Macro weekly

48/22

28/11/2022

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Last week

- **The War/European Energy/Commodities**
  - **Ukrainian civil infrastructure** is badly hit by Russian missiles – and death rates on the battleground is very likely high on both sides, without any results (either way). Normally a natural starting point for negotiations but so far, no signals of that
  - **European gas and electricity prices** continued upwards last week as Russia threatened to close down the last westward gas pipeline
  - **Other commodity prices** fell further, especially the oil price
  - **China** is still struggling to keep the virus in check – as the population has not been offered effective 'western' vaccines. What a mess. Global value chains does not have to be seriously hurt though, based on the experience from the lockdowns during the spring
- **Preliminary November (DM) PMIs**
  - According to the preliminary PMIs from the rich part of the world, the global PMI very likely fell further in November, by 1 p to 48.0, signalling close to zero growth in the global economy, way below present macro forecast. Orders plummeted, delivery times are back to square one, and manufacturing price inflation is heading downwards but remains elevated
- **China**
  - **Banks' reserve requirements** were lowered for the 2nd time in 2022, by another small 0,25 pp step – freeing up a couple of weeks' bank lending
- **USA**
  - **The Fed** will likely moderate their hiking pace to 50 bps in December, as the minutes revealed that a substantial majority see it as appropriate to slow the pace of increases soon. The rate hikes have been sizeable and considering that the Fed is now moving into more restrictive territory, they can afford to wait and see the effects of the policy that has been implemented. The pace is anyway not the most important story for the markets, it is rather the terminal level, which the Fed has already communicated is higher than previously signalled
- **EMU**
  - **The consumer confidence index** rose in November, according to the preliminary estimate. The level is still -2.5 st.dev below avg, which is a very low level, still better than the -3.5 st.dev rock bottom in September. The low confidence is of course a result of the high inflation, higher interest rates, possible gas shortages, and the war
- **Sweden**
  - **The Riksbank** raised the policy rate by 75 bps to 2.5%, as widely expected by the market. The bank states that the inflation is far too high, and that they expect additional hikes up to 2.8% at the beginning of 2023. The bank expects the economy to contract in 2023 (aka a recession), and the unemployment rate to increase moderately
- **Norway**
  - The **LFS (AKU) unemployment** rate rose 0.2 pp to 3.4% in Sept (Aug-Oct avg), we expected unch, and employment, which has been trending down since the spring, fell again. However, the more reliable monthly employee statistics still report decent – and just gradually slowing – growth through Oct, as did the Q3 National Accounts. Wage inflation has not accelerated, according to both the monthly payroll stats, and the quarterly labour cost index – which is surprising given the tight labour market through 2022
  - **Household credit** growth slowed further in October, and the annual growth rate fell 4.1%, to the lowest level in 20 years. A further slowdown is likely, given the weakening of the housing market. **Mainland businesses** are still increasing their debts at a rapid pace, close to 9%. But we have seen it worse…
  - **Consumer confidence (CCI)** was up in November, to 3.9 st.dev. below average. ATL at -4.6 st.dev in October, and the deeply negative consumer confidence is not unique to Norway – in fact, record low levels can be observed across the developed world, though with the Nordics (- Iceland) at the bottom of the list. However, most CCIs are now flattening – or turning up

This week: PMI/ISM; US labour market, house prices; Norw. unempl., retail s.

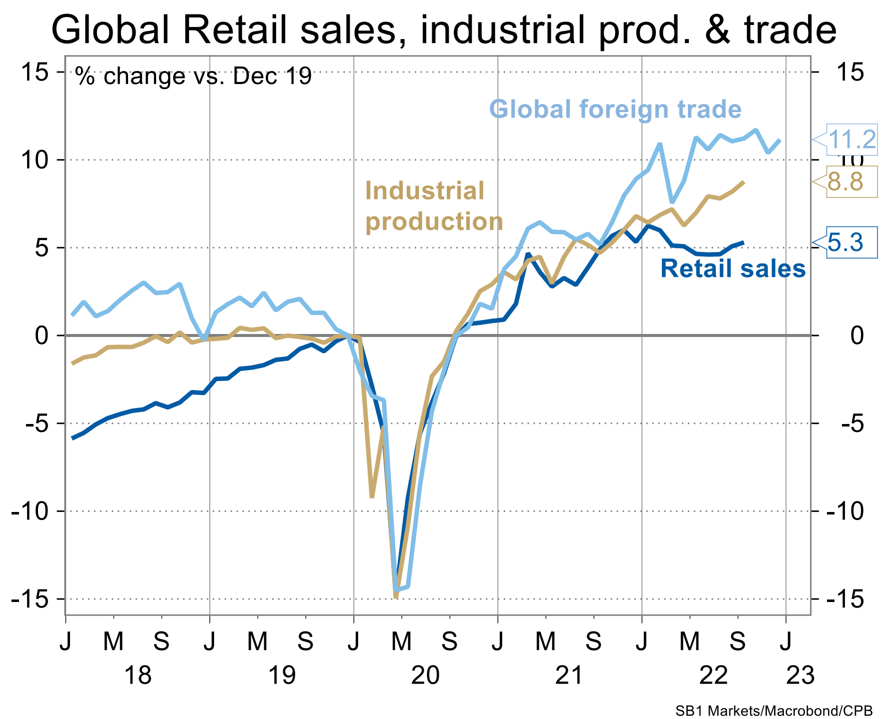
Time	Count.	Indicator	Period	Forecast	Prior
Monday Nov 28					
08:00	NO	Retail Sales MoM	Oct	-0.5% (-1)	0.10%
10:00	EC	Credit supply, M3	Oct		
Tuesday Nov 29					
00:50	JN	Retail Sales MoM	Oct	1.00%	1.10%
08:00	SW	GDP QoQ, revision	3Q F	0.7%	0.9%
08:00	SW	Retail Sales MoM	Oct		-0.4%
09:00	SW	Economic Tendency Survey	Nov		84.6
11:00	EC	Economic Confidence	Nov	93	92.5
14:00	GE	CPI YoY	Nov P	10.4%	10.4%
15:00	**US**	**S&P CoreLogic CS 20-City MoM**	**Sep**	**-1.15%**	**-1.32%**
16:00	US	Conf. Board Consumer	Nov	100.0	102.5
Wednesday Nov 30					
00:50	JN	Industrial Production MoM	Oct P	-1.80%	-1.70%
02:30	**CH**	**Manufacturing PMI**	**Nov**	**49.2**	**49.2**
02:30	CH	Non-manufacturing PMI	Nov	48	48.7
11:00	**EC**	**CPI YoY**	**Nov P**	**10.4%**	**10.7%**
11:00	**EC**	**CPI Core YoY**	**Nov P**	**5.0%**	**5.0%**
14:15	US	ADP Employment Change	Nov	195k	239k
14:30	US	Advance Goods Trade Balance	Oct	-$90.2b	-$92.2b
14:30	US	GDP Annualized QoQ, revision	3Q S	2.7%	2.6%
16:00	US	Pending Home Sales MoM	Oct	-5.2%	-10.2%
16:00	**US**	**JOLTS Job Openings**	**Oct**	**10325k**	**10717k**
20:00	US	Fed Beige Book			
Thursday Dec 1					
02:45	**CH**	**Caixin China PMI Mfg**	**Nov**	**48.9**	**49.2**
08:00	GE	Retail Sales MoM	Oct	-0.6%	0.9%
08:30	SW	Swedbank/Silf PMI	Nov		46.8
10:00	NO	DNB/NIMA PMI Manufacturing	Nov		53.1
10:00	EC	S&P Global Eurozone	Nov F	47.3	47.3
11:00	EC	Unemployment Rate	Oct	6.6%	6.6%
13:30	US	Challenger Job Cuts YoY	Nov		48.3%
14:30	US	Personal Income	Oct	0.4%	0.4%
14:30	US	Personal Spending	Oct	0.8%	0.6%
14:30	**US**	**PCE Core Deflator MoM**	**Oct**	**0.3%**	**0.5%**
14:30	US	Initial Jobless Claims	Nov-26	235k	240k
15:45	US	S&P Global US Manufacturing	Nov F		47.6
16:00	US	Construction Spending MoM	Oct	-0.2%	0.2%
16:00	**US**	**ISM Manufacturing**	**Nov**	**49.8**	**50.2**
17:00	**WO**	**Manufacturing PMI**	**Nov**	**48.6**	**49.4**
	US	Wards Total Vehicle Sales	Nov	14.90m	14.90m
Friday Dec 2					
10:00	**NO**	**Unemployment Rate**	**Nov**	**1.7%**	**1.6%**
11:00	EC	PPI MoM	Oct	-2.0%	1.6%
14:30	**US**	**Change in Nonfarm Payrolls**	**Nov**	**200k**	**261k**
14:30	**US**	**Unemployment Rate**	**Nov**	**3.7%**	**3.7%**
14:30	**US**	**Average Hourly Earnings MoM**	**Nov**	**0.3%**	**0.4%**
14:30	US	Average Weekly Hours All	Nov	34.5	34.5
14:30	US	Labor Force Participation Rate	Nov	62.3%	62.2%
Monday Dec 5					
02:45	CH	Caixin China PMI Services	Nov		48.4

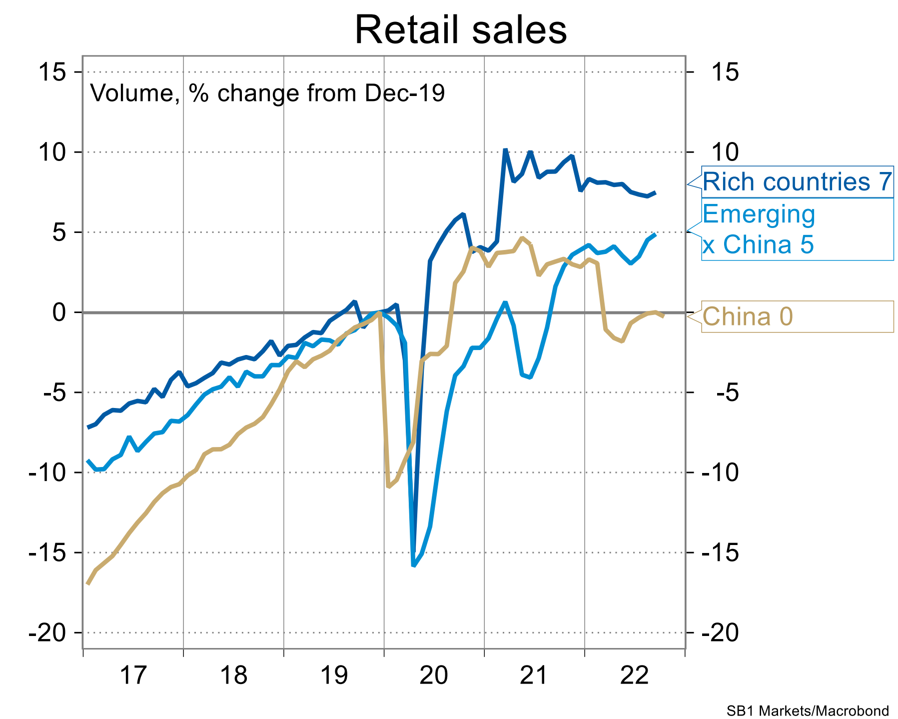
- **November manufacturing PMIs/ISM**
  - **The preliminary November PMIs** from the rich part of the world signal a further decline in the global PMIs, by some 1 p to 48.0. The US surprised on the downside, EMU on the upside. **Delivery times** have normalised, and **price indices** are declining but remain well above normal levels. **China and other EMs** will report this week. The Chinese PMIs are not expected to shine, both due to weaker demand for goods globally, and due to Covid restrictions. In the US, the **manufacturing ISM** is expected further down – to below 50. The **Norwegian PMI** surprised on the upside in Oct, we expect a correction down in Nov
- **Auto sales**
  - US, many EMU countries as well as Norway will report sale/new regs data from Thursday. The trend is up most places, as supply is recovering, and demand so far has kept up (and may continue to do so, even if other demand slows, given the pent-up demand created by the lack of supply past 2 years)
- **USA**
  - Fed's Beige book will send mixed signals, like continued growth in consumption but a weaker housing market. We expect to see some signals of a less tight labour market – paving the way for a slower monetary policy tightening
  - In September, the number of **unfilled vacancies** (in the 'JOLTS' report) surprised at the upside in Sept but is expected down in Oct. Small businesses will also report **labour market conditions** and **compensation plans**. Last month, more companies reported lack of labour and plans for lifting compensation
  - Even if we think vacancies are the best labour market indicator, the market will focus more on **Friday's labour market report**; **Employment growth** is expected to decline but the **unemployment** to stay unch at 3.6%, and **wage inflation** to slow somewhat, by 0.3 pp to 4.3% y/y, and a 0.3% lift m/m in Oct. Other wage indicators report higher growth in wages/compensation
  - **Household spending** is expected to remain brisk – taking the **savings** rate further down. The **PCE price deflator** is expected to follow the CPI down
  - **House prices and pending home sales** will probably confirm the downturn on the housing market
- **EMU**
  - **Preliminary CPI** data should signal 'peak inflation' as energy prices fell in October and November
  - **Unemployment** is expected to stay unchanged at 6.6%, the lowest level since 1981
- **Norway**
  - **Retail sales** probably fell in October as interest rates are on the way up, together with inflation while the sentiment is deteriorating
  - We expect a small increase in the number of **unemployed** but not sufficiently to lift the rate from 1.6% (NAV open unempl). The no. of **vacancies** are trending down

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

Retail sales are sagging vs industrial production, China mostly to blame

Industrial production still on impressive path, far better than surveys signal



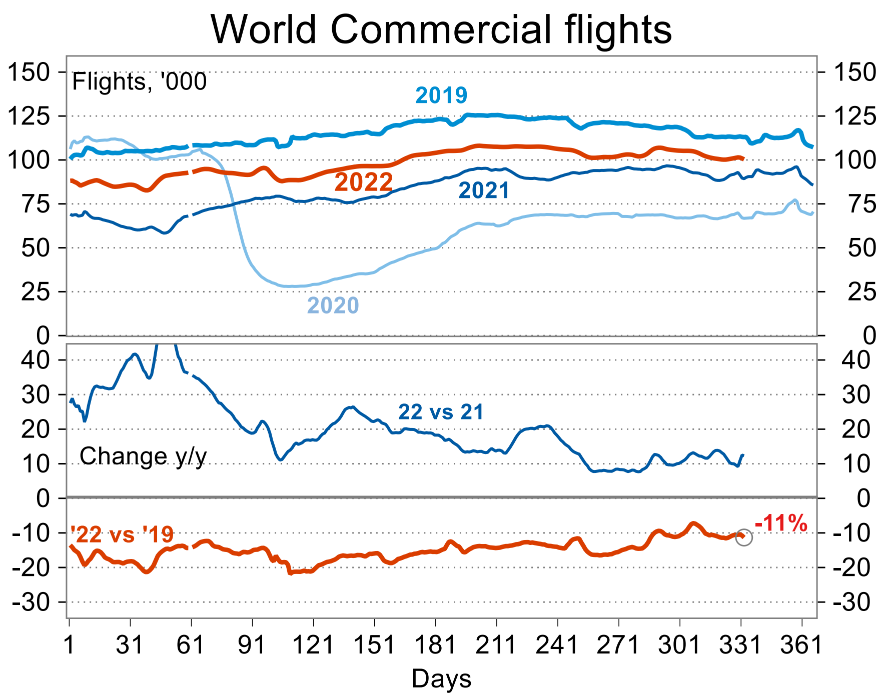


- Chinese sales have been revised substantially down, following several (confusing) revisions up and down in 2022

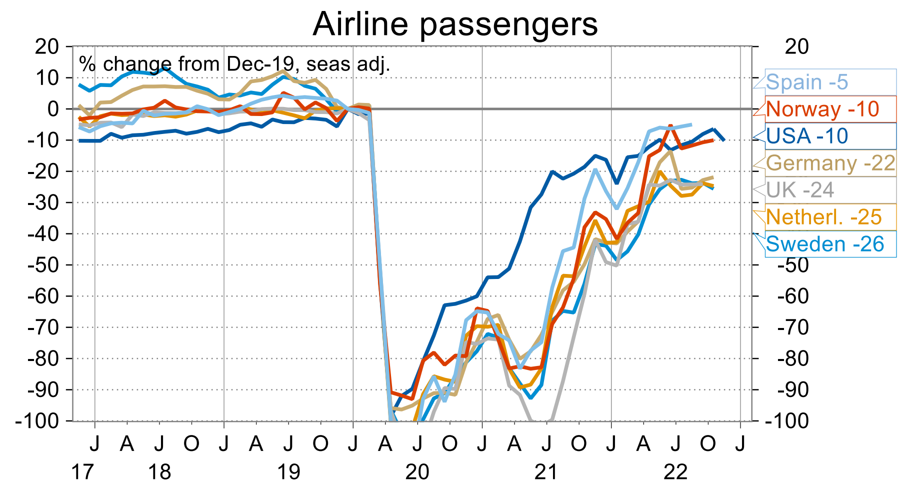
Global foreign trade: The last months are estimates from the Kiel Institute, they are also making a prognoses for the next month based on shipping activity etc.

Global airline traffic slightly down, -11% vs 2019

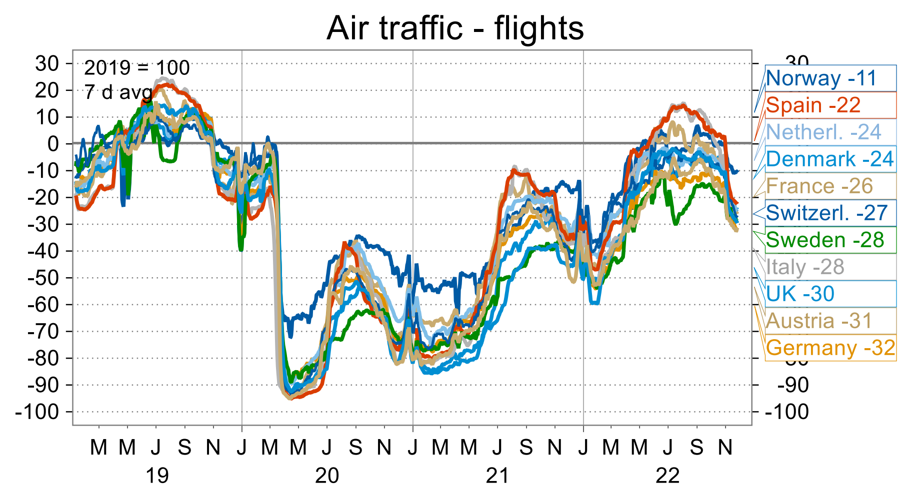
If growth rates had been normal the past 3 years, it should have been at least 10% above



Flightradar24 SB1 Markets/Macrobond



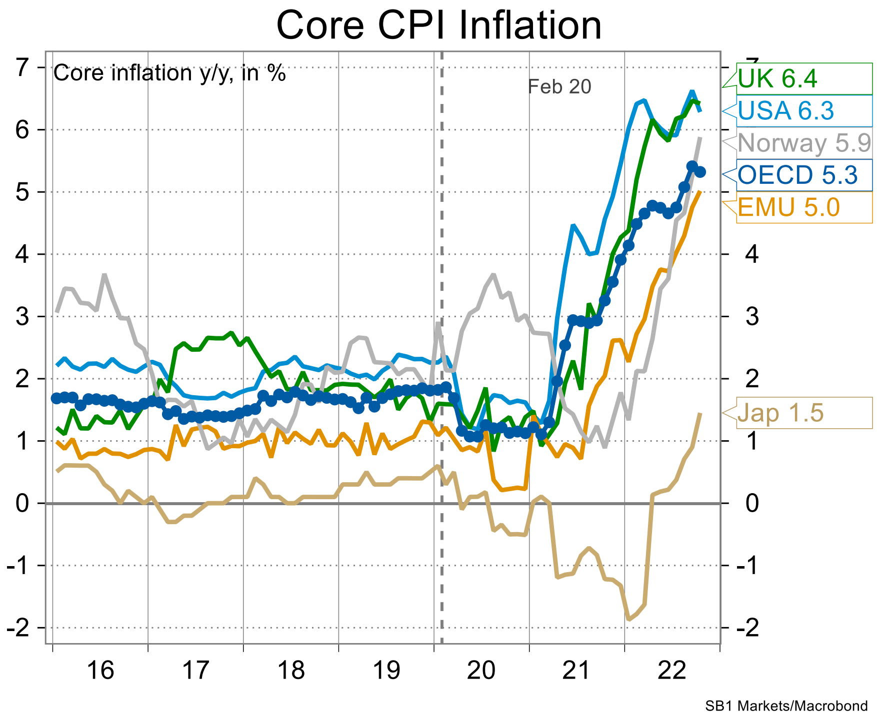
National authorities, SB1 Markets/Macrobond

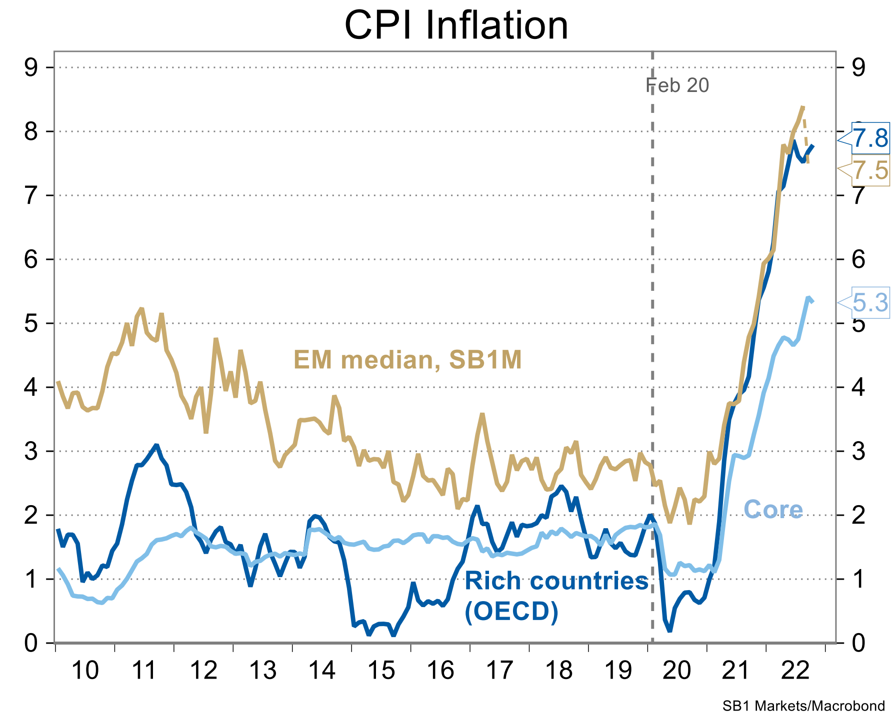


SB1 Markets/Macrobond

Peak inflation? Probably

The going rate is 8% headline inflation, and 5% core inflation





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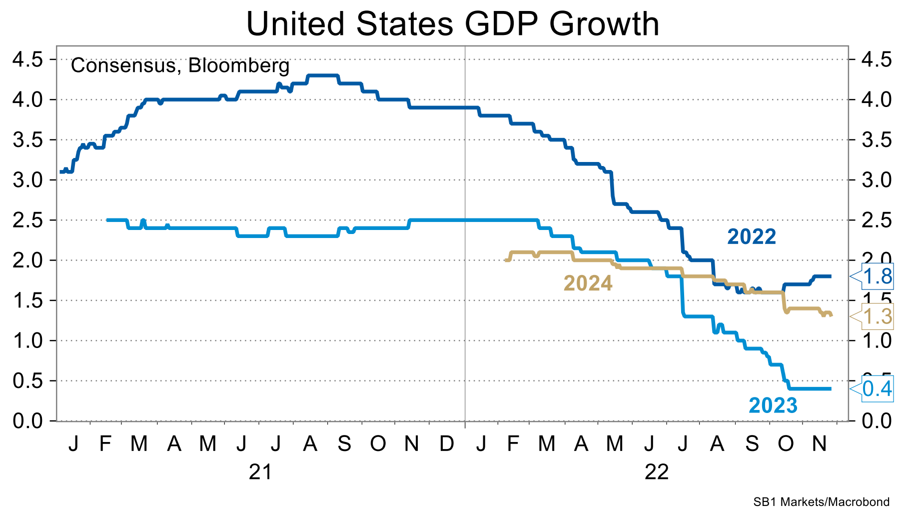
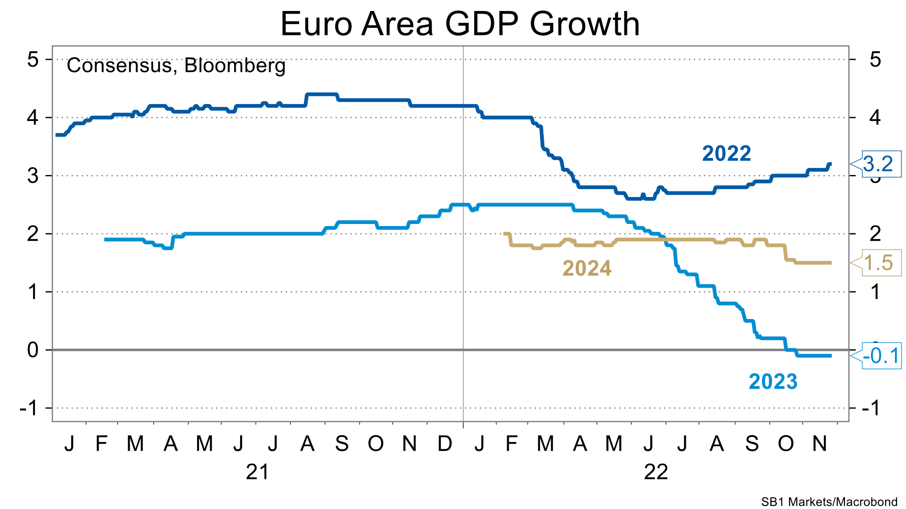
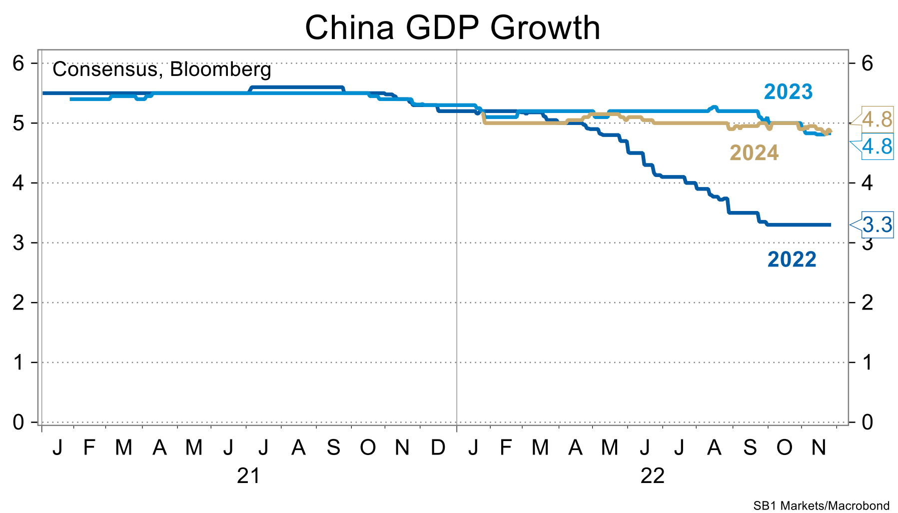
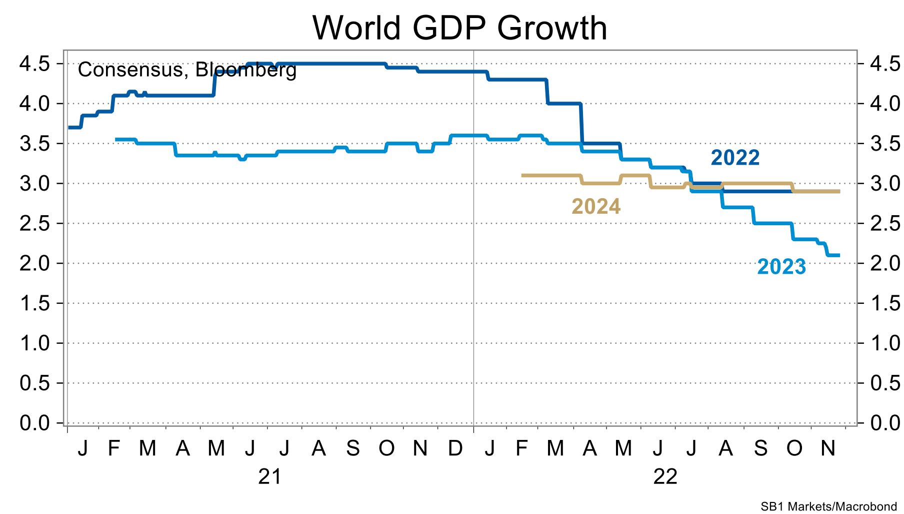
GDP growth expectations: 2023 forecasts are sliding down in US & EMU

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



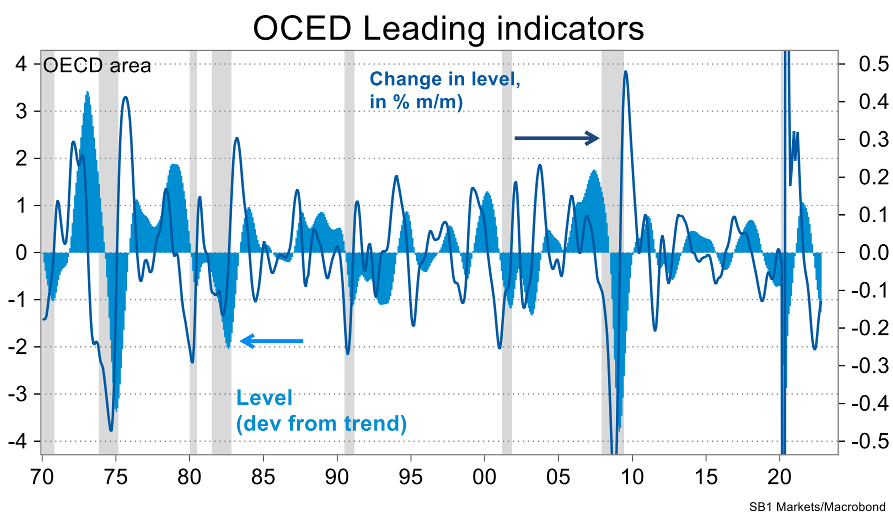


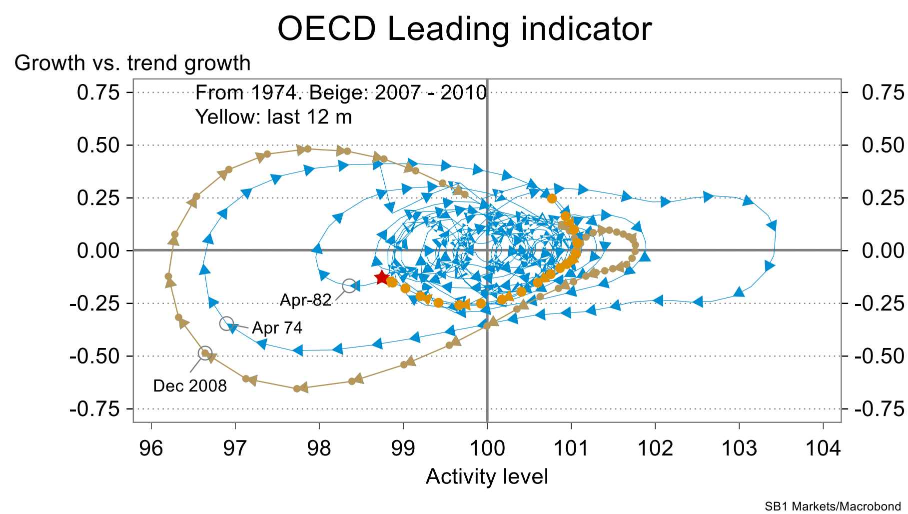


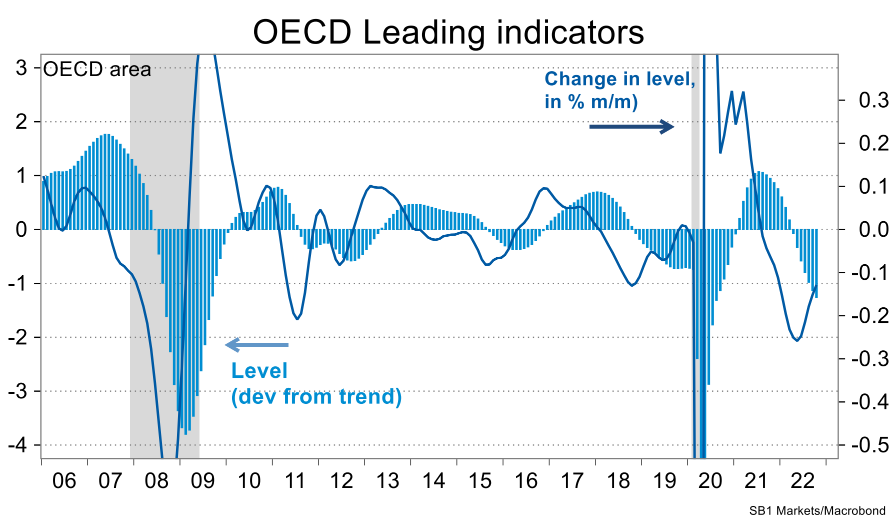


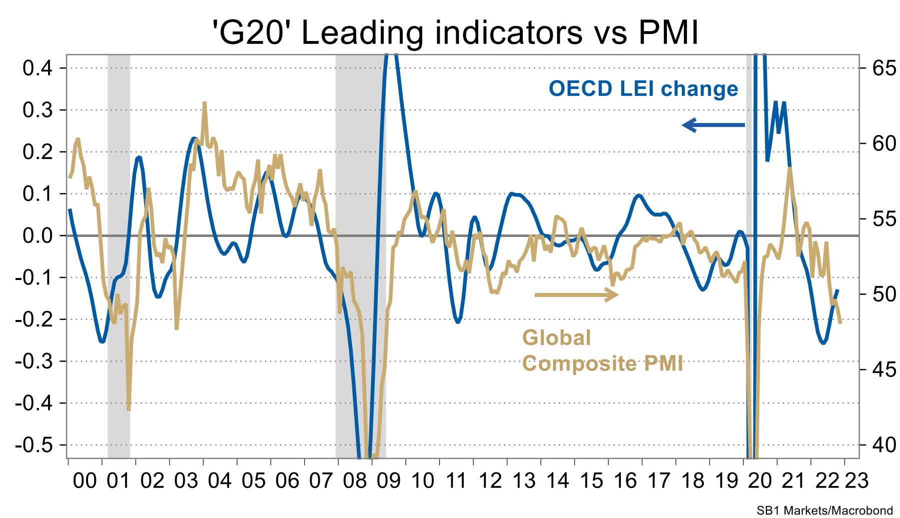
OECD leading indicators still on the way down – but at a slower pace!

A positive sign even if stock markets are contributing. So far, just a 'mild' recession signalled; '74, 82' & '08 were far worse



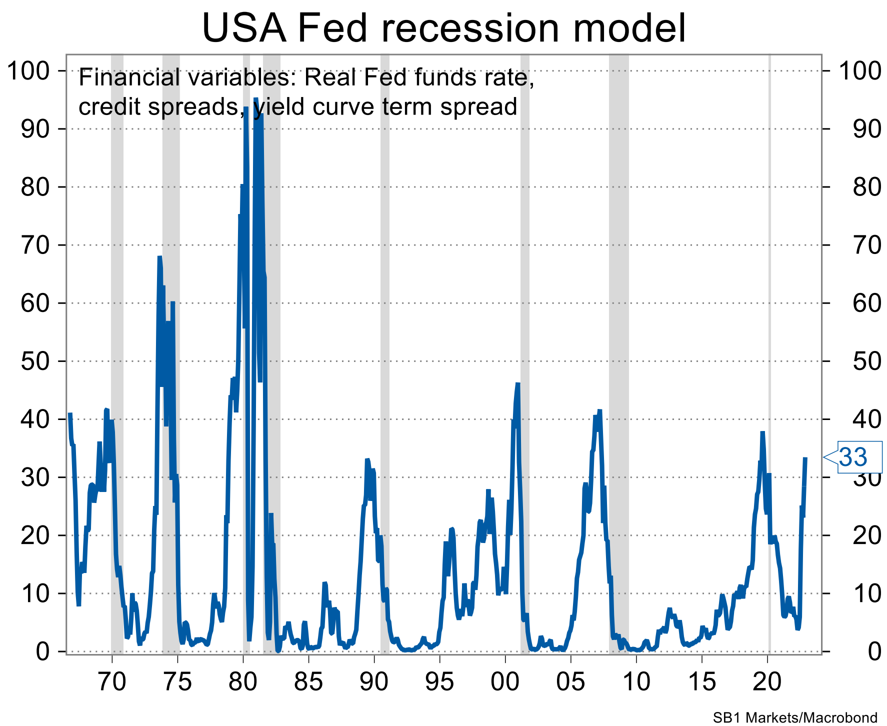


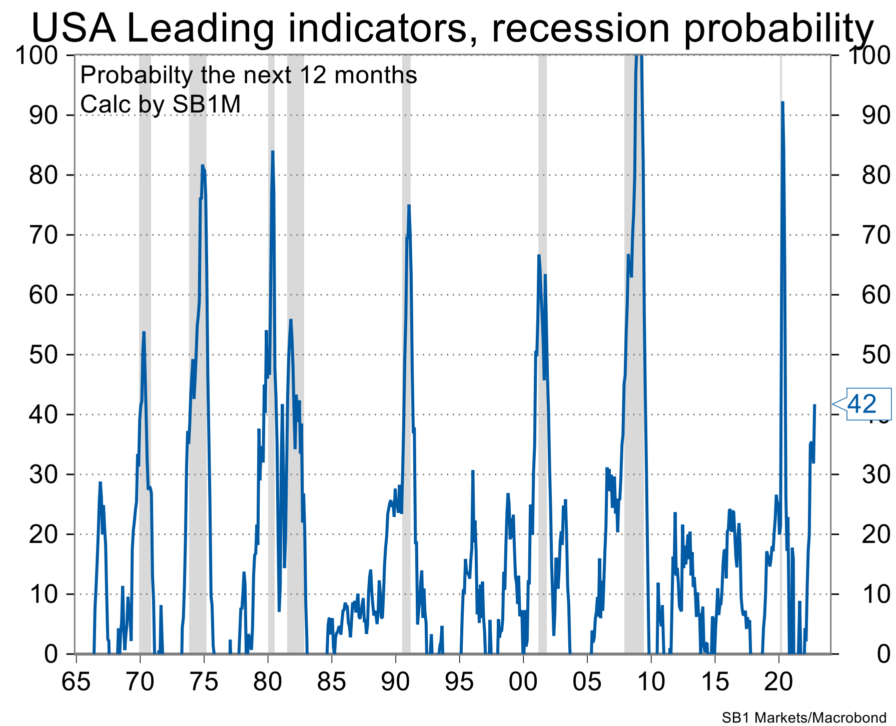




Financial, real economic data suggest a high probability for a '23 recession

Fed's financial conditions recessions model signals a 33% probability for a recession the coming 12 months



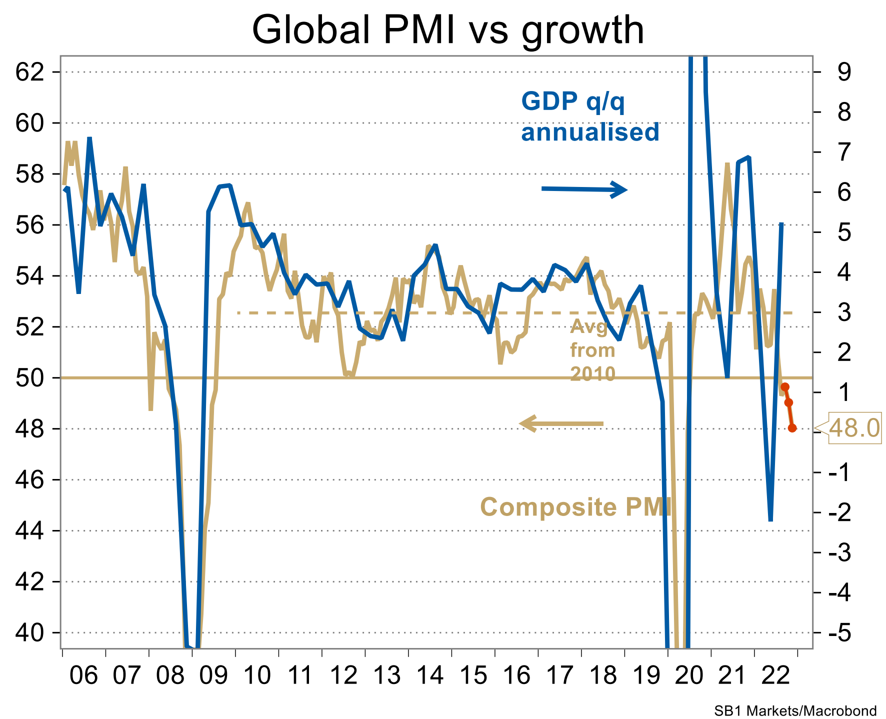


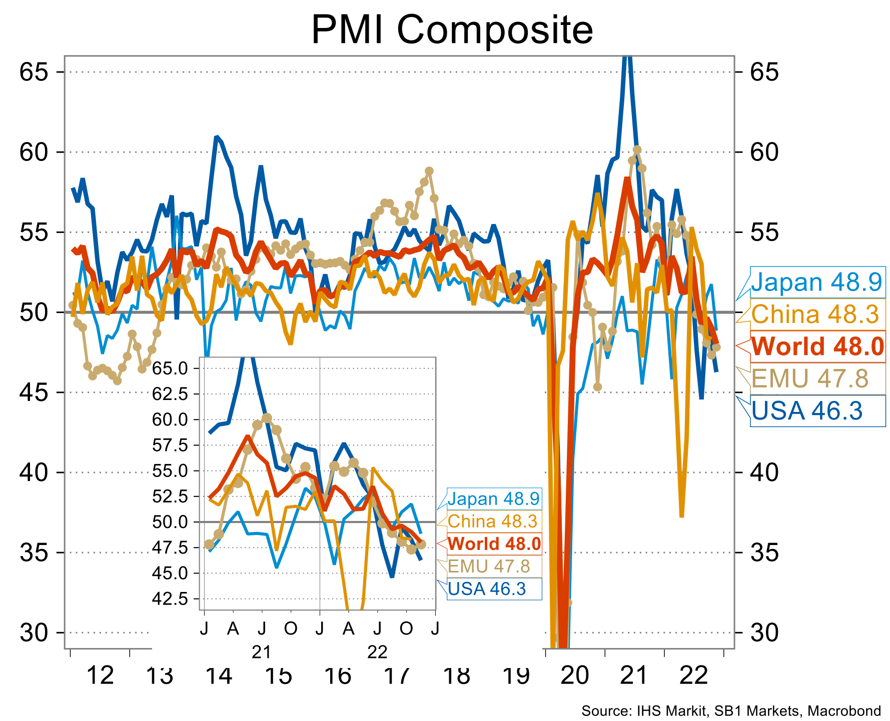
- … which normally has been 'enough' to fall into an economic setback, in fact 8 of the past 8 recession. One false positive, in 1965
- Conference Board's Leading Economic Indicators, which consist of both financial and real economy variables also signal a high recession probability. Again 8 of the 8 past recession – and no false positive

Sources: The the left; NY Federal Reserve, the past 2 months calculated by SB1M. To the right; Confernence Board. SB1M calculations

The global composite PMI further down in Nov, into recessionary territory

EMU reported a small uptick, an UK an even smaller – but US and Japan surprised on downside



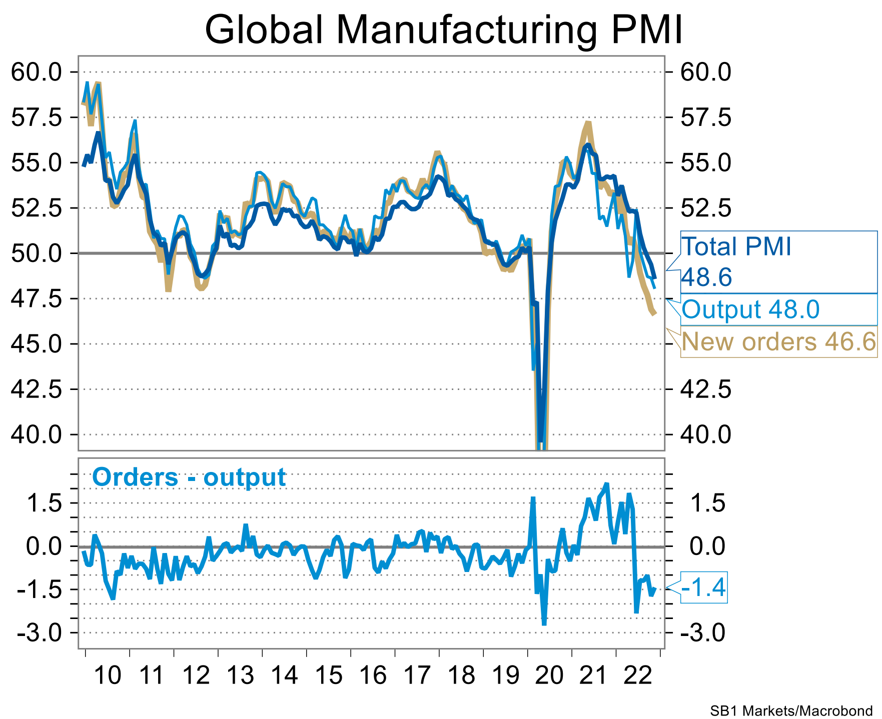


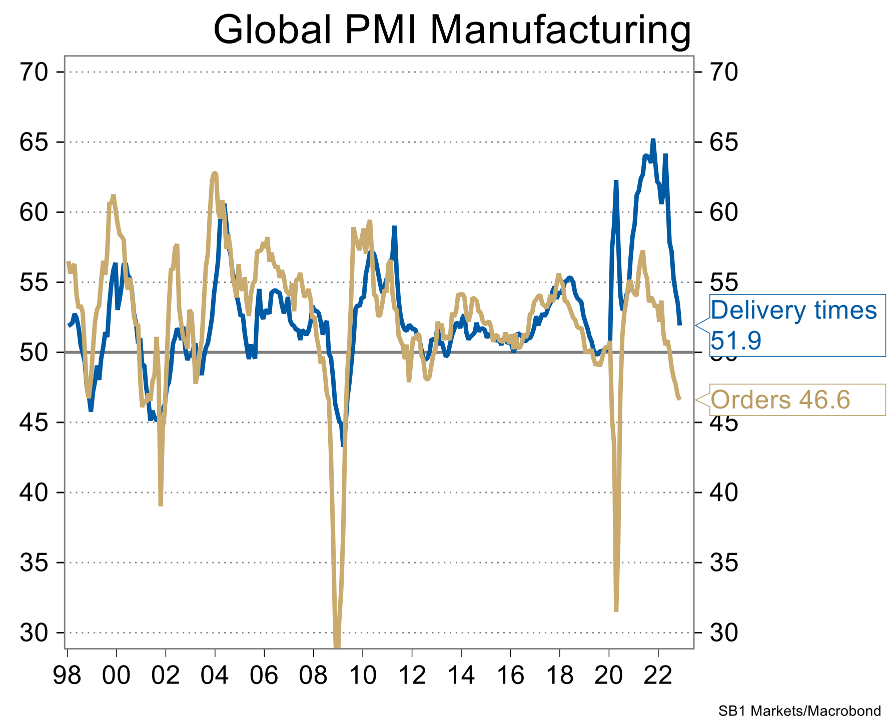
- According to the preliminary PMIs from the rich part of the world, the global PMI very likely fell further in November, -1 p to 48.0, signalling close to zero growth in the global economy, way below present macro forecasts – and way below the normal threshold for a labelling a global recession, a 2.5% growth rate. The index is the weakest since the financial crisis – except for the first pandemic months
- EMU surprised on the upside, US on the downside. China (or other EMs) has not yet reported

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

Manufacturing orders are contracting very fast, both in Europe & US

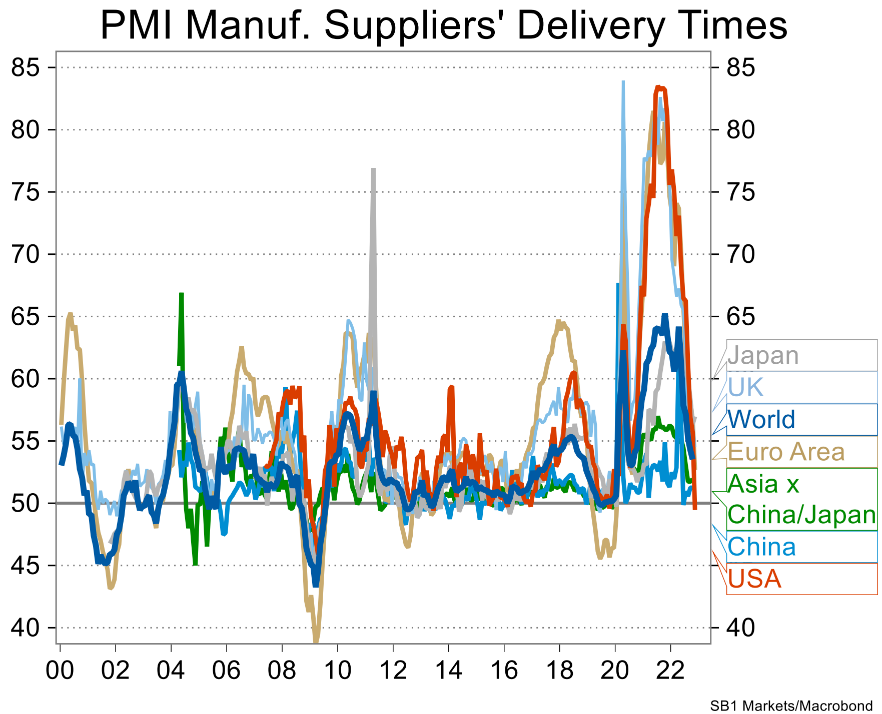
The delivery times index fell further in October – and is back to a normal level

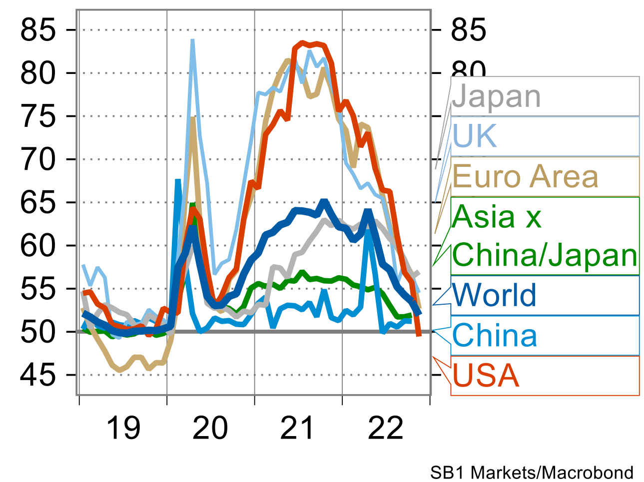




Delivery times have normalised

In the US, they are lower than normal – at least the index is below average

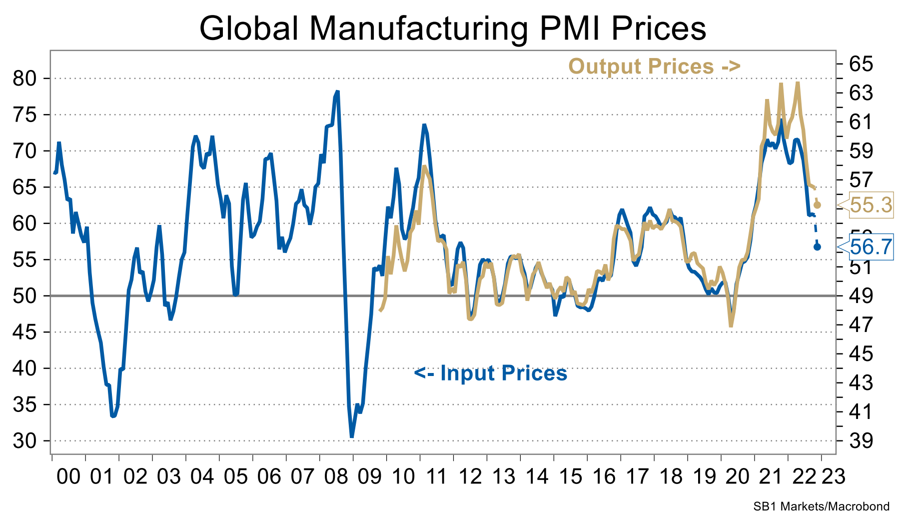


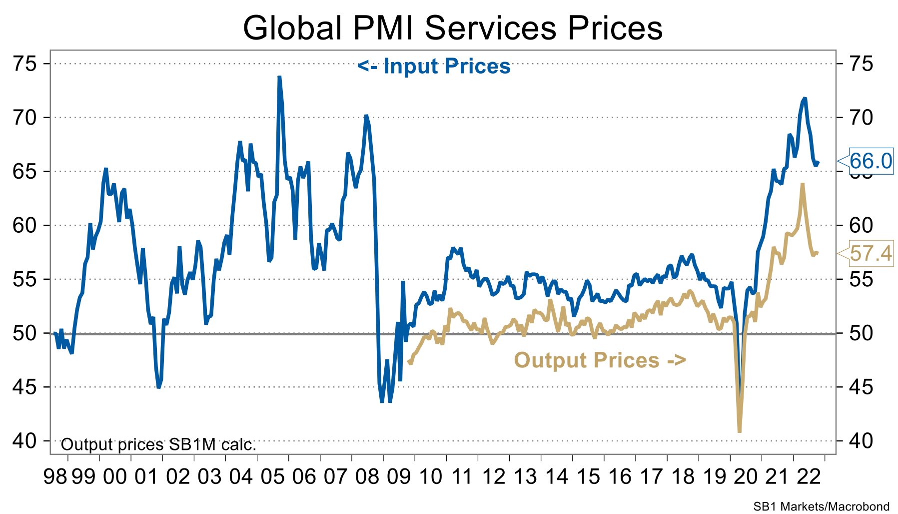


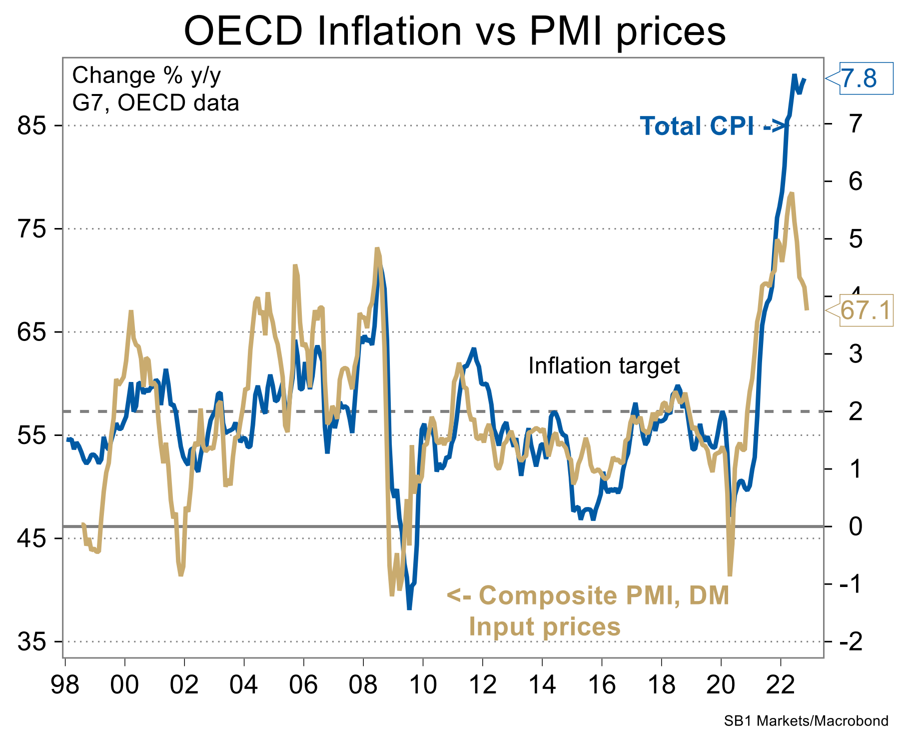
- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) has been inching down since the peak last October. The decline is broad among the Western rich countries – and now the level is back to the 50-line very likely signalling normal delivery times
- **The interpretation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

Price indices are heading down but have not yet come back home

However, they are signalling a steep decline in headline inflation not before too long!





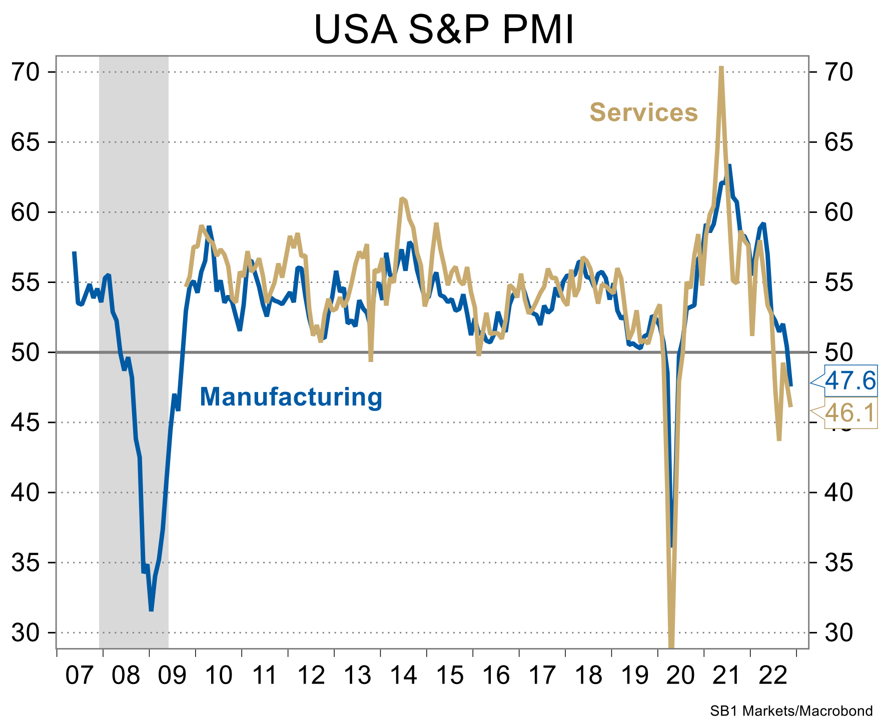


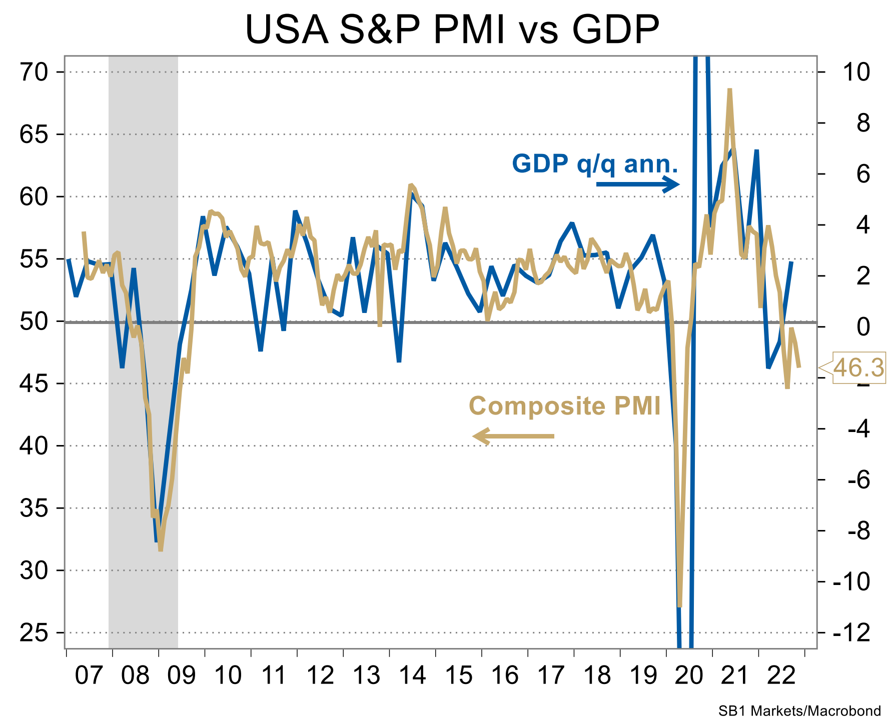
- These PMIs signal a substantial easing of price pressure the coming months – but are still indicating inflation well above a normal level
- We are still more concerned about wage inflation than the actual price inflation due to factors that are most likely transitory, like hikes in raw material prices, freight costs or short-lived margins expansion when demand is surprisingly strong

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

US PMIs further down in November, the composite down 1.9 p to 46.3!

