Macro Weekly

52/22

23/12/2022

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

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

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

Last week

- **The War/European Energy/Commodities**
  - **Ukraine** gathered more support after president Zelenskyy's visit to the US. No news form the front in the East (or South).
  - **European gas prices** fell sharply this week too, as did **Norwegian electricity** prices (spot – 12 m). European gas prices (for the coming 12 months) are lower than at the local trough in early November
  - **Oil prices** stabilised
  - **Most other commodity prices** were close to unchanged
  - It is still uncertain if **China's new Covid strategy** will work – in a population with still a low immunity rate. Activity date shows that people in many cities (like Shanghai, Beijing) are 'locking themselves in', even the authorities have not 'locked them down' as a response to a very rapid spread of the virus
- **USA**
  - **Leading Economic Indicators** fell much more than expected in November, and is not signalling a recession – at least based on historical experiences. A LEI at the current level has detected 8 of the 8 last recession, and has not sent any false warning
  - **Building permits** fell more than expected, and **home builders** expect a steep decline in activity – even if mortgage rates have fallen somewhat from the peak. Housing starts fell to, but are still above the July level. Permits and starts are down 29% and 21% resp.
  - **Existing home sales** continued down in November, and more than expected. Sales are down 37% from the local peak in January, and prices are falling rapidly, following the 40% surge through the pandemic. However, the inventory of unsold homes is still very small
  - Conference Board's **consumer confidence** index rose 0.3 st.dev to +0.5 in December, expected marginally down. Other surveys are weaker but all have reported a stabilisation/small uptick recently
  - The final **3rd Q3 GDP** release surprised at the upside, 3.2% vs. the previous 2.9% estimate as household demand was revised upwards
- **EMU**
  - **Labour cost inflation** did not accelerate in Q3, and remains muted, at least according to the official wage cost data, with an underlying trend at well below 3%. The contrast to UK and US is striking
  - **Consumer confidence** recovered further in December – but remains weak
  - The expectation component in **Ifo's business survey** continued upwards in December – but remains weak, signalling a deep contraction in GDP. The current situation is still not that bad

Last week, II

- **Sweden**
  - **House prices** fell further in November, but just by 0.6% according to Valueguard. Prices are now down more than 12% since the peak in February
  - In November, **retail sales** recovered the 2.1% decline in October, but the trend is down – and by 6.4% y/y. In value terms, sales are up just 3%
  - **Consumer confidence** surprised (us) at the downside in December, as the index almost fell back to the ATL at -6 st.dev below average in October
  - **Business confidence** is far better, just 1 st.dev below par, signalling zero growth in GDP – better than most forecasts
- **Norway**
  - **NAV unemployment** flattened in December, and the rate was unchanged at 1.6% (both seas. adj and unadj), as we assumed. Norges Bank expected an uptick to 1.7% (like consensus). In **inflow of new vacancies** rose marginally, due to more demand from the public sector. However, all private sectors reported fewer new vacancies in Dec, and all are trending down
  - The LFS (AKU) **unemployment rate** recovered the 0.2 pp uptick in Sept, and returned to 3.2% in Oct (3 m average). The participation rate fell marginally
  - **The no. of employees** (register-based stats) rose 0.2% m/m in November, up from 0.1% in October, and the 3m/3m (annualised) rate at 2.6% is higher than during the summer! All sectors report continued growth. **The LFS** reported an increase in total employment in Oct (Sept-Nov avg) but the trend has been down since the spring – which does not seem that reasonable, given all other Norwegian data points, especially the register based no. of employees (which correlates far better to the final answer, the National Accounts)
  - **Wage inflation** is kept in check, it remains clearly below 4%, also measured by the monthly payroll report
  - **Housing starts** declined in November, and the trend is now likely downwards, as for holiday homes (and garages). However, constriction in the private service sector is surging, especially offices. Norges Bank's network report a steep decline in construction activity the coming months
  - **Domestic credit growth** was higher than we expected in November, driven by the highest monthly increase in household credit in more than one year. Very likely an outlier, the trend is down, alongside a weaker housing market

The quiet Christmas week: Chinese PMIs, US housing, Norw. retail sales

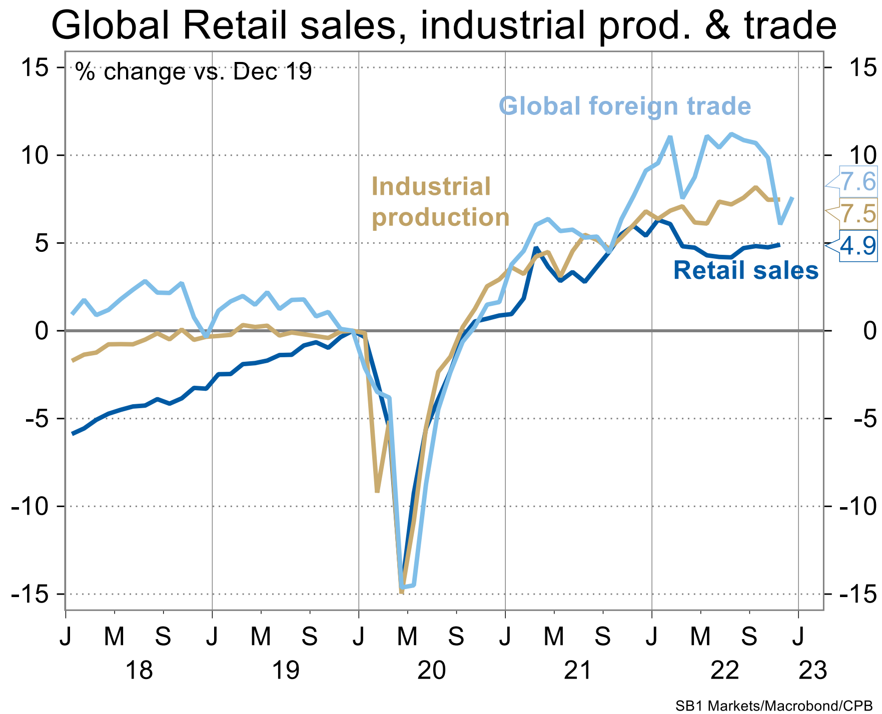
Time	Count.	Indicator	Period	Forecast	Prior
Friday Dec 30					
14:30	US	Personal Income	Nov	0.3%	0.7%
14:30	**US**	**Personal Spending**	**Nov**	**0.2%**	**0.8%**
14:30	US	PCE Deflator YoY	Nov	5.5%	6.0%
14:30	**US**	**PCE Core Deflator MoM**	**Nov**	**0.2%**	**0.2%**
14:30	US	PCE Core Deflator YoY	Nov	4.6%	5.0%
14:30	US	Durable Goods Orders	Nov P	-0.9%	1.1%
14:30	US	Cap Goods Orders Nondef Ex Air	Nov P	0.1%	0.6%
16:00	US	U. of Mich. Sentiment	Dec F	59.1	59.1
16:00	**US**	**New Home Sales**	**Nov**	**600k**	**632k**
Monday Dec 26					
		BOXING DAY			
Tuesday Dec 27					
00:50	JN	Retail Sales	Nov	0.1%	0.2%
08:00	**NO**	**Retail Sales**	**Nov**	**(-0.5)**	**-0.3%**
14:30	US	Goods Trade Balance	Nov	-$96.8b	-$99.0b
15:00	US	Case-Shiller Housing Index,MoM	Oct	-1.4%	-1.2%
Wednesday Dec 28					
00:50	JN	Industrial Production	Nov	-0.4%	-3.2%
16:00	US	Pending Home Sales	Nov	-1.0%	-4.6%
Thursday Dec 29					
10:00	EU	M3, credig growth	Nov		
14:30	US	Initial Jobless Claims	Nov		216k
Friday Dec 30					
Saturday Dec 31					
02:30	**CN**	**Manufacturing PMI**	**Dec**	**48.3**	**48**
02:30	CN	Services PMI	Dec	46.5	46.7

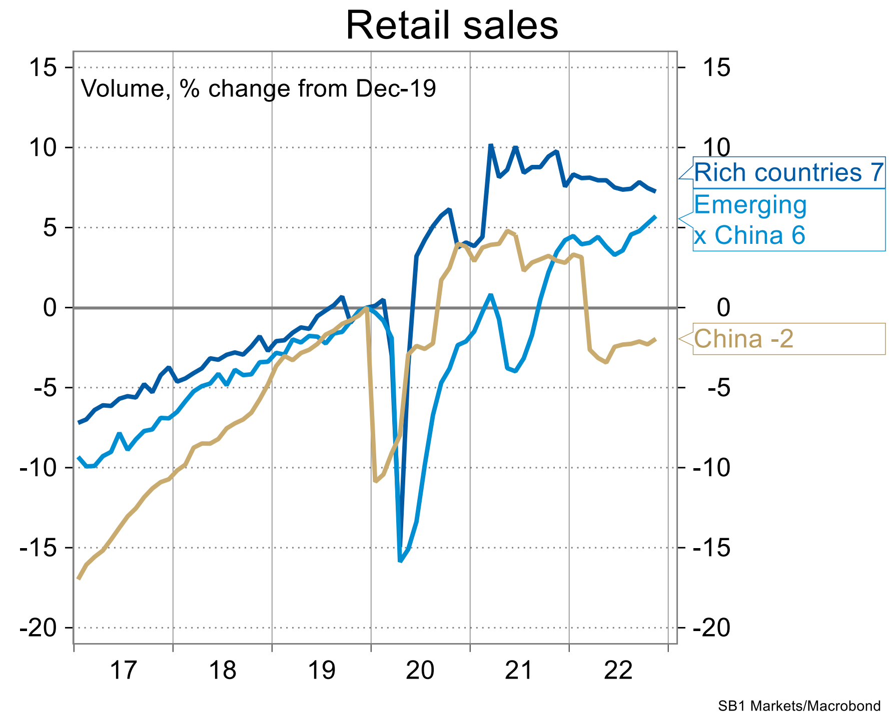
- **China**
  - **The first PMI** December data set will be published at New Year's Eve – and are expected to stabilise well below the 50-line, signalling continued growth below trend. The risk may be at the downside, given all the dismal November data harvest, all indicators were far below expectations
- **USA**
  - **Pending home sales** have fallen sharply, and existing home sales have followed suit – down 37% from the local peak in January. Prices are falling rapidly. However, the inventory of unsold homes at the market is still very low
  - House prices are falling rapidly, and the Case/Shiller index will very likely confirm the decline
- **EMU**
  - **Credit growth** has turned south, and will probably continue in that direction in November as well
- **Norway**
  - Do not expect too much from **retail sales** in November, even if there have been some positive reports from retailers. The majority has been on the downside

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

Kiel institute reports a steep decline in shipping activity

Still preliminary figure, but worth taking notice. Retail sales are flattish, industrial production is still trending up

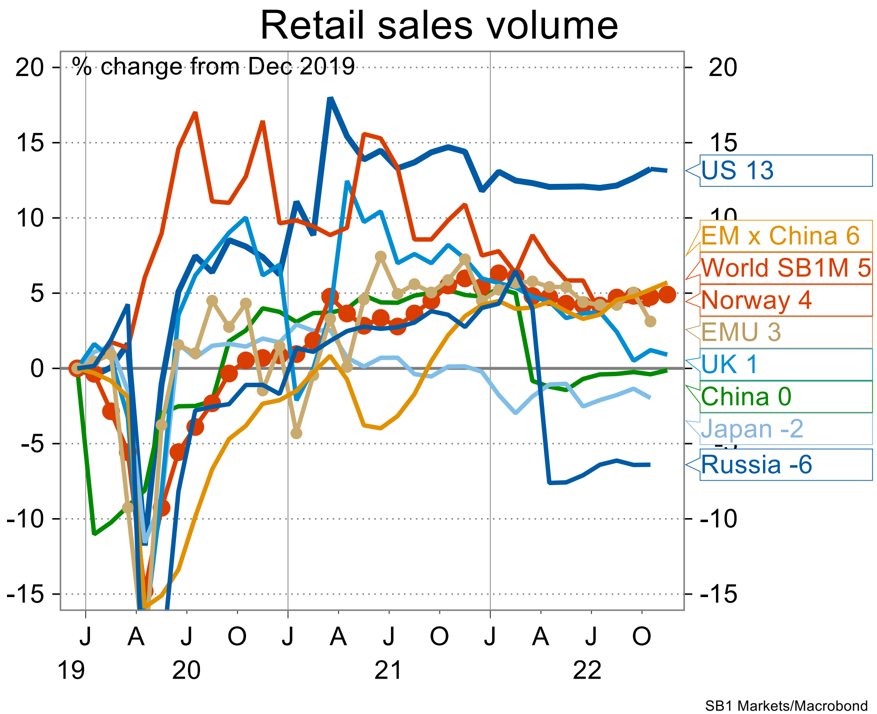


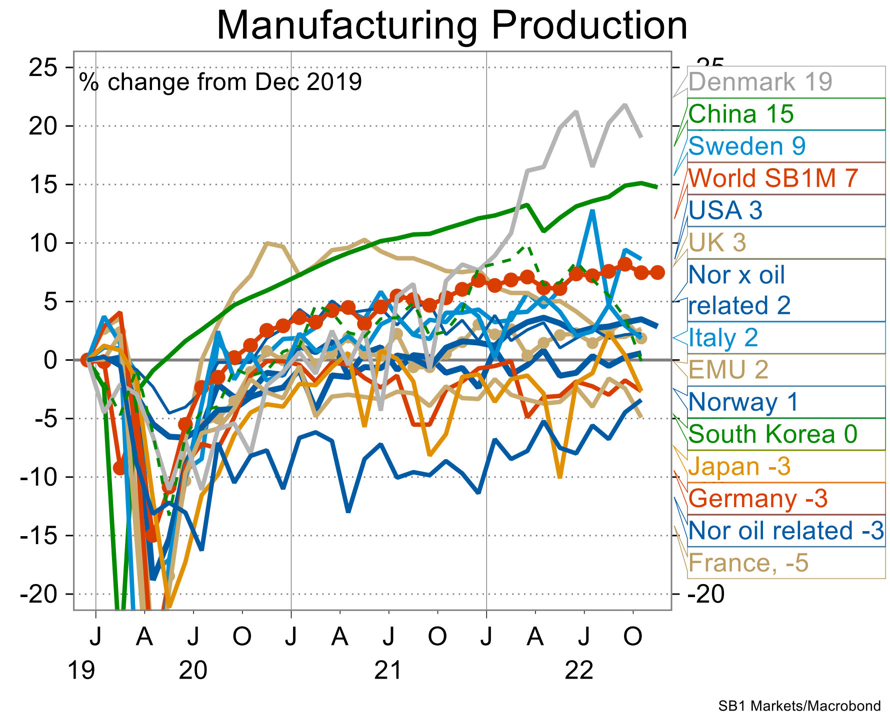


Global foreign trade: The last months, including forecasts, are estimates from the Kiel Institute.

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

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



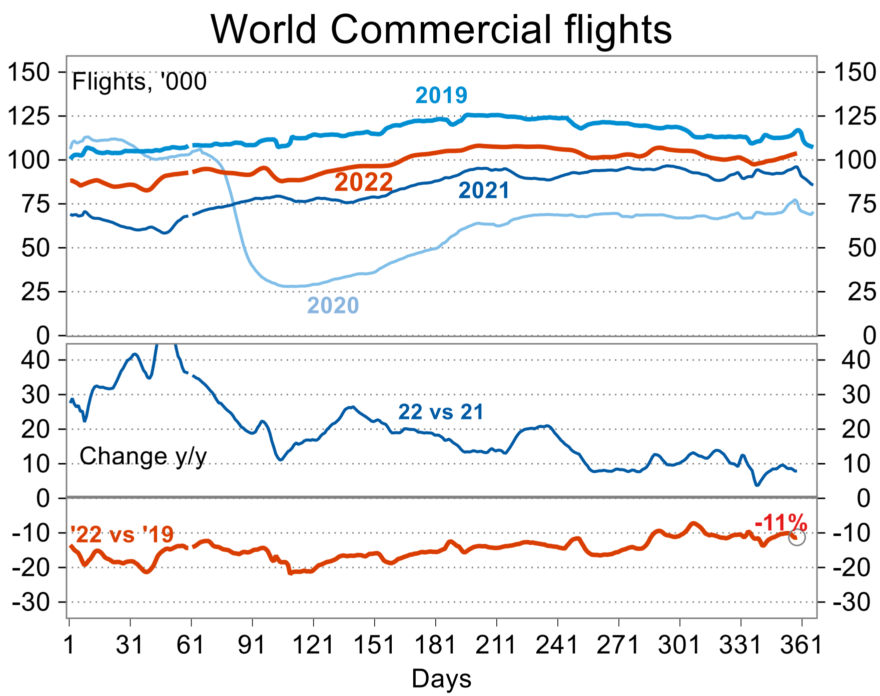


- Retail sales in China rose marginally in November but the history was once more revised down

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

Global airline traffic is slightly up, but down 11% vs 2019

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



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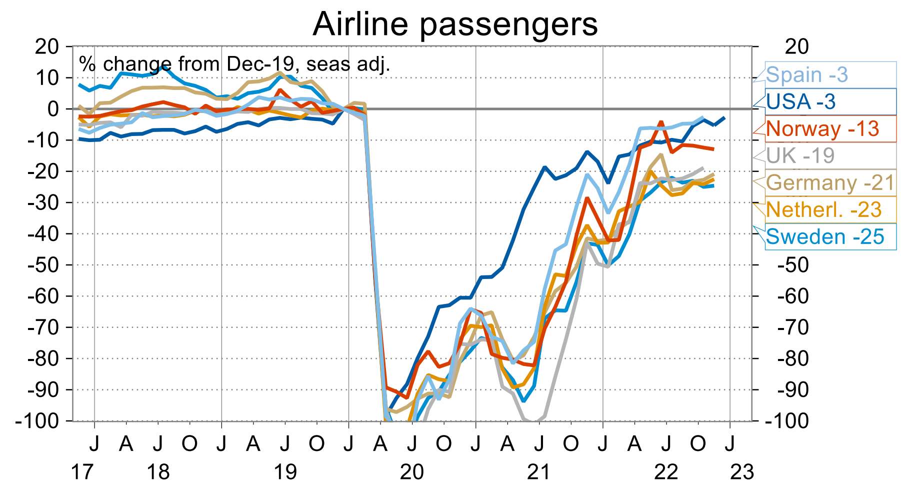
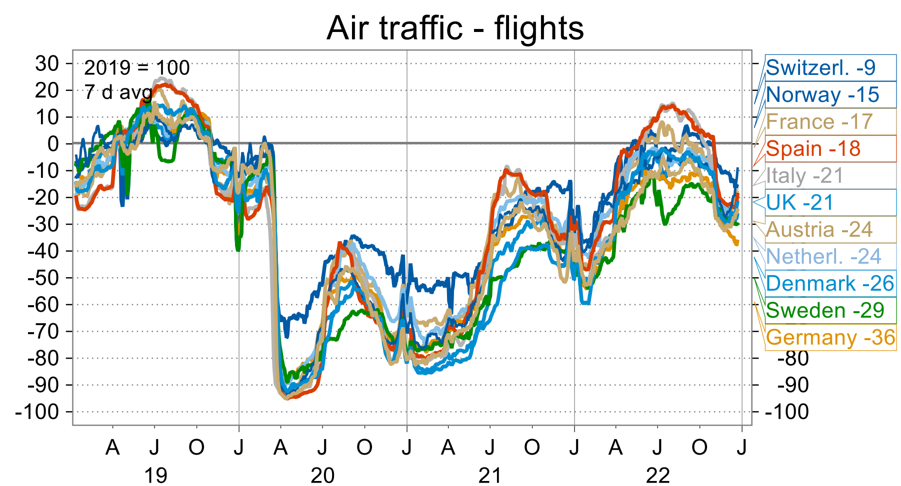


National authorities, SB1 Markets/Macrobond



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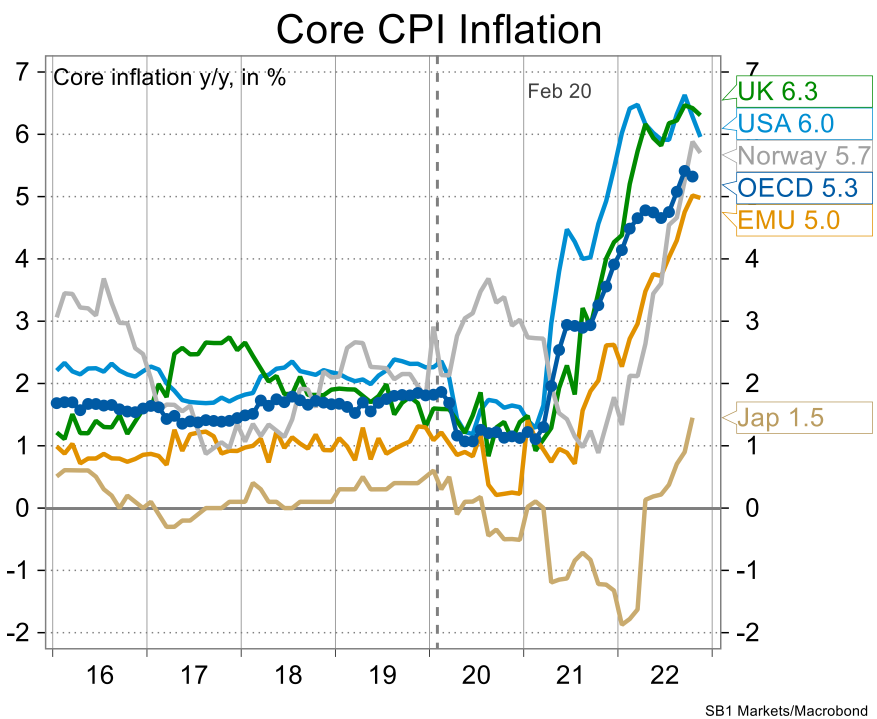
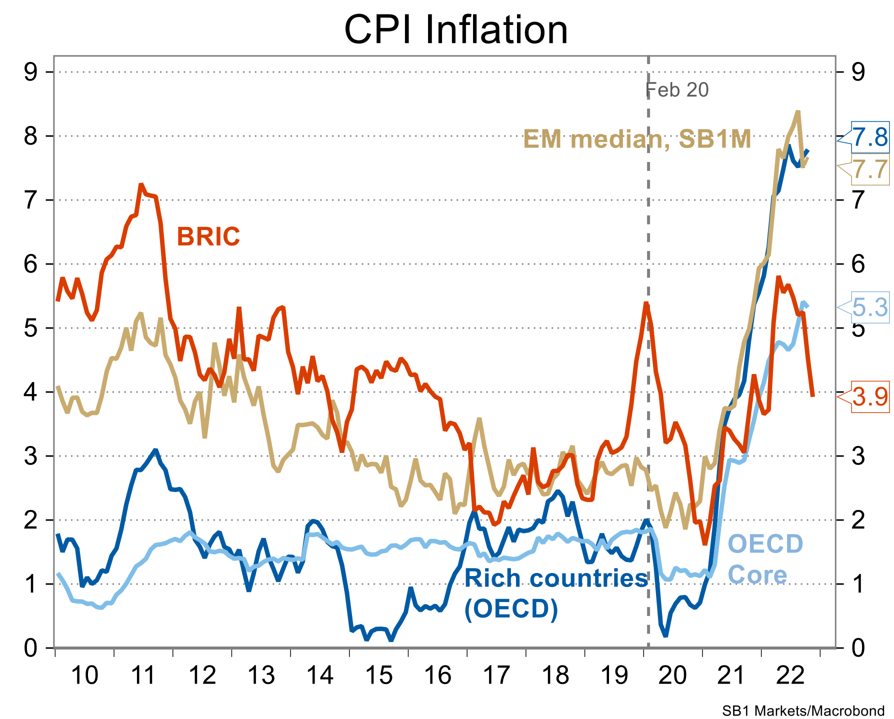
Peak inflation? Probably

The going rate in DM is still 7% - 11% headline inflation, and 5% - 6% core inflation





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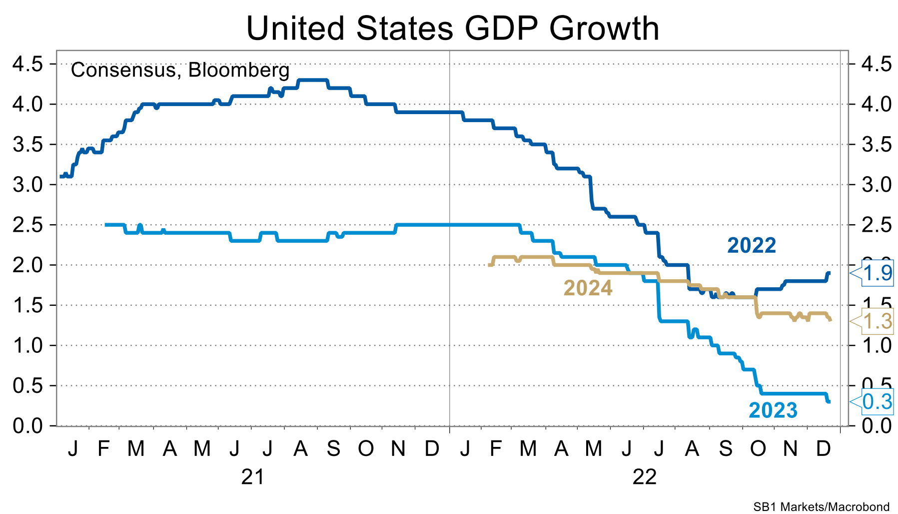
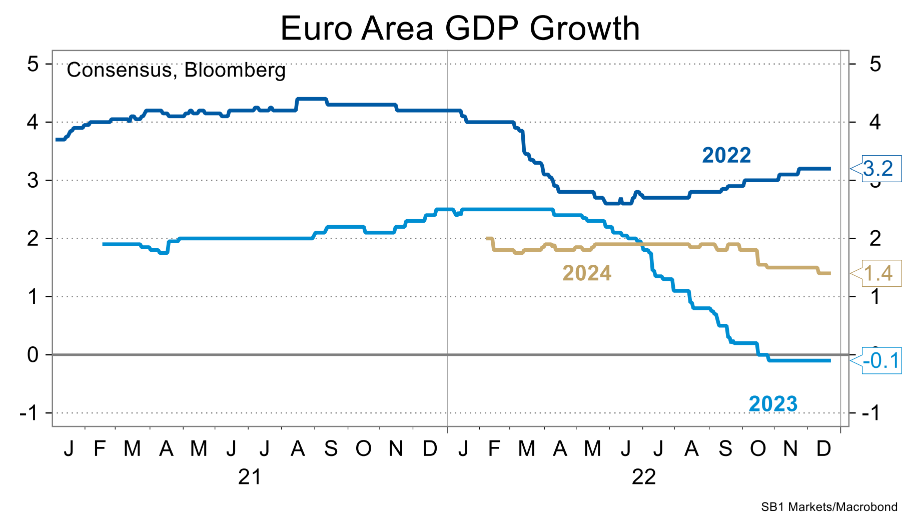
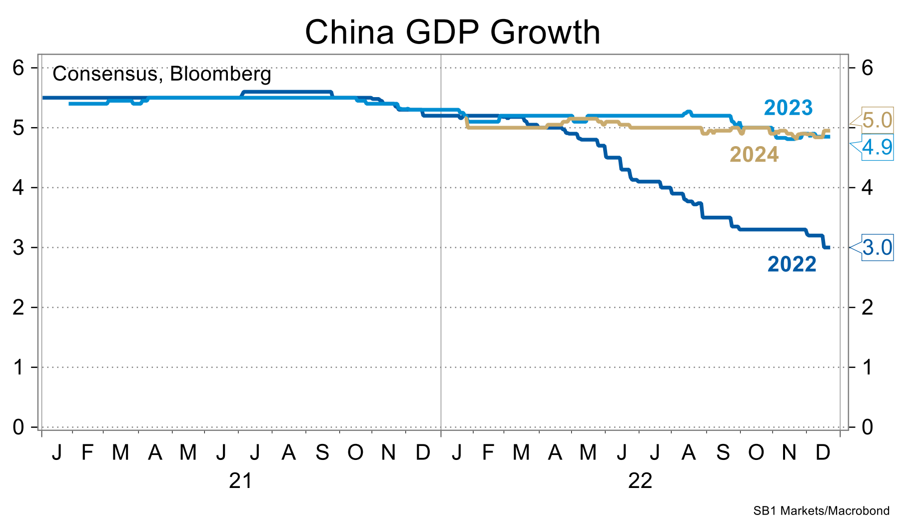
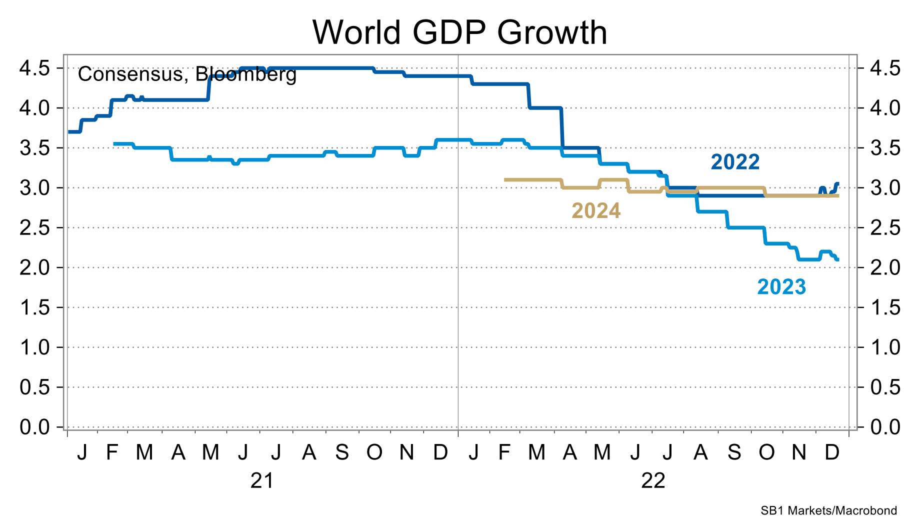
GDP growth expectations: A little step down in US, flat in the EMU

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









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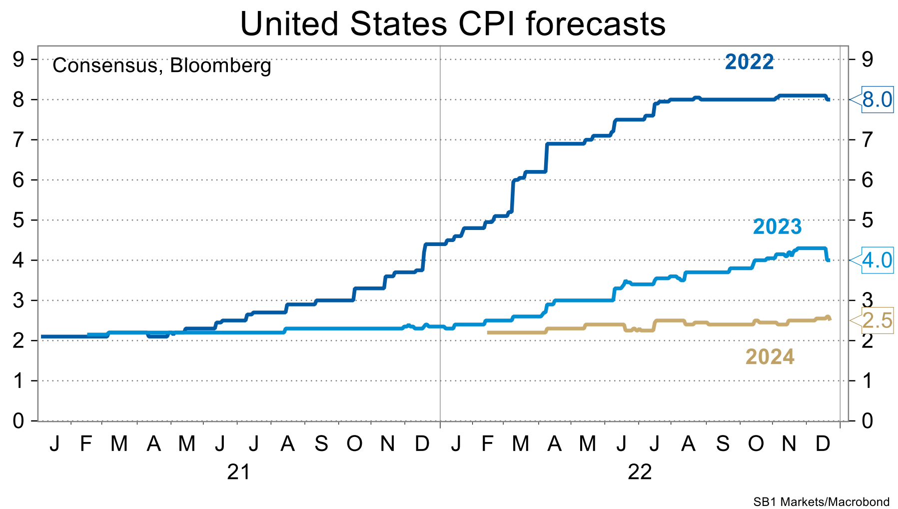
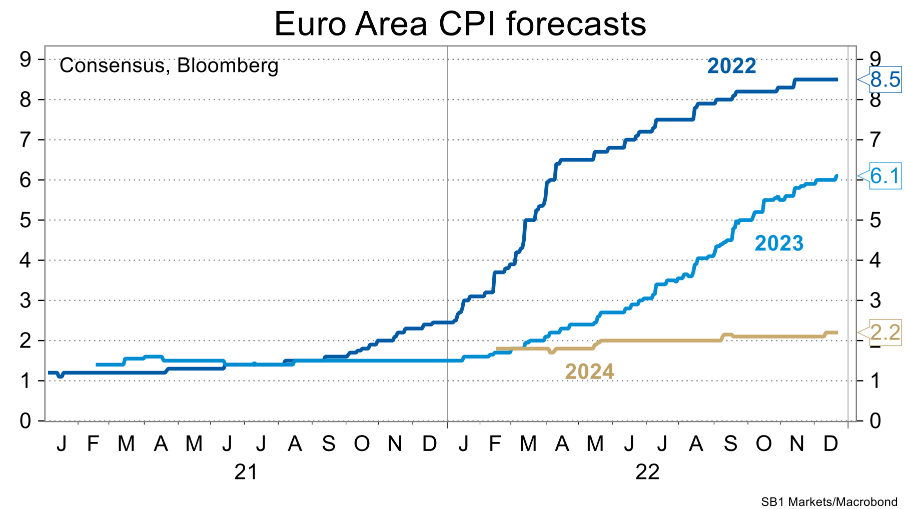
Finally, US 2023 inflation expectations are heading downwards, 0.3 pp to 4.0%

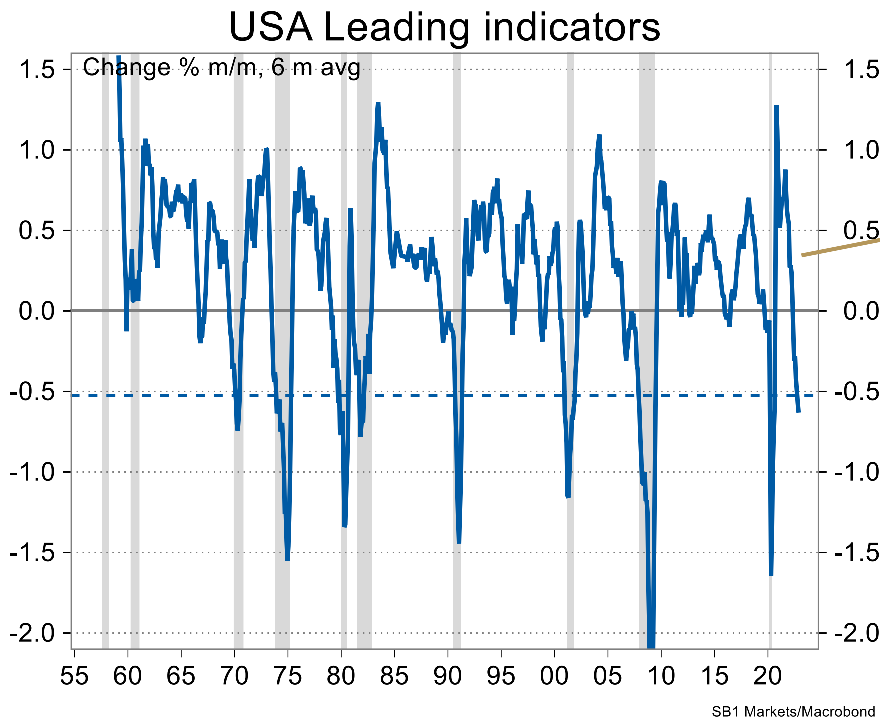
While inflation expectations in the EMU rose a tick last week, to 6.1%. Given the decline in gas prices, too pessimistic??

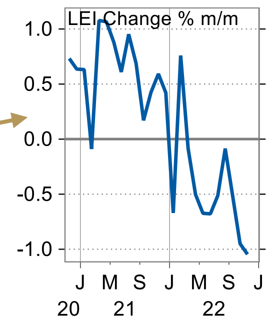


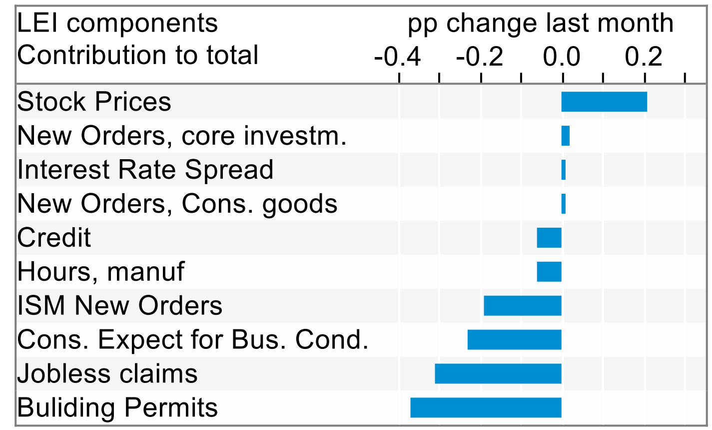


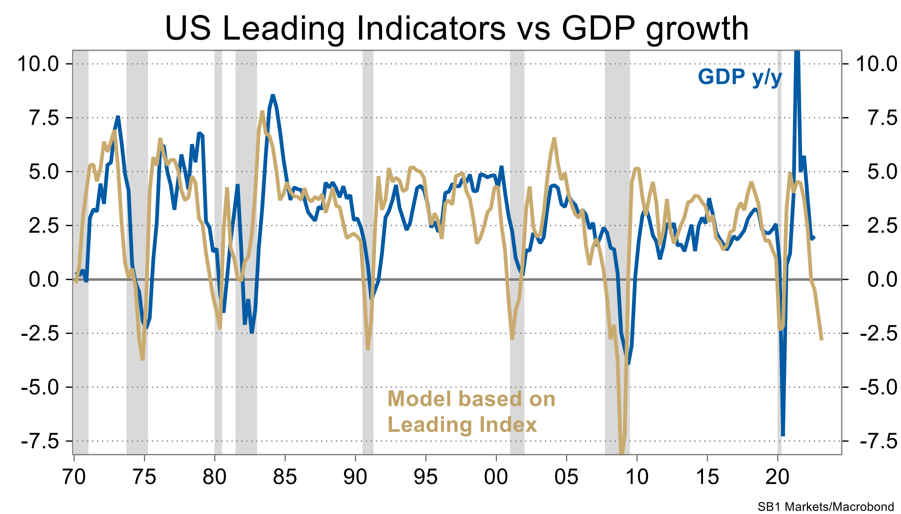
Leading Indicators further down in Nov, Wall Street the only positive

LEI at the current level has detected 8 of the 8 past recession, and now false warnings









- **The LEI** fell 1% in Nov, expected down just 0.4 pp. The 6 m average at is at -0.6%. The LEI has fallen to this level 8 times since 1965 (9 included the current observation)
  - On these 8 occasions the US economy was very close to entering or had entered a recession every time
  - Thus, the LEI 6 m avg at -0.6 ‘detected’ all 8 recessions since 1965; no false positives, and no false negative
  - In 1960, US entered a recession without any clear warning sign from the LEI
- The current LEI signals a 2.5% pace of contraction in GDP

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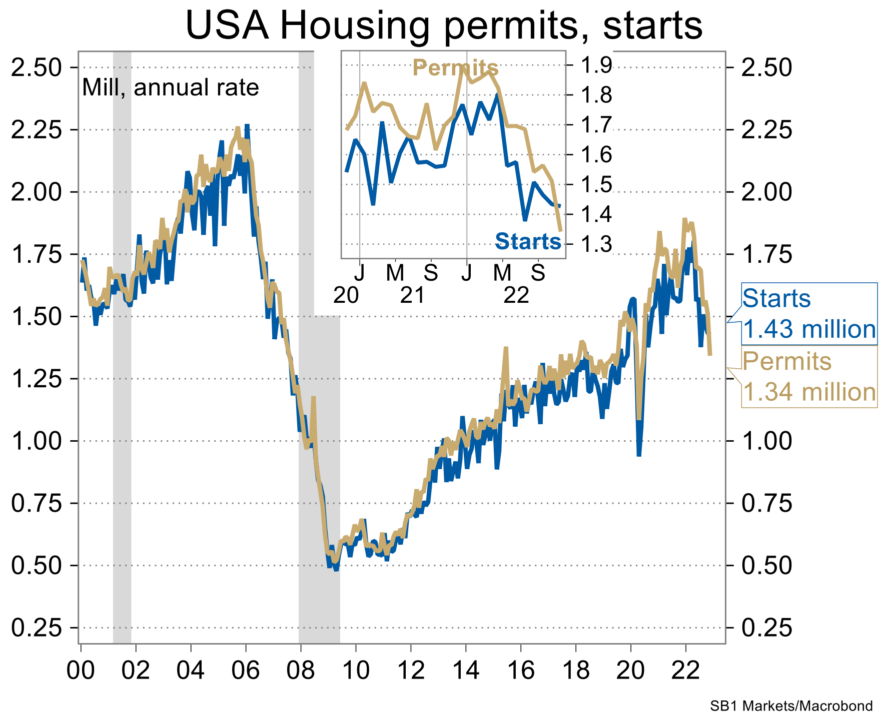
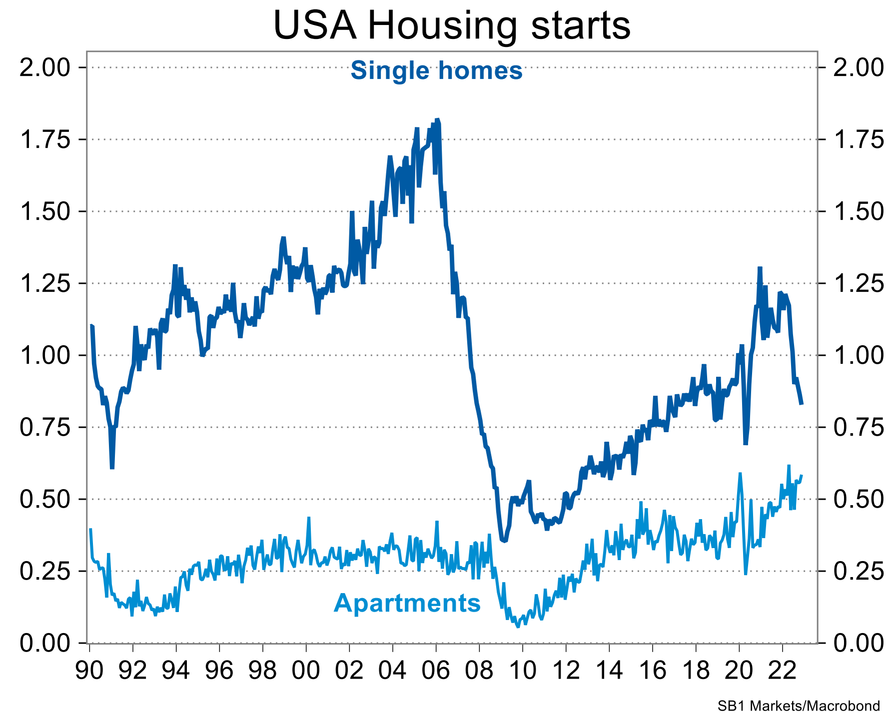
Both permits and starts fell further in November

Both are down 21% – 29% since before the steep decline that started in the spring

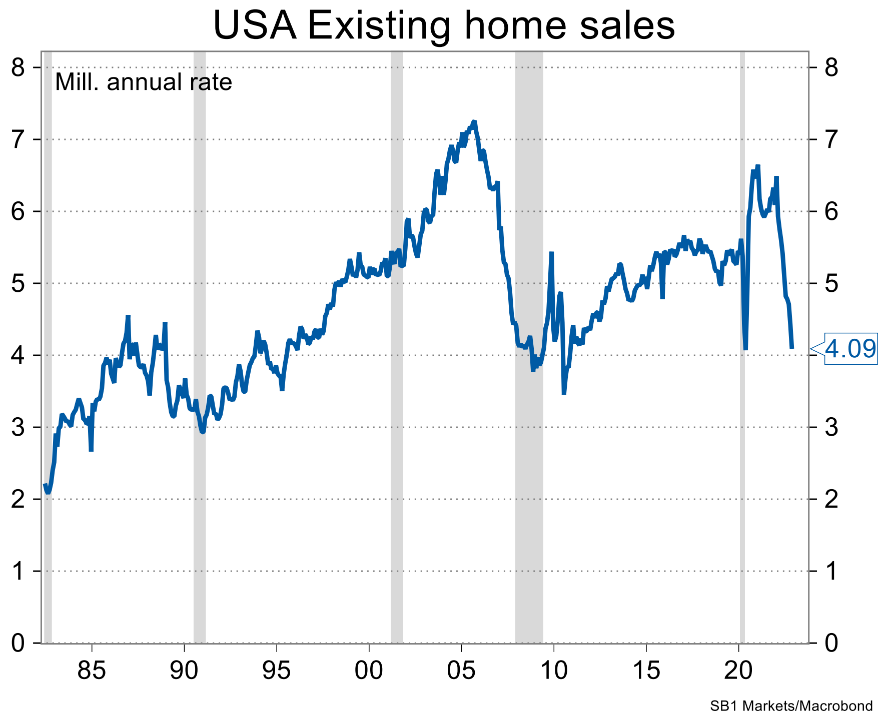


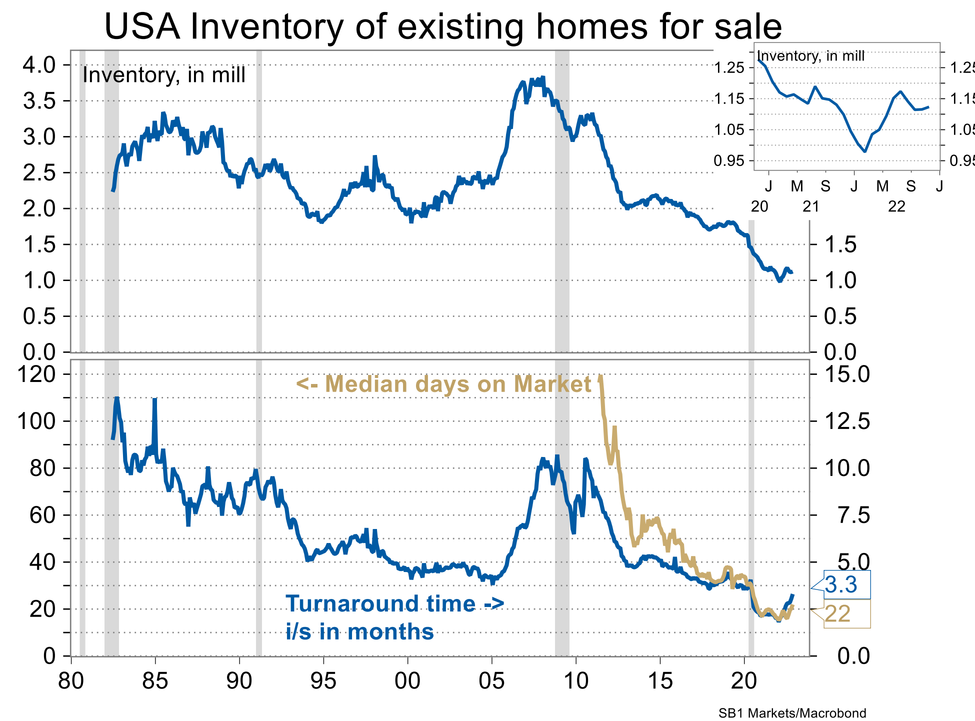


- **Housing starts** fell by 34' to 1.43 mill. In Nov (revised up by 9'), expected 1.40 mil, and are still above the July level. **Building permits** declined further to 1.34 mill, below expectations at 1.49 mill, from 1.51 mill in Oct. Permits fell in the 5 months prior to Sept, before an uptick that month, but have now fallen for the past two months again, suggesting fewer starts in the coming months. If Home builders are right (next page), the US will very likely soon be close to a recession – the housing market is in a recession
  - Starts of **single homes** fell to the lowest level since after the start of the pandemic, down 32% since February. Starts of **apartments** were up in November and have so far not come significantly down from the peak, these starts are just trending flat – with substantial downside ahead, we assume
- Building **material cost inflation** has come to a sudden halt. **Lumber prices** are back to a normal level (or even below), steel prices have fallen substantially recent months too

Existing home sales have fallen for 10 consecutive months

Sales are down 37% from January, and prices are falling. However, the inventory still small, and it's not increasing

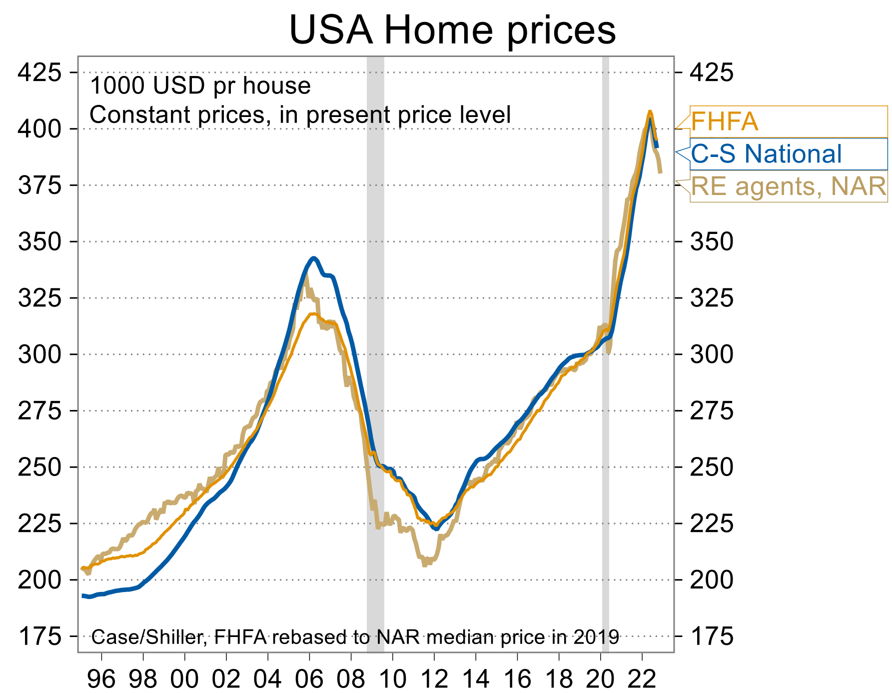




- Sales of **existing homes** fell to 4.09 mill in November (annualised rate), from 4.43 mill in Oct, expected down to 4.20 mill. Sales have fallen by 37% from local peak in January. Sales are down 25% vs. the pre-pandemic level
- **The inventory of unsold homes** rose marginally in November but is still lower than during the summer – and it is up less than 15% from the ATL in March. The inventory equals 3.3 months of sales (up from 2.9 last month, and 1.8 in January). However, during the 2005 boom, the i/s ratio was 4 months, in bad times it has been as high as 10 months
  - Very likely, the steep rise in mortgage rates is locking prospective home movers in, if they sell, they have to pay a <u>much</u> higher mortgage rate for the next home. Thus, fewer sellers, at least for now (but also few buyers, of course!)
  - A signal of a still hot market: The median time on the market for those homes actually sold is just 22 days, and still close to ATL. Before the pandemic the time on market was at 30 days (and 120 days in 2011!)
- **Prices** fell 1%, the 5th decline over the past 6 months. Prices are down 3.1% from the peak – and now up just 3.7% y/y

House prices are heading down, following the 40% lift during the pandemic

Prices are up 3.7% y/y – but the negative sign is rapidly coming closer



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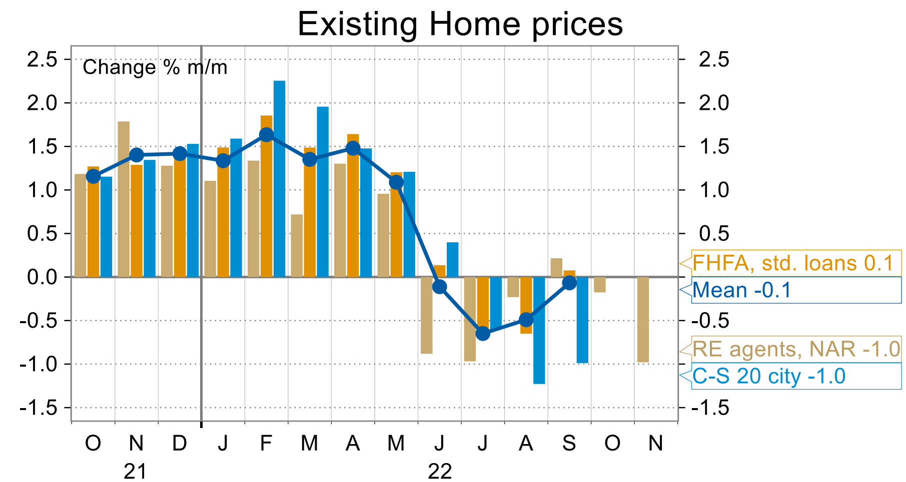

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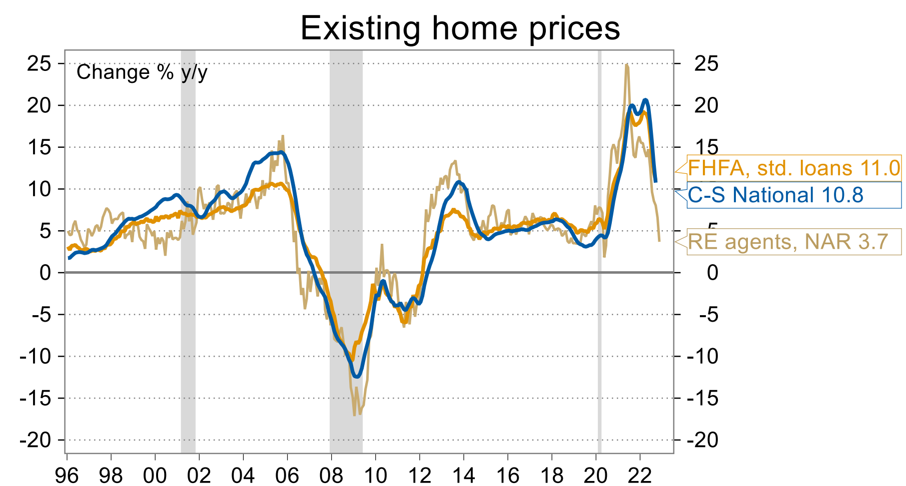

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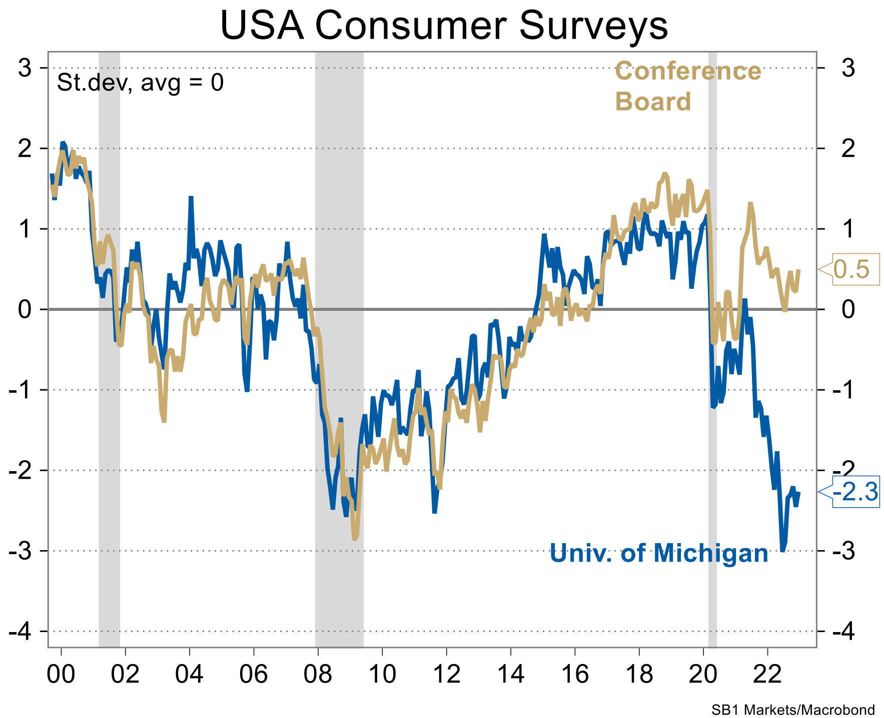
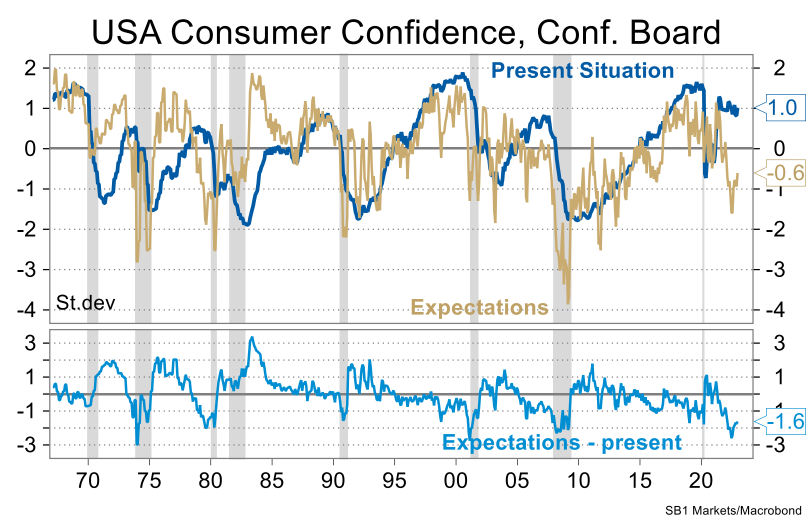
- **Prices fell 1.0% in Nov, following the 0.2% decline in Oct (revised down from +0.2%)**. The seasonal adjustment of these data is not perfect, so some caution on our m/m data. The annual rate fell 3.1 pp to 3.7%
- Other indices still are up 10% - 11% y/y, but prices fell all across the board in Aug (Jul-Sep, the last obs). Prices are normally lagging sales by almost 1 year. This time, prices followed sales down much earlier, we think it's due the rapid deterioration of affordability
- Home prices rose more than 40% during the pandemic, and are way above the 2006 level, even in constant prices. The downside risk is HUGE! 2020 prices were sufficient to keep housing starts at a decent level. To get the real price back to that level: more than 20% down

Conference Board's Consumer confidence up in December!

