Macro Weekly

49/22

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

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

SpareBank 1 Markets
Phone: (+47) 24 14 74 18
Visit address: Olav Vs gate 5, 0161 Oslo
Post address: PostBox 1398 Vika, 0114 Oslo

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Last week

- **The War/European Energy/Commodities**
  - **Some are talking about the need for talking together**, as the war in the east has reached a stalemate, with substantial causalities at both sides, and the Ukrainian civil infrastructure is hammered by Russian missiles
  - **European gas and electricity prices** continued upwards last week
  - **Other commodity prices** mostly rose, in the end also the oil price. On Friday EU/G7 decided to put a price cap on Russian shipped oil, which may lower the price for ordinary oil (Russian oil can supply others than EU/G8. On Sunday, Opec decided to roll over its 2 mill/day production cut, formally until next summer. Today, the oil price is unch vs. Friday
  - **China** has (once more) signalled that the unpopular Covid policy will be adjusted
- **November PMIs/ISMs**
  - The **global manufacturing PMI** fell further as signalled by the preliminary data from rich countries. A large majority of countries report manuf. PMIs below the 50-line. **Order inflow** is the weakest link. **Delivery times** are normalising, while **prices increases** are slowing – but mostly remain higher than normal. The **US ISM** index fell more than expected, down 1.2 p to 49 but still less than other surveys had signalled. Order inflow is the issue here as well – resulting in a decline in prices, and few reports on shortages. The **Chinese** PMIs were is sum weaker than expected, due to another setback in the service sector, guess why? However, manufacturing was in sum down too. The **Norwegian PMI** fell but stayed above 50, while our trading partners are well below.
- **USA**
  - Fed's Beige book (Fed's regional network) report slower growth, and 7 of 12 districts reported no growth of slight-to-modest declines, others were just slightly up. Higher interest rates and inflation weighs on activity. Employment is still increasing but slower. Still, labour markets remains tight. Wage inflation continued but with some easing some places. Inflation remains high but is slowing. In sum, on the dovish side
  - Fed's Powell's speech was also interpreted as dovish by the market, even if his remarks were mostly on the hawkish side (we think). No doubt, as the terminal rate approaches (even if it very likely will be revised up in December), the bank will not continue with the 75 bps hikes – which already was recognised by the market. Anyway, bond yields fell sharply, and the equity market rallied
  - The **labour market** is still tight, and **wage inflation** remains the big challenge
    - The number of **vacancies** fell as expected in October, but the level remains very high, and the SME survey report that an unusual share of companies are **not able to fill job openings**, and a much larger share of companies than normal plans to lift **compensation** further, signalling continued higher wage growth than normal
    - In the labour market report, **wage inflation** was revised up, and wages grew further by 0.6% in November, twice as much as expected, and the annual rate ended at 5.1%, expected 4.6%. If anything, underlying growth has accelerated recent months. **Employment** grew faster than expected in the payrolls survey but fell in the household survey (LFS). The unemployment rate was unchanged at 3.7%, as expected, up 0.2 pp from the rock bottom. Yields rose sharply in the news but calmed down Friday evening.
    - **Challenger & Co** report a significant increase in **layoffs,** to above a normal level in November, but the weekly **new jobless claims** number fell back last week
  - **Consumption** is still trending upwards, and grew 0.5% in October (volume), in line with expectations. Nominal personal spending was up 0.8%, while disposable income was up 0.7%. The **savings rate** to 2.3%, 0.7 pp downward revised September print, and is now more than 6% below the pre-pandemic level – and <u>the second lowest level ever measured</u> – as households run down their (excess) savings during the pandemic, at least in aggregate
  - The **core PCE price deflator** rose 0.2 m/m in October, 0.1 pp less than expected but the annual growth rate remained at 5.0%, following a small upward revision. The headline rose 0.3%, and is up 6.0% y/y – down 1 pp from the peak
  - **House prices** fell further in September (Aug – Oct avg), as expected, and **pending home sales** fell almost 5%, close to expectations
  - **GDP** grew faster than first assumed in Q3, now up 2.9% - but corporate profits fell slightly, even if prices also were revised upwards

Last week II

- **Auto sales**
  - **US** auto sales fell more than expected, even if auto production in the US has recovered, and the import share just have fallen a couple of percentage points). **Norwegian** auto sales (new registrations) were among the highest ever, an adjustment to higher taxes?
- **EMU**
  - **Headline inflation** fell 0.1% m/m in November (seas adj), mostly due to falling energy prices. Overall inflation is now up 10.0% y/y, which is down 0.6 pp from October and 0.4 pp below expectations. Inflation is, of course far to high for comfort, but the direction could give some comfort in slowing the pace
  - **Unemployment** unexpectedly fell in in October, by 0.1 pp to 6.5%, the lowest level since 1980!
- **Norway**
  - **Open unemployment** fell further, measured by the number of unemployed (we expected a small increase), and the rate stayed unch. at 1.6% (as we assumed) – and 0.1 pp above NoBa' Sept. f'cast. The inflow of **new vacancies** fell again, and the trend is down – but the level is high
  - **Retail sales** fell 0.3% in October, and the trend is straight down, as many other places – from a very high level during the pandemic. Blame more spending on services, inflation, interest rates and more x-border shopping in Sweden (which is back to normal)

This week: Composite PMIs, auto sales. Norw. Network, CPI, house prices

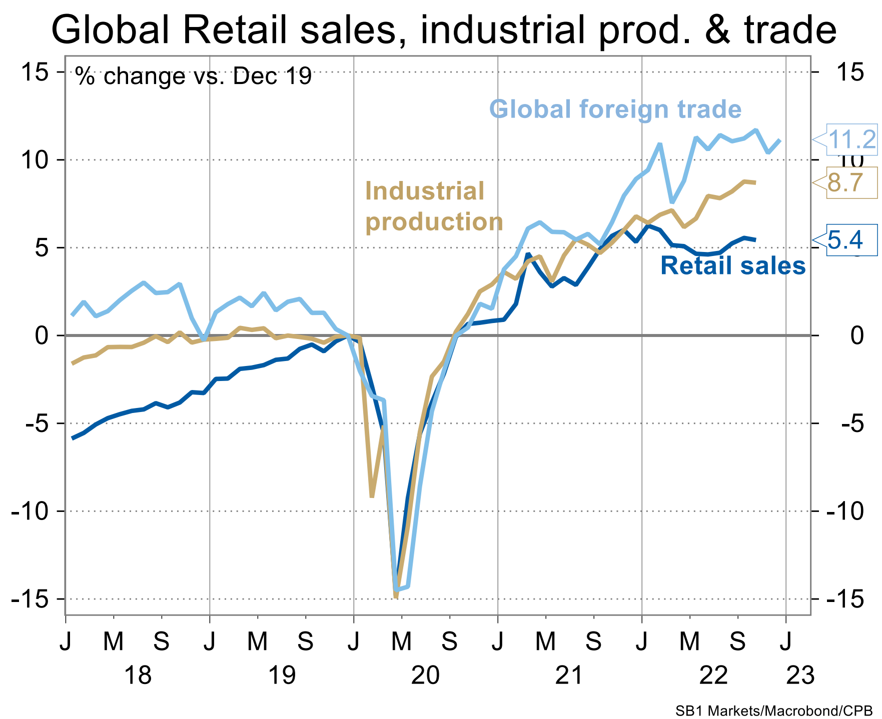
Time	Count.	Indicator	Period	Forecast	Prior
Monday Dec 5					
08:30	SW	Services PMI	Nov		56.9
10:00	EMU	Services PMI	Nov F	48.6	48.6
10:00	EMU	Composite PMI	Nov F	47.8	47.8
10:30	UK	Services PMI	Nov F	48.8	48.8
11:00	EMU	Retail Sales MoM	Oct	-1.7%	0.4%
11:00	**NO**	**House prices**	**Nov**	**(-1.5%)**	**-0.8%**
15:45	US	Services PMI	Nov F	46.1	46.1
15:45	US	Composite PMI	Nov F	46.3	46.3
16:00	**US**	**Services ISM**	**Nov**	**53.5**	**54.4**
17:00	WO	Services PMI	Nov	(47.8)	49.2
17:00	WO	Composite PMI	Nov	(47.8)	49.0
Tuesday Dec 6					
08:00	GE	Factory Orders MoM	Oct	0.1%	-4.0%
10:00	**NO**	**Regional Network: past 3M**	**Nov**	**0.75**	**0.43**
10:00	**NO**	**Regional Network: next 6M**	**Nov**	**-0.20**	**-0.16**
14:30	US	Trade Balance	Oct	-$79.1b	-$73.3b
Wednesday Dec 7					
08:00	GE	Industrial Production SA MoM	Oct	-0.6%	0.6%
08:00	NO	Households' savings rate	Q3		
08:00	NO	Current account	Q3		
08:00	NO	Ind Prod Manufacturing MoM	Oct	(0)	0.7%
08:00	SW	GDP Indicator SA MoM	Oct		1.0%
11:00	EMU	Employment QoQ	3Q F		0.2%
11:00	EMU	GDP SA QoQ	3Q F	0.2%	0.2%
14:30	US	Productivity, QoQ	3Q F	0.5%	0.3%
14:30	US	Unit Labor Costs, QoQ	3Q F	3.3%	3.5%
21:00	US	Consumer Credit	Oct	$28b	$24b
Thursday Dec 8					
06:00	SW	House prices, realtors	Nov		
08:00	NO	Financial sector accounts	Q3		
14:30	US	Initial Jobless Claims	Dec-03	230k	225k
Friday Dec 9					
02:30	CN	PPI YoY	Nov	-1.5%	-1.3%
02:30	CN	CPI YoY	Nov	1.6%	2.1%
08:00	NO	SSB - Economic trends	Q4		
08:00	**NO**	**CPI YoY**	**Nov**	**7.0% (6.7)**	**7.5%**
08:00	**NO**	**CPI Underlying YoY**	**Nov**	**6.0% (5.8)**	**5.9%**
14:30	US	PPI Final Demand YoY	Nov	7.2%	8.0%
16:00	US	U. of Mich. Sentiment	Dec P	56.9	56.8
18:00	US	Flow of funds	3Q		
During the week					
	CN	**Aggregate Financing CNY**	**Nov**	**2100b**	**908b**
	CN	New Yuan Loans CNY	Nov	1330b	615b

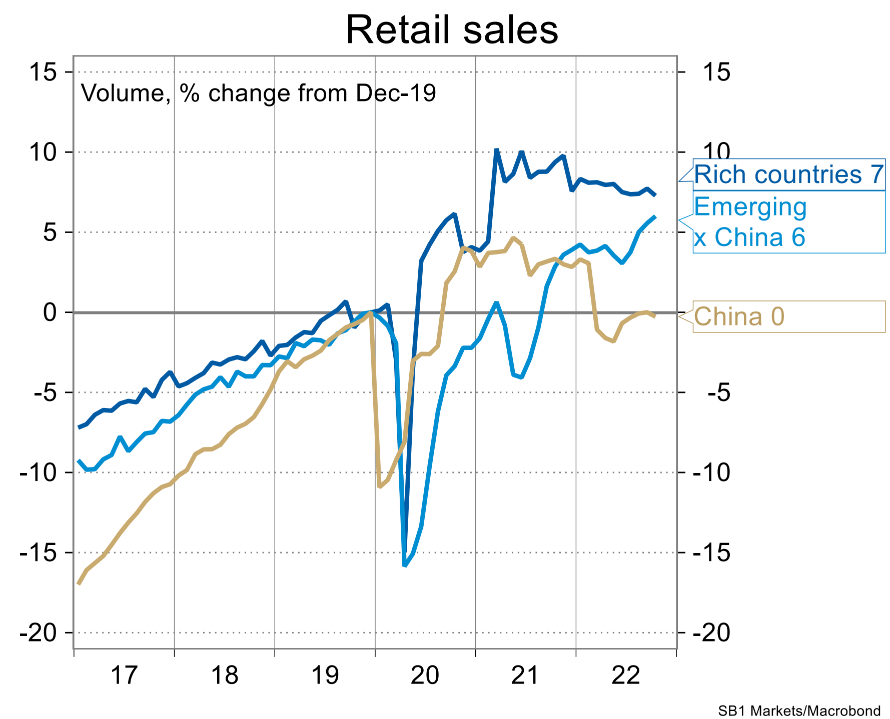
- **November services & composite PMIs, services ISM**
  - The downturn continued in November, and we expect a 1.2 p decline in the global composite PMI to 47.8 as both manufacturing and services reported a faster contraction, services the most. The global index is signalling no growth in the global economy – led by the rich part of the world. Manufacturing orders are falling rapidly, according to the companies. Delivery times are normalising, and prices indices are coming down but still signal higher inflation than normal
- **Auto sales**
  - Sales in the **US** fell more than expected, but so far few other data points. Most countries will report this week. Sales have so far been heading up as production has recovered fully (US, China. South Korea) or partially (Europe, Japan)
- **China**
  - **Credit growth** has been unstable, and in sum weaker than normal, recent months, at least partly in tandem with the unprecedented decline in construction starts. The authorities have announced several measures to prop up the viable parts of the construction sector, and has encouraged banks to lend more, the previous week by cutting the reserve requirement further. We are not sure they will succeed this time around
- **USA**
  - **No major** data releases this week – before the FOMC meeting next week
- **EMU**
  - **Retail sales** probably fell substantially in October, as some countries have already reported. Some countries will also report **industrial production** data, and the first reports have been on the weak side, signalling that the energy crisis has some impact, which so far has not seen in most manufacturing sectors
- **Norway**
  - We expect **Norges Bank's Regional Network** to report that growth has so far been OK, and higher than assumed 3 months ago but that the outlook remains cloudy, and a decline in activity is signalled. Export industries will probably contribute on the downside, and we are not sure if any will compensate on the upside. We expect companies to report less labour shortages but still well above normal levels. The same goes for price increases
  - We expect **CPI inflation** to moderate substantially, as average electricity prices paid by consumers fell as variable price contracts were less disadvantageous than in October. Gasoline prices fell somewhat, and we even assume than the **core annual rate** fell slightly (which though is uncertain
  - We expect a substantial decline in **house prices** in November too. Market reports are not upbeat, and the inventory of unsold homes very likely fell further

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, even if production may have fallen in Oct



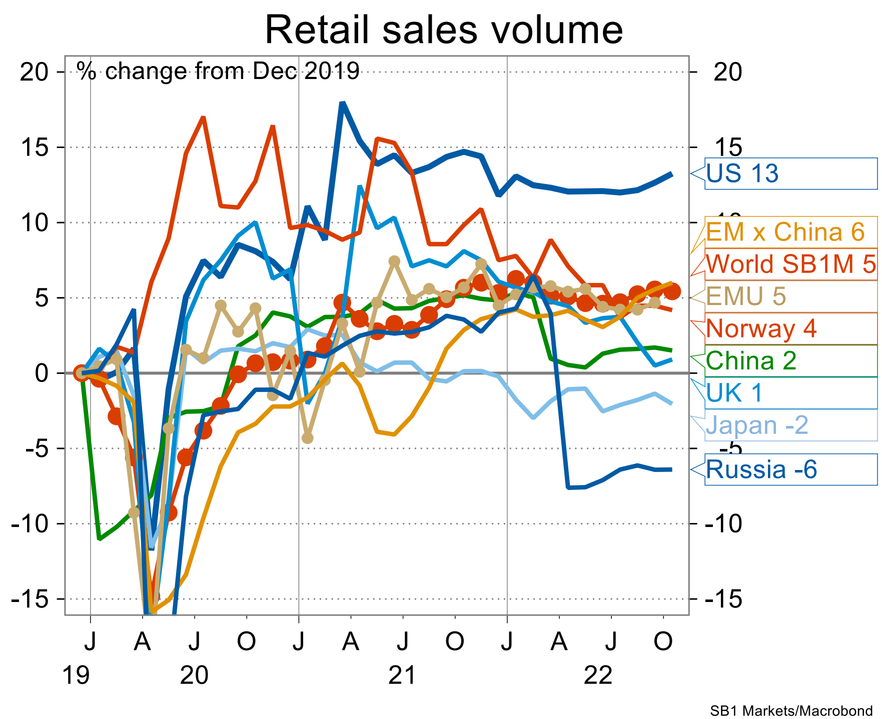


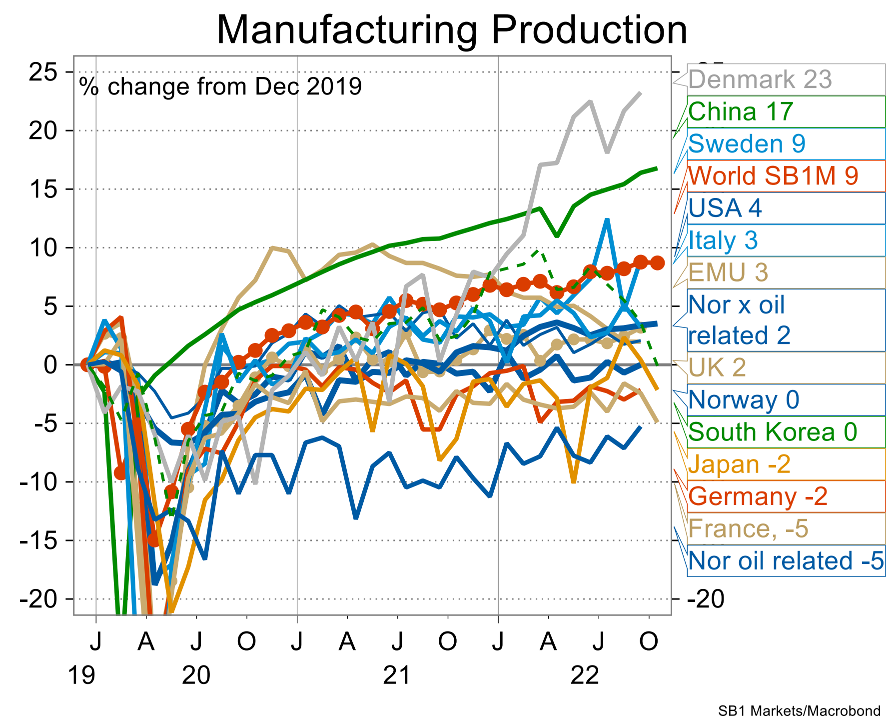
- Global foreign trade has probably flattened since the summer – at a high level, well above the pre-pandemic trend

Global foreign trade: The last months, including forecasts, are estimates from the Kiel Institute.

A broad slowdown of retail sales, at least in the rich part of the world (+China)

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





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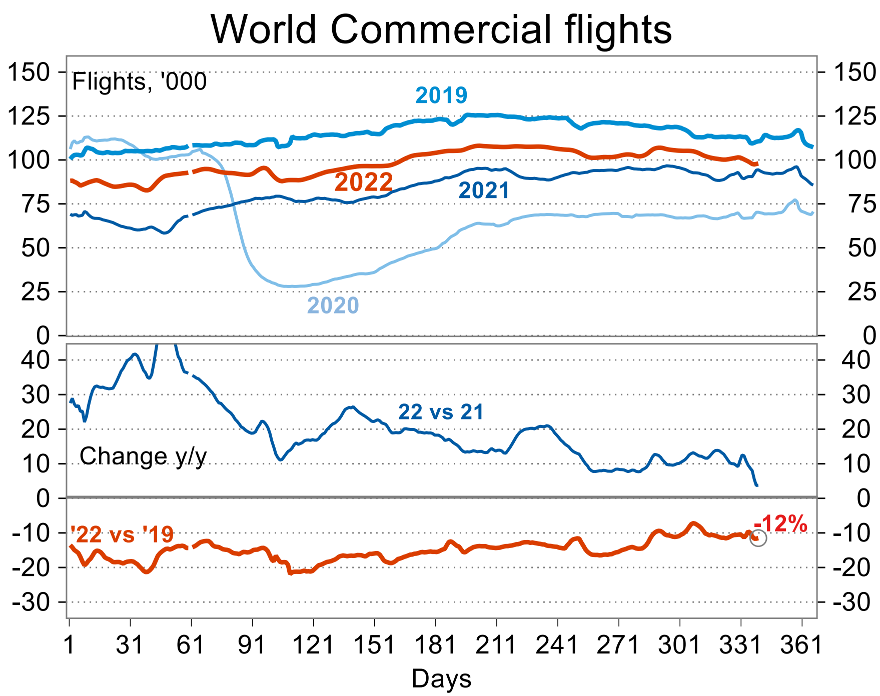
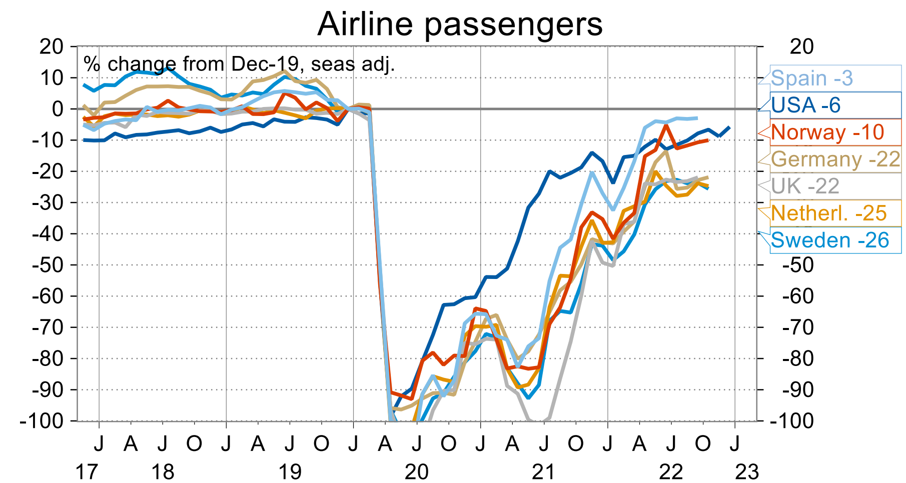
US retail sales: Personal consumption of goods, ex auto & energy

Global airline traffic slightly down, -11% vs 2019

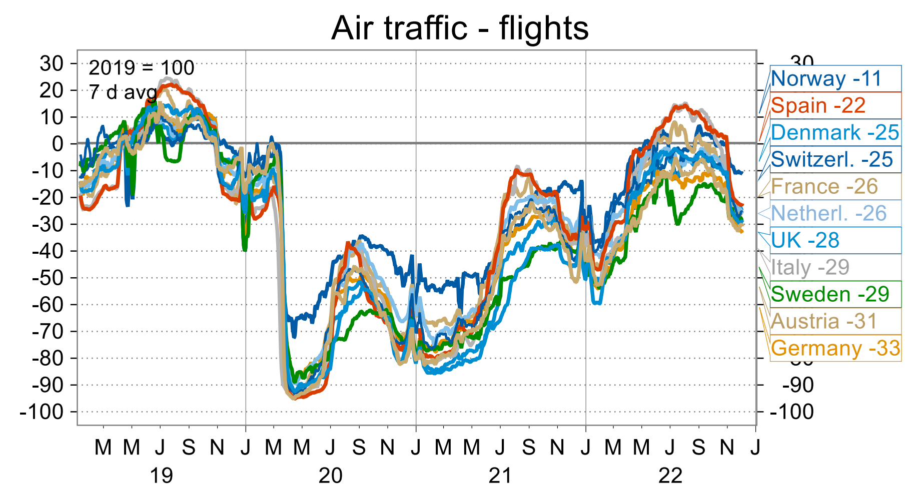
If growth rates had been normal the past 3 years, it should have been at least 10% above



Flightradar24 SB1 Markets/Macrobond



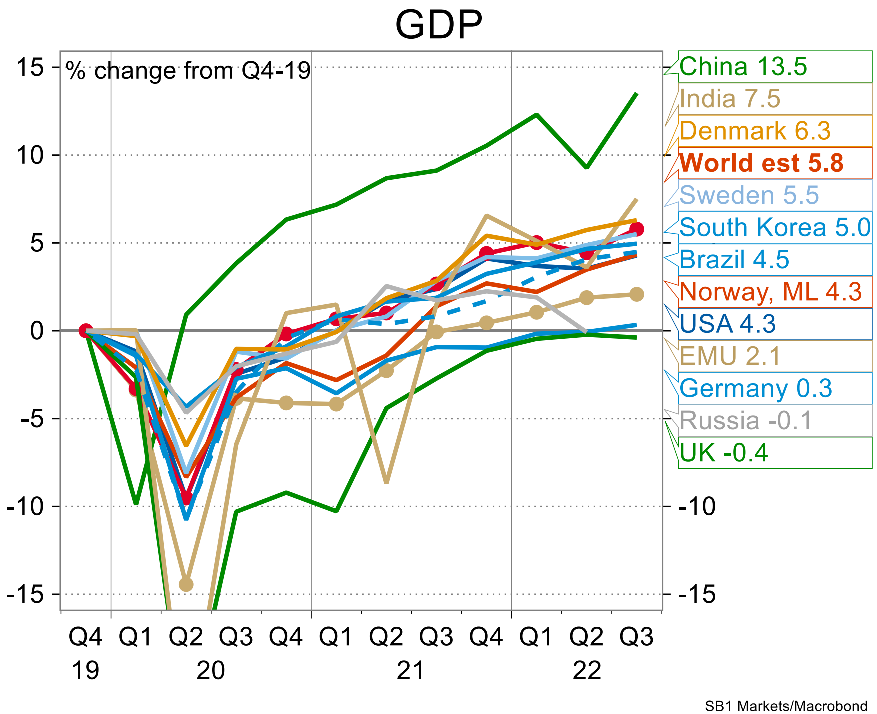
National authorities, SB1 Markets/Macrobond

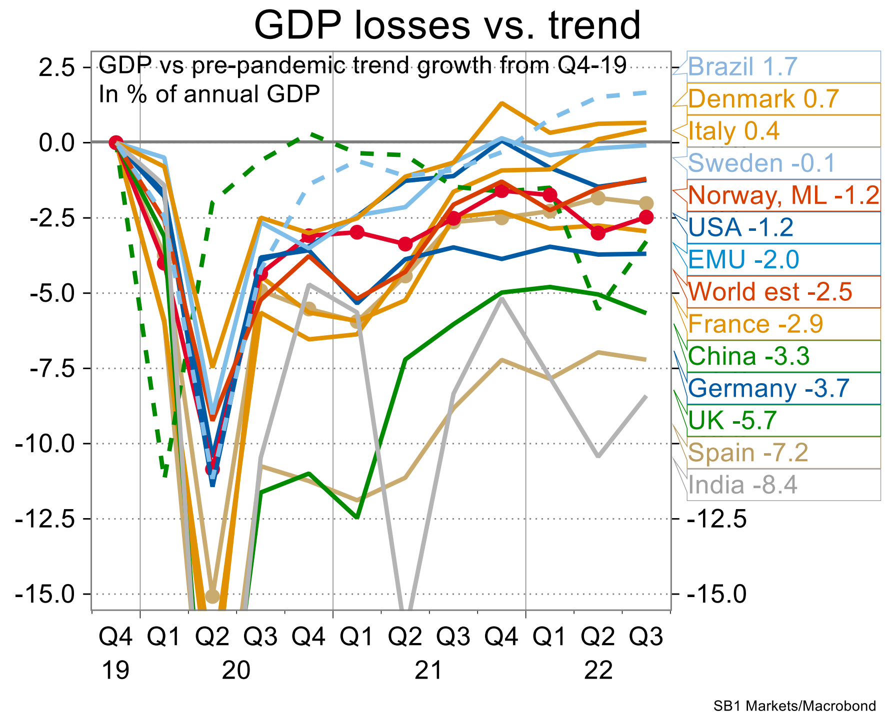


SB1 Markets/Macrobond

Global GDP recovered in Q3, mostly thanks to China, India and the US

Up 1.6%, from -0.6% in Q2. Global GDP is still 2.5% below the pre-pandemic trend path

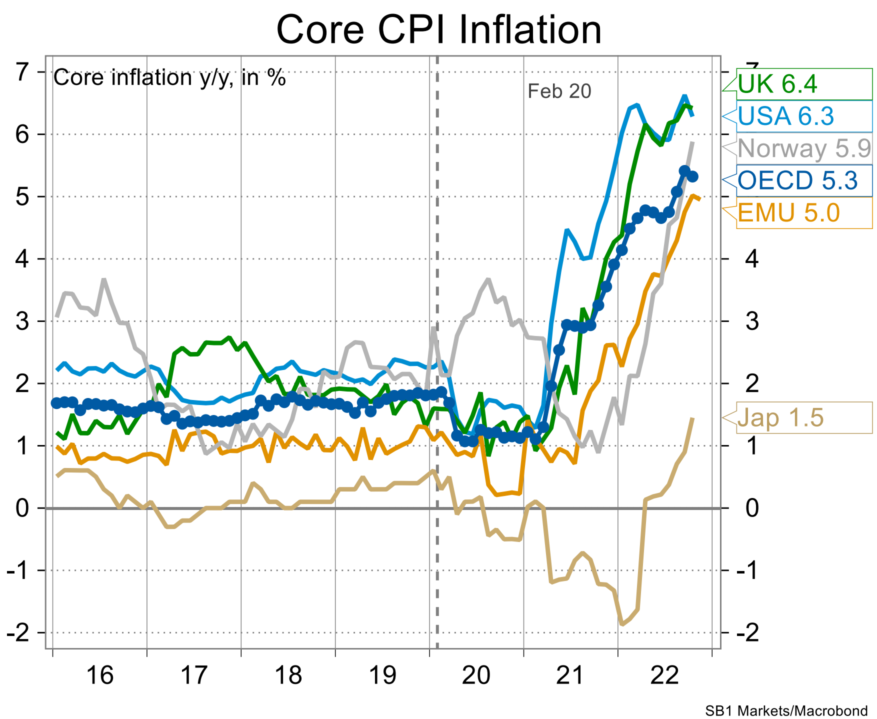


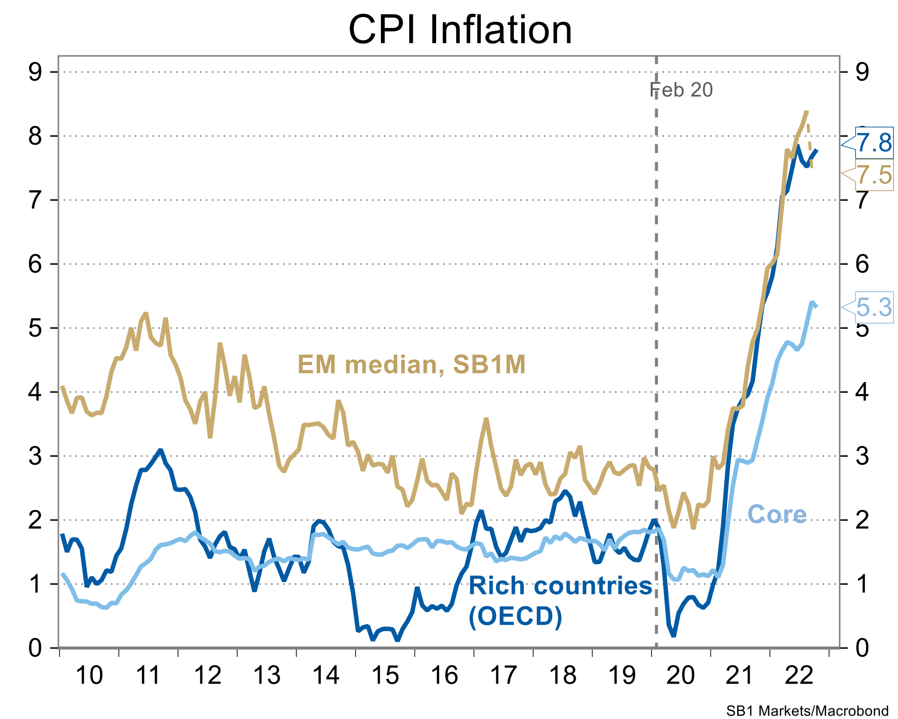


- … even if unemployment, at least in the rich part of the world is ‘zero’, and employment rates are record high almost everywhere
- **India** reported strong growth in Q3, up 3.8% q/q (16.1% annualised), almost a much as China (3.9%). Even so, Indian GDP is far below the pre-pandemic trend path

Peak inflation? Probably

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





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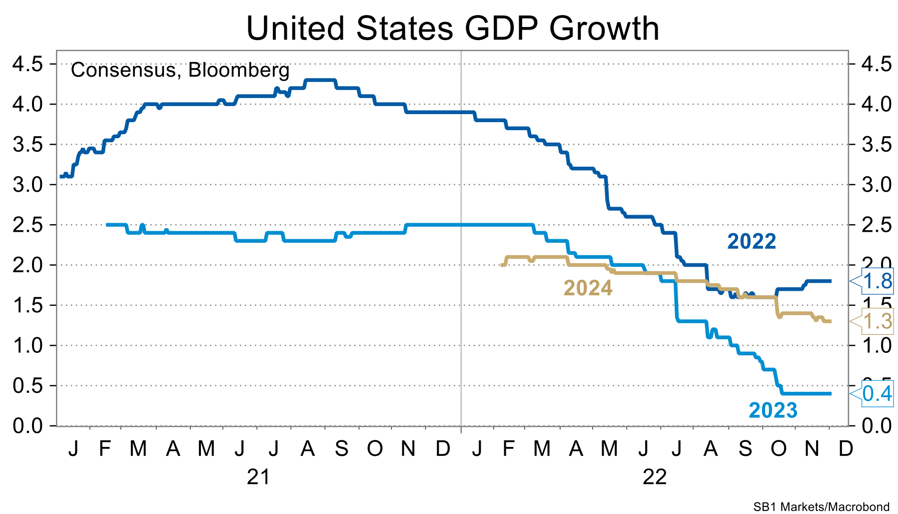
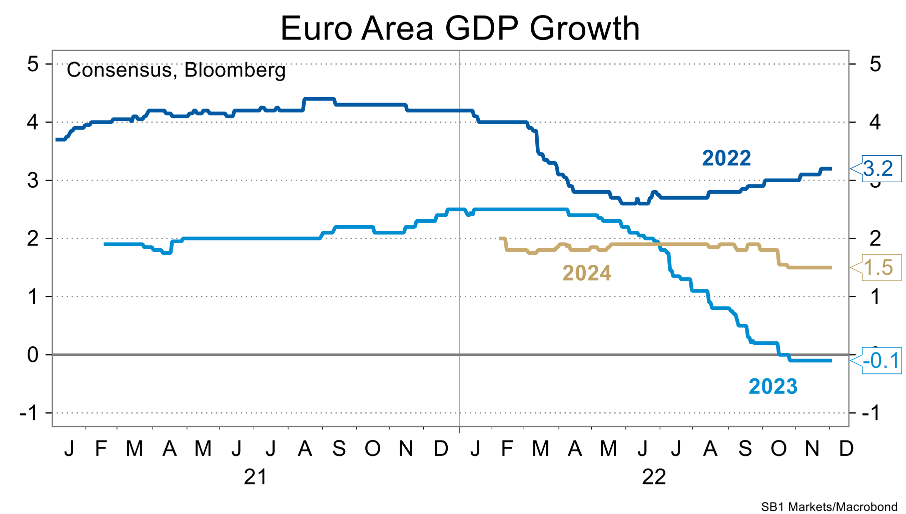
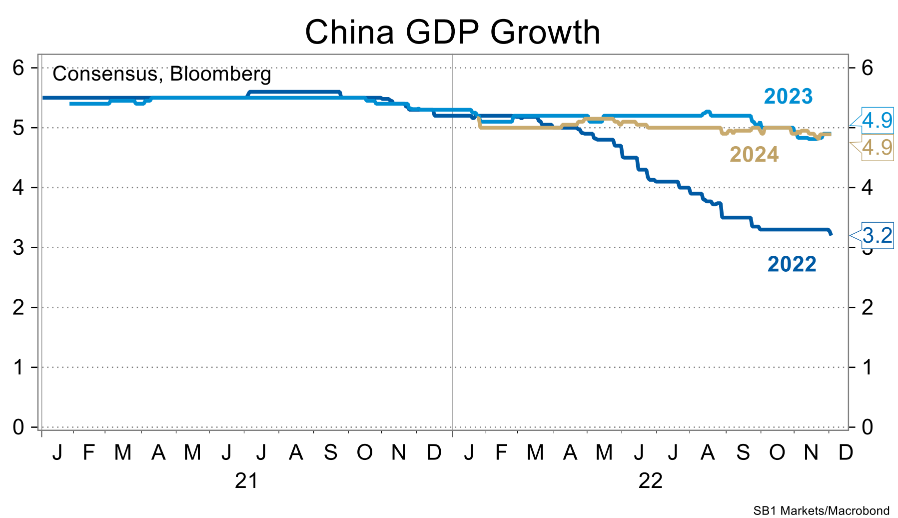
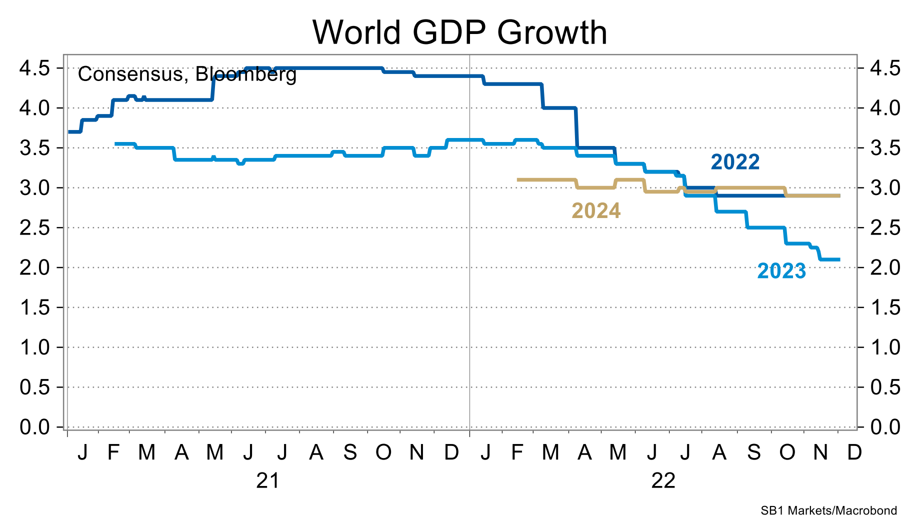
GDP growth expectations: 2023 forecasts have flattened

But the 2023 f'casts imply a recession in the US next year, and deeper one in Europe









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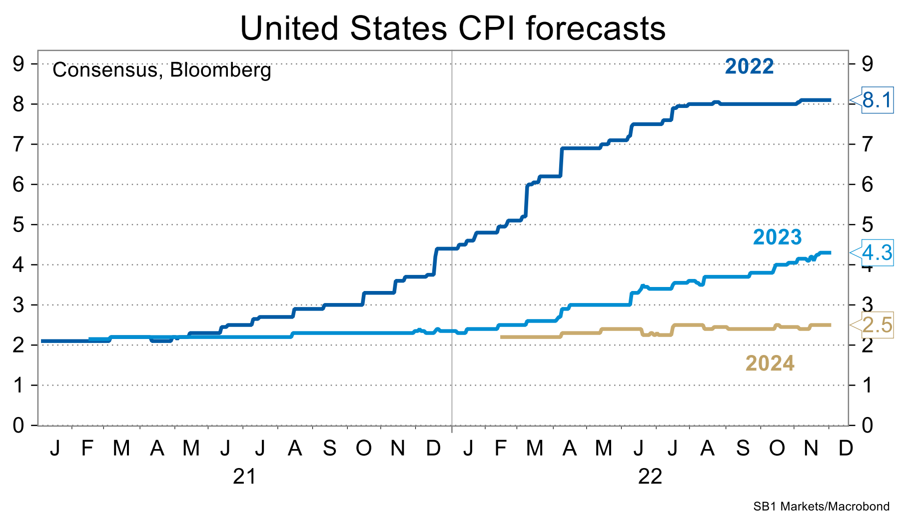
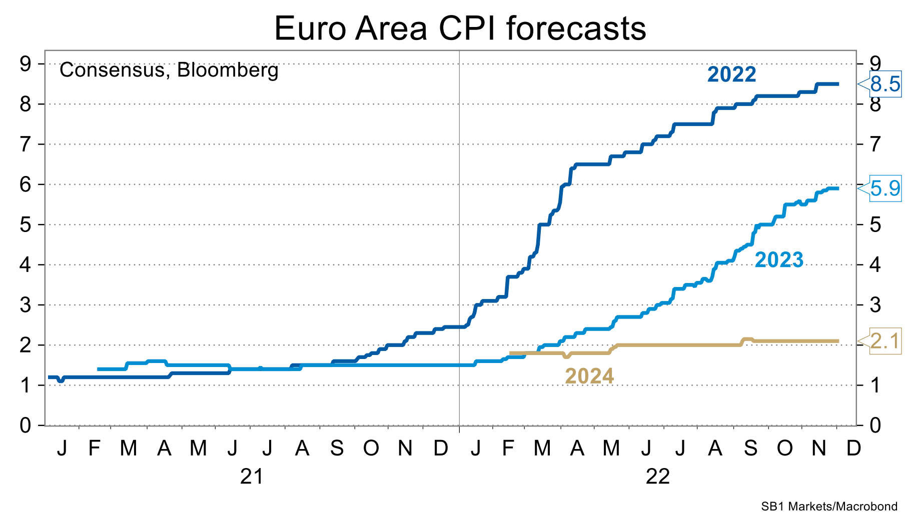
2023 inflation forecasts are still drifting upwards

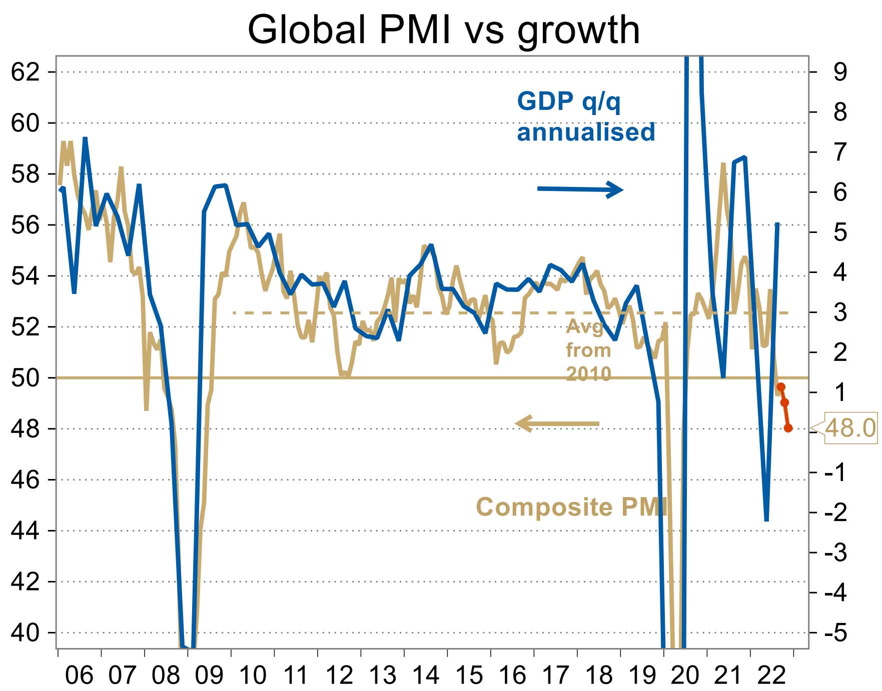
Especially the 2023 EMU inflation expectations





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

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



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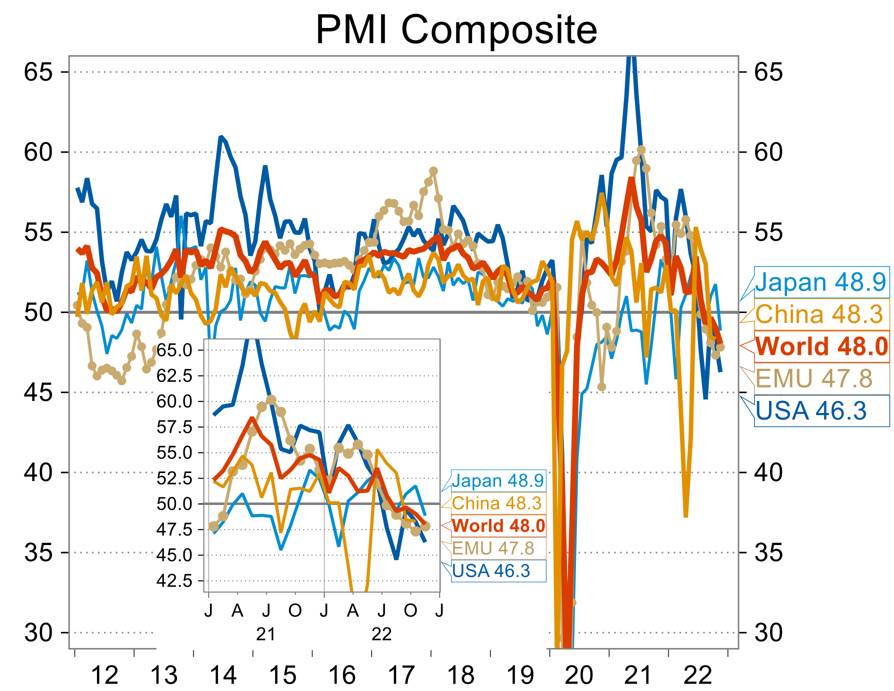

Source: IHS Markit, SB1 Markets, Macrobond

- 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

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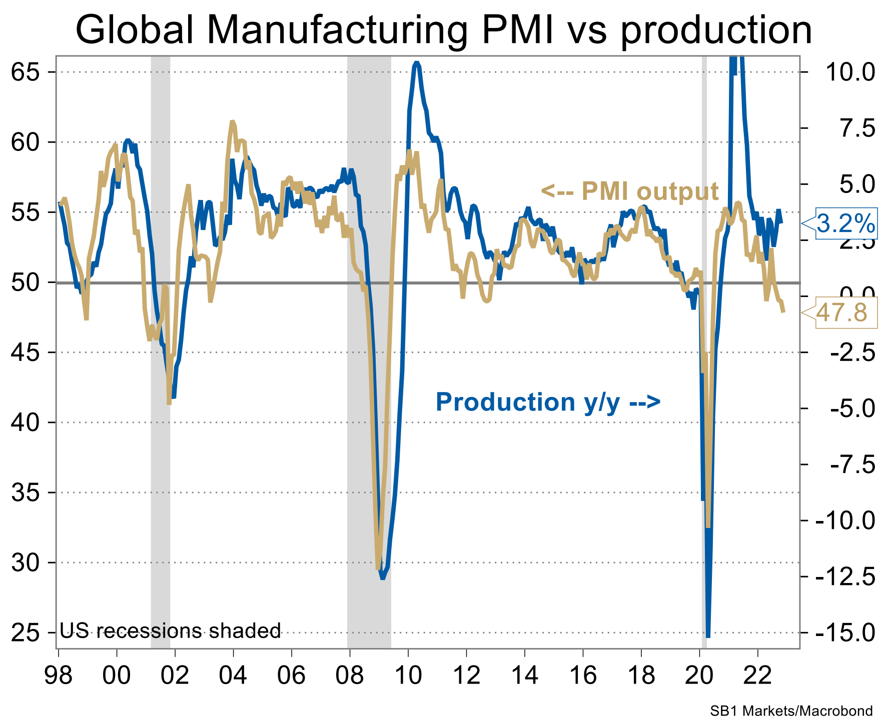
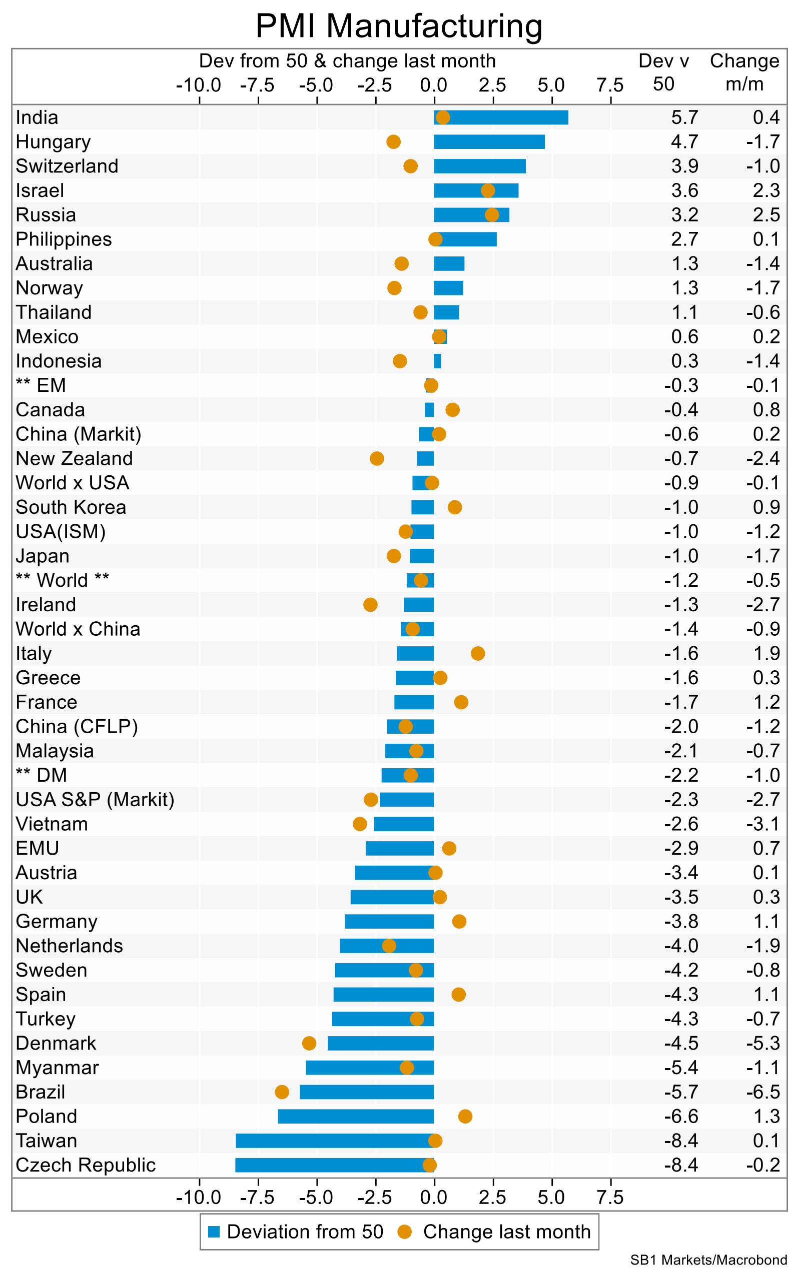
Our estimates are based on the preliminary PMIs from US, EMU, Japan UK, Australia. The estimates are uncertain, but usually by less than 0.5 p if the Chinse PMI does not change too much

A further decline in the global manufacturing PMI, while production is still OK

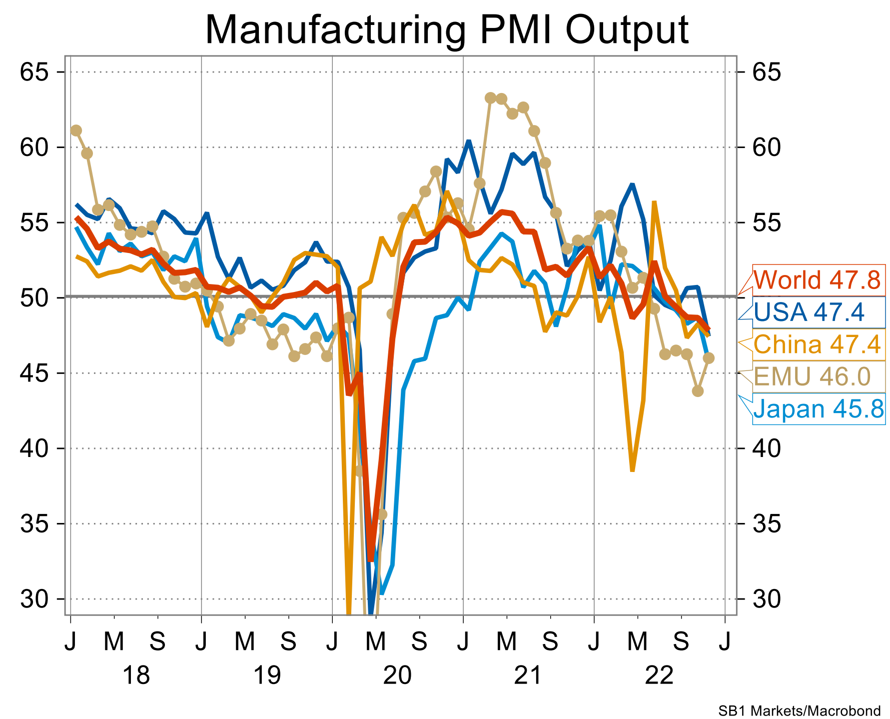
Almost 60% of the PMIs down, and 72% are below the 50-line

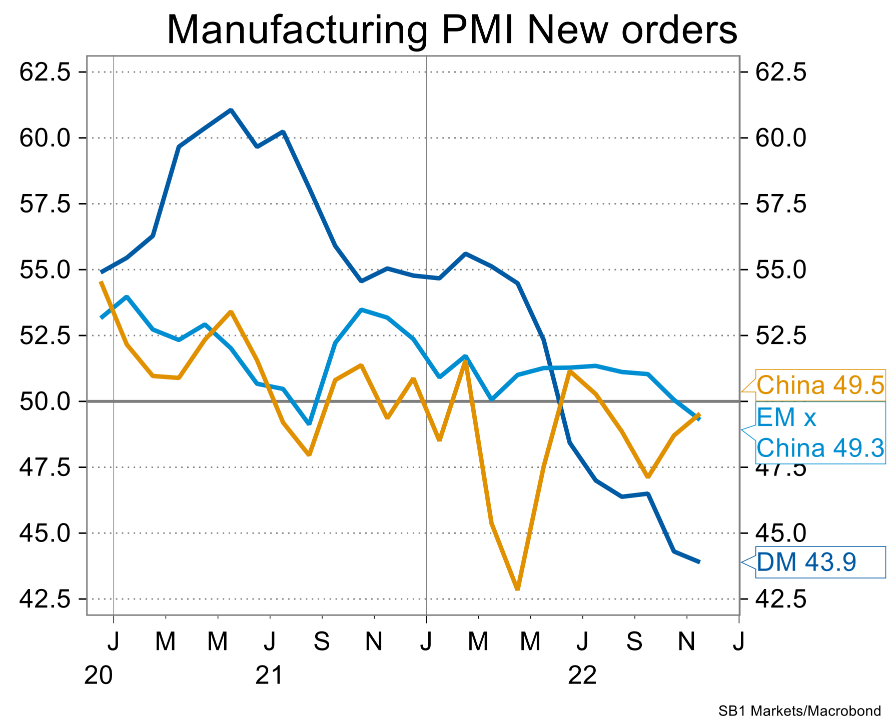




- **The manufacturing total** index fell by 0.6 p to 47.8, while the **output** index fell 0.8 p to 47.8
- **Rich countries** are far weaker than Emerging Markets, measured by the total index. Also measured by the new order index, EM x China at 49.3 (and trending flat) are ahead of DM, which ‘collapsed’ to 43.9!
- **Norway’s** manufacturing PMI fell in November, to 51.3, and that corresponds to a number 8 on the list!
- **Sweden** has fallen rapidly recent months, and further in Nov, by -2.1 p to 45.8

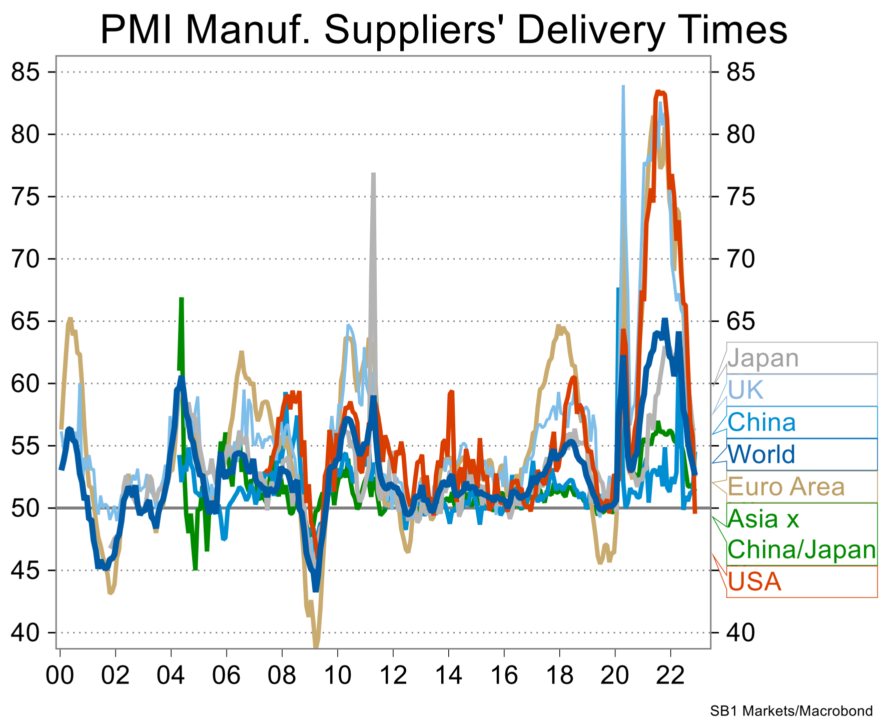
New orders and output are slowing in developed markets; less so in EM

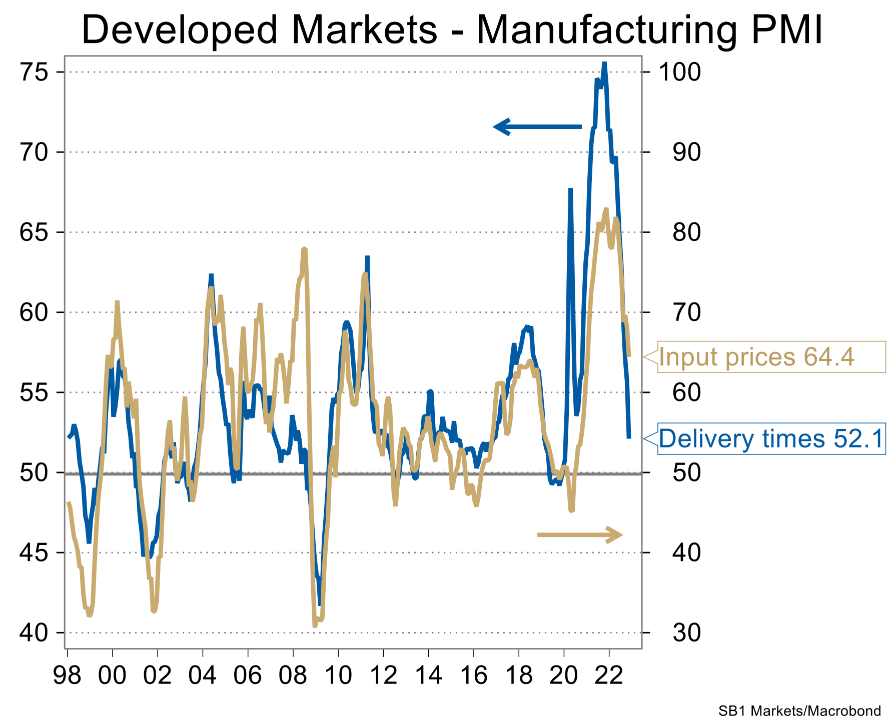




- The US index has also fallen well below the 50-line

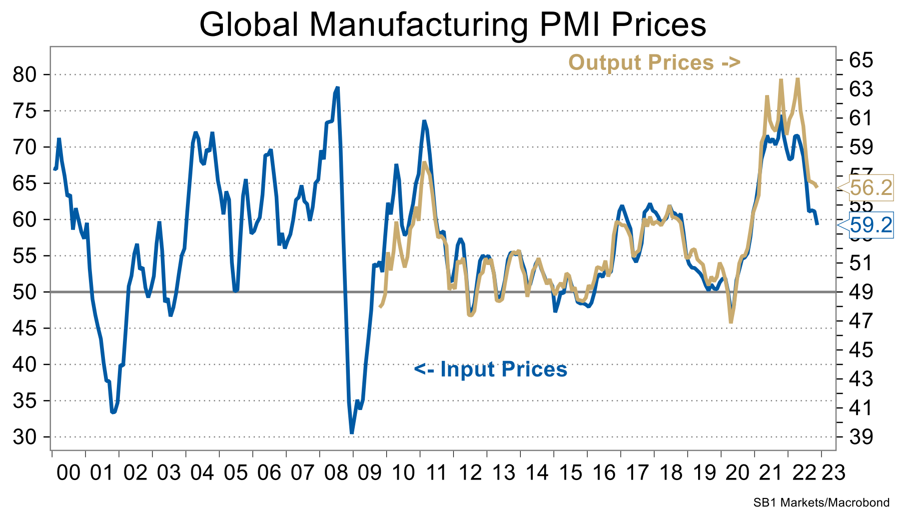
Delivery times have fully normalised, should help normalising prices

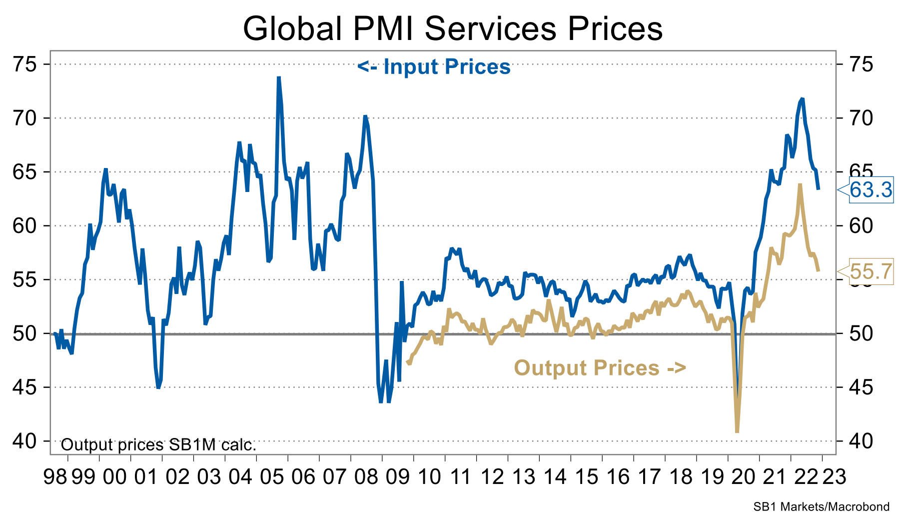


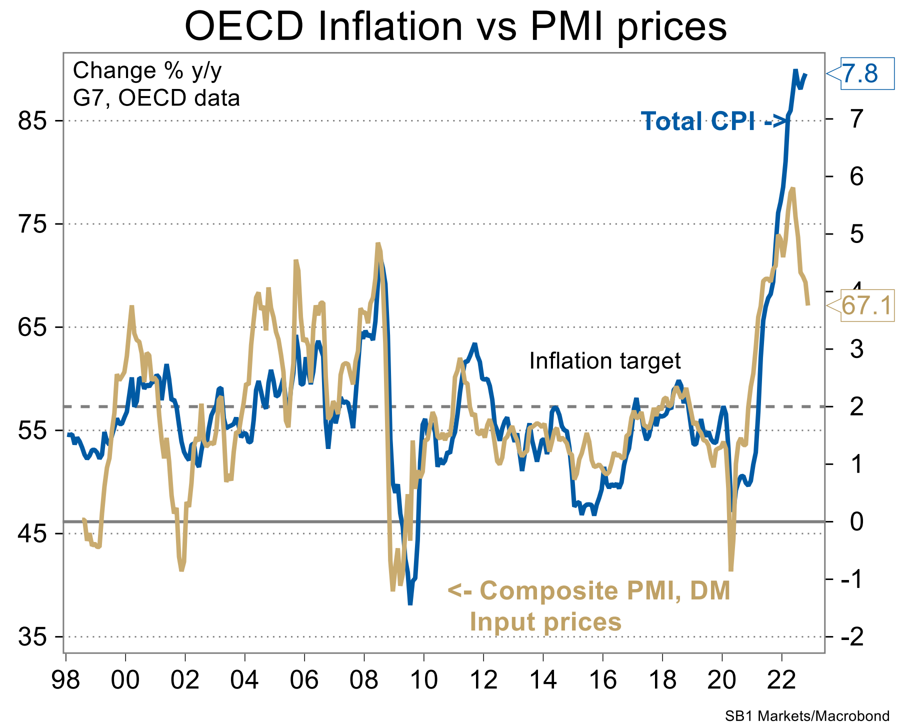


Price increases are slowing, according to the PMIs

All price indices remain at high or very high levels though (like service sector input prices)



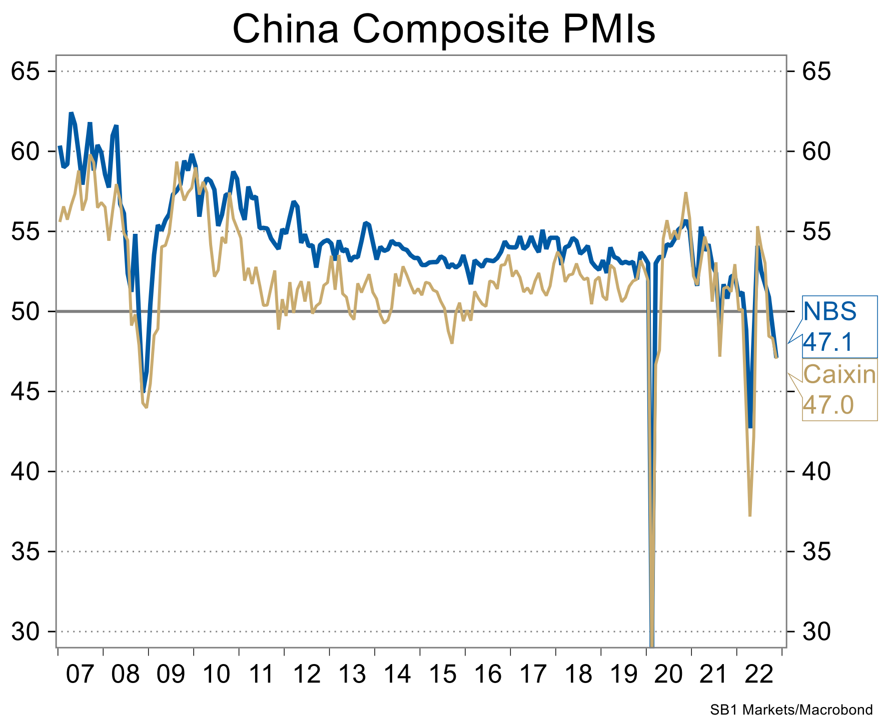


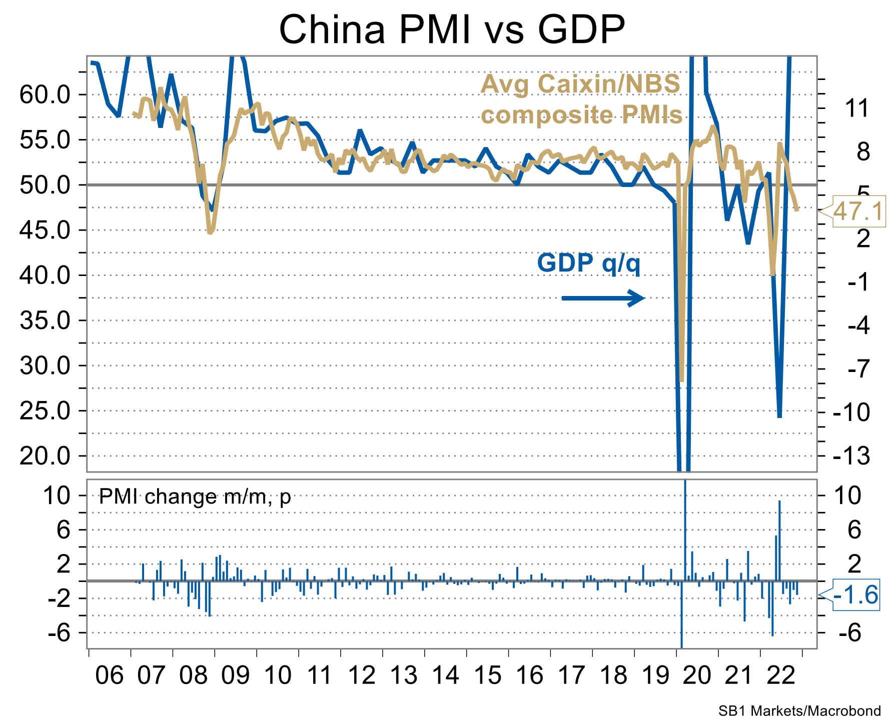


Preliminary data for the services sector

Both PMI data sets further down in November

The PMIs signal slow growth in Q4, no doubt due to covid restrictions

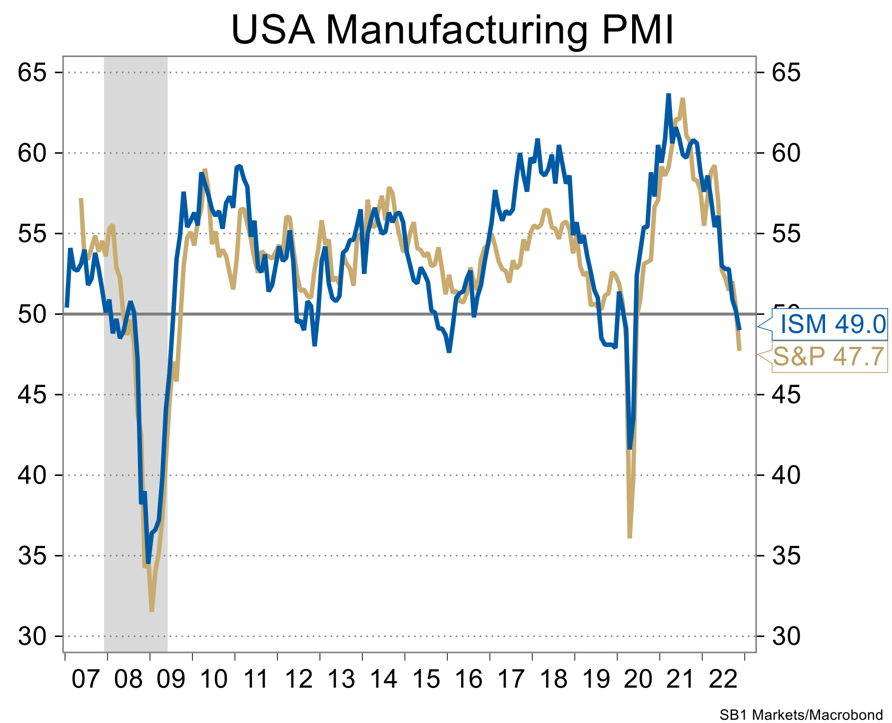


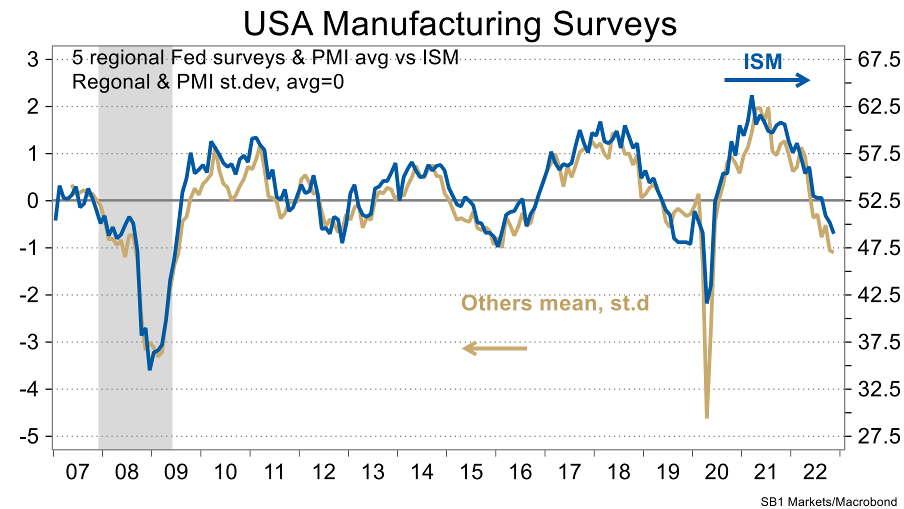


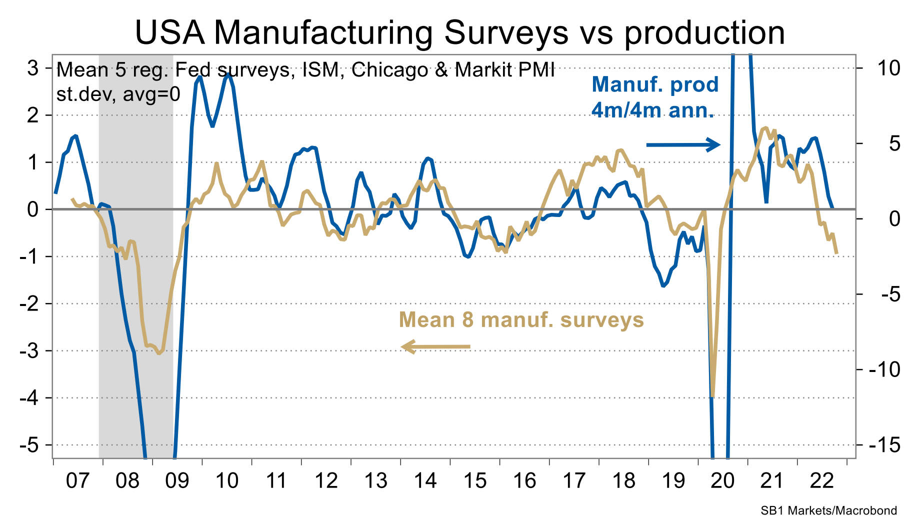
- **GDP** recovered from the weak lockdown Q2, and was better than expected in Q3. The October & November PMIs signal far lower growth in Q4
- The **NBS/CFLP composite PMI** fell by 1.9 p to 47.1, expected down 0.5 pp. The service sector reported a further slowdown to well below trend growth – as did the manufacturing sector
- The **Caixin composite index** fell by 1.3 p 47.0. The manufacturing PMI surprised at the upside (up 0.2 p) but the service sector PMI fell more than assumed, by 1.6 p to 46.7 (expected 48.0)

Manufacturing surveys: below the '50-line'; production has just flattened

The ISM fell 1.2 p to 49.0, expected 49.7. S&P's PMI -2.7 p to 47.7 (revised down 0.1 p)



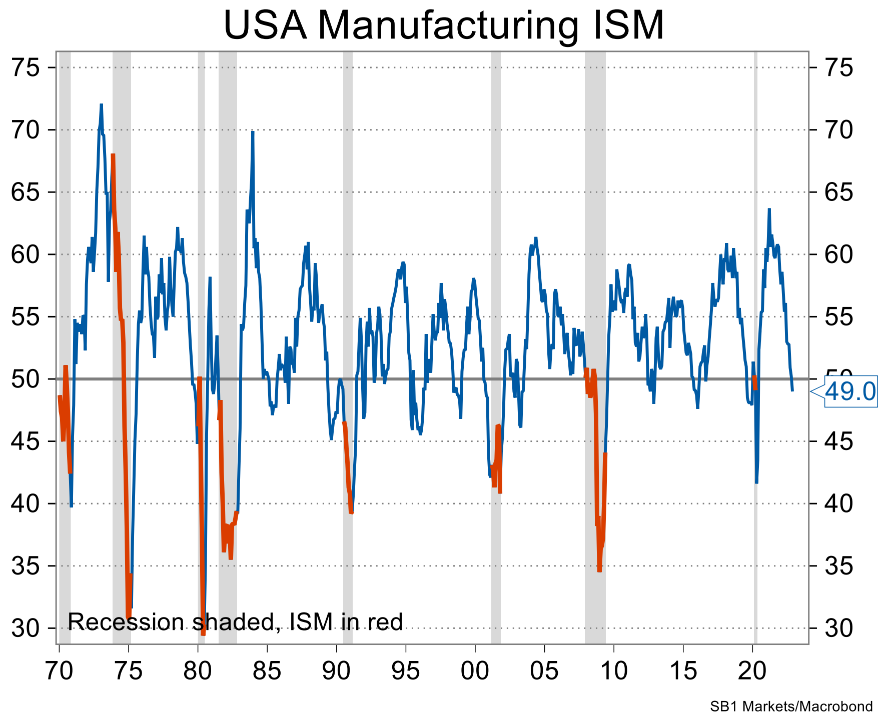




- Both the **ISM, the S&P's PMI and a bunch of regional Fed surveys** are heading straight down, and almost all are below average, and below the '50-line' (named 'zero' in some surveys)
  - Other surveys are on average weaker than the ISM, at a level equalling 47.3
- We expect a continued slowdown the coming months, as orders are unusually weak (if not deep into a recession)
- **Production** will most likely follow suit, even without a further weakening of the these surveys – they are already reporting a setback in the manufacturing sector

The manufacturing ISM fell below the 50-line in November

… Which happens from time to time, without a recession to follow. However, the order component sends a warning

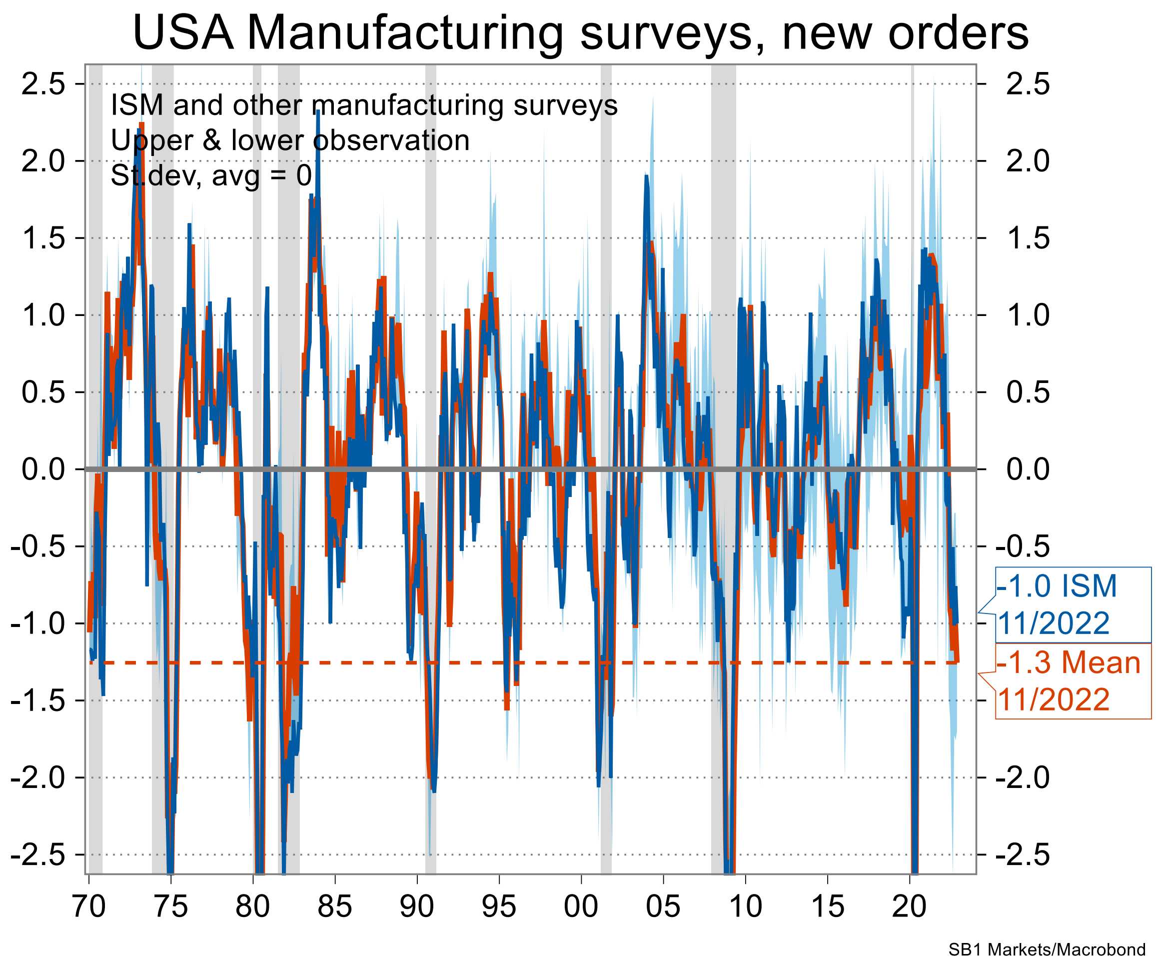


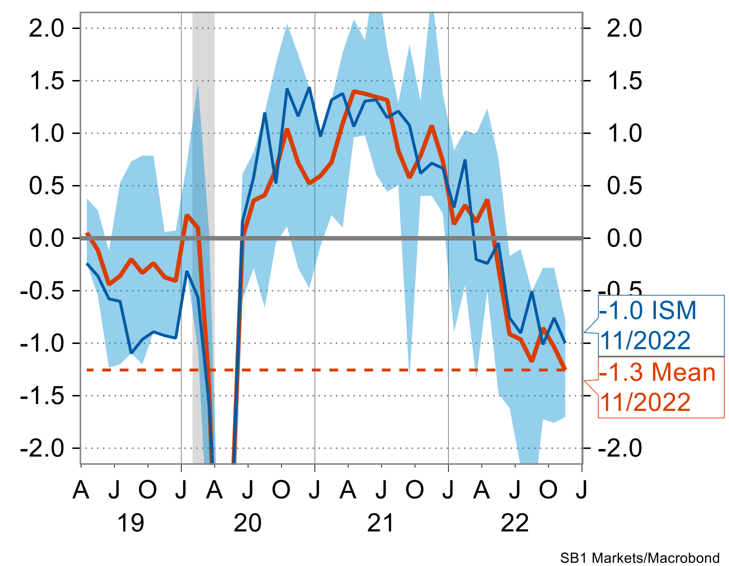
The **ISM manufacturing survey** confirms a gradual slowdown in the US economy, but not as much as the average (and median) of other surveys

- The total index fell by 1.2 p to 49.0, expected down 0.5 p to 49.7
- In November, 6 of 18 manufacturing sectors reported **growth** (down from 8 in Oct), 12 sectors reported a decline (up from 10)
- The **new orders** index declined 2 p to 47.2, even if exports orders contracted at a slower pace. Just 1 of 18 sectors reported growth in new orders in November! Other surveys agree. The **order backlog** is also declining rapidly, the index is at 40 (from above 50 in September!!)
- The **production** index fell 0.8, but remains above 50, at 51.5, which still is below an average level. Given the order indices, the risk vs production the coming months is sharply on the downside
- The **employment** index fell 1.6 p to 48.4, signalling weaker demand for labour
- The **delivery times** index stabilised but is fallen below the 50-line as **supply chain** issues are dissipating: Just 3 commodities saw **price increases** (from 9 last month and 40 in May, and 56 at the peak). 11 were down in price, like aluminium, steel, and lumber, though less than in Oct (17 commodities). Just 6 commodities were reported in **short supply**, up from 9 in Oct (and far below the peak at 50 commodities a few months ago).
- In addition, **inventories are growing, and the manufacturers assessment of their customers' inventories** confirms that markets have become more balanced.
- The input **price** index fell sharply to 49.4, signalling falling prices! The supply chains issues – that were due to very strong demand, not weak production/transportation capacity – are now being sorted out – and prices/margins will very likely be cut, most places!
- **Comments** are mixed – many some are still reporting that labour is a scarce commodity, but several are acknowledging a slowdown in demand, and that competition is increasing

At the current pace of contraction in new orders a recession usually follows

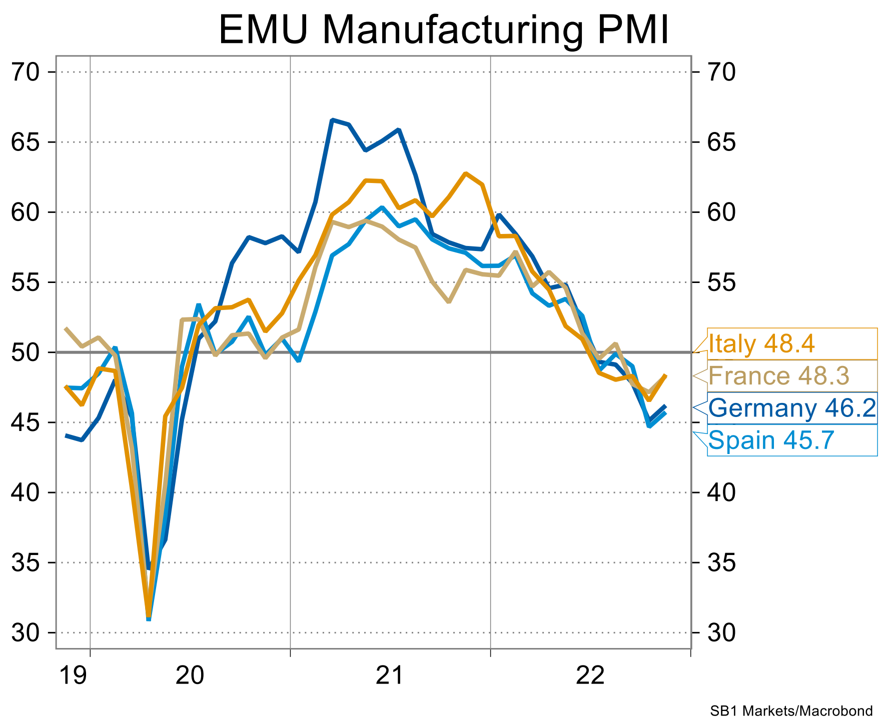
The ‘95 soft landing is the only exception, a false red flag. The 8 recession signals turned out to be correct

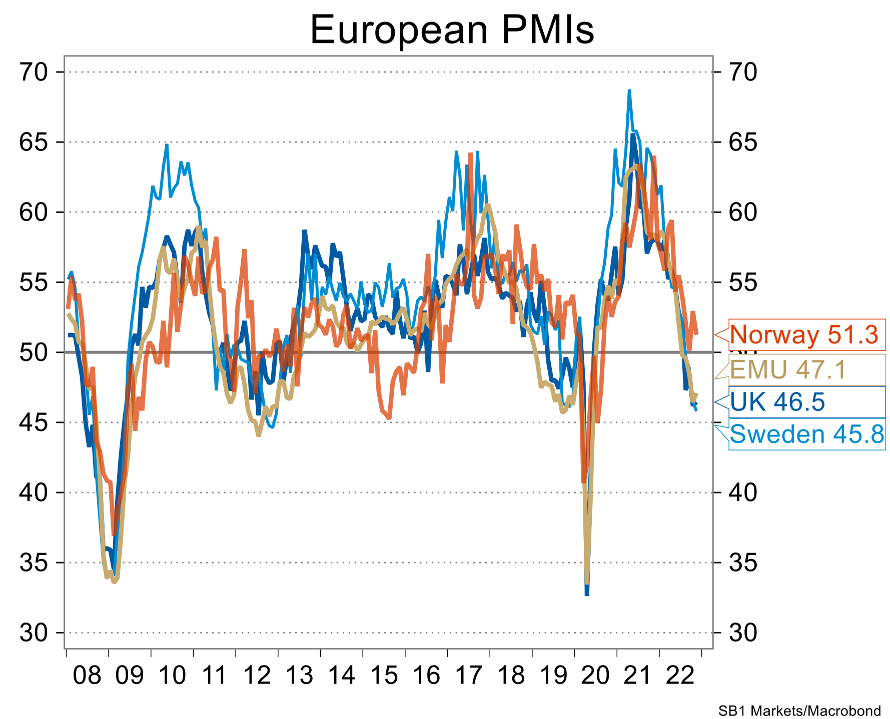




Eurozone manufacturing PMIs were up in November, but sector is contracting

The Norwegian and Swedish PMIs fell, but Norway is still above the 50-line

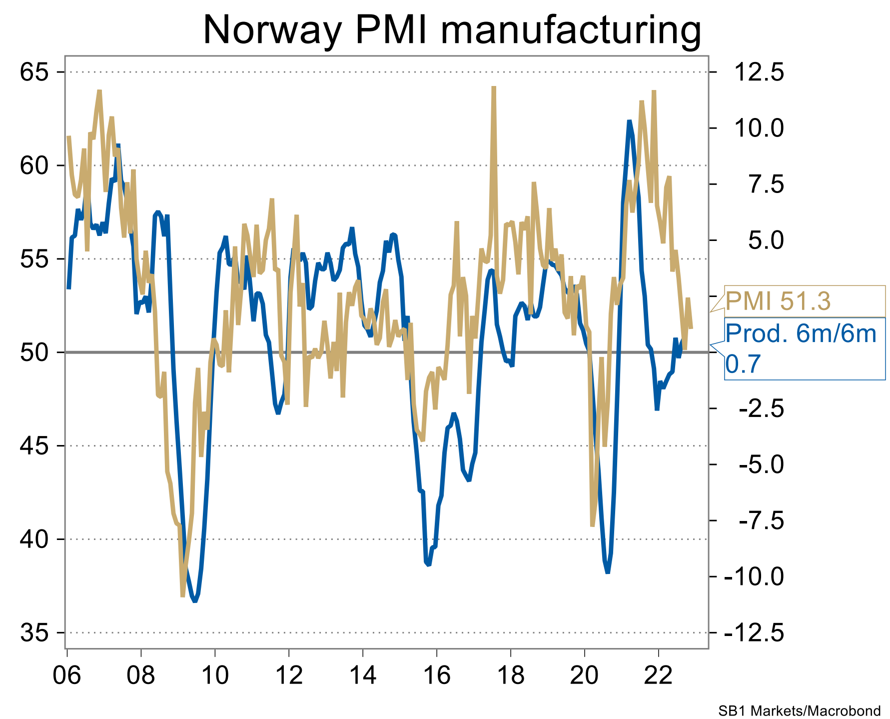


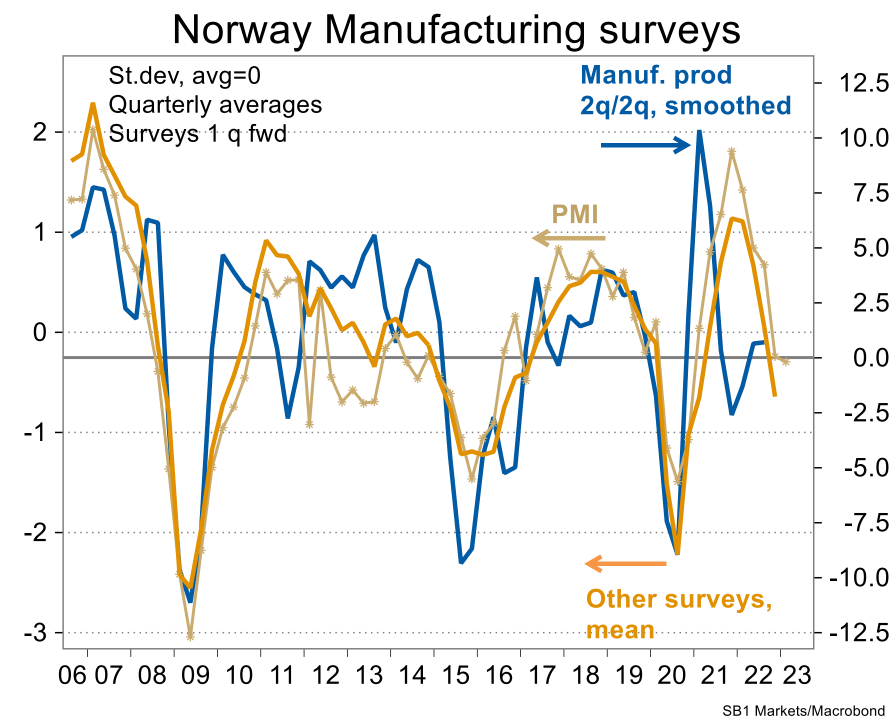


- The increase in the **EMU PMI** in November was confirmed, up 0.7 p to 47.1 (flash est. at 47.3). The German manuf. PMI came in at 46.2, up 1.1 p from October, still 0.5 p lower than the flash estimate. The French PMI was also lower than the flash estimate, while the Italian and the Spanish PMIs surprised on the upside. All 4 PMIs rose, but all remain in contractionary territory
- **The UK PMI** was revised up by 0.3 p to 46.5, up from 46.2 in October
- **The Swedish PMI** fell by 0.8 p to 45.8. Not too long ago, the index was close to 70, and at the top of the global ranking – the fall has been swift
- **The Norwegian PMI** also declined, by 1.7 p to 51.3

The volatile Norwegian manufacturing PMI lower in November

Production, orders, delivery times, and inventories indices were all down. The employment index was unch. above 50

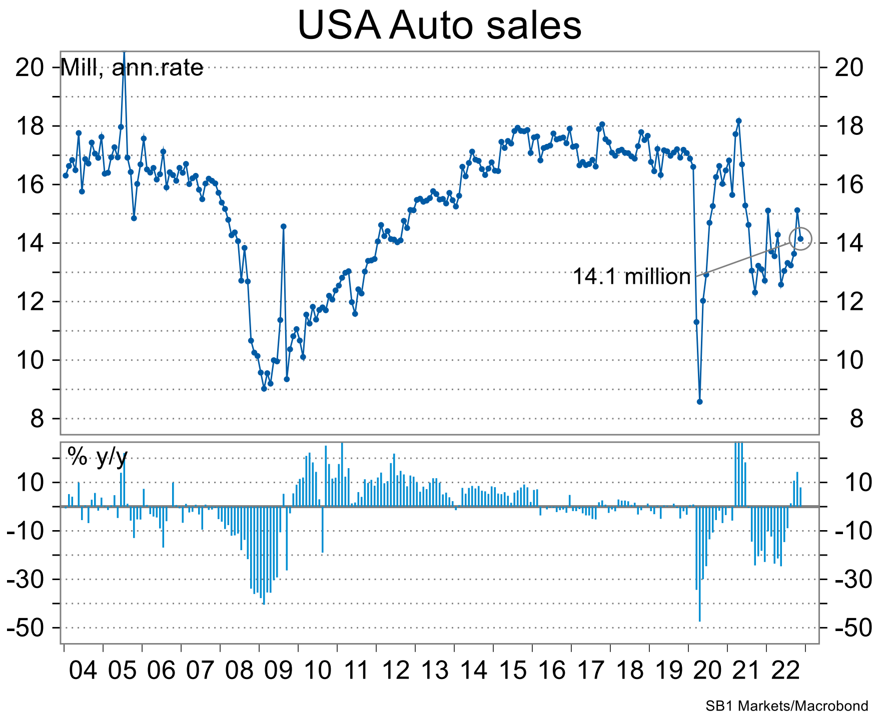


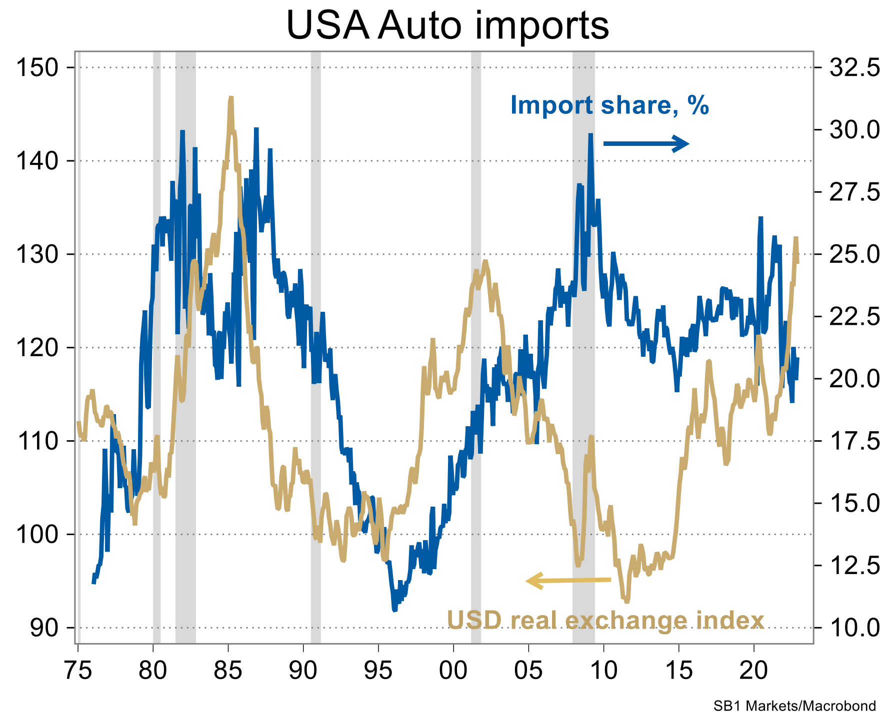


- The **manufacturing PMI index** fell 1.7p to 51.2 in November (October was revised down by 0.2 p), and the trend is clearly down
- Other **manufacturing surveys** are also on the weak side, like the SSB survey, NHO and Norges Banks' Regional Network
- **Actual production** has been trending down since early 2021, and has – at best – stabilised recent months (October data will be reported on Wednesday)

US auto sales weaker than expected in November, supply to blame, or not?

Sales fell to 14.1 mill in November, from 15.1 in Oct, expected down to 14.5 mill. Sales are 17% below the 2019 level

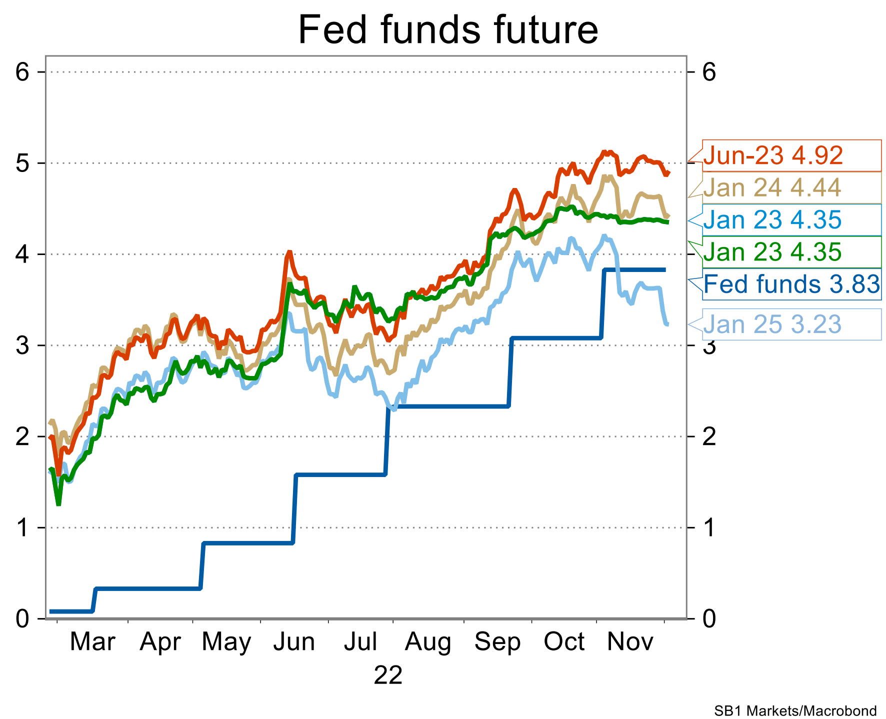


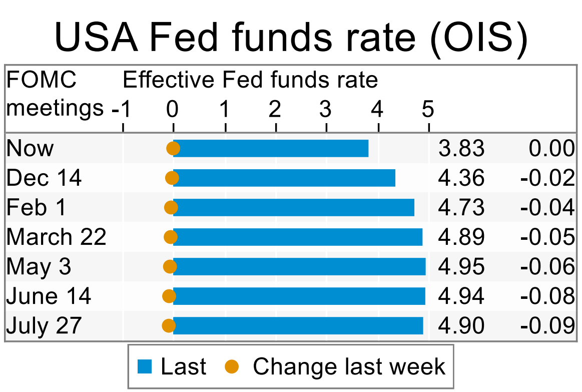


- Auto production in the US has recovered sharply recent months, to above the 2019 level
- The import share has fallen to 20% from 22.5% (rounded) – and this 2.5 pp decline can not explain the reduction in total sales

Fed’s Beige book reports of lower activity and increased pessimism

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



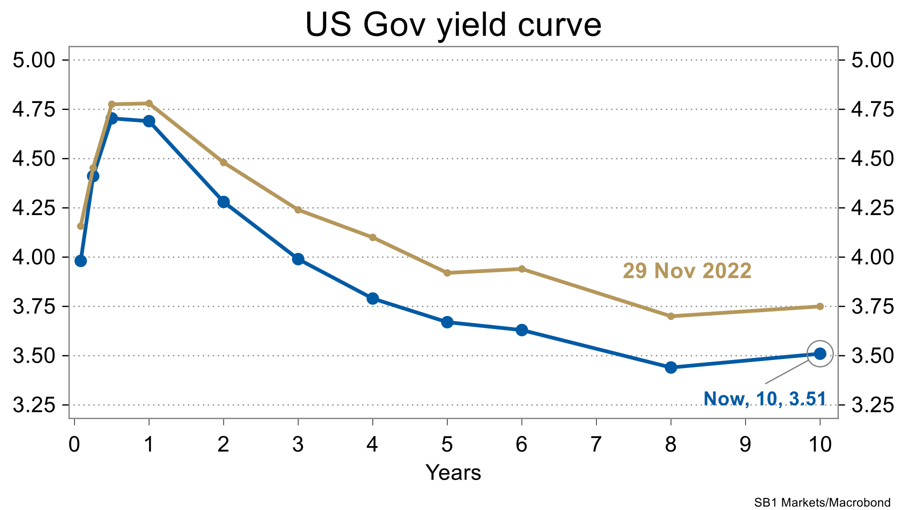


- **The US economy is slowing down**
  - On average, economic activity was somewhat weaker than in the prior reporting period. 4 districts report that activity contracted modestly, and 3 districts said growth had stalled, and the remaining 5 reported modest growth – last report 2 reported a decline in activity, 4 flat, and 6 modest growth
  - Outlook more pessimistic over concerns of high inflation and weakening demand
  - Loan volumes declined further due to weak demand and tighter standards
  - Manufacturing activity continued at the same pace or expanded slightly
  - The labour market was still very tight, but hiring difficulties eased. Some layoffs in the technology, finance, and real estate sectors were observed
  - Overall inflation remained elevated, with some easing reported. Retail prices ‘faced downward pressure’ and steel and lumber prices fell
- Taken face value, the Beige book confirms that growth is slowing further, price pressures are easing somewhat, and that the labour market remains tight (as many other reports confirm)
- Fed Chair Jerome Powell, and several other Fed officials have recently argued for slowing the pace of rate hikes this month and observe the effects of the implemented policy in the economy. The Fed is right do so, as this latest beige book reports lower activity and weakening demand: +50 bps is a done deal – and the market agrees

SpareBank 1 MARKETS

Powell will keep at it until he is done – rates will be higher, for longer

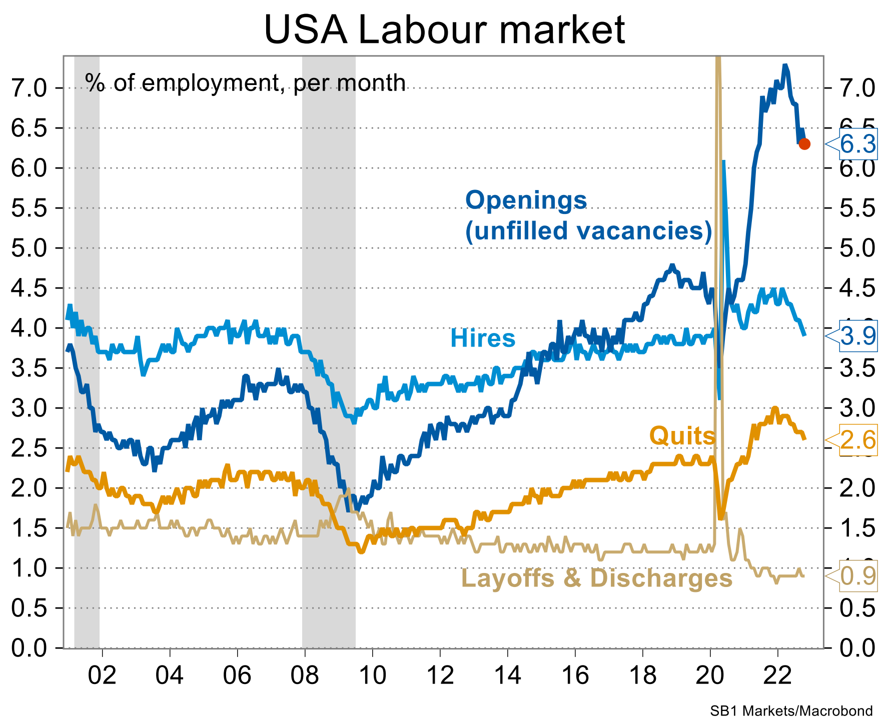
…but markets focused on the fact that the pace of hiking is slowing. Come on, we already knew that!



- **Federal Reserve's governor Powell's** long-awaited speech on Wednesday was summed up by Financial Times as 'hawkish' (and we though so too), but the markets were of a different opinion. Bond yields fell sharply – and stayed low on Thursday & Friday (at least by the close) even if the labour market report was stronger than expected, especially regarding wages, which Powell focused on in this speech
- Sure, Powell signalled, as most other Fed officials recent weeks, that the pace of hiking could slow, at the upcoming or the next FOMC meeting – which the market also had discounted
- Powell confirmed that the peak rate in the cycle probably will be higher than the 4.6% signalled in September, and that rates will stay higher for longer
- The market now discounts 2 x 26 bps cuts in the Fed funds rate in H2-2023, after reaching almost 5.0% in Q2

The vacancy rate down 0.2 pp to 6.3% in October, as expected

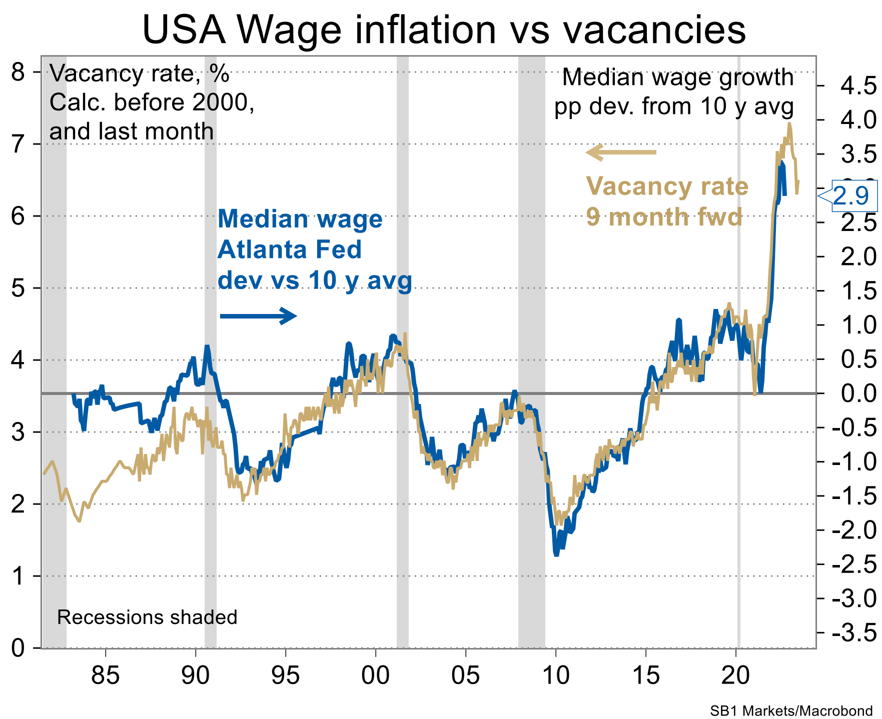
The tide has turned but the labour market is still very tight and wage inflation will quite likely remain too high

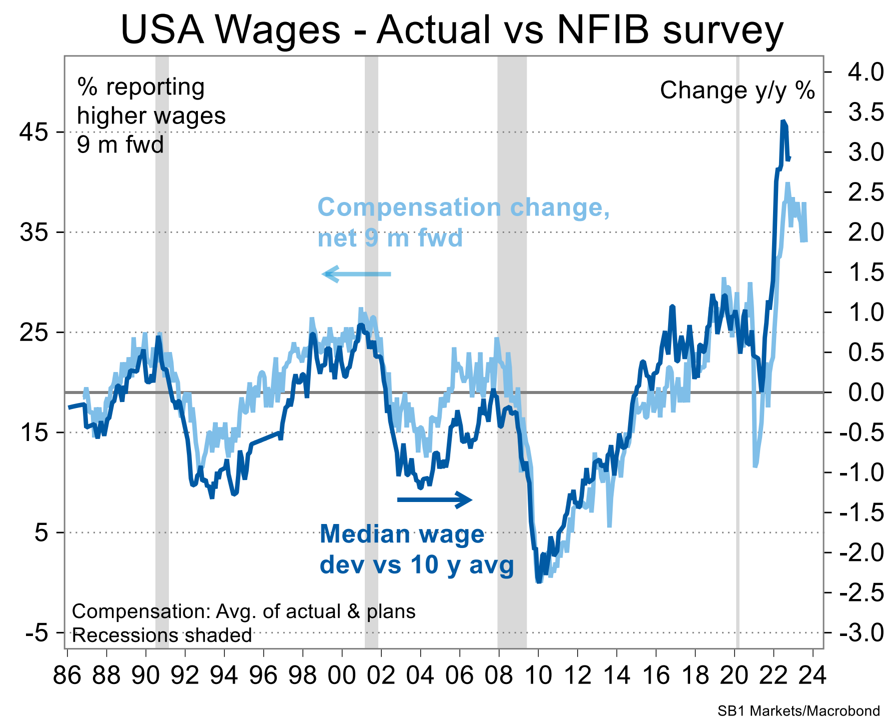


- The number of **unfilled vacancies** fell by 0.35 mill to 10.33 mill in Oct, slightly less than expected (to 10.3 mill). The rate (vs no. of employed) fell by 0.2 pp to 6.3%
  - Vacancies are down from the peak in March (7.3%) but the level is still way above anything seen before. The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit
- **New hires** fell by 0.1 mill to 6.0 mill in October, equalling 3.9% of the employment level. This is indicating an easing of the labour market, but the level is, of course, still high
- The number of **voluntary quits** fell 0.1 mill to 4.1 mill, leaving the rate to employment unch. at 2.7%. The trend is down, signalling that workers have become somewhat more cautious leaving their current jobs – but the quit level is still higher than anytime before the post pandemic surge
- **Layoffs** equalled 0.9% of employment in October, unch. from Sept – still not signalling any take-off in downsizing (but the Challenger survey counted more layoffs in November, check some pages fwd)
- **The SMBs (NFIB survey)** reported that 44% of companies were not able to fill positions in November, down 2 pp from Oct. Hiring plans were down by 2 pp, but remains high – and the share saying that they are increasing compensation fell but remains very high
- **In sum:** The tide has turned but the labour market is still very tight, and it is unlikely that wage inflation will come down to a sustainable level without a substantial further weakening. Job openings are probably stickier that what the Fed has hoped for, and are leading unemployment by some few months, though not by a stable lag (but the correlation is high). Actual unemployment was unch. at 3.7% in November. New jobless claims, which leads the unemployment rate rose somewhat two weeks ago fell back again last week

Both the vacancy rate as well as SME’s compensation plans have peaked

And wage inflation may have peaked too, but the level is still way above what will return 2% CPI infl.

