Danske Bank

Investment Research

7 April 2021

Nordic Outlook

At the doorstep of recovery

- **Denmark: now for the turnaround**
  - Restrictions are being lifted and the underlying economy is strong

- **Sweden: improving outlook, temporary headwind**
  - Supply disruptions are weighing on otherwise strong outlook

- **Norway: recovery delayed but on its way**
  - A strong economy is held back for a short while

- **Finland: new lockdown delays recovery**
  - The underlying economic situation continues to surprise to the upside

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Important disclosures and certifications are contained from page 33 of this report.

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The ***Nordic Outlook*** is a quarterly publication that presents Danske Bank's view on the economic outlook for the Nordic countries. The semi-annual publication *The Big Picture* sets out our global economic outlook.

At a glance

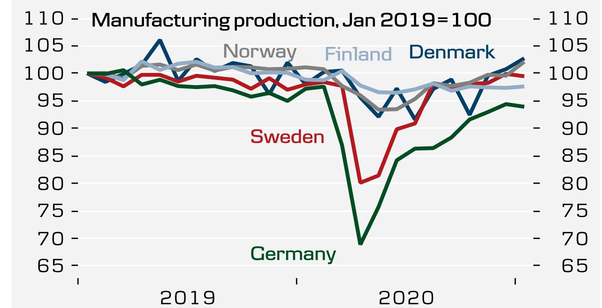
At the doorstep of recovery

Spring is in the air

Both in the Nordics and more globally, it seems that we will finally be able to put most of the COVID-19 crisis behind us in the coming months, as milder weather weakens the disease and vaccines make it much less of a danger. We expect that to pave the way for solid economic recovery. We are already seeing good progress in industries that are not locked down, not least manufacturing which is supported by strong global demand for goods. As the rest is reopened, we should be in for high growth in GDP and jobs.

However, things are not only going in the right direction in the short term, where several countries have rising infection numbers and vaccinations are not happening as fast as hoped. Uncertainty remains around the exact timing of the recovery, and of course also the magnitude. This is not a situation that we have been in before. There is a risk that the recovery will be more like after a normal crisis and take place over several years, as well as a risk that the pend-up demand will be released very quickly. It also remains uncertain how complete the reopening will be, in particular to what extent travel and tourism will return to normal soon.

Growth outside closed industries

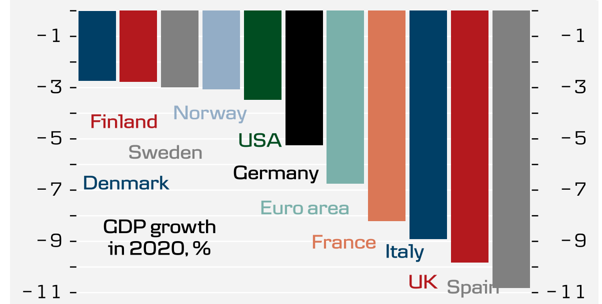


Source: Macrobond Financial

Nordics doing relatively well

The crisis has hurt the Nordic economies significantly, but the decline has been significantly smaller than elsewhere in Europe. The Nordics have relatively small hospitality industries and, with the exception of Denmark, are normally large net importers of tourism services, meaning that travel restrictions are not so negative for them. There are significant differences in business structure and lockdown policies, but the performance in the Nordics is remarkably similar. One common factor in the policy response has been a strong focus on keeping unrestricted businesses such as manufacturing and construction running, for example by avoiding curfews and stay at home orders.

Nordics less bad

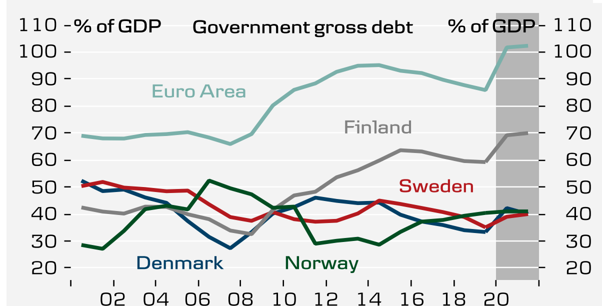


Note: based on quarterly seasonally adjusted values. Source: Macrobond Financial

Policy response supportive

The Nordic governments have loosened the purse strings to help their people and businesses through the crisis. The milder recession means that the government cost has been smaller than elsewhere and mostly also smaller than anticipated, and there is no urgent need to restore public finances – although Finland still faces a longer-term challenge. Monetary policy has also been loosened, especially in Norway which started the crisis with positive rates that could be cut. Norway is also likely to be one of the first countries to hike rates again this year, while a weak inflation outlook is expected to keep rates in check in Sweden and the euro area, and Denmark is actually likely to see a small rate cut.

Public finances still strong



Source: Macrobond Financial, Danske Bank

Denmark

Now for the turnaround

- **The outlook is for a strong upswing as the lockdown is eased in the coming months.**
- **However, we do not expect unemployment to fall to pre-corona levels until sometime in 2022.**
- **Consumers are on average very well cushioned after a year of involuntary spending restraint.**
- **Goods exports appear to be bouncing back but a return to normality looks further off for tourism.**
- **We expect the strong pace of appreciation in house prices to slow when the reopening shifts consumption back towards services.**

Quick but partial upswing

Corona restrictions have hit the Danish economy hard in the opening months of 2021 and likely caused a pronounced decline in GDP, also compared to the other Nordic countries. On the other hand, Denmark has a reopening plan that involves gradually increasing levels of activity over the next two months, allowing the economy to return to almost normal. If the plan holds and is not slowed by new corona outbreaks or vaccine shortages, a significant upswing should ensue, especially in Q2. The underlying trend in the Danish economy is strongly up, but this is being overshadowed by the lockdown. As the lockdown is lifted, we expect to see a ketchup-bottle effect, supported by the strong purchasing power of households and by a growing global economy. Yet the ketchup bottle image is not the full story, as we do not expect the economy to completely recover until sometime in 2022. Remaining restrictions on travel, in particular, will likely affect the economy for some time to come, plus a period of adjustment will be required before all the jobs that disappeared are replaced by new ones. Our expectations are based on both our experience of the reopening last year and the experience of other countries, but we are nonetheless in a novel situation. The upswing could potentially be very strong and swift if the accumulated consumption need is released all at once. On the other hand, a deterioration in the pandemic situation could once again put a brake on progress.

More bankruptcies on the way

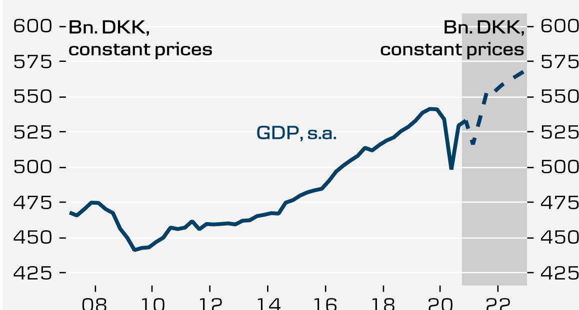
While 2020 was the next-worst year ever in terms of GDP growth, we have not seen an increase in the number of bankruptcies. Companies were generally well cushioned ahead of the crisis and the low level of interest rates has kept costs down for companies with large debts. The compensation schemes and the option of postponing tax payments have naturally also played a major role. We estimate postponed taxes and VAT amounted to around DKK45bn at the start of this year. The government has made new loan schemes available whereby companies can borrow both this money and part of this year's tax payments, with the loans expiring in 2022-2023. Total corporate bank deposits have grown by more than DKK40bn since pre-corona days, but we nevertheless expect to see an increasing number of bankruptcies when the postponed taxes and loans fall due. The impact of the crisis is very unevenly spread across the various sectors, with restaurants, hotels and the travel industry among the

Changes relative to previous forecast

Denmark	Current forecast		Previous forecast	
% y/y	2021	2022	2021	2022
GDP	3.0	3.4	2.3	3.4
Private consumption	2.5	4.0	3.0	3.6
Public consumption	1.5	-0.3	1.6	0.4
Gross fixed investment	4.4	3.5	3.1	3.8
Exports	5.1	6.8	3.6	7.2
Imports	5.7	5.9	4.7	6.4
Gross unemployment (thousands)	129.9	112.4	131.8	107.8
Inflation	0.9	1.2	0.8	1.2
Government balance, % of GDP	-2.5	-1.0	-1.9	-1.2
Current account, % of GDP	7.9	8.2	6.9	7.7

Source: Danske Bank

Modest growth in 2021 conceals strong progress from Q2



Sources: Statistics Denmark, Macrobond Financial, Danske Bank

hardest hit. Hence, the outlook is not for a general wave of bankruptcies, but many companies in the most affected sectors risk problems.

