7 June 2021

Macro Weekly

Week 23/2021

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

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

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

Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week:

The virus

- **Good news** from most corners of the world. However, the **UK reported a further steep rise** in new infections last week, and that the Indian (delta) variant has gained a large market share (50% – 75%). Some other mutants may be around too. So it's clear where the corona risk remains, it's new and more aggressive mutants. If they do not arrive, the pandemic is more or less over in the rich part of the world. Hospitalisations & deaths have fallen even faster the no. of new cases
- **Mobility** is rising everywhere in DM as the negative drag from corona restrictions/cautious behaviour is easing

The economy, part I

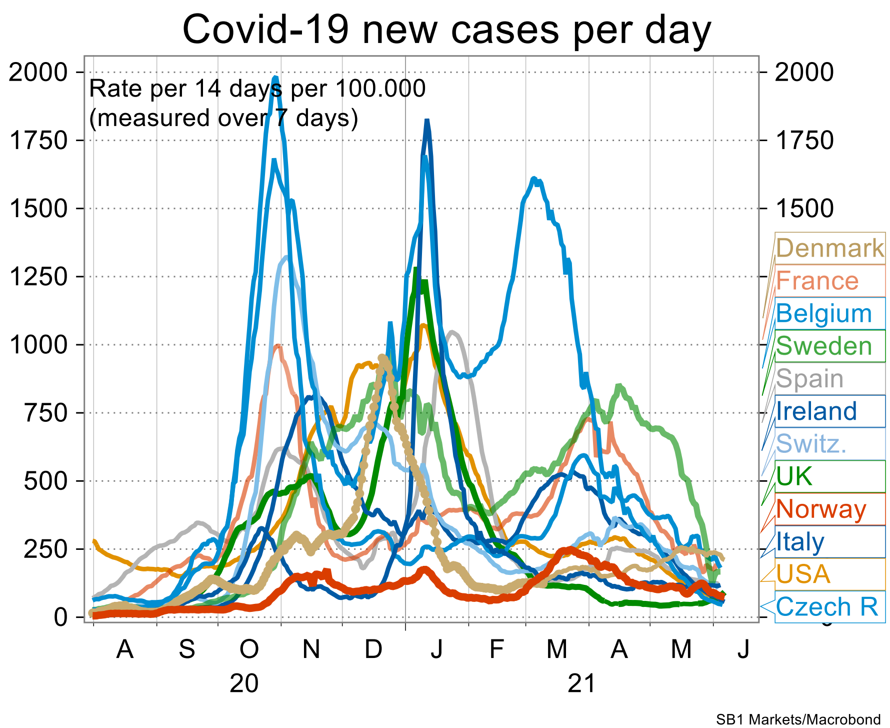
- **Global PMI & ISM**
  - » The global composite PMI climbed further to the highest level in 15 years due to a steep increase in services – but manufacturers are signalling even higher growth. A 6%+ GDP growth rate is signalled, more than twice the trend growth. However, that is needed, as the activity level some 3% below par. The Indian service sector PMI fell sharply but no other problems (and the setback in India is modes compared to last spring). Sweden and US at the top, but the manufacturing sector in EMU shines, and services have turned the corner. The US ISMs report an 8% growth pace. Delivery times are soaring everywhere, as are prices. In the US, numerous comments on serious labour shortages
- **Global auto sales**
  - » Global sales fell by 5% in May, according to our prelim. estimate. A 2/3 decline in Indian auto sales contributed to more than half of the global decline, lower sales in the USA most of the rest – the latter at least partly due to component shortages. UK sales have recovered to pre-lockdown level, while sales in EMU remain 20% below, following just a small uptick in May
- **OECD/G7**
  - » The **OECD** confirmed its upward revision of its forecasts from March, and added a couple of tenths to the 2021 global GDP estimate, to 5.8%, following the 1.4 pp upward revision to March from last November
  - » Following the Biden administration's initiative, the **G7 finance ministers** agreed upon implementing a global 15% minimum corporate tax rate, and that large 'global' companies (not yet defined) should pay 20% of their income taxes in countries were their goods & services are sold, not where they are headquartered. The risk for 'digital tax wars' has diminished. Some few months ago, such a sensible project would have been almost unthinkable. The G20 head of states will have to make the final decision, probably in June

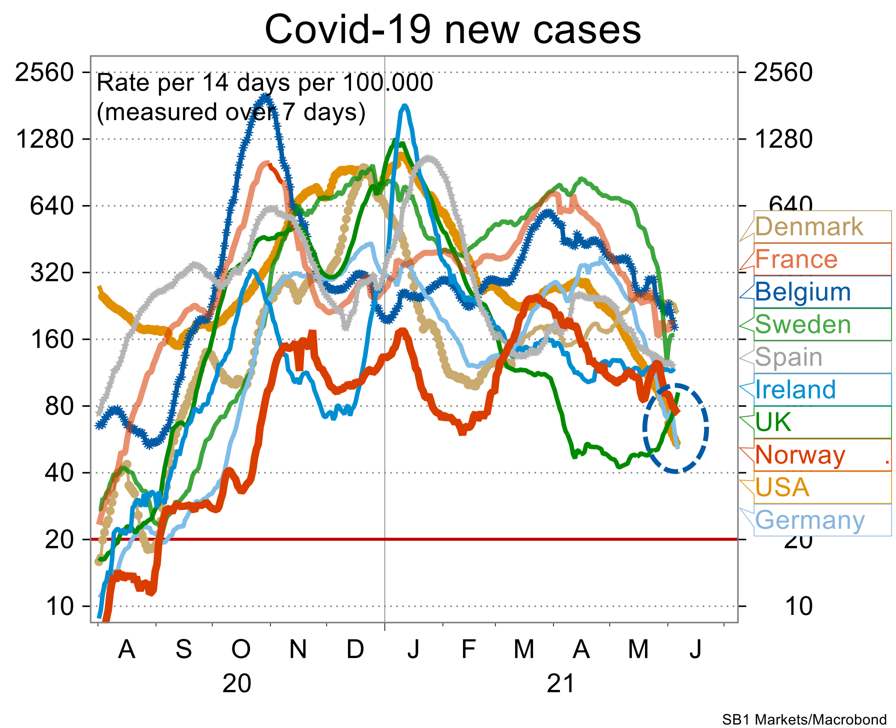
Last week: The economy, part II

- **China**
  - **Exports** fell in May but remain strong, some 10% above the pre-pandemic trend. **Imports** rose sharply, even in volume terms, we assume. Import volumes are 15% – 20% above the pre-Covid trend – no sign of weakness in domestic demand. The **trade surplus** fell further
- **US**
  - **Non-farm employment** grew at moderate pace in May, and well below expectations (559' vs 670') but the unemployment rate still fell 0.3 pp to 5.8%, with a 0.1 pp contribution from a drop in the participation rate. The participation rate is flat, even if far fewer are reporting that they stay out due to Covid-19 related challenges (like taking care of school-children etc). Have they left the labour market permanently or have others left, and if so, temporary or permanent? Removing the extra USD 300/week unemployment support in some states the coming weeks will give valuable information on the potential for growth, will the labour supply respond?, as demand for is strong, the **Small businesses** reported that it became even more difficult to fill vacancies in May (ATH, by far), and they are lifting compensation. Actual wages rose much faster than expected in May too (0.7% vs. 0.2%), broad based. In addition, it is becoming even more difficult to say these figures are distorted by the employment mix. The sign of that impact should have changed by now!
  - **Fed's Beige Book** (its regional network) confirm decent growth, and there a numerous reports higher prices for goods and services, and labour shortages. Some more FOMC members are warning up to start speaking about tapering, if chair Powell decides…
  - Treasury secr. **Janet Yellen** advocates the USD 4 trl spending proposals (2% of GDP) even if they could temporary lift inflation and that slightly higher interest rates would be a plus for the society and the Fed (she even said inflation and interest have been too low for a decade, according to Bloomberg)
- **EMU**
  - **Retail sales** fell by 3.1% in April, even more than expected, reversing the March gain. However, the focus is now on May and June, for good reasons
  - **Headline CPI (HIPC) inflation** accelerated to 2% but the **core** remained at 0.9%, well below ECB's target. Unemployment is still quite high, unfilled vacancies close to normal and there are no indications of higher wage inflation
- **Norway**
  - **House prices** rose by 0.6% in May, much better than expected as realtors, at least in Oslo, were complaining. Oslo prices fell the 3rd month in a row, by 0.3%, while prices in rest of the country rose by 0.9%. Smaller Eastern cities were in the lead. In Oslo, the inventory of unsold homes are on the way up, while the inventory is still shrinking in rest of the country – and the sum is record low. The market balance signals a further 1% per month prices increases outside Oslo, but zero growth in Oslo
  - **Credit growth** remains in check at 5% – and just marginally above income growth both for companies & households
  - **Households' savings rate** rose as we expected to 19% in Q1 as consumption fell. The savings rate is more than 10% above normal, and it is sufficient to fund a large increase in spending on services as soon as that becomes possible. Over the past 5 quarters savings have been running much higher than normal, in sum equalling 12% of household's annual income more than normal, which increases the capacity to spend more further

The virus is losing (nearly) everywhere – but new cases in UK further up last week

New cases in India are falling rapidly, as mobility has fallen to a very low level





- **The UK** has reported a sharp increase in new infections, at least partly due to the new Indian mutant, which in some few weeks have gained a 50% - 75% 'market share'. The new variant may be some 20% – 30% more contagious than the British variant (which was substantially more contagious than the original corona virus). We estimate that almost 70% of the total British population is vaccinated or have been infected
  - Still, the UK infection level is very low, just 6% of the January peak, and hospital occupancy is at 2% of the peak level (and is still just flat)
- **The US & Germany** are reporting few new cases
- The no. of new cases in **Norway** is heading rapidly down again
- The **hospital occupancy** has fallen even more than cases everywhere, while **deaths** have fallen even more than hospitalisations

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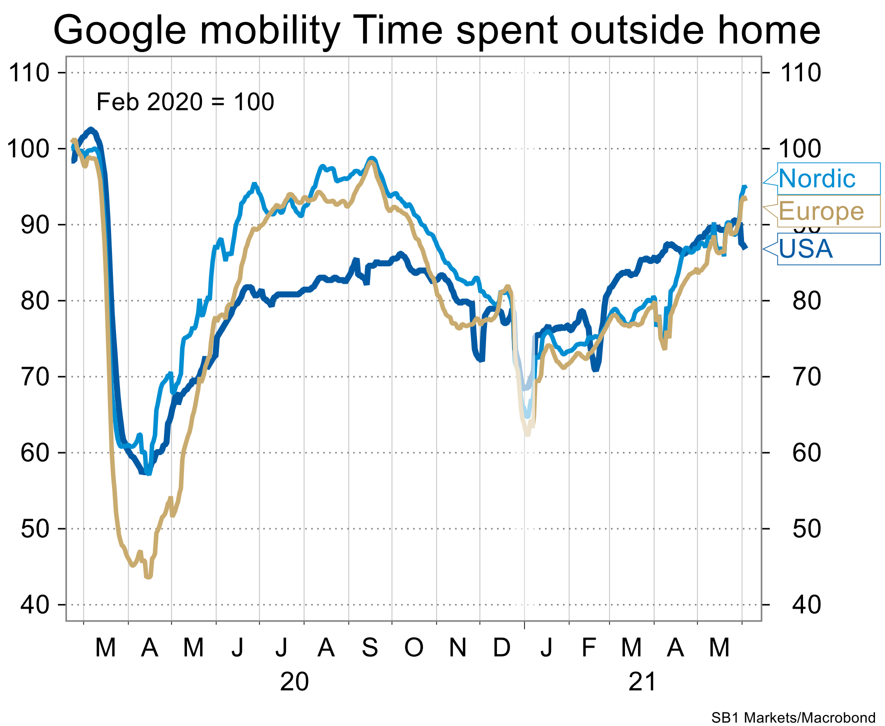
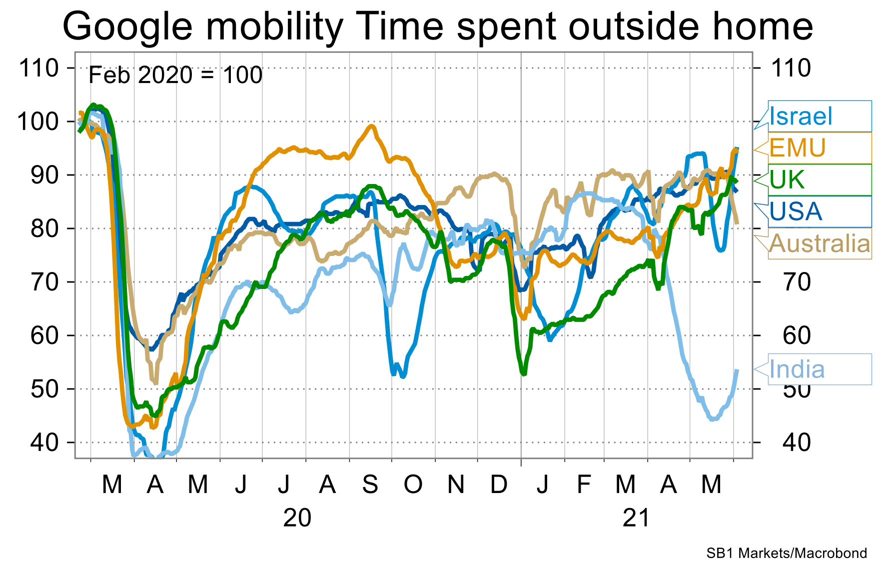
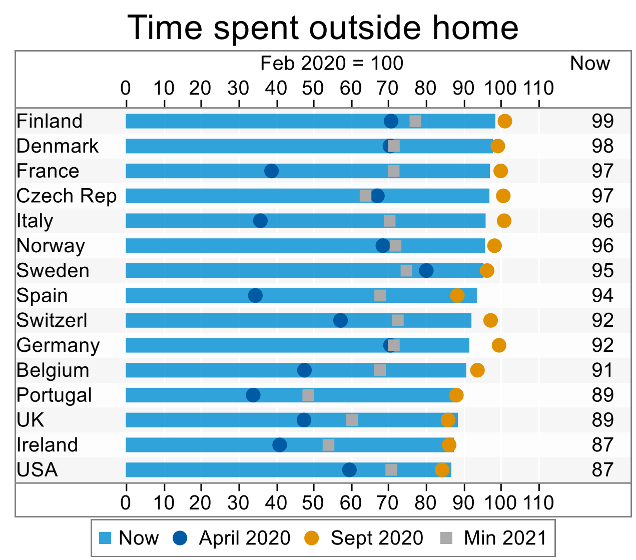
Mobility on the way back to a normal level – sharply up in Europe (Nordics incl.)

Even India turned up past two weeks



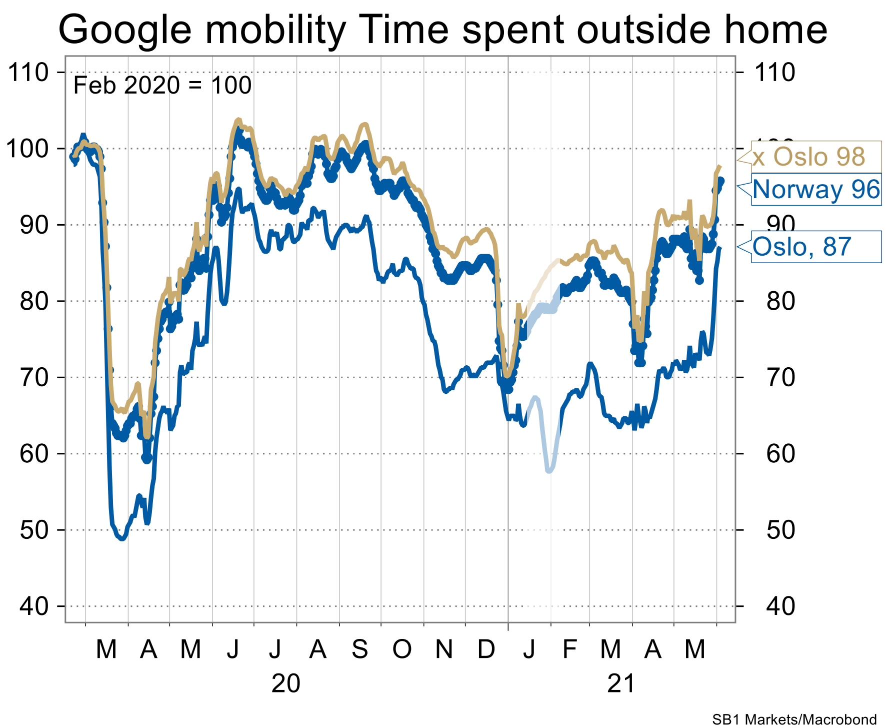


- Mobility still some 5% - 10% below par – still more some upside left



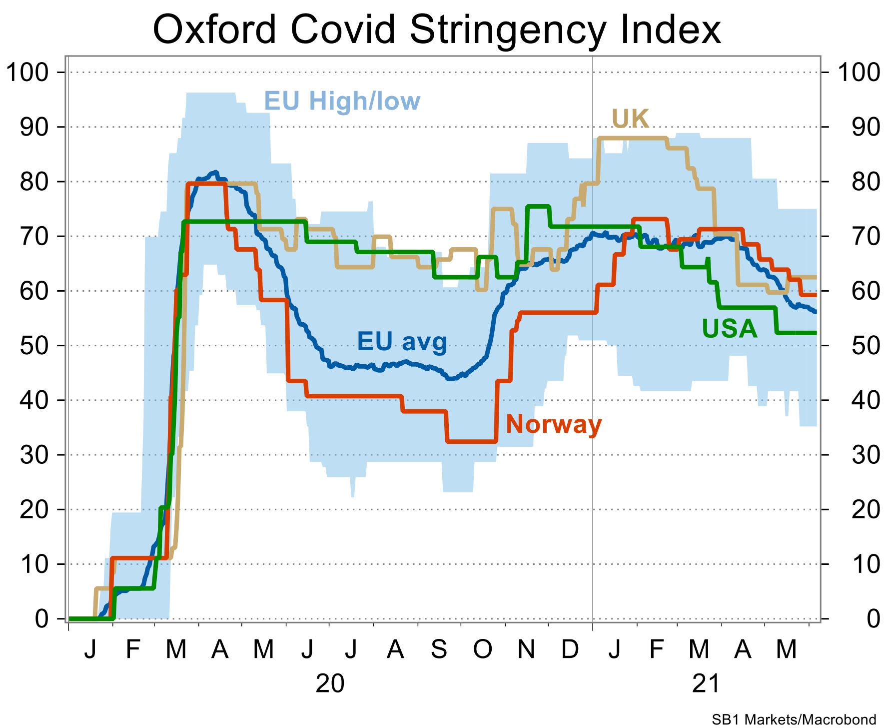
The weather, eased restrictions, or lack of fear for the virus?

Norwegian mobility sharply up last week



Restrictions are eased but most are still in place

Some have small economic costs, others may be greater



- The removal of restrictions are quite parallel among rich countries – but UK has tightened marginally
- The remaining measures will be eased when the immunity rates is sufficiently lifted to keep even mutated viruses at bay
- Data are from the Oxford Covid stringency project, that at least are the best at hand

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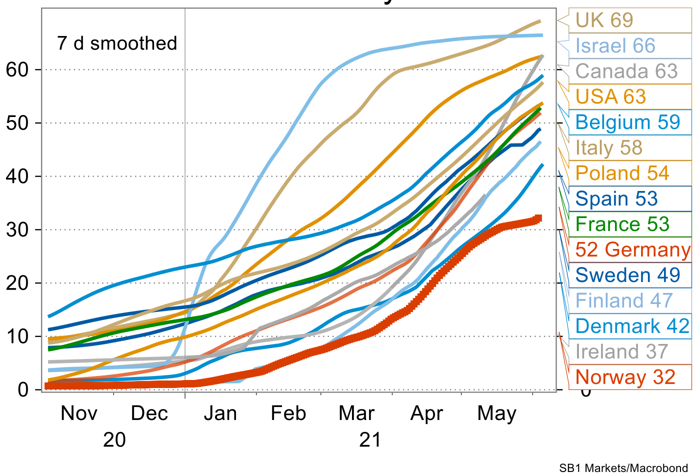
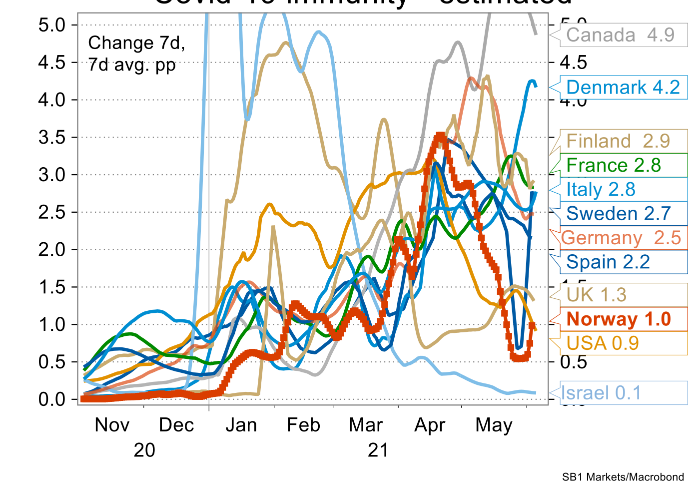
Vaccinations: Ups & downs, but the direction in EU/Norway is up

Few 1st dose vaccinations in Norway due to public holidays and more 2nd doses. Will soon change

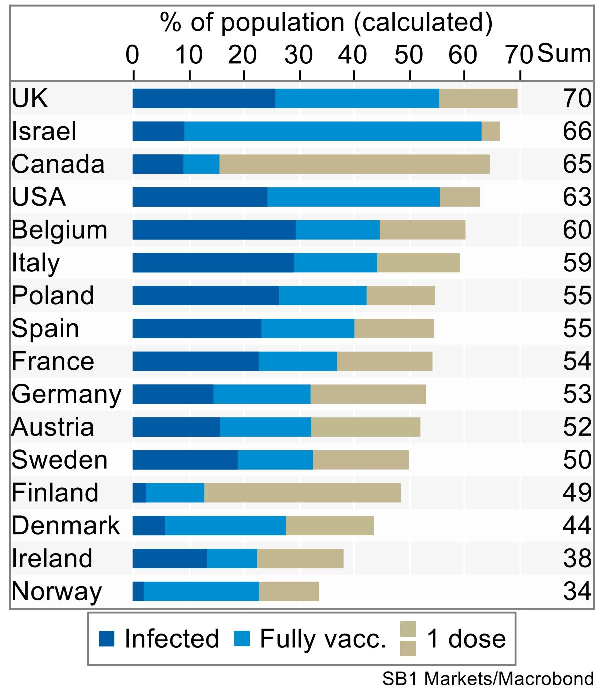
Covid-19 immunity - estimated



Covid-19 immunity - estimated

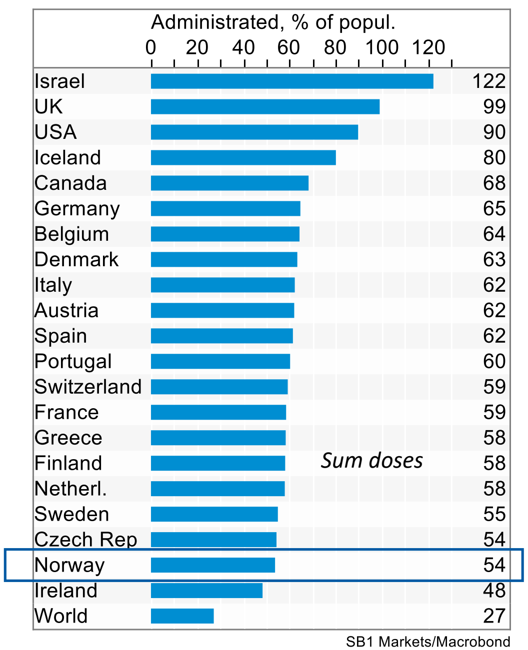


Covid-19 Immunity



- The supply of BioNTech/Pfizer will soon accelerate sharply, and Norway will spend most of them for a first inoculation
- Norway is not using AstraZeneca nor Johnson & Johnson vaccines and is now a laggard in Europe vs. total no. of doses – and the gap will widen

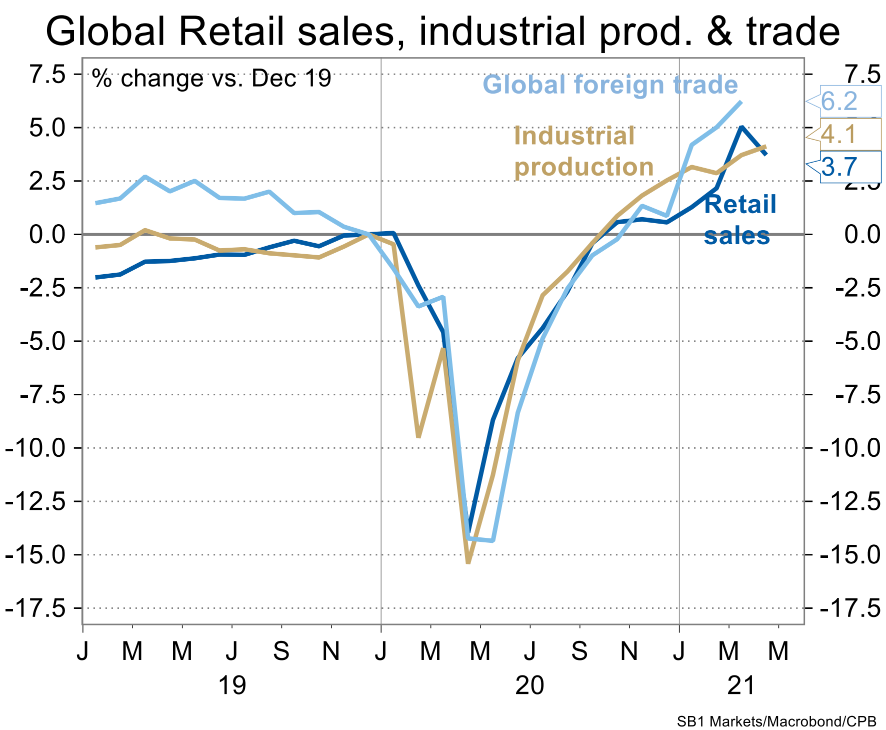
Covid-19 Vaccinations

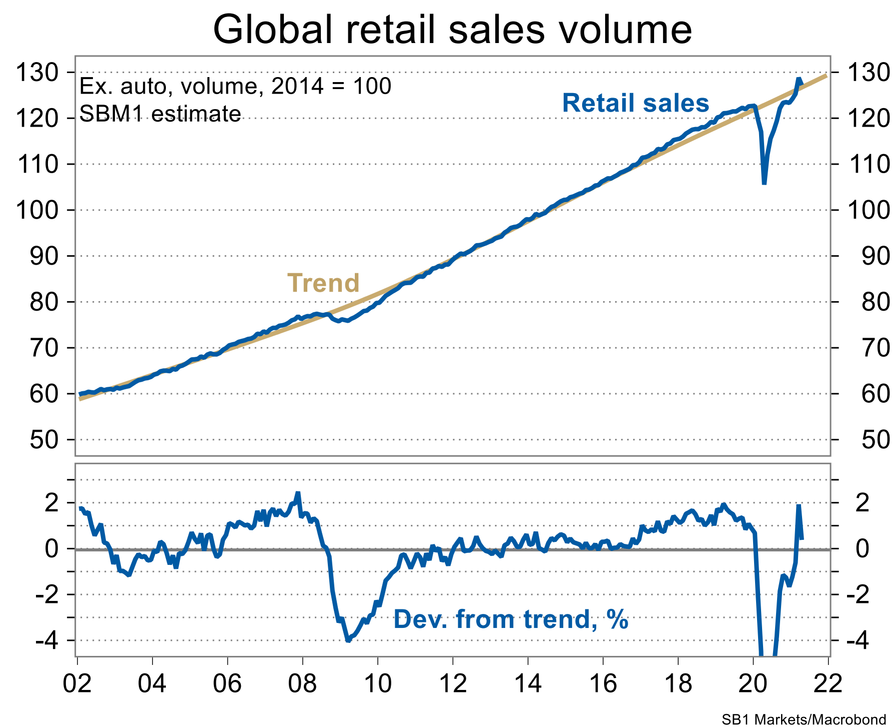


We calculate the infected rate by assuming a 0.66% infection fatality rate, and a 90% immunity from infection.
We assume those who have been infected are vaccinated in line with others

The recovery in the goods sector continues – level up 4% vs pre Covid

Retail sales may have fallen in April, due to EMU & India. Still the trend is up

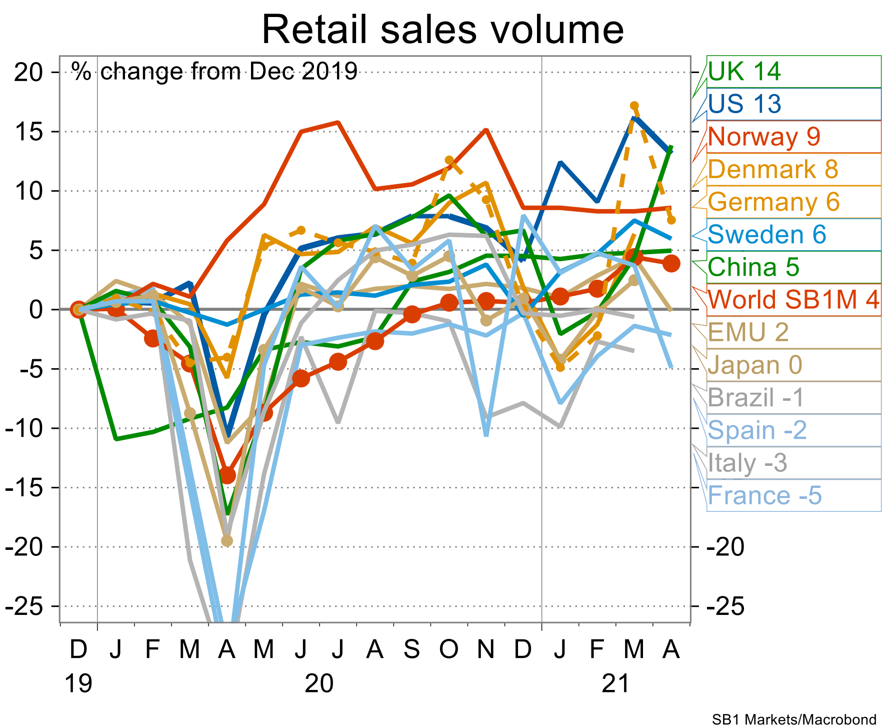


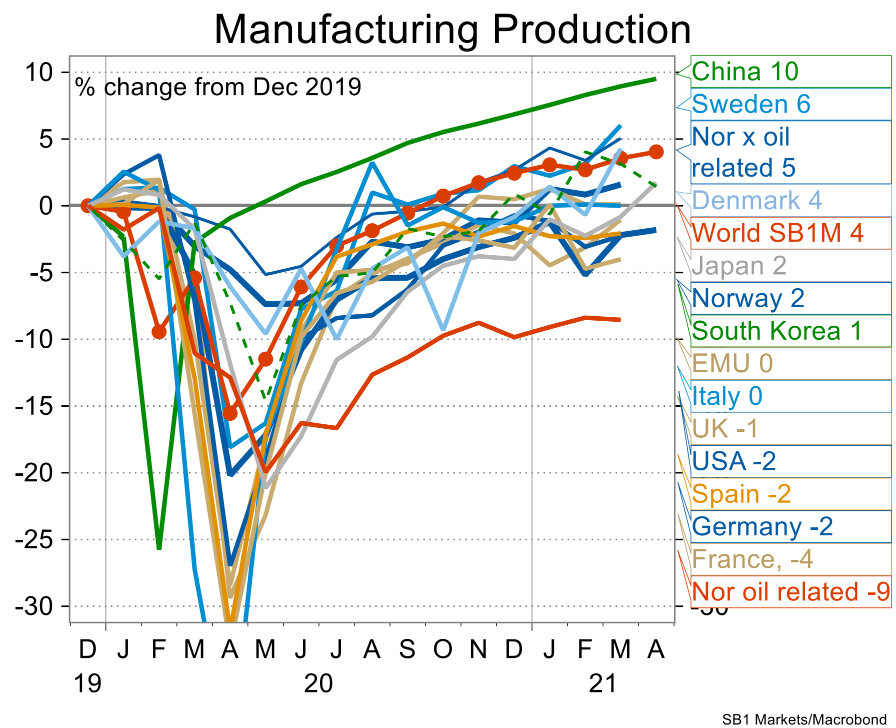


- **Retail sales** rose almost 3% in March, mostly due to the lift in US and partly also EMU retail sales. Our April estimate implies a 1%+ decline, due to lower sales in the US and (more than we assumed) in EMU and very likely in India. Global sales are almost 4% above the pre-pandemic level
- **Manufacturing production** rose more than 1% in March, and another 0.4% in April – and is +4.1% vs Dec-19
- **Global foreign trade** rose further in March, to 6% above pre Covid, according to CBP in Netherlands – and the trend is straight upwards

Volatile retail trade data, but the trend is up

Sales down in US & EMU in April, in the US from a high level. Manufacturing steadily on the way up

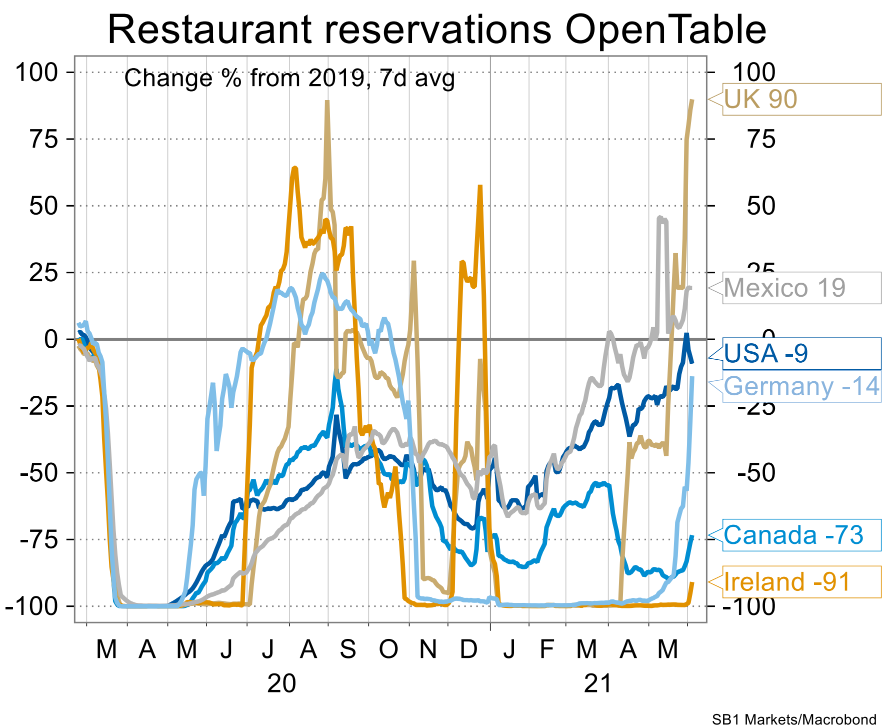


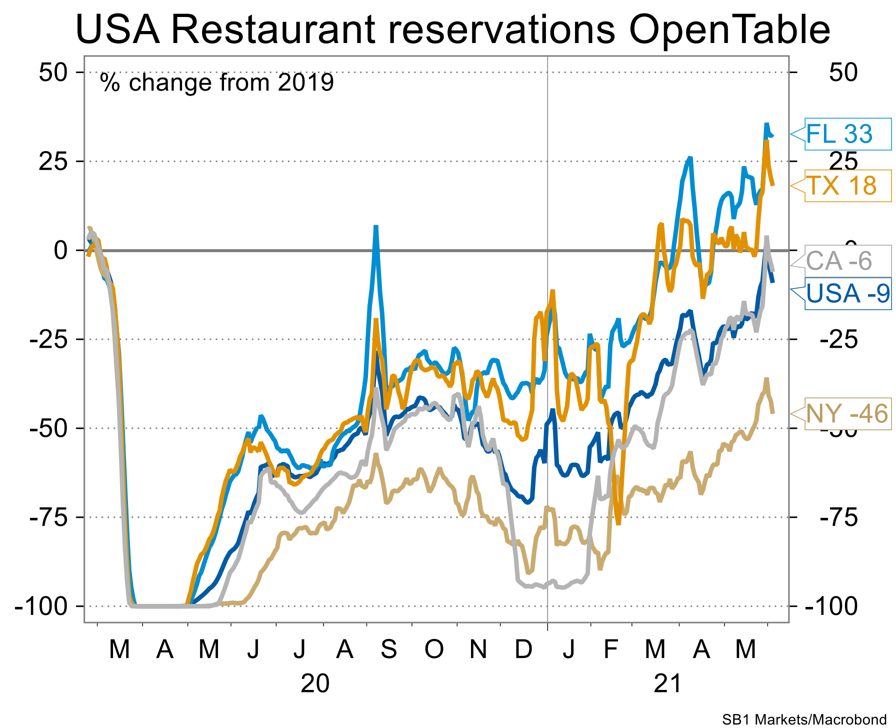


- Global manufacturing production grew some 1% in March, and probably slightly less in April
- Retail sales rose much more in March (2.6%, due to large gains in the US, EMU) but may likely have fallen in April, due to (expected) declines in EMU and India – and an actual decline in US

Oops, and then German restaurants opened up too!

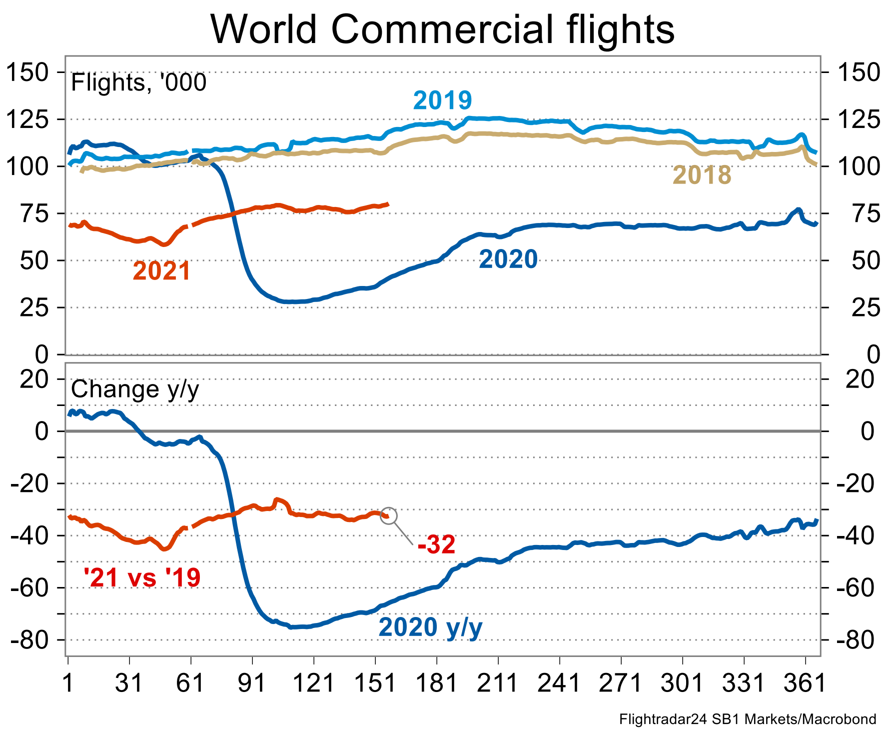
The Brits seem to have become rather outgoing. The US close to normal

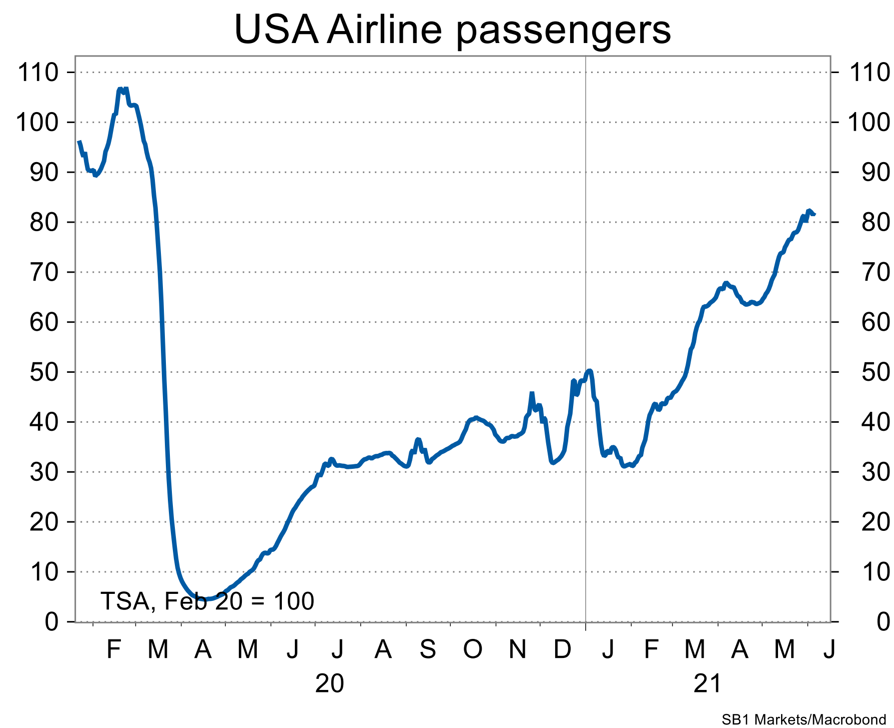




- Restaurants still closed in parts of Germany and fully closed in Ireland, at least those who are tracked by OpenTable
- Sales in restaurants in the US were down 2% in April vs. the Feb-20 level, far better than indicated by OpenTable data

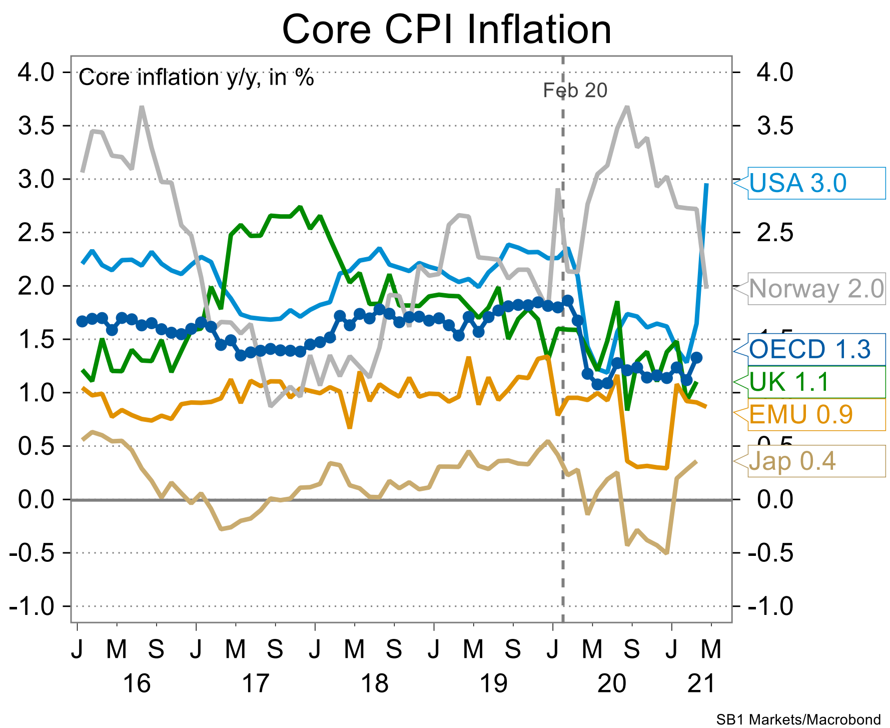
Global airline traffic on the way up again? US straight up

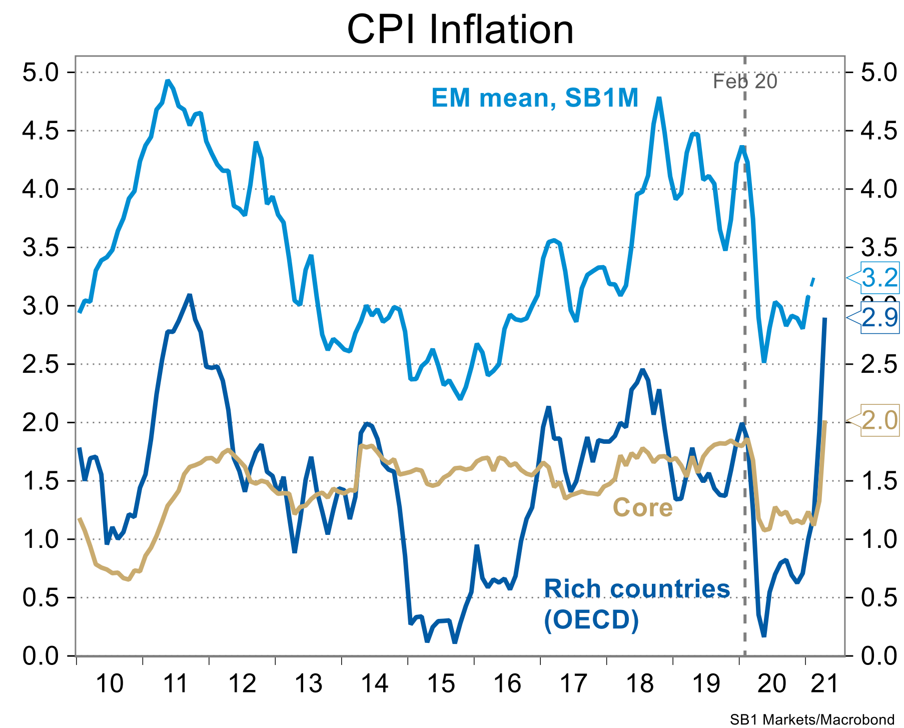




Inflation is on the way up, some places – and on average

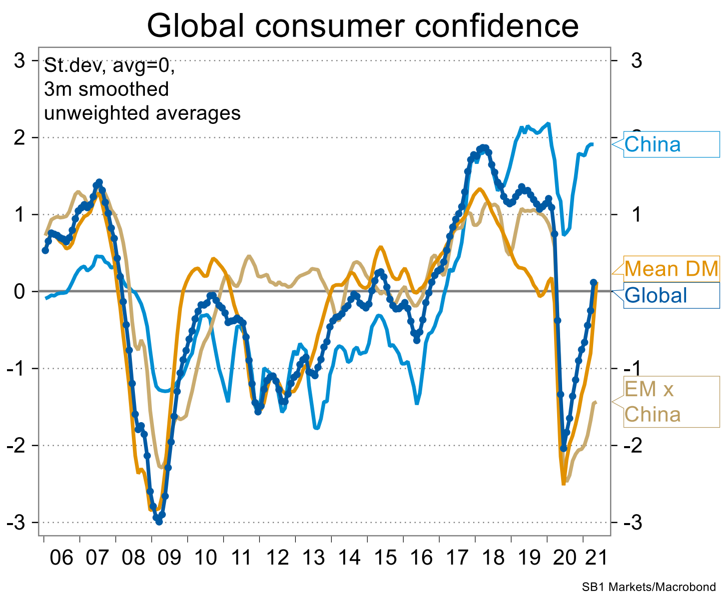
Energy prices the main culprit, core inflation not much up outside the US (so far)

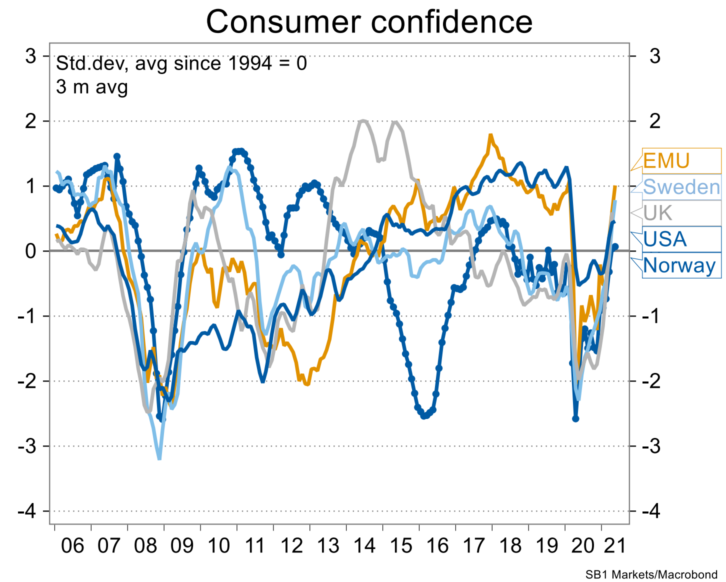


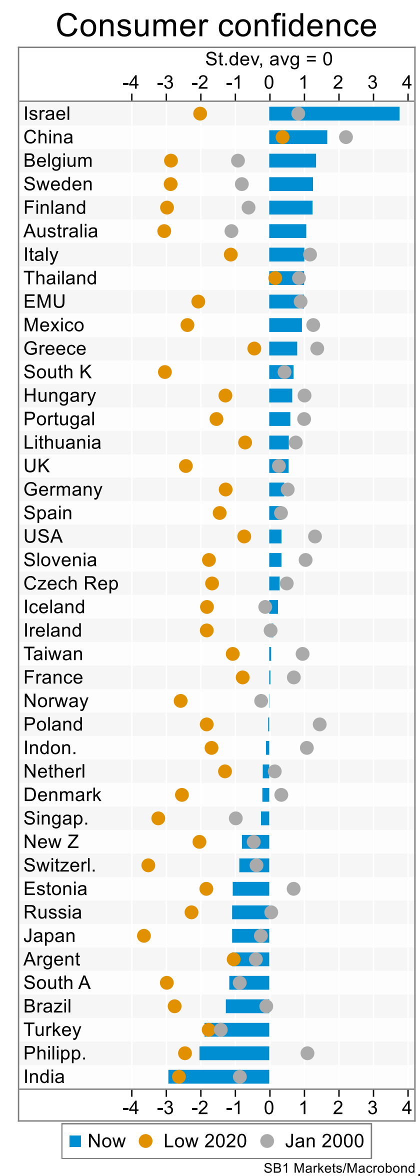


Consumer confidence is recovering – but remains below par in EM x Ch

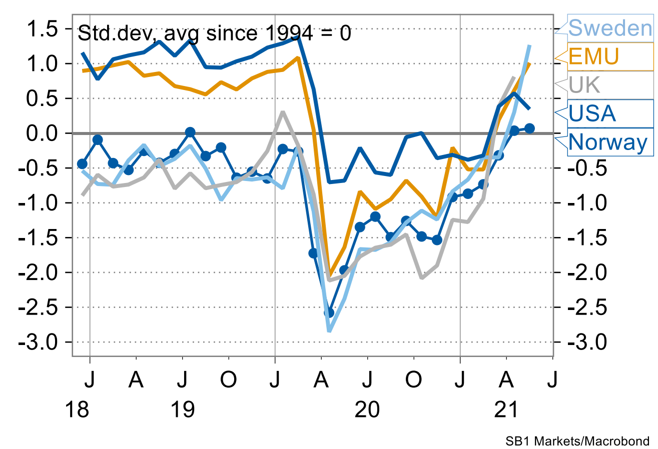
In both Europe & the US, confidence is > avg, not far below pre-Covid level







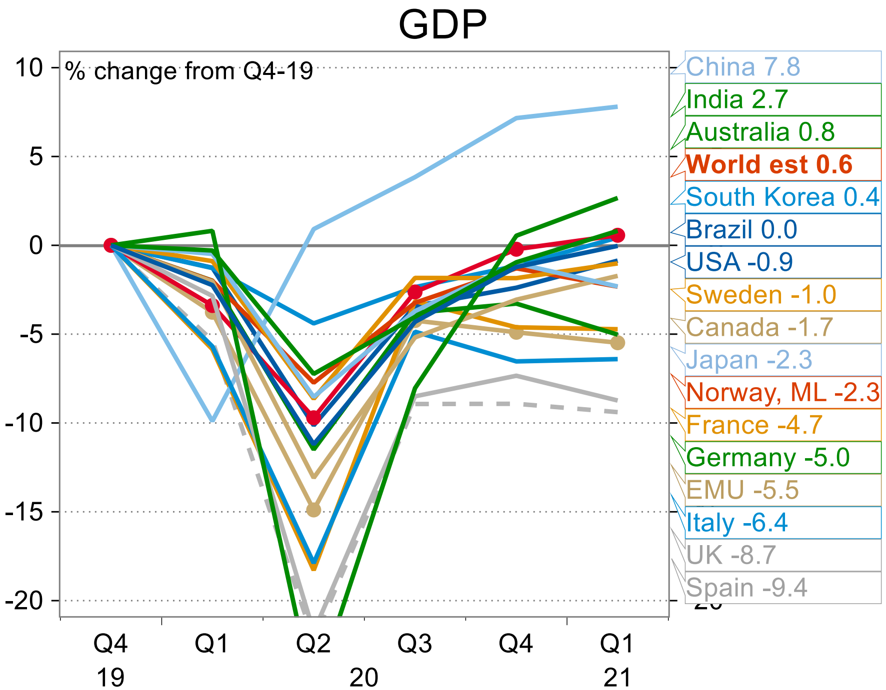
- In most EM x China, sentiment is below par
- India is at the bottom, for good reasons
- Israel is at the top, for goods reasons too
  - » April is the last obs, the May conflict with the Palestinians may have lowered confidence
- **In sum: Households are ready to spend**



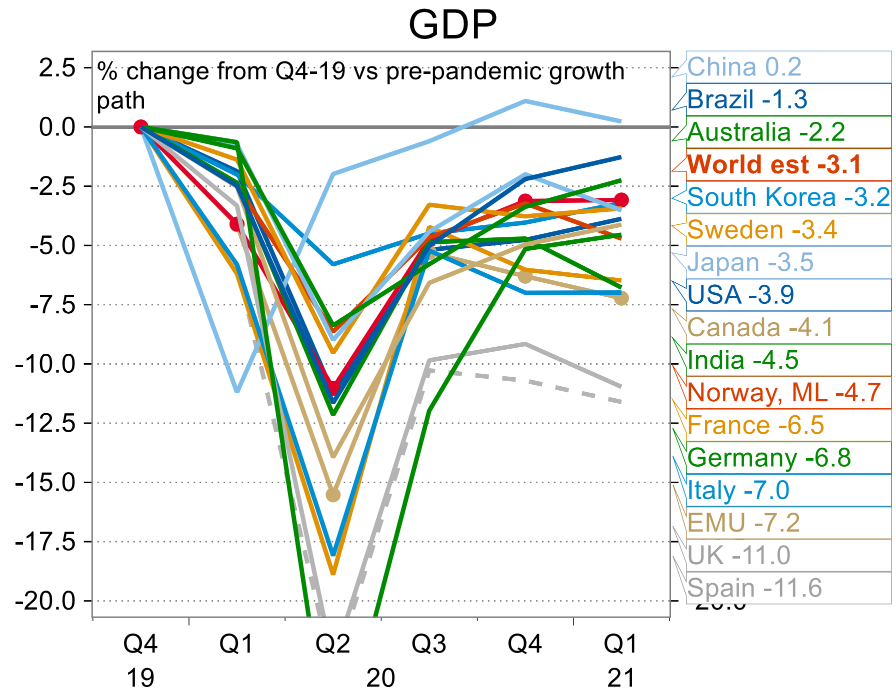
Last observation. Total EMU is leading 1 month on member countries
Norway is the average of Finans Norge & Opinion

A 3%+ global GDP growth pace in Q1, level 0.6% above Q4-19

China in the lead, India follows, at least in Q1, and measured absolutely



SB1 Markets/Macrobond



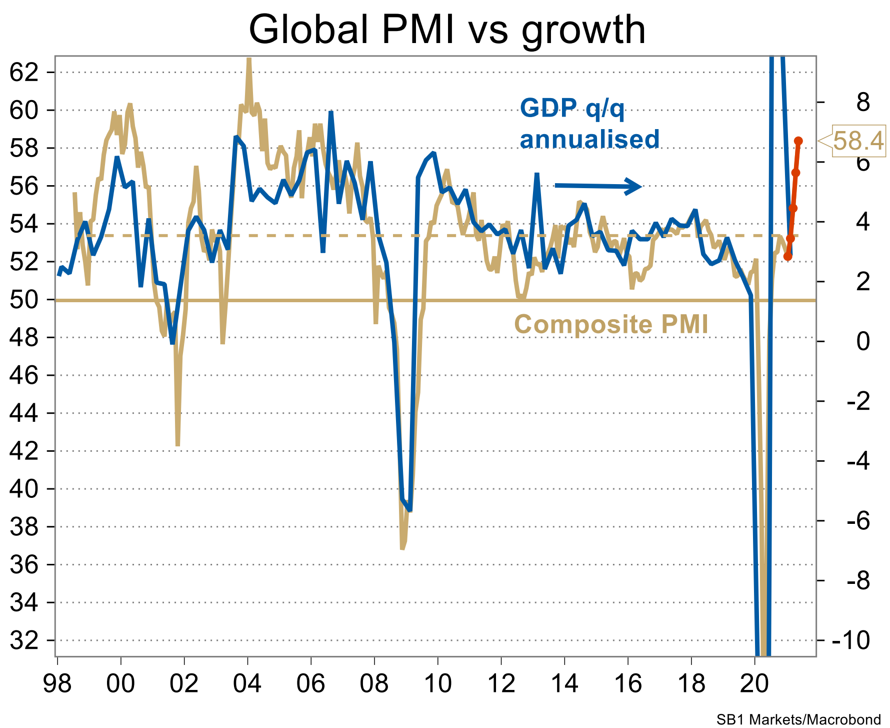
SB1 Markets/Macrobond

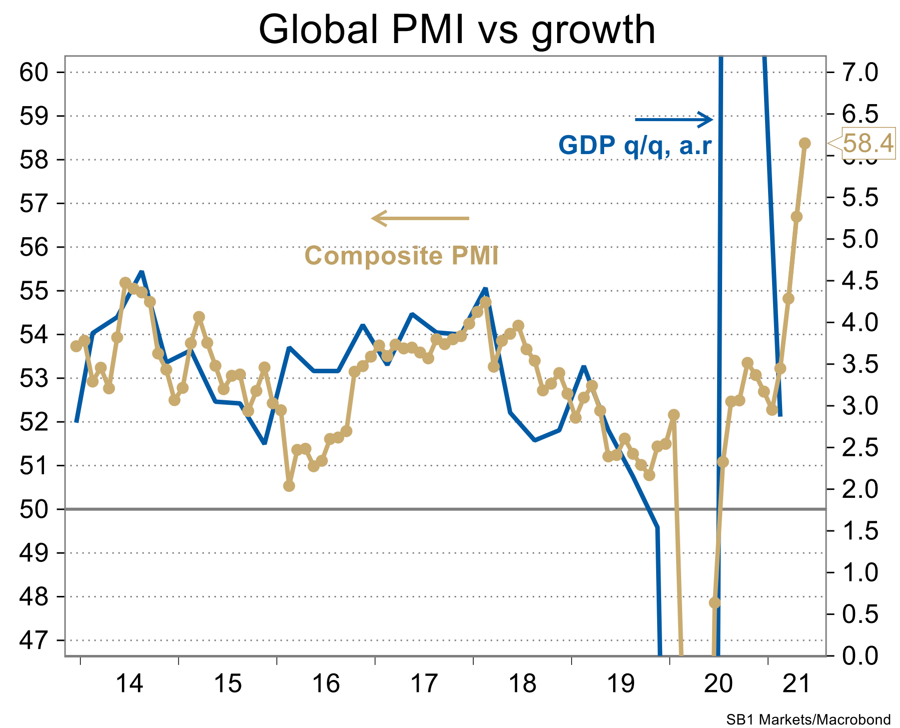
- Following an 8% growth pace in Q4, we estimate 3.2% growth through Q1 (0.8% not annualised)
  - » GDP growth in **China** slowed to a 'trickle' (a 2.4% pace…), and GDP in the **EMU** contracted further
  - » In the **US**, GDP grew at a 6.4% pace, up from 4.3% in Q4 – and the level is just 0.9% below GDP in Q4-19
  - » **India, Brazil & Russia** all grew better than expected in Q1
  - » **Sweden** is just 1% below the Q4-19 level, Norway is 2.3% below, in Q1

- When measured vs. the pre-pandemic trend growth path, China is the only country above – all others are below
  - » **The global economy** is 3.1% below the pre-pandemic growth path – and the negative output gap is substantial
  - » **US** is 3.9% below, **EMU** 7.2%, and **UK** 11%
  - » **India** is 4.5% beøow
  - » **Sweden** is down 3.4%, **Norway** is down 4.7%, due to the different response to the 2nd wave (by Q4, the positions were the opposite)

The global comp. PMI even better than we assumed, up to 58.4, best since '06

The global index added 1.7 p, and signals a 6%+ GDP growth pace, far above trend

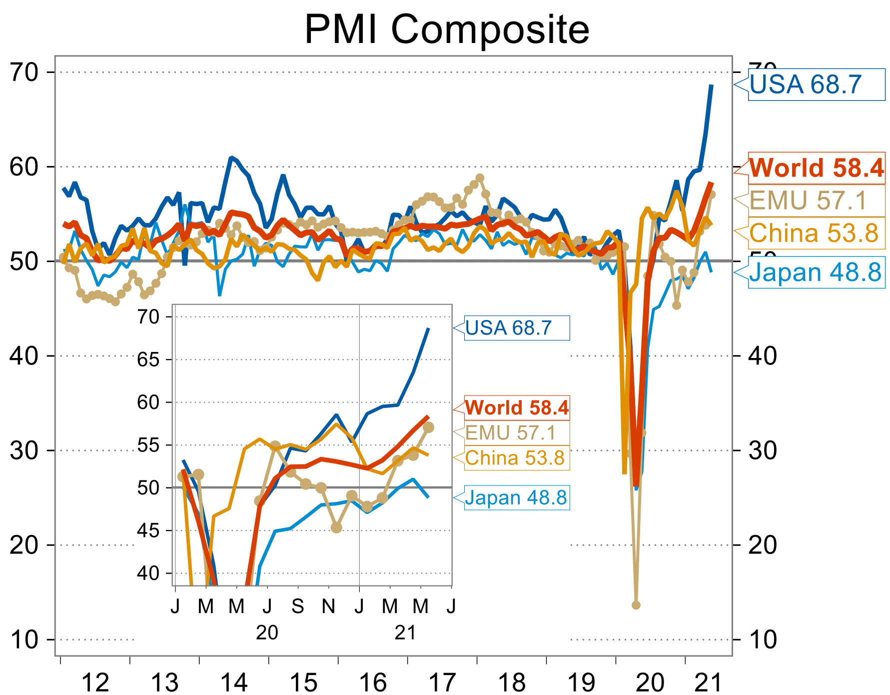




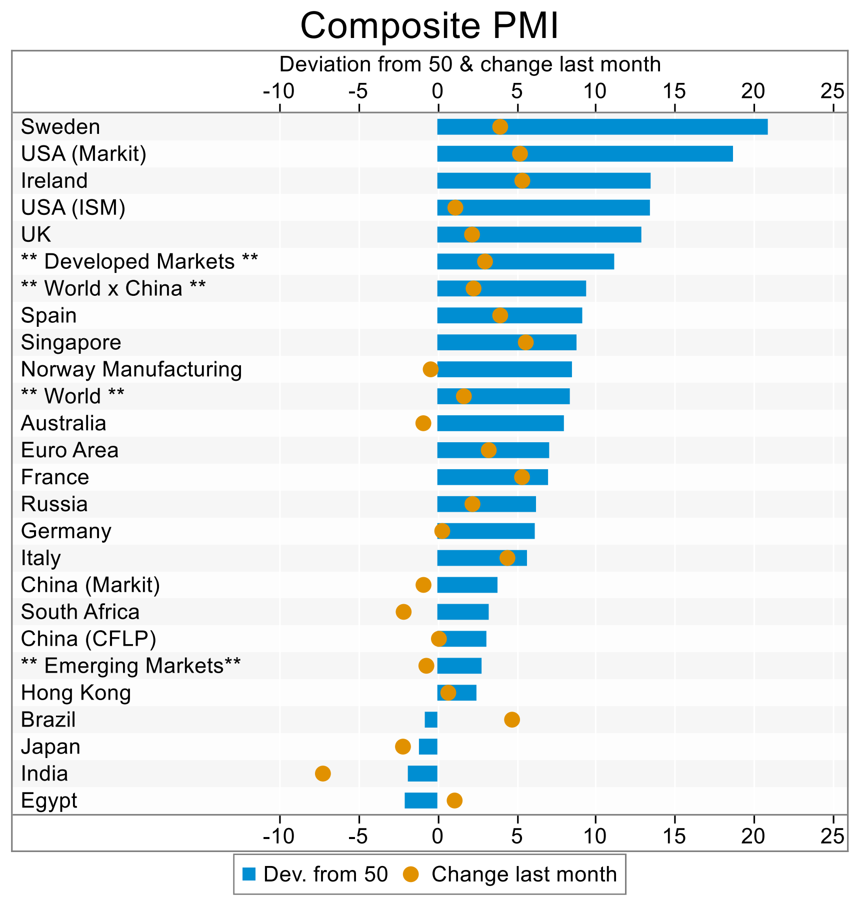
- We assumed a +0.9 p lift to 57.6, 0.8 p lower than the outcome!
- Both services and manufacturing contributed on the upside

A broad strengthening in May – Sweden still in pole position; US, UK follow

The Swedish PMI is the best of all, ever. Just 4 countries below the 50-line.



Source: IHS Markit, SB1 Markets, Macrobond

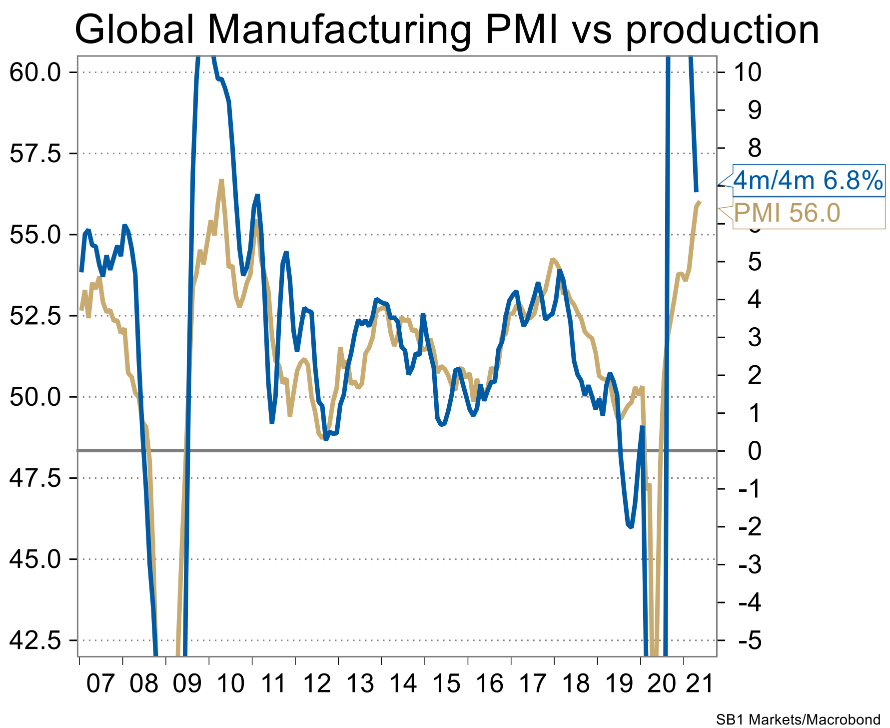


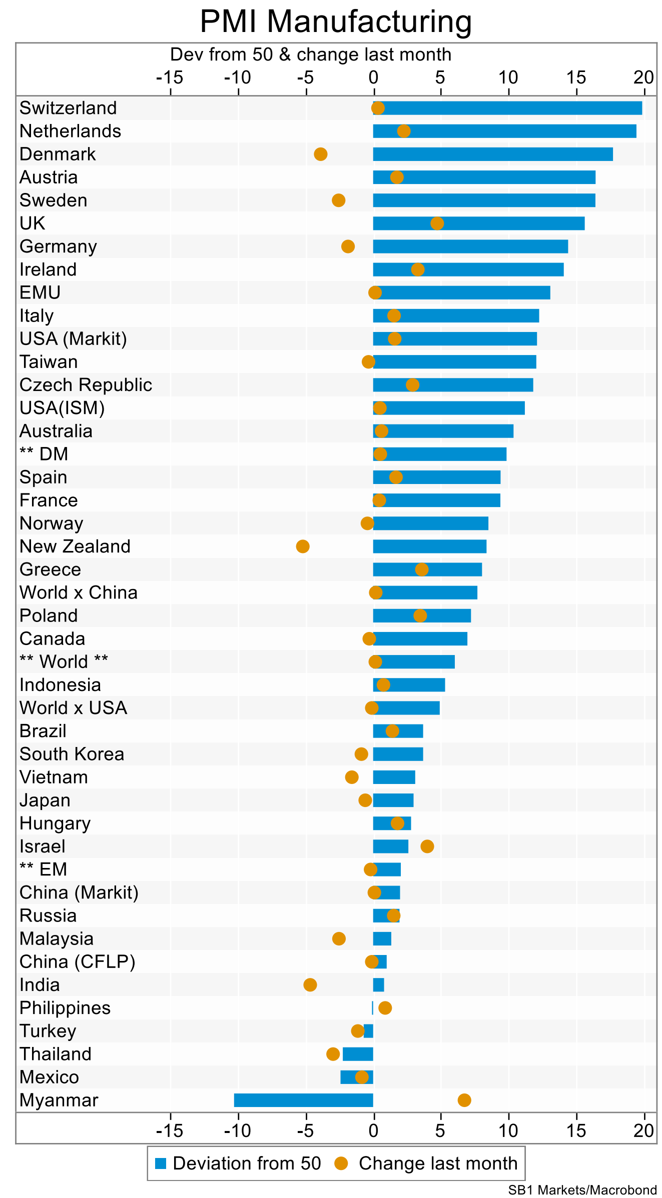
SB1 Markets/Macrobond

- 17 countries/regions up, 8 down in May. 4 below the 50-line
- Sweden, US & UK at the top. Barring strange figures from Saudi Arabia in 2011, the 70.9 PMI print is ATH for any country, ever
- India was the biggest loser in May, and the PMI fell below the 50-line (though, Brazil still at the bottom)
- The Chinese PMIs mixed, Markit's down, NBS' up – but both signal growth above trend
- Brazil a the bottom, very likely due to continued corona problems

Manufacturing PMI climbs, 90% are above 50, a further recovery signalled

The PMI rose by 0.2 p to 56 in May; the best level in 10 years

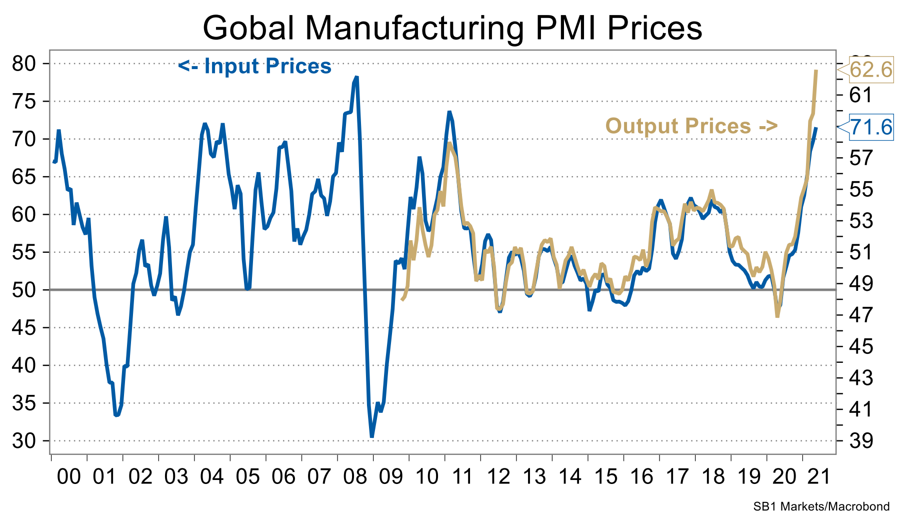


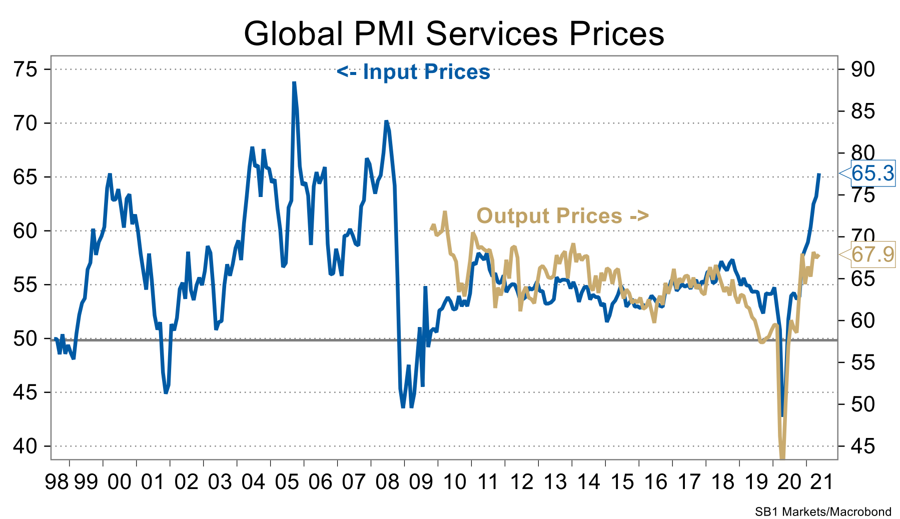


- The global manufacturing PMI rose 0.2 p to 56 in May, below our est.
  - » 61% of the countries/regions reported higher PMIs in April than in March
  - » Almost 90% of countries reported a PMI> 50, the highest proportion since 2018
- **European** countries at the top at a record high level. The **US** PMIs rose further, and the ISM index rose slightly as well
- The **Chinese** manuf. PMIs were mixed but still signal growth above trend

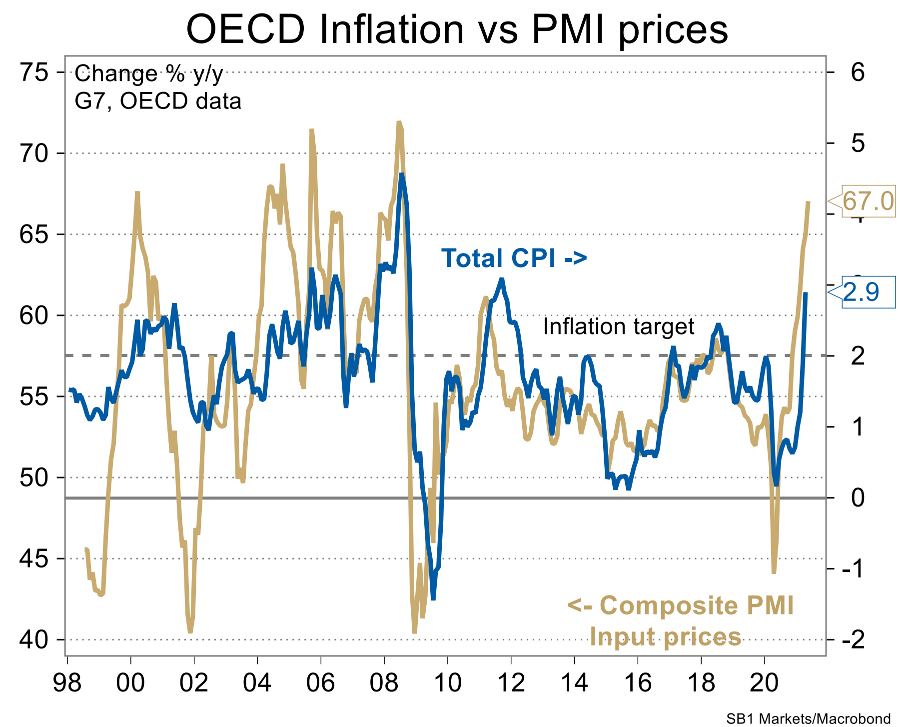
Businesses keep reporting even faster growth in input/output prices

Higher CPI inflation unavoidable, at least short term





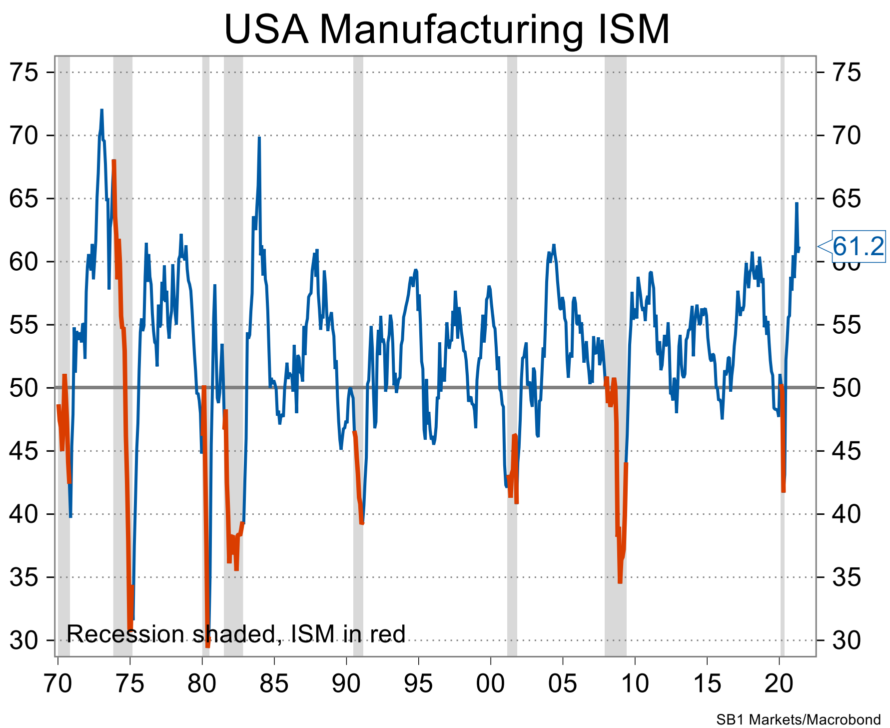
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and US

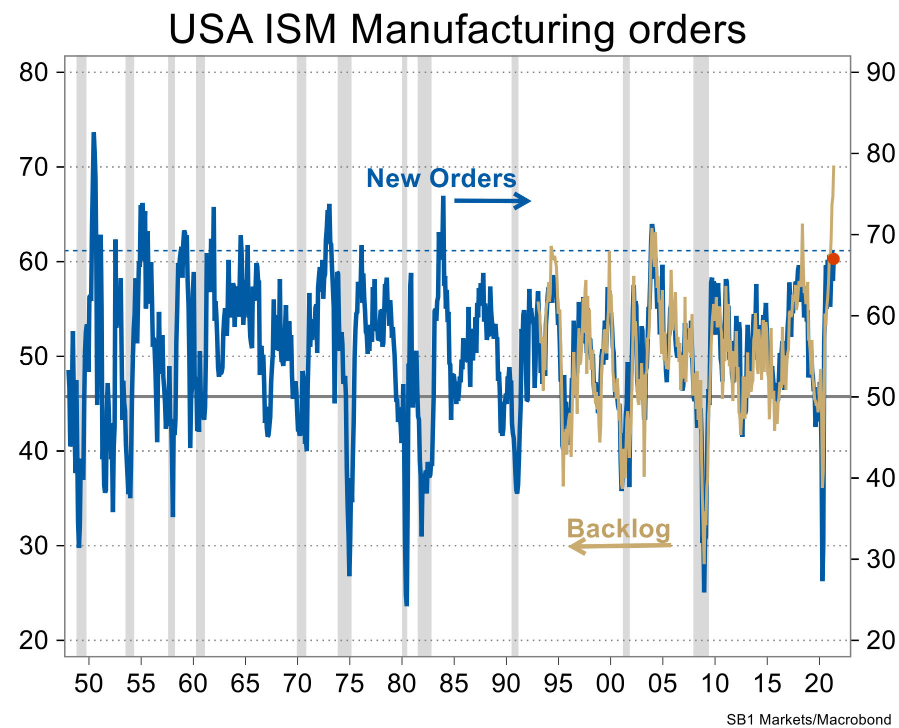


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from 2.9% in rich countries in April
- The correlation to core CPI is far less impressive

Manufacturing ISM up 0.5 p to 61.2 in May

Delivery times are rising faster than ever, and prices have been rising faster just once, in 1979

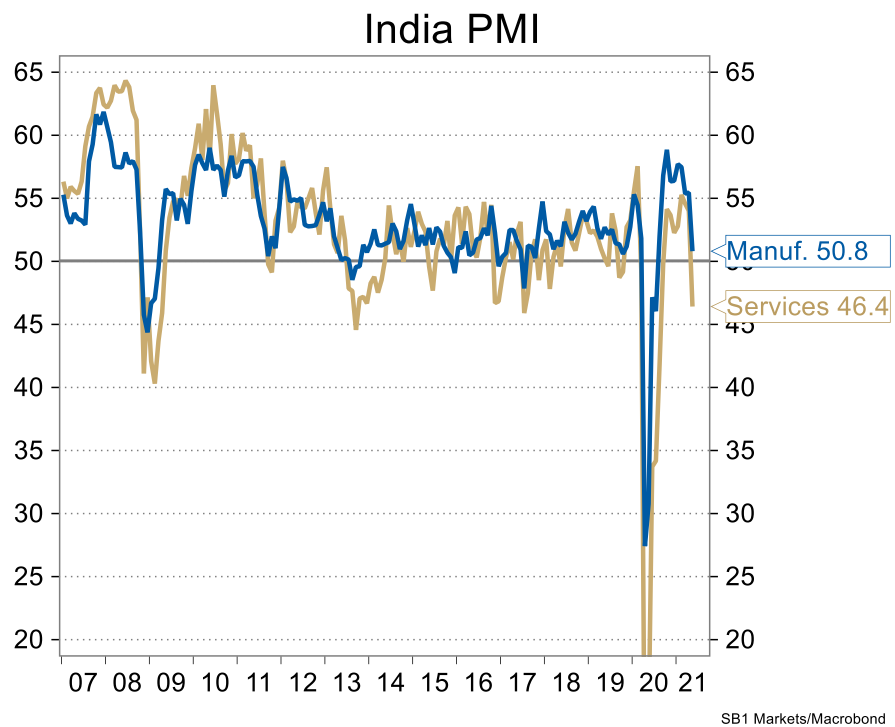


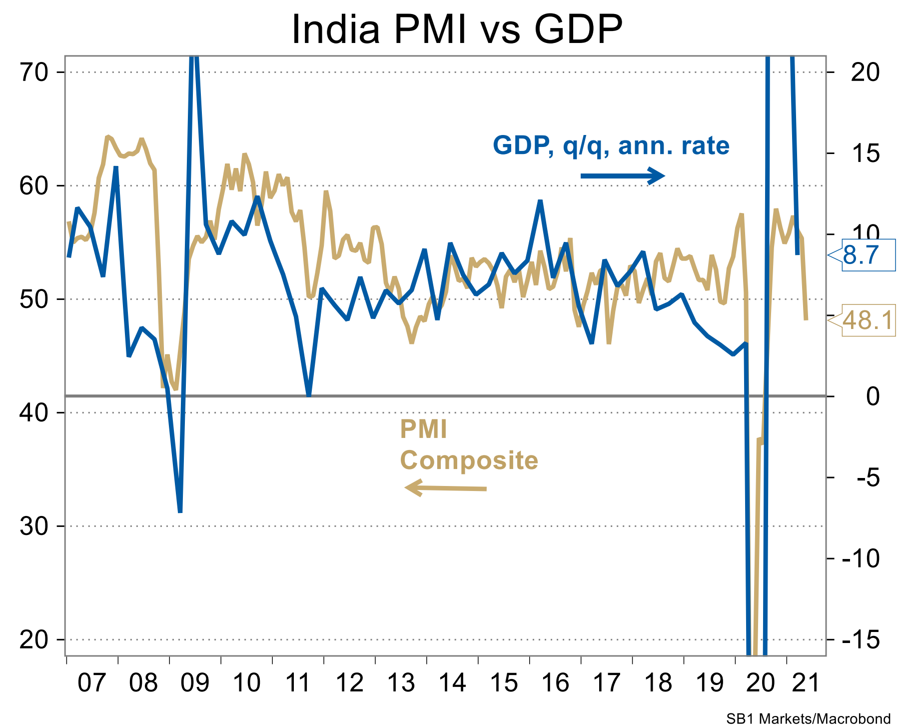


- **Demand** is strong: Order index increased by 2.7 p in May to a very high level of 67, signalling unusual rapid growth in orders. The increase in the backlog at yet another ATH
- **Activity** is increasing broadly: 16 of 18 industries reported growth in new orders, only 2 out of 18 industries reported a contraction in production, while 13 reported growth.
- **Delivery times** are increasing broadly: 16 out of 18 industries reported slower deliveries, none faster.
- **Prices** are soaring: 54 groups of commodities were up in price m/m, up from 52 in April. 1 commodity was down in price, acetone. 17 out of 18 sectors are reporting higher input prices. 32 commodities are in short supply. The price index was down 1.6 p to 88, and is still hasn't been higher since 2008
- **Inventories** among manufacturers' customers are falling faster than ever
- **Employment:** 9 industries reported higher employment, 3 reported a decrease. The employment index was down 4.2 p to 50.9. Of course due to lack of labour

PMIs remain surprisingly resilient in May, decent growth still signalled!