Both the services and the manufacturing PMIs surprised on the downside – new orders plummeted

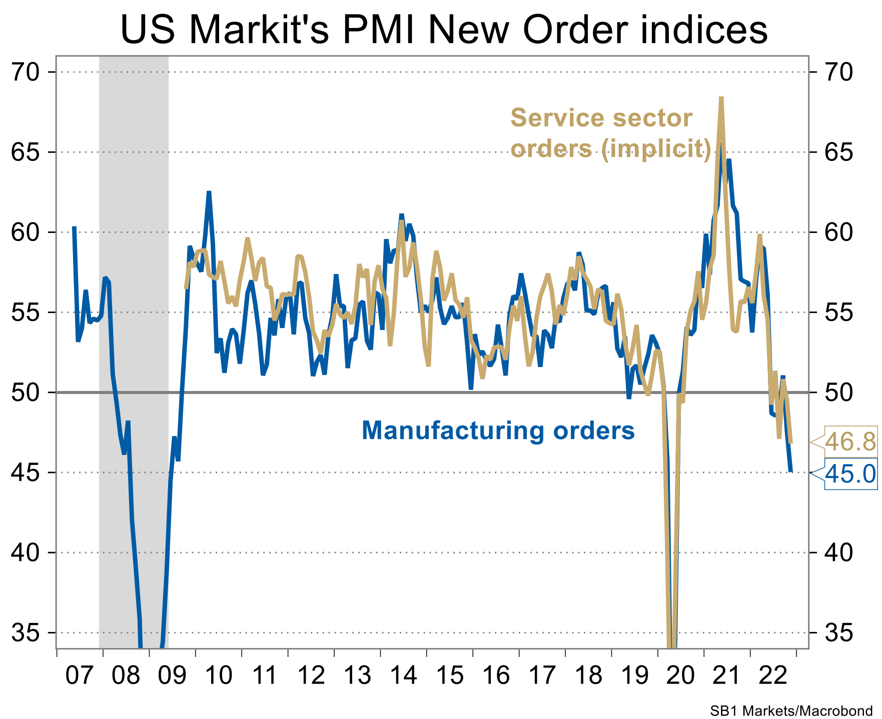


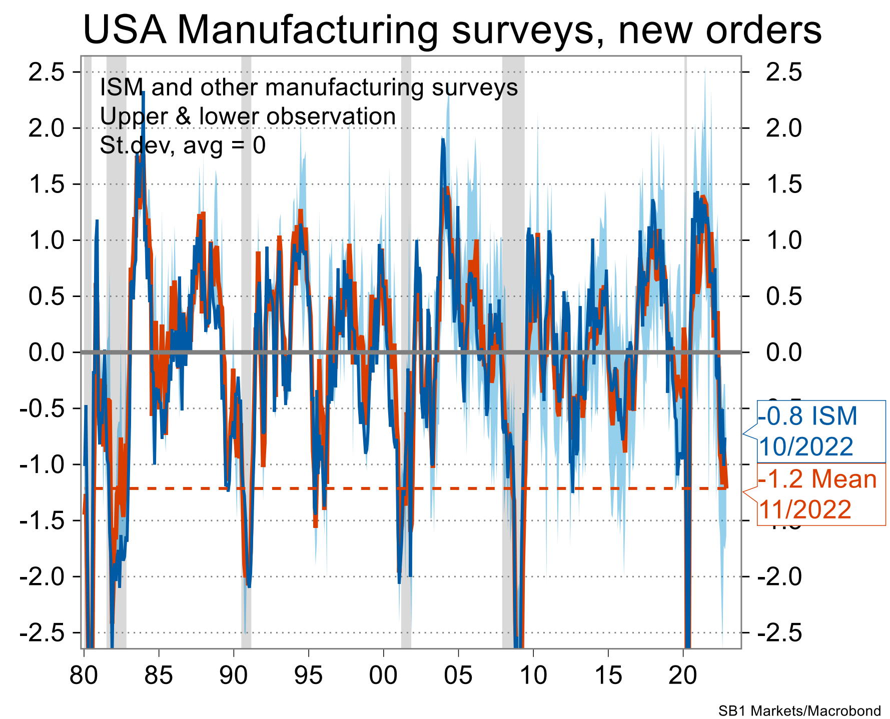


- **The S&P composite PMI** fell 1.9 p to 46.3 in November, signalling some 1.6% (ann. rate) contraction in GDP. The index has been below the 50-line for 5 consecutive months
- Services fell by 1.7 p to 46.1. The total manufacturing PMI fell into contractionary territory at 47.6 from 50.4 the month before
- **The manufacturing new orders index** dropped 2.6 p to 45! This is the lowest print since the pandemic, and before that since June-09
- **The price indices** fell further but are still reporting faster price increases than normal

The PMIs, and all other manufacturing surveys insist a serious order shortfall

The manuf. PMI reports of decline in new orders, just the Fin Crisis, start of the pandemic worse

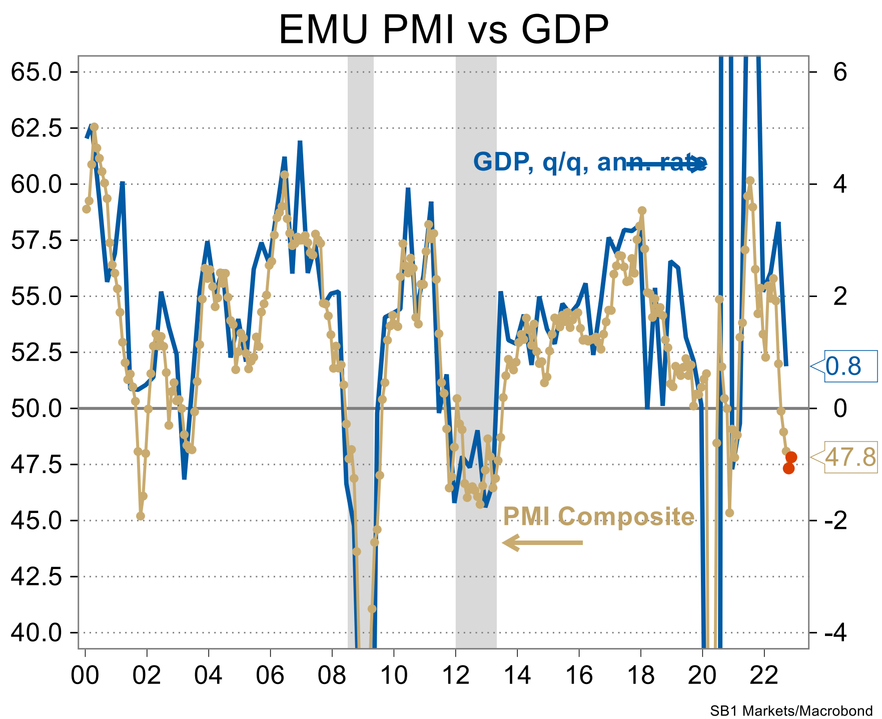


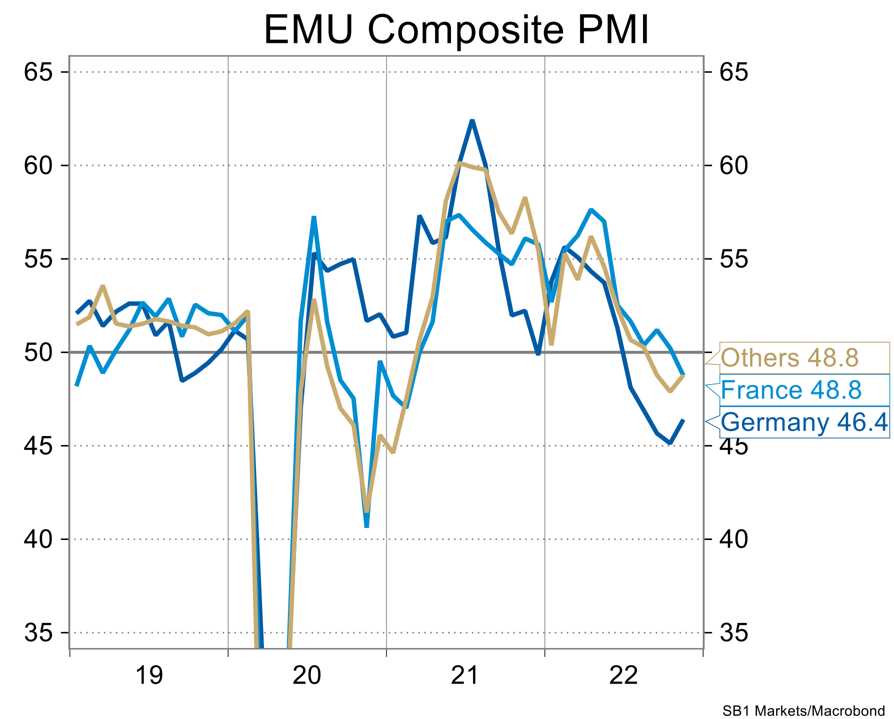


- Just once, in 1995, the order inflow was reported weaker than now, without the US entering or being in a recession

Eurozone PMI improved slightly on the back of better German data

The PMI is still in contractionary territory though, and the same goes for the PMIs in EMU x France & Germany as well

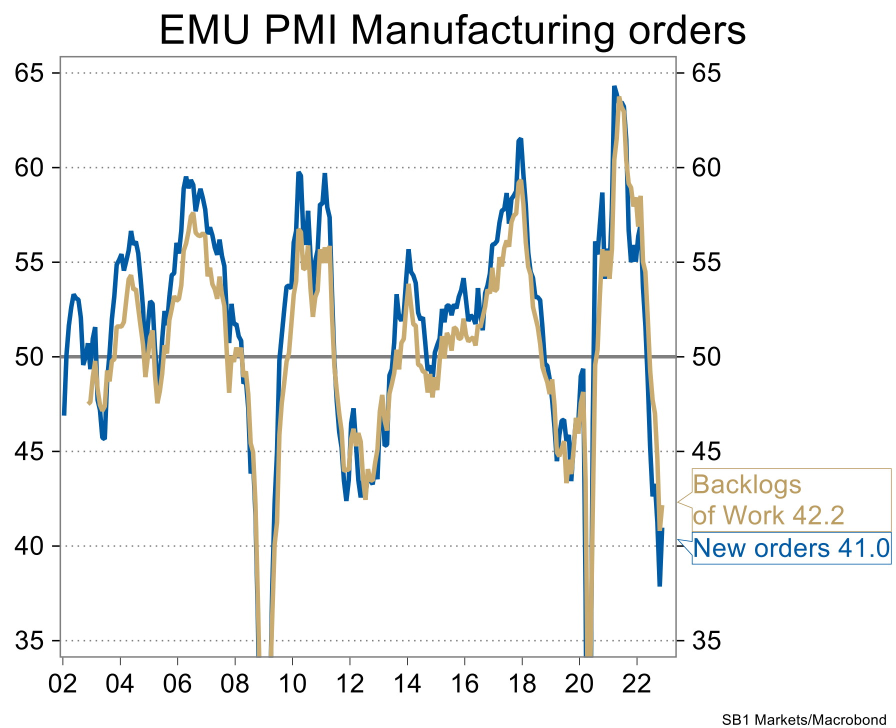


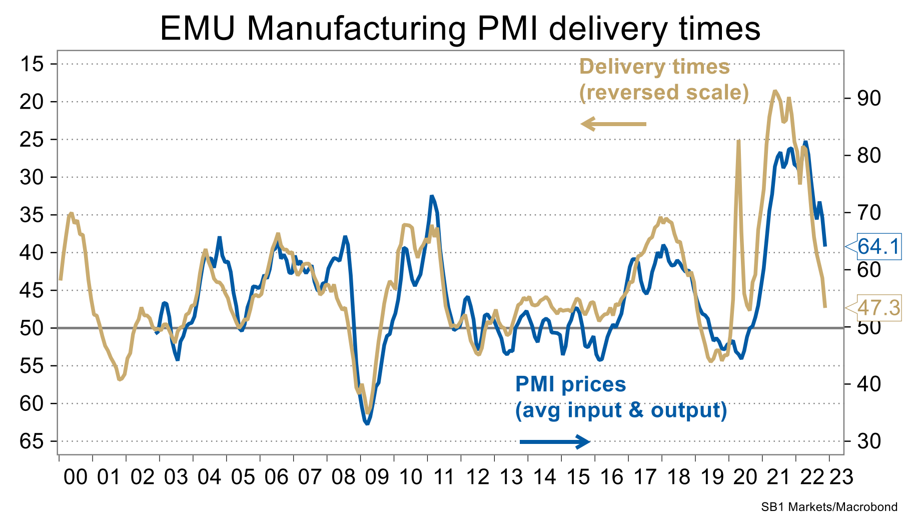


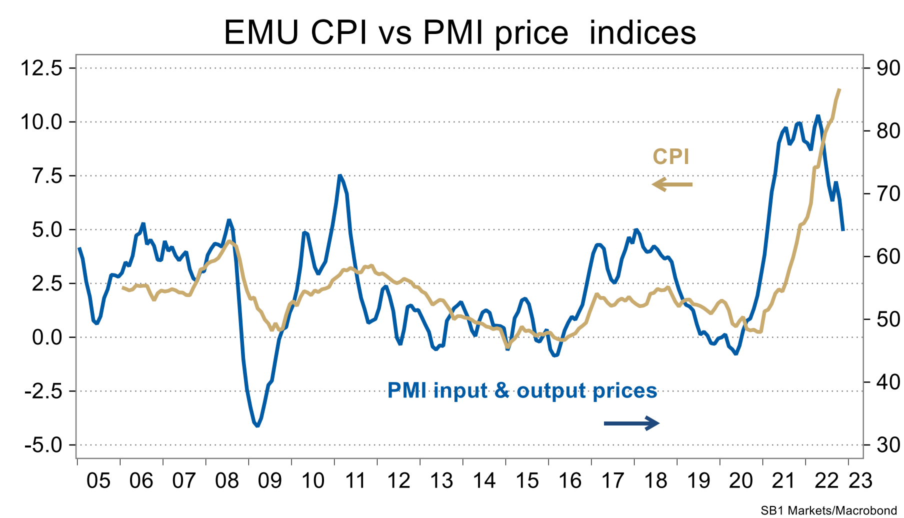
- **The composite PMI** increased by 0.5 p in Nov, to 47.1, 0.8 p better than expected – still signalling a 0.9% contraction in GDP in Q4. High inflation/energy prices and higher interest rates are dampening demand, according to S&P. Even though the German PMIs surprised on the upside in Nov they are still in bad shape, and the setback in the German economy is a drag on the overall EMU PMI. However, economic activity is falling across the region
- **Services** were unchanged at 48.6, suggesting that the sector is contracting
- **Manufacturing** fared better in Nov; the PMI rose 0.9 p to 47.3, 1.3 p above consensus. The output index increased 1.9 p to 45.7, and the new order index increased by 2.1 p to 41, from a historically low level – the current level is still signalling a fall in orders, of course
- **The delivery times** and price indices both fell, and while the price indices still remain higher than normal, the delivery times have now normalised.
- If the PMIs and other surveys continue down at the current road, <u>the pressure on (and within) the **ECB** to hike rates rapidly will no doubt fade</u>, even if inflation is high and unemployment is low. <u>Wage inflation has not yet exploded, and the underlying cost pressure is not like in the US</u>

New orders index increased slightly, while prices are rising at a slower pace

The order backlog was also up, and delivery times are declining



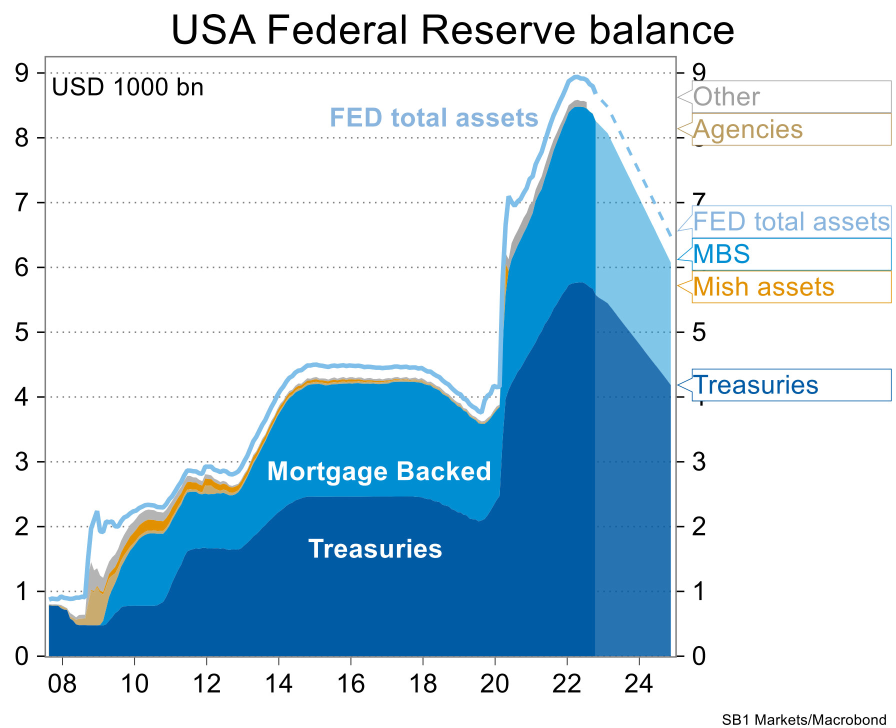




- The effect of slower price increases in the PMI survey is signalling a lower CPI print in the not too distant future

Fed minutes: Fed likely to moderate pace of rate hikes to 50 bps in December

Minutes did not reveal anything new – Fed speakers have since reiterated risk of higher terminal rate and a slower pace

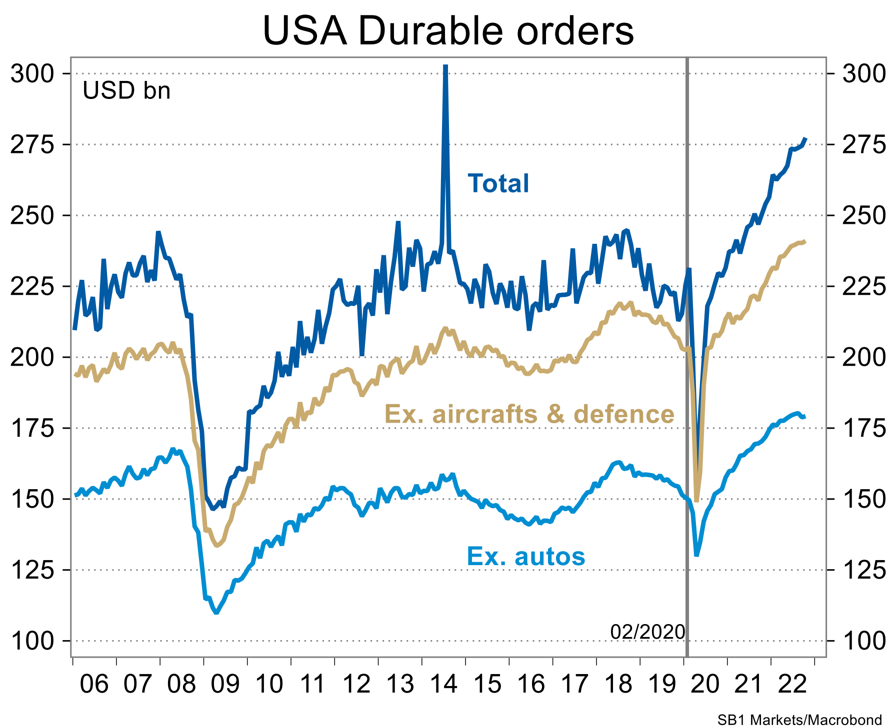


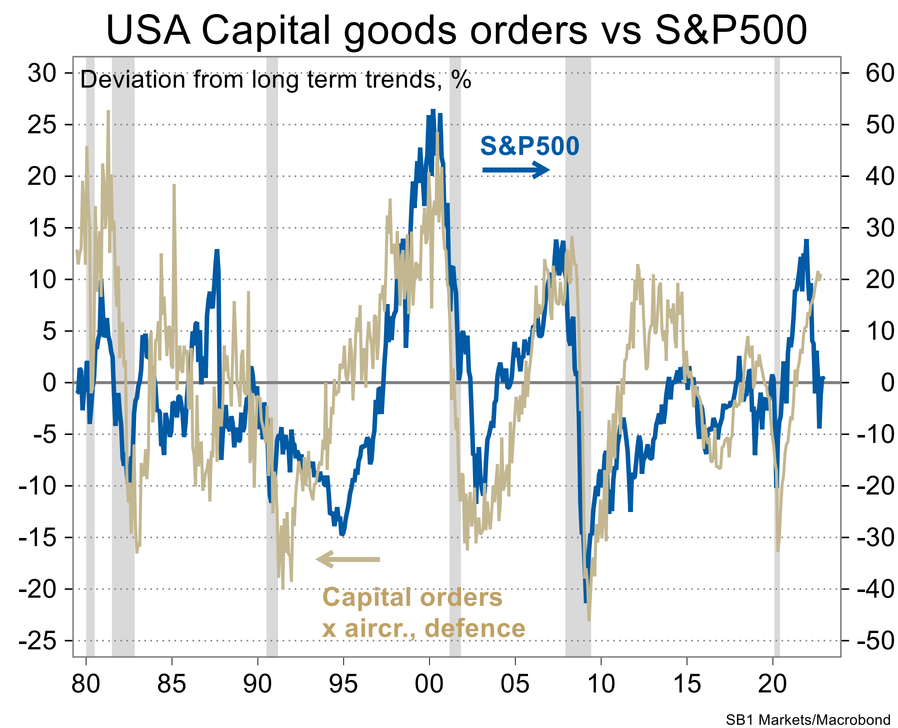
- Some relief in bond markets, even if there were no 'real' news – and no changes on the short end of the yield curve (where the impact should have been most visible)

- **The minutes** revealed nothing new, as it had already been clearly communicated that the pace of rate hikes are likely to slow in the next couple of meetings and that the terminal rate is likely higher than the committee envisioned at the previous meeting, which has also been reiterated by several FOMC members in the past couple of weeks
- The only interesting remark is how many of the member actually consent to slowing the pace of rate hikes. The minutes state that "**a substantial majority of participants judged that a slowing in the pace of increase would likely soon be appropriate.** A slower pace in these circumstances would better allow the Committee to assess progress toward its goals of maximum employment and price stability. The uncertain lags and magnitudes associated with the effects of monetary policy actions on economic activity and inflation were among the reasons cited regarding why such an assessment was important"
- **As for the risks, they are clearly on the downside** according to the committee "…the possibility that a persistent reduction in inflation could require a greater-than-assumed amount of tightening in financial conditions was seen as another downside risk. The staff, therefore, continued to judge that the risks to the baseline projection for real activity were skewed to the downside and viewed the possibility that the economy would enter a recession sometime over the next year as almost as likely as the baseline."
- In sum, the minuets, just as the press conference and most of the comments from FOMC member past two weeks, show the Fed commitment to bringing inflation down and preventing it from becoming entrenched, even at the cost of the labour market and growth, and just recently, in an update to policymakers, Fed economists said there now is a 50% chance of a recession

Growth in orders stronger than signalled by surveys and market expectations

Strong defence, aircraft and auto imports support overall growth in (nominal) orders



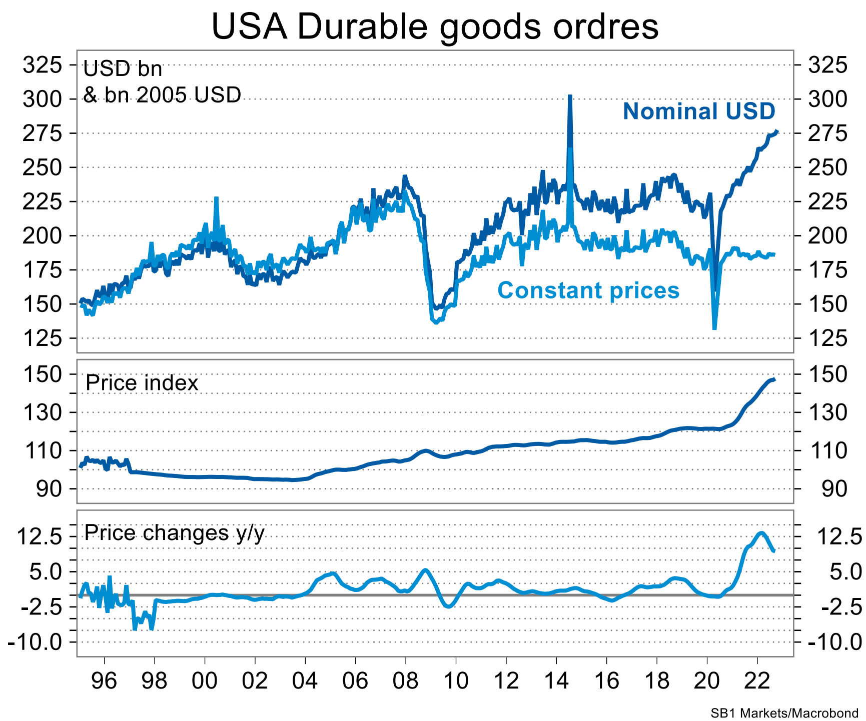


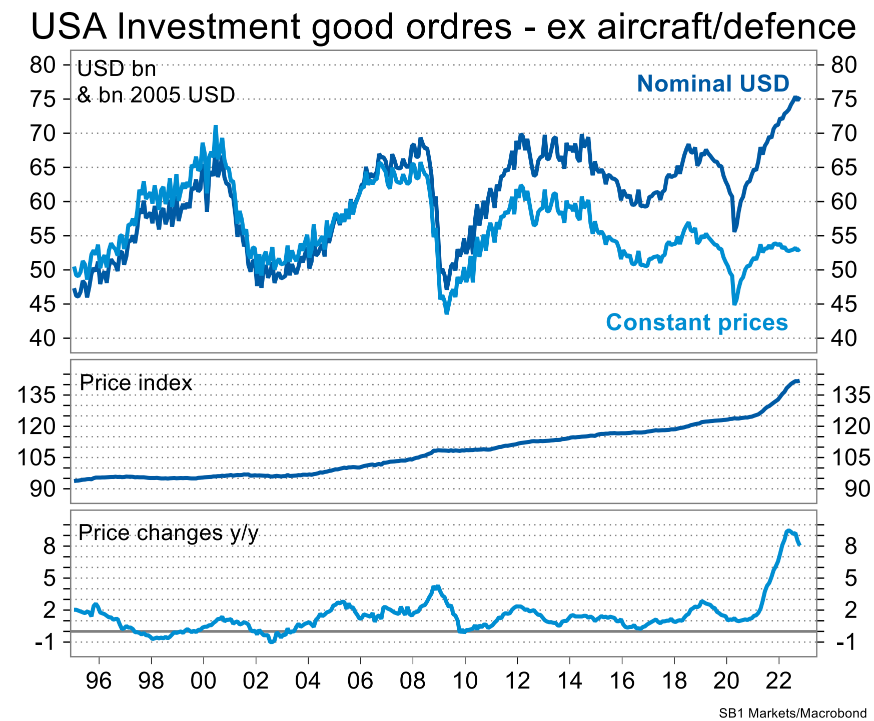
- **Total durable orders** were up 1% in Oct, exp +0.4%, and the trend is still sharply upwards, at least in nominal terms (volume data next page)
- The **volatile aircraft & defence orders** rose too, and **other orders** (our core concept) were up 'just' 0.3%. Growth has slowed, but orders are still up almost 6% 3m/3m, although in nominal terms.
  - The true core – also excluding orders – has fallen somewhat since the peak in August, and before that, growth was clearly slowing
- **Core <u>investment</u> goods orders** rose 0.7%, expected up 0.3%
- **Nominal order inflow** is above pre-pandemic levels, especially for investment good orders, but surveys now signal a significant decline the coming months (which they have telling us since June, so far without any success)
- **The stock market** has taken a serious beating, this time well before the order cycle turned south.
  Higher real interest rate were probably enough

SpareBank 1 MARKETS

For the first time in some decades, price inflation has become important

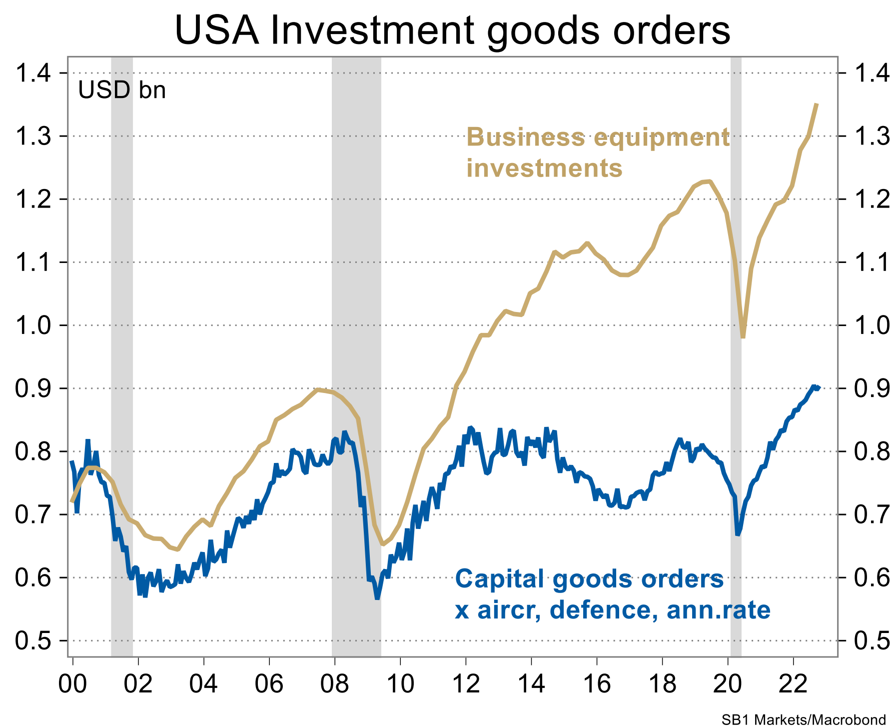
The real order inflow has been flat (and investment orders are declining) since early 2021 (early 2022)

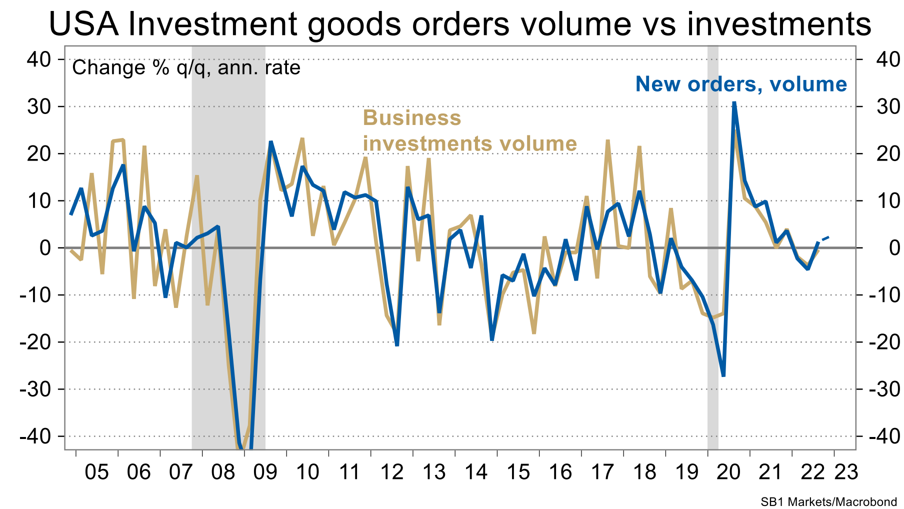




Core capital orders are peaking? One month is not a new trend but still…

There is still a decent underlying growth, at least in nominal terms – but not in volume terms



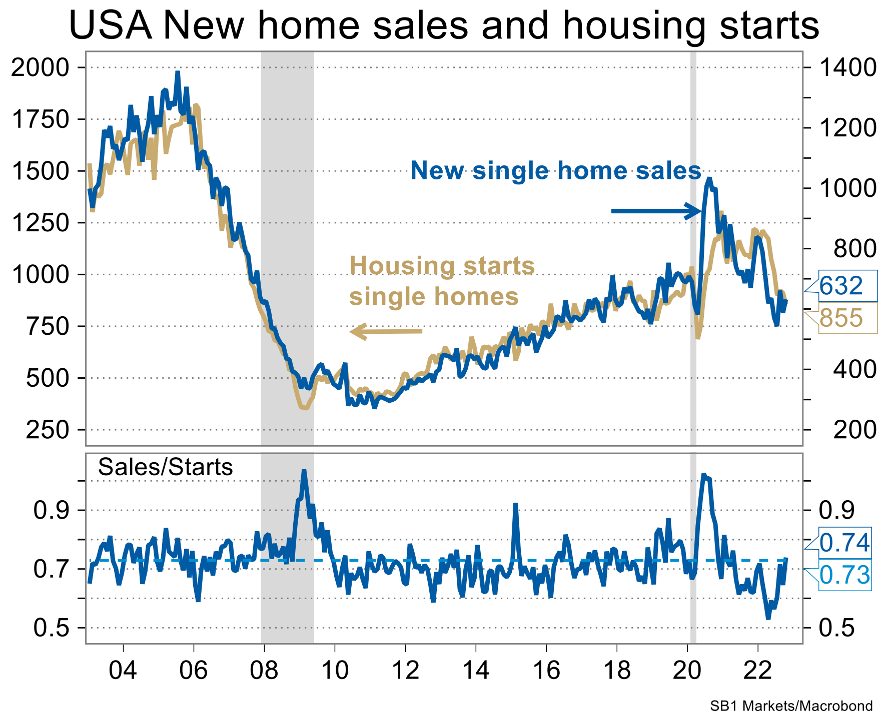


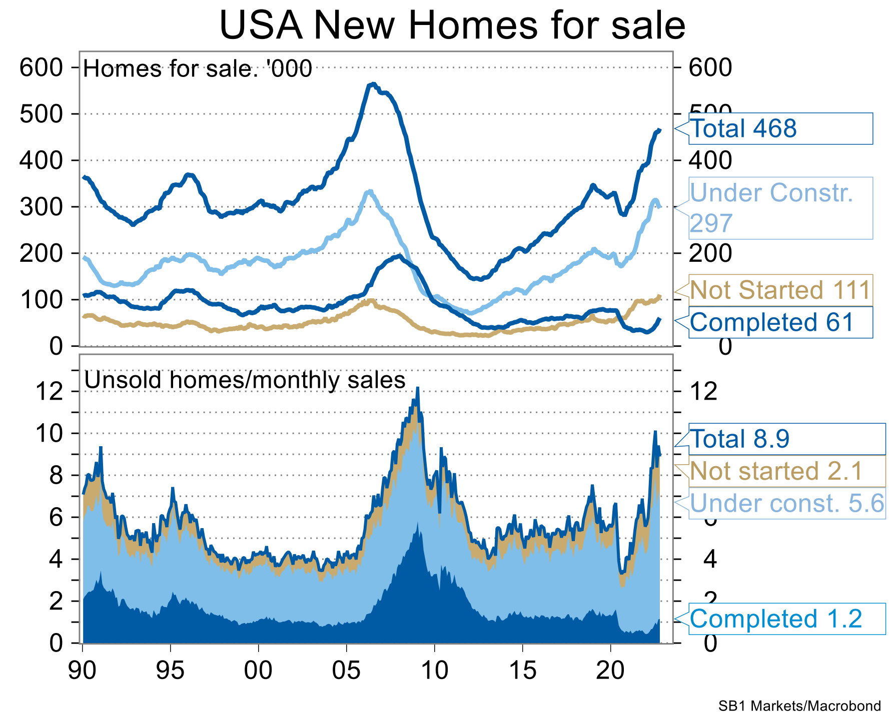
- **Core (x aircraft, defence) capital goods orders** rose by 0.7% in Oct, expected up 0.3, following a 0.8% decline in Sept. Shipments were up 1.3% m/m. All data are in nominal terms
- **In volume terms**, orders have fell in both Q1 and Q2, but rose slightly in Q3, and Oct is marginally above the Q3 average – signalling close to zero growth in business investments in Q4
- **The business investment** level is well <u>above</u> the pre-pandemic level – and not low vs. a reasonable long term trend (both in nominal and volume terms)

SpareBank 1 MARKETS

New home sales back up in Oct, and have stabilised. Still a downside risk?

Home builders are signalling a further, large decline in sales. The inventory of unsold homes is far higher than normal

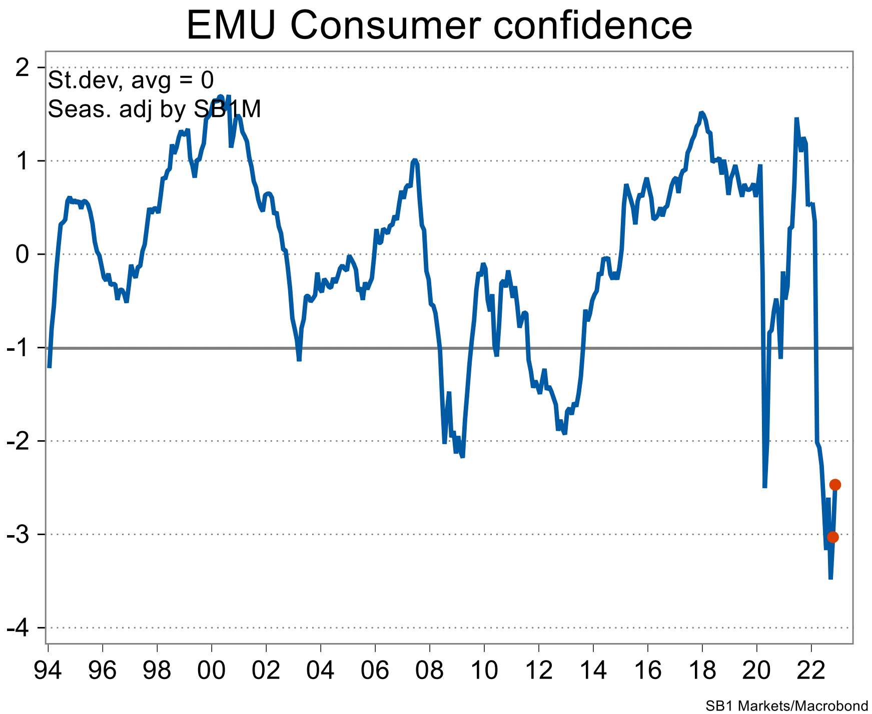


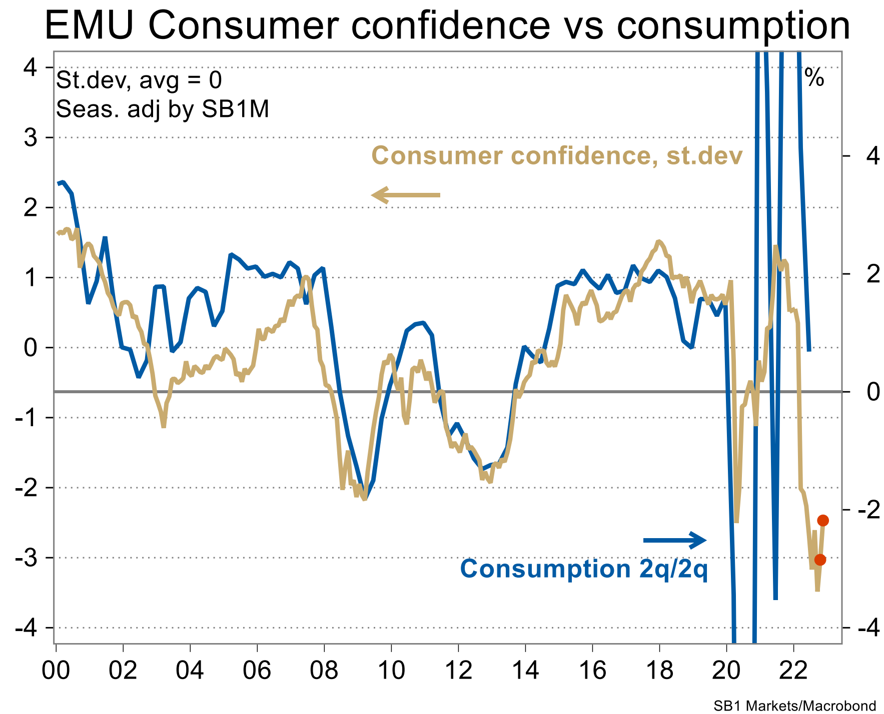


- **New single home sales** surprised on the upside in October after falling 11% in September. Sales were up 632' from a 588' in Sept (revised down from 603'). Anyway, the trend is down, home builders are extremely anxious, demand for new mortgages are falling rapidly.
- **The inventory of unsold homes** rose marginally in October, and the trend is straight up and the level is high, both in absolute terms and vs. sales. Most of the inventory is 'for real', either completed homes (but the level in this category is still not high, or under construction (and these homes will be completed) – as the supply side responded to the strong increase in demand & prices during the pandemic. A steep increase in number of homes for sales that are not yet started, also confirms the strength of the potential supply side (but most of these projects will very likely not be started as at least the housing market has entered a recession)
- **Prices** increased slightly in October but the short term trend is flat – and very likely, prices will soon turn south

Consumer confidence further up, from a very deep bottom

The level is still very low, signals a downward risk vs household consumption

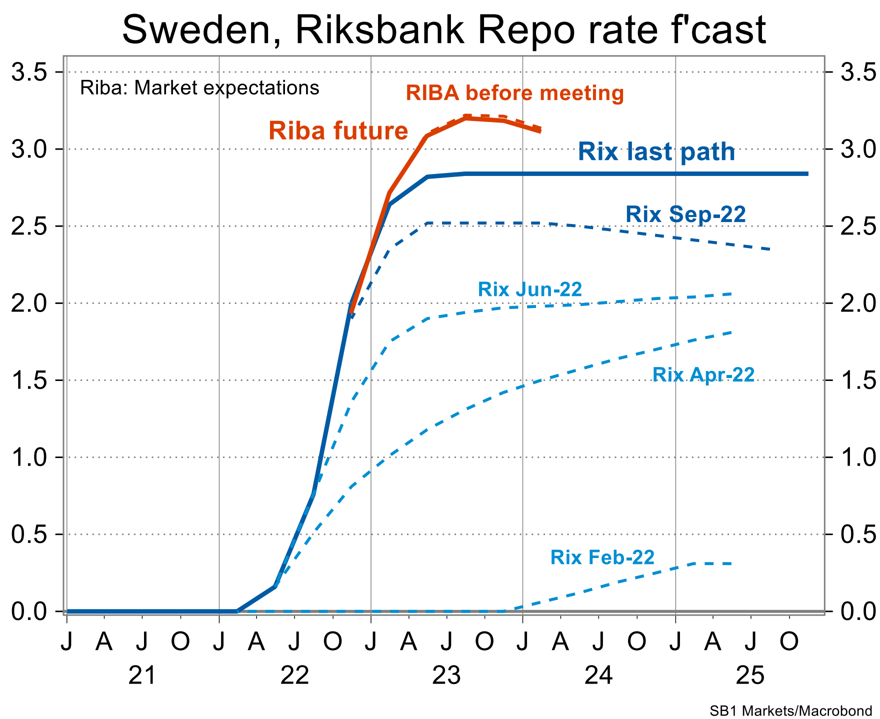




- **The confidence index** rose 3.7 p to -23.9 in Nov, according to the preliminary estimate, expected up to 26. The level is still -2.5 st.dev below avg, which is a very low level, still better than the -3.5 st.dev rock bottom in September. The downside risk vs consumption is still huge, given the normal rather tight correlation between this survey and actual consumption (Nat. Accounts data)
- **Inflation** fuelled by super high energy prices and fear of lack of gas supplies are of course to blame. **Interest rates** are now being hiked – and the rest of the yield curve has taken big leaps upwards – and sentiment is plummeting

The Riksbank lifted the signal rate by 75 bps to 2.5% – as expected

The bank will rather front-load than risk higher inflation for longer, and accepts a 2023 recession



Riksbank f'cast, annual percentage change

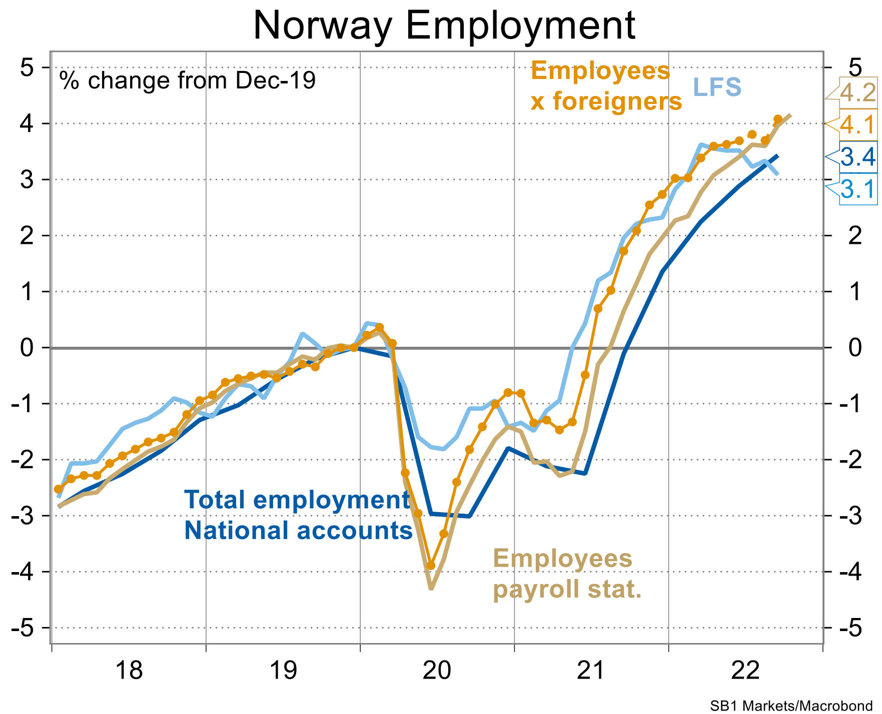
	2021	2022	2023	2024	2025
KPI	2,2 (2,2)	8,3 (8,6)	9,3 (8,5)	3,0 (2,2)	2.4
KPIF	2,4 (2,4)	7,6 (7,8)	5,7 (5,1)	1,5 (1,6)	2
BNP	5,1 (5,1)	2,7 (2,7)	-1,2 (-0,7)	1,0 (1,1)	1.7
Unemployment	8,8 (8,8)	7,4 (7,5)	7,9 (7,9)	8,3 (8,2)	8.3
Unit labour cost	1,6 (1,6)	3,3 (3,4)	4,6 (4,2)	2,6 (2,1)	2.1

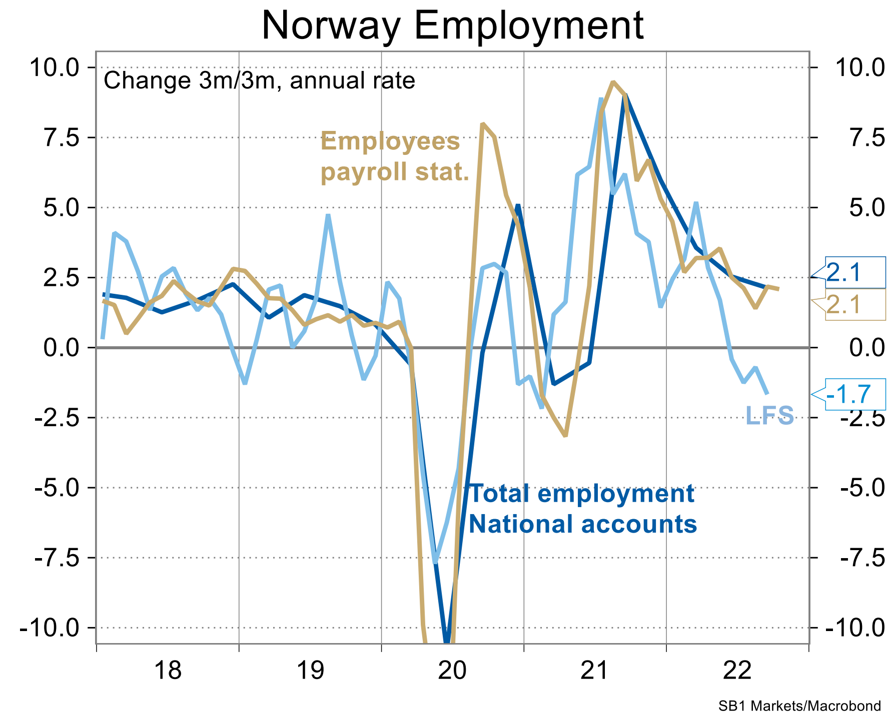
	2022Q3	2022Q4	2023Q1	2023Q4	2024Q4	2025Q4
Policy rate	0,83 (0,82)	2,00 (1,90)	2,64 (2,35)	2,84 (2,53)	2,84 (2,44)	2.84

- **The Riksbank** raised the policy rate by 75 bps to 2.5%, as widely expected, both in the market and among economists. The bank states that the inflation is far too high, and the bank expects one or two more hikes in H1 2023 (50% probability for a 2nd hike in Q2)
- **Inflation** was revised further up; **GDP growth** down and the bank is forecasting a recession in ’23 and expecting GDP to fall by 1.2% (from -0.7%); the **unemployment rate** was revised only slightly upwards for 2024 as a further downward productivity revision dampened the weakening of the labour market
  - The LFS unemployment rate was revised up by 0.1 pp, to 8.3% (from 7.4% in 2022), while GDP was revised down by 0.6% (sum 2023 and 2024 revision)
- The interest rate path was lifted, by up to 50 bps (in the long end). The bank expects to hike the rate once or twice next year, to 2.75% or 3,0%, The market assumes 3,25%
- The **QE program** was not altered at this meeting, but will expire at the end of the year
- **Riba futures** were close to unchanged after the announcements – and still above the Bank’s plan

Employment growth is calming down, and LFS employment is declining

However, the most reliable stat., the register-based no. of employees is still trending up at a 2.1% pace

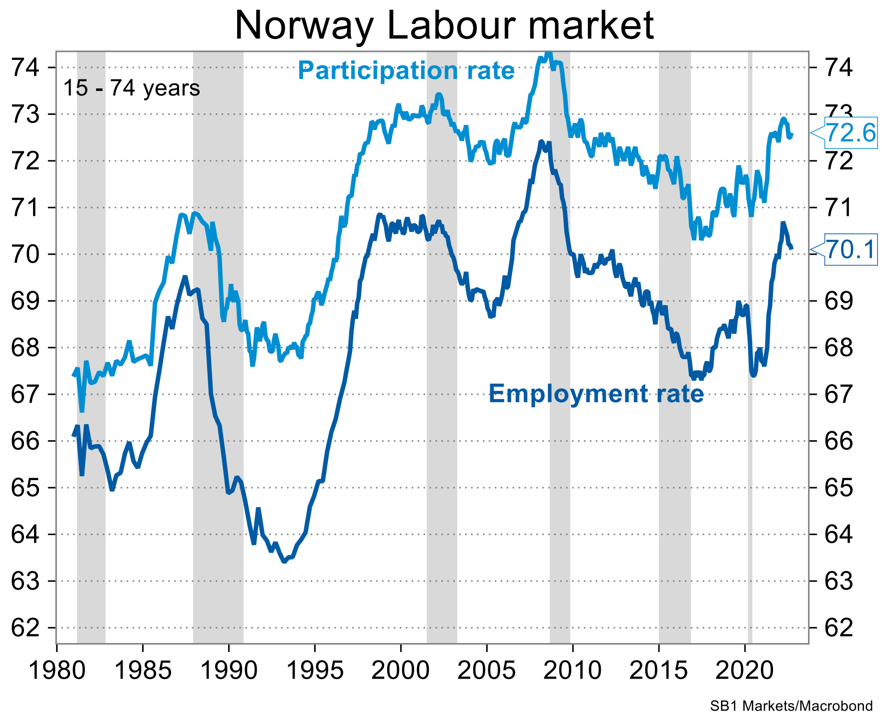


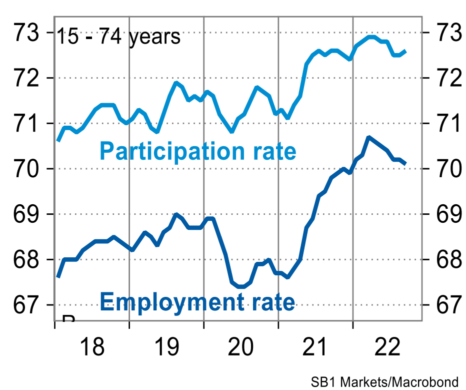


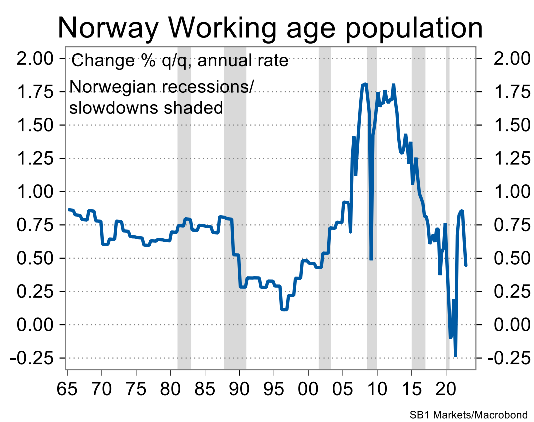
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) fell by 0.4% in September (3 m avg), and at a 1.7% pace measured 3m/3m
  - LFS employment is up 3.1% from before the pandemic
- The **register-based employee stats ('A-ordningen)**, reports a 0.5% growth in the no. of employees in Oct, up from 0.3% in Sept, and better than we expected. The 3m/3m rate is 2.1%, still impressive – but still slowing. The level is up 4.2% since Q4-19. Foreigners have fully returned
- **National accounts** reported a 2.1% lift in employment in Q3 (annualised), and a 3.4% increase from Q4-19

Both participation & employment rates are down (but a tad too volatile)

The broad picture: Both rates have flattened – and may possibly be heading down



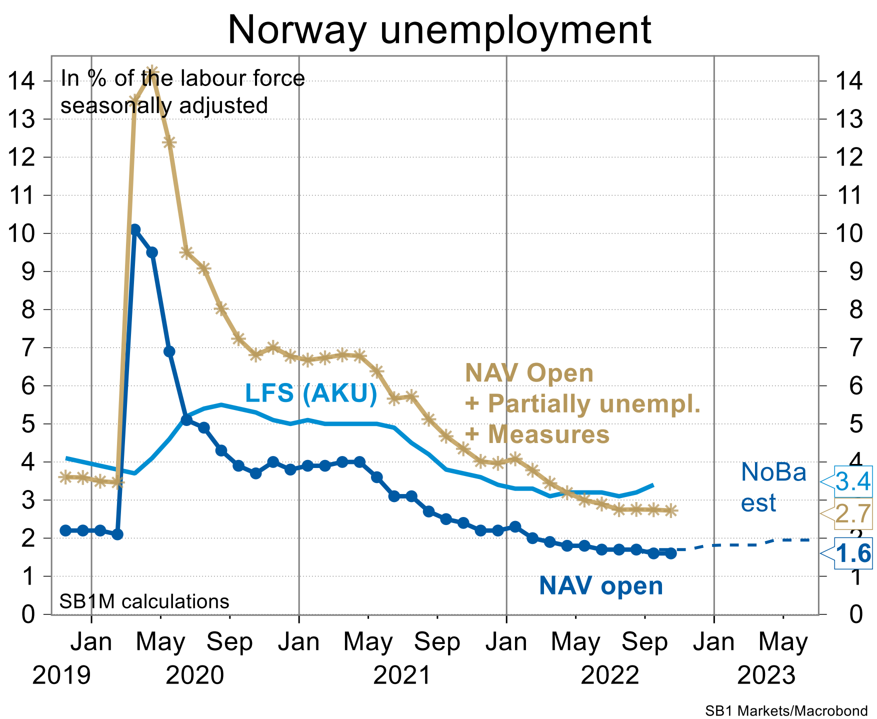


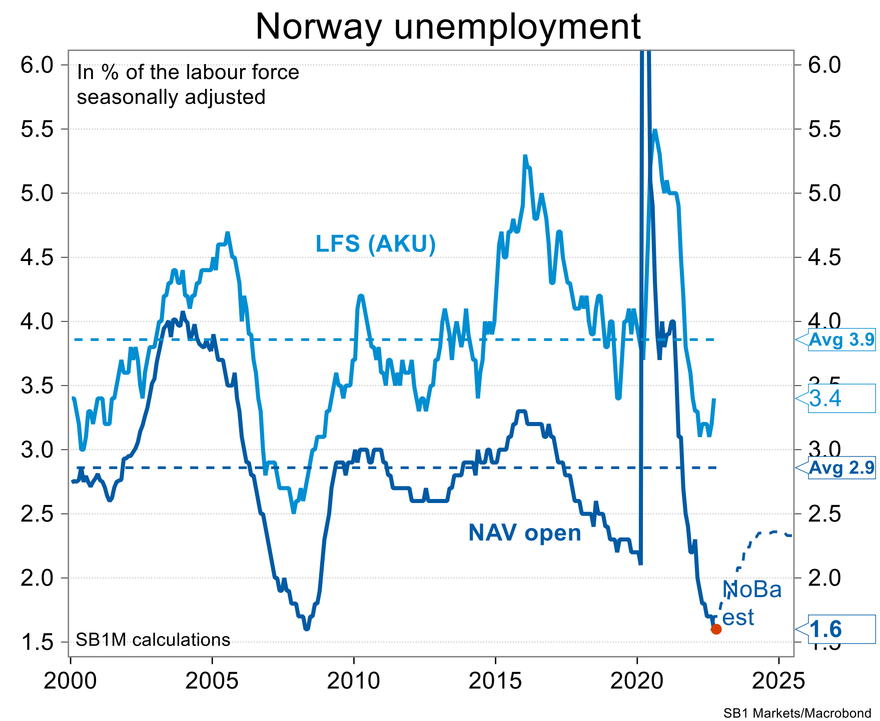


- **The employment rate** fell 0.1 pp to 70.1% in September
  - Ahead of the pandemic the rate was almost 69%, and it is up from the 67.4% trough in early 2021 (and from the same level in 2017, after the 'oil crisis'). The employment rate is measured in % of the working age 15 - 74 y population
  - In March, the employment rate was at 70.7%, the highest since after the Financial Crisis
- **The participation rate** rose 0.1 pp to 72.6% in September, and it is marginally lower than during the spring
  - Are there still reserves out there? If so, why are they not turning up now, given the very high vacancy level, 'everywhere'?
- **Both rates are** rather volatile from month to month, especially the participation rate
- **Working age population** growth has picked up, but slowed in Q3
  - Labour immigration has accelerated, possible as a ketchup effect after low immigration during the pandemic. Given the tight labour markets in the rest of Europe, we doubt ordinary labour immigration from Europe will solve the labour deficit in Norway.
  - However, Ukrainian refugees immigrated in Q2, and have contributed to the increase in total working age population. So far, not many of them are employed, according to SSB

LFS unemployment up 0.2 pp to 3.4%, well above our forecast

We expected an unch. rate at 3.2 (though with the risk on the upside). The rate bottomed in March, at 3.0%

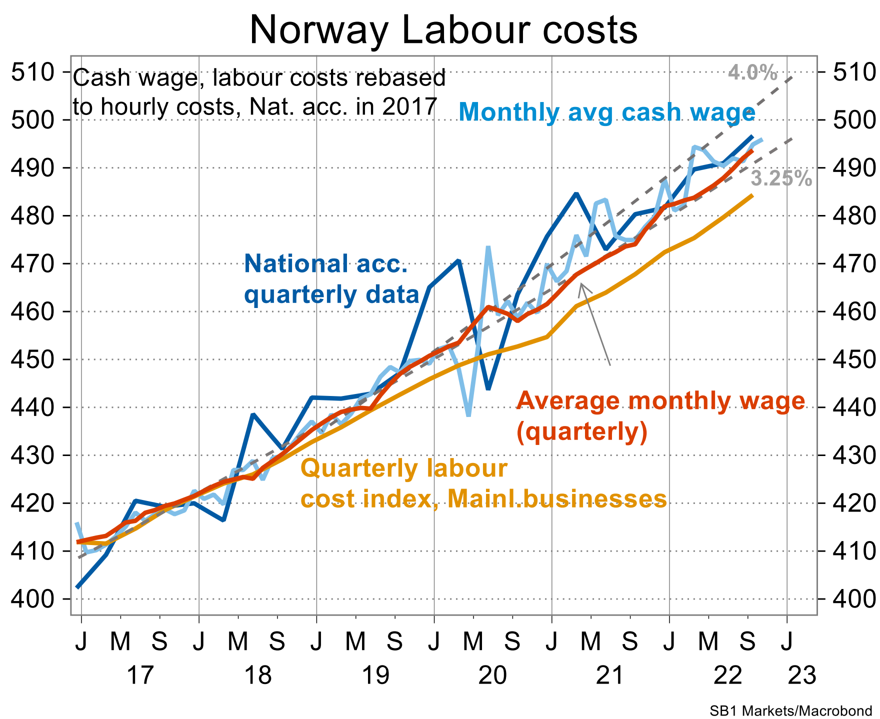


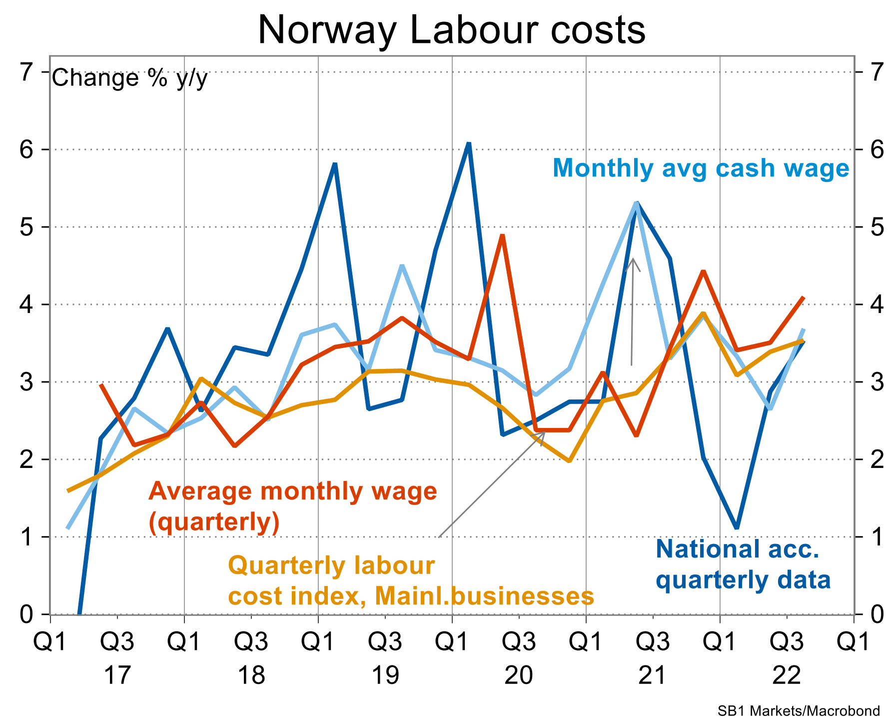


- **The NAV open unemployment rate** has not yet started to increase – but we expect a small uptick in November, data out on Friday

All other wage inflation indicators still in check

All are reporting wage growth below the 4% line. We expected wage growth to accelerate – so far it has not

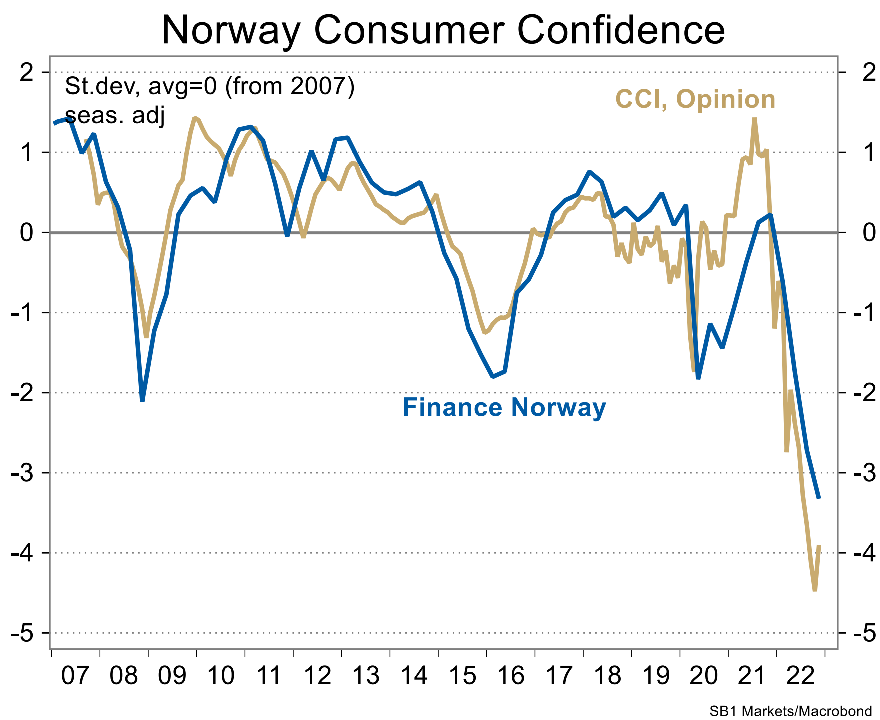




- The quarterly labour cost index report a 3.5% growth y/y in Q3, up from 3.4% in Q2 – and the trend is not higher (data out last week)

Consumer confidence up in November, from ATL in October

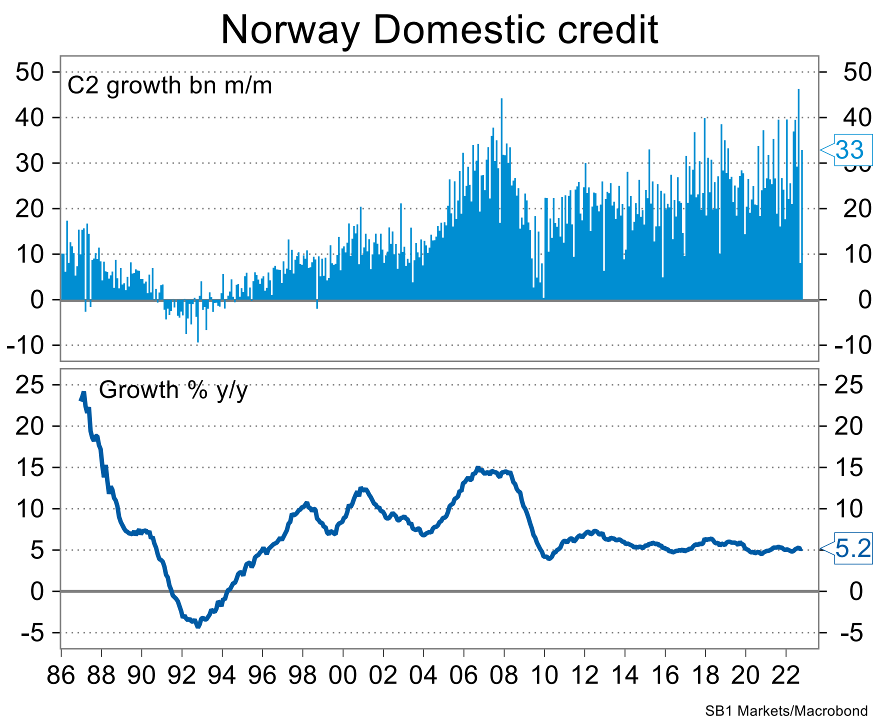
We are collectively depressed: consumer confidence are at record low levels here and in the rest of the rich world

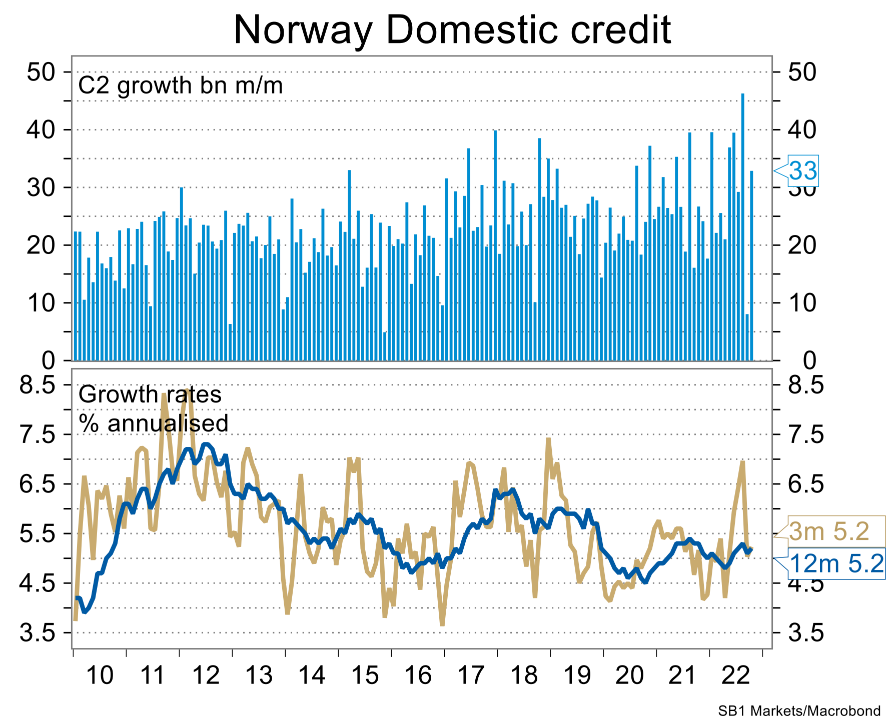


- **The CCI print** from Opinion was up in November, but at -3.9 st.dev it is hardly a positive story. ATL was at -4.6 st.dev in October, while the bottom during the pandemic was 2.0 st. dev. below average
- The **net share of optimists** is -28%. Given inflation and the hikes in interest rates + some geopolitical uncertainty, this share could easily have been larger
- **Will households stop spending or retreating from the housing market?** The housing market has no doubt turned the corned, while sales are trending down but far from at a scale comparable to the record low consumer confidence
- Even if a large share of the population recognises that their own economy will be hurt, it does not imply that they all plan to cut spending sharply – but there is of course some downside risk

Household credit growth is slowing, payback time is arriving?