Danish investment still solid

Investment in machinery and transport, in particular, stalled last year when the industrial sector across much of Europe went into lockdown. However, the mix of industries in Denmark, with its large pharmaceutical sector, helped keep investment relatively buoyant, as investments were still made in, for example, intellectual property. Industry's investment plans are once again pointing up, as they did prior to the crisis, while capacity utilisation is also back at pre-crisis levels. We expect to see a gradual recovery in business investment as the economy picks up.

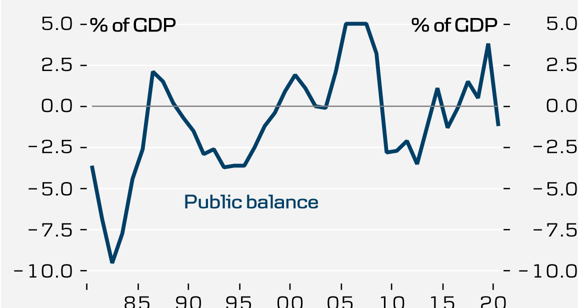
Government deficit considerably less than expected

Preliminary figures put the government deficit in 2020 at DKK26.7bn or 1.2% of GDP. This has to be seen against the Ministry of Finance expecting a deficit of DKK160bn in May and DKK81bn as recently as December. We were more optimistic but nonetheless very positively surprised. One principal explanation was the so-called PAL or pension return tax, which brought in DKK48bn, along with more positive than expected developments in the labour market and among companies. Utilisation of the relief packages has also been much less than anticipated in earlier forecasts. Payouts of the hitherto frozen holiday allowance also added additional tax revenues of around DKK20bn to the books in 2020. However, it was the government itself that had to finance the payouts and then claim the money back from companies over a good many years, so both the holiday allowance and general liquidity help to companies contributed to government debt rising significantly more than the deficit. Relief packages and increased unemployment will contribute to the deficit this year, while holiday allowance payouts are to be repeated and much of the liquidity help will continue. Whether discussing debt or the deficit, the scale of these is far from problematic in Denmark.

Labour market pulls through

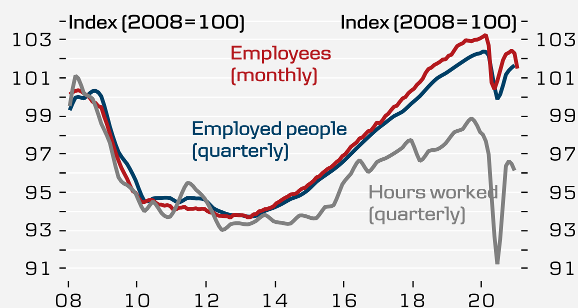
The corona crisis cost 70,000 jobs in H1 2020, yet more than 50,000 had already been recovered by Q4. That is a decidedly speedier turnaround than following previous crises and gives us hope of renewed vigour in the time ahead. The December lockdown resulted in 21,600 fewer wage-earners in January. Workers covered by wage compensation (furlough) schemes are counted in the figures as employed, and our experience from last year indicates that the vast majority of those on wage compensation will return to work. We expect to see marked growth in employment in the coming months, though quite a number of jobs have probably disappeared more long term and will have to be replaced by new ones. We do not expect unemployment to decline to the pre-corona level of just over 100,000 until sometime in 2022. The crisis was also reflected in wage growth in Q2 2020, when annual rates of increase fell from 2.5% to 1.9%. However, wage growth surged again as early as H2, pulled higher by solid pay increases in the construction sector, for example, which is why we have also revised our own estimates higher for 2021.

Deficit limited in historical terms



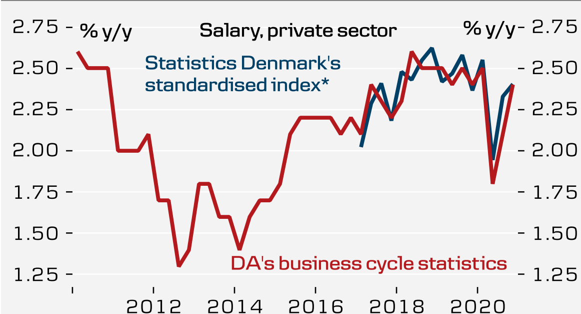
Sources: DØRS and Statistics Denmark

Lockdown prompts a deep decline and speedy recovery



Sources: Macrobond Financial, Statistics Denmark

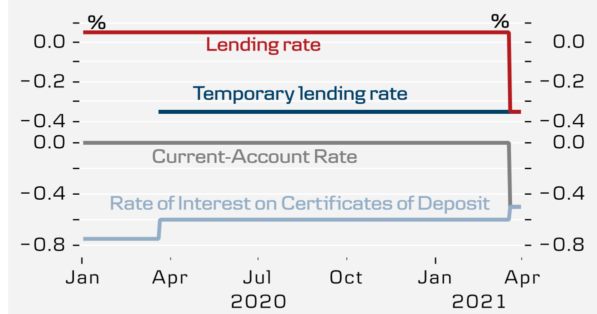
Wages briefly hit by crisis



**basis for our forecast. Sources: Statistics Denmark, DA, Macrobond Financial*

Danmarks Nationalbank has both raised and lowered interest rates

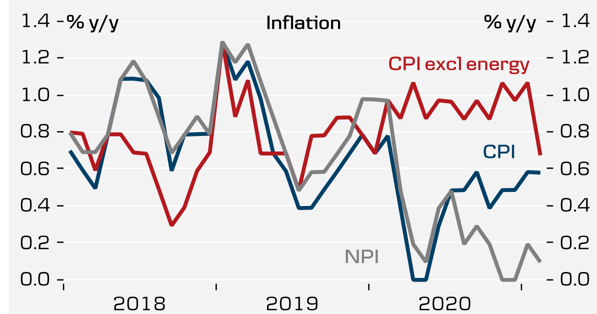
The certificates of deposit rate has long been the benchmark rate of Danmarks Nationalbank and was raised in March 2021 from -0.6% to -0.5%. However, this was not a real interest rate hike, as the banks at the same time lost the option of placing a limited, so-called current account deposit at 0% with the central bank. Meanwhile, the temporary lending facility at -0.35% was made permanent, so that going forward the spread between these two rates will come to set the tone in the Danish money market, which we expect will result in less volatility than in the old system. The Danish krone (DKK) is roughly on the limit of what Danmarks Nationalbank normally accepts in terms of strength against the euro (EUR), and we expect this will lead to more intervention to sell DKK and probably also an actual rate cut of 0.1 percentage points in the coming months. Bond yields in Denmark have risen alongside those in the rest of Europe. We expect further modest increases could be on the cards later in the year, with the result that a 1.5% loan at some point becomes the standard 30-year mortgage credit loan.



