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Macro Weekly

Week 48/2021

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Last week

Omicron: Heaven or hell?

- Very likely, the new virus variant is **significantly more contagious** than the previous variants, and it **will soon become dominant most places**, just like the more transmissible variants have become until now
  - » The Omicron virus has already spread very rapidly in South Africa and it is already found in a large number a countries
- We do not yet know how much **immunity present vaccines or earlier infections** will give vs the Omicron. Many of those now being infected are reported to have been vaccinated (but South African physicians say that unvaccinated young people are over-represented among those with symptoms)
- Even more important, we do not know whether those infected with Omicron get **more or less ill or will become more or less dependent on hospital care/treatment or will experience a higher Case Fatality Rate** than after being infected by the previous variants, neither for the vaccinated nor the unvaccinated
  - » However, most experts still believe <u>vaccines at least will reduce sickness, if infected</u>
  - » South African health experts (who may want to play down the consequences) report that <u>Omicron symptoms are 'extremely mild'</u> (main symptoms being sore muscles, and tiredness at day or two and some have a slight cough) but no research is yet conducted
- It seems likely that Merck's and Pfizer's treatment 'pills' will effective vs lung illness also vs. the Omicron version
- The coming few days (or 1 – 2 weeks) should yield **extremely important information on how harmful the Omicron variant is** – is it 'extremely mild' or does this variant create sickness/deaths like the previous variants or even worse? **3 possible scenarios:**
  1) **The best case:** We will 'all' be infected but <u>very few do get really sick</u> – while those infected with Omicron <u>also gains immunity vs the other variants</u>. <u>If so, we will soon win the fight against the Covid</u>!
  2) **A bad case:** Vaccines/earlier infections yield some immunity vs Omicron and reduces illness, but as Omicron is far more transmissible and if health consequences are in line with the Delta variant's, <u>serious challenges in the health systems</u>, of which some are already under pressure. <u>A substantial increase in social distancing will be needed to prevent a breakdown a health crisis. It will take time to for the virus to burn through the population. Bad for the economy & most markets</u> (and probably more than what is priced in Monday morning, following the partial recovery so far)
  3) **The ugly case:** The new variant spreads like a wildfire, and those infected get really sick – and it will take time to develop good vaccines (Moderna says they can deliver in early 2022, but if Omicron is really contagious, time is critical). A nightmare, of course. Some very hard choices will have to be made – and many people will decide themselves – by self isolating. <u>Economic & market consequences will be substantial, at least for some months</u>
- **On the <u>Delta</u> variant**
  - » The majority of countries are still reporting more cases – but growth slowed somewhat last week, also in Austria and the Netherlands, which introduced harsh restrictions one week ago (and Netherlands tightened their measures at Friday)
  - » Hospitalisation have increased further in most countries – and now even in the US and in the UK – but outside Eastern Europe, not a any health crisis (yet). Austria and Netherlands have introduced harsh restrictions in order to get control, and milder measures are introduced most other places
  - » Mobility is so far close to stabile at high levels in the West, and as the virus is on the retreat in most countries in the Asia, mobility is normalising here too, which should ease supply chains problems stemming from this part of the world. Until the Omicron arrives…

Last week: The economy (before the Omicron virus turned up)

- **Preliminary November PMIs**
  - » **PMI data** sets were in sum better than expected – due to upticks in both EMU and Japan, while US services surprised somewhat at the downside. Our estimate for a small uptick for the global composite PMI signals growth well north of 4%. Delivery times may have peaked but price inflation is still accelerating
- **USA**
  - » The **minutes from the FOMC were more hawkish** than we thought chair Powell sounded at the presser following the early November meeting. (He was applying for a re-nomination??) According to the minutes, many members of the FOMC raised their concerns regarding inflation, paving the way for speeding up tapering in December (now - if Omicron do not hit too hard)
  - » **Q3 GDP** was revised marginally upwards to 2.1%, no important details changed. However, **corporate profits** rose further to the best level ever/or in decades. We still think 'the end is near' for the profit cycle, as the labour market is too tight for the corporate sector to keep the profits rate at present levels. So far, they have solved the problem by hiking their prices at the fastest pace in 3 decades but we very much doubt that is a sustainable solution
  - » **Personal spending** grew rapidly in October too, and much more than the income – and the savings rate fell to below the pre-pandemic level but the Wall of Money saved through the pandemic is still intact (equals 13% annual income). Spending on services are still below par, goods far above
  - » The **consumption price deflator** (PCE) confirmed the high monthly inflation in October reported by the CPI, putting even more pressure on the Federal Reserve
  - » **Export volumes** climbed 10% in October, and the trade surplus in goods shrank substantially. No details yet
  - » The number of **new jobless claims** fell to a record low level last week – which do not weaken the impression of a very tight labour market
- **EMU**
  - » **Consumer confidence** fell slightly in November very likely due to the Delta challenges
  - » **No credit boom**: Corporate credit growth has gained some speed recent months, but growth is still moderate, as for households
- **Sweden**
  - » **The Riksbank** signals that the signal rate will be hiked. In Q4-24. Markets were 'disappointed' but still discount in first hike in late 2022 or early 2023
- **Norway**
  - » **The LFS (AKU) unemployment rate** fell much more than expected in September, by 0.4 pp to 3.6%. **Employment** grew further, while the participation rate fell marginally (and it has flattened since the summer). The strong labour market is confirmed by a further strong growth in the **no. of employees** (payrolls, a-ordningen) in October – now up 1.4% vs. the pre-pandemic level, and by 2.1% with permanent stay in Norway
  - » **Retail sales** rose in October, we expected a small decline. The trend is still down. Opinion's **consumer confidence** index fell sharply in November, and it seems strange that the Delta virus should get the blame. But what else??
  - » **Hotel guest nights** were much higher than we expected in October, up 1% vs. the 2019 average. Norwegians guest nights are up 18%, due to much higher recreational traffic than normal. Even the conference market is back to normal! Total revenues are up 4% vs. 2019

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The Calendar: Omicron + PMI/ISM, US payrolls, Norwegian unemployment, house prices

Time	Count.	Indicator	Period	Forecast	Prior
Monday Nov 29					
09:30	SW	GDP QoQ	3Q	1.8%	0.9%
11:00	EC	Economic Confidence	Nov	117.5	118.6
14:00	GE	CPI YoY	Nov P	5.0%	4.5%
Tuesday Nov 30					
00:50	JN	Industrial Production MoM	Oct P	1.9%	-5.4%
02:00	CH	Non-manufacturing PMI	Nov	51.3	52.4
02:00	**CH**	**Manufacturing PMI**	**Nov**	**49.8**	**49.2**
08:00	NO	Credit Indicator Growth YoY	Oct		5.3%
11:00	**EC**	**CPI Core YoY**	**Nov P**	**2.3%**	**2.0%**
11:00	**EC**	**CPI YoY**	**Nov P**	**4.4%**	**4.1%**
15:00	US	House prices S&P CS MoM	Sep	1.3%	1.2%
16:00	US	Consumer Confidence	Nov	110.7	113.8
Wednesday Dec 1					
02:45	CH	Manufacturing PMI, Caixin	Nov	50.5	50.6
08:00	NO	Households' savings rate	Q3	(8%)	12.1%
08:00	GE	Retail Sales MoM	Oct	1.0%	-2.5%
08:30	SW	Manufacturing PMI	Nov		64.4
10:00	NO	Manufacturing PMI	Nov	58.5	58.5
10:00	EC	Manufacturing PMI	Nov F	58.6	58.6
11:00	EC	OECD Publishes Economic Outl.			
14:15	US	ADP Employment Change	Nov	515k	571k
15:45	US	Manufacturing PMI, Markit	Nov F	59.1	59.1
16:00	US	Construction Spending MoM	Oct	0.4%	-0.5%
16:00	**US**	**ISM Manufacturing**	**Nov**	**61**	**60.8**
17:00	**WO**	**Manufacturing PMI**	**Nov**	**(54.7)**	**54.3**
20:00	**US**	**Beige Book Federal Reserve**			
	US	Auto sales	Nov	13.20m	12.99m
Thursday Dec 2					
11:00	**EC**	**Unemployment Rate**	**Oct**	**7.3%**	**7.4%**
11:00	EC	PPI YoY	Oct	19.0%	16.0%
14:30	US	Initial Jobless Claims	Nov-27	255k	199k
Friday Dec 3					
02:45	CH	Caixin China PMI Services	Nov	51	53.8
08:00	NO	SSB Economic forecasts	Q4		
08:30	SW	Swedbank/Silf PMI Services	Nov		68
10:00	**NO**	**Unemployment Rate, NAV**	**Nov**	**2.2%**	**2.2%**
10:00	EC	Markit Eurozone Services PMI	Nov F	56.6	56.6
10:00	EC	Markit Eurozone Composite PMI	Nov F	55.8	55.8
11:00	**NO**	**House Prices**	**Nov**	**0.4%**	**0.2%**
14:30	US	Change in Nonfarm Payrolls	Nov	525k	531k
14:30	**US**	**Unemployment Rate**	**Nov**	**4.5%**	**4.6%**
14:30	**US**	**Average Hourly Earnings MoM**	**Nov**	**0.4%**	**0.4%**
14:30	**US**	**Labor Force Participation Rate**	**Nov**	**61.7%**	**61.6%**
16:00	**US**	**ISM Services Index**	**Nov**	**65.0**	**66.7**
17:00	WO	Composite PMI	Nov	(54.9)	54.5

- **Omicron – heaven or hell?**
  - The 'only' important data point this week is obviously **sickness/need for hospital treatment/care for persons infected with the new virus variant**. So far, there are no indication that Omicron is more harmful than the Delta variant
    - In fact, some South African researchers state that symptoms are 'extremely mild'. It that is confirmed, one problem less – and if the Omicron is very easily transmissible and at the same time protects against the Delta variant, a quick fix for the whole pandemic!
    - The alternative: Omicron is easily transmissible and even more, escapes current vaccines/earlier infections but at the same time just as harmful – or more harmful – than the Delta variant. If so, significantly more social distancing will take place, whether authorities say so or not!
- **November (final) PMIs**
  - **The preliminary PMI data** sets from the rich part of the world signalled another small uptick. Emerging markets ex. China have reported much better PMIs recent months, and should continue upwards now. The Chinese PMIs are weaker than some months ago, but not yet weak. Global delivery times may have peaked (or at least the increase in delivery times) but prices are still accelerating! In the US, the focus will be at the ISM surveys. The service sector ISM was at record high level in October
- **Auto sales**
  - Several countries report November auto sales this week but too few countries will have reported by next weekend to produce a global estimate
- **USA**
  - **Nonfarm payrolls growth** is expected to be strong in November too (0.5 mill +), but the participation & unemployment rates as well as **wage inflation** are the really important data in the labour market report, as these data give the relevant data on labour market tightness. In addition, the NFIB (SMBs) will report hiring plans, if they are able to fill vacancies as well as wage plans. Following the drop to the lowest new jobless claims ever last week, check out the flow this week too
  - We expect Fed's **Beige book** to confirm decent growth, lack of labour and higher wage & price inflation
- **EMU**
  - **CPI inflation** will very likely accelerate further in November, preliminary data out from today
  - **Unemployment** is steadily falling, and has fallen to below the pre-pandemic level - as the vacancy rates has 'exploded', to the highest level ever. A further decline in the unemployment rate is expected in October
- **Norway**
  - **NAV open unemployment** is rapidly on the way down, and we expect a further decline in November, especially among the partially unemployed
  - **House prices** are appreciating at a slower pace, and interest rates are on the way up but the market is tight and we expect a small increase in prices in Nov too

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

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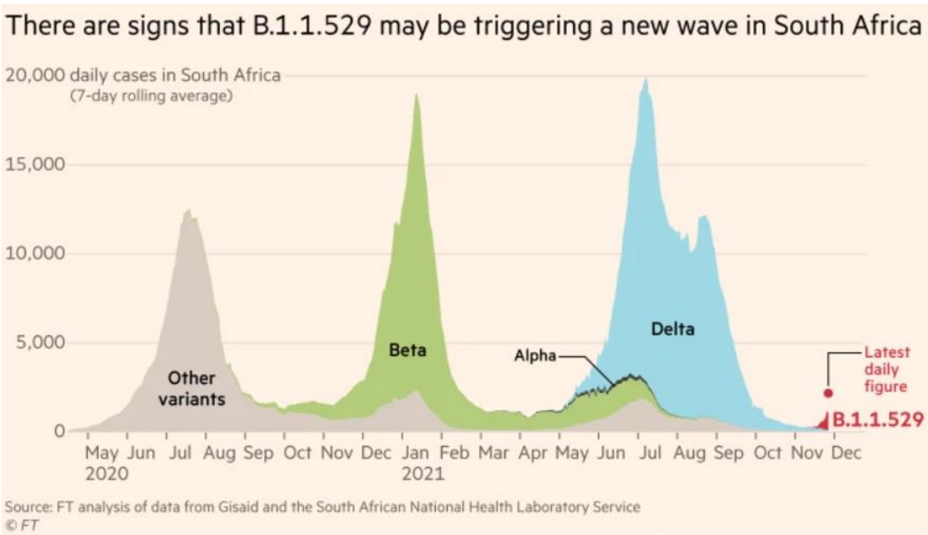
The Omicron is rapidly gaining the upper hand in South Africa

As it must be far more transmittable than the previous variants – and it will be so everywhere



- So far, the number of infected in South Africa is low, <u>but it exploded through last week</u>
  - » Either because it has <u>a significantly higher R0</u> than the previous variants (which an unprecedented no. of mutations in the spike protein may indicate)
  - » Or because the current vaccines or earlier infections <u>does not give or give far less immunity vs. the new variant</u> (which some other mutations may indicate)
- However, the main question is: How many will get sick, need hospital care/treatment? So far, positive comments from South Africa

Source: Financial Times

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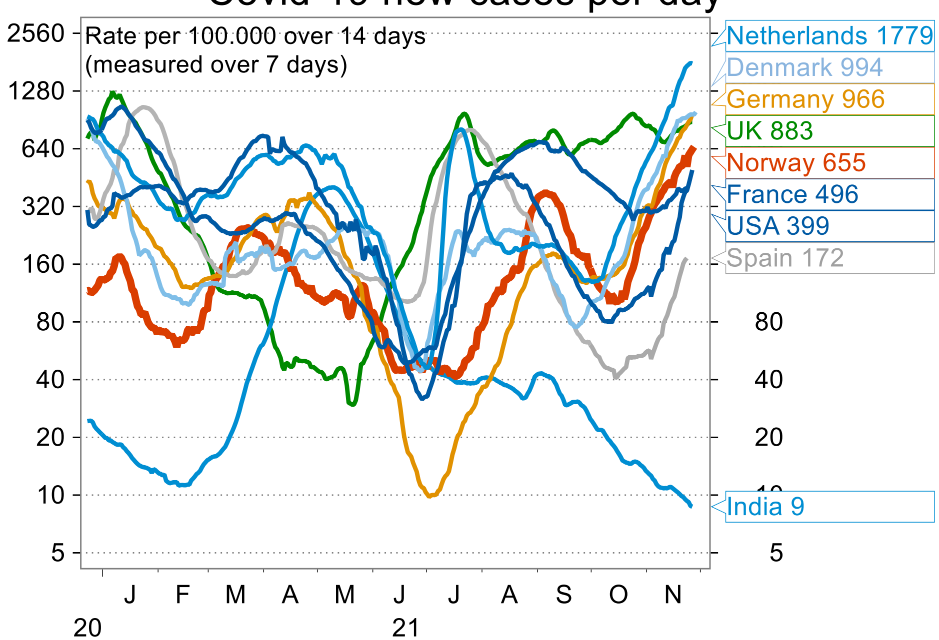
Even the Delta variant creates more trouble

A majority of countries are still reporting more cases

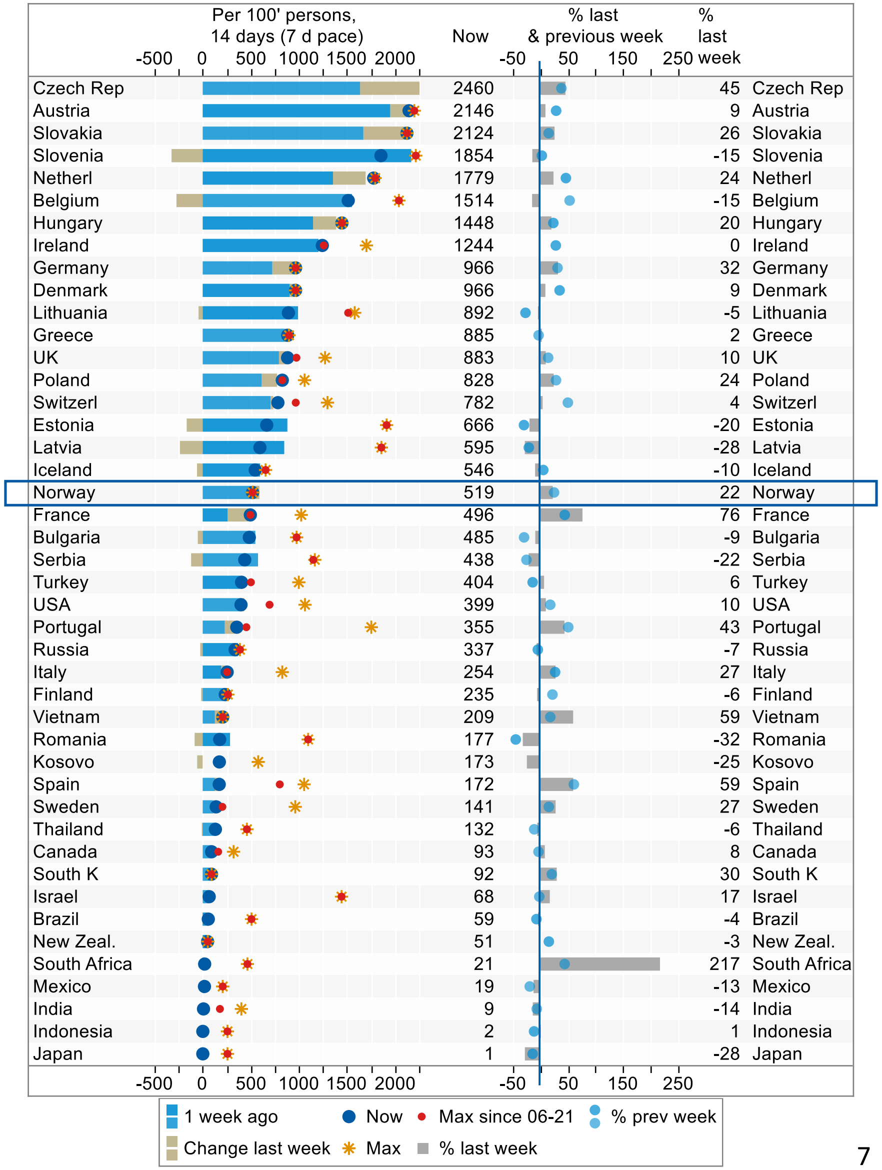
- 25 countries were reporting more cases the last week too, and growth slowed marginally, like in Norway and Denmark, and several others
- 17 countries reported fewer cases, 1 less than the previous week
- Growth in new cases has slowed in Austria and Netherlands, the two Western European countries with most cases which introduced serious restrictions one week ago (and Netherlands decided new restrictions at Friday)
- **South Africa** reported an extreme steep rise in new cases last week – due to the Omicron – but the level is still very low

Covid-19 new cases per day



SB1 Markets/Macrobond

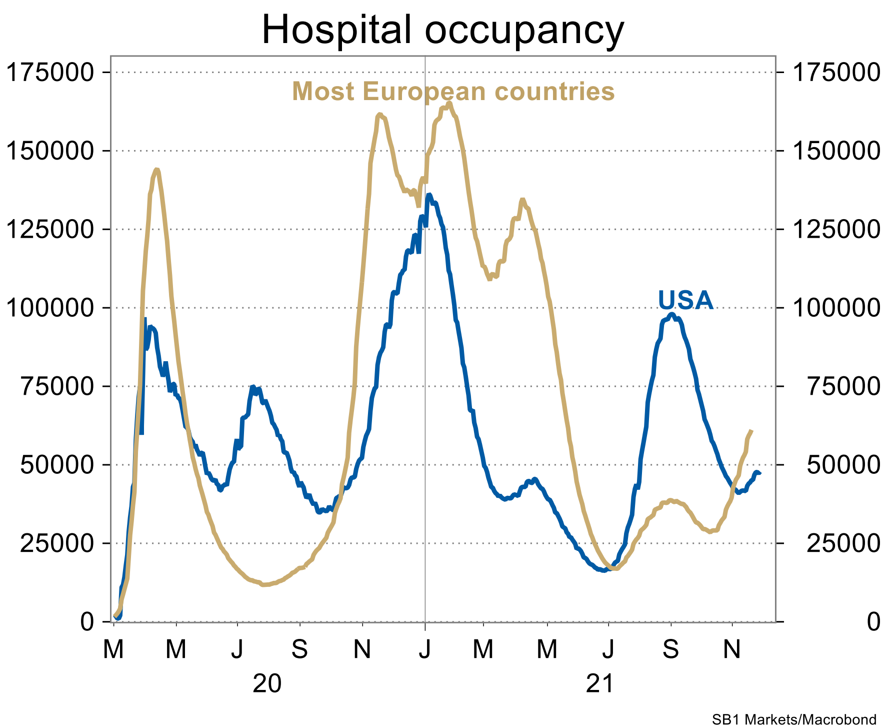
COVID-19, New Cases

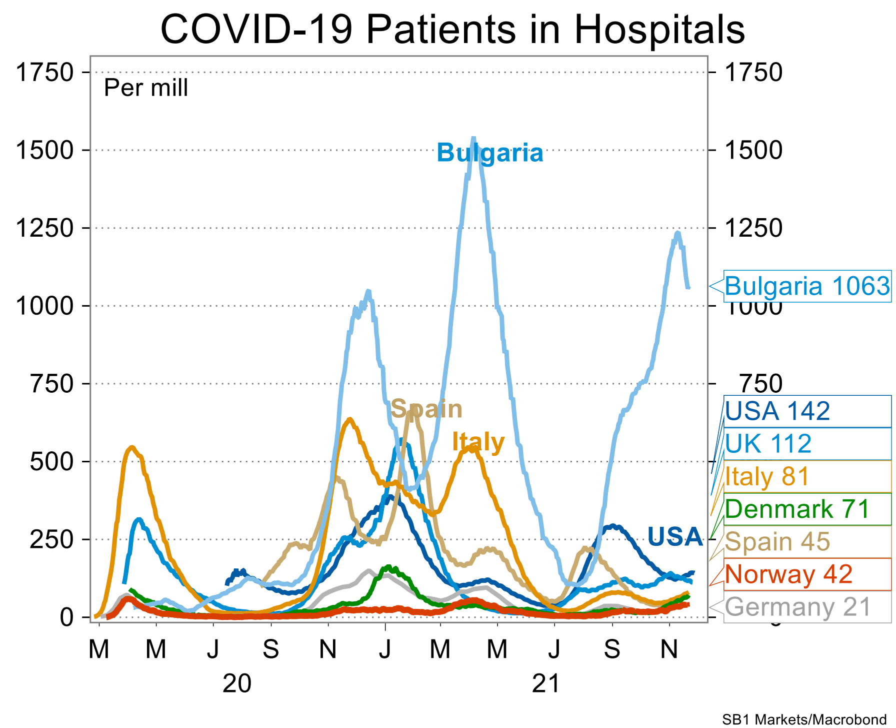


SB1 Markets/Macrobond

More hospitalisations in Europe, and the in the US as well

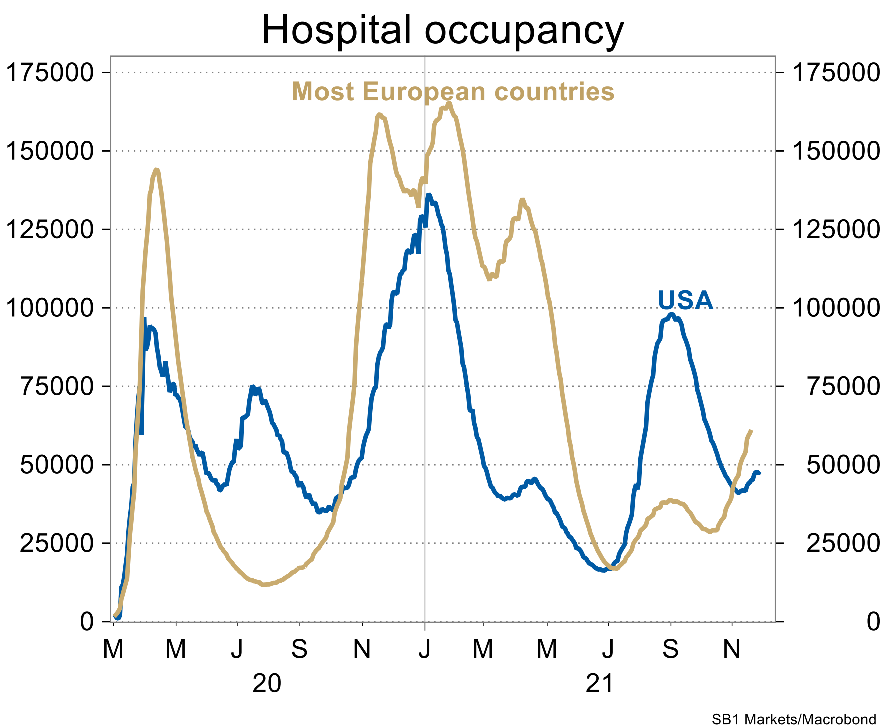
However, levels are still low outside Eastern Europe

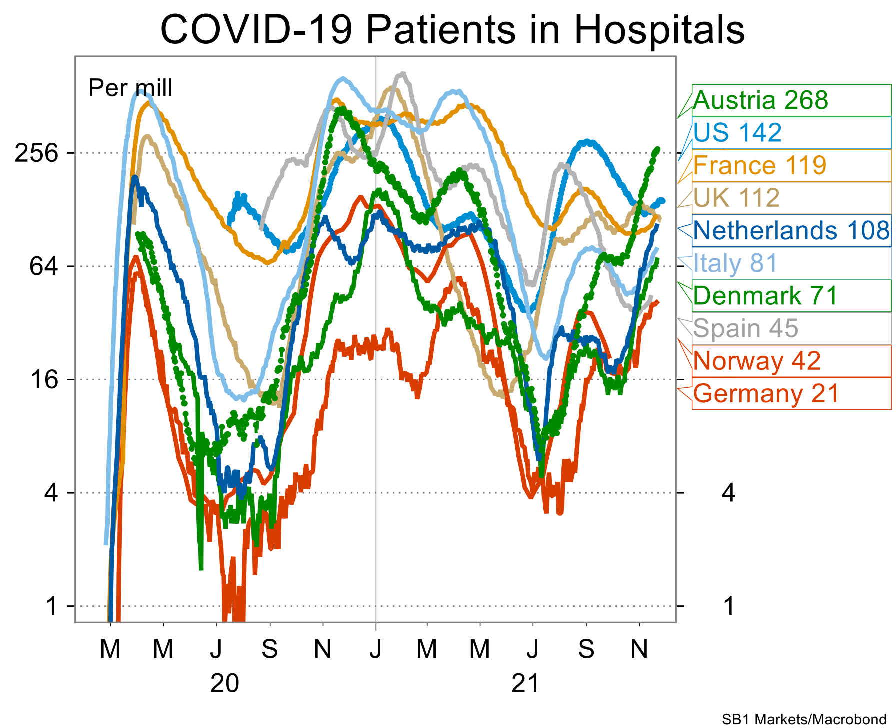




More hospitalisations in Europe, and the now in the US as well

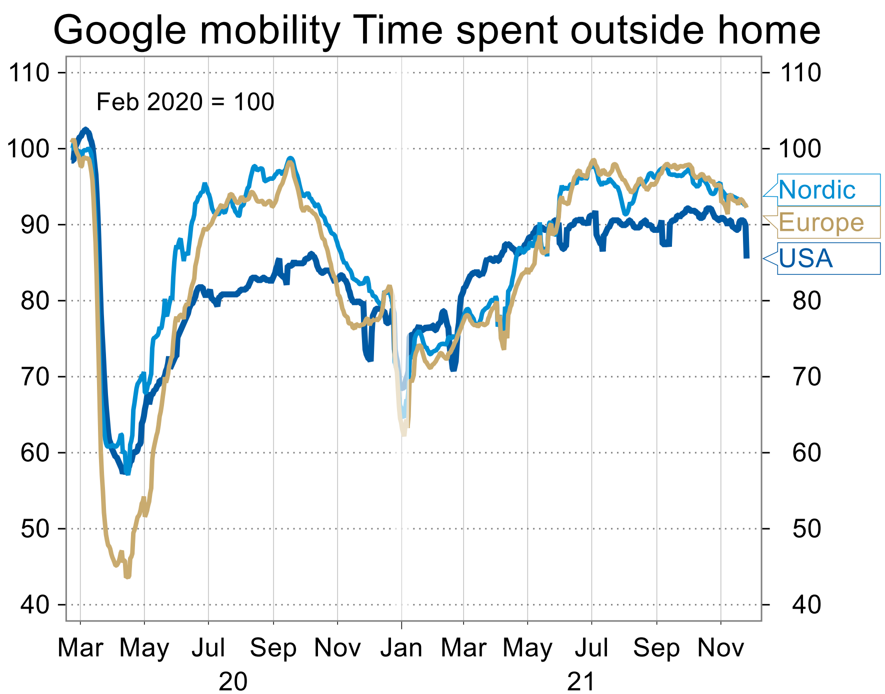
Growth has slowed in Norway – and in UK the no. of patients is declining again!





Mobility is slightly reduced: The season or the virus? We think the season

Mobility in Asia is on the way up, and some countries are back at pre-Delta levels



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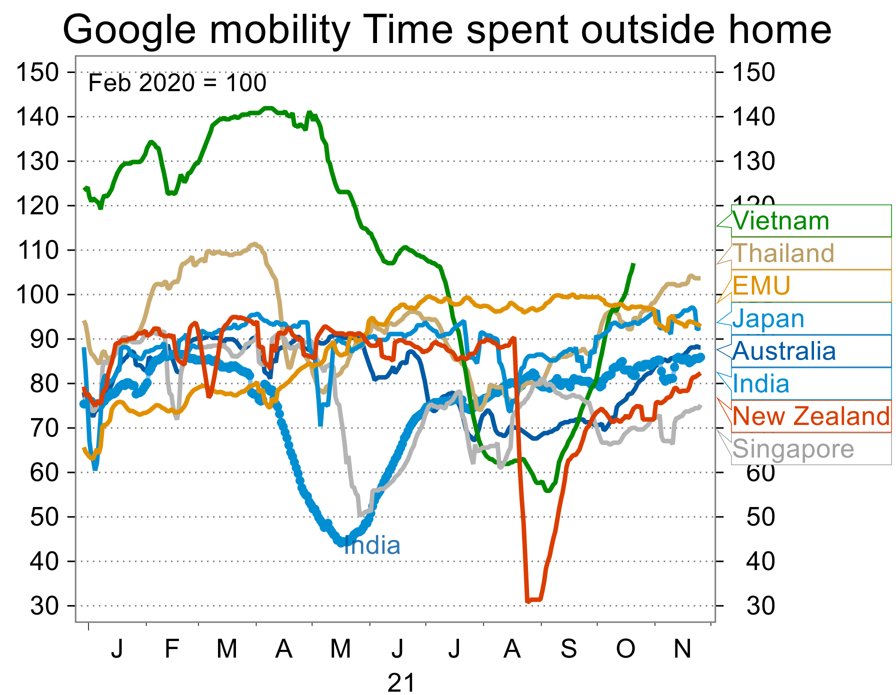
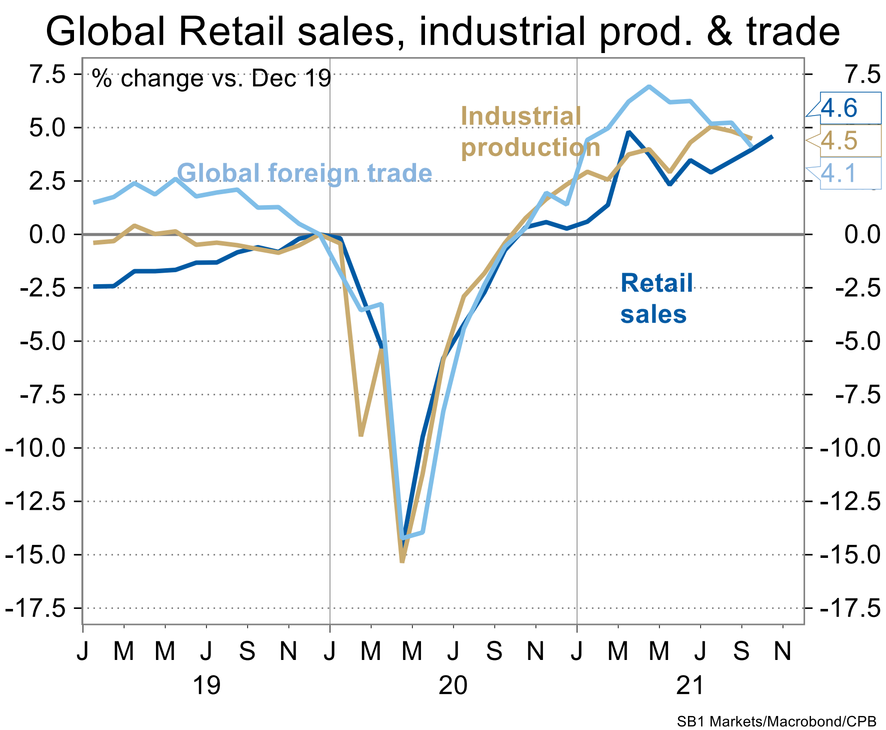


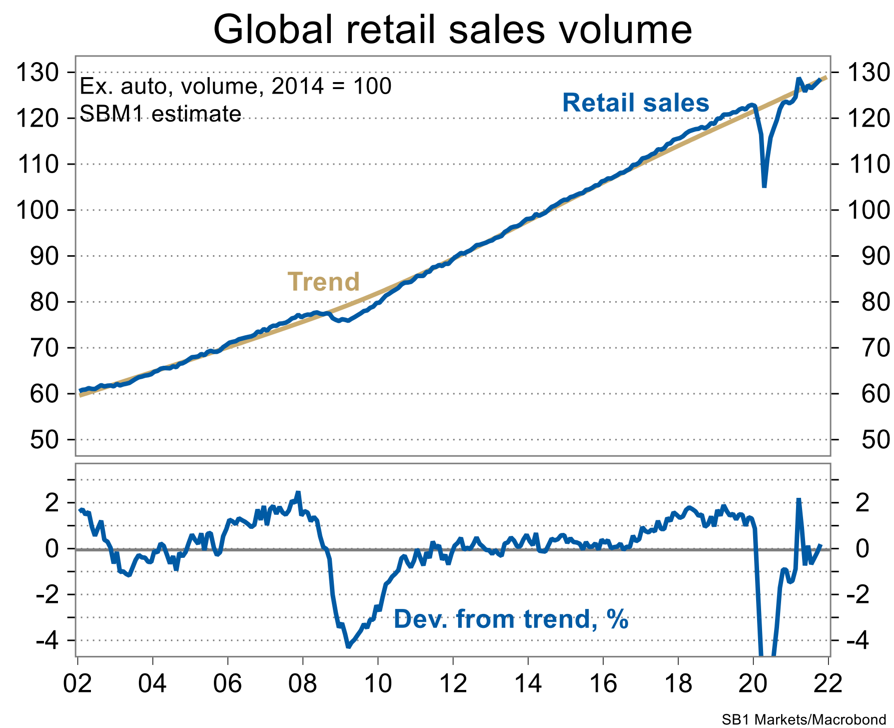
SB1 Markets/Macrobond

- The drop in the US is due to Thanksgiving

Global retail sales have flattened, global trade is sliding down

Now Emerging Markets demand for goods is recovering, while rich countries are heading down

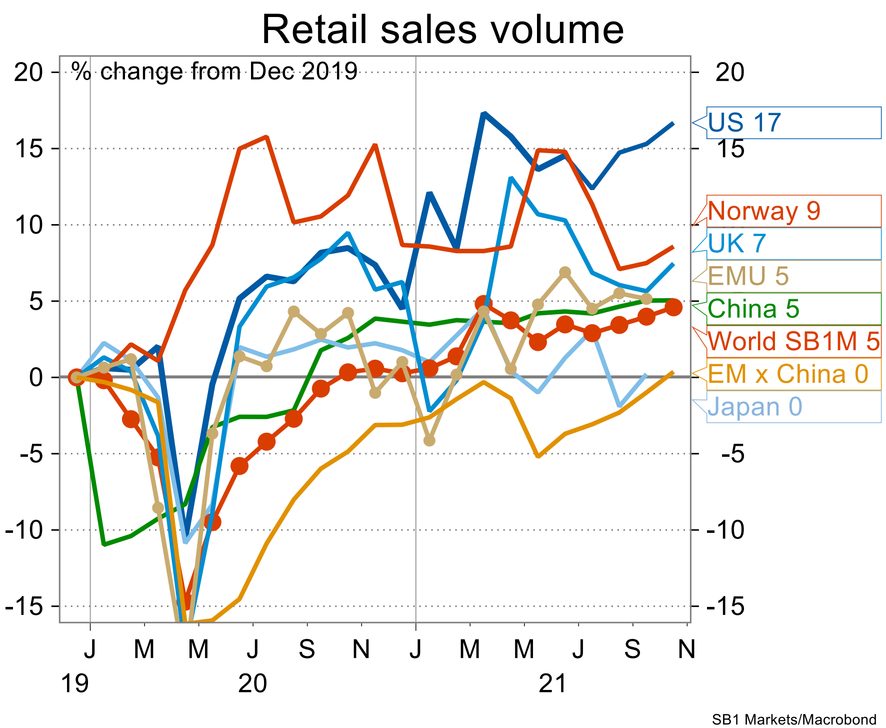


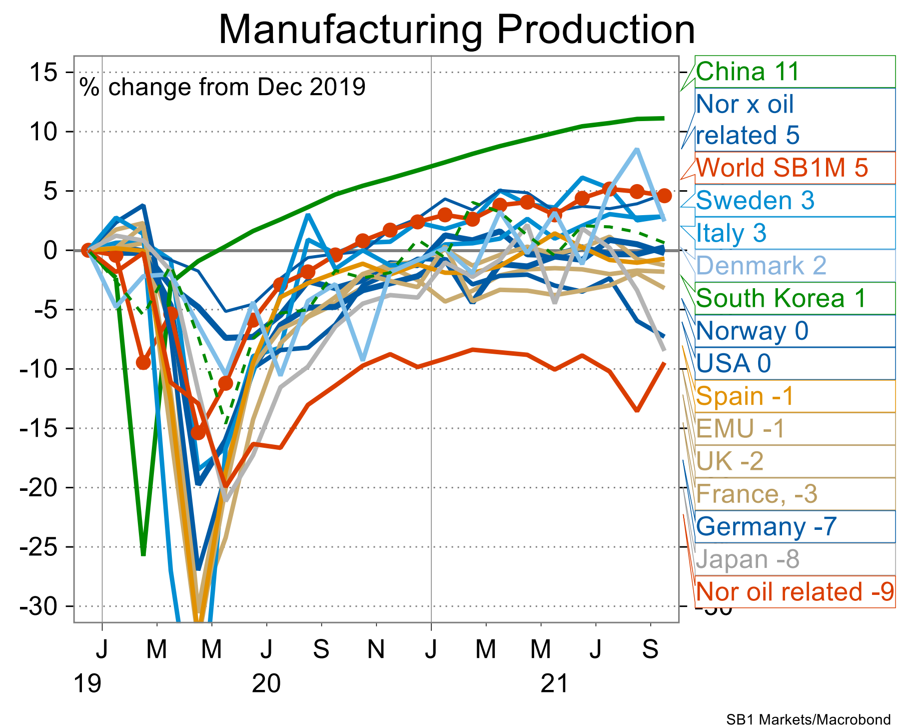


- **Retail sales** rose further in Sept and is up 4% vs. the pre-pandemic level
- **Manufacturing production** stagnated in Aug and Sept mostly due deep cuts in auto production. The level is some 4.5% above the pre-pandemic level. The first October data are more encouraging
- **Global foreign trade** peaked in May and has fallen slightly thereafter. In Aug, trade volumes were flat. The level is still more than 5% above the pre-pandemic level

DM demand for consumer goods have peaked, EMs are recovering from a low lev.

The upside potential is large for Emerging Markets x China, and the recovery has started

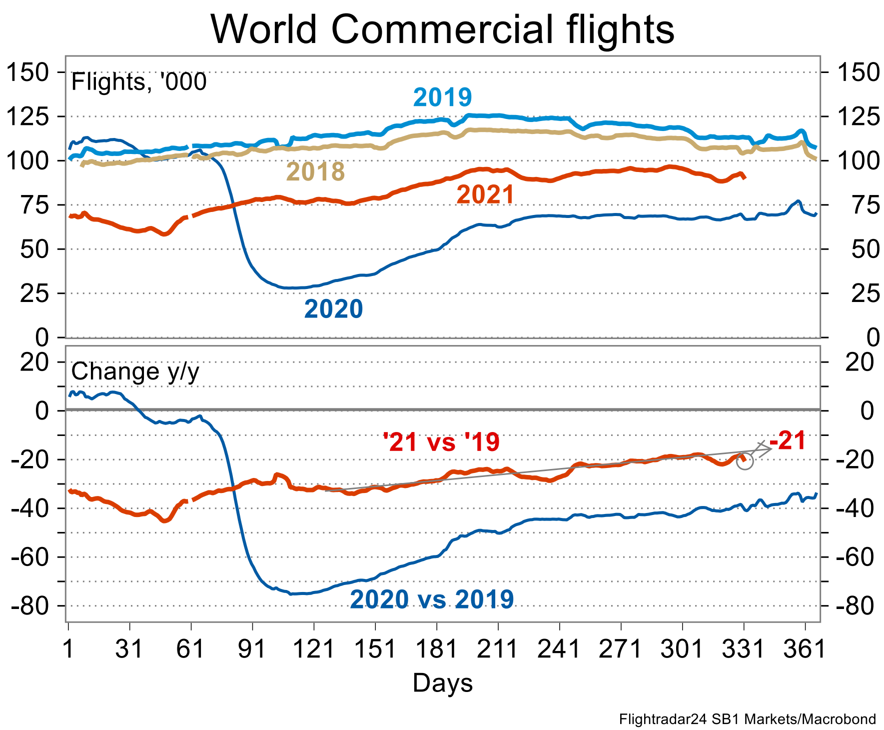


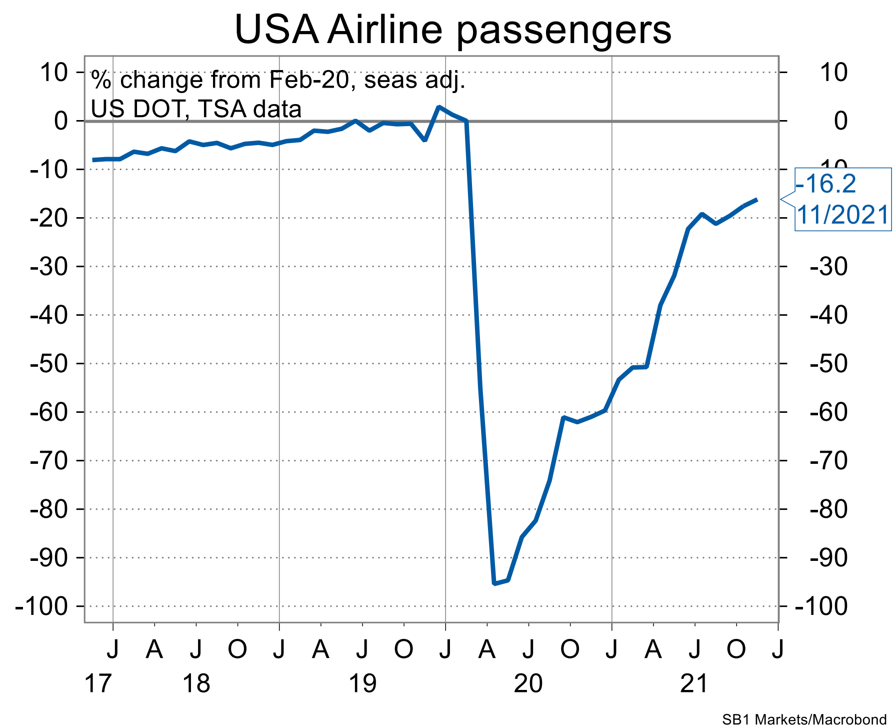


- **Retail sales** in Emerging Markets x China were weak before the summer due to the setback in demand in India, and thereafter in other parts of Asia. Now a substantial recovery is very likely underway
- US retail data are still very strong, although below the March peak
- **Manufacturing production** has been hampered by a deep decline in auto production. The manufacturing PMIs are down but not weak

Global airline traffic has not recovered further recent weeks

Last week was down 19% vs. the 2019 level, vs. -21% the previous weeks

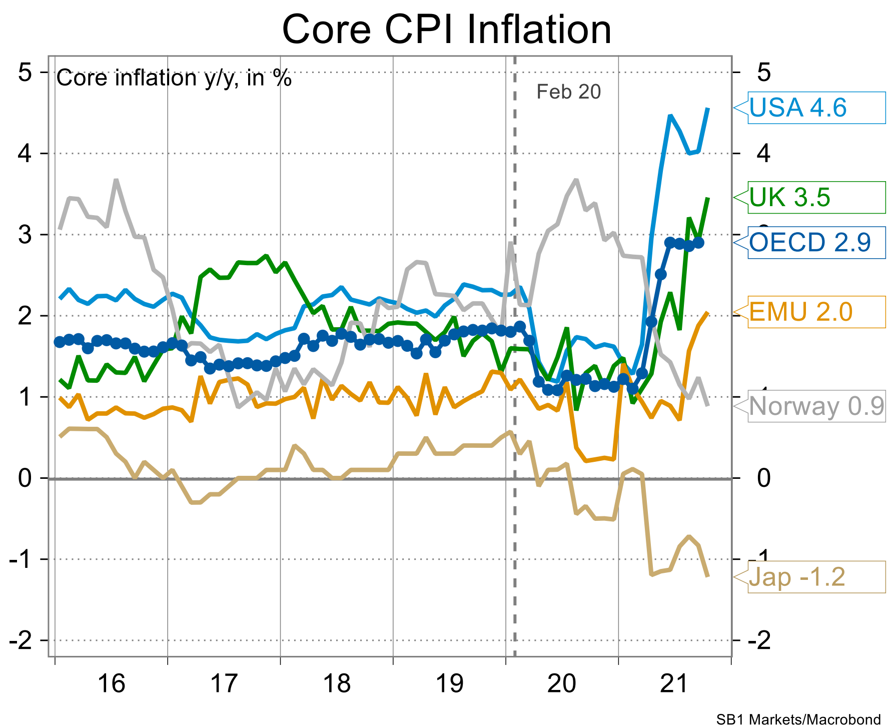


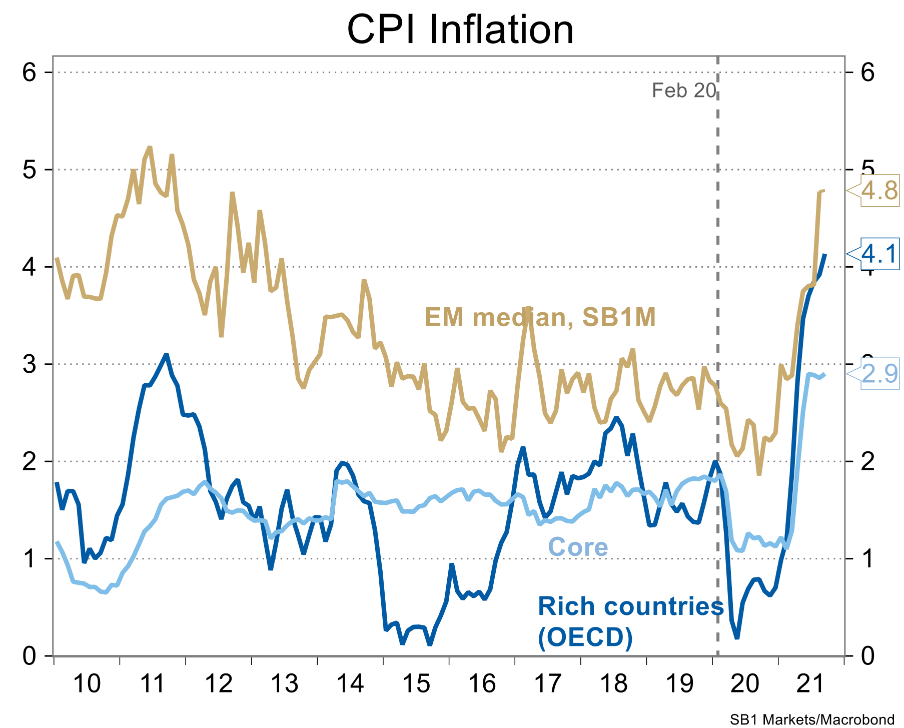


- The no. of passengers has stagnated in the US as well (but Thanksgiving may change the picture)

Inflation may be peaking ~~now~~ soon – at a high level

Energy prices the main culprit, but core inflation has turned up more places





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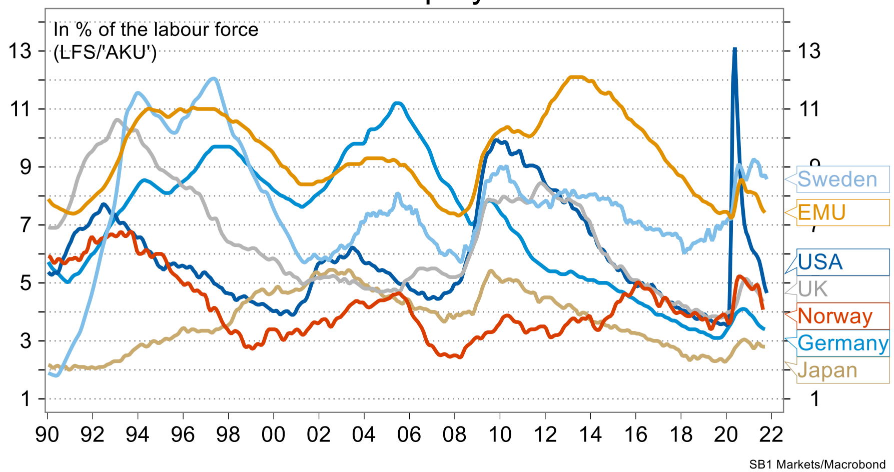
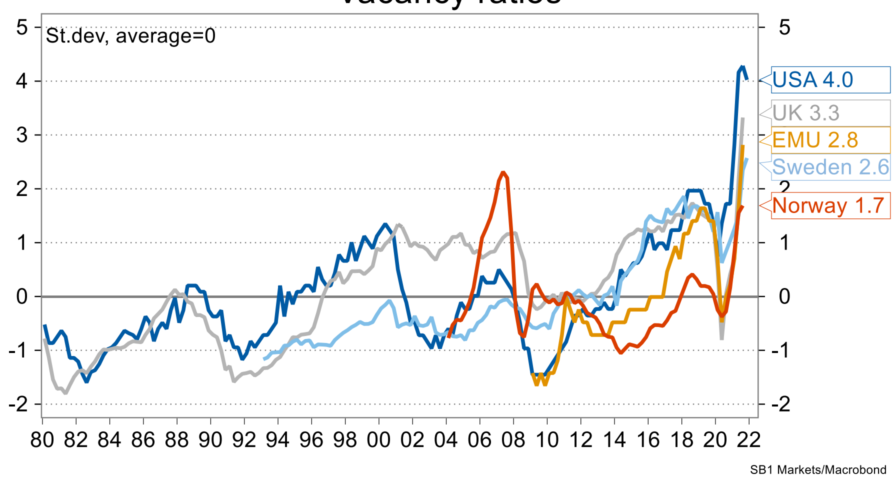
Unemployment on the way down everywhere, as unfilled vacancies soar

Unemployment is on par or lower than average since 2000 in 20 out of 23 countries!

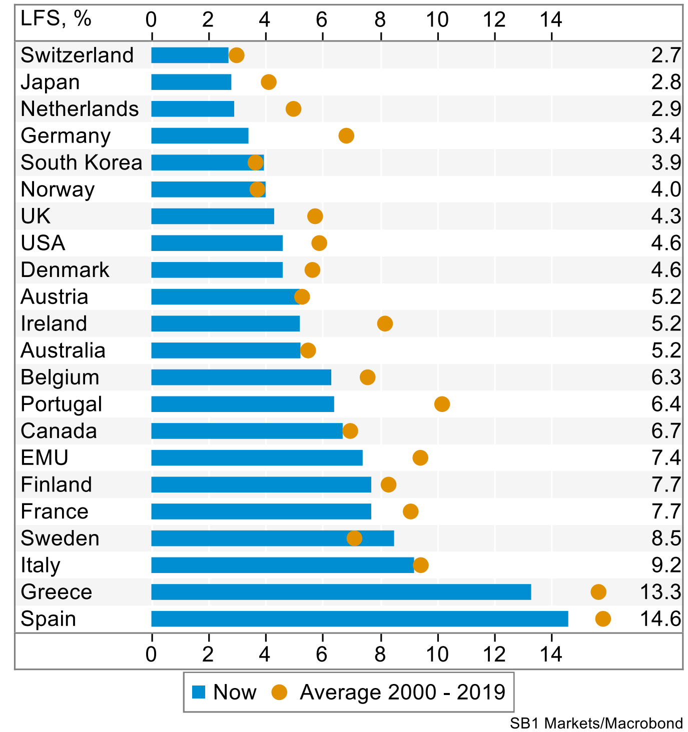
Unemployment



Vacancy ratios



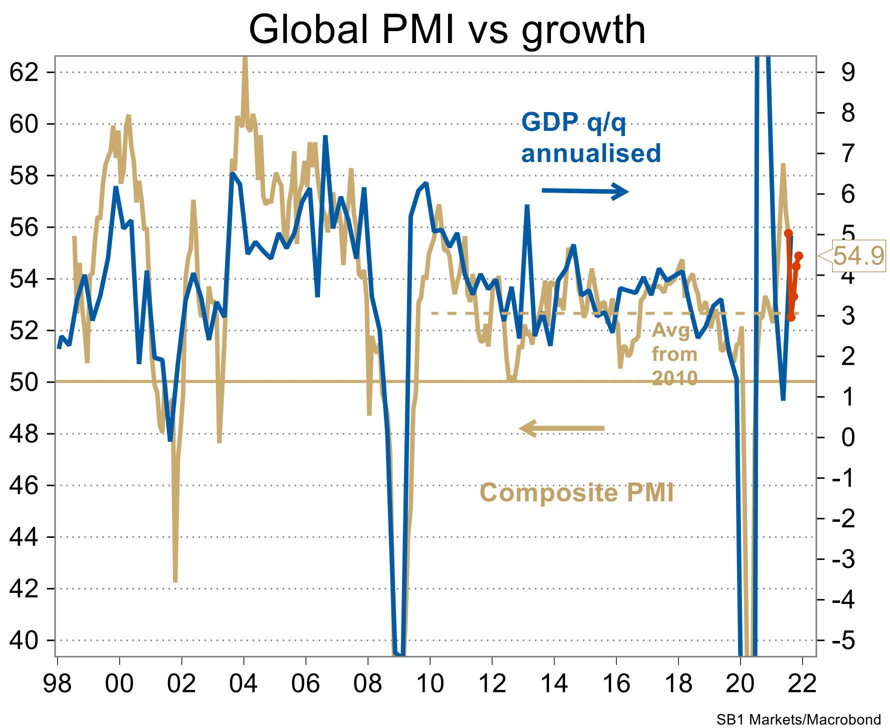
Unemployment

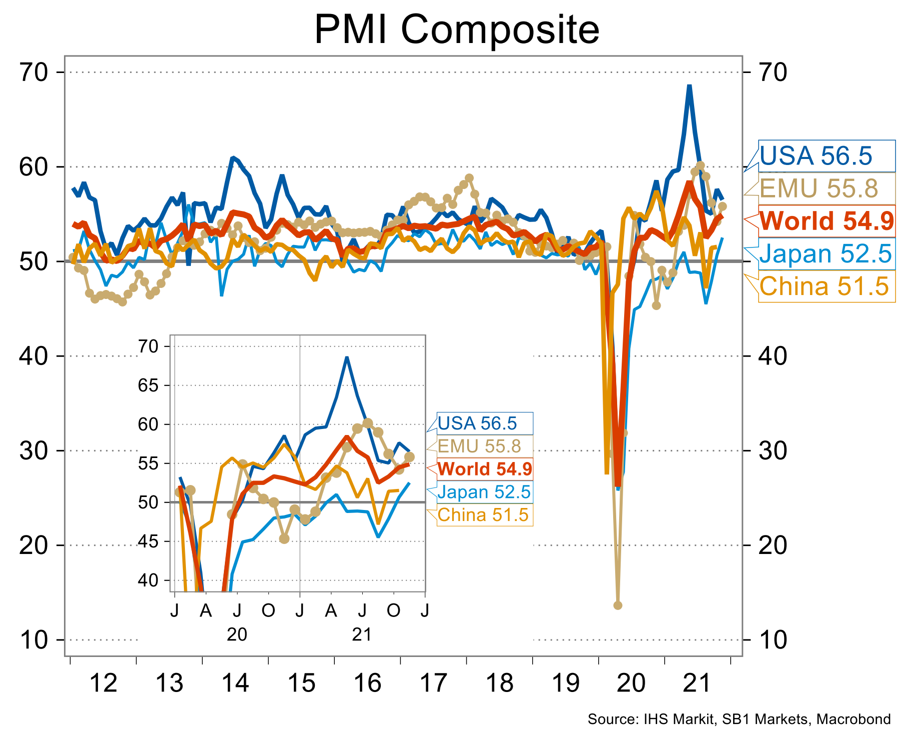


- A large majority of countries report lower unemployment than the 2000 – 2019 average
  - » In both Norway & Sweden, registered unemployment is falling rapidly and is below average levels – even if the LFS rate is higher
- May these low unemployment rate partly explain the high **vacancy rates** that are popping up everywhere?

PMI very likely recovered further in November

We estimate a 0.4 p lift in the global composite PMI to 54.9, signalling a 4.5% global GDP growth pace

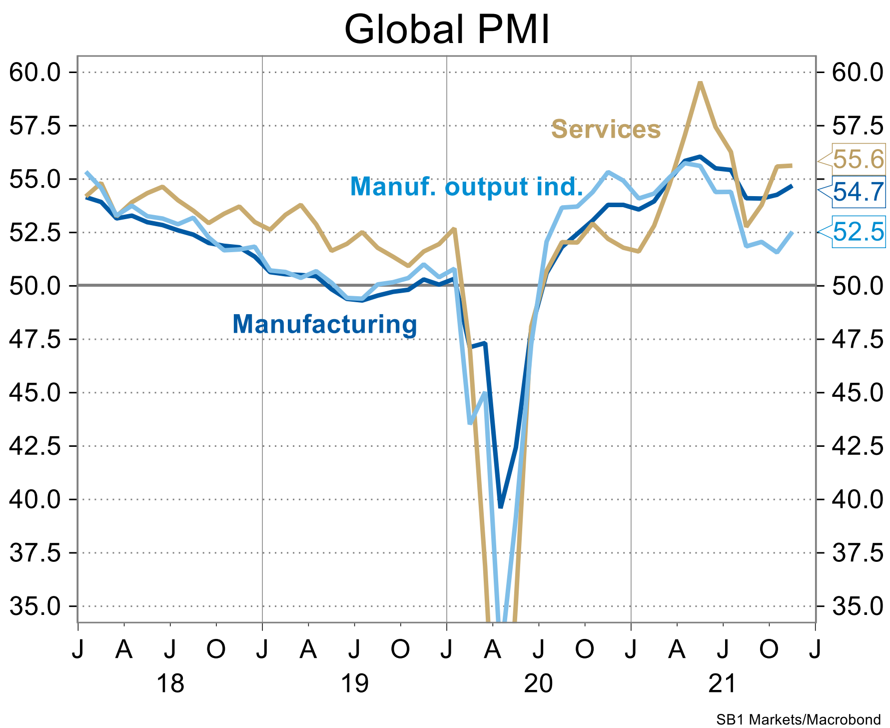


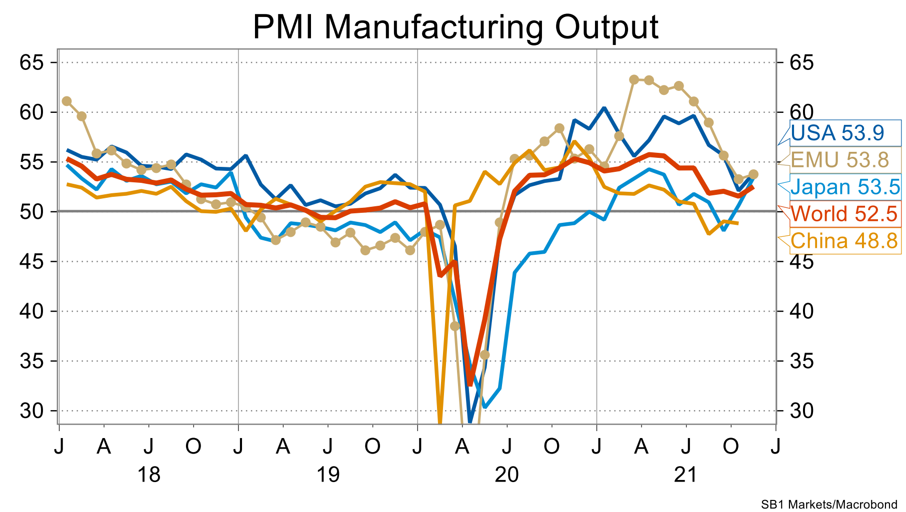


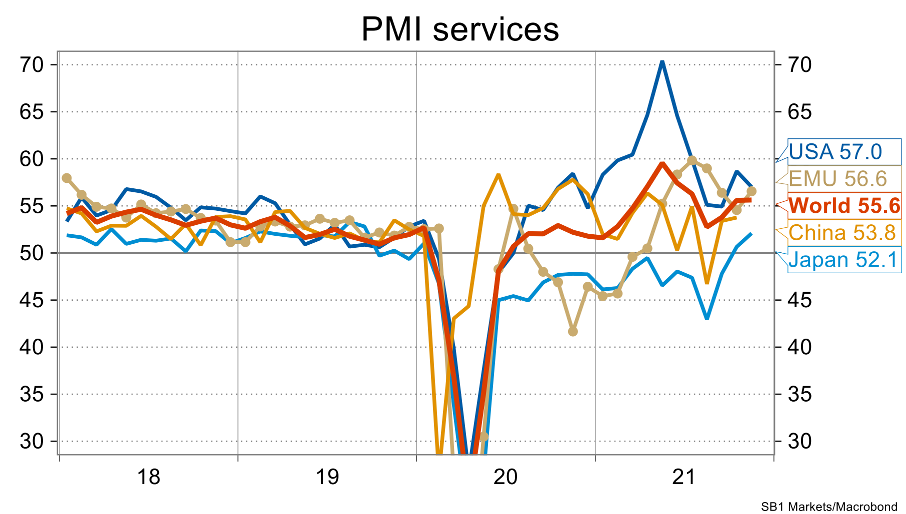
- **The flash composite PMI** November estimates rose in EMU, UK, Japan and Australia but fell slightly in the US. We do not have any data points from Emerging Markets, and recent months this part of the world, at least EM ex China, has gained substantial speed. Based on the reports from just the rich part of the world, we estimate a 0.4 p lift m/m, to 54.9 – well above a normal level
- In the composite PMI, **the output component** of the manufacturing survey is included, not the total manufacturing index. Normally, the output index quite close to the total index. Now, the surge in the delivery times index has lifted the total index significantly, especially in the rich part of the world, and the total index has become less relevant.
  - » In November, the manufacturing output index rose, while the headline (activity) index in the service sector flattened. The delivery times index fell slightly, but remained high
- **Prices** are rising faster again, broadly

Our estimates are based on the preliminary PMIs from US, EMU, Japan UK, and Australia. The estimates are uncertain, but usually by less than 0.5 p

Manufacturing PMIs up, services flat in November, due to a decline in the US

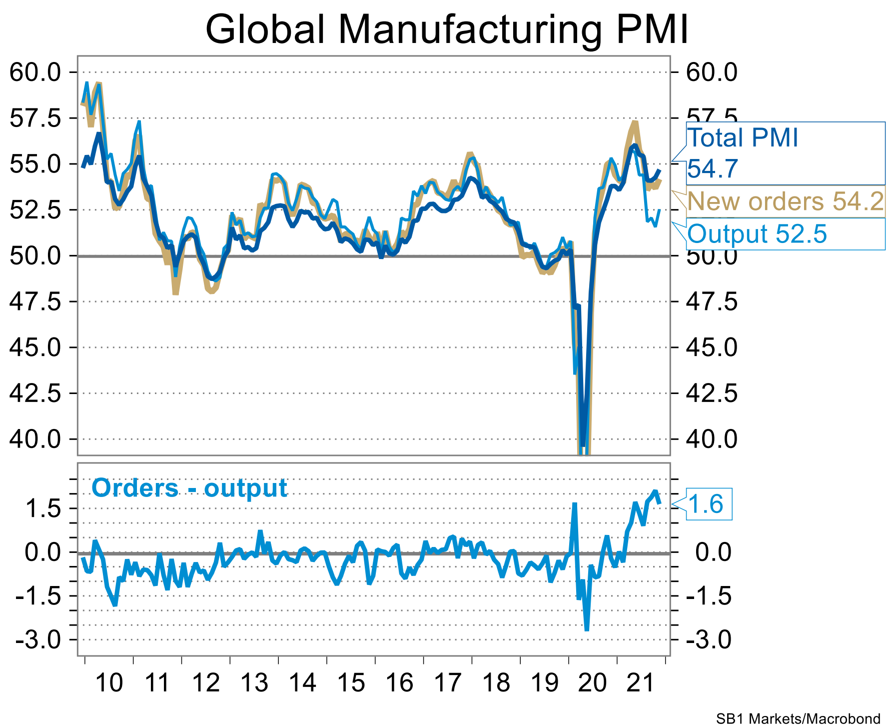


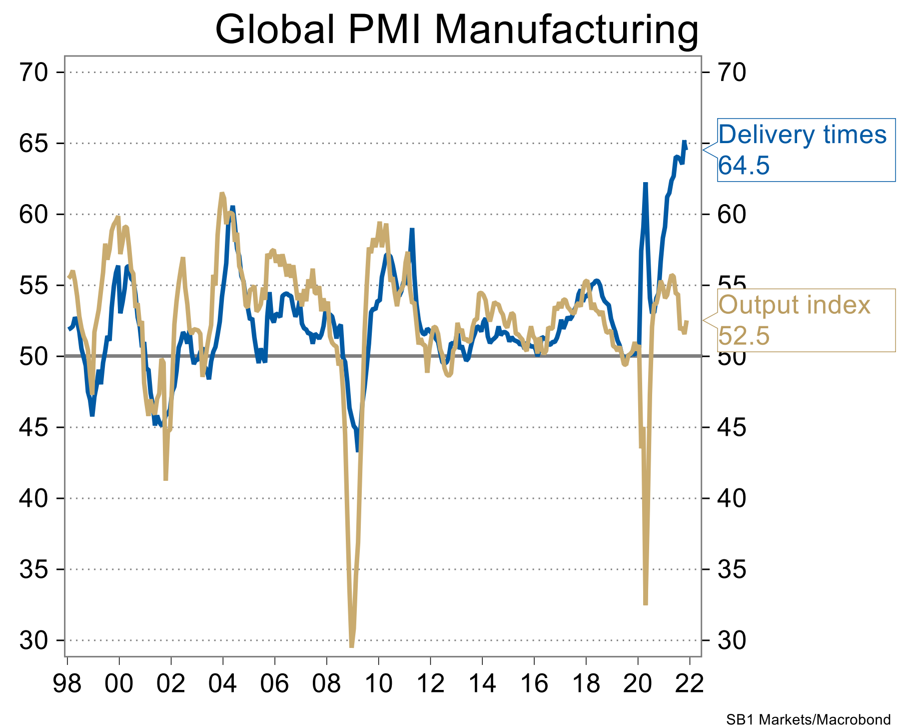




Manuf. output growth gained speed in November, orders are still climbing fast

The delivery times index fell slightly but is still at a very high level

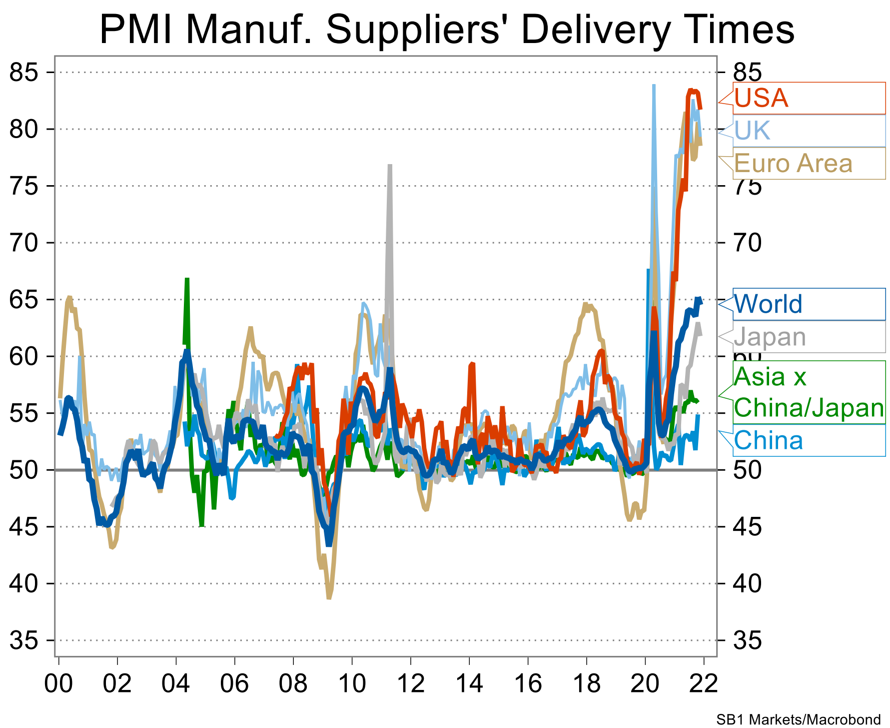




- **The current capacity in the manufacturing sector is more than reached**. The question is of course: How much is capacity (transitory) impaired by the fight against Covid-19? It is impossible to know before after the fact
- However, problems are most acute in Western countries where demand for goods have been much higher than normal. That may indicate the 'normal' capacity is not necessarily impaired but rather that the exceptional strong demand for goods – of course buoyed by exceptionally fiscal and monetary policy measures during the pandemic – is the main reason for the surge in delivery times and prices

Delivery times index may have fallen slightly in November

A limited ease in US, EMU, UK and Japan

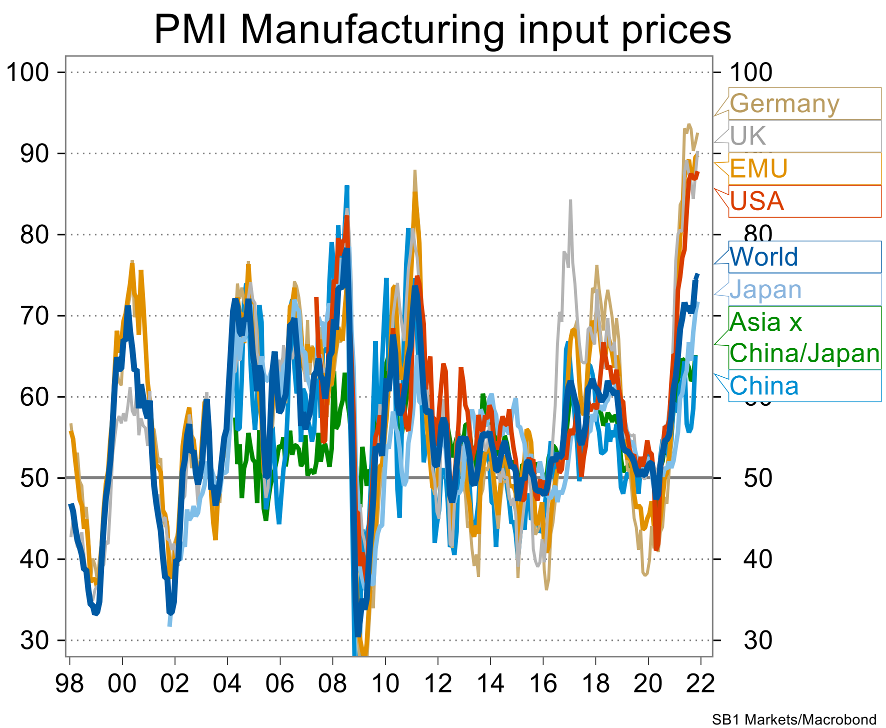


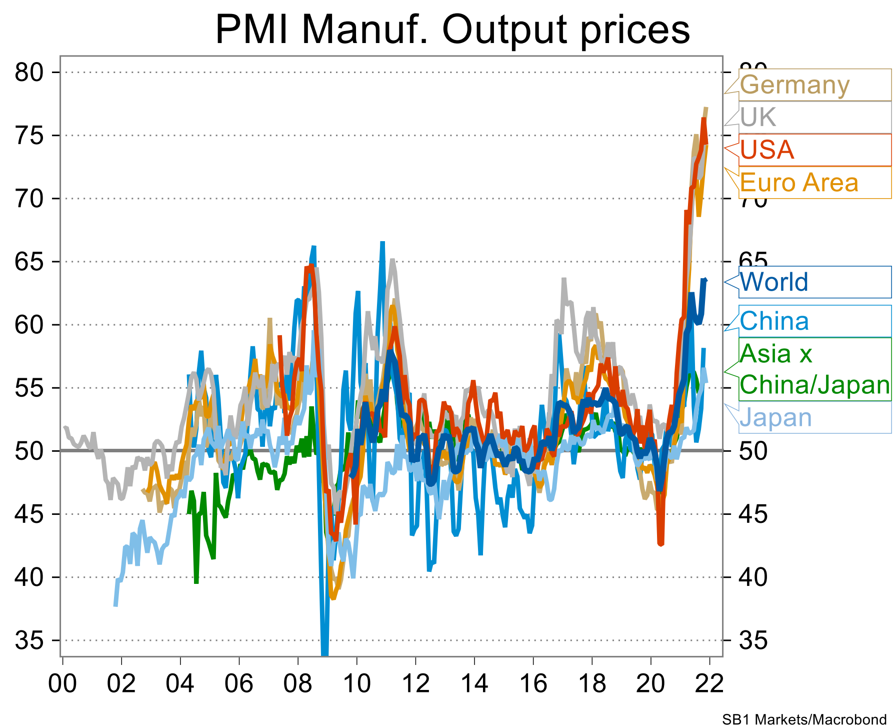
- If it was mainly a Covid related problem: Why are not Asian counties reporting more delivery challenges?
  - » OK, transport bottlenecks may cause the problem, but what if those problems are mainly due to strong demand for goods in this part of the world?

- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) and probably declined globally as well. These survey data confirm company statements, and a surging stream of media reports
- **The interpretation of this index is uncertain** – are companies really reporting <u>changes</u> in delivery times?
  - » This index as been above 50 most of the time (the past 20+ years), signalling longer delivery times. However, delivery times have not increased almost all the time – they have rather fallen! Companies may be reporting the level of delivery times. If so, delivery times are now contracting – while the index formally reports than delivery times are increasing at a marginally slower pace

Input prices accelerated further in November, output prices slowed marginally

... at least in the rich part of the world

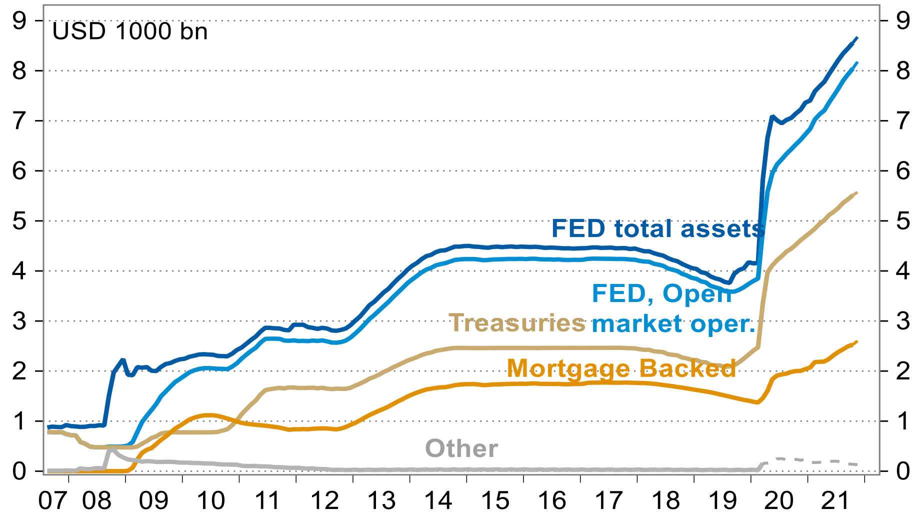


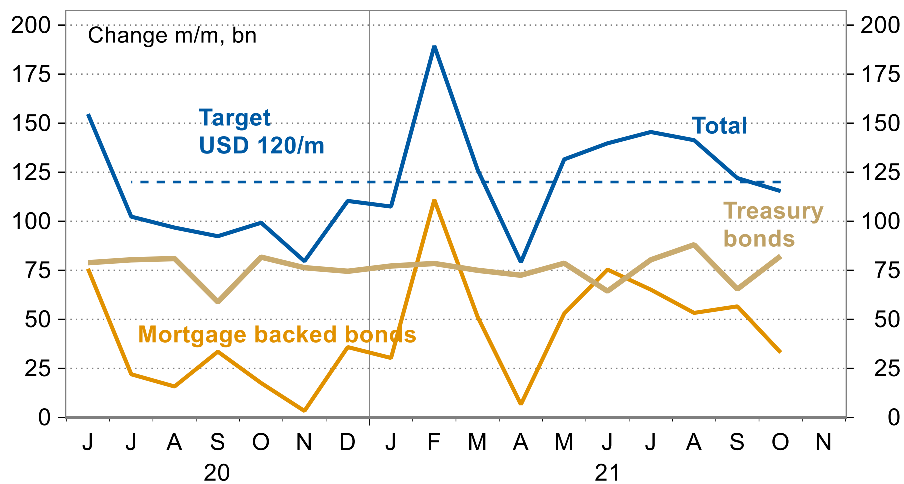


- **Both EMU and US** manufacturing industries reported the steepest growth in both input

FOMC minutes: Many members started to worry about inflation

At least according to the minutes from the early Nov meeting … and more than Powell signalled?



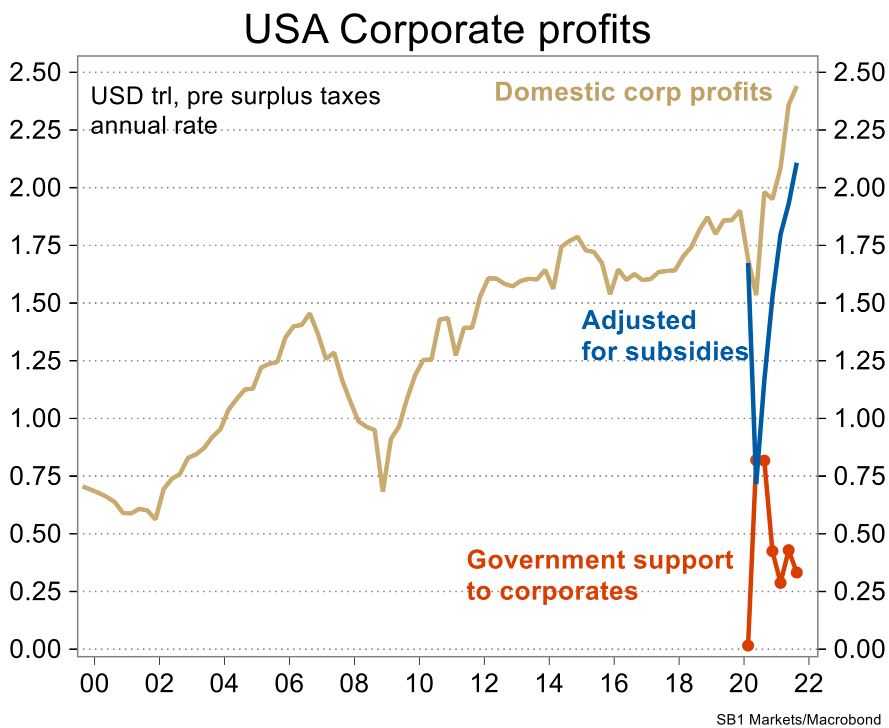


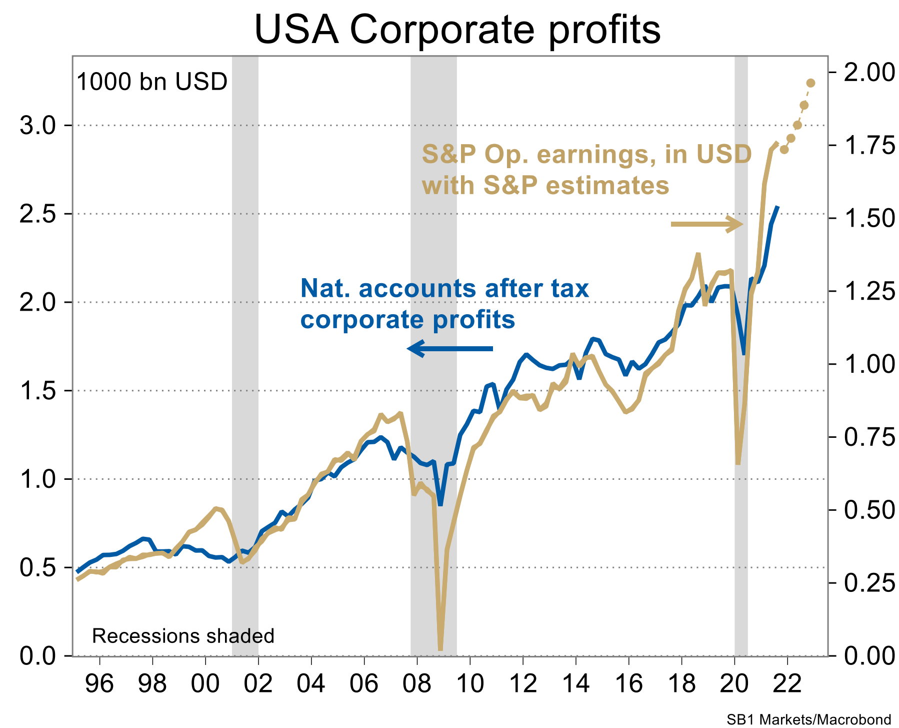
SB1 Markets/Macrobond

- The minutes from the FOMC meeting Nov 3 revealed that many members of the committee are becoming far more worried about inflation as they express uncertainty about the level of spare capacity at the labour market. We are not sure Powell reflected these views at the press conference after the meeting – even though he then acknowledged risks on inflation. Here are some quotes from the minutes:
  - » *Many participants pointed to considerations that might suggest that elevated inflation could prove more persistent. These participants noted that average inflation already exceeded 2 percent when measured on a multiyear basis and cited a number of factors—such as businesses' enhanced scope to pass on higher costs to their customers, the possibility that nominal wage growth had become more sensitive to labor market pressures, or accommodative financial conditions—that might result in inflation continuing at elevated levels*
  - » *Some other participants, however, remarked that although inflationary pressures were lasting longer than anticipated, those pressures continued to reflect the same pandemic-related imbalances and would likely abate when supply constraints eased*
  - » *Participants observed that uncertainty about the economic outlook remained high. They particularly stressed uncertainties associated with the labor market, including the evolution of labor force participation, and with the length of time required to resolve the supply chain situation. Participants cited upside risks to inflation, including those associated with strong demand for goods and a tight labor market. Upside risks to economic activity included a potential near-term boost to aggregate demand that could arise from the drawing down of the substantial savings accumulated by households since the beginning of the pandemic. A few participants mentioned an upsurge in COVID-19 cases during the coming winter or an emergence of new virus strains as possibilities that, if they were realized, would damp economic activity and intensify price pressures.*
- The market did not react to the minutes, very likely because at least two 'centrist' FOMC members recently have been advocating that the FOMC at the upcoming December meeting should discuss a more rapid tapering in order to open for rate hikes much earlier than so far assumed

Corporate profits rose further in Q3, as they lifted prices at a 8% pace

Subsidies were cut, but profits still rose even if the wage bill grew rapidly

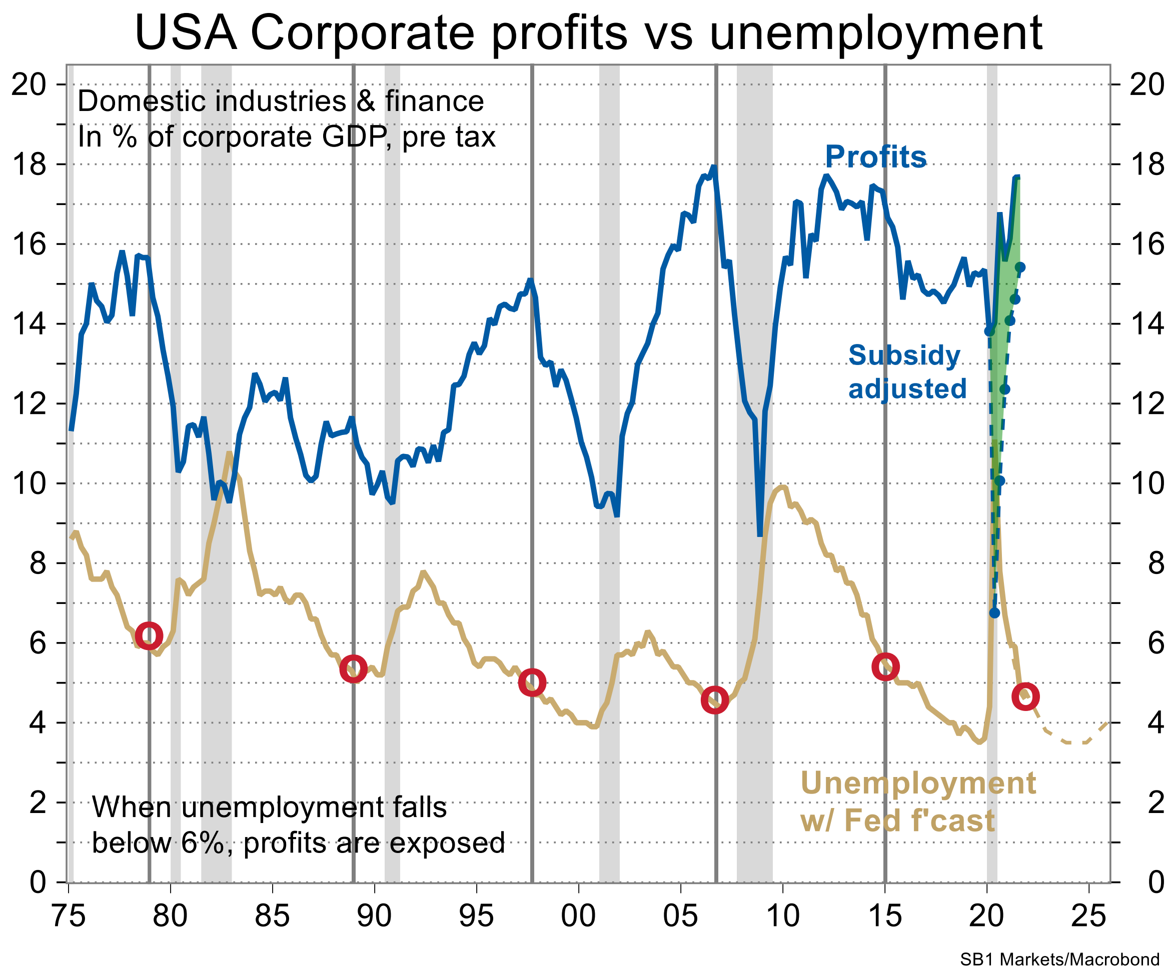




- **Domestic corporate profits** rose by 3.4% in Q3, we expected a 4% decline. Value added grew more than we assumed
  - » The wage bill rose by 10.9% (annualised, and faster than initially reported) in Q3 (domestic corporate sector) but value added rose even faster, by a 14% pace, as companies were able to lift their prices at an 8% pace (domestic corp x finance), an incredible high number. And hard to swallow for the Federal Reserve…
  - » Government subsides (deviation from trend in indirect taxes – subsidies) were cut but still equals almost 1.5% of GDP
- The **S&P 500 companies** reported a further increase in profits in Q3 but at a rather slow pace
- We think the profit outlook is muted. Wage inflation will not subside anytime soon given the super tight labour market – and a continued price inflation at the current pace cannot be tolerated by the Federal Reserve. Exciting times ahead

The profit share is close to peak?

The bottom line has always been hurt when the labour market becomes too tight

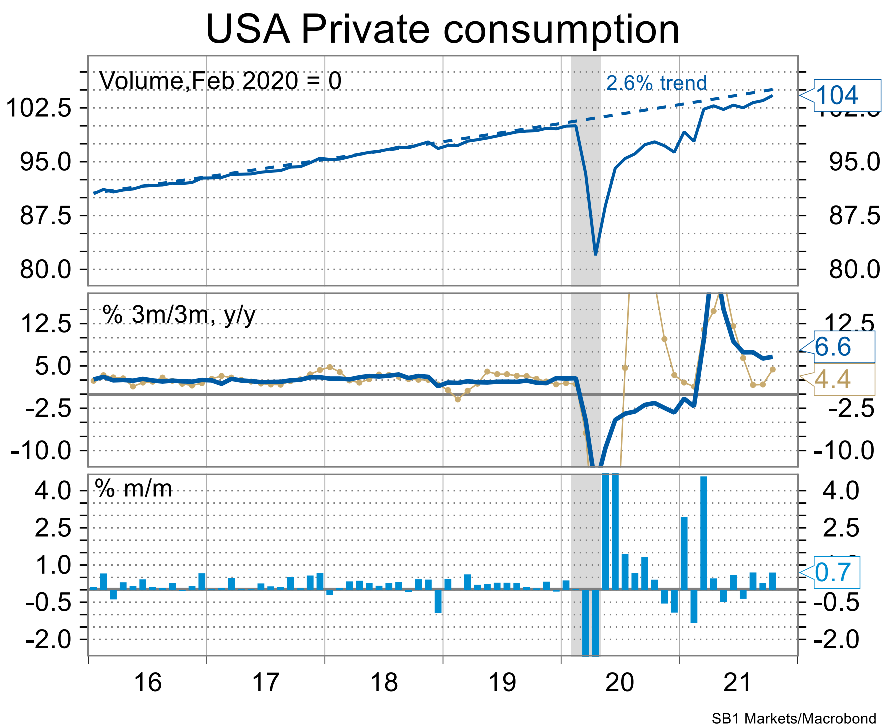


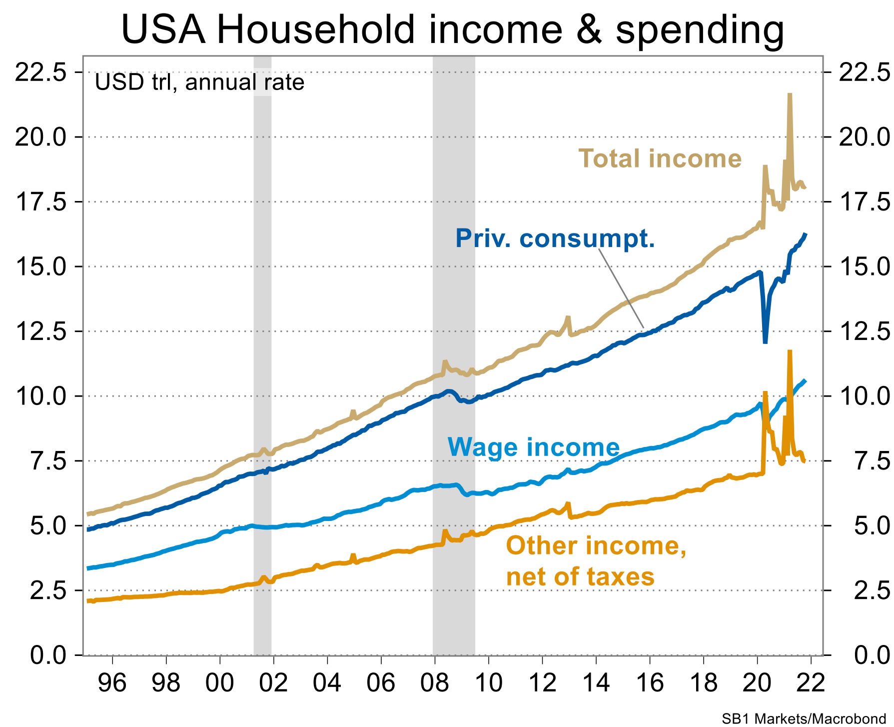
- Prices are increasing at an incredible pace but so are wage costs, and government support is on the way down
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - » Unemployment is now at 4.6%, and it is falling rapidly as other indicators (especially vacancies) suggest that the labour market is even tighter than the 4.6% rate signals
- In addition, it is reasonable to expect the production taxes-subsidies to normalise the coming quarters.
  - » It is still well below a normal level (the impact is shown as the green area at the chart above)
- <u>Thus, it is quite likely that the profit share is headed downwards from here</u>

All data are not yet published, and the Q3 numbers is just our estimate

Real consumption up 0.7% in October, real income down 0.3%, as prices soared

The savings rate fell to below the pre-pandemic level, but the 13% of income 'Wall of Money' is intact

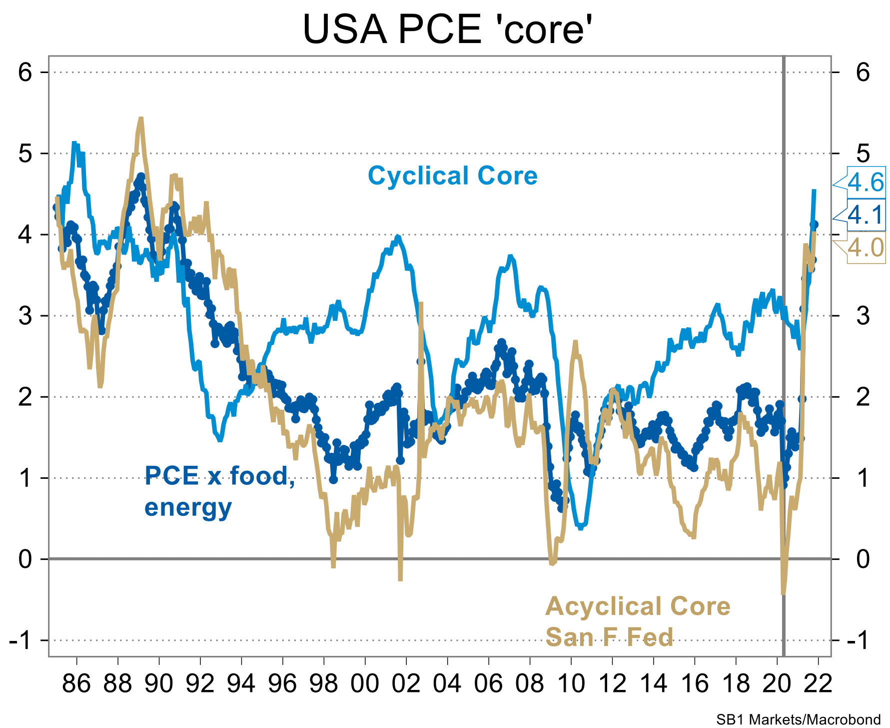


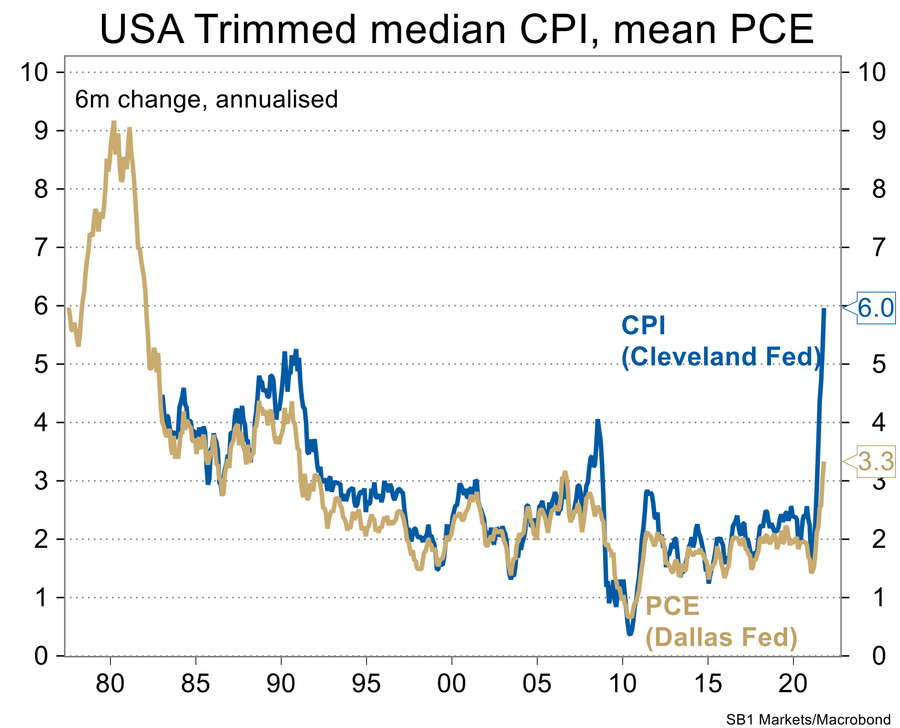


- **Private consumption** rose by 0.7 in real terms in October, 0.3 pp more than expected (spending in nominal terms rose 1.3, 0.3pp more than expected). Consumption in real terms have gained speed since the summer and is now up 4.4% 3m/3m. Consumption of goods has strengthened recent months and is 17% above the Feb-20 level – but will one day turn south! Services have been somewhat slowed by the Delta outbreak, but consumption is heading steadily upwards. Total consumption is up 4.2% vs. the Feb-20 level, and on par with 2.6% pre-pandemic growth path
- **Real personal disposable income fell by 0.3%** in October. Income before taxes rose by 0.3%, 0.1 pp more than expected. Unemployment benefits fell but wage revenues gained more. Underlying wage income growth is approaching 10%
- **The savings rate fell** by 0.9 pp to 7.3%, down to slightly below the pre-pandemic level (Sept was revised 0.7 pp upwards). Households have saved an extra amount equalling 13% of one year's disposable income during the pandemic. Some of this 'Wall fo Money' may well be spent the coming quarters, if so taking the savings rate further down

On inflation, the Fed is soon running out of excuses (or has it already?)

Inflation is broadening, all measures are now above the 3% line, not seen in decades

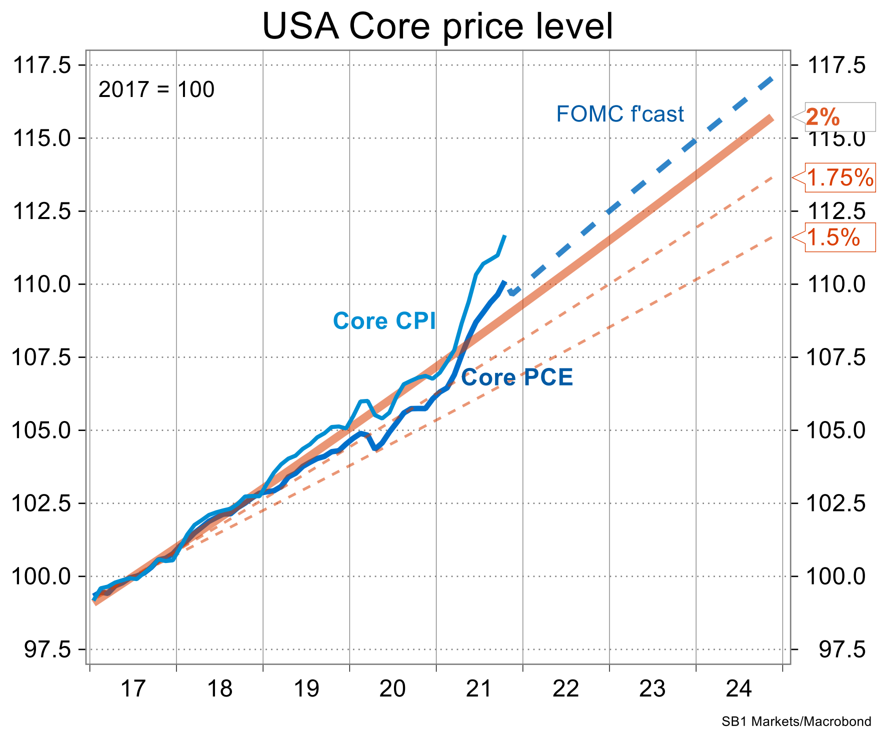


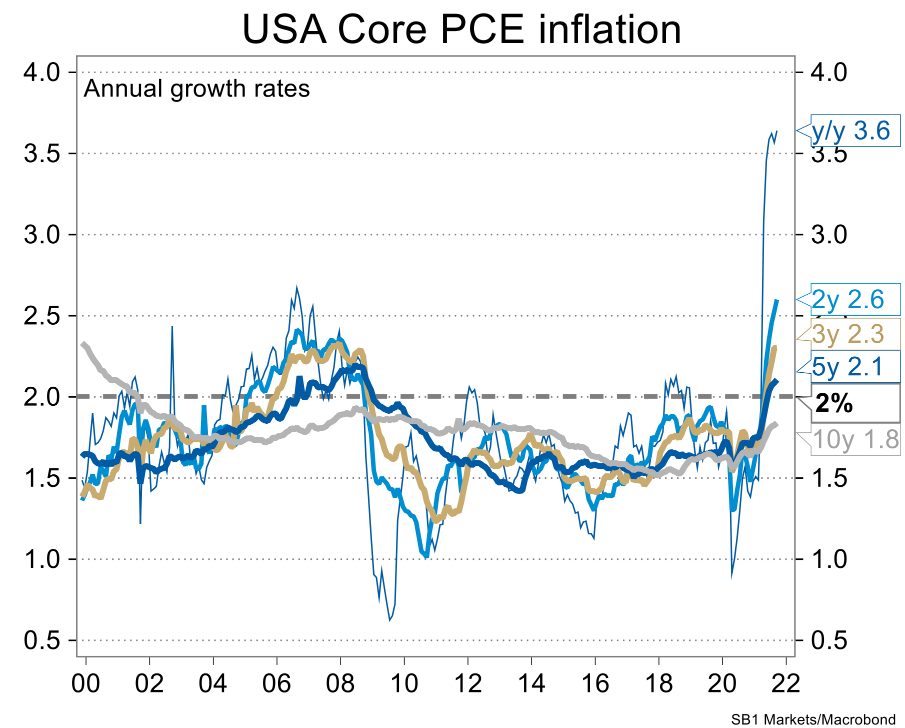


- The **trimmed PCE mean** (Dallas Fed) is up at a 3.3% pave over the past 6 months, up from 2% ahead of the pandemic. This indicator of underlying inflation has not been growing faster since 1991
- The trimmed median CPI is up 6.2% over the 6 months, the highest on record, data back to 1983
- Other measures of underlying inflation are also at the highest levels in 30 years. And at that time, the Fed funds was not at zero

The Fed expects the 2% price target to slip, want to push employment up

Fed's decision: Accept a inflation above the long term target to get the labour market back on track



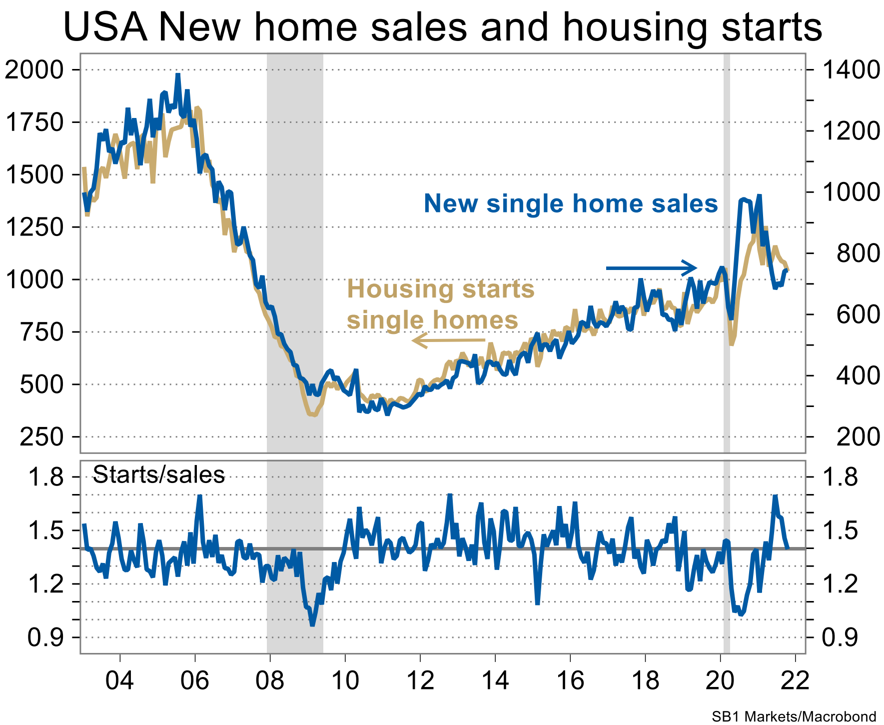


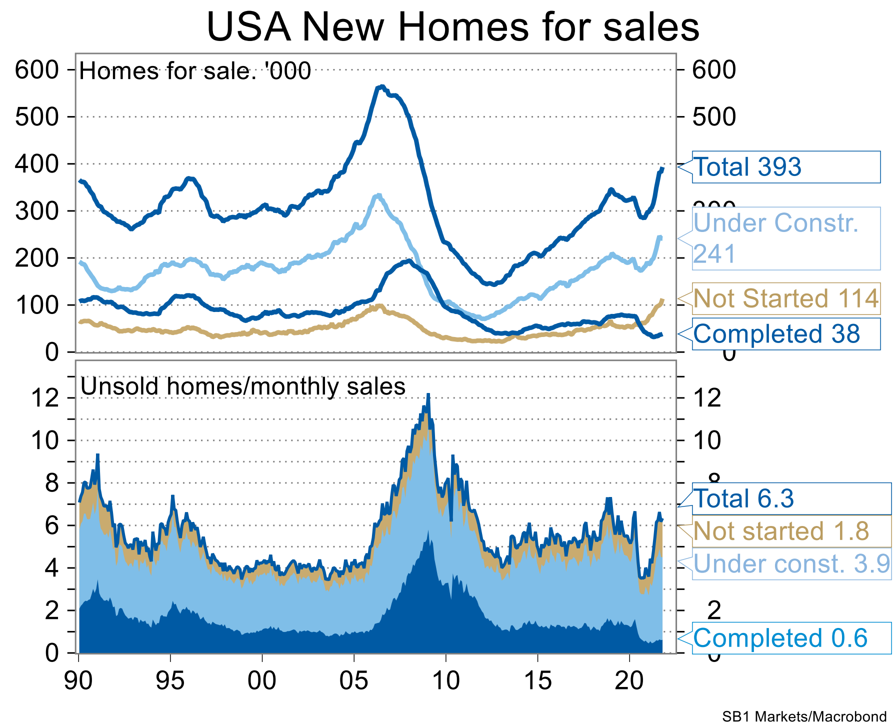
We stick to our main inflation analysis:

- **Raw material cycles** are not lasting that long, and the impact on consumer prices are normally short lived
- **Higher profit margins** (unit profits) have never been the main reason for a sustained lift in inflation
- To sustain a lasting increase in inflation, **unit labour costs** have to grow faster. The ULC = wage inflation – productivity growth
- **A tight labour market** normally implies higher wage inflation. Now, the vacancy rate is the highest ever, and ~~almost~~ all wage cost indicators signal higher wage growth. This is the real challenge for the Fed. It may be that maximum employment is not that far away – and if so, both targets are met (and prices more than that!). And if so, monetary policy most be brought back to a neutral stance

New home sales weaker than assumed/expected in Sept/Oct – still not weak

The inventory is growing rapidly, as the supply side has responded

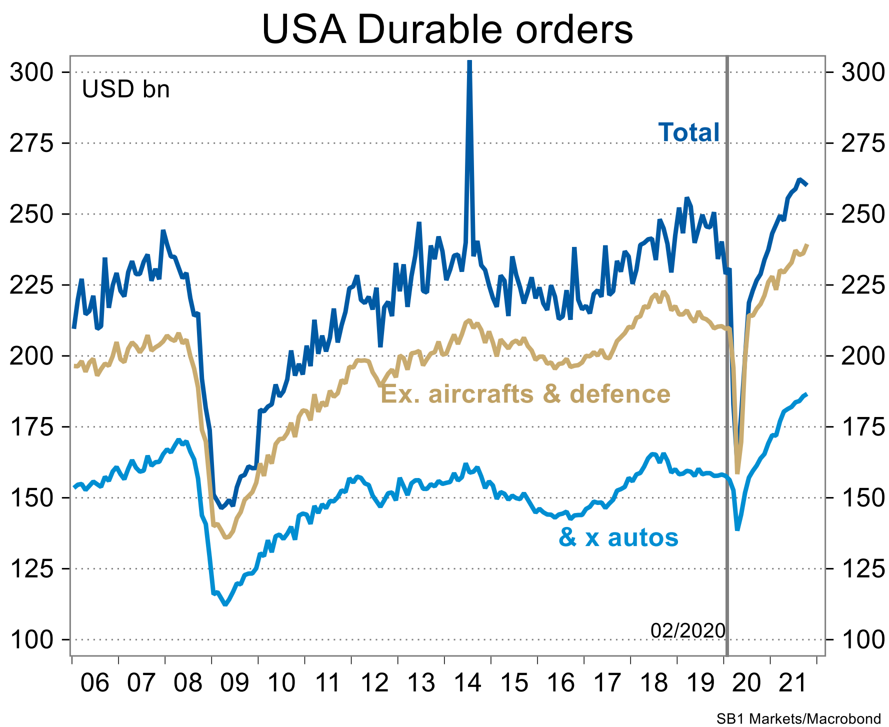


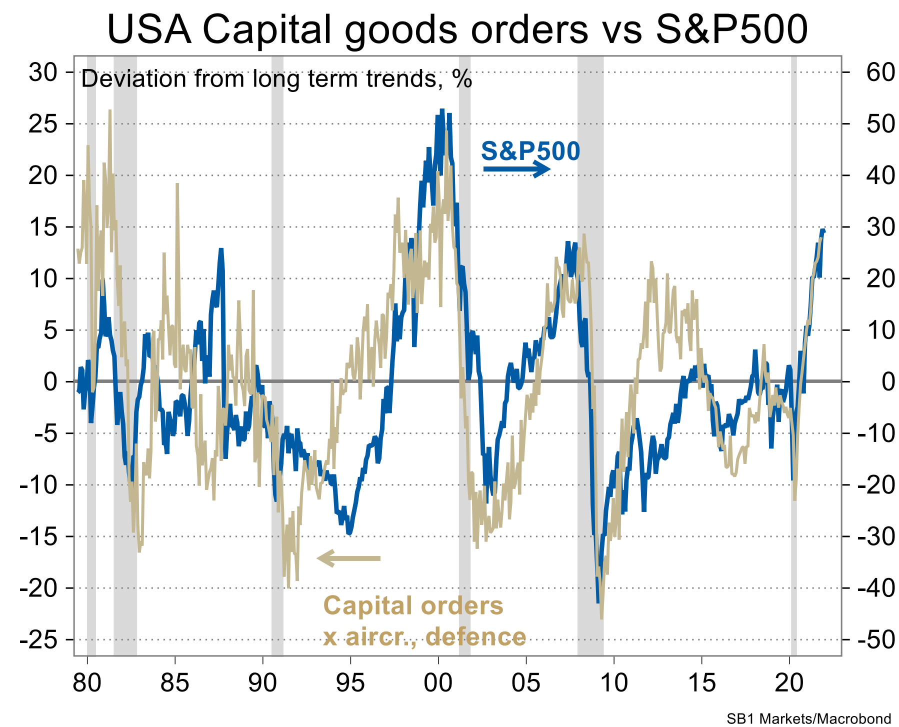


- **New home sales was vlost to unch at 742**’ (annualised rate) in October, expected unch. At the previously reported 800’ – thus the two months were 7% weaker than assumed/expected
  - Sales have fallen to 750’ from close to 1 mill at the local peak
- The inventory of unsold homes has increased by 35% the past 9 months, and the level is the highest since Sept 2008. Measured vs the pace of sales, the inventory equals 6.3 months of sales, ‘normal’ level – up from 3.5 months last September
  - The increase in the inventory is not due to large increase in completed house for sale (the most ‘effective’ supply), and the inventory just equals 19 days of sale (half of a normal level). However, the no. of projects not yet started (but for sale) has doubled, to the highest number ever, and new homes for sale but still under construction has climbed rapidly, to the highest level since late 2007. So, there are lot of homes in the pipeline, and clearly a confirmation that the supply side is responding to the steep increase in demand. At one stage, combined with higher mortgage rates, that could change the housing market outlook

Strong order inflow in October – except for aircrafts, defenece

Investment goods orders are trending up, signalling further growth in business investments





- **Total durable** orders fell by 0.5% in October, expected 0.2%. Both the volatile aircraft & defence orders fell sharply, dragging down the headline level by 2%
  - » Ex these two components, the 'core' rose by 1.5%, better than expected – and the trend is strong
  - » Auto orders rose too, but 'core x autos continued upwards
- **Core investment goods orders** were up 0.6%, and the trend is still straight up
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

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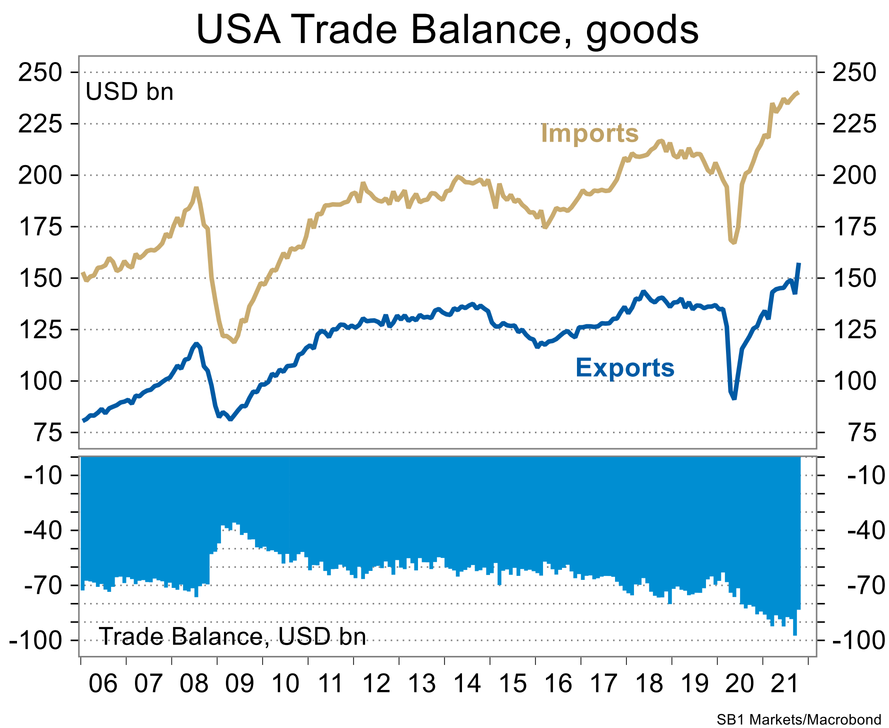
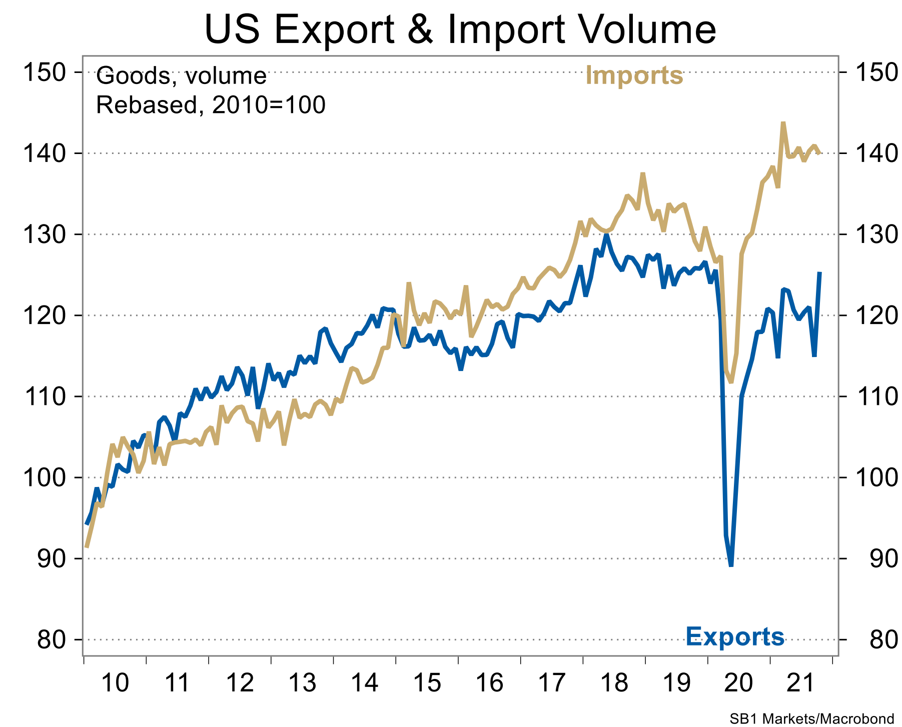
A strange export hike in October but no details available yet

Import volumes have flattened recent months

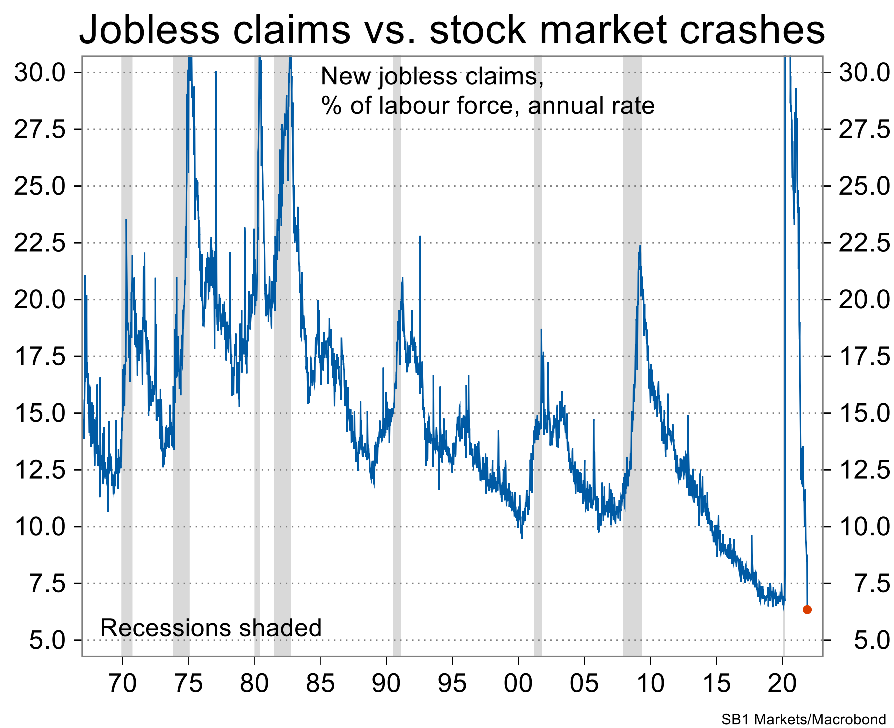


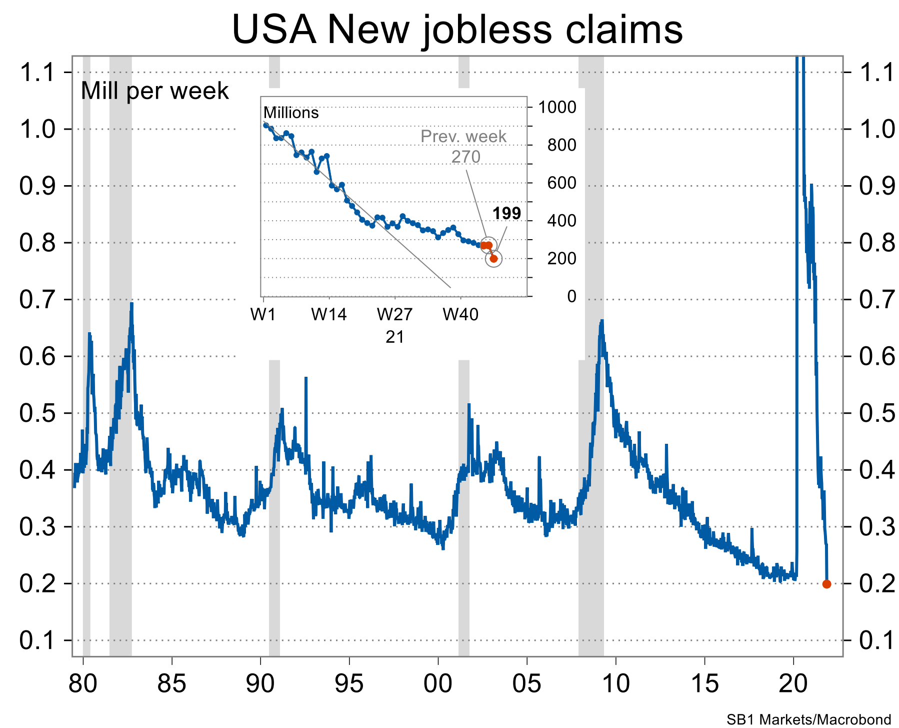


- **Exports** rose 10.7% m/m in October, an unusual monthly lift. This advanced report does not give any details.
  - » Exports rose sharply in volume terms as well but is still below the pre-pandemic level (in value terms exports are well above)
- **Imports** rose by 0.5% m/m in value terms, and is 19% above the Feb 2020 level!
  - » In volume terms imports fell slightly in Oct, but is still some 10% above the pre-pandemic level! Demand for goods has been strong during the pandemic, driving imports – even if auto imports have been low. We expect US households' demand for goods to slow the coming quarters, from the present very high level – dampening demand for imports too
- **The trade deficit** in goods fell sharply, to USD 82.9 bn from the ATH at 97 bn in September

New jobless claims suddenly fell to an ATL

Probably an one-off, but the level is anyway low and confirms a tight labour market





- **New jobless claims** suddenly fell off the cliff in week 46, by 71’ to 199’, the lowest level ever – both actual and in % of the labour force
  - This seasonally adjusted series may be more uncertain than normal. The actual number rose by 18’
- **Ordinary continuing claims** fell by 60’ to 2.049 mill in week 45, slitt 0.3 mill above the pre-pandemic level (chart next page)

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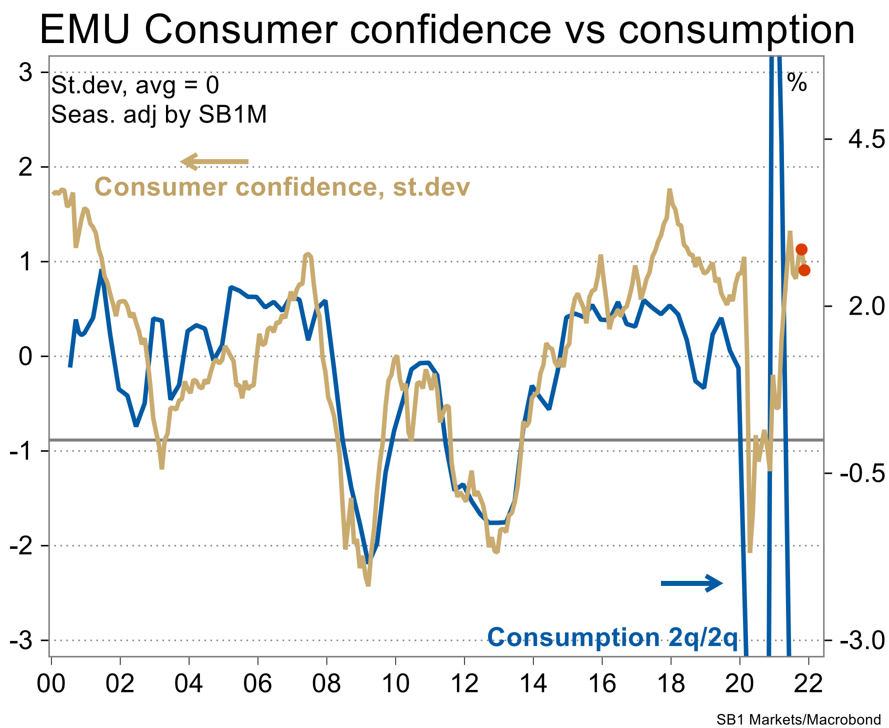
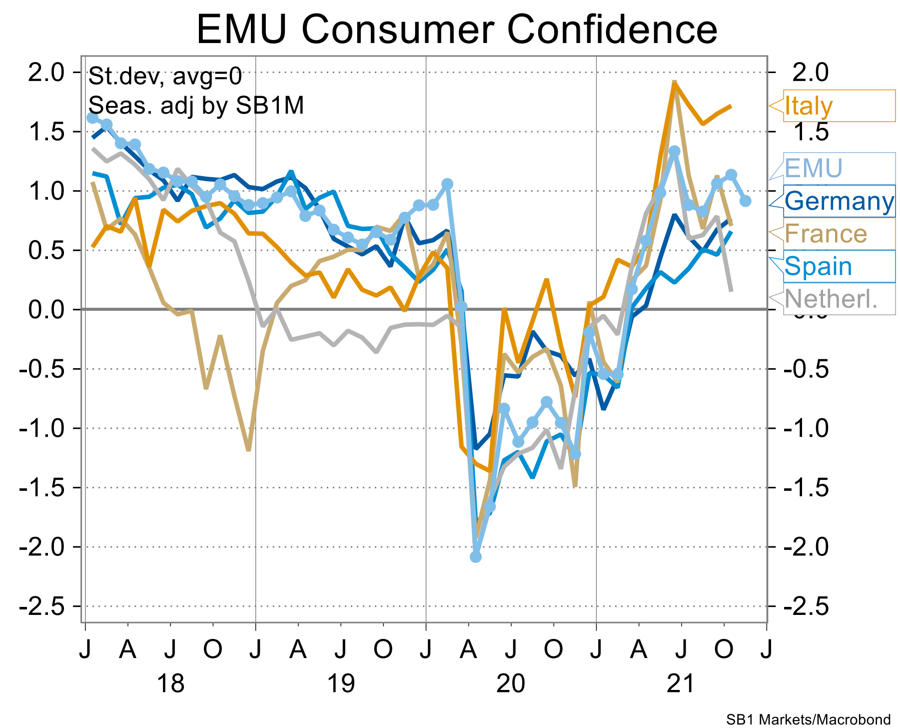
Consumer confidence down in November – the Delta virus probably to blame

Confidence fell by 0.2 st.dev to 0.9 st.dev above avg, still a quite high level – and better than in Aug

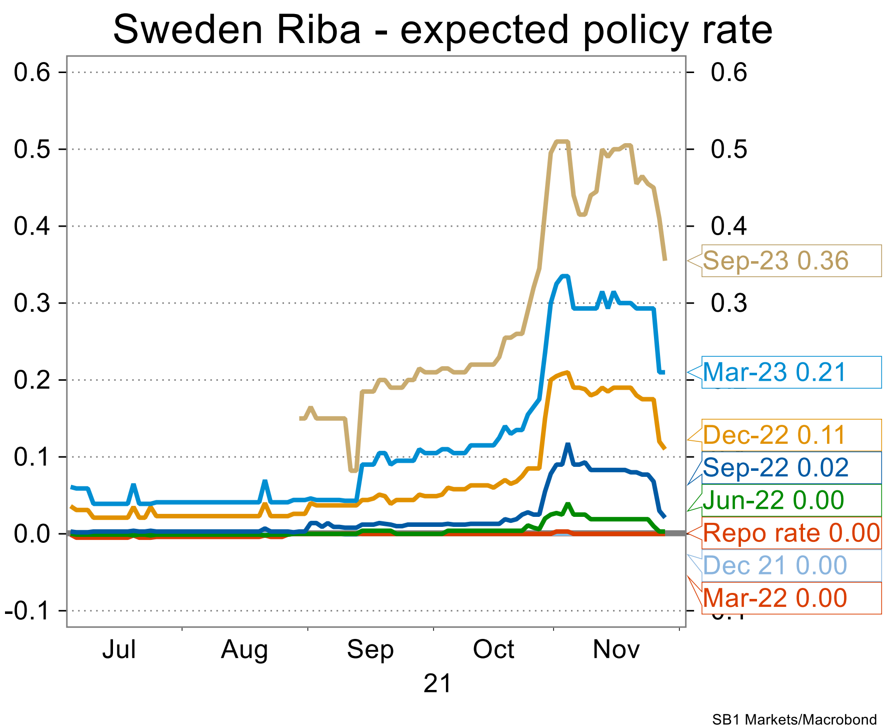




- **The consumer confidence index** fell to -6.8 in November from -4.8 in October, expected down to -5.5
- The level is still high and signals strong household demand. Consumers are especially in favour of making major purchases
- All of the large EMU economies reported confidence above par in October, but monthly changes were mixed

The Riksbank finally acknowledges that rates will have to be lifted. In Q4-24, that is

The market revised its rate expectations down but still expect Rix to hike late '22/early '23



- **The Riksbank** stick to its analysis: Inflation will return to below 2%, as growth moderates and the LFS (AKU) unemployment remains above 7%
- **The Bank** prolonged its forecast to 2024, and a first hike is now signalled in Q4-24!
- **The market** expects the bank to start late 2022/early 2023, even if the Bank's message lowered rates by 5 – 8 bps

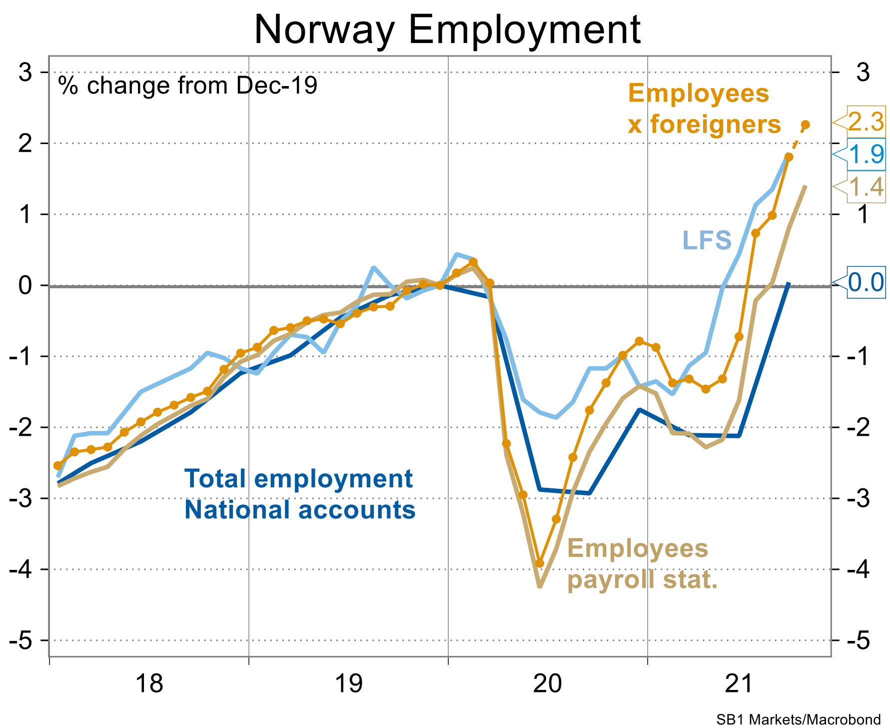
Tabell 1. Forecast for Swedish inflation, GDP, unemployment and the repo rate
Annual percentage change, annual and quarterly averages respectively

	2020	2021	2022	2023	2024	2024 Q4*
CPI	0.5	2.1 (2.0)	2.3 (2.1)	1.9 (1.8)	2.2	2.4
CPIF	0.5	2.3 (2.3)	2.2 (2.1)	1.8 (1.8)	2.1	2.1
GDP	-2.8	4.7 (4.7)	3.8 (3.6)	2.0 (2.0)	1.5	1.6
Unemployment	8.3	8.9 (8.8)	7.7 (7.6)	7.2 (7.2)	7.1	7.0
Repo rate	0.0	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.1	0.2

Note: The assessment in the September 2021 Monetary Policy Report is shown in brackets. *Percentage change in calendar-adjusted GDP compared with the corresponding quarter in the previous year and seasonally-adjusted LFS unemployment.
Sources: Statistics Sweden and the Riksbank

Reg. employment surged by 0.6% m/m in October, level far higher than pre-pand.

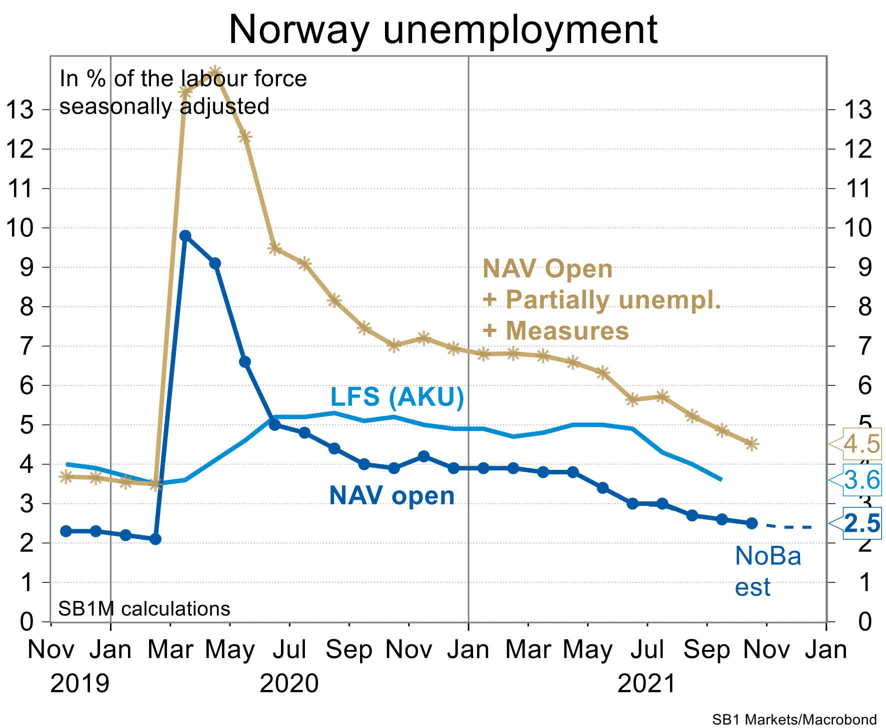
The LFS confirms strong employment growth

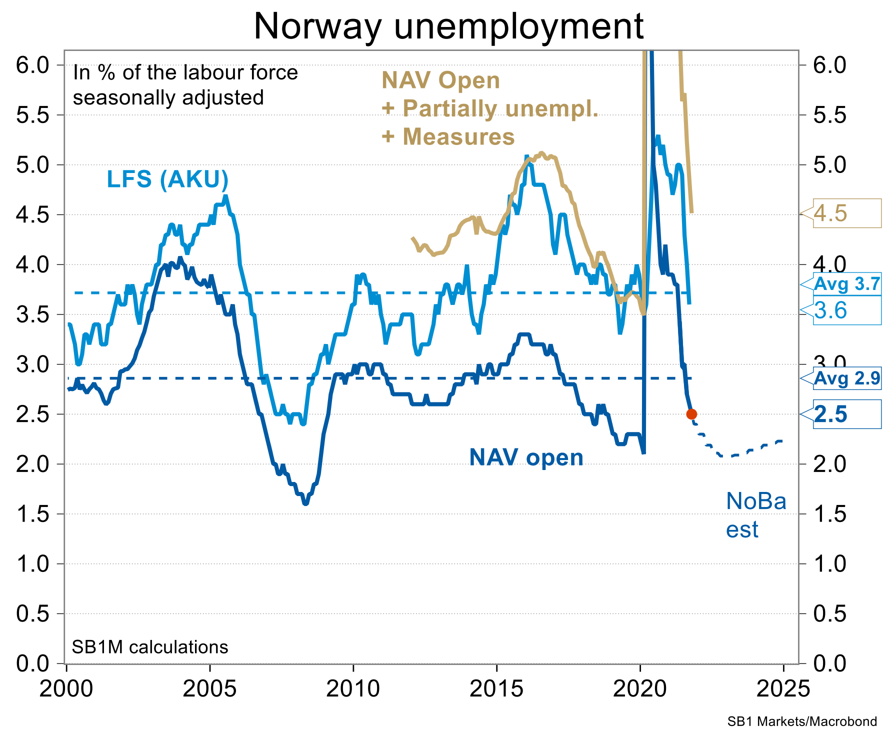


- The increase in the register based no. of employees in October suggests at continued brisk growth in Mainland GDP
  - » Total no. of employees grew by 0.6% m/m and is now 1.4% above the level in Dec-19
  - » We estimate the employment among permanent residents (Norwegian and foreign born) to be 2.3% above the pre-pandemic level (based on our Q4 estimate for foreign workers on short-term stay)
  - » The increase in employment is broad based, check next page
- **The LFS** (AKU, survey) employment data (both employees and self-employed, with permanent residency in Norway) reported a 14' (0.5%) growth in employment in September (avg Aug-Oct from av July-Sept), or by 39' over the past 3 months, equalling 1.4% or a 5.8% annualised pace
  - » LFS employment is up 1.9% sincve before the pandemic, and both participation and employment rates are far above the pre-pandemic level – and the LFS unemployment rate is 'collapsing' (more to come at the next pages)
- **National Accounts** reported a 2.1% growth in total employment in Q2- back to the level in Q4-19. These NA data includes foreigners on short-term stay. In Q4, employment will climb further, to well above the Q4-19 level

The LFS unemploym. 'collapses,' down by 0.4 pp to 3.6%, below pre-pand. level!

It 'had' to happen, given the freefall decline in NAV registered unemployment

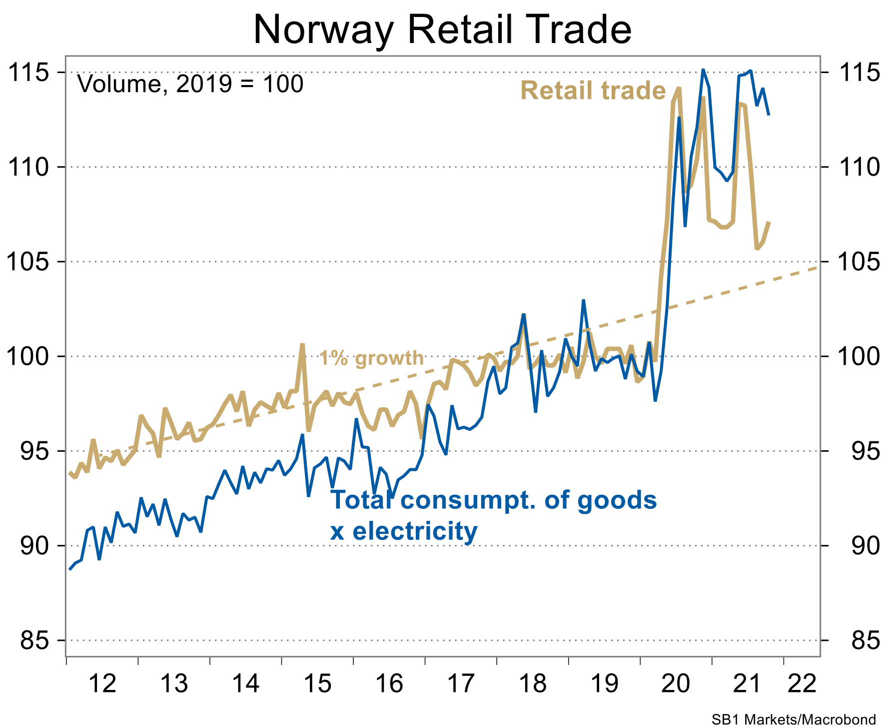


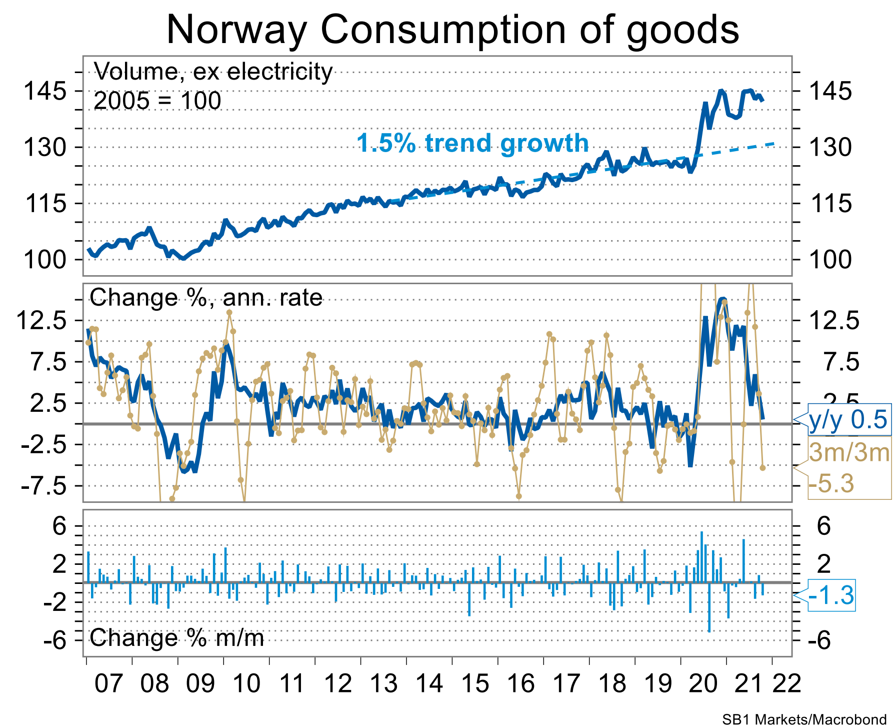


- **LFS unemployment** by 12', by 0,4 pp to 3.6%. We expected a decline to 3.9%. The rate is now 0.3 pp higher than before the pandemic (because the participation rate has increased even more than the employment rate).
- The decline in the LFS unemployment rate during the 5 months since May – when it still was at 5.0% - is the steepest 5 m decline, ever (by a wide margin)
- The decline in the NAV unemployment rate is confirmed

Retail sales further up in October but the tide has turned

Sales rose by 1.0%, better than expected – but the trend has been down from last summer





- **Sales** are up 7% vs. the 2019 level but not that far above a modest 1% trend line from 2013
  - » Sport & IC equipment contributed on the upside, food on the downside – and food is now sliding down
- **Total household consumption of goods** (x electricity) fell by 1.3%, and has fallen almost 2% since the summer, and measured 3m/3m sales are down at a 5% (annualised) pace. The level is still well above the pre-pandemic trend, by some 10% - at a level that very likely is not sustainable

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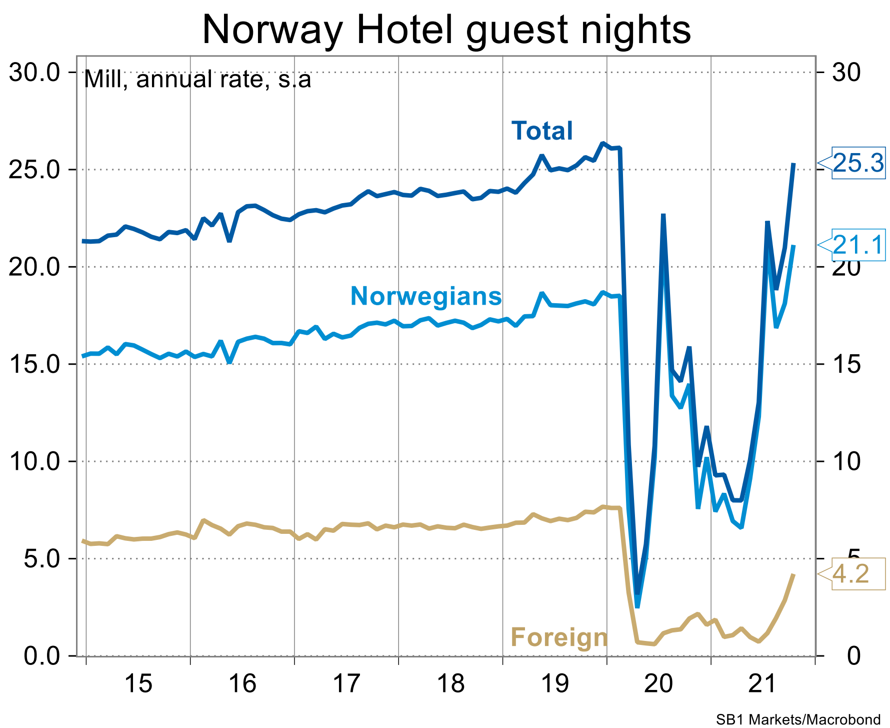
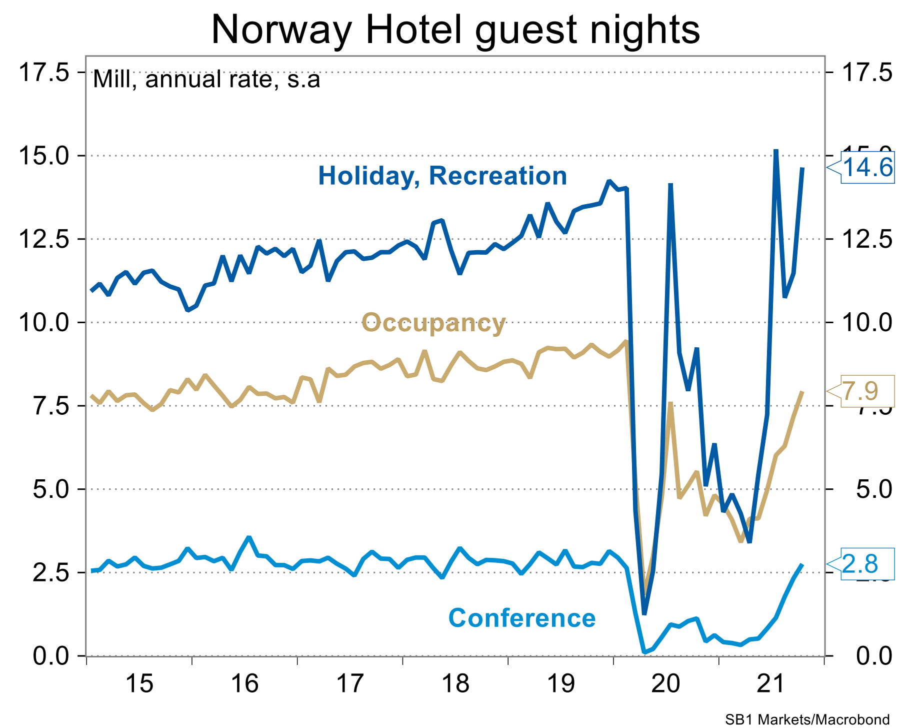
October among the best hotel months ever? 1% above the 2019 avg!

Total revenues are up 4%!

