PREVIEW: Norges Bank Policy Announcement due Thursday 15th December 2022 at 09:00GMT/04:00ET

- Expected to hike by 25bp, to 2.75% in a continuation of November's tightening pace.
- Due to the balancing act between hot inflation and signs of an economic slowdown.
- Rates aside, attention is on whether the rate path will be lifted from the 3.10% peak implied in September.
- Governor Bache to speak from 09:30GMT onwards.

Overview: Expected to hike by 25bp to 2.75%, in a continuation of the pace from November's meeting given the balancing act between above-forecast CPI and ongoing signs of an economic slowdown, particularly the Regional Network Survey indicating that the labour market is expected to plateau in the near-term. Rates aside, attention will turn to the peak policy level, of 3.10% at September's MPR, for guidance as to how the Norges Bank sees the balancing act between inflation and the broader economy playing out in the meetings ahead. Particularly, after the Bank indicated a more gradual approach to rate setting may be required, in the context of a tightening effect beginning to become evident from the policy decisions taken thus far.

Previous Meeting: On November 3rd, the Norges Bank delivered a 25bp hike and guided participants towards further tightening 'most likely' taking place in December. While Governor Bach did not provide explicit guidance as to what magnitude they envisage tightening by, this is expected to be another 25bp increase taking the Key Policy Rate to 2.75%. While a 25bp hike was delivered, the Norges Bank acknowledged that inflation was above their forecast and the labour market was tighter than expected, factors which could support a 25bp+ hike. However, this was caveated and ultimately offset by "signs that some areas of the economy are cooling down…" and that "…monetary policy is beginning to have a tightening effect on the economy.". Going into the meeting analysts were split between 25bp and 50bp, and ultimately a modest though shortlived dovish reaction occurred.

Inflation/Labour Market: Since the November 3rd gathering, the most pertinent releases have been October's and November's CPI metrics. For October, the release was hotter than expected for both headline and core. In November, the rate of inflation unexpectedly cooled with the core (ex-ATE) figure at 5.75% (prev. 5.9%); however, while a good sign, this compares to and significantly eclipses the 4.97% forecast for December at September's MPR. A release which continues to point to further tightening ahead, as guided, and perhaps when taken on its own, as in November, justifies a more hawkish response than the expected 25bp. Reminder, the December meeting is accompanied by a new MPR, thus we will see significant upward revisions to at least the near-term inflation forecast and quite possibly the long-term view as well, given recent inflation expectations data. Inflation aside, the other key area in focus for the hawks is the labour market. The NSA Unemployment rate has remained steady at the 1.6% mark since August's reading, with the most recent metric for the November survey period. While this showed that the labour market is no tighter, on the surface, than at the last gathering, the situation has not improved and thus this could be used as justification for both the hawks and doves. However, the Q4 regional network report points to employment growth plateauing in the next three months, while wage growth for next year is only incrementally higher than the current calendar year.

Other Factors: As in November, there are signs that the economy is slowing down, a view echoed by the Stability Report, Regional Network and Household surveys since. On the regional network, which is generally very influential in terms of the policy announcement, while there are some optimistic points within it on inflation and capacity constraints, the overall 6-month ahead index deteriorated, chiming with other indications of a slowdown. For instance, November's DNB PMI, seasonally adjusted, printed at 51.2 (prev. 52.9), indicating that while activity increased for the month it is not at the pace generally seen at this time of the year. For reference, commentary from speakers has been very limited. Given the signs of a slowdown continuing, it remains to be seen if the rate path will be lifted as has been the case in recent meetings, or if it will be held at or perhaps reduced from the 3.10% peak view implied in September.