2023 Q3 Macro – Quarterly Update: Waiting for Godot?

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Index | 2023 Q3 Quarterly Macro

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Executive Summary

2023 Q3 Macro: Waiting for Godot?

- **Global growth has rebounded, but the probability of a recession remains elevated**. Consensus suggests that the US will narrowly avoid a recession during H2 ’23, while the Eurozone is expected to avoid it all together. Manufacturing confidence is very weak, while the service sector remains resilient. Labor markets remain strong with low unemployment and continued employment growth. **Headline inflation** continues to moderate but **remains elevated** and is not expected to normalize before 2025. Chinese growth remains underwhelming and stimulus might be needed.
- The **US economy** has proved **extraordinarily resilient** despite record inflation, record monetary tightening and Covid stimulus withdrawal, which historically easily would have meant recession. A possible explanation to that might be the **absence of large economic imbalances**, especially in the housing market. Secondly, **large savings accumulated during Covid lockdowns** may also have cushioned the negative impact.
- Central banks continue to be hawkish and are tightening monetary conditions from multiple fronts. The **FED has hiked its target interest rate by 500bp** from the bottom. The FED and ECB are expected to hike an additional 0,25%-pts and 0,50%-pts this year, respectively. **Central banks have been** also **draining liquidity** from the banking system **by reducing their balance sheets**. The impact on growth is still to be seen.
- **Japan** is somewhat of an upbeat story, as **growth is expected to be** fairly **stable**, while **inflation** is much **lower** than in the rest of the developed world. Business confidence is also more positive than in other developed countries, which is partly due to the **very weak Yen**.
- Growth in the **Nordics** rebounded in Q1 ’23, but is expected to be weak for the whole of 2023. Especially **Sweden has been hit hard** and its GDP is expected to contract this year. Inflation is still high, but has been moderating, especially in Denmark. Unemployment has broadly been unchanged and consumer confidence has improved. Car registration growth is positive, while business and construction indicators remain weak. Both the **Swedish and Norwegian Krone** have depreciated relative to the Euro (and the Danish Krone) and Nordic **interest rate curves are extremely inverted** (i.e. short rates are higher than longer rates).

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Current Economic Topics

Current topics: Recession - Waiting for Godot?

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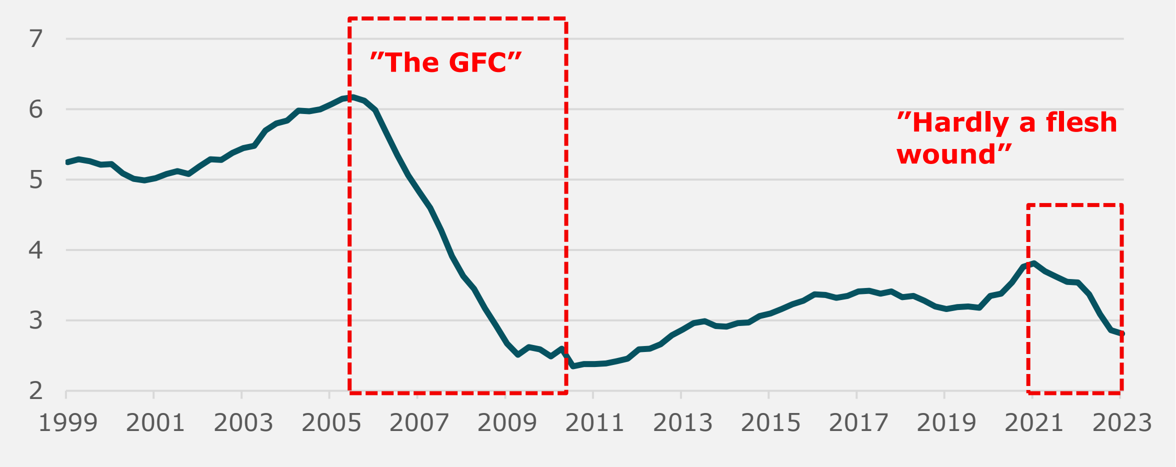
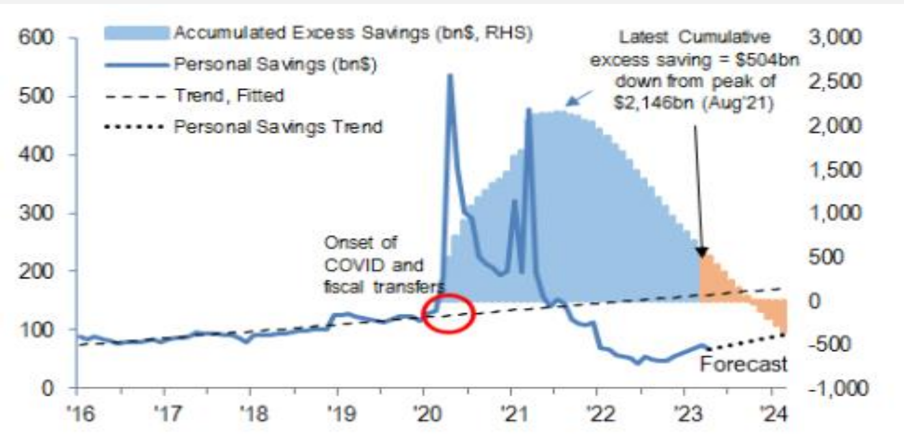
- For at least the better part of a year, many have expected a recession to occur, but the **global economy has proved very resilient**. Despite supply shocks to energy market, bank crisis, record inflation, record monetary tightening and Covid stimulus withdrawal, which historically easily would have meant recession.
- One often touted argument is that the **economy is not unbalanced "enough"** by e.g. overinvestment for the usual boom & bust dynamics to occur. In the US, while investment spending has gone down, the fall is much less dramatic than during the Great Financial Crisis (upper figure)
- Another argument has to do with **excess savings during Covid lockdowns**, where consumers were putting away a lot more money for savings. As societies opened again, consumers started a spending binge that seems to continue to this day. Estimates of when the excess savings will be depleted are uncertain, but Q4 of this year seems to be a qualified guess (lower figure).
- That being said, there are **plenty of signs that the economy can still enter a recession**. Credit conditions remain strict and interest rate may not be slashed immediately if growth wanes as inflation remains too high.

US Residential Fixed Investment (% of GDP)



US Excess Private Saving

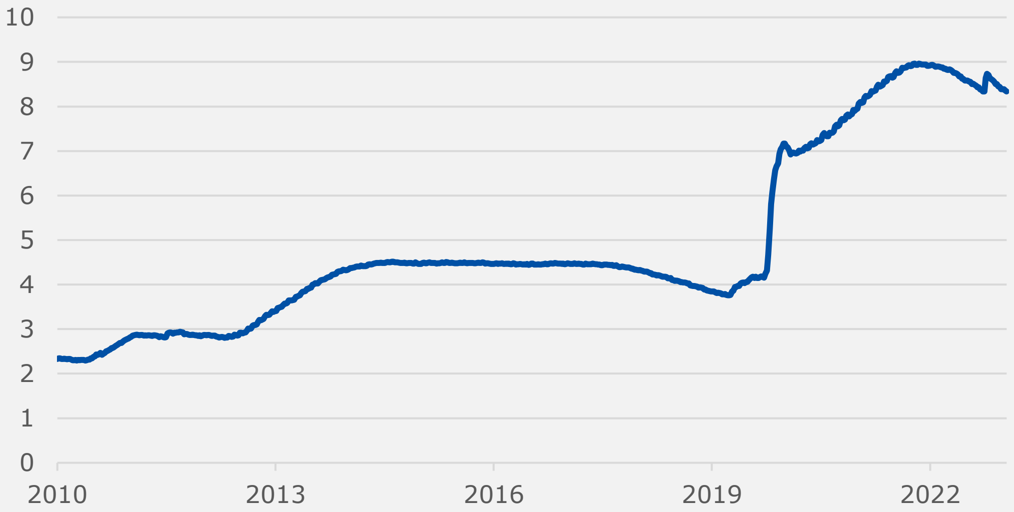


Sources: J.P Morgan Equity Research (lower), Bloomberg L.P. and Tryg Invest

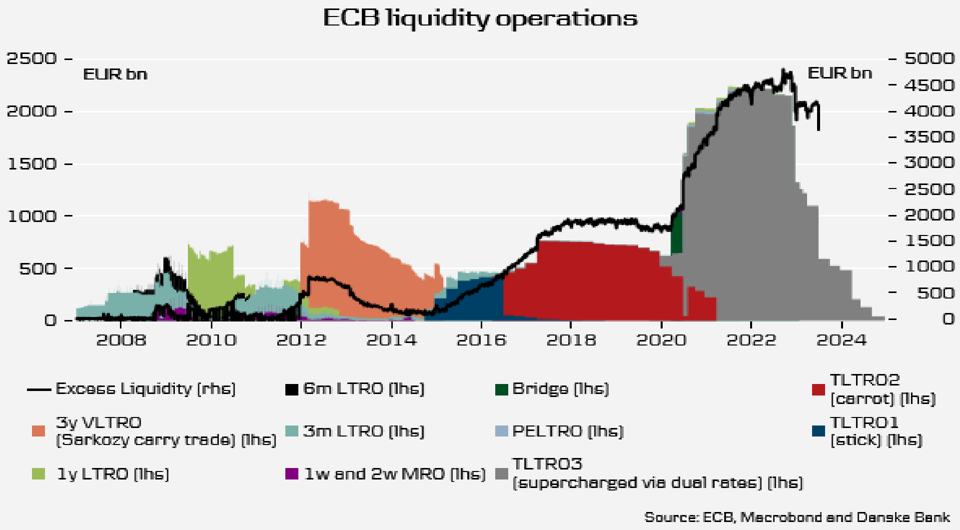
Current topics: Monetary Liquidity - Drain You

- The surprisingly strong economy has required central banks to be extremely hawkish and tighten monetary conditions from multiple fronts.
- The **FED has hiked its target rate by 500bp** from the bottom. The current cycle is the most aggressive in terms of speed, with **rates rising faster than any other time** in recent history. The **ECB has been on a hiking mission** too, and according to president Lagarde, they are **not done yet**. Consensus expects the FED and ECB to hike a further 0,25%-pts and 0,50%-pts this year, respectively.
- Furthermore, central banks have been draining liquidity from the banking system, and the **FED's balance sheet is now reduced** back to the levels prior to the regional banking crisis (left figure).
- The **ECB** is on a similar path: their asset purchase programmes are maturing in the coming months, which **will be draining a lot of liquidity from the markets** (right figure). The **ECB** has announced that it **will be reducing the Asset Purchase Programme portfolio** at a predictable pace by only partially reinvesting the principal payments from maturing securities. Principal payments under the Pandemic Emergency Purchase programme are still being reinvested, but a roll-off of the programme is expected in the future. Central banks have never reduced balance sheets so drastically before, so the precise impacts on the markets is still to be seen.