Household credit growth the lowest in 20 years, and at 4.1%, 0.2 pp below NoBa's f'cast

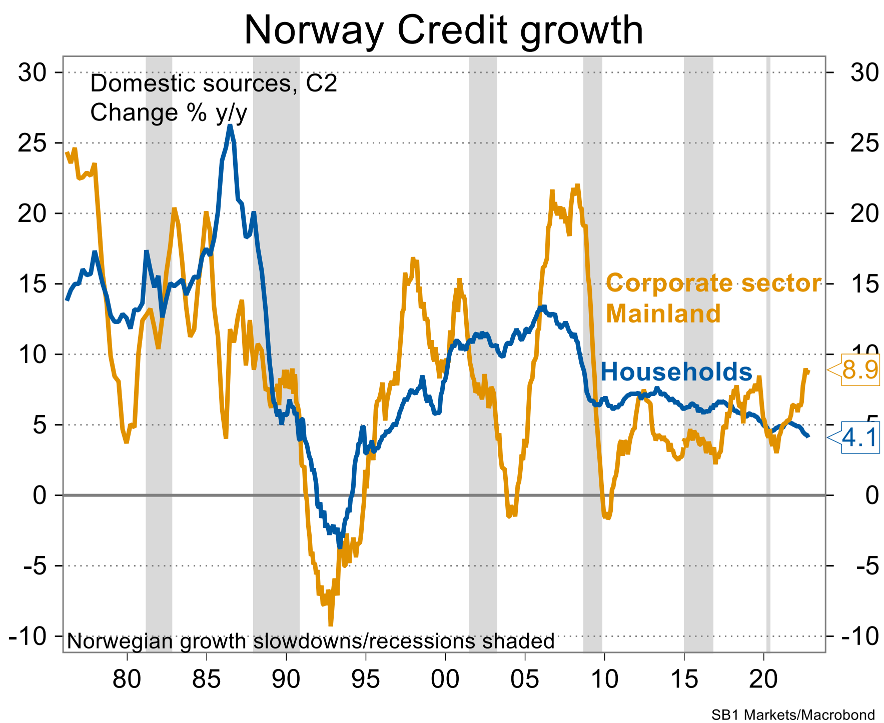


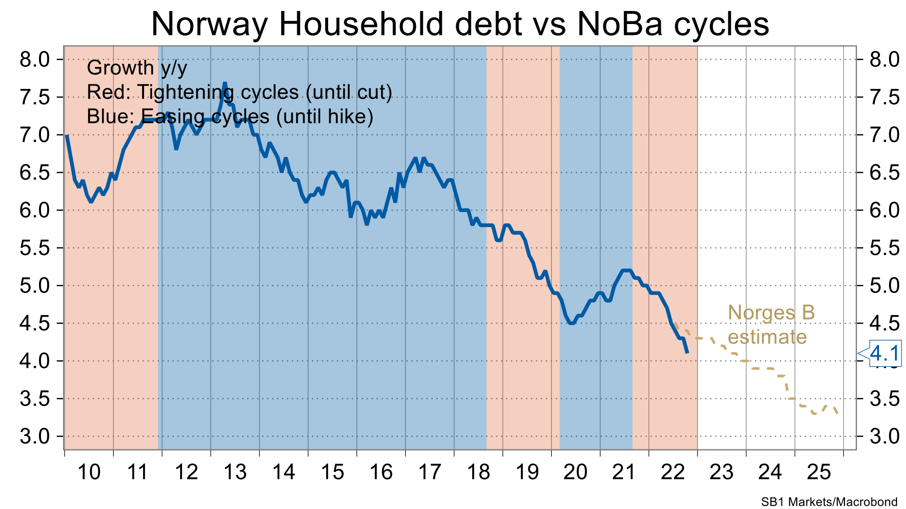


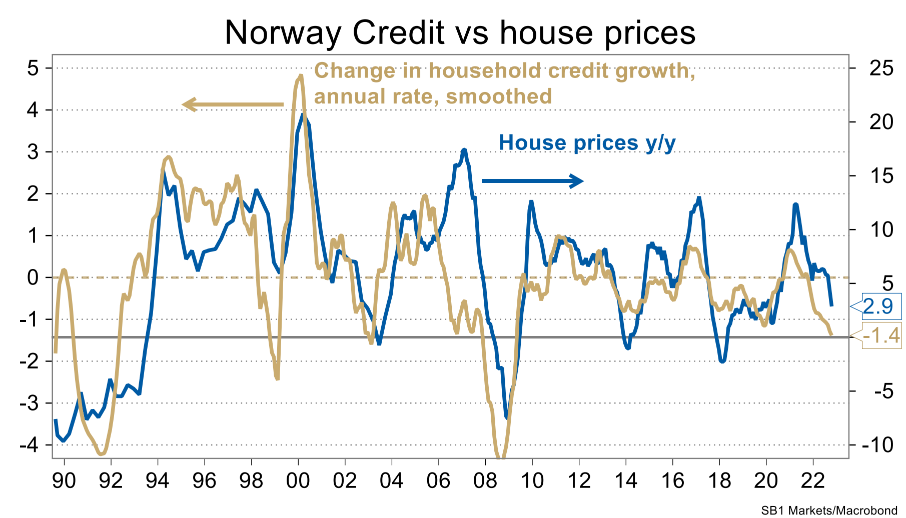
- **Total domestic debt** (C2) rose by NOK 33 bn in Oct, up from the unusual low 7 bn in Sept, we expected 29 bn. The annual growth rate rose 0.1 pp to 5.2%, we expected unch. The 3m/3m growth rate was close to unch at 5.2%
- **Household credit** rose by NOK 12 bn in Oct, which is 1 bn less than we expected (and down 2 bn from Sept). The annual rate was fell 0.2 pp to 4.1%. NoBa estimated 4.3%. The growth rate is the lowest since Dec-95. A further slowdown is likely, interest rates are up, house prices are falling
- **Corporate C2 credit** added NOK 19 bn in Oct, much more than normal – and the volatility continues; from up 31 bn in Aug, and down 10 bn in Sep. The annual rate accelerated to 7.8% from 7.0%, we expected 7.3%. For Mainland companies, the annual rate gained 0.3 pp to 8.9%. The unusual volatility may be due to transfers of debt to and from abroad
- **Local governments** added NOK 2 bn in Oct, 1 bn less than we expected. The annual growth rate fell 0.3 pp to 4%. Finally, local gov's are not increasing their debt/income ratio

Credit growth slows during economic slowdowns, recessions

If the housing market does not turn up, credit growth will slow further

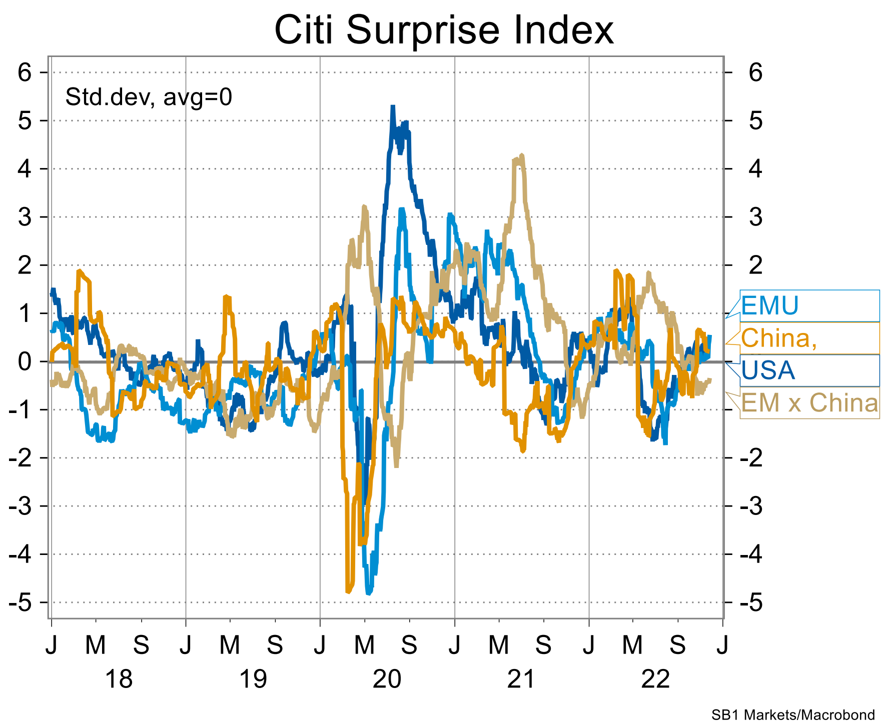


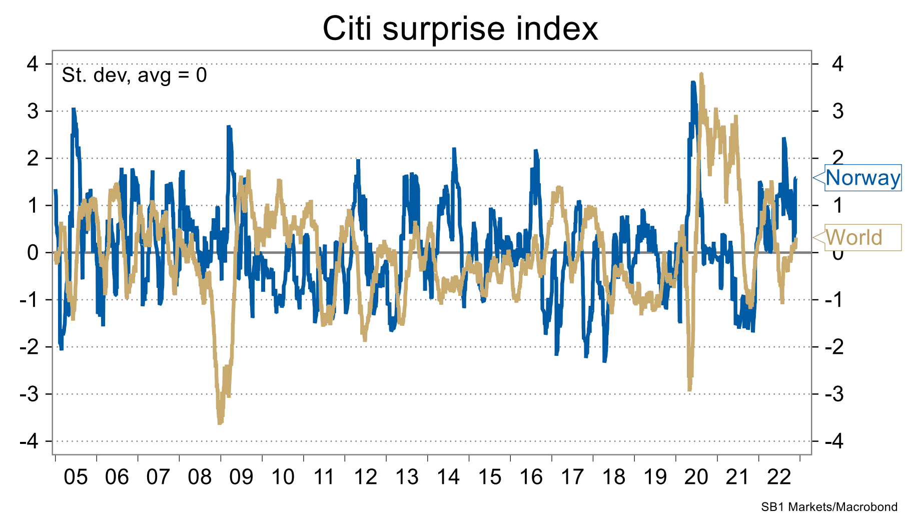


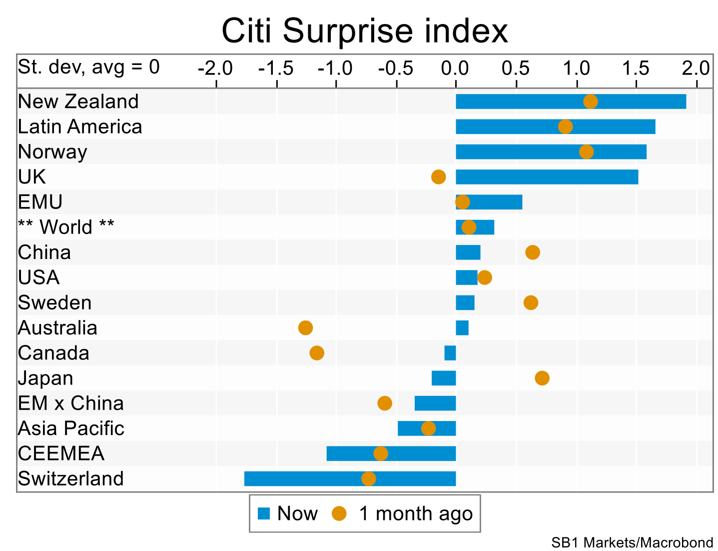


Global data harvest close to expectations

China less positive last week, EMU on the upside. Norwegian news among the best, according to Citi





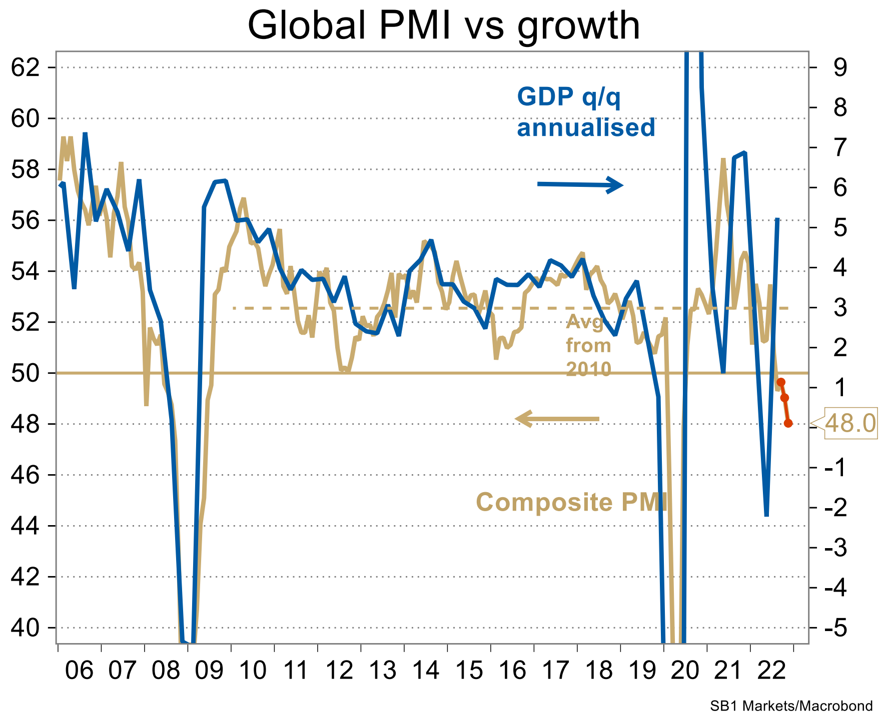


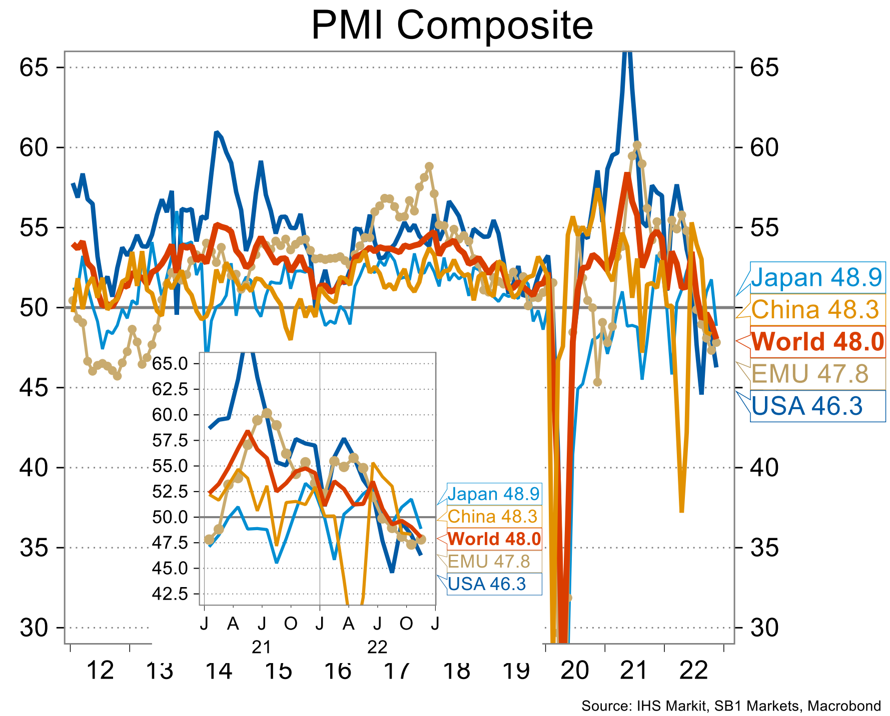
- **Emerging markets x China** is somewhat below par
- **Norway** is close to the top of the list, even UK high up

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

The global composite PMI further down in Nov, into recessionary territory

EMU reported a small uptick, an UK an even smaller – but US and Japan surprised on downside



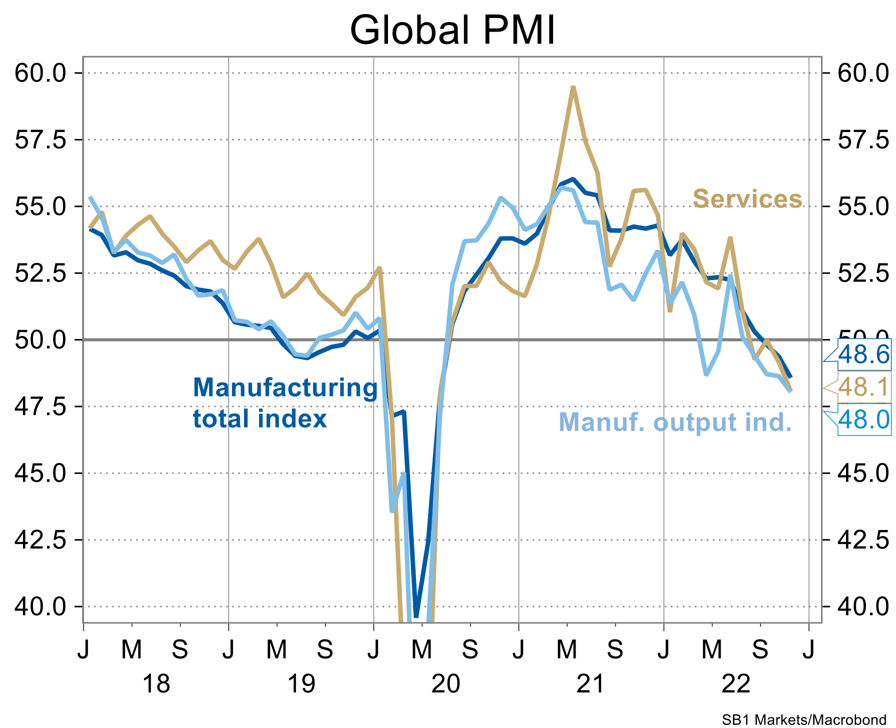


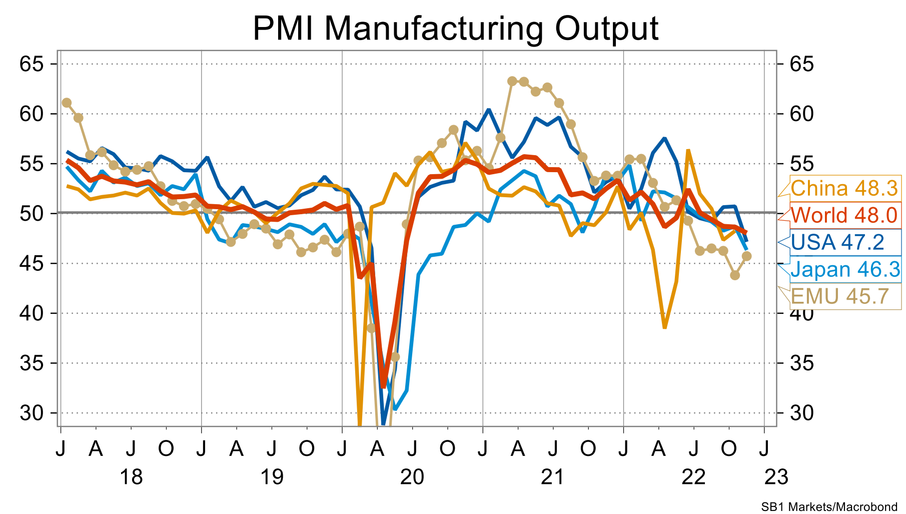
- According to the preliminary PMIs from the rich part of the world, the global PMI very likely fell further in November, -1 p to 48.0, signalling close to zero growth in the global economy, way below present macro forecasts – and way below the normal threshold for a labelling a global recession, a 2.5% growth rate. The index is the weakest since the financial crisis – except for the first pandemic months
- EMU surprised on the upside, US on the downside. China (or other EMs) has not yet reported

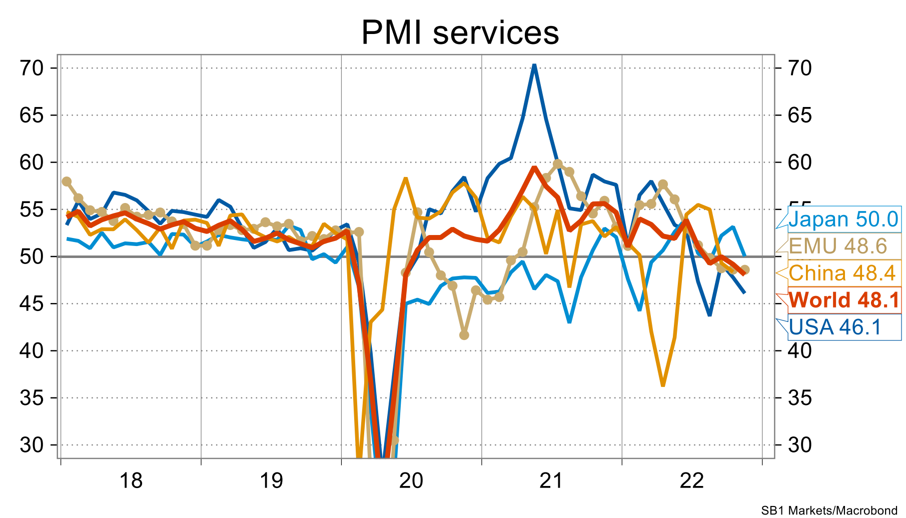
Our estimates are based on the preliminary PMIs from US, EMU, Japan UK, Australia. The estimates are uncertain, but usually by less than 0.5 p if the Chinse PMI does not change too much

The rich countries are coming together, well below the 50-line

The manufacturing sector in the EMU was the only bright spot – but the pace of decline is still harsh, companies say

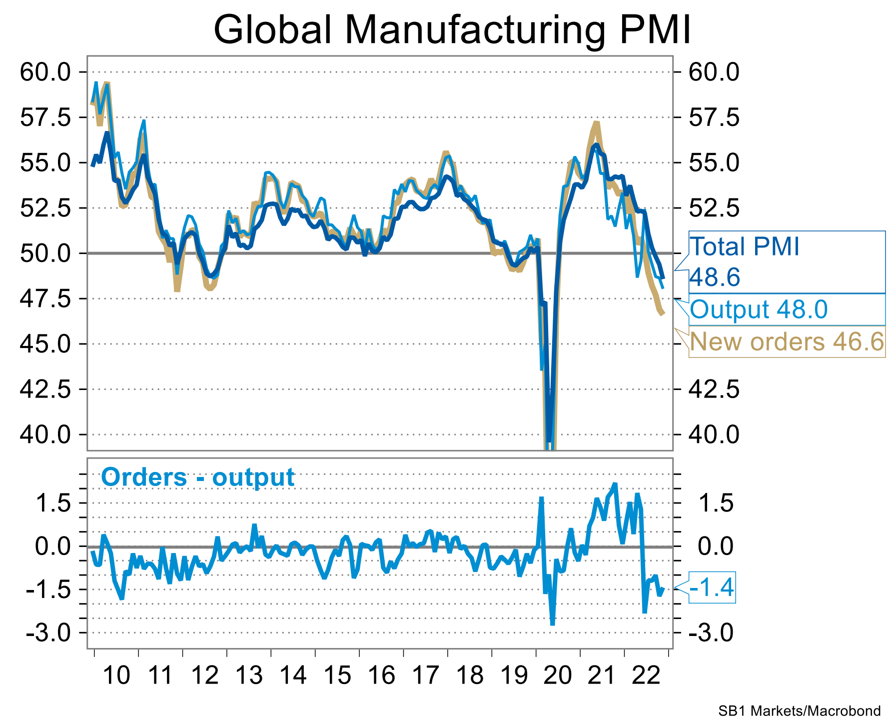


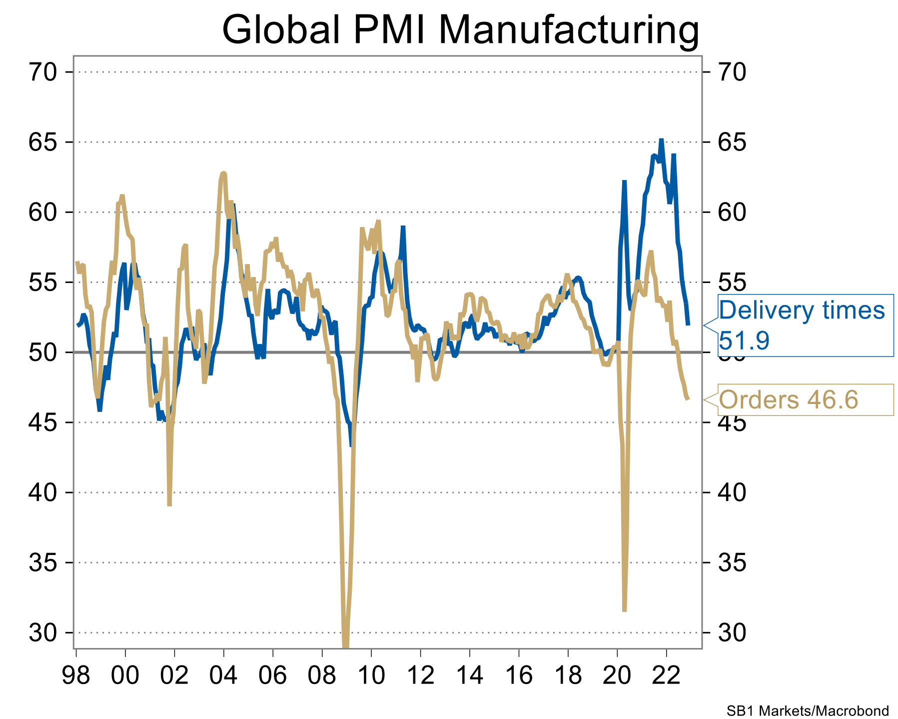




Manufacturing orders are contracting very fast, both in Europe & US

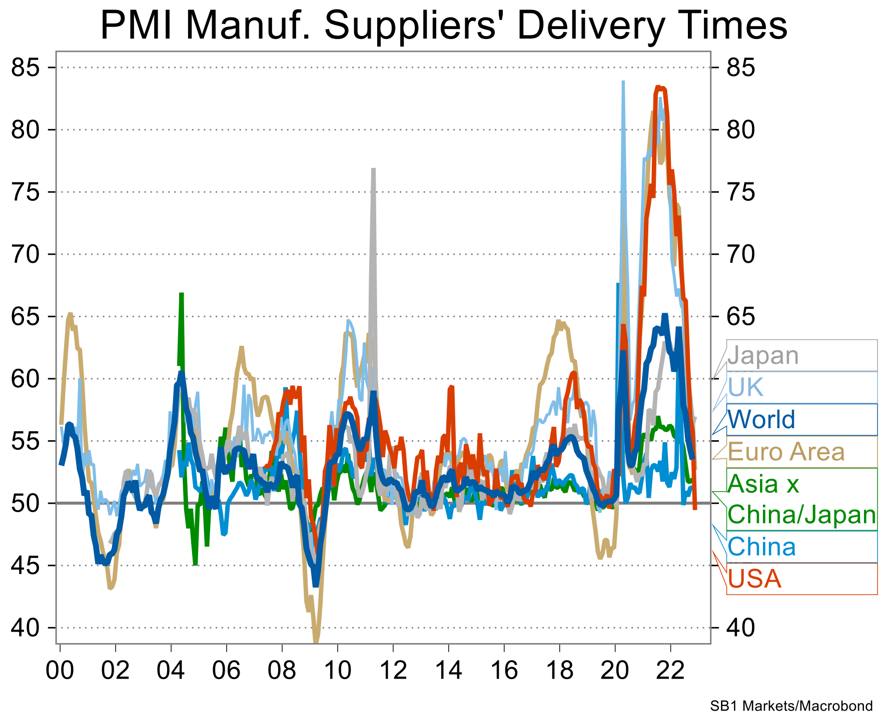
The delivery times index fell further in October – and is back to a normal level

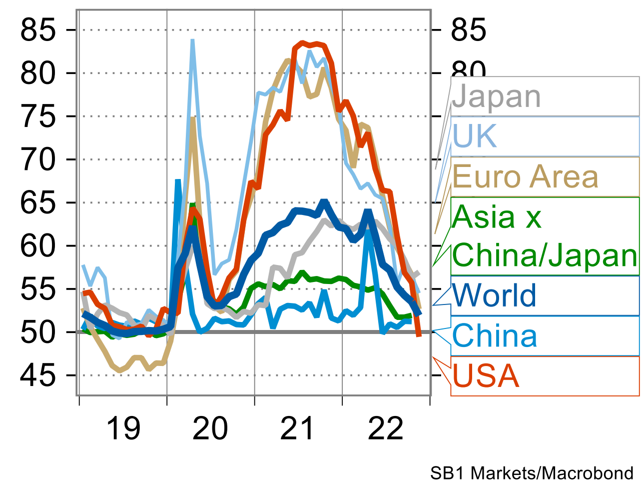




Delivery times have normalised

In the US, they are lower than normal – at least the index is below average

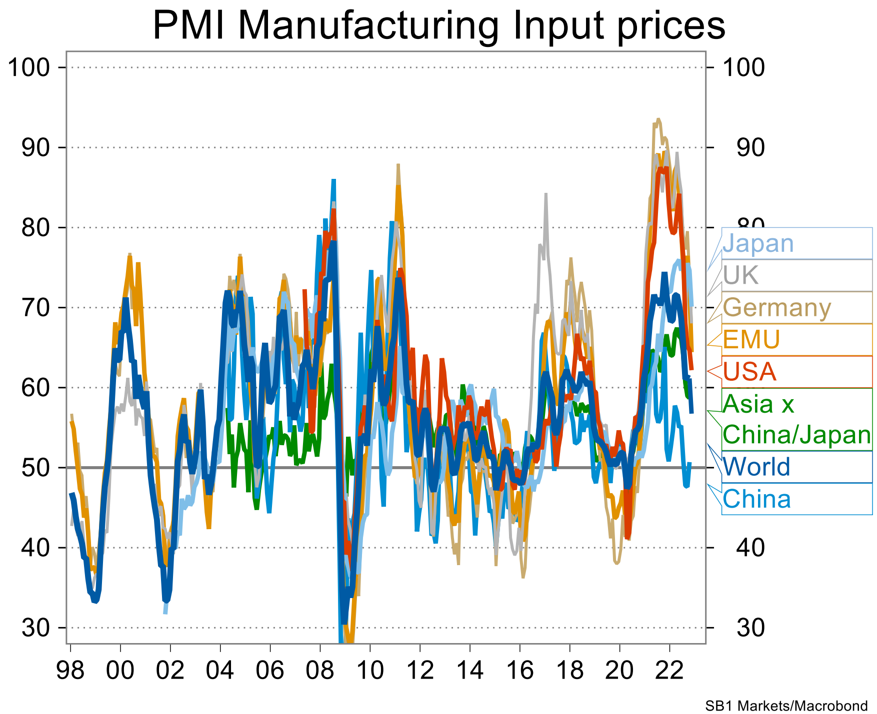


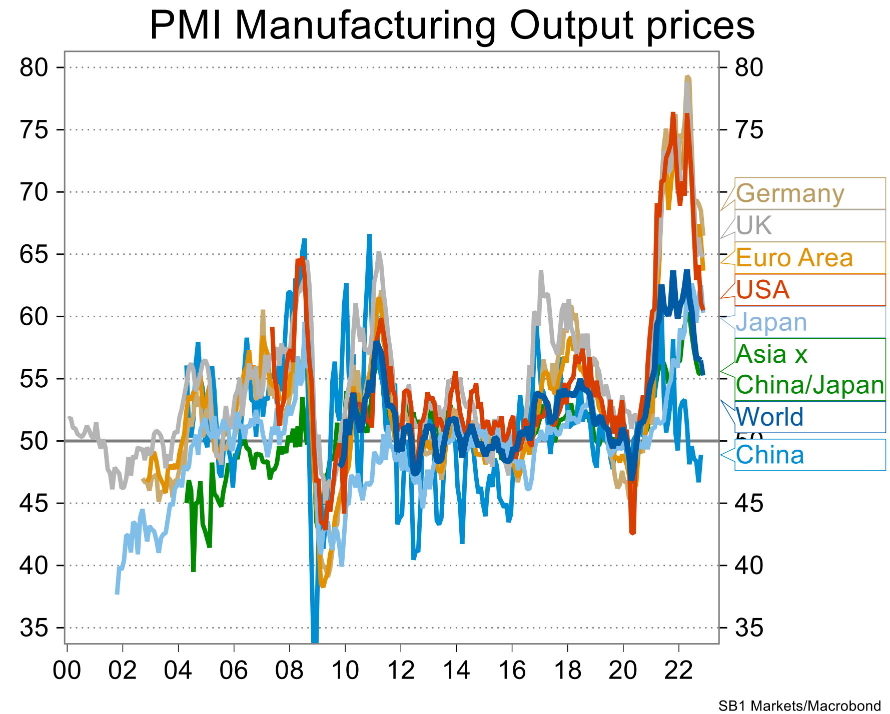


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) has been inching down since the peak last October. The decline is broad among the Western rich countries – and now the level is back to the 50-line very likely signalling normal delivery times
- **The interpretation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

Manufacturing price inflation is heading downwards but remains elevated

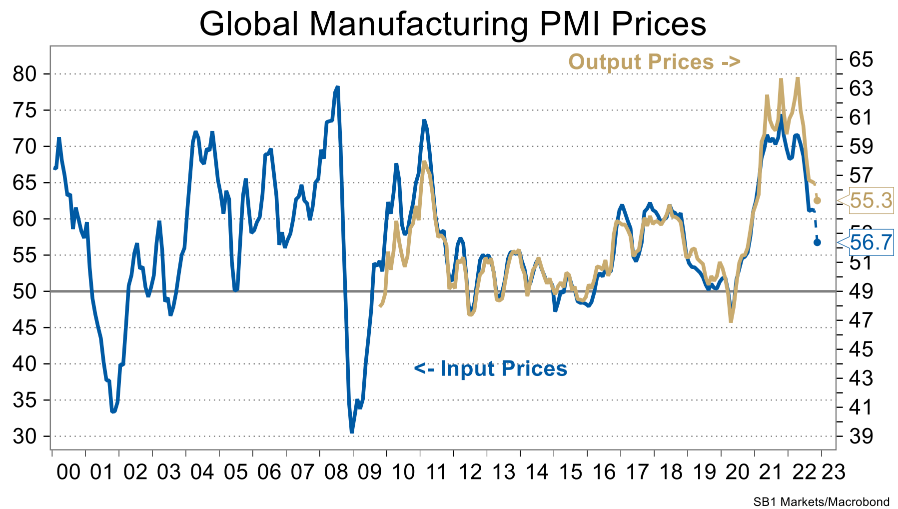
The decline in the input price index was steep in October – but less so for the output price index

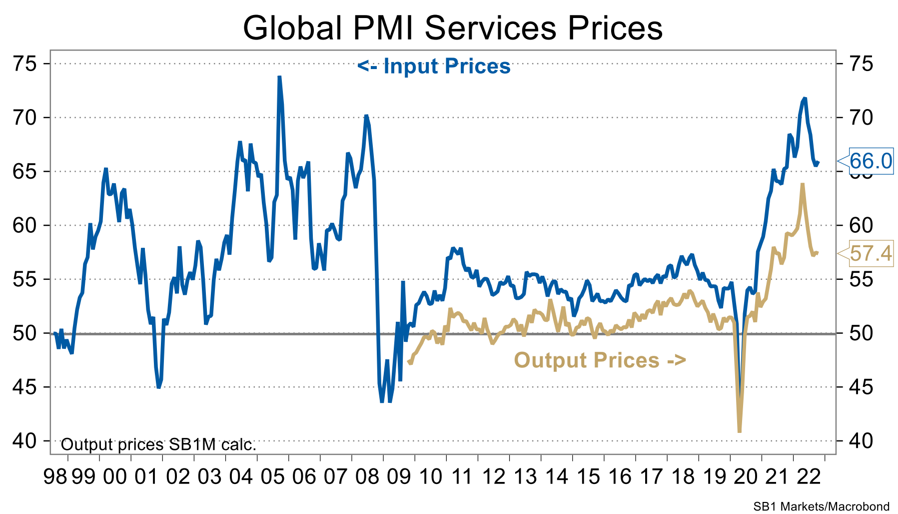


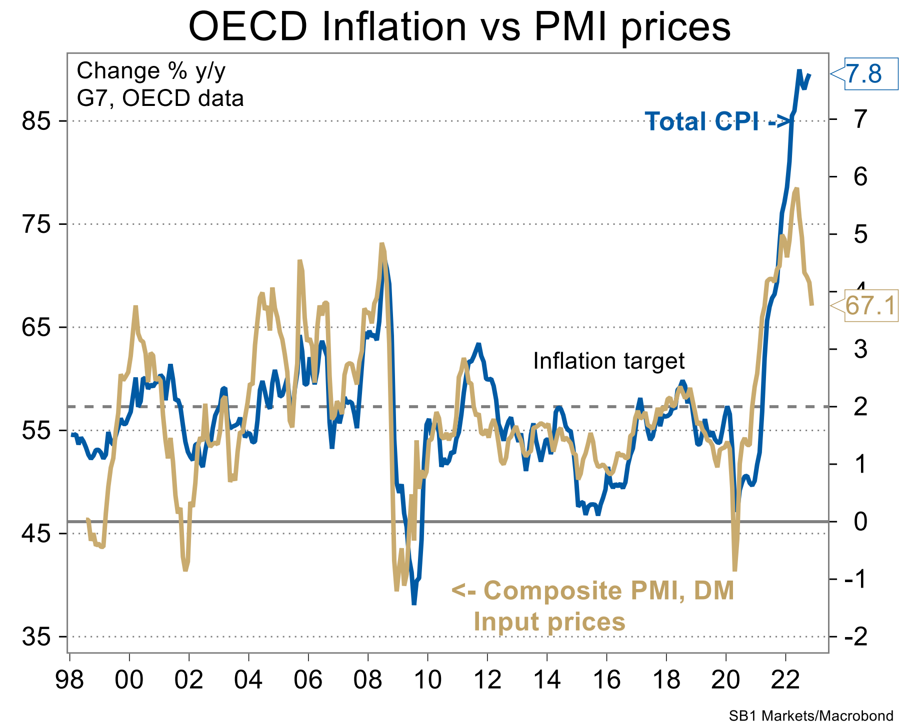


Price indices are heading down but have not yet come back home

However, they are signalling a steep decline in headline inflation not before too long!





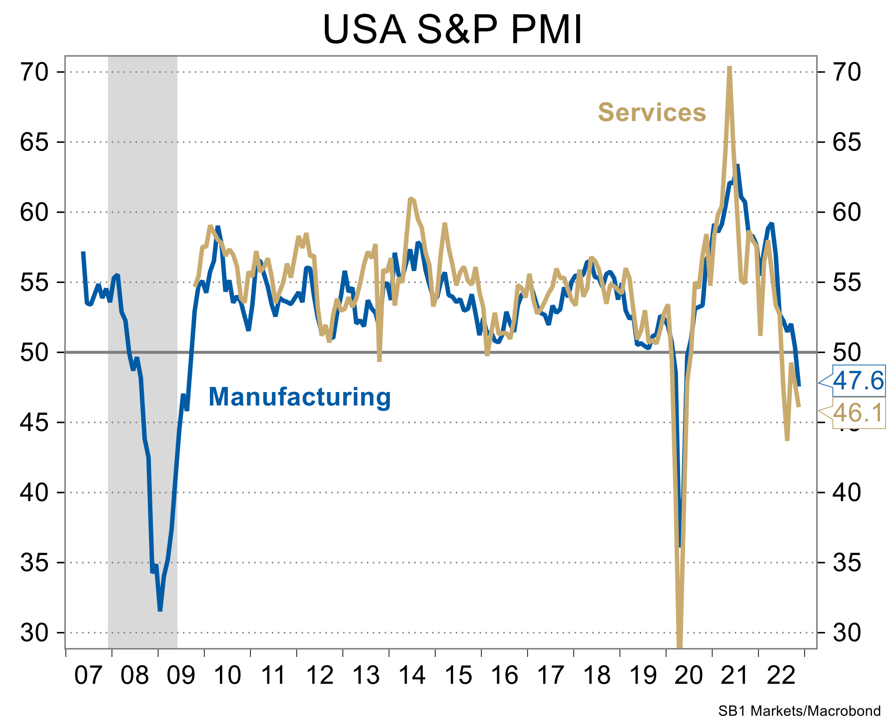


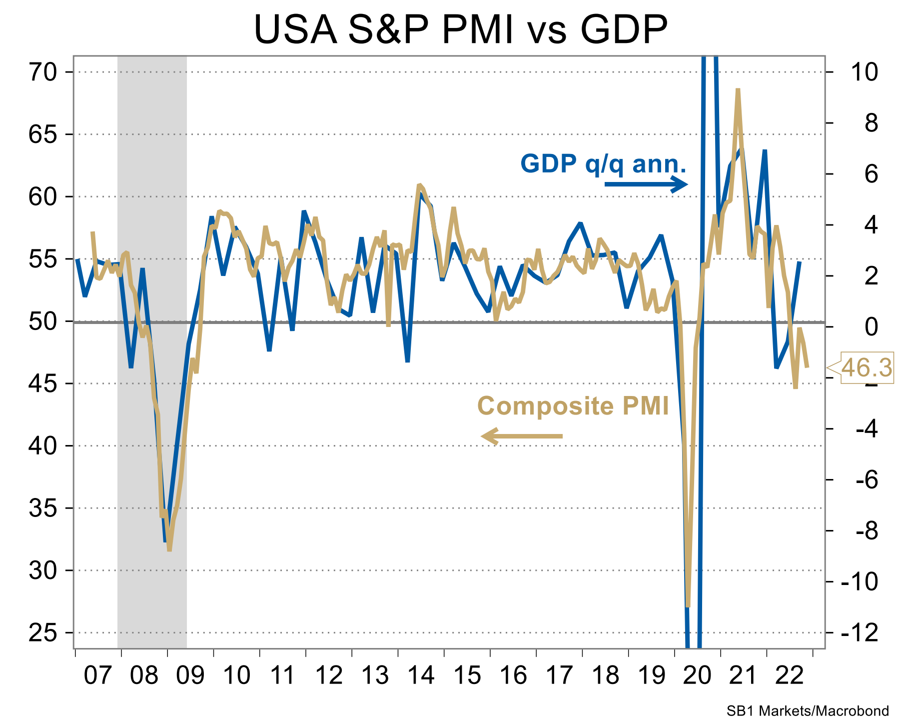
- These PMIs signal a substantial easing of price pressure the coming months – but are still indicating inflation well above a normal level
- We are still more concerned about wage inflation than the actual price inflation due to factors that are most likely transitory, like hikes in raw material prices, freight costs or short-lived margins expansion when demand is surprisingly strong

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

US PMIs further down in November, the composite down 1.9 p to 46.3!

Both the services and the manufacturing PMIs surprised on the downside – new orders plummeted

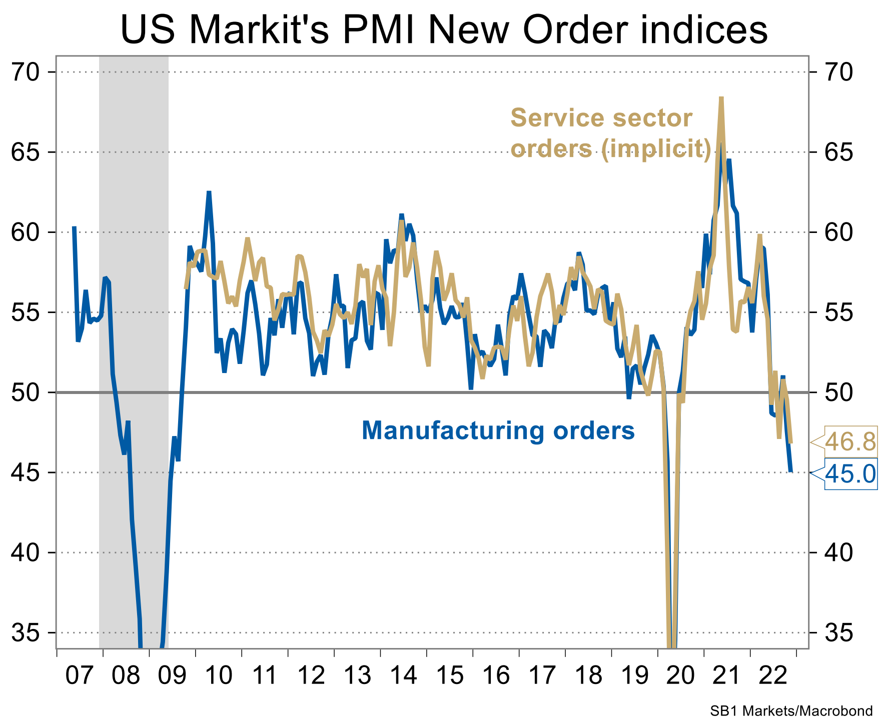


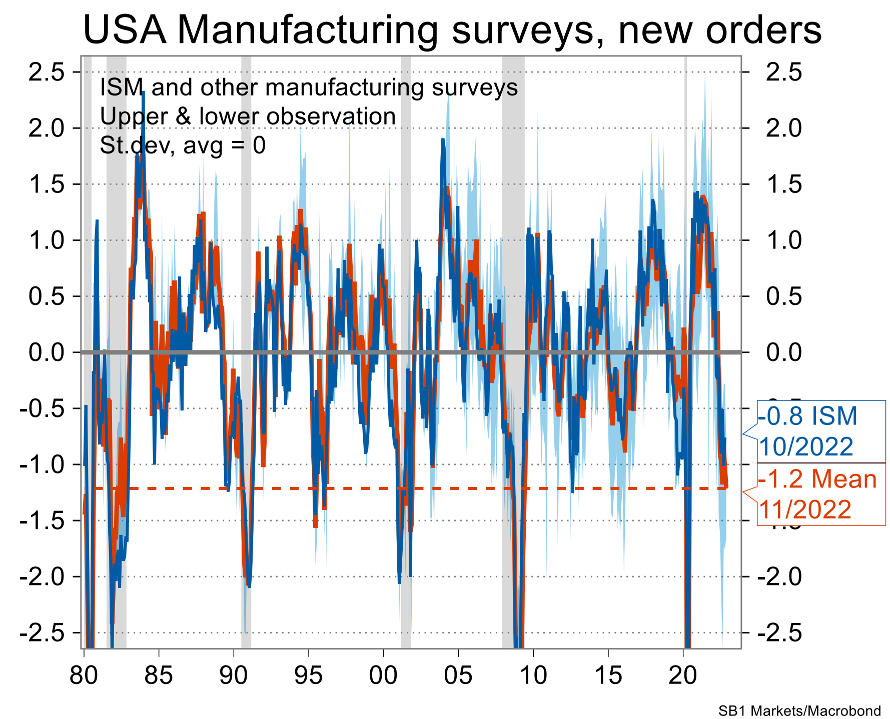


- **The S&P composite PMI** fell 1.9 p to 46.3 in November, signalling some 1.6% (ann. rate) contraction in GDP. The index has been below the 50-line for 5 consecutive months
- Services fell by 1.7 p to 46.1. The total manufacturing PMI fell into contractionary territory at 47.6 from 50.4 the month before
- **The manufacturing new orders index** dropped 2.6 p to 45! This is the lowest print since the pandemic, and before that since June-09
- **The price indices** fell further but are still reporting faster price increases than normal

The PMIs, and all other manufacturing surveys insist a serious order shortfall

The manuf. PMI reports of decline in new orders, just the Fin Crisis, start of the pandemic worse

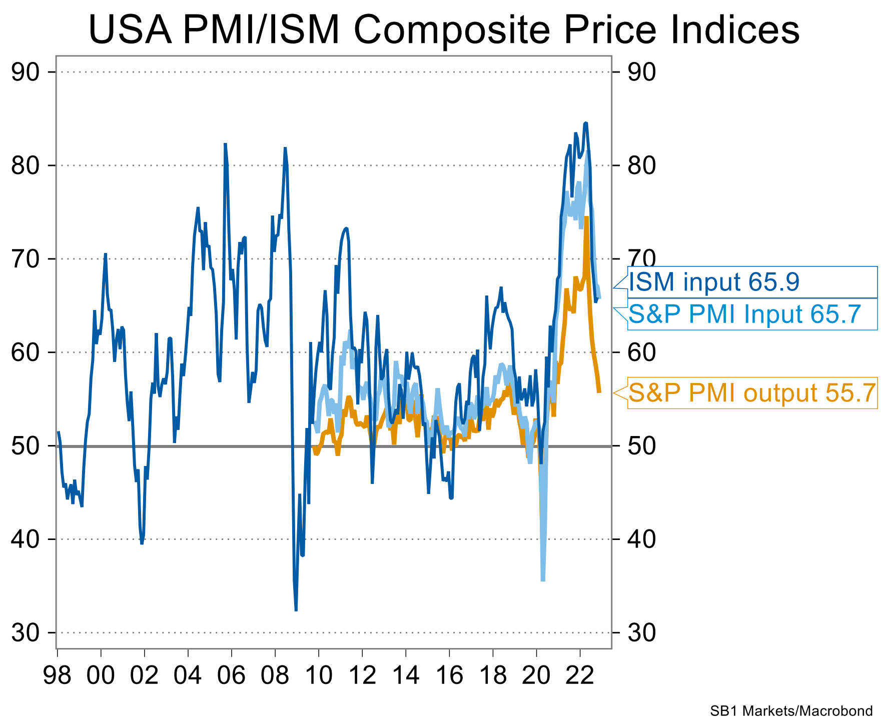


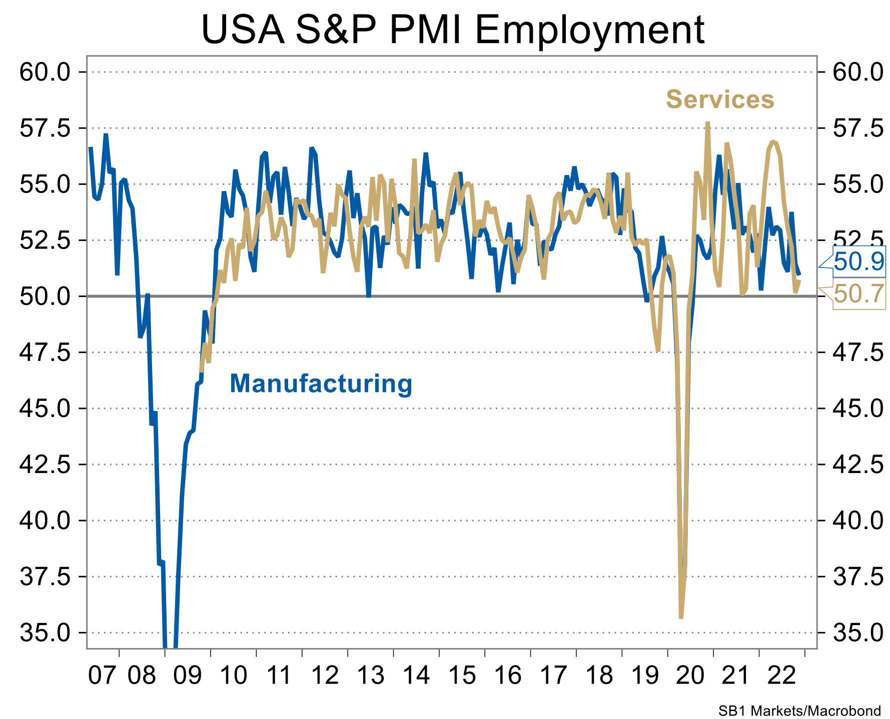


- Just once, in 1995, the order inflow was reported weaker than now, without the US entering or being in a recession

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

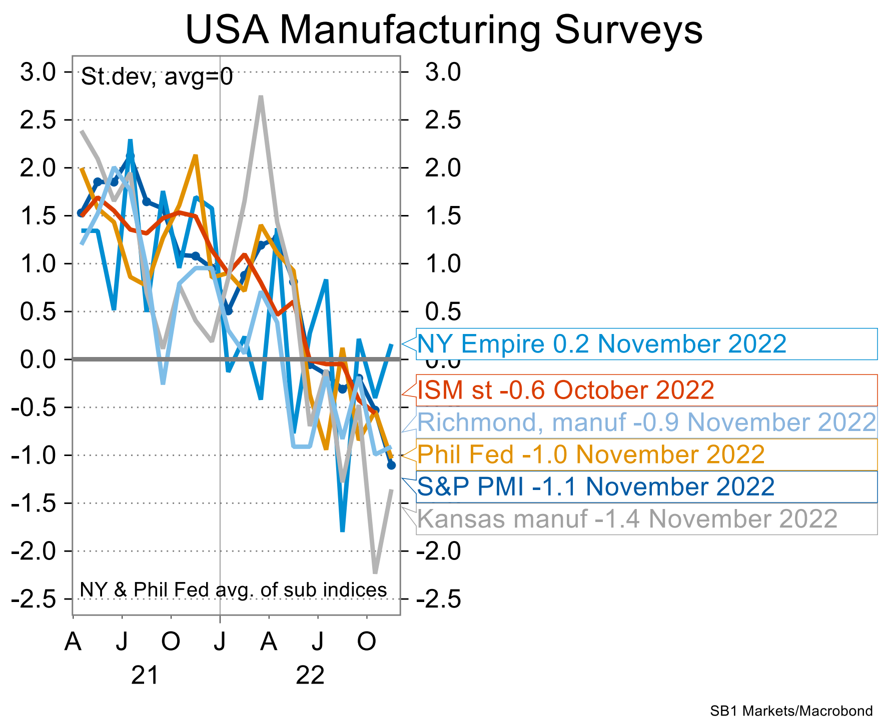
But still much faster than normal… and payrolls are still increasing (though far slower than normal → unemploym. up)

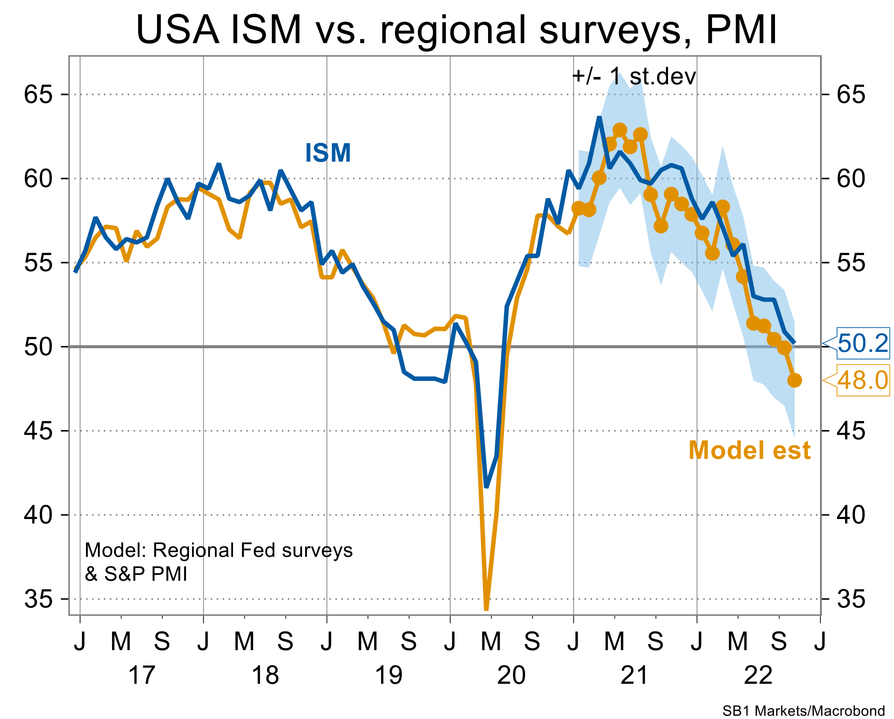




Another decline in the ISM, to 48??

A model estimate based on the surveys published so far signals a 2 p drop to 48. Consensus is at 49.8

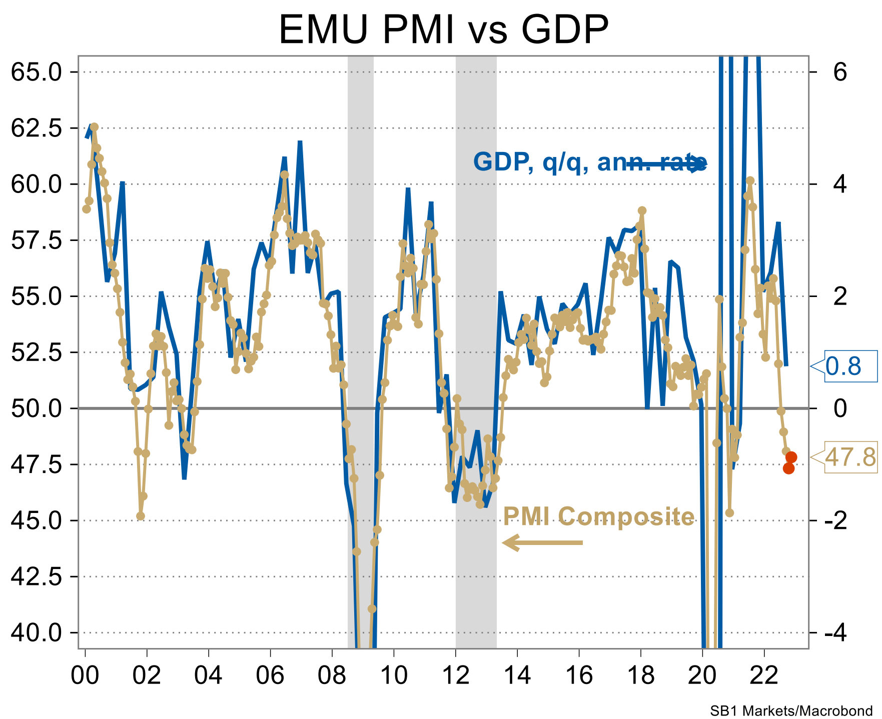


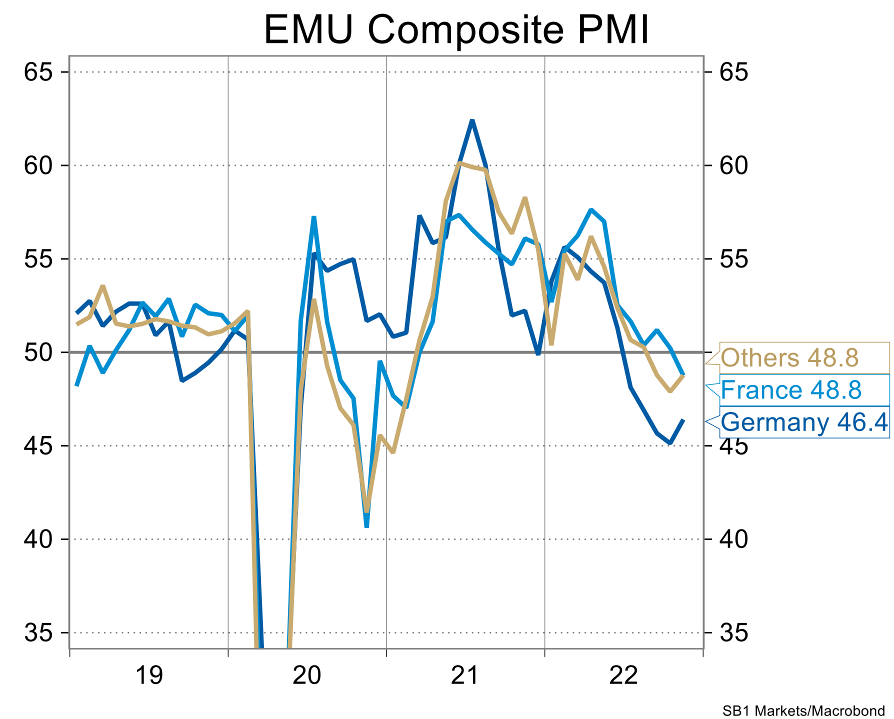


- Big picture: Growth is slowing sharply and manufacturing indices signal that the economy has entered a recession

Eurozone PMI improved slightly on the back of better German data

The PMI is still in contractionary territory though, and the same goes for the PMIs in EMU x France & Germany as well

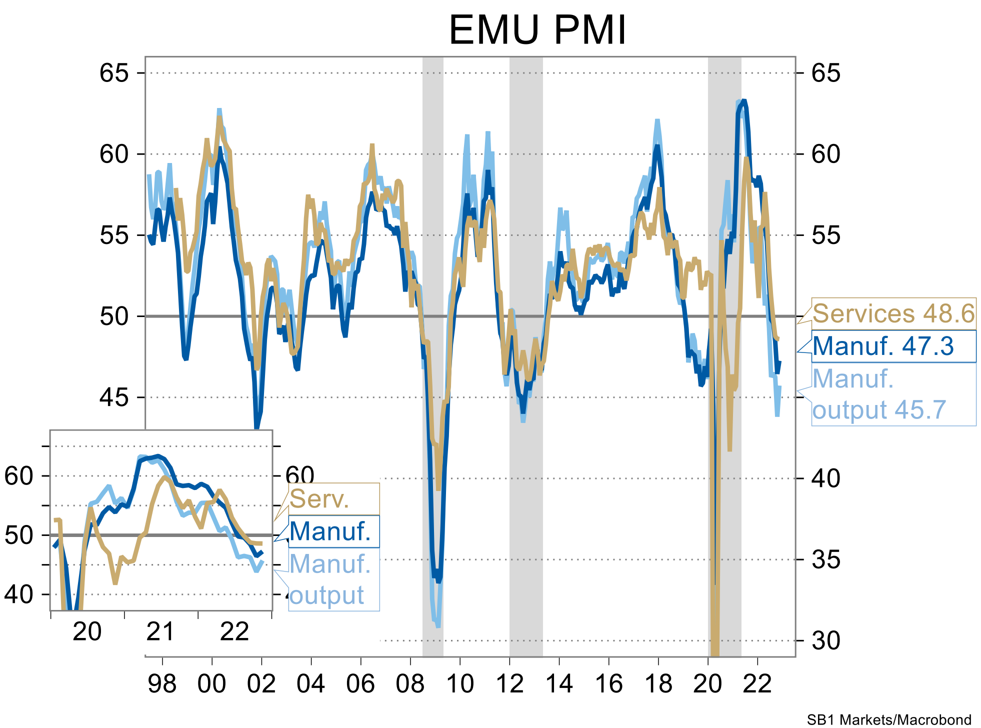


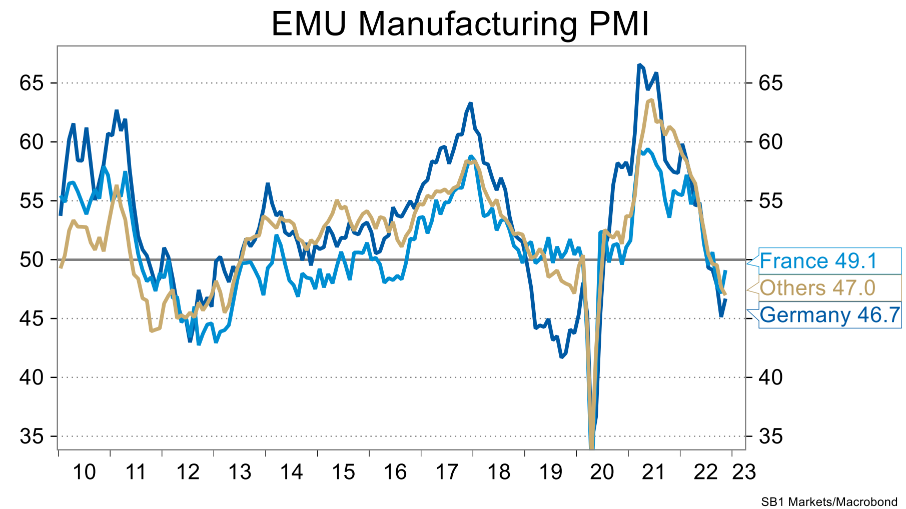


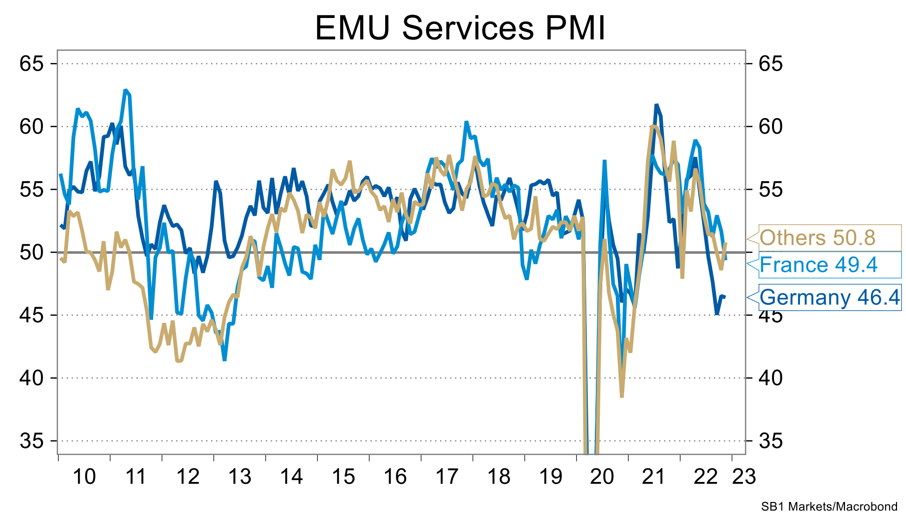
- **The composite PMI** increased by 0.5 p in Nov, to 47.1, 0.8 p better than expected – still signalling a 0.9% contraction in GDP in Q4. High inflation/energy prices and higher interest rates are dampening demand, according to S&P. Even though the German PMIs surprised on the upside in Nov they are still in bad shape, and the setback in the German economy is a drag on the overall EMU PMI. However, economic activity is falling across the region
- **Services** were unchanged at 48.6, suggesting that the sector is contracting
- **Manufacturing** fared better in Nov; the PMI rose 0.9 p to 47.3, 1.3 p above consensus. The output index increased 1.9 p to 45.7, and the new order index increased by 2.1 p to 41, from a historically low level – the current level is still signalling a fall in orders, of course
- **The delivery times** and price indices both fell, and while the price indices still remain higher than normal, the delivery times have now normalised.
- If the PMIs and other surveys continue down at the current road, <u>the pressure on (and within) the **ECB** to hike rates rapidly will no doubt fade</u>, even if inflation is high and unemployment is low. <u>Wage inflation has not yet exploded, and the underlying cost pressure is not like in the US</u>

Manufacturing sector is contacting for the fifth month; services unchanged

The output index increased 1.9 p to 45.7: a sharp decline in production is still reported





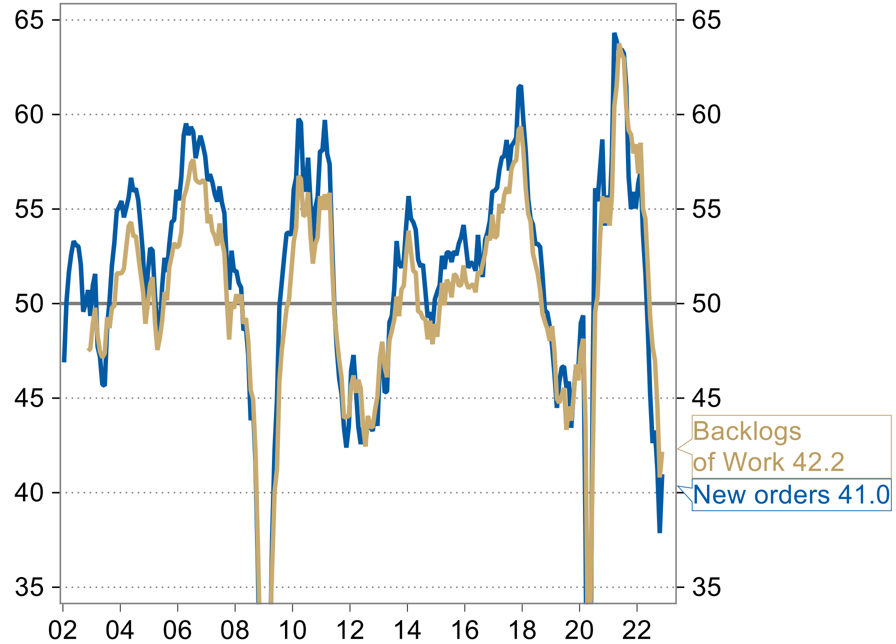


- German manuf. PMI was up 1.6 p to 46.7, and the French manuf. PMI was up 1.9 p to 49.1. The total EMU manuf. PMI increased by 0.9 p to 47.3
- The EMU service sector is contracting at the same rate as the previous month, as the PMI was unchanged at 48.6

New orders index increased slightly, while prices are rising at a slower pace

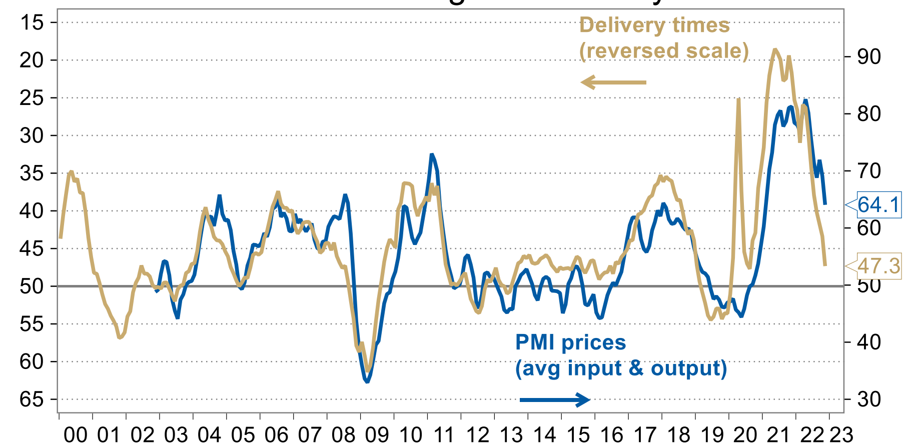
The order backlog was also up, and delivery times are declining

EMU PMI Manufacturing orders



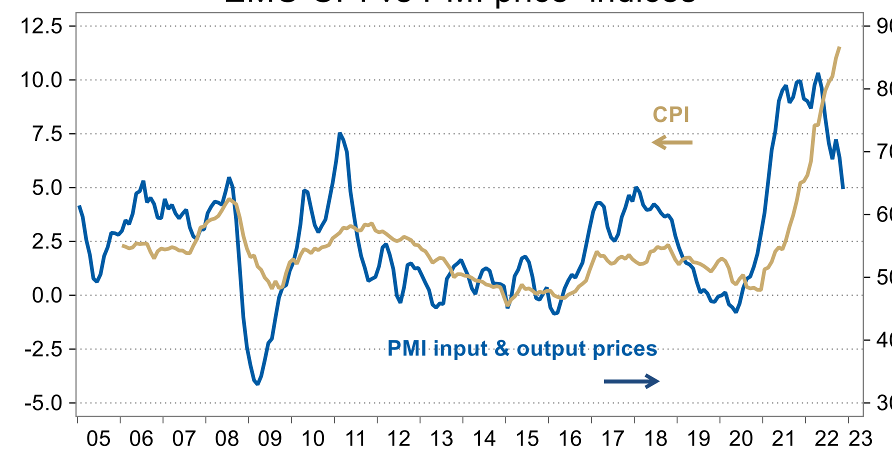
SB1 Markets/Macrobond

EMU Manufacturing PMI delivery times



SB1 Markets/Macrobond

EMU CPI vs PMI price indices

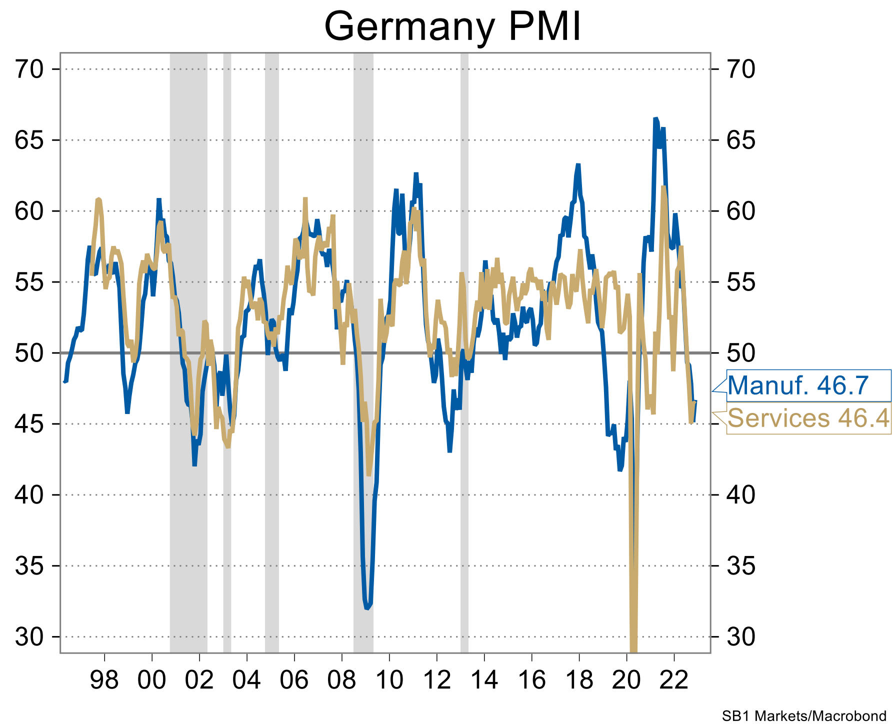


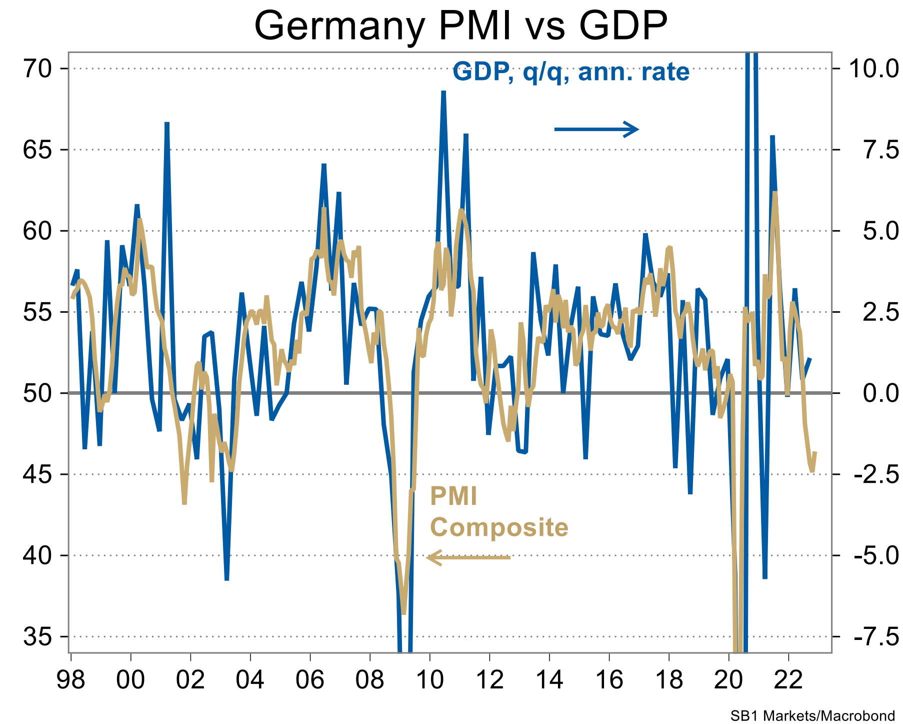
SB1 Markets/Macrobond

- The effect of slower price increases in the PMI survey is signalling a lower CPI print in the not too distant future

Germany: Economy is contracting at a slower pace in November

High energy costs is detrimental for both supply and demand

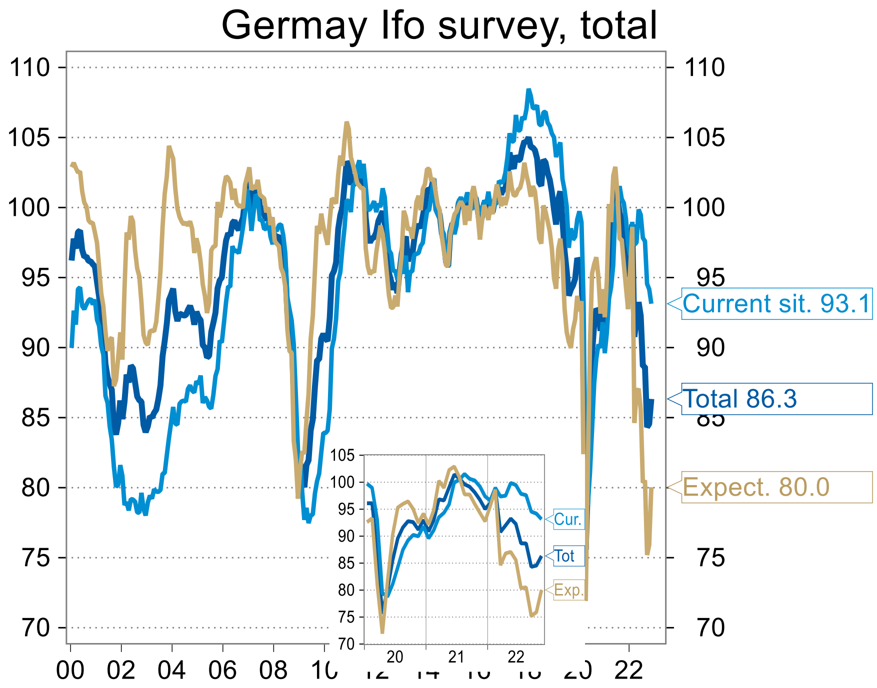


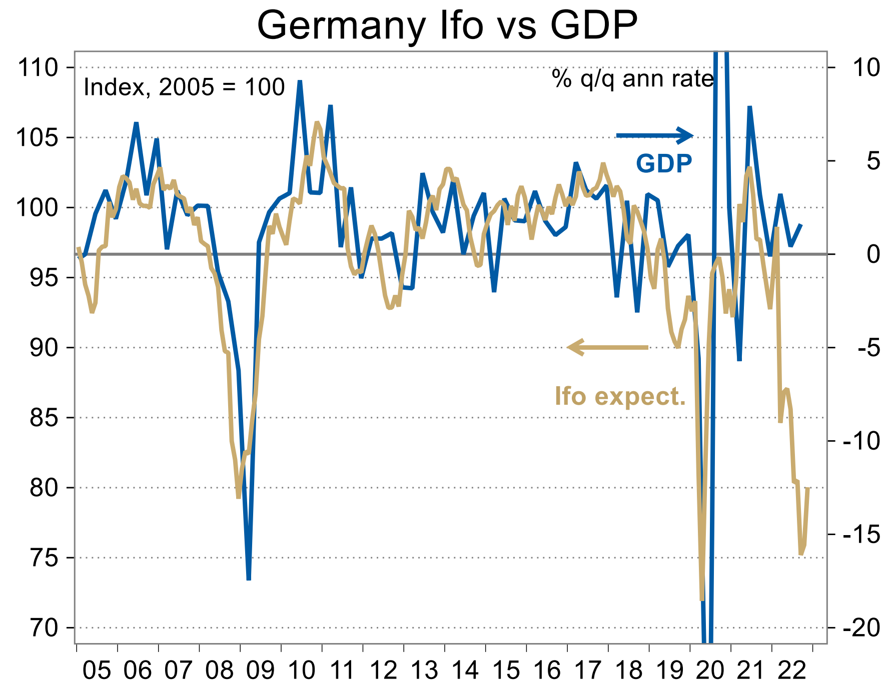


- The composite PMI was up 1.3 p to 46.4 in November, expected 44.9. The current level indicates some 2% contraction in GDP, far less the Ifo survey suggests
- The manufacturing PMI was up 1.6 p, while services were down 0.1 p; both beating expectations
- The rise in output prices is still fast but slower than during the previous months, and input prices increased at the slowest pace in 1.5 years, according to S&P

