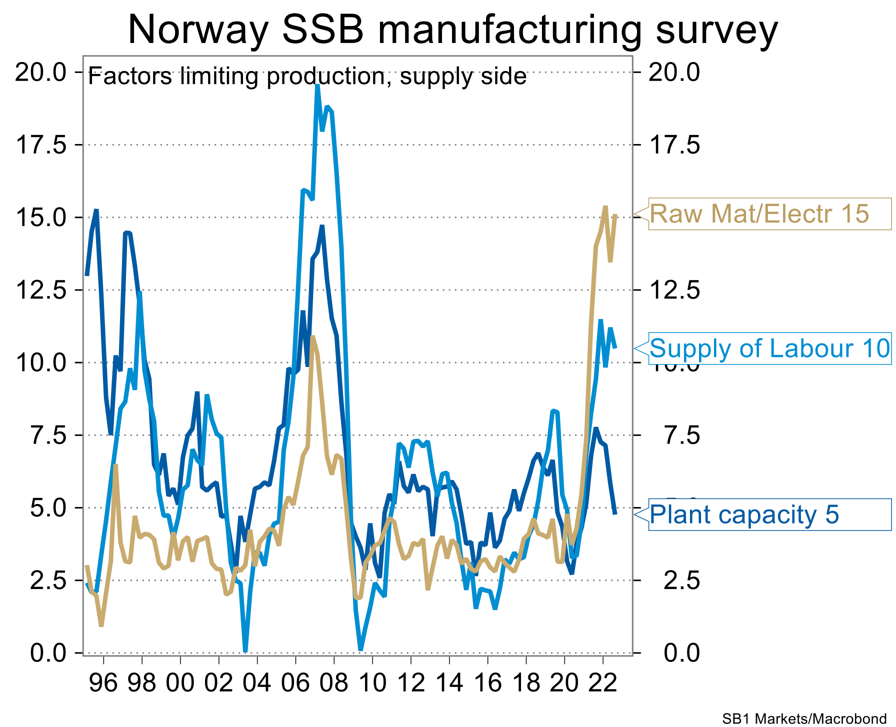


# Limiting production: Supply factors still far above average, demand still far below

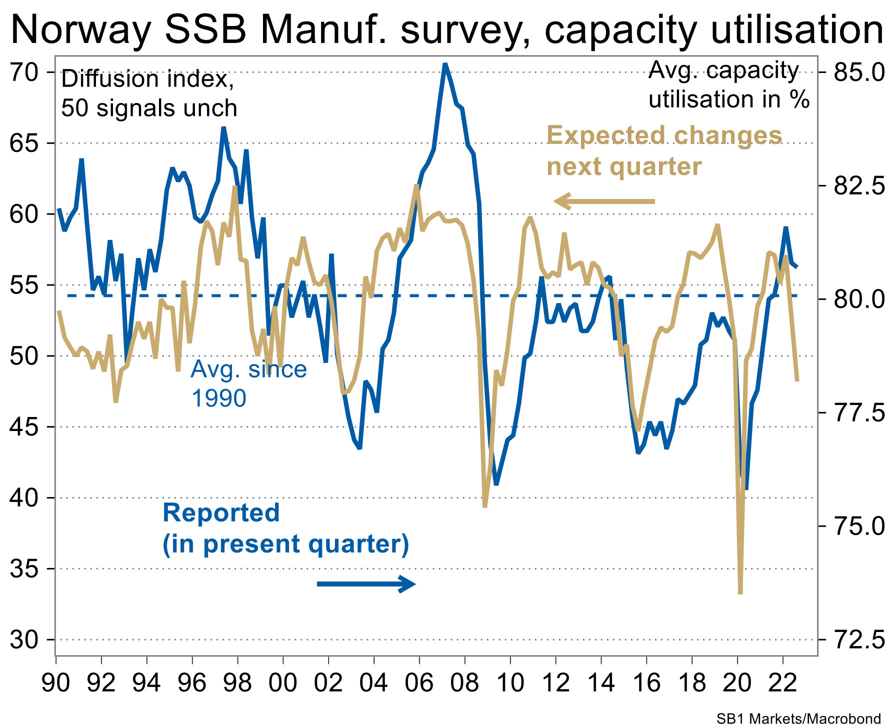
However, in Q3 the gap between the two narrowed somewhat

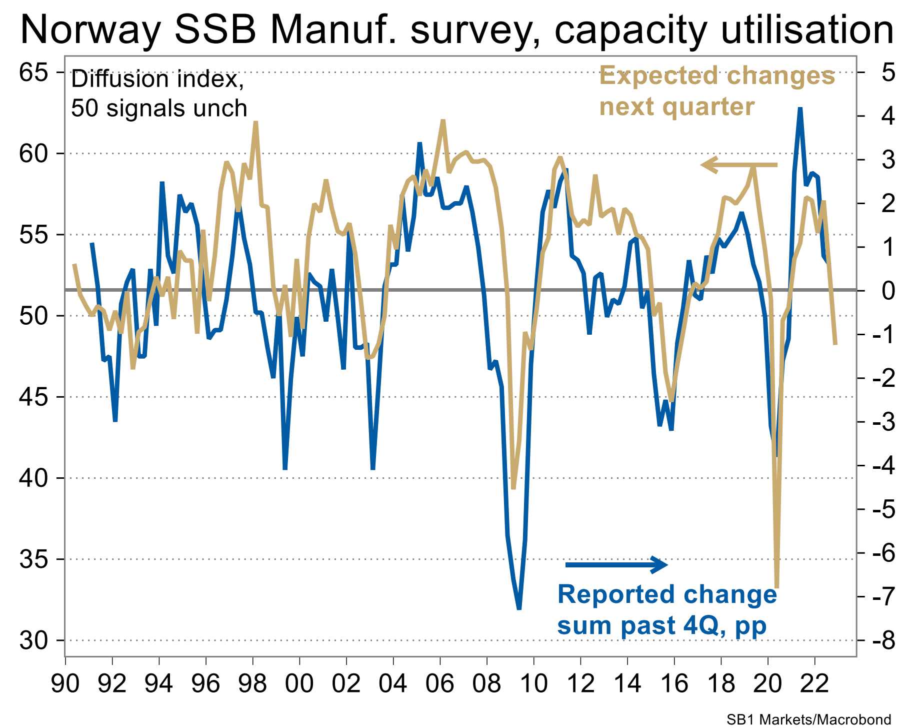



- The share of companies that report lack of labour as a factor limiting production fell marginally in Q3, but far less than we expected – and the short term trend is flat – at a very high level
- Fewer companies reported plant capacity as limiting production. However, more say raw materials and electricity are constraints
- More companies reported lack of demand or competition as limiting factors, but the share is still unusually low
- ***No demand crisis – yet***

# Reported capacity slightly utilisation down – and is expected to fall substantially

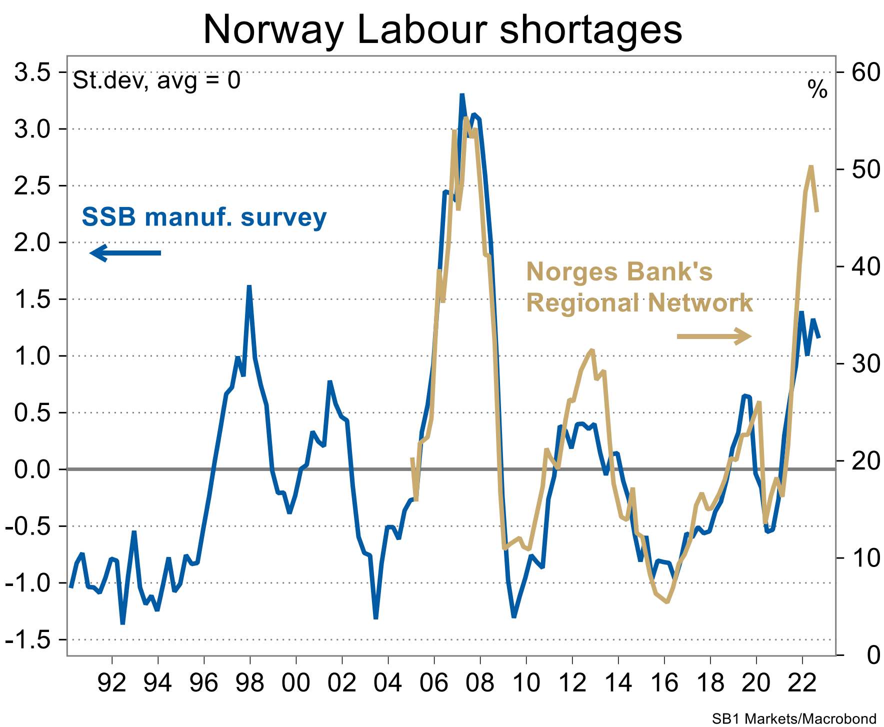


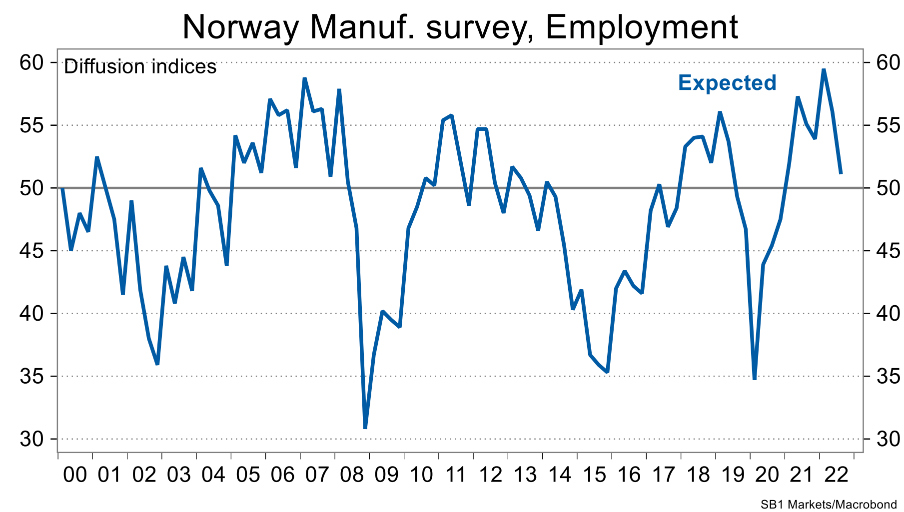



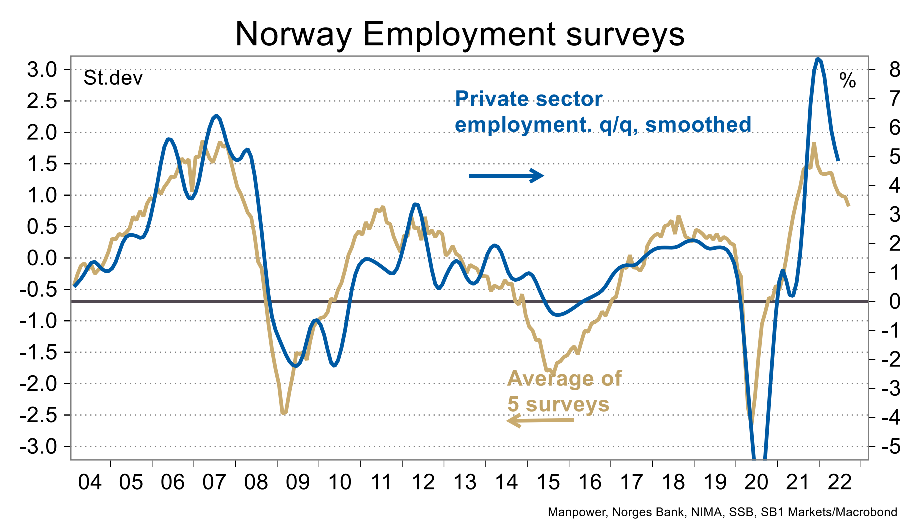

- The expected change in capacity utilisation is now over 1 st.dev below average – and capacity utilisation has already come down somewhat, after the massive increase through the pandemic

# Labour shortages have flattened, at a rather high level

Manufact. hiring plans are sharply down, other sectors/surveys also report slower job growth

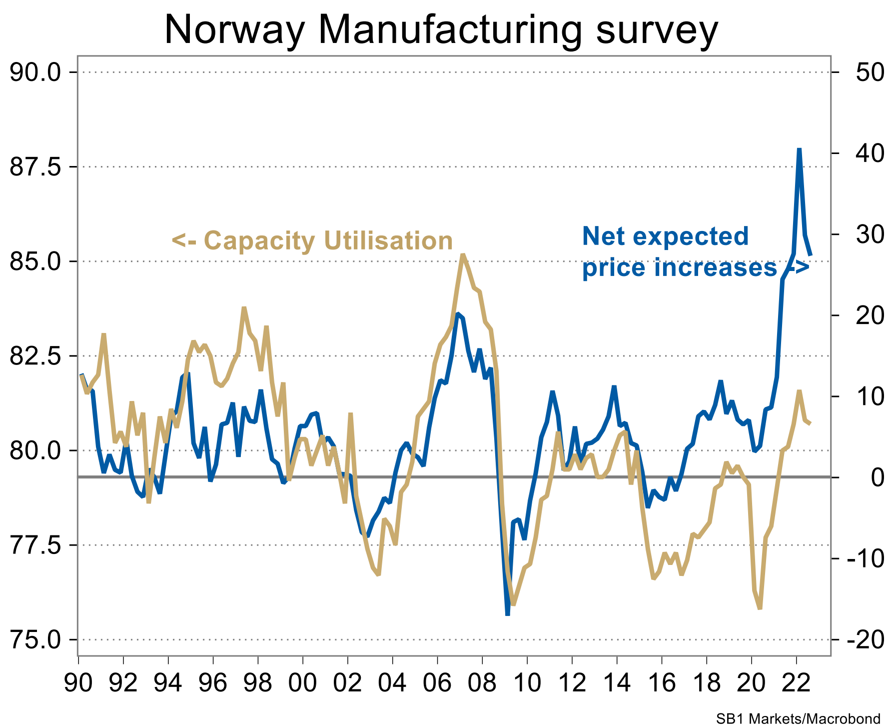



- Employment surveys are still signalling <u>much stronger employment growth</u> than normal

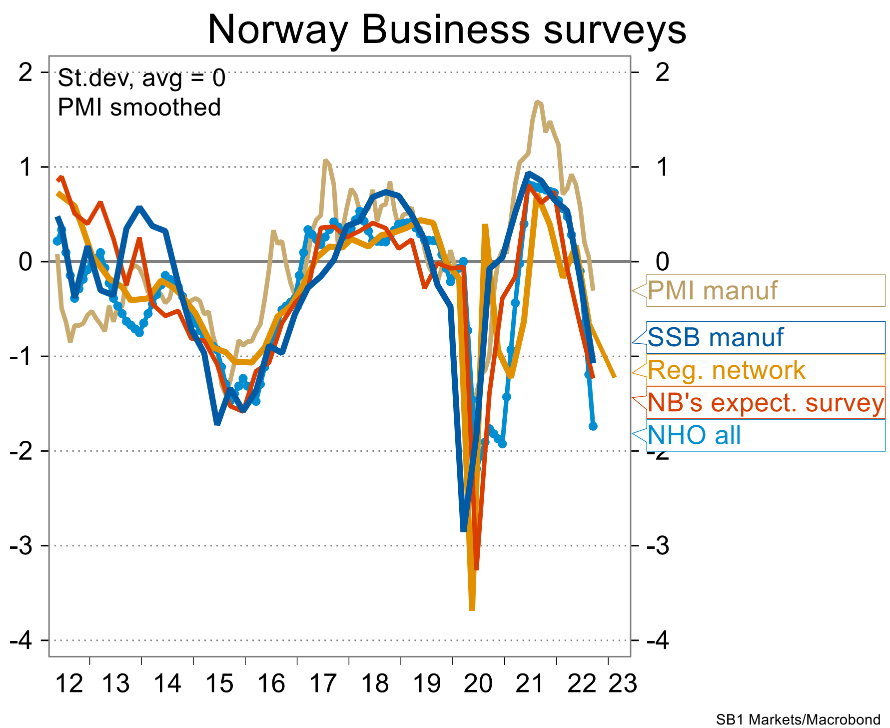
# Planned price increases has slowed markedly, yet remain very high

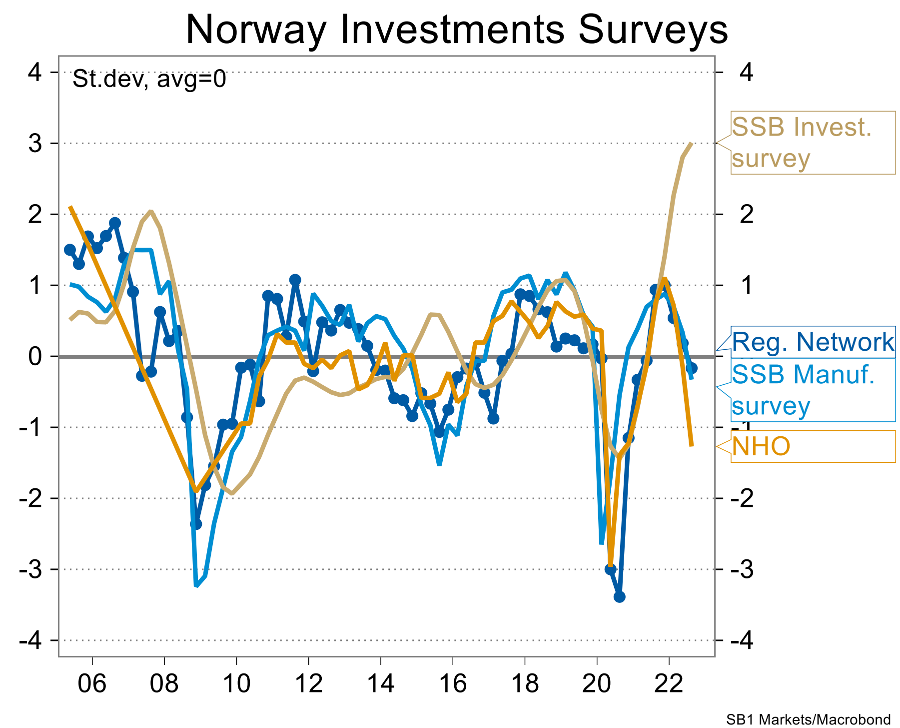



- Prices are expected up far more than suggested by the reported capacity utilisation

# Surveys: Peak growth is behind us, a setback is signalled

## Only the SSB investment survey is still above average

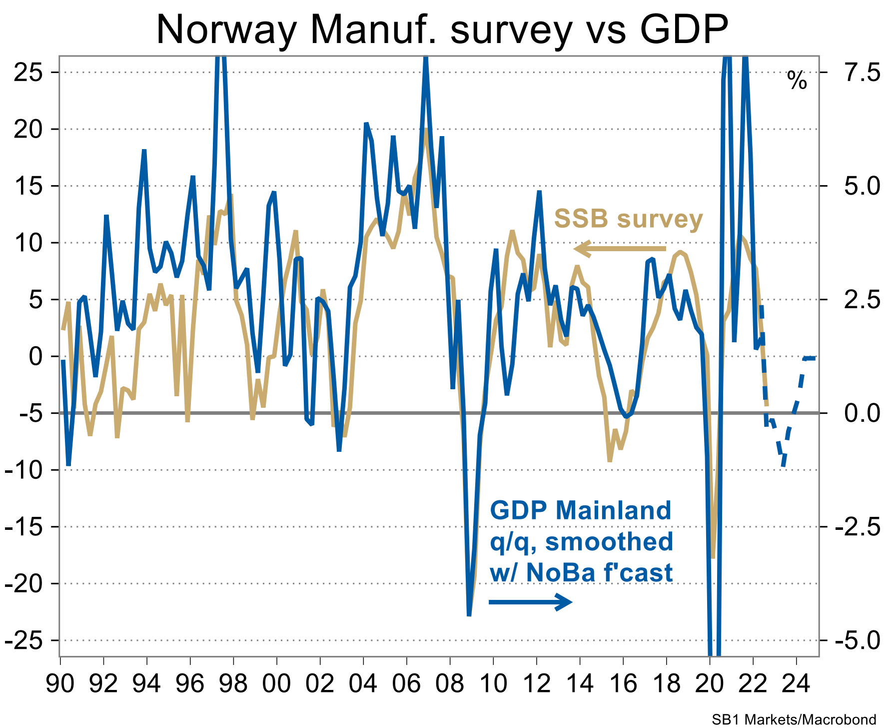


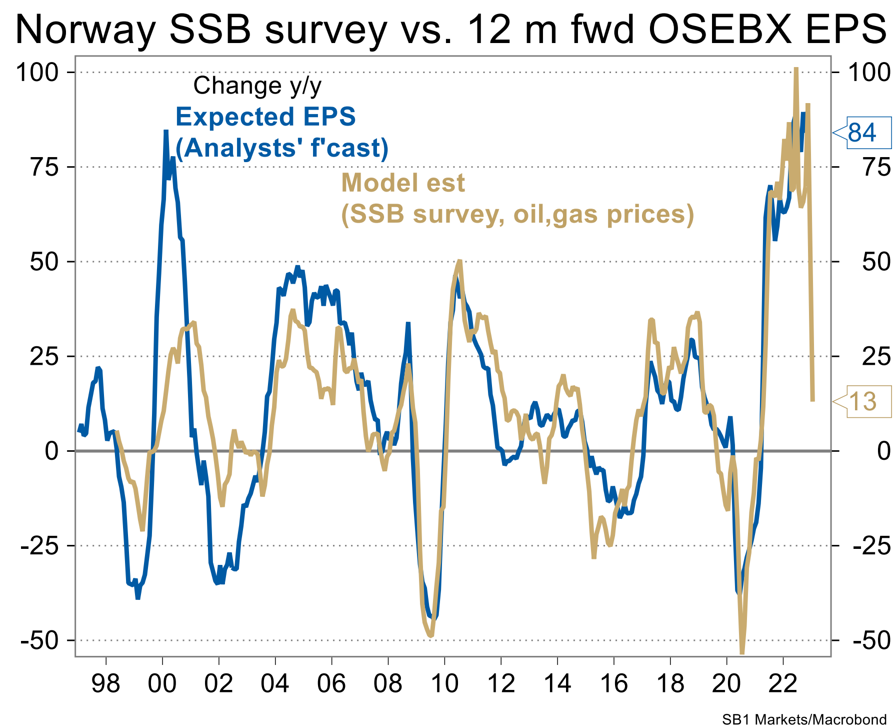




- In the **current manufacturing SSB survey**, companies revised their **investment plans** further down, indicating growth well below average
- **Norges Bank's regional survey** agree. NHO's survey is below avg., while the **SSB's investment survey** from August reported very strong growth in manufacturing investments

# SSB's manuf. survey signals close to 0% GDP growth, and still positive EPS growth

As oil and gas prices are still elevated. However, the current 13% growth f'cast is below consensus at 84%




- The manufacturing survey is quite closely correlated the Mainland GDP cycle
- The survey is closely correlated to the OESEBX earnings cycle too – and even better if oil & gas prices are added in the equation