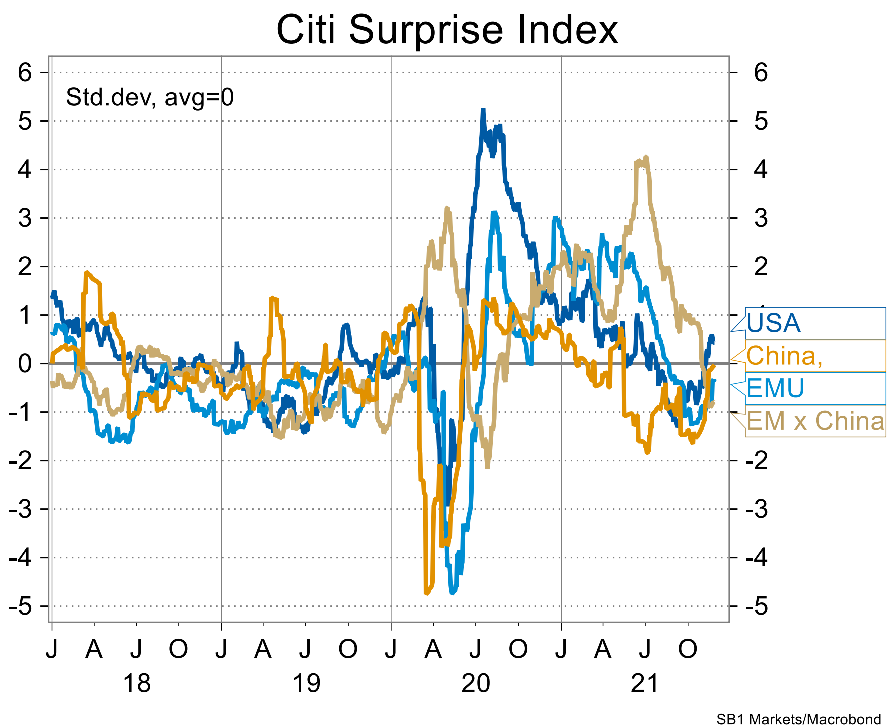


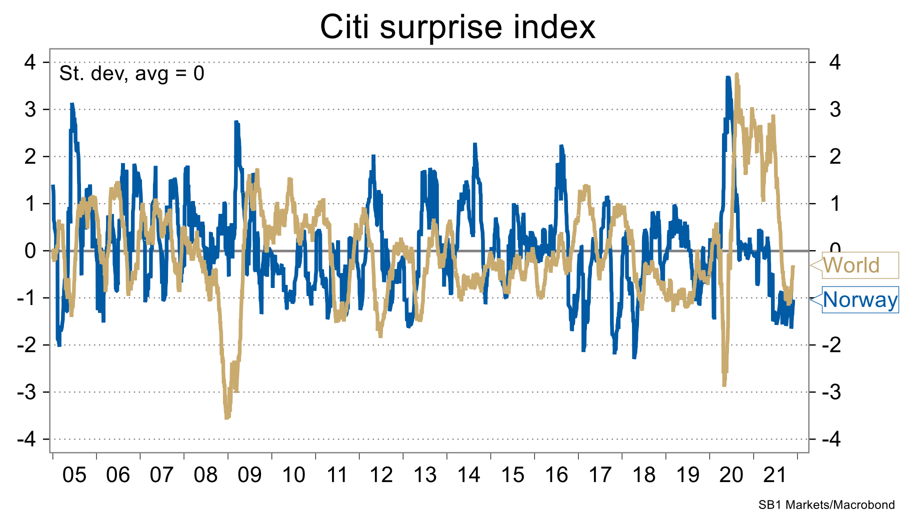


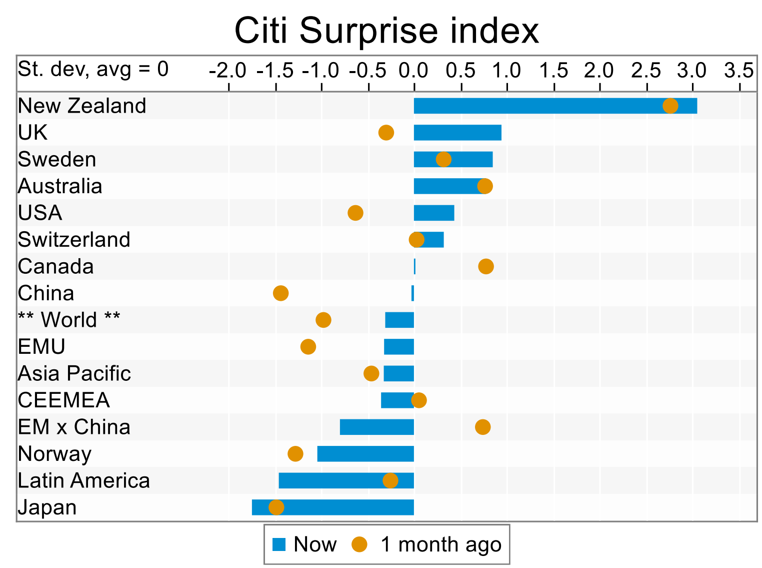
- **The no. of guest nights** was 1% ABOVE the 2019 average level in October, even if foreigners were 40% down – Norwegian guest nights were up 18%. <u>If not SSB had published these data, we would not have believed in them but a short x-check in the industry confirmed a strong October</u>
- **Business guest nights** (sum occupation & conferences) was just down 12% vs the 2019 average, with conferences alone just down 3%!
- **Recreational traffic** was up 11% vs. the 2019 average. As foreigners in total are down 40%, we estimate that <u>Norwegian recreational demand was up by more than 30%!!</u>

The global surprise index continues upwards but is still slightly below par

US and several countries are reporting better data than expected, China is back on par







- EMU still surprises are on the downside, but less last week too
- **Emerging Markets x China** have fallen to below par, after more than one year at the positive side. However, actual data from EM x China are not that bad, and the PMIs are recovering (at least until November)
- **Norway** has surprised sharply on the downside, according to Citi

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

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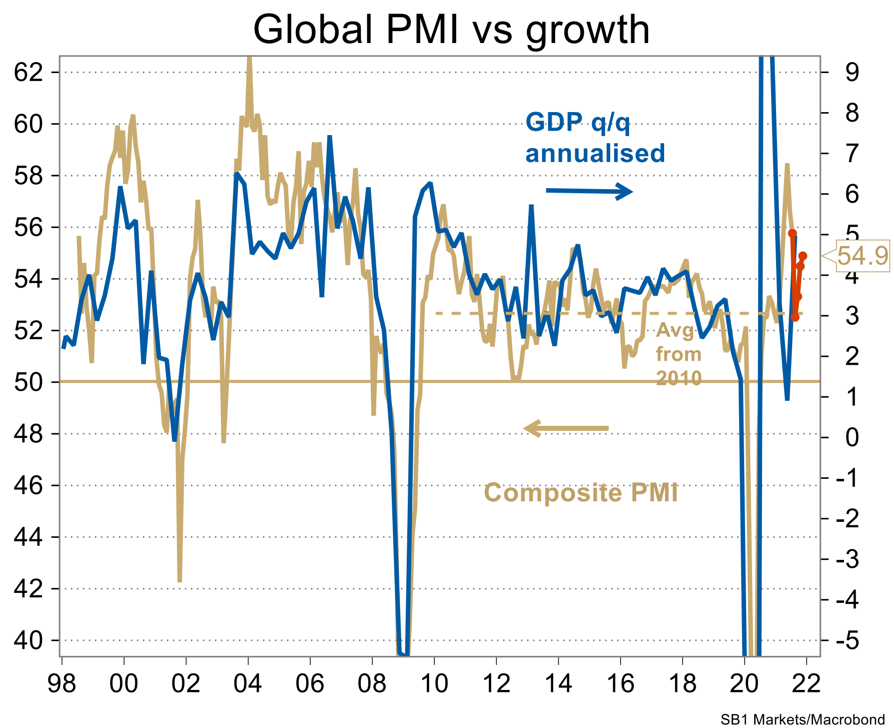
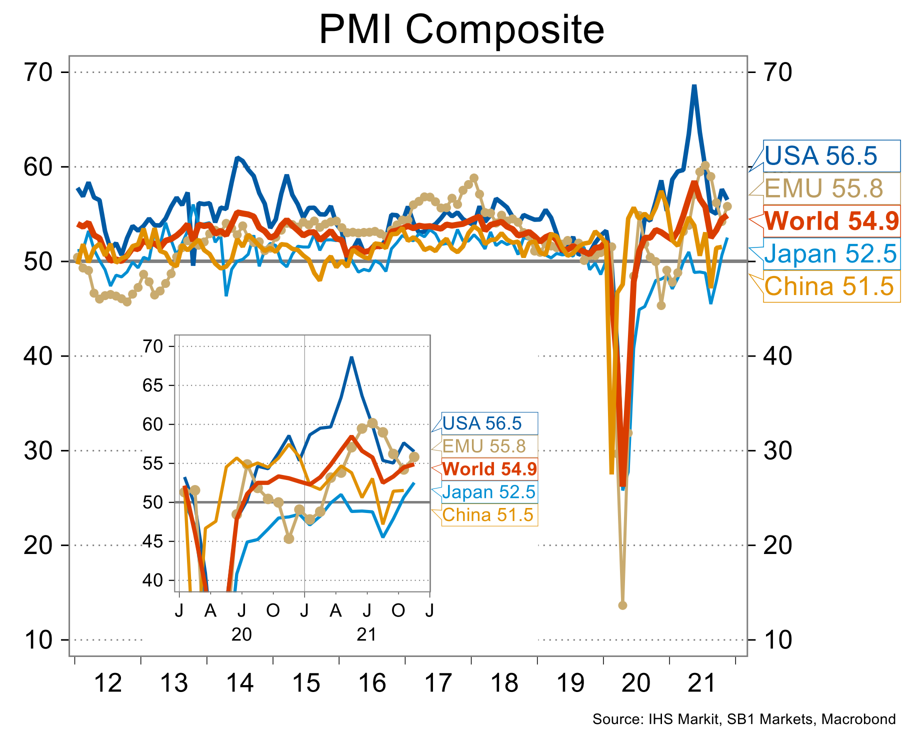
PMI very likely recovered further in November

We estimate a 0.4 p lift in the global composite PMI to 54.9, signalling a 4.5% global GDP growth pace

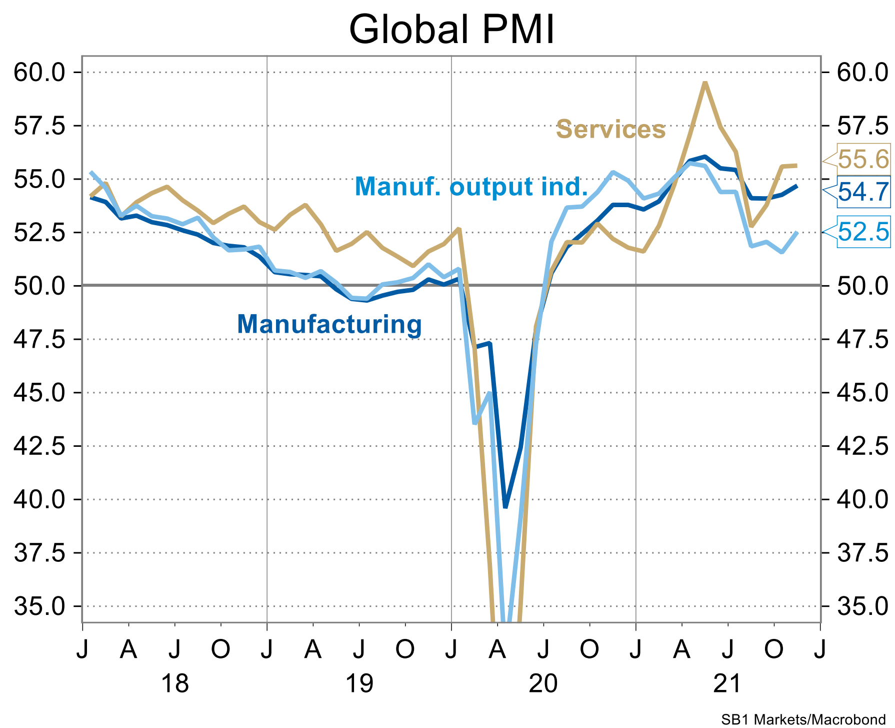


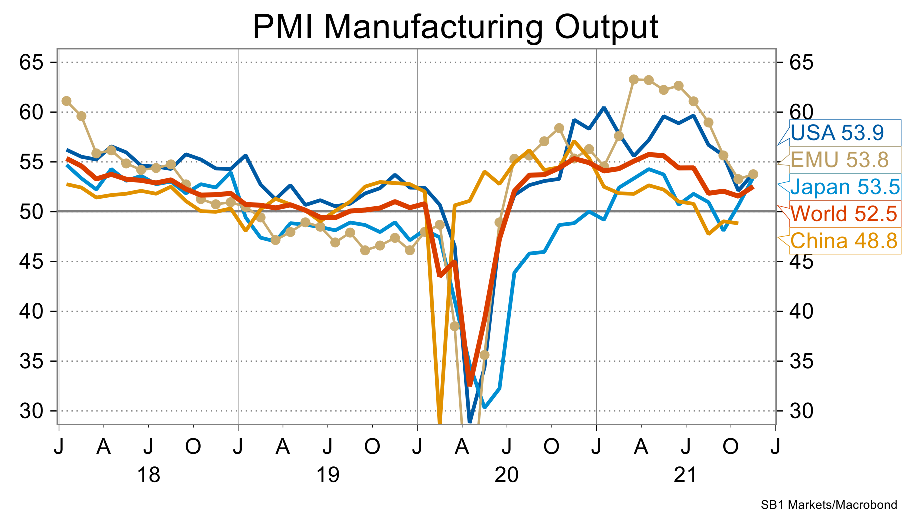


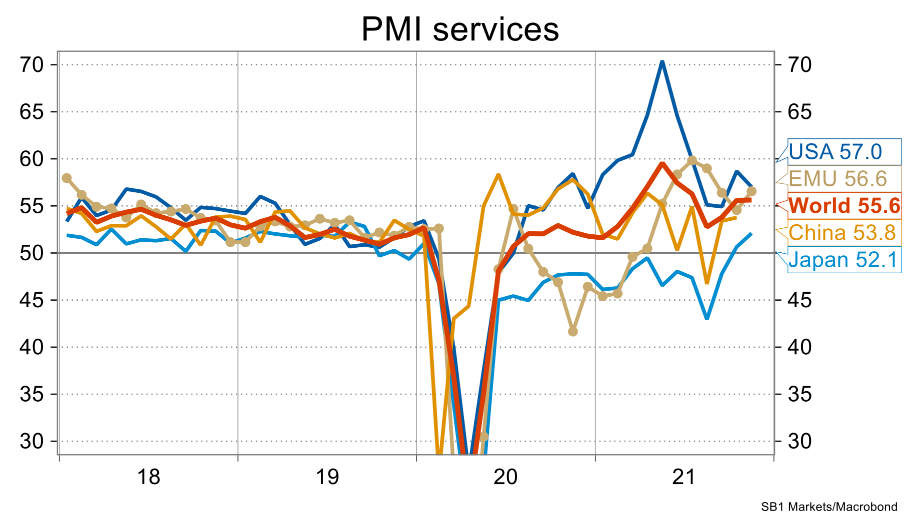
- **The flash composite PMI** November estimates rose in EMU, UK, Japan and Australia but fell slightly in the US. We do not have any data points from Emerging Markets, and recent months this part of the world, at least EM ex China, has gained substantial speed. Based on the reports from just the rich part of the world, we estimate a 0.4 p lift m/m, to 54.9 – well above a normal level
- In the composite PMI, **the output component** of the manufacturing survey is included, not the total manufacturing index. Normally, the output index quite close to the total index. Now, the surge in the delivery times index has lifted the total index significantly, especially in the rich part of the world, and the total index has become less relevant.
  - » In November, the manufacturing output index rose, while the headline (activity) index in the service sector flattened. The delivery times index fell slightly, but remained high
- **Prices** are rising faster again, broadly

Our estimates are based on the preliminary PMIs from US, EMU, Japan UK, and Australia. The estimates are uncertain, but usually by less than 0.5 p

Manufacturing PMIs up, services flat in November, due to a decline in the US







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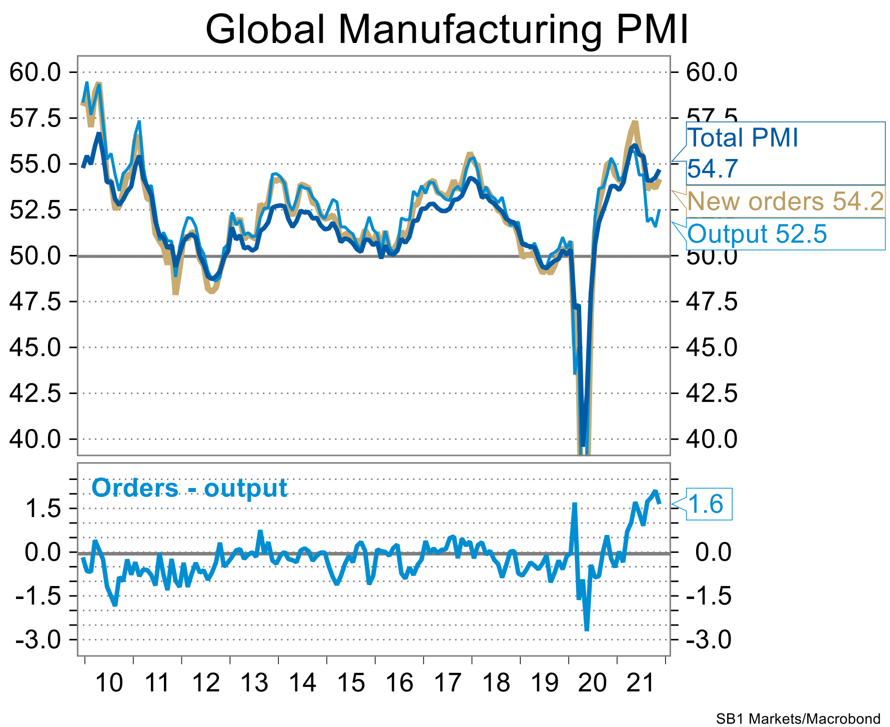
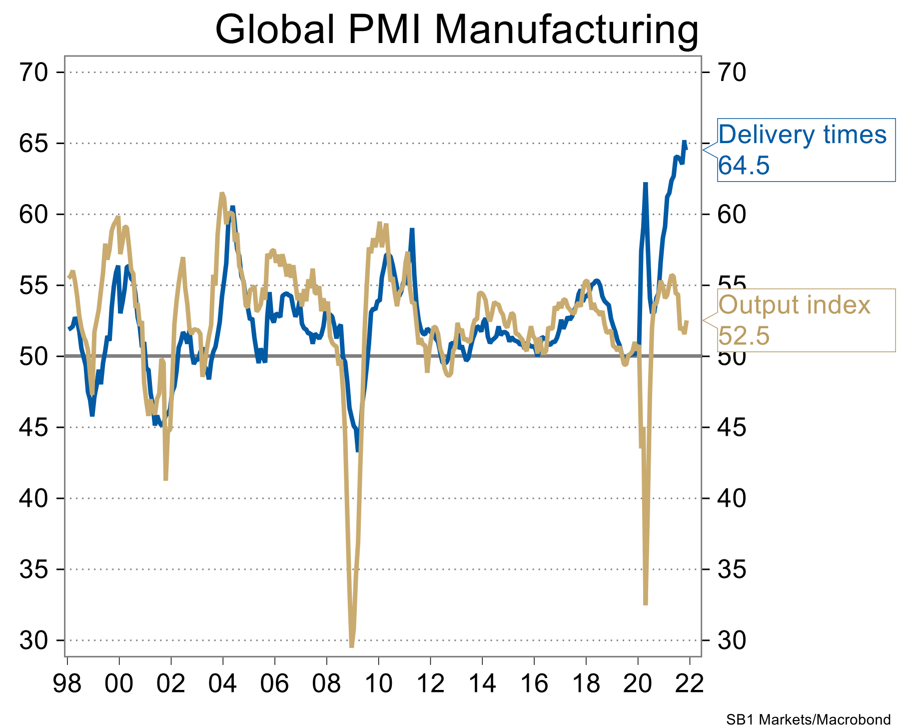
Manuf. output growth gained speed in November, orders are still climbing fast

The delivery times index fell slightly but is still at a very high level

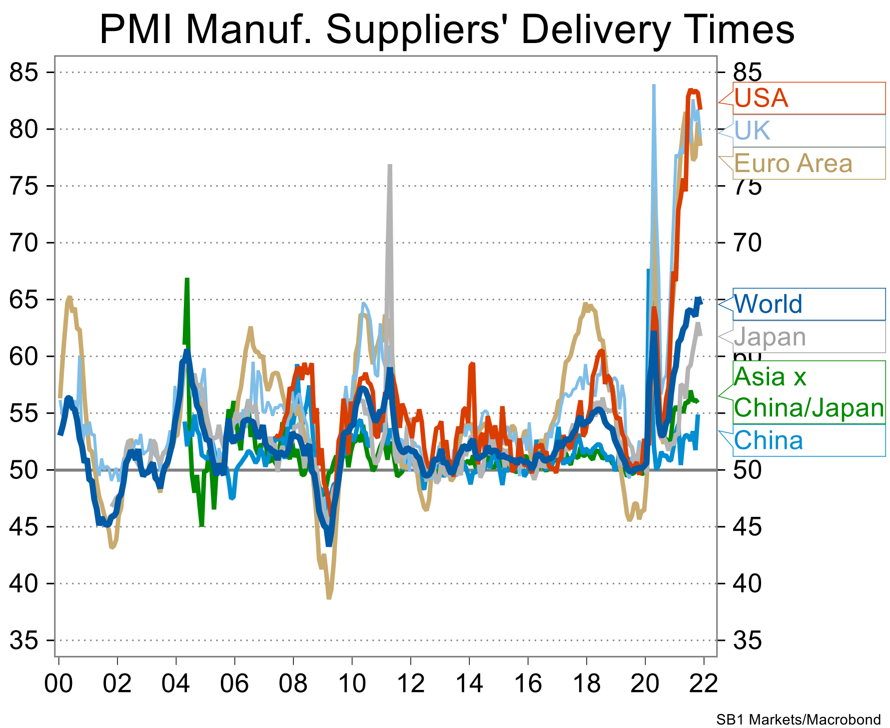




- **The current capacity in the manufacturing sector is more than reached**. The question is of course: How much is capacity (transitory) impaired by the fight against Covid-19? It is impossible to know before after the fact
- However, problems are most acute in Western countries where demand for goods have been much higher than normal. That may indicate the 'normal' capacity is not necessarily impaired but rather that the exceptional strong demand for goods – of course buoyed by exceptionally fiscal and monetary policy measures during the pandemic – is the main reason for the surge in delivery times and prices

Delivery times index may have fallen slightly in November

A limited ease in US, EMU, UK and Japan



- If it was mainly a Covid related problem: Why are not Asian counties reporting more delivery challenges?
  - » OK, transport bottlenecks may cause the problem, but what if those problems are mainly due to strong demand for goods in this part of the world?

- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) and probably declined globally as well. These survey data confirm company statements, and a surging stream of media reports
- **The interpretation of this index is uncertain** – are companies really reporting changes in delivery times?
  - » This index as been above 50 most of the time (the past 20+ years), signalling longer delivery times. However, delivery times have not increased almost all the time – they have rather fallen! Companies may be reporting the level of delivery times. If so, delivery times are now contracting – while the index formally reports than delivery times are increasing at a marginally slower pace

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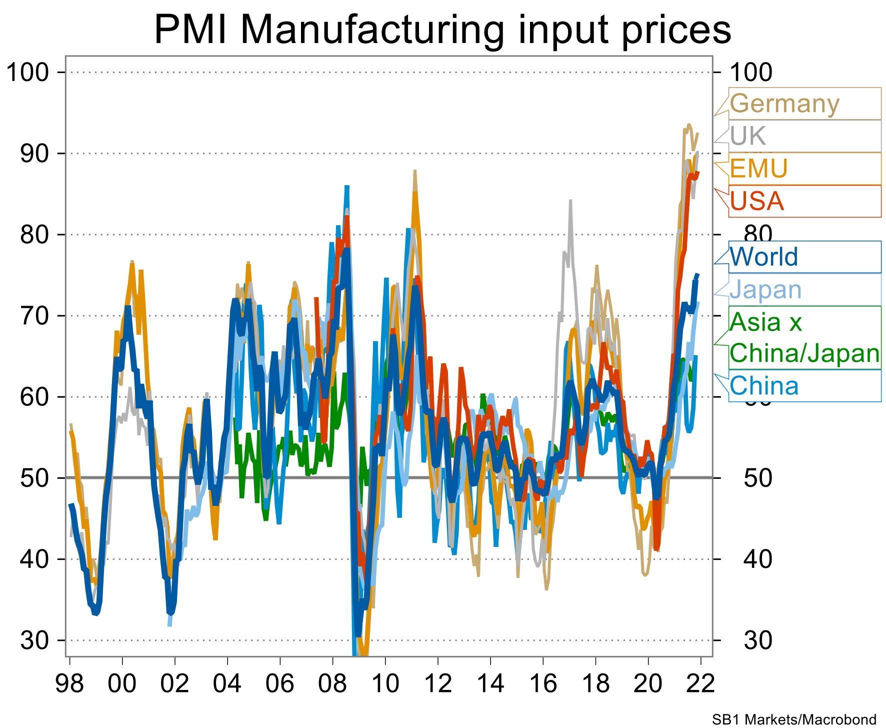
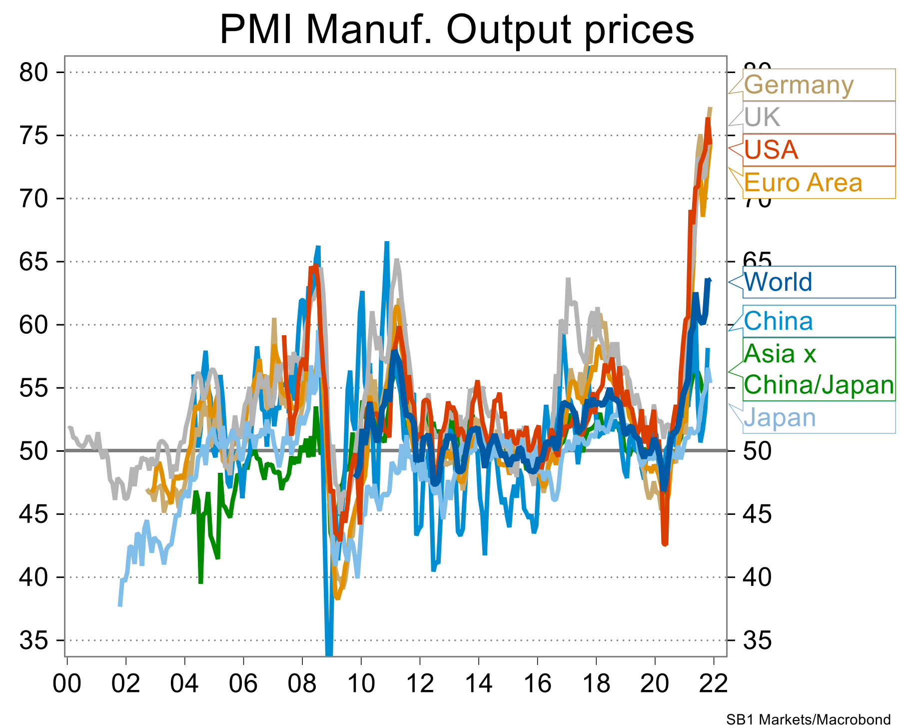
Input prices accelerated further in November, output prices slowed marginally

... at least in the rich part of the world





- **Both EMU and US** manufacturing industries reported the steepest growth in both input

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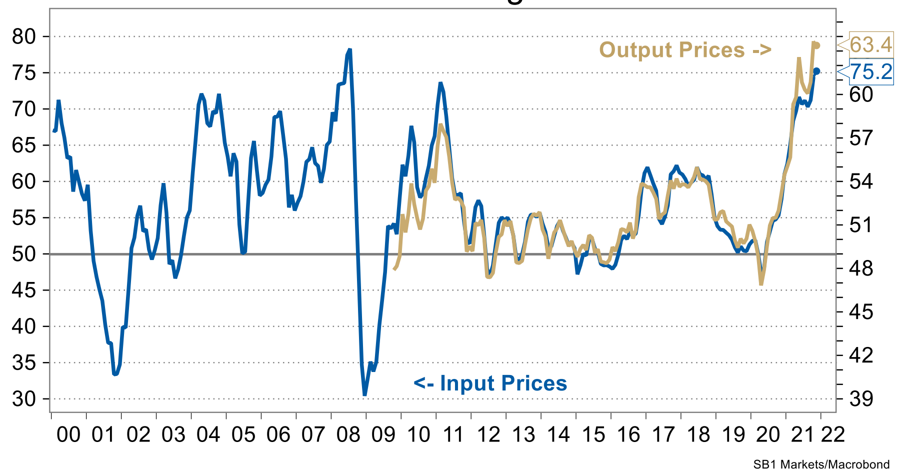
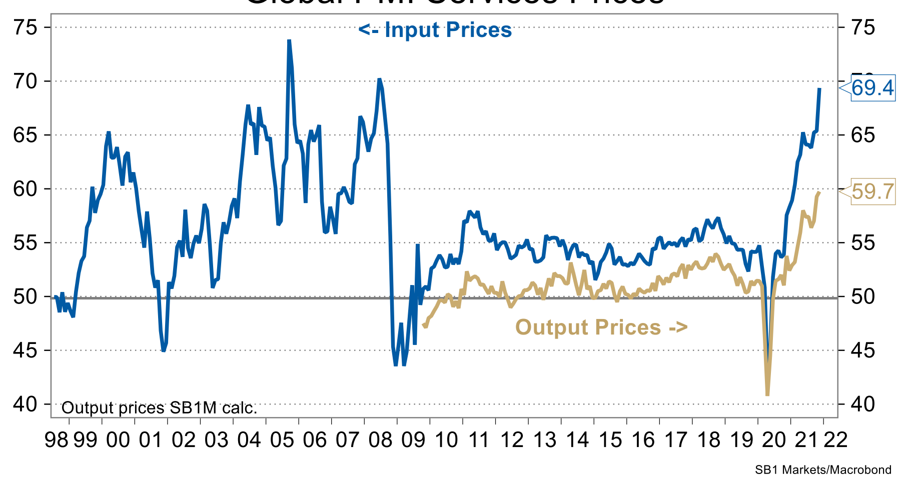
The global PMI input price index sharply up – to ATH (data from 1998)

Input prices indices up in November, output indices mixed but at ATH levels

Gobal Manufacturing PMI Prices

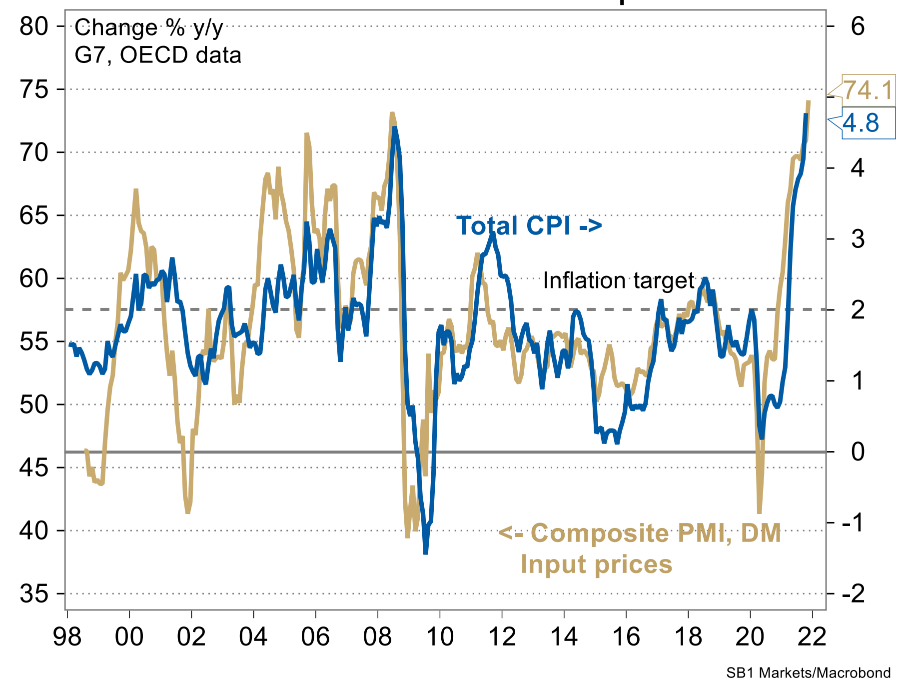


Global PMI Services Prices



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

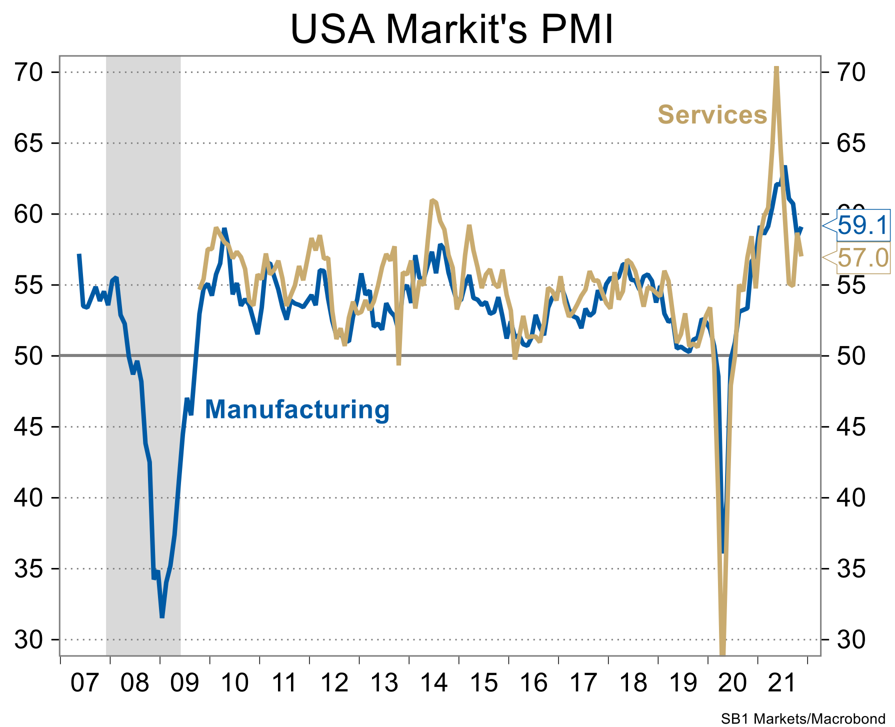
OECD Inflation vs PMI prices

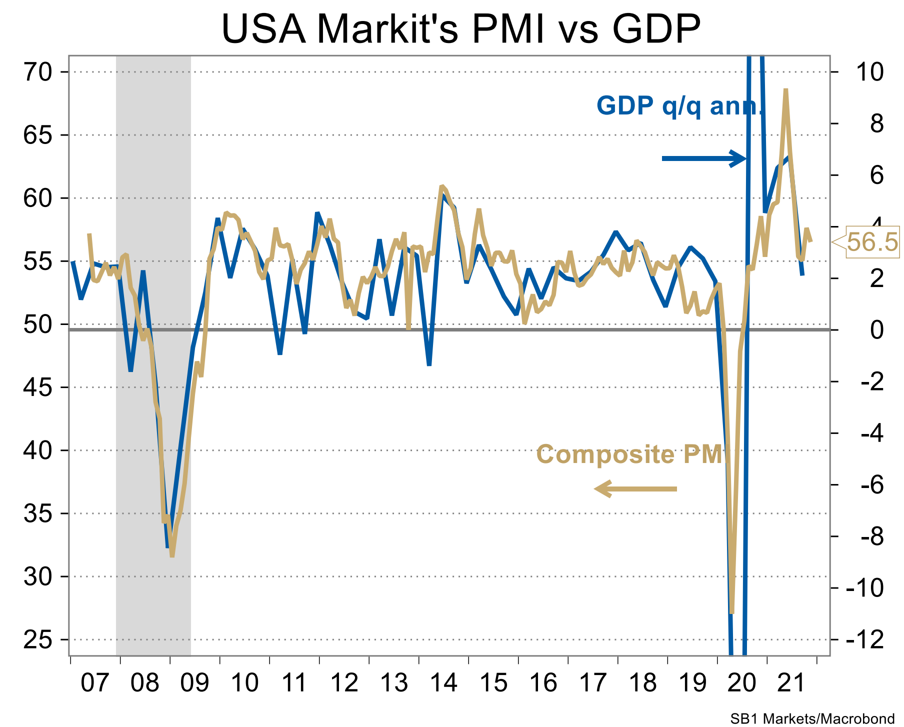


- Companies world wide are reporting price increases far above normal levels, and actual inflation prints will remain elevated for months (at least annual growth rates)

The compostite index marginally down, signals 'just' 3.5% growth

.. Due to a decline in the services PMI, down to 57.0 – still a very high level





- **The composite PMI** yielded 1.1 p to 56.5; expected up 0.4p
  - » The **manufacturing** index gained 0.7 p to 59.1, expected up 0.6 p. The level is still very high – <u>but the output index is at 53.9</u>, still signalling growth above trend
  - » The **services PMI** fell by 1.7 p to 57.0, expected up 0.3 p. The level is well above average
- Companies report a moderate growth in **employment** – far below what they really want
- **Prices** are still soaring – and cost inflation was the 2nd highest since the composite index was introduced in 2009

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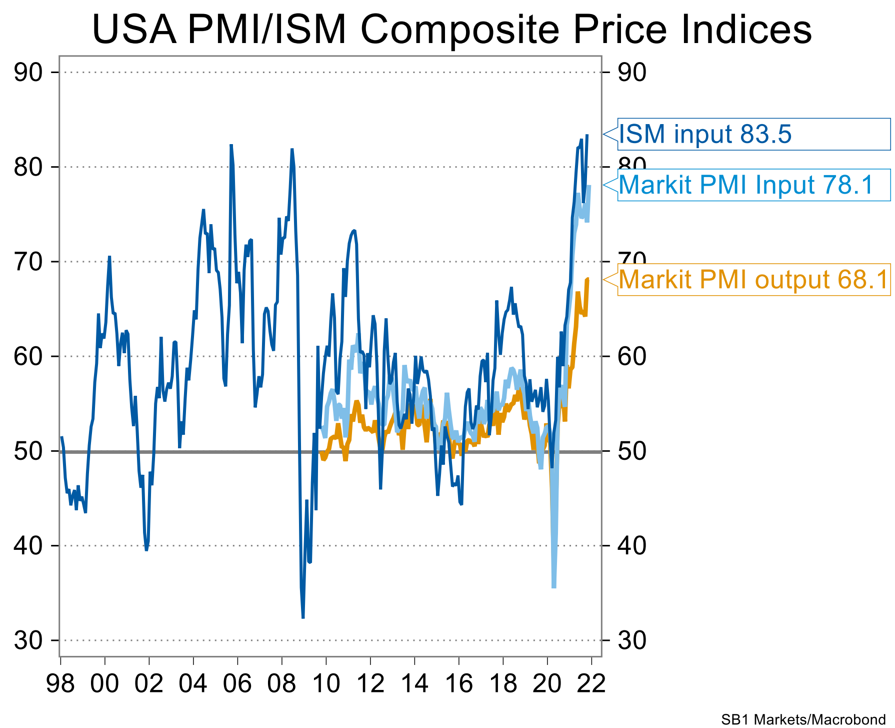
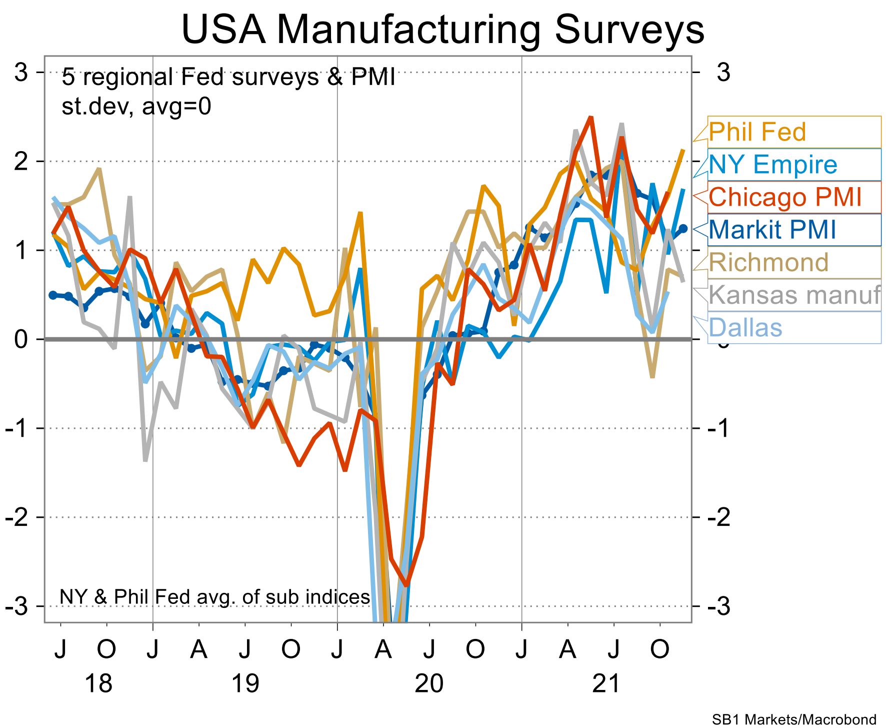
The US challenge: Prices are soaring all over the place

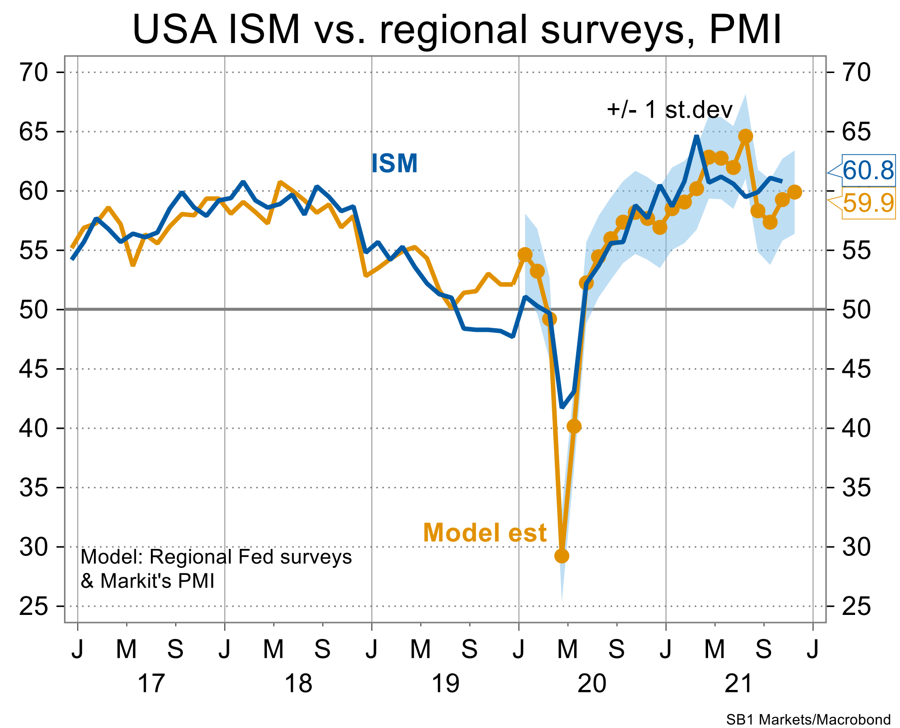


- ISM has not yet reported November data

Manufacturing surveys so far in November: 3 up, 2 down – the average up

Phil & NY Fed up, as is Markit's PMI. Richmond & Kansas Fed surveys report slower growth

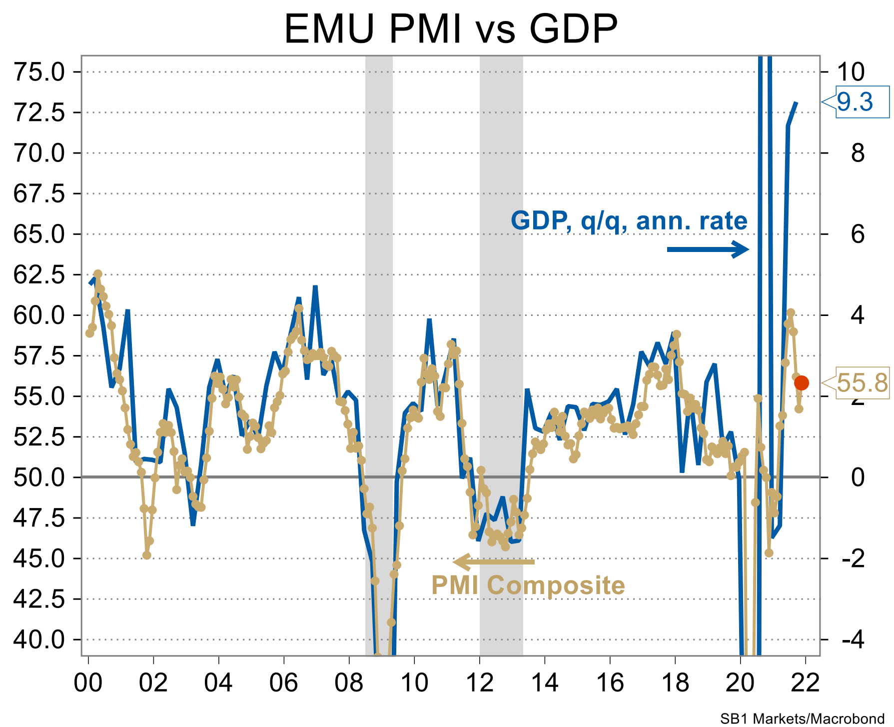


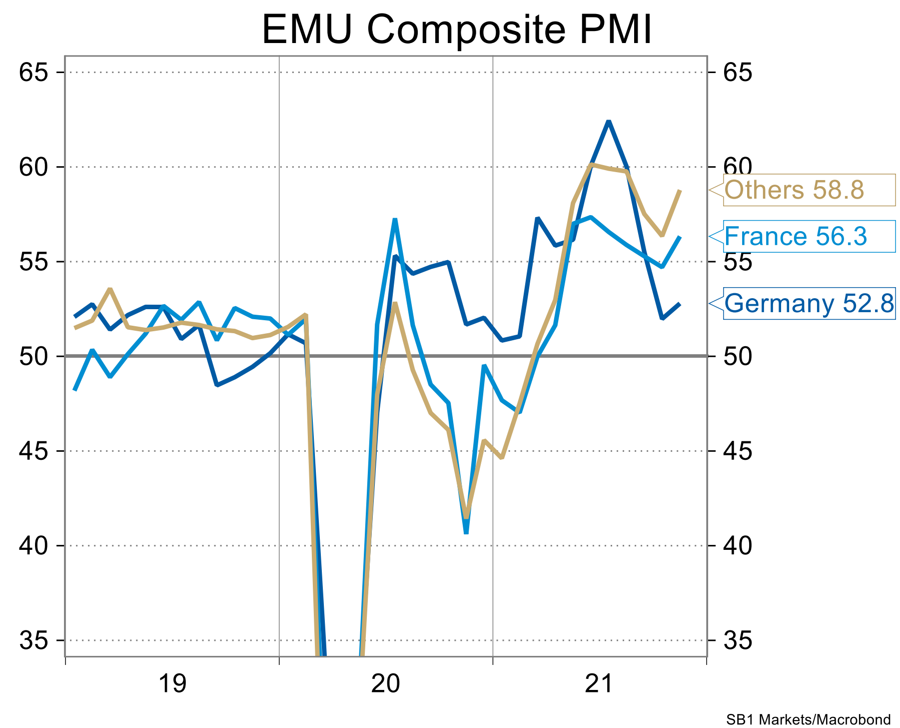


- In sum: A small uptick in the ISM is signalled. Levels are anyway strong, albeit supported by a 'false' signal from delivery times

The PMIs up in November, signals growth above (a weak) trend

The composite PMI rose 1.5 p to 55.8, expected down 1.2 p to 53. No virus trouble (so far, at least)

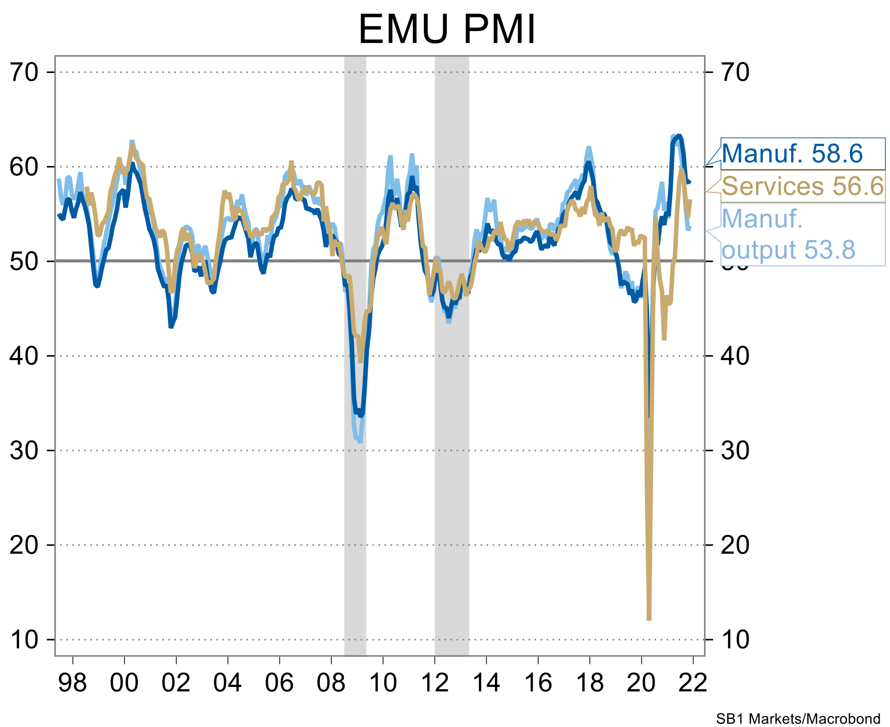


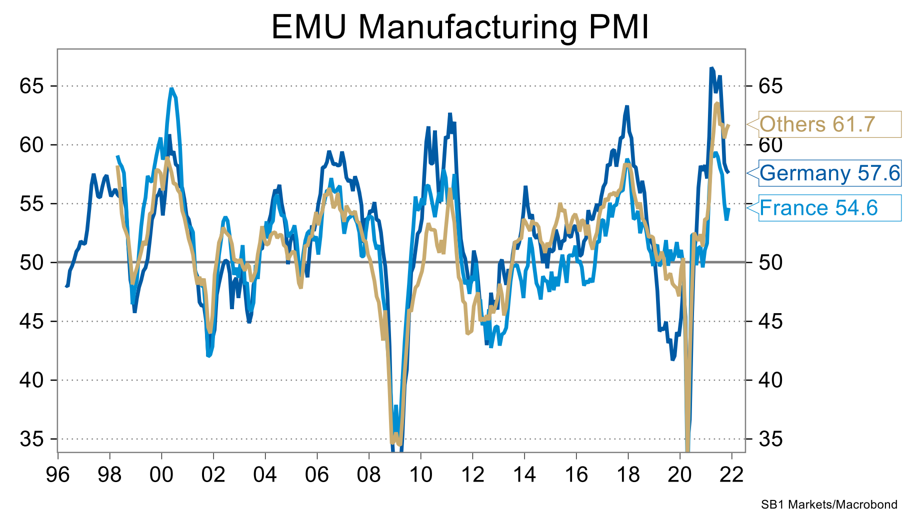


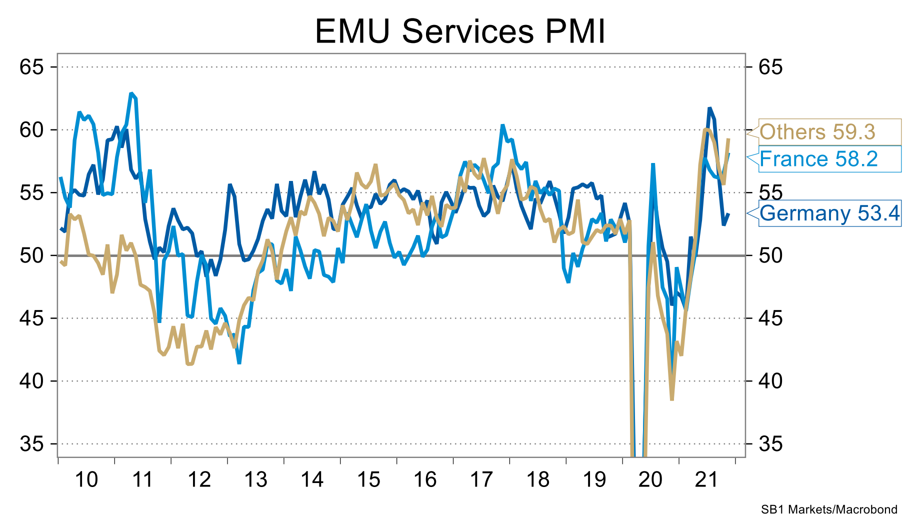
- In November, **the composite PMI** recovered most of the Oct decline but the index is still well below the July (reopening) peak. It signals a 2.5% growth pace – but the correlation has been weak during the pandemic
  - » The survey was conducted Nov 10 – 19, before the Delta covid problems had escalated that much again (and before the Omicron news broke)
  - » The composite index rose in both Germany, France and implicitly in the rest of the region. The German is weakest link, the average of Spain/Italy at the top

PMIs down everywhere, both in manufacturing & services

Still, economy is still expanding everywhere







- The **service sector PMI** gained 1.9 p to 56.6, expected down 1.1 p
- The **manufacturing PMI** added 0.1 p to 58.6, expected down 1.1 p. The **output index** is much weaker, at 53.8 as the total index is boosted by the delivery times index – which is not a signal of strength in production these days

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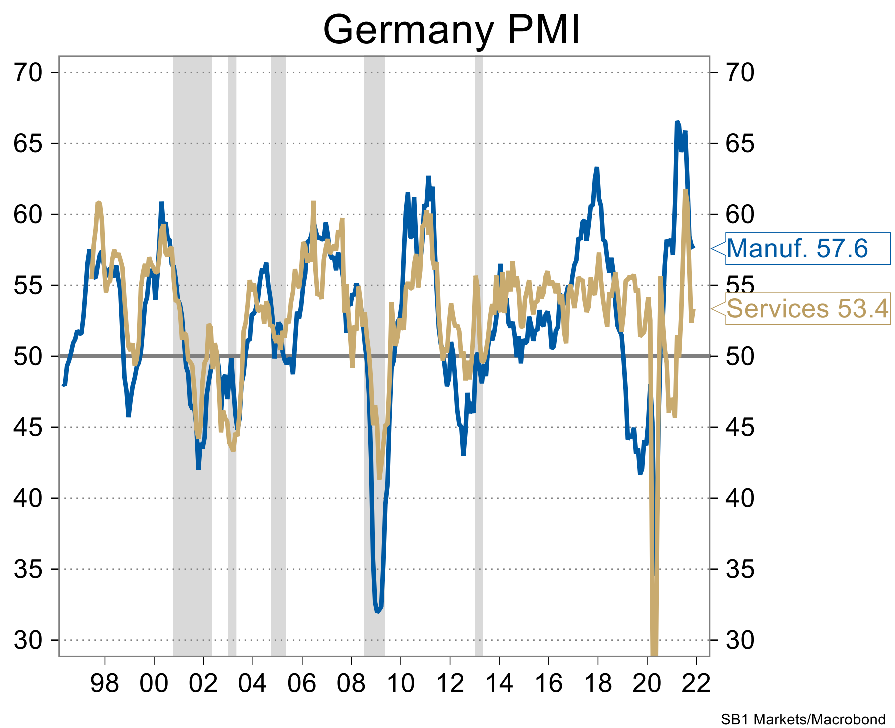
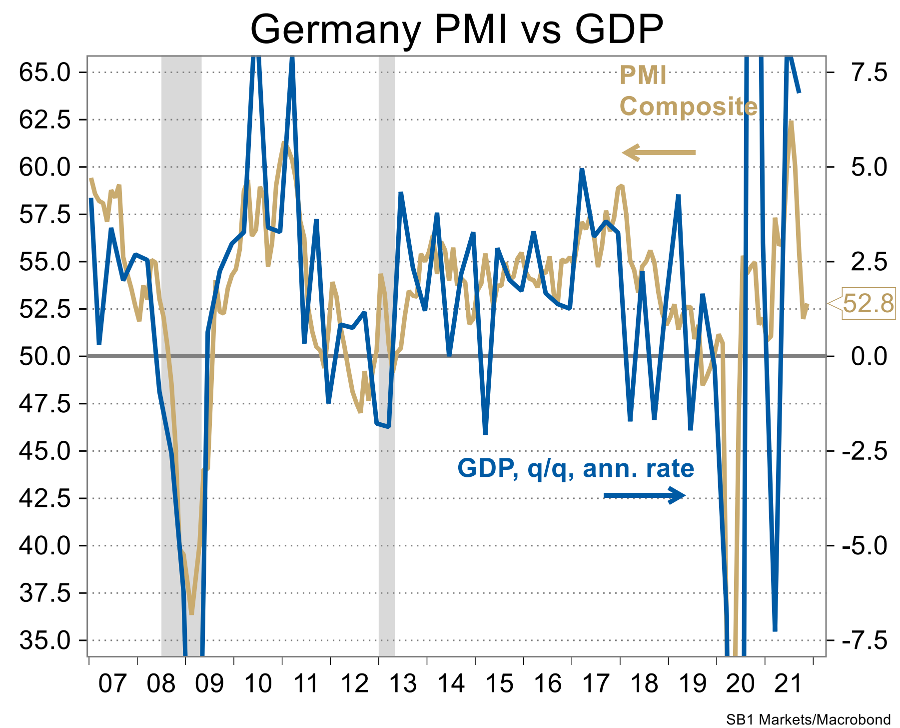
Germany: The composite PMI just slightly up in Nov, following a rapid decline

The comp. PMI added +0.8 p, following the 10 p decline to October from July. 1%+ growth signalled



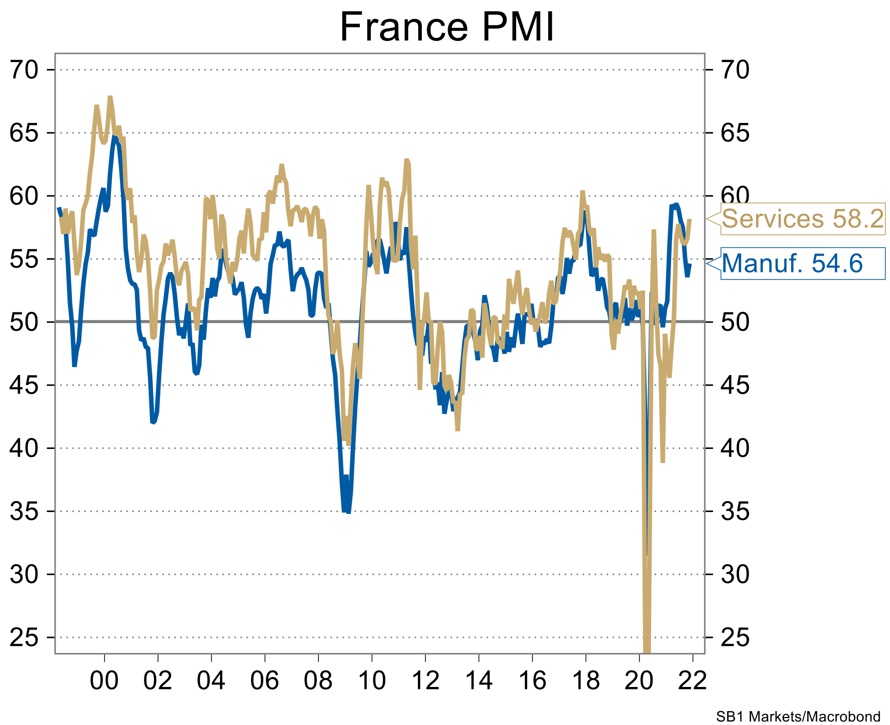


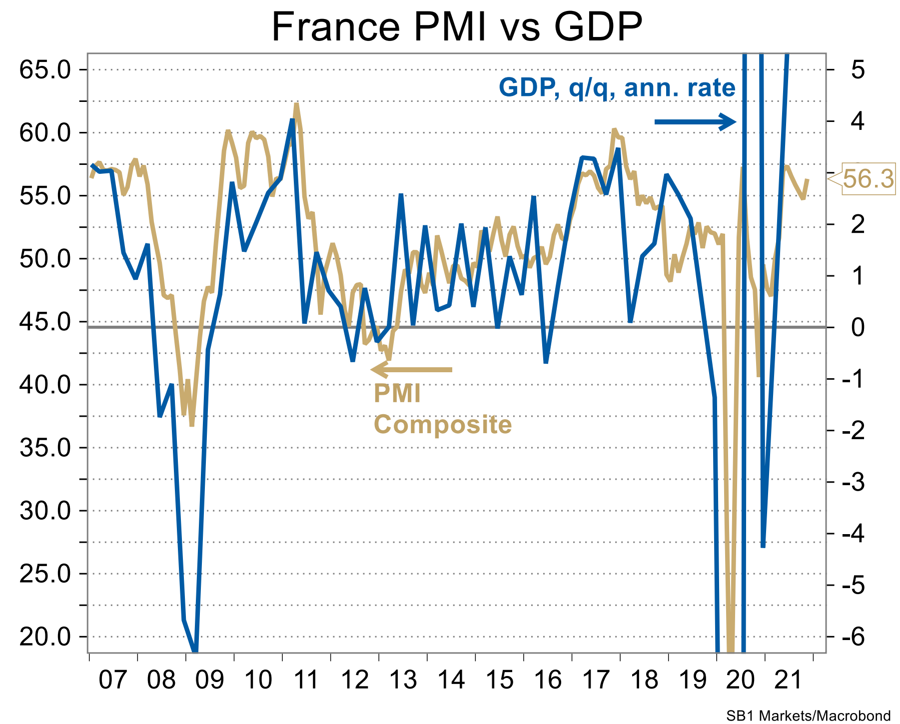
Not strong but better than expected

- **The prelim. manufacturing PMI** fell 0.3 p to 57.6, expected down 1 p
- **The service sector PMI** added 1 p to 53.4, expected down 0.8 p to 51.6
- **The composite PMI** climed 0.8 p to 52.8, was expected 1 p down to 51

France: Both manuf. & services are reporting faster growth, 3% GDP growth sign.

No signs of a virus slowdown – in the first part of November, that is

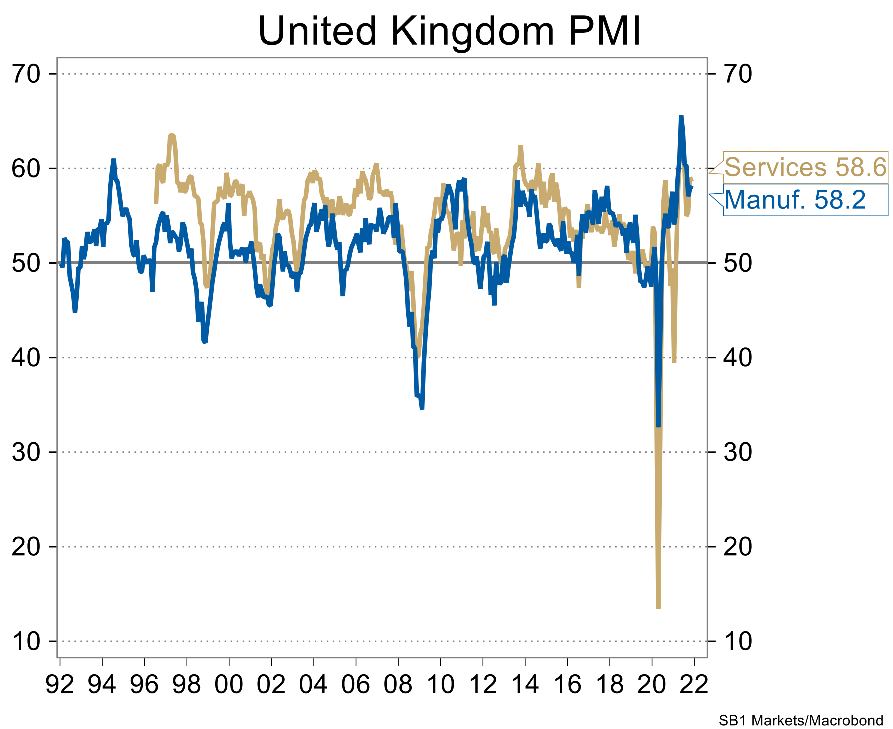




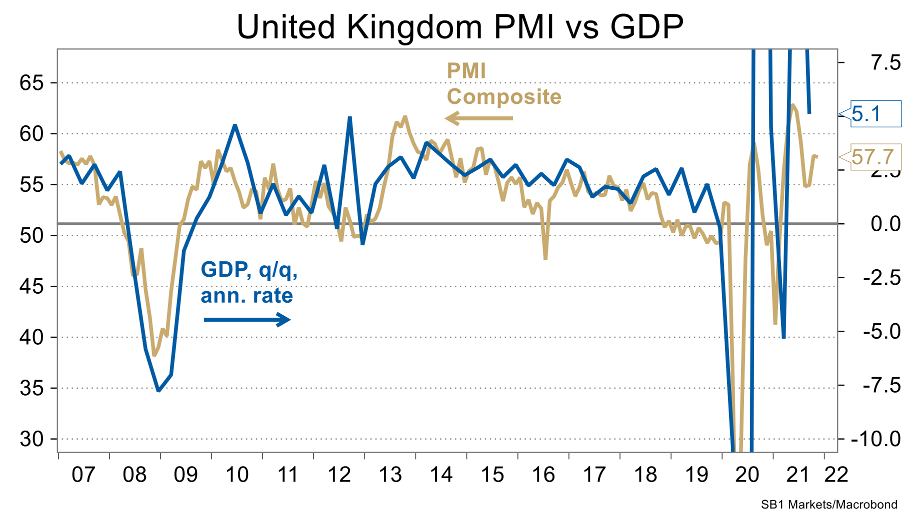
- The **services** PMI was up 1.6 p to 58.2 (expected down to), while the **manufacturing** PMI rose 1.1 p to 54.6, expected down 0.5 p
- Reported demand is still strong but supply-chain problem is putting a drag on the manufacturing sector
- The **composite index** rose 1.6 to 56.3

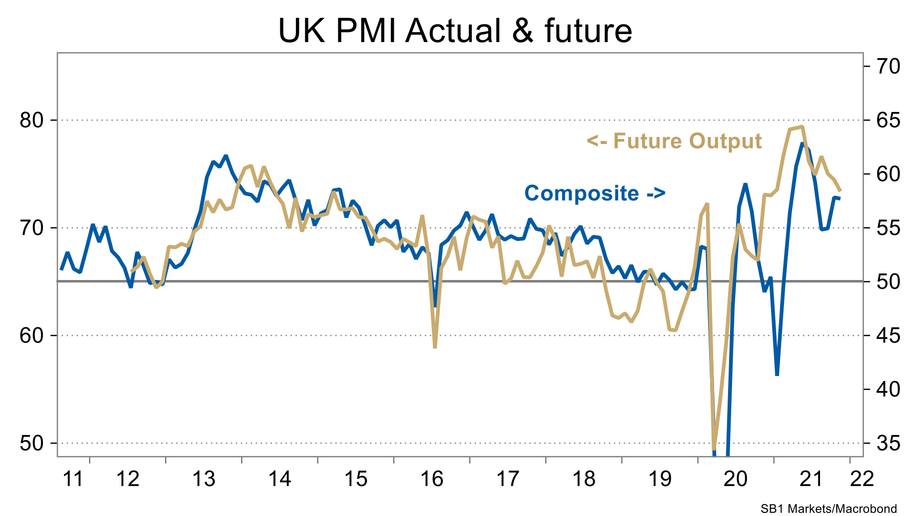
UK PMIs OK in November too, signalling growth well above trend

Supply constraints are still curbing growth in manufacturing and input cost pressures hit another ATH



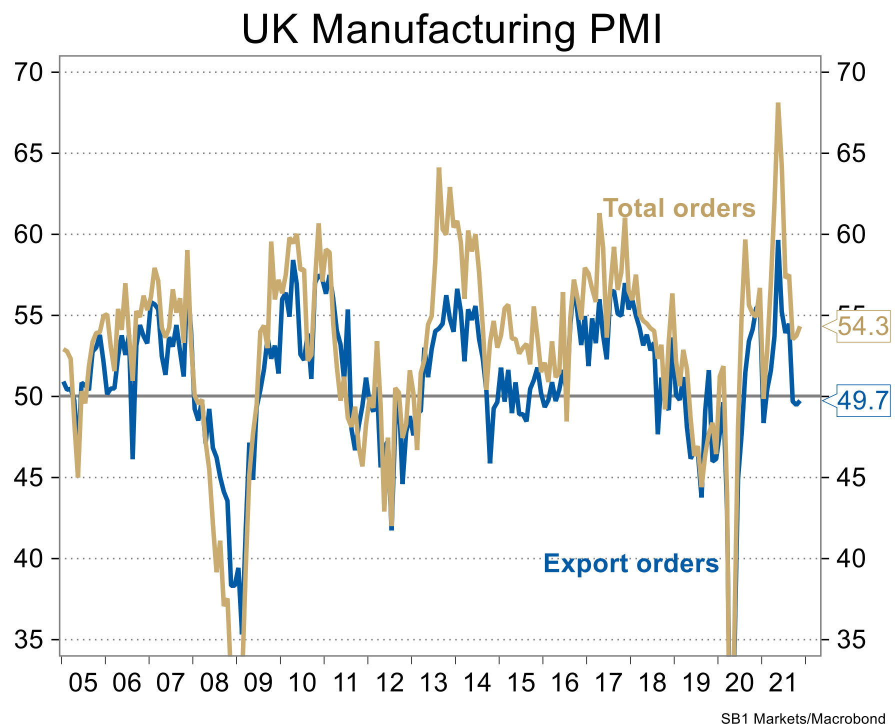
- **The composite PMI** declined 0.1 p to 55.7, signalling 3% GDP growth (but the precision is not that impressive). The market expected a 0.3 p decline
- **The total manuf. PMI** was up 0.5 p to 58.2, expected down 0.4 (but the output component, included in the composite index, fell slightly)
- **Services PMI** increased by 0.6 p to 58, expected down 0.6 p
- **Delivery times** are still high but are increasing at a slightly slower pace – and both **input & output prices** are increasing faster than ever in the manufacturing sector. In the service sector, input prices are rising at record pace, output price close to

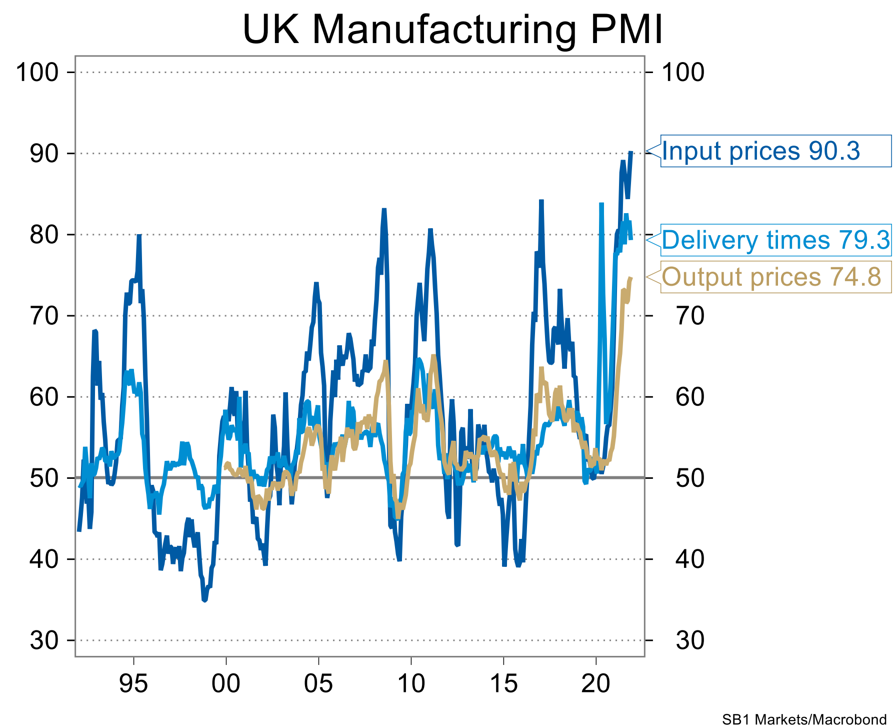




Strong (domestic) order inflow. Delivery times are increasing slower. Prices NOT

Manufacturers are reporting unprecedented price index, both input & out prices!