Federal Reserve Balance Sheet (tUSD)



Size of ECB Monetary Programmes (bEUR)



Sources: Bloomberg L.P. and Tryg Invest (left), Danske Bank, ECB, Macrobond (right)

Current topics: Swedish growth - Thunderstuck

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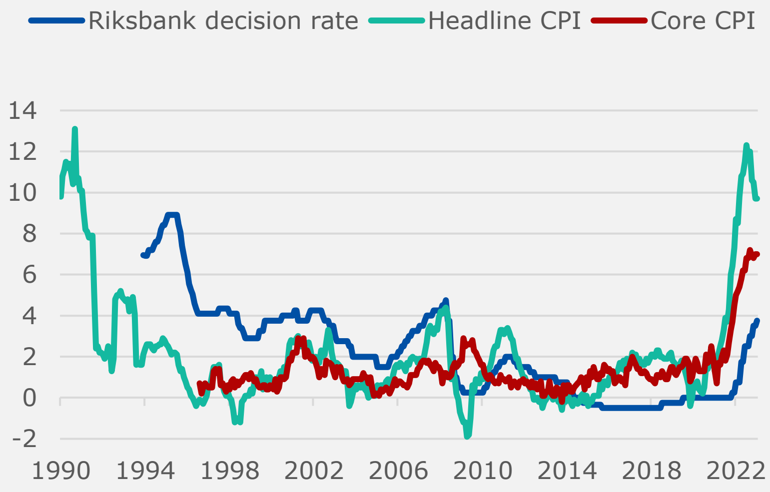
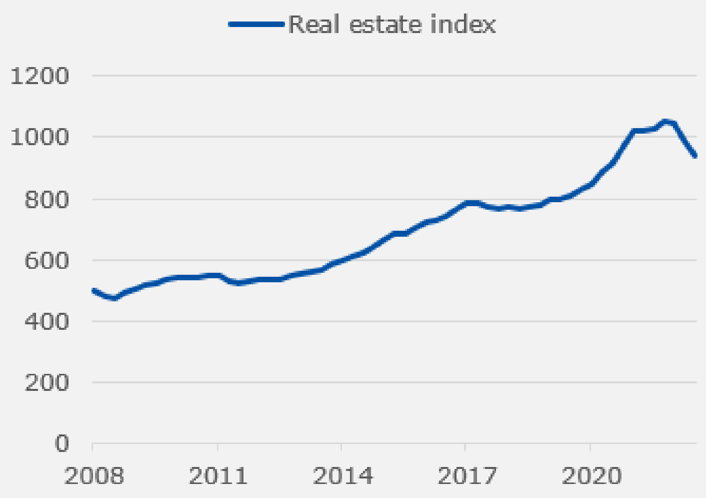
- The Swedish economy has hit the perfect storm. Economic growth is decelerating as **surging interest rates and skyrocketing inflation** are negatively affecting consumption. The **OECD expects** the **Swedish economy to contract by 0,3%** in 2023.
- The weak Swedish Krona has further fueled domestic inflation, as Sweden is an open economy, and a massive weakening of the currency has contributed to higher prices of imported goods. Headline CPI has fallen from its peak, but the latest print is still at 9,7%. Core inflation is at 7% and moving sideways (left figure).
- The **Riksbank has been hiking interest** rates aggressively to counter the rising inflation (left figure), which has resulted in **higher mortgage rates**. As most of the Swedish mortgage rates are floating, the impact to the housing market and purchasing power has been significant. **Real estate prices have fallen** from the top (center figure) and several property landlords are experiencing distress. The market is now expecting two more rate hikes before the central bank is done (right figure).
- The **labour market is still resilient**, but the unemployment rate is at much higher levels than in other Nordic countries and projected to increase slightly in 2024.

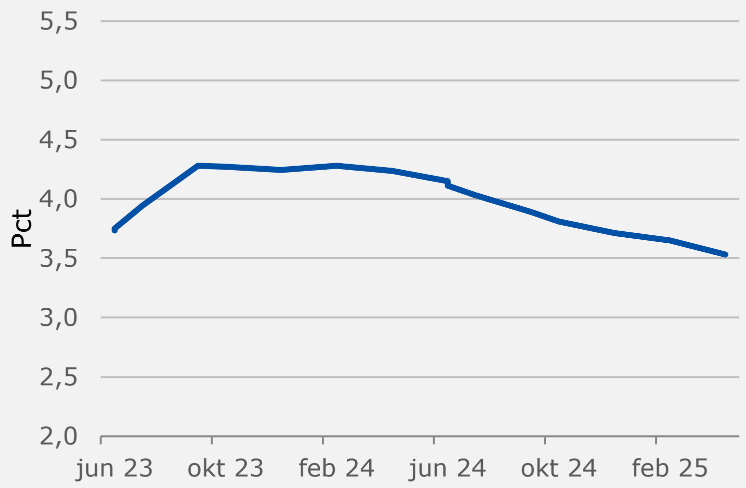
Inflation has hit levels not seen since the 1990s



Real estate prices have reverted the up trend



The market is pricing 2 more hikes by the Riksbank



Sources: Bloomberg L.P., Statistics Sweden and Tryg Invest

Current topics: Big in Japan

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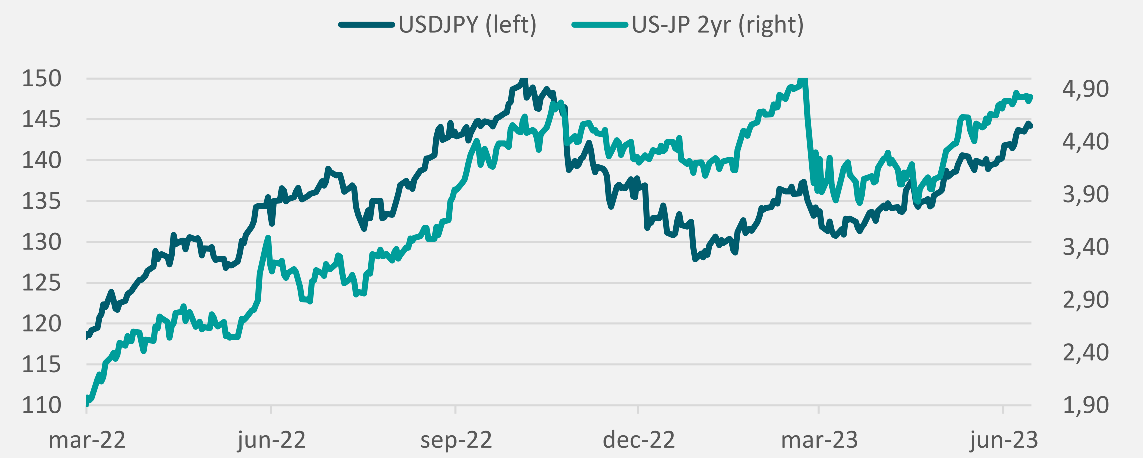
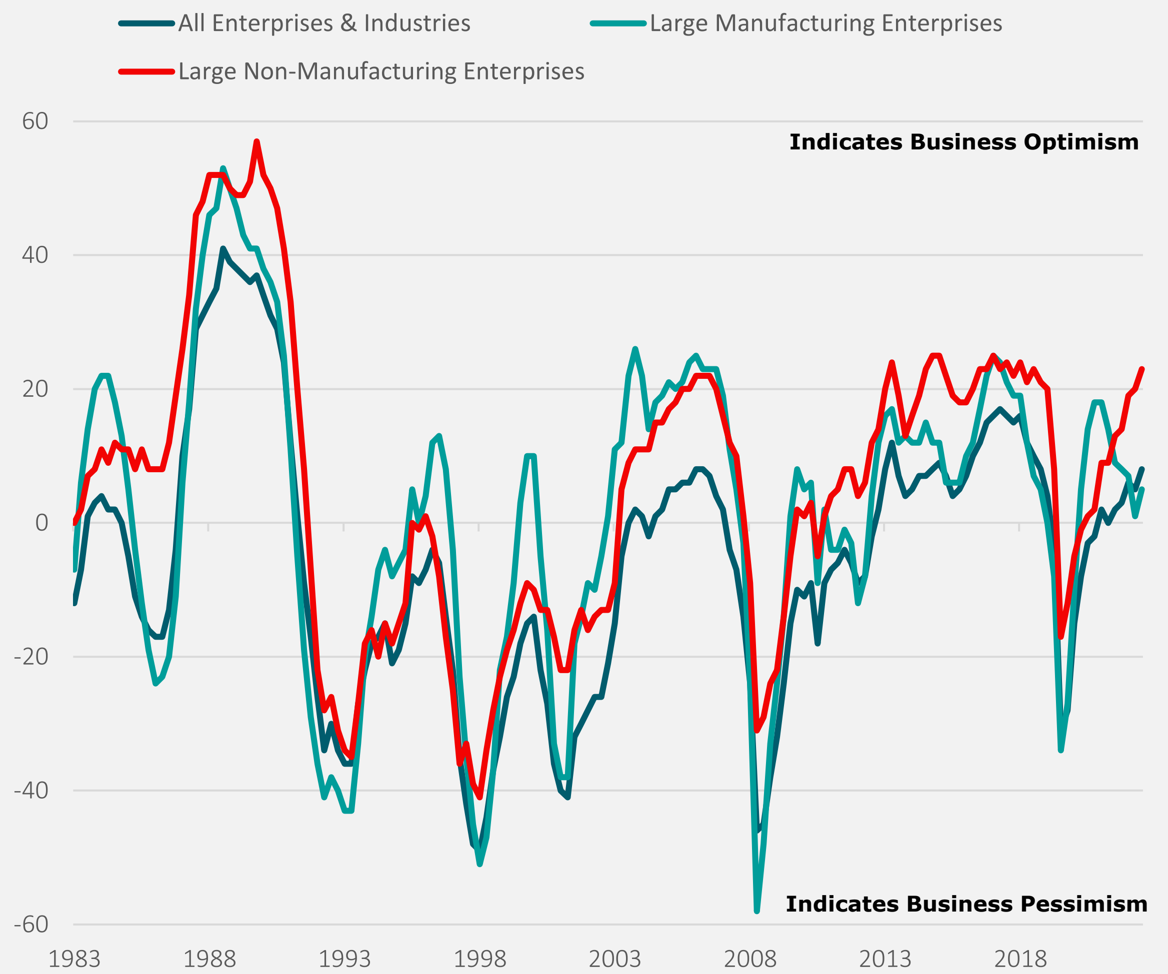
- **Japan** is somewhat of an interesting story macrowise as growth is expected to be fairly stable, while inflation is much lower than in the rest of the developed world (see p. 11)
- The **moderate inflation rate** has led the Bank of Japan to continue its very **loose monetary policy**, which in turn led to a **sharp depreciation of the Japanese Yen** as especially the FED and ECB are hiking rates at an unprecedented rate (lower)
- Being a fairly export dominated economy, the low Yen has improved its international competitiveness and this is showing in **business confidence, that is more positive than its international counterparts** (right)