Ifo expectations moved higher in November, but expectations are still low

The expectations index was up 4.1 p to 80, but still signals a substantial fall in GDP. Consensus was 77

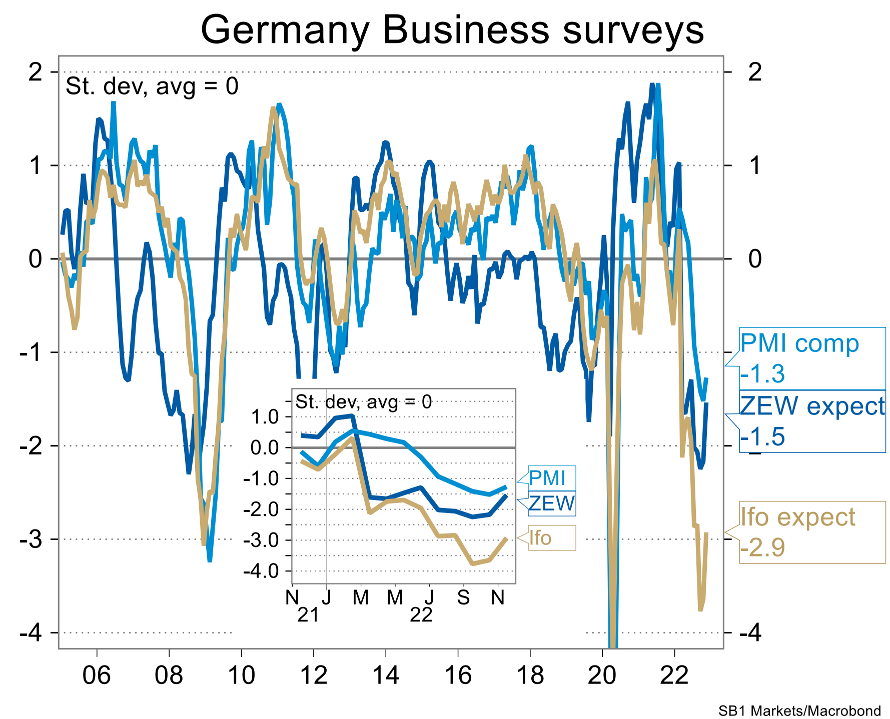




- **The expectation index** rose by 4.1 p to 80, which is 3 p better than expected. The level is still very low, at 2.9 st.dev below average, on par with the lowest print during the financial crisis. The correlation to GDP is not perfect but a huge decline in GDP is signalled, at a 12.5% pace! The energy crisis is no doubt the main reason for the weak business sentiment
- The **assessment of the current situation** was down 1.1 p to 93.1, which was 0.7 p below expectations. The level is around average – signalling a normal growth rate. The problem is the expectations
- The **total Ifo business climate index** fell by 1.8 p to 86.3; expected 85.0

Business climate: the average of the current situation and expectations

All 4 sectors report a somewhat less bad business climate in November



- Other surveys have also improved, but are like the Ifo well into negative territory, signalling slower growth/fall in output in the coming months
- However, the Ifo survey is far weaker than the ZEW and the PMI

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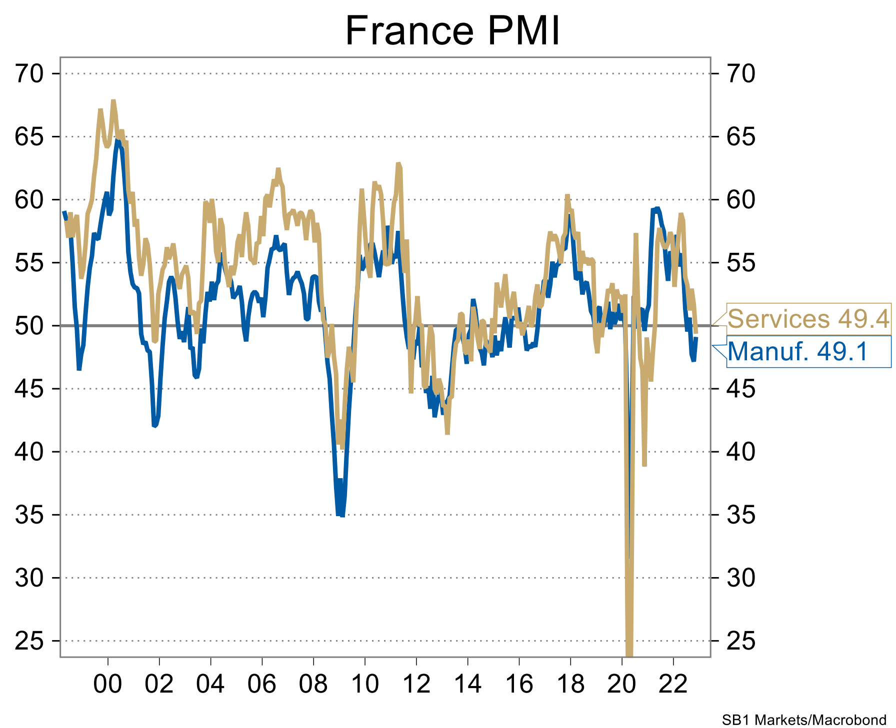
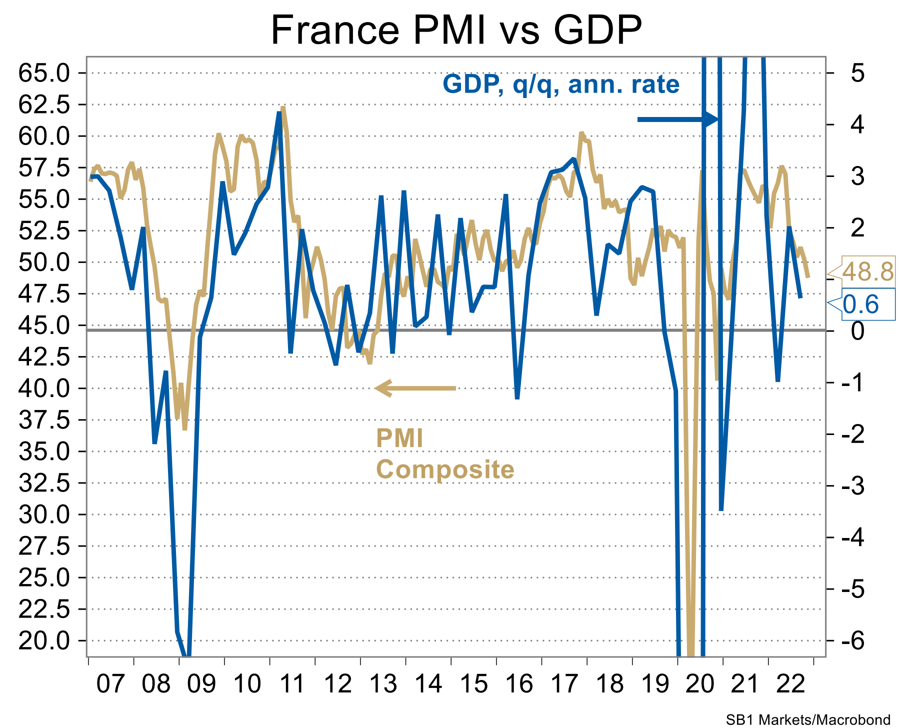
France: Composite PMI down below the 50-mark, still indicating 1% growth

The services PMI fell 2.3 p to 49.4, while the manufacturing PMI was up 1.9 p to 49.1, beating expectations

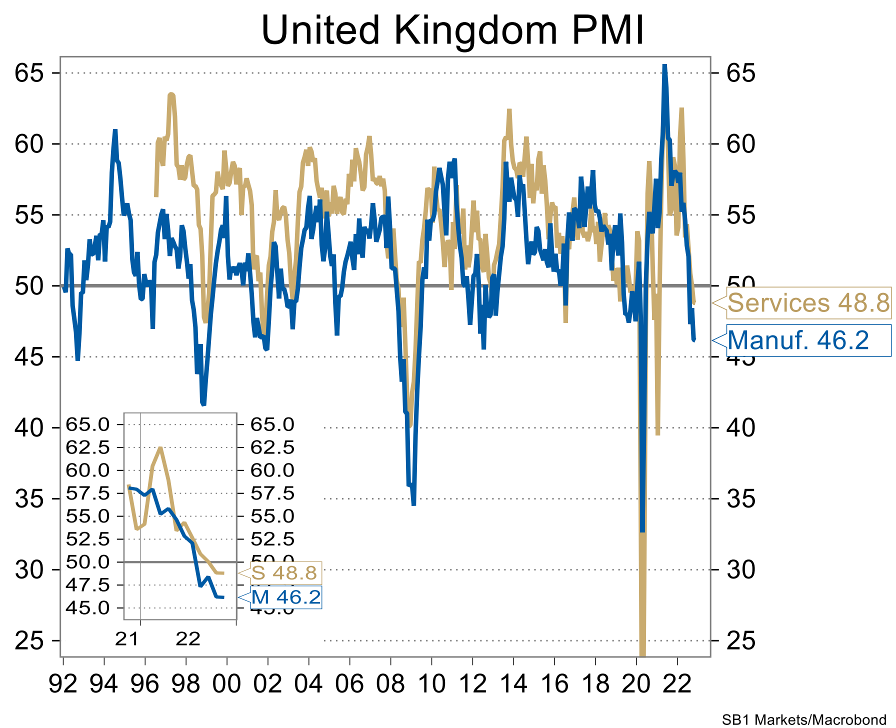


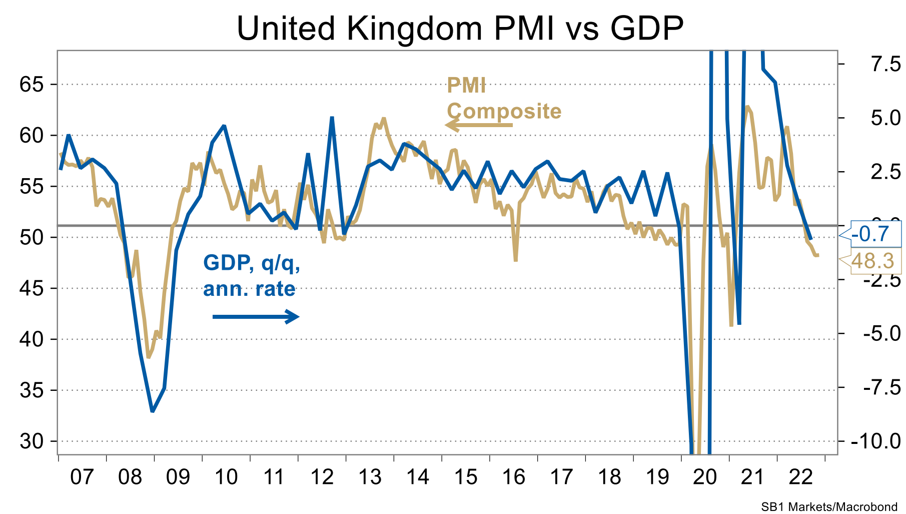


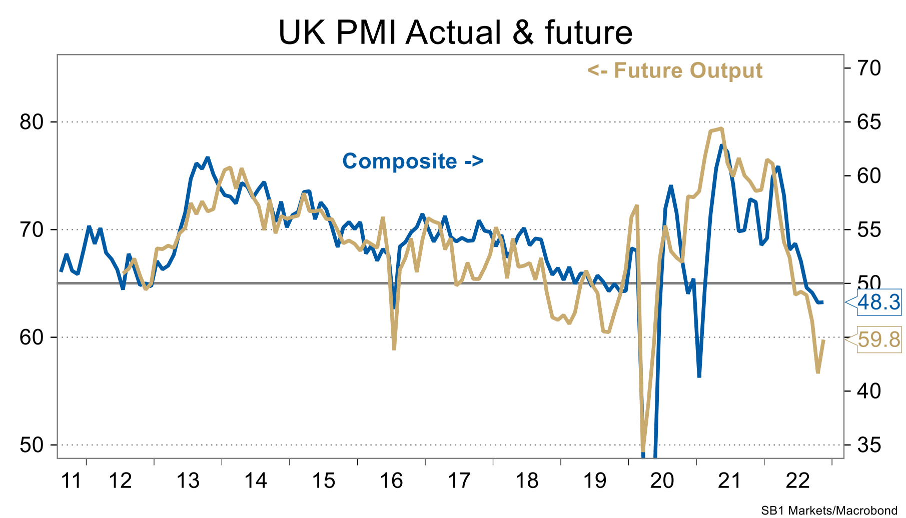
- The difference between France and Germany? Energy prices, at least in the CPI. The headline CPI is up 7.1% in France vs 11.6% in Germany

PMIs virtually unchanged in November, signalling a 1% decline in GDP

The composite index rose 0.1 p to 48.3, while both the services and manufacturing PMIs were unchanged







- The UK composite index rose 0.1 p to 48.3 in Nov, expected down 1 p to 47.2. The manufacturing and the services PMIs were both unchanged, while market participants had expected a further deterioration. The prelim. manuf. output index was up 0.4 p to 45.4
- Although the PMIs were above expectations, they are still in contractionary territory and growth is clearly coming to a halt. GDP fell in both Aug and Sept, while the latest inflation print was at 11.1% (core at 6.4%), putting the BoE in a bit of a squeeze. A recession is unavoidable? That what's the BoE thinks too, as it continues to hike its signal rate

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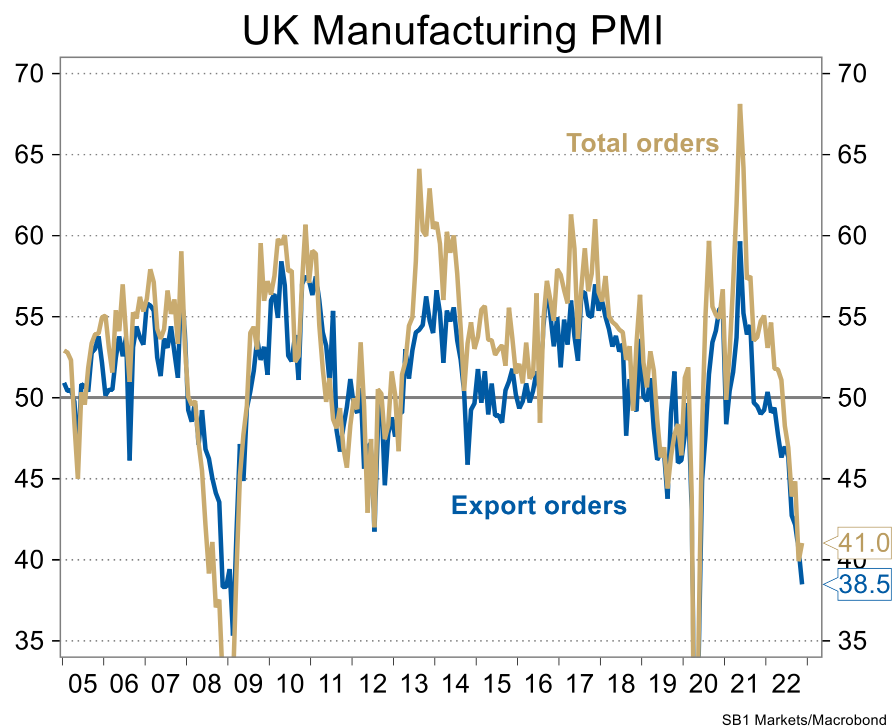
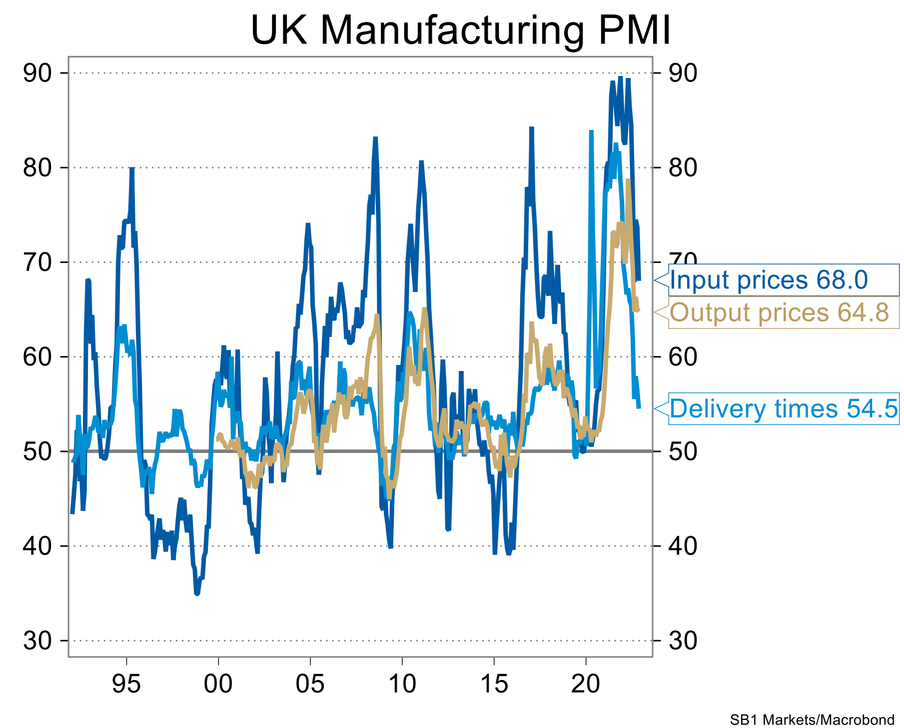
The order index up in Nov, but still at lowest level since Covid and the GFC

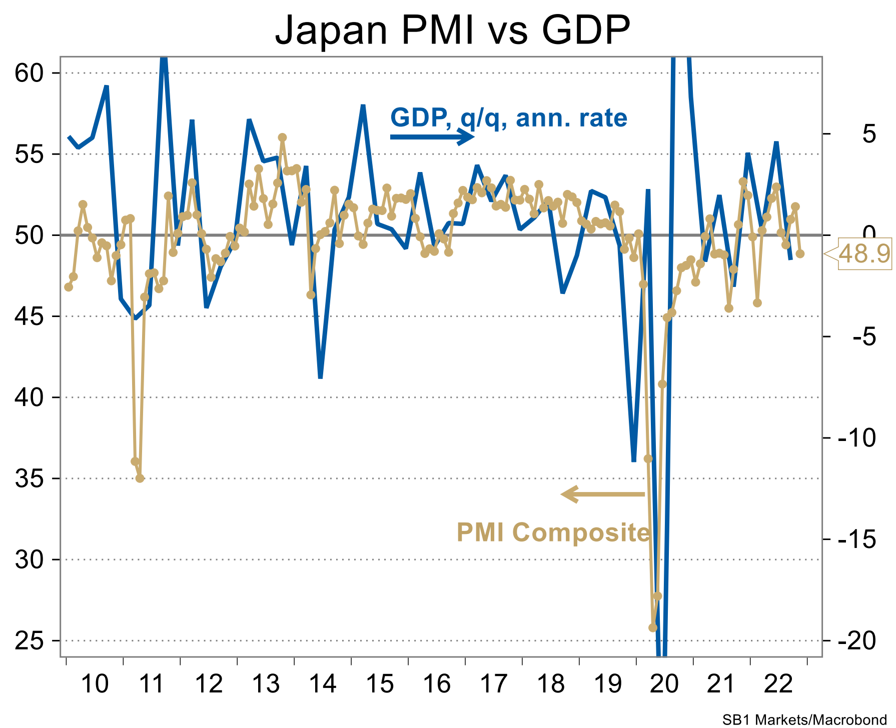
Prices indices down, but remain at well above average levels but delivery times have normalised

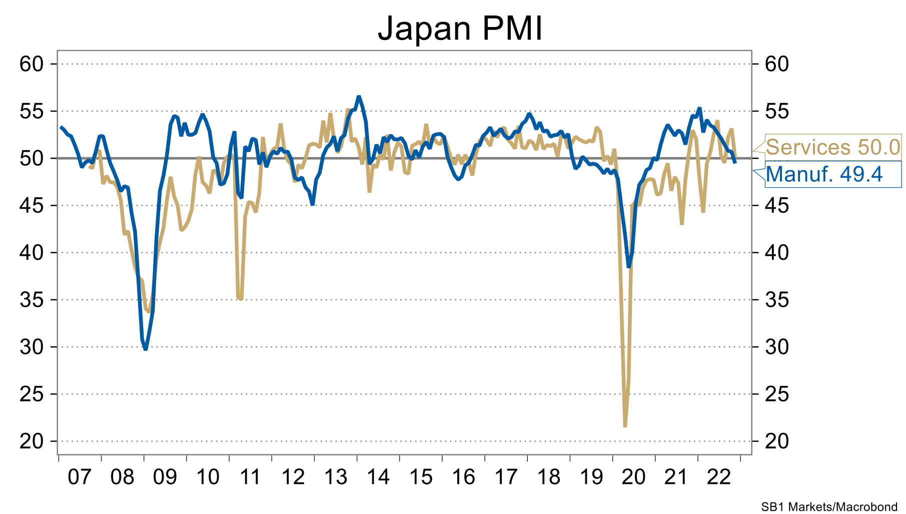


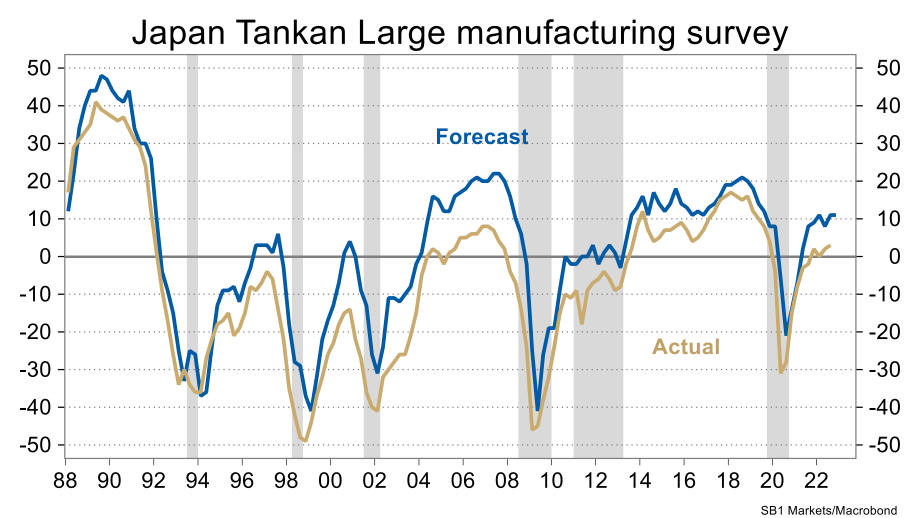


Both manufacturing and services PMIs down in November

Composite PMI signals some 1% contraction in GDP in Q4, following the 1.2% decline in Q3







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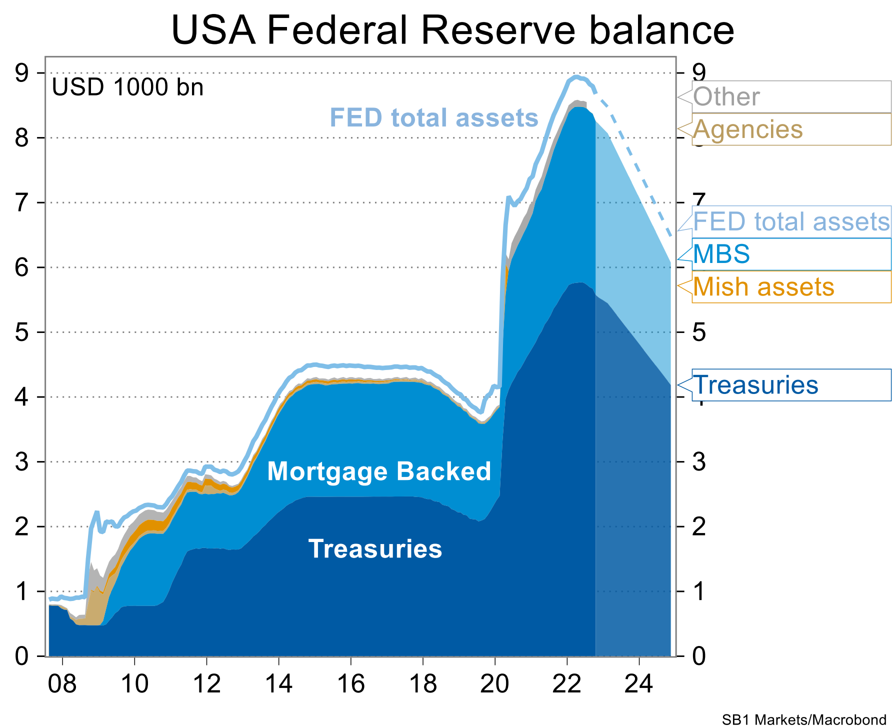
Fed minutes: Fed likely to moderate pace of rate hikes to 50 bps in December

Minutes did not reveal anything new – Fed speakers have since reiterated risk of higher terminal rate and a slower pace

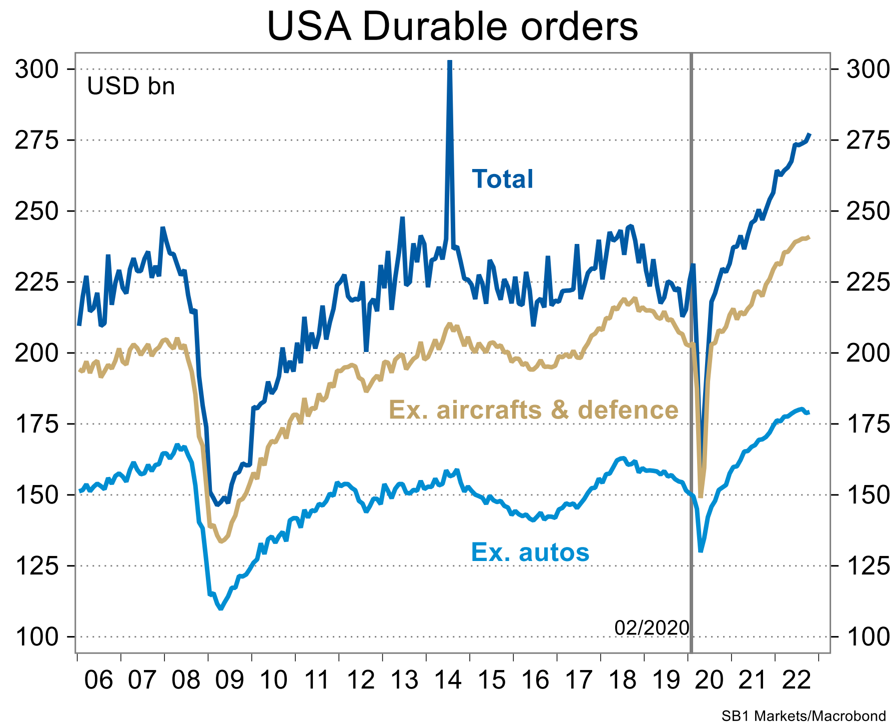


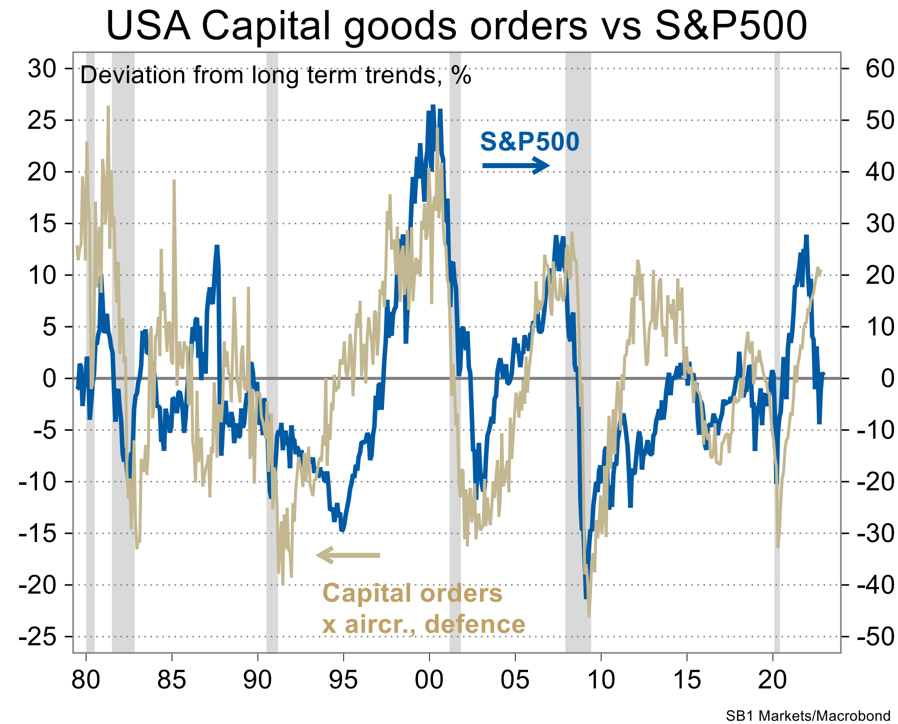
- Some relief in bond markets, even if there were no 'real' news – and no changes on the short end of the yield curve (where the impact should have been most visible)

- **The minutes** revealed nothing new, as it had already been clearly communicated that the pace of rate hikes are likely to slow in the next couple of meetings and that the terminal rate is likely higher than the committee envisioned at the previous meeting, which has also been reiterated by several FOMC members in the past couple of weeks
- The only interesting remark is how many of the member actually consent to slowing the pace of rate hikes. The minutes state that "**a substantial majority of participants judged that a slowing in the pace of increase would likely soon be appropriate.** A slower pace in these circumstances would better allow the Committee to assess progress toward its goals of maximum employment and price stability. The uncertain lags and magnitudes associated with the effects of monetary policy actions on economic activity and inflation were among the reasons cited regarding why such an assessment was important"
- **As for the risks, they are clearly on the downside** according to the committee "…the possibility that a persistent reduction in inflation could require a greater-than-assumed amount of tightening in financial conditions was seen as another downside risk. The staff, therefore, continued to judge that the risks to the baseline projection for real activity were skewed to the downside and viewed the possibility that the economy would enter a recession sometime over the next year as almost as likely as the baseline."
- In sum, the minuets, just as the press conference and most of the comments from FOMC member past two weeks, show the Fed commitment to bringing inflation down and preventing it from becoming entrenched, even at the cost of the labour market and growth, and just recently, in an update to policymakers, Fed economists said there now is a 50% chance of a recession

Growth in orders stronger than signalled by surveys and market expectations

Strong defence, aircraft and auto imports support overall growth in (nominal) orders

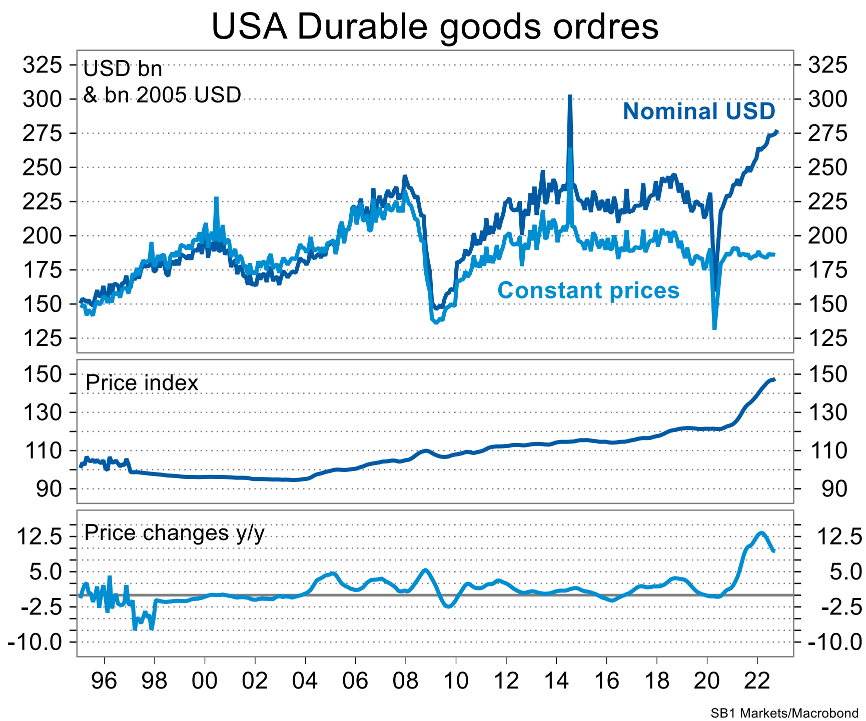


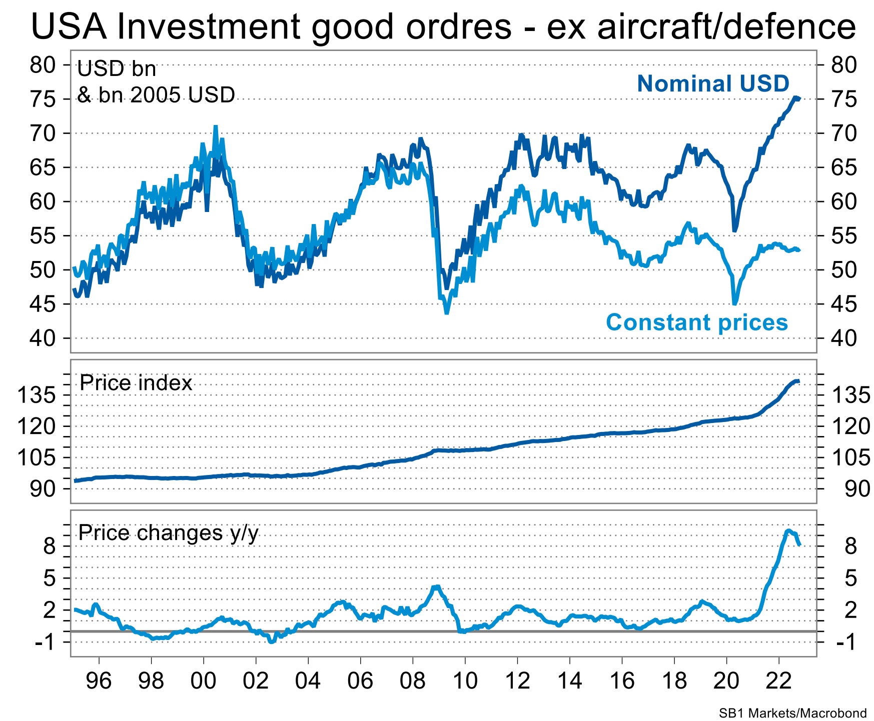


- **Total durable orders** were up 1% in Oct, exp +0.4%, and the trend is still sharply upwards, at least in nominal terms (volume data next page)
- The **volatile aircraft & defence orders** rose too, and **other orders** (our core concept) were up 'just' 0.3%. Growth has slowed, but orders are still up almost 6% 3m/3m, although in nominal terms.
  - The true core – also excluding orders – has fallen somewhat since the peak in August, and before that, growth was clearly slowing
- **Core <u>investment</u> goods orders** rose 0.7%, expected up 0.3%
- **Nominal order inflow** is above pre-pandemic levels, especially for investment good orders, but surveys now signal a significant decline the coming months (which they have telling us since June, so far without any success)
- **The stock market** has taken a serious beating, this time well before the order cycle turned south. Higher real interest rate were probably enough

For the first time in some decades, price inflation has become important

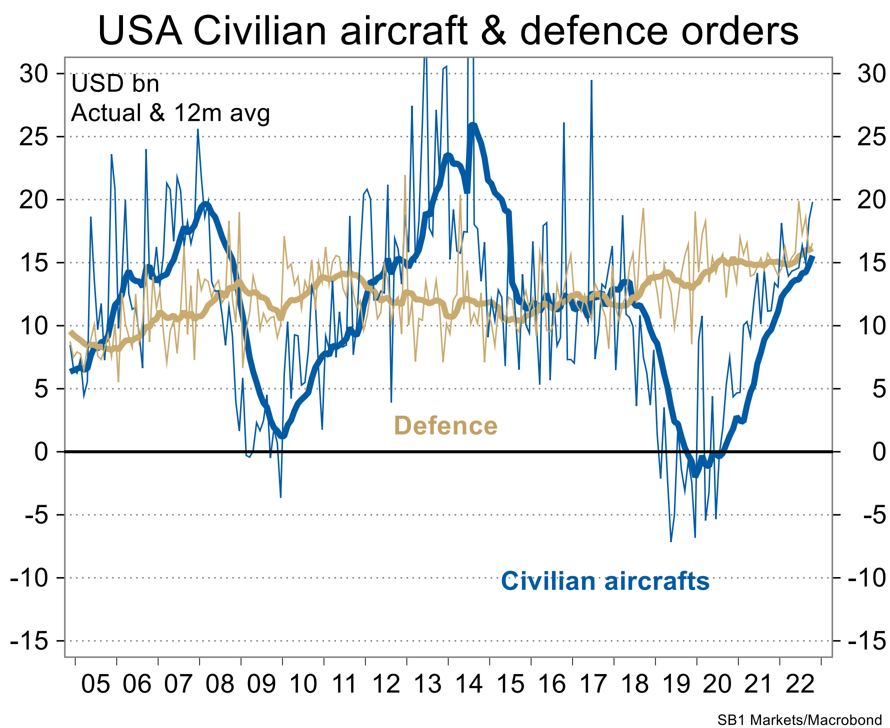
The real order inflow has been flat (and investment orders are declining) since early 2021 (early 2022)

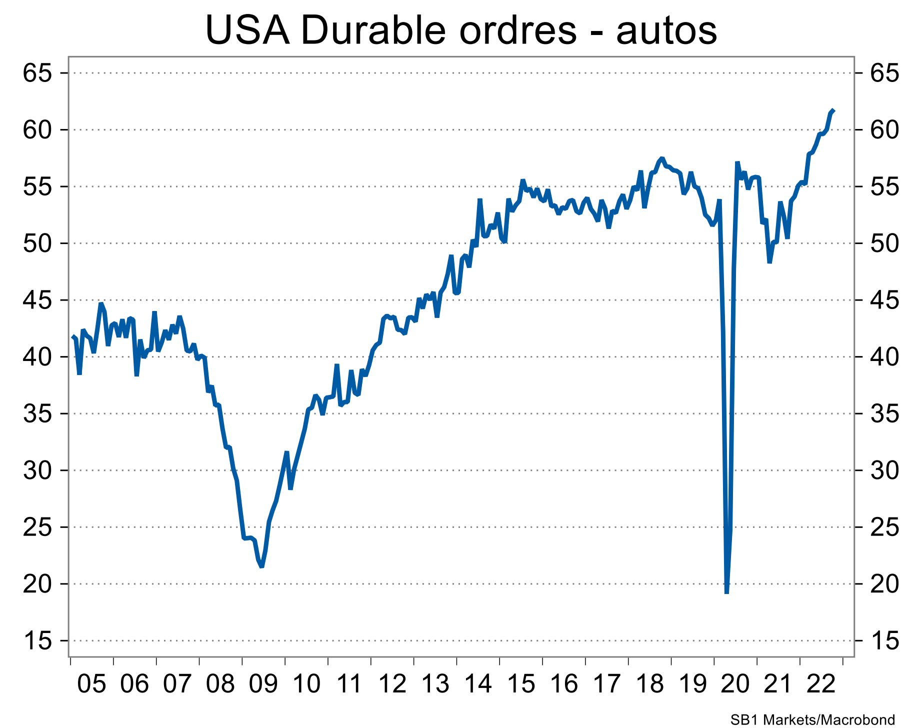




Aircraft & defence orders at ~~normal~~ higher levels than normal

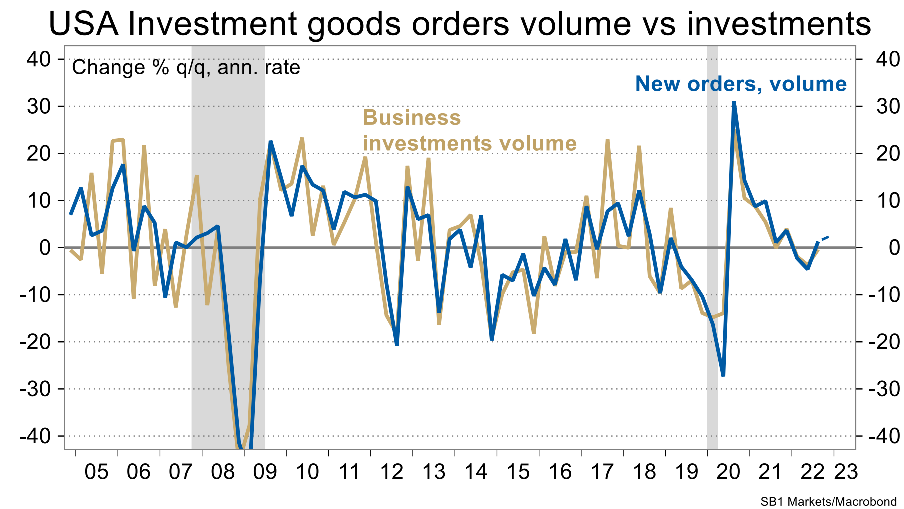
… while auto orders rose in further in October – to another ATH, at least in nominal terms





Core capital orders are peaking? One month is not a new trend but still…

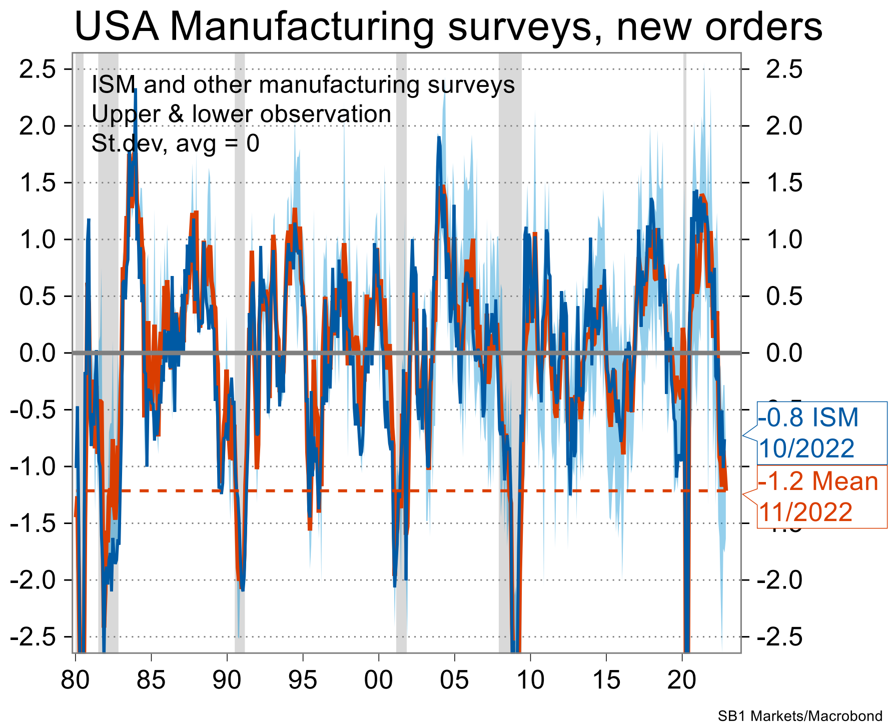
There is still a decent underlying growth, at least in nominal terms – but not in volume terms

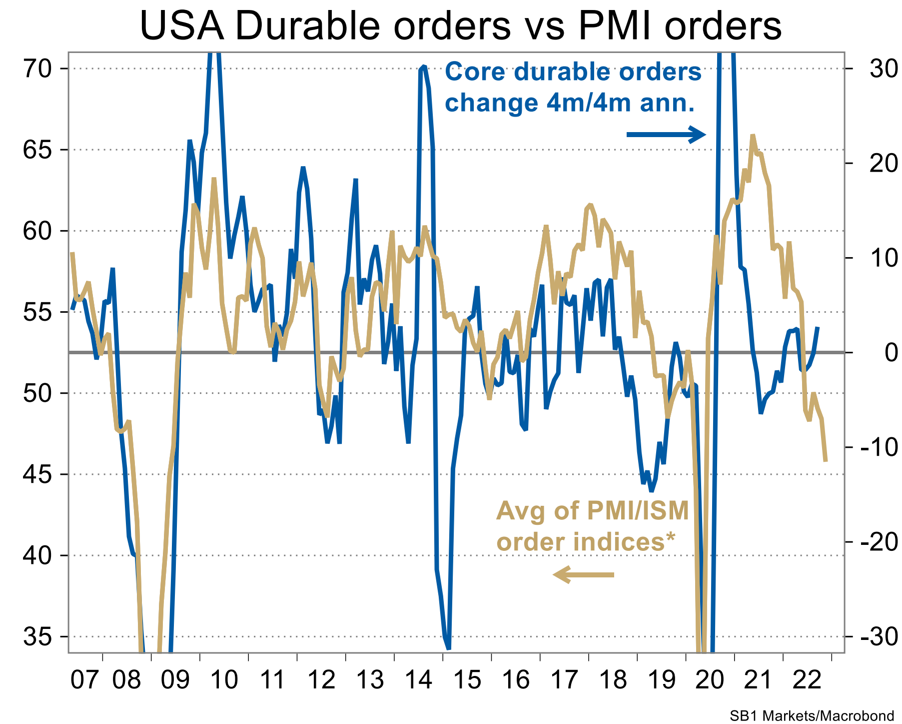


- **Core (x aircraft, defence) capital goods orders** rose by 0.7% in Oct, expected up 0.3, following a 0.8% decline in Sept. Shipments were up 1.3% m/m. All data are in nominal terms
- **In volume terms**, orders have fell in both Q1 and Q2, but rose slightly in Q3, and Oct is marginally above the Q3 average – signalling close to zero growth in business investments in Q4
- **The business investment** level is well <u>above</u> the pre-pandemic level – and not low vs. a reasonable long term trend (both in nominal and volume terms)

Surveys are signalling a steep decline in new orders

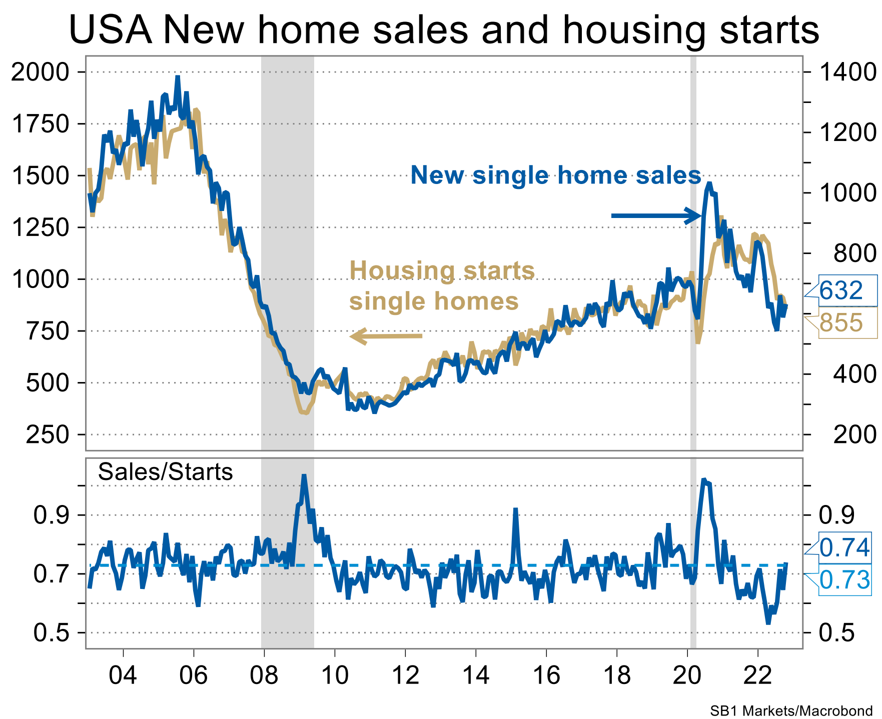
… which so far has not materialised…

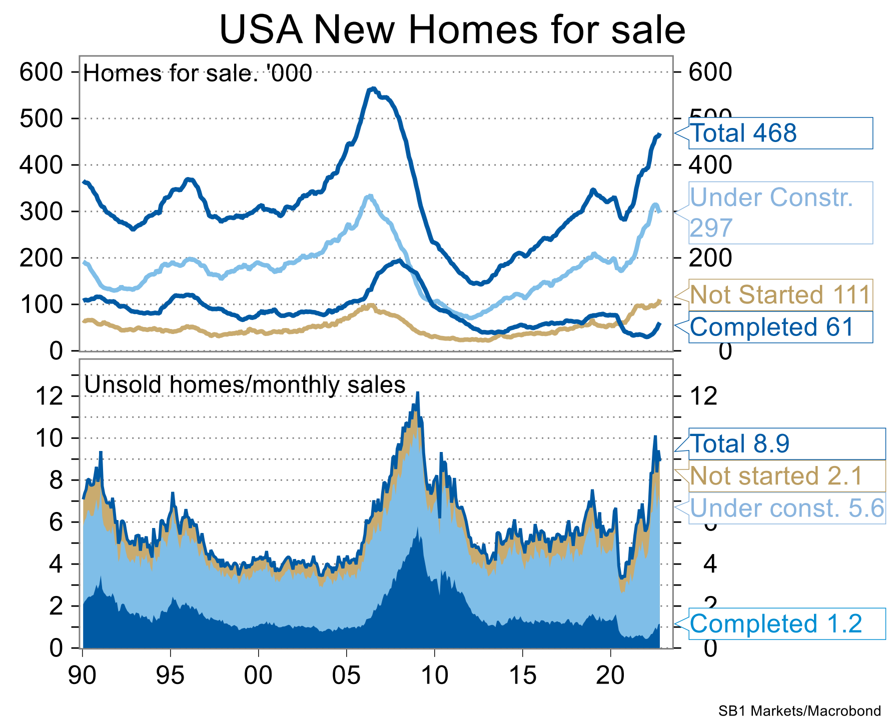




New home sales back up in Oct, and have stabilised. Still a downside risk?

Home builders are signalling a further, large decline in sales. The inventory of unsold homes is far higher than normal

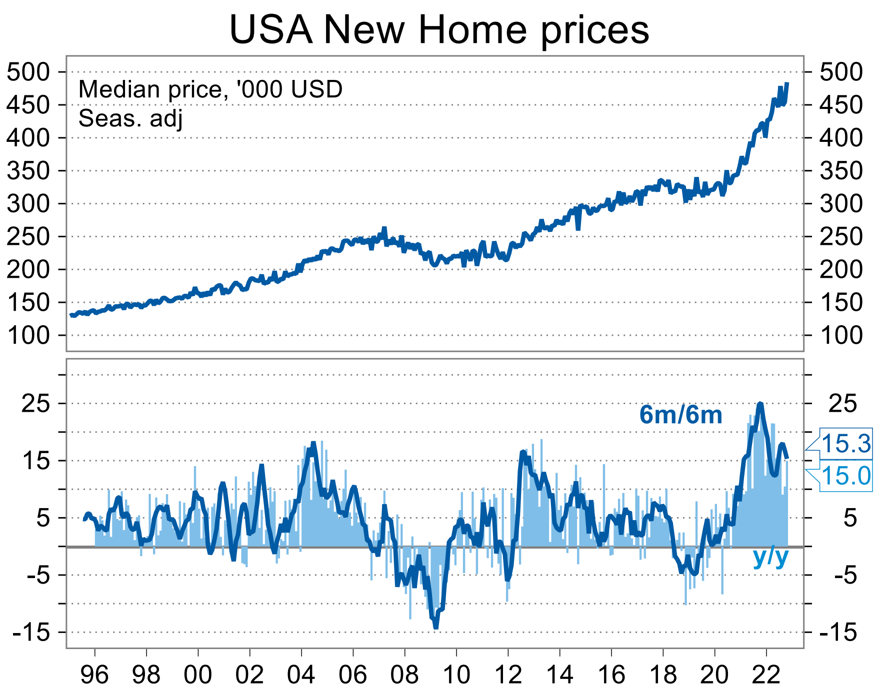




- **New single home sales** surprised on the upside in October after falling 11% in September. Sales were up 632' from a 588' in Sept (revised down from 603'). Anyway, the trend is down, home builders are extremely anxious, demand for new mortgages are falling rapidly.
- **The inventory of unsold homes** rose marginally in October, and the trend is straight up and the level is high, both in absolute terms and vs. sales. Most of the inventory is 'for real', either completed homes (but the level in this category is still not high, or under construction (and these homes will be completed) – as the supply side responded to the strong increase in demand & prices during the pandemic. A steep increase in number of homes for sales that are not yet started, also confirms the strength of the potential supply side (but most of these projects will very likely not be started as at least the housing market has entered a recession)
- **Prices** increased slightly in October but the short term trend is flat – and very likely, prices will soon turn south

New home prices have flattened. Will they start to decline soon? Very likely

The median price index is badly constructed and volatile – and in October prices rose!



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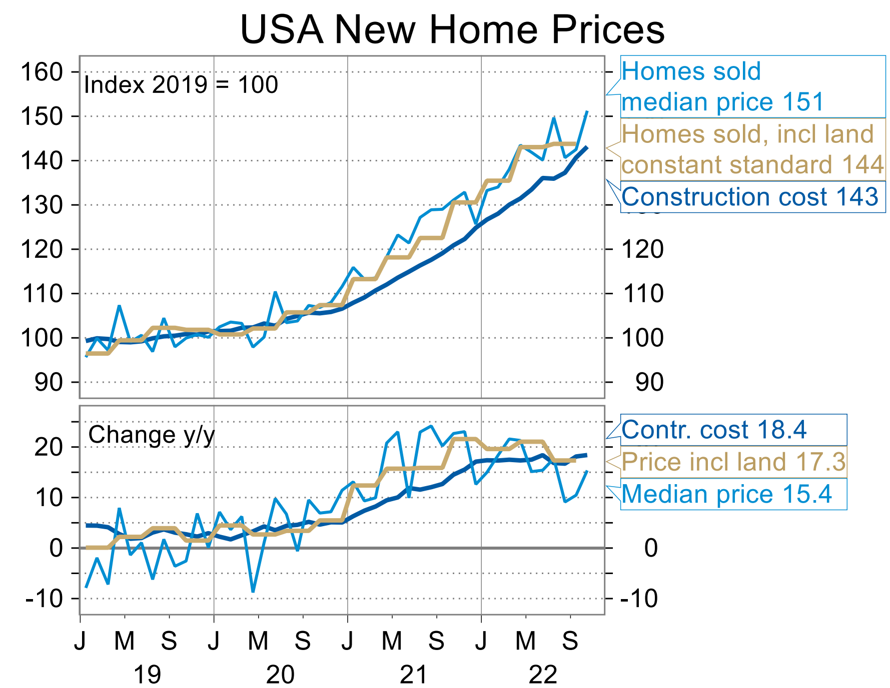

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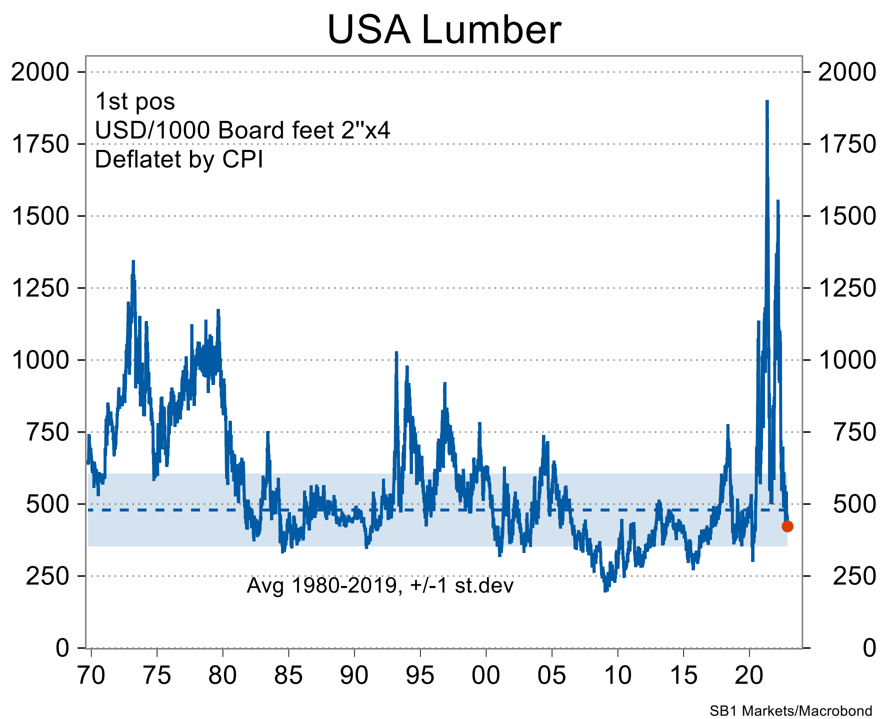
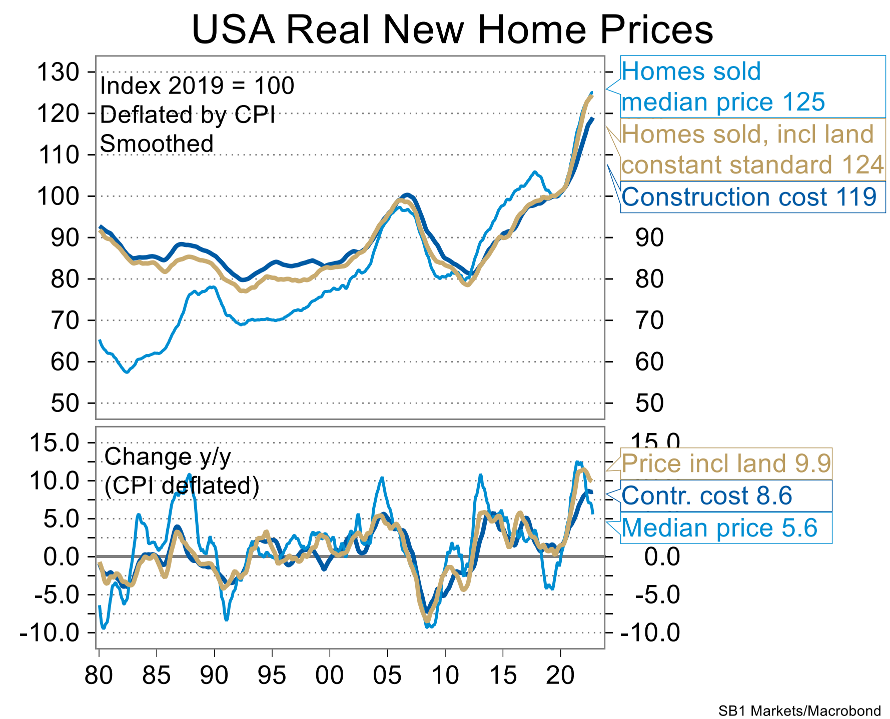
- The monthly **median new home sales prices** are very volatile, as they are not adjusted for changes in the mix of homes sold. In October, prices were up 15% y/y, up from 14% in September, still down from above 20% at the peak – and prices have flattened since the spring (even if the October print was an ATH)
- The **construction price index** is adjusted for changes in standard and size, as is the **new homes sold price index**, which also includes cost of land: they are up by 18% (in Oct) and 17% (Q3) resp. However, the home sold price index has also flattened since the spring. Construction costs have flattened, and will very likely now ease substantially as material prices are nosediving

A spectacular increase in real new home prices/construction cost past 2 years

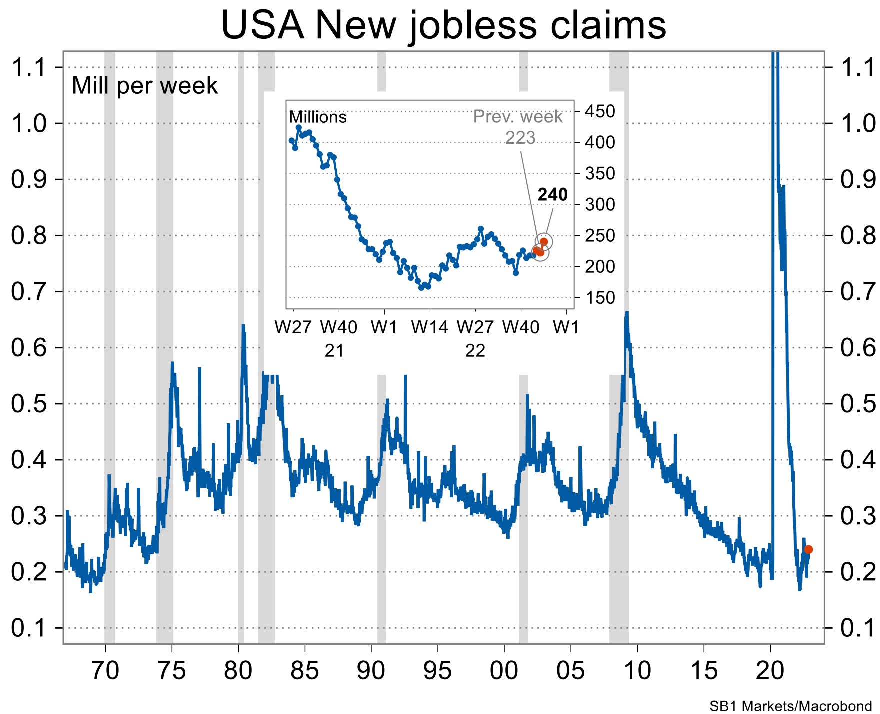
A reversal is likely. Some material prices have already normalised

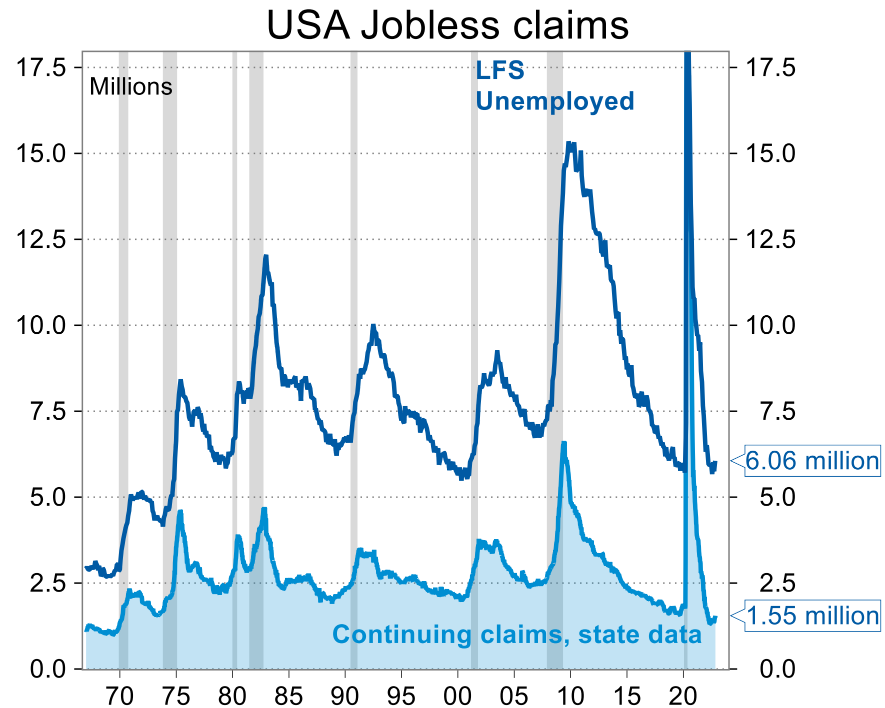




Both new and current jobless claims ticked up – something has changed??

New jobless claims up to 240', expected 225' – and something is changing in the labour market??

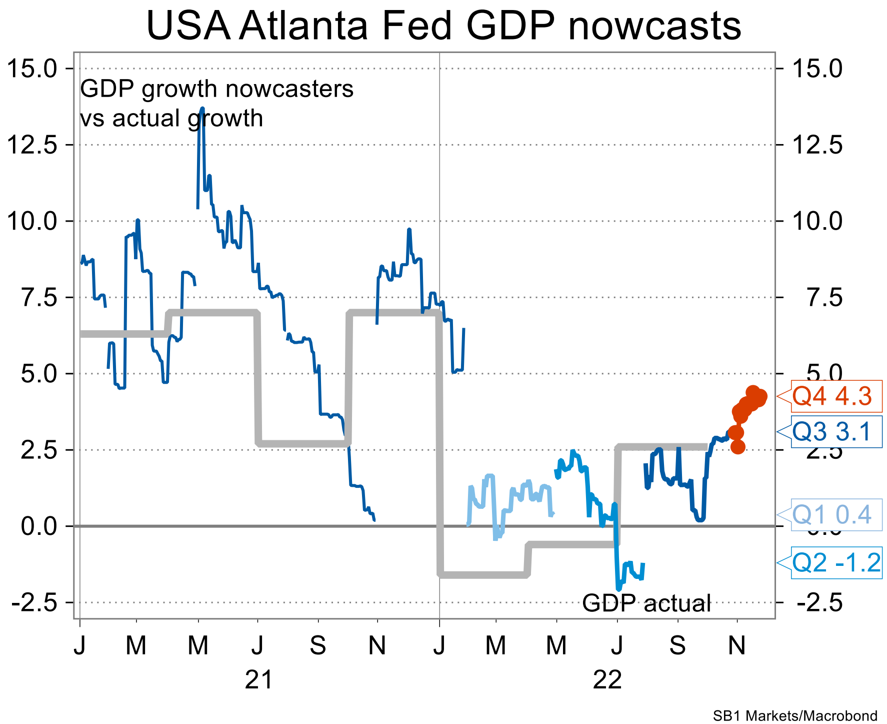


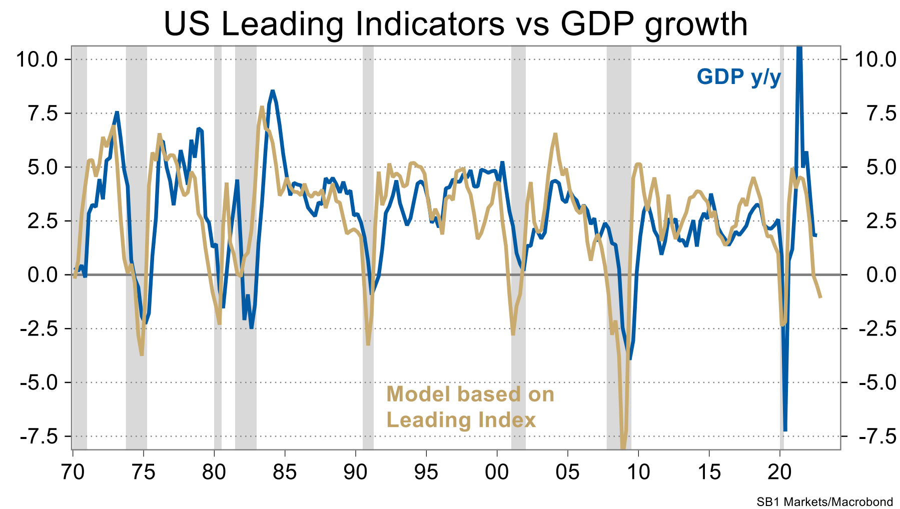


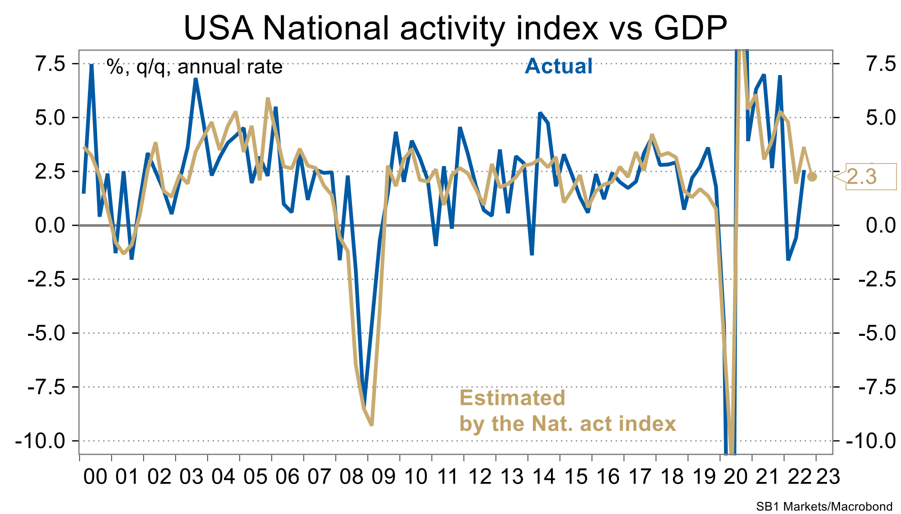
- **New jobless claims** decreased by 17' to 240, from a 1' upward revised number the previous week
- **Continuing claims** rose by 48' to 1,551' in week 45, the previous week's print was revised down by 4'. The trend is slightly upwards but the level remains very low
- Both still indicate a tight labour market, but is this the first sign that the tide is indeed turning? One week's data is of course not reassuring, but reports for several companies, not only in the tech industry suggest that the tide may have turned
  - The retail industry plans to hire far fewer temporary workers during the Christmas shopping season

Nowcasters are mixed: 4.3% growth or a 1% contraction?