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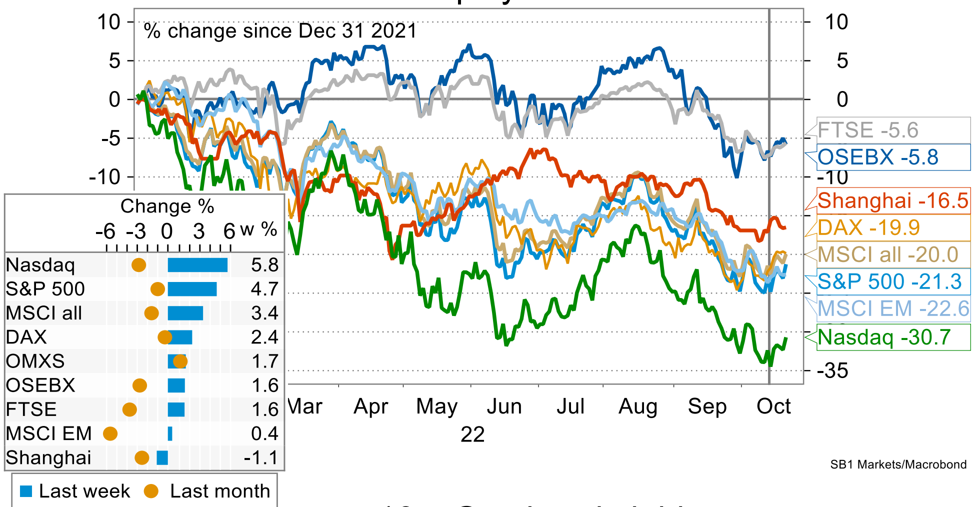
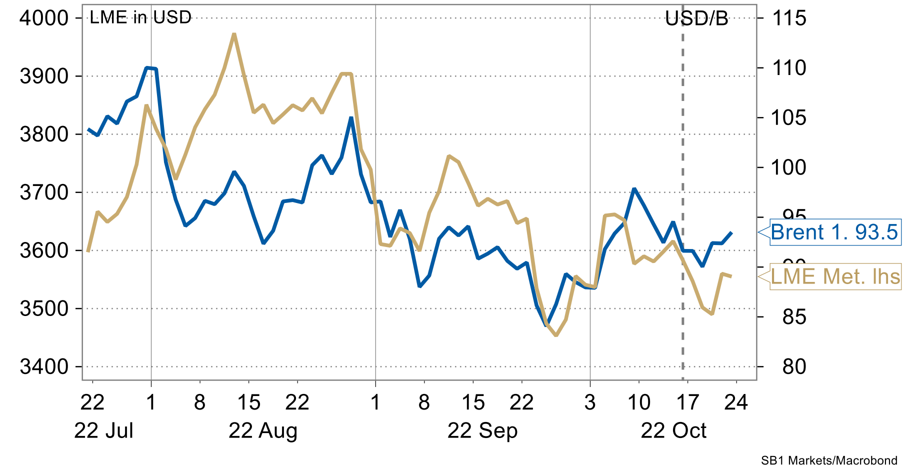
# Optimism in the equity market, most places

Bond yields rose further. Commodity prices mostly down, especially European gas

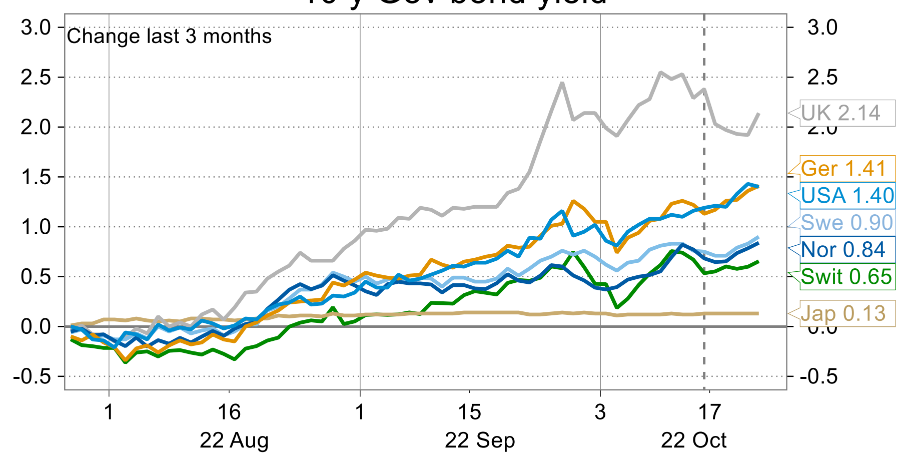
## Equity Indices



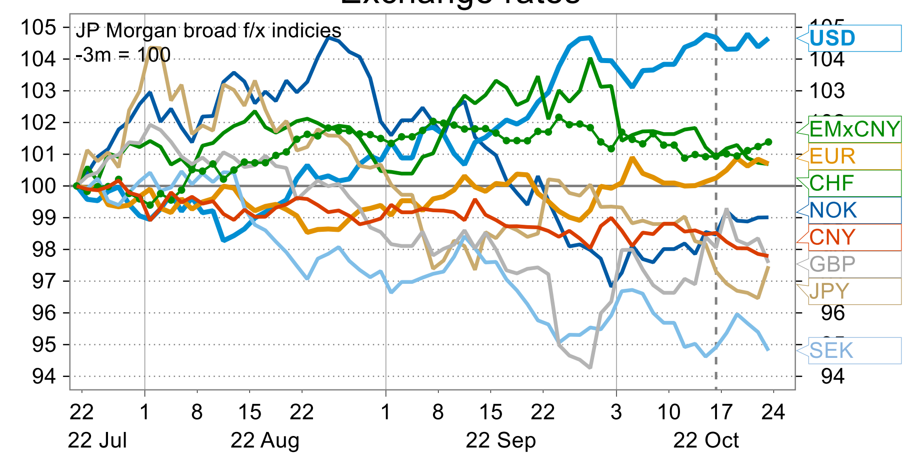

## Oil vs. metals




## 10 y Gov bond yield

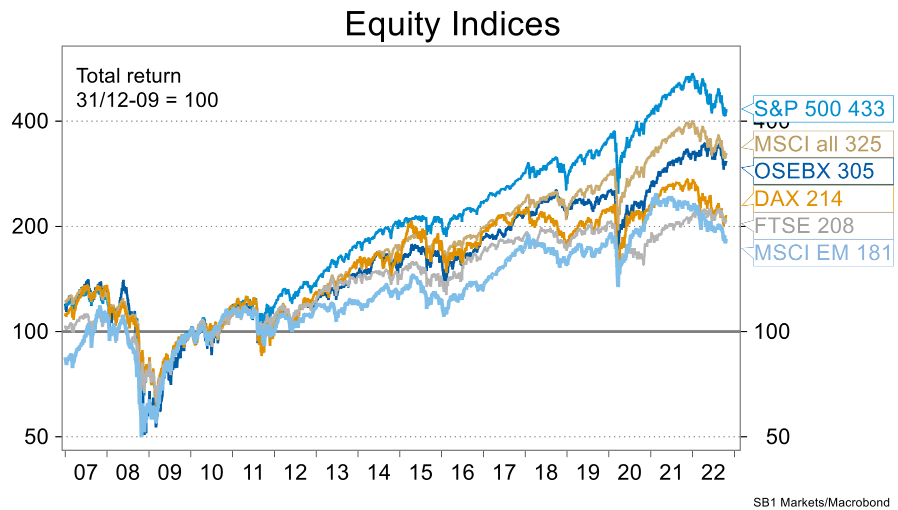


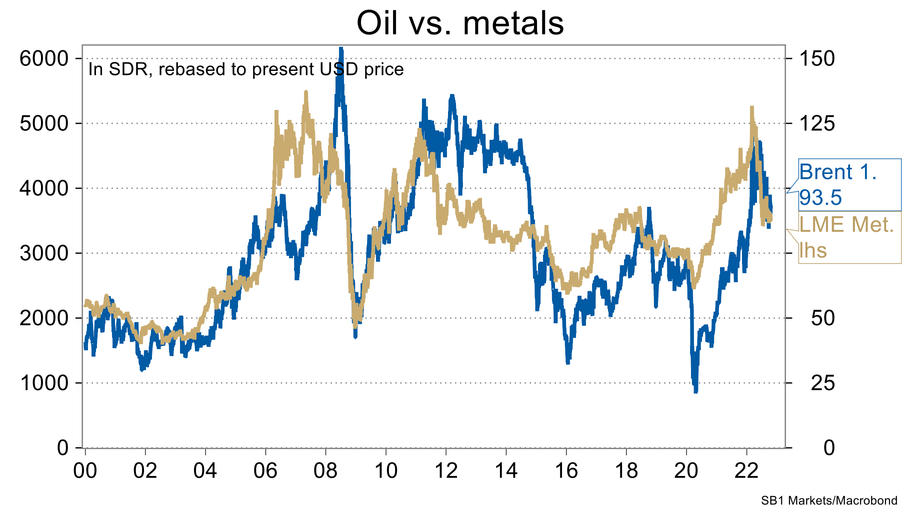

## Exchange rates

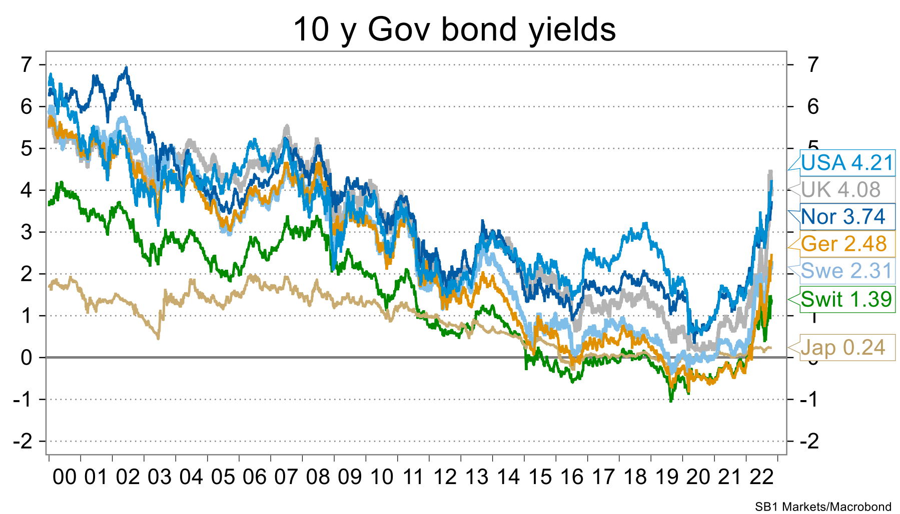


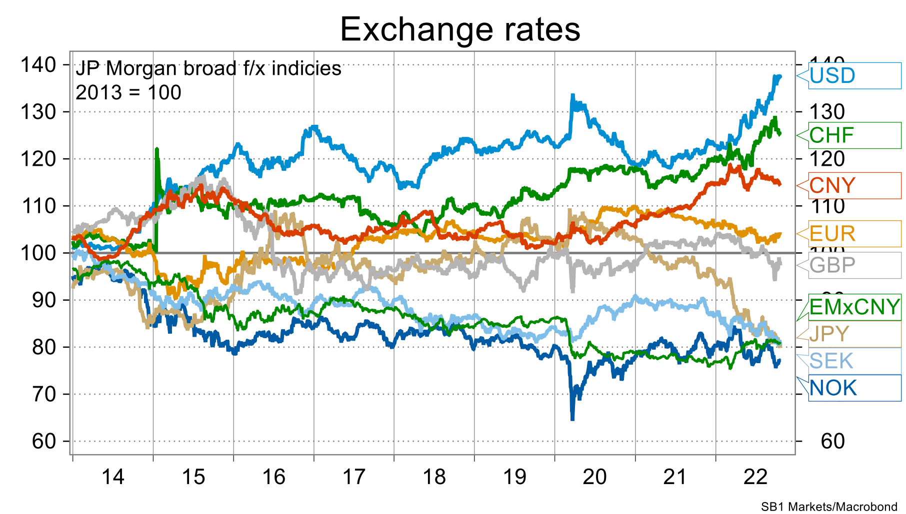
# The big picture: Stock markets down, commodities down, bond yields up

## The USD is very strong, most other DMs are slipping, NOK including



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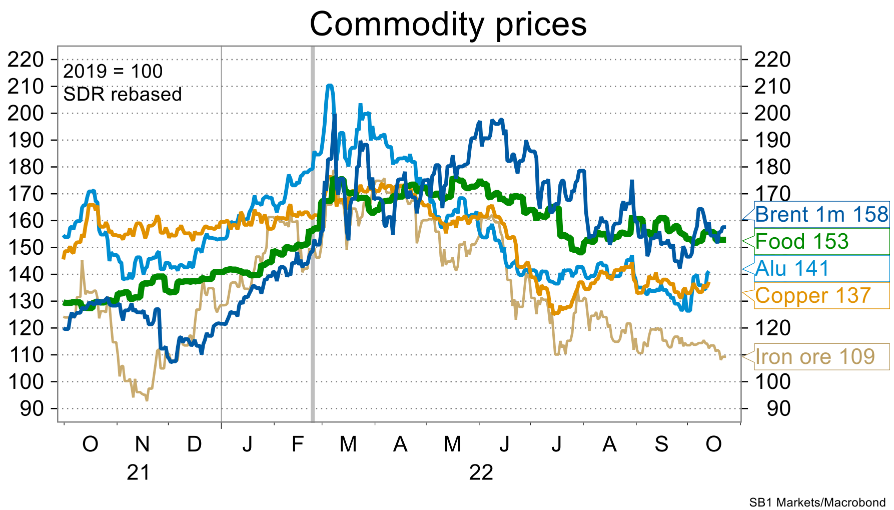
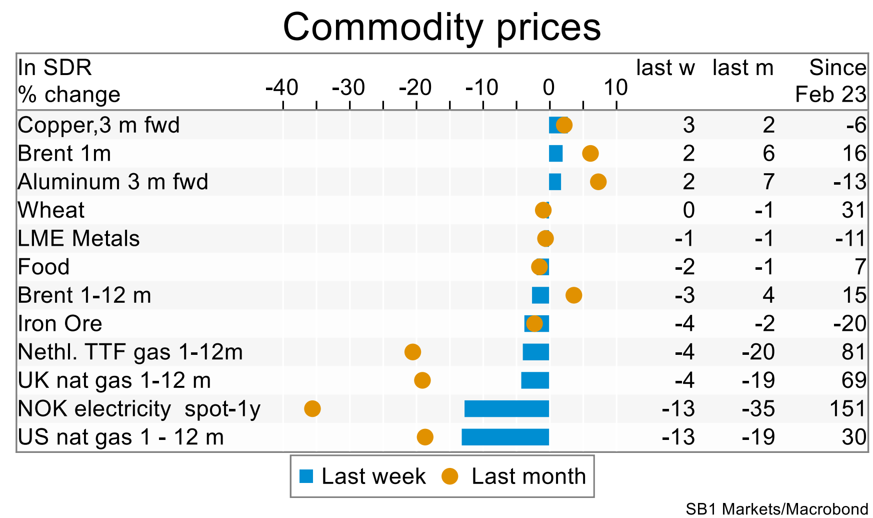
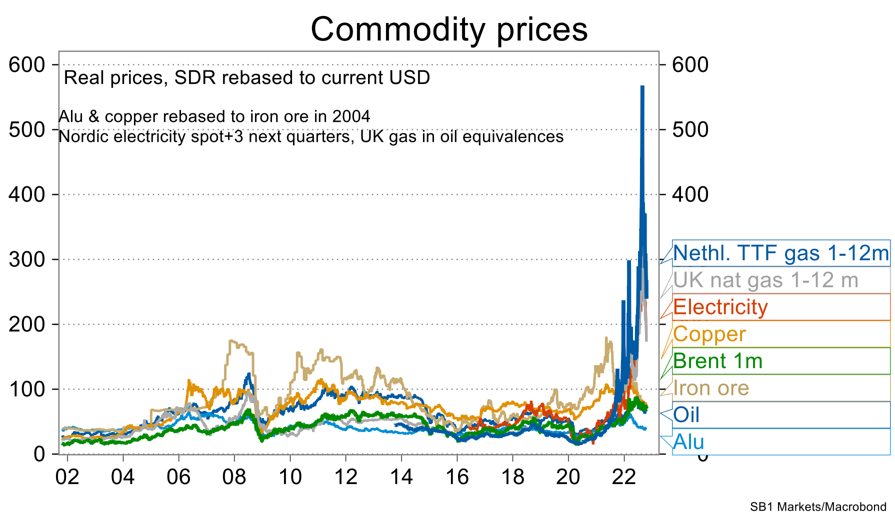
# Energy prices down everywhere, except for Brent 1st contract




**Last week**

- **European natural gas** fell further last week, and Norwegian electricity prices followed suit
- The Economist's **food commodity index declined 1% last week** (in SDRs), and have been trending flat since the summer
- **Iron ore** prices are still on the weak side, down 20% since before the war. (Copper and aluminium prices not updated since last week)

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

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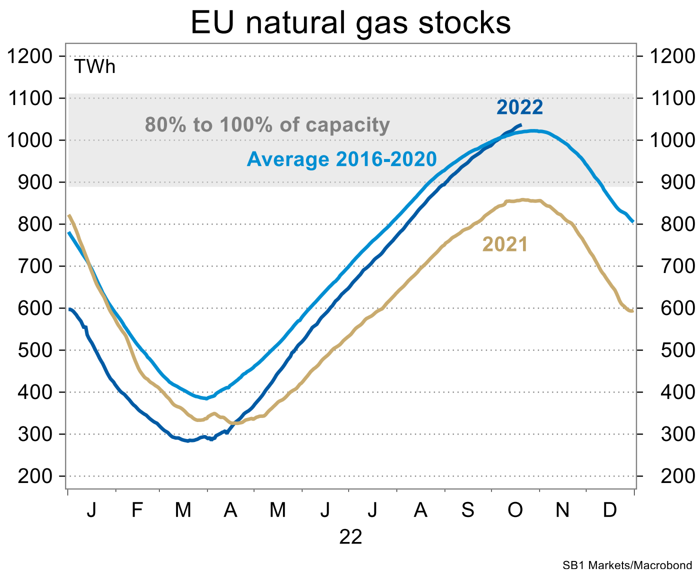
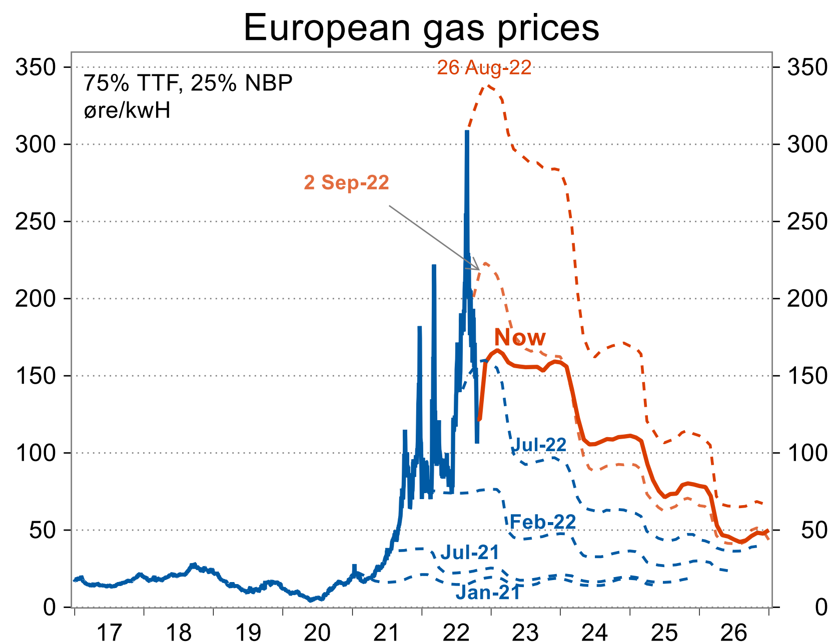
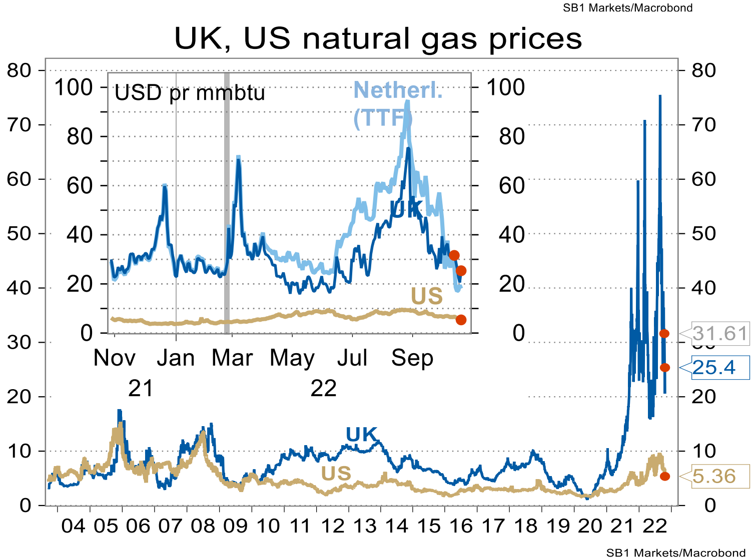
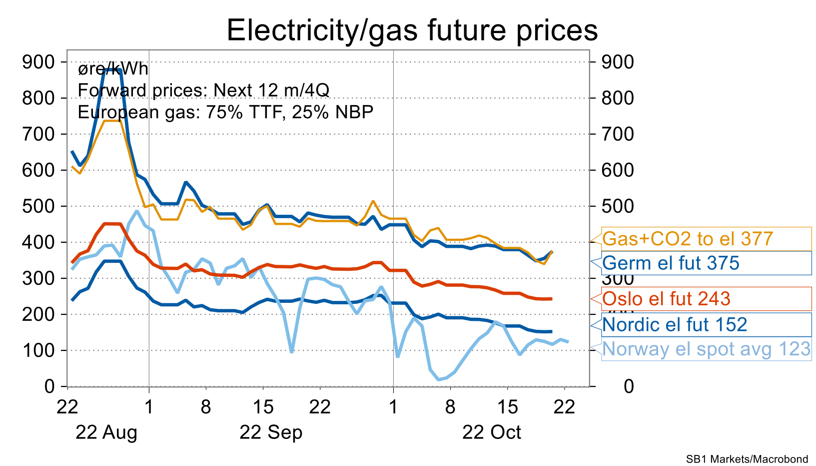
# 'Spot' European gas prices further down, as inventories are filled up