Sources: Danmarks Nationalbank and Macrobond Financial

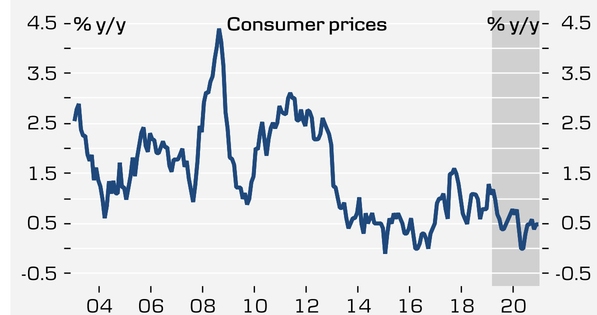
New consumption patterns and sales result in low inflation

As cheap cigarettes disappeared completely from shelves in the final months of 2020, inflation stabilised at around 0.5%. Moreover, non-smokers experienced roughly unchanged prices over the past year. Car owners have been able to save on fuel prices, and there have been sales in home furnishings.



Note: Net price inflation is consumer price inflation excl. duties.
Sources: Statistics Denmark, Danske Bank, Macrobond Financial

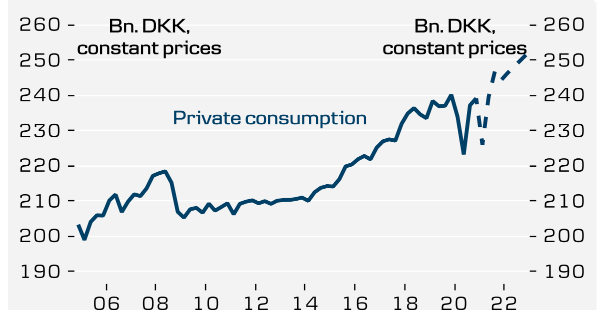
Inflation will likely be heading a little higher this year on the back of more expensive prices at the pumps and slightly higher rent increases, especially for social housing. Inflation is otherwise subject to considerable noise here in 2021, as consumption patterns changed dramatically last year. More specifically, this means that tourism services, for example, such as package holidays and flight tickets, will be much more modestly weighted and so tend to pull inflation lower over the year because seasonal price increases suddenly weigh much less. The normal seasonal pattern has also been put on hold in clothing shops. We expect the summer sales to arrive early this year once the reopening of the economy gains more traction in the spring. However, if this is not the case, the spring could see the highest rate of inflation in more than three years. We expect inflation to come in at 0.9% in 2021 and rise to 1.2% next year as the economy returns to normal. Tobacco prices are set to rise again, but only by a third of the increase seen last year.



Sources: Danske Bank, Statistics Denmark, Macrobond Financial

Consumption boom on the cards when country reopens

Private consumption has had an extremely poor start to 2021, with lockdowns affecting the retail trade, a number of service industries and the travel sector. While the broader dip in consumption has not been as deep as at the end of March/start of April last year, it has been more prolonged and so has seriously reduced consumption. Very weak car sales, pulled lower by both lockdown and revisions to car taxes, have also contributed to the downturn in consumption at the start of the year.



Sources: Statistics Denmark, own calculations, Macrobond Financial

However, while the start of the year looks very weak for consumption, we expect a sharp rise in the spring. The retail sector reopening will very likely push consumption above the norm. The subsequent reopening of restaurants and cultural venues should also provide a noticeable boost, even though they

will initially be subject to substantial restrictions, including a vaccine passport. We expect the economy to receive additional uplift over the summer from a full return to business for the service sector, which is yet to return to full capacity in many areas. Should restrictions on opening hours and distancing be lifted in the wake of a complete vaccine rollout. We would expect to see a much stronger upswing in the affected industries than what we saw last summer.

Danes have the prerequisites in place for spending when society reopens again. In 2020 alone, Danish savings grew by DKK 26 bn, and with more than DKK20bn expected in further payouts from the hitherto frozen holiday allowance, the potential is there for a strong recovery in consumption. A gradual recovery in the consumption ratio – share of income spent on consumption – will likewise tend to lift consumption growth in 2022.

Very rapid house price appreciation expected to slow

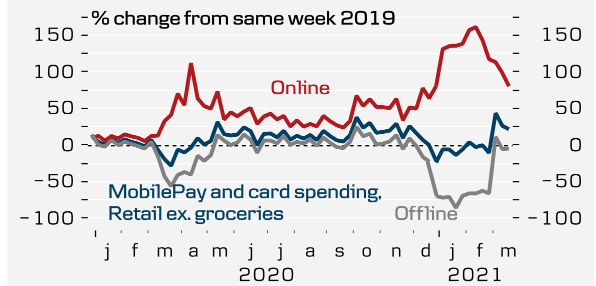
The housing market is currently red-hot. Prices are continuing to rise, supply is very limited and sales activity high. Several factors help explain the strong housing market. First, we have all spent much more time at home in the past year, and this has increasingly caused Danes to reflect on whether their current home meets their needs and wishes. Moreover, a lot of Danes in the segment that typically buys their own home have in many cases had more money in their pockets, as consumption of holidays and leisure activities, for example, has fallen drastically. This has freed up funds with which to prioritise housing.

We expect house prices to appreciate by 11.5% in 2021. However, this dramatic increase conceals relatively modest growth in H2, whereas the strong starting point in 2020 and early 2021 will tend to pull the average growth rate substantially higher. We expect rising interest rates and a gradual return to more normal patterns of consumption to put a damper on price increases in H2 2021 and into 2022.

Several measures have been implemented in recent years with a view to mitigating the impact of very low interest rates on house prices. Tightening the limits on how large a debt-to-income ratio homeowners may have has slowed price appreciation since 2018 and ensured that – in contrast to the overheating ahead of the financial crisis – strong credit growth has not been the driver of increasing prices. Measures that limit the impact of falling interest rates also limit the impact of higher interest rates, particularly in the more expensive areas, where limits on levels of indebtedness have had the greatest significance. For this reason, among others, we more expect to see slower price appreciation as a result of gradually rising interest rates rather than actual price falls.

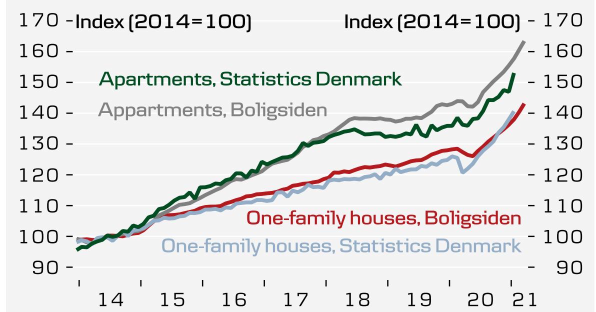
The longer prices continue to increase as rapidly as they are doing now, the greater the risk of a sudden correction in the housing market – even in the absence of a decided bubble in the form of expectations- or credit-driven price increases. A strong rise in interest rates or a far quicker return to old patterns of consumption than we anticipate could, at worst, provoke a hard rather than a soft landing for the housing market. Moreover, the imminent reform of housing taxes and new property valuations constitute a significant uncertainty factor here. At present, the plan is for the new property valuations to be rolled out from summer 2021 and the tax reform to come into force in 2024, but there is a great deal of uncertainty about whether this time schedule will be adhered to. Publication of the new valuations could in itself prompt a price fall in those areas where prices have risen sharply in recent years. However, at a national