Atlanta Fed's forecaster the most upbeat, leading indicators the most downbeat

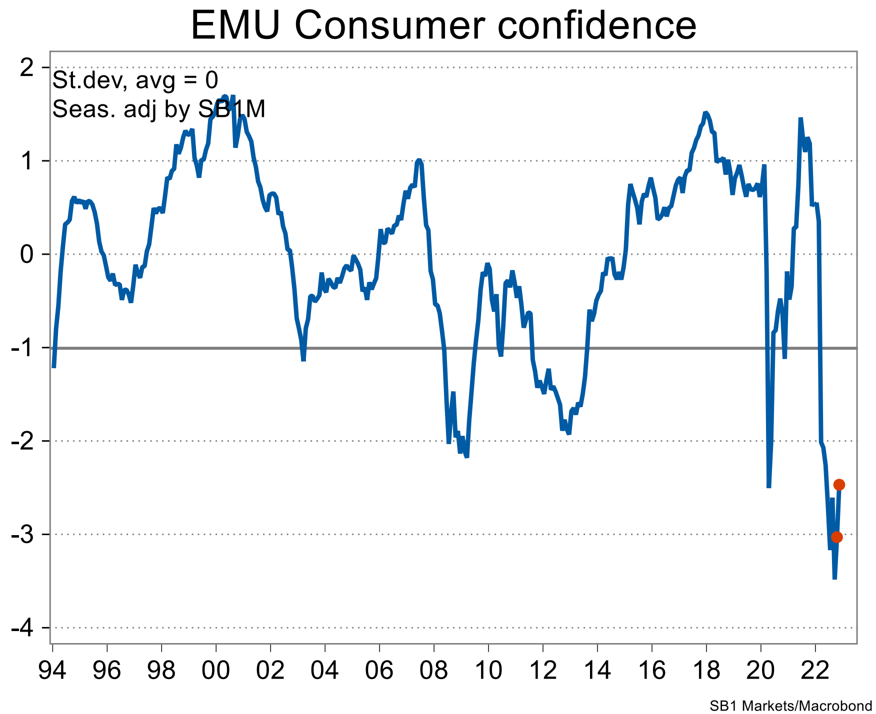


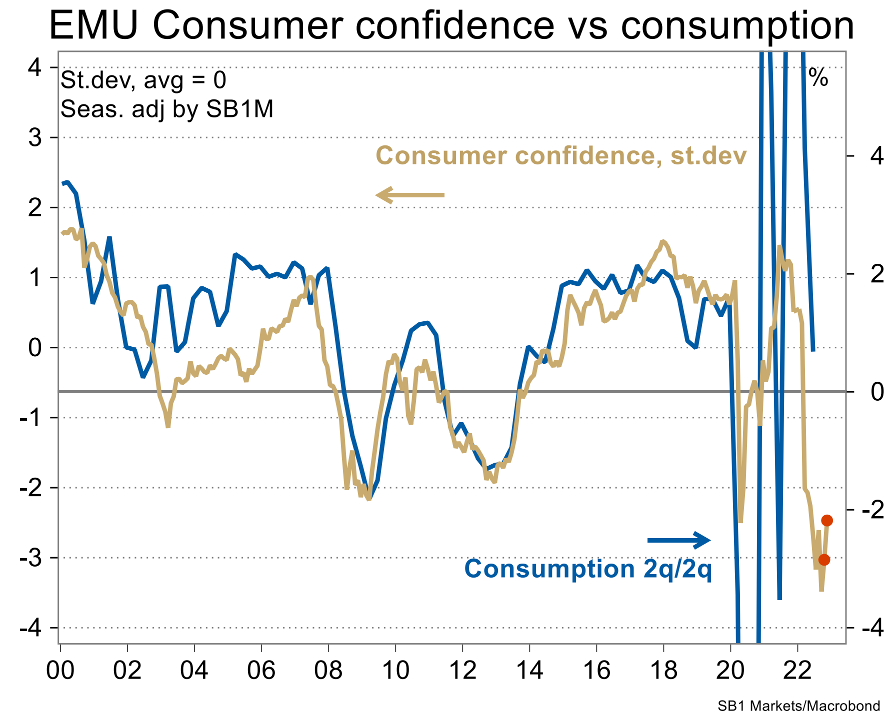




Consumer confidence further up, from a very deep bottom

The level is still very low, signals a downward risk vs household consumption

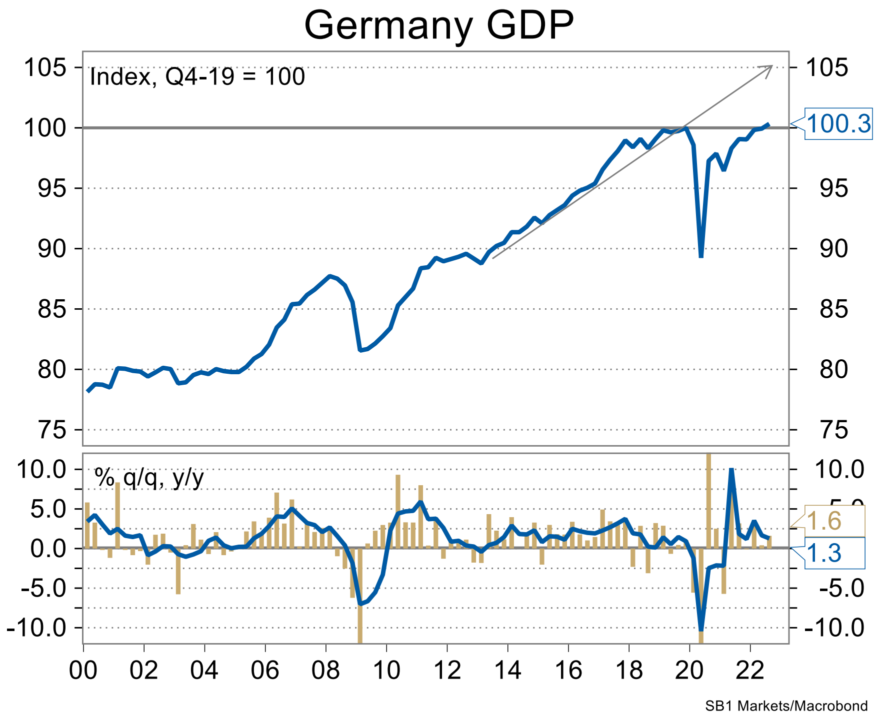


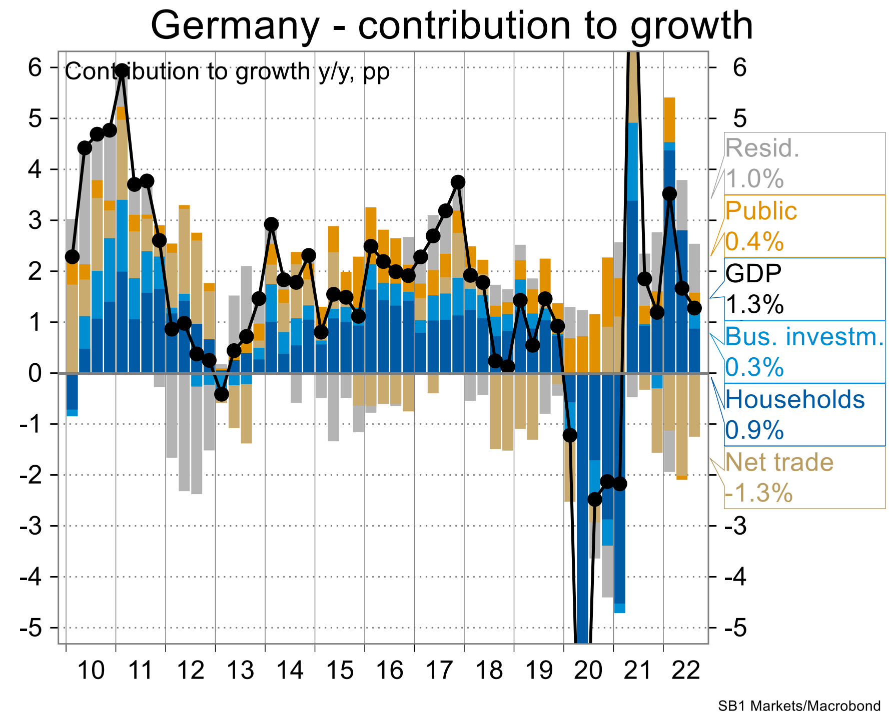


- **The confidence index** rose 3.7 p to -23.9 in Nov, according to the preliminary estimate, expected up to 26. The level is still -2.5 st.dev below avg, which is a very low level, still better than the -3.5 st.dev rock bottom in September. The downside risk vs consumption is still huge, given the normal rather tight correlation between this survey and actual consumption (Nat. Accounts data)
- **Inflation** fuelled by super high energy prices and fear of lack of gas supplies are of course to blame. **Interest rates** are now being hiked – and the rest of the yield curve has taken big leaps upwards – and sentiment is plummeting

German GDP up 1.6% (annualized) in Q3, higher than first reported

GDP is barely above the Q4-19 level, that is 2 ½ year with almost no growth!

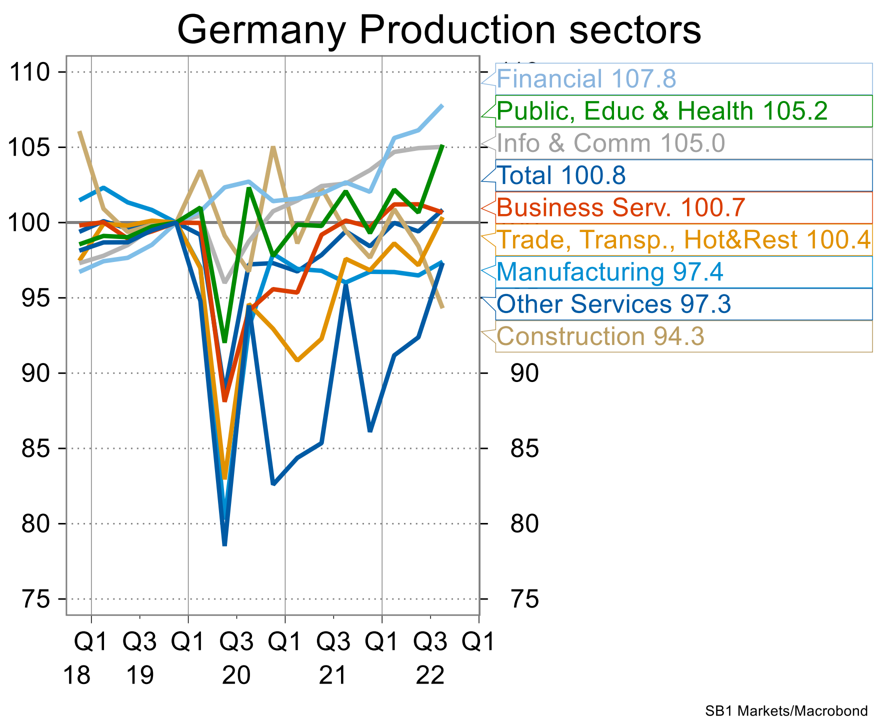




- The market expected a 0.3% growth in Q3, whereas actual growth was 0.4% q/q, according to the second estimate
  - Originally, a 0.3% (-1.2% annualised) decline in Q3 GDP was expected – and the outcome was far better
- GDP is up 1.3% y/y
- Public and household demand was positive y/y in Q3; net trade in the neg.
- Business investments were also up

Manufacturing has not recovered but is still floating, even if ‘without’ energy

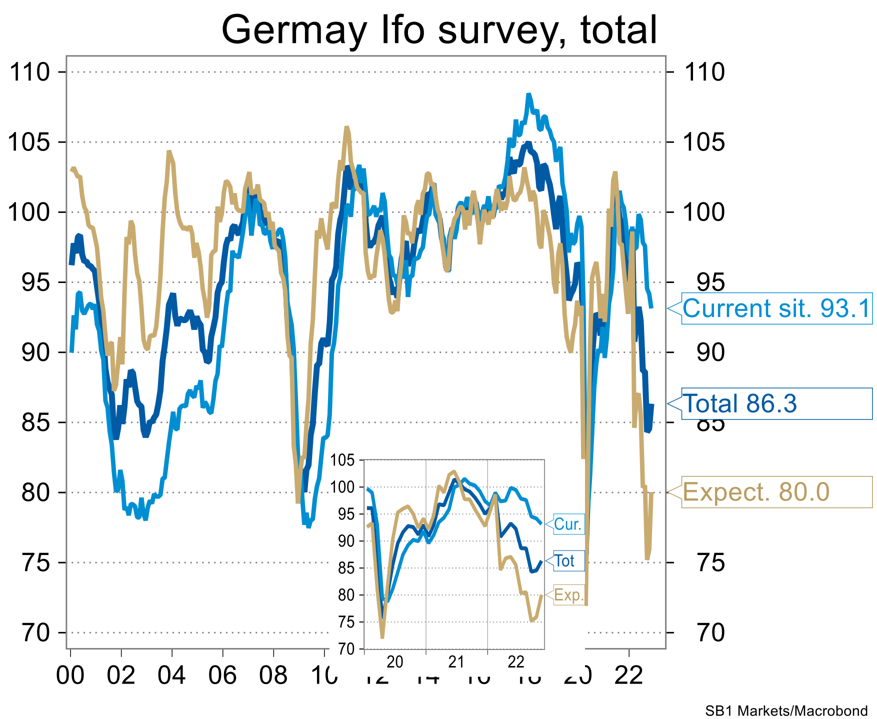
Several services have not recovered fully vs. the pre-pandemic level

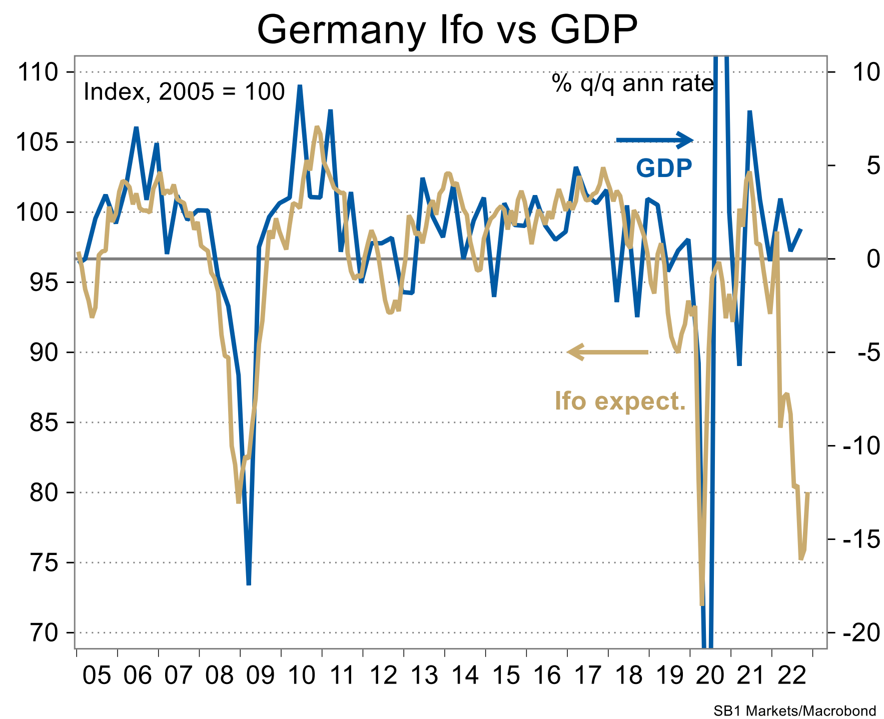


- All sectors ex construction reported growth in Q3

Ifo expectations moved higher in November, but expectations are still low

The expectations index was up 4.1 p to 80, but still signals a substantial fall in GDP. Consensus was 77



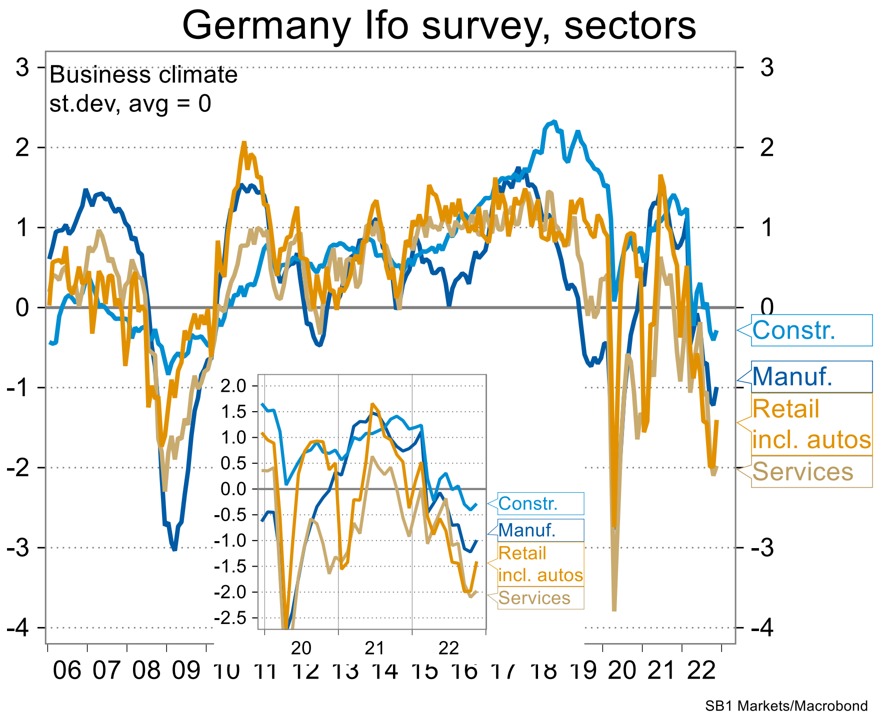


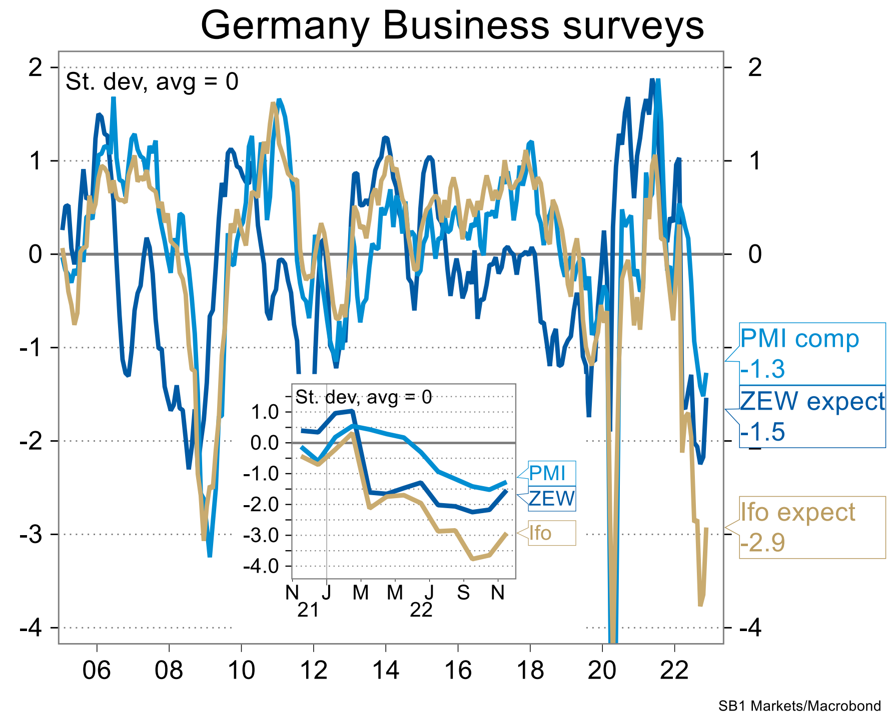
- **The expectation index** rose by 4.1 p to 80, which is 3 p better than expected. The level is still very low, at 2.9 st.dev below average, on par with the lowest print during the financial crisis. The correlation to GDP is not perfect but a huge decline in GDP is signalled, at a 12.5% pace! The energy crisis is no doubt the main reason for the weak business sentiment
- The **assessment of the current situation** was down 1.1 p to 93.1, which was 0.7 p <u>below</u> expectations. The level is around average – signalling a normal growth rate. The problem is the expectations
- The **total Ifo business climate index** fell by 1.8 p to 86.3; expected 85.0

Business climate: the average of the current situation and expectations

All 4 sectors report of better business climate in November

…but all sector indices are below average

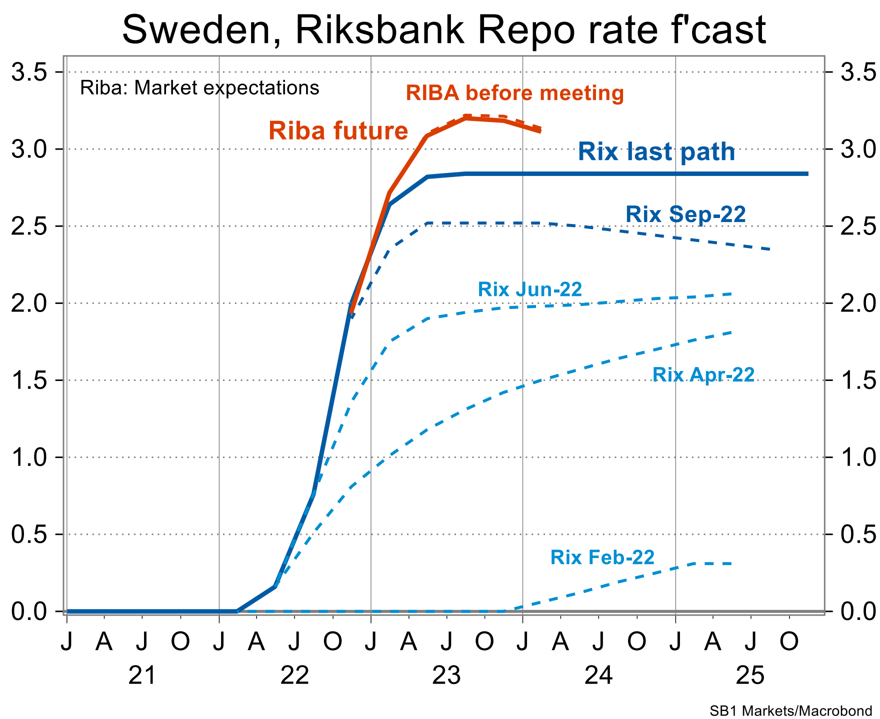




- Other surveys have also improved, but are like the Ifo well into negative territory, signalling slower growth/fall in output in the coming months

The Riksbank lifted the signal rate by 75 bps to 2.5% – as expected

The bank will rather front-load than risk higher inflation for longer, and accepts a 2023 recession



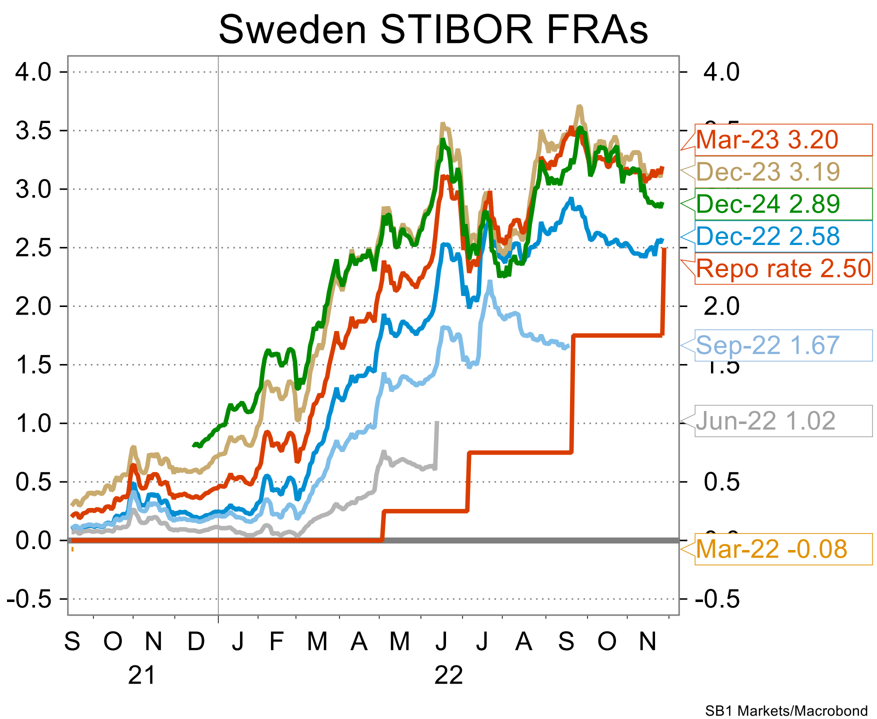
Riksbank f'cast, annual percentage change

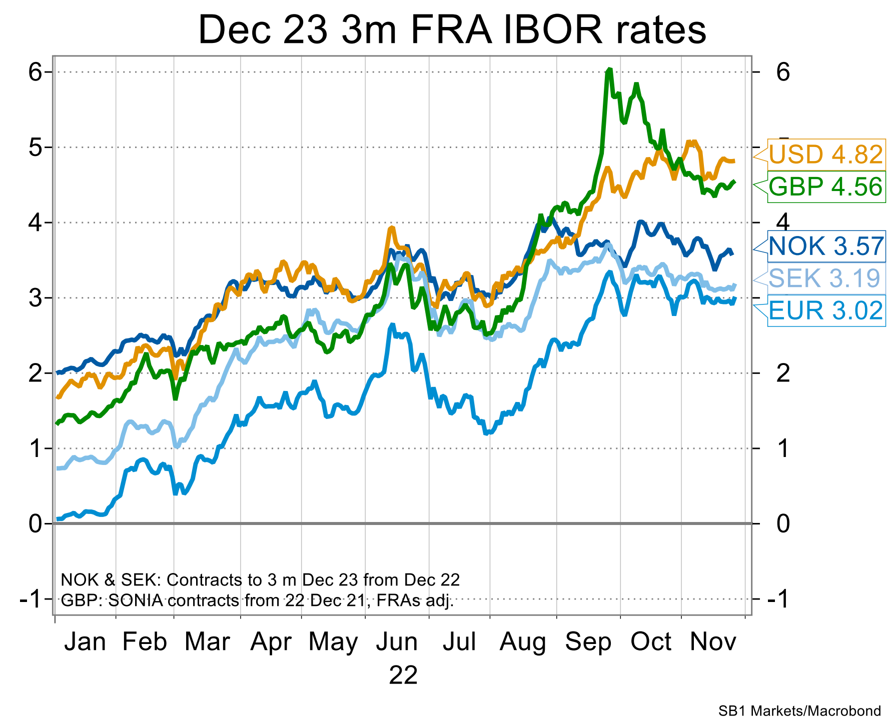
	2021	2022	2023	2024	2025
KPI	2,2 (2,2)	8,3 (8,6)	9,3 (8,5)	3,0 (2,2)	2.4
KPIF	2,4 (2,4)	7,6 (7,8)	5,7 (5,1)	1,5 (1,6)	2
BNP	5,1 (5,1)	2,7 (2,7)	-1,2 (-0,7)	1,0 (1,1)	1.7
Unemployment	8,8 (8,8)	7,4 (7,5)	7,9 (7,9)	8,3 (8,2)	8.3
Unit labour cost	1,6 (1,6)	3,3 (3,4)	4,6 (4,2)	2,6 (2,1)	2.1

	2022Q3	2022Q4	2023Q1	2023Q4	2024Q4	2025Q4
Policy rate	0,83 (0,82)	2,00 (1,90)	2,64 (2,35)	2,84 (2,53)	2,84 (2,44)	2.84

- **The Riksbank** raised the policy rate by 75 bps to 2.5%, as widely expected, both in the market and among economists. The bank states that the inflation is far too high, and the bank expects one or two more hikes in H1 2023 (50% probability for a 2nd hike in Q2)
- **Inflation** was revised further up; **GDP growth** down and the bank is forecasting a recession in '23 and expecting GDP to fall by 1.2% (from -0.7%); the **unemployment rate** was revised only slightly upwards for 2024 as a further downward productivity revision dampened the weakening of the labour market
  - The LFS unemployment rate was revised up by 0.1 pp, to 8.3% (from 7.4% in 2022), while GDP was revised down by 0.6% (sum 2023 and 2024 revision)
- The interest rate path was lifted, by up to 50 bps (in the long end). The bank expects to hike the rate once or twice next year, to 2.75% or 3,0%, The market assumes 3,25%
- The **QE program** was not altered at this meeting, but will expire at the end of the year
- **Riba futures** were close to unchanged after the announcements – and still above the Bank's plan

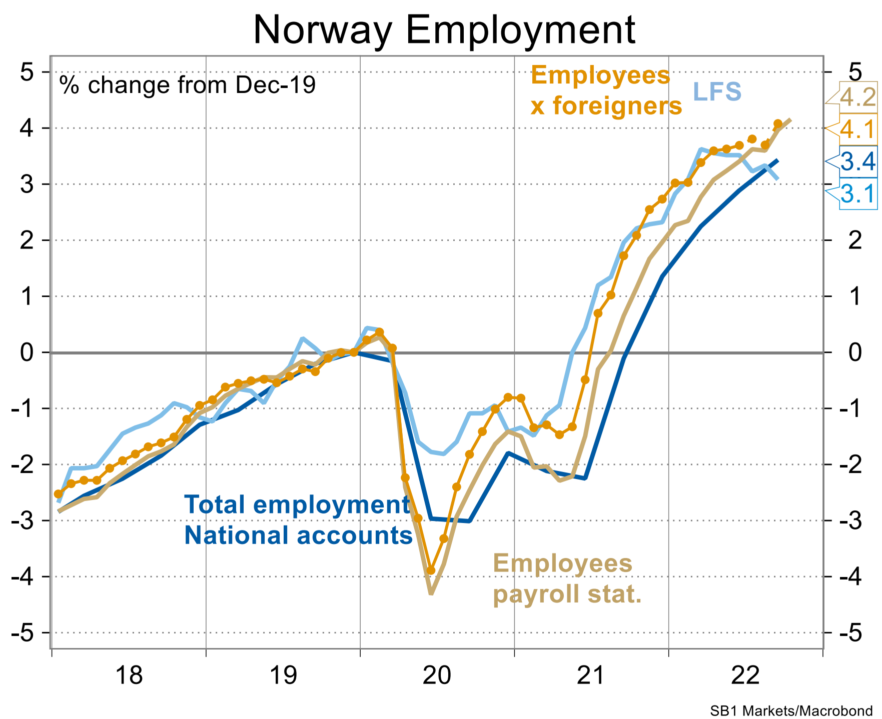
No big changes in the SEK rate expectations – but they are trending down

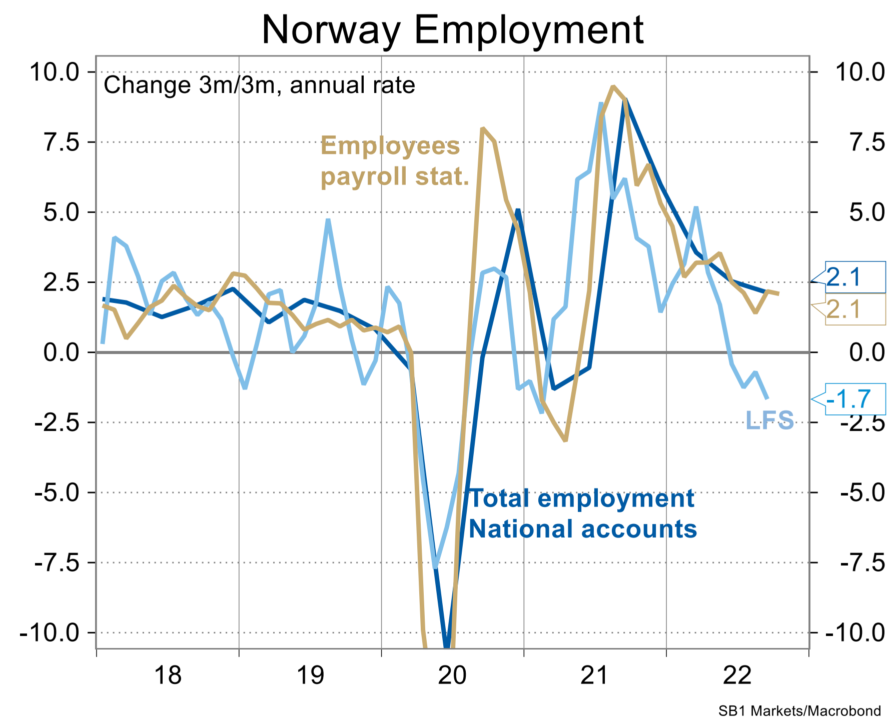




Employment growth is calming down, and LFS employment is declining

However, the most reliable stat., the register-based no. of employees is still trending up at a 2.1% pace

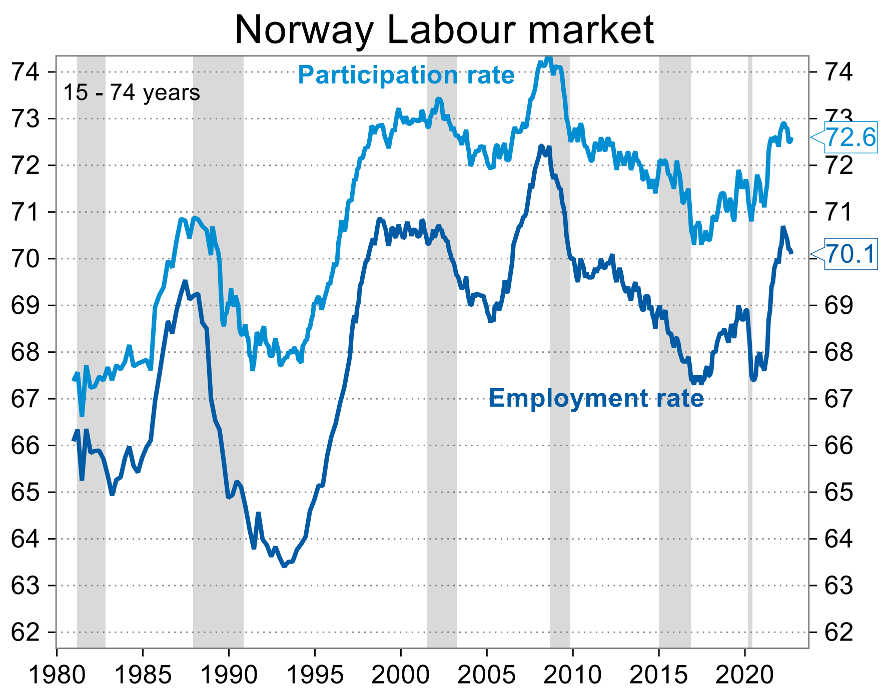


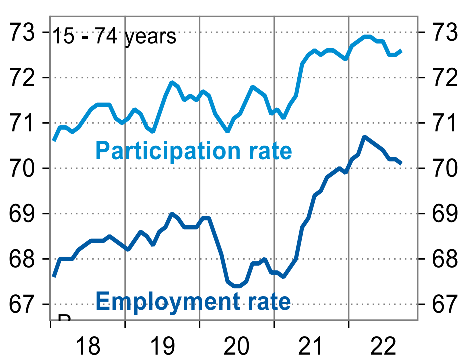


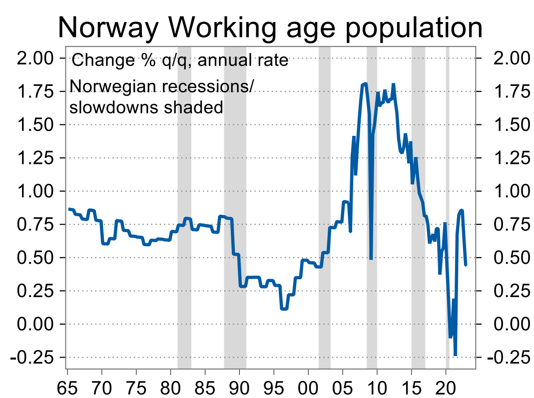
- **The LFS** (‘AKU’ survey) employment data (both employees and self-employed, with permanent residency in Norway) fell by 0.4% in September (3 m avg), and at a 1.7% pace measured 3m/3m
  - LFS employment is up 3.1% from before the pandemic
- The **register-based employee stats (‘A-ordningen)**, reports a 0.5% growth in the no. of employees in Oct, up from 0.3% in Sept, and better than we expected. The 3m/3m rate is 2.1%, still impressive – but still slowing. The level is up 4.2% since Q4-19. Foreigners have fully returned
- **National accounts** reported a 2.1% lift in employment in Q3 (annualised), and a 3.4% increase from Q4-19

Both participation & employment rates are down (but a tad too volatile)

The broad picture: Both rates have flattened – and may possibly be heading down



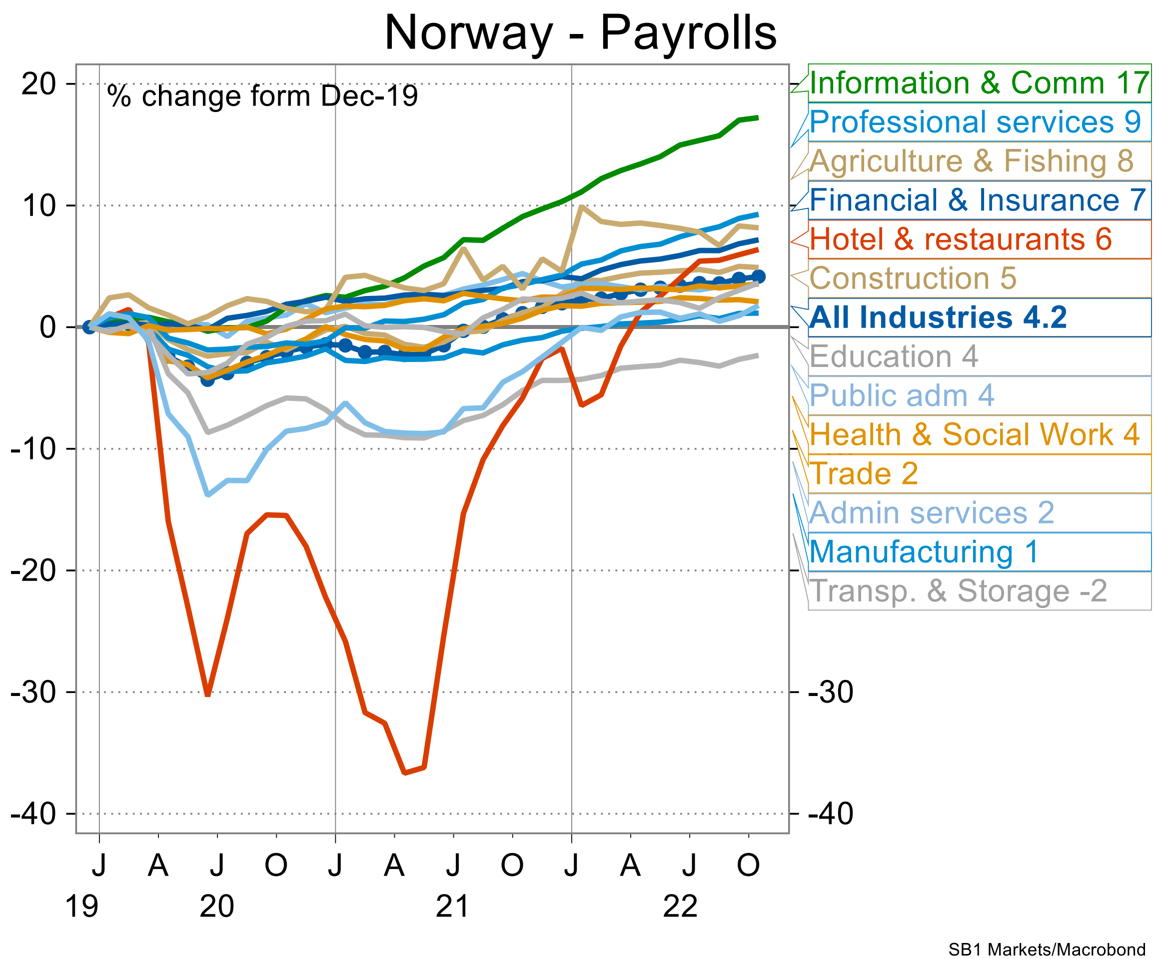


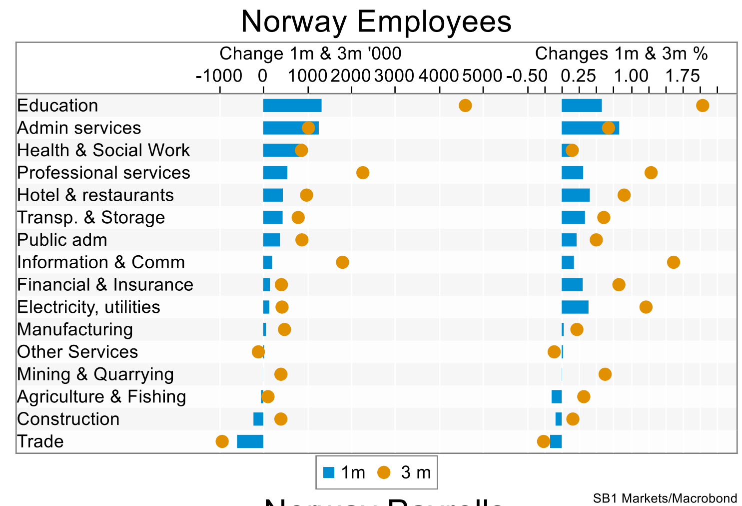


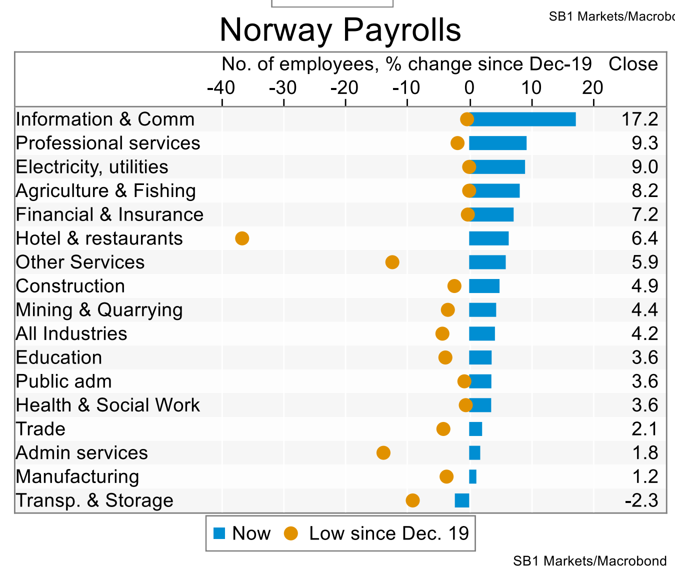
- **The employment rate** fell 0.1 pp to 70.1% in September
  - Ahead of the pandemic the rate was almost 69%, and it is up from the 67.4% trough in early 2021 (and from the same level in 2017, after the 'oil crisis'). The employment rate is measured in % of the working age 15 - 74 y population
  - In March, the employment rate was at 70.7%, the highest since after the Financial Crisis
- **The participation rate** rose 0.1 pp to 72.6% in September, and it is marginally lower than during the spring
  - Are there still reserves out there? If so, why are they not turning up now, given the very high vacancy level, 'everywhere'?
- **Both rates are** rather volatile from month to month, especially the participation rate
- **Working age population** growth has picked up, but slowed in Q3
  - Labour immigration has accelerated, possible as a ketchup effect after low immigration during the pandemic. Given the tight labour markets in the rest of Europe, we doubt ordinary labour immigration from Europe will solve the labour deficit in Norway.
  - However, Ukrainian refugees immigrated in Q2, and have contributed to the increase in total working age population. So far, not many of them are employed, according to SSB

Payroll cuts in trade, and construction is trending slowly down

All other sectors are still reporting growth

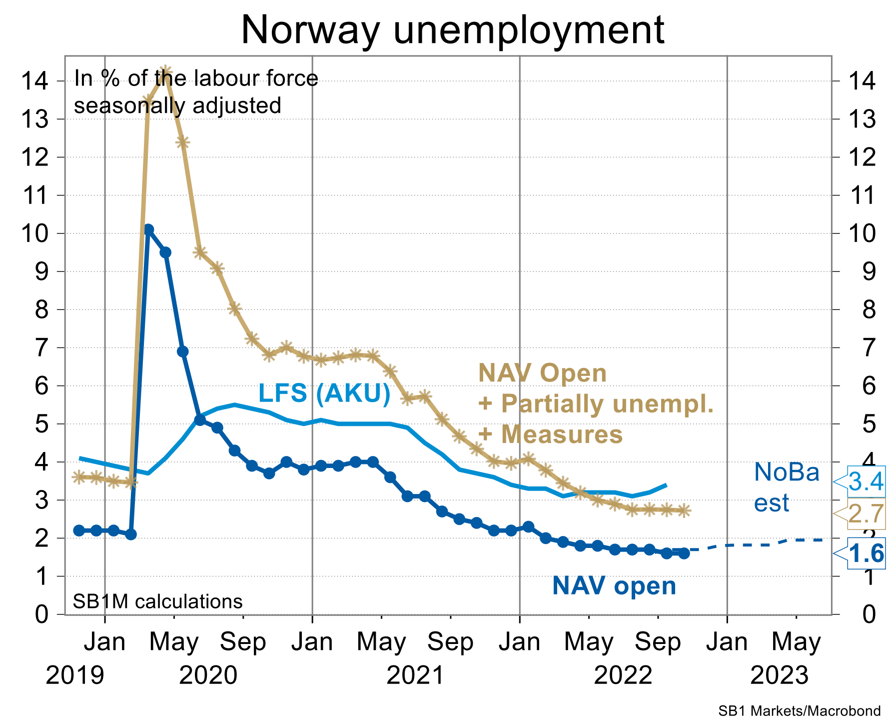


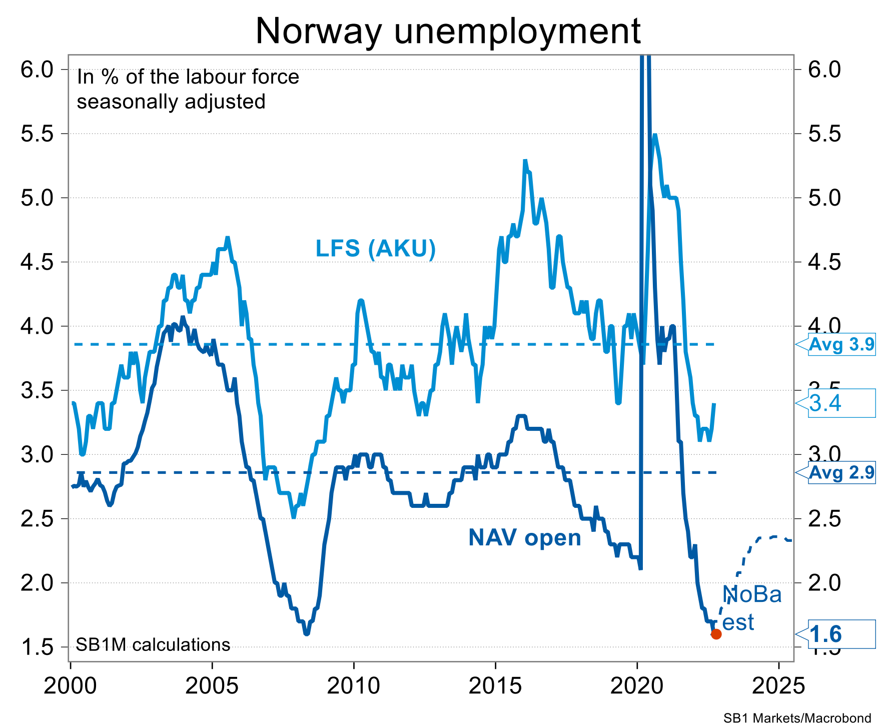




LFS unemployment up 0.2 pp to 3.4%, well above our forecast

We expected an unch. rate at 3.2 (though with the risk on the upside). The rate bottomed in March, at 3.0%

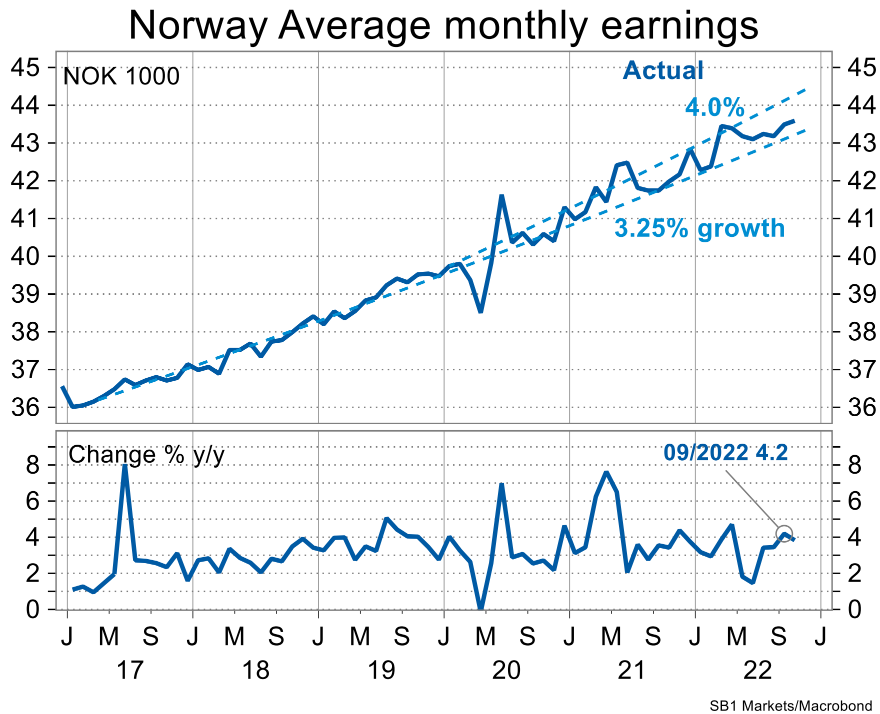


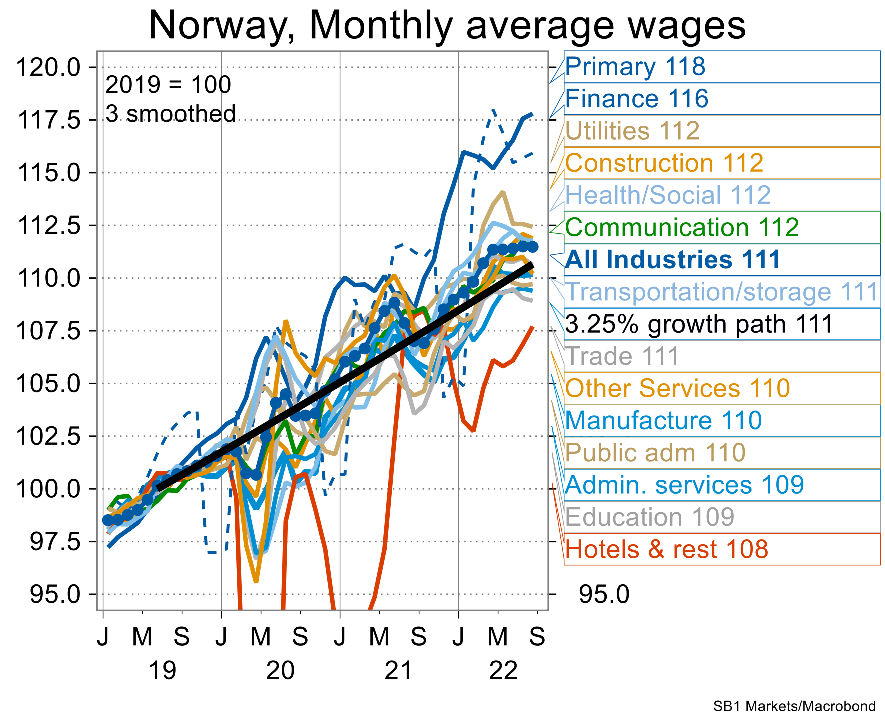


- **The NAV open unemployment rate** has not yet started to increase – but we expect a small uptick in November, data out on Friday

Wage inflation is not accelerating – and is lower than we expected

Average monthly earnings rose slightly in October, but the annual rate at 4.2 'exaggerates' the underlying growth

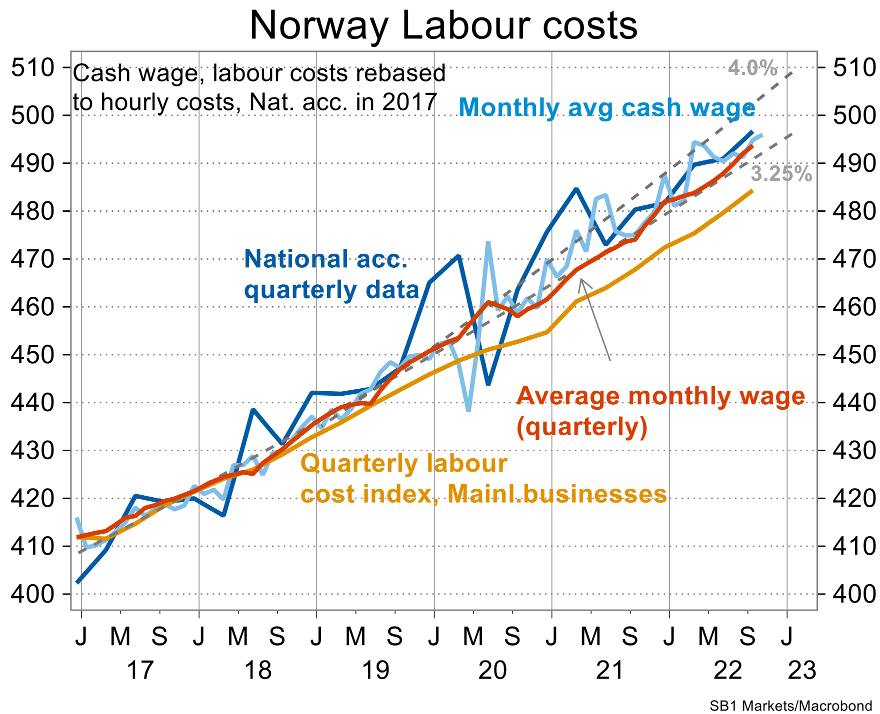


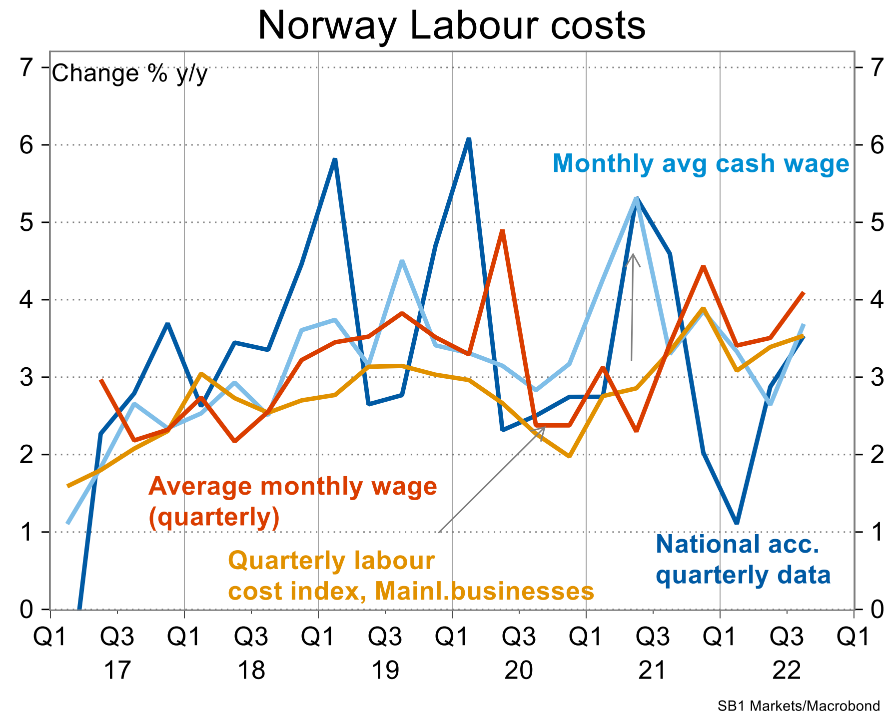


- **Monthly average cash earnings** has not accelerated much from the 3.25% pre-pandemic growth path, the 4.2% y/y print is mostly due to wages 'below' trend last November. The underlying growth rate is not above 3.5%!!
- **These earnings data** are rather volatile, also depending on hours worked, bonuses – and data are often substantially revised
  - Last year the monthly stats reported a 4.4% growth rate – while the average wage inflation was 3.5%, according to SSB
  - Changes in the mix of employees between and even within sectors will have an impact on these data
- However, other stats confirm the moderate growth in wages, check next page

All other wage inflation indicators still in check

All are reporting wage growth below the 4% line. We expected wage growth to accelerate – so far it has not

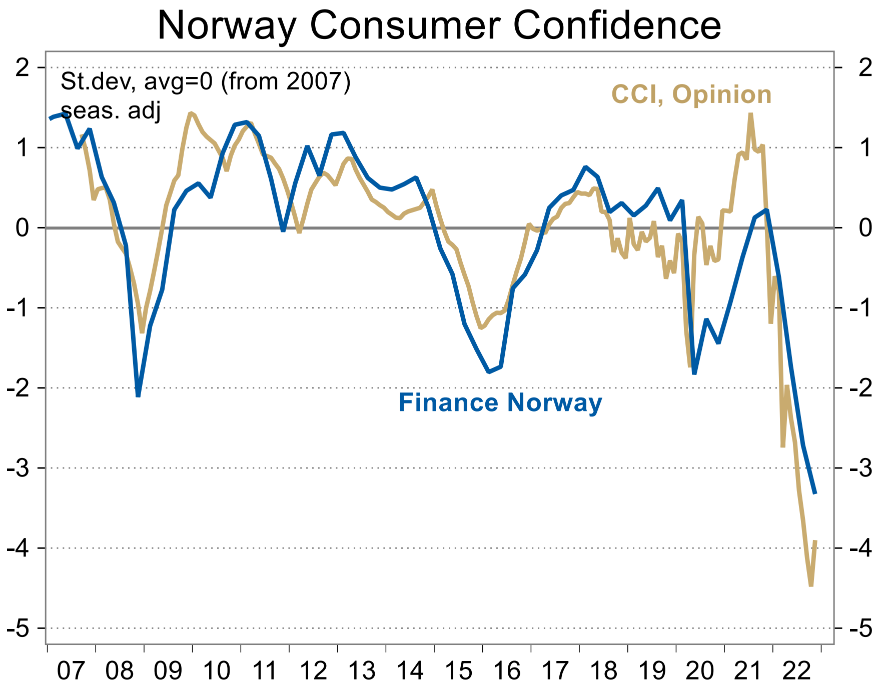




- The quarterly labour cost index report a 3.5% growth y/y in Q3, up from 3.4% in Q2 – and the trend is not higher (data out last week)

Consumer confidence up in November, from ATL in October

We are collectively depressed: consumer confidence are at record low levels here and in the rest of the rich world



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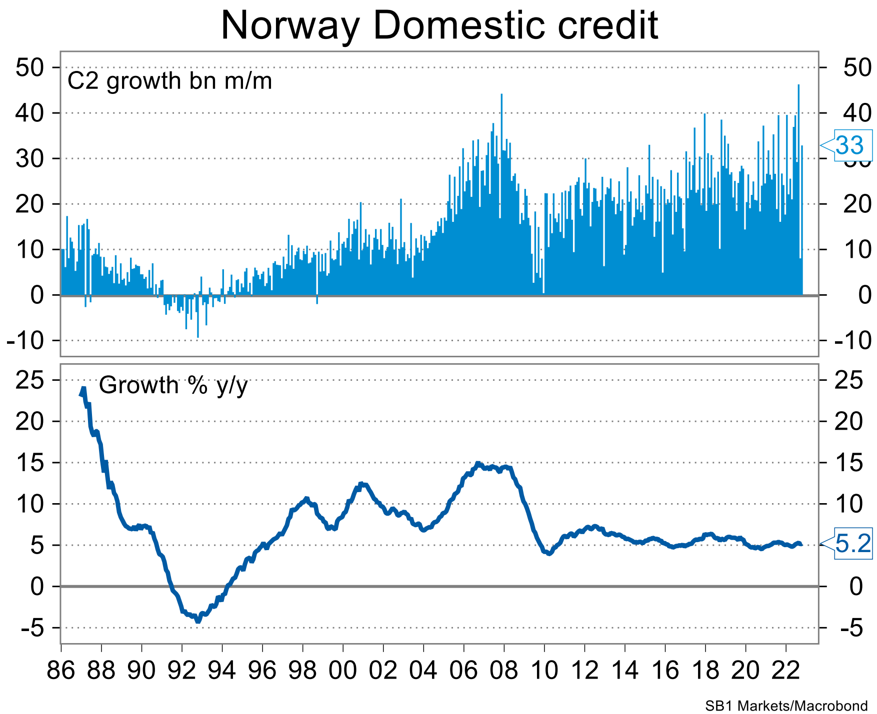
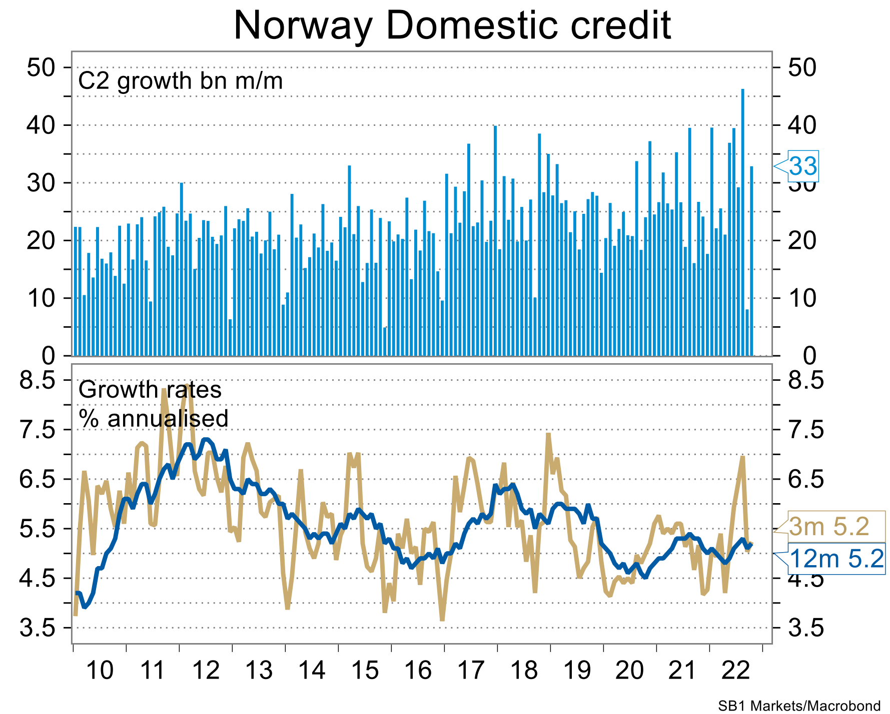
- **The CCI print** from Opinion was up in November, but at -3.9 st.dev it is hardly a positive story. ATL was at -4.6 st.dev in October, while the bottom during the pandemic was 2.0 st. dev. below average
- The **net share of optimists** is -28%. Given inflation and the hikes in interest rates + some geopolitical uncertainty, this share could easily have been larger
- **Will households stop spending or retreating from the housing market?** The housing market has no doubt turned the corned, while sales are trending down but far from at a scale comparable to the record low consumer confidence
- Even if a large share of the population recognises that their own economy will be hurt, it does not imply that they all plan to cut spending sharply – but there is of course some downside risk

Household credit growth is slowing, payback time is arriving?