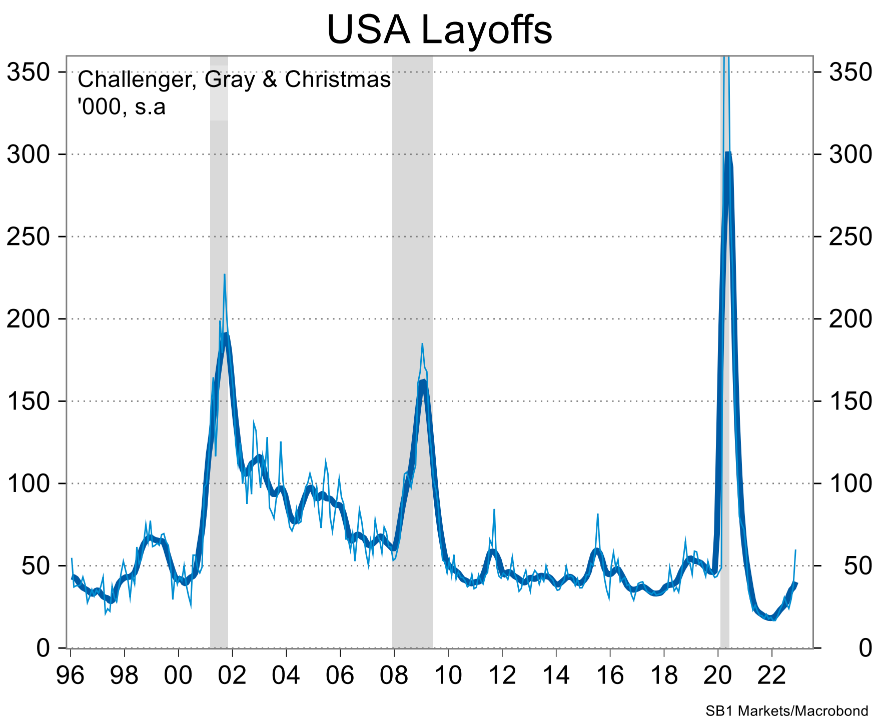


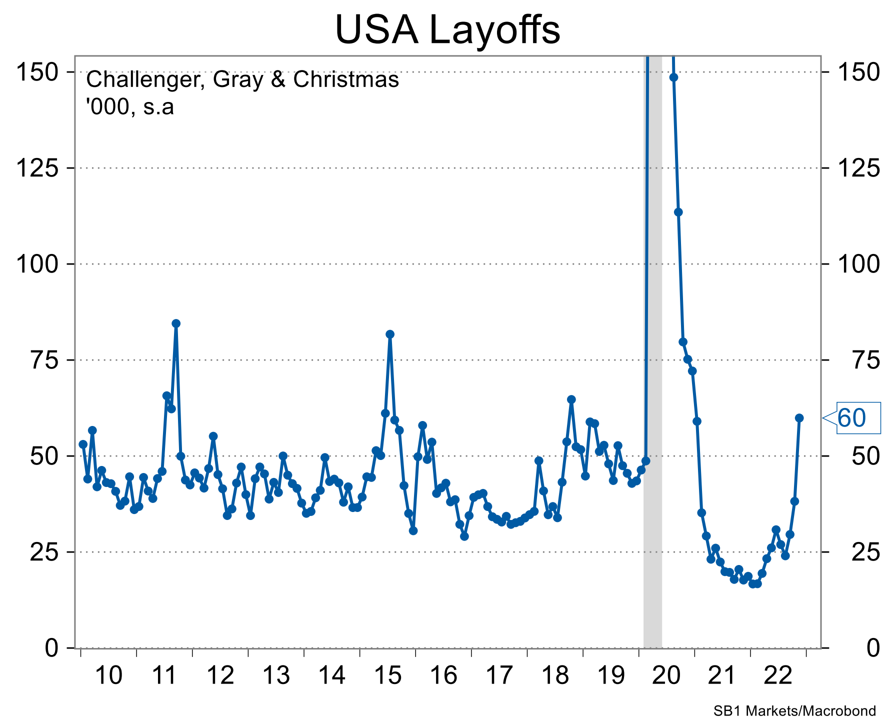


- **Our ‘Phillips curve’** based on the vacancy rate signals continued wage inflation at some 3% above the normal level – which will yield 3 pp higher wage inflation than we have been used to, before the pandemic
  - Companies (SMEs) compensation plans also signal continued high wage inflation but not faster than the present
- **Demand for labour** has to be reduced sharply in order to get wage inflation back to a sustainable level
  - Check under which circumstances wage inflation slows on the charts above (hint: find the shaded areas, follow the blue wage line - as well as the vacancy rate or the wage hike plans ☺). Fed will not be able to control inflation if demand for labour is not cut sharply. Exactly what Powell once more told us during the speech last week

Layoffs skyrocketed in November but still not much above an average level

Challenger job cuts up to 60’ from 38’ the previous month, and 20’ at the bottom

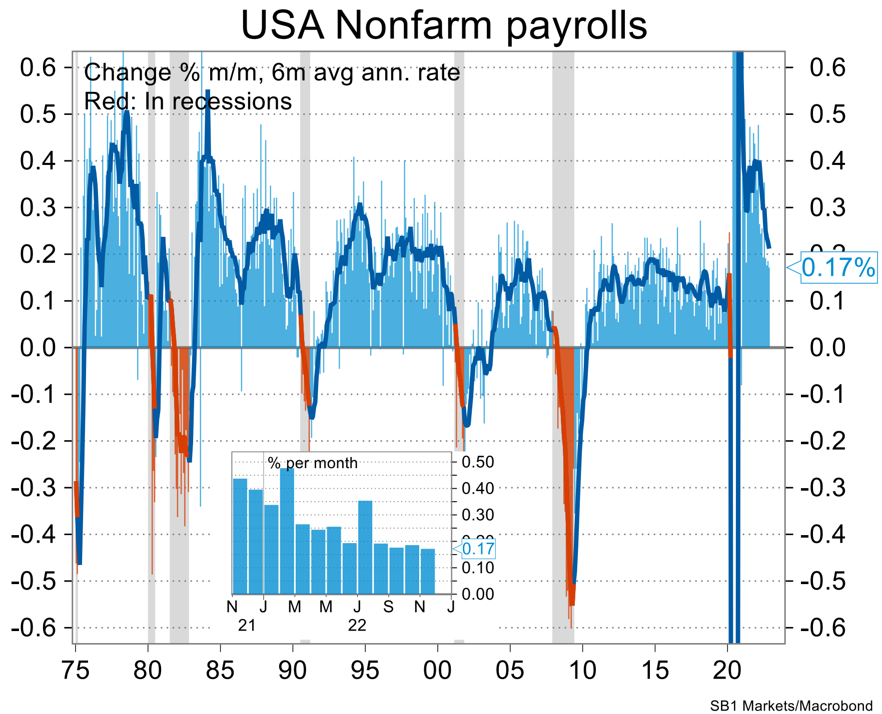


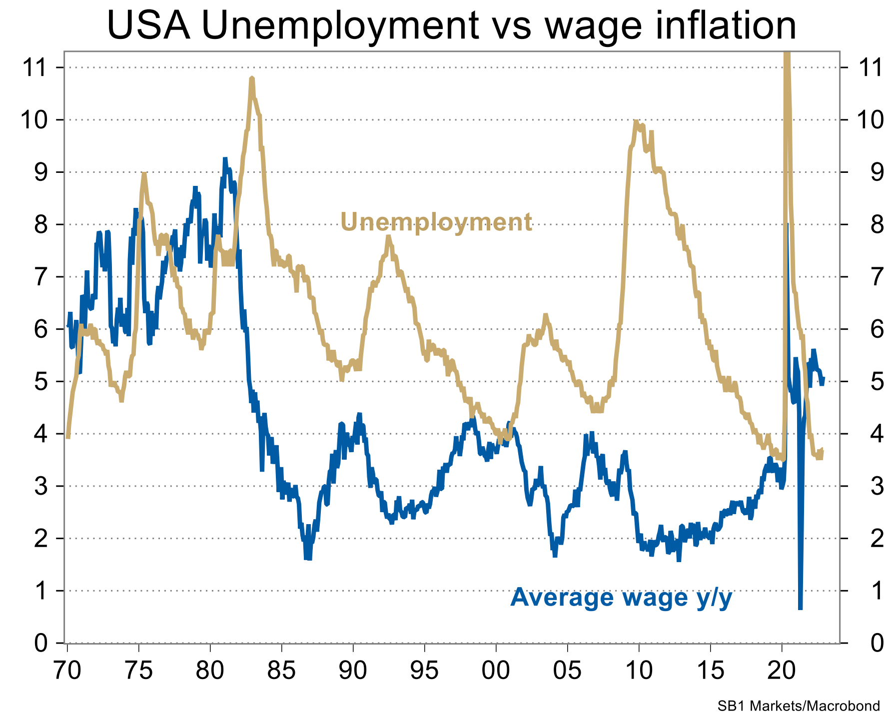


- The number for layoffs in November were some 50% above the average in normal strong labour markets, but even then, there are some outliers. This time the figure seems to be reasonable, given reports from both tech, trade and others during the month
- Tech sector has cut the most jobs this year, followed by the automotive and health care sectors

Employment growth is slowing, and unemployment rose in October

In addition, wage inflation is not accelerating – but it remains too high, according to the labour report

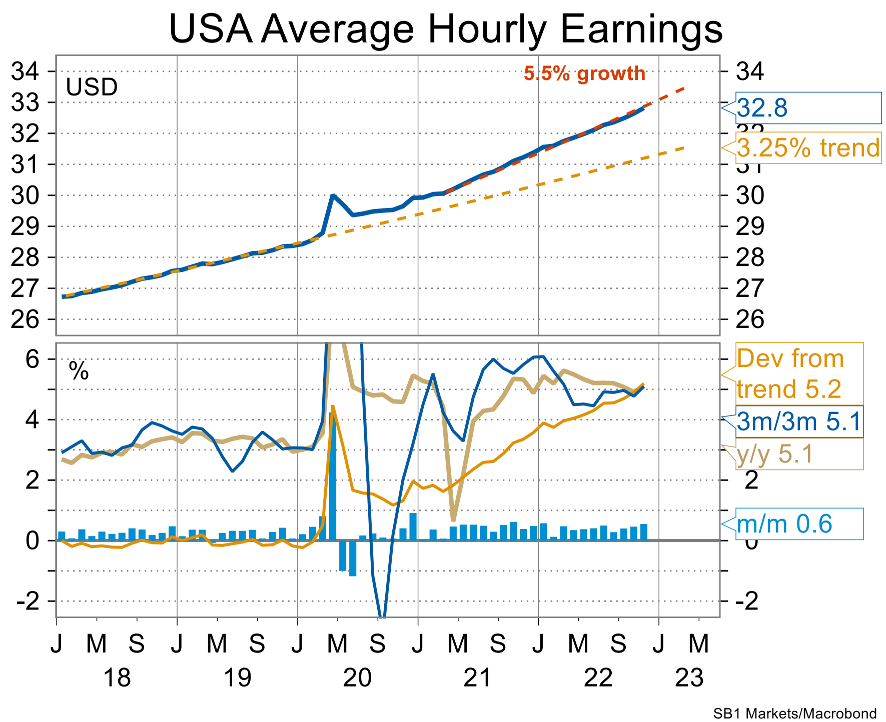


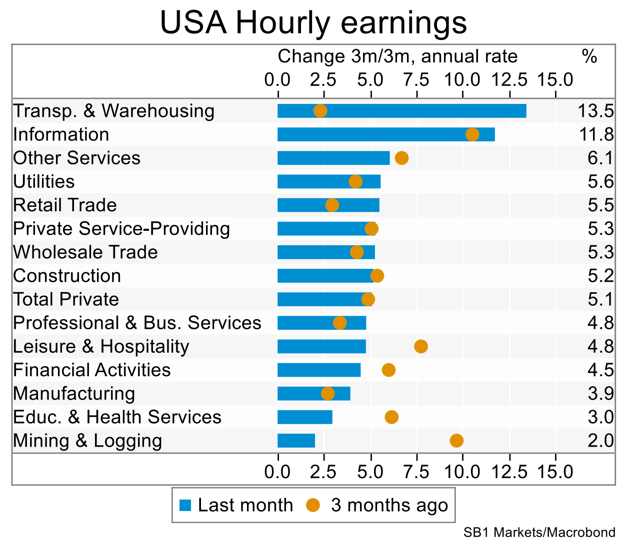


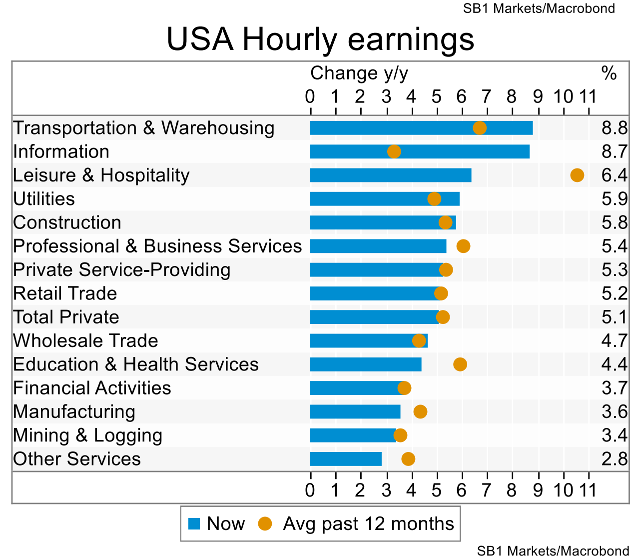
- **Nonfarm payrolls** rose by 263' in November, expected 200' (Oct was revised up by 21' to 284') but growth is gradually slowing. The LFS employment fell by 0.1% and the **employment rate** was down 0.1 pp to 59.9%. The rate has flattened since March – not a signal of strength
- **The participation rate** decreased by 0.1 pp to 62.1%, expected up to 62.3%. The level has been flat so far this year
- The **unemployment rate** was unch. at 3.7%, as expected. The FOMC Q4 forecast at 3.8% will very likely not be reached
- **Wages** rose 0.6% in Oct, 0.3 pp more than expected, and history was revised up by 0.2%. Thus, the annual rate rose to 5.1%, expected down to 4.6%, and the underlying growth rate increased. Average wages rose by 3¼% in 2019, and well below 3% in the years before
- The unemployment rate is still too low, and wage inflation is far too high. Still, the Fed will very likely hike by 'just' 50 bps next week, as the terminal rate is not that far away, even if will be lifted. At the same time, the Fed will probably signal that the policy rate will be kept higher for longer – which the market reflected on Friday, the 2 y gov bond rate in the end rose by 10 bps, reversing some of the 35-bps decline since before Powell's speech on Wednesday, which was interpreted as dovish

Wage growth 0.5 pp higher than expected, at 5.1%. Nov +0.6%, history revised

5 sectors (from 8 last month) report slower underlying (3m/3m) wage growth than 3 months ago
7 sectors (from 4) faster growth



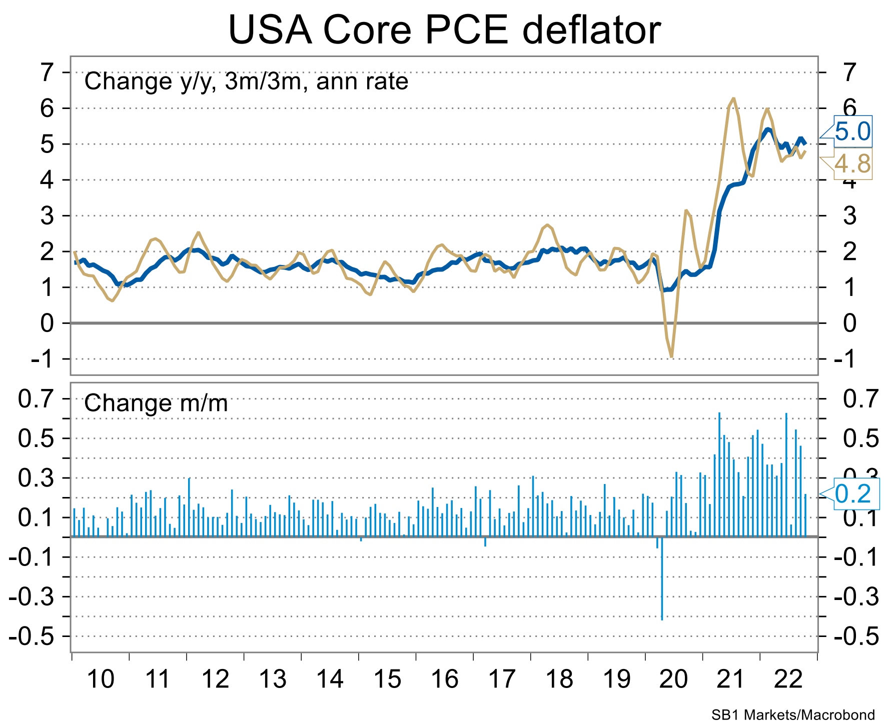




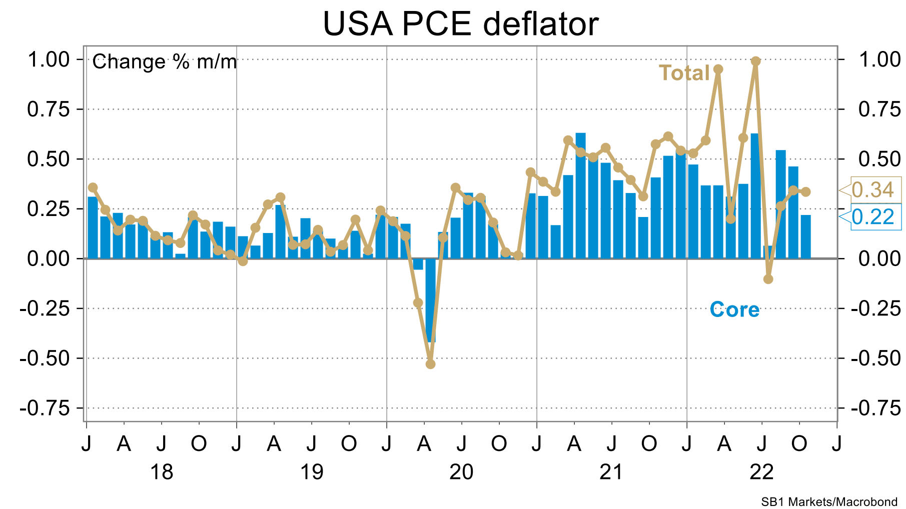
- The **average wage** rose by 0.6% in November, 0.3 pp more than expected. Annual wage inflation grew 0.2 pp to 5.1%, expected 4.6% as the annual growth rate in Oct. was revised up by 0.2 pp to 4.7%
  - Underlying (3m/3m) also rose to 5.1%, from previously reported 4.4% in October. The pace has <u>increased</u> since the summer
- Just before the pandemic, wage inflation was at approx. 3¼%, but it was below 3% until late 2018 – and that wage infl. yielded 2% CPI inflation
- *These monthly wage data are not adjusted for the change in employment mix between sectors or within sectors. Check more wage indicators at the next pages*

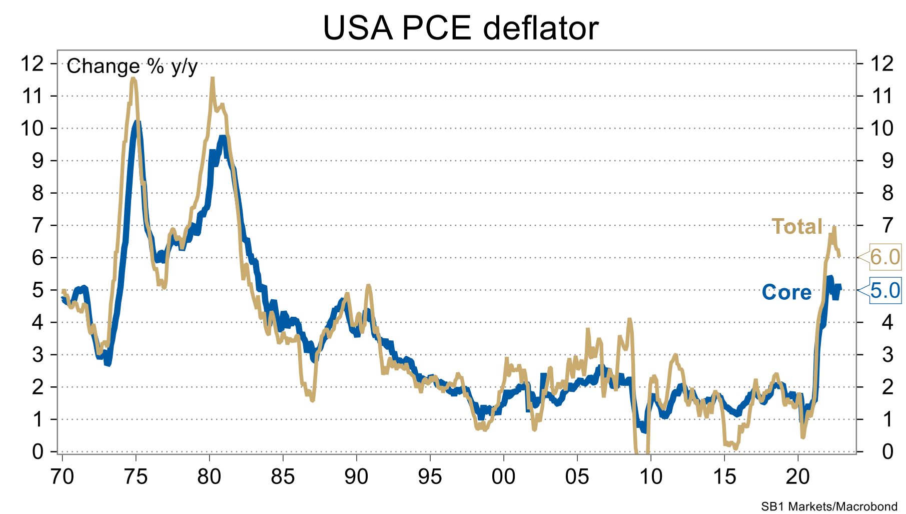
PCE data gives Fed room to breathe – but inflation remains high

The core PCE deflator rose by 0.2% m/m, 0.1 pp below expectations. The annual rate is now at 5.0%



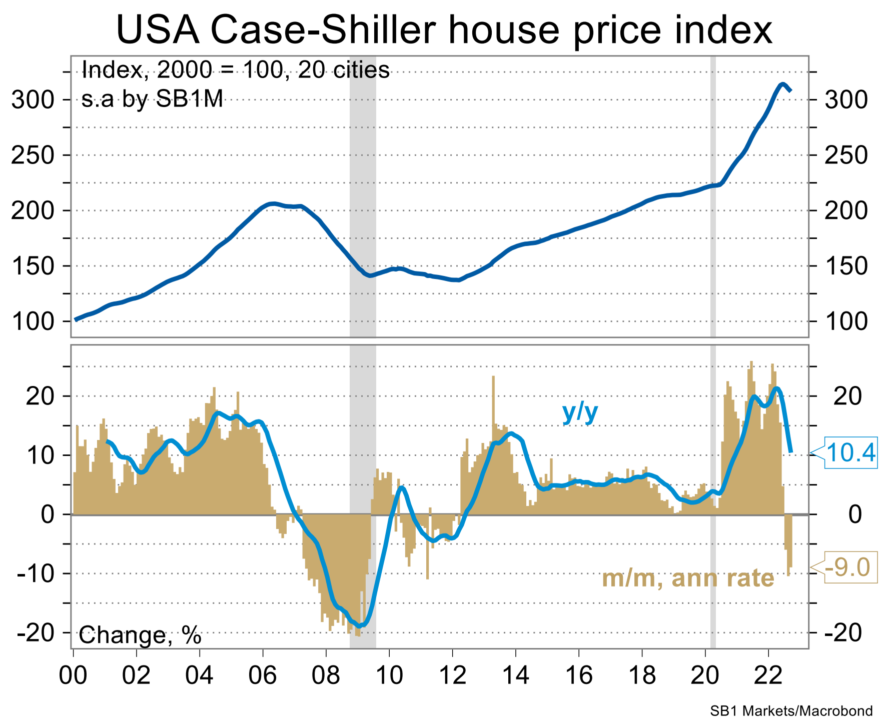
- **The core PCE** October print was down 0.1 pp to 5%, but the underlying rate is lower at 4.8%
- **The total PCE deflator** was up 0.3% in October, expected 0.4%. The annual rate at 6.0% was in line with expectations, down from 6.2% in September. The peak was at 7.0% in June

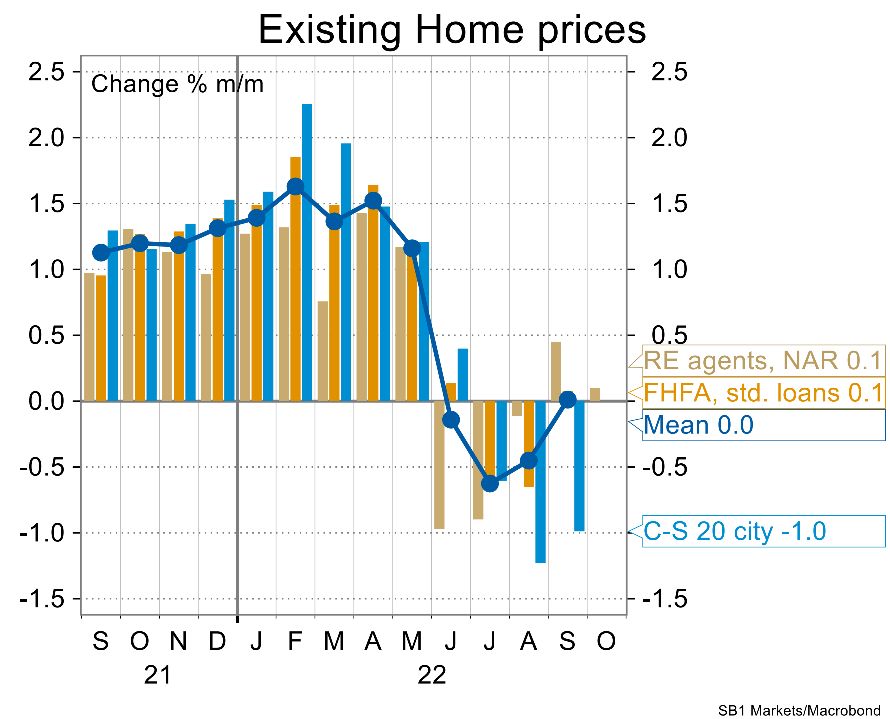




House prices on the way down, but marginally slower in September

Prices fell 1.0%, less than expected, and annual inflation is coming rapidly down but is still at 10%

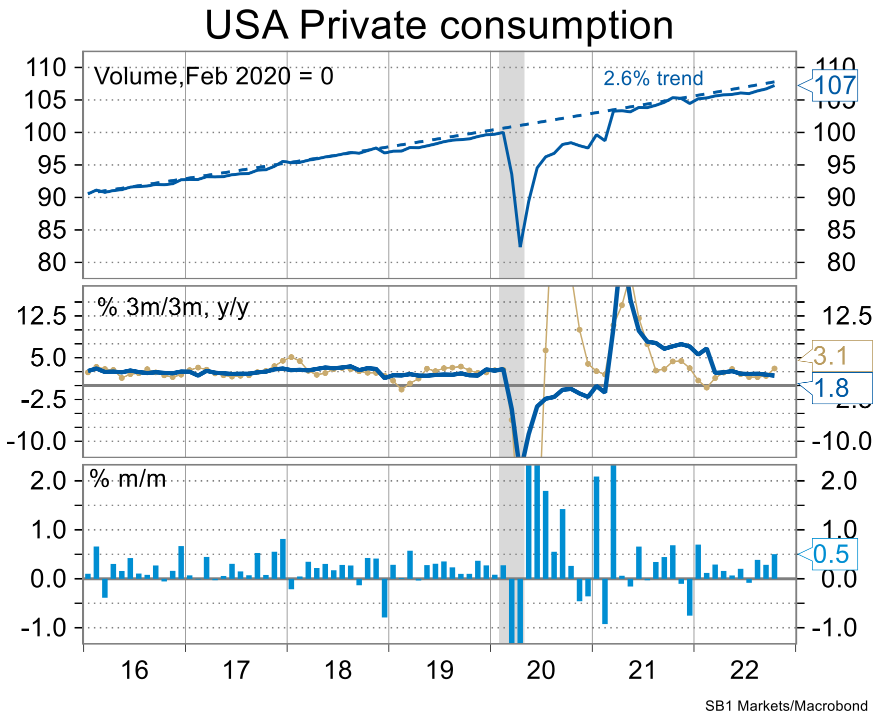


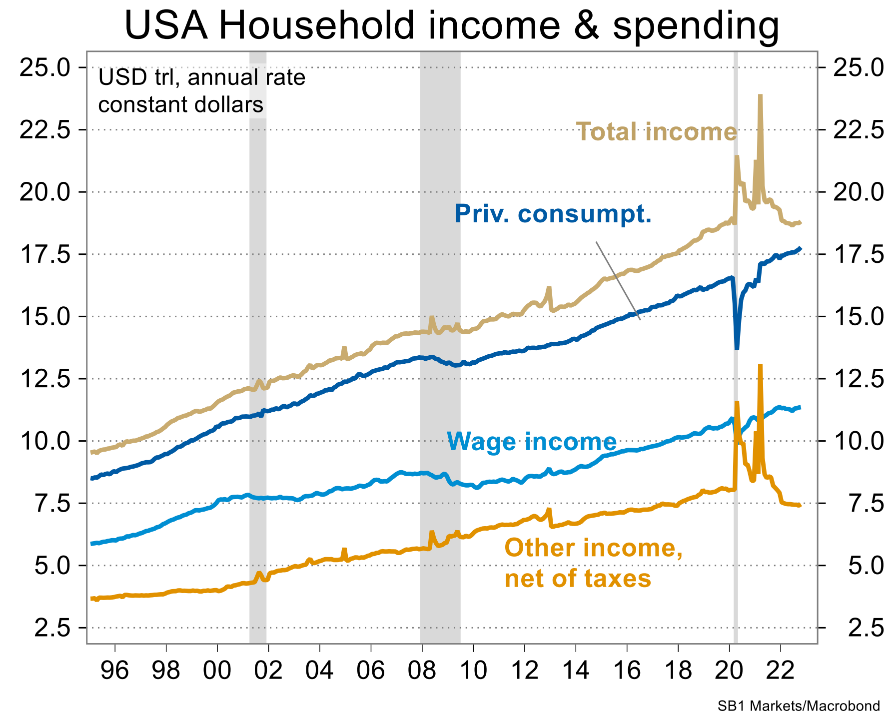


- **S&P's Case/Shiller's 20 cities** price index fell by 1.0% in Sept (Aug - Oct avg., our seas. adj, -1.2% the 'official' seasonal adjustment, as expected) equalling a -12.8% annualised pace. The decline in Aug was a tad larger than the initial estimate. The index is still up 10.4% y/y, down from 13% in August
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), rose 0.1% in Sept, rather surprising - and an average that include the NAR (realtors' index) was flat m/m!
- We still expect prices to yield substantially the coming months, following the unprecedented 42% lift since before the pandemic to the peak in June, and the surge in mortgage rates

Consumption is still trending upwards, the savings rate the 2nd lowest ever

Consumption grew 0.5% (volume) in October, in line with expectations

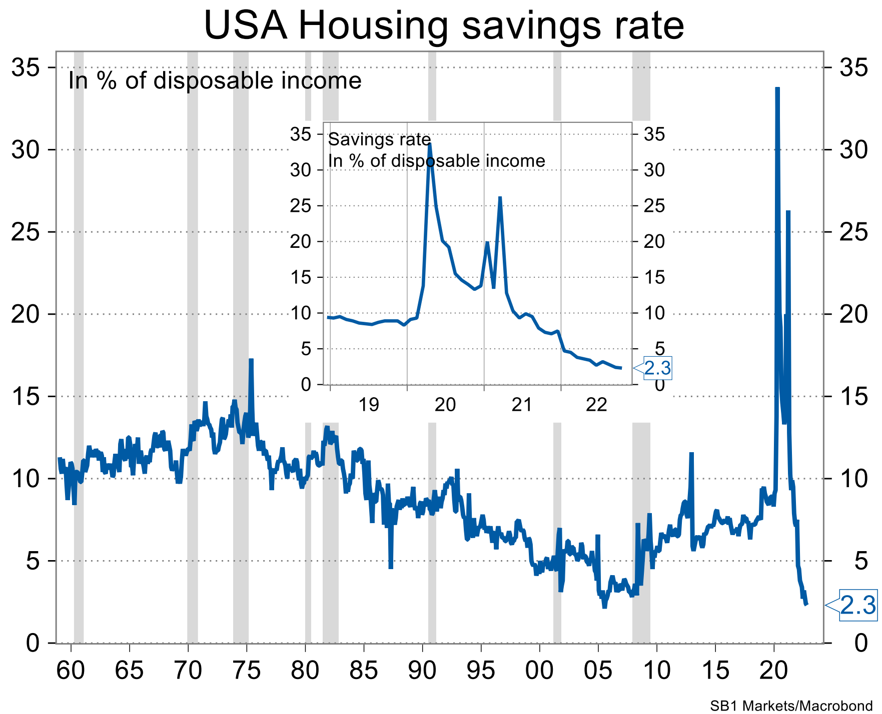


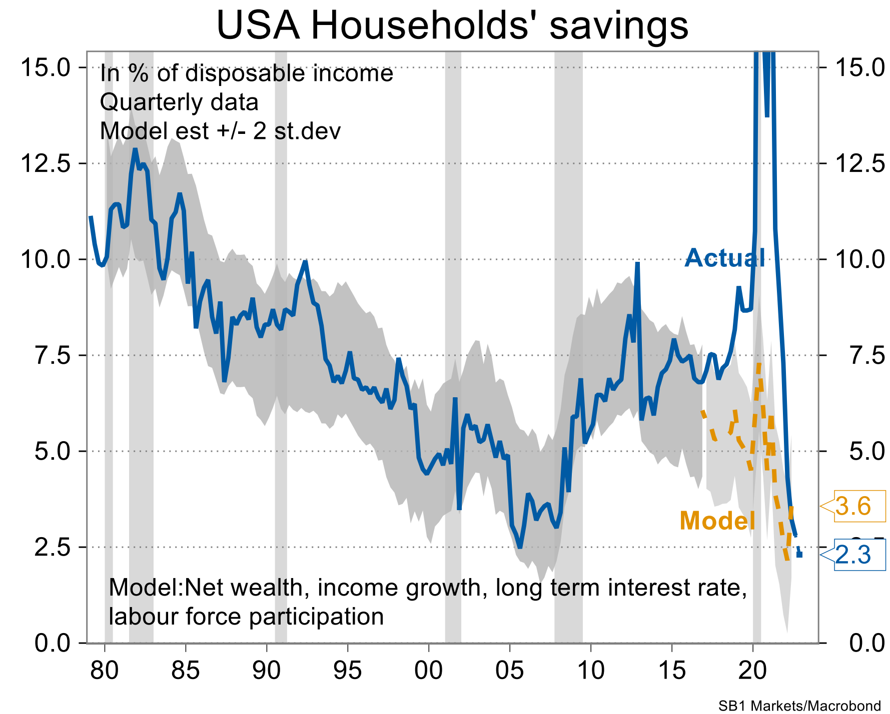


- **Private consumption** has been creeping upwards after flattening during the summer, and has proven more resilient than the development in wages would indicate – some Covid-savings being spent? Measured 3m/3m growth is above 3%. Personal spending rose 0.8% nominally, as expected
- **Personal nominal disposable income** gained 0.7% in Oct and was up by 0.4% in real terms. Real disposable income has flattened but rose in both September and October
- **The savings rate** fell 0.1 pp to 2.3%, from a 0.7 pp downward revised September print, the 2nd lowest level ever. The rate is now more than 6% below level just before the pandemic. However, even if the accumulated extraordinary savings through the pandemic is now run down, most of the Wall of Money is still intact which may make it possible for households to keep up the level of spending (at least for those who saved…)

The savings rate down to 2.3% - only July 2005 was lower

The savings rate was revised down from mid 2021 (and for 2019)



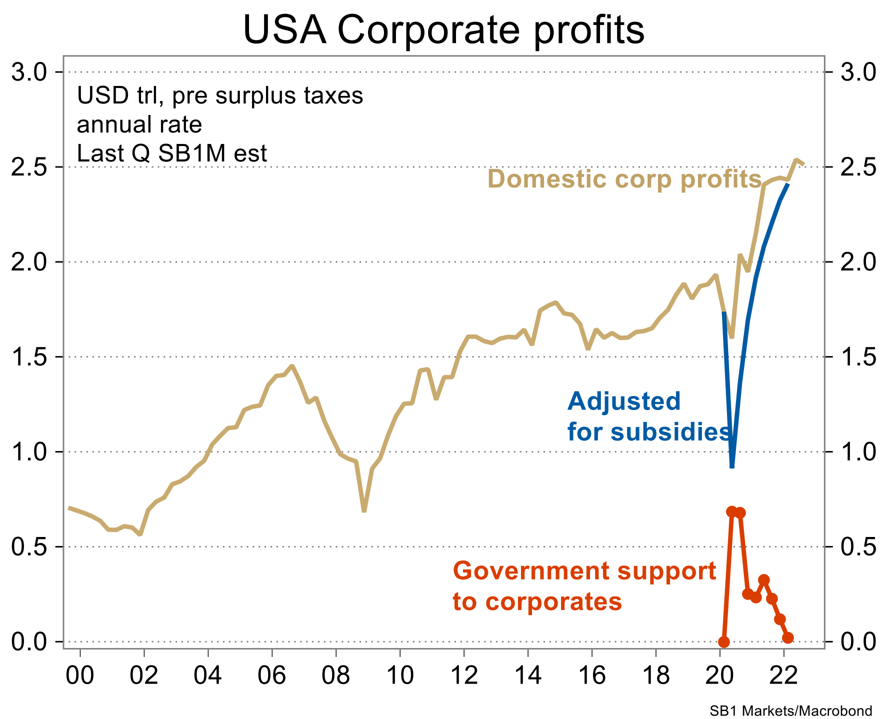


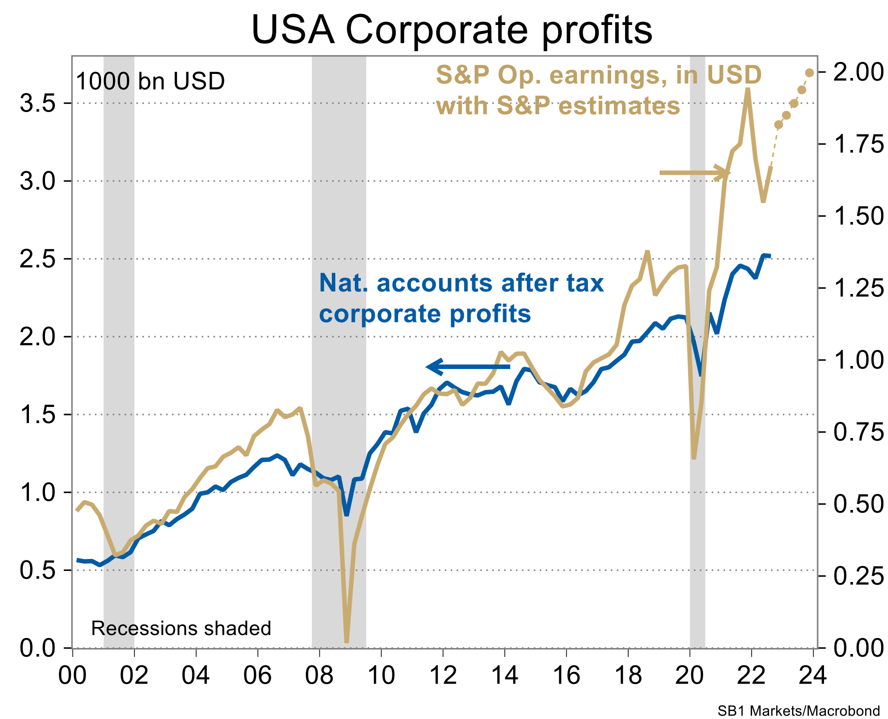
- The **savings rate** was 2.3% in October, down from an 0.7 pp downward revised September 2.4% level
- Households are now dipping into 'normal' savings in order to keep up consumption, as their real incomes are not keeping up, due to the high rate of inflation. <u>The savings rate is now more than 6 pp lower than before the pandemic</u>
  - However, household have saved much more than normal during the pandemic, equalling to some 13% of disposable income – on average for all households, that is. This 'Wall of Money' is now shrinking at a 4.4 pp pace per year, if the savings rate stabilises at 3.1%
- Our old savings model, yielded an estimated 3.6% savings rate in Q3. During the 2016 – 2019 period our model has underestimated the savings rate systematically by some 2 pp, but the gap was closed in Q2
- Q3 household asset/liability data will be published on Friday

SpareBank 1 MARKETS

Corporates' profits fell in Q3

Wage costs grew faster than value added – and the profit share fell. Much more to come, we assume

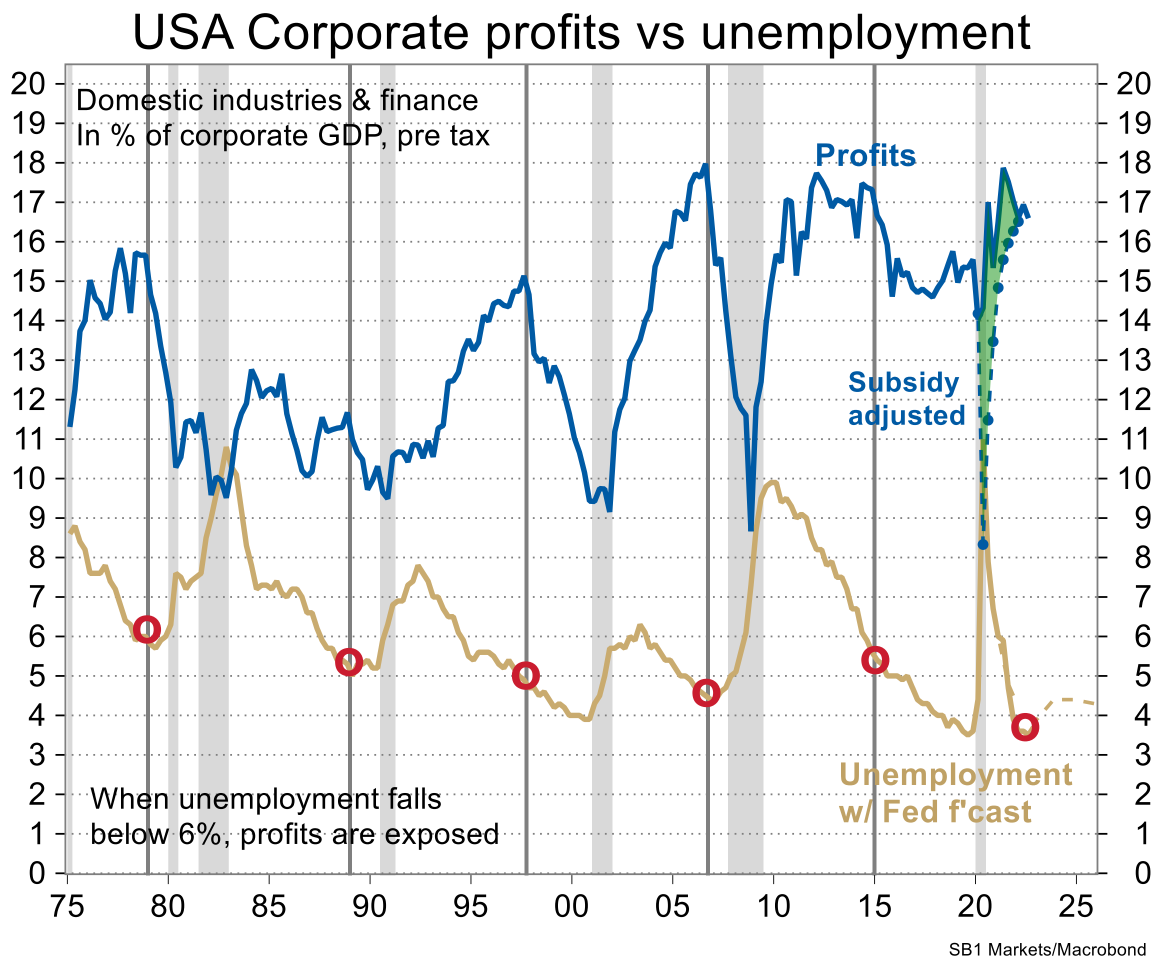




- **We assume domestic corporate profits** fell marginally in Q3, even if real and nominal GDP grew at a brisk – and upward revised pace. The reason why? Wage costs grew even faster
- The **S&P** estimates that S&P 500 profits rose by 6.5% in Q3 (down from 14% some few weeks ago, measured q/q, and are down 3% y/y). S&P profits (including profits from abroad, measured in a strong USD!) are still way above normal vs National Account profits for the total corporate sector (including all corporates operating in the US, domestically or foreign owned). Thus, a downside risk for S&P 500 earnings? S&P's forecast is usually far to optimistic, and take the expected surge in profits in Q4 and the coming quarters with more than one grain of salt
- We think the **profit outlook** is bleak. Wage inflation will not subside immediately given the super tight labour market – and a continued price inflation at the current pace does not seem to be tolerated anymore by the Federal Reserve. Exciting times ahead

The profit cycle has peaked. Now, make ready for the next leg

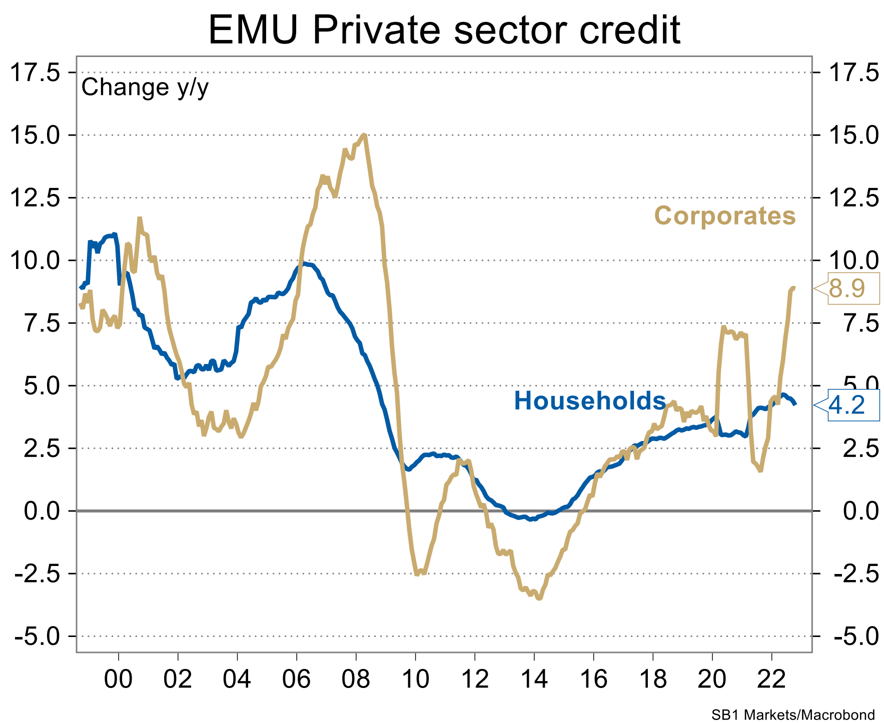
The bottom line has always been hurt when the labour market becomes too tight. Like it is now

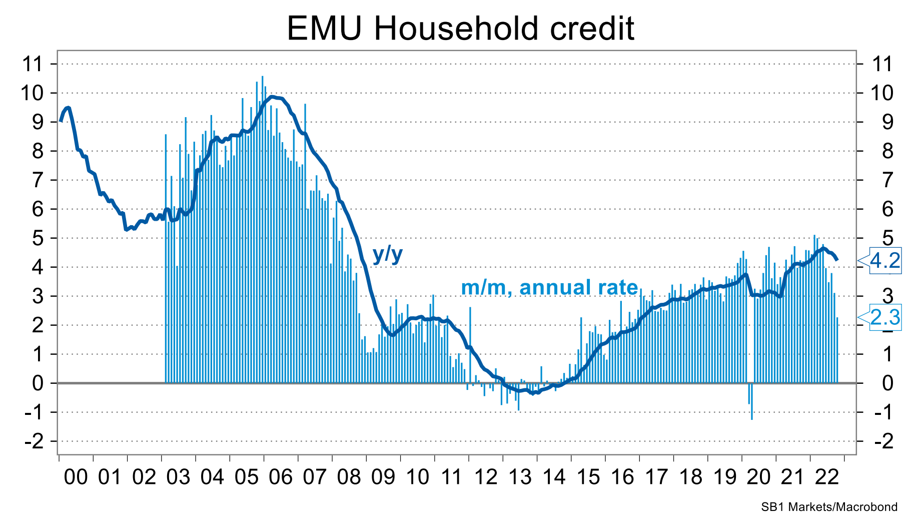


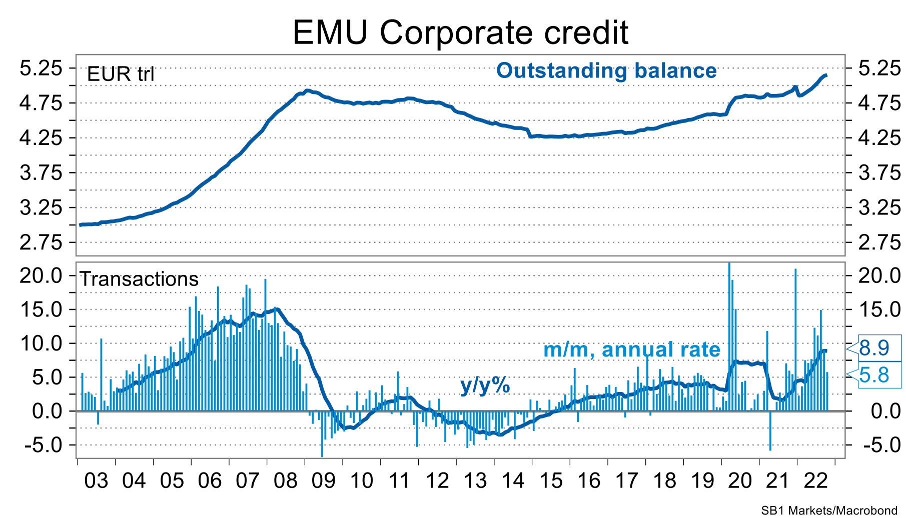
- Prices are increasing at an incredible pace but so are wage costs, and government support is on the way down
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - Unemployment is now at 3.6%, and it is falling rapidly as other indicators (especially vacancies) suggest that the labour market is even tighter than the 3.5% rate signals
- In addition, it is reasonable to expect the production tax-subsidies to normalise the coming quarters.
  - The impact is shown as the green area on the chart above
- Thus, it is quite likely that the profit share is headed downwards from here

Credit growth is slowing rapidly, and banks are tightening sharply

Annual growth rates have kept well up but monthly increase are declining rapidly



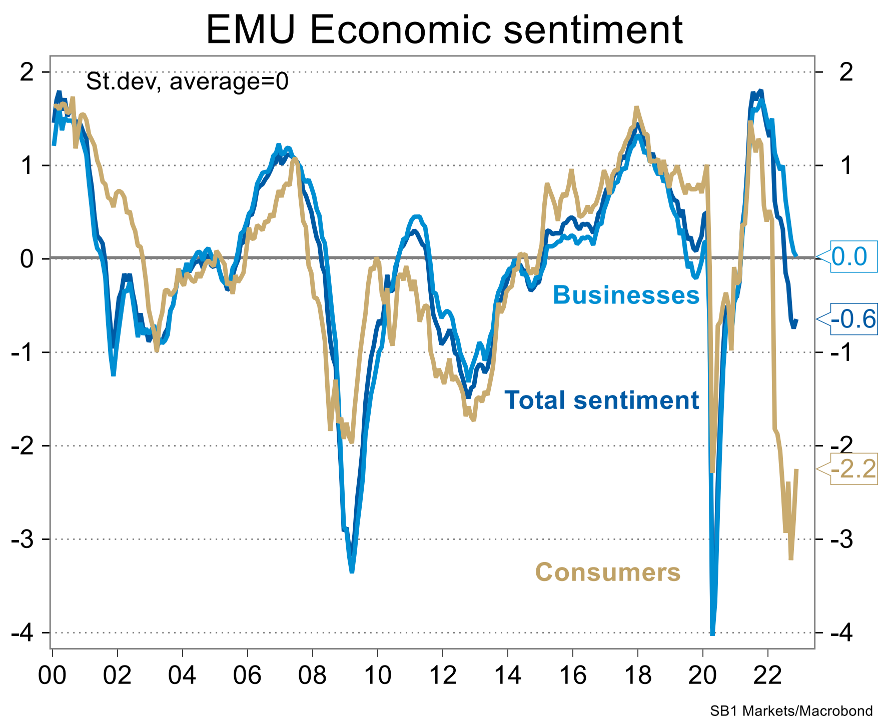


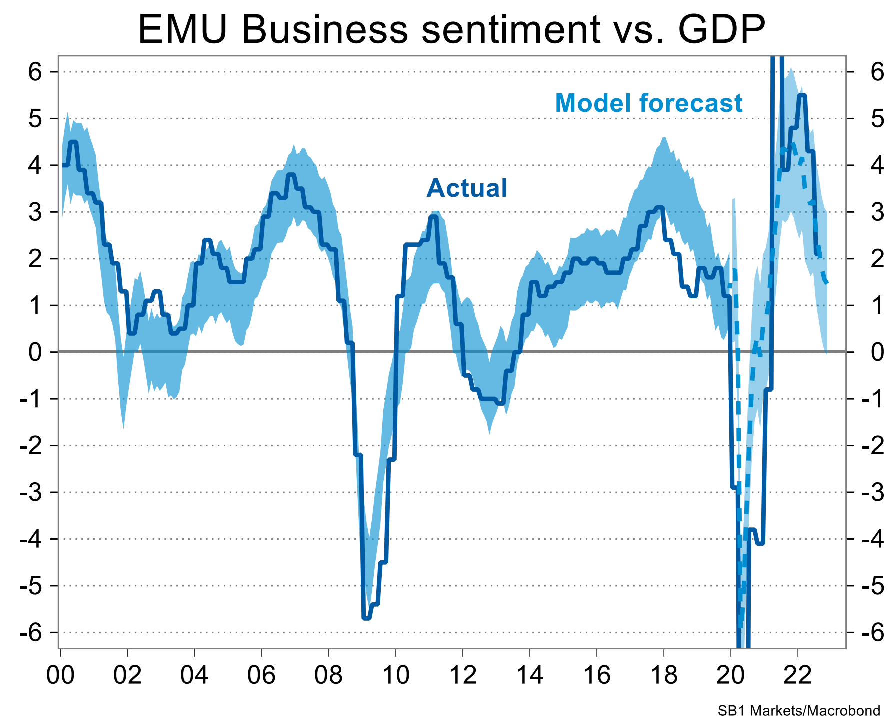


- **Monthly growth** in household debt has fallen to 2.3% from 5% in early 2022, and now the annual rate is slowing too, now down to 4.2%
- Growth in corporate debt is still up 8.9% y/y – and climbing – but the monthly growth rate fell sharply in October, to 5.8% – which still is rather high growth rate
- The last **banking survey** signal a significant tightening, check the next page

Businesses are still reporting average growth, rather surprisingly

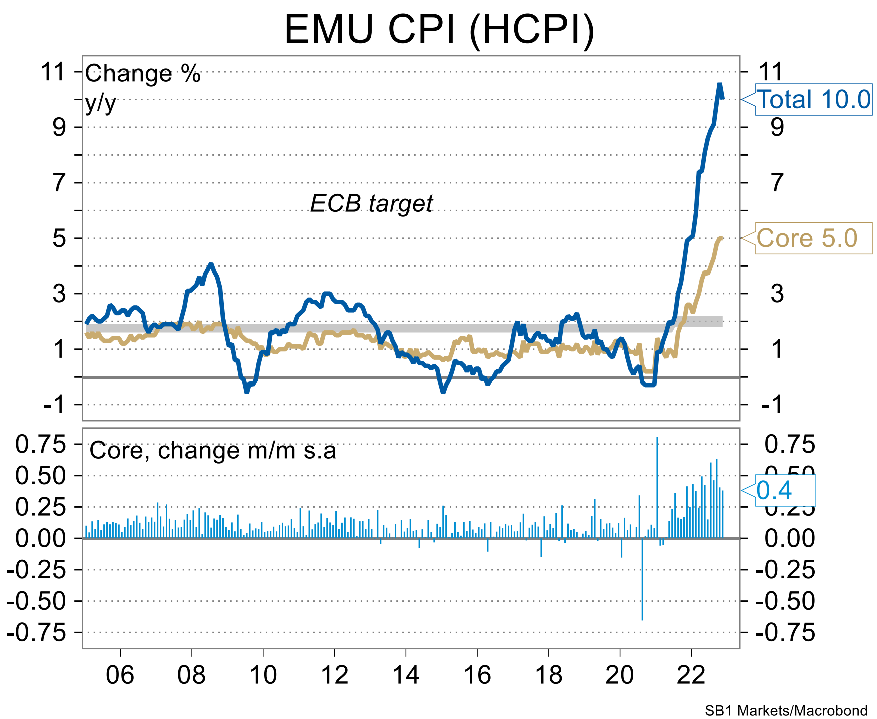
Historically, no contribution to the GDP forecast from households, just from businesses

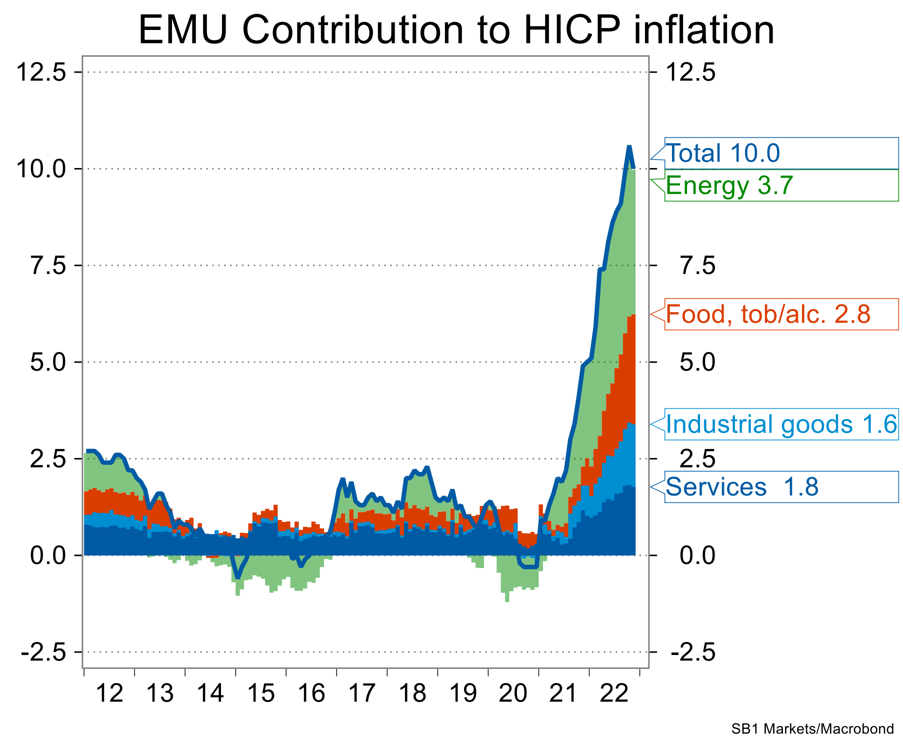




Inflation lower than expected in November, as energy prices fell

Core inflation unchanged at 5% y/y, in line with expectations

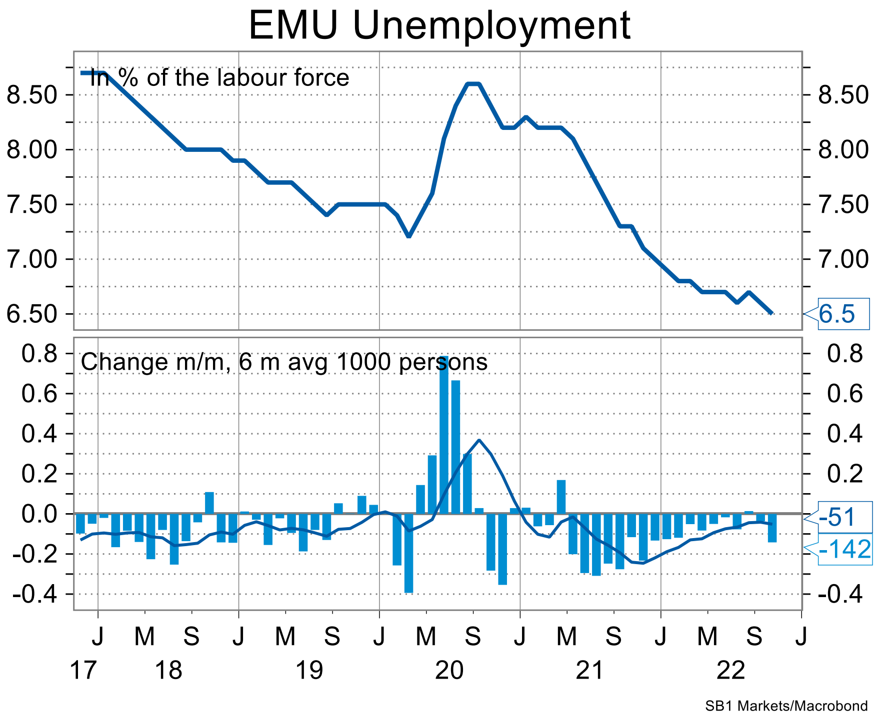


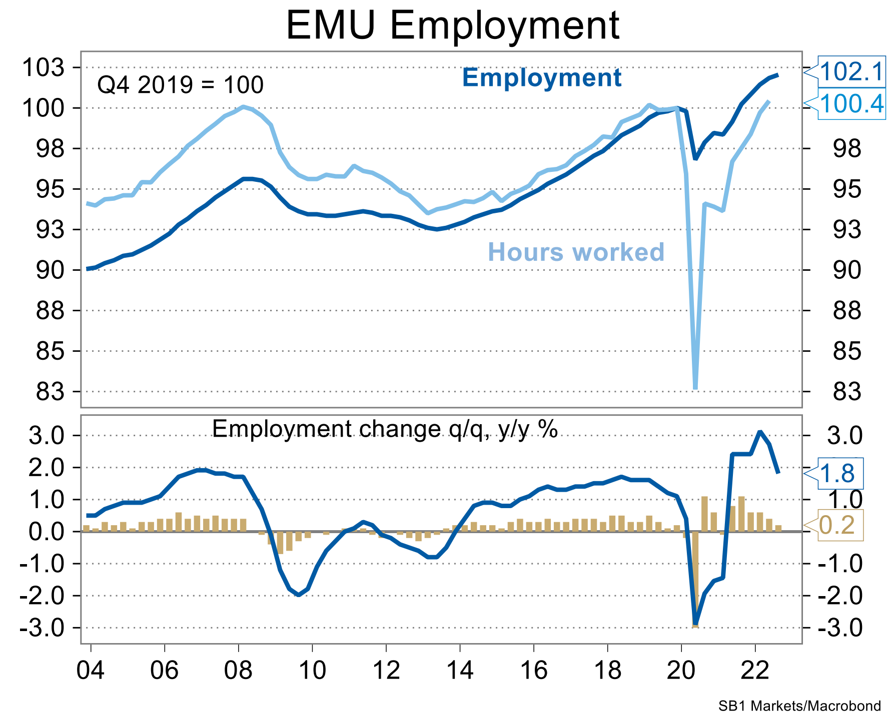


- The **total HICP** fell 0.1% m/m in Nov (seas adj), and is up 10.0% y/y, which is down 0.6 pp from October and 0.4 pp below expectations
  - Energy prices were down 1.6% m/m, and they are up 35% y/y (down from 41% a month ago), but still contribute 3.7 pp to the headline rate. Food prices rose 0.9% m/m - and are up 14% y/y, contributing 2.8 pp to overall CPI growth
- **The core** rose 0.4% m/m. Both goods and services contributed. The annual rate was unchanged at 5%, still the highest ever…
- The **ECB** hiked rates by 75 bps at their last meeting and reiterated that their job is to control inflation. However, the bank's statement with regards to further hikes was softer, and this latest data is certainly well received by the bank – Inflation is, of course far to high for comfort, but the direction could give some comfort in slowing the pace and see to make sure it will not kill the economy…

Unemployment lower in October – at the lowest level since 1980 at 6.5%

The no. of unemployed fell again – but will soon turn up?

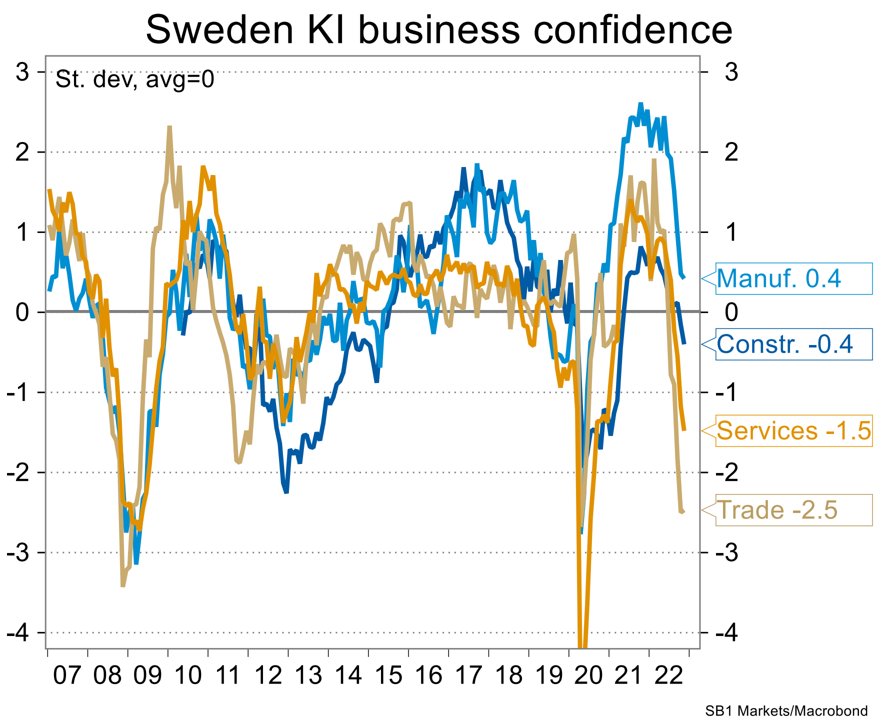


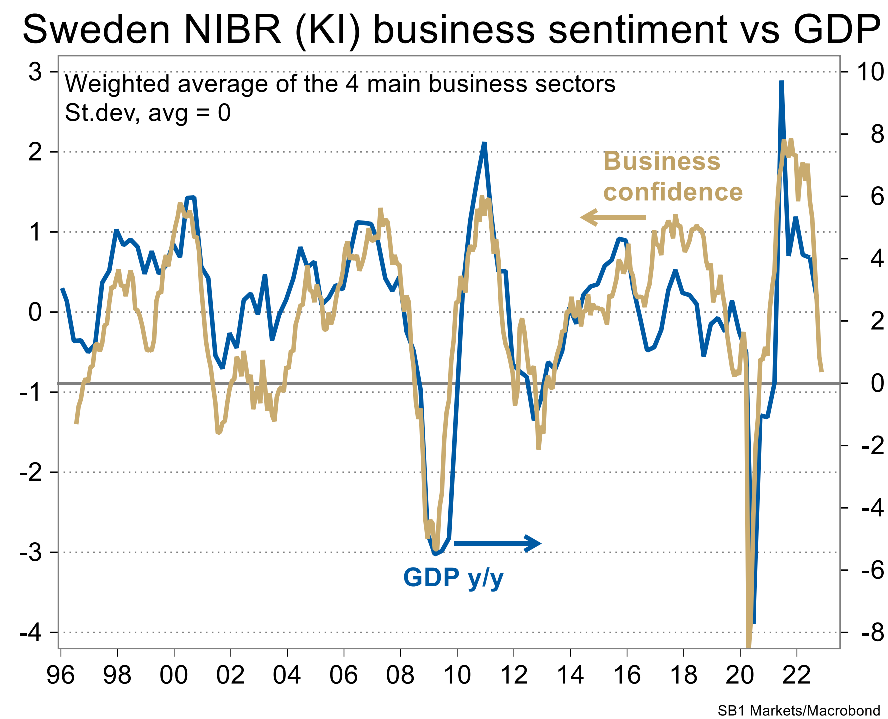


- **The unemployment rate** was expected unch. at 6.6% but surprised on the downside. The number of unemployed persons fell by 142'
- **Employment** grew by 0.2% in Q3 (not annualised). The employment level & the employment rate is higher than before the pandemic
- The number of **unfilled vacancies** are still high, but seems to have plateaued
- The labour market is no doubt still very tight – until further notice
- **Wage cost inflation** has not accelerated but a slowdown in productivity growth has pushed labour cost per produced unit upwards, to somewhat above 2%

Business confidence fell further in November but is not that weak

Businesses are signalling close to zero growth in GDP – while the Riksbank expects a 2% drop (aka a recession)



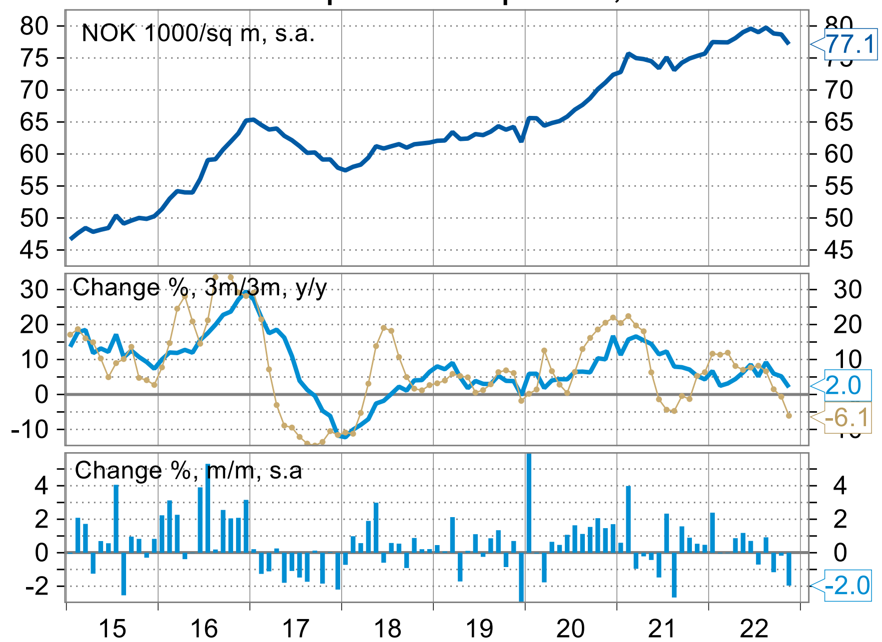


- **The composite index** inched marginally down by 0.3 p to 84.5 in November, probably better than expected – as consumer confidence rose. Most European surveys have flattened recently. The main index is 1.5 st.dev below average, and signals a 2% GDP contraction, down from +2% in August. The Riksbank expects a 1.7% decline Q4-Q2 next year
- However, even if **business confidence** fell, businesses are far less downbeat than households (like everywhere else). The business confidence is less than 1 st.dev below average, thanks to the manufacturing sector, still being above average. The business confidence, which in most countries works best at a GDP predictor, is just signalling zero growth
  - The **manufacturing sector sentiment** has declined over the past months but remains above average. Trade is at the bottom but rose marginally in November. **Services** are at 1.2 st. dev below average

Oslo co-op prices fell by 2% in November. Prices are down by 3.3% since Aug

The overall Oslo market was down by 3.1% through October, November price data out this morning

OBOS Apartment prices, Oslo



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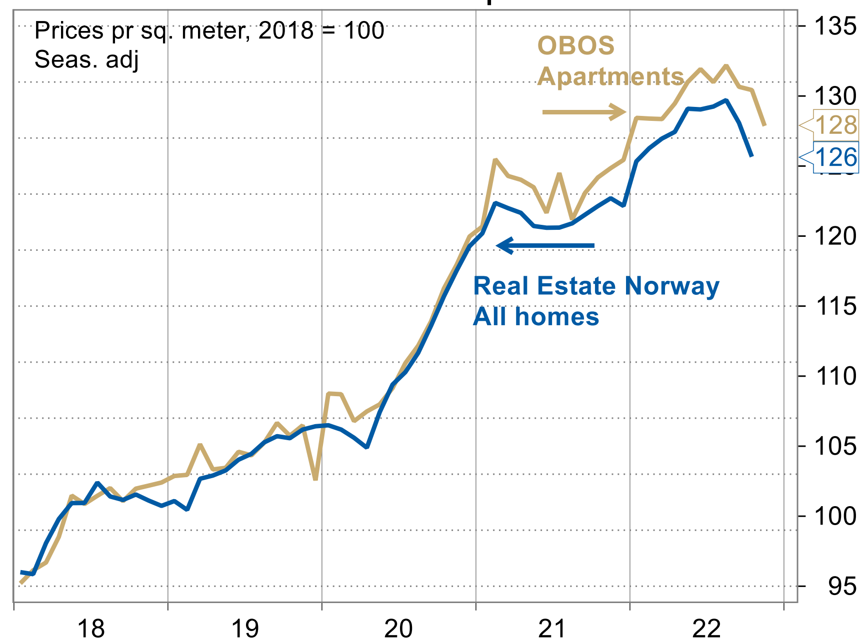
Oslo House prices

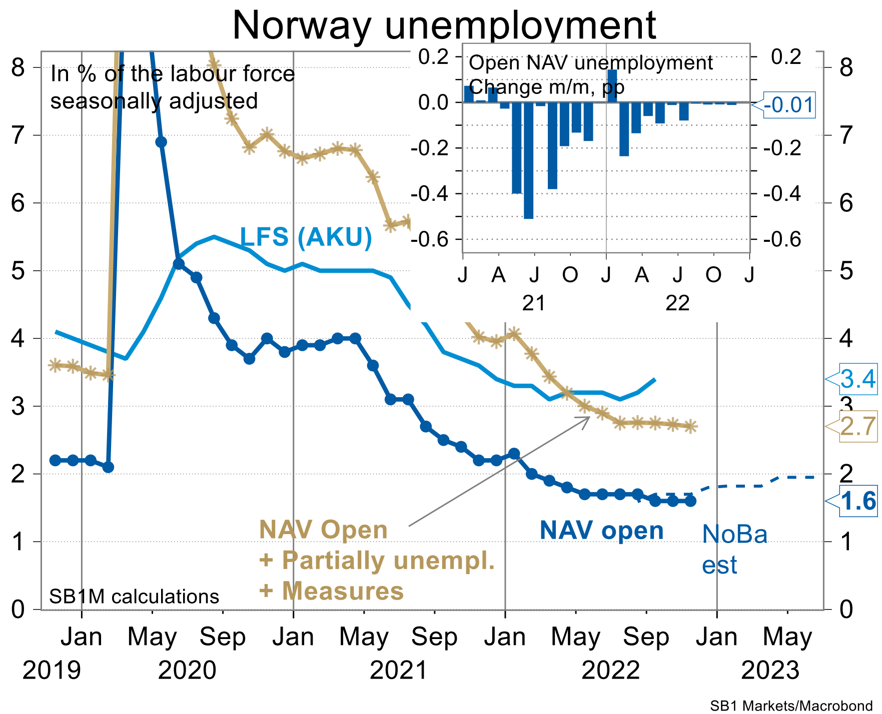


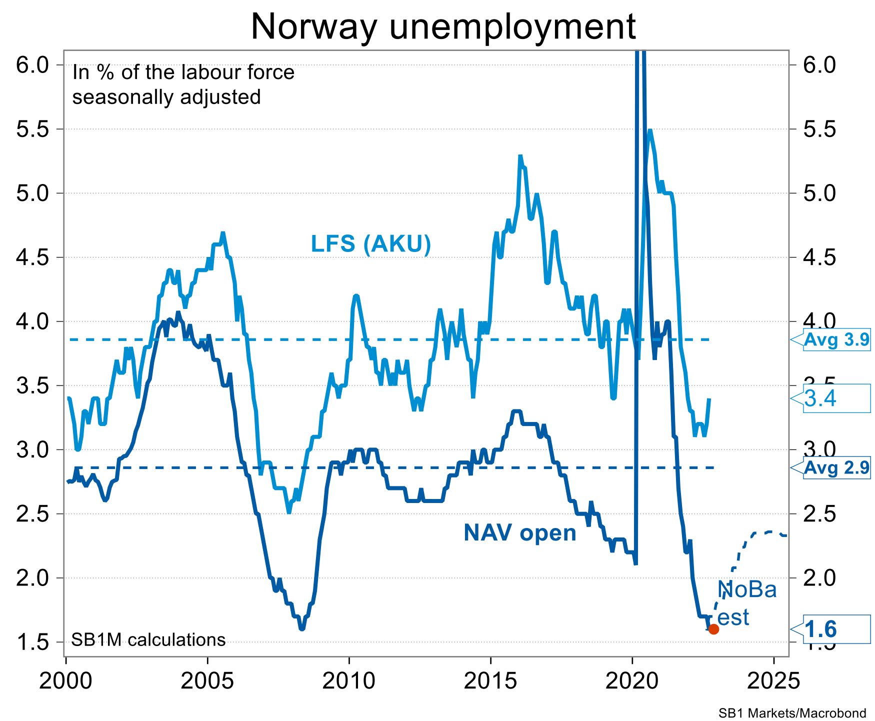
SB1 Markets/Macrobond

- Thus, the decline in Obos prices in November do not necessarily imply a huge setback in the total market in November (data out this morning) – but we expect a substantial decline in these prices as well
- Obos prices are still up 2% y/y, and the annual rate will very likely turn negative in January (and possibly already in December)

NAV unemployment has not yet turned up

Open unemployment unch. at 1.6%, as exp. but we assumed a small (2. decimal) increase, which did not materialise

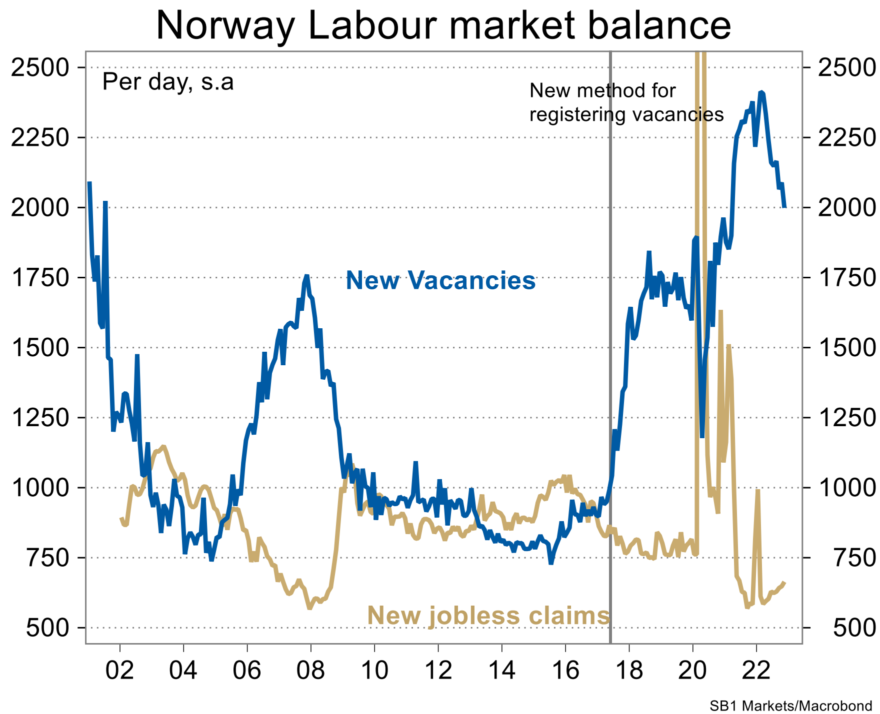


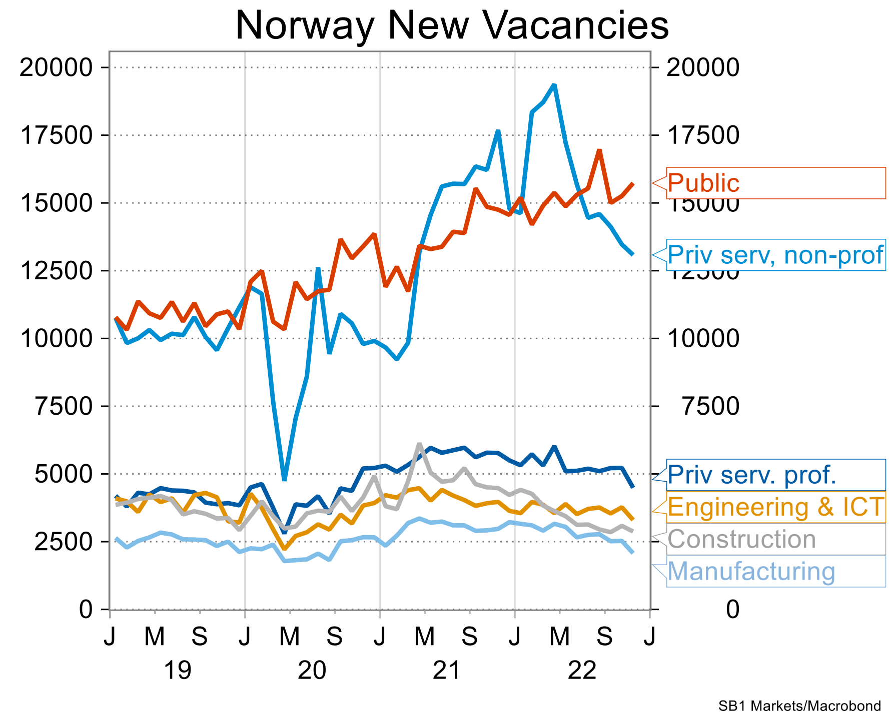


- **The 'full time' open NAV unemployment**, fell by 300 persons in Nov (seas. adj) to 47.3'. We expected a small increase, by 200 persons. The rate was unch. at 1.6% (s.a), equal to the trough before the financial crisis in 2008, and almost the lowest level since 1980, and +0.1 pp below NoBa's estimate in the Sept MPR. Unadjusted the rate was also unch. at 1.6%, as expected. **Including labour market measures**, unemployment fell by 500' persons, we expected an increase. The rate is unch. at 2.0%. **Total unemployment**, including partially unemployed was stable at 2.7%
- The inflow of **new job seekers** is trending slowly upwards, but the level remains very low. The **inflow of new vacancies** rose marginally in Oct, but the trend is down, from the peak before the summer. Even so, the level remains very high. The decline is broad, except for the public sector.
- **The LFS (AKU) unemployment rate** rose 0.2 pp to 3.4%, and LFS employment fell

New job openings on the way down, but still at a high level. New claims up

More vacancies in the public sector, but demand form the private sector on the way down, broadly

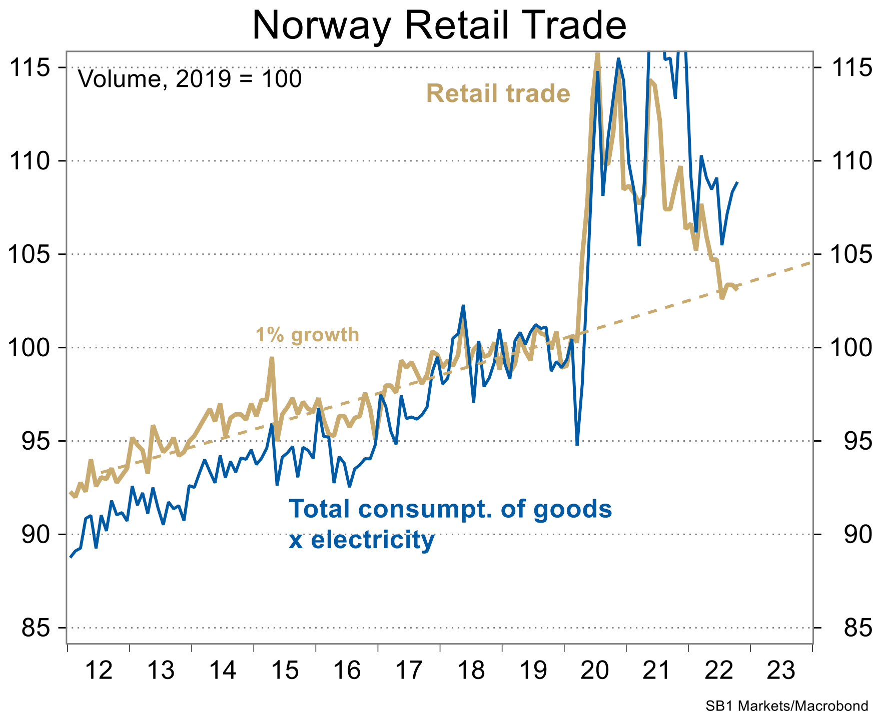


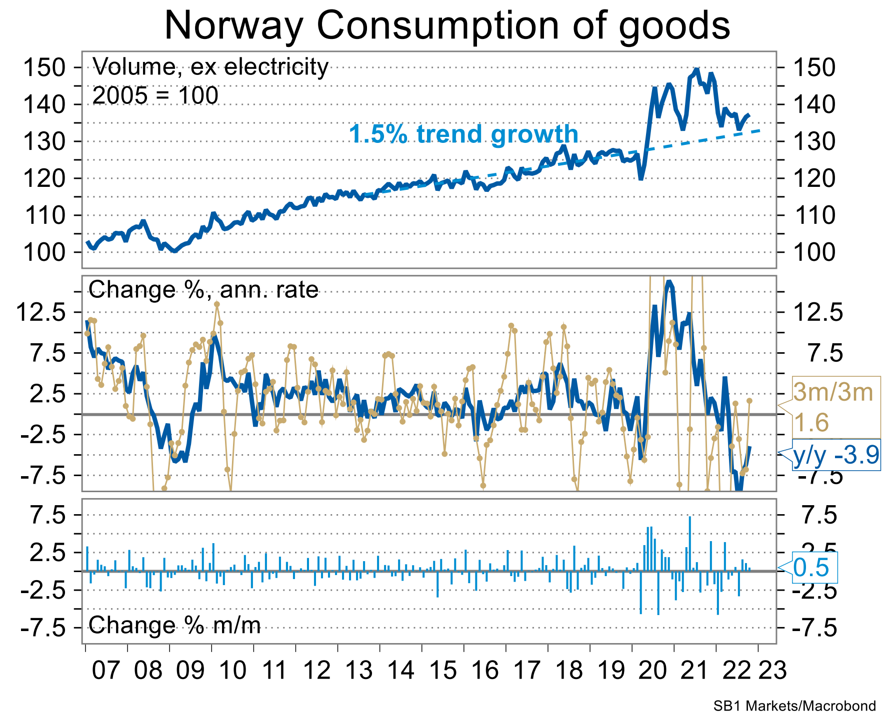


- The no. of new vacancies fell again in November, and the trend is clearly down
- Most sectors have announced somewhat fewer new vacancies recently, like in non-professional private services (hotels/rest, admin support), construction and manufacturing. However, in November, all private sectors reported a decline
- The no. of new jobless claims are slowly increasing but the level is still very low
- In sum: A very tight labour market but the tide has turned

Retail sales down in October

Retail sales fell 0.3% (expected -0.5%, we assumed -1.0%); total consumption of goods was up 0.5%

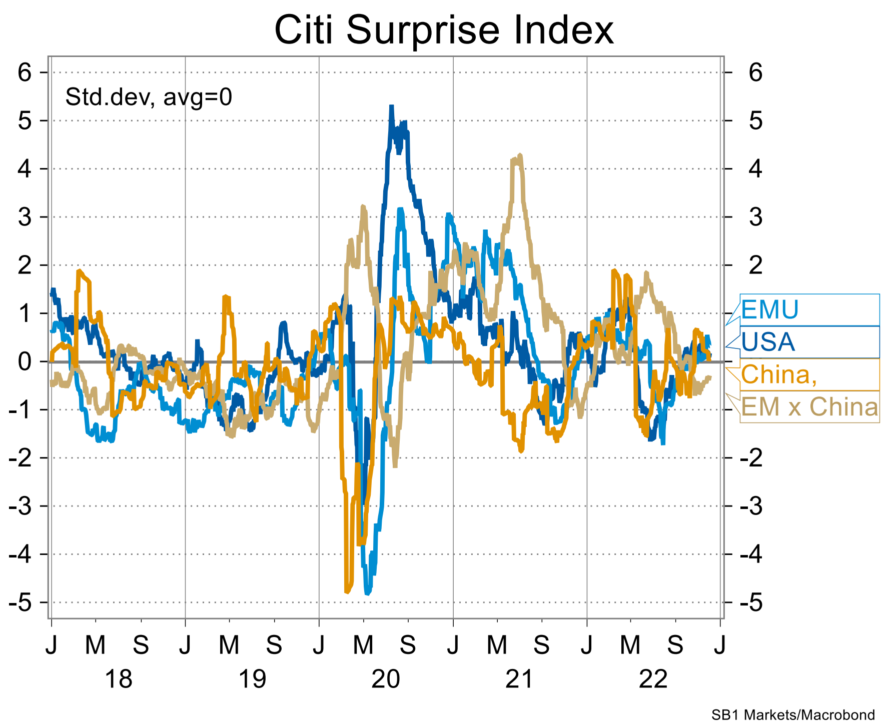


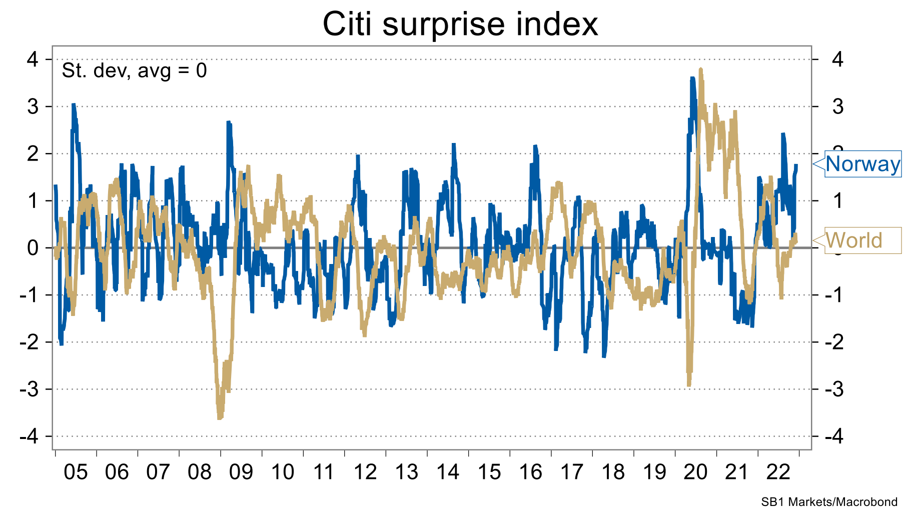


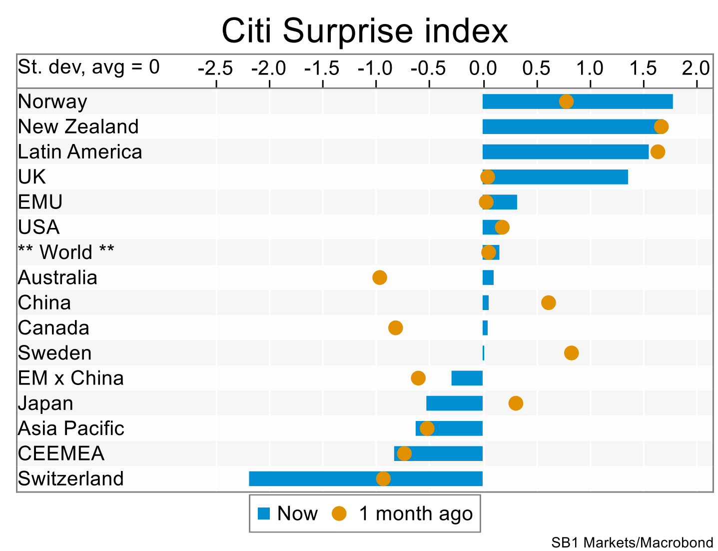
- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth path. **Total consumption of goods** rose 0.5% in October – and the history was revised up somewhat (like consumption in National accounts)
- In Norway, less x-border shopping in Sweden (was cut to zero during most of the pandemic) – but it is no back to a normal level. In addition, the lift in inflation and higher interest rates also seem to have aided sales back down to the pre-pandemic trend – and we expect sales to fall below the trend the coming months/quarters

Global data harvest slightly above expectations, Norway at the top!

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





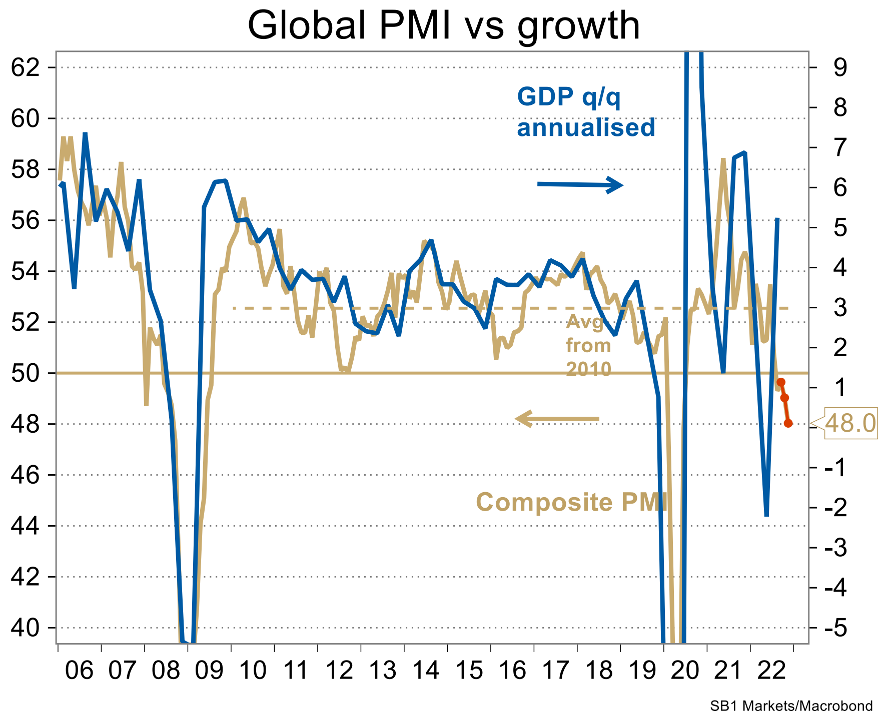


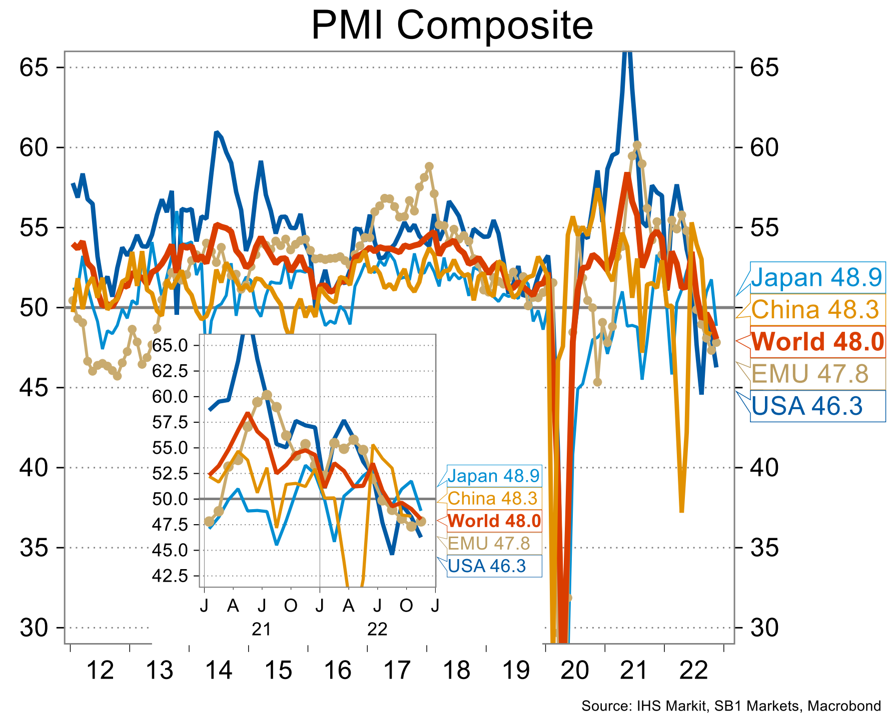
- **Emerging markets x China** is somewhat below par

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, and the UK an even smaller one – but the US and Japan surprised on downside



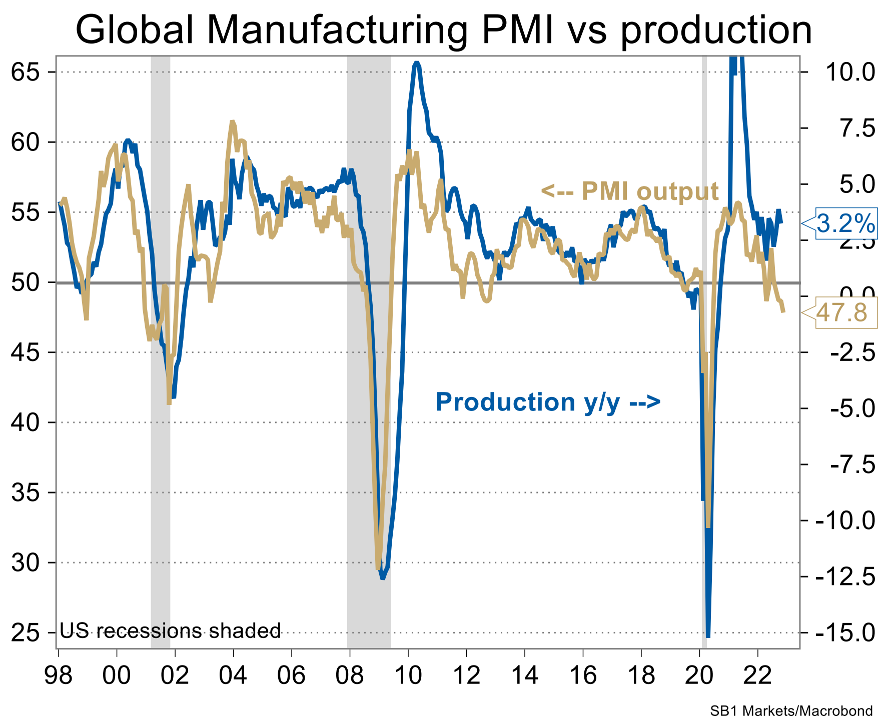


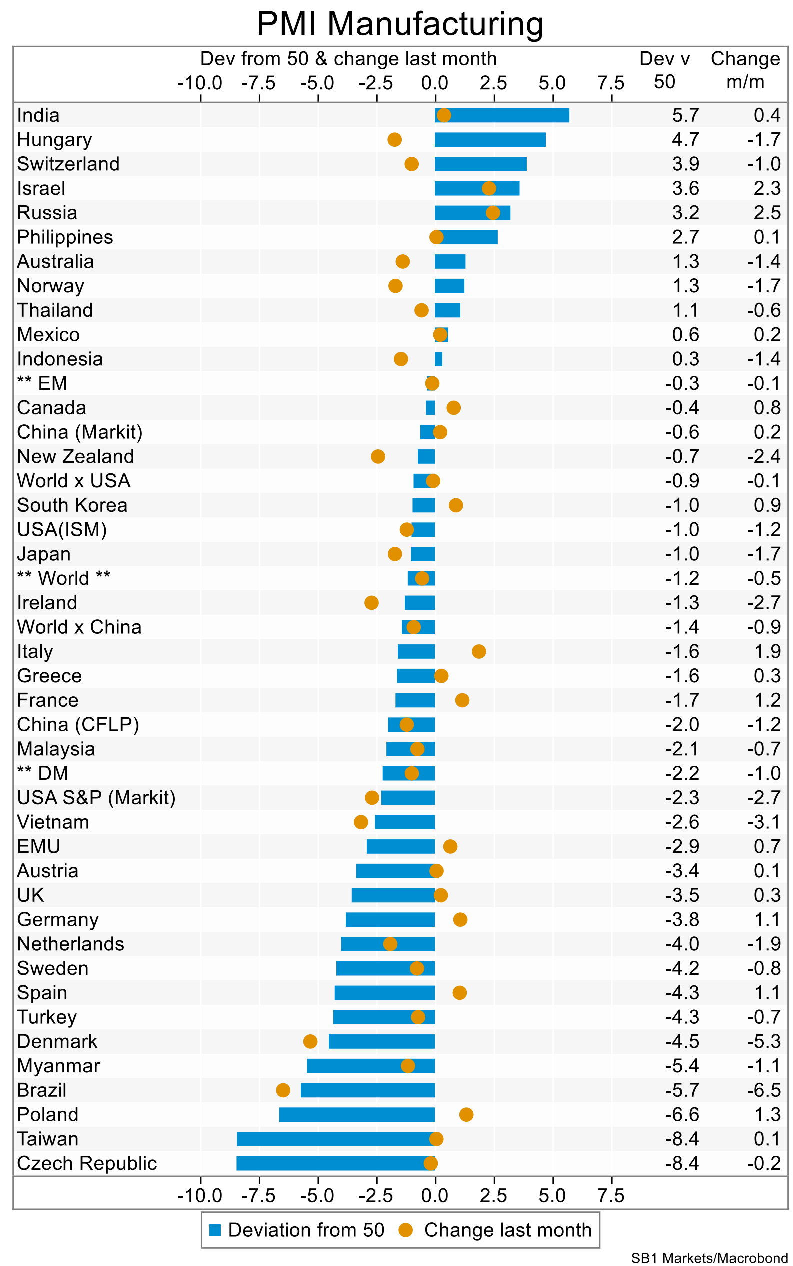
- According to the preliminary PMIs from the rich part of the world, the global PMI very likely fell further in November, -1 p to 48.0, signalling close to zero growth in the global economy, way below present macro forecasts – and way below the normal threshold for a labelling a global recession, a 2.5% 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

A further decline in the global manufacturing PMI, while production is still OK

Almost 60% of the PMIs down, and 72% are below the 50-line

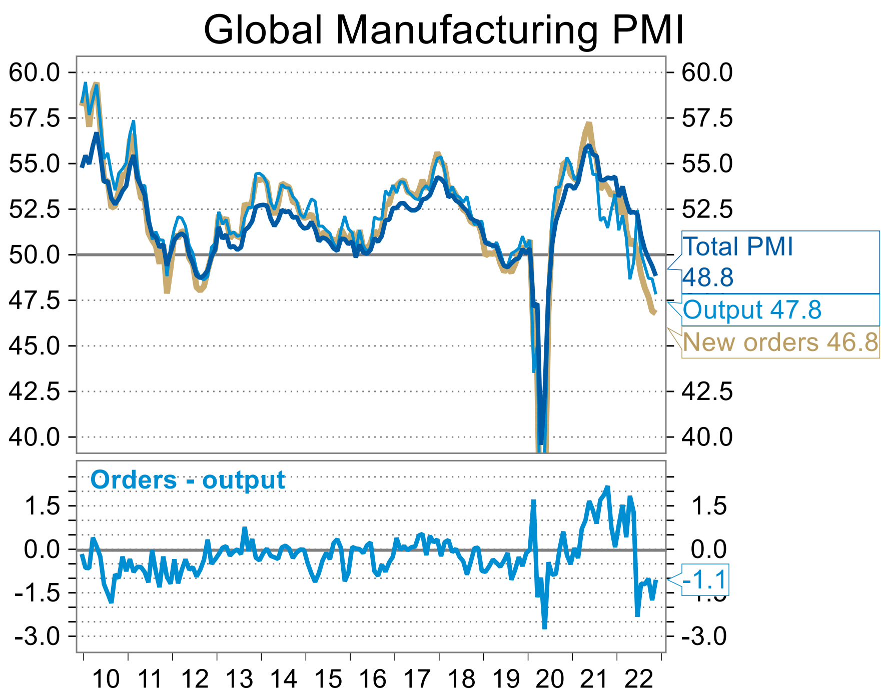




- **The manufacturing total** index fell by 0.6 p to 47.8, while the **output** index fell 0.8 p to 47.8
- **Rich countries** are far weaker than Emerging Markets, measured by the total index. Also measured by the new order index, EM x China at 49.3 (and trending flat) are ahead of DM, which ‘collapsed’ to 43.9!
- **Norway’s** manufacturing PMI fell in November, to 51.3, and that corresponds to a number 8 on the list!
- **Sweden** has fallen rapidly recent months, and further in Nov, by -2.1 p to 45.8

All sub-components of the total index down in November

… which largely has been the case since July. The new order index was unchanged in Nov, but at a very low level, 46.8



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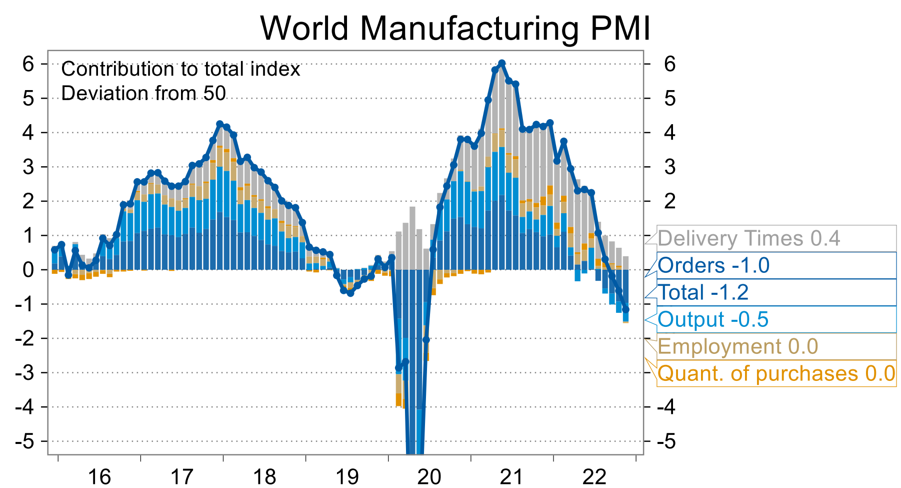

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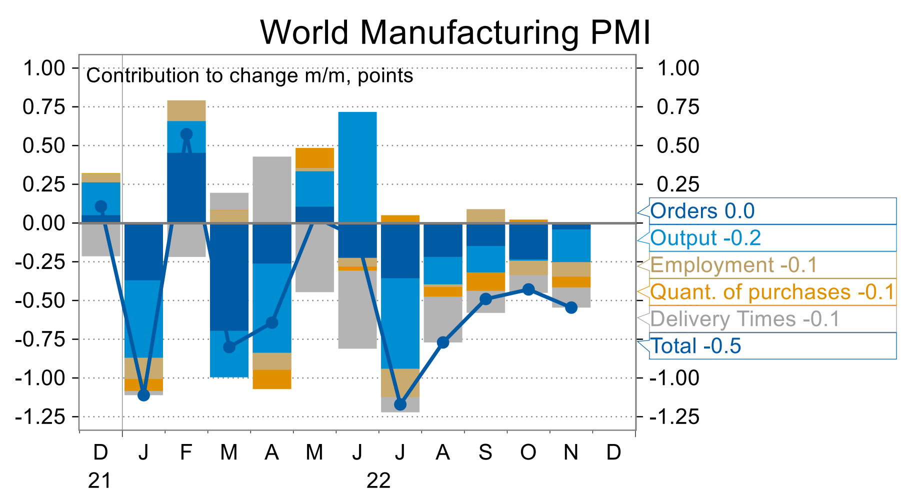
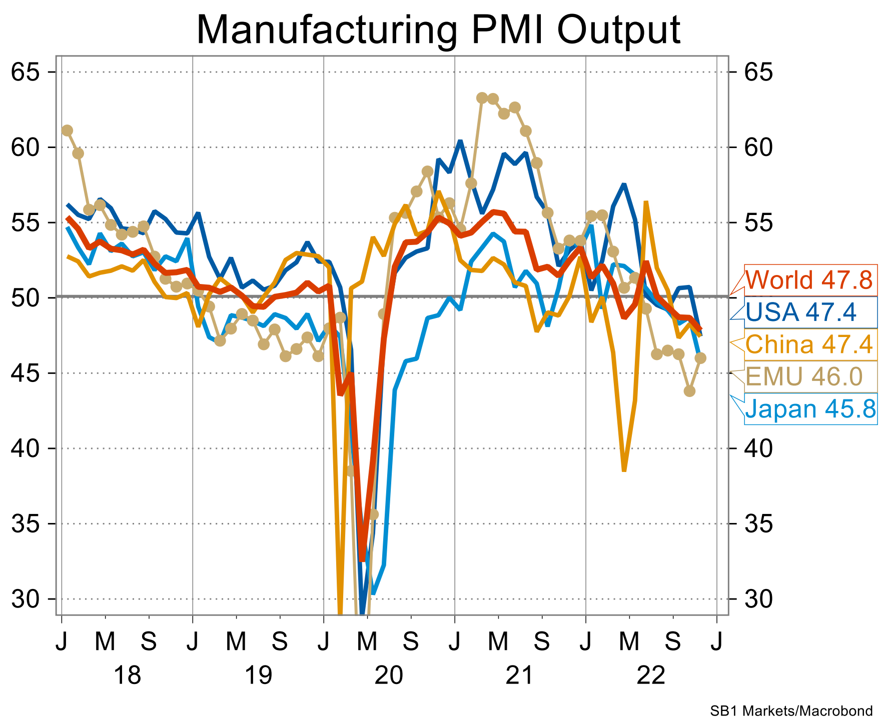
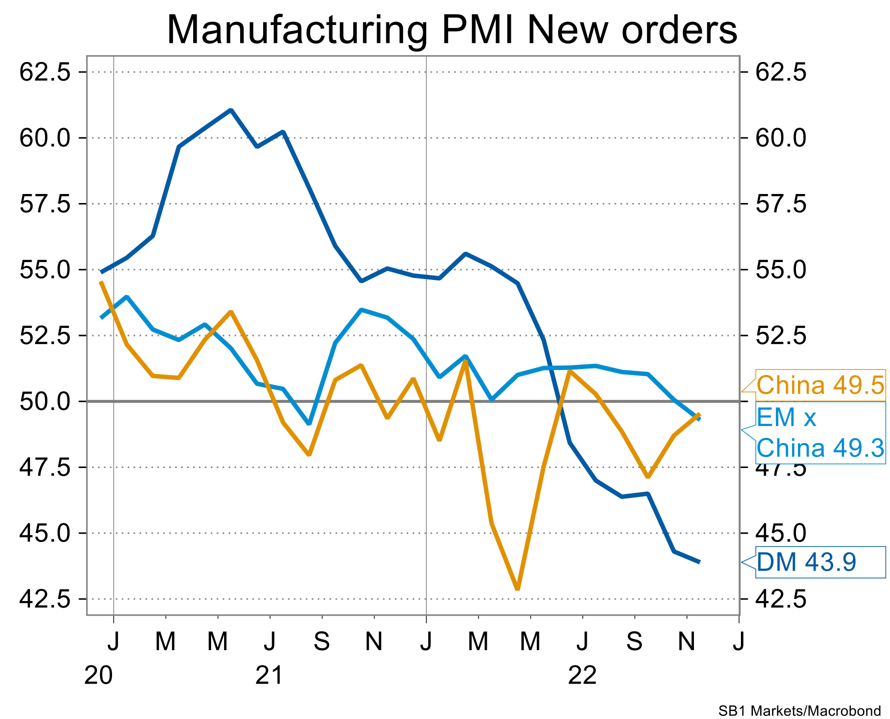