Partial reopening has boosted retail trade



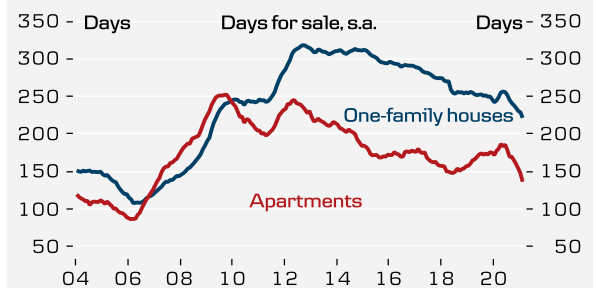
Source: Danske Bank

House prices quickly rebounded and continue to climb



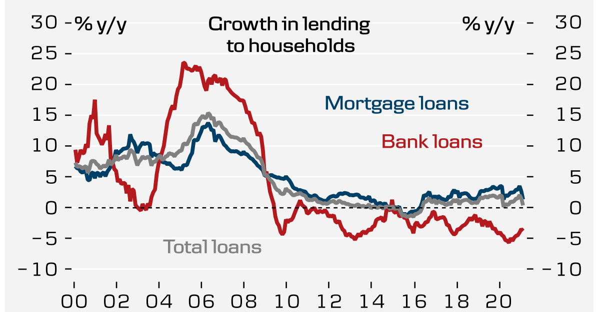
Note: Own seasonal correction
Sources: Statistics Denmark, 'Boligsiden' and Macrobond Financial

Homes being sold ever more quickly



Sources: Finance Denmark and Macrobond Financial

Lending growth remains modest



Sources: Danmarks Nationalbank, Macrobond Financial and own calculations

level, neither the reforms nor the new valuations should cause any significant upsets.

Exports ready to resurge

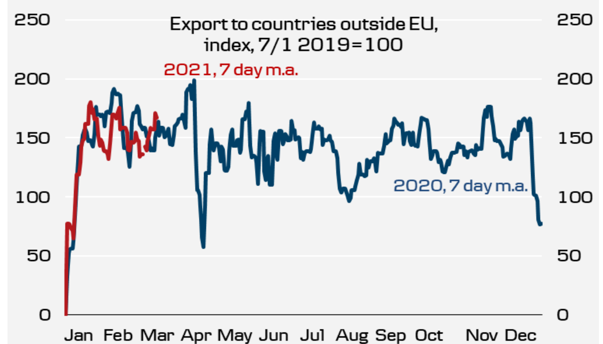
Goods exports got off to a fine start in the new year after 2020 was registered as the next-worst year since 1966, exceeded only by the financial crisis. The upswing in global industry appears to be having a significant knock-on effect on Denmark, where cyclically sensitive exports, such as machinery, have performed very well of late. The UK and Sweden in particular, where investment has rebounded handsomely, have been big buyers of Danish machinery. Hence, the pharmaceutical and food industries are no longer the primary force keeping exports on track. In contrast, exports to countries outside the EU, particularly to the US, have looked weak in February-March, presumably reflecting a drop in pharmaceutical sales. However, some of the decline could also be due to a weaker dollar (USD).

While goods exports are almost back to pre-corona levels, service exports remain far behind. This is almost entirely due to the shutting down of the tourism industry and the lack of air traffic. The development has benefited both the export of business services, which are mainly sold to Denmark's close neighbours, and shipping, which has experienced strong growth as a result of the substitution of consumption of services with consumption of goods at a global level.

The prerequisites for growth in 2021 are in place for Danish exports, as key export markets are extremely active. Nevertheless, company expectations for export orders are modest, and the strong performance by export markets is being offset a little by a relatively strong DKK and major pay rises in Denmark in Q4 that are producing some headwinds with regards to competitiveness. A reopening of the western economies, when the season and vaccine rollout permit, will likely cap the increasing demand for goods as domestic services like restaurant visits and cultural activities again become components of the consumption basket. However, the experience of New Zealand was that demand for goods remained elevated after reopening – perhaps because travel was still severely restricted. As the opportunity to travel is, presumably very gradually, opened up, service exports will receive a boost, while growth in goods exports will probably become a little more subdued. However, consumer durables constitute just a small part of Danish goods exports, while wind turbines and necessities like food and medicine account for a relatively large share. Hence, goods exports should be relatively robust to a return to more normal patterns of consumption.

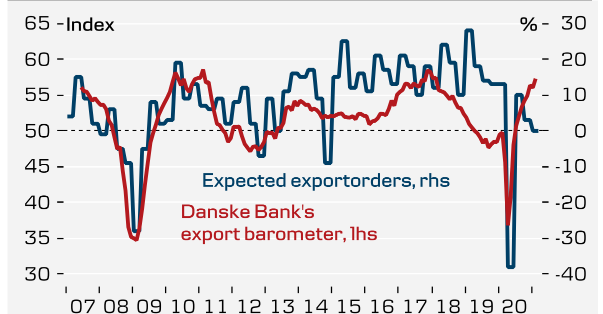
Danes were able to maintain high levels of goods consumption throughout the crisis, not least due to substantial online consumption of imported goods. Investment has also fallen considerably less than in many other countries, as can be seen in goods imports, which returned to pre-crisis levels in Q4. This has left its mark on the balance of goods surplus, which declined in 2020. The balance of goods will be supported this year by the above-mentioned mix of industries among Danish exporters, plus we are expecting a more modest increase in imports when consumers shift more towards domestically produced services. At the same time, the balance of services will get a boost from the substantial increase in activity at shipping firms due to the huge demand for goods, which also resulted in a sharp rise in freight rates at the start of the year and so will increase earnings here.

Exports to outside the EU appeared a little weak in Q1



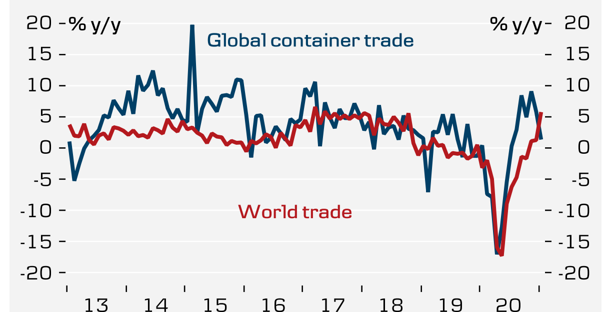
Sources: Statistics Denmark, Danske Bank

Full speed ahead in Denmark's export markets but new order expectations modest



Note: Index 50 delineates between growth and contraction, see our Export Barometer. RH axis indicates difference in percentage points of companies expecting more orders relative to how many expect fewer. Source: Danske Bank, IHS Markit, Statistics Denmark, Macrobond Financial

Surge in goods consumption means busy times for shipping firms



Sources: CPB Netherlands Bureau for Economic Policy Analysis, CTS, Macrobond Financial

At a glance

National account	2020	2020	2021	2022	
			Forecast		
	DKK bn (current prices)	% y/y			
Private consumption	1026.3	-2.0	2.5	4.0	
Government consumption	575.7	-0.1	1.5	-0.3	
Gross fixed investment	527.5	2.1	4.4	3.5	
- Business investment	319.3	-1.2	1.7	4.8	
- Housing investment	124.1	6.9	8.6	2.6	
- Government investment	84.1	8.3	8.6	0.2	
Growth contribution from inventories		-0.2	-0.3	0.0	
Exports	1262.8	-7.7	5.1	6.8	
- Goods exports	773.5	-2.4	7.1	4.1	
- Service exports	489.4	-12.4	1.9	11.3	
Imports	1112.0	-4.8	5.7	5.9	
- Goods imports	674.3	-0.8	8.4	4.3	
- Service imports	437.8	-10.4	1.6	8.5	
GDP	2323.7	-2.7	3.0	3.4	
Economic indicators		**2020**	**2021**	**2022**	
Current account, DKK bn		181.2	190.5	207.8	
- % of GDP		7.8	7.9	8.2	
General government balance, DKK bn		-26.7	-60.0	-25.0	
- % of GDP		-1.1	-2.5	-1.0	
General government debt, DKK bn		981.3	965.0	950.0	
- % of GDP		42.2	40.0	37.6	
Employment (annual average, thousands)		2981.2	3009.0	3057.2	
Gross unemployment (annual average, thousands)		132.4	129.9	112.4	
- % of total work force (DST definition)		4.6	4.6	4.0	
Oil price - USD/barrel (annual average)		42	38	50	
House prices, % y/y		4.3	11.5	2.5	
Private sector wage level, % y/y		2.3	2.2	2.2	
Consumer prices, % y/y		0.4	0.9	1.2	
Financial figures		**06-04-2021**	**+3 mths**	**+6 mths**	**+12 mths**
Lending rate, % p.a.		-0.35	-0.45	-0.45	-0.45
Current account rate, % p.a.		-0.50	-0.60	-0.60	-0.60