## Electricity prices are trending down as well



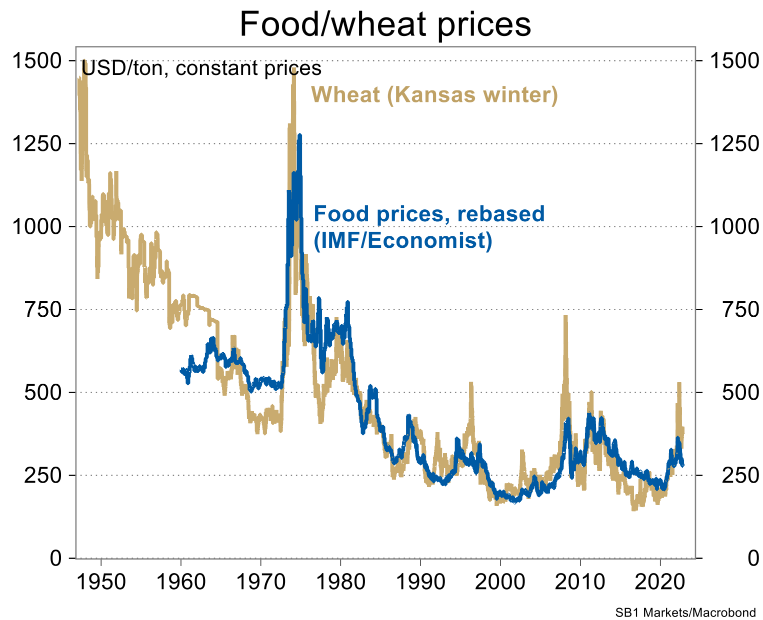



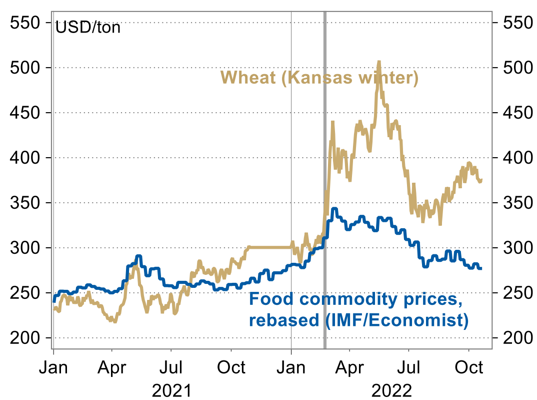



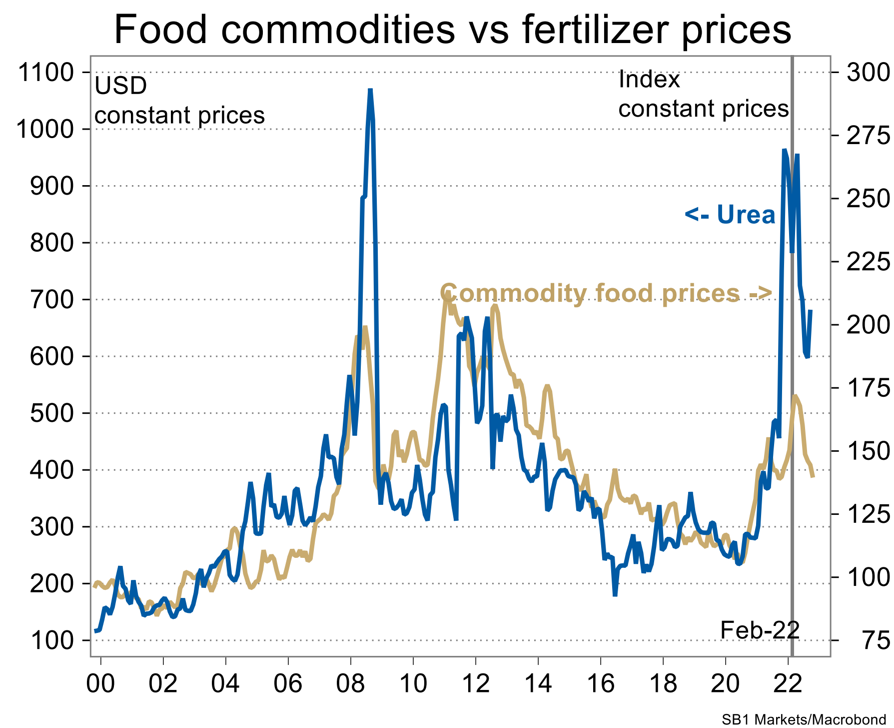



# Food prices are trending down, at least measured in a strong USD

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

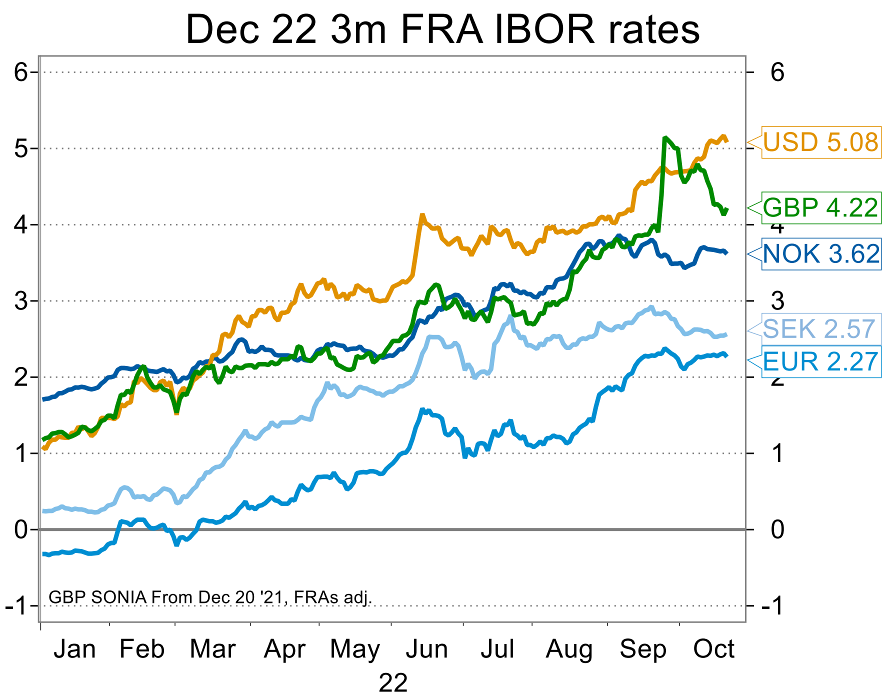


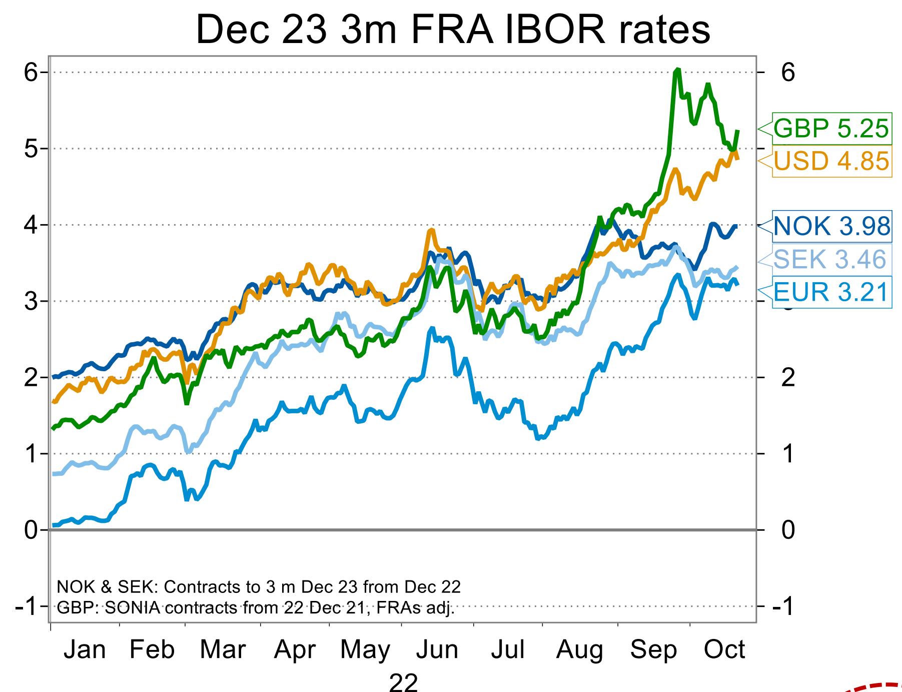



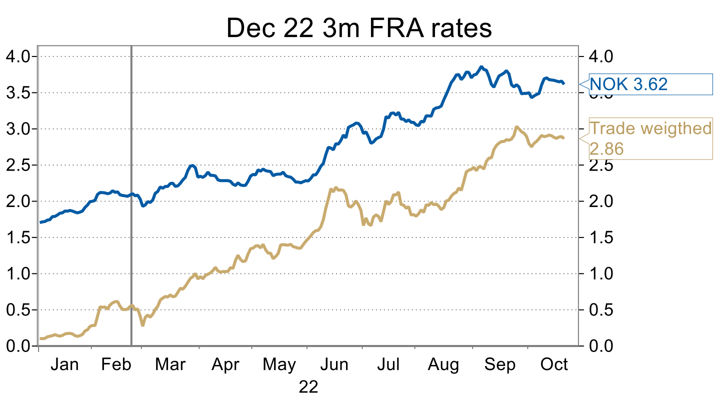



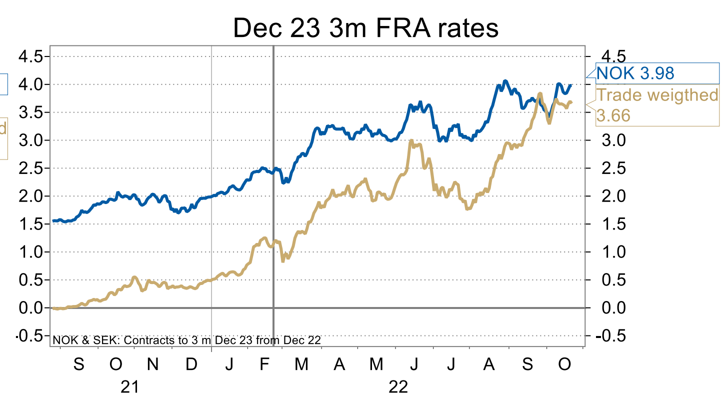

Urea prices have been falling too

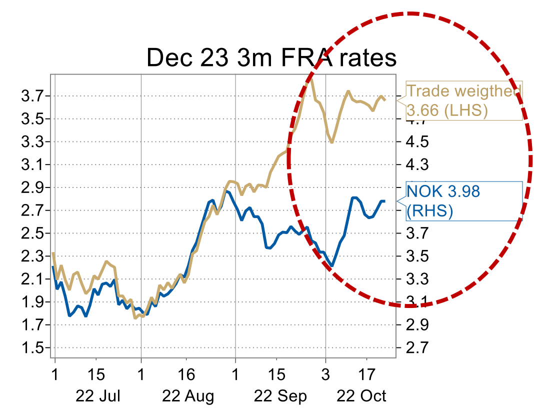
# Most FRA rates have flattened but, USD rates are still trending up

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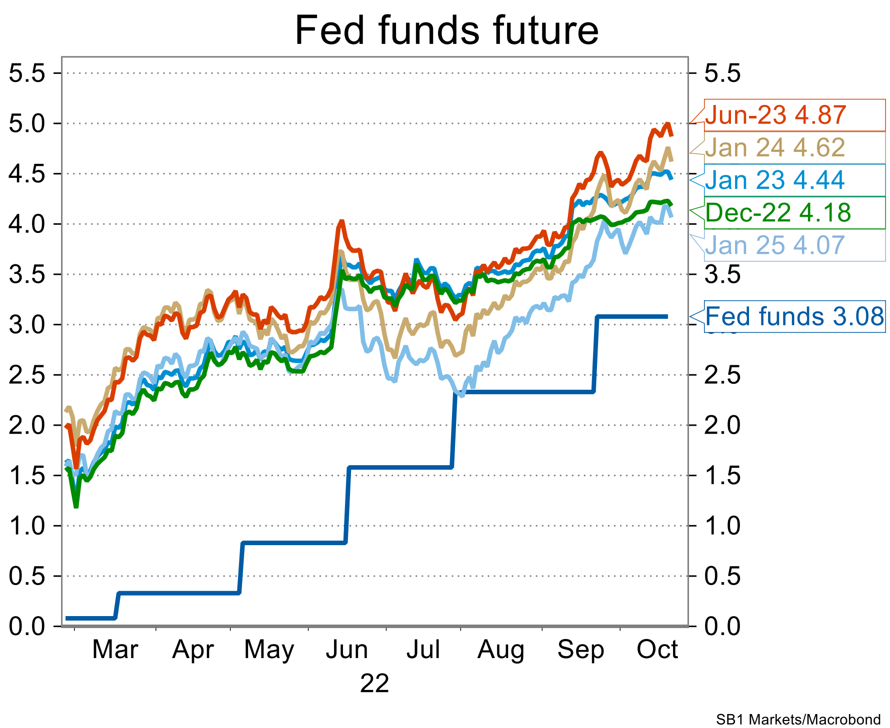
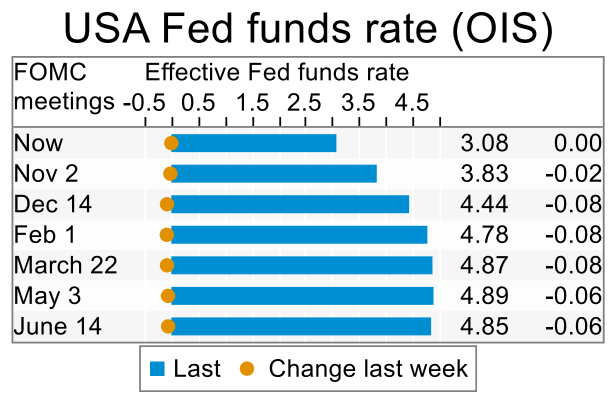
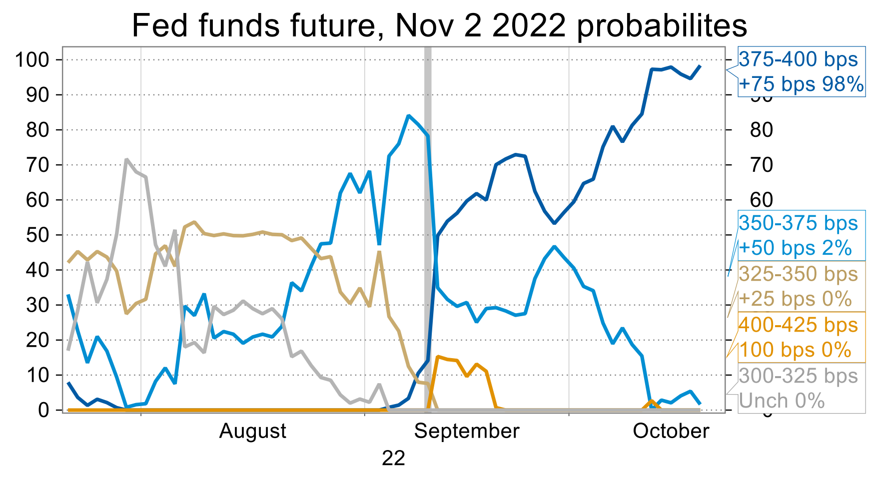
# Another ‘triple’ hike next week a done deal, to 3.75% – 4.00%. Then 50 bps in Dec

A peak at 4.90% is expected in May, down 6 bps last week

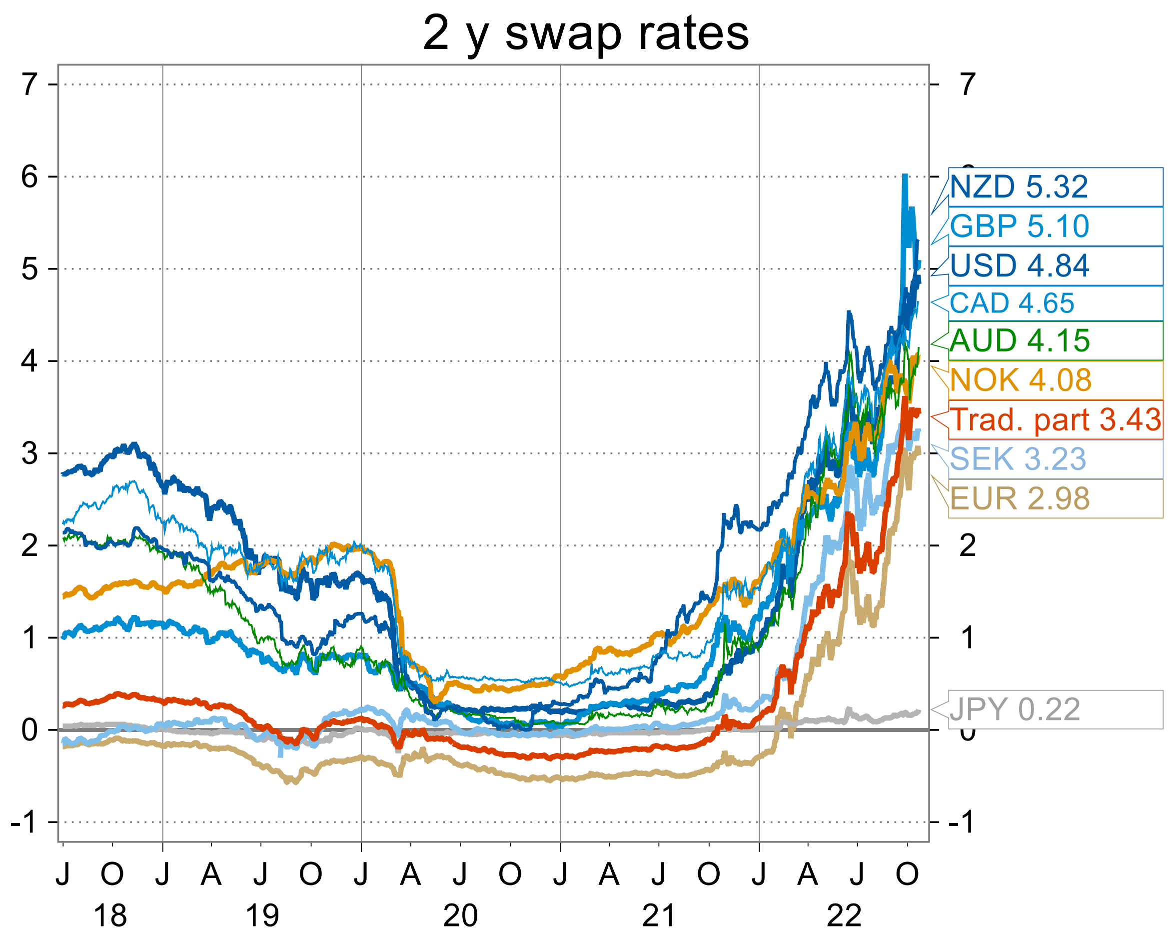


# Most 2 y swap rates up last week (but not in EUR & GBP)

GBP rates fell, from high level – and we think there is more downside ahead

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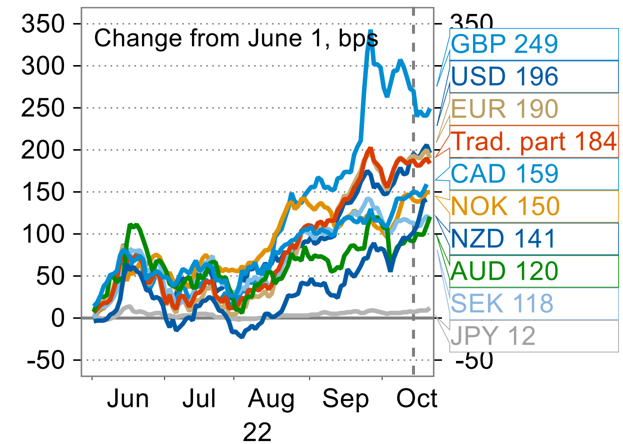


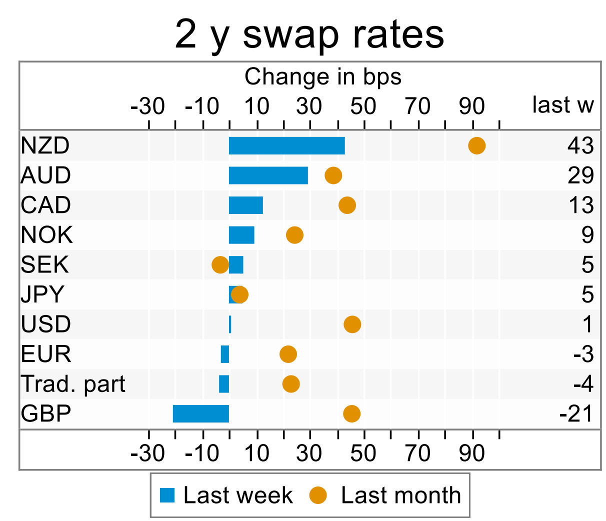


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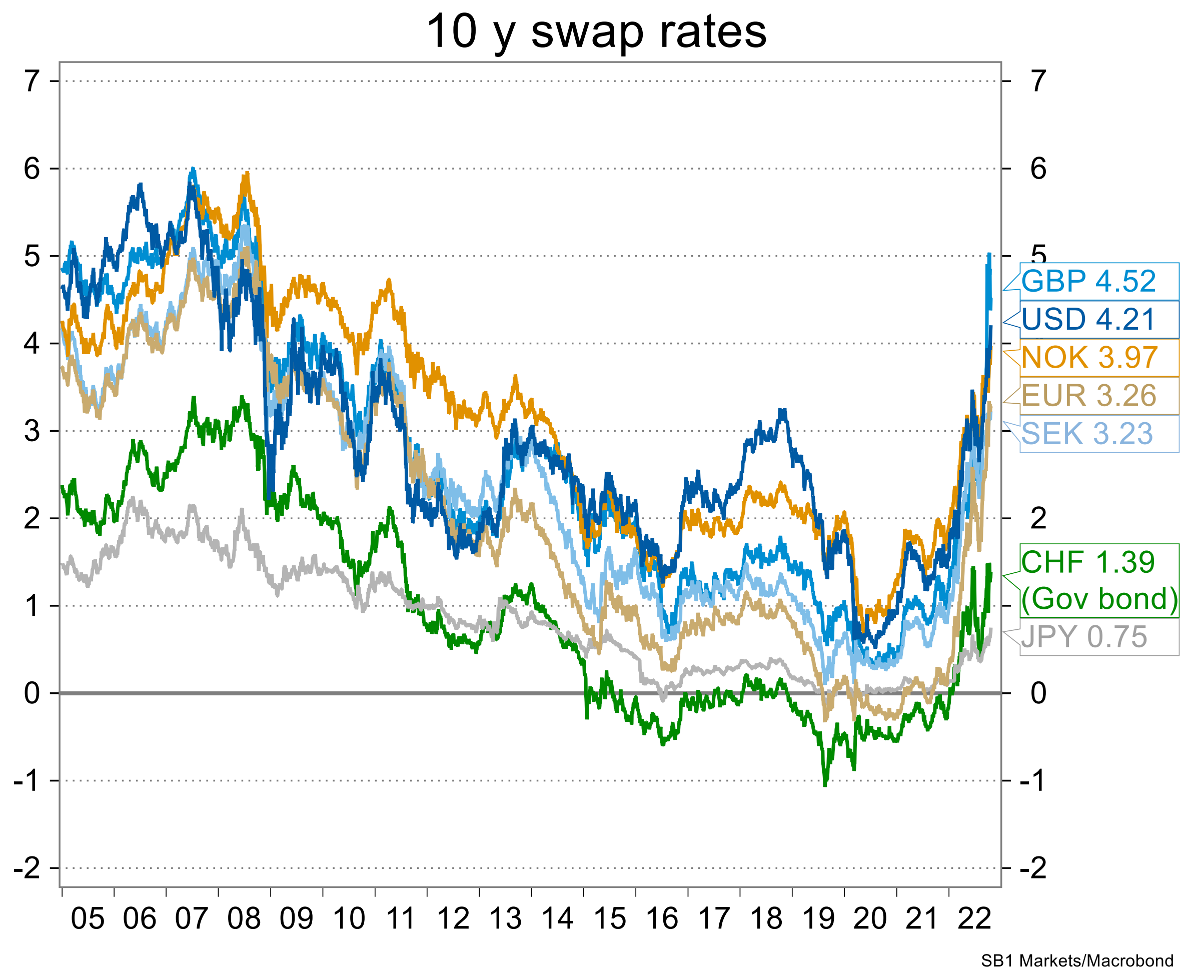
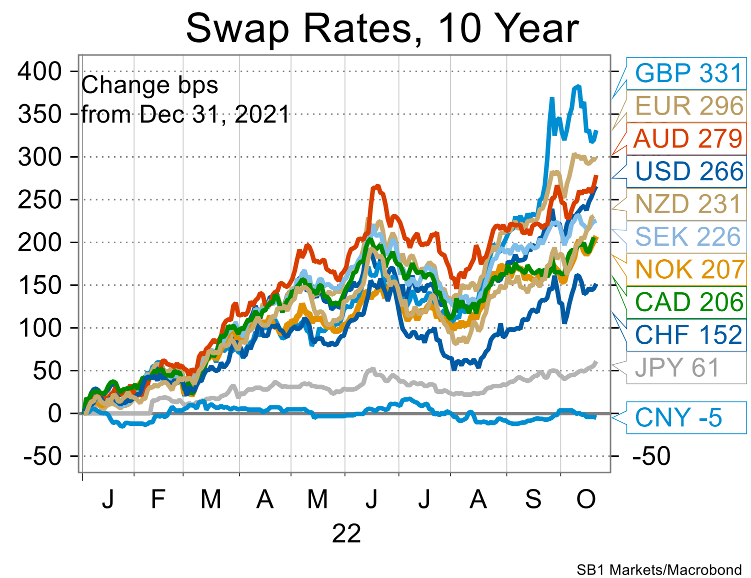
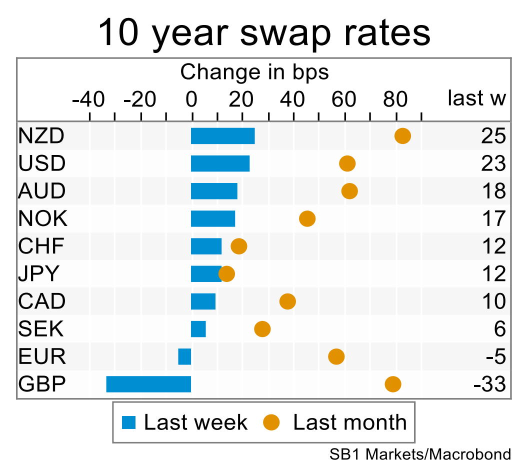
# Still trending upwards, while GBP rates are ‘normalising’