SB1 Markets/Macrobond

New orders and output are slowing in developed markets; less so in EM

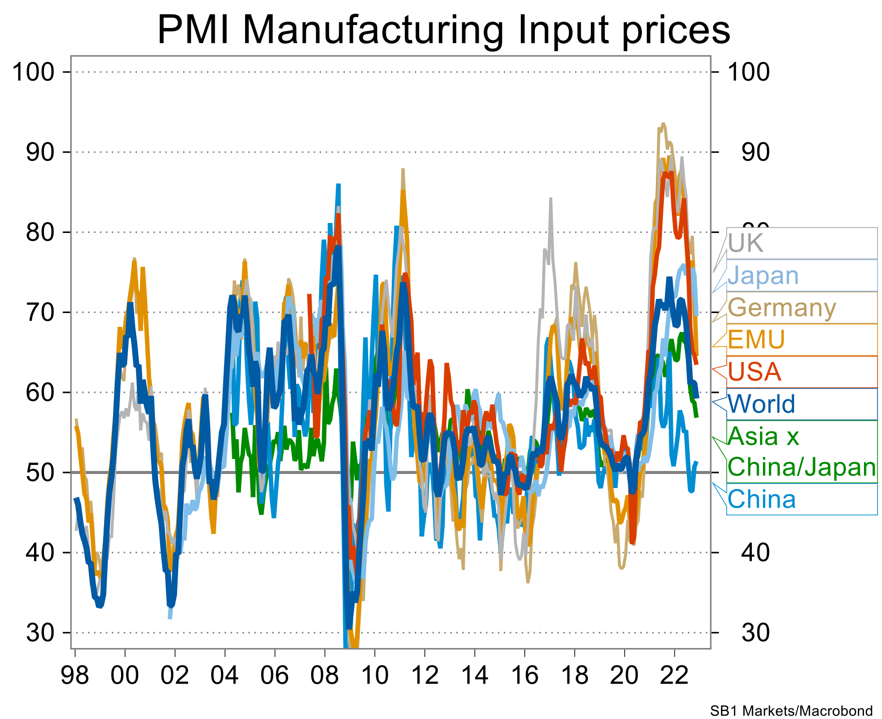


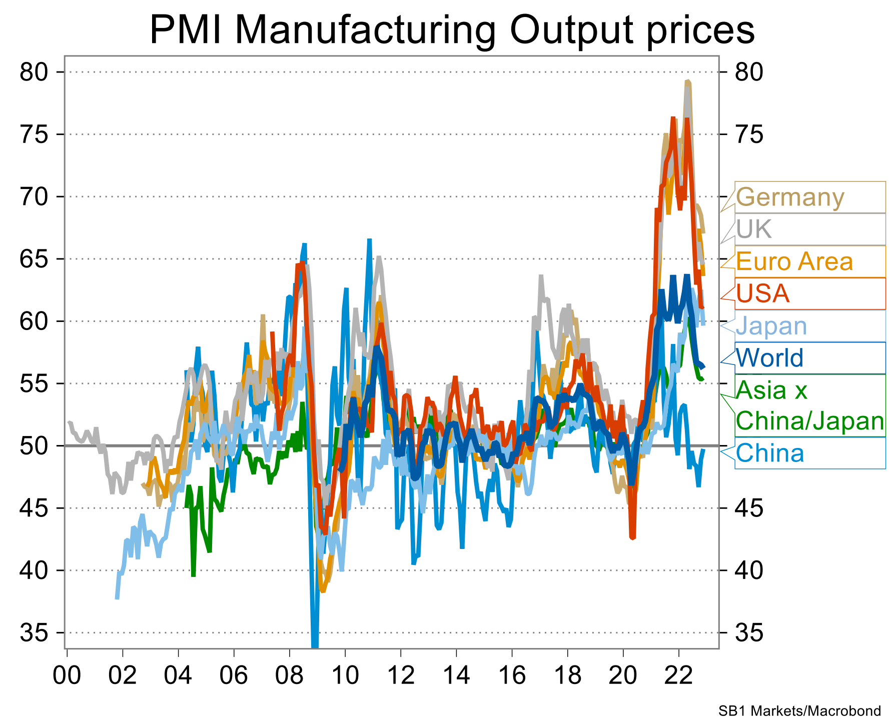


- The US index has also fallen well below the 50-line

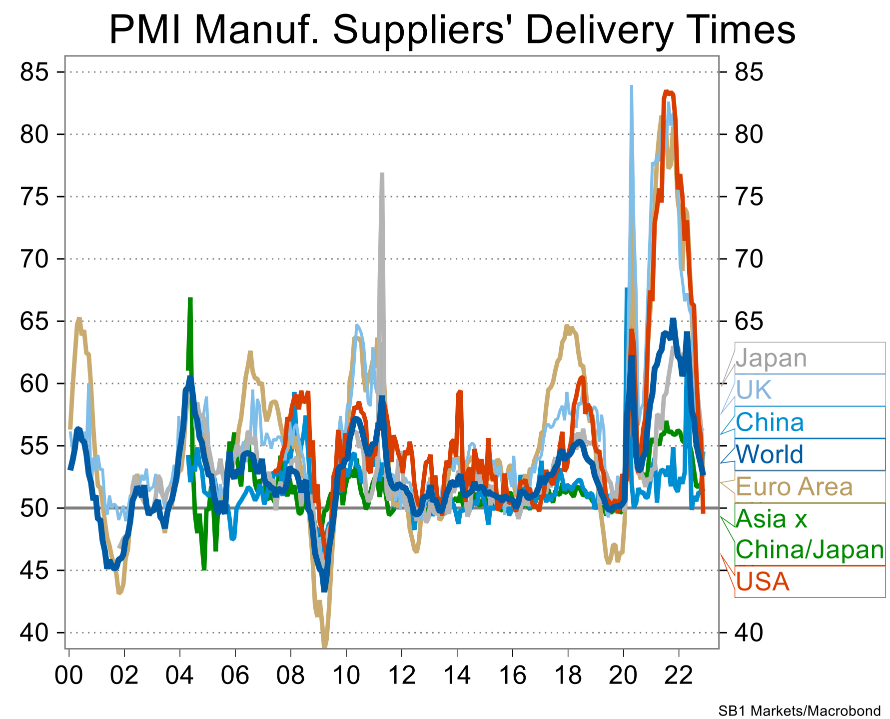
Price inflation is slowing, companies report. But it still remains high

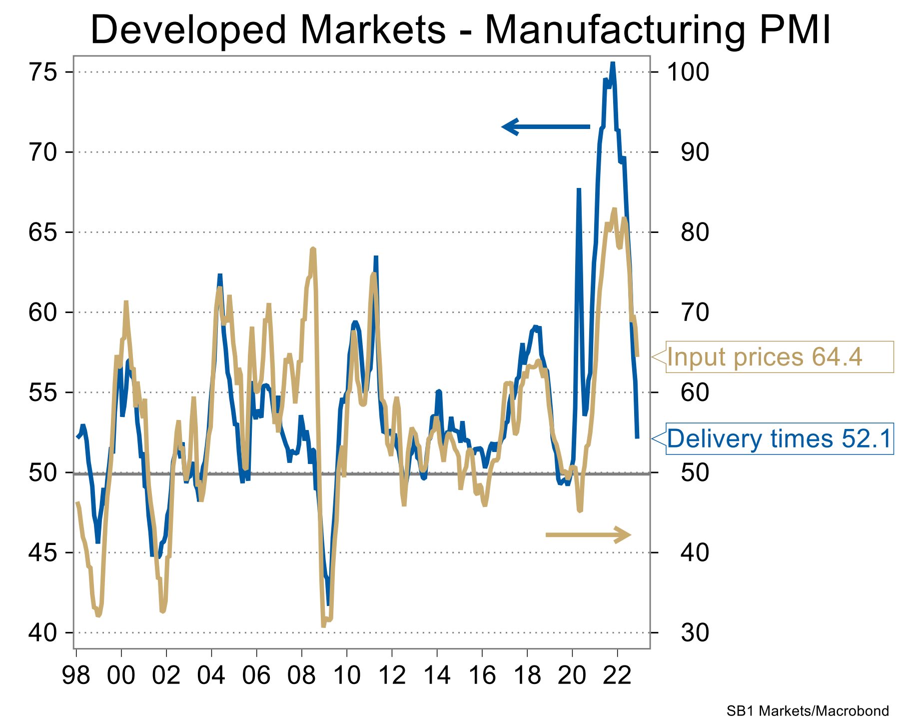
The price indices will very likely decline further, a strong signal that headline inflation will come down too





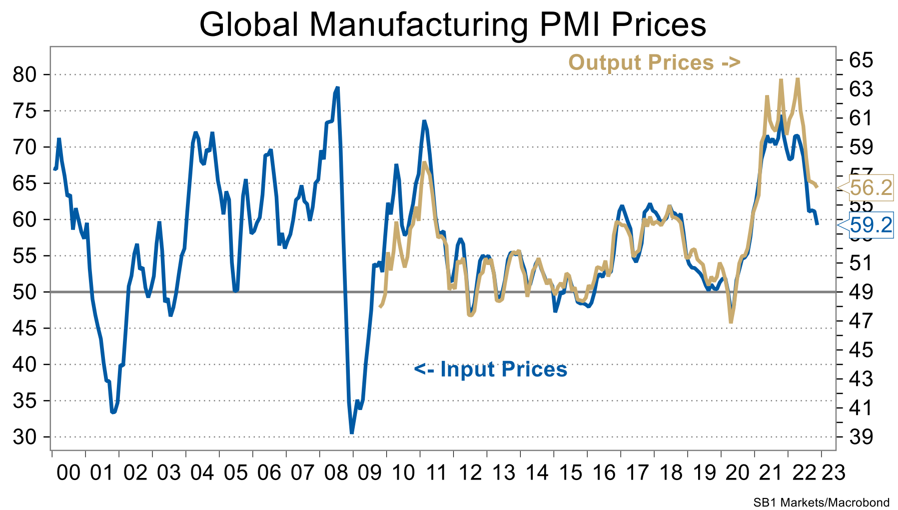
Delivery times have fully normalised, should help normalising prices

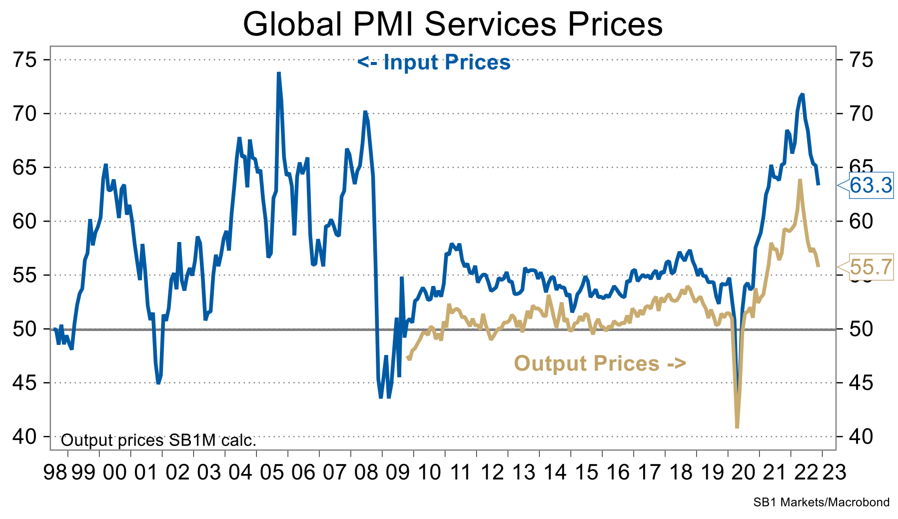


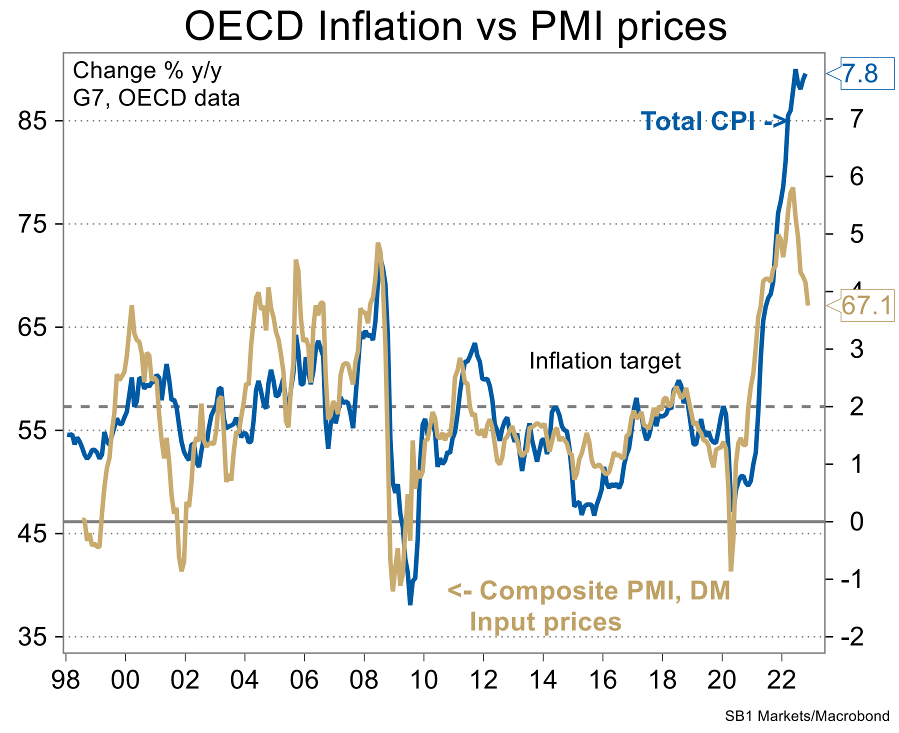


Price increases are slowing, according to the PMIs

All price indices remain at high or very high levels though (like service sector input prices)

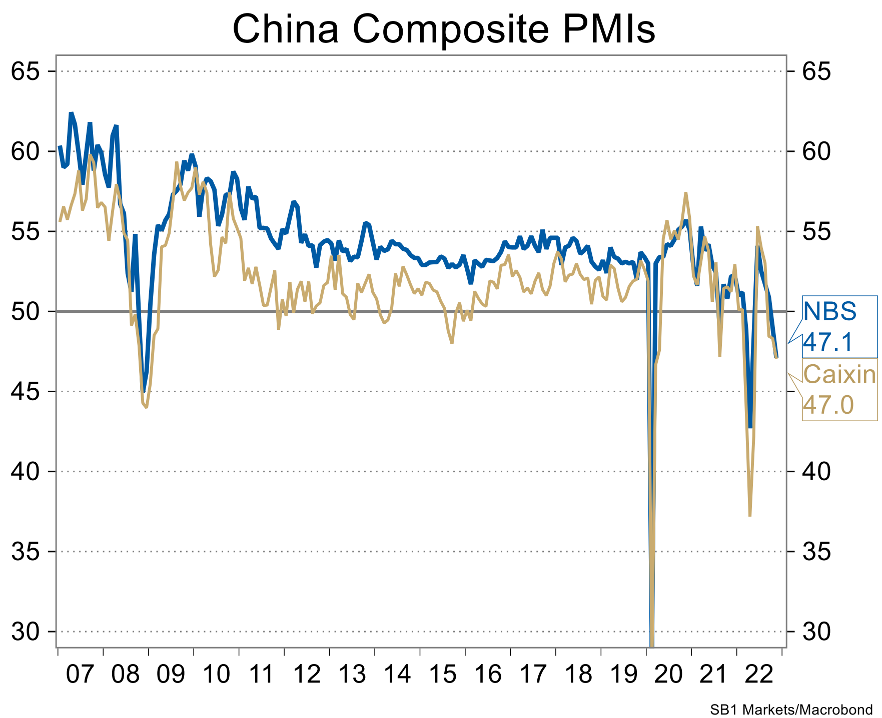


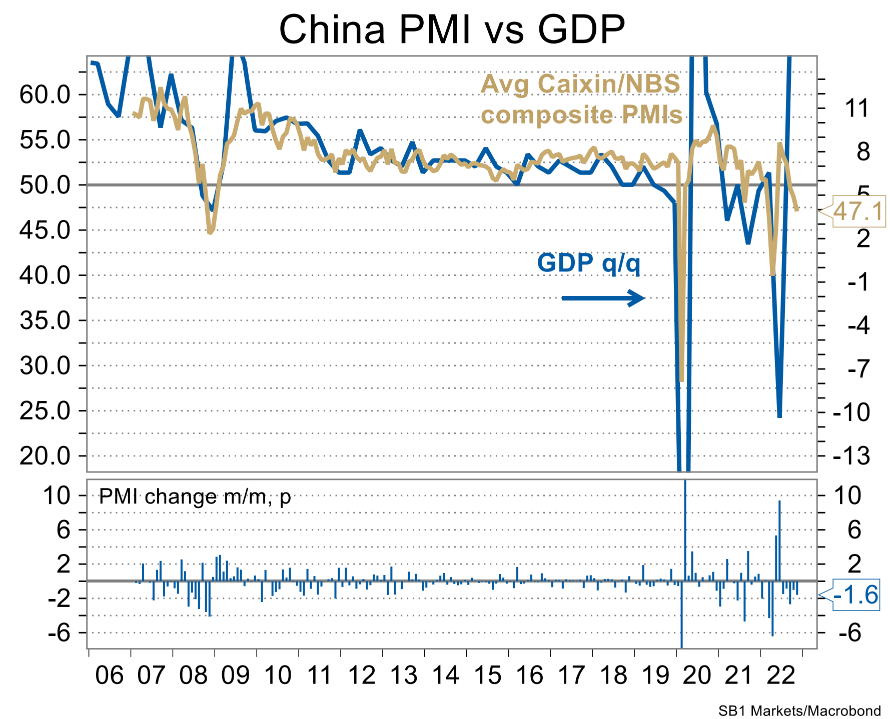




Both PMI data sets further down in November

The PMIs signal slow growth in Q4, no doubt due to covid restrictions

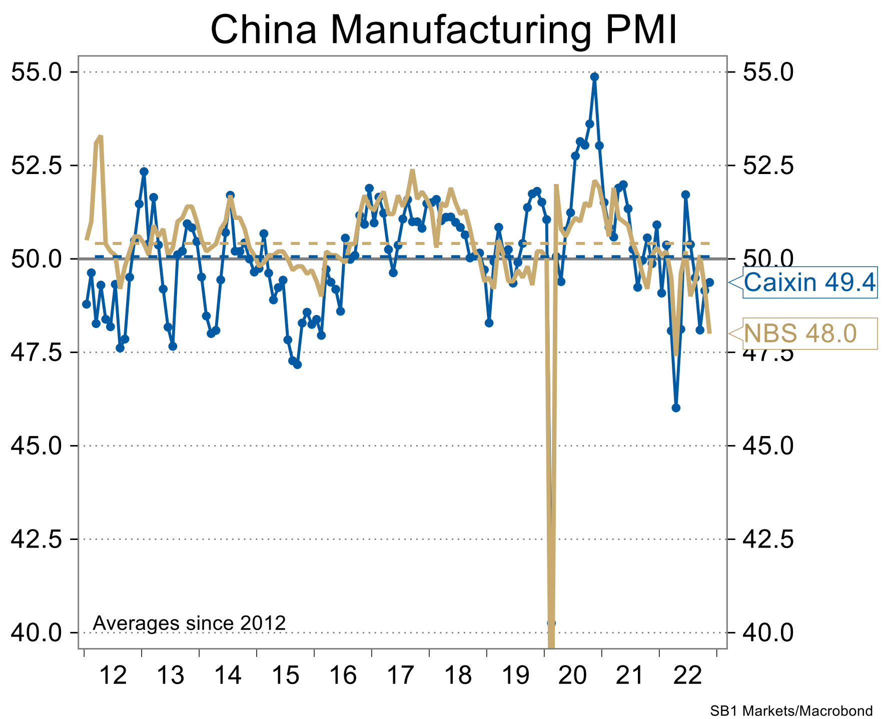


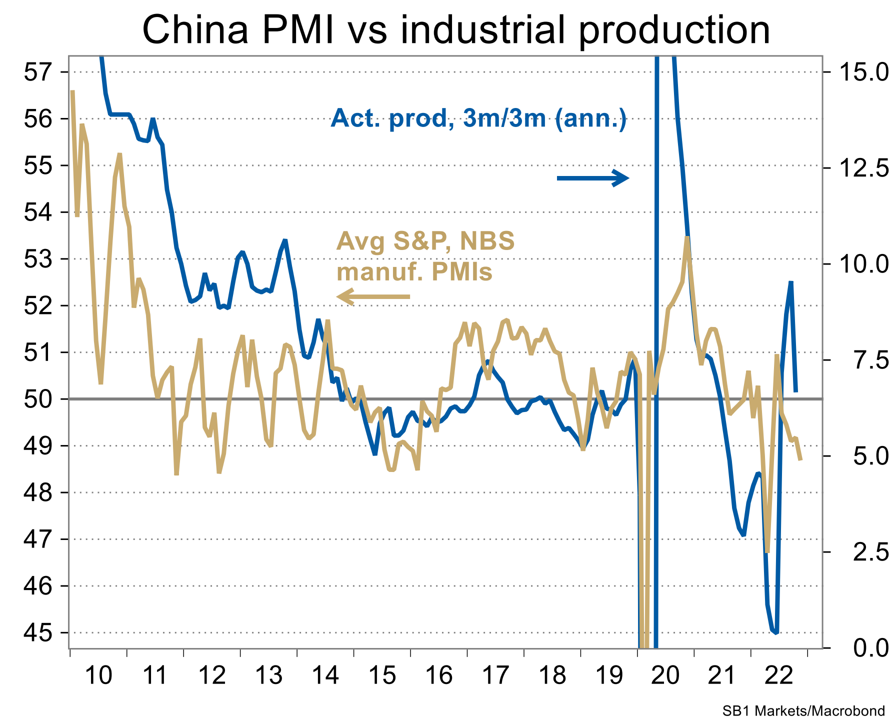


- **GDP** recovered from the weak lockdown Q2, and was better than expected in Q3. The October & November PMIs signal far lower growth in Q4
- The **NBS/CFLP composite PMI** fell by 1.9 p to 47.1, expected down 0.5 pp. The service sector reported a further slowdown to well below trend growth – as did the manufacturing sector
- The **Caixin composite index** fell by 1.3 p 47.0. The manufacturing PMI surprised at the upside (up 0.2 p) but the service sector PMI fell more than assumed, by 1.6 p to 46.7 (expected 48.0)

Caixin's manufacturing PMI slightly up, the NBS survey sharply down

Both are below the 50 line and below their respective averages, signalling growth well below trend



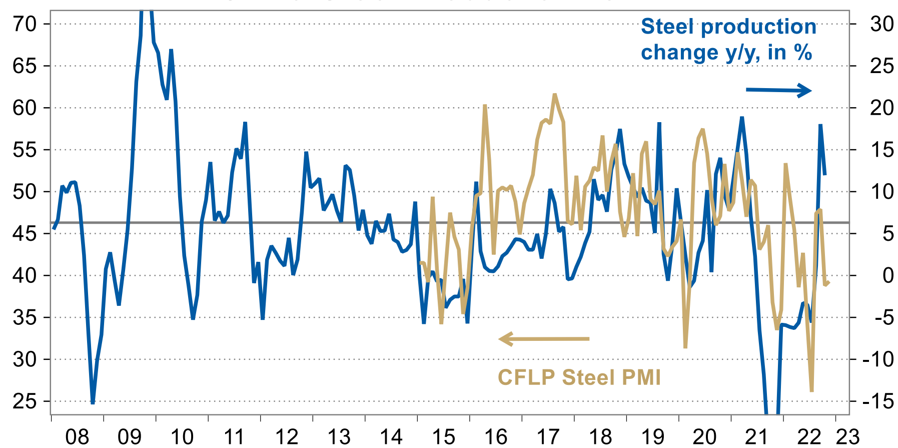


- Actual production rose sharply in May, then grew at a slower pace during the summer but accelerated in September and slowed again in November. The production level is above the growth trend before the lockdowns in the spring and up 17% from Q4-19

Orders and construction starts are falling, but steel production is still high?

The steel PMI is below 40, which normally signals a decline in steel production. So far, production has kept up

China Steel Production vs PMI



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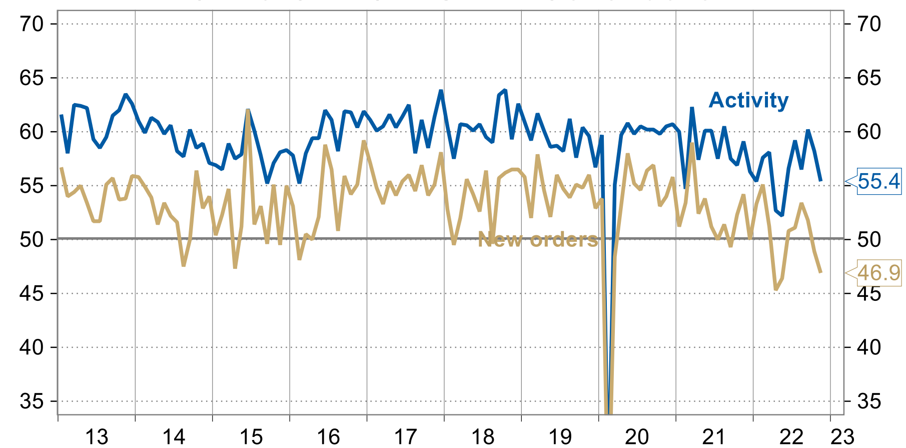
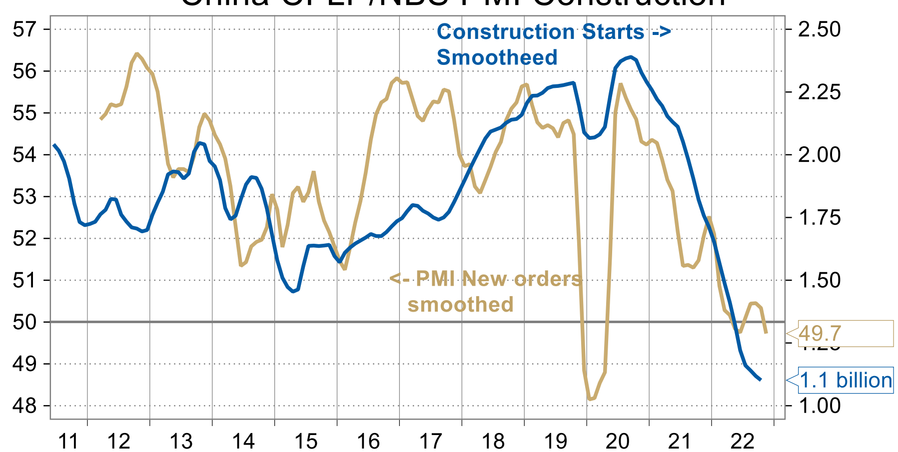
China CFLP/NBS PMI Construction



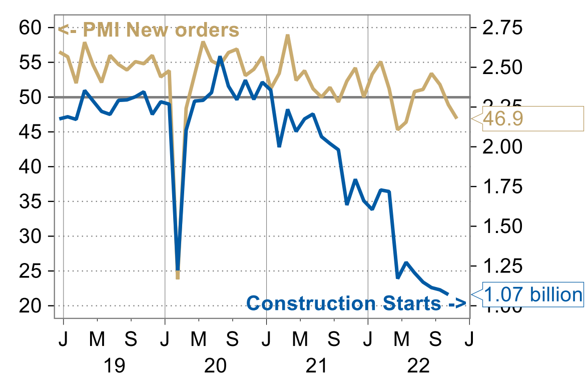
SB1 Markets/Macrobond

China CFLP/NBS PMI Construction



SB1 Markets/Macrobond

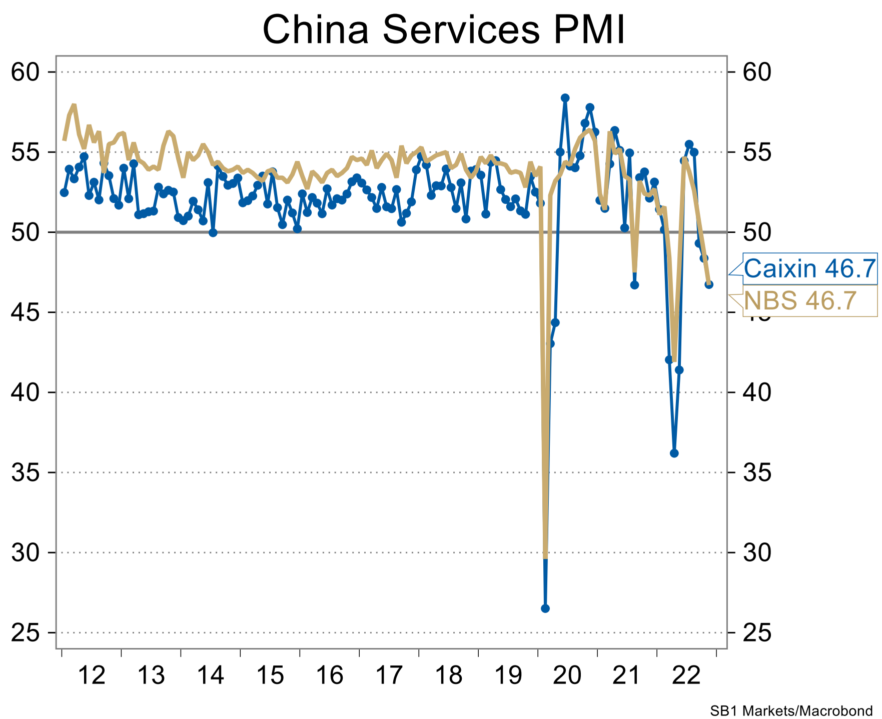
- Construction starts have continued downwards after the major lockdowns during the spring, and prices are falling… and now orders are falling too

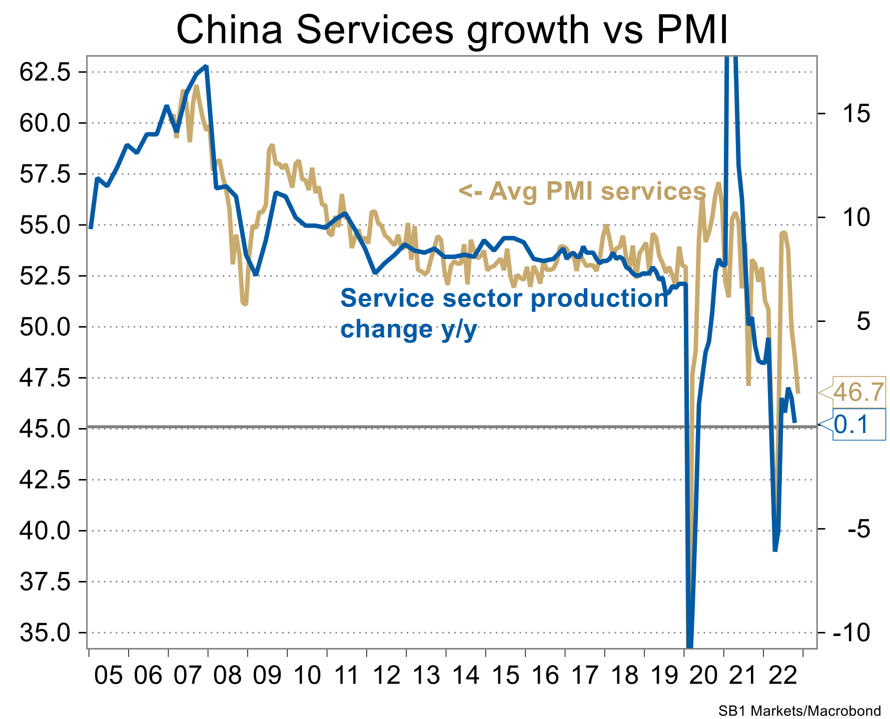


SB1 Markets/Macrobond

The service sector PMIs further down in November, both at 46.7

Covid restrictions are probably the main culprit for another downturn in service sector activtiy

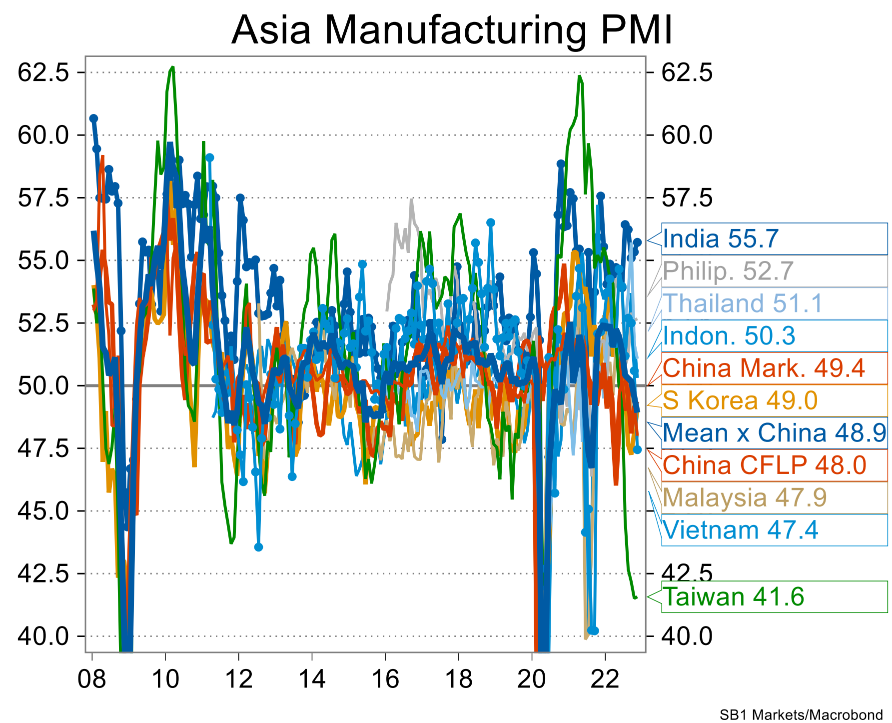


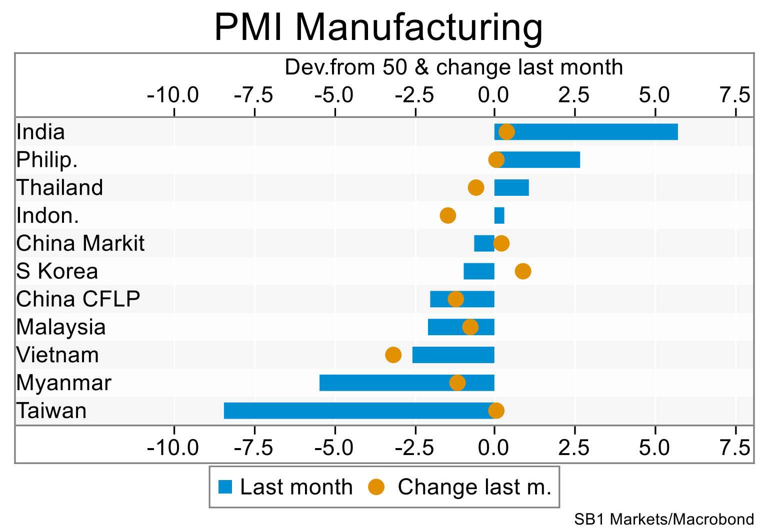


- Actual service sector production is close to unchanged over the past year (until October)

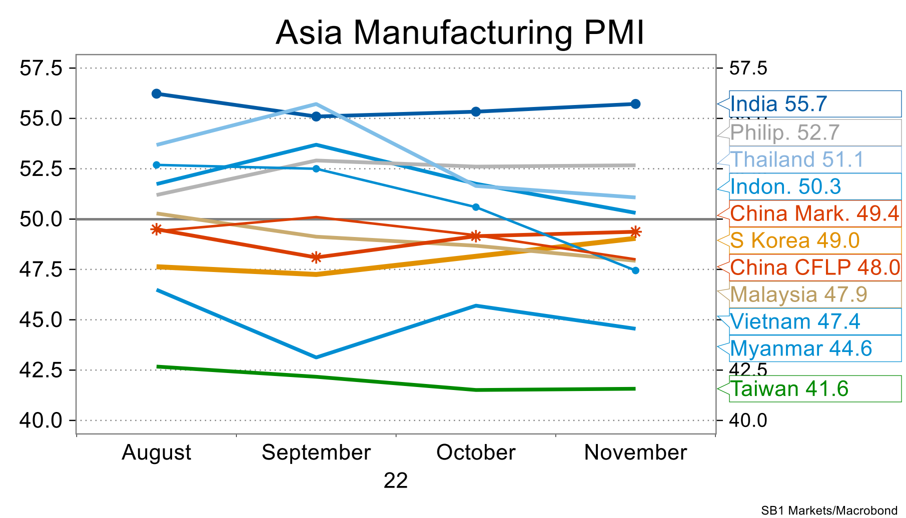
Activity is falling in most of Asia – but India is still going very strong

4 countries reported stronger PMIs in November, while 6 slowed. Taiwan at the bottom, by far. A semi-cond. setback?





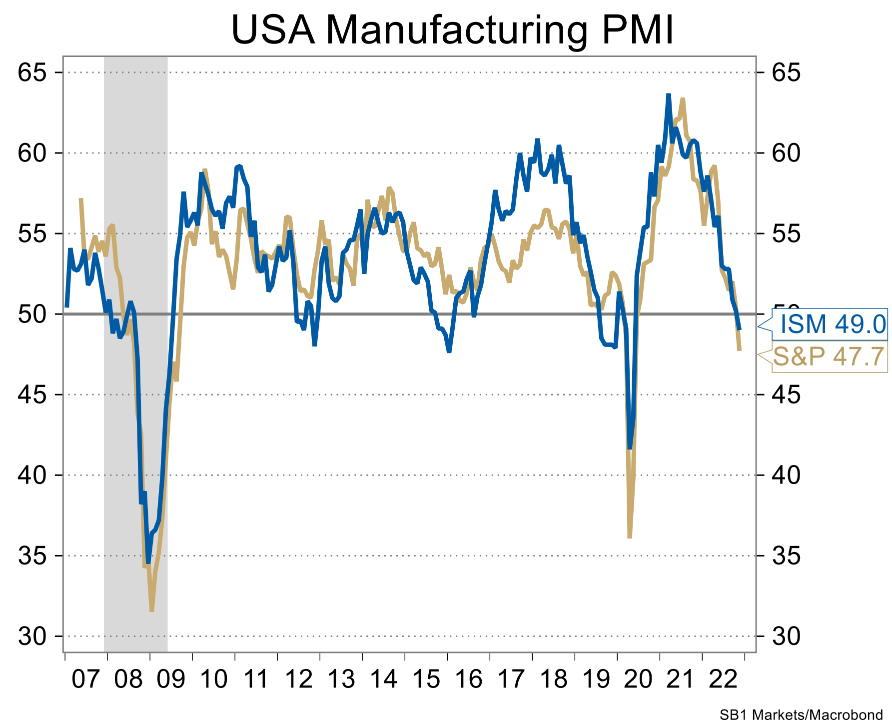
- India is still reporting very strong growth

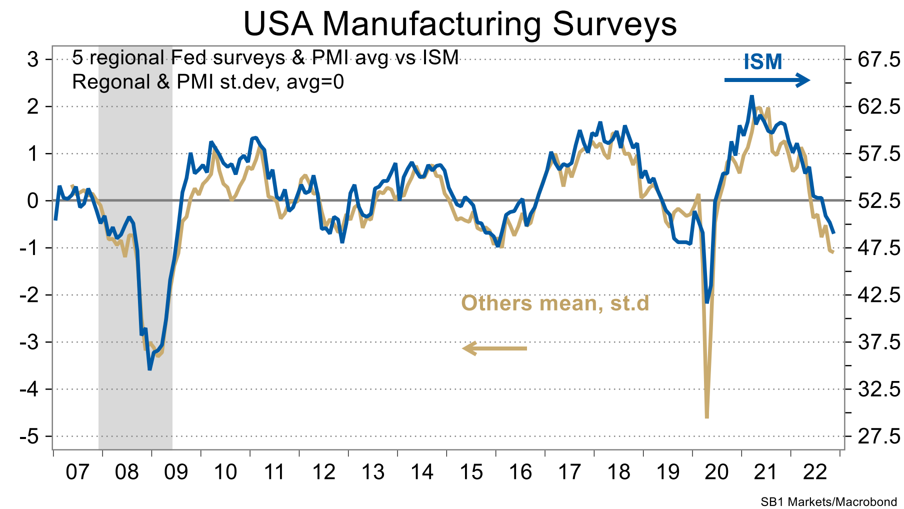


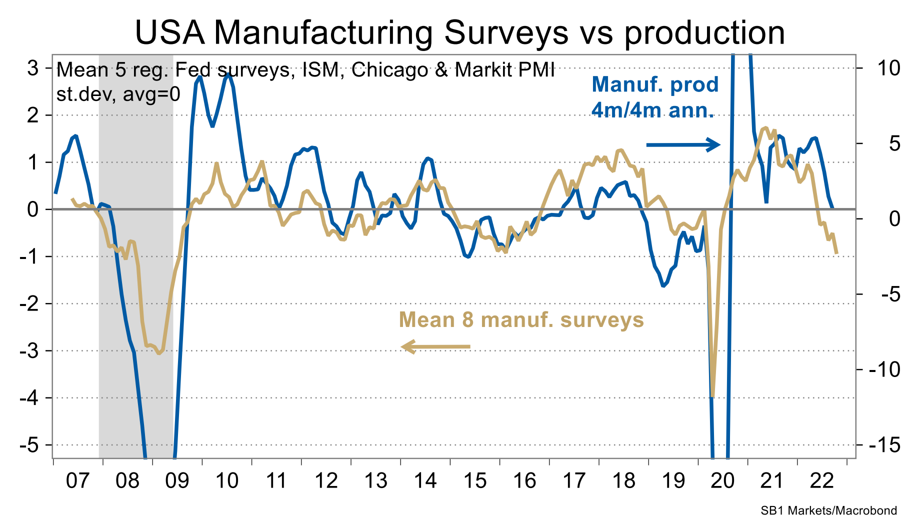
SpareBank 1 MARKETS

Manufacturing surveys: below the '50-line'; production has just flattened

The ISM fell 1.2 p to 49.0, expected 49.7. S&P's PMI -2.7 p to 47.7 (revised down 0.1 p)



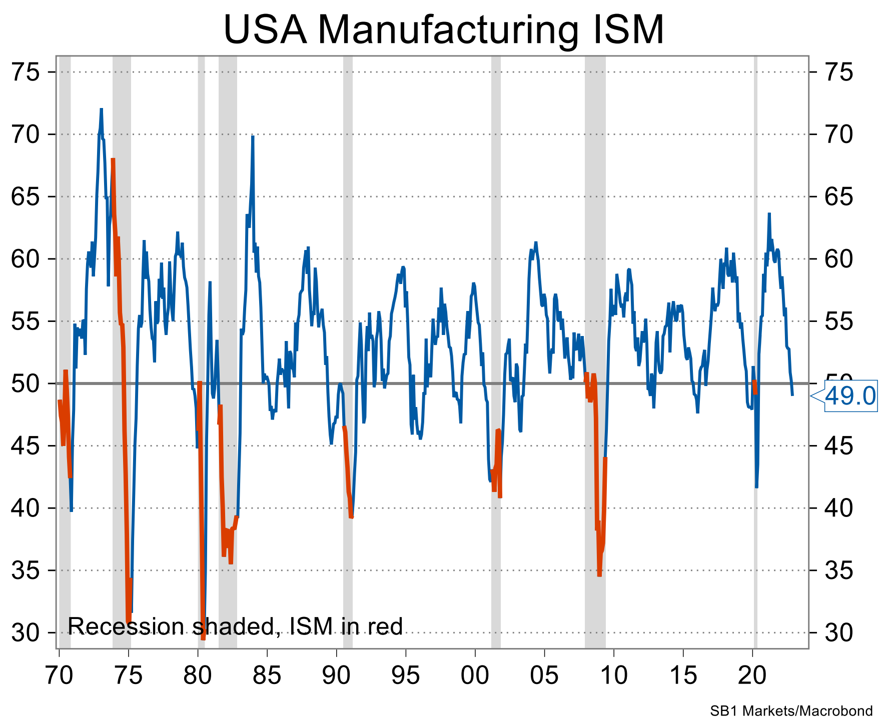




- Both the **ISM, the S&P's PMI and a bunch of regional Fed surveys** are heading straight down, and almost all are below average, and below the '50-line' (named 'zero' in some surveys)
  - Other surveys are on average weaker than the ISM, at a level equalling 47.3
- We expect a continued slowdown the coming months, as orders are unusually weak (if not deep into a recession)
- **Production** will most likely follow suit, even without a further weakening of the these surveys – they are already reporting a setback in the manufacturing sector

The manufacturing ISM fell below the 50-line in November

… Which happens from time to time, without a recession to follow. However, the order component sends a warning

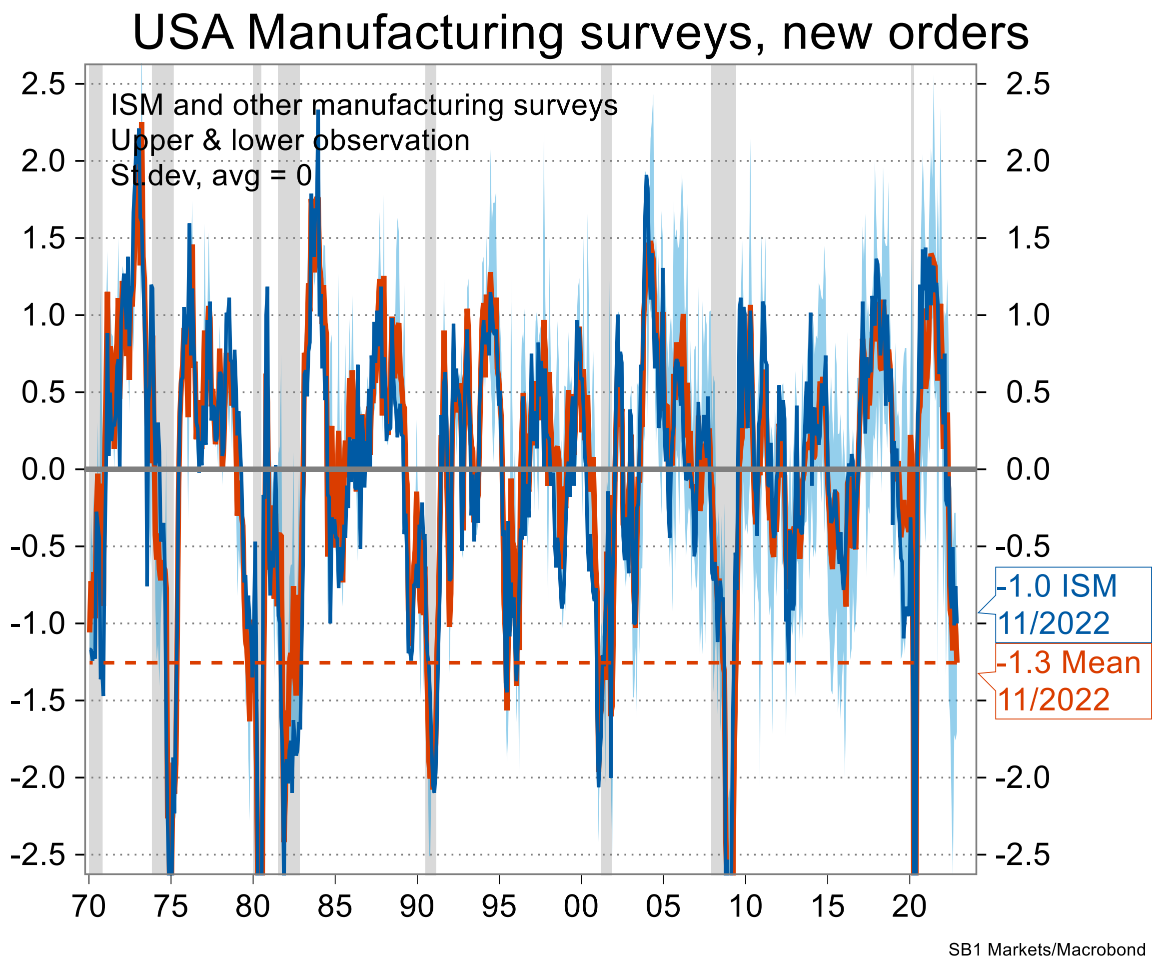


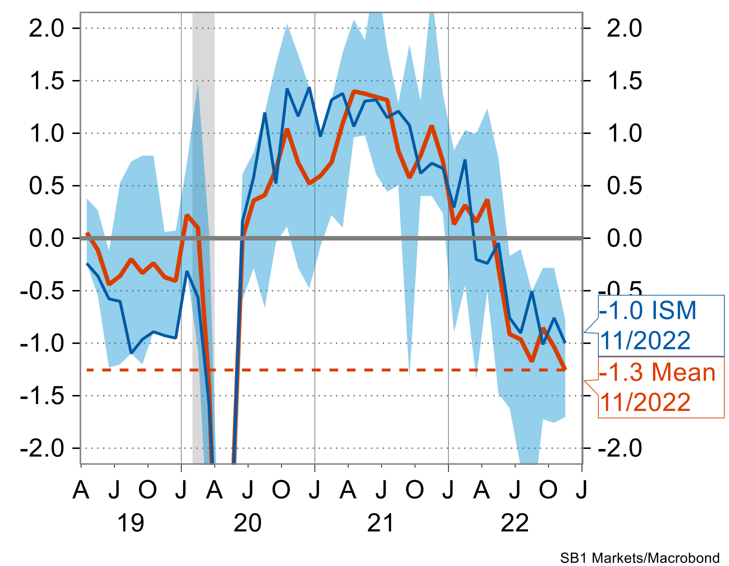
The **ISM manufacturing survey** confirms a gradual slowdown in the US economy, but not as much as the average (and median) of other surveys

- The total index fell by 1.2 p to 49.0, expected down 0.5 p to 49.7
- In November, 6 of 18 manufacturing sectors reported **growth** (down from 8 in Oct), 12 sectors reported a decline (up from 10)
- The **new orders** index declined 2 p to 47.2, even if exports orders contracted at a slower pace. Just 1 of 18 sectors reported growth in new orders in November! Other surveys agree. The **order backlog** is also declining rapidly, the index is at 40 (from above 50 in September!!)
- The **production** index fell 0.8, but remains above 50, at 51.5, which still is below an average level. Given the order indices, the risk vs production the coming months is sharply on the downside
- The **employment** index fell 1.6 p to 48.4, signalling weaker demand for labour
- The **delivery times** index stabilised but is fallen below the 50-line as **supply chain** issues are dissipating: Just 3 commodities saw **price increases** (from 9 last month and 40 in May, and 56 at the peak). 11 were down in price, like aluminium, steel, and lumber, though less than in Oct (17 commodities). Just 6 commodities were reported in **short supply**, up from 9 in Oct (and far below the peak at 50 commodities a few months ago).
- In addition, **inventories are growing, and the manufacturers assessment of their customers' inventories** confirms that markets have become more balanced.
- The input **price** index fell sharply to 49.4, signalling falling prices! The supply chains issues – that were due to very strong demand, not weak production/transportation capacity – are now being sorted out – and prices/margins will very likely be cut, most places!
- **Comments** are mixed – many some are still reporting that labour is a scarce commodity, but several are acknowledging a slowdown in demand, and that competition is increasing

At the current pace of contraction in new orders a recession usually follows

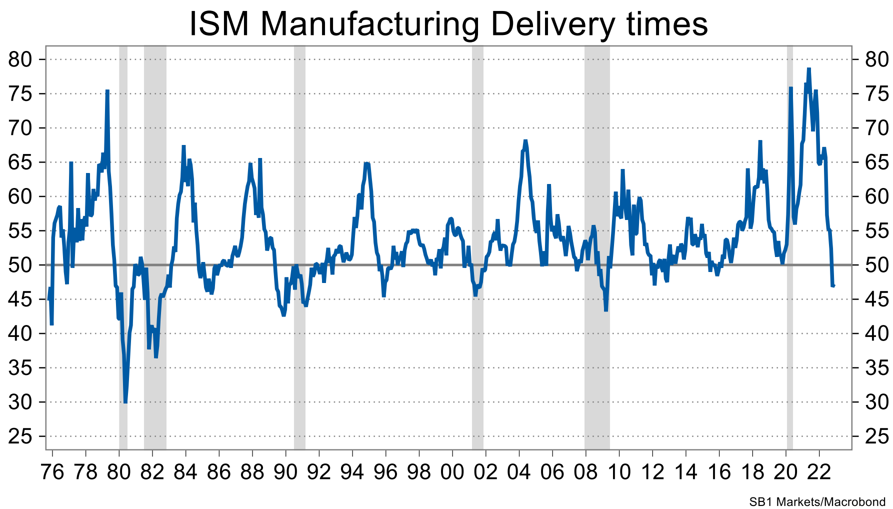
The ‘95 soft landing is the only exception, a false red flag. The 8 recession signals turned out to be correct

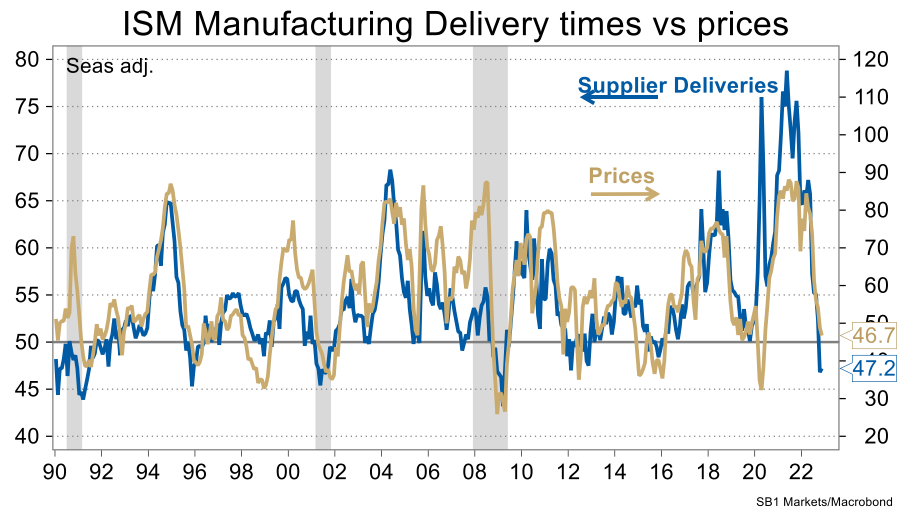


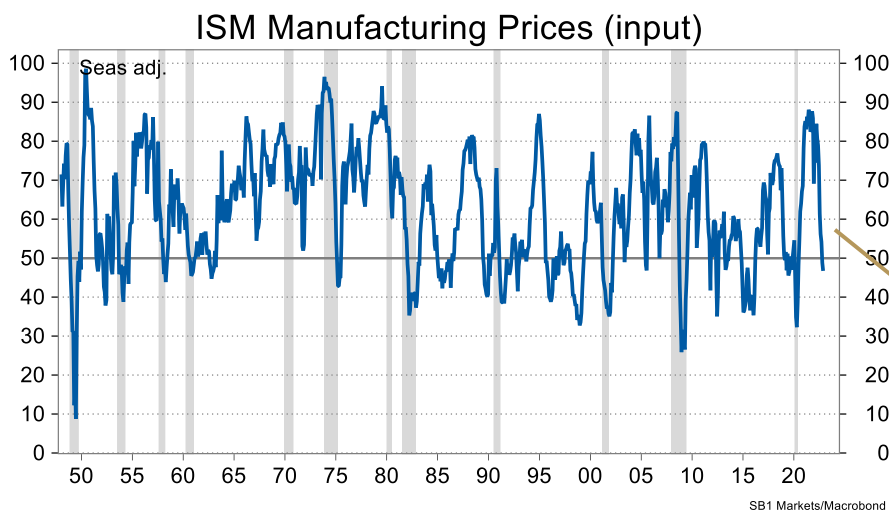


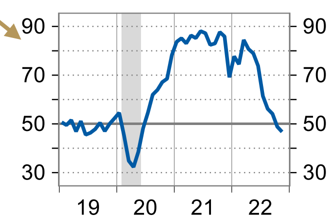
Input prices are falling, companies report, and delivery times have normalised

The price index is now at 47.2, and the delivery index at 46.7!





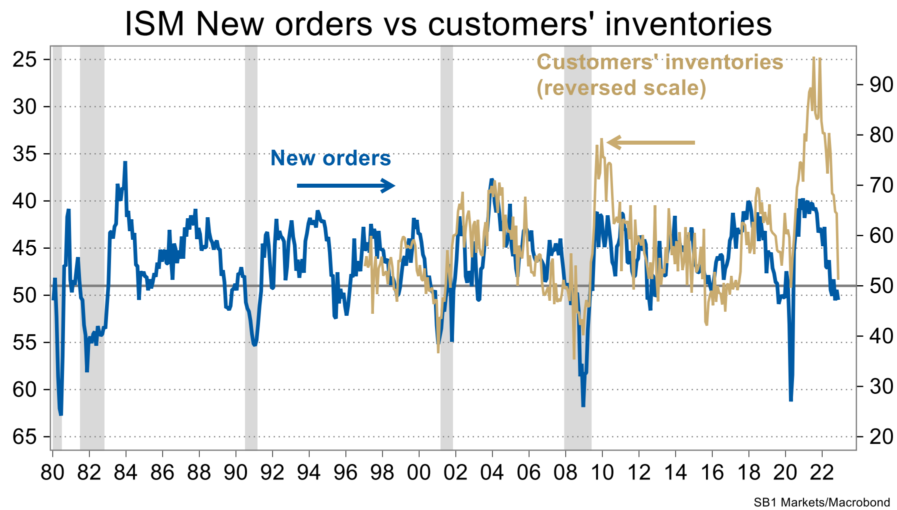


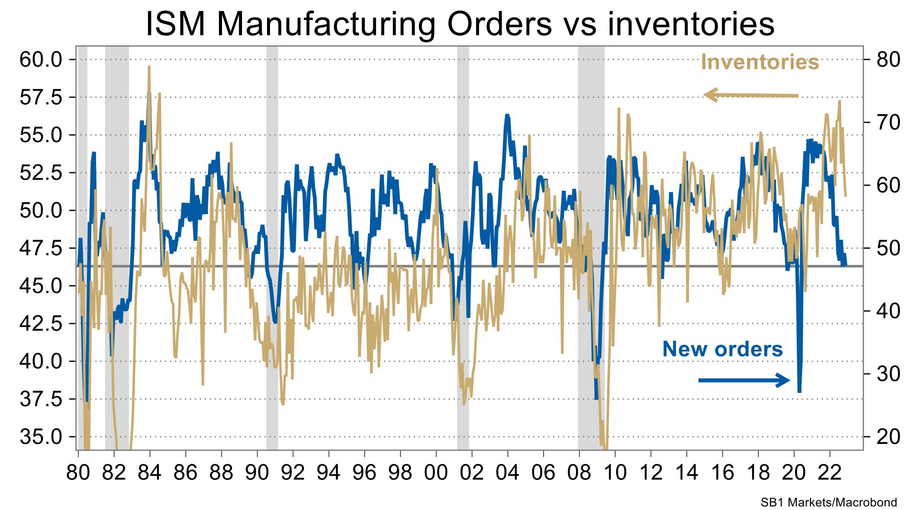


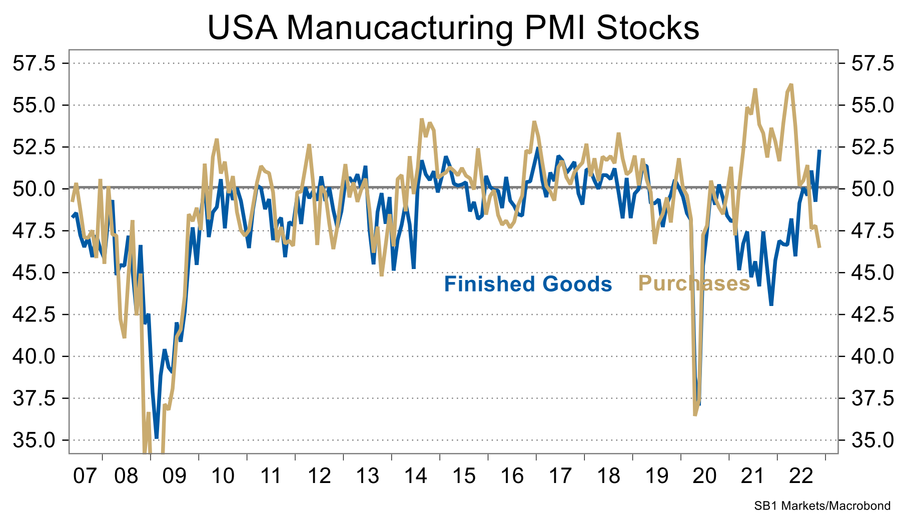
- No more price increases!
- The supplier deliveries index has fallen to 47 in October from 67 in April, implying shorter delivery times and supply-side issues seem to be history – because demand has slowed sharply

Customers' inventories are probably increasing

… signalling less need for new orders the coming months





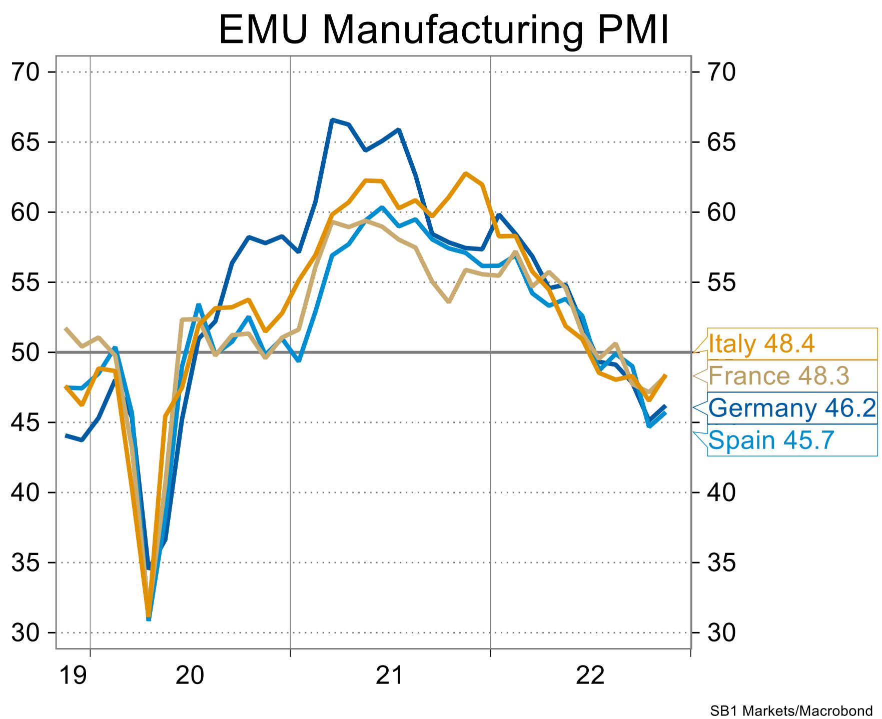


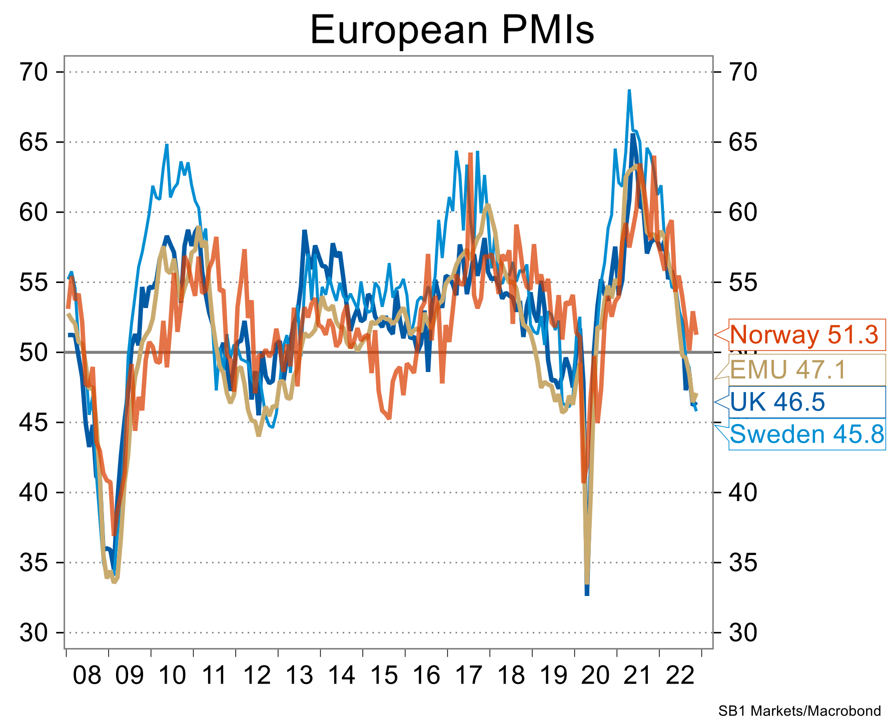
Mixed on own inventories

- **ISM** reports lower growth in inventories of purchases in the manufacturing sector in November, but still much faster growth than normal. Most likely, companies will cut back on purchases, to bring growth in purchases down
- The **PMI survey** (S&P/Markit) reports falling inventories of purchases (and not increasing, like in the ISM survey). However, inventories of finished goods rose at a fast pace in November, in fact one of the fastest ever (though after several months with rapidly decline in inventories of finished goods)

Eurozone manufacturing PMIs were up in November, but sector is contracting

The Norwegian and Swedish PMIs fell, but Norway is still above the 50-line

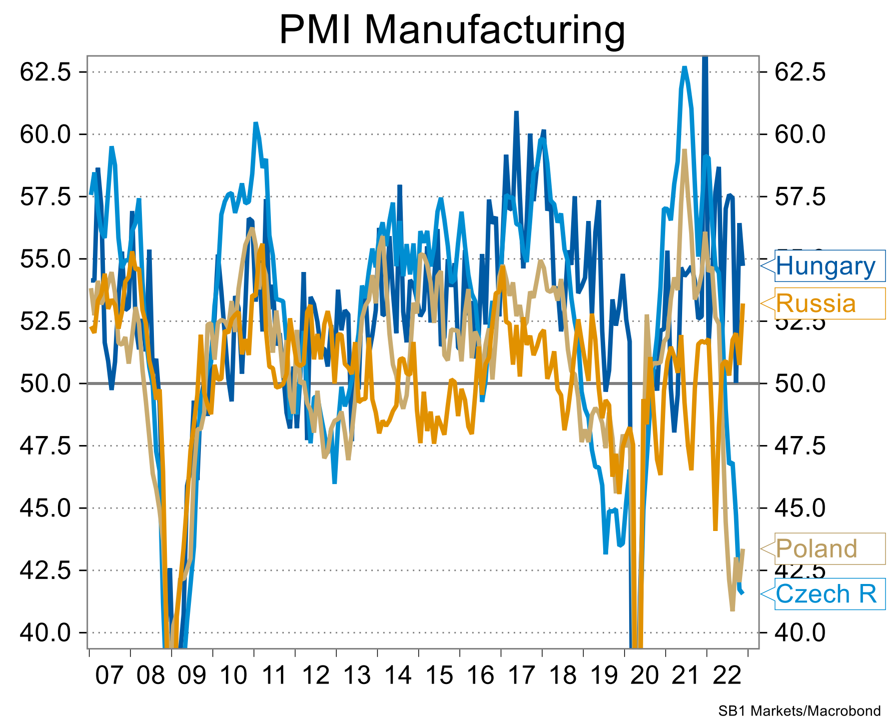


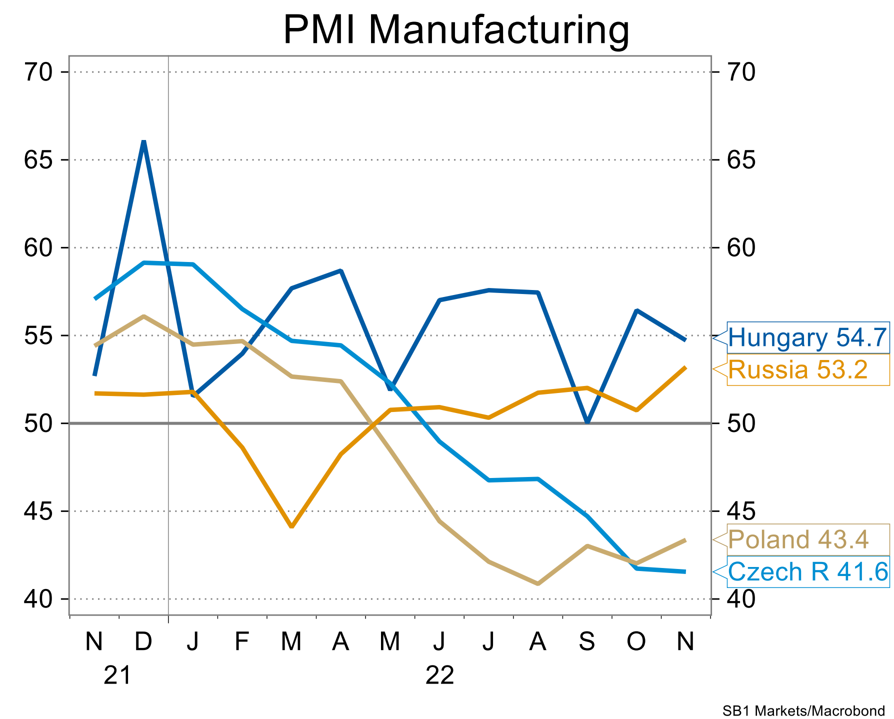


- The increase in the **EMU PMI** in November was confirmed, up 0.7 p to 47.1 (flash est. at 47.3). The German manuf. PMI came in at 46.2, up 1.1 p from October, still 0.5 p lower than the flash estimate. The French PMI was also lower than the flash estimate, while the Italian and the Spanish PMIs surprised on the upside. All 4 PMIs rose, but all remain in contractionary territory
- **The UK PMI** was revised up by 0.3 p to 46.5, up from 46.2 in October
- **The Swedish PMI** fell by 0.8 p to 45.8. Not too long ago, the index was close to 70, and at the top of the global ranking – the fall has been swift
- **The Norwegian PMI** also declined, by 1.7 p to 51.3

Poland and the Czech Republic suffering from lack of energy?

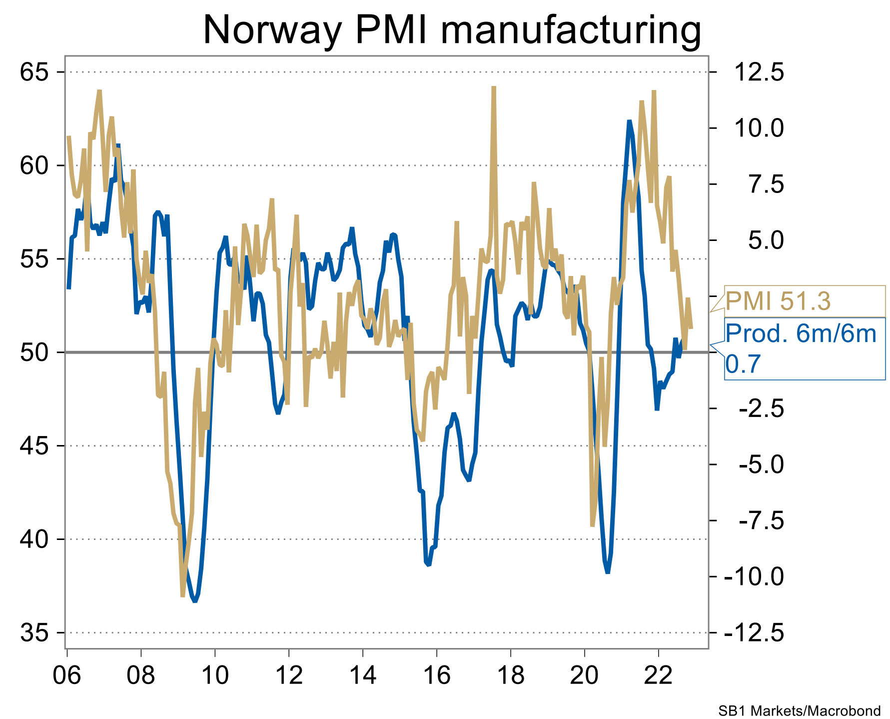
The Russian PMI was up in November, but the production level remains low, according to official stats

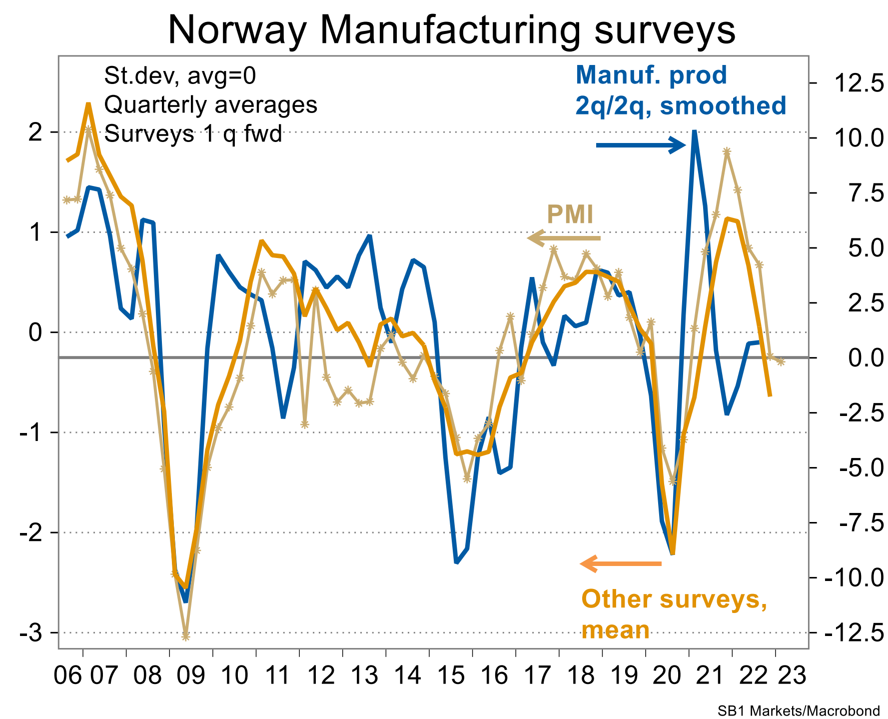




The volatile Norwegian manufacturing PMI lower in November

Production, orders, delivery times, and inventories indices were all down. The employment index was unch. above 50

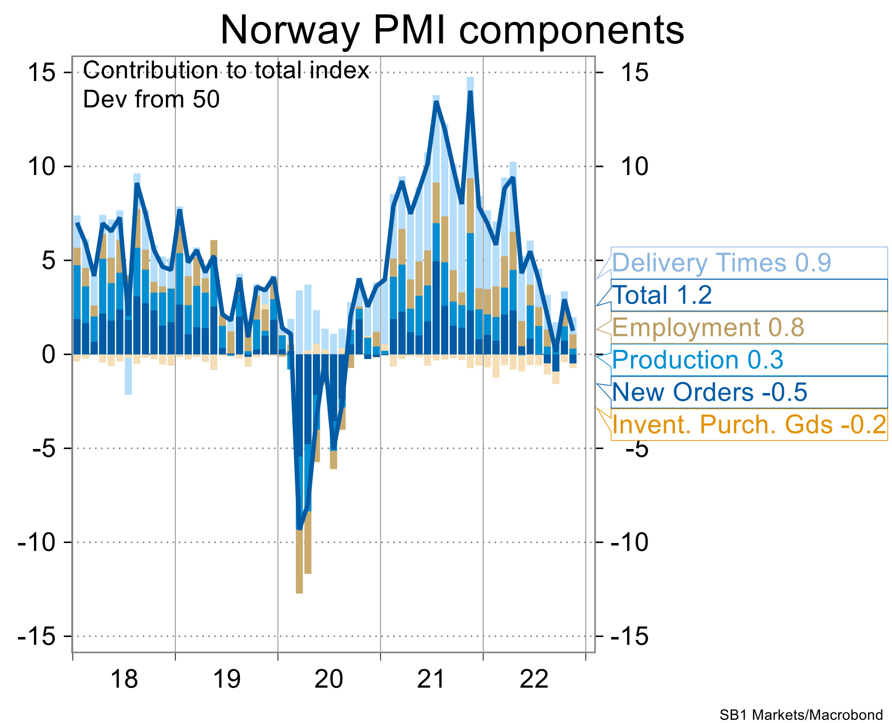


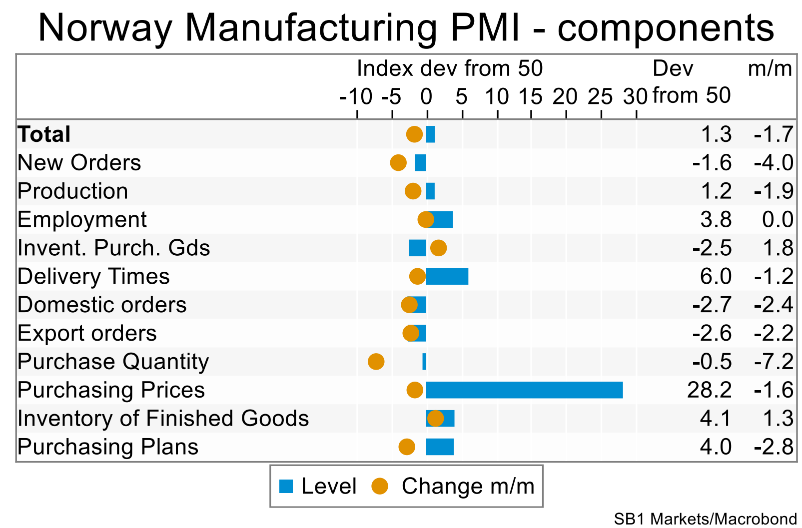


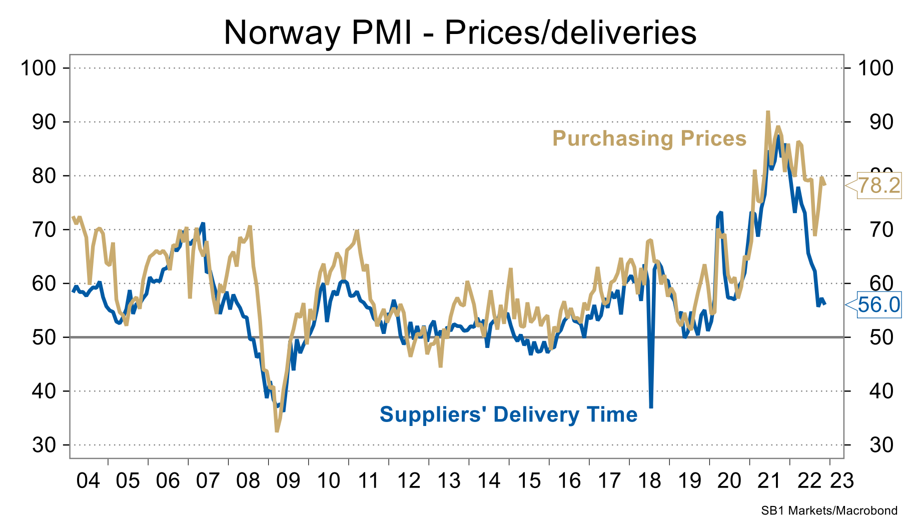
- The **manufacturing PMI index** fell 1.7p to 51.2 in November (October was revised down by 0.2 p), and the trend is clearly down
- Other **manufacturing surveys** are also on the weak side, like the SSB survey, NHO and Norges Banks' Regional Network
- **Actual production** has been trending down since early 2021, and has – at best – stabilised recent months (October data will be reported on Wednesday)

Orders are falling, and price are increasing at a slower (but still rapid) pace

Both production and employment are still expanding according to the PMI



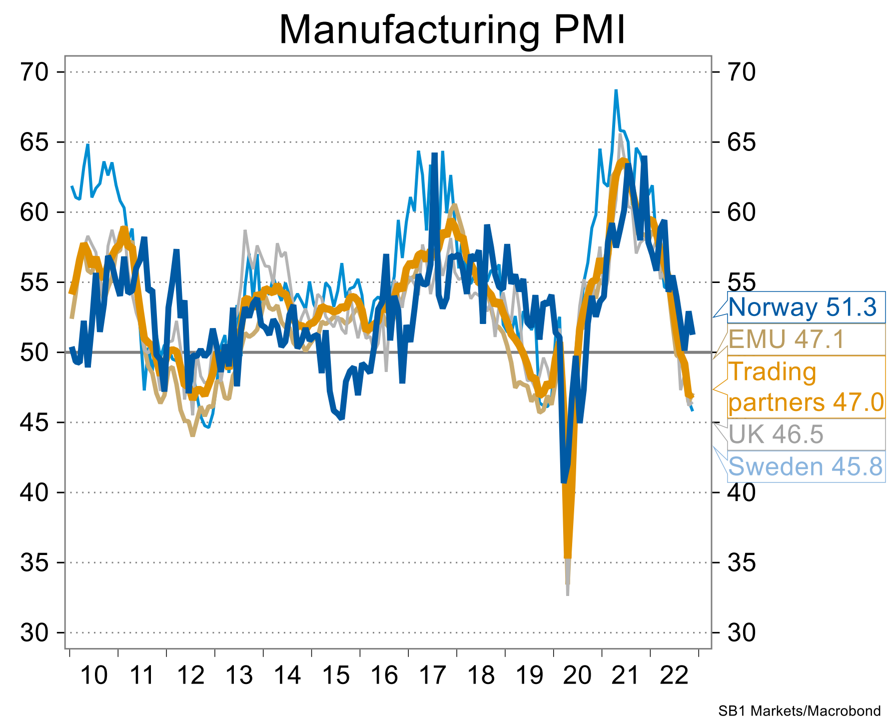


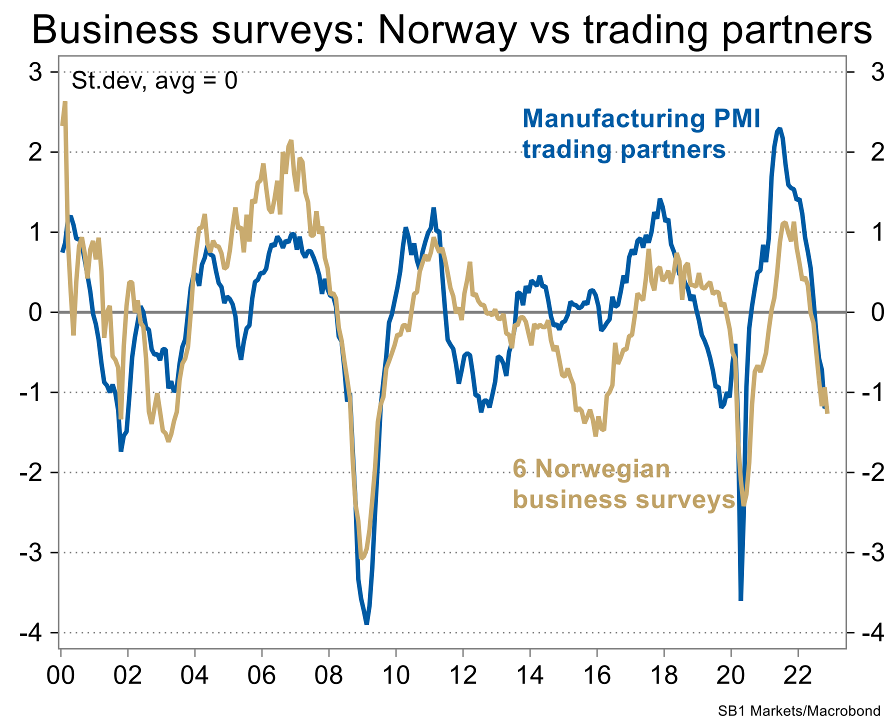


The total PMI index is a weighted index of new orders, production, employment, inventory of purchased goods, and delivery time. The 6 next sub indices at the table to the right are not included in the total index calculus

Norwegian manufacturers normally follow the rest of the world

We thought the October observation was odd. November data are still strong when compared to trading partners

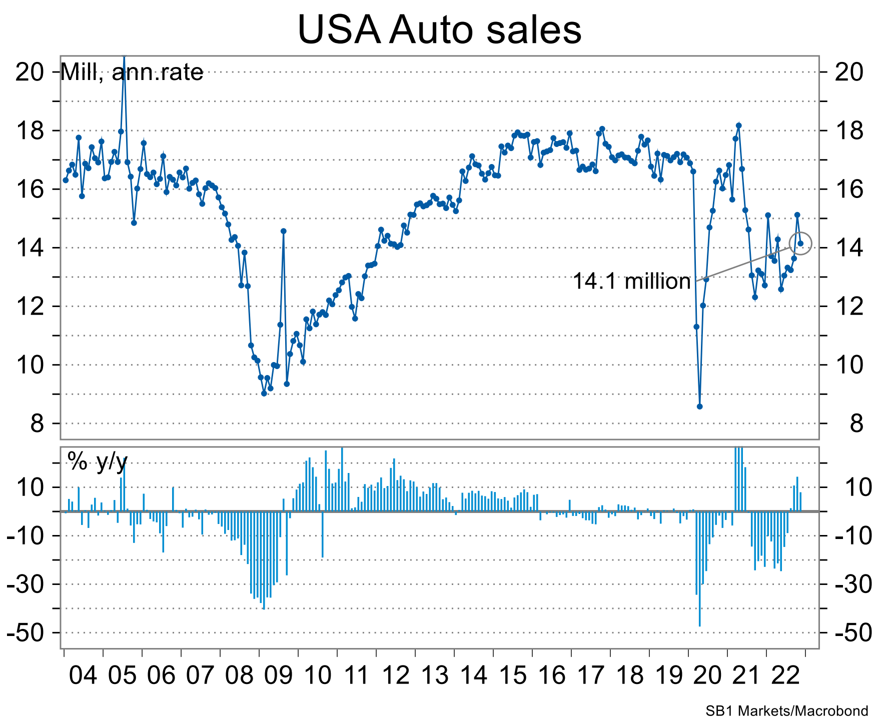


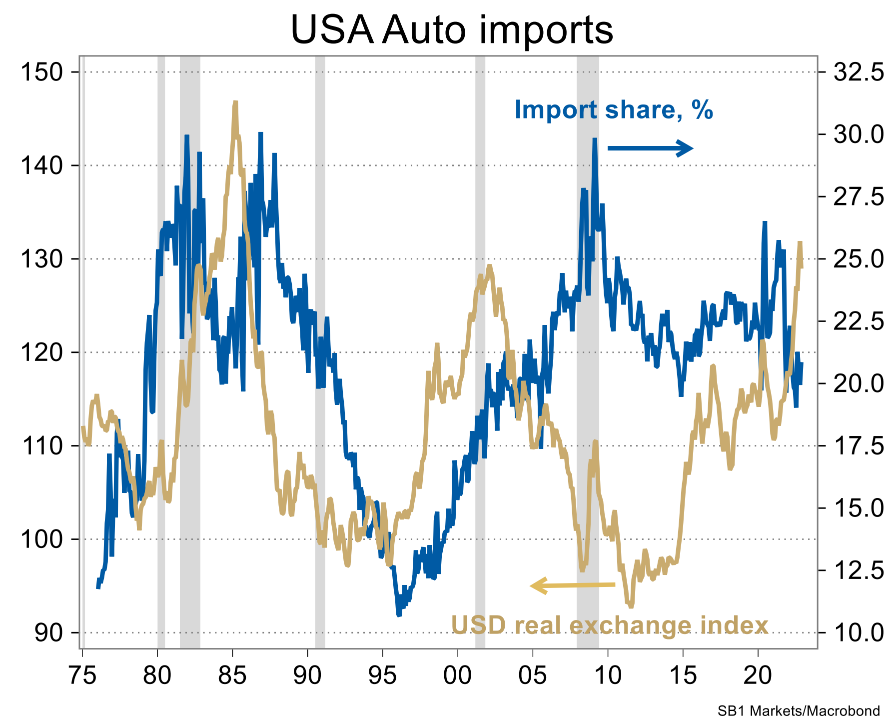


- Norwegian manufacturers may still be faring marginally betting than their peers abroad, due to a pickup in demand from the oil and gas sector
- Other Norwegian surveys confirm the PMI

US auto sales weaker than expected in November, supply to blame, or not?

Sales fell to 14.1 mill in November, from 15.1 in Oct, expected down to 14.5 mill. Sales are 17% below the 2019 level

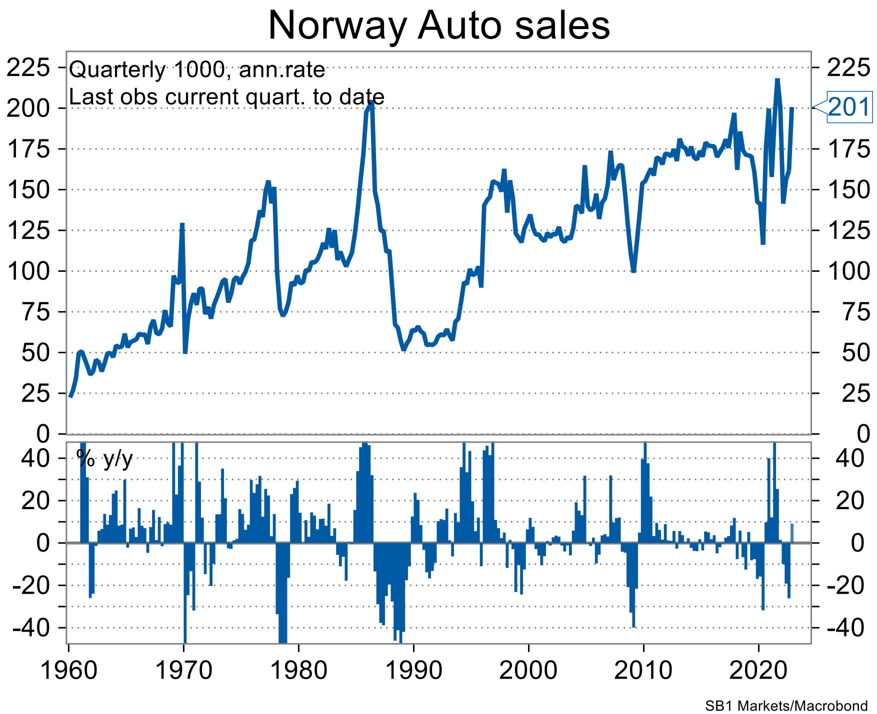


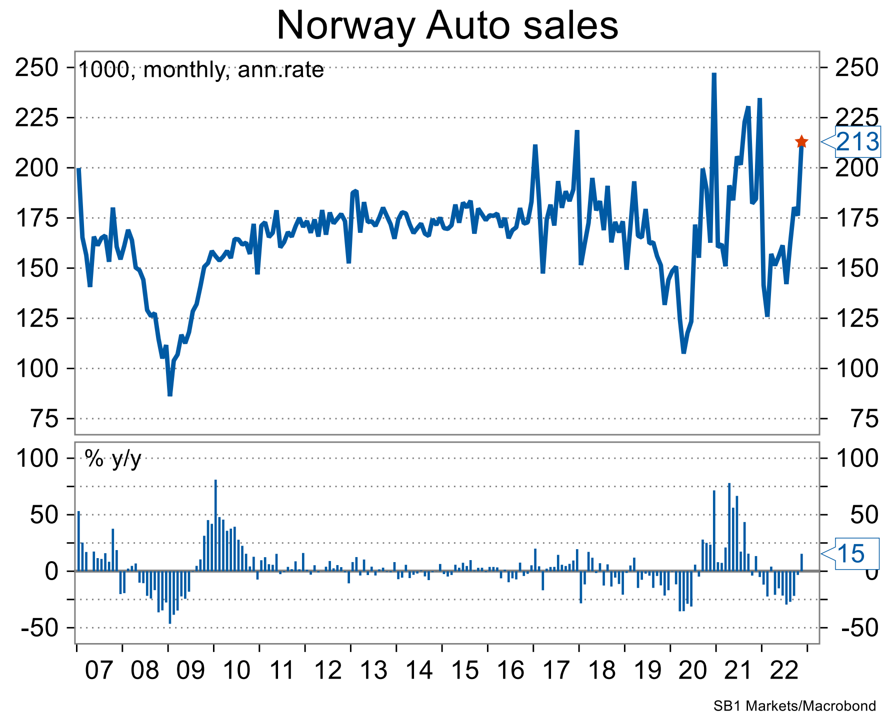


- Auto production in the US has recovered sharply recent months, to above the 2019 level
- The import share has fallen to 20% from 22.5% (rounded) – and this 2.5 pp decline can not explain the reduction in total sales

Norway: A steep increase in new registrations in November

Among the best months ever – as taxes will be lifted from January?

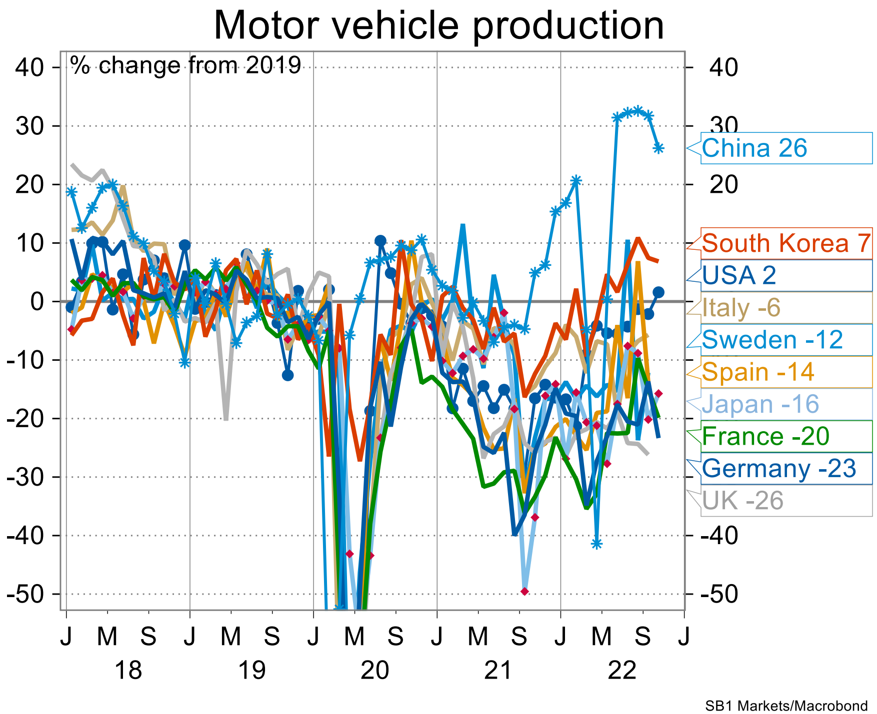




- New registrations up to 213' from 176', to 32% above the 2019 average, very likely the best result in any developed market. Wonder why factories sell so much of the stuff to Norway? Could be that the government has imposed higher taxes on new vehicles (electric vehicles, approx. 80% of sales in Nov) from 2023…

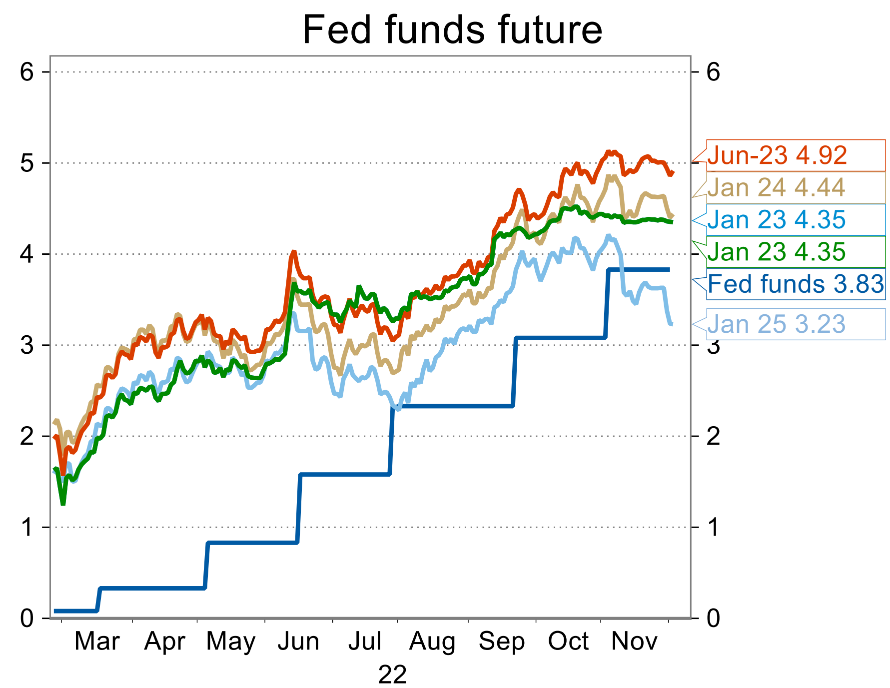
US production is 2% above the 2019 level, Europe/Japan still down some 20%

… but gradually recovering



Fed’s Beige book reports of lower activity and increased pessimism

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



SB1 Markets/Macrobond

USA Fed funds rate (OIS)

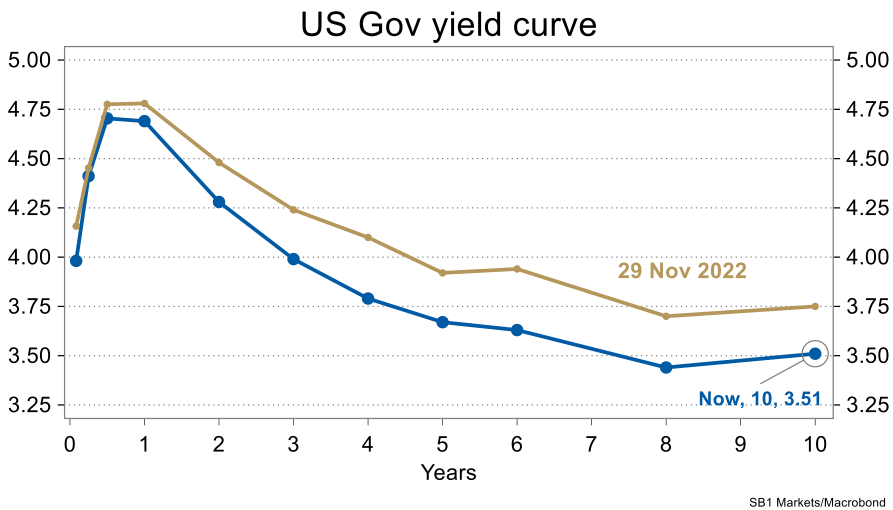
FOMC meetings	Effective Fed funds rate (Last)	Change last week
Now	3.83	0.00
Dec 14	4.36	-0.02
Feb 1	4.73	-0.04
March 22	4.89	-0.05
May 3	4.95	-0.06
June 14	4.94	-0.08
July 27	4.90	-0.09

■ Last ● Change last week

- **The US economy is slowing down**
  - On average, economic activity was somewhat weaker than in the prior reporting period. 4 districts report that activity contracted modestly, and 3 districts said growth had stalled, and the remaining 5 reported modest growth – last report 2 reported a decline in activity, 4 flat, and 6 modest growth
  - Outlook more pessimistic over concerns of high inflation and weakening demand
  - Loan volumes declined further due to weak demand and tighter standards
  - Manufacturing activity continued at the same pace or expanded slightly
  - The labour market was still very tight, but hiring difficulties eased. Some layoffs in the technology, finance, and real estate sectors were observed
  - Overall inflation remained elevated, with some easing reported. Retail prices ‘faced downward pressure’ and steel and lumber prices fell
- Taken face value, the Beige book confirms that growth is slowing further, price pressures are easing somewhat, and that the labour market remains tight (as many other reports confirm)
- Fed Chair Jerome Powell, and several other Fed officials have recently argued for slowing the pace of rate hikes this month and observe the effects of the implemented policy in the economy. The Fed is right do so, as this latest beige book reports lower activity and weakening demand: +50 bps is a done deal – and the market agrees

Powell will keep at it until he is done – rates will be higher, for longer

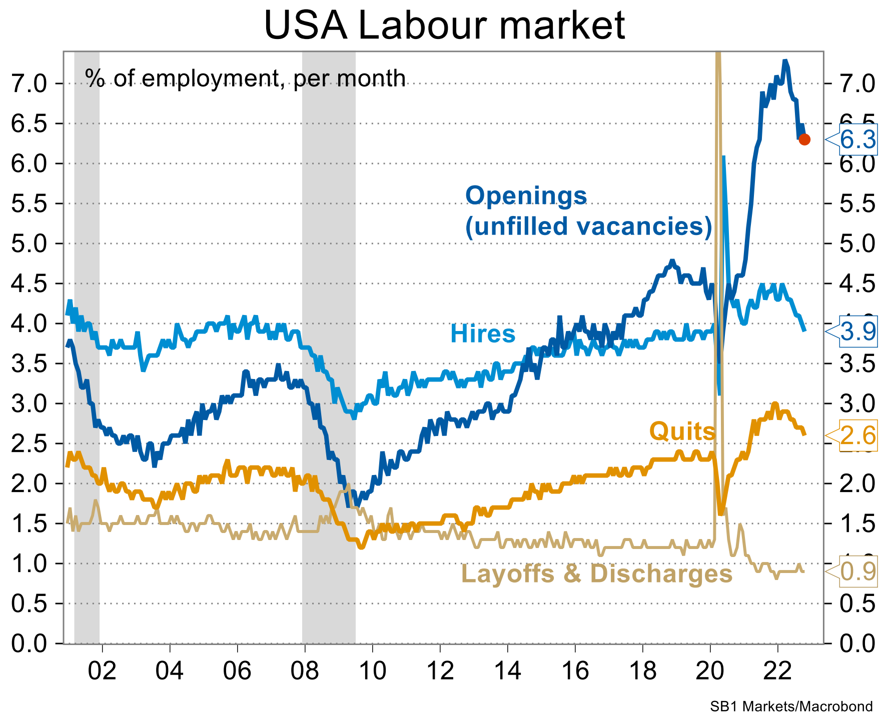
…but markets focused on the fact that the pace of hiking is slowing. Come on, we already knew that!