Household credit growth the lowest in 20 years, and at 4.1%, 0.2 pp below NoBa's f'cast

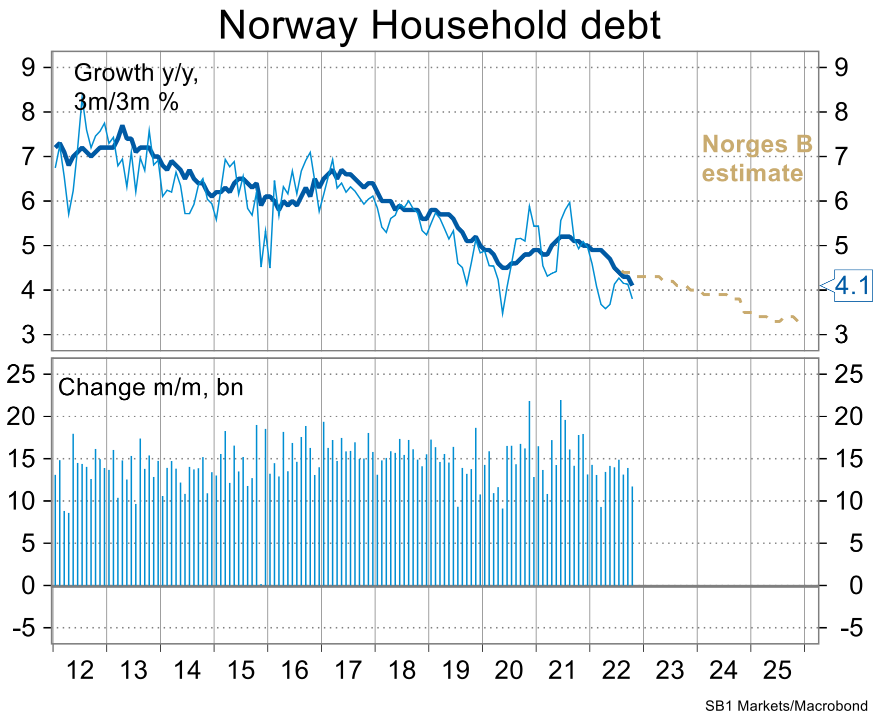


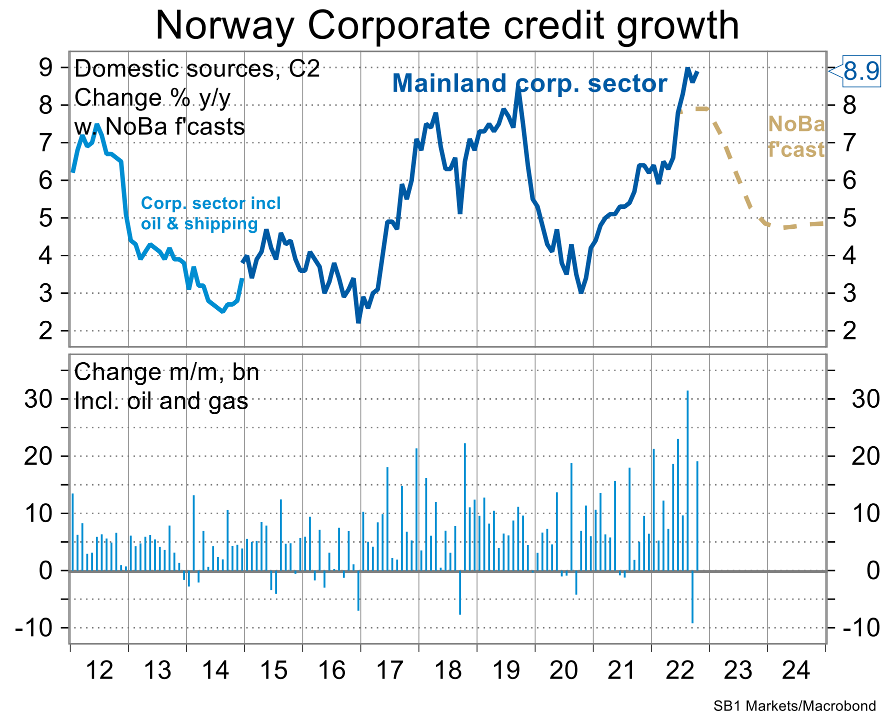


- **Total domestic debt** (C2) rose by NOK 33 bn in Oct, up from the unusual low 7 bn in Sept, we expected 29 bn. The annual growth rate rose 0.1 pp to 5.2%, we expected unch. The 3m/3m growth rate was close to unch at 5.2%
- **Household credit** rose by NOK 12 bn in Oct, which is 1 bn less than we expected (and down 2 bn from Sept). The annual rate was fell 0.2 pp to 4.1%. NoBa estimated 4.3%. The growth rate is the lowest since Dec-95. A further slowdown is likely, interest rates are up, house prices are falling
- **Corporate C2 credit** added NOK 19 bn in Oct, much more than normal – and the volatility continues; from up 31 bn in Aug, and down 10 bn in Sep. The annual rate accelerated to 7.8% from 7.0%, we expected 7.3%. For Mainland companies, the annual rate gained 0.3 pp to 8.9%. The unusual volatility may be due to transfers of debt to and from abroad
- **Local governments** added NOK 2 bn in Oct, 1 bn less than we expected. The annual growth rate fell 0.3 pp to 4%. Finally, local gov's are not increasing their debt/income ratio

Demand for household credit is slowing

…while growth in credit to the corporate sector is higher than since before the Financial Crisis

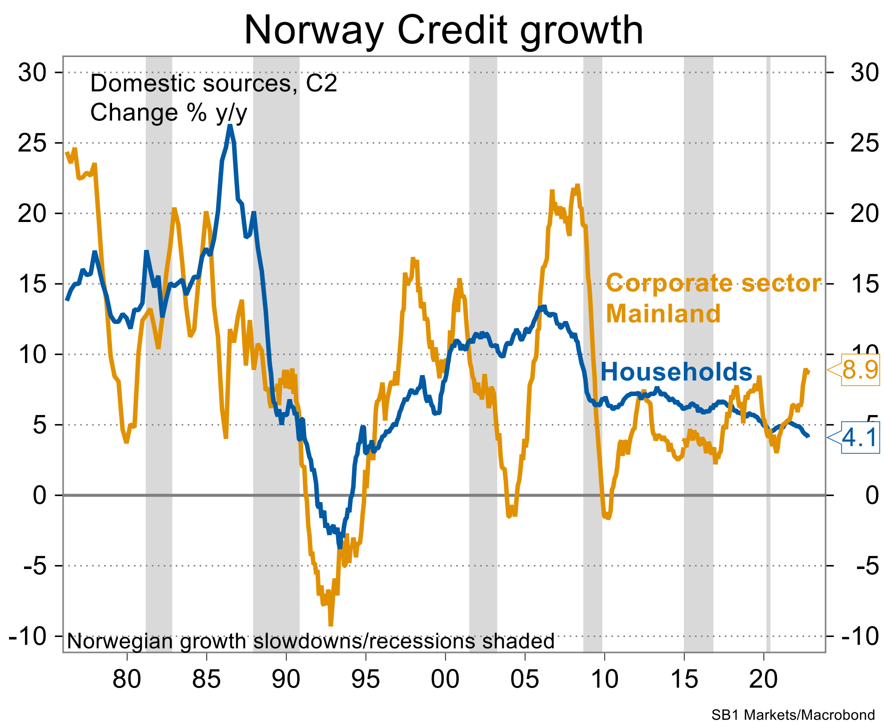


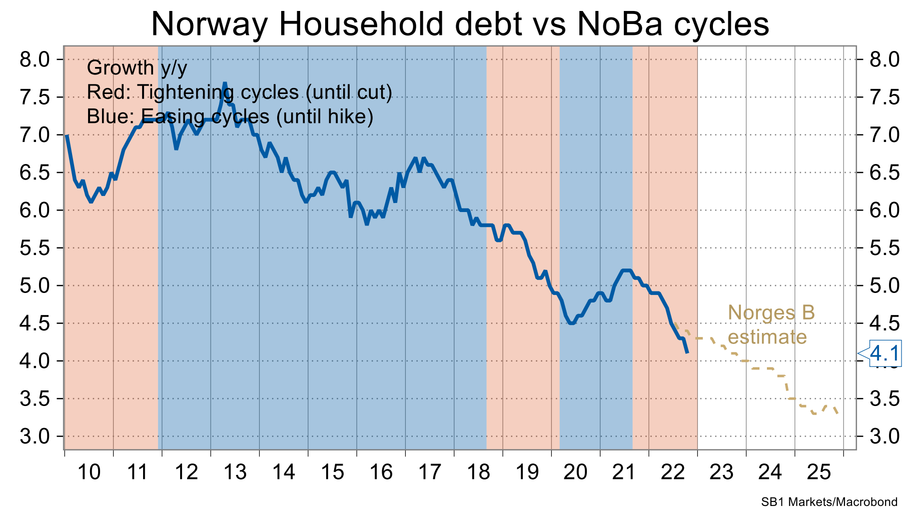


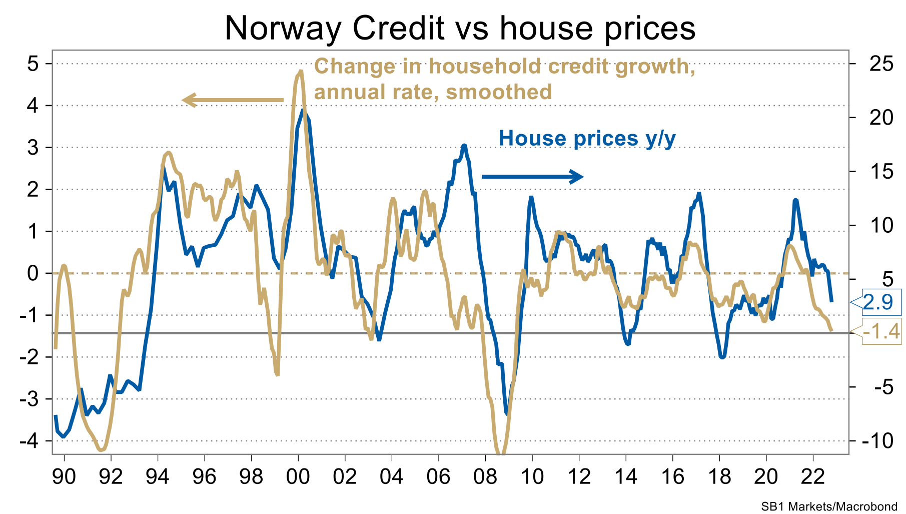
- **Household credit** growth has been slowing since mid 2021, and the annual rate has been falling to just above 4% from above 5%. The underlying growth is now below 4%, and clearly below underlying income growth – the debt/income ratio is finally declining. Household debt growth has slowed faster than Norges Bank assumed in the Sept MPR. We expect household credit growth to slow further the coming months/quarters
- Monthly growth in **corporate domestic credit** is volatile, most likely because loans are transferred to or from abroad, and the NOK 19 bn lift in Oct was higher than we expected. Growth in Mainland business debt has shot up recent months, and is at 8.9% 1 pp above NoBa' recent f'cast. NoBa expect credit growth to slow the coming years, but nothing like during slow-growth periods

Credit growth slows during economic slowdowns, recessions

If the housing market does not turn up, credit growth will slow further

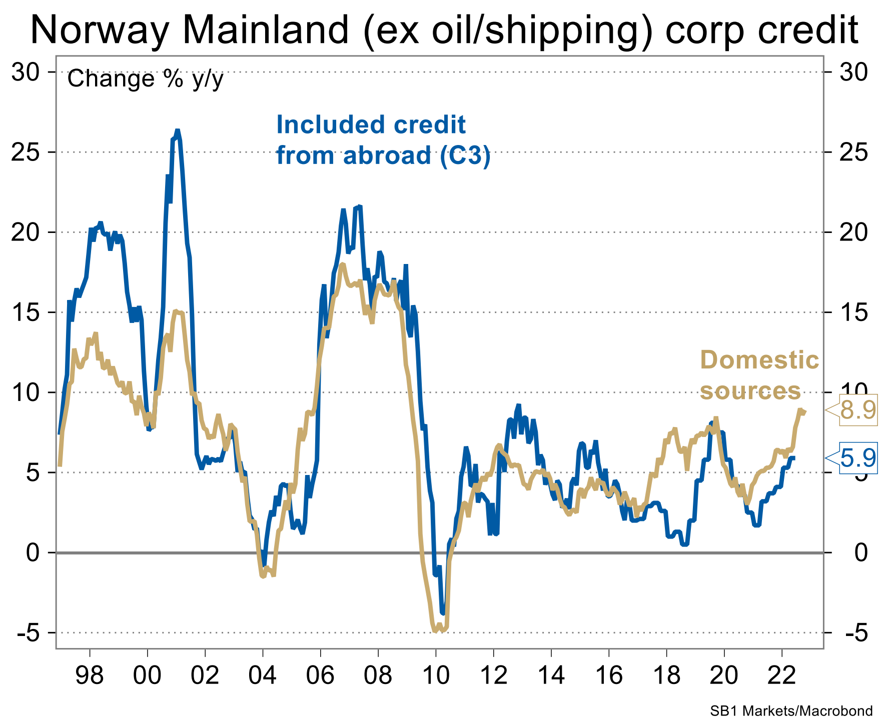


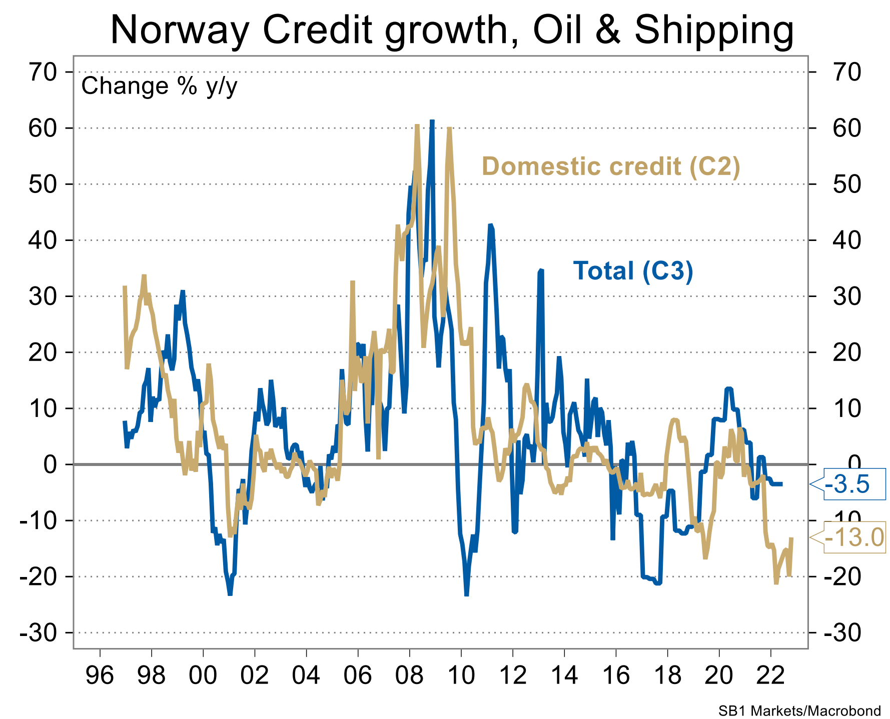




Mainland corporates increased their total debt (incl. foreign credit) by 5.9%

… in Q2. Debt from domestic sources (in C2) was up 8.9% in Oct. Some transfer of foreign loans?

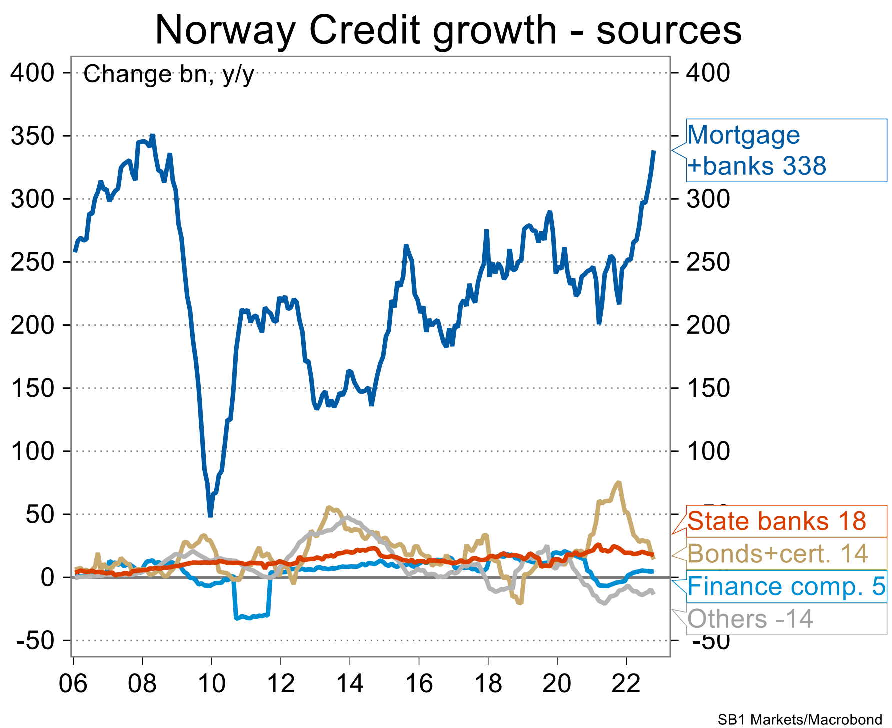


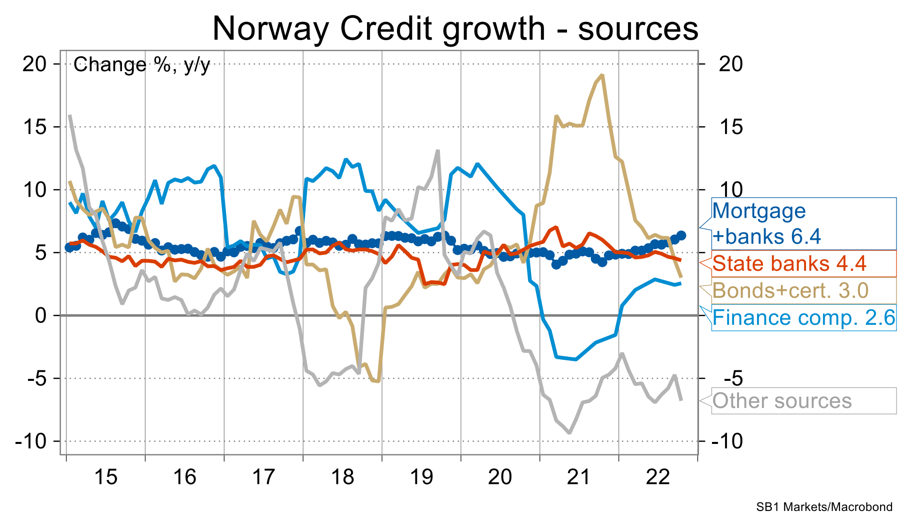


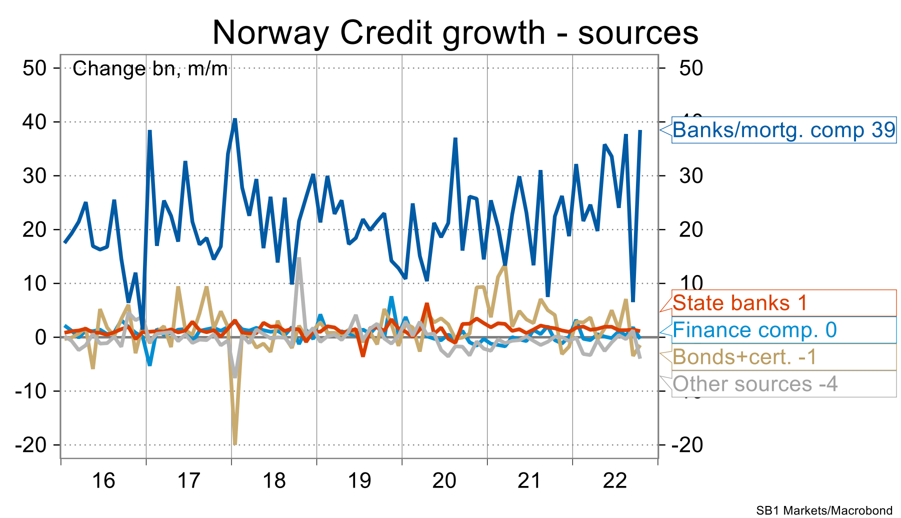
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway. The sum is down 3.5% (Q2), even if domestic debt is down 13% (via transactions)!

Banks are increasing their large market share further

Bond market borrowing has slowed substantially recently







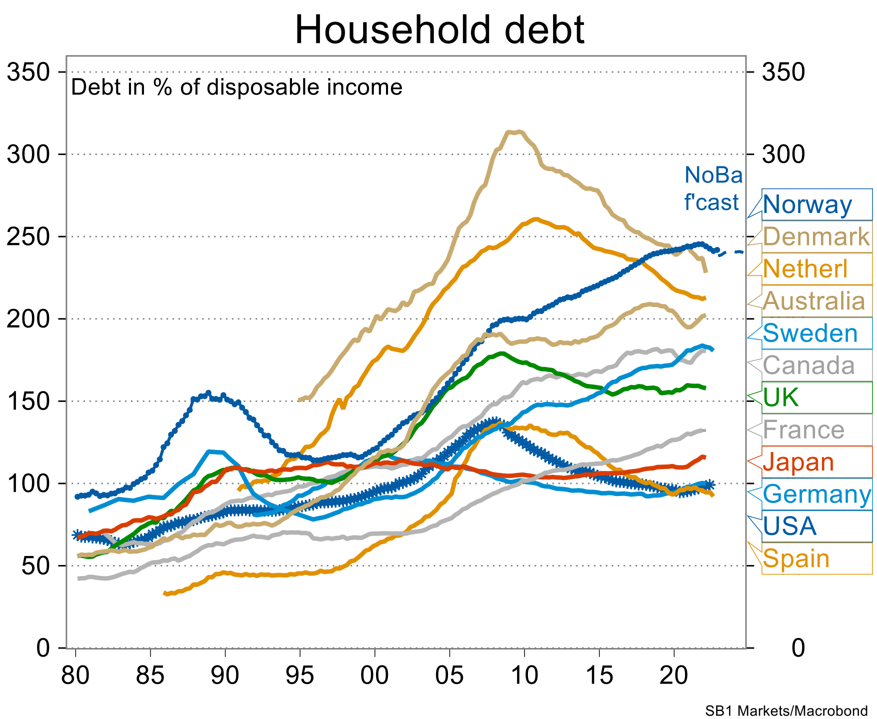
- Banks/mortgage companies are up NOK 338 bn (6.4%) y/y, and accelerating, rapidly!
- Net issuance of bonds (to non-financial sector) is up NOK 18 bn (3.3%) y/y – a normal growth rate but well down from the peak late last year (75 bn, 19%). <u>The credit cycle has turned</u>
- Finance companies are up a mere 2.6% y/y, while all 'others' (except state banks) have reduced their lending
  - Both insurance/pension funds as well as Statens Lånekasse, Eksfin are included in our residual 'others', but just the sum of SL & Eksfin is down

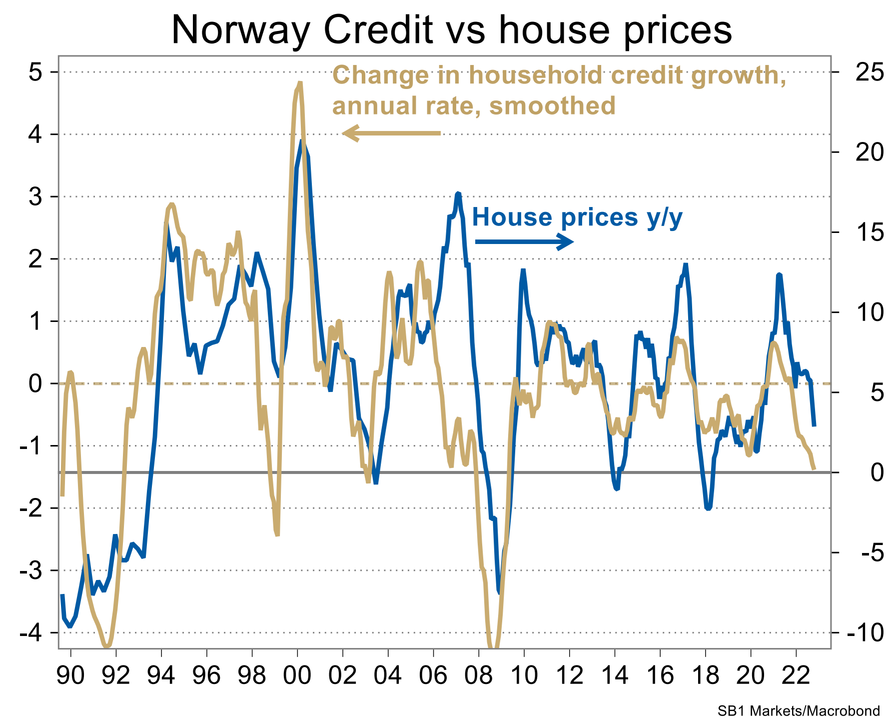
The seasonally adjusted 'sum of the parts' credit supply do not exactly equal changes in the total C2 seasonally adjusted. Consumer banks are included in 'banks and mortgage companies'

SpareBank 1 MARKETS

Household debt/income: We are no. 1! But the debt/income ratio turns down

... And the downside may be substantial

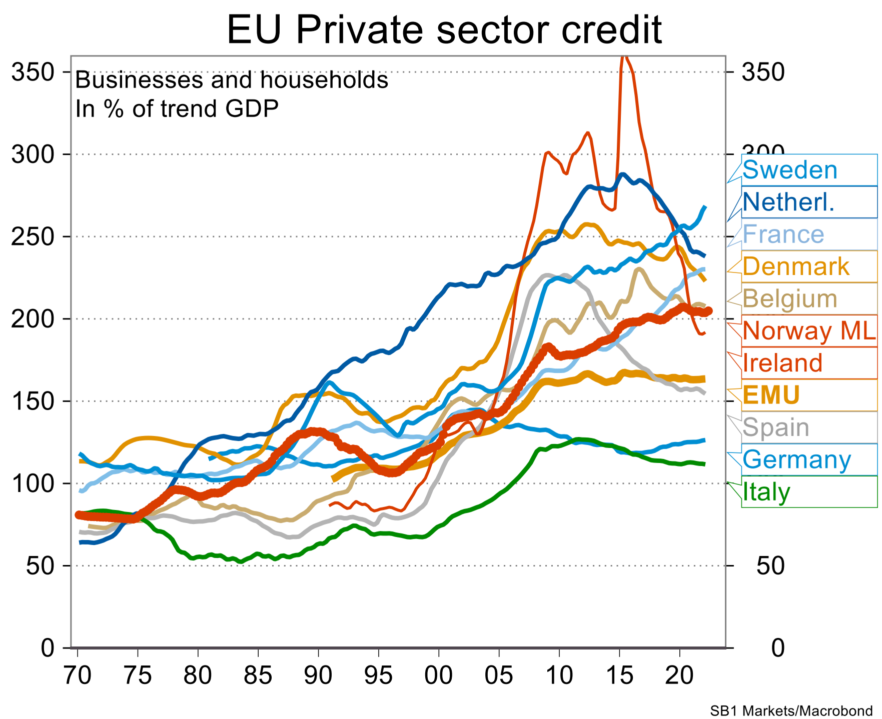


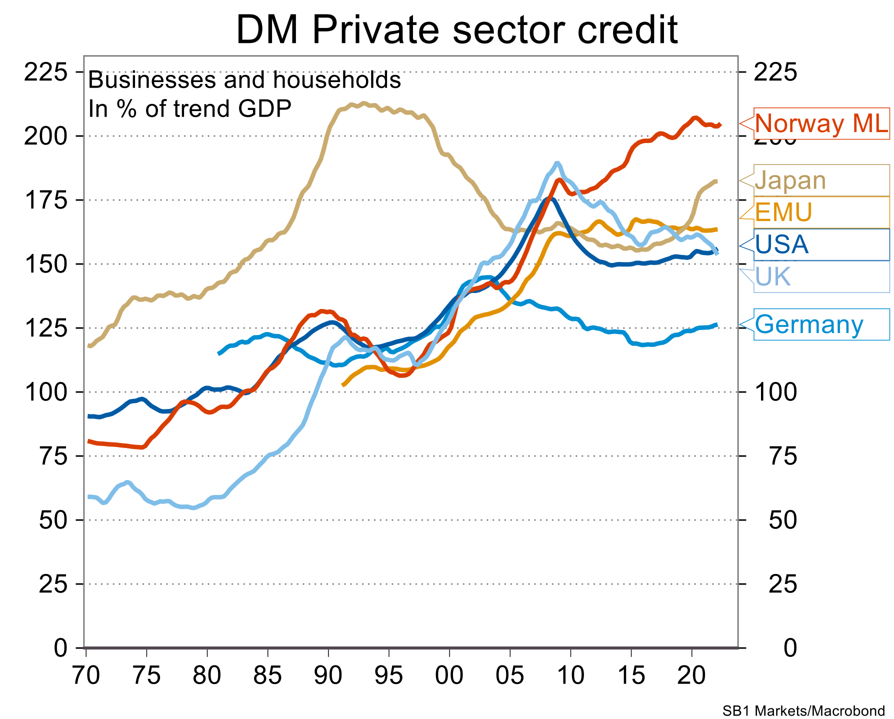


- **Norwegians households' debt has** steady been growing faster than income <u>but not more since last year</u>
- **Changes** in credit **growth** (the 2nd derivative) is usually correlated to economic growth, and asset markets – including growth (1st derivative) in house prices
  - A slow retreat in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

The private sector has mostly been deleveraging since the Financial crisis

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

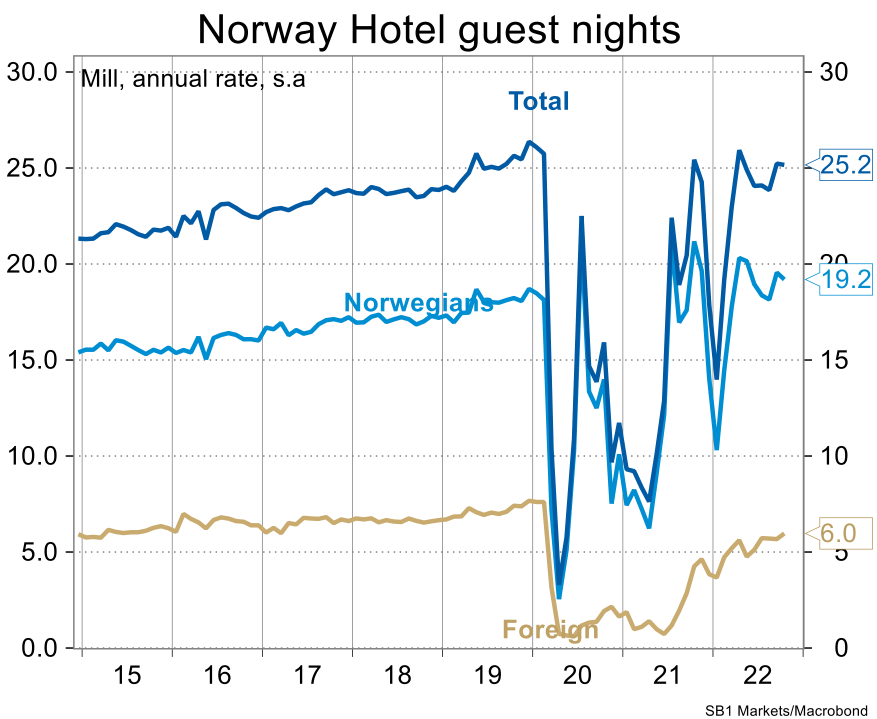


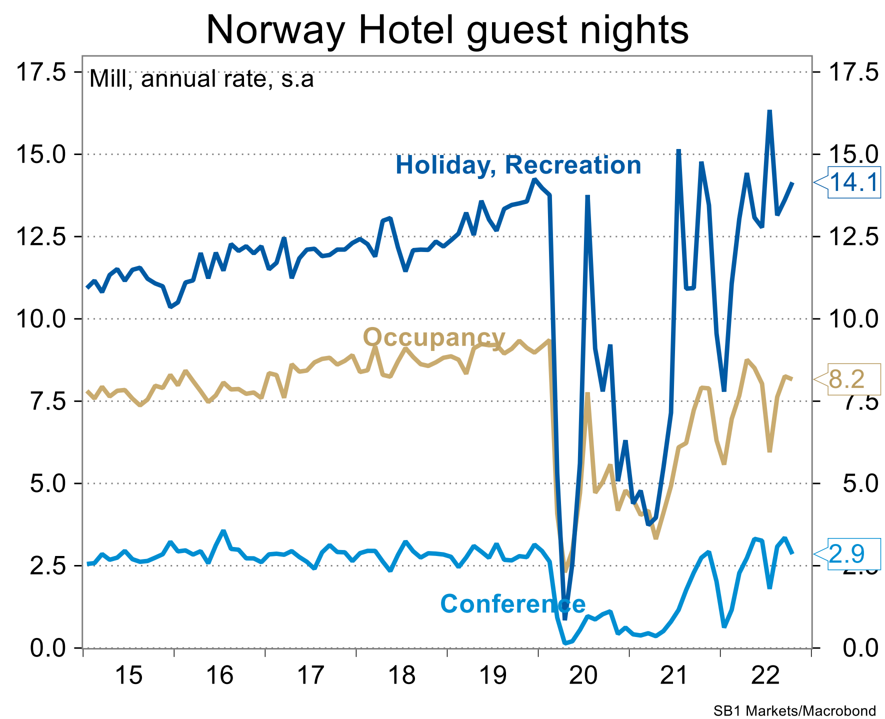


- But not everywhere: Not in Norway, Sweden (+Canada & Australia, of course). The French have been accumulating debt as well
- Rather interesting: Debt ratios in Germany and Japan have turned up recently – and the Americans are borrowing more again

Hotel guest nights back to the pre-pandemic level but below pre-pand. trend

The no. of guest nights is still below the pre-pandemic trend growth path, by some 10% and just due to fewer foreigners

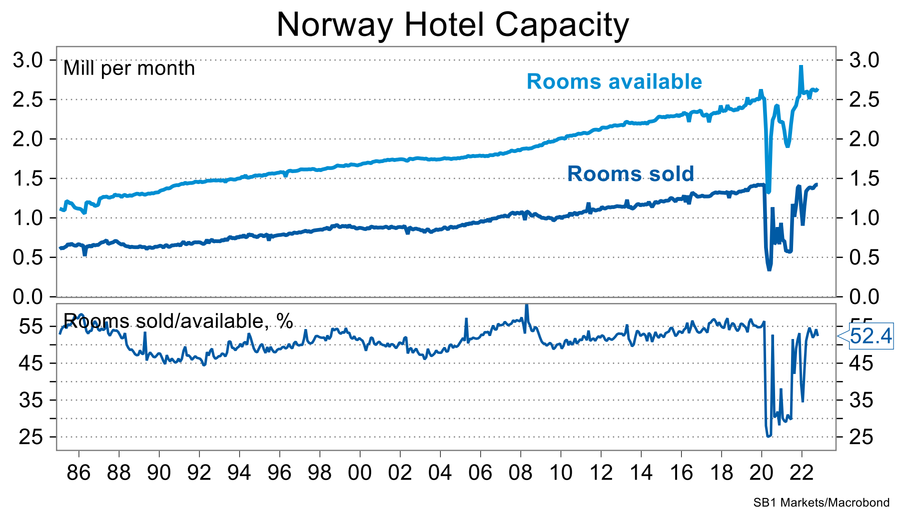


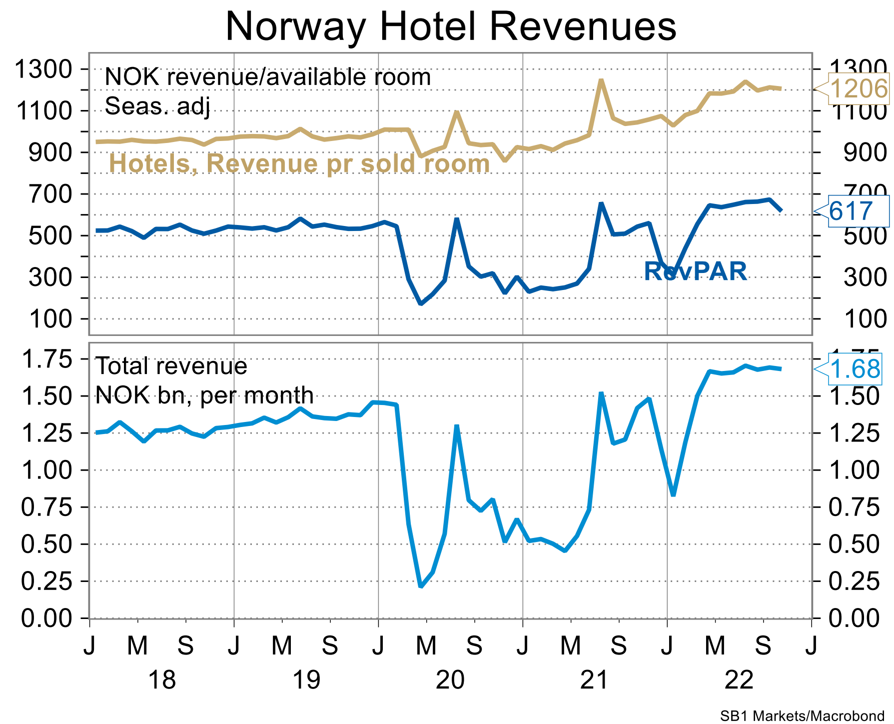


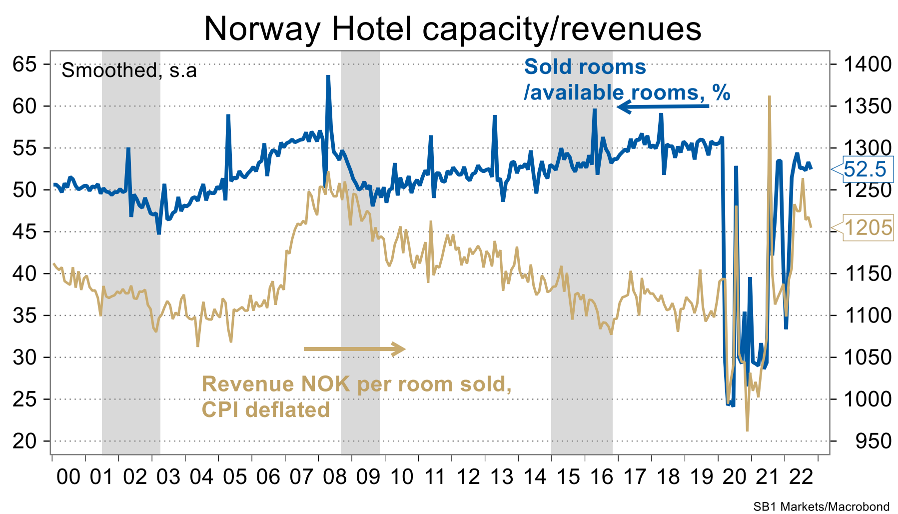
- **Recreational demand** is back to a normal level, even if the total number of foreigners are still down 20% vs the pre-pandemic level
- **The conference market** is back the pre-pandemic level
- **Other business guest** nights are some 10% % below the pre-pandemic level (monthly date are volatile, even after seas. adj.)

Capacity utilisation almost normal, prices up 20% since before the pandemic

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





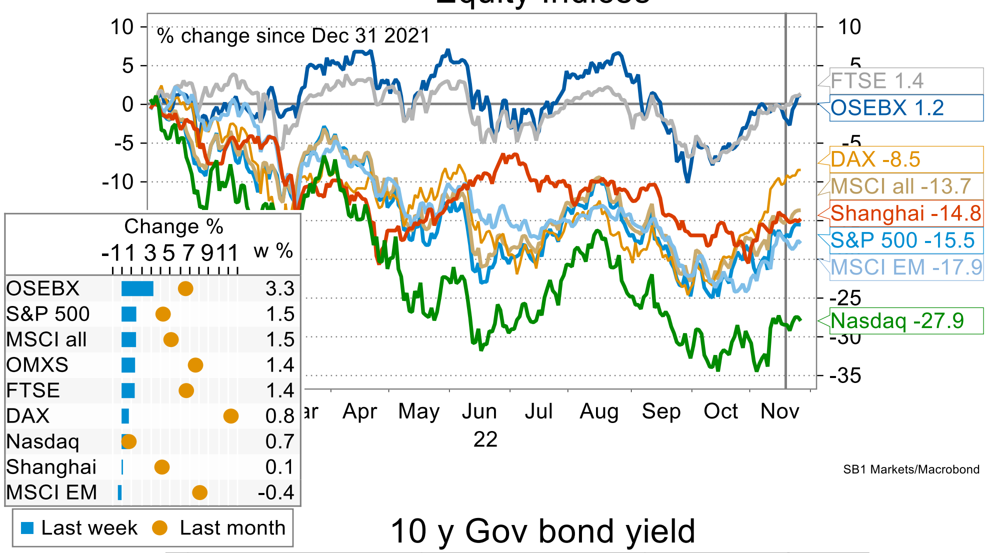


- **Capacity utilisation** (room sold vs. rooms available) was 53% in October, somewhat below the normal level ahead of the pandemic
- **Revenue per sold room** is up 21% from the Feb-20 level, a substantial increase (aka inflation)
- **RevPAR** (revenue per available room) is also far above the pre-pandemic level, almost 15%

Equity markets up; Bond yields down, alongside raw material prices

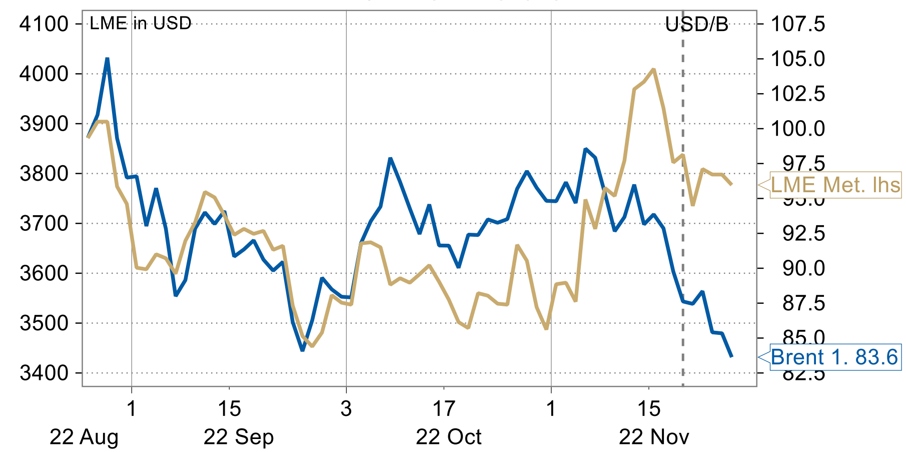
Still, the NOK recovered – a ‘risk’ on NOK trade has been in favour for a while

Equity Indices



SB1 Markets/Macrobond

Oil vs. metals



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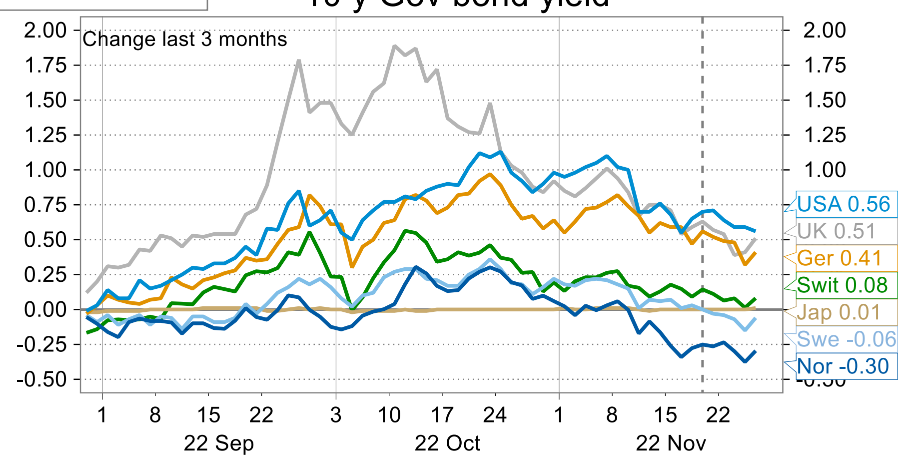
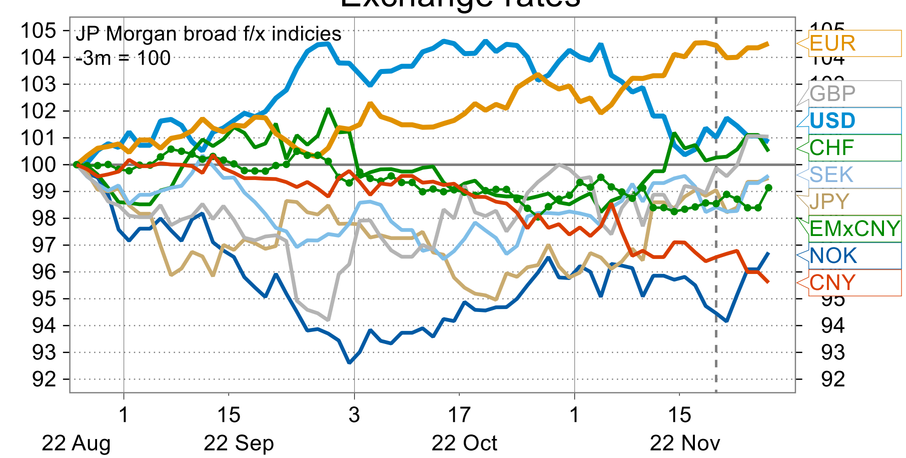
10 y Gov bond yield



SB1 Markets/Macrobond

Exchange rates

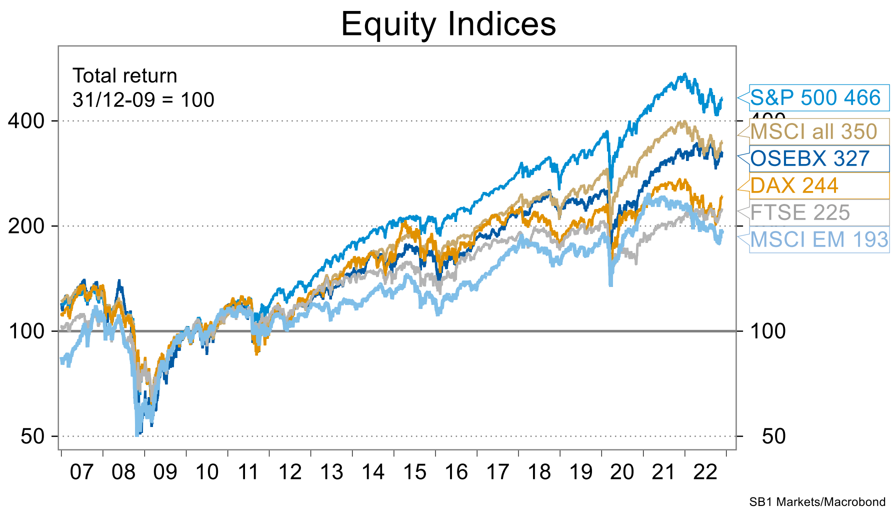


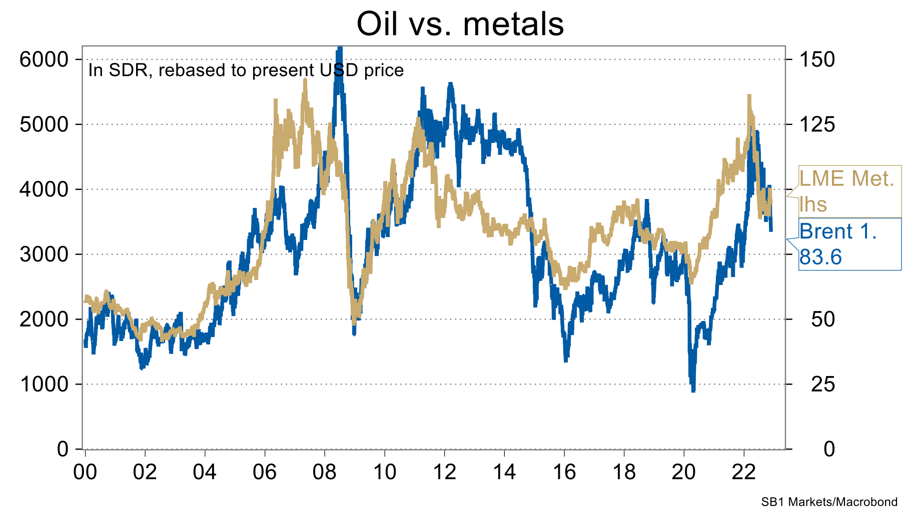
SB1 Markets/Macrobond

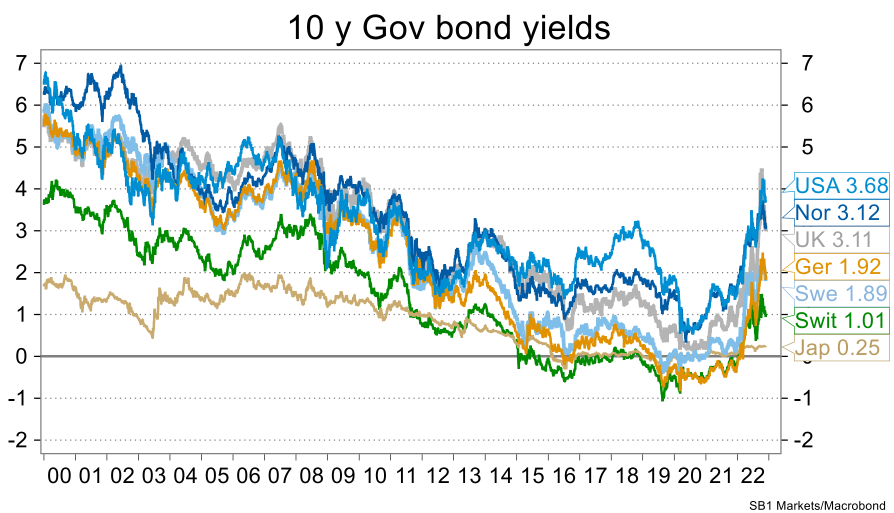
SpareBank 1 MARKETS

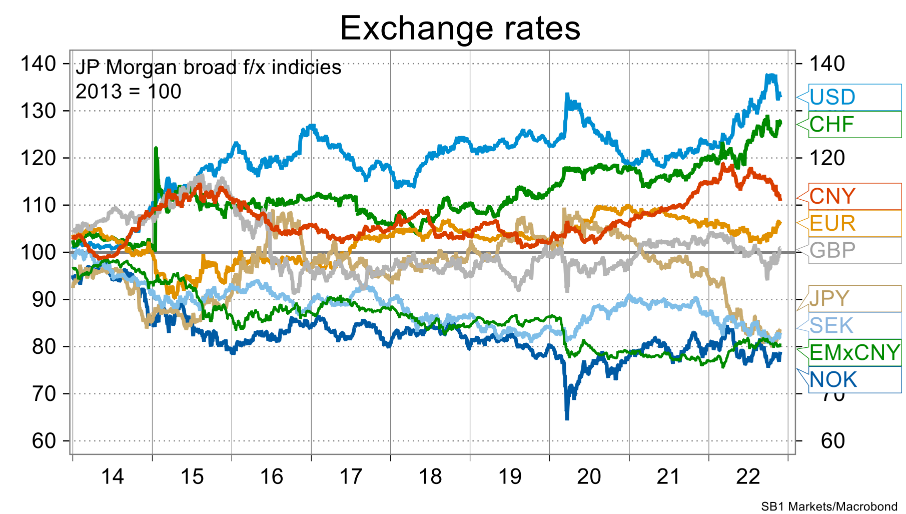
The long-term picture: Stock markets down, commodities down, yields up

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

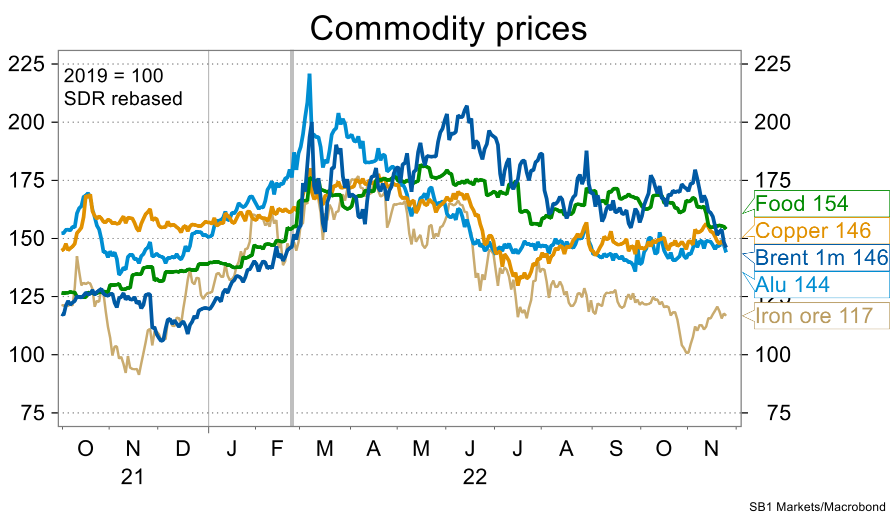


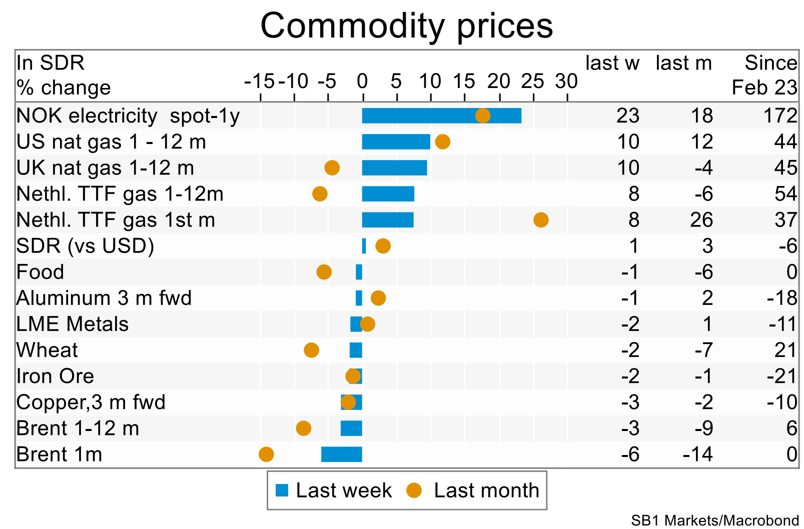


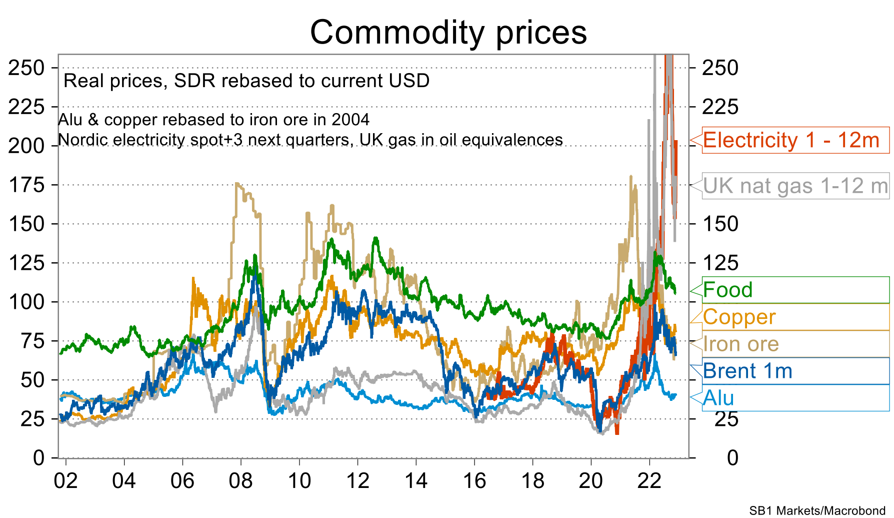




European gas/el. prices further up, all other commodity prices down



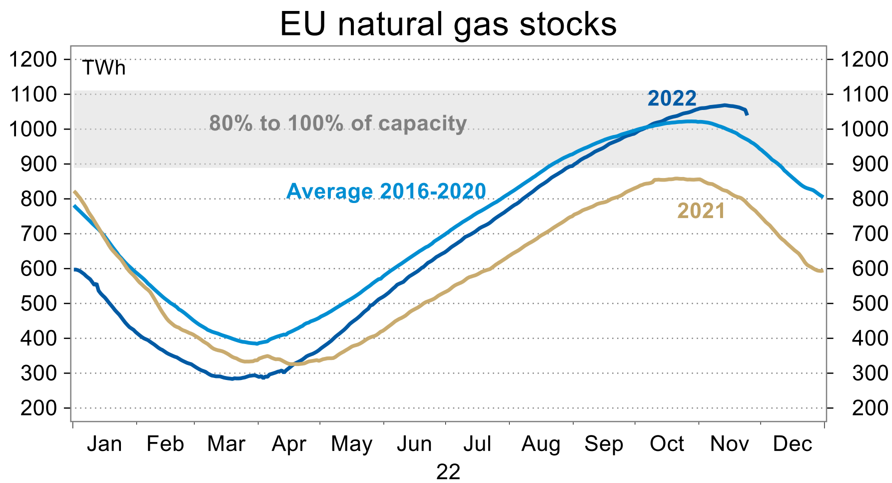


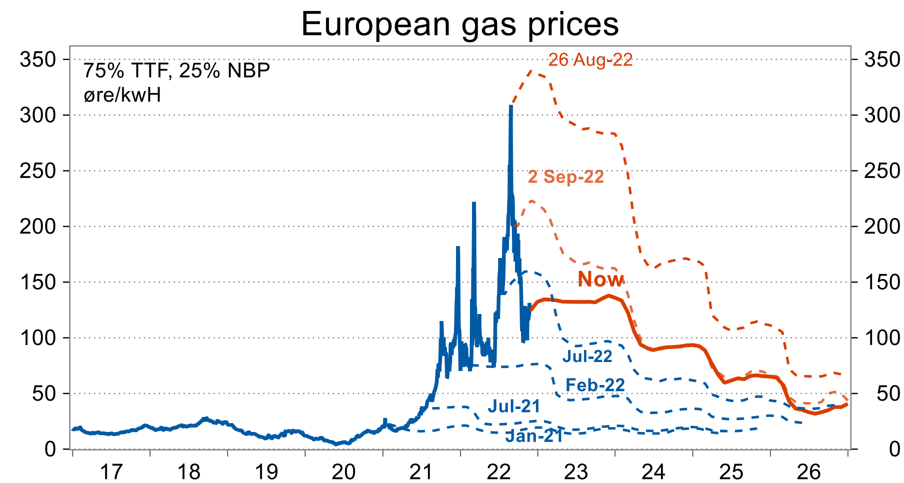


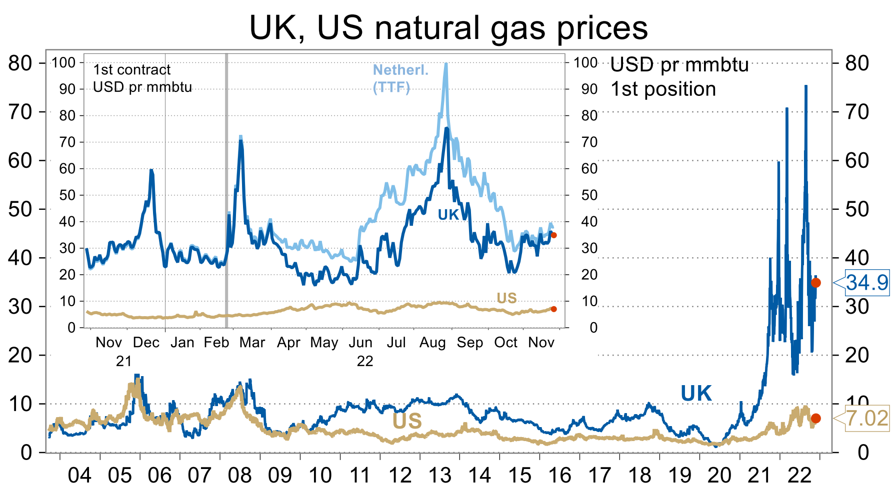
Last week – prices in SDR

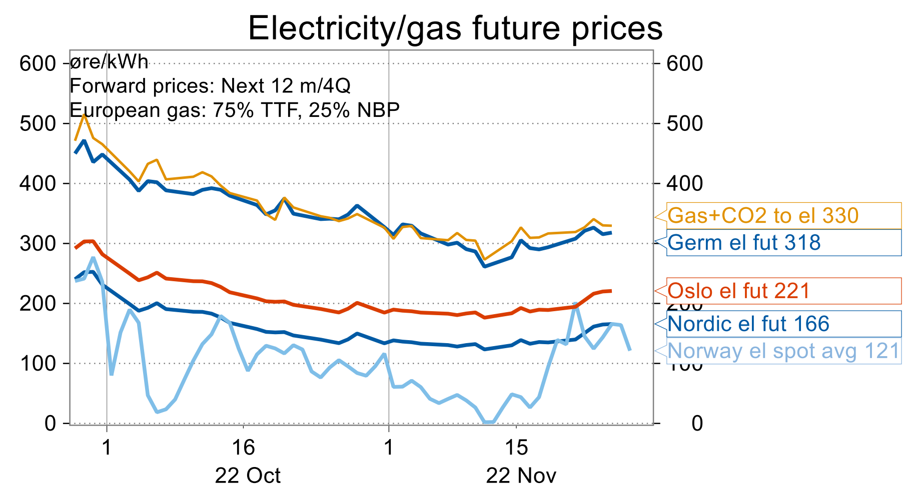
- **European natural gas** continued upwards, all over the curve. Russia may close down the last trickle of gas exports to Europe (through Ukraine)
- **The oil price** fell further, even if Saudi Arabia strongly denied that higher oil production was on the table. Early Monday, the price is another 3% down vs. Friday
- The Economist's **food commodity index** fell just slightly, but is down 6% the last month
- **Metal prices** also fell further

European gas up last week, and electricity prices followed suit

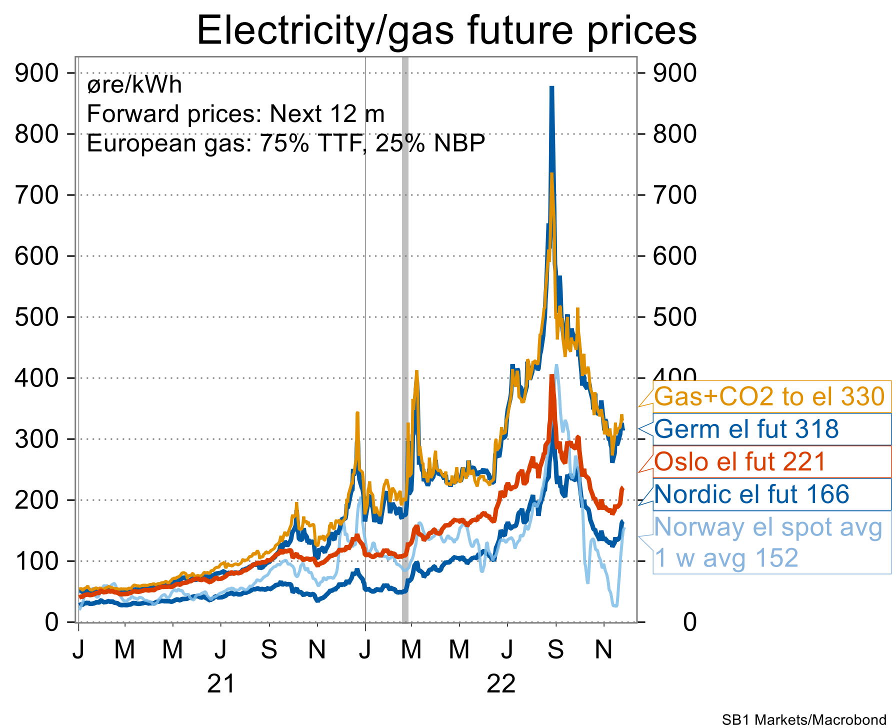


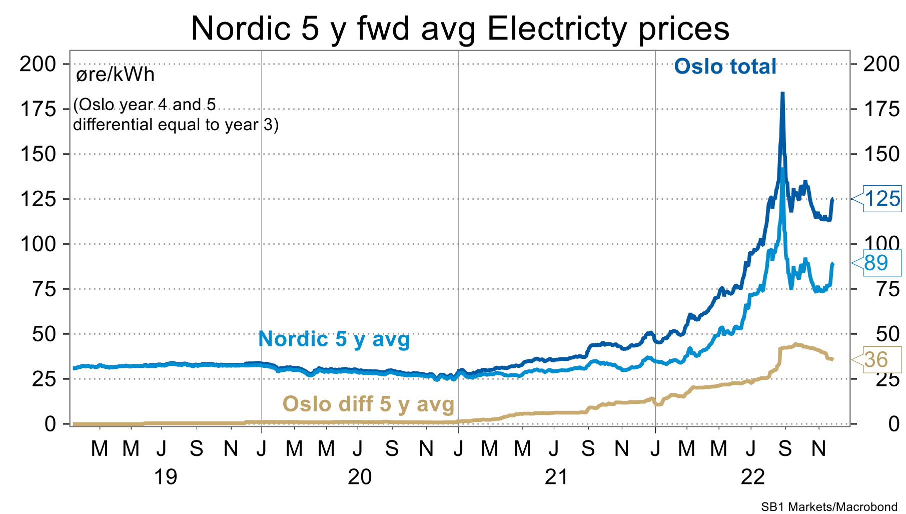


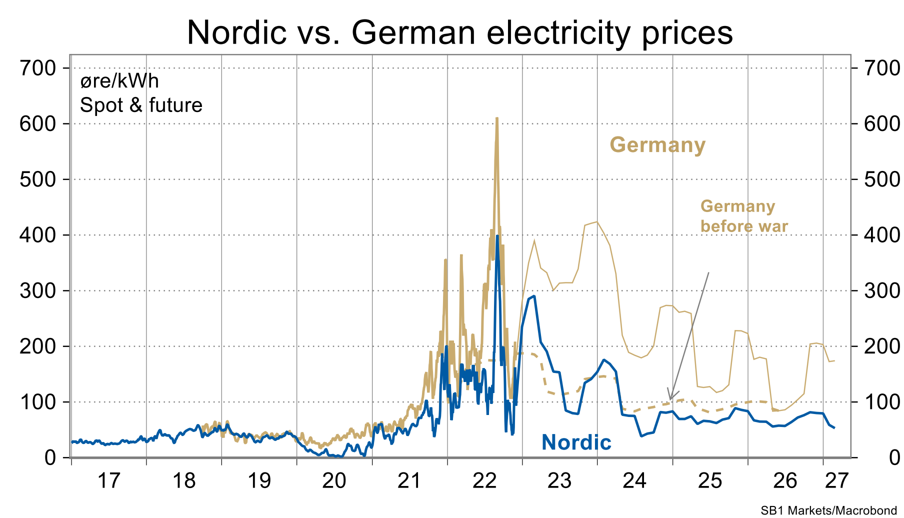




European gas & electricity up – but still well below late summer peaks

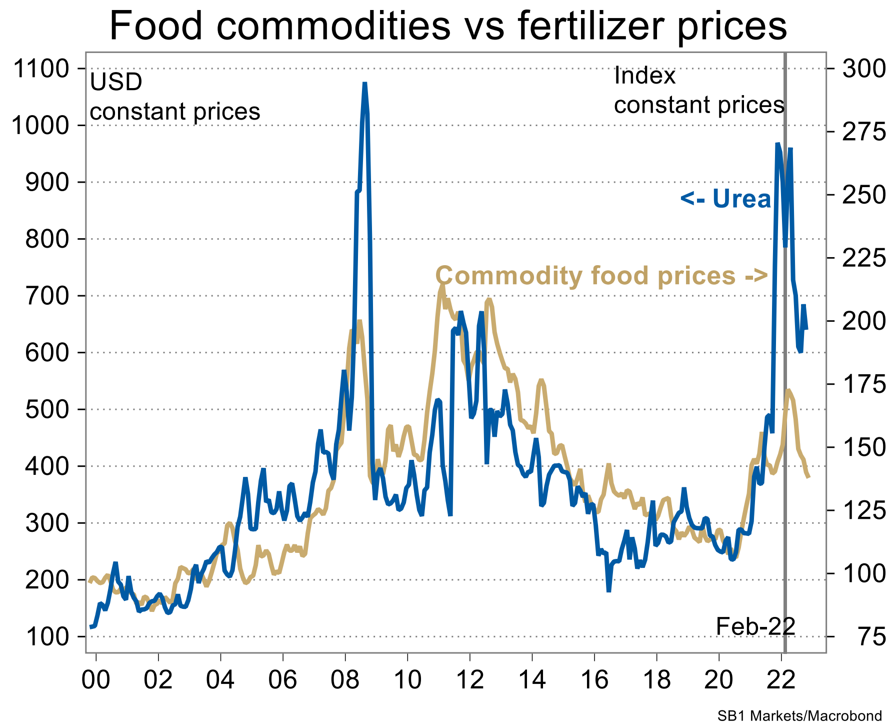


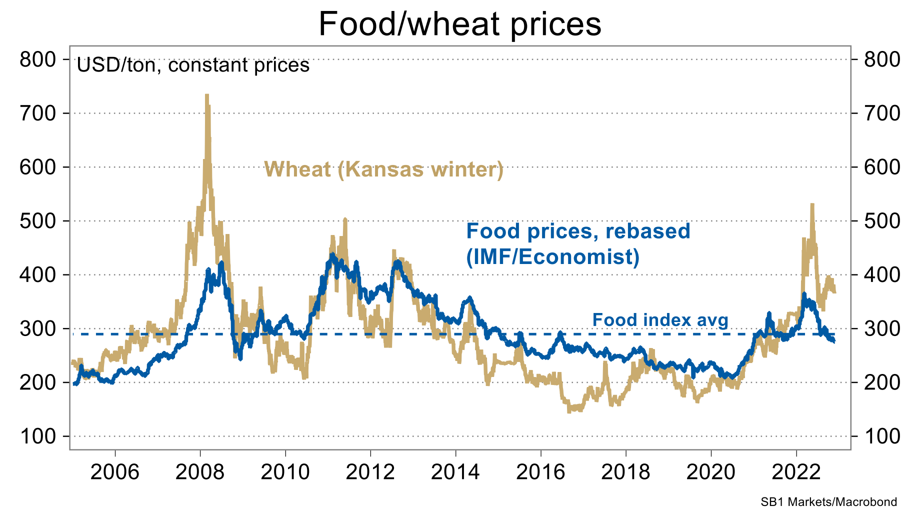


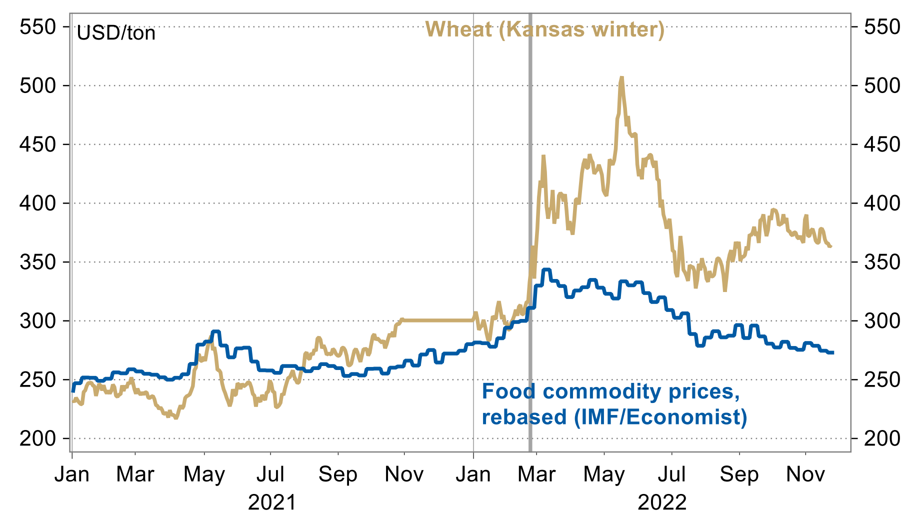


Food prices are trending down

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



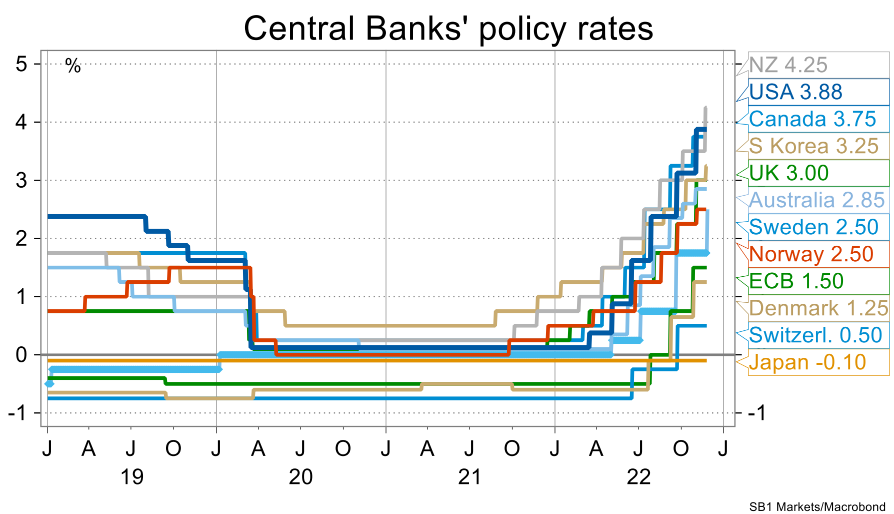


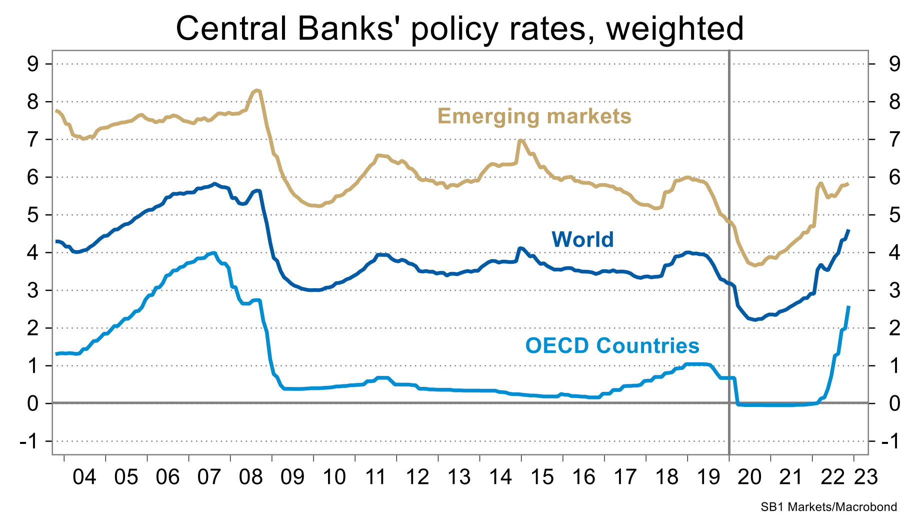


- Urea prices have been falling too

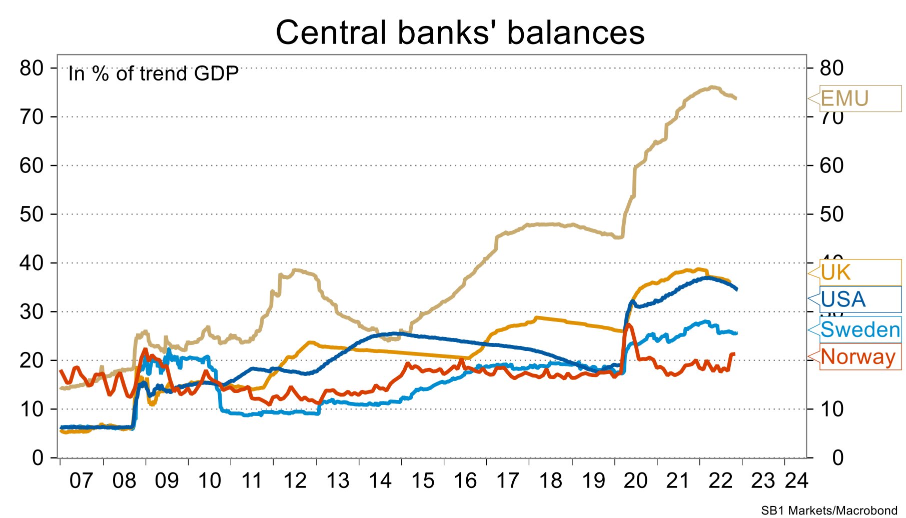
Last week: New Zealand and Sweden both hiked by 75 bps. S-Korea +25bp