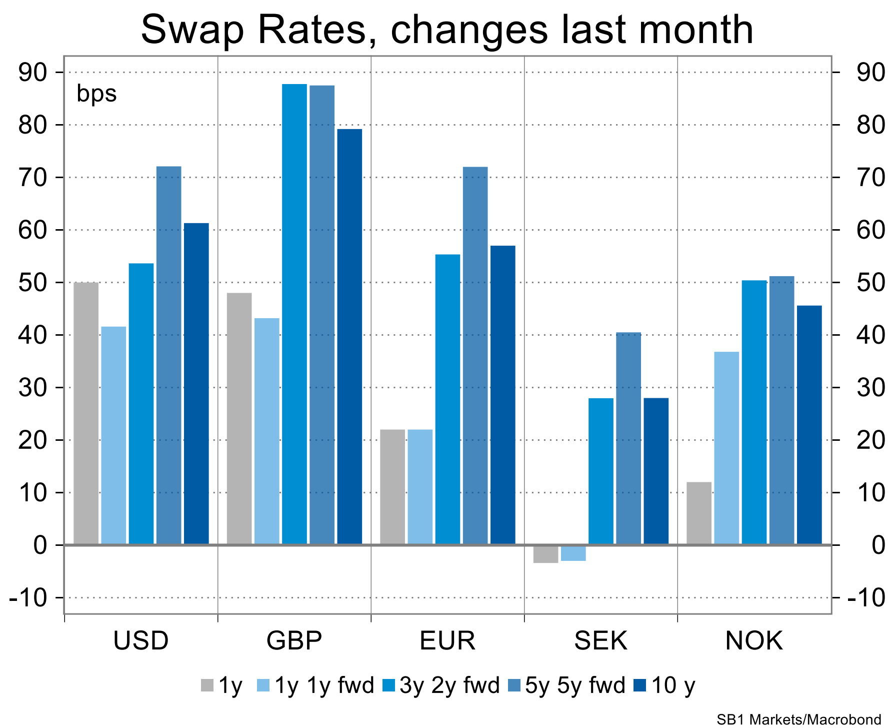



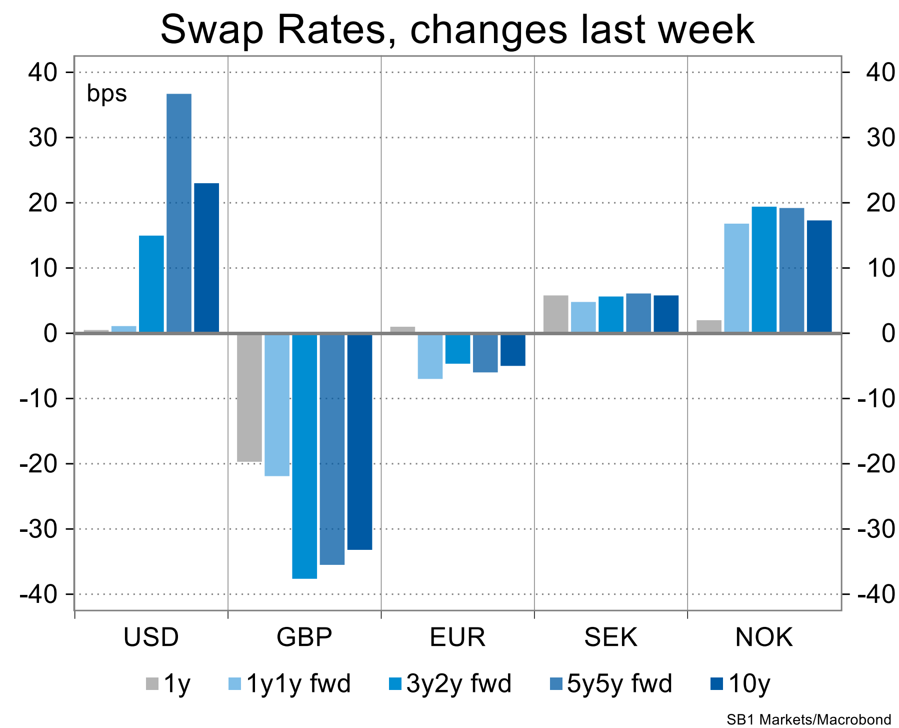




CHF: 10 y government bond yield

# GBP swap rates sharply down last week – NOK rates up, all over the curve

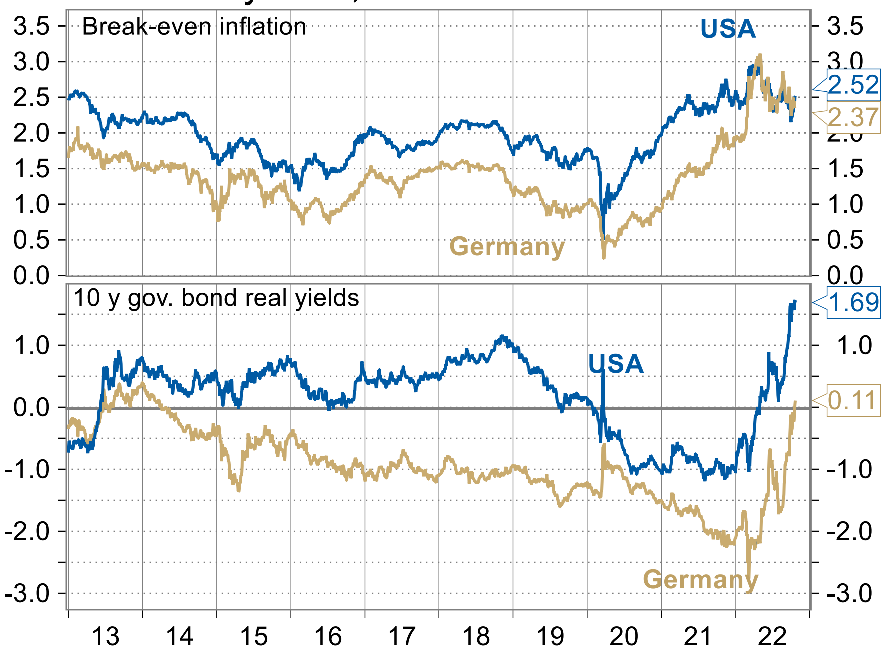
… like US swap rates

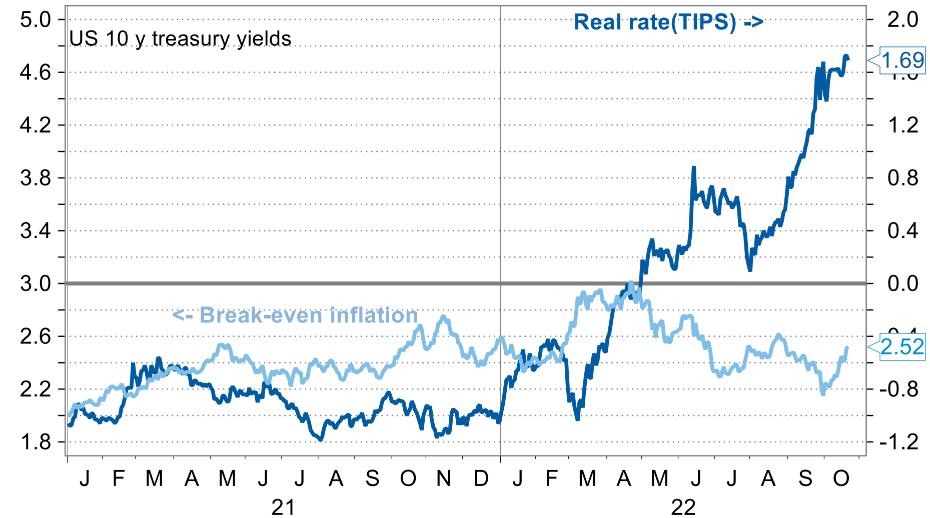


# US inflation expectations up – without any good reason? Real yields up too

A real interest rate shock in Germany last week, +34 bps to +11 bps, first time in plus since 2014!!




US & Germany 10 y Gov bond yield

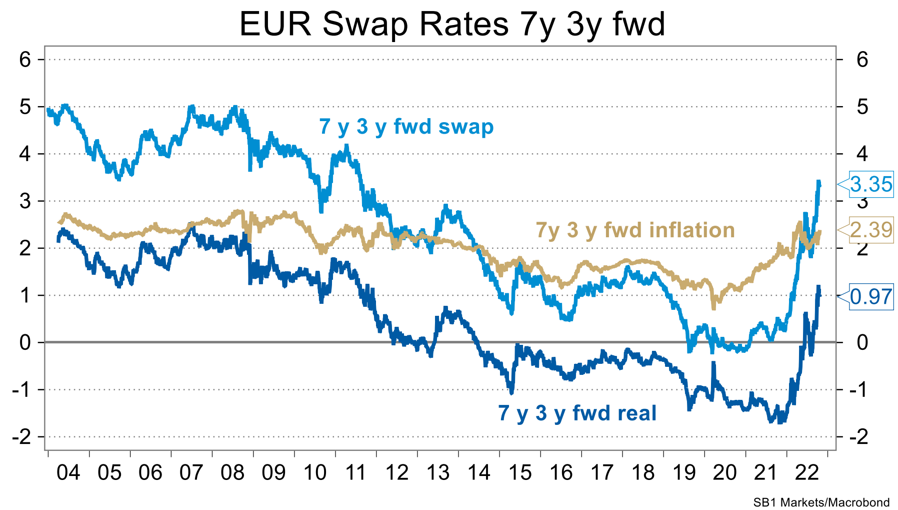
| | Yield | Change 1w | Change 1m | YTD | Min since April-20 |
|---|---|---|---|---|---|
| **USA nominal treasury** | 4.21 | 0.21 | 0.70 | 2.69 | 0.52 |
| .. break-even inflation | 2.52 | 0.11 | 0.14 | -0.04 | 1.06 |
| .. TIPS real rate | 1.69 | 0.10 | 0.56 | 2.73 | -1.19 |
| | | | | | |
| **Germany nominal bund** | 2.48 | 0.28 | 0.62 | 2.69 | -0.65 |
| .. break-even inflation | 2.37 | -0.06 | -0.28 | 0.48 | 0.40 |
| .. real rate | 0.11 | 0.34 | 0.90 | 2.21 | -2.80 |

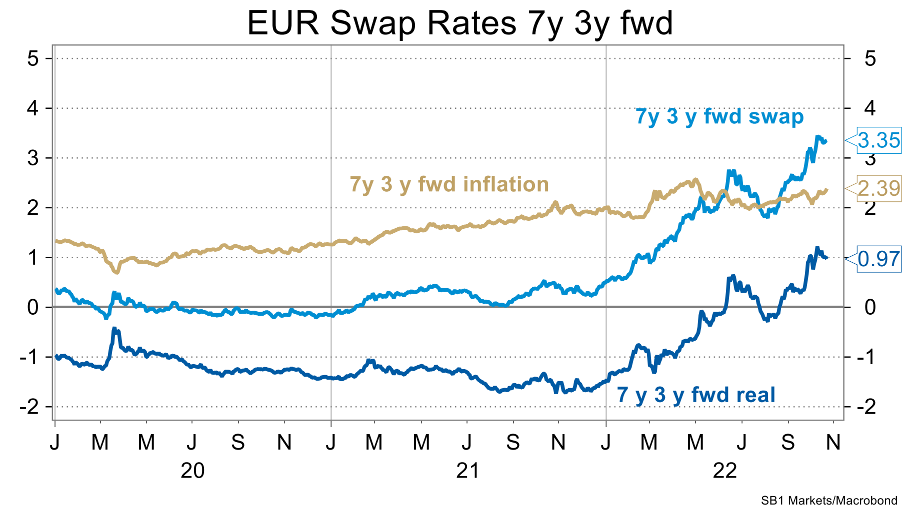
SB1 Markets/Macrobond

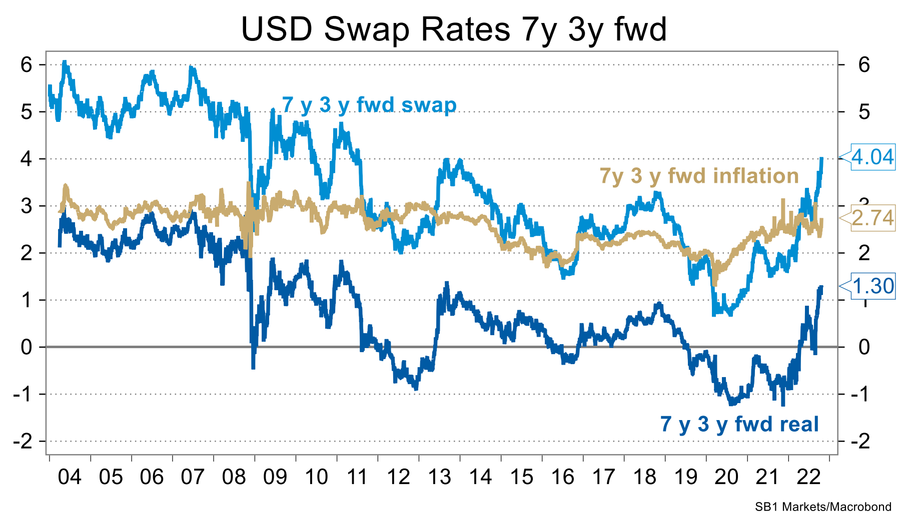
- The lift in real rates so far in 2022 is for the history books!
- No signs of war angst or flight to safety
- In the US, a 10 y CPI expectation at 2.52% is somewhat above Fed's 2% target for the PCE-deflator (which on average is some 0.3 pp below CPI inflation)

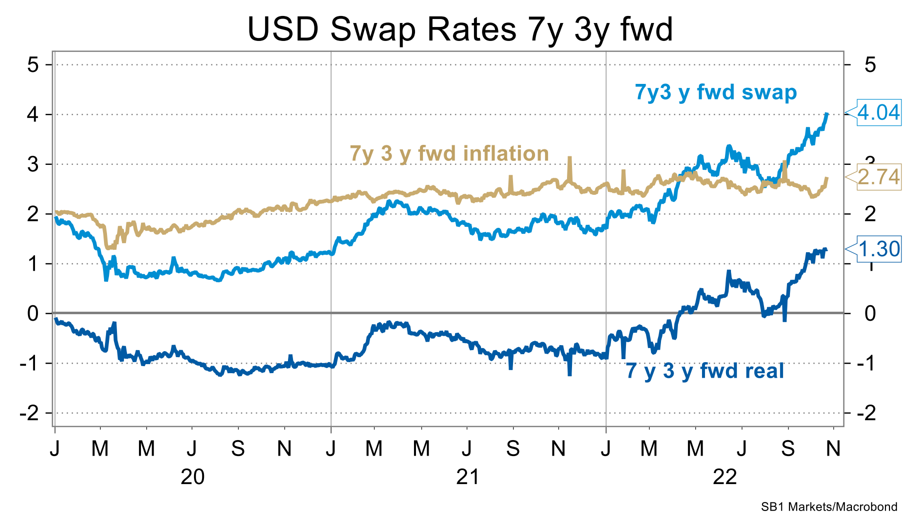
# Measured via the swap market: the 7 y 3 y fwd EUR real rates close to +1%

Still below USD rates, but at least not that different!



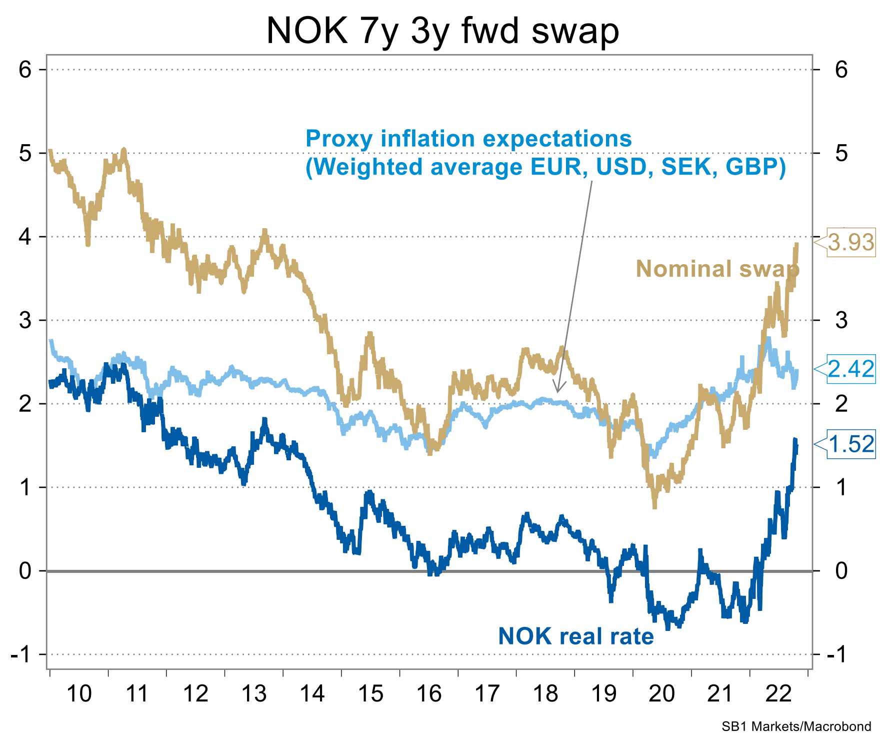



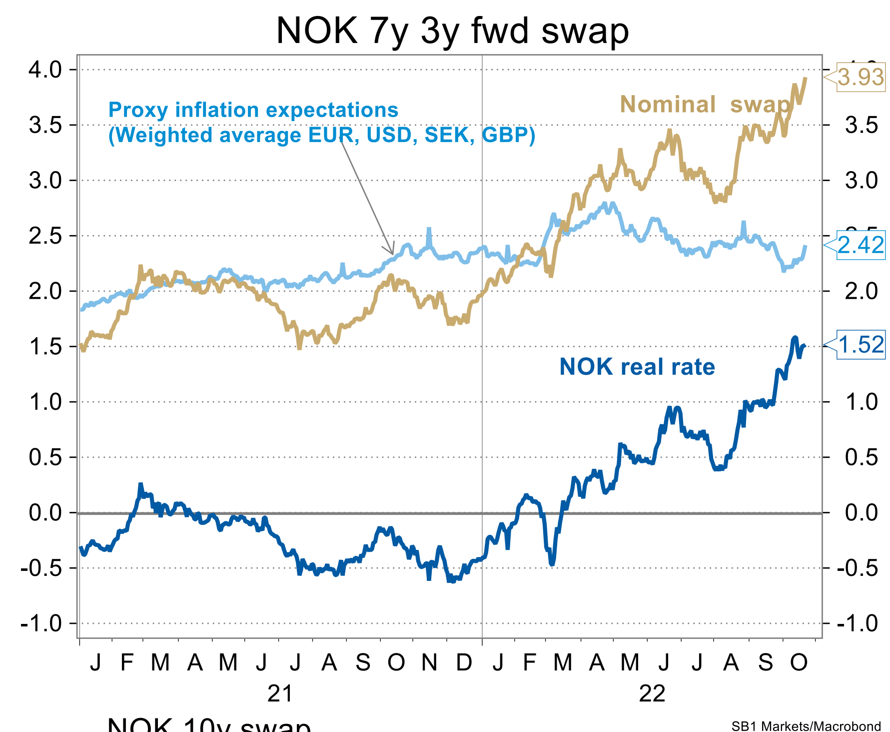



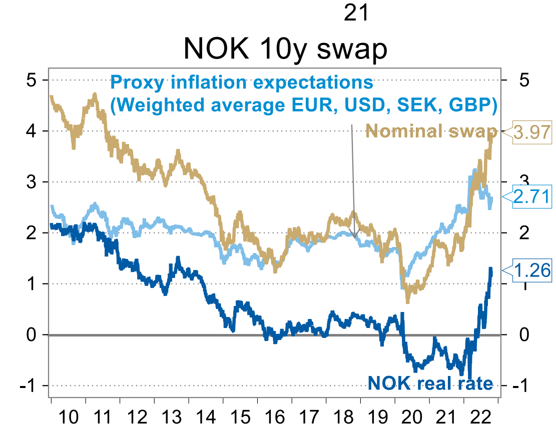
# Norway: NOK inflation expectations up last week – but the trend is down

## Real rates are trending sharply up



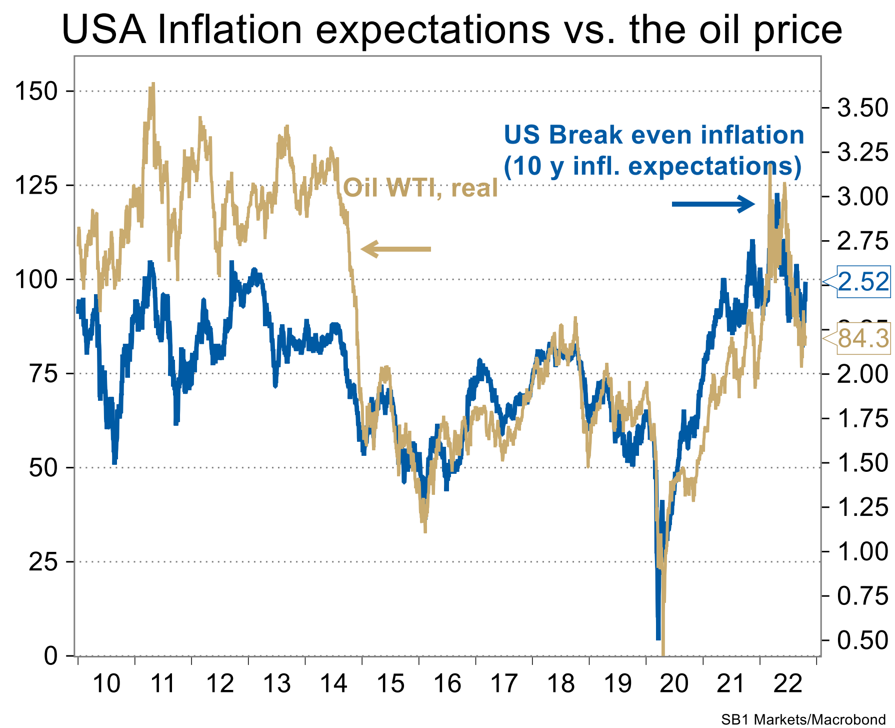

- The lift in nominal swap rates recent months is due to higher real rate expectations, while inflation expectations are trending down