- **Federal Reserve's governor Powell's** long-awaited speech on Wednesday was summed up by Financial Times as 'hawkish' (and we though so too), but the markets were of a different opinion. Bond yields fell sharply – and stayed low on Thursday & Friday (at least by the close) even if the labour market report was stronger than expected, especially regarding wages, which Powell focused on in this speech
- Sure, Powell signalled, as most other Fed officials recent weeks, that the pace of hiking could slow, at the upcoming or the next FOMC meeting – which the market also had discounted
- Powell confirmed that the peak rate in the cycle probably will be higher than the 4.6% signalled in September, and that rates will stay higher for longer
- The market now discounts 2 x 26 bps cuts in the Fed funds rate in H2-2023, after reaching almost 5.0% in Q2

The vacancy rate down 0.2 pp to 6.3% in October, as expected

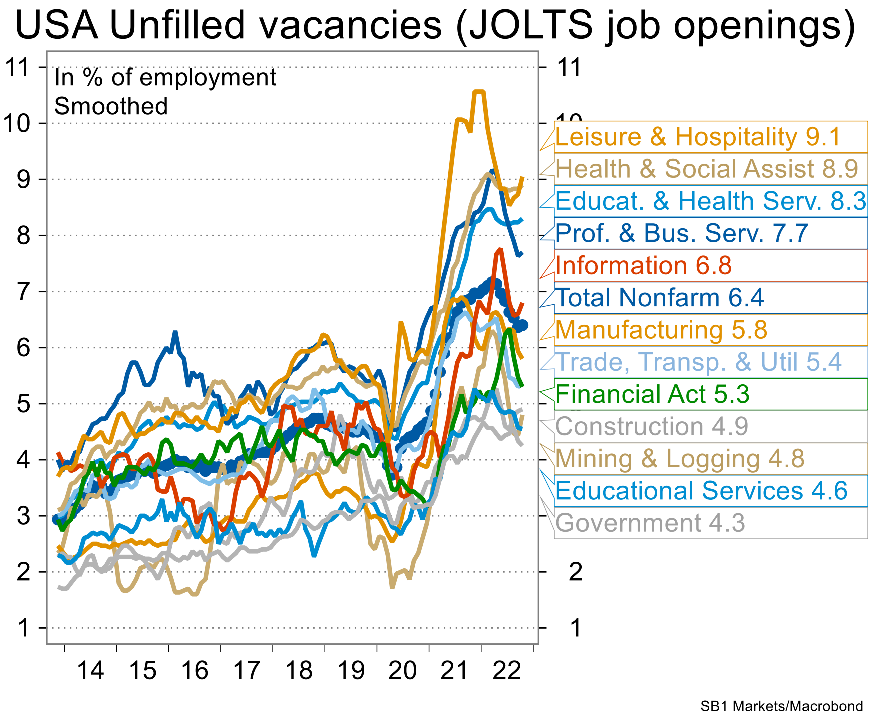
The tide has turned but the labour market is still very tight and wage inflation will quite likely remain too high

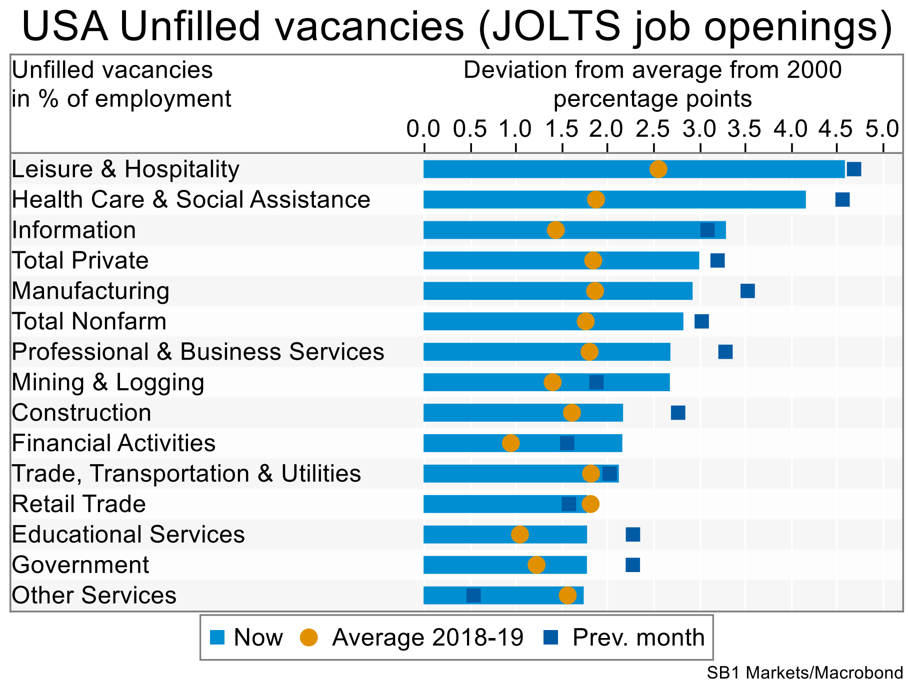


- The number of **unfilled vacancies** fell by 0.35 mill to 10.33 mill in Oct, slightly less than expected (to 10.3 mill). The rate (vs no. of employed) fell by 0.2 pp to 6.3%
  - Vacancies are down from the peak in March (7.3%) but the level is still way above anything seen before. The highest print ever before the pandemic was 4.7%, and the rate was 4.5% just before the pandemic hit
- **New hires** fell by 0.1 mill to 6.0 mill in October, equalling 3.9% of the employment level. This is indicating an easing of the labour market, but the level is, of course, still high
- The number of **voluntary quits** fell 0.1 mill to 4.1 mill, leaving the rate to employment unch. at 2.7%. The trend is down, signalling that workers have become somewhat more cautious leaving their current jobs – but the quit level is still higher than anytime before the post pandemic surge
- **Layoffs** equalled 0.9% of employment in October, unch. from Sept – still not signalling any take-off in downsizing (but the Challenger survey counted more layoffs in November, check some pages fwd)
- **The SMBs (NFIB survey)** reported that 44% of companies were not able to fill positions in November, down 2 pp from Oct. Hiring plans were down by 2 pp, but remains high – and the share saying that they are increasing compensation fell but remains very high
- **In sum:** The tide has turned but the labour market is still very tight, and it is unlikely that wage inflation will come down to a sustainable level without a substantial further weakening. Job openings are probably stickier that what the Fed has hoped for, and are leading unemployment by some few months, though not by a stable lag (but the correlation is high). Actual unemployment was unch. at 3.7% in November. New jobless claims, which leads the unemployment rate rose somewhat two weeks ago fell back again last week

Most sectors are reporting fewer vacancies than at the peak

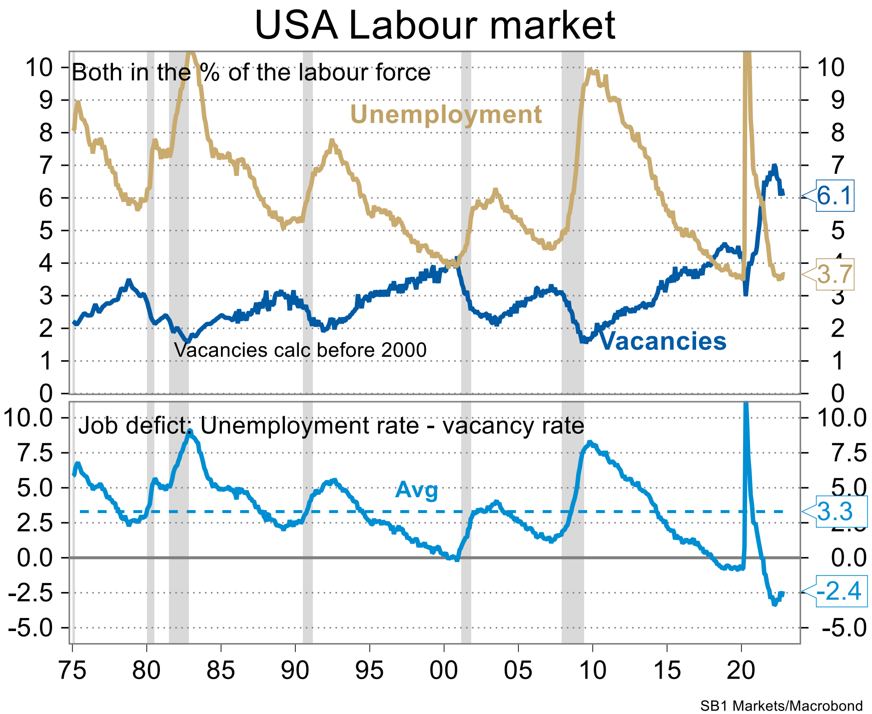
…and all but retail trade has more vacancies that before the pandemic

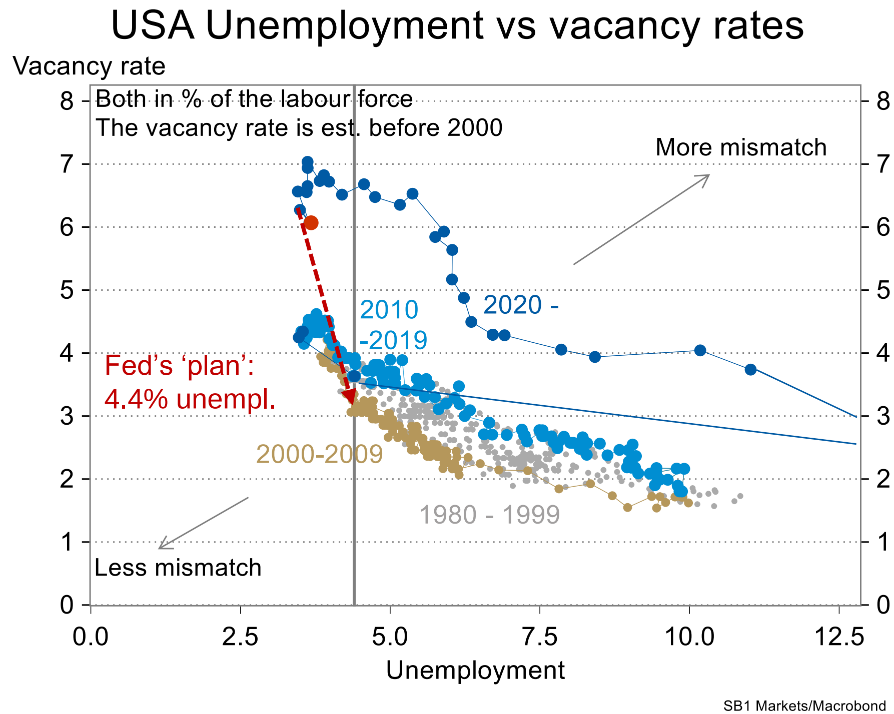




Unemployment has turned up, but just marginally

Will vacancies return to a normal level without an increase in unemployment (= a recession?)

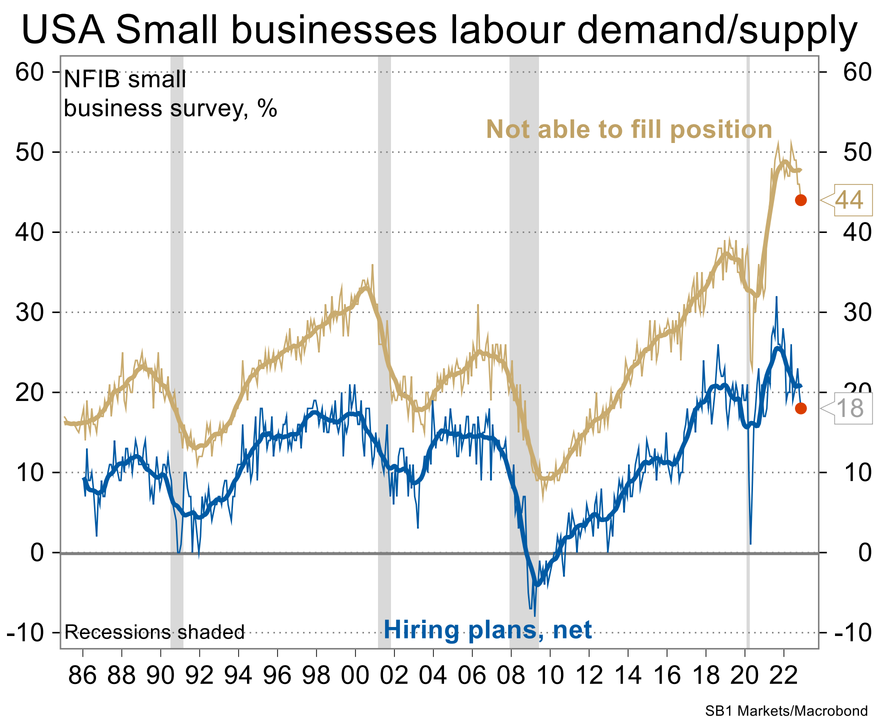


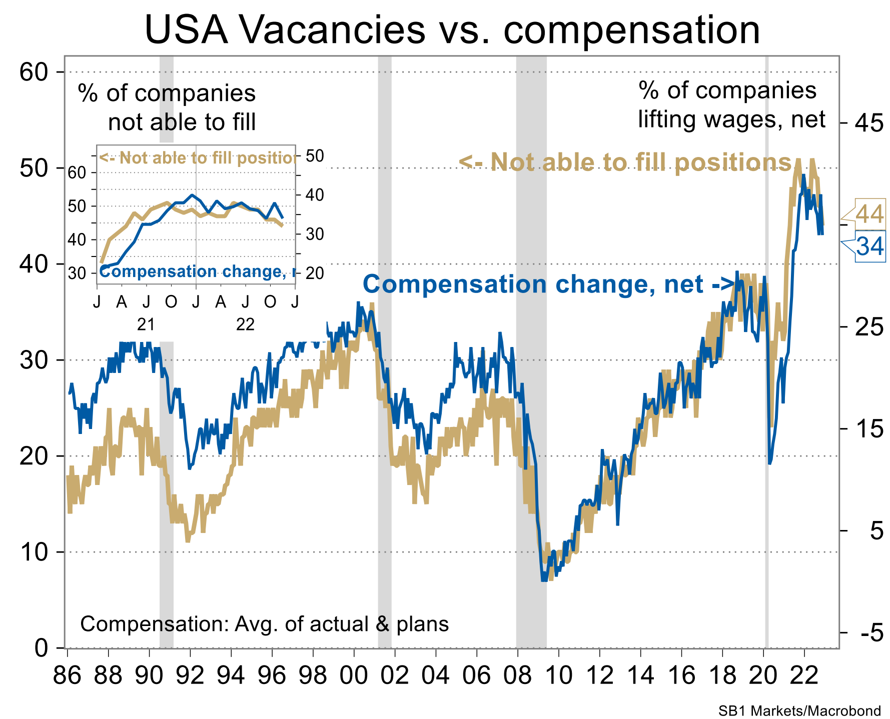


- In principle **vacancies may be reduced without pushing the unemployment rate** up (aka recession), as the vacancy rates is so much higher than normal, but we think it would be hard to achieve, over time. The Federal Reserve still assumes it will happen as the unemployment rate is expected to increase just to 4.4% in late 2023
- An economy that reduces overall demand for goods and services, and thus demand for labour, will hit both companies that have vacancies, and those which do not. The labour market is not so flexible that redundant labour in one company will seamlessly be transferred to fill still vacant positions in other companies/sectors/regions. <u>If such a transfer had been easy, it would have taken place already, and the unemployment rate would have been lower</u>

SMEs are moderating their hiring plans, but filling vacancies still not easy

Some fewer companies are planning to lift wages, but are still signalling very strong wage growth

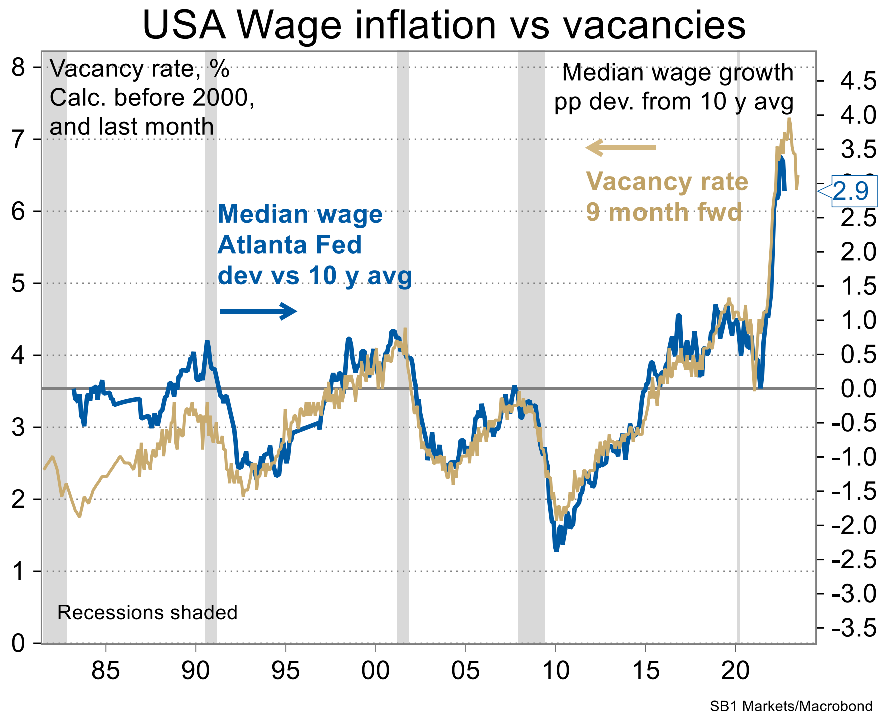


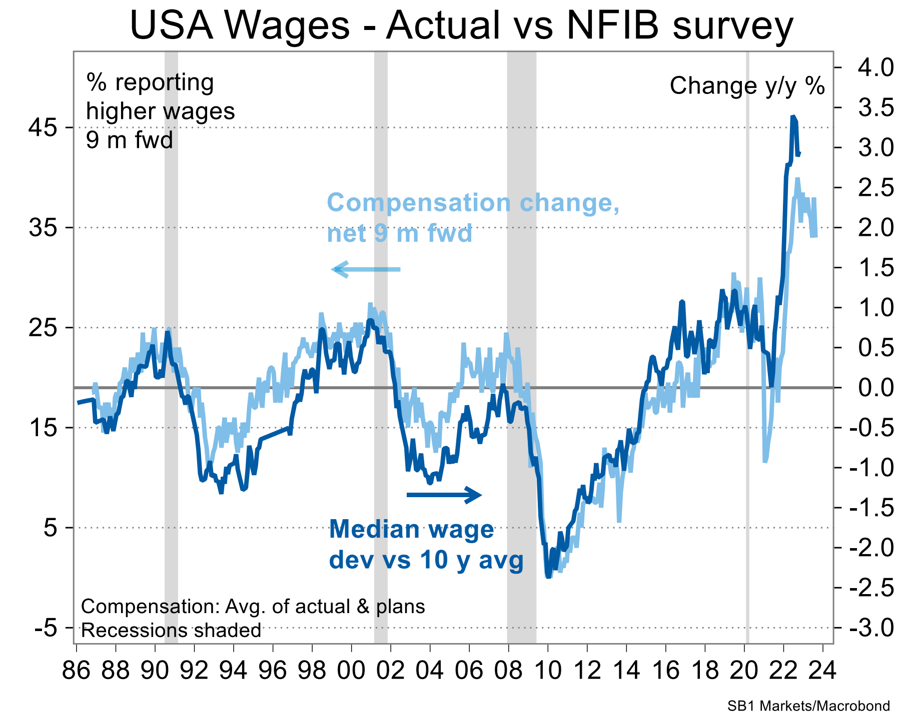


- 44% of SME's report they are **not able to fill open positions** in November, down from 46% in October, and 51% at the peak. The average level is some 25%, and the highest before the pandemic was 39%
- 18% of companies **plan to hire**, down 2 pp from Oct, and well below the 32% at the peak in Aug-21. The trend is down but the level is still unusually high and far above an average 10% level
- 34% of companies report that they **plan to lift compensation** in the coming months, up from 38% in October. The peak was at 40% last December. Before that, the ATH was at 27%, while the average – signalling no acceleration in wage growth – has been at approx. 20%
- There is still a ways to go…

Both the vacancy rate as well as SME's compensation plans have peaked

And wage inflation may have peaked too, but the level is still way above what will return 2% CPI infl.

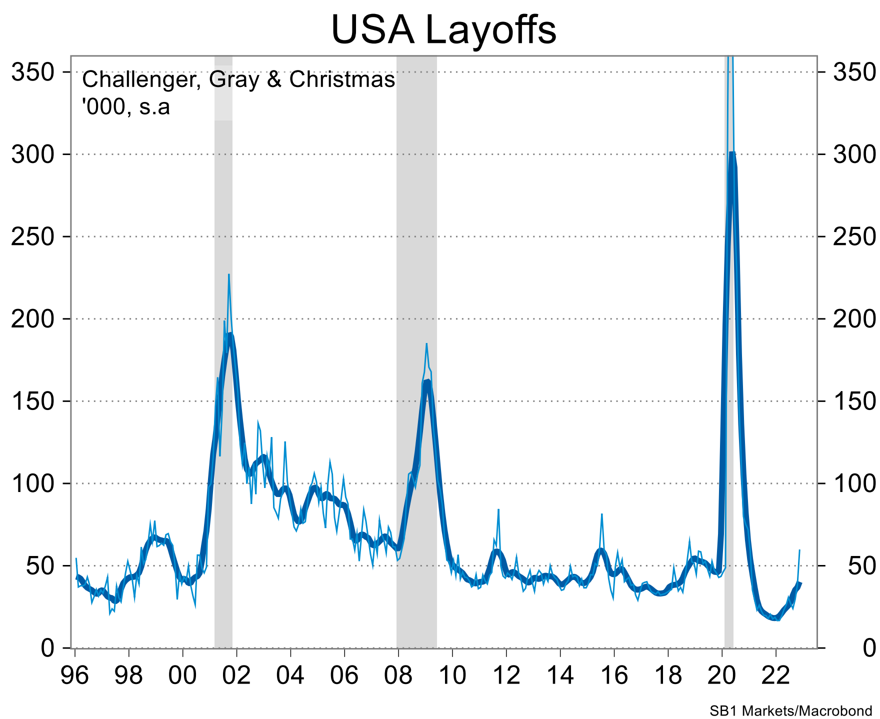


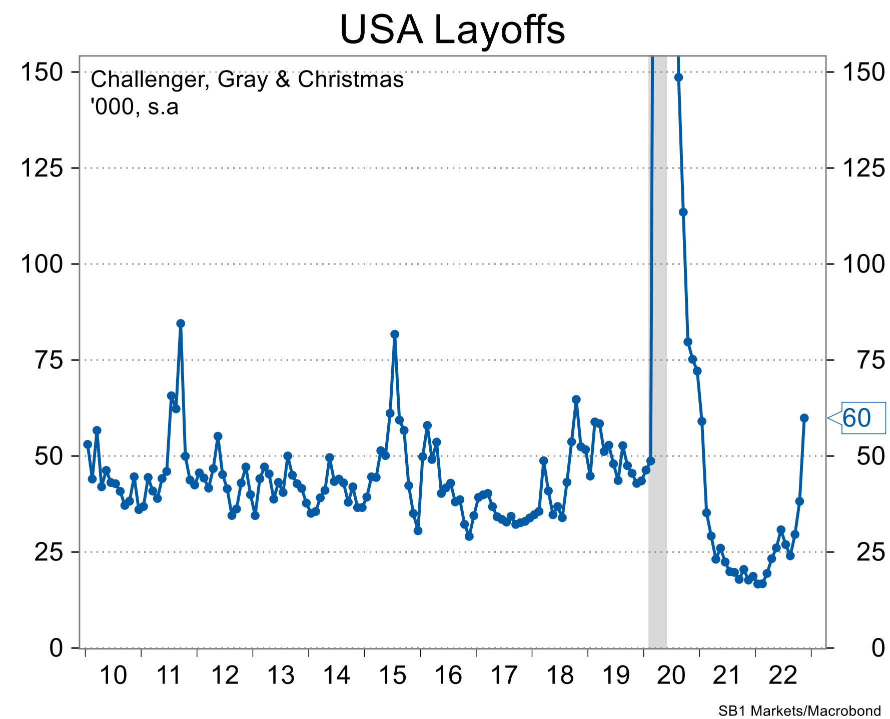


- **Our 'Phillips curve'** based on the vacancy rate signals continued wage inflation at some 3% above the normal level – which will yield 3 pp higher wage inflation than we have been used to, before the pandemic
  - Companies (SMEs) compensation plans also signal continued high wage inflation but not faster than the present
- **Demand for labour** has to be reduced sharply in order to get wage inflation back to a sustainable level
  - Check under which circumstances wage inflation slows on the charts above (hint: find the shaded areas, follow the blue wage line - as well as the vacancy rate or the wage hike plans ☺). Fed will not be able to control inflation if demand for labour is not cut sharply. Exactly what Powell once more told us during the speech last week

Layoffs skyrocketed in November but still not much above an average level

Challenger job cuts up to 60’ from 38’ the previous month, and 20’ at the bottom

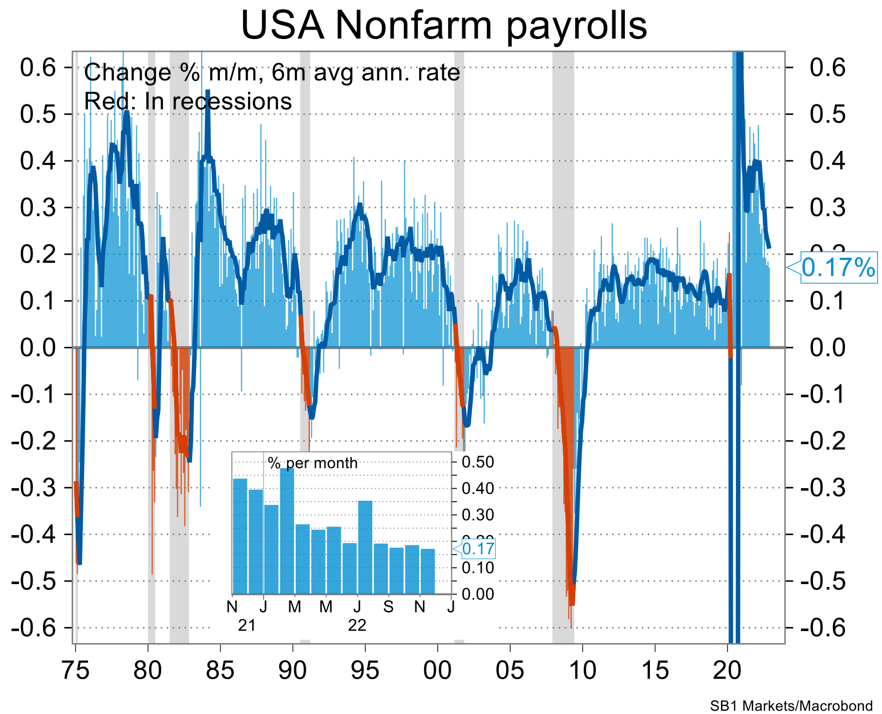


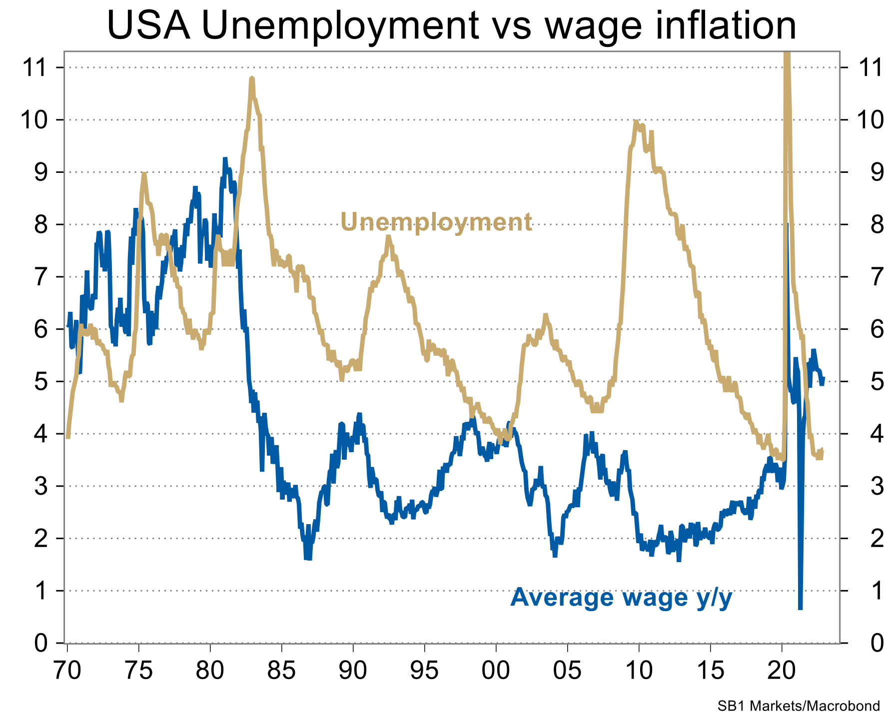


- The number for layoffs in November were some 50% above the average in normal strong labour markets, but even then, there are some outliers. This time the figure seems to be reasonable, given reports from both tech, trade and others during the month
- Tech sector has cut the most jobs this year, followed by the automotive and health care sectors

Employment growth is slowing, and unemployment rose in October

In addition, wage inflation is not accelerating – but it remains too high, according to the labour report

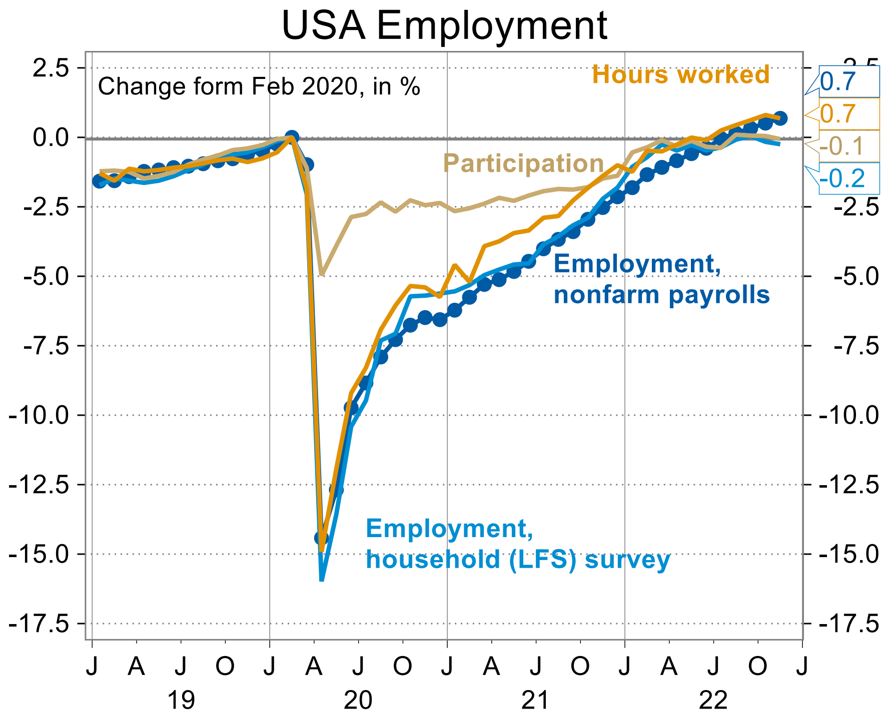




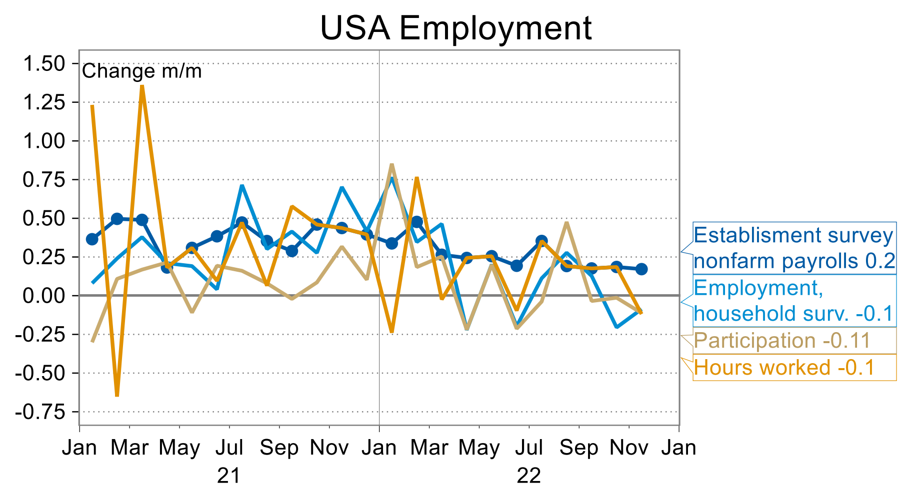
- **Nonfarm payrolls** rose by 263' in November, expected 200' (Oct was revised up by 21' to 284') but growth is gradually slowing. The LFS employment fell by 0.1% and the **employment rate** was down 0.1 pp to 59.9%. The rate has flattened since March – not a signal of strength
- **The participation rate** decreased by 0.1 pp to 62.1%, expected up to 62.3%. The level has been flat so far this year
- The **unemployment rate** was unch. at 3.7%, as expected. The FOMC Q4 forecast at 3.8% will very likely not be reached
- **Wages** rose 0.6% in Oct, 0.3 pp more than expected, and history was revised up by 0.2%. Thus, the annual rate rose to 5.1%, expected down to 4.6%, and the underlying growth rate increased. Average wages rose by 3¼% in 2019, and well below 3% in the years before
- The unemployment rate is still too low, and wage inflation is far too high. Still, the Fed will very likely hike by 'just' 50 bps next week, as the terminal rate is not that far away, even if will be lifted. At the same time, the Fed will probably signal that the policy rate will be kept higher for longer – which the market reflected on Friday, the 2 y gov bond rate in the end rose by 10 bps, reversing some of the 35-bps decline since before Powell's speech on Wednesday, which was interpreted as dovish

Employment (and hours worked) now above the pre-pandemic level

… Before we adjust for growth in population since early 2020



- **Nonfarm payrolls** (employees) are now 0.7% above the Feb '20 level, while **total employment** measured by the **household survey** (LFS/'AKU') is down 0.2%, and it has flattened since Q1. The survey data are more volatile the payrolls stats, but the two measures are quite similar over time. The **employment <u>rate</u>** is 1.6 pp below the pre-pandemic level
- **Labour market participation** is 0.1% below the Feb-20 level. **The participation <u>rate</u>** was reported down by 0.1 pp to 62.1%, and it is still down 1.6 pp vs the pre-pandemic level
- **Aggregate hours worked in private sector** fell 0.1% in November, even if nonfarm payrolls rose by 0.2%



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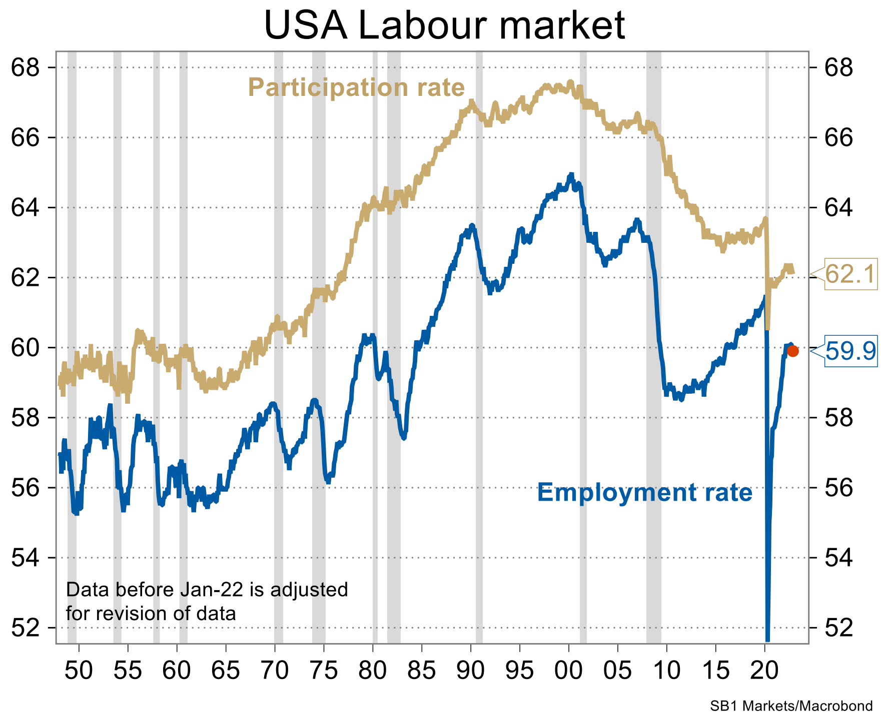
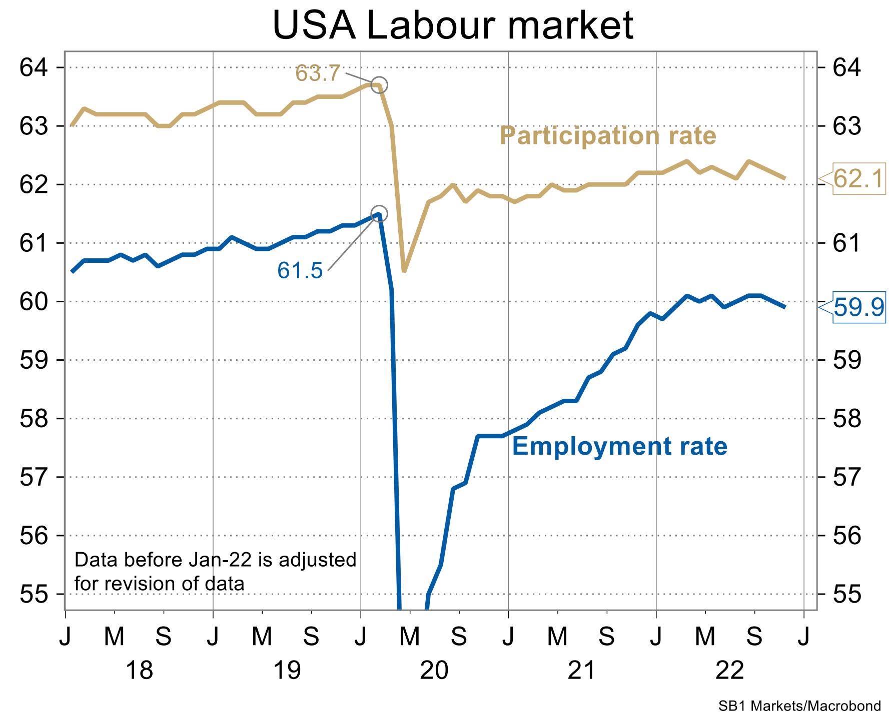
Labour force survey: Both participation & employment rates down in Nov

Both are well down from before the pandemic – but seems unlikely to recover to that level anytime soon

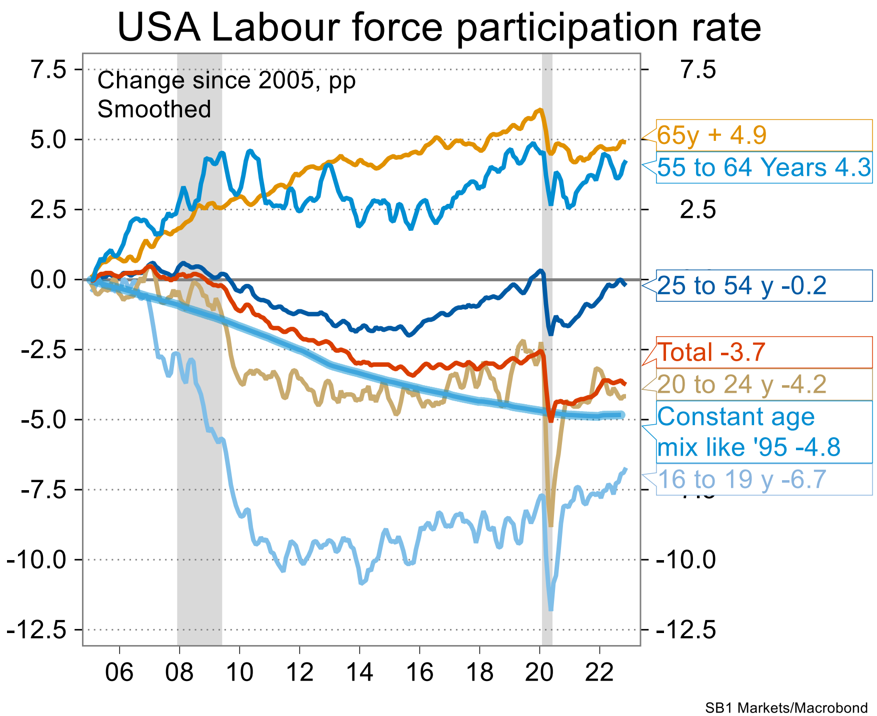


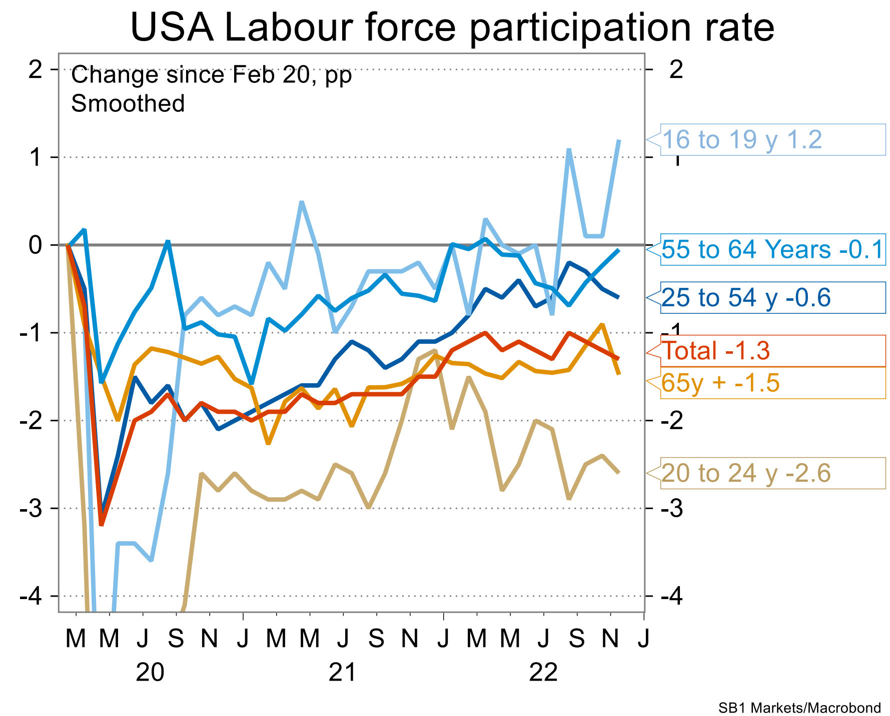


- In November, **the labour force participation rate** declined 0.1 pp to 62.1%. The participation rate has flattened in 2022, even if demand for labour has been – and still is strong. The participation rate is 1.6 pp (2.5%) below the pre-pandemic local peak – which again was way below the pre-IT bubble peak, in year 2000 – as the population ages (*check next page*)
- **The employment rate** also fell by 0.1 pp, to 59.9%. The short-term trend is at the best flat, as growth in employment has slowed. This rate is 1.6 pp (2.6%) below the pre-pandemic local peak
- The official vacancy rate has been far higher than anytime seen before, and businesses have been reporting lack of labour as never before. In addition, the unemployment rate is very low. Wage inflation has accelerated not seen since the 70's. So, it cannot be lack of demand for labour that has led to the decline in the labour force participation rate – and it is unlikely that even higher demand would have lifted the participation rate. The present participation rate are most likely the best the US population now will deliver

Participation rates: Most groups are down from before the pandemic

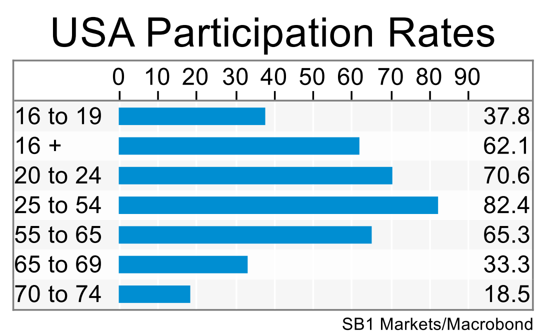
The core age group, 25 – 54 y is down 0.6 pp, mixed among the younger and older





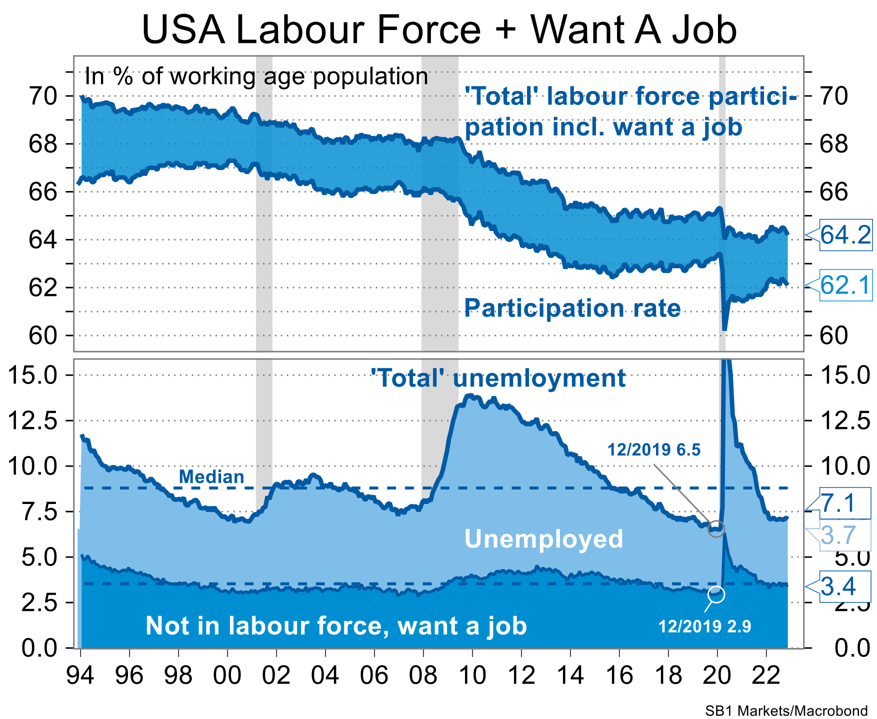
- The **participation rate** among the 25 – 54 y group is 0.6 pp below the level from before the pandemic. The 20 – 24 y group remains well below. The above 55 – 64 group is back to a normal participation rate, while the older are well below

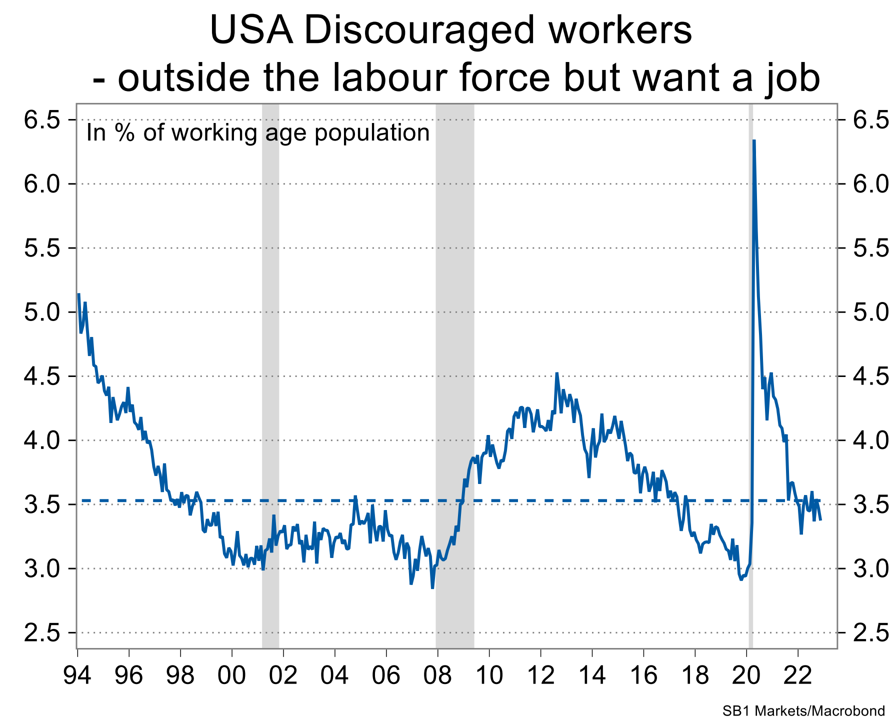
- As the US population is aging, a decline in the average participation rate <u>over time</u> is no surprise. The chart above illustrates the impact. The thick light blue line illustrates the participation rate if each group kept their participation rate at the 2005 level. The decline is due to the larger old cohorts



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

These outsiders equal 3.5% of the labour force, equal to the historical average

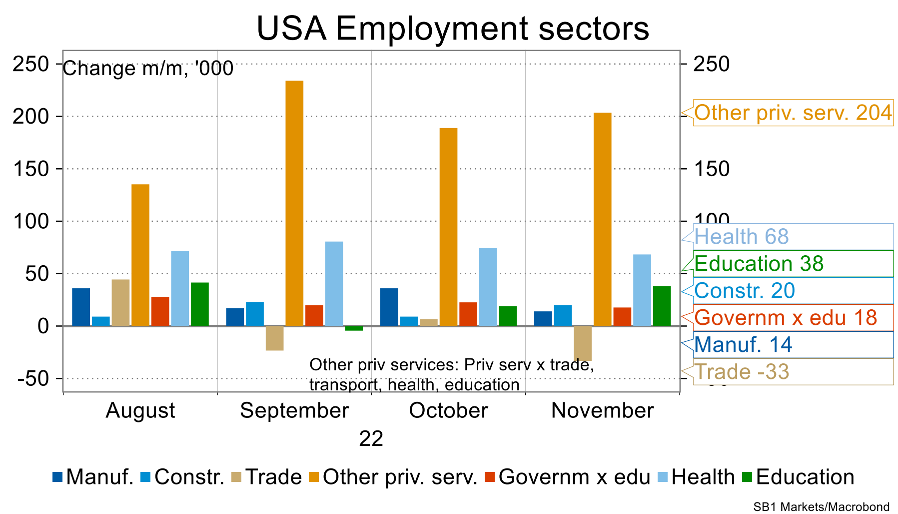




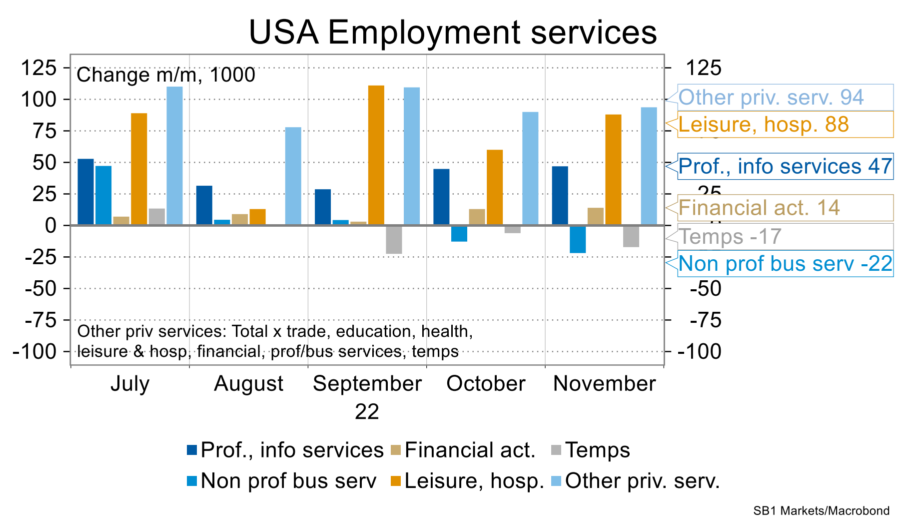
- Normally, the ‘discouraged workers’ rate is lower than average in booming times. Those who say they cannot work due covid now constitutes just a small fraction of the 3.5% rate
- Given the present high vacancy rate it seems to be rather challenging to squeeze this part of the population into the labour market (qualification mismatch etc.)

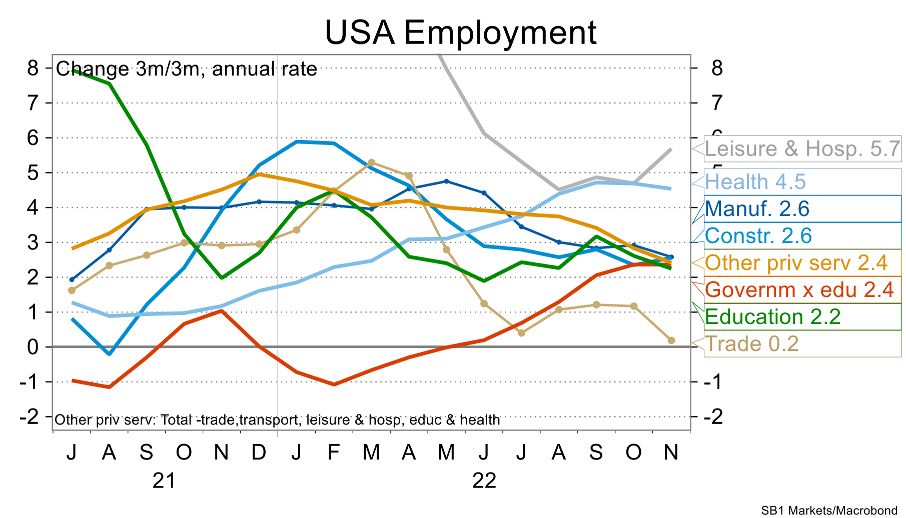
In November: Services x trade in the lead

The financial sector, and education the only main sectors down



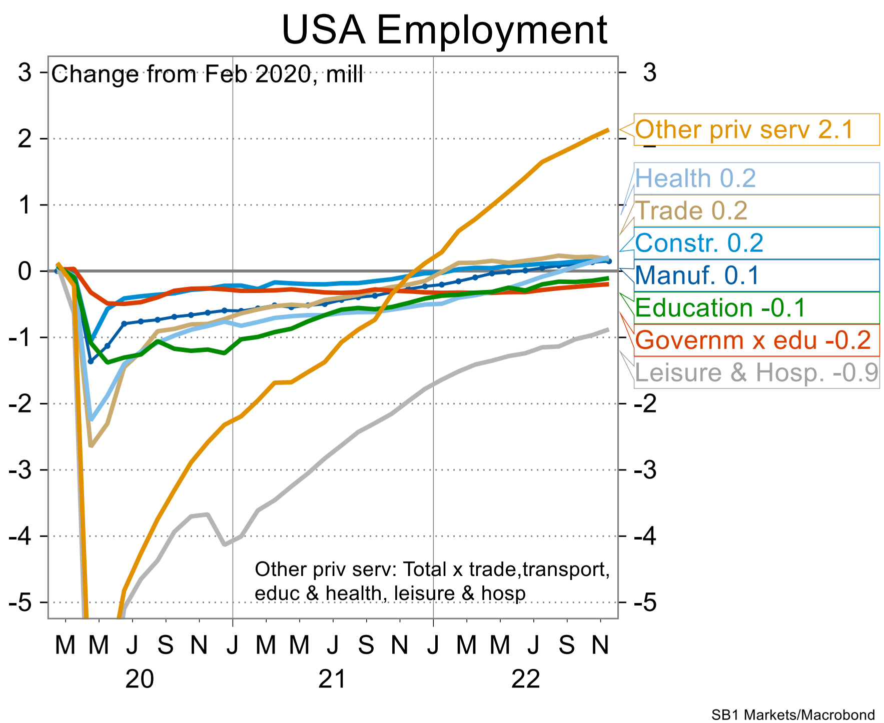
- **Last month:**
  - **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 88' jobs
  - **Trade** cut 33' jobs, as growth in sales has slowed
  - A broad increase in payrolls in other **private services**
  - **Manufacturing** added 14'; growth is slowing but it is still higher than normal
  - **Construction** sector employment up by 20', even if construction activity has turned down. A decline in employment is quite likely
  - **Education** (private & public) up by 38'
  - Employment in **government** (ex education) rose by 18', better than normal – and growth has turned positive recently

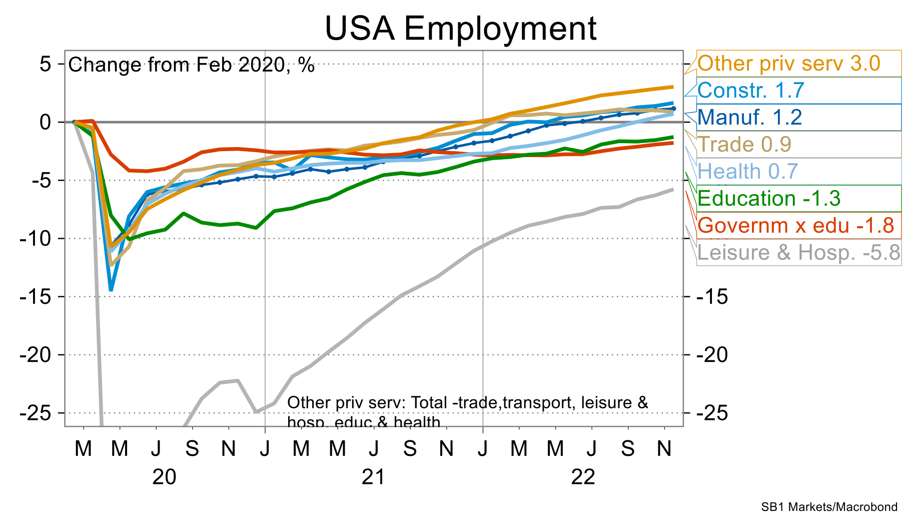




Vs. Feb-20: Leisure/hospitality still down 6%

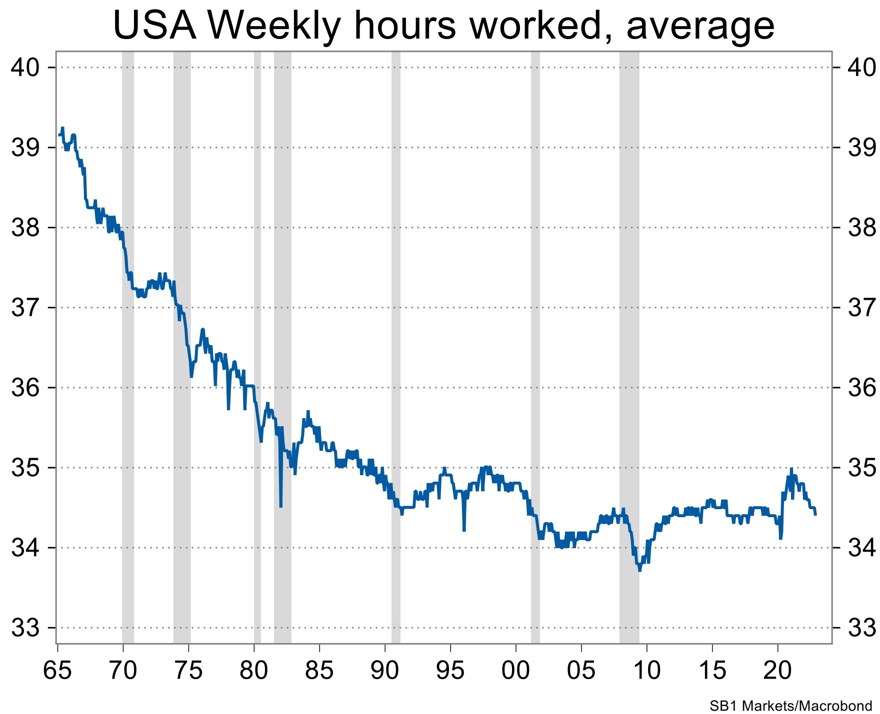
Growth is now slowing in most sectors (x leisure/hospit), and by the most in trade, as consumption of goods is flattening

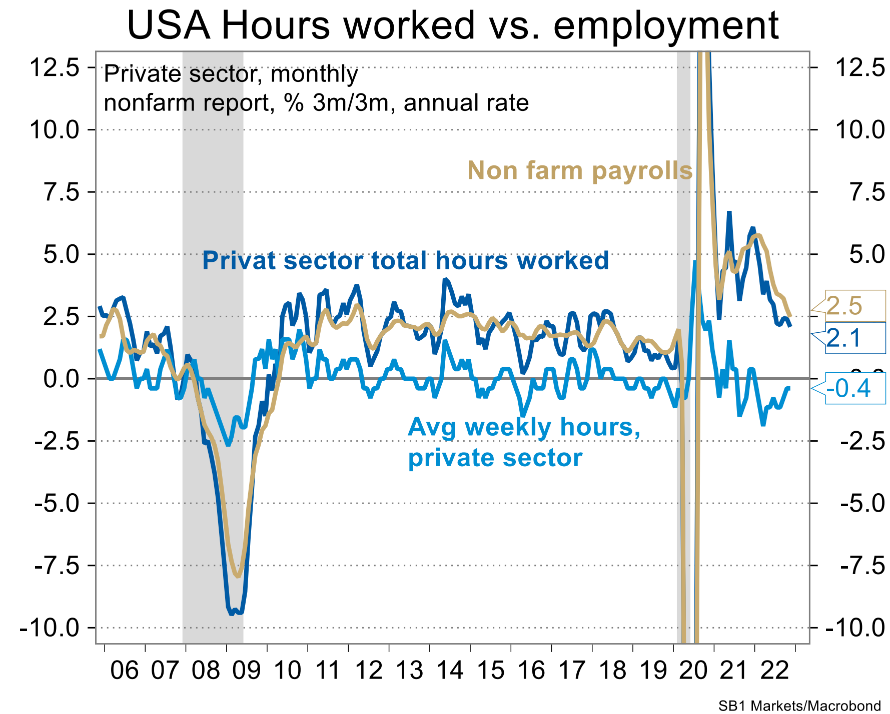




Avg. weekly hours are falling, hours worked up as employment is up

The decline avg. weekly hours from Nov-21 is strange, given lack of labour

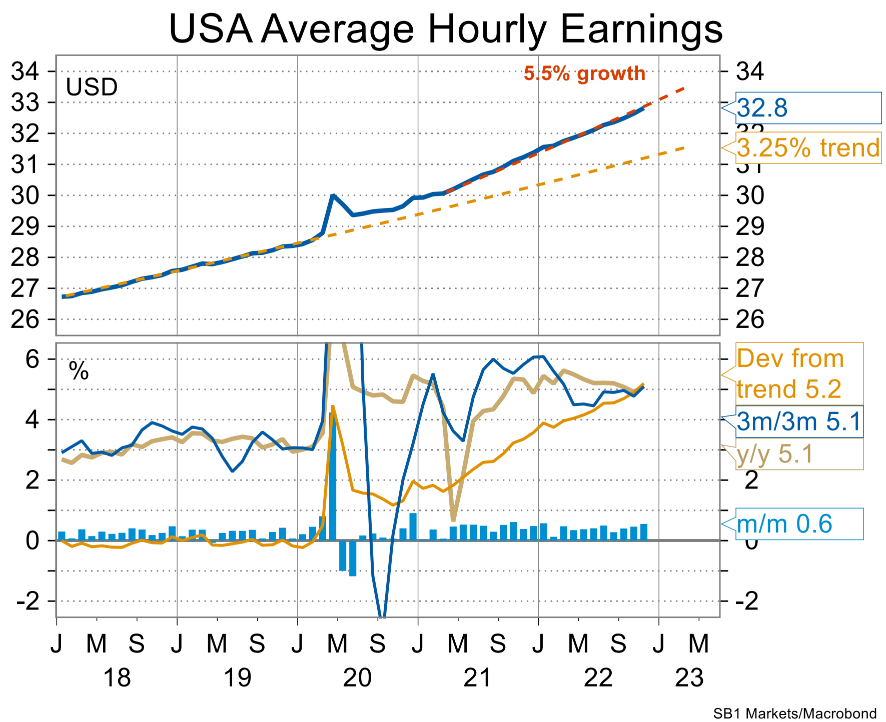


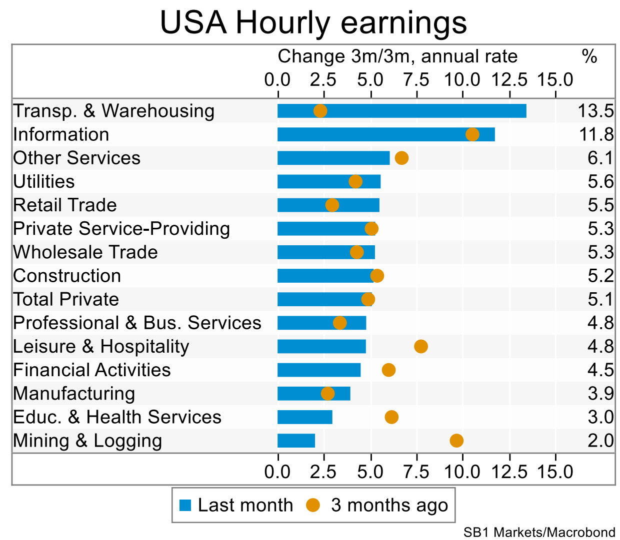


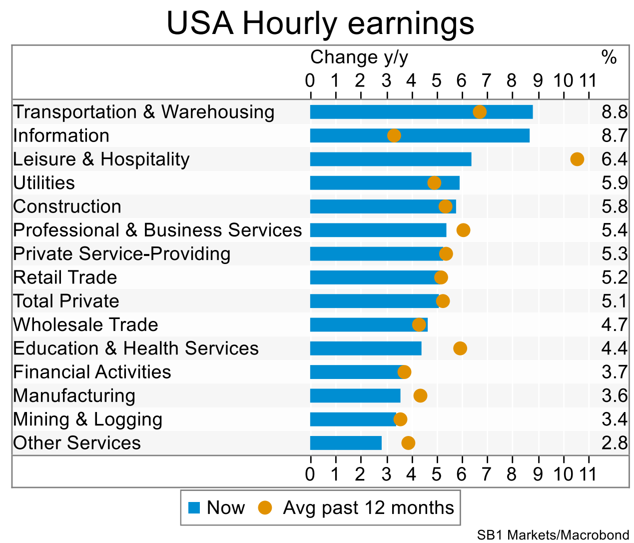
- Hours worked is up at a 2.1% pace in the nonfarm private sector last 3m/3m - and employment is up 2.5%

Wage growth 0.5 pp higher than expected, at 5.1%. Nov +0.6%, history revised

5 sectors (from 8 last month) report slower underlying (3m/3m) wage growth than 3 months ago
7 sectors (from 4) faster growth



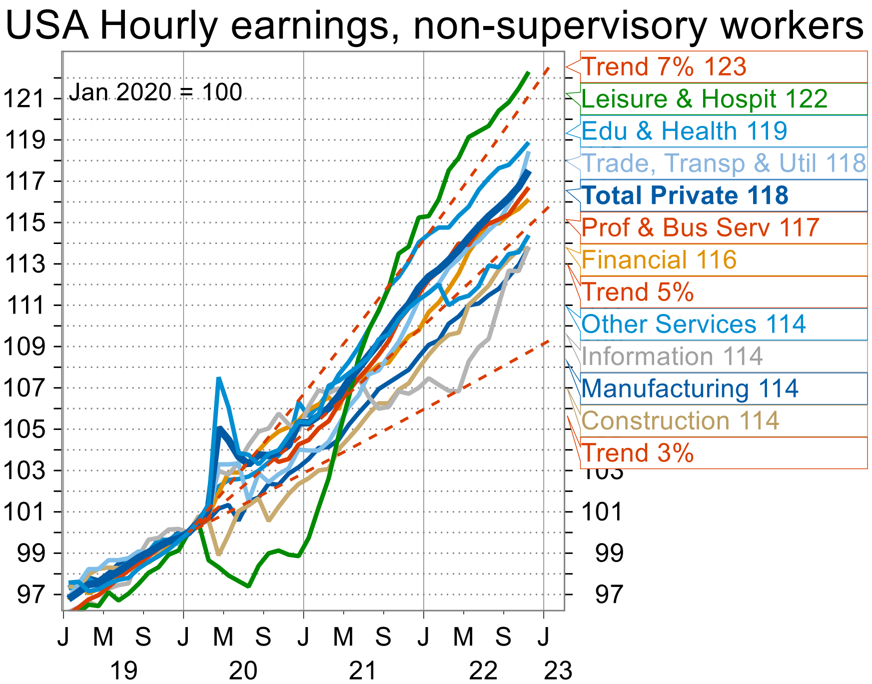




- The **average wage** rose by 0.6% in November, 0.3 pp more than expected. Annual wage inflation grew 0.2 pp to 5.1%, expected 4.6% as the annual growth rate in Oct. was revised up by 0.2 pp to 4.7%
  - Underlying (3m/3m) also rose to 5.1%, from previously reported 4.4% in October. The pace has increased since the summer
- Just before the pandemic, wage inflation was at approx. 3¼%, but it was below 3% until late 2018 – and that wage infl. yielded 2% CPI inflation
- *These monthly wage data are not adjusted for the change in employment mix between sectors or within sectors. Check more wage indicators at the next pages*

Wages are climbing at a 4% – 7% pace

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



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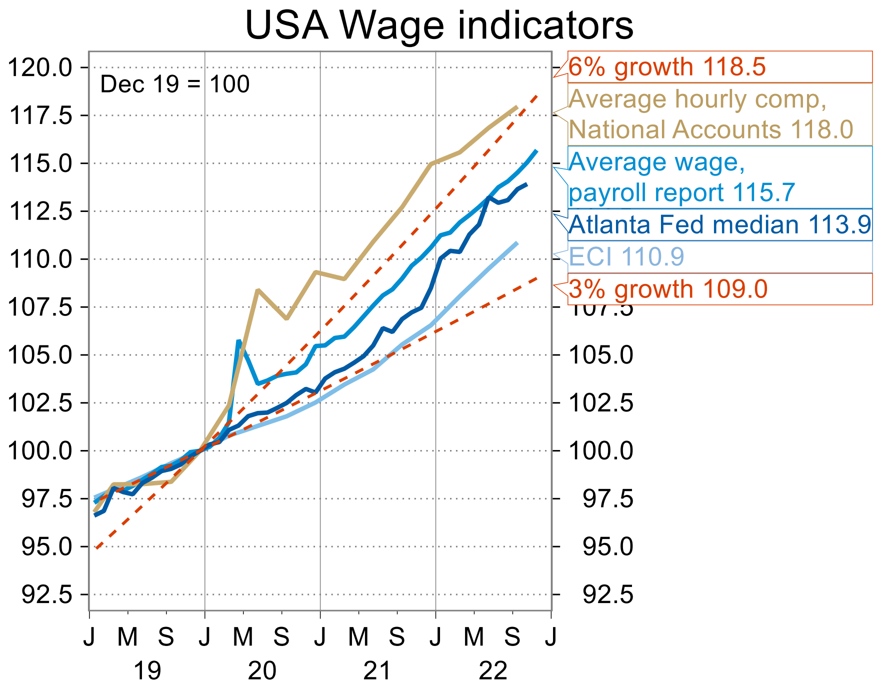
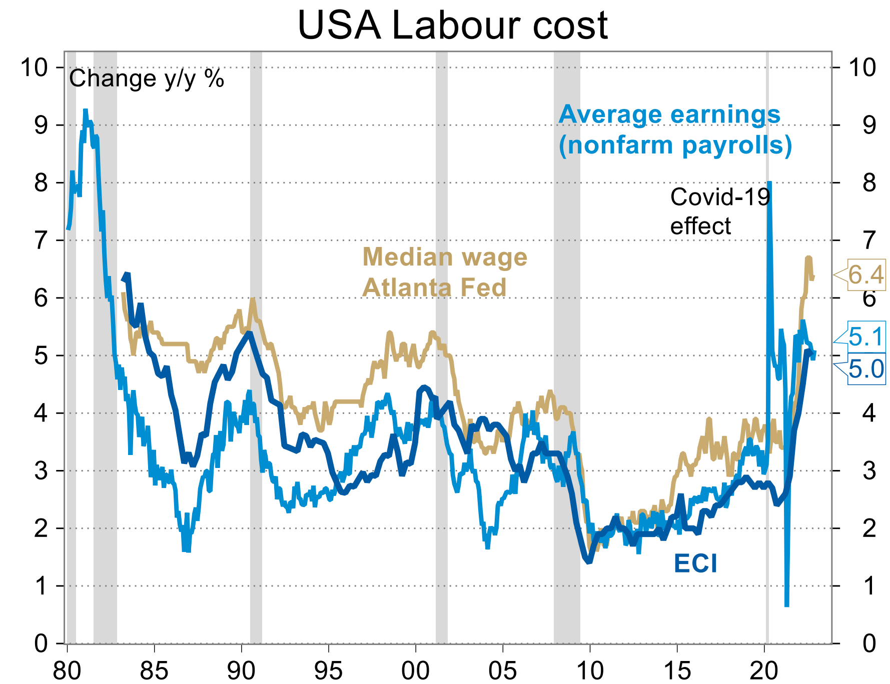
Memo: On the chart above, wages for <u>non-supervisory workers</u> are shown. When all employees are included, growth is slightly lower in most sectors

All indicators combined: some signs that wage inflation may have peaked

However, all are reporting much higher wage inflation than pre Covid: 2% price inflation 'impossible'

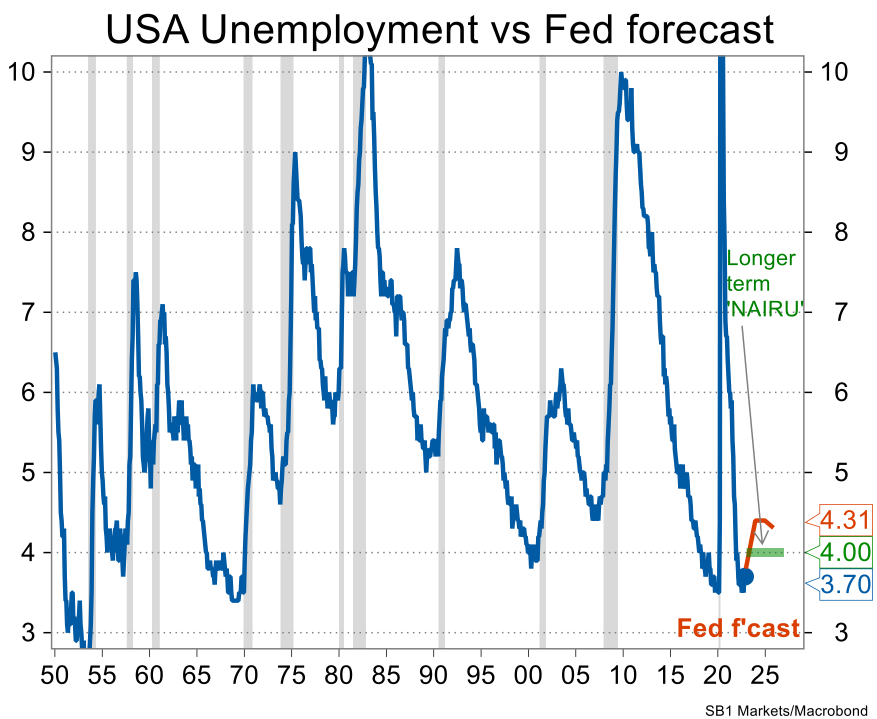


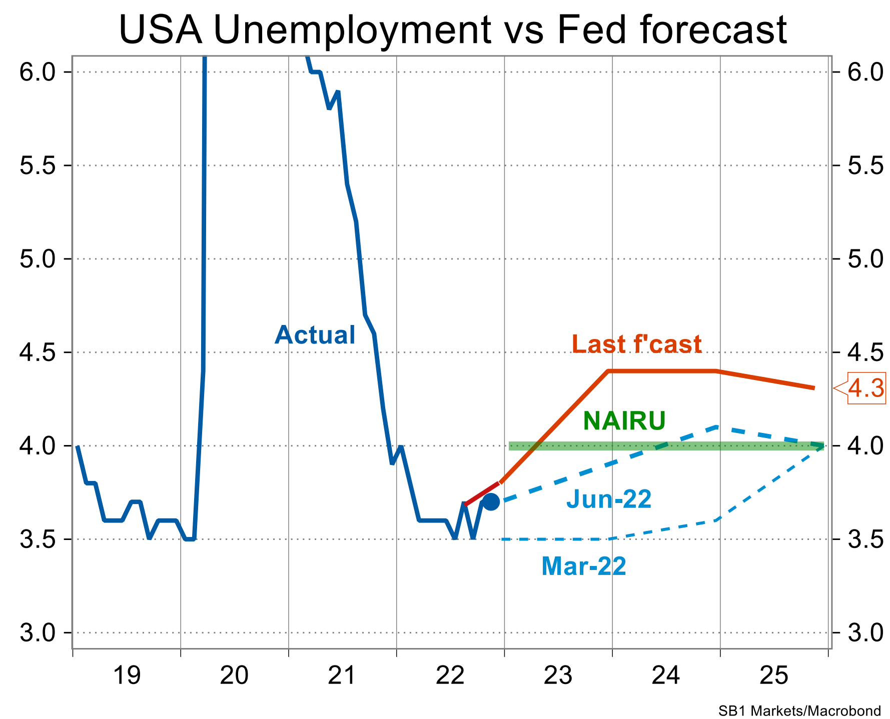


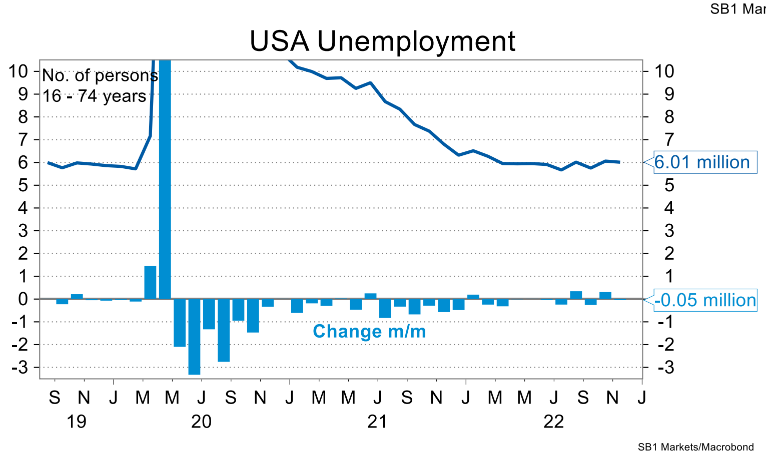
- **All wage indicators** are reporting faster wage growth, and all reporting wage growth well above the average recent years
- Growth in wage/earnings/compensation indicators are up 2.5 – 3.5 pp vs their respective 10 y averages before the pandemic
- Over the past 10 years, inflation has been close to 2% (before the pandemic, that is)
- It will be impossible to keep inflation at 2% if wage inflation remains at the current levels. Productivity growth has not accelerated. Profit margins may take a beating – and they no doubt will – but not sufficient to bring inflation down to acceptable levels on their own. Wage inflation will probably not slow by much before demand for labour weakens – and unemployment very likely increases

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

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



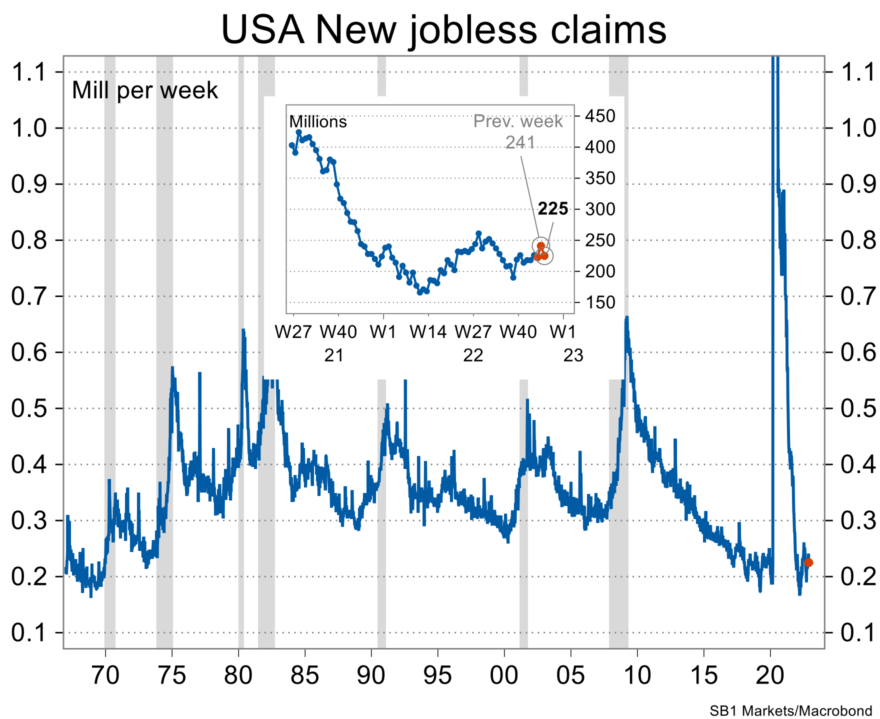


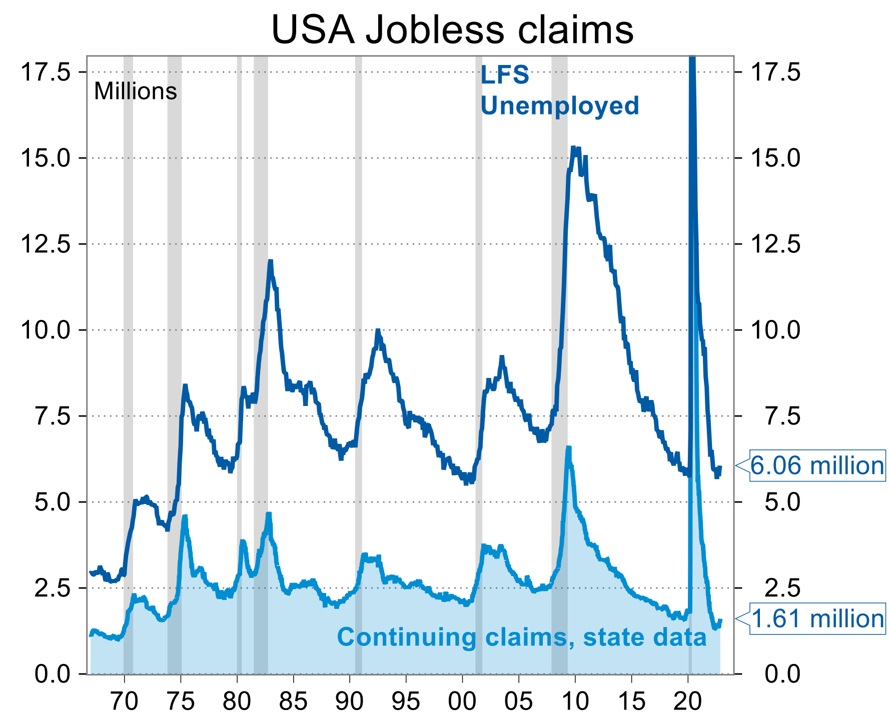


- So far, just a marginal increase unemployment rate (and the number of number employees)
- In September, Fed expected a 3.8% unemployment rate in Q4. That now seems to be too pessimistic (requires a 3.9% rate in Q4)

New jobless claims back down again – and below expectations

New jobless claims down to 225', expected 235'

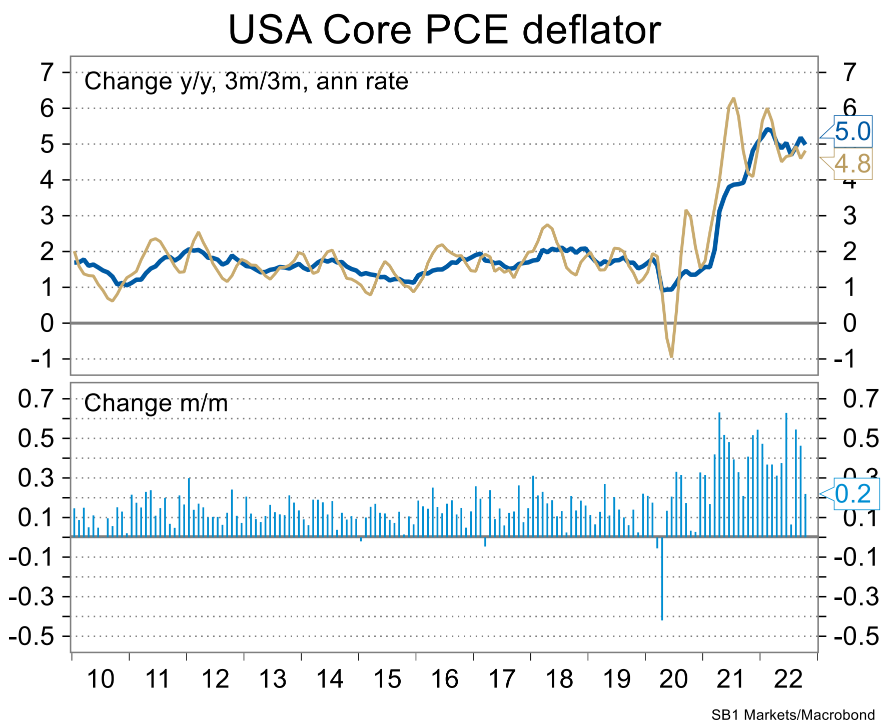


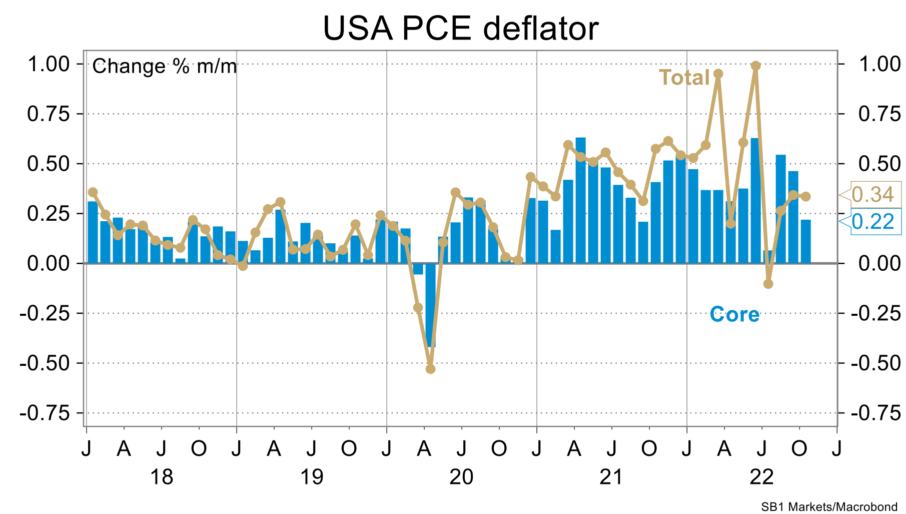


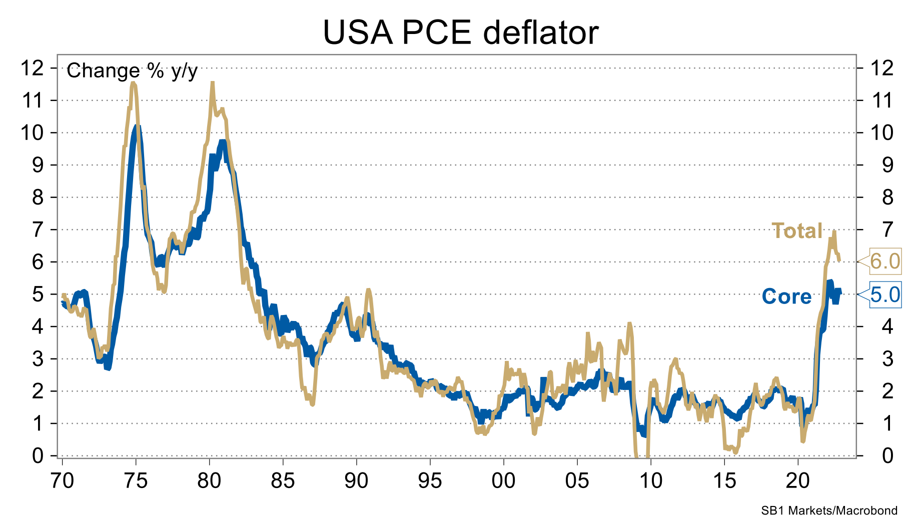
- **New jobless claims** decreased by 16' to 225 last week, following the 18' lift the week before
- **Continuing claims** rose by 57' to 1,608' in week 46. The trend is slightly upwards but the level remains very low
- Both still indicate a **tight labour market** – a labour market that is far more resilient than we and probably also the Fed had envisioned, given higher interest rates, record-low consumer sentiment, and falling orders (according to surveys)
  - The retail industry plans to hire far fewer temporary workers during the Christmas shopping season

PCE data gives Fed room to breathe – but inflation remains high

The core PCE deflator rose by 0.2% m/m, 0.1 pp below expectations. The annual rate is now at 5.0%





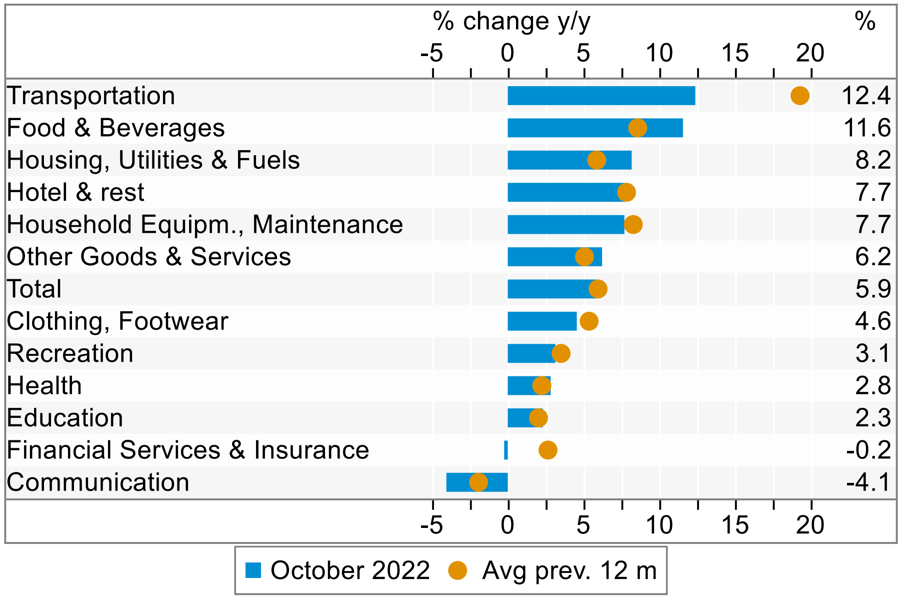


- **The core PCE** October print was down 0.1 pp to 5%, but the underlying rate is lower at 4.8%
- **The total PCE deflator** was up 0.3% in October, expected 0.4%. The annual rate at 6.0% was in line with expectations, down from 6.2% in September. The peak was at 7.0% in June

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

… and all but 2 are up more than 2% measured 3m/3m, the total is up 6.0%

PCE price index



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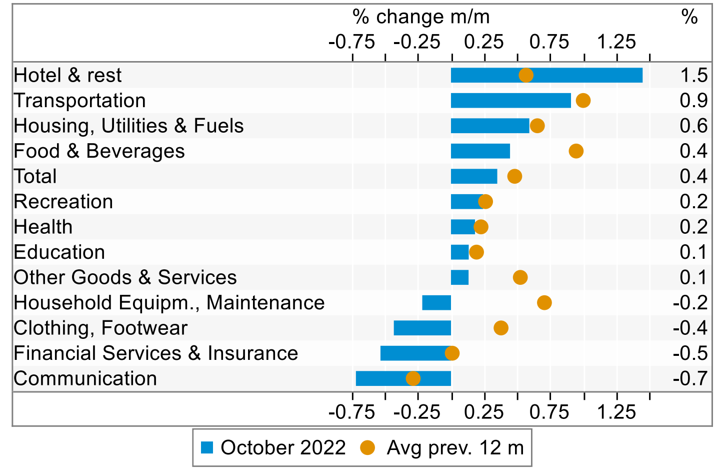
PCE price index



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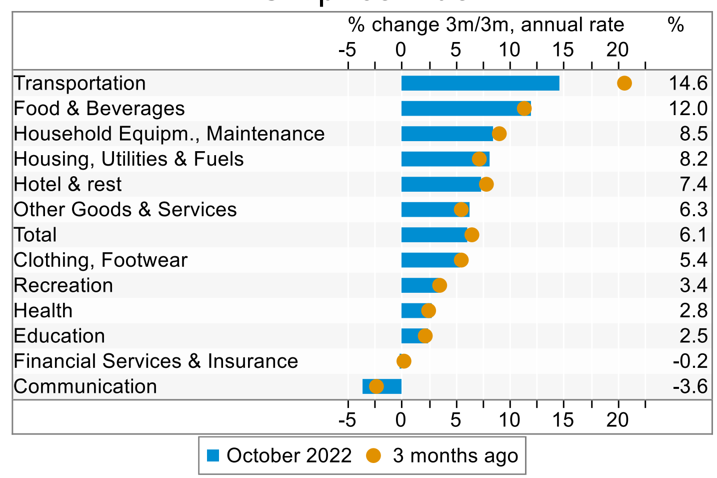
PCE price index



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- Still, the momentum has slowed marginally, as some sectors report slower underlying (like 3m/3m) growth. However, just as many sectors report faster growth
- Household equip., clothing, financial services, and communication prices fell in October
- All in all, inflation is still far too high and it is broad

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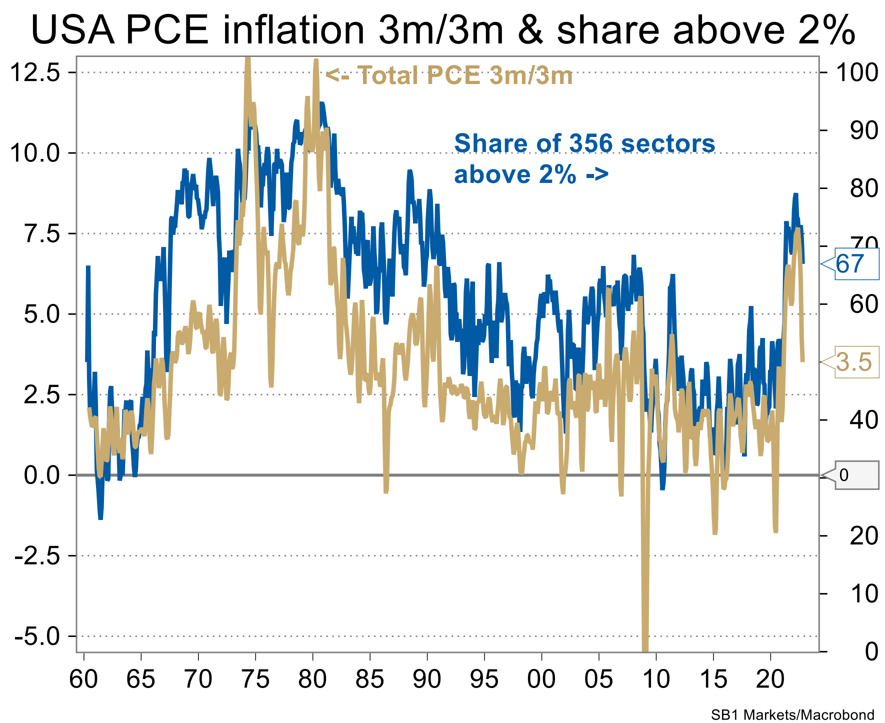
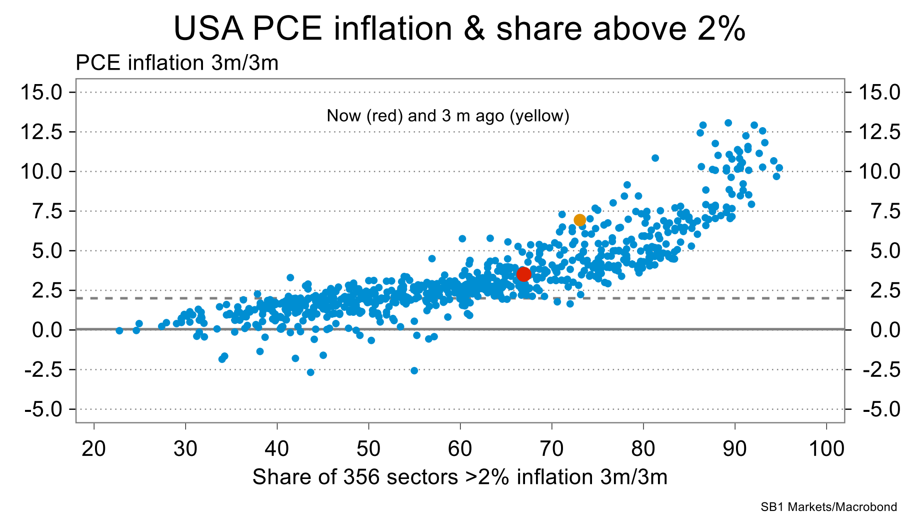
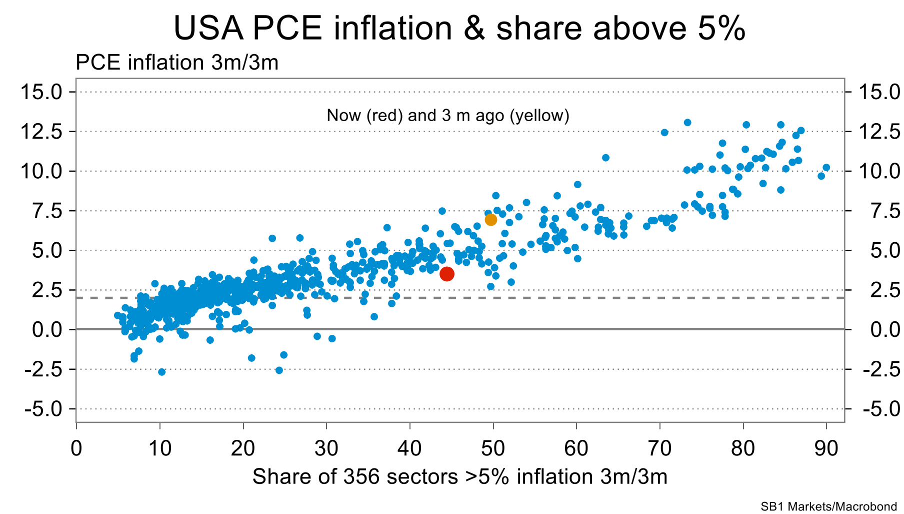
Inflation is still high and very broad based – but it has peaked







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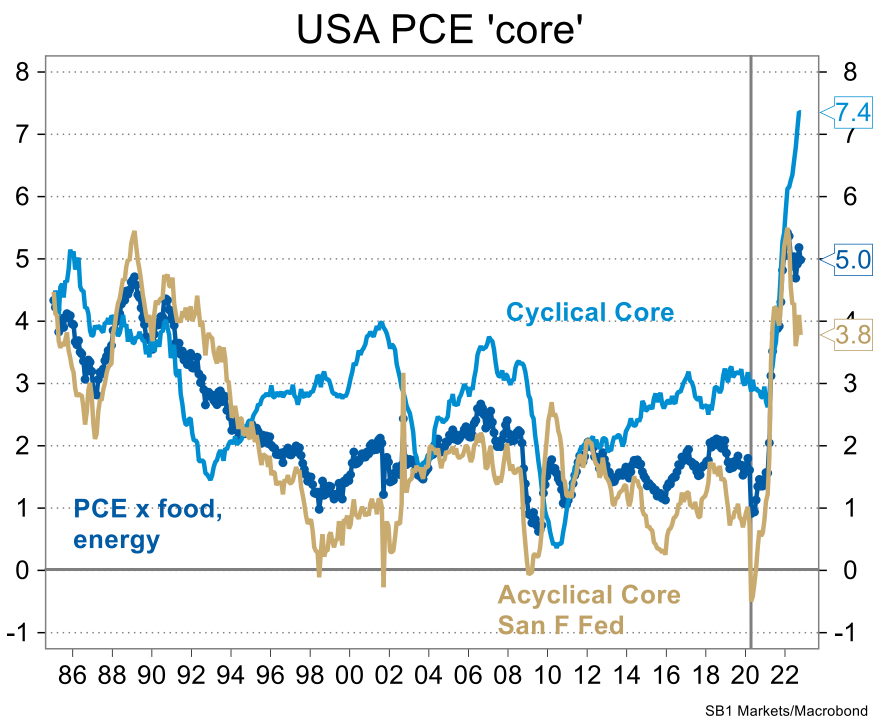
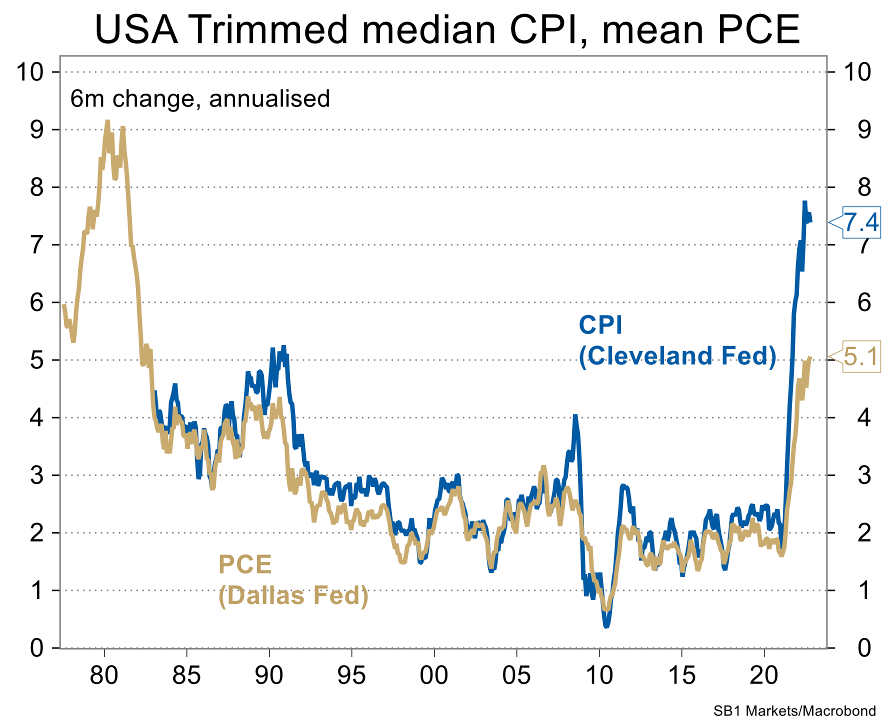
Inflation has peaked, but all underlying/breadth measures remain very high

Wages are more important, anyway

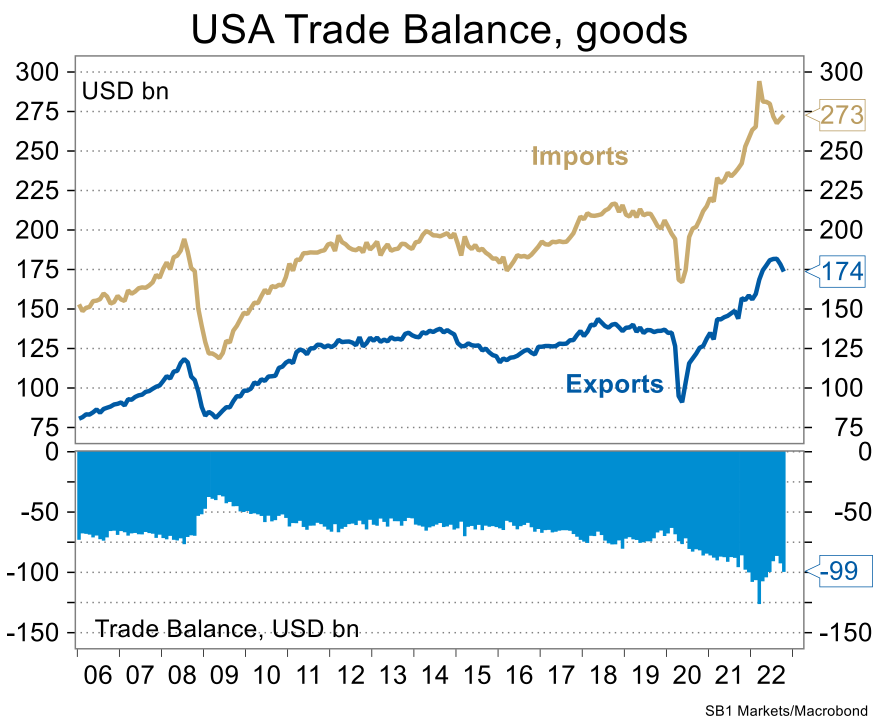


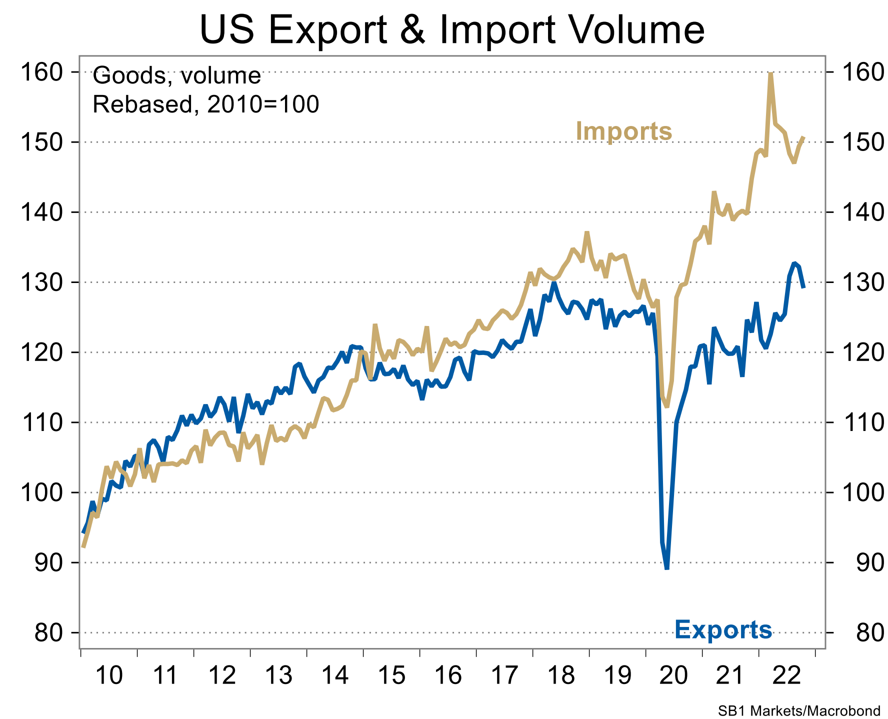


- The **trimmed PCE mean** (Dallas Fed) accelerated 0.1 pp to 5.1% (measured over the past 6 months), back up the to the peak level (since 1983) first reached June. This is very likely among the most important price indicators for the FOMC, if not the most important
- **The trimmed median CPI (Cleveland Fed)** is up 7.6% over 6 months
- **Core cyclical and acyclical PCE** prices are up 7.4% – 3.8% resp., and the cyclicals are still on the way up
- Other measures of underlying inflation are also still among the highest levels in 30 – 40 years

The trade deficit far larger than expected in October

The trade deficit in goods widened by USD 7 bn to 99 bn in October, expected down to USD 90 bn

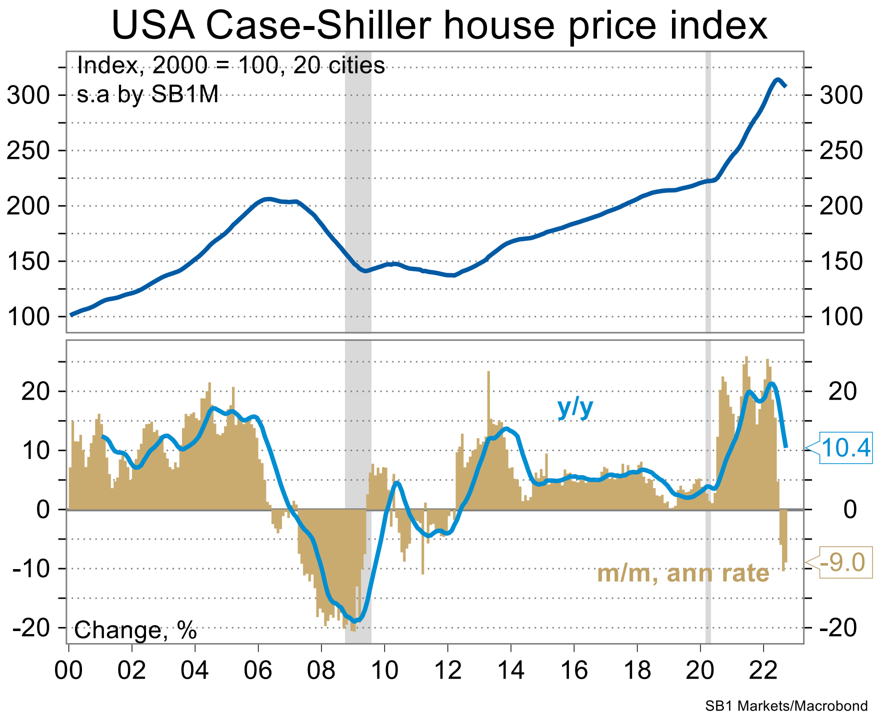


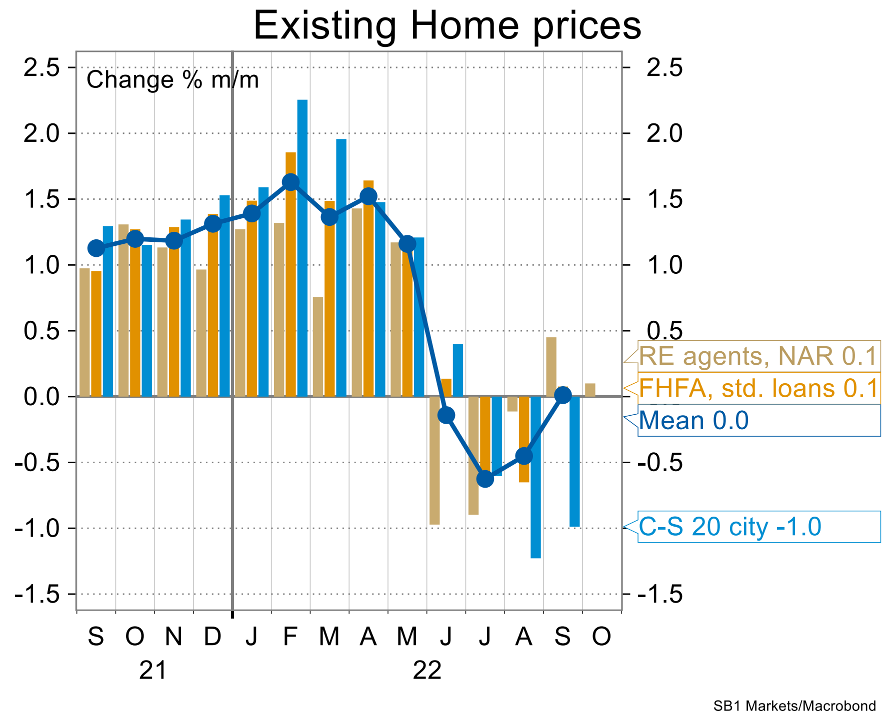


- **In October**, exports fell, and imports rose, again, both in value and volume terms. The short-term trends are the opposite:
- **Imports** peaked in March (but never fell below the February level) but have recovered by USD 3 bn the past two months. Even if import volumes are down 6% from the March peak, the level is still up close to 20% from before the pandemic. The slowdown in import volumes is due to weaker domestic demand, and a decline in stock-building
- Following a dismal growth in **exports** until June, export climbed 6% to August, but has fallen for the past couple of months. Export volumes are up just 3% from before the pandemic

House prices on the way down, but marginally slower in September

Prices fell 1.0%, less than expected, and annual inflation is coming rapidly down but is still at 10%





- **S&P's Case/Shiller's 20 cities** price index fell by 1.0% in Sept (Aug - Oct avg., our seas. adj, -1.2% the 'official' seasonal adjustment, as expected) equalling a -12.8% annualised pace. The decline in Aug was a tad larger than the initial estimate. The index is still up 10.4% y/y, down from 13% in August
- **The FHFA** (Federal Housing Financing Agency) price index, which covers homes with loans guarantied by the government sponsored Fannie Mae or Freddie Mac ('Husbankene', has a countrywide coverage), rose 0.1% in Sept, rather surprising - and an average that include the NAR (realtors' index) was flat m/m!
- We still expect prices to yield substantially the coming months, following the unprecedented 42% lift since before the pandemic to the peak in June, and the surge in mortgage rates

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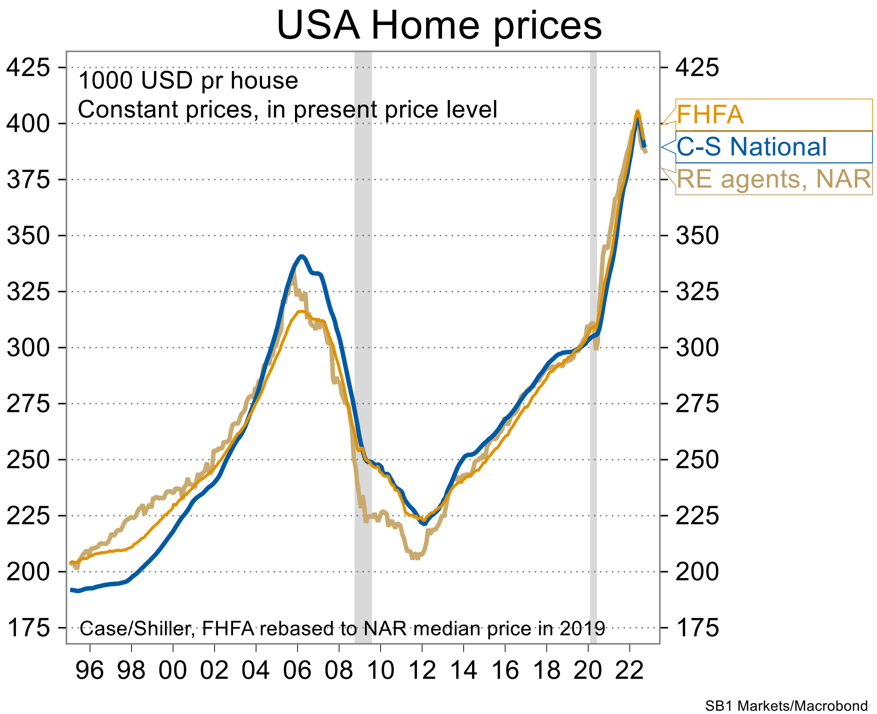
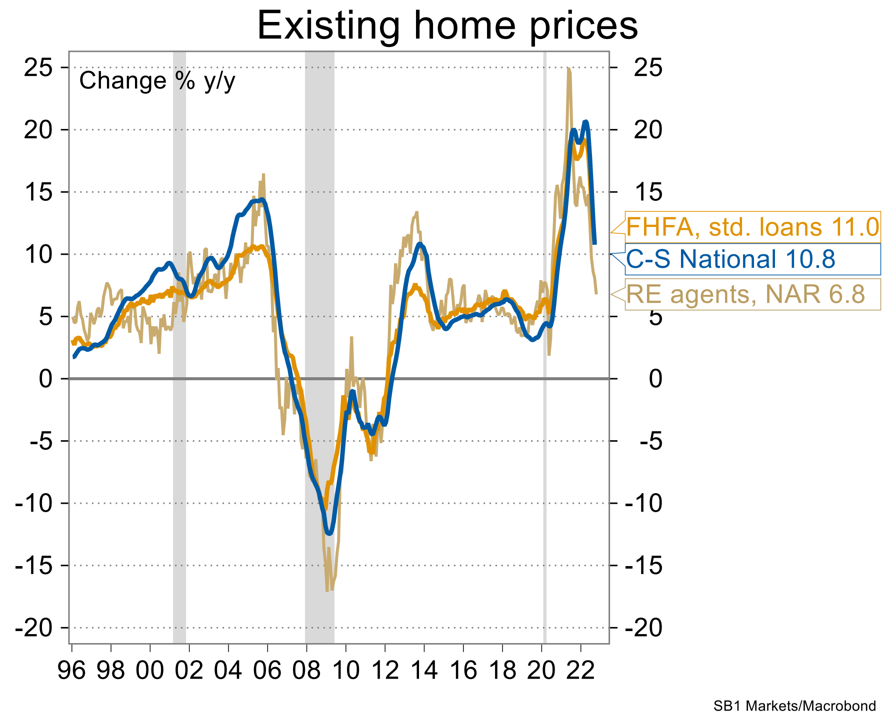
The downside is HUGE, following the 40%+ price appreciation from Feb-20