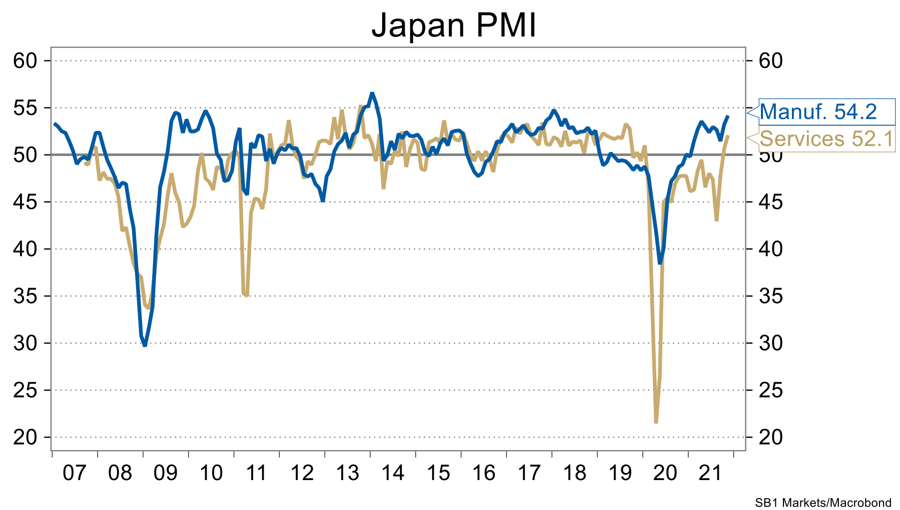




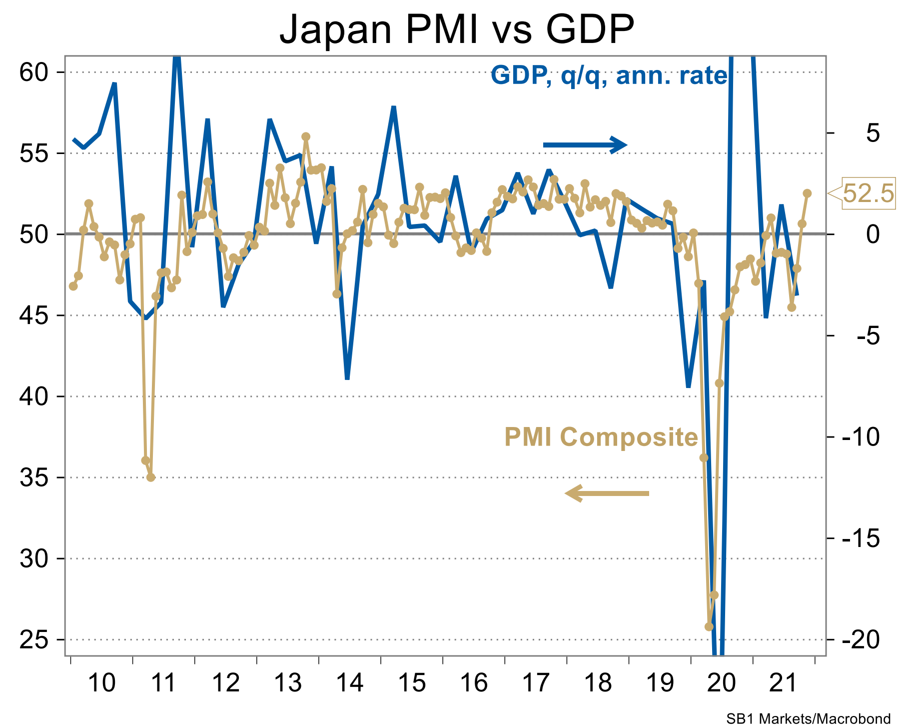
- A domestic orders index is not published but since export orders are stagnating and total orders are growing quite rapidly, domestic orders may be growing rapdily

PMI recovers, both manuf & services up as Covid retreats, best since '18

The composite PMI rose 1.9% to 52.5, the 3rd significant lift in row, signalling 2% GDP growth



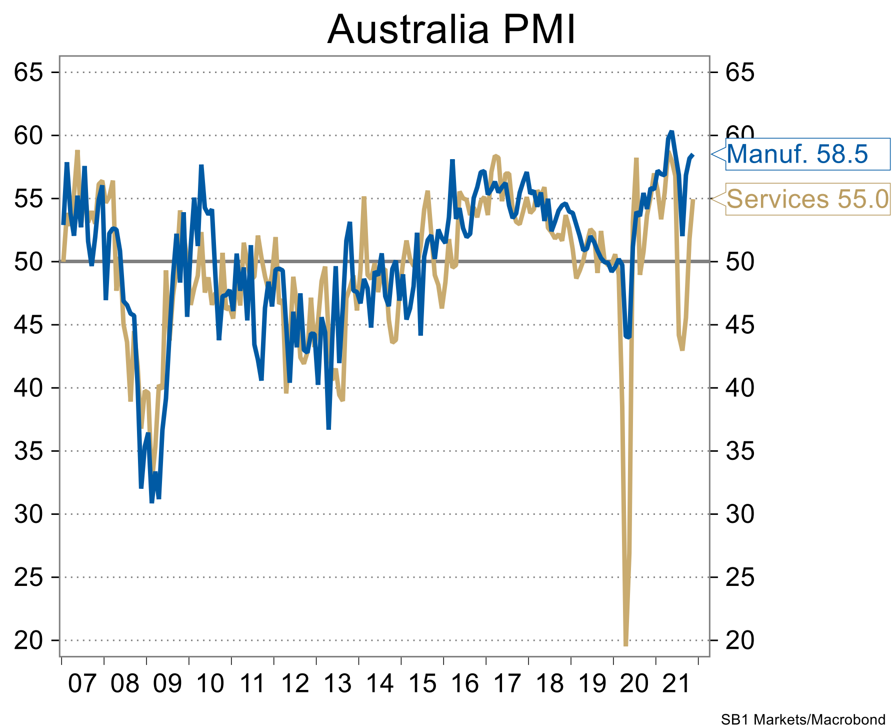
- Companies are reporting increasing delivery times but at lesser extent than in than in Europe & US, and prices are increasing faster than normal but at far lower pace than in the 'West'

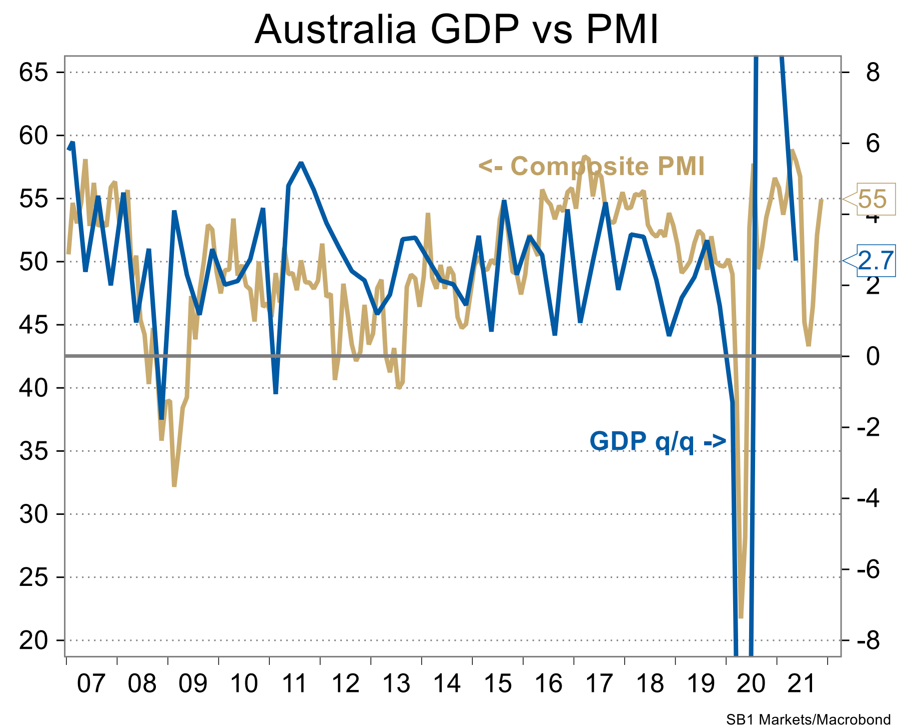


- The **composite PMI** is at the highest level since 2018, signalling growth above trend
- **Manufacturing PMI** rose by 0.9 p to 54.2 – the highest level since 2017!
- The **service sector PMI** continued the strong sentiment from Sept/Oct and was up 1.4 p to 52.1, as Covid cases are down and restrictions eased – the best level since 2019

Australia reports strong growth, following the Covid slowdown

The composite PMI rose 2.8 p to 55, to well above normal level – signaling 4%+ growth

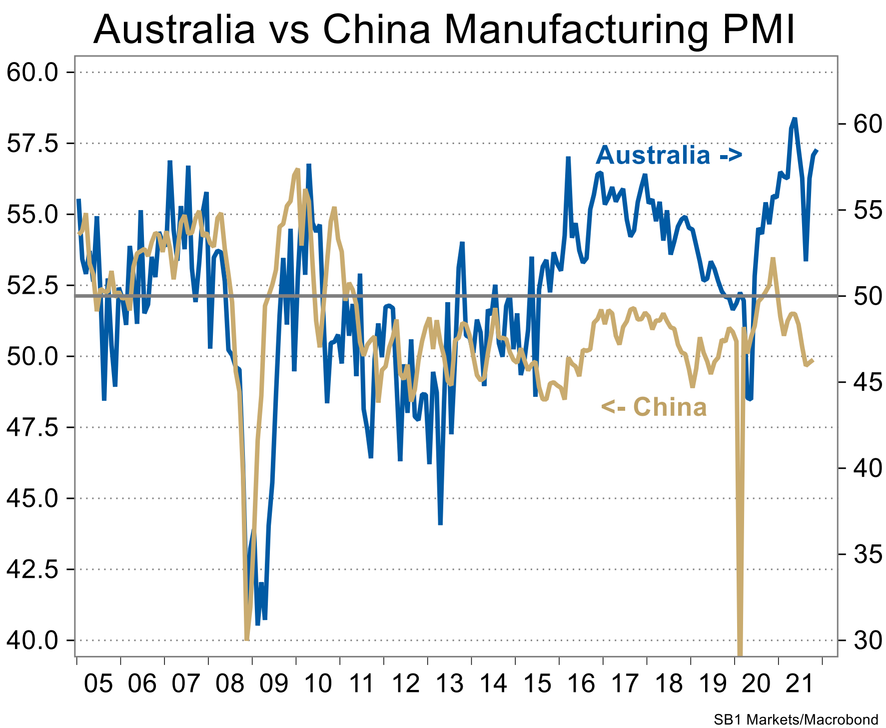




- **The service sector** PMI added 3.2 p to 55.0 in November. This index crossed the 50 line in October, after staying below the 50 line for 3 months, during the lockdown period
- **The manufacturing sector PMI** rose 0.3 p to 58.5, one of the best prints ever. A slowdown in China has so far not been felt in the Australian manufacturing sector
- **The composite PMI** at 55.0 signals 4% growth

Australian and Chiese PMIs are correlated, with China in the lead, in average

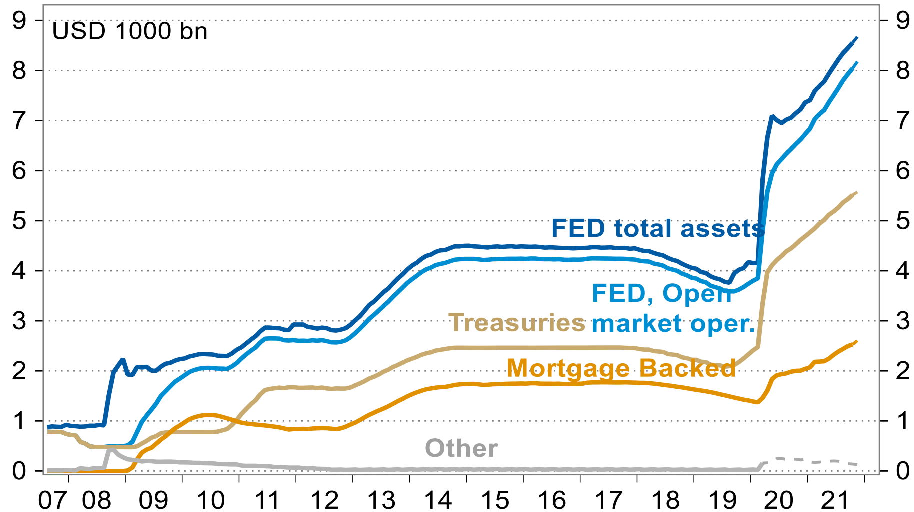
However, the correlation is not that close, and the Australian index gave been stronger since 2015



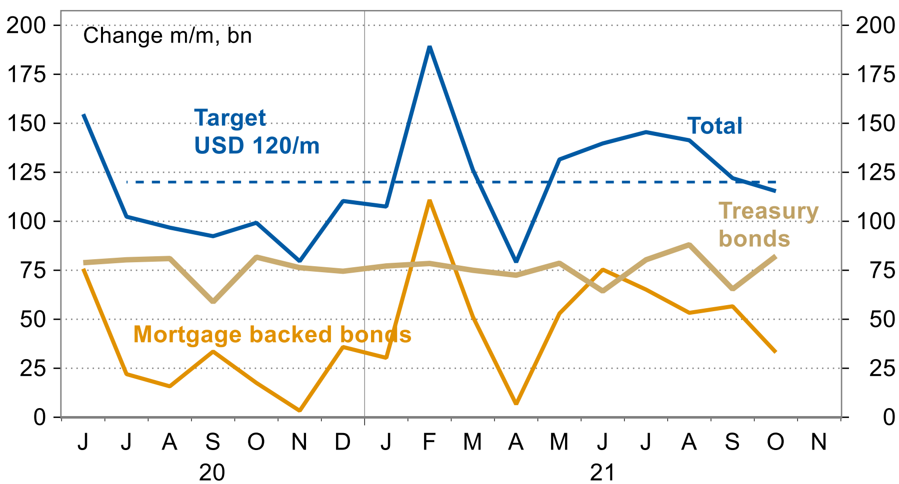
FOMC minutes: Many members started to worry about inflation

At least according to the minutes from the early Nov meeting … and more than Powell signalled?

USA Federal Reserve balance



USA Fed Treasuries & MBS

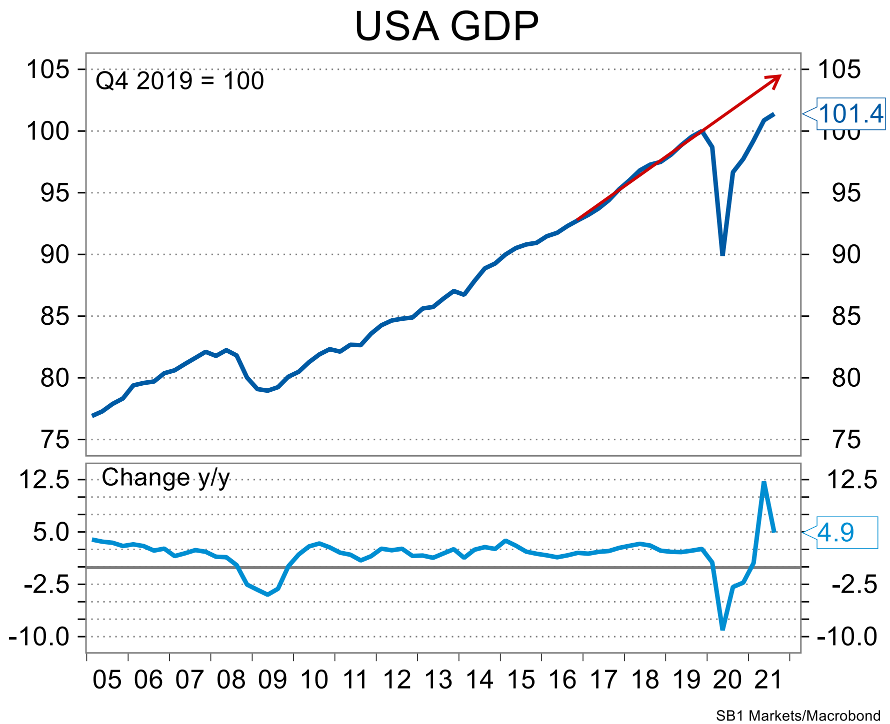


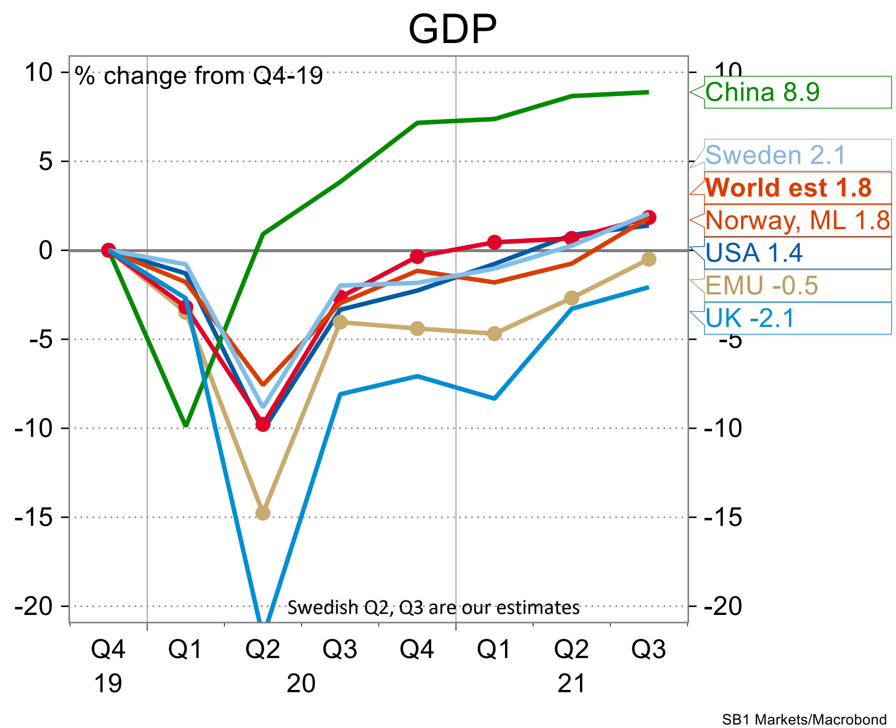
SB1 Markets/Macrobond

- The minutes from the FOMC meeting Nov 3 revealed that many members of the committee are becoming far more worried about inflation as they express uncertainty about the level of spare capacity at the labour market. We are not sure Powell reflected these views at the press conference after the meeting – even though he then acknowledged risks on inflation. Here are some quotes from the minutes:
  - » *Many participants pointed to considerations that might suggest that elevated inflation could prove more persistent. These participants noted that average inflation already exceeded 2 percent when measured on a multiyear basis and cited a number of factors—such as businesses' enhanced scope to pass on higher costs to their customers, the possibility that nominal wage growth had become more sensitive to labor market pressures, or accommodative financial conditions—that might result in inflation continuing at elevated levels*
  - » *Some other participants, however, remarked that although inflationary pressures were lasting longer than anticipated, those pressures continued to reflect the same pandemic-related imbalances and would likely abate when supply constraints eased*
  - » *Participants observed that uncertainty about the economic outlook remained high. They particularly stressed uncertainties associated with the labor market, including the evolution of labor force participation, and with the length of time required to resolve the supply chain situation. Participants cited upside risks to inflation, including those associated with strong demand for goods and a tight labor market. Upside risks to economic activity included a potential near-term boost to aggregate demand that could arise from the drawing down of the substantial savings accumulated by households since the beginning of the pandemic. A few participants mentioned an upsurge in COVID-19 cases during the coming winter or an emergence of new virus strains as possibilities that, if they were realized, would damp economic activity and intensify price pressures.*
- The market did not react to the minutes, very likely because at least two 'centrist' FOMC members recently have been advocating that the FOMC at the upcoming December meeting should discuss a more rapid tapering in order to open for rate hikes much earlier than so far assumed

GDP marginally revised up to 2.1% in Q3

Autos and some services kept growth in check in Q3.

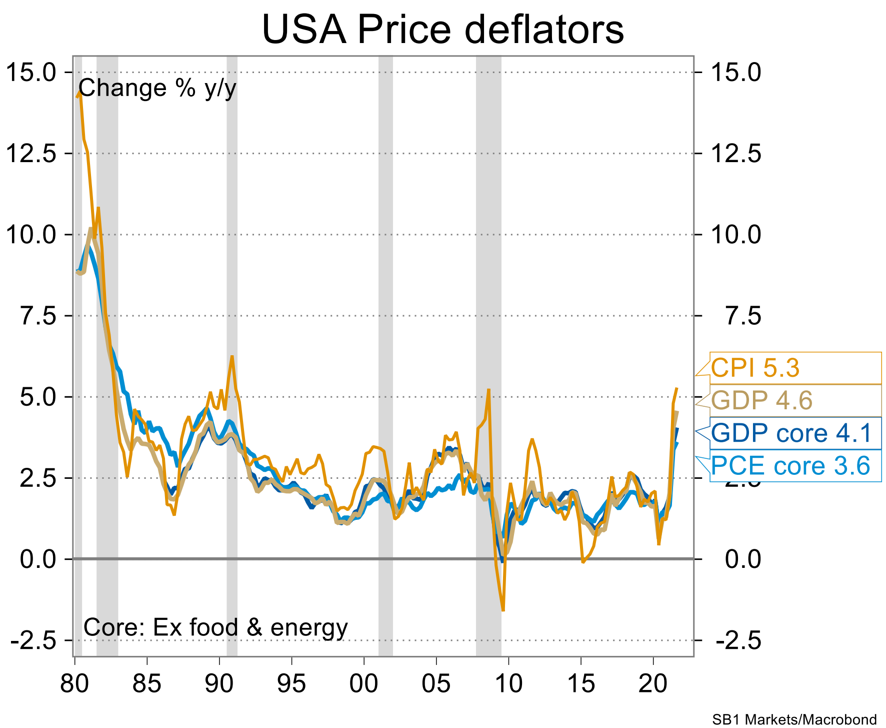


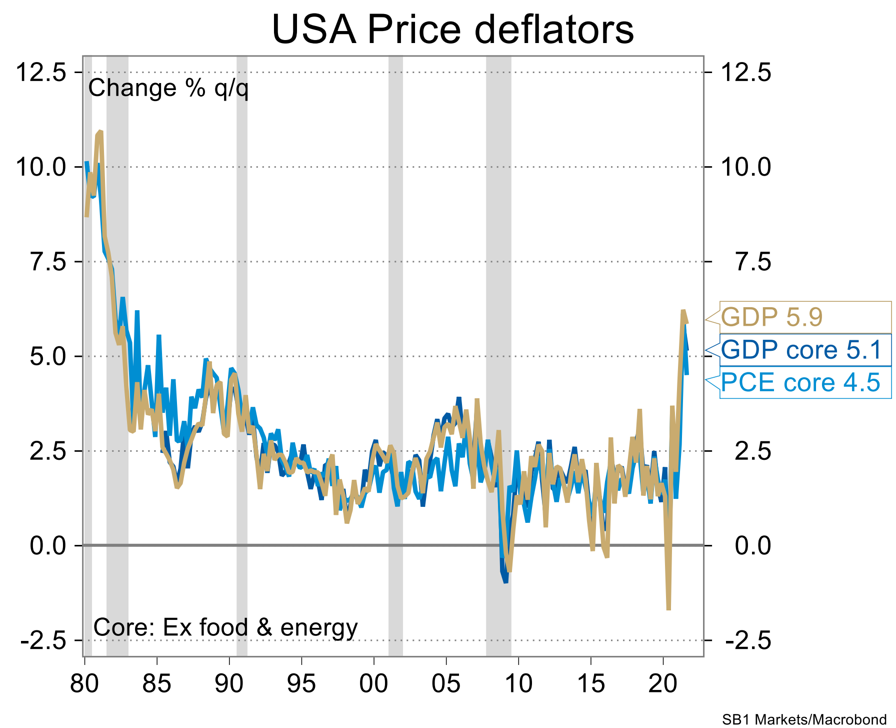


- **GDP** grew by 2.1% annualised in Q3 (0.5% not annualised), revised up from 2.0%, down from 6.7% in Q2, expected 2.2%. The GDP level is 1.4% above the Q4-19 level – <u>but still some 2.8% below the pre-pandemic (2.4%) growth path, as services still operate far below normal level</u>
  - » GDP is up just 4.9% y/y, and it will be hard to get to Fed's 5.9% forecast in Q4 as it requires a 9% growth pace in Q4
- **Private consumption** slowed as auto sales fell sharply – but other parts of goods consumption slowed too, business investment grew just slowly and housing investments fell further. Profits may have fallen as subsides were cut back, and wage costs grew faster
- **The EMU Q3 GDP** leapfrogged 9.1% in Q3 (2.2% not annualised), and the gap vs US narrowed to 1.9% vs the Q4-19 starting point. Calculated per capita in working age, the difference is somewhat smaller

Price increases slowed in Q3 but remain very high

All GDP/PCE deflators up 4.5 – 5.9% in Q3

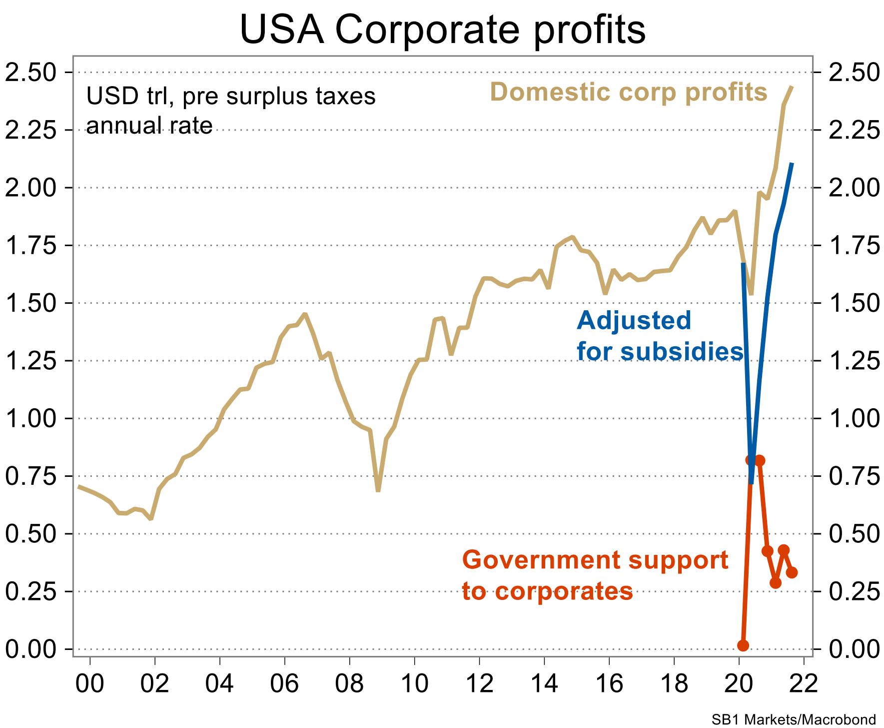


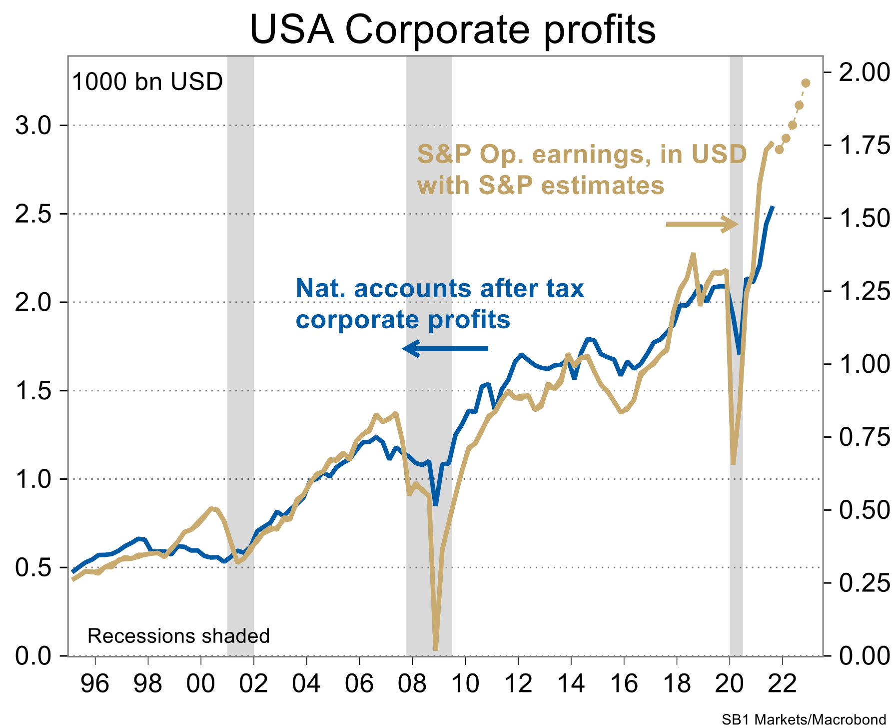


- Higher energy prices partly to blame but other prices have also contributed in Q3. The growth rates in Q2 and Q3 are the highest since 1982
- The core (x energy, food) PCE deflator (Fed's preferred measure) is up 3.6% y/y (and by 4.5% in Q3), the highest since 1991. The 40% lift in used auto cars explains a substantial part of the lift in the core PCE
- Nominal GDP grew at a 8.1% pace in Q3, the price deflator rose 5.9%

Corporate profits rose further in Q3, as they lifted prices at a 8% pace

Subsidies were cut, but profits still rose even if the wage bill grew rapidly

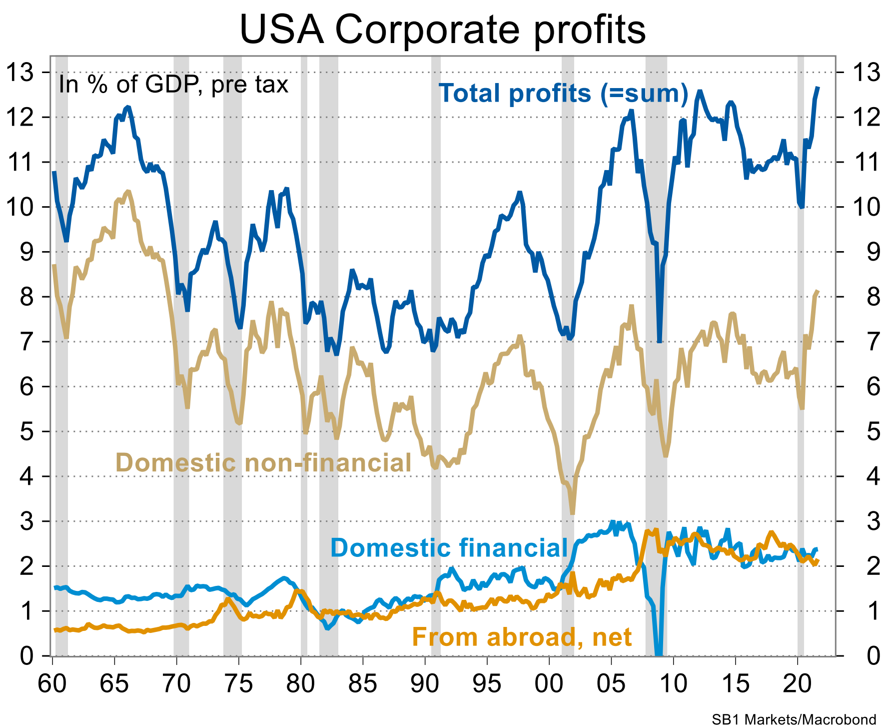




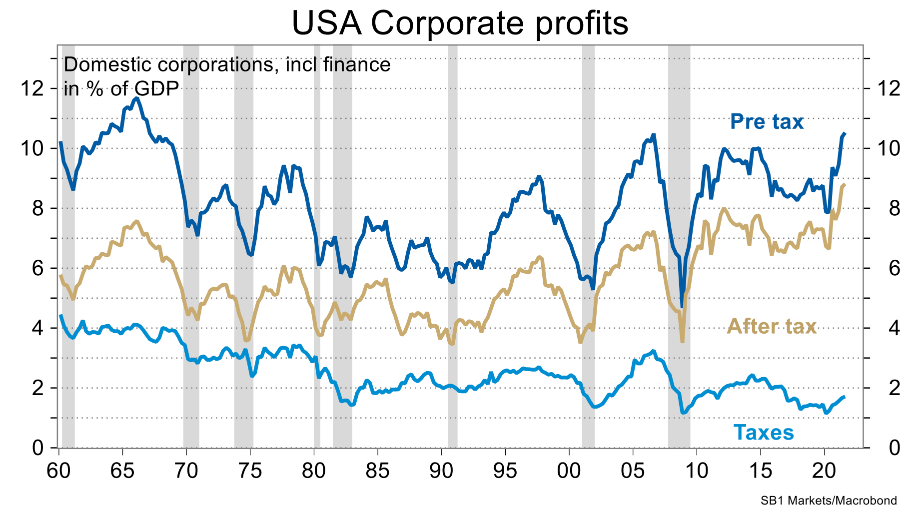
- **Domestic corporate profits** rose by 3.4% in Q3, we expected a 4% decline. Value added grew more than we assumed
  - » The wage bill rose by 10.9% (annualised, and faster than initially reported) in Q3 (domestic corporate sector) but value added rose even faster, by a 14% pace, as companies were able to lift their prices at an 8% pace (domestic corp x finance), an incredible high number. And hard to swallow for the Federal Reserve...
  - » Government subsides (deviation from trend in indirect taxes – subsidies) were cut but still equals almost 1.5% of GDP
- The **S&P 500 companies** reported a further increase in profits in Q3 but at a rather slow pace
- We think the profit outlook is muted. Wage inflation will not subside anytime soon given the super tight labour market – and a continued price inflation at the current pace cannot be tolerated by the Federal Reserve. Exciting times ahead

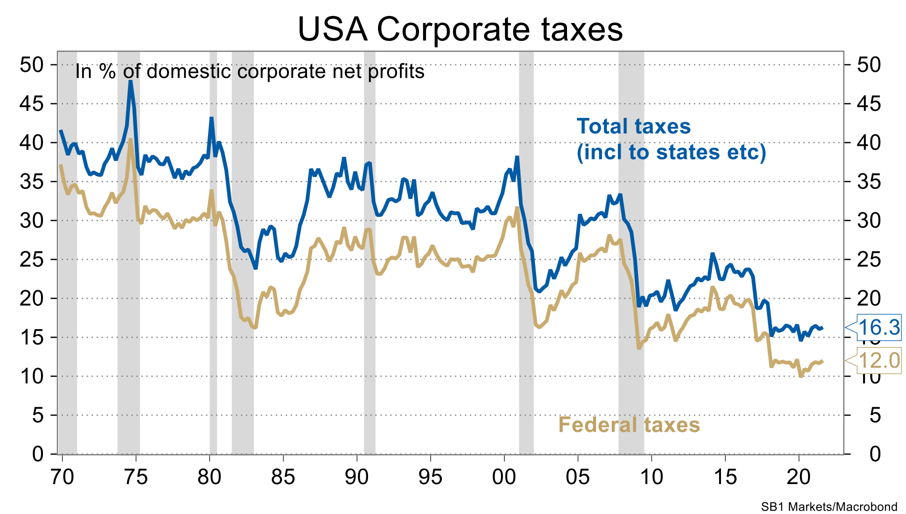
Profit shares have soared to very high/record high levels

The total profit share at 12.7% of GDP the highest since Q4-1950, and the 2nd highest ever



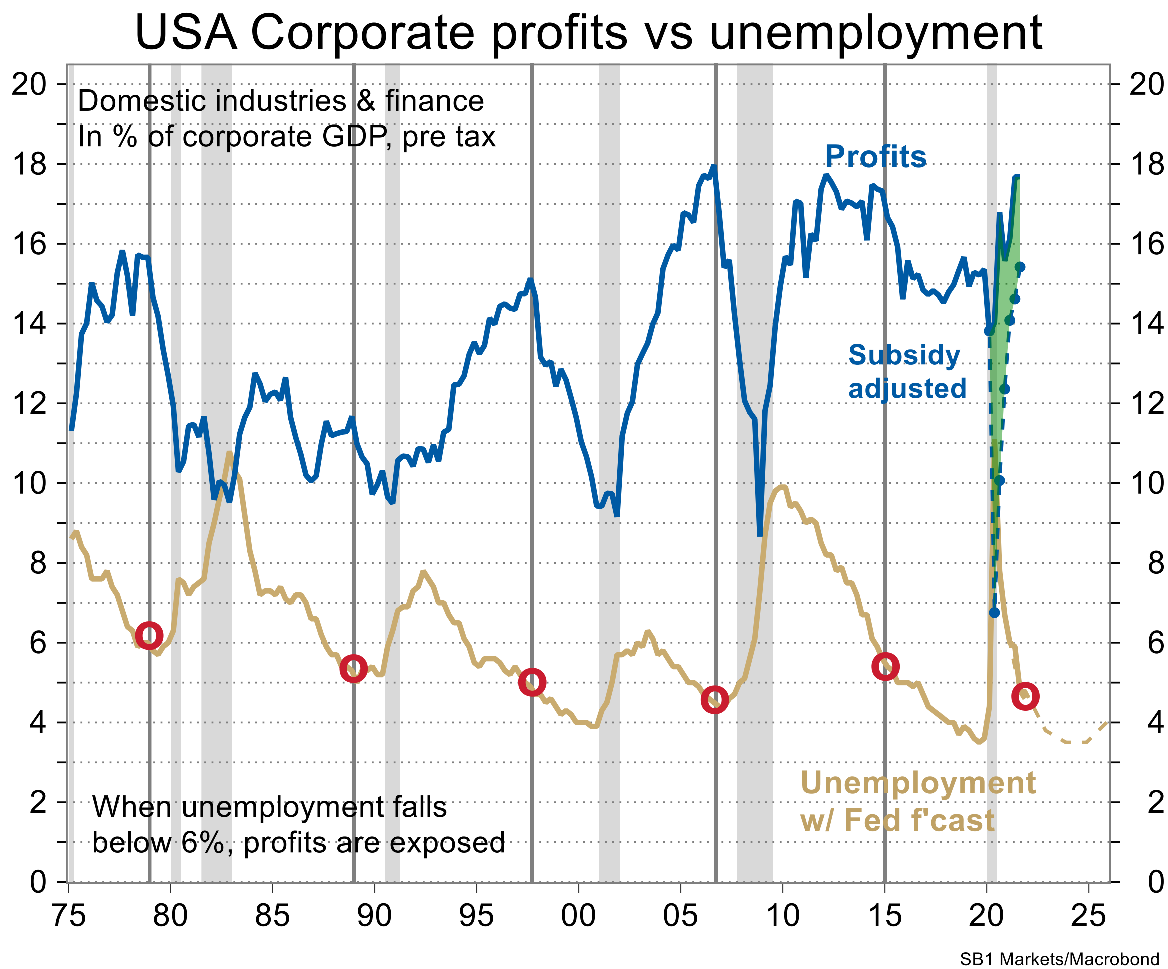
- The domestic corporate (both total and non-financial) profit rate is the highest since late 1960'ies
- The after tax profit rates are all time high, as corporate taxes have been cut several times, the last time in 2018. The effective tax rate on the corporate surplus is 16.5%
- (Still, there is no majority for higher corporate taxes in the US Senate)





The profit share is close to peak?

The bottom line has always been hurt when the labour market becomes too tight

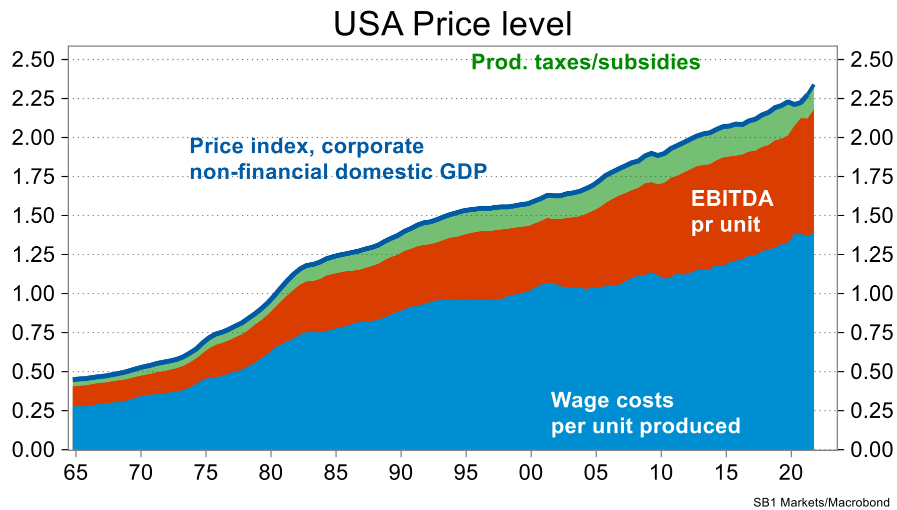


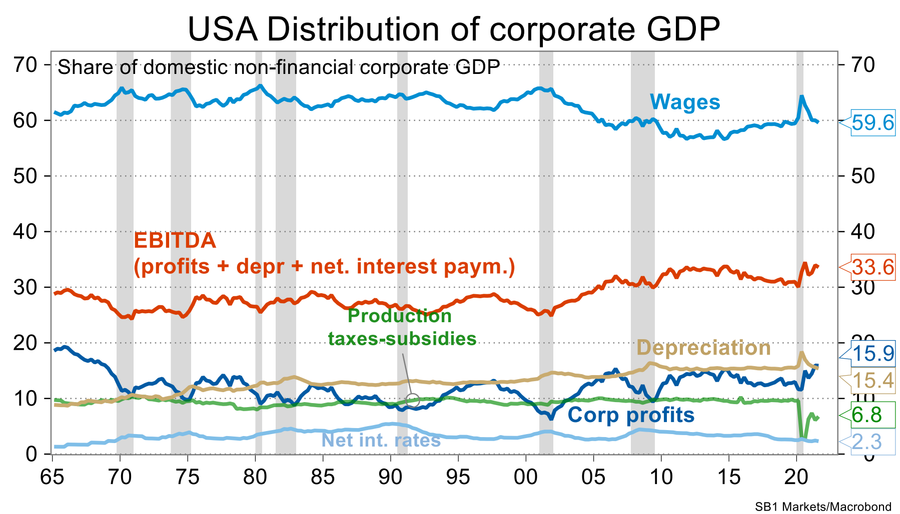
- Prices are increasing at an incredible pace but so are wage costs, and government support is on the way down
- When **unemployment** falls below 5% – 6% companies have normally been struggling to keep their share of value added – as their employees are getting the upper hand
  - » Unemployment is now at 4.6%, and it is falling rapidly as other indicators (especially vacancies) suggest that the labour market is even tighter than the 4.6% rate signals
- In addition, it is reasonable to expect the production taxes-subsidies to normalise the coming quarters.
  - » It is still well below a normal level (the impact is shown as the green area at the chart above)
- <u>Thus, it is quite likely that the profit share is headed downwards from here</u>

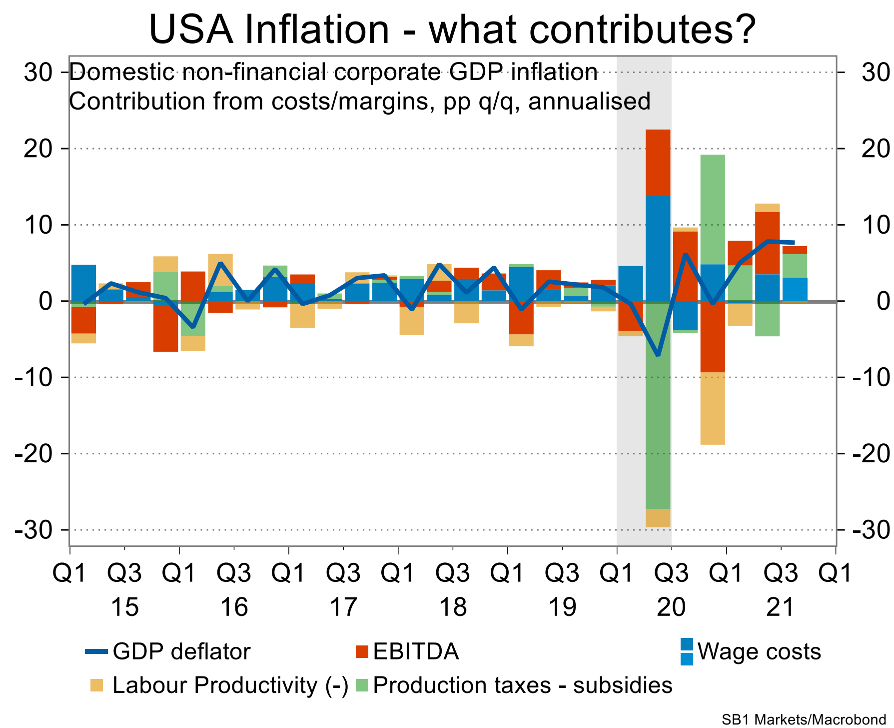
All data are not yet published, and the Q3 numbers is just our estimate

Why are prices on the way up?

Higher margins, higher wages costs – and now less subsidies



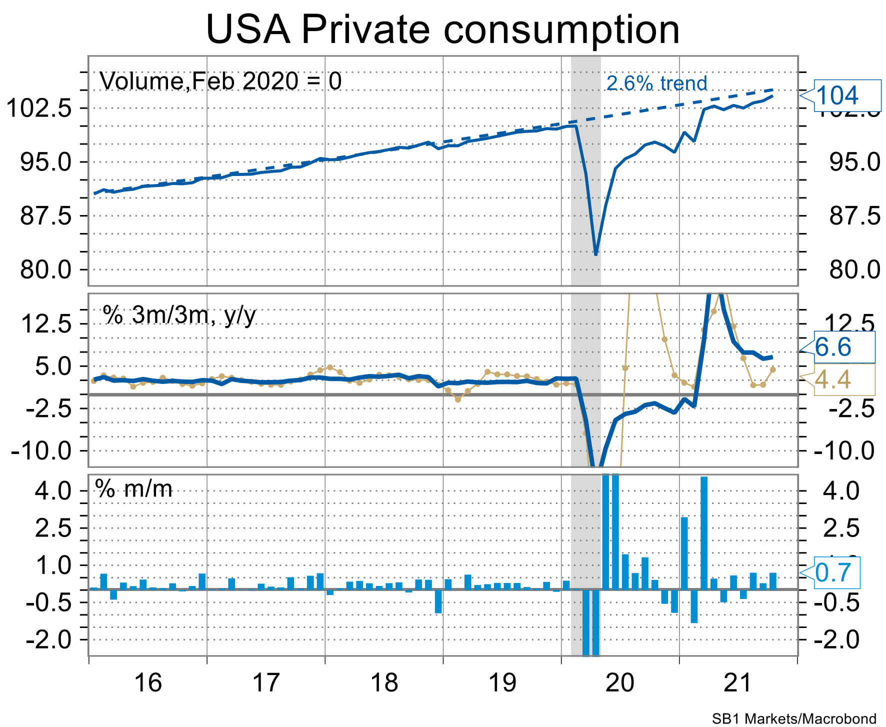


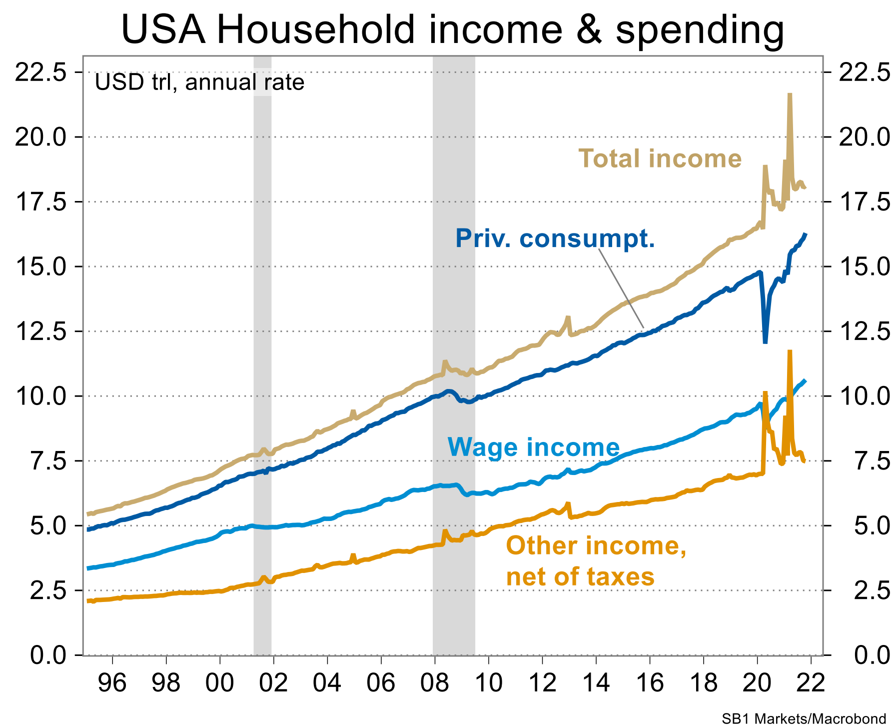


- Changes in subsidies recent quarters creates huge ups and downs in costs
- These subsidies will probably normalise the coming quarters – creating a pressure on prices and/or margins and wages
- Wage costs have been moving upwards

Real consumption up 0.7% in October, real income down 0.3%, as prices soared

The savings rate fell to below the pre-pandemic level, but the 13% of income 'Wall of Money' is intact

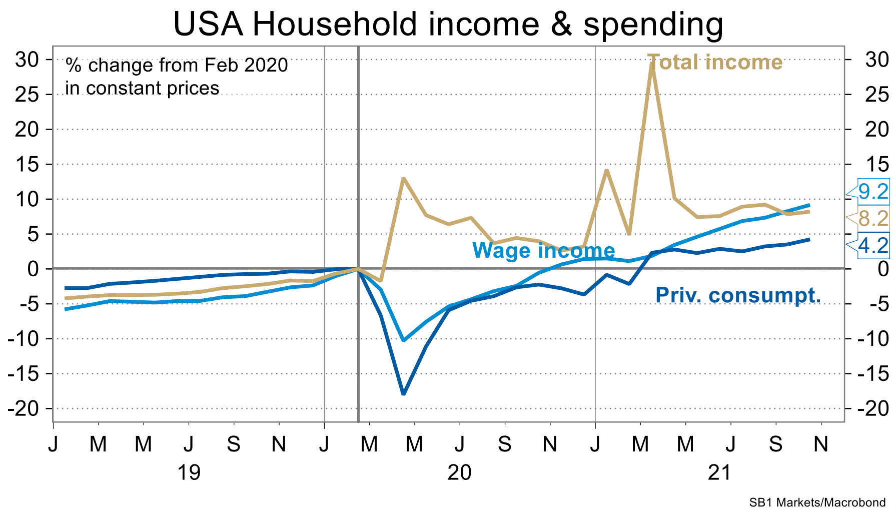


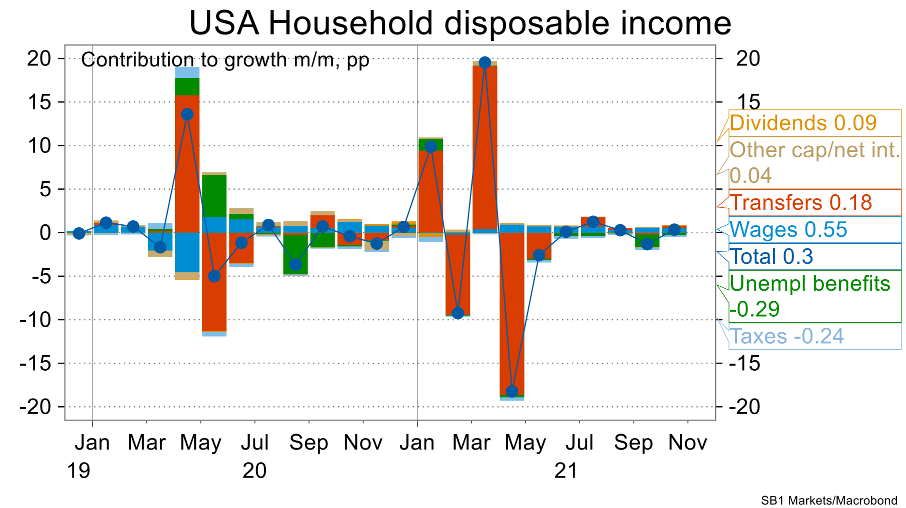


- **Private consumption** rose by 0.7 in real terms in October, 0.3 pp more than expected (spending in nominal terms rose 1.3, 0.3pp more than expected). Consumption in real terms have gained speed since the summer and is now up 4.4% 3m/3m. Consumption of goods has strengthened recent months and is 17% above the Feb-20 level – but will one day turn south! Services have been somewhat slowed by the Delta outbreak, but consumption is heading steadily upwards. Total consumption is up 4.2% vs. the Feb-20 level, and on par with 2.6% pre-pandemic growth path
- **Real personal disposable income fell by 0.3%** in October. Income before taxes rose by 0.3%, 0.1 pp more than expected. Unemployment benefits fell but wage revenues gained more. Underlying wage income growth is approaching 10%
- **The savings rate fell** by 0.9 pp to 7.3%, down to slightly below the pre-pandemic level (Sept was revised 0.7 pp upwards). Households have saved an extra amount equalling 13% of one year's disposable income during the pandemic. Some of this 'Wall fo Money' may well be spent the coming quarters, if so taking the savings rate further down

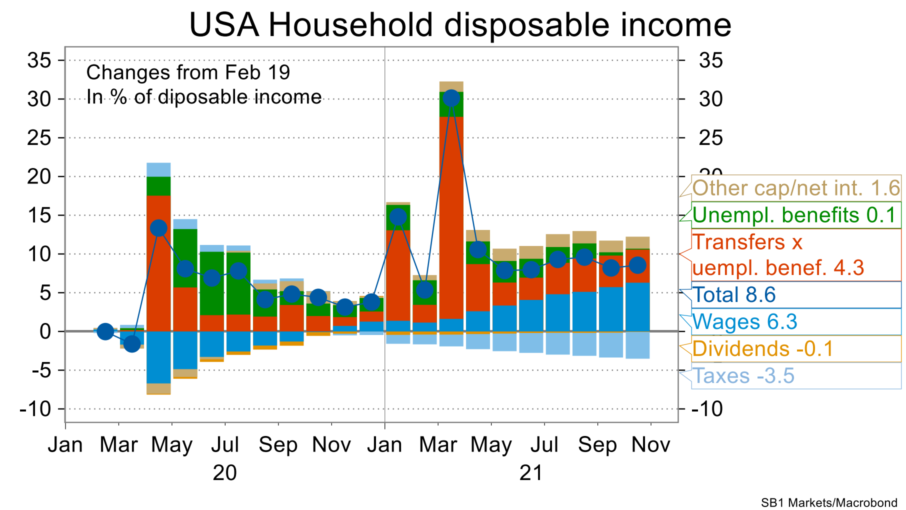
Less unemployment benefits but more wage income – total income 0.3% in Oct.

Wage revenues are growing at a 10% pace (3m/3m), due to more hours, and higher wages



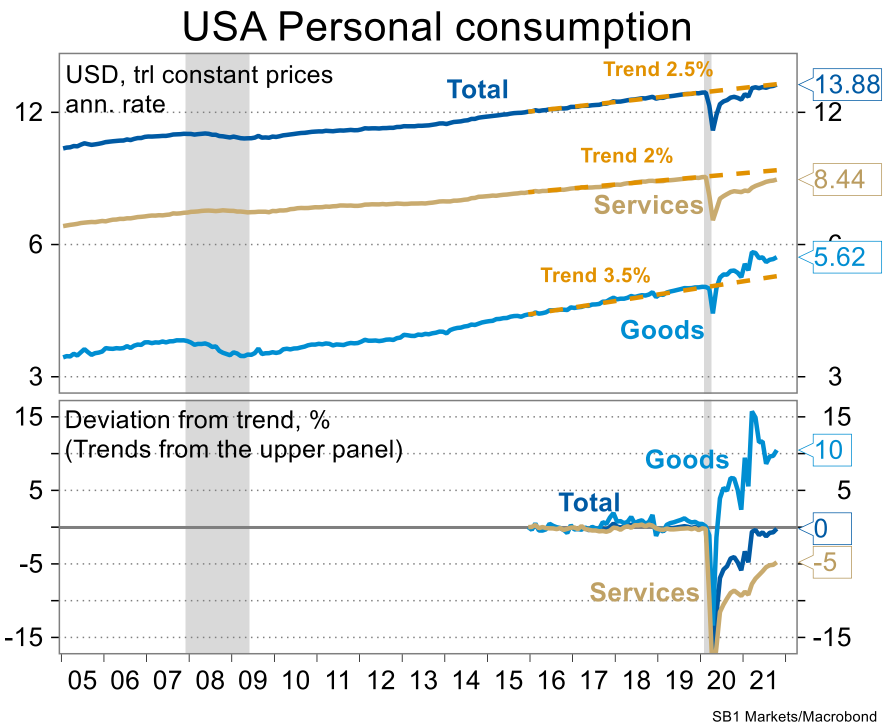


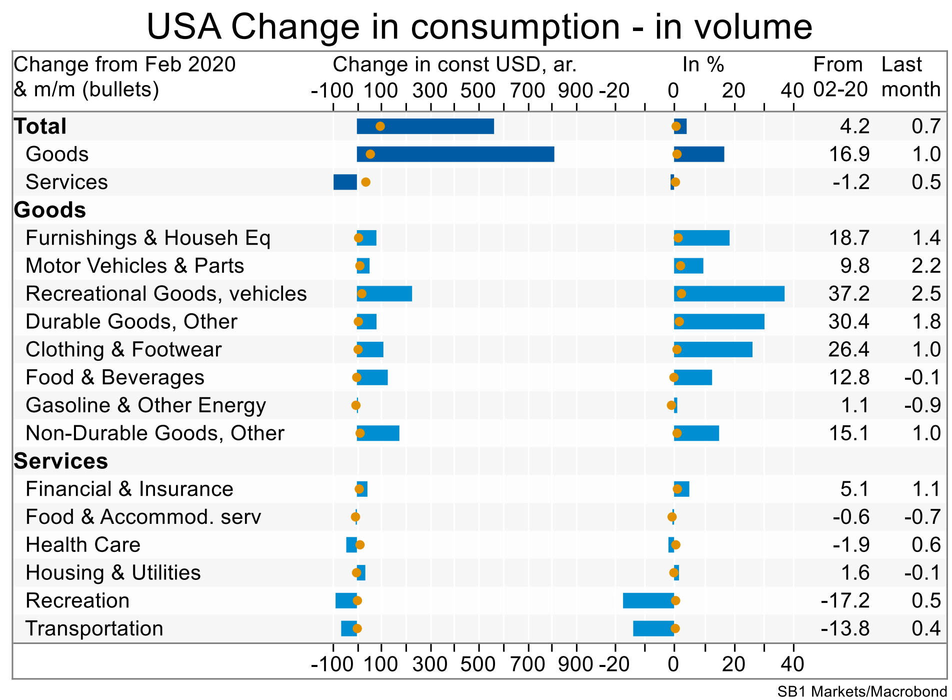
- **Total income has** fallen down to a more normal level due as public transfers have declined sharply. Unemployment benefits almost back to the pre-pandemic level. Other transfers are still elevated vs. the pre-pandemic level
- **Total wage income** is growing rapidly and are <u>above</u> the pre-pandemic growth path at 4.25%, even if employment & hours worked remain well below the pre-pandemic level. The reason is of course the sharp increase in <u>wage inflation</u>



Service consumption still 5% below the pre-Covid trend, goods are 10% above!

Consumption of goods is on the way down but the level is still far above any reasonable trend



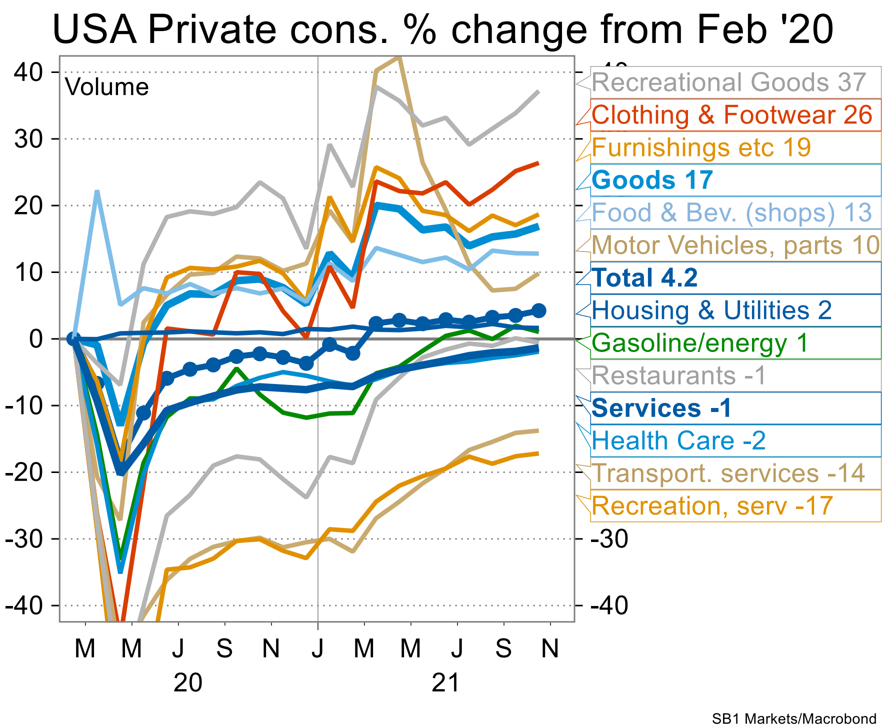


- Services are recovering, but even so down 1.2% vs. the Feb-20 level, and down 5% vs the pre-pandemic trend path

There are some larger aggregating differentials than usual in the PCE accounts, and the sums do not add up to the total

Consumption of goods further up, +17% vs the pre-pandemic level! Autos incl.!

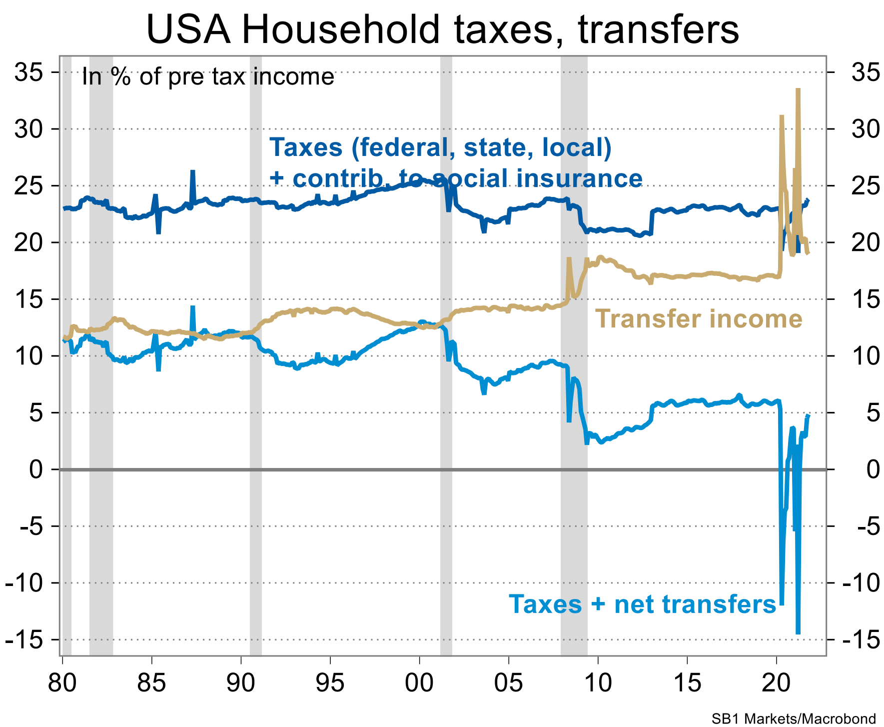
Services are recovering but none are above the p-p level. Recreational services are still down 17%!

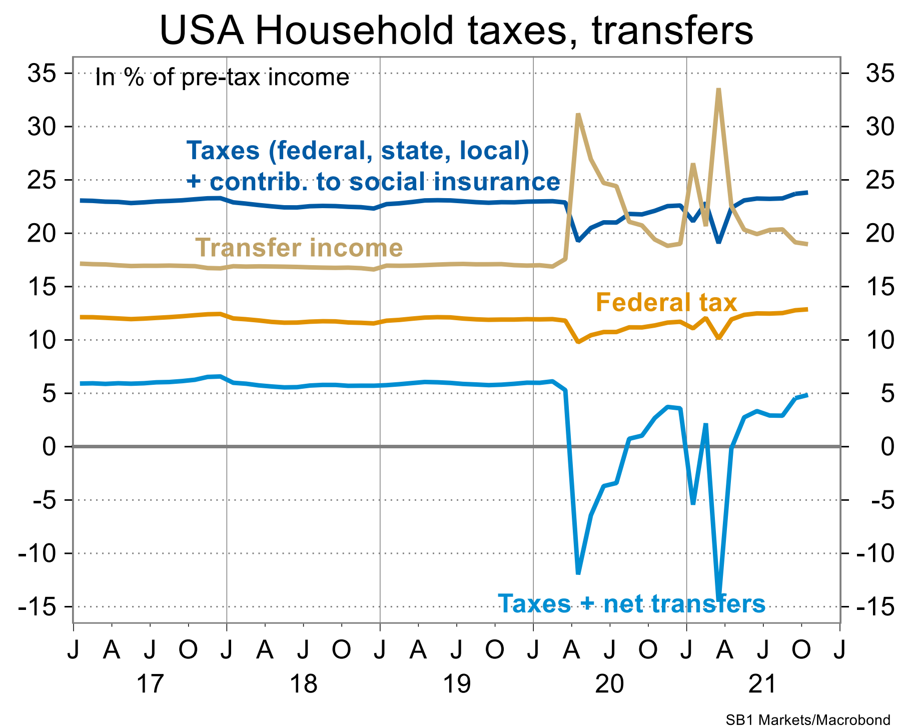


- **Consumption of goods** rose further in Oct, the trend is down from still a very high level. The downside is substantial
- **Consumption of services** rose just 0.4% in Sept, as in Aug, no doubt hampered by the Delta outbreak. Spending is now 1% below the Feb-20 level, in volume terms. Restaurants are back to the starting point, in volume terms ('meals served'), while transportation (-13%) and recreation (-17%) are far below – so there must be more to go the coming months/quarters
- Total consumption is up 4.2% vs. Feb-20, equal to the pre-pandemic growth rate over these 19 months. Since March, growth in spending has been muted, but recent months growth has gained some speed., the 3m/3m rate is 4.4%, up from 1.6% in August

Towards more normal times – transfers further down, still above par

Net taxes at 5% of pre-tax income is just 1% below the pre-p level – which though was far too low

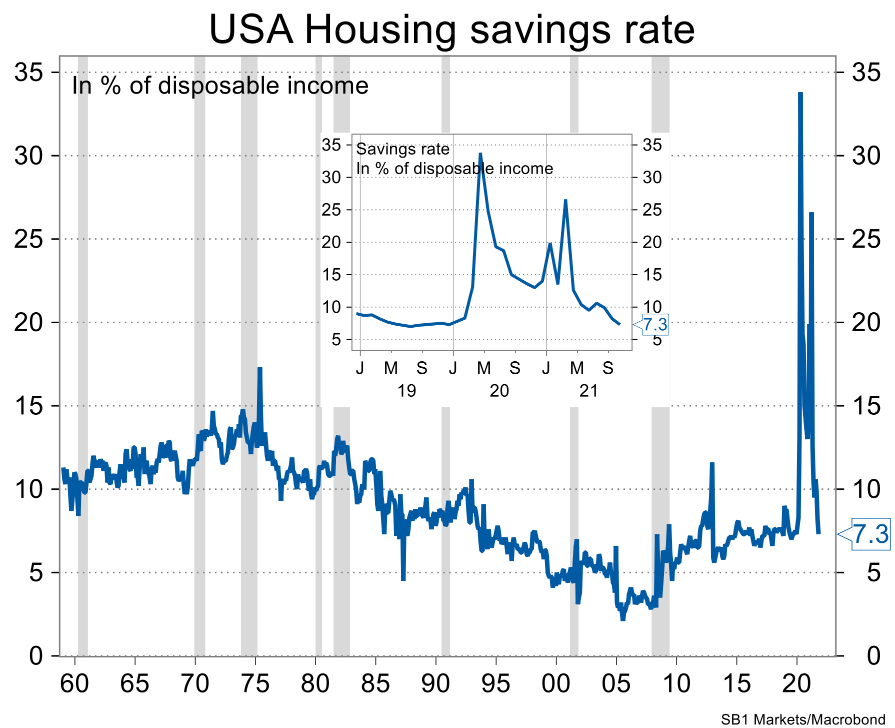


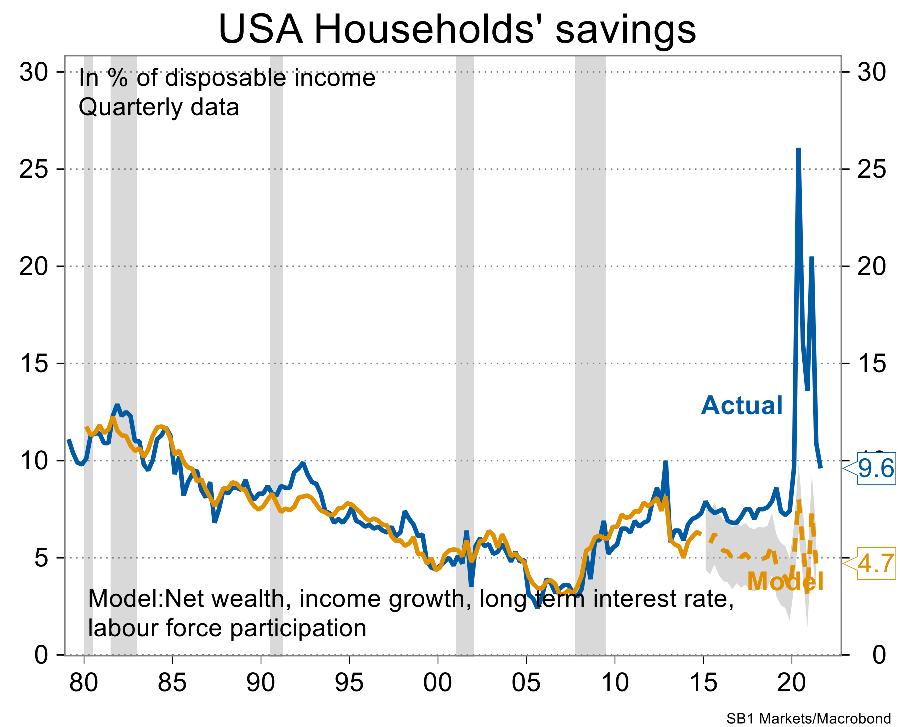


- The 'normal' net tax rate implied a substantial government deficit – which was not sustainable
  - » Before year 2000, the net payment to the federal government equalled 10% - 12% of pre-tax income …. and somewhat below 10% until the Financial crisis. Since 2012, the net tax rate has been some 6% of GDP, and the budget balance far larger than before (which it still is)

The savings rate down to 7.3%, slightly below the pre-pandemic level

The rate fell by 0.9 pp in Oct, from a 0.7 pp upward revised level in Sept

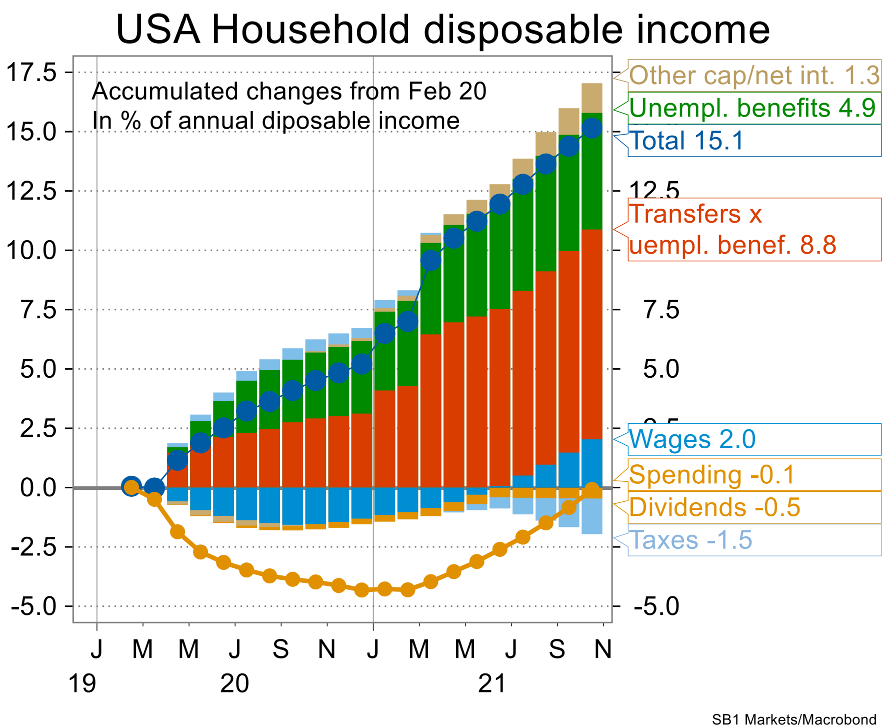


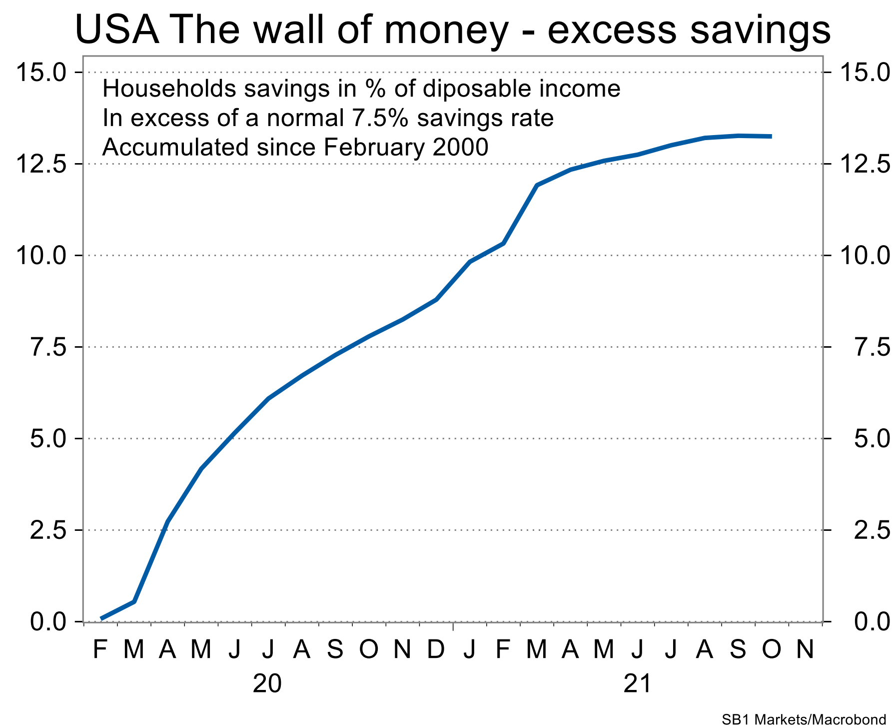


- Our old savings model, yields a 4.7% savings rate in Q2, and very likely even lower in Q3. However, the model has underestimated savings by some 2 pp in the years before the pandemic, and the savings rate may stabilise at the current level
- A downside potential for the savings rate (and upside for spending): **the accumulated households excess savings** during the covid crisis amount to some 13% of annual disposable income – the 'Wall of Money', check next page

The Wall of Money is still intact: Just marginally lower in October

The sum of ‘excess savings’ through the pandemic is at some 13% of annual disposable income



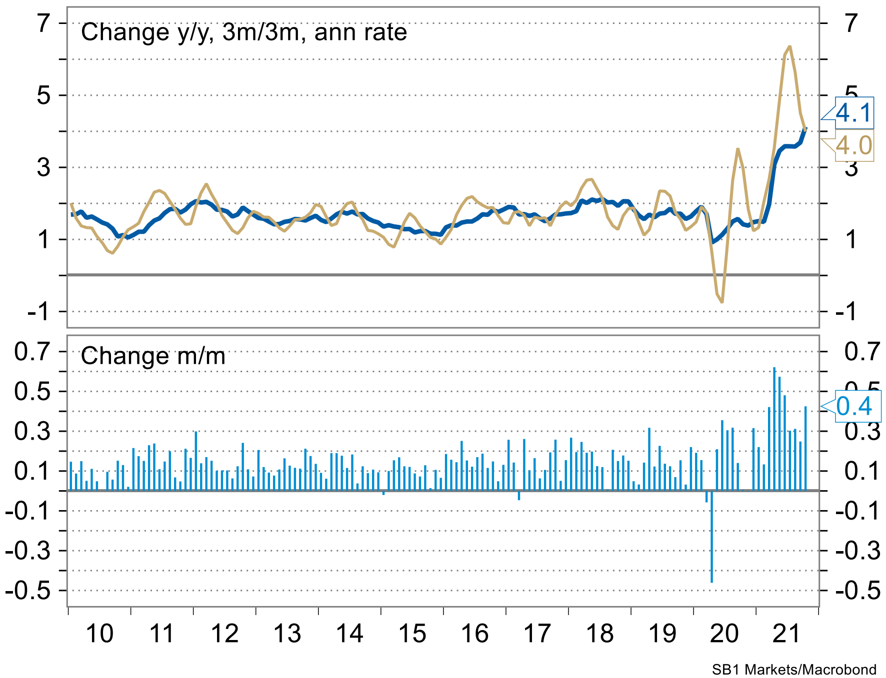


- Transfers from the government and low spending (on services) explains the lift in savings - but now spending is coming back, and the savings rates is now lower than before the pandemic

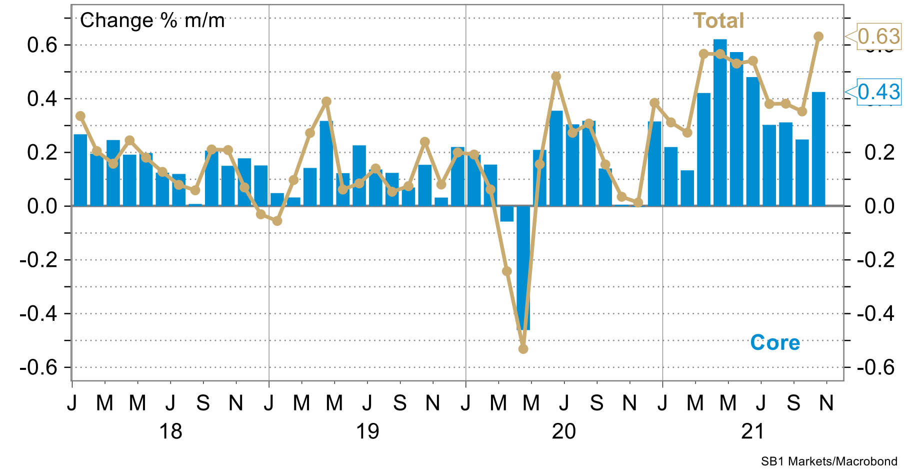
The PCE consumption deflator joined the CPI's large October hike

The total PCE deflator rose 0.6%, the core 0.4%, the total still 0.1 pp <u>less</u> than expected

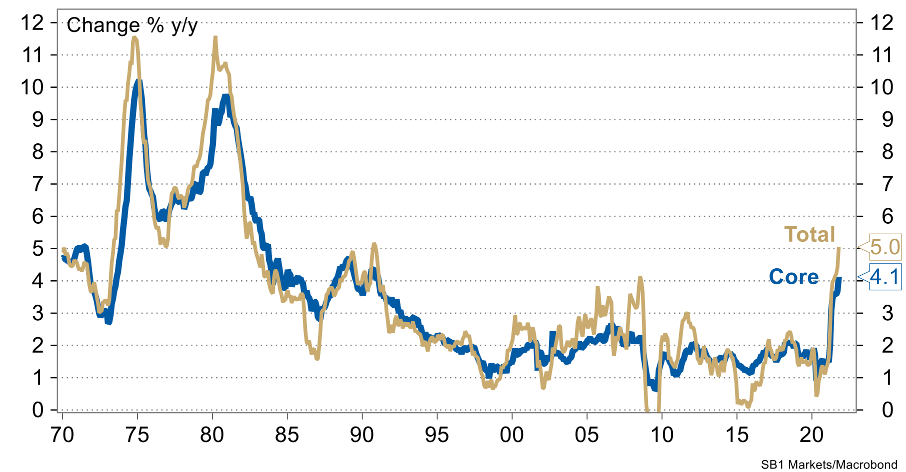
USA Core PCE deflator



USA PCE deflator



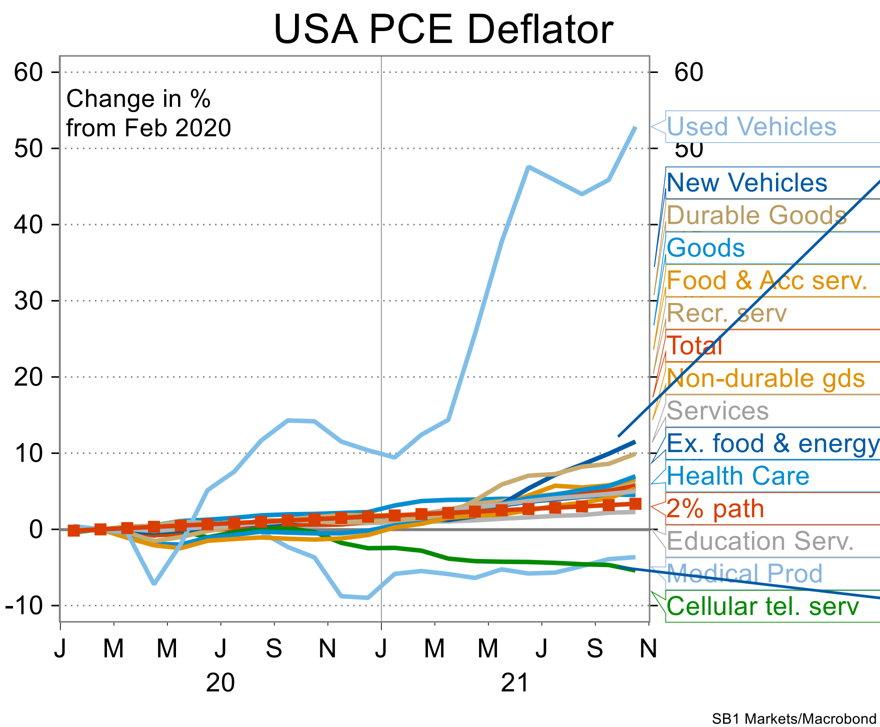
USA PCE deflator

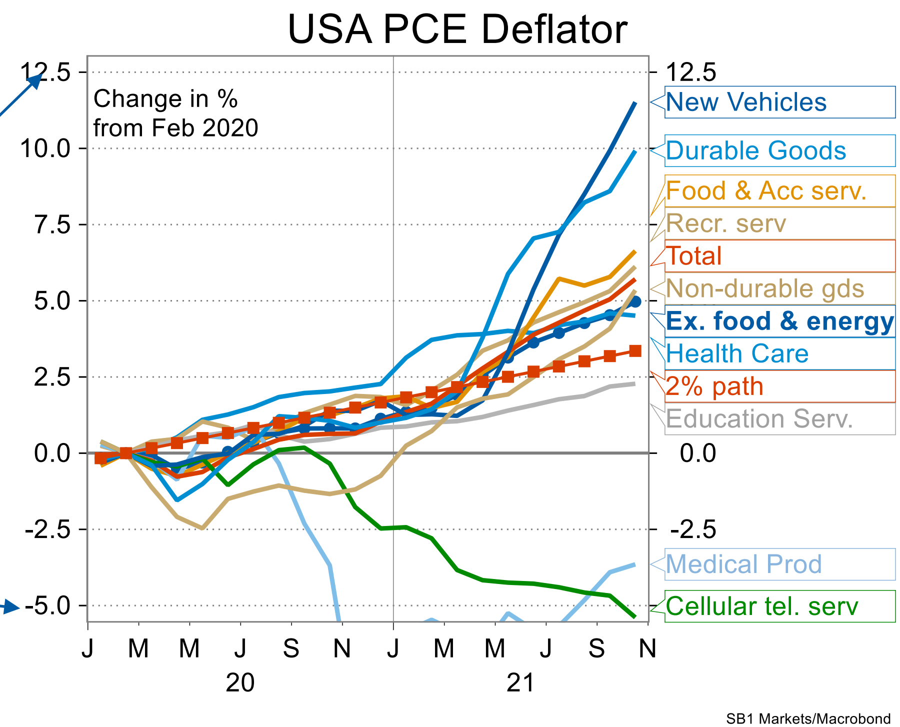


- **The total PCE deflator** rose by 0.6% in Oct, and the annual rate accelerated 0.6 pp to 5.0%, the highest since Nov-90
- **The core price consumption deflator** rose by 0.4% m/m, as expected. Measured y/y, the core gained 0.5 pp is up 4.1%
- Even if prices rose faster than since June, the monthly inflation rates have calmed somewhat down. <u>Still the 3m/3m rate is still 4%, the double of Fed's longer term inflation target. Inflation has clearly been broadening, even if energy and used auto prices explains a lot</u>

Most prices are up more than at a 2% pace since before the pandemic

Wa are still waiting for use car prices to come back to earth – thy are up more than 50%!!