PMI fell by 7.3 p to 48.1 during the virus outbreak, still just a small fraction of the setback last spring

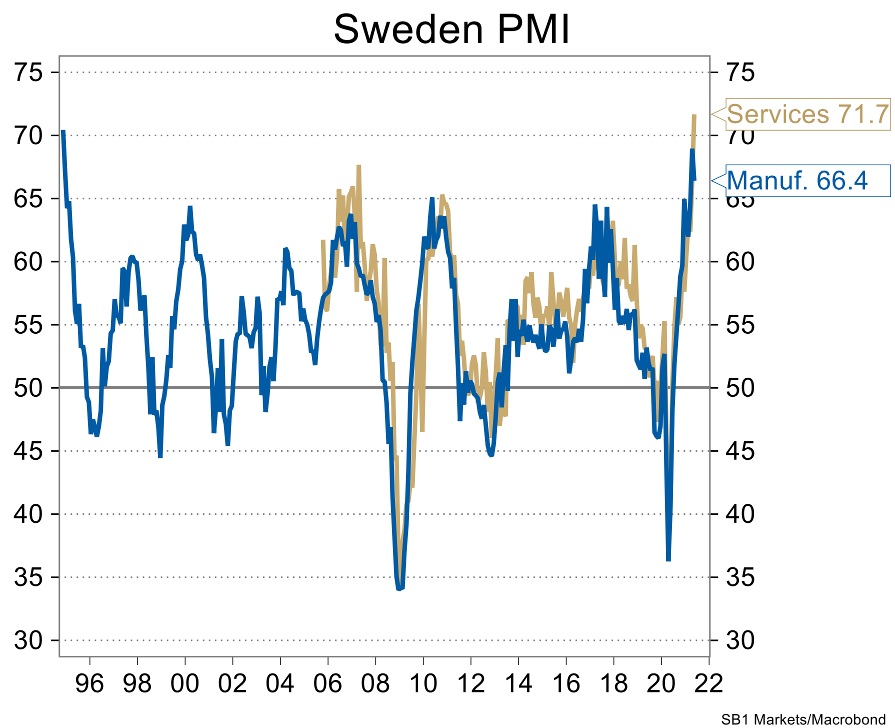


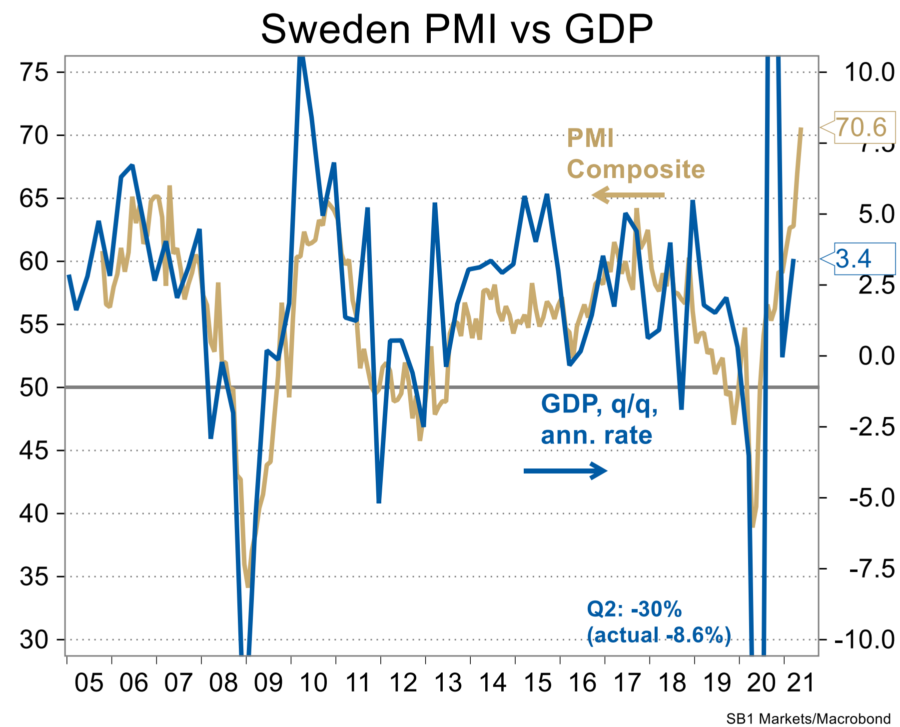


- **The manufacturing PMI** fell by 4.7 p 51.5, down to the average level for 2012- 2019, a strong growth period in the manufacturing sector
  - » New export orders increased too, for the 8th consecutive month. Manufacturing cost inflation running very high, according to Markit
- **The services PMI** was down 7.6 p to 46.4 in May, both due to restrictions and changes in behaviour. Mobility fell sharply until mid May but has recovered thereafter as the number of new cases/deaths have retreated
- **GDP** grew by 8.7% (annualised) in Q1 (down from 43% in Q4), and is 2.7% up vs. Q4-19, beaten only by China. Still, GDP is almost 4.5% below the pre-pandemic trend path
- **Growth** will slow in Q2 but judged by the PMI, the setback will be modest. The May PMI suggests a 4% growth rate, and most likely, the economy will start speeding up in June

The composite PMI up to yet another ATH at 70.6, signalling 8% GDP growth!

The services index at 71.7 best on record too, and manufacturing just slightly from April ATH

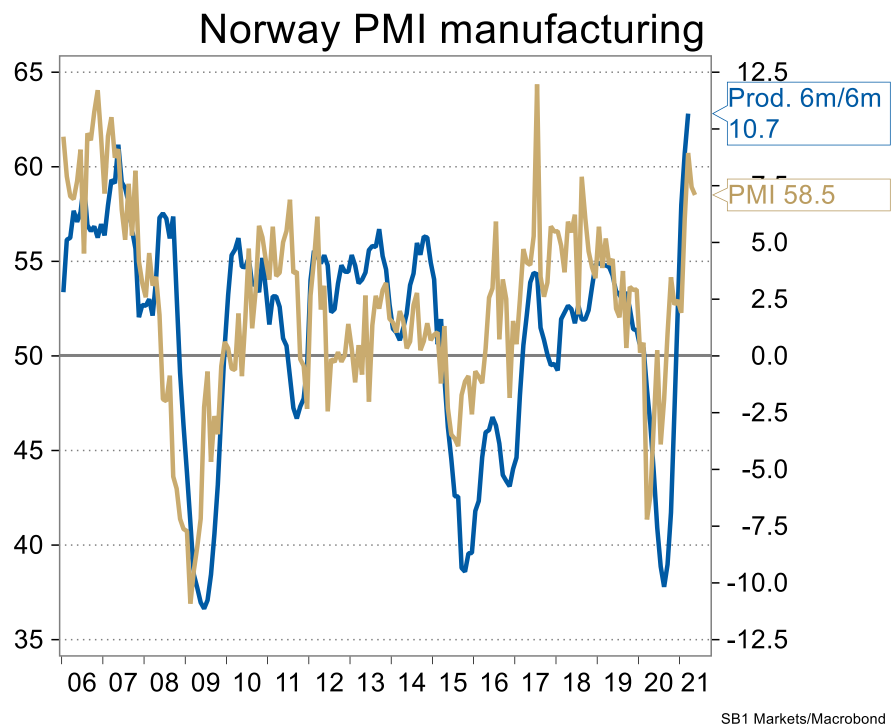


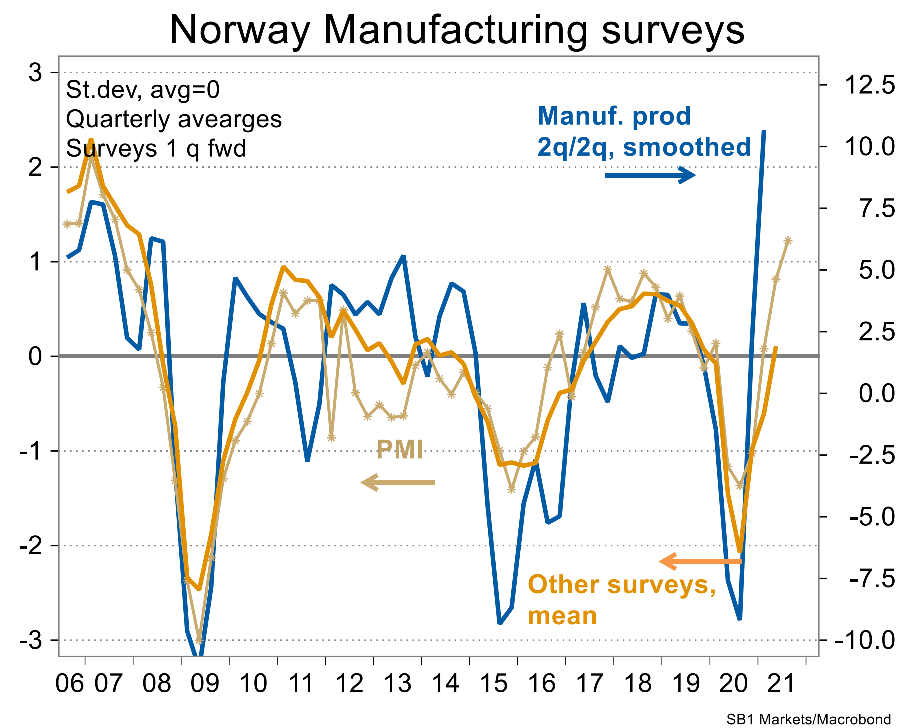


- The **PMI** has gone from record to record for several months, and is – at another ATH – now signalling some 8% GDP growth. The service sector is seeing increased activity (here as elsewhere) as the economy opens up and people are allowed to spend on services again. The **services PMI** was up 5.1 p in May! The **manufacturing PMI** was down 2.6 p to 66.4, but who cares when the level is through the roof anyway…
- **GDP** grew at a 3.4% pace in Q1, somewhat less than preliminary data implied
- **The Riksbank** is still buying bonds, and says it expects to keep the signal rate at zero until 2024. We are not so sure…

Norwegian manufacturing PMI slightly down to 58.5 in May– still a high level

The Norwegian PMI fell 0.4 p to 58.5, we expected 58. Actual growth the best in 50 years



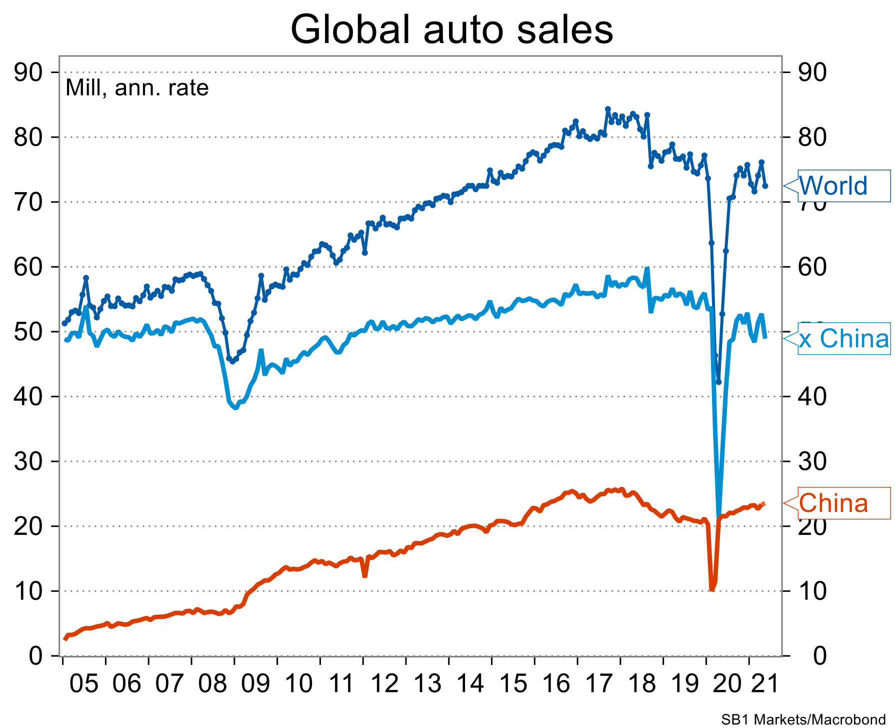


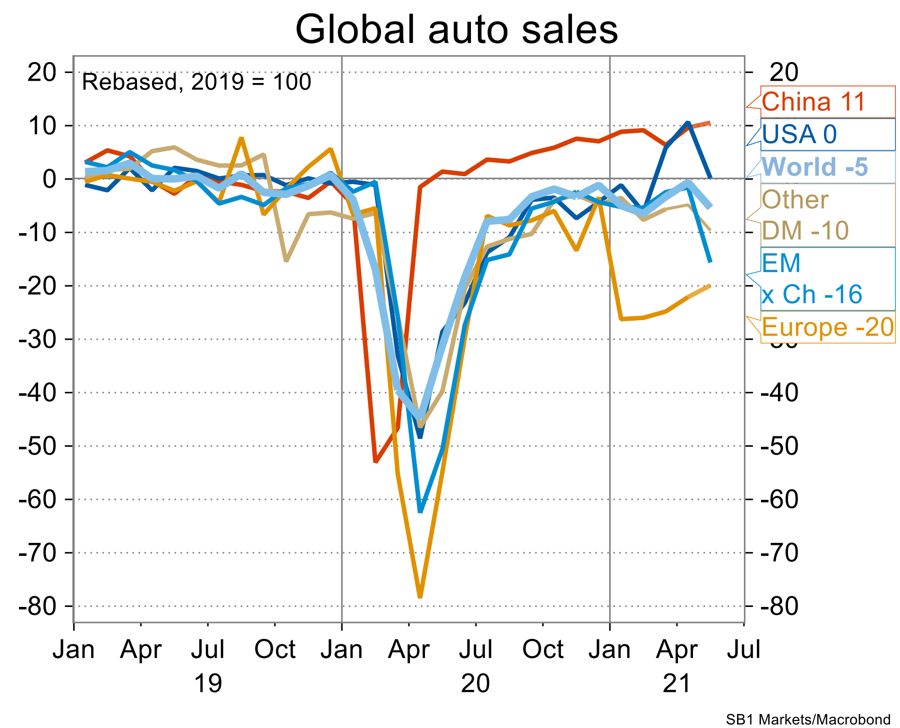
- The fall was due to a decline in the new orders sub-index, which fell 3.8 p to 52. The two other sub-indices were up
- Also worth noting, **inventories were up, as were delivery times** (for the 3rd month!)
- **Other surveys** have turned up lately to around an average level
- **Actual production** is growing faster than since 1972, at least measured 6m/6m. However, that is due to a low starting point in Q2/Q3 last year. The production level is above trend but not by that much – and just 1.5% above the pre-pandemic level (though one of the best outcomes in DM, even with a steep decline in oil related manufacturing production)

SpareBank 1 MARKETS

Global auto sales down 5% in May – lower sales in US, and a collapse in India

Semiconductor shortages at least partly to blame for lower sales (outside India)

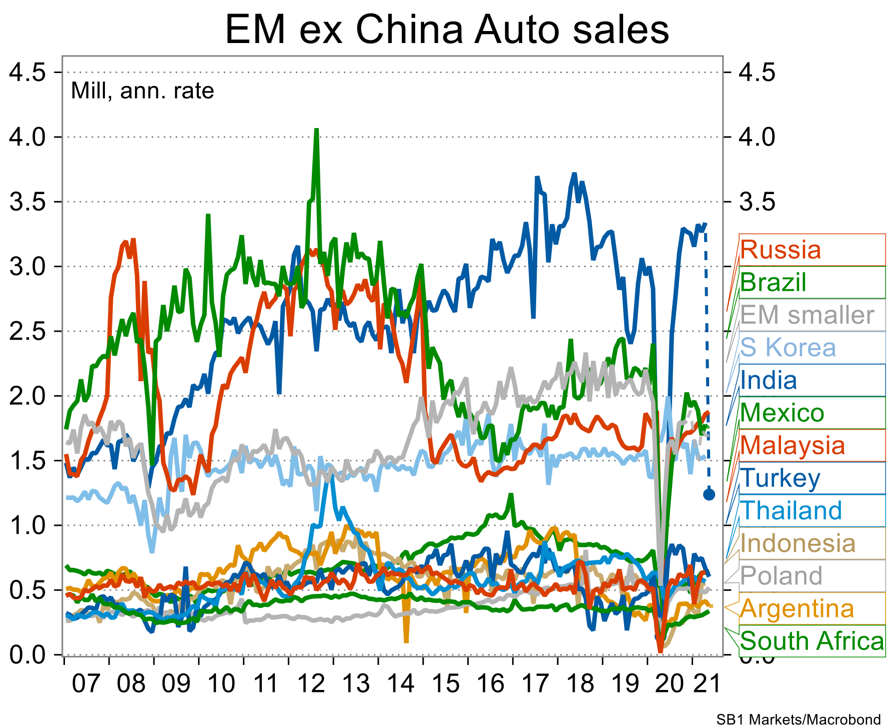


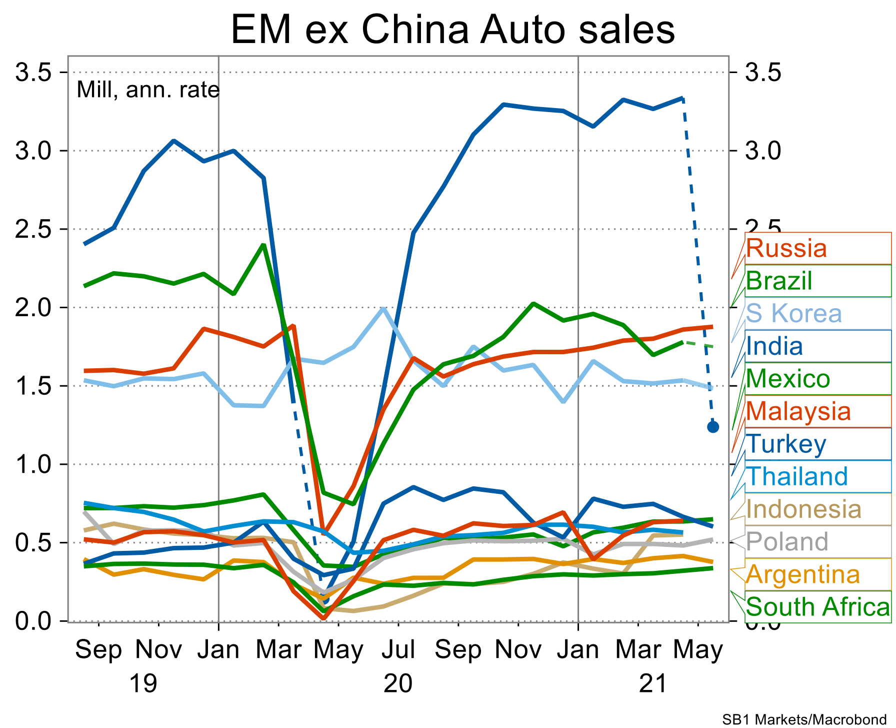


- Based on our preliminary estimate **global auto sales** fell by 5% in May and are just marginally above the Feb level
- A 2/3rd decline in sales in **India** (guess why?) explains more than half of the decline, lower **US** sales most of the rest
- The decline in the **US** in May is at least partly due to shortages of components, especially semiconductors, and not weak demand (but sales were boosted by stimulus cheques in April)
- Sales rose marginally in the **EMU** and rose sharply in the **UK**, back up to a pre-lockdown level
- Sales in **China** probably rose in April, and are well above the 2019 level
- Sales in **EM x China** fell sharply, due to the setback in India. Other were in sum probably close to unchanged (but many have not yet reported)

EM: Indian auto sales probably down 2/3 in May, from the best level in years

Mixed elsewhere but no other catastrophes reported, so far



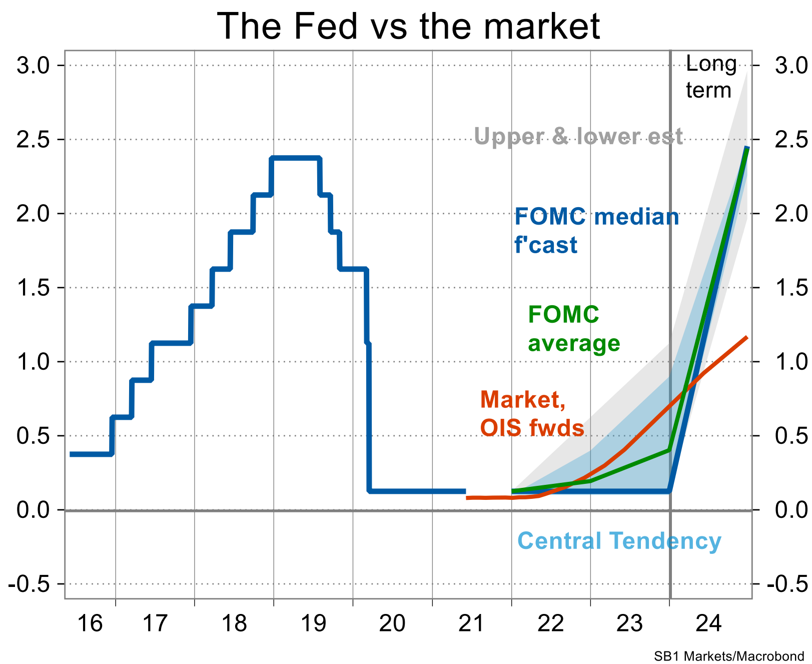


Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

SpareBank 1 MARKETS

Beige book: wage and price pressures increased further

Modest/moderate recovery, and an optimistic outlook as vaccines are distributed & society reopens

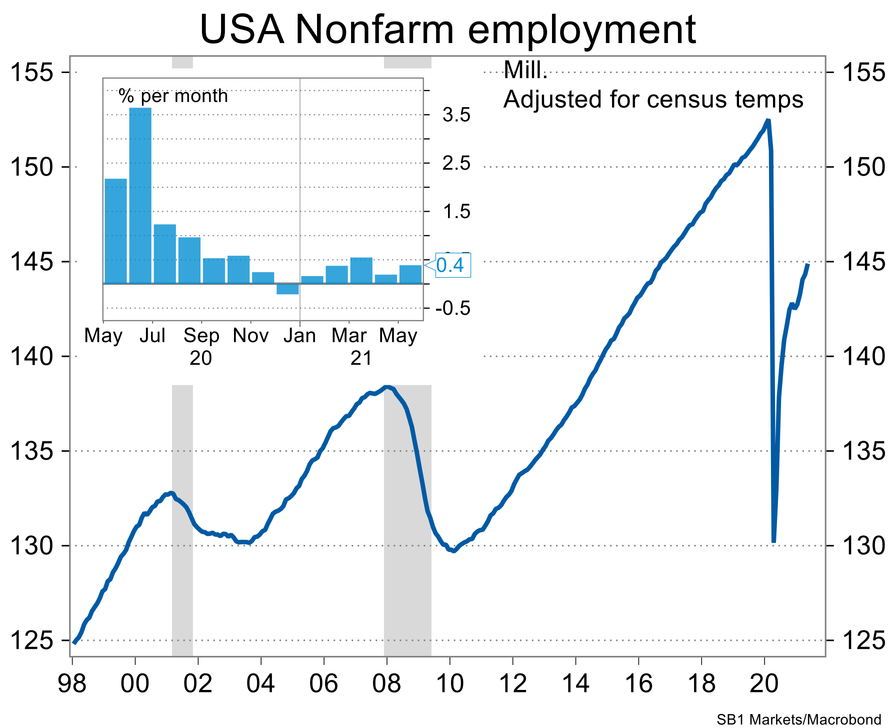


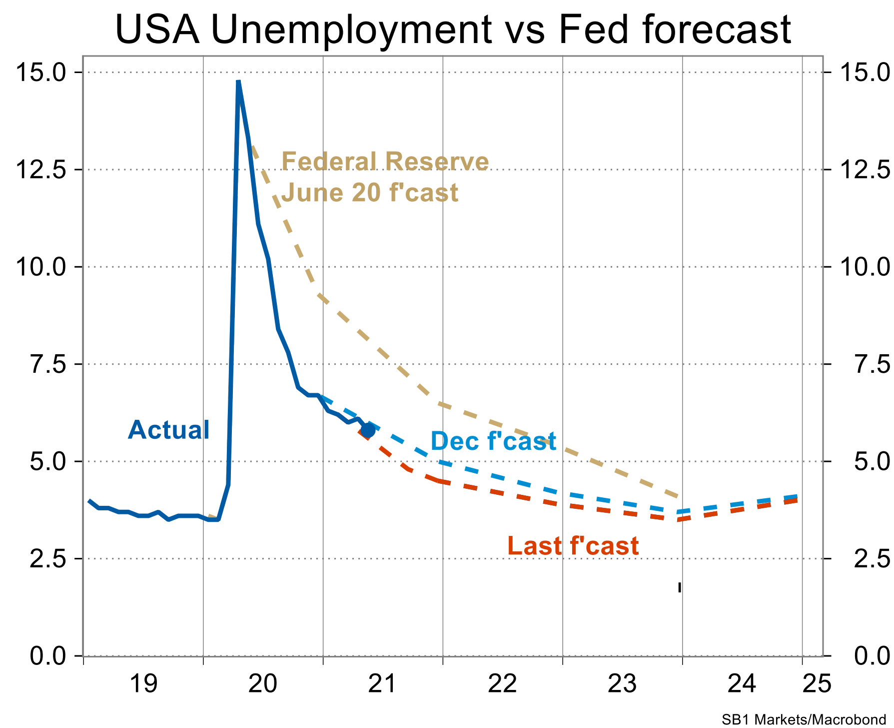
- The debate has started within the Fed, also in public:
  - » At the late April meeting, FOMC members talked about the need for start taking about Fed's stimulus programs if the recovery continued at a brisk pace. Some have thereafter argued for starting talking about tapering in at the FOMC meeting in June – and we think the committee will. No decision will be taken now, but something could happen at the September meeting
- **Treasury Secr. Janet Yellen** Sunday said the the USD 4 trl (2% of GDP) fiscal programs could temporary lift inflation and lead to slightly higher interest rates – which would be a plus for the society & the Federal Reserve

- Growth accelerated to a **modest pace** in most districts past six weeks, according to the Fed's 12 district banks. Eased restrictions, and increased vaccination cited at reasons for increased activity and outlook
  - » 3 districts reported strong growth (NY, San Fran., and Dallas)
  - » 9 districts reported modest to moderate growth
  - » Strangely 'modest' comments, given national & regional business surveys
- **Demand for leisure/hospitality services** have picked up as restrictions have been eased and vaccinations have continued. Both **retail sales and auto sales** were robust
- **Manufacturing** on the way up, despite supply chain challenges. Manufacturers reported of widespread shortages of both labour and materials. The **housing market** is still going strong. In fact, homebuilders are not able to meet demand due to capacity constraints. **House prices** are (of course) still climbing, as supply is limited
- Most sectors are reporting further growth in **employment** but growth is slowing – and difficulties attracting qualified workers persisted
- **Wage inflation** accelerated and many districts are seeing an upward pressure on wages, which is expected to increase over the coming months. A growing number of firms offered signing bonuses and increased wages
- **Input prices** increased sharply, and there are widespread reports of **increased selling prices** as well
- **In sum:** The reports out of the 12 districts keep getting more positive: the economy is recovering and the FOMC will have to address this fact at their June meeting. Perhaps even the more reason to have the talk about talking about tapering…

The participation rate does not respond, unemployment down to ‘moderate’

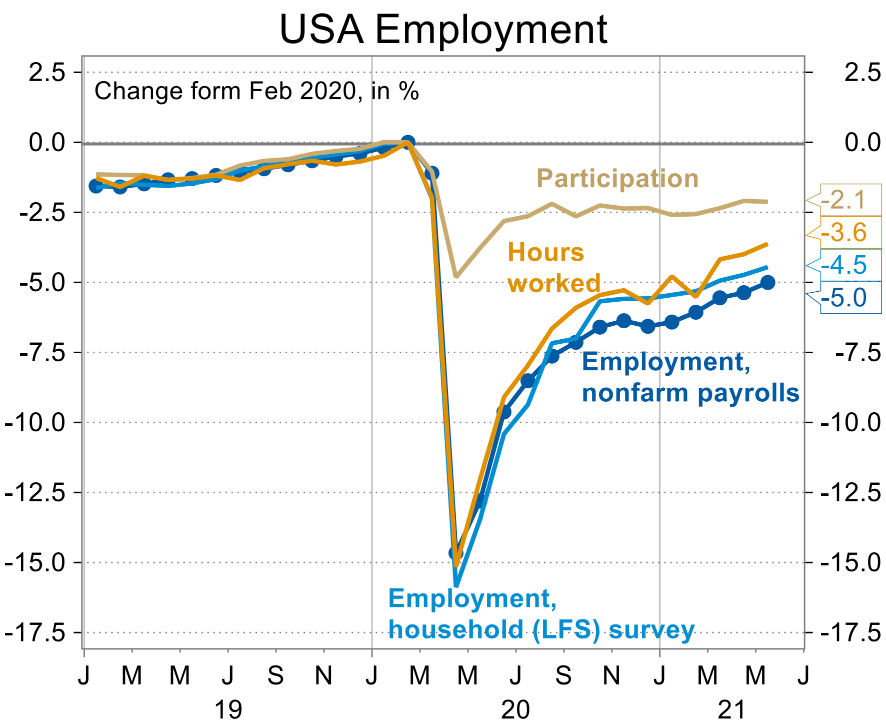
Is participation held back by too lucrative benefits? Or is it just the virus keeping folks at home?



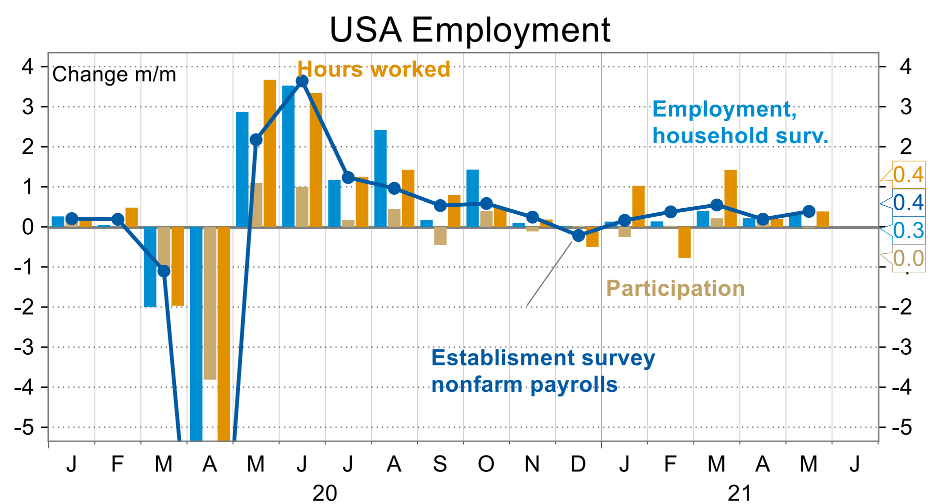


- **Employment** rose by 559’ (0.4%), again less than expected (671’, April was revised up 12’). Restaurants, education in the lead in May but both remain far below pre-pandemic levels. Total employment is 5% below the Feb-20 level, equalling 7.6 mill jobs. To get the employment rate back up, 8.1 mill
- **Unemployment** declined 0.3 pp to 5.8%, expected down to 5.9%, and still slightly above Fed’s (implied) March f’cast. Unemployment is ‘just’ 2.3 pp higher than before the pandemic but the participation rate has fallen by 2.7% (1.7 pp), lowering the measured unemployment rate substantially
  - » 2.5 mill. persons (down from 2.8 mill in March) report that they had withdrawn from the labour force (and were not searching a job) for Covid-19 related reasons. Last summer 5.2 mill persons were outside the labour market for the same reason. However, the labour force participation has not increased!
- **Average wages** rose by 0.7%, expected 0.2%. During the pandemic, we have played down these average wage numbers as the employment mix changed sharply. However, now the reversal should
- **Bond yields fell**, we assume due to the ‘weak’ employment growth number. We thought the response would be the opposite, due to the decline in participation and unemployment, and the large lift in wages

Labour market activity is on the way up, still far below the starting point



- **Labour market participation** was flat in May (in number, the rate was down by 0.1 pp). The rate is down some 2.7% below the pre-corona level, which is lowering the unemployment rate by the same amount
- **Nonfarm payrolls** are down 5.0% vs Feb '20, while **employment** measured by the **household survey** (LFS/'AKU') is 4.5% below. The **employment rate** is 5.1% below par. Given the pre-pandemic empl. rate trend path, 6% below (9.6 mill persons)
- **Sum hours worked** jumped 0.5% in May. Still down 3.7% vs. Feb-20

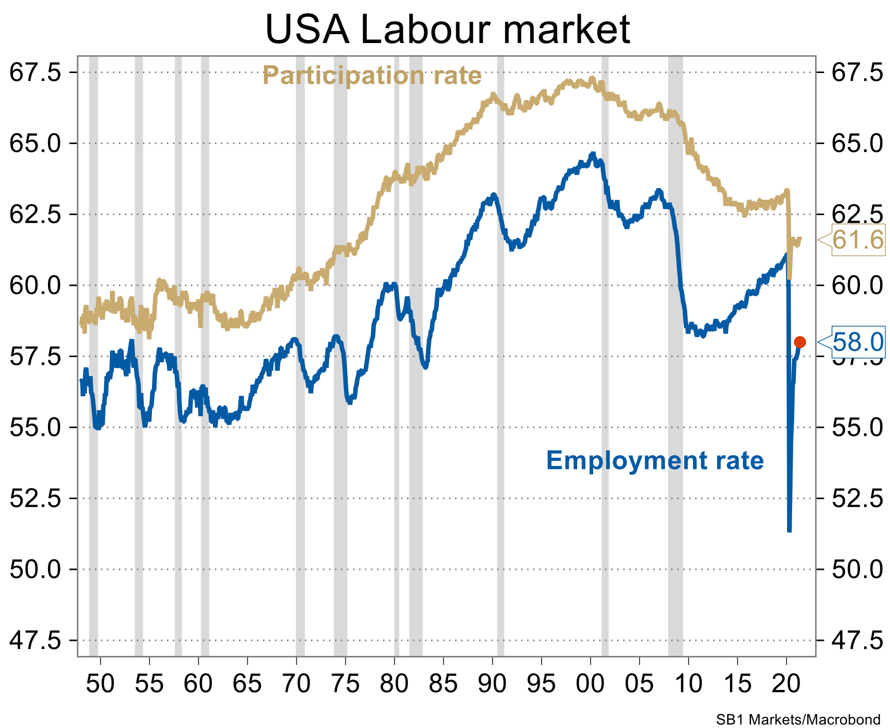


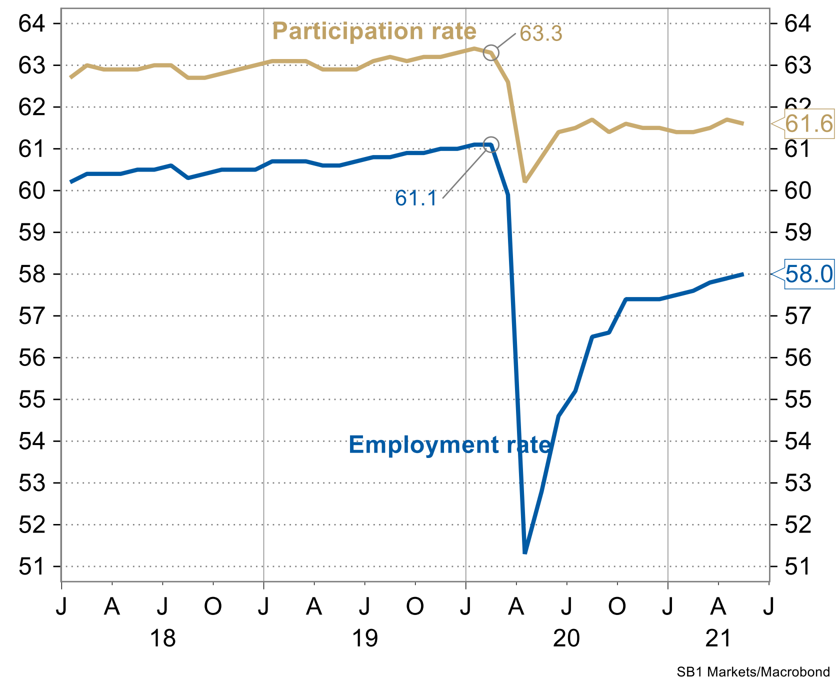
SB1 Markets/Macrobond

SpareBank 1 MARKETS

The participation rate is flattish, even if far fewer say thay are out due to Covid

The participation rate fell 0.1 pp in May, and is down 1.7 pp (2.7%, 3.5 mill) vs Feb-19

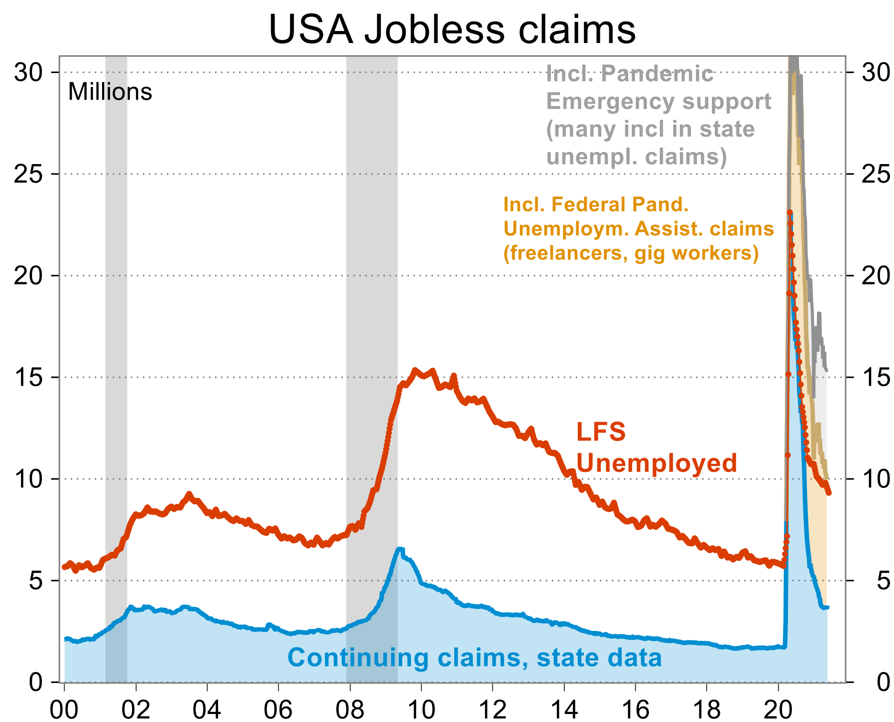




- The decline in the participation rate is Covid-19 related, at least it was initially. In May 2.5 mill. persons responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc, not because their job was closed down), down from 2.9 mill in March, and down from 9.7 mill at the peak last May, and 5.2 mill last summer. <u>These 2.5 mill persons equal 1.5% of the labour force, and represents a substantial potential for labour supply.</u>
- **<u>However, since last summer this number has fallen by 2.7 mill. persons. Over the same period, the labour force participation rate has been flat. Have all these persons left the labour market? Or have they returned, while others have left – and if so, temporary (being 'well' paid by extra unemployment benefits?) or permanently? These are the most important questions in the US economy today!</u>**

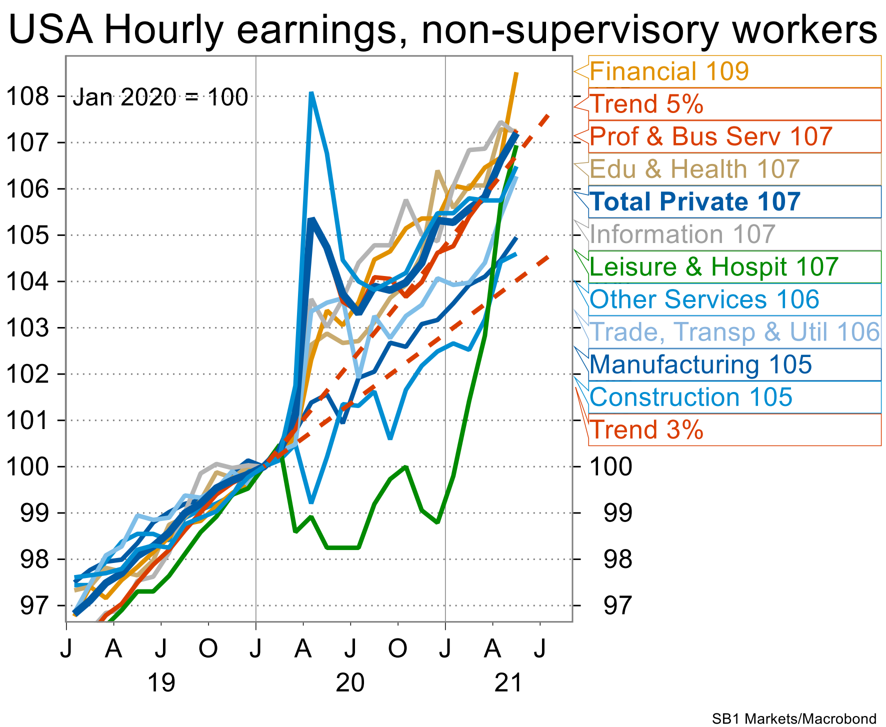
A labour force reservoar waiting to be tapped?

Do 6 – 10 million persons too many receive unemployment benefits?



- Usually, many more a reporting they are unemployed in the LFS than there are receivers of states' unemployment benefits
  - » The discrepancy has been 4 – 8 mill persons
- Now, the difference has changed sign, there are more receivers of state or now federal benefits
  - » There are 9.3 mill unemployed persons, according to the LFS
  - » Added up, the ordinary state programs, and the two temporary federal pandemic benefit programs distributes 15.3 mill checks per week – that is >5 mill more than those who report that they are unemployed (actively searching for a job) in the LFS
    - However, a (to us, unknown) proportion of the Pandemic Emergency support checks are distributed to receivers of states' ordinary support (so they receive USD 300/week in addition to the USD 300+ state unemployment benefit) – and there are some double-counting.
    - But at least 11 – 13 millions are for real, and anyway far higher than normal vs. the measured LFS unemployment rate
- This suggests that when the Federal programs end, in June in those states who have decided to opt out of the federal programs or by the September sunset for these temporary pandemic programs, millions of workers will return to the labour market in earnest
- There were 8 mill **job openings** (unfilled vacancies) to choose between in March. We assume there were some 8.5 – 9 mill jobs available at the end of May
- So barring really serious mismatch problems, employment could increase substantially the coming months. If not…

Wages for those working are up 6% – 9% vs the pre-pandemic level

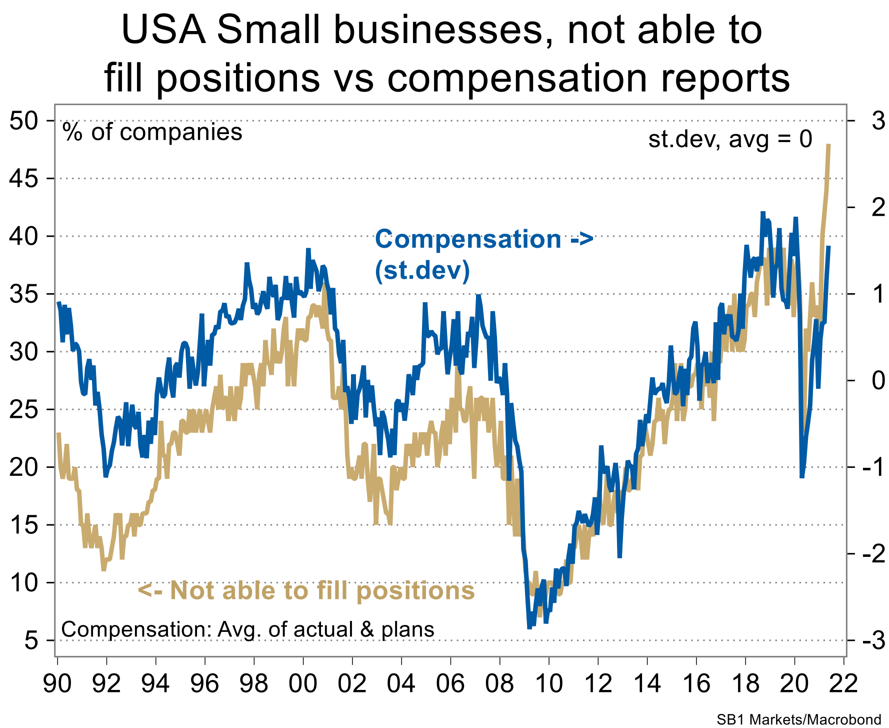


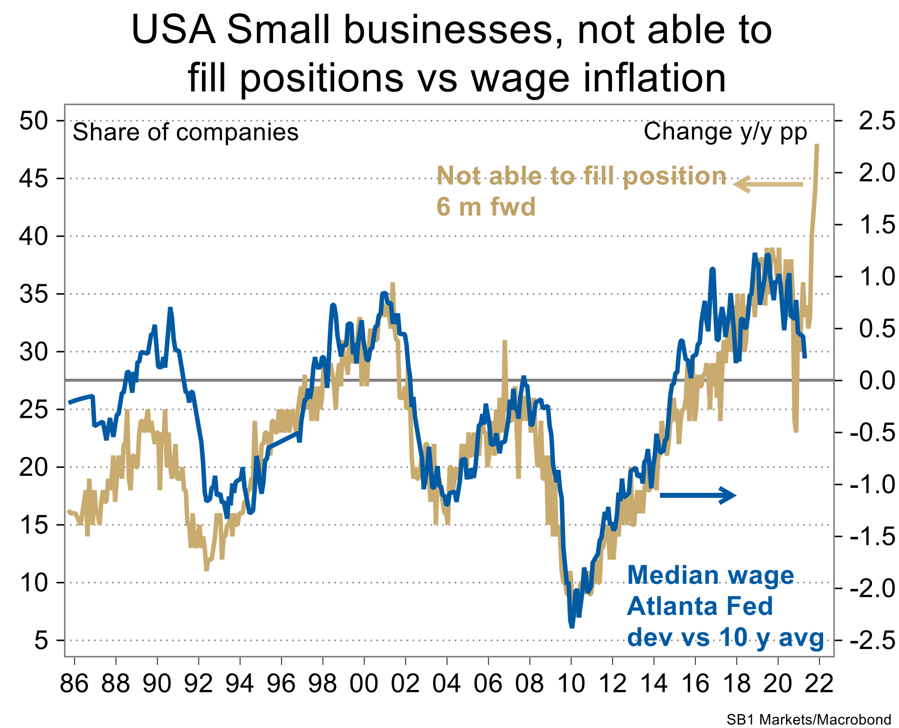
- Changes in the employment mix even within sectors make these sectoral data uncertain
- However, it may be that these data reflects a real increase in wages recent months
  - » Say, why should the average wage in leisure & hospitality be 7% above the pre-pandemic level if wages in the sector have not increased quite broadly? At least, it seems unlikely that higher paid staff has increase its share of total employment in the sector when wages have jumped by 8% (since December)

- At the chart above, wages for non-supervisory workers are shown. When all employees are included, growth is slightly lower in most sectors

Wage inflation will accelerate, if labour supply does not increase sharply

Companies are reporting that they have increased compensation, and they plan to do more

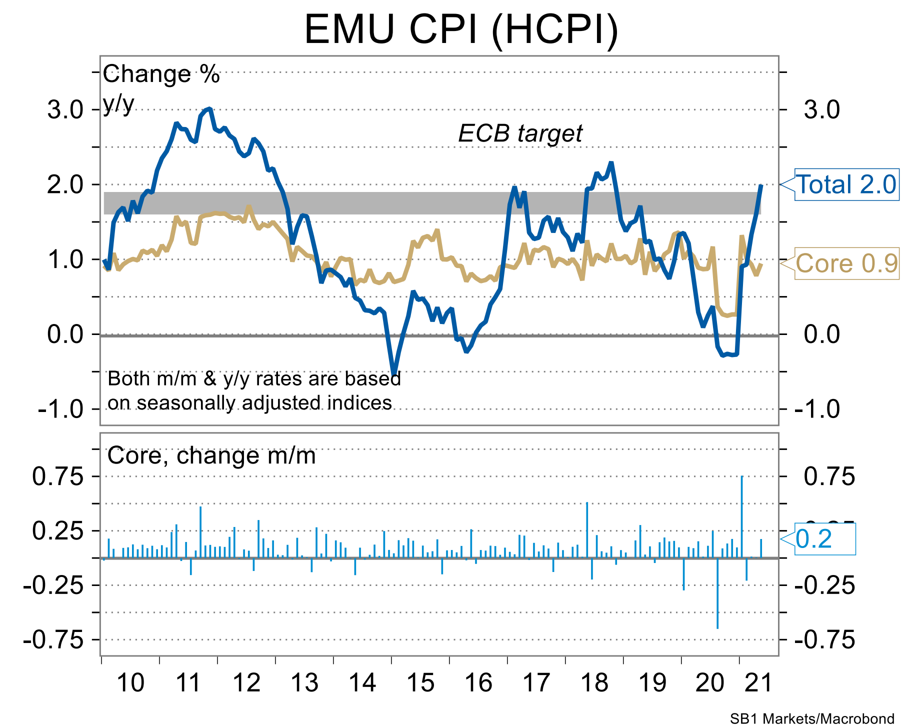


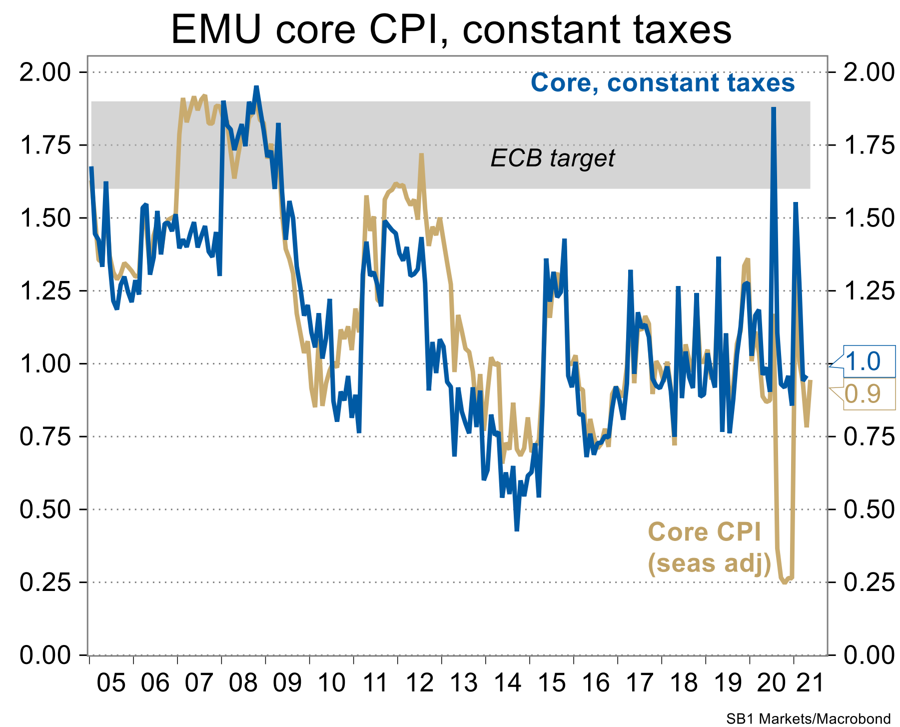


- The wage indices we trust the most now since they are not influenced by the changes in the employment mix (ECI & Atlanta Fed median wage index) are still not reporting any take off (check the ECI index next page)
- However, survey data and anecdotical evidence (from companies) are unanimous: Wages are sharply on the way up, especially on the lower steps of the steep wage ladder

Eurozone inflation above expectations in May – and the total above the 2% line

Core inflation at 0.9% is still far below ECB's inflation target

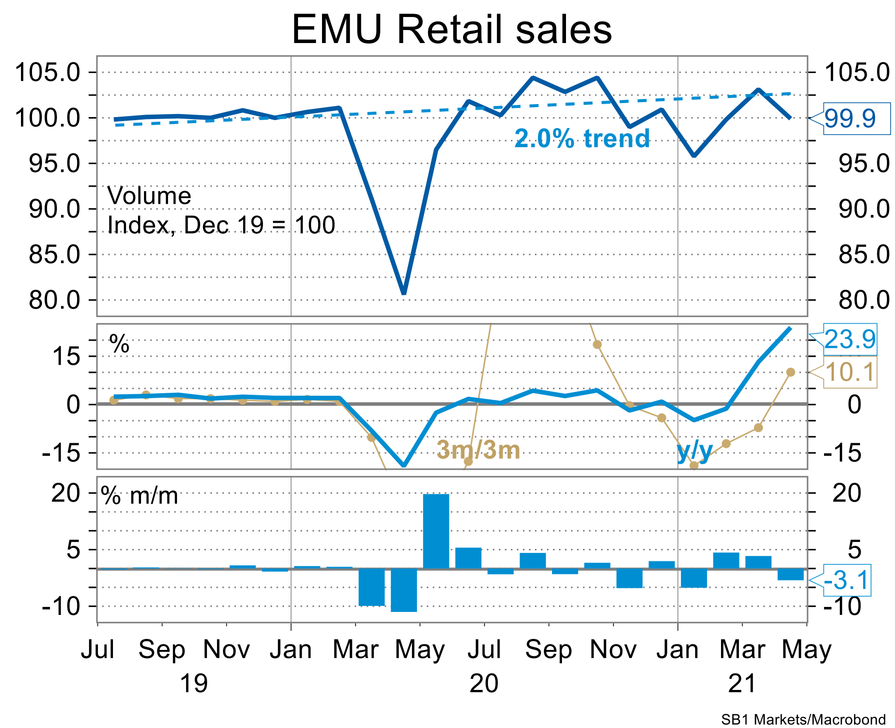


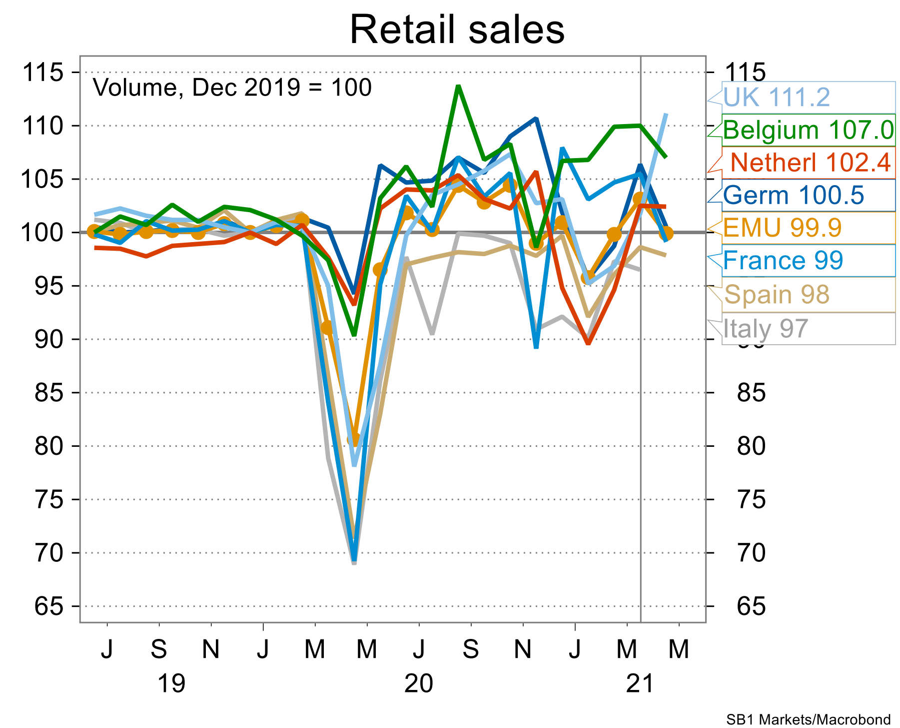


- **Core prices** were up 0.2% m/m and the annual rate rose 0.2 pp to 0.9%
- **Headline inflation** was up 0.4 pp to 2.0% in May. Energy and services prices were the biggest contributors to the increase in headline inflation. There are some base effect for the headline number (not the core), as the total CPI fell in May last year (they increased again in June & July, before falling sharply in August, due to tax cuts)
- **Adjusted for changes in taxes**, the core was at 1% y/y in April. The 'supercore' index is at 0.8% y/y
- Greece is still in deflationary territory, while the headline inflation is at or above 2% in many of the member countries, including Germany, Belgium, Finland and Spain (Although central banks usually targets core inflation, and this number is more sticky)
- **Wage inflation** in the EMU is still low, and negotiated wages are up less than 1.4%, the lowest on record

Eurozone retail sales back below pre-Covid trend in April

Sales fell 3.1%, 2 pp below expectations

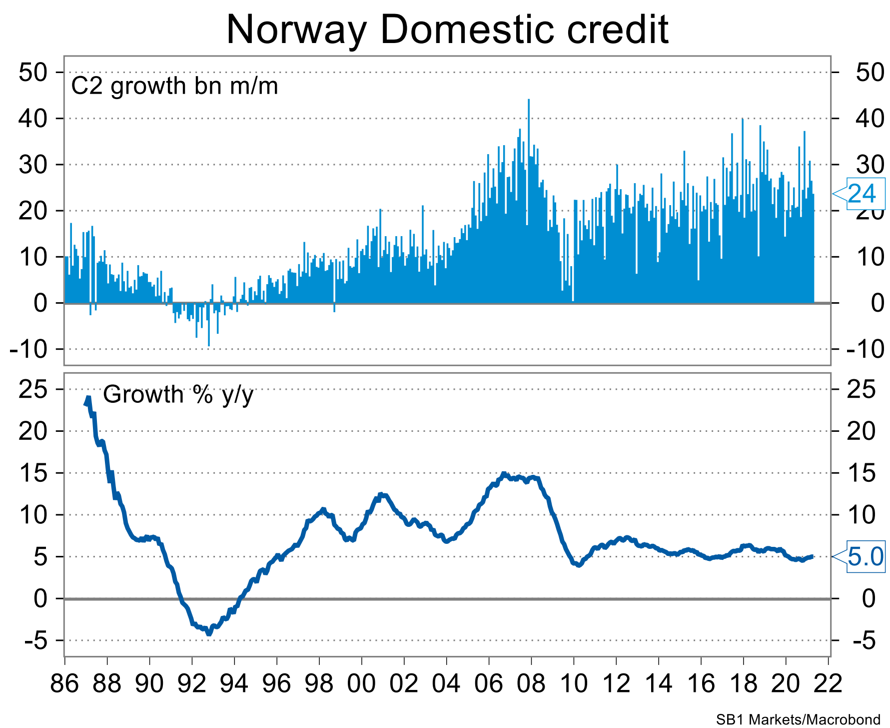


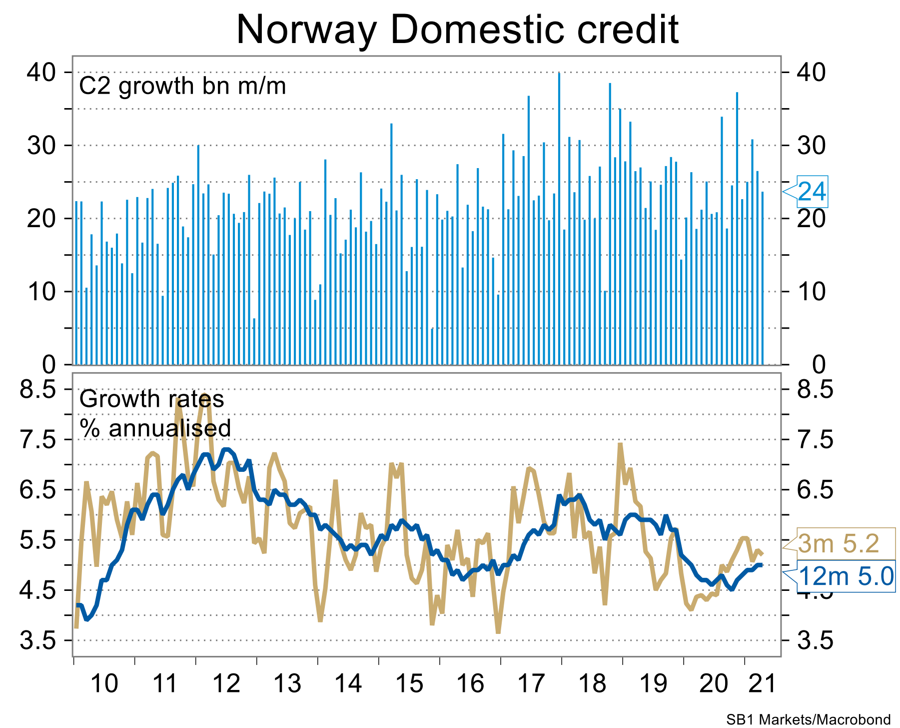


- Sales were down 3.1% m/m, from a 0.5 pp upward revised 3.3% growth in March.
- Sales fell by 6% in France, 5.5% in Germany, and 0.9% in Spain. Italy has yet to report its figures
  - » Sales in Spain & Italy remain below the pre-pandemic level. Lack of foreign tourist probably explains much of the shortfall. Sales are higher elsewhere
- Sales fell sharply even if restrictions in EU were eased to April from March (Oxford stringency) and mobility rose. However, some specific restrictions may have kept a lid on retail spending in April. Anyway, restrictions were eased further in May (and now into June), mobility is increasing, savings are strong, and consumer confidence is above pre-pandemic levels and far above average. Most likely, far better spending data the coming months

Credit growth flat at 5%, no boom to be seen

Total domestic credit growth (C2) unch. at 5.0%, due to lower local government borrowing

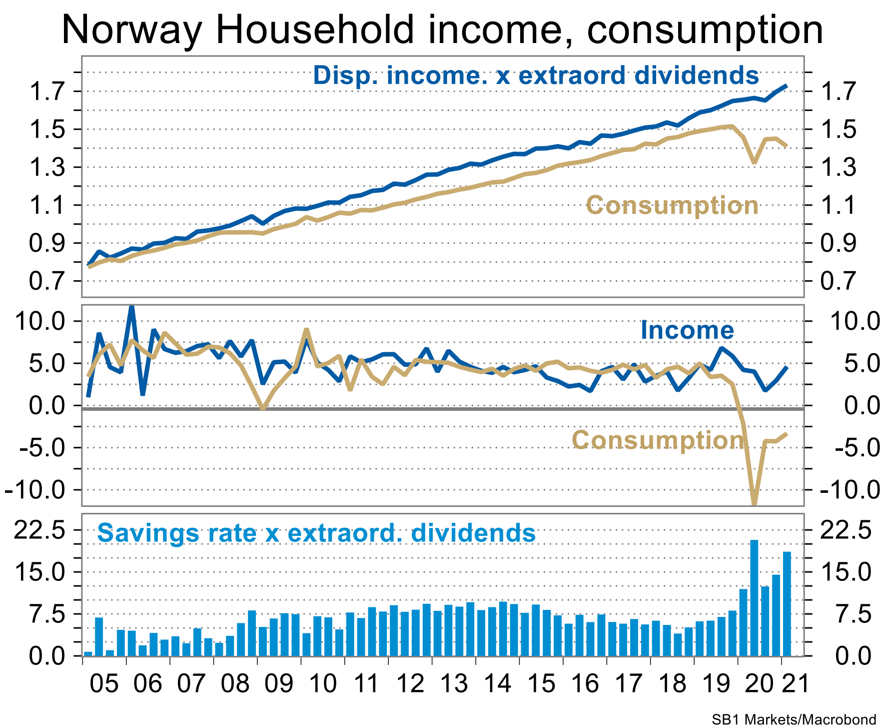




- **Total domestic debt** (C2) rose by NOK 24 bn in April, down from 28 bn in March, we expected NOK 25 bn. The annual growth rate was unchanged at 5.0%, as we assumed (consensus 5.1%). We are not witnessing a any credit boom, even if growth is accelerating slowly
- **Household credit** rose by NOK 17 bn in April, 5 bn more than in March, we expected 14 bn. The annual rate climbed 0.1 to 5.0%, we expected 4.9%. The underlying rate is slightly above 5%, somewhat higher than a reasonable estimate of long term nominal income growth – but not much
- **Corporate C2 credit**, rose by NOK 5 bn (down from 7 bn), we expected 8 bn. The annual growth rate was rose 0.1 pp to 4.4%. **Mainland corporations** increased their debt by 5.1% y/y (from 5.0%) vs Norges Bank's 3.7% Q2 forecast (published in March)
- **Local governments** borrowed less in April – NOK 2 bn down from NOK 9 bn in March. The annual growth rate is at 7.8%, miles above inc. growth

Savings rate up by 4 pp to 19% in Q1!!

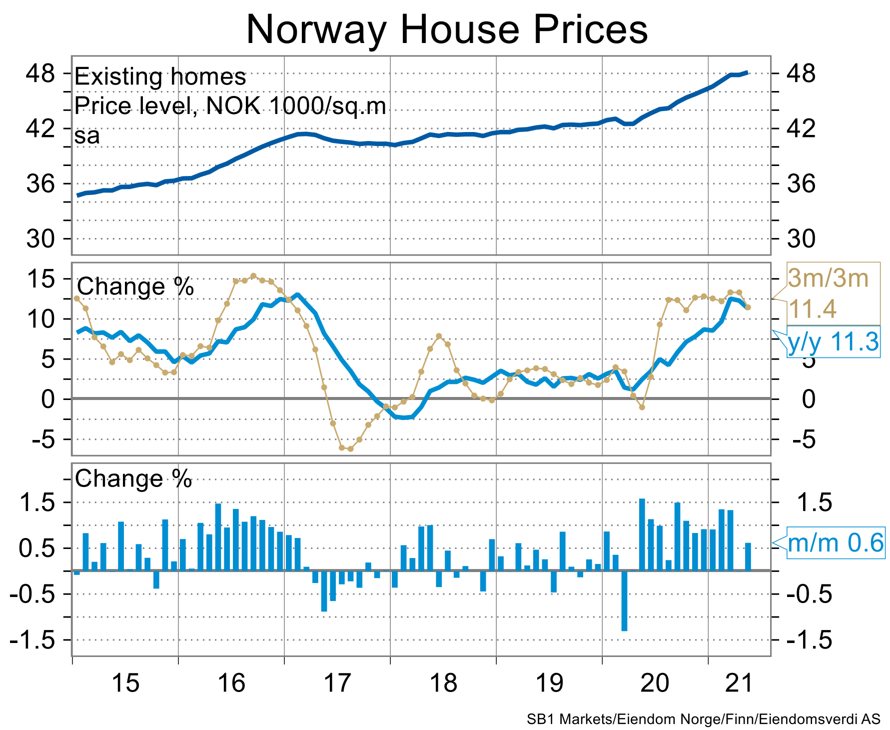
Consumption fell by down 2.9 in Q1, while household income grew by 1%

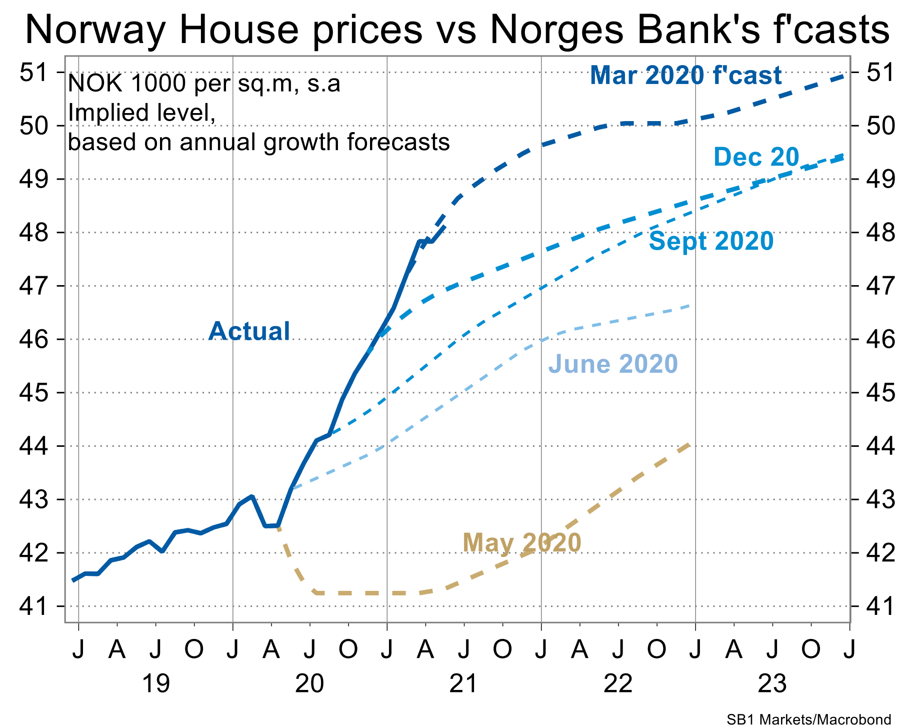


- **Household disposable** income rose by 1% (nominally) q/q in Q1, slightly less than we assumed – and the level is up 4.3% y/y. In Q1, the savings rate rose to 18.9% from 15.4% in Q4, we expected 19.6%. Dividends are close not normal, and the savings rate x extraordinary dividends is at 19.2 (as shown at the chart to the left)
- Since Q1-20, the savings rate has been 8½ pp higher than normal (avg 2019). The savings rate will be far above a normal level in Q2 as well, as consumption will not grow that fast. If so, households will at the end of Q2 have accumulated extra net savings (national accounts calculated) equalling 12% – 13% of their disposable income, or well above NOK 200 bn. A decent 'Wall of Money'.
- In aggregate, households have not reduced their debts, and just a minor part of the extra savings have been invested in new homes, so their financial assets have increased substantially, like bank deposits.
  - » By April, bank deposits were some NOK 90 bn higher than the pre-covid trend (the Q1 data for the other elements of their financial accounts will be published this week)

House prices up again in May. Outside Oslo, that is. Oslo down for the 3rd month in a row

Prices up 0.6% in May, we expected 0.2%, consensus was probably even lower

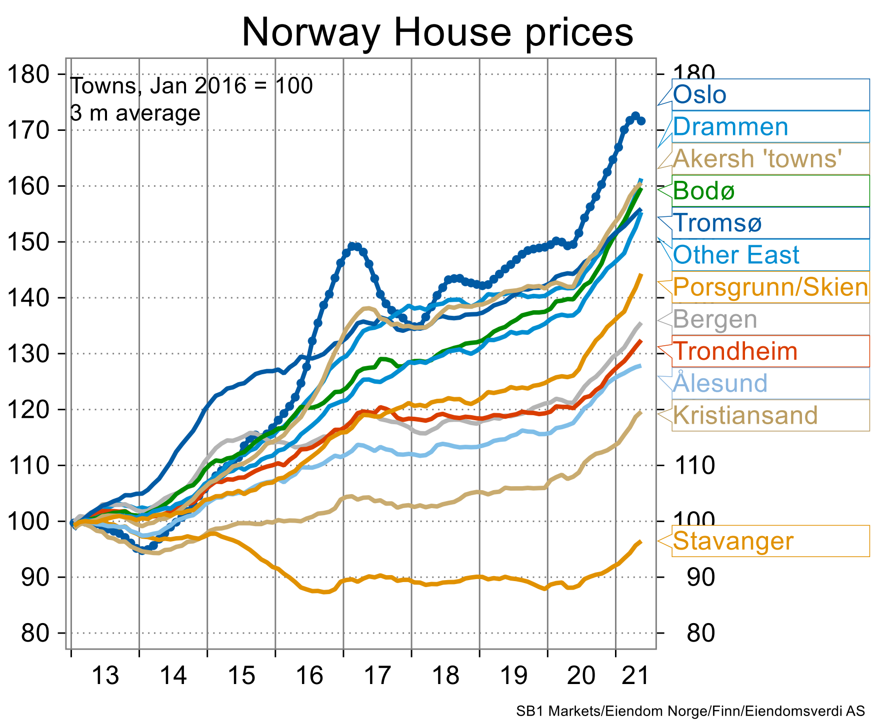


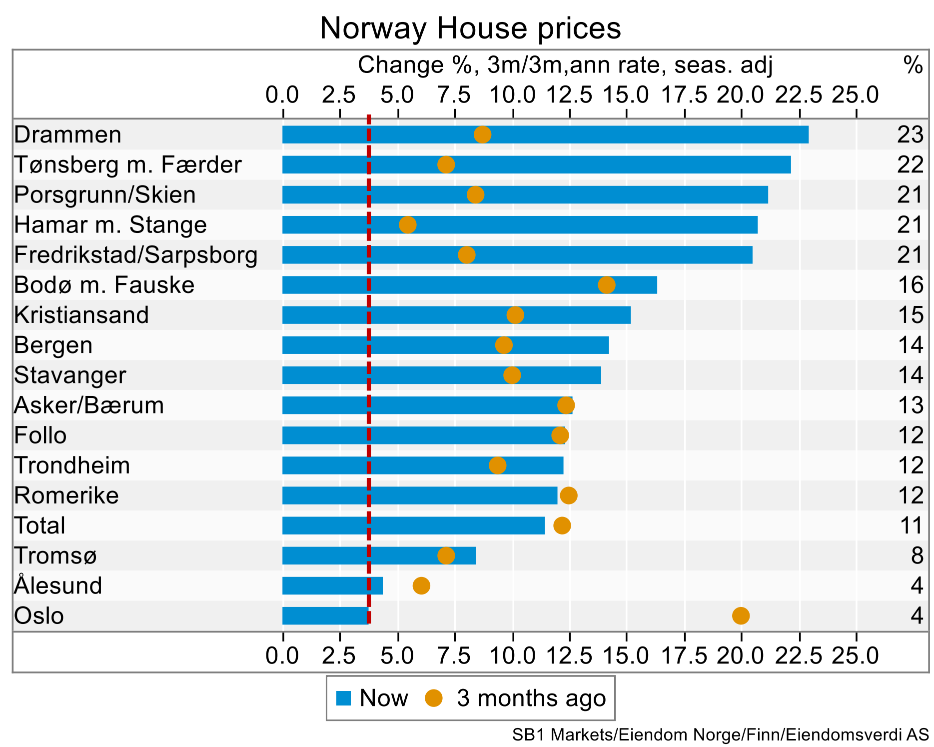


- **House prices** rose by 0.6% seas. adj in May, up from flat (revised from -0.1%) in April. We expected 0.2%, NoBa 0.7% (March MPR est). Prices are 0.5% lower than NoBa expected. Prices are still up by 11% 3m/3m (annualised), stable since Dec. Prices are up 11.3% y/y
- Oslo prices fell in both March, April and May, but not by more than 1.6% . Prices fell in Kr.sand and Stavanger too, but rose elsewhere, on average by 0.9%. Outer Eastern towns are reporting the highest monthly figures as well as 3m/3m growth rates. Costal cites from Kr.sand to Tromsø (x Bodø) are relative losers over the recent year
- The **number of transactions** fell slightly in May but is high. The **inventory of unsold homes** fell further to a record low level
- Our Norway x Oslo **flow based price model** signals 1% m/m price growth, the Oslo model zero growth
- House prices below NoBa's f'cast but are still on the way up. The bank will not even think about not hiking rates in H1 due to 'weakness' in the housing market

Smoothed 3m/3m Oslo is still up at a 4% pace. Other Eastern cities 20% – 23%!!