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



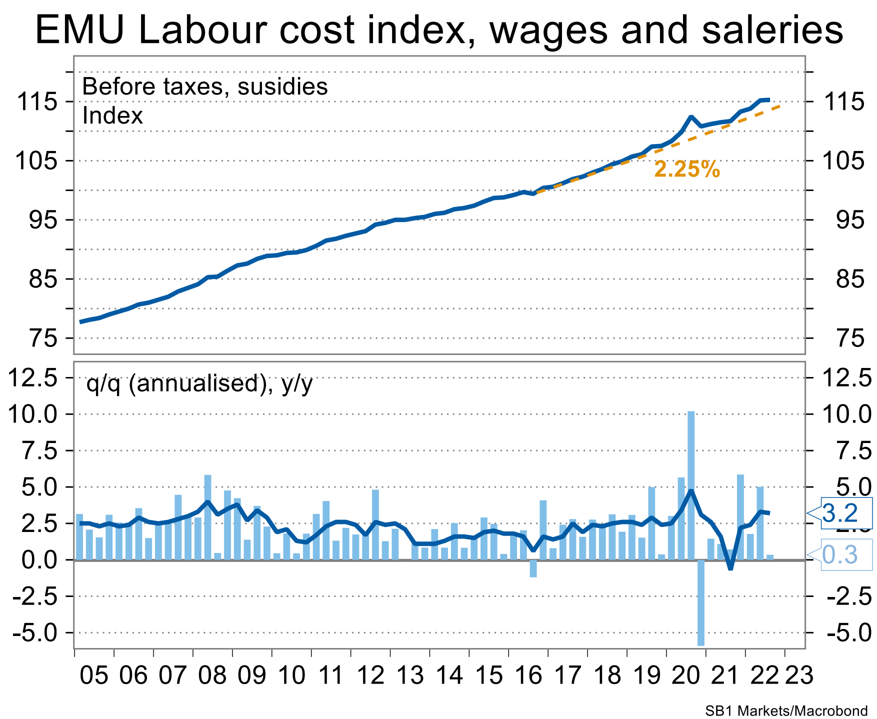
- The main index gained 7.9 p to 108.3 in December, expected down 0.4 p. The increase equals 0.3 st.dev, and the Dec level 0.5 above avg, back to the level in September.
  - Both the present situation index, and the expectation index rose. The current situation is at +1 st.dev, the expectation index at -0.6
  - **The difference** between households' assessment of the present situation and their expectations is at -1.6. <u>The gap is always the largest just before or when a recession hit, check the chart below</u>

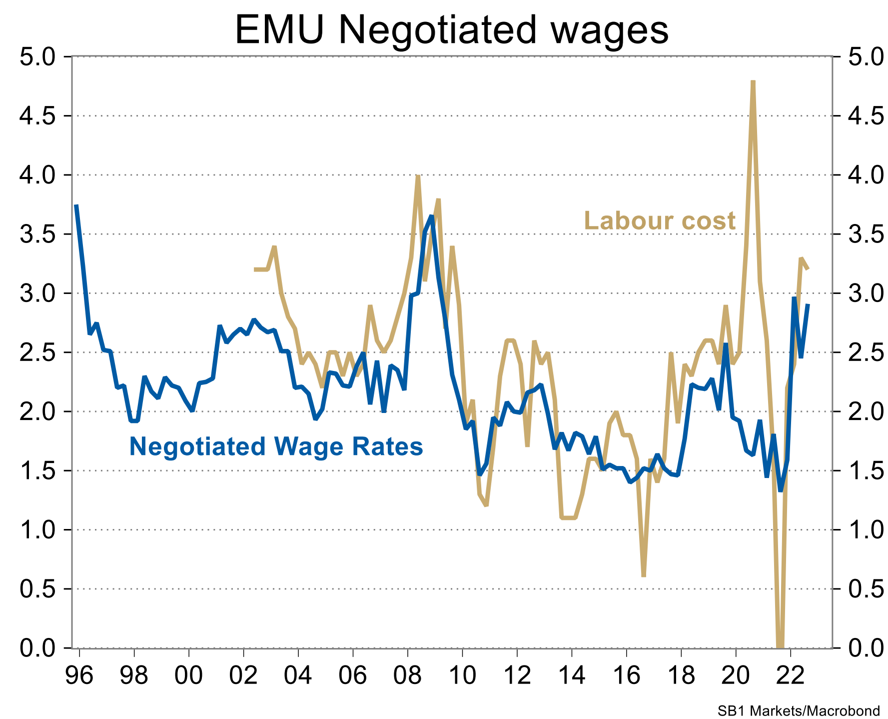


- **The other consumer** surveys we follow much weaker – but the last observation us up for all of them

Labour cost inflation still in check, according to national accounts

Hourly labour costs almost flattened in Q3, and the annual growth rate declined by 0.1 pp to 3.2%

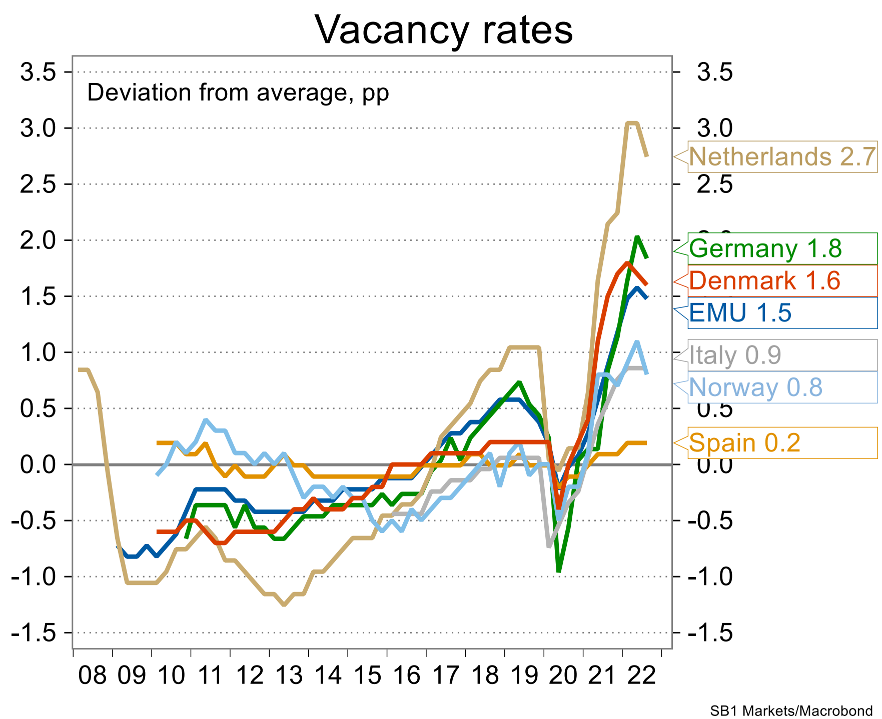


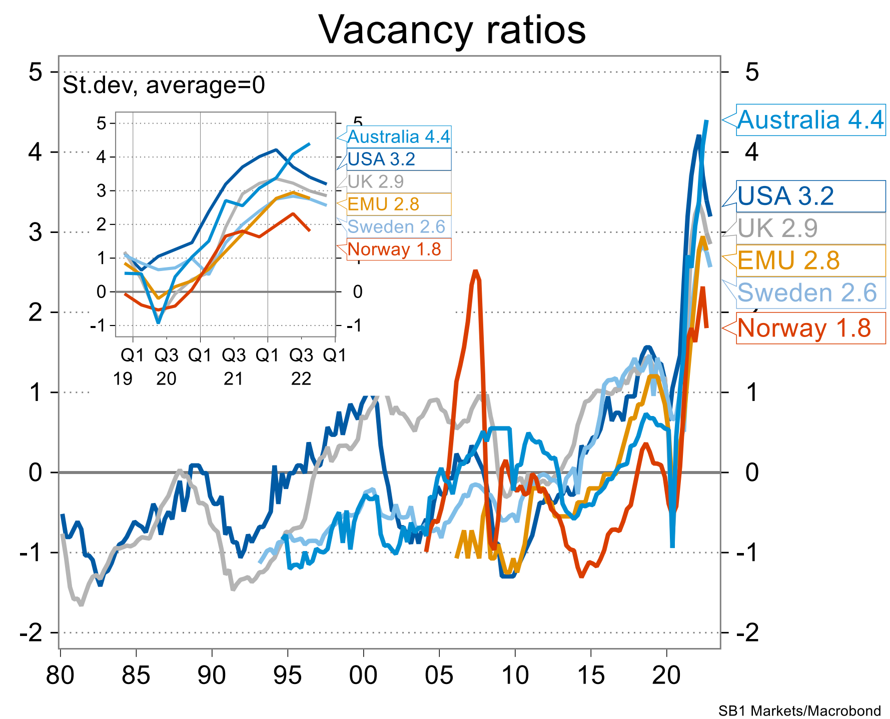


- Underlying growth is probably marginally lower than the 3.2% annual growth rate, but above the 2.25% pre-pandemic trend growth
  - Wage inflation remains modest almost everywhere in the EMU
- Negotiated wages are up 2.9% y/y, and are now growing slightly faster than before the pandemic
- Q3 unit labour costs are not yet available, but growth is now clearly above 2% - which is a relevant (but not huge) headache for the ECB

Finally, unfilled vacancies are heading down in Europe too

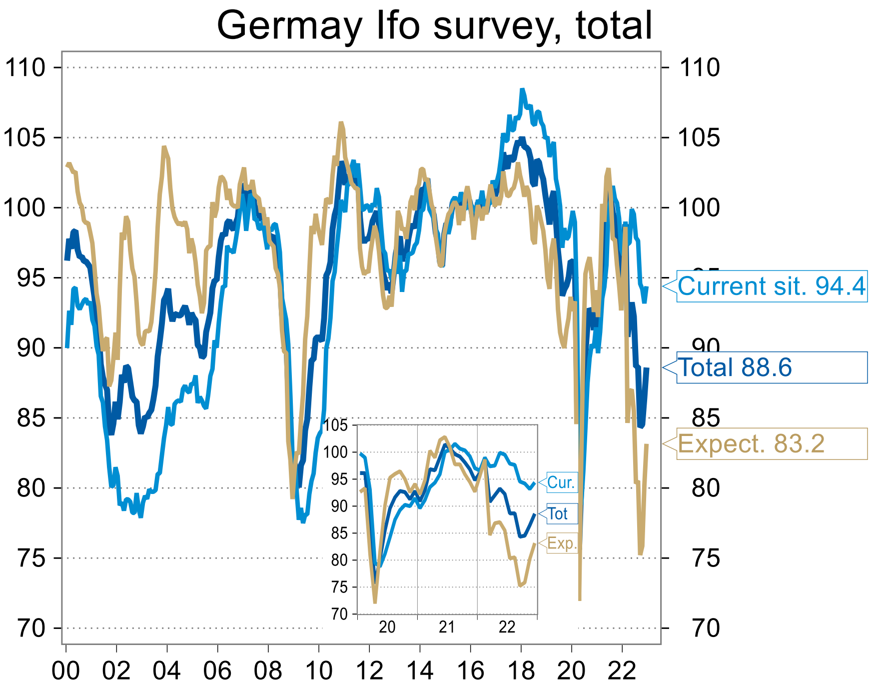
Still, the level is very high almost everywhere (barring Spain)

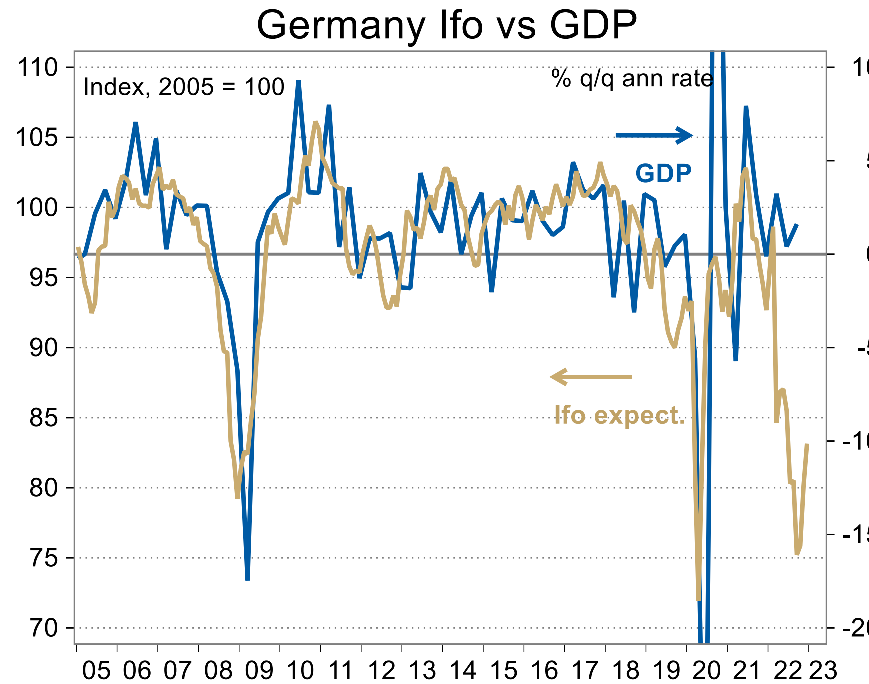




Ifo expectations continued upwards in December, but are still muted

The index was up 3 p to 83.2, which still signals a substantial fall in GDP



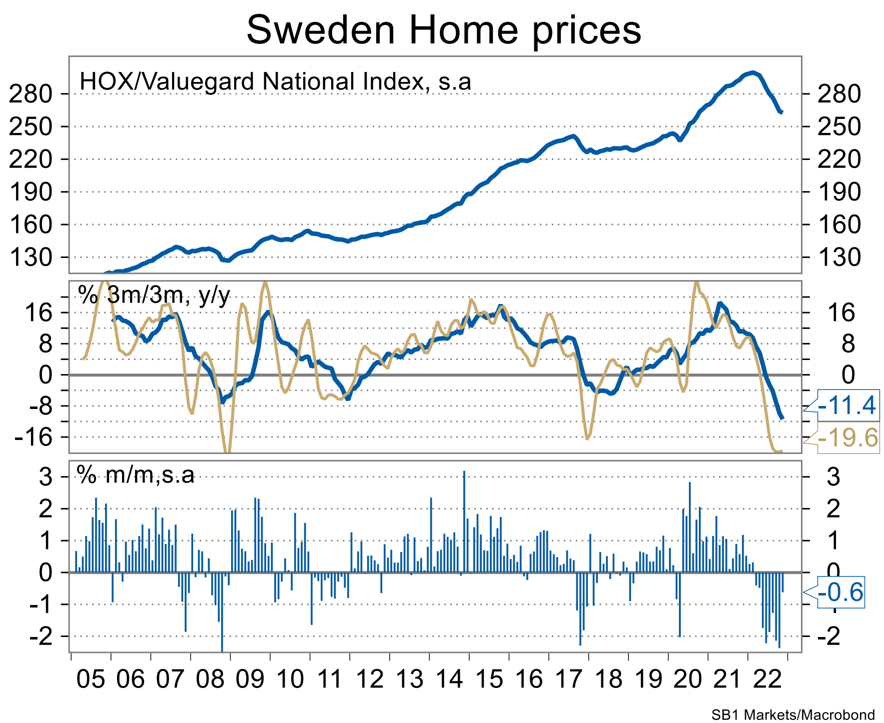


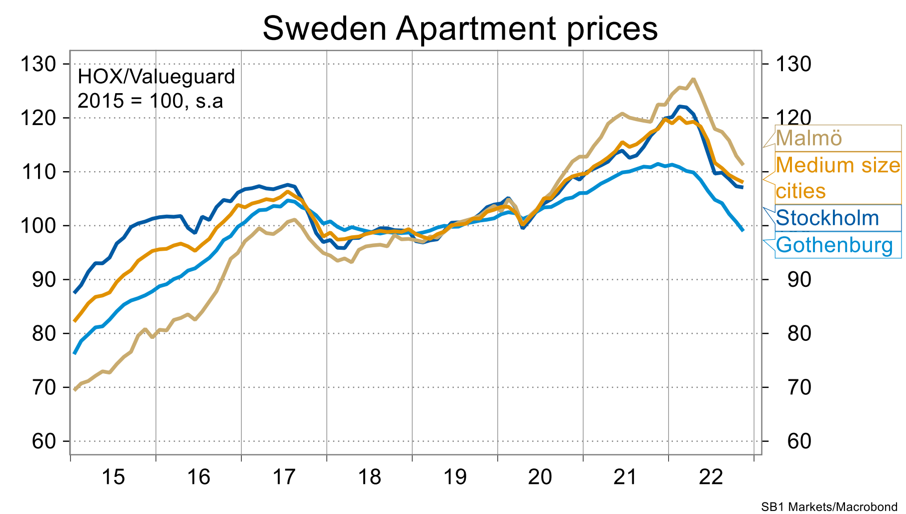
- **The expectation index** rose by 3 p to 83.2, which is 1.2 p better than expected (and Nov data was revised up by 0.2 p). The level is still very low, at 2.4 st.dev below average. The correlation to GDP is not perfect but a huge decline in GDP is signalled, at a close to 10% pace! The energy crisis is no doubt the main reason for the weak business sentiment
- The **assessment of the current situation** was up 1.2 p to 94.2, which was 0.9 p <u>above</u> expectations. The level is around average – signalling a normal growth rate. The problem is the expectations
- The **total Ifo business climate index** was up 2.2 p to 88.6; expected 87.4

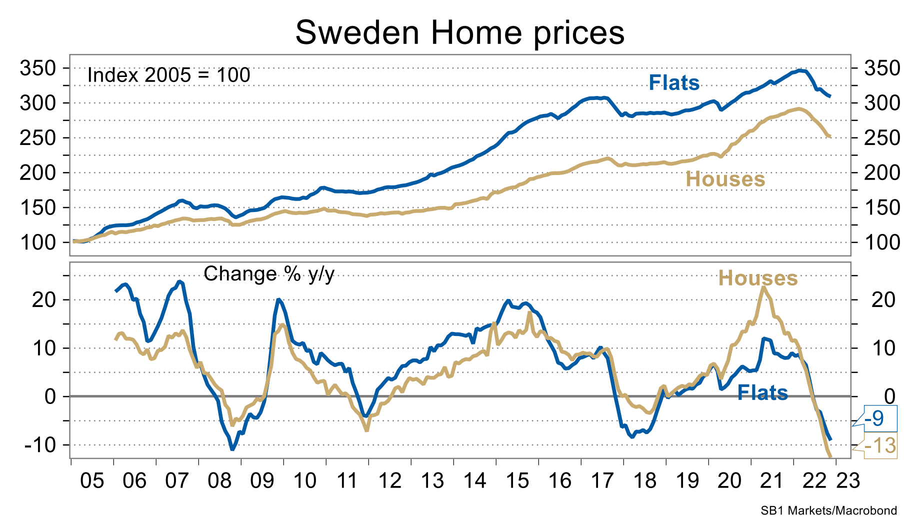
Business climate: the average of the current situation and expectations

Swedish house prices have fallen for 9 months straight

Underlying rate is some -20% (3m/3m) – but the decline in November was rather mild, just down 0.6%



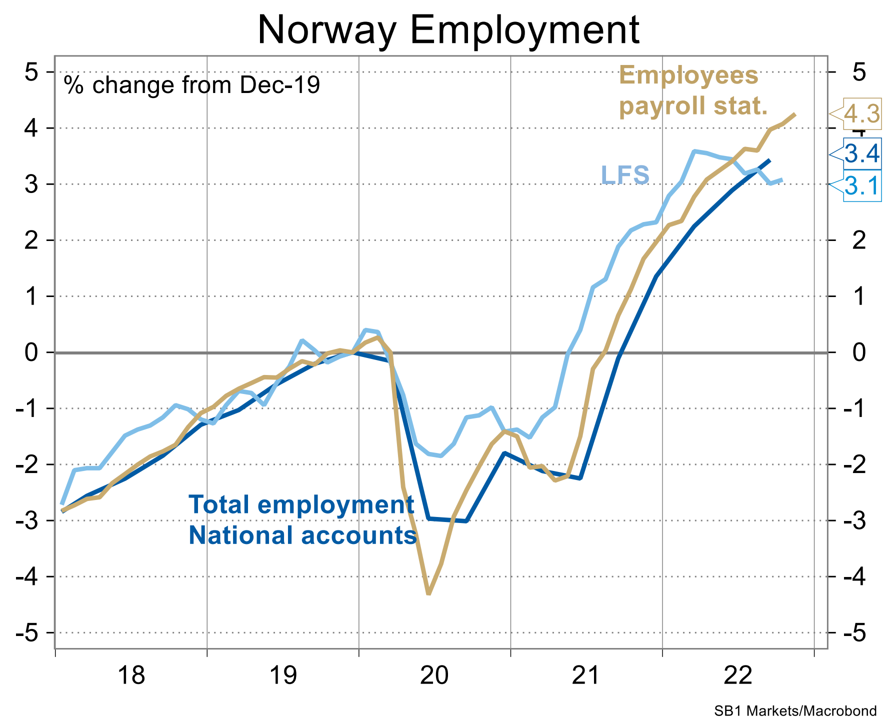


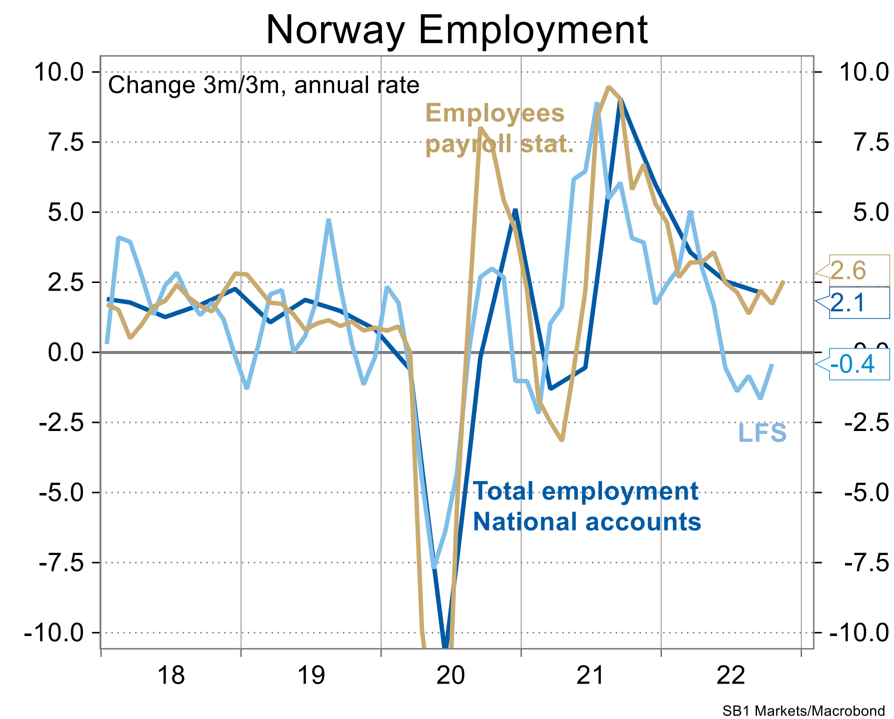


- **Prices are down 12.4%** from the peak in February. Same story in Stockholm as the rest of the country, apartment prices are down 12.4% from the peak
  - In Nov, apartment prices in Stockholm fell 0.2% (seas. adj), vs the national average decline at 0.6%, down from -2.4% in Oct, revised up from -2.1%
  - The underlying price growth (3m/3m) is now -20%!
- **The annual rate** declined to -11.4% from -9.8% in Oct
- The **Riksbank's** abrupt change of tack in late April has no doubt hit the housing market hard. The rest of the real estate sector is hit by higher long-term rates, and the sharp widening of credit spreads

Growth in employment is not yielding, at least not no. of employees

LFS total employment has been trending down since the spring, which does not seem that reasonable

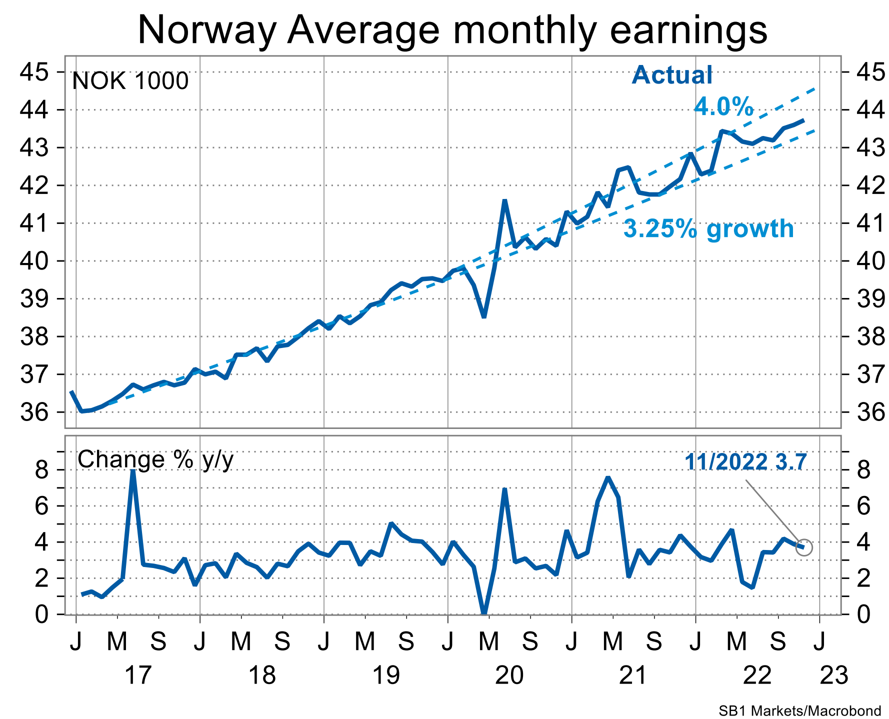


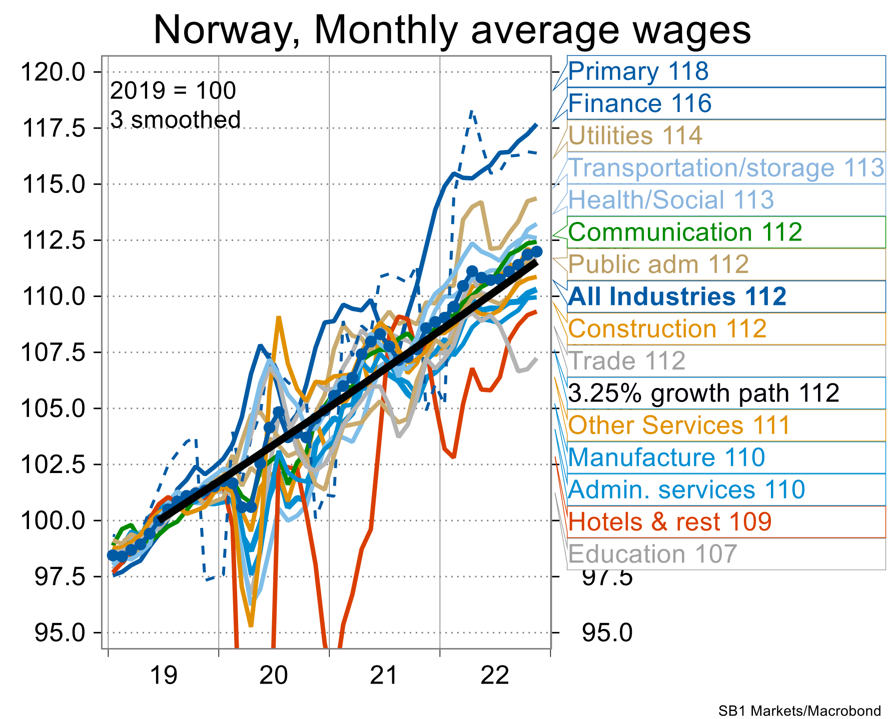


- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) rose slightly in October but is still trending down, though just at a 0.4% pace (3m/3m annualised). Given all other data for the Norwegian economy, a decline in total employment since the spring seems rather unlikely. LFS employment is up 3.1% since before the pandemic
- The **register-based employee stats ('A-ordningen)**, reports a 0.2% growth in the no. of employees in Nov, up from 0.1% in Oct. The 3m/3m rate is 2.6%, and growth has accelerated moderately since the summer. The level is up 4.3% since Q4-19. Foreigners have fully returned
- **National accounts** reported a 2.1% lift in employment in Q3 (annualised), and a 3.4% increase from Q4-19

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

Average monthly earnings are up less than 4%, and the current 'official' (SSB, NoBa) 3.9% 2022 estimate is OK



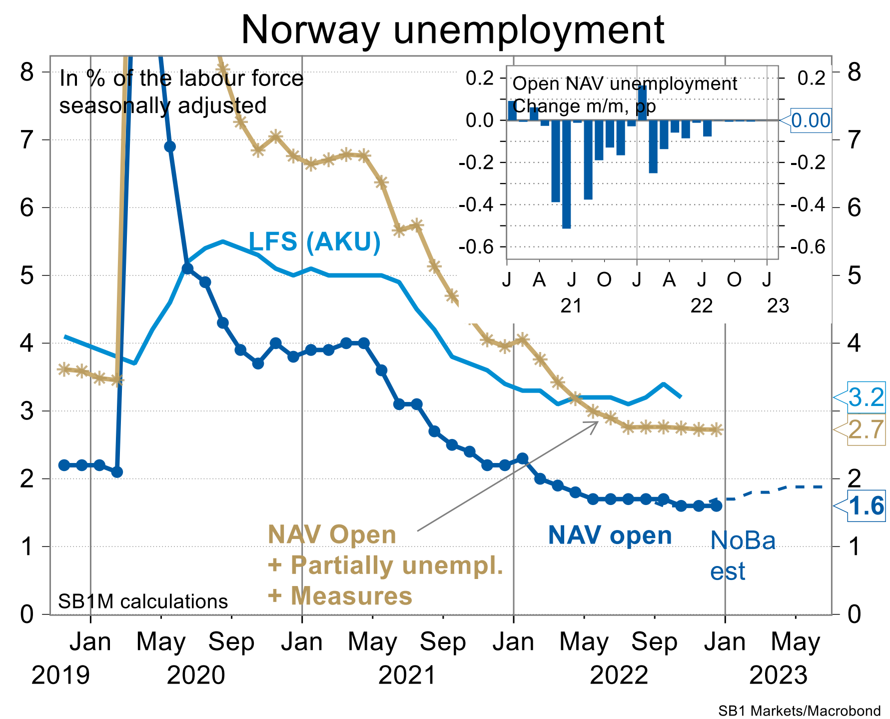


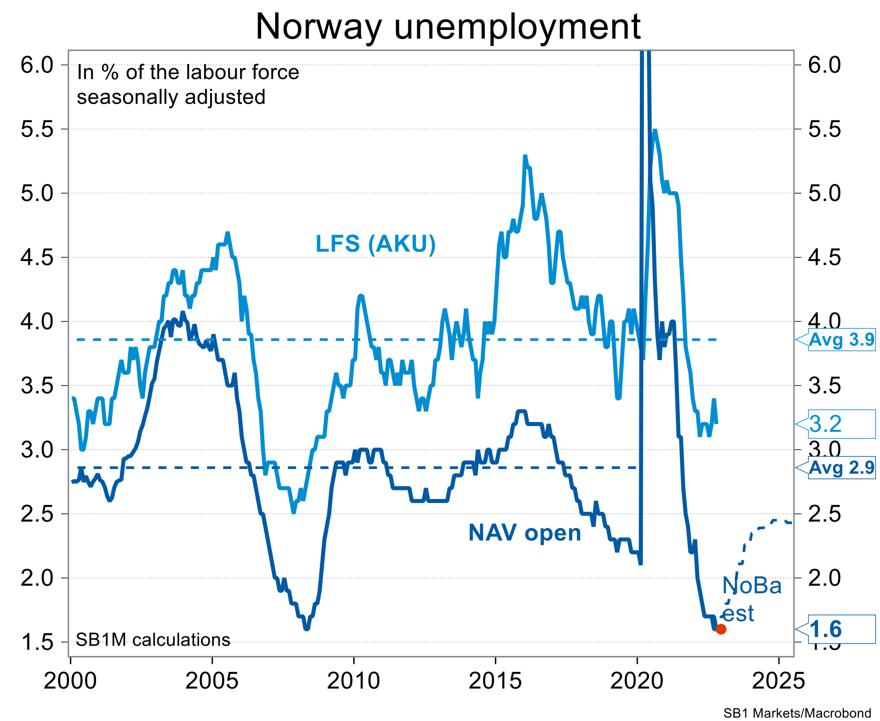
- **Monthly average cash earnings** has not accelerated much from the 3.25% pre-pandemic growth path. The underlying growth rate is not above 3.5%!!
- **These earnings data** are rather volatile, also depending on hours worked, bonuses – and data are often substantially revised
  - Last year the monthly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

SpareBank 1 MARKETS

NAV unemployment has not yet turned up, and LFS unemploym. fell 0.2 pp

Open unemployment unch. at 1.6%, as we expected, NoBa assumed 1.7%. The no. of unemployed flat too

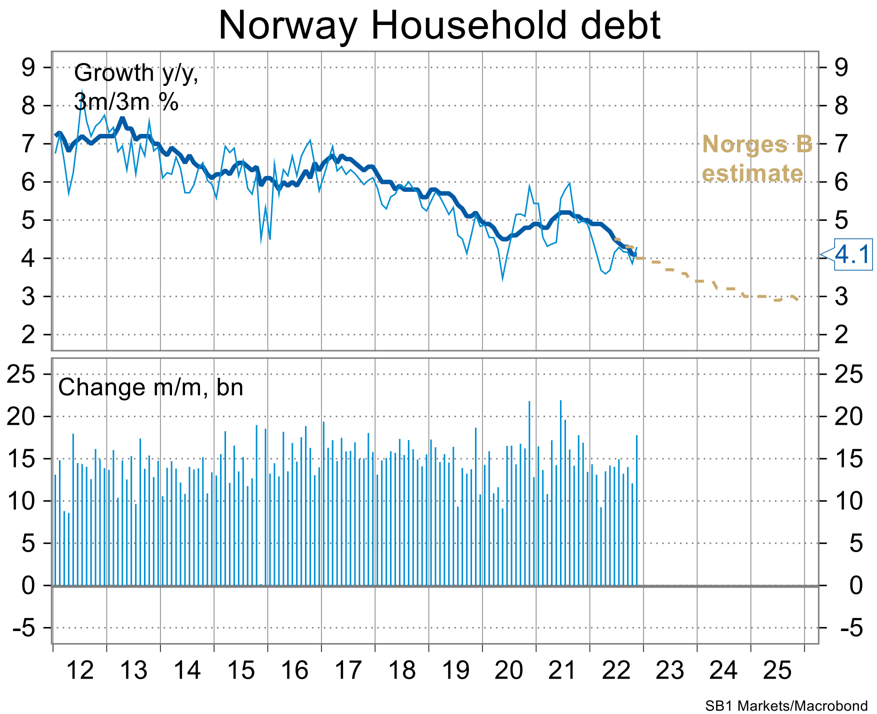


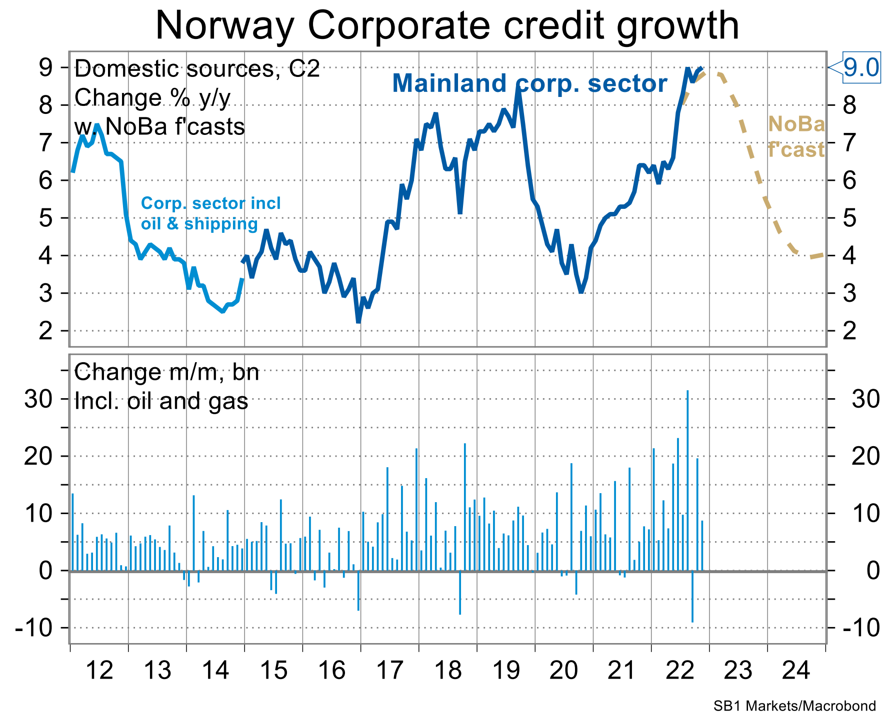


- **The 'full time', open NAV unemployment**, fell by 30 persons in Dec (seas. adj) to 47.6'. We expected a small increase, by 200 persons. The rate was unch. at 1.6% (s.a), equal to the trough before the financial crisis in 2008, and almost the lowest level since 1980, and +0.1 pp below NoBa's estimate in the Dec MPR. Unadjusted, the rate was also unch. at 1.6%, as expected. **Including labour market measures**, unemployment rose by 260' persons, as we expected. The rate is unch. at 2.0%. **Total unemployment**, including partially unemployed fell by 100 persons, and the rate was stable at 2.7%
- The inflow of **new job seekers** is trending slowly upwards, but the level remains very low. The **inflow of new vacancies** rose marginally in Oct, but the trend is down, from the peak before the summer. Even so, the level remains very high. The decline is broad, except for the public sector.
- **The LFS (AKU) unemployment rate** fell 0.2 pp to 3.2% (Sept – Nov avg), following the surprising 0.2 pp increase last month. The trend may have turned up

Demand for household credit is slowing – but not in November

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

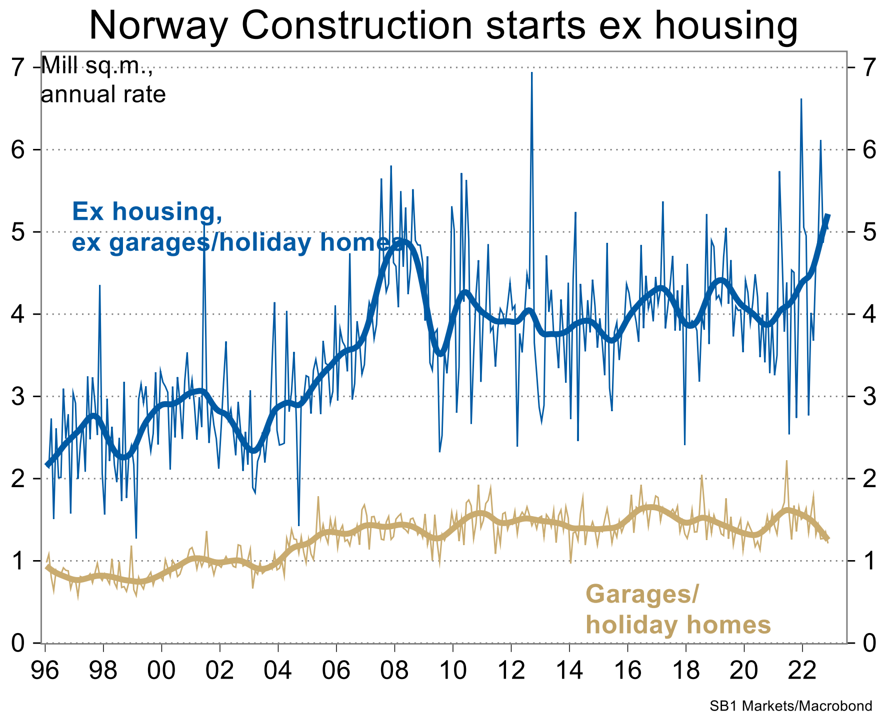


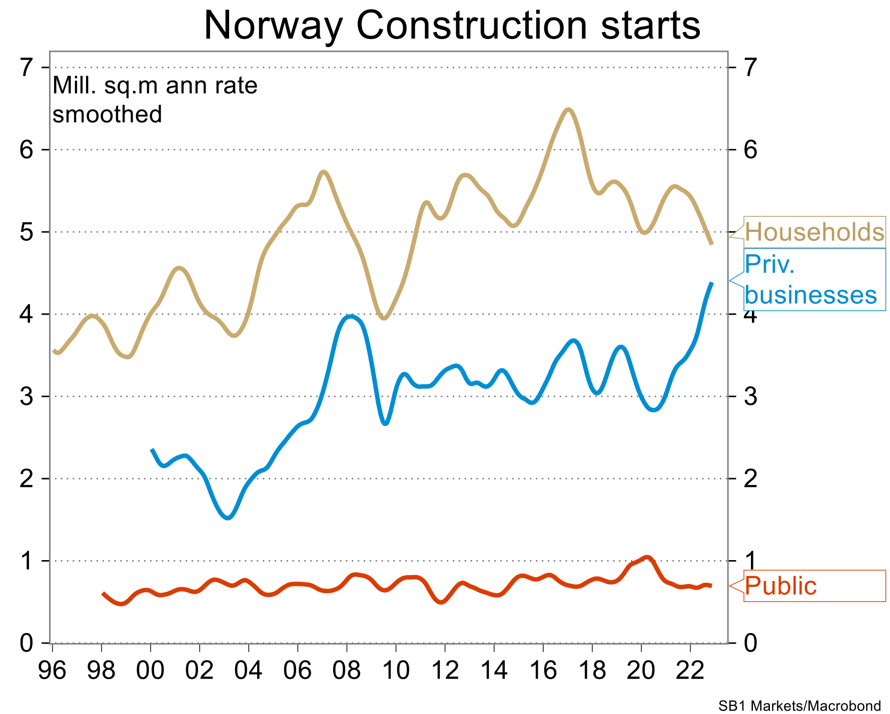


- **Household credit** growth has been slowing since mid 2021, and the annual rate has been falling to just above 4% from above 5%, and the debt/income ratio is finally declining. Household debt growth has so far slowed faster than Norges Bank have assumed in a series of MPR but surprised slightly at the upside in November. Still, we expect household credit growth to slow further the coming months/quarters
- Monthly growth in **corporate domestic credit** is volatile, most likely because loans are transferred to or from abroad, and the NOK 9 bn lift in Nov was lower than we expected. Growth in Mainland business debt has shot up recent months,
  and is at 9.0%, once again above NoBa's f'cast (from the Dec MPR). NoBa expect credit growth to slow the coming years,
  but nothing like during slow-growth periods (check next page)

Non-residential private sector construction is still going VERY strong

Construction of holiday homes/garages are falling rapidly

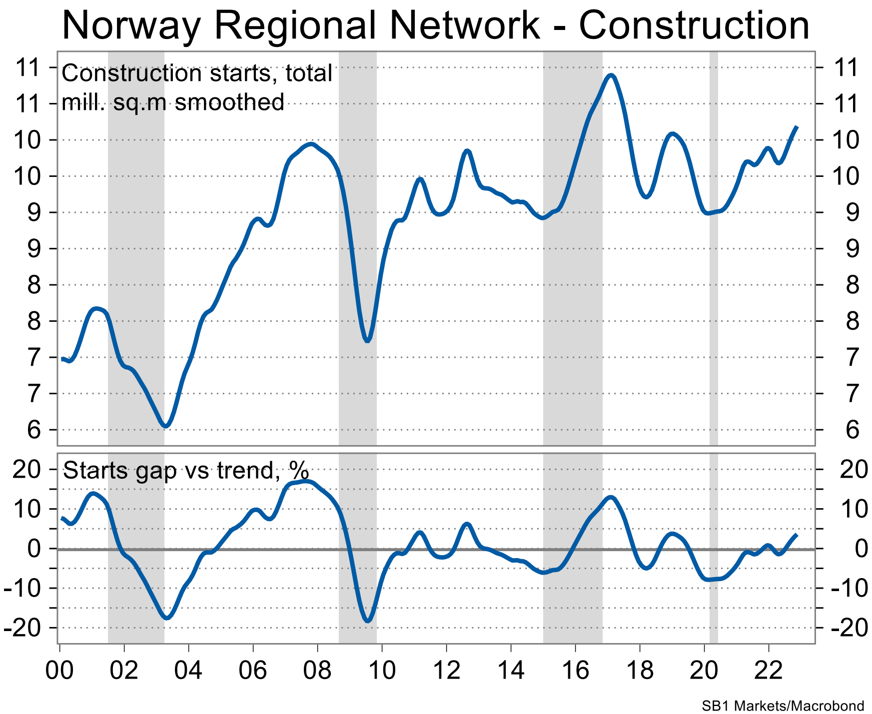


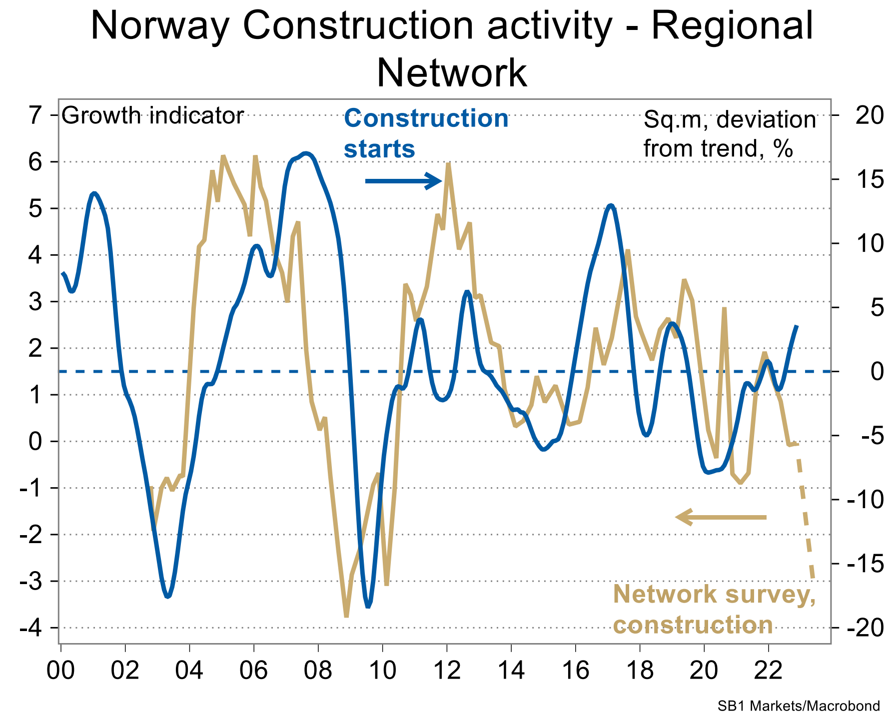


- **Construction starts ex housing & garages/cabins** are very volatile, short term, influenced by single projects
  - **Private non-residential starts** climbed and are trending upwards, and the level is on par with the highest ever
  - **Public sector construction starts** are trending flat, at a normal level
  - **Construction starts of cabins/garages** climbed 30% – 40% from early 2020 until late 2021– but are now trending down, and is soon back to the pre-pandemic level

The Q4 NoBa Regional Network signals a hard construction sector landing

… while total construction starts are <u>still rapidly on the way up</u>, thanks to private services, manufacturing

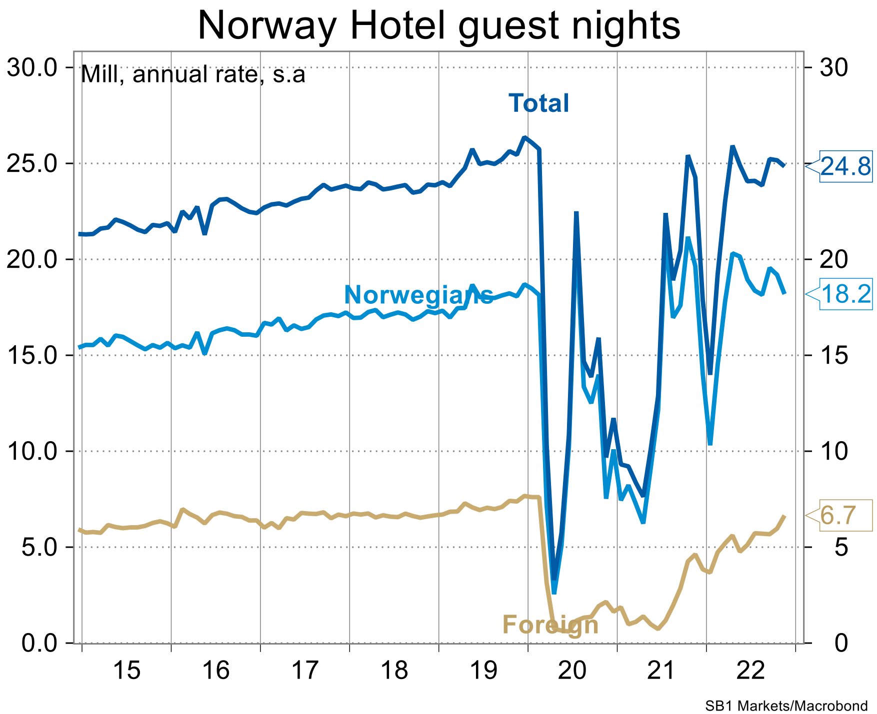


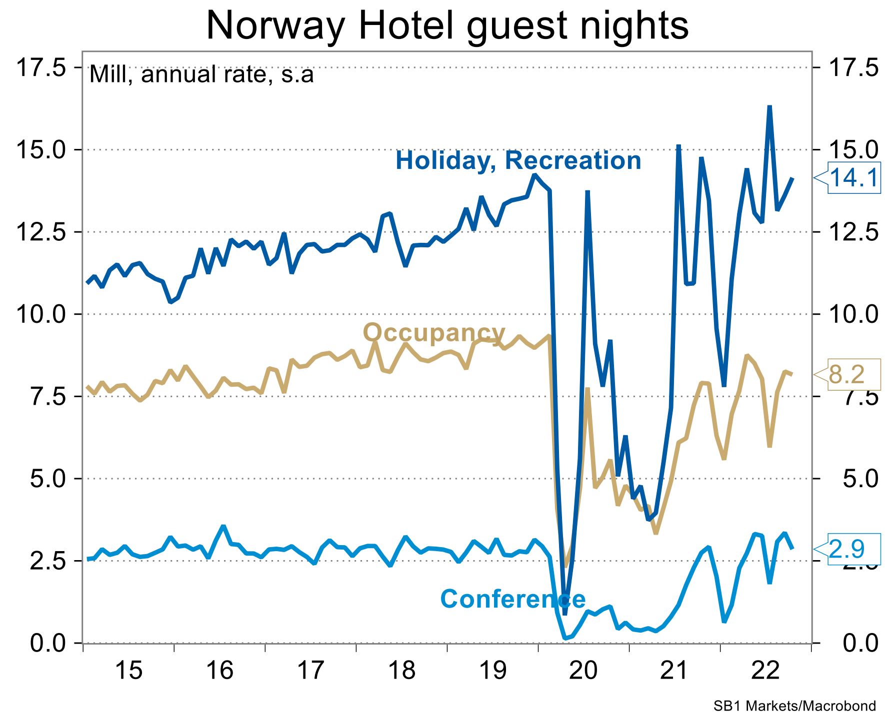


- Companies in the construction sector now report the sharpest contraction since the Financial Crisis. Back then, starts fell almost 30%
- The 'long term' trend in total starts is down since early 2017

Fewer Norwegian guest nights in November, more foreign

The no. of guest nights is still below the pre-pandemic trend growth path, by some 10%

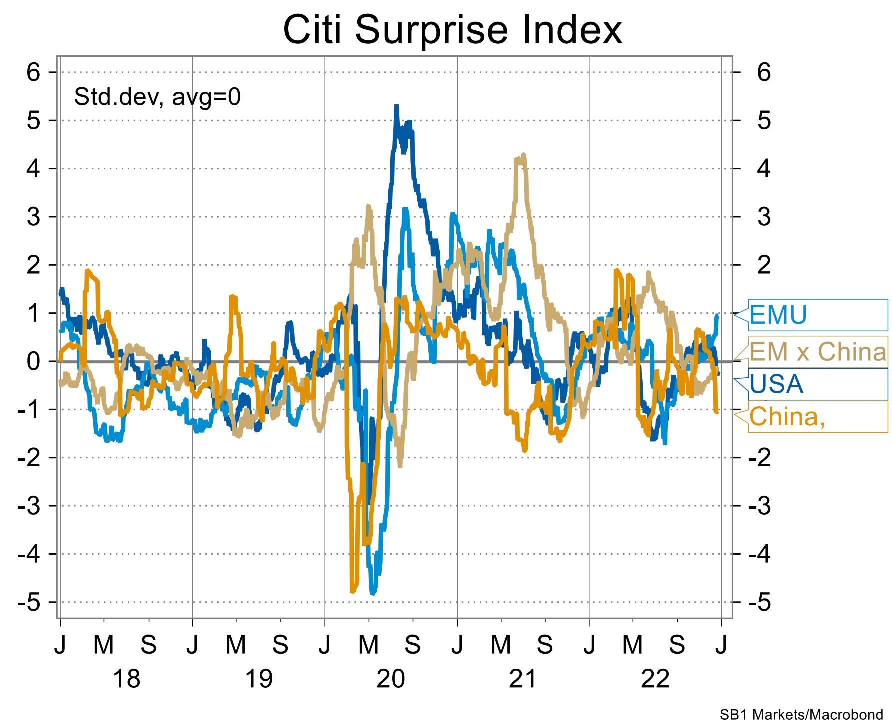


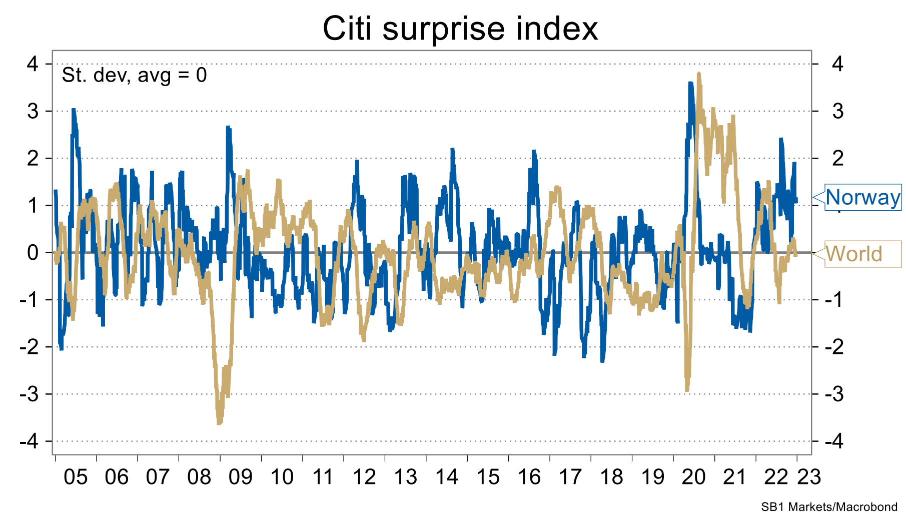


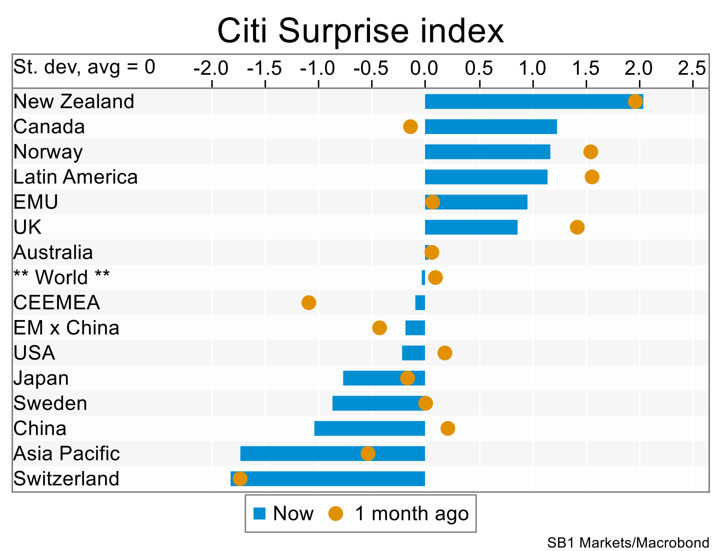
- **Both Norwegian and foreign guest nights** are below the pre-pandemic trend paths. Foreigners have returned at a brisk pace through 2022. Norwegians returned in 2021 – and the trend has been flat since Q4 last year. Very likely because travelling abroad had recovered sharply
- **Recreational demand** is above the pre-pandemic level, and not far below the pre-pandemic trend path
- **The conference market** is (at least) back the pre-pandemic level
- **Other business guest** nights are some 10% below the pre-pandemic level, and even further below the trend path that ruled until Feb-20

US, Chinese data weaker than expected; EMU data surprise to the upside

And EM x China is trending upwards (but is still negative). The world index is close to neutral







- Norwegian data still much better than expected, according to Citi

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

SpareBank 1 MARKETS

Highlights

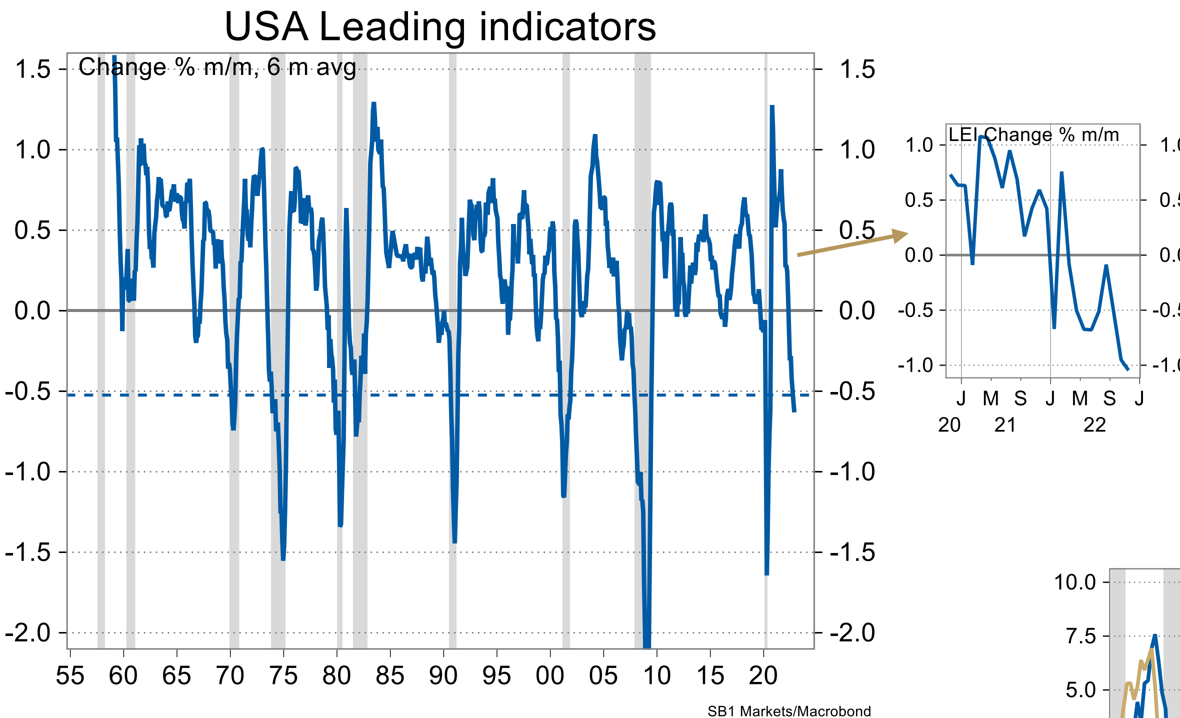
The world around us

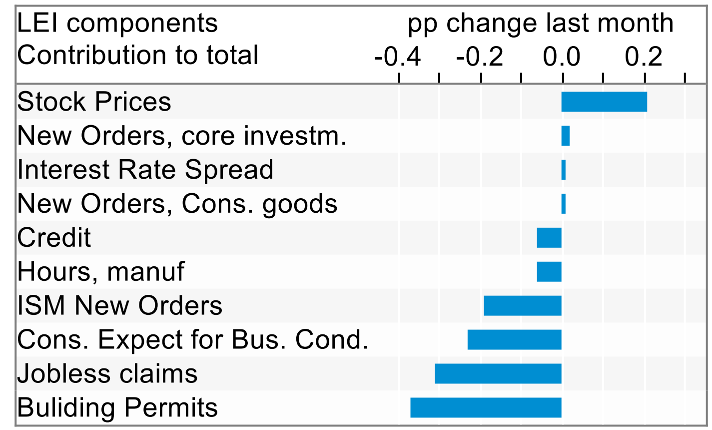
The Norwegian economy

Market charts & comments

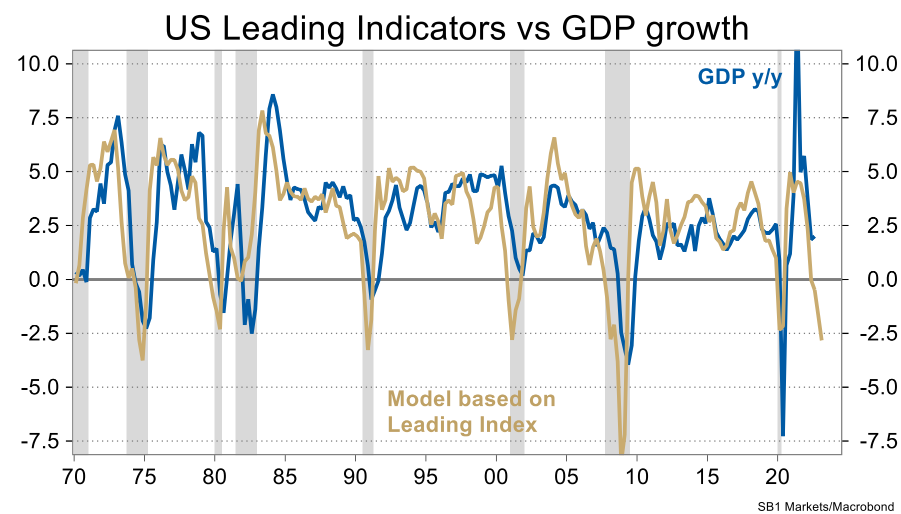
Leading Indicators further down in Nov, Wall Street the only positive

LEI at the current level has detected 8 of the 8 past recession, and now false warnings



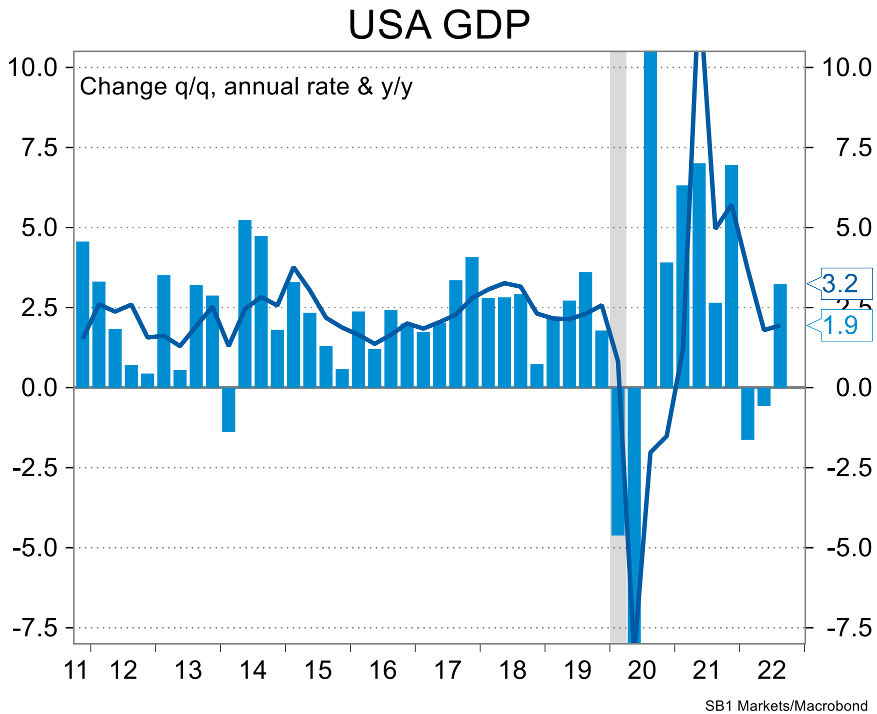


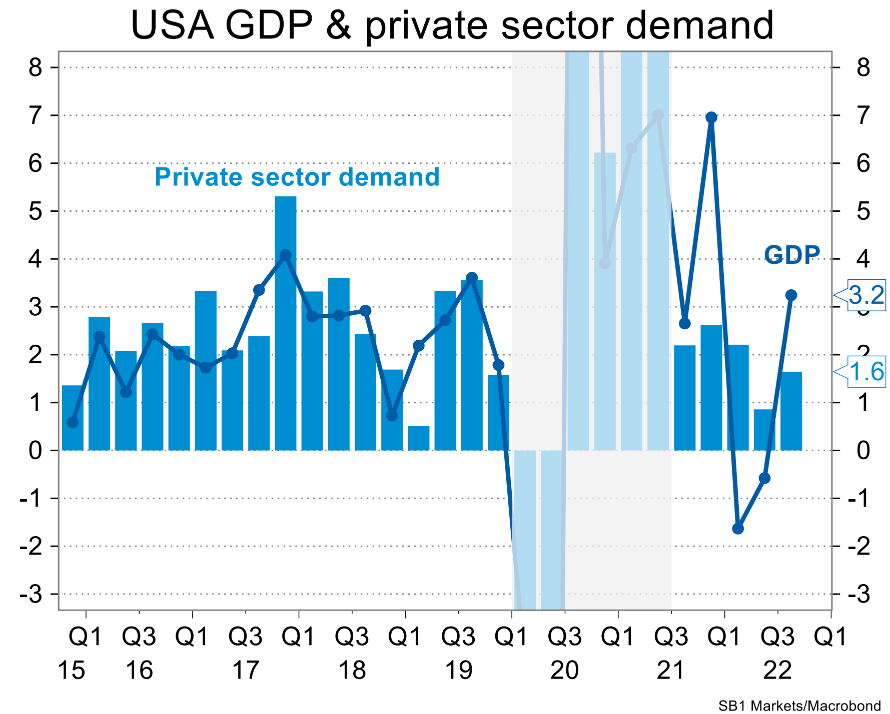
- **The LEI** fell 1% in Nov, expected down just 0.4 pp. The 6 m average at is at -0.6%. The LEI has fallen to this level 8 times since 1965 (9 included the current observation)
  - On these 8 occasions the US economy was very close to entering or had entered a recession every time
  - Thus, the LEI 6 m avg at -0.6 'detected' all 8 recessions since 1965; no false positives, and no false negative
  - In 1960, US entered a recession without any clear warning sign from the LEI
- The current LEI signals a 2.5% pace of contraction in GDP



Q3 GDP growth revised up 0.2 pp to 3.2% (in the 3rd revision)

Growth so far in 2022 has been weak, activity is up just 0.2% from Q4 last year. Private domestic demand is up 1.2%

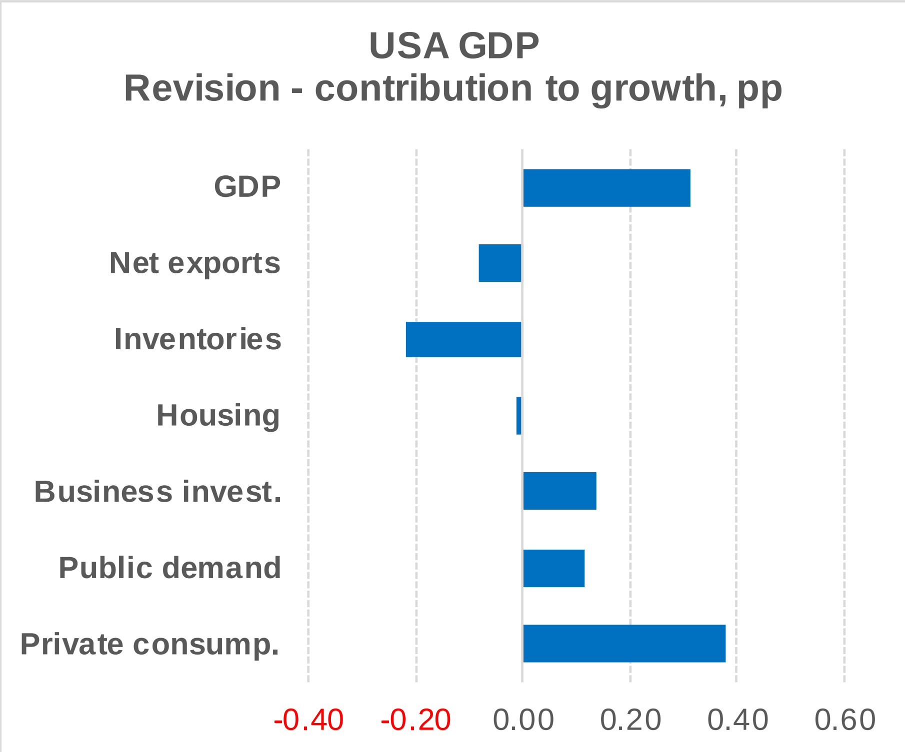




- However, growth in **private (household + business) demand** has slowed, albeit not further in Q3, due to the upward revisions of both consumption and business investments
- **Net exports** contributed at the upside in Q3, as exports rose and imports fell. This trick will not be repeated in Q4
- **Inventories** rose at a slower pace – and were revised further down – and deducted 1.4 pp from growth in Q3. Inventories may still be somewhat too high
- **Price deflators** were revised marginally upwards. They have all peaked but they all remain high

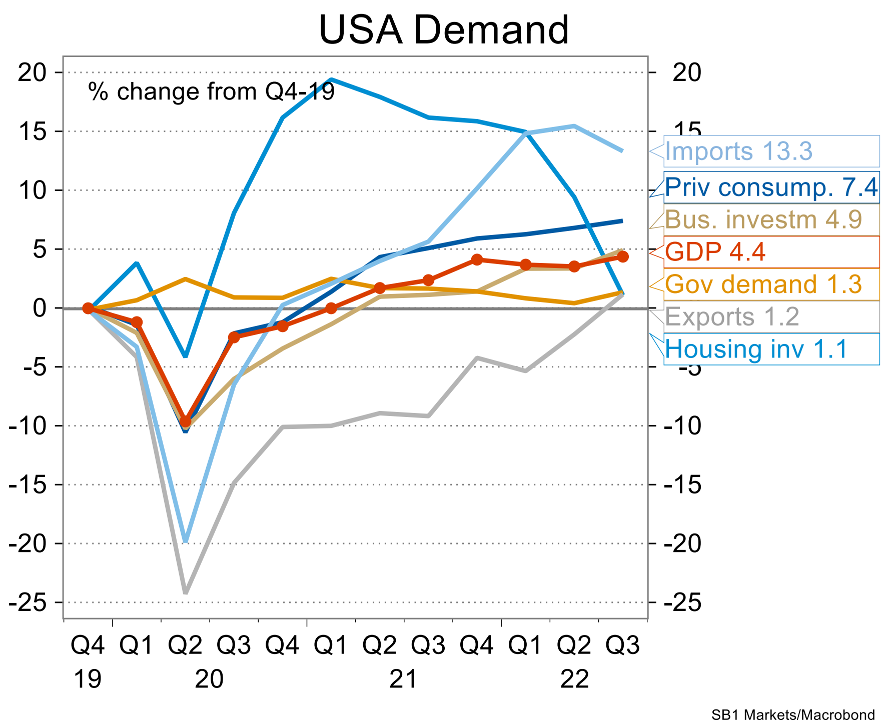
The (not so important) revisions: Stronger household demand

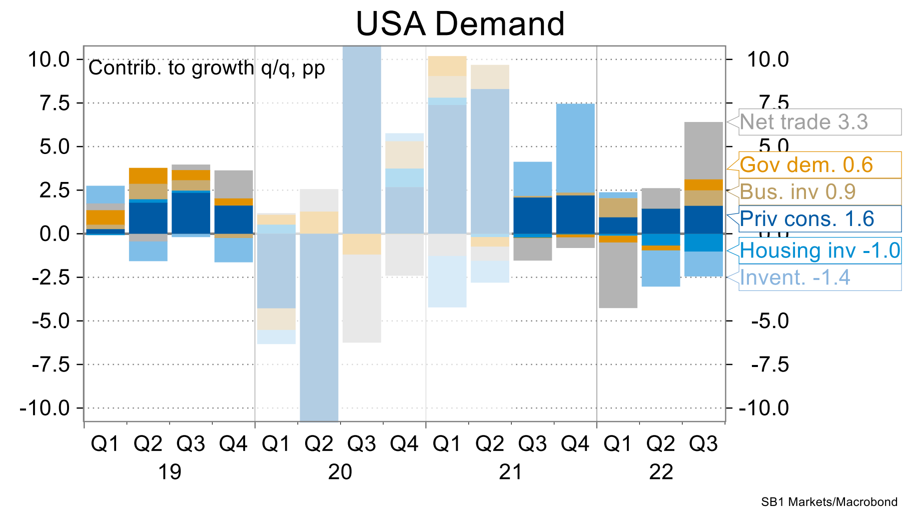
.. And higher business investments and public sector demand