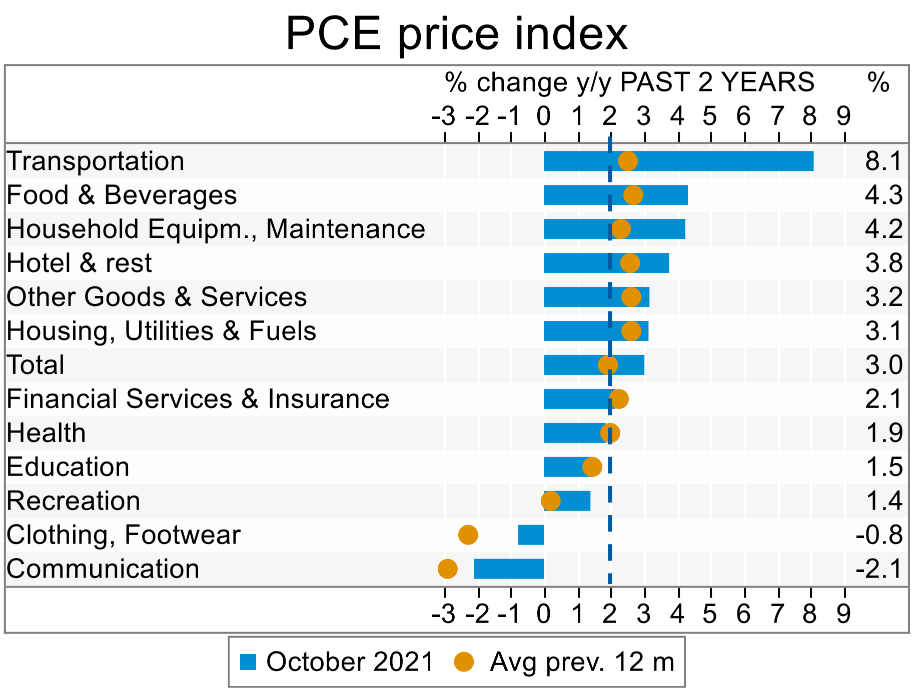


- **Hotel & restaurant prices** are up almost 7% since Feb-20

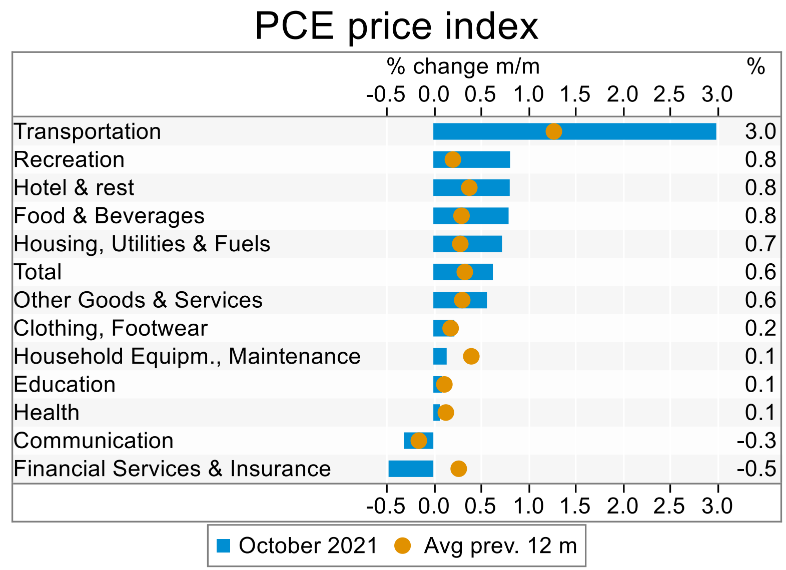
SpareBank 1 MARKETS

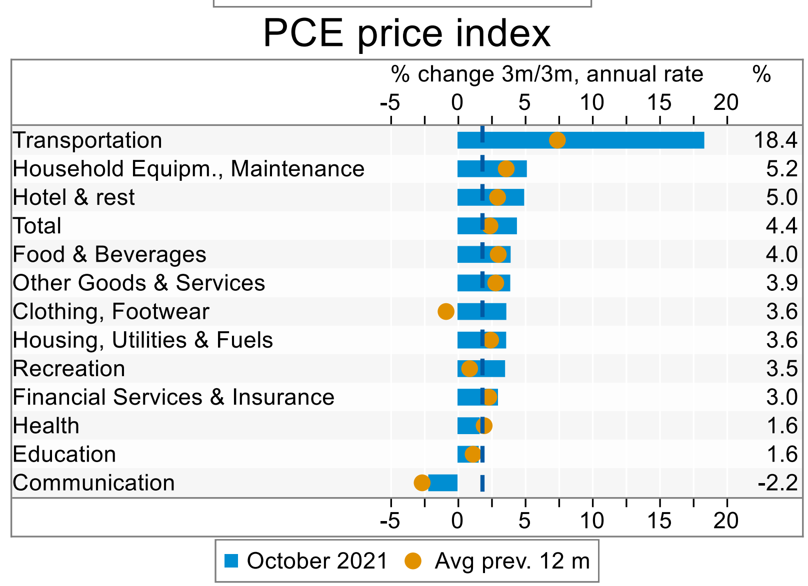
PCE by main sectors: Most sectors report >2% growth past 2 years

… and most sectors are up more than 2% measured 3m/3m, the total is up 4.2%



SB1 Markets/Macrobond

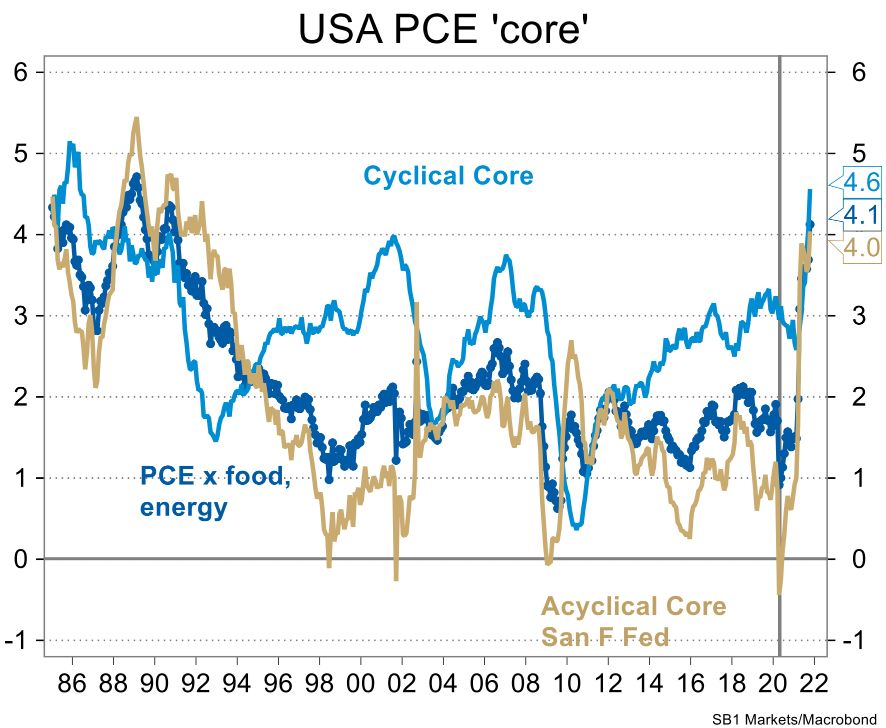


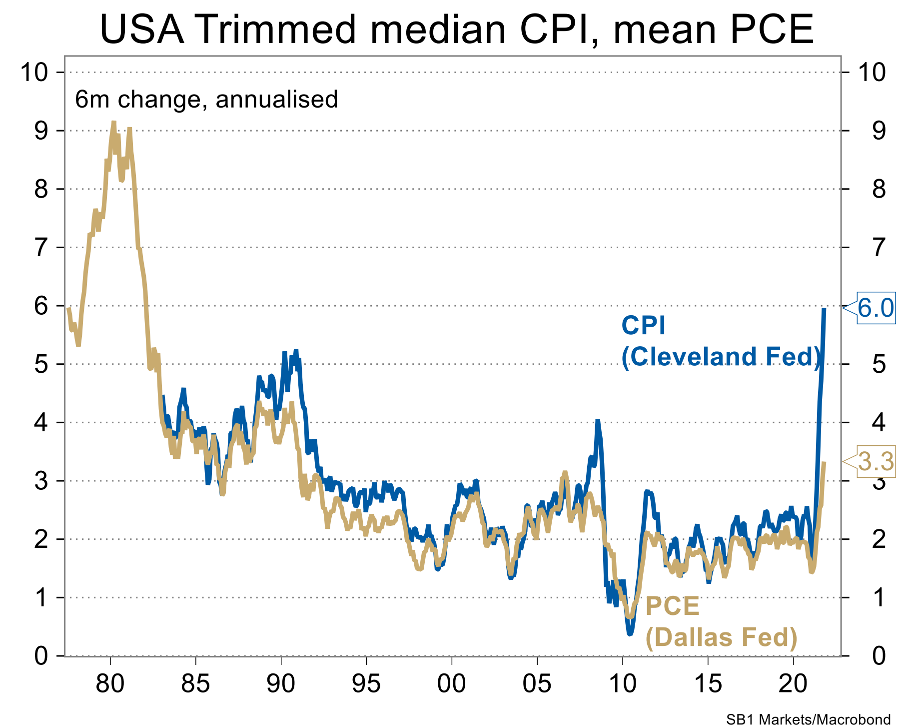


- Just clothing & footwear, communication, recreation and education prices are up less than 2% on average over the past 2 years
- The momentum is still strong, most sectors accelerating (3m/3m is above the annual rate)

On inflation, the Fed is soon running out of excuses (or has it already?)

Inflation is broadening, all measures are now above the 3% line, not seen in decades

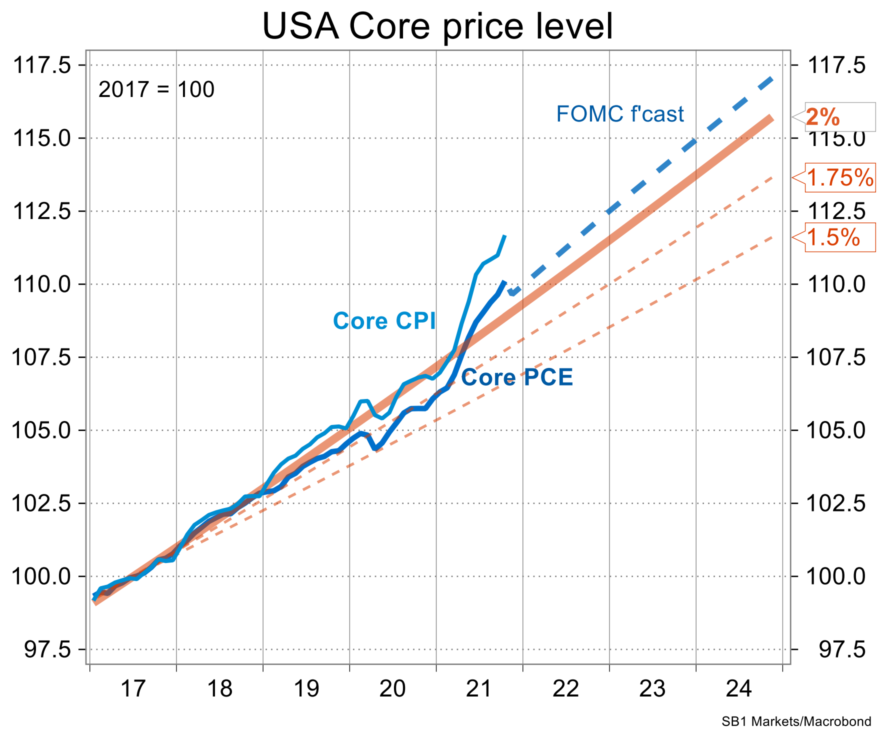


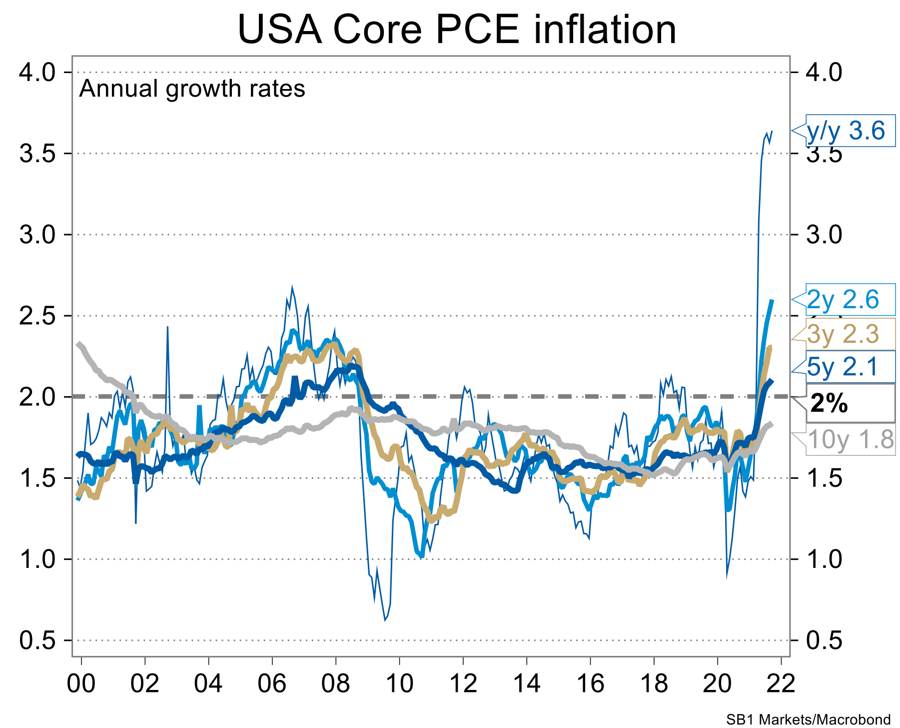


- The **trimmed PCE mean** (Dallas Fed) is up at a 3.3% pave over the past 6 months, up from 2% ahead of the pandemic. This indicator of underlying inflation has not been growing faster since 1991
- <u>The trimmed median CPI is up 6.2% over the 6 months, the highest on record, data back to 1983</u>
- Other measures of underlying inflation are also at the highest levels in 30 years. <u>And at that time, the Fed funds was not at zero</u>

The Fed expects the 2% price target to slip, want to push employment up

Fed's decision: Accept a inflation above the long term target to get the labour market back on track



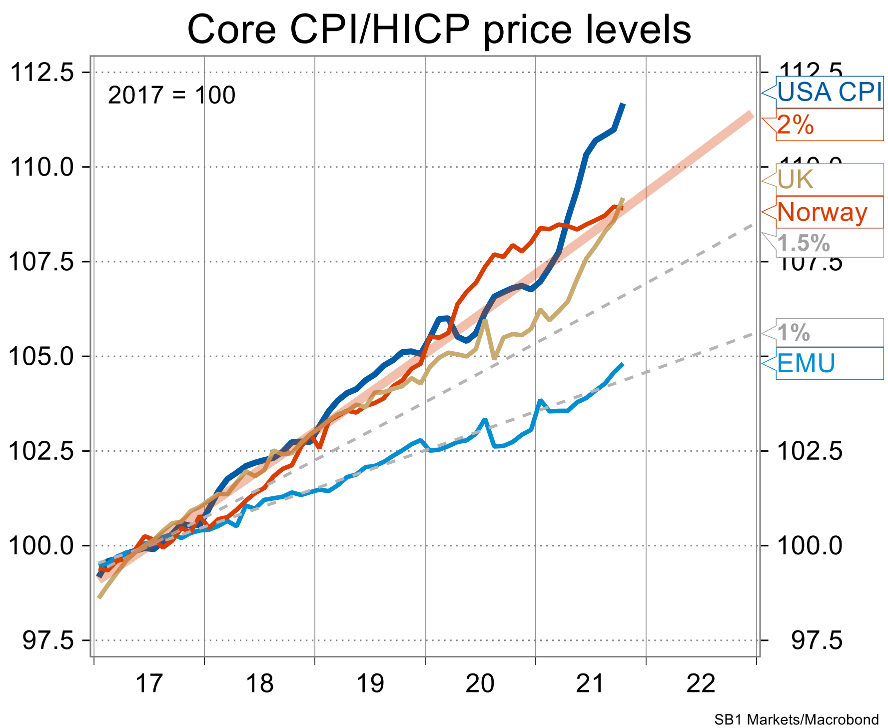


We stick to our main inflation analysis:

- **Raw material cycles** are not lasting that long, and the impact on consumer prices are normally short lived
- **Higher profit margins** (unit profits) have never been the main reason for a sustained lift in inflation
- To sustain a lasting increase in inflation, **unit labour costs** have to grow faster. The ULC = wage inflation – productivity growth
- **A tight labour market** normally implies higher wage inflation. Now, the vacancy rate is the highest ever, and ~~almost~~ all wage cost indicators signal higher wage growth. This is the real challenge for the Fed. It may be that maximum employment is not that far away – and if so, both targets are met (and prices more than that!). And if so, monetary policy most be brought back to a neutral stance

So far, inflation is mainly a US problem (excluding the common energy factor)

UK is also reporting high core inflation rates but prices slowed last year

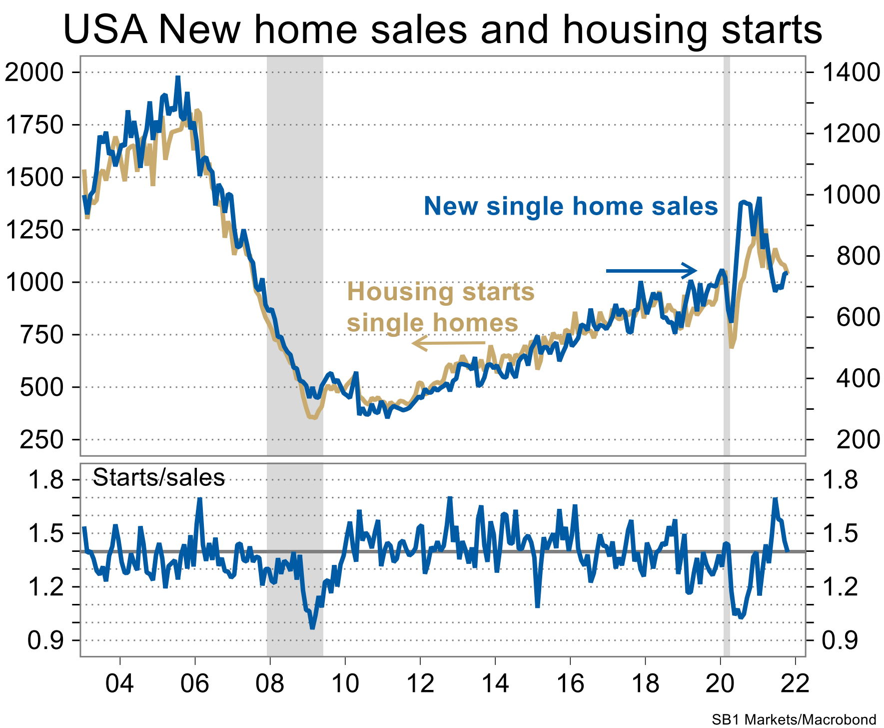


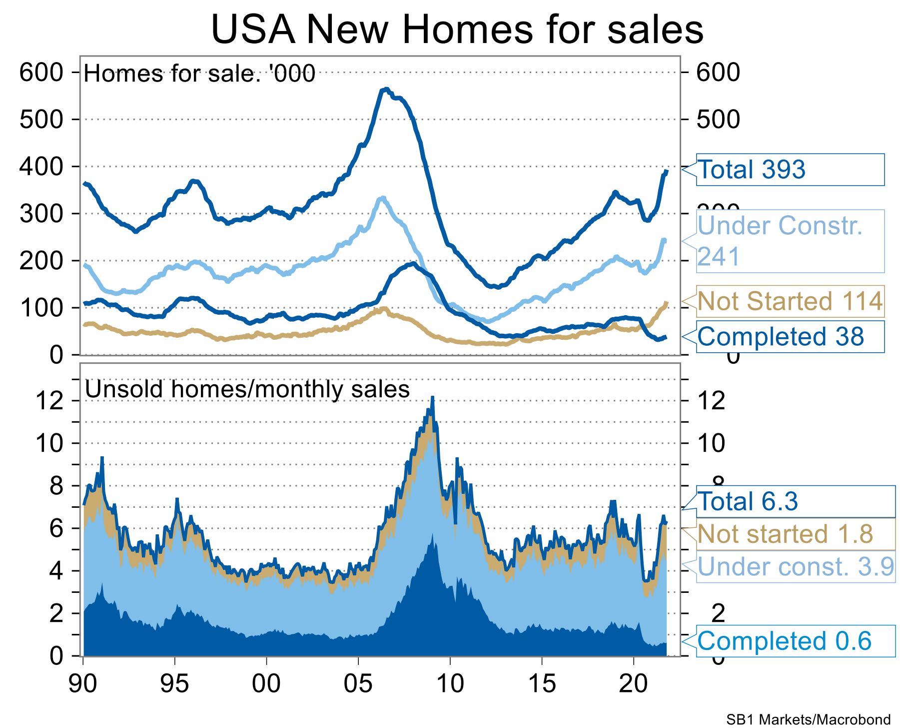
- UK is still close to a longer term 2% trajectory, while the US is well above
- The EMU price level is still hoovering around a 1% path

SpareBank 1 MARKETS

New home sales weaker than assumed/expected in Sept/Oct – still not weak

The inventory is growing rapidly, as the supply side has responded

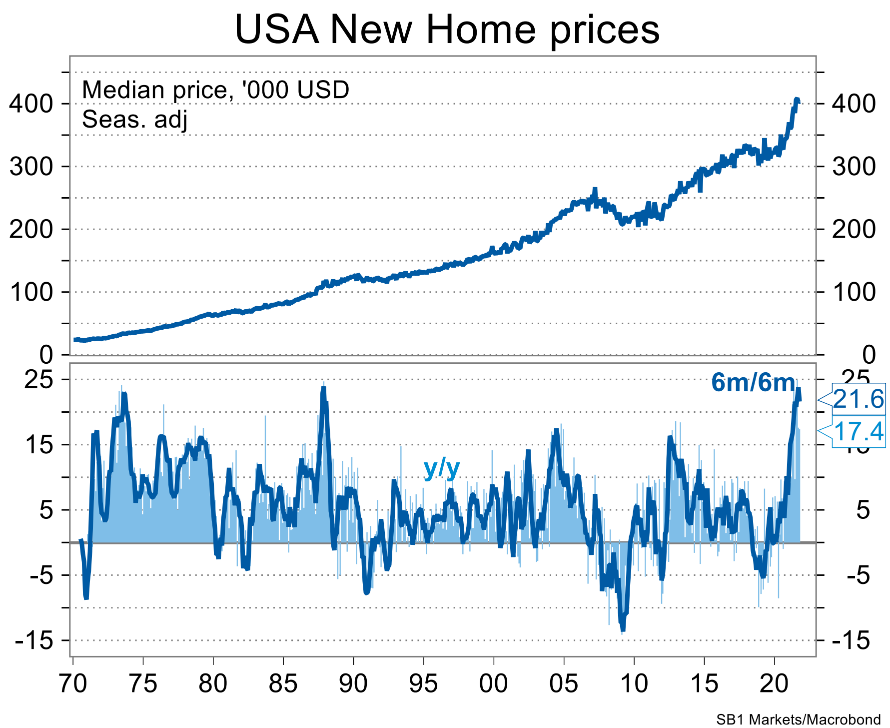


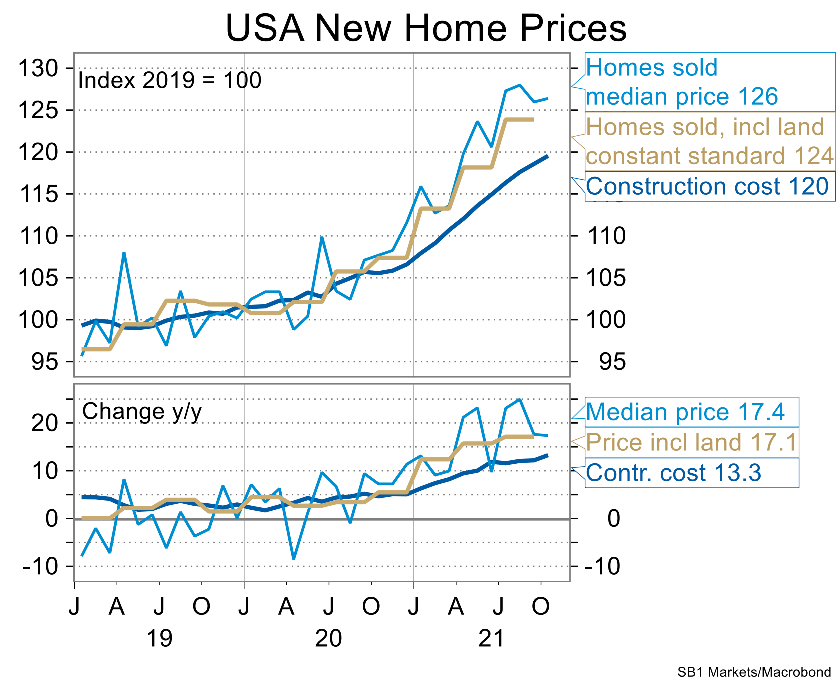


- **New home sales was vlost to unch at 742**' (annualised rate) in October, expected unch. At the previously reported 800' – thus the two months were 7% weaker than assumed/expected
  - » Sales have fallen to 750' from close to 1 mill at the local peak
- The inventory of unsold homes has increased by 35% the past 9 months, and the level is the highest since Sept 2008. Measured vs the pace of sales, the inventory equals 6.3 months of sales, 'normal' level – up from 3.5 months last September
  - » The increase in the inventory is not due to large increase in completed house for sale (the most 'effective' supply), and the inventory just equals 19 days of sale (half of a normal level). However, the no. of projects not yet started (but for sale) has doubled, to the highest number ever, and new homes for sale but still under construction has climbed rapidly, to the highest level since late 2007. So, there are lot of homes in the pipeline, and clearly a confirmation that the supply side is responding to the steep increase in demand. At one stage, combined with higher mortgage rates, that could change the housing market outlook

Construction costs up, but new home prices even more

Construction costs are up 13% y/y, selling prices +17%. Land prices are up more, demand is strong

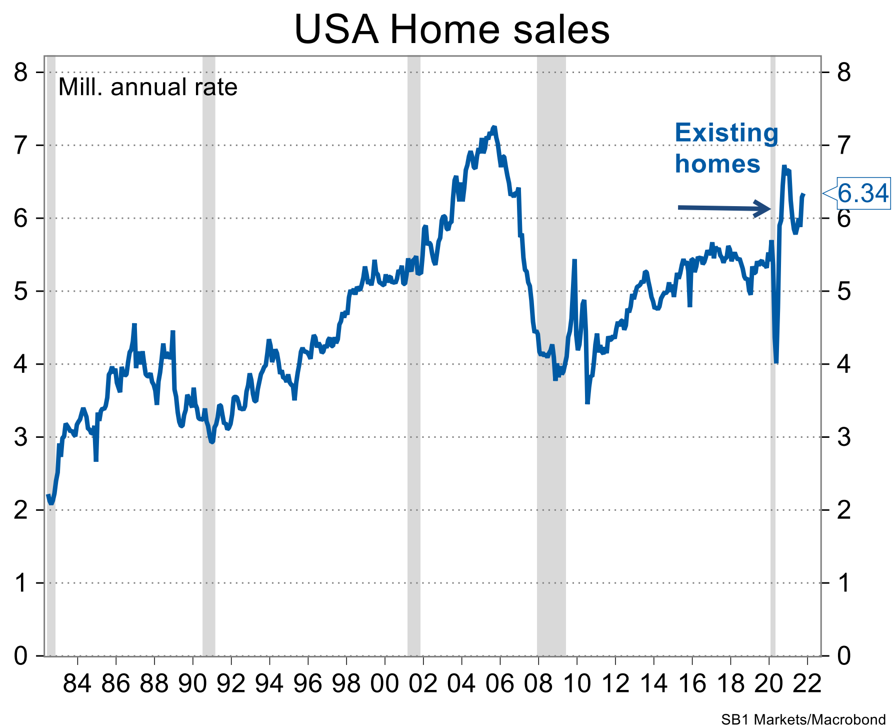


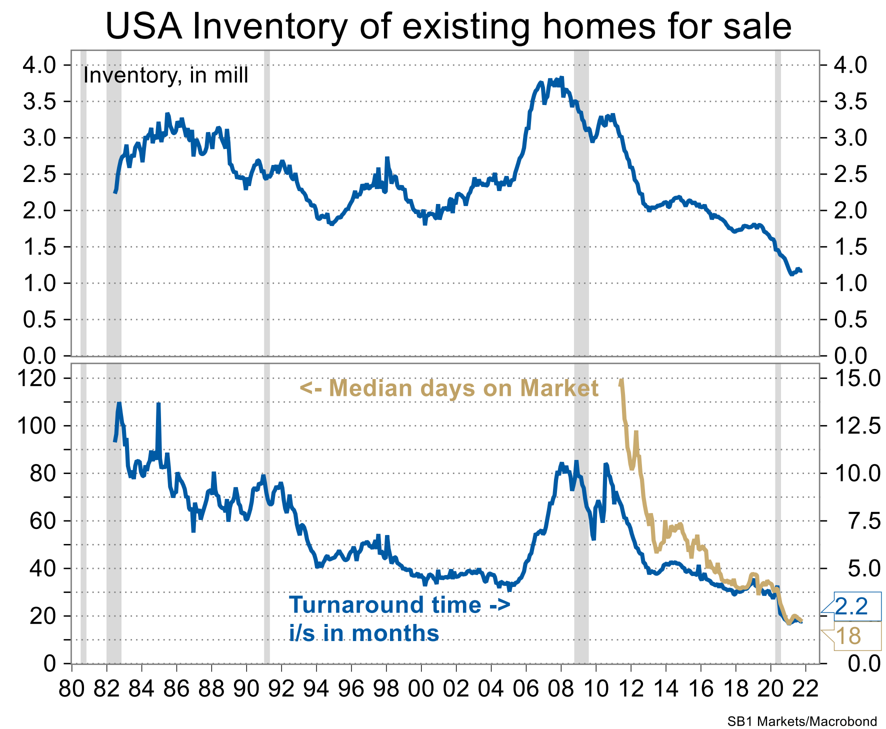


- Monthly **median new home sales prices** are volatile, in October the 6m/6m less short term volatile rate at 22% still makes in impossible to deny the fact: New home prices are sharply up. The annual rate was 17%
  - » This price index is influenced by changes in the mix of homes sold – and over time by changes in standards & size
- The **construction price index** is adjusted for changes in standard & size, as is the **new homes sold price index**, which also includes cost of land, and they are up by 13% and 17% resp., measured y/y
  - » As prices are still up more including land than the construction cost index (which of course is influenced by higher material costs), signalling an even faster increase in land prices. Thus, demand must be the main driver for the hike in prices, not the construction cost (if demand was weak due to high prices, prices including land would have climbed less than construction costs)

Existing home sales marginally up in October, level high vs. a very low inventory

Prices rose faster again but are up 'just' 13% y/y

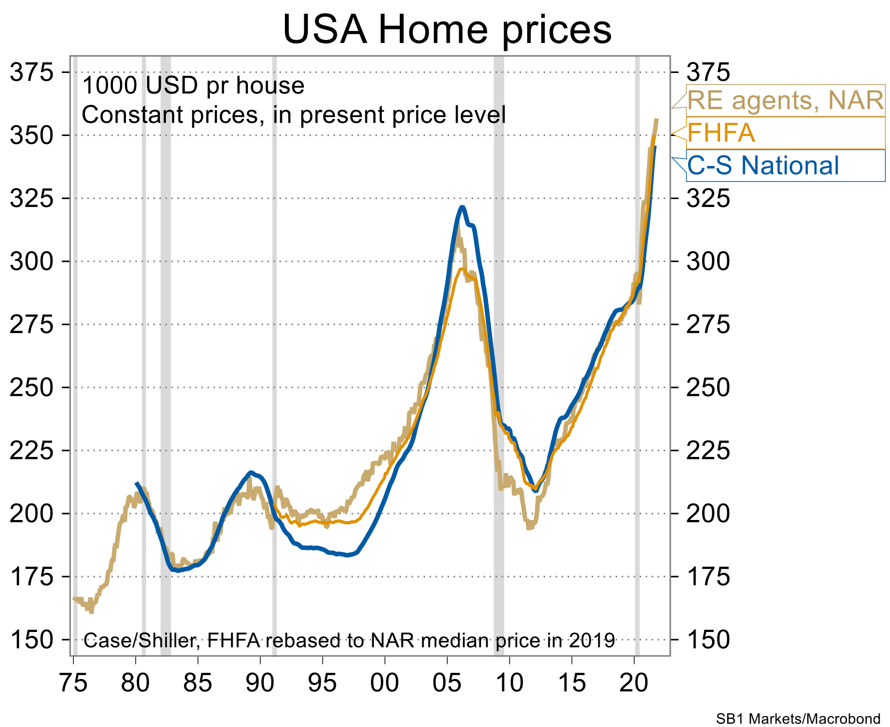


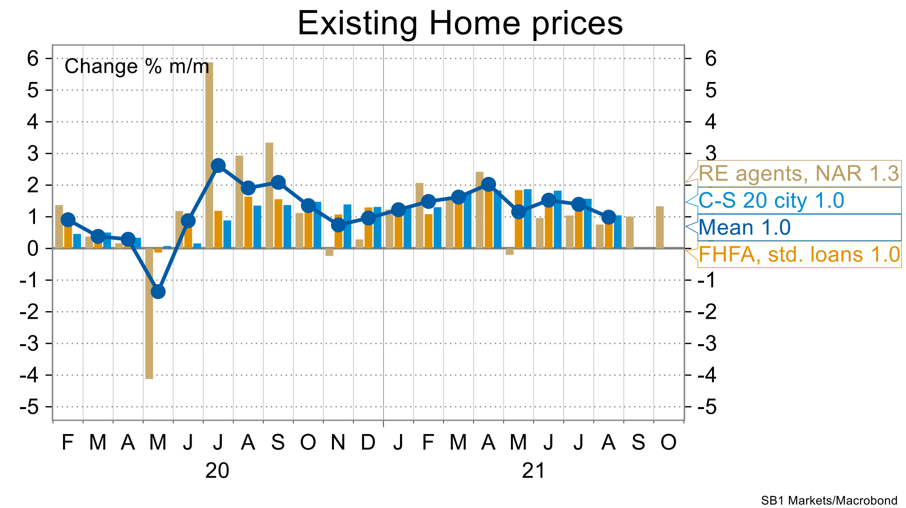


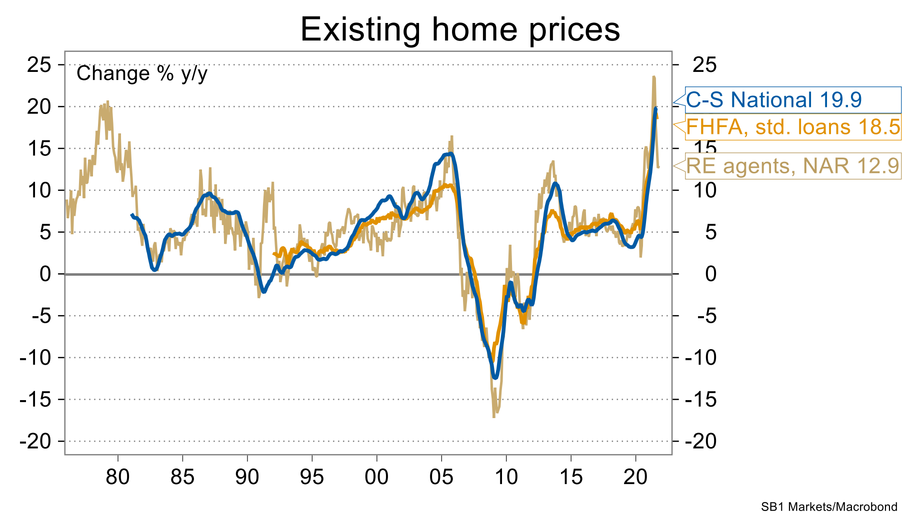
- Sales of **existing homes** rose marginally to 6.34 mill (ann. rate) in October, expected slightly down to 6.20''. Sales are down 6% from the local peak last autumn, but are almost 20% above the pre-pandemic level
- Sales are no doubt kept down due to a very low inventory of unsold homes. However, there are reports on buyers becoming more cautious following the steep rise in prices, and households judge the timing is very bad for home buying
- **The inventory of unsold homes** was unch in October, and has been close to stable since early 2021, at the lowest level ever. The inventory equals 2.2 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times it has been as high at 10 months. The median time on the market is just 18 days, down from 30 days before the pandemic (and 120 days in 2011!)
- **Prices** rose 1.3% m/m in October, the fastest rates since April. The annual rose to 12.9% from 12.6% but is down from the peak at 23%

Existing home prices still on the way up but not faster

Prices rose 1.3% m/m, the fastest pace since July – and prices are up 12.9%



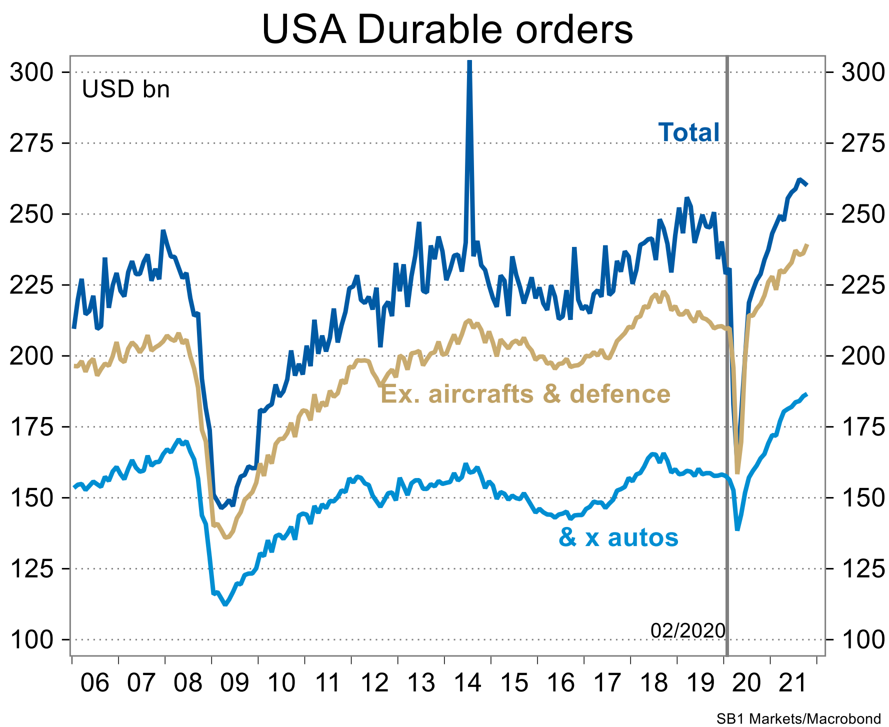


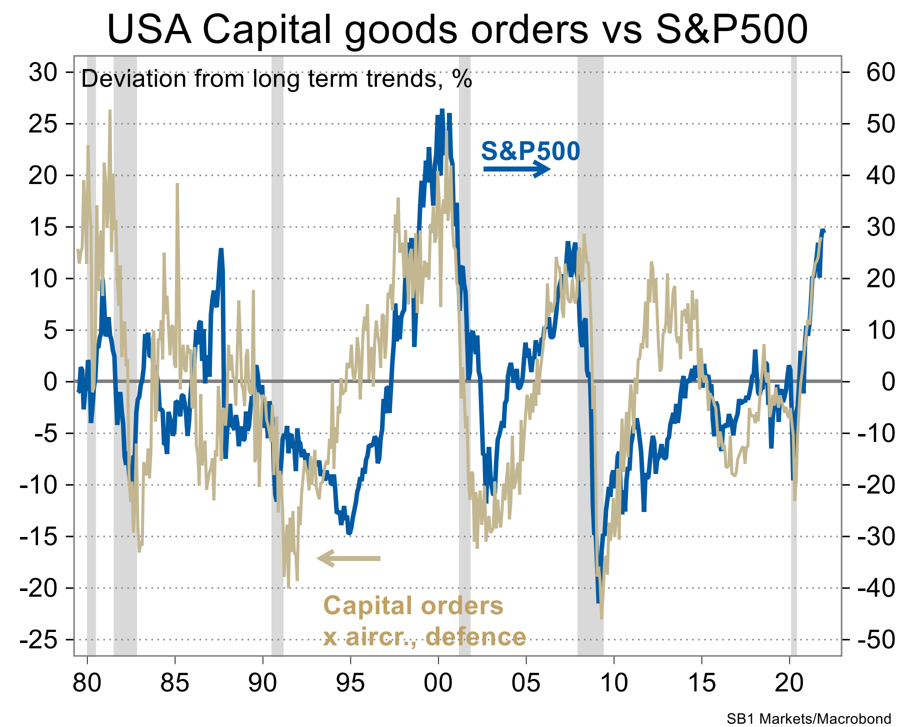


- **Prices** rose 1.3% m/m in October, according to the realtors – up from 1.0% in Sept. Growth has slowed somewhat, vs the spring sprint
  - » The annual rate rose to 12.9% from 12.6%
- **Other price indices** confirm a red hot housing market; prices are rising extremely fast, even after adjusting for the decline/slow growth last spring

Strong order inflow in October – except for aircrafts, defenece

Investment goods orders are trending up, signalling further growth in business investments



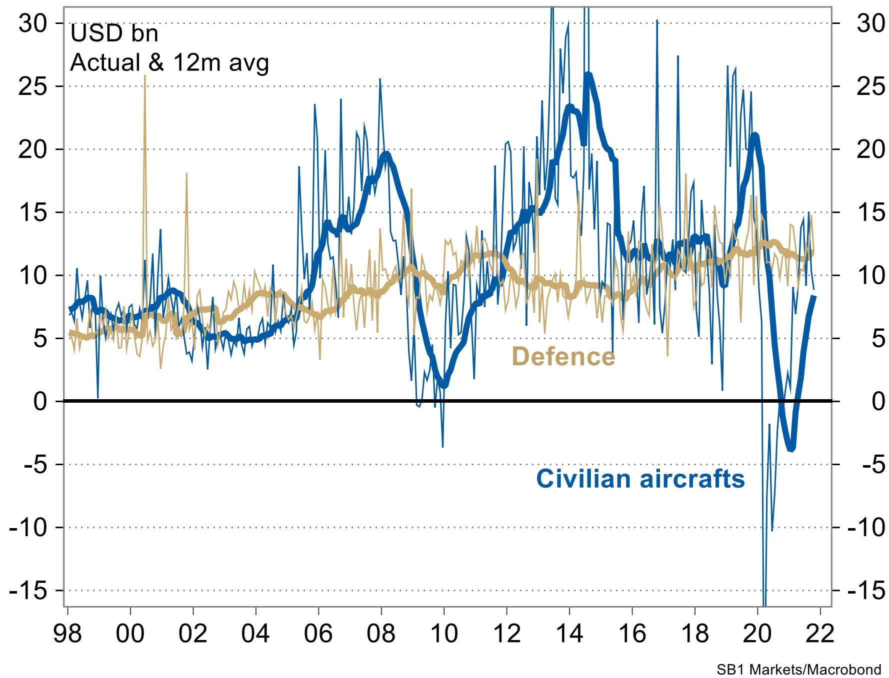


- **Total durable** orders fell by 0.5% in October, expected 0.2%. Both the volatile aircraft & defence orders fell sharply, dragging down the headline level by 2%
  - » Ex these two components, the 'core' rose by 1.5%, better than expected – and the trend is strong
  - » Auto orders rose too, but 'core x autos continued upwards
- **Core investment goods orders** were up 0.6%, and the trend is still straight up
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

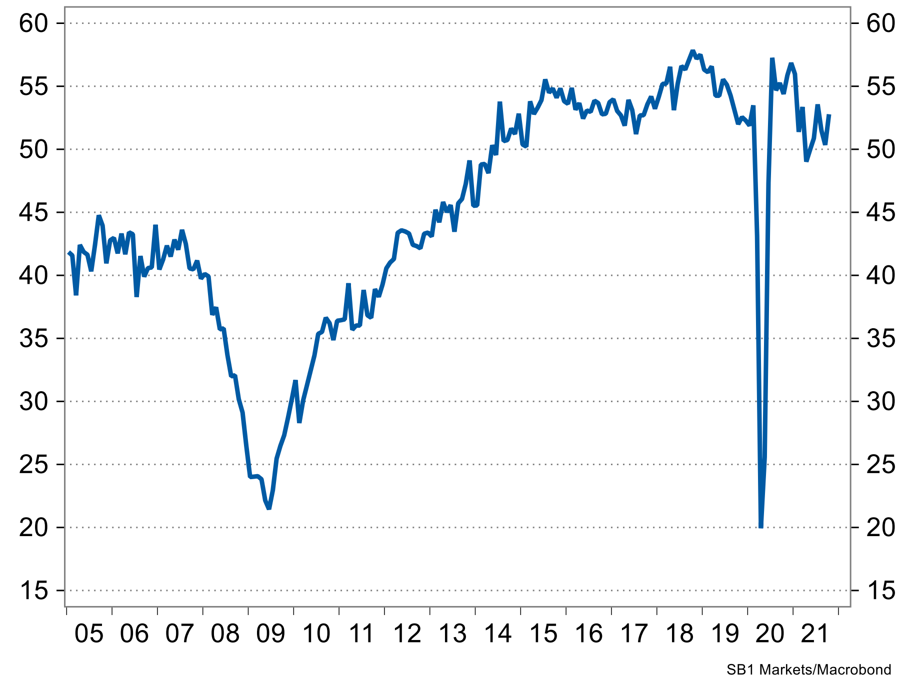
Aircraft & defence orders down in October

... while auto orders rose – and they are not at low level!

USA Civilian aircraft & defence orders

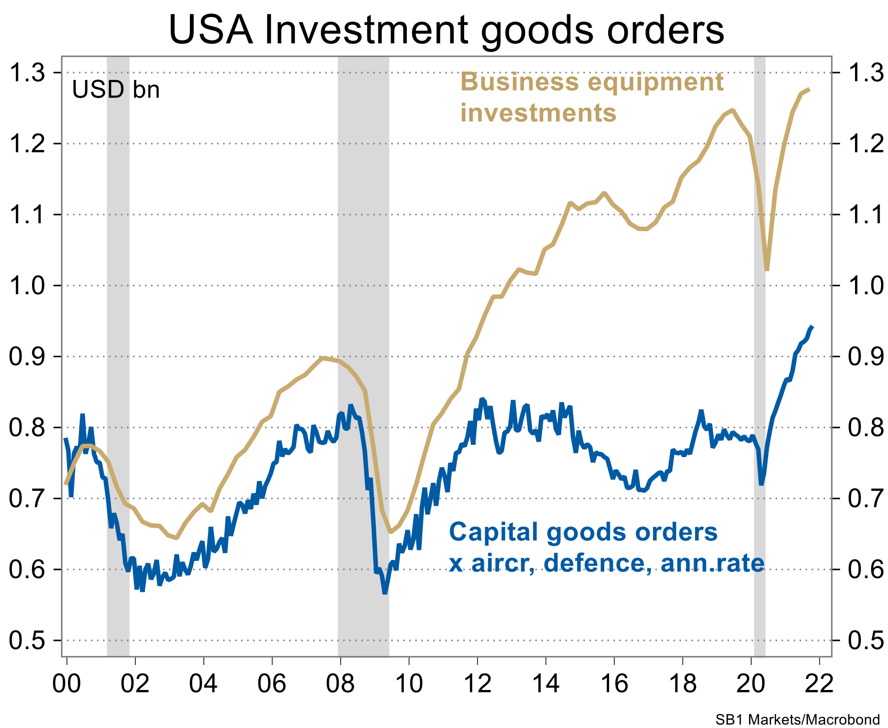


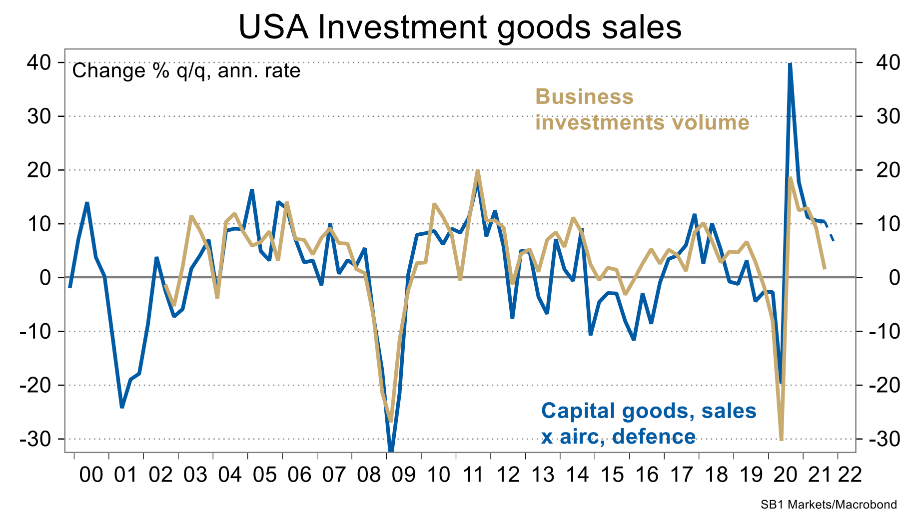
USA Durable ordres - autos



Core capital orders are still going strong

Signal decent growth in business investments into Q4 following a weak Q3



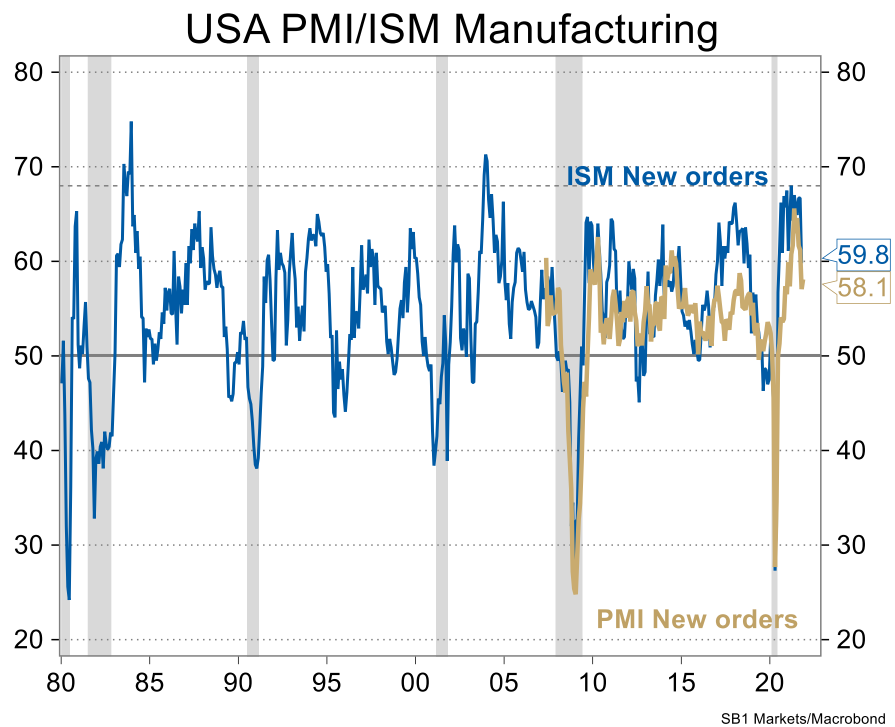


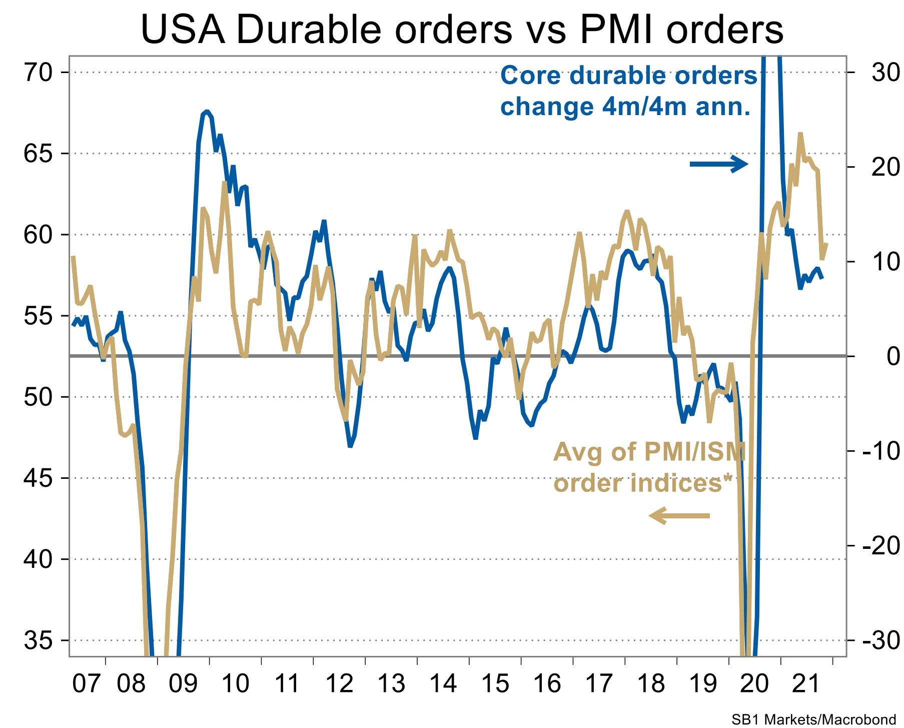
- **Core (x aircraft, defence) capital goods orders keep** increasing and were up 0.6% in October. Shipments were up 0.3%. Growth has slowed but still signals decent growth in business investments in Q4 (following a rather slow growth in Q3)
- **The business investment** level is well above the pre-pandemic level – and not at low vs. a reasonable long term trend (see more data, comments here)

SpareBank 1 MARKETS

The ISM/PMIs are signalling a further, and rapid growth in order inflow

These surveys are reporting a rapid increase in order backlogs as well

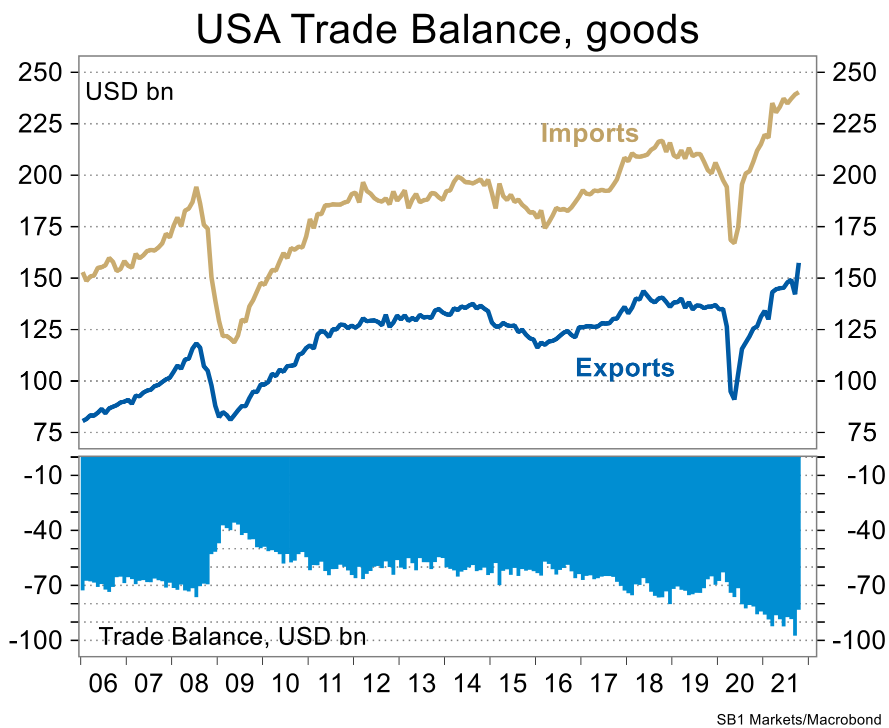


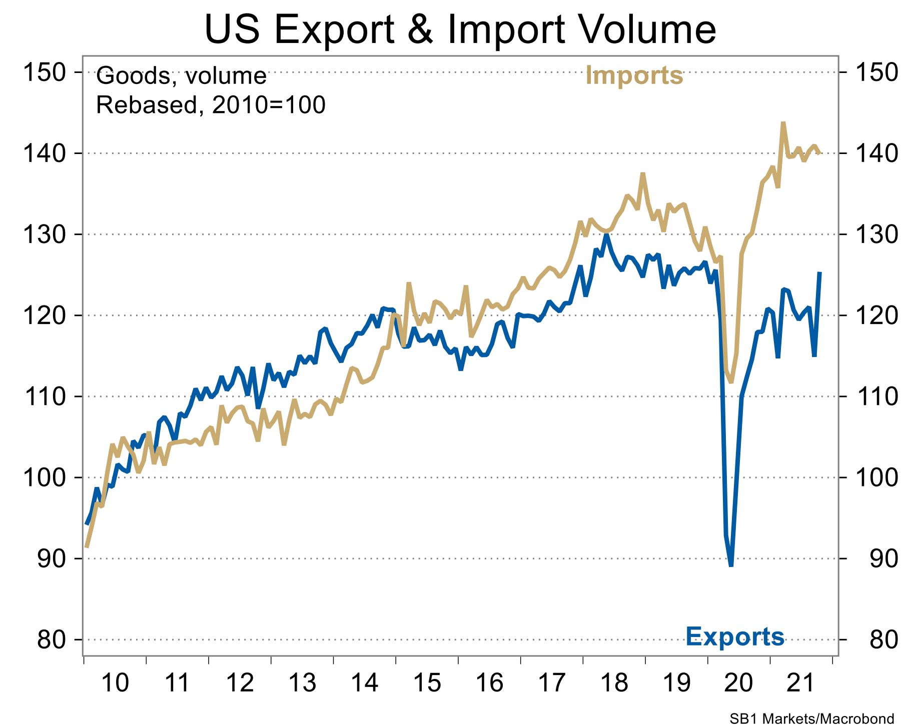


* The ISM order index is

A strange export hike in October but no details available yet

Import volumes have flattened recent months

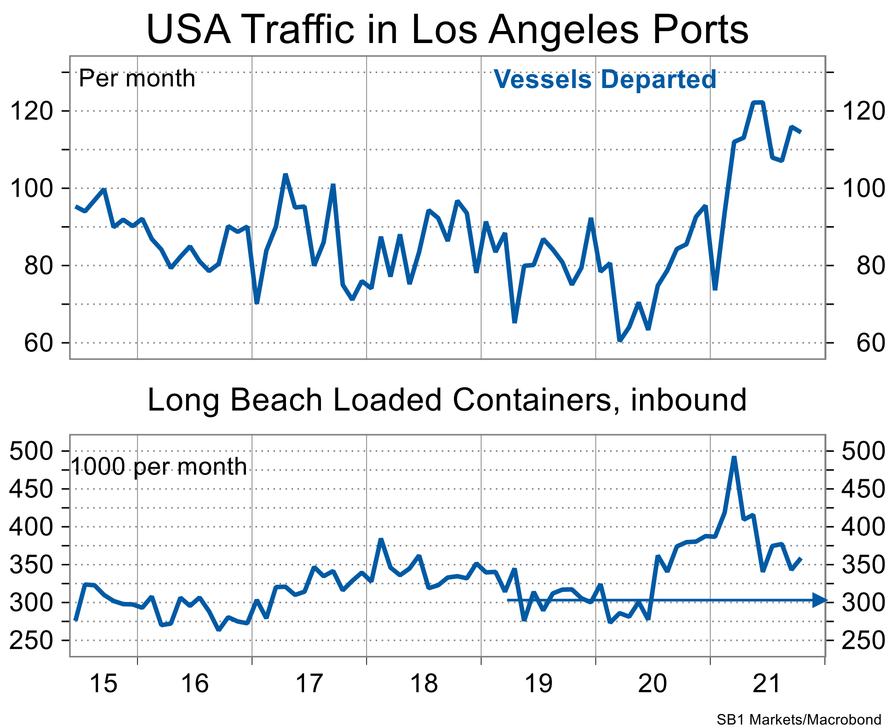




- **Exports** rose 10.7% m/m in October, an unusual monthly lift. This advanced report does not give any details.
  - » Exports rose sharply in volume terms as well but is still below the pre-pandemic level (in value terms exports are well above)
- **Imports** rose by 0.5% m/m in value terms, and is 19% above the Feb 2020 level!
  - » In volume terms imports fell slightly in Oct, but is still some 10% above the pre-pandemic level! Demand for goods has been strong during the pandemic, driving imports – even if auto imports have been low. We expect US households' demand for goods to slow the coming quarters, from the present very high level – dampening demand for imports too
- **The trade deficit** in goods fell sharply, to USD 82.9 bn from the ATH at 97 bn in September

BTW, why are US harbours so crowded?