Were real house prices too low before the pandemic? Probably not. Can they fall back? Not unlikely

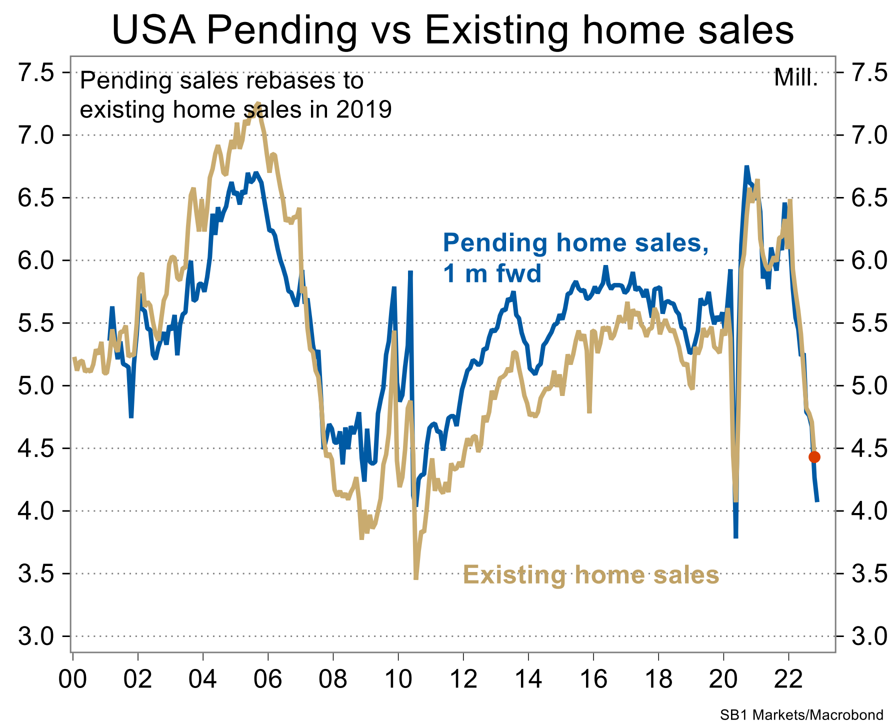


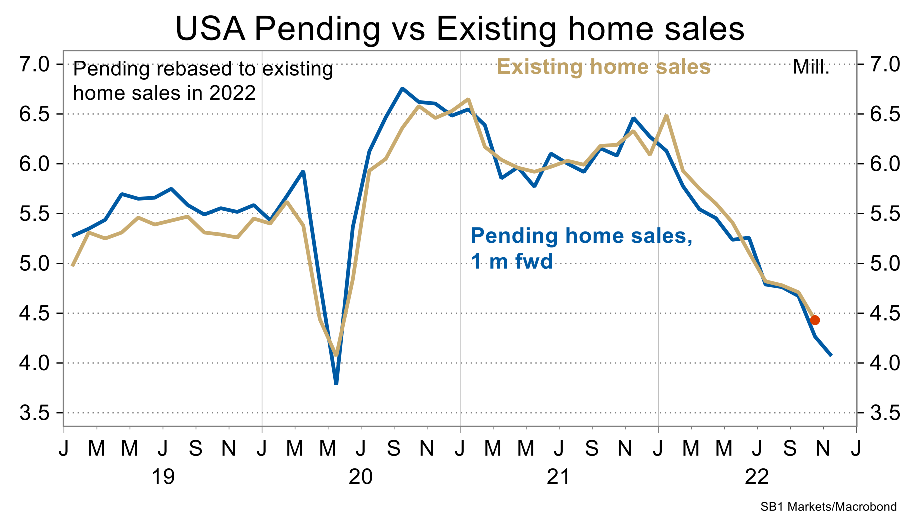


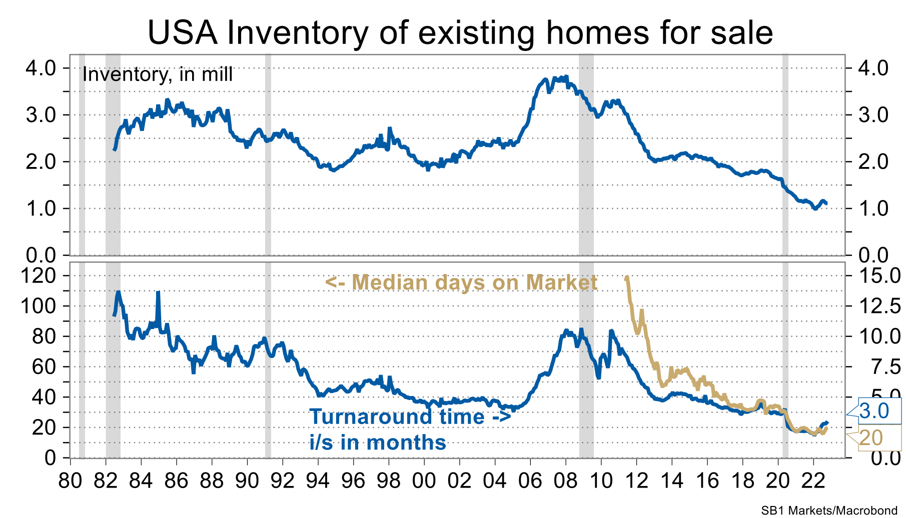
- **Real prices** are far above the pre-financial crisis level too
- There are still some big differences vs the mid 2000 housing bubble
  - **Housing starts** are at a lower level. The **inventory** of second-hand homes for sale is still close to record low (vs high 15 – 16 years ago). However, the inventory of <u>new homes</u> for sale is climbing rapidly, and is now rather high
  - Households' average **debt/income ratio** has fallen sharply since the peak before the financial crisis, and their cash positions have soared (on average) to above debts. However, credit growth has accelerated rapidly during the pandemic, and housing affordability is far weaker than in early 2006, when the previous bubble burst
  - The **savings rate/net financial investments rates** have now fallen to well below the pre-pandemic level – but the ratios are above their respective levels in 2005

Pending home sales kept falling in October, not far above ATL

No. of agreed transactions fell 4.6%, and is down 37% from last November





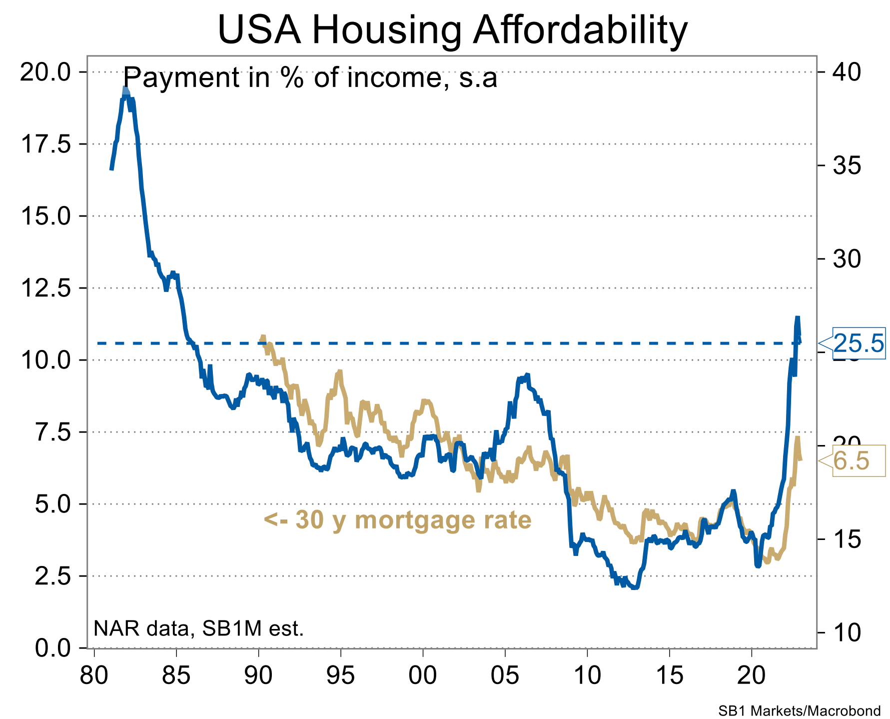


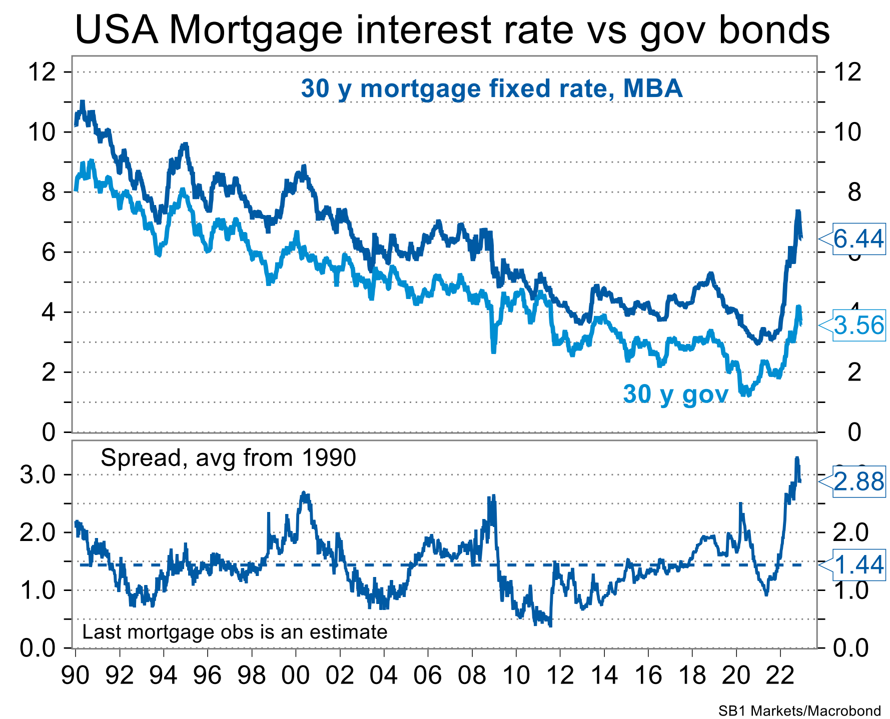
- Pending home sales were down 4.6% m/m, less than the expected 5.2% decline. The level is approaching previous troughs, in 2010, and 2020. Existing home sales (actual transactions) will very likely follow suit in November
- The decline confirms that higher mortgage rates <u>are</u> slowing the housing market sharply
- However, the downside for sales cannot be that large, from here

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

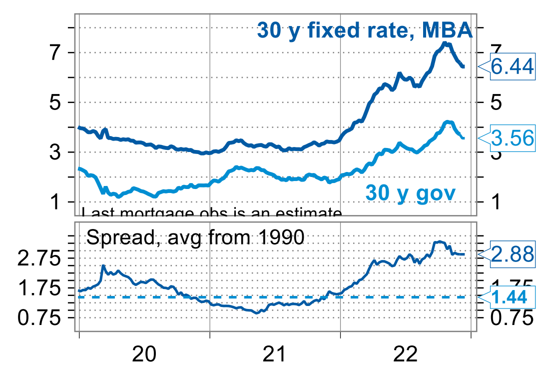
Mortgage rates are coming down, but remain high

The effective mortgage 30 y rate at 6.44% is now down almost 1 pp from the 20-year peak some 5 weeks ago



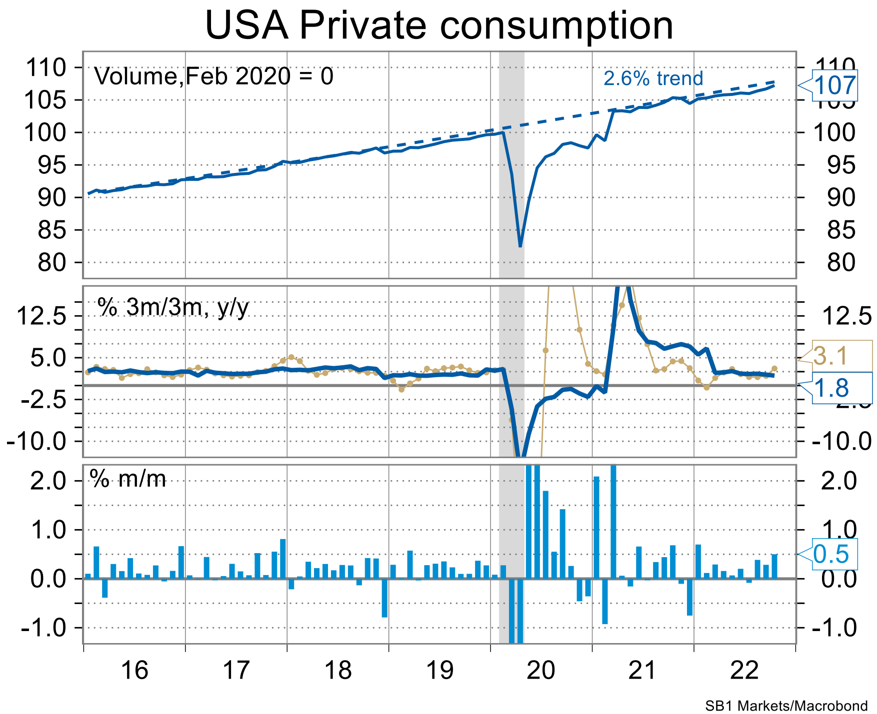


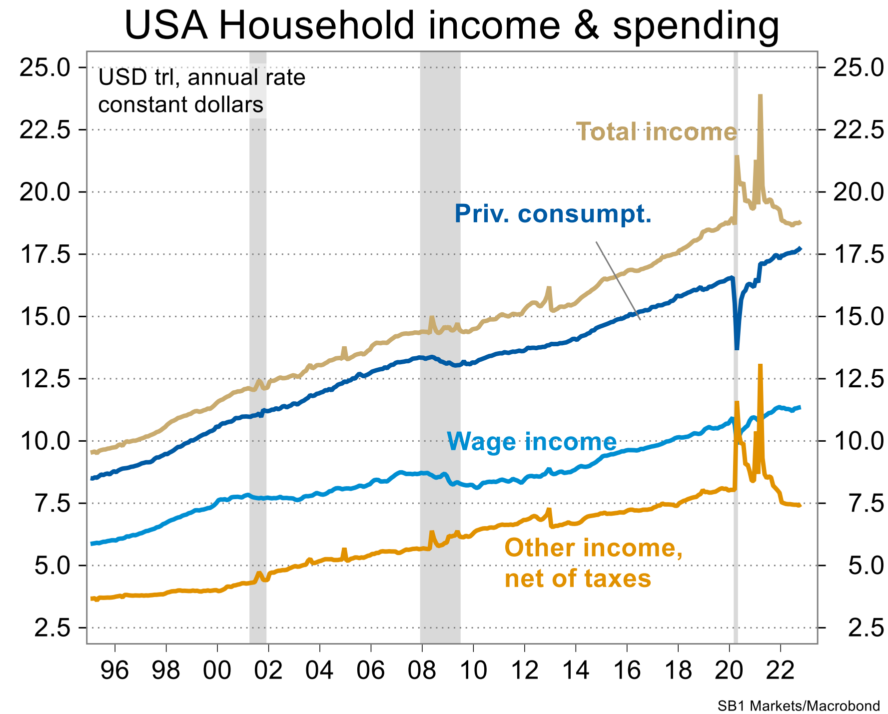
- The 30 y fixed mortgage rate has shot up recent months, both due to higher 30 y gov. bond rate and a dramatic widening of the spread up to the mortgage rate. The spread was 0.9 pp at the bottom when the Federal Reserve snapped up all net mortgage bond issuances even if prices rose 20% y/y. Now the Fed is selling mortgage backed bonds, and the spread is above 2.80% (3.30% at the peak)
- Housing affordability (house price x mortgage rate/income) is still at the worst level since 1986!



Consumption is still trending upwards, the savings rate the 2nd lowest ever

Consumption grew 0.5% (volume) in October, in line with expectations

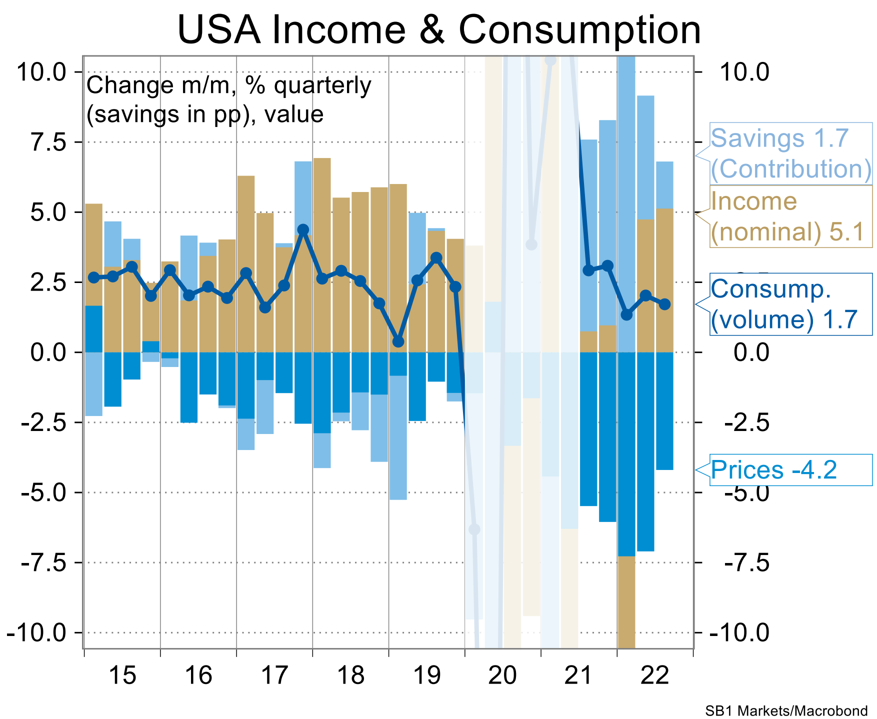


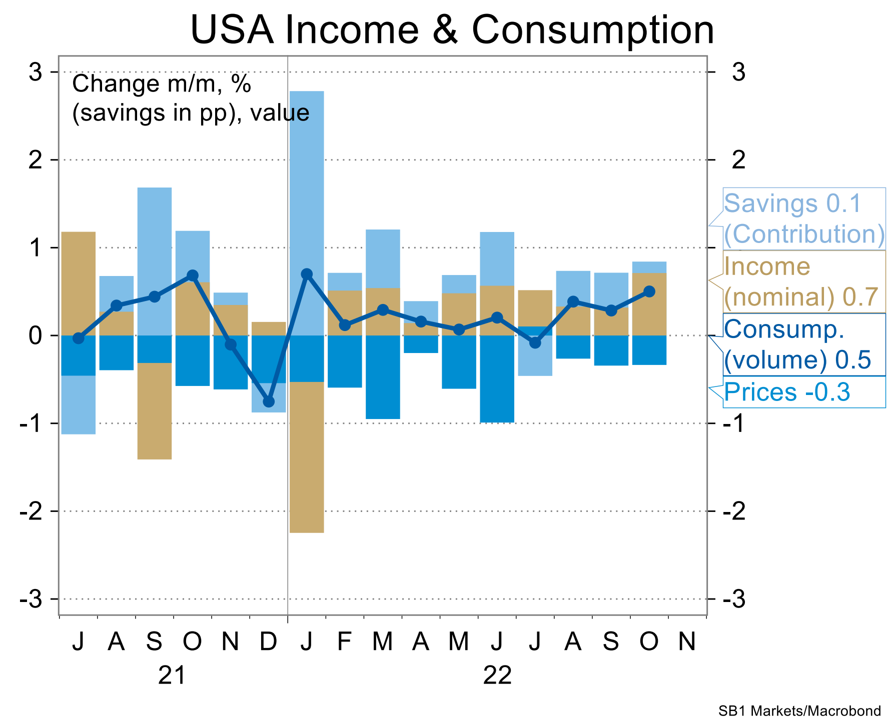


- **Private consumption** has been creeping upwards after flattening during the summer, and has proven more resilient than the development in wages would indicate – some Covid-savings being spent? Measured 3m/3m growth is above 3%. Personal spending rose 0.8% nominally, as expected
- **Personal nominal disposable income** gained 0.7% in Oct and was up by 0.4% in real terms. Real disposable income has flattened but rose in both September and October
- **The savings rate** fell 0.1 pp to 2.3%, from a 0.7 pp downward revised September print, the 2nd lowest level ever. The rate is now more than 6% below level just before the pandemic. However, even if the accumulated extraordinary savings through the pandemic is now run down, most of the Wall of Money is still intact which may make it possible for households to keep up the level of spending (at least for those who saved…)

Price inflation slowed in Q3 but was still high at 4.2%, income grew 5.1%

In October, nominal consumption grew 0.8% – of which the decline in the savings rate funded 0.1 pp

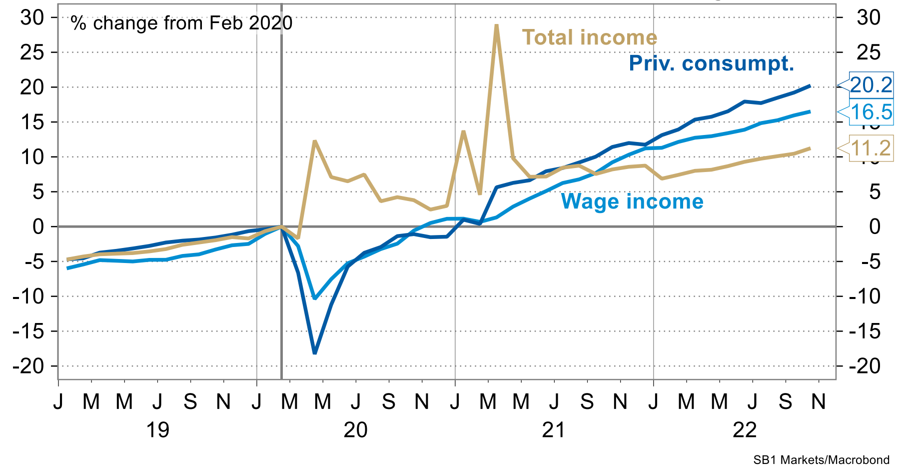




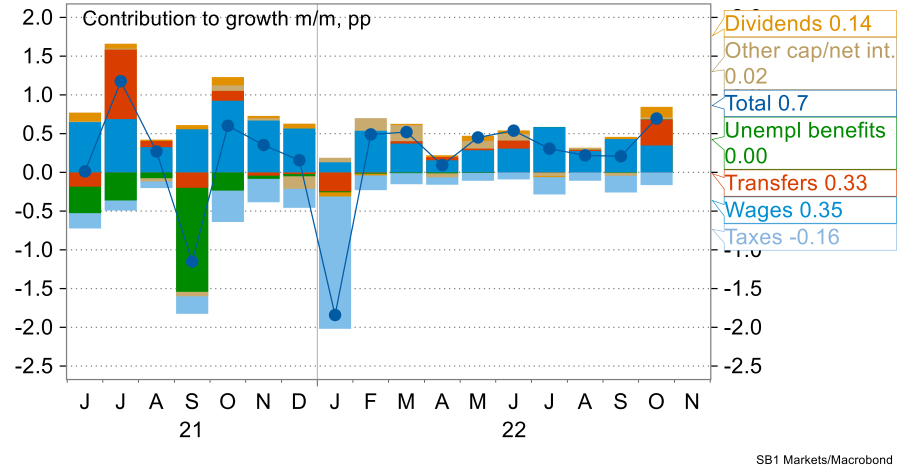
Income growth still higher than normal, nominally – by some 0.4% per month

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

USA Household income & spending

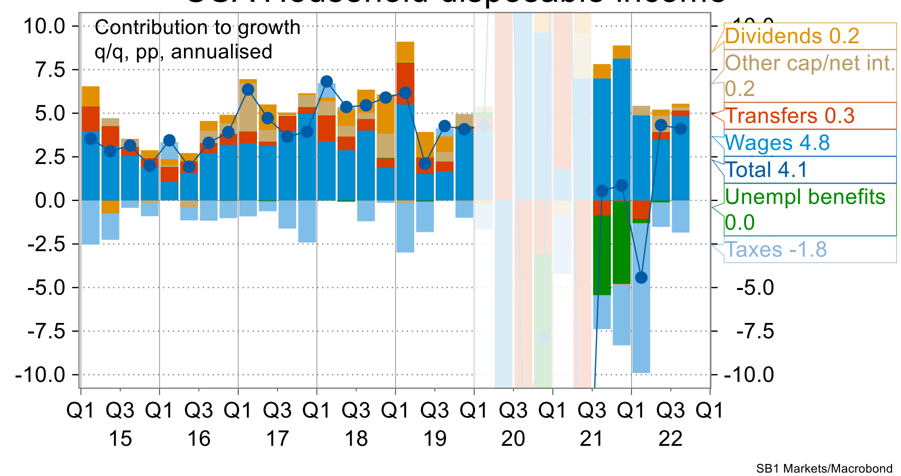


USA Household disposable income



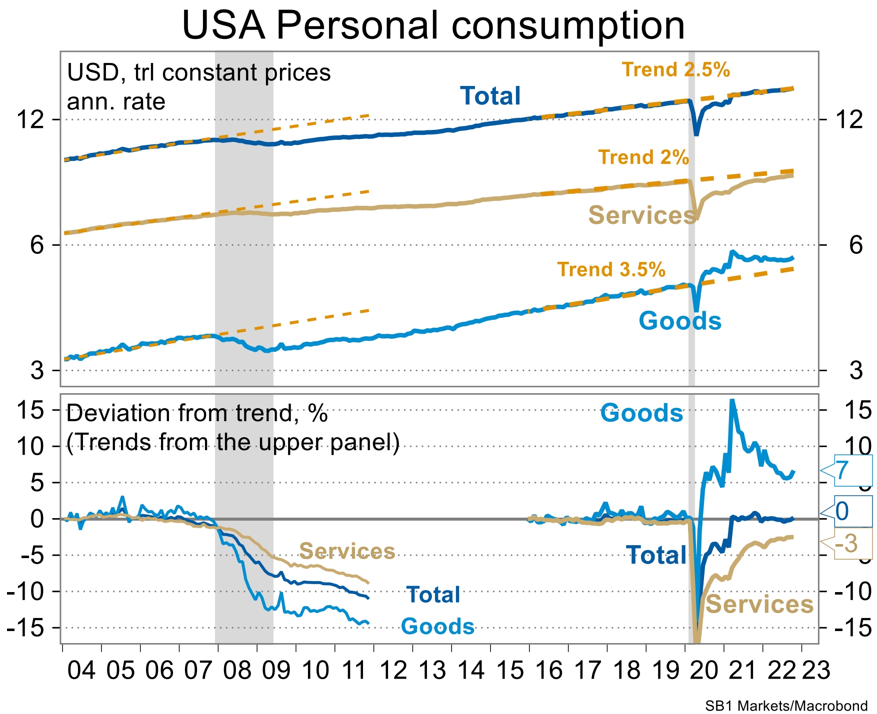
- **Total household disposable income** flattened from the spring in 2021 to early 2022 but has been trending steady upwards since January. Household income fell in Q1 due to higher tax payments but rose sharply again in Q2 and held steady in Q3
- **Total wage income** is growing rapidly and the level is far above the pre-pandemic growth path at 4.25% (now at above 6%). The reason is of course the sharp increase in wage inflation.

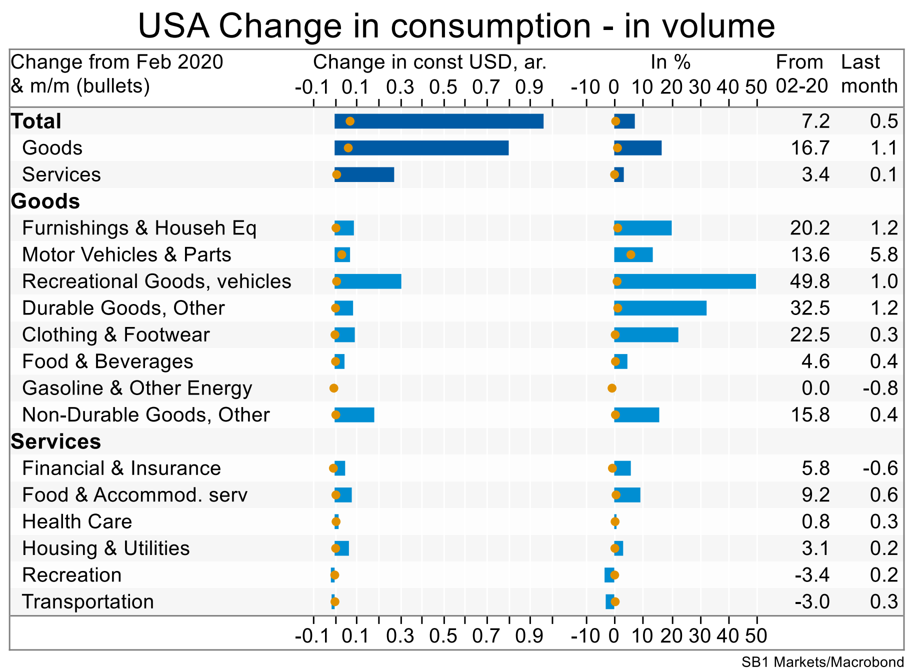
USA Household disposable income



Services are 3.1% above the pre-pandemic level; Goods are 17% above

Spending on services is still 3% below the pre-pandemic trend, spending on goods is 7% above!

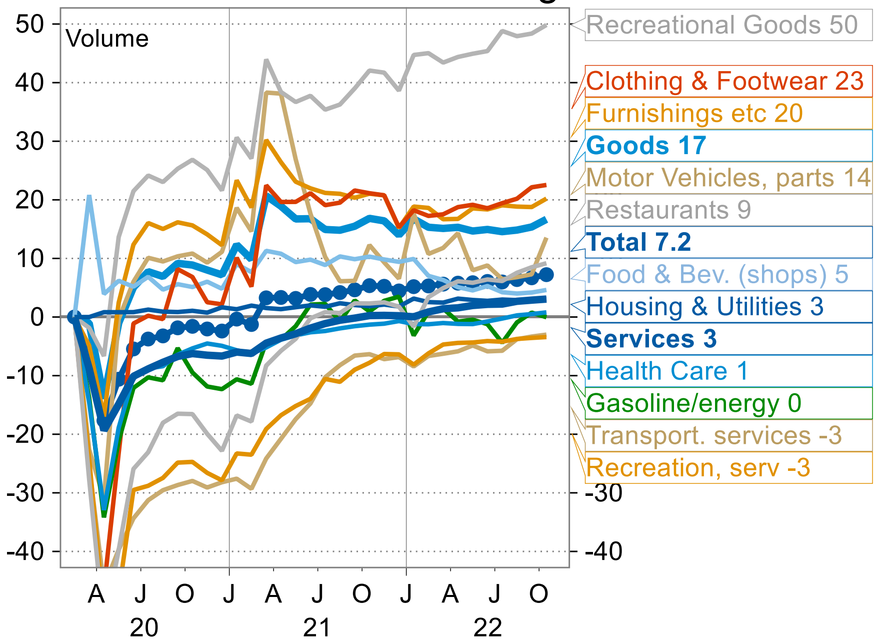




Mixed October consumption data, goods more up than services

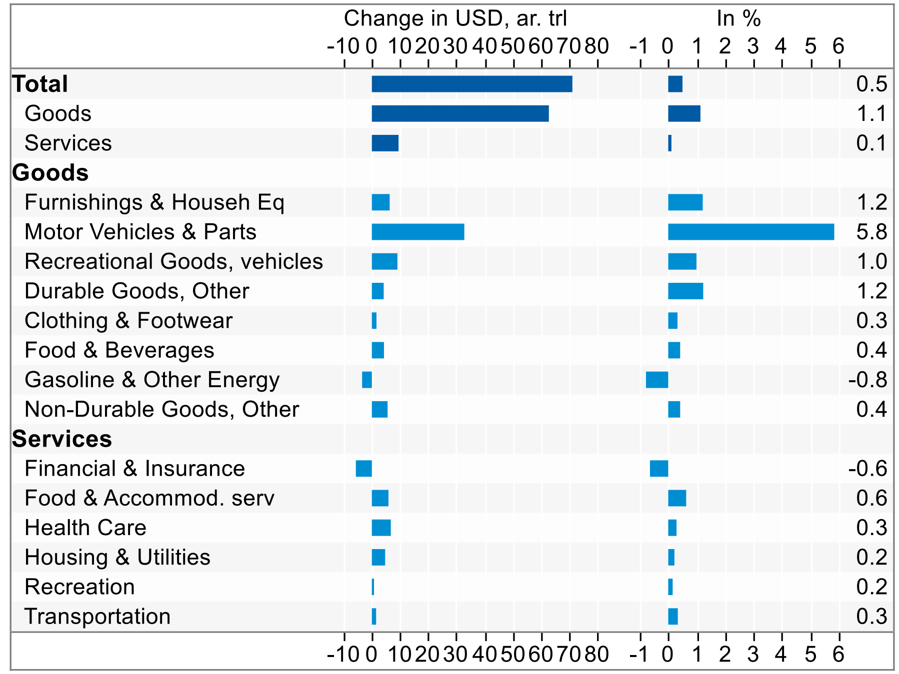
… auto sales contributed the most

USA Private cons. % change from Feb '20



SB1 Markets/Macrobond

USA Change in consumption m/m

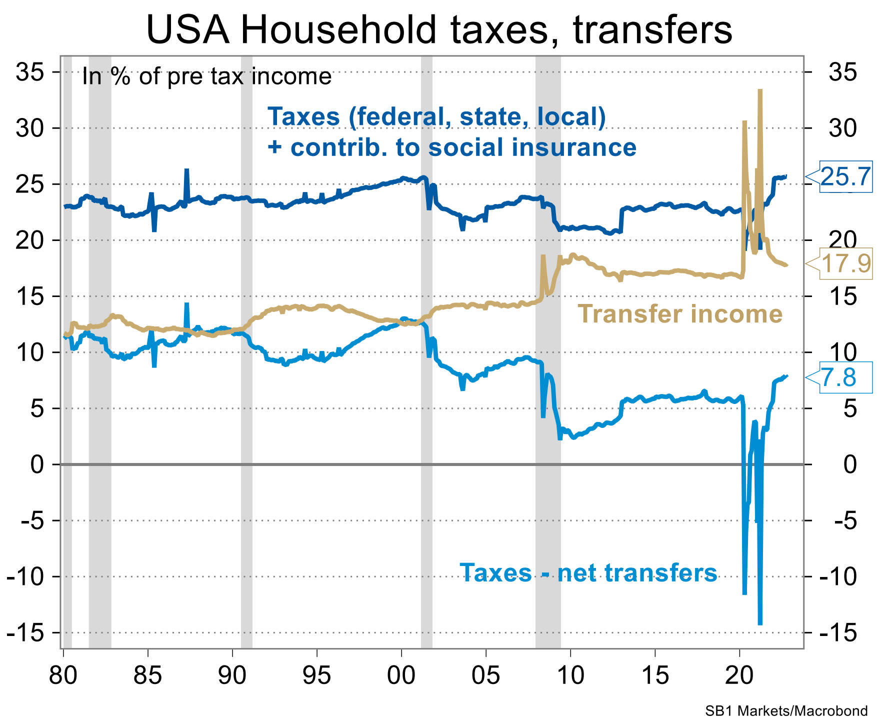


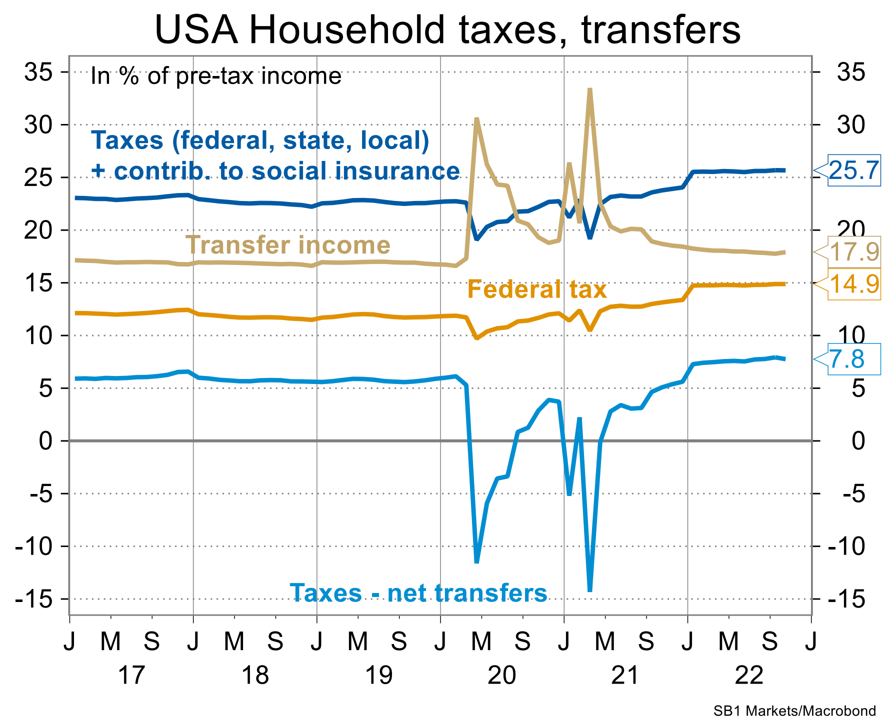
SB1 Markets/Macrobond

SpareBank 1 MARKETS

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

Net taxes up to 7.8% of pre-tax income, slightly lower than Sept, but highest since ‘09. Gross taxes at 26%, ATH!

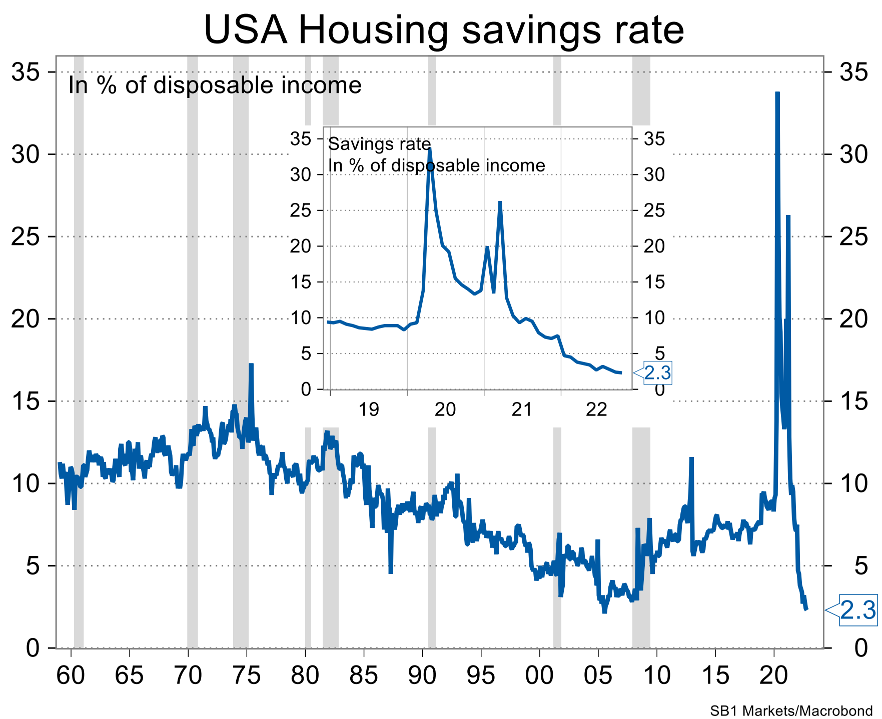


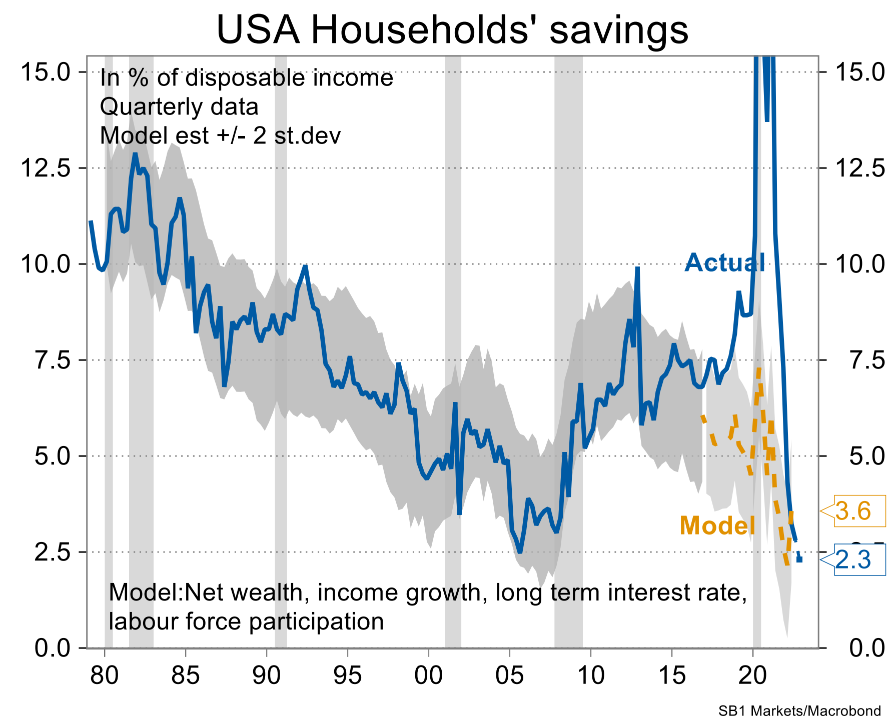


- Transfers are trending down but are still higher than before the pandemic (vs total pre-tax income). However, the total tax rate is climbing faster. The total gross federal income tax rate at 26% of pre-tax disposable income is higher than the ATH in 2001!
- Thus, the net tax rate is on the way up, and has recovered to 7.8%, above the 6% pre-pandemic level – but far below the 10% – 12% from before year 2000 – as the transfer rate is at 18%, up from below 15% from before the Financial Crisis

The savings rate down to 2.3% - only July 2005 was lower

The savings rate was revised down from mid 2021 (and for 2019)

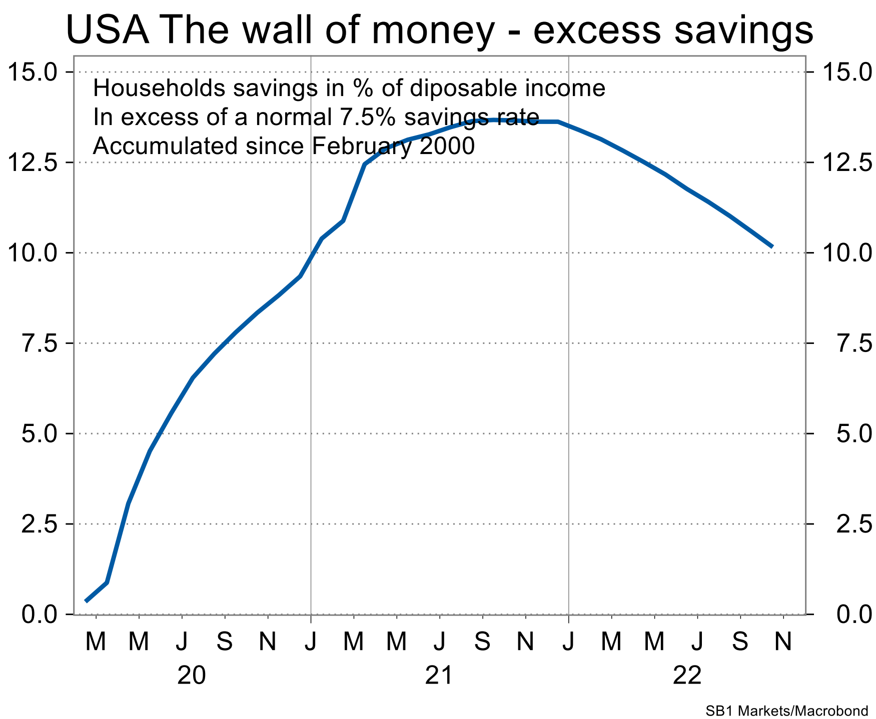


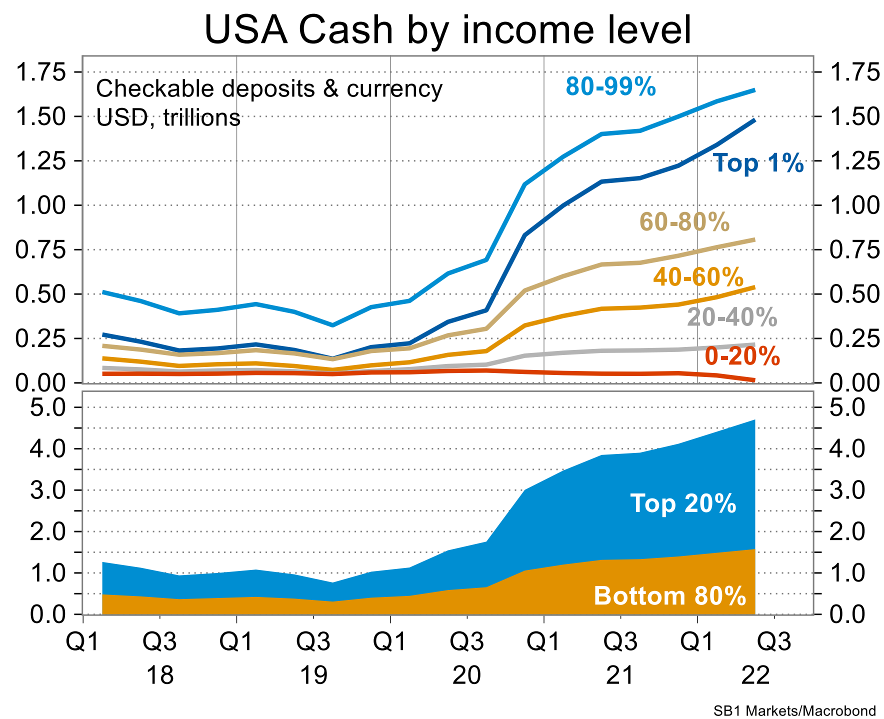


- The **savings rate** was 2.3% in October, down from an 0.7 pp downward revised September 2.4% level
- Households are now dipping into 'normal' savings in order to keep up consumption, as their real incomes are not keeping up, due to the high rate of inflation. The savings rate is now more than 6 pp lower than before the pandemic
  - However, household have saved much more than normal during the pandemic, equalling to some 13% of disposable income – on average for all households, that is. This 'Wall of Money' is now shrinking at a 4.4 pp pace per year, if the savings rate stabilises at 3.1%
- Our old savings model, yielded an estimated 3.6% savings rate in Q3. During the 2016 – 2019 period our model has underestimated the savings rate systematically by some 2 pp, but the gap was closed in Q2
- Q3 household asset/liability data will be published on Friday

The Wall of Money is coming down faster than previously assumed

Most of the accumulated savings reside with the top 20%

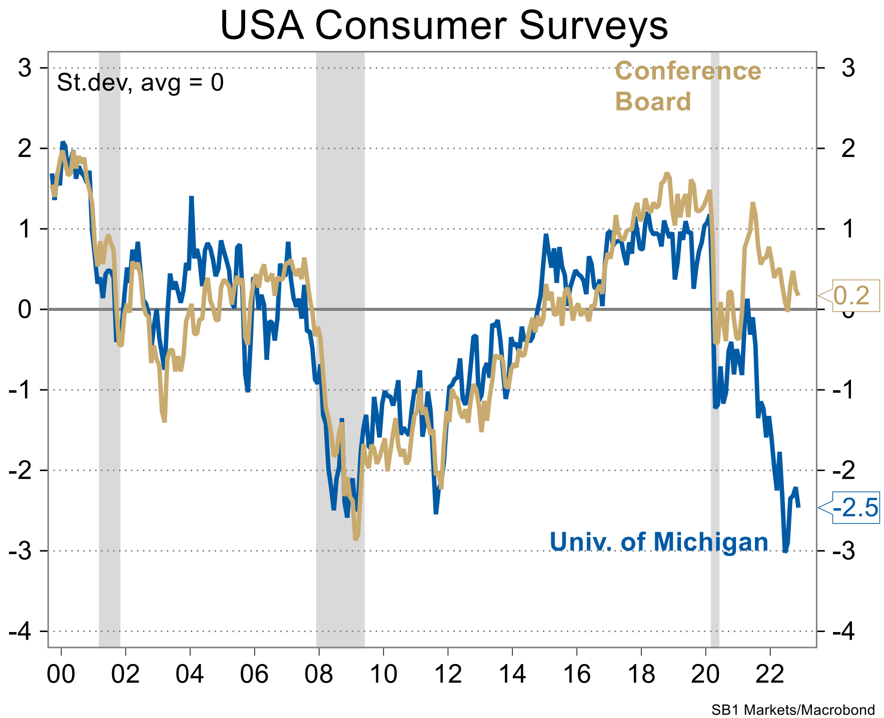




- Those at the bottom of the income ladder did not save much more during the pandemic
- This will of course determine where the money will be spent and if at all, due to the wealth effect and because these groups do not necessarily have to spend these savings to keep up consumption

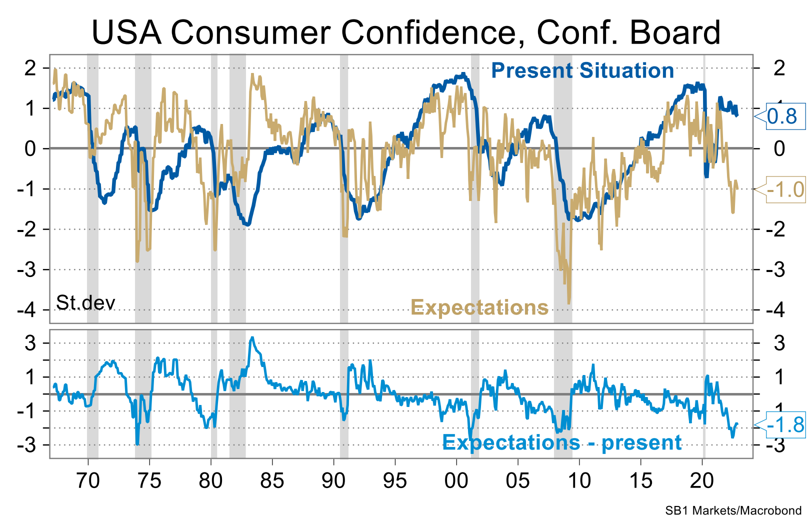
Conf. Board's Consumer confidence slightly down in November, still > avg.

However, expectations are below average, normally a warning sign. Inflation expectations marginally up



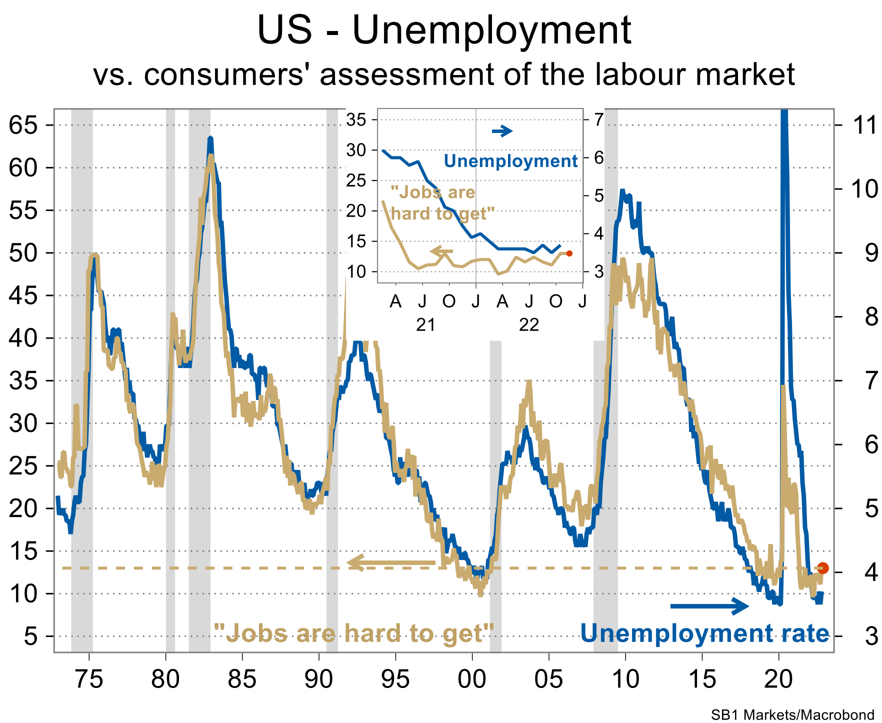
- **The other consumer** surveys we follow are on another planet, even if they have recovered somewhat since the summer. University of Michigan's sentiment in Oct was unch. from the first estimate at -2.2 st.dev below avg. – a very low level
  - Two other confidence surveys, from IBD/TPP and Univ. Florida are not much better than the UM survey – and Conf. Board's survey is an outlier

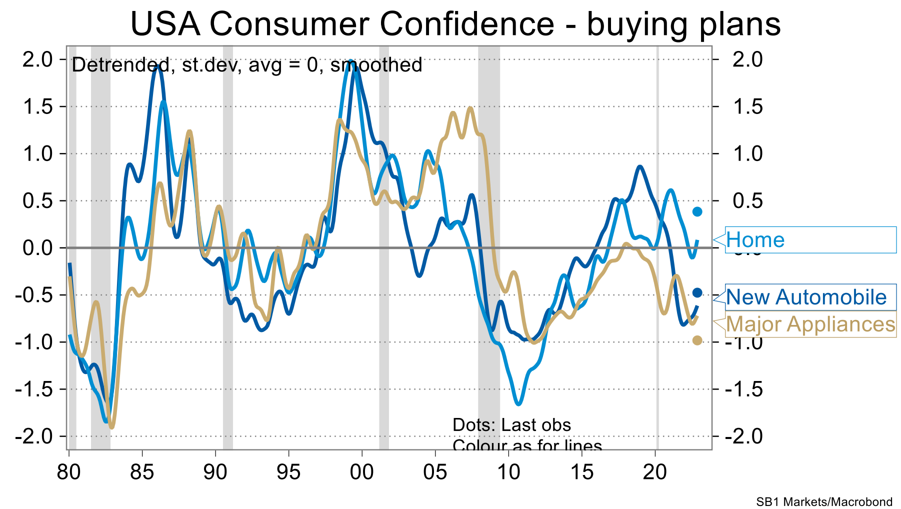
- The main index declined by 2.2 p to 100.0 in Nov, close to expectations. The present situation index was unch. at a level well above average, while the expectation index fell marginally – and is well below average
  - The decline in the main index equalled 0.1 st.dev, and the index remain 0.2 pp above average – due to a still strong present situation index, at +0.8 st.dev.
  - **Expectations** are weak, 0.8 st.dev below average, which is normally seen in recessions (but not only)
  - **The difference** between households' assessment of the present situation and their expectations is at -1.8 st.dev. The gap is always the largest just before or when a recession hit, check the chart below

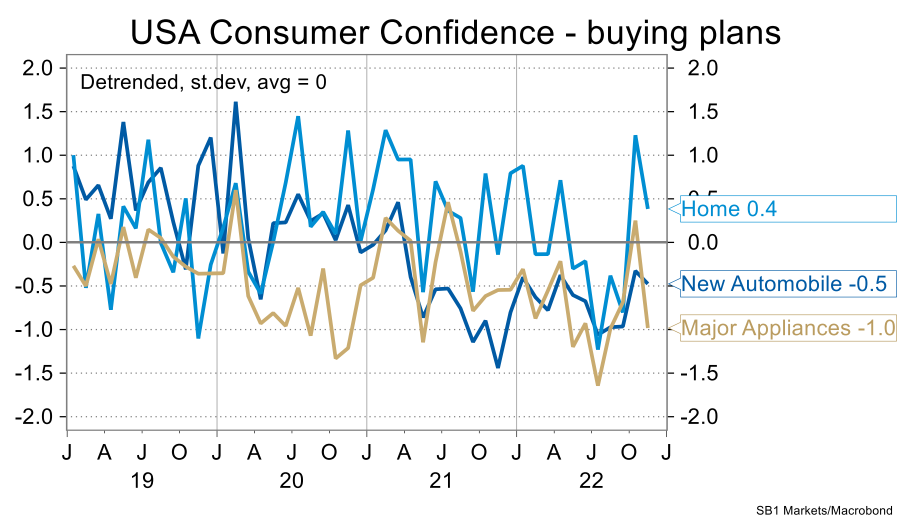


Home buying plans down in Nov but still higher than normal!

Rather surprising given the surge in mortgage rates recent months, in addition to high inflation

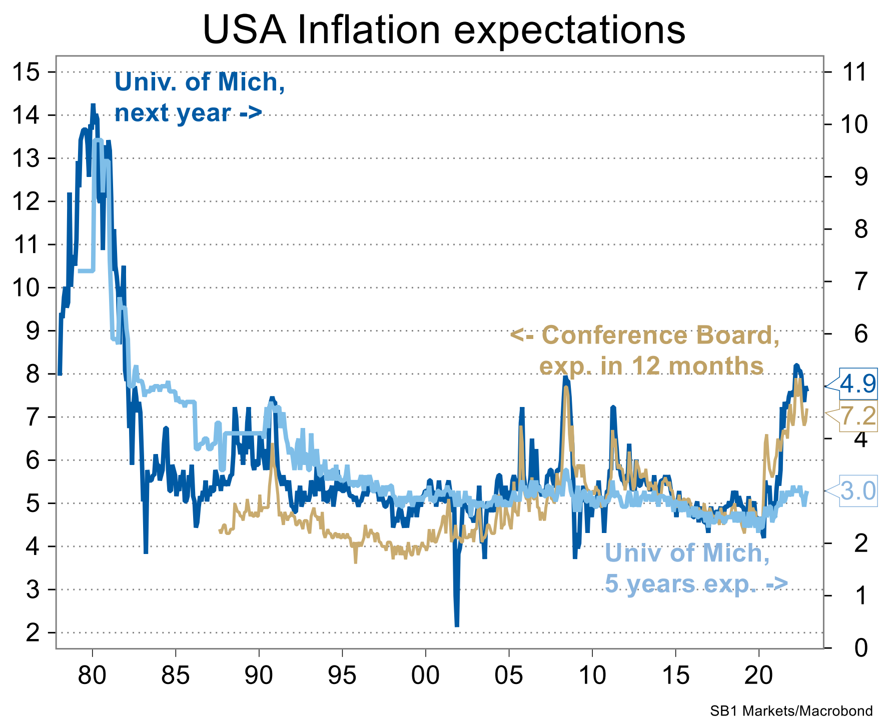


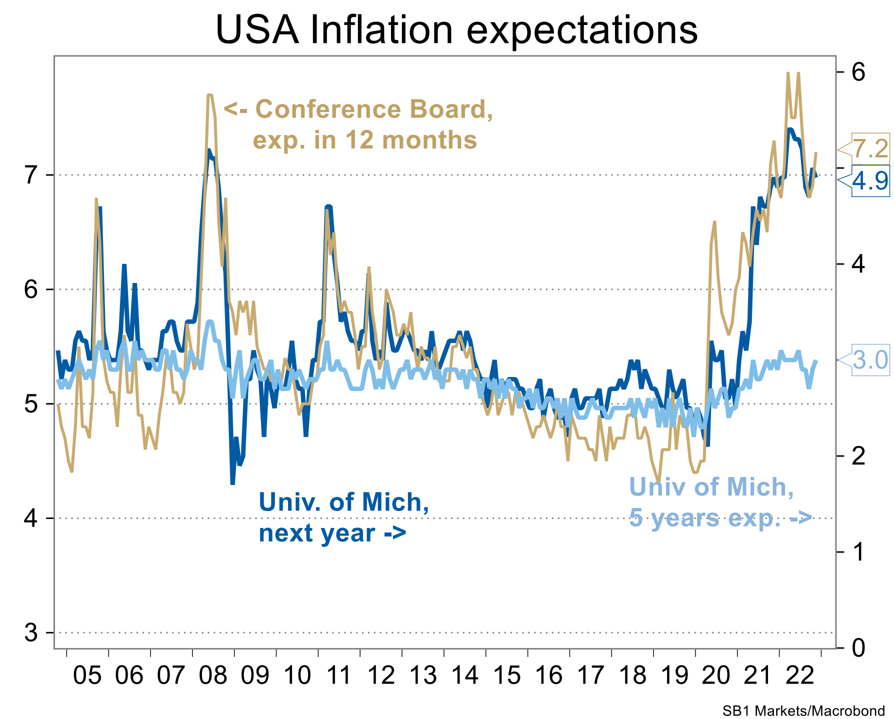




- Other buying plans are below par and fell in November
- Furthermore, households are getting a tad more cautious vs the **labour market.** Jobs are still not hard to get, but somewhat less easy to get than the level seen since last summer

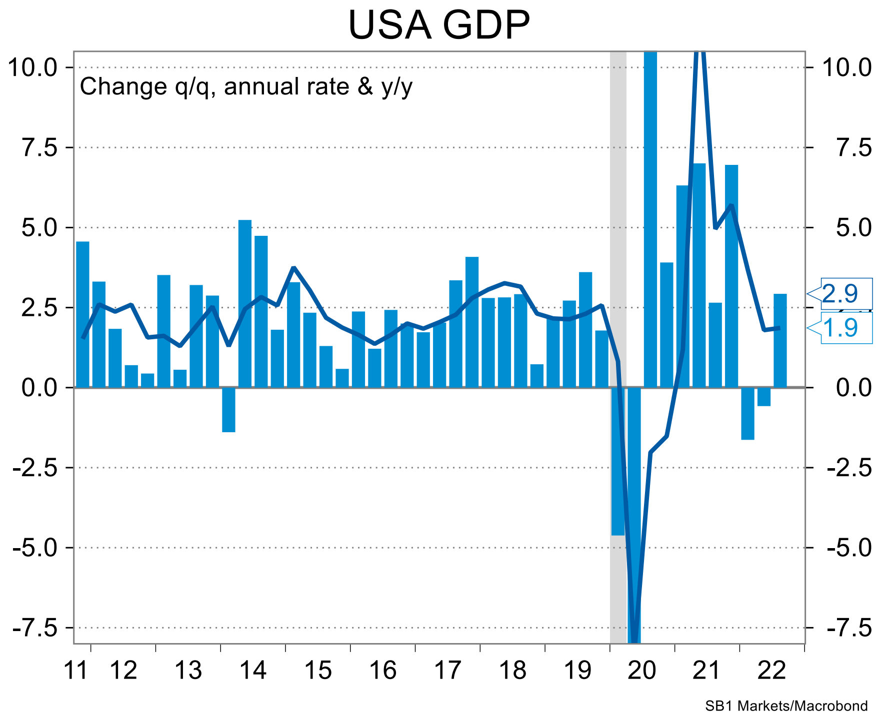
Inflation expectations up in November, still well down from the peak

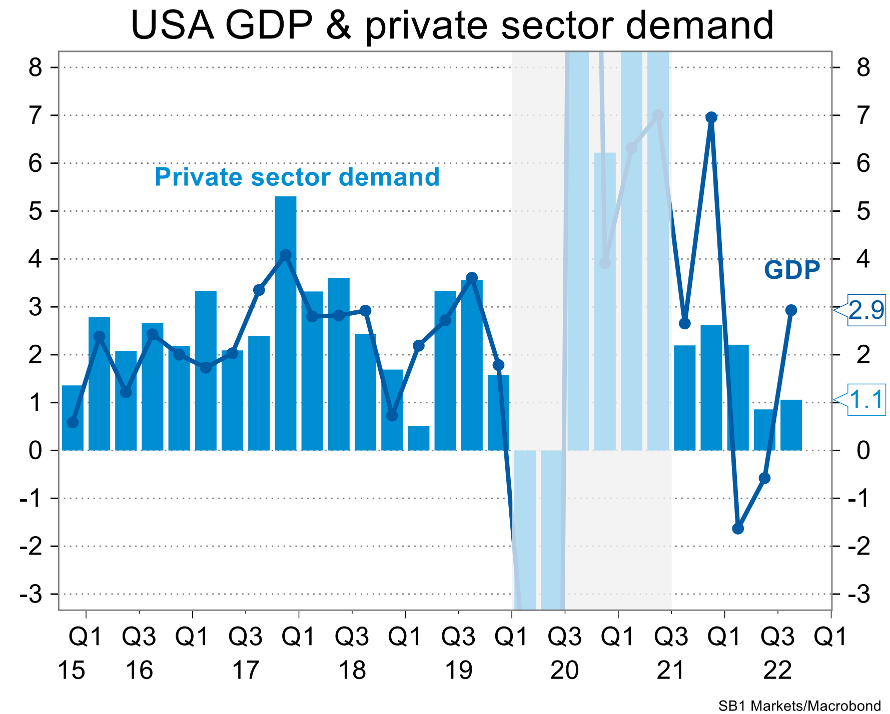




Q3 GDP growth revised up 0.4 pp to 2.9%, better than expected

Growth so far in 2022 has been weak, activity is up 0.2% from Q4 last year. Private domestic demand is up 1%

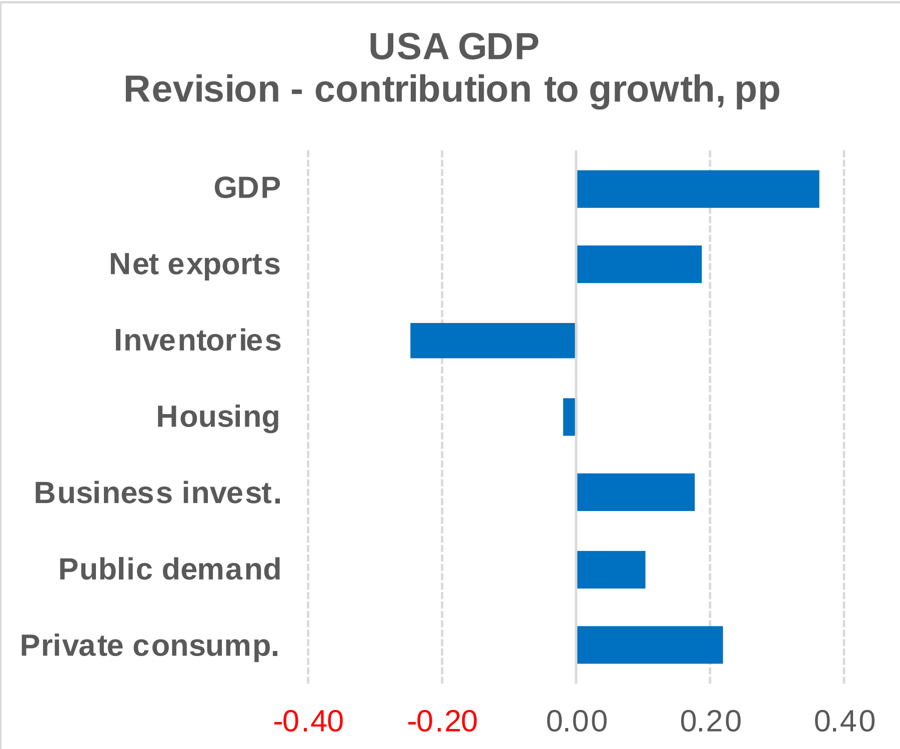




- However, growth in **private (household + business) demand** has slowed, albeit not further in Q3, due to the upward revisions of both consumption and business investments
- **Inventories** rose at a slower pace – and were revised further down – and deducted 1.2 pp from growth in Q3. Inventories may still be somewhat too high
- **Core PCE inflation** (Fed's price measure) slowed as expected to 4.5%, while the overall GDP deflator grew 'just' 4.1% in Q3, as energy prices fell
- We assume **corporate profits** flattened in Q3, as the total wage cost probably grew faster than value added

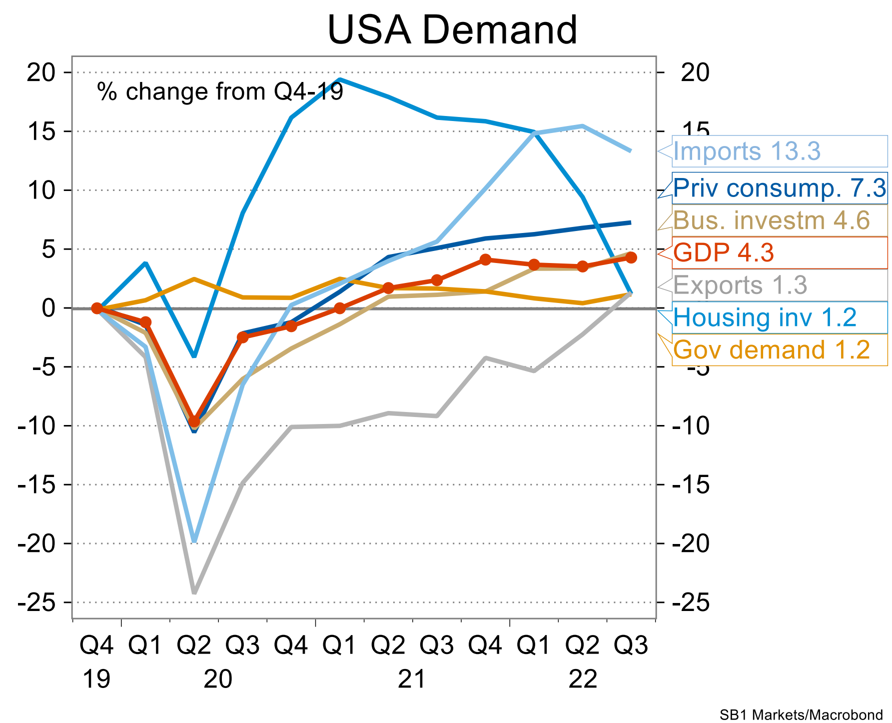
The (not so important) revisions: Less inventory contribution, demand higher

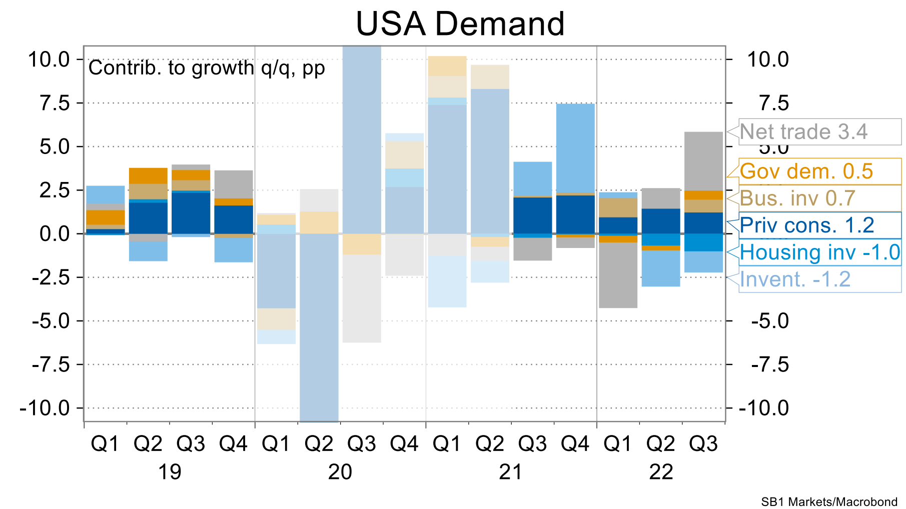
If you want a strong economy, these data are good! If not, they are bad…

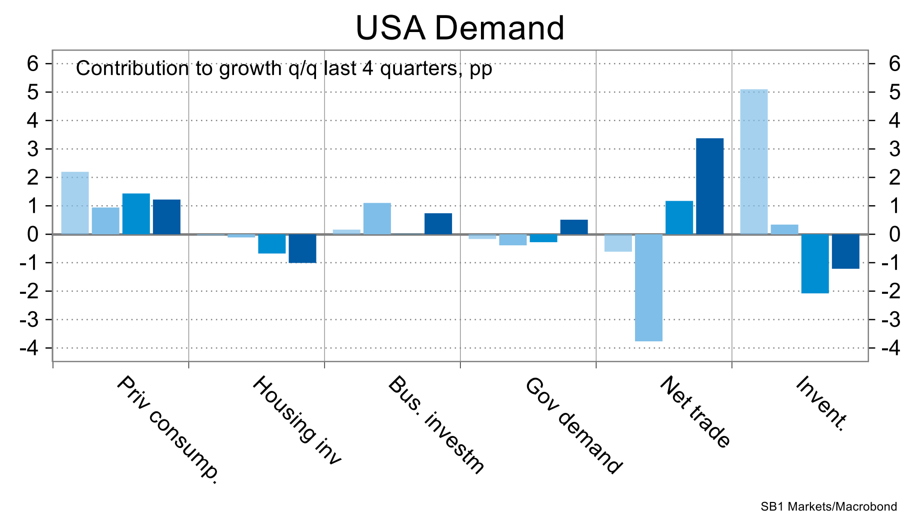


Higher exports, lower imports the story in Q3. And the 'collapse' in housing

Business investments rose slightly, while inventory build-up slowed

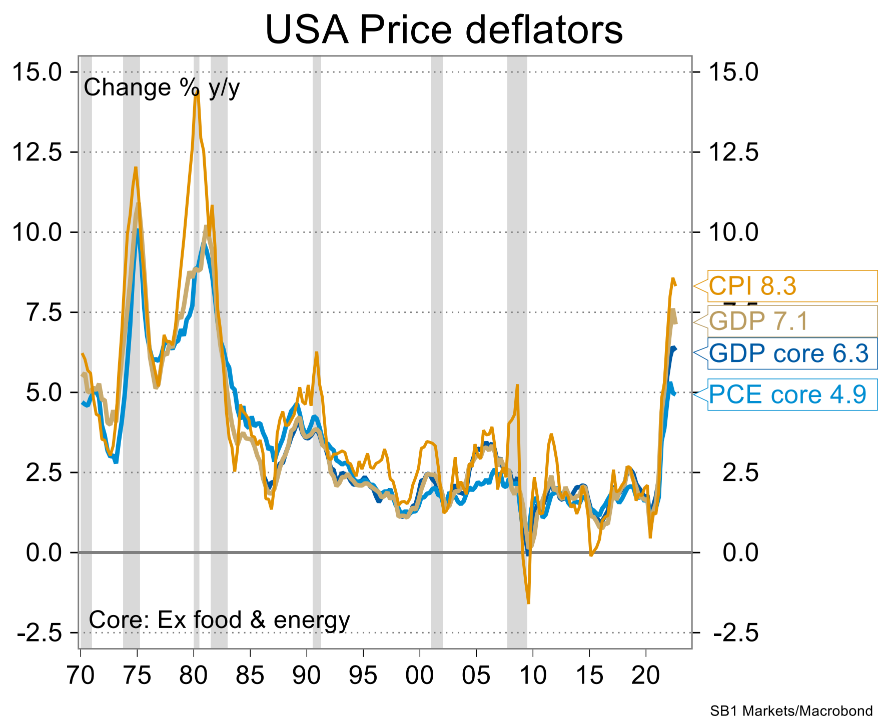


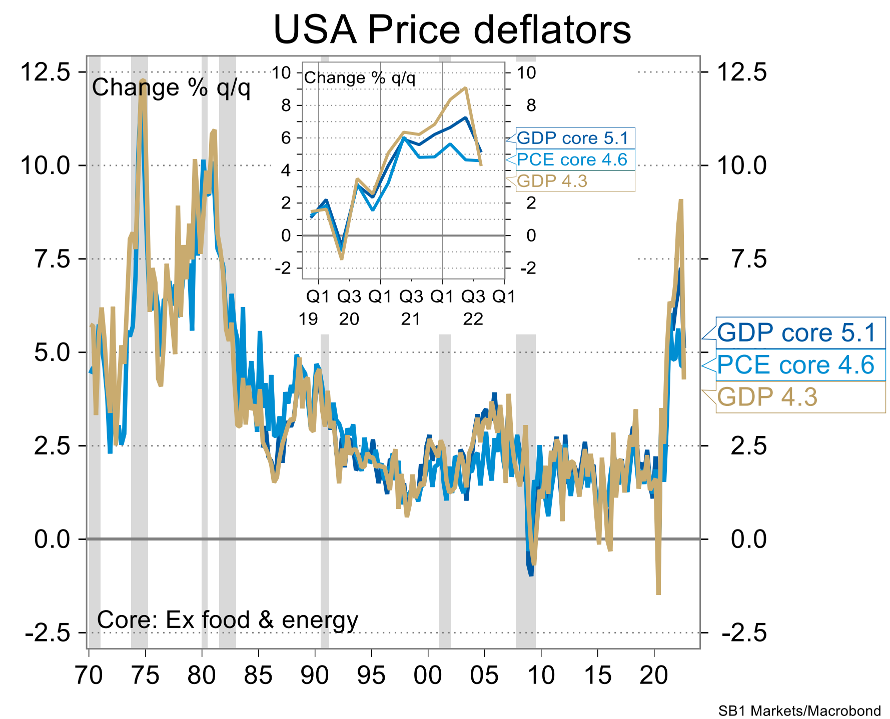




Peak inflation: The GDP price deflator down in Q3, but less than first reported

Still, up 4.3% in Q3, down from 9.1% in Q2. The core GDP deflator still up 5.1% (and +6.3% y/y)

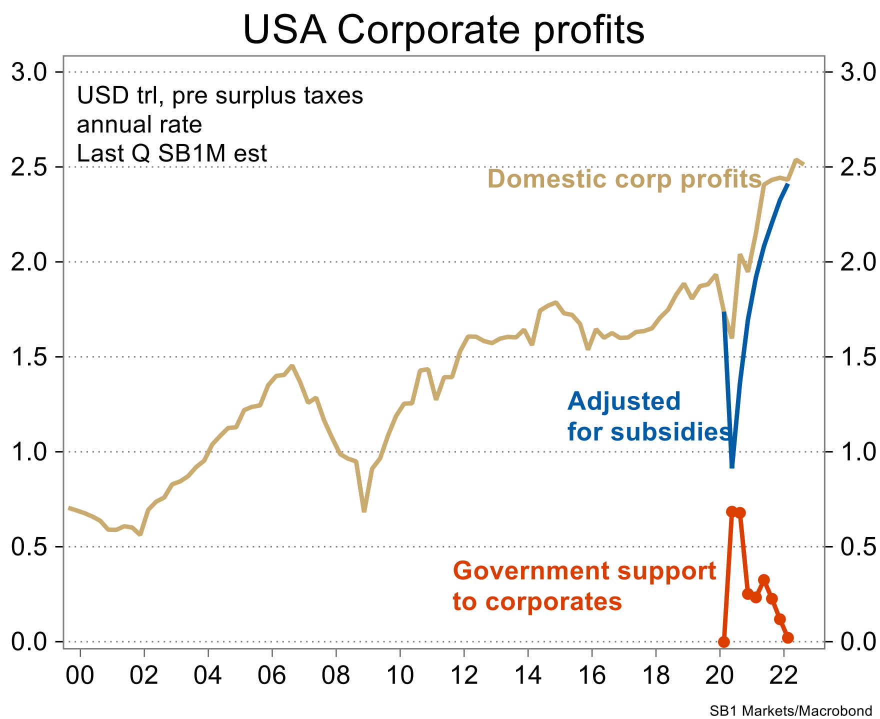


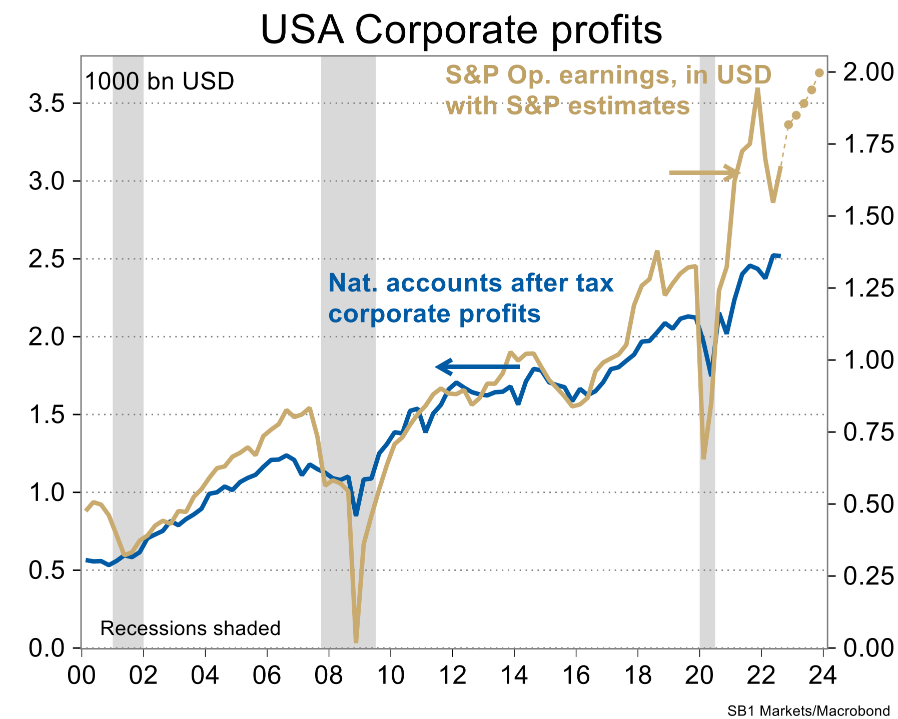


- The core (x energy, food) PCE (private consumption) deflator, Fed's preferred inflation measure rose 4.6% in Q3, down from 4.7% in Q2. The core PCE inflation peaked in Q2-21

Corporates' profits fell in Q3

Wage costs grew faster than value added – and the profit share fell. Much more to come, we assume

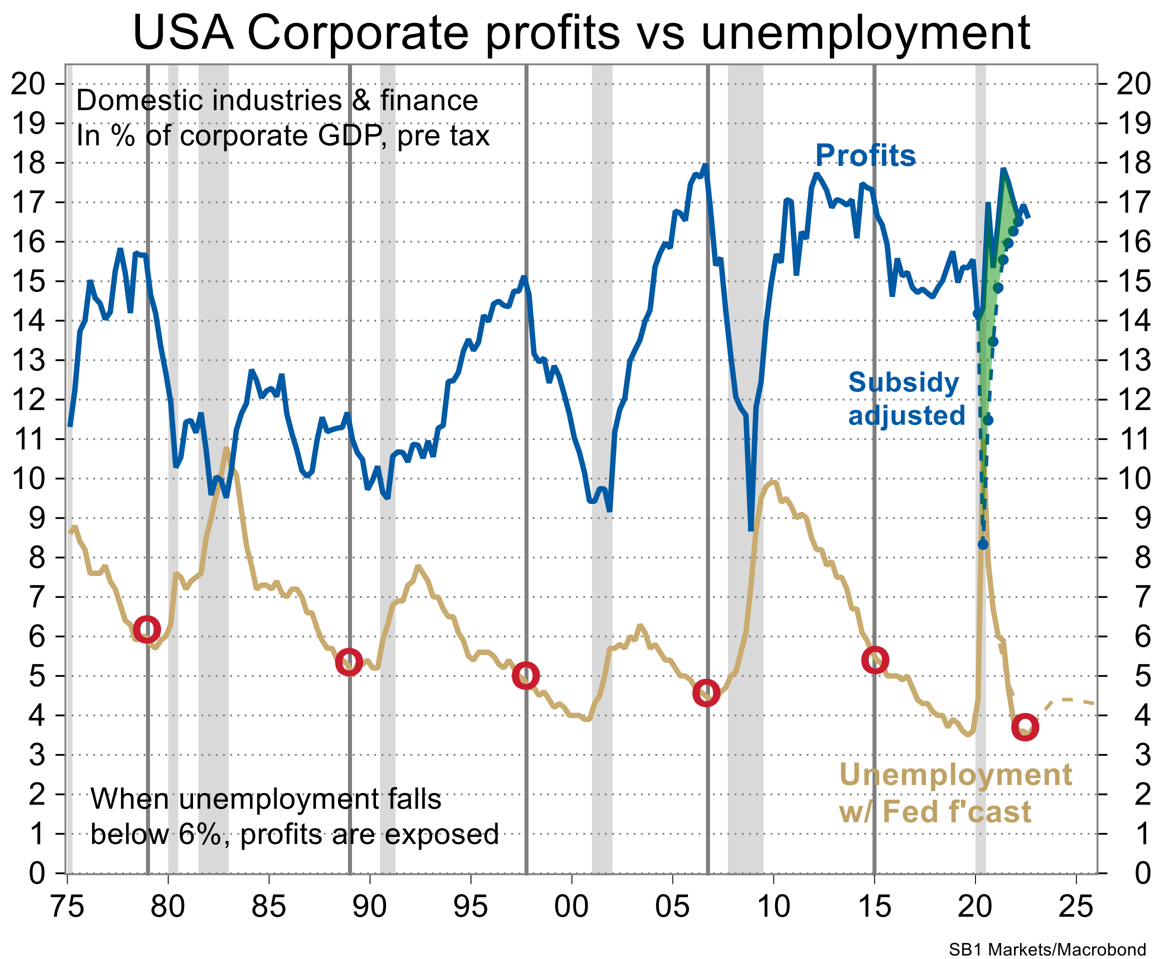




- **We assume domestic corporate profits** fell marginally in Q3, even if real and nominal GDP grew at a brisk – and upward revised pace. The reason why? Wage costs grew even faster
- The **S&P** estimates that S&P 500 profits rose by 6.5% in Q3 (down from 14% some few weeks ago, measured q/q, and are down 3% y/y). S&P profits (including profits from abroad, measured in a strong USD!) are still way above normal vs National Account profits for the total corporate sector (including all corporates operating in the US, domestically or foreign owned). Thus, a downside risk for S&P 500 earnings? S&P's forecast is usually far to optimistic, and take the expected surge in profits in Q4 and the coming quarters with more than one grain of salt
- We think the **profit outlook** is bleak. Wage inflation will not subside immediately given the super tight labour market – and a continued price inflation at the current pace does not seem to be tolerated anymore by the Federal Reserve. Exciting times ahead

The profit cycle has peaked. Now, make ready for the next leg

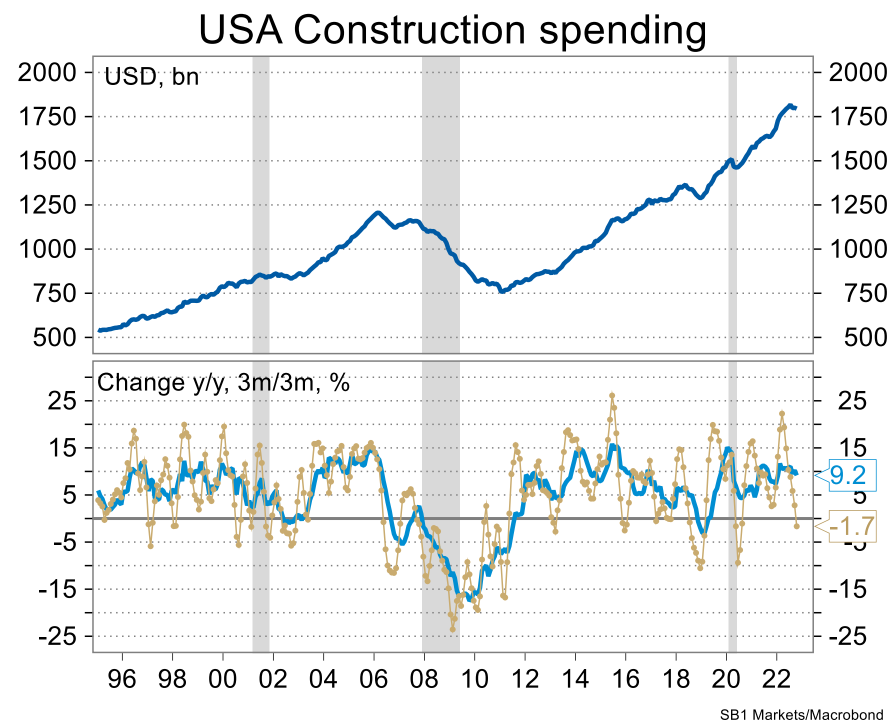
The bottom line has always been hurt when the labour market becomes too tight. Like it is now

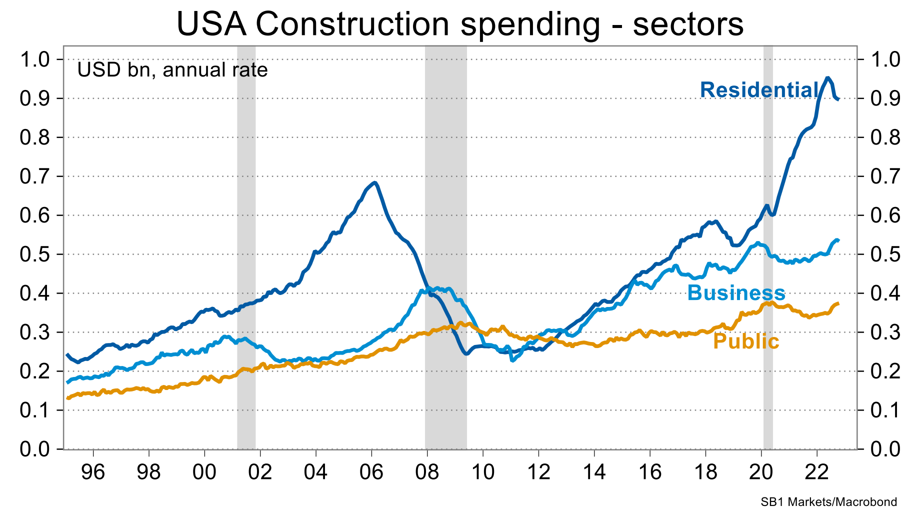


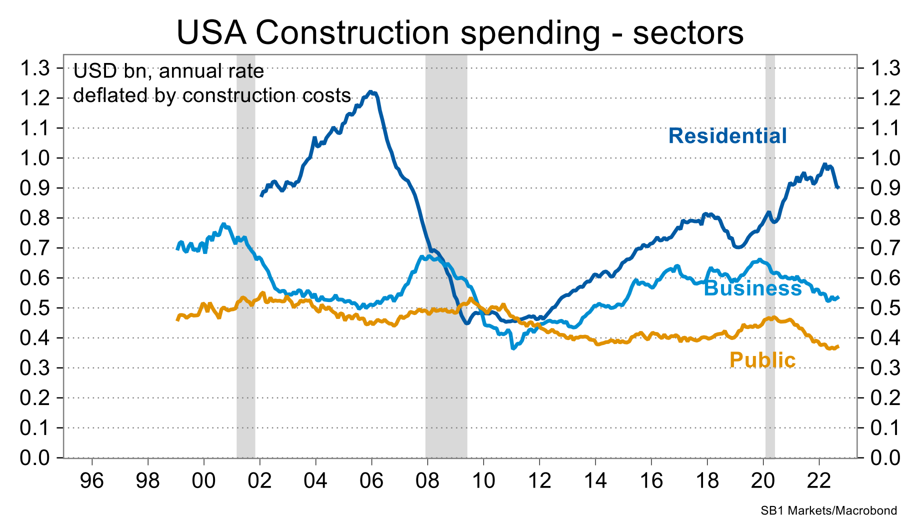
- Prices are increasing at an incredible pace but so are wage costs, and government support is on the way down
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - Unemployment is now at 3.6%, and it is falling rapidly as other indicators (especially vacancies) suggest that the labour market is even tighter than the 3.5% rate signals
- In addition, it is reasonable to expect the production tax-subsidies to normalise the coming quarters.
  - The impact is shown as the green area on the chart above
- <u>Thus, it is quite likely that the profit share is headed downwards from here</u>

USA construction spending was down 0.3% in October, as expected

The decrease was mainly in the residential segment



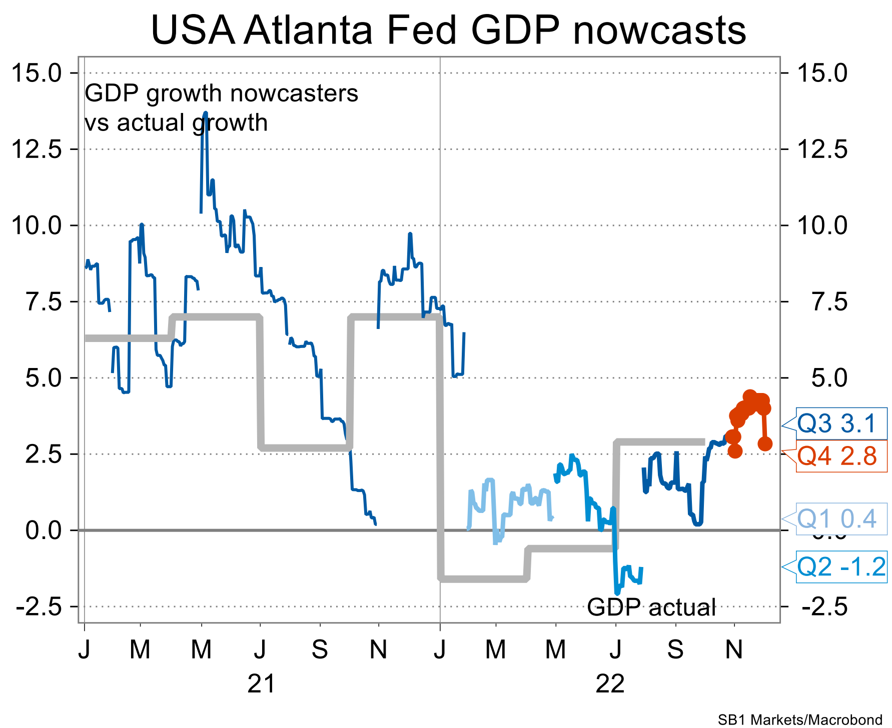


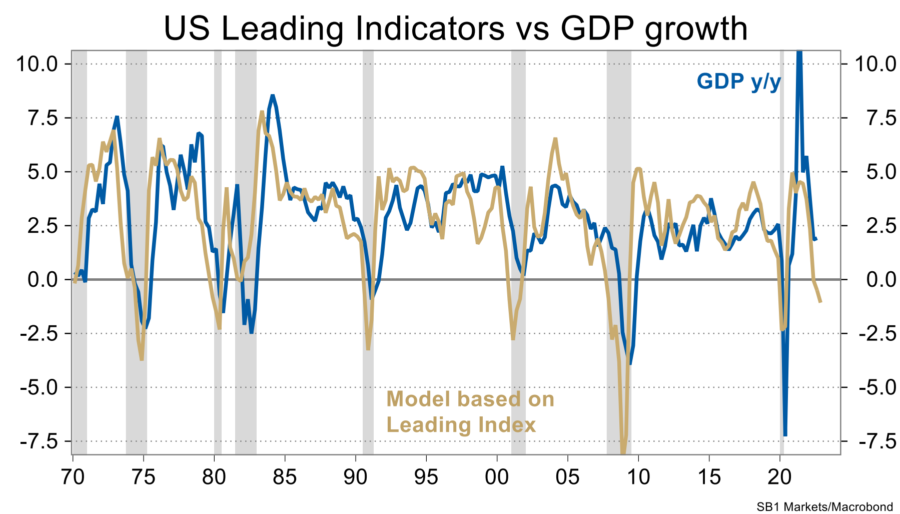


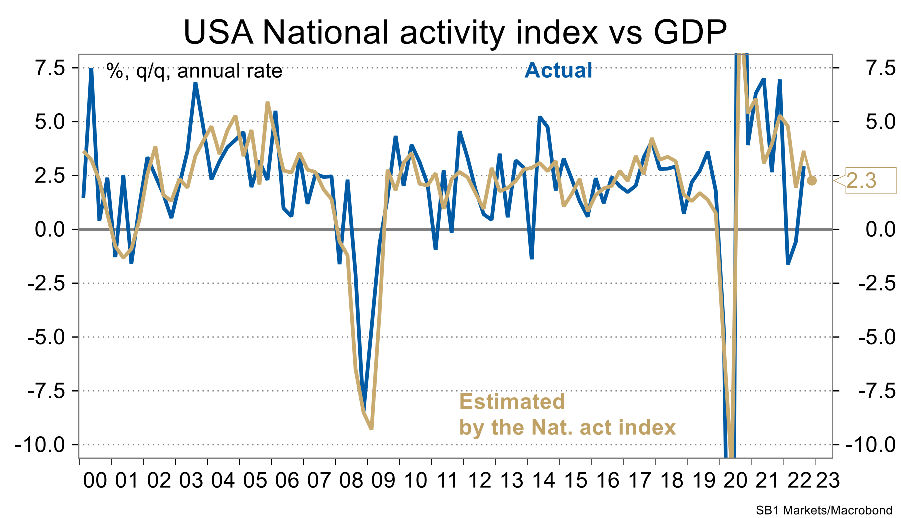
- **Spending data** are published in nominal terms – and constructions costs have surged, but seems to slow now. In volume terms, the trend is down for all sectors
- **Residential construction investment** have been falling recently
- **Business construction investment** fell following the pandemic, but are now higher than at the peak in 2019
- **Public sector investment** fell from Dec-20 until Sept-21, but are now back to mid 2020 levels

Atlanta Fed revised down it's Q4 GDP forecast by 1.4 pp to 2.8%

Still, the most upbeat nowcast available



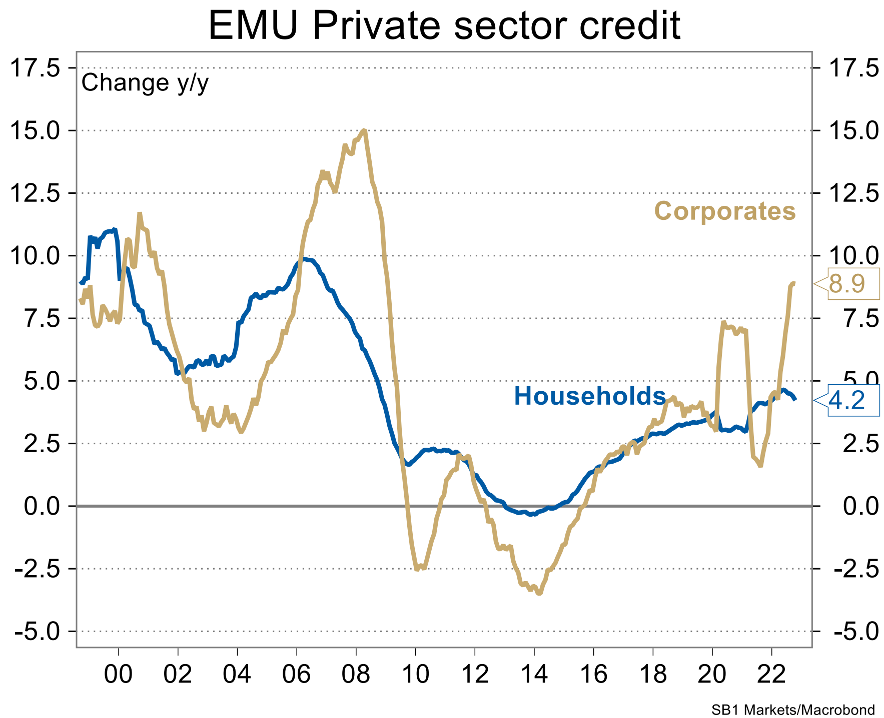


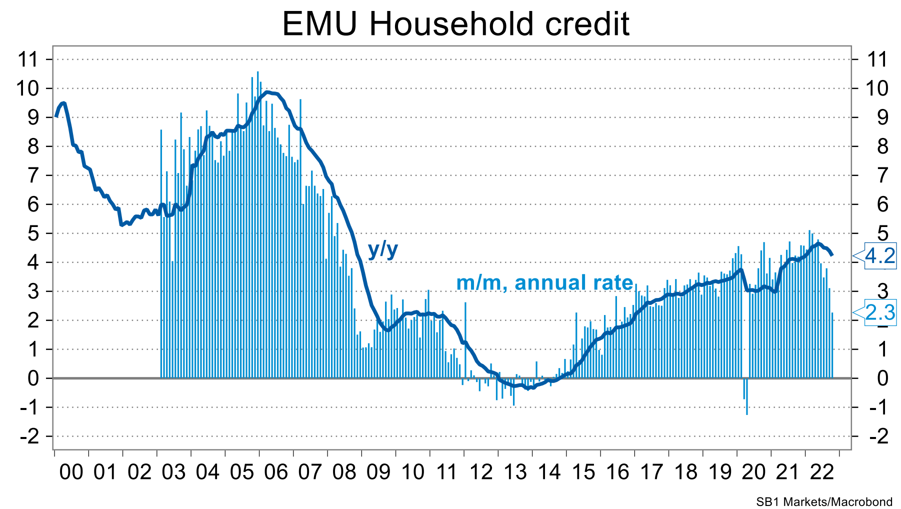


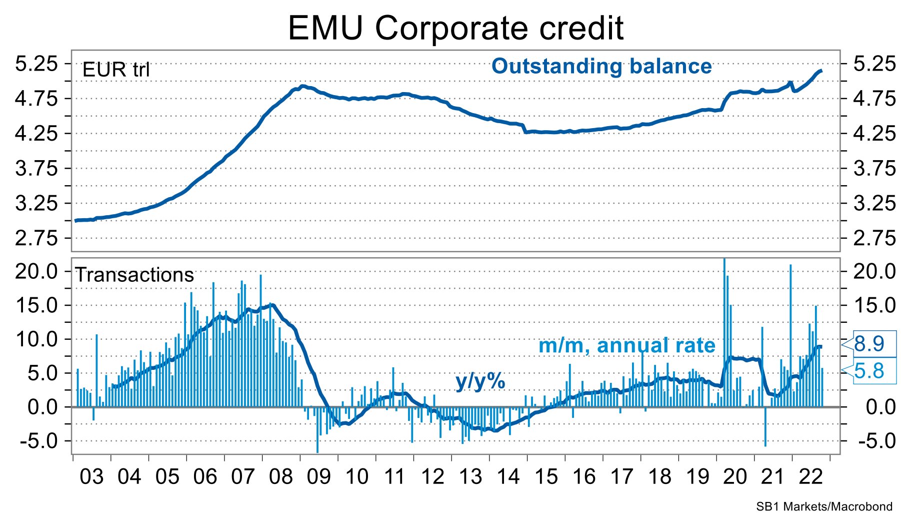
- Several data points contributed to the downgrading of the Q4 growth forecast – which still is at decent level

Credit growth is slowing rapidly, and banks are tightening sharply

Annual growth rates have kept well up but monthly increase are declining rapidly



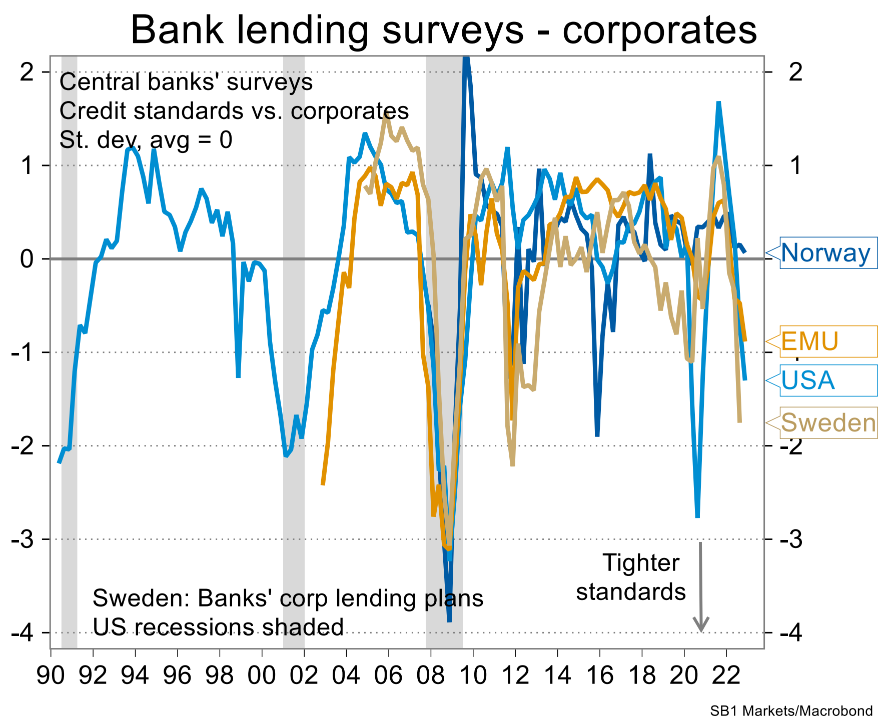


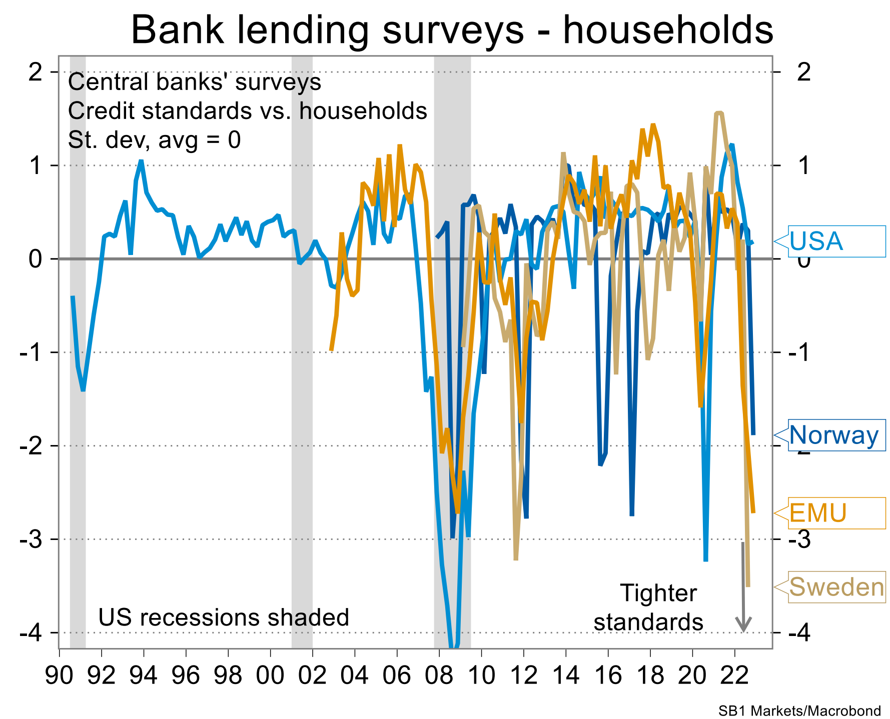


- **Monthly growth** in household debt has fallen to 2.3% from 5% in early 2022, and now the annual rate is slowing too, now down to 4.2%
- Growth in corporate debt is still up 8.9% y/y – and climbing – but the monthly growth rate fell sharply in October, to 5.8% – which still is rather high growth rate
- The last **banking survey** signal a significant tightening, check the next page

European banks report tighter credit standards

EMU banks have not reported such a tightening of standards vs. households since the GFC