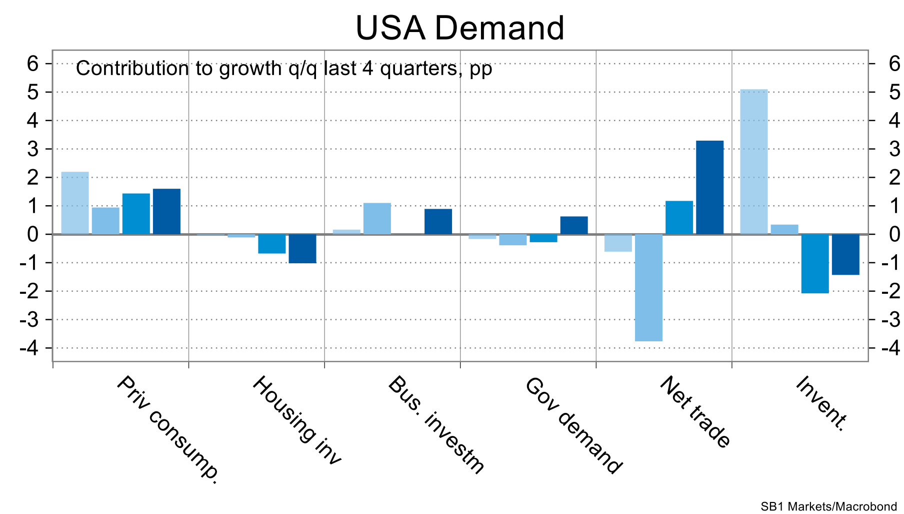


Higher exports, lower imports the story in Q3. And the ‘collapse’ in housing

Business investments rose slightly, while inventory build-up slowed

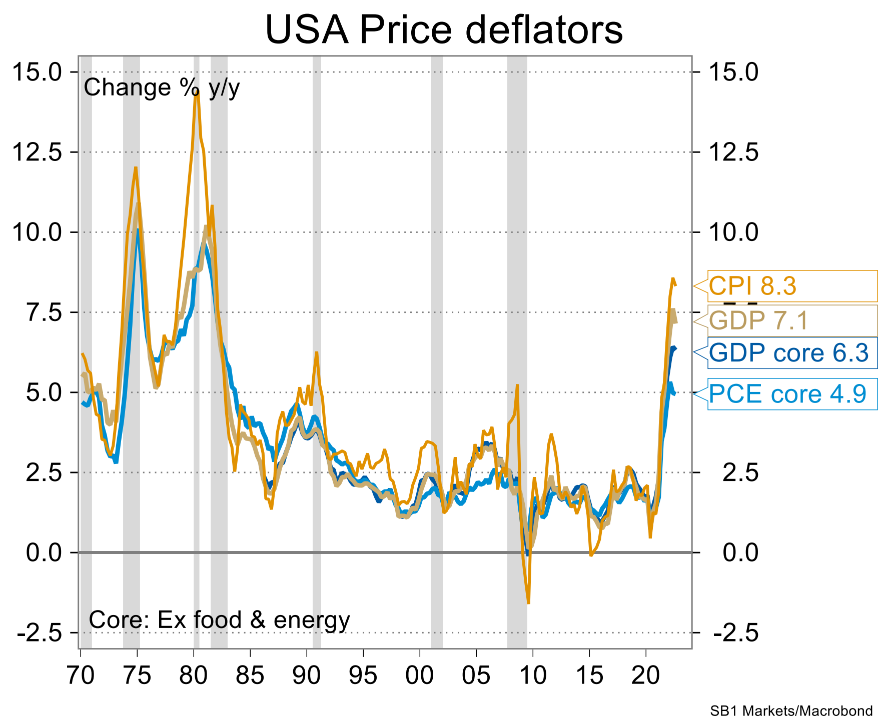


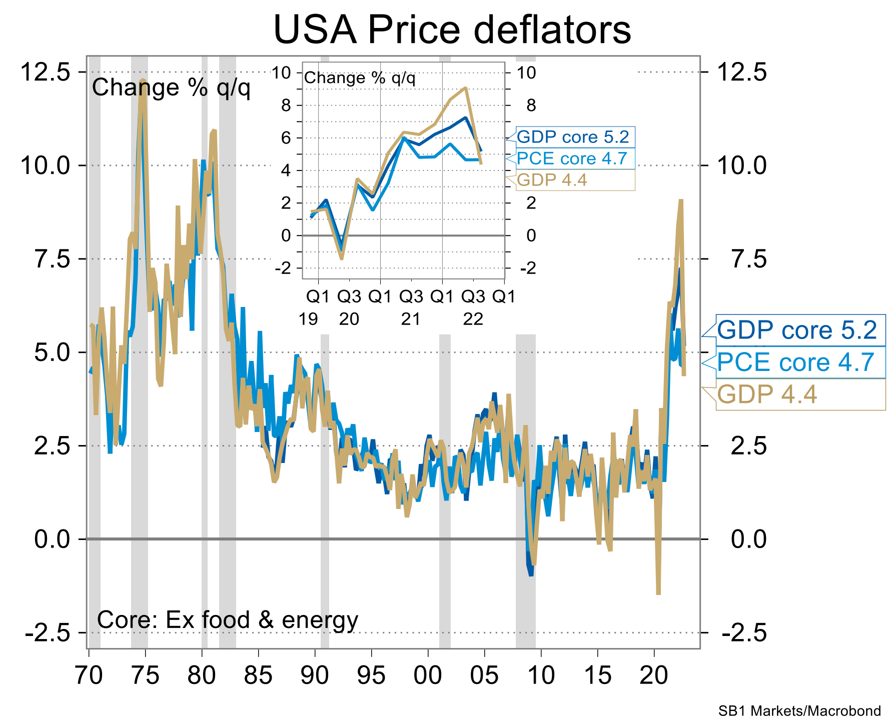




Peak inflation: The GDP price deflator down in Q3, but less than first reported

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

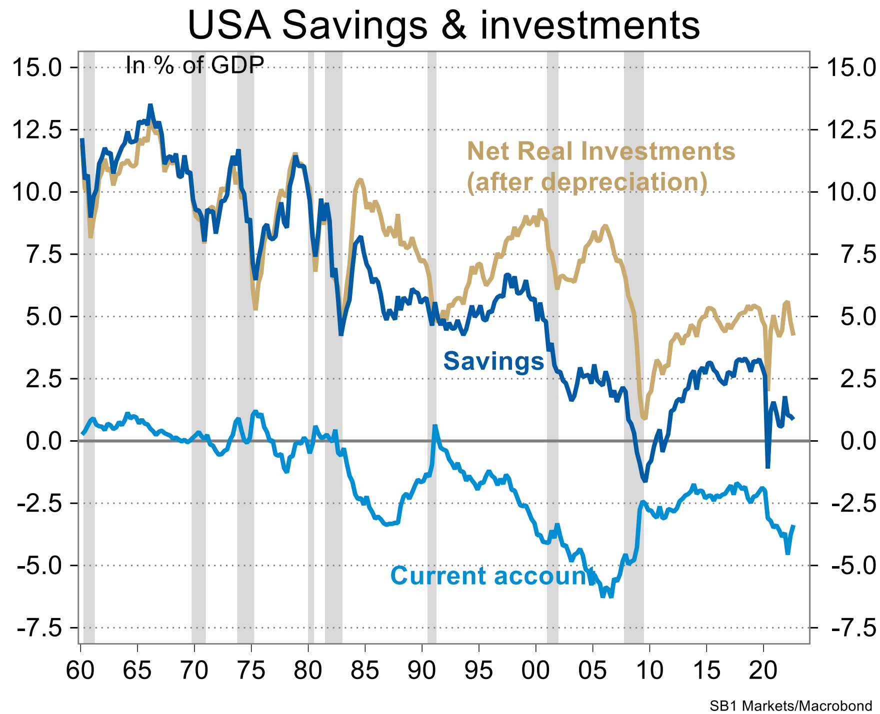


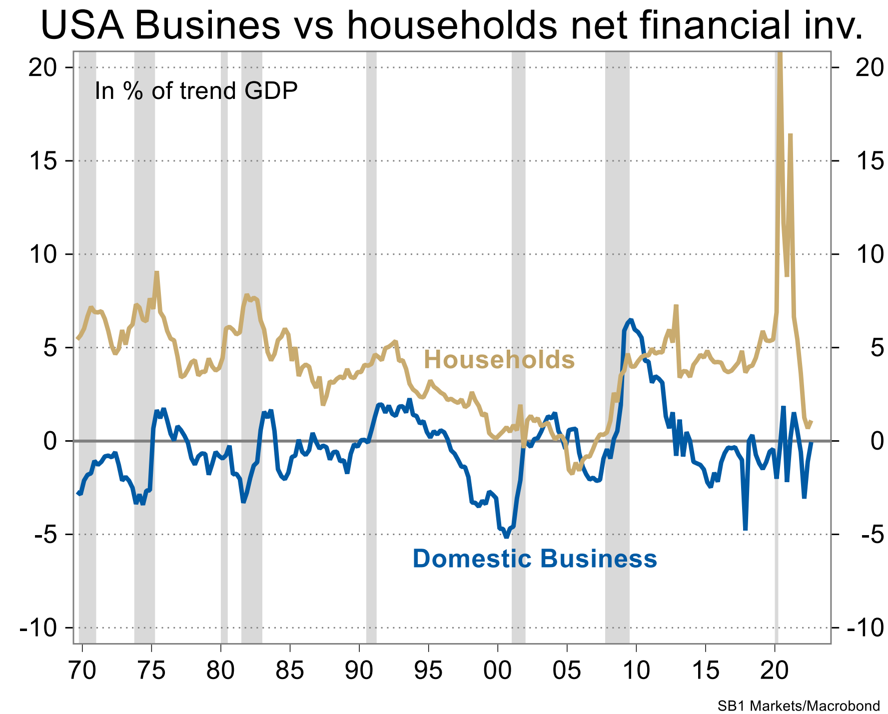


- The core (x energy, food) PCE (private consumption) deflator, Fed's preferred inflation measure rose 4.6% in Q3, down from 4.7% in Q2. The core PCE inflation peaked in Q2-21

The current account deficit = Savings - investments

The US is saving less than it invests, and invest. are not that high

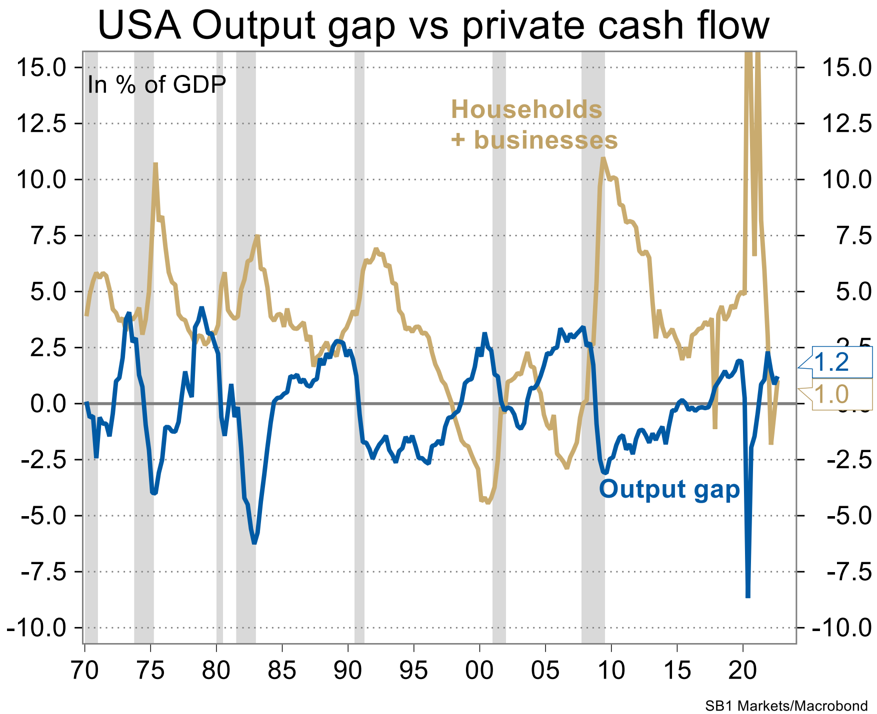




- However, net investments (after depreciation) are above the long-term declining trend in the investment/GDP ratio
- Who are saving in the private sector?
  - Households are running a 2.5% of GDP cash surplus, as their investments in new homes are less than their savings. Lower housing investments should lift household savings
  - Business have been running 3% of GDP cash deficit, clearly larger than normal. This deficit will reduced as soon as businesses start cutting their investments – and soon they very likely will

What goes up, must come down. And vice versa

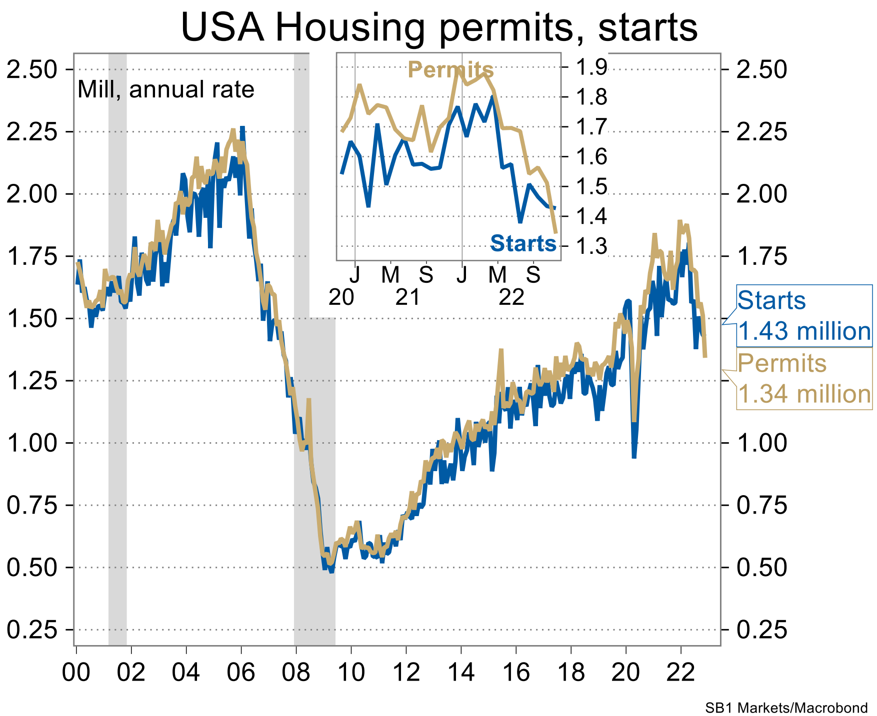
Recessions are always caused by the private sector cutting spending, and saving more

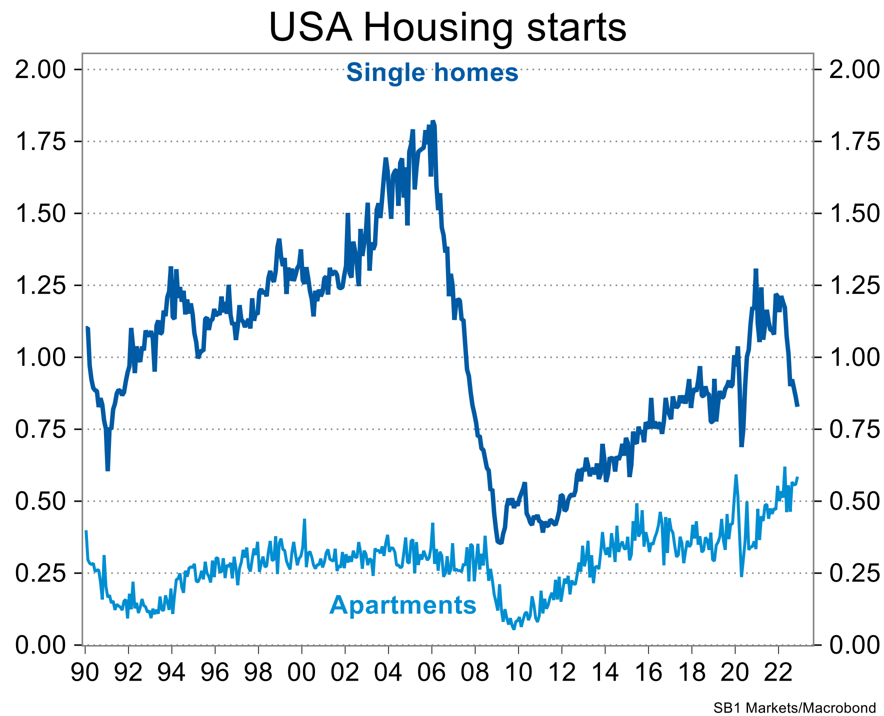


- Well, 'caused' in a direct sense – higher interest rates due to too high inflation, a recognition of too much borrowing, falling house prices or other factors may of course initiate the increase in private sector savings – but it is private demand that contracts, not public sector demand (and public borrowing always increases)

Both permits and starts fell further in November

Both are down 21% – 29% since before the steep decline that started in the spring

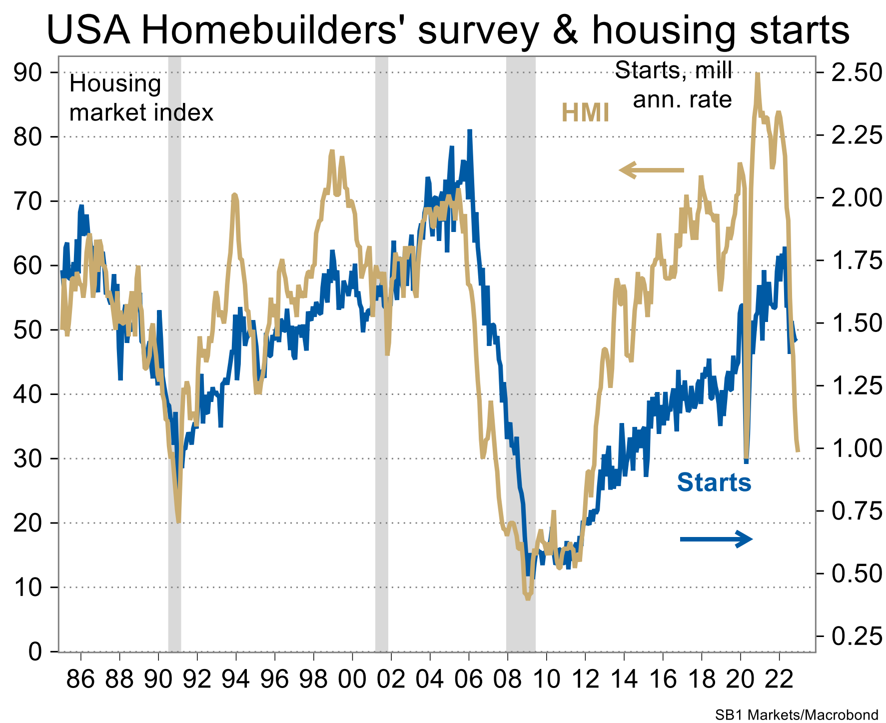


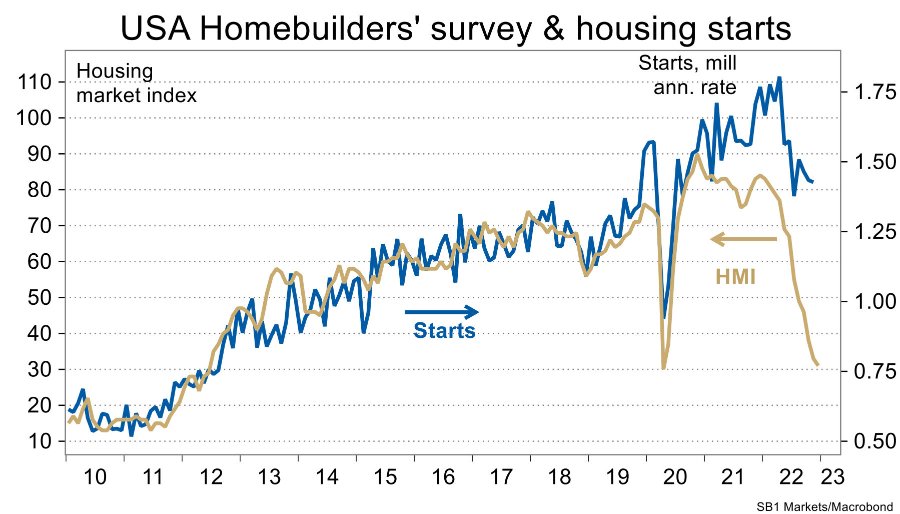


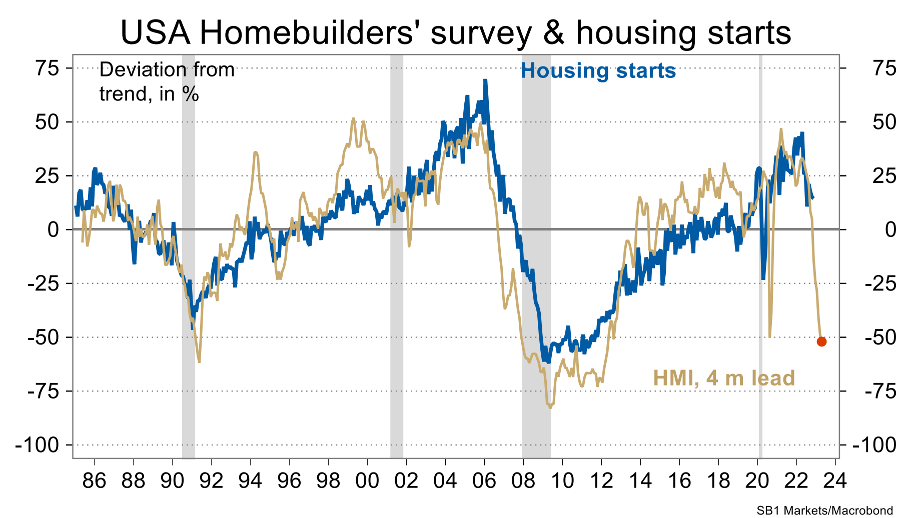
- **Housing starts** fell by 34' to 1.43 mill. In Nov (revised up by 9'), expected 1.40 mil, and are still above the July level. **Building permits** declined further to 1.34 mill, below expectations at 1.49 mill, from 1.51 mill in Oct. Permits fell in the 5 months prior to Sept, before an uptick that month, but have now fallen for the past two months again, suggesting fewer starts in the coming months. If Home builders are right (next page), the US will very likely soon be close to a recession – the housing market <u>is</u> in a recession
  - Starts of **single homes** fell to the lowest level since after the start of the pandemic, down 32% since February. Starts of **apartments** were up in November and have so far not come significantly down from the peak, these starts are just trending flat – with substantial downside ahead, we assume
- Building **<u>material</u> cost inflation** has come to a sudden halt. **Lumber prices** are <u>back to a normal level (or even below), steel prices have fallen substantially recent months too</u>

Home builders’ index further down in December, was expected up

The HMI down 2 p to 31, expected up 1 p to 34. Still, the decline was muted compared to the prior months. Some hope?



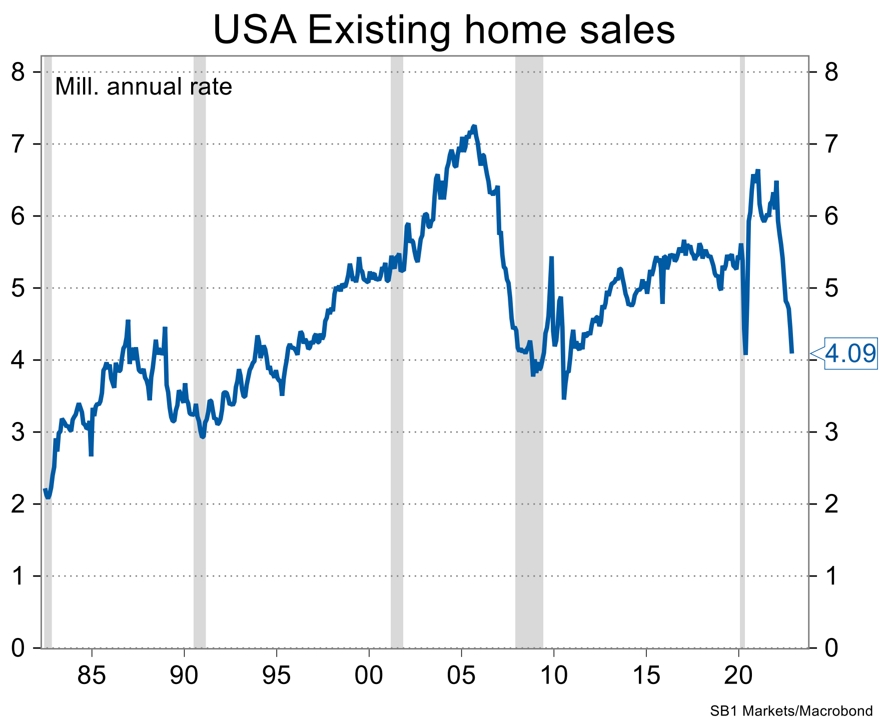


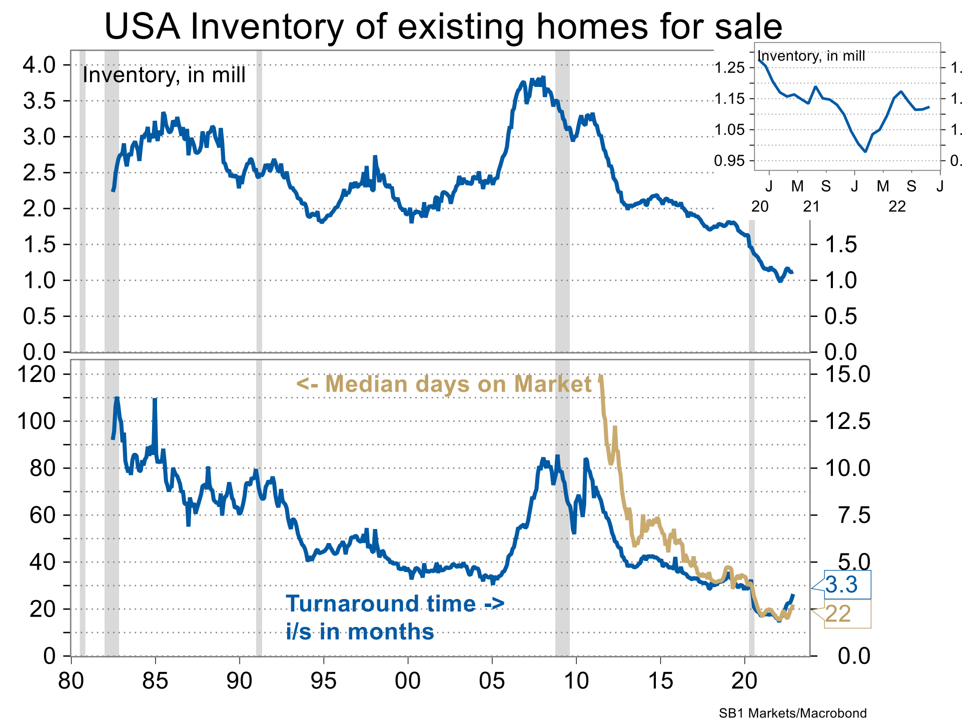


- **The Homebuilders’ Housing Market Index (HMI)** once was weaker than expected – but the decline was modest. The decline prior months – and since Dec last year – is the steepest ever, and the second largest ever, after then one that took place from June <u>2005</u> to Jan <u>2009</u> (the decline started 3 years before the financial crisis)
  - Affordability is still the challenge, due to higher mortgage rates, and soaring new home prices (at least until now)
- <u>The decline in the index recent months signal a 55% decline in housing starts following the 20% drop so far - in sum a 75% setback, which we have never seen except for before or during the deepest of recessions</u>

Existing home sales have fallen for 10 consecutive months

Sales are down 37% from January, and prices are falling. However, the inventory still small, and it's not increasing

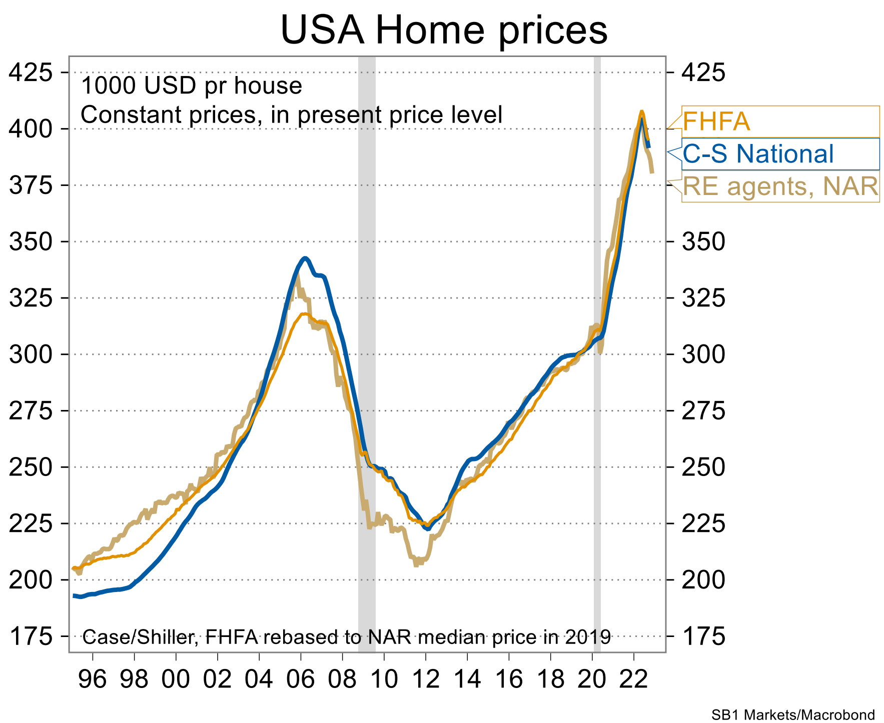


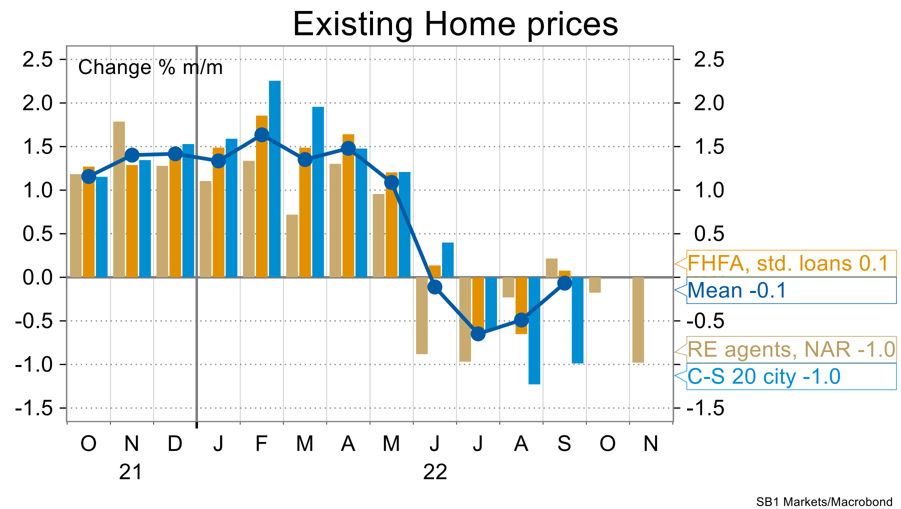


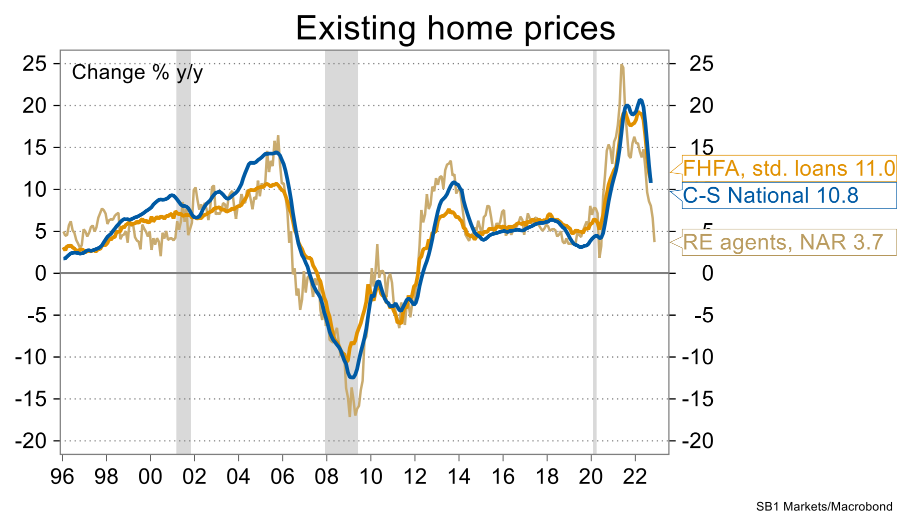
- Sales of **existing homes** fell to 4.09 mill in November (annualised rate), from 4.43 mill in Oct, expected down to 4.20 mill. Sales have fallen by 37% from local peak in January. Sales are down 25% vs. the pre-pandemic level
- **The inventory of unsold homes** rose marginally in November but is still lower than during the summer – and it is up less than 15% from the ATL in March. The inventory equals 3.3 months of sales (up from 2.9 last month, and 1.8 in January). However, during the 2005 boom, the i/s ratio was 4 months, in bad times it has been as high as 10 months
  - Very likely, the steep rise in mortgage rates is locking prospective home movers in, if they sell, they have to pay a much higher mortgage rate for the next home. Thus, fewer sellers, at least for now (but also few buyers, of course!)
  - A signal of a still hot market: The median time on the market for those homes actually sold is just 22 days, and still close to ATL. Before the pandemic the time on market was at 30 days (and 120 days in 2011!)
- **Prices** fell 1%, the 5th decline over the past 6 months. Prices are down 3.1% from the peak – and now up just 3.7% y/y

House prices are heading down, following the 40% lift during the pandemic

Prices are up 3.7% y/y – but the negative sign is rapidly coming closer



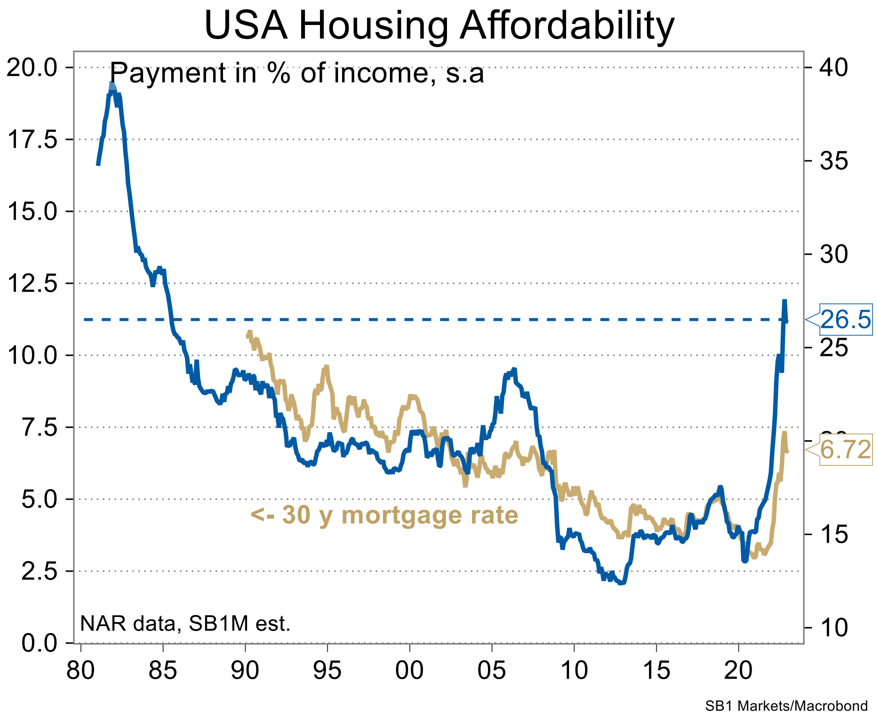


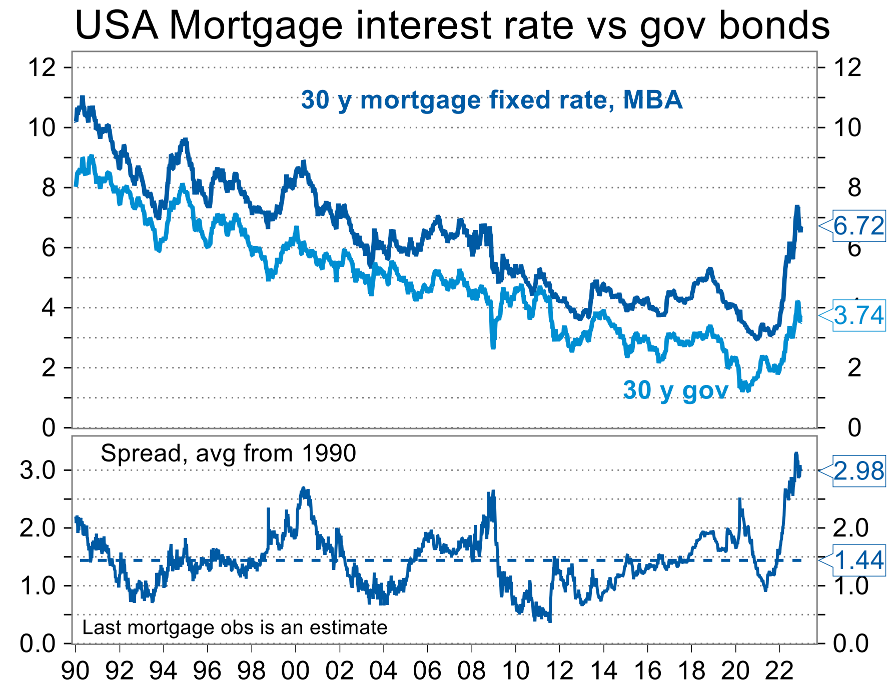


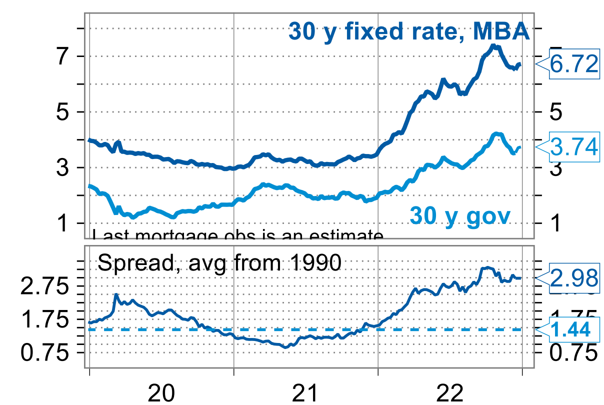
- **Prices fell 1.0% in Nov, following the 0.2% decline in Oct (revised down from +0.2%)**. The seasonal adjustment of these data is not perfect, so some caution on our m/m data. The annual rate fell 3.1 pp to 3.7%
- Other indices still are up 10% - 11% y/y, but prices fell all across the board in Aug (Jul-Sep, the last obs). Prices are normally lagging sales by almost 1 year. This time, prices followed sales down much earlier, we think it's due the rapid deterioration of affordability
- Home prices rose more than 40% during the pandemic, and are way above the 2006 level, even in constant prices. The downside risk is HUGE! 2020 prices were sufficient to keep housing starts at a decent level. To get the real price back to that level: more than 20% down

Mortgage rates are down from the peak – but remains high

Affordabiliy is a real challenge, as mortgage rates are the highest since 2008, and real house prices far higher

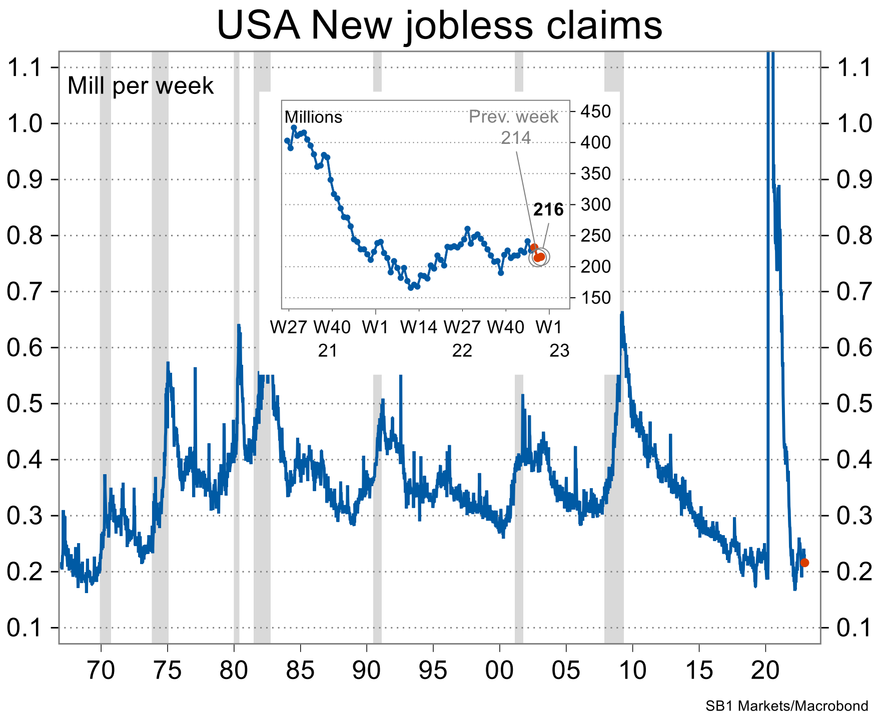


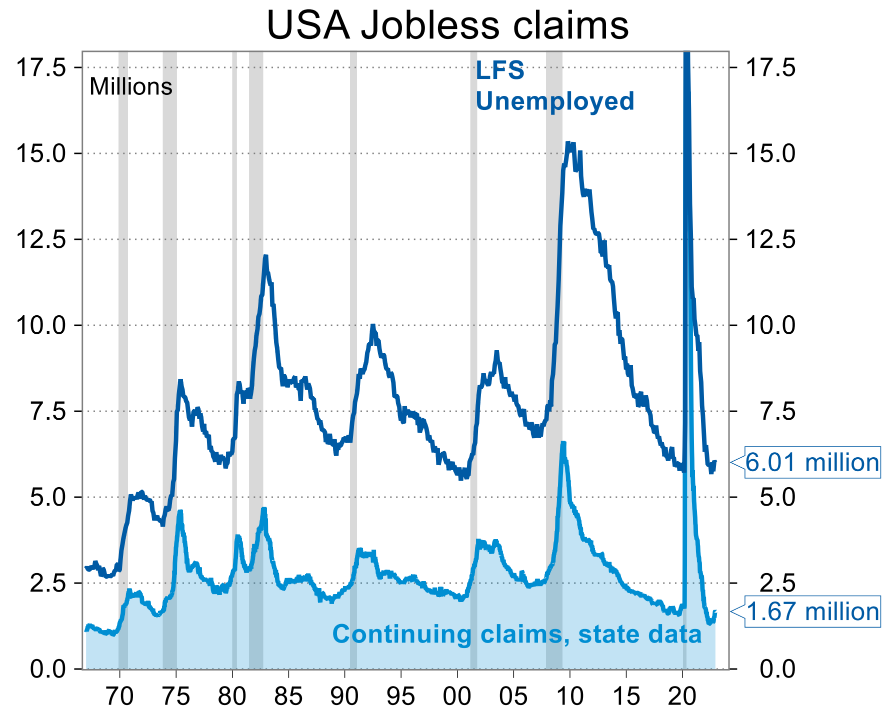




- The 30 y fixed mortgage rate is down form the peak, but remains much higher than normal, both due to higher 30 y Gov. bond rate, and even more to an extraordinary high spread to the mortgage rate
- Housing affordability (house price x mortgage rate)/income is still the worst since 1986

The inflow of new jobless claims remain very low

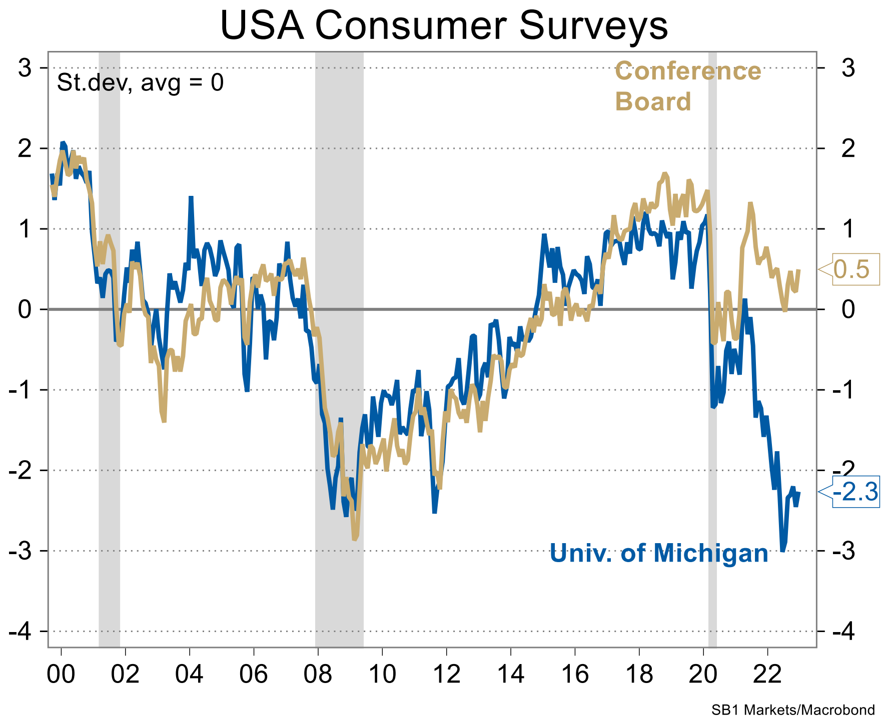




- **New jobless claims** up 2', to 216', 9 ' less than expected
- **Continuing claims** declined by 6' to 1,672' in week 49. The trend is slightly upwards but the level remains very low
- Both still indicate a **tight labour market –** a labour market that is far more resilient than we and probably also the Fed had envisioned, given higher interest rates, record-low consumer sentiment, and falling orders (according to surveys)

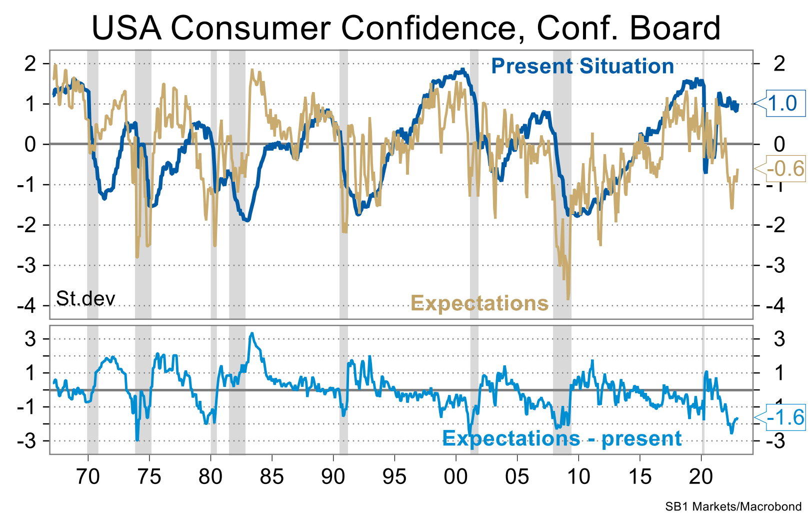
Conference Board's Consumer confidence up in December!

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



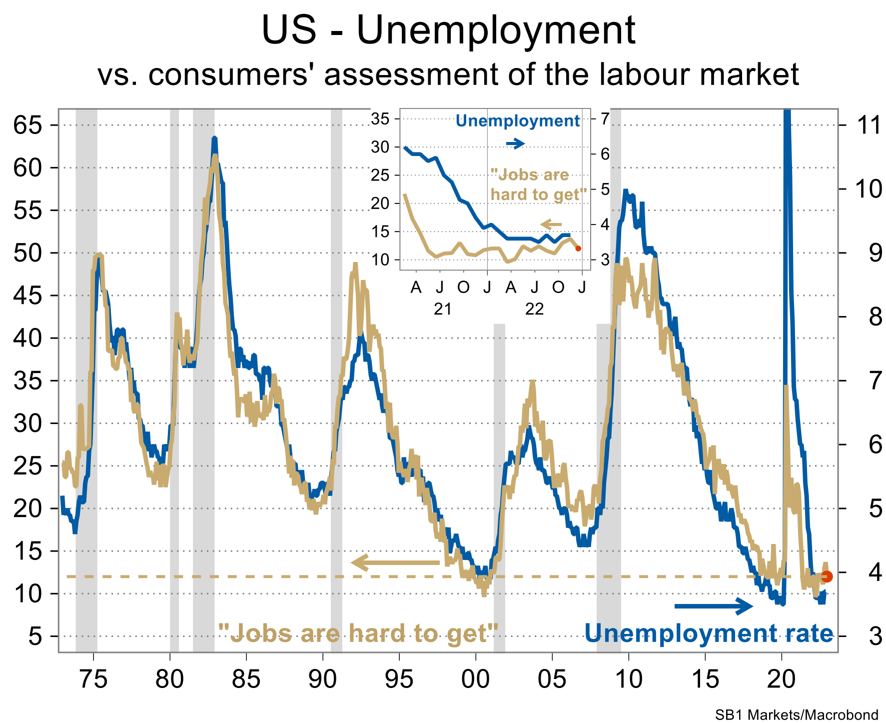
- The main index gained 7.9 p to 108.3 in December, expected down 0.4 p. The increase equals 0.3 st.dev, and the Dec level 0.5 above avg, back to the level in September.
  - Both the present situation index, and the expectation index rose. The current situation is at +1 st.dev, the expectation index at -0.6
  - **The difference** between households' assessment of the present situation and their expectations is at -1.6. The gap is always the largest just before or when a recession hit, check the chart below

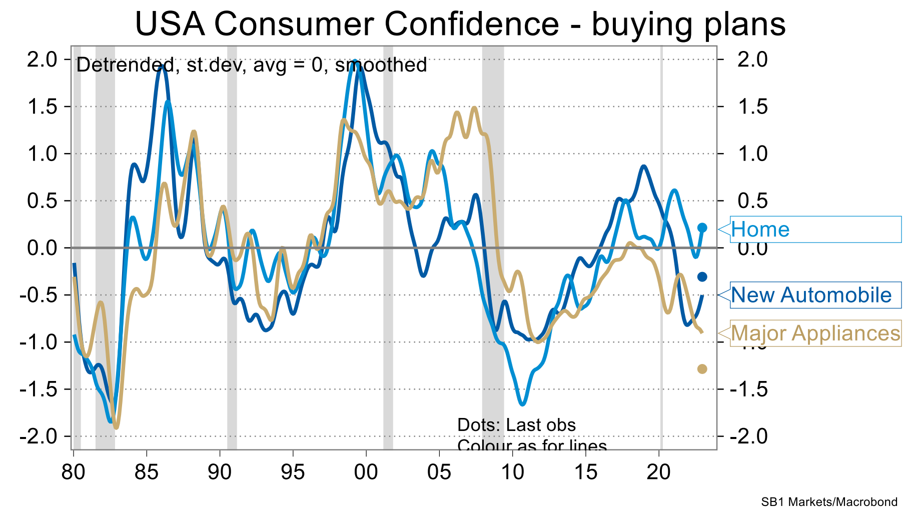
- **The other consumer** surveys we follow much weaker – but the last observation us up for all of them

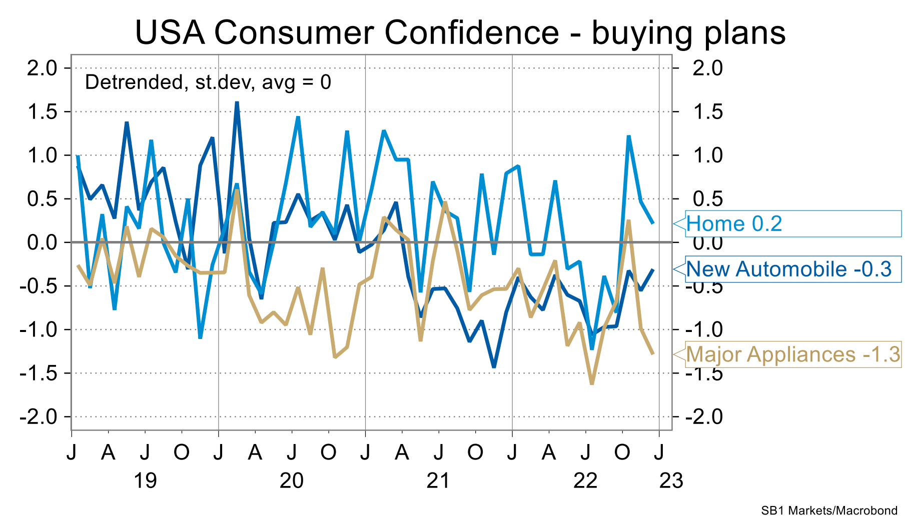


Jobs easier to get in December. Buying plans still rather muted

However, home buying plans are still above average (and were much weaker May – September)



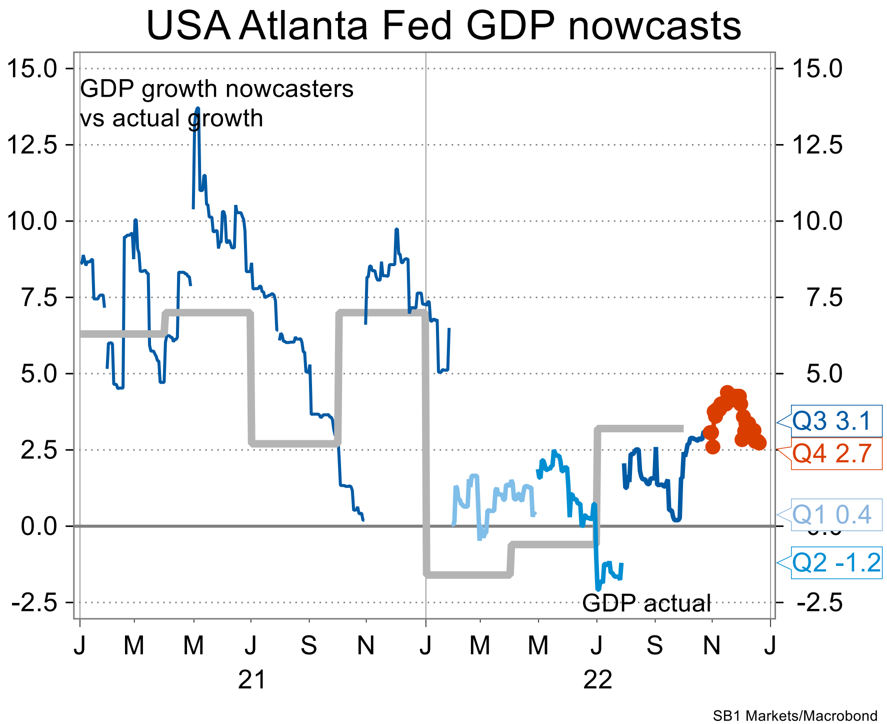


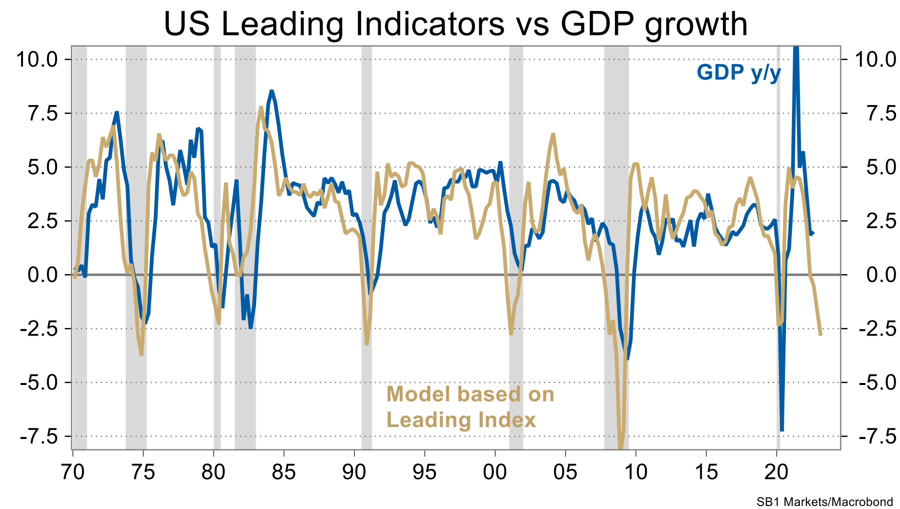


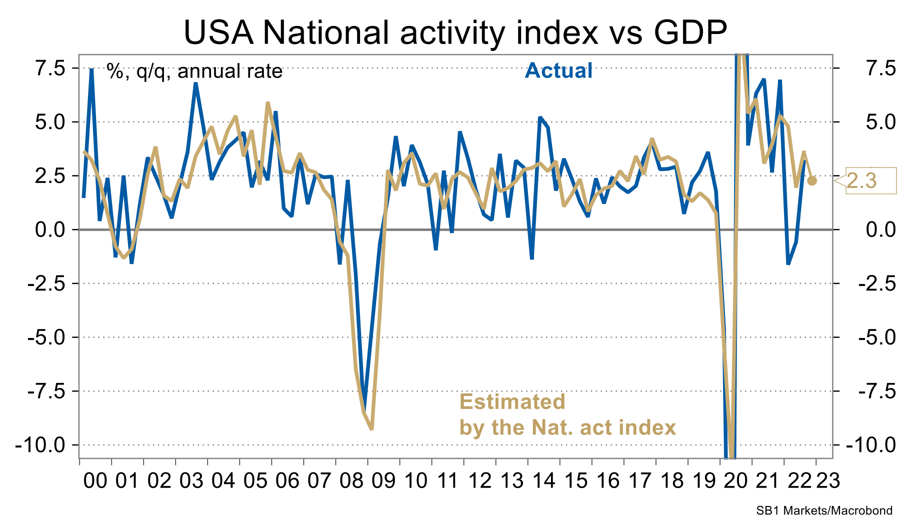
- Households have reported a gradual increase in 'jobs are hard to get' but the level remains very low – and the rate fell in December!

Atlanta Fed revised it’s Q4 GDP forecast down by 0.4 pp to 2.8%

However, it is still the most upbeat nowcast available

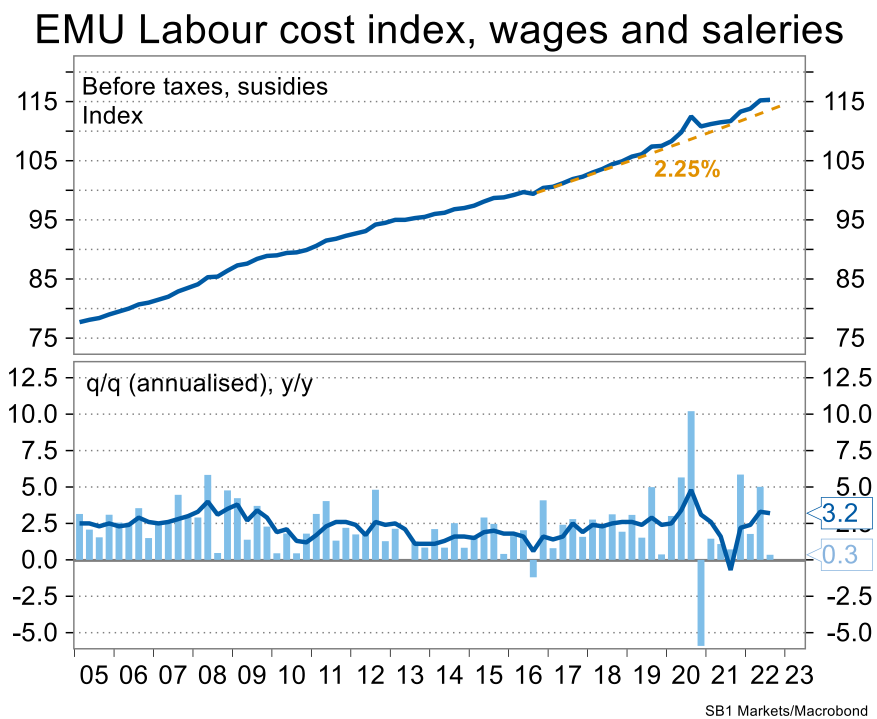


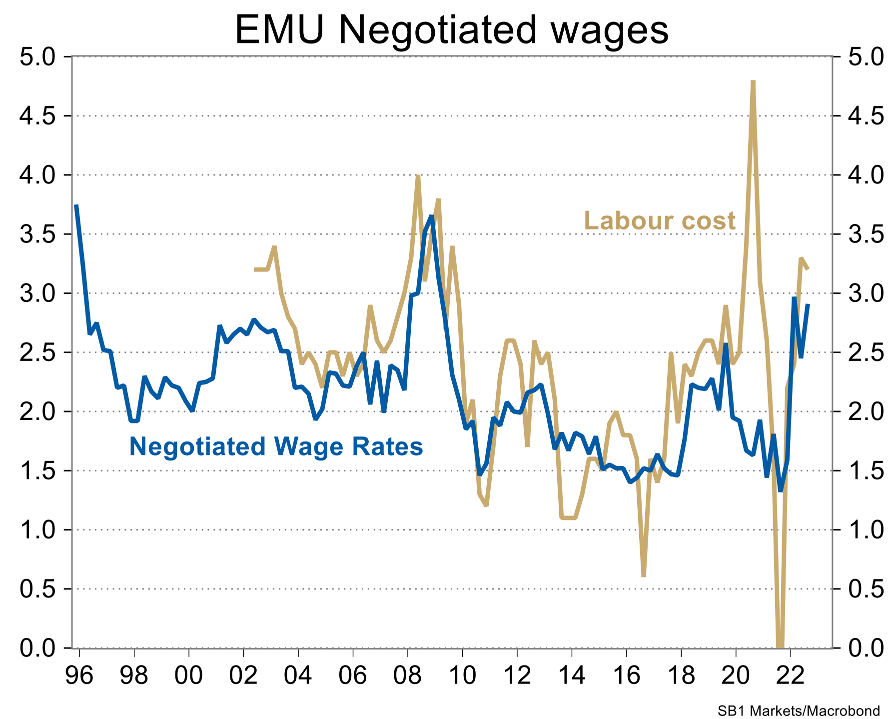




Labour cost inflation still in check, according to national accounts

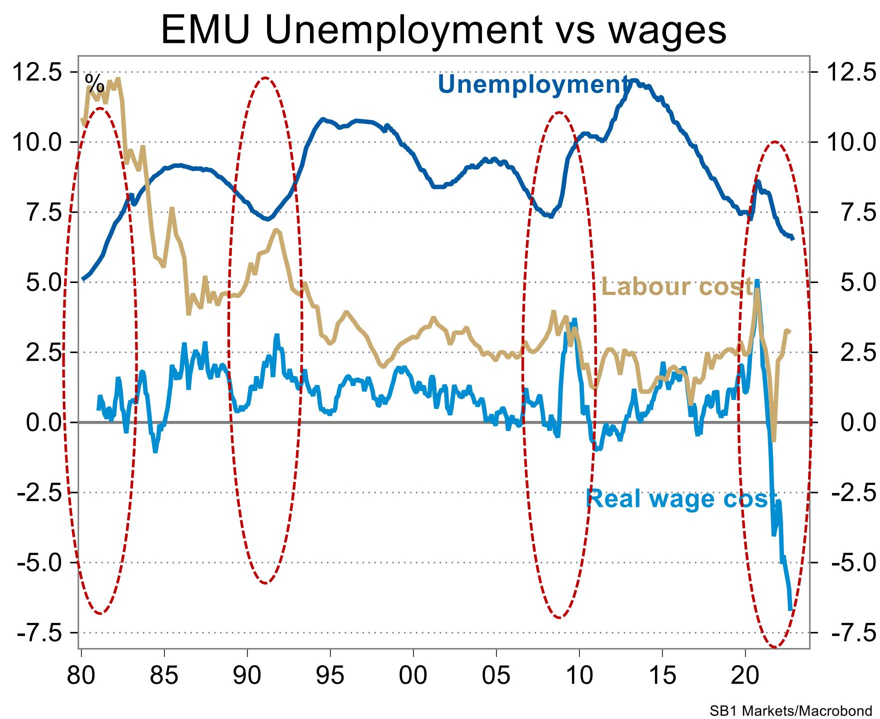
Hourly labour costs almost flattened in Q3, and the annual growth rate declined by 0.1 pp to 3.2%

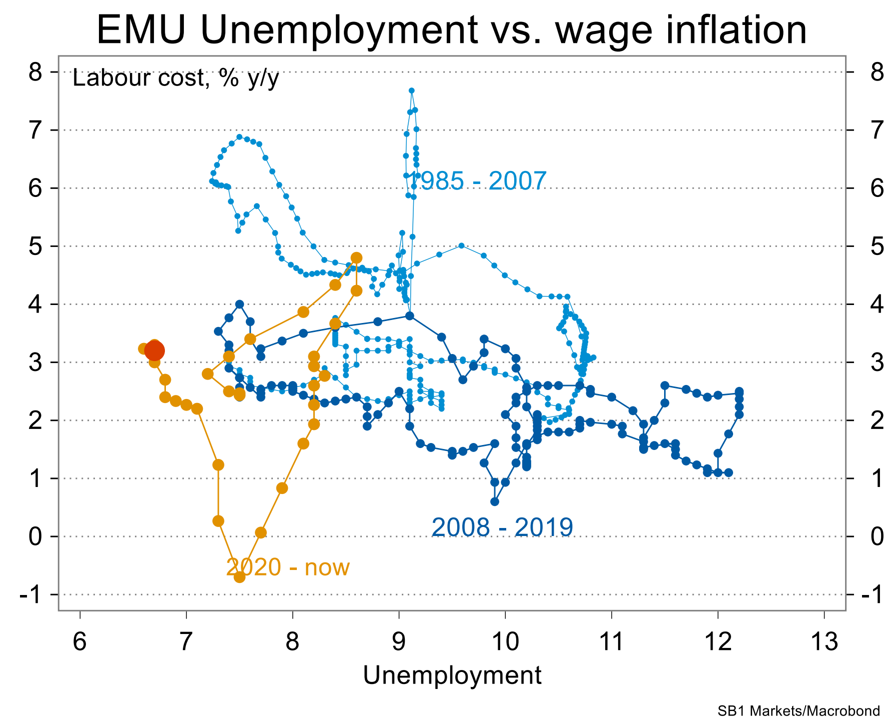




- Underlying growth is probably marginally lower than the 3.2% annual growth rate, but above the 2.25% pre-pandemic trend growth
  - Wage inflation remains modest almost everywhere in the EMU
- Negotiated wages are up 2.9% y/y, and are now growing slightly faster than before the pandemic
- Q3 unit labour costs are not yet available, but growth is now clearly above 2% - which is a relevant (but not huge) headache for the ECB

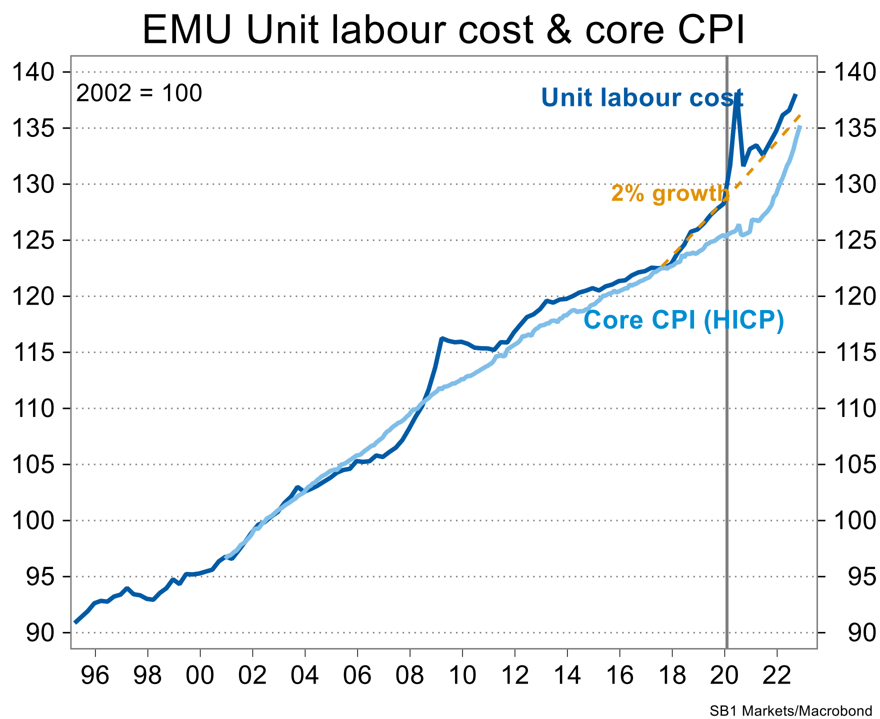
The problem now, is rather the steep decline in real wages (vs. consumption)