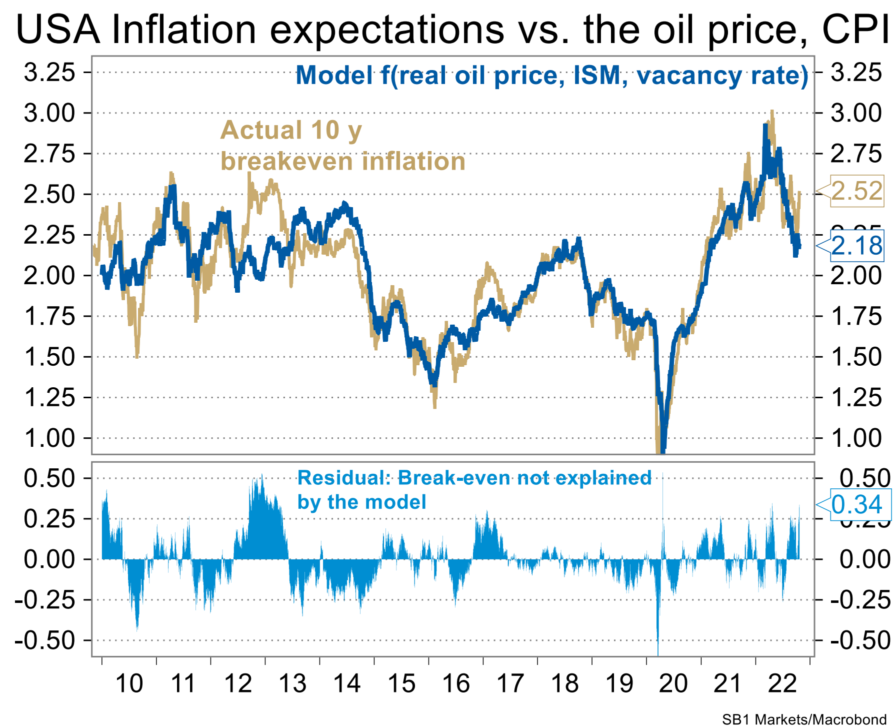


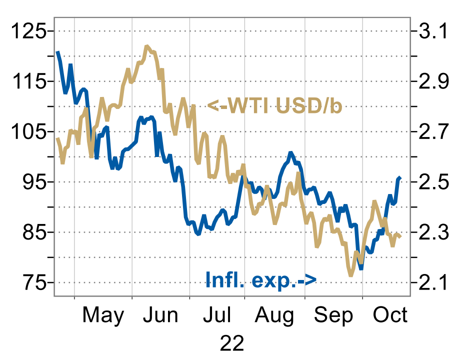

*Memo: Our NOK inflation expectation proxy is a weighted average of EUR, SEK, GBP, and USD inflation swaps, cross-checked vs historical inflation differentials and inflation expectations from surveys*

# US inflation expectations sharply up last week, for no good reason

## The gap vs. our model estimate among the largest for a long while



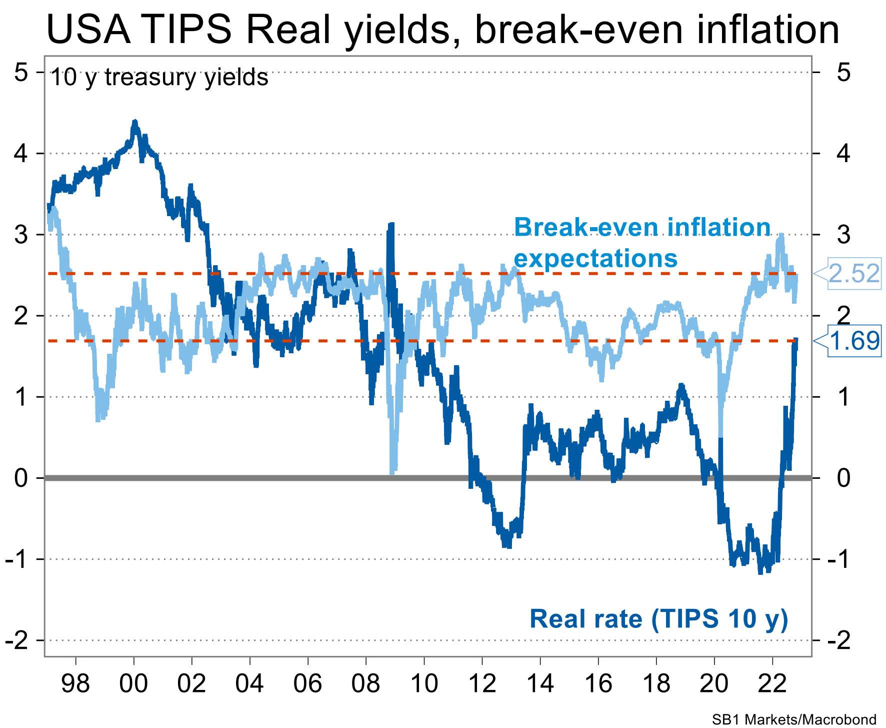



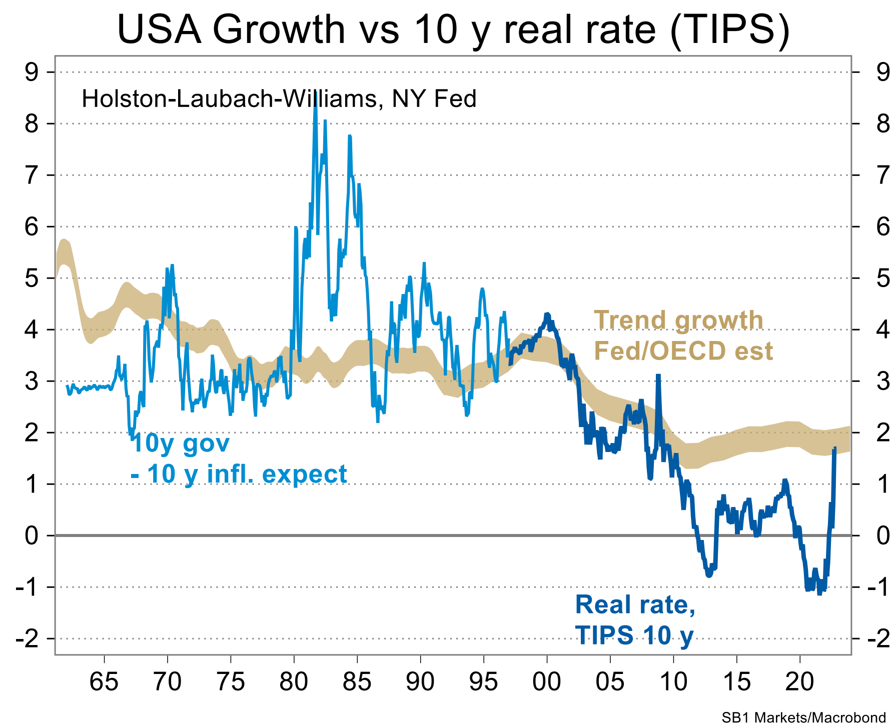




- A simple model including the spot oil price, the current ISM and the current vacancy rate pretty well explains the long-term breakeven inflation expectation in the bond yield curve
- What now? We are uncertain about the oil price, but rather confident that both the ISM, and the vacancy rate will decline. Impact vs the 10 y break-even expected inflation rate
  - -5 ISM points: -12 bps
  - -3 vacancy pts, (to 3.2% from 6.2%): -36 bps
  - - 10 USD/b: -10 bps

# Growth vs real rates: The gap has closed!

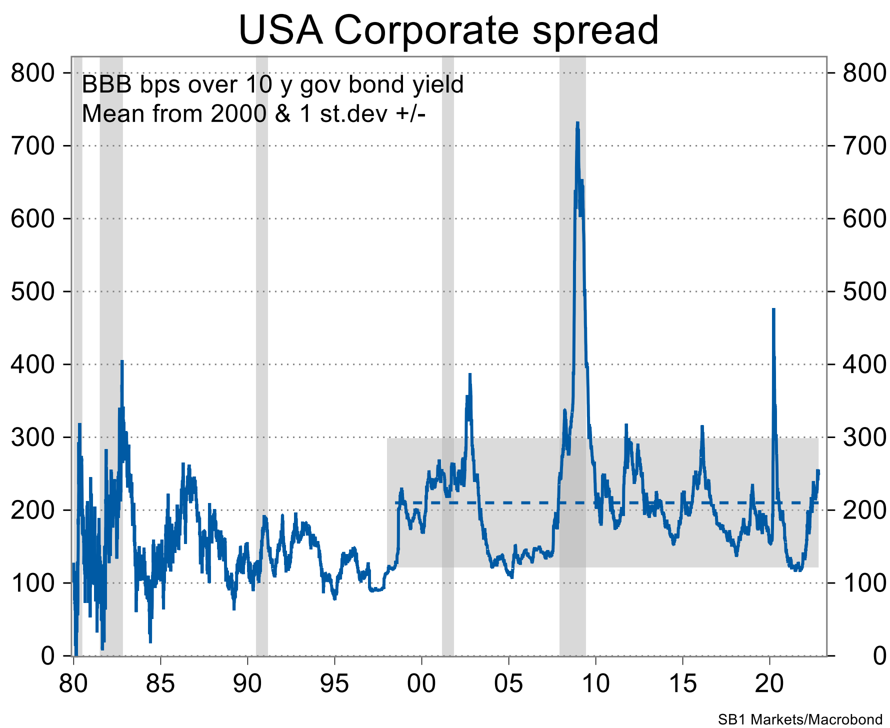
Real rates are up, while short/medium-term growth expectations are declining

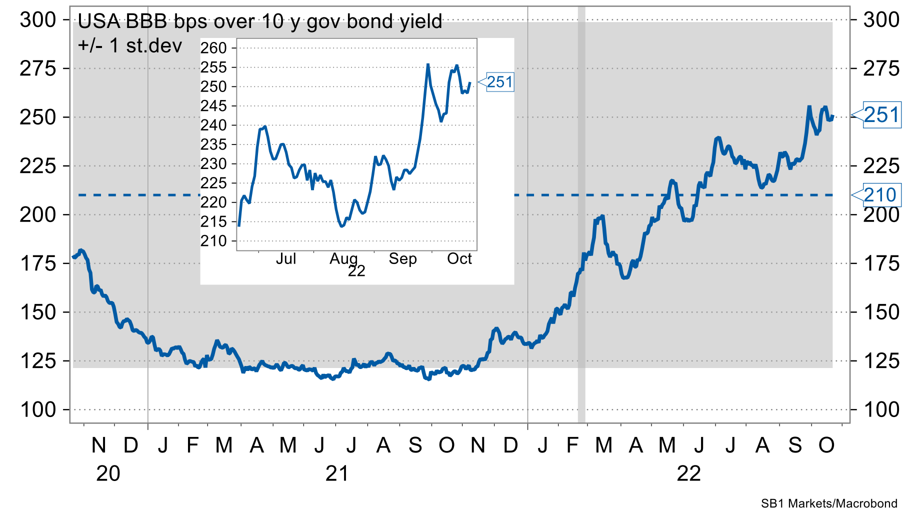


# Risk on: Credit spreads marginally down

## The trend is still steadily up – and we expect more to come




- The US BBB spread is up 130 bps from the bottom last autumn, more than a doubling
- In addition, real rates have increased by more than 270 bps since late last year
- Thus, the basis for all valuation metrics has changed dramatically, check the chart two pages forward!

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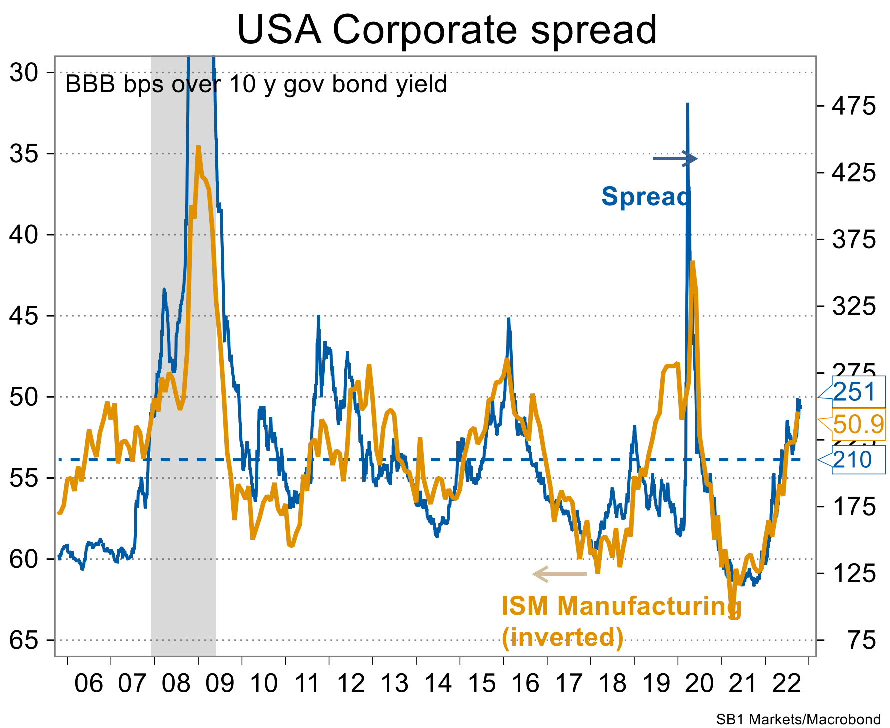
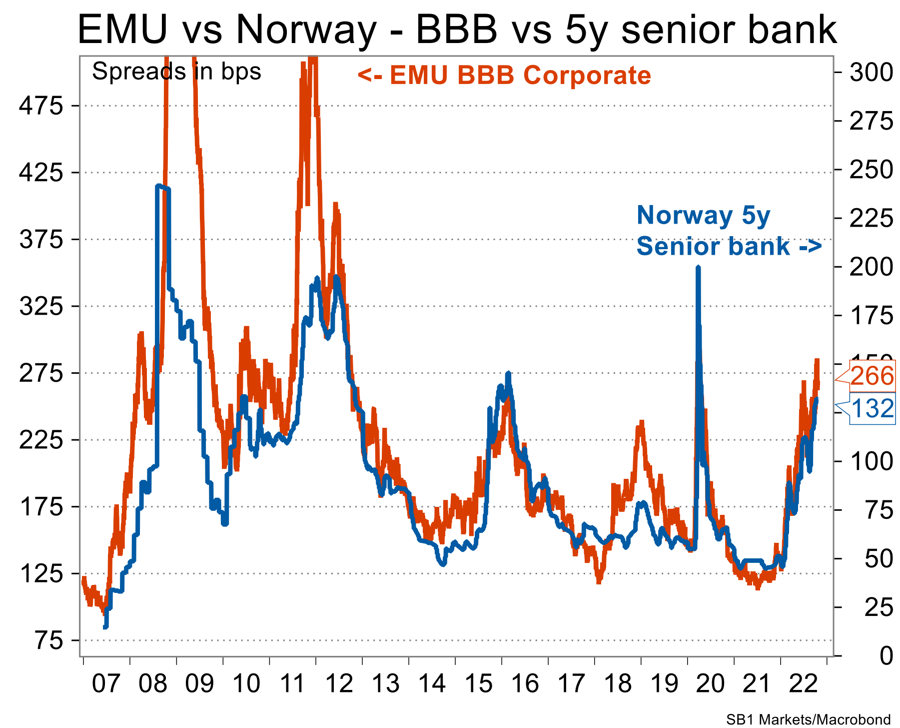
# Why have credit spreads widened in 2022? Could it be the slowing economy?

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

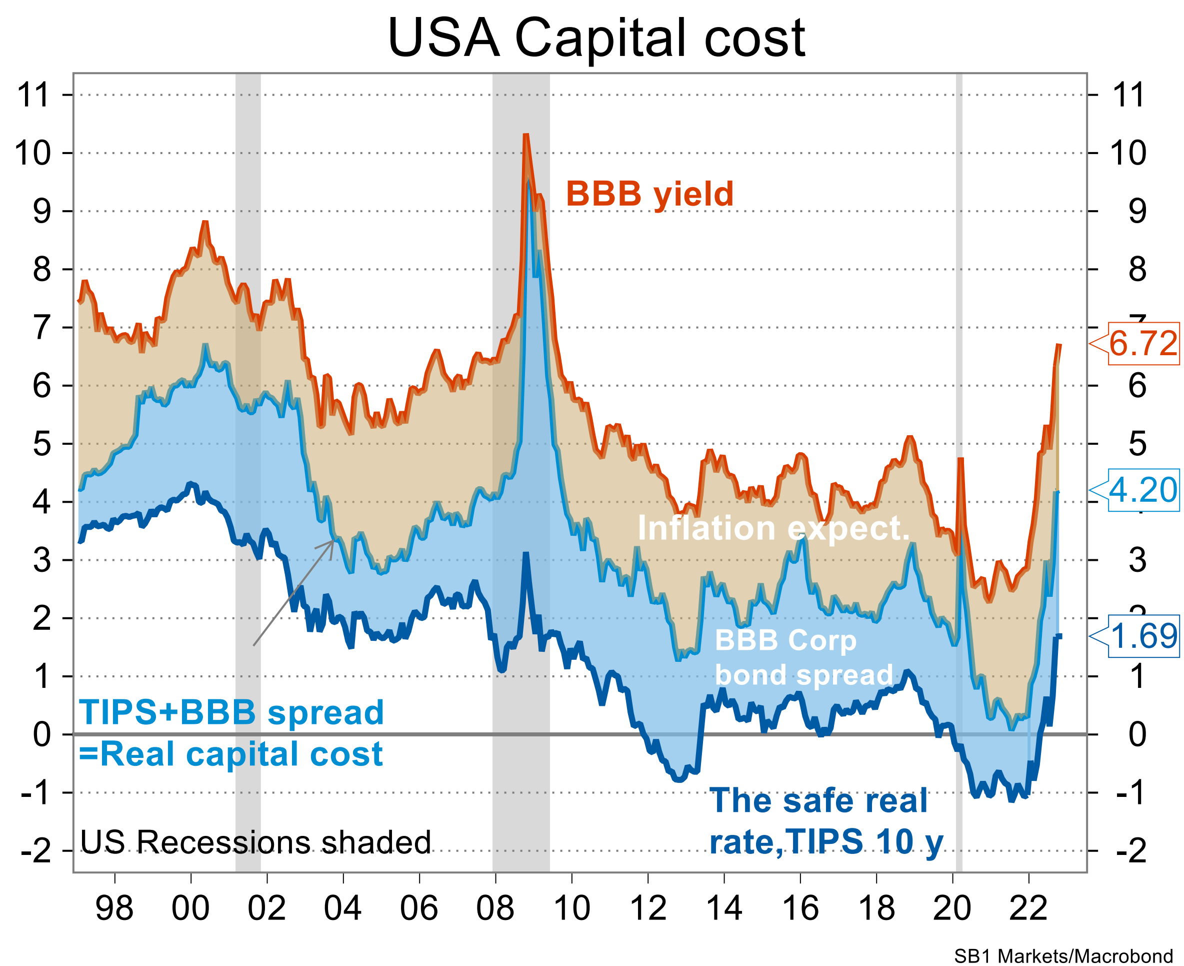



- The answer is not irrelevant for your view on the outlook for spreads, we think
- And do you think Norwegian spreads will be influenced by changes in the global credit market?
- Last week: Norwegian credit spreads rose in sympathy with higher spreads abroad the previous week
- The good news: The recent hike in spreads have made these credit instruments far more attractive, at least from a hold to maturity perspective

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

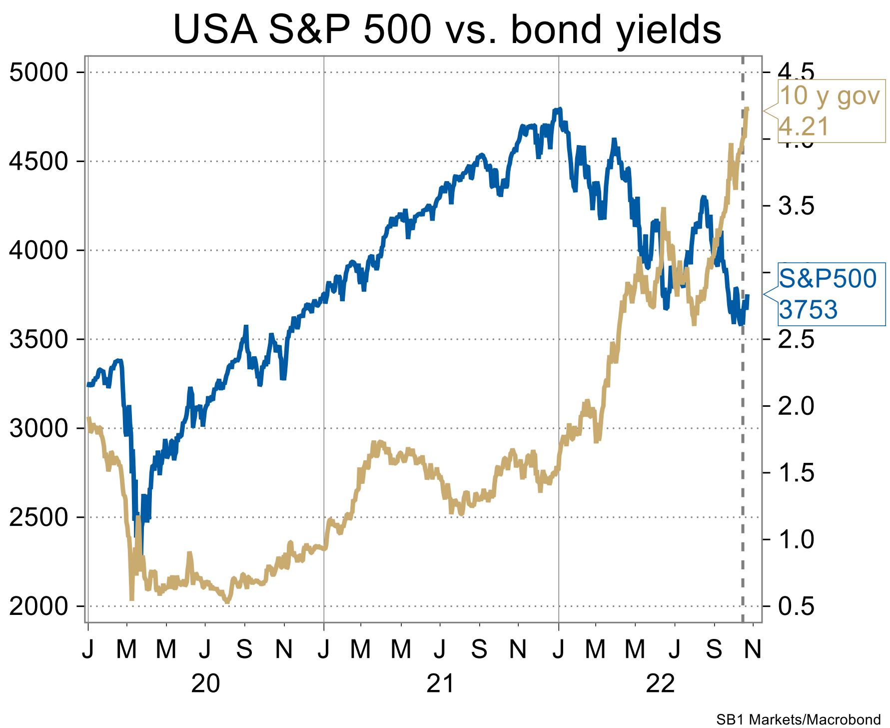
All valuation metrics have changed dramatically. *As have all calculations of return on capital*

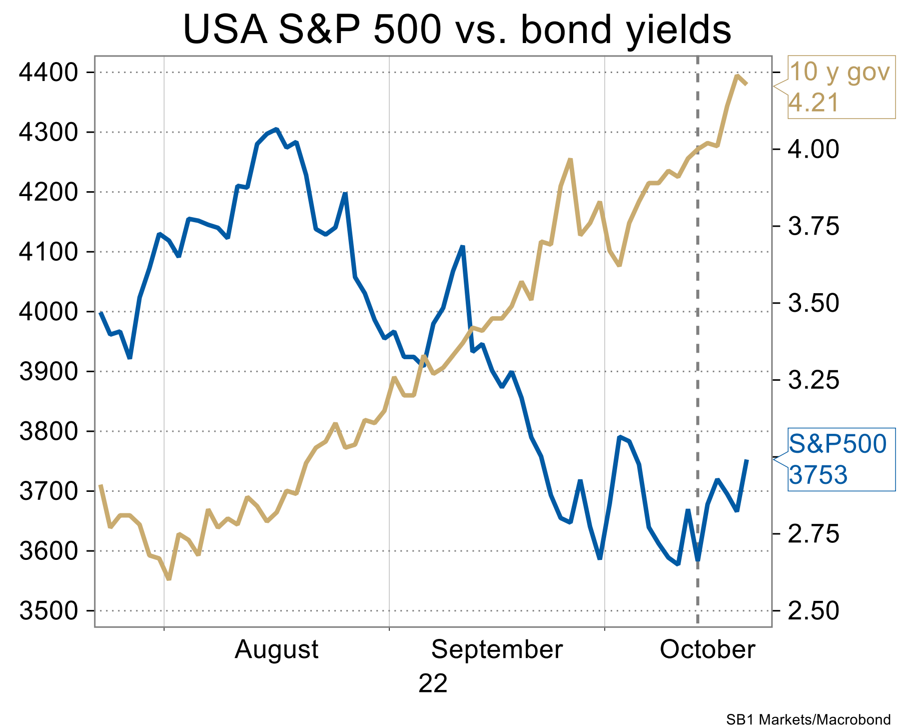



- The total real borrowing cost for a BBB company has increased to 4.2% bps from zero by the end of last year:
  - The TIPS real rate is up from -100 to + 169 bps
  - The BBB corporate investment grade spread is up from 120 bps to 251!
- Add on modest inflation expectations, the nominal borrowing cost has increase from well below 3% to above 6.7%

# Both bond yields and equities up

The 10 y bond yield shot up 21 bps, the S&P500 gained 4.7%!!