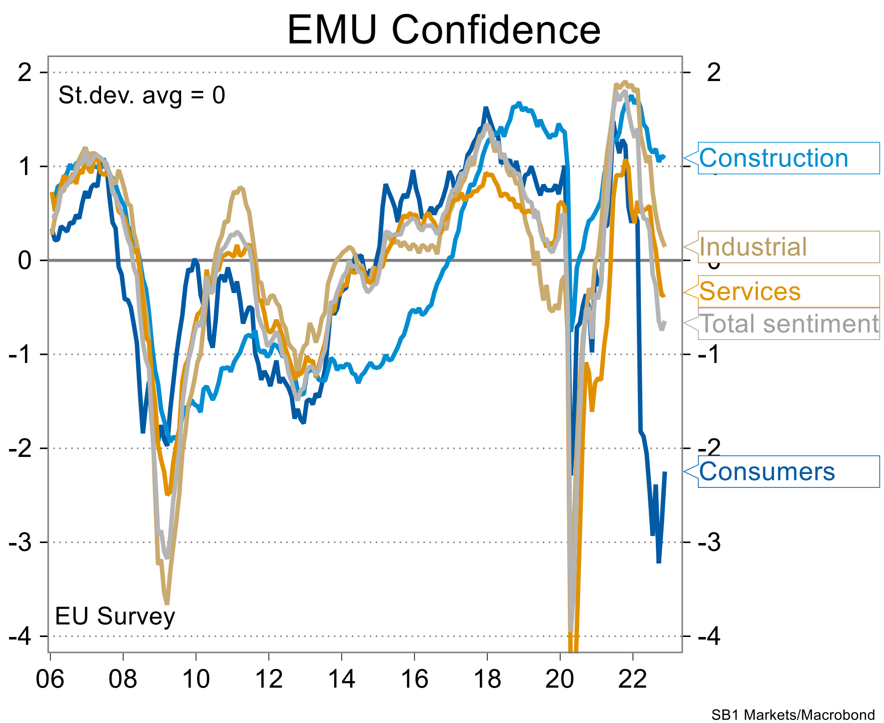


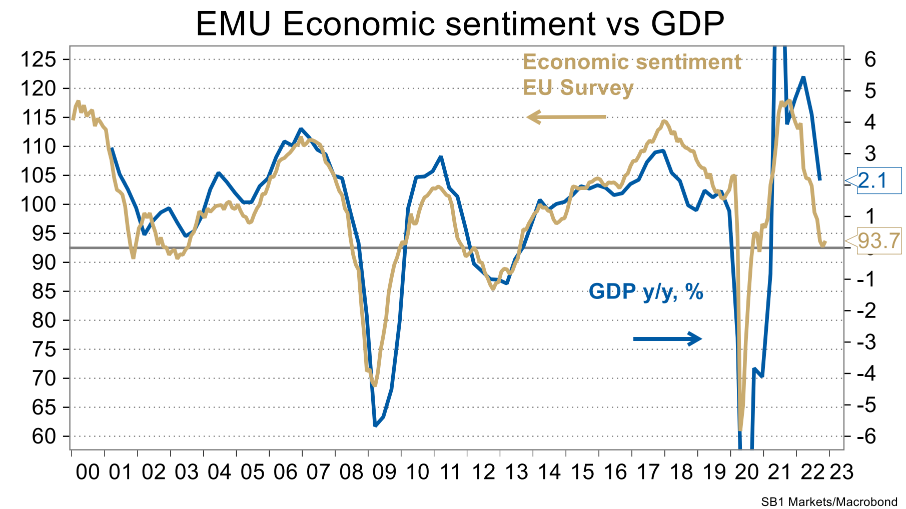


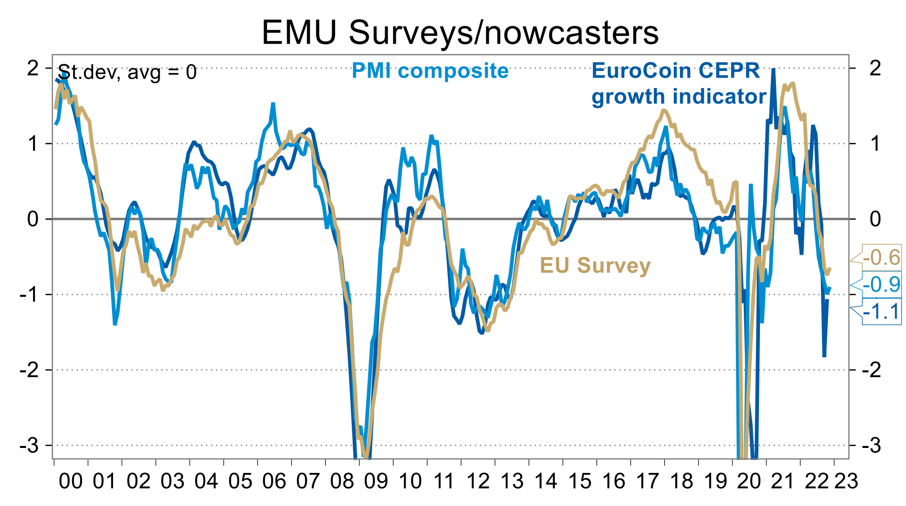
- **US banks** are signalling tighter lending standards vs corporate sector but not vs households
- **Norwegian banks** are close to neutral vs the corporate sector, at least they were in early Q4. A substantial tightening vs. household, banks reported

Consumer confidence confirmed up but business sentiment fell further in Nov

Even so, businesses are signalling an average 1.5% GROWTH rate, not a recession



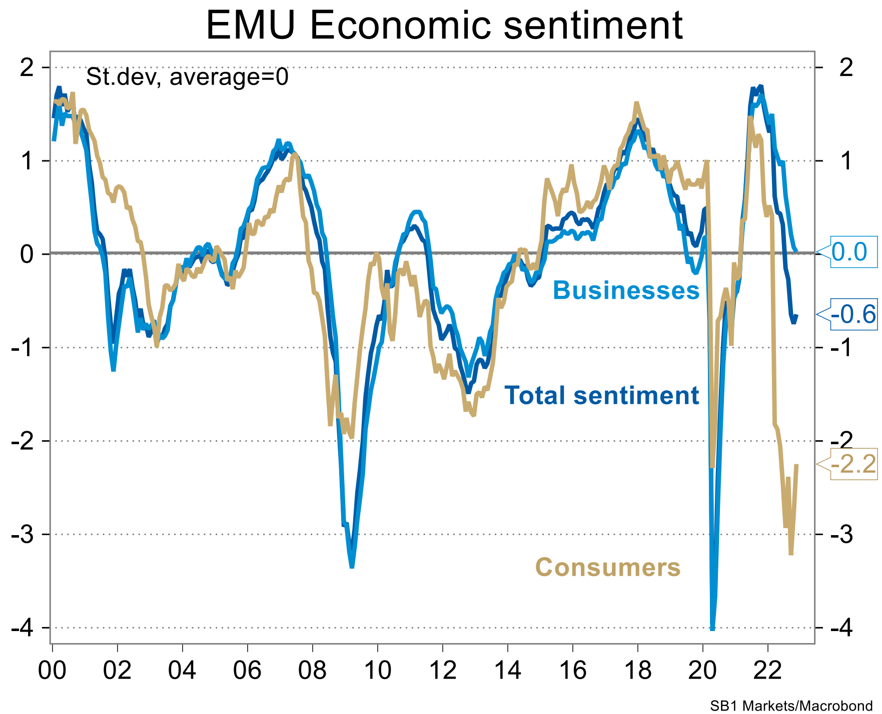


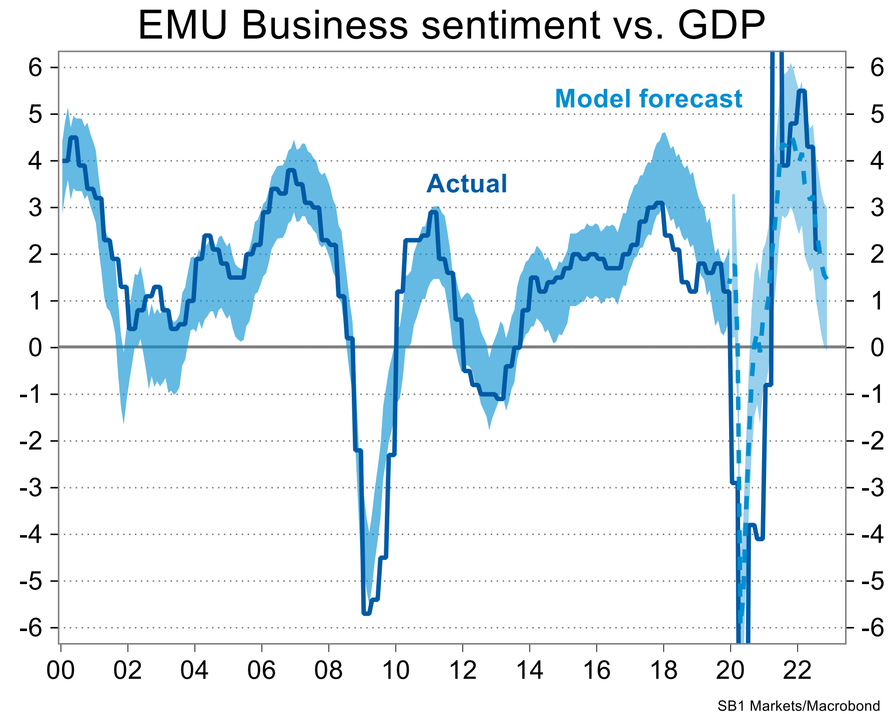


- **The Economic sentiment index** is 0.6 st.dev below average, with a large negative drag from households. Businesses are on average close to average – but on the way down
- Thus, even if there is war nearby, inflation is surging, businesses are still reporting growth close to trend (charts next page). Consumers are pessimistic but historically their views on the economy has been irrelevant vs. GDP growth, just businesses tell us something relevant **All of the surveys we follow are now signalling growth below trend,** or an outright recession (like the German Ifo survey) – but they improved in November

Businesses are still reporting average growth, rather surprisingly

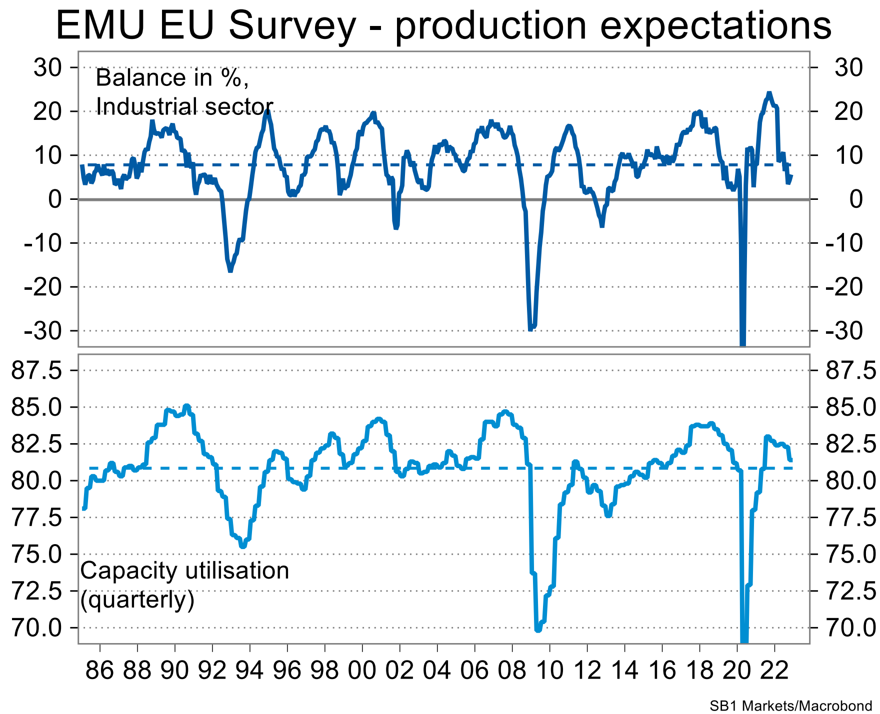
Historically, no contribution to the GDP forecast from households, just from businesses

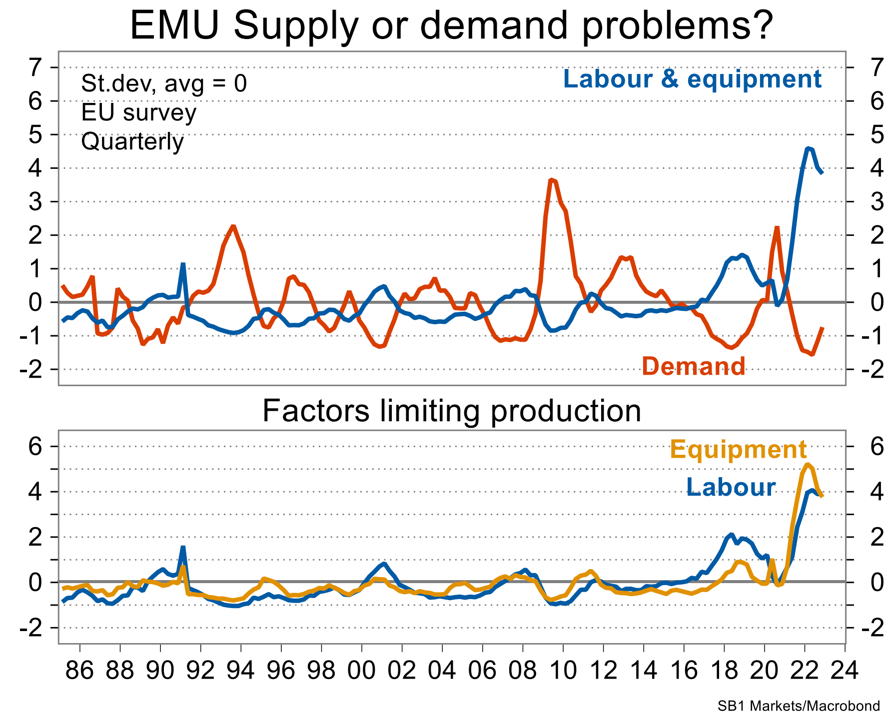




Production expectations down to below average, but capacity util. still > avg

A few more complain about sales but still unusual few

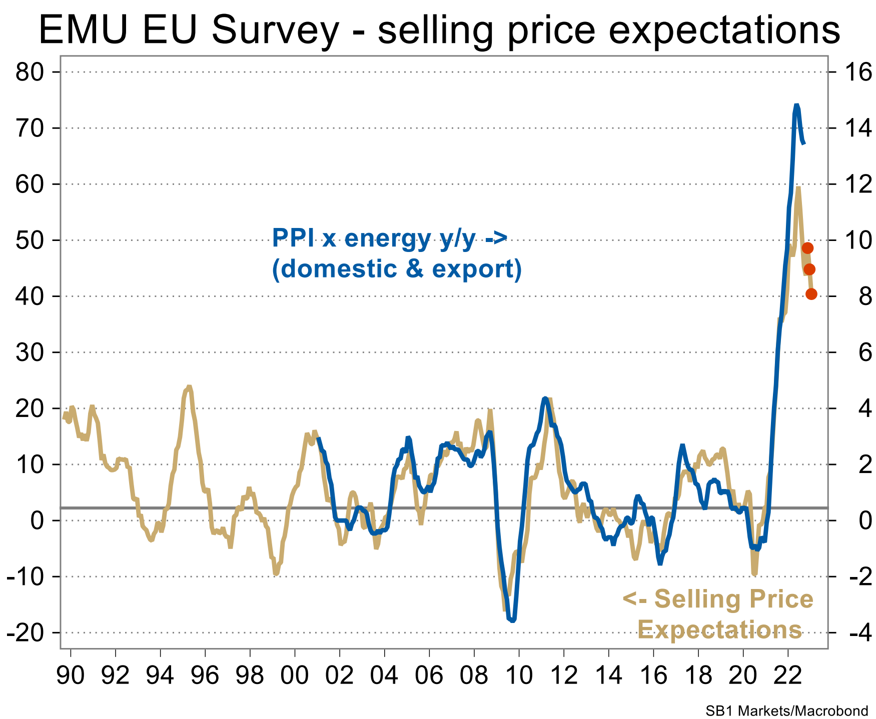




- However, supply shortages, primarily labour and equipment, are fare more wide-spread than normal. At the same time, even if the share rose marginally in Q4, close to record few companies complain about demand
- Even if the economy is now clearly slowing, the business part of this survey, and the record low unemployment rate, give the ECB arguments for hiking the signal rate further in December, as the bank no doubt will do

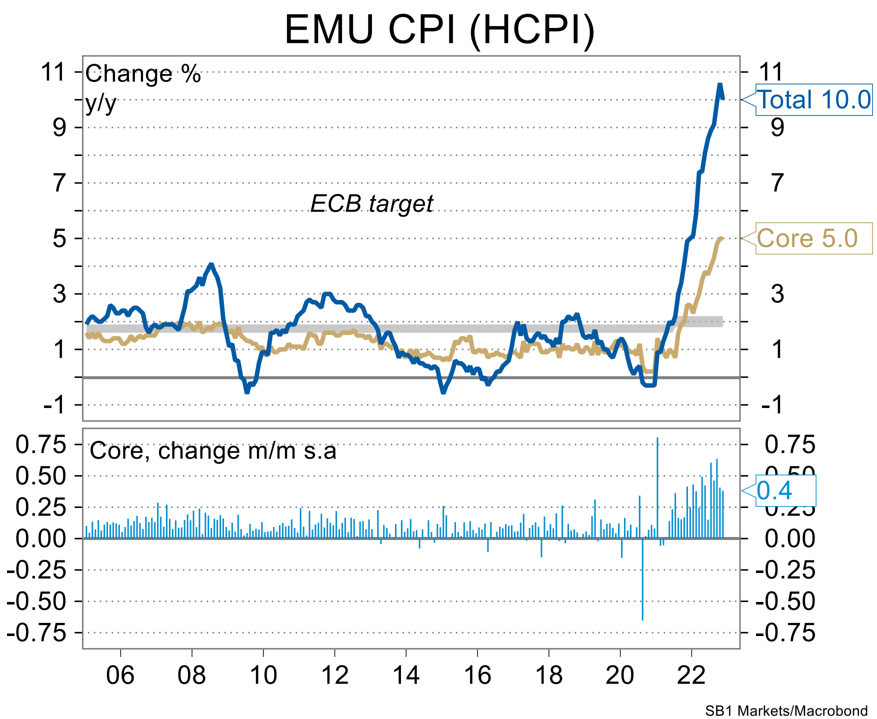
Companies report slower – but far from slow – growth in prices

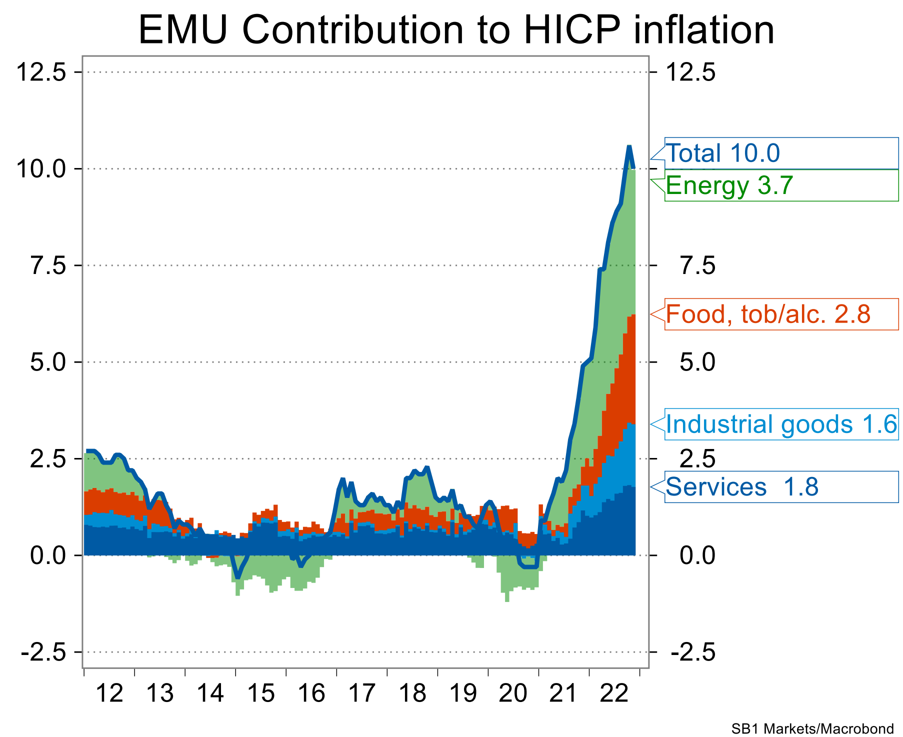
Companies are anyway signalling peak inflation, by a wide margin



Inflation lower than expected in November, as energy prices fell

Core inflation unchanged at 5% y/y, in line with expectations

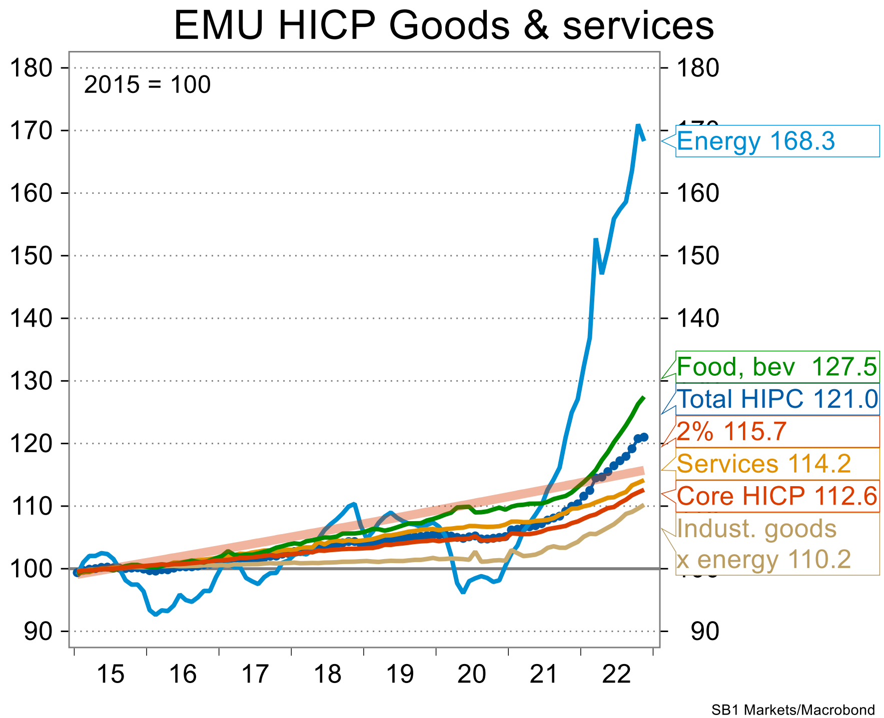


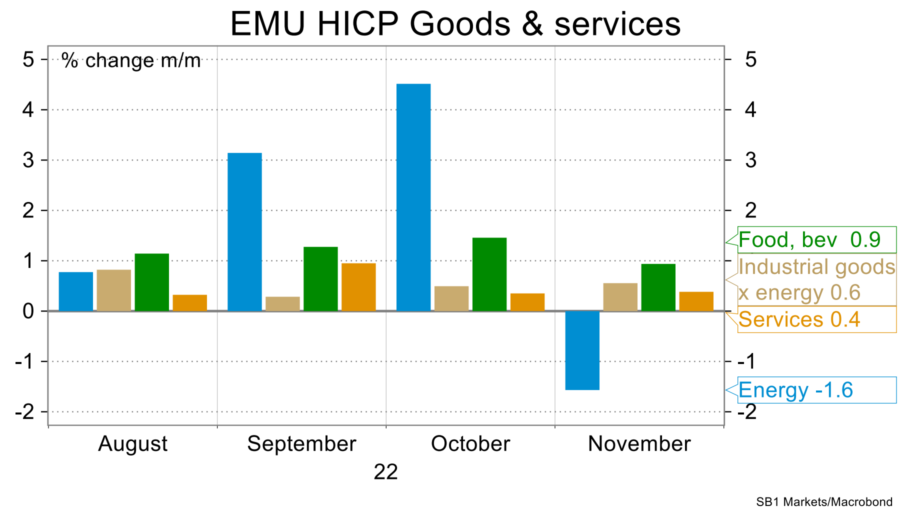


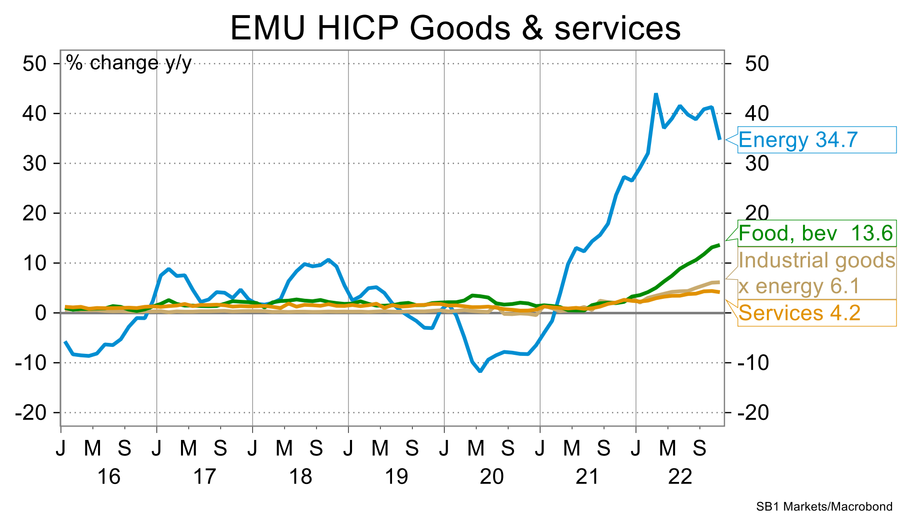
- The **total HICP** fell 0.1% m/m in Nov (seas adj), and is up 10.0% y/y, which is down 0.6 pp from October and 0.4 pp below expectations
  - Energy prices were down 1.6% m/m, and they are up 35% y/y (down from 41% a month ago), but still contribute 3.7 pp to the headline rate. Food prices rose 0.9% m/m - and are up 14% y/y, contributing 2.8 pp to overall CPI growth
- **The core** rose 0.4% m/m. Both goods and services contributed. The annual rate was unchanged at 5%, still the highest ever…
- The **ECB** hiked rates by 75 bps at their last meeting and reiterated that their job is to control inflation. However, the bank's statement with regards to further hikes was softer, and this latest data is certainly well received by the bank – Inflation is, of course far to high for comfort, but the direction could give some comfort in slowing the pace and see to make sure it will not kill the economy…

Like we said: falling energy prices will show up in the CPI, and now they did

…Finally! Energy prices are down 1.6% m/m, but still up 35% y/y



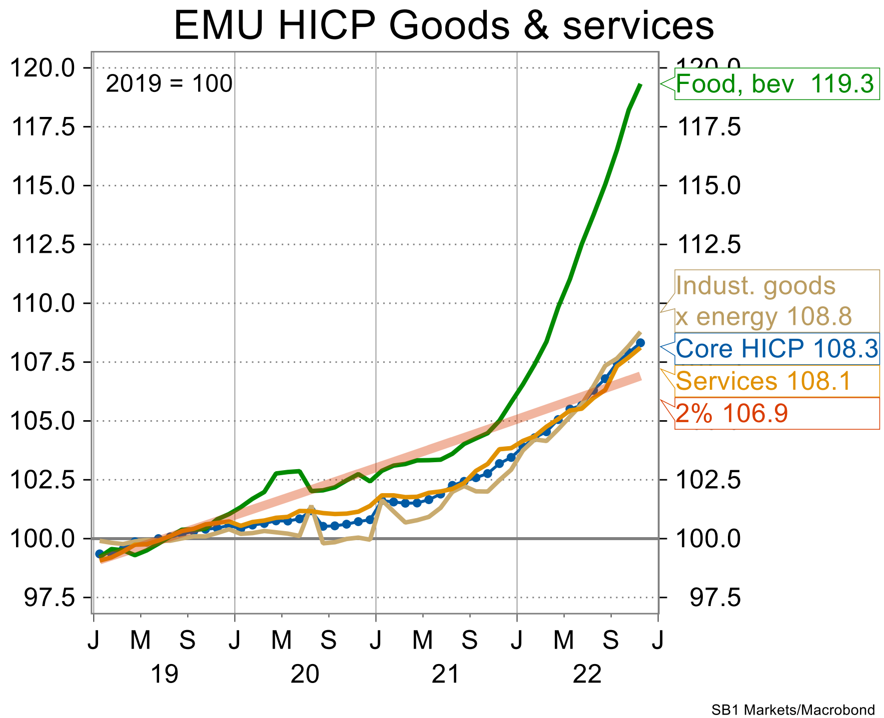


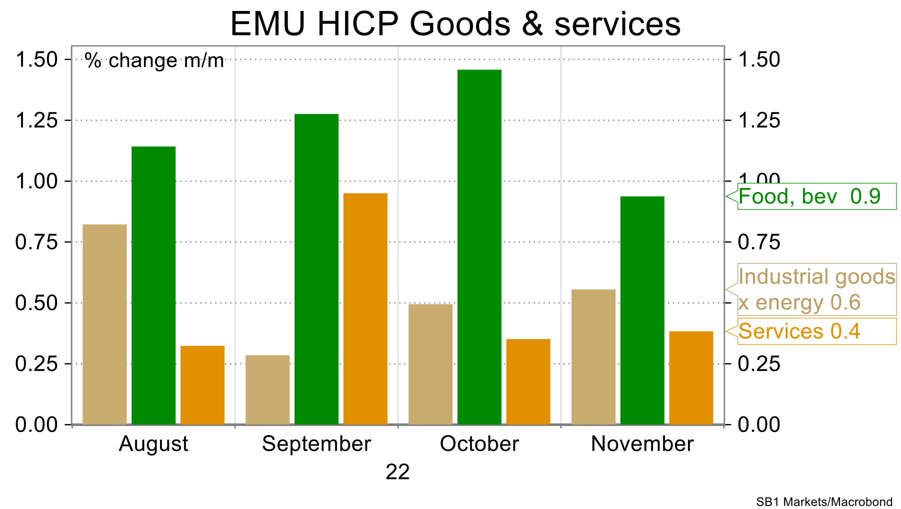


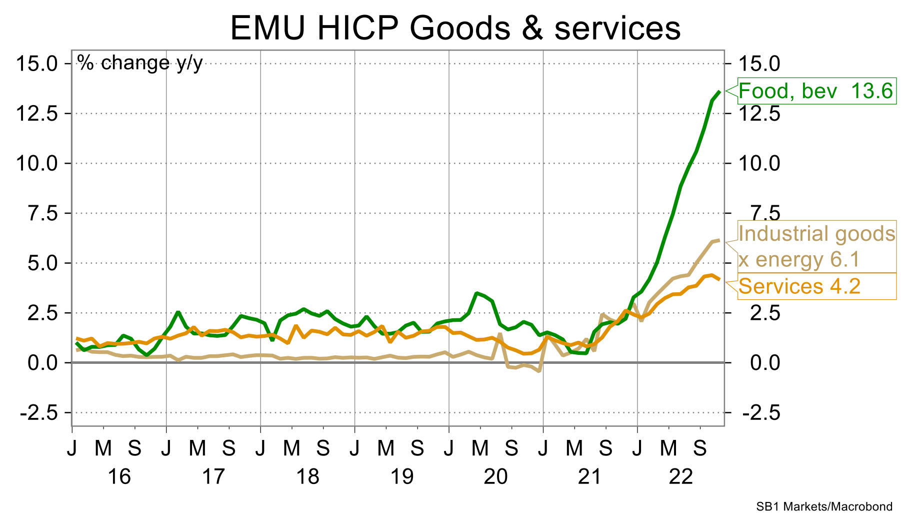
- Gas prices have fallen sharply over the past couple of months and it is finally visible in the CPI as well. However, future contracts have inched up recently, as the winter arrived, so while we may still see falling energy prices in the CPI in December, it is not a given
- Food prices rose 0.9% in November, more or less in line with price hikes recent months – and they are up 13.1% y/y

Inflation is broad based – everything is above a 2% path since 2019!

Food inflation at 14%, industrial goods x energy at 6.1%, and services 4.2%. The target? 2%...



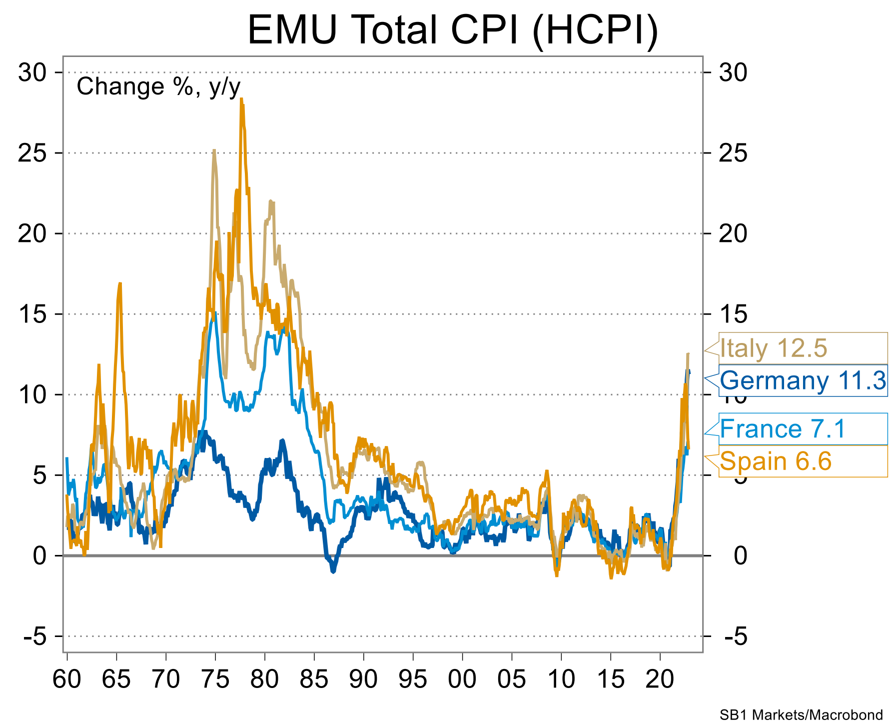


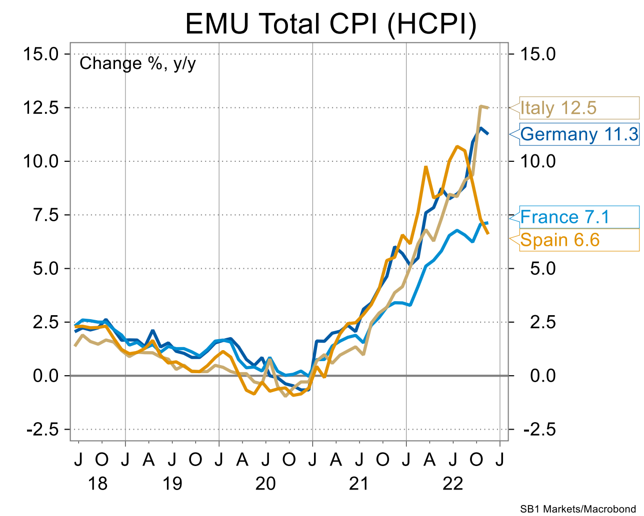


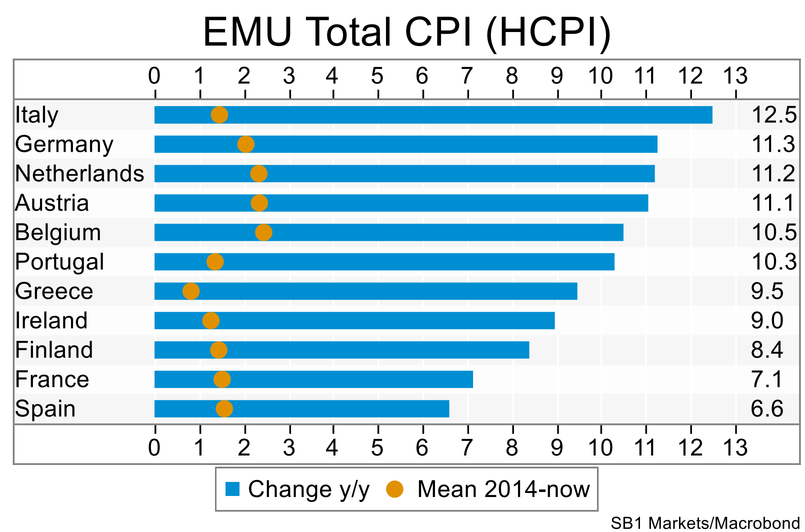
- **Industrial goods** prices increased 0.6% in November, and are up 6.1% y/y. And now, these prices are well above a 2% path since 2019
- **Services prices** gained 0.4% in November as well, and these prices are also above a 2% path vs the 2019 level – they are up 4.2% y/y. Transport and hotels/restaurants have contributed on the upside last year
- (No further details in the preliminary HICP report)

Inflation is high across the union, but has peaked in all of the big 4 countries

Headline inflation in Spain has come down to 6.6% from 10.7% at the peak – still a ways to go though



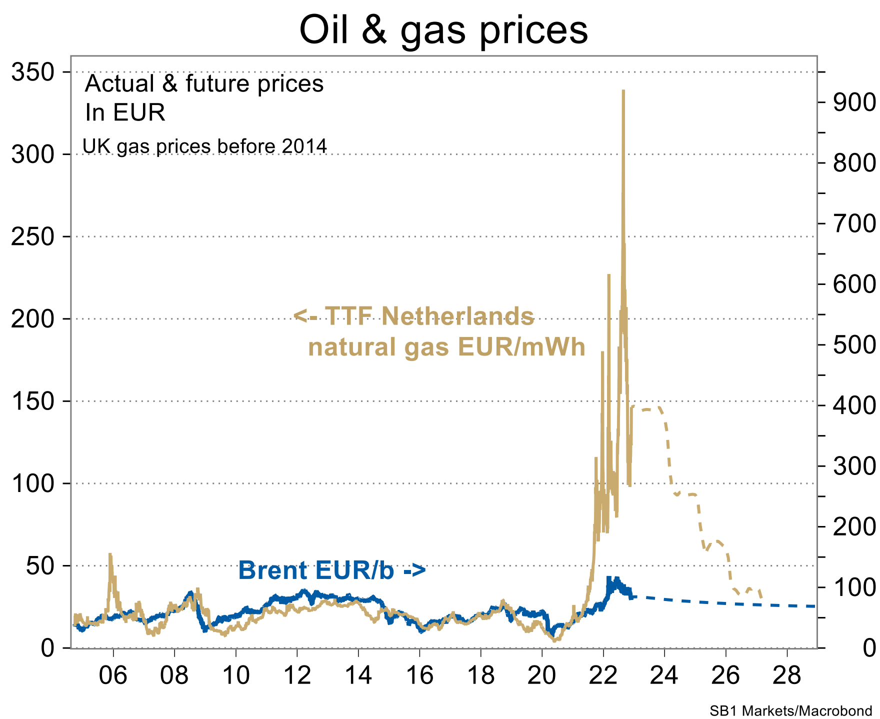


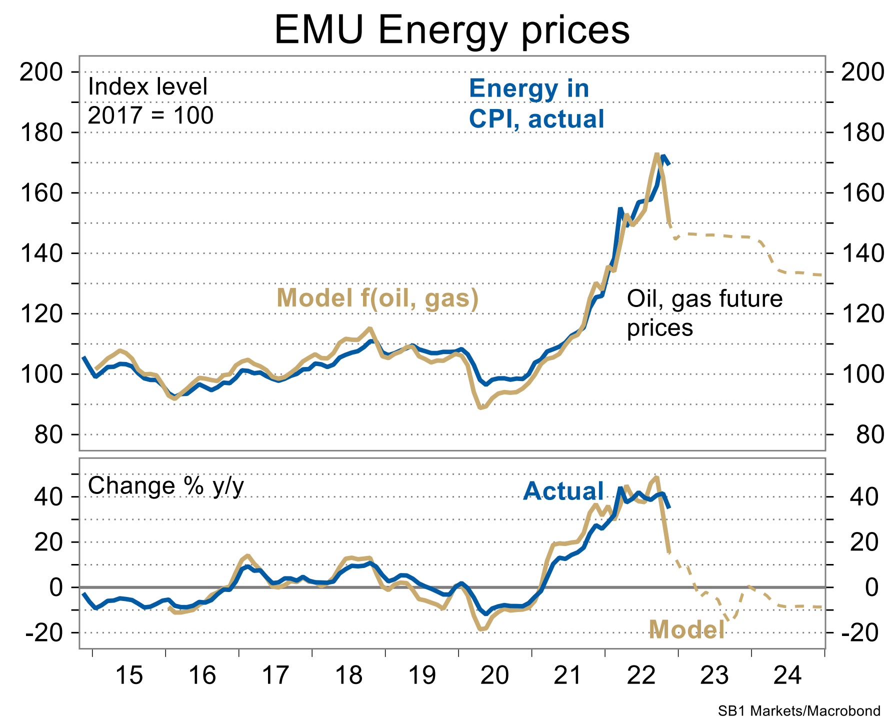


- In fact, the Spanish CPI (HICP) fell for the 2nd month in a row (m/m), and the German CPI also surprised on the downside in November
  - The Italian CPI print, albeit lower than in October, was 0.5 pp higher than market expectations
- In Germany, CPI fell 0.5% m/m, while the market expected -0.2%, bringing the y/y rate to 11.3% - still a very high print in a historical perspective, and miles above the ECB target of 2%

Gas, oil prices moderated and energy prices are now up 35% y/y

…compared to +41% y/y in October. However, futures prices have inched up somewhat over the past couple of weeks

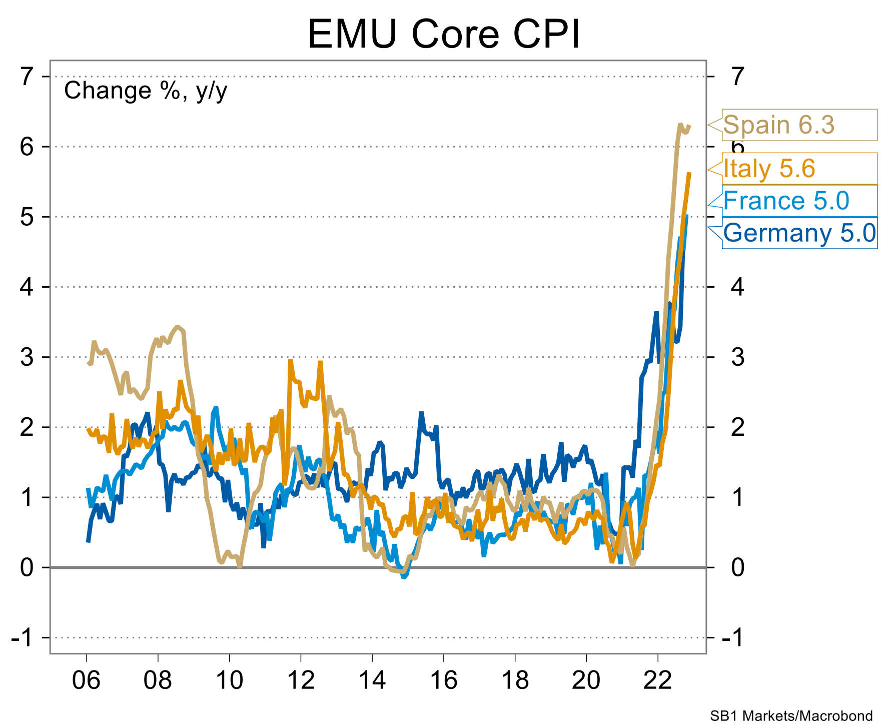


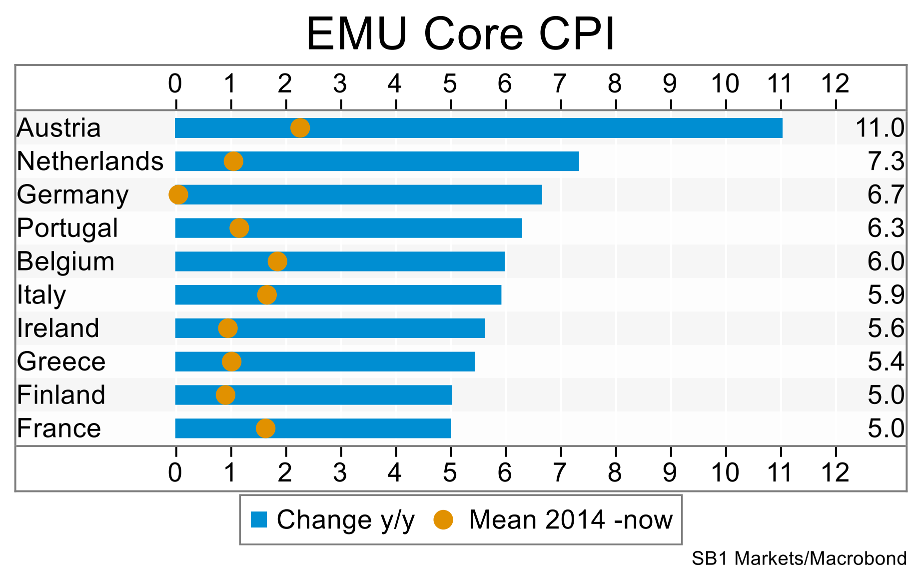


- Gas prices have fallen sharply past two months from the peak, both in the short and the long end of the price curve, but have moved slightly in the ‘wrong’ direction lately
  - Our model suggests a larger decline in the energy component in the CPI than the small decline the materialised in November
- Early next year, energy prices will be down, measured y/y – even after the current surge.
  If the market got it right this time …

Core inflation is, of course, above the 2% target everywhere as well

…putting pressure on the ECB

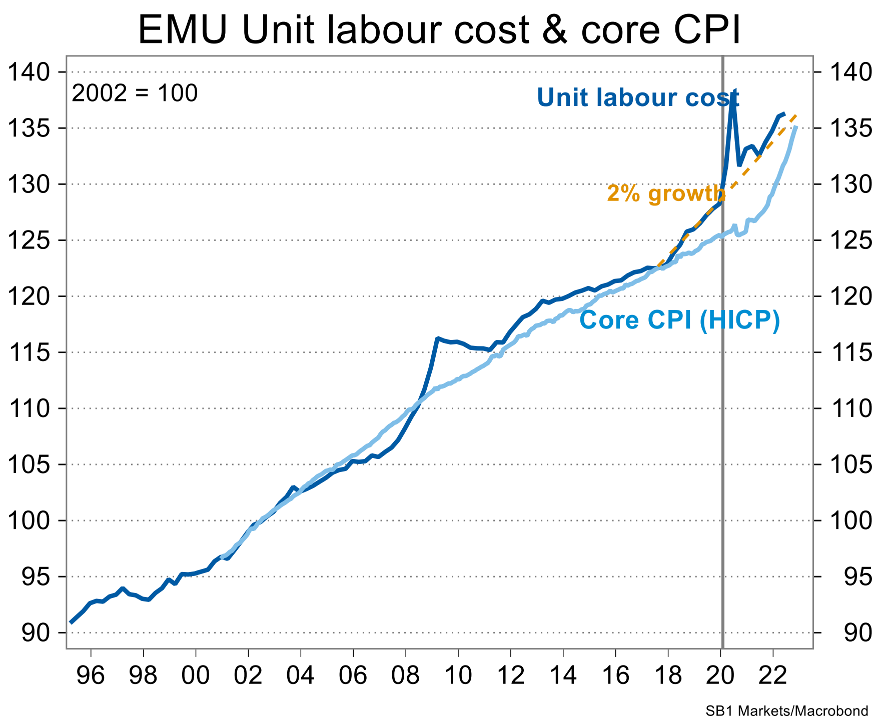




- On this page: The last obs. is partly October, partly November

Unit labour cost inflation suggest limited risk to inflation, over time

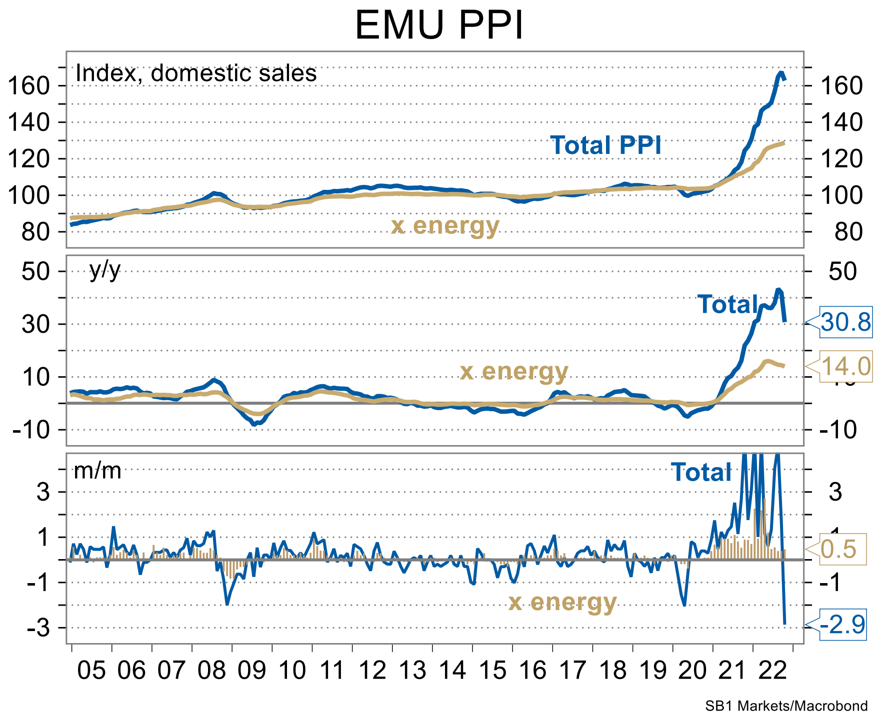
Wage inflations is moderate, and ULC is up at a pace just marginally above 2%

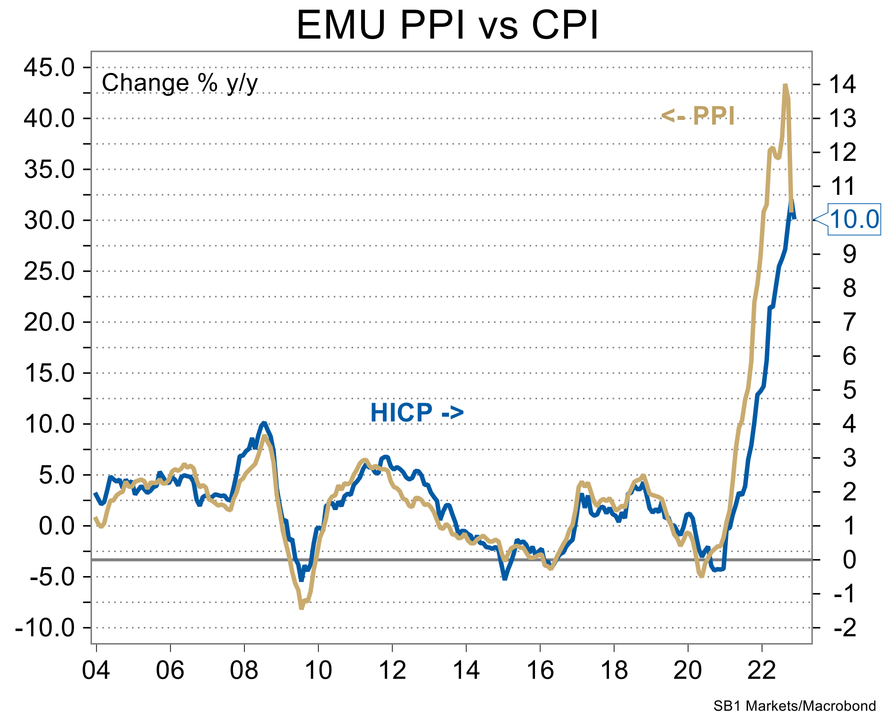


- **Unit labour cost** (labour cost per unit produced = wage cost/production volume, growth in UCL= wage growth – productivity growth) has jumped up during the pandemic as productivity fell because employment was not cut (as in the US)
- On the other hand, in the 3 years before the pandemic – and through the pandemic so far – ULC has accelerated to 2% from 1%. The 1% growth in unit cost corresponded to the long term growth in core rate of inflation at 1%, well below ECB's 2% target – and a 2% ULC inflation will <u>over time</u> yield a 2% CPI inflation

Producer prices fell in October, and PPI x energy has peaked too

The total PPI fell 2.9% m/m in October, even if the core index added 0.5% - energy prices fell

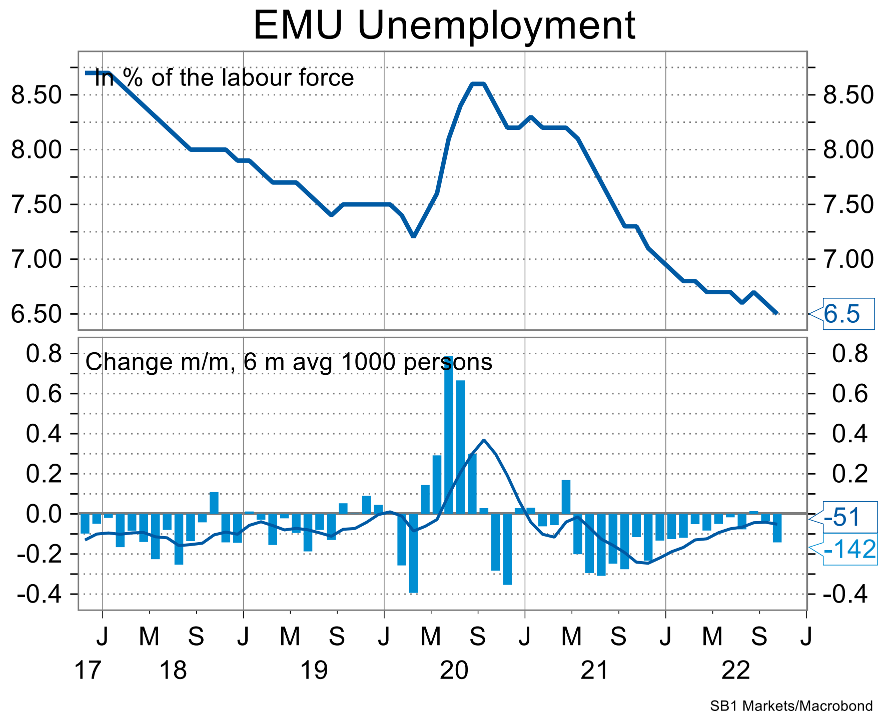


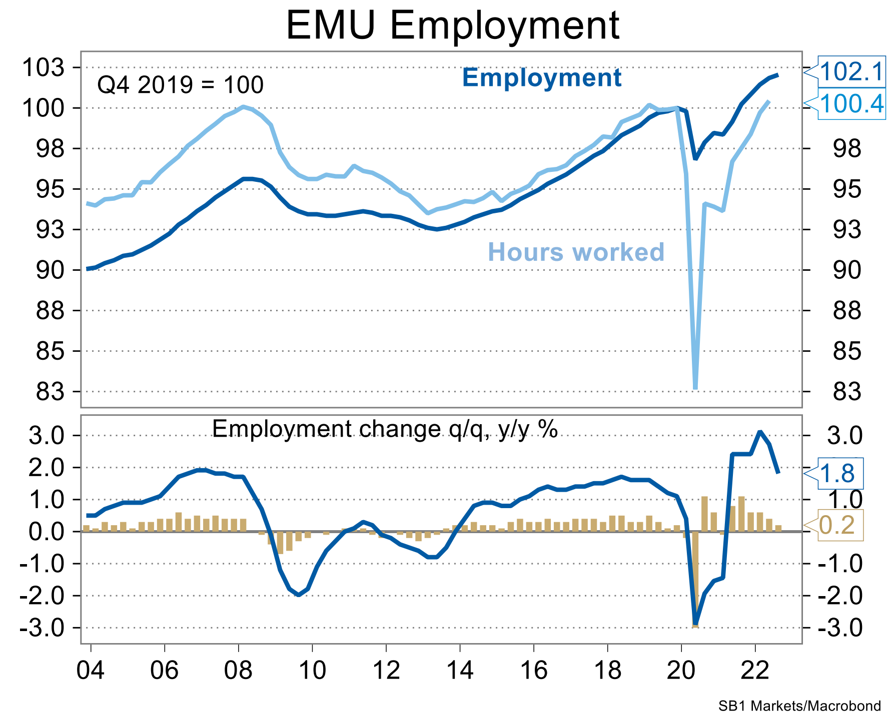


- PPI was up 31% y/y, all included, down from 42% in September. PPI x energy was down 0.5 pp to 14.0% y/y
- No guarantee that energy prices cannot rise from here, and they did rise somewhat in November, but the PPI, both the total and the core annual growth have likely peaked, and the CPI will come further down in the coming months

Unemployment lower in October – at the lowest level since 1980 at 6.5%

The no. of unemployed fell again – but will soon turn up?

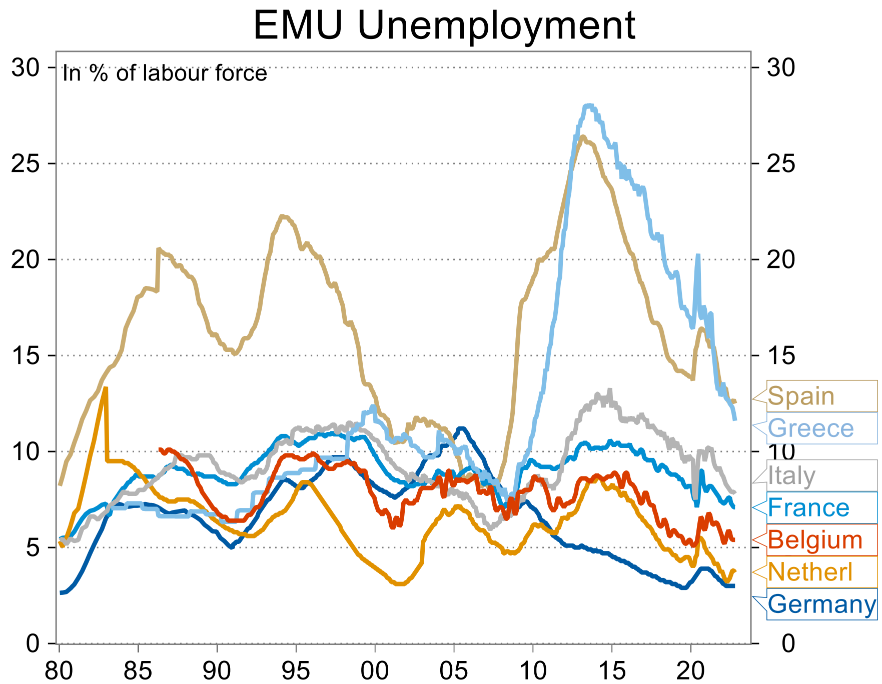




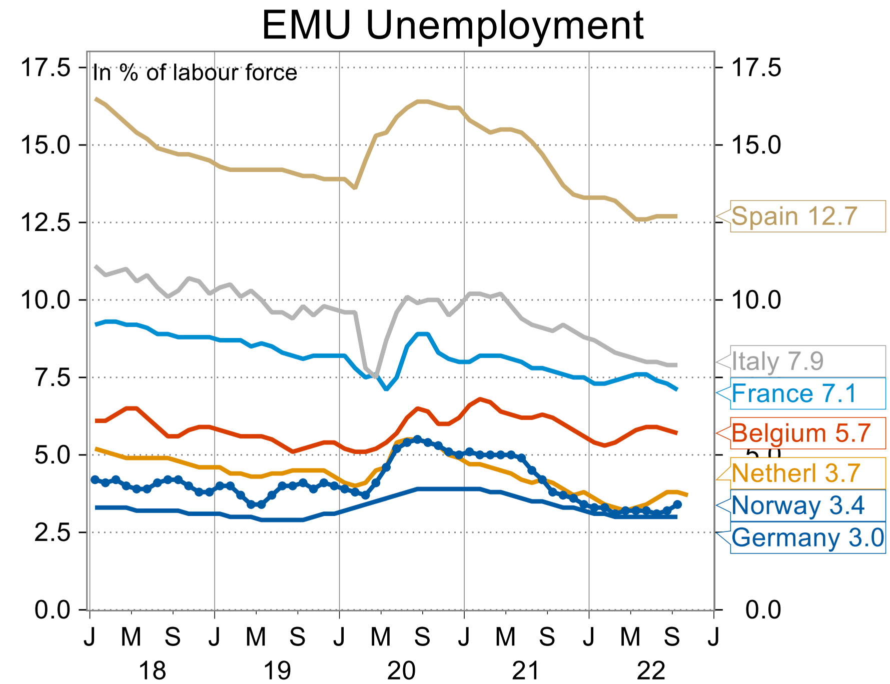
- **The unemployment rate** was expected unch. at 6.6% but surprised on the downside. The number of unemployed persons fell by 142'
- **Employment** grew by 0.2% in Q3 (not annualised). The employment level & the employment rate is higher than before the pandemic
- The number of **unfilled vacancies** are still high, but seems to have plateaued
- The labour market is no doubt still very tight – until further notice
- **Wage cost inflation** has not accelerated but a slowdown in productivity growth has pushed labour cost per produced unit upwards, to somewhat above 2%

Unemployment is lower than average everywhere

Spain has been marginally on the way up



SB1 Markets/Macrobond



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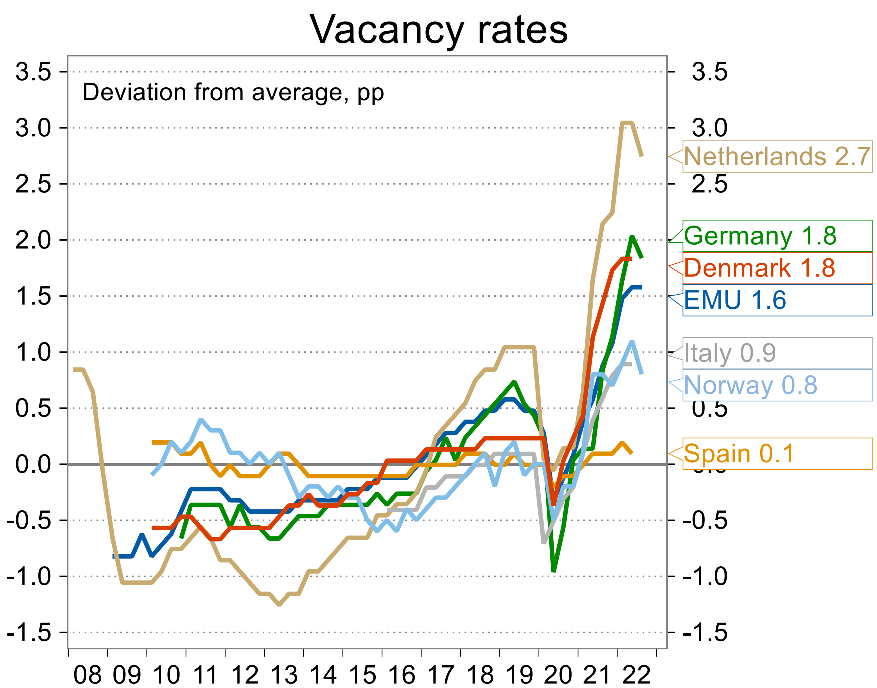
Vacancies seem to have peaked most places



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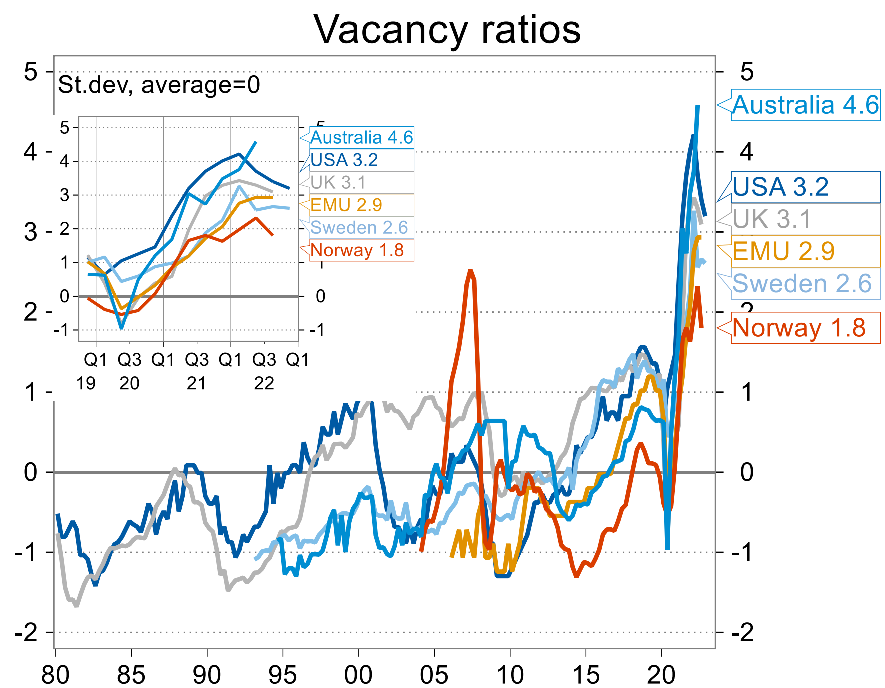

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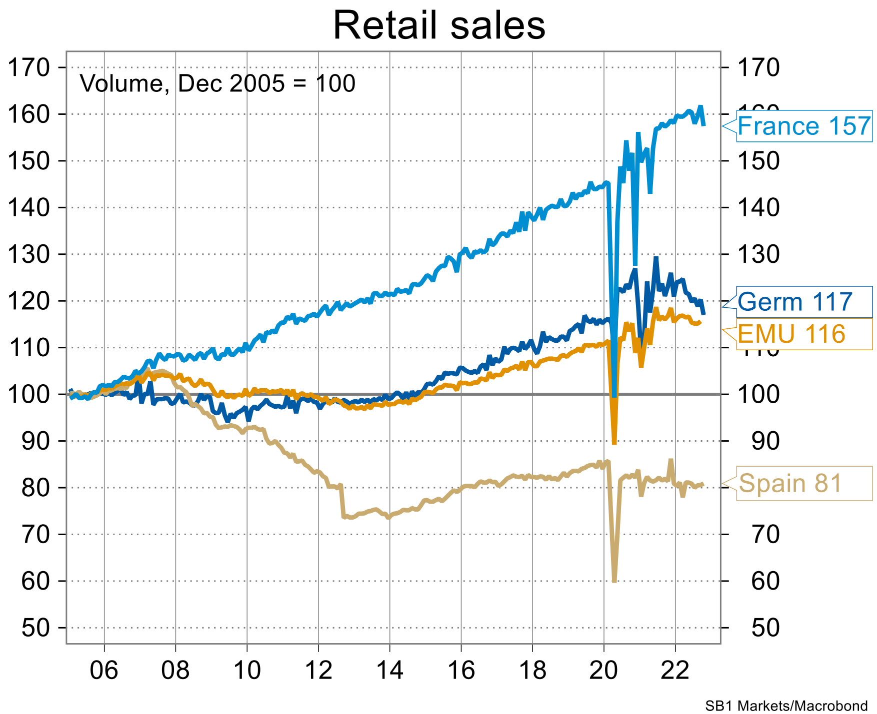
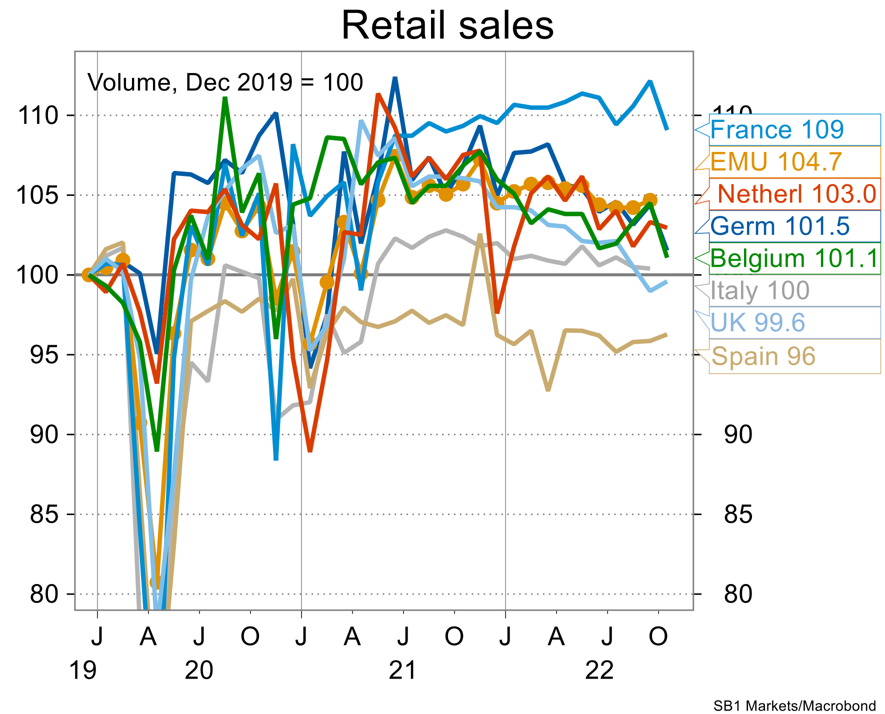
Retail sales surprised on the downside in Oct. Germany down 2.8% m/m

…expected -0.6%. France reported a major fall as well, Spain was up – and Italy has not yet reported

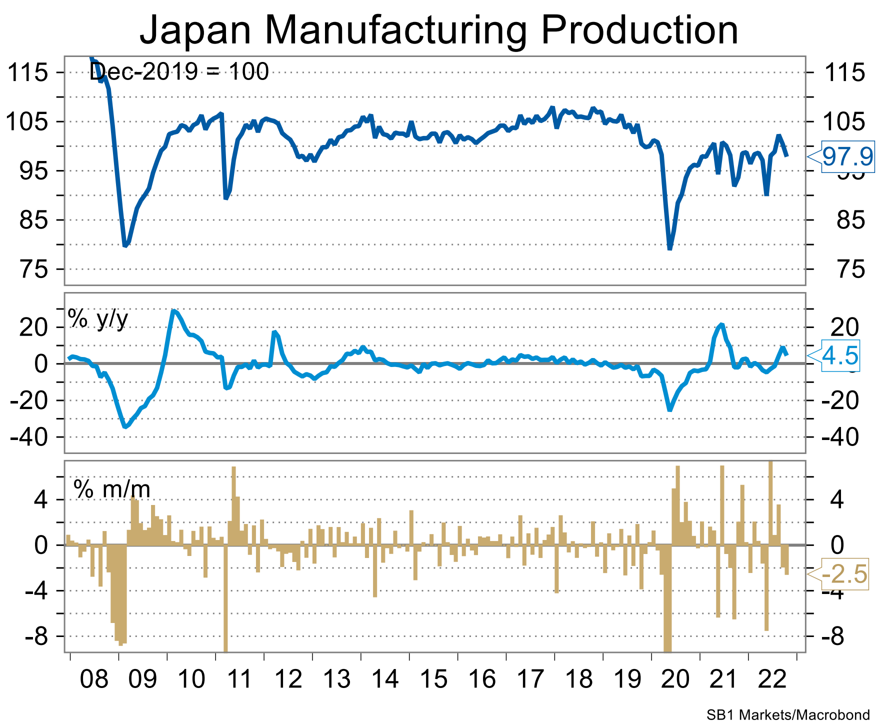


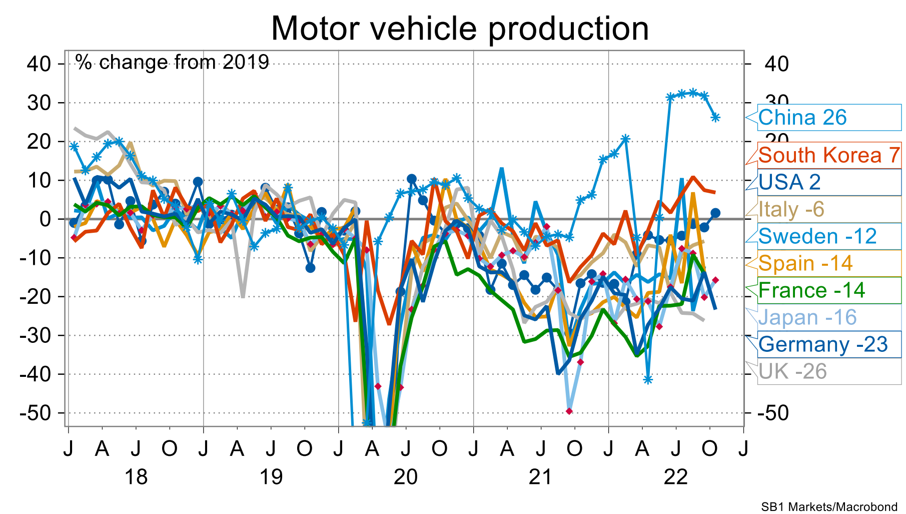


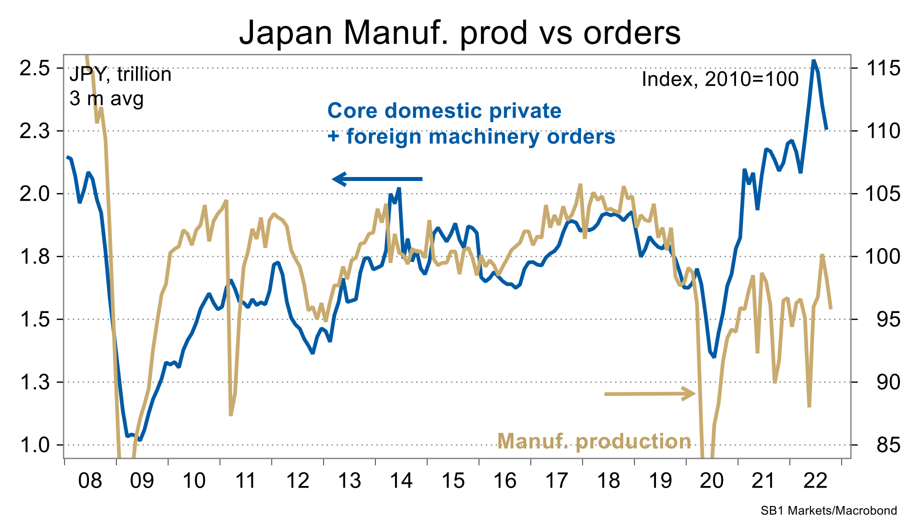
- Sales in the EMU is expected down 1.7% in October, data out today. The risk is on the downside
- Sales are above the pre-pandemic level in most of the EMU – with Spain as an exception (and Italy was unch. based on Sept data)
- France also reported a steep decline in manufacturing production in October (down 2.8% m/m). Is the energy crisis finally hitting activity?

Manufacturing production down 2.5% in October, expected -1.8%

… following the 1.9% decline in Sept – but the trend is still up? Or perhaps just flat



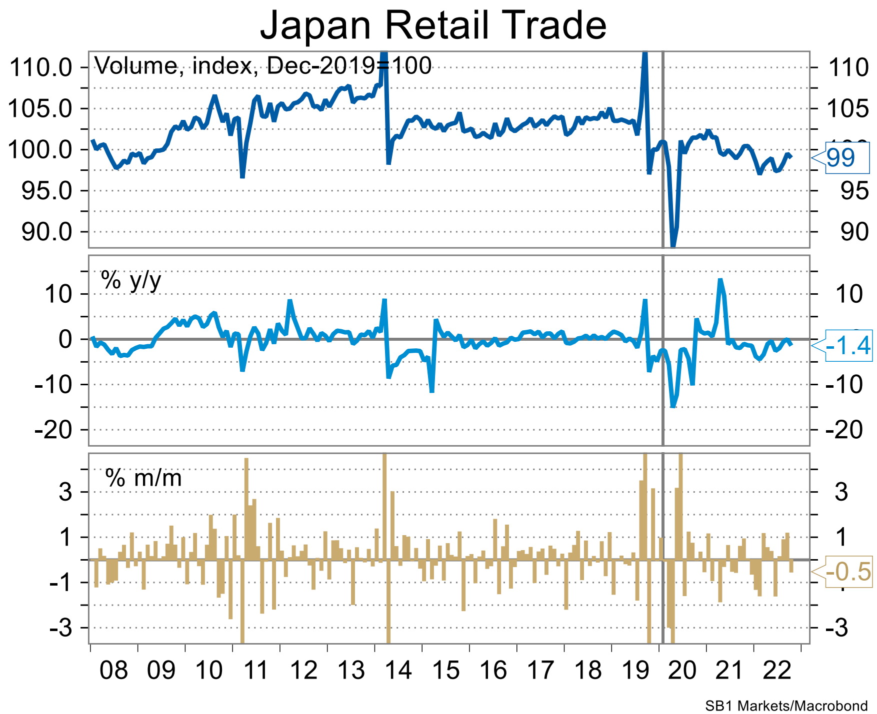




- **Production** has been somewhat stronger past months, than during the lockdowns in May, and the trend is slightly upwards or flat
- **Overall order inflow** has strengthened substantially through 2021, and into 2022. The declining JPY explains at least part of the increase, probably also higher prices. Orders have fallen somewhat past 2 months but remains at a very high level

Retail sales down in October – and the trend is not impressive

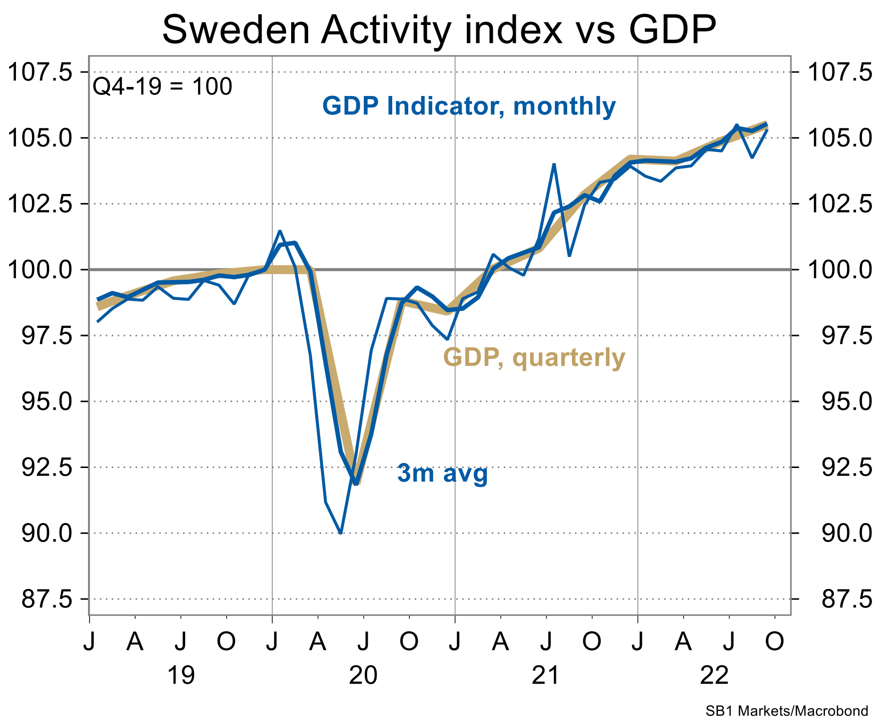
… and the level is still very low. Sales down 0.5%, expected up 1.0%, following the 1.1% lift in September

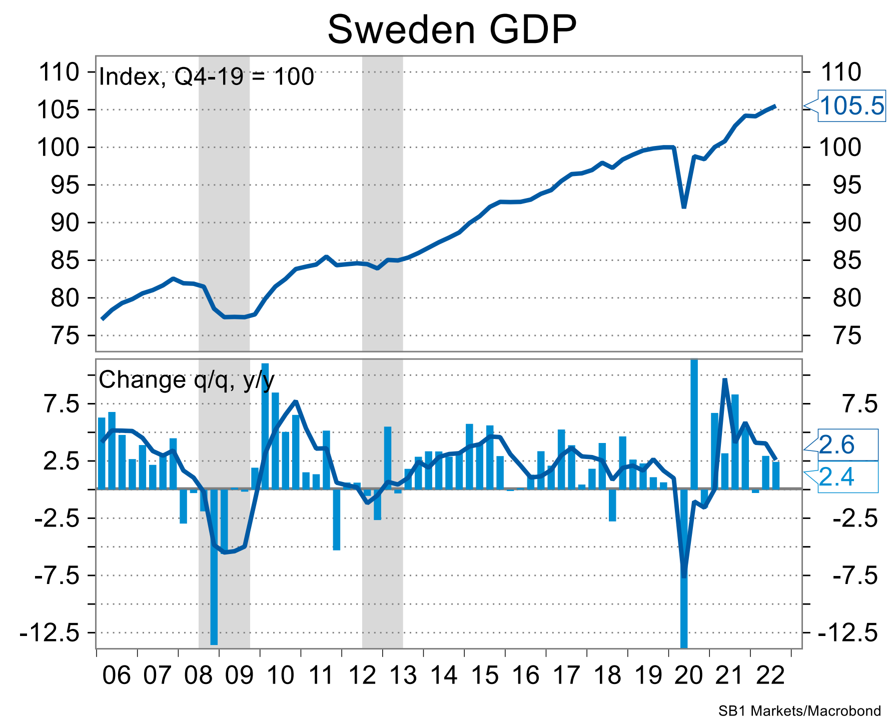


- Sales are down 1.4% y/y, and well below the level in 2019

Swedish GDP grew 2.4% in Q3 a tad less than initially reported

GDP grew 0.6% not annualised, expected 0.7%, which was the initial estimate. GDP is back to the pre-pandemic trend

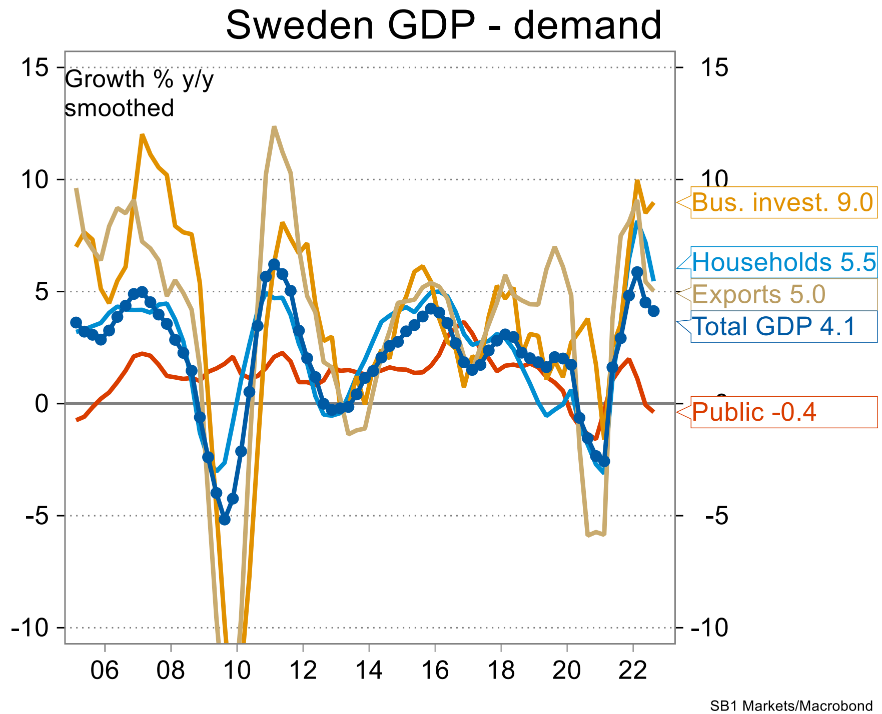


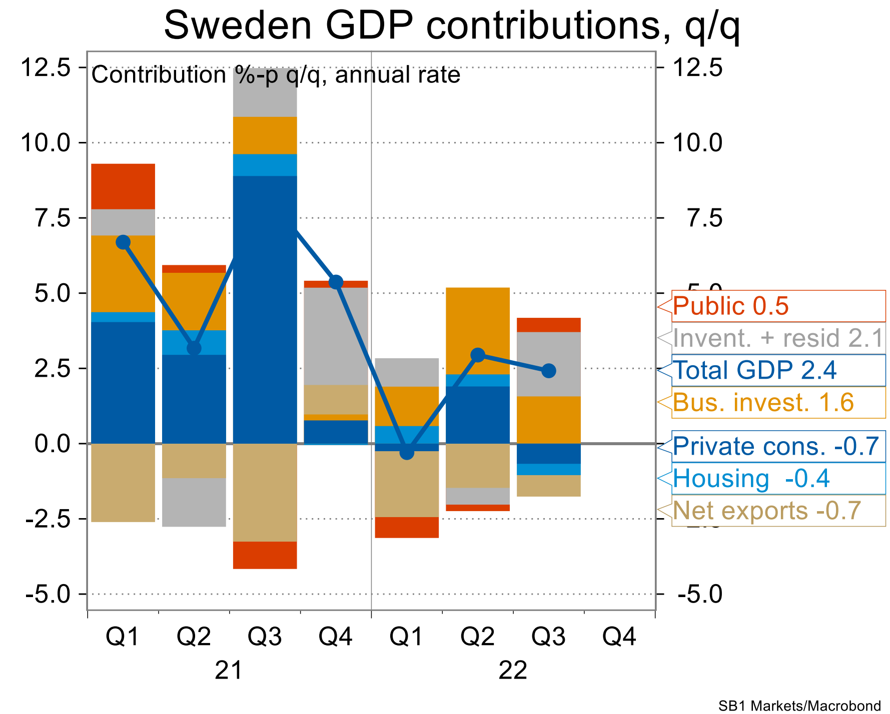


- **The outlook** is weakening, according to Swedish companies. The KI (NIER) survey has fallen to 1.5 st.dev below average, signalling a 2% GDP contraction, check next page

Private domestic demand has been the main driver

… but in Q3, households were slowing down (both consumption and housing) – while businesses continued to invest

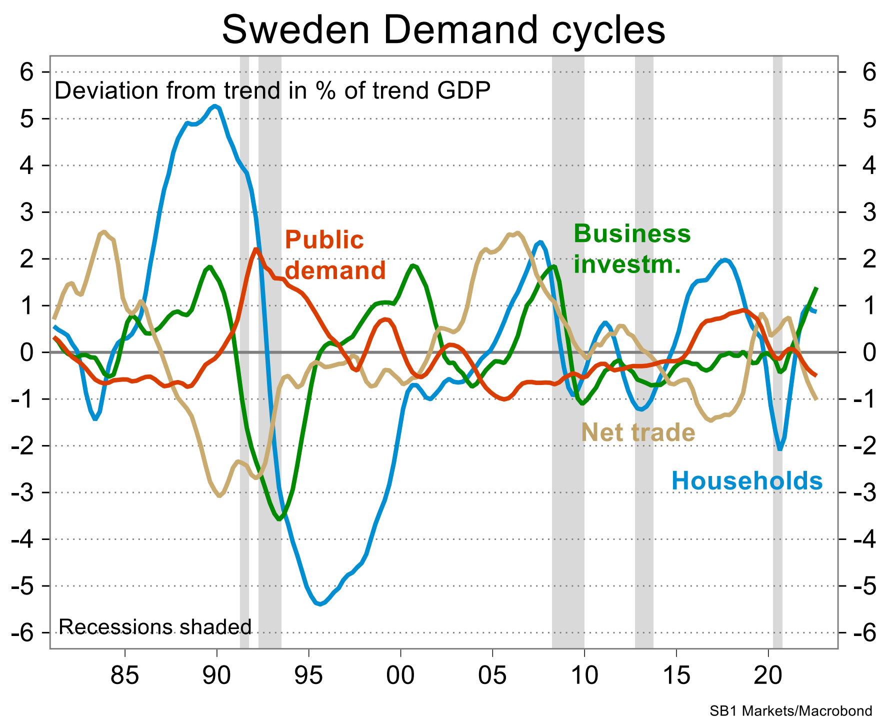


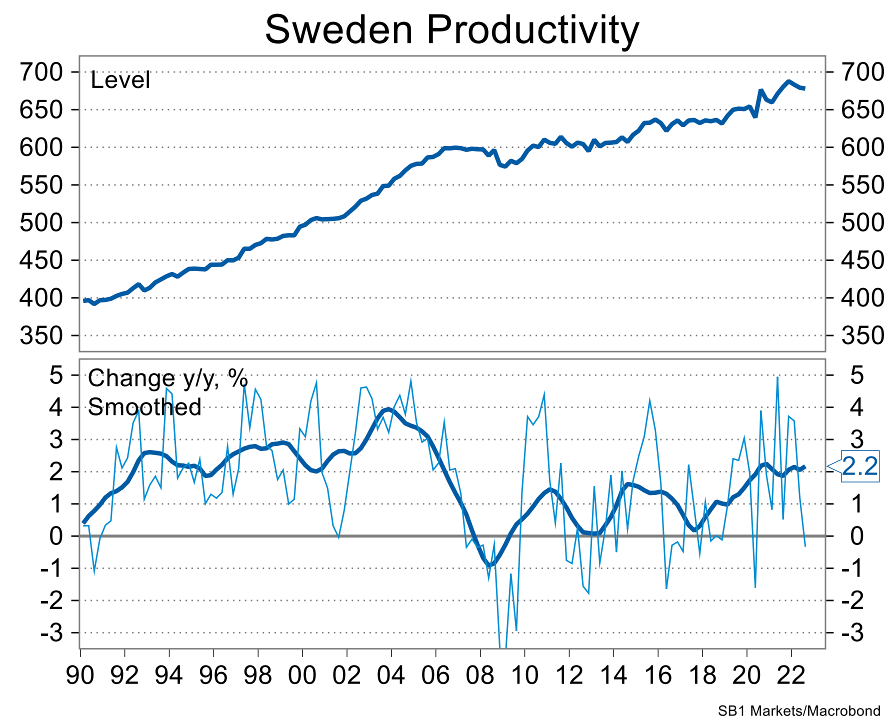


- Net foreign trade has contributed on the downside – and domestic demand has been soaring

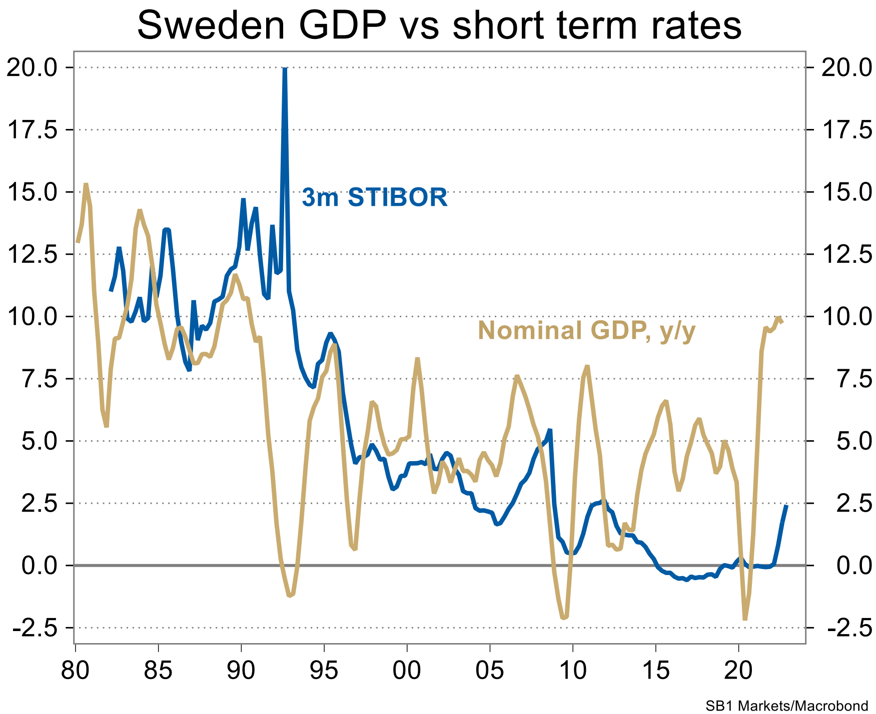
A long term cycle view: Business investment, household demand are exposed

At least, levels are well above long term trends. The best news: Productivity growth is still going strong





Mind the gap


Sweden GDP vs short term rates
20.0
17.5
15.0
12.5
10.0
7.5
5.0
2.5
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80
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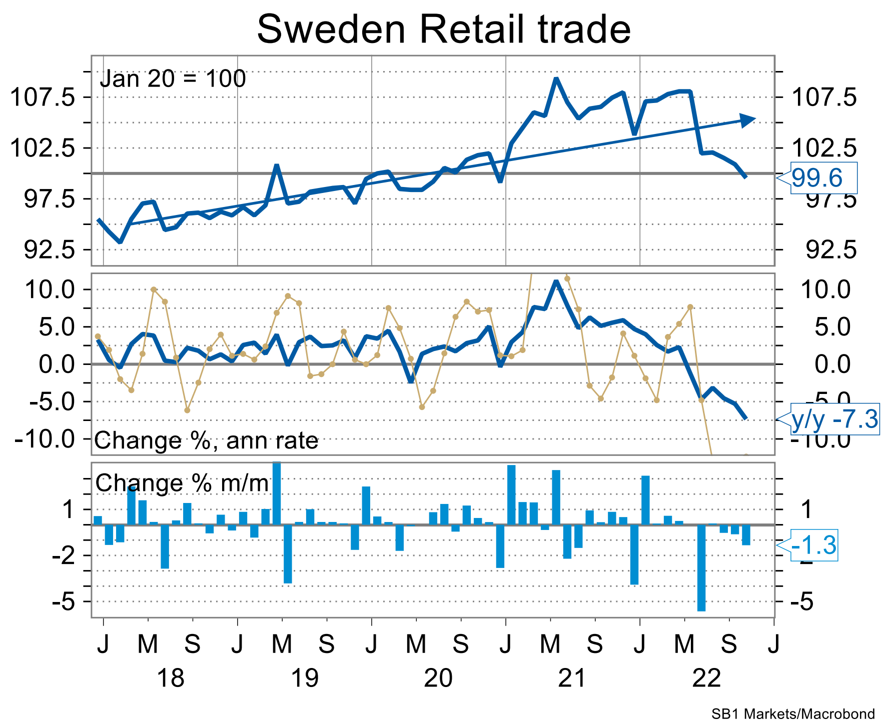
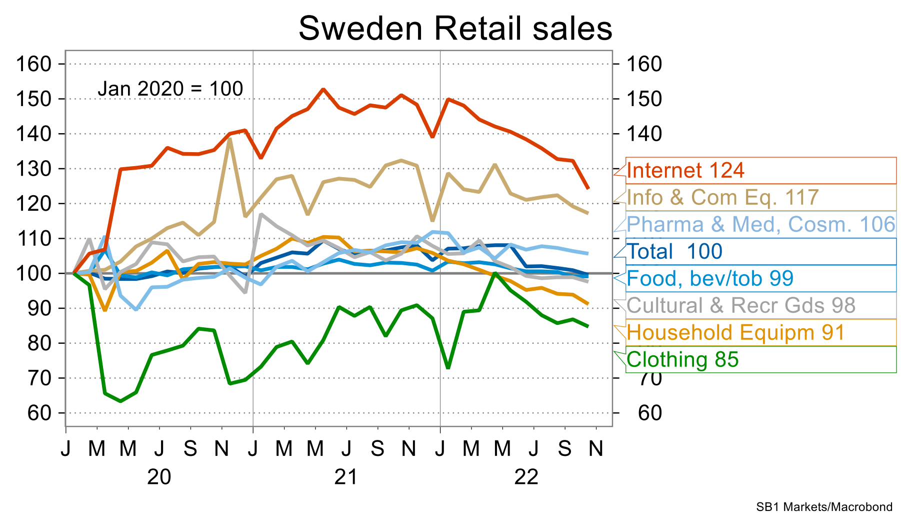
3m STIBOR
Nominal GDP, y/y
SB1 Markets/Macrobond

Retail sales down for the 6th month in October, - 7.3% y/y. All sectors down

Down 1.3% m/m – in volume terms, and 0.4% below than before the pandemic - and well below the pre-pandemic trend



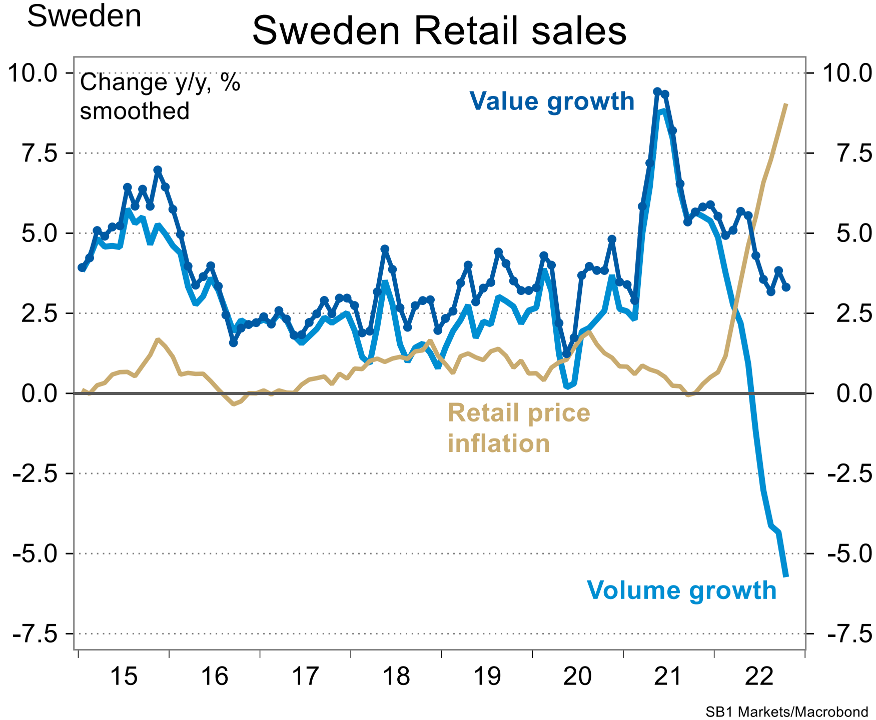


- **Sales fell 0.4% m/m in September**, following the 0.4% drop in August. Sales are down 6.7% from the peak last spring – and the underlying trend is down
- **The fall in retail sales is broad**: all sectors are down from the peak, even pharma. Clothing and internet sales have fallen the most

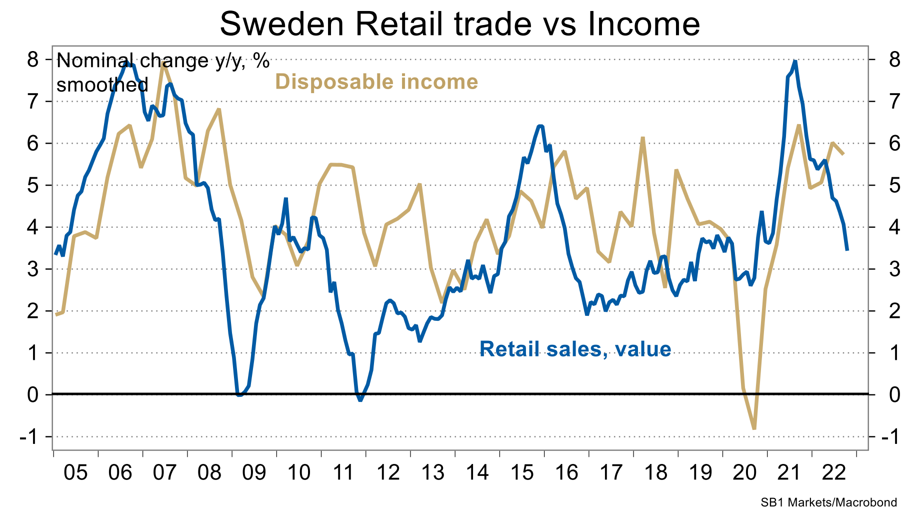
Retail inflation is approaching 10%, but value of retail sales are up just 3%

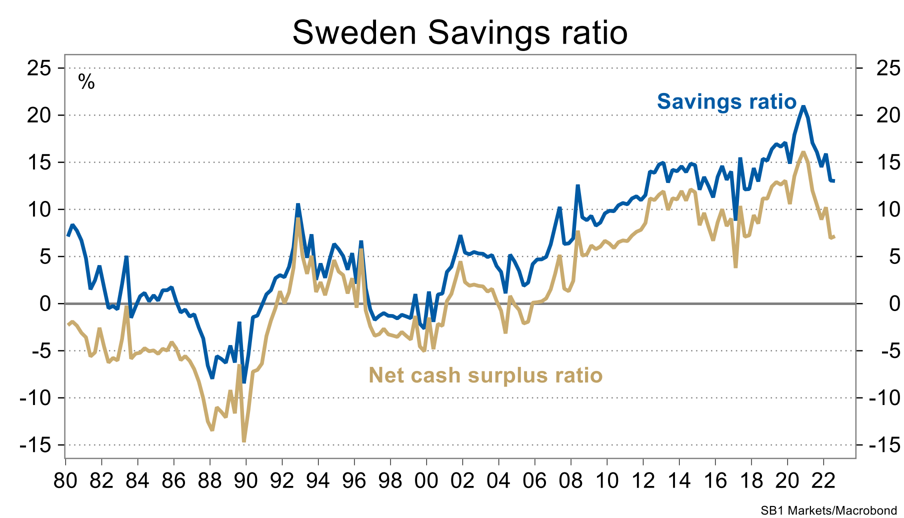
… while houshold nominal household income is up almost 6%

- Sweden



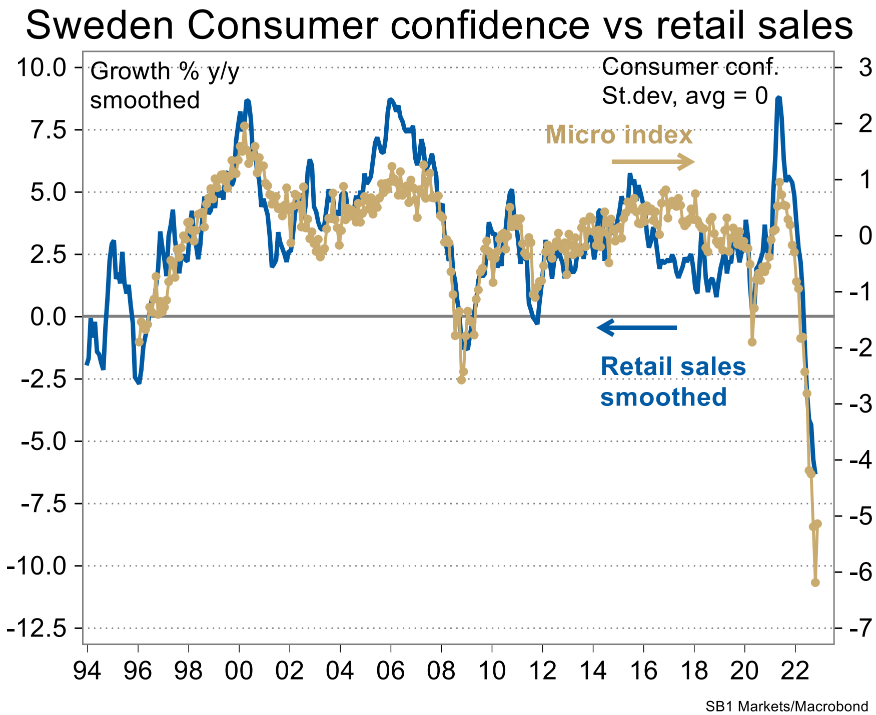
- Service consumption is growing faster, and the savings rate is still declining – but is still far higher than normal

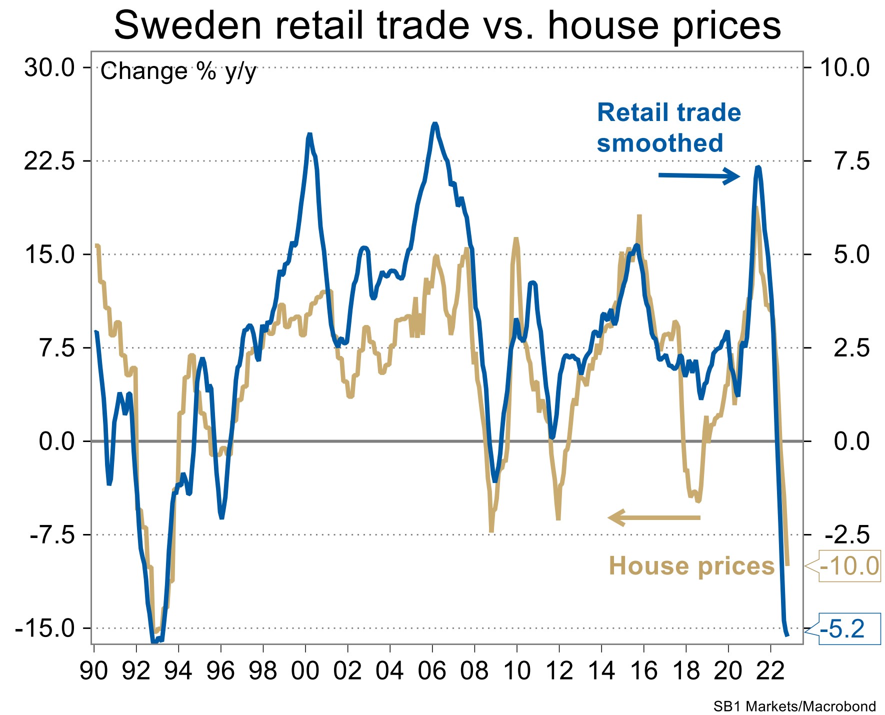




Consumer confidence up in November but still extremely weak

House prices and retail sales down in tandem with consumer confidence

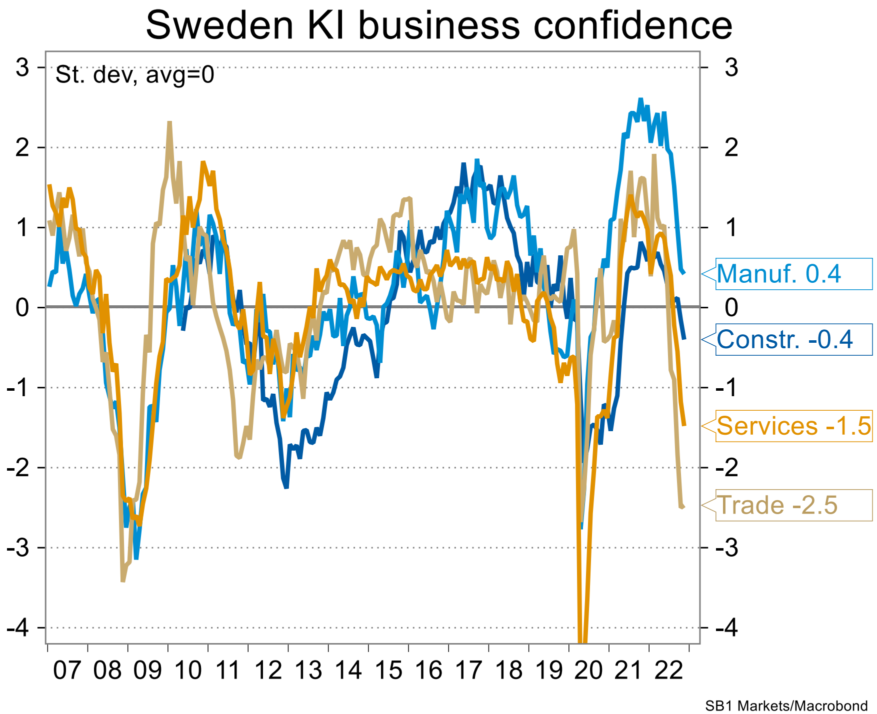


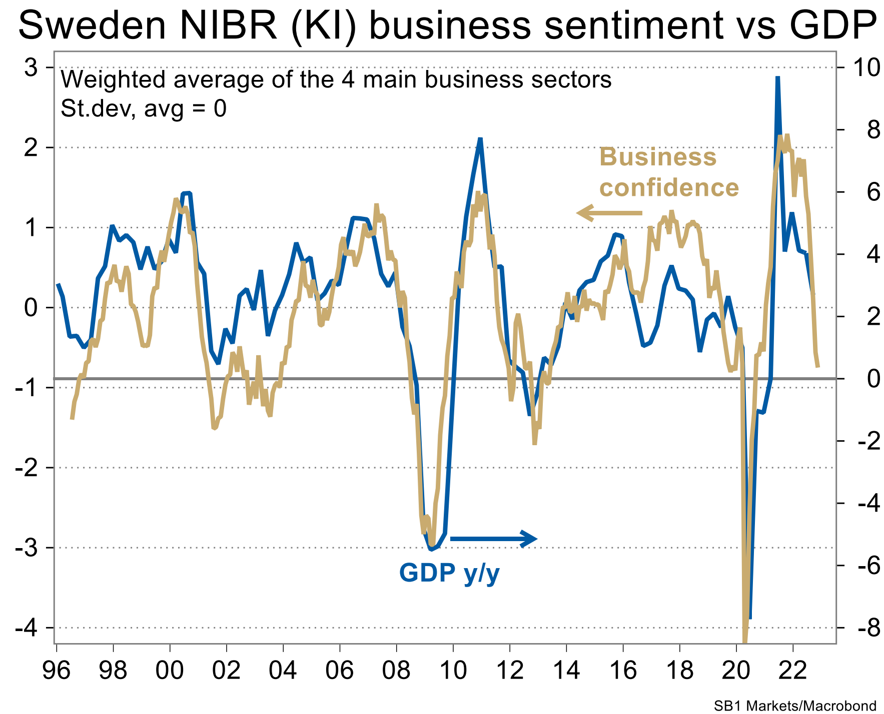


- **Consumer confidence** (the micro index)) climbed to 48.2 in November, a tad better than in September, after the drop to 38.1 in Oct. The increase equalled more than 1 st.dev, but the level is still more than 5 st.dev below average, a rather unusual figure
  - The **macro index** rose but just marginally
  - Both **retail sales** and **house prices** have fallen alongside the decline in consumer confidence – higher rates and high inflation is softening both sentiment and ultimately demand - <u>the outlook is rather bleak</u>

Business confidence fell further in November but is not that weak

Businesses are signalling close to zero growth in GDP – while the Riksbank expects a 2% drop (aka a recession)