Unit labour cost inflation has accelerated somewhat

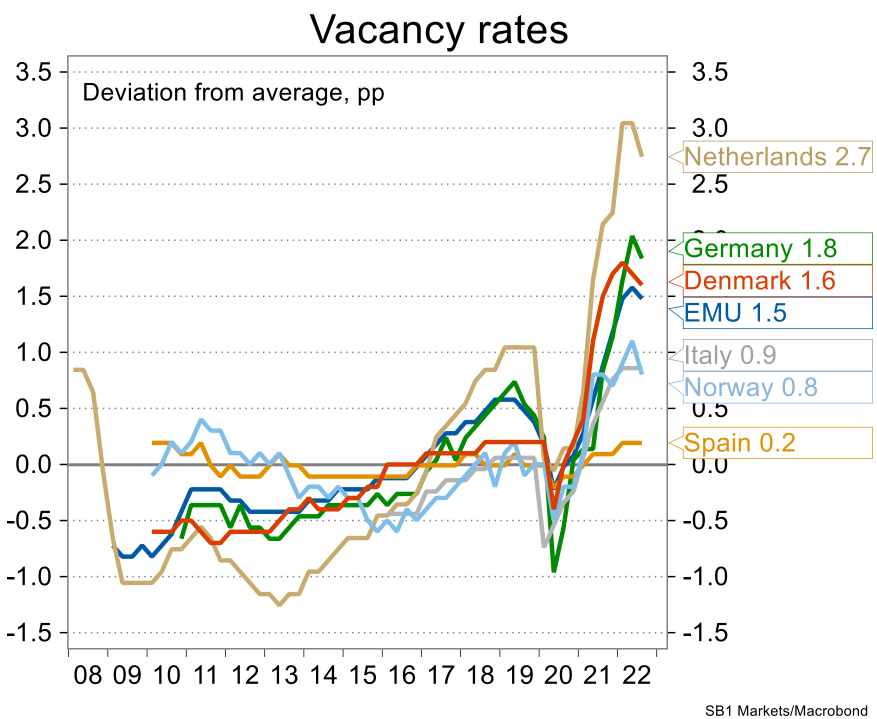
… as productivity has slowed. Underlying growth is now slightly above 2%, and well above the 1% pre-pand. norm

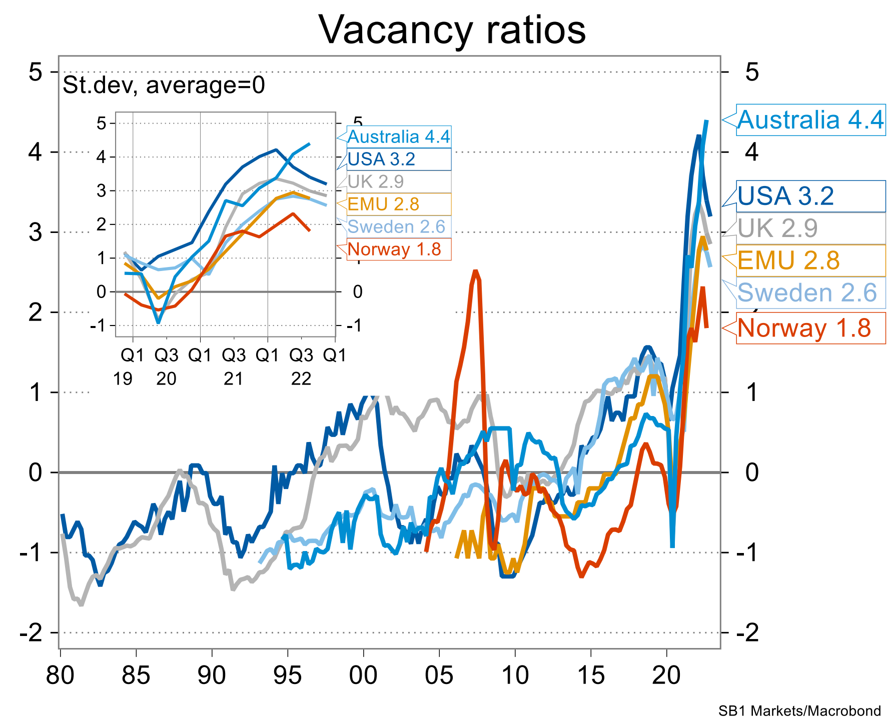


- **Unit labour cost** (labour cost per unit produced = wage cost/production volume, growth in UCL= wage growth – productivity growth) has jumped up during the pandemic as productivity fell because employment was not cut (as in the US)
- On the other hand, in the 3 years before the pandemic – and through the pandemic so far – ULC has accelerated to slightly above 2% from 1%. The 1% growth in unit cost corresponded to the long-term growth in core rate of inflation at 1%, well below ECB's 2% target – and a 2% ULC inflation will <u>over time</u> yield a 2% CPI inflation
- No ULC data for Q3 yet, but given the slow growth in labour costs, ULC should have taken break too

Finally, unfilled vacancies are heading down in Europe too

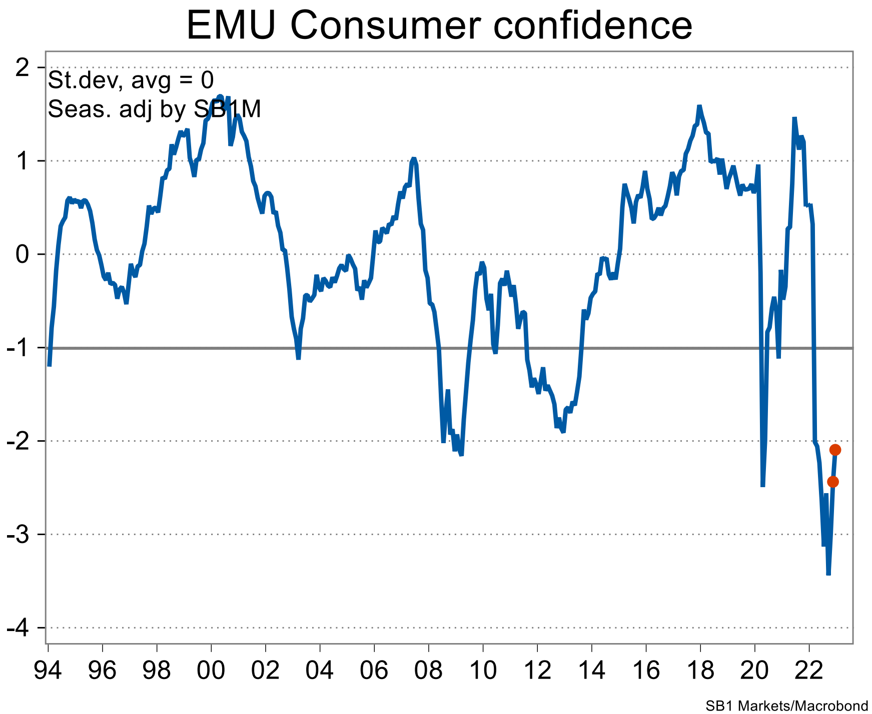
Still, the level is very high almost everywhere (barring Spain)

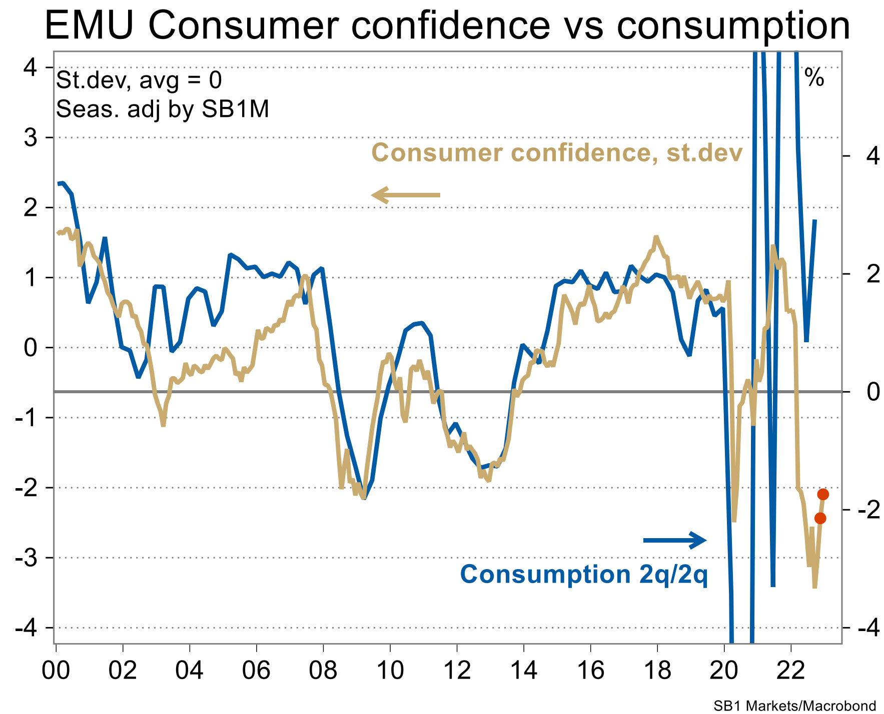




Consumer confidence further up in Dec, back to earlier through levels

The index is still 2.1 st.dev below par, but it was almost -3.4 at the bottom in September

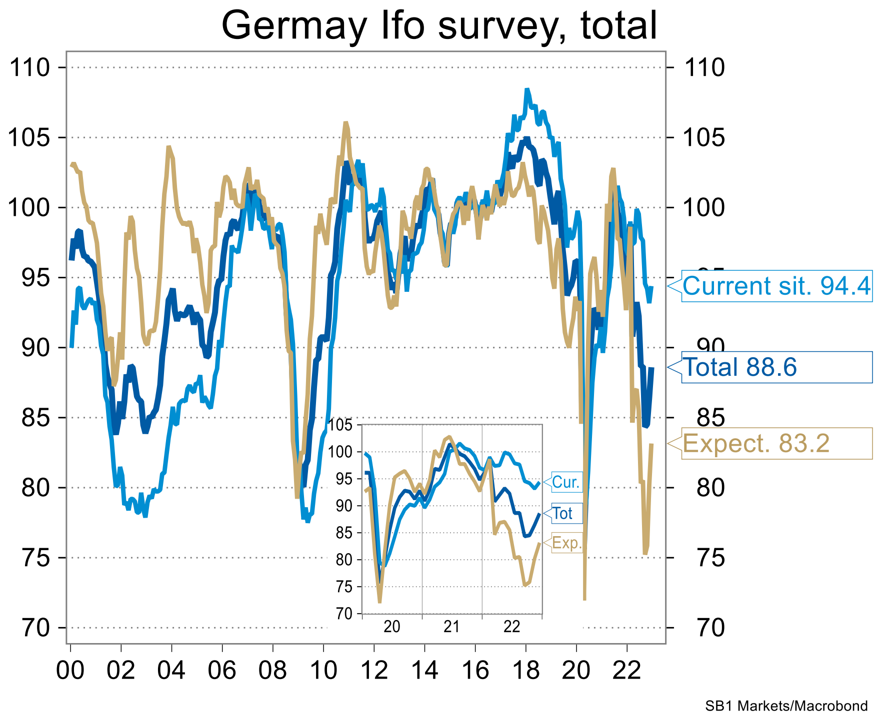


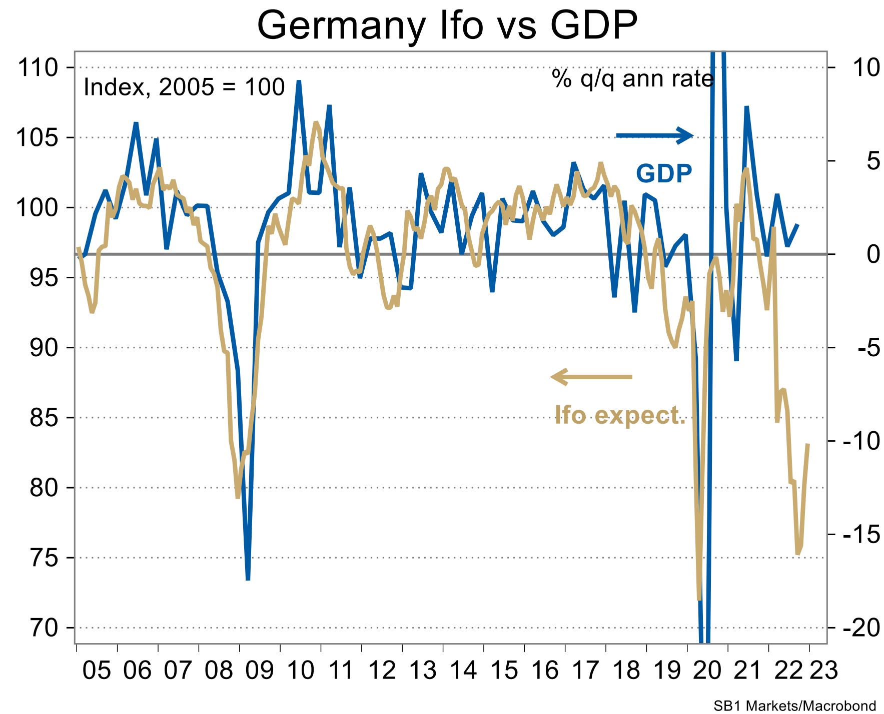


- **The confidence index** rose 1.7 p to 22.2, according to the preliminary estimate, expected up to 22.0. The level is still -2.1 st.dev below avg., which is a very low level, still better than the -3.4 st.dev rock bottom in September. The downside risk vs consumption is still huge, given the normal rather tight correlation between this survey and actual consumption (Nat. Accounts data)
- **Inflation** fuelled by super high energy prices and fear of lack of gas supplies are of course to blame. **Interest rates** are now being hiked – and the rest of the yield curve has taken big leaps upwards

Ifo expectations continued upwards in December, but are still muted

The index was up 3 p to 83.2, which still signals a substantial fall in GDP



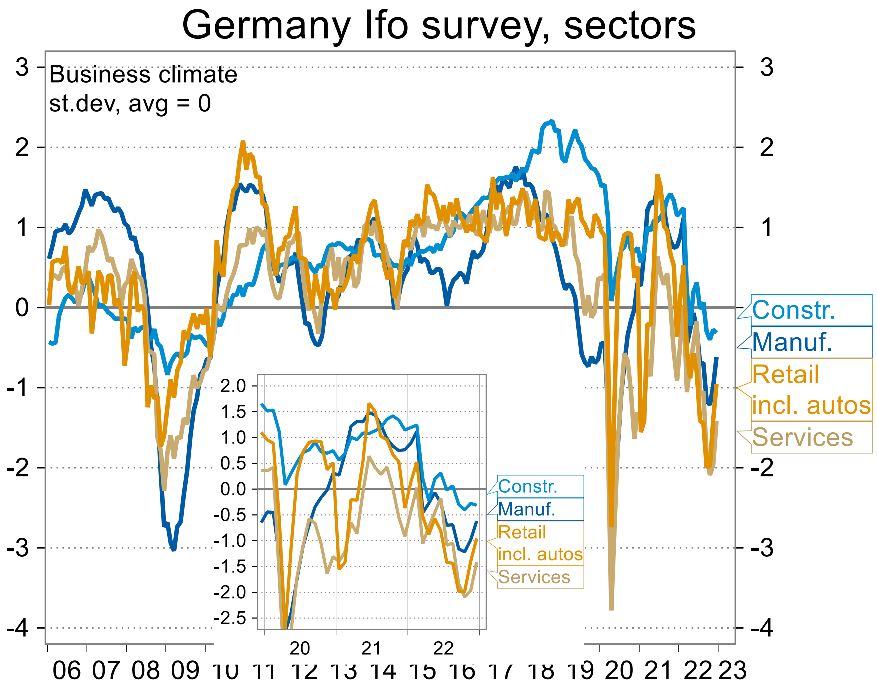


- **The expectation index** rose by 3 p to 83.2, which is 1.2 p better than expected (and Nov data was revised up by 0.2 p). The level is still very low, at 2.4 st.dev below average. The correlation to GDP is not perfect but a huge decline in GDP is signalled, at a close to 10% pace! The energy crisis is no doubt the main reason for the weak business sentiment
- The **assessment of the current situation** was up 1.2 p to 94.2, which was 0.9 p above expectations. The level is around average – signalling a normal growth rate. The problem is the expectations
- The **total Ifo business climate index** was up 2.2 p to 88.6; expected 87.4

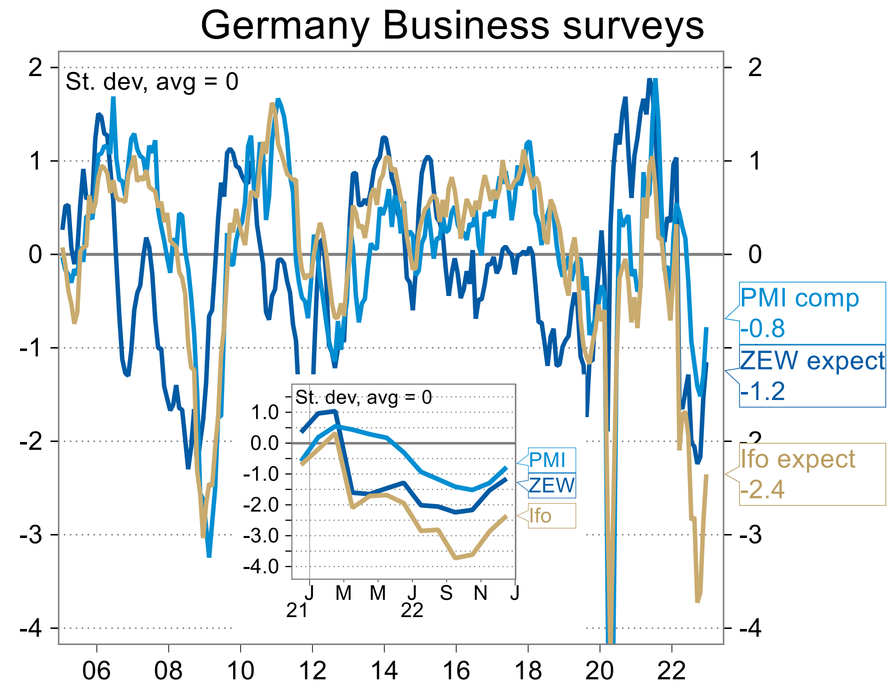
Business climate: the average of the current situation and expectations

Only the construction sector reports of a worse business climate in Dec

…but all sector indices are still below average



SB1 Markets/Macrobond

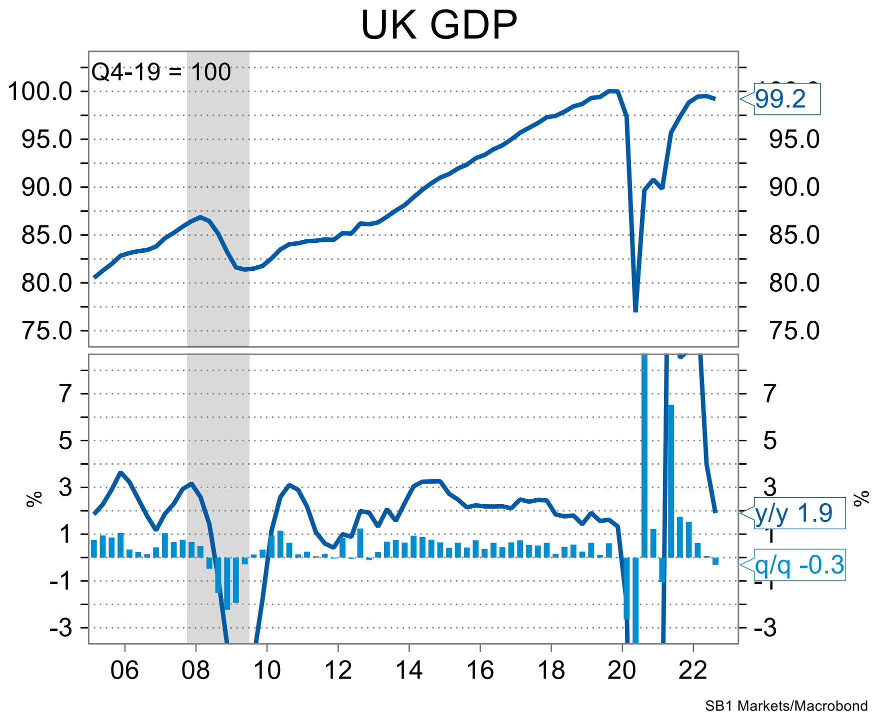


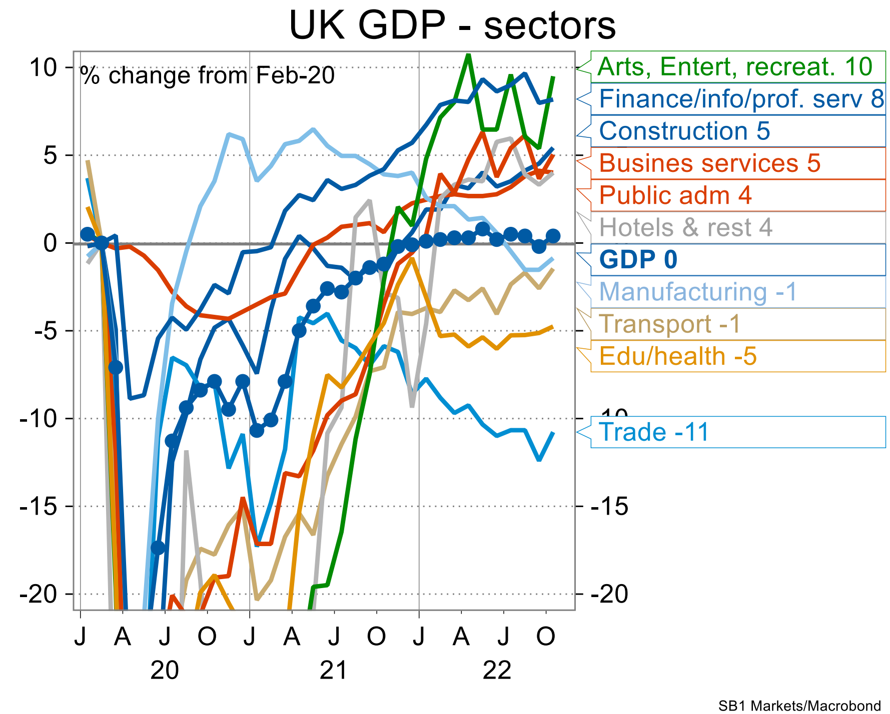
SB1 Markets/Macrobond

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

GDP fell at a 1.2% pace in Q3, revised from -0.8%

October was a tad better but no reason to expect growth in Q4 (nor in Q1…)

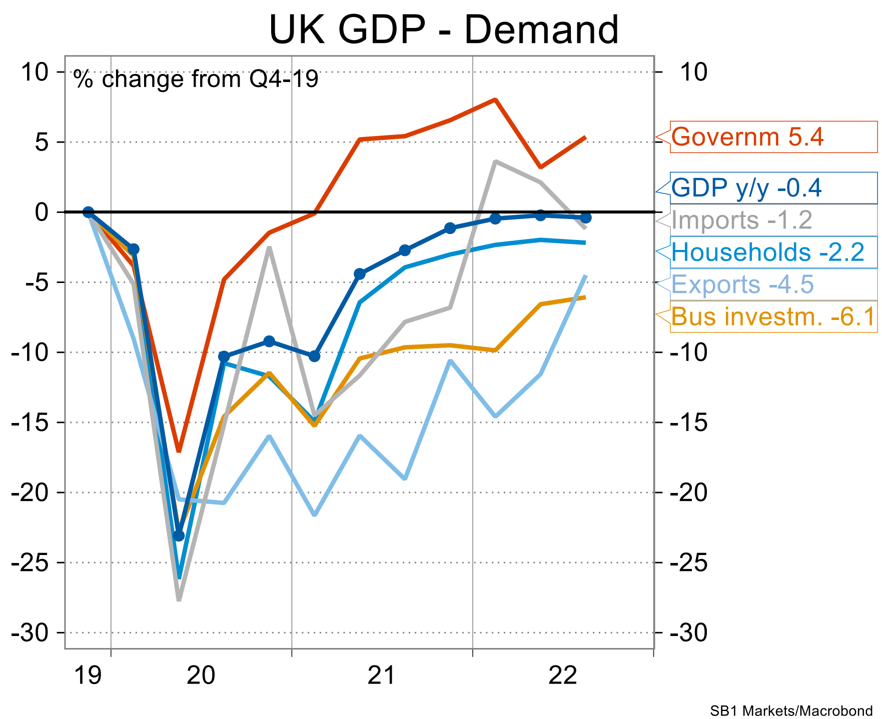


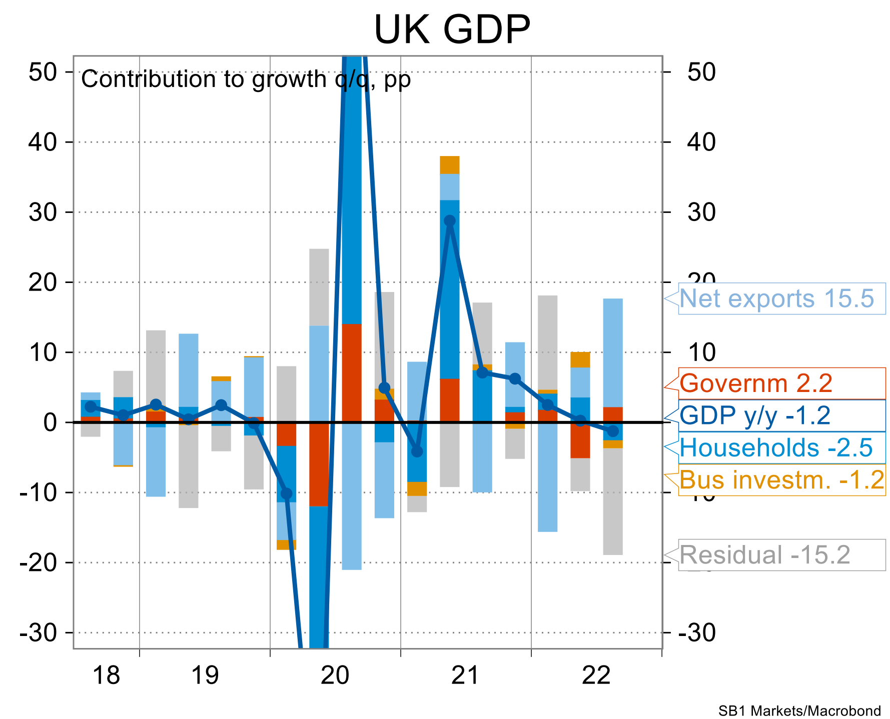


- **GDP** fell 0.3% (not annualised) in Q3. GDP is still up 1.9% y/y
  - GDP down 0.8% vs. the level in A4-19
  - Unemployment it the lowest in decades, and wage inflation has climbed sharply. Inflation is at above 10%, the highest since the early 80s
  - So: Not the best-balanced economy on earth
- **Mixed between sectors:** Trade the big loser through 2022, together with manufacturing, following an unprecedented downward revision. Most other sectors are trending up

Household demand yielded in Q3

Business investments are still on the way up but are 6% below the pre-pandemic level

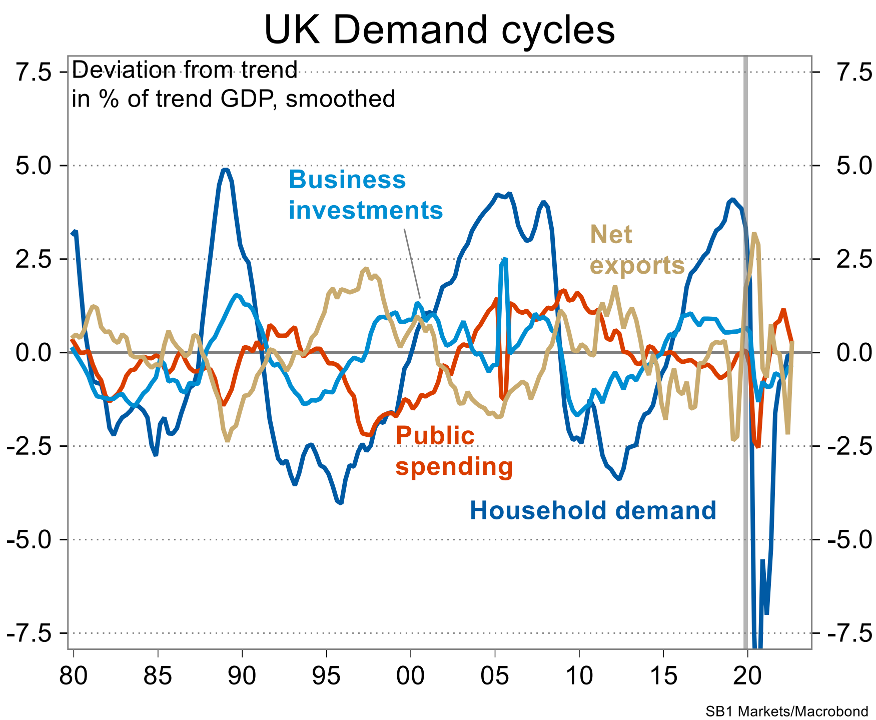




- Net exports were strong in Q3, and the 'residual' was large, at the downside (very likely as inventories were reduced)

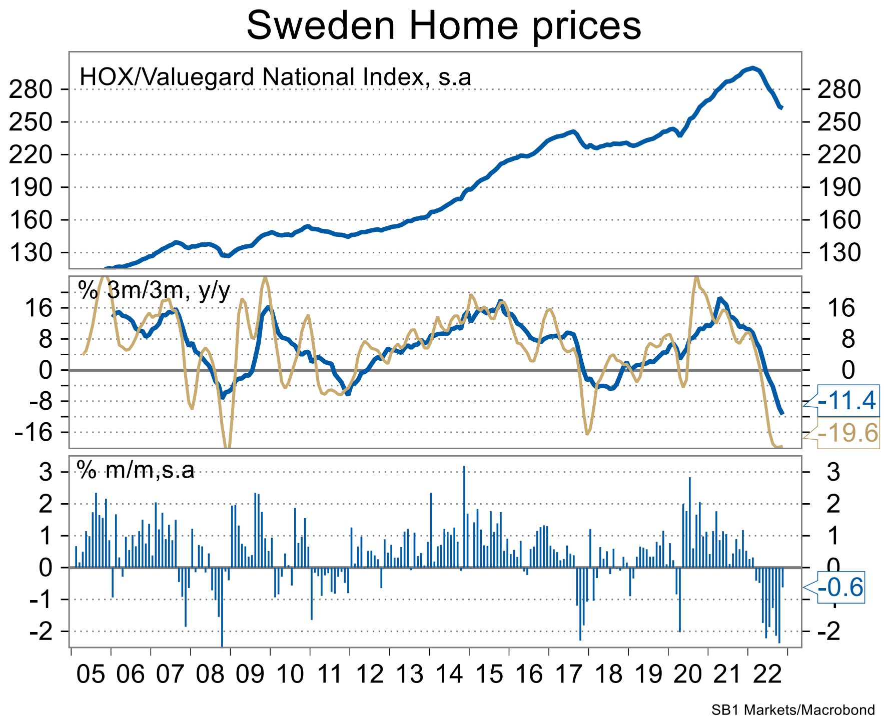
No big imbalances in the UK now? Private sector demand 'on trend'

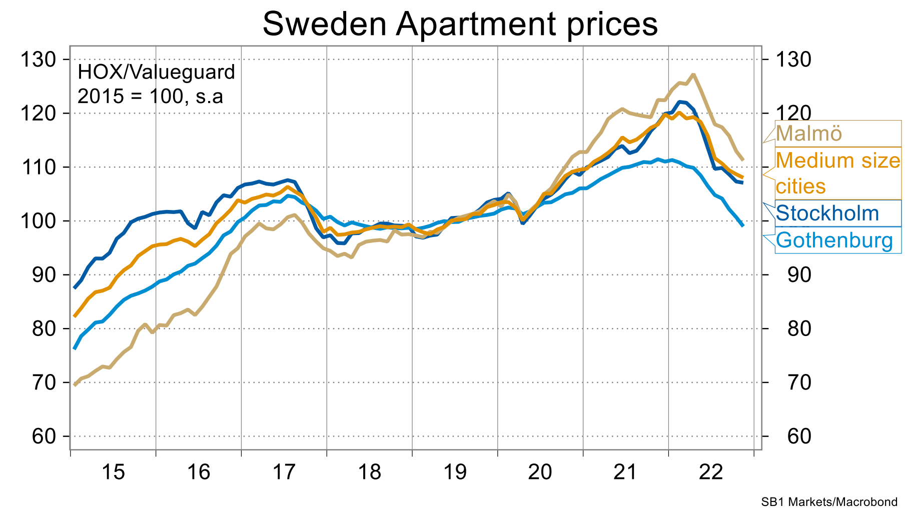
Business investments may be close to a normal level (technically, vs. the long term trend)

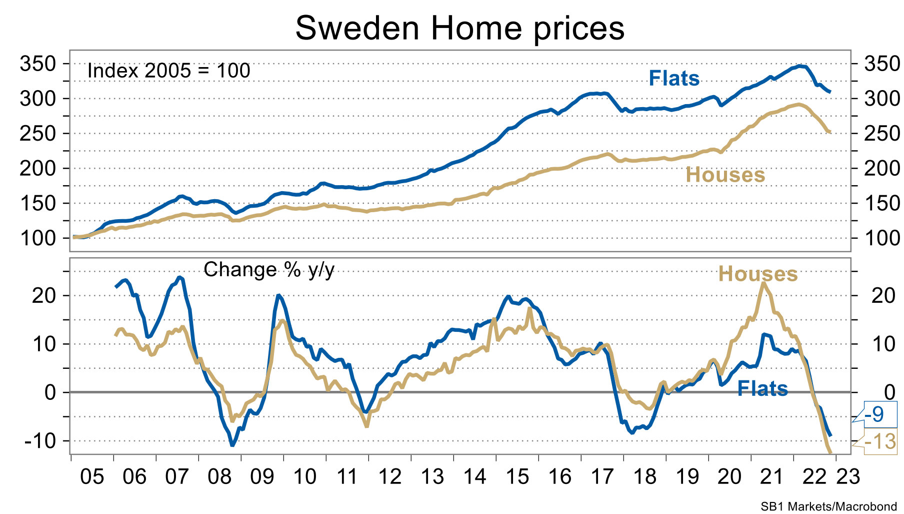


Swedish house prices have fallen for 9 months straight

Underlying rate is some -20% (3m/3m) – but the decline in November was rather mild, just down 0.6%



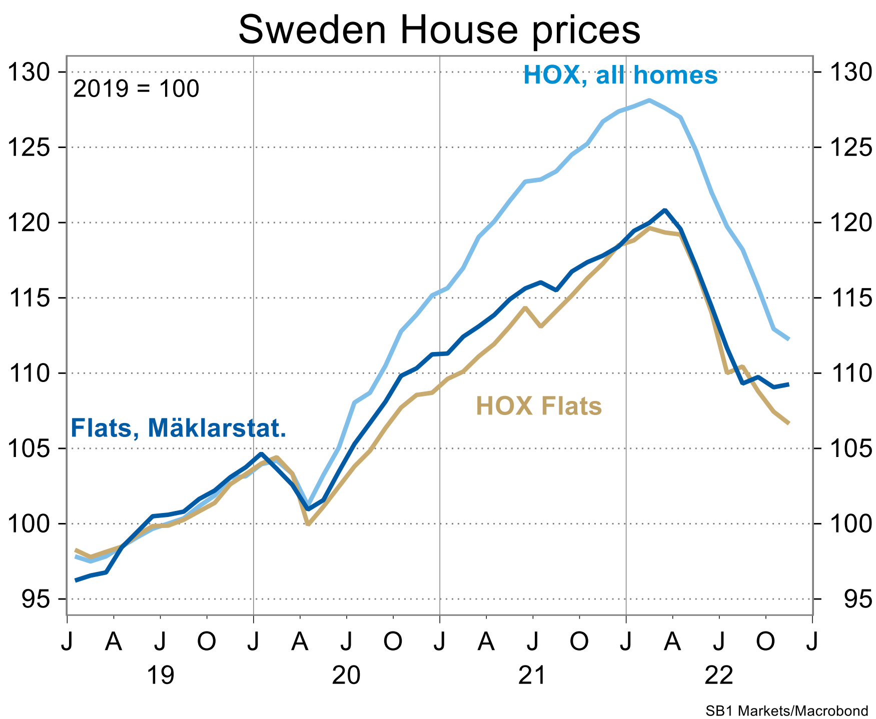


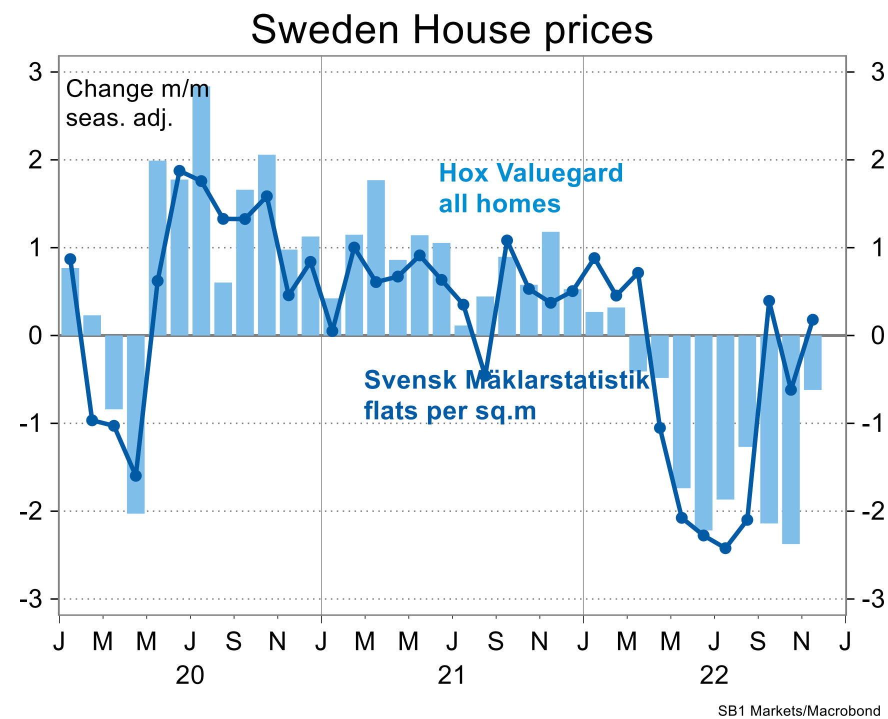


- **Prices are down 12.4%** from the peak in February. Same story in Stockholm as the rest of the country, apartment prices are down 12.4% from the peak
  - In Nov, apartment prices in Stockholm fell 0.2% (seas. adj), vs the national average decline at 0.6%, down from -2.4% in Oct, revised up from -2.1%
  - The underlying price growth (3m/3m) is now -20%!
- **The annual rate** declined to -11.4% from -9.8% in Oct
- The **Riksbank's** abrupt change of tack in late April has no doubt hit the housing market hard. The rest of the real estate sector is hit by higher long-term rates, and the sharp widening of credit spreads

But according to the realtors, Swedish apartment prices have flattened

Prices rose 0.2% in November, and prices have almost flattened since Aug. We believe the Hox is closer to the ball…

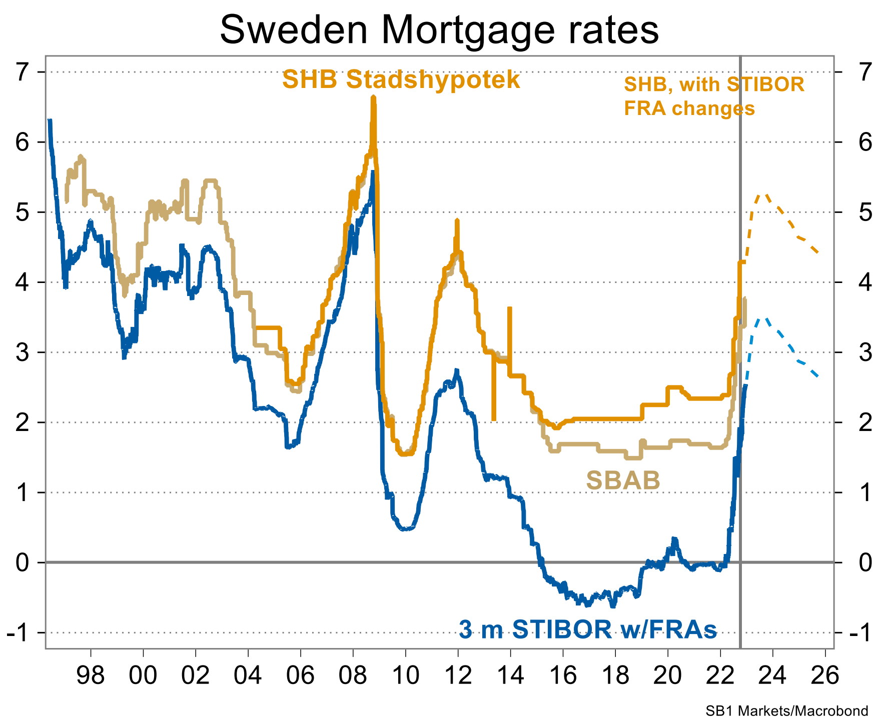


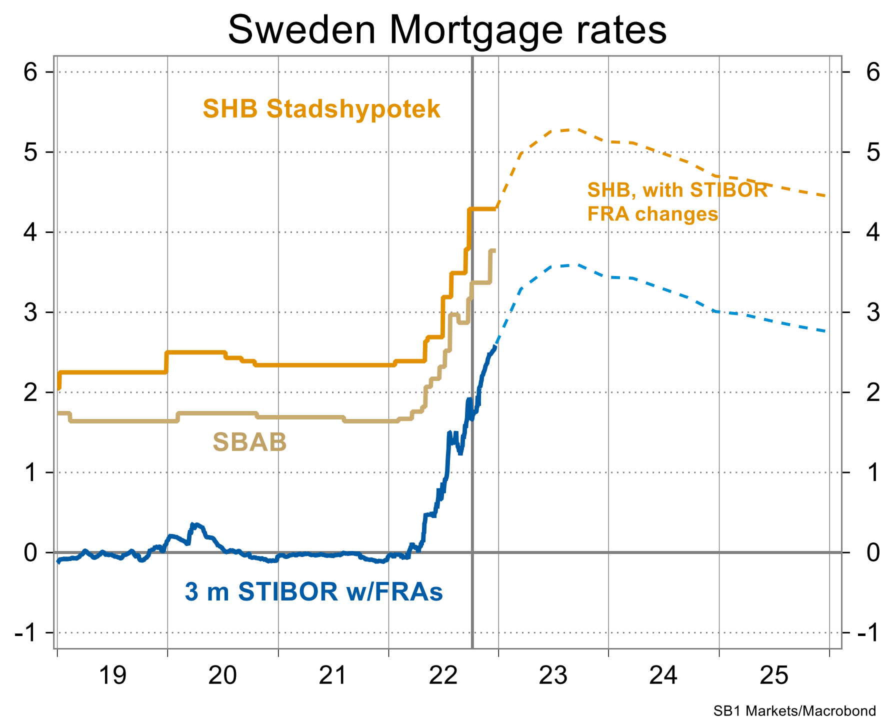


- Prices, according to Svensk Mäklarstatistik (the realtors), are down close to 10% from the peak in March – before the Riksbank started to hike rates
- The HOX/Valueguars index, on the other hand, has fallen over 12% since March, and it is still heading down, although at a slower pace in Novemember

Mortgage rates are climbing at a murderous pace – and more to come, to 5%+

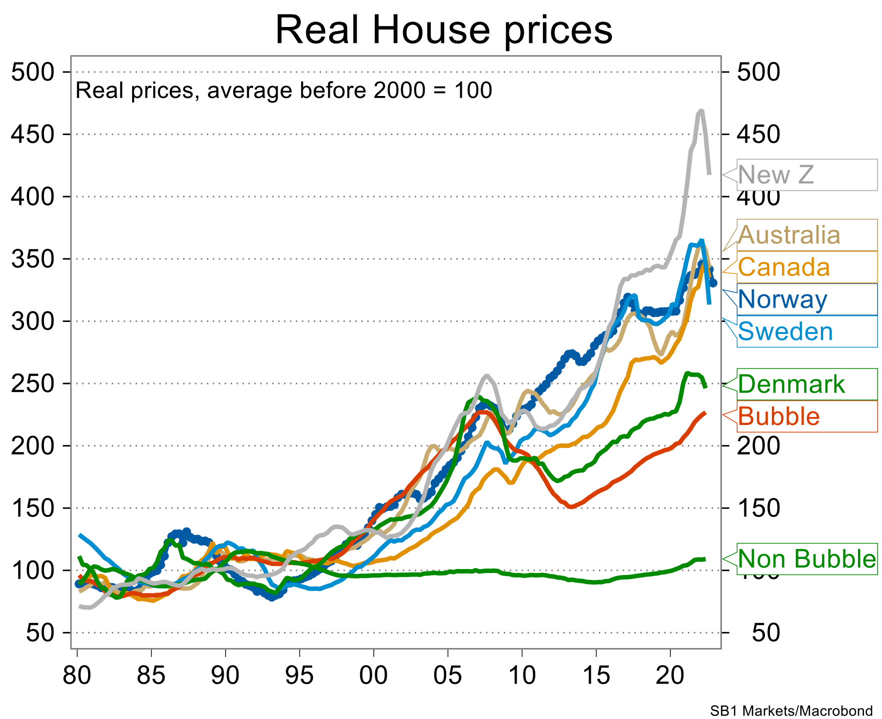
At least according to the FRA market. Mortgage rates have increased more or less in line whith STIBOR

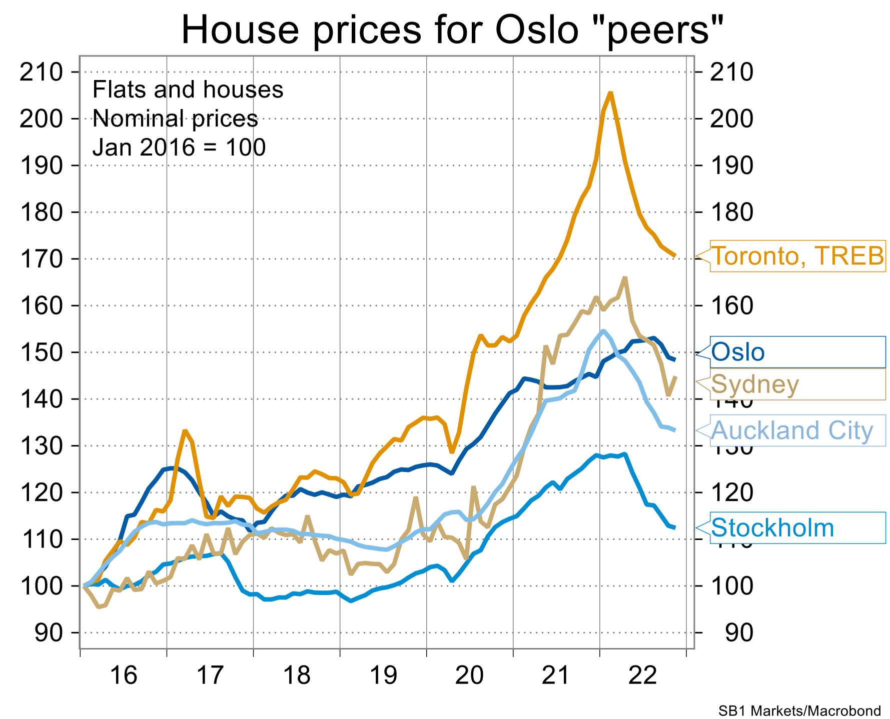




Prices are falling in the ‘supercyclical’ capitals, now even in Oslo

Prices have peaked in cities comparable to Oslo - and we believe we have passed the peak here too

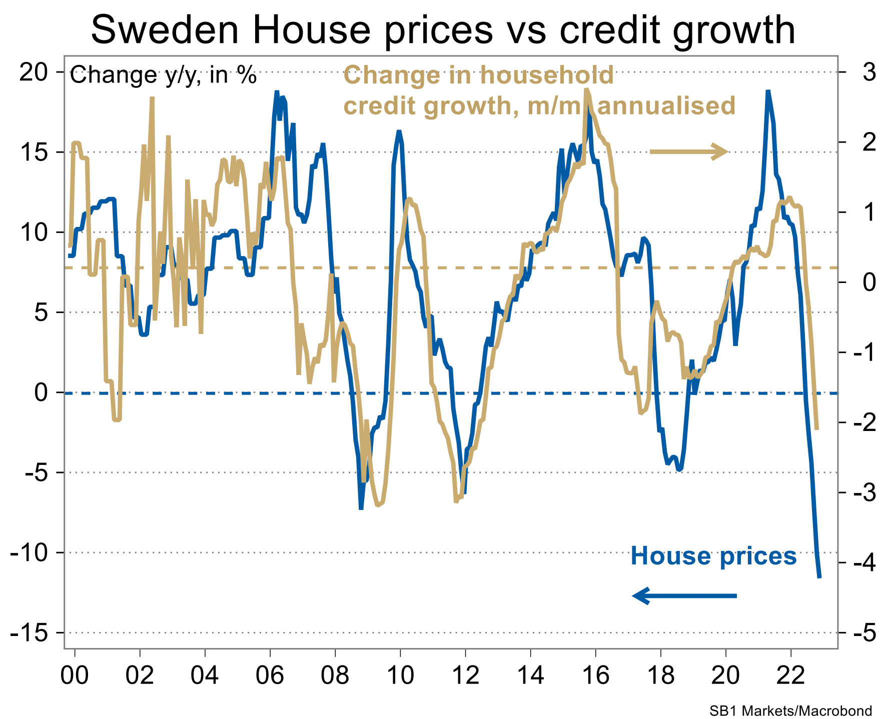


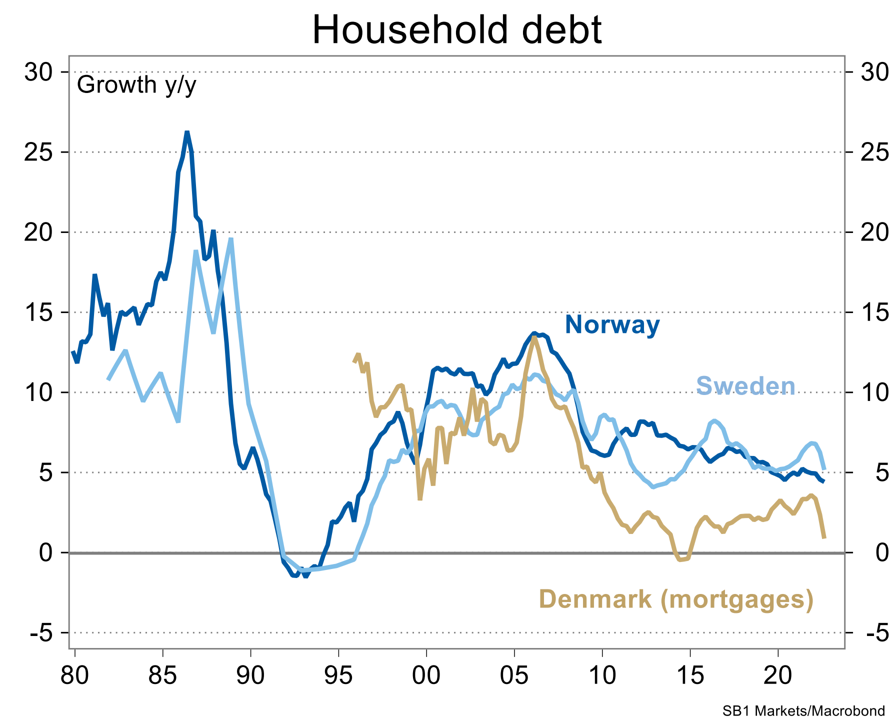


- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden – and even more in New Zealand
- Now, prices are falling sharply (were data are updated). Prices in the capitals have turned down in all these countries

Credit growth is slowing – and more to come

Changes in home prices are closely correlated to the change in credit growth. Now, both are turning down

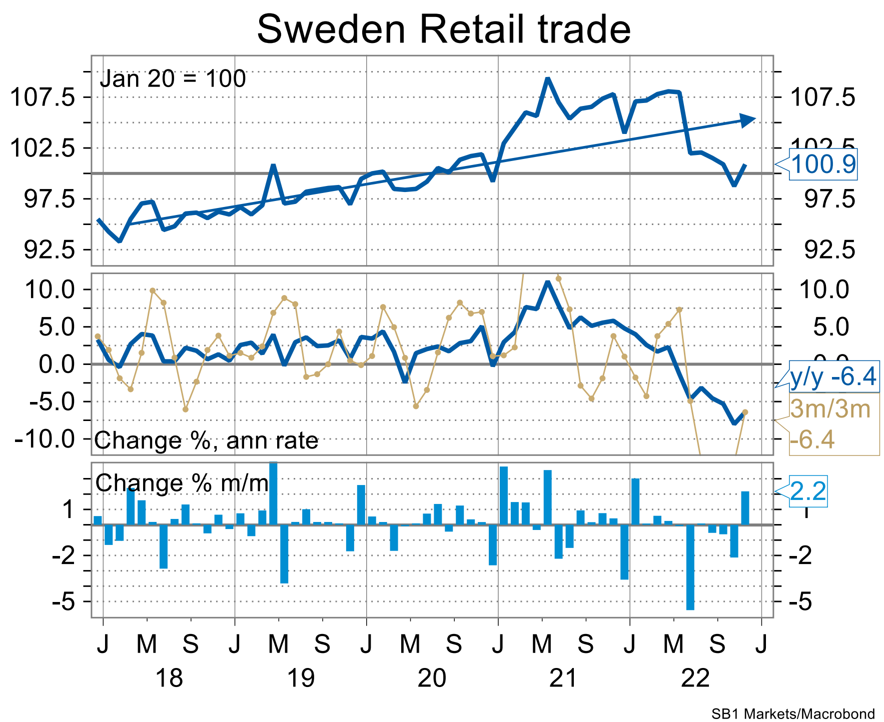


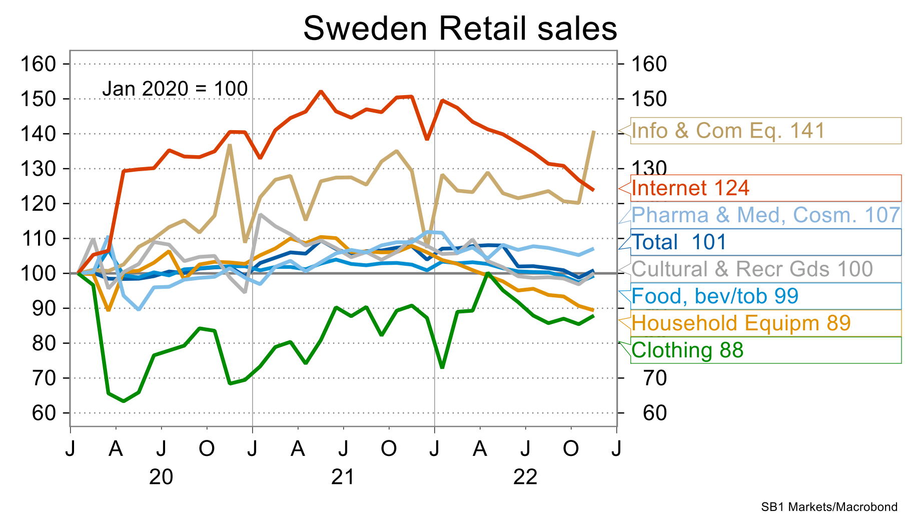


- A substantial deceleration from the current 5% growth in household credit is likely, given the current pace of decline in house prices

Retail sales suddenly up 2.2% in November, trend still down

In October, sales fell by 2.1%, revised from -1.3%, so the level in Nov is still not that impressive. 3m/3m is still -6%

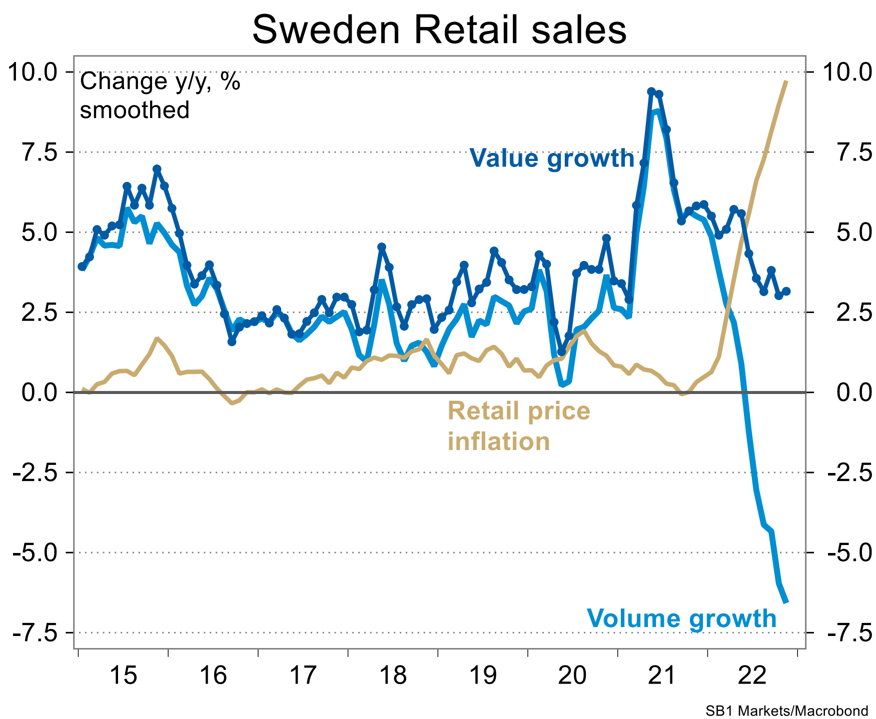


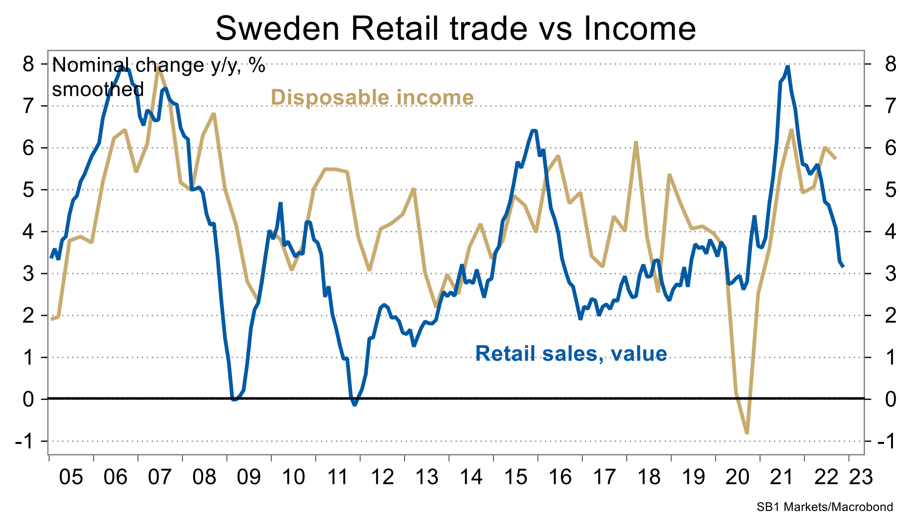


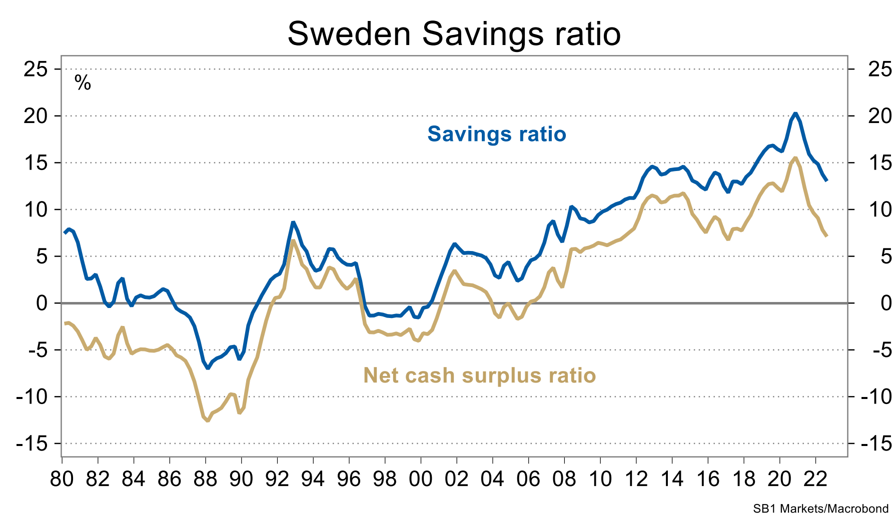
- Sales are down 7.8% from the peak last spring – and the underlying trend is down. However, following this decline, the level rather low, in line with sales before the pandemic hit. The downside is limited?
- In November, sales of **information & communication equipment** gained the most, but several sectors contributed

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

… while household nominal household disposable income is up almost 6%



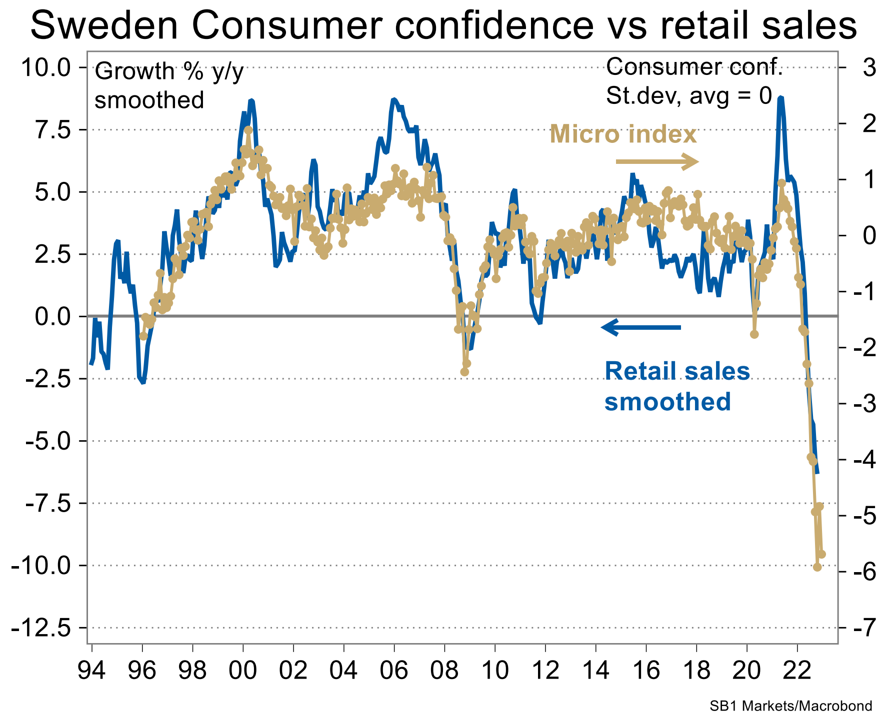


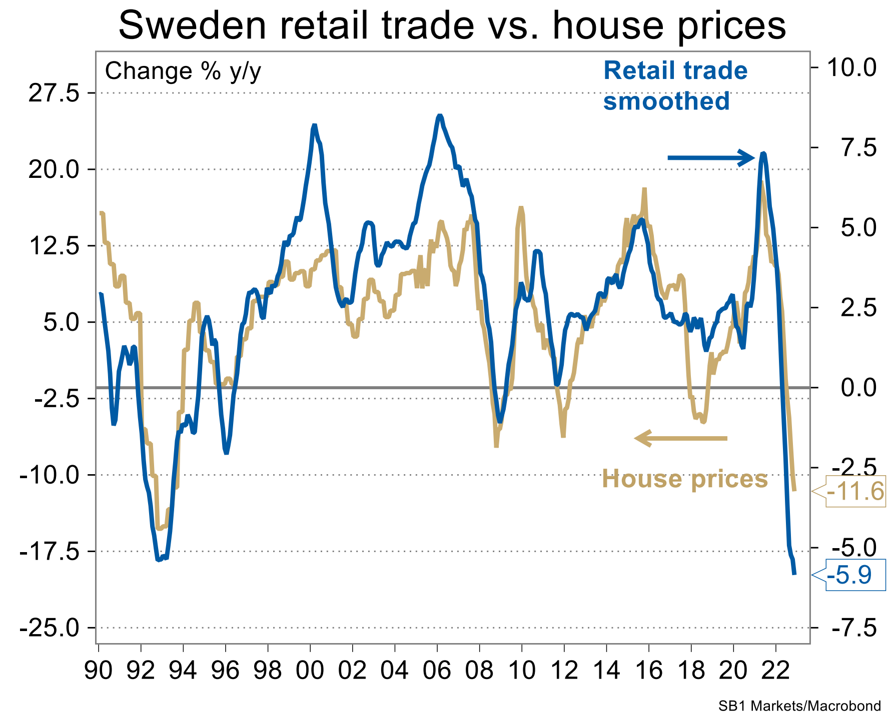


- Service consumption is growing faster, and the savings rate is still declining – but is still far higher than normal