Yen and interest rate differential



Tankan Business Conditions Survey



Sources: Bloomberg L.P. and Tryg Invest

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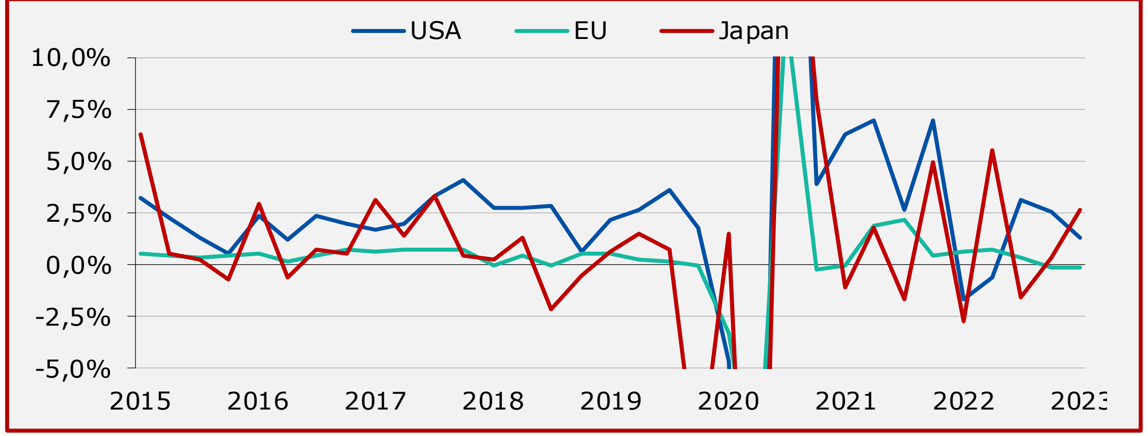
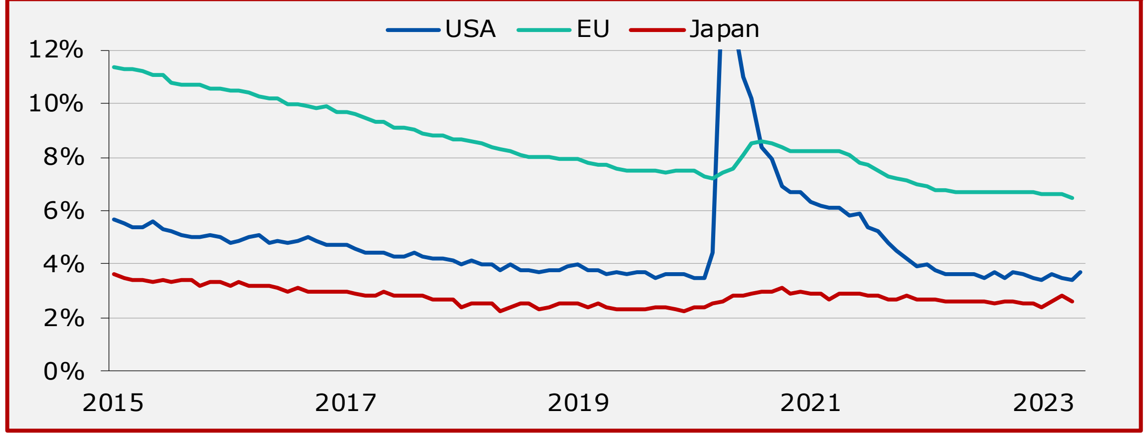
Global Macro

Global Macro | Economic Indicators

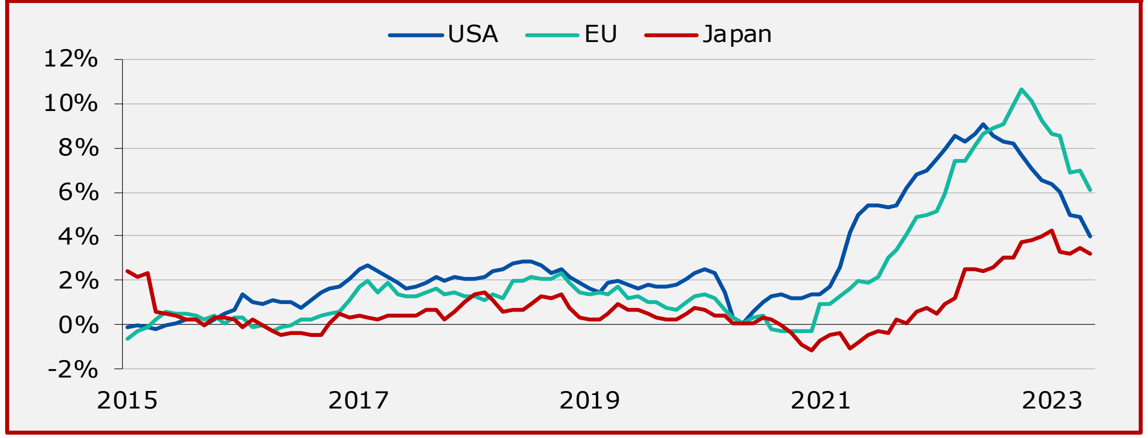
GDP, QoQ (%)



Unemployment rate (%)



Inflation rate (%)



Interest rate, 10yr (%)