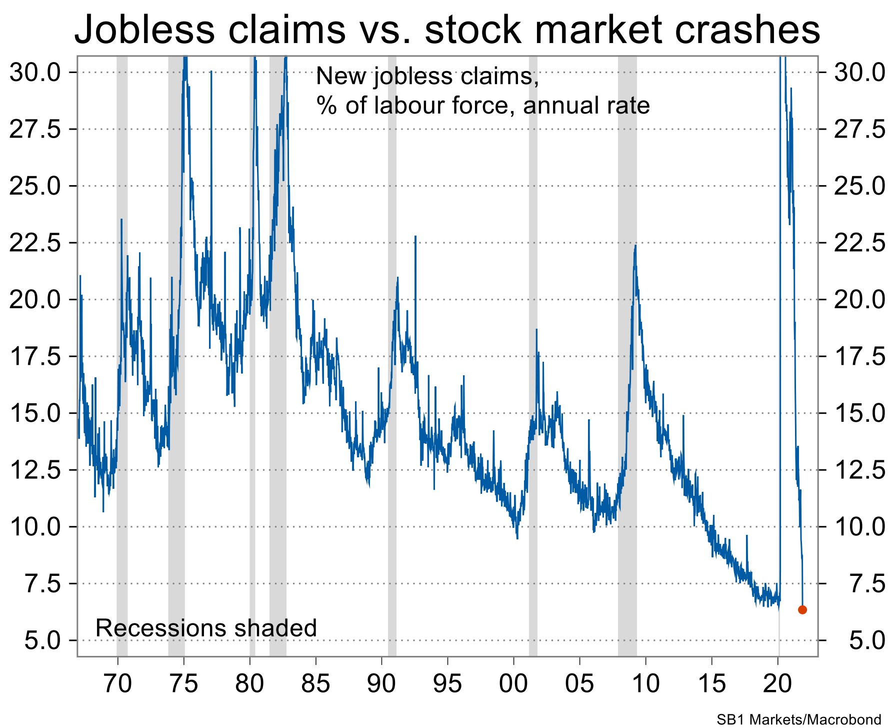
Because (inbound, of course) traffic is much higher than ever before

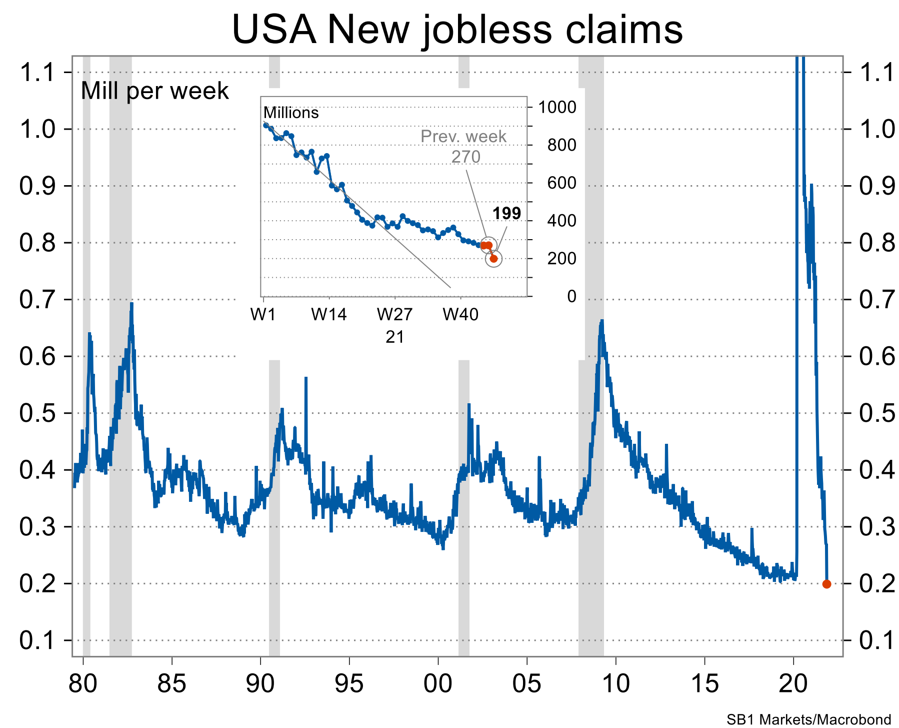


- Sure, there have been some capacity problems due to the pandemic but the main challenges have been that harbours have been overwhelmed by many more ship arrivals and much more (inbound) cargo than normal!
- ... Because demand for goods has far above a normal level through the pandemic

New jobless claims suddenly fell to an ATL

Probably an one-off, but the level is anyway low and confirms a tight labour market

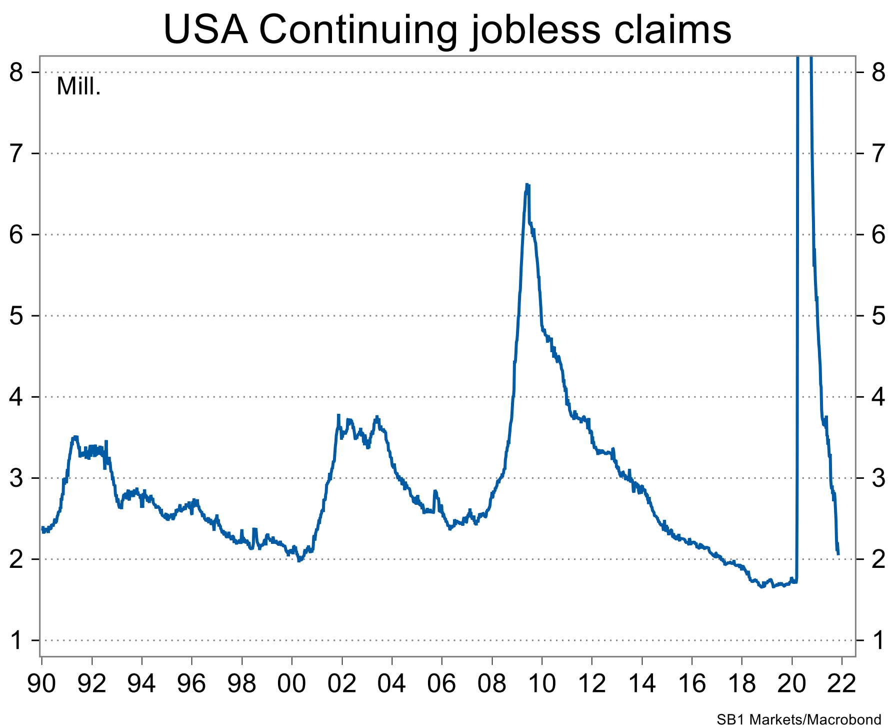


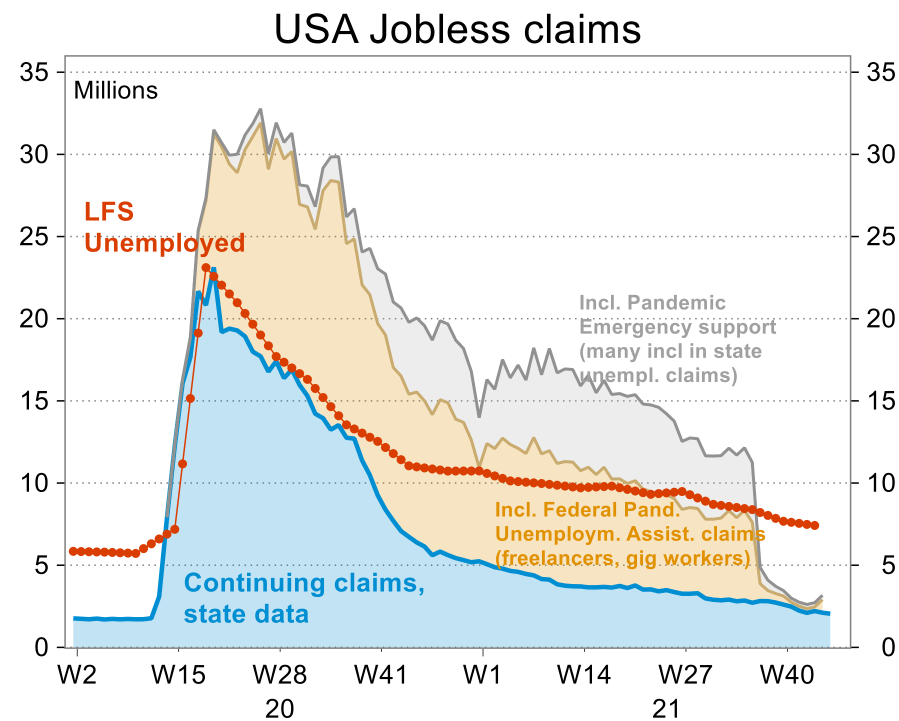


- **New jobless claims** suddenly fell off the cliff in week 46, by 71’ to 199’, the lowest level ever – both actual and in % of the labour force
  - » This seasonally adjusted series may be more uncertain than normal. The actual number rose by 18’
- **Ordinary continuing claims** fell by 60’ to 2.049 mill in week 45, slitt 0.3 mill above the pre-pandemic level (chart next page)

A further decline in continued claims

Still above the pre-pandemic level - but given the current pace of decline, we are soon there

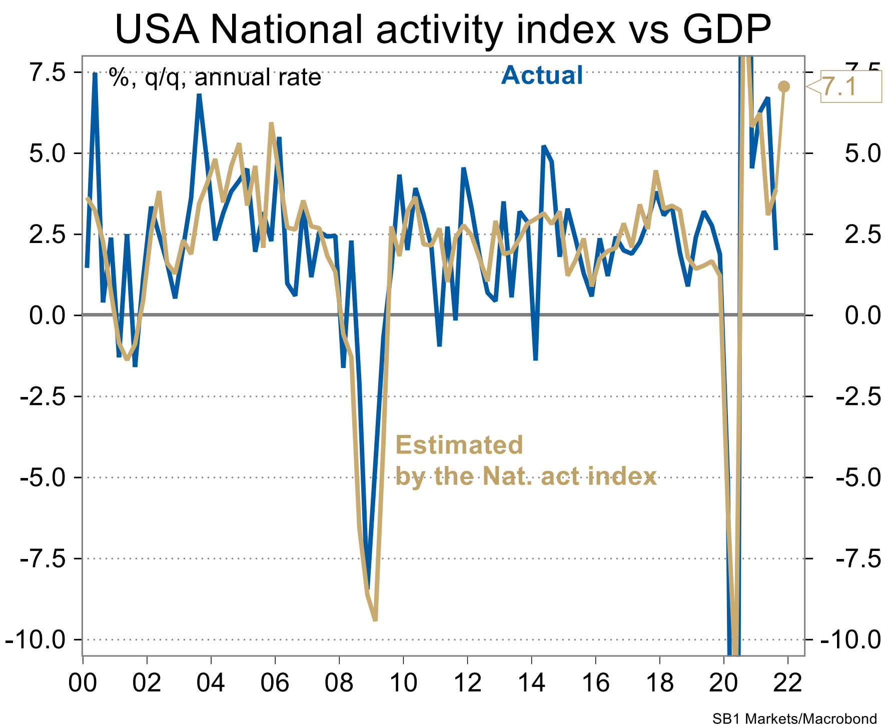


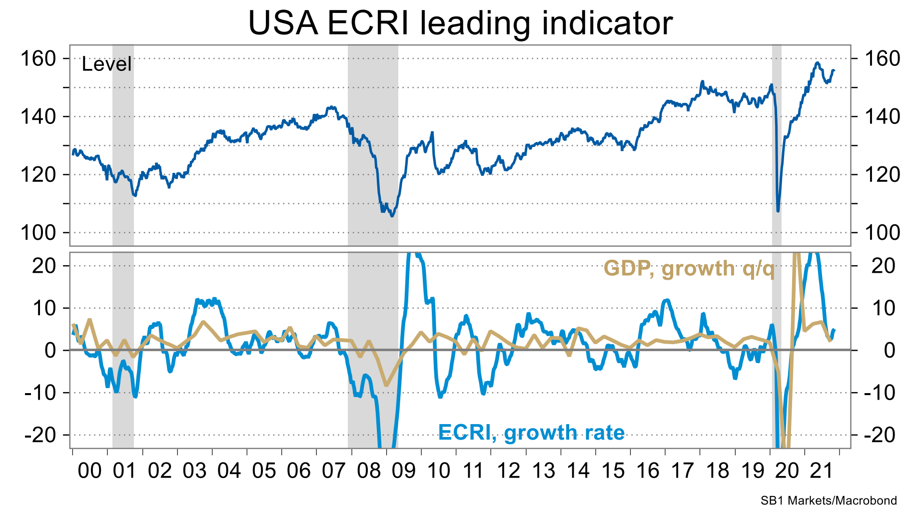


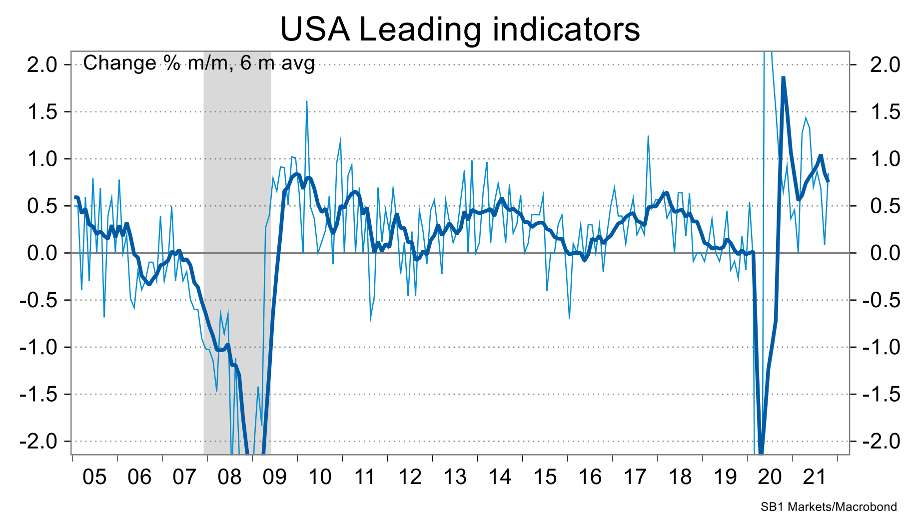
- The **two temporary federal pandemic unemployment benefit programs** ended on September 6th, are now close to fully terminated, in total 12 mill have lost their Federal unemployment support. What are these millions doing now?? They are very likely among the 3.4 mill that have been employed since June. However, most of the employment growth came before most of the receivers of benefits lost them, and states which left the programs early have not reported faster employment growth than the others through October

The National Activity index up in October, signalling 7% GDP growth

Conference Board's and ECRI's leading indicators join the party, both are reporting strong growth

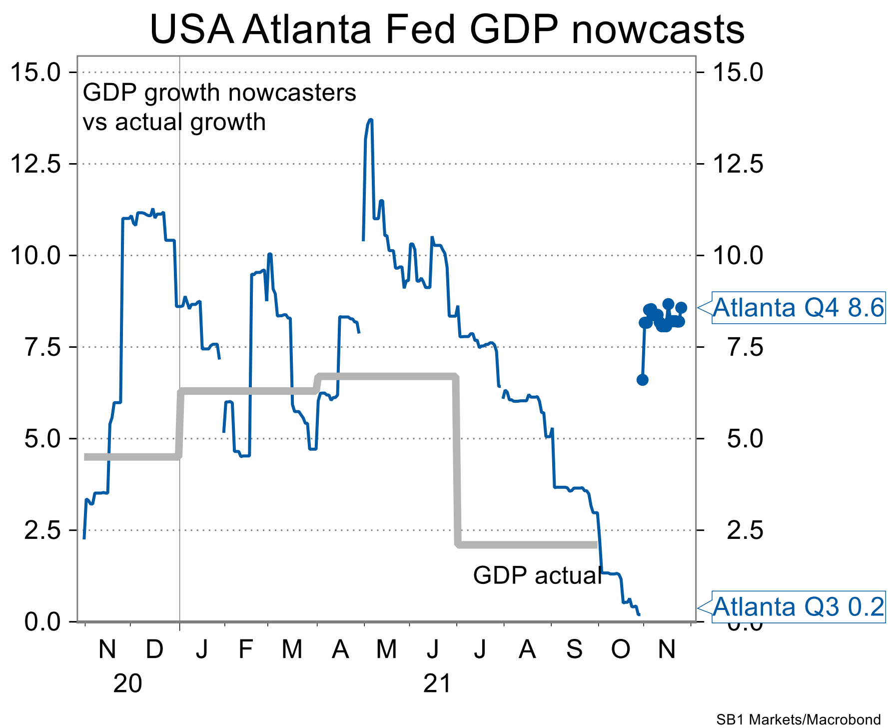


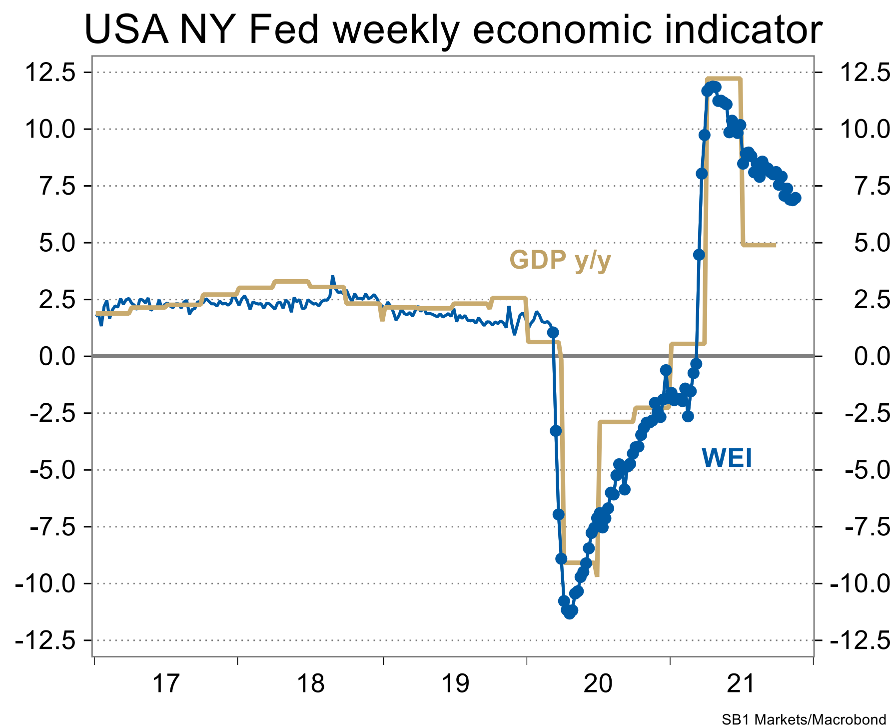




Atlanta Fed's nowcaster suggests 8.6% growth in Q4!

If so, GDP will be up 5.9% y/y in Q4, a tad less than NY Fed's weekly indicator suggests



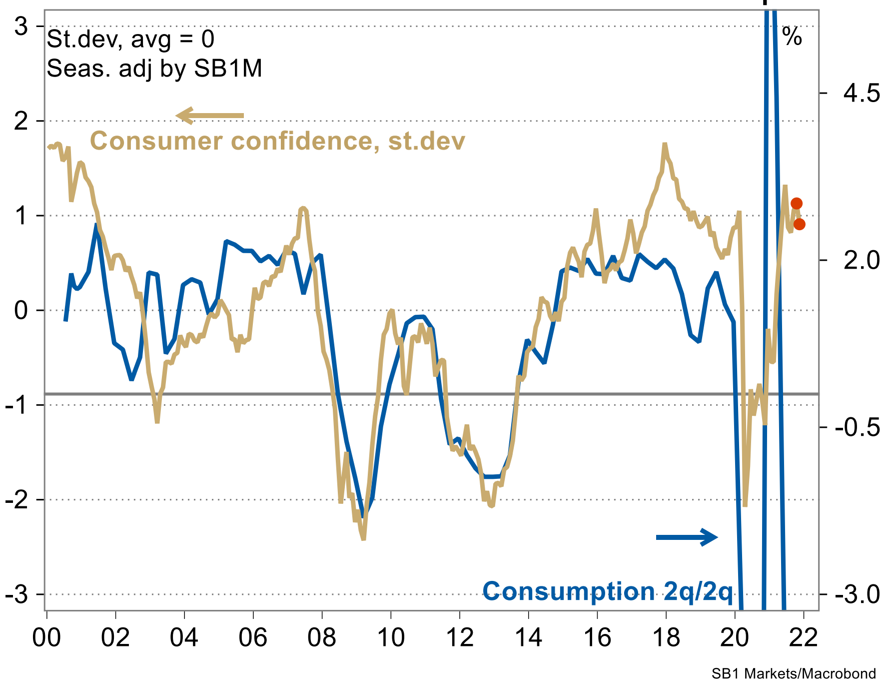


- … and in line with Federal Reserves September f'cast

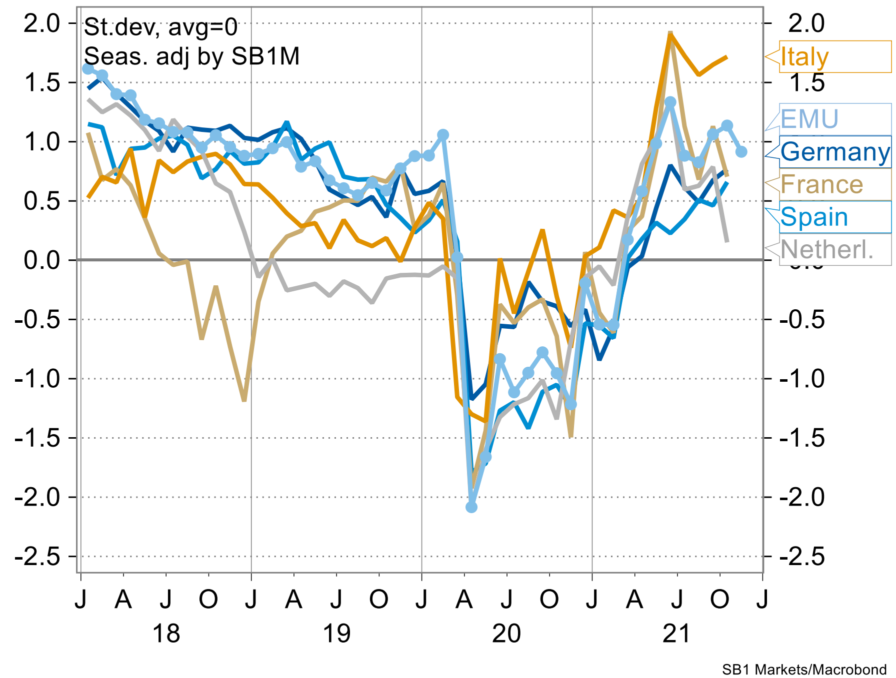
Consumer confidence down in November – the Delta virus probably to blame

Confidence fell by 0.2 st.dev to 0.9 st.dev above avg, still a quite high level – and better than in Aug

EMU Consumer confidence vs consumption



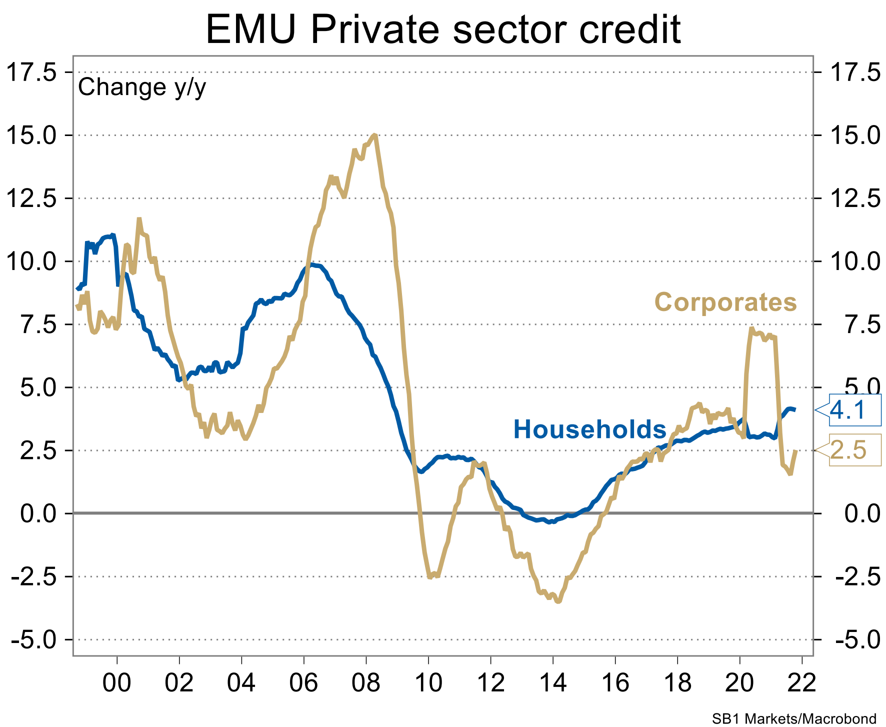
EMU Consumer Confidence

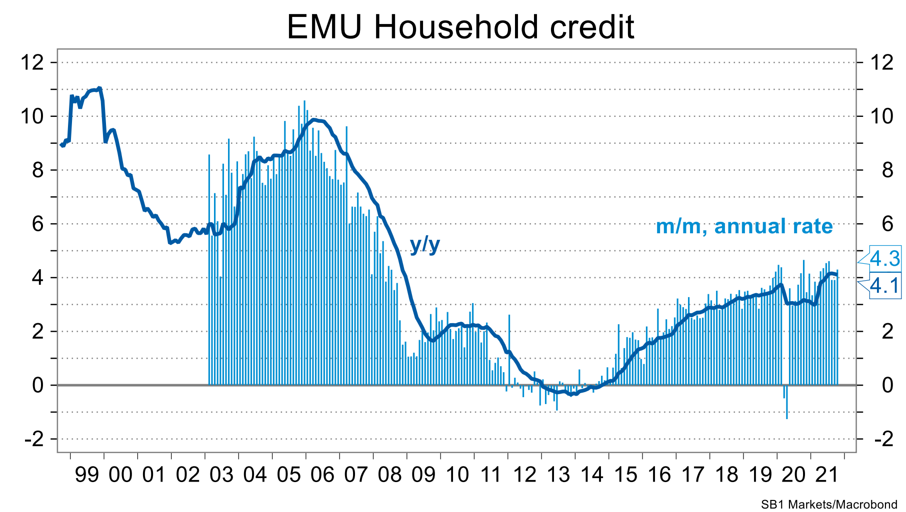


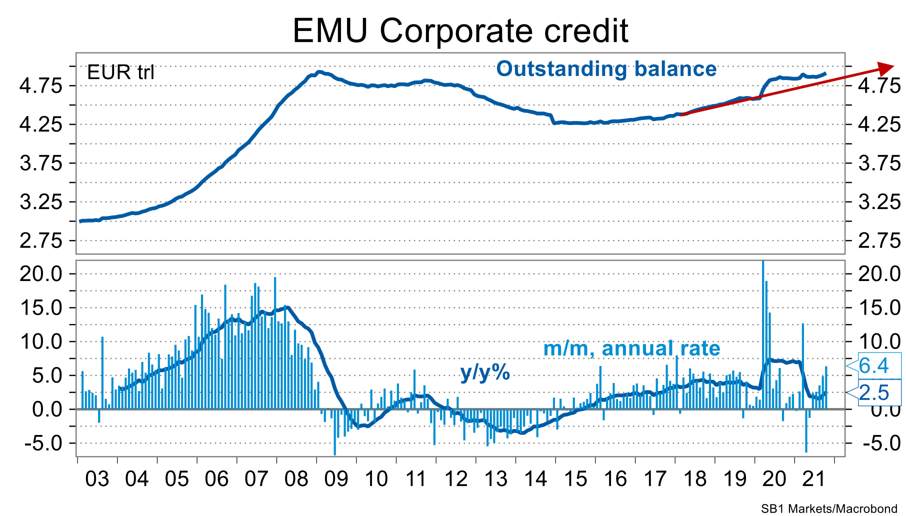
- **The consumer confidence index** fell to -6.8 in November from -4.8 in October, expected down to -5.5
- The level is still high and signals strong household demand. Consumers are especially in favour of making major purchases
- All of the large EMU economies reported confidence above par in October, but monthly changes were mixed

Some life in corporate borrowing recent months, household debt up 4%+

Household debt is not accelerating – no credit boom to be seen



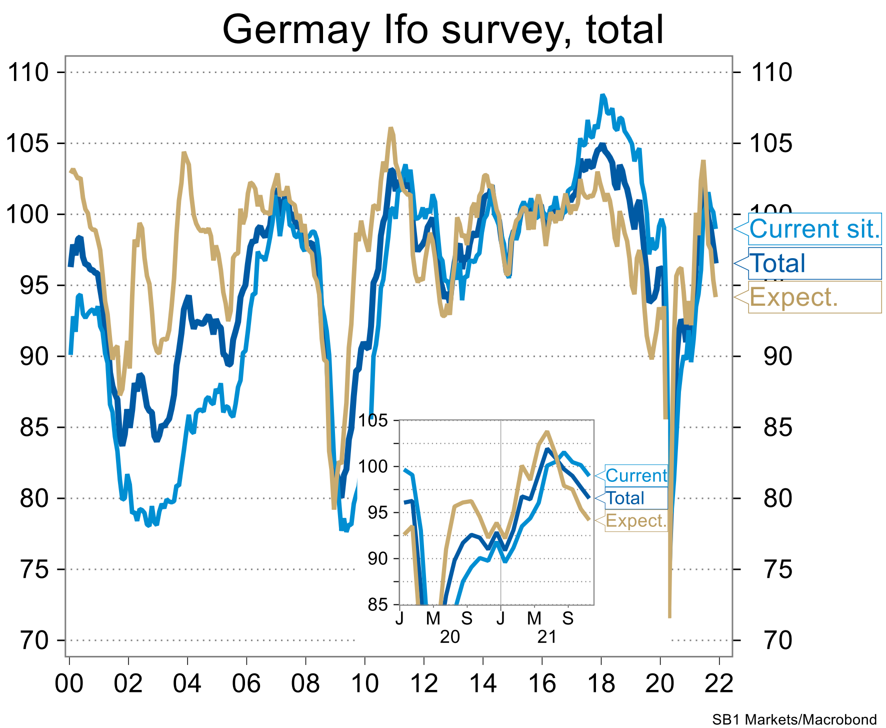




- The corporate debt level is still above the pre-pandemic trend growth path, and growth is now gaining some speed from month to month, now up at a 6.4% annualised pace in October
  - » The average growth over the past 2 years is 3.6%
  - » The credit volume is not higher than in 2008 in nominal terms – and sharply down in % of GDP or in real terms

The Ifo survey further down in November

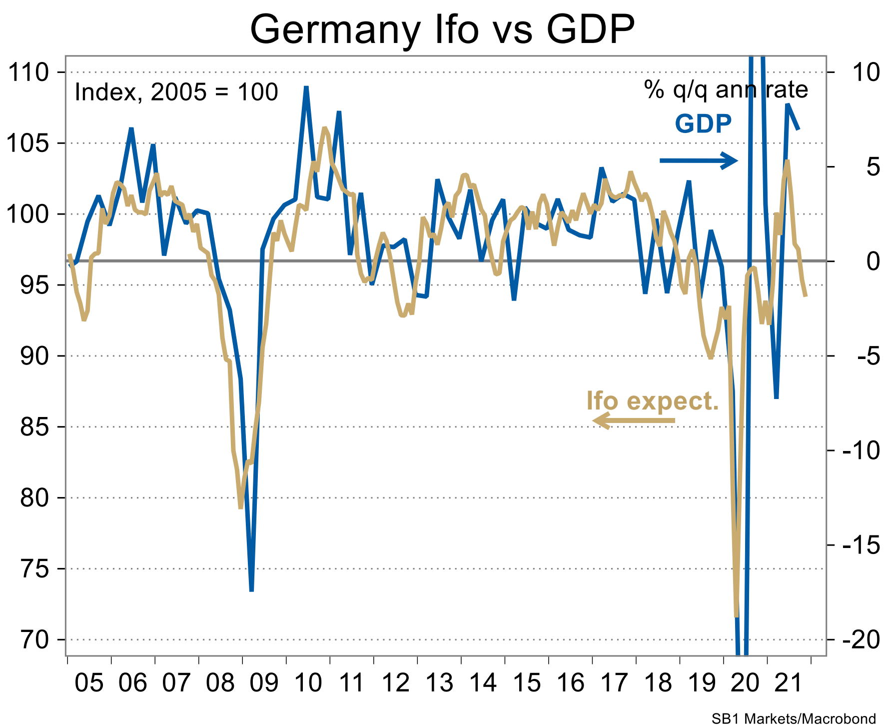
All sectors barring construction report slower growth – and services are below par

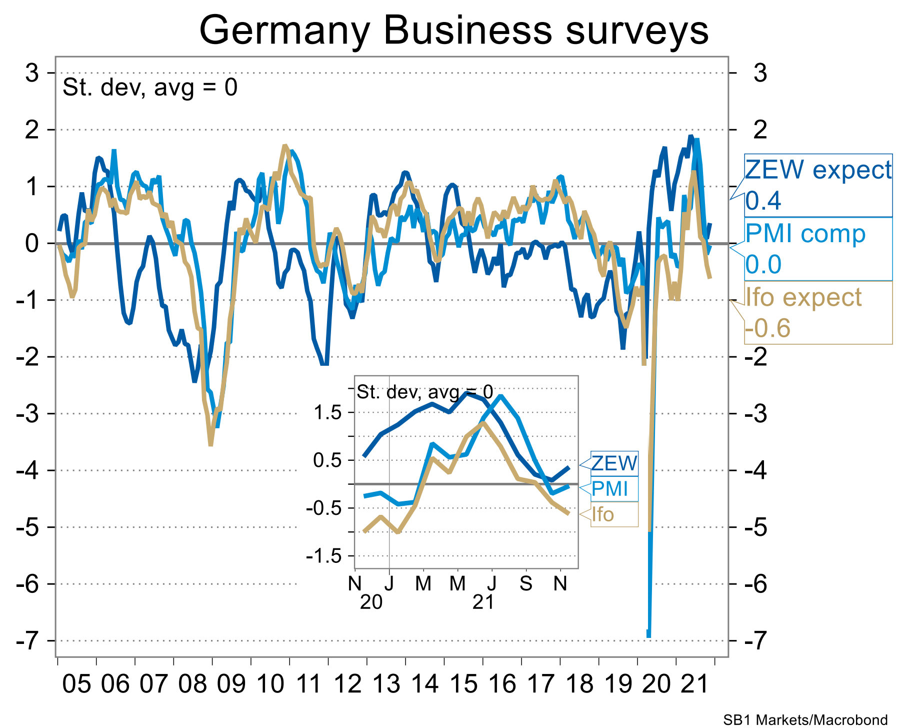


- The total Ifo index was better than expected – expectations fell slightly more than expected but the assessment of the current situation less
- The expectation index fell 1.2 p to 94.2 – to 0.6 st.dev below average

By and large, surveys signal growth close to trend, or slightly above

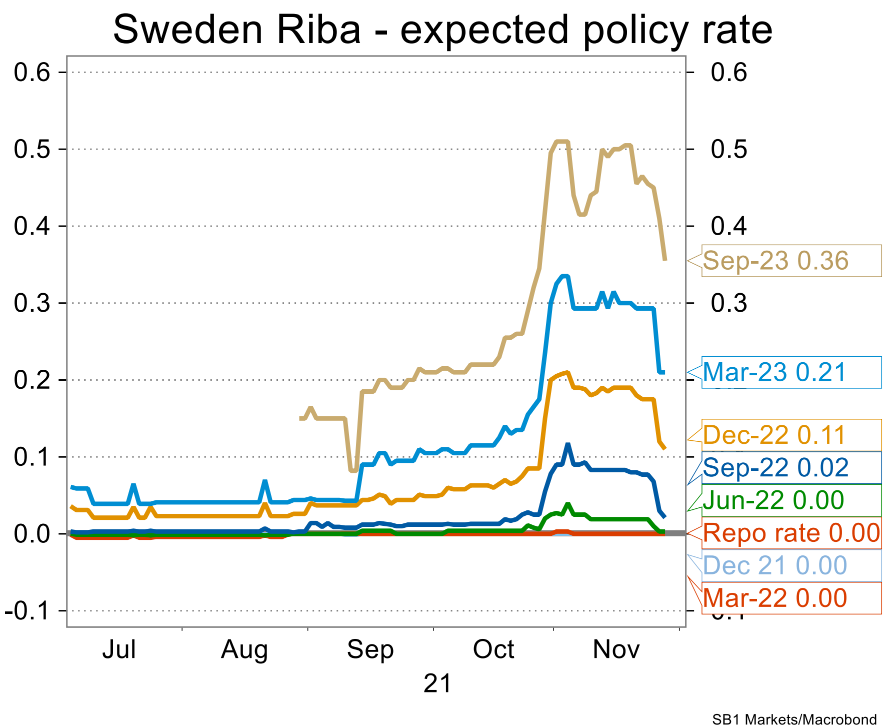
Both the PMI index and the ZEW survey gained ground in November





The Riksbank finally acknowledges that rates will have to be lifted. In Q4-24, that is

The market revised its rate expectations down but still expect Rix to hike late '22/early '23



- **The Riksbank** stick to its analysis: Inflation will return to below 2%, as growth moderates and the LFS (AKU) unemployment remains above 7%
- **The Bank** prolonged its forecast to 2024, and a first hike is now signalled in Q4-24!
- **The market** expects the bank to start late 2022/early 2023, even if the Bank's message lowered rates by 5 – 8 bps

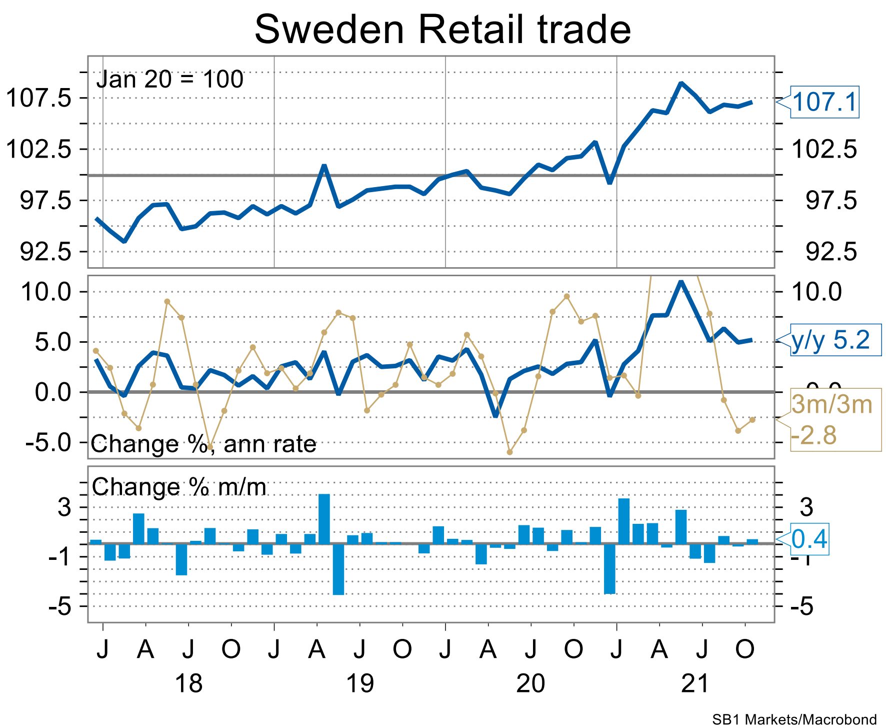
Tabell 1. Forecast for Swedish inflation, GDP, unemployment and the repo rate
Annual percentage change, annual and quarterly averages respectively

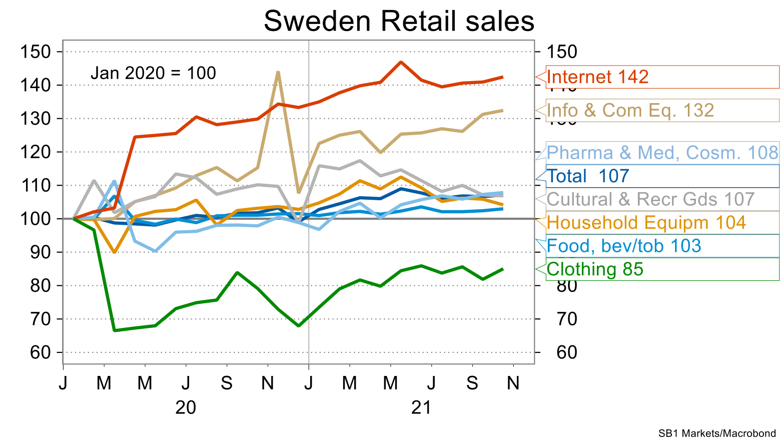
	2020	2021	2022	2023	2024	2024 Q4*
CPI	0.5	2.1 (2.0)	2.3 (2.1)	1.9 (1.8)	2.2	2.4
CPIF	0.5	2.3 (2.3)	2.2 (2.1)	1.8 (1.8)	2.1	2.1
GDP	-2.8	4.7 (4.7)	3.8 (3.6)	2.0 (2.0)	1.5	1.6
Unemployment	8.3	8.9 (8.8)	7.7 (7.6)	7.2 (7.2)	7.1	7.0
Repo rate	0.0	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.1	0.2

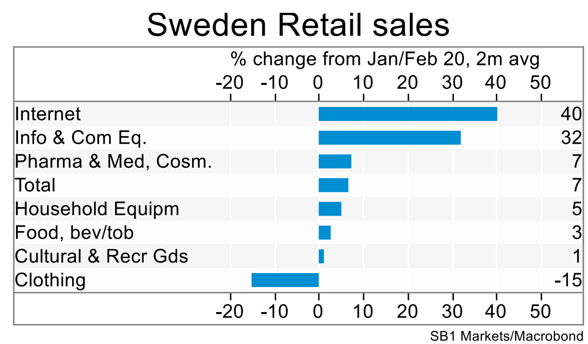
Note: The assessment in the September 2021 Monetary Policy Report is shown in brackets. *Percentage change in calendar-adjusted GDP compared with the corresponding quarter in the previous year and seasonally-adjusted LFS unemployment.
Sources: Statistics Sweden and the Riksbank

Retail sales up by 0.4% in October, short term trend slightly up too

Level is 7% higher than before the pandemic. Clothing still down 15%!



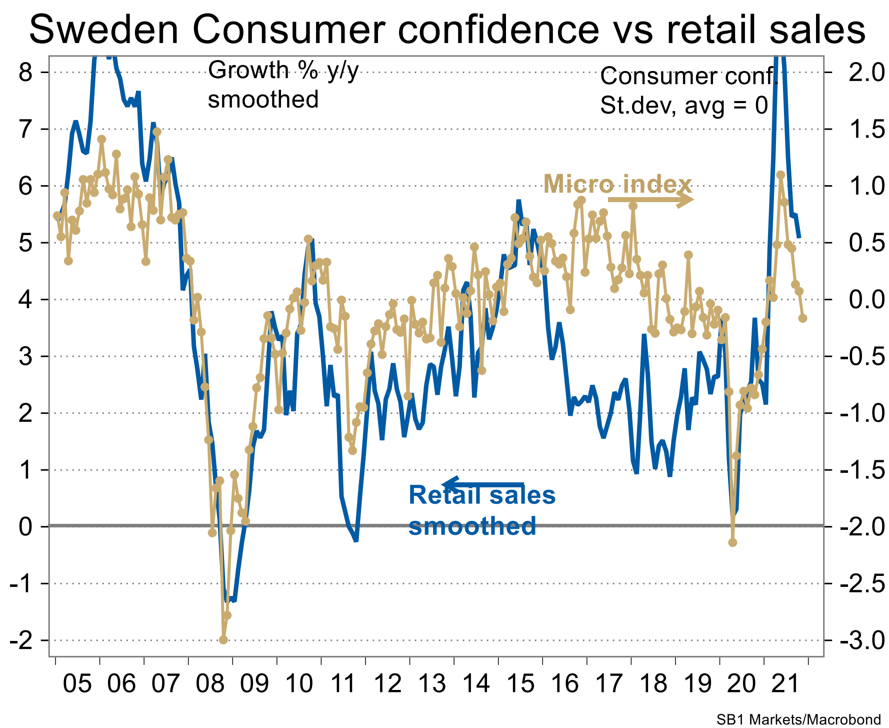


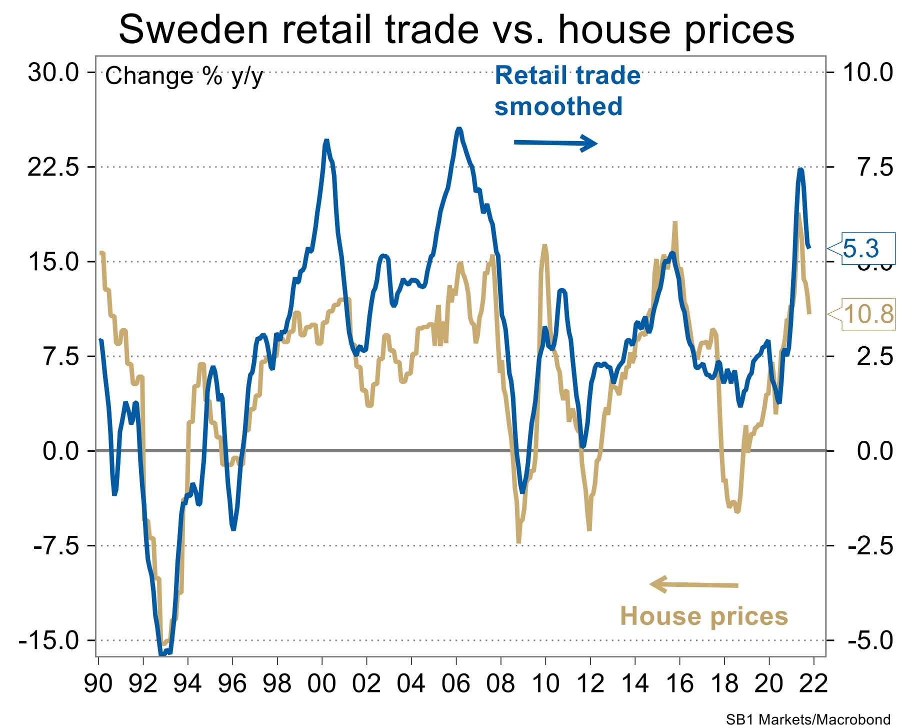


- Sales are still lower than in the early summer but has recovered the recent months
- Huge sectoral differences. Internet sales up 40% (here like in many other countries), info/communication +32%. Food sales are close to flat, which is strange, given far less activity at restaurants (and Norwegians do not normally buy that much in Sweden, do we??). Also, clothing sales are still down 15% vs Jan-20 (while sale volumes are up 23% in Norway – how come??)
- As for Norway and several other countries: Retail sales are very likely above a the long term trend – but rather less than in Sweden than in many other countries

Consumer confidence further down in November, to below par

House price inflation is slowing too.

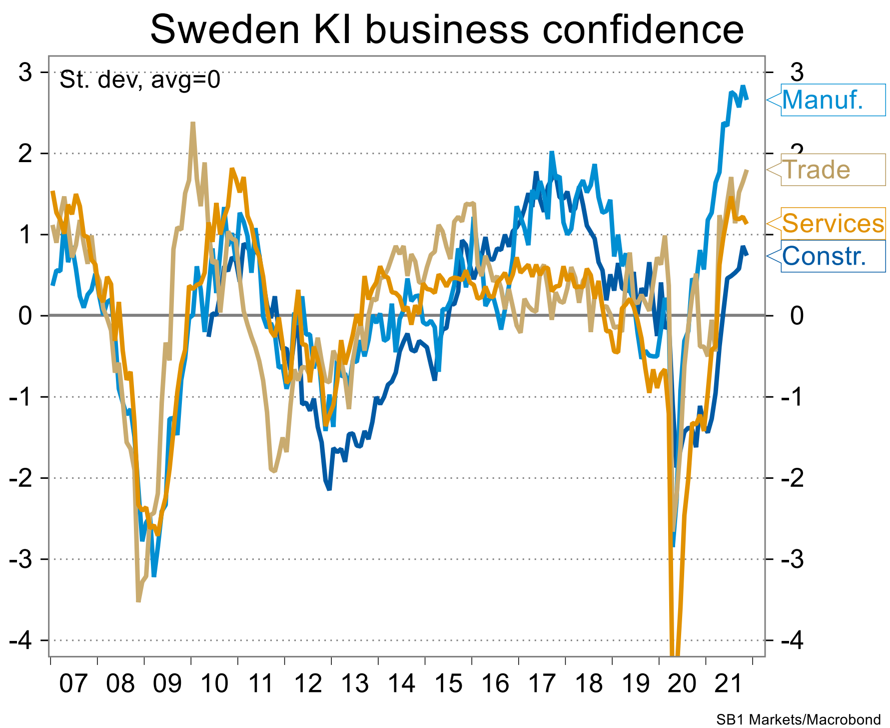


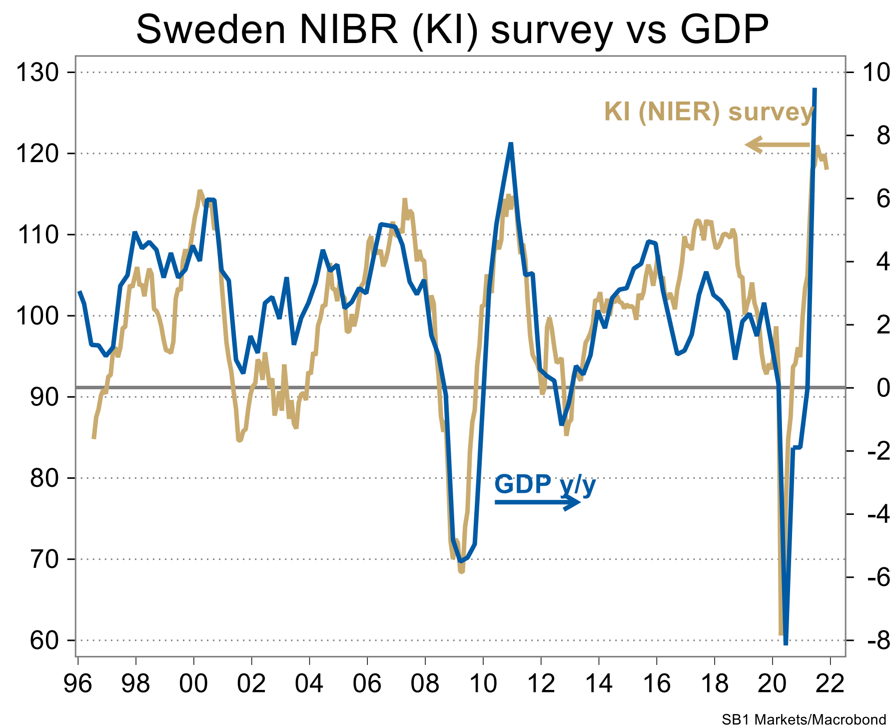


- **Confidence** is well above the pre-pandemic level, alongside retail sales - and a booming housing market, at least until a couple of months ago
- Over the past 4 years, the correlation between stated confidence and actual spending has waned. Even so, during 2020, the relationship may have strengthened. <u>So no reason the expect Swedes to stop spending now</u>

KI business survey marginally down in October, still at very high level

Trade further up others slightly down. In total, a 7% growth pace is signalled

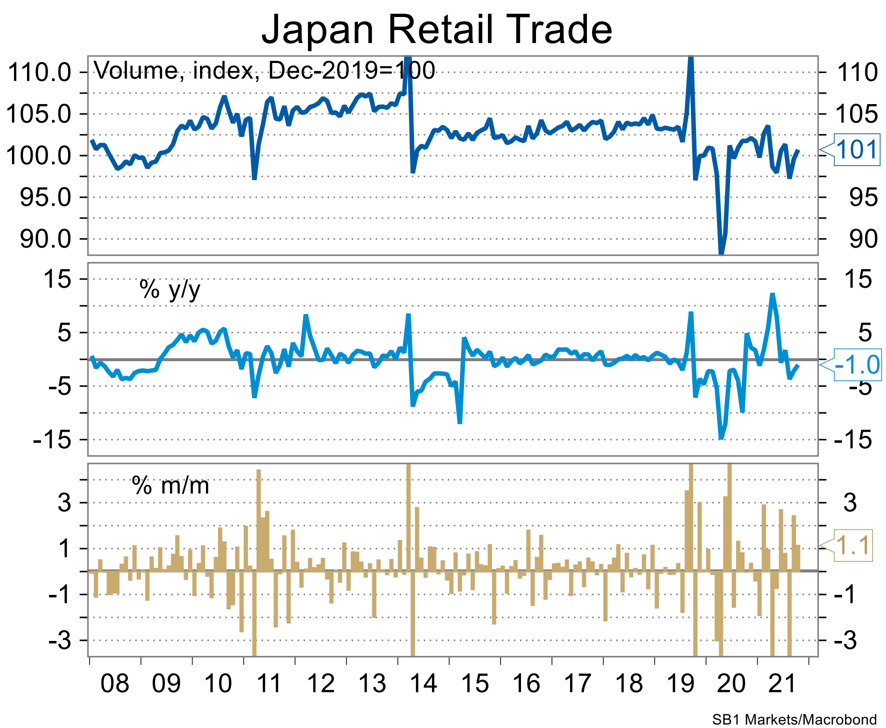


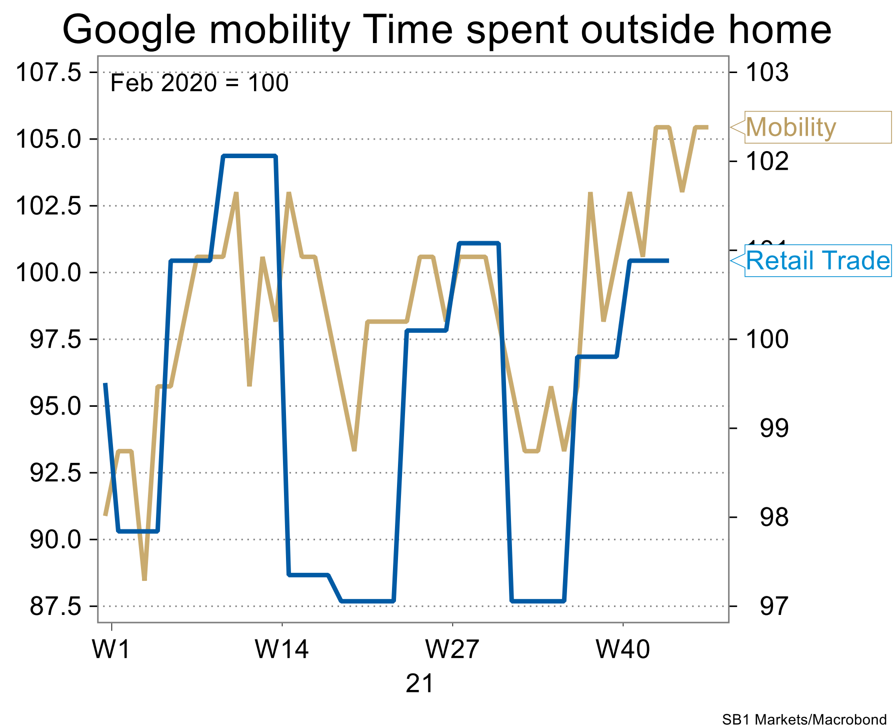


- **The composite index** fell to 118.0 in Nov from 119.9 the previous month. The survey still signals a 7% GDP growth rate – as the index is still close to ATH
- **All 4 main sub-sectors** are reporting growth far above average
- The **Riksbank** is still concerned about the impact of the corona crisis, and thinks it will keep the policy rate at zero until late 2024. If growth subsides rapidly, that may be OK. If not..

Retail sales further up in October – and more to come in November

Mobility has increased further in November, sales will probably follow suit





- **Retail sales** climbed 0.9% in value terms in October, expected up 1.1% following the 2.8% surge in September – from a low level in August (when the virus created problems)
- In **volume terms** sales rose by 1.1%, but the short term trend still weak even if sales are 1% above the (very low) pre-pandemic level

SpareBank 1 MARKETS

Highlights

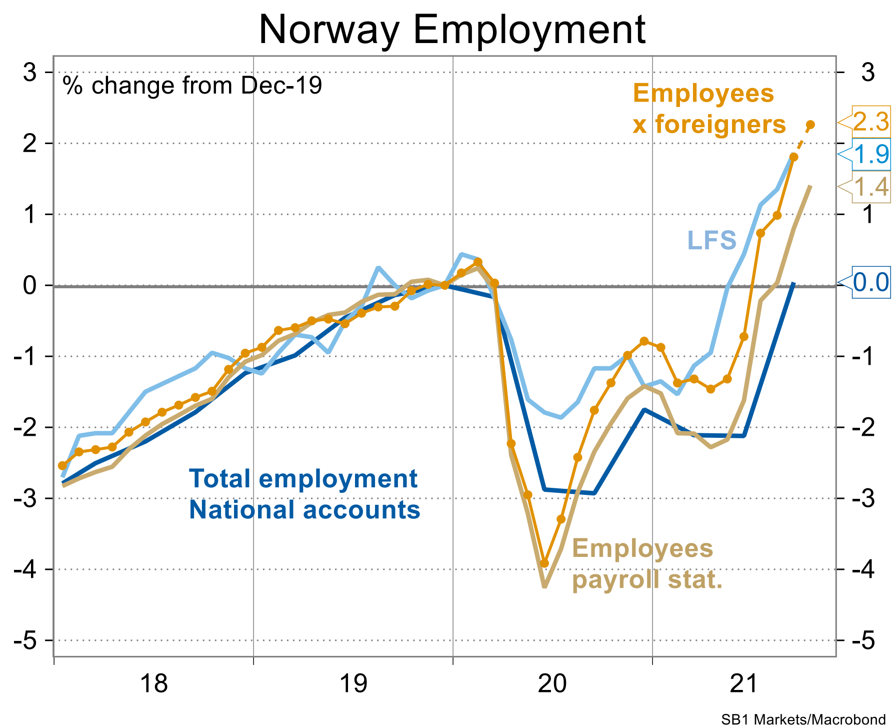
The world around us

The Norwegian economy

Market charts & comments

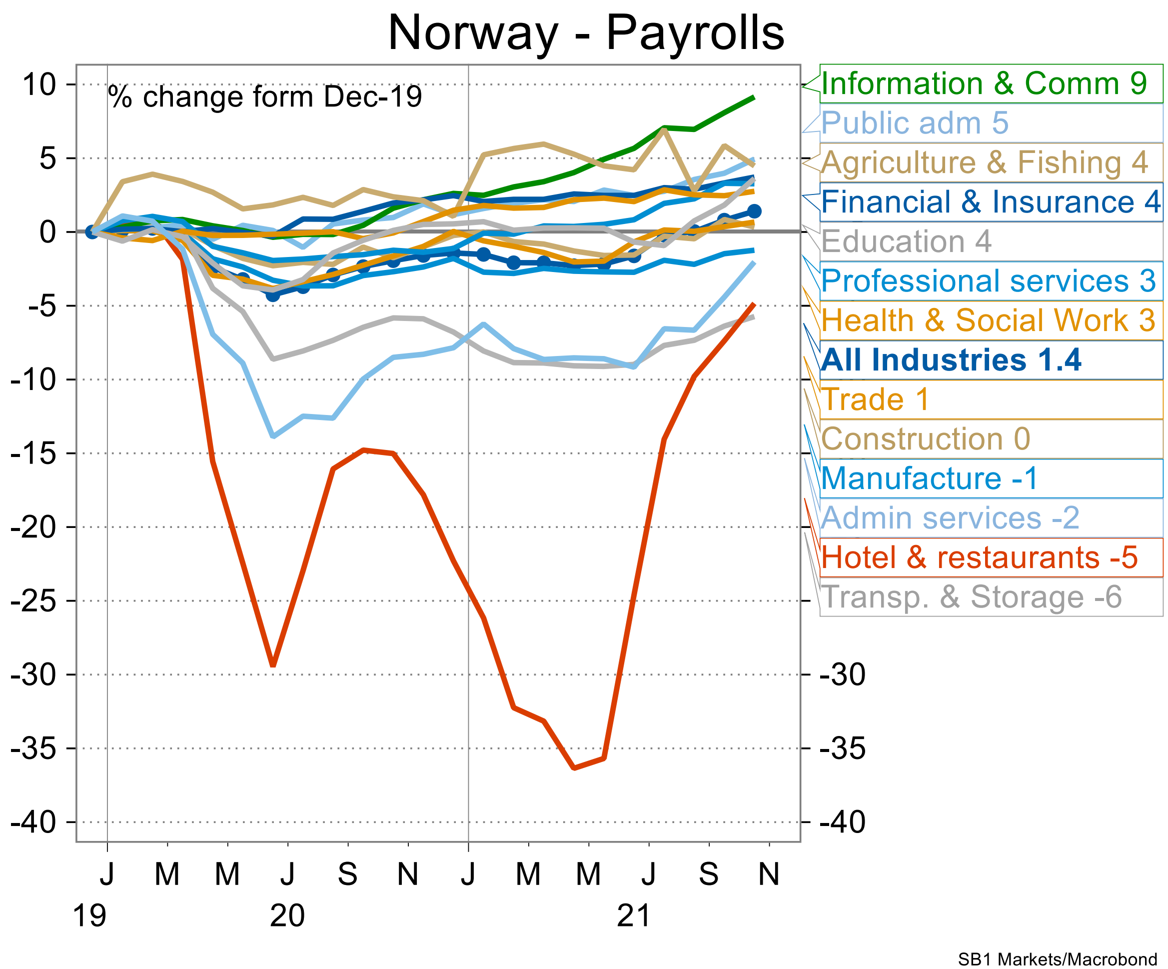
Reg. employment surged by 0.6% m/m in October, level far higher than pre-pand.

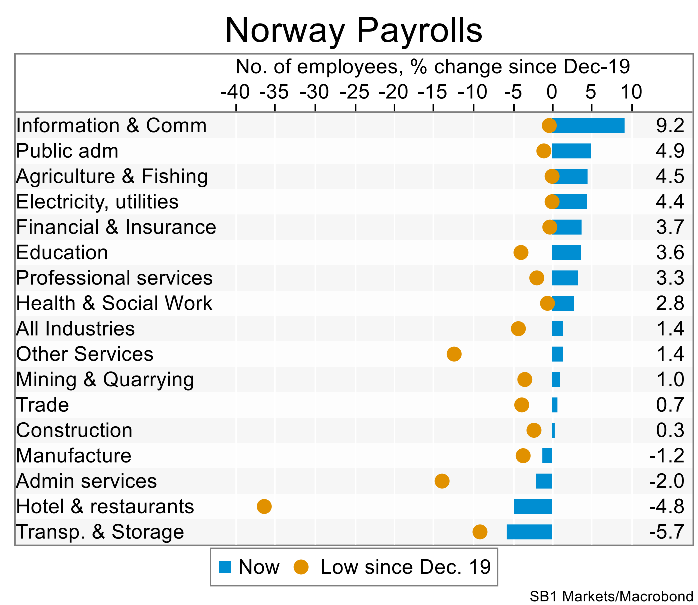
The LFS confirms strong employment growth



- The increase in the register based no. of employees in October suggests at continued brisk growth in Mainland GDP
  - » Total no. of employees grew by 0.6% m/m and is now 1.4% above the level in Dec-19
  - » We estimate the employment among permanent residents (Norwegian and foreign born) to be 2.3% above the pre-pandemic level (based on our Q4 estimate for foreign workers on short-term stay)
  - » The increase in employment is broad based, check next page
- **The LFS** (AKU, survey) employment data (both employees and self-employed, with permanent residency in Norway) reported a 14' (0.5%) growth in employment in September (avg Aug-Oct from av July-Sept), or by 39' over the past 3 months, equalling 1.4% or a 5.8% annualised pace
  - » LFS employment is up 1.9% sincve before the pandemic, and both participation and employment rates are far above the pre-pandemic level – and the LFS unemployment rate is 'collapsing' (more to come at the next pages)
- **National Accounts** reported a 2.1% growth in total employment in Q2- back to the level in Q4-19. These NA data includes foreigners on short-term stay. In Q4, employment will climb further, to well above the Q4-19 level

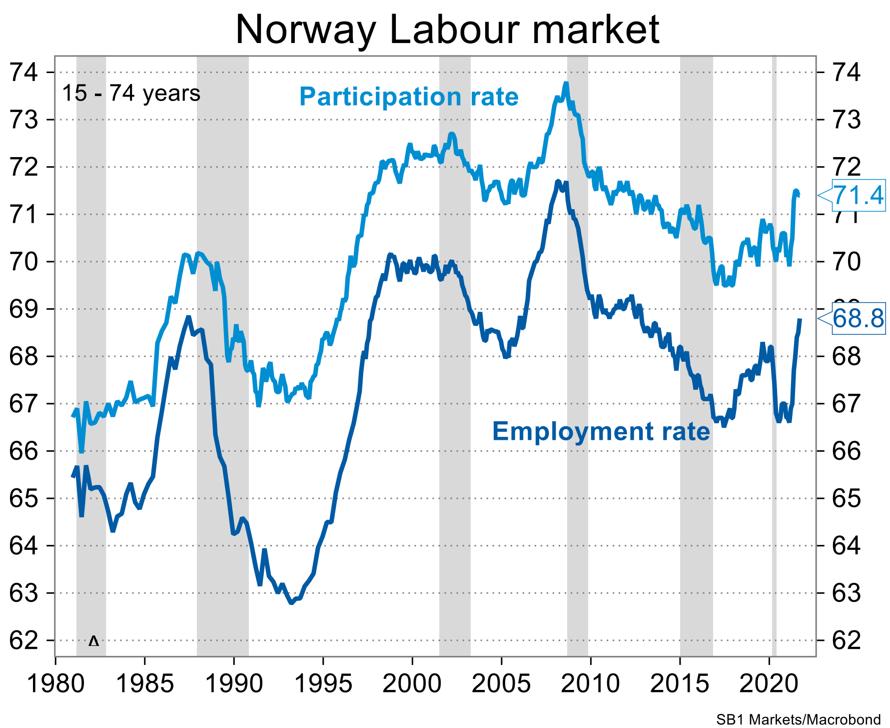
More workers than before the pandemic in most sectors





An impressive lift in both particiaption & employment rates!

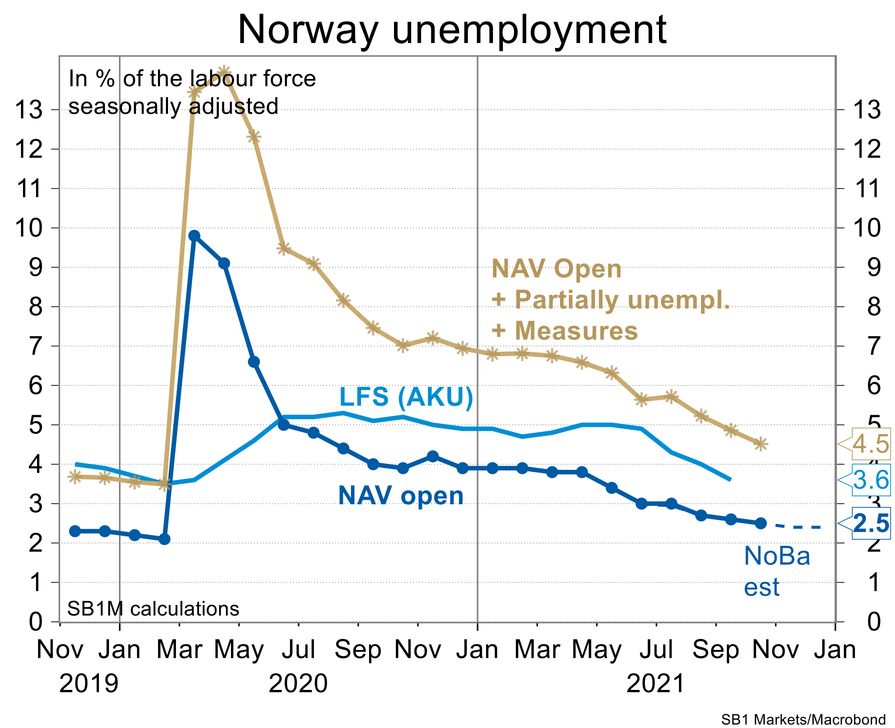
Has less competition from foreigners helped more permanent residents back to the labour market?

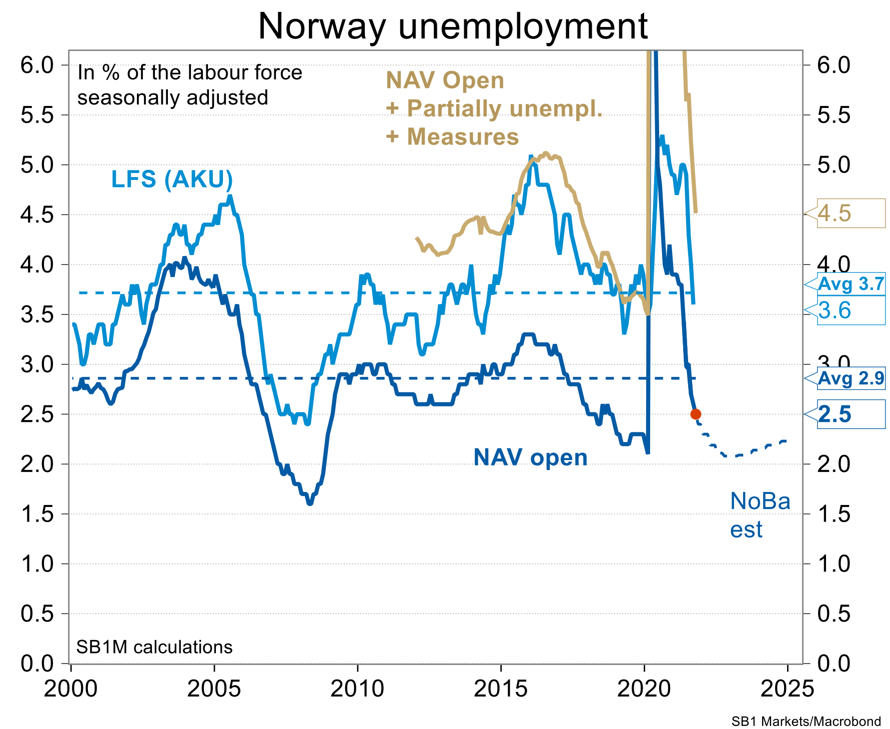


- **The employment rate** is above the pre pandemic level, far above the post 'oil crisis' through in 2017
  - » In September, the rate rose by 0.3 pp to 68.8% (of the working age 15 - 74 y population). Ahead of the pandemic the rate was 68.1 – 68.2, and it is up from the 66.4 through in early 2021 (and from the same level in 2017)
  - » The present employment rate is the highest since 2012
- **The participation rate** has also climbed rapidly but has stagnated since June, and is now at 71.4%, up from 70.8% before the pandemic, and it as the best level since 2012
  - » These monthly data are volatile but the flattening since the early summer may indicate that the easy part of 're-engagement' is behind us

The LFS unemploym. 'collapses,' down by 0.4 pp to 3.6%, below pre-pand. level!