Consumer confidence back down in December

House prices and retail sales down in tandem with consumer confidence



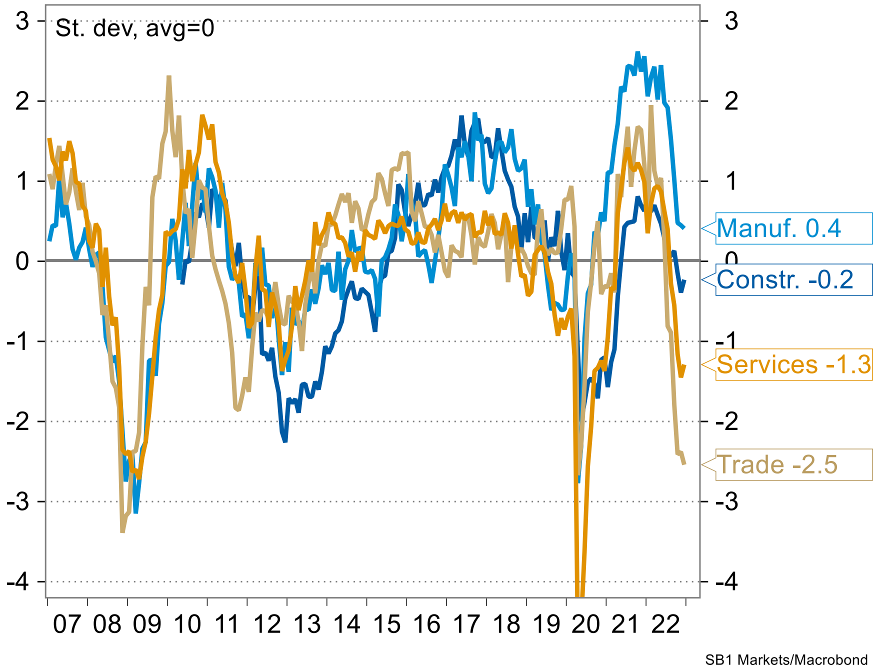


- **Consumer confidence** (the micro index)) fell to 43.6 in December, from 50.9 in Nov, and is still above the bottom of 38.1 in Oct. The level is still more than 5.7 st.dev below average, a rather unusual figure
  - The **macro index** rose marginally for the third month
  - Both **retail sales** and **house prices** have fallen alongside the decline in consumer confidence – higher rates and high inflation is softening both sentiment and ultimately demand - <u>the outlook is rather bleak</u>

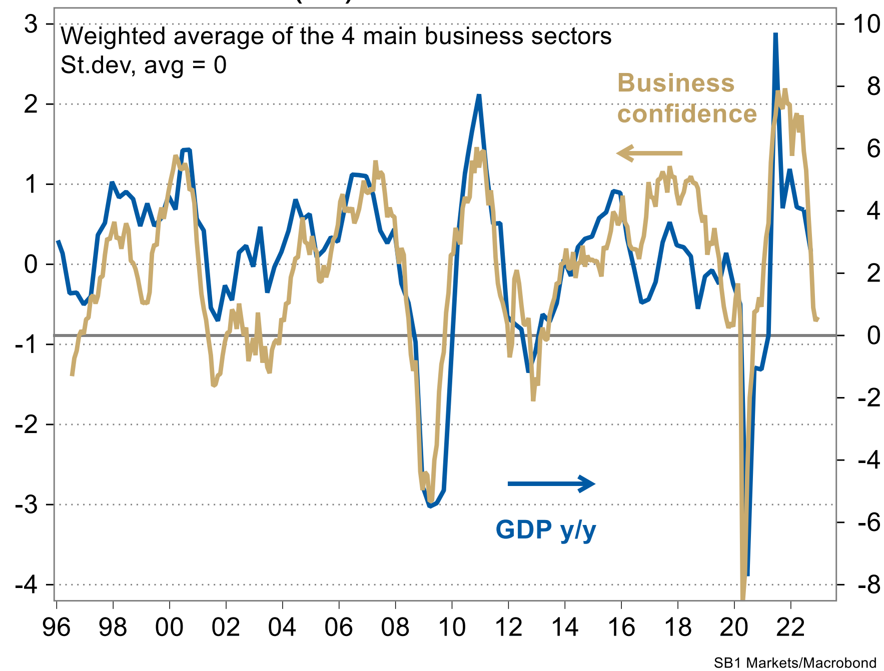
Business confidence fell further in November but is not that weak

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

Sweden KI business confidence



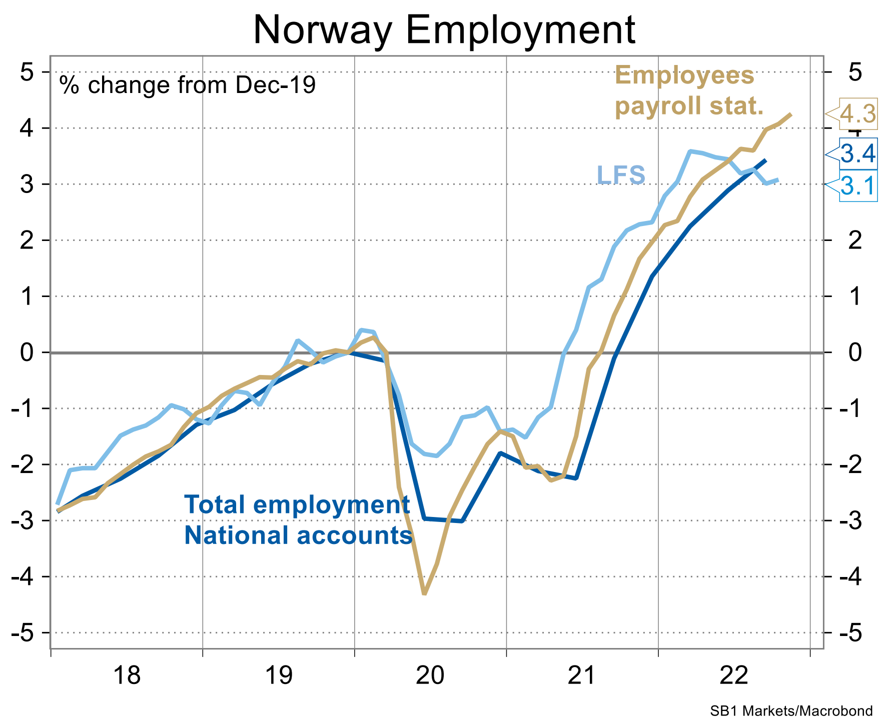
Sweden NIBR (KI) business sentiment vs GDP

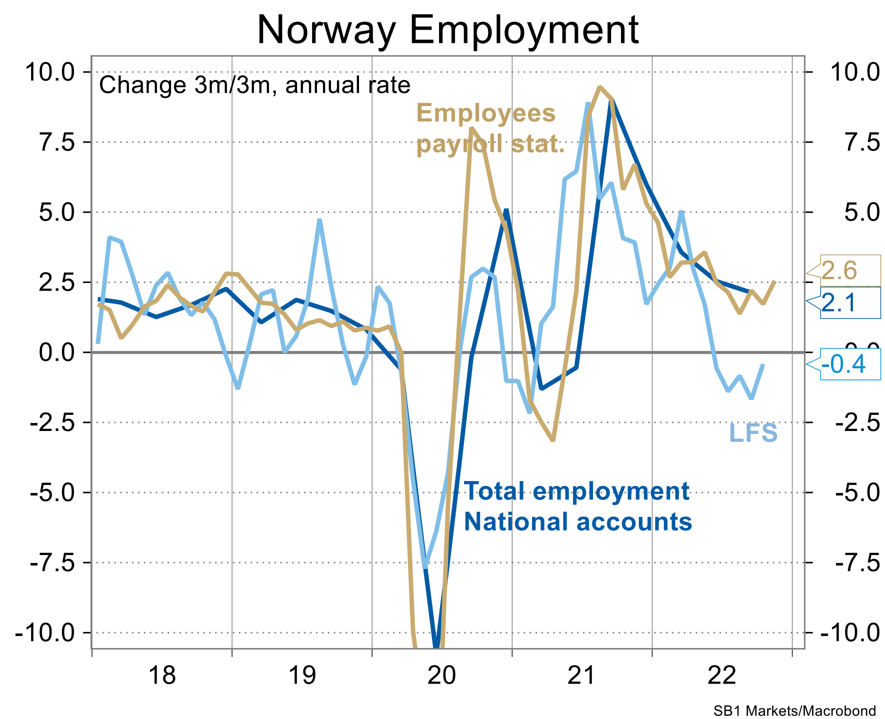


- **The composite index** inched marginally down by 0.4 p to 84.7 in Dec – the service sector index was the only sub-index to rise. The main index is 1.5 st.dev below average and signals a 2% GDP contraction. The Riksbank expects a 1.7% decline Q4-Q2 next year
- However, even if **business confidence** fell, businesses are far less downbeat than households (like everywhere else). The business confidence is less than 1 st.dev below average, thanks to the manufacturing sector, still being above average. <u>The business confidence, which in most countries works best at a GDP predictor, is just signalling zero growth</u>
  - The **manufacturing sector sentiment** has declined over the past months but remains above average. Trade is at the bottom and fell further in December. **Services** are at 1.3 st. dev below average

Growth in employment is not yielding, at least not no. of employees

LFS total employment has been trending down since the spring, which does not seem that reasonable

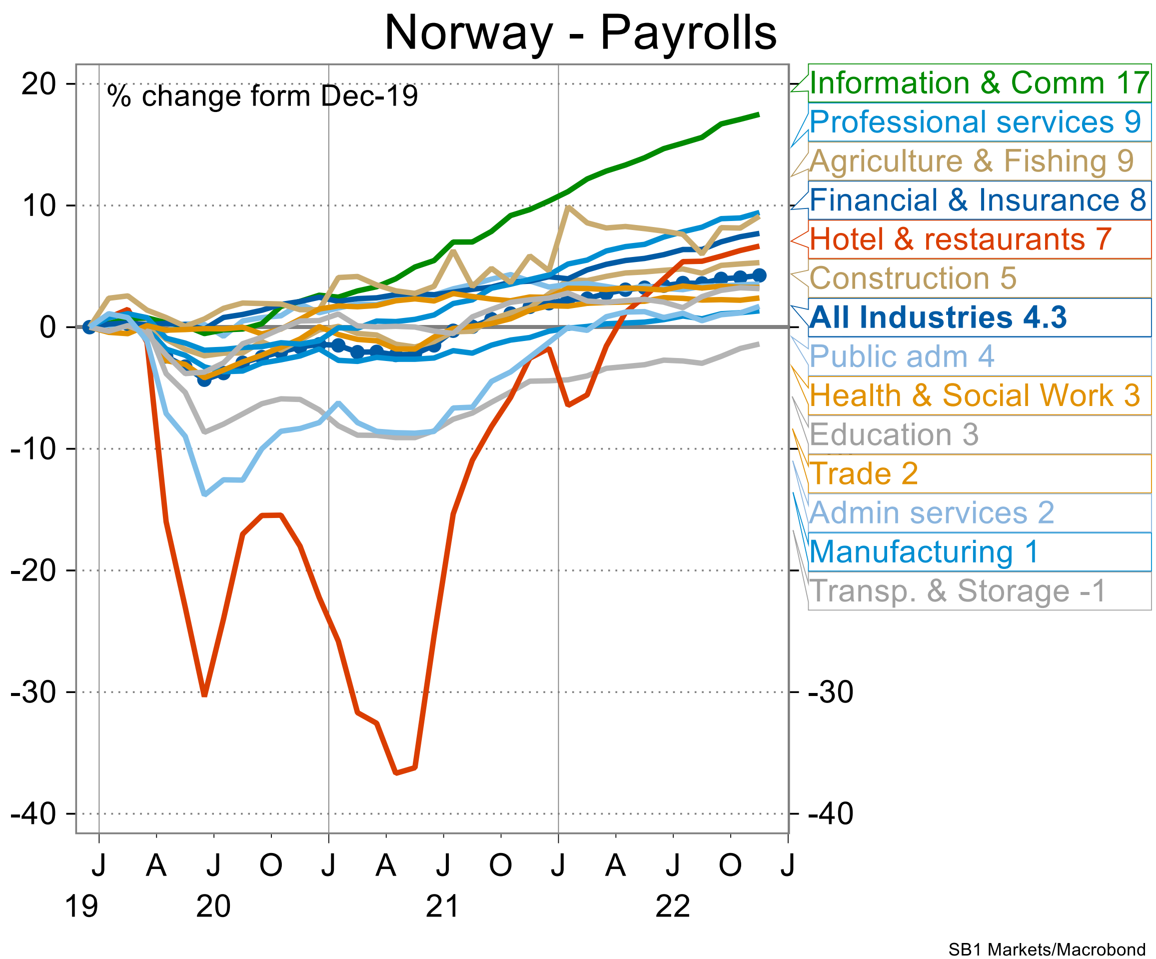


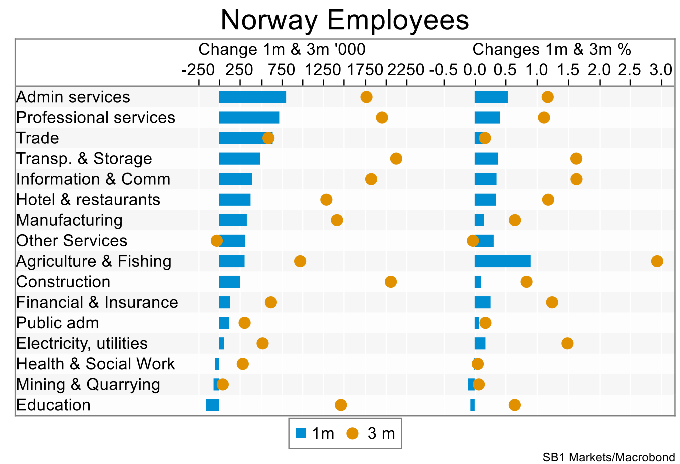


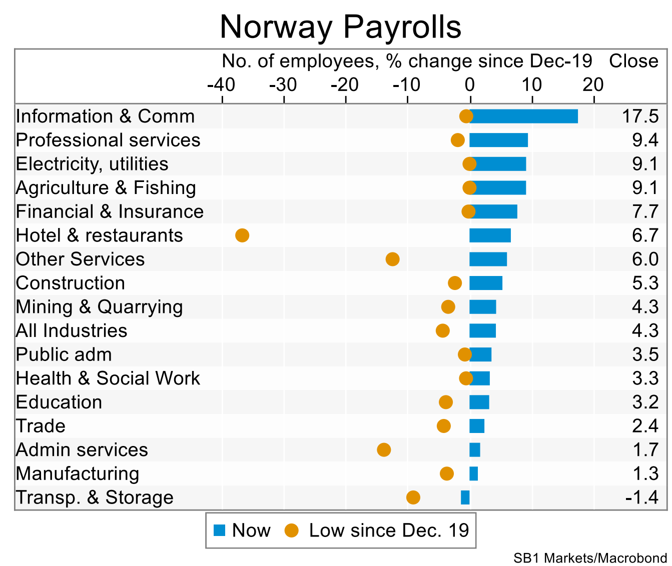
- **The LFS** ('AKU' survey) employment data (both employees and self-employed, with permanent residency in Norway) rose slightly in October but is still trending down, though just at a 0.4% pace (3m/3m annualised). Given all other data for the Norwegian economy, a decline in total employment since the spring seems rather unlikely. LFS employment is up 3.1% since before the pandemic
- The **register-based employee stats ('A-ordningen)**, reports a 0.2% growth in the no. of employees in Nov, up from 0.1% in Oct. The 3m/3m rate is 2.6%, and growth has accelerated moderately since the summer. The level is up 4.3% since Q4-19. Foreigners have fully returned
- **National accounts** reported a 2.1% lift in employment in Q3 (annualised), and a 3.4% increase from Q4-19

All sectors report continued (underlying) growth in no. of employees

…and almost all sectors reported growth m/m in November

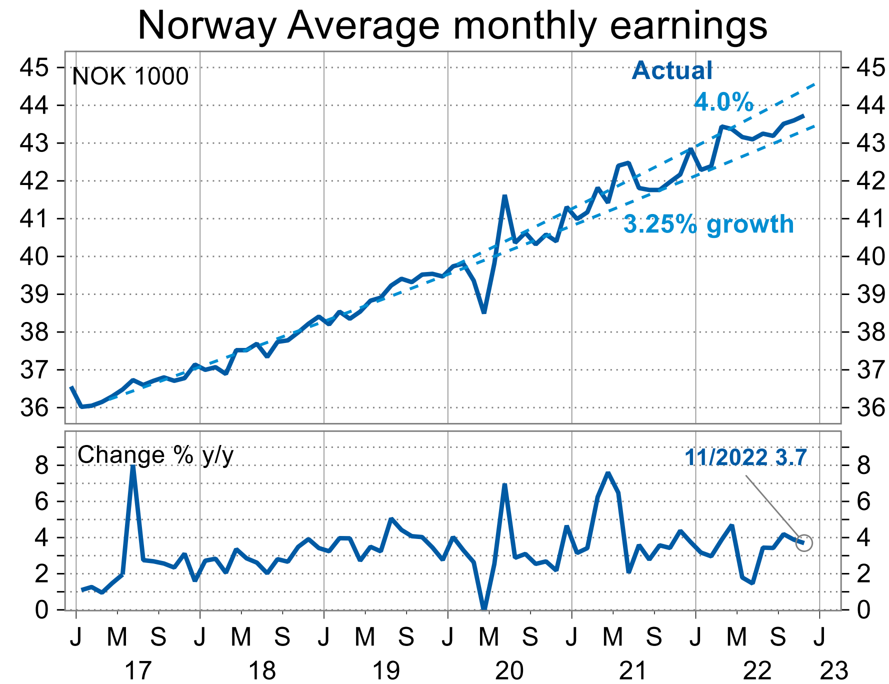




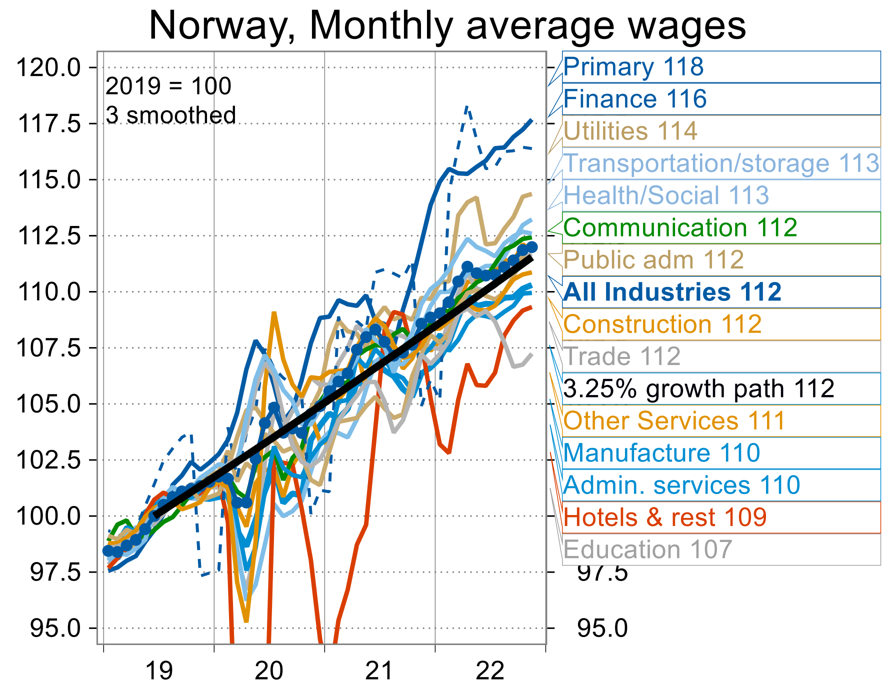


Wage inflation is not accelerating – and is lower than we expected

Average monthly earnings are up less than 4%, and the current 'official' (SSB, NoBa) 3.9% 2022 estimate is OK



SB1 Markets/Macrobond

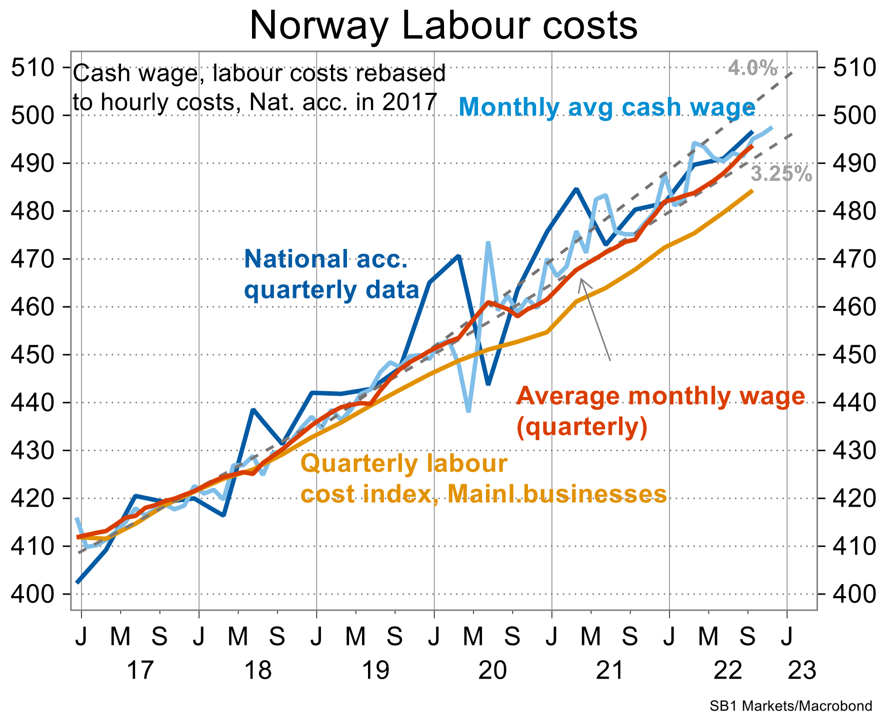


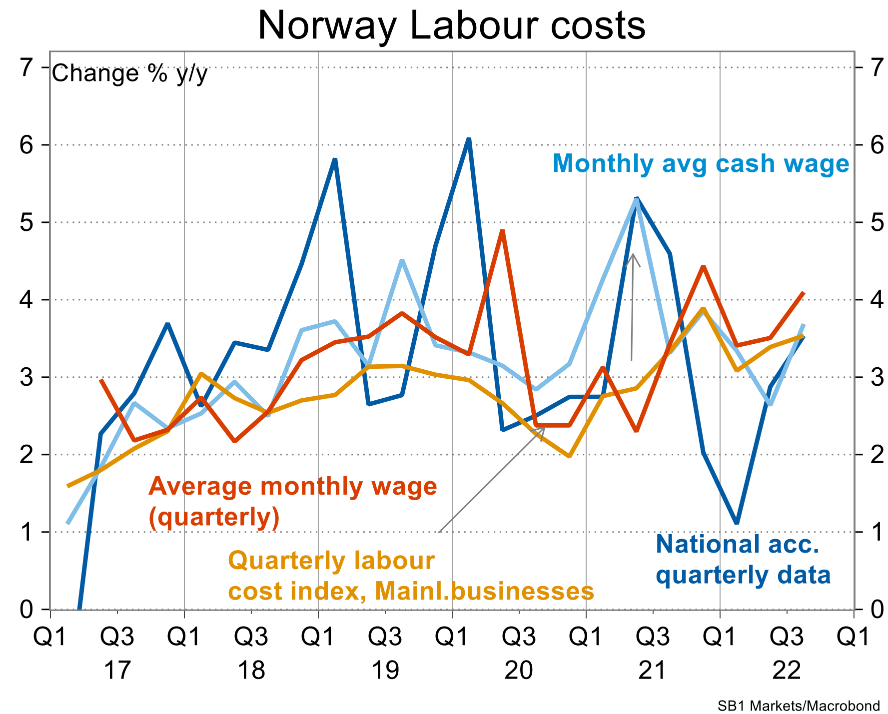
SB1 Markets/Macrobond

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

All other wage inflation indicators still in check too

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

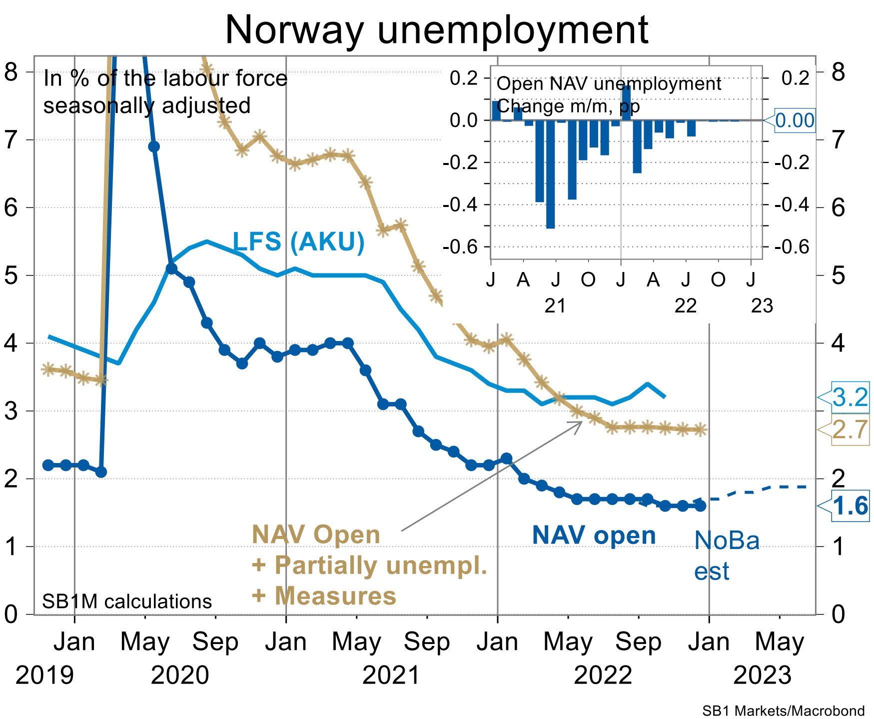


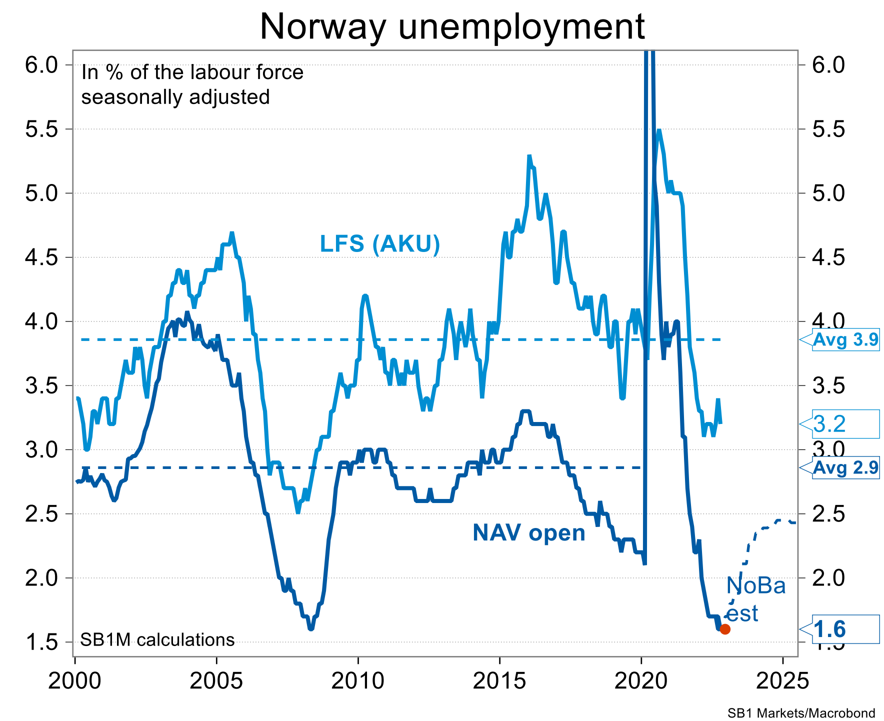


- The quarterly labour cost index report a 3.5% growth y/y in Q3, up from 3.4% in Q2 – and the trend is not higher (data out last week)

NAV unemployment has not yet turned up, and LFS unemploym. fell 0.2 pp

Open unemployment unch. at 1.6%, as we expected, NoBa assumed 1.7%. The no. of unemployed flat too

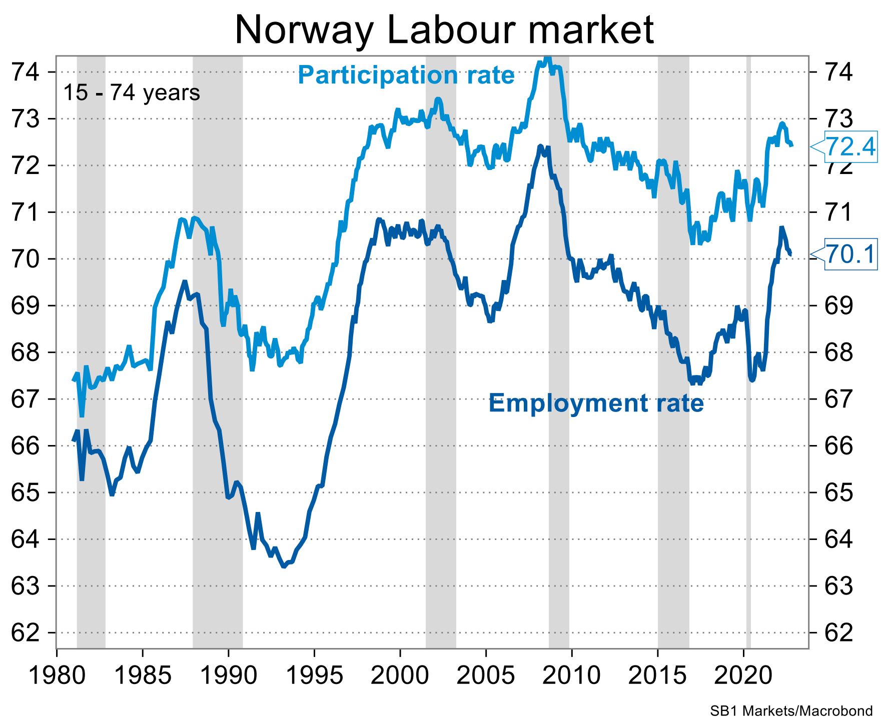


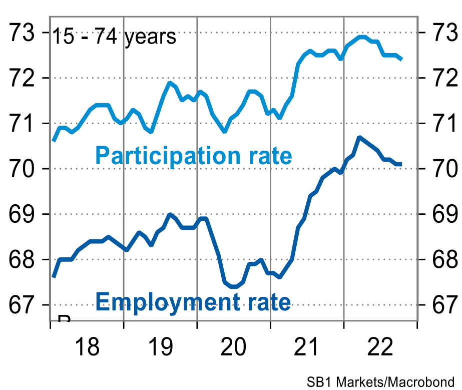


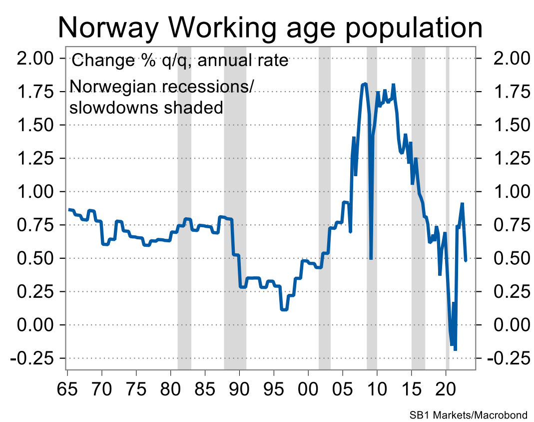
- **The 'full time', open NAV unemployment**, fell by 30 persons in Dec (seas. adj) to 47.6'. We expected a small increase, by 200 persons. The rate was unch. at 1.6% (s.a), equal to the trough before the financial crisis in 2008, and almost the lowest level since 1980, and +0.1 pp below NoBa's estimate in the Dec MPR. Unadjusted, the rate was also unch. at 1.6%, as expected. **Including labour market measures**, unemployment rose by 260' persons, as we expected. The rate is unch. at 2.0%. **Total unemployment**, including partially unemployed fell by 100 persons, and the rate was stable at 2.7%
- The inflow of **new job seekers** is trending slowly upwards, but the level remains very low. The **inflow of new vacancies** rose marginally in Oct, but the trend is down, from the peak before the summer. Even so, the level remains very high. The decline is broad, except for the public sector.
- **The LFS (AKU) unemployment rate** fell 0.2 pp to 3.2% (Sept – Nov avg), following the surprising 0.2 pp increase last month. The trend may have turned up

Both participation & employment rates are down

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



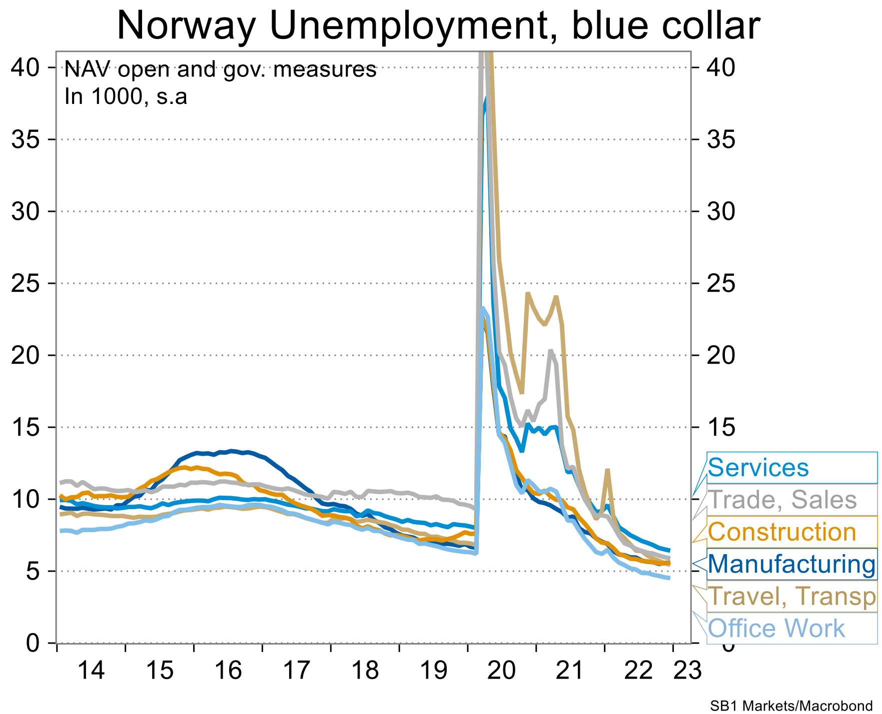


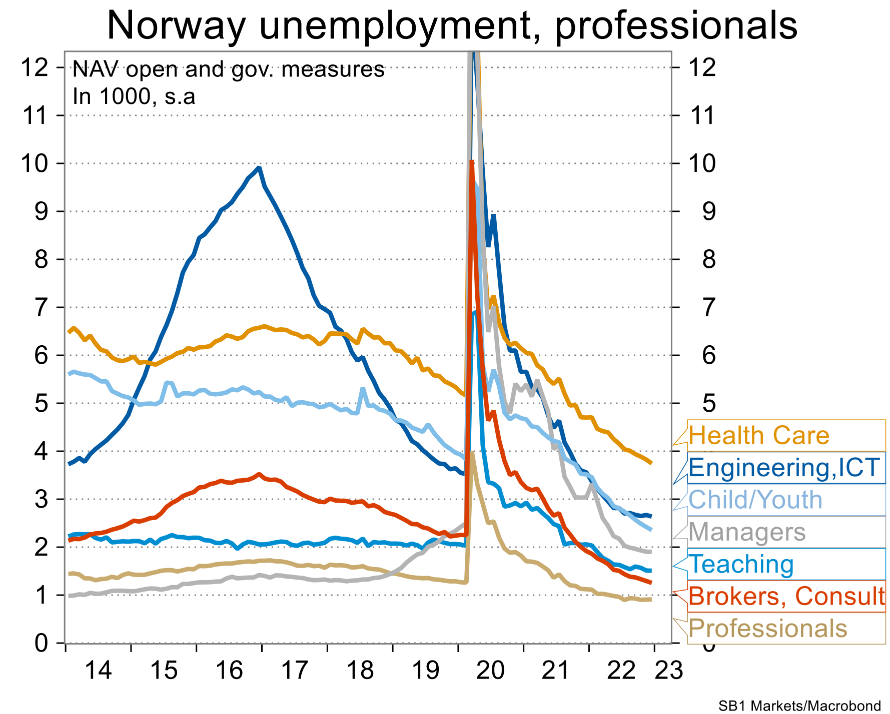


- **The employment rate** was unch at 70.1% in October
  - Ahead of the pandemic the rate was almost 69%, and it is up from the 67.4% trough in June 2020 (and from the same level in 2017, after the 'oil crisis'). The employment rate is measured in % of the working age 15 - 74 y population
  - In March, the employment rate was at 70.7%, the highest since after the Financial Crisis
  - The decline may at least partly be explained by lower employment (and participation) rate among newly immigrated refugees form Ukraine
- **The participation rate** fell 0.2 pp to 72.4% in October, and it is marginally lower than during the spring
  - Are there still reserves out there? If so, why are they not turning up now, given the very high vacancy level, 'everywhere'?
- **Both rates are** rather volatile from month to month, especially the participation rate
- **Working age population** growth has picked up, but slowed in Q3
  - Labour immigration has accelerated, possible as a ketchup effect after low immigration during the pandemic. Given the tight labour markets in the rest of Europe, we doubt ordinary labour immigration from Europe will solve the labour deficit in Norway.
  - However, Ukrainian refugees immigrated from Q2, and have contributed to the increase in total working age population. So far, not many of them are employed, according to SSB

SpareBank 1 MARKETS

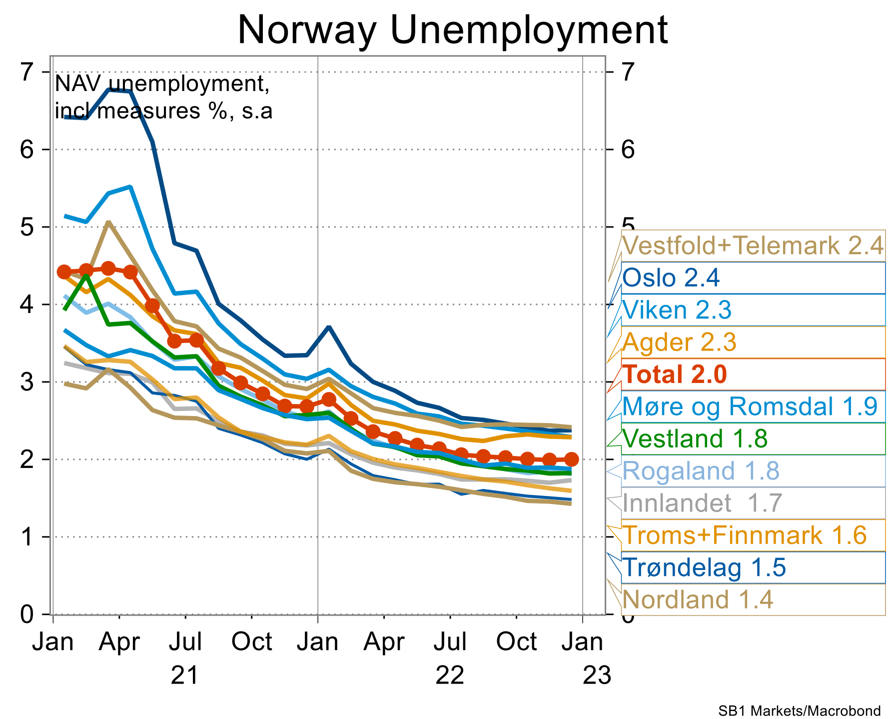
Unemployment is on the way down for all sorts of labour

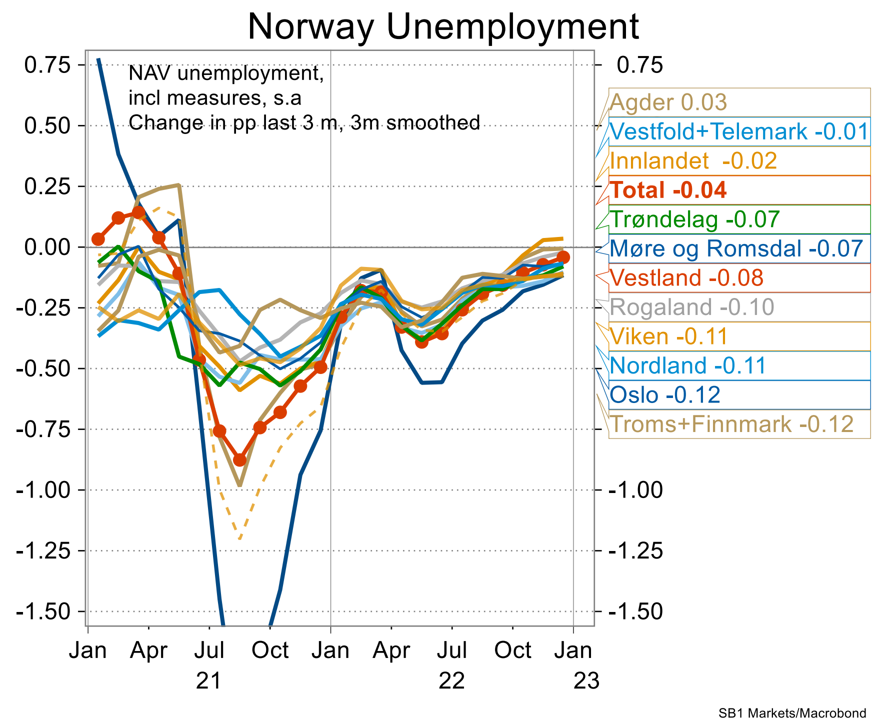




Unemployment is still falling almost everywhere – except for Agder

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

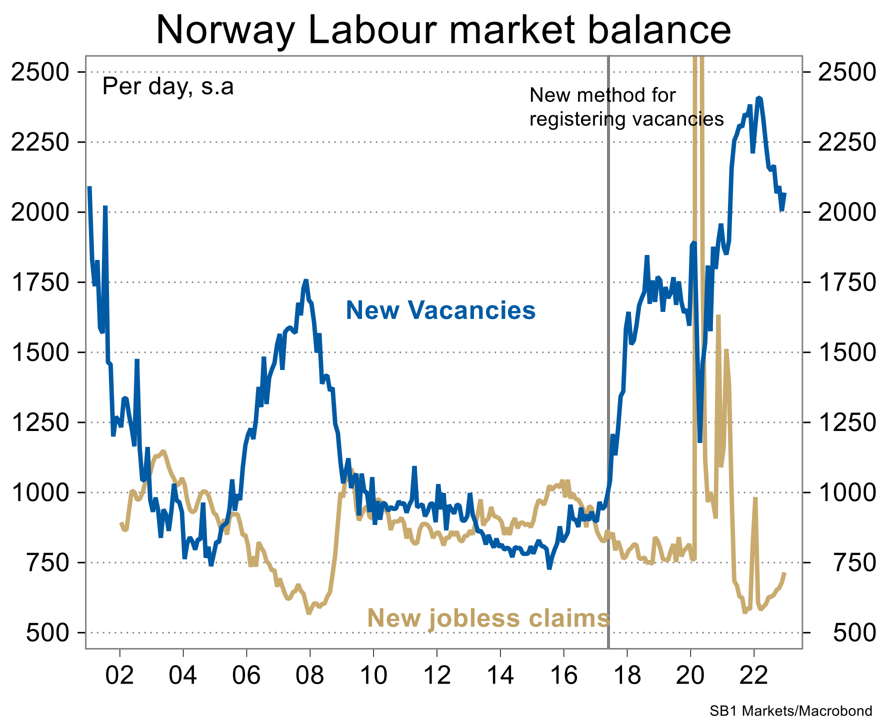


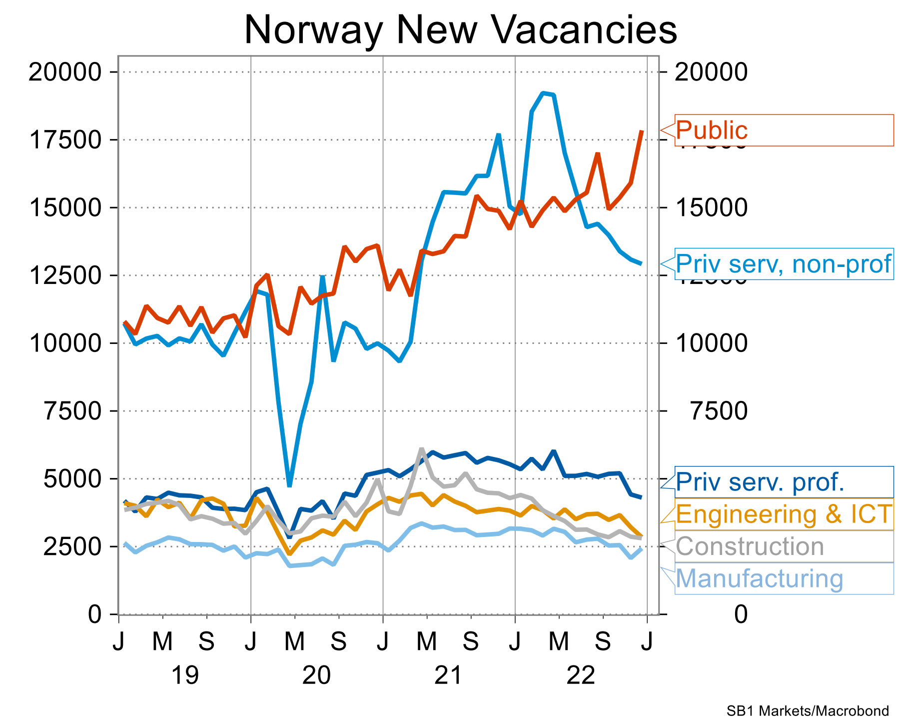


- The unemployment rate in Agder is marginally up, measured 3m/3m – all others are down, but at a gradually slower pace
- Nordland and Trøndelag at the bottom - Vestfold and Oslo at the top

New claims up but more new vacancies. In the public sector, that is

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



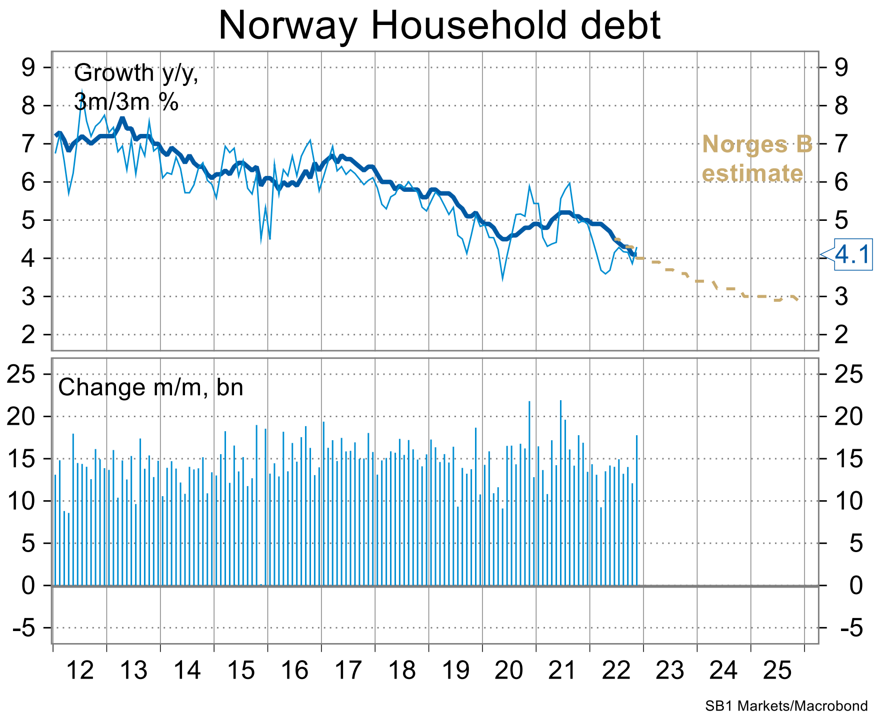


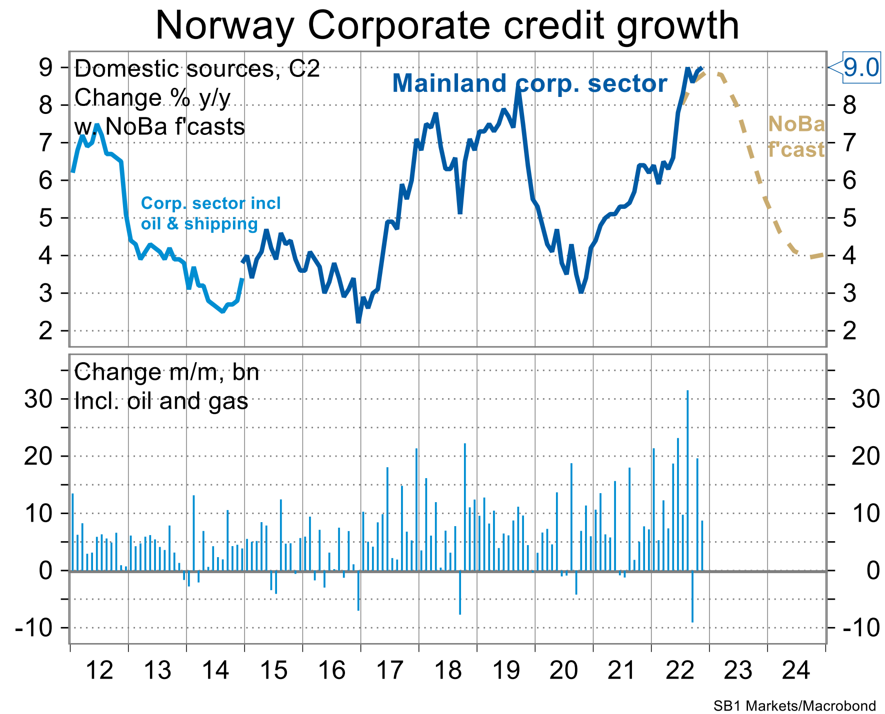
- The no. of new vacancies rose slightly in December but the trend is clearly down. The level is still high (but the data collection method was changed in 2017, though not altering the conclusion vs. the high level today vs. the level the current years)
- All private sectors have announced fewer new vacancies recently, like in non-professional private services (hotels/rest, admin support), construction and manufacturing. Just the public sector is announcing more new vacancies
- The no. of new jobless claims is increasing but the level is still low
- In sum: A very tight labour market but the tide has turned

SpareBank 1 MARKETS

Demand for household credit is slowing – but not in November

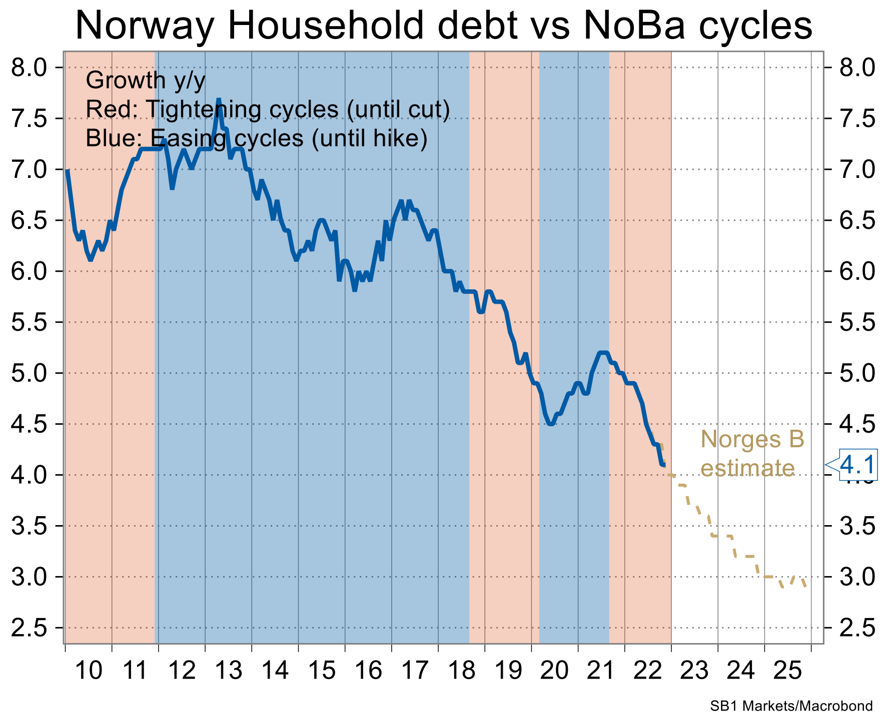
…while growth in credit to the corporate sector is higher than since before the Financial Crisis

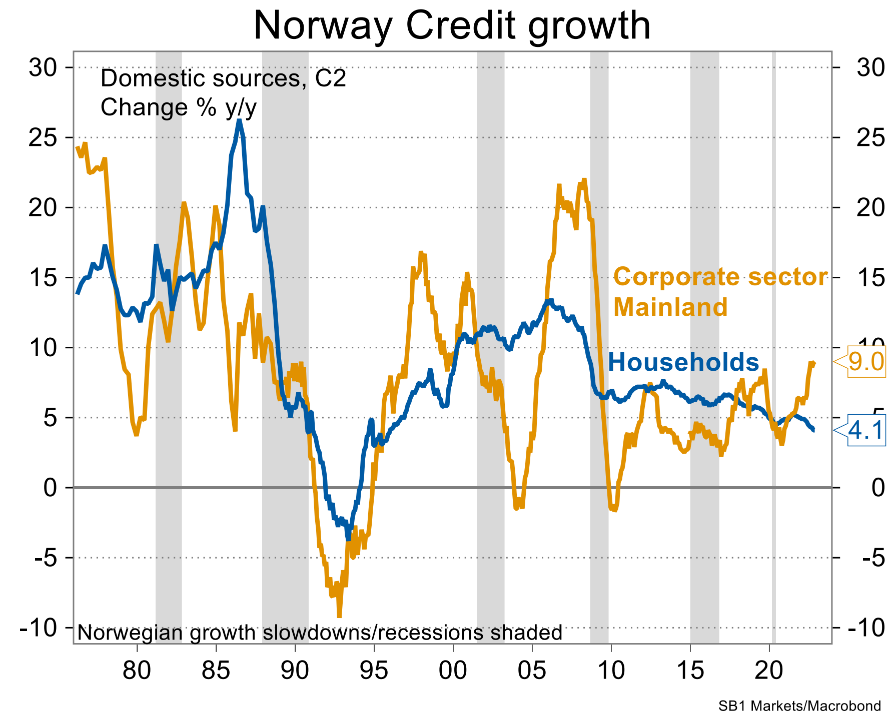




- **Household credit** growth has been slowing since mid 2021, and the annual rate has been falling to just above 4% from above 5%, and the debt/income ratio is finally declining. Household debt growth has so far slowed faster than Norges Bank have assumed in a series of MPR but surprised slightly at the upside in November. Still, we expect household credit growth to slow further the coming months/quarters
- Monthly growth in **corporate domestic credit** is volatile, most likely because loans are transferred to or from abroad, and the NOK 9 bn lift in Nov was lower than we expected. Growth in Mainland business debt has shot up recent months,
  and is at 9.0%, once again above NoBa's f'cast (from the Dec MPR). NoBa expect credit growth to slow the coming years,
  but nothing like during slow-growth periods (check next page)

Credit growth slows during economic slowdowns, recessions

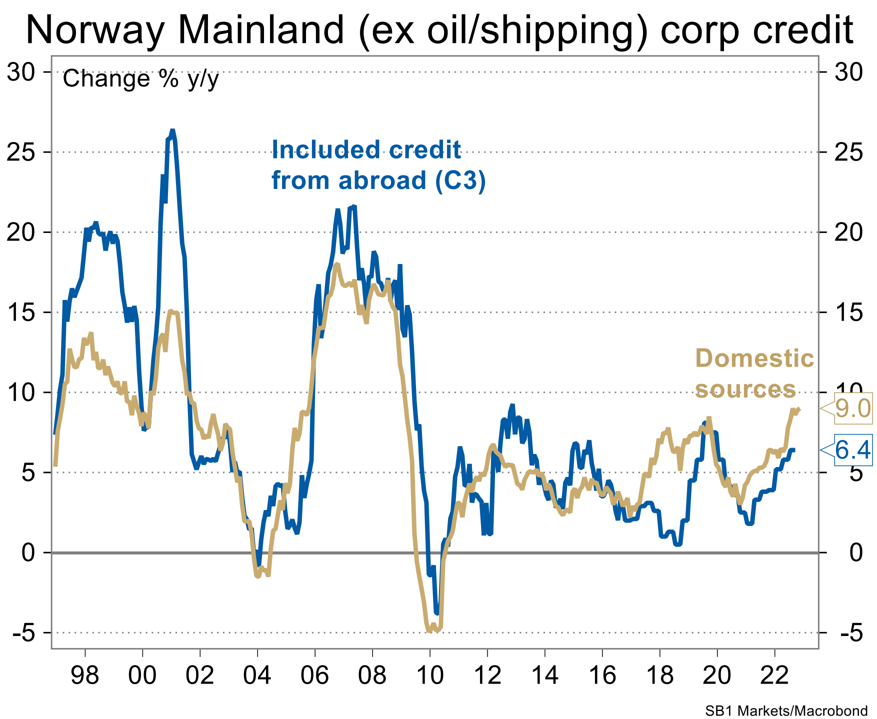


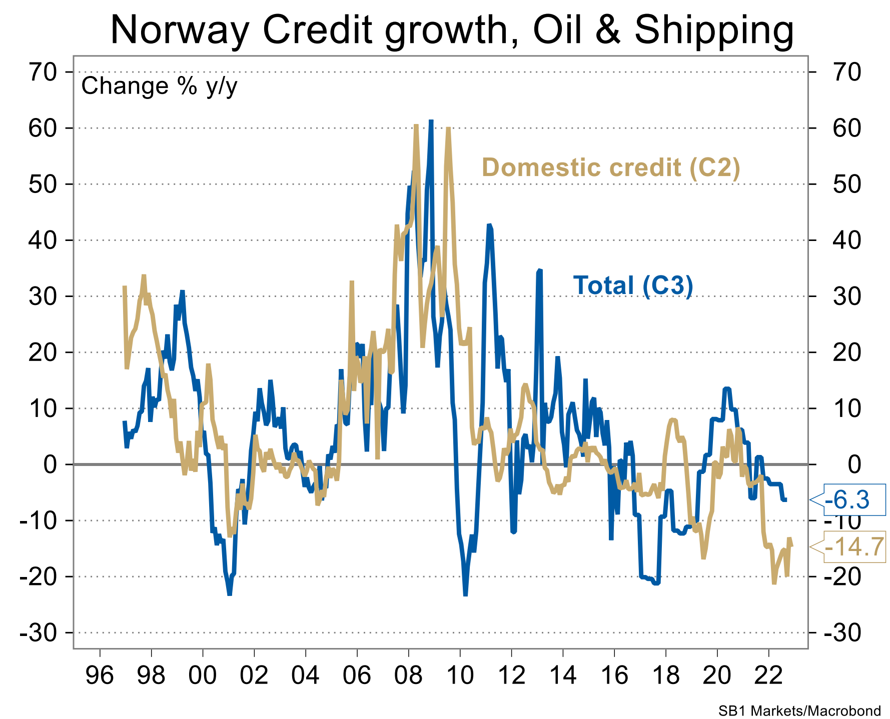


SpareBank 1 MARKETS

Mainland corporates increased their total debt (incl. foreign credit) by 6.4%

… in Q3. Debt from domestic sources (in C2) was up 9% in Nov. Some transfer of foreign loans?