Source: Statistics Denmark, Danmarks Nationalbank, Macrobond Financial, Danske Bank

Sweden

Improving outlook, temporary headwind

- **Several real indicators suggest a good economic start to 2021. However, supply disruptions is likely to temporarily weigh on manufacturing and exports in Q2 before the pandemic eases and the recovery takes hold in earnest.**
- **Property prices have spiked during the pandemic. Although we doubt that this rate of price increase can continue, it is still difficult to imagine property prices turning lower from here onwards as fundamentals remain favourable.**
- **Businesses hiring plans have recovered surprisingly well indicating a demand for labour in the near future. As soon as the virus situation improves and restrictions can be eased, some pent-up demand is expected to rise, which we expect will benefit especially service sector consumption.**
- **Higher inflation is expected in the near term, but the long term outlook remains depressed. Higher probability for a Riksbank rate cut but base case remains an unchanged repo rate for several years.**
- **Large budget deficit is expected but the "better-than-expected-trend" has continued also in the beginning of 2021 due to economy has performed better than expected. In an international perspective Sweden continues to have strong public finances.**

Good start to Q1, but short-term recovery risks are rising

Compared to its Nordic peers Swedish GDP developments up to Q4 2020 lagged that of Norway and Finland while being slightly ahead of Denmark. Sweden had a bigger jump in Q3 GDP but was alone with a negative growth reading in Q4.

That said, Q1 2021 has started on a positive note, with the consumption and activity indicators in January well above the Q4 level. January production was just marginally in positive territory as private services still remained a drag on growth. The LFS survey, very uncertain though as Sweden had adhered to EU definitions, is the single of these indicators which has two readings, i.e. both January and February. Hours worked appear to suggest a decent increase over the Q4 average. Hence, all of these indicators have a positive message.

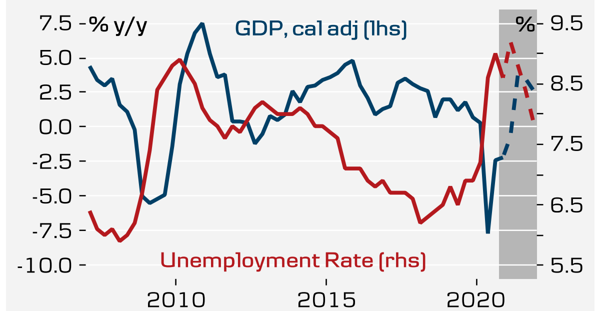
Given the back-drop of unprecedented global fiscal and monetary stimulus and Covid19 vaccination being rolled out, it is almost impossible to expect anything but a healthy recovery for a small open export-oriented economy as Sweden.

Changes relative to previous forecast

Sweden	Current forecast		Previous forecast	
% y/y	2021	2022	2021	2022
GDP, calendar adjusted	3.4	3.3	3.3	2.6
Private consumption	3.2	4.2	3.8	3.0
Public consumption	1.6	1.5	2.4	1.5
Gross fixed investment	3.6	3.2	4.1	2.7
Exports	7.5	4.1	6.9	3.9
Imports	7.3	4.1	7.6	3.9
			0.0	0.0
Unemployment rate	8.5	7.3	8.3	7.3
Inflation	1.2	0.8	1.2	0.8
Government balance, % of GDP	-1.7	-0.4	-2.8	-1.0
Current account, % of GDP	5.1	5.1	5.1	5.1

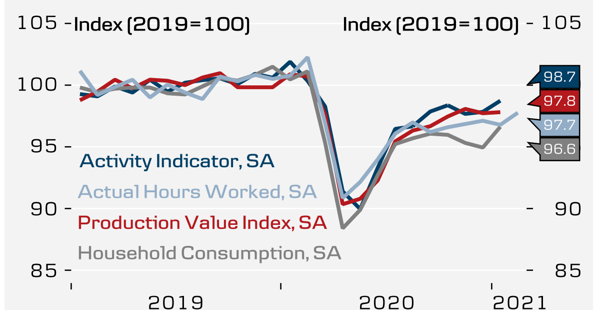
Source: Danske Bank

Labour market gradually improving



Source: Statistics Sweden, Danske Bank, Macrobond

Start of the year looks OK



Source: Statistics Sweden

But clouds have been mounting recently. One is that Corona cases have entered a third wave in Sweden, possibly less amplified than the two previous but that remains to be seen. Vaccination in Sweden is slower than anticipated. The prime concern, however, is that manufacturing, or at least part of it, is experiencing supply disruptions in the form of a lack of semiconductors (hitting vehicle producers) which has caused a standstill at some factories that is expected to linger on for weeks. On top of this, the dislocation of containers between China and Europe implies a wider supply risk which may not only affect manufacturing but also other sectors such as trade. These factors may very well affect the pace of recovery in the short-term, but are temporary by nature. There are also signals that demand is fading as seen in PMI new orders and nit least NIER's March confidence survey (special question. Hence, there is a fairly high probability for a temporary set-back in Q2 manufacturing and exports also showing up in GDP.

The leisure and entertainment industries remain depressed as Sweden is currently encountering a rapid increase in Covid19 cases again and tight restrictions remain in place at least until early May. Despite that, however, there is a positive development in consumption and retail sales in the first two months of 2021 implying other parts of consumption is performing well. As mentioned above, it remains to be seen whether the container problem will cause a set-back or not.

Favourable outlook for property prices, but gains will slow

Price developments during the pandemic has been a big positive surprise. Since December 2019, just a few months before the pandemic broke out, the HOX property price index has risen by 17 %. This figure, however, hides that fact that it is houses (+22%) rather than flats (+9%) that have been in demand. And mostly so in Malmoe and Stockholm.

The underlying rationale of this is of course that Covid19 has caused a mega-trend, a demand for bigger spaces needed to work from home. To help support

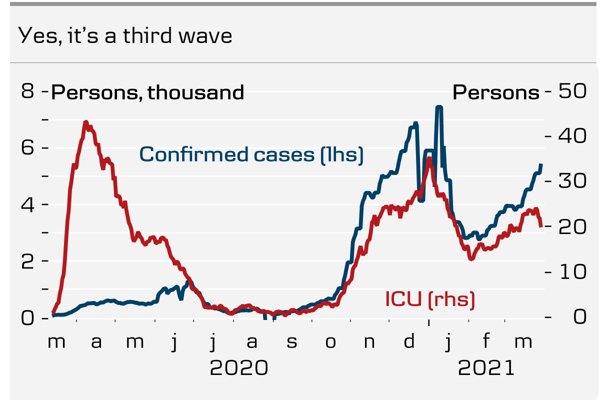
home-owners, the FSA temporarily freezed the mandatory amortization requirement for a year (until August 2021), which boosted restricted households cashflow significantly. The market was further bolstered by the government's measures to keep the labour market afloat by f.i. the short-week furlough scheme and Riksbank's QE-programs aimed at securing credit supply.