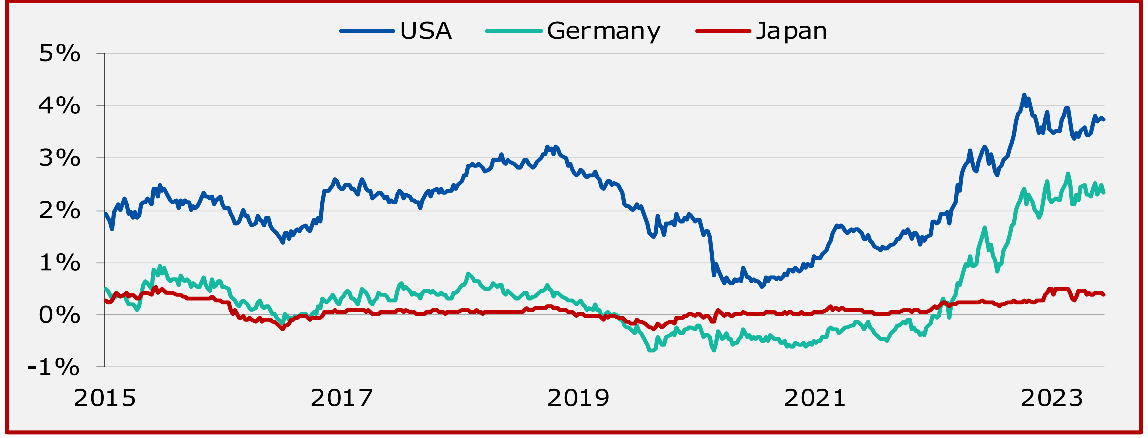


Figure sources: Bloomberg Finance L.P. and Tryg Invest

Global Macro | Leading Indicators

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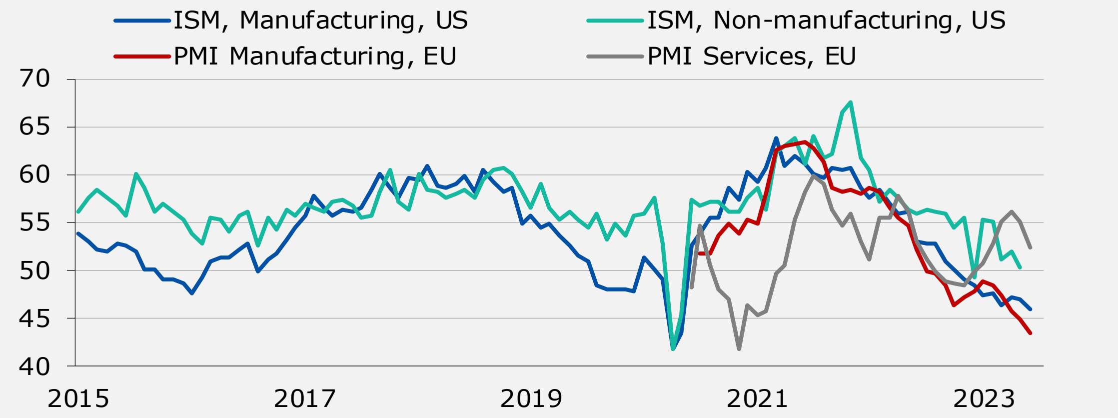
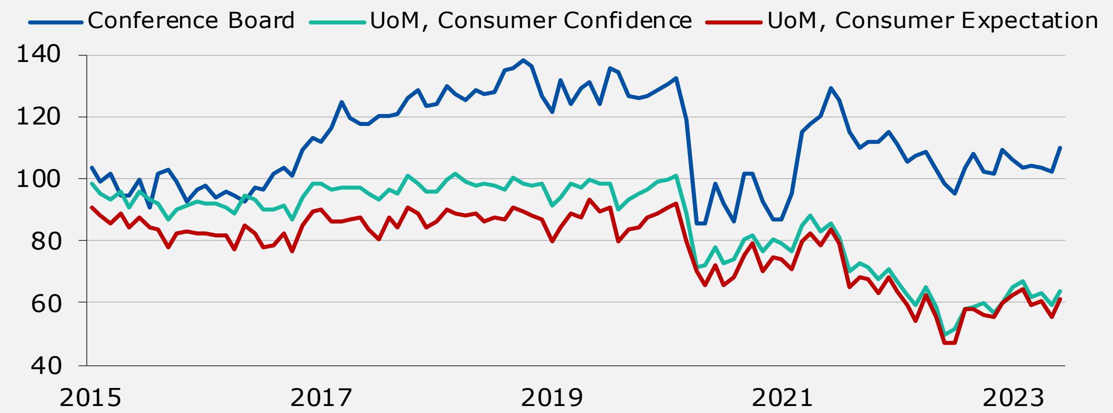
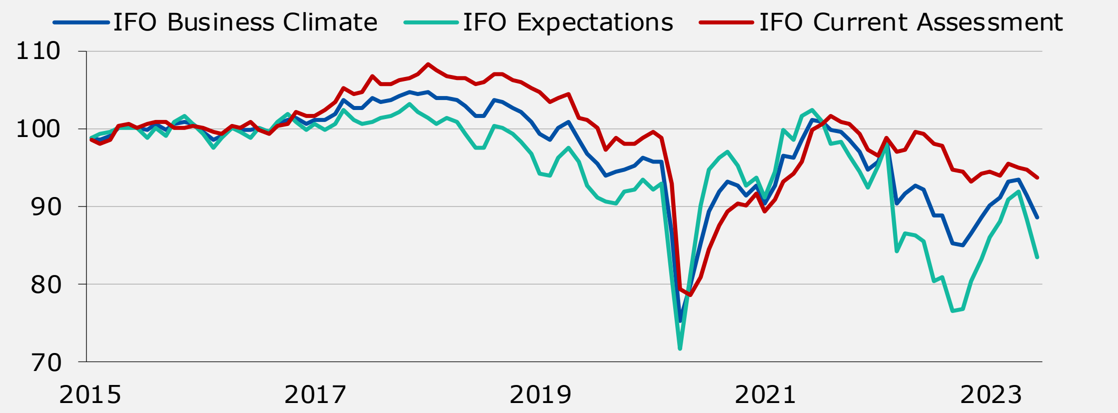
PMI/ISM



Consumer Confidence, US



IFO, Germany



Index description

- PMI measures companies' expectations for the Eurozone, where values above 50 indicates economic expansion and vice versa.
- ISM measures companies' expectations for the US, where values above 50 indicates economic expansion and vice versa.
- IFO measures business' current assessment and expectations for the next 6 month for Germany, where a rising index-value indicates economic expansion and vice versa.

Figure sources: Bloomberg Finance L.P. and Tryg Invest

Global Macro | Business Cycle clock

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OECD Composite Leading Indicator: Indicating asynchronous global growth momentum

OECD CLI measures the global growth momentum 6 month forward. A value above 100 indicates positive economic momentum.

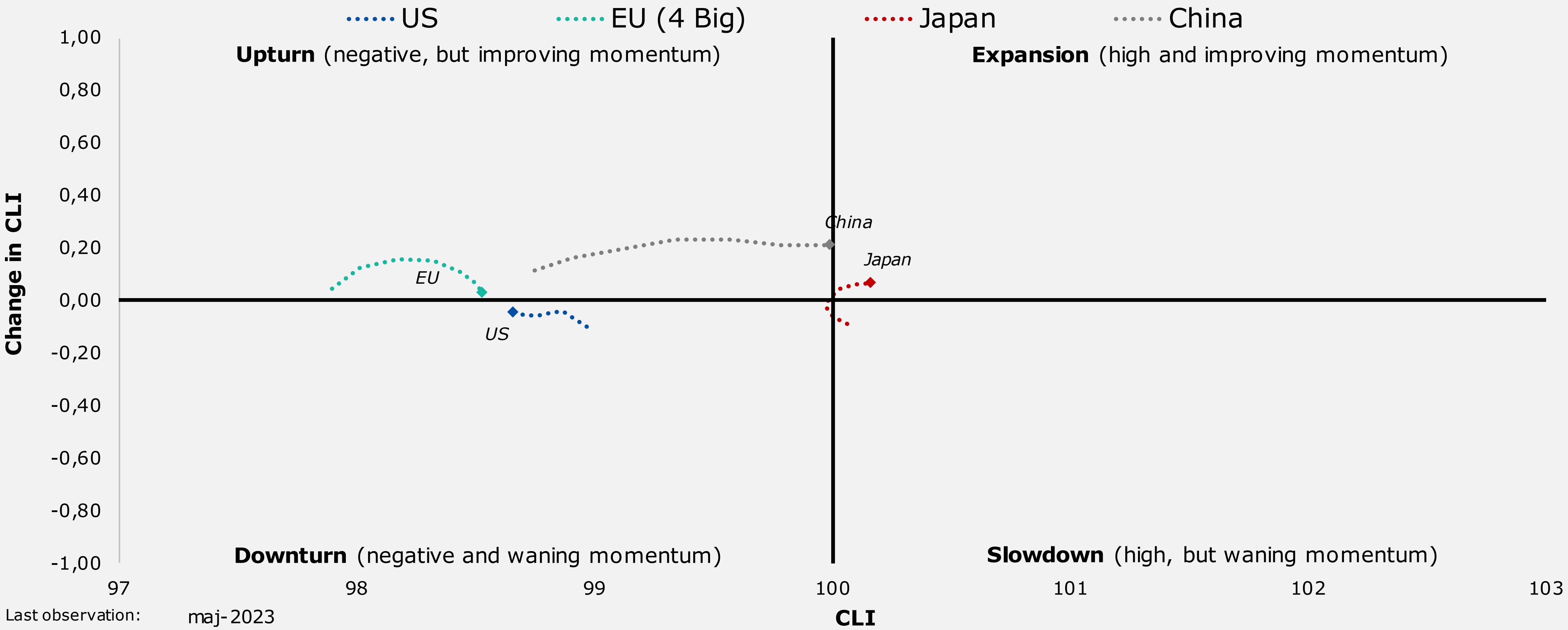
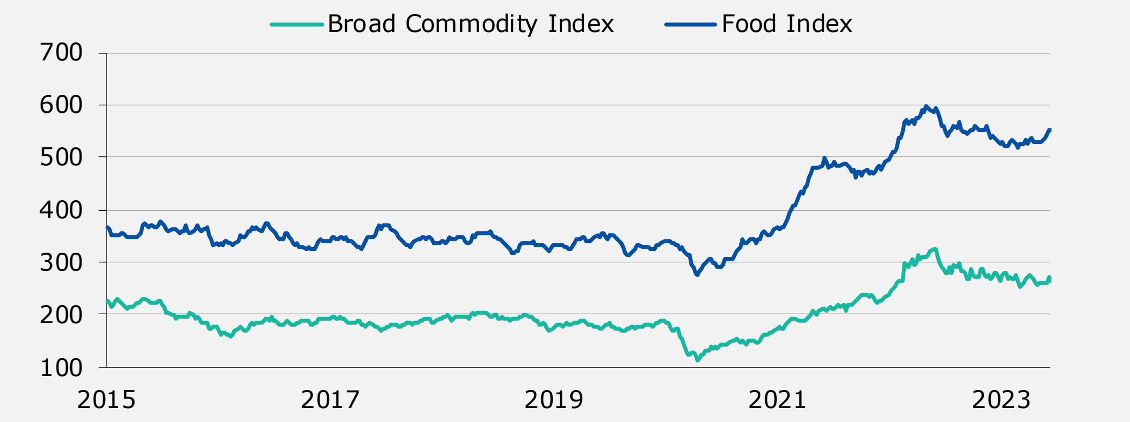


Figure sources: Bloomberg Finance L.P. and Tryg Invest
Note: Dashed trail line shows 6M development.