… while Turkey lowered the signal rate further by 150 bp to 9% to get the inflation rate down from 86%



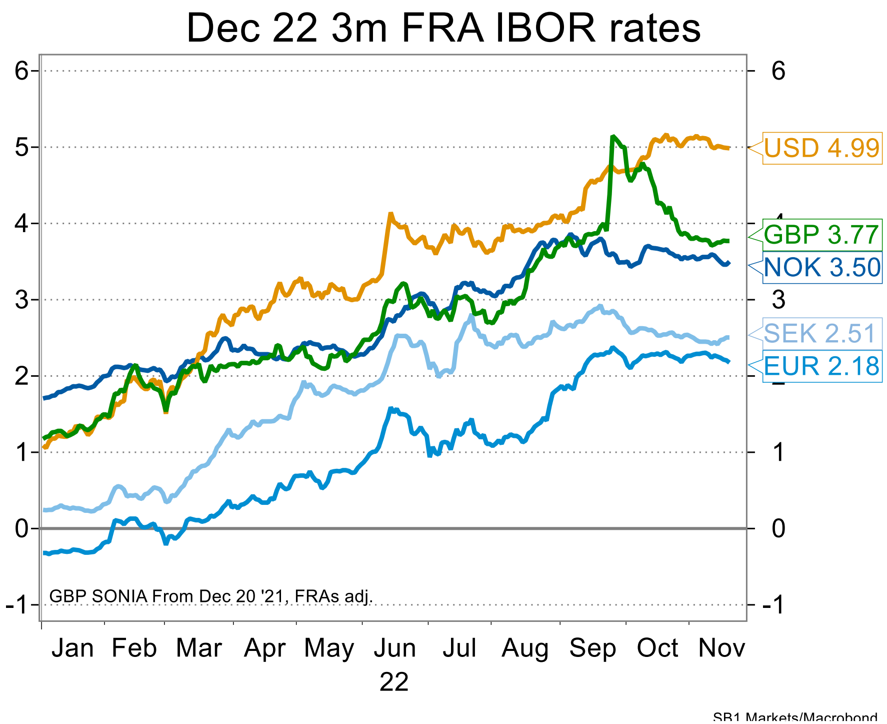


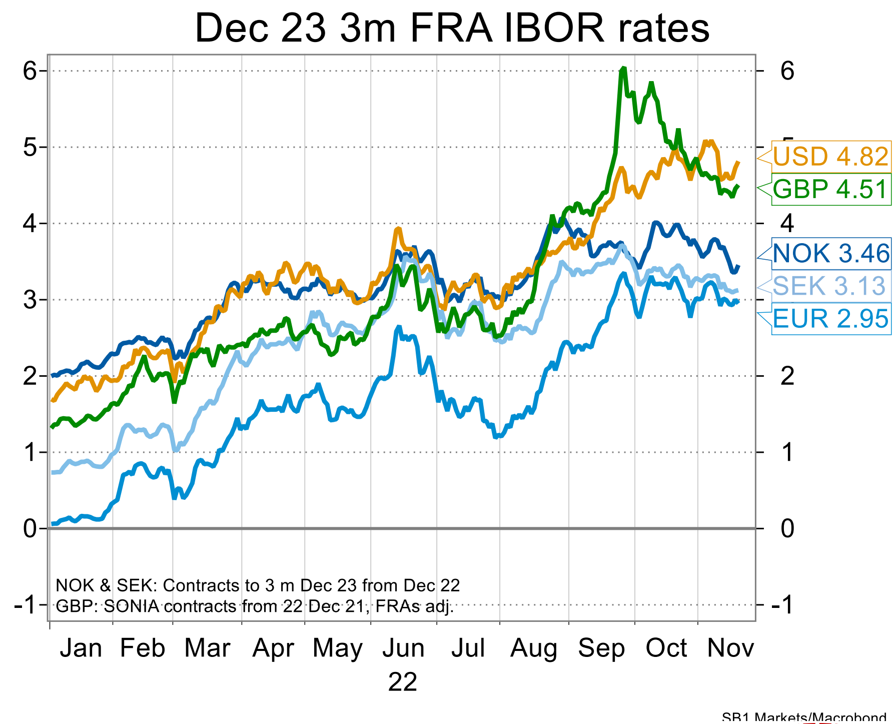
- **Central banks** are hiking rates even if they expect growth to slow (US, EMU) or the economy to contract (Sweden, UK, Norway) because inflation is way above target (including all measures of underlying inflation, partly also costs) and is expected to remain above target for several years
- The **EM average policy rate** is on the way up again, after a decline, due to the cut in the Russian signal rate
- In addition to rate hikes, most central banks have ended their **QE buying programs**. Some banks have started reducing their holdings, moving into the **QT zone**. US ramped up its QT program (doubled the pace) from the beginning of September

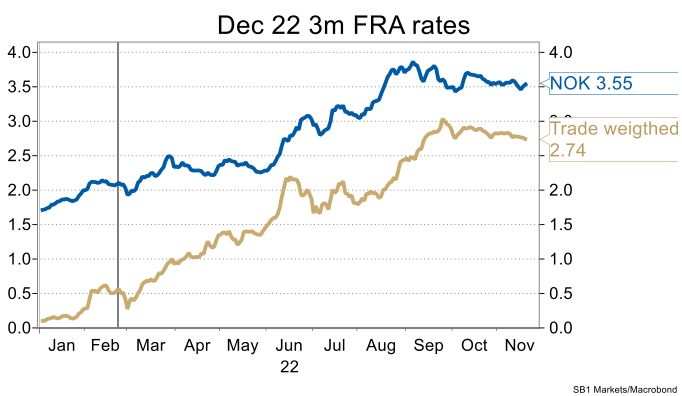


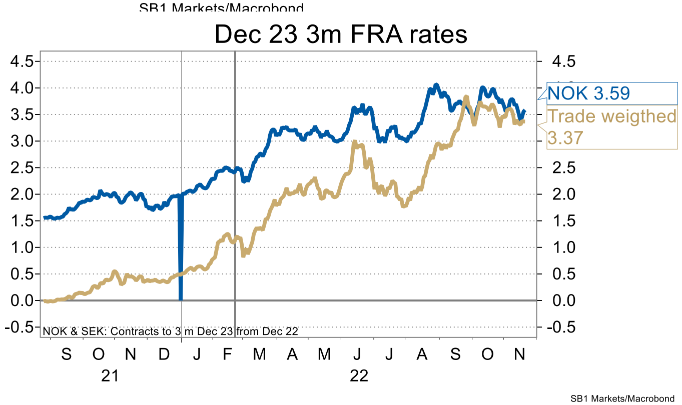
FRAs on the way down most places, last week the most in Norway

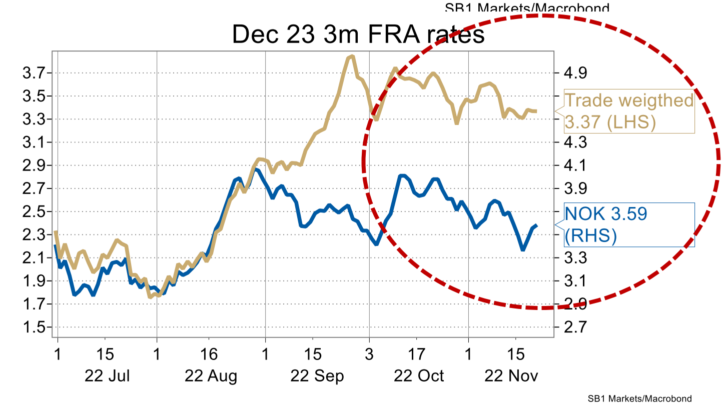
… even if Mainland GDP surprised significantly on the upside. US FRAs mostly rose







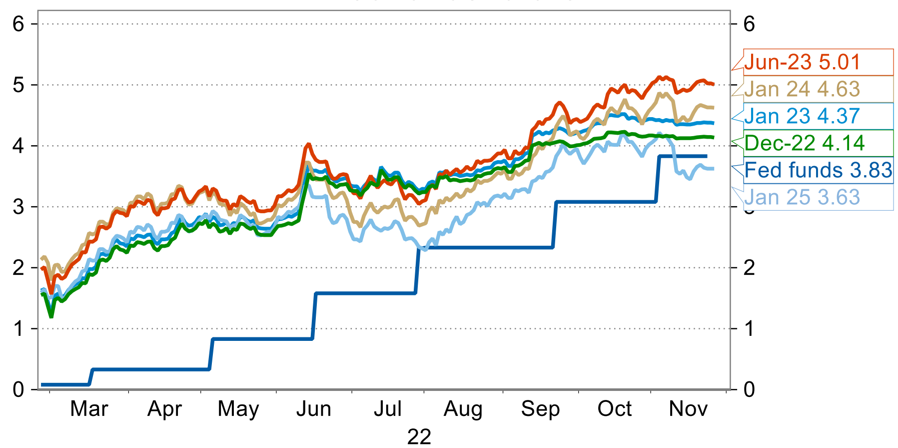




US rate expectations unchanged last week – the terminal rate just above 2%

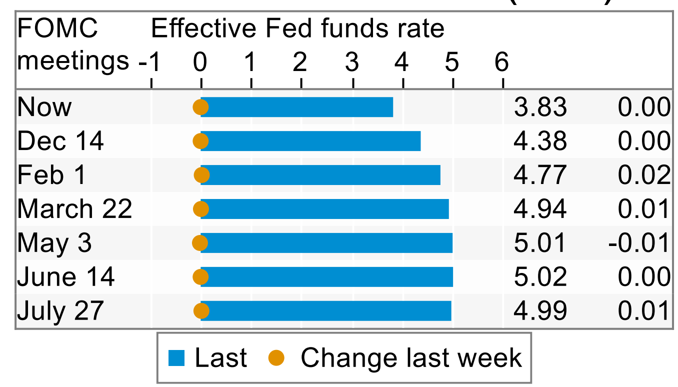
A 50-bps hike in Dec is still deemed much more likely than a 75-bps lift (76% vs. 24%)

Fed funds future



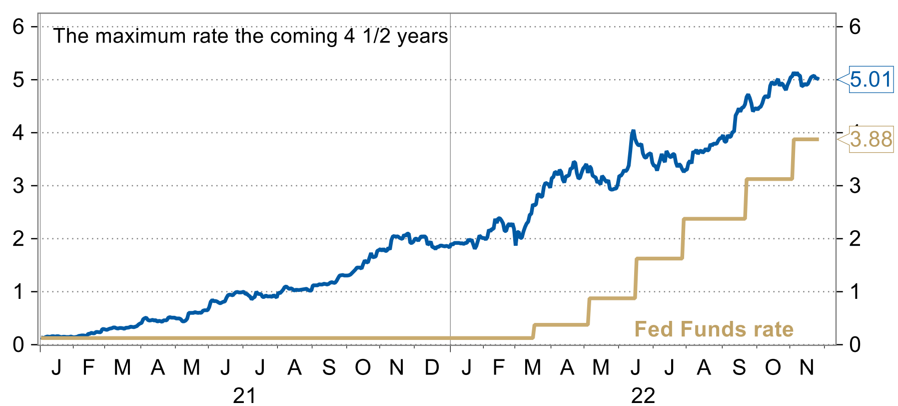
SB1 Markets/Macrobond

USA Fed funds rate (OIS)



USA Fed funds futures

The expected terminal (peak) rate in this cycle



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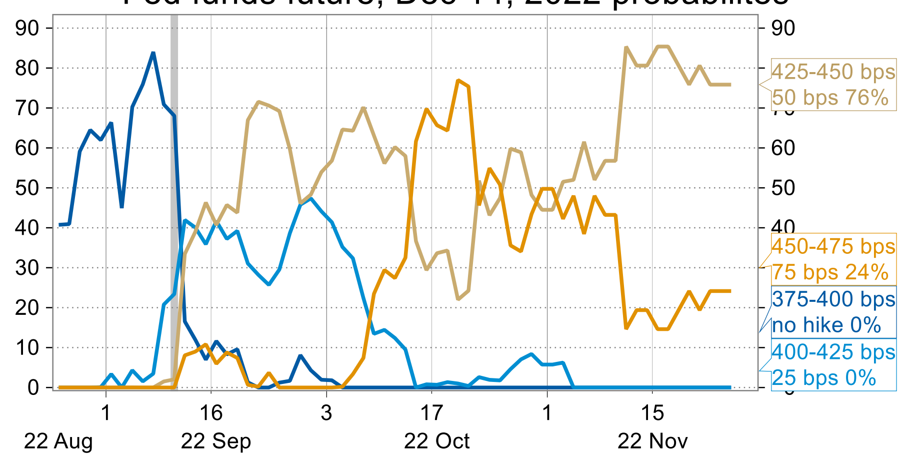
Fed funds future, Dec 14, 2022 probabilites

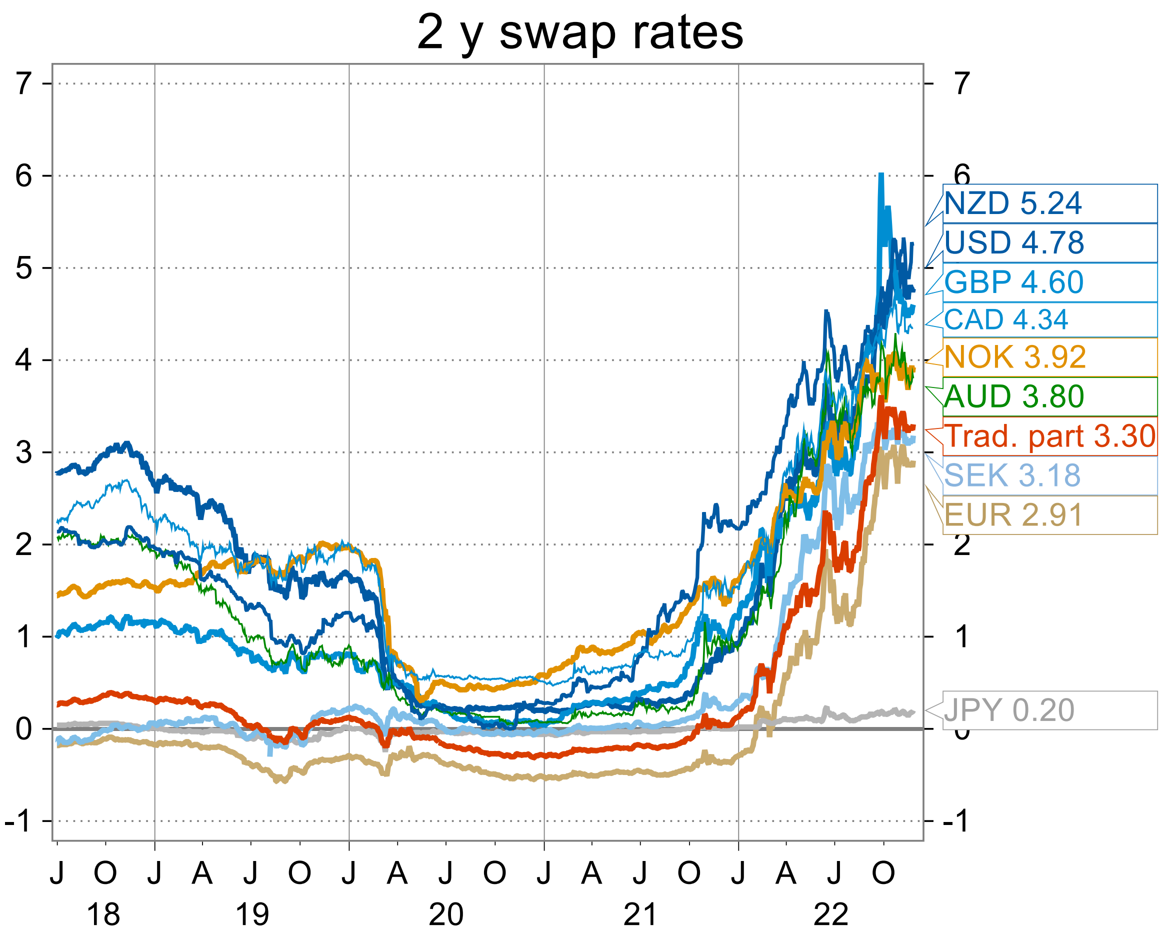


SB1 Markets/Macrobond

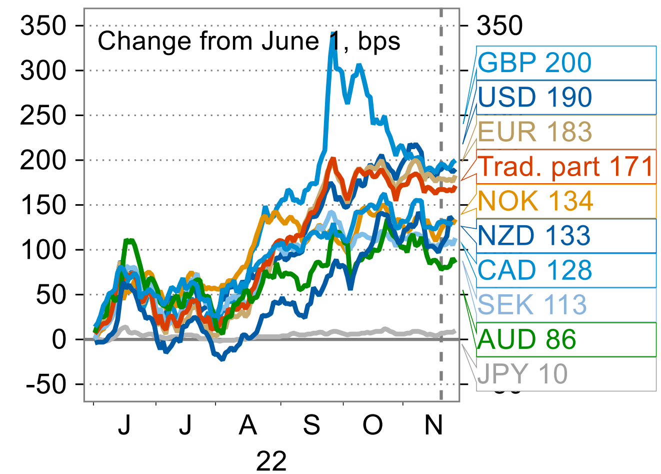
SpareBank 1 MARKETS

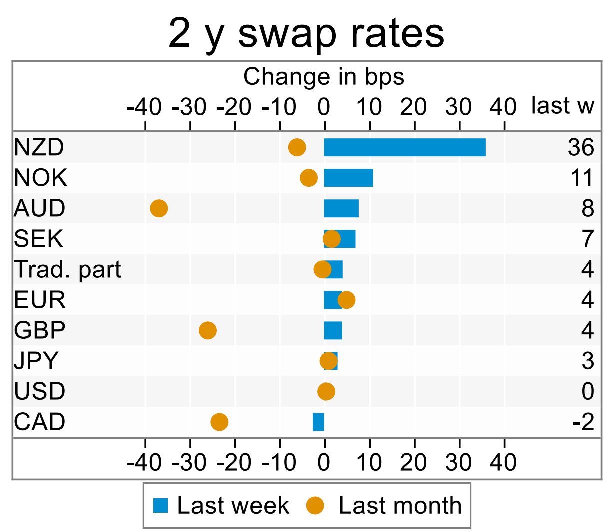
Most 2 y swaps up last week, NZD rates the most as RBNZ hiked by 75 bps

NOK rates up the 2nd most



SB1 Markets/Macrobond

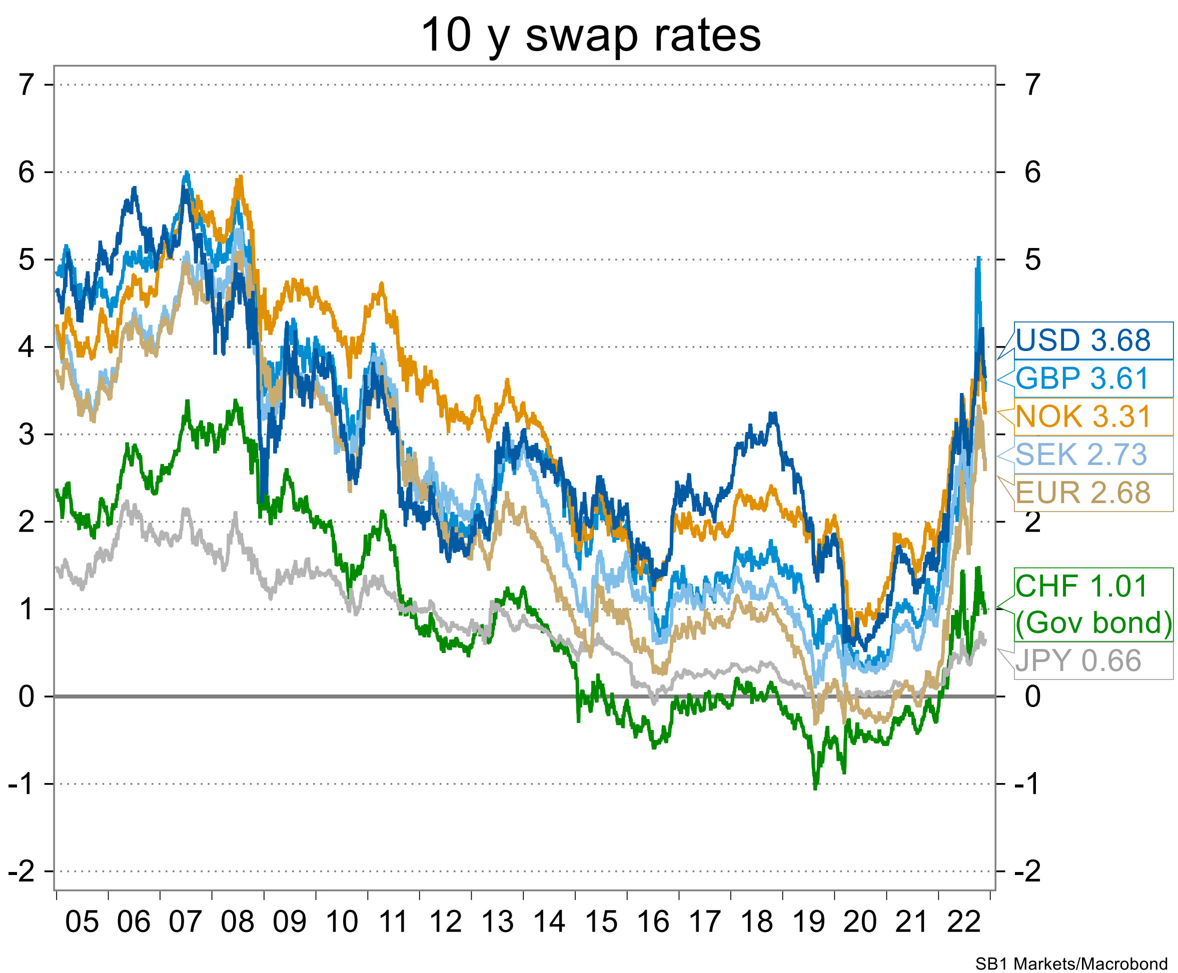


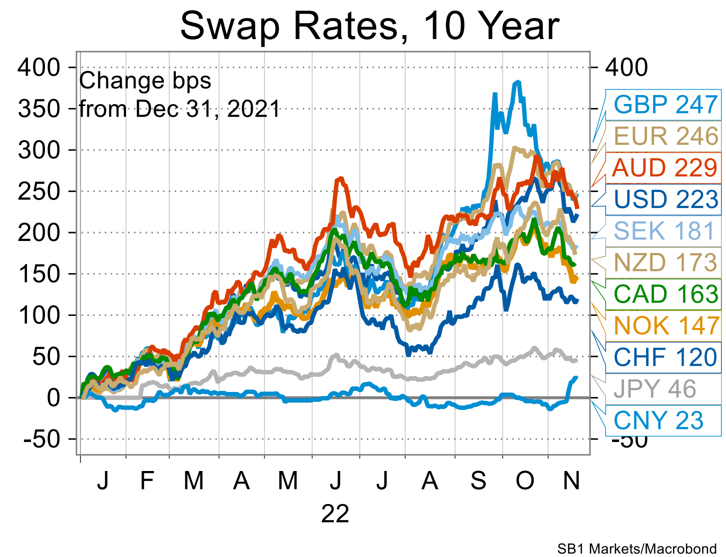


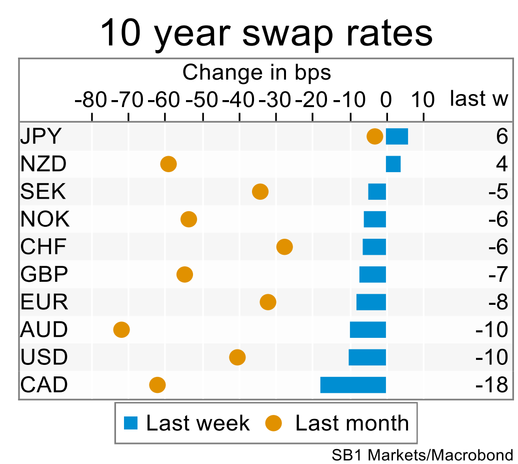
SB1 Markets/Macrobond

SpareBank 1 MARKETS

Long rates fell almost everywhere, and the trend has been down recent weeks



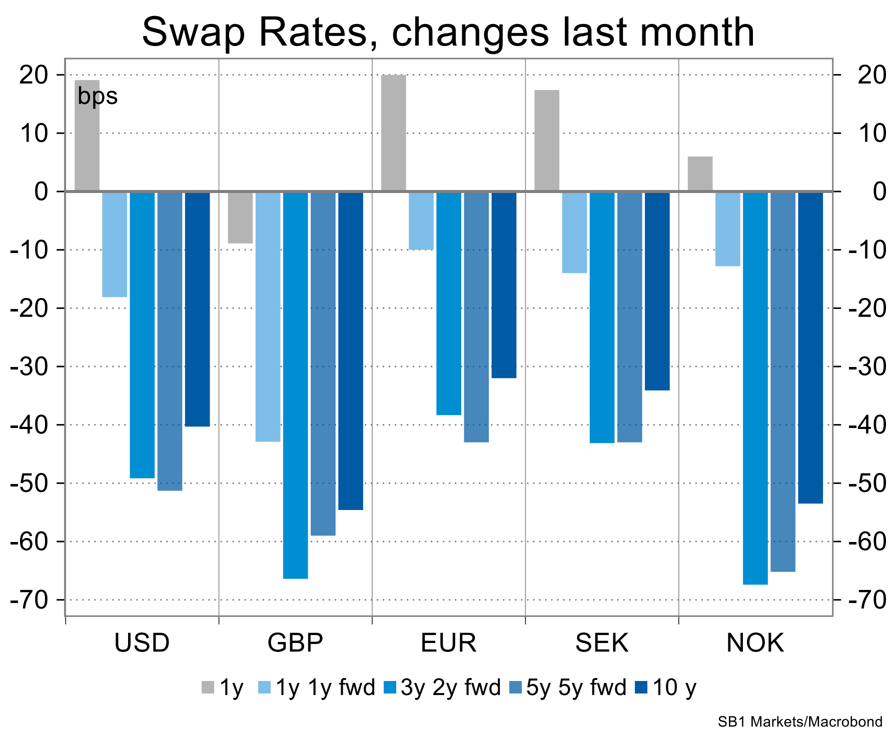


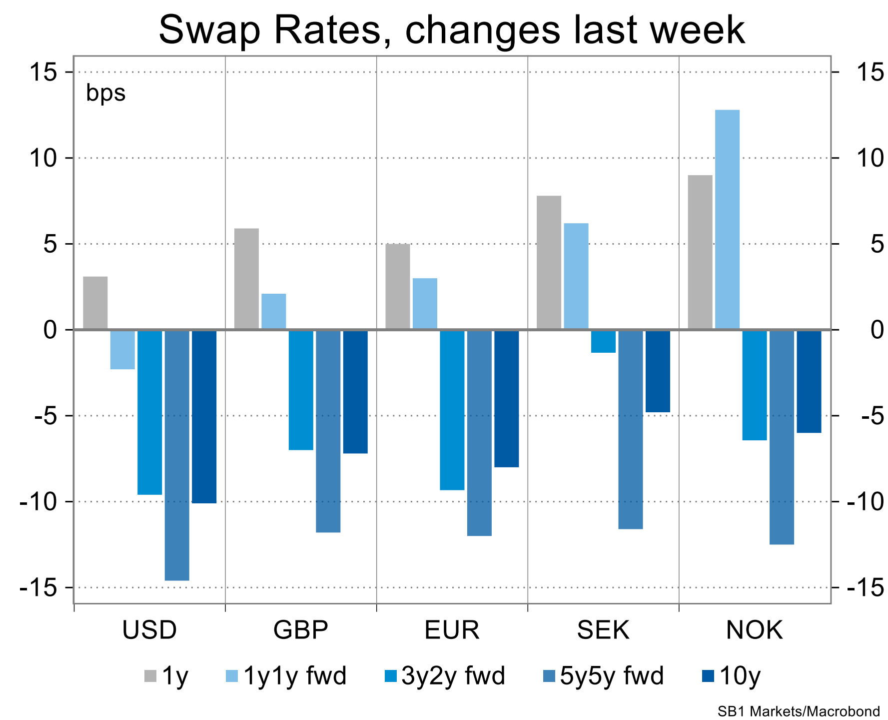


SpareBank 1 MARKETS

The short end up everywhere last week, while the long end fell further

… like over the last month

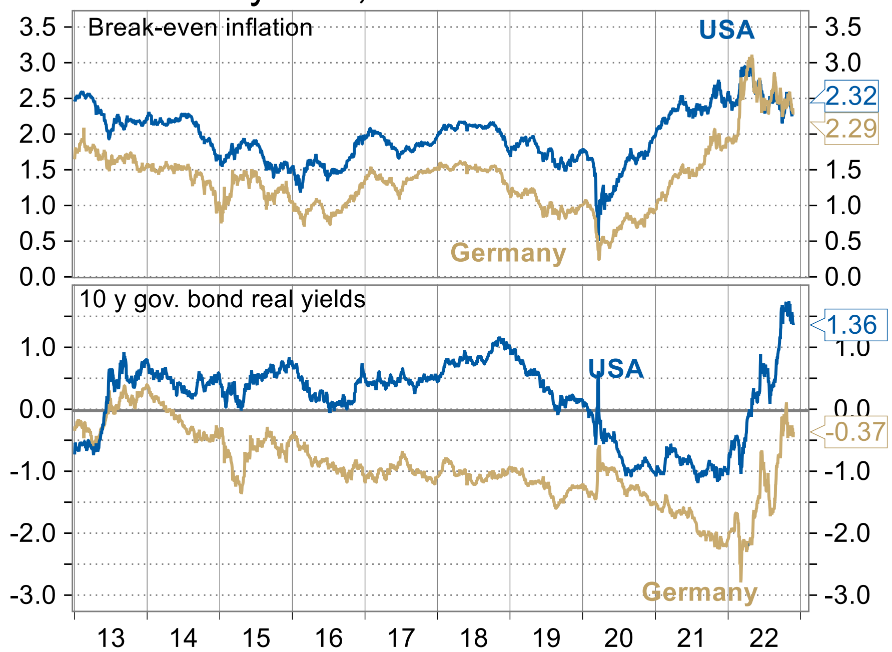




US 10 y real rates down 21 bps to 1.36%! The short term trend is down

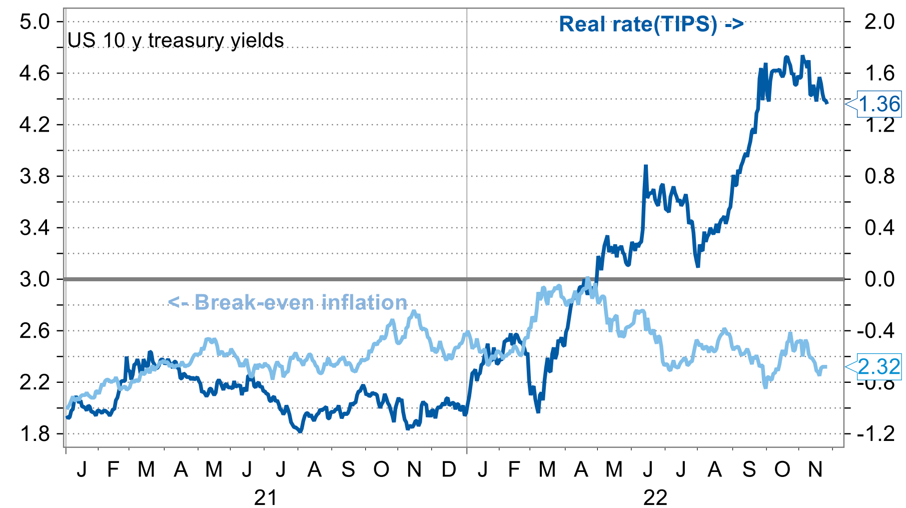
Inflation expectations rose last week – but are trending down

Real yields, break-even inflation



SB1 Markets/Macrobond

- In the US, a 10 y CPI expectation at 2.32% is close to Fed's 2% target for the PCE-deflator (which on average is some 0.3 pp below CPI inflation)

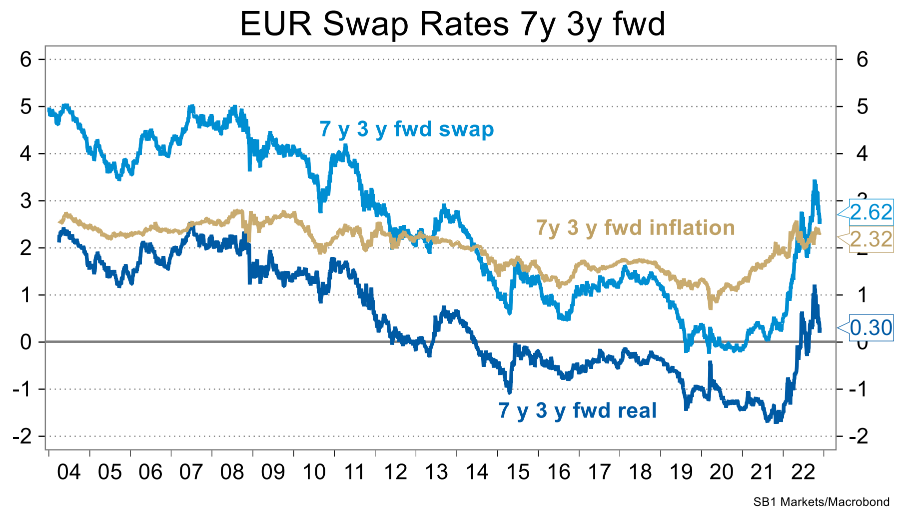


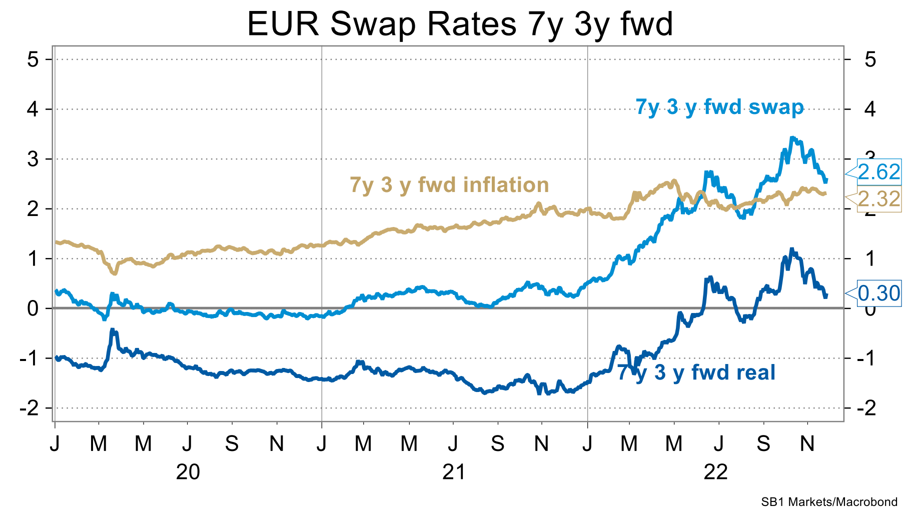
US & Germany 10 y Gov bond yield

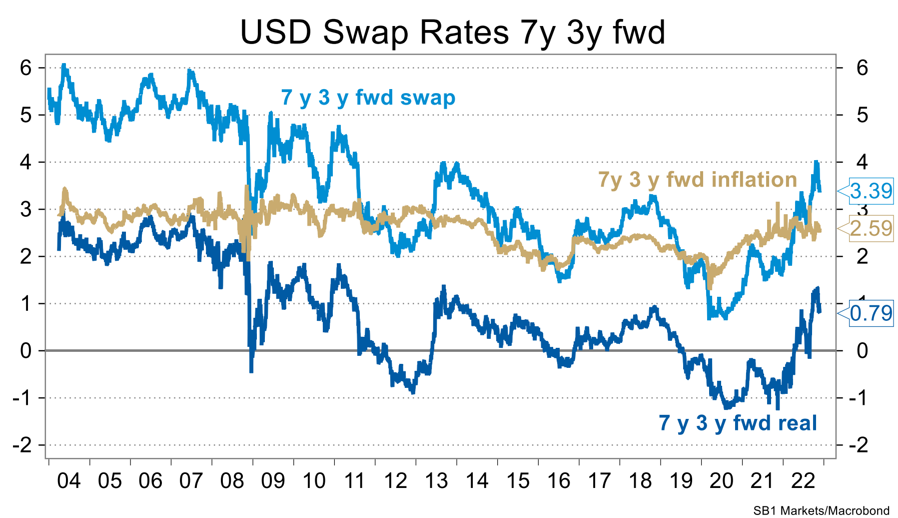
	Yield	Change 1w	Change 1m	YTD	Min since April-20
USA nominal treasury	3.68	-0.14	-0.42	2.16	0.52
.. break-even inflation	2.32	0.07	-0.19	-0.24	1.06
.. TIPS real rate	1.36	-0.21	-0.23	2.40	-1.19
Germany nominal bund	1.92	-0.15	-0.34	2.13	-0.65
.. break-even inflation	2.29	-0.04	-0.16	0.39	0.40
.. real rate	-0.37	-0.11	-0.18	1.74	-2.80

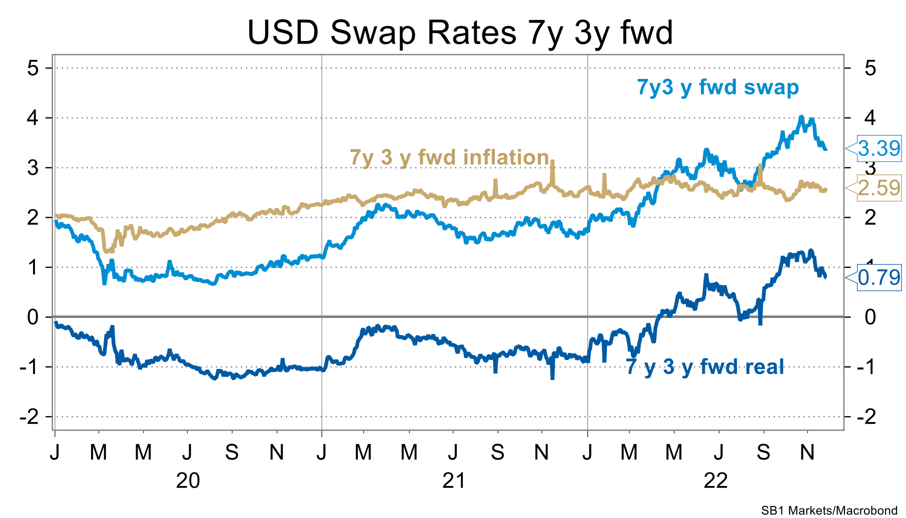
SB1 Markets/Macrobond

European real (swap) further down, 80 bps from the local peak in October!

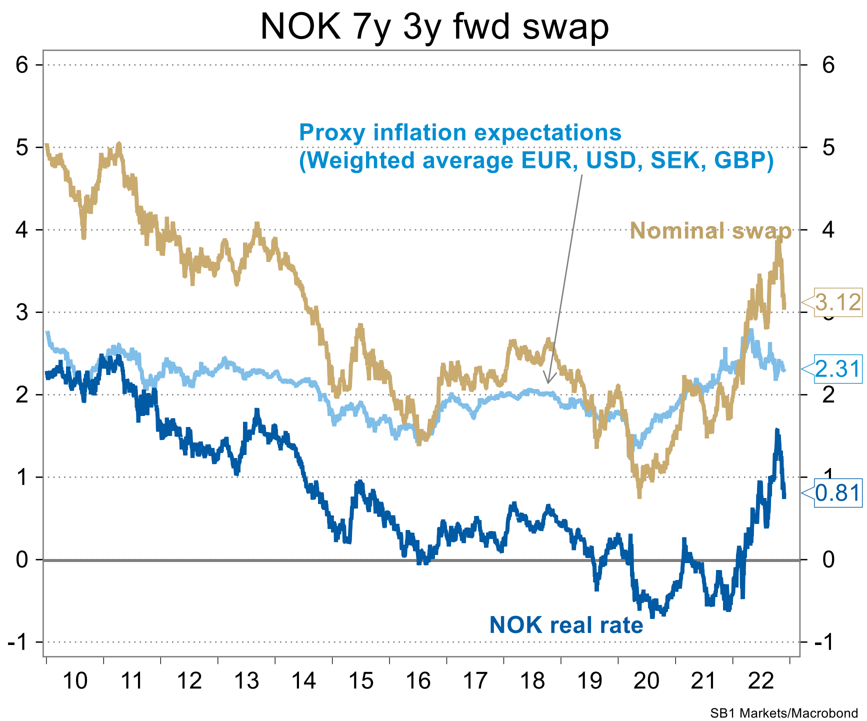


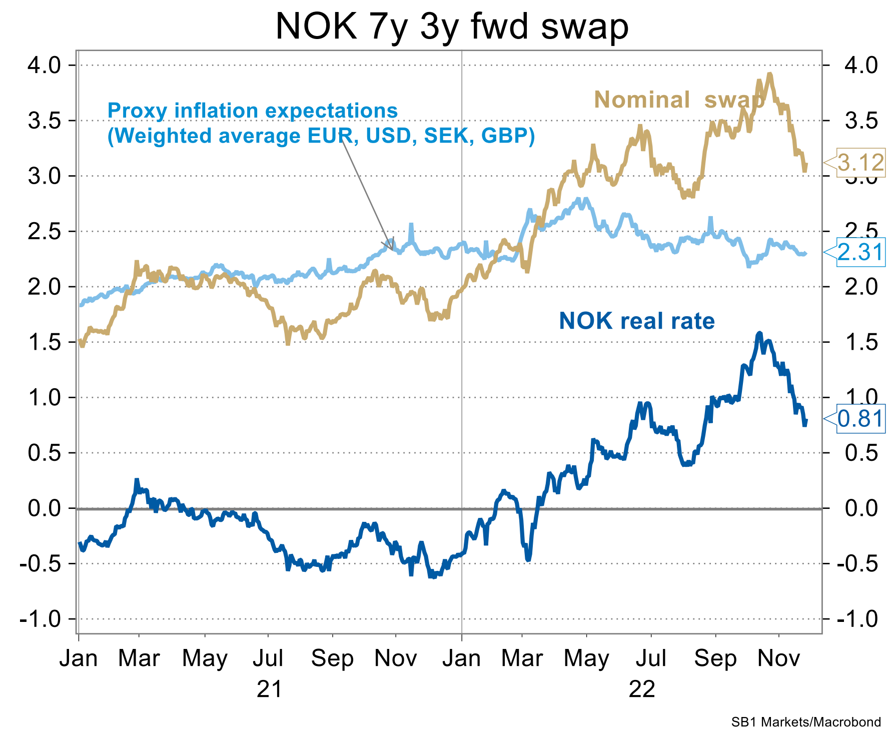


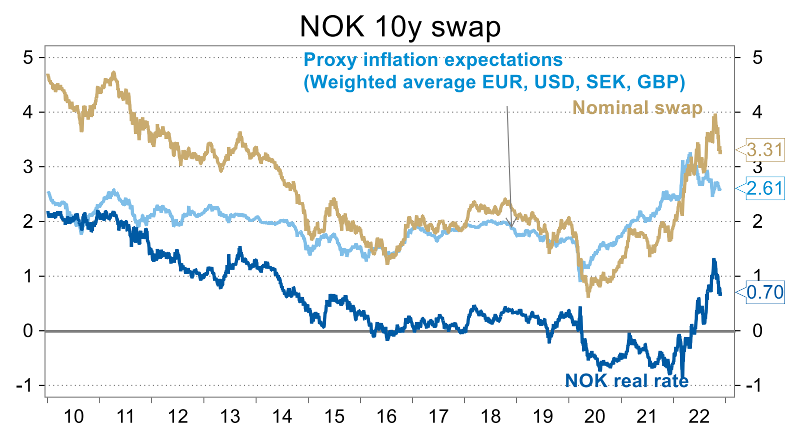




NOK real rates down – and by more than 70 bp from the peak!







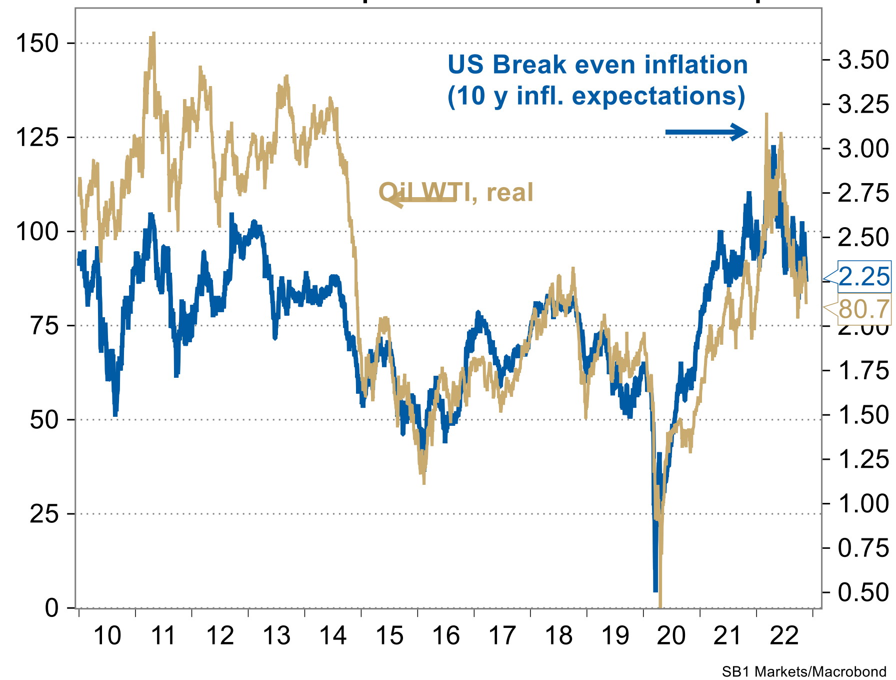
Memo: Our NOK inflation expectation proxy is a weighted average of EUR, SEK, GBP, and USD inflation swaps, cross-checked vs historical inflation differentials and inflation expectations from surveys

SpareBank 1 MARKETS

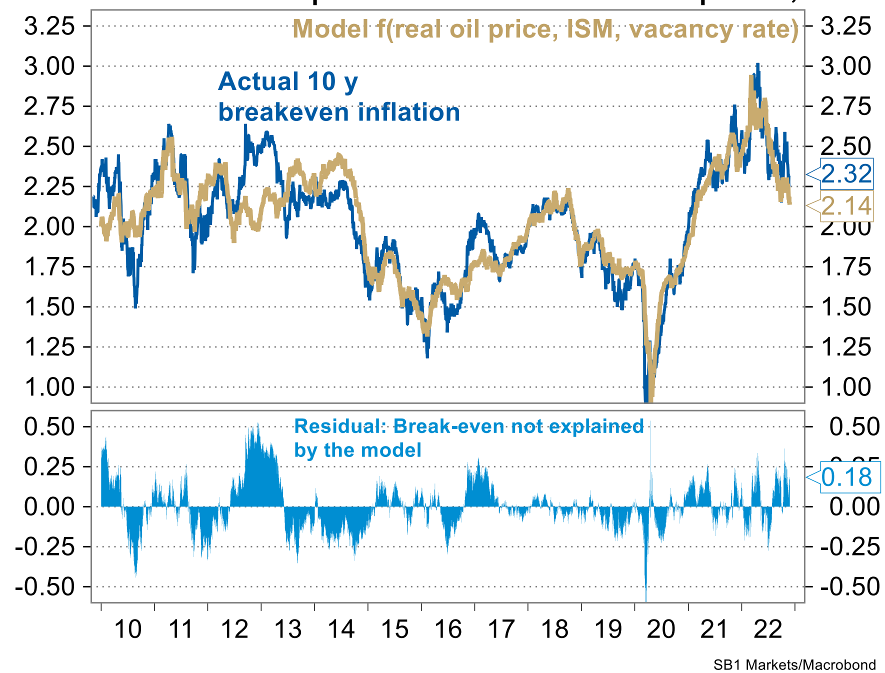
US inflation expectations down last week, the gap to our model est. is closing

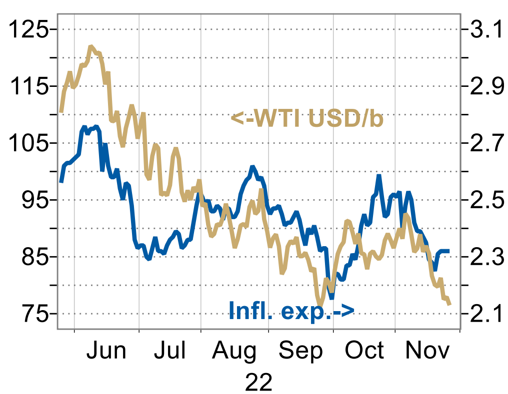
Are 10 y inflation expectations just explained by the <u>current</u> oil price, ISM & labour vacancy rate?

USA Inflation expectations vs. the oil price



USA Inflation expectations vs. the oil price, CPI

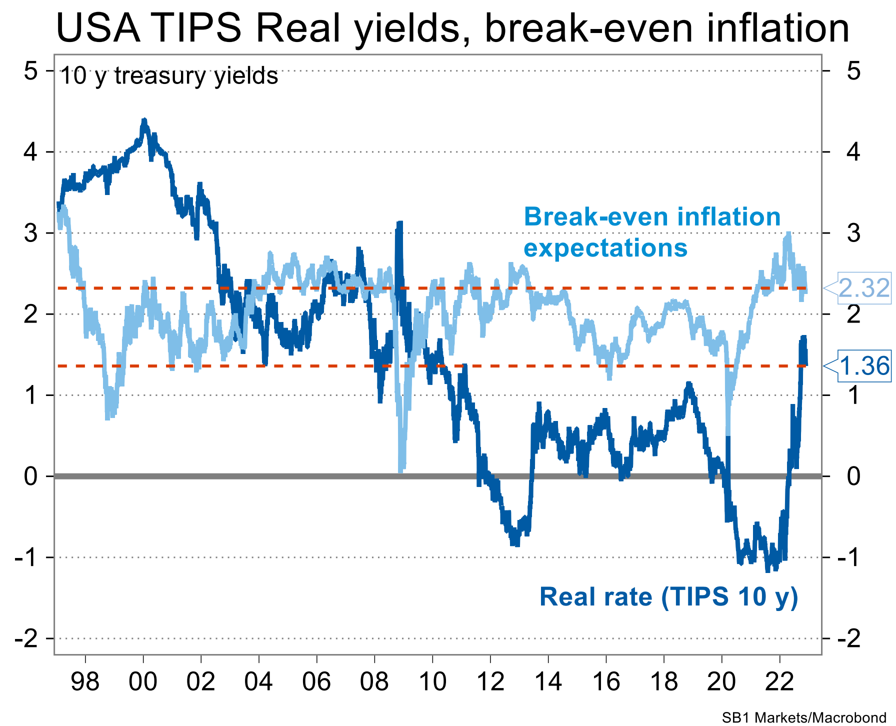


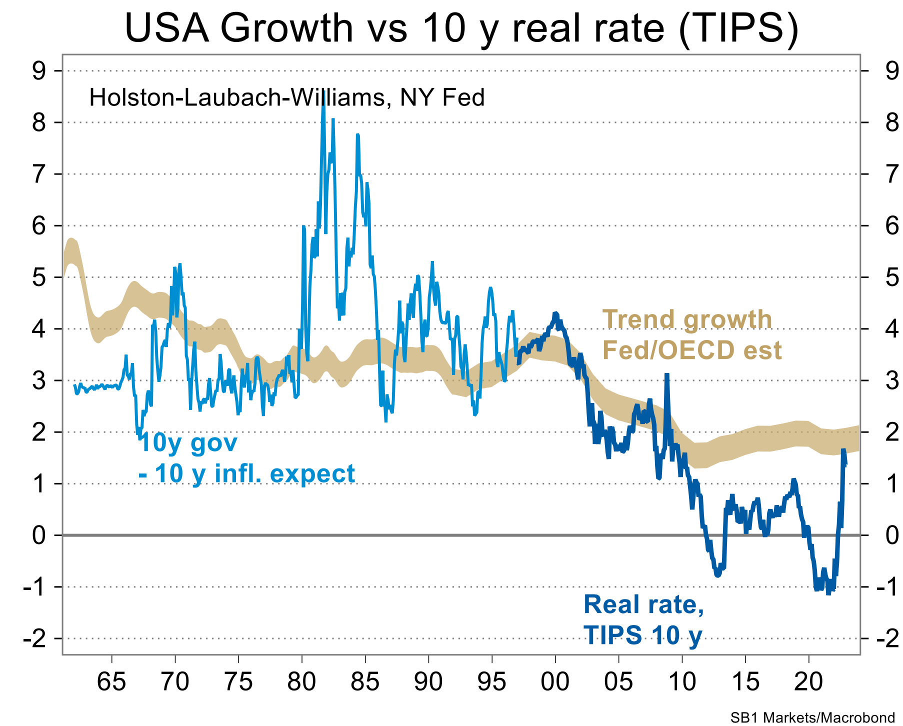


- A simple model including the <u>spot</u> oil price, the <u>current</u> ISM and the <u>current</u> vacancy rate pretty well explains the <u>long-term</u> breakeven inflation expectation in the bond yield curve
- What now? We are uncertain about the oil price, but rather confident that both the ISM, 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 is closed

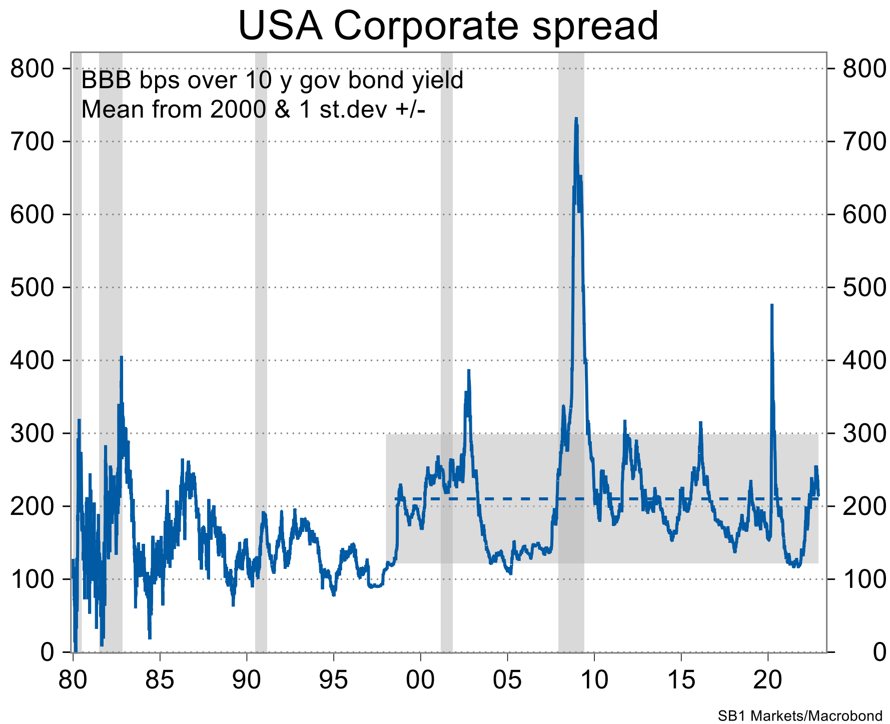
.. Even if real rates are down from the peak





Risk on: Credit spreads trend down again, are close to an average level

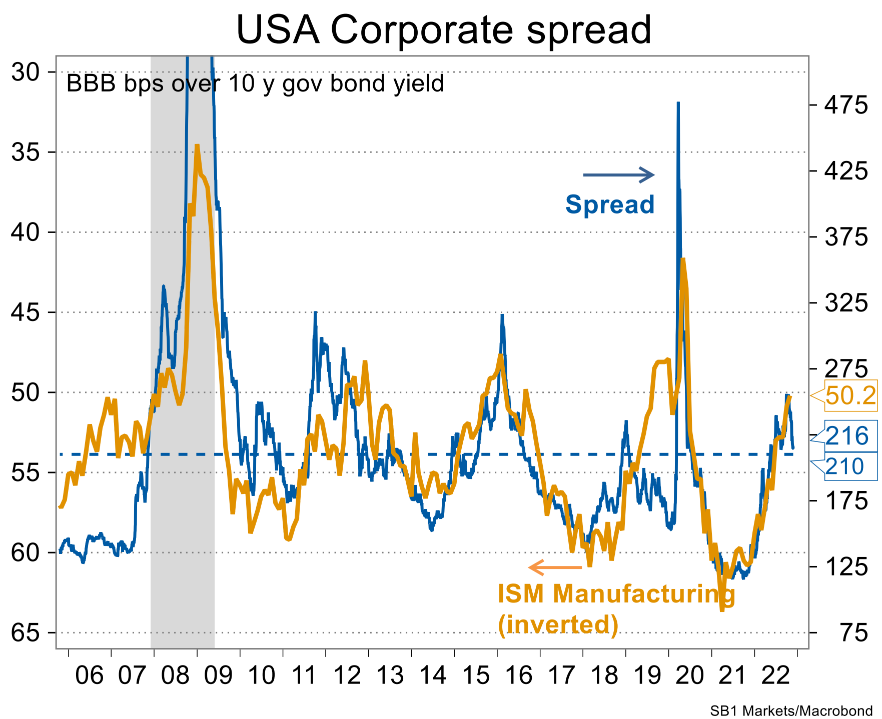
We think the trend is still up – and we expect more to come (because the economy will weaken)

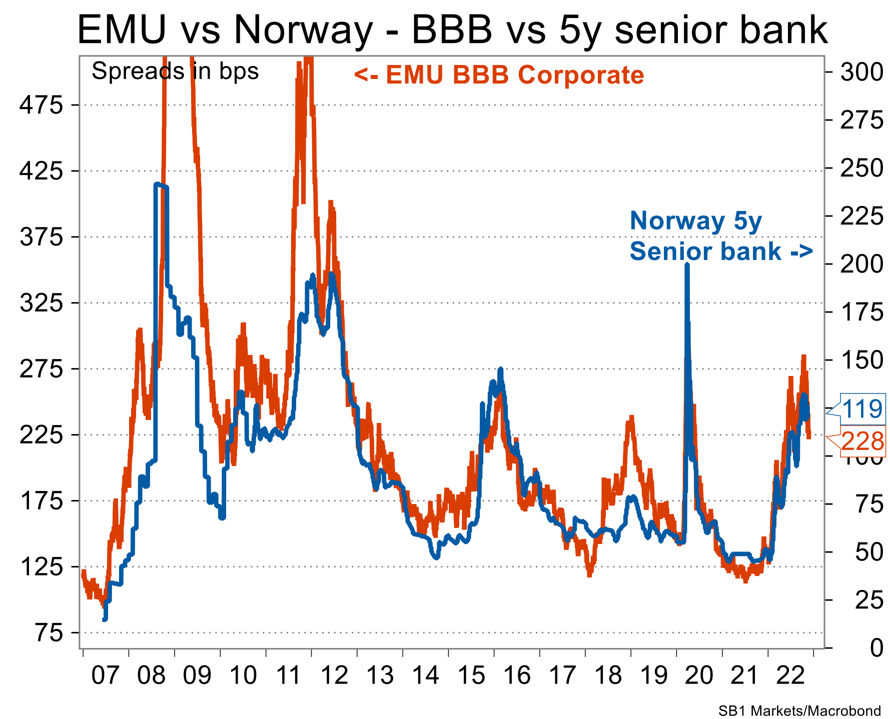


- The US BBB spread is up 100 bps from the bottom last autumn, more than a doubling
- In addition, real rates have increased by 250 bps from the bottom late last year
- Thus, the basis for all valuation metrics has changed dramatically, check the chart two pages forward!