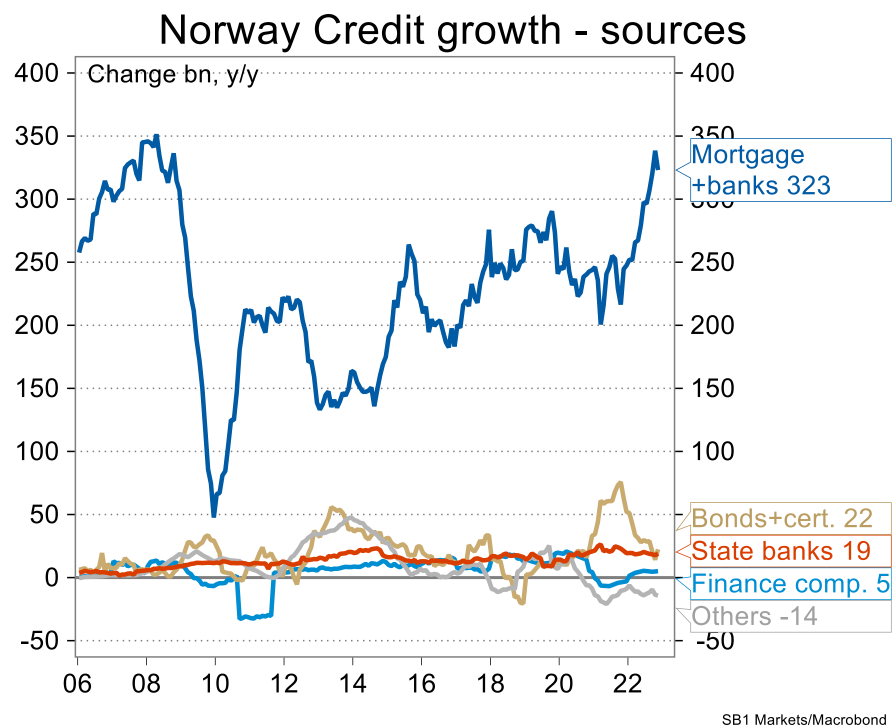


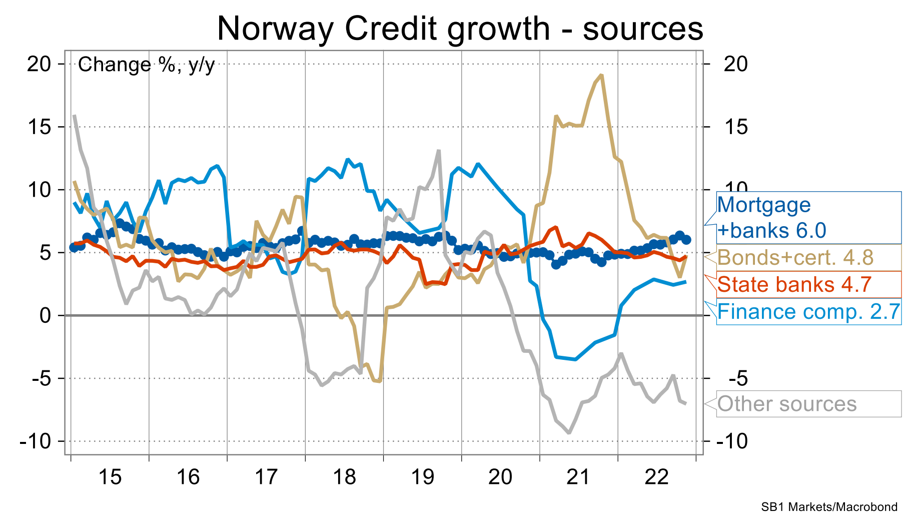


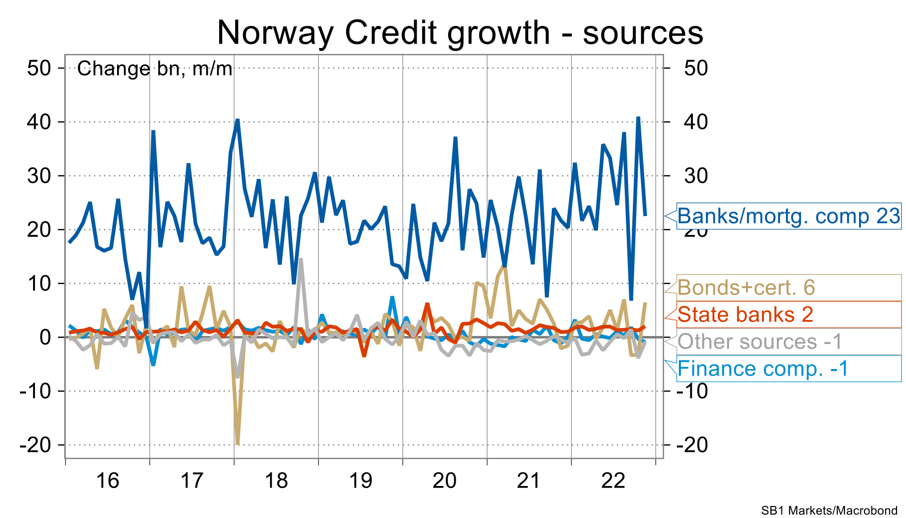
- **Oil and shipping** companies have been moving the opposite way, borrowing more abroad, paying down debt in Norway. The sum is down 6.3% (Q3), even if domestic debt is down 14.7% (via transactions) in Nov

Banks are increasing their large market share further

Bond market borrowing has slowed substantially recently





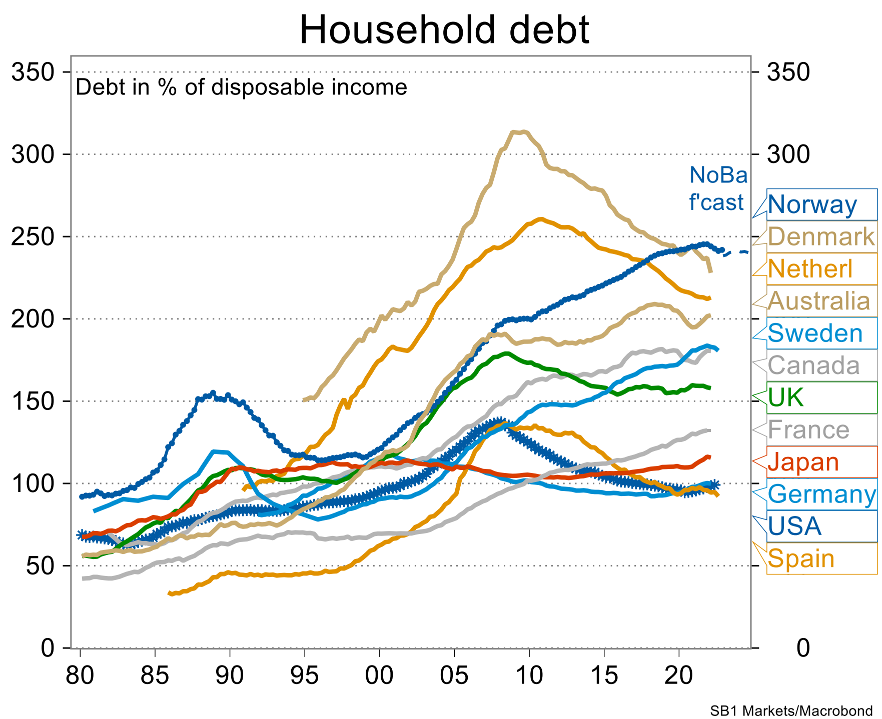


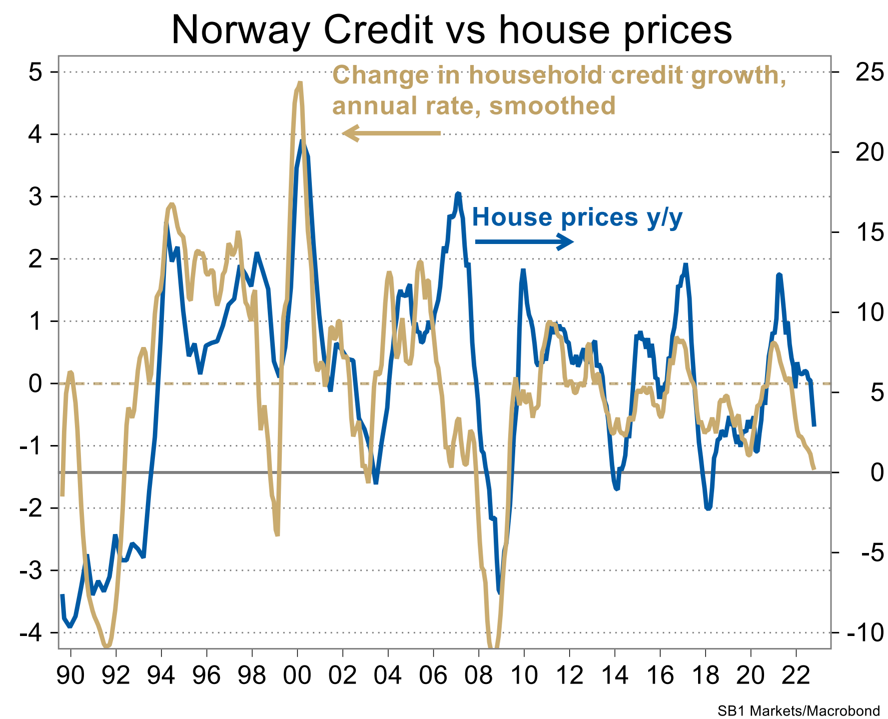
- Banks/mortgage companies are up NOK 323 bn (6.0%) y/y
- Net issuance of bonds (to non-financial sector) is up NOK 18 bn (4.8%) y/y – a normal growth rate but well down from the peak late last year (75 bn, 19%). The credit cycle has turned
- Finance companies are up a mere 2.7% y/y, while all 'others' (except state banks) have reduced their lending
  - Both insurance/pension funds as well as Statens Lånekasse, Eksfin are included in our residual 'others', but just the sum of SL & Eksfin is down

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

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

... And the downside may be substantial

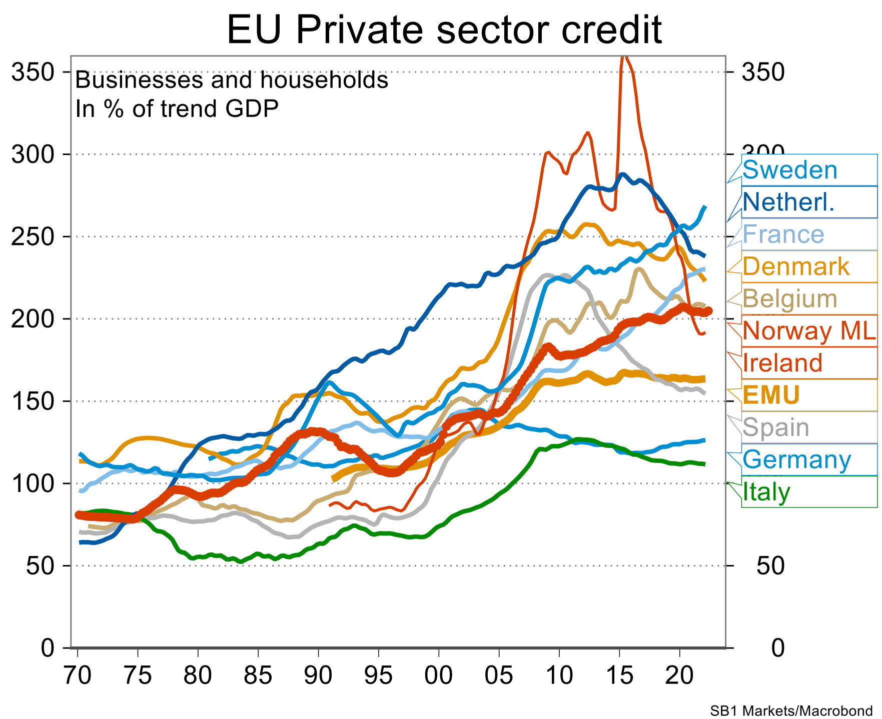


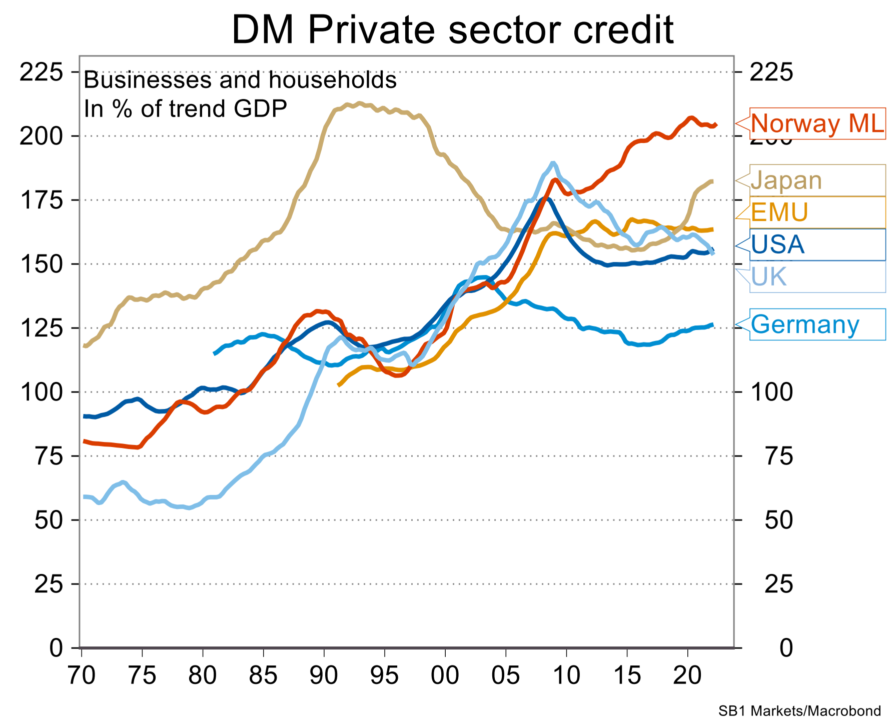


- **Norwegians households' debt has** steady been growing faster than income <u>but not more since last year</u>
- **Changes** in credit **growth** (the 2nd derivative) is usually correlated to economic growth, and asset markets – including growth (1st derivative) in house prices
  - A slow retreat in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

The private sector has mostly been deleveraging since the Financial crisis

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

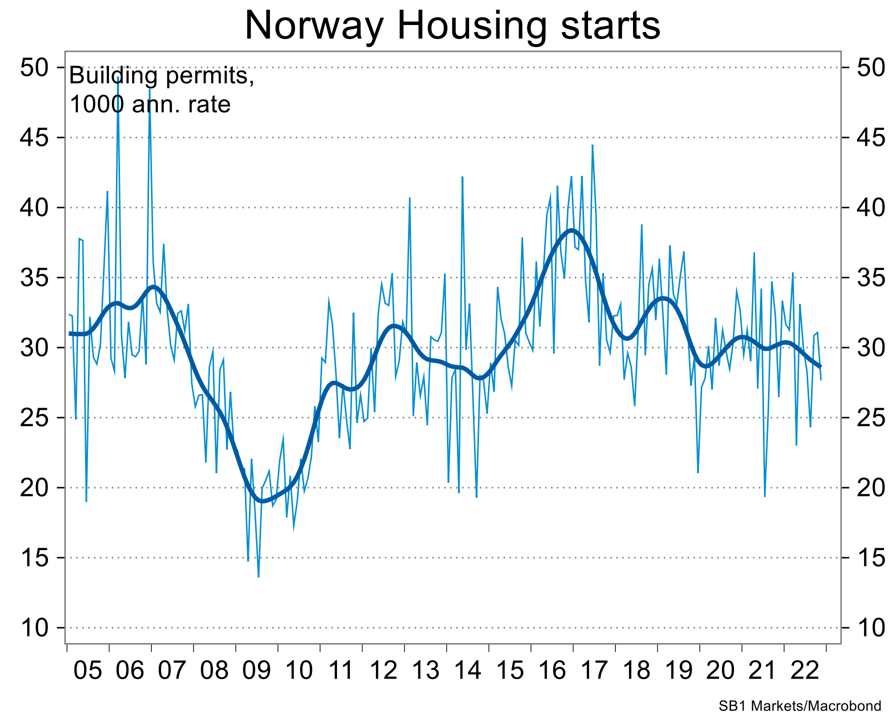


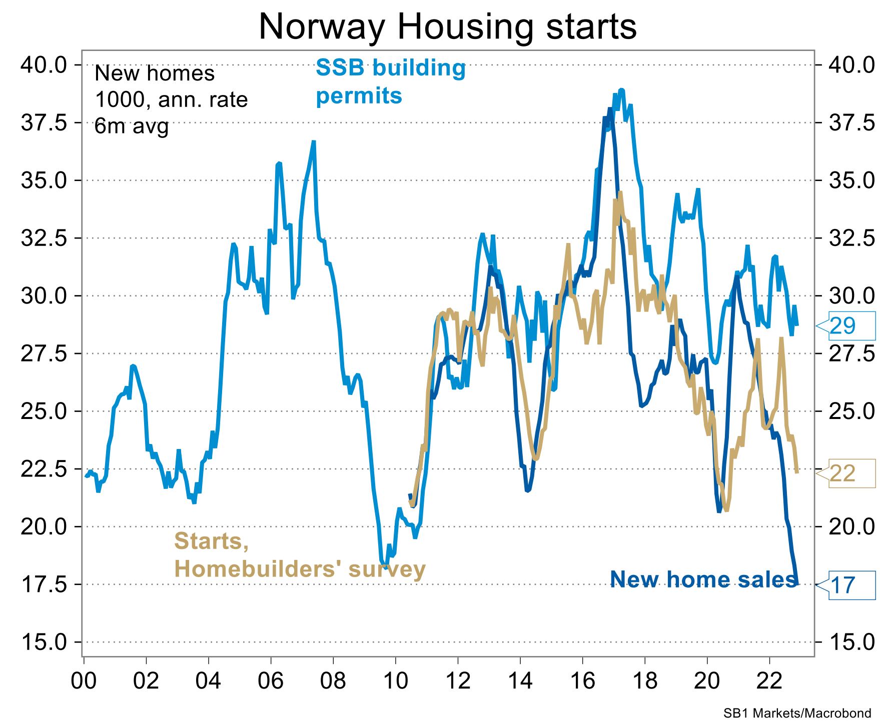


- But not everywhere: Not in Norway, Sweden (+Canada & Australia, of course). The French have been accumulating debt as well
- Rather interesting: Debt ratios in Germany and Japan have turned up recently – and the Americans are borrowing more again

SSB: Housing permits down in November

Permits at 28'– and the trend is just slightly down

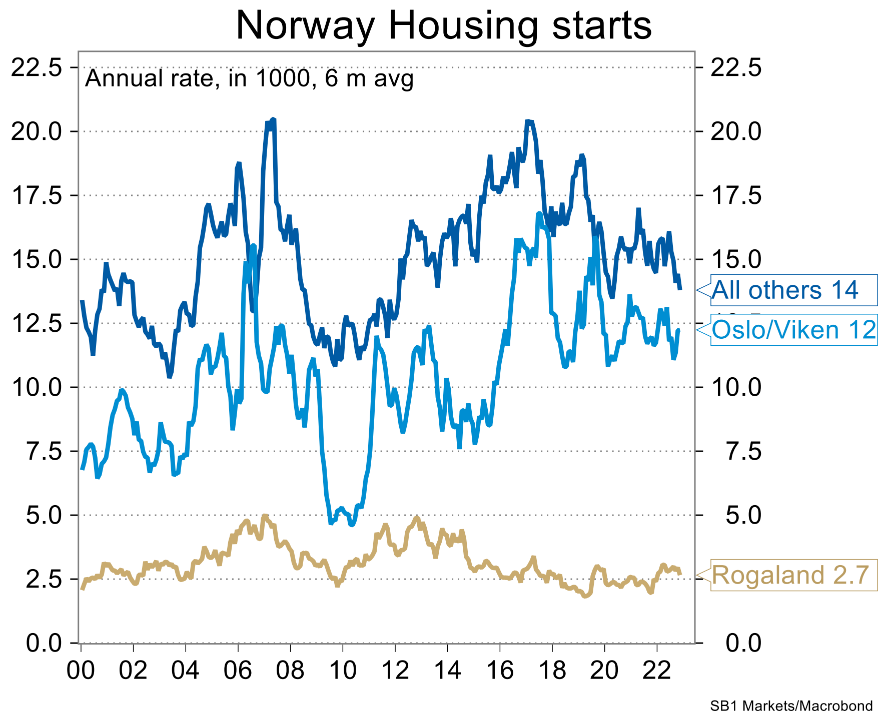


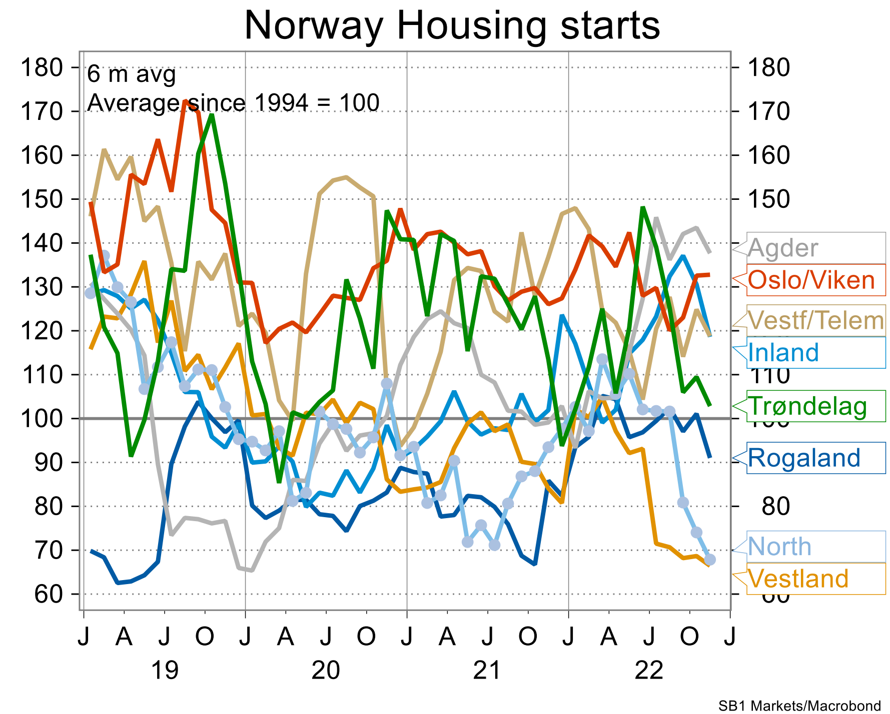


- The average no. of permits the past 6 months is at 29' (annualised), while Home builders (Boligprodusentene) report a 22' pace in actual starts
  - Student homes and assisted-living/nursing homes are not included in data from the Home builders. Some larger players do not report their activity to the Home builders' association either
- Home builders report very low new home sales, the 6 m avg. at 17' is the lowest in the history of this survey

Housing starts mixed between regions – most are down

Oslo and Viken is keeping up best, together with Agder

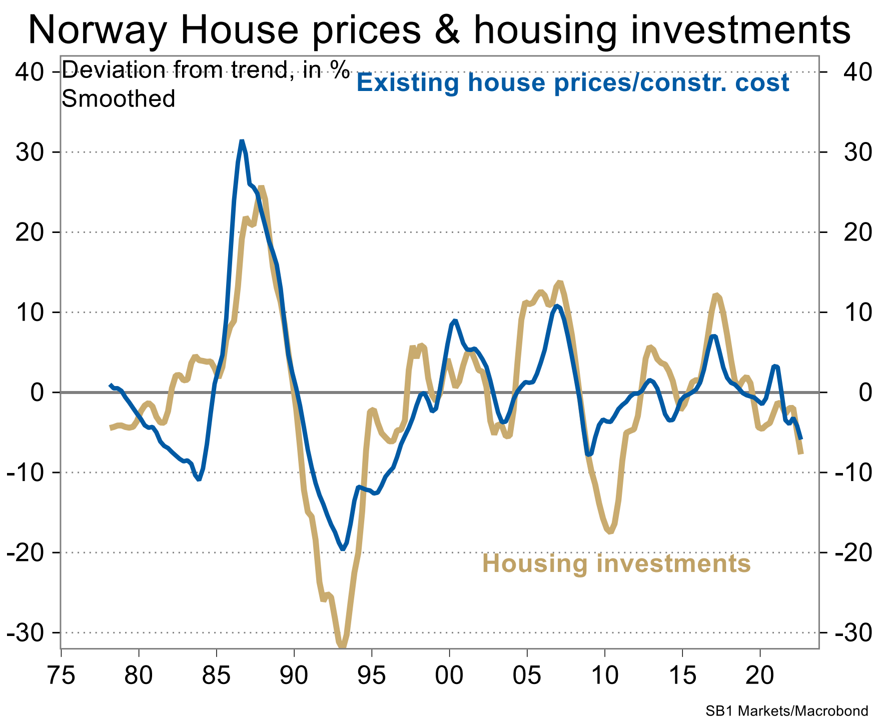


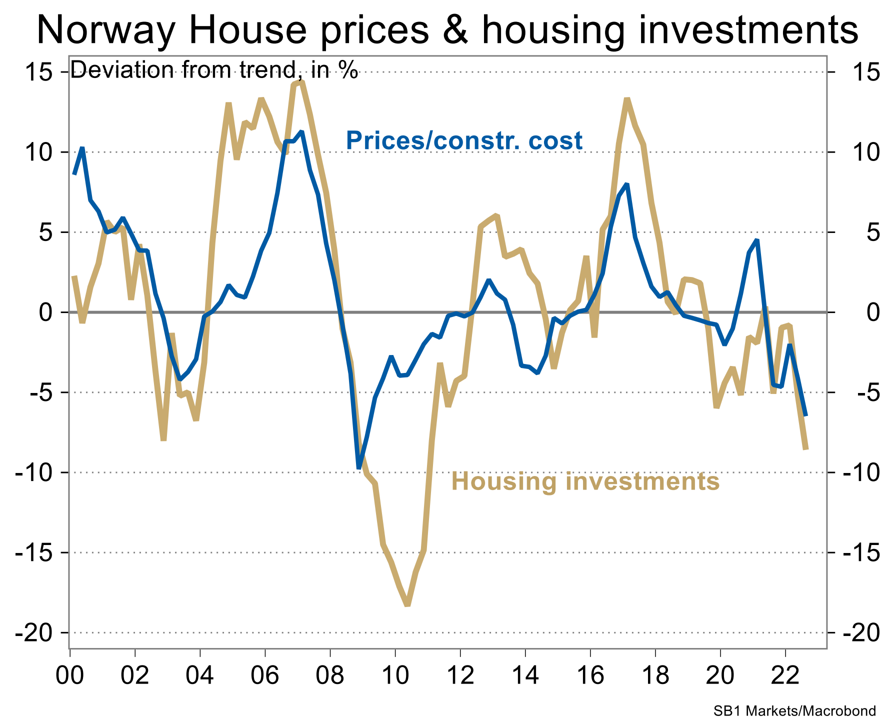


- Vestland, Northern Norway, and Rogaland are reporting less starts than past 25 y avg. (measured over the past 6 m average)

Housing starts normally in tandem with house prices/construction costs

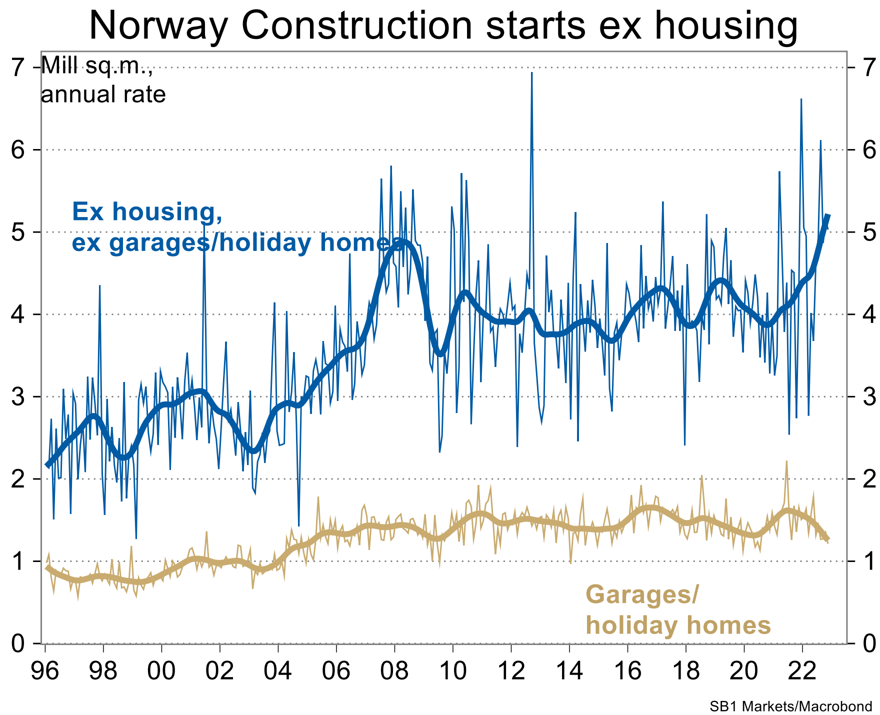
…and now prices are falling, and construction cost have not yet yielded

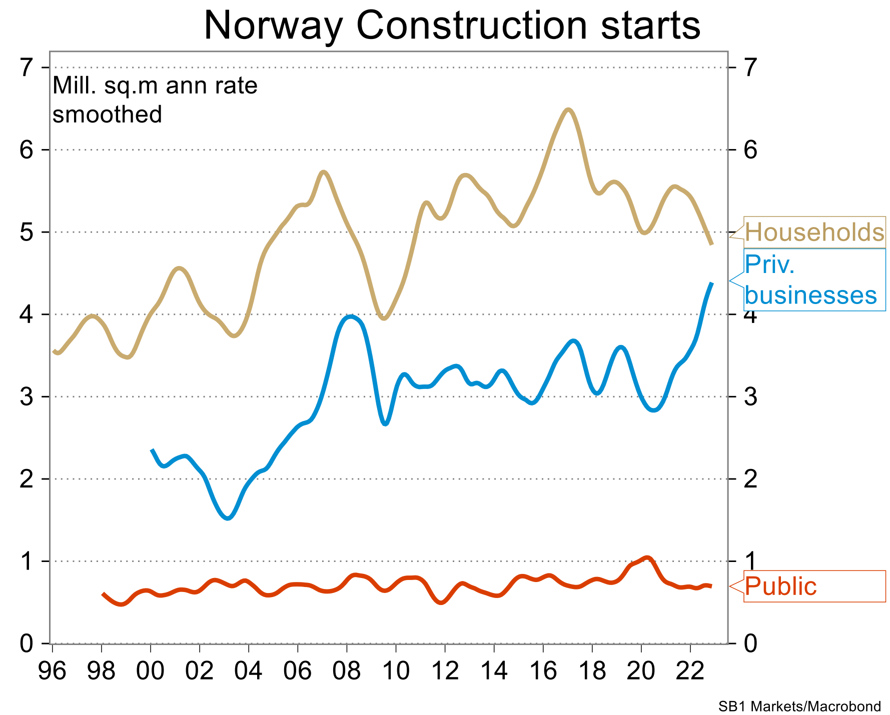




Non-residential private sector construction is still going VERY strong

Construction of holiday homes/garages are falling rapidly

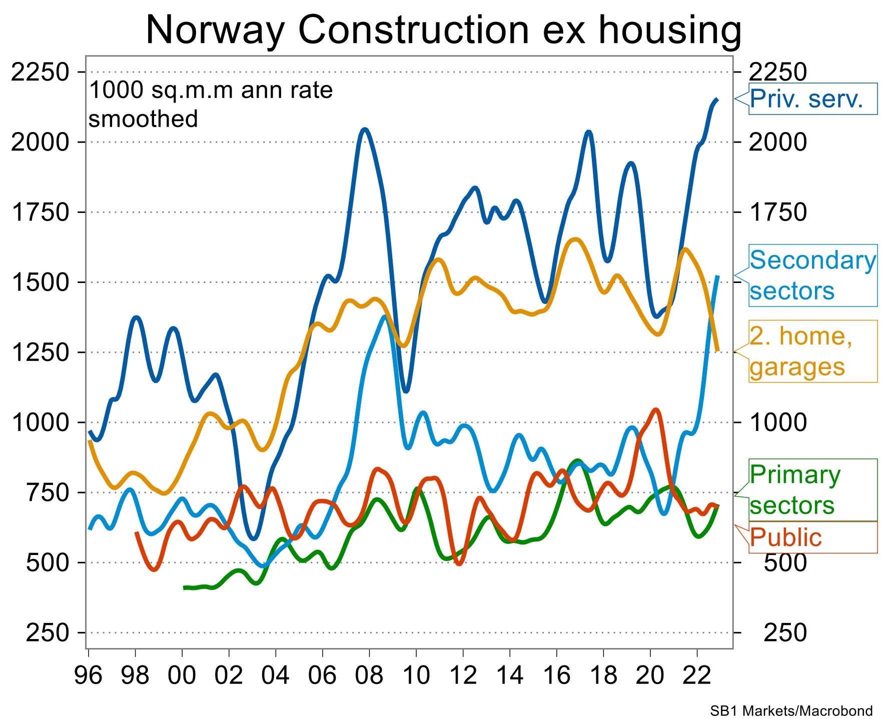


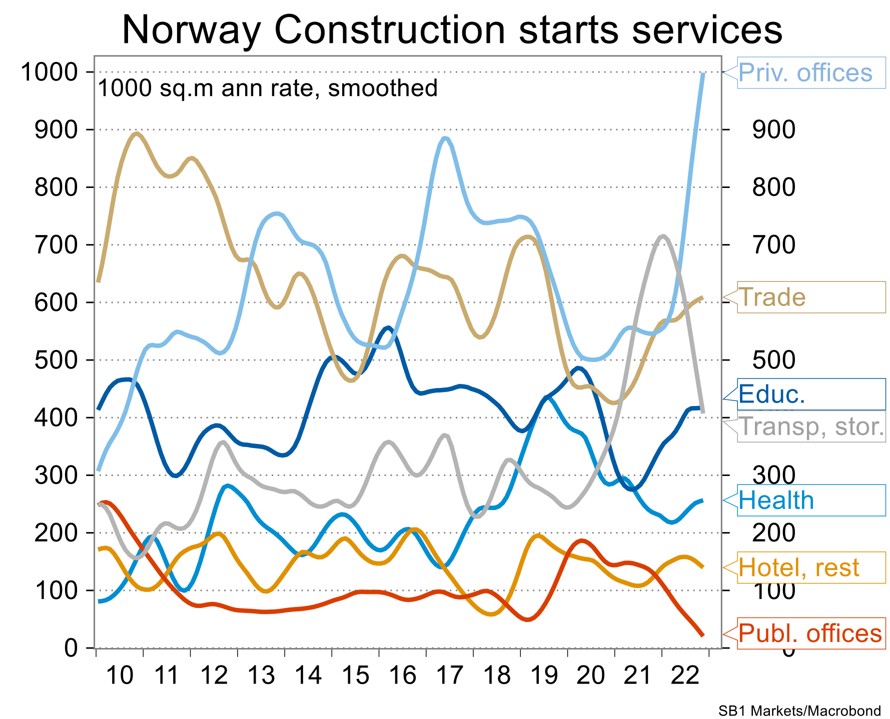


- **Construction starts ex housing & garages/cabins** are very volatile, short term, influenced by single projects
  - **Private non-residential starts** climbed and are trending upwards, and the level is on par with the highest ever
  - **Public sector construction starts** are trending flat, at a normal level
  - **Construction starts of cabins/garages** climbed 30% – 40% from early 2020 until late 2021– but are now trending down, and is soon back to the pre-pandemic level

Both private services (offices) and manufacturers are building 'like crazy'

Both well above their pre-financial crisis peak levels. Offices in the lead



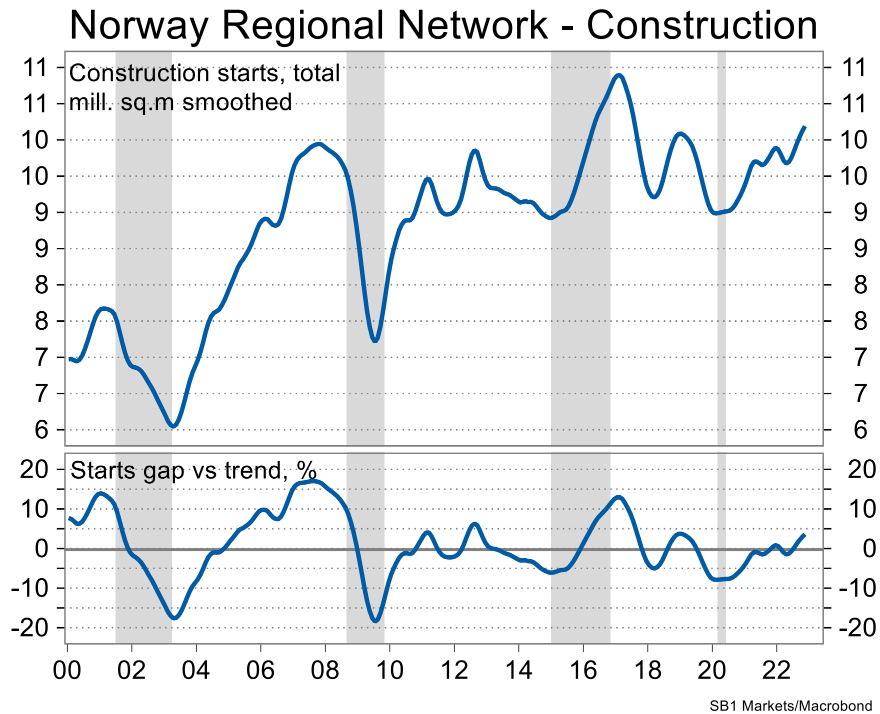


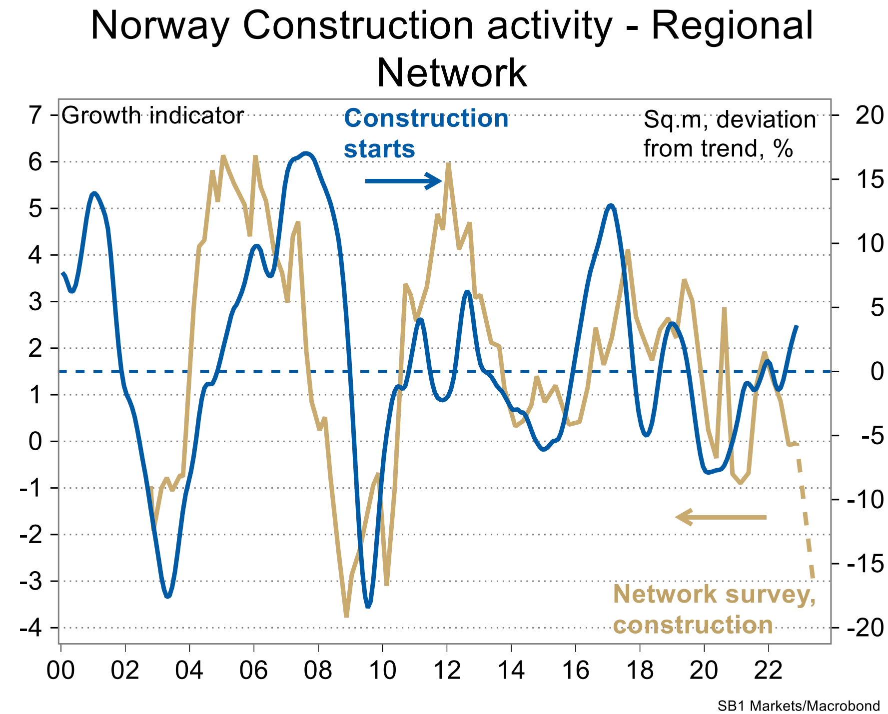
- **Secondary sectors** (read: manufacturing) sharply up, to the best level ever, at least with data back to 1996. Some battery factories have found their way into our building statistics
- Starts in **private services** are very strong led by private offices and trade. Starts for transport & storage, although still at a high level, has fallen since Jan-20. Trade is remarkably strong, given the decline in retail sales – and a rather dark outlook (according to the businesses themselves)
- Starts of **public offices** have fallen sharply, education and health somewhat up recent months

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

The Q4 NoBa Regional Network signals a hard construction sector landing

… while total construction starts are <u>still rapidly on the way up</u>, thanks to private services, manufacturing

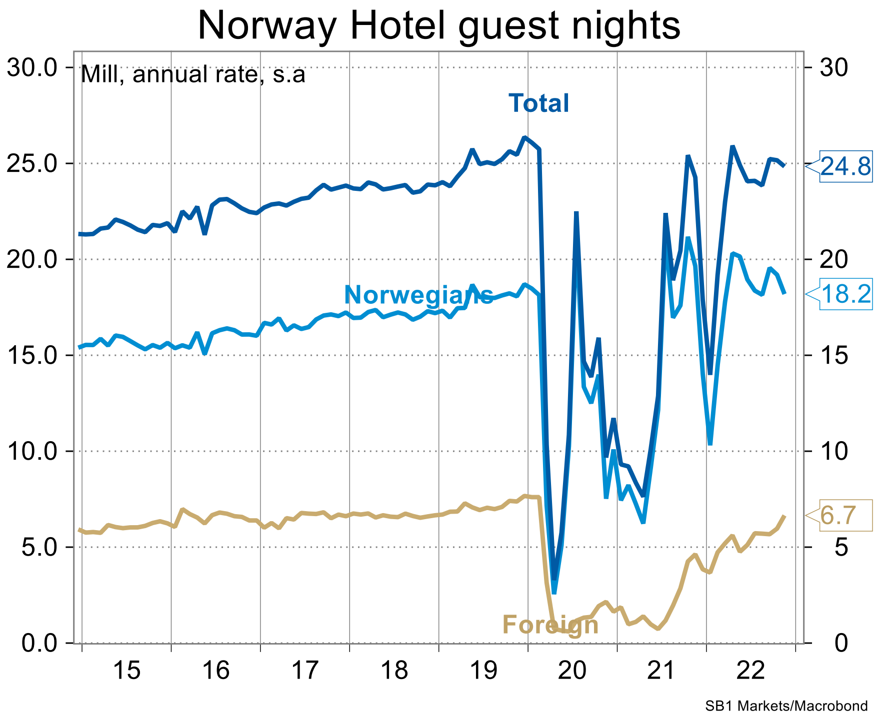


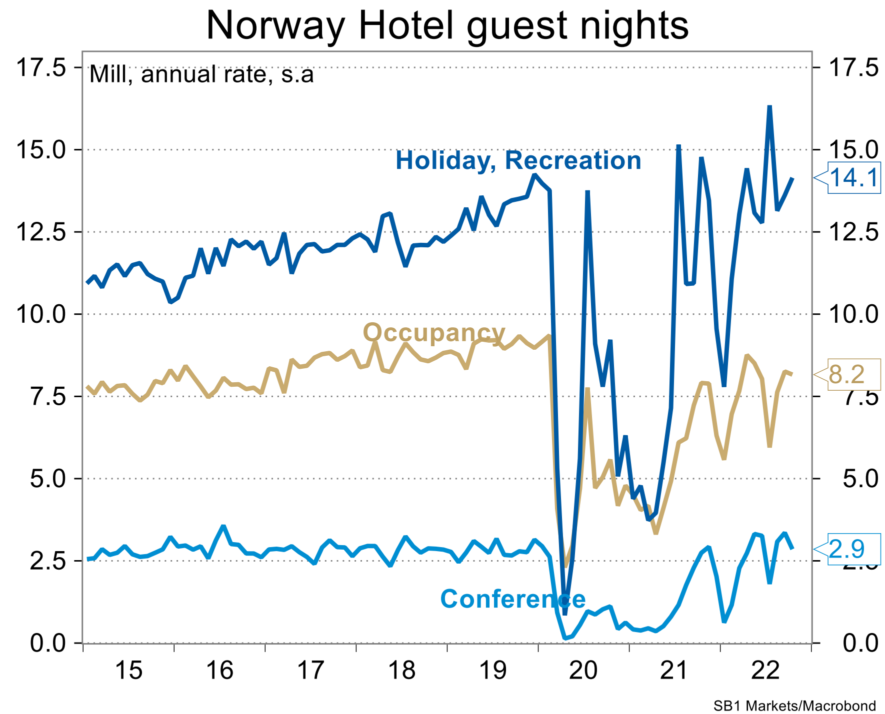


- Companies in the construction sector now report the sharpest contraction since the Financial Crisis. Back then, starts fell almost 30%
- The ‘long term’ trend in total starts is down since early 2017

Fewer Norwegian guest nights in November, more foreign

The no. of guest nights is still below the pre-pandemic trend growth path, by some 10%

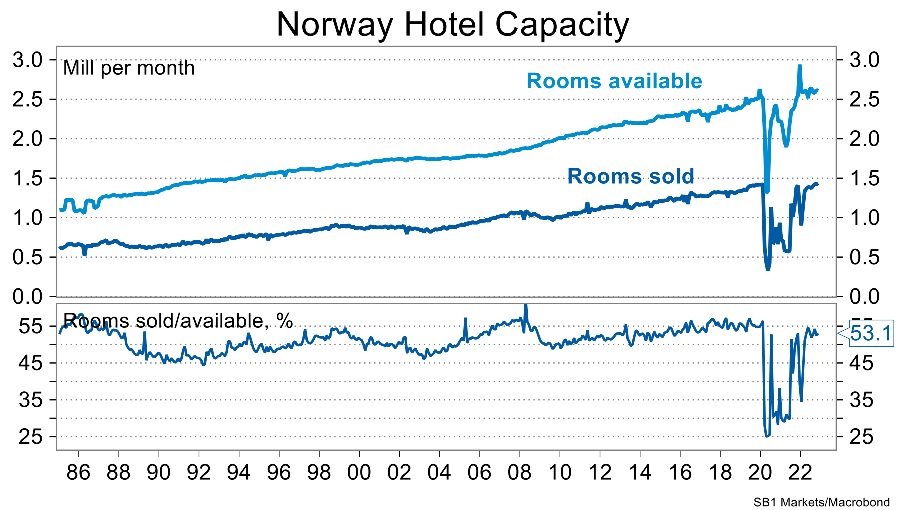


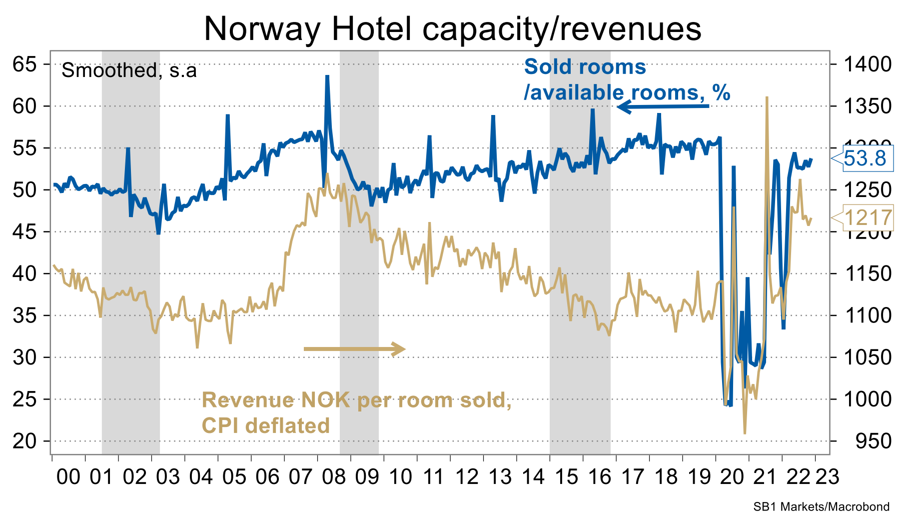


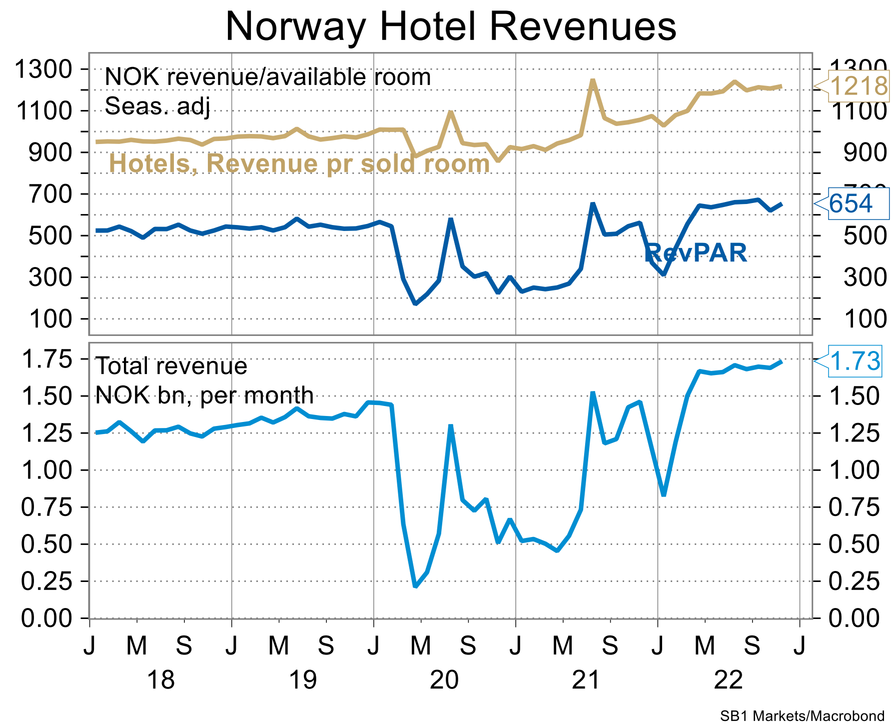
- **Both Norwegian and foreign guest nights** are below the pre-pandemic trend paths. Foreigners have returned at a brisk pace through 2022. Norwegians returned in 2021 – and the trend has been flat since Q4 last year. Very likely because travelling abroad had recovered sharply
- **Recreational demand** is above the pre-pandemic level, and not far below the pre-pandemic trend path
- **The conference market** is (at least) back the pre-pandemic level
- **Other business guest** nights are some 10% below the pre-pandemic level, and even further below the trend path that ruled until Feb-20

Capacity utilisation almost normal, prices up 22% since before the pandemic

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







- **Capacity utilisation** (room sold vs. rooms available) was 54% in November, somewhat below the normal level ahead of the pandemic
- **Revenue per sold room** is up 22% from the Feb-20 level, a substantial increase (aka inflation)
- **RevPAR** (revenue per available room) is also far above the pre-pandemic level, almost 20%

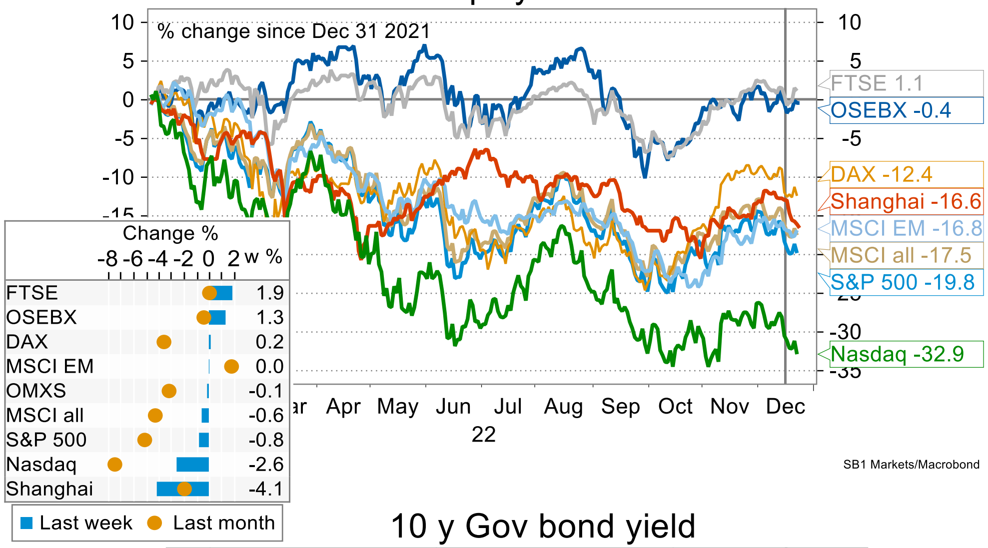
Weekly changes in the markets segment of this report:
Change to yesterday (Thursday 22) from last Thursday

Most equity markets further down

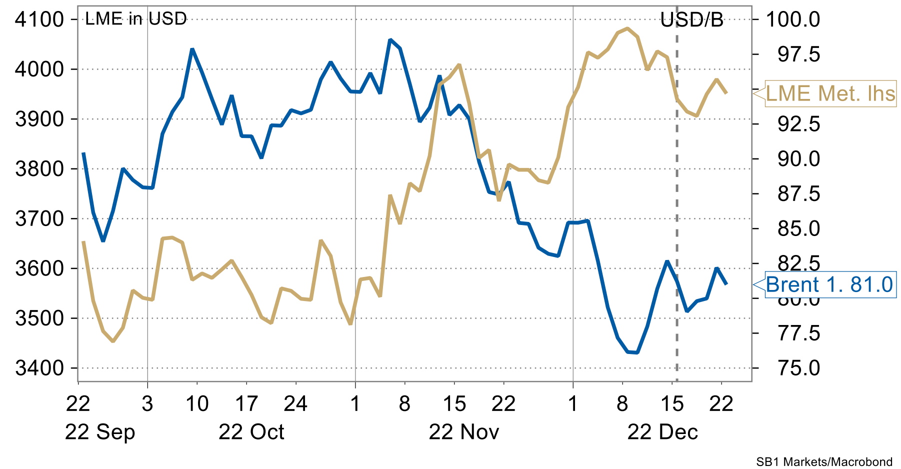
Weekly changes in the markets segment of this report:
Change to yesterday (Thursday 22) from last Thursday

Growth angst mostly to blame, but real rates rose too. Oil, metals flat. The JPY straight up on looser YCC

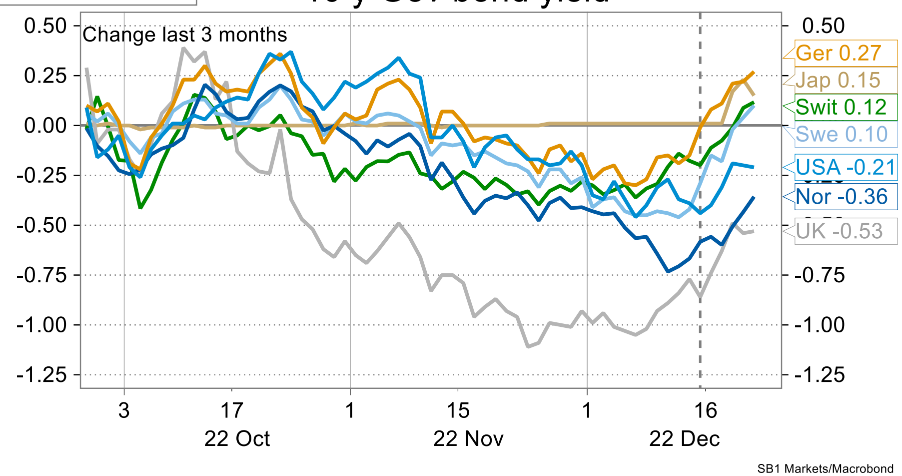
Equity Indices



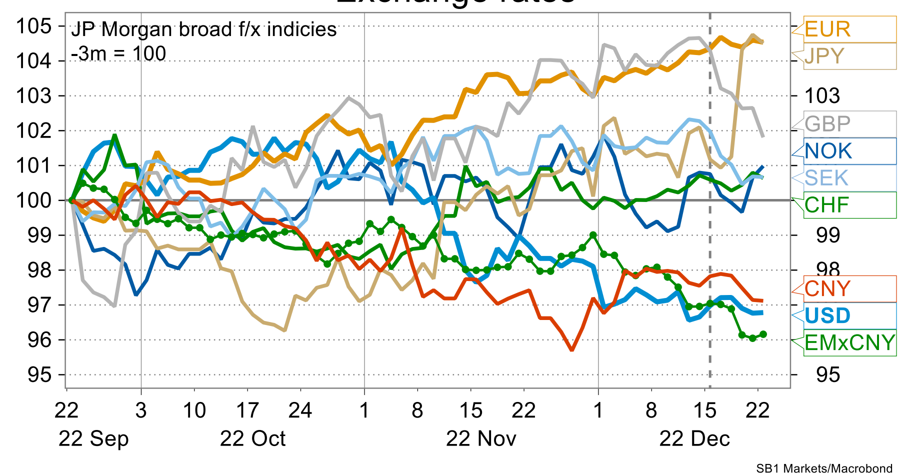
Oil vs. metals



10 y Gov bond yield



Exchange rates

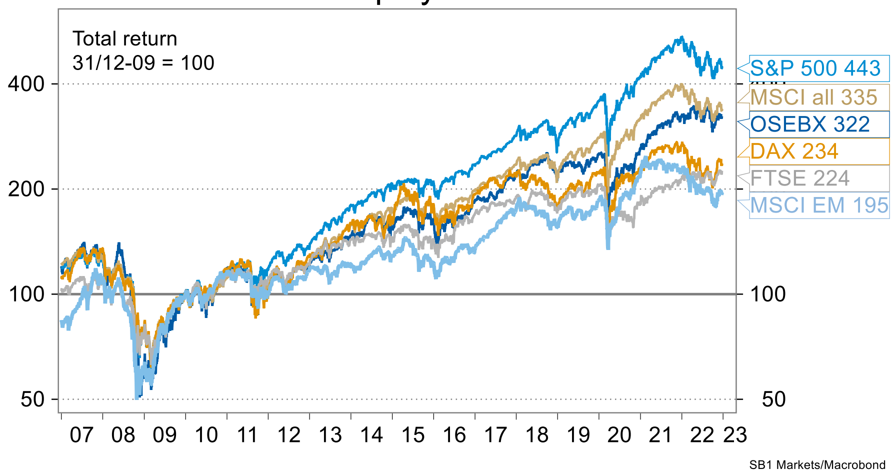


The Japanese 10 y bond yield gained 15 bps, as the BoJ surprised by widening the YCC corridor, to 0 +/- 50 bsp from +/-25 bps However, most other bond yields rose more than that

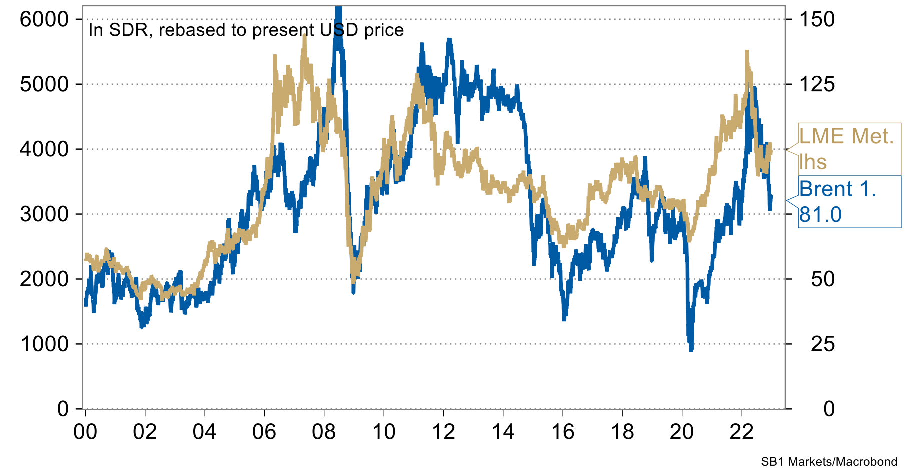
The long-term picture: Stock markets down, commodities down, yields up

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

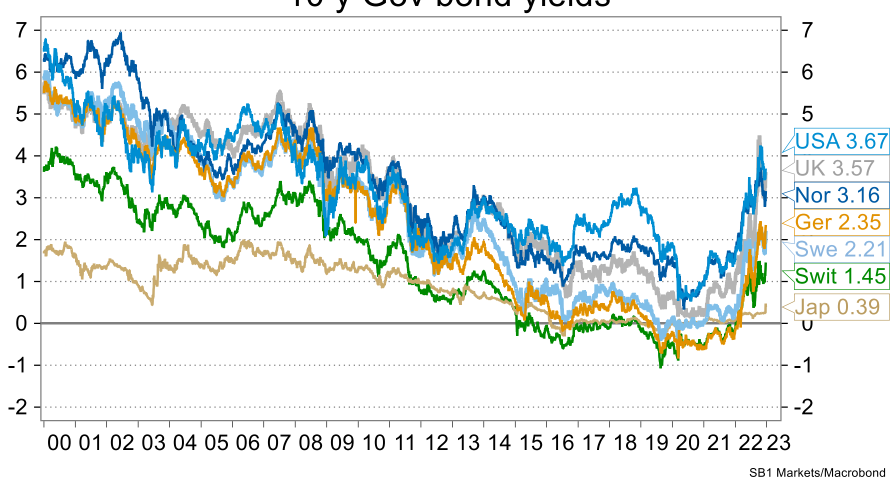
Equity Indices



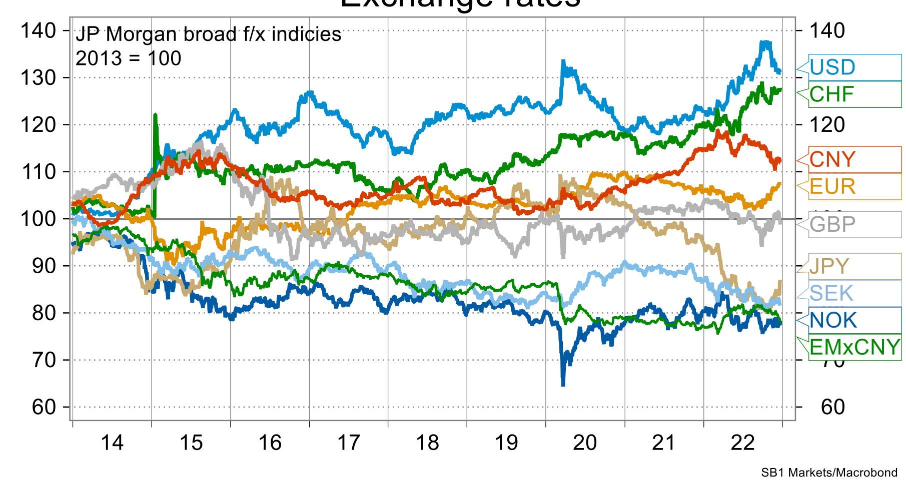
Oil vs. metals



10 y Gov bond yields

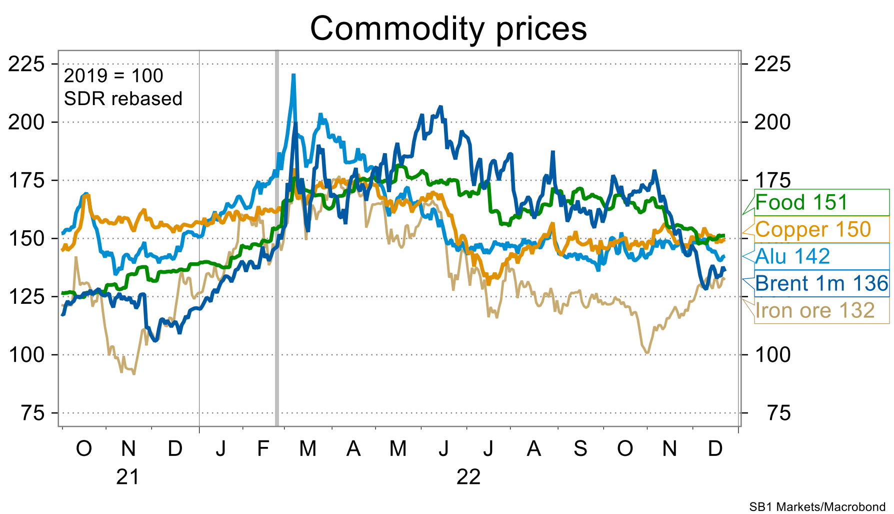


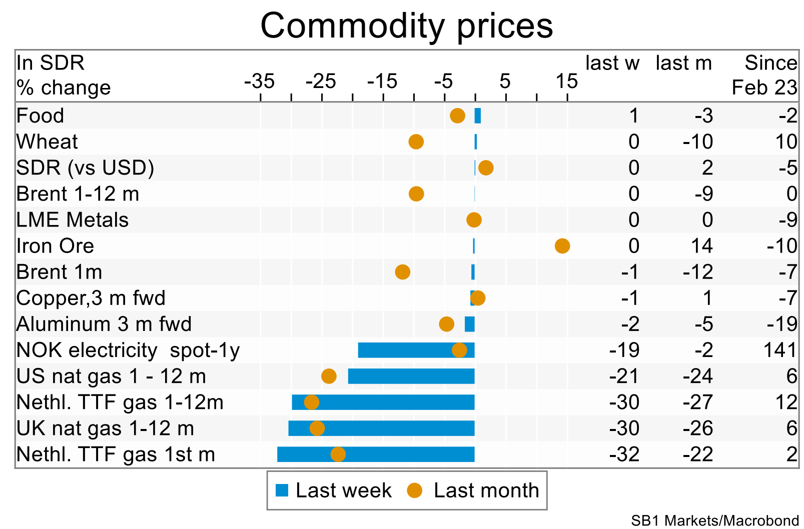
Exchange rates

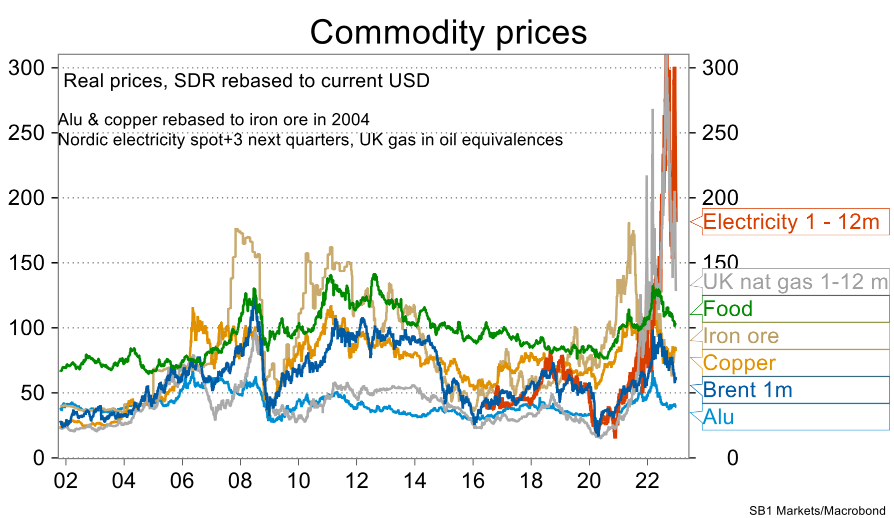


SpareBank 1 MARKETS

Most commodity prices unchanged but European gas/el prices further down





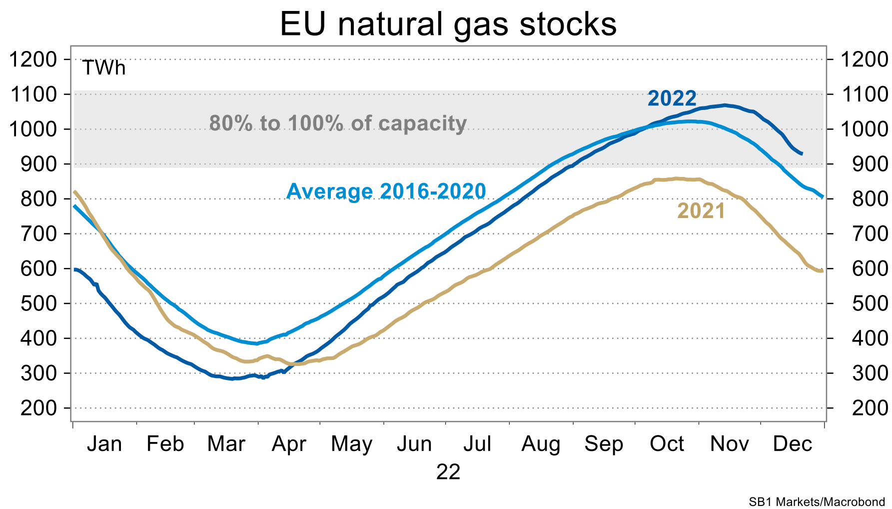


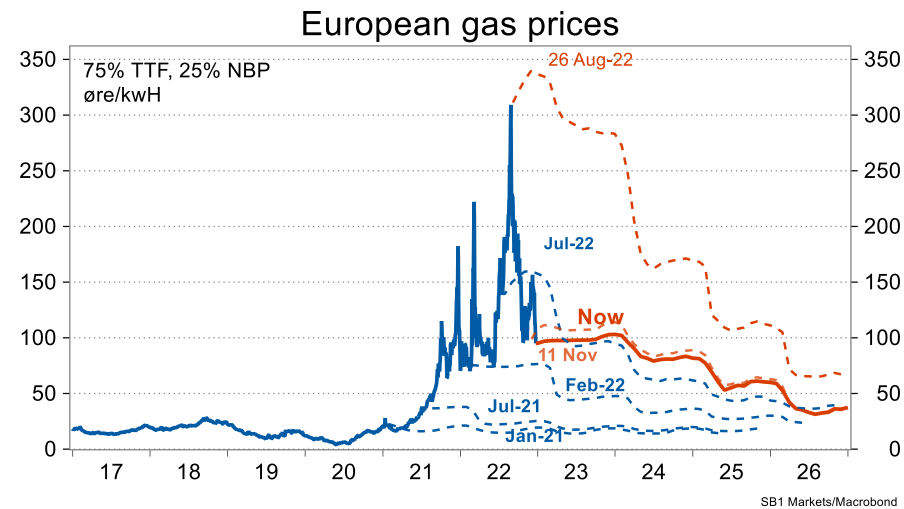
Last week – prices in SDR

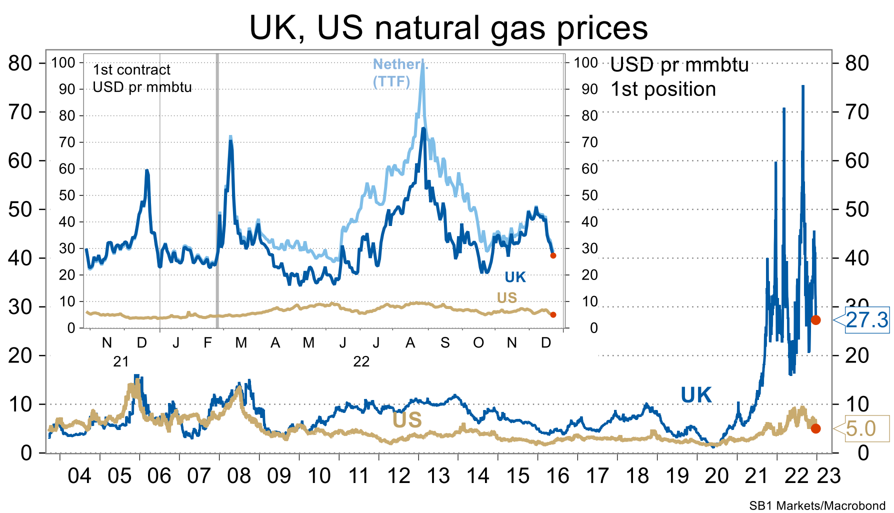
- **Oil** prices were close to unch last week
- **European natural gas & electricity prices** by 20 – 30% (average of next 12 months), perhaps because temperatures rose. The EU gas price cap is most likely irrelevant
- **Iron ore** prices have recovered sharply since early November on hopes for a recovery in the Chinese construction sector following a string of policy stimulus measures – that might work
- **Other metal** prices was flat last week too

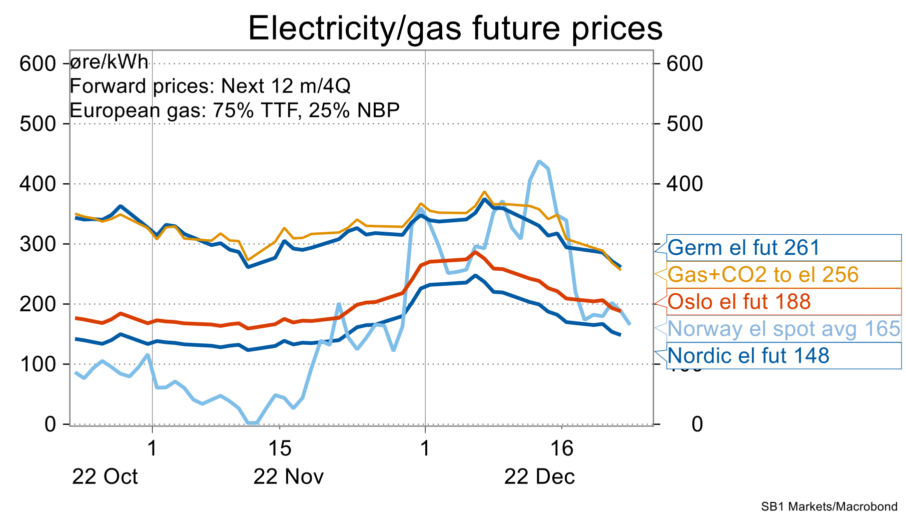
European gas/electricity prices down 20 – 30%, in one week

Warm weather – or something more fundamental?