3 months ago, the momentum was strongest in Oslo, up 20% 3m/3m

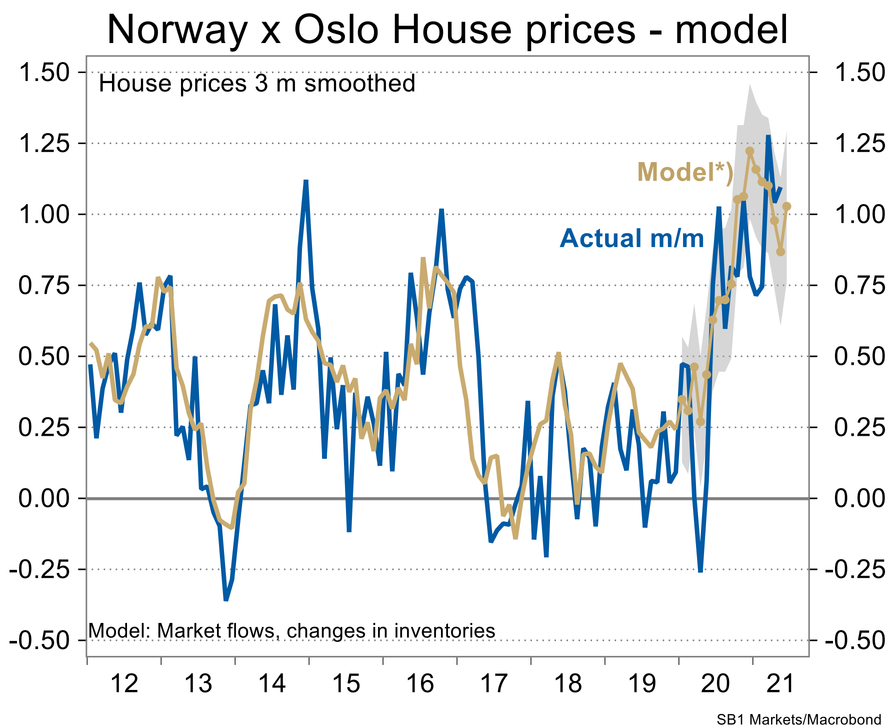


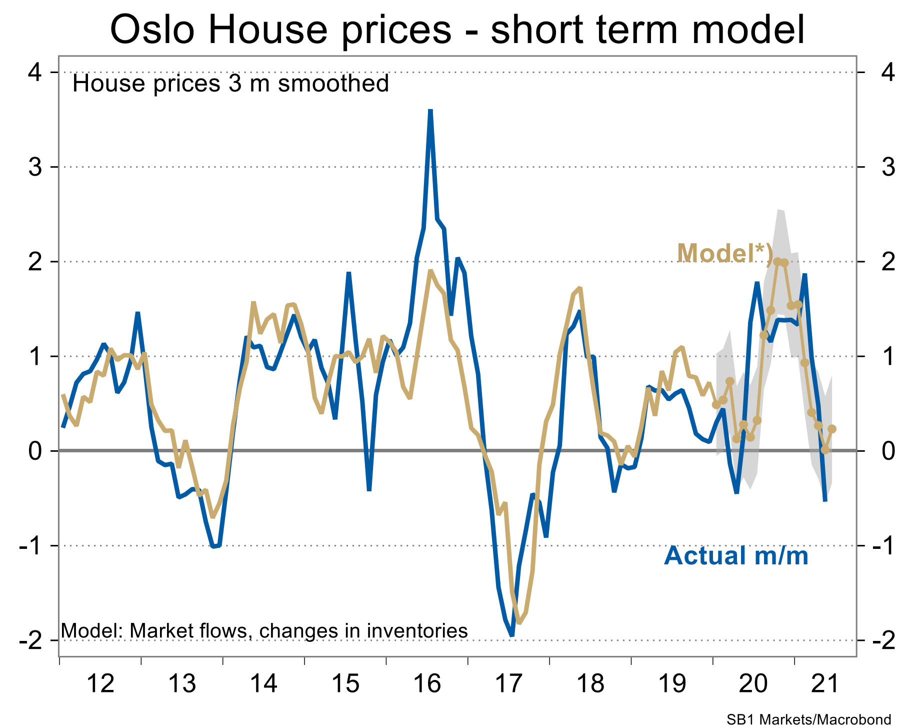


- From 2013:
  - » Oslo in the lead, together with Drammen, Asker/Bærum/Follo ('towns' close to Oslo). Bodø and Tromsø are also close to the top of the list
  - » Stavanger has been the weakest town, but is now heading upwards again (but not as fast as the leading towns around Oslo)
  - » Bergen, Ålesund and Trondheim is at the lower part of the list too – together with Kristiansand

Short term market flows suggest continued price growth – <u>outside Oslo</u>

However, the models signal lower growth than some months ago

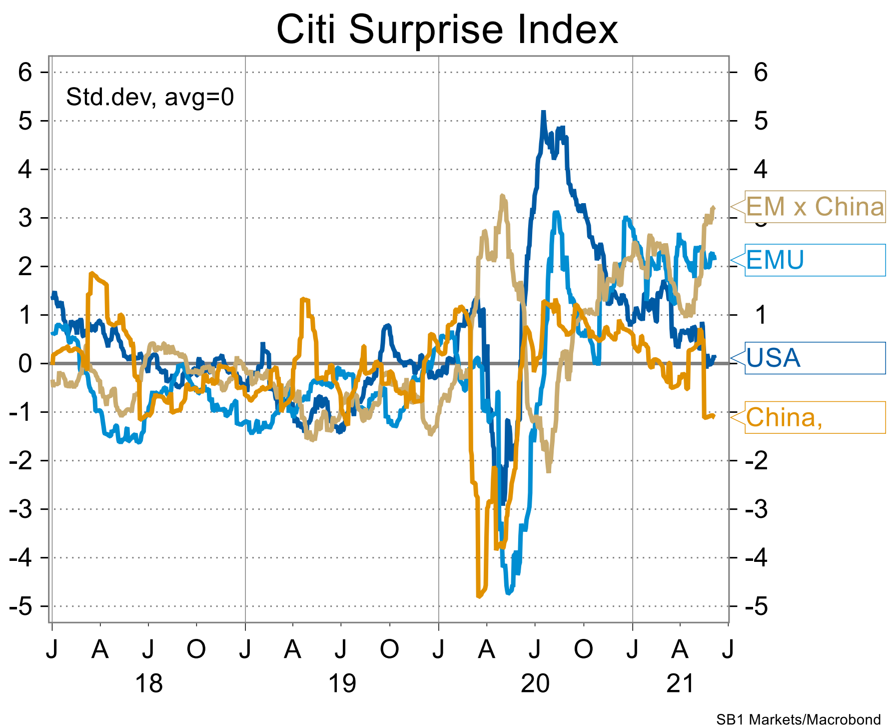


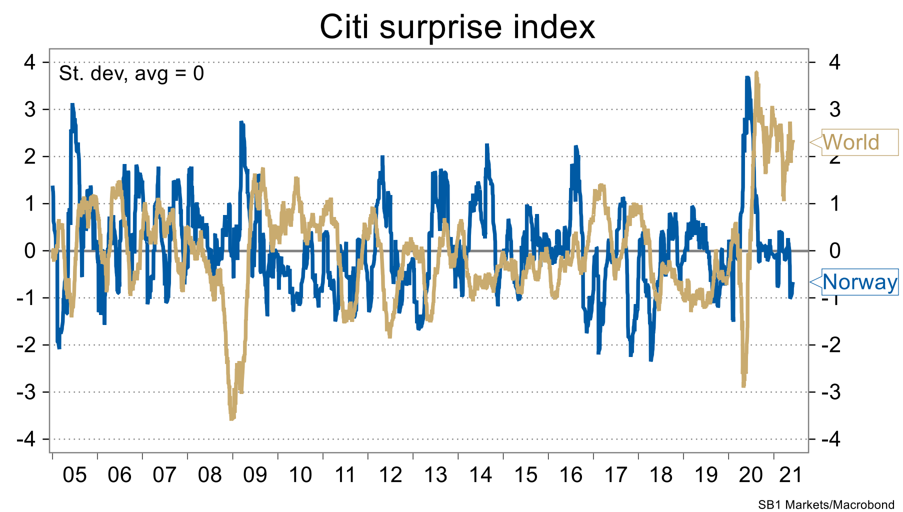


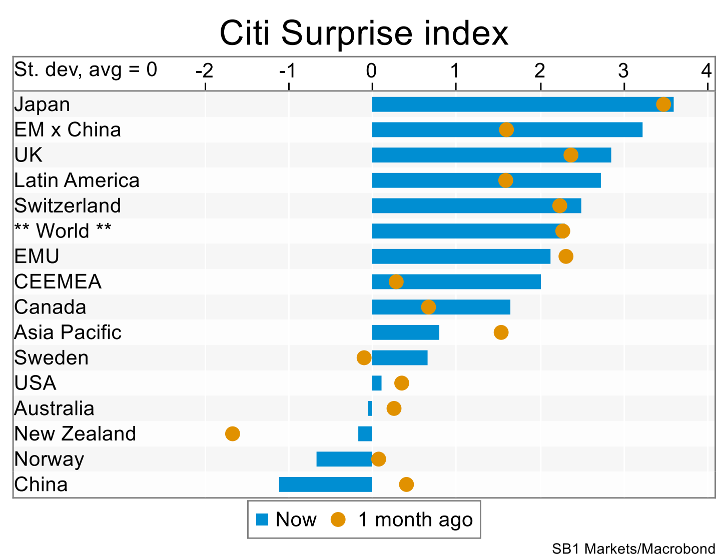
- Our **national model** based on flows and the inventory signals a <u>1% growth in house prices per month</u>
- Our **Oslo model** signals <u>no growth in prices</u>
- *These models are <u>not</u> long term price models, just short term price models based on flows of (existing) houses approved for sale and actual sales*

Economic data are still surprising on the upside (but not Chinese & Norw. data)

… according to Citi's surprise index. Japan, EM x China at the top, with UK & EMU







- The **US** surprise index has fallen to neutral
- **China** surprised on the downside with its mixed April data, according to Citi
- **Emerging Markets x China** are reporting much better data than expected
- **Norway** has surprised on the downside, due to GDP & CPI data

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

The Calendar: Inflation & vacant jobs in the US, ECB, NoBa network, CPI, GDP here

Time	Count.	Indicator	Period	Forecast	Prior
Monday June 7					
08:00	GE	Factory Orders MoM	Apr	0.5%	3.0%
08:00	NO	Ind Prod Manufacturing	Apr		0.7%
Tuesday June 8					
08:00	GE	Industrial Production SA MoM	Apr	0.6%	2.5%
09:30	SW	Industrial Orders MoM	Apr		-1.8%
09:30	SW	GDP Indicator SA MoM	Apr		2.1%
10:00	NO	Norges Banks reg netw. Past 3m	May	-0.5	-0.16
		Norges Banks reg netw. Next 6	**May**	**2.5**	0.92
11:00	GE	ZEW Survey Expectations	Jun	85.3	84.4
11:00	EC	Employment QoQ	1Q F		-0.3%
11:00	EC	GDP SA QoQ, details	1Q F	-0.6%	-0.6%
12:00	US	NFIB Small Business Optimism	May	100.5	99.8
14:30	US	Trade Balance	Apr	-$68.3b	-$74.4b
16:00	**US**	**JOLTS Job Openings**	**Apr**		**8123k**
Wednesday June 9					
03:30	CH	CPI YoY	May	1.6%	0.9%
03:30	CH	PPI YoY	May	8.5%	6.8%
08:00	GE	Trade Balance	Apr	15.9b	20.5b
08:00	**NO**	**GDP Mainland MoM**	**Apr**	**0.2% (0.3)**	**-0.5%**
Thursday June 10					
08:00	NO	CPI YoY	May	2.9% (3.0)	3.0%
08:00	**NO**	**CPI Underlying YoY**	**May**	**2.0% (2.0)**	**2.0%**
09:30	SW	CPI YoY	May	2.0%	2.2%
09:30	SW	CPIF Excl. Energy YoY	May	1.4%	1.7%
13:45	**EC**	**ECB Main Refinancing Rate**	**Jun-10**	**0.0%**	**0.0%**
14:30	**US**	**CPI YoY**	**May**	**4.7%**	**4.2%**
14:30	**US**	**CPI Ex Food and Energy YoY**	**May**	**3.4%**	**3.0%**
14:30	**US**	**Initial Jobless Claims**	**Jun-05**	**365k**	**385k**
20:00	US	Monthly Budget Statement	May		-$225.6b
Friday June 11					
08:00	UK	Monthly GDP (MoM)	Apr	2.5%	2.1%
08:00	UK	Industrial Production MoM	Apr	1.5%	1.8%
08:00	UK	Manufacturing Production MoM	Apr	1.5%	2.1%
16:00	US	U. of Mich. Sentiment	Jun P	84.0	82.9
During the week					
	CH	**Aggregate Financing CNY**	**May**	**2000b**	**1850b**
	CH	New Yuan Loans CNY	May	1400b	1470b

- **China**
  - » **Credit growth** has slowed, normally a sign of slower growth in the overall economy going forward
- **USA**
  - » **Inflation, inflation, inflation.** It may be transitory, but now it's here! As prices fell in m/m May last year, and the monthly momentum is strong now, a further increase in the monthly rate is very likely. The core CPI is expected up to 3.4% y/y in May, from the 3.0% 'shock' in April
  - » **Jobs, jobs, jobs:** Or rather, job openings (unfilled vacancies). It may be transitory, but the lack of labour is here now, like we have never seen, at least that was the case in the March JOLTS report. Very likely, the no. of unfilled vacancies rose further in April (and we suppose, in May). Federal Reserve no doubt pays notice, and hopes and prays labour supply will skyrocket the coming months, when the Covid-19 passes, and extraordinary unemployment benefits lapses
- **EMU**
  - » **ECB** members are discussing policy more openly than in the US (until the past two weeks, at least). However, given the Q1-into-Q2 corona related setback, and core inflation remaining below 1%, the bank can afford to wait and see before signalling a tapering the PEPP program, even if we expect ECB to revise its growth forecasts upwards at this week's meeting
  - » Several countries will report their April **industrial production** data, and a modest further increase is expected following the leap upwards in May. Retail sales are weak but manufacturing surveys are up in the sky like never before
- **Sweden & the UK** reports April **GDP** data. Both have entered a steep recovery
- **Norway**
  - » **Norges Bank's** regional network has not been particularly close to the ball during the pandemic, as it has been challenging for the respondents to calibrate their answers vs the unusual changes in activity (like it has been in most surveys). In the Feb (Q1) survey, the network signalled a 1.8% growth rate – which the 2/3rd virus wave killed, GDP has fallen the past 3 months. Now, we assume most sectors will report a very upbeat outlook for the next 6 months, if not retail trade, which is blooming already. Household services will no doubt be in the lead, even if the survey was conducted while just some few restrictions were eased. (Preferably, we wold have run a new survey today.) We expect a growth indicator at 3.0 implying a 6% growth pace, a tad higher than the previous ATH in Q2-06
  - » **GDP Mainland** has been sliding downwards since December but we assume activity rose somewhat in April, partly supported by higher electricity production
  - » **Core CPI inflation** surprised on the downside in April, as the annual rate fell to 2.0% from 2.7%. We (as consensus) expect an unchanged annual core CPI-ATE rate. Imported inflation should be further dampened by a stronger NOK

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

Highlights

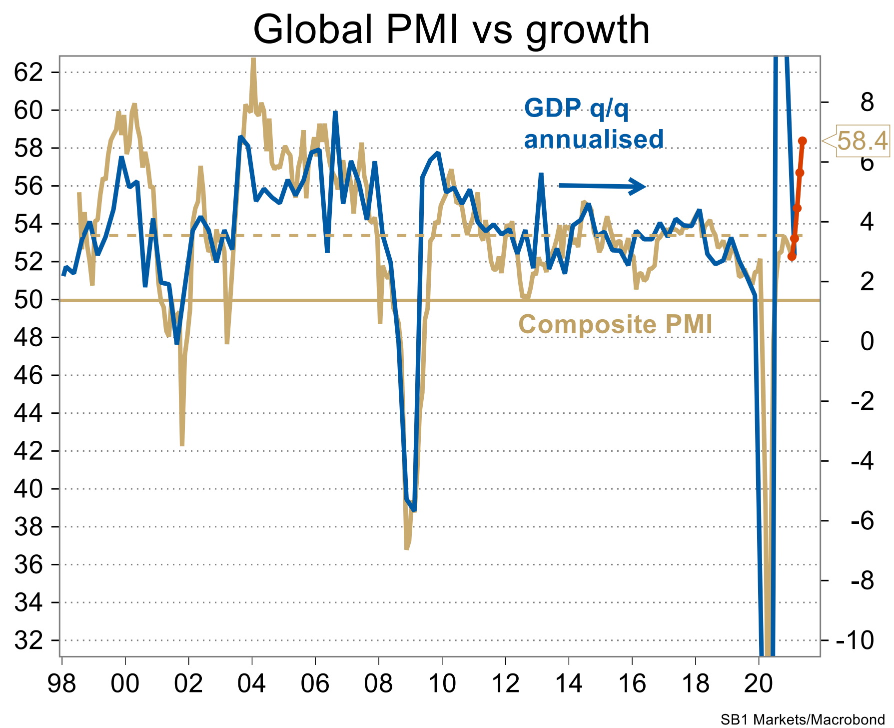
The world around us

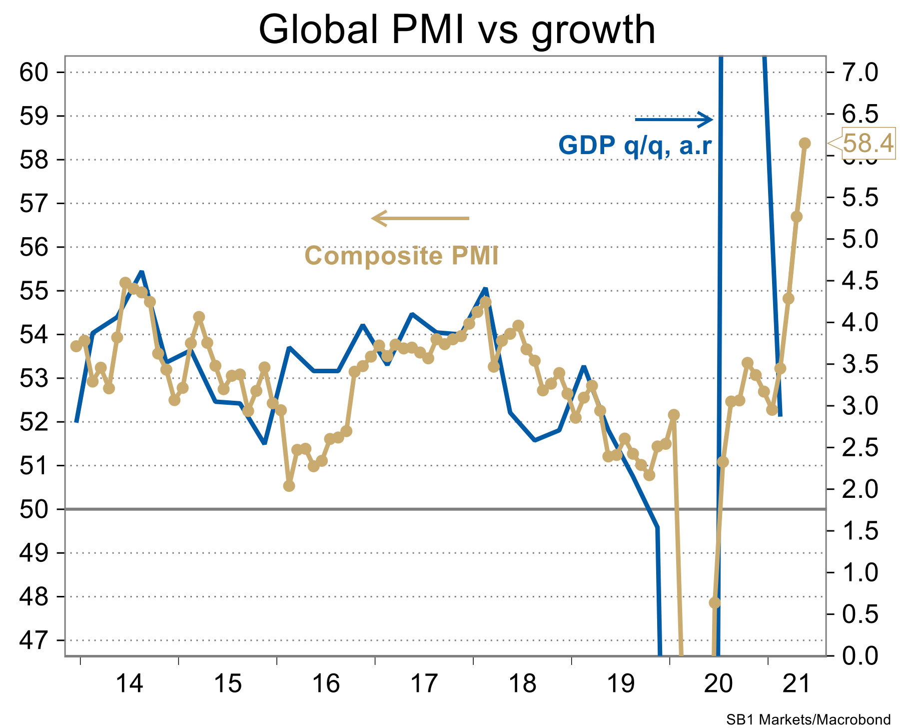
The Norwegian economy

Market charts & comments

The global comp. PMI even better than we assumed, up to 58.4, best since '06

The global index added 1.7 p, and signals a 6%+ GDP growth pace, far above trend

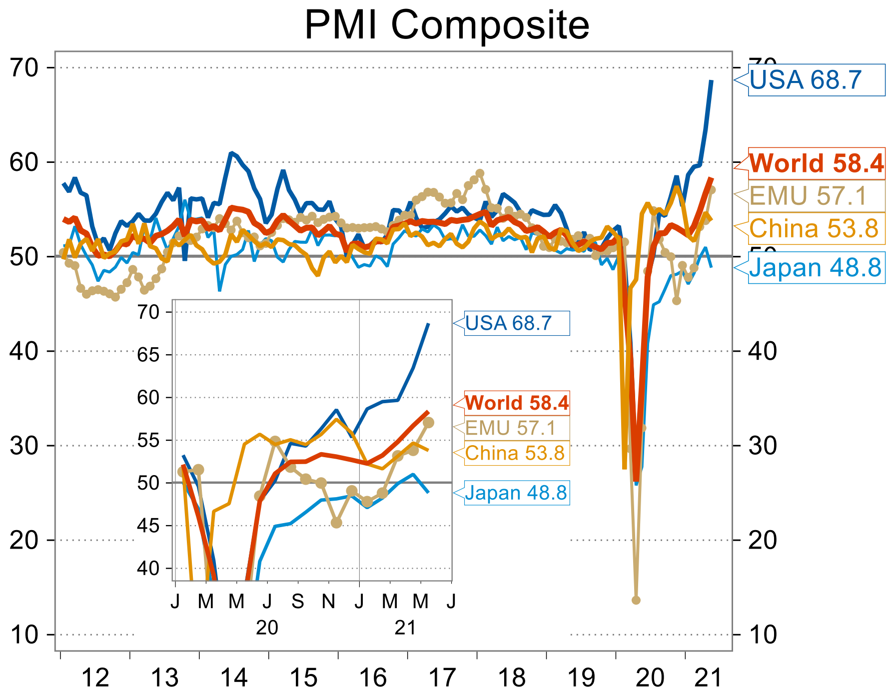




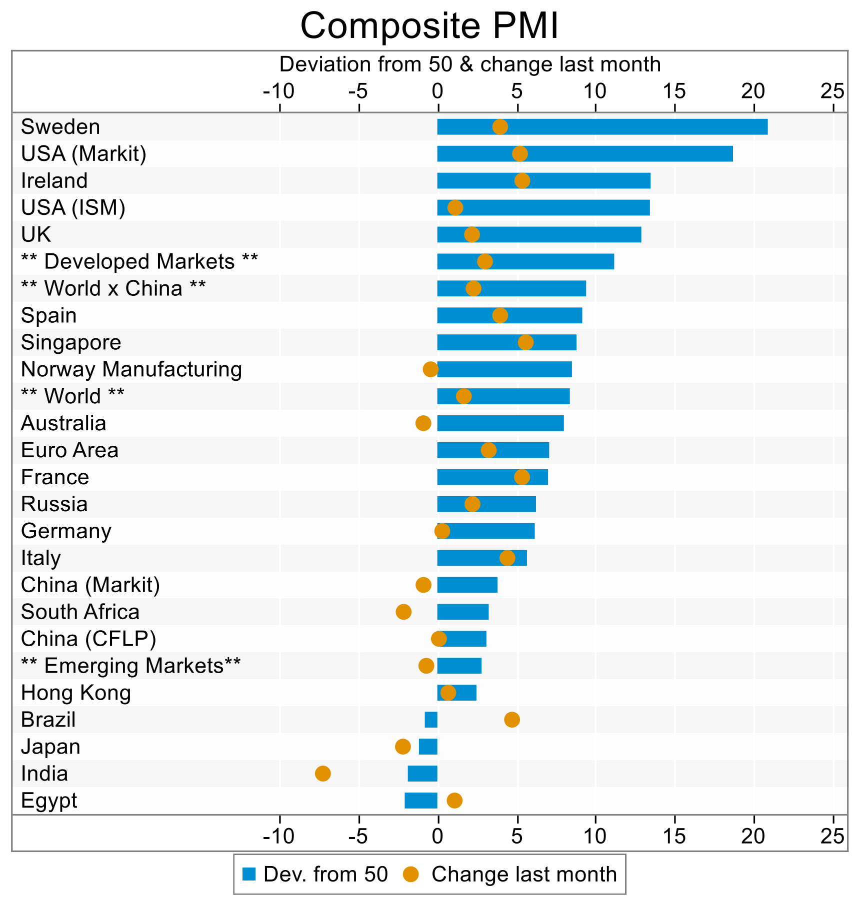
- We assumed a +0.9 p lift to 57.6, 0.8 p lower than the outcome!
- Both services and manufacturing contributed on the upside

A broad strengthening in May – Sweden still in pole position; US, UK follow

The Swedish PMI is the best of all, ever. Just 4 countries below the 50-line.



Source: IHS Markit, SB1 Markets, Macrobond

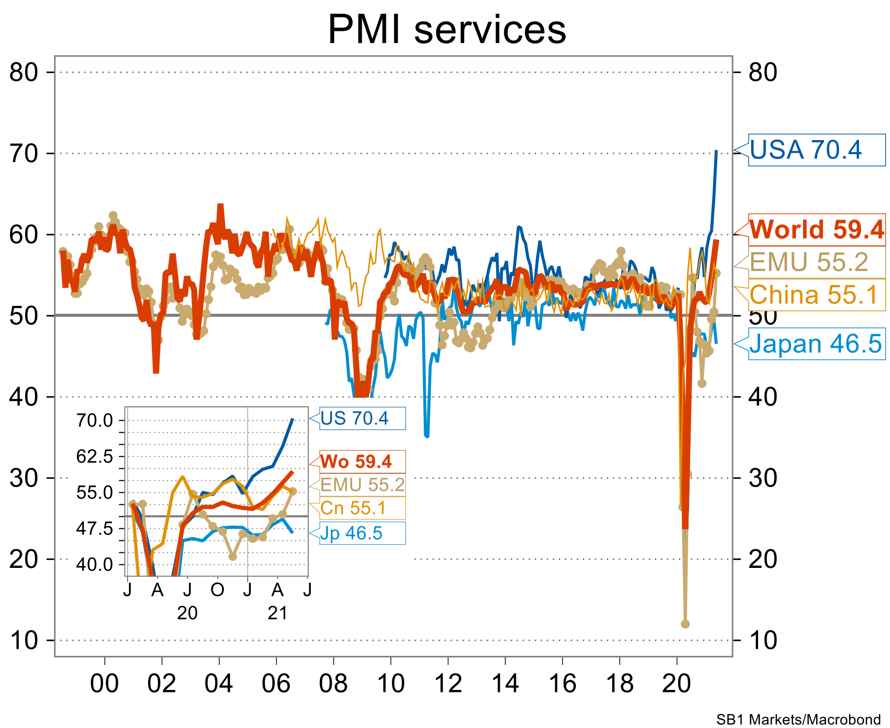


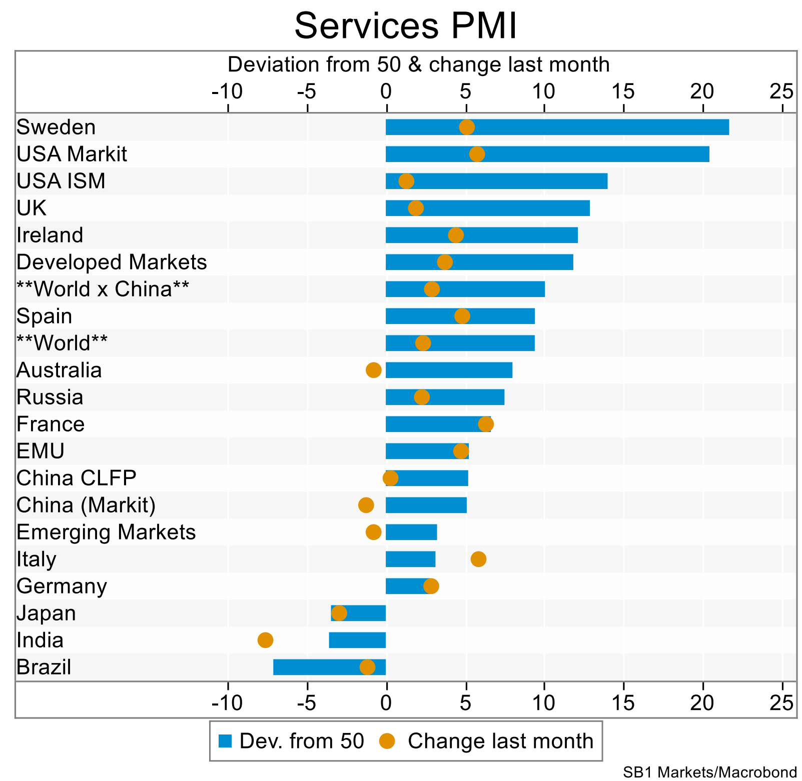
SB1 Markets/Macrobond

- 17 countries/regions up, 8 down in May. 4 below the 50-line
- Sweden, US & UK at the top. Barring strange figures from Saudi Arabia in 2011, the 70.9 PMI print is ATH for any country, ever
- India was the biggest loser in May, and the PMI fell below the 50-line (though, Brazil still at the bottom)
- The Chinese PMIs mixed, Markit's down, NBS' up – but both signal growth above trend
- Brazil a the bottom, very likely due to continued corona problems

The service sector PMI +2.8p to 59.4 in May, best since ‘06

Sweden/US at the top. Service sector in India, Brazil and Japan in contraction mode. Guess why?

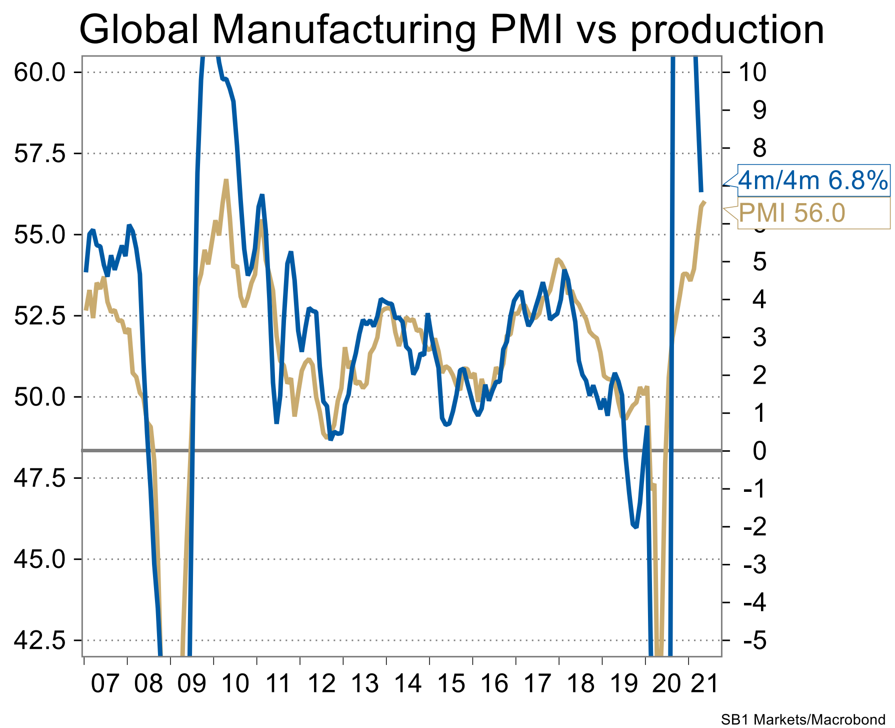


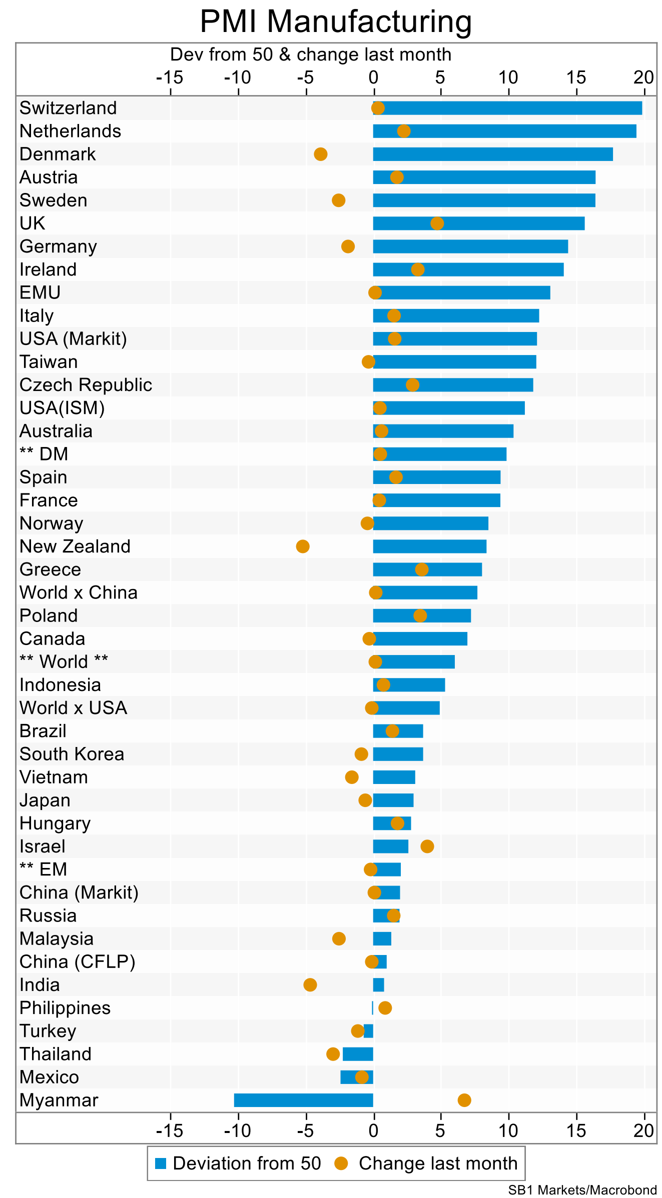


- The service sector PMI rose 0.4 p more than we assumed, and signals a brisk ongoing recovery in services
- 13 countries/regions up, 6 down; 3 below the 50-line, 17 above
- Both the ISM and Markit’s PMI rose in the US, and both at extreme levels
- Services in Spain and Italy surprised on the upside
- Besides Brazil, India and Japan are at the bottom, below the 50-line. All due to covid surges and restrictions of course

Manufacturing PMI climbs, 90% are above 50, a further recovery signalled

The PMI rose by 0.2 p to 56 in May; the best level in 10 years

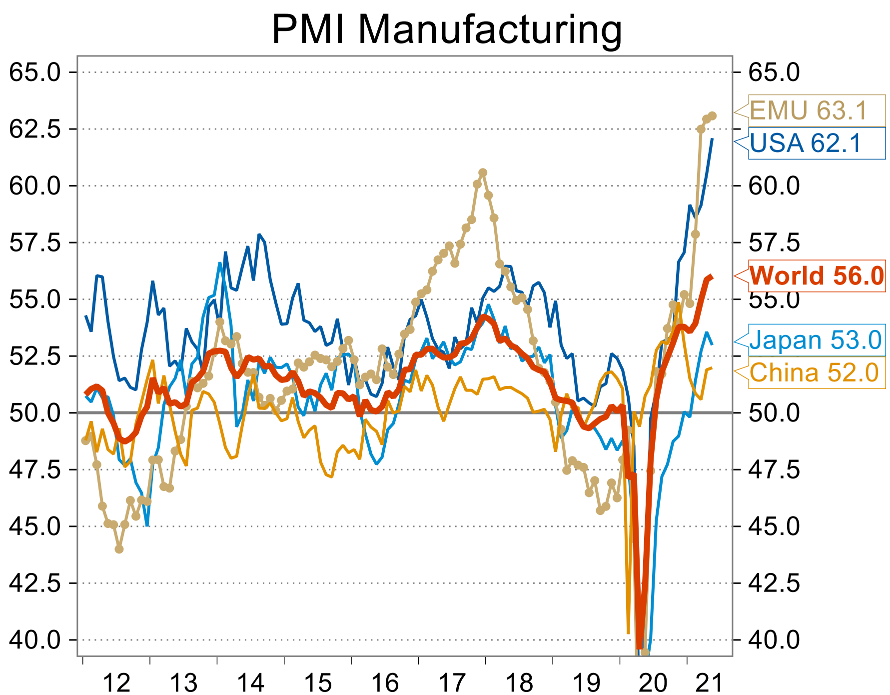




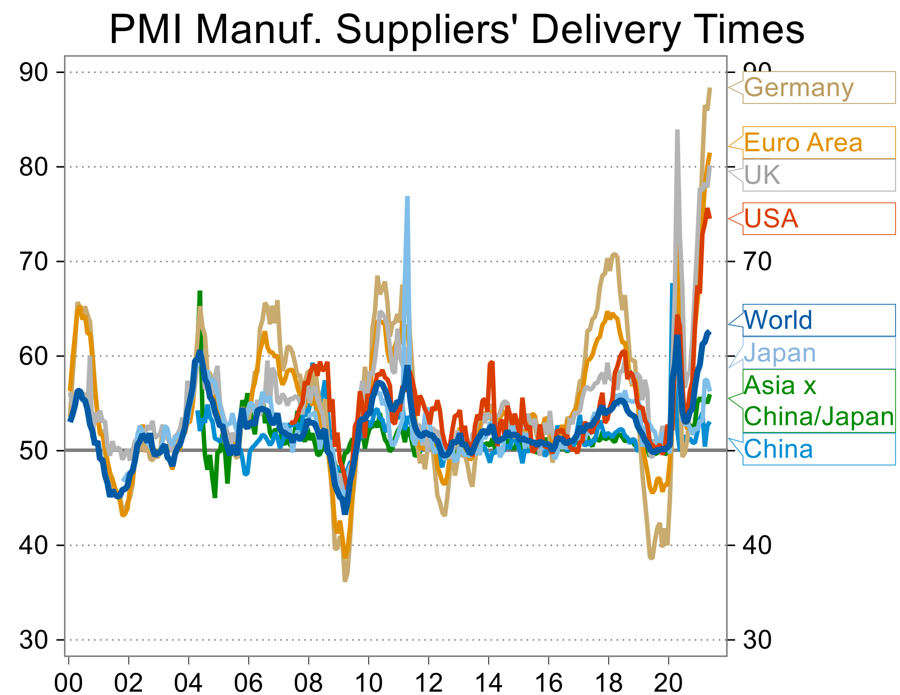
- The global manufacturing PMI rose 0.2 p to 56 in May, below our est.
  - » 61% of the countries/regions reported higher PMIs in April than in March
  - » Almost 90% of countries reported a PMI> 50, the highest proportion since 2018
- **European** countries at the top at a record high level. The **US** PMIs rose further, and the ISM index rose slightly as well
- The **Chinese** manuf. PMIs were mixed but still signal growth above trend

The boom in the manufacturing sector is broad, Europe in the lead

... and delivery times are surging!



Source: IHS Markit, SB1 Markets, Macrobond

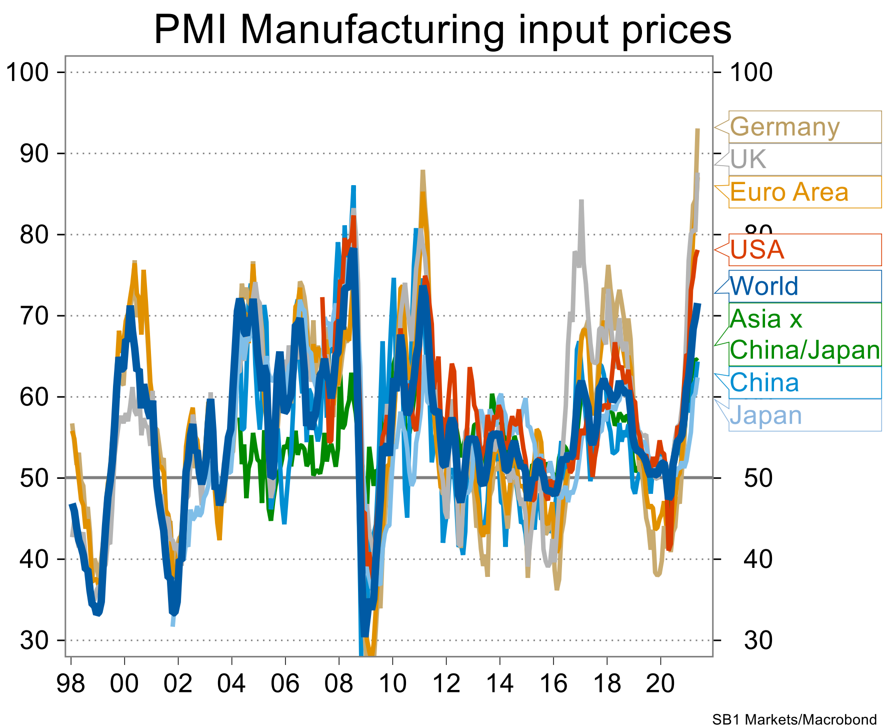


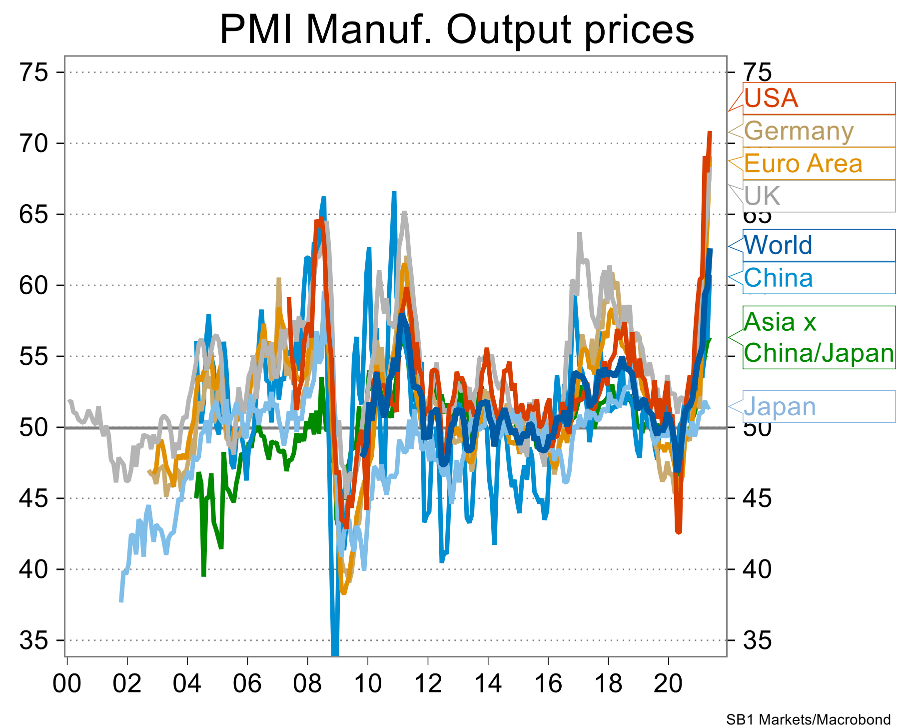
SB1 Markets/Macrobond

- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) rose further in May, to the highest level ever. One year ago delays were entirely due to corona related supply chain challenges – and prices tumbled. Now, some of the delays may be somewhat corona related but demand is very strong

Prices are rising faster everywhere (and output prices the fastest ever most places)

… and probably not mostly due to specific corona challenges – it's the booming economy, stupid!

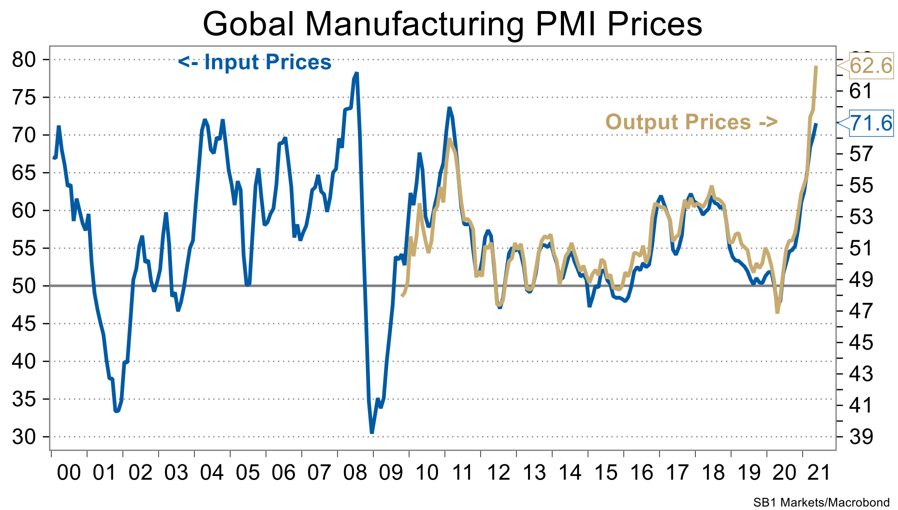


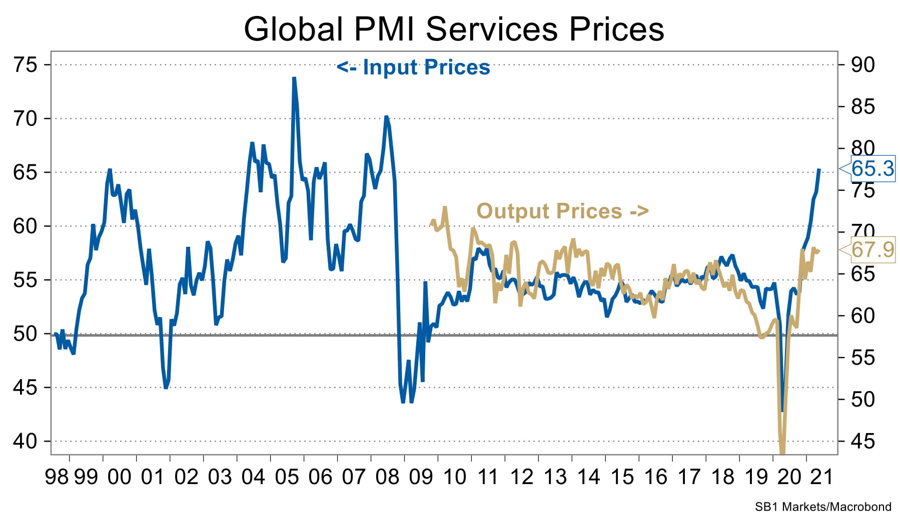


- **Input prices** are climbing at the fastest pace in the history of the survey in the UK & EMU and since 2008 in the U.S.
- **Output prices** are rising faster than ever - data back to 2009 (but several countries are reporting the fastest increase even back to year 2000)
- **All together** – rapid growth, longer delivery times and higher prices look like something familiar – *check the next page!*

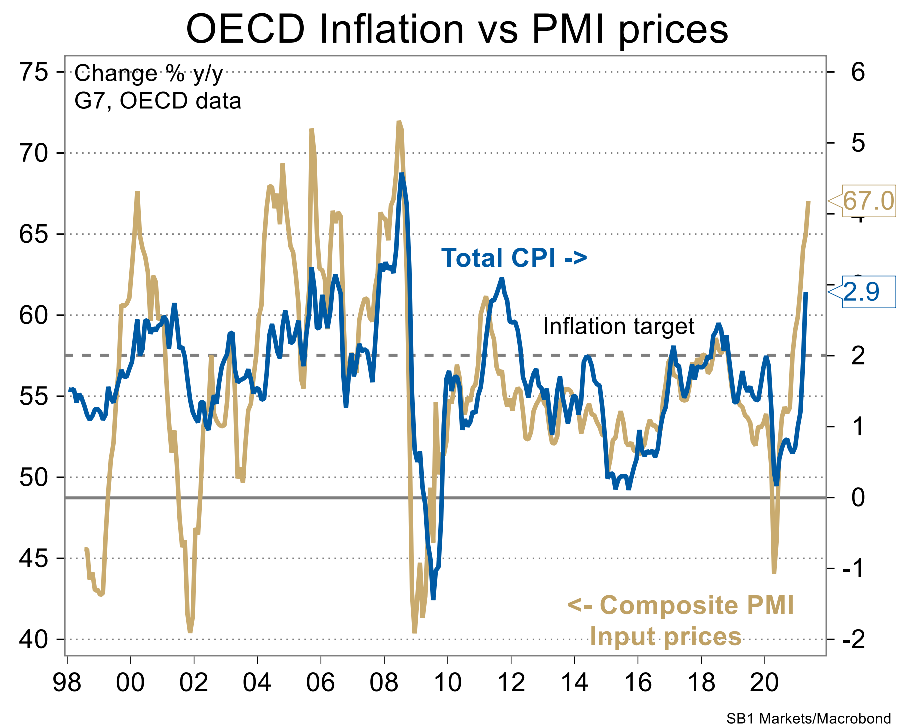
Businesses keep reporting even faster growth in input/output prices

Higher CPI inflation unavoidable, at least short term





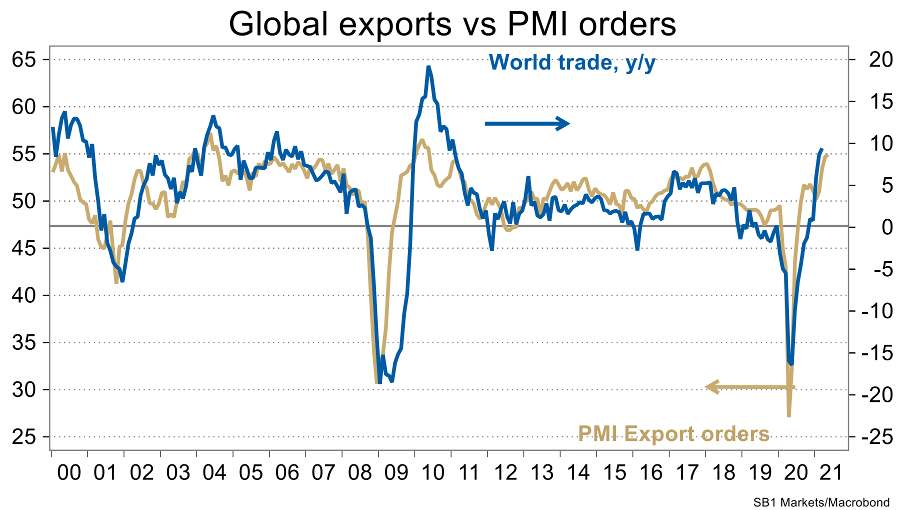
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and US

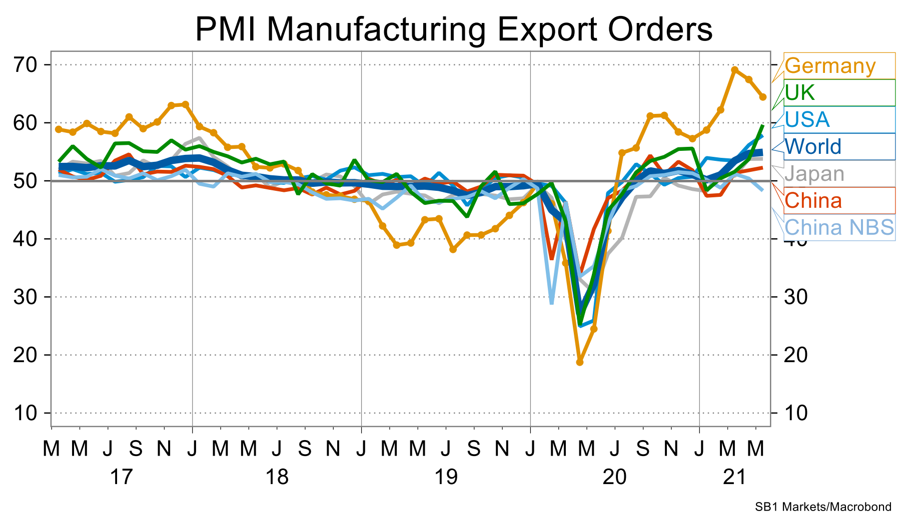


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from 2.9% in rich countries in April
- The correlation to core CPI is far less impressive

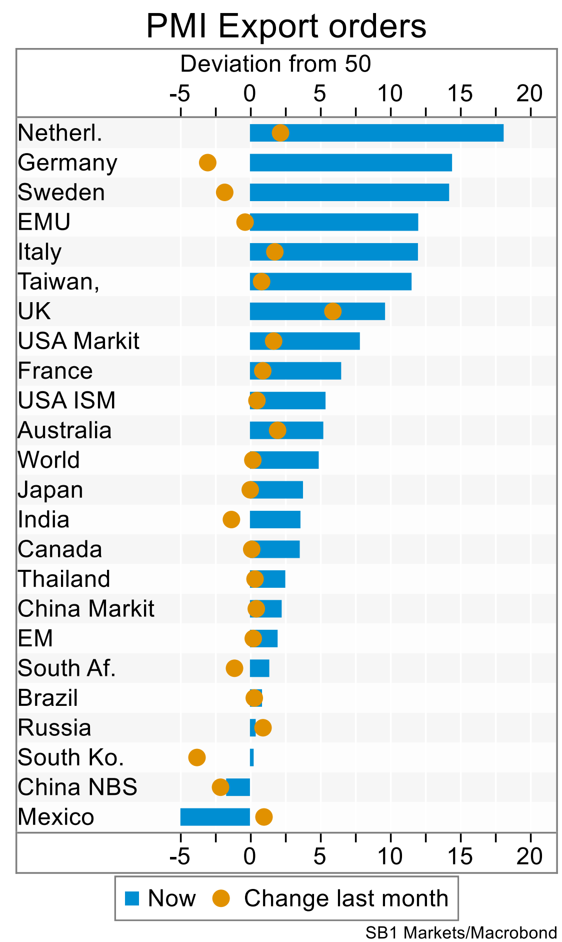
Export order PMIs haven't been higher since 2009 - EMU in the lead

UK exporters report a rapid increase in orders too.



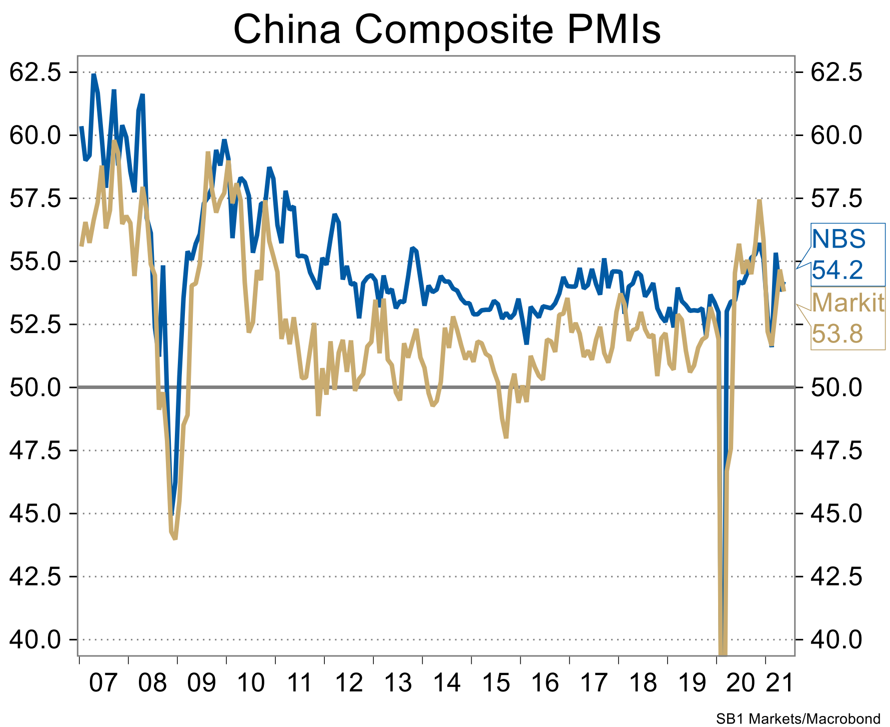


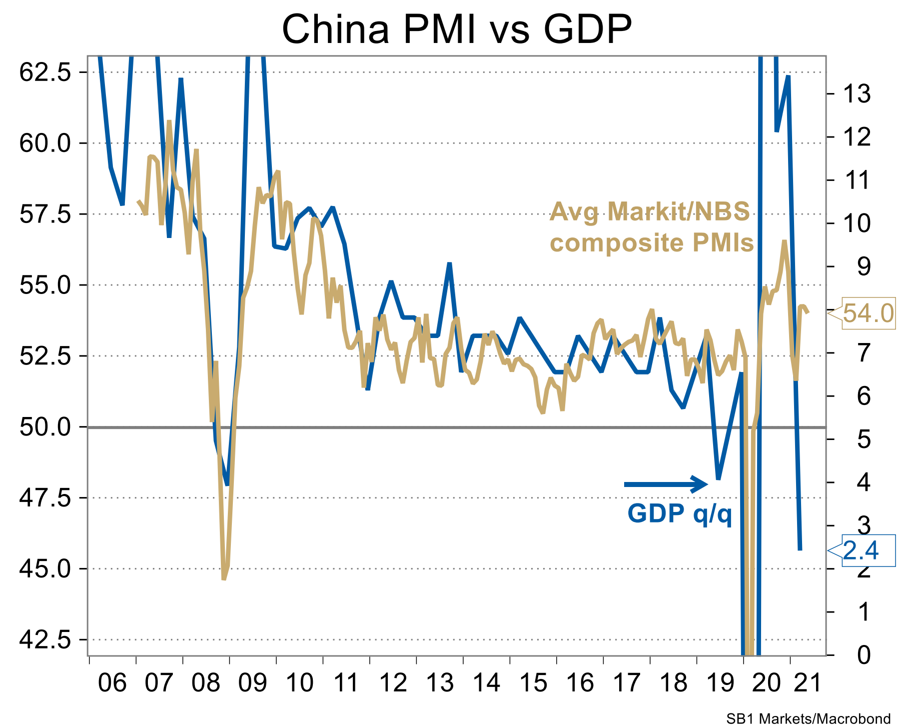
- Most countries are now reporting an increase in export orders (index >50). DMs are in the lead



Mixed May PMIs, growth well above trend is still signalled

NBS' composite PMI down, Markit's PMI just as much up. An 8% GDP growth signalled

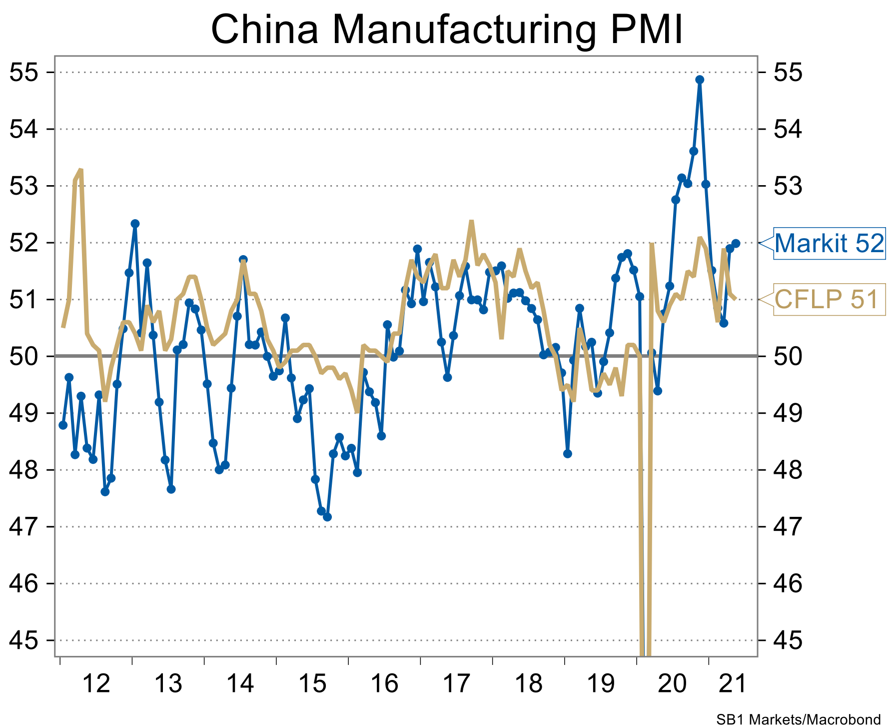


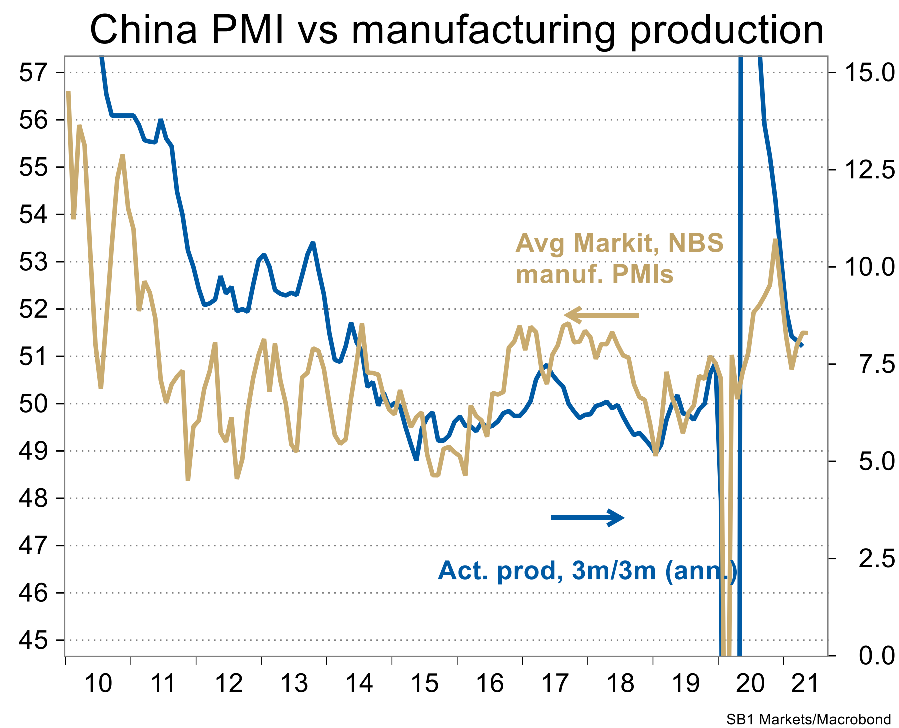


- **GDP** was substantially weaker than expected in Q1 (up just 0.6% q/q), at least partly due to travel restrictions during the Lunar NY holidays
- The **May PMI average** was marginally down, but still at high level (54), due to a decline in Markit's services PMI, while the NBS' composite was up. 54 is a lucky number, since it equals a very rapid growth in GDP – an 8% pace
- We expect GDP growth to accelerate in Q2 from the low level in Q1, but followed by a gradual slowdown in H2
  - » The activity level is above the pre-pandemic trend
  - » Credit policy is tightened

NBS manufacturing PMI marginally down, Markit's marginally up

The PMIs are on average signalling growth well above trend in the manufacturing sector

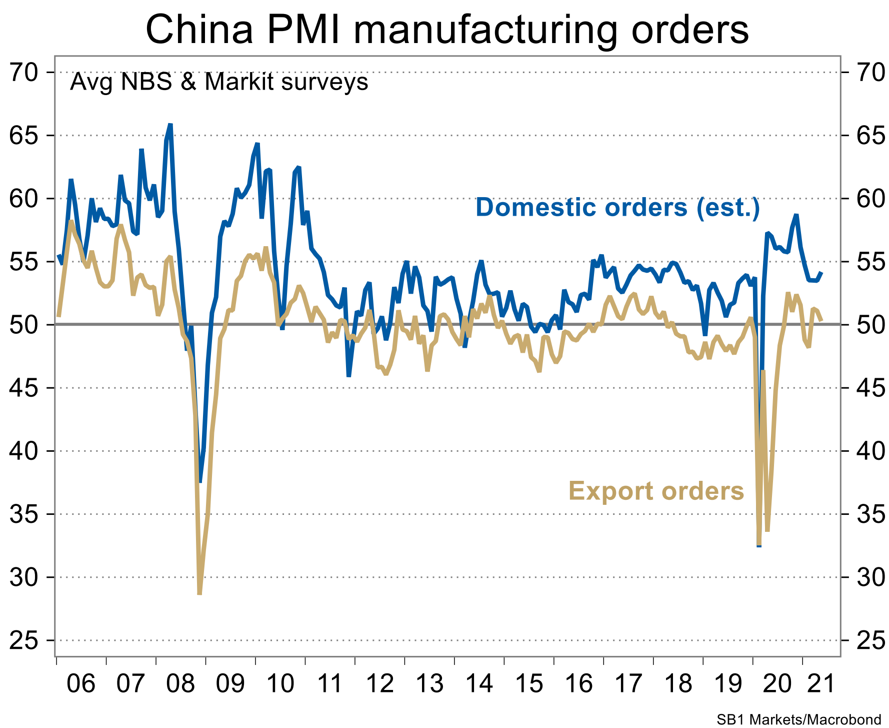




- The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

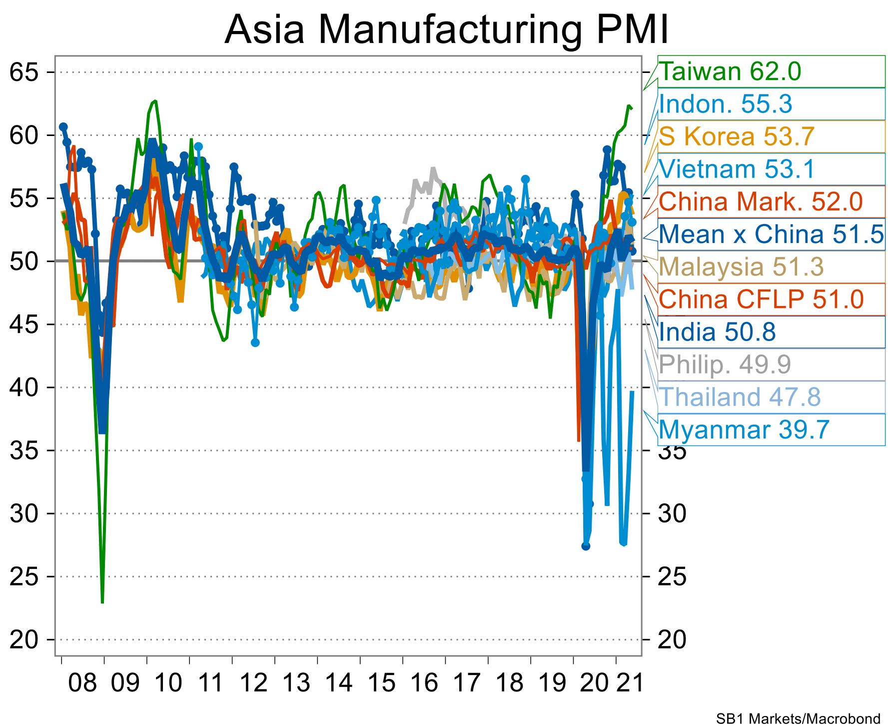
Export orders index down, but are still growing

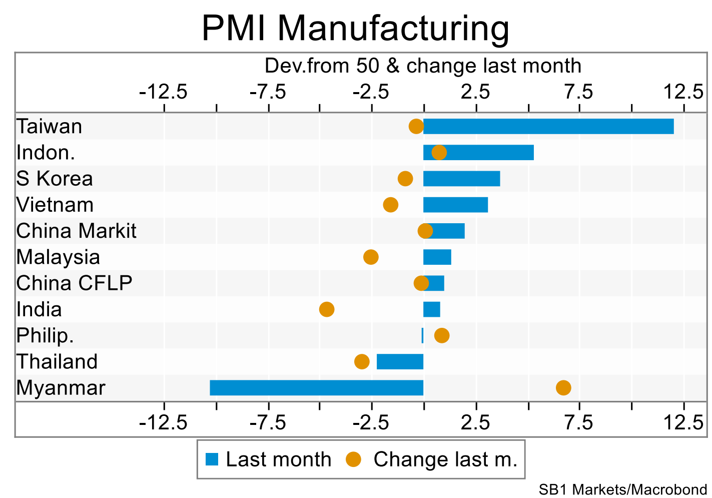
... while domestic orders are still going strong

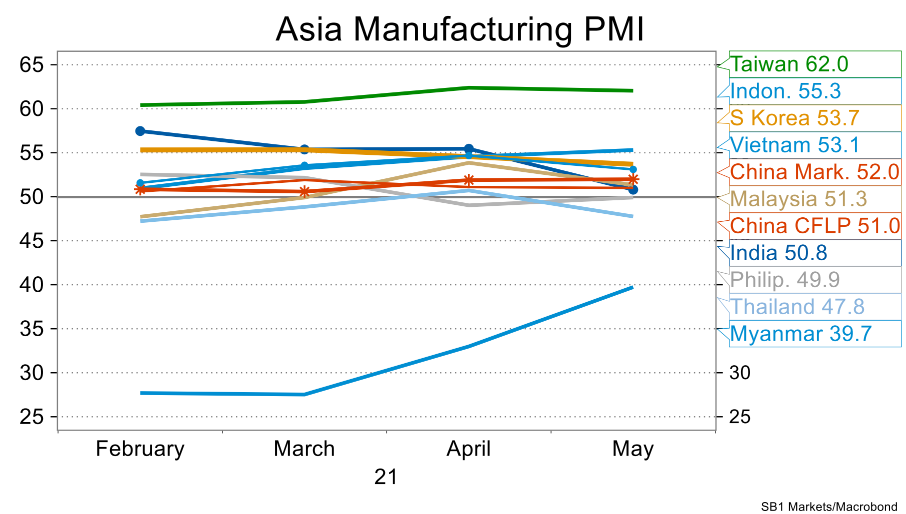


Rest of Asia: More down than up in May. Not surprisingly, Indian PMI down 4.8 p

... but the Indian manuf. PMI is still above 50!! 8 manufacturing PMIs are above the 50-line, 3 below



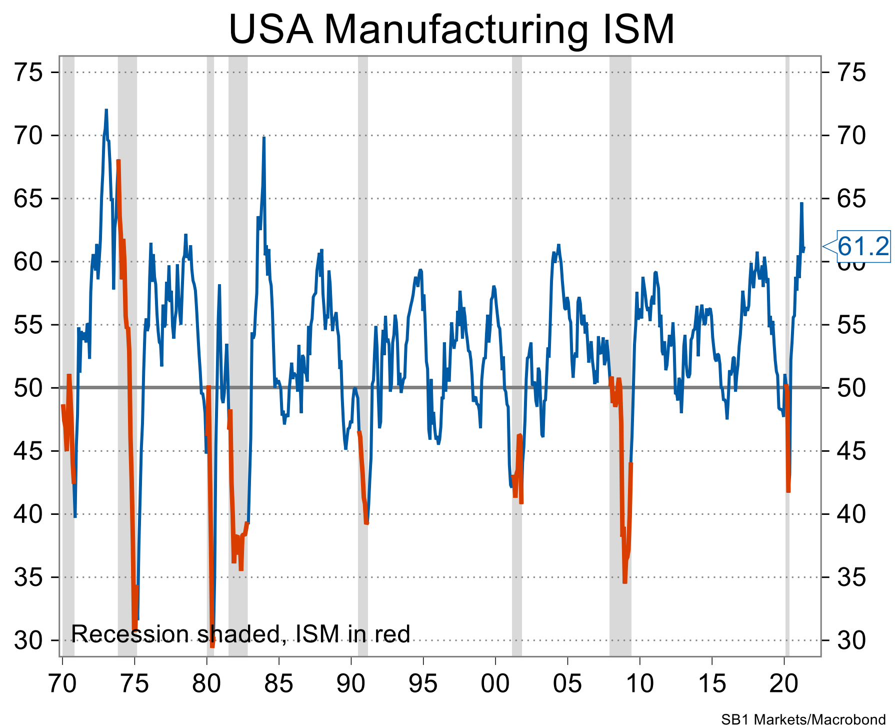


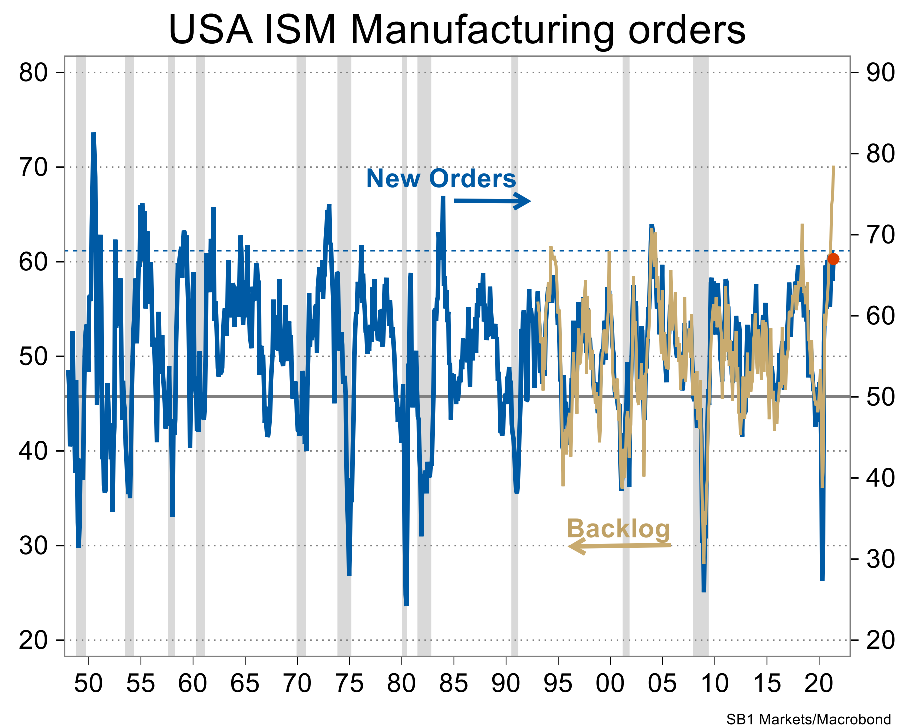


- Taiwan and Indonesia are reporting strong growth
- Myanmar is not working anymore

Manufacturing ISM up 0.5 p to 61.2 in May

Delivery times are rising faster than ever, and prices have been rising faster just once, in 1979

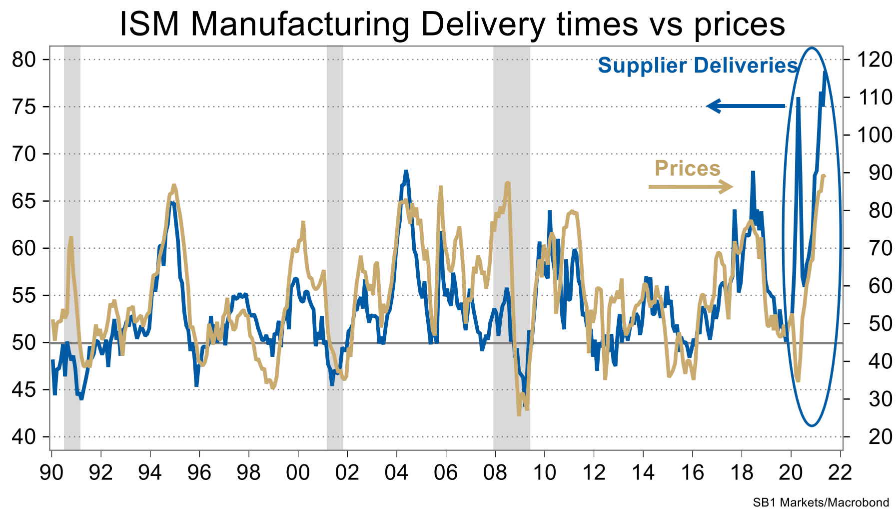


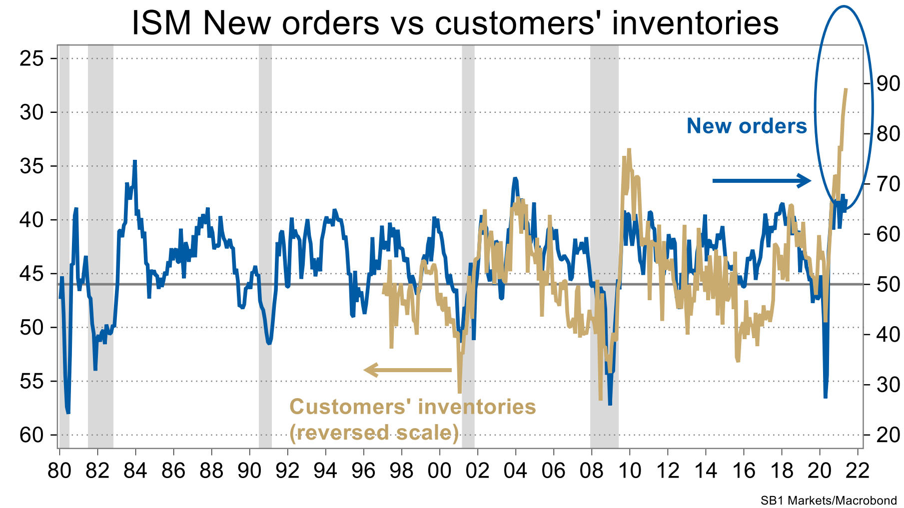


- **Demand** is strong: Order index increased by 2.7 p in May to a very high level of 67, signalling unusual rapid growth in orders. The increase in the backlog at yet another ATH
- **Activity** is increasing broadly: 16 of 18 industries reported growth in new orders, only 2 out of 18 industries reported a contraction in production, while 13 reported growth.
- **Delivery times** are increasing broadly: 16 out of 18 industries reported slower deliveries, none faster.
- **Prices** are soaring: 54 groups of commodities were up in price m/m, up from 52 in April. 1 commodity was down in price, acetone. 17 out of 18 sectors are reporting higher input prices. 32 commodities are in short supply. The price index was down 1.6 p to 88, and is still hasn't been higher since 2008
- **Inventories** among manufacturers' customers are falling faster than ever
- **Employment:** 9 industries reported higher employment, 3 reported a decrease. The employment index was down 4.2 p to 50.9. Of course due to lack of labour

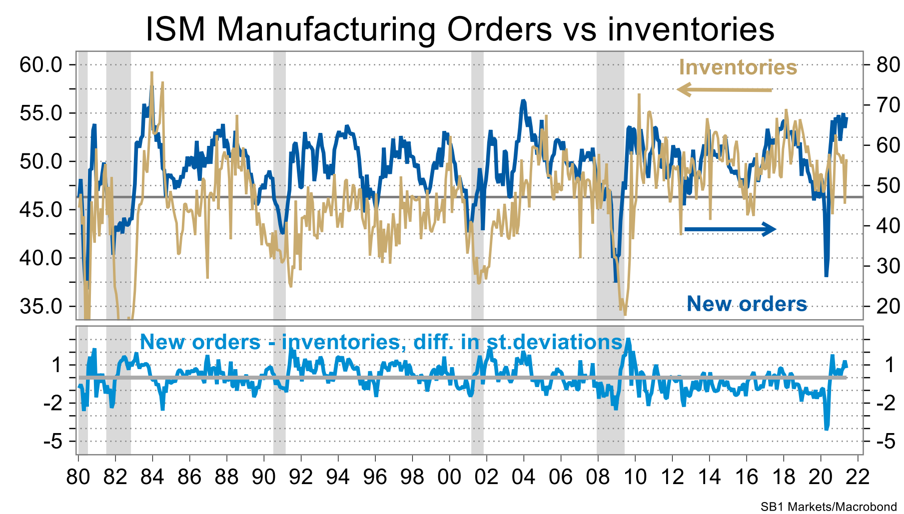
Delivery times & prices soar, as customers inventories are 'totally emptied'

Then, orders will normally come in rather strong



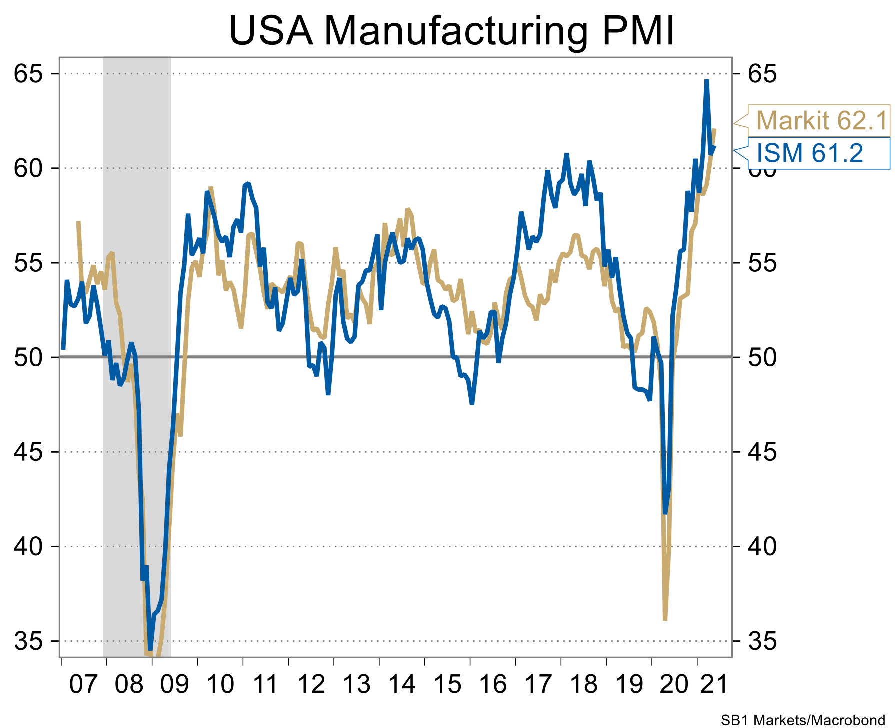


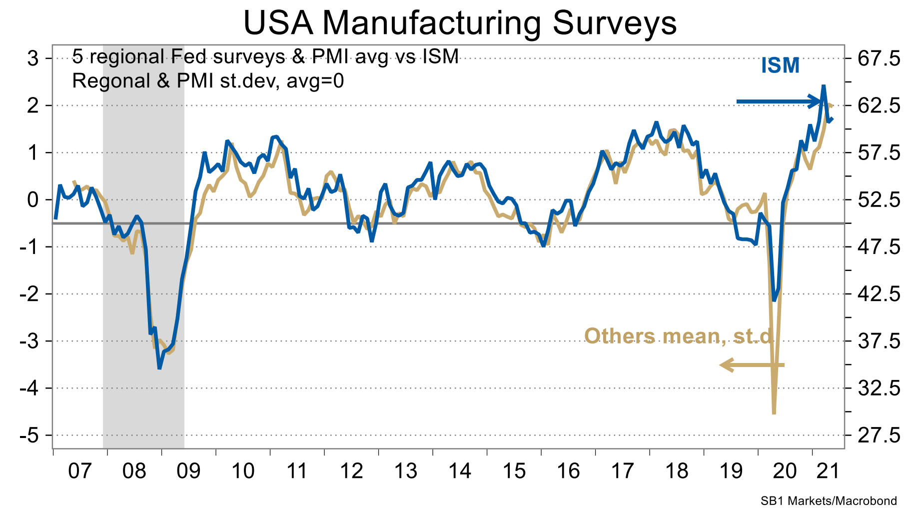
- In total, manufacturers' inventories are down from April, but the majority of the sectors did not report falling inventories: 8/18 sectors reported higher inventories, while 7/18 reported lower inventories

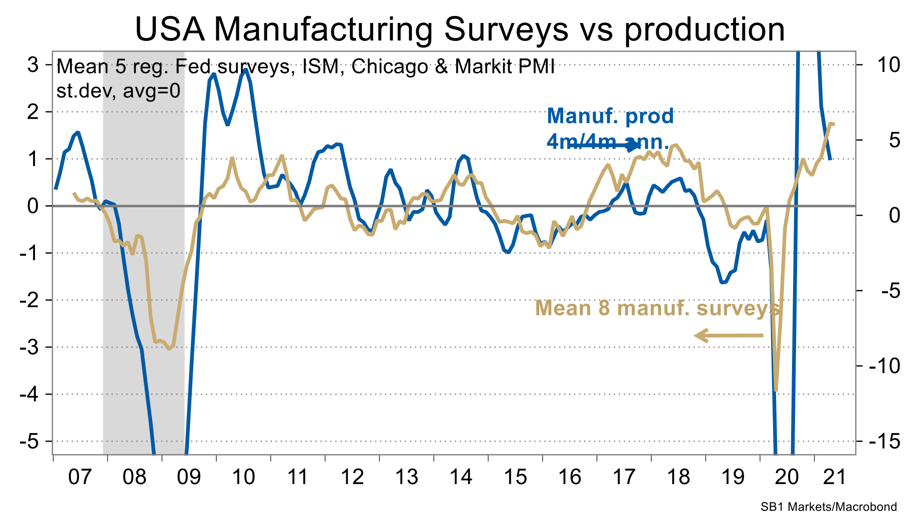


Other manuf. surveys sharply up too, on avg at ATH (data from '07)