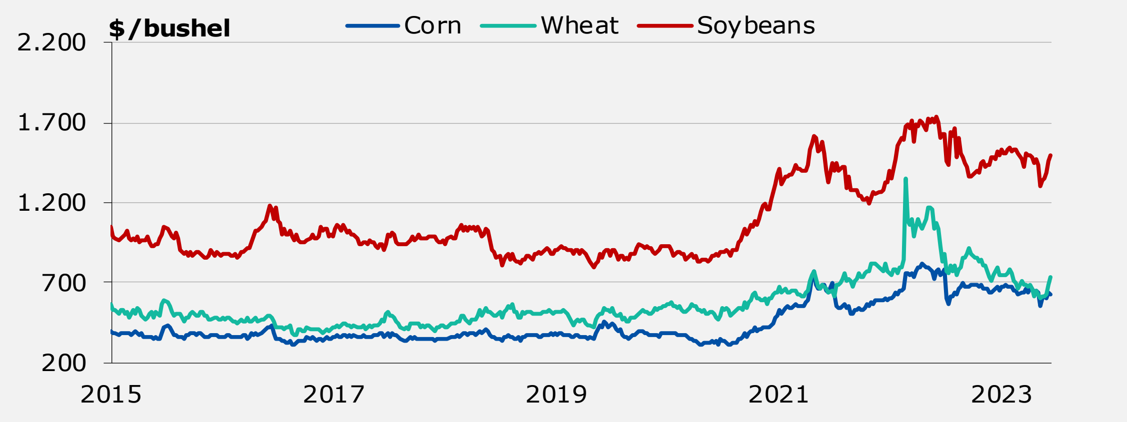
Global Macro | Commodities

Tryg Invest

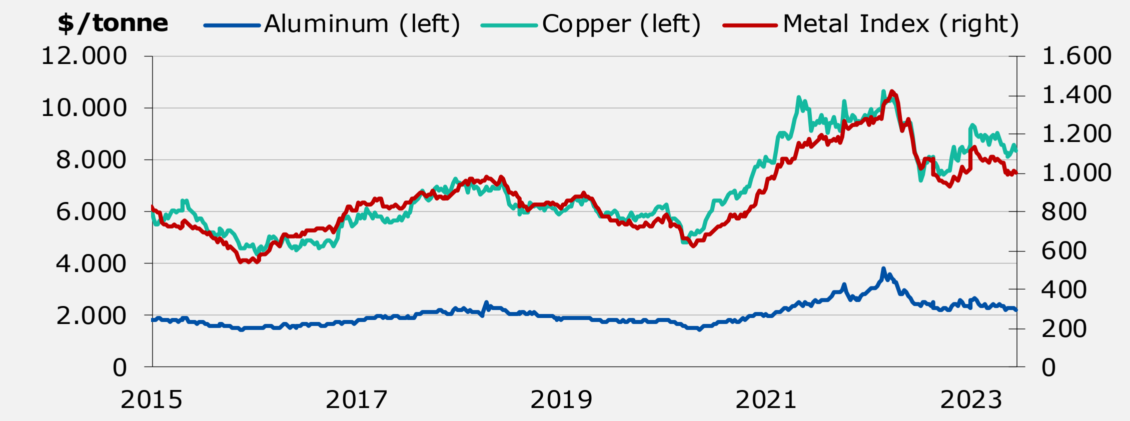
Broad Commodity Index and Food Index*



Agriculture



Metals*



Oil

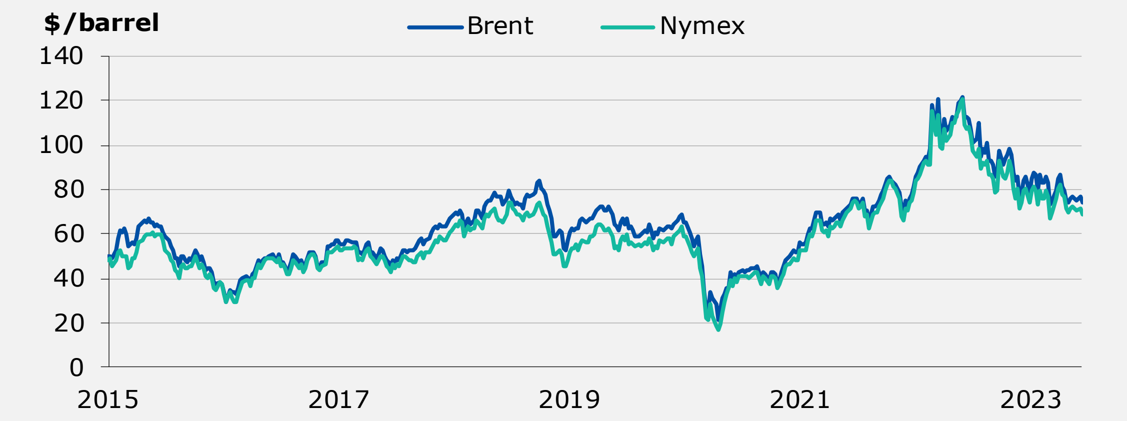


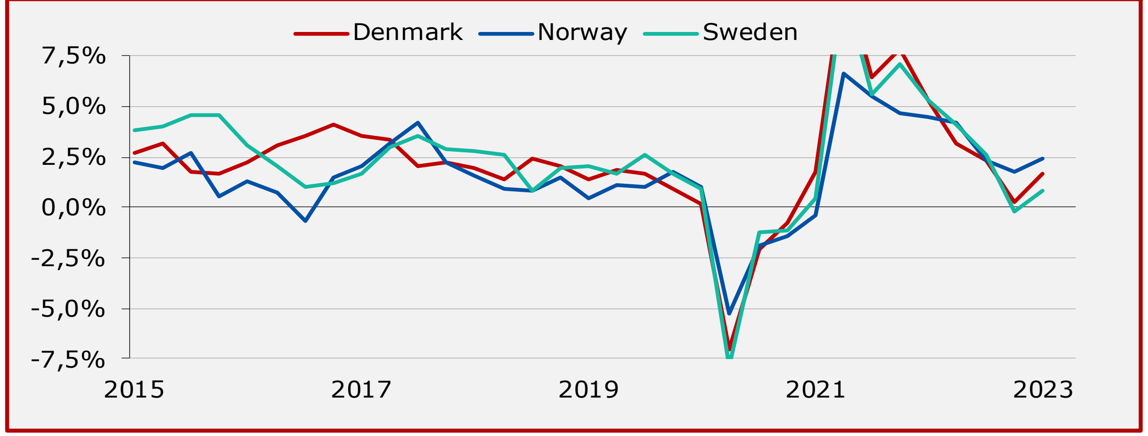
Figure sources: Bloomberg Finance L.P. and Tryg Invest

* Broad Commodity Index consists of following futures: Cotton, Orange Juice, RBOB Gasoline, Heating Oil, Wheat, Corn, Soybeans, Coffee, Live Cattle, Crude Oil, Cocoa, Gold, Aluminum, Silver, Nickel, Lean Hogs, Sugar, Copper and Natural Gas. Food Index: Hogs, Steers, Lard, Butter, Soybean oil, Cocoa, Corn, Wheat and Sugar. Metal Index: Copper, Lead, Steel, Tin and Zinc.

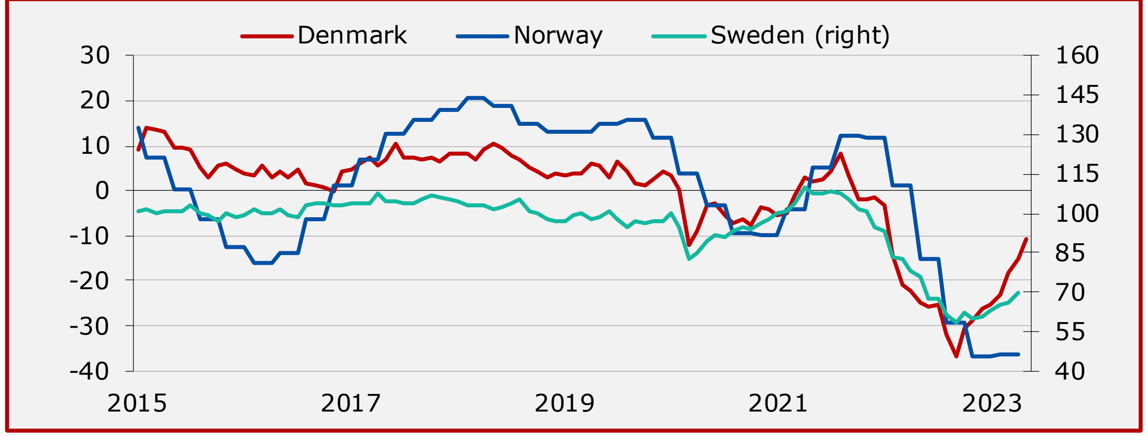
Nordic Region

Nordic Region | Economic Indicators

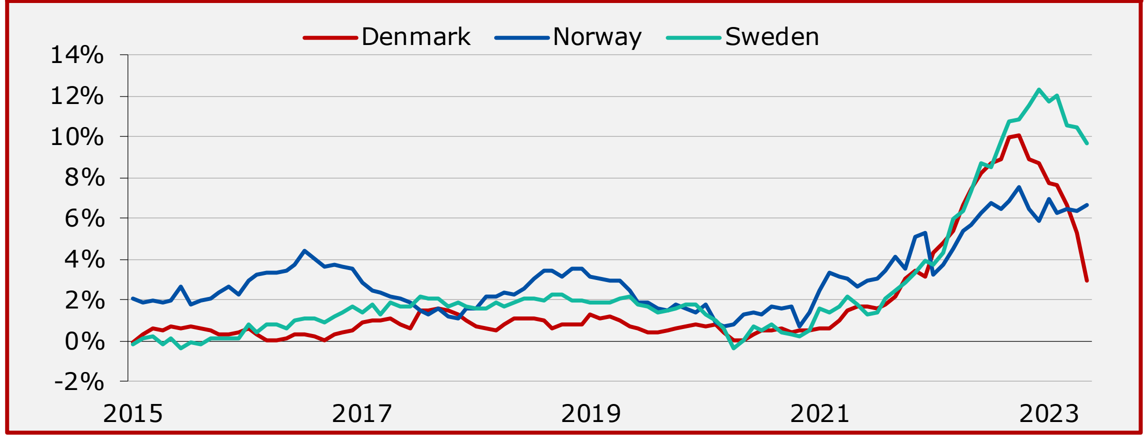
GDP, YoY (%)



Consumer Confidence (higher value indicates more optimism)



Inflation Rate (%)



Unemployment Rate (%)*

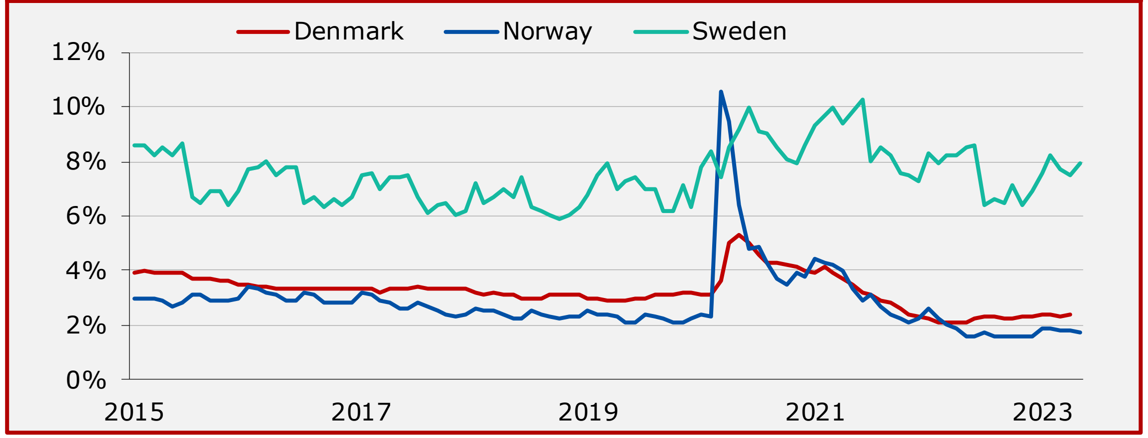


Figure sources: Bloomberg Finance L.P. and Tryg Invest

*Note: Different national calculation methodologies may render comparison between countries unfeasible.