It 'had' to happen, given the freefall decline in NAV registered unemployment

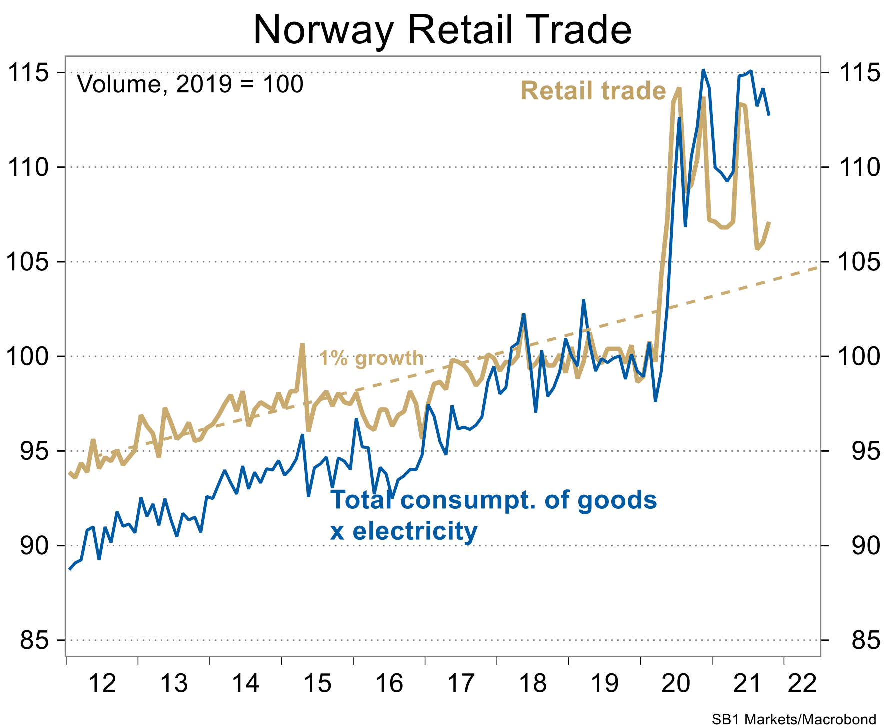


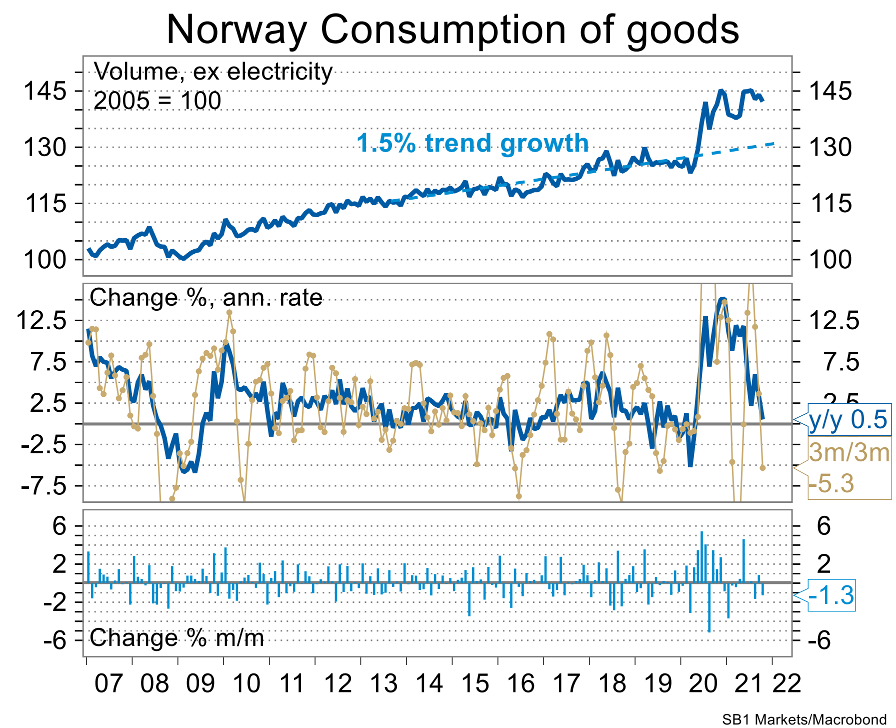


- **LFS unemployment** by 12', by 0,4 pp to 3.6%. We expected a decline to 3.9%. The rate is now 0.3 pp higher than before the pandemic (because the participation rate has increased even more than the employment rate).
- The decline in the LFS unemployment rate during the 5 months since May – when it still was at 5.0% - is the steepest 5 m decline, ever (by a wide margin)
- The decline in the NAV unemployment rate is confirmed

Retail sales further up in October but the tide has turned

Sales rose by 1.0%, better than expected – but the trend has been down from last summer

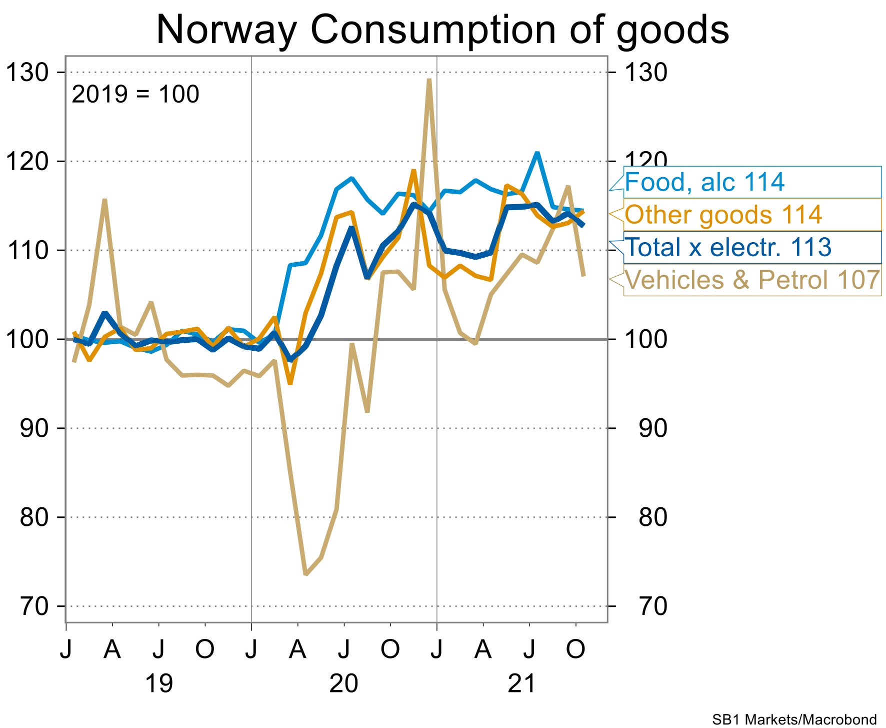


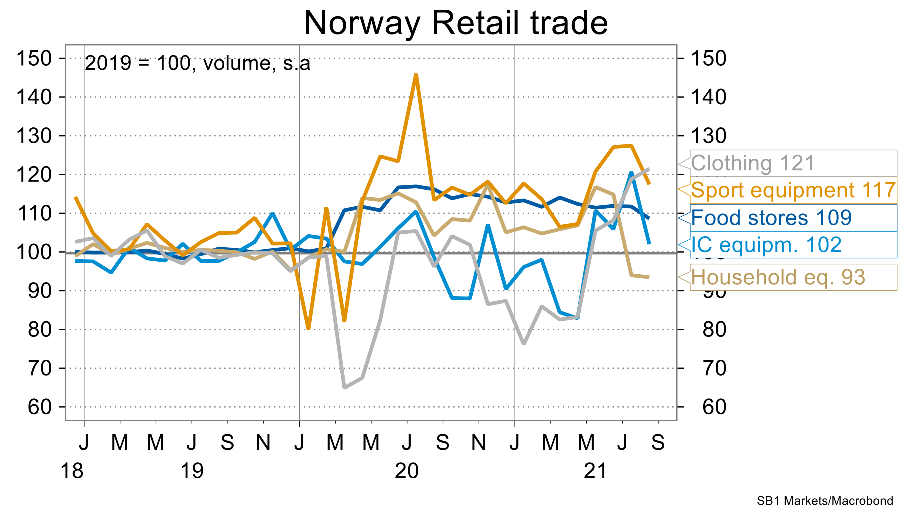


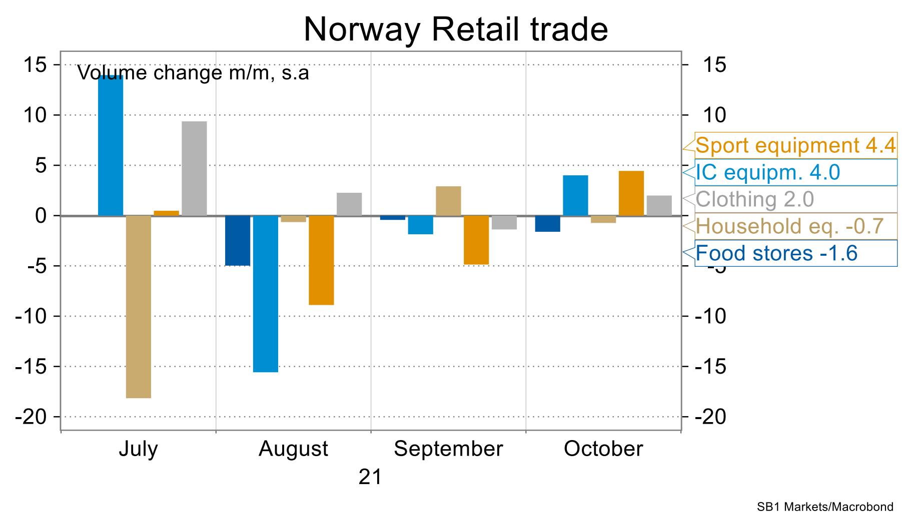
- **Sales** are up 7% vs. the 2019 level but not that far above a modest 1% trend line from 2013
  - » Sport & IC equipment contributed on the upside, food on the downside – and food is now sliding down
- **Total household consumption of goods** (x electricity) fell by 1.3%, and has fallen almost 2% since the summer, and measured 3m/3m sales are down at a 5% (annualised) pace. The level is still well above the pre-pandemic trend, by some 10% - at a level that very likely is not sustainable

ITC, sports equipment up in October, food is sliding down

... as restaurants and borders have been opened. Clothing sales up 21% vs. 2019 (all data in volume)



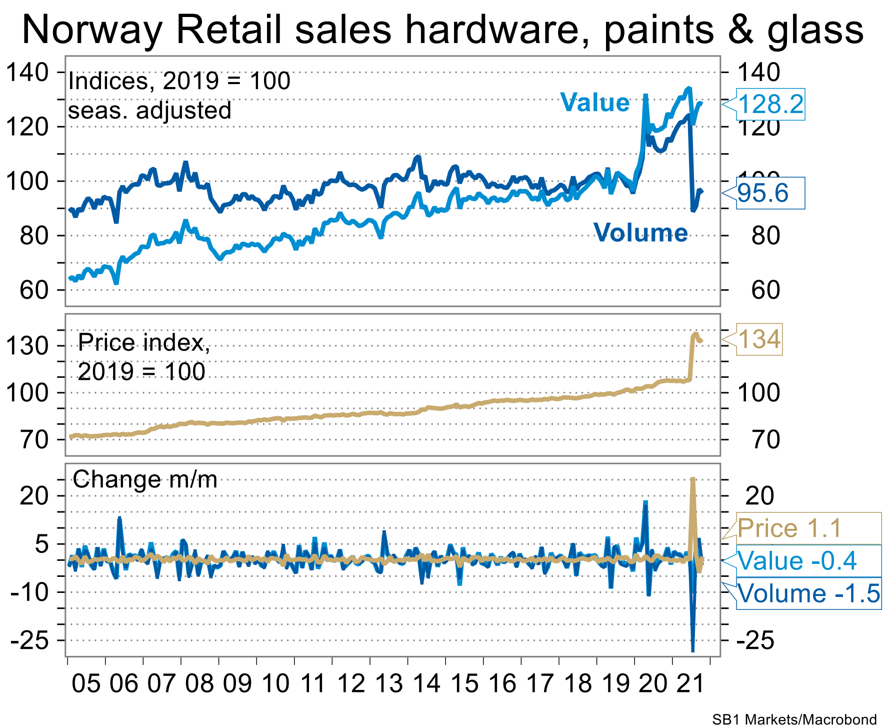




- Food store/grocery store sales were down 1.6%, as more people are eating out, in canteens at work and now are travelling more abroad, including x-border purchases in Sweden.
- Consumption of of the cords are still upp 14% vs. the pre-pandemic level – which is far above any reasonable long term trend

Sales of building materials has come down to earth, in volume terms

Sale volumes were extraordinary during the pandemic. Now prices are…

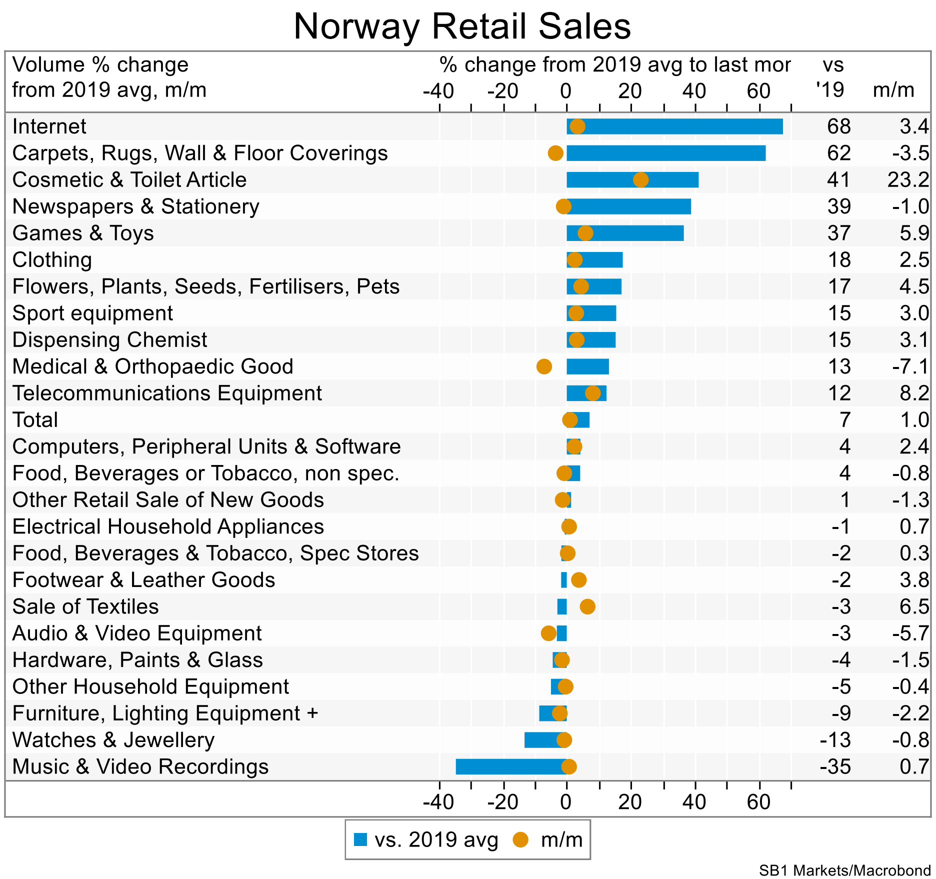


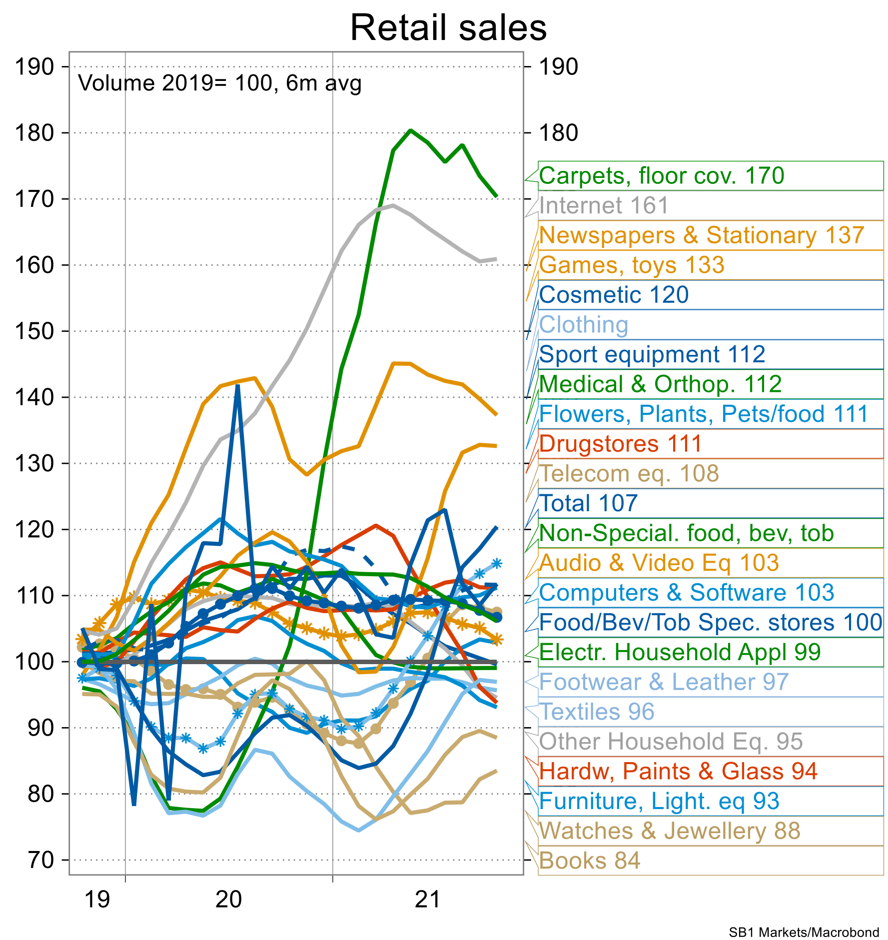
- A decline in new home sales and construction starts – may explains some of the decline
- The level has anyway been far above a normal level since the start of the pandemic, almost 20% above the pre-pandemic sale volumes!

- **Building material costs** soared 26% m/m in July – and sales volumes collapsed, from a rather high level. Construction timber (lumber) was mostly to blame. Now, prices have stabilised, at 34% above the pre pandemic level
- **US lumber** (like 2''x 4) prices have collapsed, almost back to an average level – which should contribute to a normalisation of lumber prices in Europe/Scandinavia too. Other material prices are up, but not as dramatically as timber prices
- **Households** buy just of small fraction of total retail sales of building materials, homebuilders and professionals are the main clients, and households' consumption is not much influenced by the up and down of retail sales of building materials

Since before the pandemic: Still huge sectoral differences

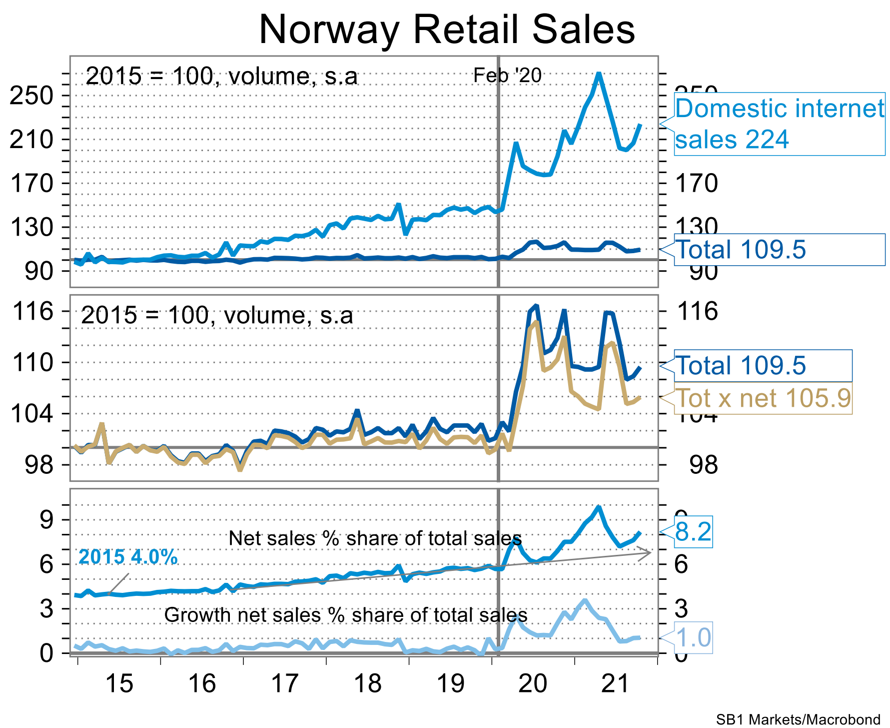
– net sales & home refurnishing at the top. The losers were mainly losers before the pandemic too

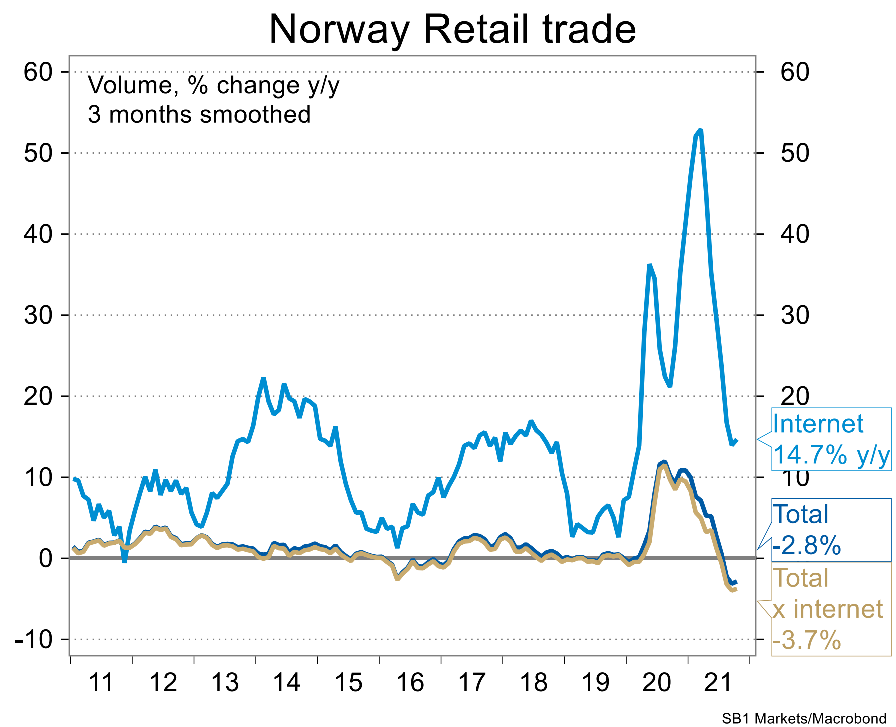




Internet sales (domestic) have dropped sharply, as shops reopened

The market share has fallen to 8% from 10% - and not far above the close to 7% pre-pandemic trend path

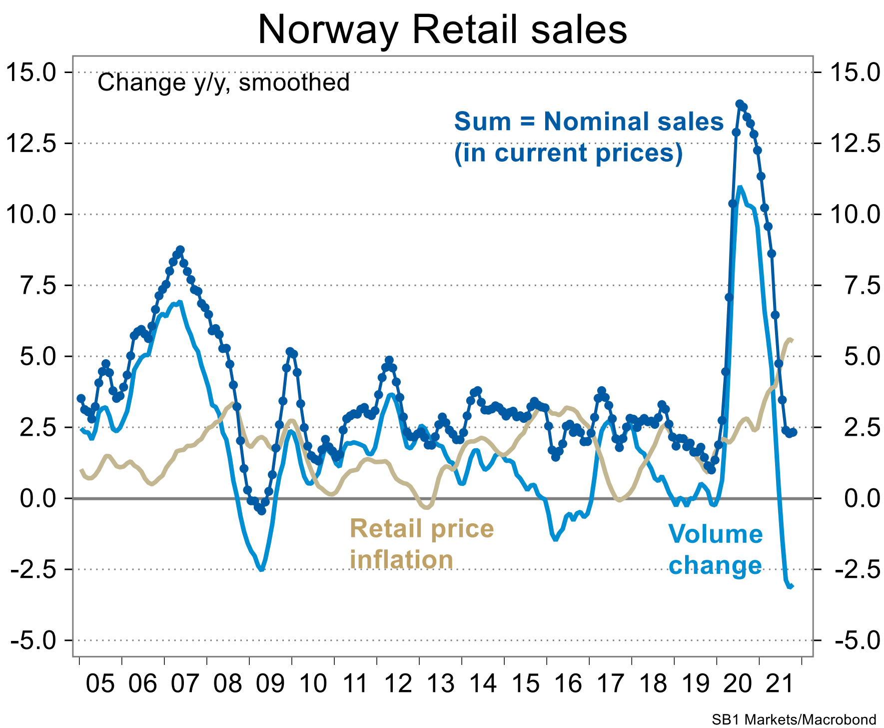


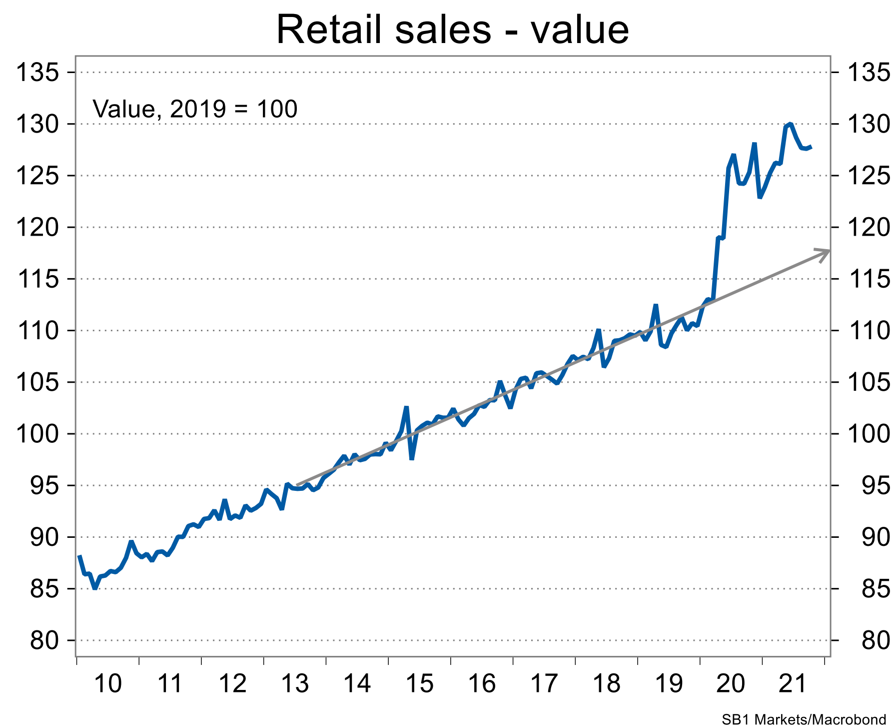


- Since 2015, domestic internet sales (not included direct import from abroad) have increased its market share to 8% from 4%, via 6% just before the pandemic, to 10% at the top in April. By now, the pre-pandemic trend would have yielded market share not far below 7%
- ICT equipment, cosmetics/drugs, clothing, food, and sports equipment are the 5 largest product categories sold from net outlets

Retail sales are down 2.9% y/y in volume terms. But prices are up 6%!!

Thus, in value terms, sales are up 2.4% y/y, mostly due to price increases in building materials, fuel



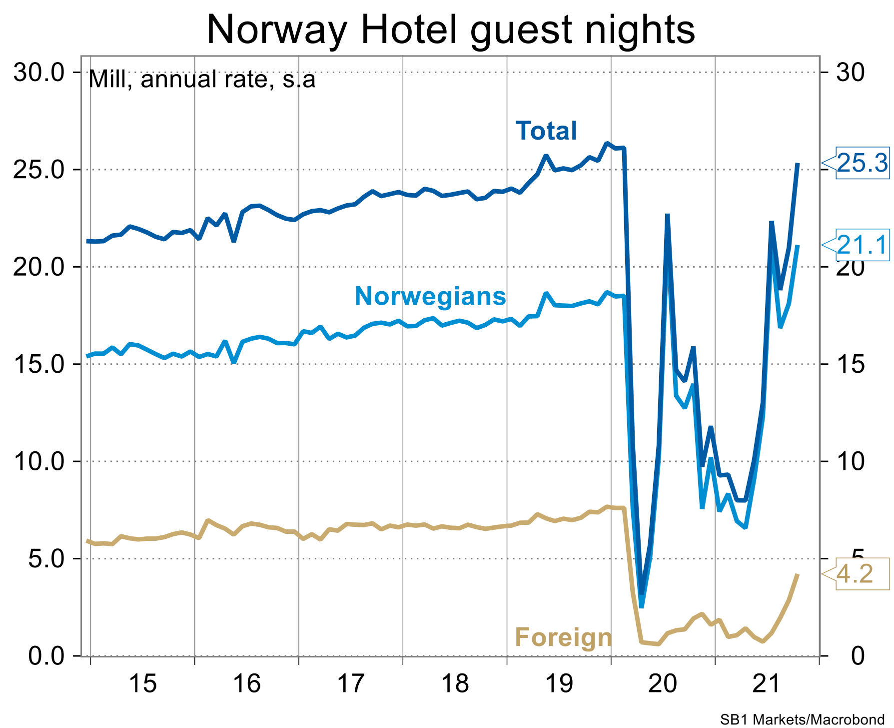


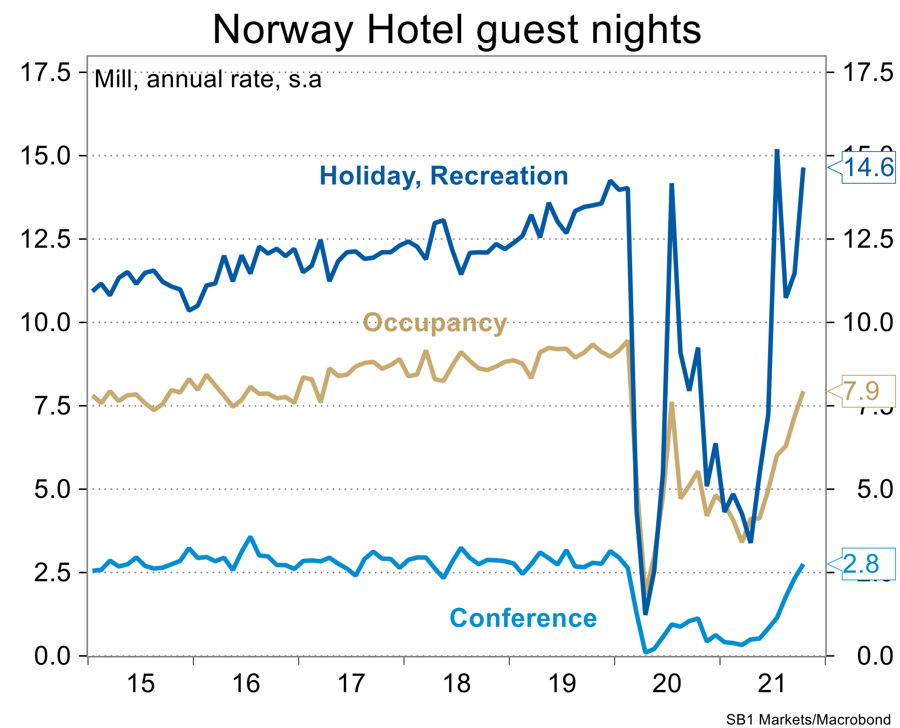
- However, sales in nominal terms are 9% above the pre-pandemic trend!

SpareBank 1 MARKETS

October among the best hotel months ever? 1% above the 2019 avg!

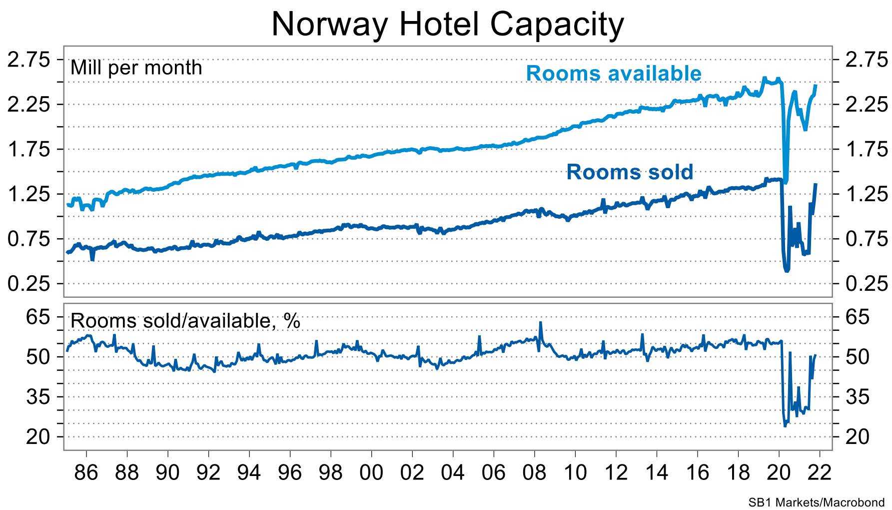
Total revenues are up 4%!

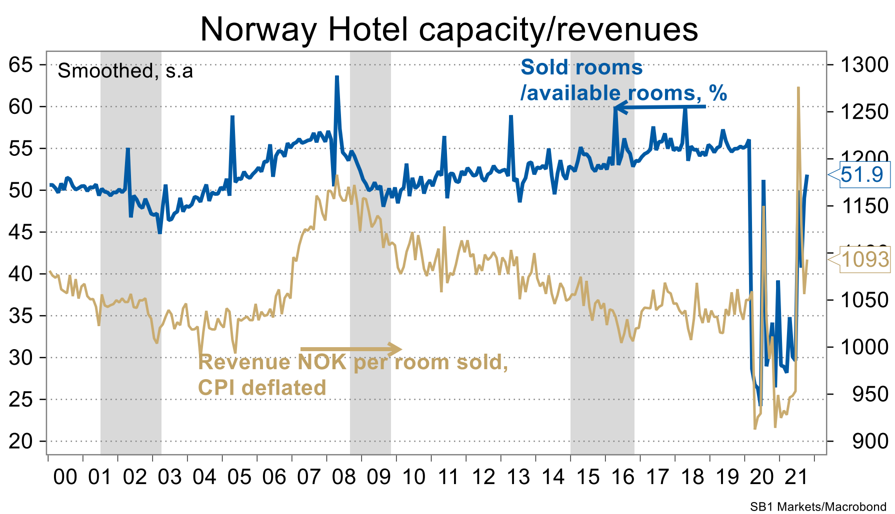


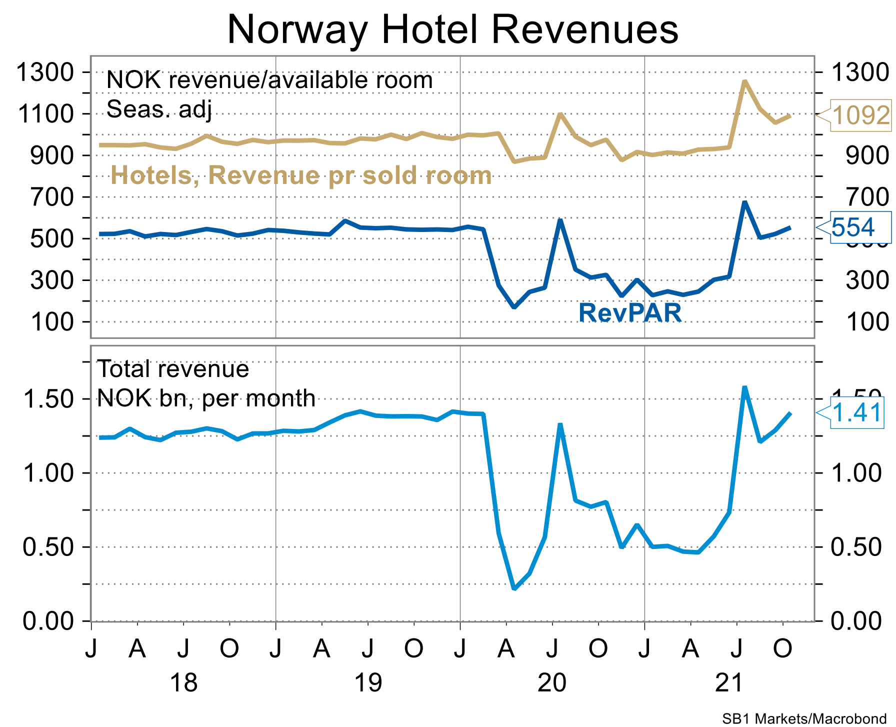


- **The no. of guest nights** was 1% ABOVE the 2019 average level in October, even if foreigners were 40% down – Norwegian guest nights were up 18%. <u>If not SSB had published these data, we would not have believed in them but a short x-check in the industry confirmed a strong October</u>
- **Business guest nights** (sum occupation & conferences) was just down 12% vs the 2019 average, with conferences alone just down 3%!
- **Recreational traffic** was up 11% vs. the 2019 average. As foreigners in total are down 40%, we estimate that <u>Norwegian recreational demand was up by more than 30%!!</u>

Room prices up 12% vs. the pre-pandemic level, total revenues are up 4%!







- **Capacity utilisation** (room sold vs. rooms available) was 51.9% in October, down 5% vs. the 2019 average level
- **Revenue per sold room** was extremely high in July, 30% higher than normal. Prices have since fallen, but are still up 12% vs. the 2019 level
- **RevPAR** (revenue pre available room) is up 2% vs the 2019 level
- **Total revenues** are up 4% vs. the 2019 average

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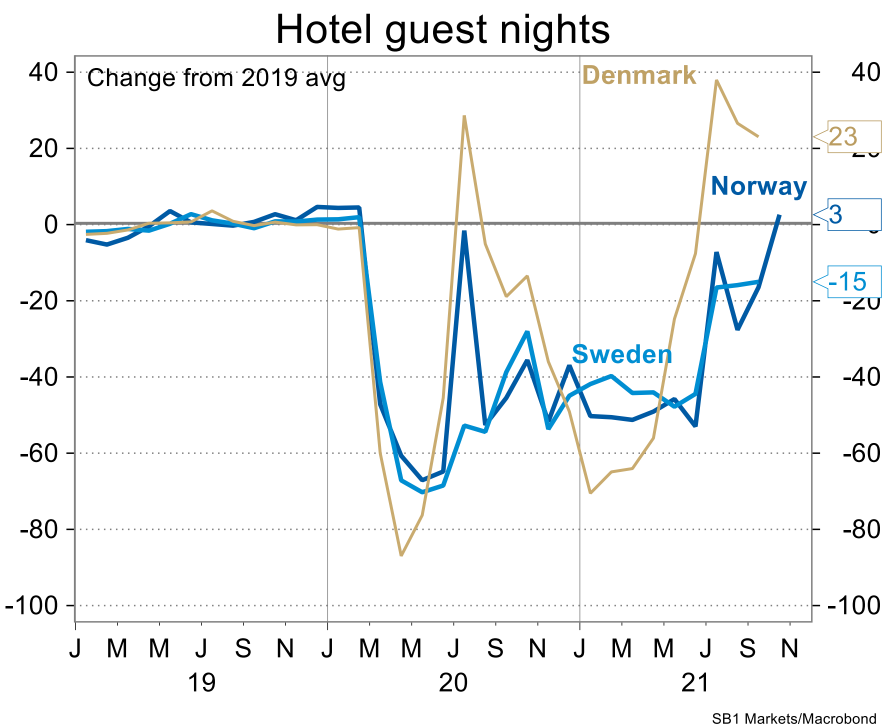
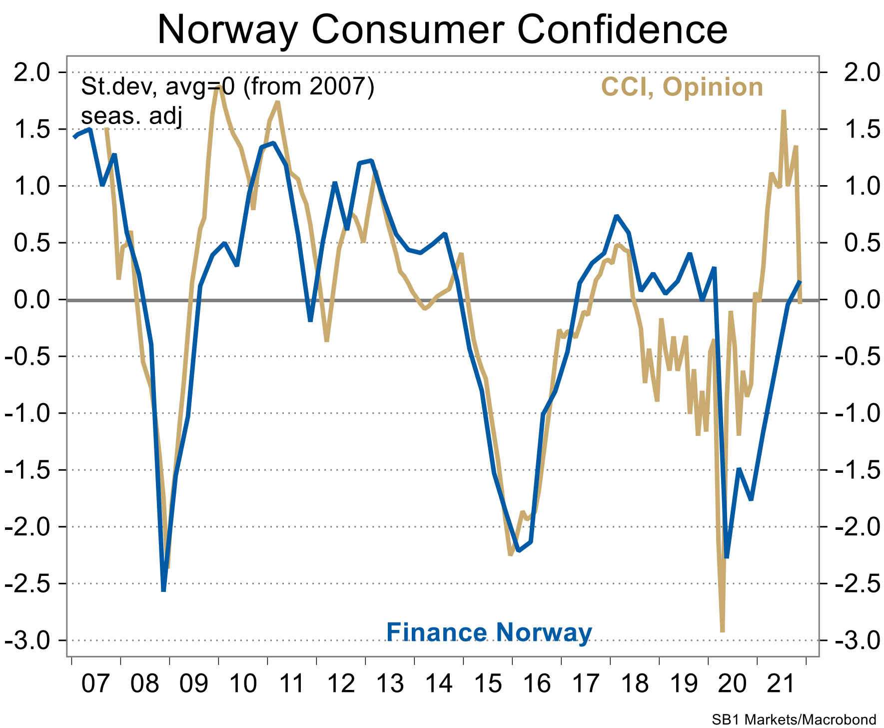
The same story in Sweden but Denmark is still ahead

Hotel nights in Norway and Sweden have been very closely correlated during the pandemic



Consumer confidence took a hit in November, down 1.3 st.dev to an average levl.

Opinion's CCI hit an air pocket in November – the 2nd largest decline ever (just March-20 worse)



- Since May, this index has reported a strong sentiment among households, at 1 – 1.5 st.dev above average, very likely due to the retreat of the virus and reopening of the society. In November, the mood changed dramatically
  - » Strange if it was caused by 'fear' of higher interest rates
  - » Virus worries may have increased over the past weeks. This survey was conducted ahead of news on the South African mutant last Thursday/Friday, and we are surprised that Norwegian Households suddenly should get that scared
- Old data: Finans Norge's confidence quarterly survey rose to slightly above an average level in Q4. This survey has been far weaker (some 1 st.dev) than the CCI survey the last year. Now they agree, although possibly without the same external drivers present when the these surveys were conducted
  - » Given retail sales & the housing market Finans Norge's survey seems too weak

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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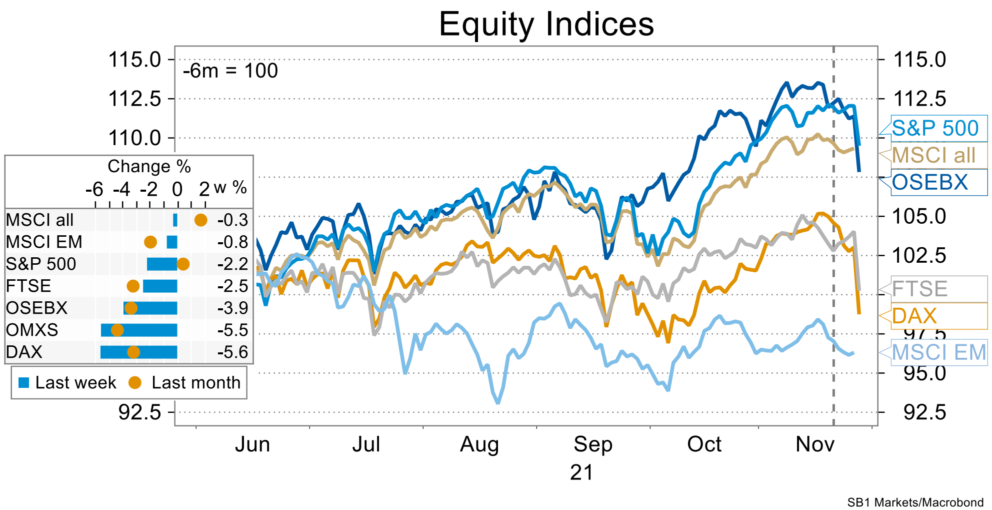
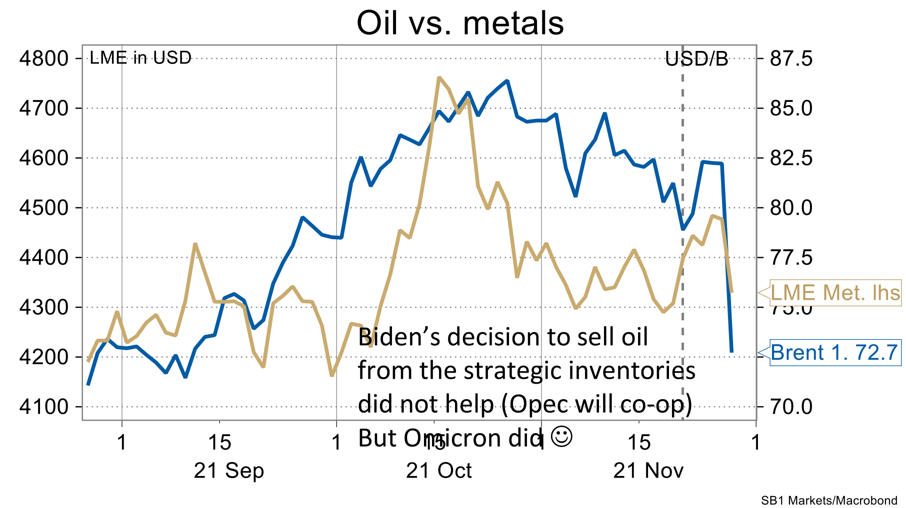
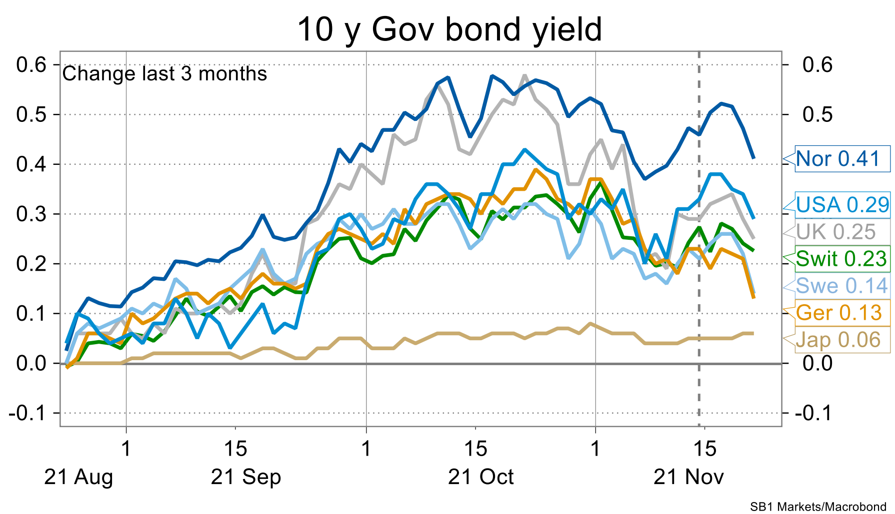
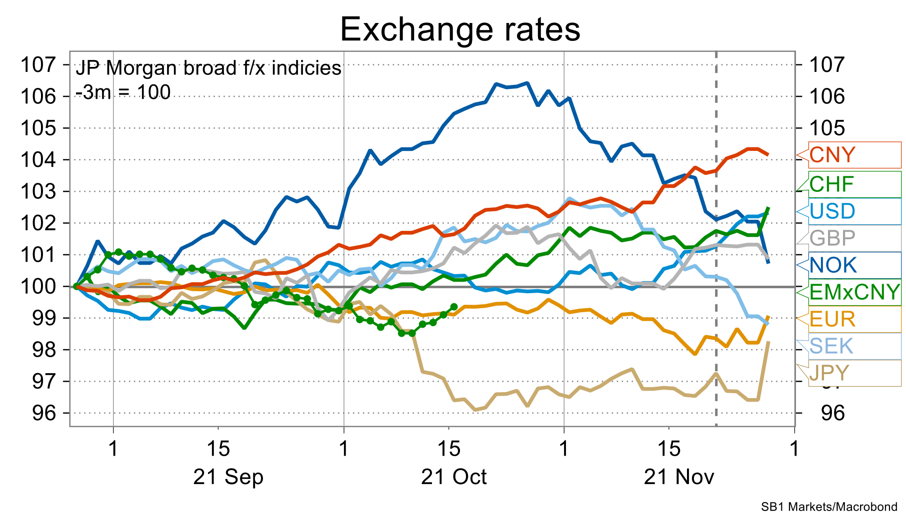
A bad virus surprise but rather muted market reactions, except for oil

The Omicron may hurt demand for oil, of course. However no big drama elsewhere, probably a fair assess.





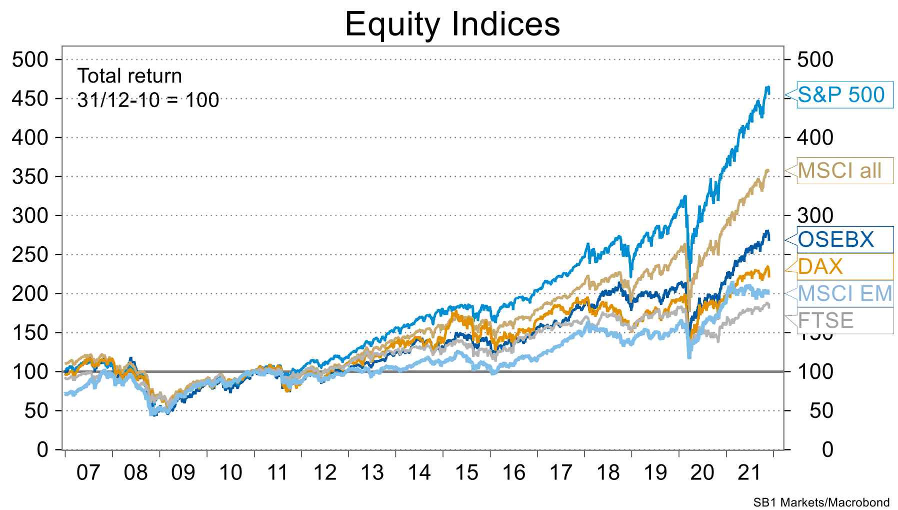


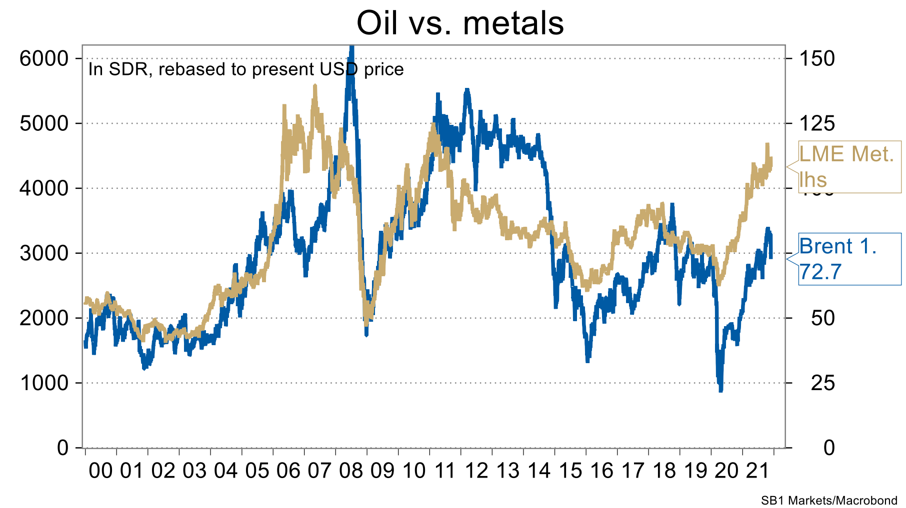


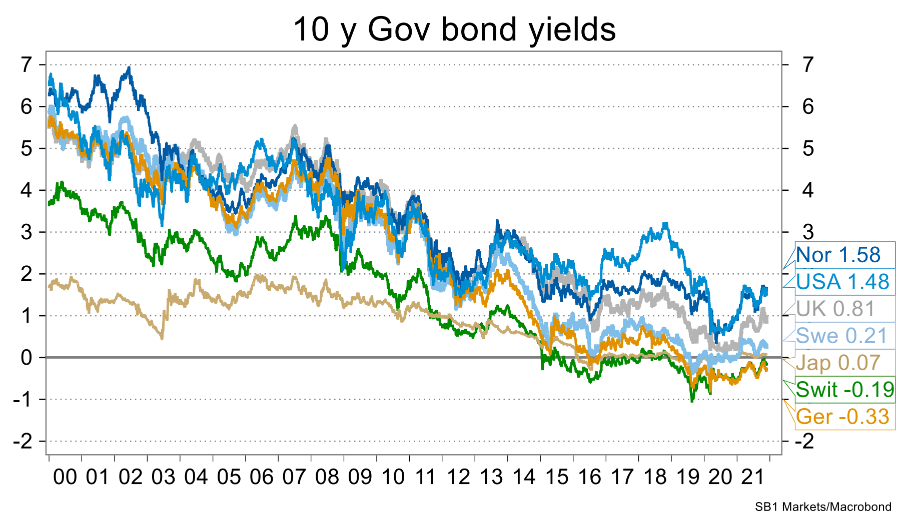
Stock market futures, bond yields have reversed some 1/3 for the Friday losses in early Monday trading

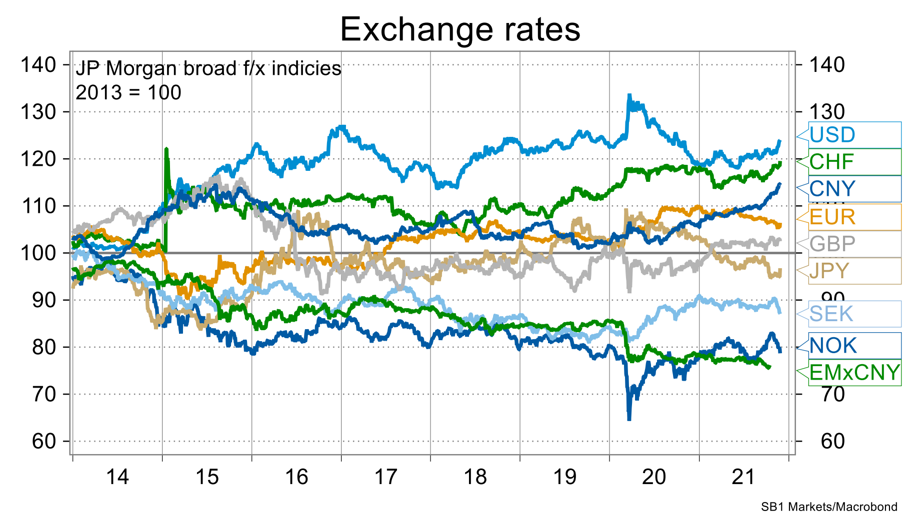
The big picture: Omicron may change everything but most likely not

Equity markets, commodities are still on the move upwards. The CNY the strongest currency



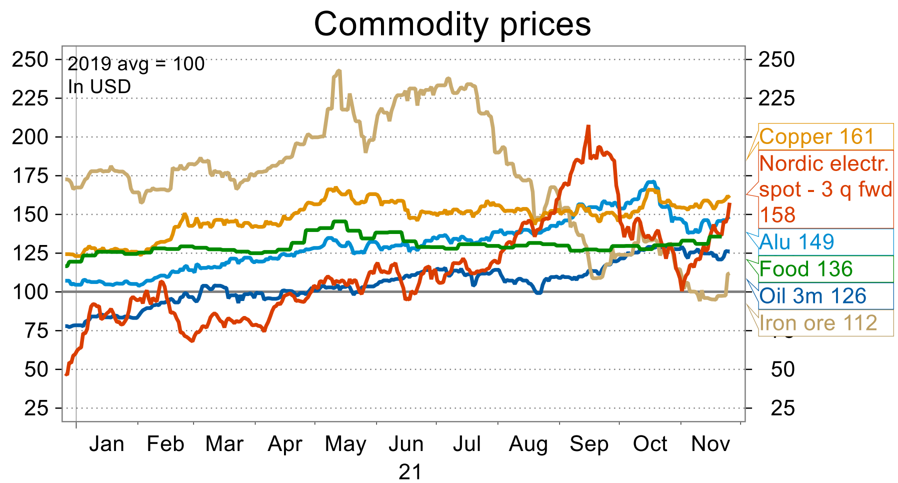


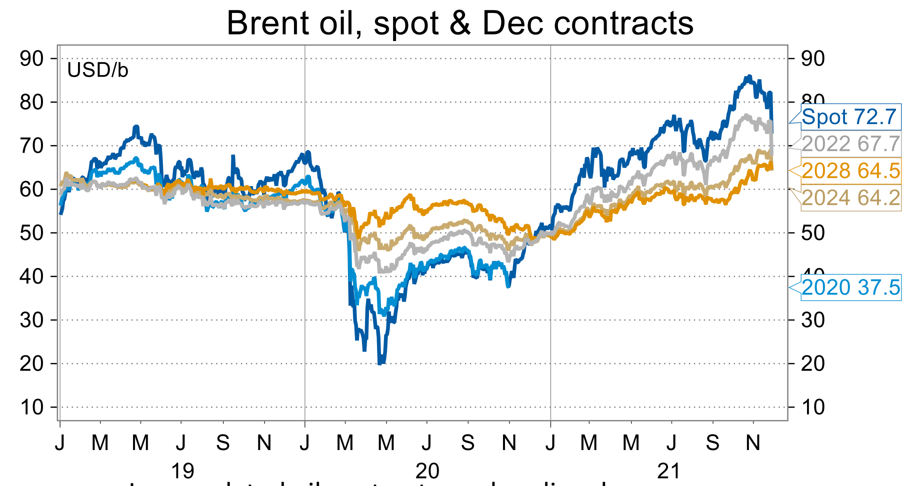


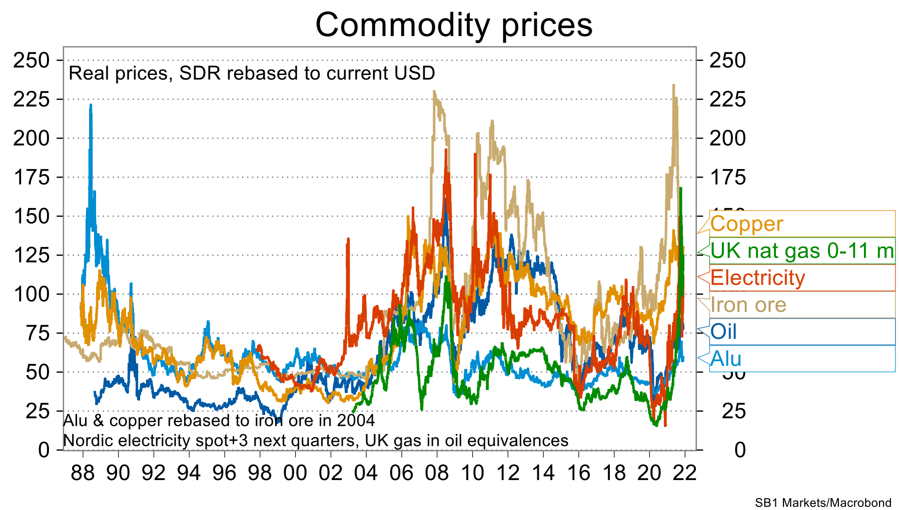


Just the short end of the oil curve down last week

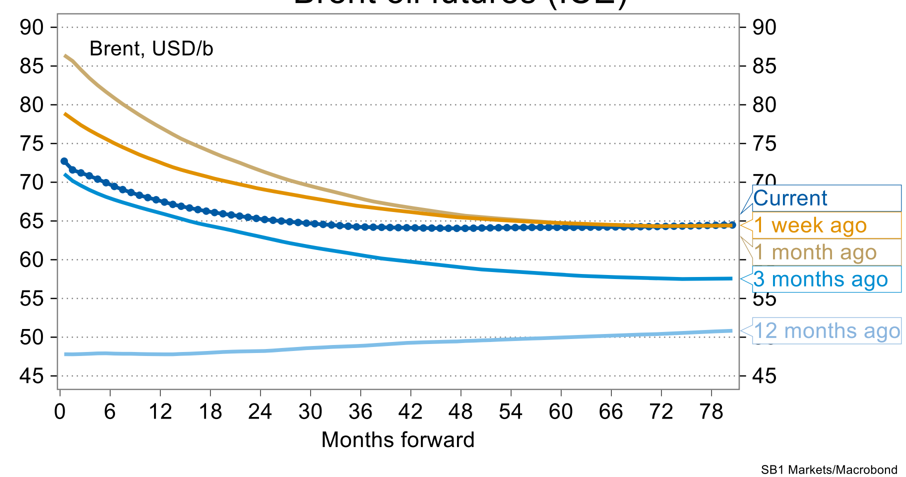
Iron ore prices sharply up, and other metal prices rose slightly. So the Omicron angst was partial





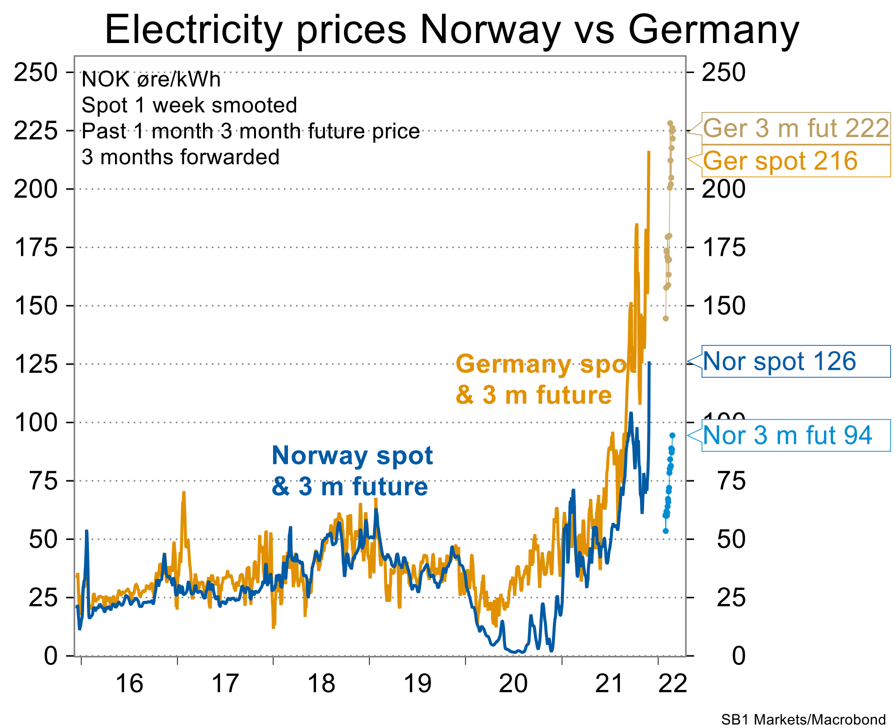


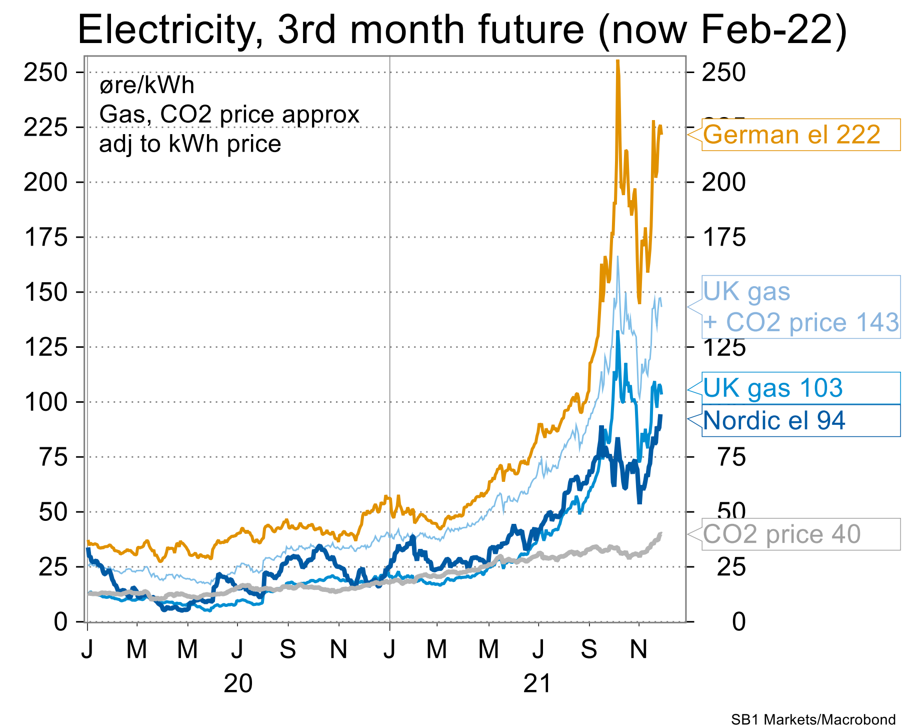
Longer dated oil contracts are heading down
The short end of the curve sharply up recent weeks



European electricity prices up last week – to new ATHs

… and the winter is coming!





- German electricity future prices are still very high vs. Nordic prices
- Today, prices are record high

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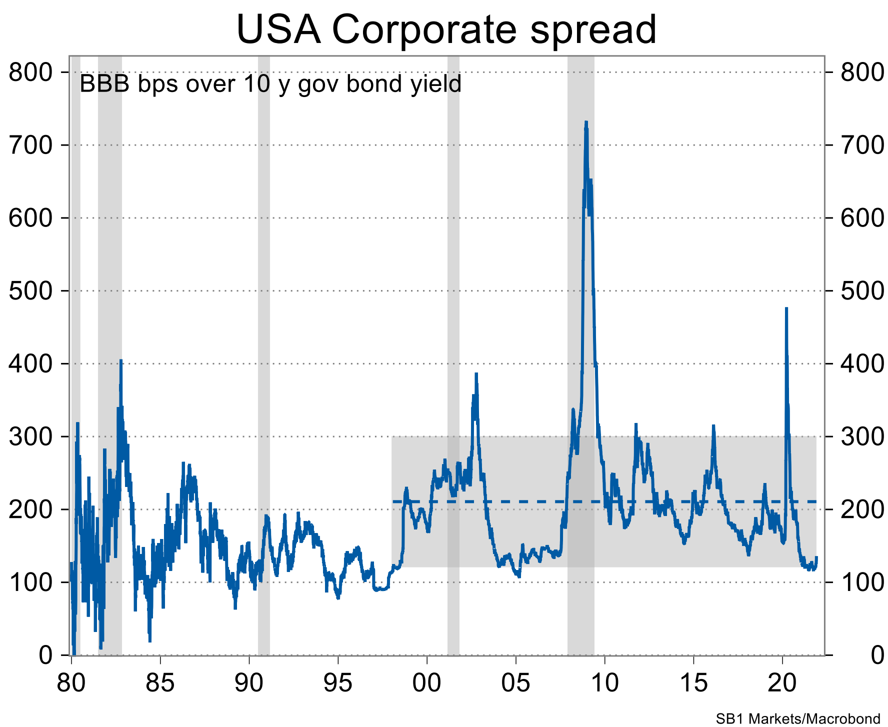
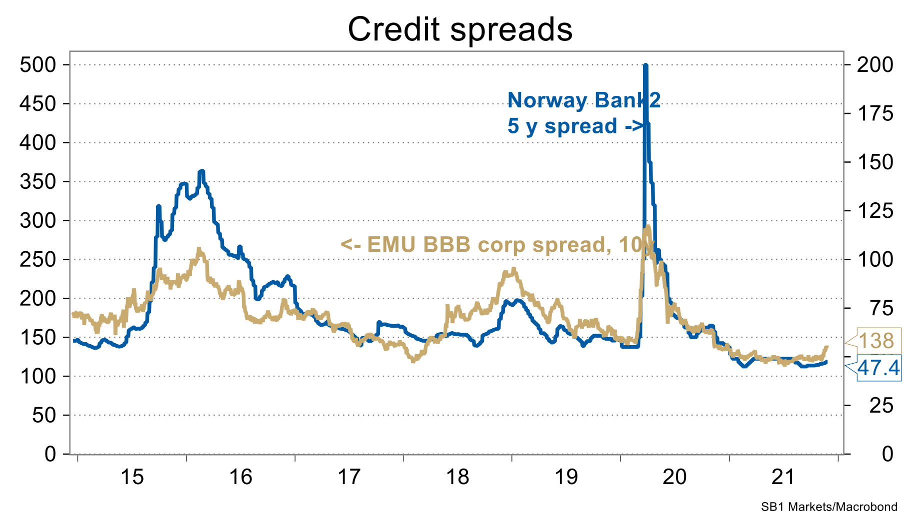
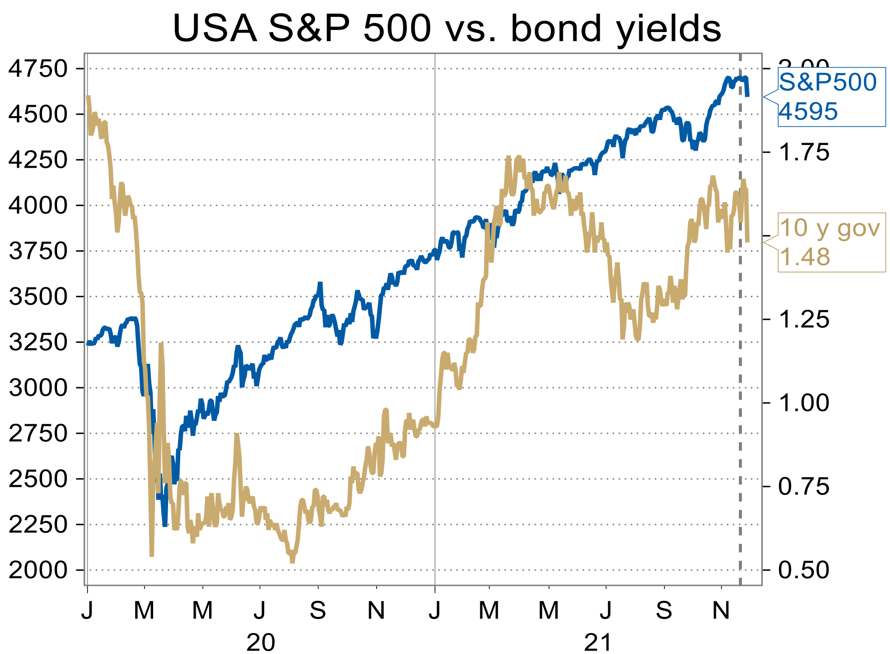
Credit spreads widened at Friday – but the trend was up well before that

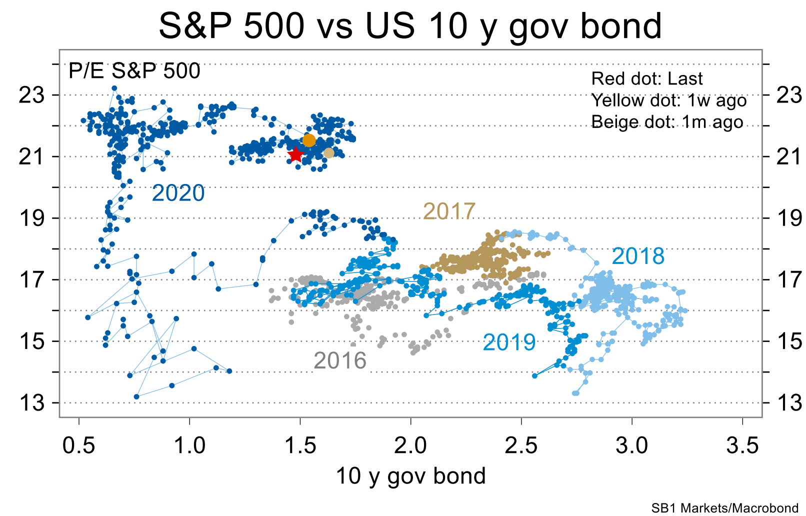


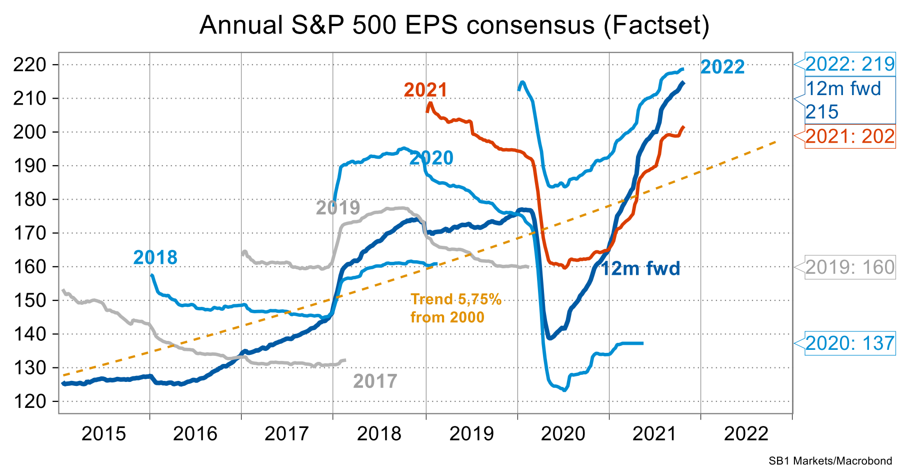


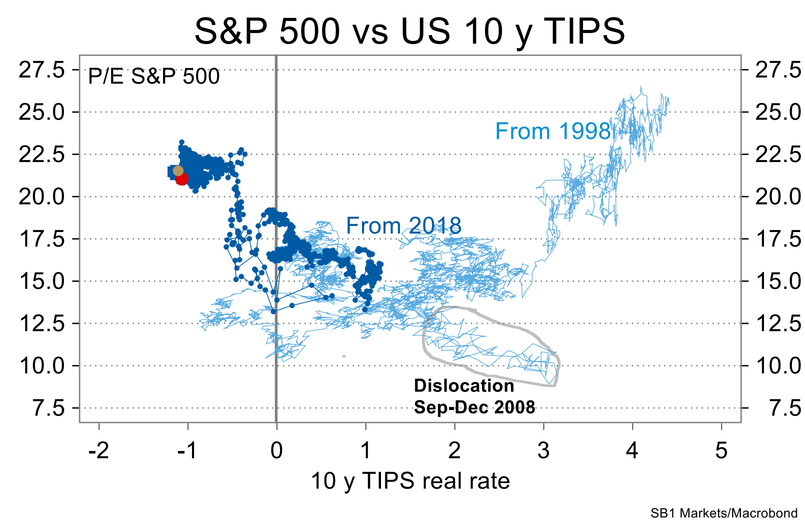
S&P 500 down 2.7%, the 10 y bond yield -16 bps at Friday, a moderate sell-off

.. given the risk for a more aggressive virus variant



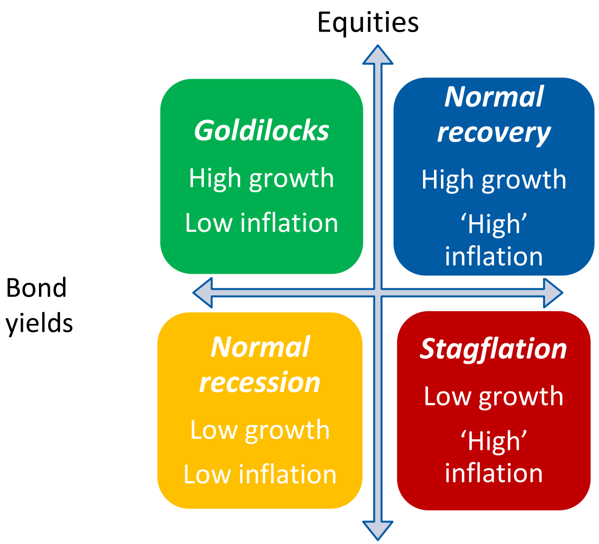


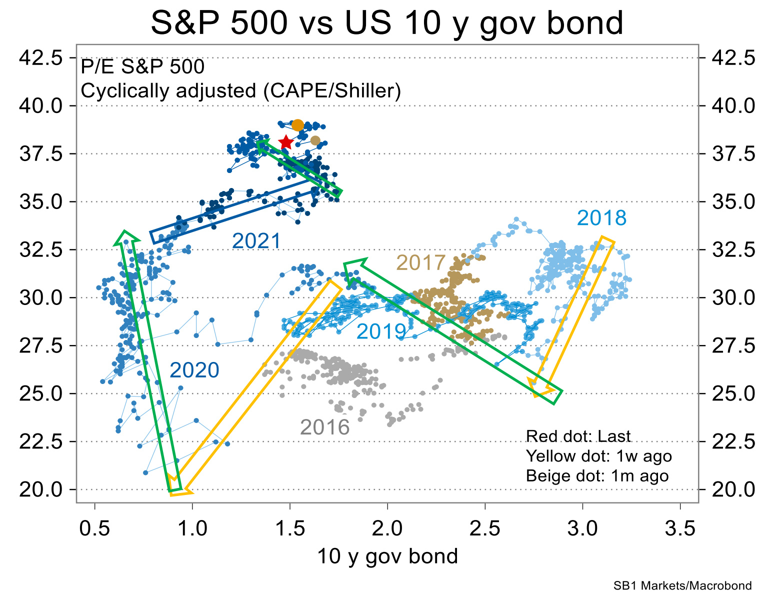




Further into the 'Goldilocks corner'!

Wage/price inflation dynamics will in the end decide. And not the Fed…



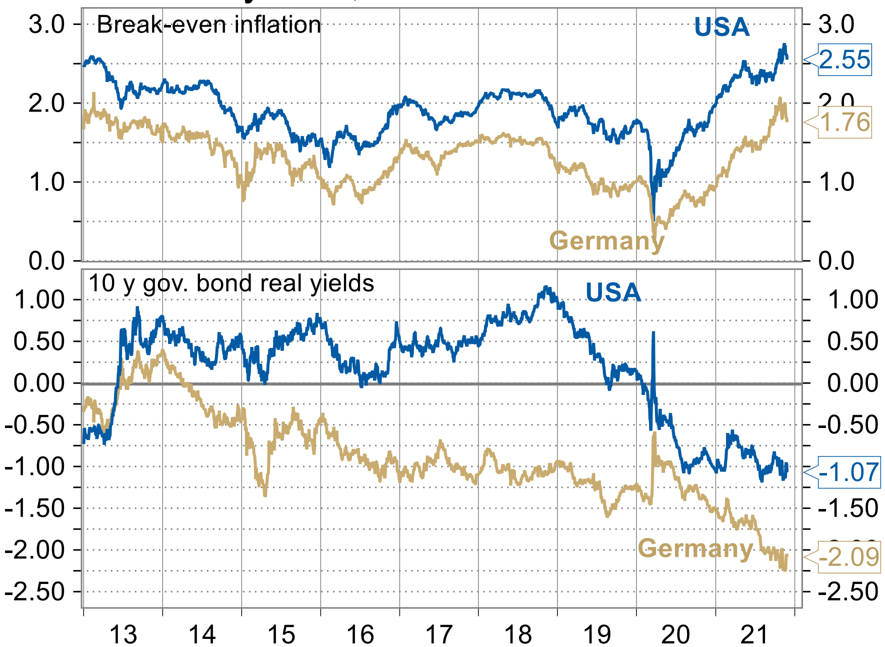


- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield level 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 normalise, 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. No construction crisis in China
  - » If the labour supply in the US does not yield, wage inflation will very likely accelerate
    - If companies are able to increase their selling prices, 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)
    - If companies are not able to increase their selling prices, 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

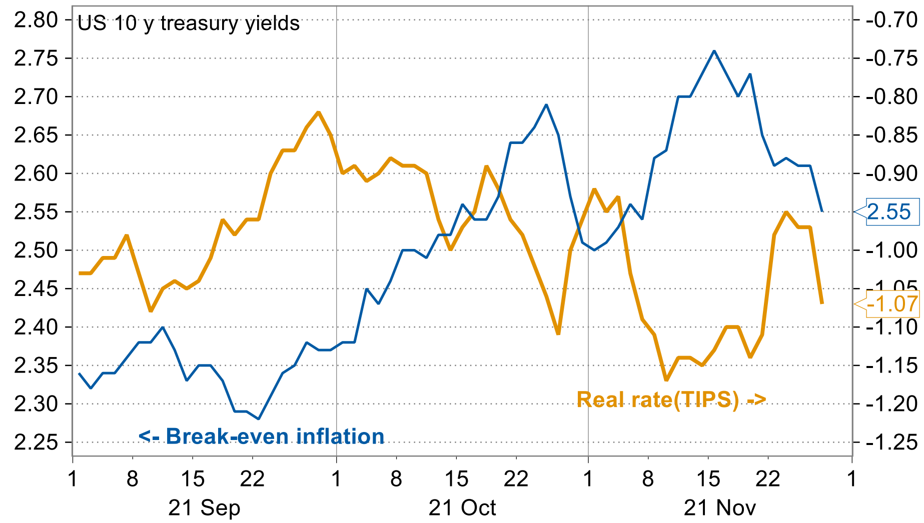
Expected inflation down 6 bps, 10 y real rate down 10 bps at Friday

Still, TIPS rate <u>up</u> 4 bps through last week (and break-even inflation down 10 bps)

Real yields, break-even inflation



SB1 Markets/Macrobond



US & Germany 10 y Gov bond yield

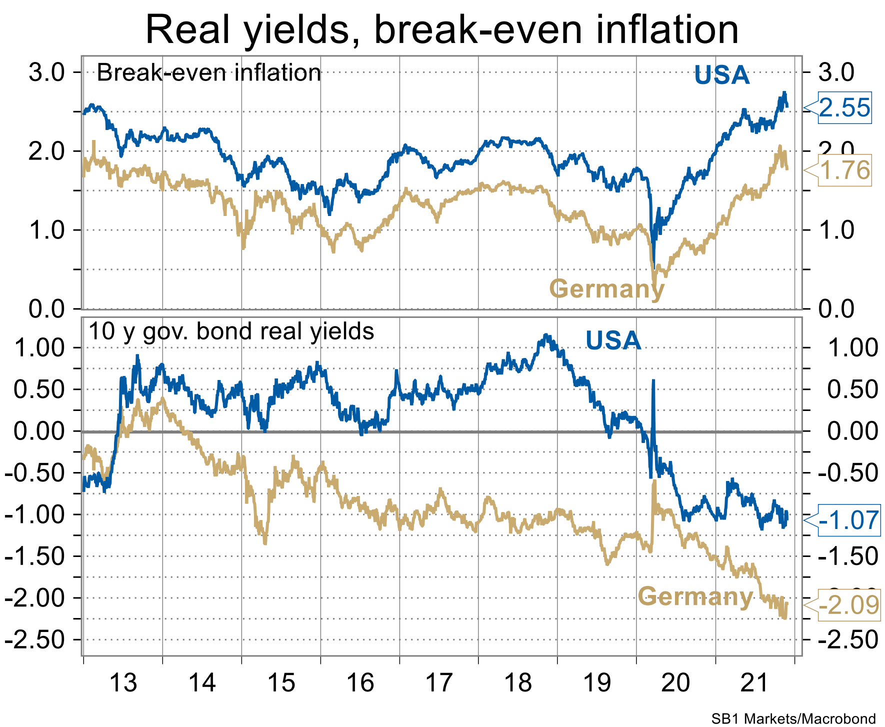
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.48	-0.06	-0.15	0.52
.. break-even inflation	2.55	-0.10	-0.14	1.06
.. TIPS real rate	-1.07	0.04	-0.01	-1.19
Germany nominal bund	-0.33	0.00	-0.19	-0.65
.. break-even inflation	1.76	-0.16	-0.31	0.40
.. real rate	-2.09	0.16	0.12	-2.26

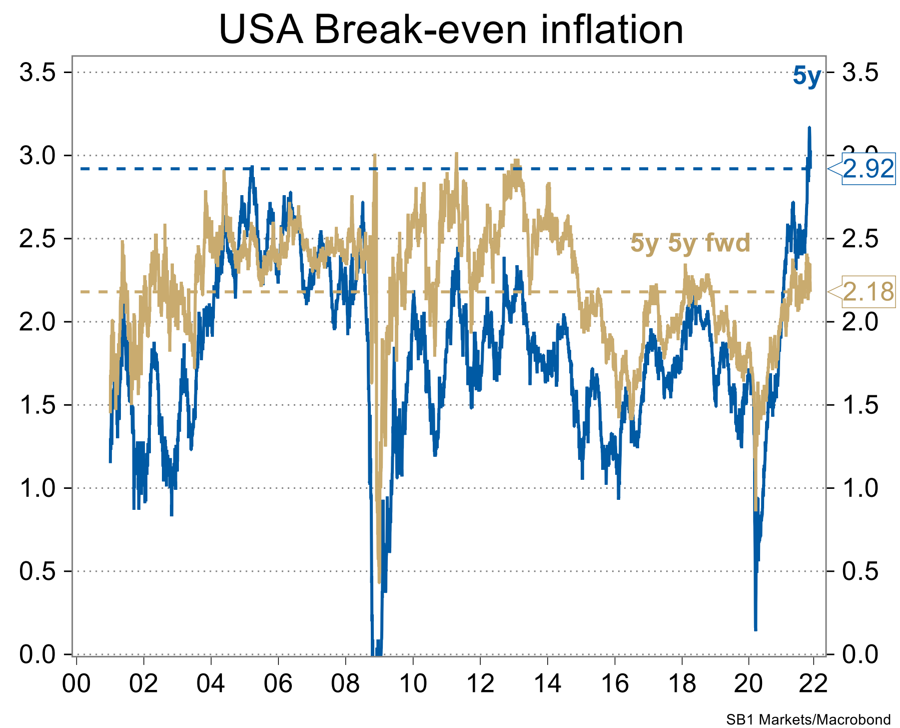
SB1 Markets/Macrobond

- The nominal US 10 y bond yield fell by 16 bps Friday, on the Omicron news – and were down 4 bps during the week. The Friday re-pricing was not aggressive, given the new virus risk
- **German real rates** rose sharply last week, by 16 bps as the break-even inflation rate fell by the same amount: The 10 y Bund was unch at -0.33%!