In sum, all the surveys signal a continued expansion in the manufacturing sector



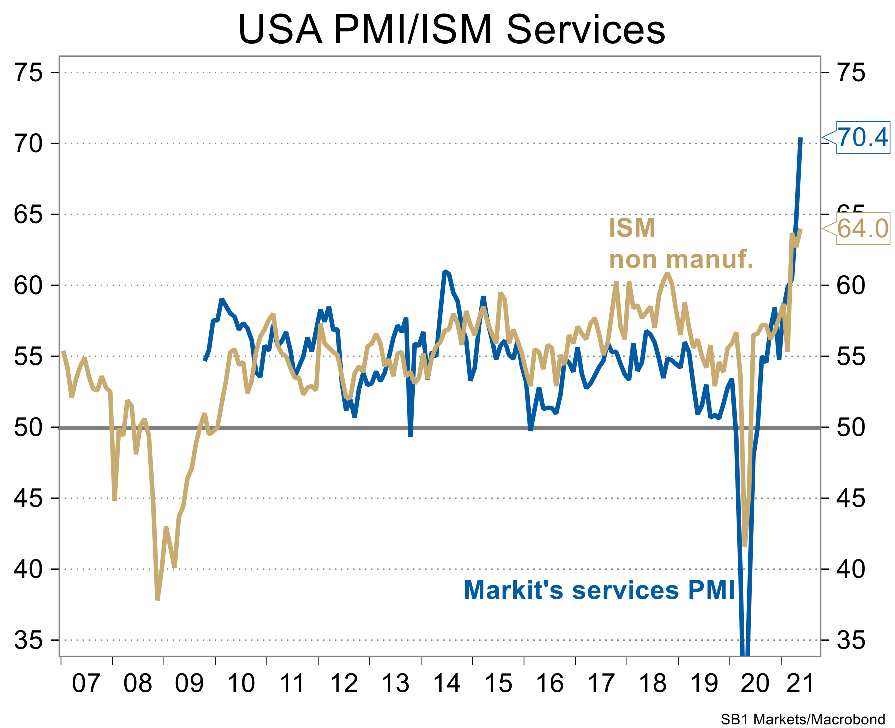


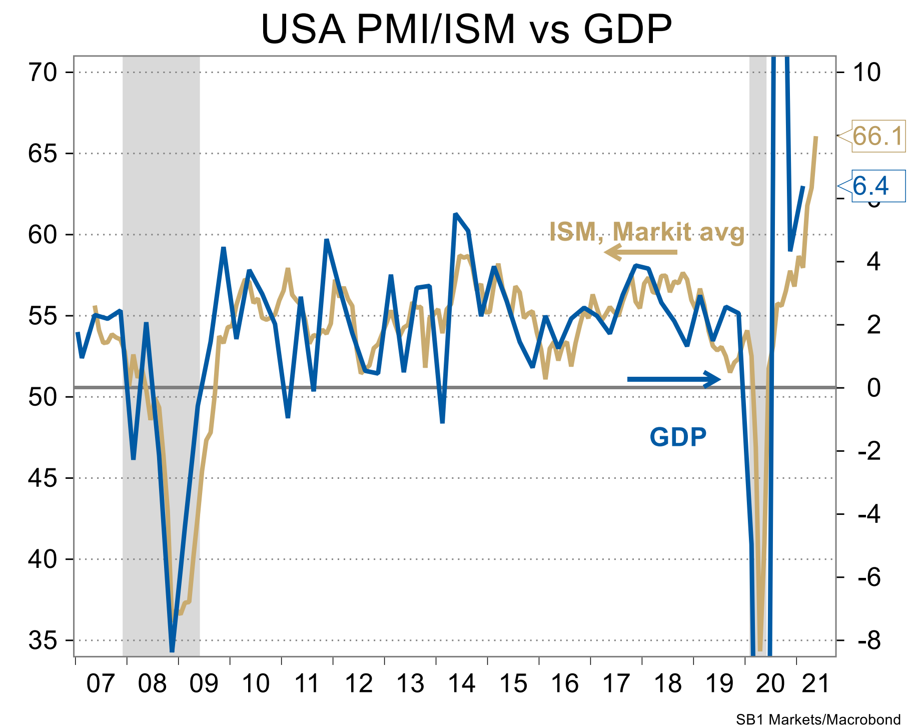


- Markit's PMI was confirmed up to the best level ever, and 0.6 p better than the initial estimate, to 62.1
  - » Other regional surveys rose sharply on average
  - » Actual manufacturing production is on the recovery track but remains 2% below the pre-pandemic level
- We expect a continued growth the coming months. Core durable goods orders are above the pre-corona level and goods consumption is strong. Supply problems the only threat short/medium term

Services are reporting extreme growth too. The composites: 8% GDP growth

Markit's service sector up to another ATH at 70.4 from 64.7. ISM also up by 1.3 p to 64, also ATH

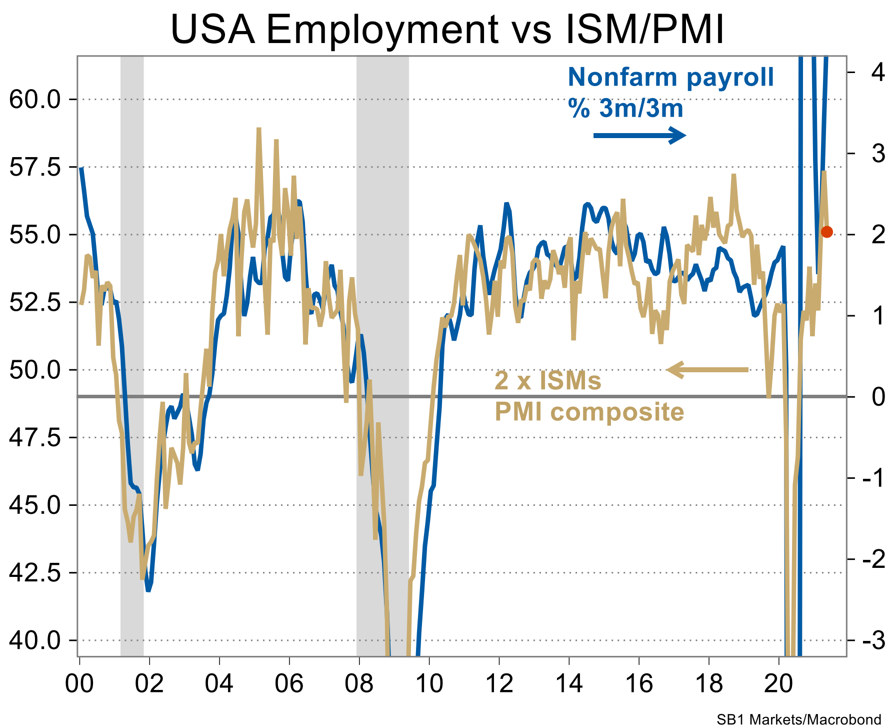




- **Markit's service sector** index was 0.3 p better than the preliminary estimate, and up 5.7 p from April. The level is record high, of course by far
- **Services ISM rose** 1.3 p to 64.7, expected down to 63.0
- Together with their manufacturing indices, the **PMI/ISMs** signal some 8% GDP growth in Q2. Does not seem unreasonable at all
- Companies are signalling slower employment growth but still at 2% - we guess they would have wanted more
  - » Will productivity skyrocket in Q2?
- **Prices indices** are soaring, for input prices as well as output prices (in Markit's PMI)

PMI/ISM: The employment indices down, probably due to lack of labour

Companies are still reporting employment growth well above trend in May



- **Actual employment** growth slowed substantially in April– totally out of the blue.
- However, given the PMI/ISMs and all other business surveys, and the number of vacant positions, we have few arguments at hand that demand for labour collapsed last month
- Much more on the nonfarm payroll report here

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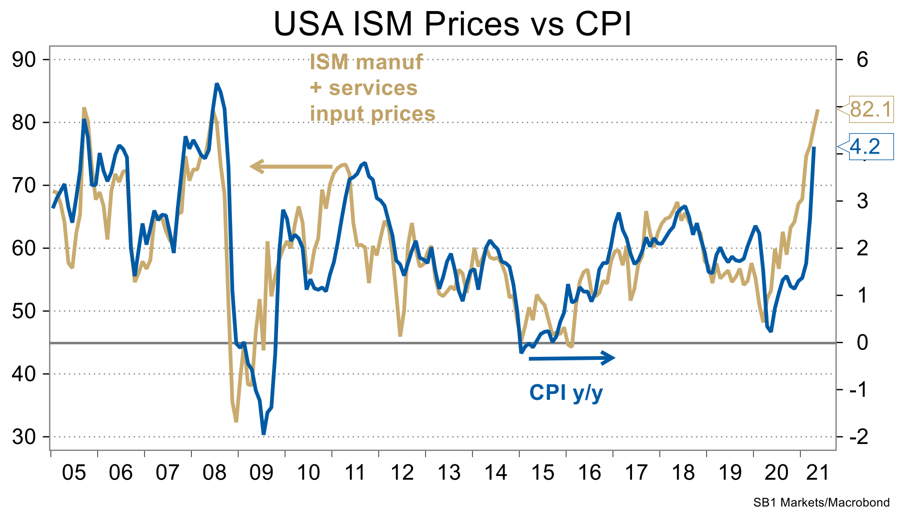
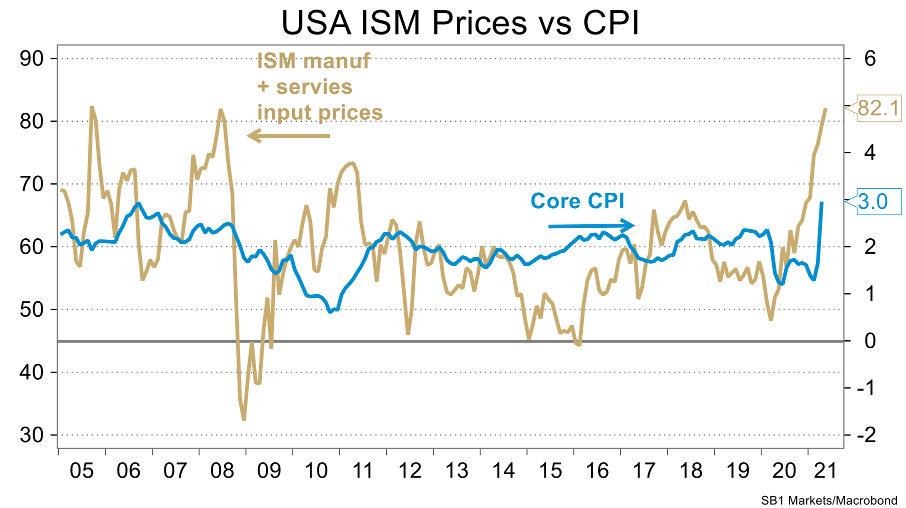
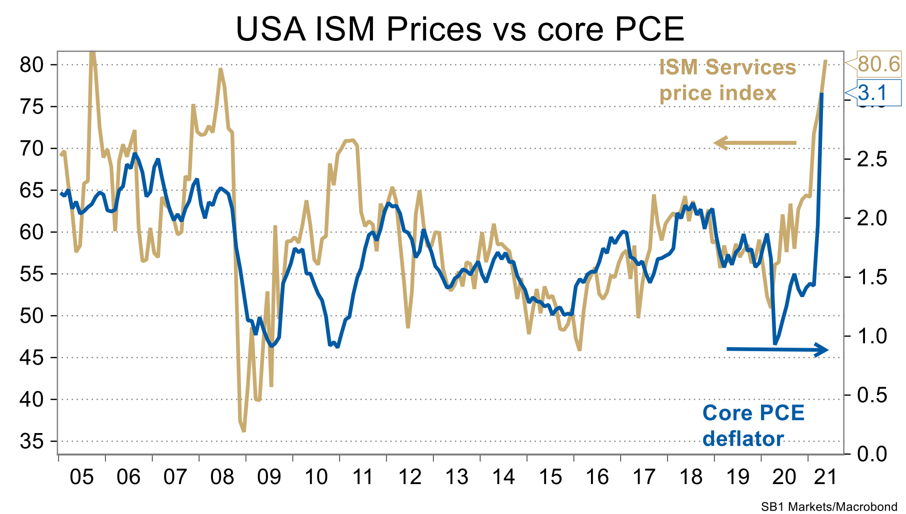
ISM has sent a clear message, at least for the headline CPI, and…

The services ISM is signaling even higher core inflation too (though correl. has not always been tight)



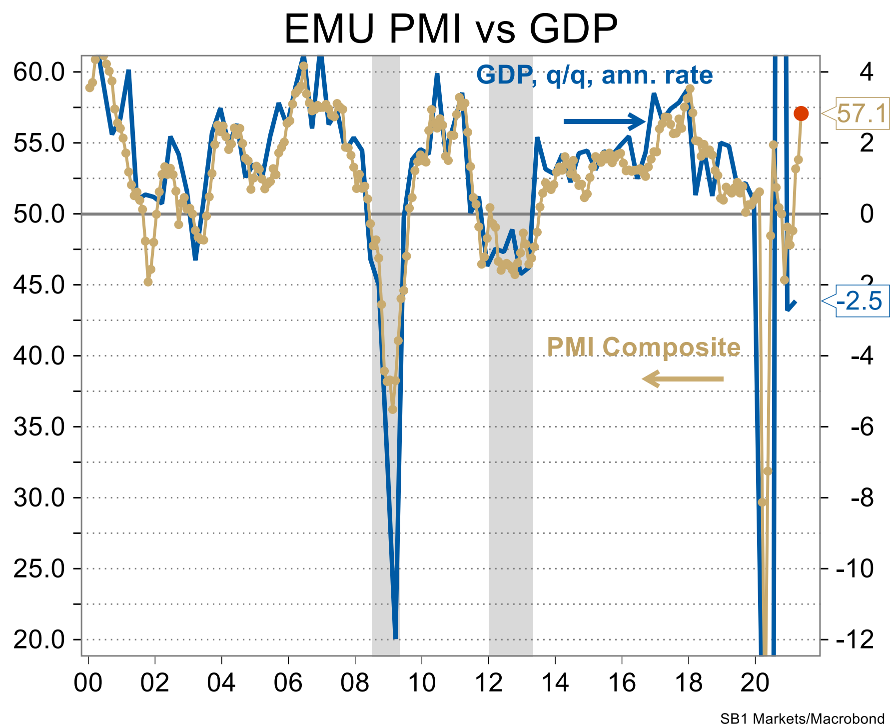


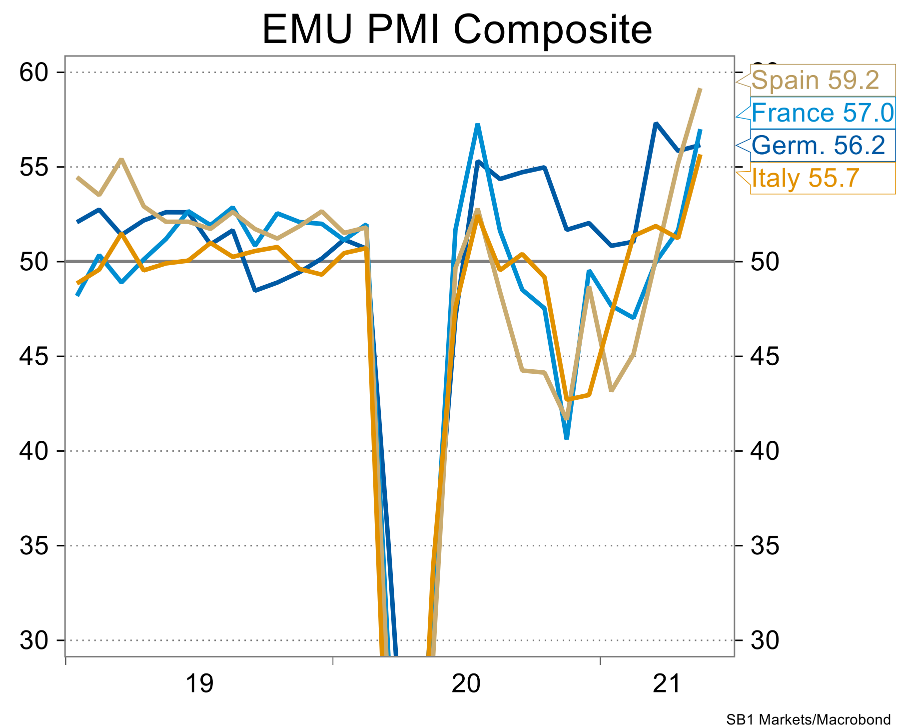
- The correlation between price indices in the ISM (or PMI) business surveys and the core CPI is far weaker than between these indices and the total CPI
  - » Energy prices are much more volatile than other prices and are rapidly incorporated into consumer prices
  - » However, the service sector price index yields more than some hints in core PCE inflation
- The Fed – and other central banks – are surely right not to focus on the volatile headline CPI, but rather on the core CPI and even more on underlying cost pressures in the economy
  - » Wage inflation may not have taken off yet but the lack of labour in the US is now critical. More on that in the section on the nonfarm payroll report



The May PMI sharply up, and even a tad more than the prelim. estimate signalled

Services strong as restrictions are eased, and the manufacturing is reporting the highest growth ever

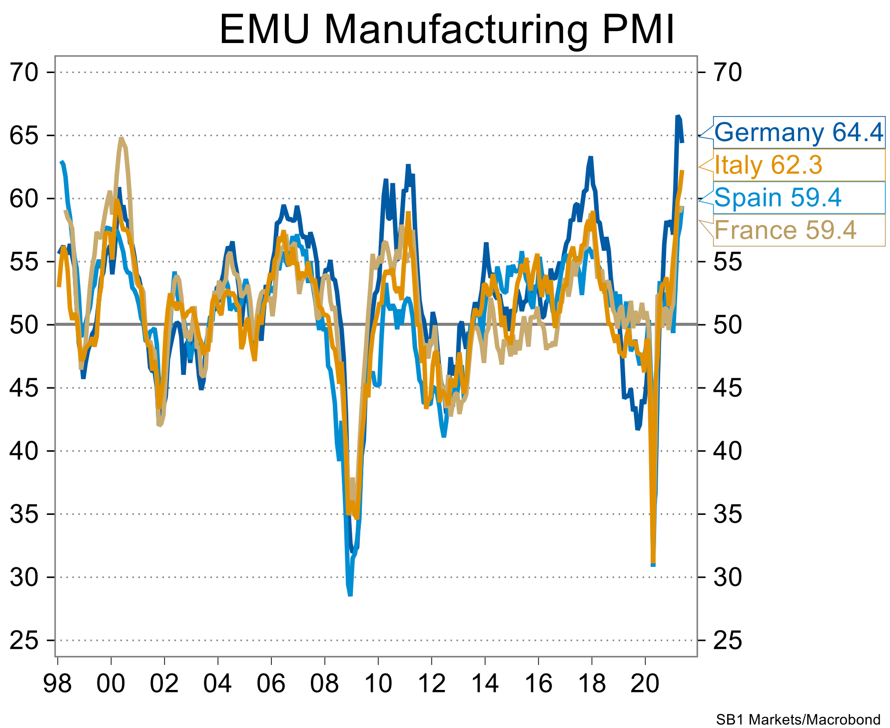


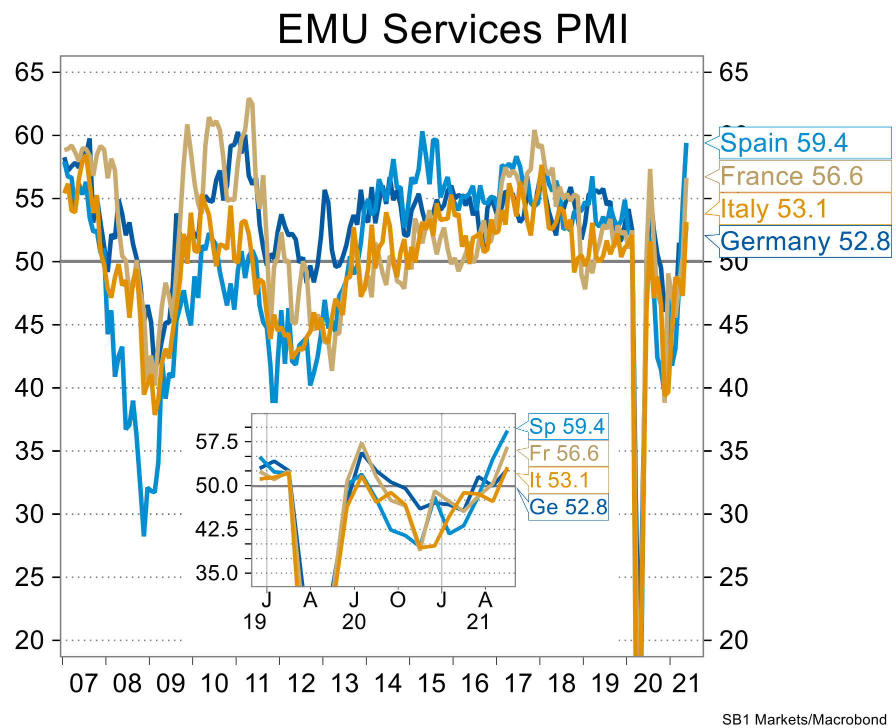


- The final **composite PMI** rose to 57.1 from 53.8
- The composite PMI is at or above 55 in all of the big four economies
  - » The PMI was higher than the initial estimate, and now signals some 3% growth in GDP
  - » GDP fell by 0.6% in Q1 (2.4% annualised), more than signalled by the PMIs

Manufacturers report record high growth, services have turned the corner

Manufacturing sector very strong across the board, and services are growing everywhere





- The **services PMIs** came in at or above the preliminary estimate/expectations in all of the big four economies in the EMU in May – and the indices were notably up since April. The PMIs rose by 1.9 p in Germany, and 5.8 p in Italy, 4.8 p in Spain, and 6.6 p in France from the previous month. EMU service index at 55.2 in May, up 4.7 p
- **The manufacturing PMIs** rose marginally in three out of four major EMU countries, but the level is still rock solid everywhere: down 1.8 p in Germany, up 0.5 p in France, 1.6 p to another **record high** in Italy, and up 1.7 p in Spain. The Eurozone manufacturing PMI was up 0.2 p to 63.1. The Netherlands, Italy, Ireland, and Austria all at ATHs

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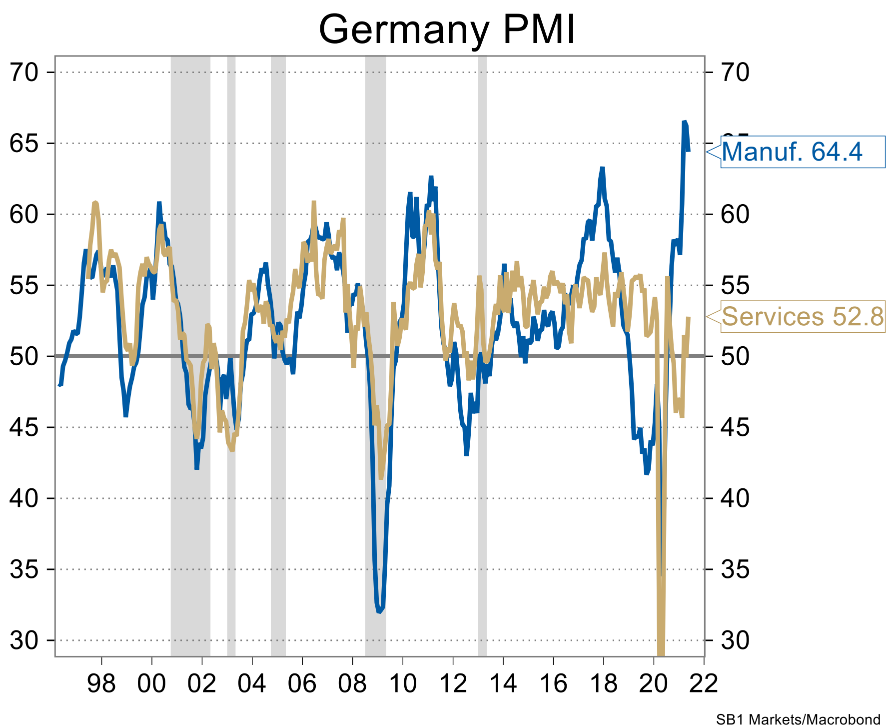
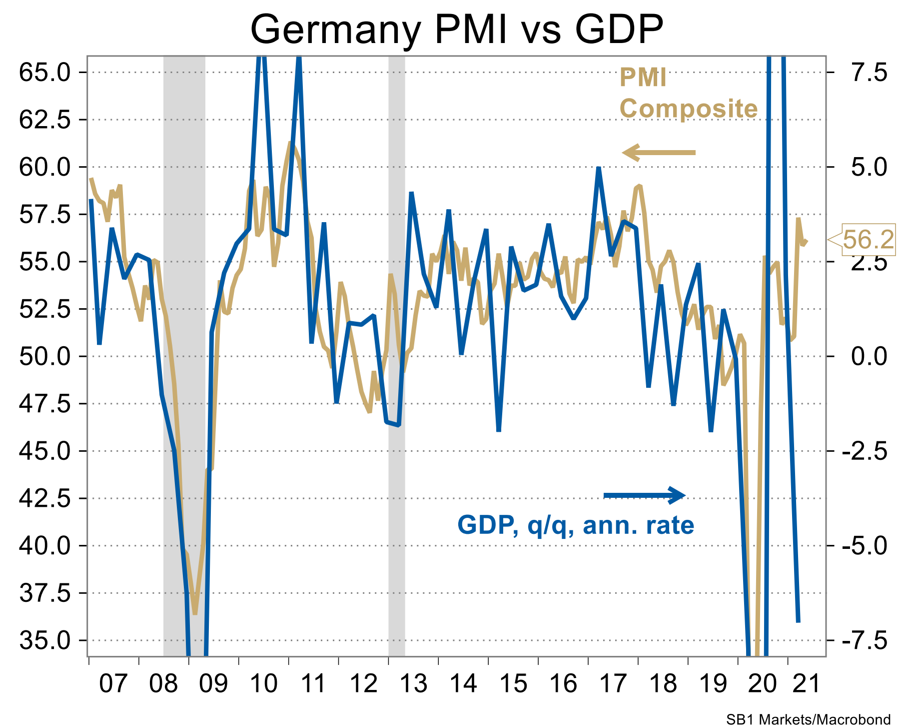
Germany: Services back above the 50-line as restrictions are eased

Manufacturing down 1.8 p to 64.4 – still a record strong level

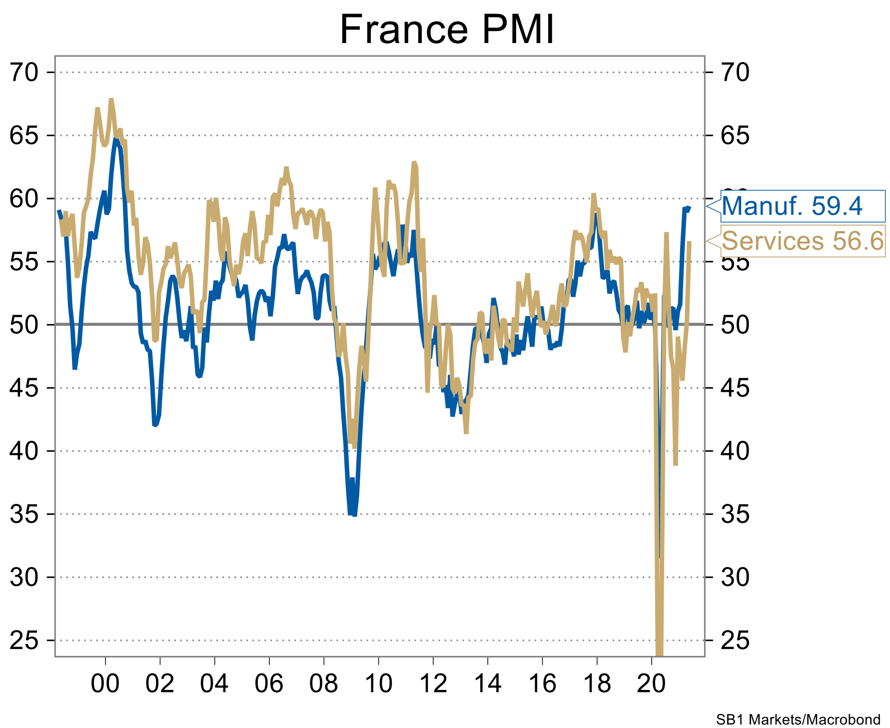


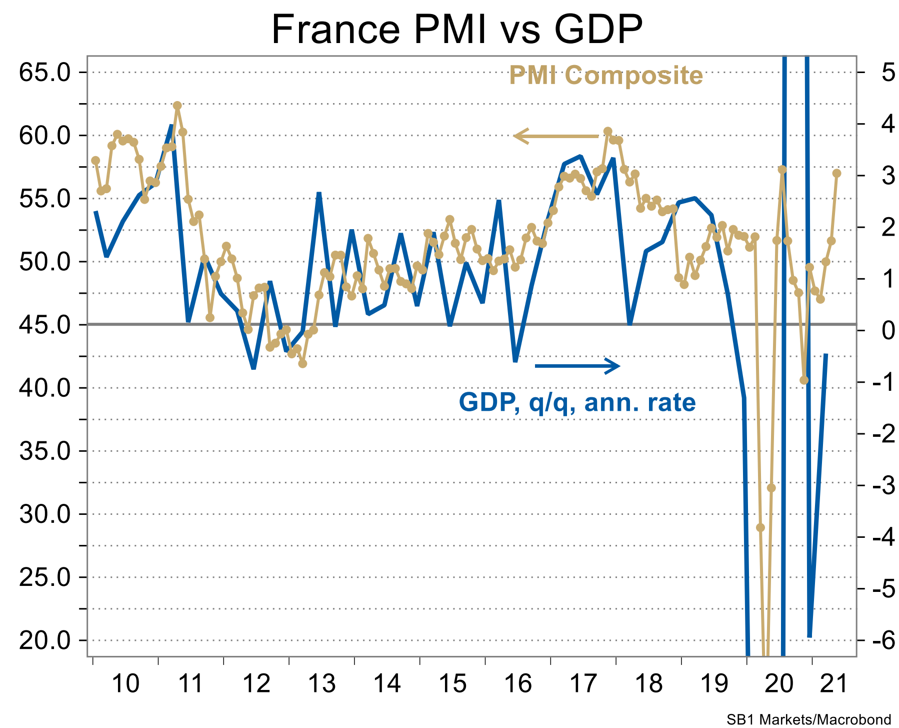


- The final outcome of the composite PMI at 56.2 was spot on the flash est., and up from 55.8 in April. This is due to the higher activity in the service sector. The PMI now signals close to 3% growth in GDP
- Germany has been in a lockdown since the beginning of Nov. Travel restrictions have been imposed on travellers from countries where virus mutations dominate. Tighter restrictions in April to battle the 3rd Covid wave took its toll on the service sector, while some restrictions were eased again in May and the result on activity in the service sector was imminent

France: PMIs confirmed – sharp increase from the previous month

Composite PMI at 57 in May, up from 51.6 in April (equal to previously released flash estimate)

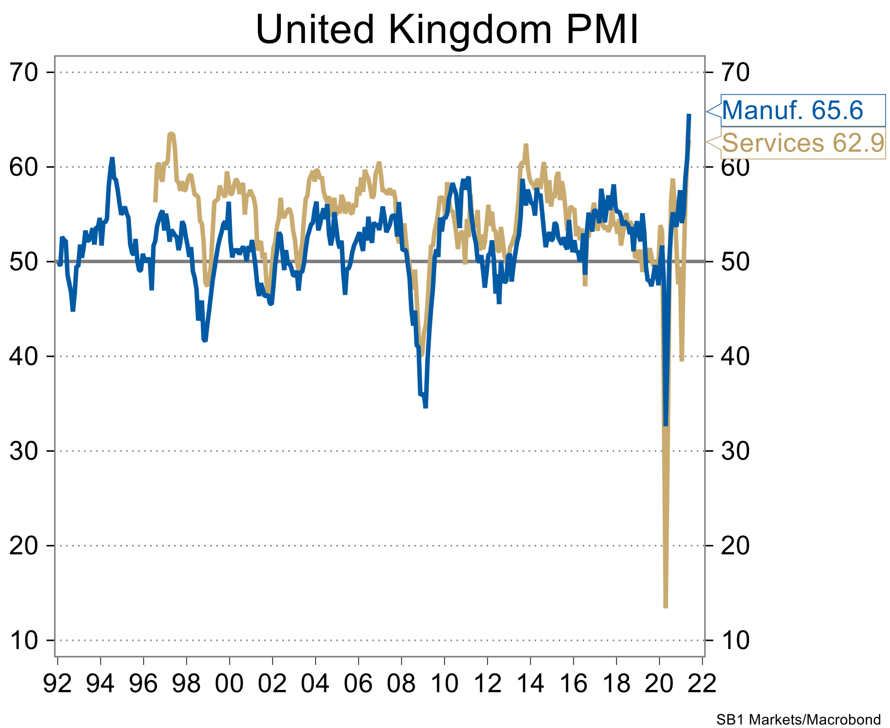


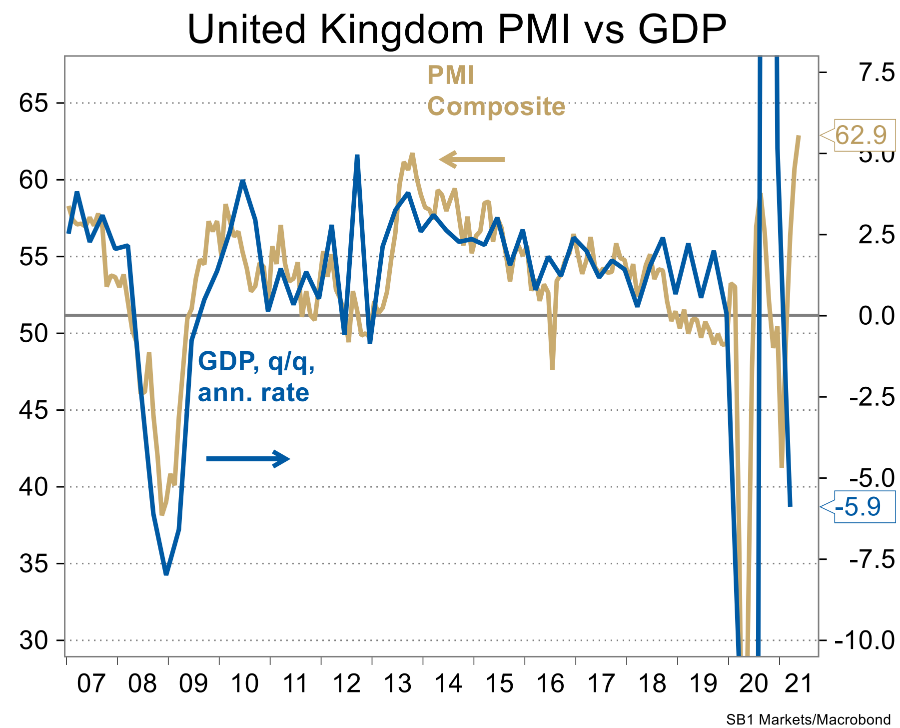


- **The service sector** index came in at 56.6, up from 50.3 in April, following increased vaccinations and easing of restrictions
- **Manufacturing PMI** was up 0.5 p to 59.4 in May – which is 0.2 p higher than Markit's flash estimate. Survey also showed that input costs are rising at the fastest pace since 2011, and now sales prices are rising too
- The **composite PMI** is at 57, which signals a 3% GDP growth
- Businesses reported a strong outlook, increasing employment, as well as a "near-record rise" in selling prices and increasing costs

PMIs at ATH. The composite at 62.9 signals a 6% growth pace

The services PMI rose to 62.9, from 61.8. Highest level since '94

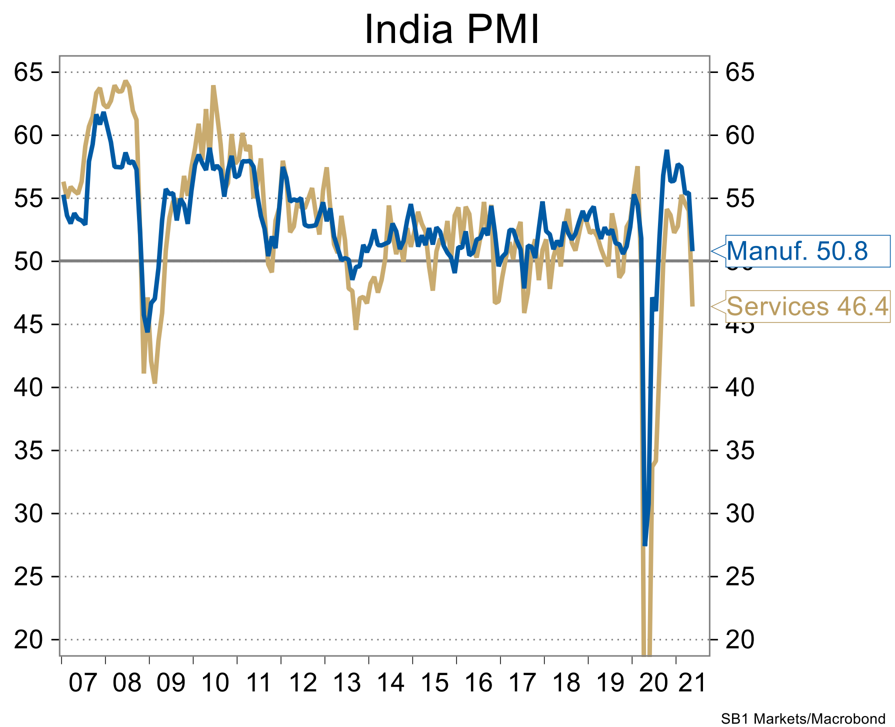


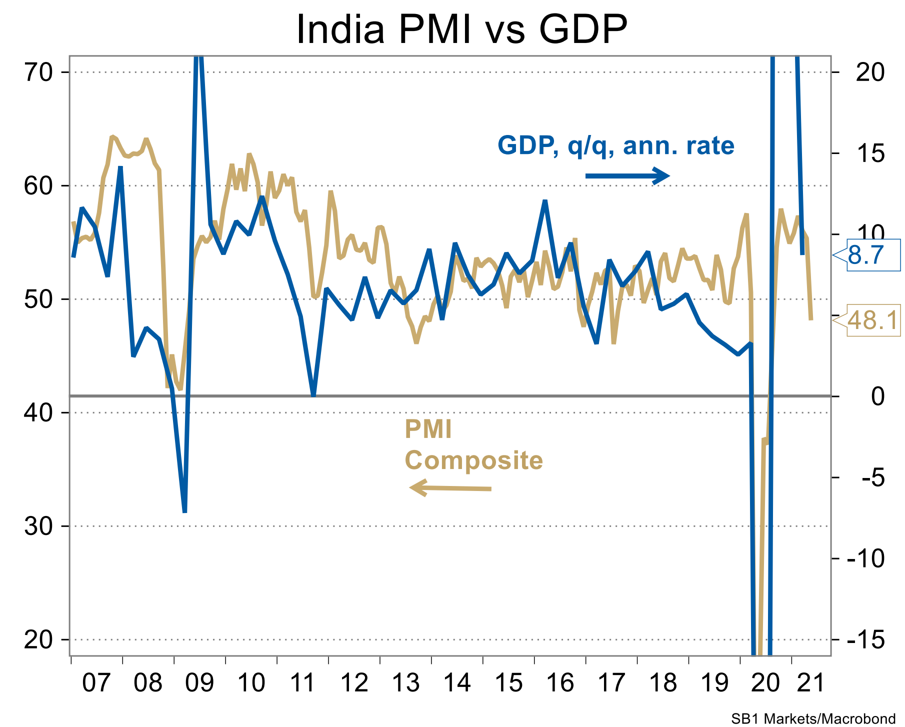


- The **manufacturing PMI** fell 0.5 p to 65.6 in May. Level still rock solid
  - » Export orders are surging, no signs of Brexit crisis
- The incredibly strong services PMI resulted in a new ATH of 62.9 for the **composite PMI** (up from 62 in April), signalling some 5.5% GDP growth
- According to Markit, the respondents are witnessing the sharpest rise in input costs in the history of the survey, the same goes for selling prices

PMIs remain surprisingly resilient in May, decent growth still signalled!

PMI fell by 7.3 p to 48.1 during the virus outbreak, still just a small fraction of the setback last spring

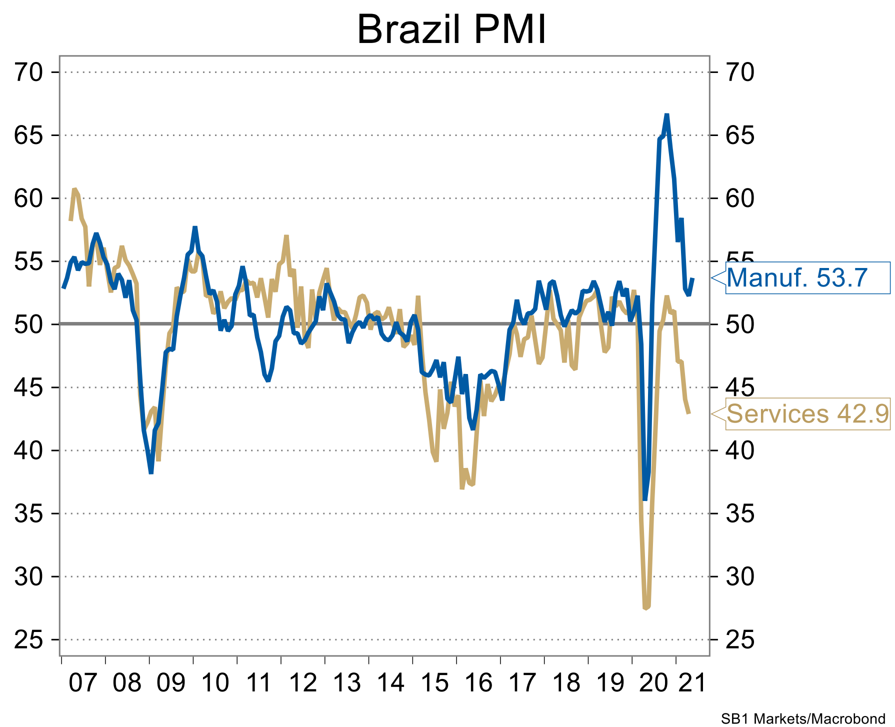


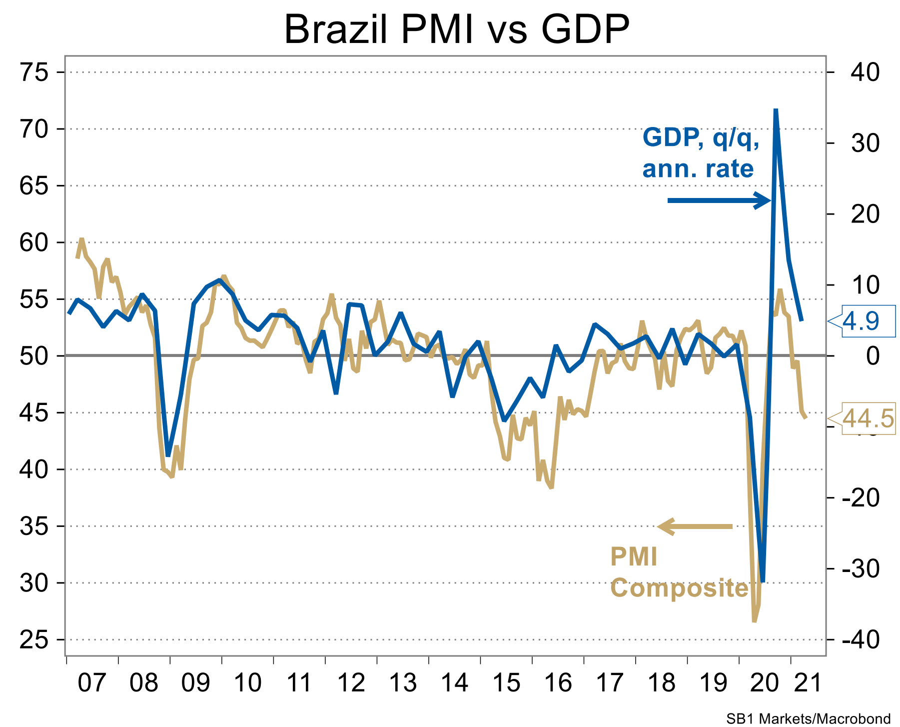


- **The manufacturing PMI** fell by 4.7 p 51.5, down to the average level for 2012- 2019, a strong growth period in the manufacturing sector
  - » New export orders increased too, for the 8th consecutive month. Manufacturing cost inflation running very high, according to Markit
- **The services PMI** was down 7.6 p to 46.4 in May, both due to restrictions and changes in behaviour. Mobility fell sharply until mid May but has recovered thereafter as the number of new cases/deaths have retreated
- **GDP** grew by 8.7% (annualised) in Q1 (down from 43% in Q4), and is 2.7% up vs. Q4-19, beaten only by China. Still, GDP is almost 4.5% below the pre-pandemic trend path
- **Growth** will slow in Q2 but judged by the PMI, the setback will be modest. The May PMI suggests a 4% growth rate, and most likely, the economy will start speeding up in June

The virus still holds a tight grip on Brazilian services, a decline in GDP possible

The service sector PMI fell by 1.2 p to 42.9, and the composite by 0.6 p to 44.5

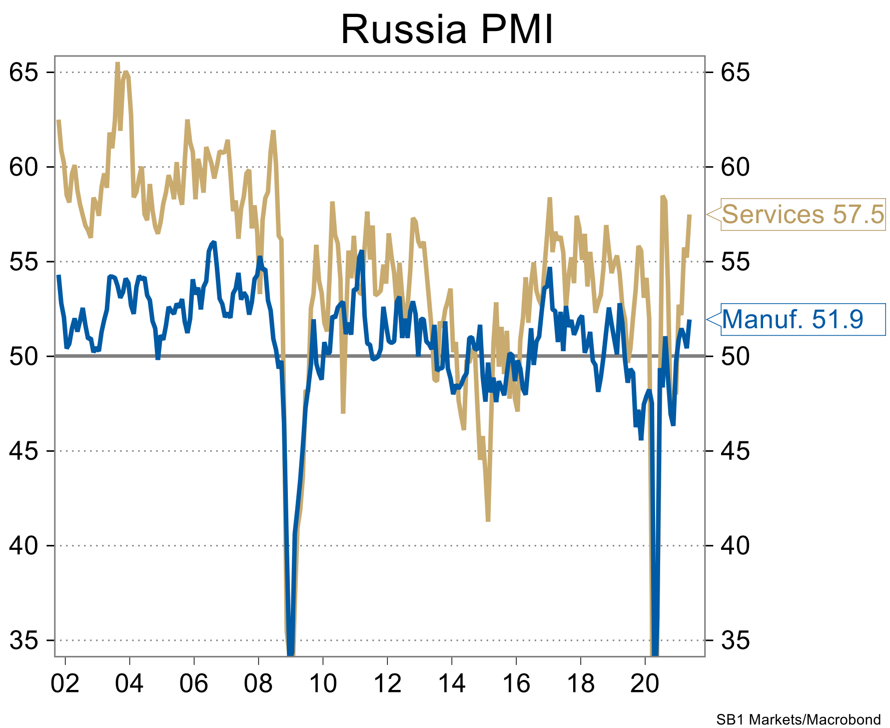


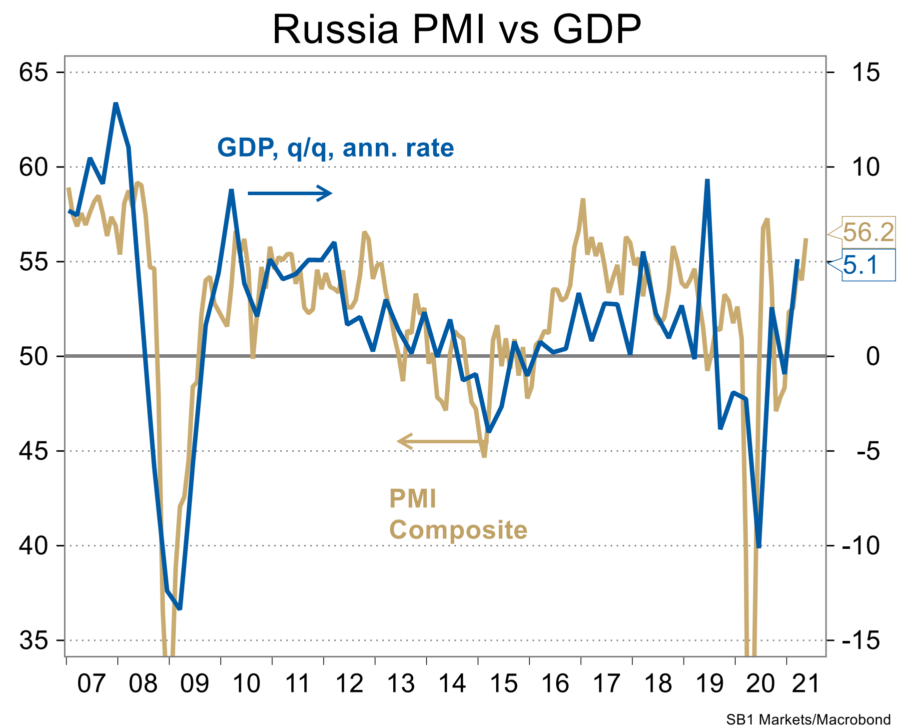


- **Manufacturing PMI** increased by 1.5 p to 53.7. Orders are rising again, costs are rising, and employment in the manufacturing sector increased
- **The service sector PMI** was down 1.2 p to 42.9; it is all Covid related of course – still nothing comparable to the shock last spring
- **The PMIs** signal a 5% pace of decline in GDP in Q2 but growth has been substantially higher than the survey has suggested recently
- **GDP** grew more than expected in Q1, by 4.9% (the PMI signalled zero!) and the GDP level is back to the Q4-2019 level, among the best on our list (just China, India, South Korea are above). GDP is down just 1.3% vs the very weak pre-pandemic growth path

Russia's PMIs still signalling even stronger growth

The PMI signals >6% growth in Q2, up from 5% in Q1 – if so, Russian GDP on par with pre-Covid level

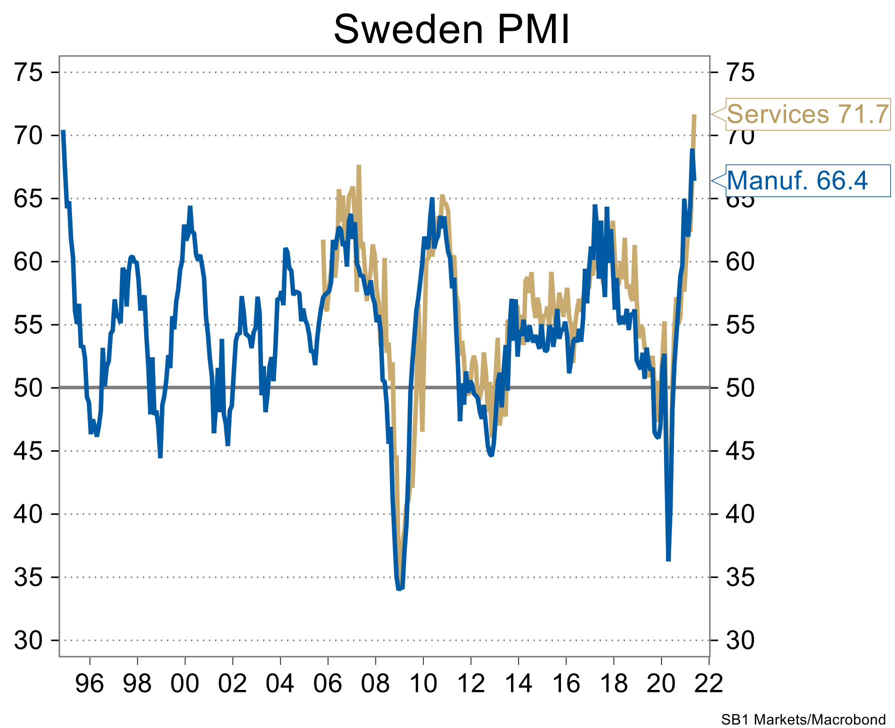


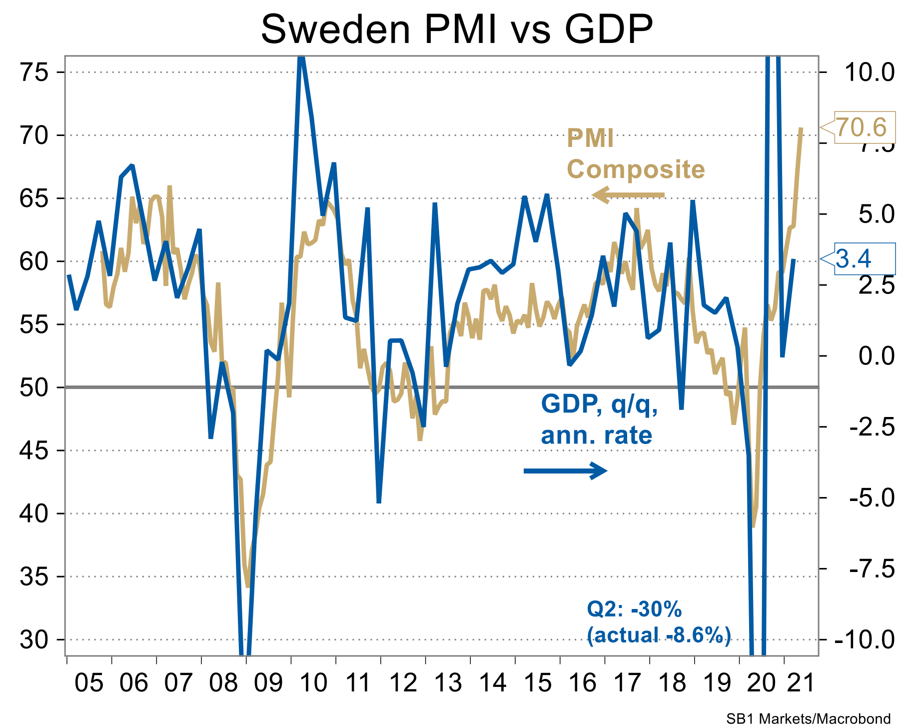


- **Manufacturing PMI** up to 51.9 in May from 50.4 a month ago
- **The service sector PMI** up 2.3 p to 57.5 in May – and remains well above an average level
- **The composite PMI a**t 56.2 signals GDP 6% growth, even better than the 5% growth pace in Q1 (our est.)
  - » GDP is still 1.6% below the pre-Covid level

The composite PMI up to yet another ATH at 70.6, signalling 8% GDP growth!

The services index at 71.7 best on record too, and manufacturing just slightly from April ATH

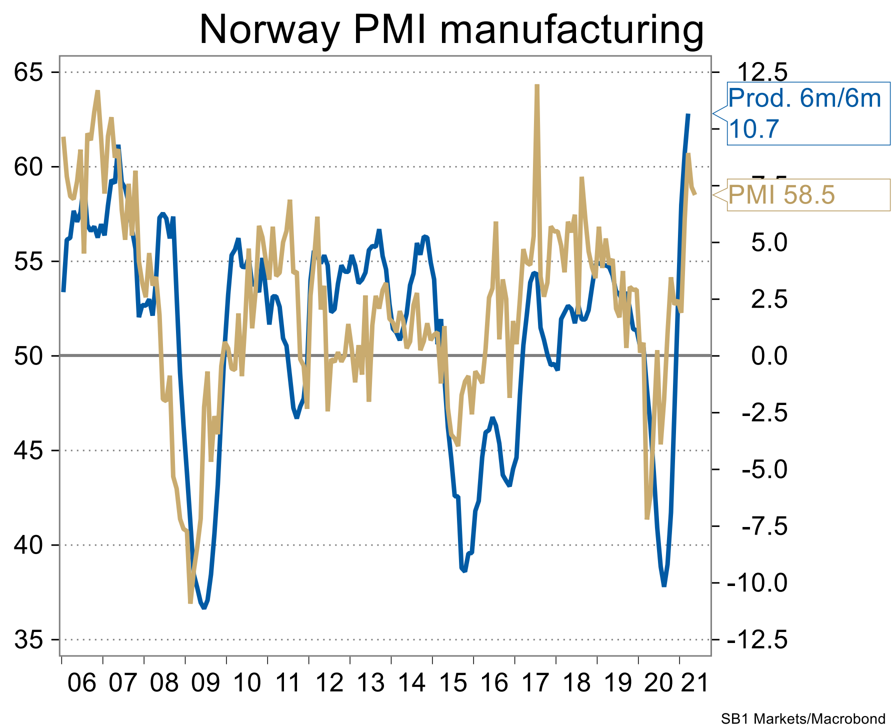


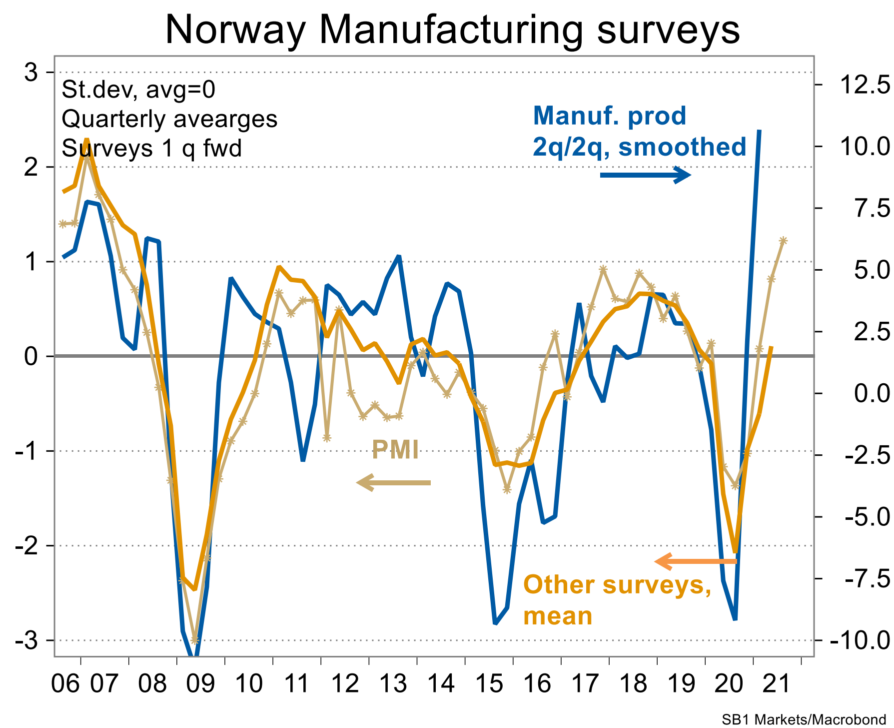


- The **PMI** has gone from record to record for several months, and is – at another ATH – now signalling some 8% GDP growth. The service sector is seeing increased activity (here as elsewhere) as the economy opens up and people are allowed to spend on services again. The **services PMI** was up 5.1 p in May! The **manufacturing PMI** was down 2.6 p to 66.4, but who cares when the level is through the roof anyway…
- **GDP** grew at a 3.4% pace in Q1, somewhat less than preliminary data implied
- **The Riksbank** is still buying bonds, and says it expects to keep the signal rate at zero until 2024. We are not so sure…

Norwegian manufacturing PMI slightly down to 58.5 in May– still a high level

The Norwegian PMI fell 0.4 p to 58.5, we expected 58. Actual growth the best in 50 years

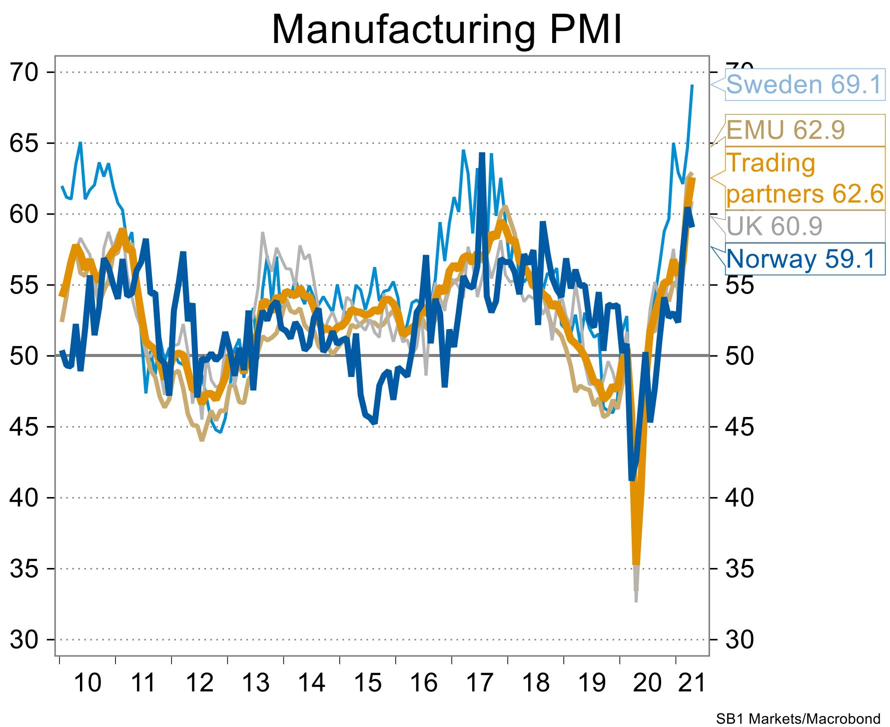


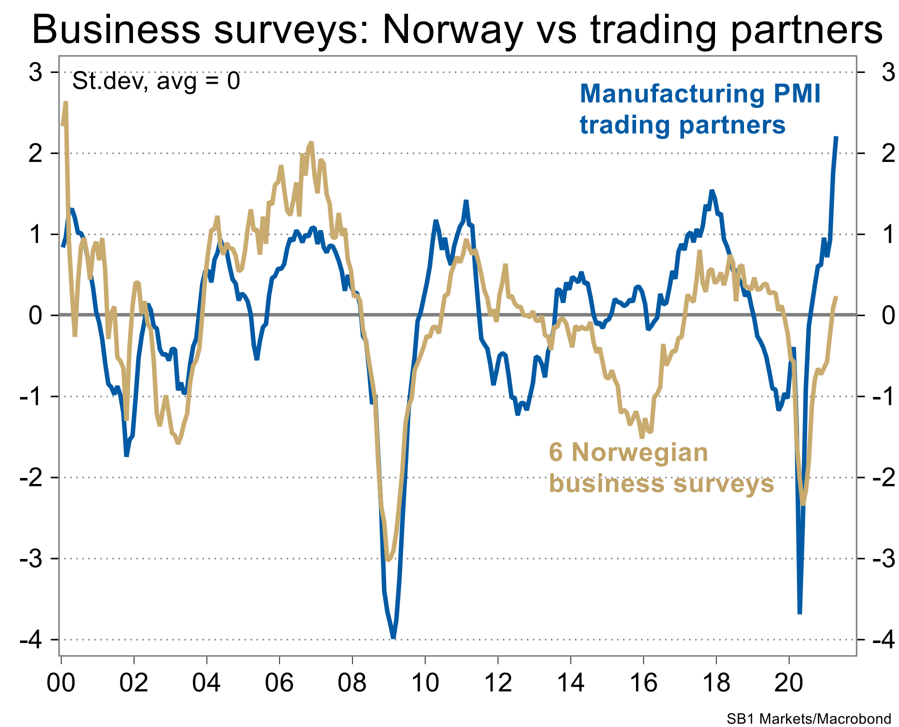


- The fall was due to a decline in the new orders sub-index, which fell 3.8 p to 52. The two other sub-indices were up
- Also worth noting, **inventories were up, as were delivery times** (for the 3rd month!)
- **Other surveys** have turned up lately to around an average level
- **Actual production** is growing faster than since 1972, at least measured 6m/6m. However, that is due to a low starting point in Q2/Q3 last year. The production level is above trend but not by that much – and just 1.5% above the pre-pandemic level (though one of the best outcomes in DM, even with a steep decline in oil related manufacturing production)

Norwegian manufacturers follow others upwards

… Other (and less updated) surveys are still lagging

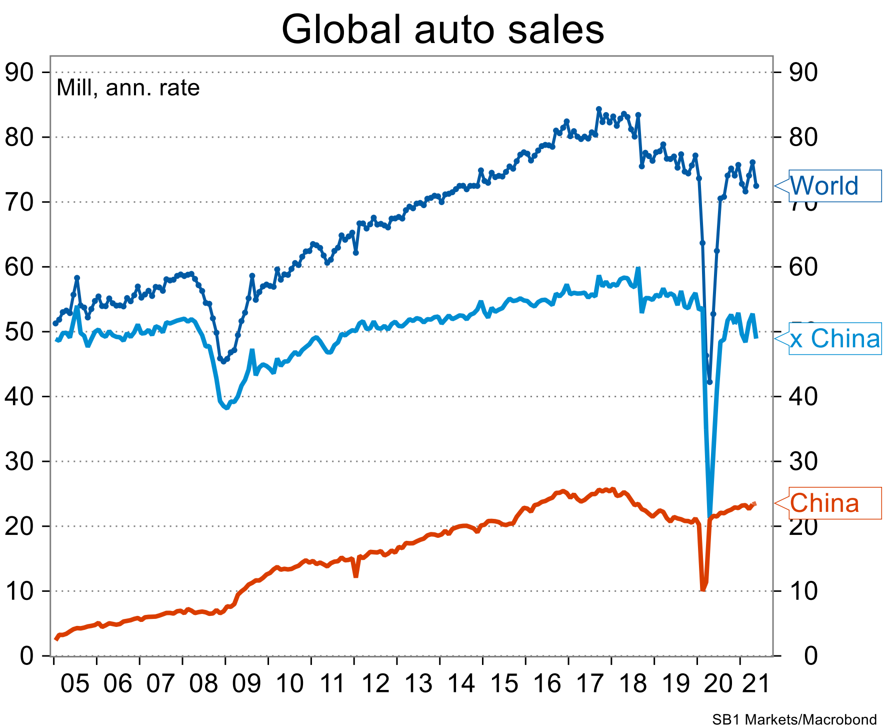


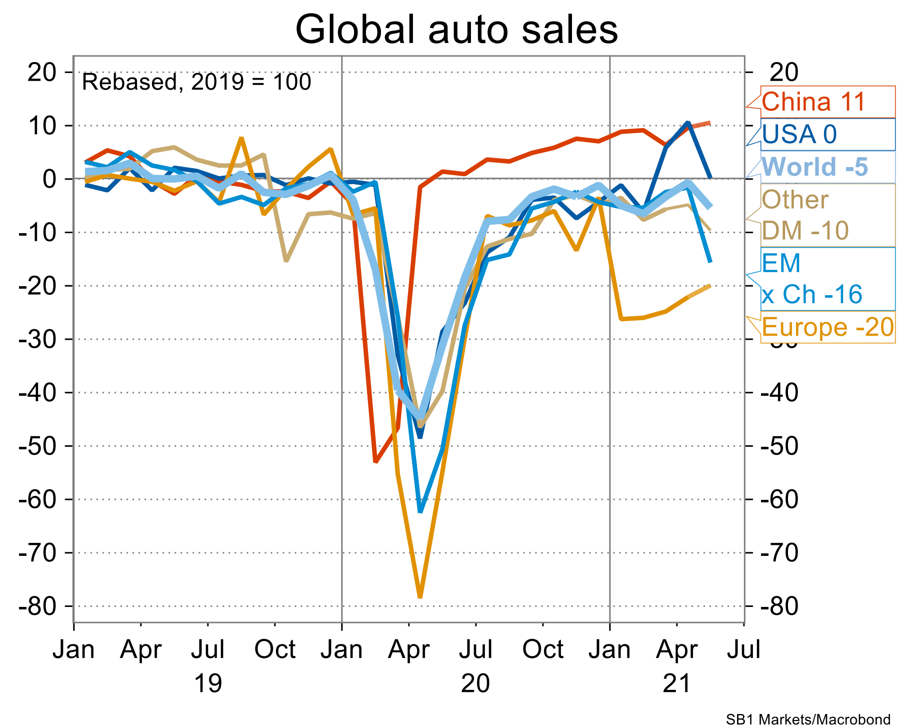


- The downturn in oil investments is probably the best explanation for Norway lagging our trading partners somewhat

Global auto sales down 5% in May – lower sales in US, and a collapse in India

Semiconductor shortages at least partly to blame for lower sales (outside India)

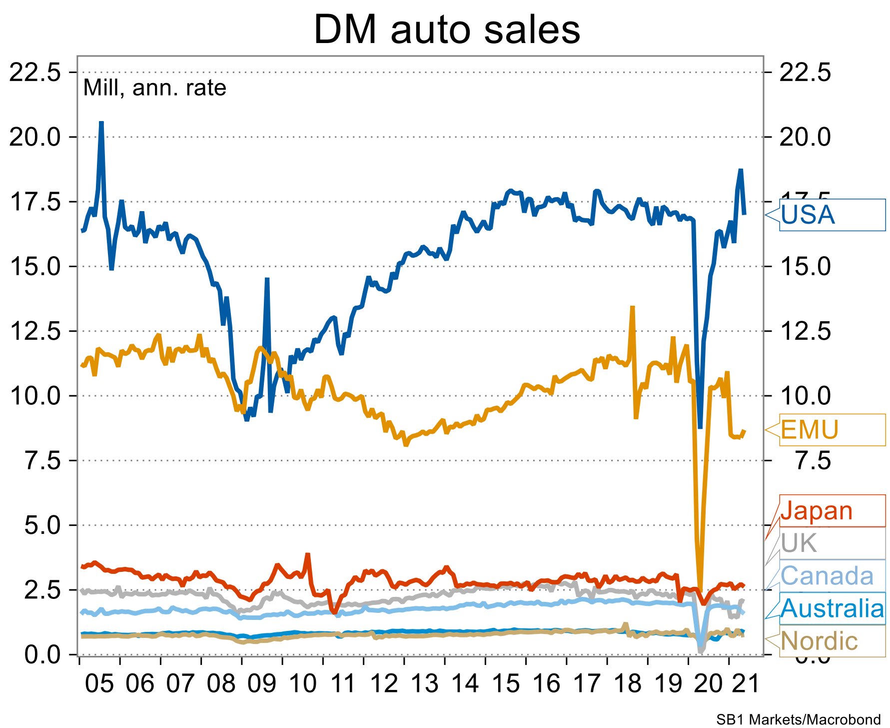


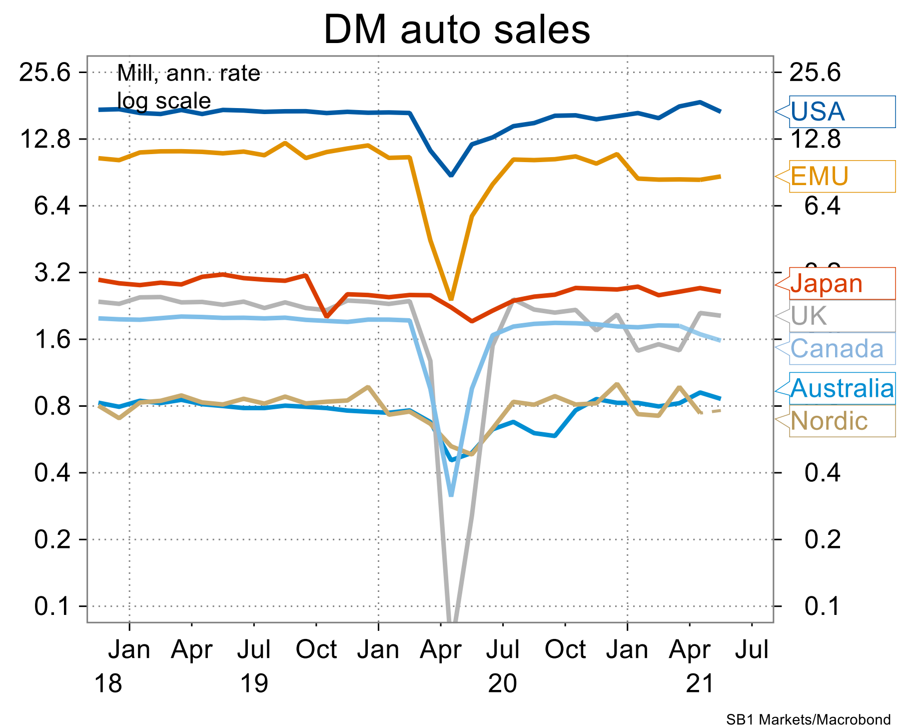


- Based on our preliminary estimate **global auto sales** fell by 5% in May and are just marginally above the Feb level
- A 2/3rd decline in sales in **India** (guess why?) explains more than half of the decline, lower **US** sales most of the rest
- The decline in the **US** in May is at least partly due to shortages of components, especially semiconductors, and not weak demand (but sales were boosted by stimulus cheques in April)
- Sales rose marginally in the **EMU** and rose sharply in the **UK**, back up to a pre-lockdown level
- Sales in **China** probably rose in April, and are well above the 2019 level
- Sales in **EM x China** fell sharply, due to the setback in India. Other were in sum probably close to unchanged (but many have not yet reported)

DM sales: EMU is still down more than 20% vs. last Dec/pre-pandemic sales

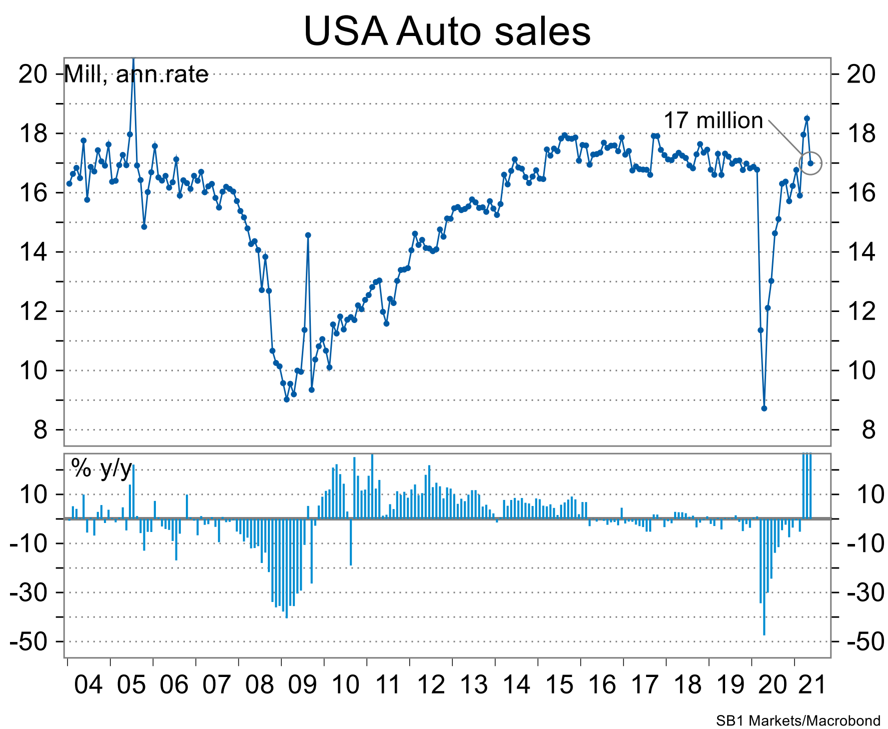
Sales in UK are almost back to the Dec/pre-pandemic level

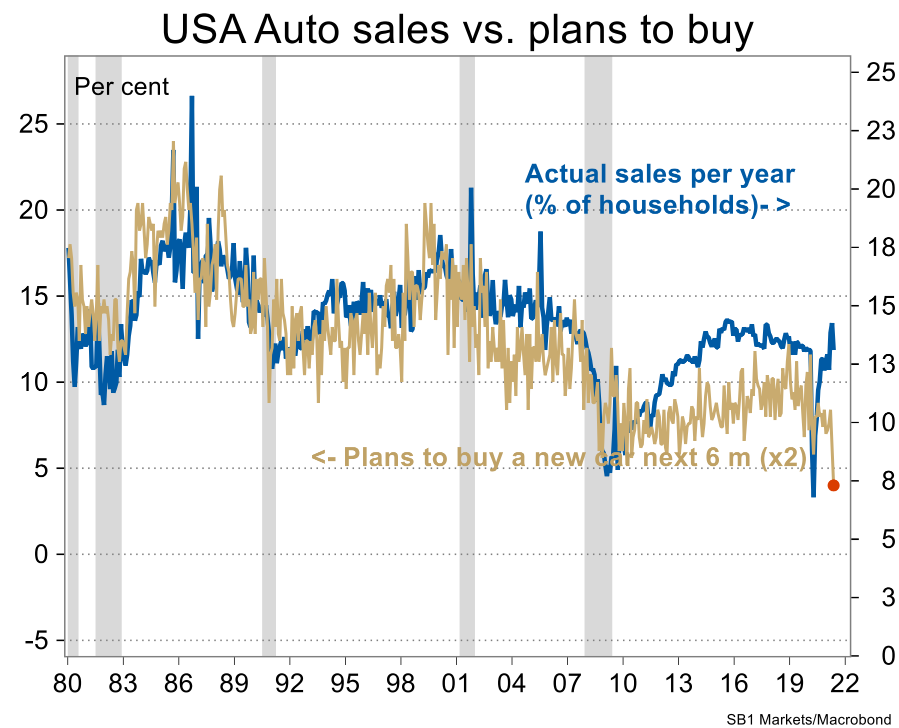




US auto sales down 8% m/m in May, from a very high level in April

Most likely due to lack of supply: Auto production is cut due to lack of components (semiconductors)

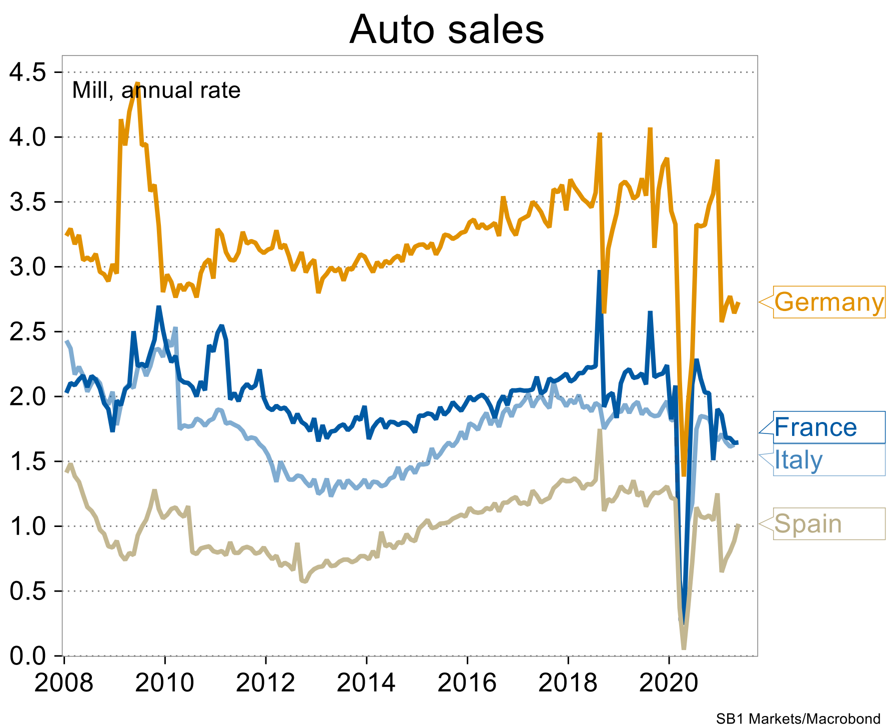


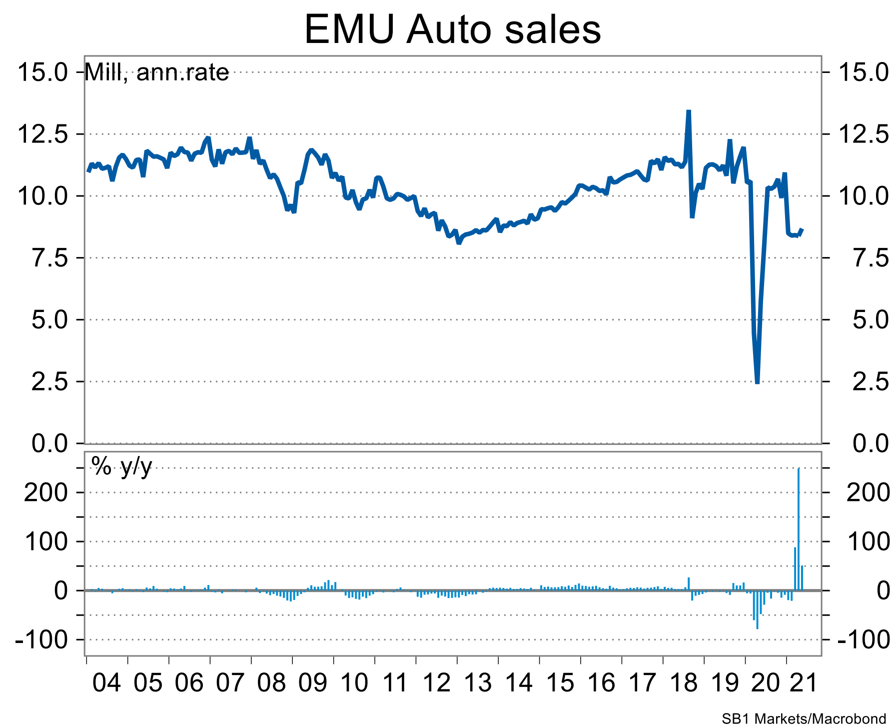


- Production fell more than 4% in April and probably more in May due to input shortages, which leads to fewer new vehicles on the market. As a result, 2nd hand auto prices are soaring, by 10% in April alone
- The second round of stimulus cheques no doubt contributed to the lift in auto sales March & April
- Households are <u>not</u> reporting aggressive plans for buying a new car, according to the Conference Board