Global Macro | Business Cycle clock

Tryg Invest Leading Indicator (TILI): Indicating Scandinavian borderline upturn

TILI measures the global Nordic momentum 6 month forward. A value above 0 indicates positive economic momentum.

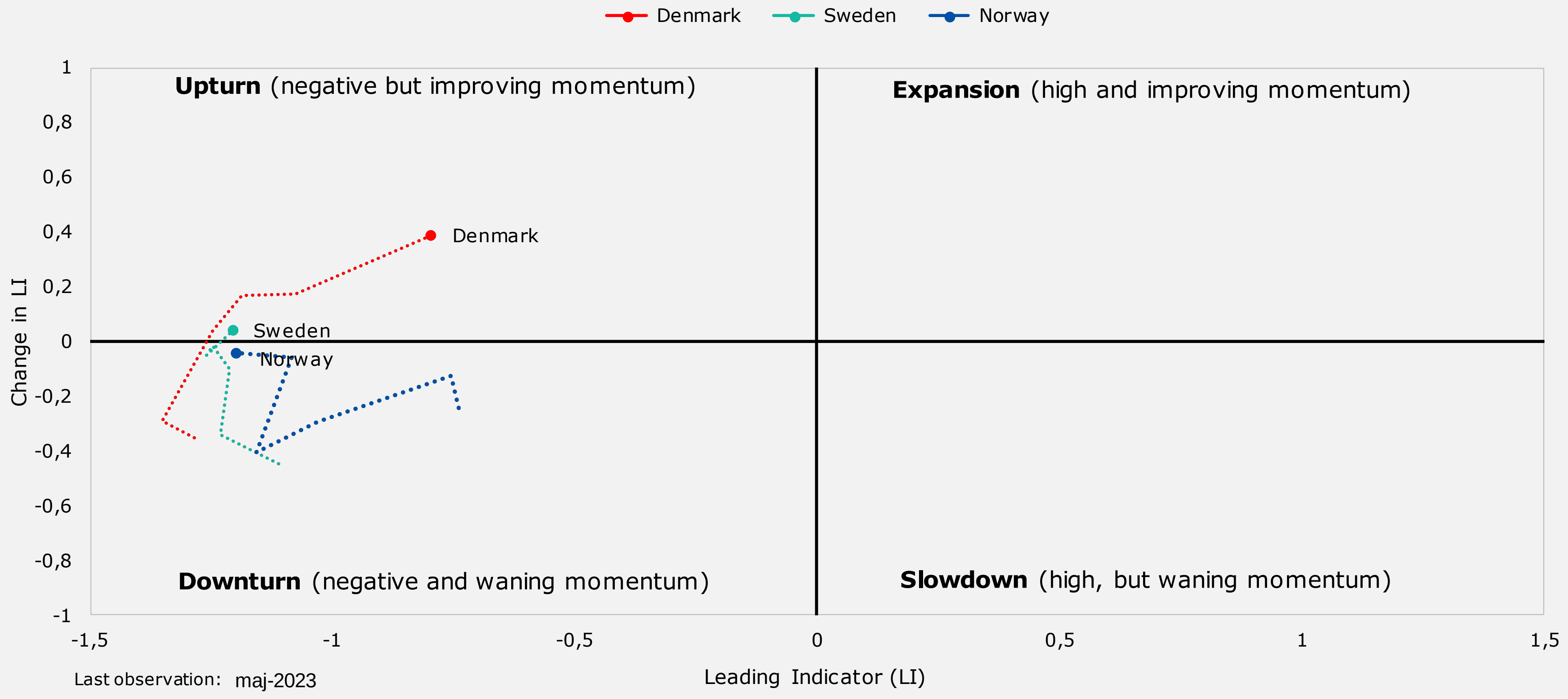


Figure sources: Bloomberg Finance L.P. and Tryg Invest
Note: Dashed trail line shows 6M development.

Nordic Region | Car Registrations and Employment

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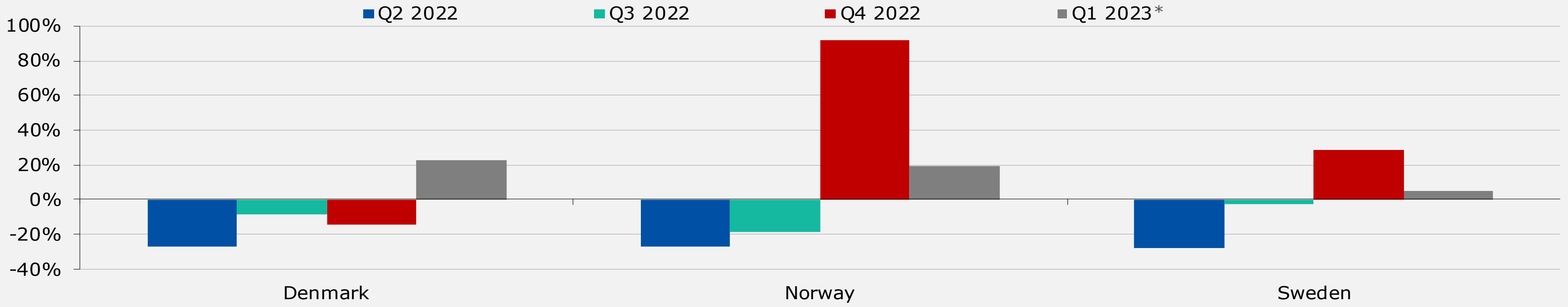
New Car Registrations, YoY (%)



Total Employment, YoY (%)