This combination caused a surge in the sales ratio, especially for houses which rose to a record high and now matches that of flats. Real estate transactions, of course, has soared too in line with overall price gains (but note flats transactions are the highest).

A less positive, but unavoidable consequence, is that both the debt and the LTV-ratios have increased from historical high levels. On the other hand, a rising household savings ratio (at a record 19.3 % in Q4 2020) has also raised household deposits at banks to a record high 18.5 % of lending. In fact, household net financial wealth (i.e. incl. debt) was twice as high as overll lending to households.

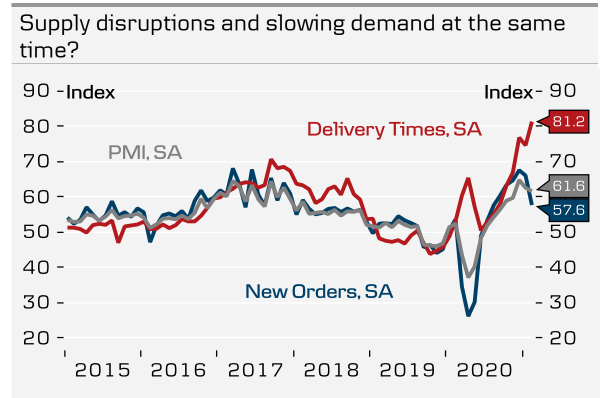
Simultaneously, credit growth has been rising gradually in both percentage and absolute terms, with credit to houses leading the way. Credit to non-financial associations has been stable while unsecured credit growth is significantly weaker.

Yes, it's a third wave



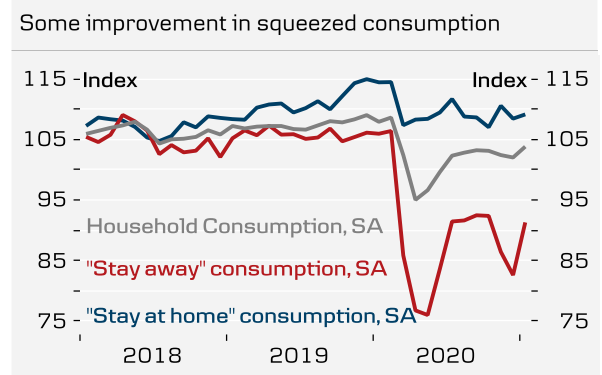
Source: Public Health Agency of Sweden

Supply disruptions and slowing demand at the same time?



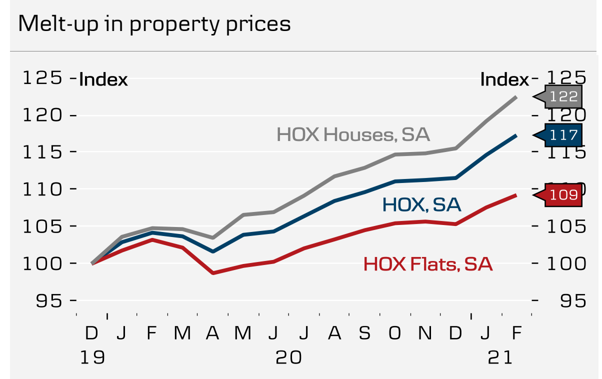
Source: Swedbank

Some improvement in squeezed consumption



Source: Folkhälsomyndigheten

Melt-up in property prices



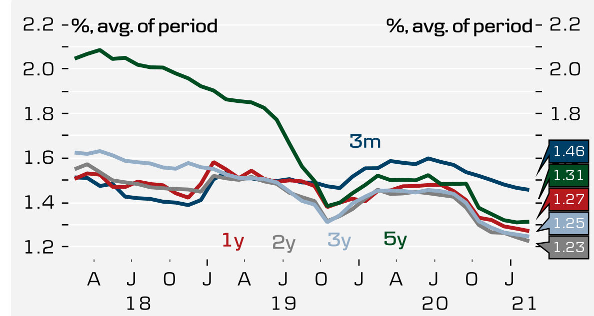
Source: Valueguard, seasonal adjustment by Danske Bank

So, what does these facts suggest for the outlook in 2021? Well, despite the tremendous run in prices thus far it is still very hard to imagine property prices turning lower from here onwards. That could probably happen IF there was a significant rise in inflation triggering Riksbank rate hikes or if the government re-introduced a property tax or abolished the interest tax deduction.

However, as explained elsewhere it seems more likely that Riksbank will cut the repo rate rather than raise it in coming years. Currently, a 3m mortgage rate is still about 25 bp higher than fixed rates in the 1-5y segment. That situation has caused many home-owners to shift from floating to fixed rates since late 2018. And although the recent sell-off in US bond yields has spilled over to Swedish long-dated government and covered bond yields, this has had no impact at all on 1-5y mortgage lending rates.

As the economy gathers pace and recover, employment and household income should too.

Mortgage rates are low and unlikely to rise soon

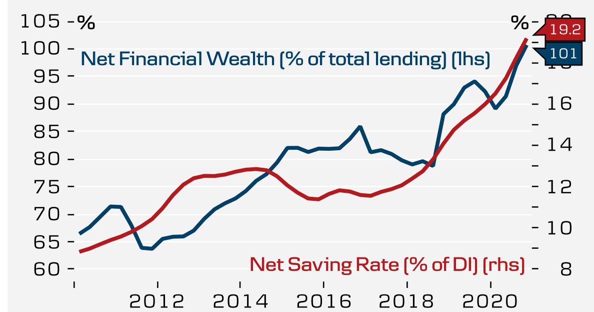


Source: Macrobond, Danske calculations

Labour market gradually improving

Moving to the labour market, recent developments have been sideways, but some flashes of light are visible with continued increase of vacancies and encouraging weekly statistic together with rising working hours in February. The fact that there has been no new concern is a sign of strength in view of both a 2nd and a 3rd wave of Covid-19, which has forced the government to impose further restrictions. An explanation for this can probably be attributed to the extended more generous short-time work schemes, which has stabilized the labour market. Another explanation is that unemployment is at its highest in the sectors that have been hardest hit by the restrictions (hotels, restaurants, culture, transport, recreation and certain parts of the retail trade), while the manufacturing and the business-related services have recovered well, workers have been able to return to work, which can be seen in the reduced number of employers being furloughed. The NIER survey, shows that business hiring plans have recovered surprisingly well, even in the most severely affected sectors. The index is still in contraction, but a strong recovery from November has taken place. While the hiring plans for the rest of the industry increases, suggesting a demand for workers in the near term. As soon as the virus situation improves and restrictions can be eased, a pent-up demand is expected, which we expect will benefit especially the service sector consumption, indicating higher demand for workers for also these sectors. This would suggest decreasing unemployment rate in the next six months. However, there is a risk involved, a so called delayed bankruptcy effect. Bankruptcies rose sharply in March through May, which also left its marks on redundancy notices. When support measures came into place, however, bankruptcies fell sharply again, leaving the entire year 2020 at a normal level in terms of bankruptcies, i.e. no trace of the pandemic. The explanation for this is probably the support measures that came into place, which were of course extremely important, but there is also a risk that many companies that, regardless of the pandemic, would not survive, that these are kept under arms (cf 'zombie companies'). When the support measures are phased out, there is thus a risk that the bankruptcies rise again, which may have an impact on the labour market. Our overall picture for the labour market, however, is that it proved extremely robust during the entire pandemic. The fact that new vacancies are rising also confirms the picture that the demand for labour is there.

Solid household indicators



Source: Macrobond, Danske calculations

Businesses hiring plans according to NIER

Source: SCB, Macrobond

Inflation is close to peak, prepare for a slowdown

Covid19 has indeed had a major impact on consumers spending preferences, with less visits at hotels and restaurants, less cultural activities, less travelling and less expenses on clothing. Instead, there has been a boost in food at home, fixing the apartment, buying some new furniture and surfing a lot more on the internet as working from home has become a necessity.