EMU: Auto sales just slightly up in May – and sales are '25% below par'

Germany, France & Spain have reported higher sales. Only sales in Spain are back at a 'normal' level

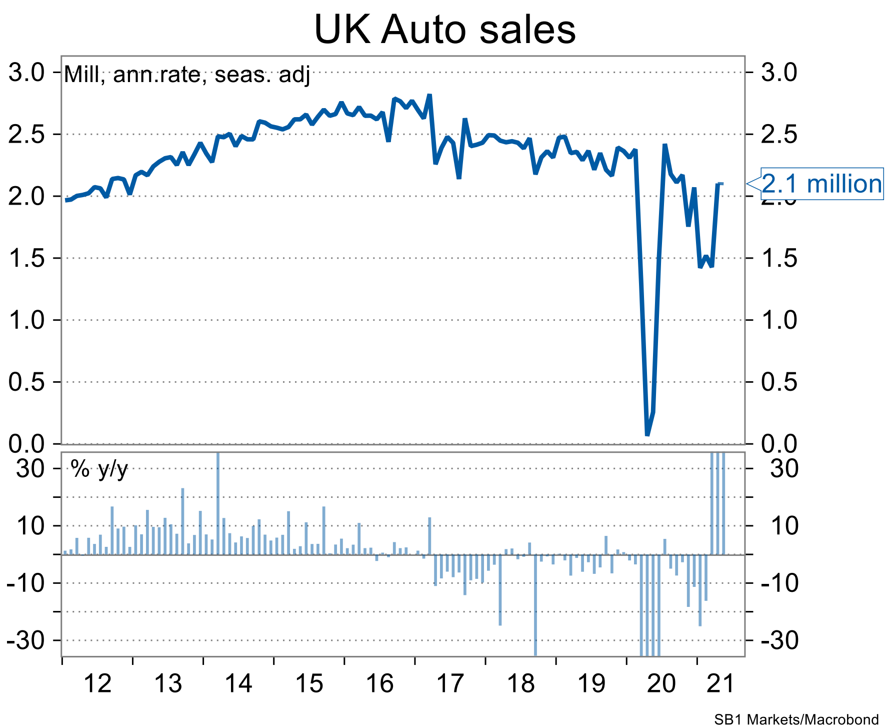




- Last December, auto sales were back at the pre-pandemic level – but sales fell sharply in January, and fell further in February and March, and sales remained at a low level in April and rose just marginally in May
  - » A 250ish % annual growth rate in April or +50% in May does not tell anything interesting, of course
- The lockdowns have really been felt
- The next challenge: Production problems due to lack of data chips

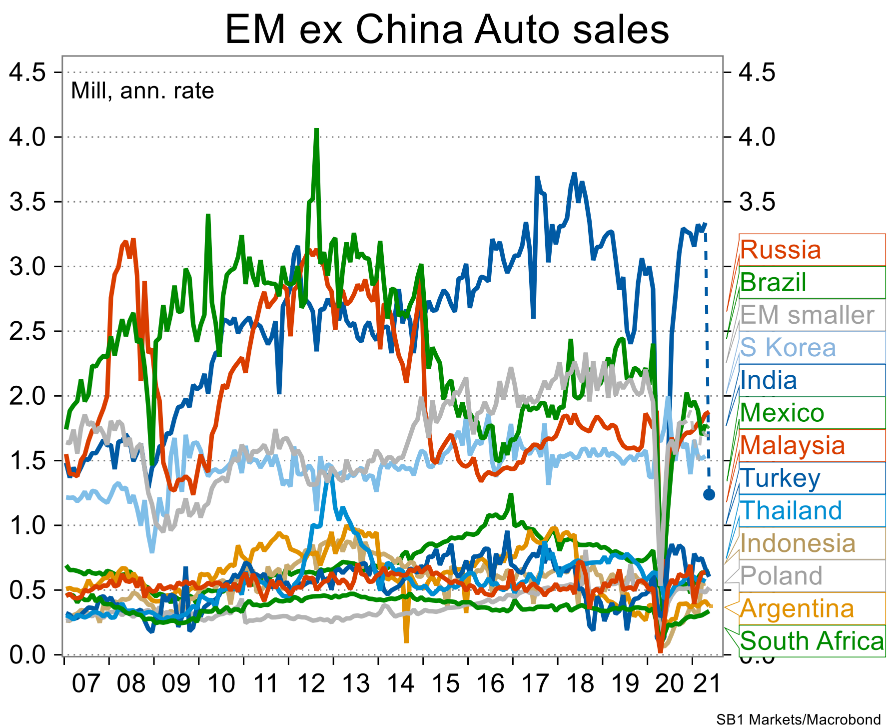
UK auto sales have recovered, at least back up to the pre-lockdown level

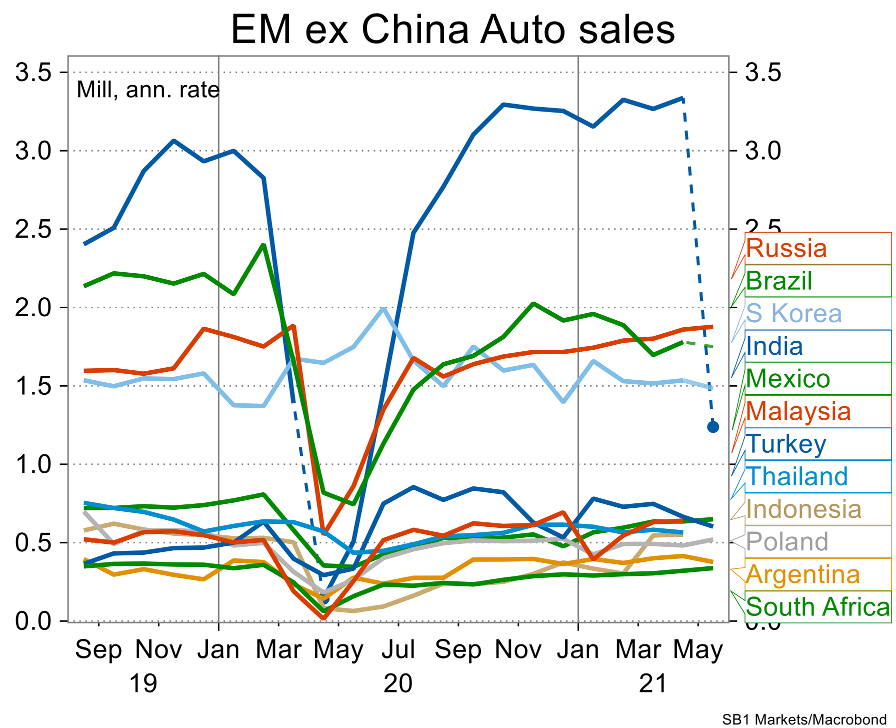
Sales are not that impressive – have been sliding down since 2016



EM: Indian auto sales probably down 2/3 in May, from the best level in years

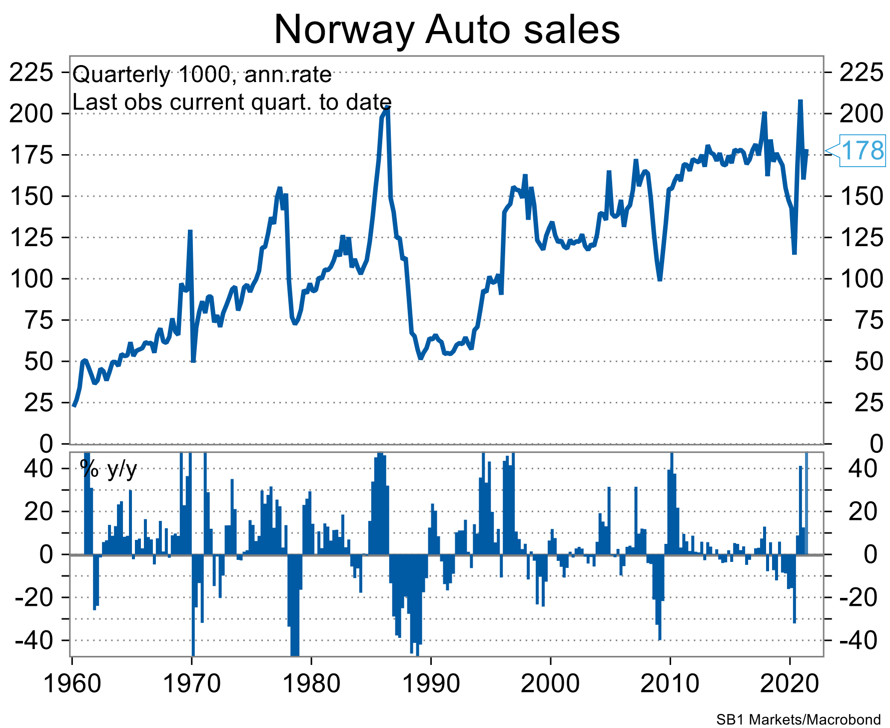
Mixed elsewhere but no other catastrophes reported, so far

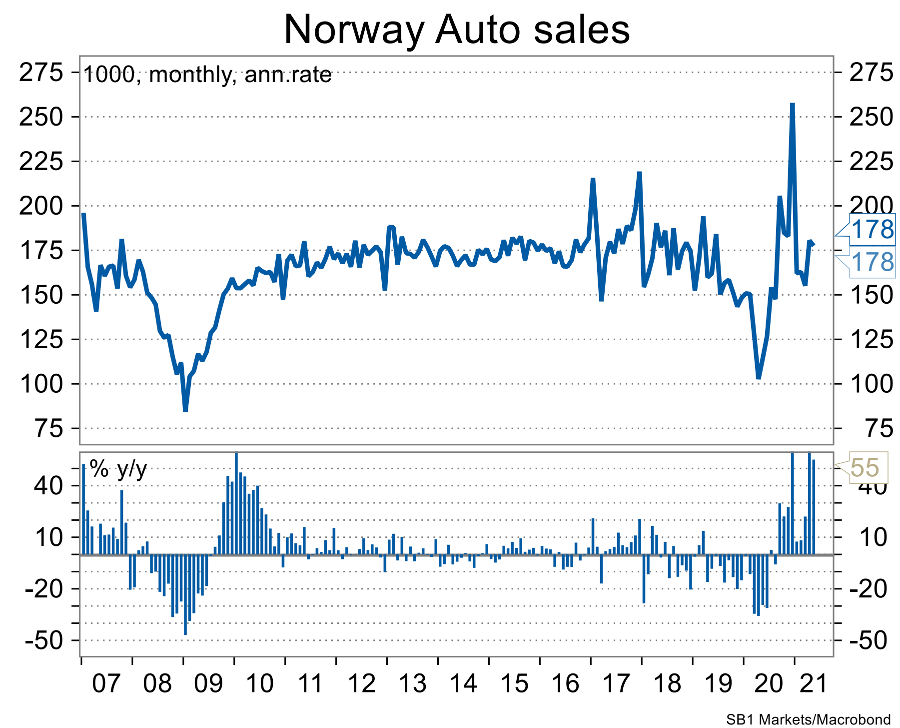




Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

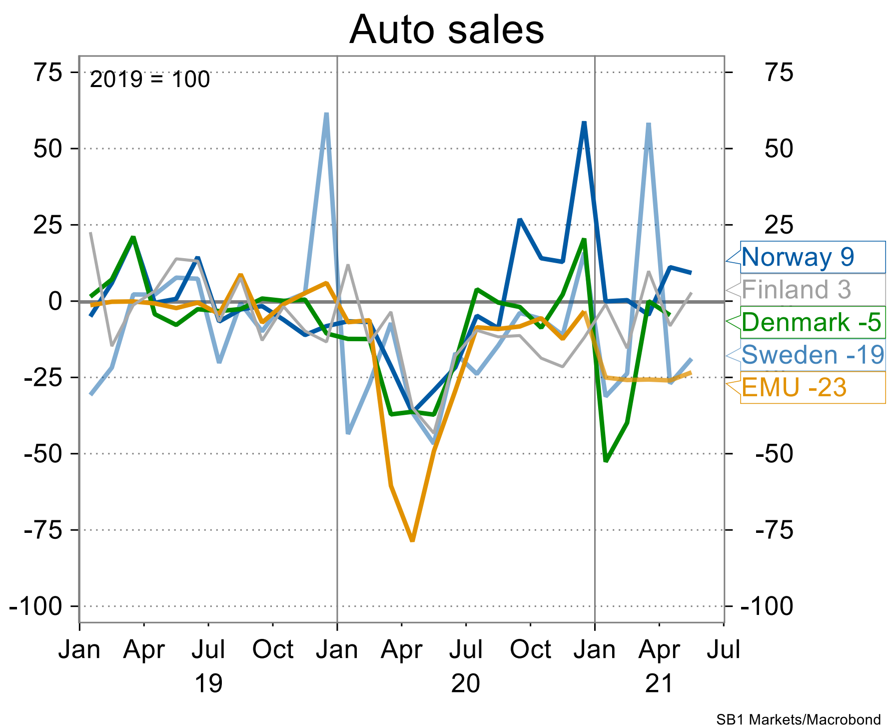
Norway: Sales flat at a 'normal' level in May





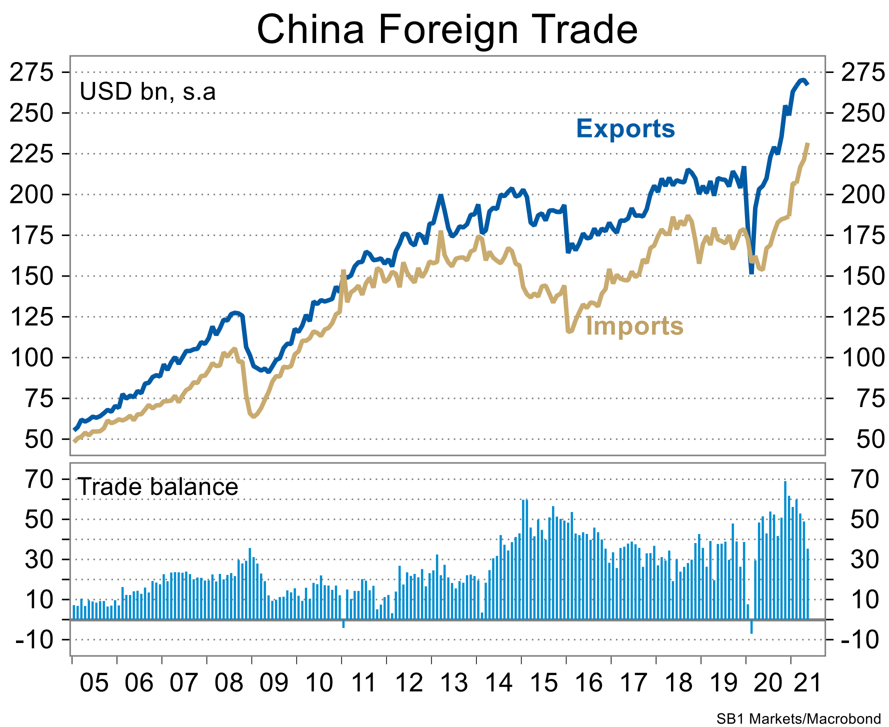
The Nordics: Auto sales have recovered – still volatile

Sales in Demark fell during the lockdown, recovered in March & April (no May data yet)



Exports slightly down in May, imports further up

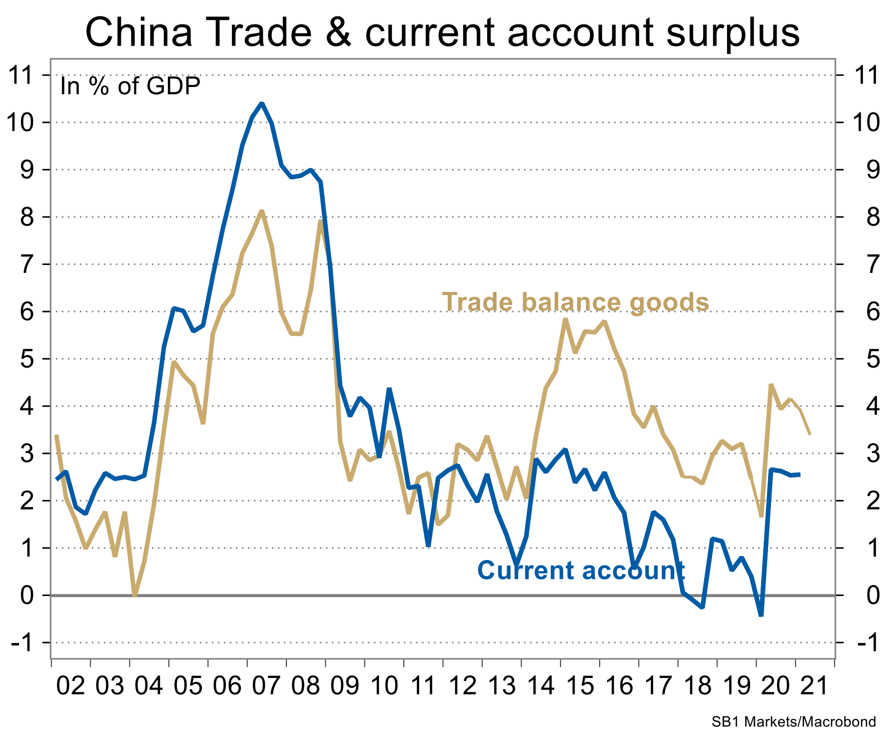
So far no signs of any slowdown in the global or the Chinese economy

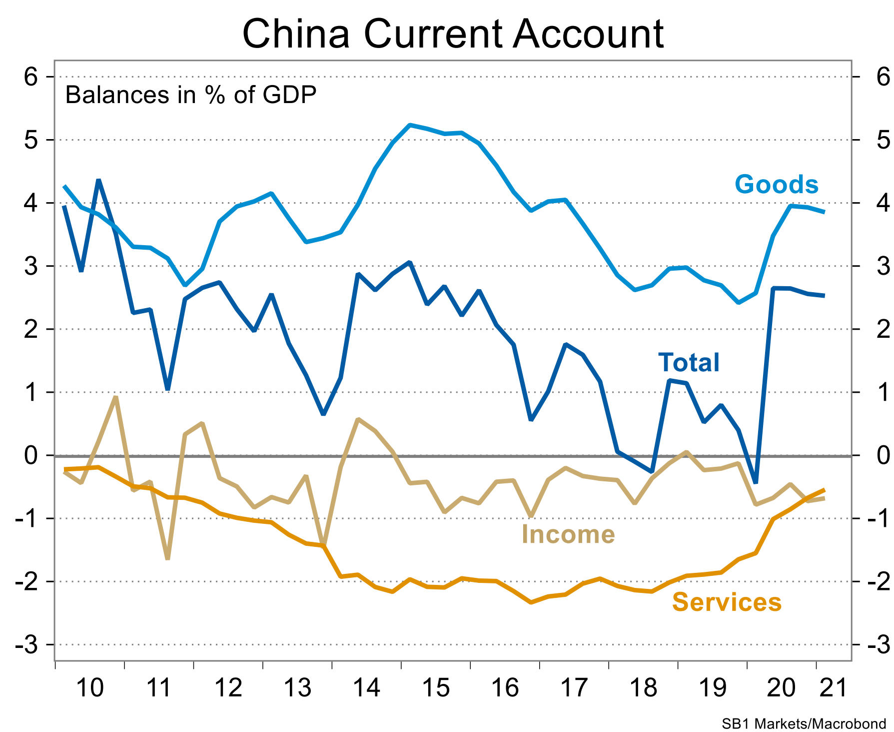


- **Exports** declined 1% in USD terms in May. Exports are up 28% y/y, 4 pp less than expected. In **volume terms** exports very likely fell too. Still, exports are far above any reasonable trend path, at least by 10% and 15% above the pre-pandemic level. Global demand for goods is strong
- **Imports** rose some 5% to another ATH. Even in **volume terms** (our price assumptions past 5 m) the lift is impressive but less aggressive as import prices have been rising sharply – but imports volumes are record high at almost 20% above the pre-pandemic growth path. Domestic demand is more than OK
- The **trade surplus** fell sharply in May, to approx. USD 35 bn, back to a pre-pandemic level, down from above USD 60 bn at the peak
- We expect growth in foreign trade volumes to slow substantially through rest of the year. Demand for goods in the rich part of the world will come down when spending in services increase, shortages of raw materials/intermediates will dampen production, and the Chinese are tightening credit policy

China runs a 'modest' surplus at the current account – at 2% - 3% of GDP

The C/A surplus was above 10% of GDP in 2007

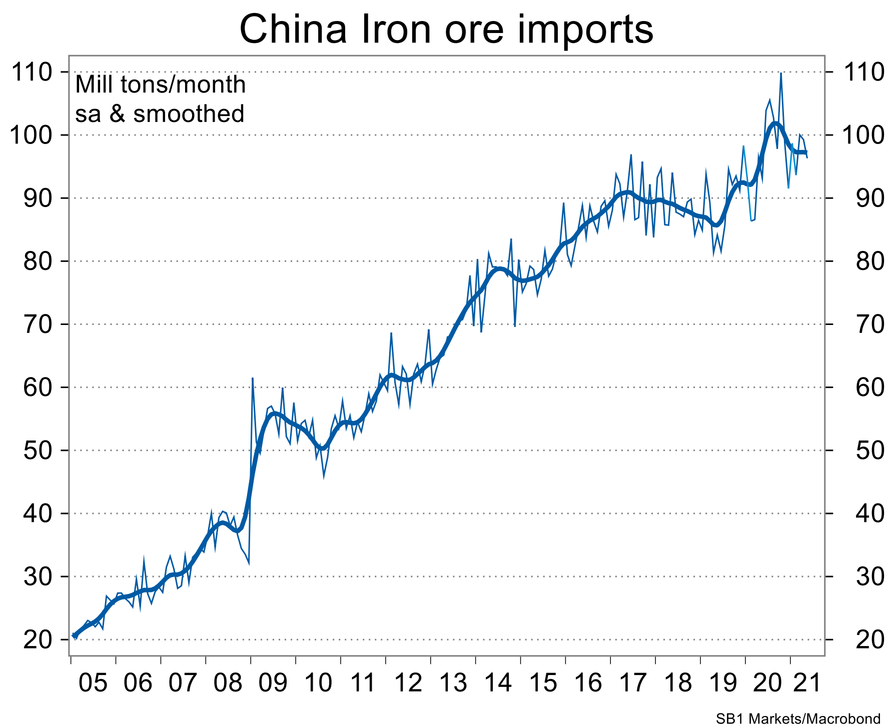




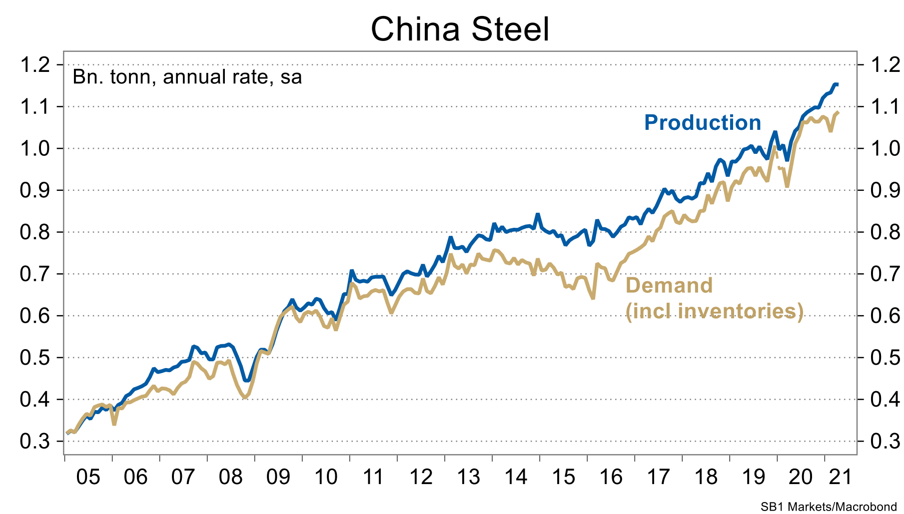
- The trade surplus in goods is now at 3% - 4% of GDP (but lower in May)
- In services, China runs a 0.5% deficit, down from -2% in 2015 – 2019 (but from zero 10 years ago). For the time being, the Chinese do not travel abroad (and we do not visit them either)
- China runs a marginal deficit in net (mostly capital) income from abroad, even if the country has a huge net + financial position
  - » China has invested much in low yielding US government bonds; foreigners are investing in profitable production capacity in China

Iron ore imports have stabilised recent months, steel prod. still on the way up

Growth in domestic demand has slowed, and net steel exports have strengthened – but fell in May

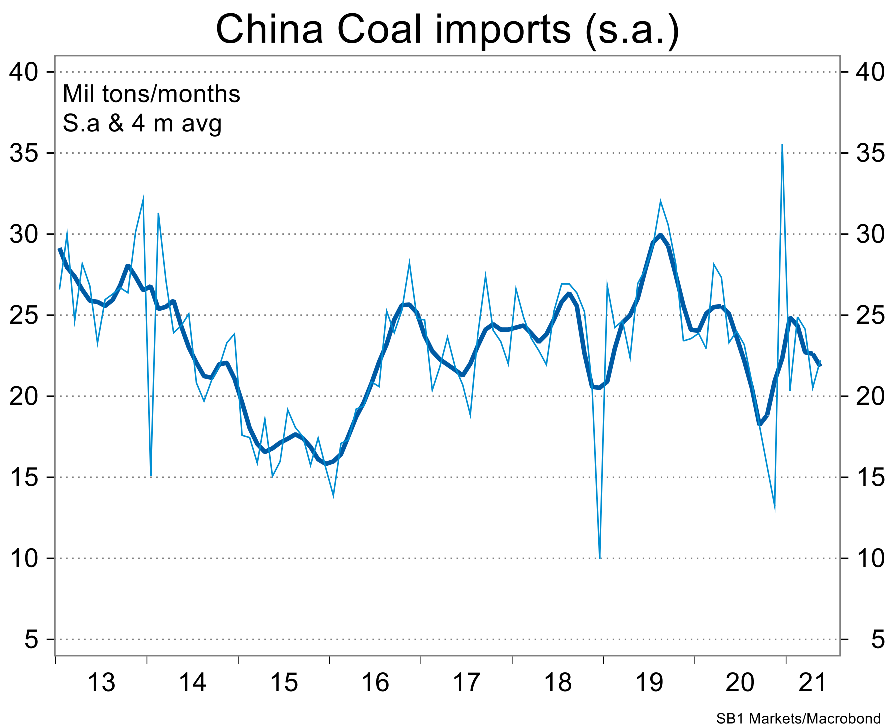


- Can the increase in steel production continue? Does not seem reasonable



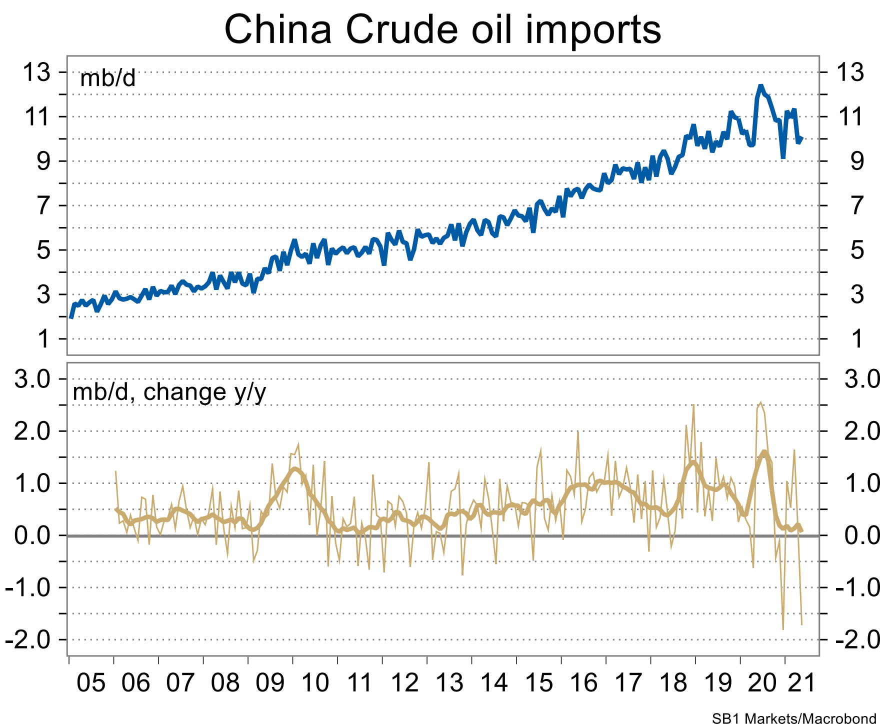
Coal imports have been trending flat since 2016

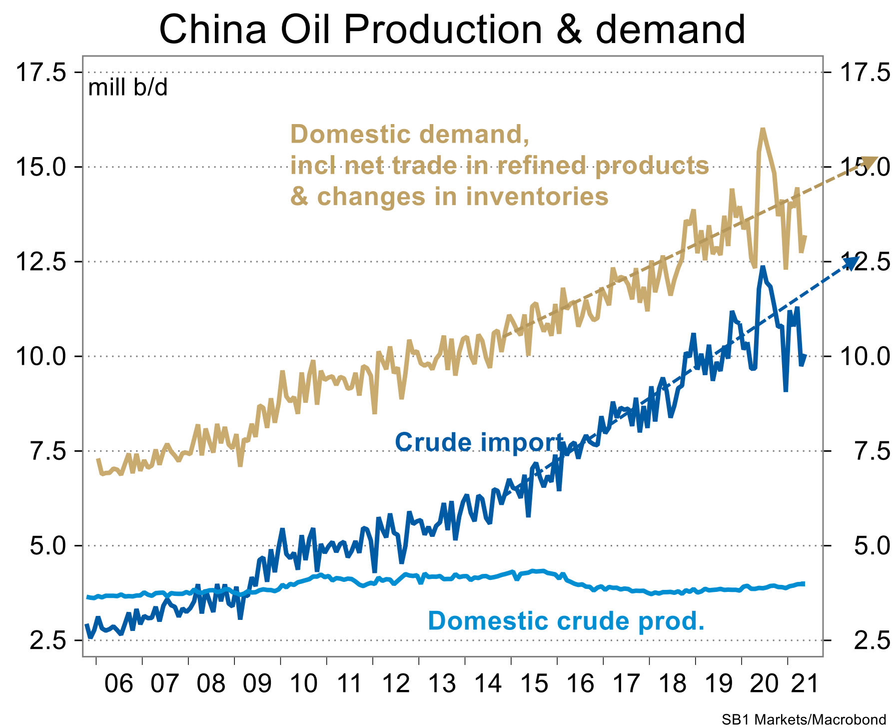
… and the past months have been on the weak side



Oil imports have flattened, not that usual

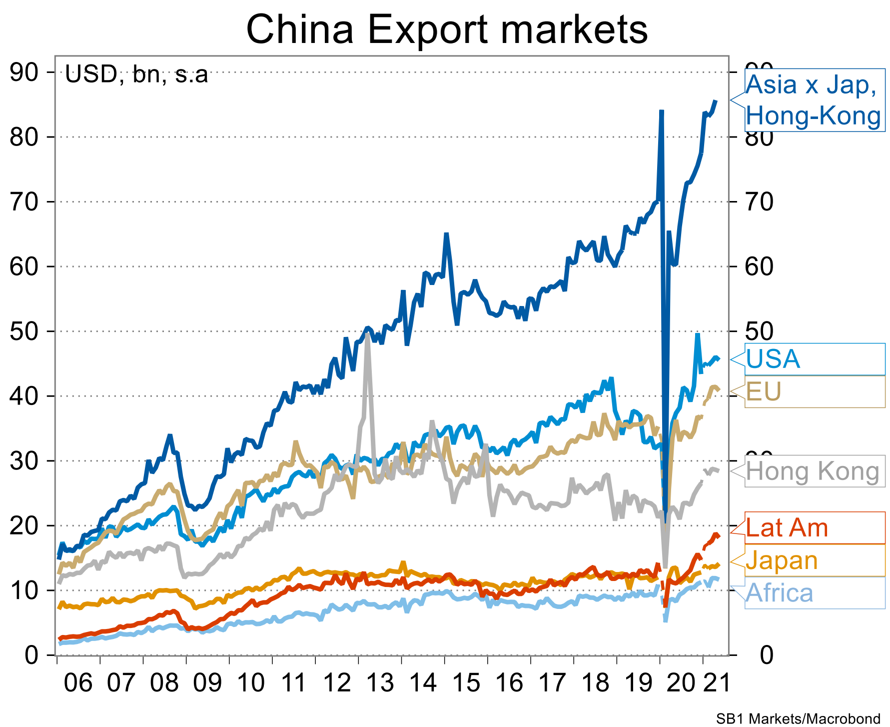
Imports were low in both April and May, according to Chinese data





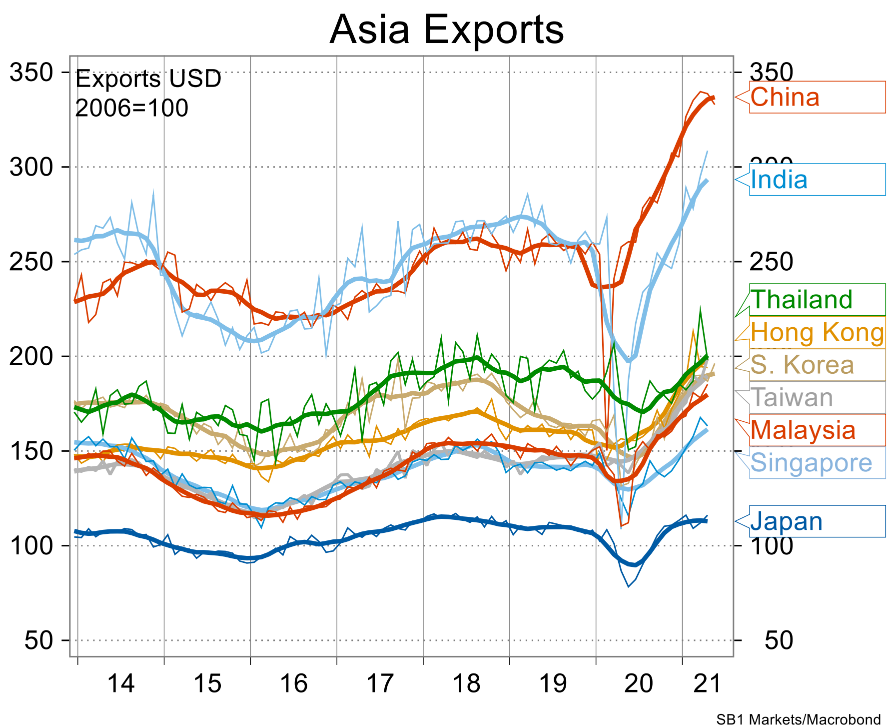
Chinese exports to 'all countries' up

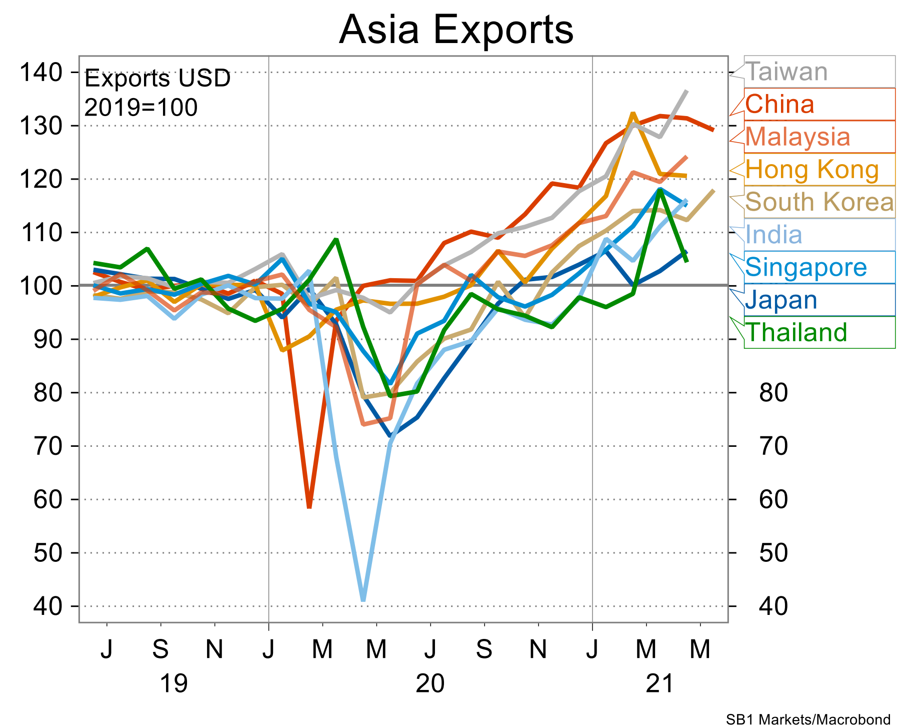
Impressive growth rates in all directions, in value export to the rest of Asia at the top, in % to Lat-Am



Asian exports are on the way up

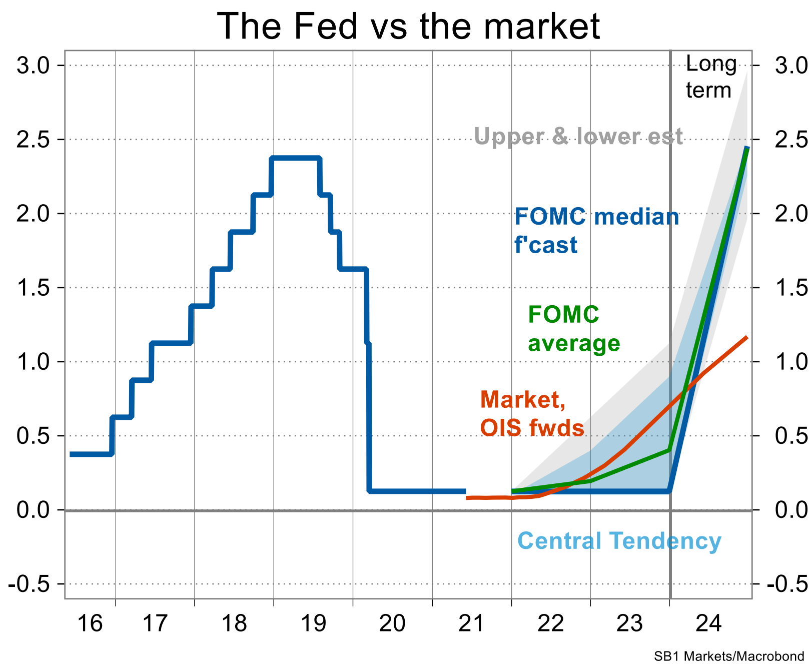
(except Japanese exports)





Beige book: wage and price pressures increased further

Modest/moderate recovery, and an optimistic outlook as vaccines are distributed & society reopens

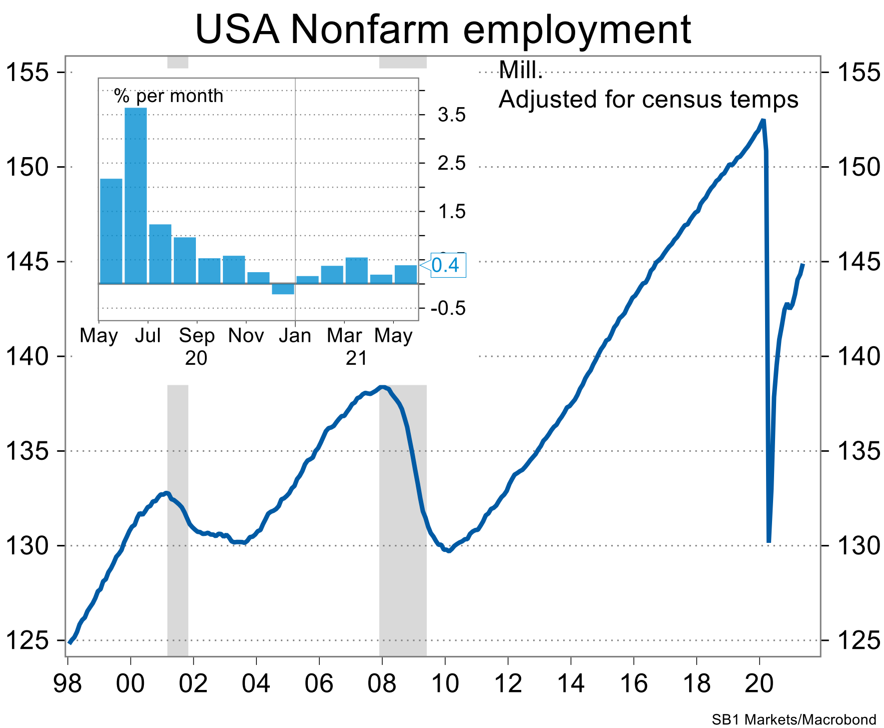


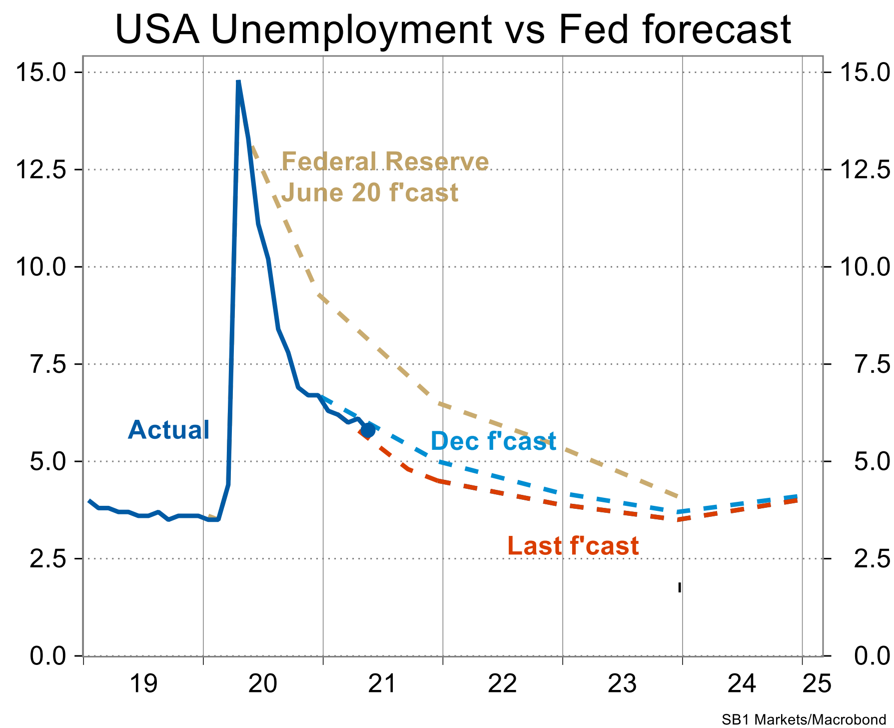
- The debate has started within the Fed, also in public:
  - » At the late April meeting, FOMC members talked about the need for start taking about Fed's stimulus programs if the recovery continued at a brisk pace. Some have thereafter argued for starting talking about tapering in at the FOMC meeting in June – and we think the committee will. No decision will be taken now, but something could happen at the September meeting
- **Treasury Secr. Janet Yellen** Sunday said the the USD 4 trl (2% of GDP) fiscal programs could temporary lift inflation and lead to slightly higher interest rates – which would be a plus for the society & the Federal Reserve

- Growth accelerated to a **modest pace** in most districts past six weeks, according to the Fed's 12 district banks. Eased restrictions, and increased vaccination cited at reasons for increased activity and outlook
  - » 3 districts reported strong growth (NY, San Fran., and Dallas)
  - » 9 districts reported modest to moderate growth
  - » Strangely 'modest' comments, given national & regional business surveys
- **Demand for leisure/hospitality services** have picked up as restrictions have been eased and vaccinations have continued. Both **retail sales and auto sales** were robust
- **Manufacturing** on the way up, despite supply chain challenges. Manufacturers reported of widespread shortages of both labour and materials. The **housing market** is still going strong. In fact, homebuilders are not able to meet demand due to capacity constraints. **House prices** are (of course) still climbing, as supply is limited
- Most sectors are reporting further growth in **employment** but growth is slowing – and difficulties attracting qualified workers persisted
- **Wage inflation** accelerated and many districts are seeing an upward pressure on wages, which is expected to increase over the coming months. A growing number of firms offered signing bonuses and increased wages
- **Input prices** increased sharply, and there are widespread reports of **increased selling prices** as well
- **In sum:** The reports out of the 12 districts keep getting more positive: the economy is recovering and the FOMC will have to address this fact at their June meeting. Perhaps even the more reason to have the talk about talking about tapering…

The participation rate does not respond, unemployment down to ‘moderate’

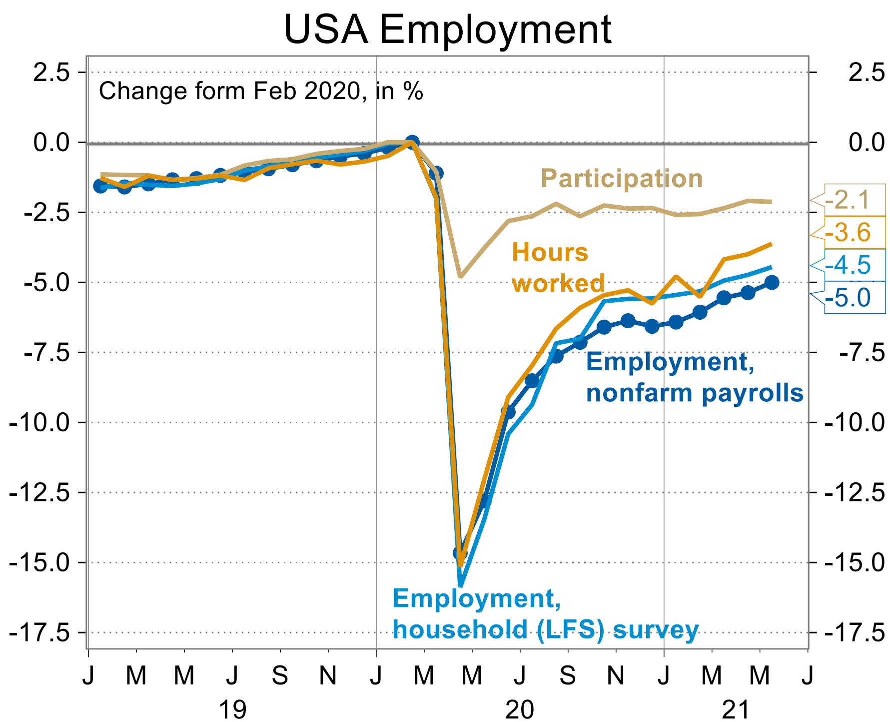
Is participation held back by too lucrative benefits? Or is it just the virus keeping folks at home?



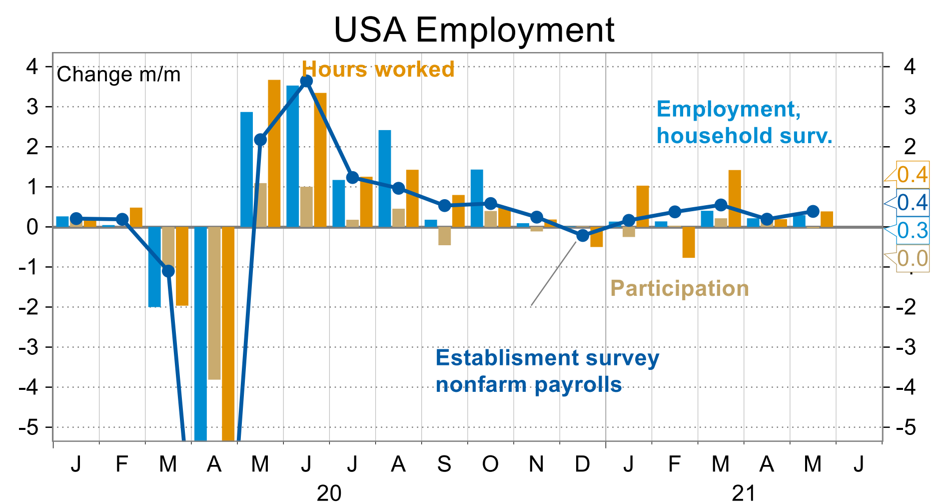


- **Employment** rose by 559’ (0.4%), again less than expected (671’, April was revised up 12’). Restaurants, education in the lead in May but both remain far below pre-pandemic levels. Total employment is 5% below the Feb-20 level, equalling 7.6 mill jobs. To get the employment rate back up, 8.1 mill
- **Unemployment** declined 0.3 pp to 5.8%, expected down to 5.9%, and still slightly above Fed’s (implied) March f’cast. Unemployment is ‘just’ 2.3 pp higher than before the pandemic but the participation rate has fallen by 2.7% (1.7 pp), lowering the measured unemployment rate substantially
  - 2.5 mill. persons (down from 2.8 mill in March) report that they had withdrawn from the labour force (and were not searching a job) for Covid-19 related reasons. Last summer 5.2 mill persons were outside the labour market for the same reason. However, the labour force participation has not increased!
- **Average wages** rose by 0.7%, expected 0.2%. During the pandemic, we have played down these average wage numbers as the employment mix changed sharply. However, now the reversal should
- **Bond yields fell**, we assume due to the ‘weak’ employment growth number. We thought the response would be the opposite, due to the decline in participation and unemployment, and the large lift in wages

Labour market activity is on the way up, still far below the starting point



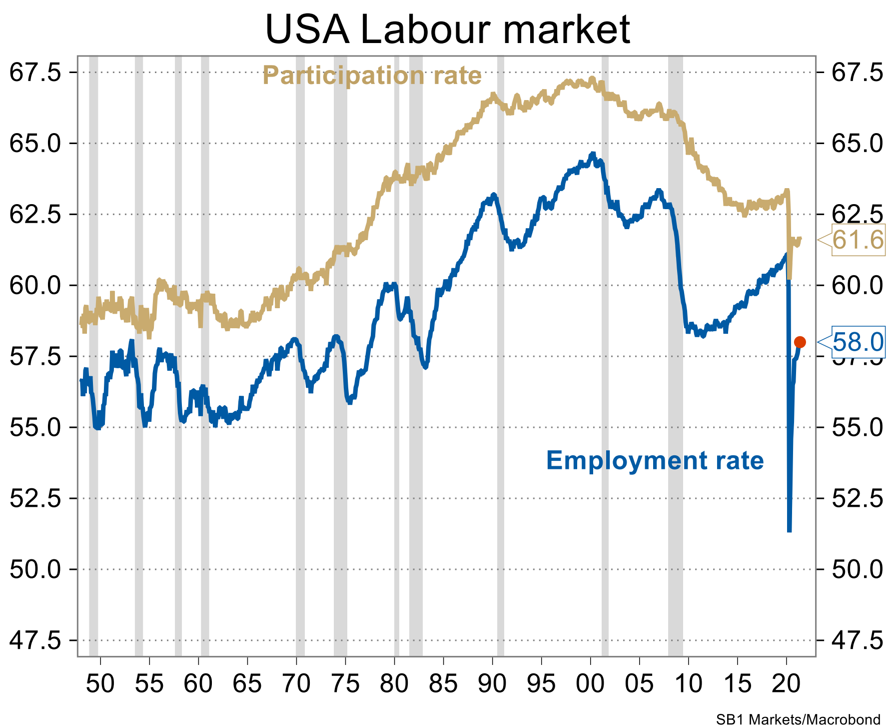
- **Labour market participation** was flat in May (in number, the rate was down by 0.1 pp). The rate is down some 2.7% below the pre-corona level, which is lowering the unemployment rate by the same amount
- **Nonfarm payrolls** are down 5.0% vs Feb '20, while **employment** measured by the **household survey** (LFS/'AKU') is 4.5% below. The **employment rate** is 5.1% below par. Given the pre-pandemic empl. rate trend path, 6% below (9.6 mill persons)
- **Sum hours worked** jumped 0.5% in May. Still down 3.7% vs. Feb-20

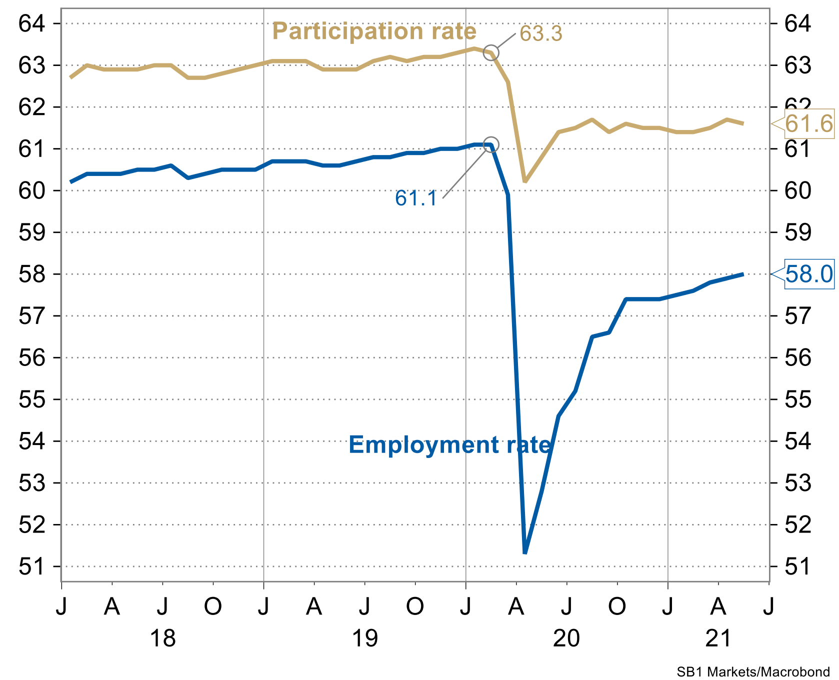


SB1 Markets/Macrobond

The participation rate is flattish, even if far fewer say thay are out due to Covid

The participation rate fell 0.1 pp in May, and is down 1.7 pp (2.7%, 3.5 mill) vs Feb-19

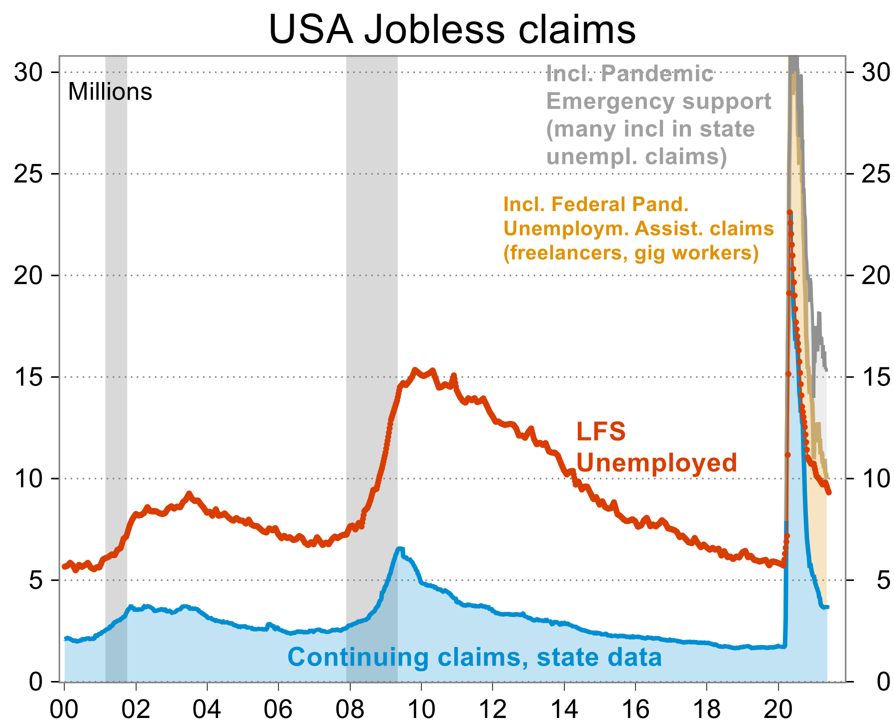




- The decline in the participation rate is Covid-19 related, at least it was initially. In May 2.5 mill. persons responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc, not because their job was closed down), down from 2.9 mill in March, and down from 9.7 mill at the peak last May, and 5.2 mill last summer. These 2.5 mill persons equal 1.5% of the labour force, and represents a substantial potential for labour supply.
- **However, since last summer this number has fallen by 2.7 mill. persons. Over the same period, the labour force participation rate has been flat. Have all these persons left the labour market? Or have they returned, while others have left – and if so, temporary (being 'well' paid by extra unemployment benefits?) or permanently? These are the most important questions in the US economy today!**

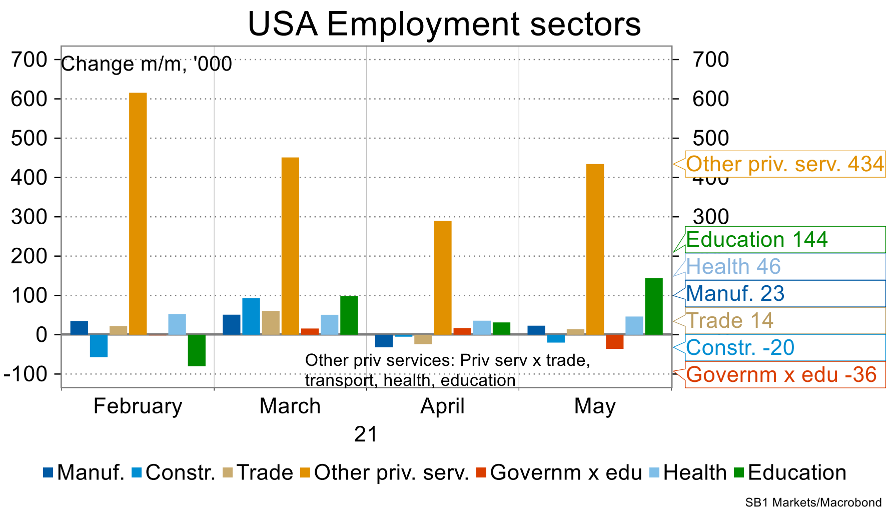
A labour force reservoar waiting to be tapped?

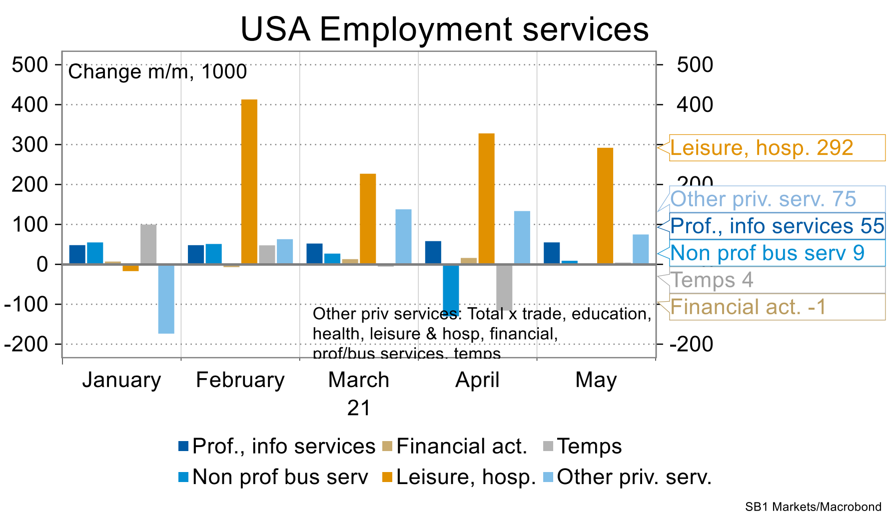
Do 6 – 10 million persons too many receive unemployment benefits?



- Usually, many more a reporting they are unemployed in the LFS than there are receivers of states' unemployment benefits
  - » The discrepancy has been 4 – 8 mill persons
- Now, the difference has changed sign, there are more receivers of state or now federal benefits
  - » There are 9.3 mill unemployed persons, according to the LFS
  - » Added up, the ordinary state programs, and the two temporary federal pandemic benefit programs distributes 15.3 mill checks per week – that is >5 mill more than those who report that they are unemployed (actively searching for a job) in the LFS
    - However, a (to us, unknown) proportion of the Pandemic Emergency support checks are distributed to receivers of states' ordinary support (so they receive USD 300/week in addition to the USD 300+ state unemployment benefit) – and there are some double-counting.
    - But at least 11 – 13 millions are for real, and anyway far higher than normal vs. the measured LFS unemployment rate
- This suggests that when the Federal programs end, in June in those states who have decided to opt out of the federal programs or by the September sunset for these temporary pandemic programs, <u>millions of workers will return to the labour market in earnest</u>
- There were 8 mill **job openings** (unfilled vacancies) to choose between in March. We assume there were some 8.5 – 9 mill jobs available at the end of May
- So barring really serious mismatch problems, employment could increase substantially the coming months. If not…

Leisure/hosp., education in the lead in April too

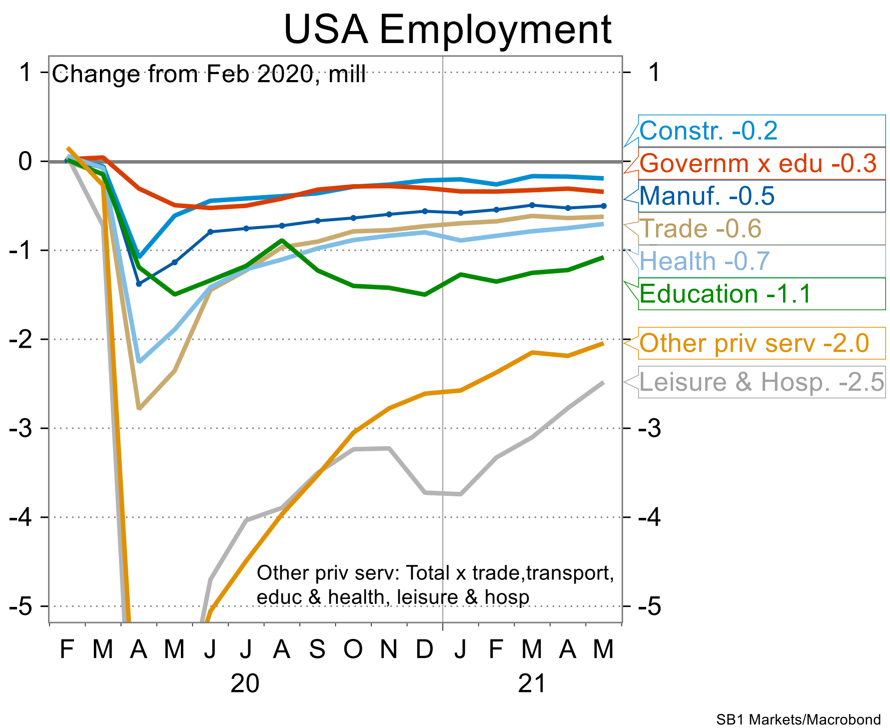


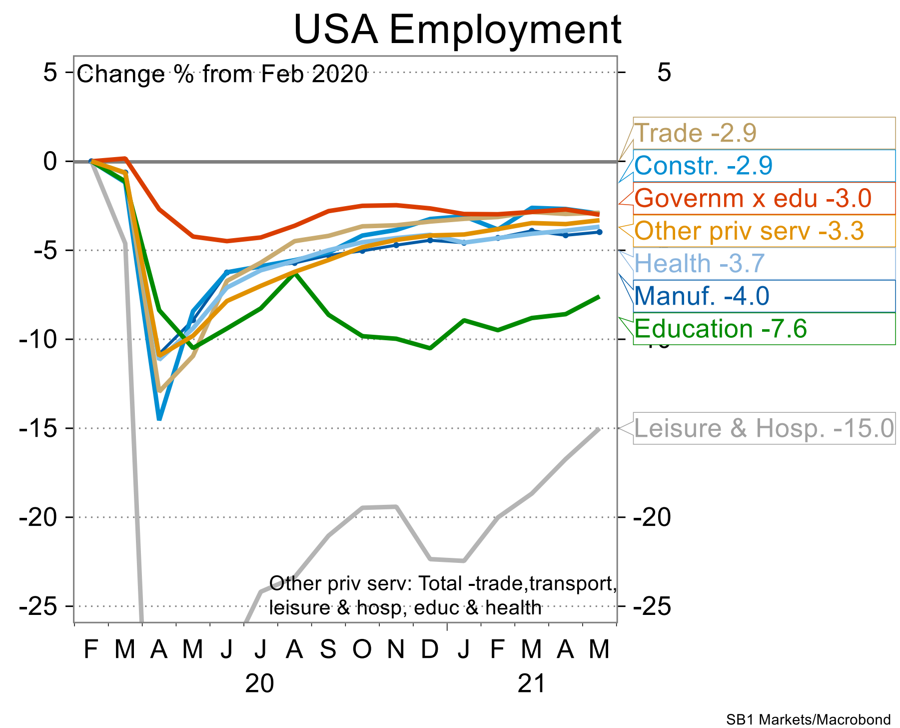


- **In March**
  - » **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 221' workers, +1,8%, following the 2.4% April lift
  - » **Education** (priv & public) added 144' jobs (1.1%) as more schools were opened
  - » **Other services** added more jobs too
  - » **Manufacturing & trade** added shed 37' jobs. Employment in the auto industry rose, indicating that shortages of components may be easing
  - » **Construction** has fallen marginally recent months but is still the best performing sector since Feb-19
  - » Empl. in **Government** (ex education) fell by 36'

From Feb-20: No sector is back yet, not even trade

6.5 mill jobs in leisure/hospitality, education & other services still 'missing'

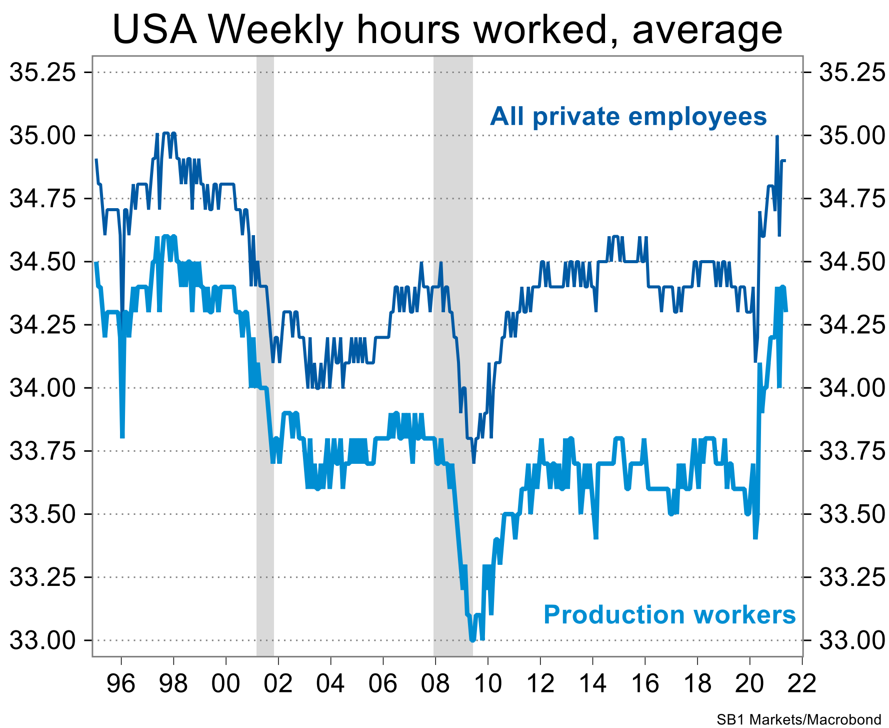


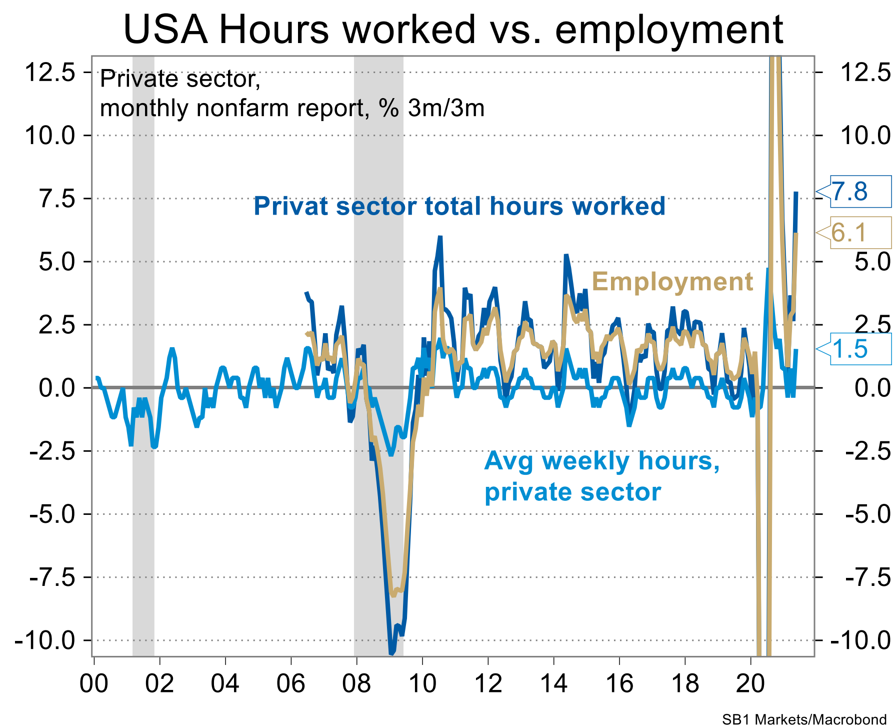


- **From February last year**
  - » No main sector is above the pre-pandemic level, not even retail trade, even if sales are up double digits!
  - » **Manufacturing** is down 4.0% (0.5 mill), **trade & transport** -2.9% (0.6 mill), **construction** -2.9%
  - » **Education** is down 7.6%, many schools are still closed (1.1 mill)
  - » **Leisure & hospitality** is down 15% (2.5 mill)
  - » Even **government employment** x education is down 2.7% (adjusted for temp census workers), which is remarkable in an economic downturn

Hours worked sharply up recent months – average hours & employment up

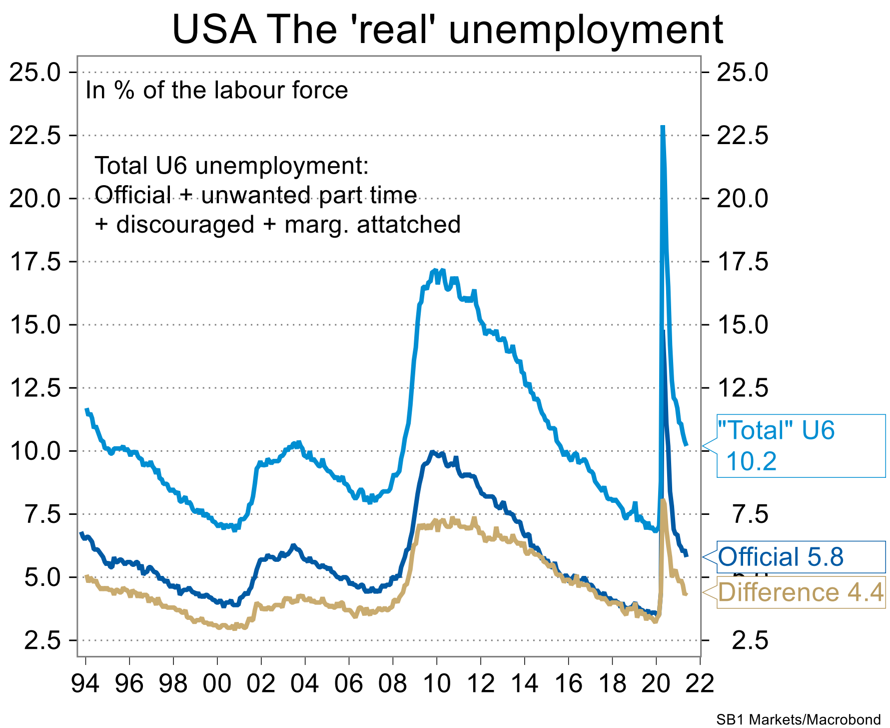
Total hours worked are up 7.8% 3m/3m, 6.1% due to higher employment, 1.5% due to longer hours

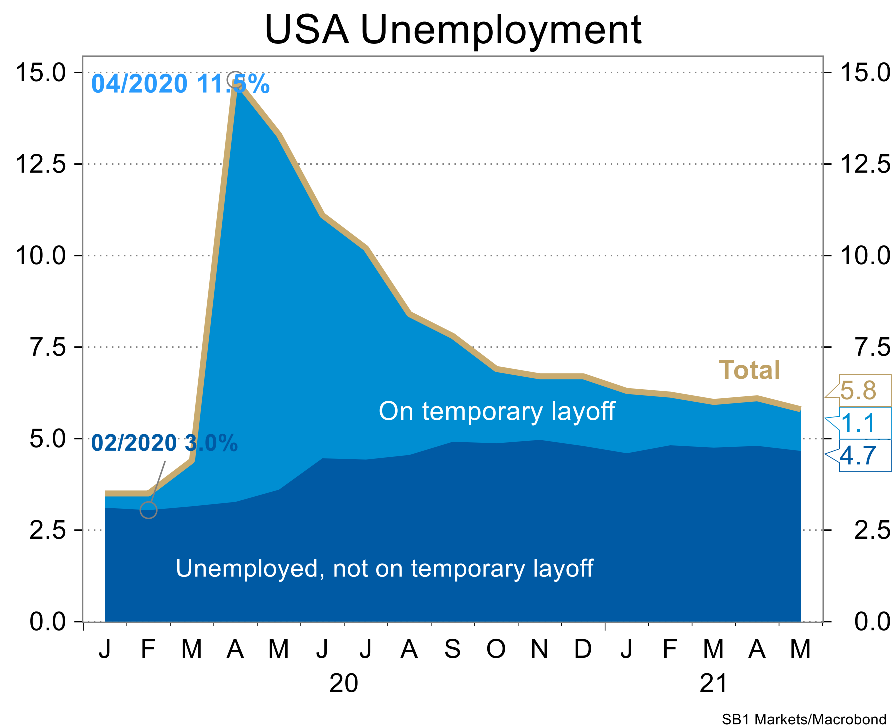




- The lift in average weekly early in the pandemic was mostly due to employees with few working hours lost their job first
- Average weekly hours are up 1.5 from before the pandemic

Grand total employment is falling sharply

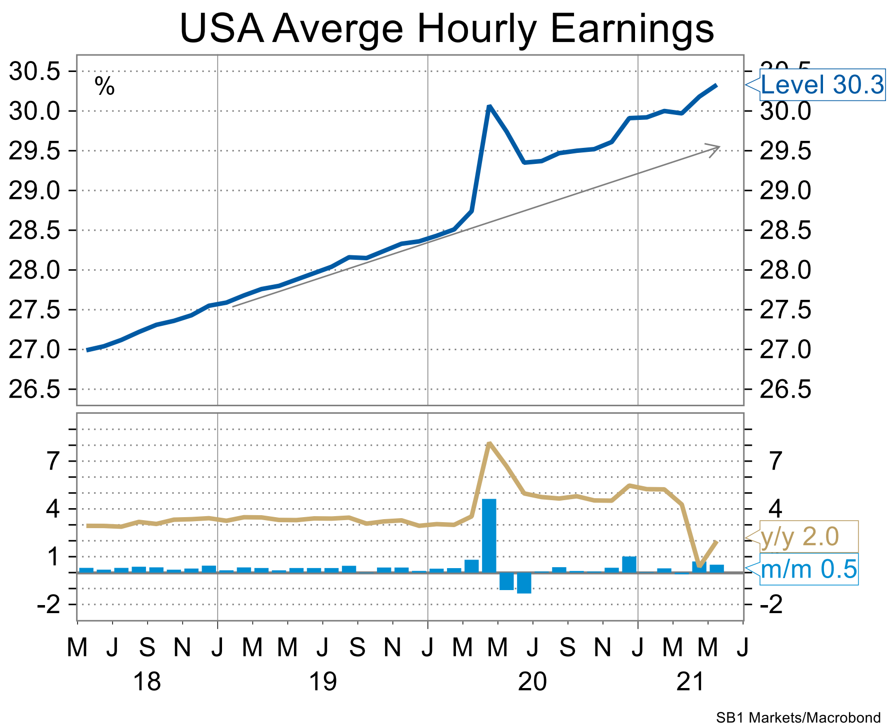




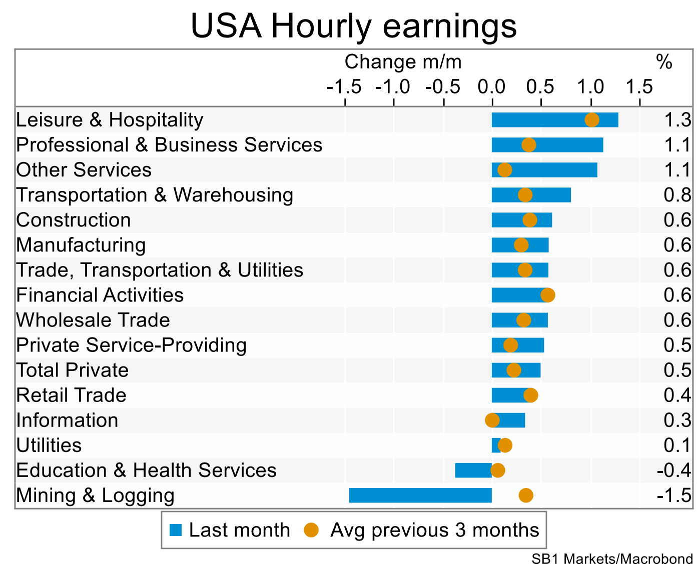
- In May, the ordinary **unemployment rate** fell by 0.3% to 5.8% both due to a decline in the no. of ‘permanently’ unemployed and fewer workers being temporarily laid off
- **The ‘total’ unemployment rate** fell 0.2 pp to 10.2%. This rate included workers at unwanted part time or that do not search for work because no work is available anyway, even if they want a job. (We assume the 2.5 mill workers that are not searching for work due to Covid is included in these figures, even if there are some differences in definitions)
- **The difference** to the 5.8% ordinary unemployment rate of 4.4 pp is lower than the average since 1994, and far below levels seen in ‘bad times’ – but still above booming time levels – which implies here are some labour reserves here

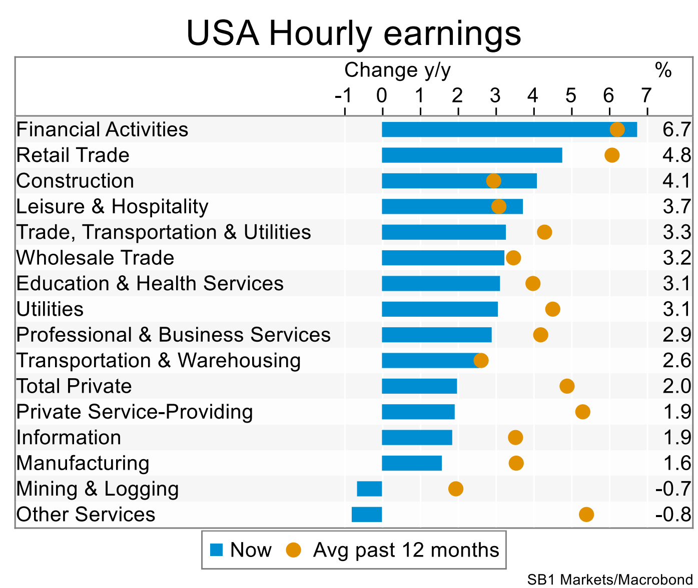
The average up 0.7% in May, well above expectations (0.2%)

... because low wage employees did <u>not</u> return or because for many wages are increased?