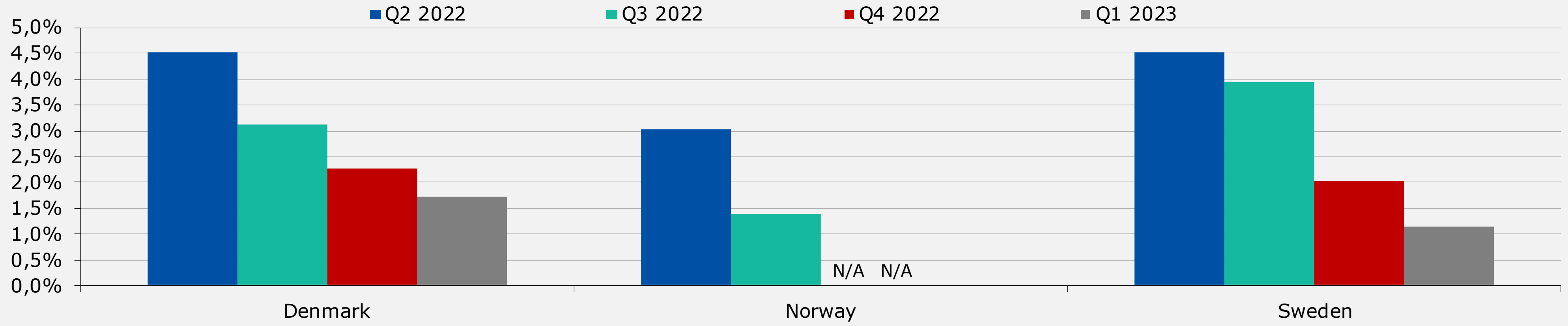


Figure sources: Bloomberg Finance L.P. and Tryg Invest

Nordic Region | Construction and Business Confidence

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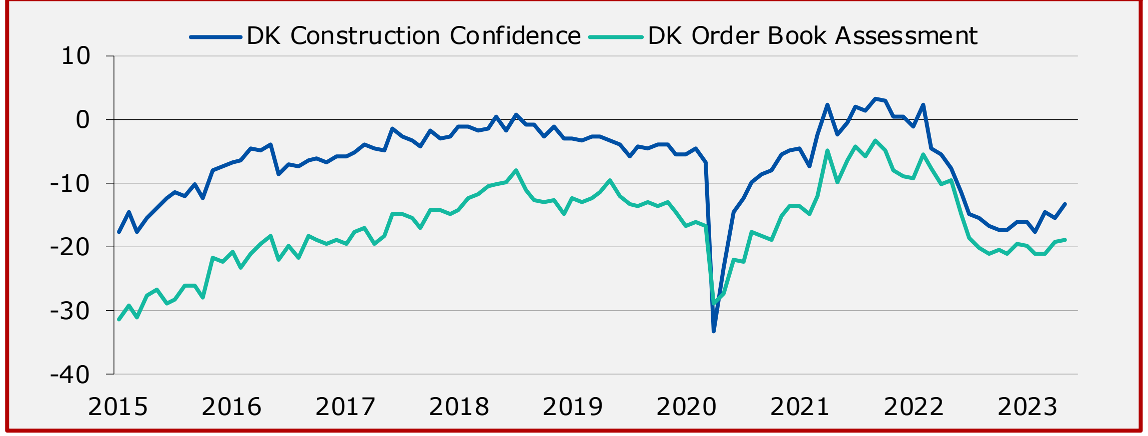
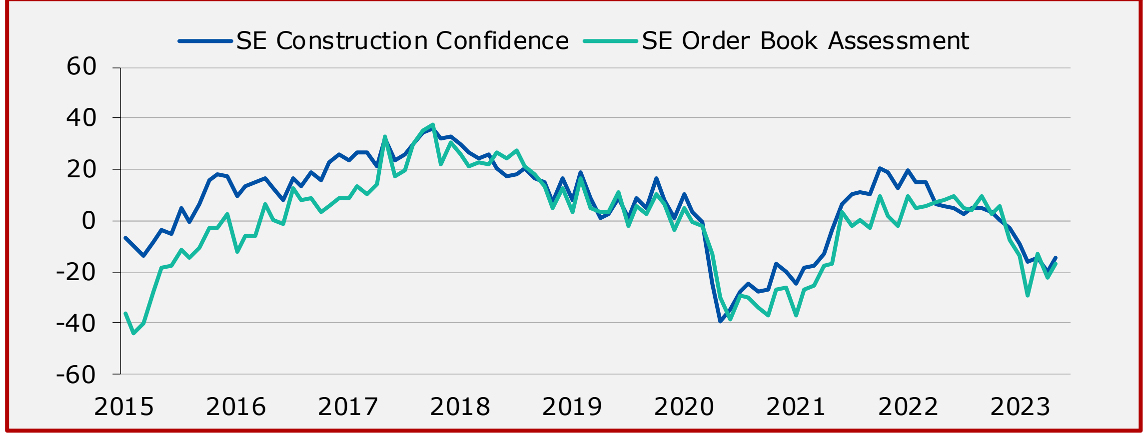
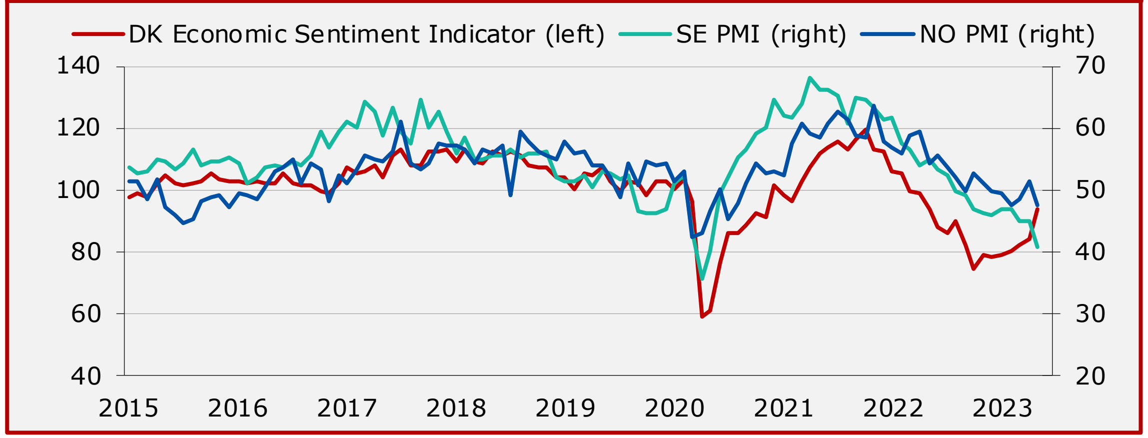
Denmark construction confidence survey



Sweden construction confidence survey



Nordic confidence surveys



Index description

- Construction confidence and order book assessment measures construction companies' current expectations for the activity compared to a "normal level", where values above 0 indicates optimism and vice versa
- PMI measures companies' expectations for the local economy, where values above 50 indicates economic expansion and vice versa
- Economic Sentiment Indicator measures companies and consumers' expectations to the Danish economy, where values above 100 indicates economic expansion and vice versa

Figure sources: Bloomberg Finance L.P. and Tryg Invest

Nordic Region | Bankrupties and Construction Costs

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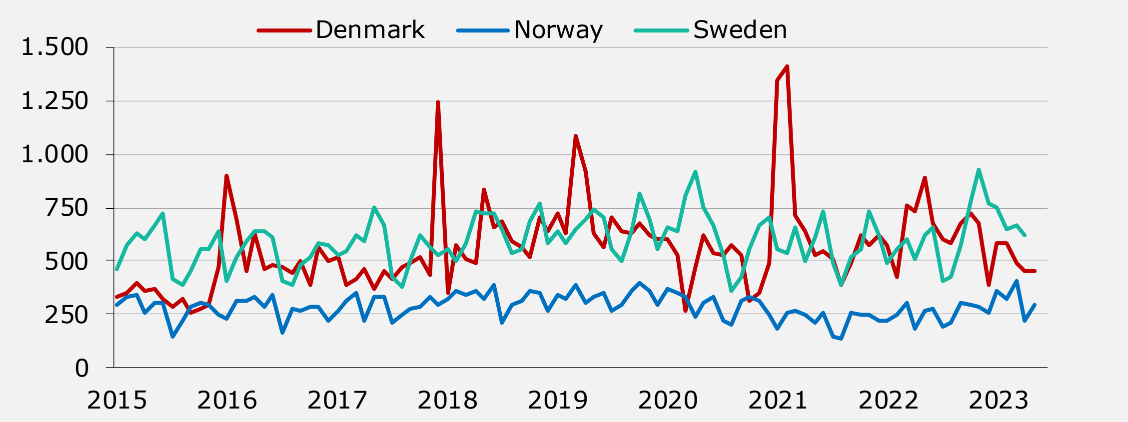
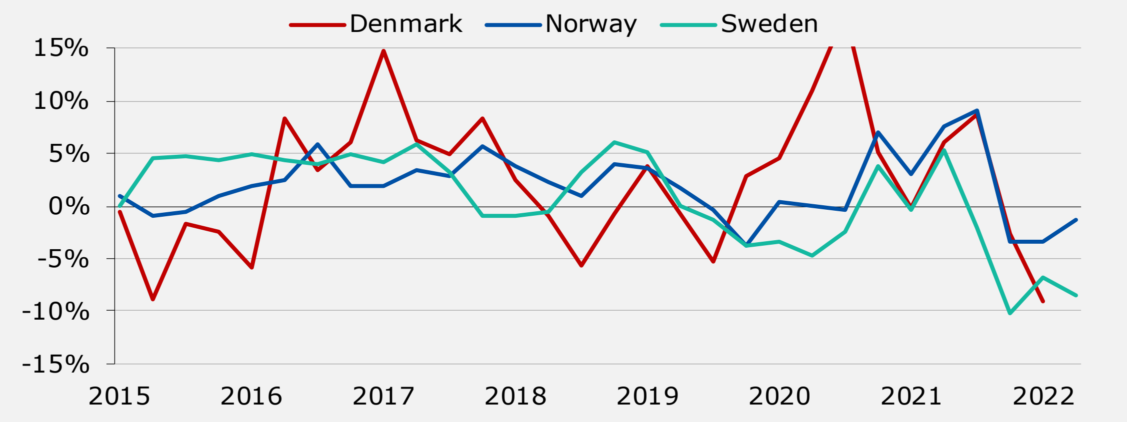
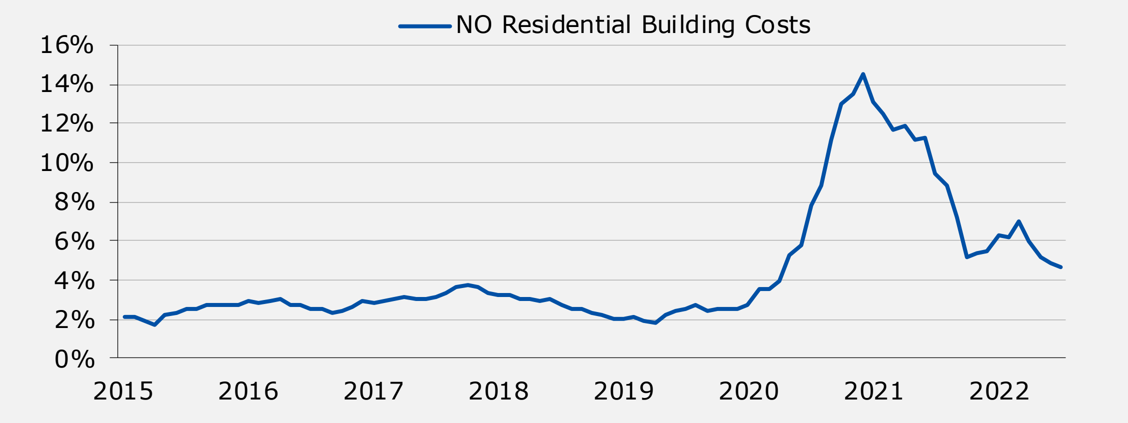
Nordic Bankruptcies (#)



Nordic Construction Employment, YoY (%)



Norwegian Types of Residential Building Costs, YoY (%)



Norwegian Building Costs, YoY (%)