Break-even inflation expectations down, real interest rates up in the US

In Germany, both inflation expectations and real rates fell – real rates are 1 bps above ATL at -2.25%





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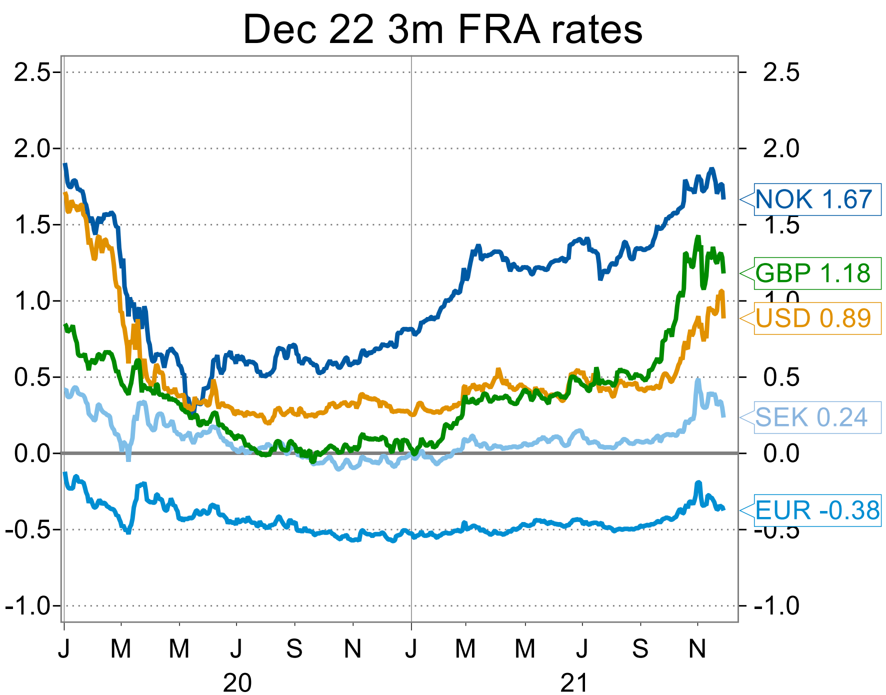
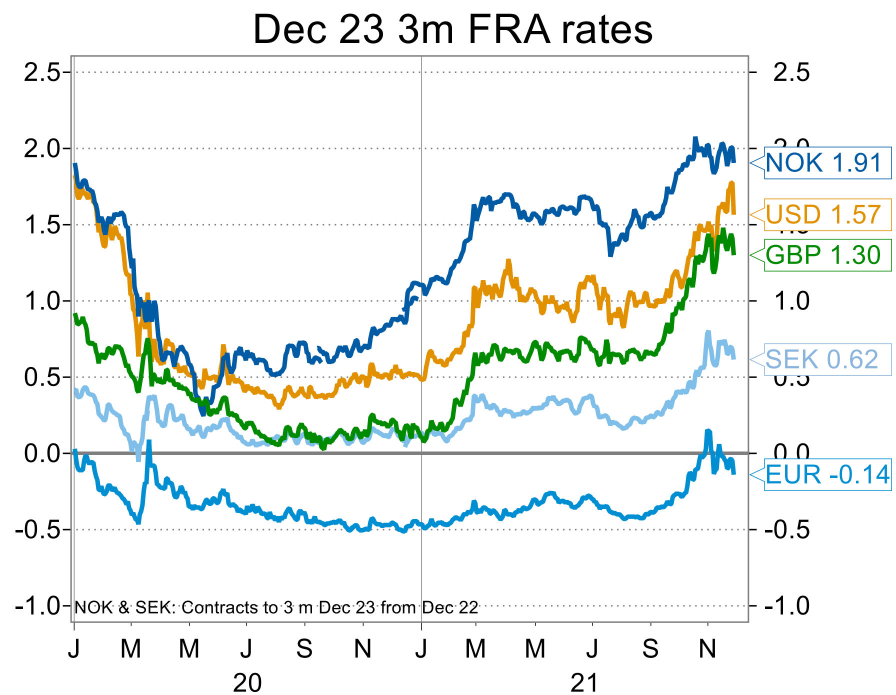
.. break-even inflation	1.76	-0.16	-0.31	0.40
.. real rate	-2.09	0.16	0.12	-2.26

SB1 Markets/Macrobond

- The **US 10 y break-even** (inflation expectation component) declined 8 bps following the 10 bps hike the previous week. Real rates rose 4 bps to -1.11%
- In **Germany**, 10 y the break-even rose 8 bps to 1.92%, rather high in an German context. Real yields ended the week down 10 bps to -2.18% after reaching ATH at Tuesday at -2.25%!

FRAs: Expectations down at Friday – and last week. But not that much

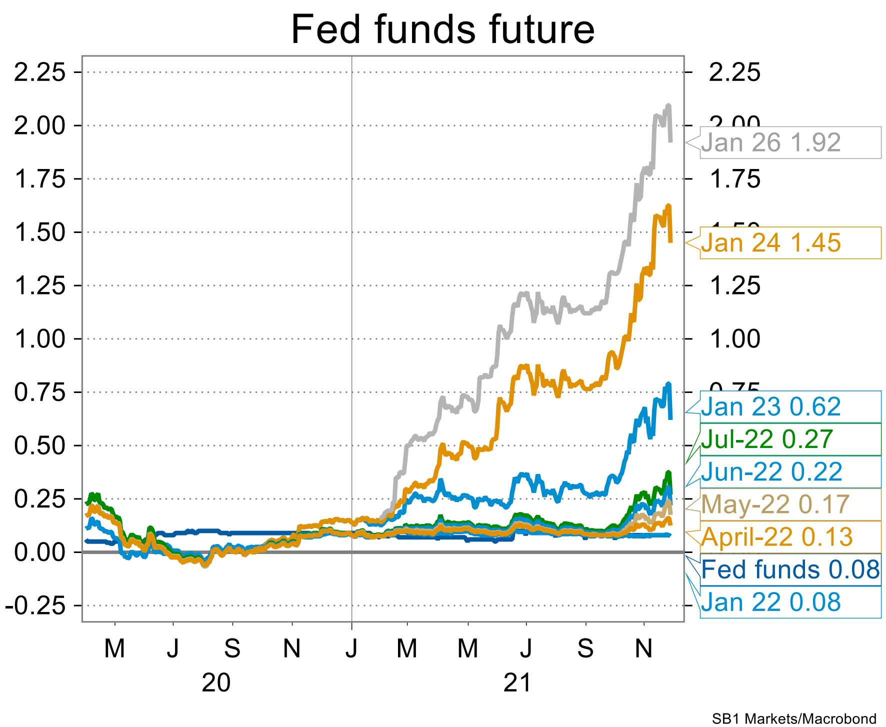


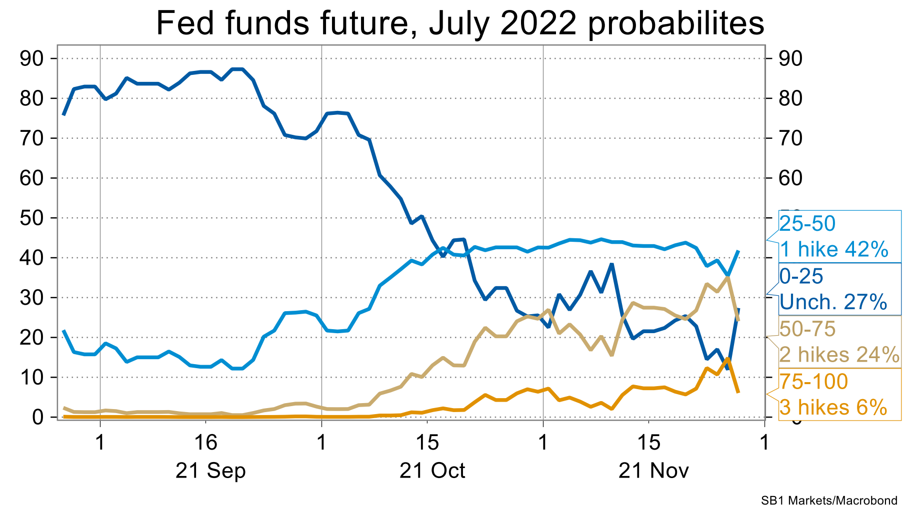


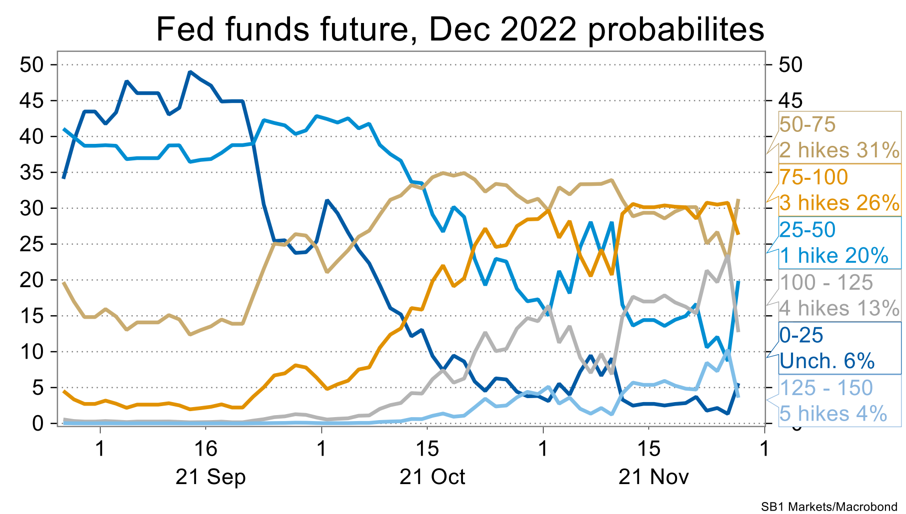
- **UK:** 4 - 5 hikes are before end of 2022 are still on the table
- **USA:** The Fed is expected to start hiking between May and July next year, and 2 – 3 more hikes before next Christmas
- **Sweden:** The Riksbank did not lower SEK rate hike expectations (but they fell at Friday, for good reasons)

Black Friday reversal: Rate expectations fell significantly

… <u>to where they were just some few days ago</u>



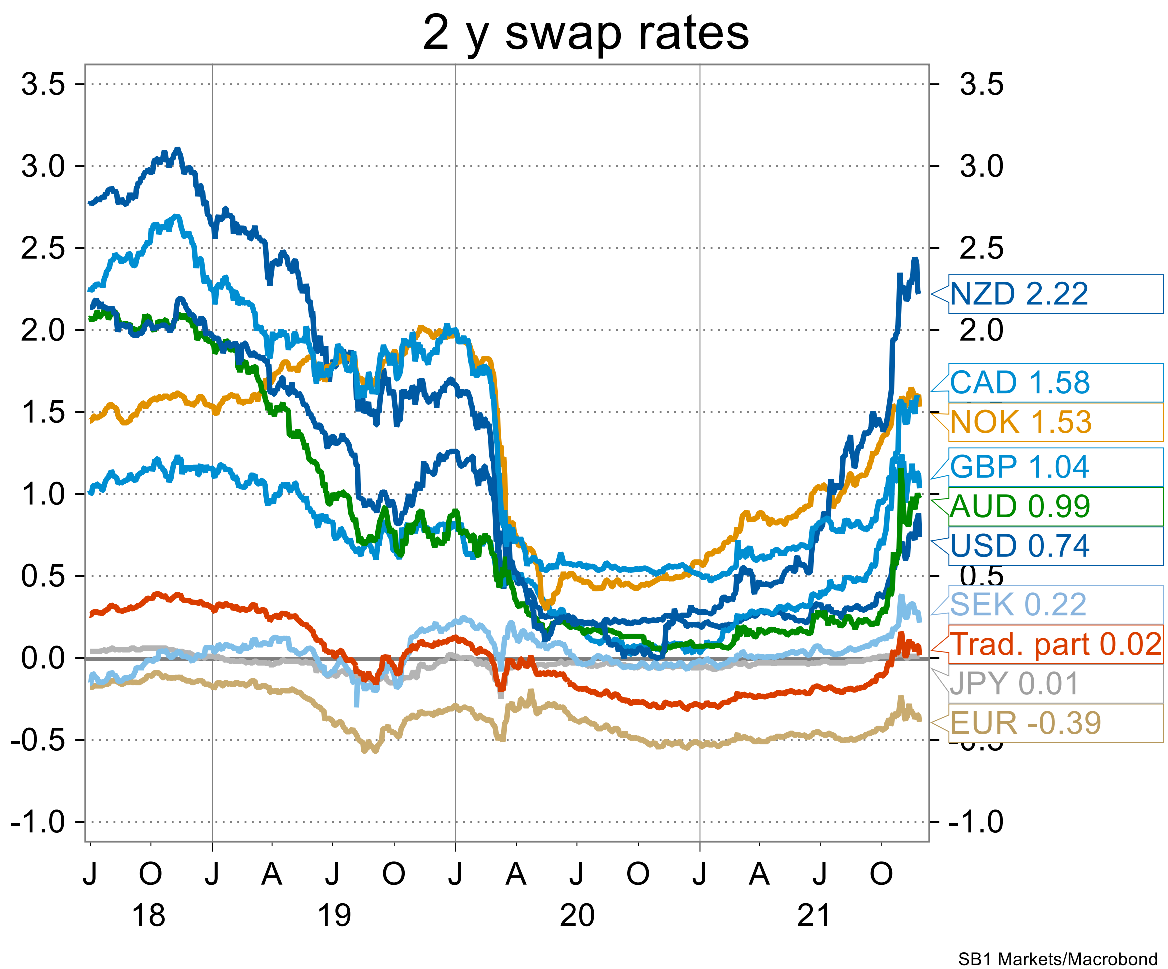


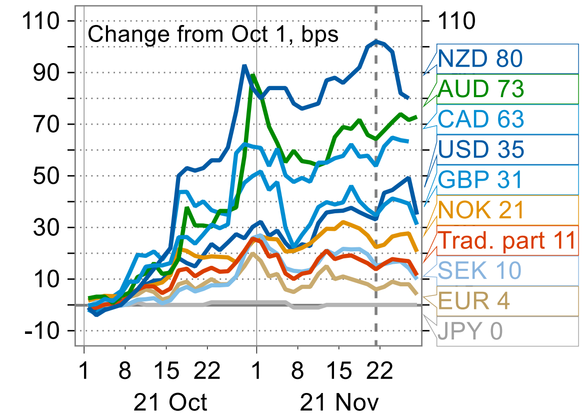


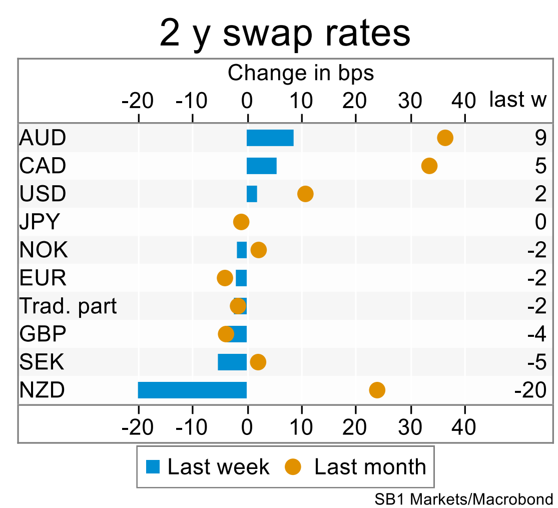
- **The market** still expects the Fed to start hiking before or during the summer
  - **A rate hike** before end of 2022 is 94% likely

Rates down by 4 bps (EUR) to 14 bps (USD) at Friday, on the Omicron news

Far from a panic response – probably for good reasons. (NZD, AUD closed before the virus got attent.)

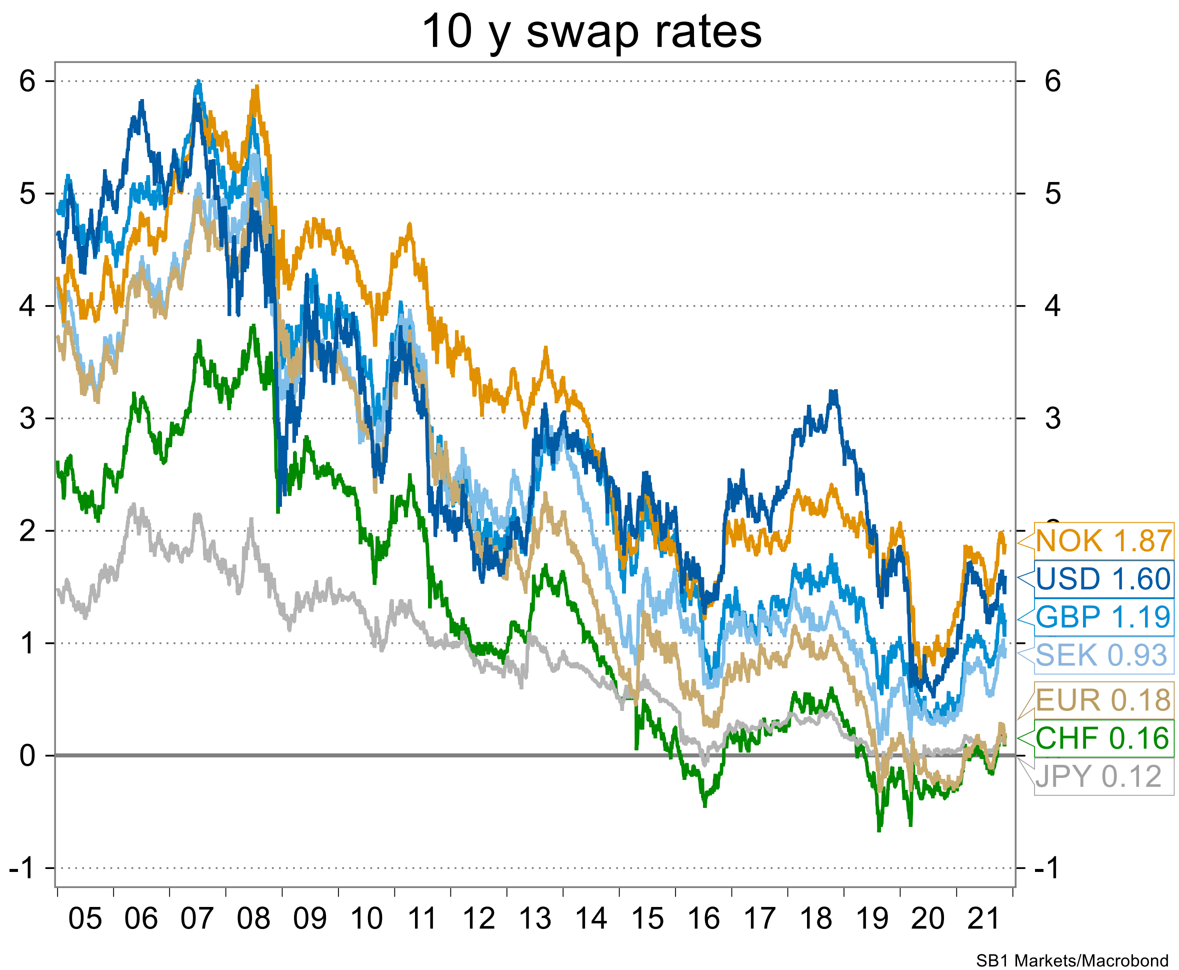


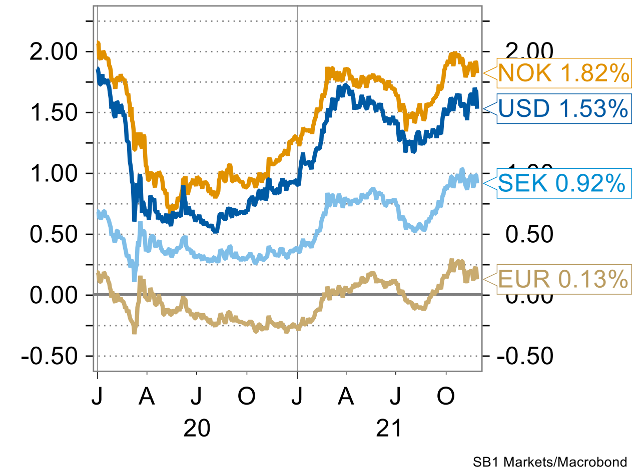


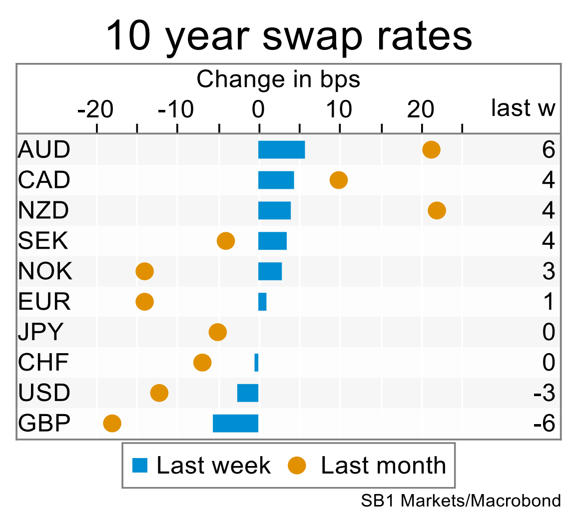


10 y swap rates fell 7 bps (SEK) to 14 bps at Friday, on the Omicron news

A rather muted response

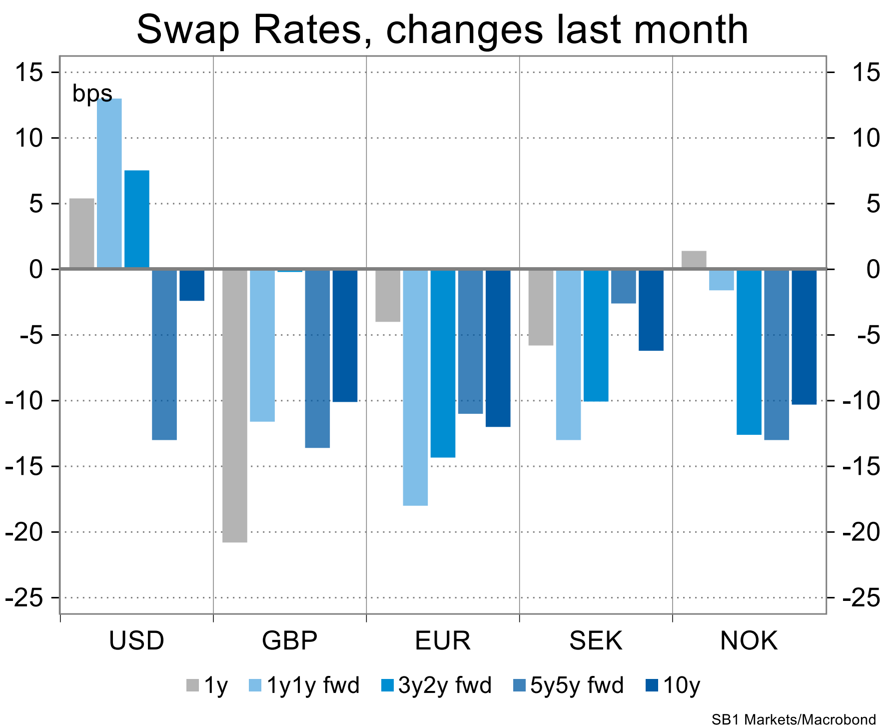


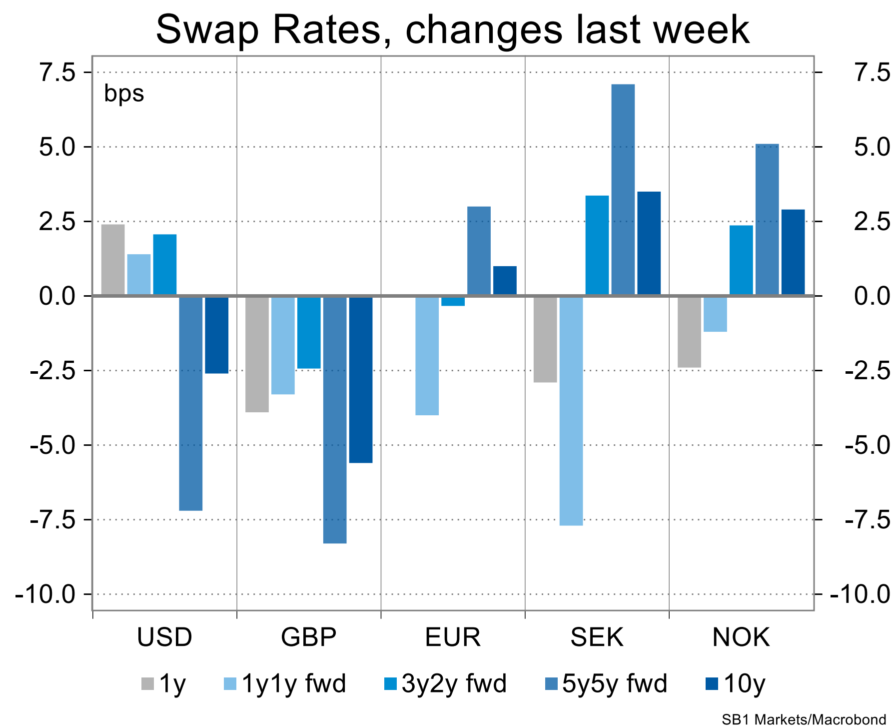




Mixed changes last week, both at the short and long end of the curves

Yields fell everywhere at Friday (the Omicron day) but rose many places before that





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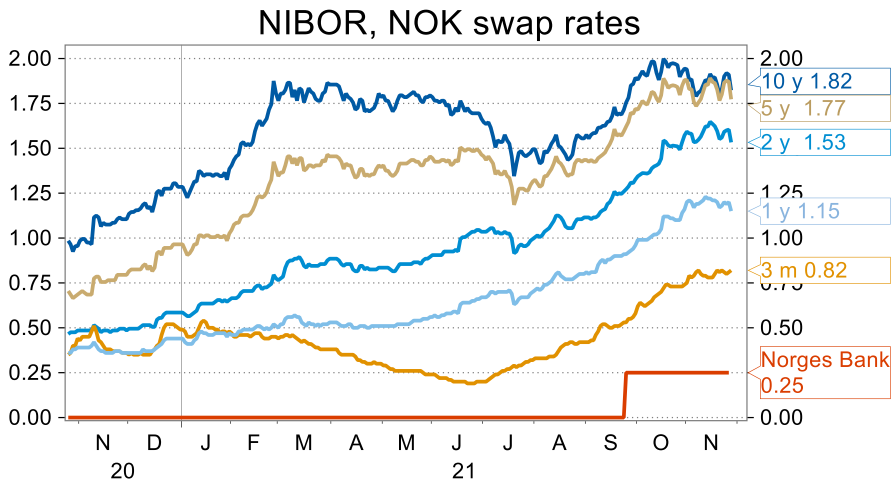
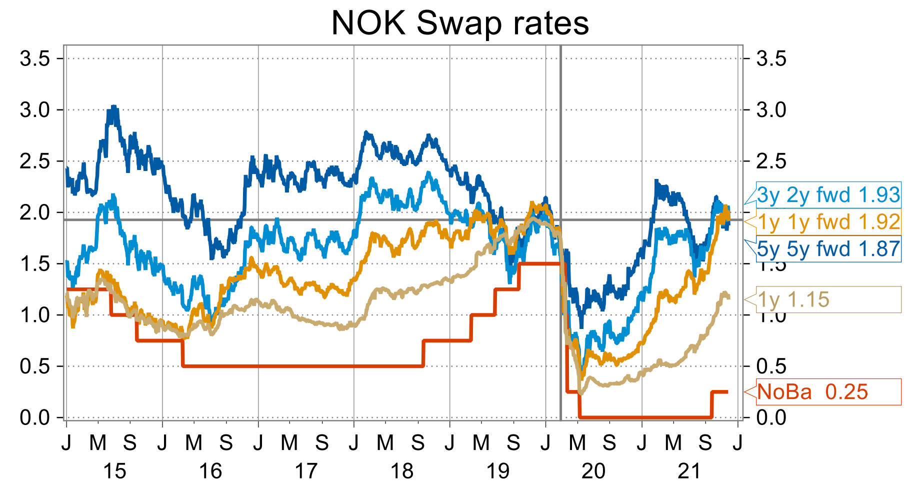
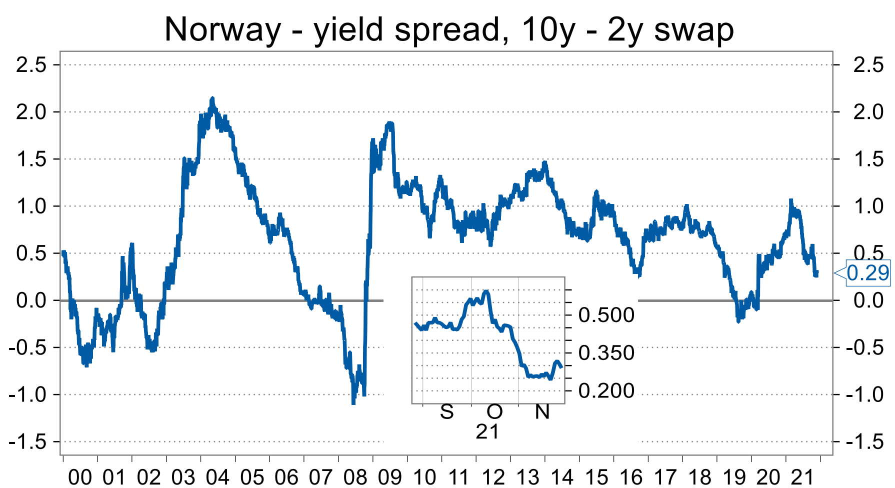
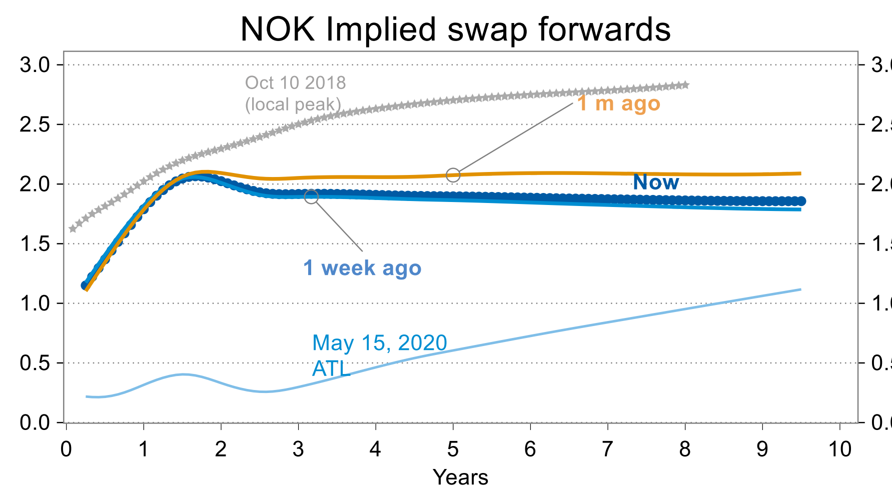
The long end of the curve slightly down

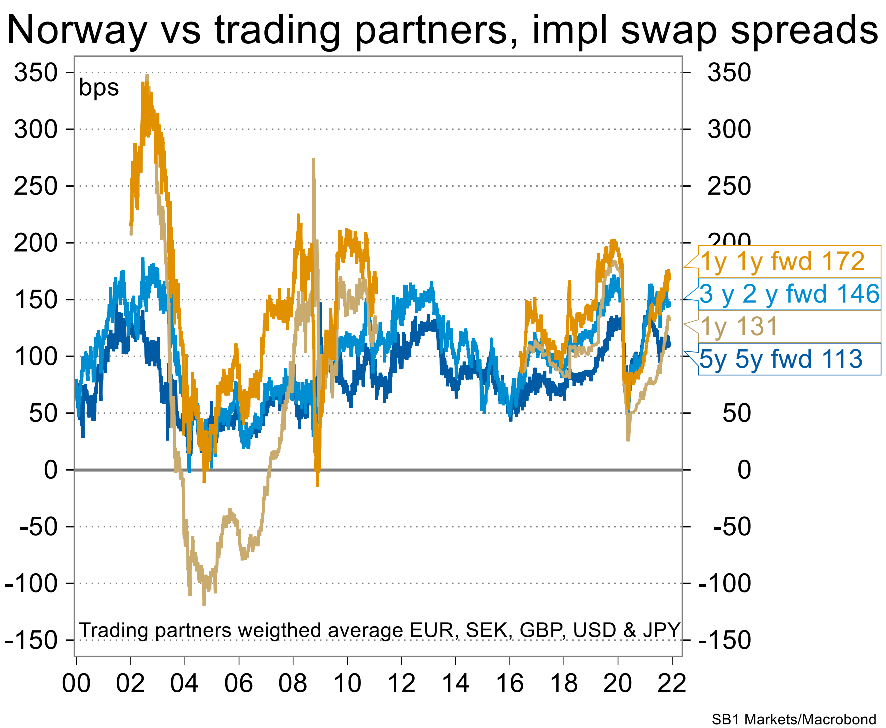


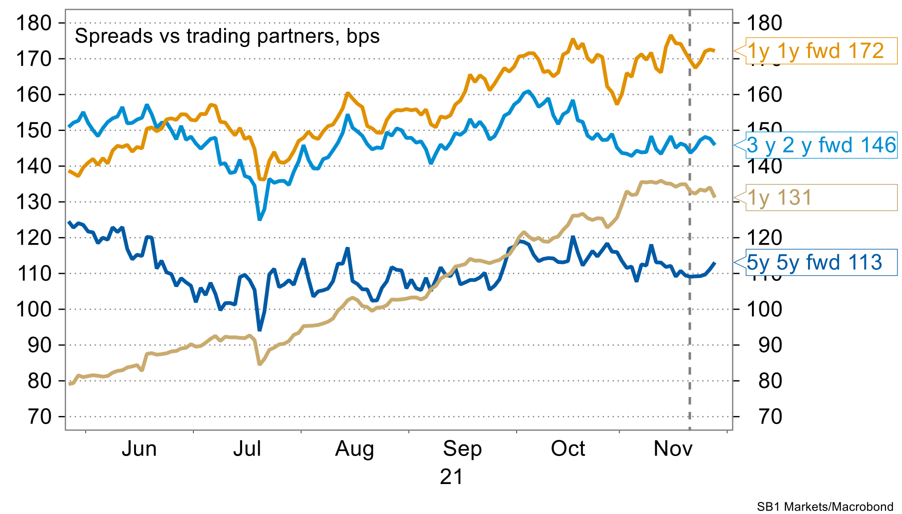


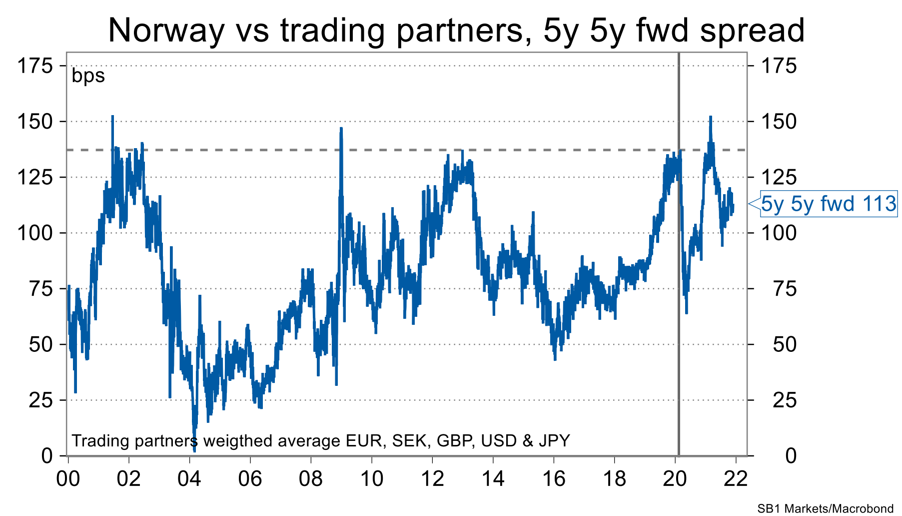




Implied fwd spreads marginally up last week

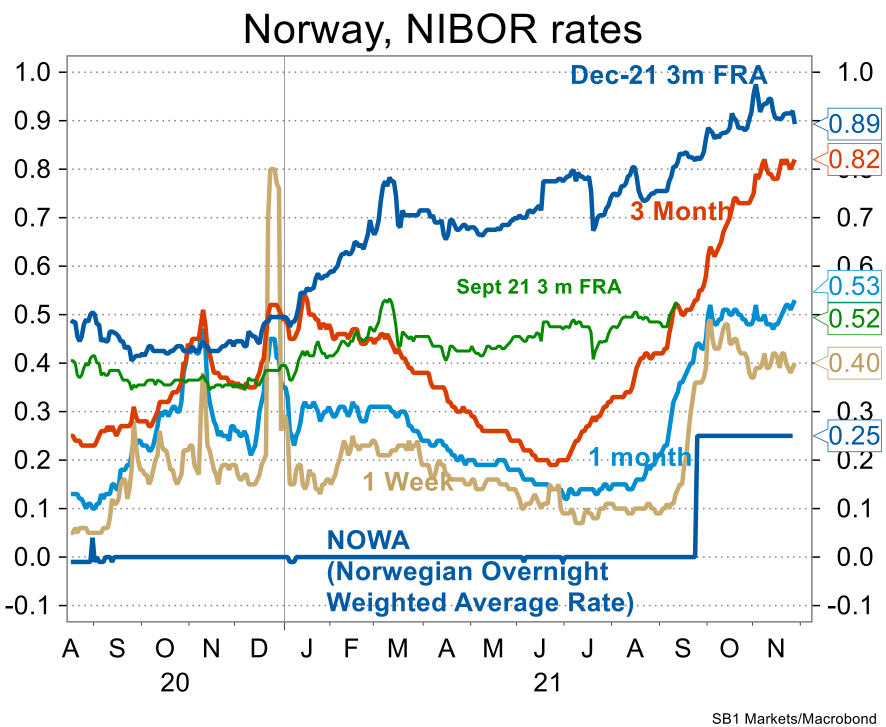


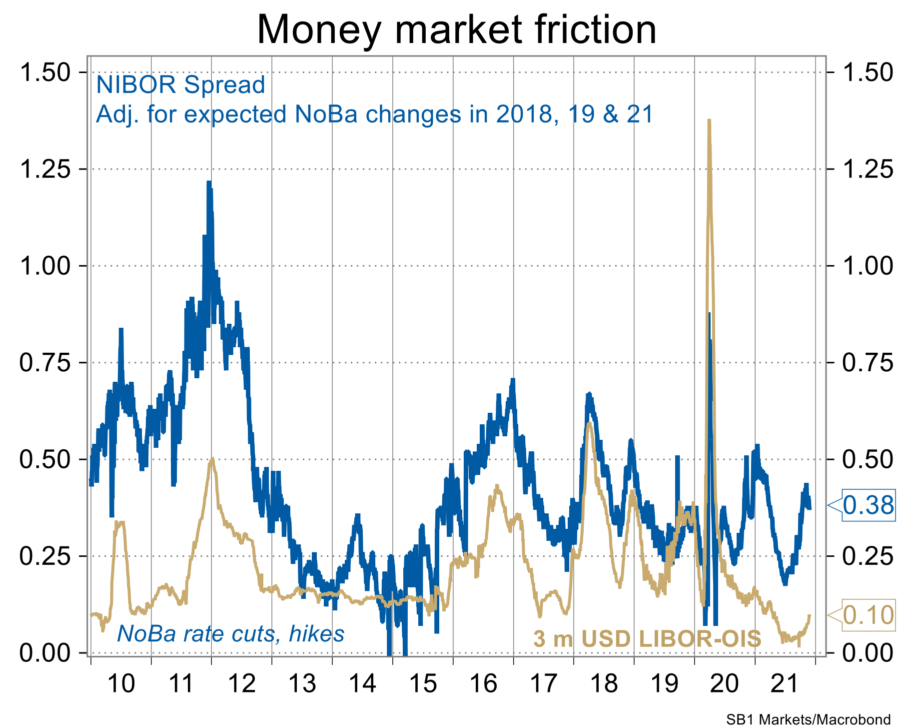




3 m NIBOR up 1 bps to 0.82%, the NIBOR spread down 1 bps to 38

A December NoBa hike is still fully discounted. Something could turn up before then…



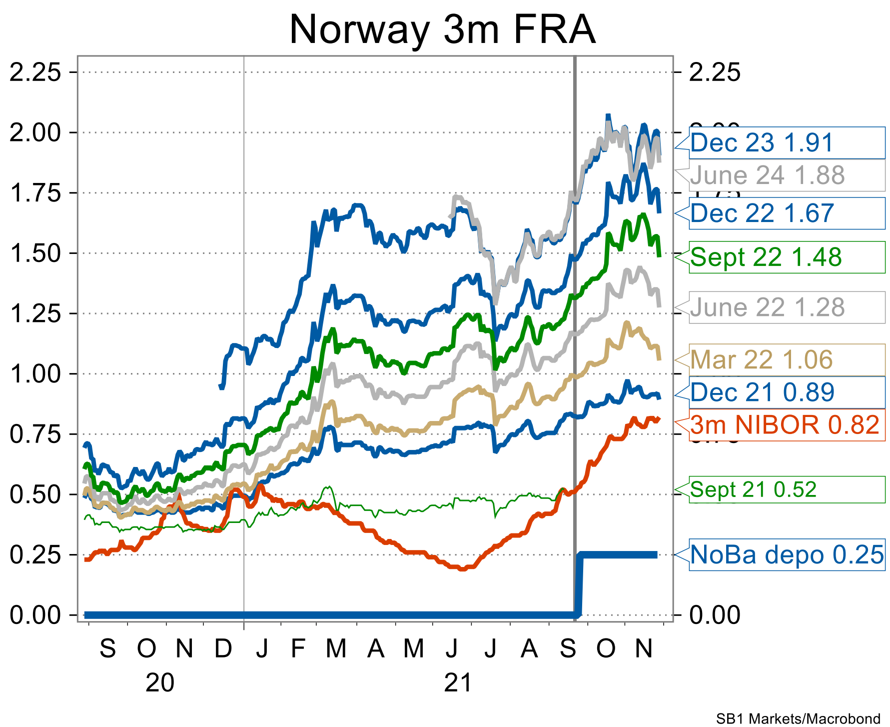


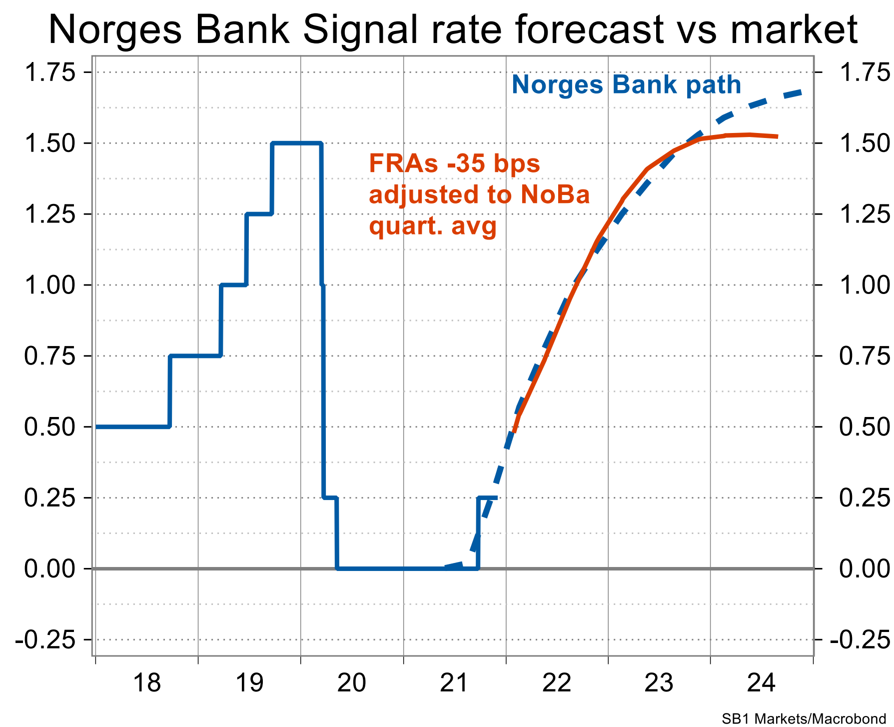
- … but the only scenario where NoBa postpones the hike would be if the Omicron virus turns out to create more serious health problems, implying need for far more social distancing again

- The Dec 3m FRA contract implies a 39 bps NIBOR spread (given a hike in Dec, and no hike before March)
- Norges Bank assumed a 35 bps spread in the Sept MPR (as in the June report), which we at that time thought was at the high end

No doubt, the Omicron virus may kill the economy, and rate hike plans

But if so, the attack must be much worse than what we have seen form previous variants





- FRA rates fell by up to 11 bps at Friday, a reasonable response
- Since last Friday, the near end of the curve fell by 5 bps, while the long end was marginally up!

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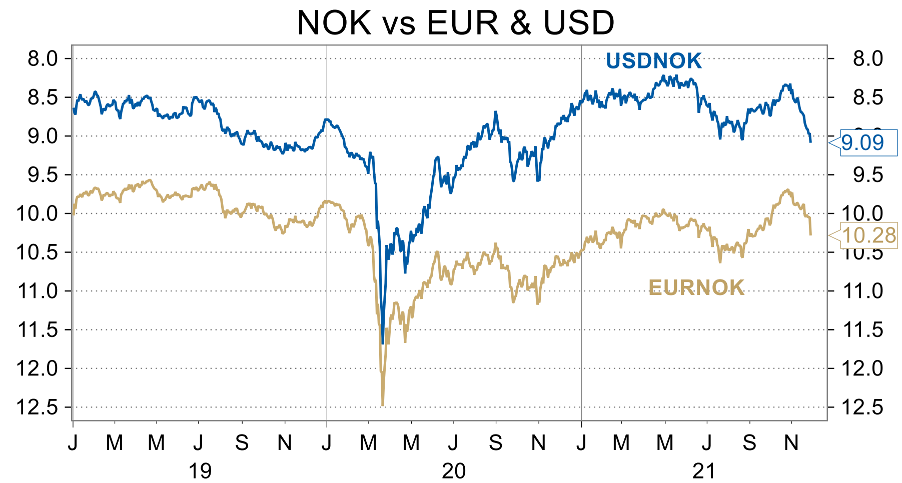
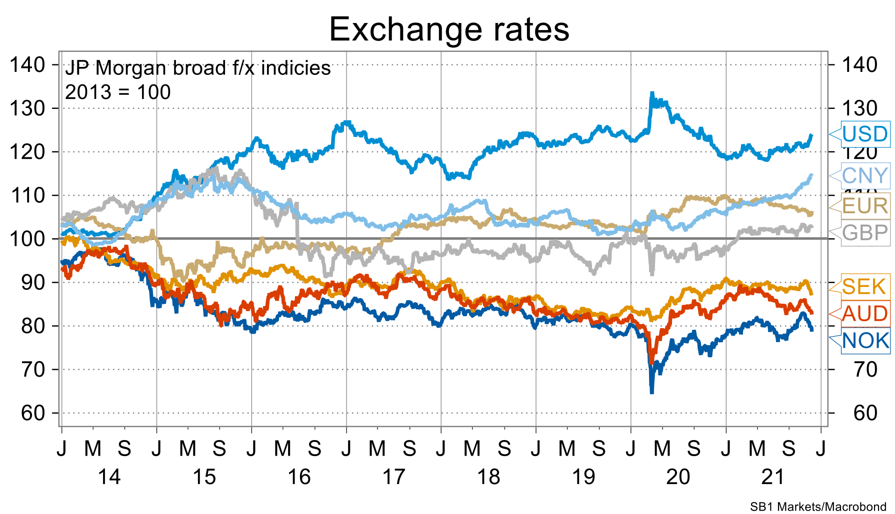
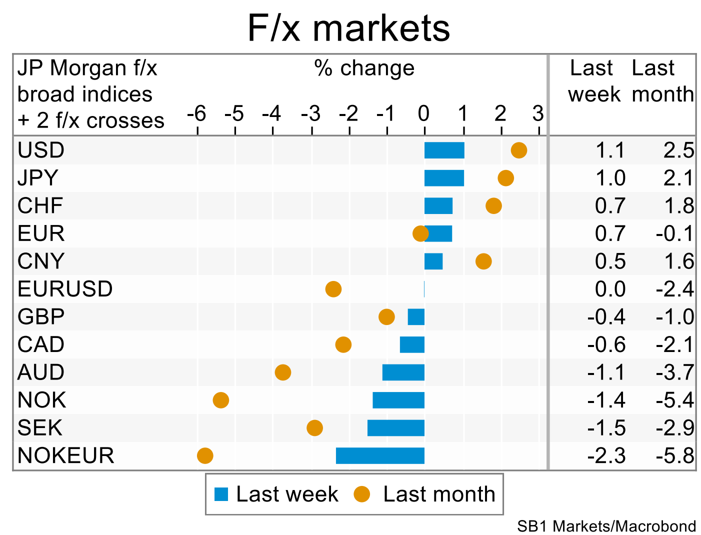
The super-cyclicals currencies did not appreciate the arrival of the Omicron

USD last week's winner. The EUR stronger too. CNY is rapidly strengthening too

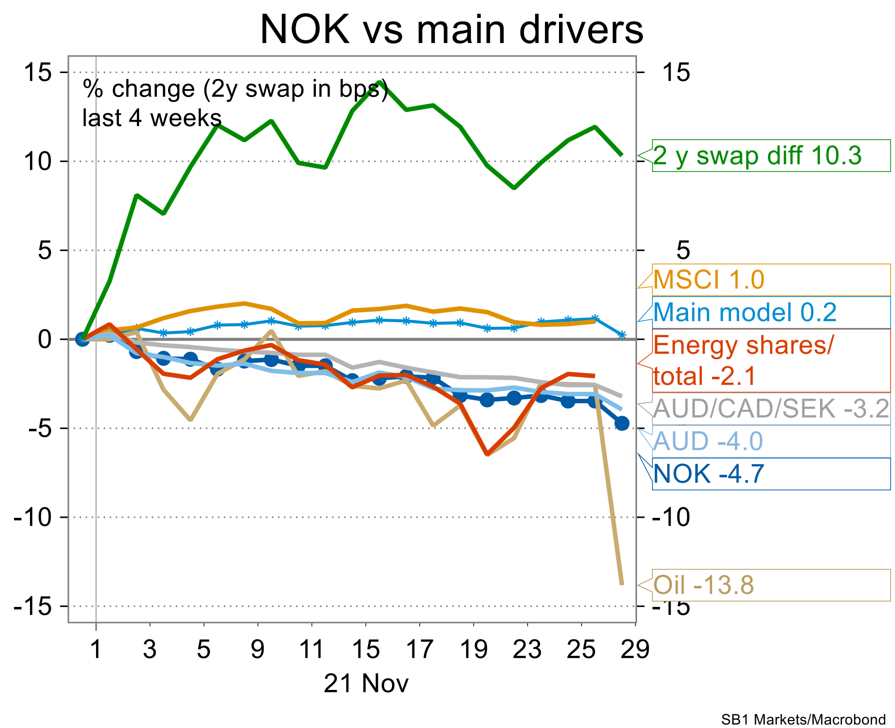


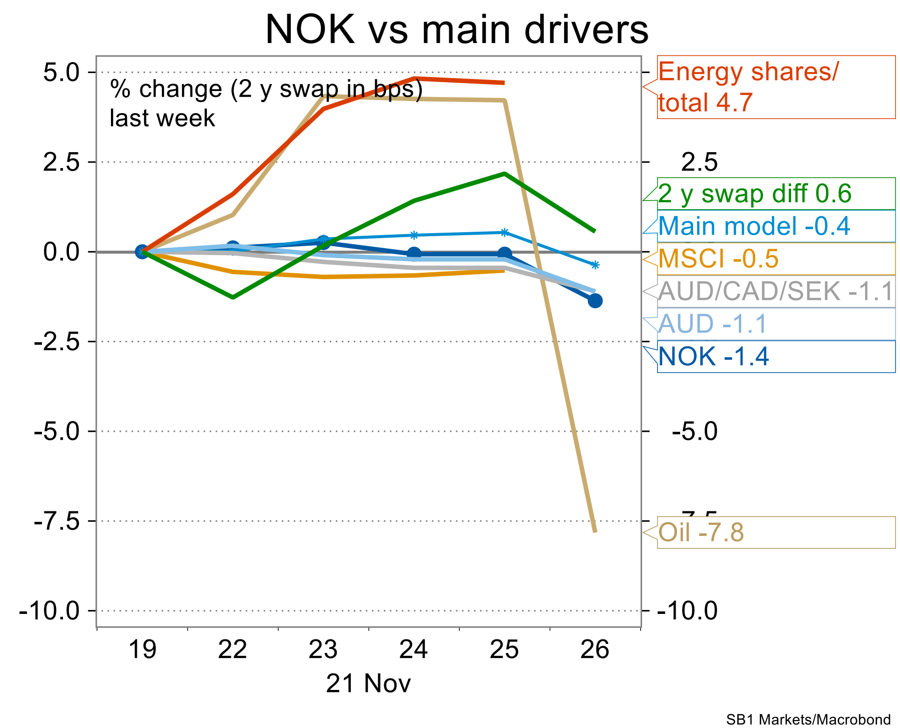




NOK down 1.4% as the oil price 'collapsed' on Friday, a fair response

The Omicron may lead to new lockdowns & reduced demand for oil. (But <u>if</u> so, for <u>how long</u>?)





The status vs. the normal drivers:

- ***The NOK fell 1.4%, more than our traditional model suggested (-0.3%), more than -2% below the model est (from less than 2%)***
  - » The oil price fell 7.8%
- The NOK is 5% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from 6%)
- NOK is far (9%) <u>stronger</u> than a model which includes global energy companies equity prices (vs the global stock market) (unch)
- The NOK is strengthening some 0.6% Monday morning, alongside the partial recovery in equity futures

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

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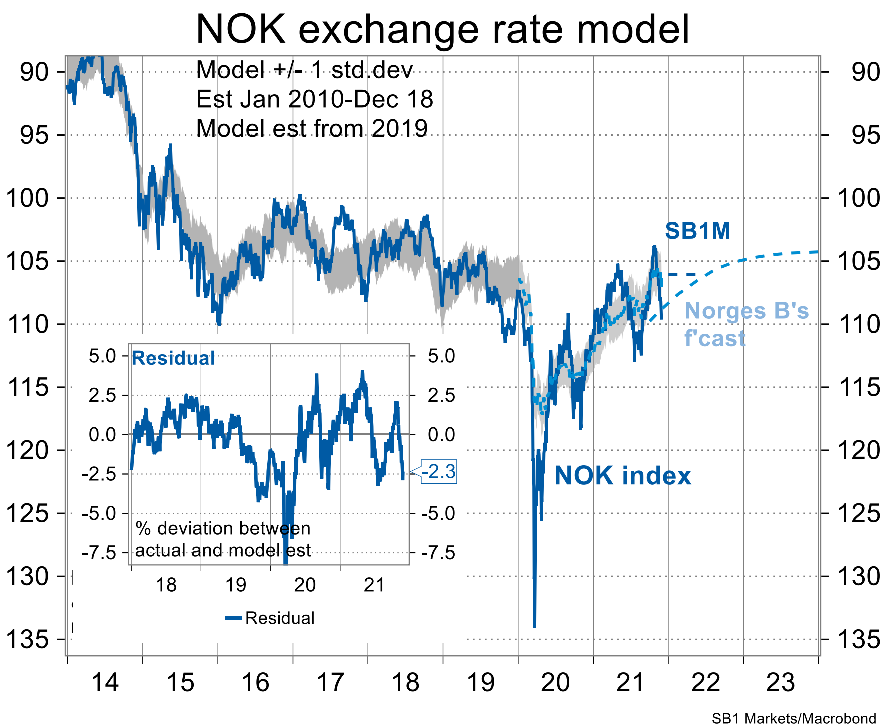
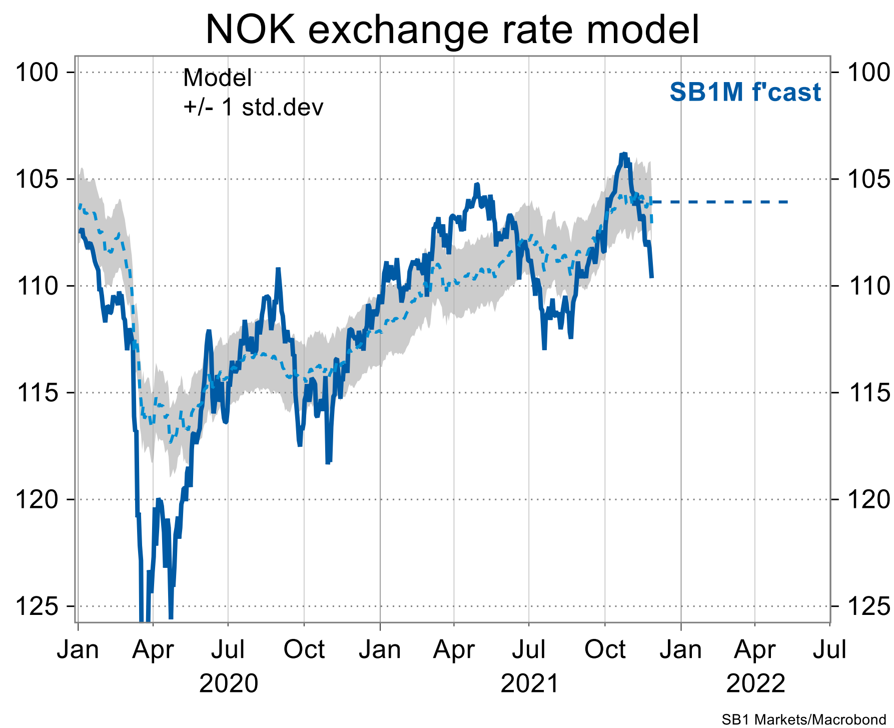
NOK down, out model suggested close to unch

And the residual fell to zero to -1%





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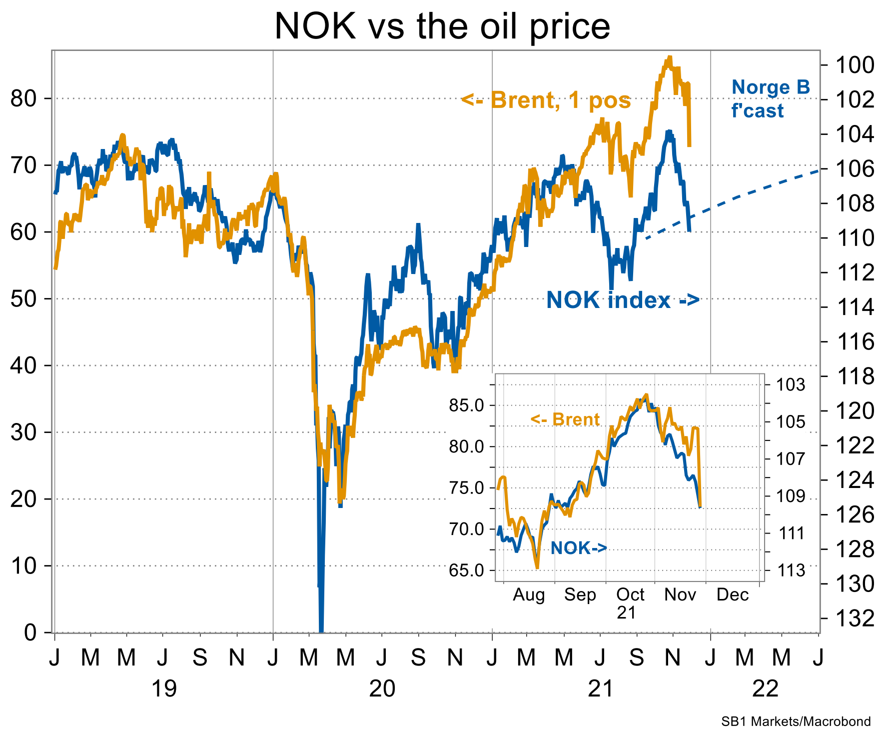
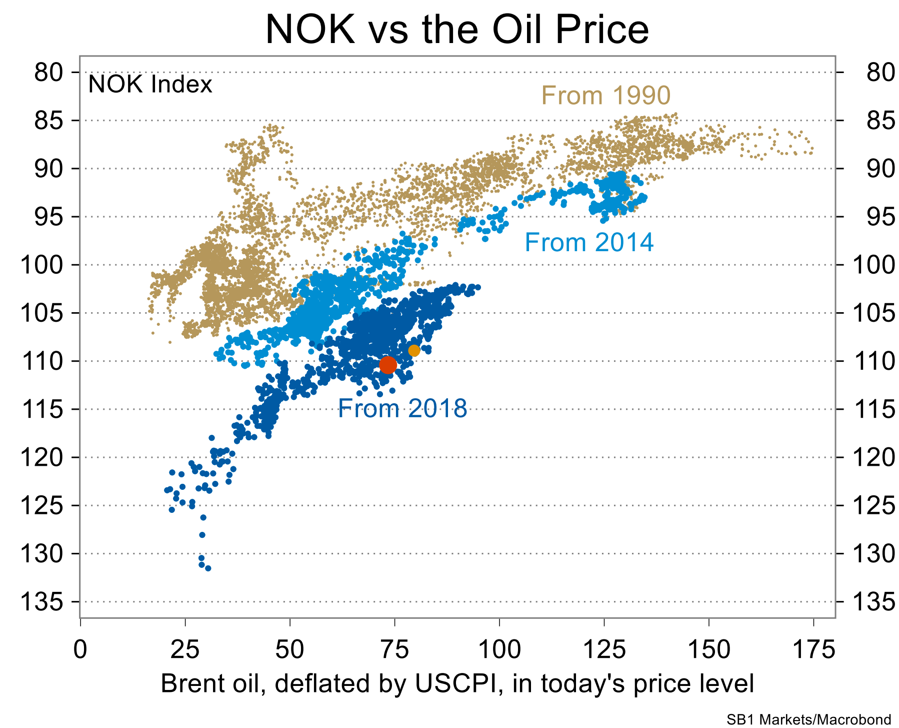
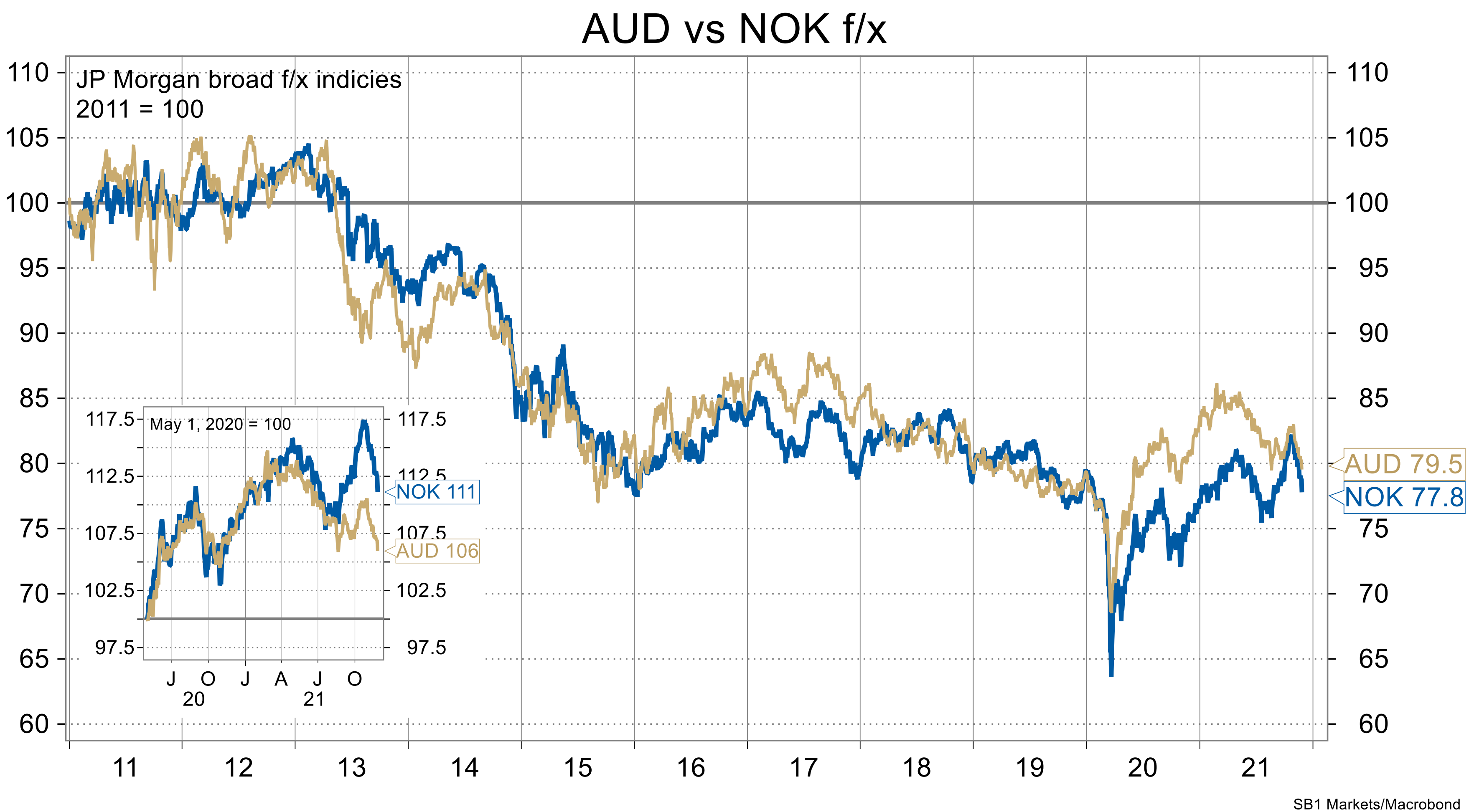
NOK fell 'less' than the oil price at Friday





- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- A USD 10 drop in the oil price weakens the NOK by some 4%, as a partial effect.
  Within a broader model, the impact is smaller

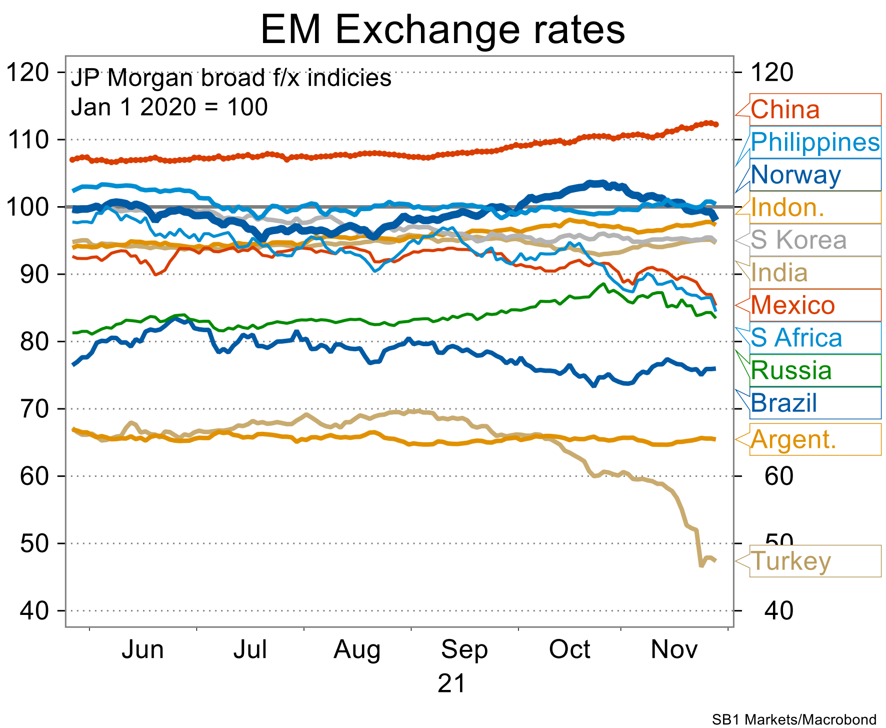
Both NOK and AUD down last week, NOK the most

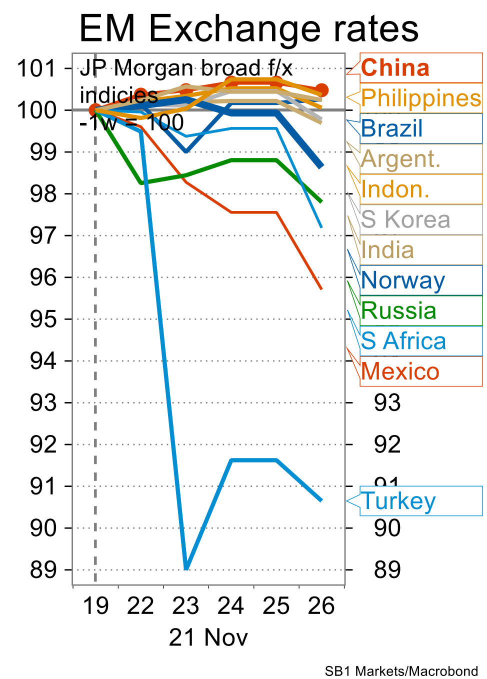


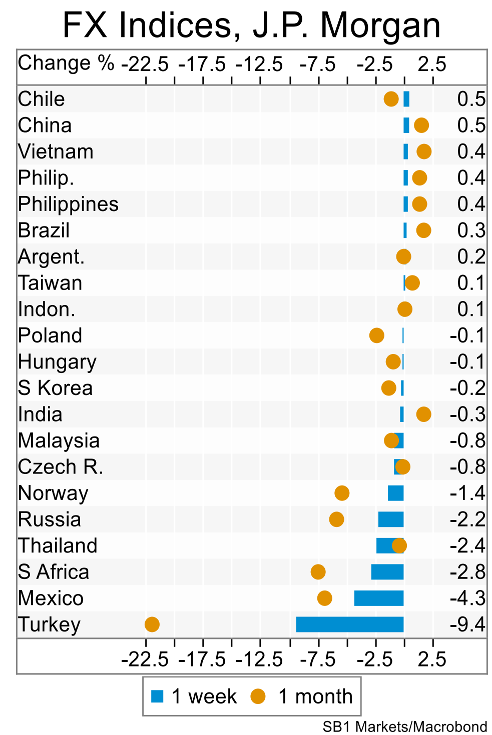
The two f/x indices are back to the 2011 parity (from which they never since have deviated much)

And then president Erdogan kicked the lira down to another new deep bottom

A total breakdown for the TRL following his comment on the f/x market. And then 'Omicron' arrived







- The TRL fell by more than 10% at Tuesday, and it remains down 9% vs. last Friday (and is down 22% last month, and 52% since Jan-1 2020
  - » The monetary system in Turkey may now break completely down, and inflation will accelerate further – due to Erdogan's incompetence (and/or short term populism). However, it is not too late to stabilised the currency? The currency has fallen much faster then inflation has accelerated, and the real TLR is probably below a fair level. A full price/wage control, cut in public spending – and after a while lower rates??
- Trouble in Mexico as well, the president names an unknown (and weak?) bureaucrat as the new central bank governor
- The virus scare hit commodity producers and most EM currencies at Friday

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