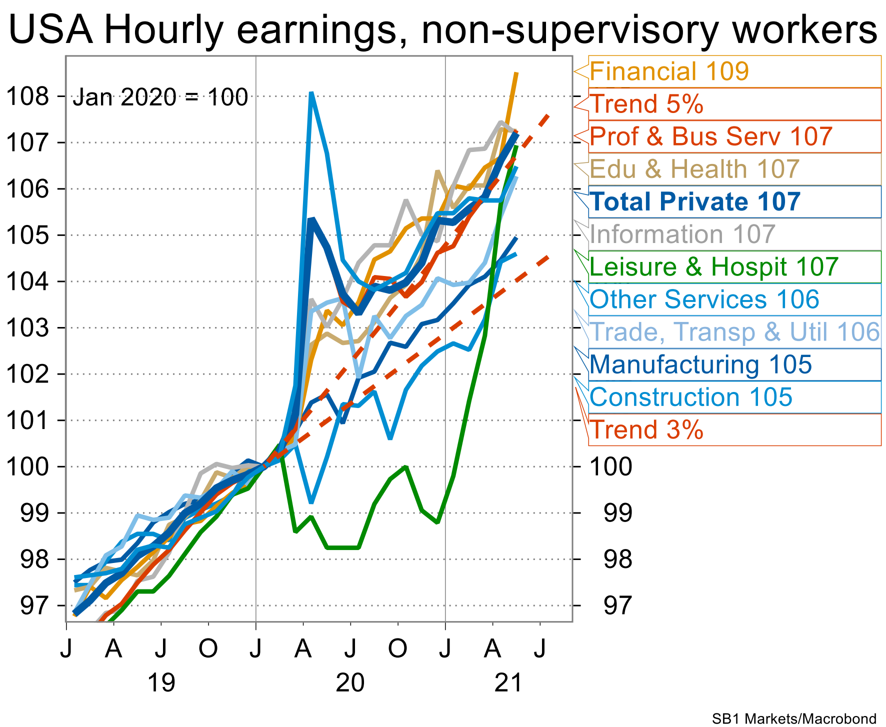


- We are still sceptical to over-interpret average wage data, also at the sectoral level, as employment mix has changed sharply between sectors and probably within sectors
- However, in both April and May wage increases were MUCH higher than expected, and high in most sectors, even if employment grew, especially in the lower paid leisure/hospitality sector. Here wages grew by 1.3% in May after 1.6% in April





Wages for those working are up 6% – 9% vs the pre-pandemic level

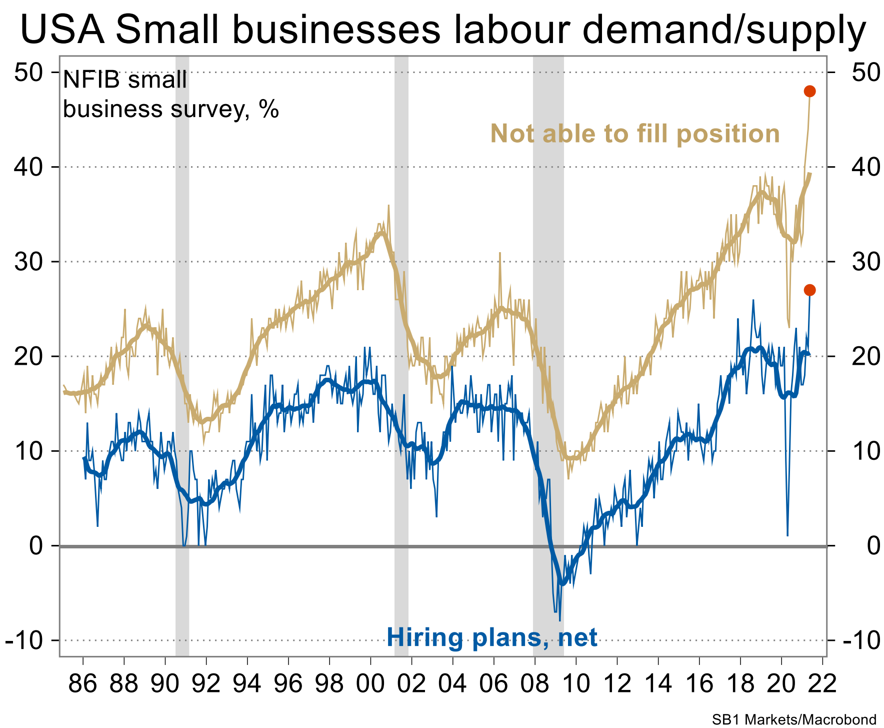


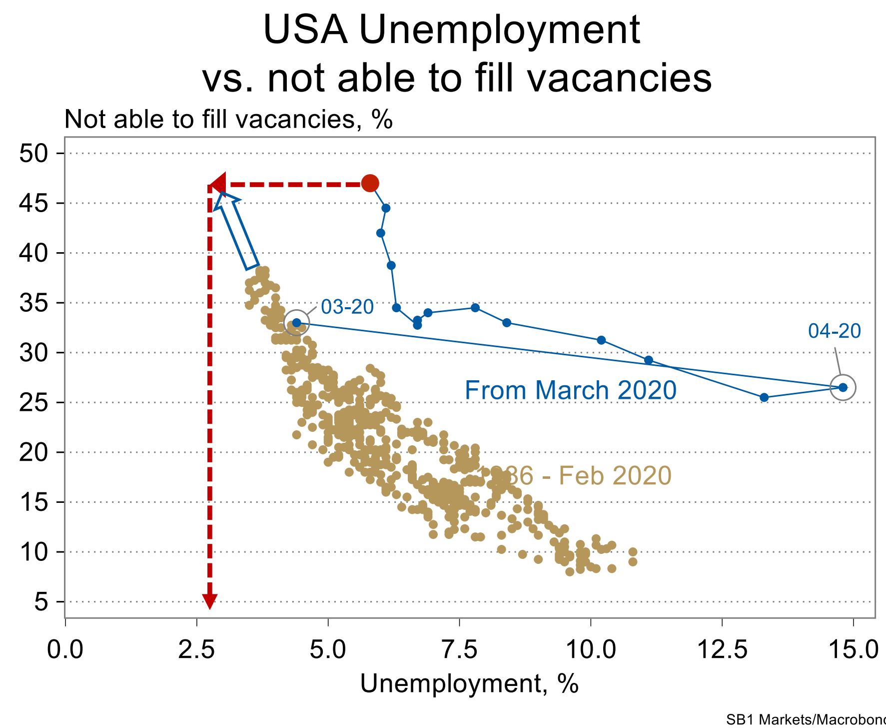
- Changes in the employment mix even within sectors make these sectoral data uncertain
- However, it may be that these data reflects a real increase in wages recent months
  - » Say, why should the average wage in leisure & hospitality be 7% above the pre-pandemic level if wages in the sector have not increased quite broadly? At least, it seems unlikely that higher paid staff has increase its share of total employment in the sector when wages have jumped by 8% (since December)

- At the chart above, wages for non-supervisory workers are shown. When all employees are included, growth is slightly lower in most sectors

Small businesses: More companies than ever are not able to fill positions

and hiring plans shot up to strong ATH in May

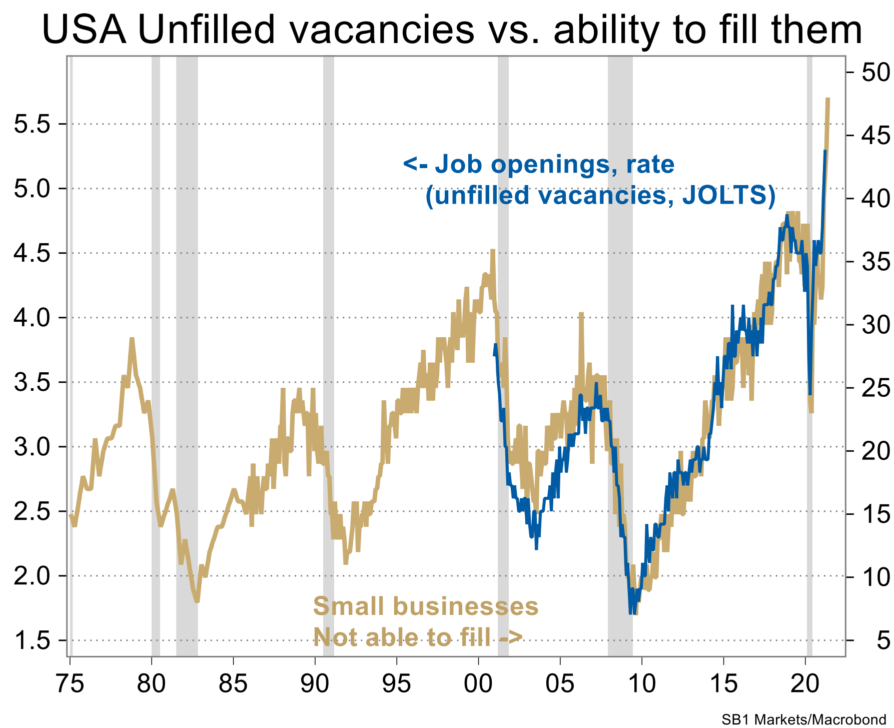


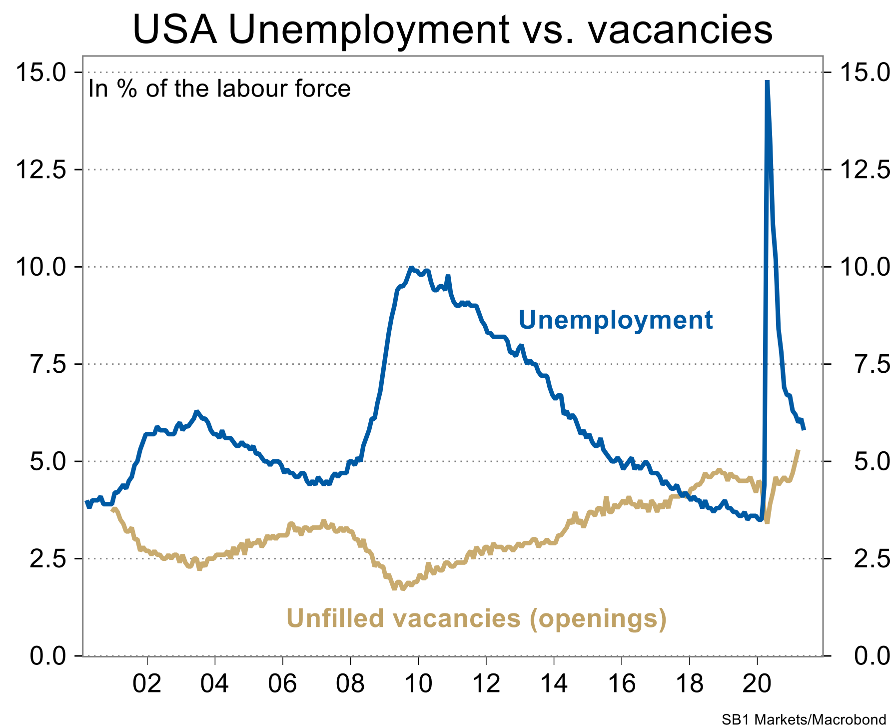


- SMBs are not able to fill vacancies, like never before: The share of companies not able to fill vacancies rose further in May, to the 4 ATH in row. Almost half of the companies are reporting lack of labour vs. the normal 20% – 30%. In a recession, 10% – 15%
- There have been a close correlation between the official unemployment rate and the share of companies reporting that they are not able to fill vacancies. Now, the official unemployment rate is twice as high as indicated by the reported lack of labour
- Hiring plans shot up in May, to ATH, of course

Official unfilled vacancy data from March confirms business reports

… and very likely, there were even more unfilled positions in April and May. April data out next week

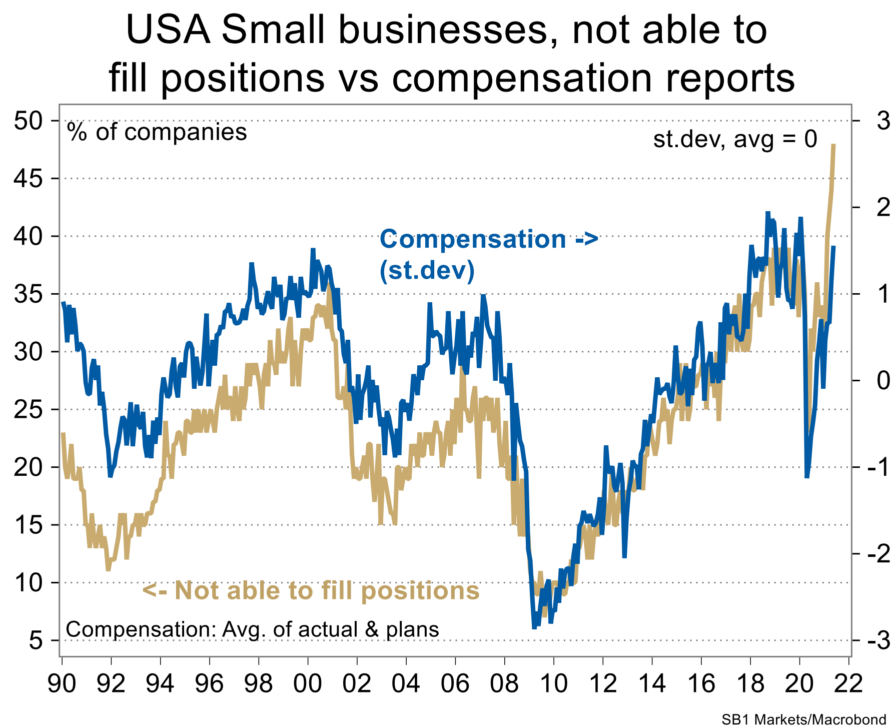


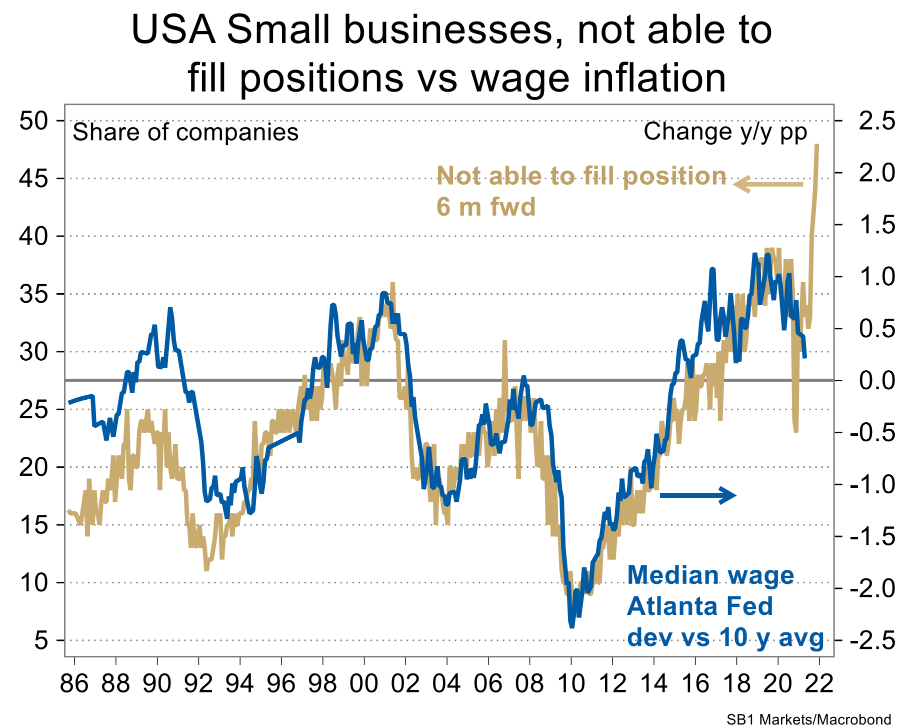


- There are more vacant positions than ever before – at the same time as the unemployment rate is still high, even if the participation rate is low

Wage inflation will accelerate, if labour supply does not increase sharply

Companies are reporting that they have increased compensation, and they plan to do more

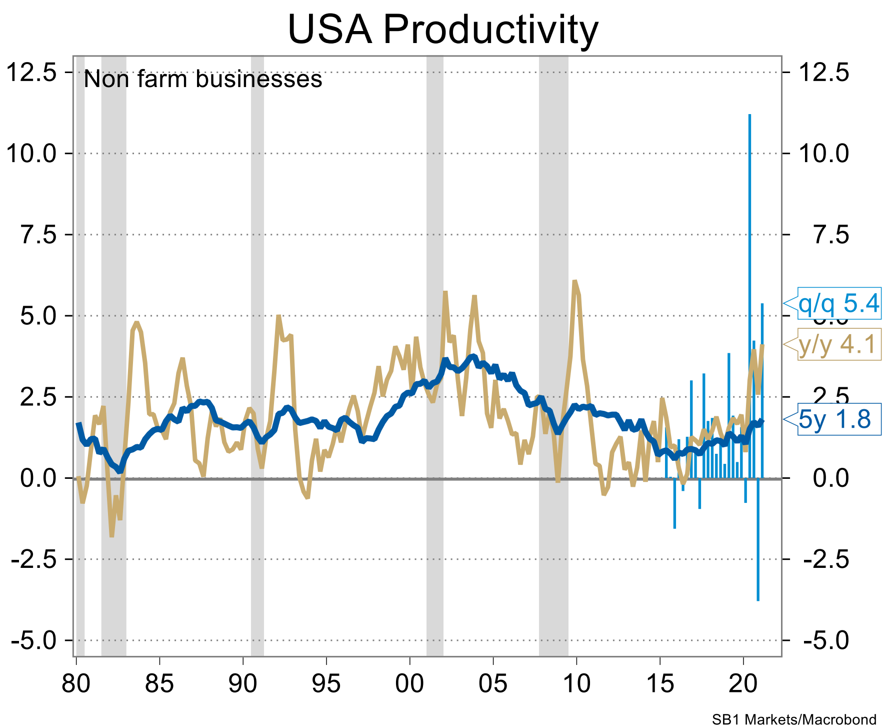


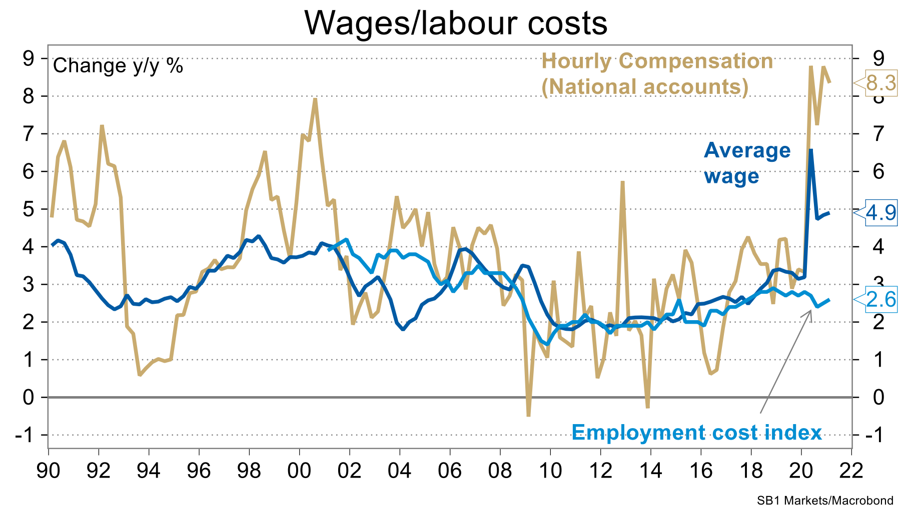


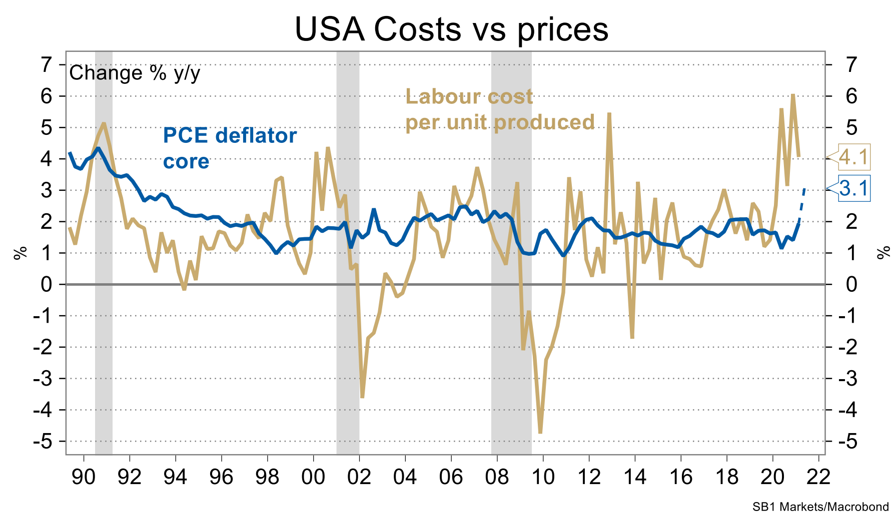
- The wage indices we trust the most now since they are not influenced by the changes in the employment mix (ECI & Atlanta Fed median wage index) are still not reporting any take off (check the ECI index next page)
- However, survey data and anecdotical evidence (from companies) are unanimous: Wages are sharply on the way up, especially on the lower steps of the steep wage ladder

Wild productivity & labour cost data; still challenging to decipher…

…we wrote two weeks ago. Seems like a sensible caution. Cost data were substantially revised



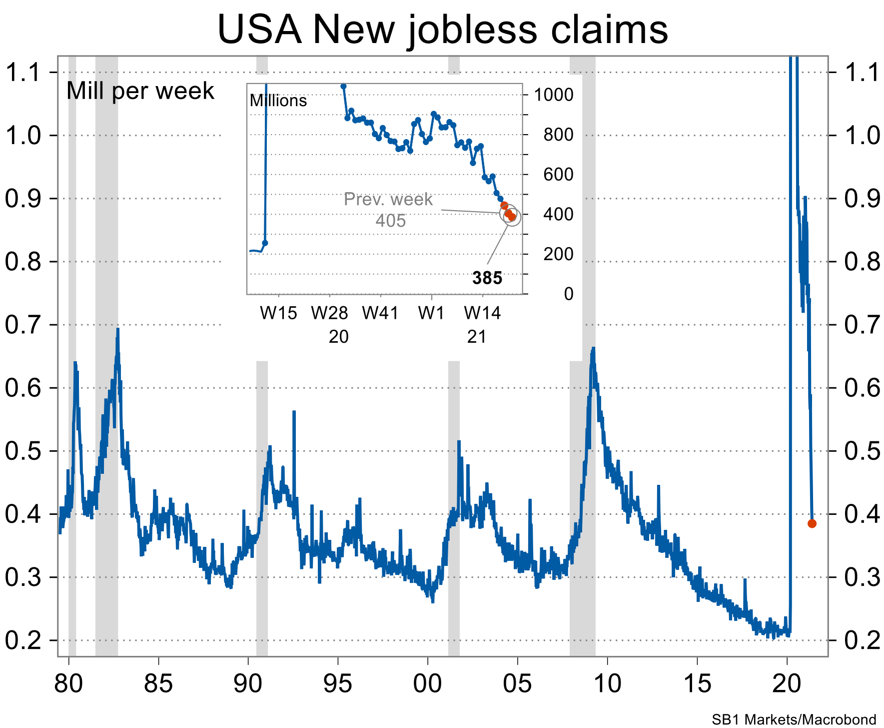


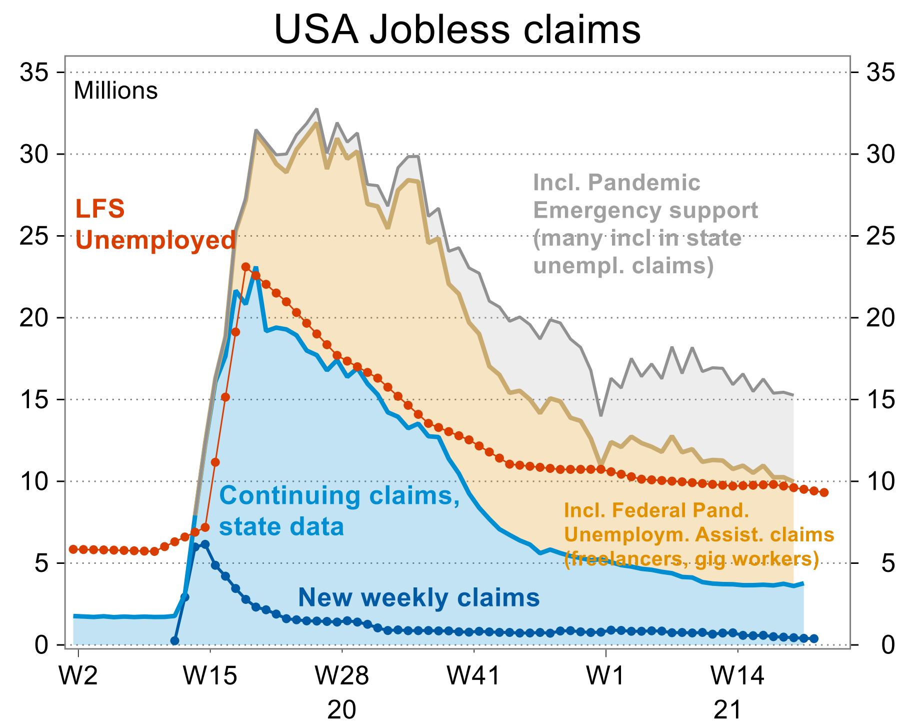


- .. And we are still not sure whether to have any confidence in them
- The y/y growth in average hourly compensation rate was lifted by 2.5 pp to above 8% in Q4 and Q1!
- <u>The unit labour cost estimate was lifted by the same amount, up to 4.1% y/y from 1.6%</u>
- We still suspect changes in the composition of production & employment during the pandemic make these data irrelevant. However, the unit labour cost estimate should <u>not</u> have been influenced by such changes! If these ULC data are for real, trouble ahead…

Jobless claims further down last week as economy opens up

Total continued claims are slowly on the way down – but still at a far too high level

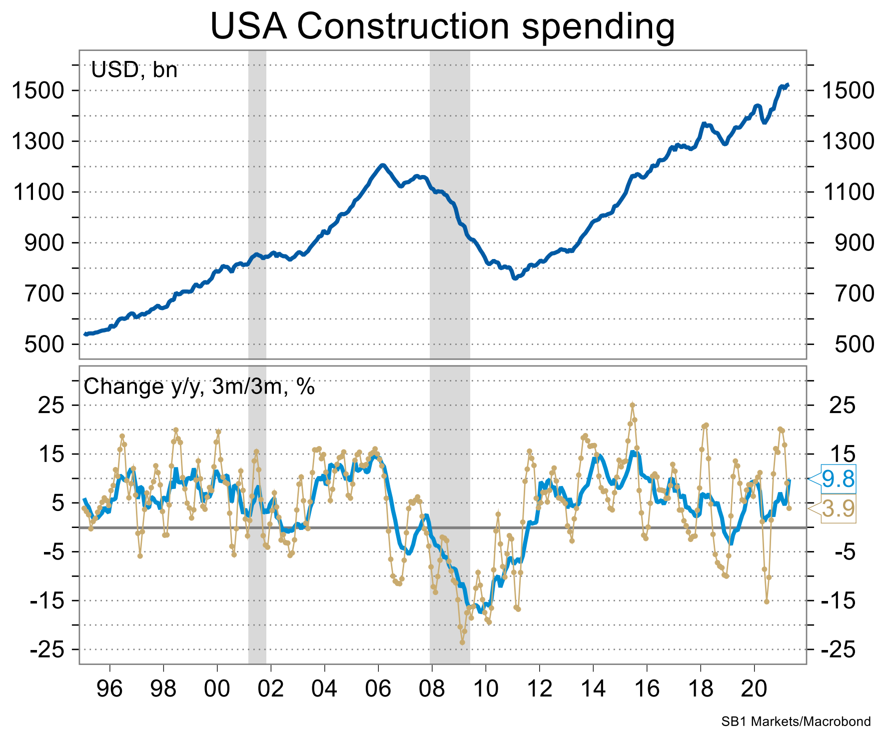


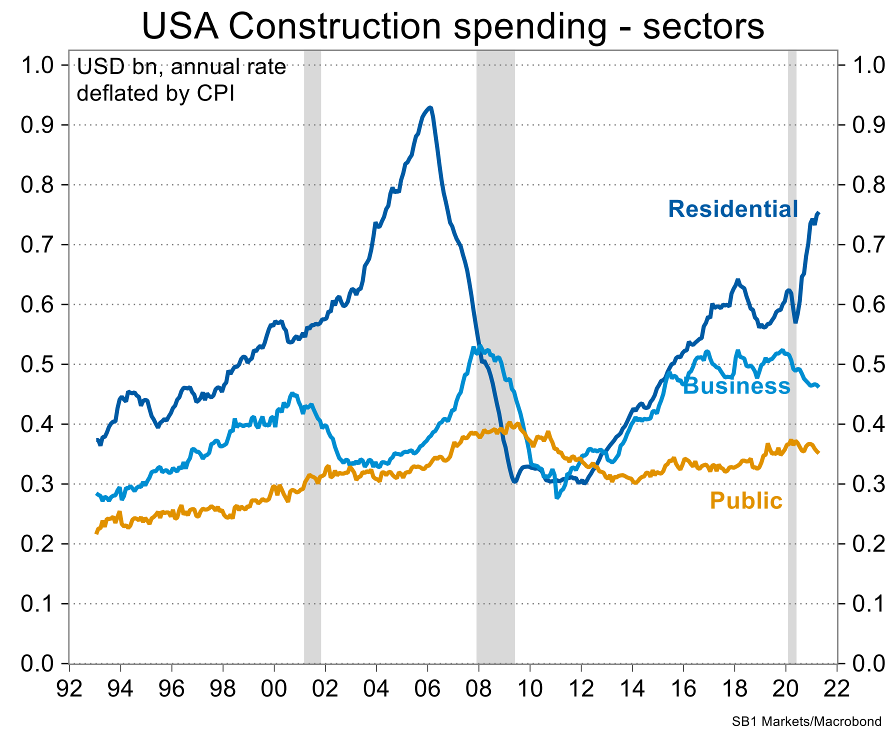


- **New claims** at fell to 385' from 405' the previous week, expected 395'. At the current speed (past 11 weeks), a <u>very low level</u> of new weekly claims (200') will be <u>reached in just 6 weeks time</u>
- **Ordinary continuing claims** has flattened as have the no. of receivers of the Pandemic Emergency Support Program (52 weeks instead of 26, and USD 300 extra/week) while the no. of receivers of the Pandemic Assistance Program (gig & freelancers) is declining steadily, but the level is still very high, 6.4 mill! These programs runs until September
  - However, at least 23 GOP led states have decided to, or are considering, abolishing these programs immediately. If they do, a natural experiment: Will cuts in benefits increase labour supply – which is badly needed? The next weeks should give some clues!

Moderate rise in construction spending – up 0.2% in April

Will businesses start to build again? Public construction is sliding down too

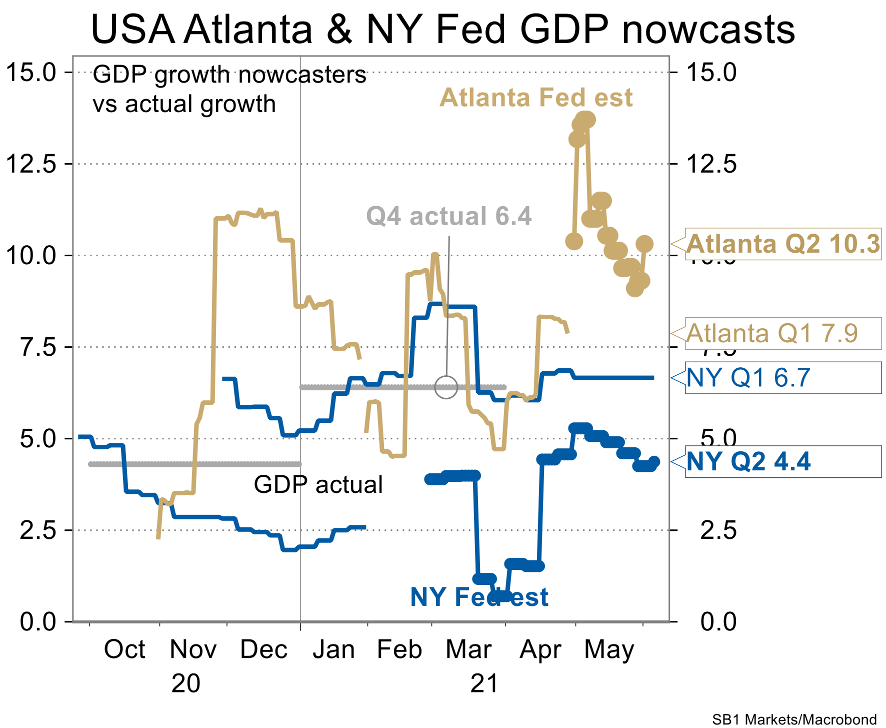


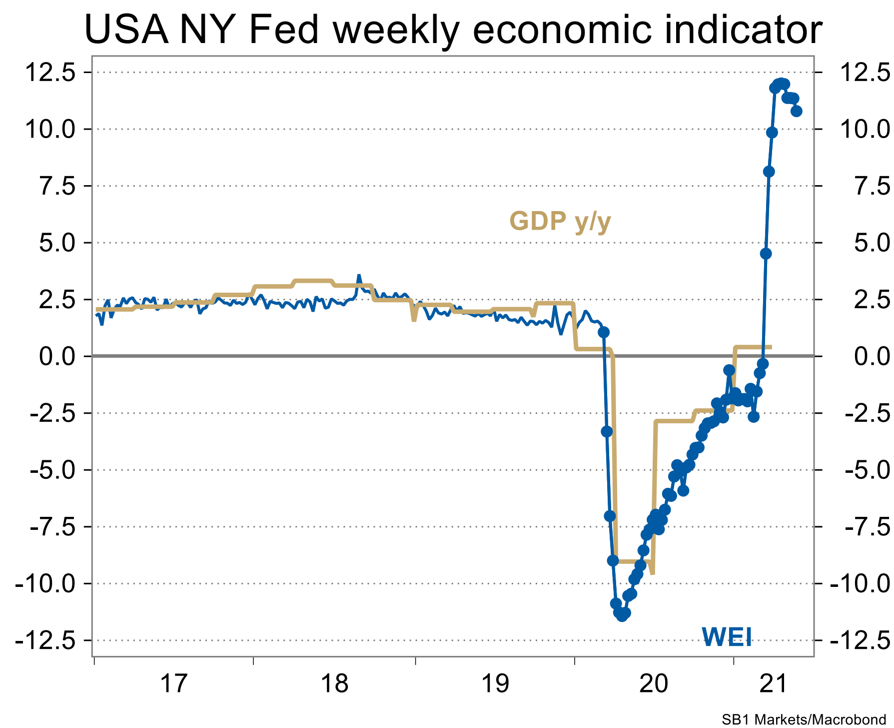


- The Covid crisis was not deep in the construction sector, and not long either – the level is far above the pre-pandemic level
- Construction spending was up 0.2% in April after +1.0% in March (revised up from 0.2%) , less than consensus at 0.5%. Spending is up 9.8% y/y (bur this number is useless as spending fell 3.4% m/m last April)
- Residential construction keeps increasing: up 1.0% m/m, and 28% y/y. Given the low inventory of housing for sale, this trend is likely to continue in the coming months – if lumber for building is available. Anyway, the value of construction will increase, as building costs are soaring, due to the shock to lumber prices (and higher cost for other building materials too)
- Spending on public projects is still falling, down 0.6% m/m

The nowcasters signal 4% to … 10% GDP growth in Q2

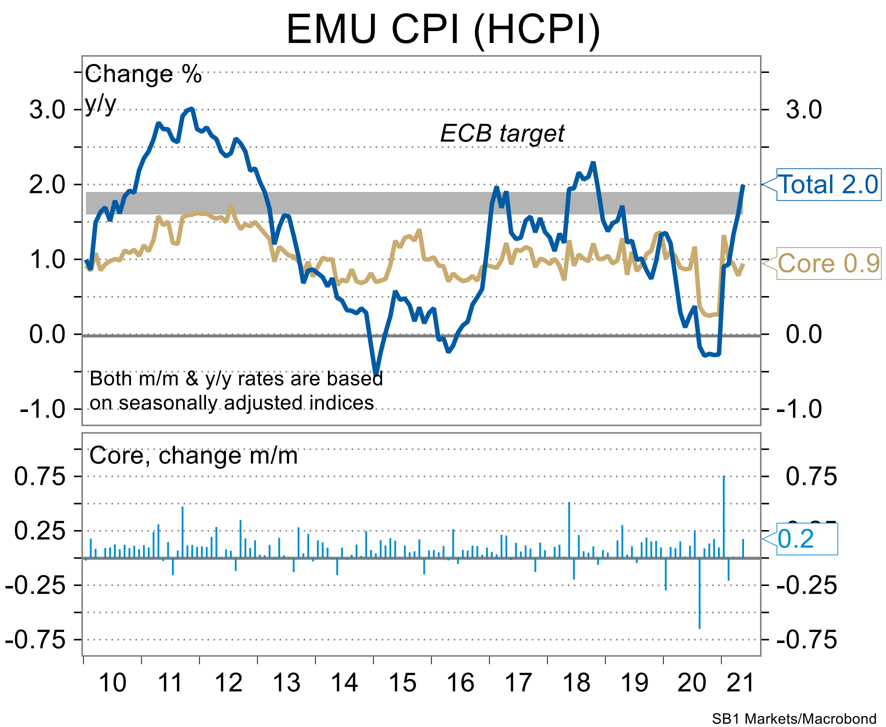
We think Atlanta Fed (10%) is closer to the ball in NY Fed (4%)

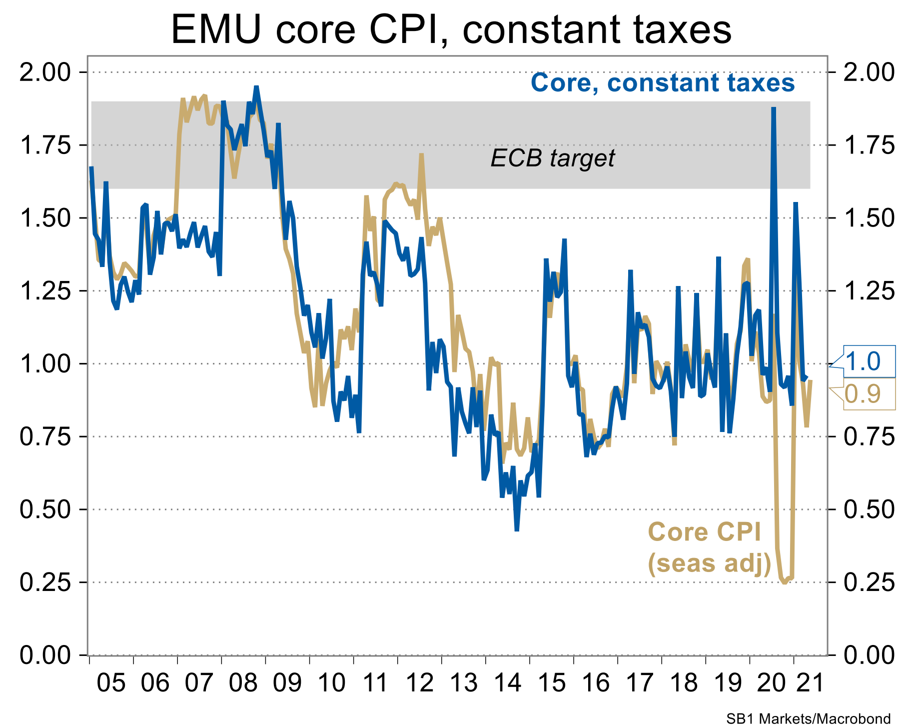




Eurozone inflation above expectations in May – and the total above the 2% line

Core inflation at 0.9% is still far below ECB's inflation target

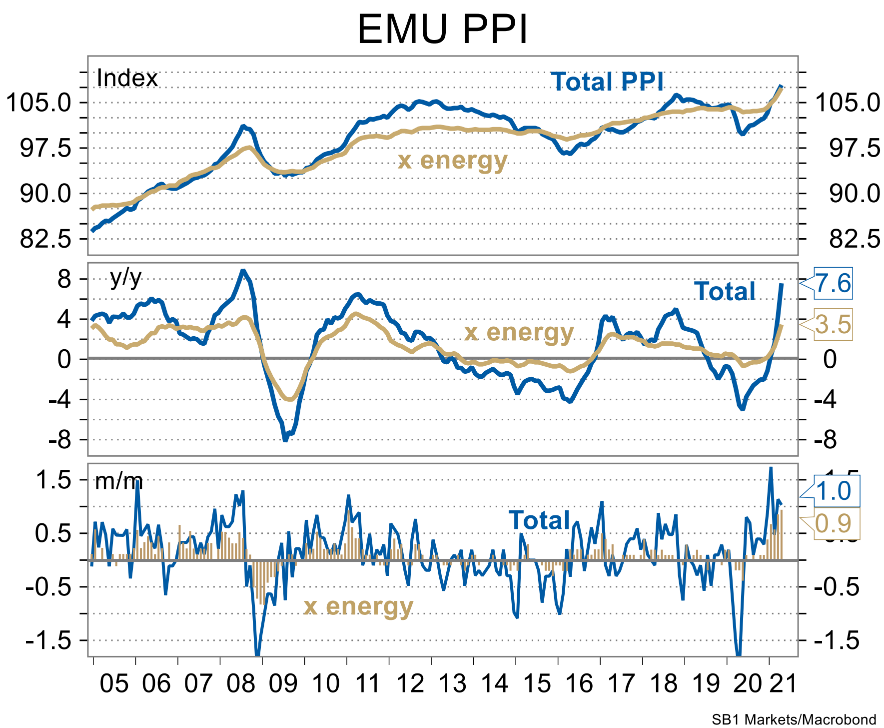


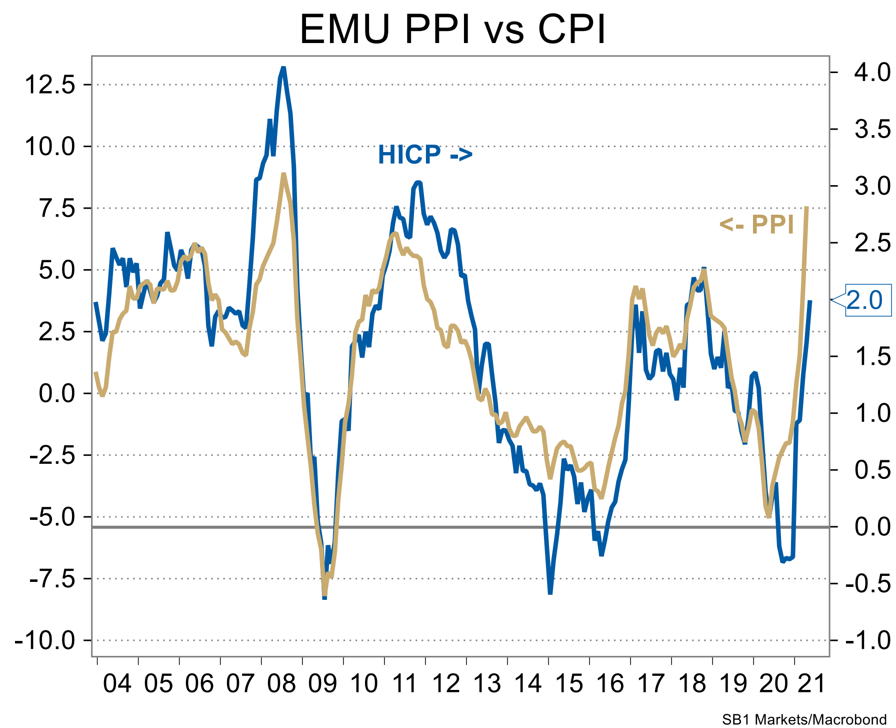


- **Core prices** were up 0.2% m/m and the annual rate rose 0.2 pp to 0.9%
- **Headline inflation** was up 0.4 pp to 2.0% in May. Energy and services prices were the biggest contributors to the increase in headline inflation. There are some base effect for the headline number (not the core), as the total CPI fell in May last year (they increased again in June & July, before falling sharply in August, due to tax cuts)
- **Adjusted for changes in taxes**, the core was at 1% y/y in April. The 'supercore' index is at 0.8% y/y
- Greece is still in deflationary territory, while the headline inflation is at or above 2% in many of the member countries, including Germany, Belgium, Finland and Spain (Although central banks usually targets core inflation, and this number is more sticky)
- **Wage inflation** in the EMU is still low, and negotiated wages are up less than 1.4%, the lowest on record

PPI sharply up in April, again. And it is not just energy

PPI up to 1.0% m/m, up 7.6% y/y, expected 7.3%. Signals somewhat higher CPI inflation



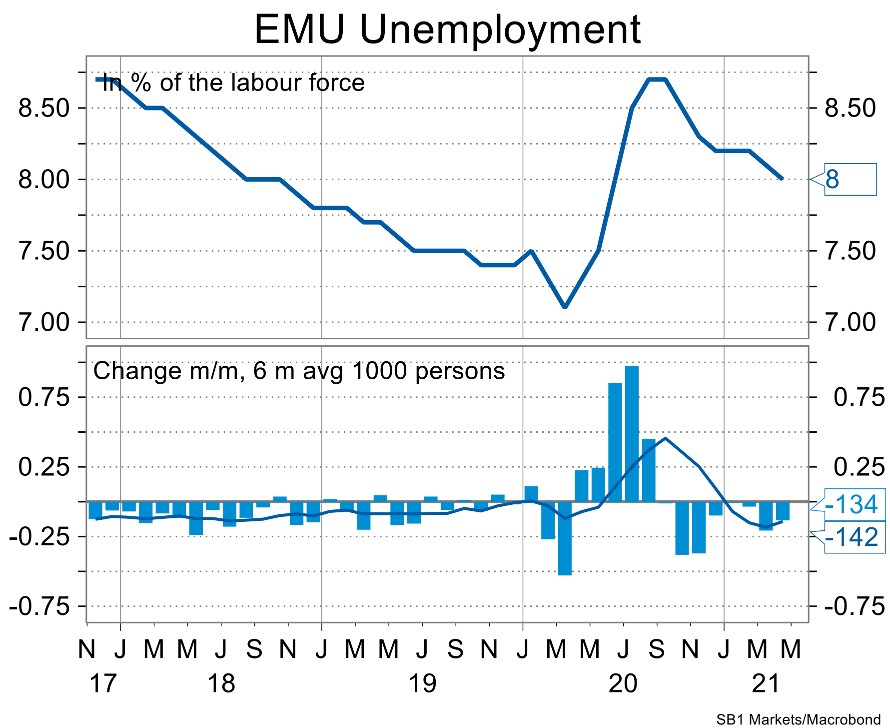


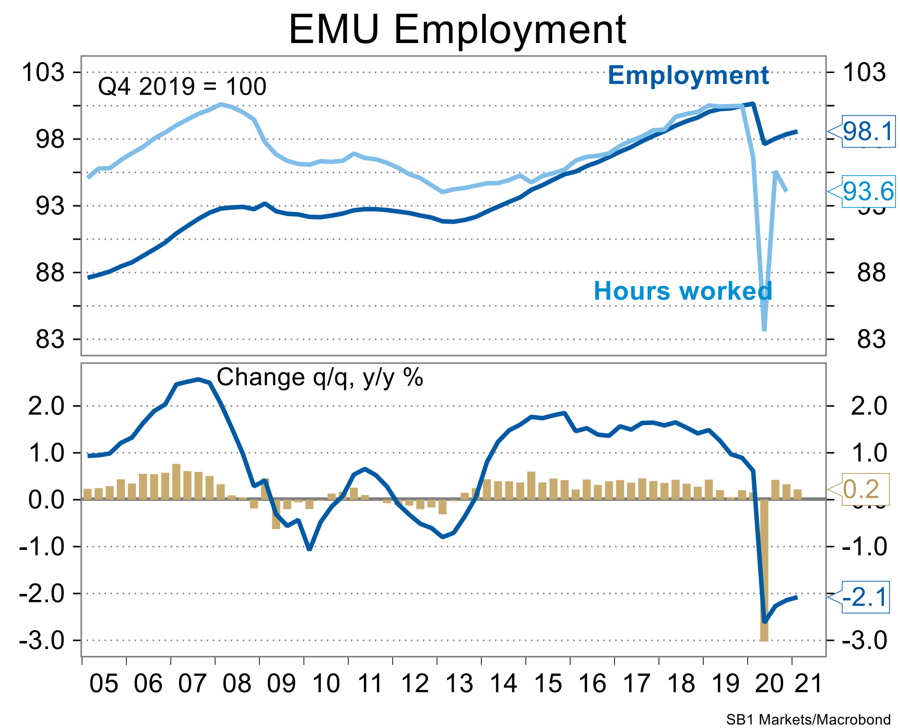
- The PPI ex energy added 0.9% in April, and is up 3.5% y/y, highest since 2011 – following a rapid rise m/m the past 5 months

SpareBank 1 MARKETS

Unemployment down to 8% in April, from 8.1%

Unemployment stats are probably still 'useless', due to gov. employment subsidies/furlough schemes

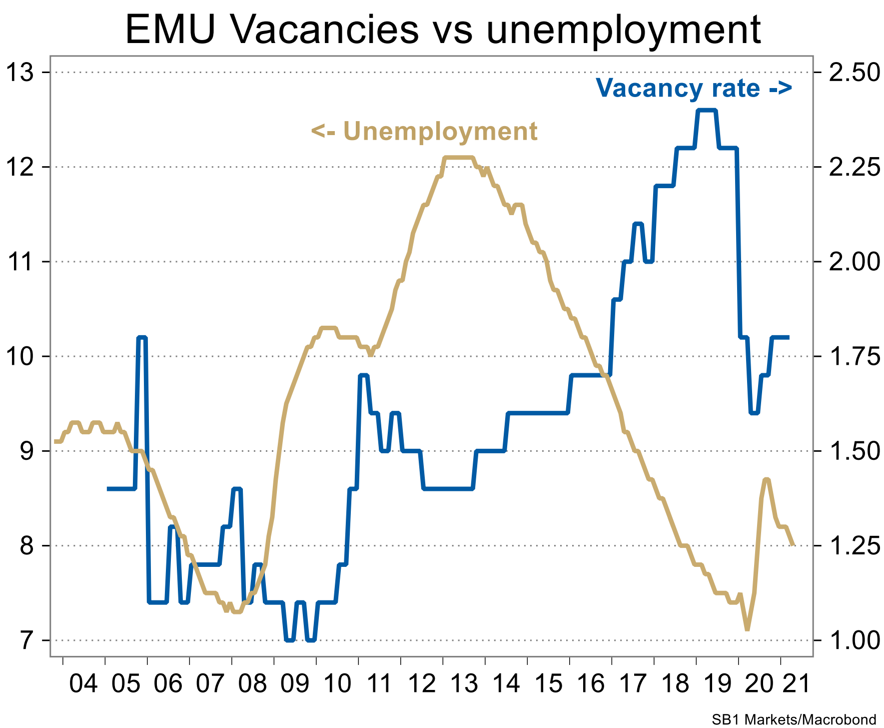


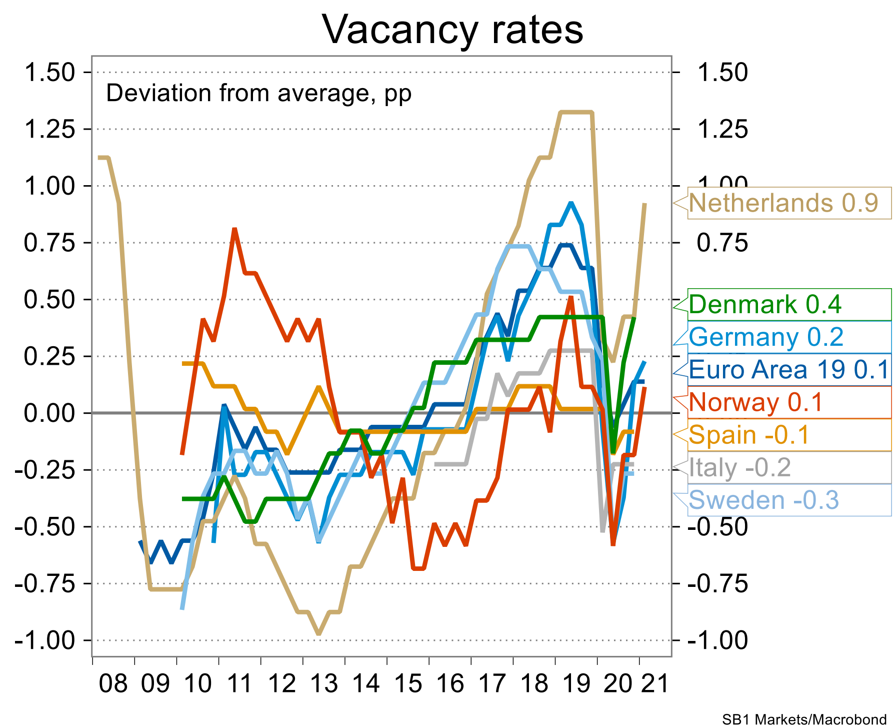


- The number of unemployed is now 1.4 million higher than in April 2020
  - » In Europe, companies are partly paid to take care of their workers during the lockdown. These government employment programmes makes unemployment stats useless as a gauche of real demand for labour (but the impact on household income is better mirrored by unempl. rates)
  - » Moreover, those who are furloughed are not counted as unemployed the first 3 months in the labour force surveys (like in the Norwegian 'AKU')
- The best proxy for the real unemployment rate, at least vs. demand for labour, is the number of hours worked. In Q4, they were down 6.4%, while the no. of employed was down just 1.9% - as average working hours were cut substantially. Q1 hours worked will probably be published this week, and we aim to take a closer look at wages & unit costs in EMU

Businesses are still able to fill vacancies – no acute shortages of labour

No indications of more mismatch in the European labour market

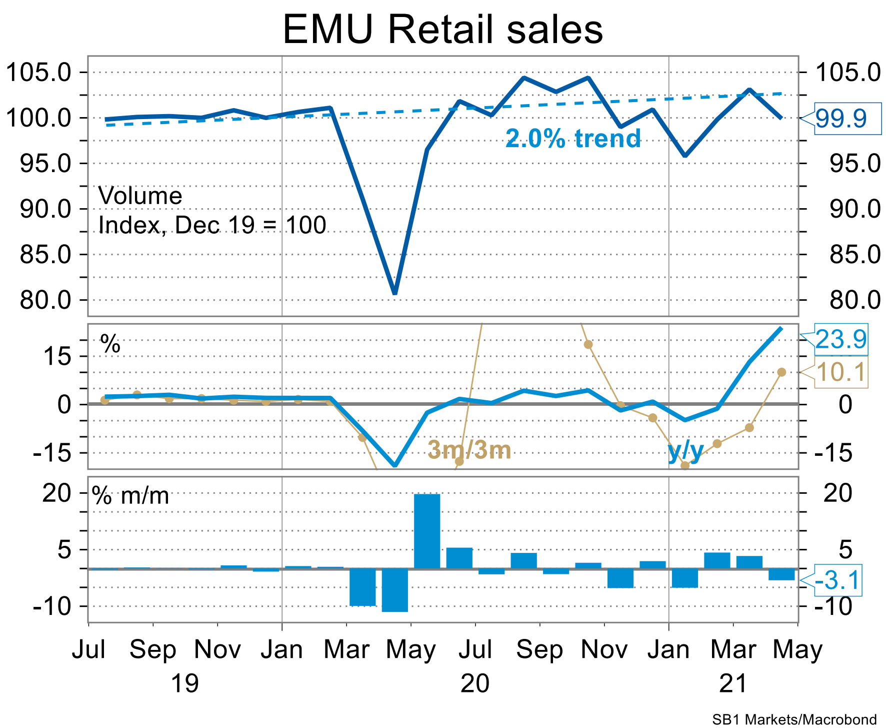


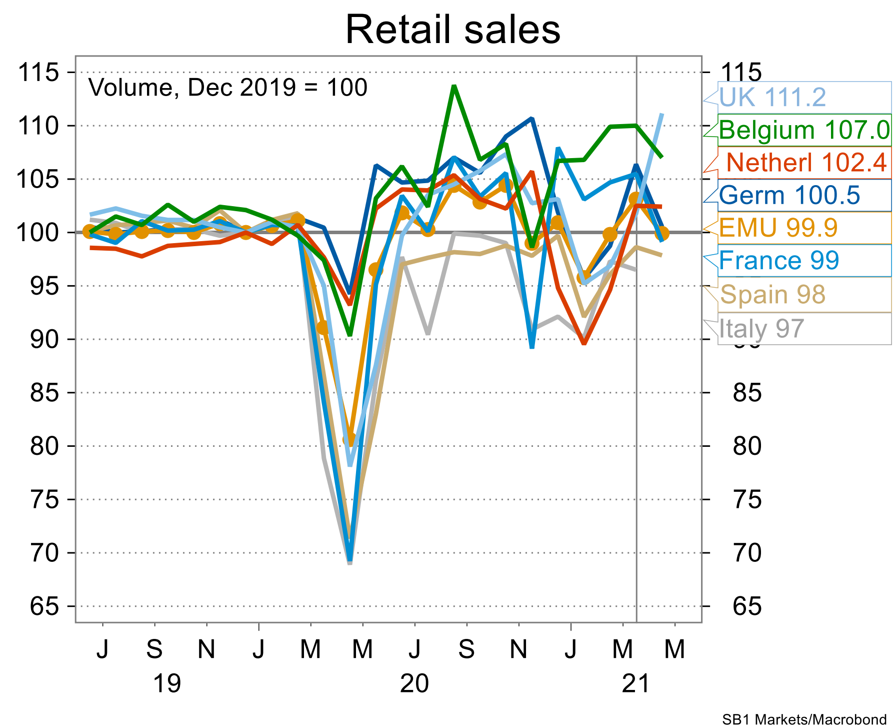


- We are not sure if these data are well collected but they seem to be reasonable well behaved
- Denmark is reporting a record high vacancy rate, others not

Eurozone retail sales back below pre-Covid trend in April

Sales fell 3.1%, 2 pp below expectations





- Sales were down 3.1% m/m, from a 0.5 pp upward revised 3.3% growth in March.
- Sales fell by 6% in France, 5.5% in Germany, and 0.9% in Spain. Italy has yet to report its figures
  - » Sales in Spain & Italy remain below the pre-pandemic level. Lack of foreign tourist probably explains much of the shortfall. Sales are higher elsewhere
- Sales fell sharply even if restrictions in EU were eased to April from March (Oxford stringency) and mobility rose. However, some specific restrictions may have kept a lid on retail spending in April. Anyway, restrictions were eased further in May (and now into June), mobility is increasing, savings are strong, and consumer confidence is above pre-pandemic levels and far above average. Most likely, far better spending data the coming months

Highlights

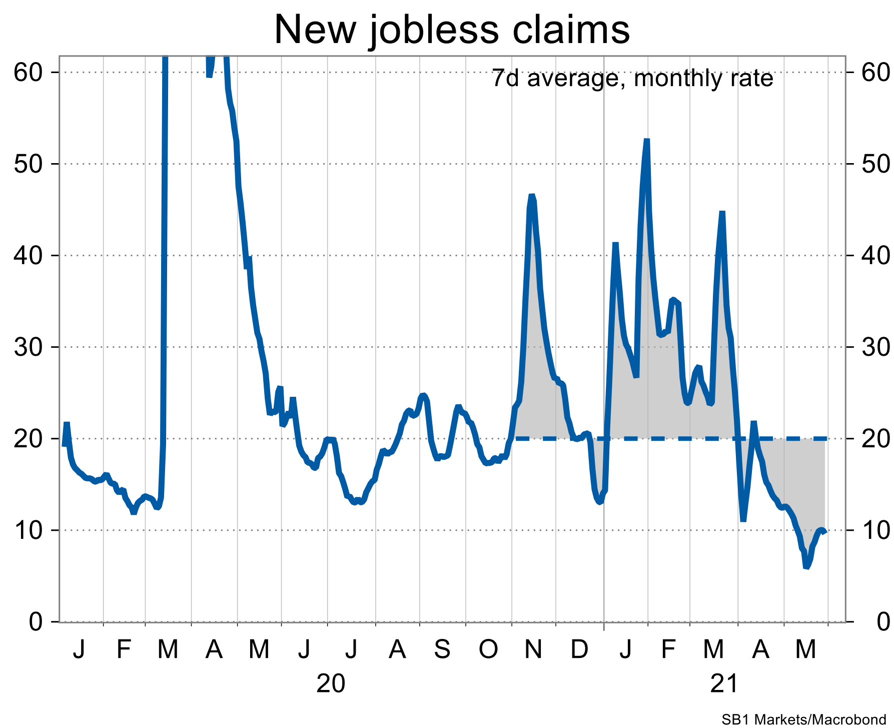
The world around us

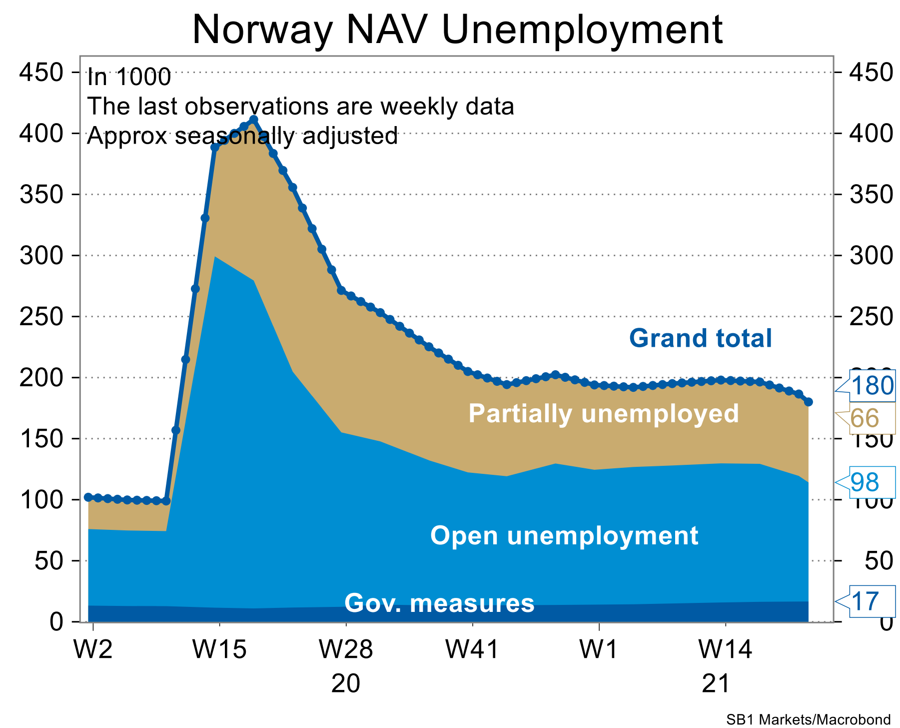
The Norwegian economy

Market charts & comments

‘No’ new jobless claims, unemployment is heading further down

Total unemployment fell by 12’ (seas. adj) in May, and the pace is not slowing - some -3’ last week

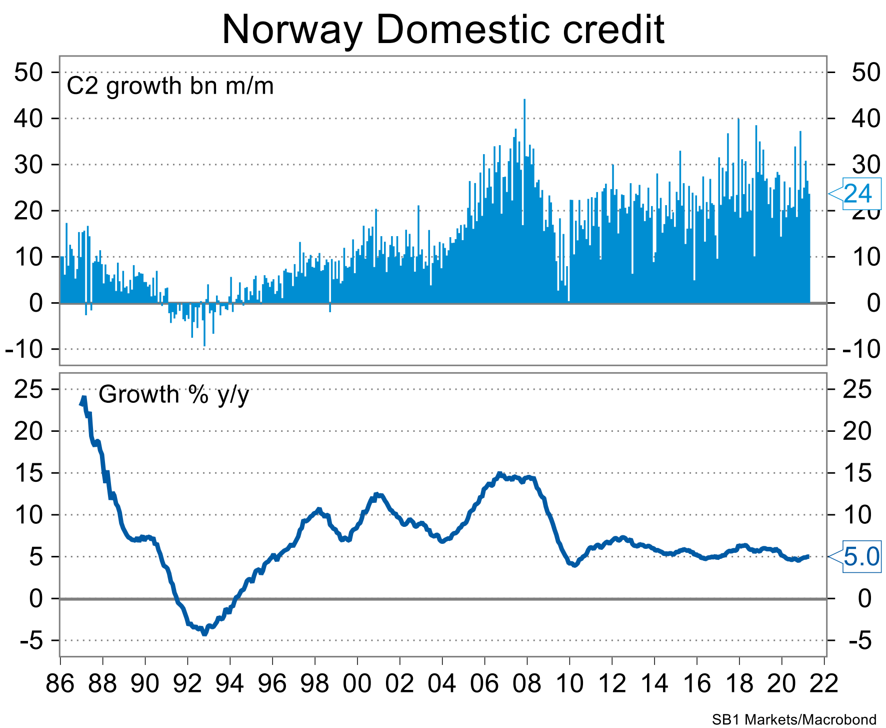


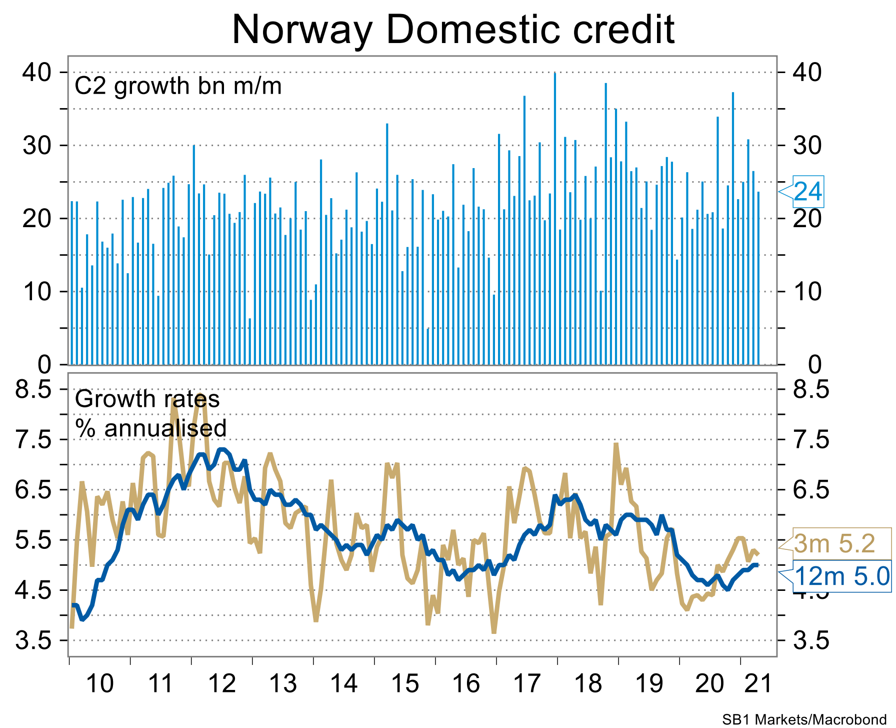


- We expect a rapid decline in unemployment the coming weeks/months as well

Credit growth flat at 5%, no boom to be seen

Total domestic credit growth (C2) unch. at 5.0%, due to lower local government borrowing

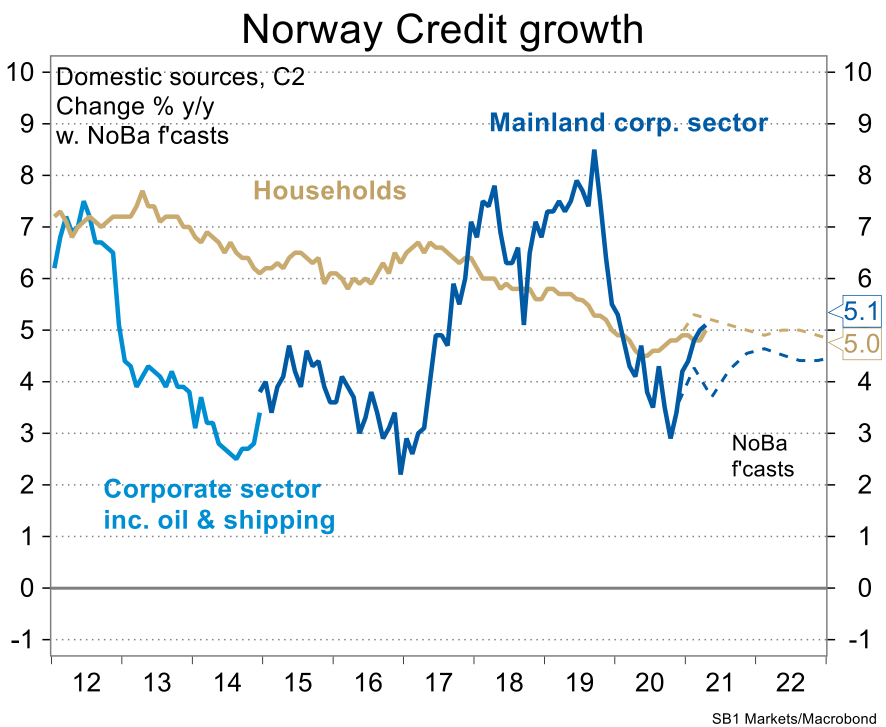


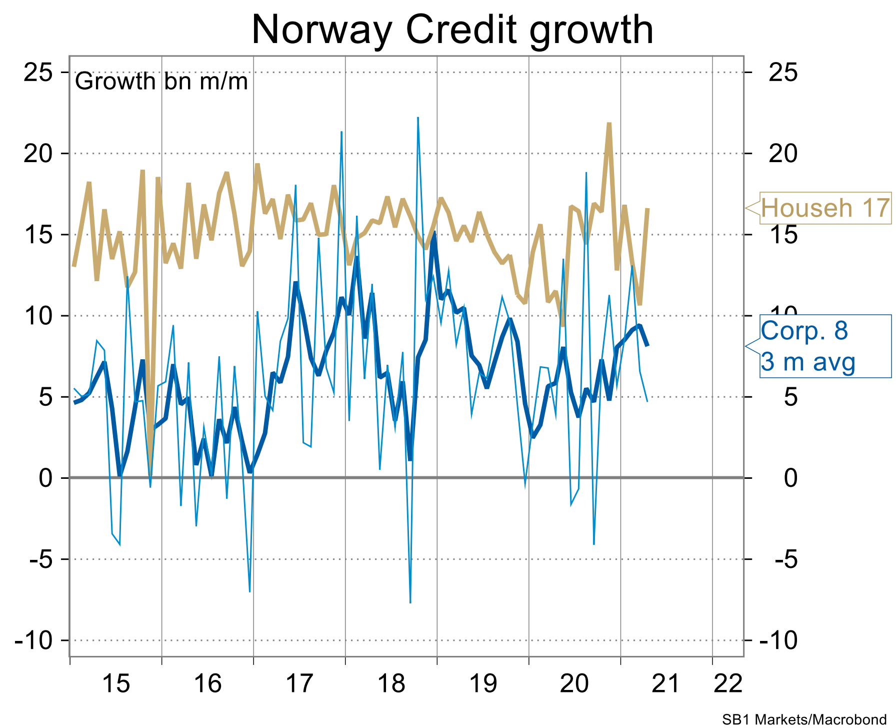


- **Total domestic debt** (C2) rose by NOK 24 bn in April, down from 28 bn in March, we expected NOK 25 bn. The annual growth rate was unchanged at 5.0%, as we assumed (consensus 5.1%). We are not witnessing a any credit boom, even if growth is accelerating slowly
- **Household credit** rose by NOK 17 bn in April, 5 bn more than in March, we expected 14 bn. The annual rate climbed 0.1 to 5.0%, we expected 4.9%. The underlying rate is slightly above 5%, somewhat higher than a reasonable estimate of long term nominal income growth – but not much
- **Corporate C2 credit**, rose by NOK 5 bn (down from 7 bn), we expected 8 bn. The annual growth rate was rose 0.1 pp to 4.4%. **Mainland corporations** increased their debt by 5.1% y/y (from 5.0%) vs Norges Bank's 3.7% Q2 forecast (published in March)
- **Local governments** borrowed less in April – NOK 2 bn down from NOK 9 bn in March. The annual growth rate is at 7.8%, miles above inc. growth

Credit growth increased for both corporates and households in April

Moderate growth in household debt, below NoBa's estimate

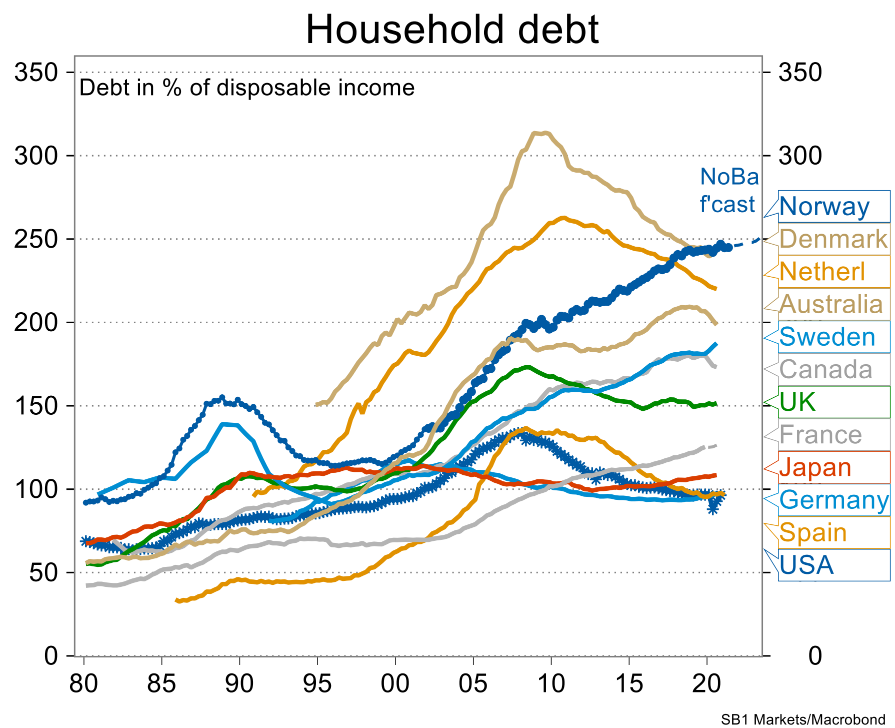


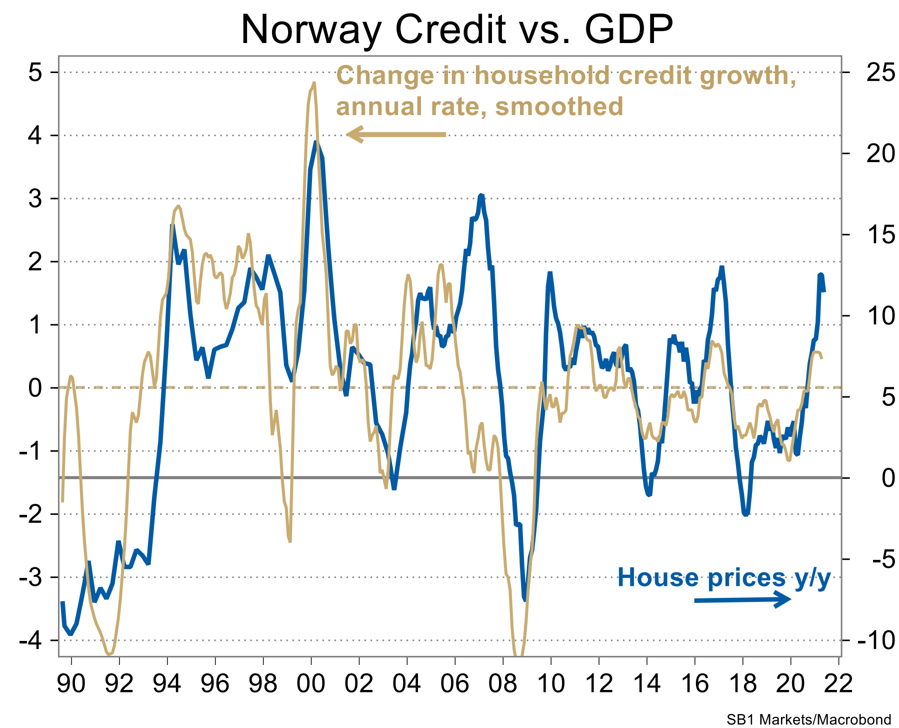


- Following a mild slowdown during the corona spring, **household credit** growth has now recovered. The annual rate is 5.0% in April, up from 4.9% in March and 4.5% last summer. Underlying growth recent months has fallen to below 4.5% - there is no "take-off". Norges Bank expects a 5.2% annual growth rate in Q2 on average, which seems a bit too aggressive
- Monthly growth in **corporate credit** slowed through 2019 but accelerated during last year, and further in Q1, and the y/y rate rose 0.1 pp to 5.1% in April (and up from 2.9% last Oct). Norges Bank estimate for Q2 is an annual rate of 3.7%

SpareBank 1 MARKETS

The household debt/income at ATH, and now finally the highest in the world!

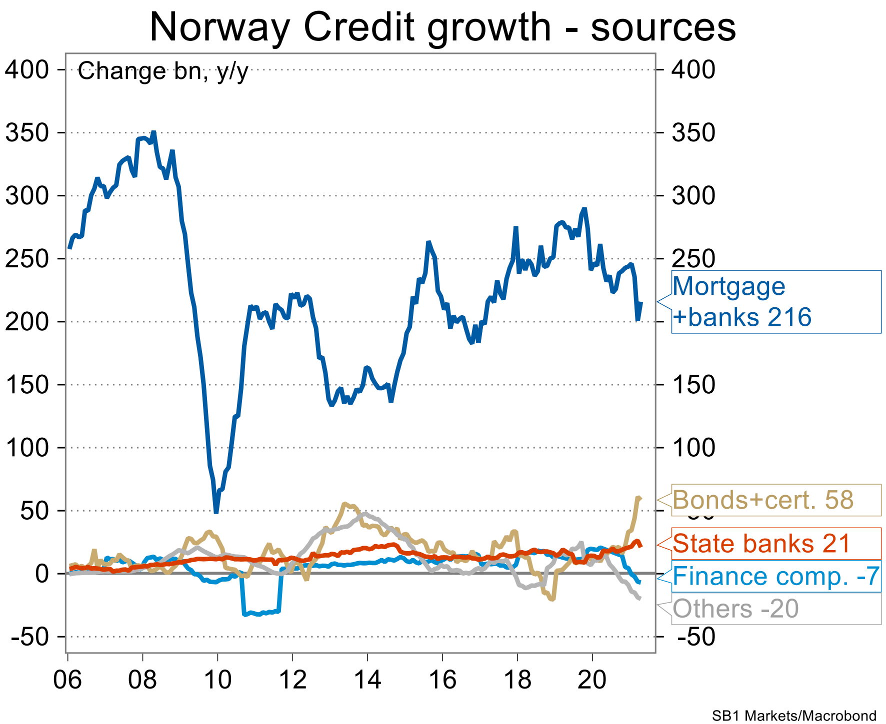


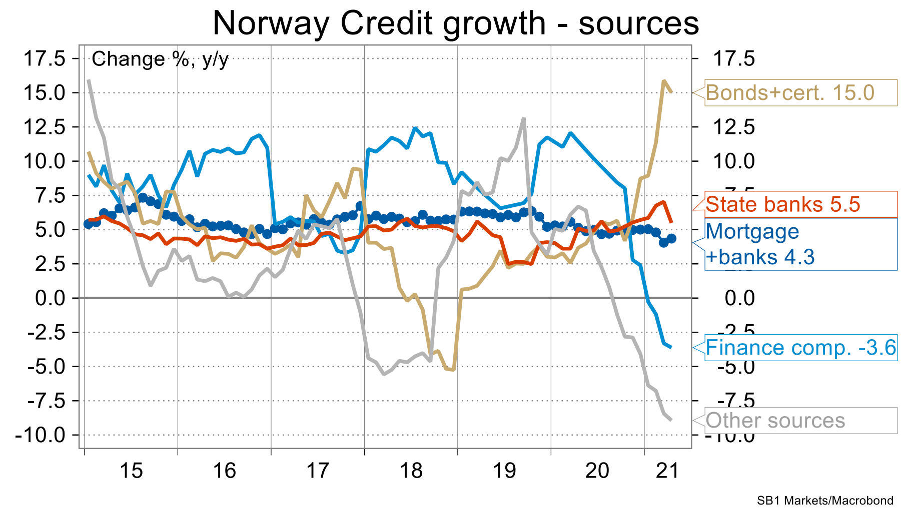


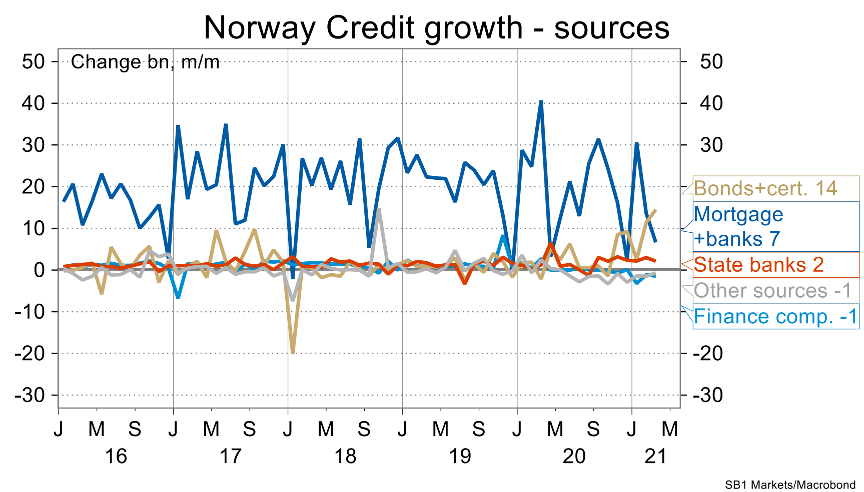
- Norwegians households' debt steady been growing faster than income but just marginally since early 2018
- A slow retreat in the debt ratio will be healthy in the long run, and if it is gradual it will not be too painful - even not for the housing market
  - » *Changes* in credit growth is usually correlated to economic growth and asset markets – including the housing market – if the decline in the growth rate moderate, say some 1 pp per year
- Debt/income ratios in many countries have been influenced policy measures vs. households during the pandemic

More bonds for gentlemen; up NOK 58 bn and 15% y/y

But banks and their mortgage institutions are totally dominating the domestic credit market





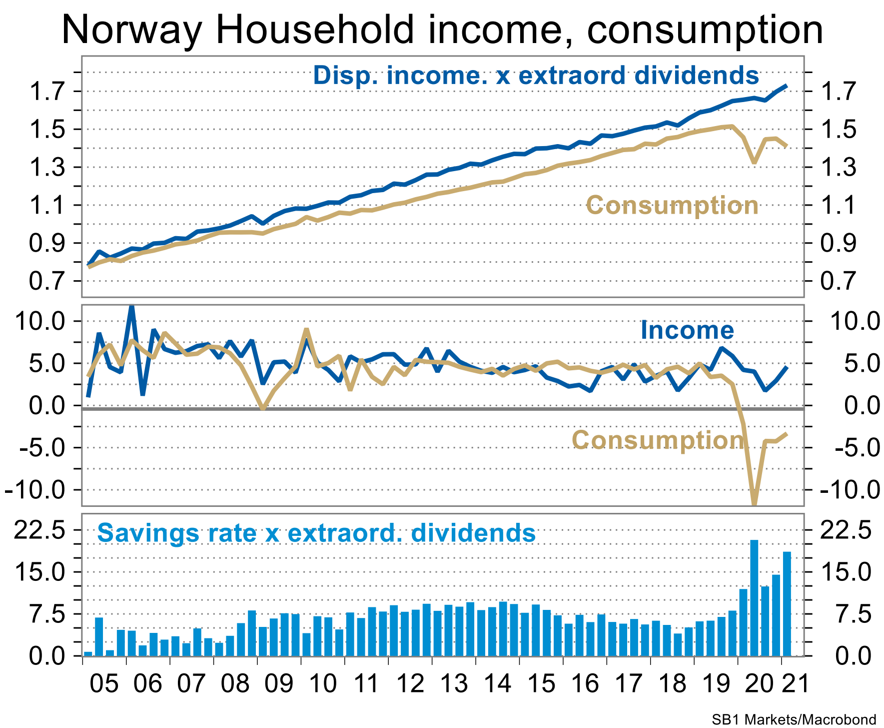


- Net issuance of bonds have increased recently too – the stock is up over 15% y/y, highly unusual
- Banks/mortgage companies are up 4% y/y
- Finance companies and 'others' are reducing their debt
  - » Both insurance/pension funds as well as Statens Lånekasse, Eksportkreditt is included in our residual 'others', but just the sum of SL & Eksportkreditt is down

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

Savings rate up by 4 pp to 19% in Q1!!