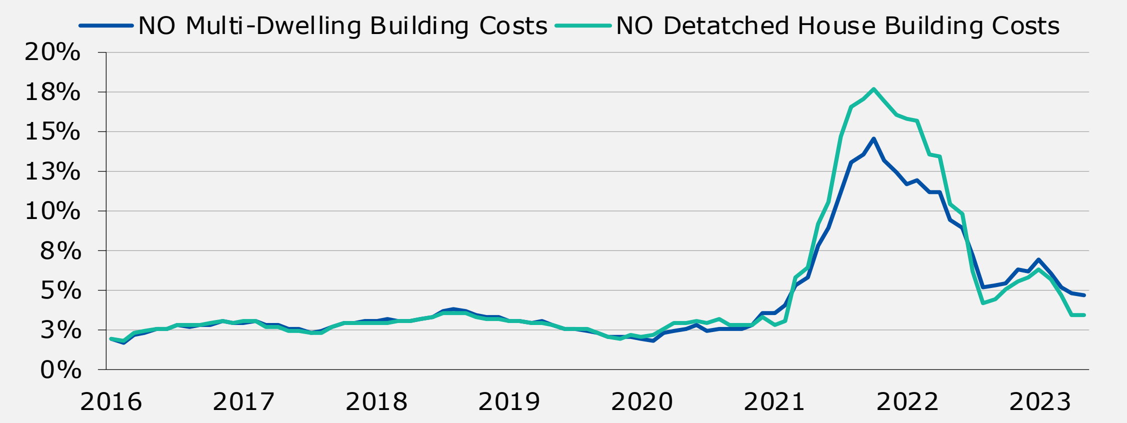


Figure sources: Bloomberg Finance L.P. and Tryg Invest

Nordic Region | Currencies and Interest Rates

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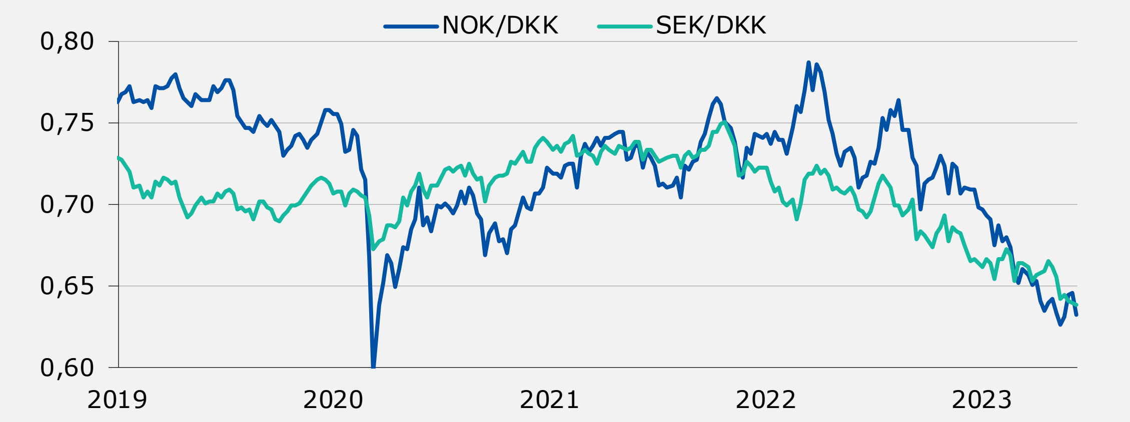
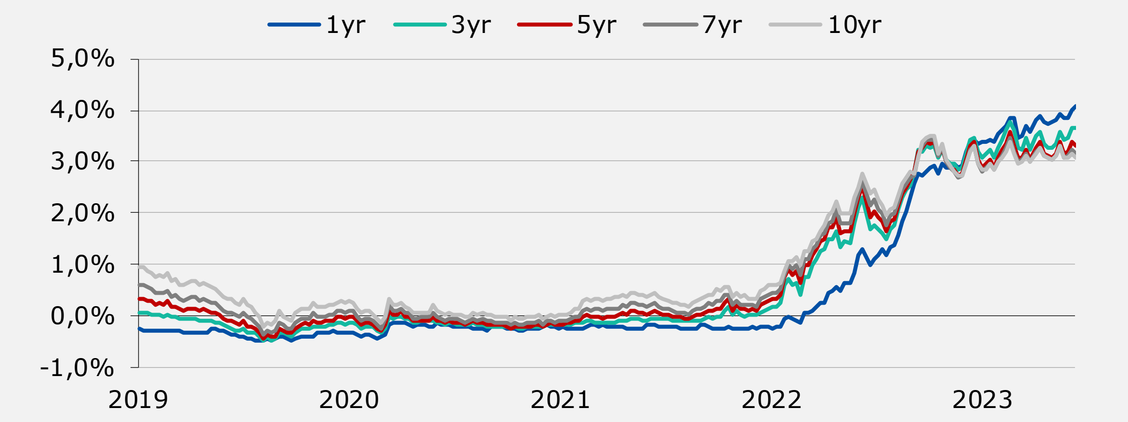
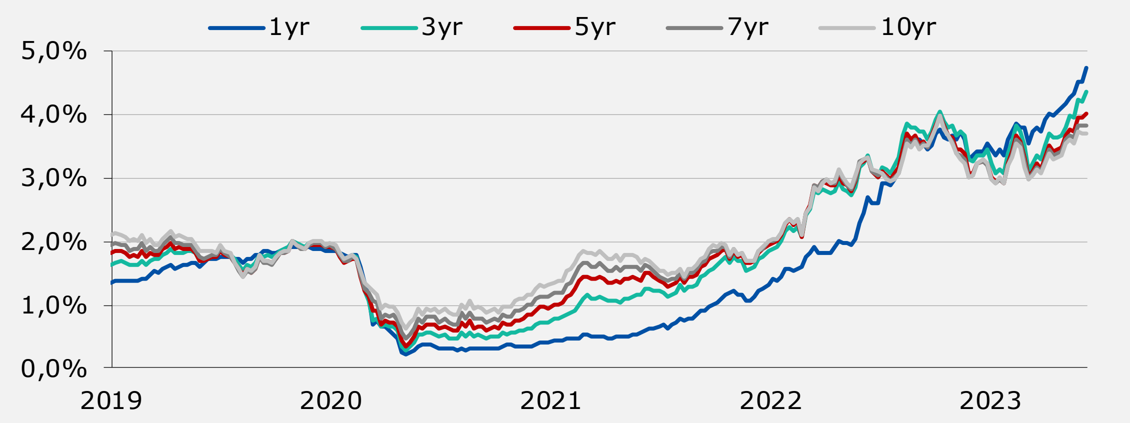
Nordic Currencies



Interest Rates, swaps (%) | Denmark



Interest Rates, swaps (%) | Norway



Interest Rates, swaps (%) | Sweden

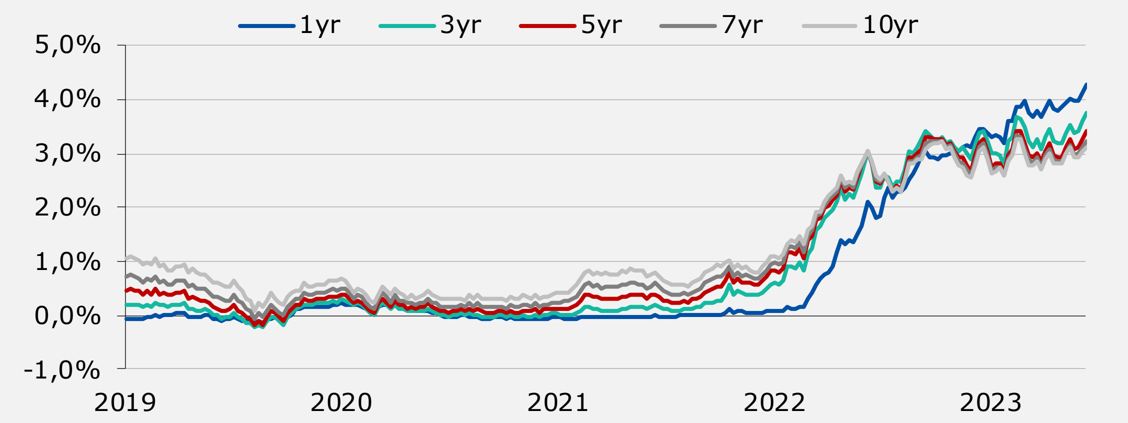


Figure sources: Bloomberg Finance L.P. and Tryg Invest

Appendix

Appendix | Bloomberg Consensus Table – GDP Growth

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GDP growth	Consensus expectations		
	2023	2024	2025
United States	1,30%	0,80%	1,90%
Eurozone	0,60%	1,00%	1,60%
China	5,50%	4,82%	4,75%
Germany	-0,20%	1,05%	1,50%
France	0,60%	1,00%	1,45%
Italy	1,10%	0,90%	1,20%
Spain	1,90%	1,45%	1,90%
Netherlands	0,70%	1,10%	1,50%
United Kingdom	0,20%	0,90%	1,50%
Canada	1,30%	0,75%	2,15%
Australia	1,50%	1,60%	2,30%
Japan	1,20%	1,10%	1,00%
South Korea	1,20%	2,20%	2,50%
India	7,00%	6,00%	6,20%
Brazil	2,10%	1,50%	1,90%
Denmark	0,55%	1,25%	1,50%
Norway	1,20%	0,90%	1,60%
Sweden	-0,50%	0,90%	1,80%
Finland	-0,10%	1,00%	1,40%

Table sources: Bloomberg Finance L.P. and Tryg Invest

Appendix | Bloomberg Consensus Table – Unemployment

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Unemployment rate	Consensus expectations 2023	2024	2025
United States	3,80%	4,50%	4,40%
Eurozone	6,70%	6,80%	6,65%
China	5,20%	5,00%	4,80%
Germany	5,60%	5,40%	5,30%
France	7,25%	7,40%	7,20%
Italy	8,10%	8,15%	8,00%
Spain	12,80%	12,60%	12,20%
Netherlands	3,85%	4,05%	...
United Kingdom	4,10%	4,40%	4,25%
Canada	5,35%	6,05%	5,70%
Australia	3,80%	4,50%	4,80%
Japan	2,53%	2,43%	2,30%
South Korea	3,20%	3,40%	3,05%
India	...	...	...
Brazil	8,80%	9,20%	8,50%
Denmark	5,10%	5,30%	...
Norway	3,60%	3,60%	3,50%
Sweden	7,65%	8,10%	7,70%
Finland	7,00%	7,00%	...

Table sources: Bloomberg Finance L.P. and Tryg Invest

Appendix | Bloomberg Consensus Table – Inflation

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Inflation (CPI)	Consensus expectations 2023	2024	2025
United States	4,10%	2,60%	2,40%
Eurozone	5,40%	2,50%	2,00%
China	1,20%	2,20%	2,00%
Germany	6,00%	2,60%	2,00%
France	5,50%	2,60%	1,90%
Italy	6,30%	2,40%	1,95%
Spain	3,90%	2,60%	1,85%
Netherlands	4,75%	3,25%	2,15%
United Kingdom	7,15%	2,90%	2,10%
Canada	3,70%	2,30%	2,00%
Australia	5,60%	3,20%	2,80%
Japan	2,80%	1,50%	1,30%
South Korea	3,30%	2,10%	2,10%
India	6,60%	5,10%	5,00%
Brazil	5,00%	4,20%	3,80%
Denmark	4,50%	2,55%	...
Norway	5,20%	2,80%	2,00%
Sweden	8,10%	2,60%	2,00%
Finland	5,55%	2,15%	1,95%

Table sources: Bloomberg Finance L.P. and Tryg Invest

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