- Bond volatility has surged recent weeks/months, to levels not seen in 15 years. 'Something' is going on

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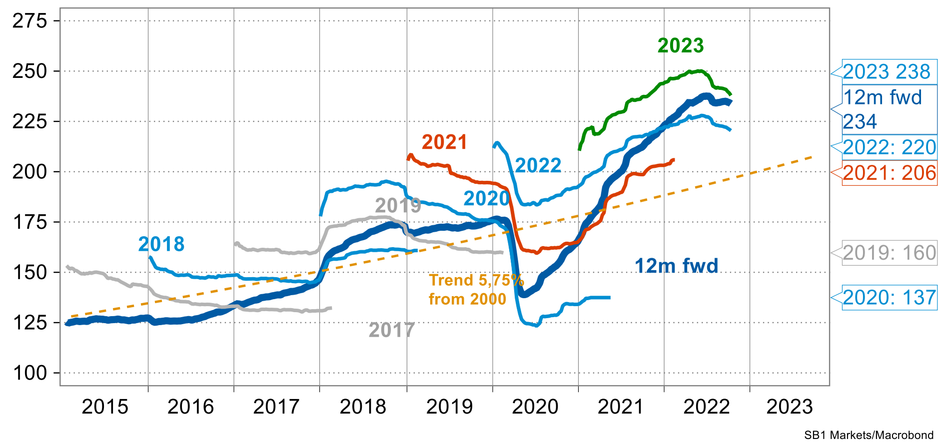
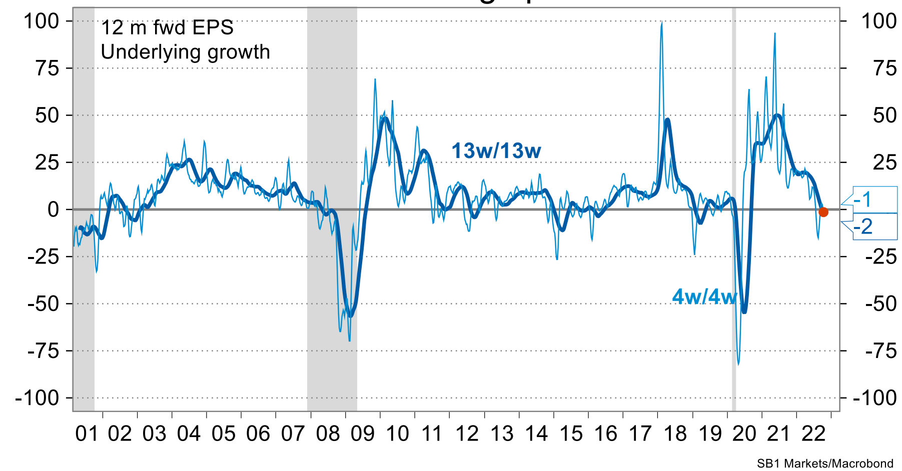
# Earnings forecasts are drifting downward, soon also the 12 m fwd EPS too

## S&P 500 expected 12 m fwd EPS was some 15% above trend and has just fallen some 5%

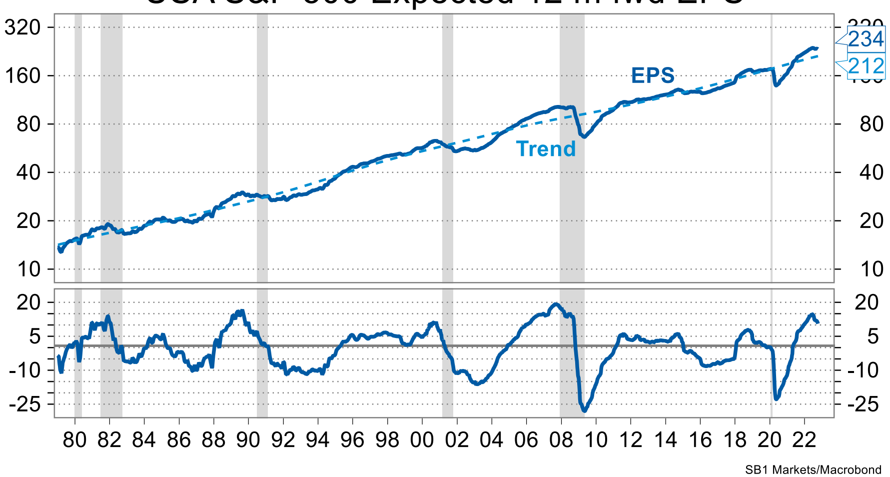
Annual S&P 500 EPS consensus (Factset)



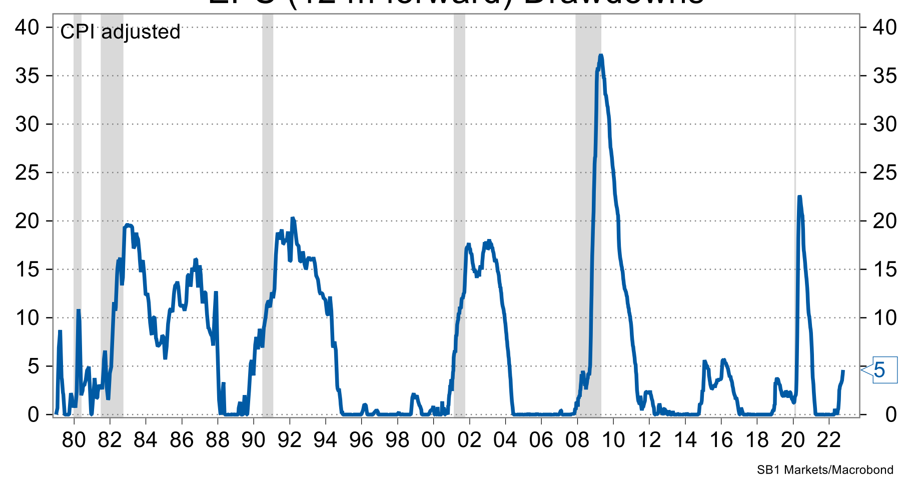

S&P500 Earnings per share




USA S&P 500 Expected 12 m fwd EPS



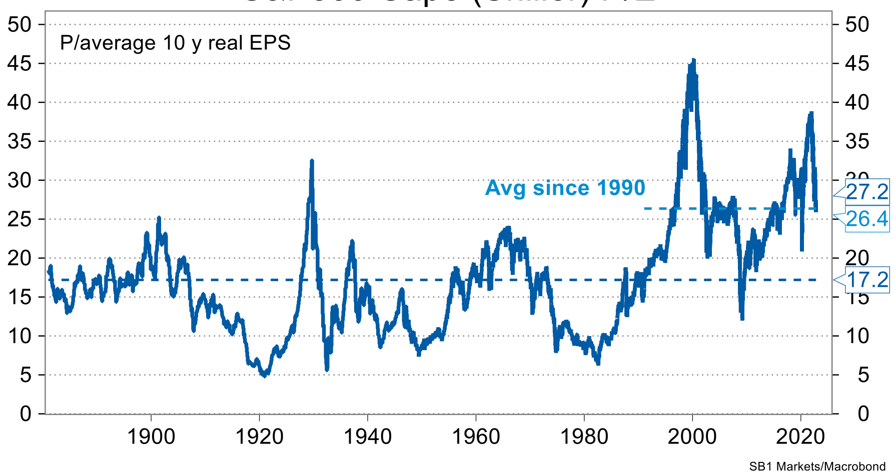

EPS (12 m forward) Drawdowns



# 4 valuation charts: Check the extreme tight correlation between real rates, P/E

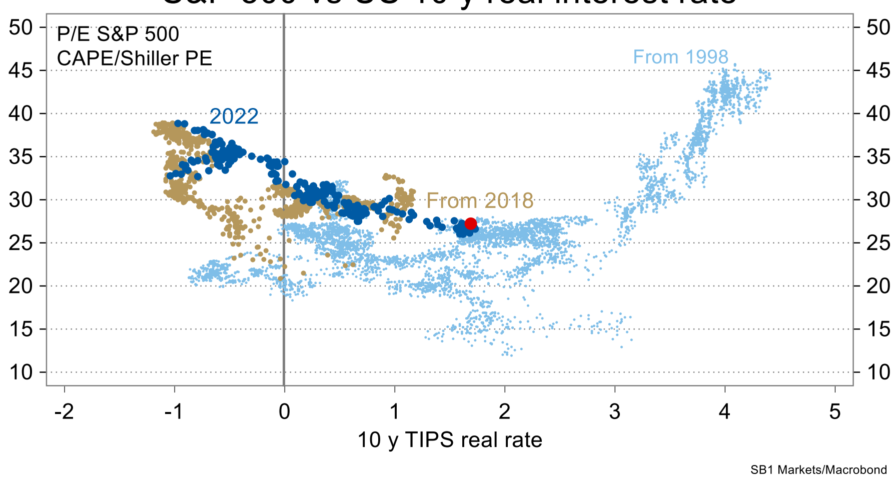
## The TIPS real rate has been the main driver for the P/E since 2018. And it still probably is

S&P500 Cape (Shiller) P/E

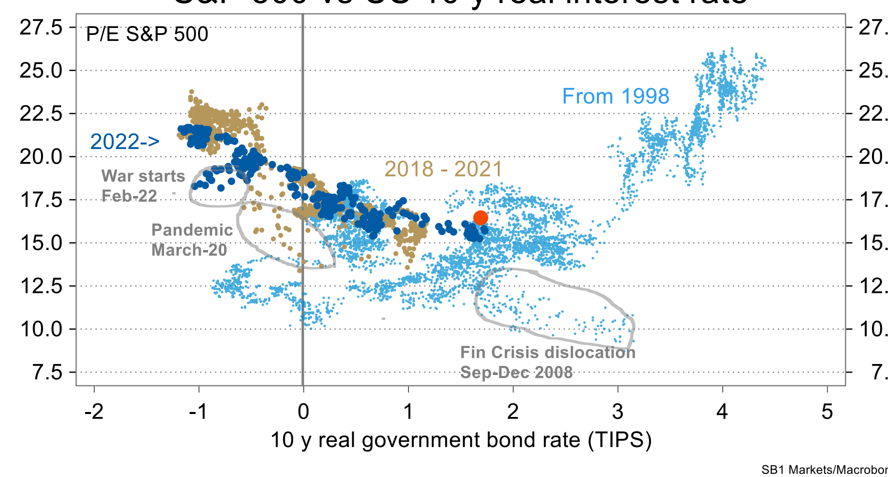



USA S&P 500 12 m fwd P/E


S&P 500 vs US 10 y real interest rate




S&P 500 vs US 10 y real interest rate



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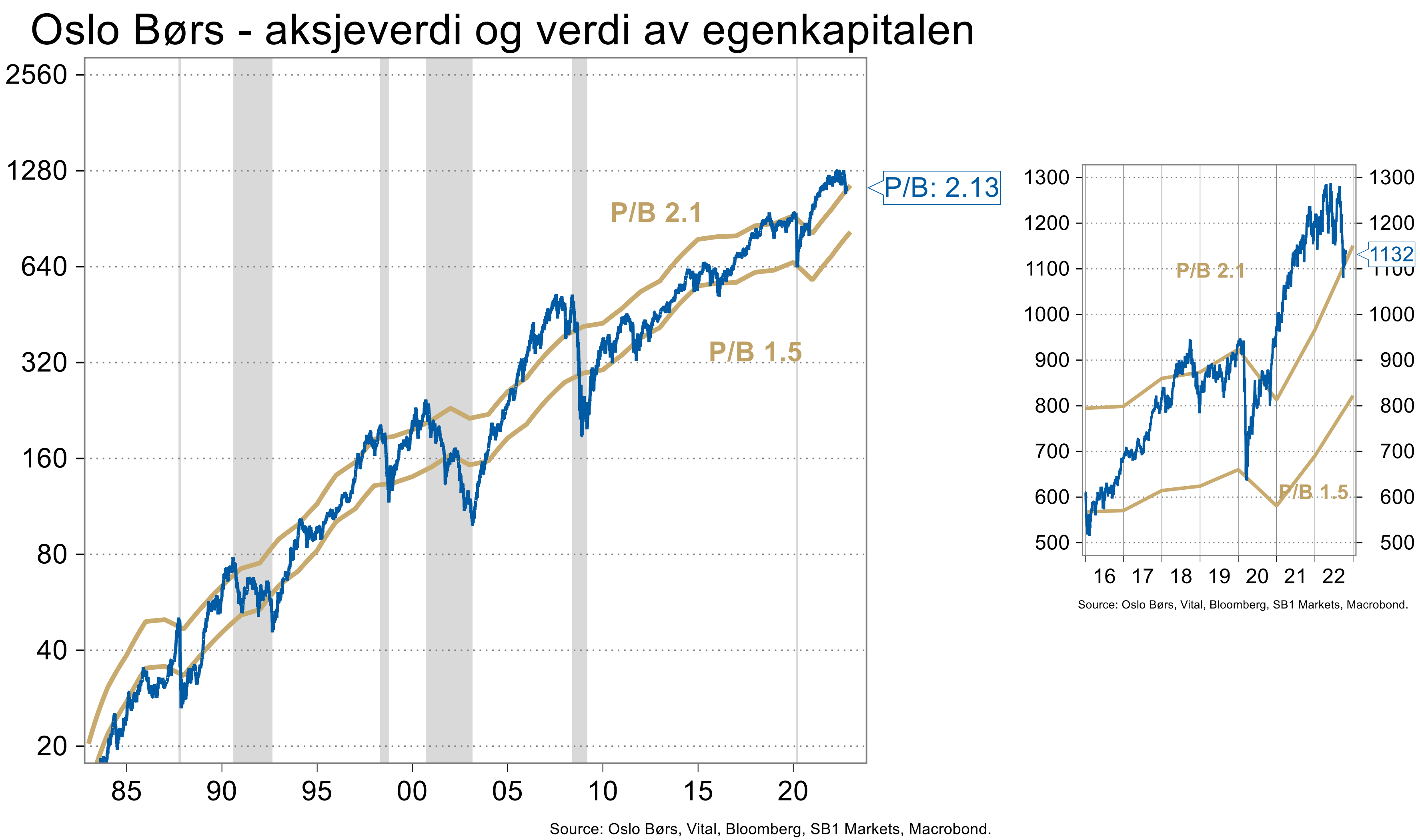
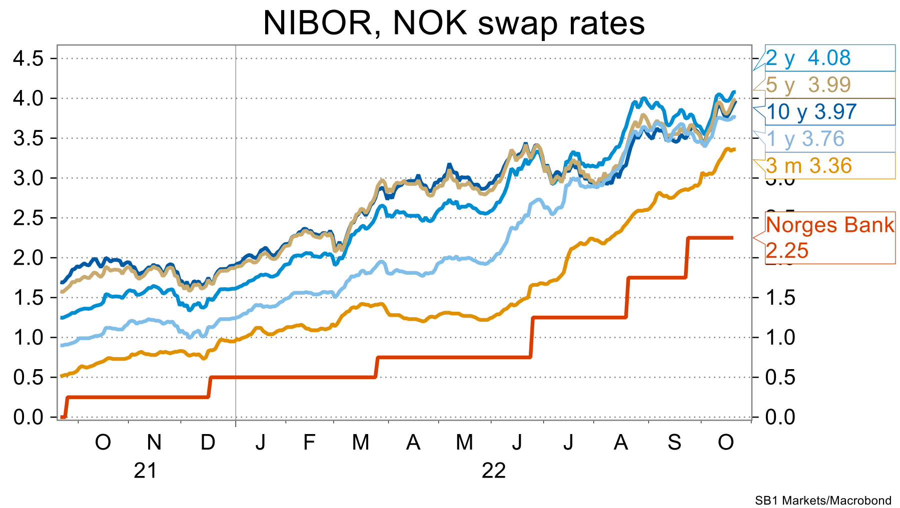
# Finally, OSEBX almost hit the upper band of the 1.5/2.1 Price/Book corridor

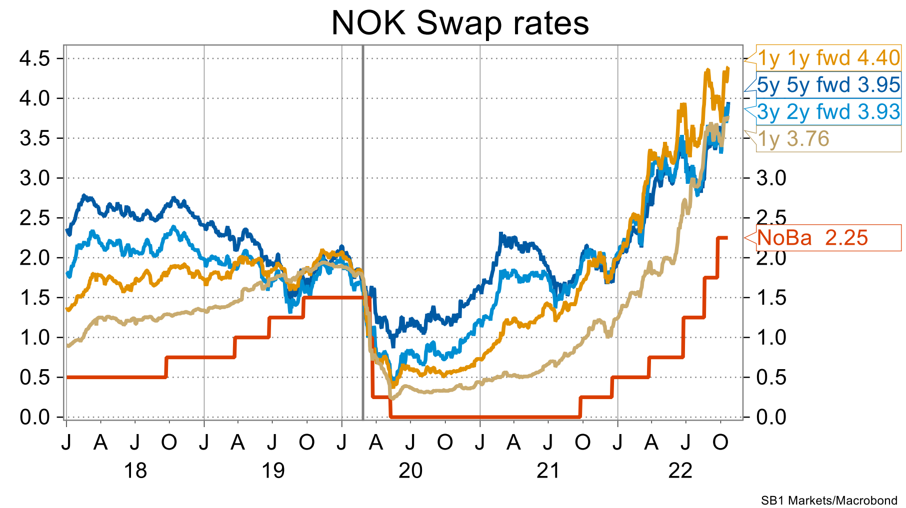
Thus, it is just 29% down the lower (1.5) band, index level 800! A <u>very</u> safe bottom at 500 (P/B=1)

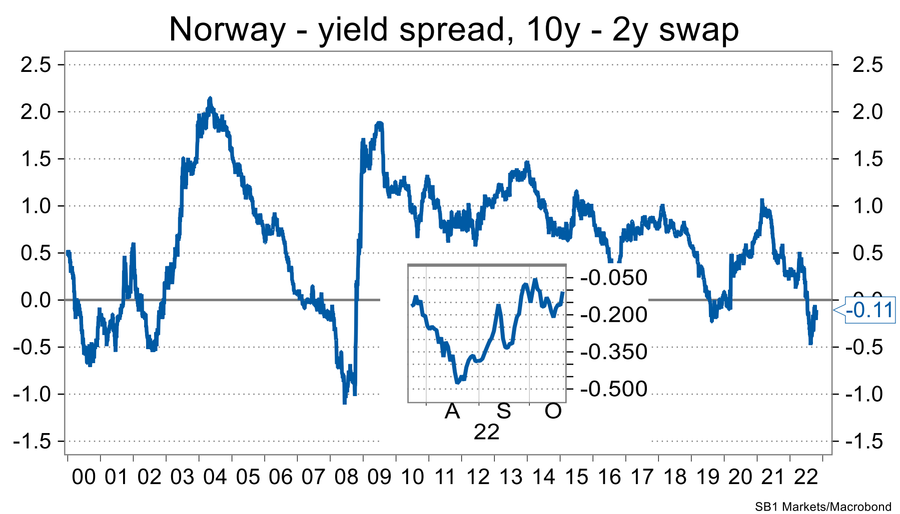


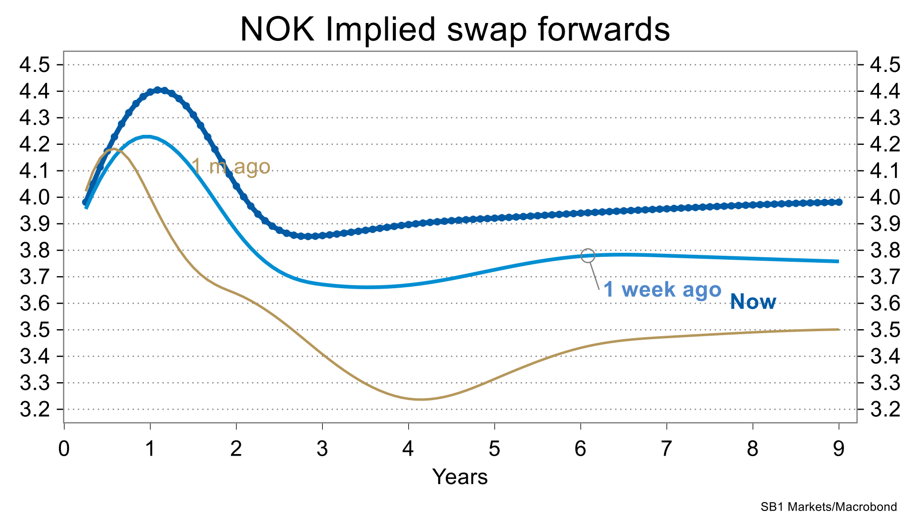
# Norwegian swaps up all over the curve, like the previous week

## The 3m NIBOR up 5 bp to 3.36%, even if the NIBOR spread very like fell



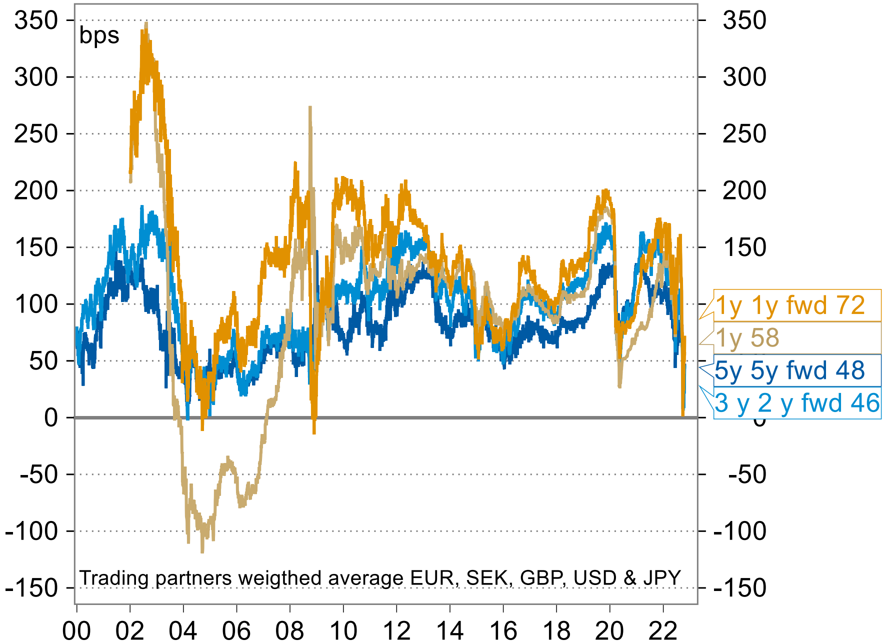



# Spreads vs trading partners further up from a very low bottom

## We do not have a case, the present level is OK

Norway vs trading partners, impl swap spreads

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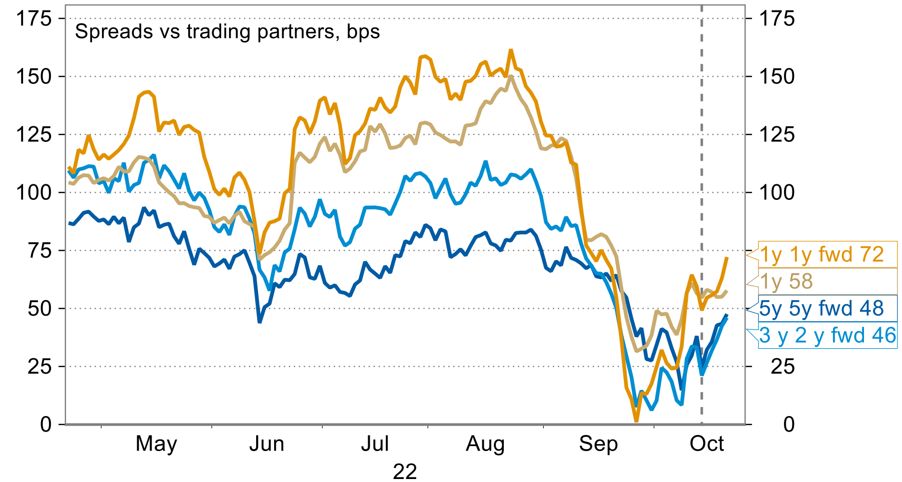