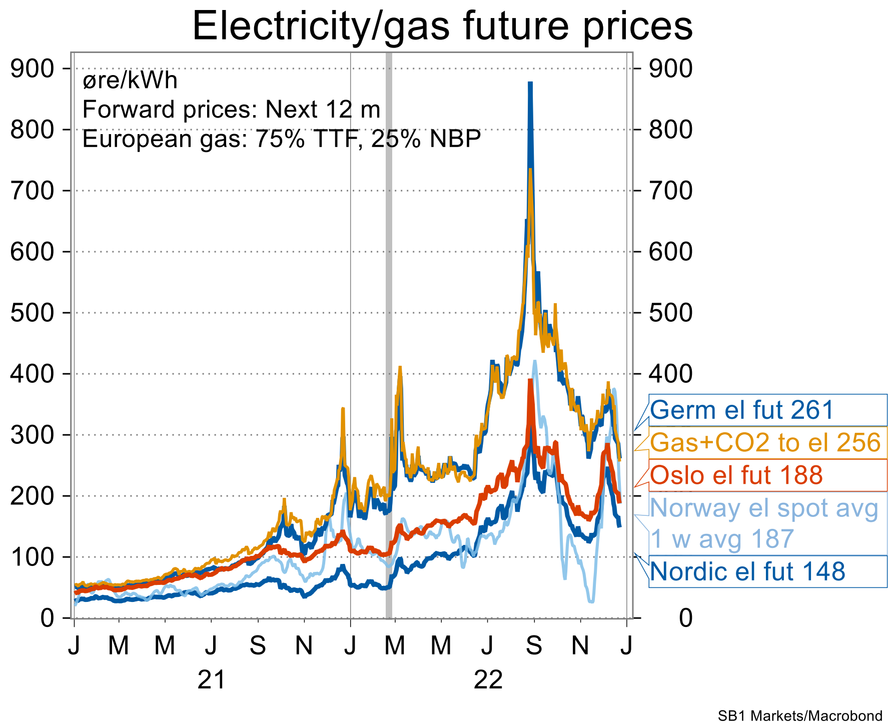


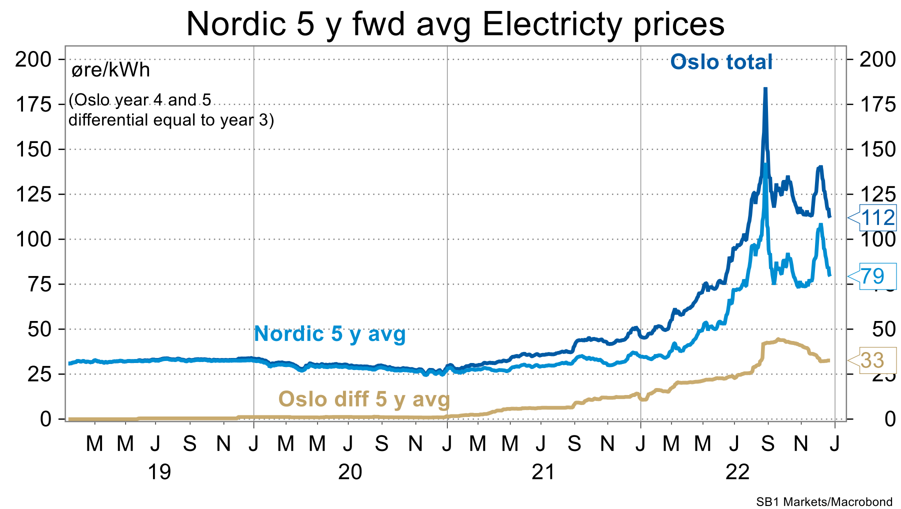


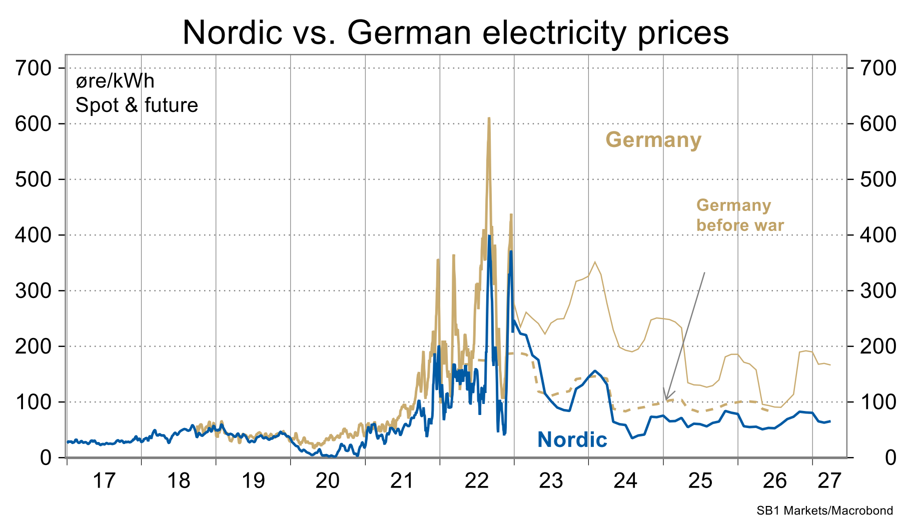


European gas prices the lowest since June

The November price hike is more than full reversed

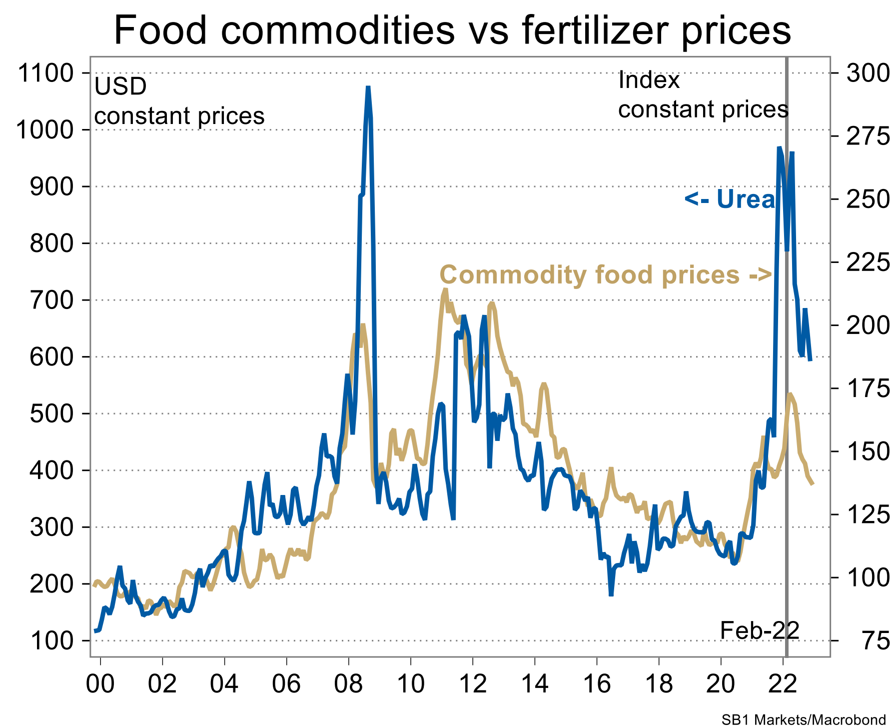


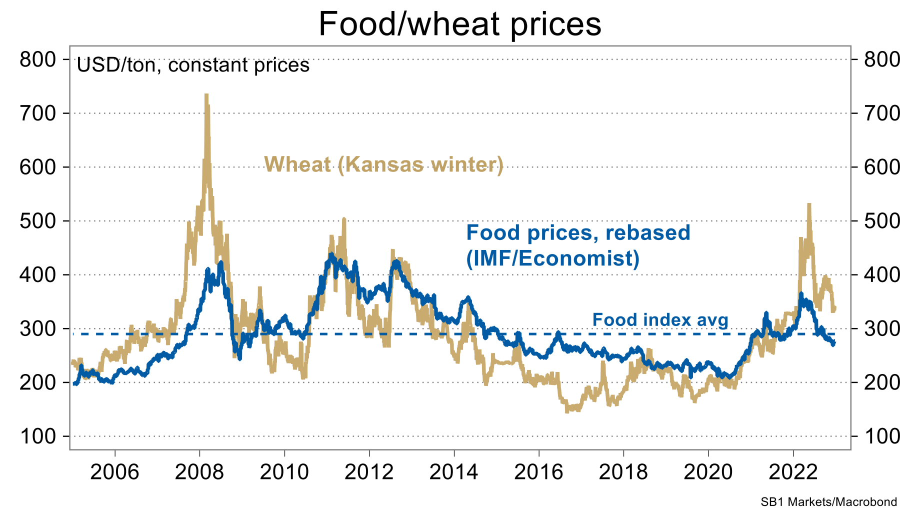


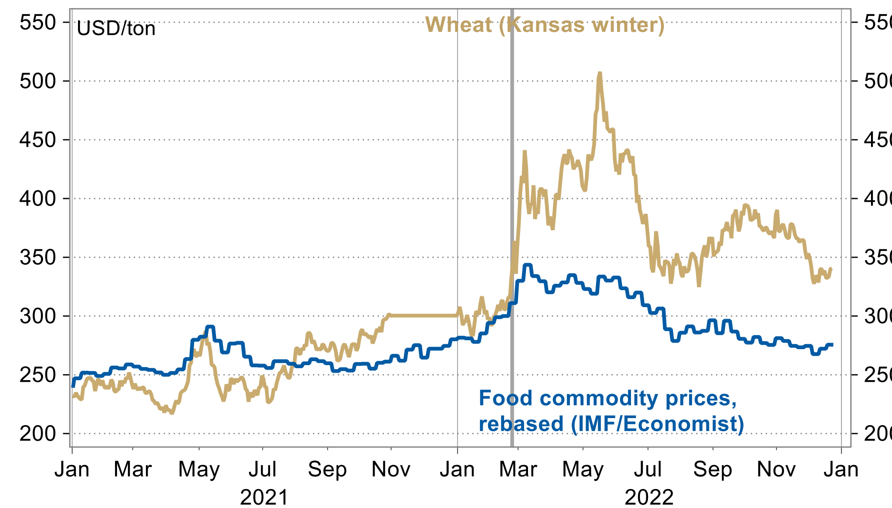


Food prices are still trending down

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





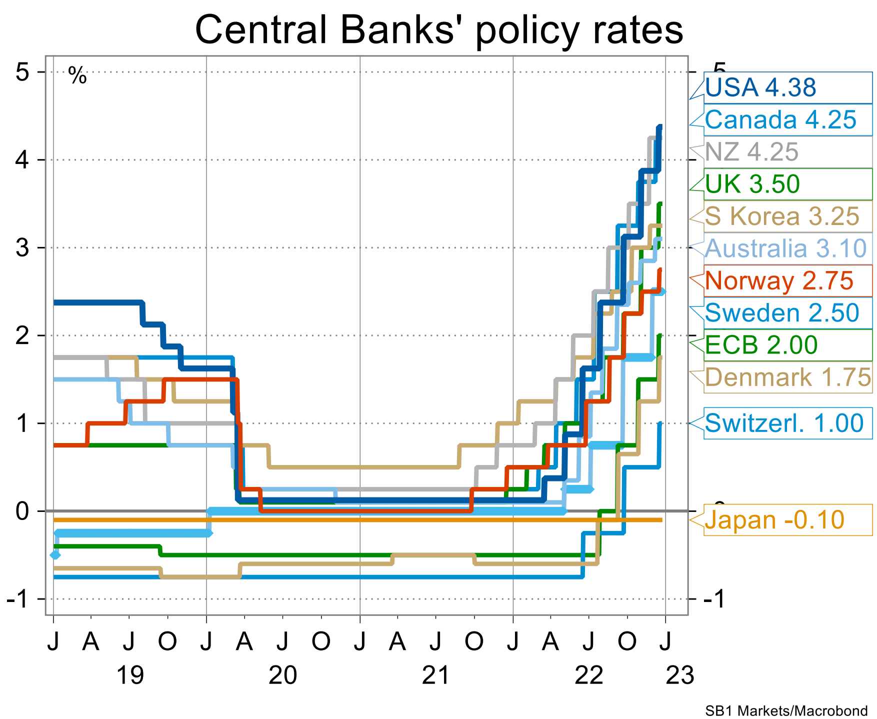


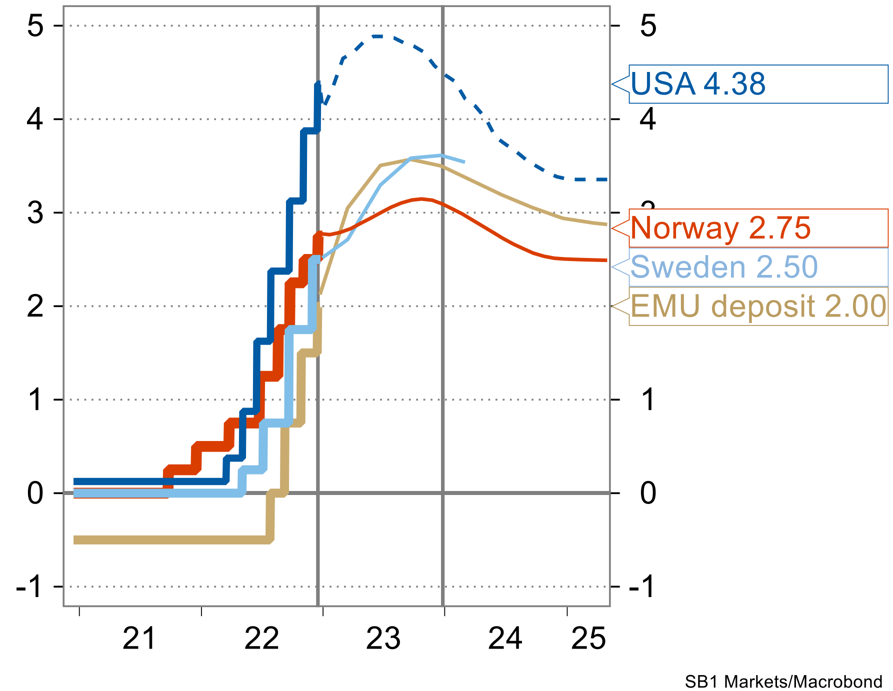
- Urea prices have come sharply down to, since early 2022 – but prices remain higher than normal

SpareBank 1 MARKETS

NoBa expected to be the European dove, just 1 or 2 more ‘single’ hikes left

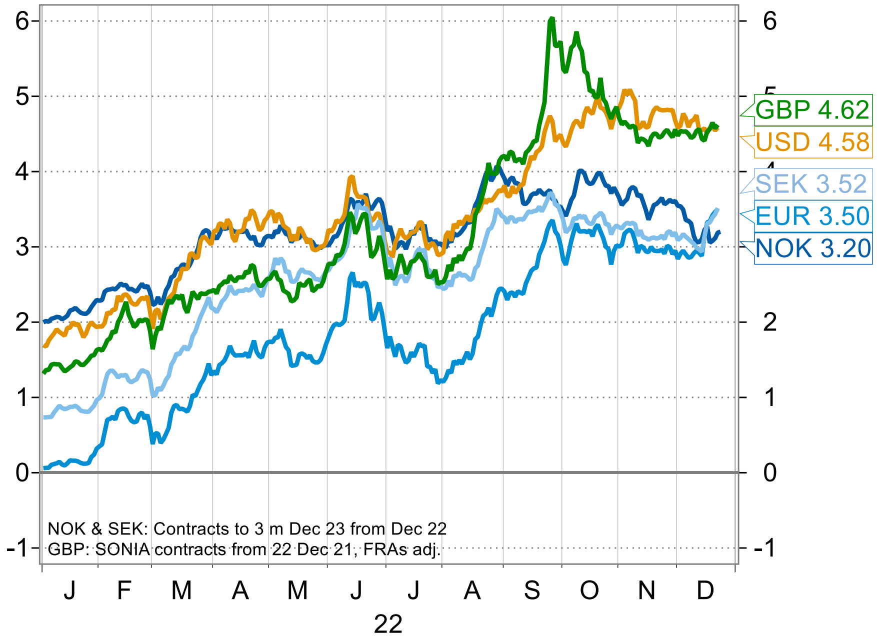
Both Riksbanken and ECB (as well as the BoE) are now expected to hike at higher level than Norges Bank





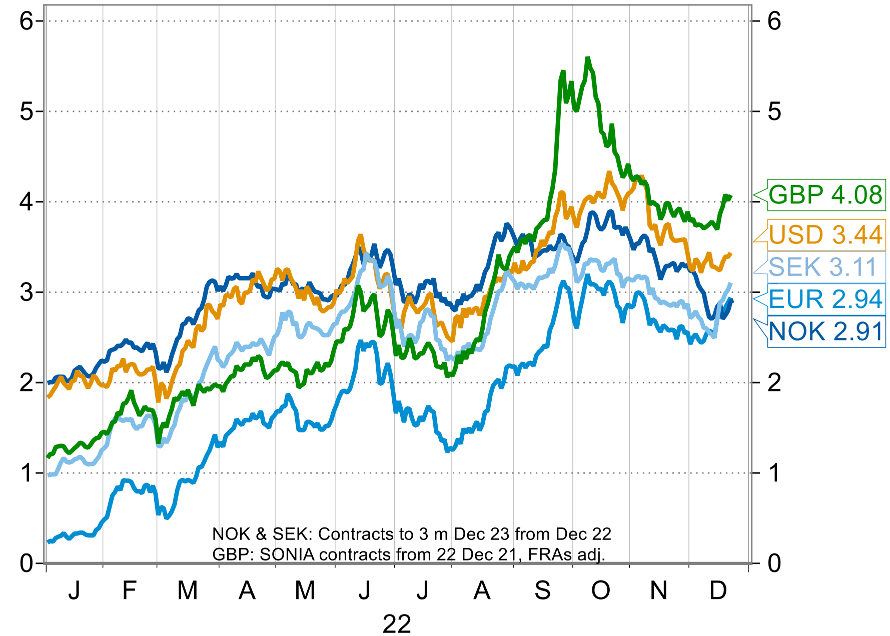
Most FRA-rate further up last week

Dec 23 3m FRA IBOR rates



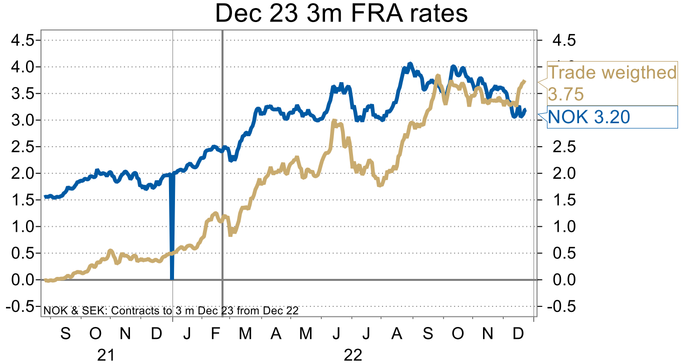
SB1 Markets/Macrobond

Dec 24 3m FRA IBOR rates



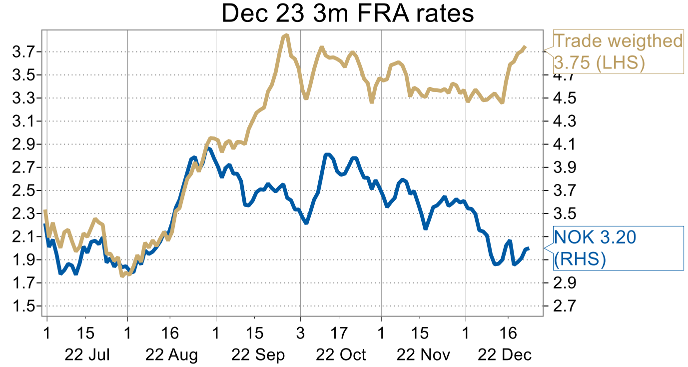
SB1 Markets/Macrobond

Dec 23 3m FRA rates



SB1 Markets/Macrobond

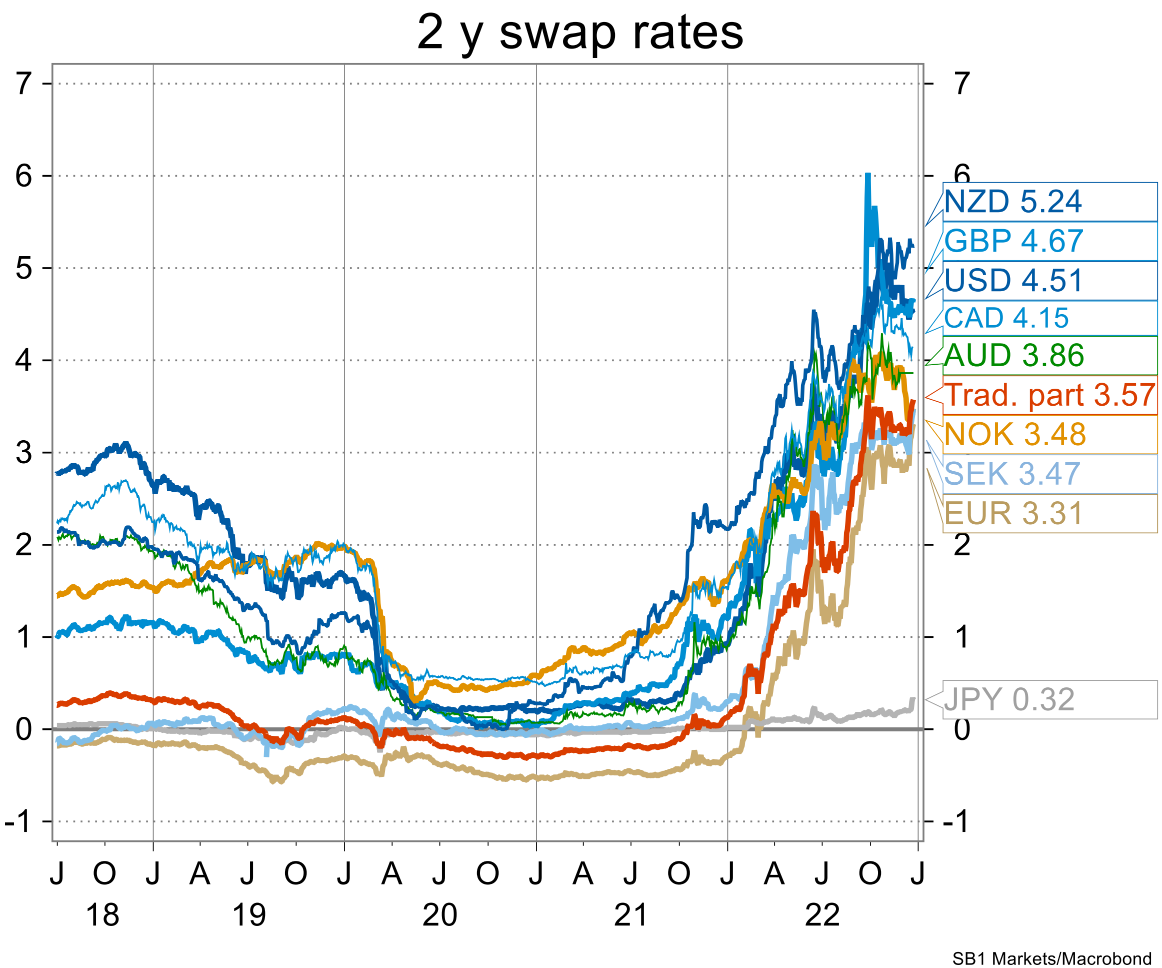
Dec 23 3m FRA rates

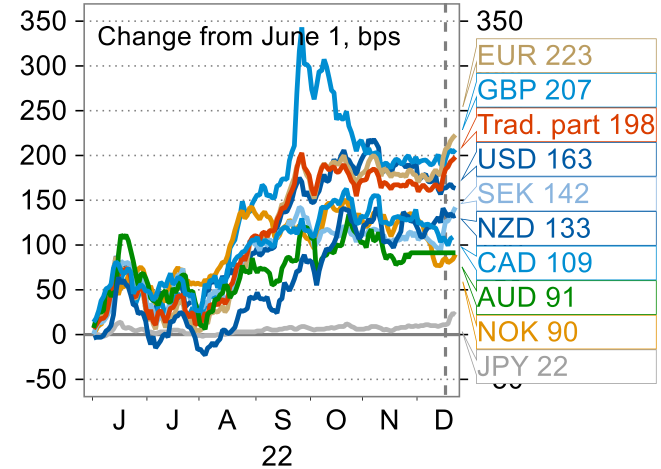


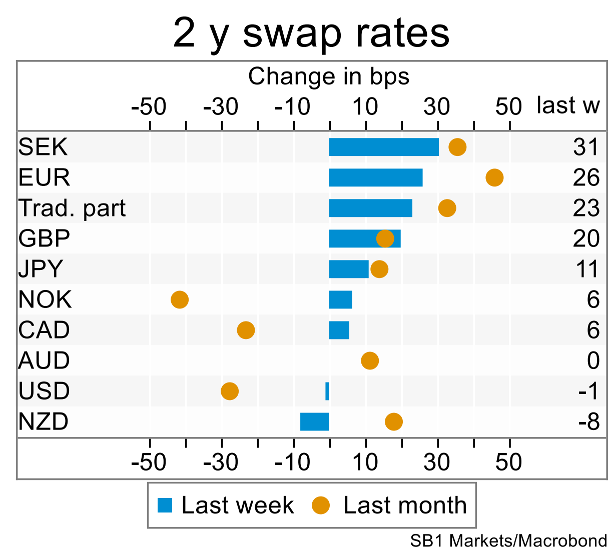
SB1 Markets/Macrobond

European rates further up last week

The trend in the short end is close to flat – except for NOK and the USD rates

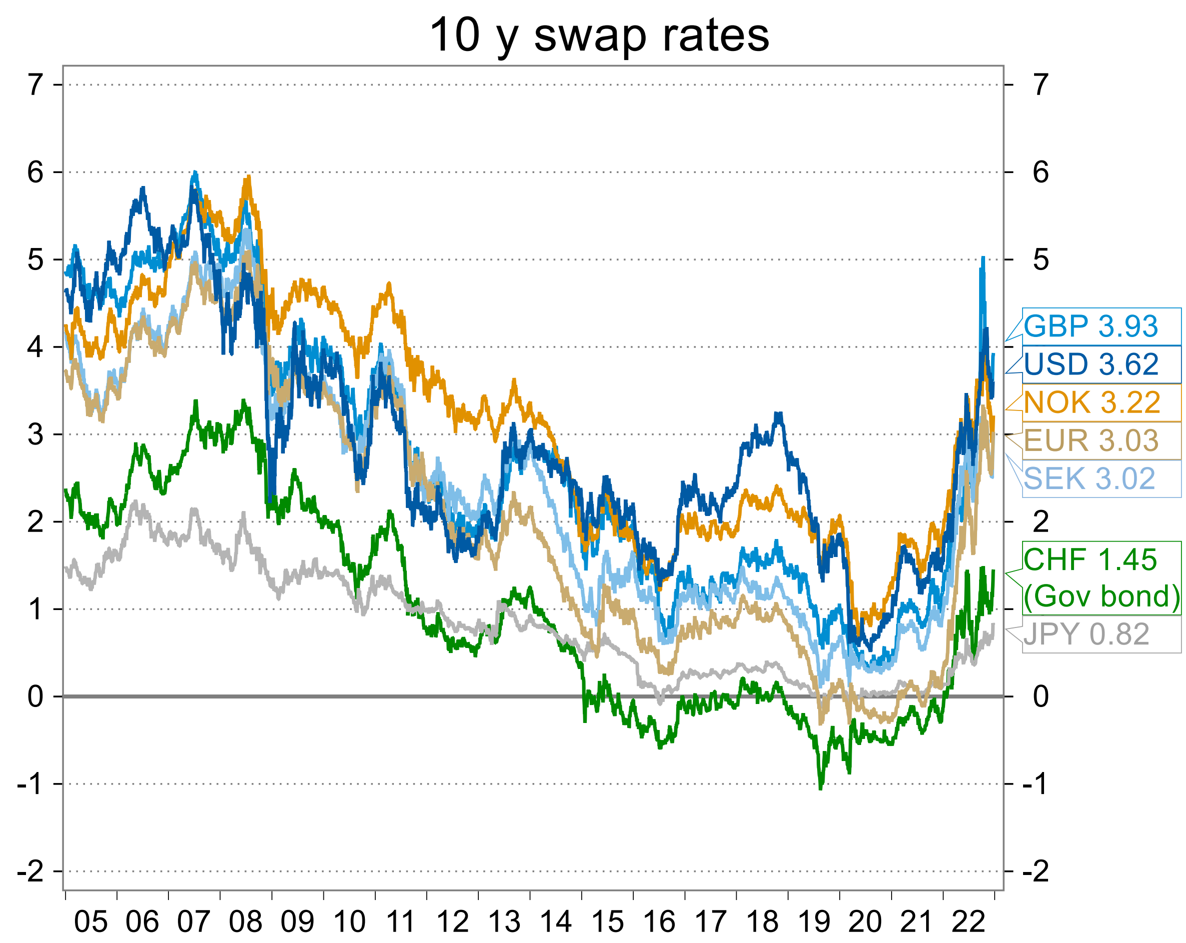


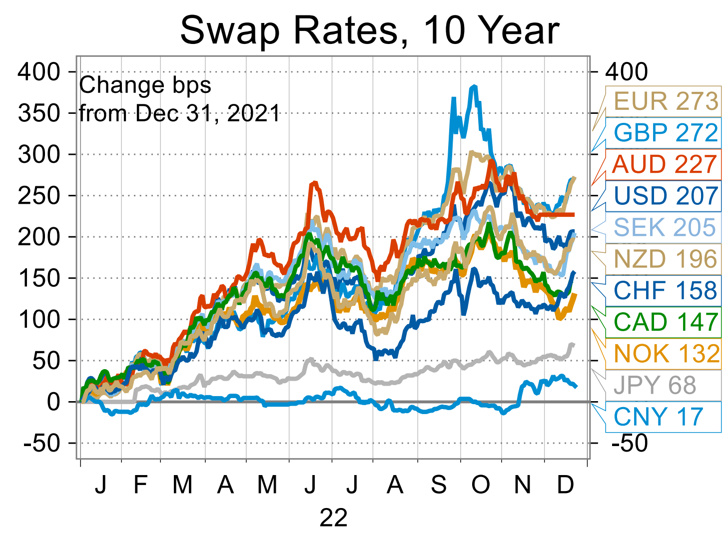


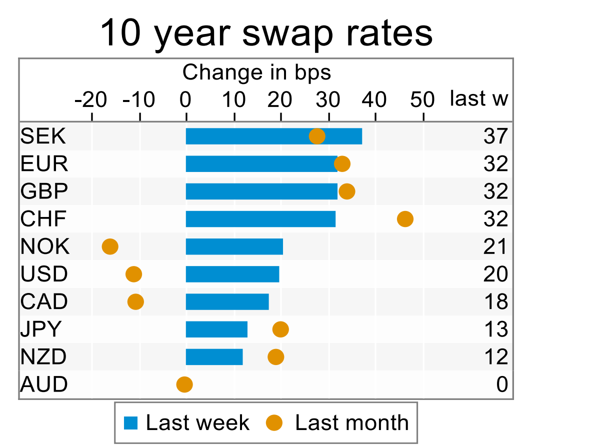


Up all over the place, the most in SEK, EUR

JPY 10 y swap rates up just by 13 bps, even if the BoJ widened the 10 y bond corridor by 25 bps

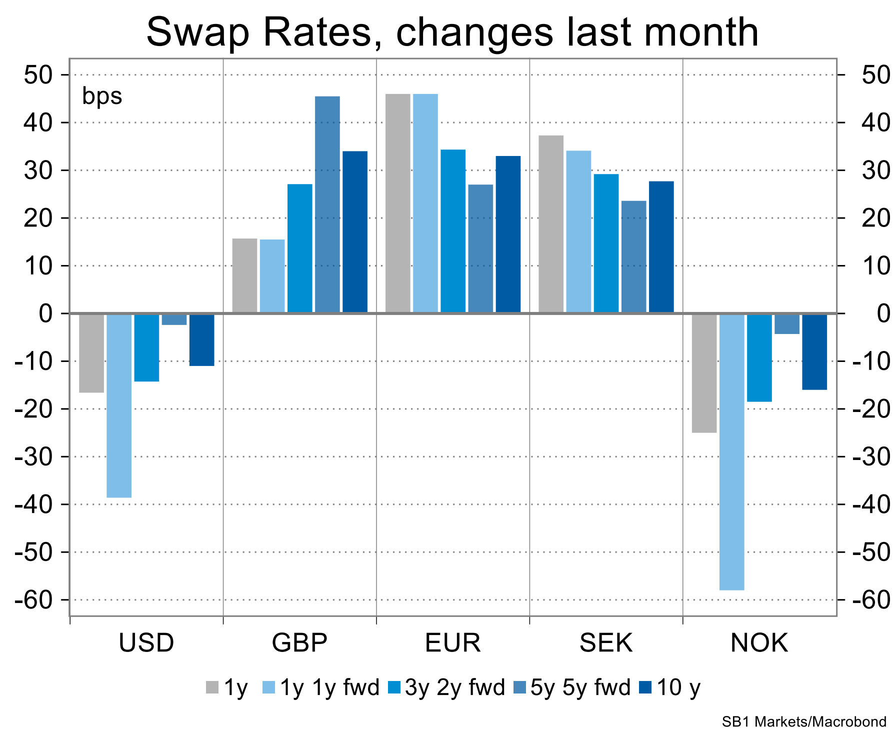


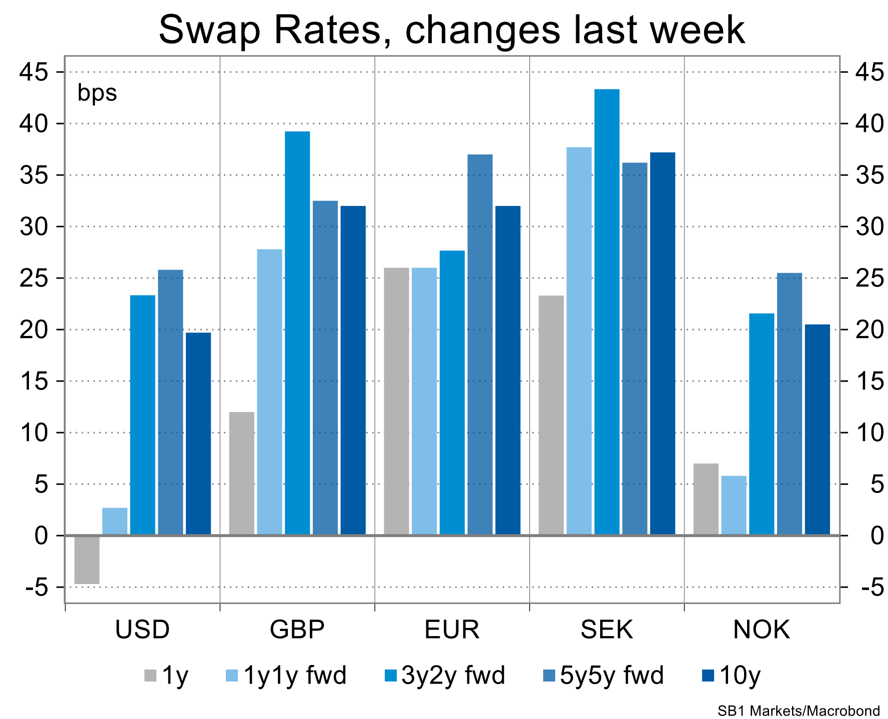




The very short end in US down, all other rates up

... and once again, less in Norway than abroad

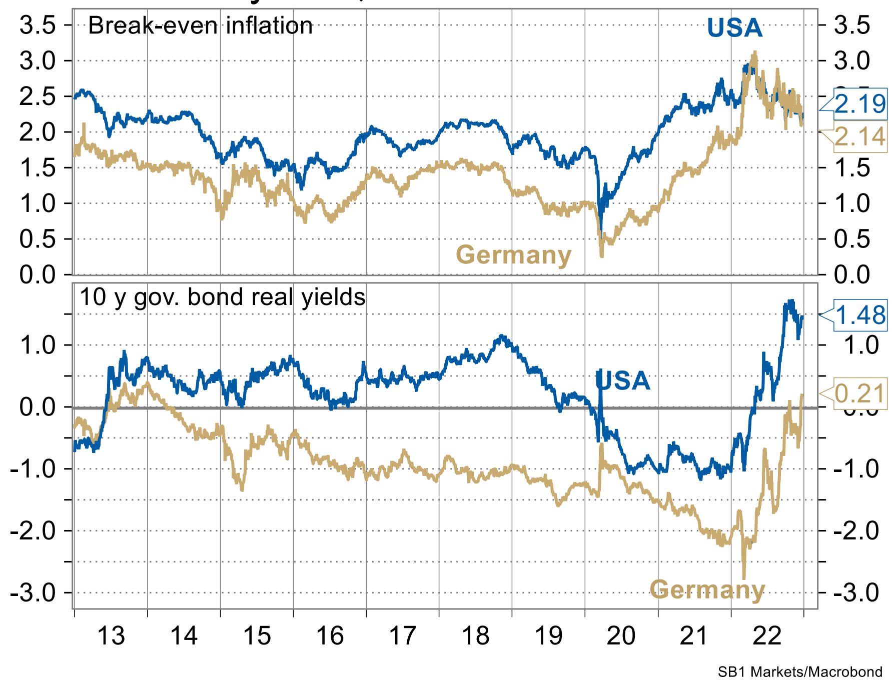


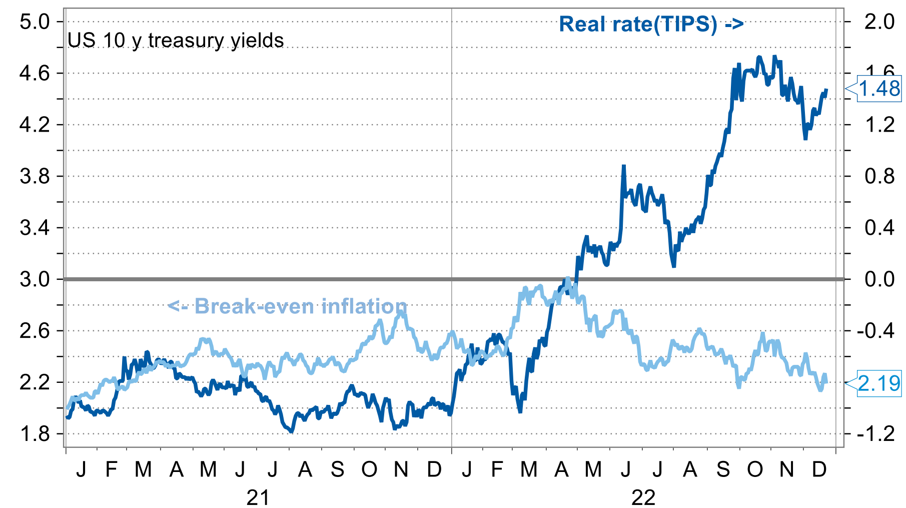


Real rates further up, both in US & Europe

The 10 y TIPS real rate up to 1.48%, the German real rate up to 0.21%, the highest since 2013

Real yields, break-even inflation





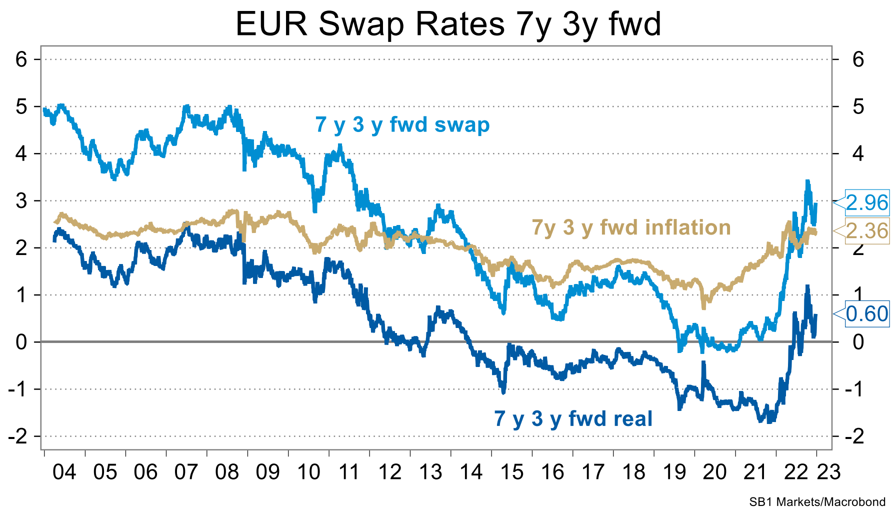
- Inflation expectations close to unch in US, further down in Germany – and both are at 'low' levels

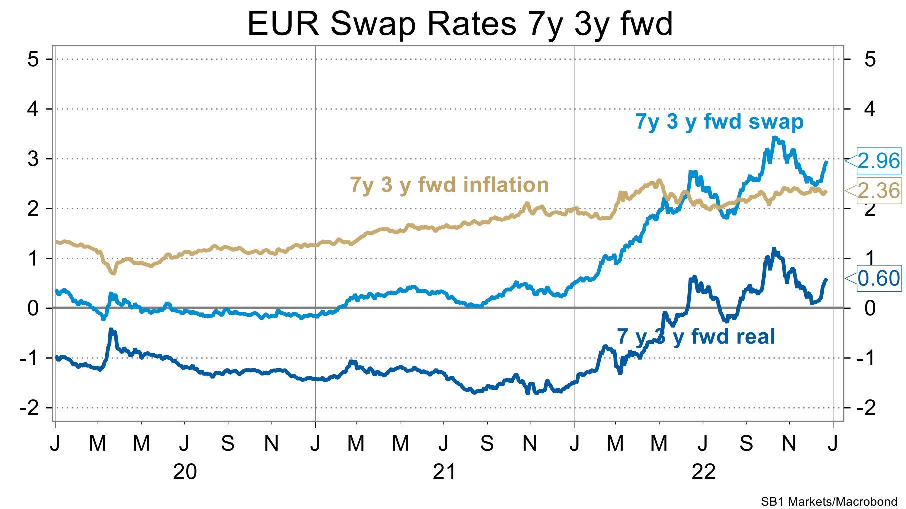
US & Germany 10 y Gov bond yield

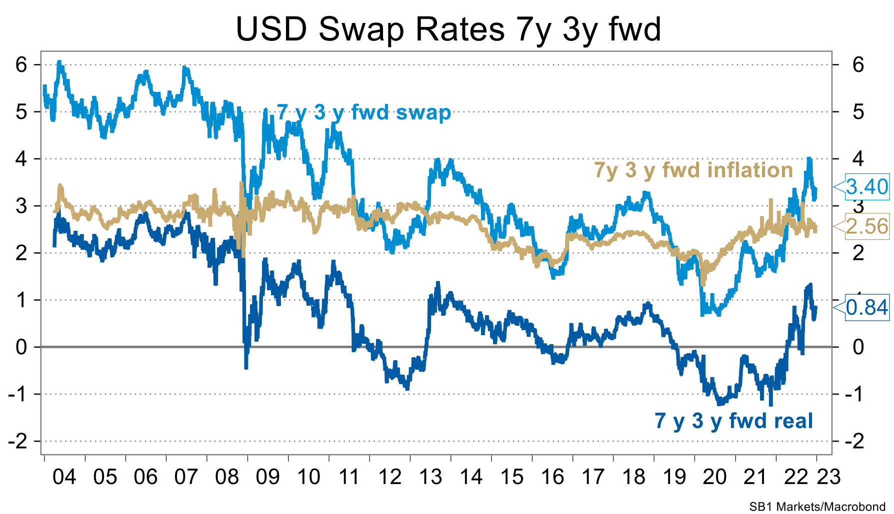
	Yield	Change 1w	Change 1m	YTD	Min since April-20
USA nominal treasury	3.67	0.23	-0.09	2.15	0.52
.. break-even inflation	2.19	0.03	-0.13	-0.37	1.06
.. TIPS real rate	1.48	0.20	0.04	2.52	-1.19
Germany nominal bund	2.35	0.28	0.37	2.53	-0.64
.. break-even inflation	2.14	-0.23	-0.15	0.21	0.42
.. real rate	0.21	0.51	0.52	2.32	-2.80

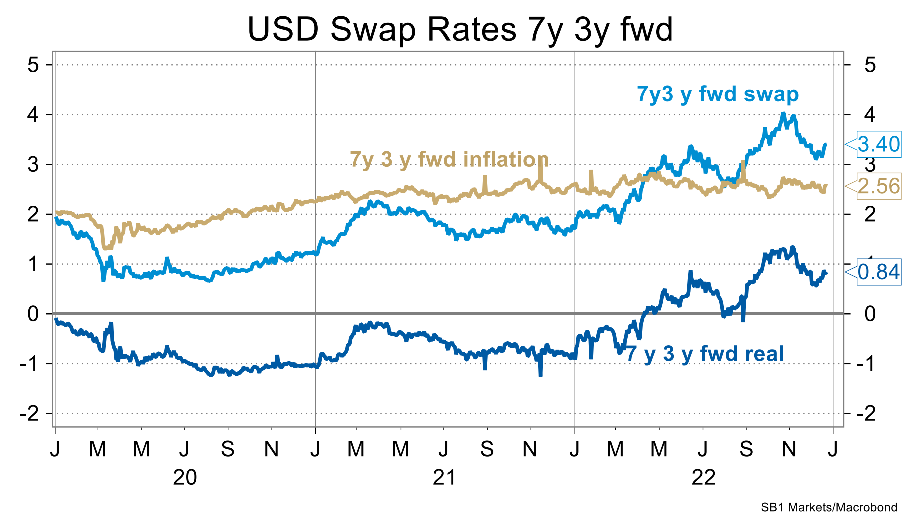
SB1 Markets/Macrobond

European real (swap) rates further up last week



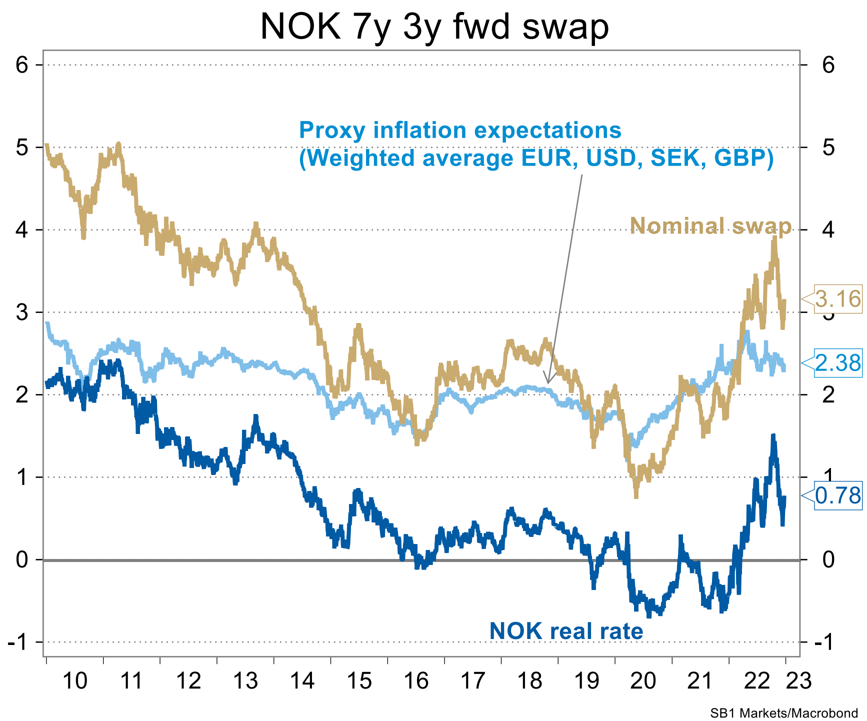


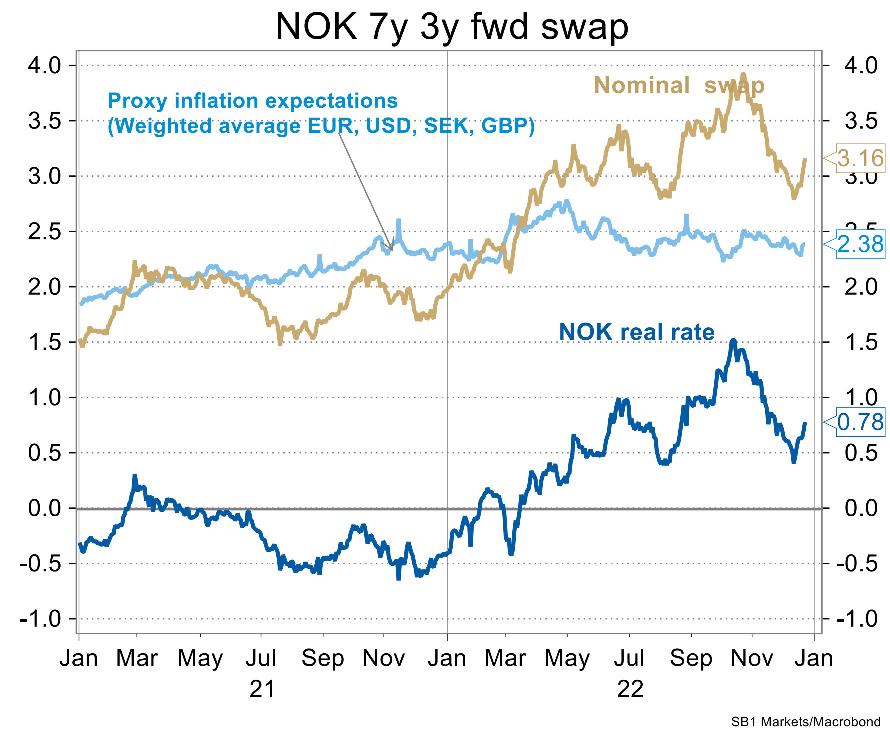


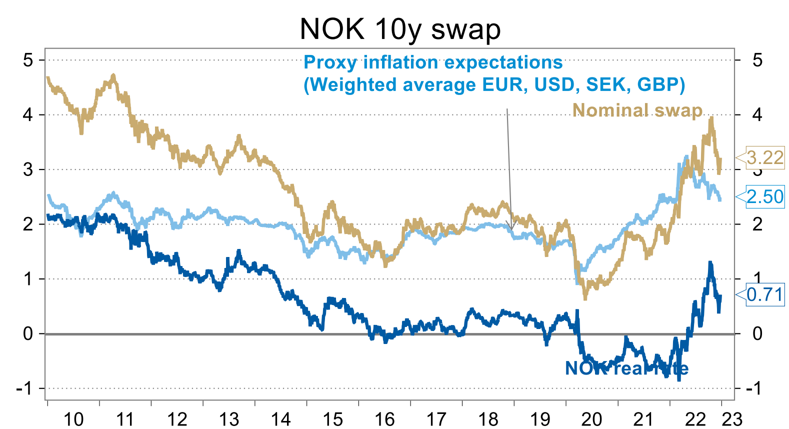


NOK real rates very likely up too

… as the increase in the nominal swap rate was much smaller than abroad

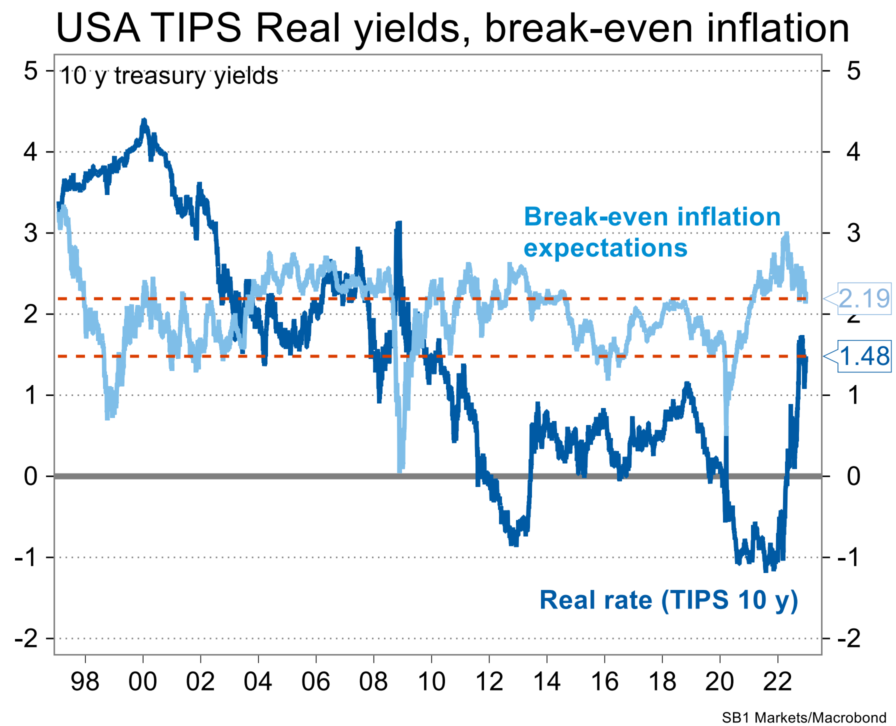


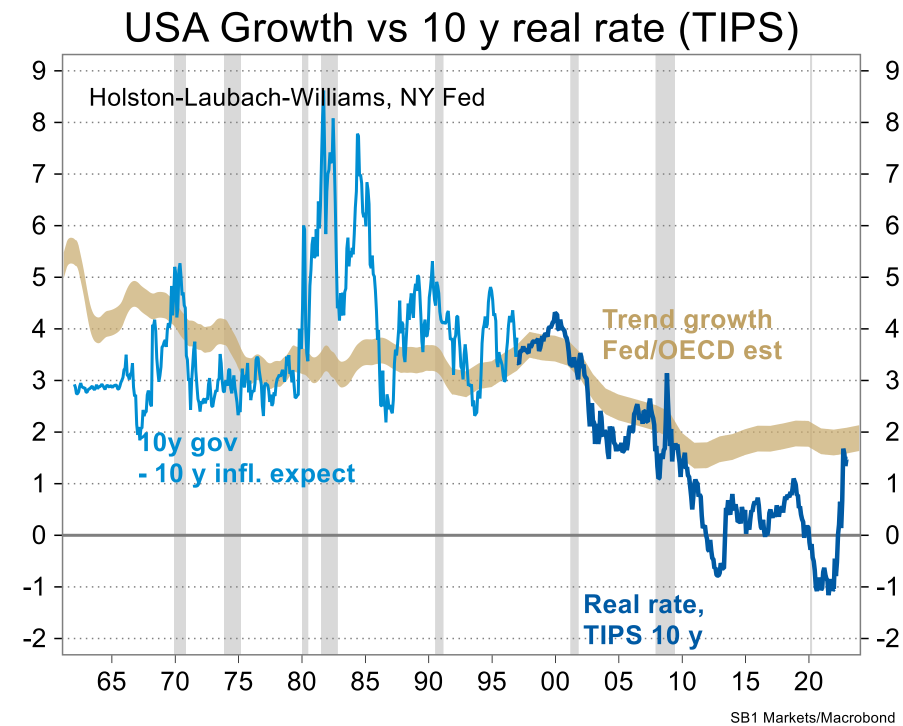




Memo: Our NOK inflation expectation proxy is a weighted average of EUR, SEK, GBP, and USD inflation swaps, cross-checked vs historical inflation differentials and inflation expectations from surveys

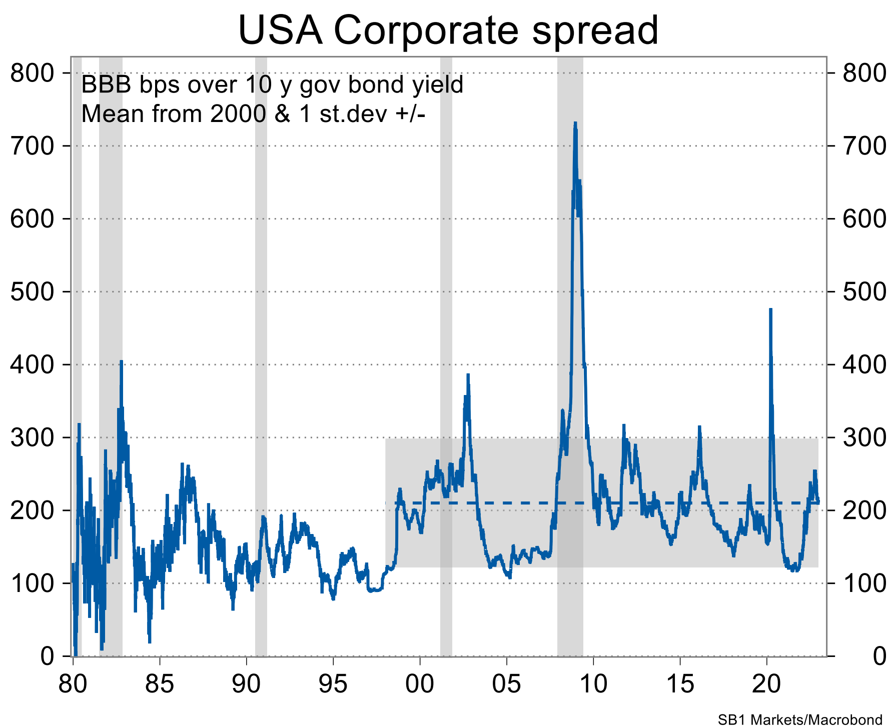
Growth vs real rates: the gap is closed

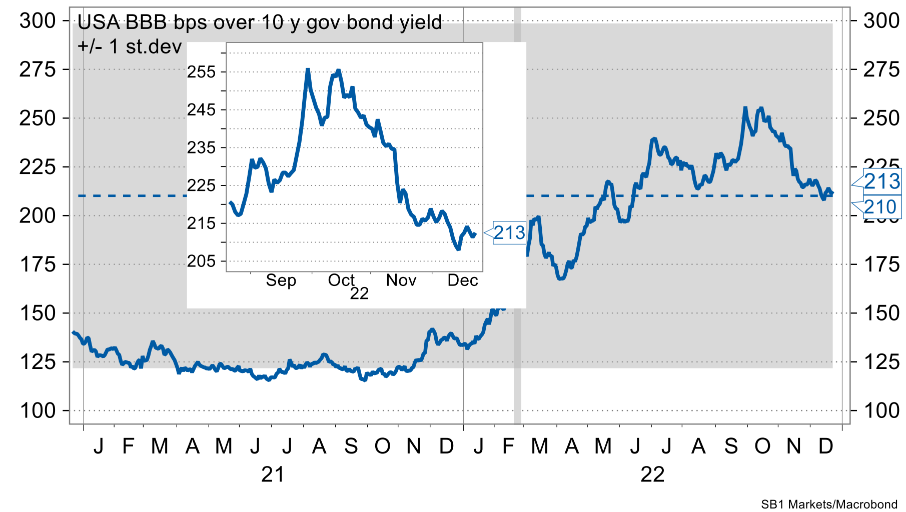




Risk on: Credit spreads resilient vs the setback at the stock market

Even so, we think the trend is still up because the economy will weaken

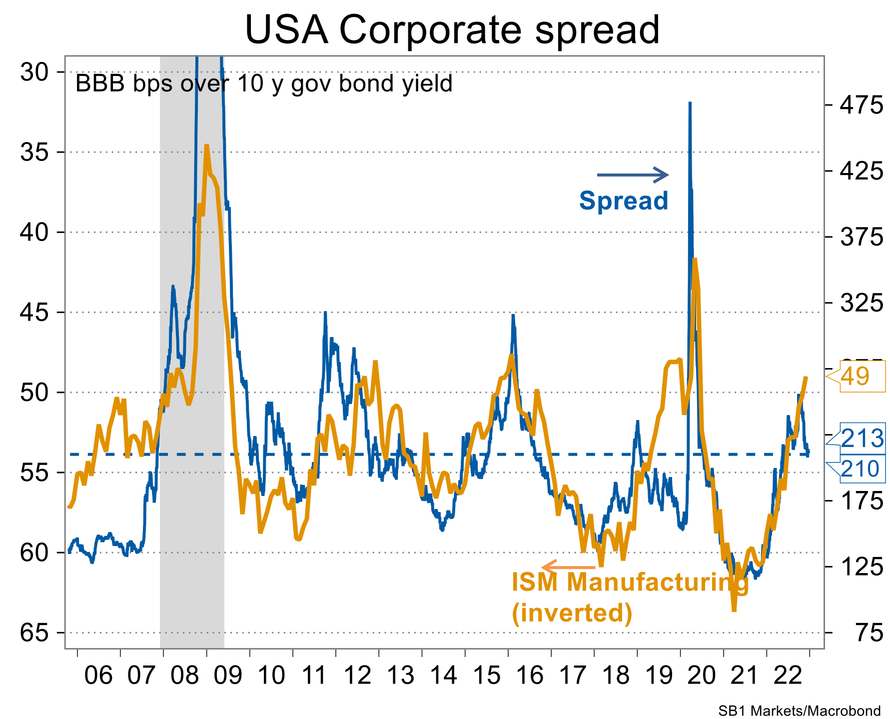


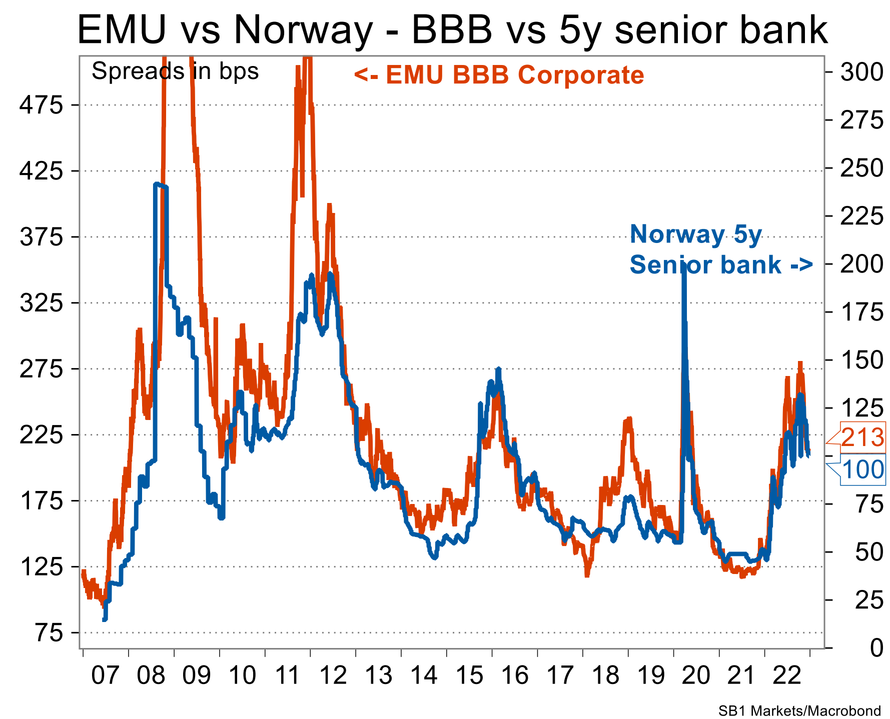


- The US BBB spread is up 100 bps from the bottom last autumn, a doubling
- In addition, real rates have increased by 250 bps from the bottom late last year
- Thus, the basis for all valuation metrics has changed dramatically, check the chart two pages forward!