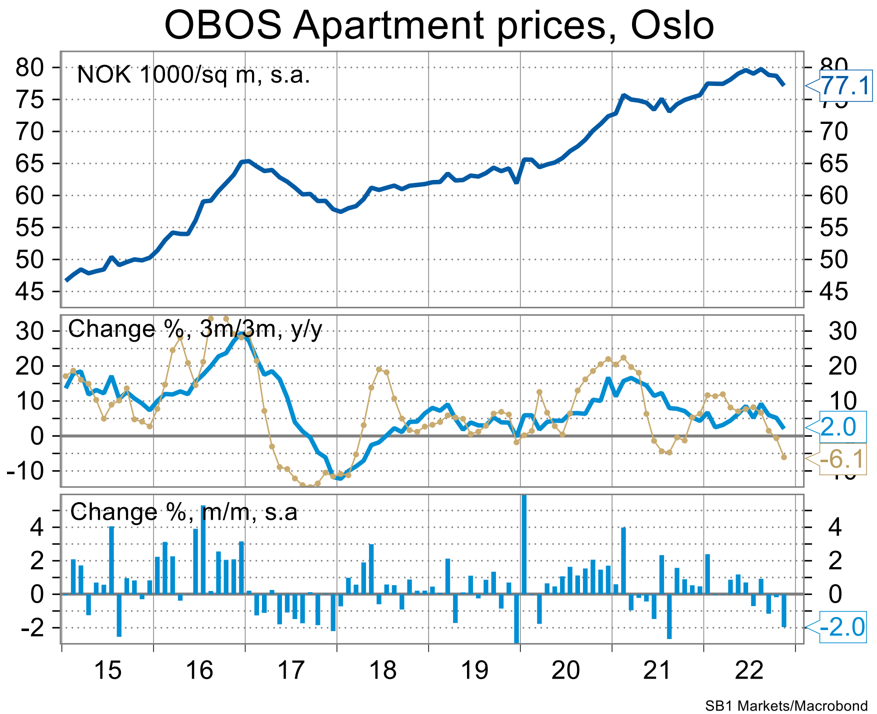


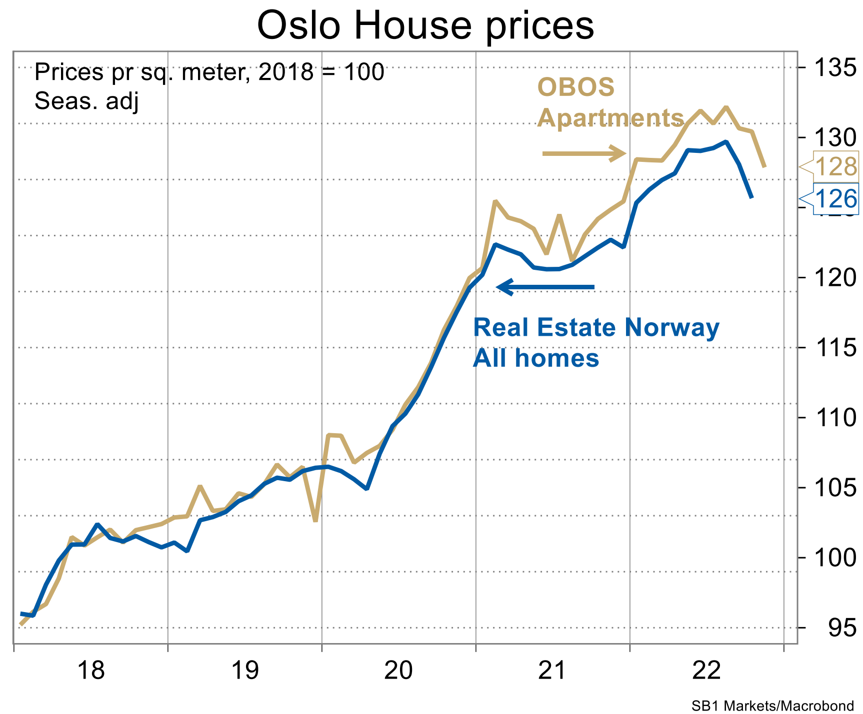


- **The composite index** inched marginally down by 0.3 p to 84.5 in November, probably better than expected – as consumer confidence rose. Most European surveys have flattened recently. The main index is 1.5 st.dev below average, and signals a 2% GDP contraction, down from +2% in August. The Riksbank expects a 1.7% decline Q4-Q2 next year
- However, even if **business confidence** fell, businesses are far less downbeat than households (like everywhere else). The business confidence is less than 1 st.dev below average, thanks to the manufacturing sector, still being above average. The business confidence, which in most countries works best at a GDP predictor, is just signalling zero growth
  - The **manufacturing sector sentiment** has declined over the past months but remains above average. Trade is at the bottom but rose marginally in November. **Services** are at 1.2 st. dev below average

Oslo co-op prices fell by 2% in November. Prices are down by 3.3% since Aug

The overall Oslo market was down by 3.1% through October, November price data out this morning

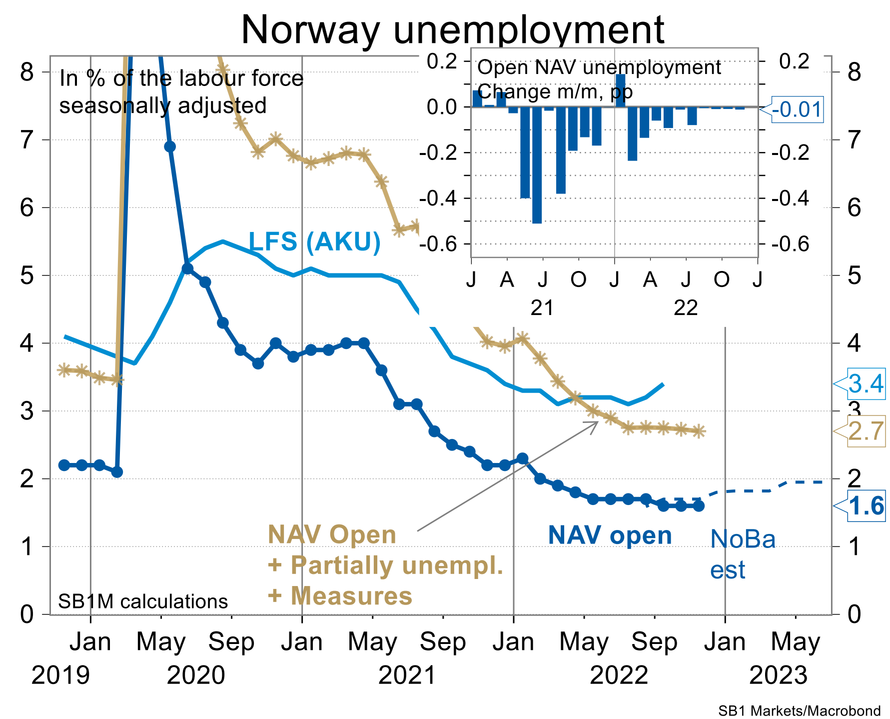


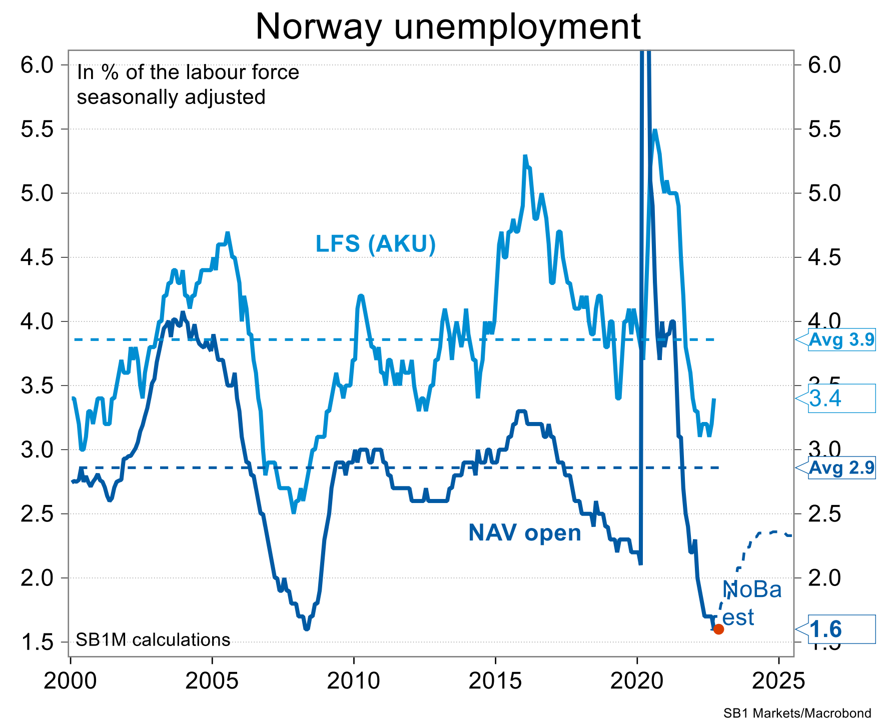


- Thus, the decline in Obos prices in November do not necessarily imply a huge setback in the total market in November (data out this morning) – but we expect a substantial decline in these prices as well
- Obos prices are still up 2% y/y, and the annual rate will very likely turn negative in January (and possibly already in December)

NAV unemployment has not yet turned up

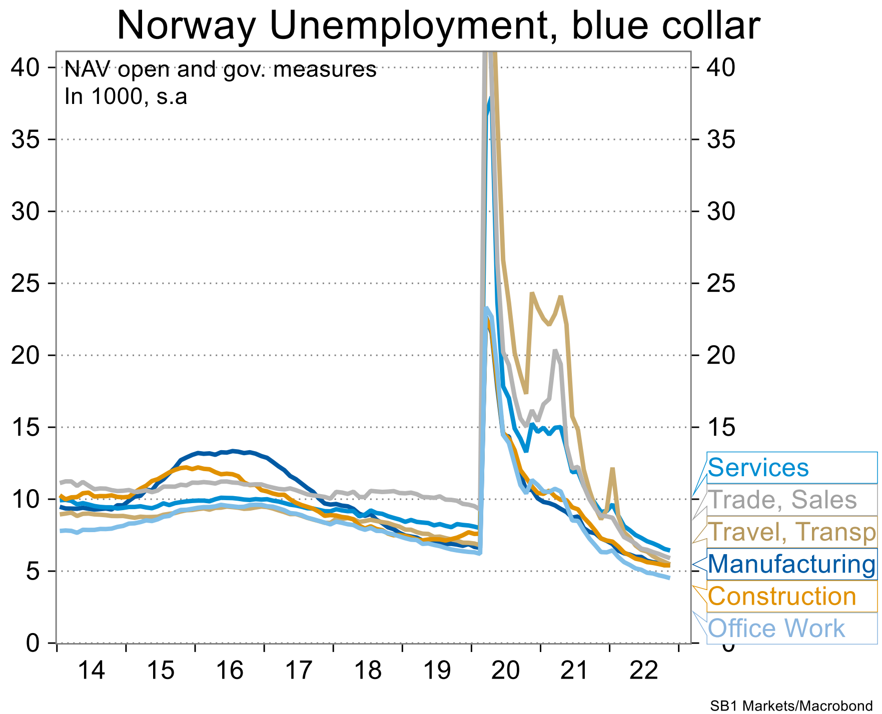
Open unemployment unch. at 1.6%, as exp. but we assumed a small (2. decimal) increase, which did not materialise

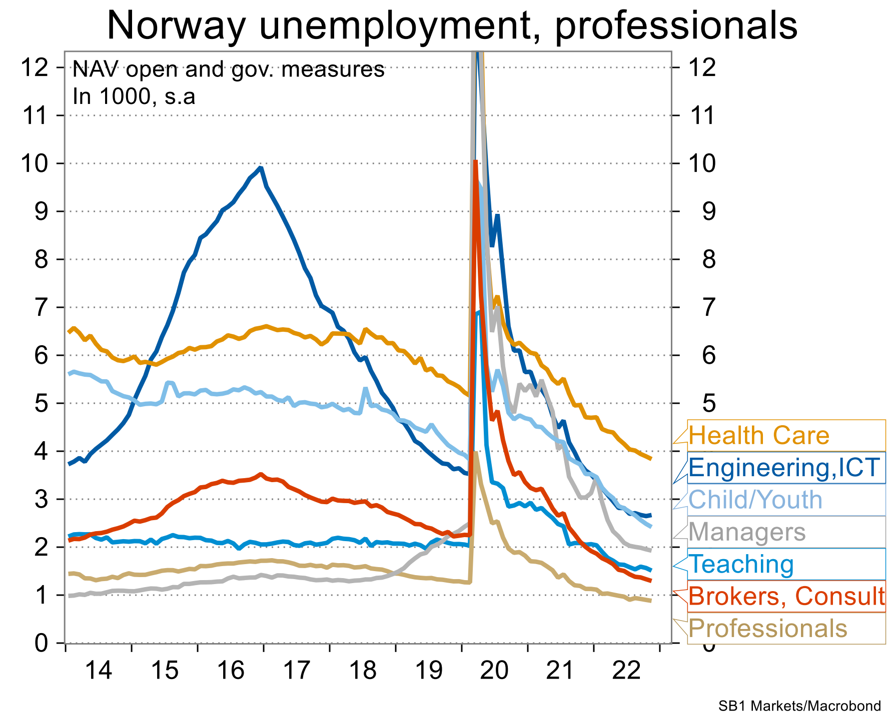




- **The 'full time' open NAV unemployment**, fell by 300 persons in Nov (seas. adj) to 47.3'. We expected a small increase, by 200 persons. The rate was unch. at 1.6% (s.a), equal to the trough before the financial crisis in 2008, and almost the lowest level since 1980, and +0.1 pp below NoBa's estimate in the Sept MPR. Unadjusted the rate was also unch. at 1.6%, as expected. **Including labour market measures**, unemployment fell by 500' persons, we expected an increase. The rate is unch. at 2.0%. **Total unemployment**, including partially unemployed was stable at 2.7%
- The inflow of **new job seekers** is trending slowly upwards, but the level remains very low. The **inflow of new vacancies** rose marginally in Oct, but the trend is down, from the peak before the summer. Even so, the level remains very high. The decline is broad, except for the public sector.
- **The LFS (AKU) unemployment rate** rose 0.2 pp to 3.4%, and LFS employment fell

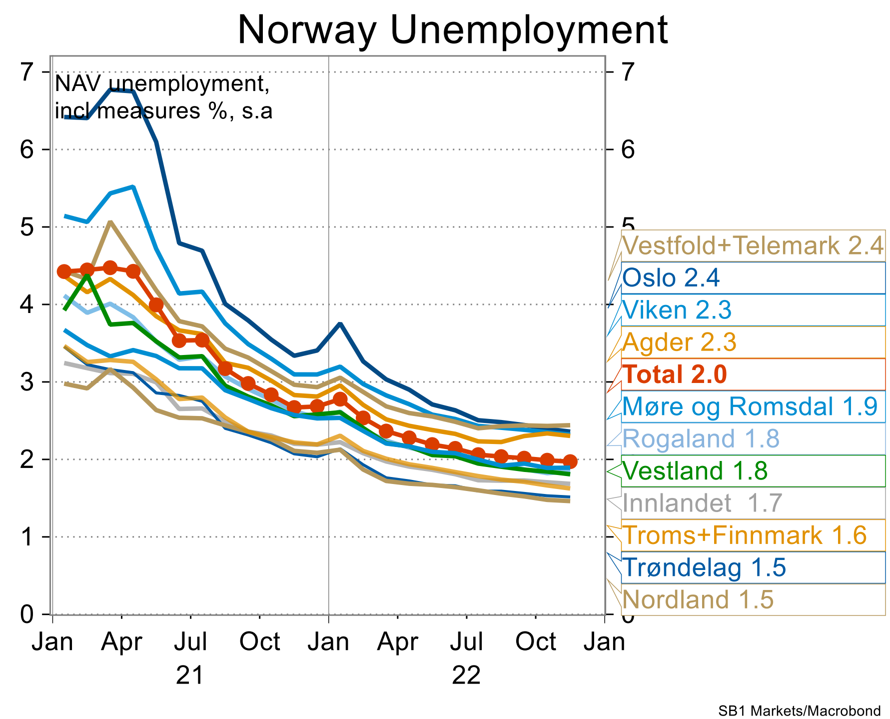
Unemployment is on the way down for all sorts of labour

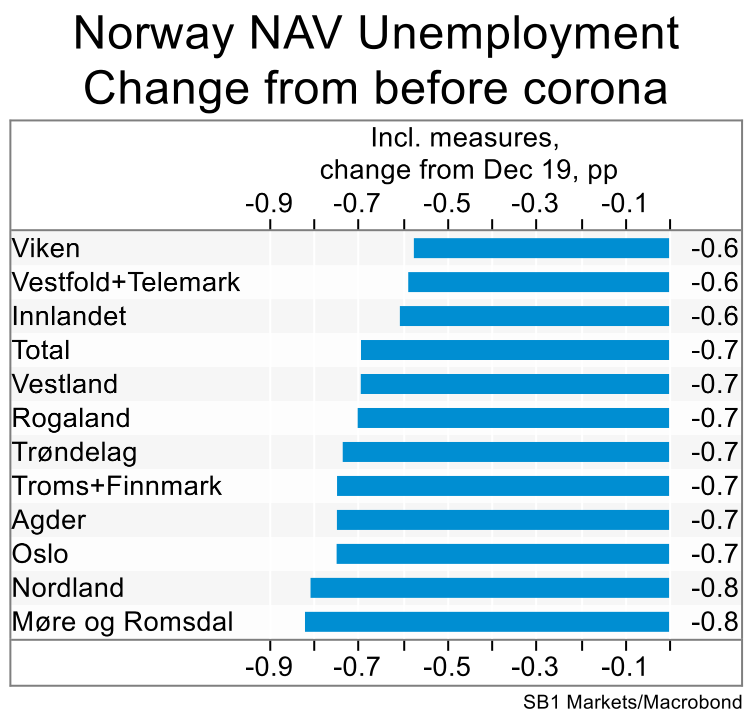




Unemployment is still falling almost everywhere – except for Agder

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

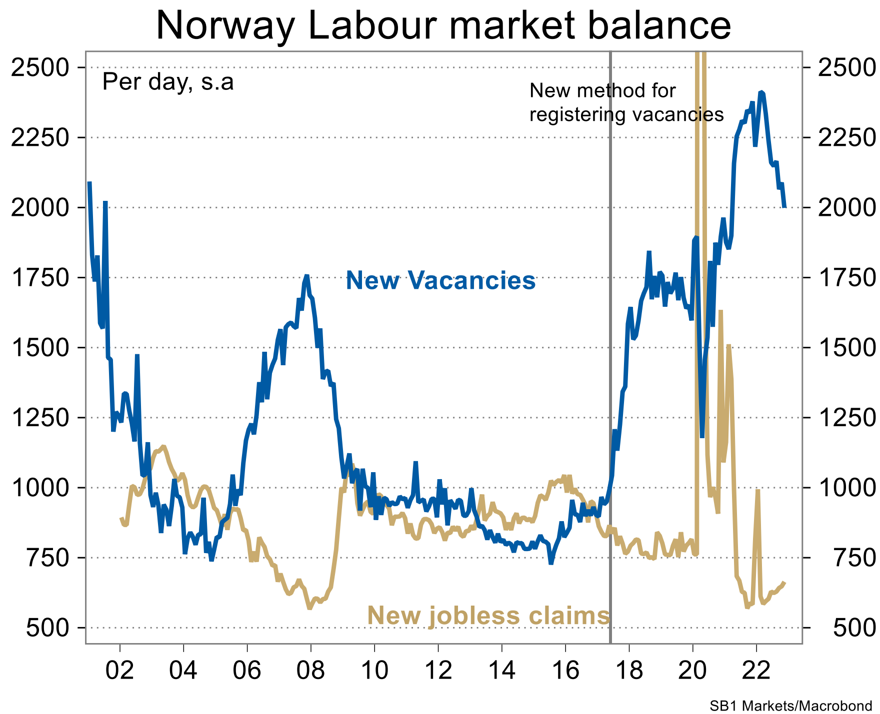


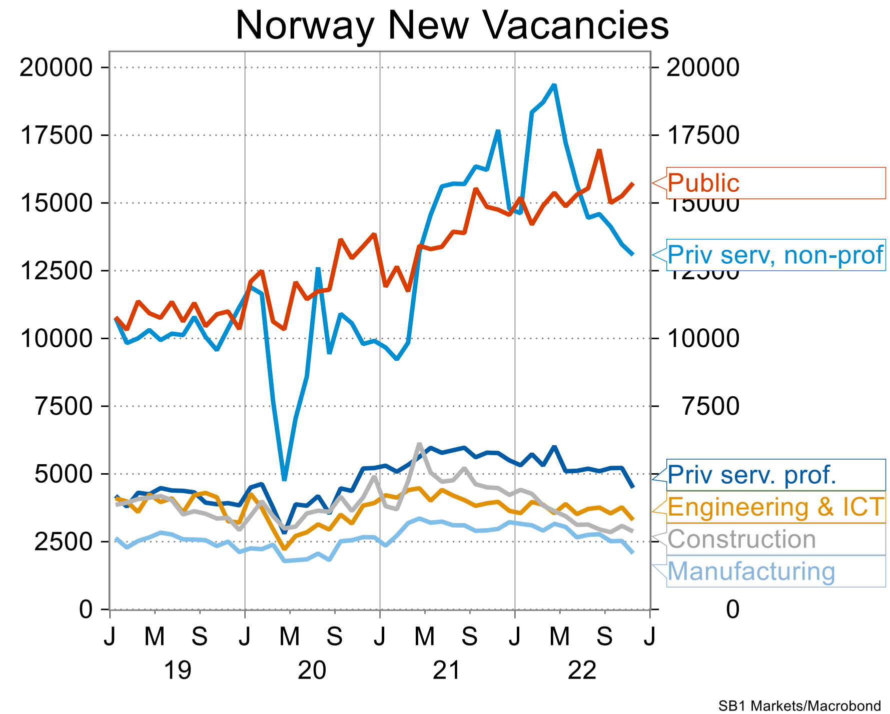


- The unemployment rate in Agder rose marginally in both September and October
- Nordland and Trøndelag at the bottom – Oslo at the top, as usual

New job openings on the way down, but still at a high level. New claims up

More vacancies in the public sector, but demand form the private sector on the way down, broadly

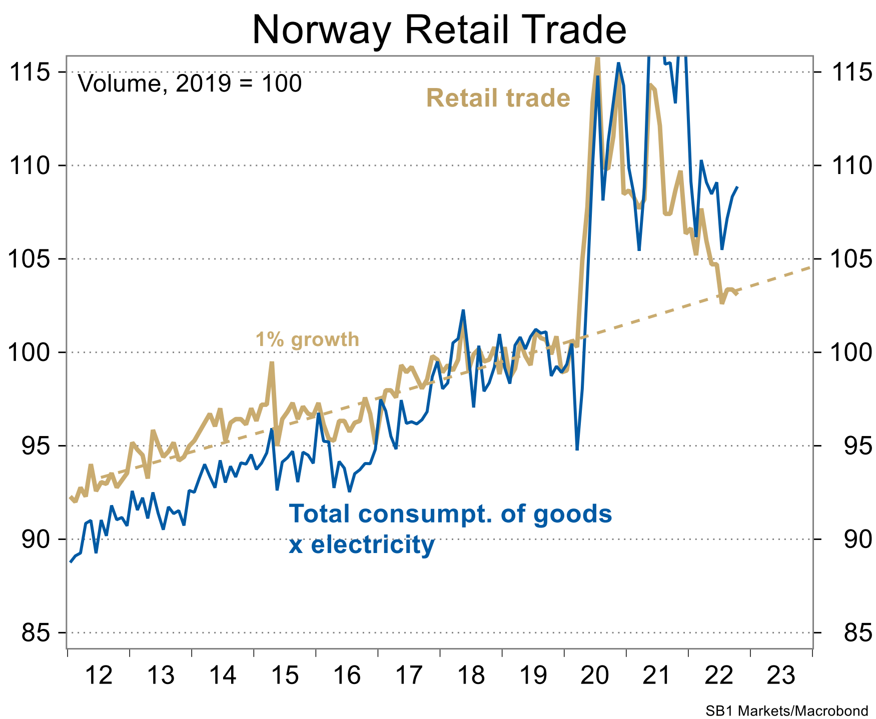


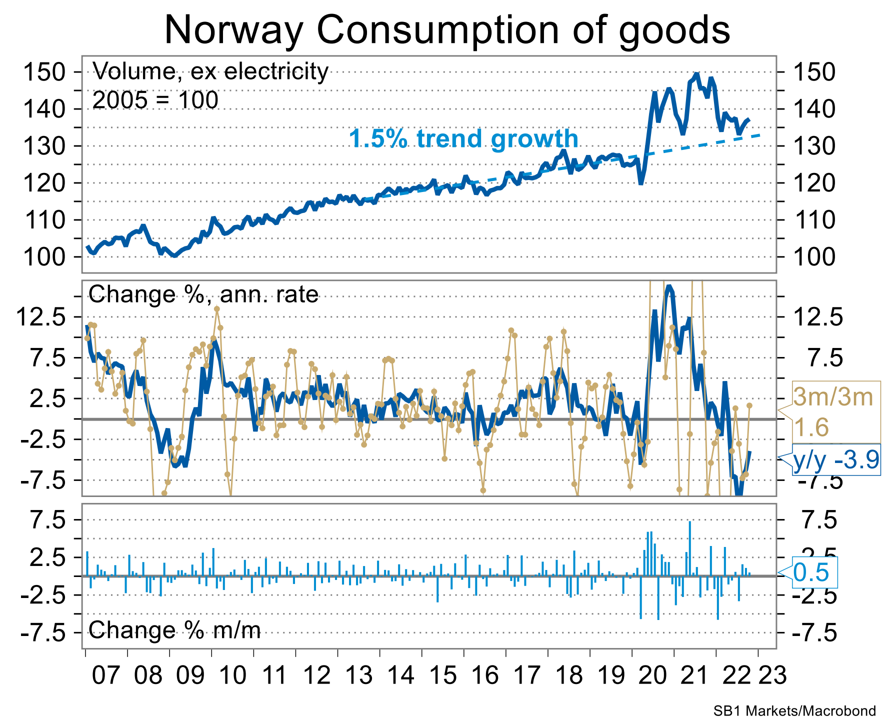


- The no. of new vacancies fell again in November, and the trend is clearly down
- Most sectors have announced somewhat fewer new vacancies recently, like in non-professional private services (hotels/rest, admin support), construction and manufacturing. However, in November, all private sectors reported a decline
- The no. of new jobless claims are slowly increasing but the level is still very low
- In sum: A very tight labour market but the tide has turned

Retail sales down in October

Retail sales fell 0.3% (expected -0.5%, we assumed -1.0%); total consumption of goods was up 0.5%

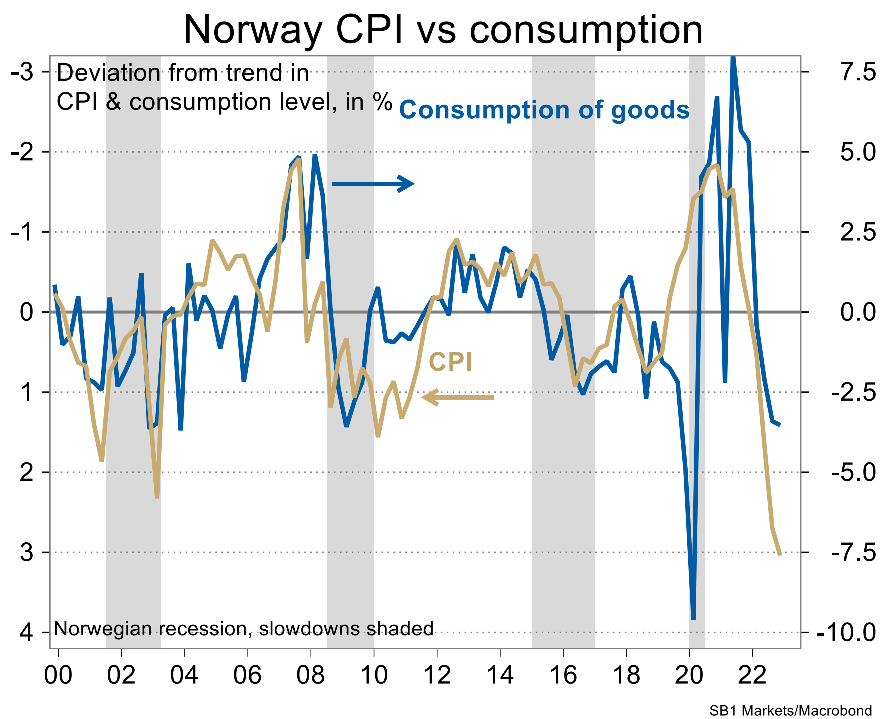




- **Retail sales** have been far more volatile than normal during the pandemic, and monthly data have been close to useless. Sales have been trending down since early 2021, like in many other rich countries, from levels that were miles above pre-pandemic trend growth path. **Total consumption of goods** rose 0.5% in October – and the history was revised up somewhat (like consumption in National accounts)
- In Norway, less x-border shopping in Sweden (was cut to zero during most of the pandemic) – but it is no back to a normal level. In addition, the lift in inflation and higher interest rates also seem to have aided sales back down to the pre-pandemic trend – and we expect sales to fall below the trend the coming months/quarters

Higher consumer prices contribute to lower consumption, as always

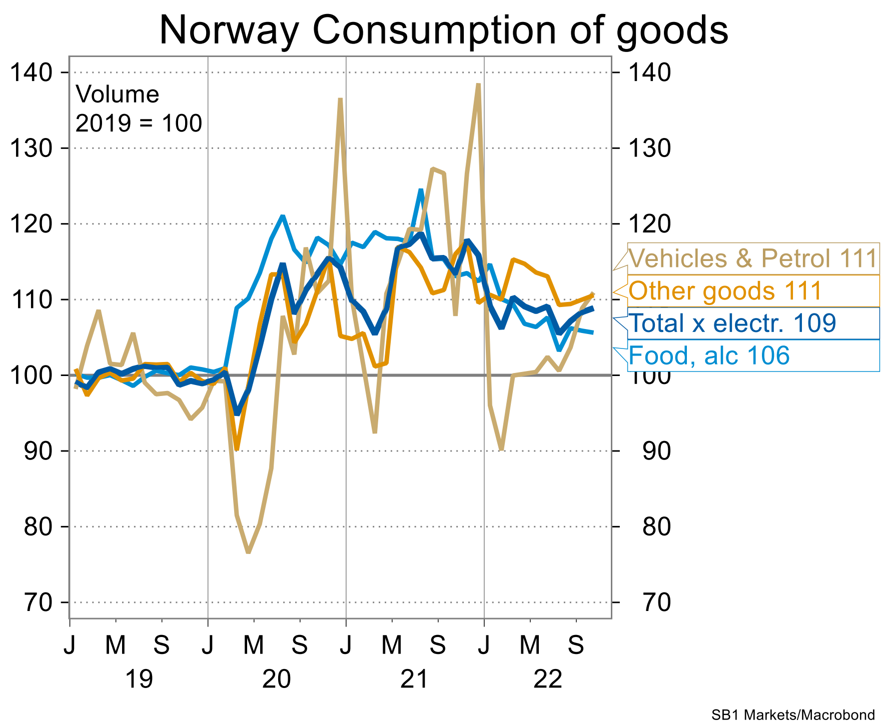
Consumption of goods (volume) are negatively correlated to changes in consumption prices

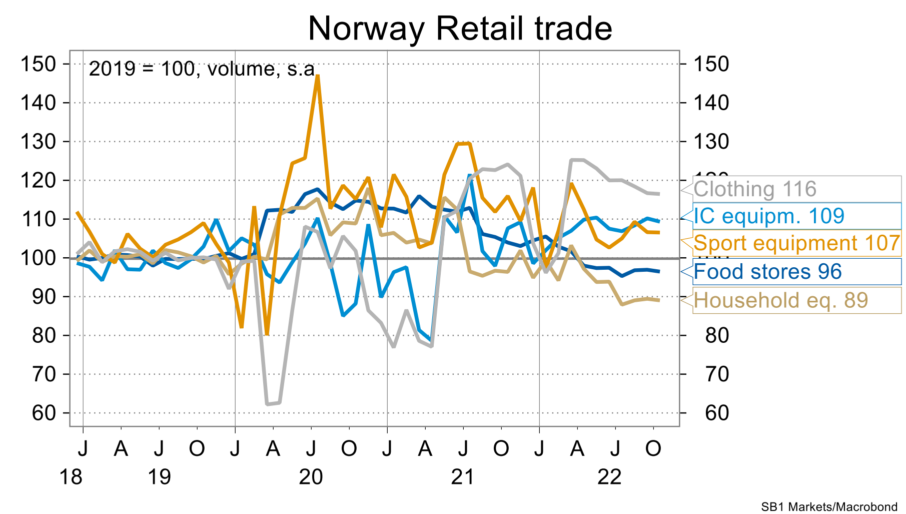


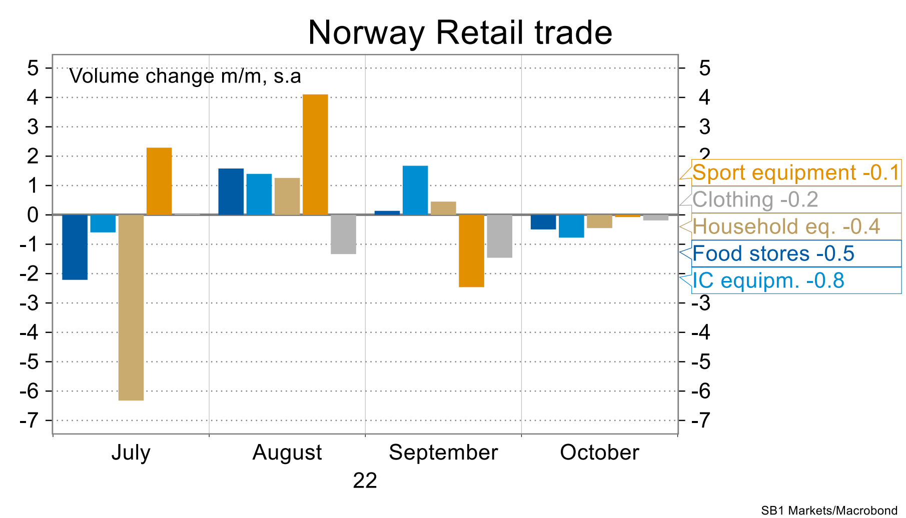
- The elasticity for consumption of <u>goods</u> vs. changes in headline CPI is some -2, probably as consumption of services normally are more stable than goods – and because high prices normally are associated with a weak Norwegian economy (like oil prices down, NOK weaker, higher imported inflation)
- This time too, consumption of goods has come down as the level of inflation has remained elevated – in conjunction with most of the pent-up demand after the pandemic seems to have dissipated
- In addition, interest rates are rapidly on the way up

Most sectors slightly down October, and most are trending down

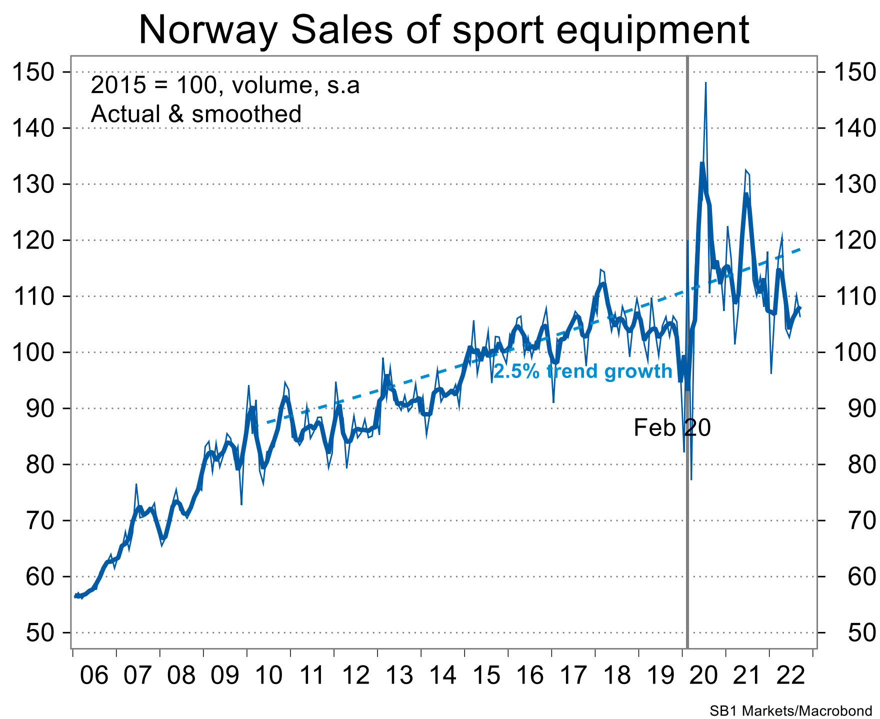
Auto sales saves the day for total consumption of goods





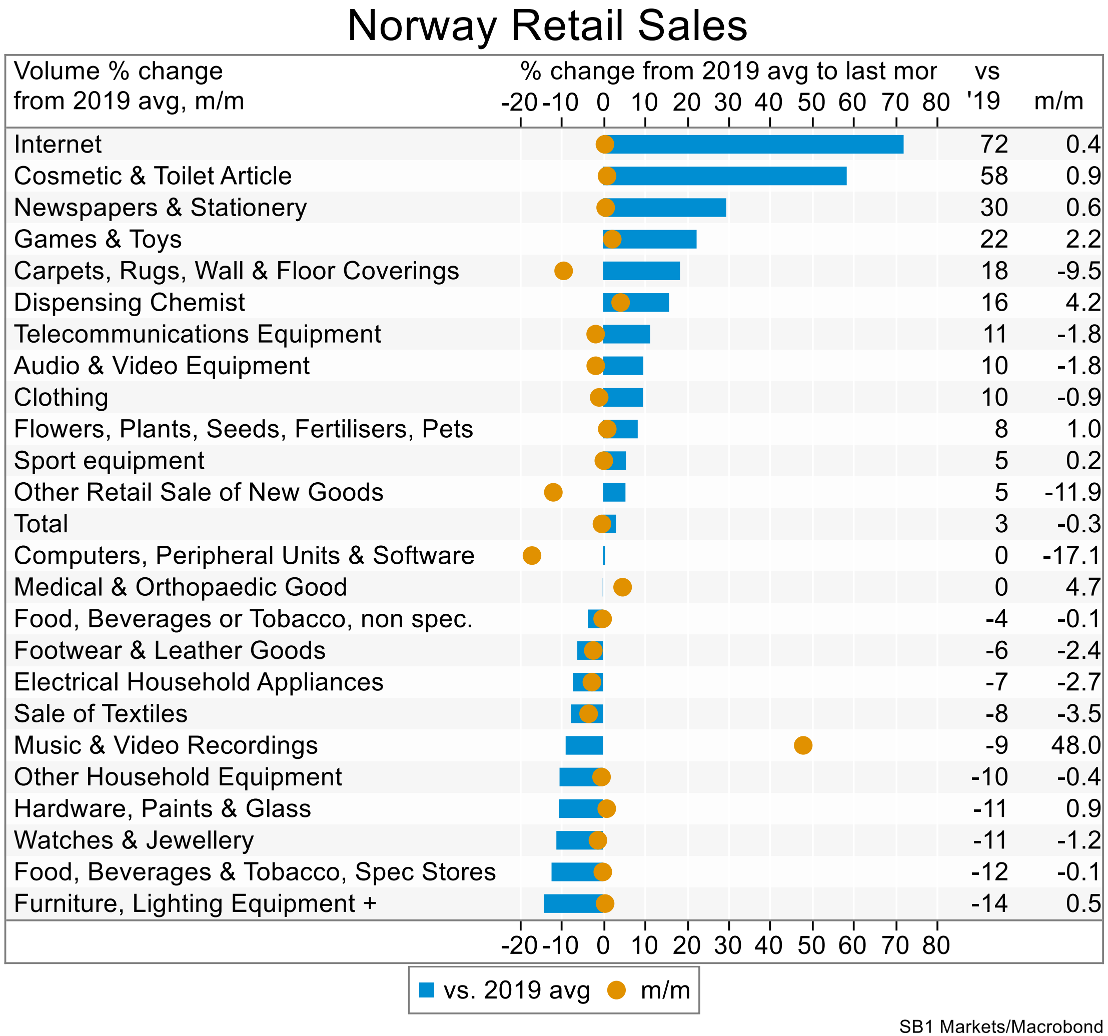


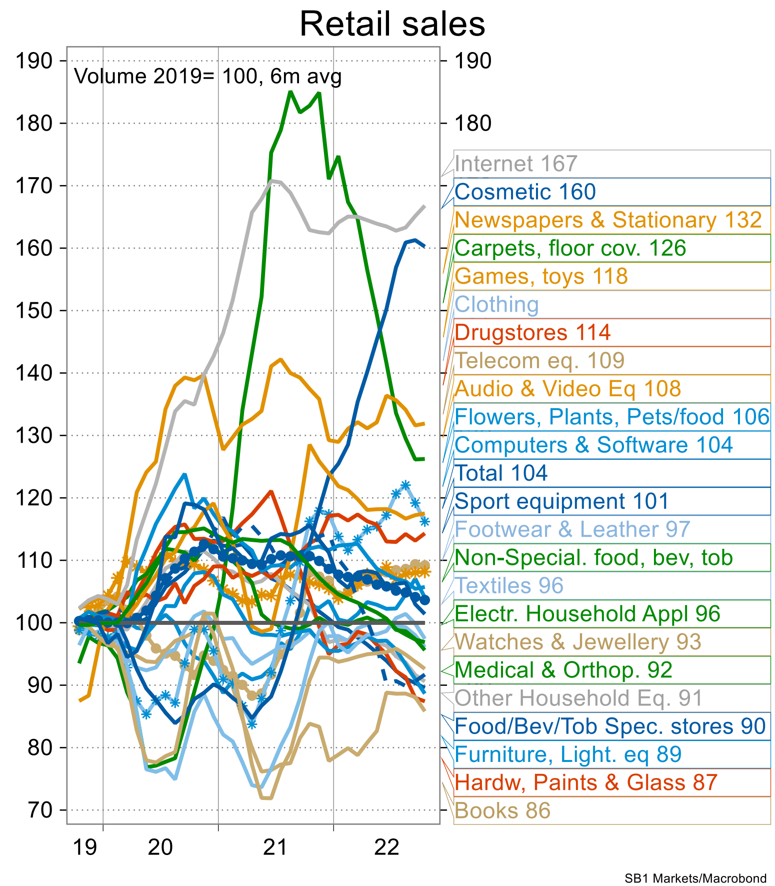
Sports equipment sales: Down in October – and well below pre-Covid trend



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

Net sales still at the top but have flattened since mid 2021. Cosmetics the big winner





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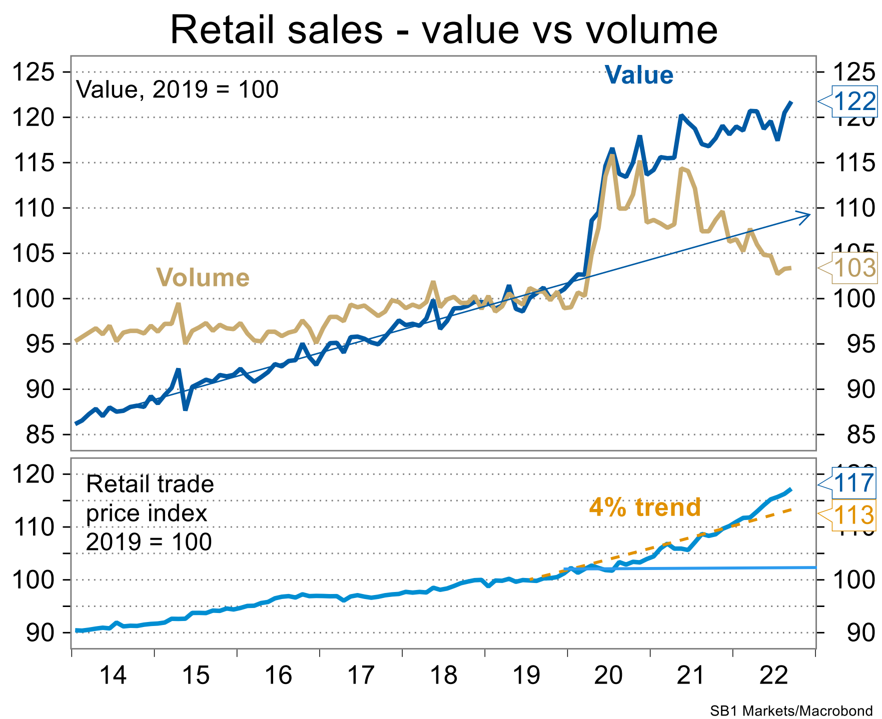
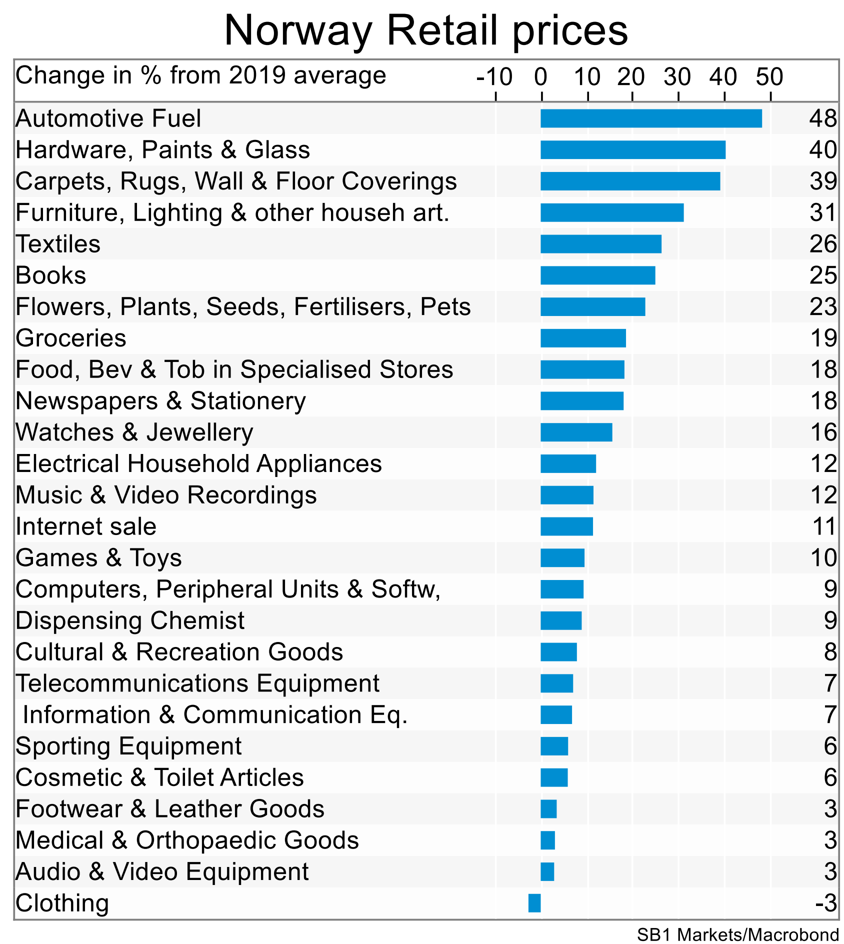
Retail sales value vs. volume – and what's between

Retail prices have been increasing at well above a 4% pace since 2019, in sum by 17%!

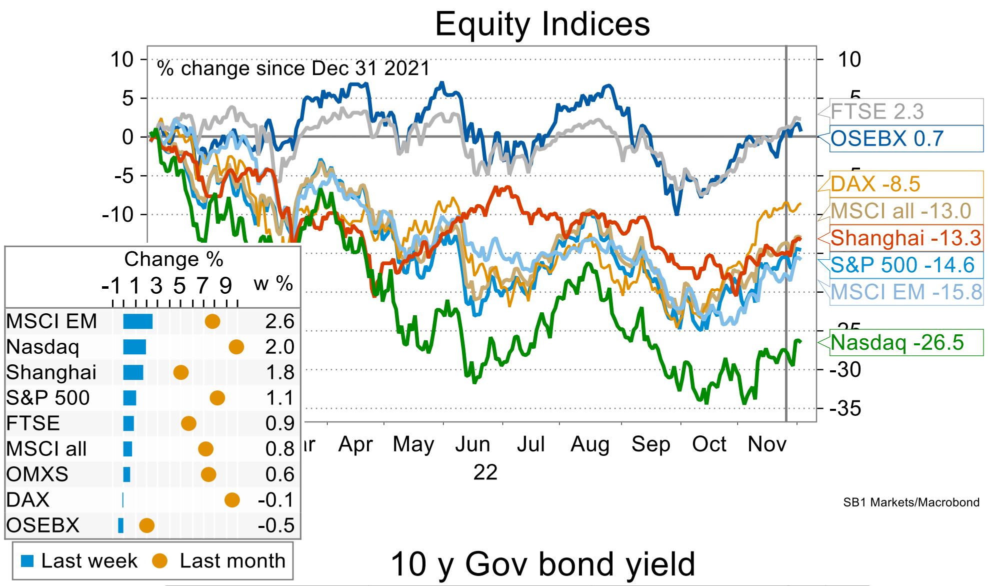


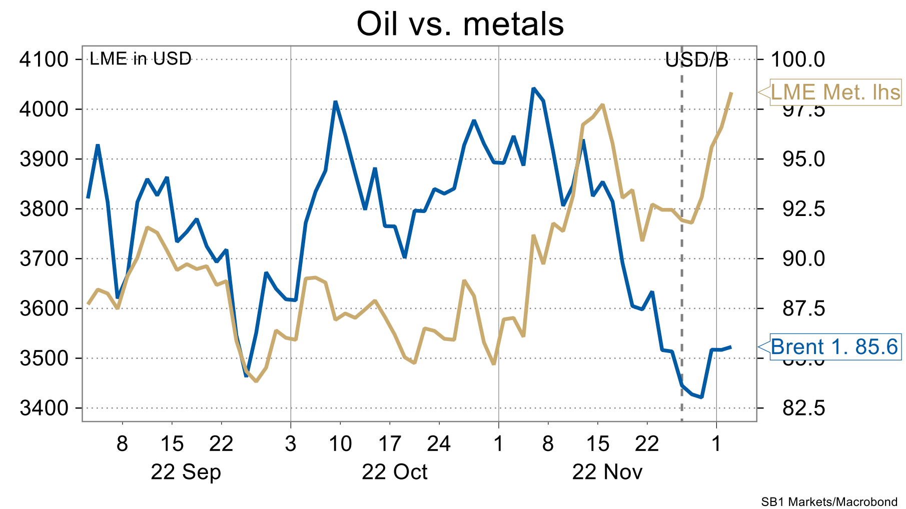


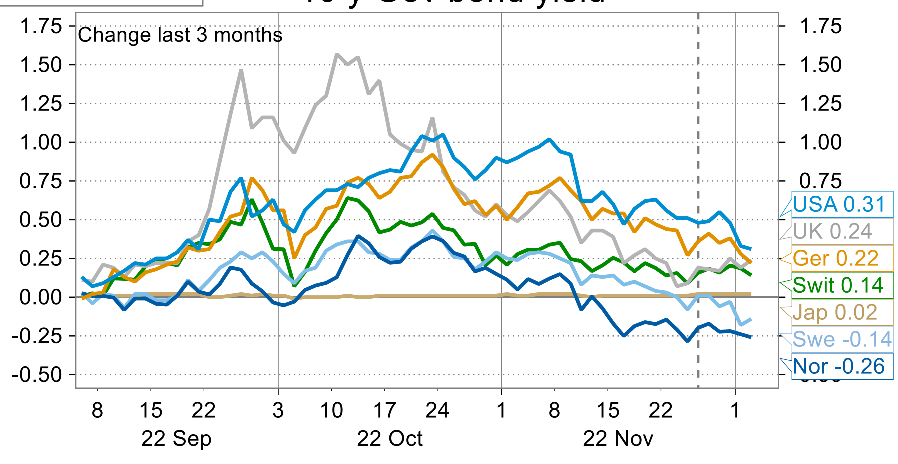
- Retail sales, measured in value terms, are 22% above the 2019 level and 10% above the pre-pandemic trend
- Huge differences is **price changes**:
  - Gasoline up 48%, hardware (building materials), floor coverings, are up 39% – 40%, furniture 31%
  - Close to the bottom of the list: Sport equipment prices are up just 6% and clothing is down 3%!

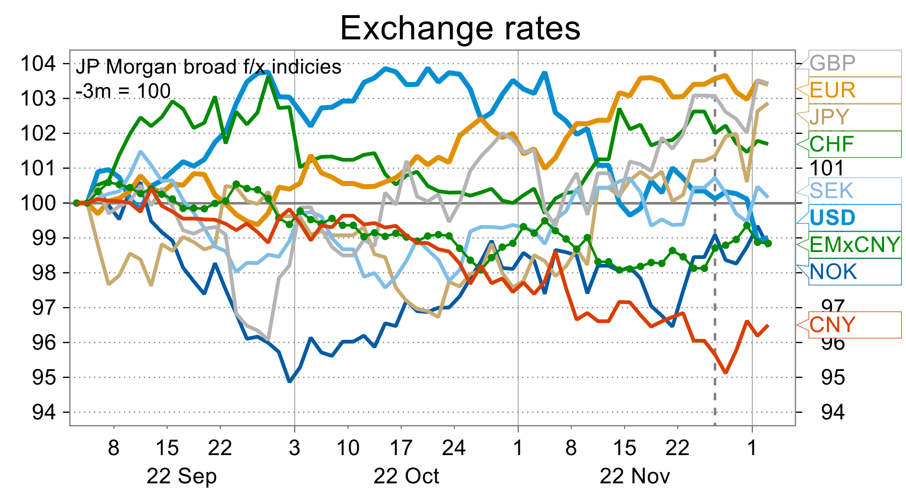
Most equity markets up, bond yields are mostly down, metals & oil up

NOK was close to unch. CNY up on hope easing of covid restrictions. The USA still the loser, down 5% from Oct



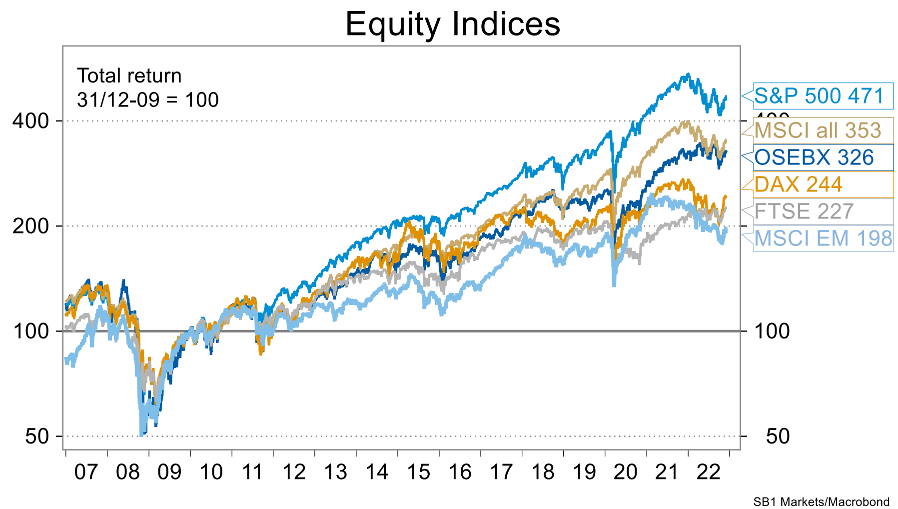


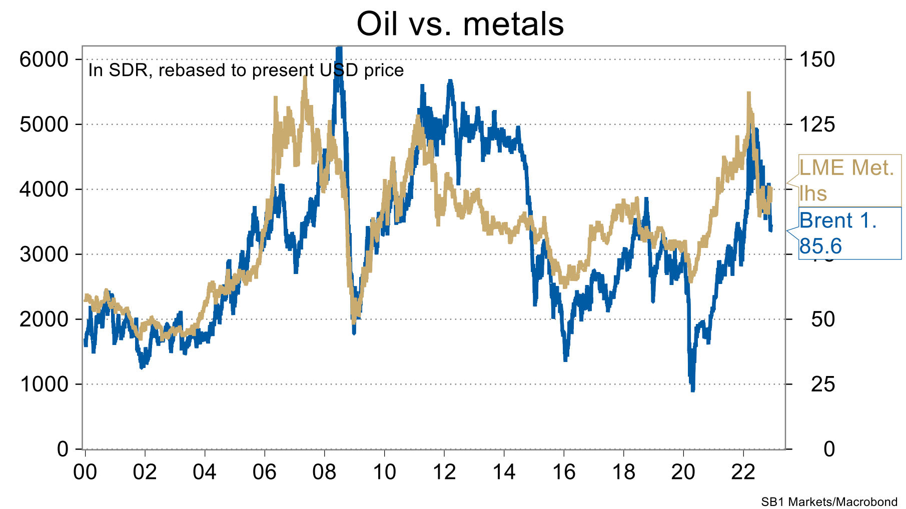


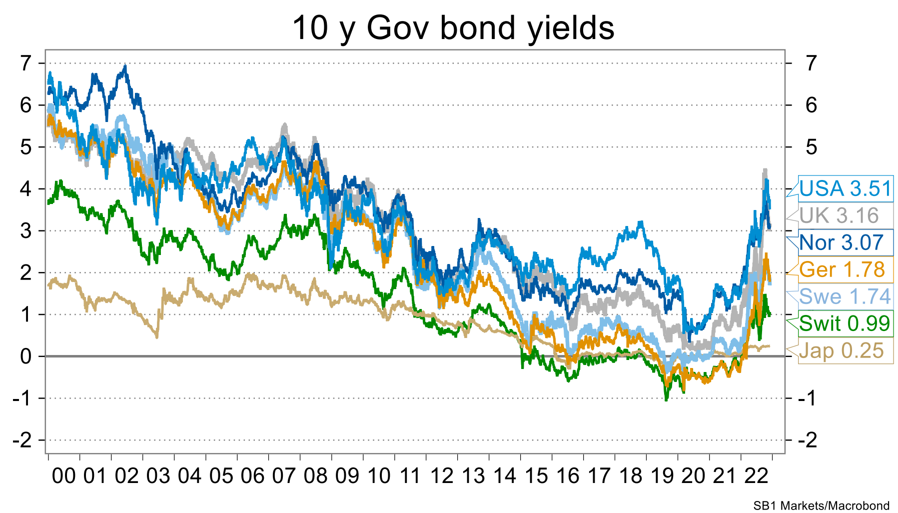


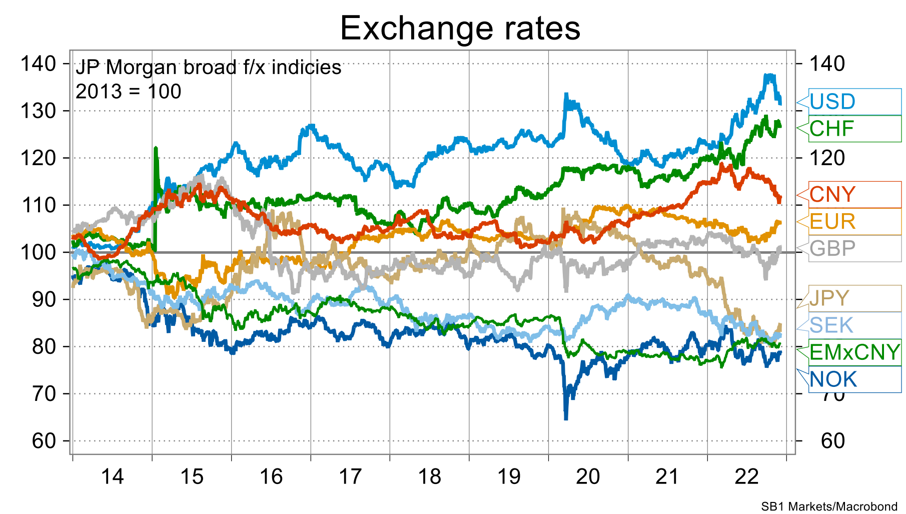
The long-term picture: Stock markets down, commodities down, yields up

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









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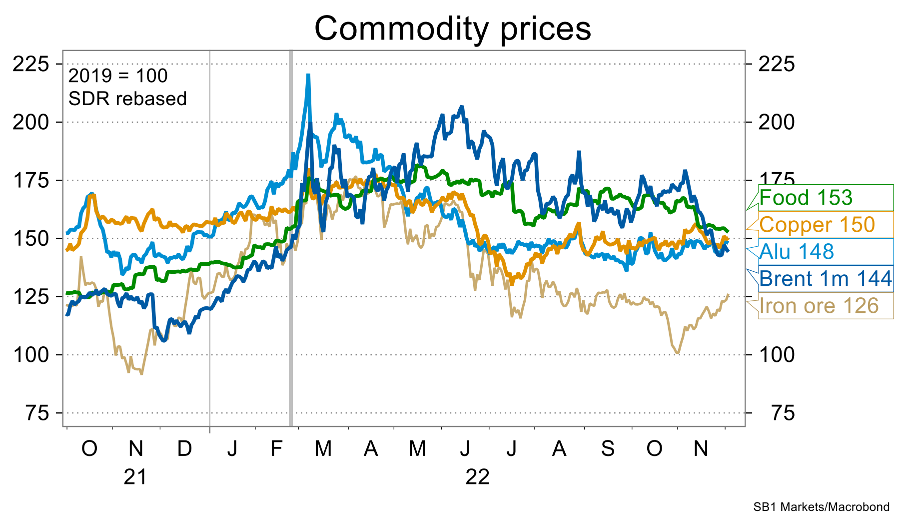
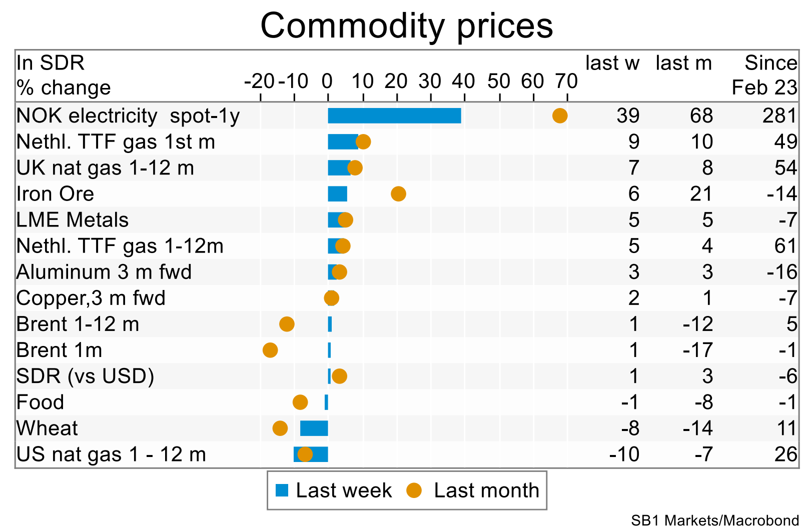
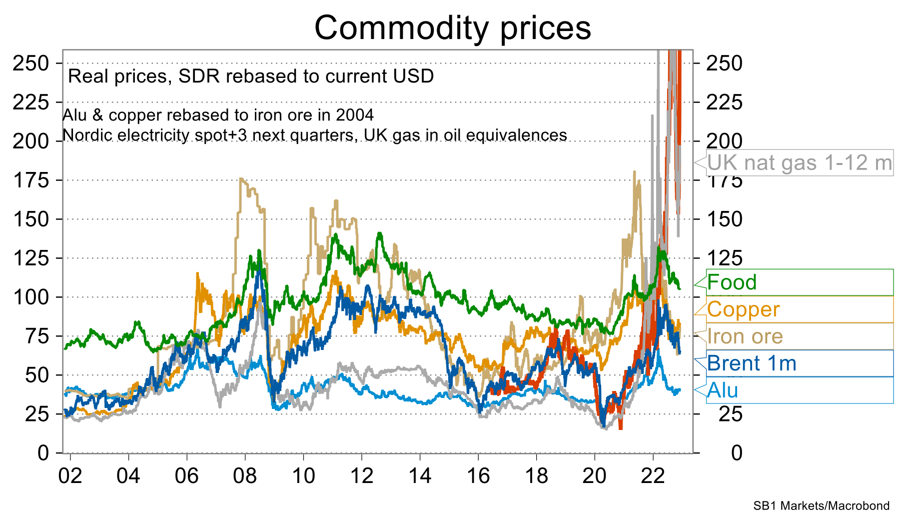
European gas/el. prices up for the 3rd week in a row

Most other commodities also rose too





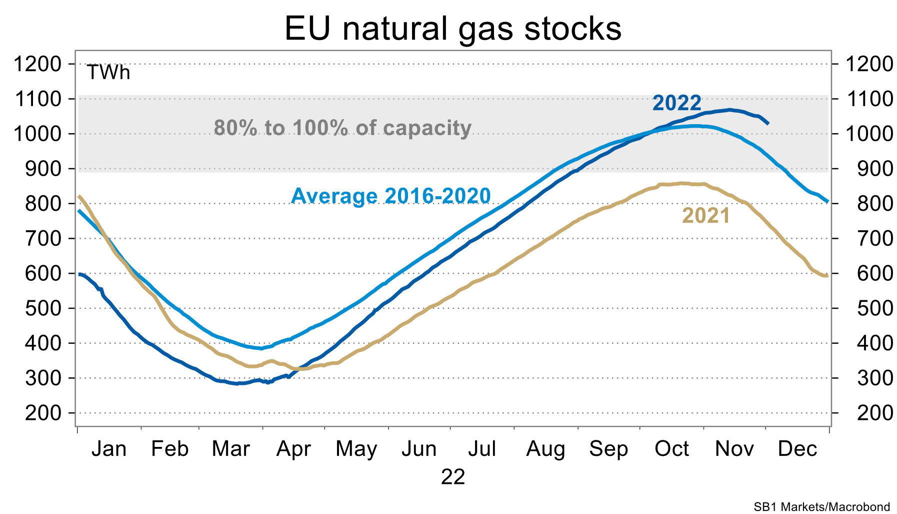


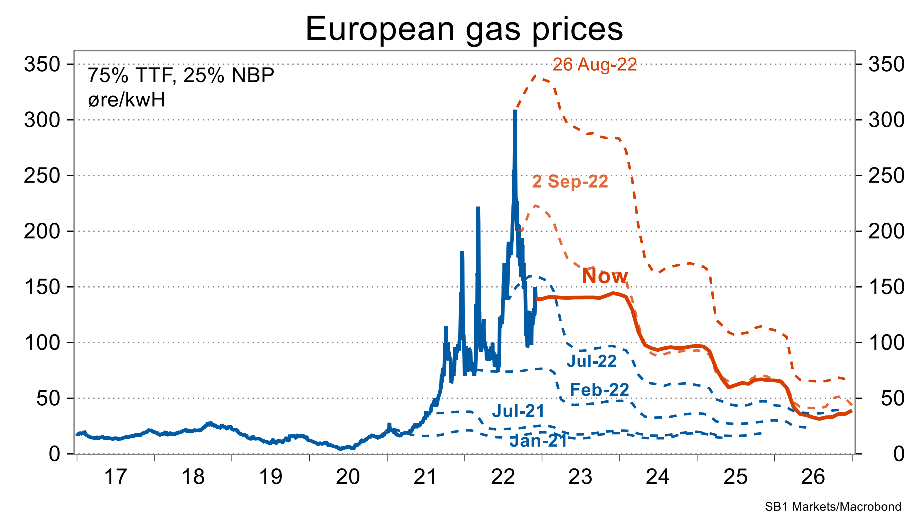
Last week – prices in SDR

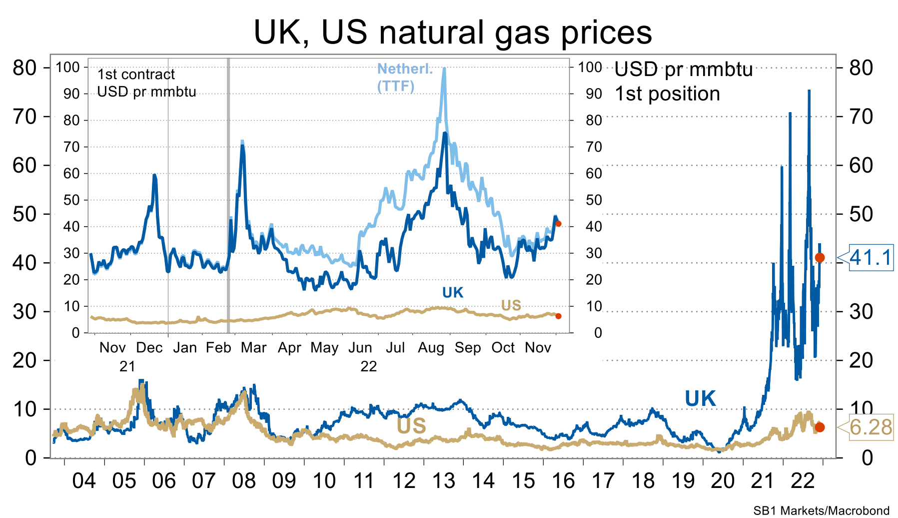
- **European natural gas** continued upwards, all over the curve. **Electricity prices** rose too
- **The oil price** recovered on Thursday/Friday and eked out a small increase since last Friday, on hopes of Opec cuts (but were let down)
- **Metal prices** rose
- The Economist's **food commodity index** fell slightly, and is down 8% the last month
- **Metal prices** also fell further, and iron ore prices have recovered substantially, probably on hopes for a turnaround in the down beaten Chinese construction sector

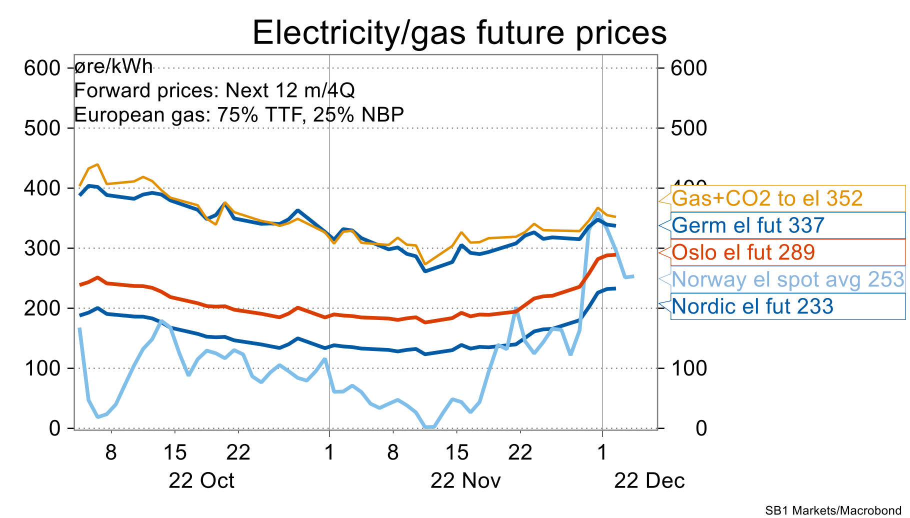
European gas prices further up last week, and electricity prices followed suit

Longer dated contracts are up too. Gas stocks are now declining as weather has turned colder but levels are still rich

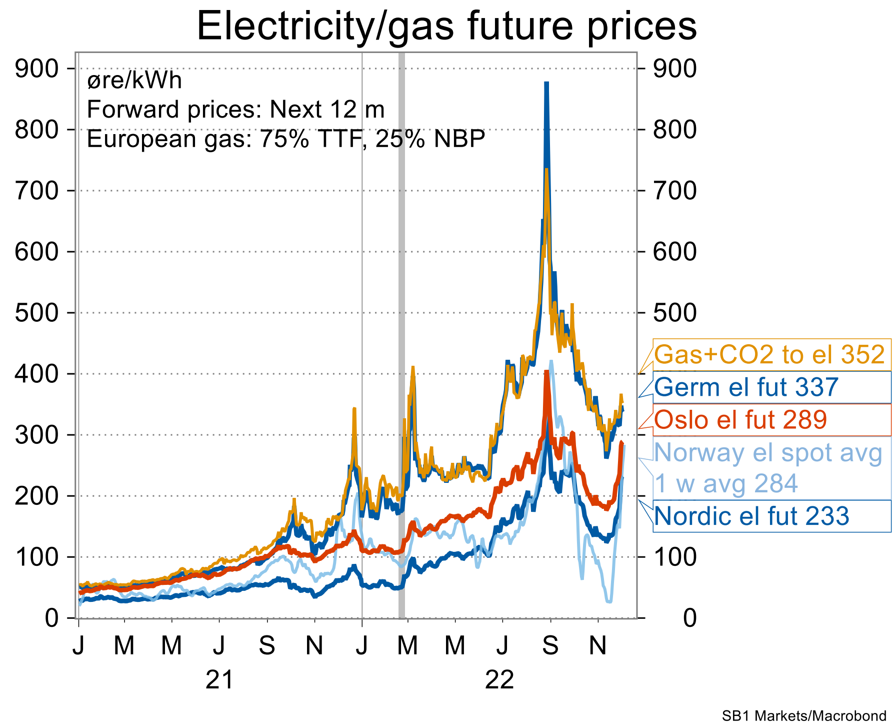


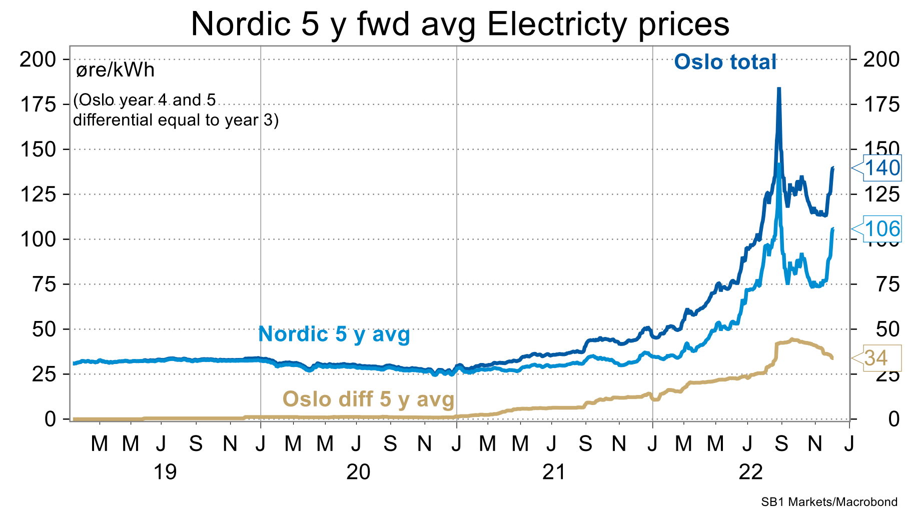


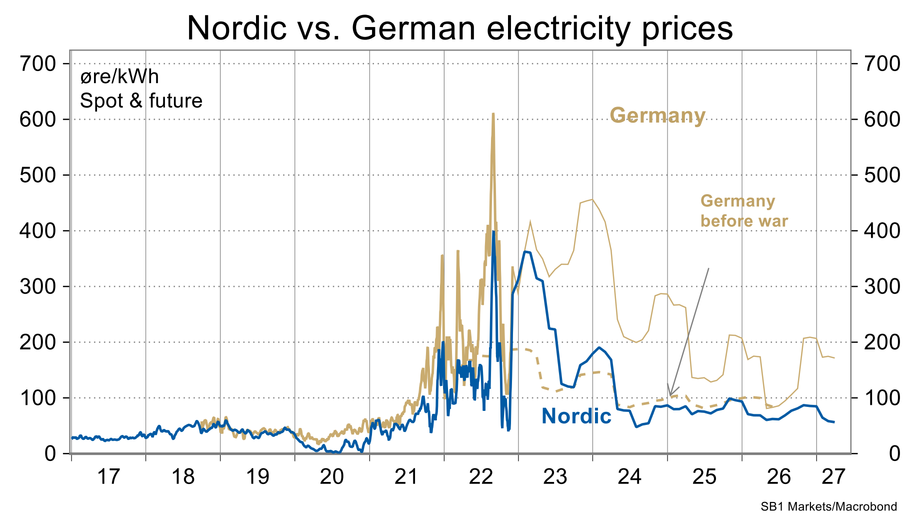




European gas & electricity up – but still well below late summer peaks

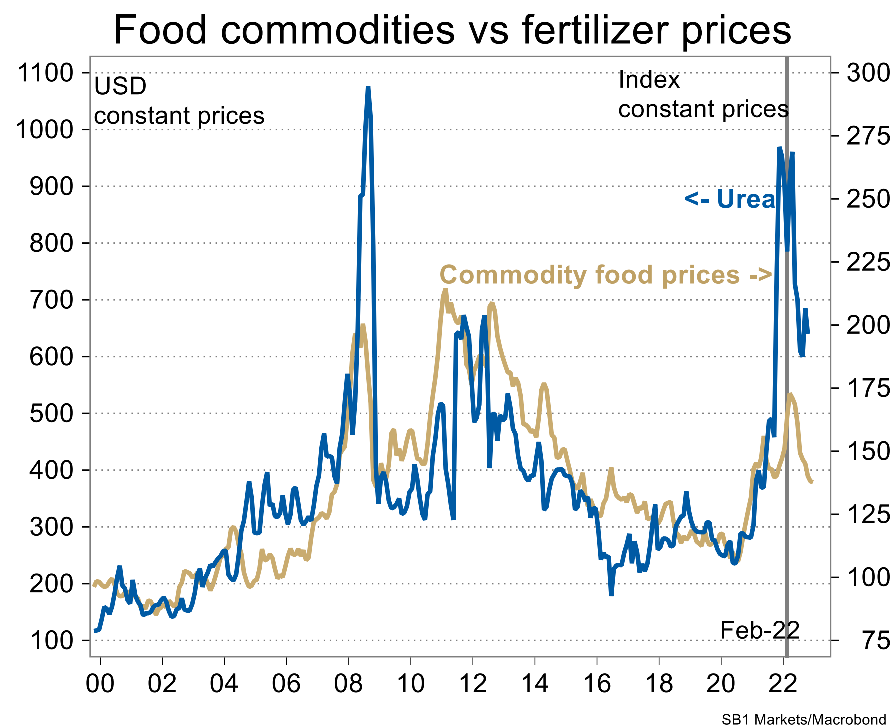




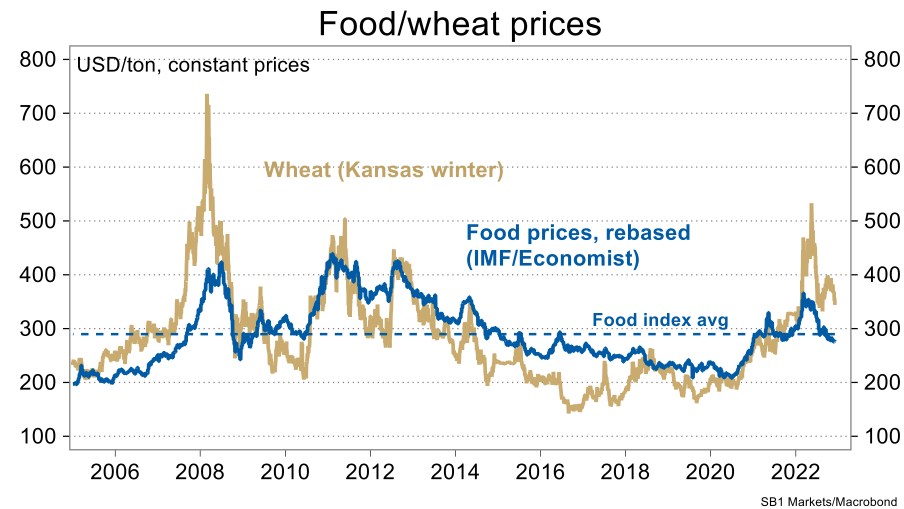


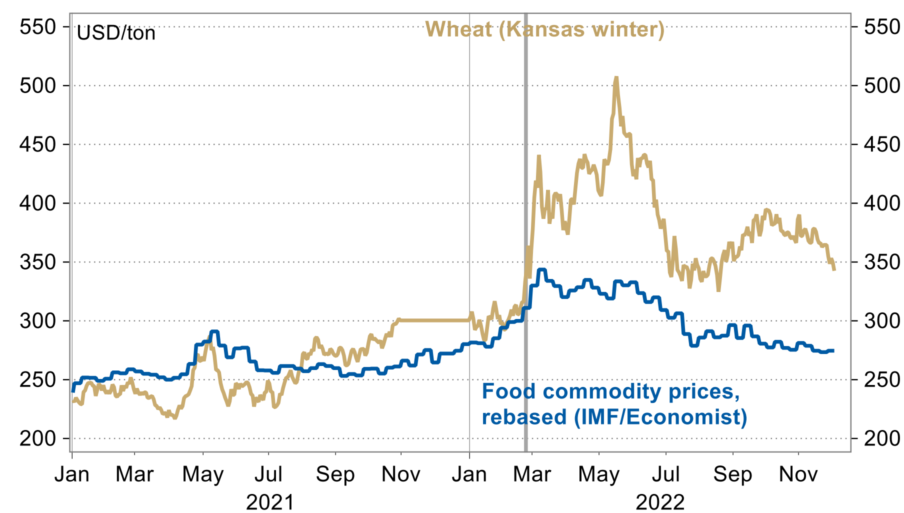
Food prices are trending down

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



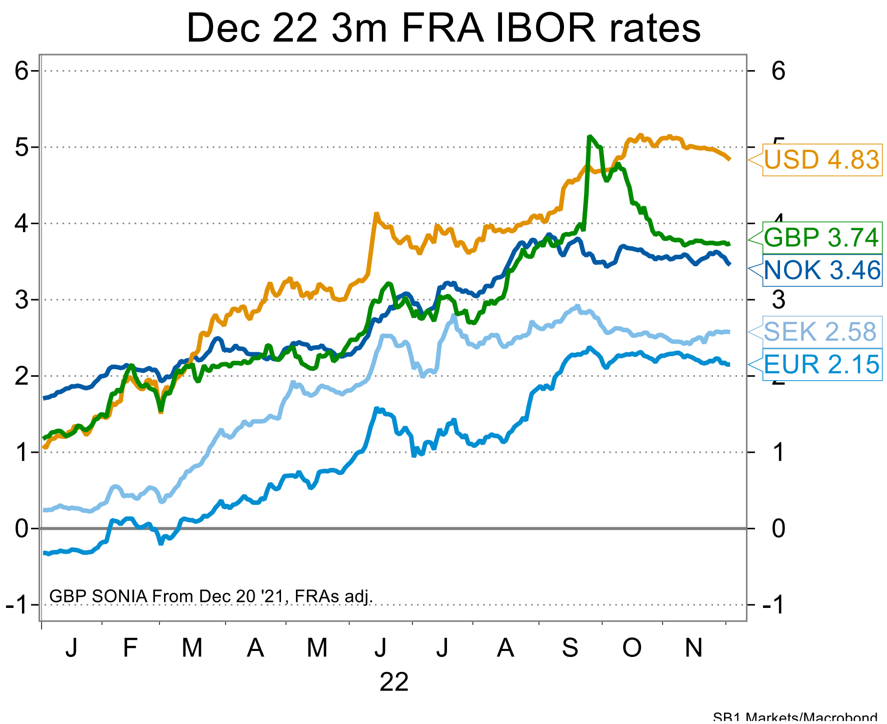
- Urea prices have come sharply down to, since early 2022 – but prices remain higher than normal

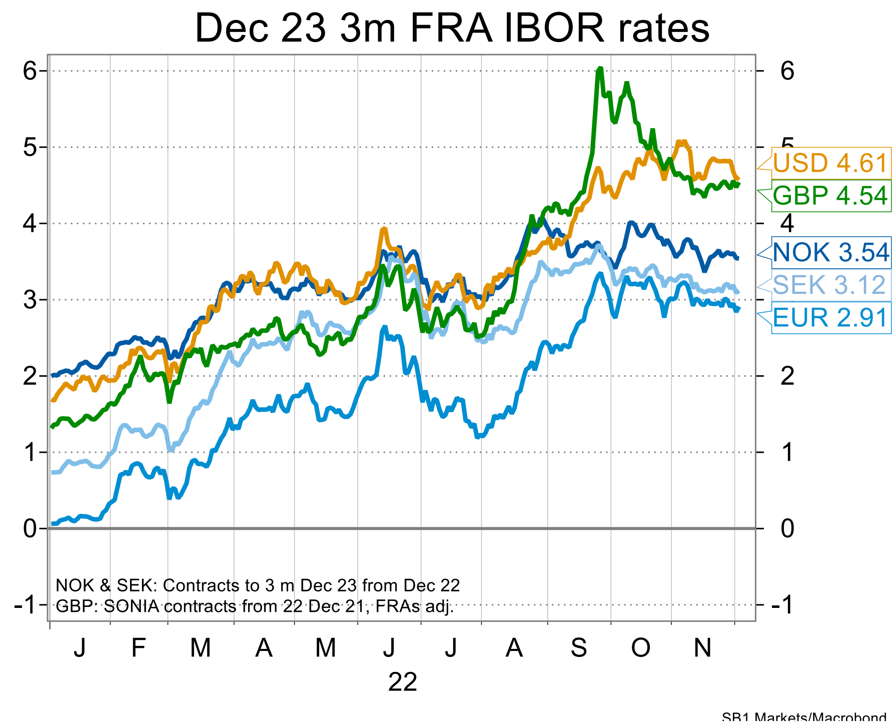


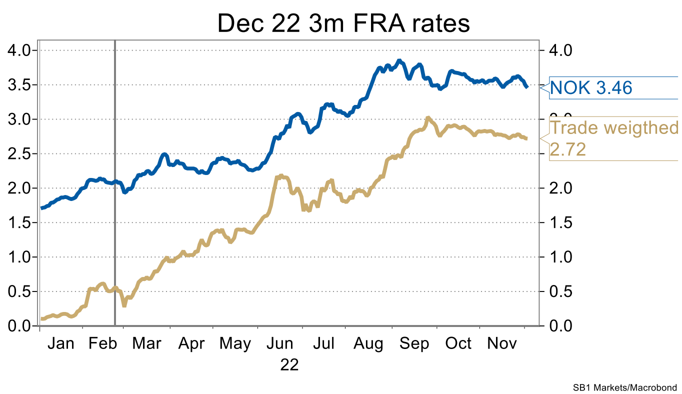


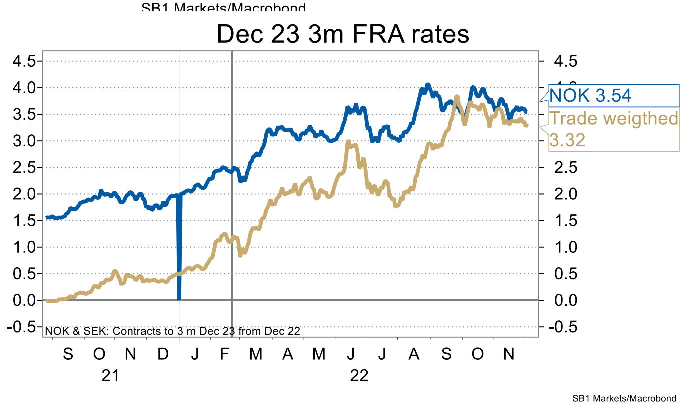
FRAs on the way down most places

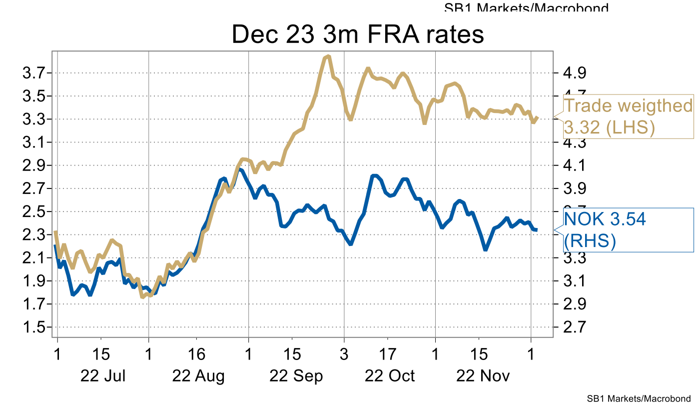
US rates fell sharply on what was interpreted as dovish comments from Fed's Powell (and the softish Beige book)







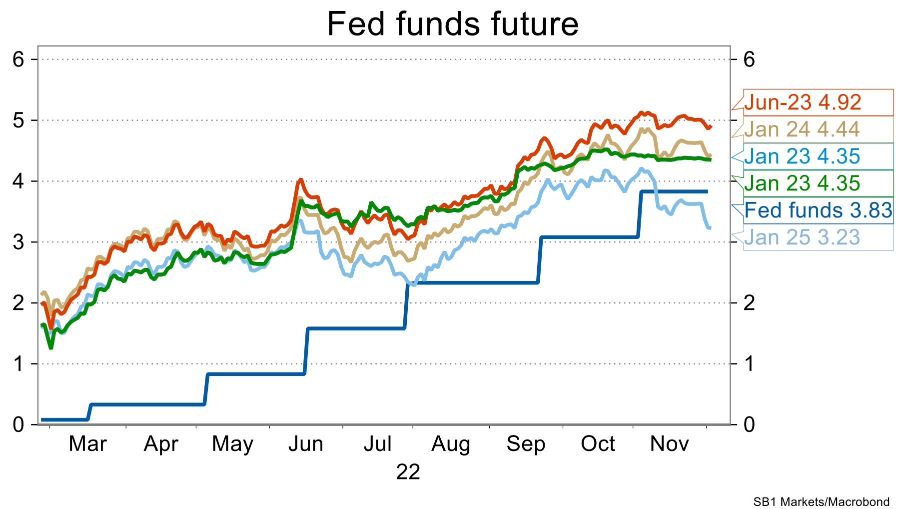


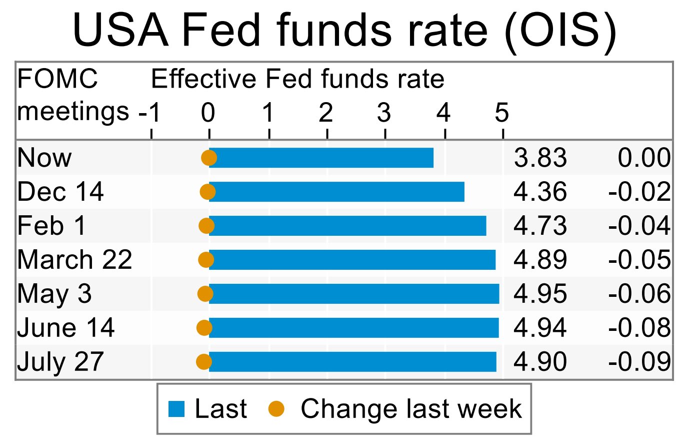


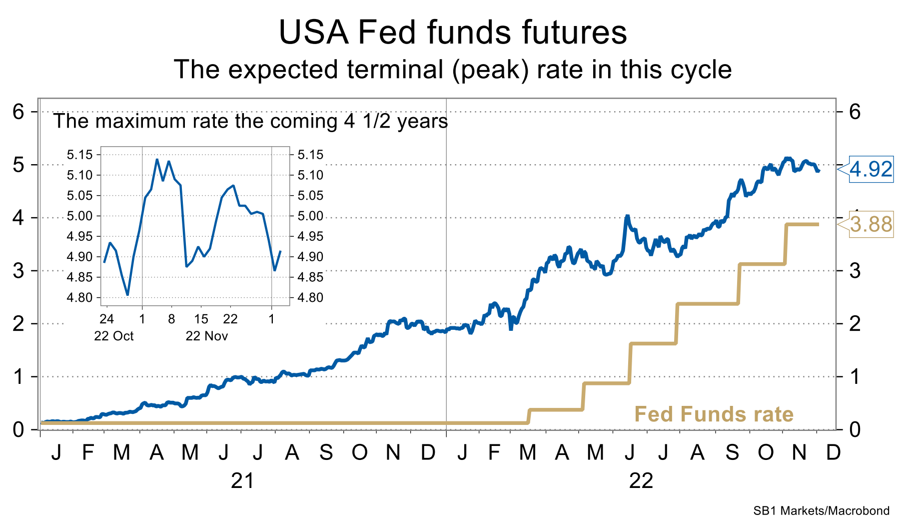
US rate expectations down last week, the terminal rate down some 10 bps

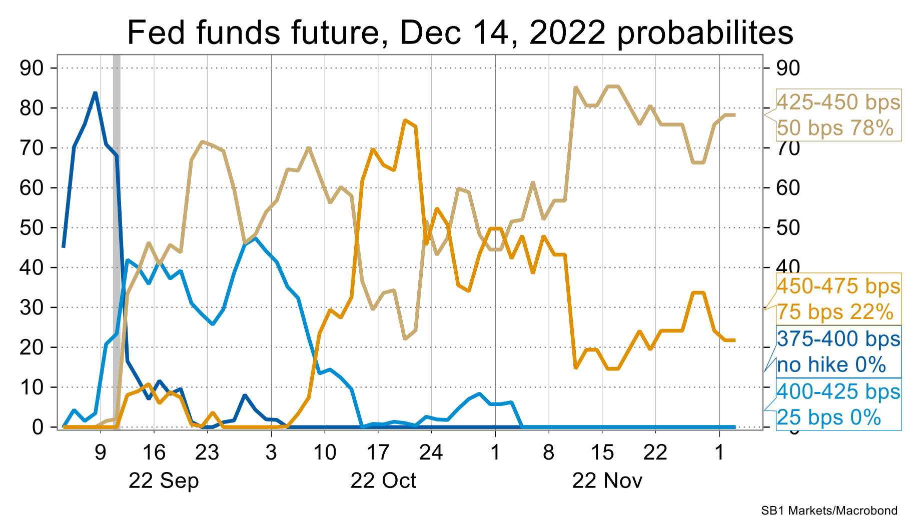
Still, the probability for a 50 bps hike did not increase, and then 2 x 25 bps to a peak at 4.95% before May

Then 2 x 25 bps cuts in H2-23



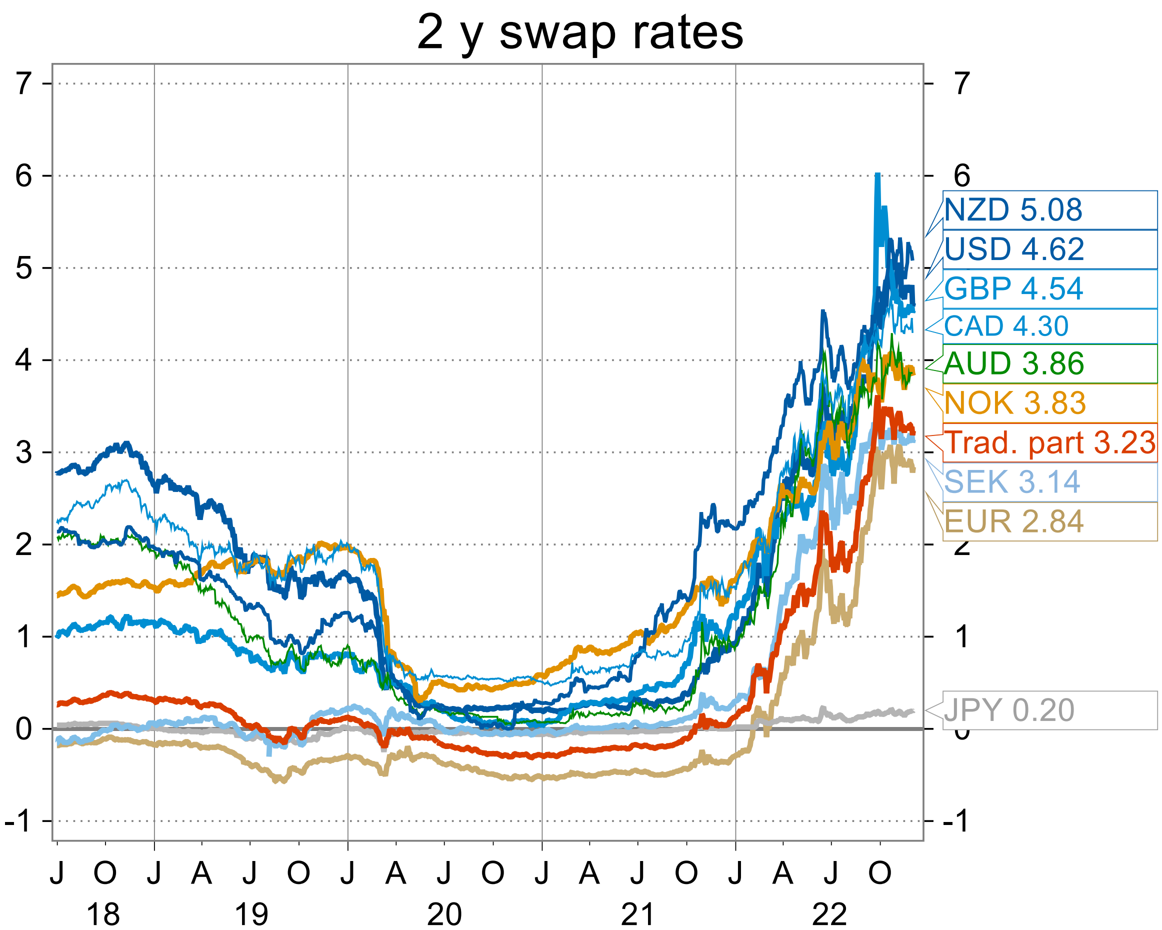




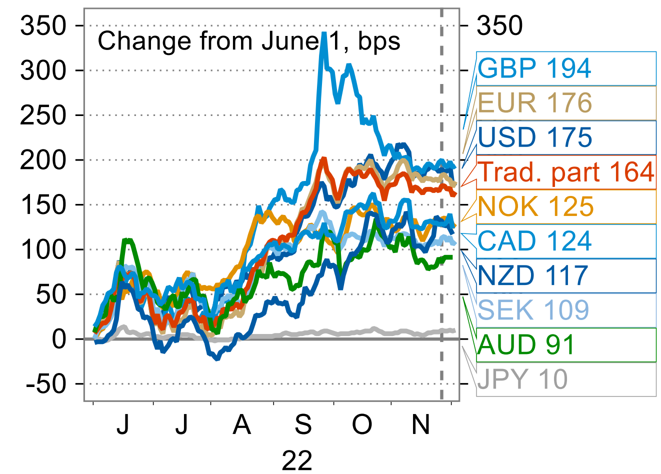


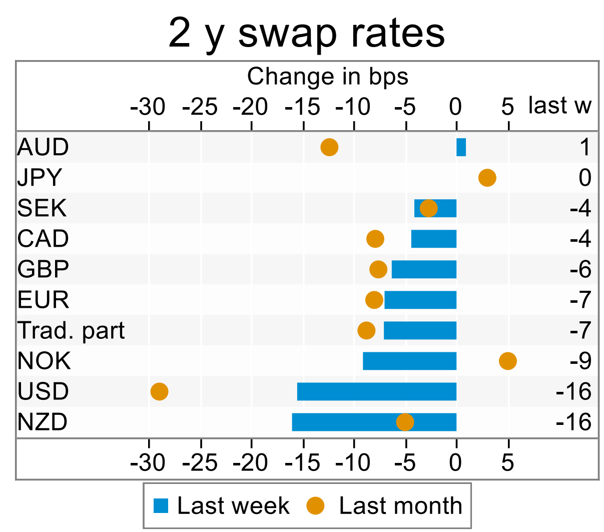
Most 2 y swaps down last week – USD, NOK rates among the most

… reversing the lift in rates the previous weeks



SB1 Markets/Macrobond

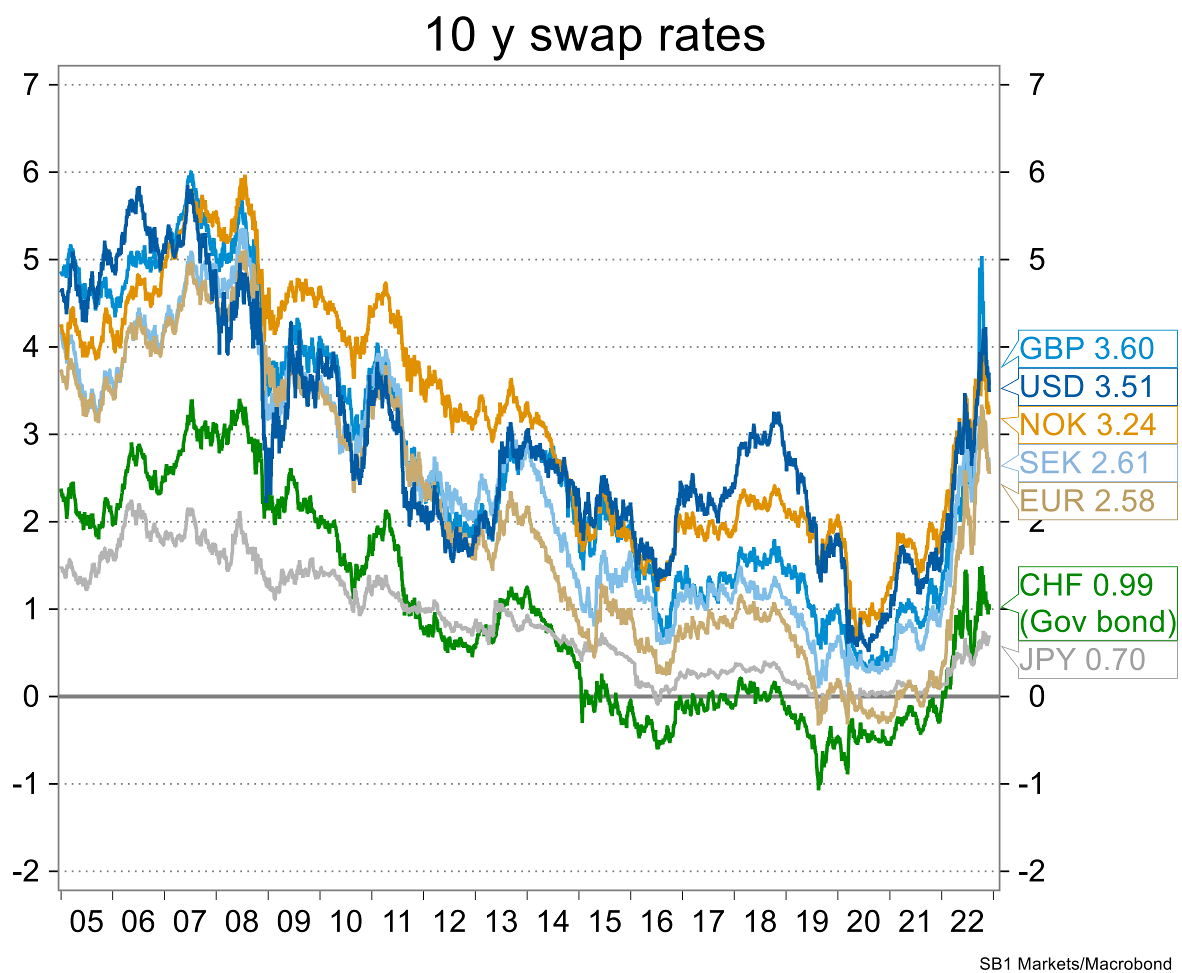


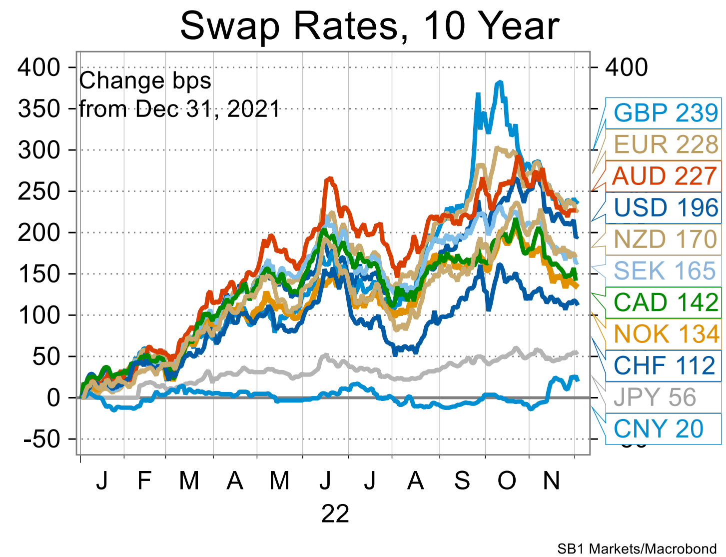


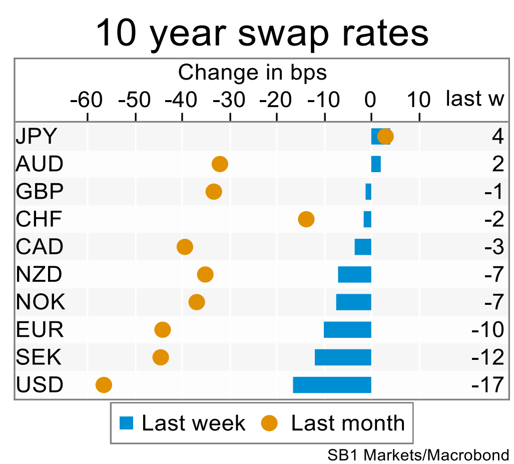
SB1 Markets/Macrobond

Long rates fell further, almost everywhere – and by the most in the US

Some data – and Fed signals were dovish – but the labour market report was strong, especially wages



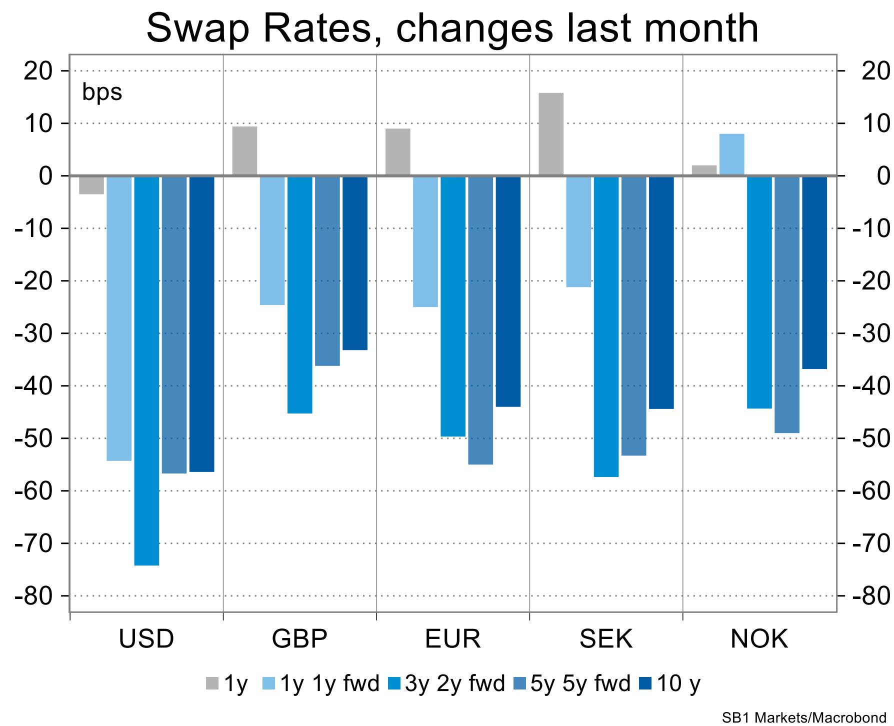


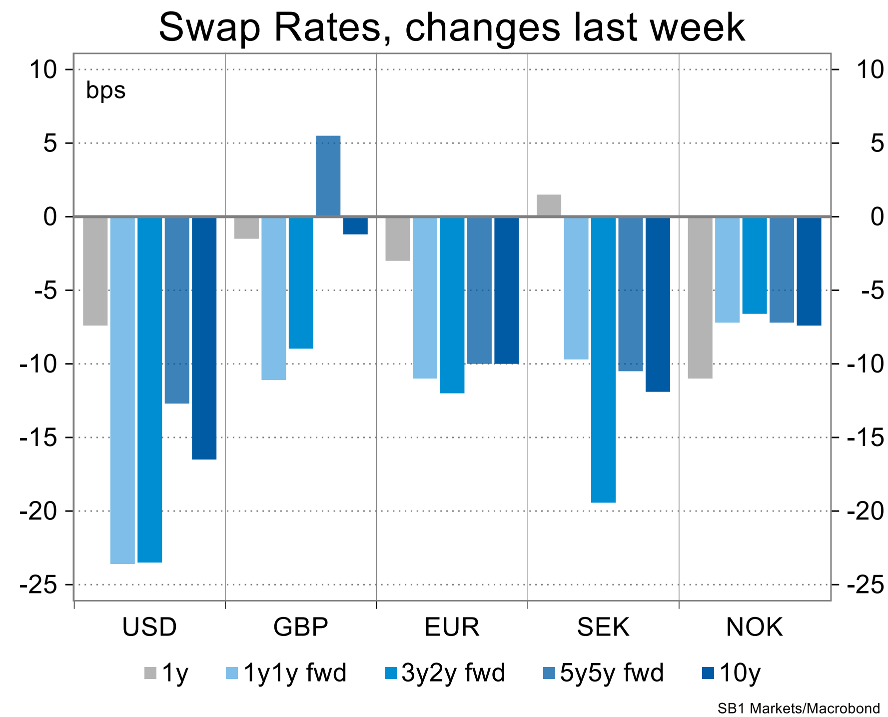


SpareBank 1 MARKETS

Almost all rates fell last week, everywhere

… like over the previous month

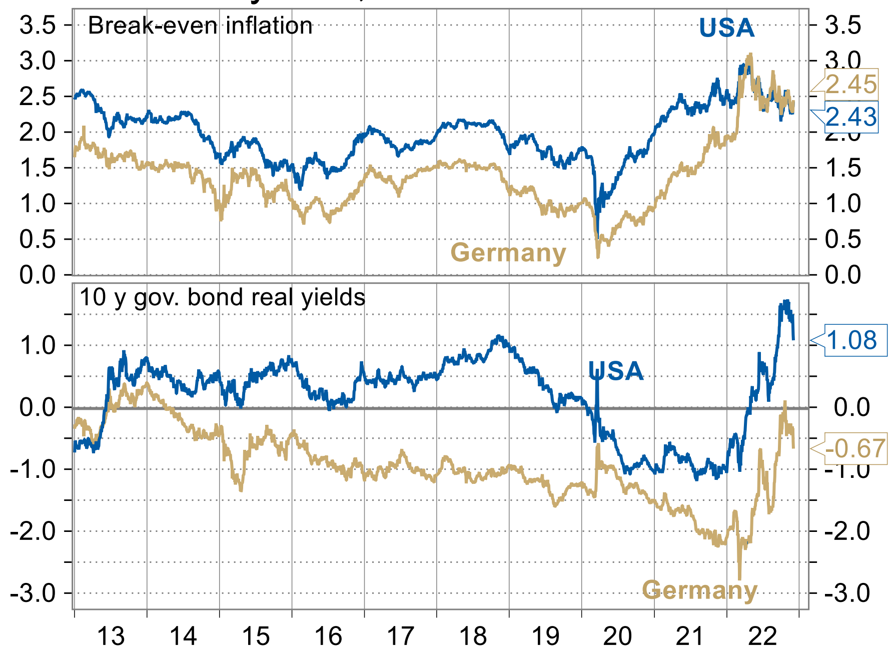




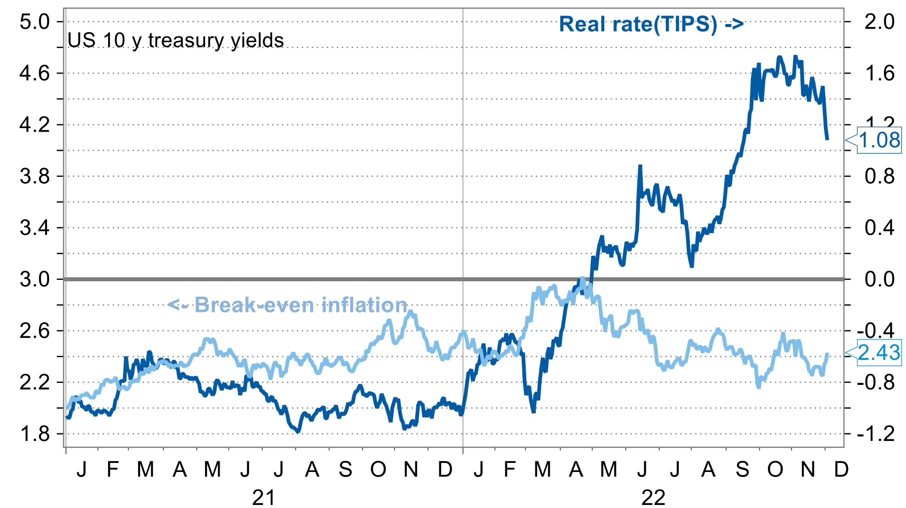
US 10 y real rates down 38 bps to 1.08%, from 1.74% at the peak!