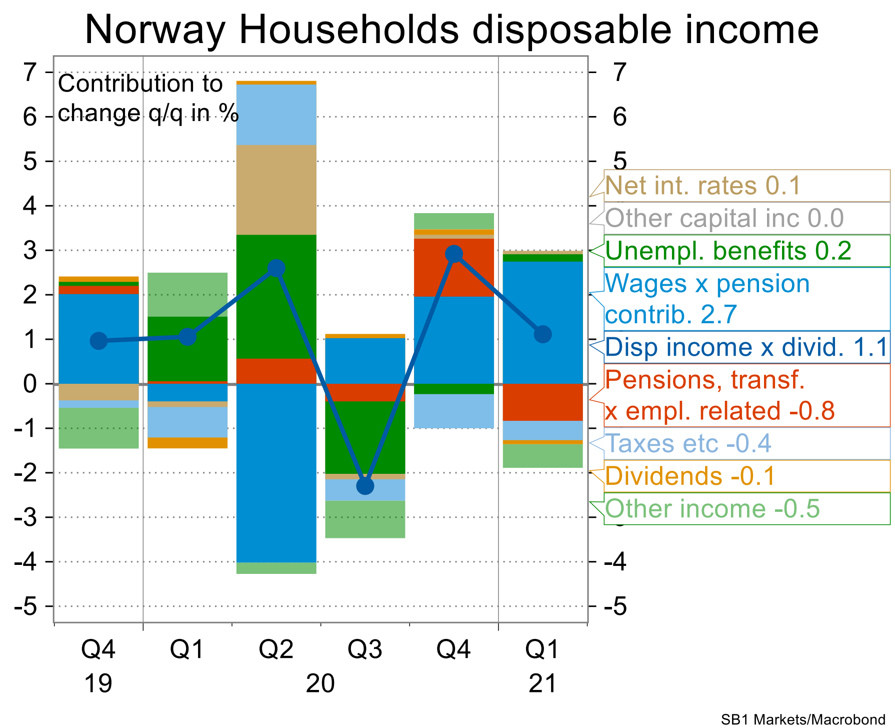
Consumption fell by down 2.9 in Q1, while household income grew by 1%

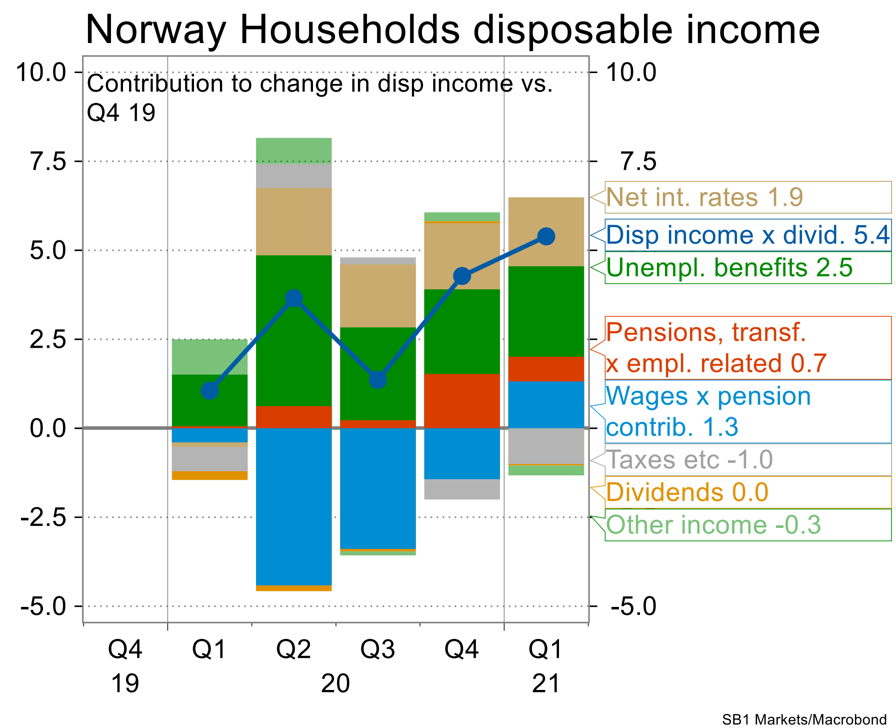


- **Household disposable** income rose by 1% (nominally) q/q in Q1, slightly less than we assumed – and the level is up 4.3% y/y. In Q1, the savings rate rose to 18.9% from 15.4% in Q4, we expected 19.6%. Dividends are close not normal, and the savings rate x extraordinary dividends is at 19.2 (as shown at the chart to the left)
- Since Q1-20, the savings rate has been 8½ pp higher than normal (avg 2019). The savings rate will be far above a normal level in Q2 as well, as consumption will not grow that fast. If so, households will at the end of Q2 have accumulated extra net savings (national accounts calculated) equalling 12% – 13% of their disposable income, or well above NOK 200 bn. A decent 'Wall of Money'.
- In aggregate, households have not reduced their debts, and just a minor part of the extra savings have been invested in new homes, so their financial assets have increased substantially, like bank deposits.
  - » By April, bank deposits were some NOK 90 bn higher than the pre-covid trend (the Q1 data for the other elements of their financial accounts will be published this week)

Wage revenues turned positive vs the pre-pandemic level, total income +5.4%

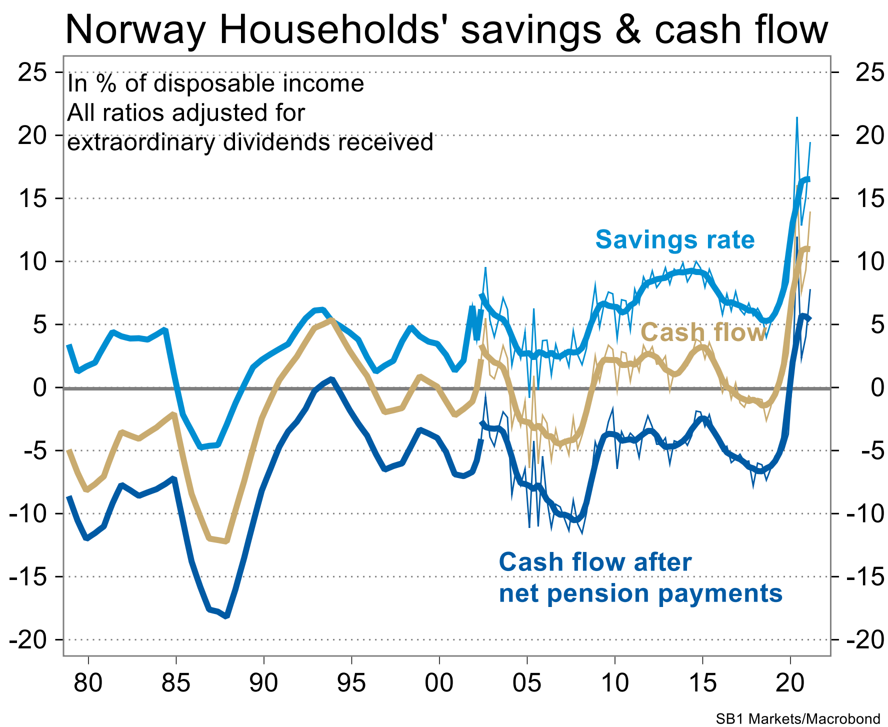
Households are compensated by higher unemployment benefits but no 'stimulus checks'

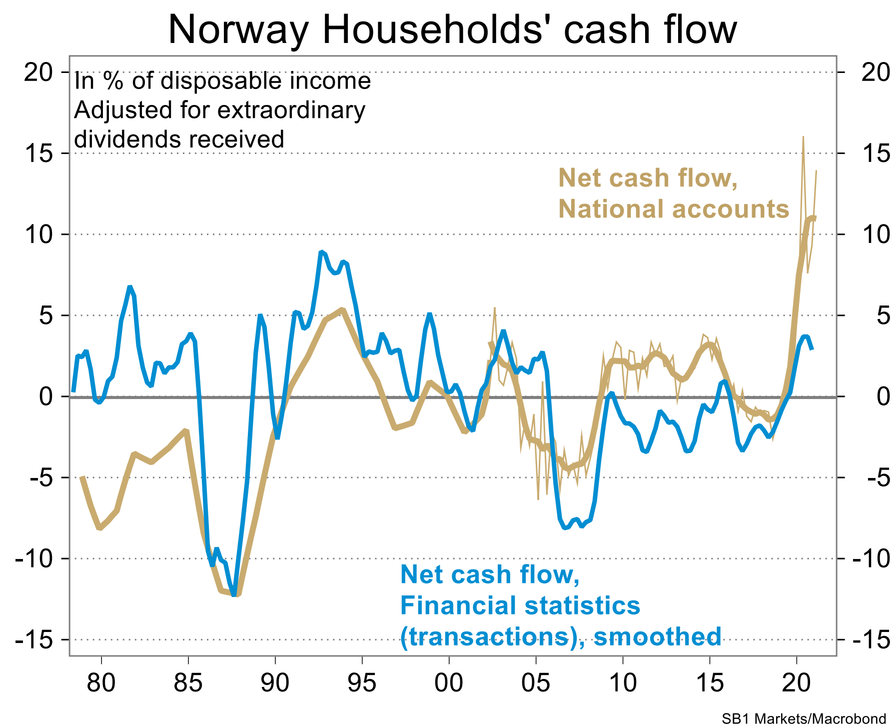




- Household net disposable income (before adjustments of pension rights), x dividends rose 1% in Q1, and are up more than 5% since Q4 19
  - Wage income grew sharply in Q1, more to come in Q2. Since Q4-19, wage revenues are up equalling 1.3% of disposable income
  - Unemployment benefits has contributed 2.5 pp and total 'labour' income by 3.8 pp
  - The decline in interest rates has lifted disposable income by 1.9%!

Huge cash surpluses in the household sector, even after pension payments



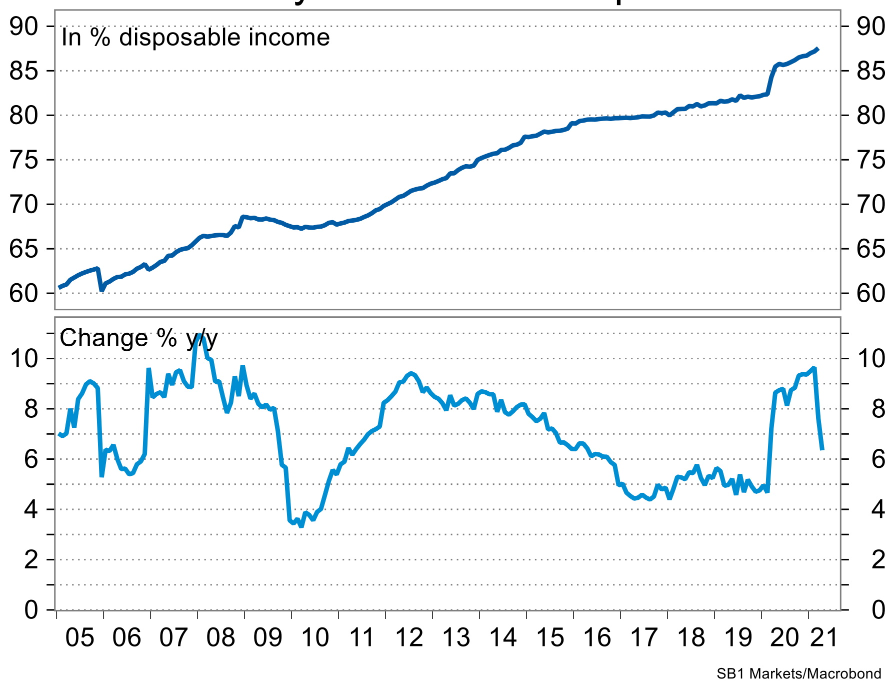


- As households normally invest more in new homes than the depreciation on their old ones (which is included in total consumption), the cash flow is lower than their savings. In addition, households have to fill up their pension contracts, and the 'free' cashflow is even lower. <u>However, this free cash flow is now in positive territory!</u>
- <u>Financial accounts</u> are not yet published for Q1 but so far they have not fully recognised the increased savings reported by National Accounts. Normally, such gaps have been closed due to changes in the National account figures, and not in Financial Accounts. More on this gap in next the next Macro Weekly, as Q1 Financial Accounts will be reported this week

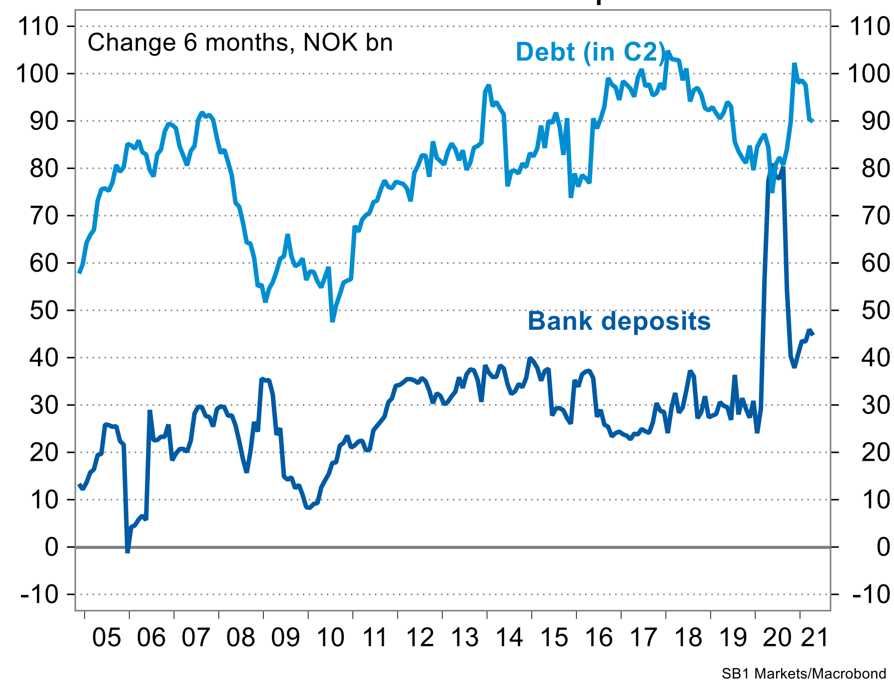
Households have increased bank savings by NOK 70 bn more than normal

-- and at one stage they increased their deposits more than their loans. But no more

Norway Households' deposits



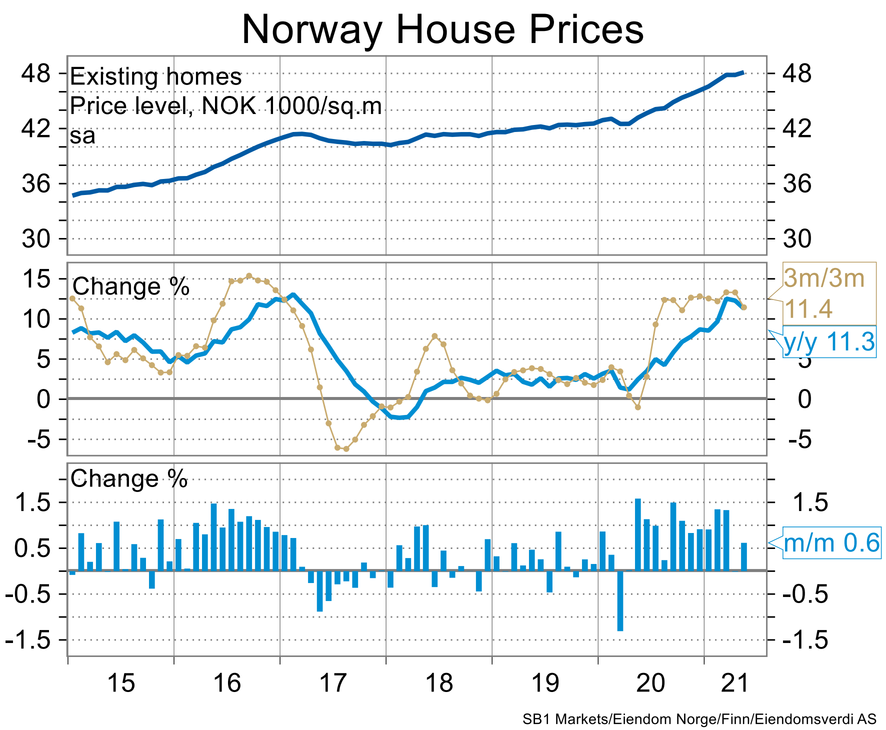
Household debt & deposits

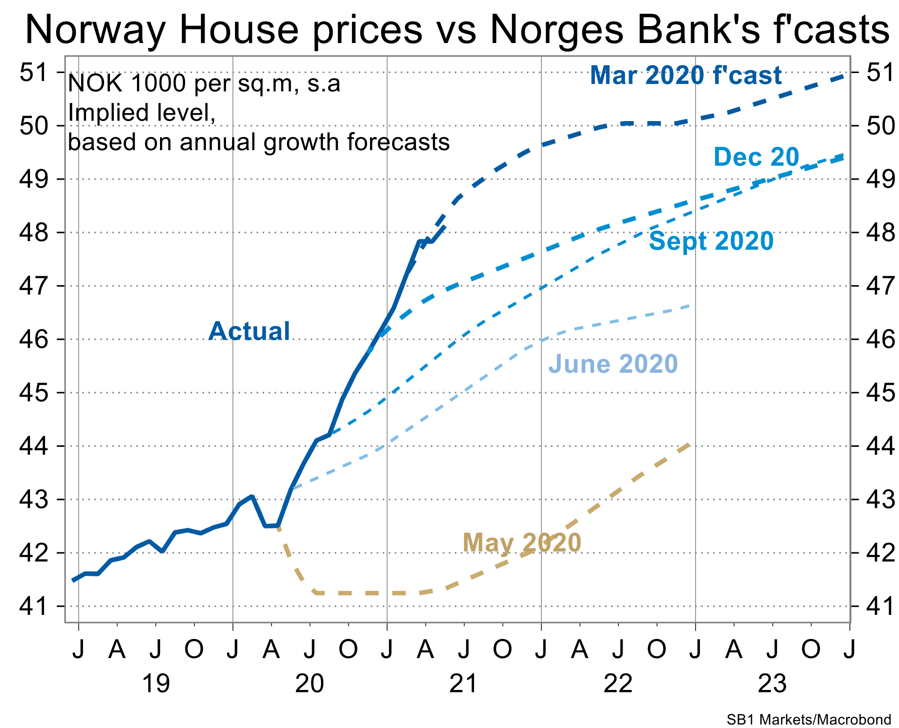


- Households' deposits are now growing by some 6% - 7%, 2 pp more than in the years before the pandemic
- Households' borrowing are growing at some 4.5% but since debt is far larger than deposits, measured in NOK, household debt is growth much faster than household deposits

House prices up again in May. Outside Oslo, that is. Oslo down for the 3rd month in a row

Prices up 0.6% in May, we expected 0.2%, consensus was probably even lower



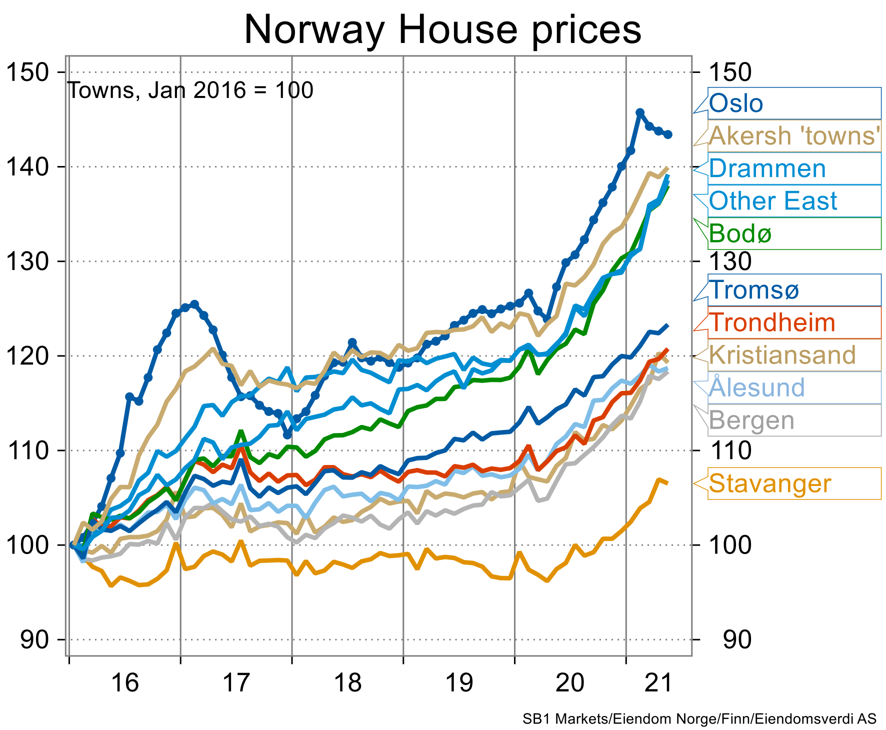


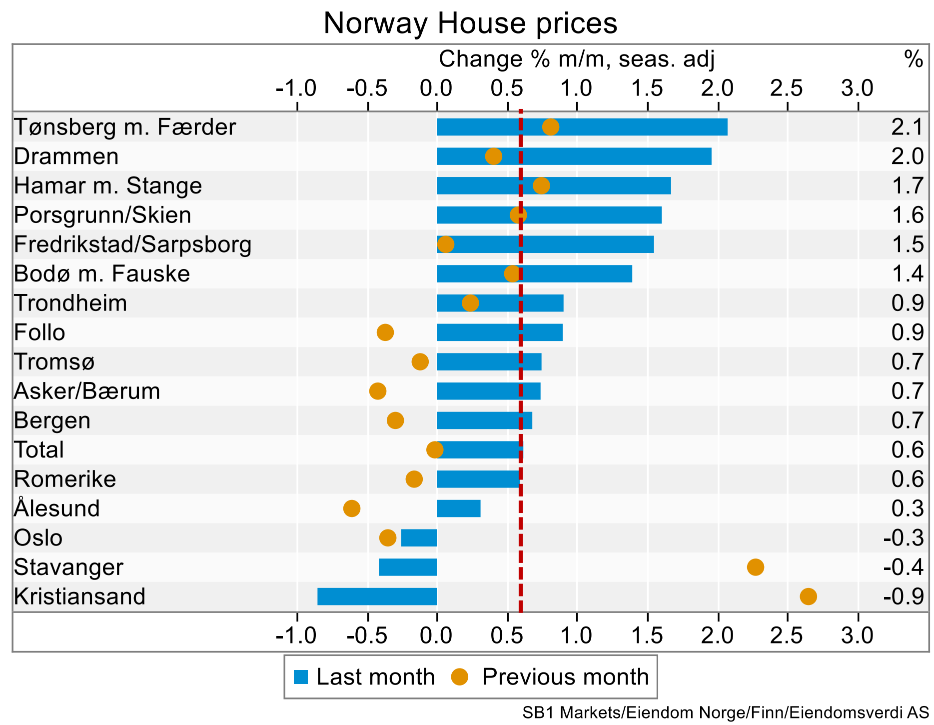
- **House prices** rose by 0.6% seas. adj in May, up from flat (revised from -0.1%) in April. We expected 0.2%, NoBa 0.7% (March MPR est). Prices are 0.5% lower than NoBa expected. Prices are still up by 11% 3m/3m (annualised), stable since Dec. Prices are up 11.3% y/y
- Oslo prices fell in both March, April and May, but not by more than 1.6% . Prices fell in Kr.sand and Stavanger too, but rose elsewhere, on average by 0.9%. Outer Eastern towns are reporting the highest monthly figures as well as 3m/3m growth rates. Costal cites from Kr.sand to Tromsø (x Bodø) are relative losers over the recent year
- The **number of transactions** fell slightly in May but is high. The **inventory of unsold homes** fell further to a record low level
- Our Norway x Oslo **flow based price model** signals 1% m/m price growth, the Oslo model zero growth
- House prices below NoBa's f'cast but are still on the way up. The bank will not even think about not hiking rates in H1 due to 'weakness' in the housing market

SpareBank 1 MARKETS

Oslo down for the 3rd month in a row

Most other places: Prices rose after a weaker April. Outer Eastern towns at the top of the list

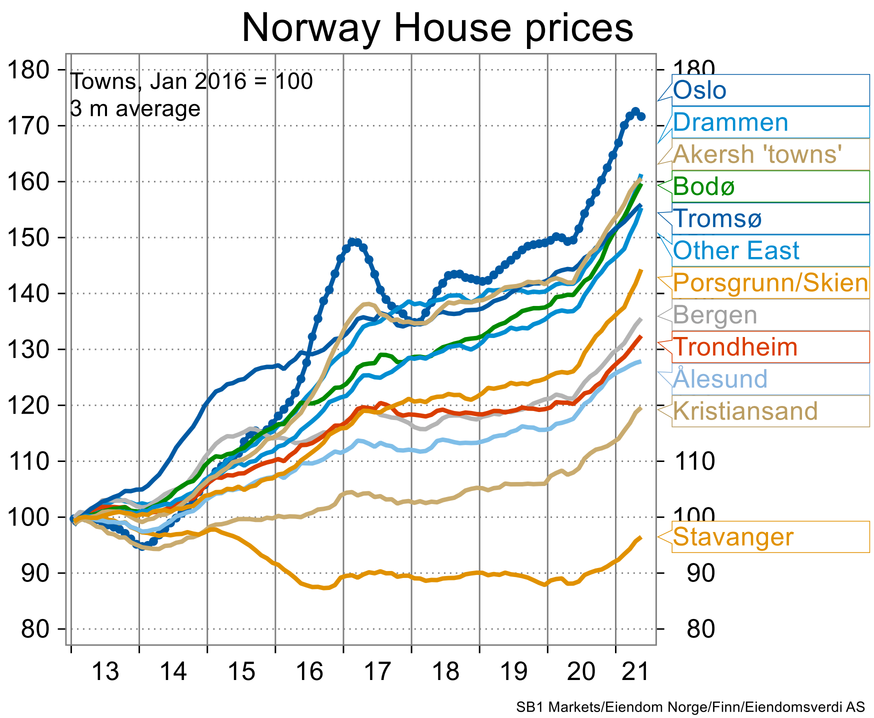


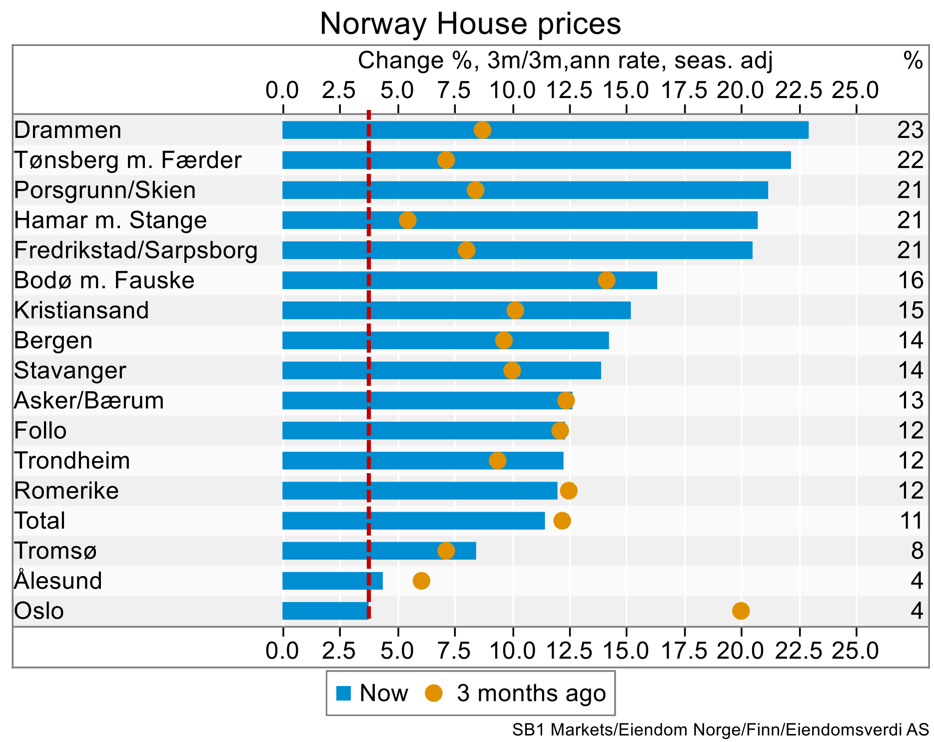


- 13 cities up; 3 down

Smoothed 3m/3m Oslo is still up at a 4% pace. Other Eastern cities 20% – 23%!!

3 months ago, the momentum was strongest in Oslo, up 20% 3m/3m





- From 2013:
  - » Oslo in the lead, together with Drammen, Asker/Bærum/Follo ('towns' close to Oslo). Bodø and Tromsø are also close to the top of the list
  - » Stavanger has been the weakest town, but is now heading upwards again (but not as fast as the leading towns around Oslo)
  - » Bergen, Ålesund and Trondheim is at the lower part of the list too – together with Kristiansand

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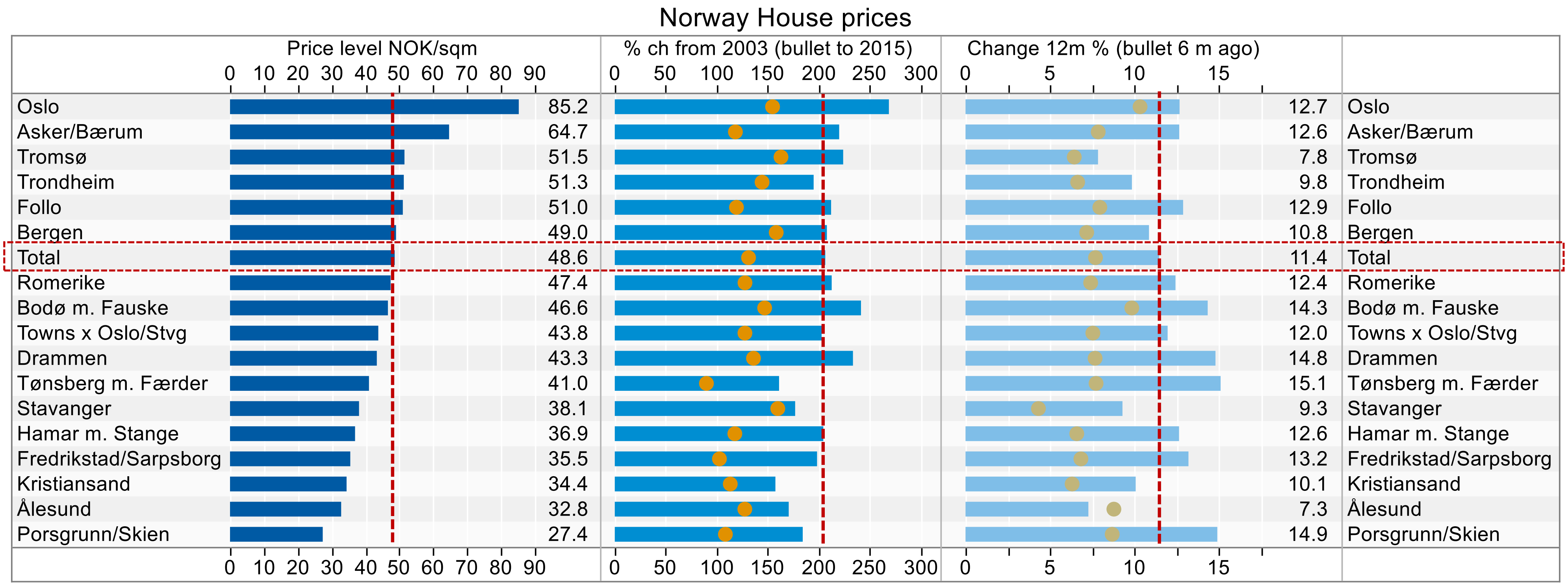
Oslo taken over by other Eastern cities, at least growth wise last year

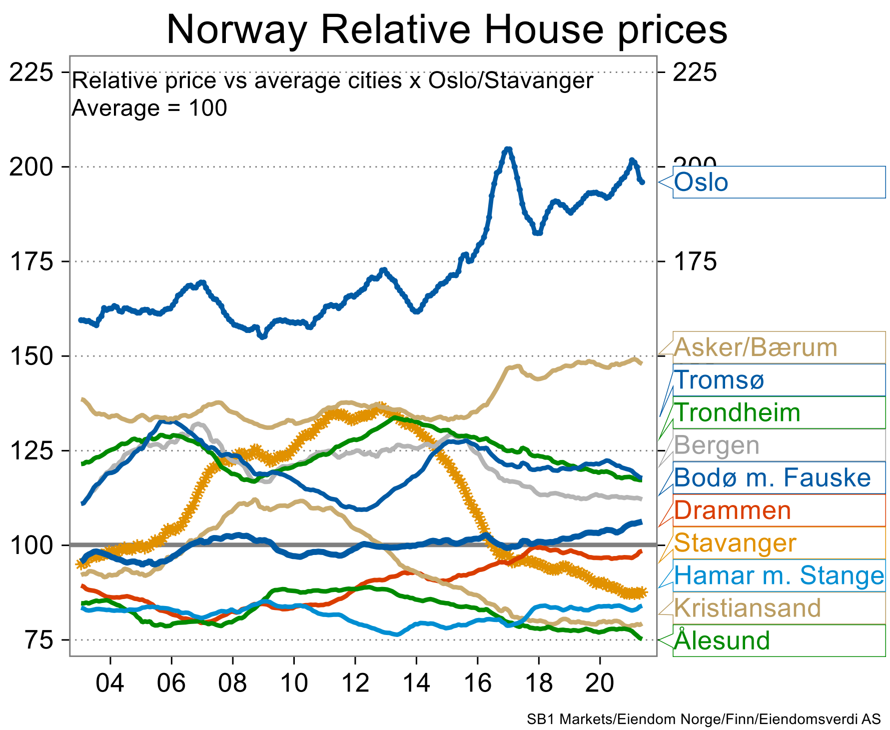
The weakest chain in the link last 12 months is Ålesund at 7.3%

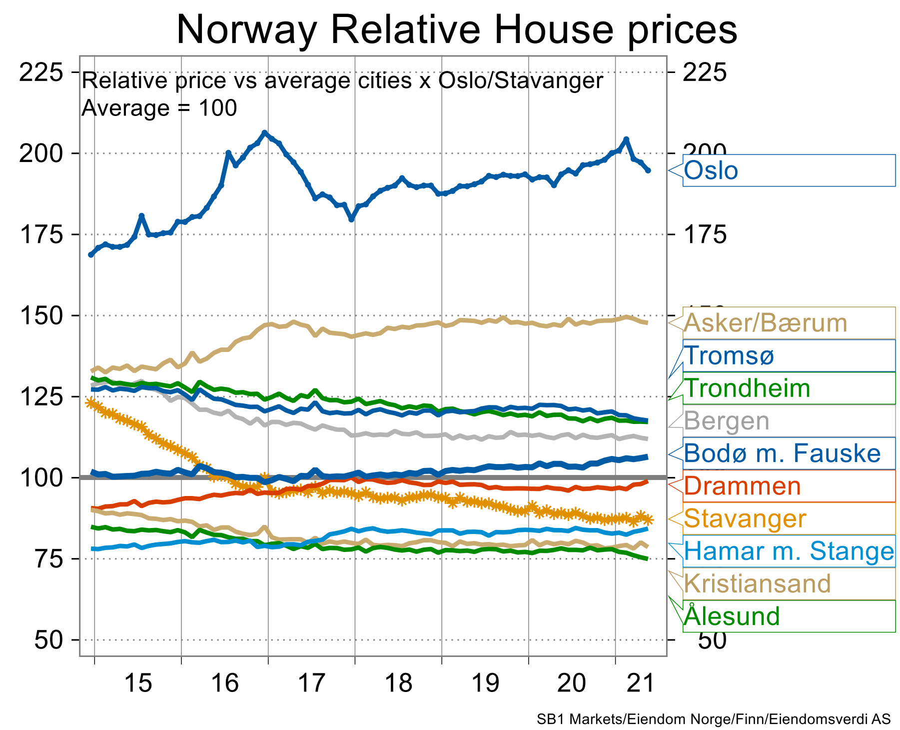


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

Oslo relative prices almost back to the pre-pandemic level

The costal cities Stavanger – Tromsø (x Bodø) are trending down. Hamar (w/Stange) soon above Stvg?

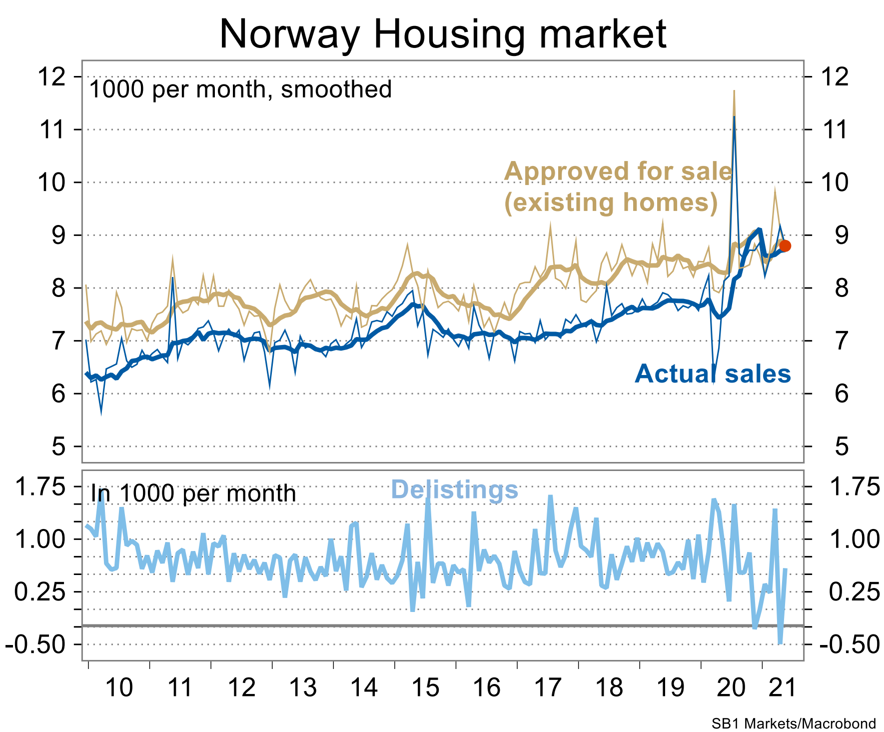


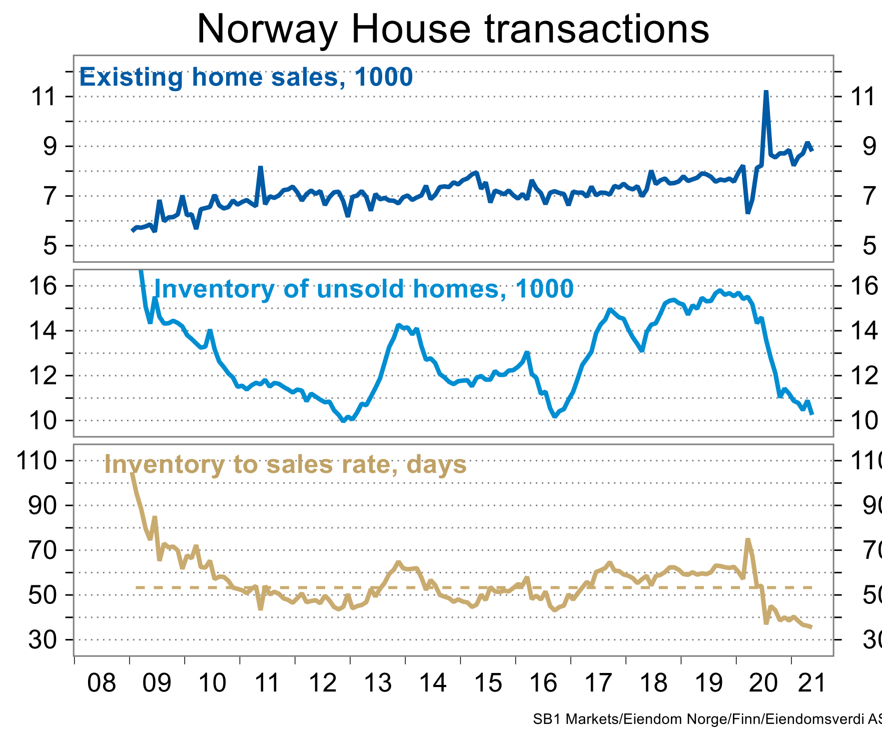


- Housing starts in Stavanger are still not lower than normal. It is still profitable to build!

The no. of transactions remains at a high level – fewer homes approved for sale

The inventory fell further, and is close to record low – and at ATL vs. sales





- **The number of transactions** remains well above the pre-corona level, even after a small decline in May
- The **supply of new existing homes for sale (approvals)** fell further in April but the level is still very high
- **The number of delistings** normalised in May, from a (strangly) low level in April
- The **inventory of unsold homes** fell further in April, and is 40% down vs. the pre-pandemic level, and close to the lowest on record
- The **inventory/sales ratio** has contracted sharply too, and is at ATL, by far. The **turnover time** was 33 days in March vs an avg of 54 days.
- The **actual time on market** for those homes sold was down 2 days to 40 days, well down from more than 60 days last spring (the avg is at 45 days)

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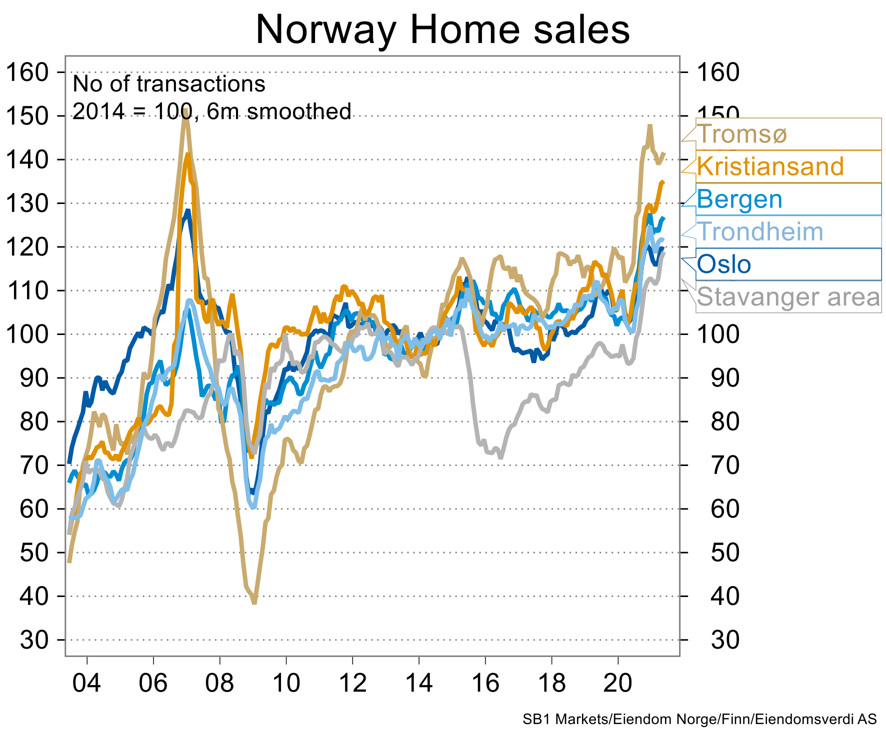
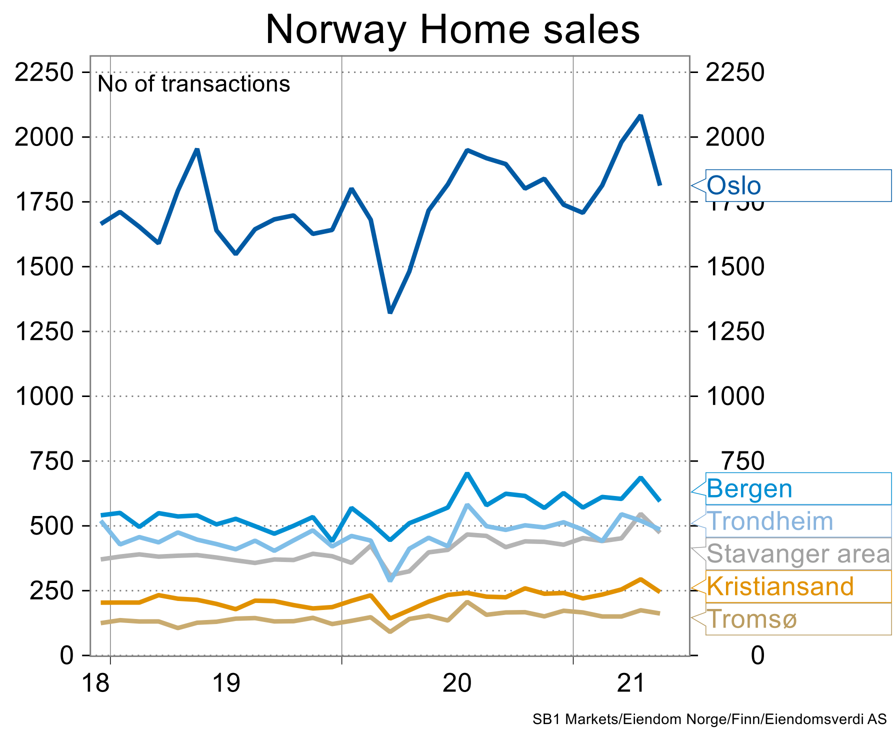
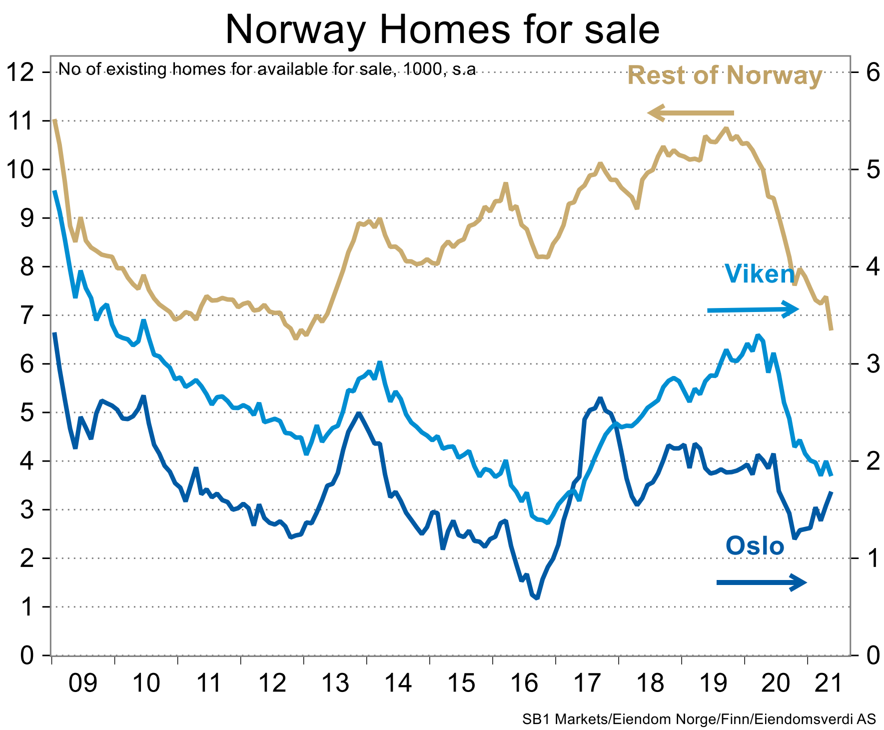
Number of transactions remains high everywhere





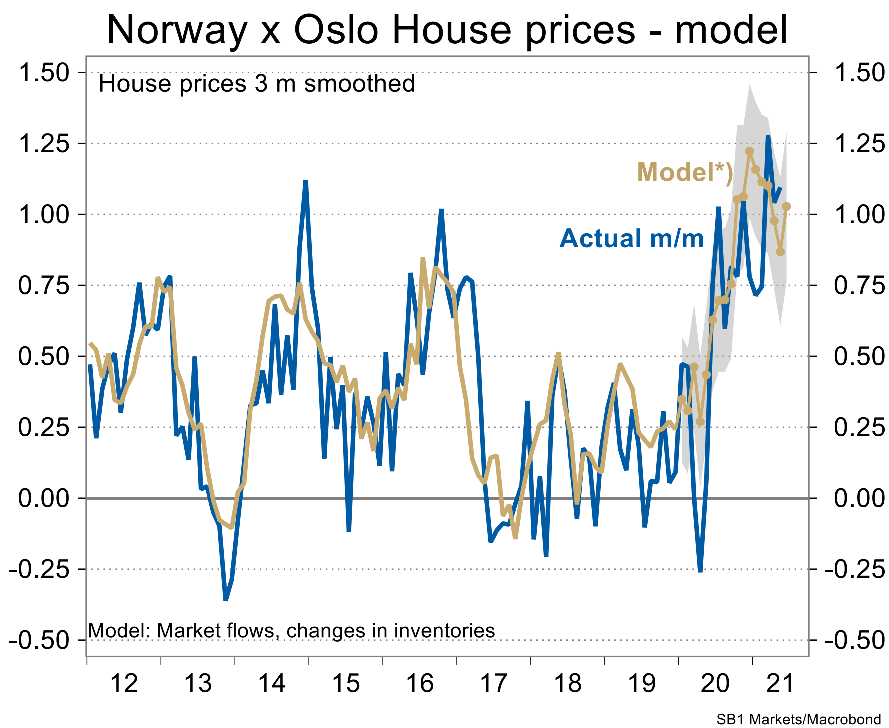
The inventory in Oslo is increasing, while it is falling elsewhere

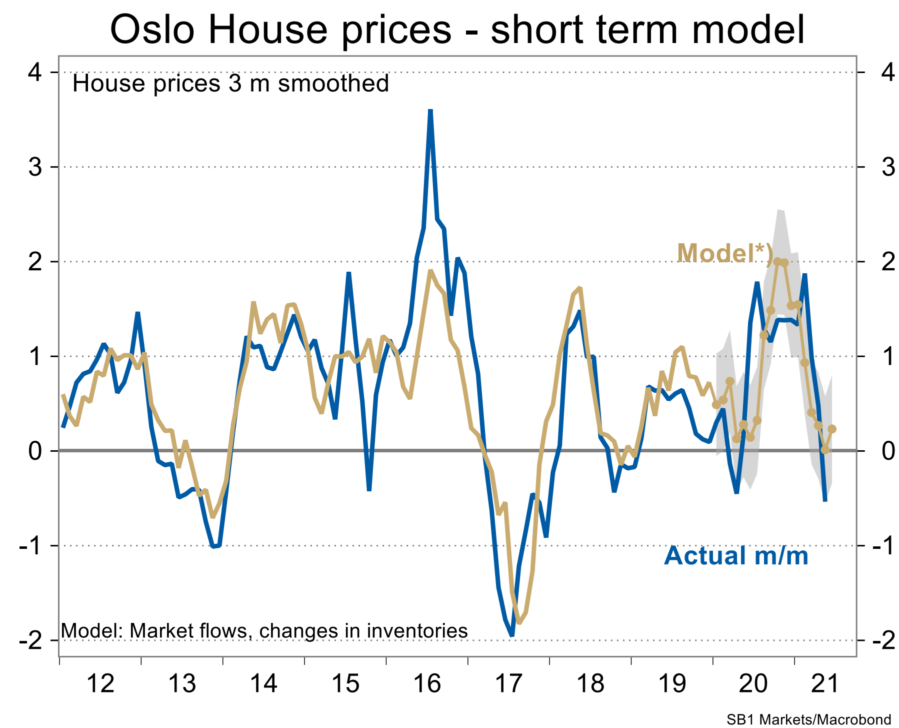
The inventory is lower than normal everywhere – except in Oslo & Tromsø



Short term market flows suggest continued price growth – <u>outside Oslo</u>

However, the models signal lower growth than some months ago

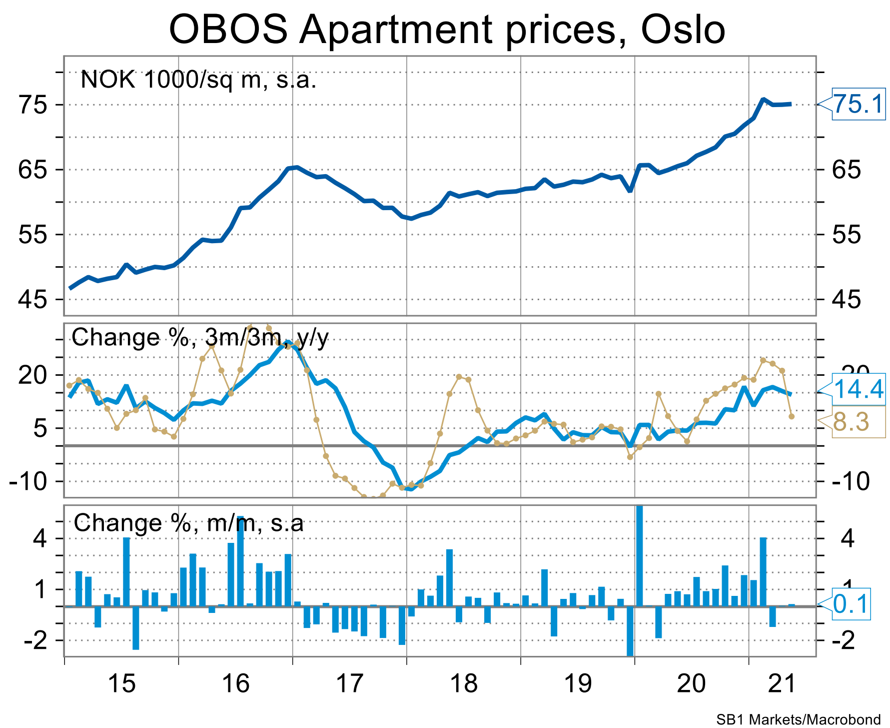


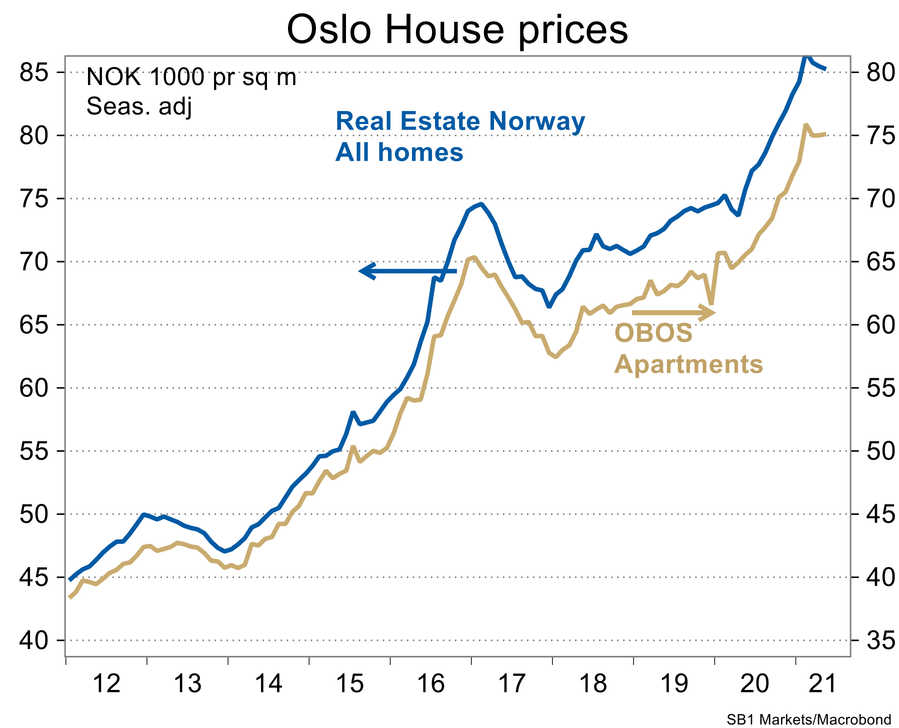


- Our **national model** based on flows and the inventory signals a <u>1% growth in house prices per month</u>
- Our **Oslo model** signals <u>no growth in prices</u>
- *These models are <u>not</u> long term price models, just short term price models based on flows of (existing) houses approved for sale and actual sales*

OBOS apartment up 0.1% in May (seas adj.), still up 14% y/y

Prices are marginally down since the February ATH





- The parallel change in both co-op & total house prices in Oslo may signal a real turning point in the market

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

Highlights

The world around us

The Norwegian economy

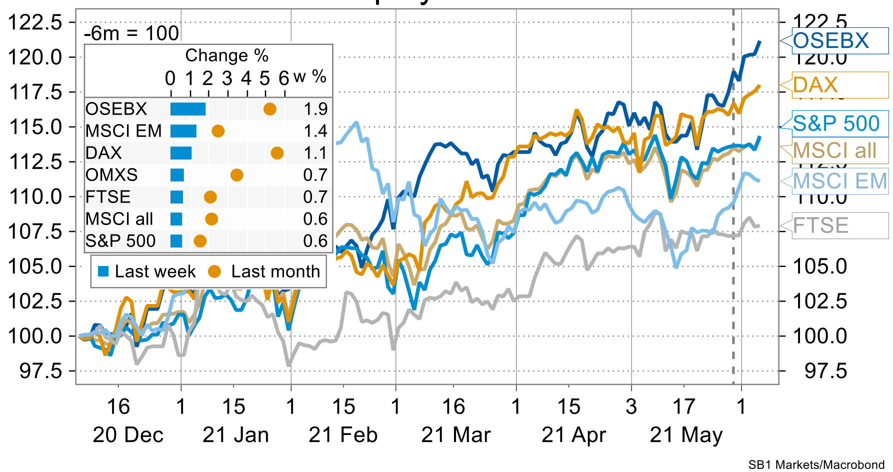
Market charts & comments

SpareBank 1 MARKETS

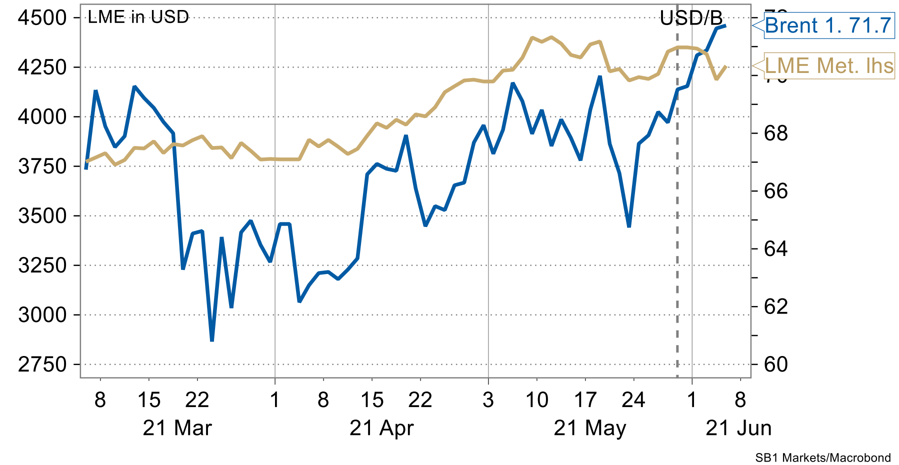
Equities, oil up. Bond yields still down

However, metal prices fell too. NOK stronger

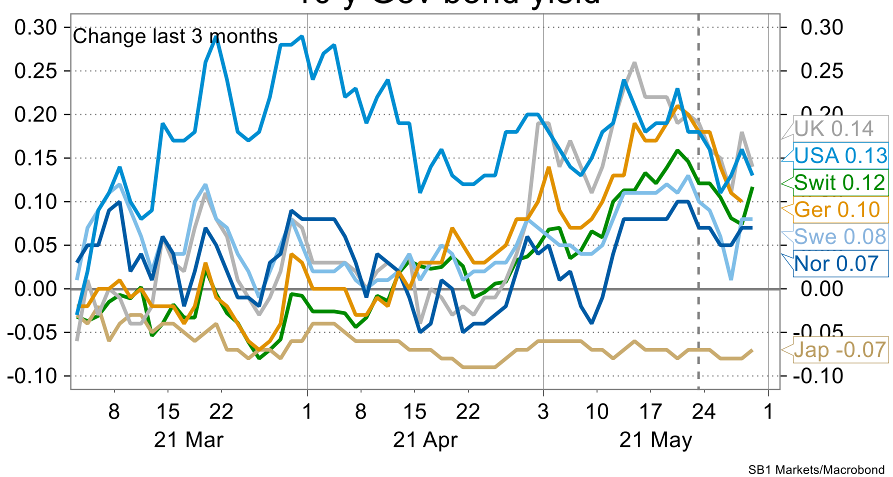
Equity Indices



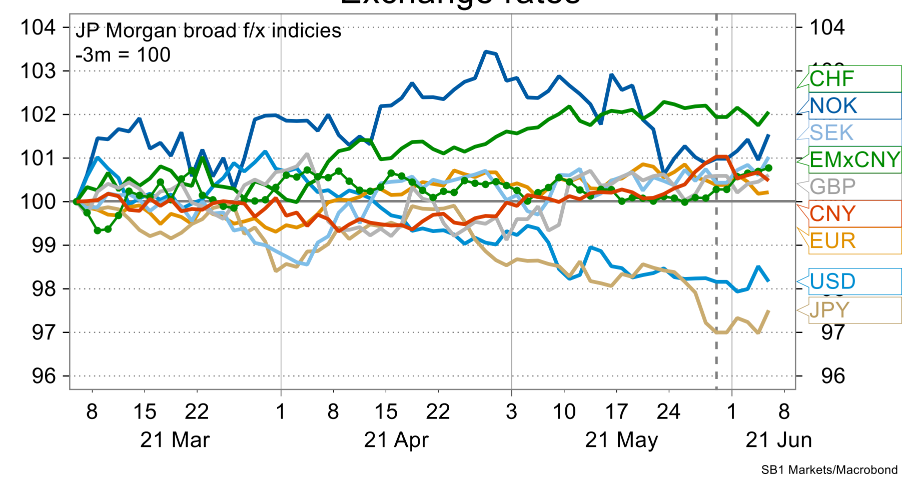
Oil vs. metals



10 y Gov bond yield



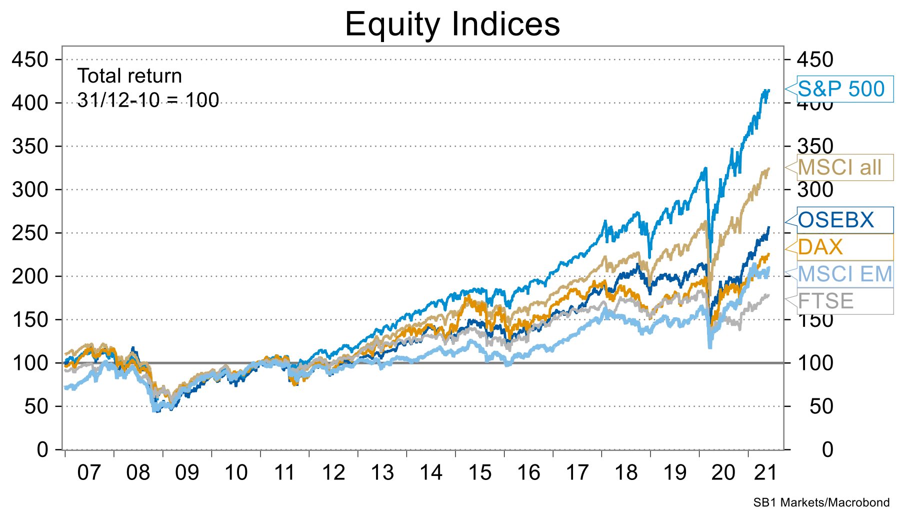
Exchange rates

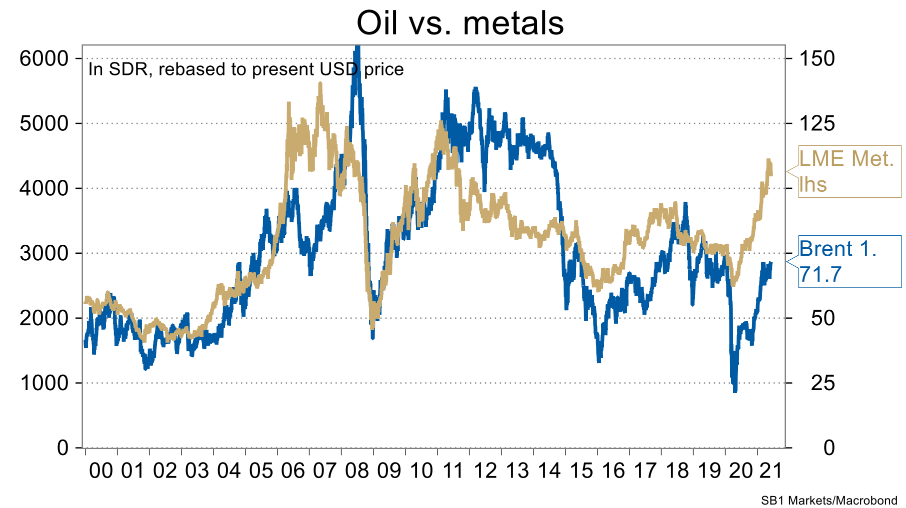


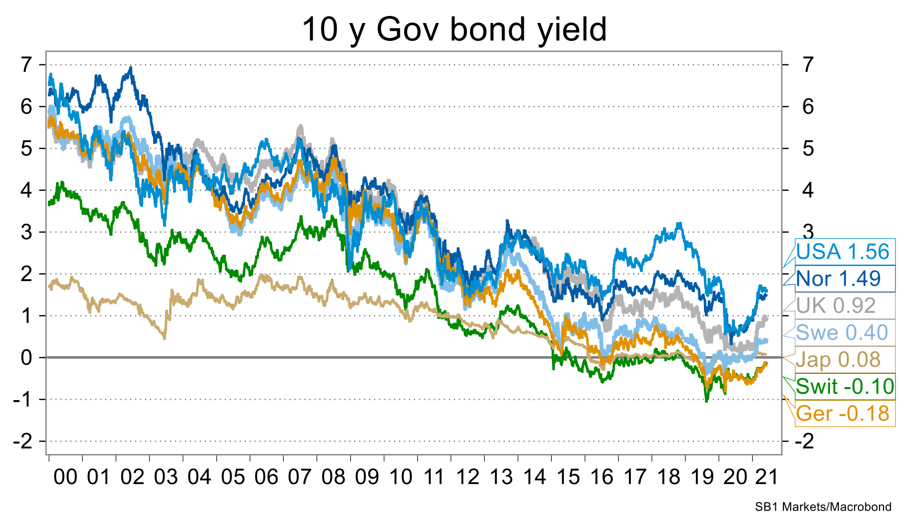
SpareBank 1 MARKETS

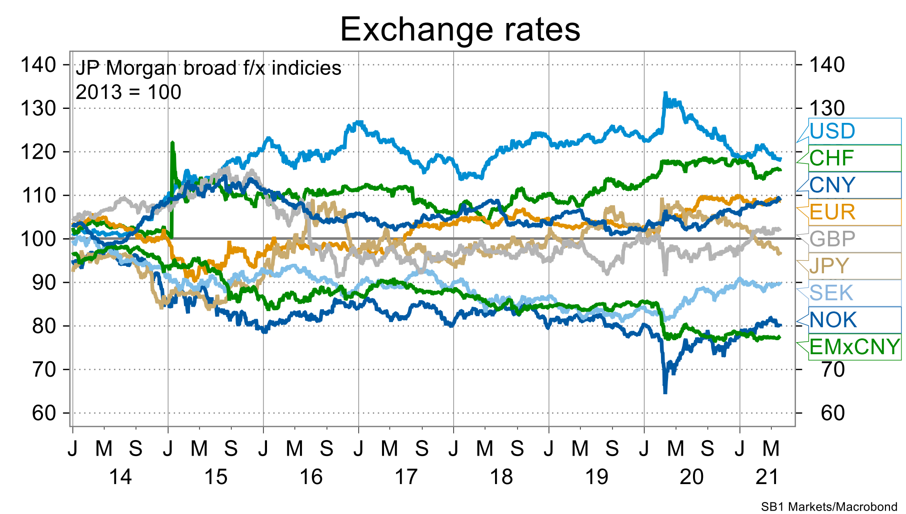
The big picture: Strong stock & commodity markets, the USD is still sliding down

The MSCI World at ATH on Friday, as was OSEBX, DAX



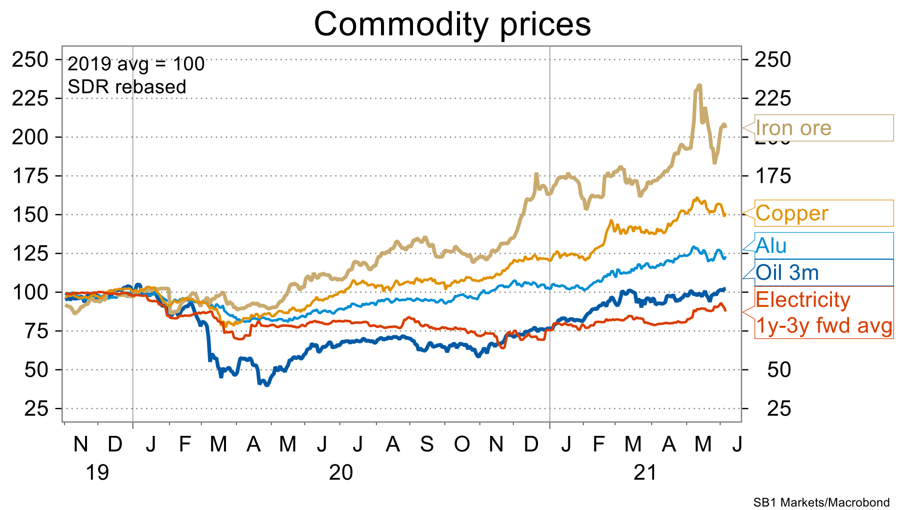


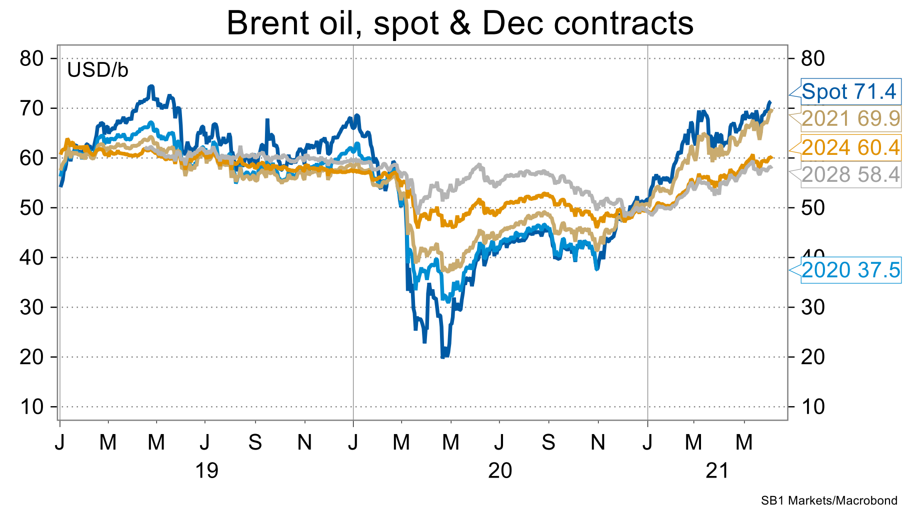


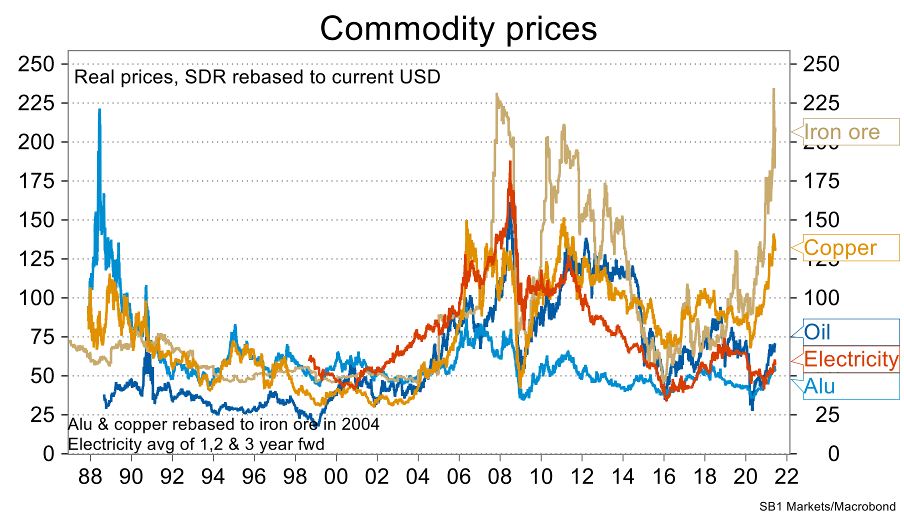


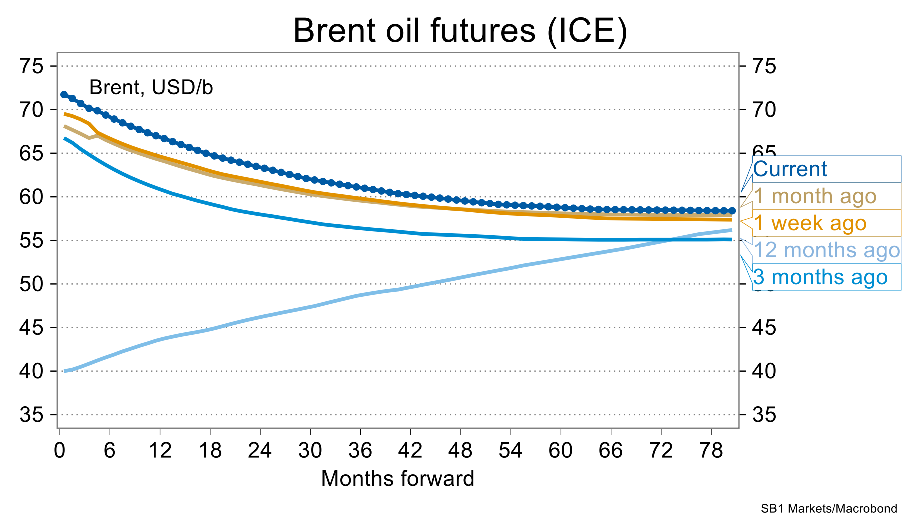
Iron ore has recovered half of May losses, oil above USD 70/b

However, metals marginally down last week



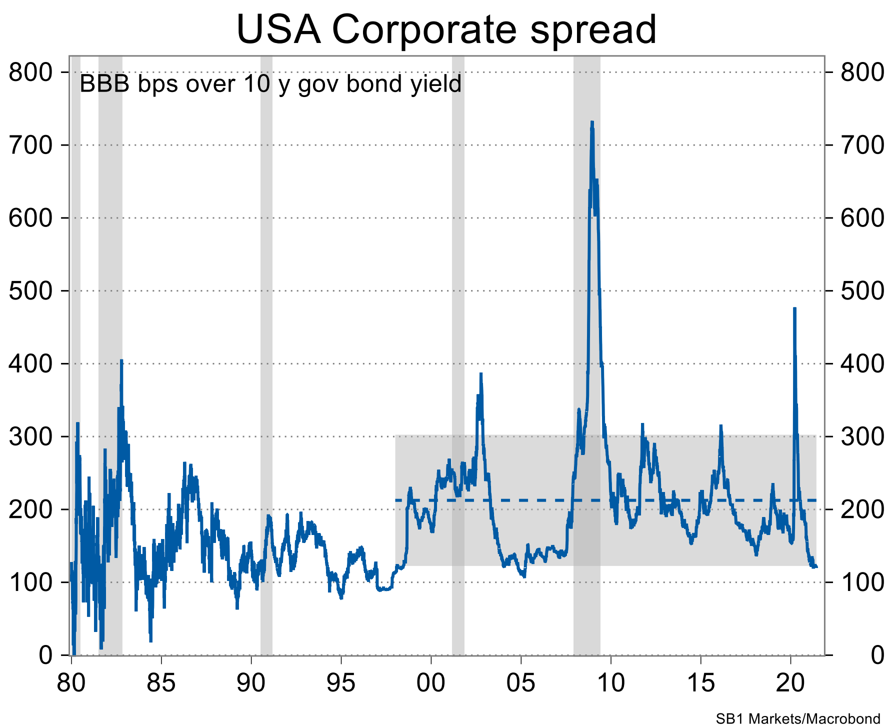


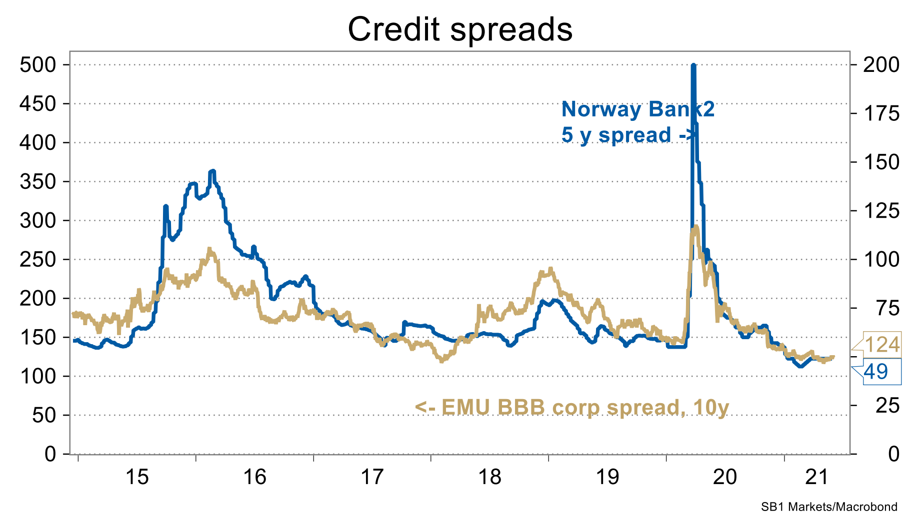




SpareBank 1 MARKETS

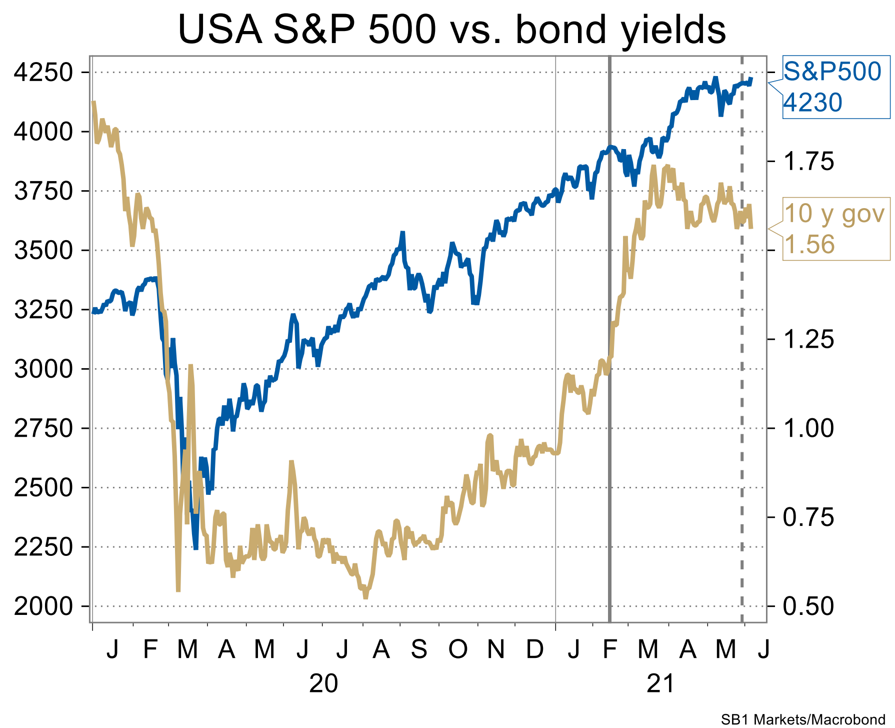
Credit spreads have flattened, at low levels