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

What do you think is more likely: An ISM at 45 or 55 before summer? We are quite sure, the PMI is at 47 already

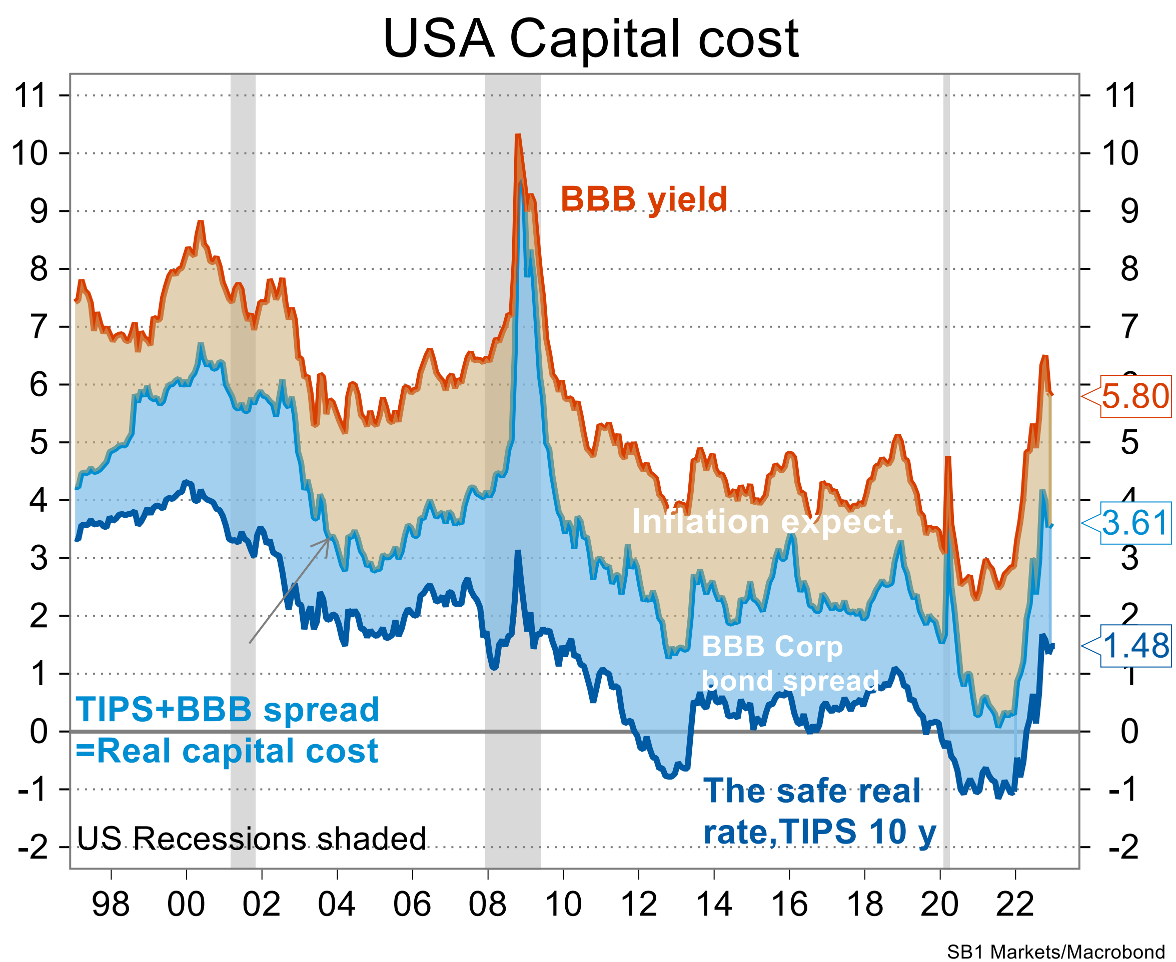




- Last week: Norwegian credit spreads continued downwards (the bank 2, 5y benchmark swap fell 5 bps to 103 bps)

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

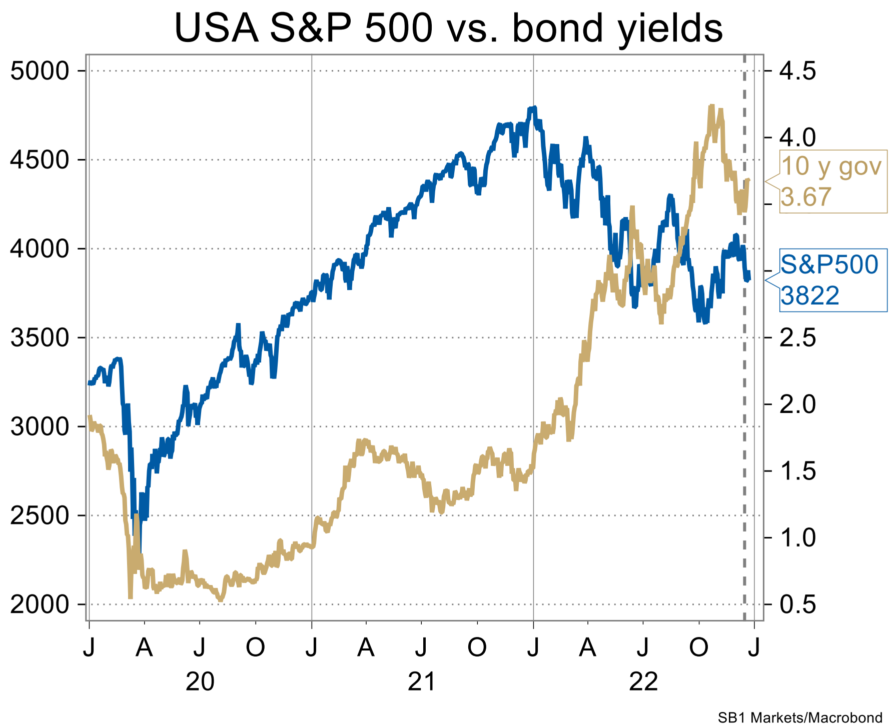
All valuation metrics have changed dramatically. *As have all calculations of return on capital*

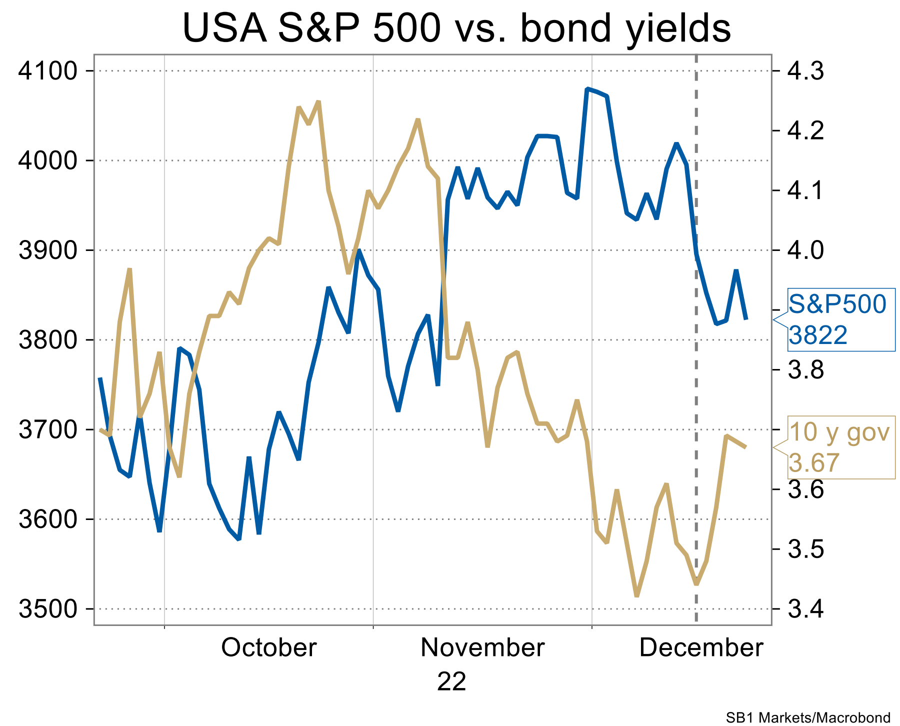


- Spreads and real rates fell last week but the story remains intact
- The total real borrowing cost for a BBB company has increased to 3.6% bps from zero by the end of last year:
  - The TIPS real rate is up from -100 to + 148 bps
  - The BBB corporate investment grade spread is up from 120 bps to 115!
- Add on modest inflation expectations, the nominal borrowing cost has increased from well below 3% to 5.8% (though down from 6.7% at the local peak in October)

S&P down 0.6%, and half of the late autumn rally reversed. 10 y bond +23 bps

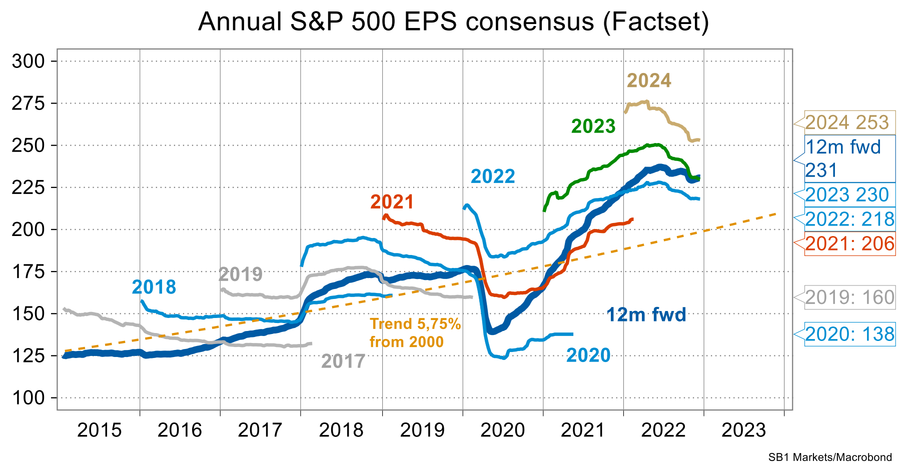
Both are close to the levels from early October

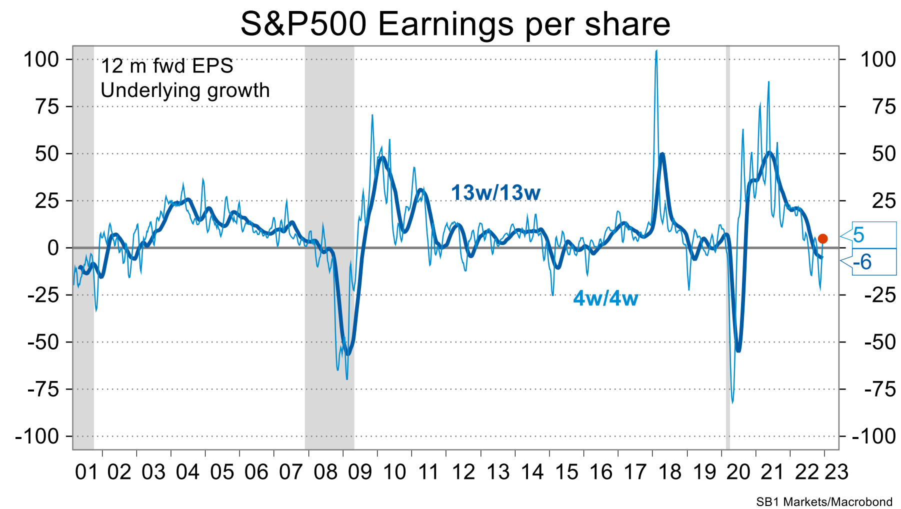


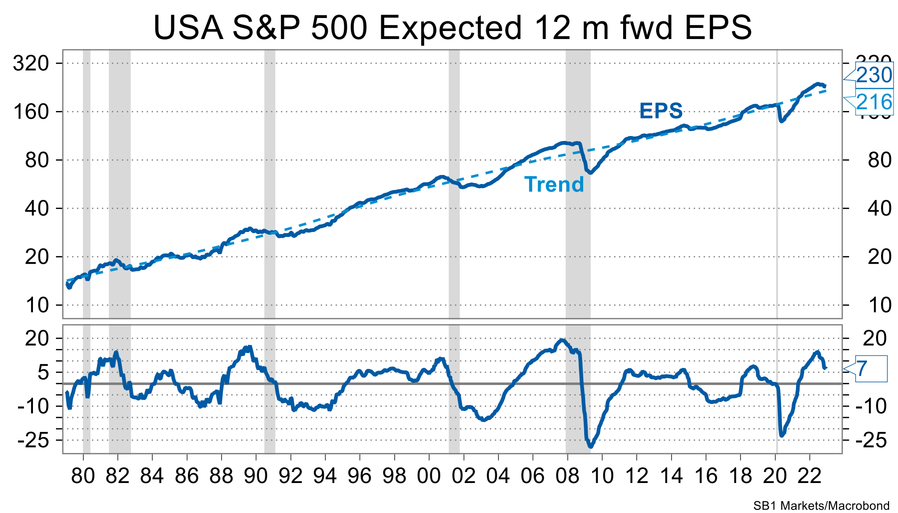


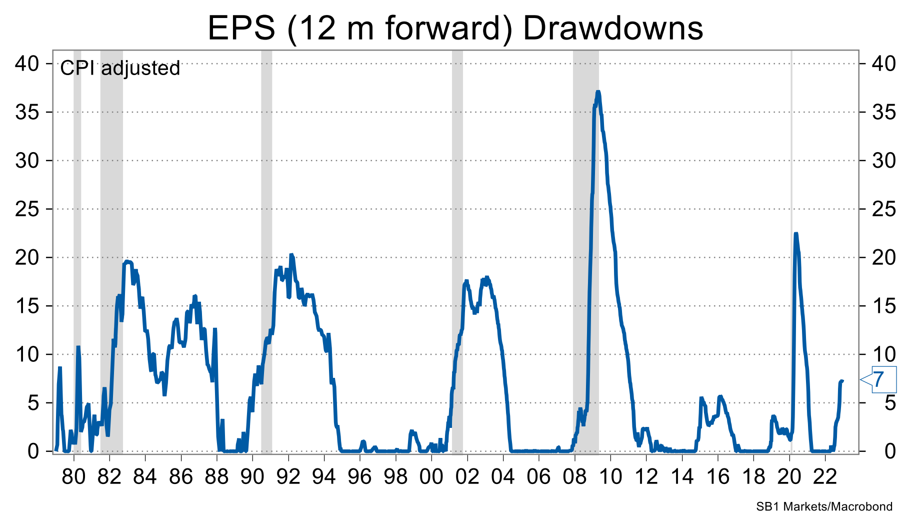
Earnings forecasts have stabilised – but the risk still on the downside

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





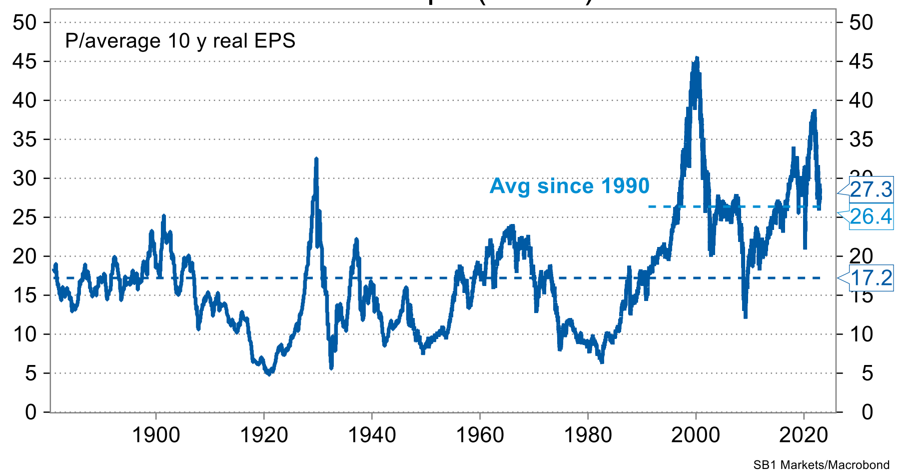




4 valuation charts: Check the extreme tight correlation between real rates, P/E

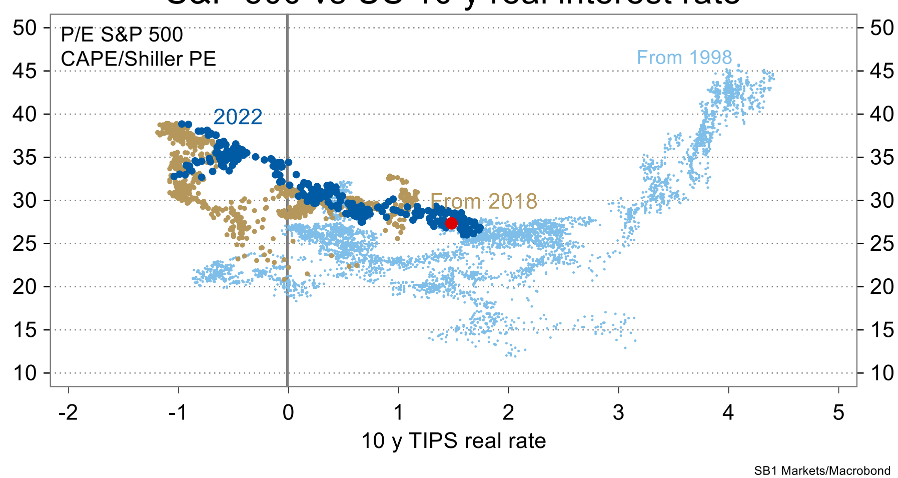
The TIPS real rate has been the main driver for the P/E since 2018. And it still probably is. But should it, now?

S&P500 Cape (Shiller) P/E

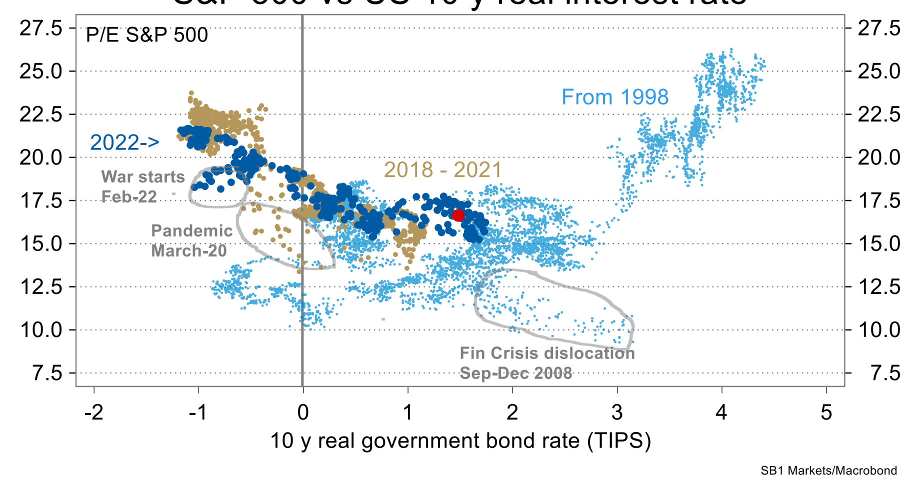


USA S&P 500 12 m fwd P/E

S&P 500 vs US 10 y real interest rate



S&P 500 vs US 10 y real interest rate



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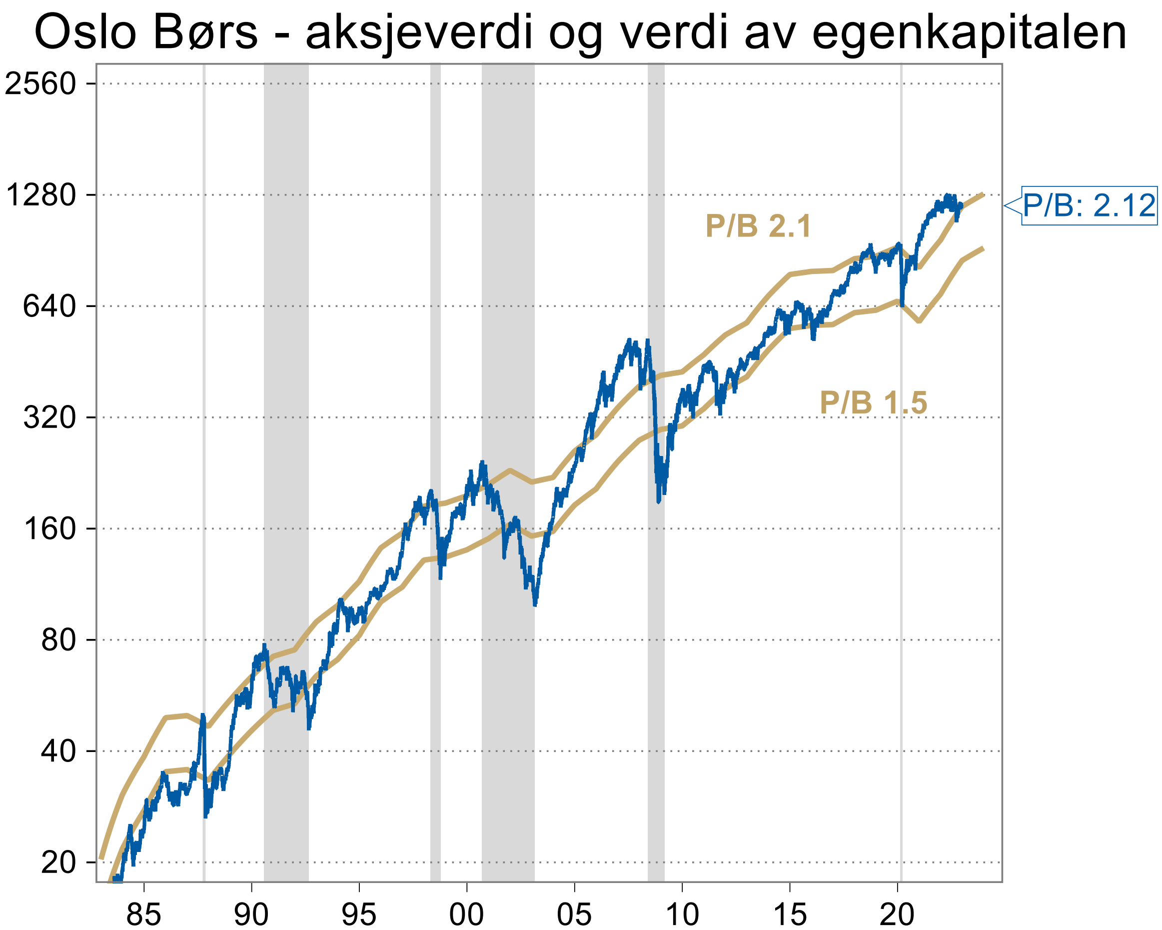
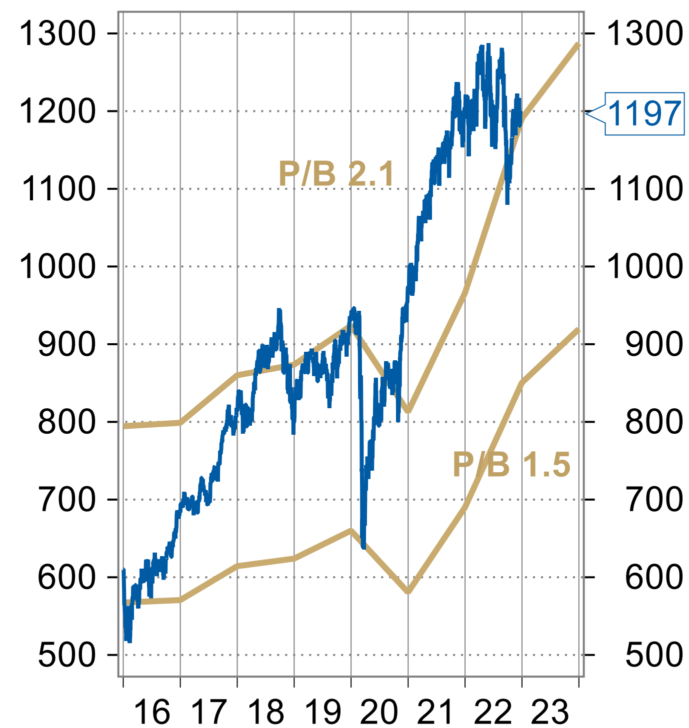
The OSEBX up 1.3% - to a Price/Book ratio at 2.12

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



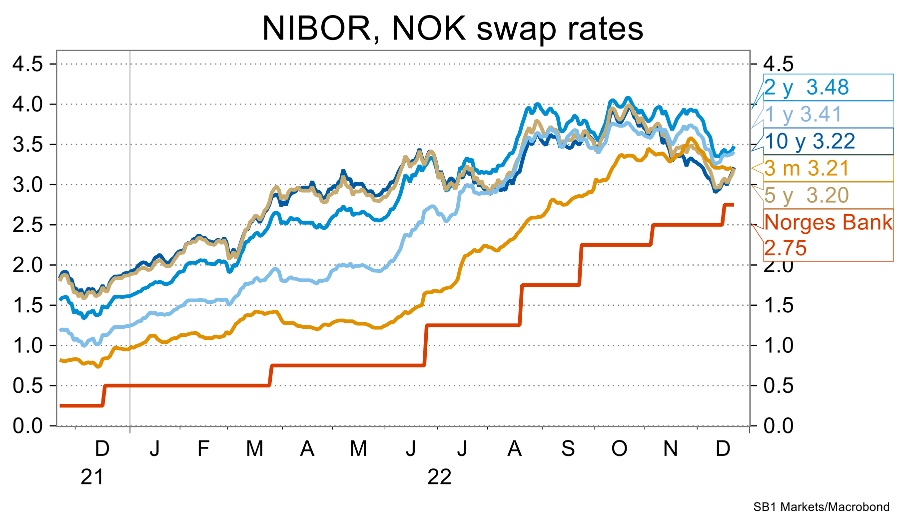
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

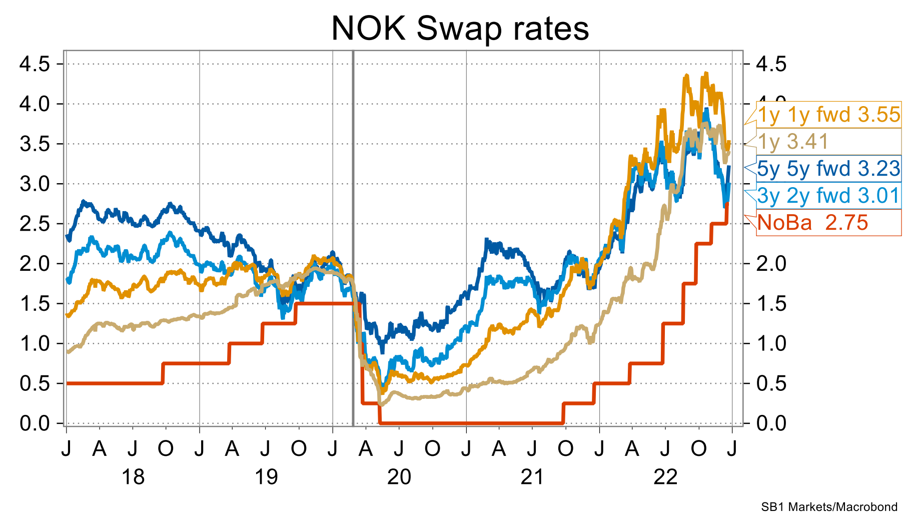


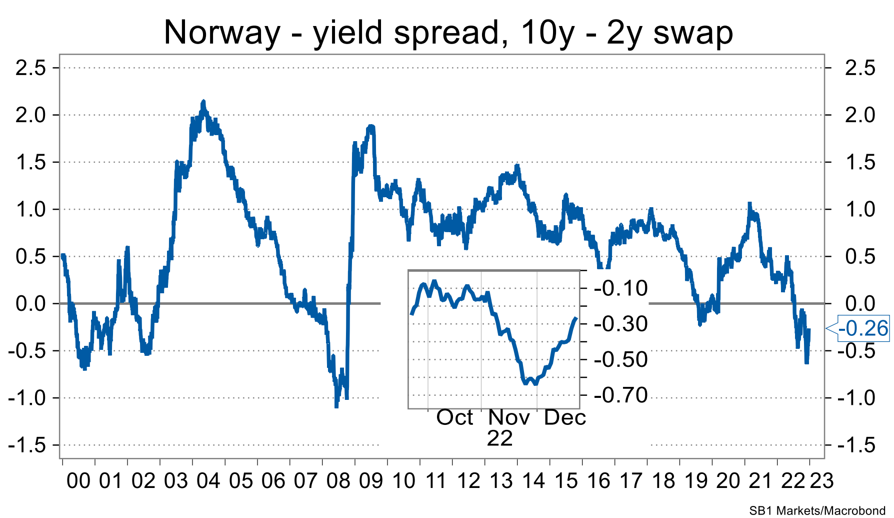
Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

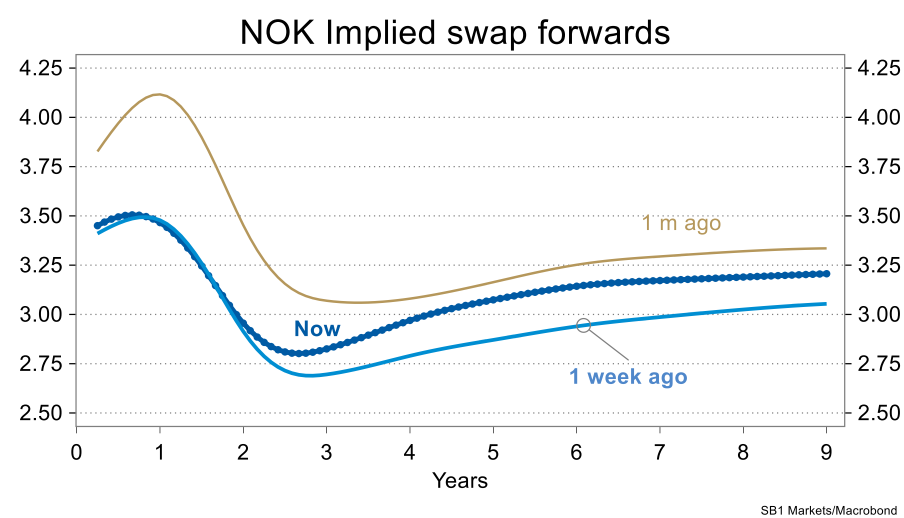
Interest rate further up, still well below the October peak

The 3m NIBOR has stabilised where it should be, at 3.21%





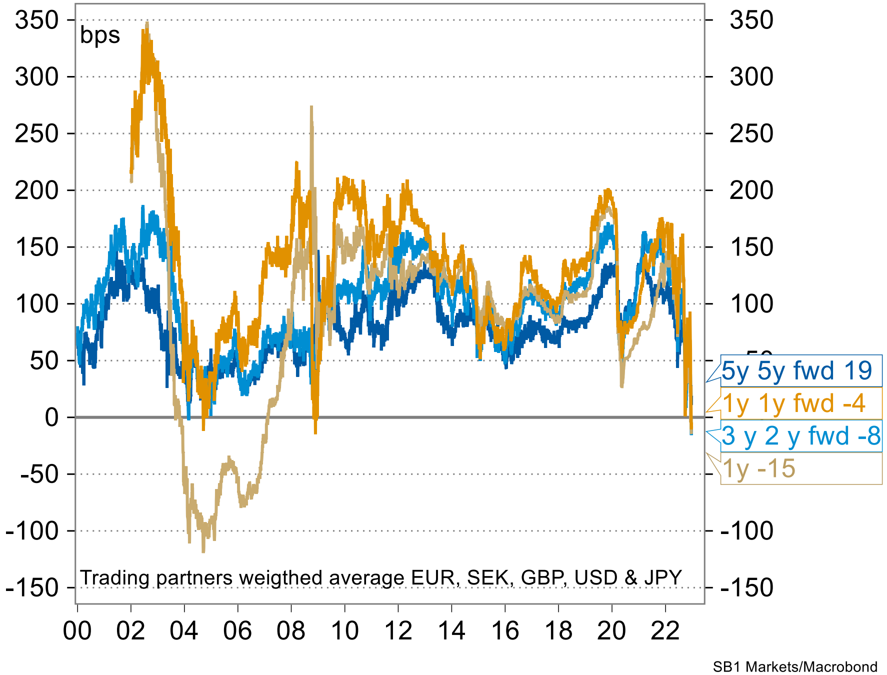


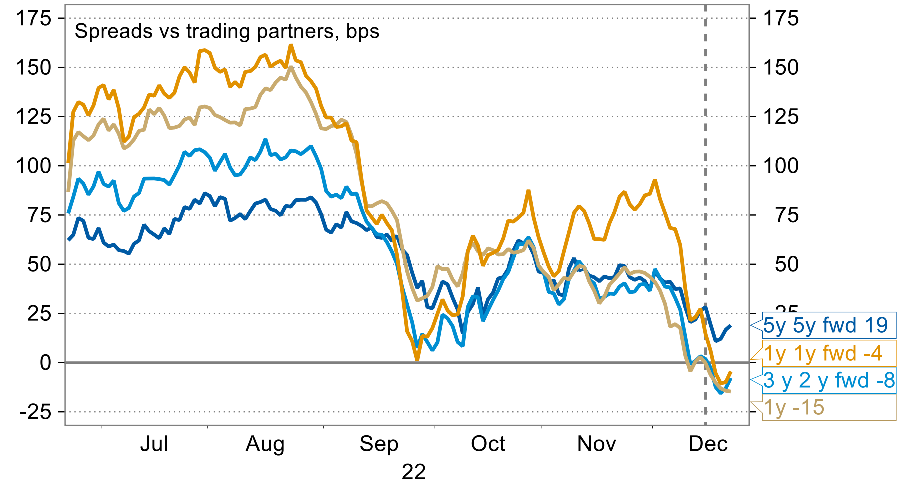


Rate spreads vs trading partners further down – and negative up to 5 y!

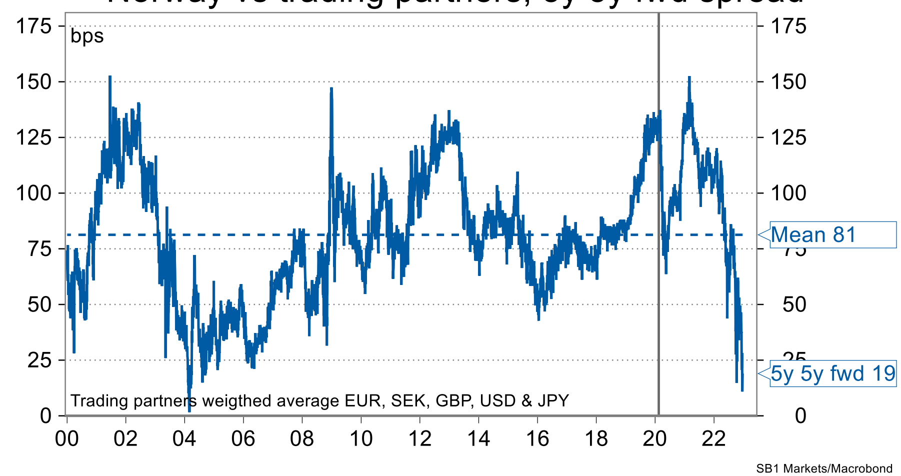
Just a very weak Norwegian housing market will push spreads further down?

Norway vs trading partners, impl swap spreads





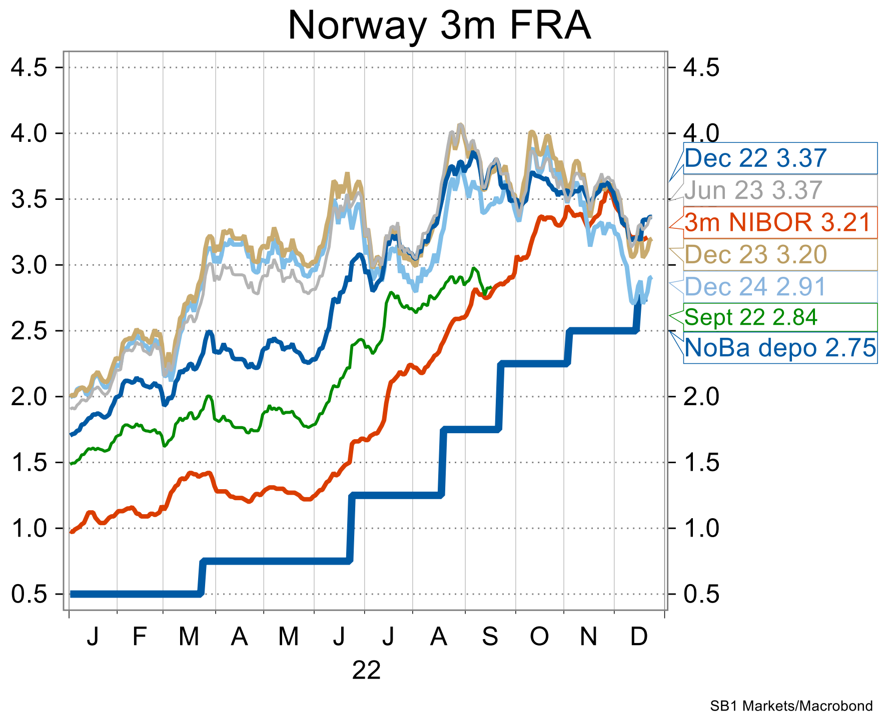
Norway vs trading partners, 5y 5y fwd spread

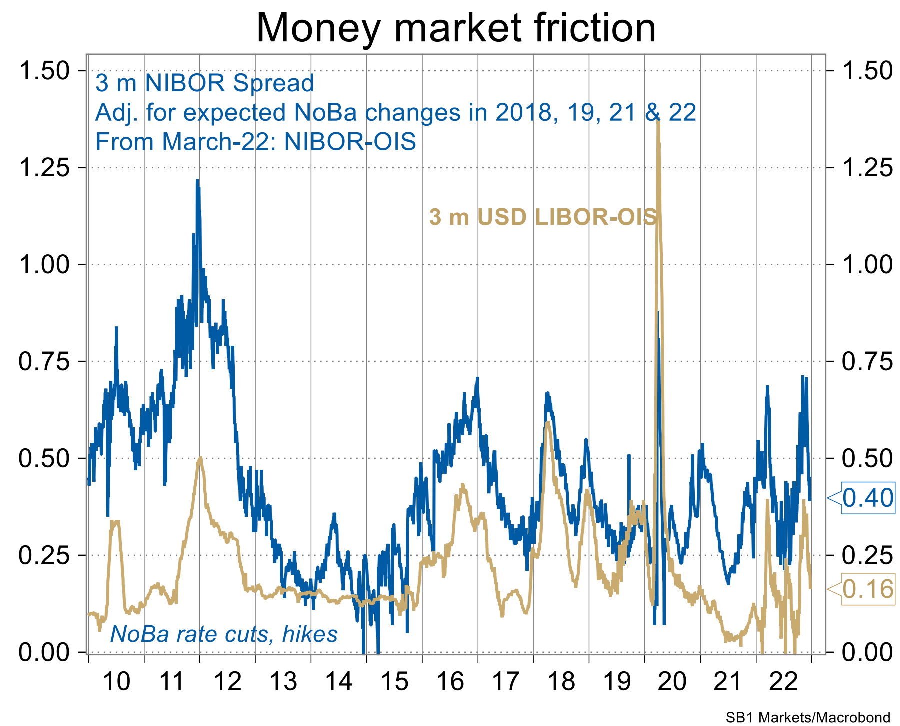


- Now, NOK rates are below or equal to the short end of the curve among our trading partners. If the Norwegian housing market yields, that OK. If not, rates are too low

The NIBOR spread down 2 bps to 40 bps

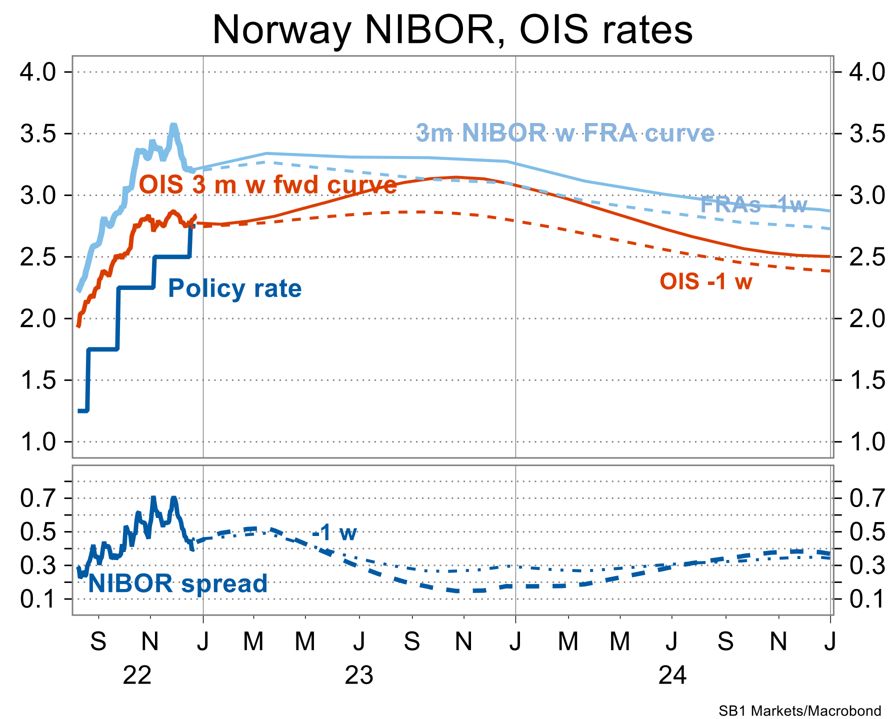
Adjust for the normal 5 bps NIBOR year-end premium, the 'real' spread is at 35 bps – our long-term estimate!

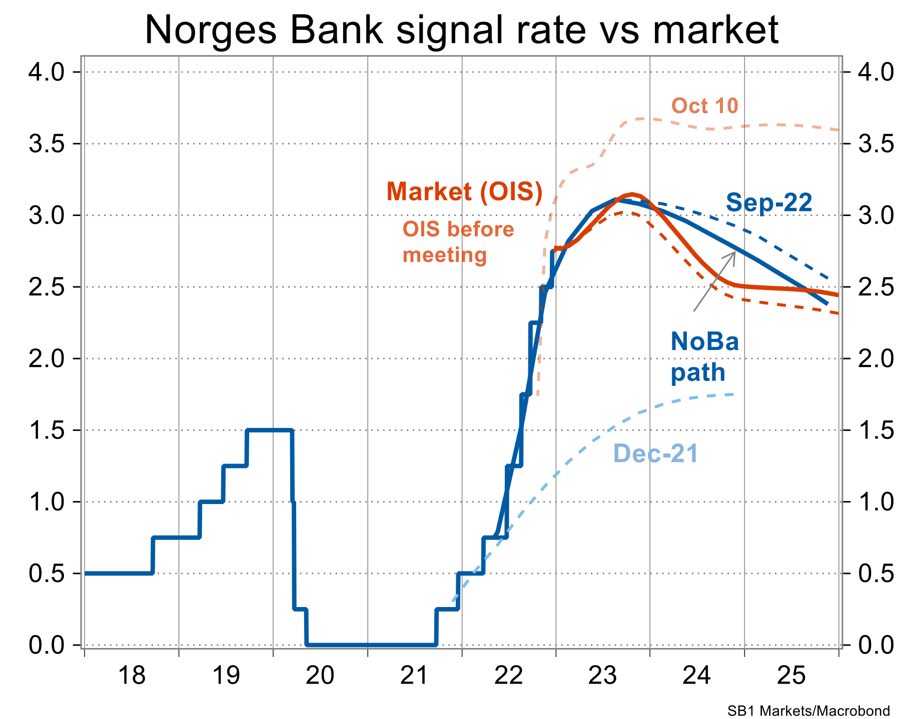




A substantial lift in the NOK curve – but still close to NoBa's last path

Foreign rates contributed more than strong Norwegian data

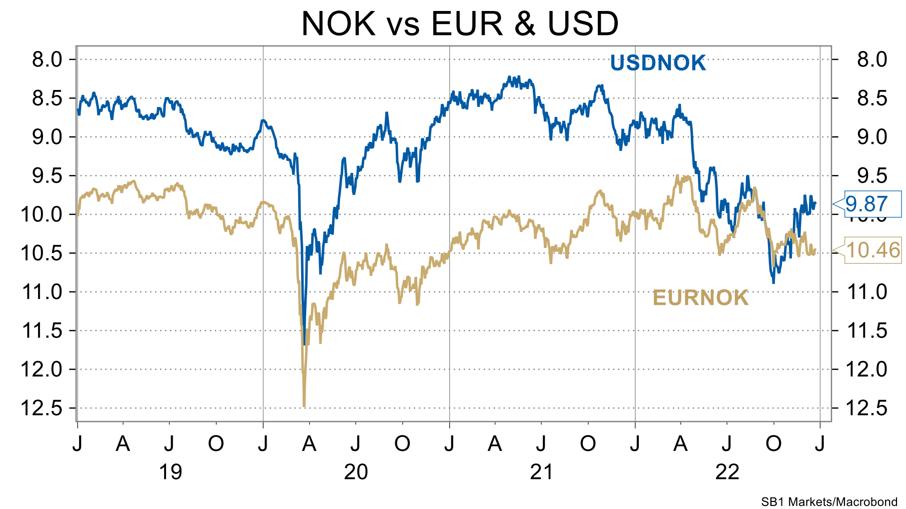


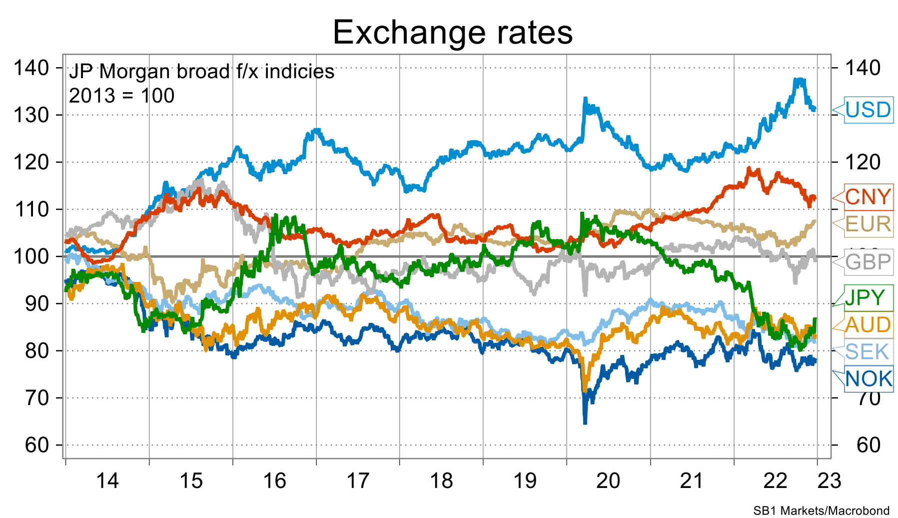


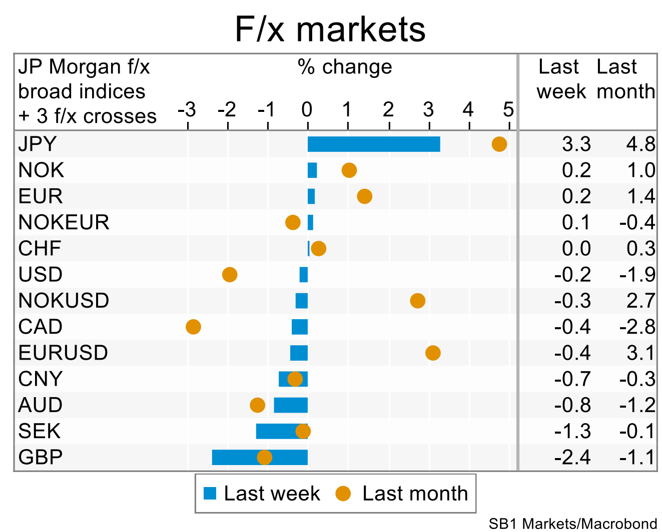
- Two weeks ago, we thought NOK interest rate expectations had fallen far too much, and we have been vindicated as rates have climbed by up to 35 bps, reversing more than 2/3 of the decline in early December. Now rates are OK, or still somewhat too low
- The market may be still be too aggressive vs rate cuts expectations in 2024 – but if the housing market runs into trouble, not impossible

The JPY at the top as Yield Curve Controll was eased. NOK no 2 at the list

.. For no good reason? But up just 0.2%. The JPY gained 3.3%, and is up 4.8% last month







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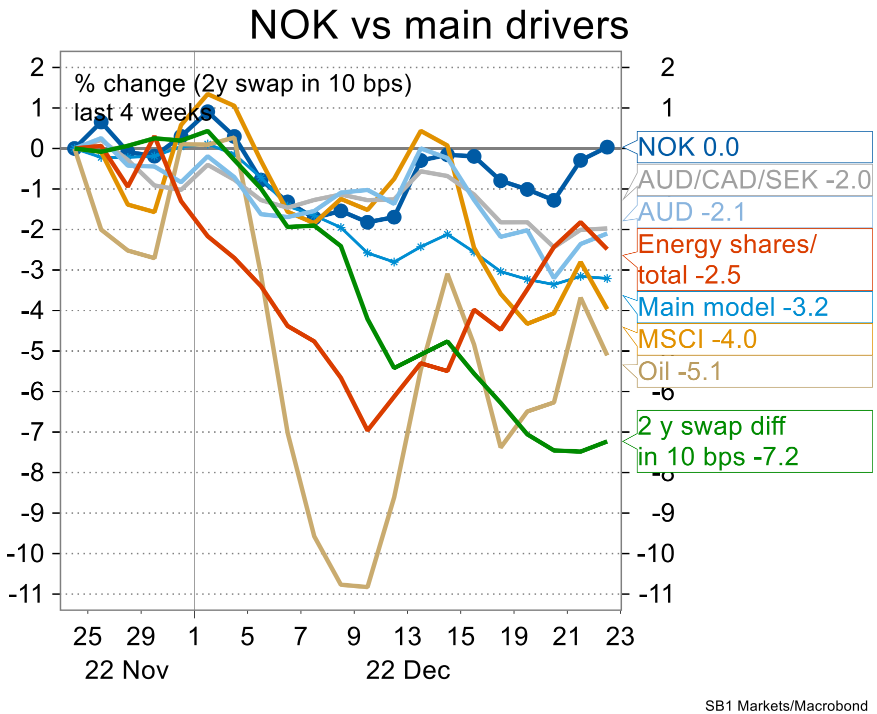
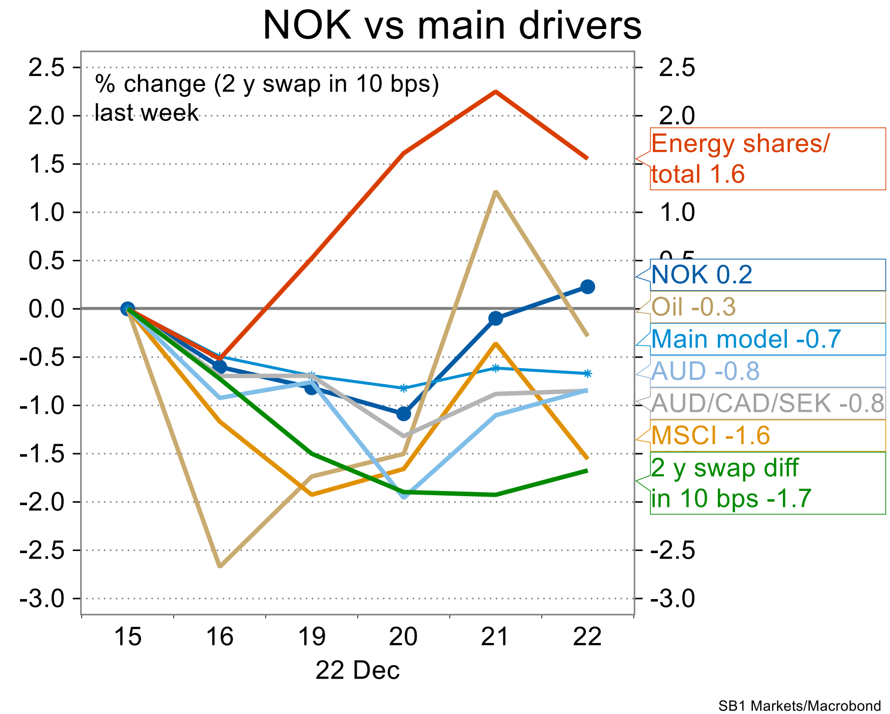
Our model predicted a 0.7% weaker NOK – but the NOK still appreciated 0.2%

Energy shares were popular too, even if the oil price was flat and gas prices fell sharply





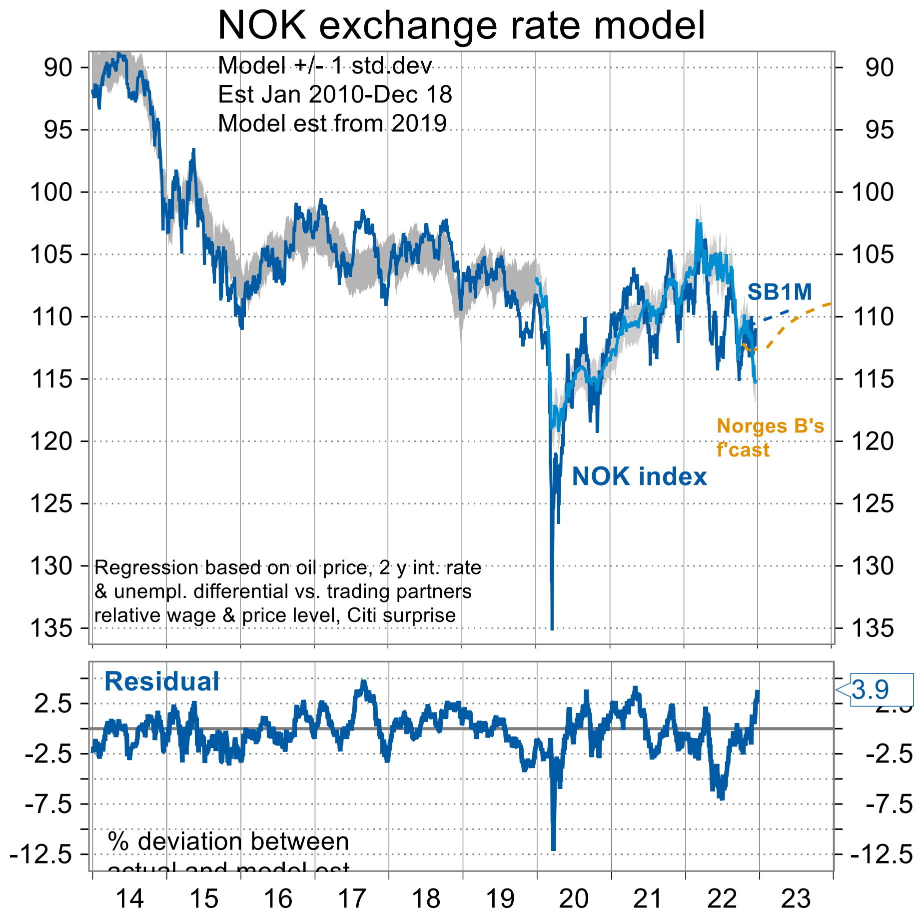
Gaps vs. our model estimates narrowed further last week

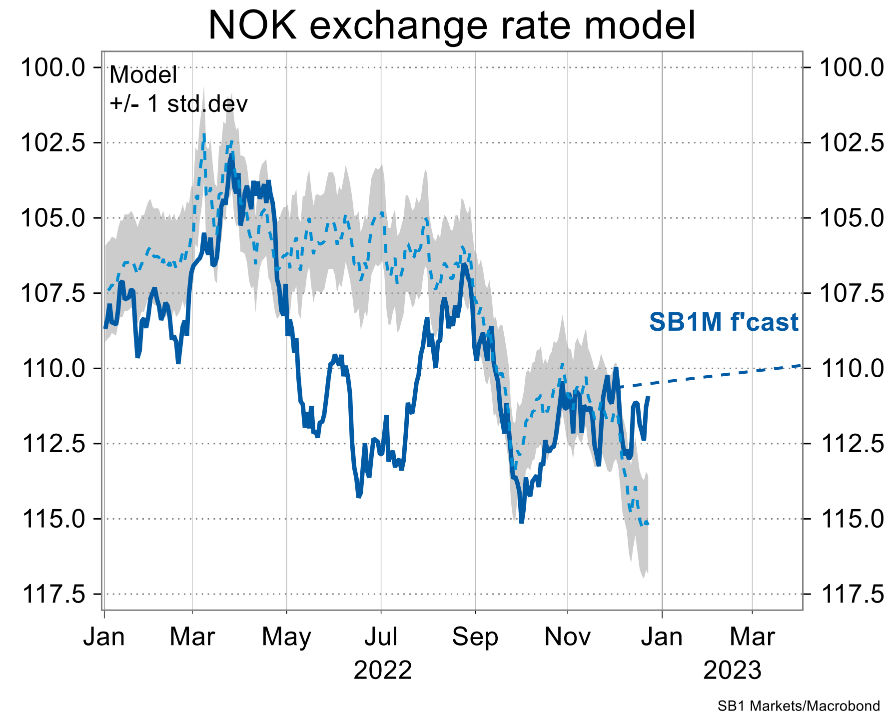
- ***NOK is 3.9% above our main model estimate (from 1.3%), the largest, positive since H1 2021***
- The NOK is 5% weaker than our **AUD/CAD/SEK-model**, our 'super-cycle peers', predicts, a substantial weakening (from -6%)
- NOK is 1% weaker than an estimate from a model that includes global **energy companies' equity prices** (vs the global stock market) (unch.)

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

The NOK remained above our model estimate, now 3.9% 'too' strong

Which is the most since early 2021





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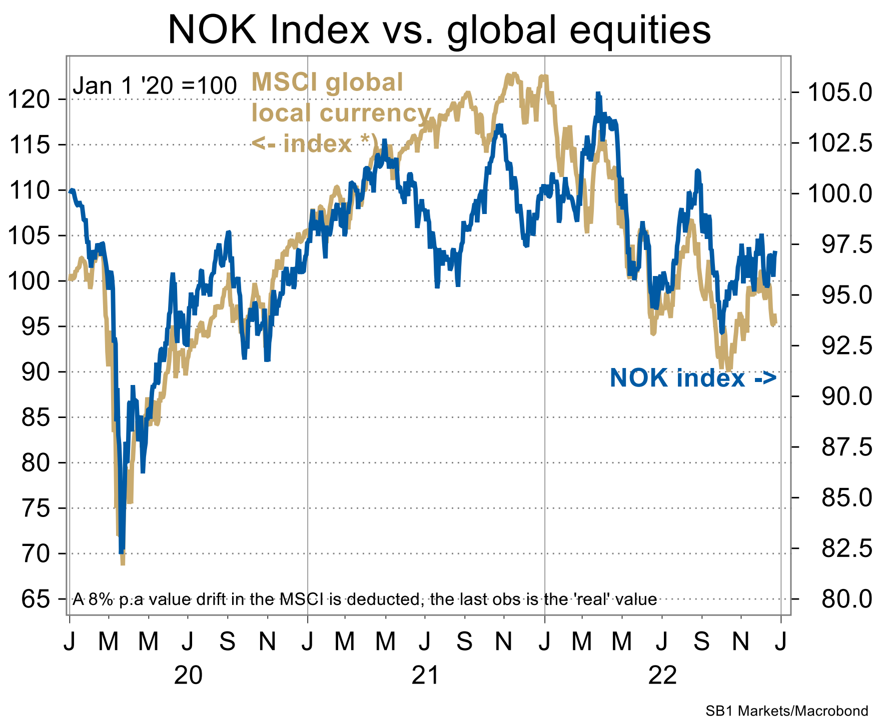
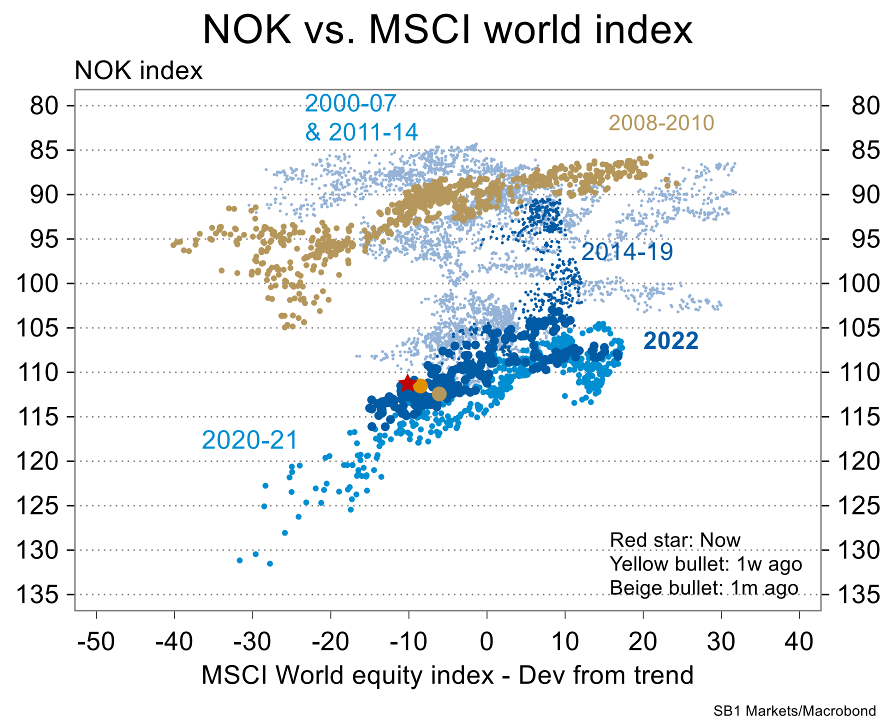
Global equities down, NOK up – is the link broken??

The NOK has been closely in sync with the global stock market since April – but not so the two past weeks

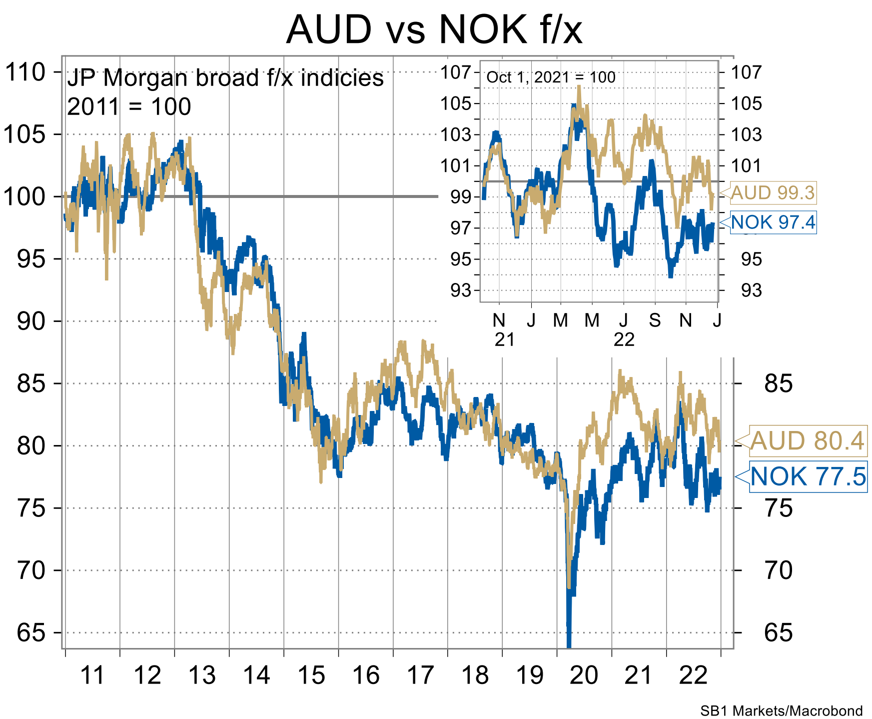


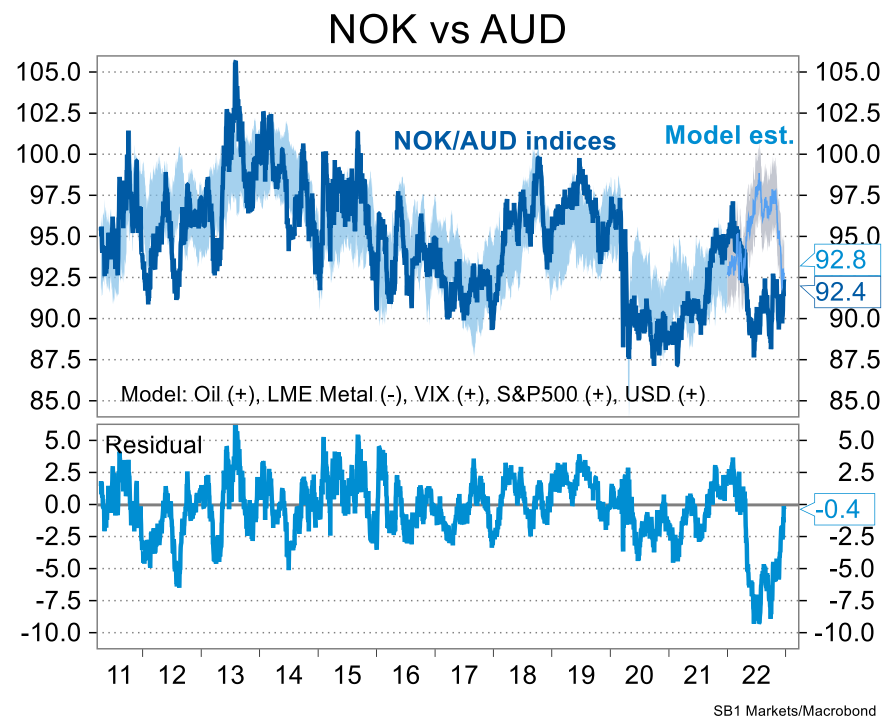


- There has not been any stable correlation over time, and when it is, the oil price is normally the real driver. *Not so much now*

The ‘real’ NOK/AUD gap is closed

Given the usual suspects, the NOK/AUD gap is now well explained. *There is no NOK catch-up argument left*

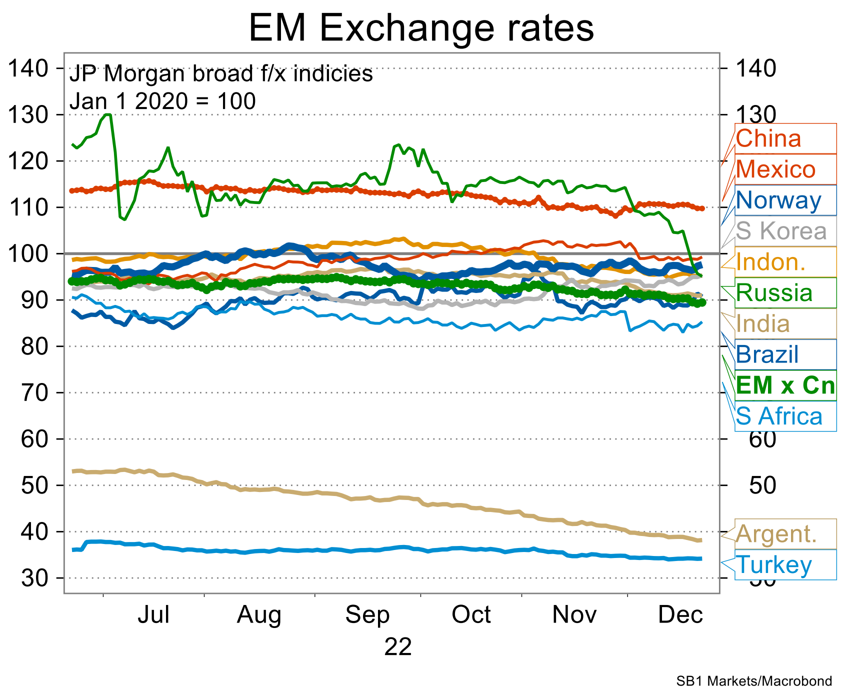


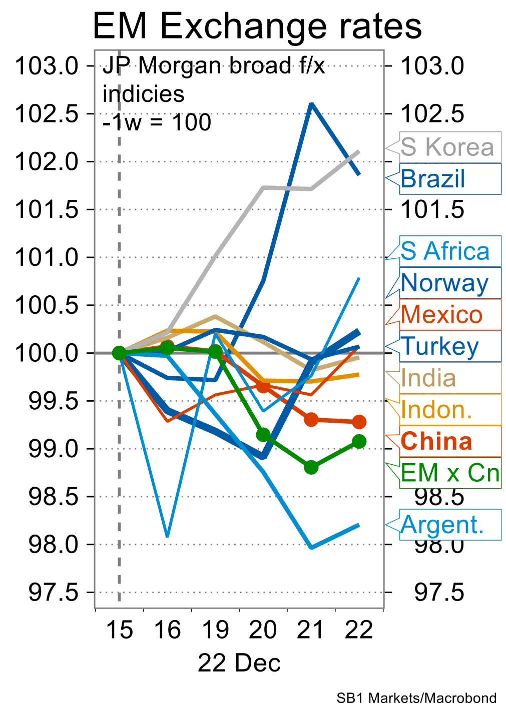


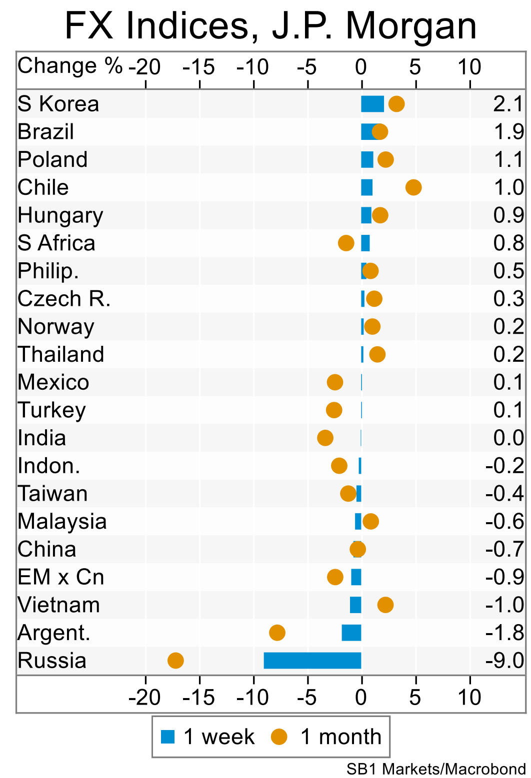
- Normally, NOK strengthens vs the AUD when the oil price rises vs. the LME metal index, when VIX, and the S&P500 index increases, and the USD index appreciates. Seem like we need a new model. Until we find it, buy the NOK index (and short the AUD index)

EM x China currencies are drifting slowly downwards, the Chinese too

'Risk off' may not be what these currencies long for. The Russian RUB has fallen a lot recent weeks, -17%







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