Over the short-term, up to April, we expect inflation to rise further. This is mainly a base effect from electricity (about 50%), but also from fuel (25%) and ex. Energy components such as clothing, transportation and broadband (25%). Hence, energy played a crucial role driving inflation higher over the past year.

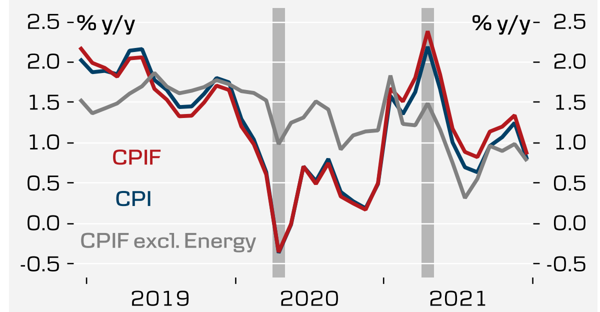
However, most of that effect is probably behind us now, the question at hand is rather how fast can consumers return to the previous pattern? Supposedly, as vaccination rolls out and the third wave slows, consumer behaviour will return to a pre-Covid19 state. To be sure, as demand returns in Covid19-hit sectors, where capacity may have been destroyed, there is a possibility for increasing price pressures as pent-up demand is unleashed. The other side of that coin, however, as laid out above, is that there could be a possibly offsetting decreasing price pressure on the sectors that benefitted from Covid19. Exactly how quick this process will be is impossible to know, but one can suspect that it will at least revert back in 2021.

Looking beyond the short-term, nothing much has changed from before the pandemic. Inflation fundamentals are very dire. Wage pressures are set to remain low for the remaining two years of the postponed 3-year central deal that was struck in October 2020 at a record low of 1.8 % per year. We expect only marginal wage drift on top of this in the coming years, meaning that domestic inflation excluding electricity prices will slow down. In essence, this is another way of saying that the Phillips curve is flat, decoupling labour market performance from wage developments.

The second most important inflation determinant is import prices (excluding vehicle fuel). And these in turn are to a large extent the result of SEK fluctuations. Imported consumer goods prices at the producer level is closely correlated to the KIX index. In year-over-year terms, both these variables has fall by at the fastest pace since 2012, PPI consumer import printing -4.2 % yoy and KIX -7.8 %yoy, suggesting a strong negative impact on import prices in CPI (excl. energy) within some six to nine months. To be sure, since the turn of the year the SEK has been weakening 2.6 % KIX-weighted and 6 % vs the USD. Looking forward we do expect some further weakening in 2021, but most of it is already done. And that will not be enough to change the negative impact on CPI import prices this year.

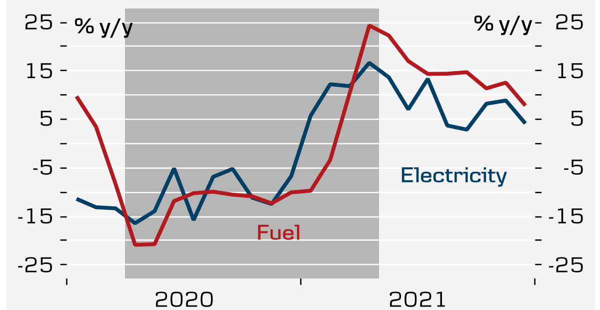
To sum up, these inflation fundamentals implies a gradual deterioration of inflationary pressures going forward.

All three inflation measures set to peak in April



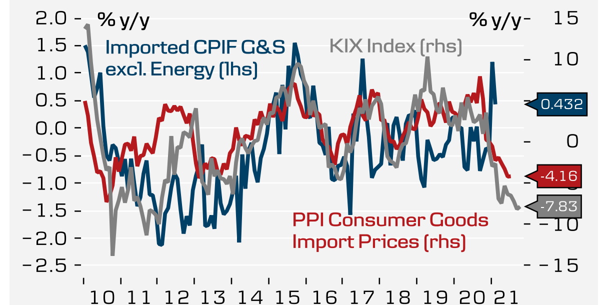
Source: SCB, Danske Bank forecasts

Energy is the prime driver of the April to April swing



Source: SCB,

KIX and PPI suggest pending plunge in imported inflation



Source: SCB, Riksbank

Riksbank on hold, risks tilted towards a rate cut

Since the outbreak of the coronavirus in early spring, the Riksbank has made it clear that the balance sheet is the primary monetary policy tool and refrained from moving back to a negative policy rate. It has clearly explained that as the economic contraction in Q2 (and a probable slow-down in 2020 Q4-2021 Q1) is due to the pandemic (fear factor), a rate cut is not an efficient way to stimulate demand.

However, the Riksbank has verbally kept the door open for a rate cut both in Minutes and speeches. In the February MPR, five members (all except Ohlsson) discussed a rate cut. A rate cut is currently not our base case but the probability has increased in our view (we assess a 20-30% probability) and a cut could come into play under certain circumstances:

Inflation expectations derailing, f.i. five-year expectations breaching below 1.5% would probably make board members uncomfortable. This could happen if a) the inflation outlook deteriorates, noting that we expect a weaker outlook than Riksbank or that b) SEK appreciates further. The fact that both KIX and PPI consumer import prices have fallen the most since 2012 should make the Riksbank worried.

The above scenario suggests that a rate cut can perhaps come back into play late in 2021 or in 2022, especially if our inflation forecast materializes as base effects fade out.

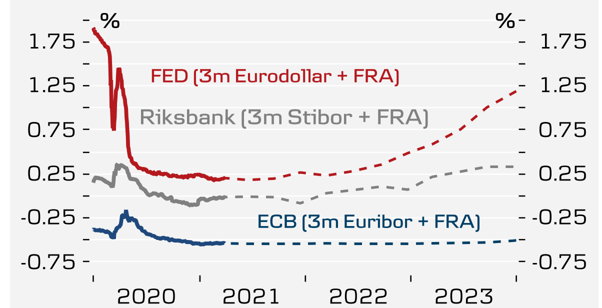
In terms of the Riksbank, the market is pricing in more than a 25bp hike by Q2 2023 and (close to) 50bp by the end of the Riksbank forecast horizon (Q1 2024). The odd thing this time – contrary to what history suggests – is that Riksbank is expected to follow the Fed's path, at least until mid-2023, while the ECB in that timeframe is expected to do pretty much nothing.

While it is easy to understand why the market is pricing in earlier Fed hikes than the DOTS imply considering the extensive fiscal packages (Covid19 rescue and infrastructure) already decided or under negotiation in US Congress, it is much harder to see the rationale in Sweden where new fiscal policy measures announced this year amounts to a tiny SEK64bn, or less than 1.5% of GDP.

Inflation expectations probably play a role and market-based inflation expectations are higher in Sweden than in the Eurozone. But, after all, 5Y (generic) Swedish BEI implies an average inflation rate over the next five years of some 1.6%, which we don't see as a strong case for early hikes.

Riksbank pricing should also be evaluated against the fact that the Riksbank, despite a stronger economic performance than expected, is in the camp of allowing inflation to overshoot by 2% for a period without a policy response and several board members are more inclined to consider a pro-cyclical rate cut.

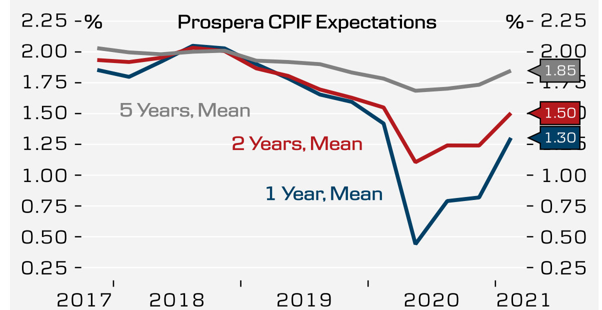
Too much being priced on Riksbank



Note: Past performance is not a reliable indicator of current or future results.