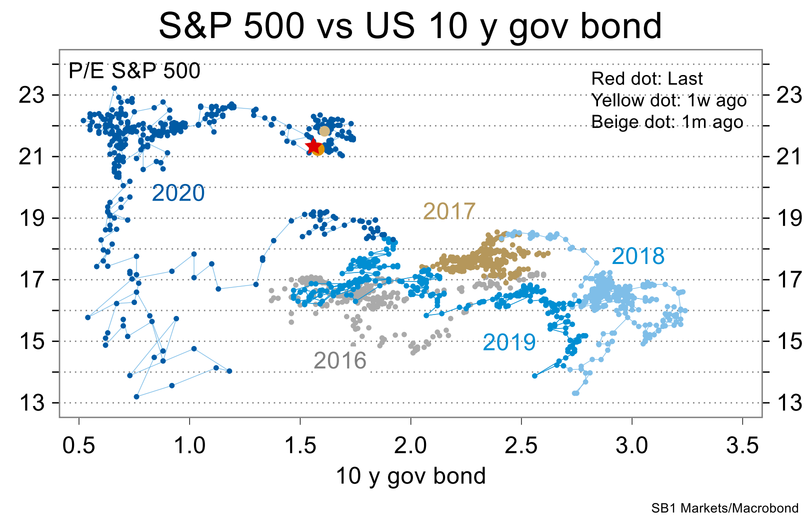


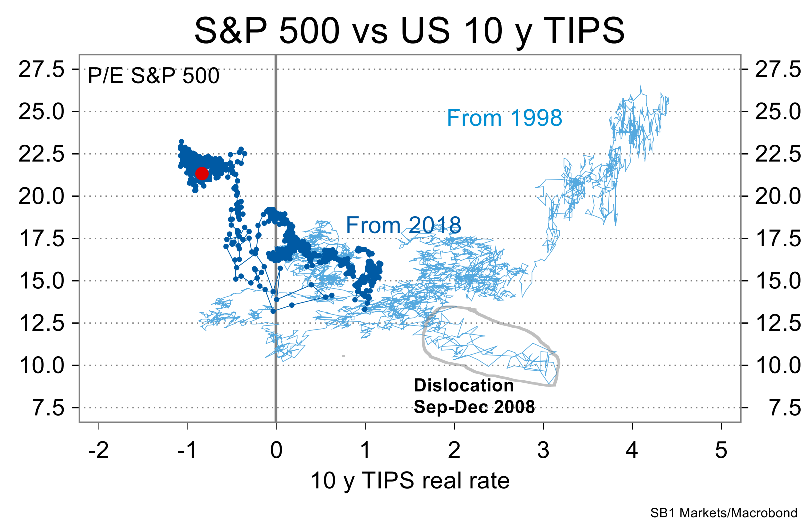


S&P 500 up 0.6%, the 10 y bond yield down 2 bps, to 1.56%

Neither high inflation nor the first tapering signal have scared markets



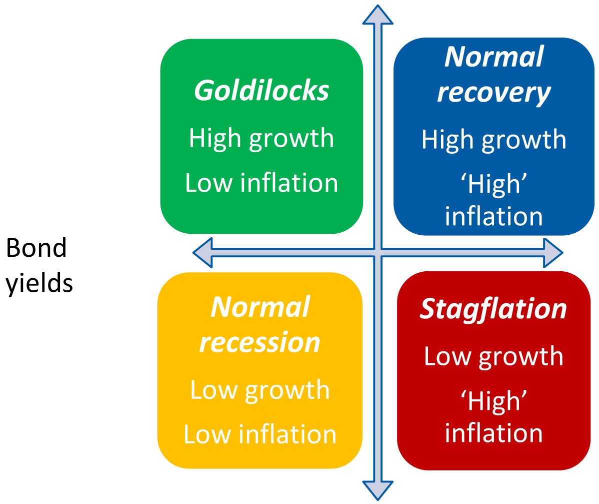


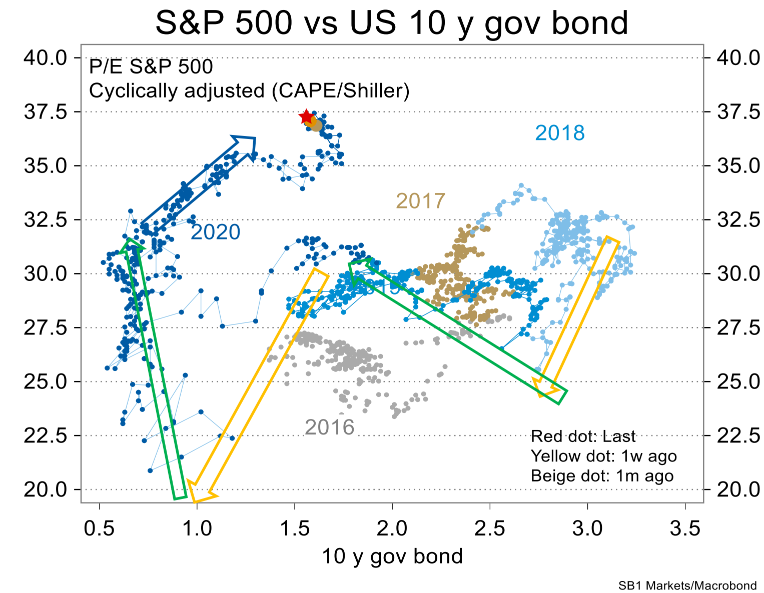


SpareBank 1 MARKETS

A long term view: Still in the 'Goldilocks corner'

But will markets remain there? Actual wage/price inflation dynamics will in the end decide. And not the Fed…





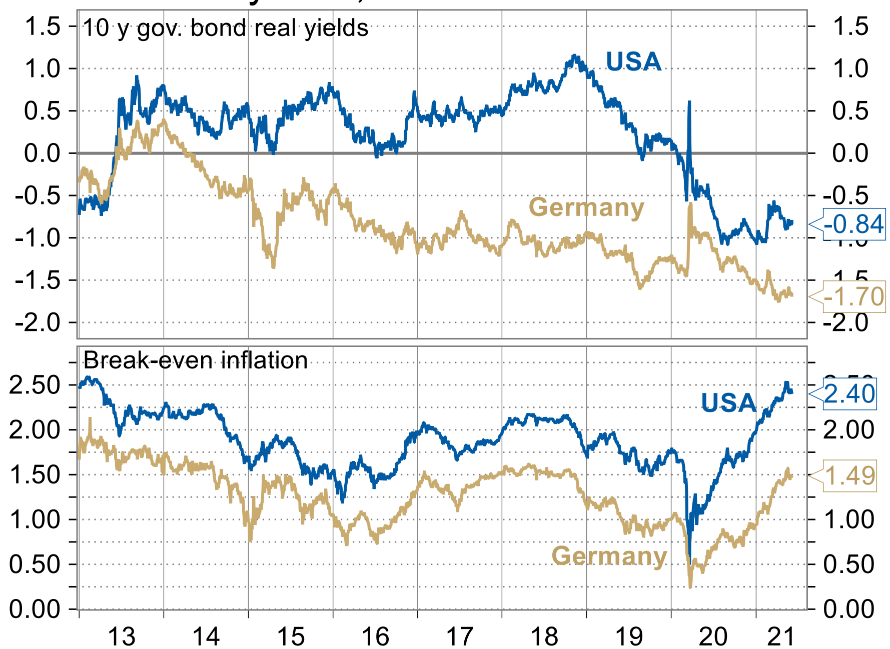
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield level to qualify for the "Goldilocks" corner (especially the real bond yield, check the chart on the previous page). Where to go from here?
- The inflation/growth mix will decide:
  - » If 'nothing' happens, we can stay in this Green quadrant. Raw material prices normalises, wage inflation is kept in check because the US labour supply finally returns to normal. Inflation turned out to be transitory, profits are OK, yields remain low
  - » If the labour supply in the US does not yield, wage inflation will very likely accelerate
    - <u>If companies are able to increase their selling prices</u>, profits will be kept up, but higher inflation well very likely push the Fed to tighten monetary policy, which is challenging for high multiples. Move to the blue quadrant. However, after a while profits will anyway come under pressure. The stock market will be rewarded with lower profits & lower multiples (it will resemble the Red corner, before moving to the Yellow
    - <u>If companies are not able to increase their selling prices</u>, inflation will be kept in check but profits will decline rapidly. A 2% lift in wages, cuts profits by well above 10%. That's the Yellow corner

SpareBank 1 MARKETS

US inflation expectations have stabilised below 2.5%, TIPS rate down again

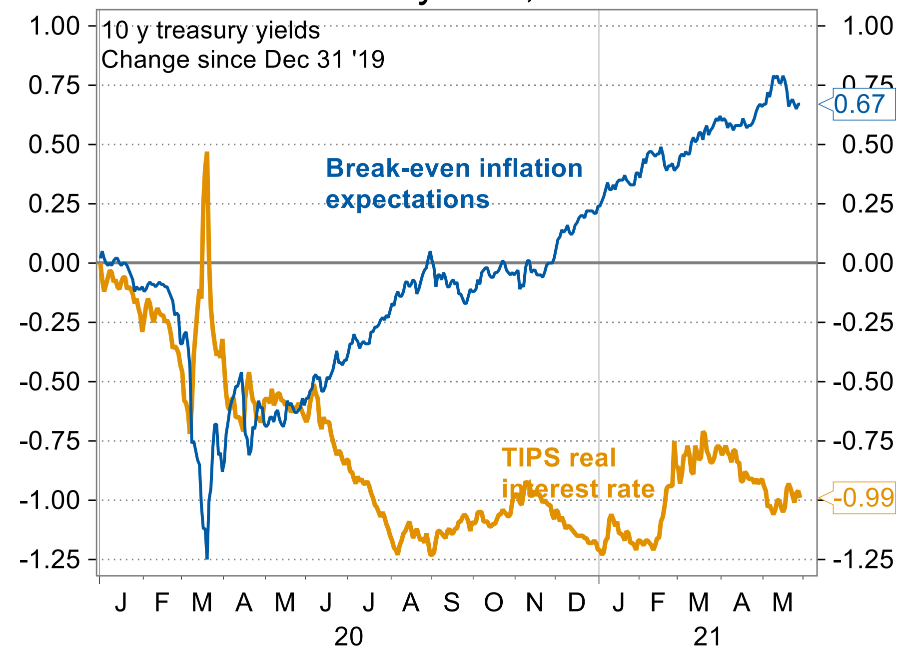
TIPS rates still up from before the first (cautious) tapering signal

Real yields, break-even inflation



SB1 Markets/Macrobond

USA Real yields, inflation



SB1 Markets/Macrobond

US & Germany 10 y Gov bond yield

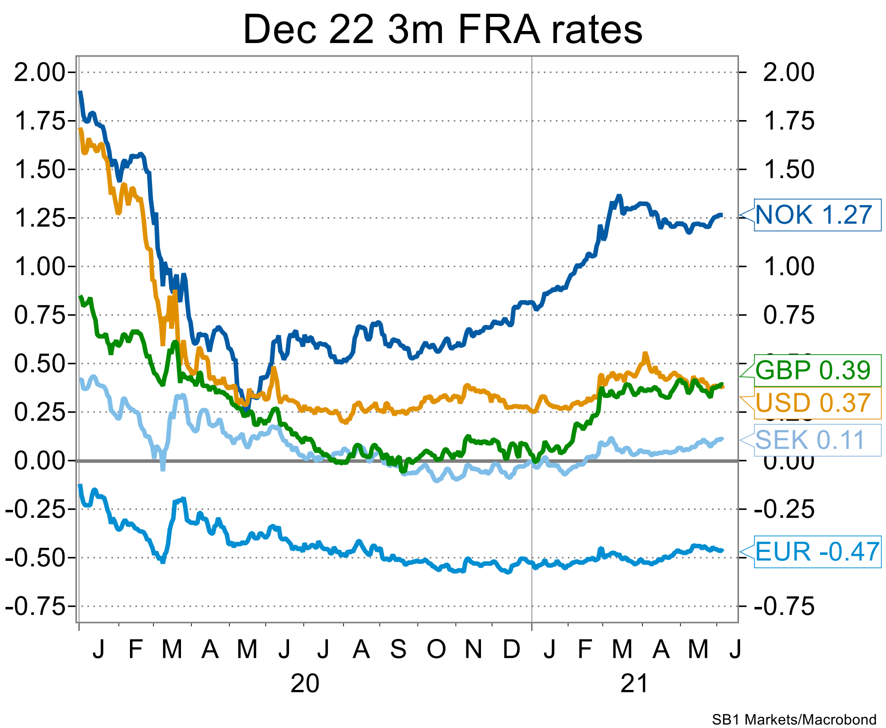
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.56	-0.02	-0.05	0.52
.. break-even inflation	2.40	-0.02	-0.02	1.06
.. TIPS real rate	-0.84	0.00	-0.03	-1.08
Germany nominal bund	-0.21	-0.04	0.00	-0.65
.. break-even inflation	1.49	0.02	0.05	0.40
.. real rate	-1.70	-0.06	-0.05	-1.76

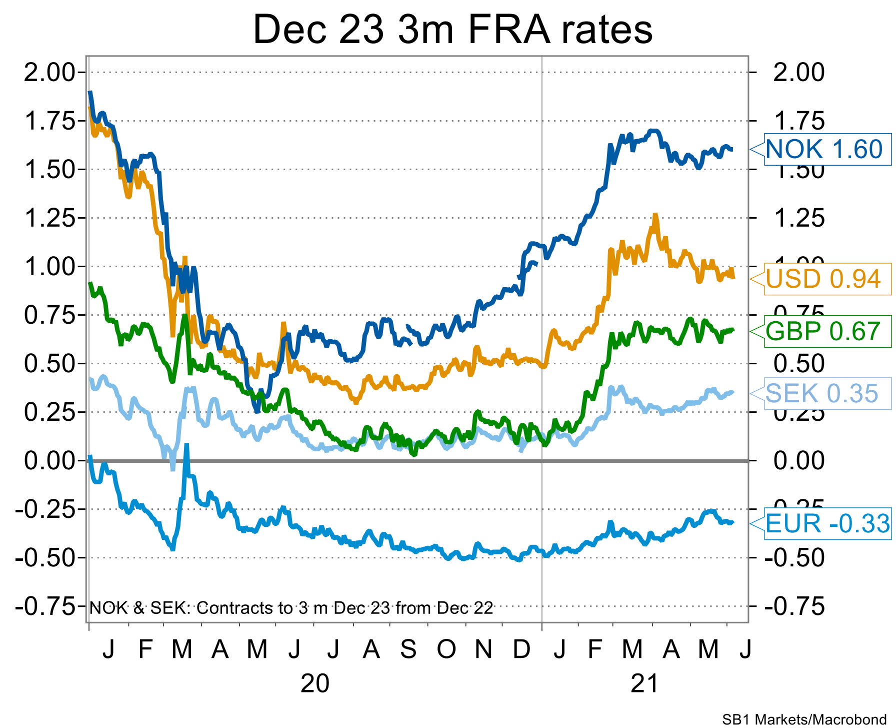
SB1 Markets/Macrobond

- Inflation expectations are still in the high zone vs. Fed's 2% PCE inflation target – and real rates are still extremely low
- German yields too, mostly due to lower real rates

FRAs: NOK rates up, others not

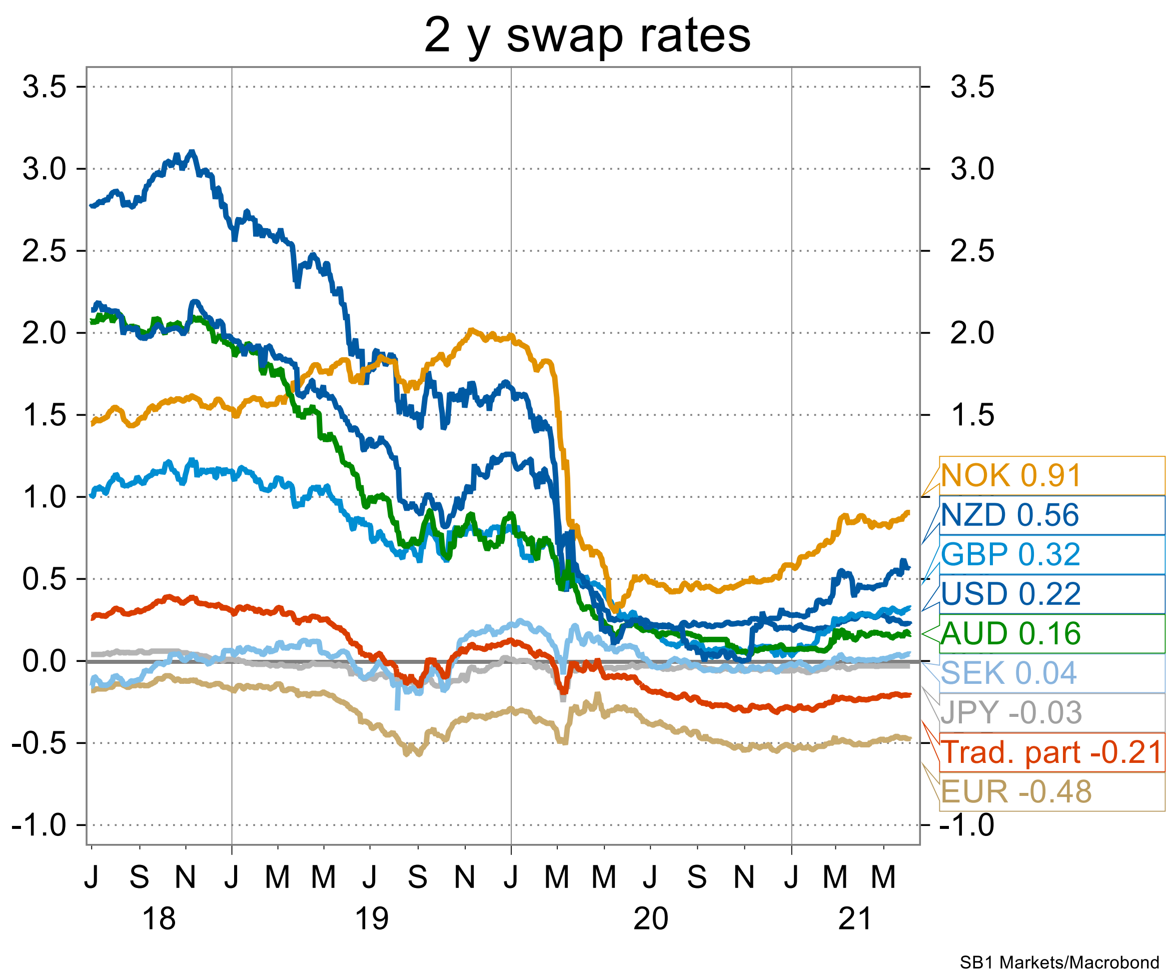
The US curve is still pricing in a hike next year, earlier than the Fed has signalled until now

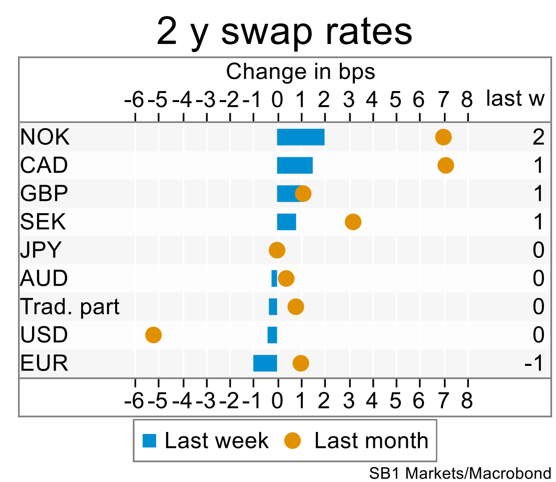




2 y NOK swaps continue upwards (even if the 3m NIBOR is falling steadily)

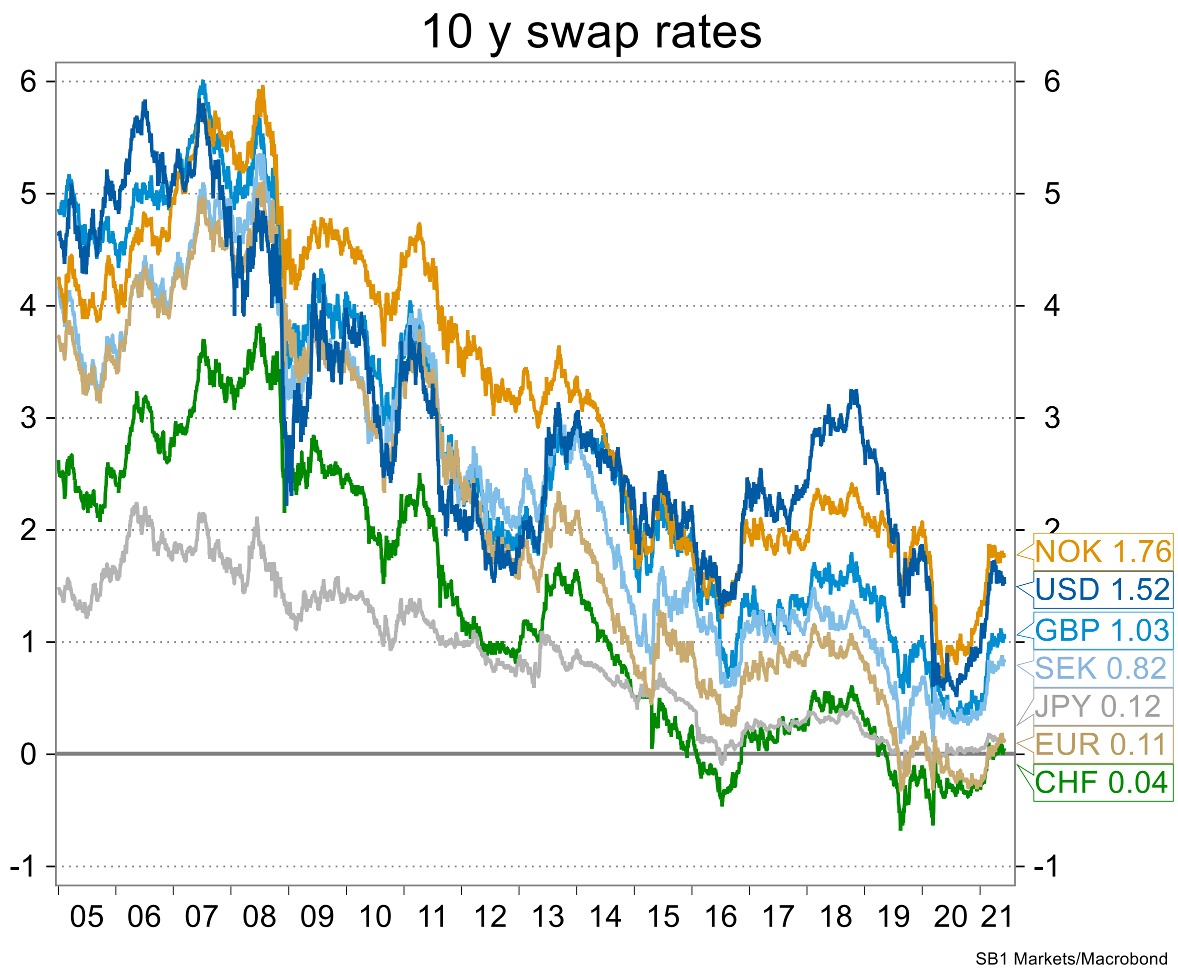
Elsewhere: Small changes last week

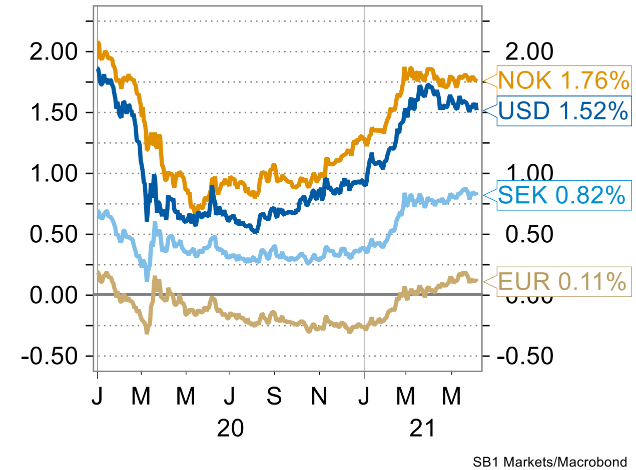


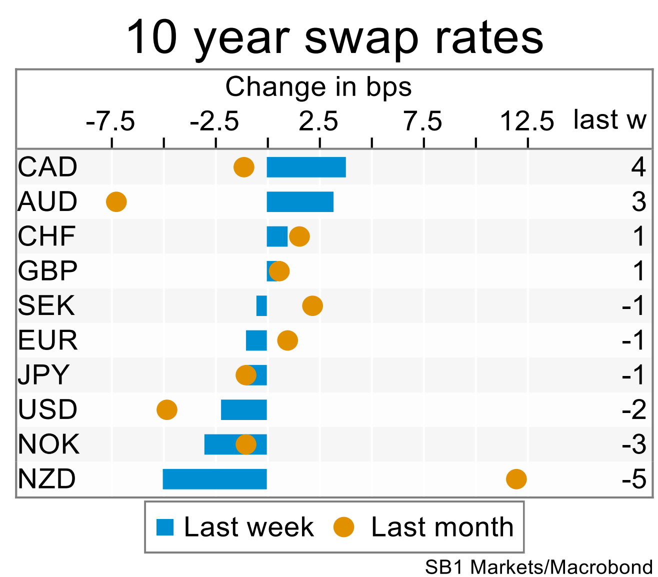


More up than down, NOK down 5 bps

EUR & SEK rates have kept up better than others

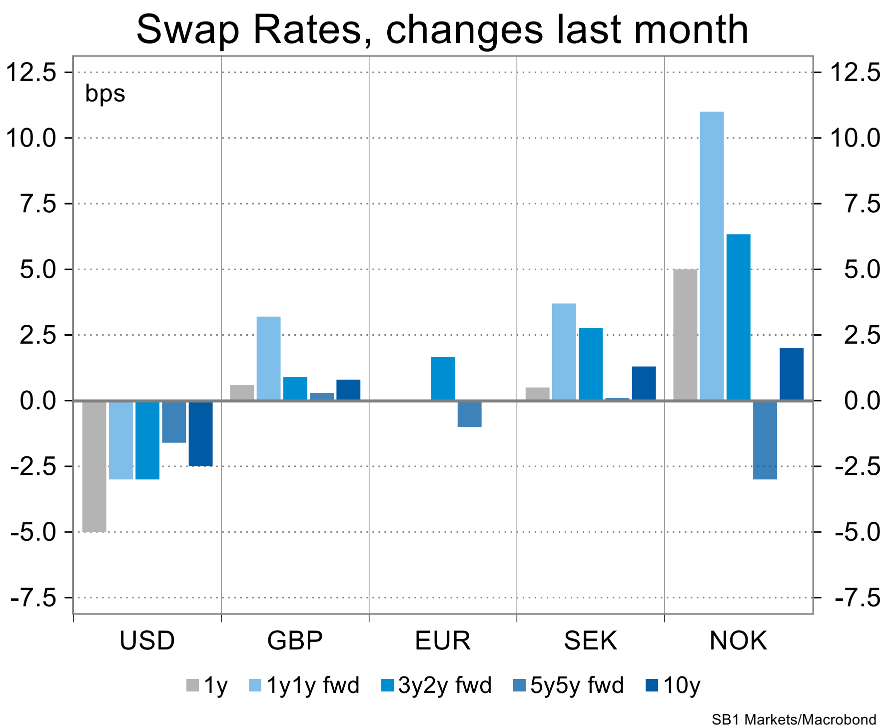


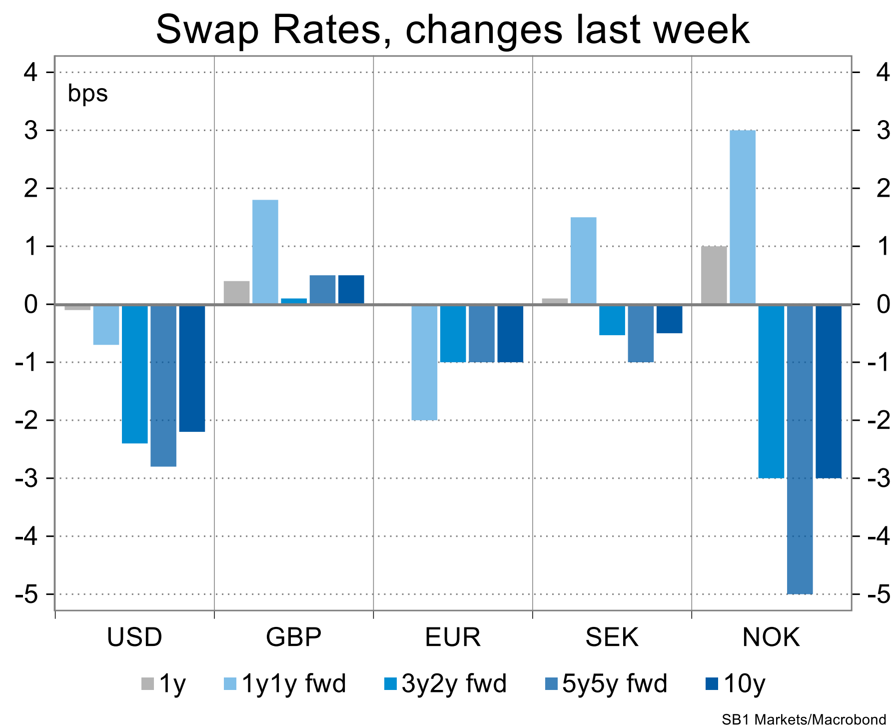




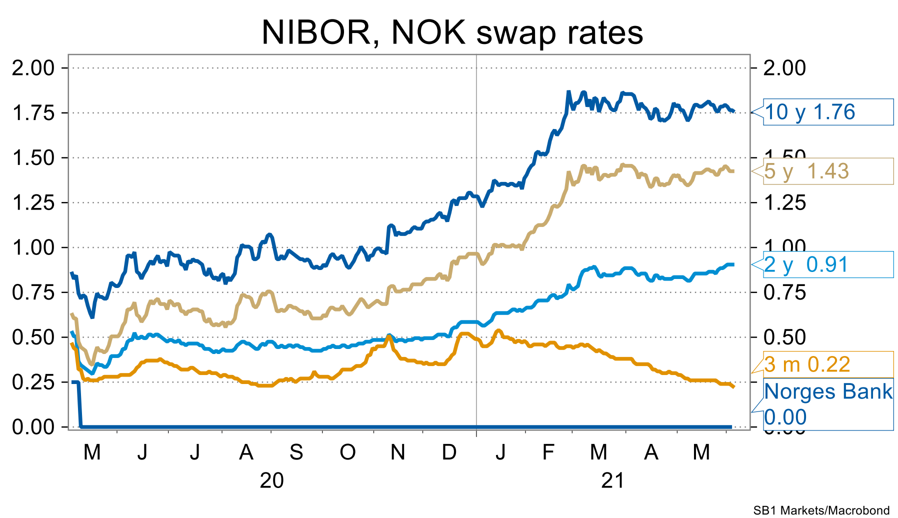
US rates are trending down, even if the inflation, tapering debate is heating up

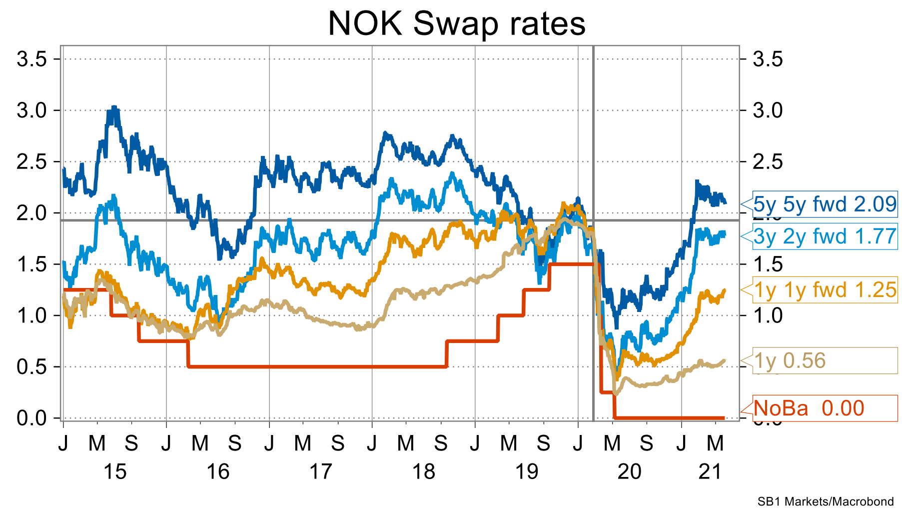
The short end of the NOK curve up (like in GBP, SEK), others down

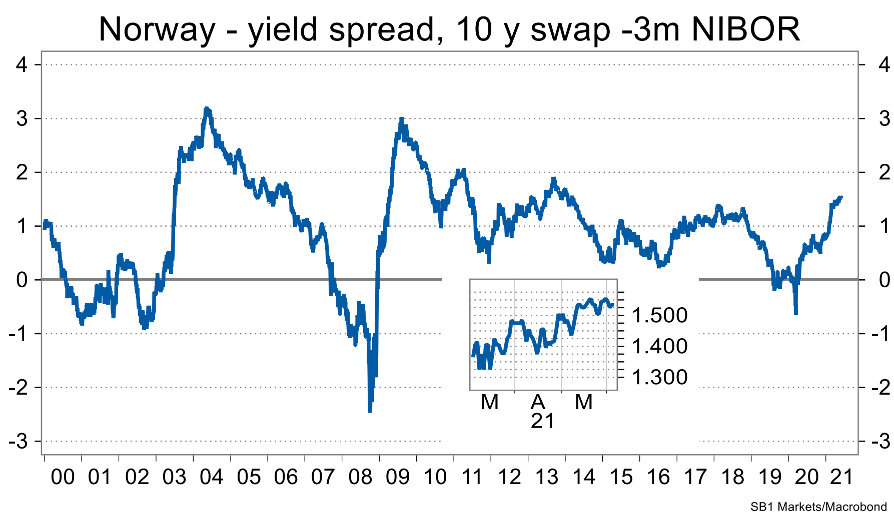


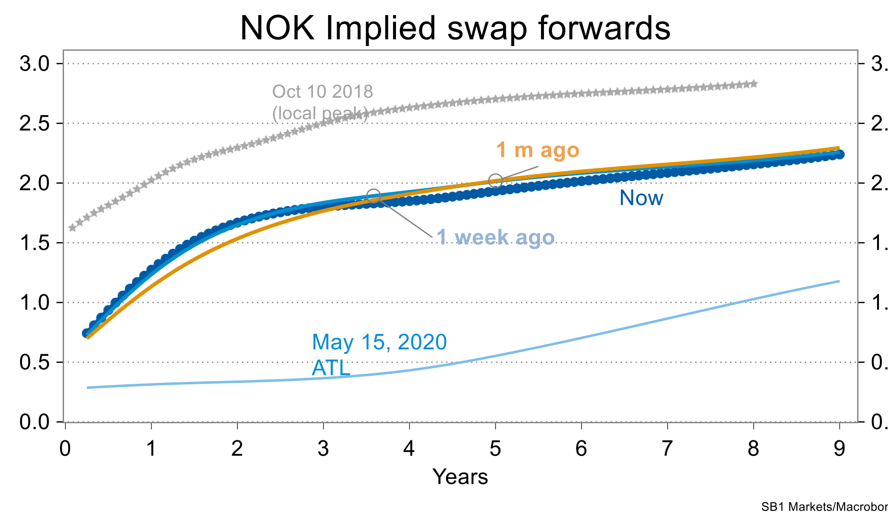


The first part of the curve is still trending up – the long end flattish





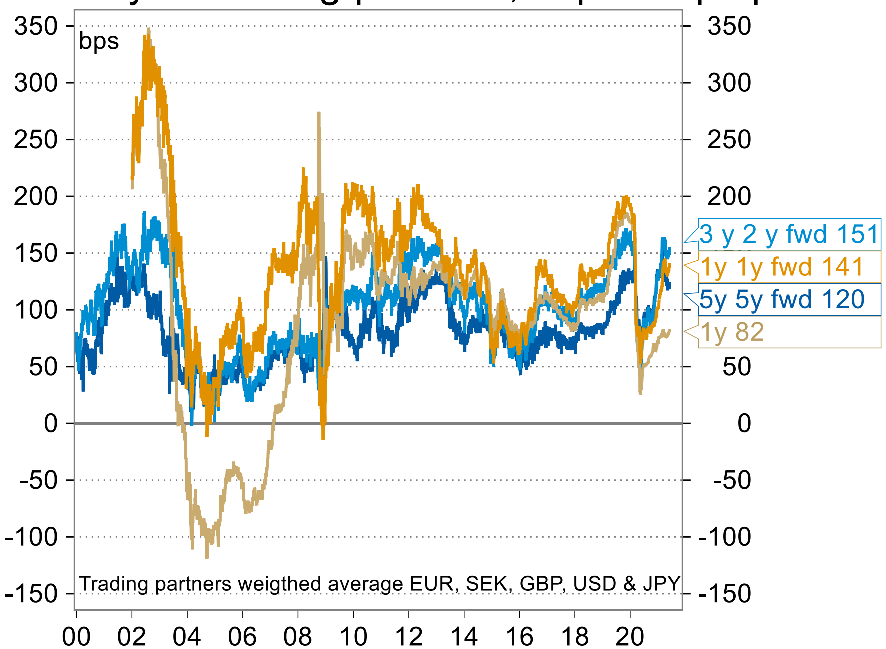




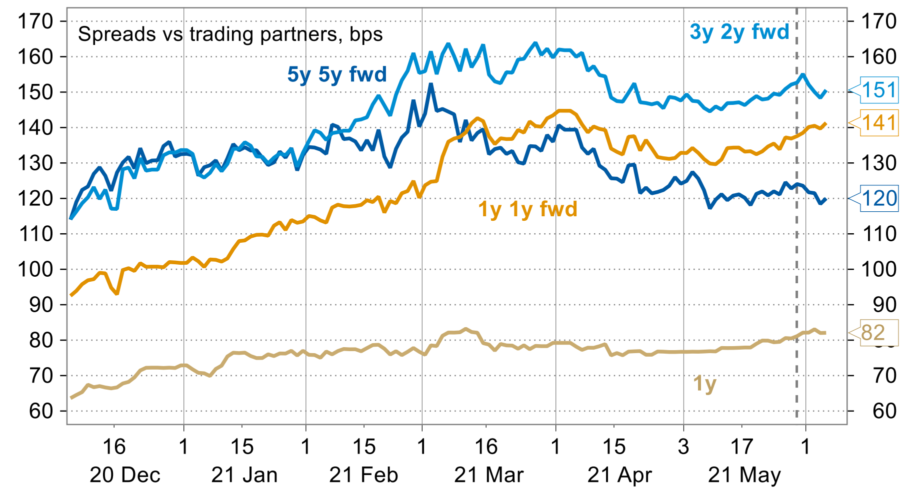
Forward spreads vs trading partners down after a small lift

... all over the curve

Norway vs trading partners, impl swap spreads

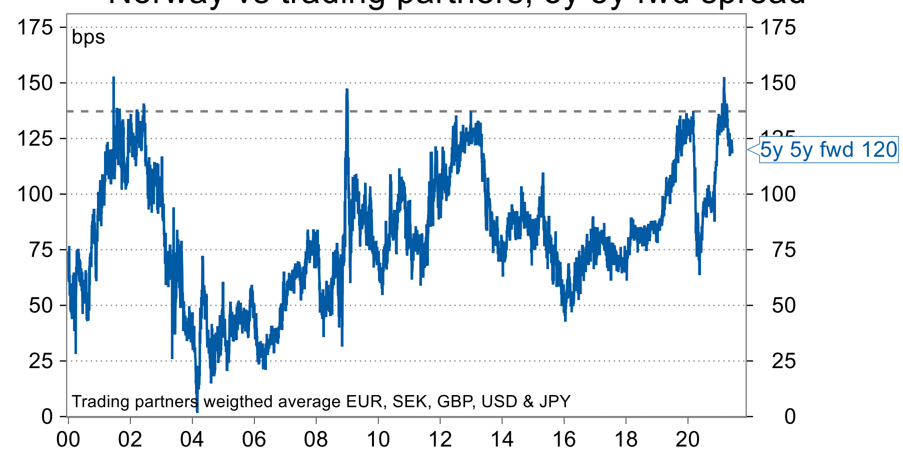


SB1 Markets/Macrobond



SB1 Markets/Macrobond

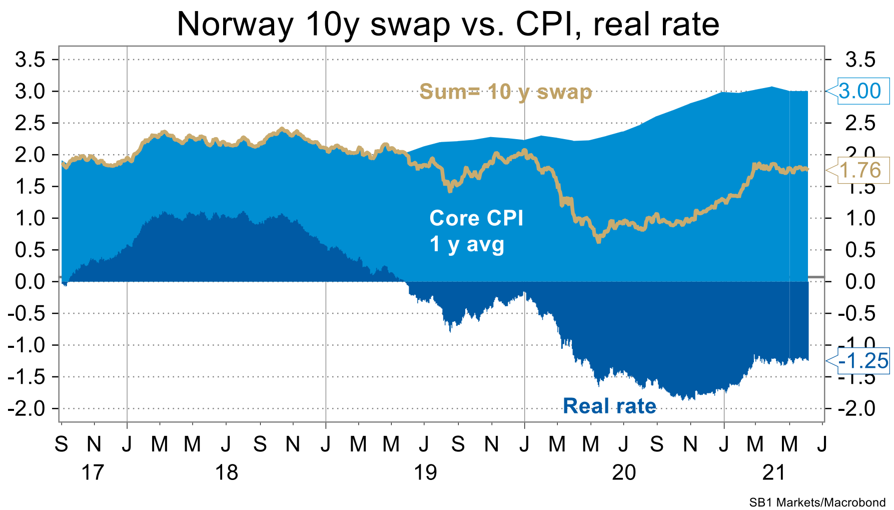
Norway vs trading partners, 5y 5y fwd spread



SB1 Markets/Macrobond

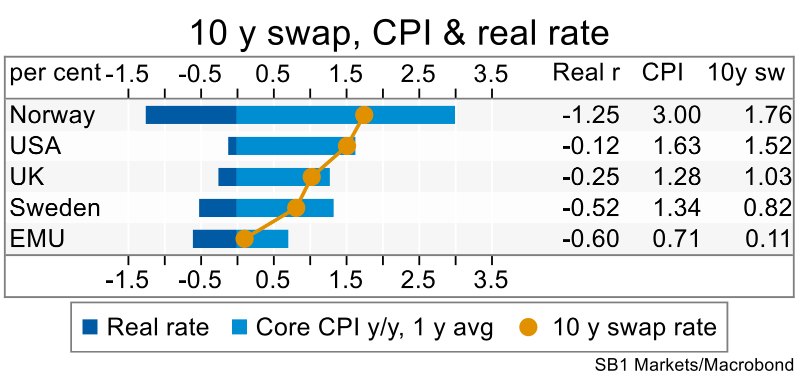
SpareBank 1 MARKETS

Negative (actual) real interest rates most places – NOK at the bottom



NOK 10 y swaps have flattened

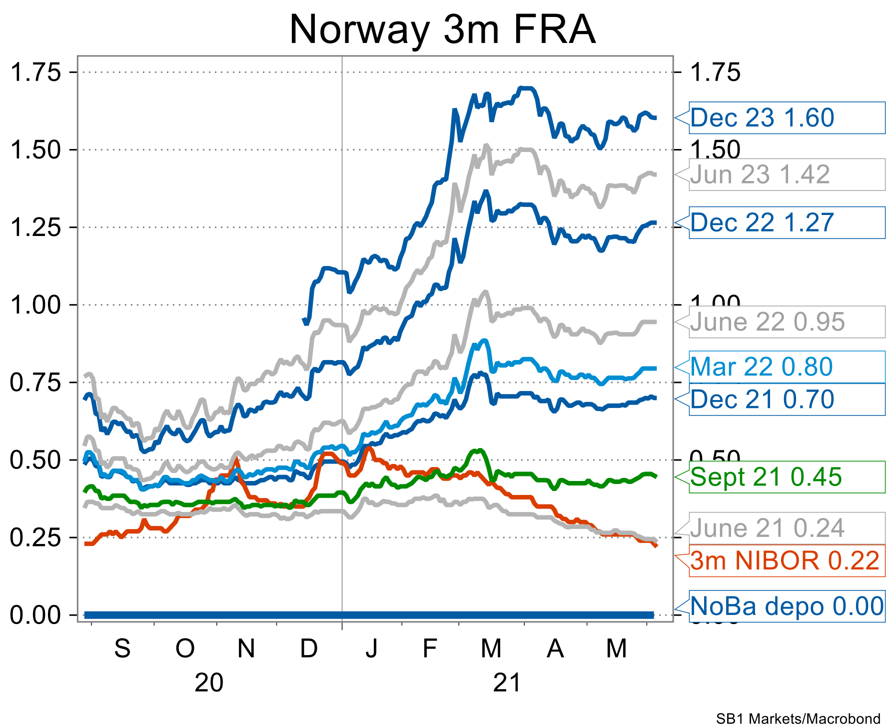
- The **10y NOK swap rate down** 3 bps to 1.76%
- **The real rate**, after deducting 3.0% average core CPI inflation over the 2 past years equals -1.3%
  - » However, if we use a longer CPI inflation average, the real rate is higher, as the average rate of inflation has been lower than the current 3.1%
  - » On the other hand, barring economists' in academia & finance, nobody else believe in the 2% inflation target. Other economists say 2.5% as to leaders in labour market organisations, business leaders 3.5% and households 3.7% (in 2 to 3 years' time)
  - » In seems unreasonable to assume an expected inflation below 2.5% - and in may in fact be that it is even higher than 3% among decision makers in the private sector

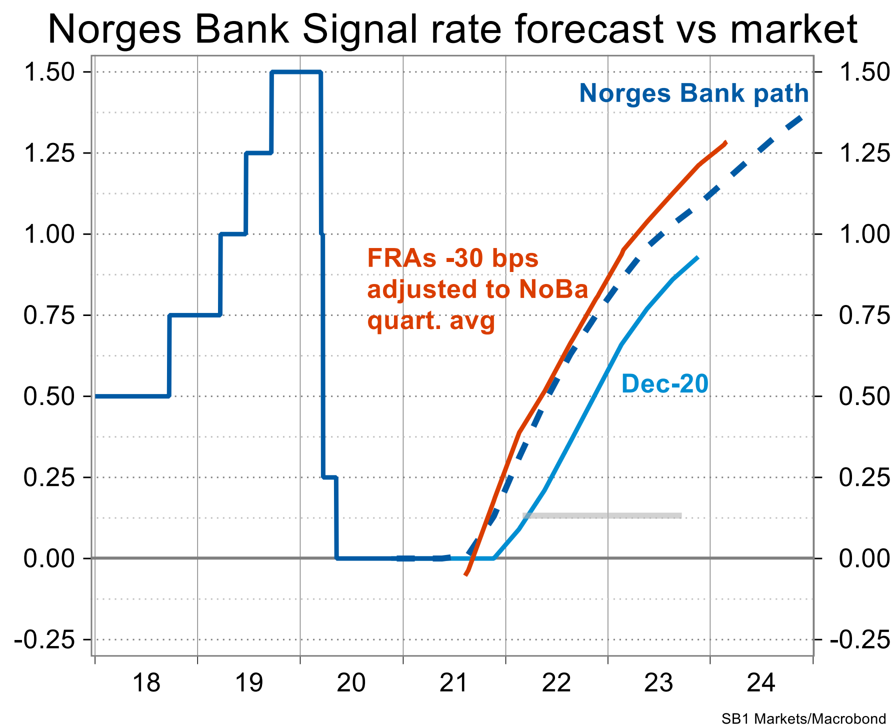


NOK real rates among the lowest, as inflation is at the top

- **Inflation** among Norway and our main trading partners varies between 0.7% to 3.0% (here again measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, Norway at the top, by far (but somewhing might happen in the US…)
  - » Other measures of inflation trends, looking backward or including forward expectations yields the same ranking
- **Real rates** among our trading partners, and ranging between -0.1% and -0.6% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.3% is an outlier at the downside, even if the nominal rate is the highest**

FRAs are trending up again – the September hike is becoming quite likely

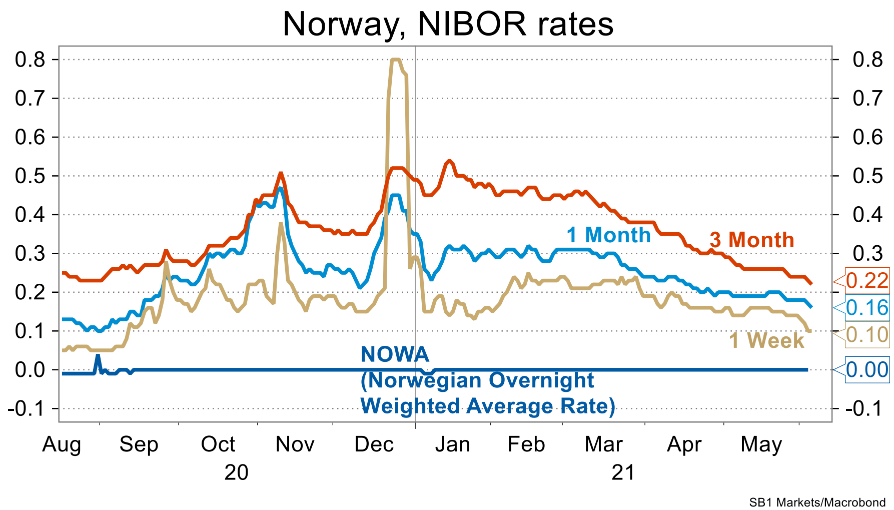


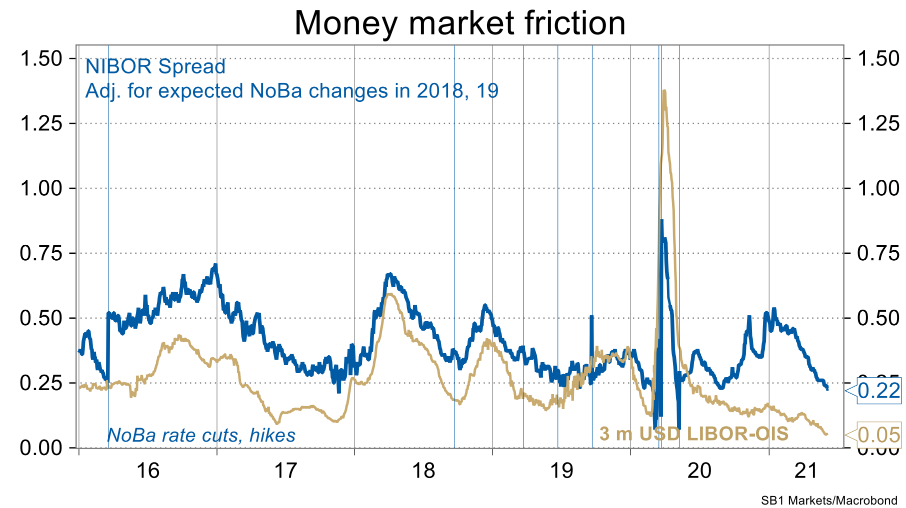


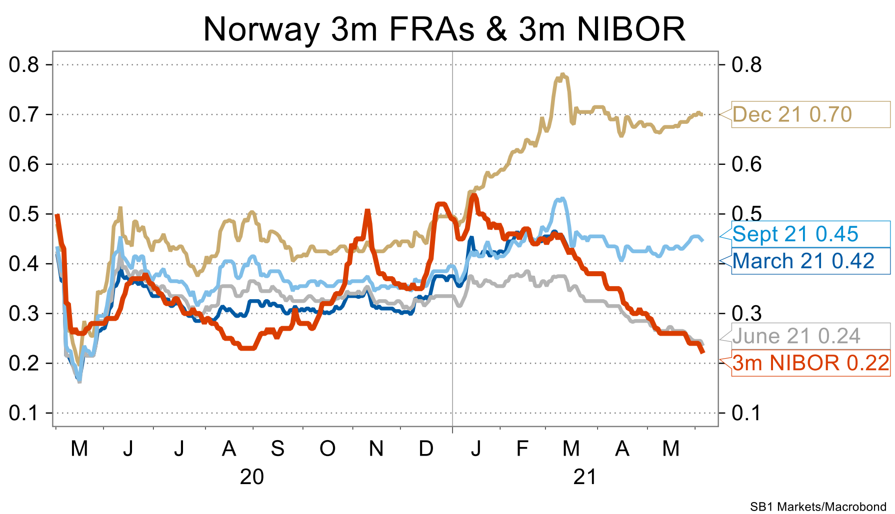
- The NoBa 23 Sept meeting is one weak after the Sept 3 m FRA IMM fixing date. If NoBa hikes to 0.25% on Sept 23, the average NoBa rate during the Sept-21 FRA contract period will be 0.23%. Assuming a 30 bps NIBOR spread the 0.45% Sep FRA-rate equals a 0.15% NoBa deposit rate. If so, a somewhat above 2/3rd probability for a Sept hike is discounted, more than NoBa signalled in its March MPR (50%). If a 25-bps NIBOR spread is assumed, there is an 87% probability for a Sept hike (and if the spread is 22 bps – 100% ☺).
- The Dec-21 FRA at 0.70%, and a 30-bps NIBOR spread, yields a 0.40% NoBa rate. However, the Dec FRA is normally some 5 – 8 bps 'too high' due to year end liquidity adjustments at banks. We deduct this extra liquidity premium, and assumes market's 'real' NoBa expectation at approx. 0.33%. That implies 1/3rd probability for a 2nd hike in H2, marginally above NoBa's path. A second hike in March-22 (if not in Dec) is fully discounted

0.24% was not the bottom for the 3m NIBOR. Now it is 0.22% (until further notice)

The spread to NoBa's signal rate is very close to ATL too

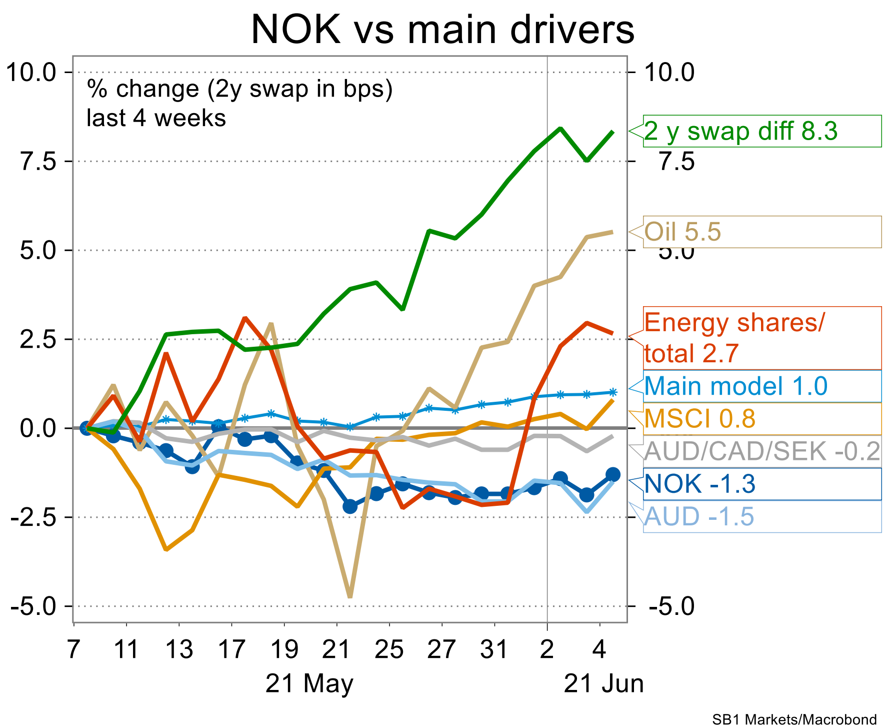


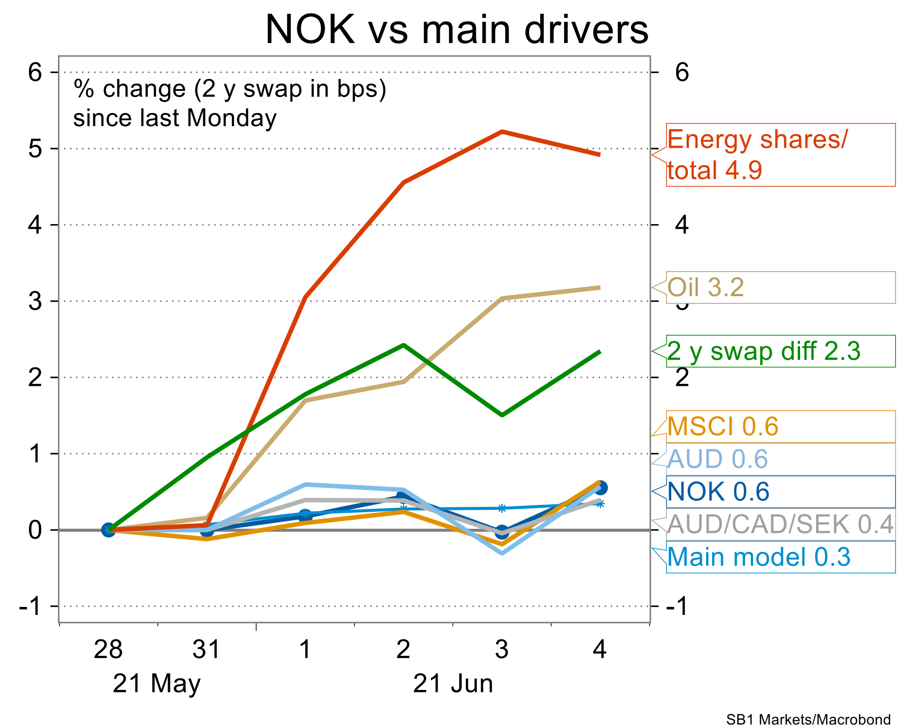




The NOK up 0.6%, our model said 0.3%, supported by the oil price

The int. rate diff rose too, as did global equities. In addition, our super-cyclical peers strengthened too





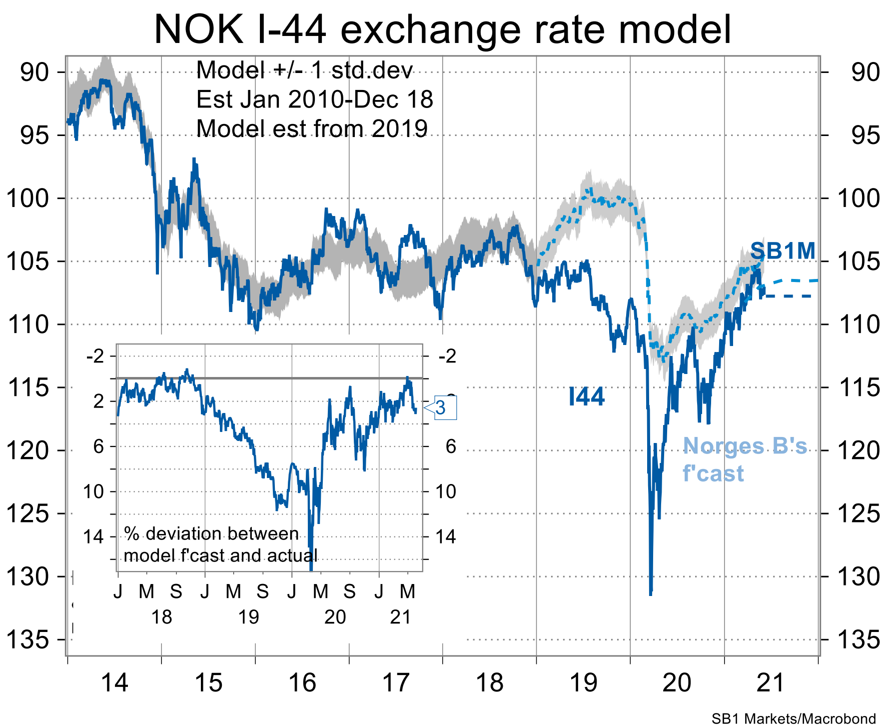
The status vs. the normal drivers:

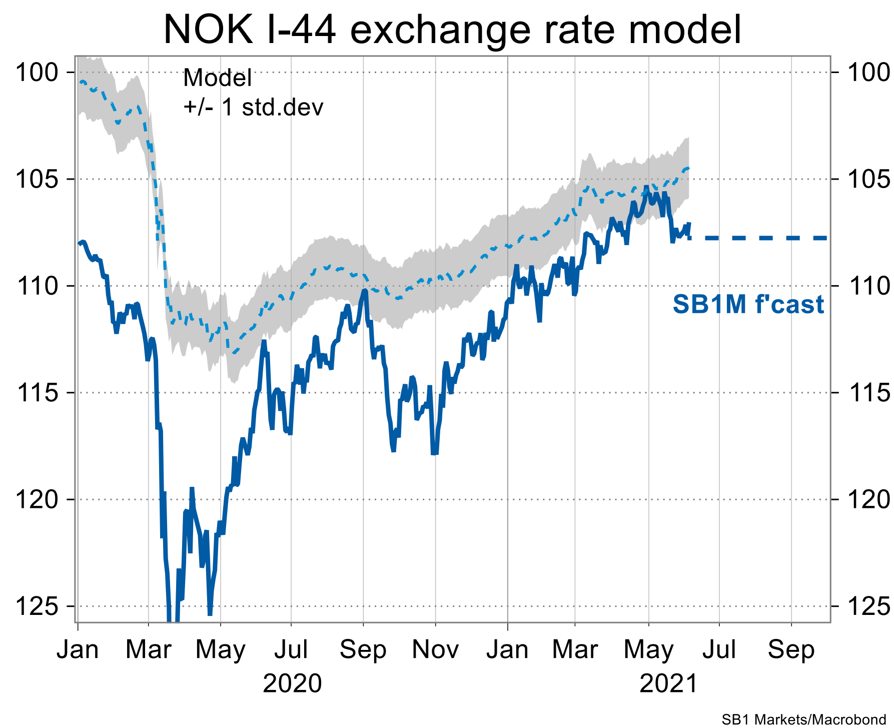
- The NOK is 3% weaker than suggested by our standard model (calculated from Friday's data, from -3)
- The NOK is 3% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020 (from -2)
- The NOK is 9% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (unch)
- On the other hand, the NOK is far (10%) stronger than a model which includes global energy companies equity prices (vs the global stock market) (from -12)

At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index for the last 25 observations. The I44 has an earlier closing time than the 'official' closing time for fx crosses, which is the same as for JP Morgan's indices. Thus, JP Morgan's index correlates closer to the 'official' main NOK fx crosses. There are no substantial difference between these two indices over time. JPM ind. is used for other f/x too

SpareBank 1 MARKETS

NOK 3% below our main model estimate, still not cheap enough for a buy?

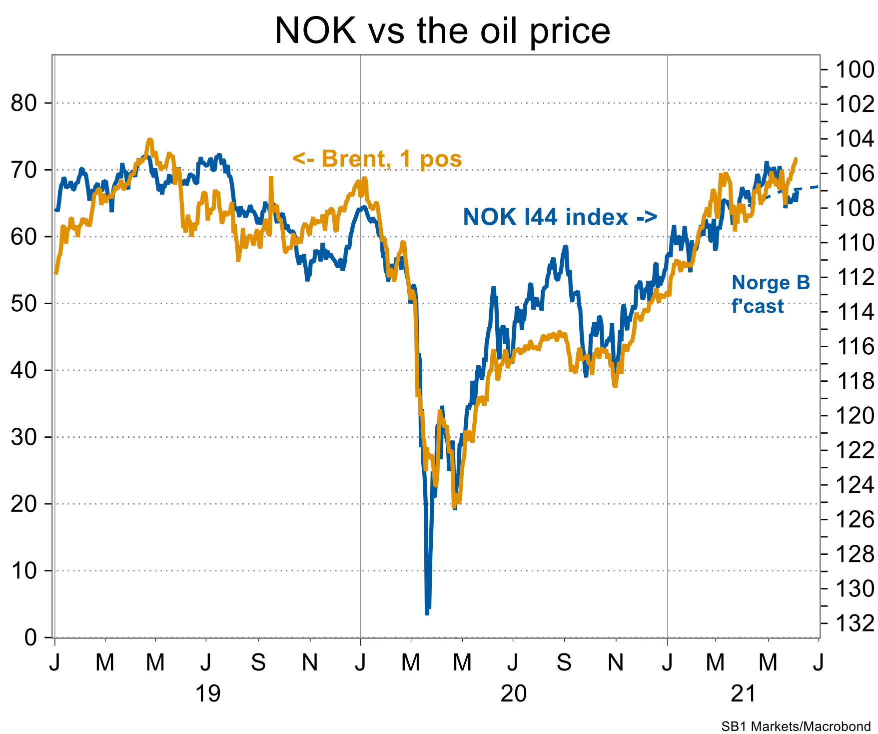


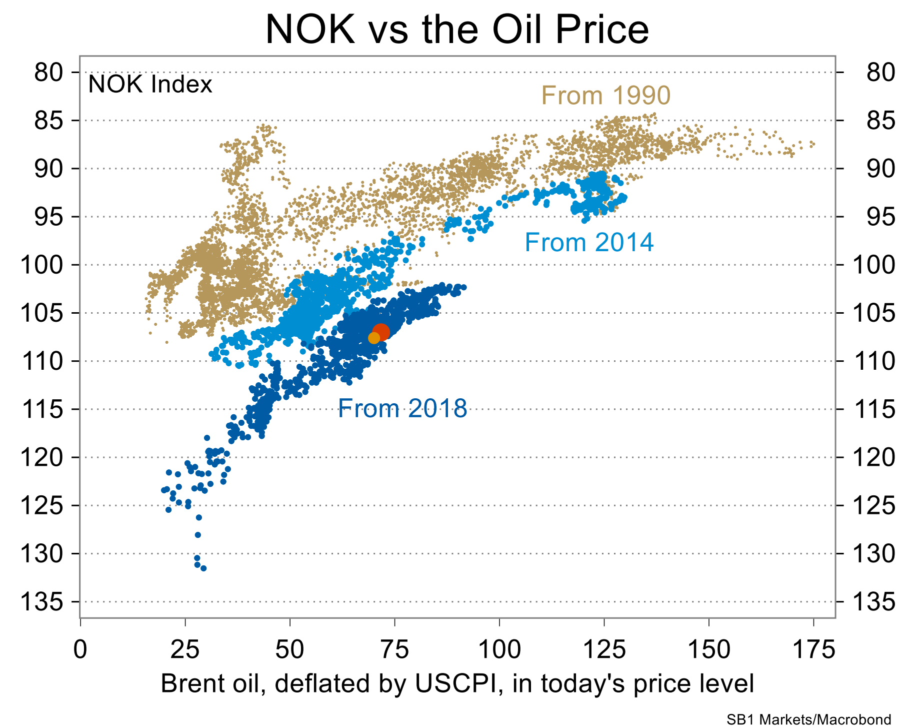


- The NOK is still above the pre-pandemic level and not that far below our workhorse model estimate

Oil up ‘more’ than the NOK

NOK is still correlating quite closely to the oil price but at a lower level than before 2018

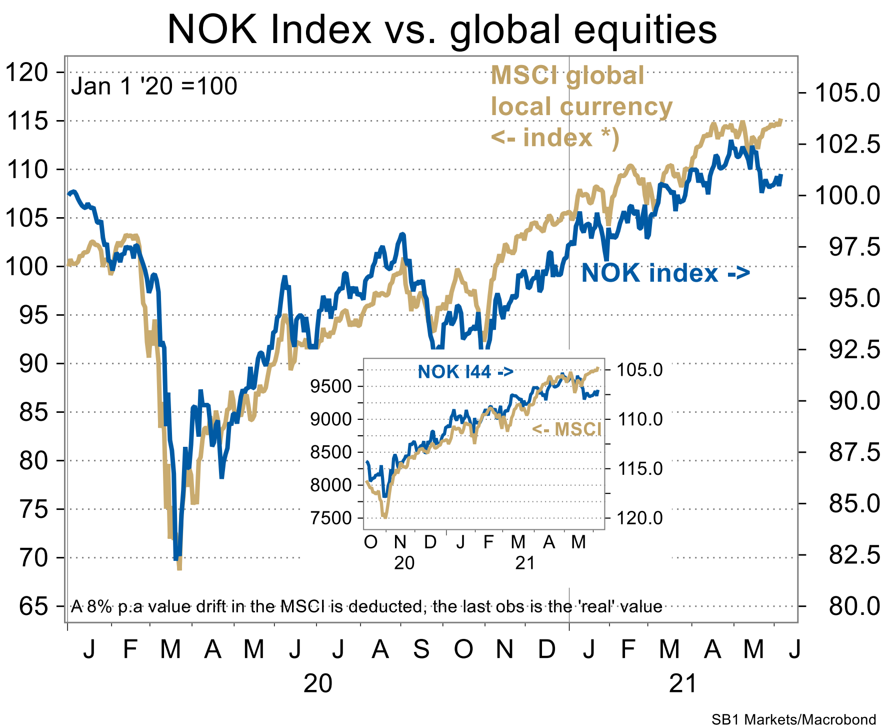


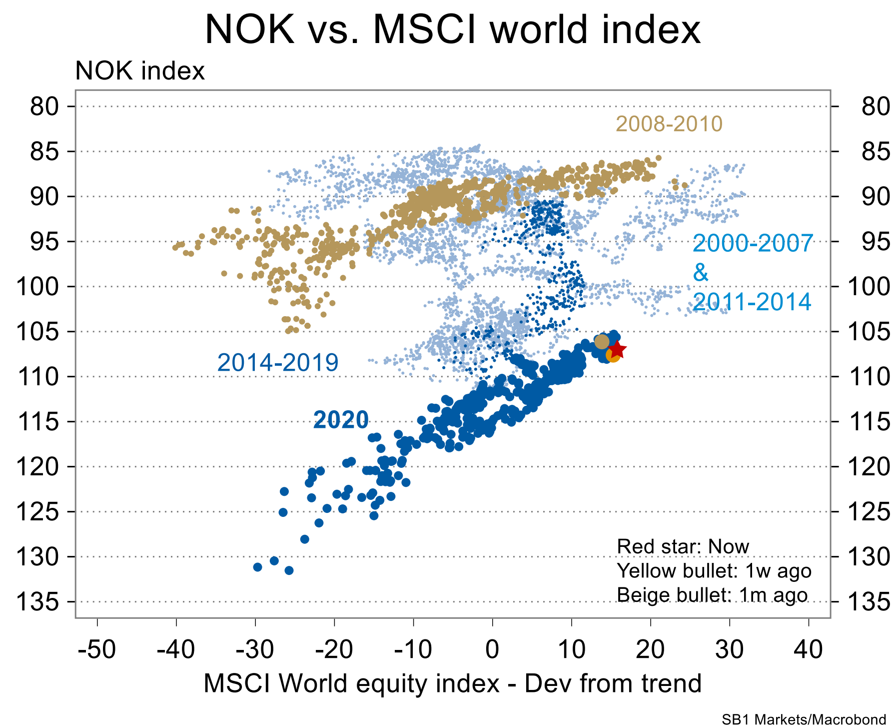


- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

Global stock markets further up, the NOK followed

Except for Sept., NOK and global equities has been closely correlated since early last year





- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the two has been pretty closely correlated from time to time
  - Now, the NOK is somewhat weaker than 'normal' vs the stock market as the NOK lost ground in mid Sept, based on the link between the NOK and MSCI since Jan 2020).
- We have long argued that global equity prices should be more important for the NOK than the oil price, as our global equity assets in the Oil fund are larger than the value of the remaining oil & gas reserves. Has the market 'finally' (and rather sudden) come to the same conclusion? We doubt. It's probably a "risk on, risk off" world, where many risky asses move in tandem, more than usually

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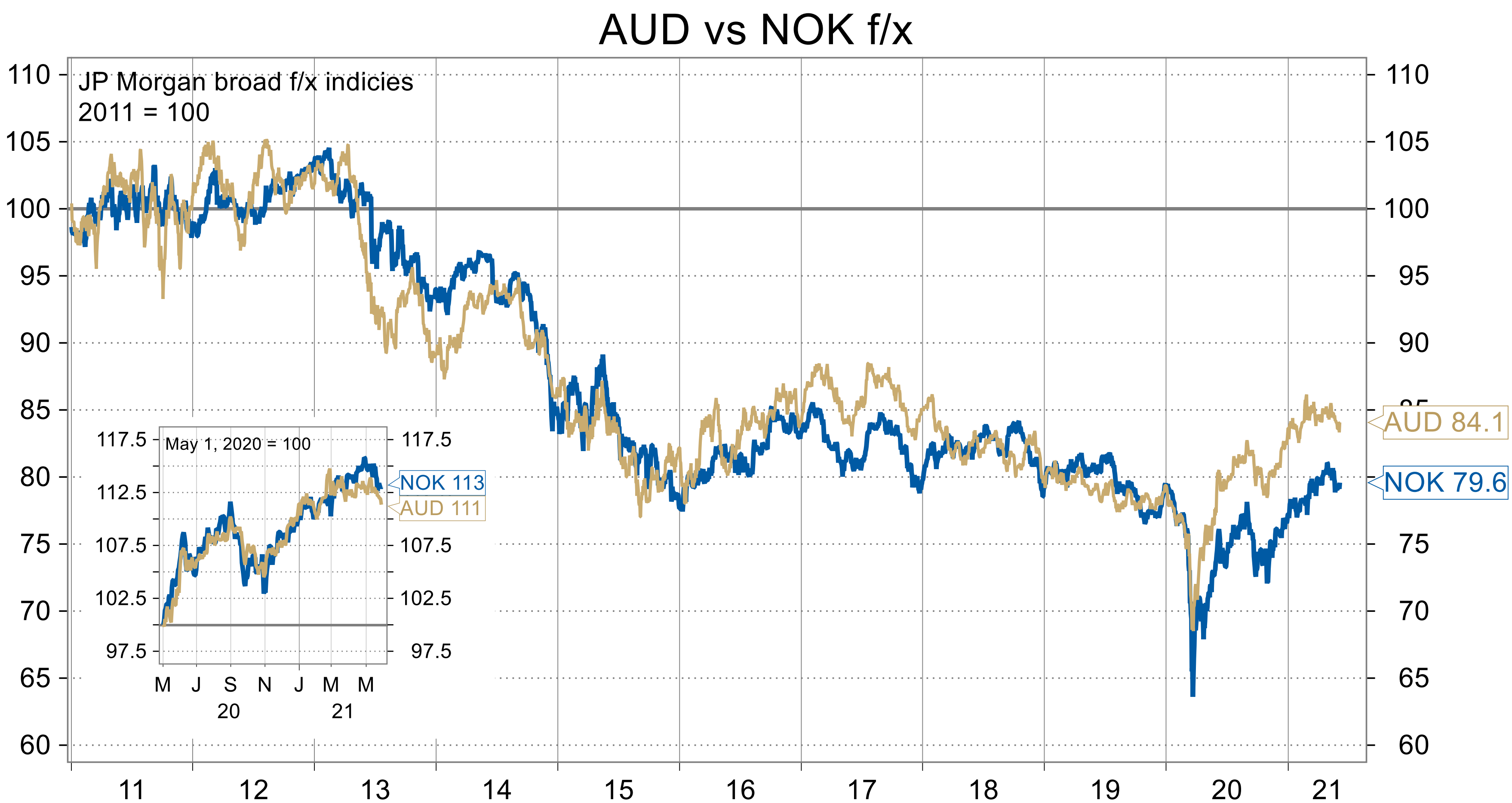
NOK & AUD still in tandem – the AUD rose slightly less than the NOK last week

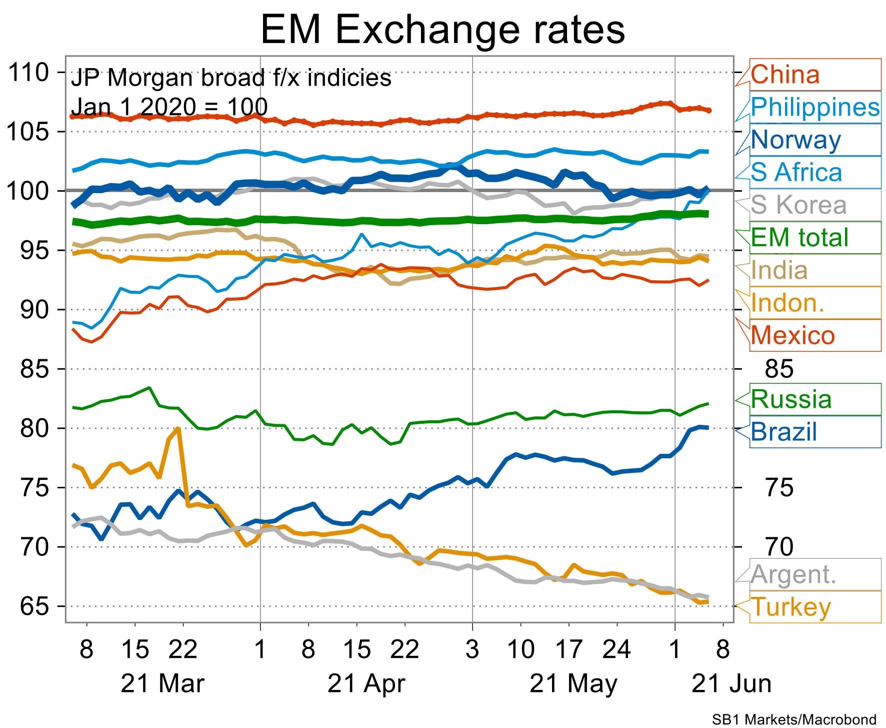
Both are up 11% - 13% since May 1st – but the NOK still 5% weaker than AUD since last spring

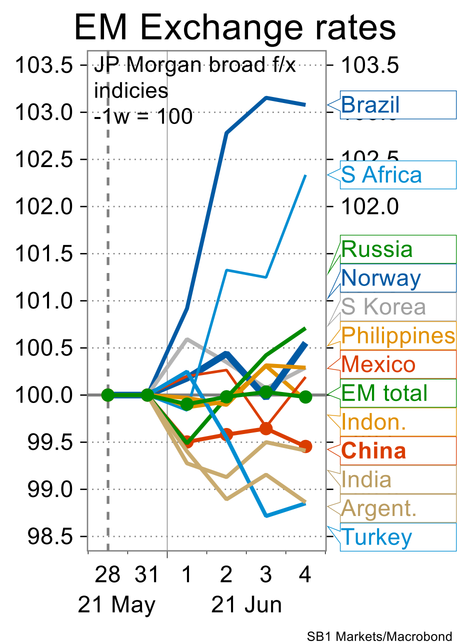


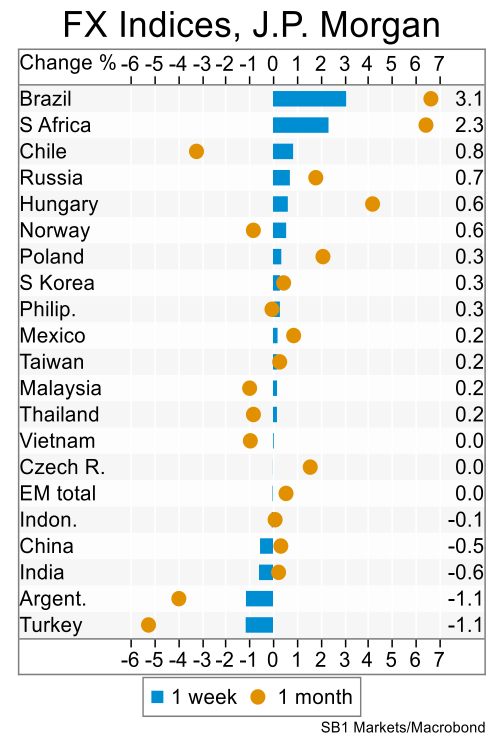
SB1 Markets/Macrobond

The Brazilian real on the way up, from a very low level

The Chinese yuan took a break following an appreciation







- Turkey & Argentina are still der Prügelknaben in the f/x market. For good reasons

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