Inflation expectations rose further last week – but are trending down

Real yields, break-even inflation



SB1 Markets/Macrobond



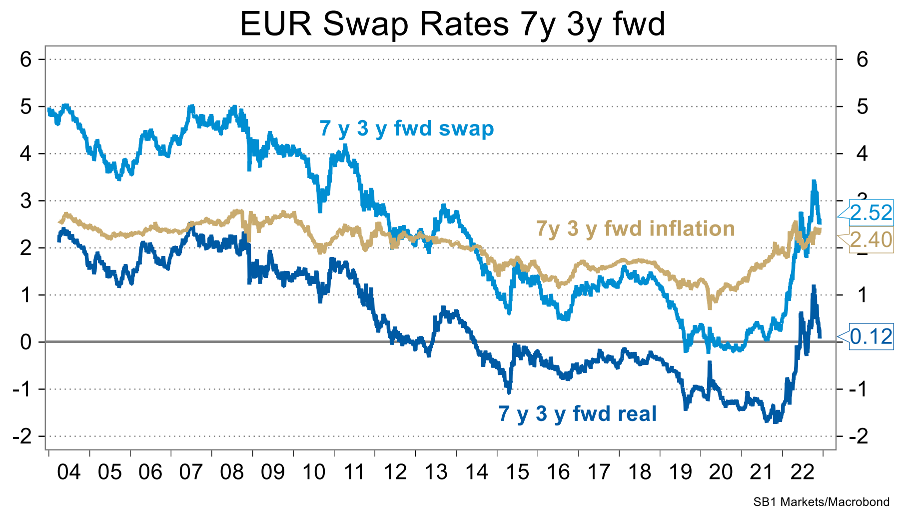
- Still, the real rate is up 2.12 pp since the start of the year!
- In the US, a 10 y CPI expectation at 2.48% is not far above Fed's 2% target for the PCE-deflator (which on average is some 0.3 pp below CPI inflation)
- 10 y real rates in Germany has fallen by 78 bp to -0.67%, while 10 y inflation expectations are in line with US break-evens.

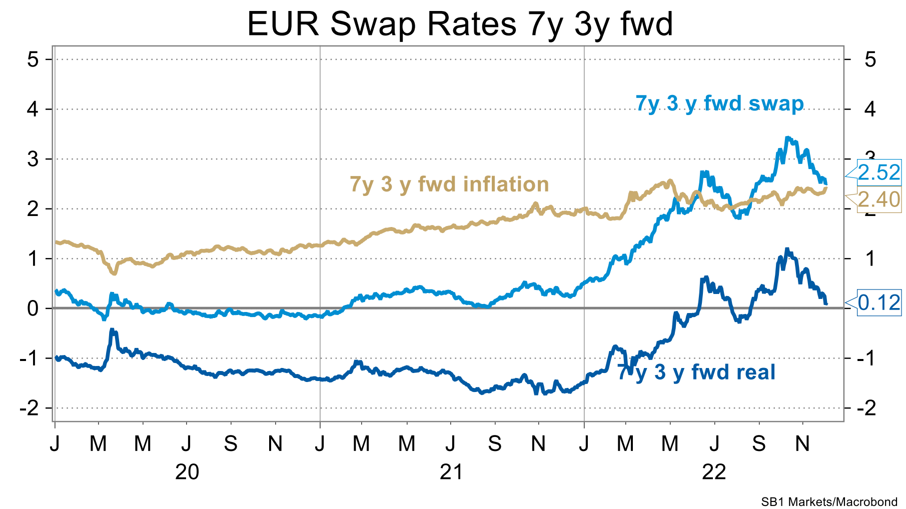
US & Germany 10 y Gov bond yield

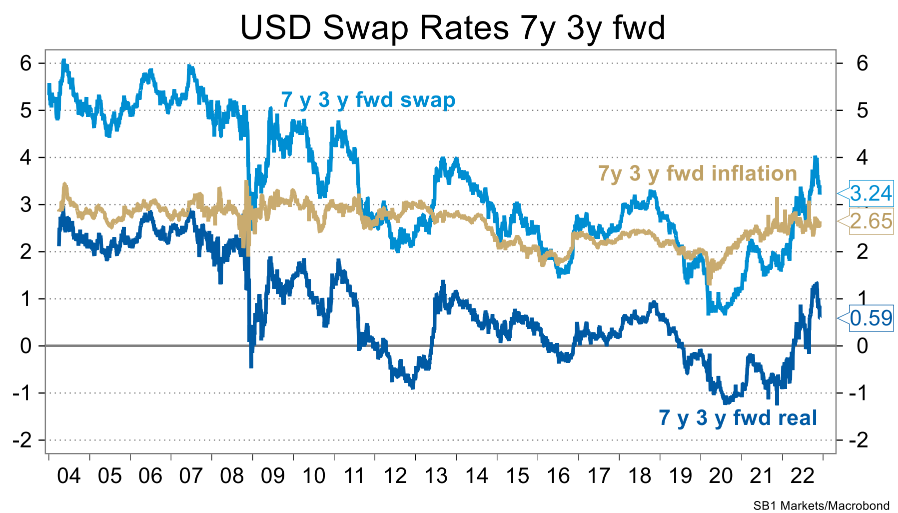
	Yield	Change 1w	Change 1m	YTD	Min since April-20
USA nominal treasury	3.51	-0.17	-0.59	1.99	0.52
.. break-even inflation	2.43	0.11	-0.10	-0.13	1.06
.. TIPS real rate	1.08	-0.28	-0.49	2.12	-1.19
Germany nominal bund	1.78	-0.14	-0.36	1.99	-0.65
.. break-even inflation	2.45	0.16	-0.06	0.55	0.40
.. real rate	-0.67	-0.30	-0.30	1.44	-2.80

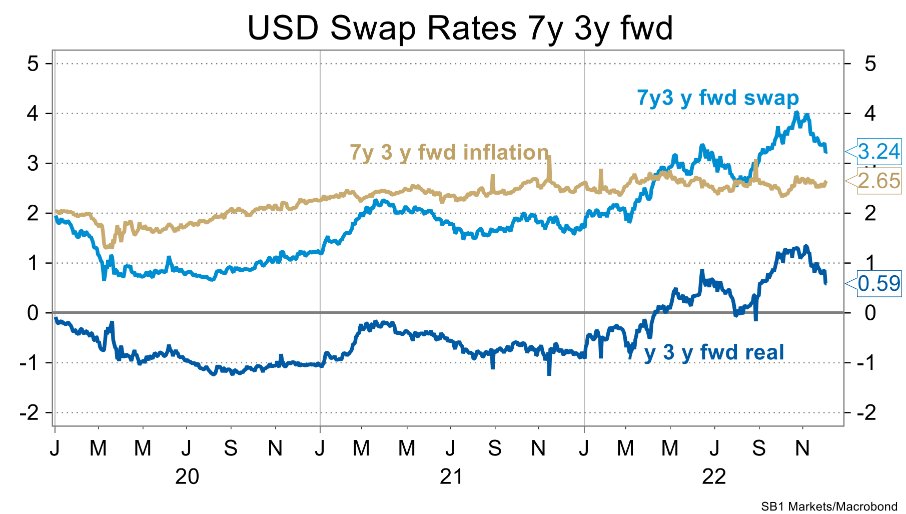
SB1 Markets/Macrobond

European real (swap) further down, and inflation expectations slightly up



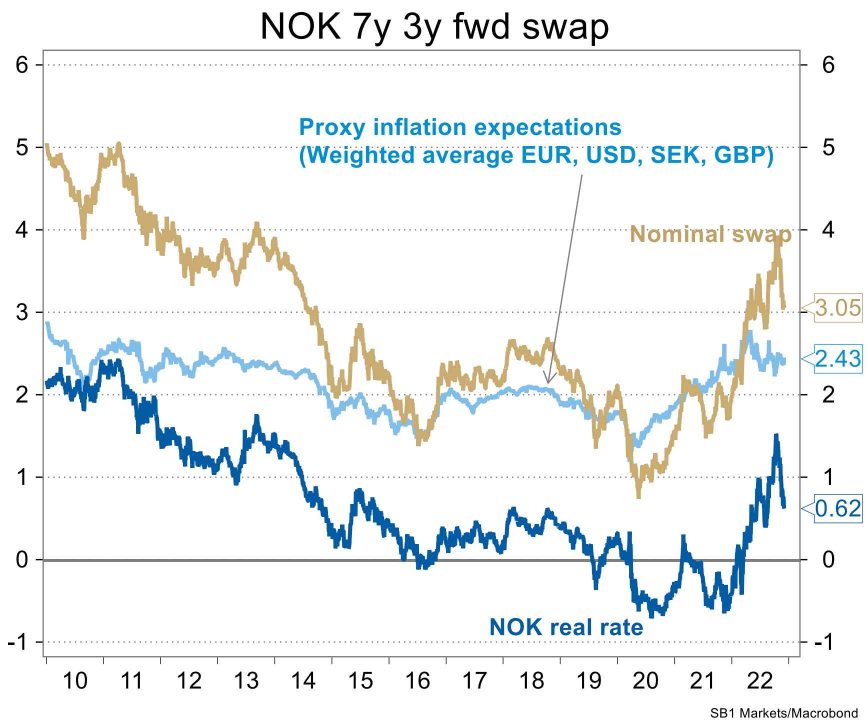


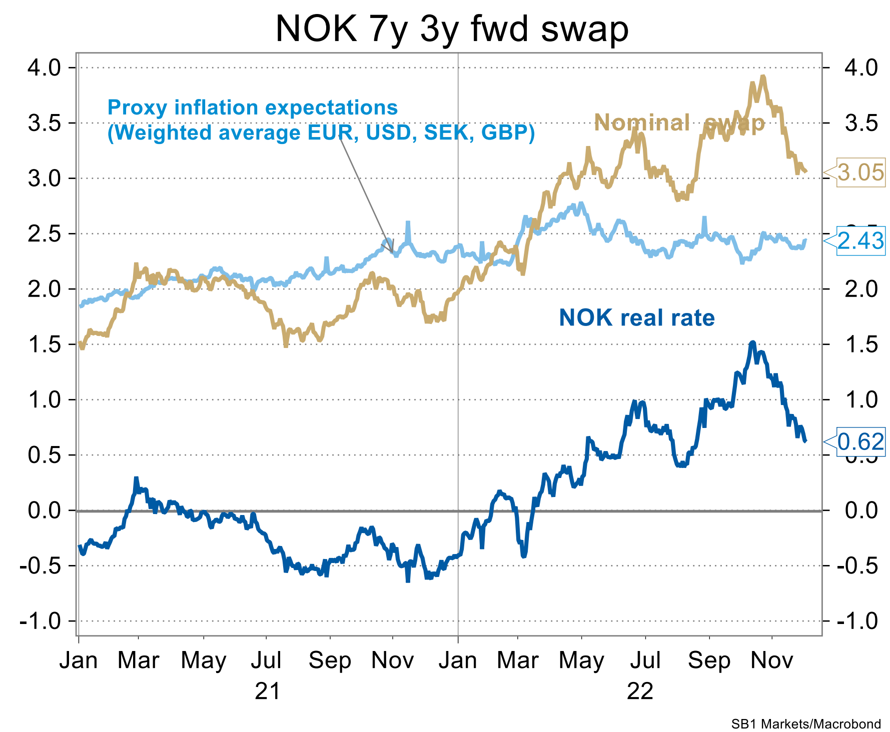


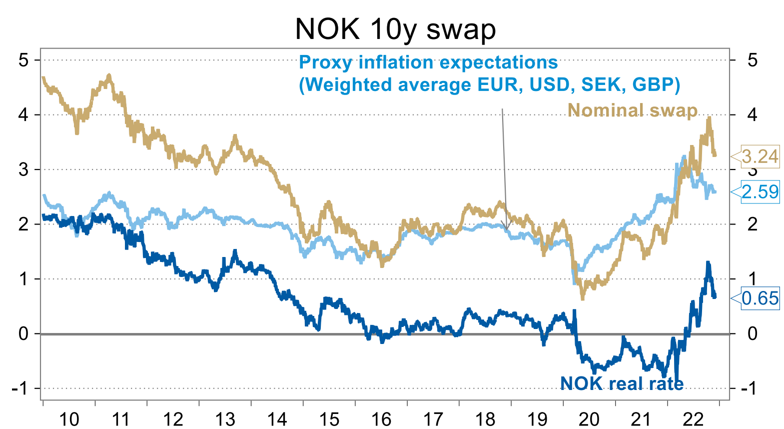


NOK real rates very likely sharply down too

– and by almost 100 bps from the peak (measured 7 y 3 y fwd)





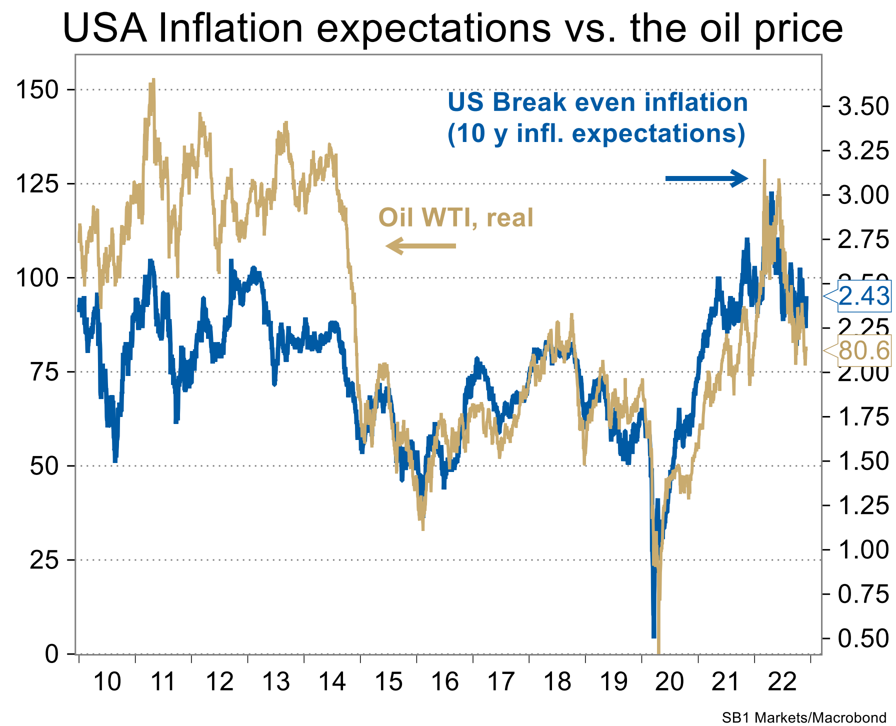


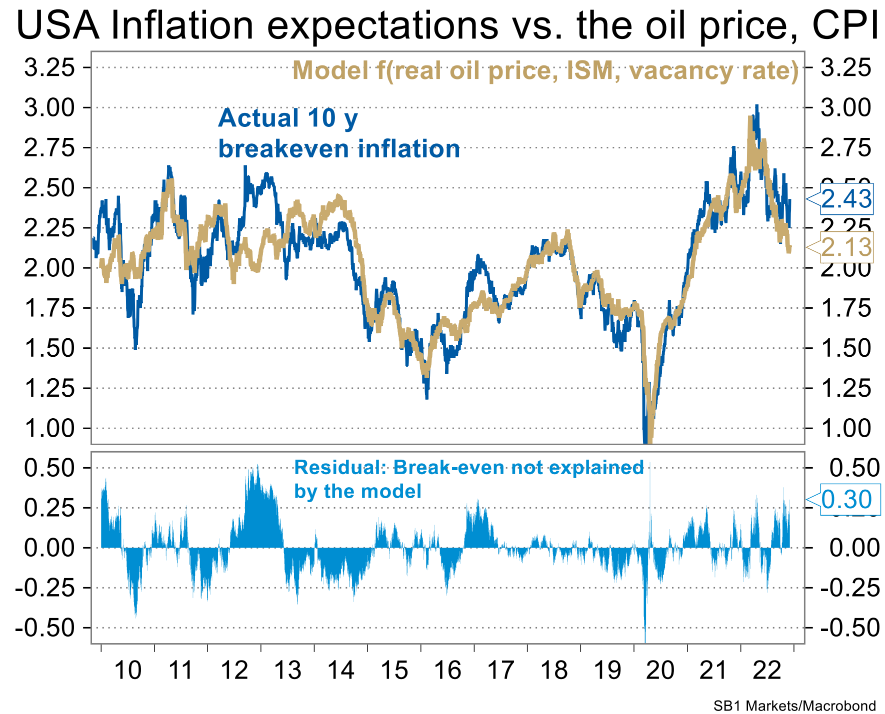
Memo: Our NOK inflation expectation proxy is a weighted average of EUR, SEK, GBP, and USD inflation swaps, cross-checked vs historical inflation differentials and inflation expectations from surveys

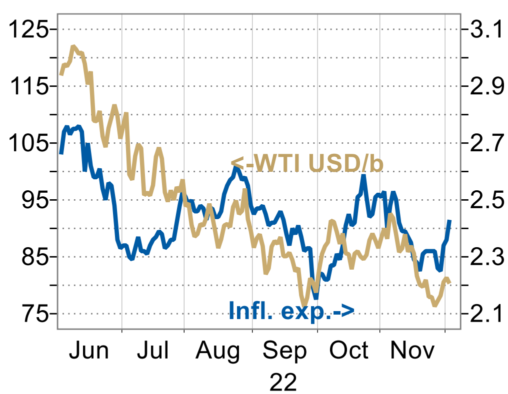
SpareBank 1 MARKETS

US inflation expectations up last week, the gap to our model est. widened

Our model, based on the oil price, ISM & the vacancy rate suggests a 30 bps decline in 10 y inflation expectations



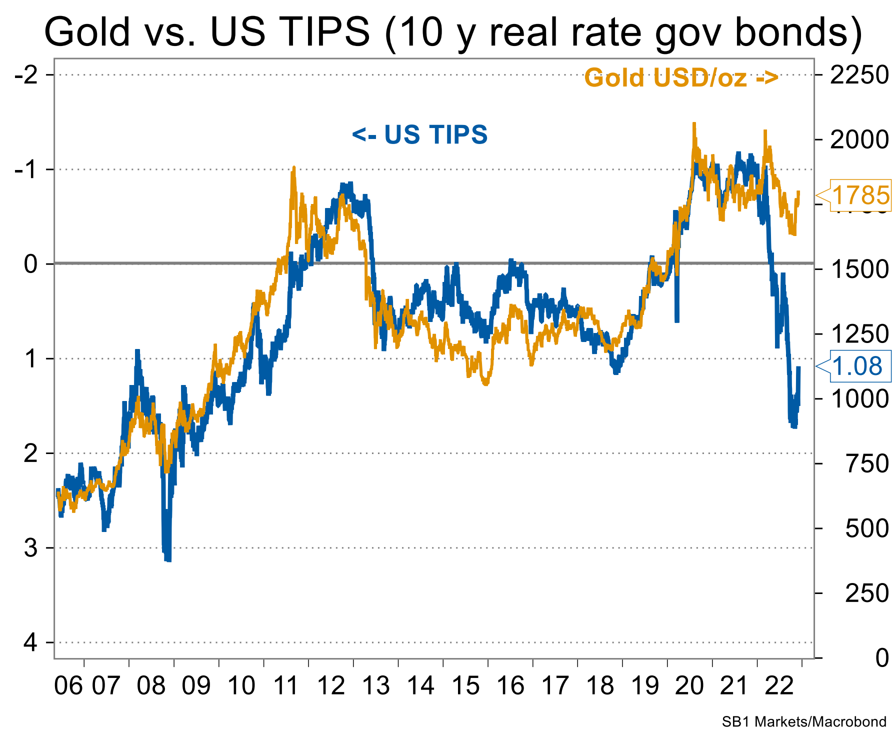




- A simple model including the spot oil price, the current ISM and the current vacancy rate pretty well explains the long-term breakeven inflation expectation in the bond yield curve
- What now? We are uncertain about the oil price, but rather confident that both the ISM, and the vacancy rate will decline.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

Why is the gold price still up there? The real rate signals USD 1,100/oz

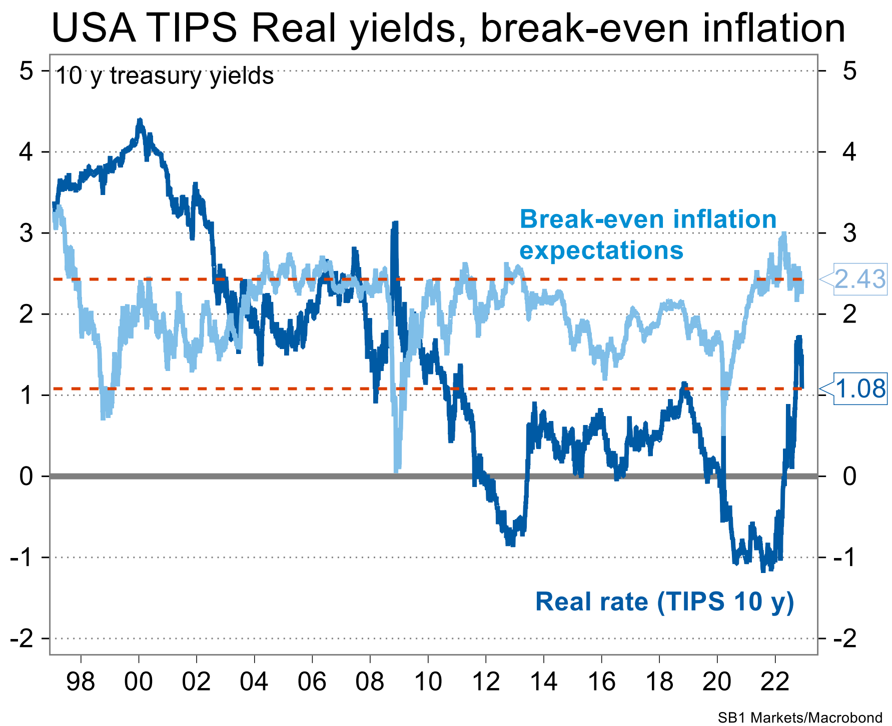
An 75% premium due to geopolitics, inflation fears (which are not captured in the yield curve)?

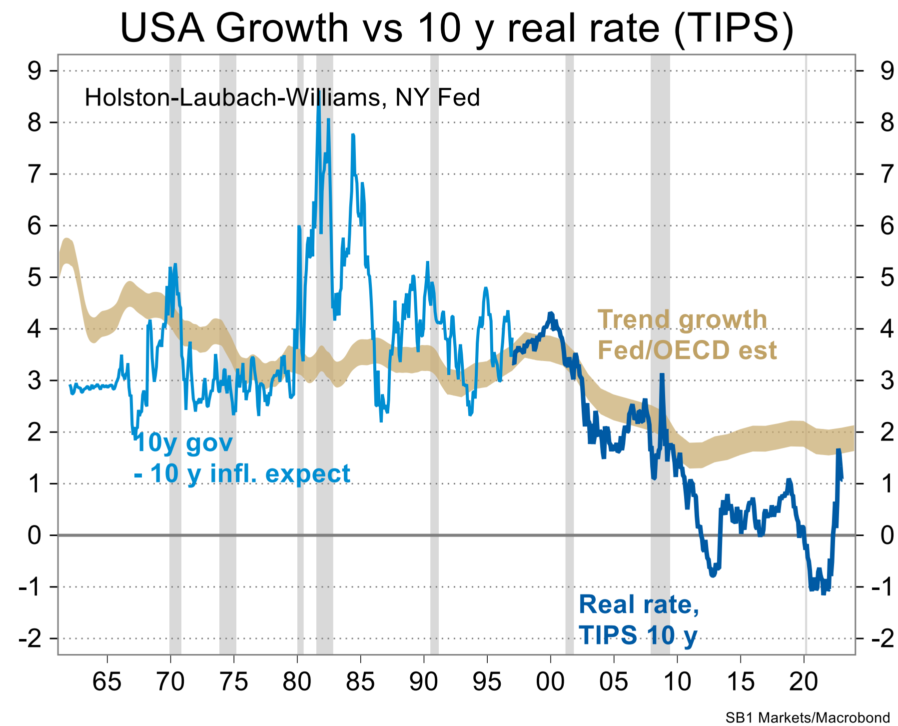


- Seems rather excessive

Growth vs real rates: Real rates on the low side but not by much

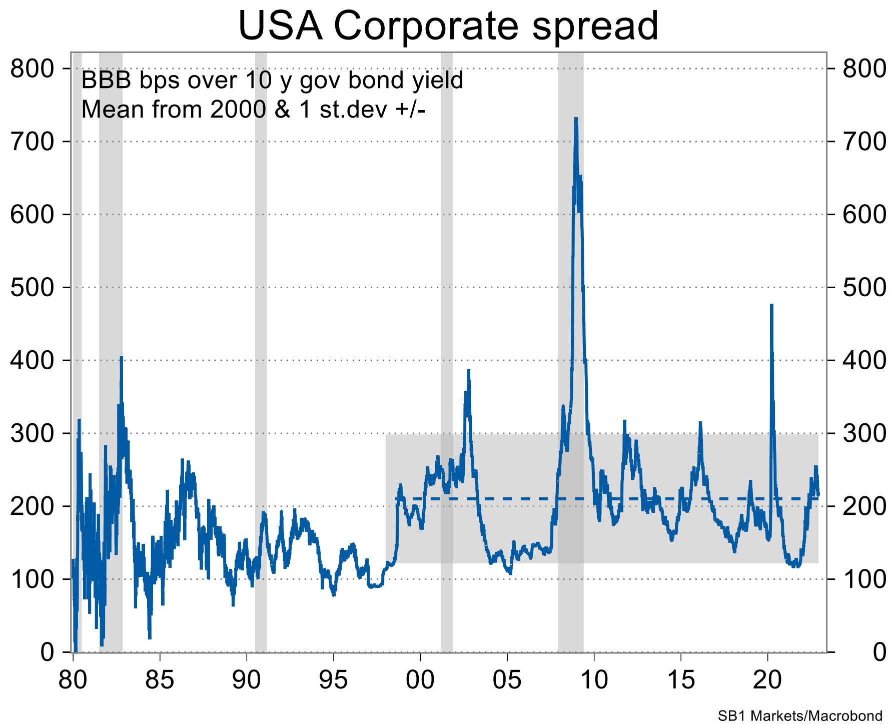
At least not compared to the differential during the pandemic





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

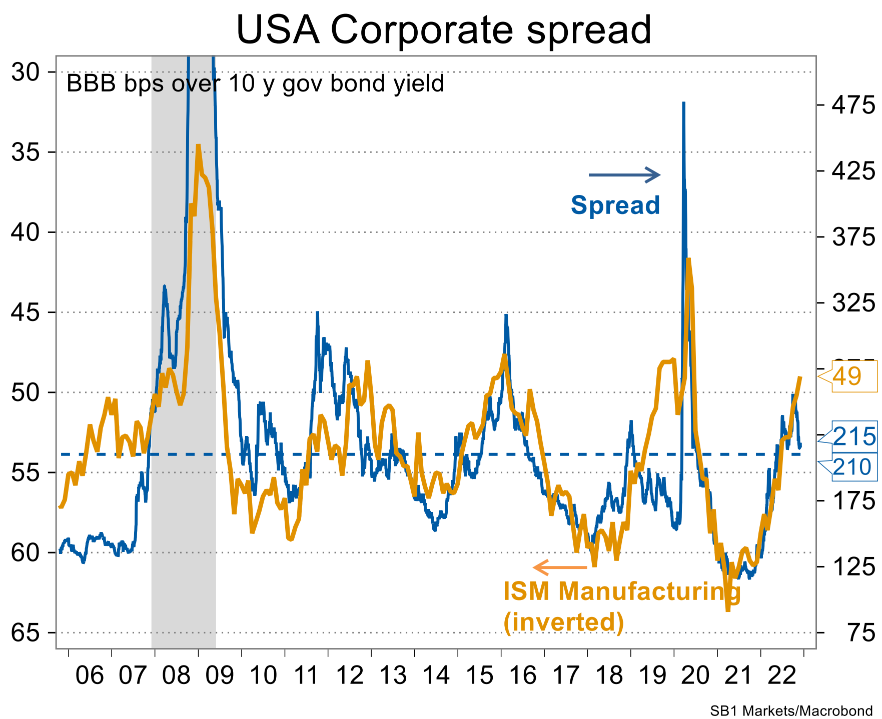
We think the trend is still up – and we expect more to come (because the economy will weaken)

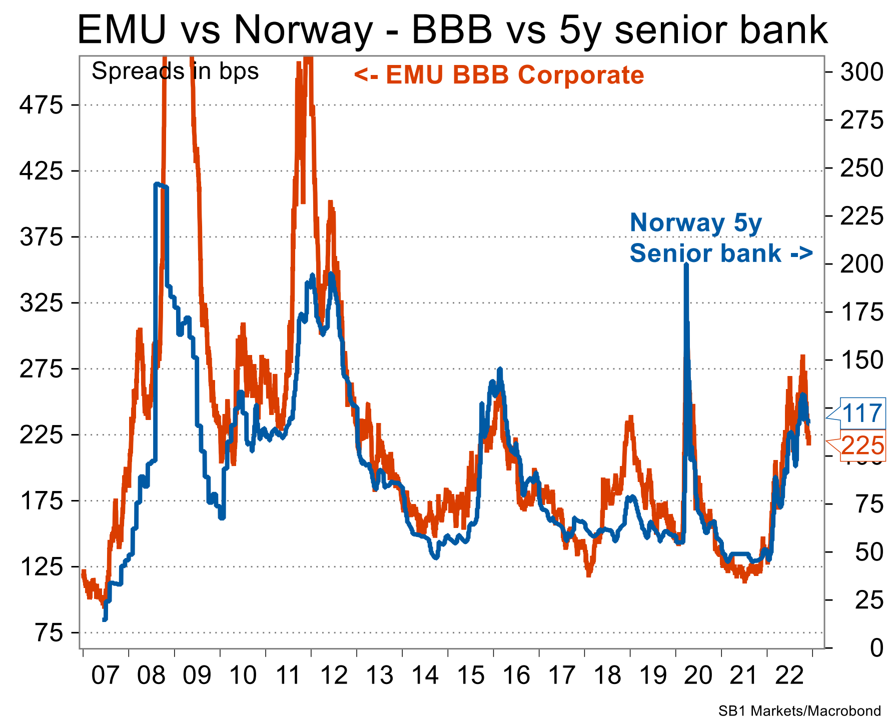


- The US BBB spread is up 100 bps from the bottom last autumn, a doubling
- In addition, real rates have increased by 210 bps from the bottom late last year
- Thus, the basis for all valuation metrics has changed dramatically, check the chart two pages forward!

Mind a new gap: The economy is weakening (ISM), and spreads are narrowing

What do you think is more likely: An ISM at 45 or 55 in some few months time? We are quite sure…

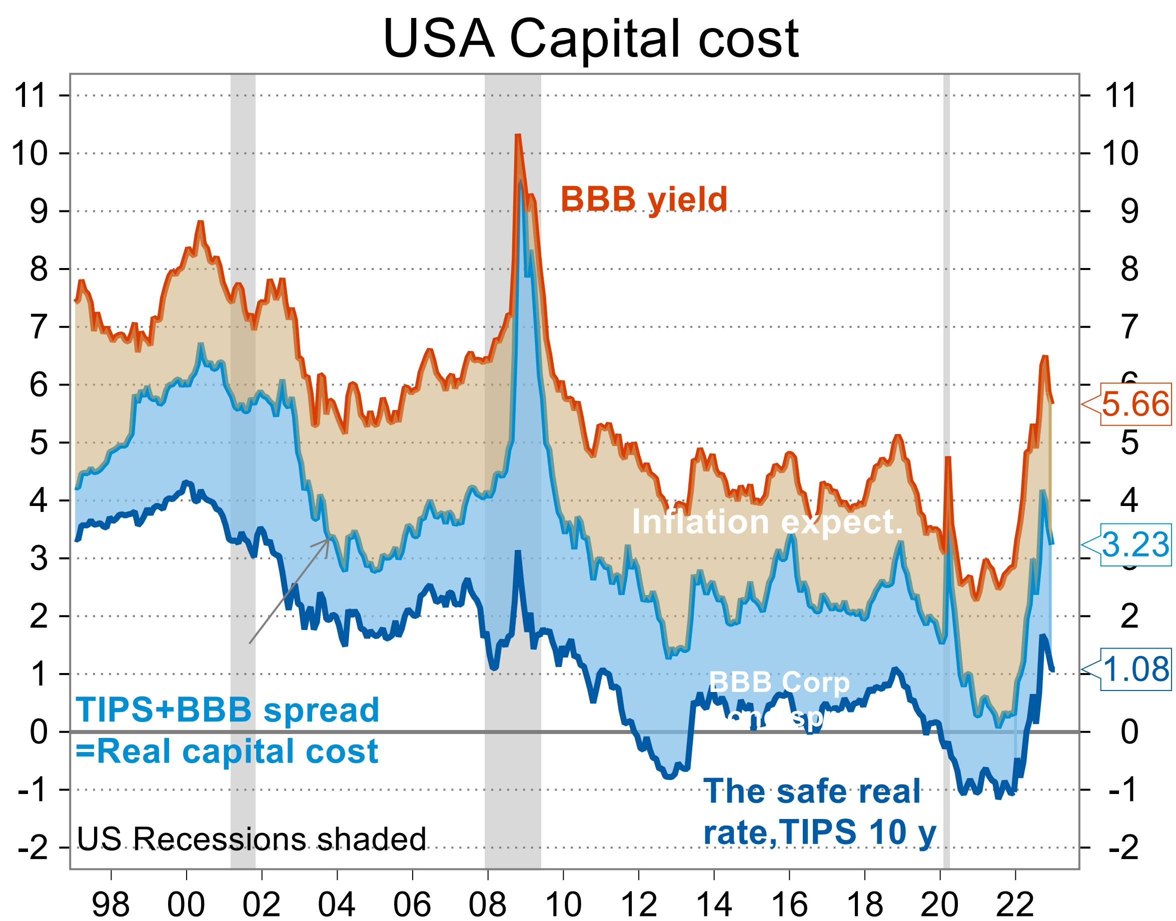




- The answer is not irrelevant for your view on the outlook for spreads, we think
- And do you think Norwegian spreads will be influenced by changes in the global credit market?
- Last week: Norwegian credit spreads continued downwards but less than the decline in ‘global’ spreads indicates, down 2 bps to 117 (the bank 2, 5y benchmark)

The cost of capital is declining but still remains high (vs past 13 y history)

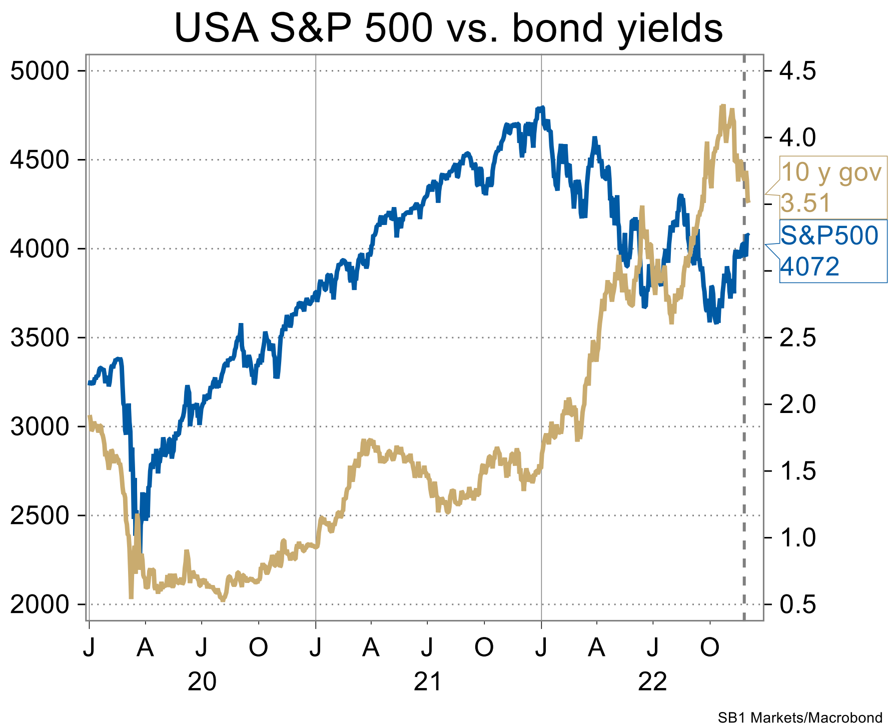
All valuation metrics have changed dramatically. *As have all calculations of return on capital*

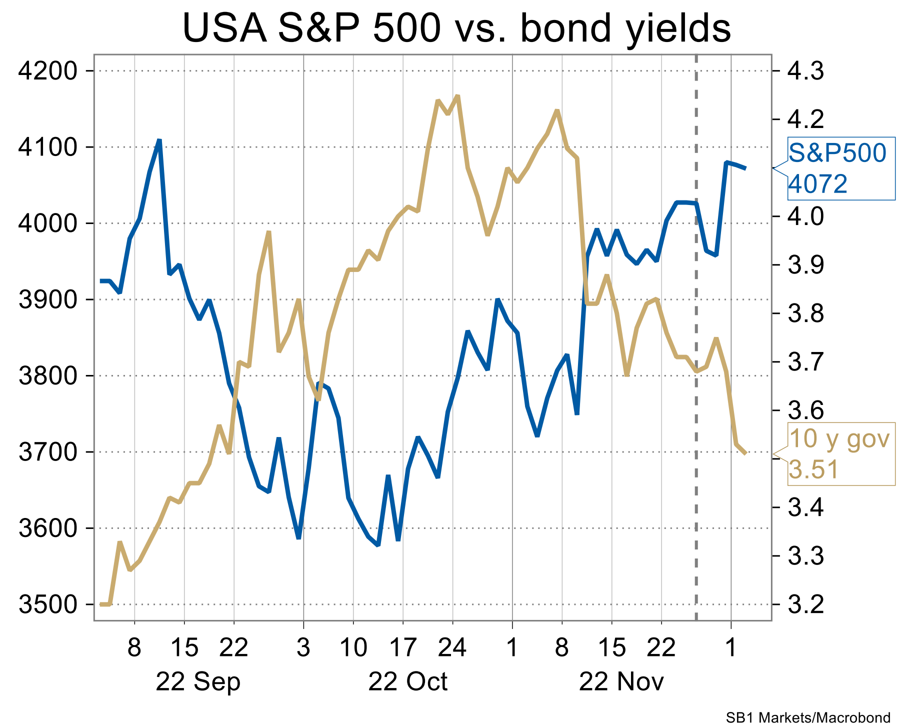


SB1 Markets/Macrobond

- Spreads and real rates fell last week but the story remains intact
- The total real borrowing cost for a BBB company has increased to 3.2% bps from zero by the end of last year:
  - The TIPS real rate is up from -100 to + 108 bps
  - The BBB corporate investment grade spread is up from 120 bps to 115!
- Add on modest inflation expectations, the nominal borrowing cost has increased from well below 3% to 5.7% (though down from 6.7% at the local peak in October)

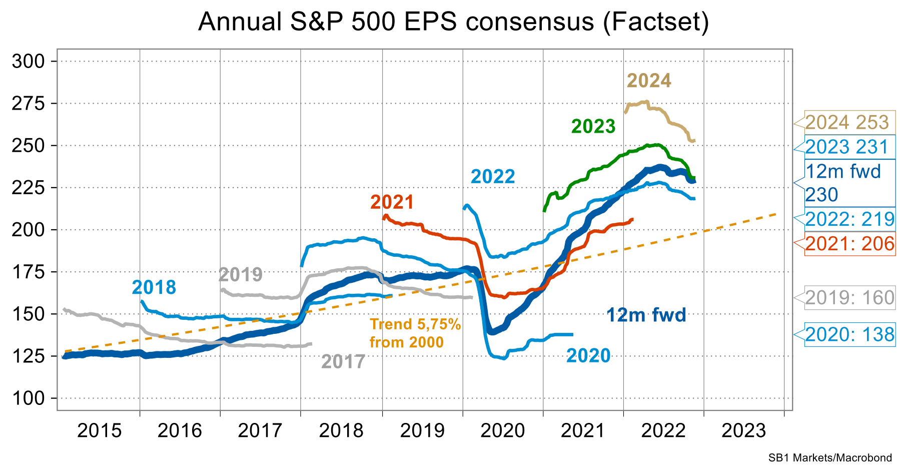
S&P further up, bond yields down again, back to the late September level

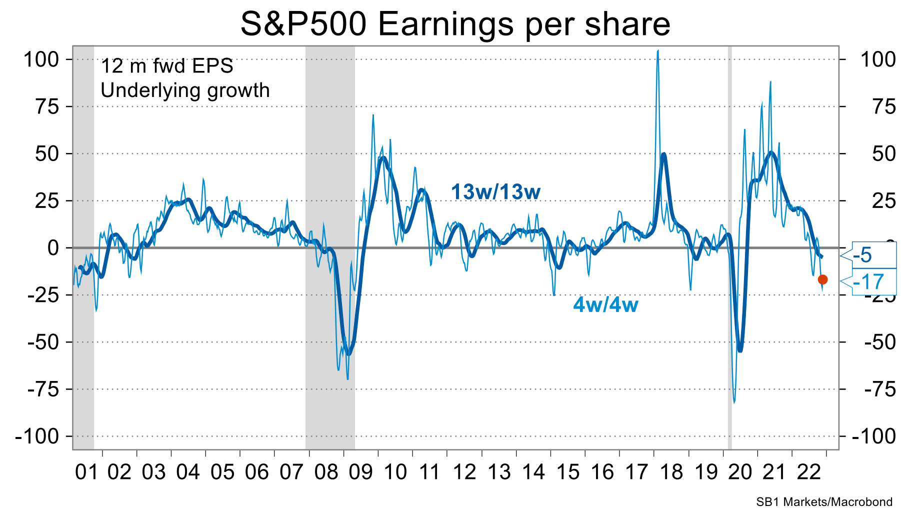


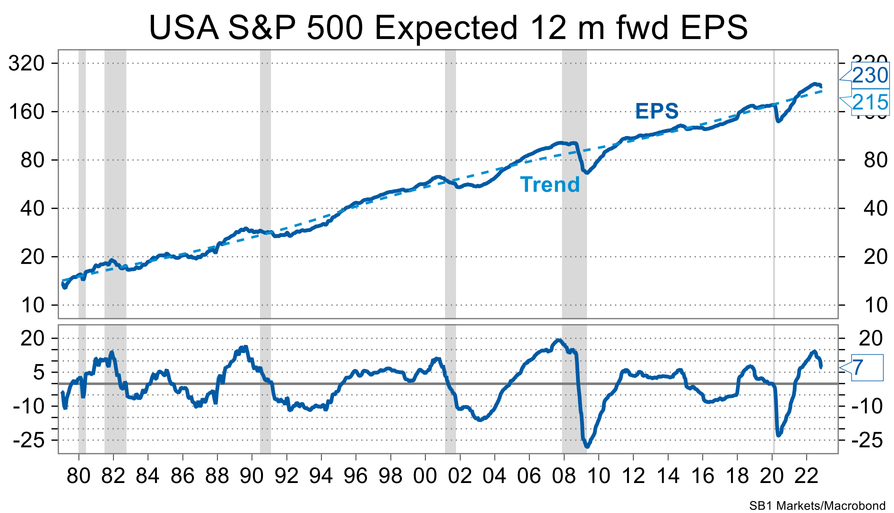


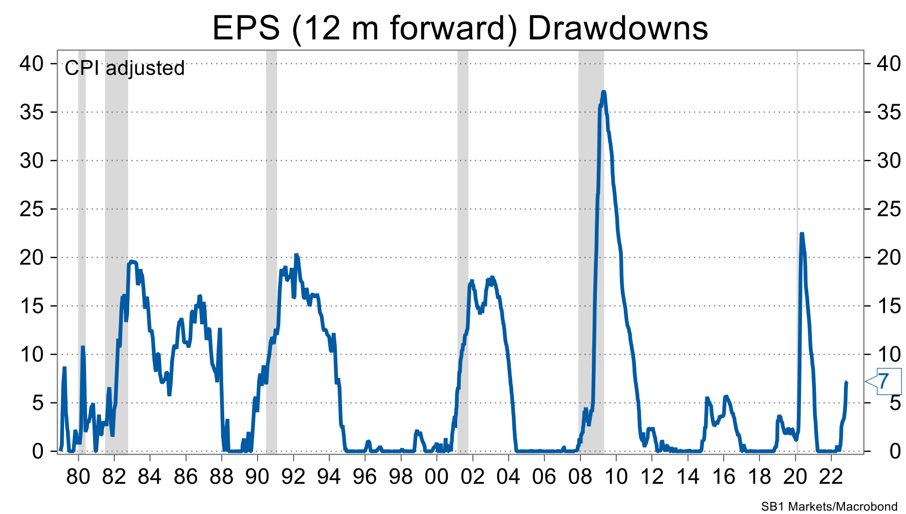
Earnings forecasts downward revisions are accelerating

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



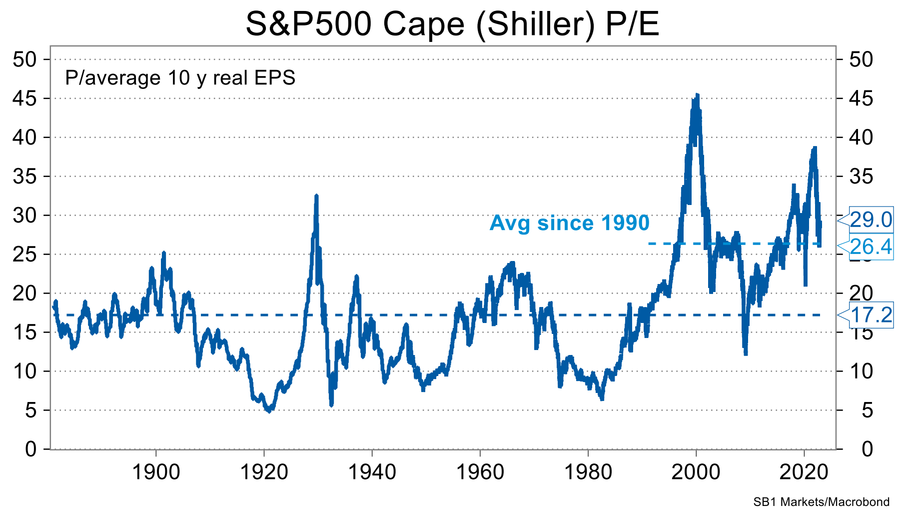


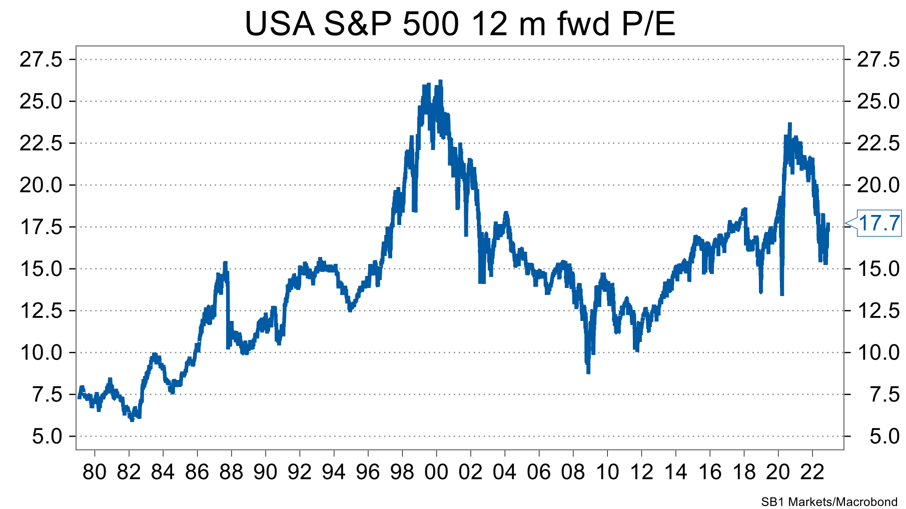


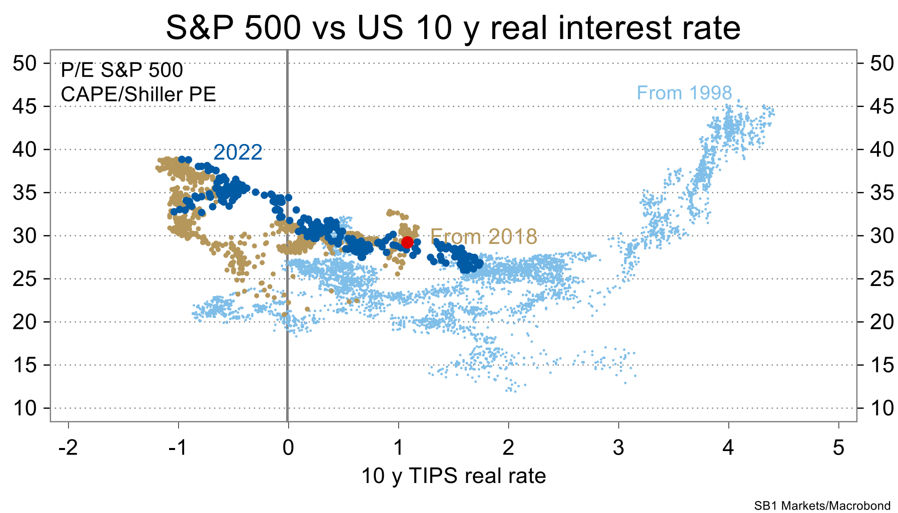


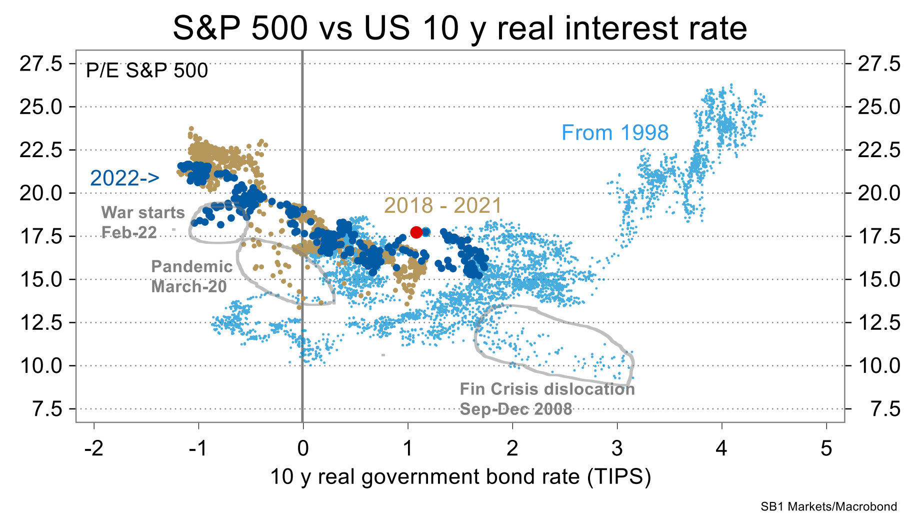
4 valuation charts: Check the extreme tight correlation between real rates, P/E

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



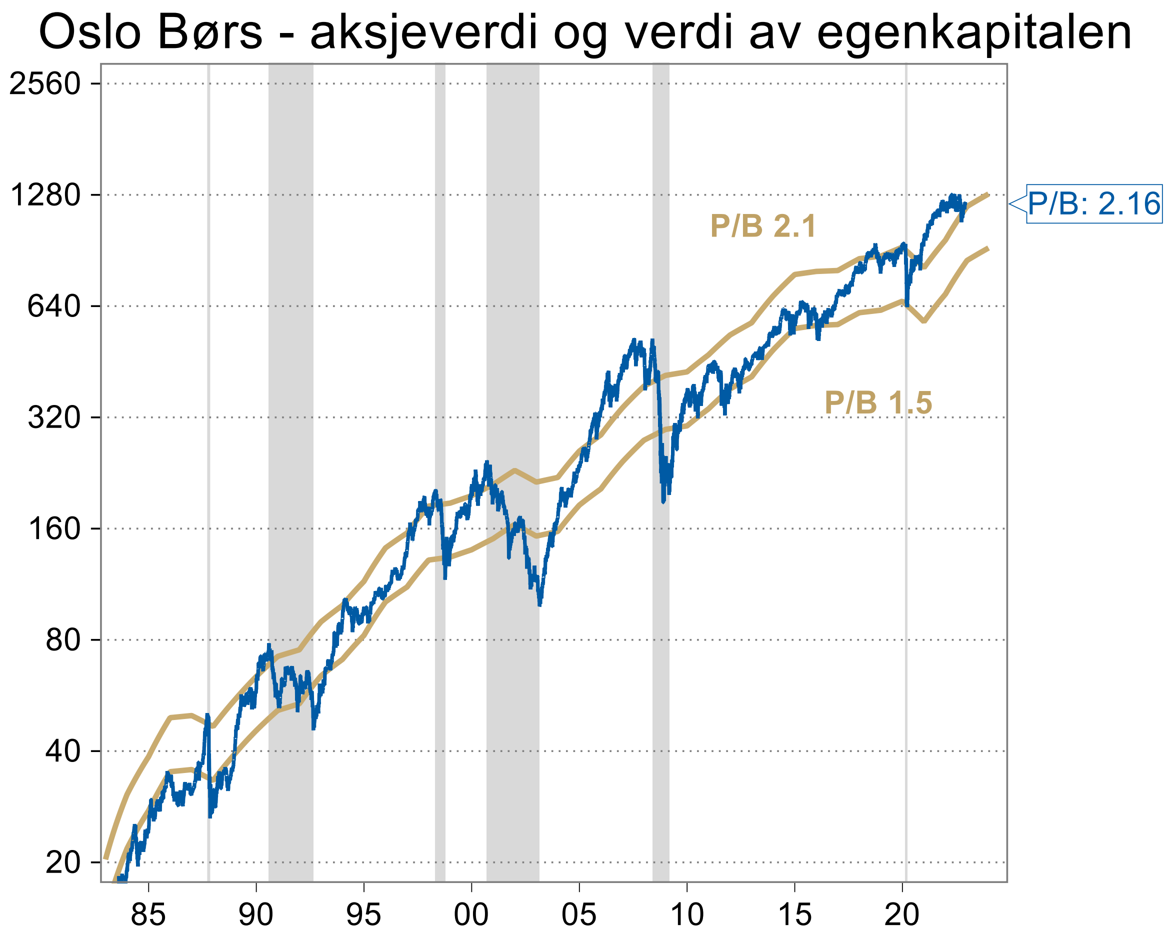




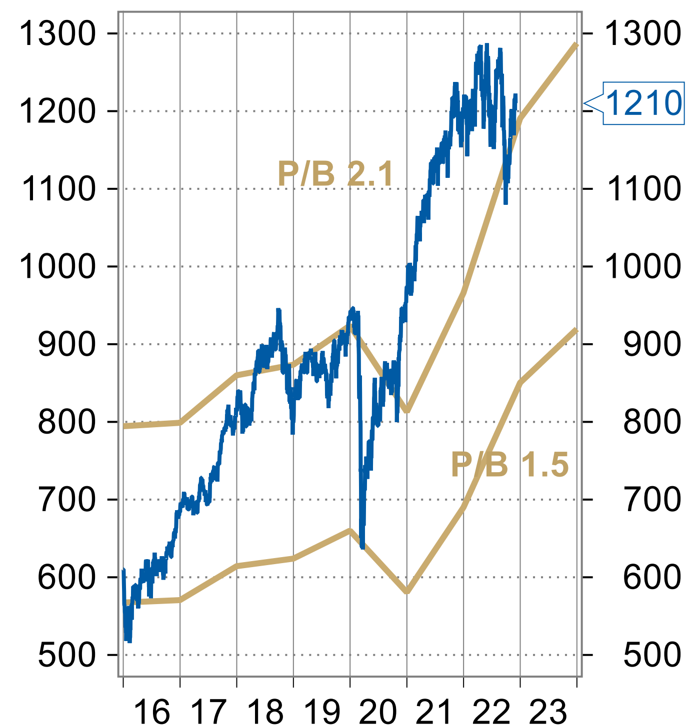


The OSEBX down 0.5% - to a Price/Book at 2.16

The book value is growing rapidly, due to the extremely strong energy sector earnings



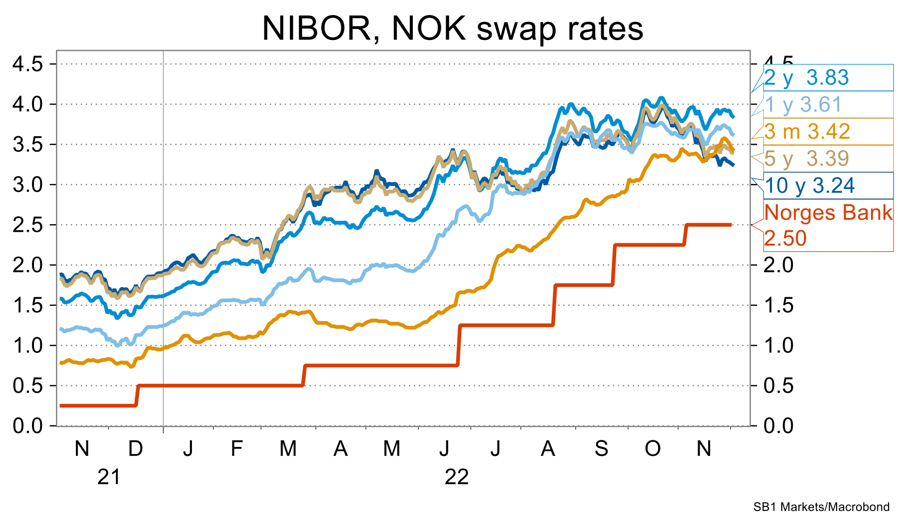
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

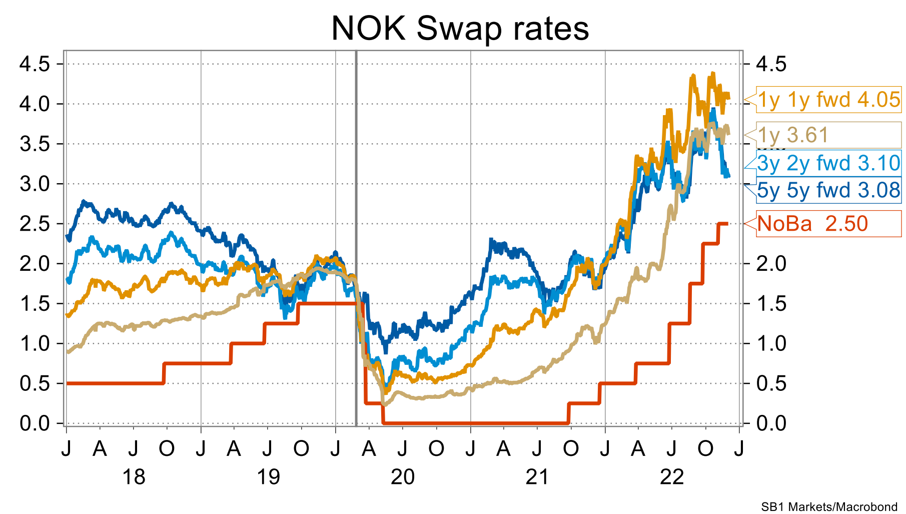


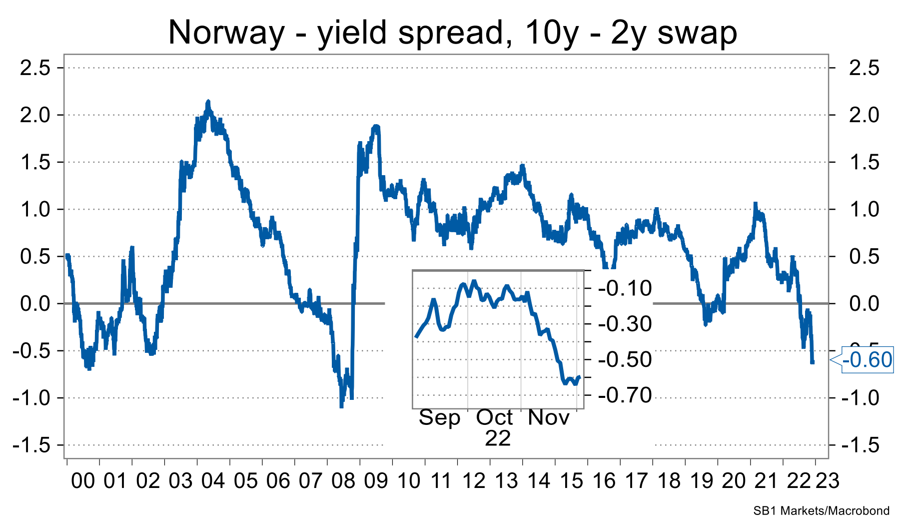
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

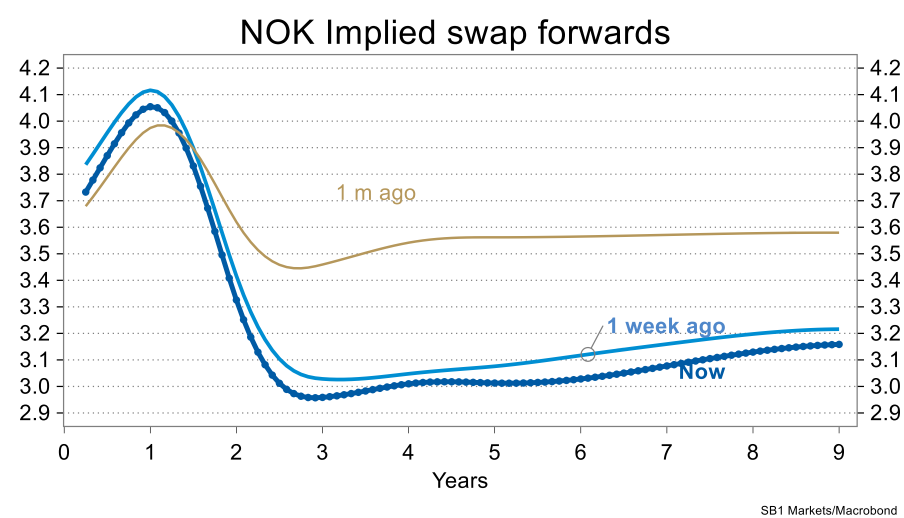
Rates down all over the curve

The 3m NIBOR calmed down, -14 bps to 3.42%, still high vs a reasonable NoBa hike path





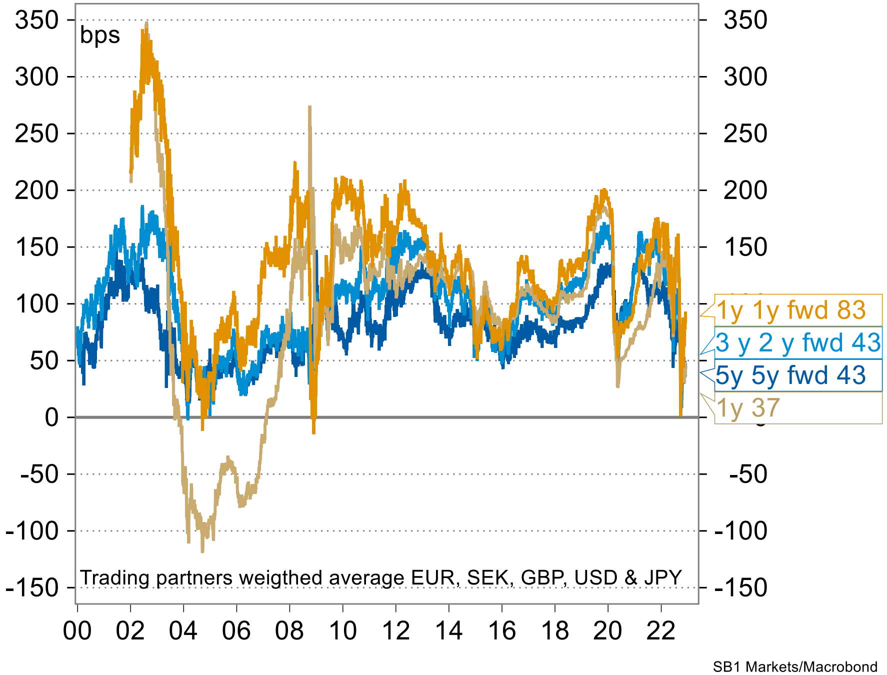


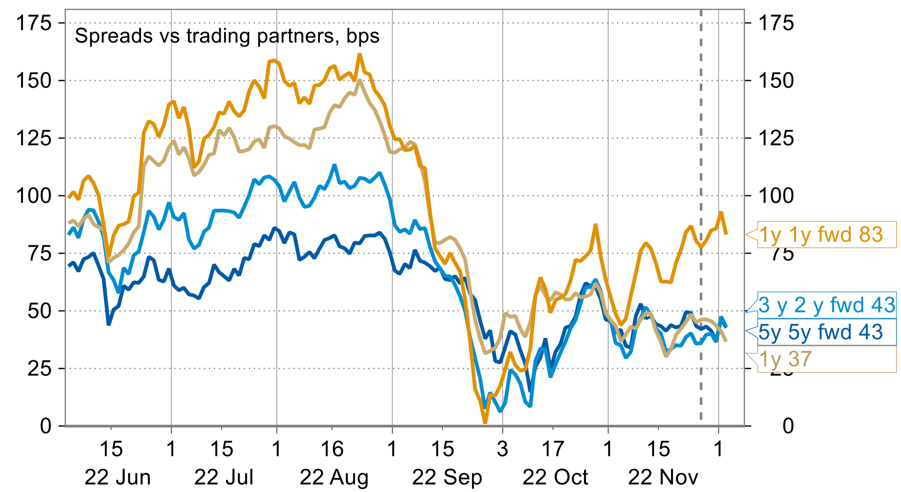


Rate spreads widened marginally; Level probably OK

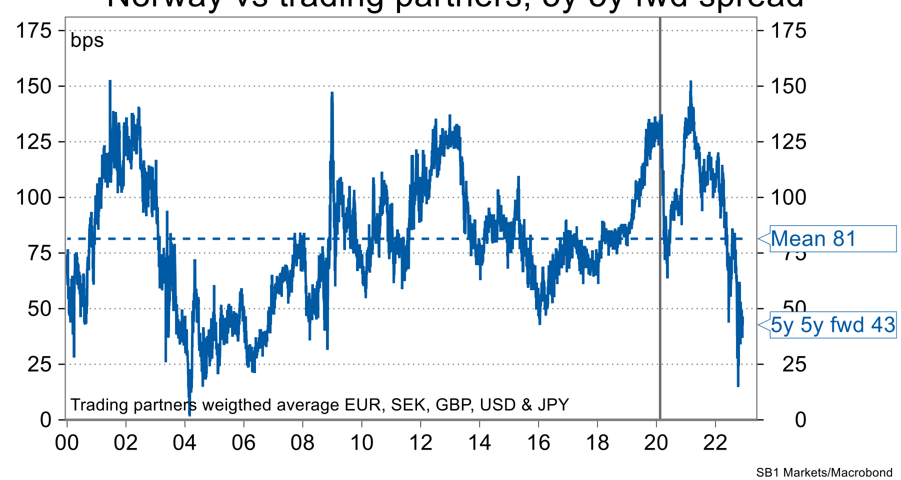
The potential at the downside is probably limited (barring a Norwegian housing collapse)

Norway vs trading partners, impl swap spreads





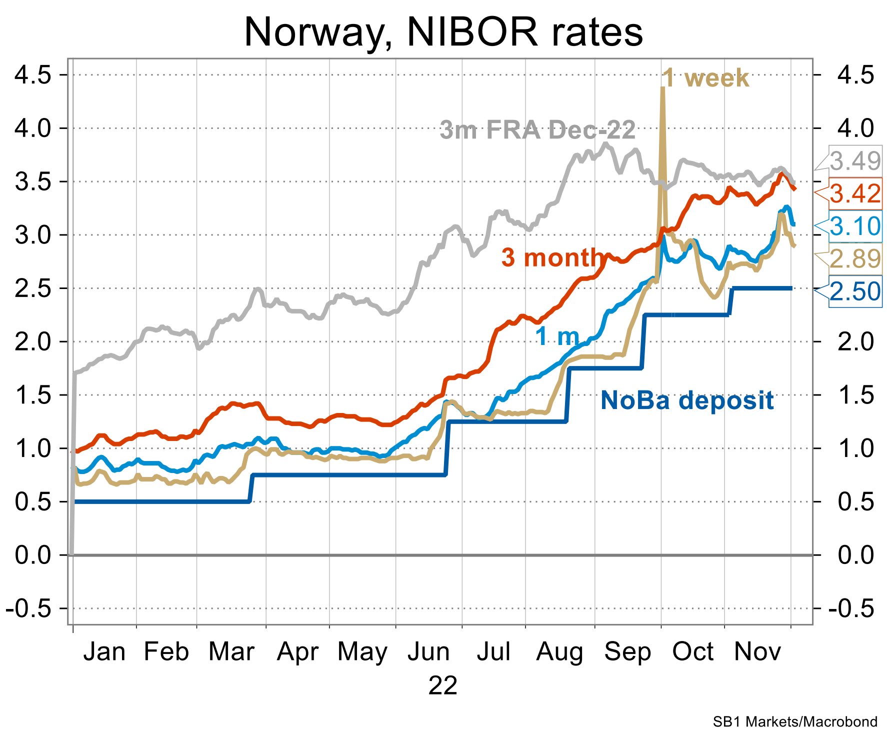
Norway vs trading partners, 5y 5y fwd spread

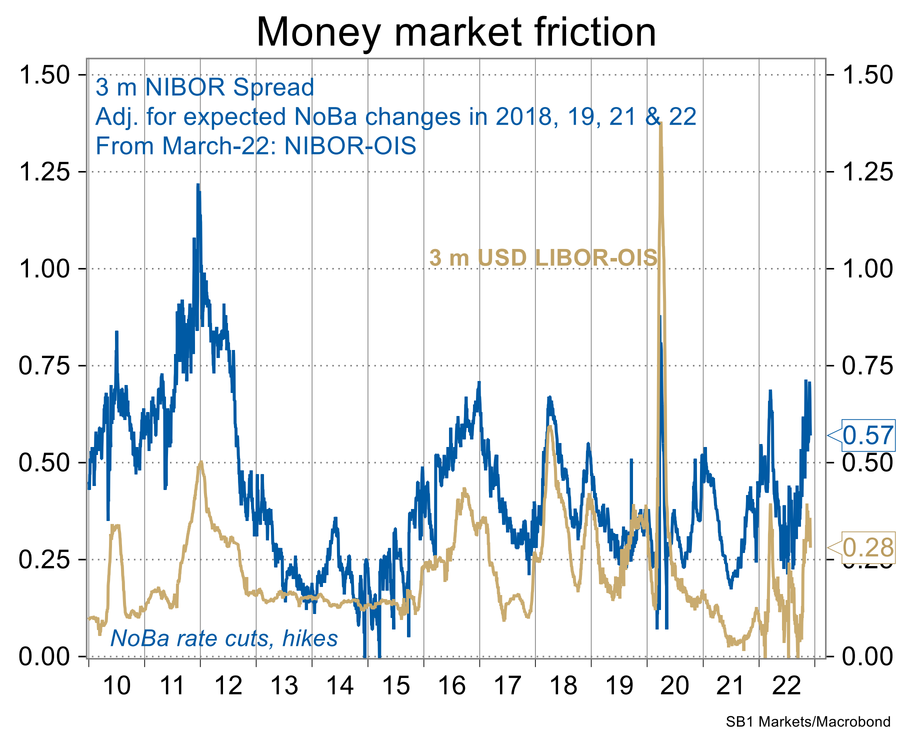


- NOK rates are far below the average level among our trading partners
- We assume spreads now should be far lower than the historical average but that that positive spreads are still more likely than a negative spread, due to still low EMU rates
  - The main downside risk vs spreads: A much weaker Norwegian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

The NIBOR spread fell 6 bps to 0.57%, less liquidity concerns

The NIBOR spread is still well above a normal level (some 35 bps)

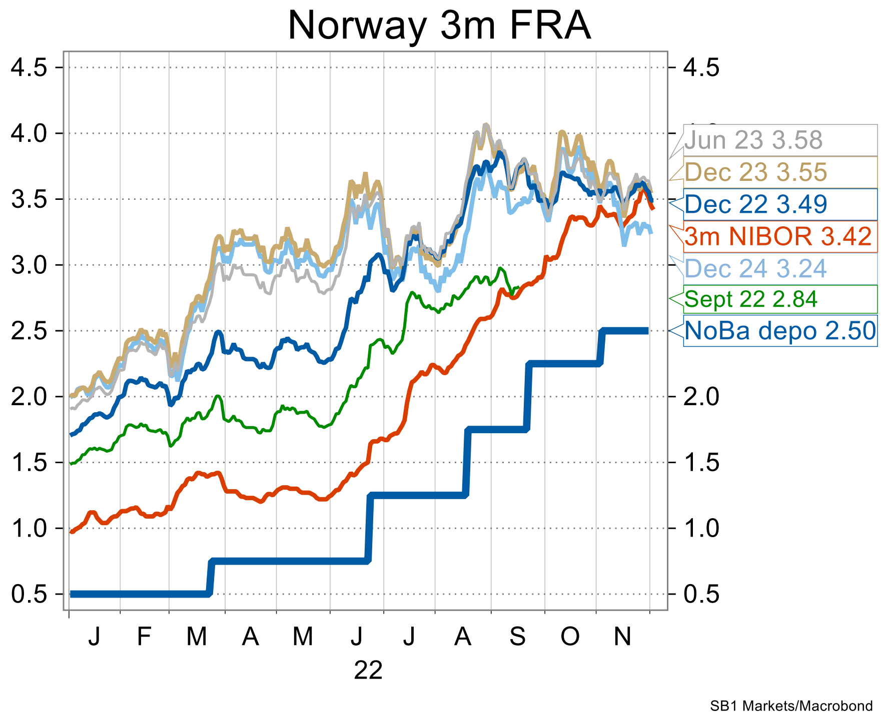


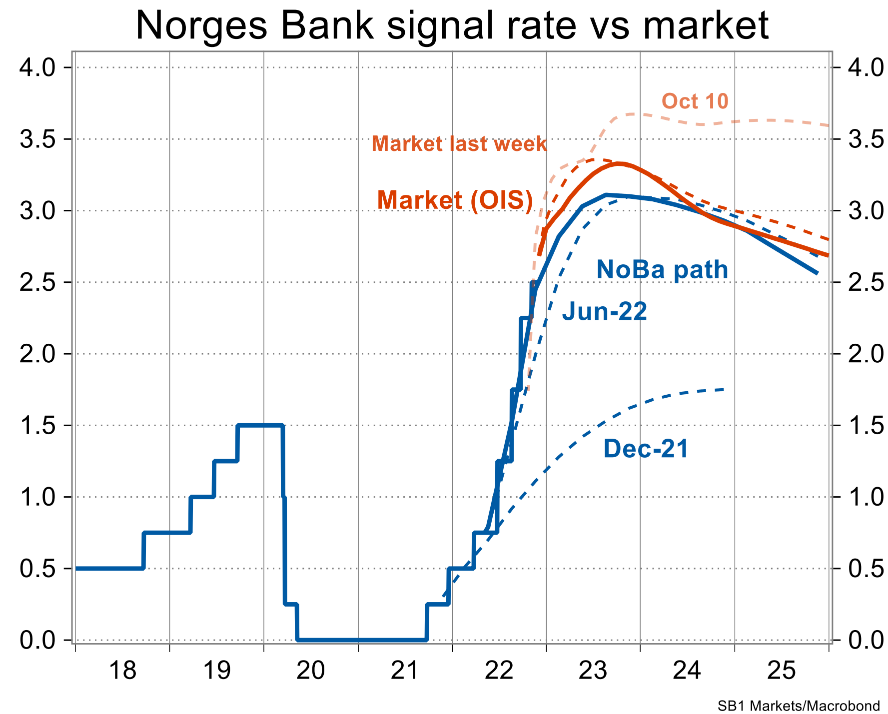


- The NIBOR spread narrowed even if Norges Bank cut back on NOK selling for the Oil fund, to NOK 1.9 bn/d from 3.7 bn/d a sharper cut than most market participants probably expected

(Real) rate expectations down last week too

A 90 probability for a 25-bps hike in Dec, from 66% last week. A 50 bps hike is unlikely – as we thought all the time

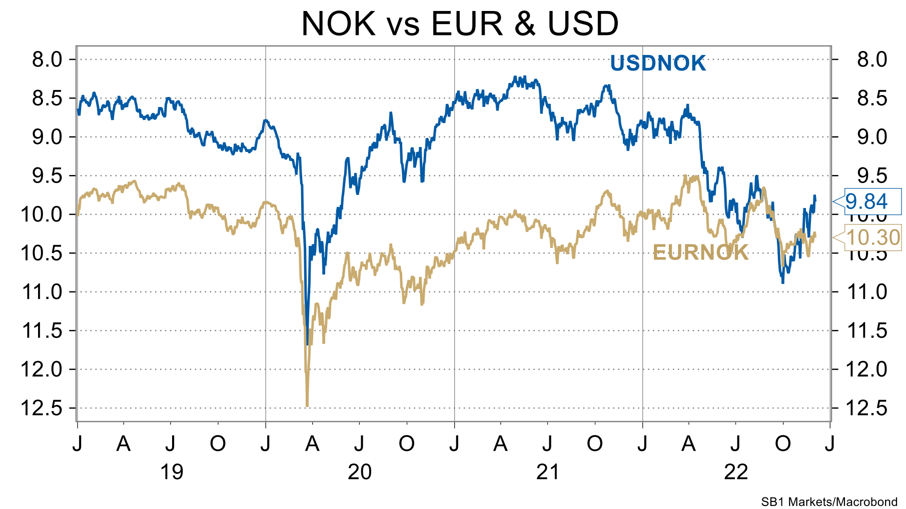


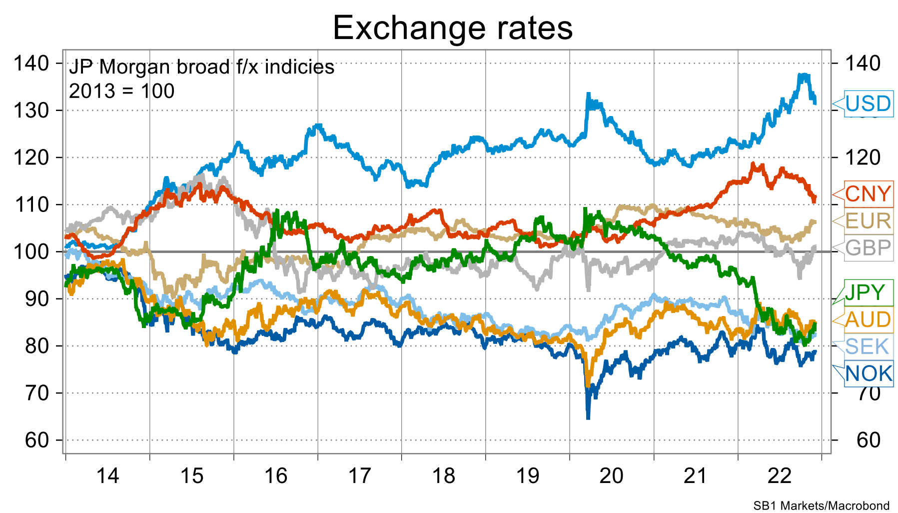


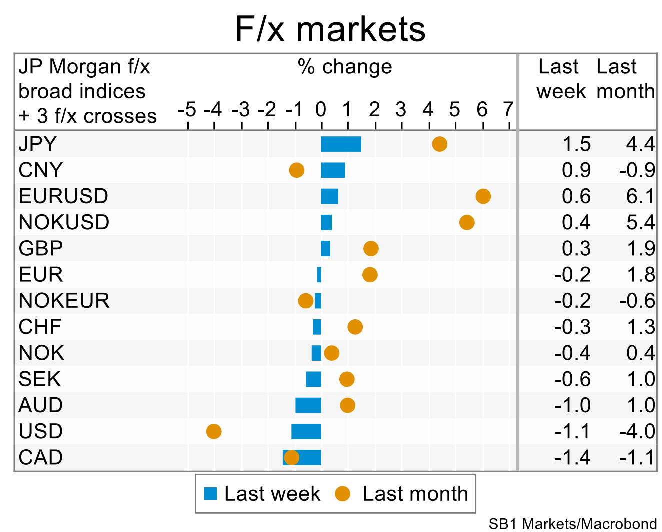
- Thereafter, 2 or 3 x 25 bps hikes are discounted in 2023, the first in January, and up to 3.3% by end of 2023, 25 bps above NoBa's September interest rate path

USD the last week's loser (again), CNY, JPY the winners. NOK marg. down

Softish signals from the Fed – and at least partly from the US economy helped the greenback down





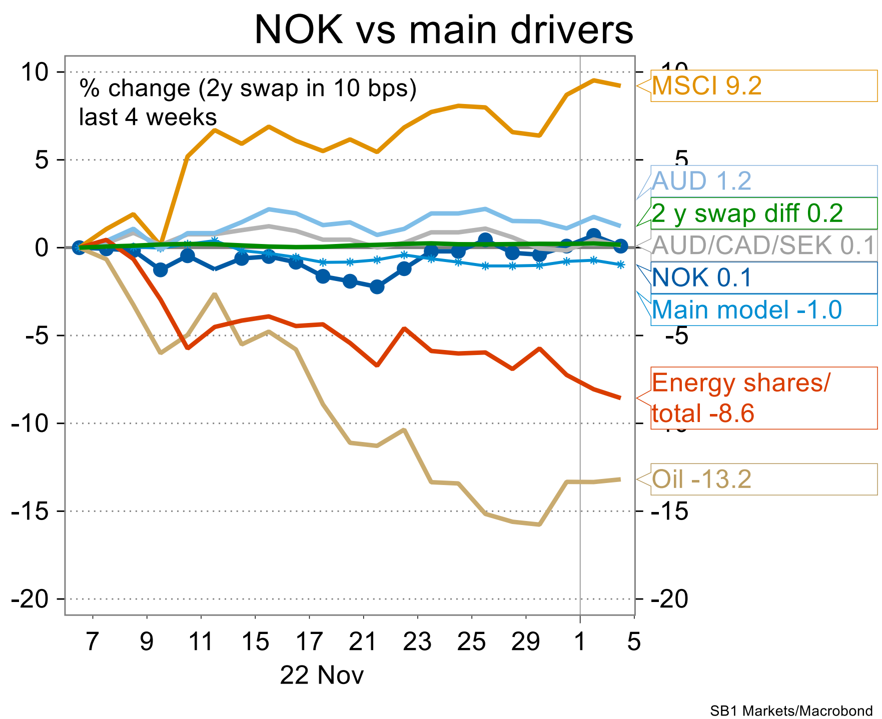


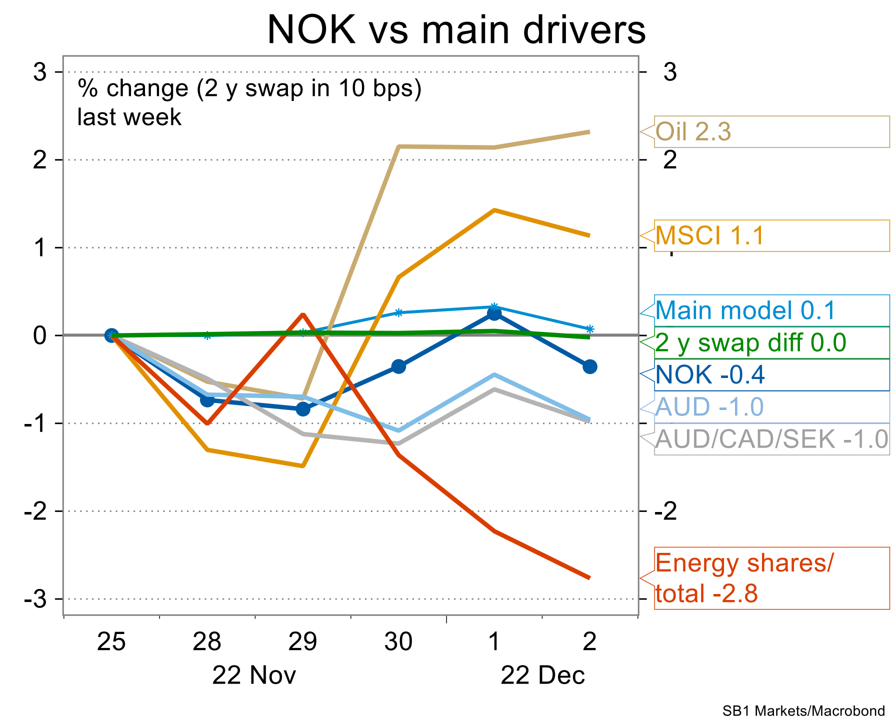
JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
JPY	1.5	4.4
CNY	0.9	-0.9
EURUSD	0.6	6.1
NOKUSD	0.4	5.4
GBP	0.3	1.9
EUR	-0.2	1.8
NOKEUR	-0.2	-0.6
CHF	-0.3	1.3
NOK	-0.4	0.4
SEK	-0.6	1.0
AUD	-1.0	1.0
USD	-1.1	-4.0
CAD	-1.4	-1.1

SpareBank 1 MARKETS

NOK down 0.4% even if the oil price, global equities rose – after a strong week

The NOK is still 0.9 % above our model estimate



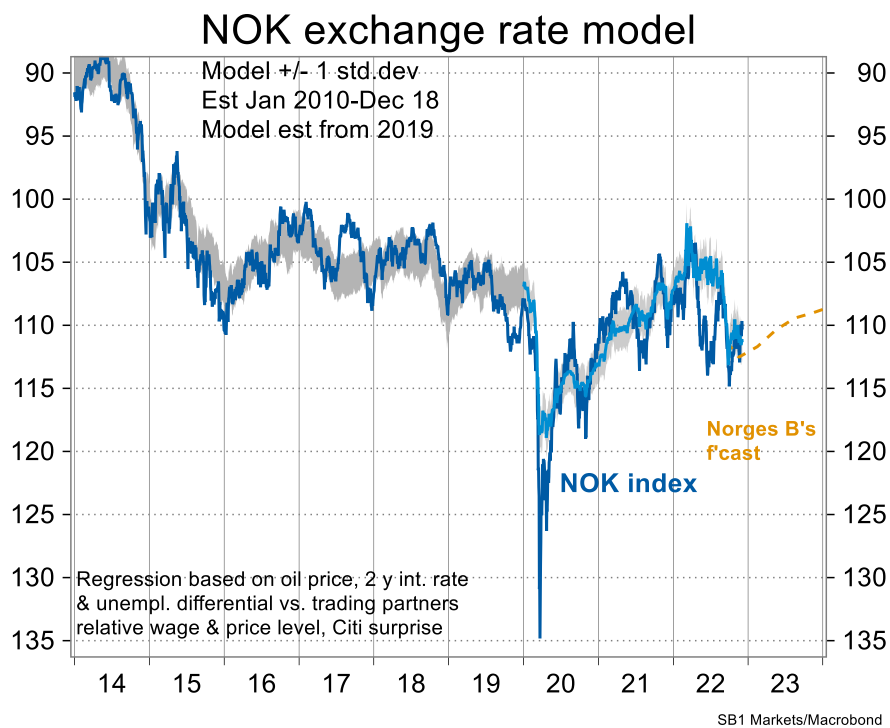


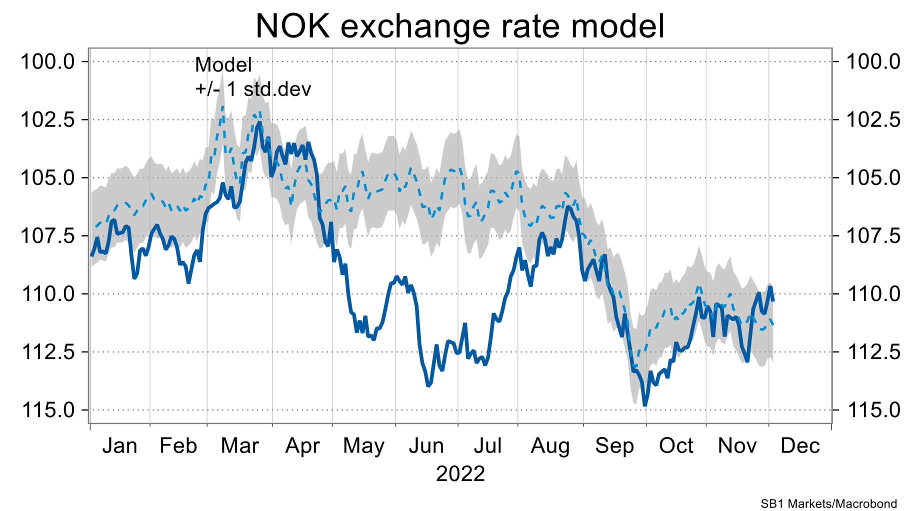
Gaps vs. our model estimates narrowed further last week

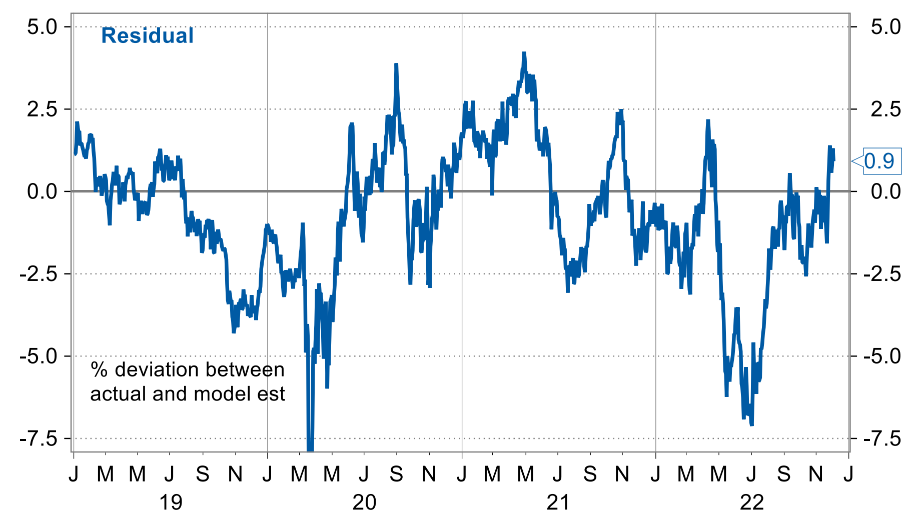
- ***NOK is 0.9% <u>above</u> our main model estimate (from 1.4%)***
- The NOK is 4% <u>weaker</u> than our **AUD/CAD/SEK-model**, our 'super-cycle peers', predicts, a substantial weakening (from -6%)
- NOK is 2% weaker than an estimate from a model that includes global **energy companies' equity prices** (vs the global stock market) (from -3%)

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 remained above our model estimate, by 0.9%

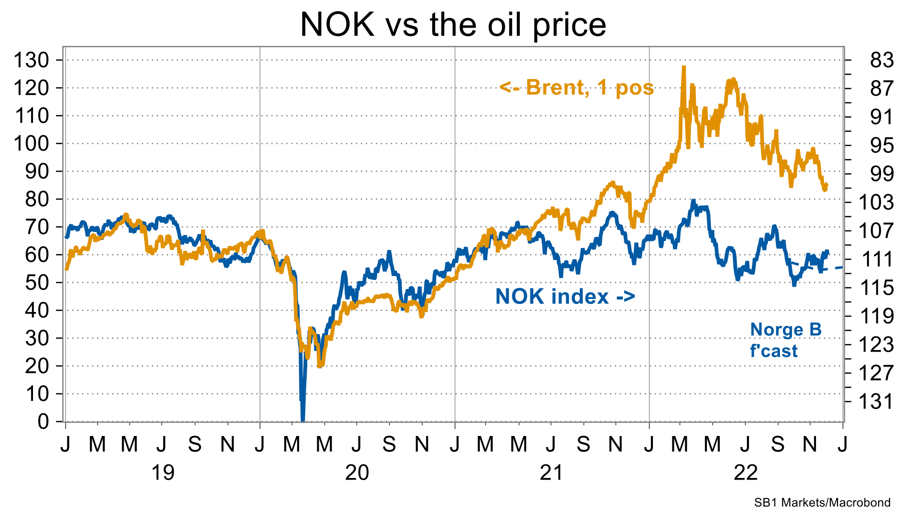


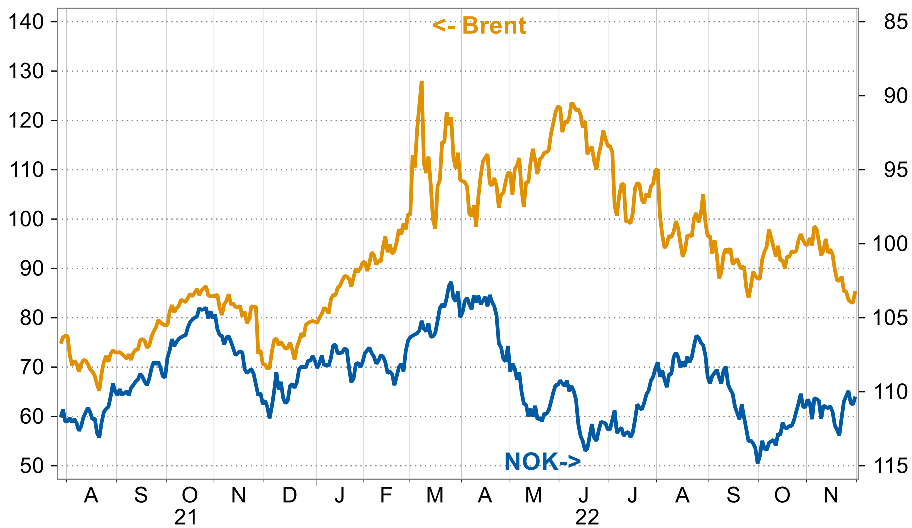


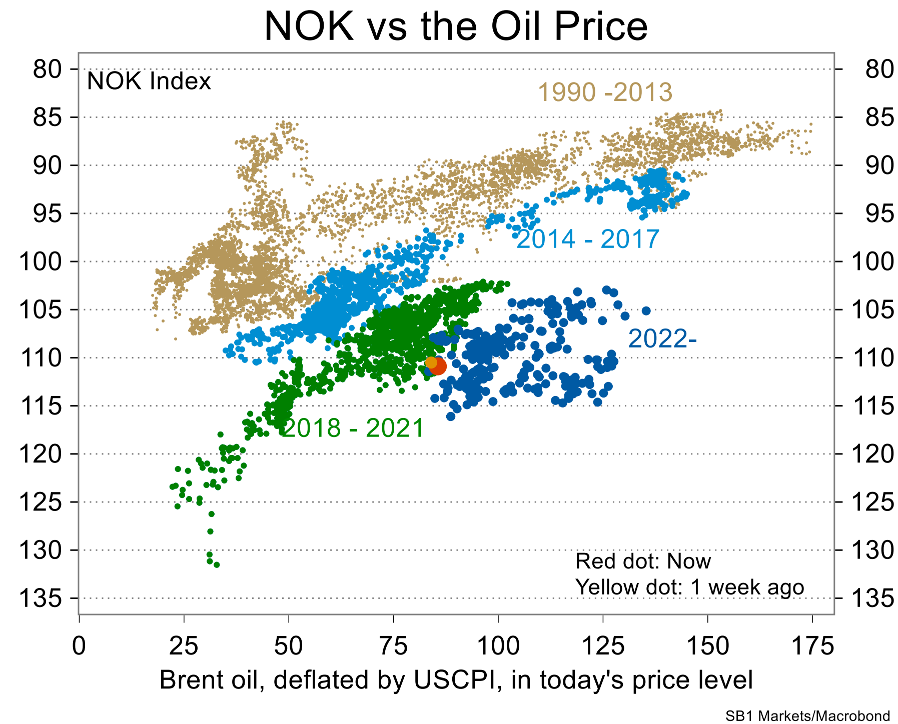


Oil up, NOK marginally down

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

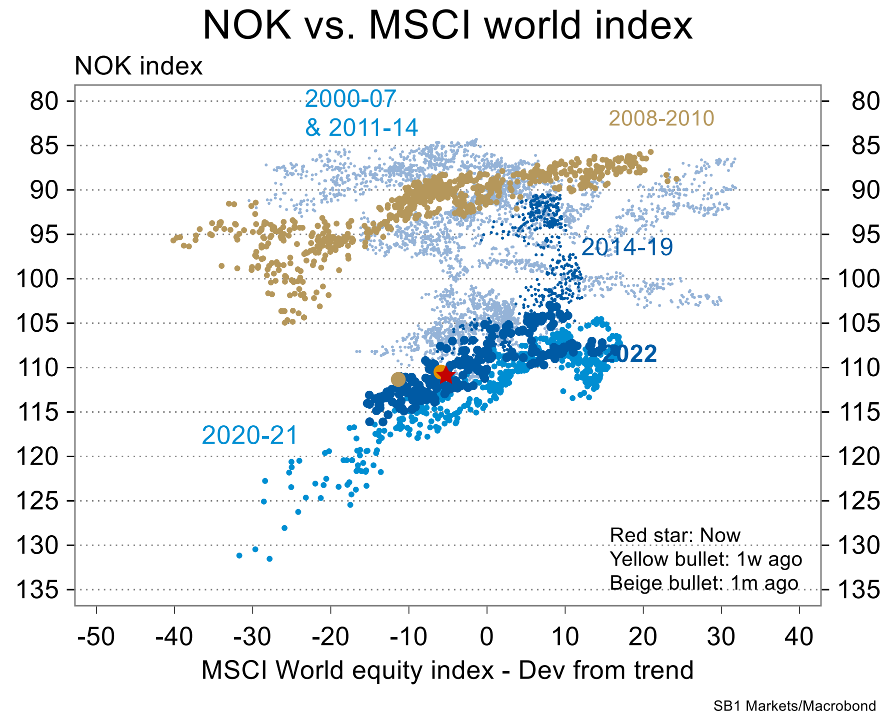






Small changes in both NOK and global equities

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*

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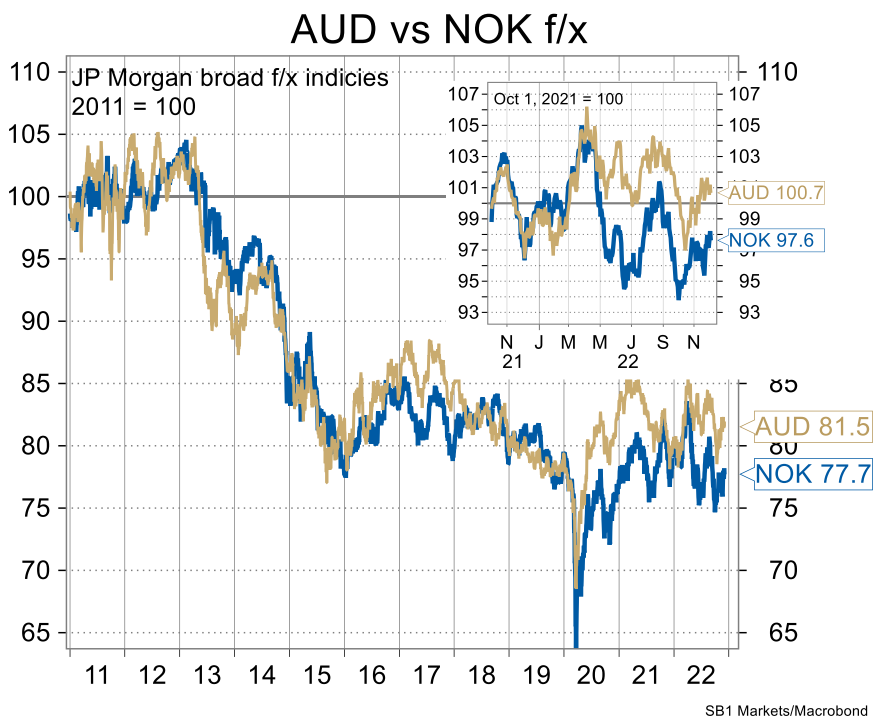
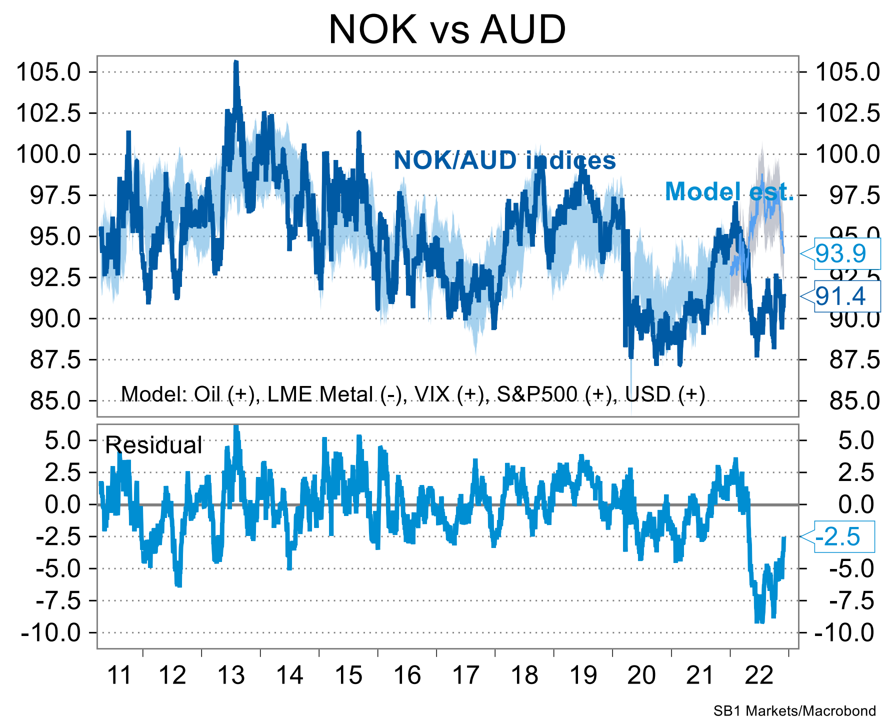
The AUD fell more than the NOK; the gap vs. our AUD/NOK model narrowed

NOK is just 2.5% below our model f'cast vs AUD (from -4%), the lowest residual since the spring!

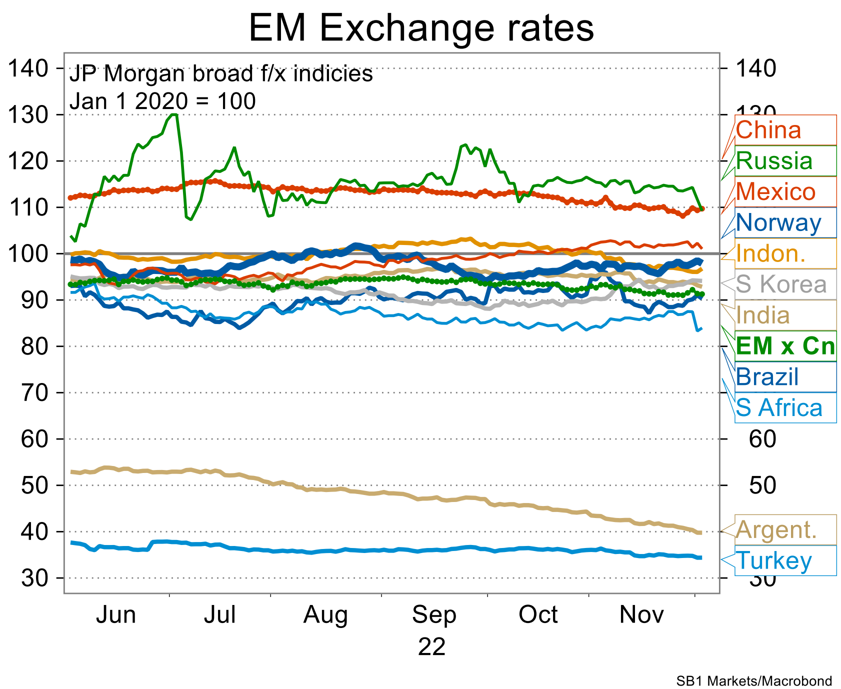


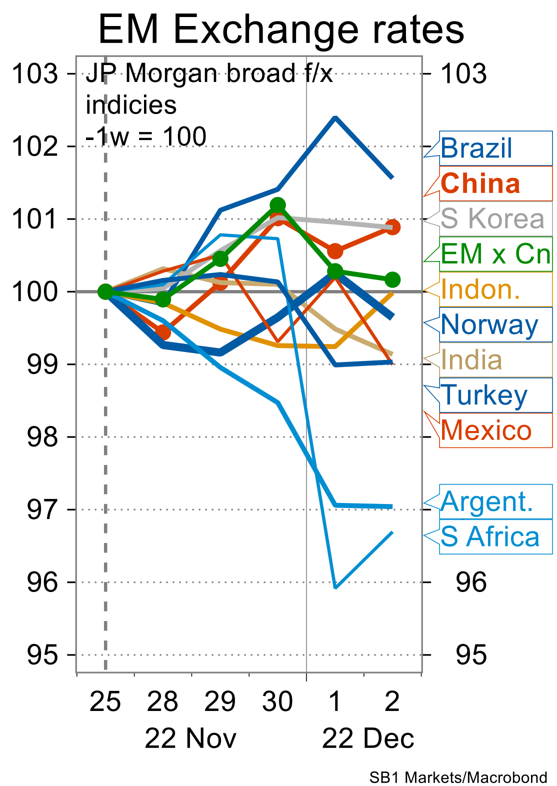


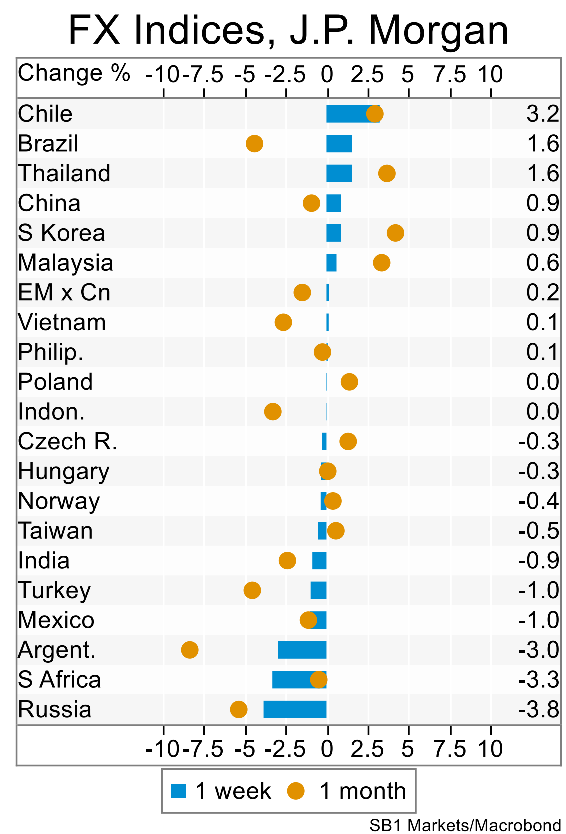
- The discrepancy between the NOK and AUD is unusual, given the normal factors that normally has explained the limited gap between the two
- Normally, NOK strengthens vs the AUD when the oil price rises vs. the LME metal index, when VIX, and the S&P500 index increases, and the USD index appreciates.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

Now Covid policy signal from China – this time for real? Markets think so

Mixed among other EMs. Russia on the downside as EU strives to put a cap on Russian oil prices







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