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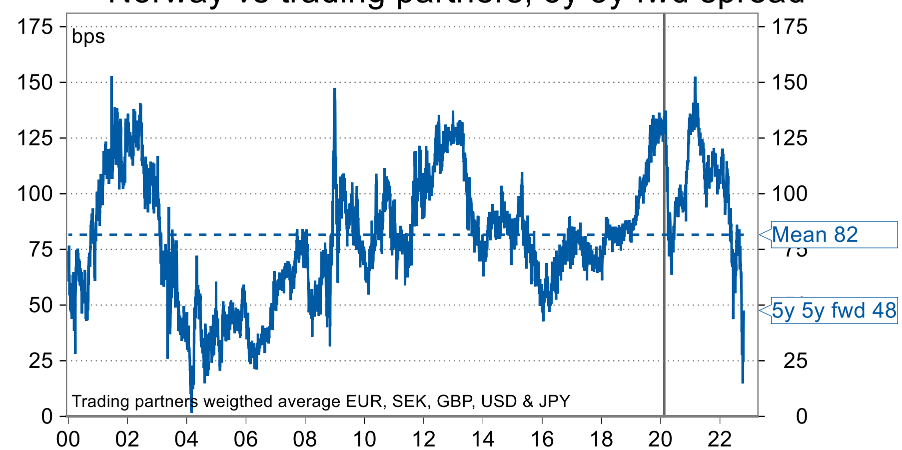
- NOK rates are still above the <u>average</u> level among our trading partners – but the margins have fallen sharply resent weeks
- Now, there may still be some downside potential in the short end, given the still rather aggressive NOK FRA-rate path (check 2 – 3 pages forward)

Norway vs trading partners, 5y 5y fwd spread

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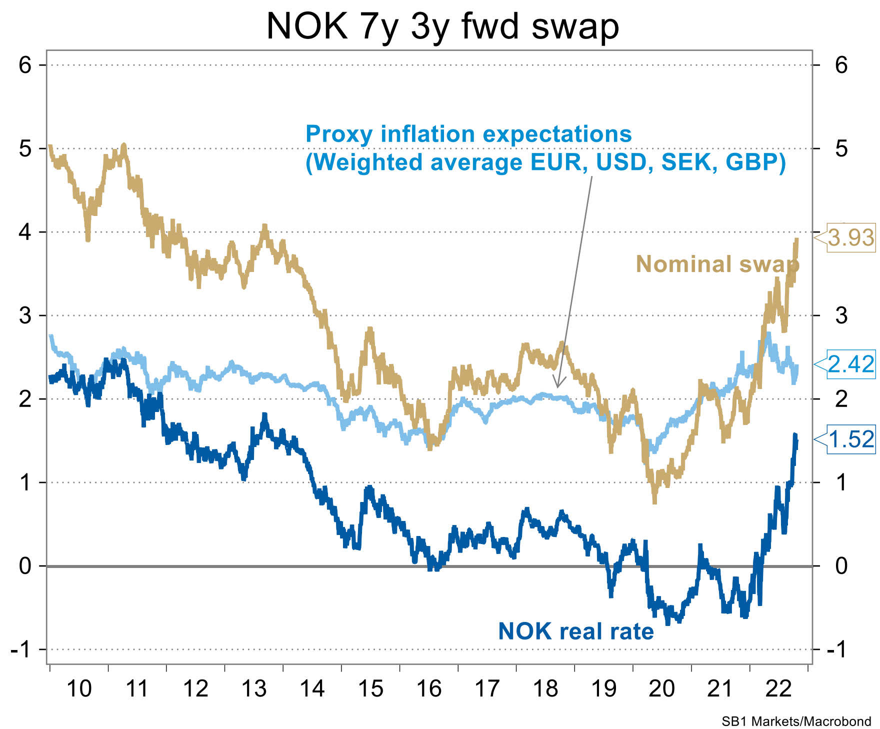
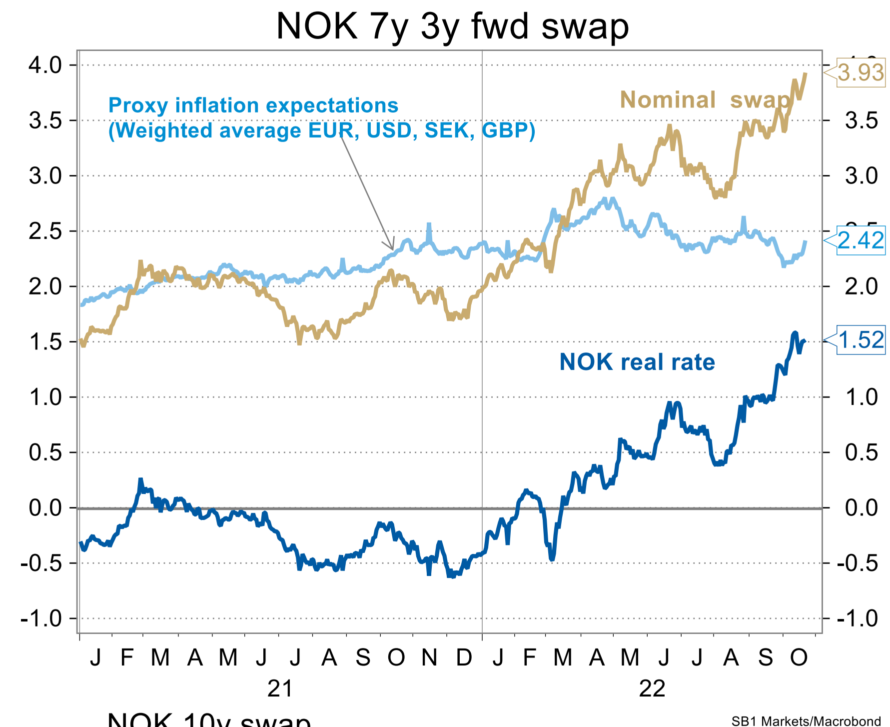
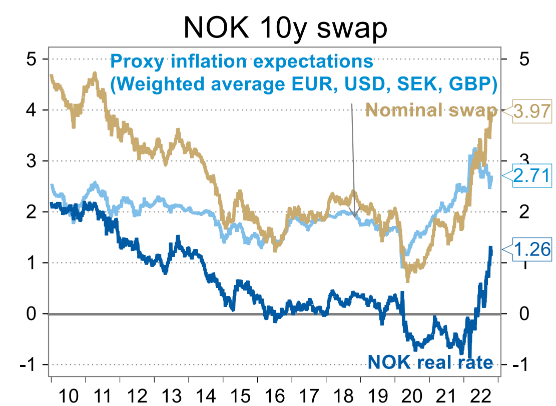
# Norway: NOK inflation expectations up last week – but the trend is down

## Real rates are trending sharply up



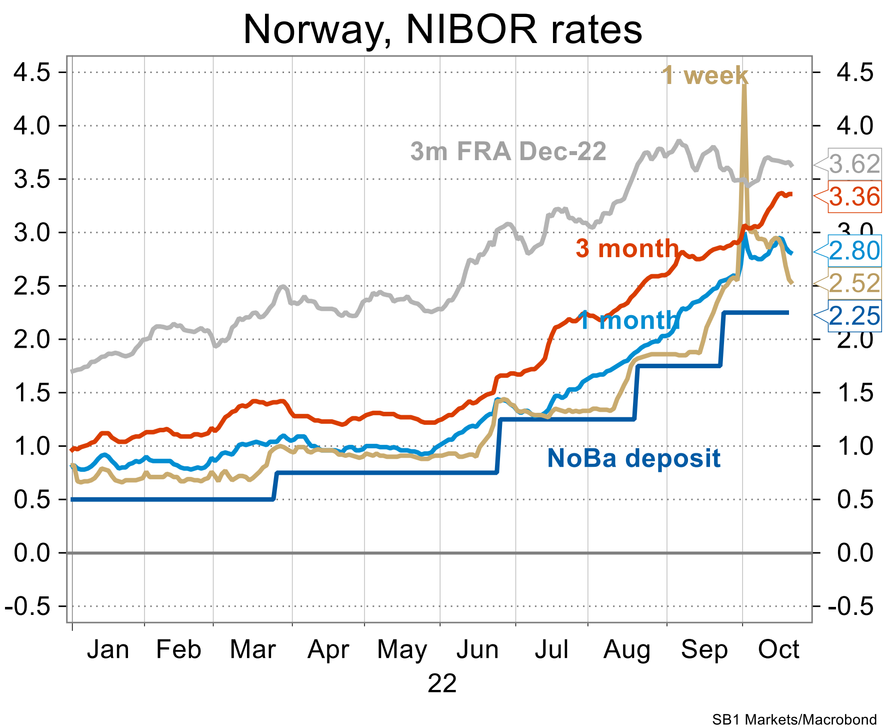

- The lift in nominal swap rates recent months is due to higher real rate expectations, while inflation expectations are trending down

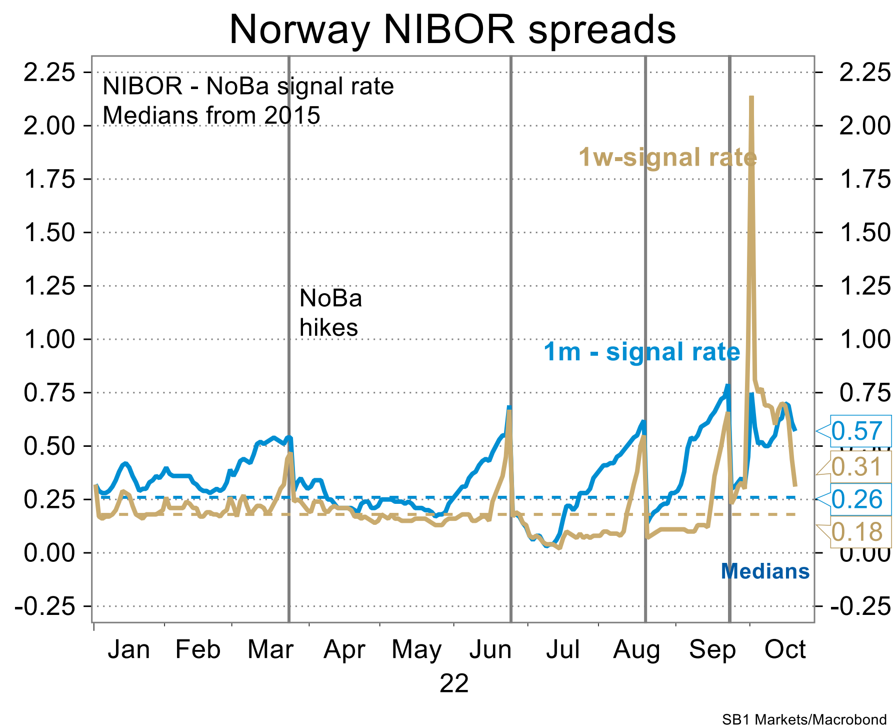



*Memo: Our NOK inflation expectation proxy is a weighted average of EUR, SEK, GBP, and USD inflation swaps, cross-checked vs historical inflation differentials and inflation expectations from surveys*

# Far less stress in the money market, at least in the short end

## If a 50 bps Nov 3 NoBa hike is discounted, the 1 m NIBOR spread is close to a normal level




- Which signals that the longer term NIBOR spreads probably <u>not have widened that much, if anything.</u> If so, the FRA-rates adjusted for a ‘normal’ spread at some 35 bps, reveal the market’s expectations for Norges Bank’s signal rate

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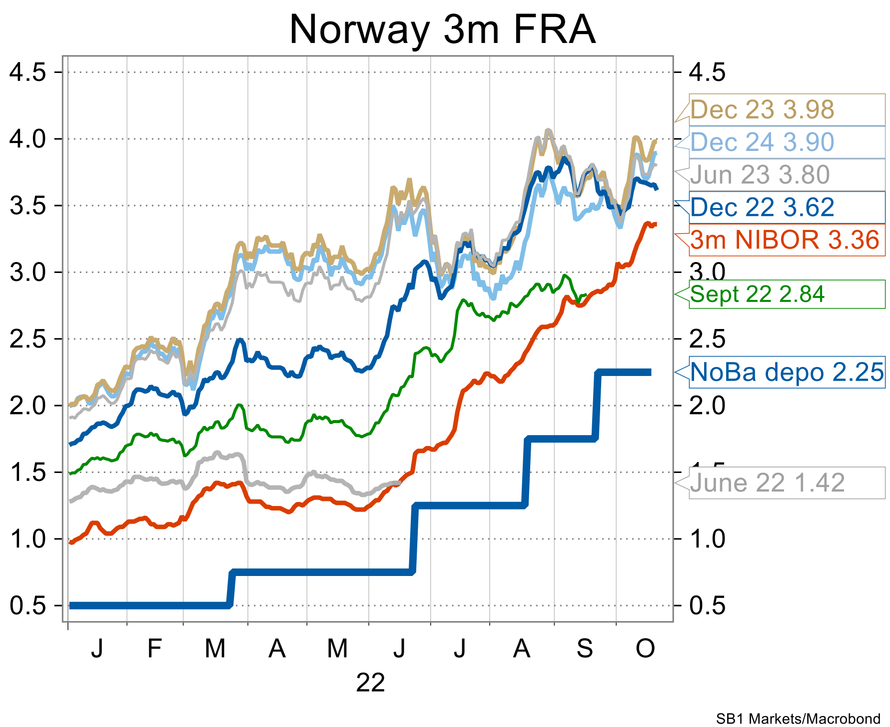
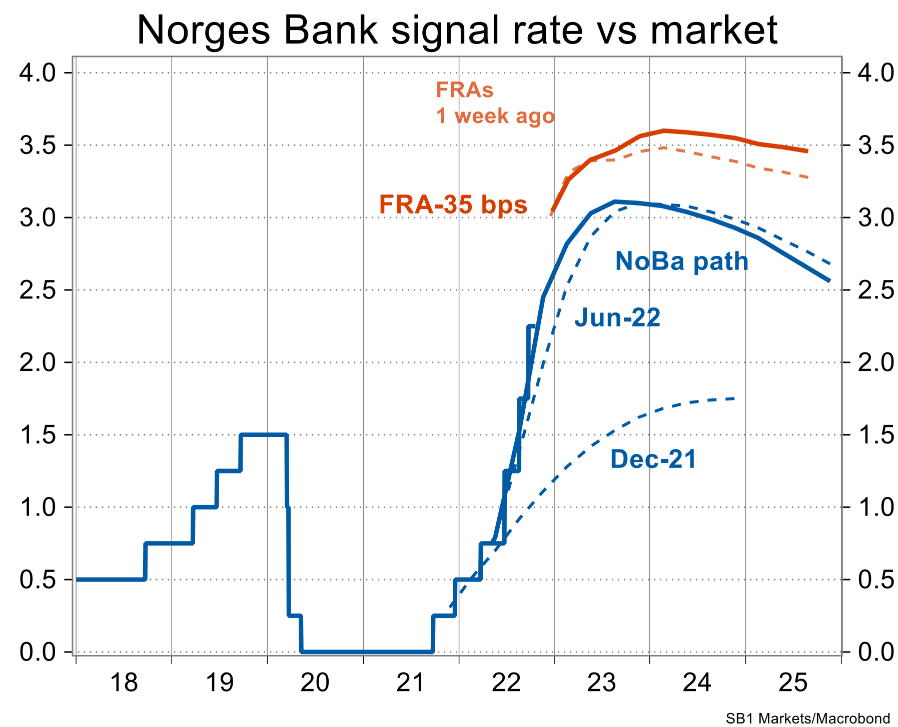
# The Dec-22 FRA down, the others up, by up to 15 bps

## The market discounts 50 + 50 bps in Nov & Dec. Not unlikely but the downside >> the upside!



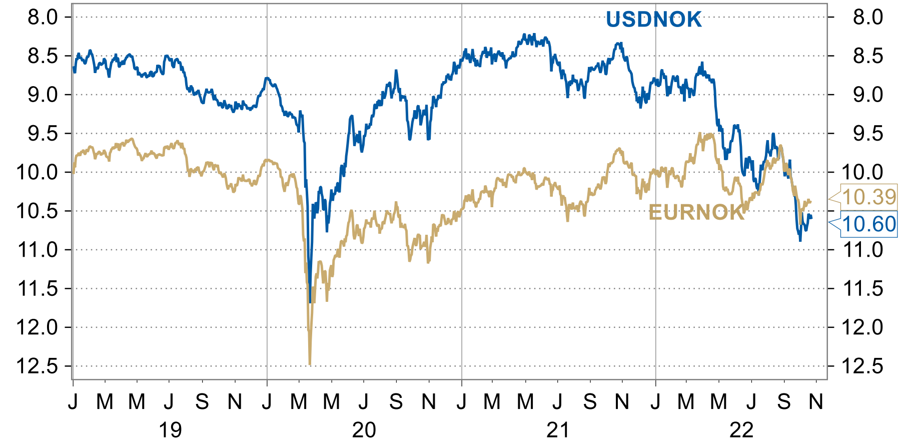

- **The 3m NIBOR** added 5 bps to 3.36% last week
- Given the current 3 m NIBOR at 3.36% and the Dec-22 3 m FRA at 3.62% (up 5 bps and down 6 bps resp. last week), the market still discounts close to 50 bps hikes in both Nov and Dec even if the NIBOR spread 45 bps, 10 bps above a normal 35 bps level!
- **Higher inflation** than expected is an argument for a 50 bps hike in November, but we are still not convinced that the bank will take another ‘double’ as wage inflation has not accelerated by much (if anything)

# The super-cyclicals appreciated, the CNY and the GBP fell

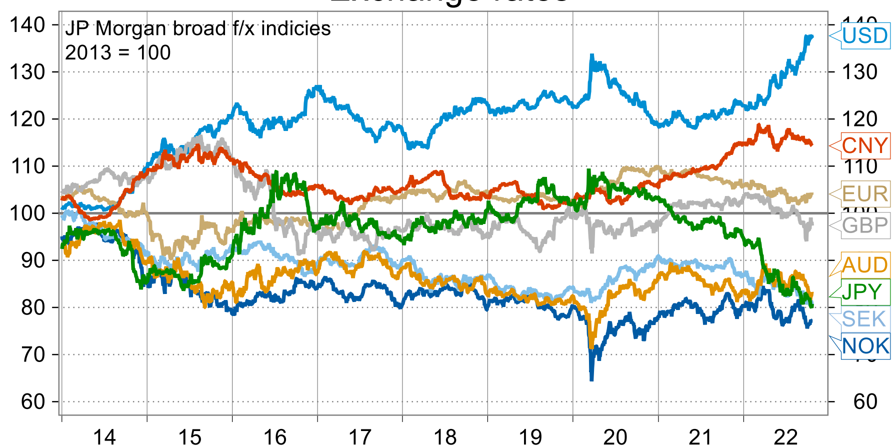
The markets were probably not well prepared for PM Truss’ exit. USD the top of the pop last month

## EURUSD

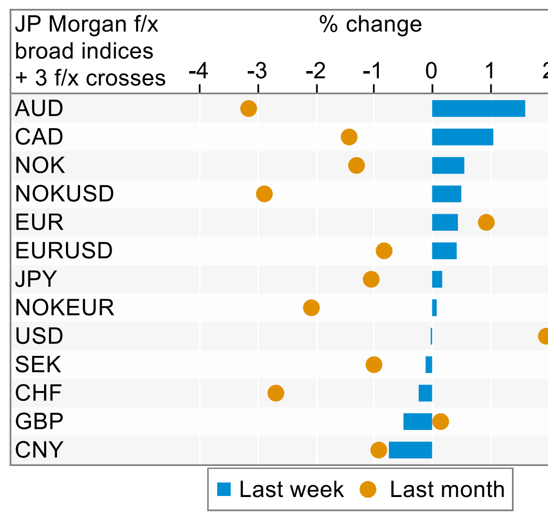

## NOK vs EUR & USD




## Exchange rates




## F/x markets




| JP Morgan f/x broad indices + 3 f/x crosses | Last week | Last month |
|---|---|---|
| AUD | 1.6 | -3.1 |
| CAD | 1.0 | -1.4 |
| NOK | 0.6 | -1.3 |
| NOKUSD | 0.5 | -2.9 |
| EUR | 0.4 | 0.9 |
| EURUSD | 0.4 | -0.8 |
| JPY | 0.2 | -1.0 |
| NOKEUR | 0.1 | -2.1 |
| USD | 0.0 | 2.0 |
| SEK | -0.1 | -1.0 |
| CHF | -0.2 | -2.7 |
| GBP | -0.5 | 0.1 |
| CNY | -0.7 | -0.9 |

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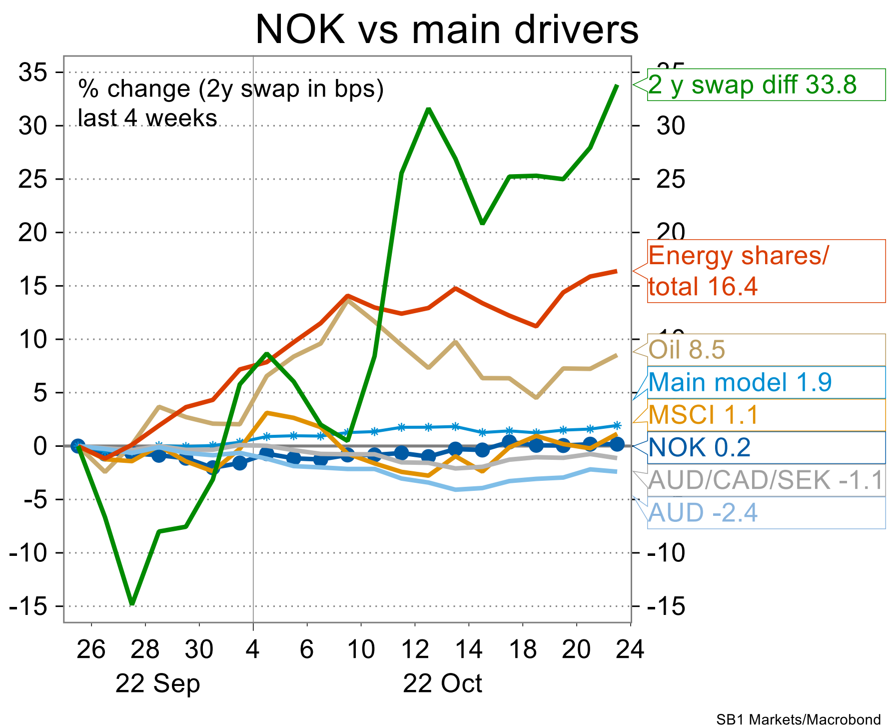
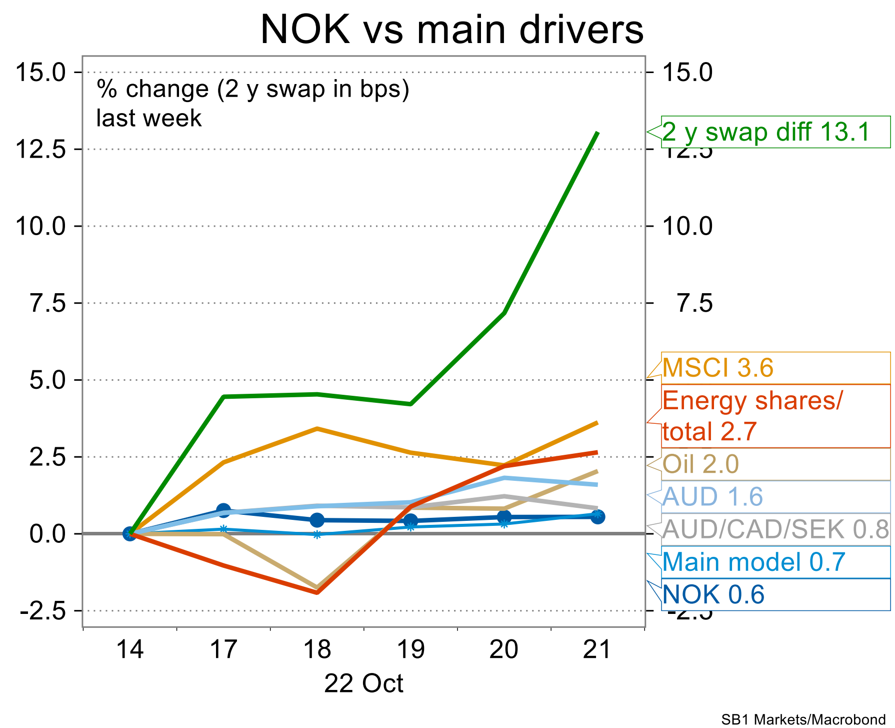
# NOK up 0.6%, supported by higher interest rates, equities, oil & our f/x peers