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 55 in some few months time? We are quite sure…

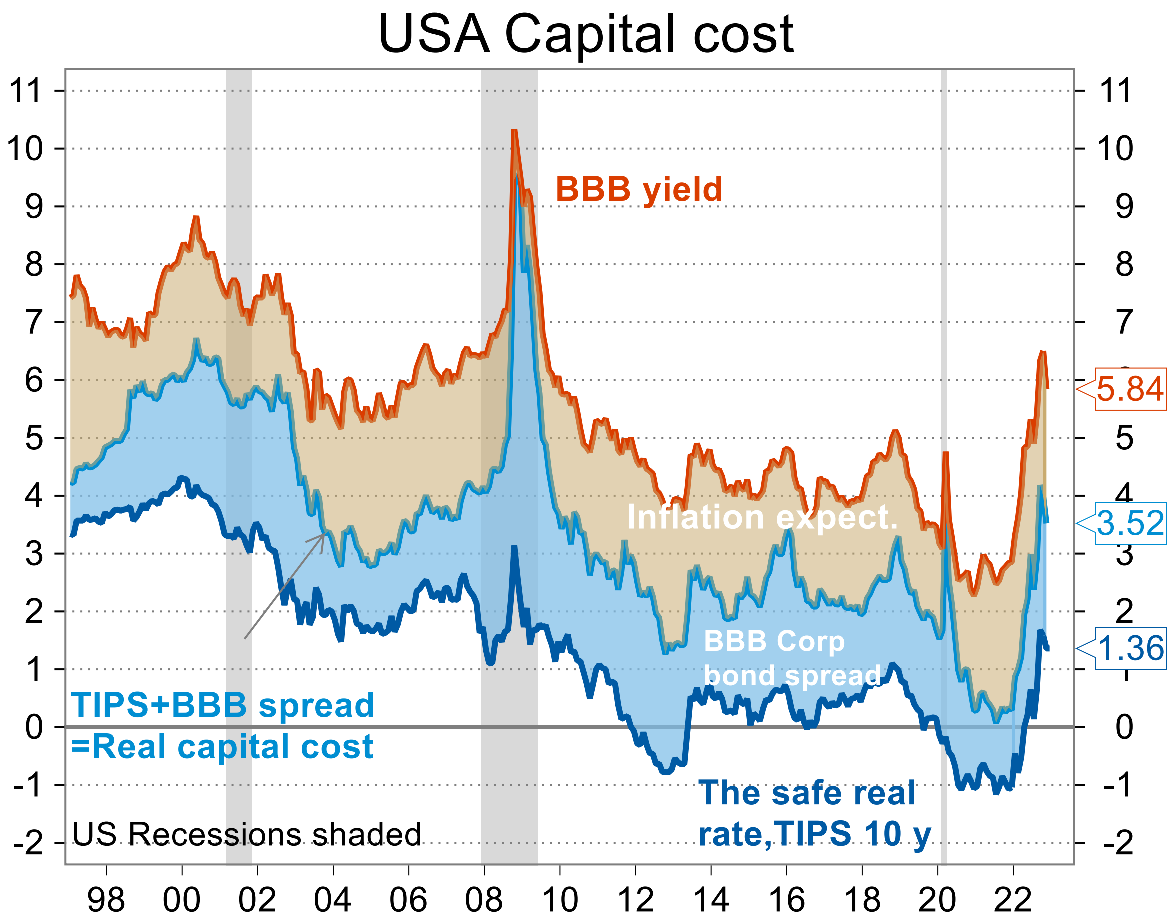




- The answer is not irrelevant for your view on the outlook for spreads, we think
- And do you think Norwegian spreads will be influenced by changes in the global credit market?
- Last week: Norwegian credit spreads continued downwards but less than the decline in 'global' spreads indicates

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*

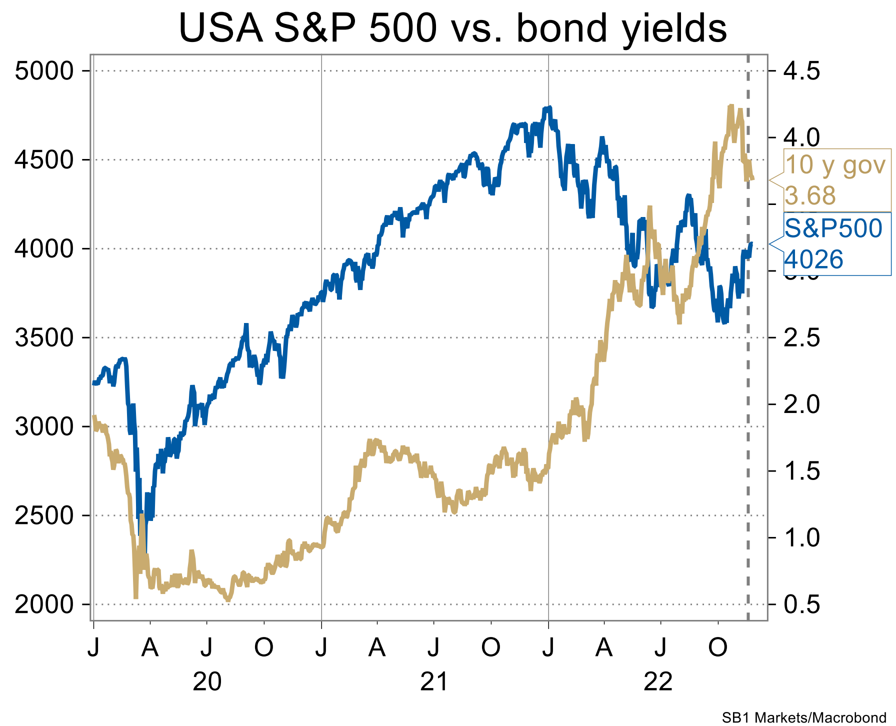


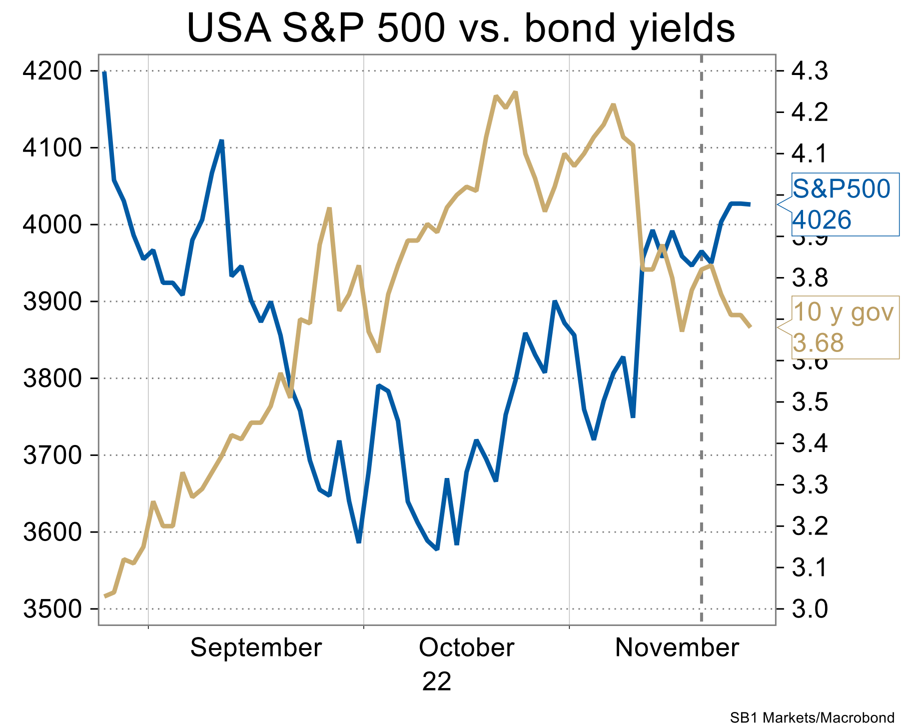
SB1 Markets/Macrobond

- Spreads and real rates fell last week but the story remains intact
- The total real borrowing cost for a BBB company has increased to 3.8% bps from zero by the end of last year:
  - The TIPS real rate is up from -100 to + 157 bps
  - The BBB corporate investment grade spread is up from 120 bps to 220!
- Add on modest inflation expectations, the nominal borrowing cost has increased from well below 3% to 6% (though down from 6.7% at the local peak in October)

S&P trends up, bond yields down

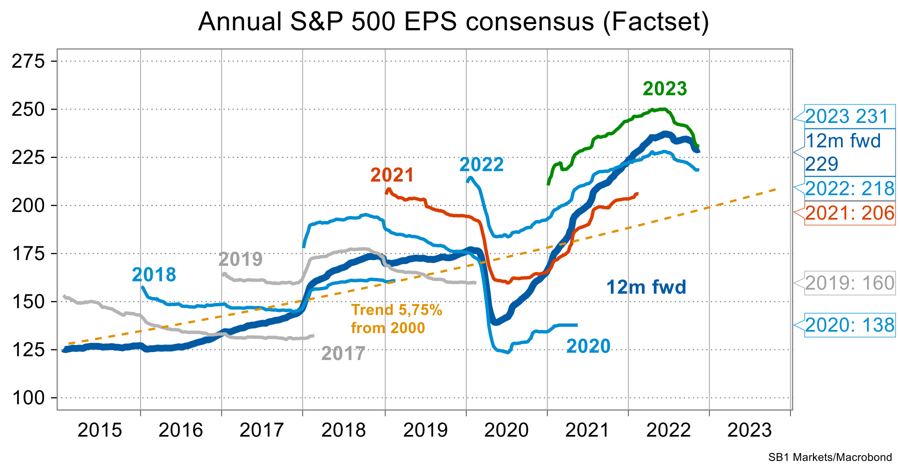
The 10 y bond yield flat last week

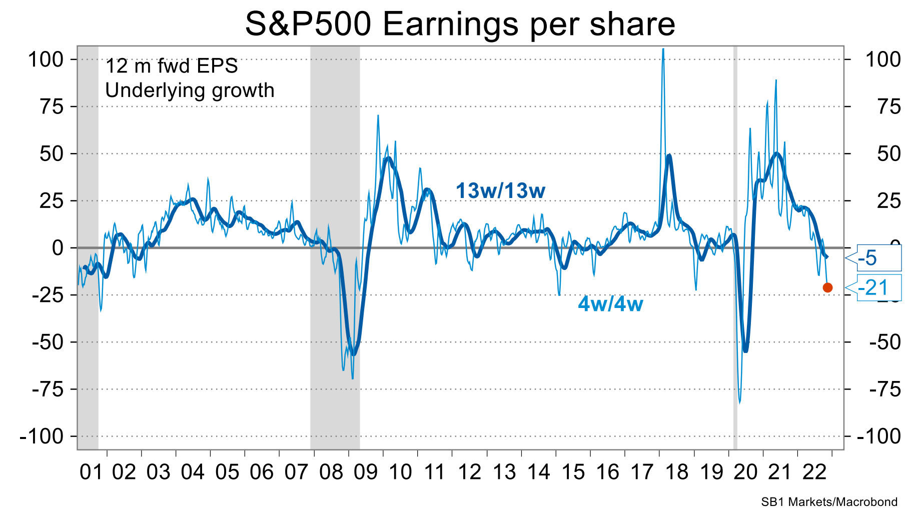


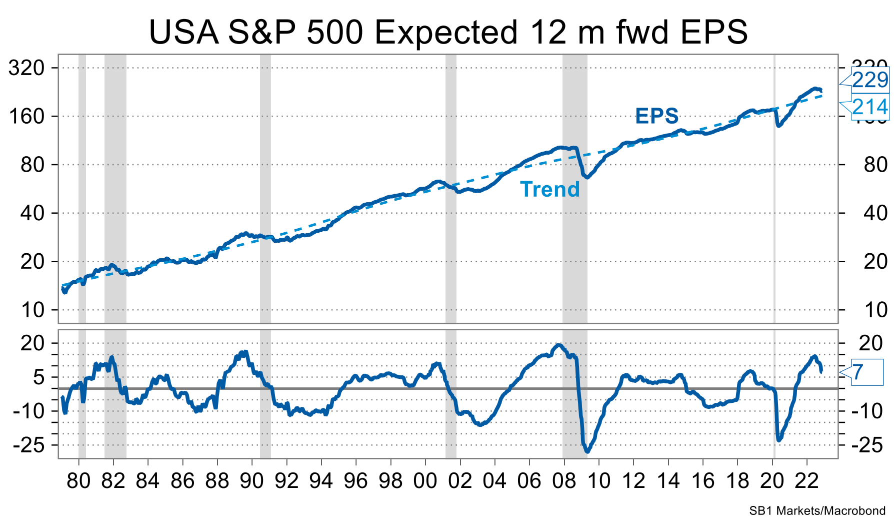


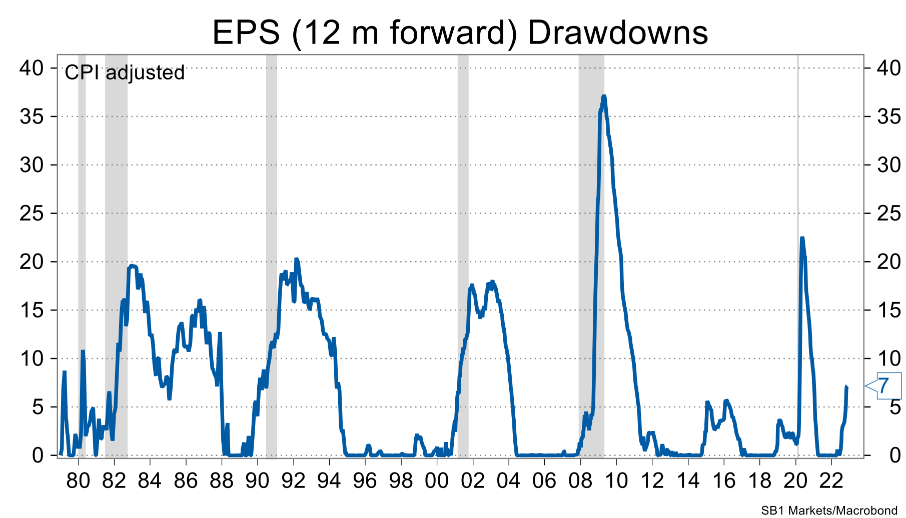
Earnings forecasts downward revisions are accelerating

S&P 500 expected 12 m fwd EPS was some 15% above trend in mid June. Now down to +7%



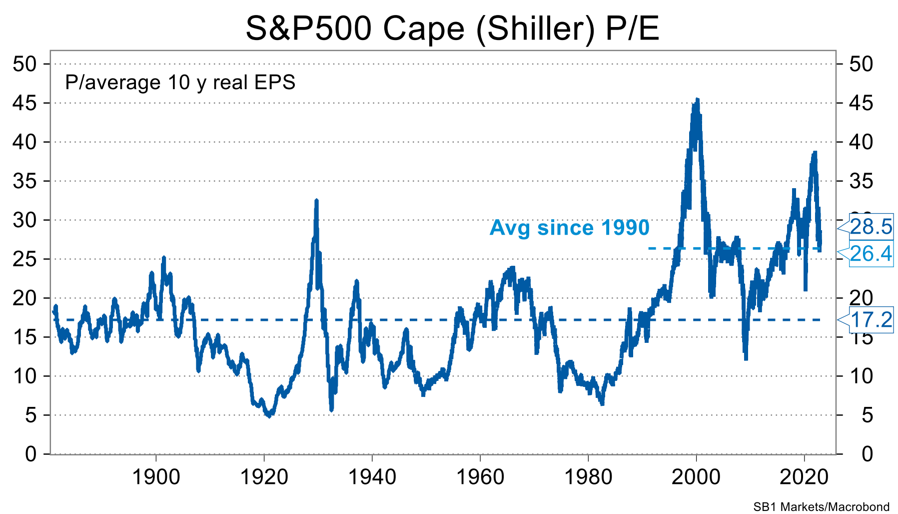


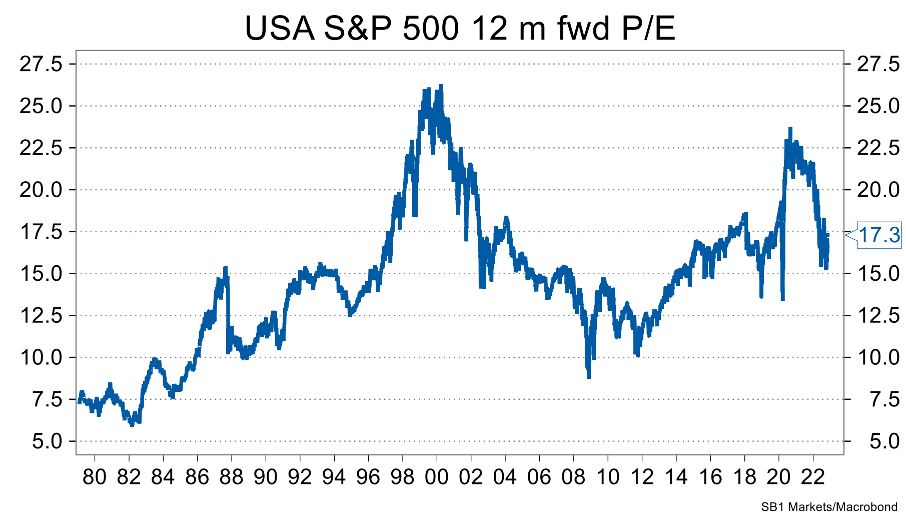


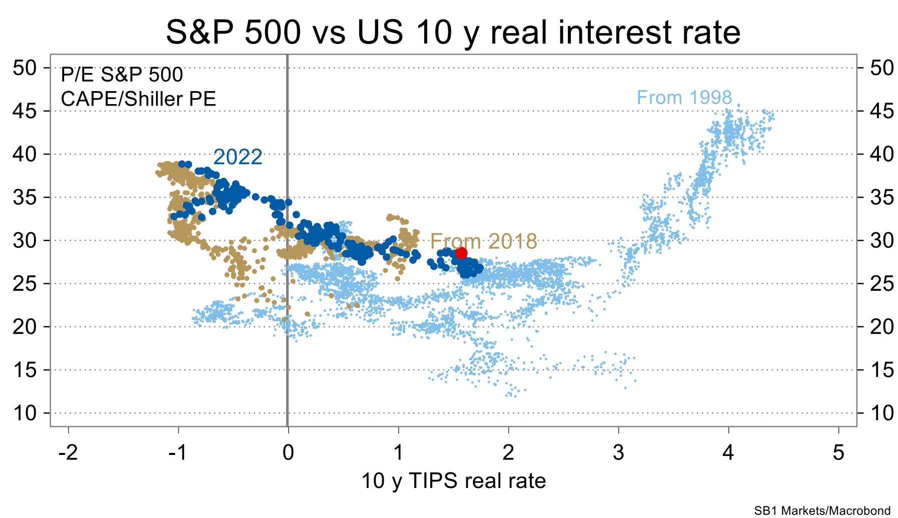


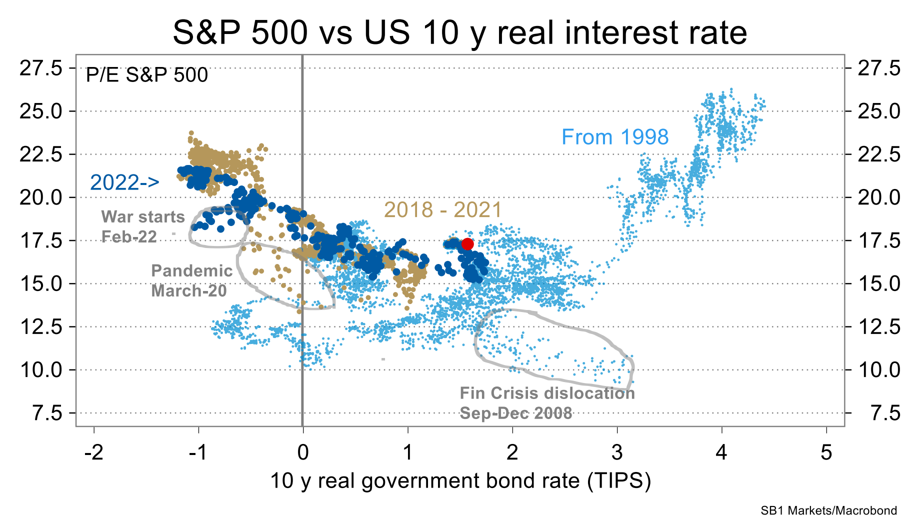
4 valuation charts: Check the extreme tight correlation between real rates, P/E

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

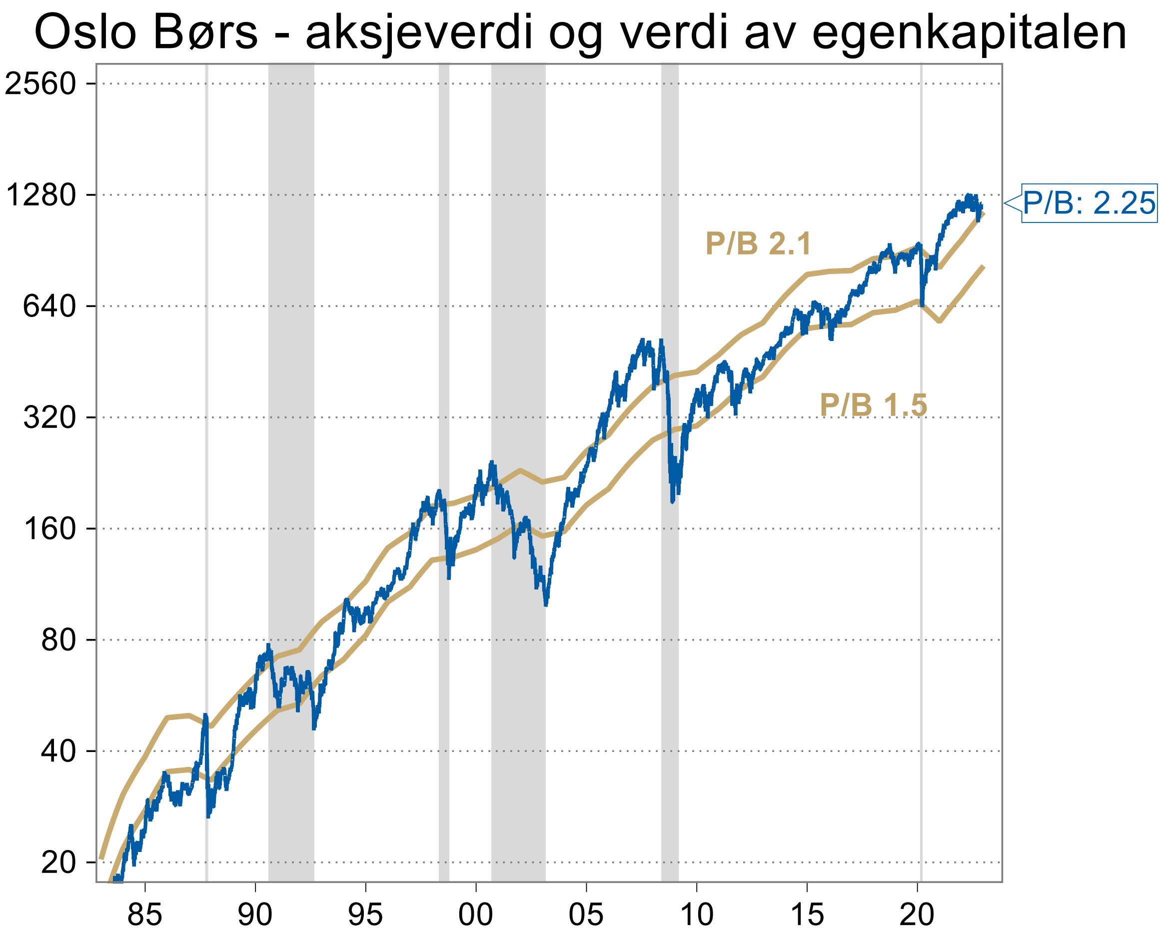




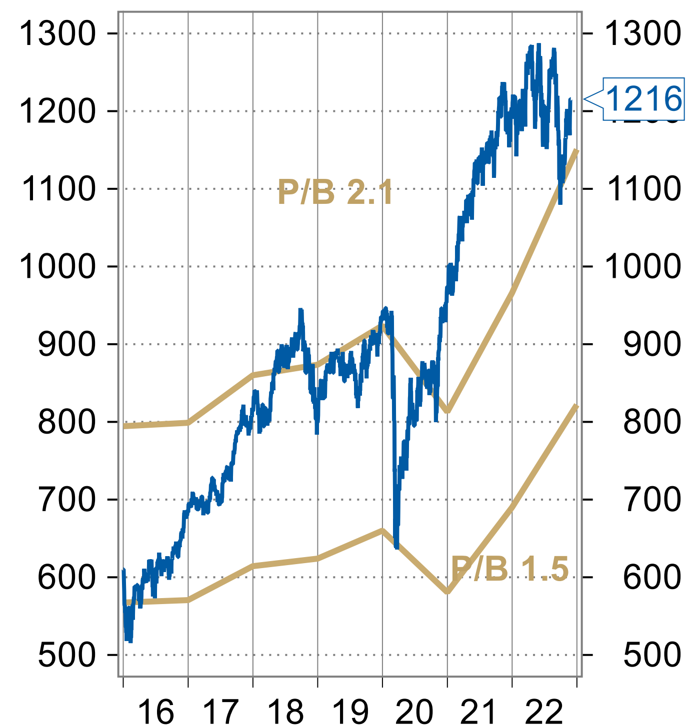




The OSEBX down 1.6% - to a Price/Book at 2.25



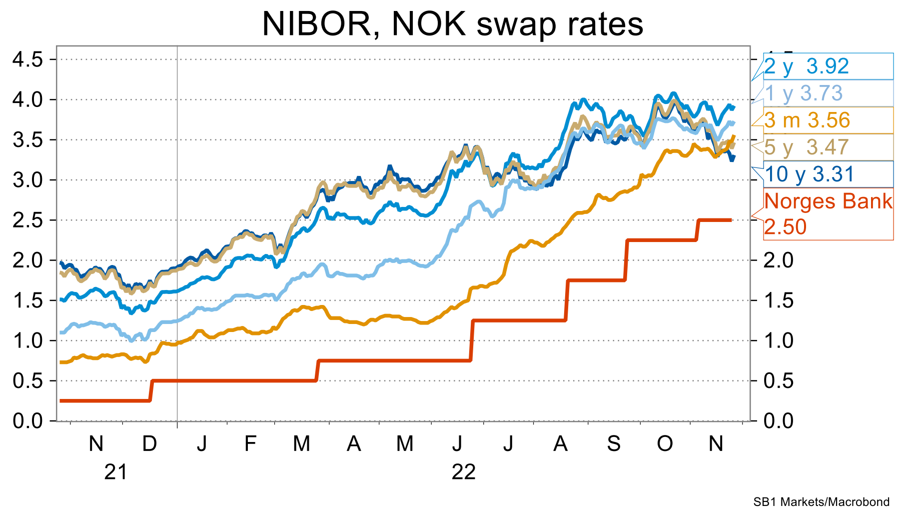
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

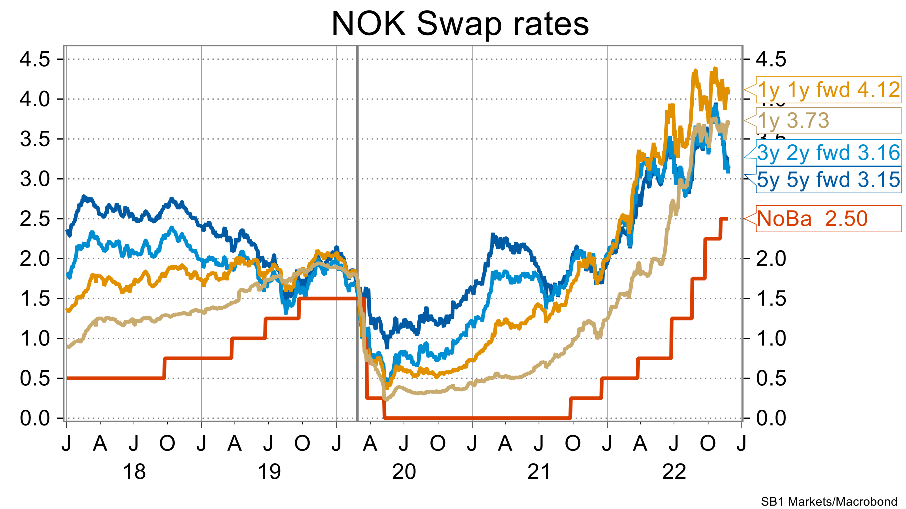


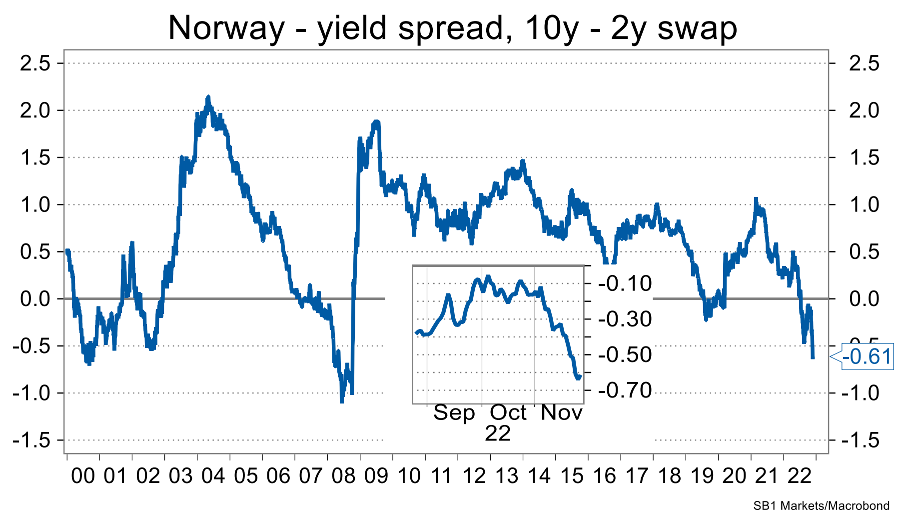
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

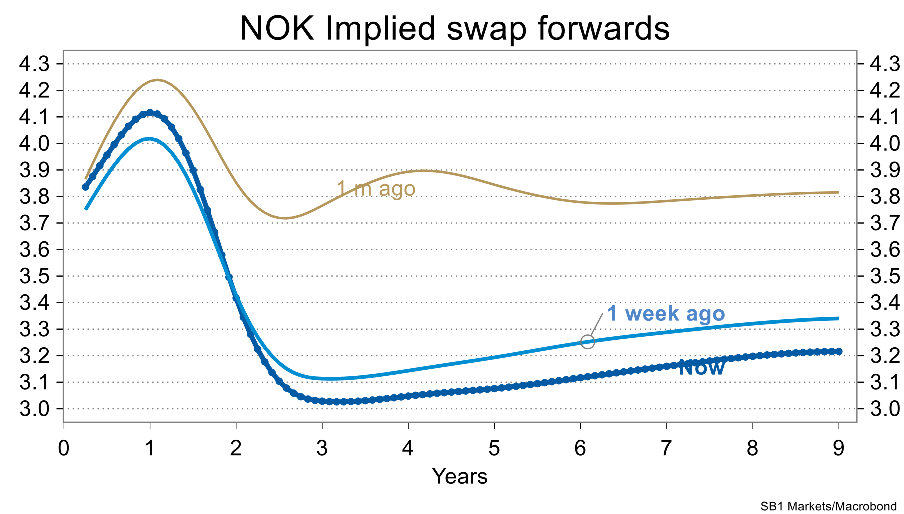
A twist, up in the short end, down in the long end

The 3m NIBOR up 20 (twenty!) bps to 3.56% - and the curve is the most inverted since 2008



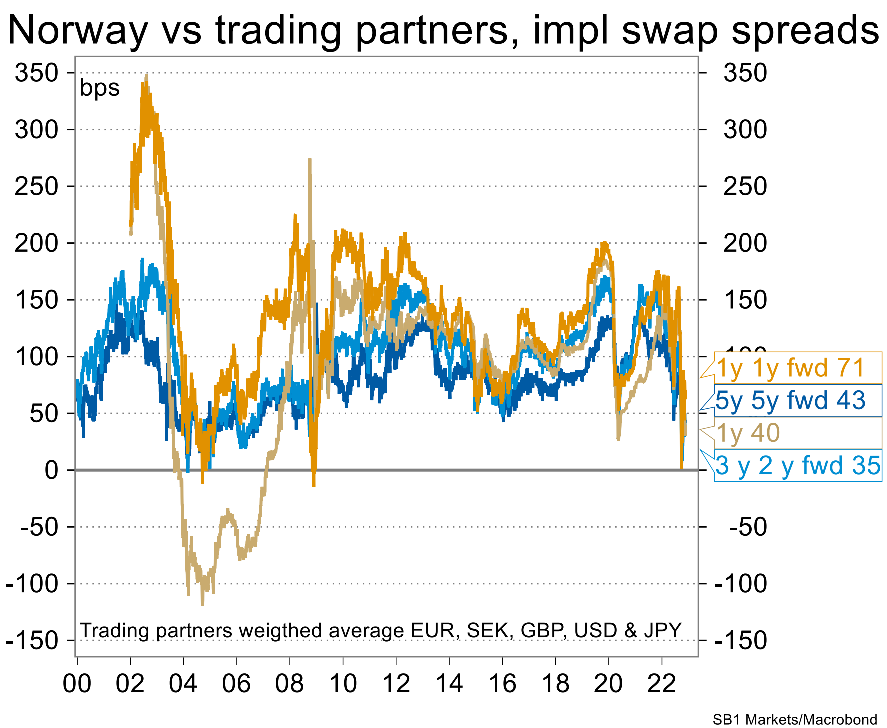


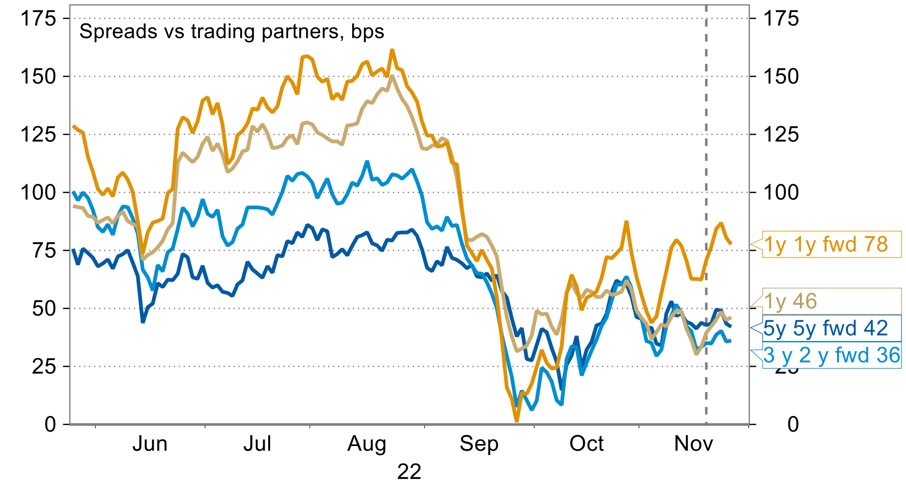


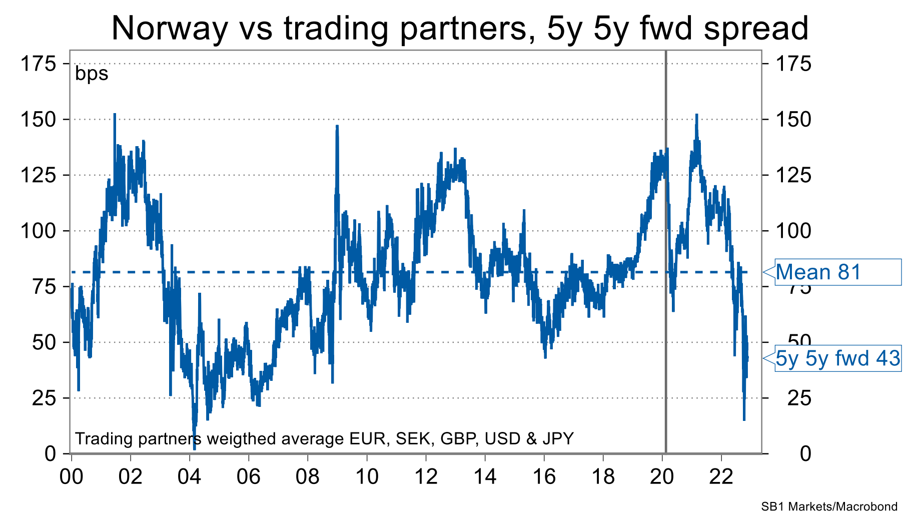


Rate spreads widened marginally; Level probably OK

The potential at the downside is probably limited (barring a Norwegian housing collapse)



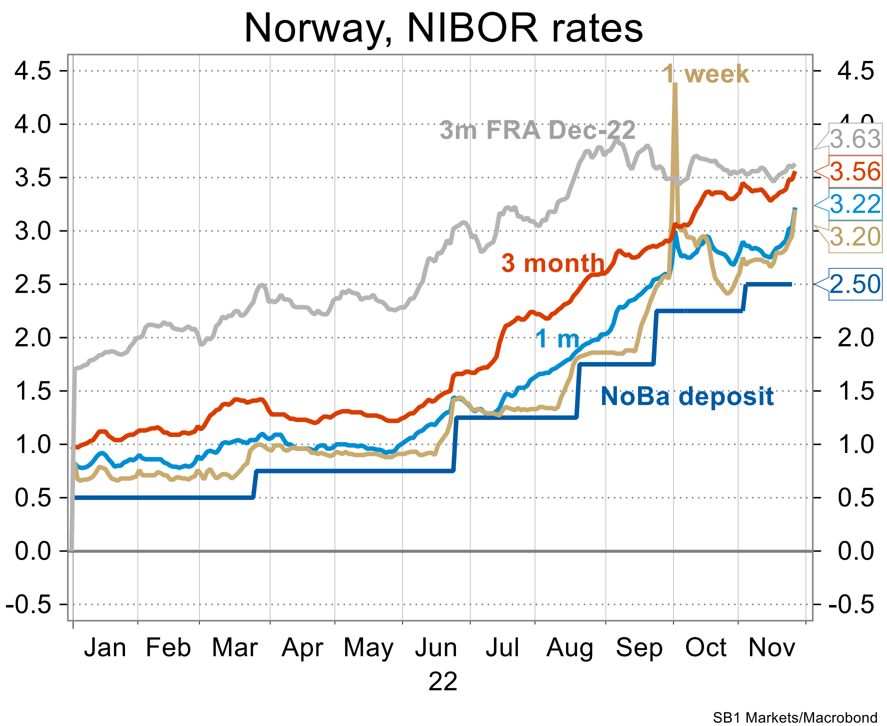


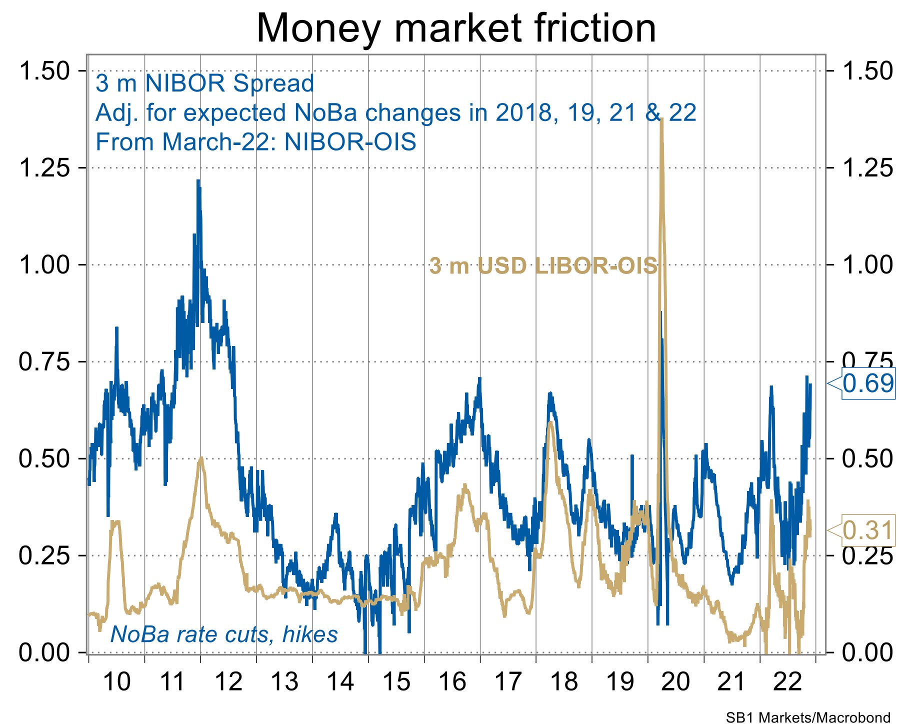


- NOK rates are far below the average level among our trading partners
- We assume spreads now should be far lower than the historical average but that that positive spreads are still more likely than a negative spread, due to still low EMU rates
  - The main downside risk vs spreads: A much weaker Norwegian housing market

More liquidity problems in the money market, as the year end approaches

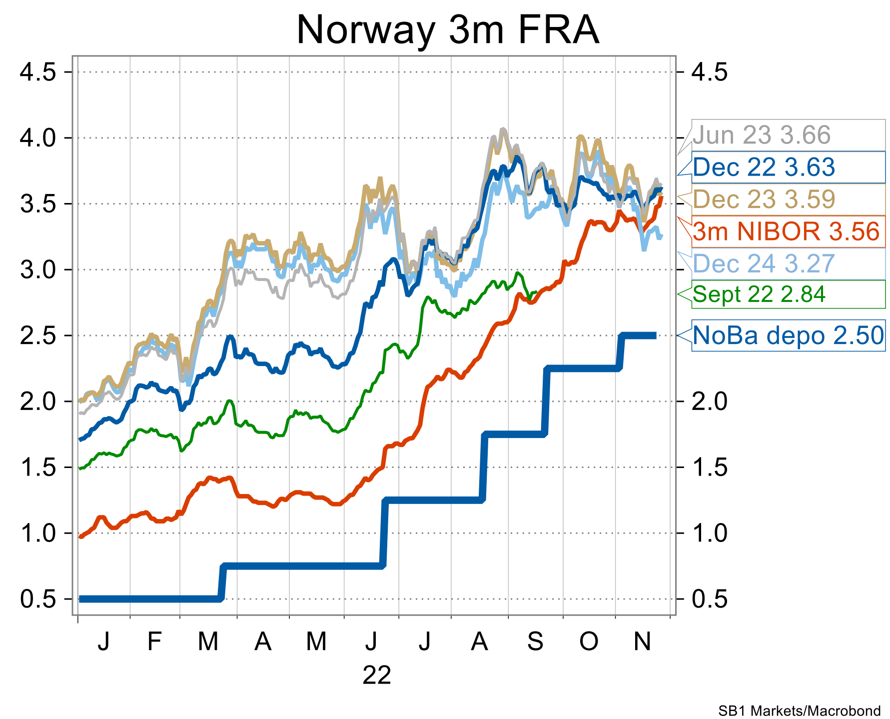
The NIBOR spread is still well above a normal level, up 8 bps to 63 bps (vs a 35 bs average level)

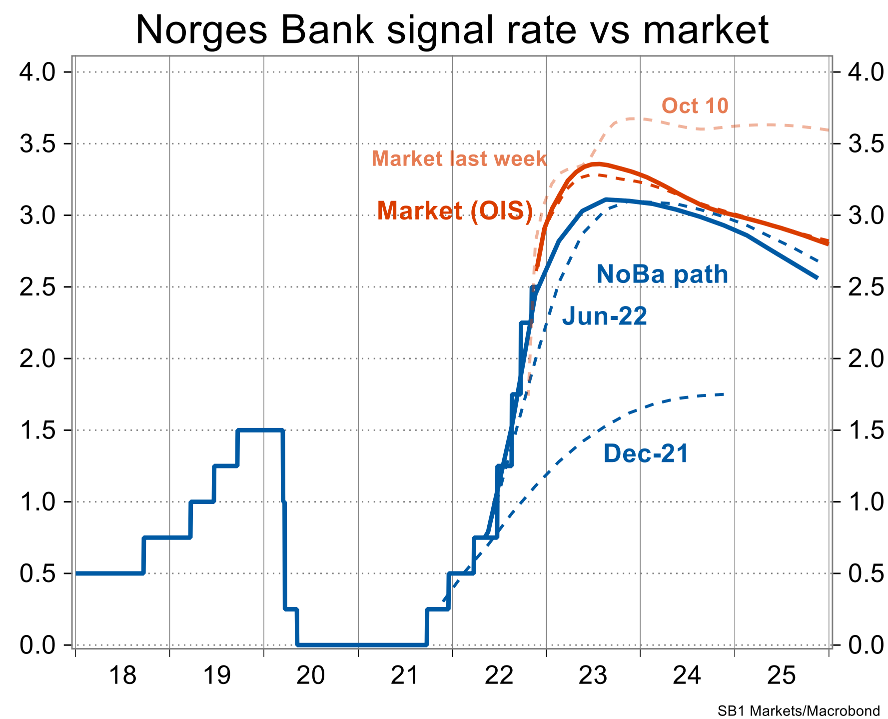




(Real) rate expectations marginally down last week

A 2/3 probability for a 25-bps hike in Dec; 1/3 for 50 bps. If 'just' 25 bps in Dec, another 25 bps is discounted in Jan

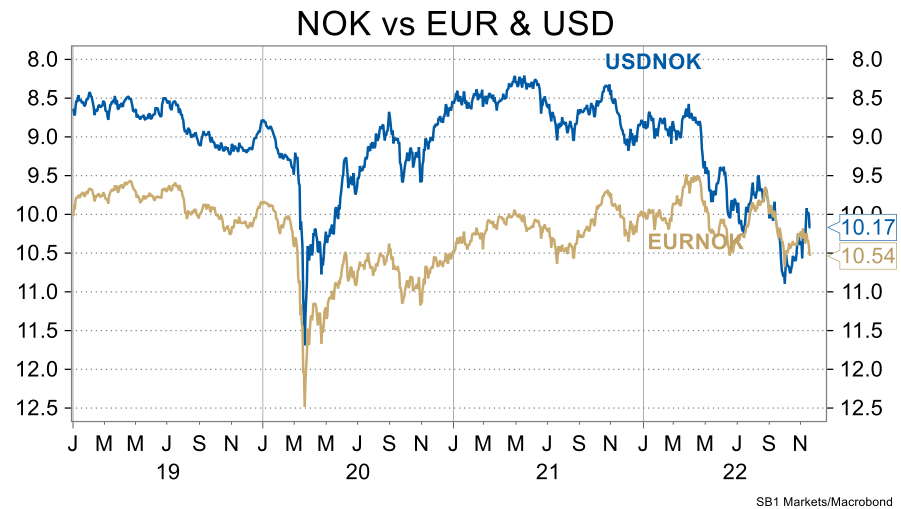


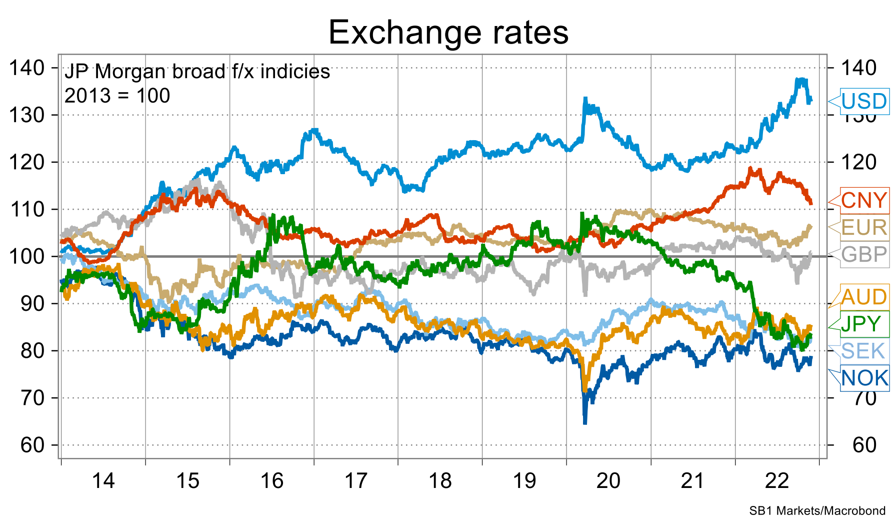


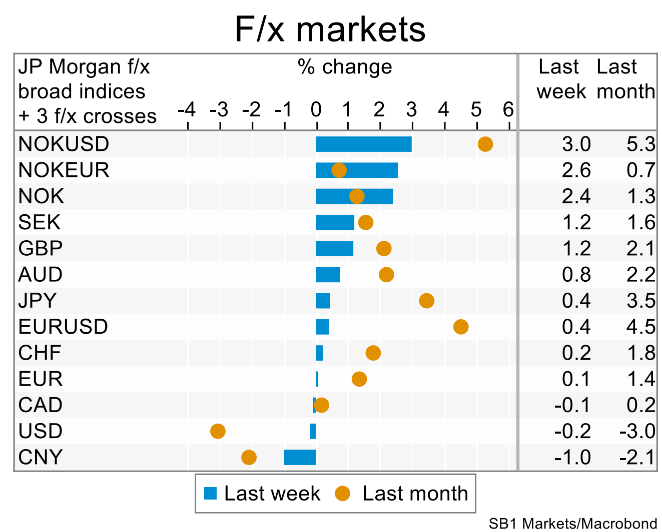
- The short end of the NOK OIS curve signals a 2/3 probability for a 25 bps hike in December, and 13 for a 50 bps hike, from 60/40 one week ago (and 50/50 2 weeks ago)
- Thereafter, 2 or 3 x 25 bps hikes are discounted in 2023, the first in January, up to 3.35% by end of Q2-23, 25 bps above NoBa's September interest rate path

NOK to the top position from the bottom. The USD is sliding down

… and the CNY is hit by a virus (biological or political?)

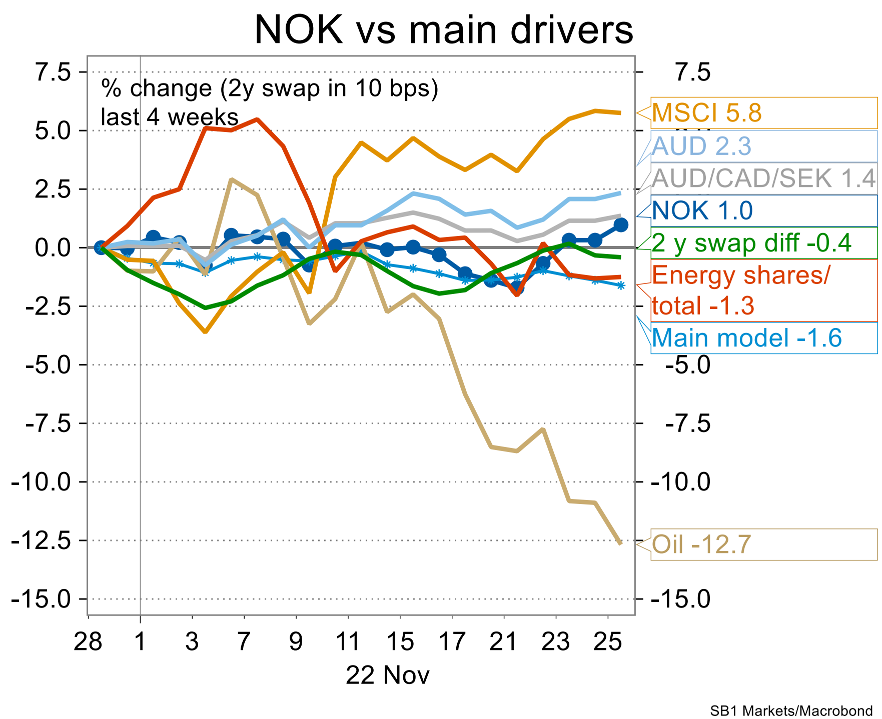


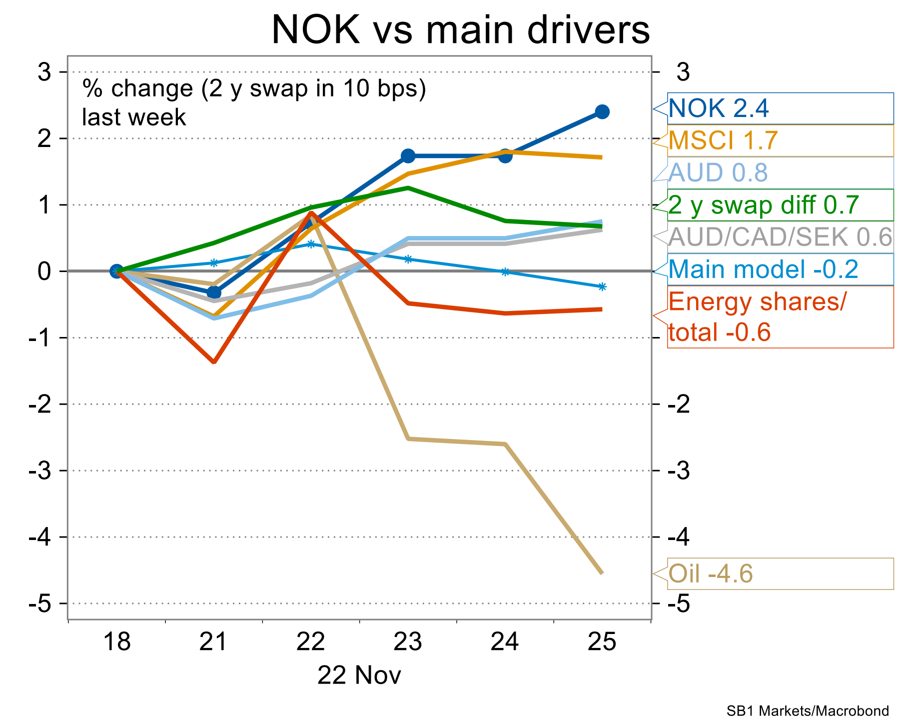




NOK appreciated 2.4% even if the oil price fell USD 5/b!

The NOK is 1.4% above our model estimate





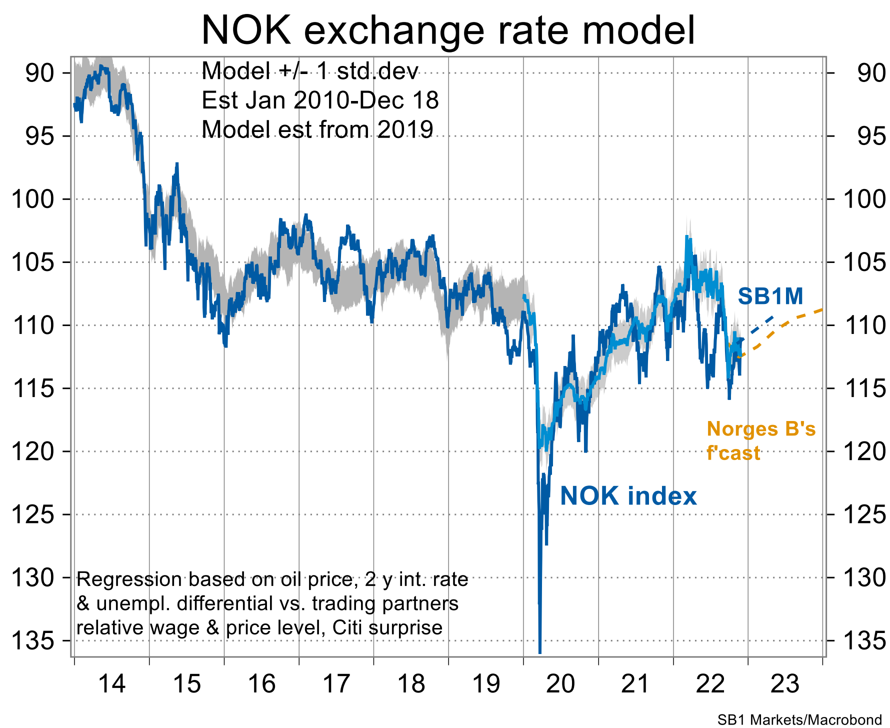
Gaps vs. our model estimates narrowed further last week

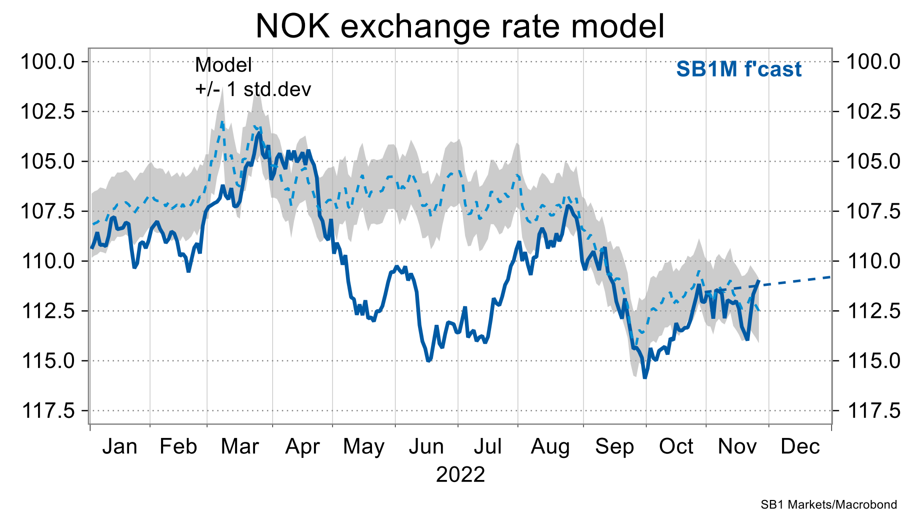
- ***NOK is 1.4% <u>above</u> our main model estimate (from -1.1%)***
- The NOK is 4% <u>weaker</u> than our **AUD/CAD/SEK-model**, our 'super-cycle peers', predicts, a substantial weakening (from -6%)
- NOK is 3% weaker than an estimate from a model that includes global **energy companies' equity prices** (vs the global stock market) (from -4%)

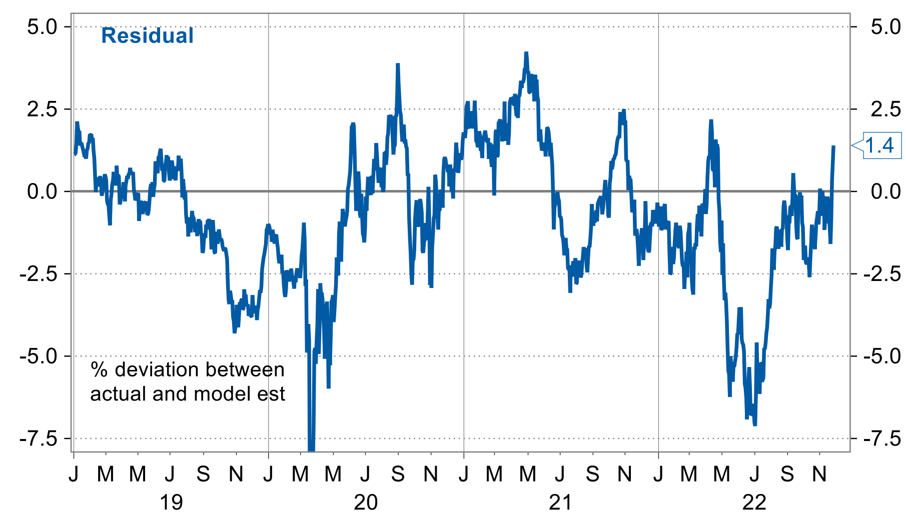
At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for f/x crosses. There are no substantial difference between these two indices over time, The 2 y swap rate differential is measured in 10 bps - that is, 1 equals 10 bps

The NOK is suddenly 1.4% above our model estimate

… and finally in line with our early November forecast



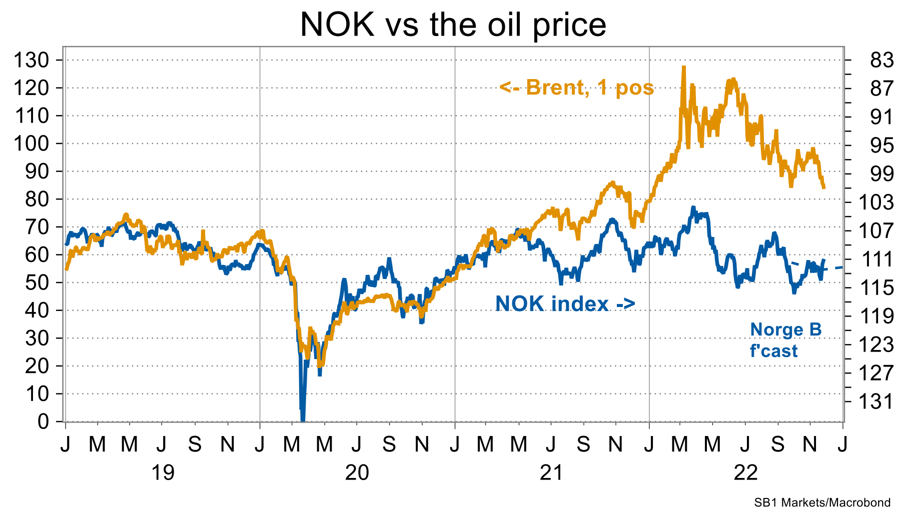


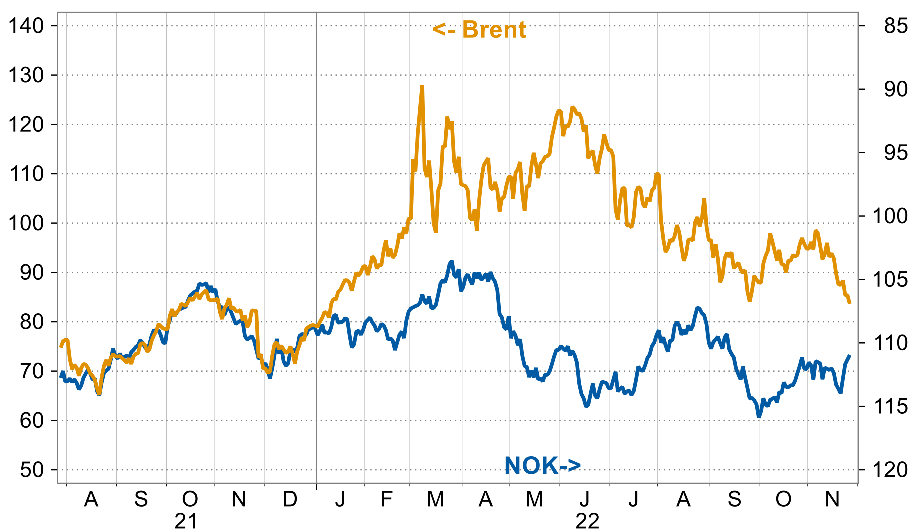


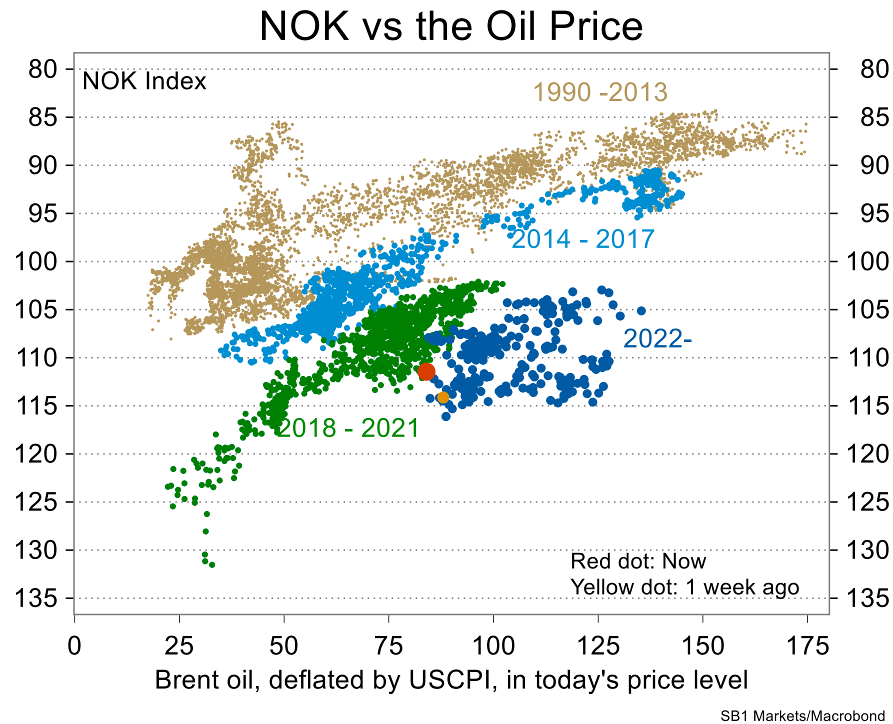
SpareBank 1 MARKETS

Oil down, NOK up

… as the NOK has been close to uncorrelated with the oil (or natural gas) price in 2022

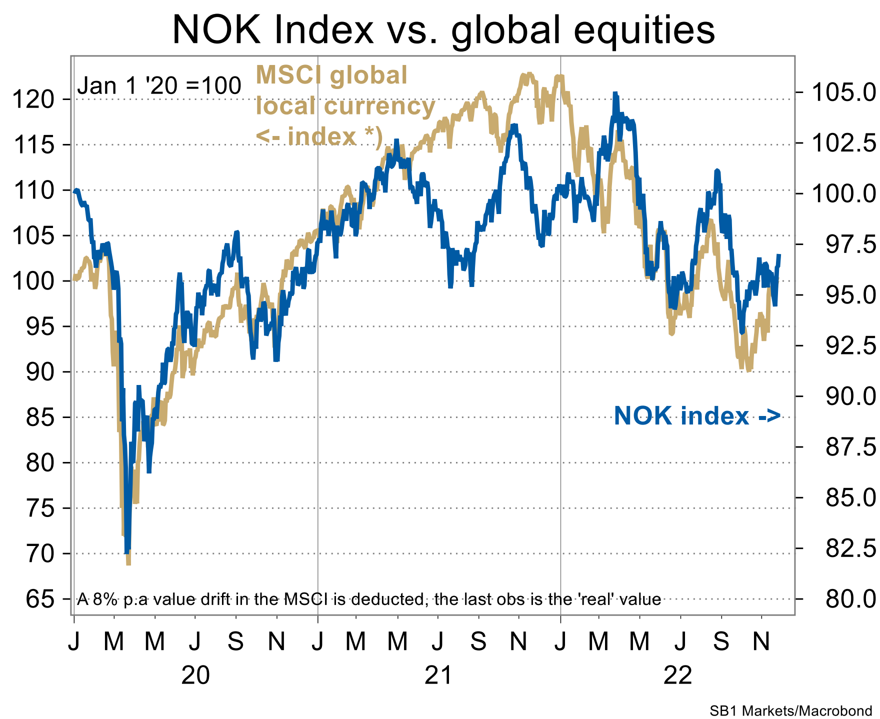


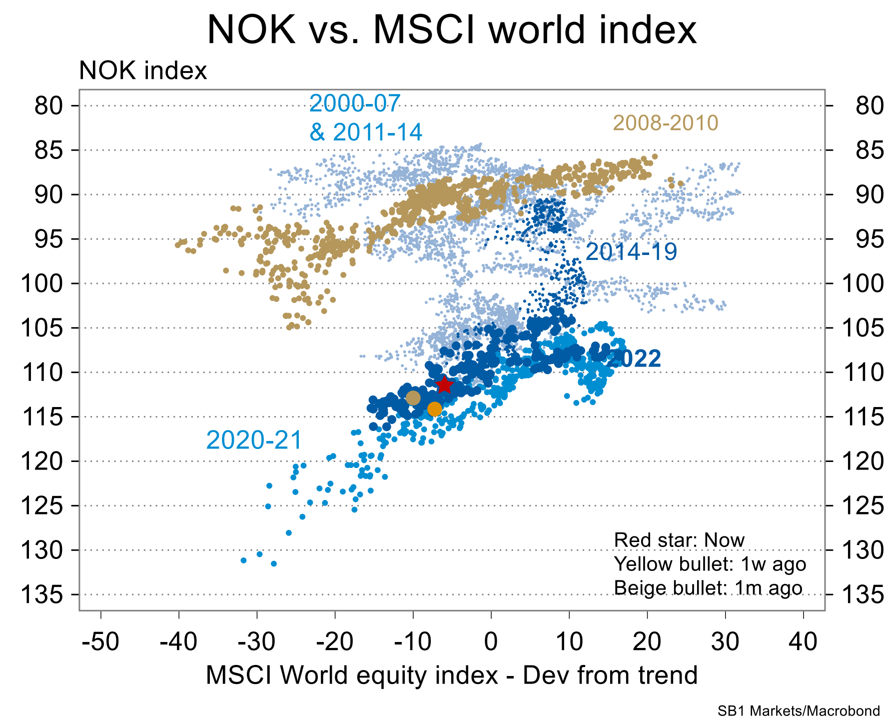




The NOK up, and 'more' than the stock market appreciated

The NOK has been closely in sync with the global stock market since April

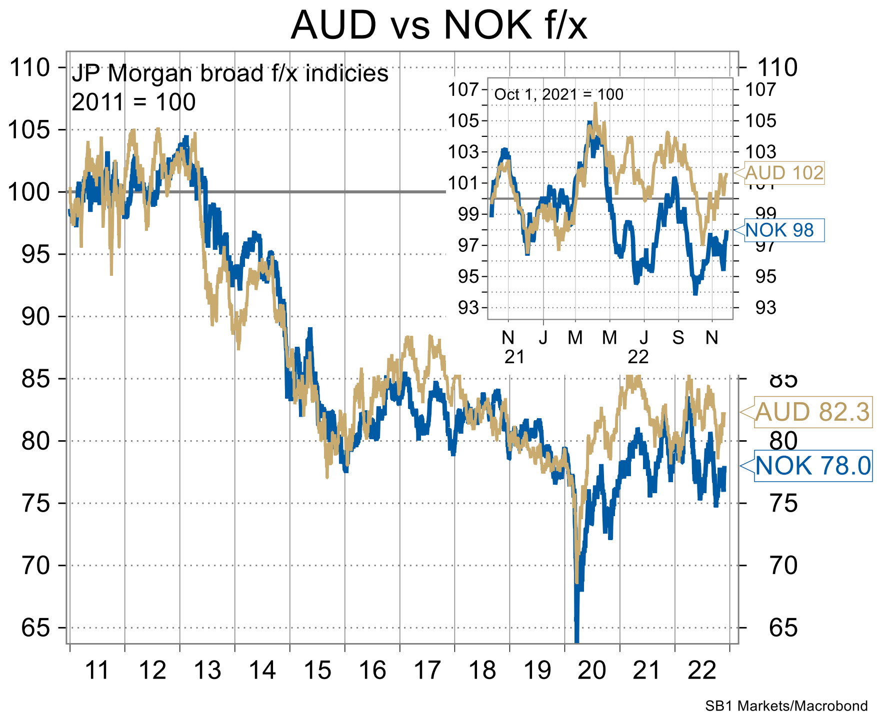


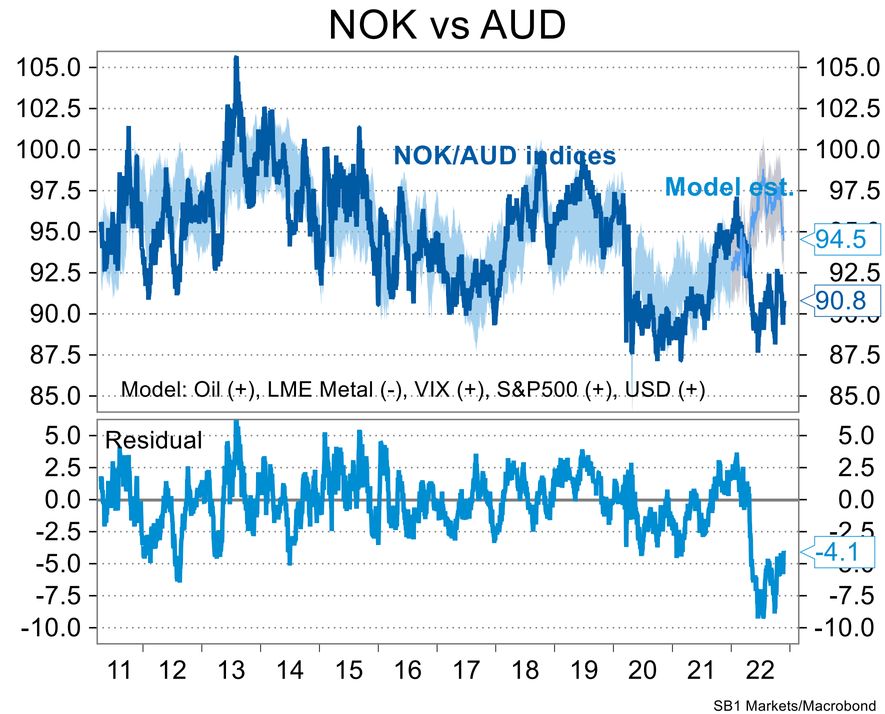


- There has not been any stable correlation over time, and when it is, the oil price is normally the real driver. *Not so much now*

The AUD up, NOK more – and the gap was a little closed

NOK is 4.1 % below our model f'cast vs AUD (from -5.6%)

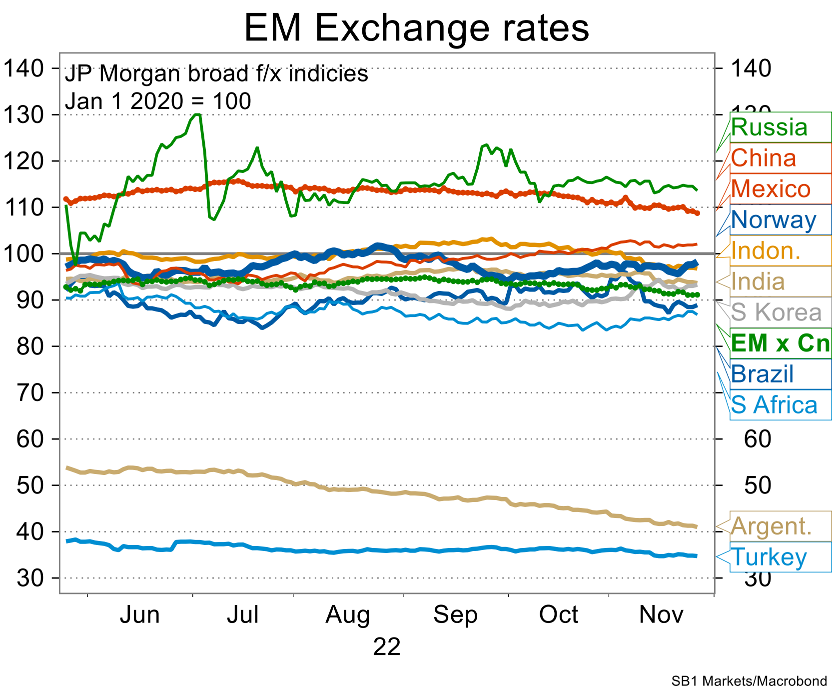


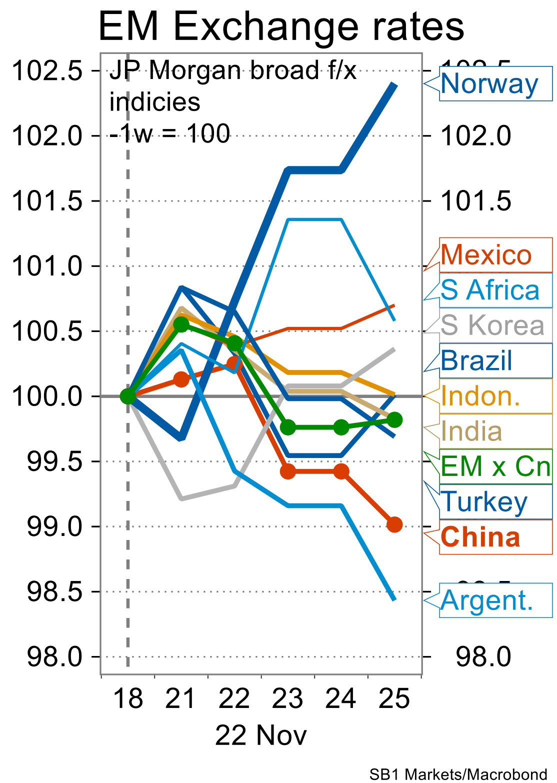


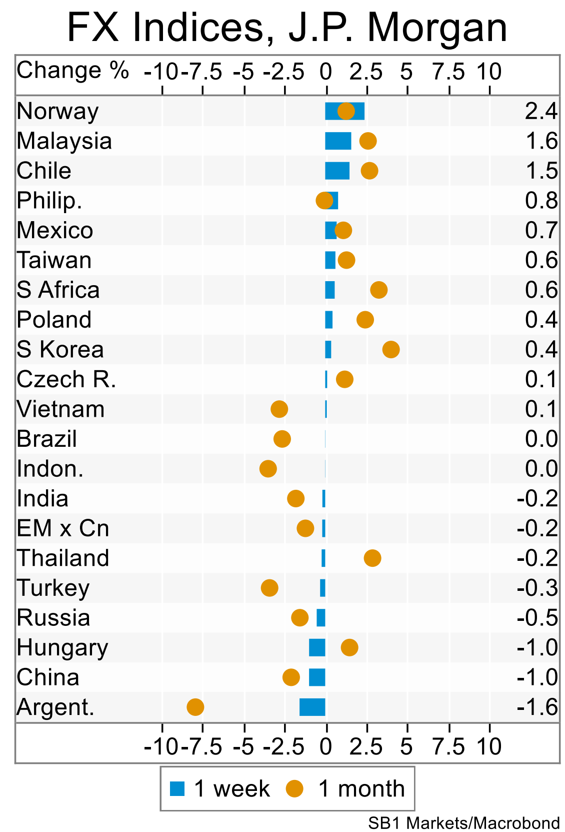
- The discrepancy between the NOK and AUD is unusual, given the normal factors that normally has explained the limited gap between the two
- Normally, NOK strengthens vs the AUD when the oil price rises vs. the LME metal index, when VIX, and the S&P500 index increases, and the USD index appreciates.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

The CNY is getting infected again, new lockdown is not helpful

The CNY has been slightly on the weak side recent weeks







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