## Nothing on the downside last week




Gaps vs. out model estimates mixed last week

- ***NOK is 2.2% below our main model estimate (from -2.1%)***
- The NOK is 7% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts, a substantial weakening (from -6%)
- NOK is 6% weaker than an estimate from a model that includes global energy companies equity prices (vs the global stock market) (from -4%)

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

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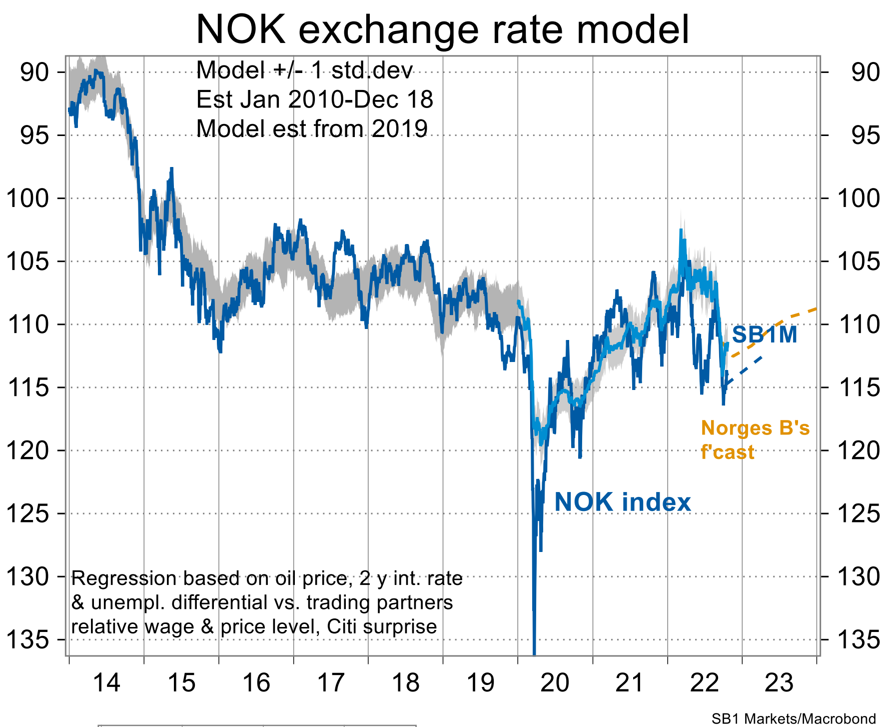
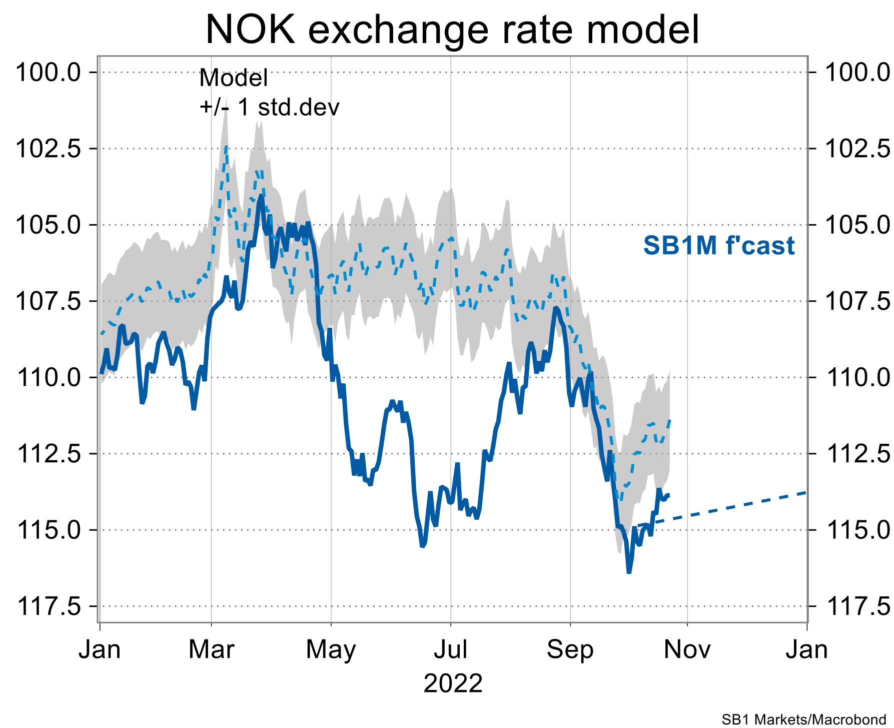
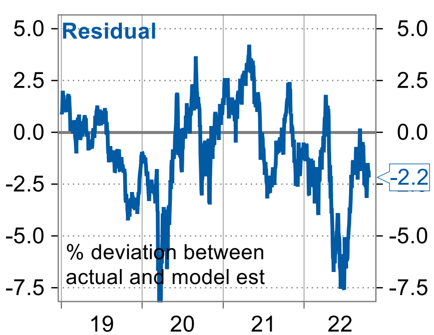
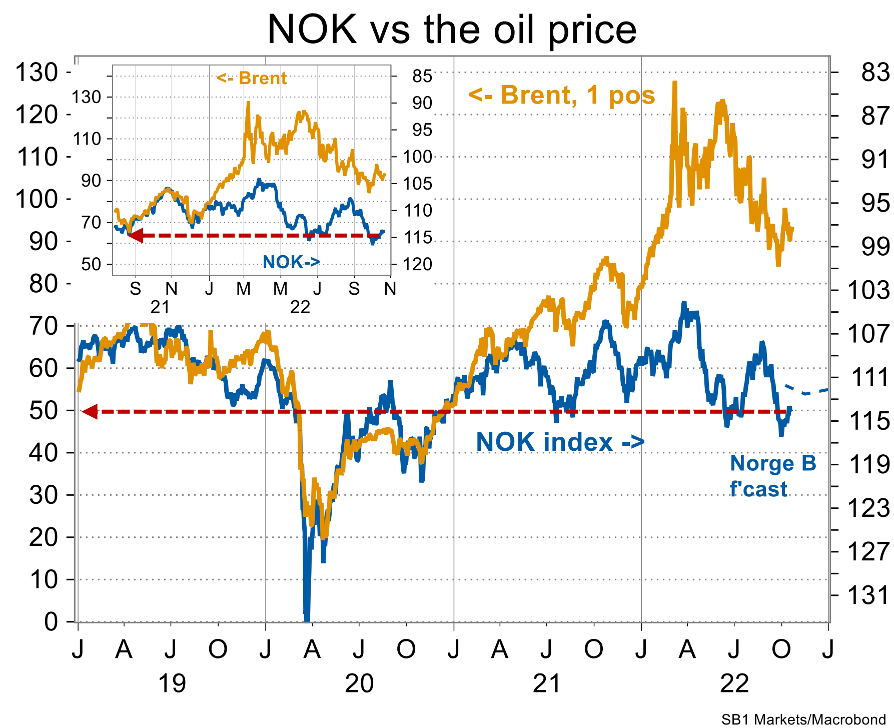
# The NOK 2.2% below the model estimate

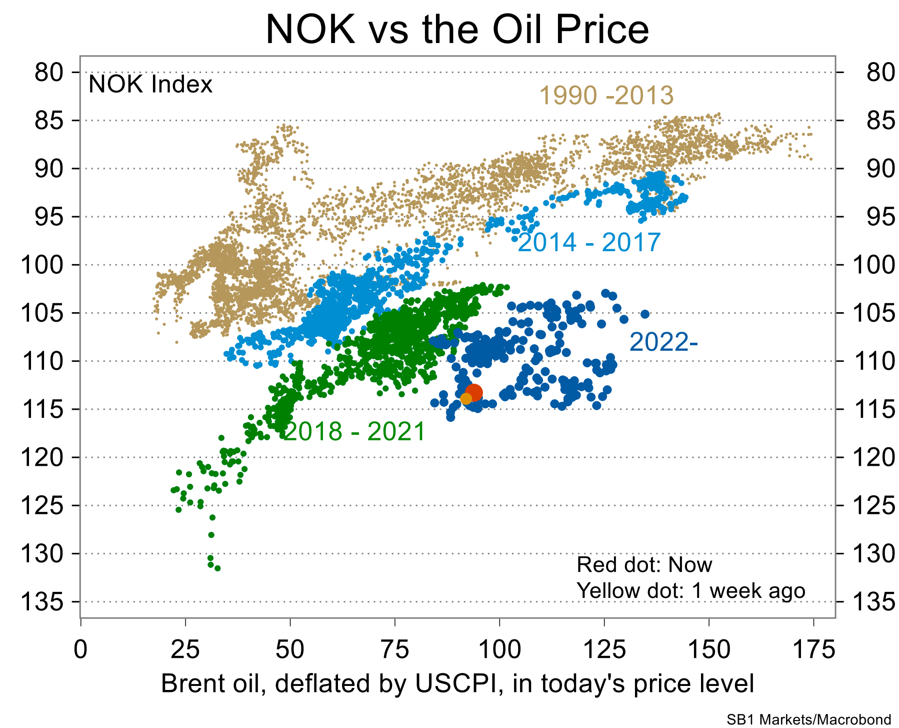


# Oil price up 2%, NOK up too but only by 0.6%

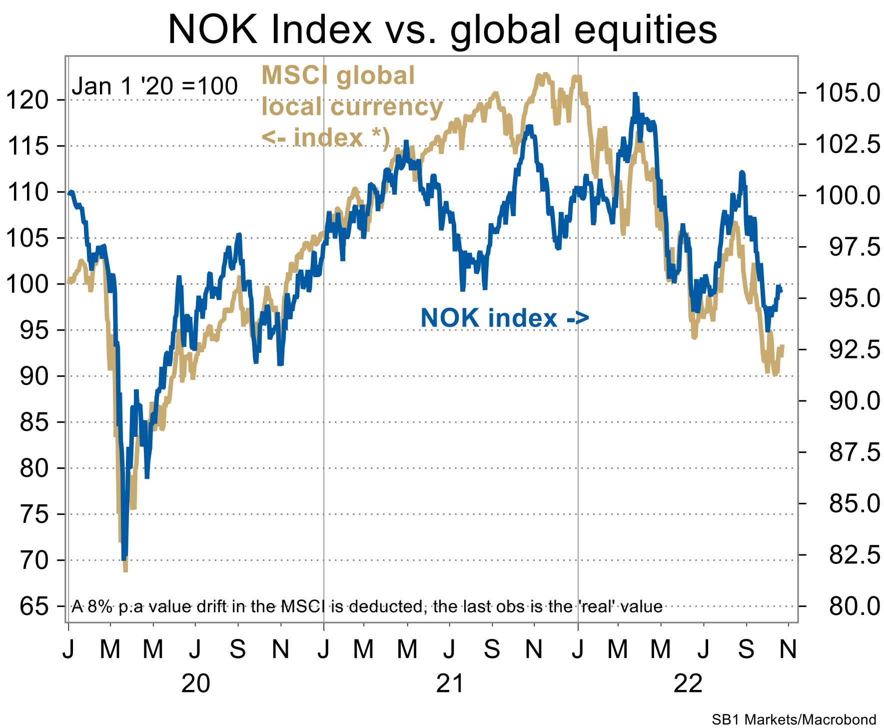


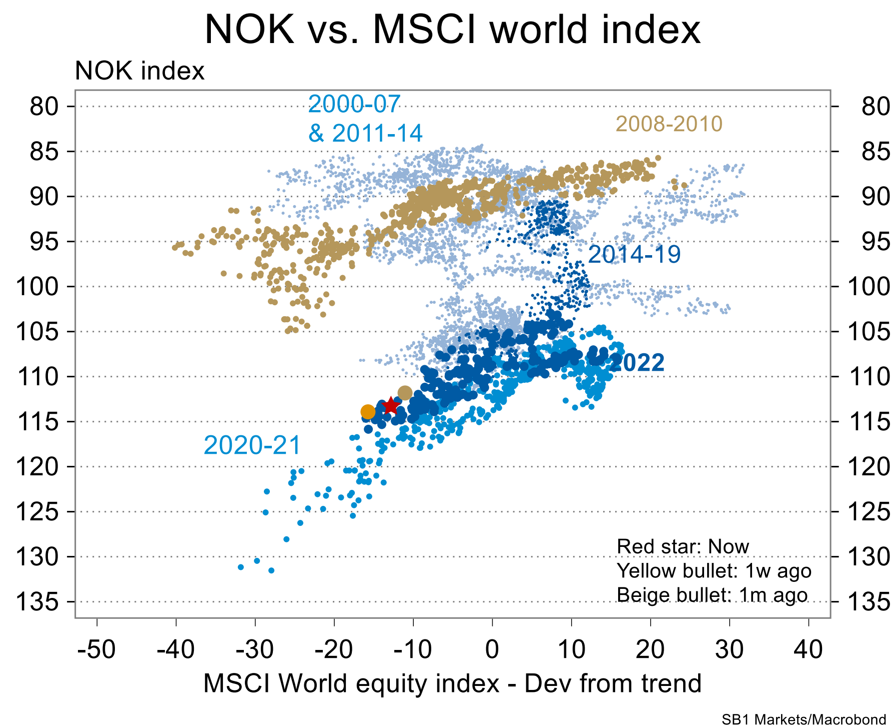




- The correlation between the NOK and the oil price has been close to non-existent since the start of 2022

# The NOK marginally up alongside a stronger global stock market

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

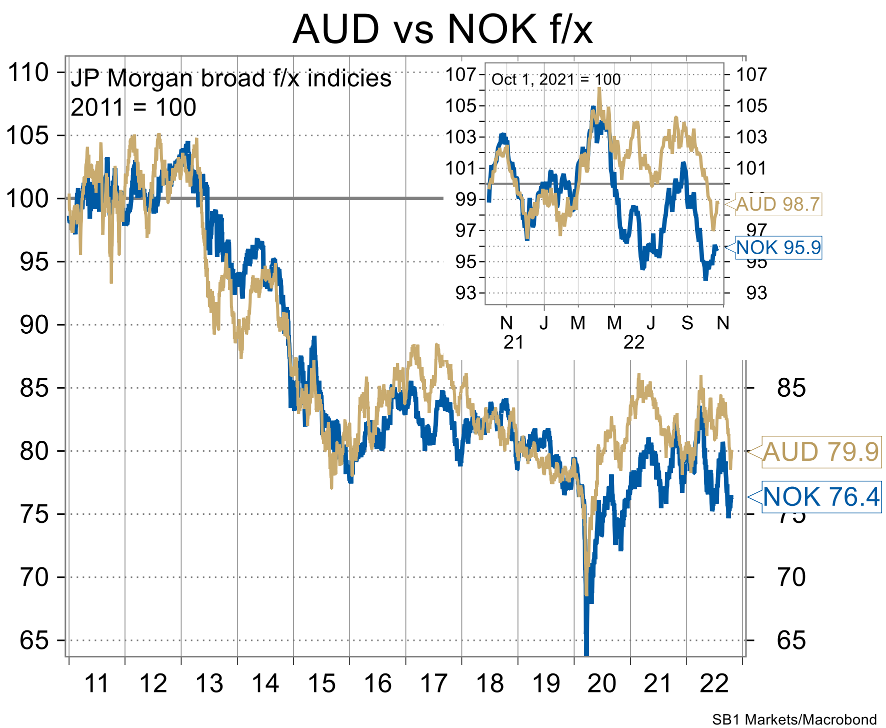


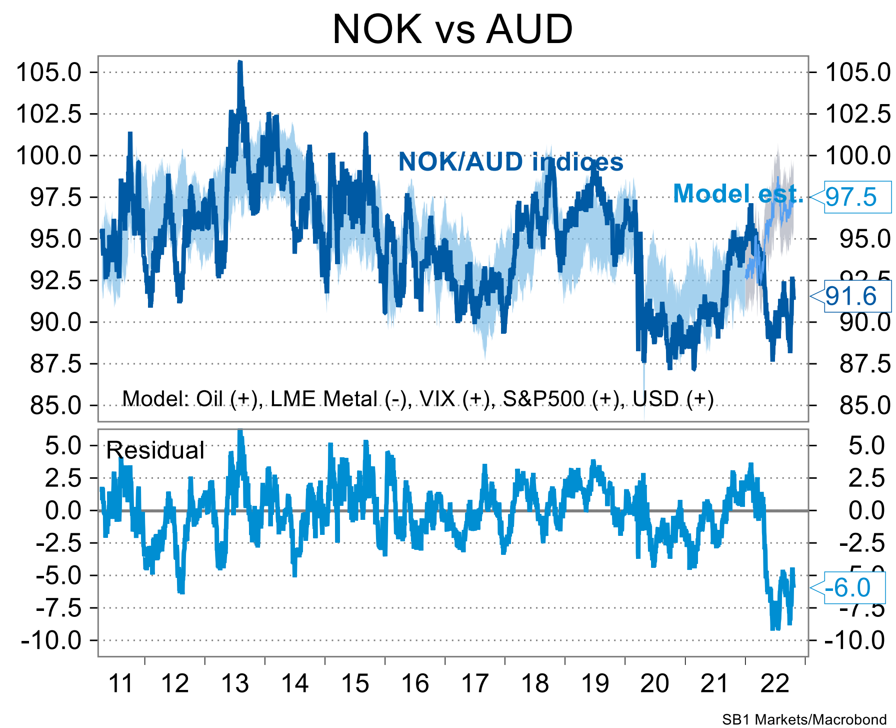




- There is no stable correlation over time, and when it is, the oil price is normally the real driver. Not so much now

# Both the AUD and NOK up last week – NOK is still lagging

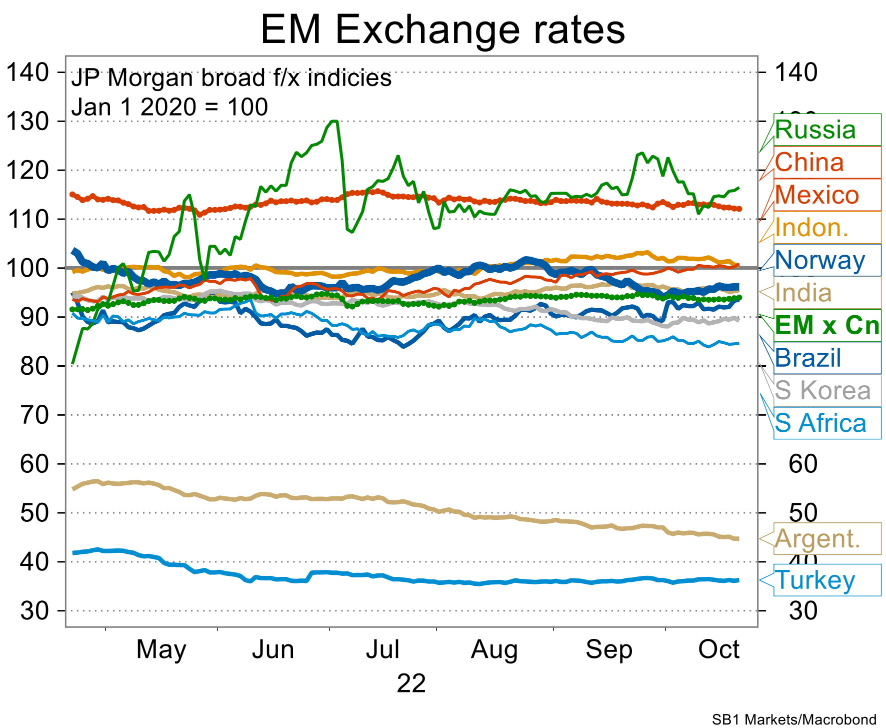
NOK is 6.0 % below our model f'cast vs AUD

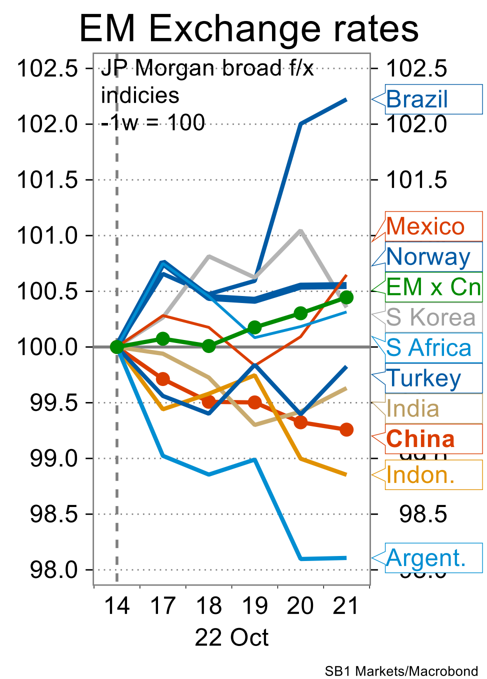


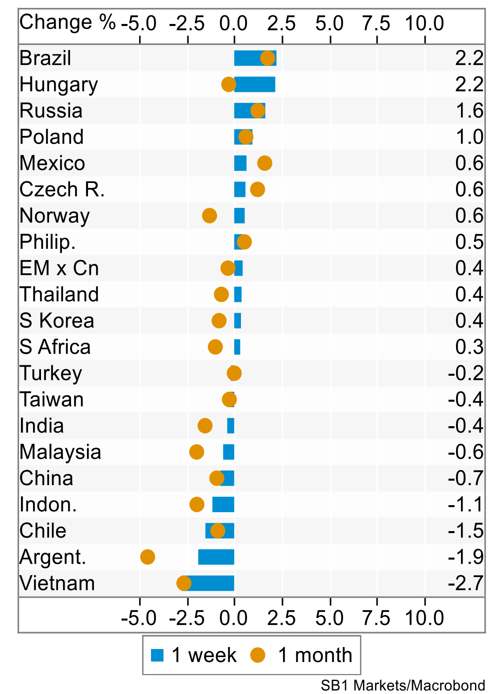




- The discrepancy between the NOK and AUD is unusual, given the normal factors that normally has explained the limited gap between the two
- Normally, NOK strengthens vs the AUD when the oil price rises vs. the LME metal index, when VIX, and the S&P500 index increases, and the USD index appreciates.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

# EM f/x (x China) in sum up last week




- The CNY has been slightly on the weak side recent weeks, and fell by 0.7% last week

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