Source: SCB, Riksbank,

A drop toward 1.5 % in 5y inflation expectations is a possible rate cut trigger



Source: SCB, Riksbank,

The Riksbank balance sheet is growing massively with QE (and also FX reserve financing). The Riksbank has capped certificate volumes at SEK380bn, forcing excess liquidity into the deposit facility. Given the current volumes in the deposit facility, the deposit rate at policy rate -10bp is to be considered the 'true' policy rate for market pricing. In our view, 3m Stibor is likely to remain in negative territory around -2 to -5bp.

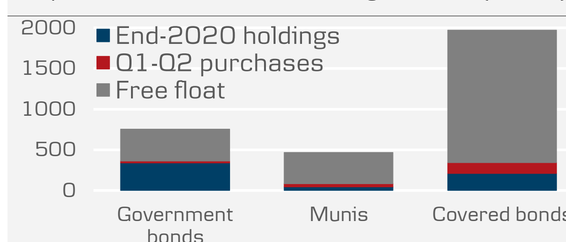
In February, the Riksbank once again decided to front-load QE purchases, and total purchases will amount to SEK100bn during Q2 (down from SEK120bn in Q1). Given that the total QE envelope during 2021 is unchanged, this means that the implied pace of QE purchases during Q3 and Q4 will decline (on average SEK 72bn/qtr). Assuming a similar composition for H2 and an unchanged envelope gives a forecast of around SEK40-45bn in SGBs (incl linkers and green) and around SEK215bn in covered bonds for the full year. Compared to net issuance, this gives a positive net supply in SGBs around SEK80bn, and negative net supply in covered bonds around SEK160bn. These are dominating forces in 2021. The portfolio will then be rolled during 2022. Current holdings suggest a quarterly re-investment pace around SEK32.5bn. In 2024, Riksbank aims to reduce portfolio holdings gradually as bonds mature.

Strong public finances despite Covid-19

The government has been clear that there is no question of holding back, and the economic policy has been very expansive throughout the crisis. Due to extended restrictions, extra amending budgets have been presented by the government by current amount to SEK63bn during 2021 (1-1.5% of GDP). The main focus through the crisis has been to provide firms support for fixed costs and the perhaps most important support, the short-term working scheme. However, despite the 3rd wave of Covid-19 infections which have resulted in stricter restrictions, the budget balance has turned out better than expected month after month. This can be attributed to the fact that the economy has performed better than expected, which has resulted in higher income from taxes, and unemployment rate not rising as much as feared.

This “better-than-expected-trend” has continued in the beginning of 2021 but the Swedish National Debt Office still sees a large deficit of SEk63bn followed by a surplus of SEK30bn in 2022. The Riksbanks decision to no longer fund its foreign exchange reserves via the Debt Office significantly increases the budget balance and makes the budget balance less negative. This in combination with the fact that the budget balance has continued to develop better since the Debt Office's October forecast has resulted in the SNDO planning’s to issue somewhat lower volumes in SEK nominal bonds. In summary, despite high infection rates, which have resulted in additional support packages, the central government debt (Maastricht) is expected to rise to just below 40% of GDP, meaning Sweden continues to have strong public finances and a low central government debt in a global perspective.

QE purchases relative outstanding amounts (SEKbn)



Source: Riksbank,

Q2 QE purchases – slower pace compared to Q1

SEKbn	Q4 2020	Q1 2021	Q2 2021
Government bonds	20+9	13.5	12
T-bills	-	10	10
Munis	15	23.5	15
Covered bonds	65	70	60
Corp bonds	3	3	3
Total	112	120	100

Source: Danske Bank

Extra Covid-19 measures of SEK63bn during 2021

2021	Estimated cost
Turnover/revenue support	23
Short-term layoffs	9
Virus testing and contact tracing	7
Vaccination	7
Support if using pandemic law	4
Support for rental costs	3
Extension of temporary social security measures	5
Sports, culture & media	1
Government loan to package tour operators for refunds to travellers	1
Compensation to municipalities for extraordinary costs	1
Other	4
Total	**63**
Guarantees	50
Liquidity	350

Source: Swedish Government

At a glance

National account	2020	2020	2021	2022
	SEK bn (current prices)		% y/y	
Private consumption	2180.5	-4.7	3.2	4.2
Government consumption	1342.6	-0.5	1.6	1.5
Gross fixed investment	1214.0	0.6	3.6	3.2
Growth contribution from inventories		-0.8	0.3	0.1
Domestic demand	4734.6	-3.0	3.2	3.3
Exports	2190.1	-5.2	7.5	4.1
Aggregate demand	6924.8	-3.7	4.6	3.5
Imports	1973.2	-5.8	7.3	4.1
Growth contribution from net exports		0.0	0.4	0.2
GDP	4951.6	-2.8	3.5	3.3
GDP, calendar adjusted	4949.6	-3.1	3.4	3.3

Economic indicators	2020	2021	2022
Trade balance, SEK bn	211.203	231.8	240.8
- % of GDP	4.3	4.6	4.6
Current Account, SEK bn	271.2	286.8	290.8
- % of GDP	5.3	5.1	5.1
Public sector savings, SEK bn	-166.0	-100.0	-25.0
- % of GDP	-3.2	-1.7	-0.4
Public debt ratio, % of GDP*	40.0	39.0	36.0
Unemployment, % of labour force	8.3	8.5	7.3
Hourly wages, % y/y	2.0	1.9	1.9
Consumer prices, % y/y	0.5	1.2	0.8
House prices, % y/y	7.5	9.0	2.0

* Maastricht definition

Financial figures	06-04-2021	+3 mths	+6 mths	+12 mths
Leading policy rate, % p.a.	0.00	0.00	0.00	0.00

Source: Statistics Sweden, Macrobond Financial, Danske Bank

Norway

Recovery delayed but on its way

- **Fresh outbreaks of infection and new restrictions have put a damper on growth, almost exclusively in the industries locked down**
- **The postponed reopening of the economy has delayed the recovery, but it will come in H2, boosted by pent-up demand and global growth**
- **Laid-off workers will largely return to work, and unemployment will approach normal levels**
- **The housing market will remain tight**
- **The NOK is being driven mainly by global factors, and we now expect a moderate fall towards the end of the year**
- **We still expect Norges Bank to raise by 25bp in September**

Better than expected

Growth was stronger than expected at the end of last year, but a fresh rise in infections and new restrictions have put the brakes on the upswing in Q1 and into April. On the other hand, there has been much good news on the vaccine front. The current plan means that almost the entire adult population will be vaccinated by summer, and experience from other countries suggests that the vaccines also reduce the spread of infection and that the economy can be reopened without further outbreaks once a sufficient percentage of the population has been inoculated. This means that the Norwegian economy can in all probability put all of the restrictions behind it and allow social mobility to increase in the course of H2. This points towards a strong catch-up effect as the industries currently locked down reopen. This growing optimism was very much in evidence in Norges Bank's regional network survey for Q1, with growth expectations for the coming six-month period at their highest since before the pandemic.

We have not made any major changes to our forecast, because we had already assumed that the economy could largely reopen from the summer, but the uncertainty to the downside is now greatly reduced. The latest restrictions nevertheless mean that we have revised down our forecast for mainland GDP growth this year, quite simply because the start date for the recovery has been pushed back somewhat. We now expect mainland GDP to grow 3.7% this year and 3.4% next year. This means that activity will move back above the pre-virus levels of February 2020 in July, and return to normal around the end of the year.

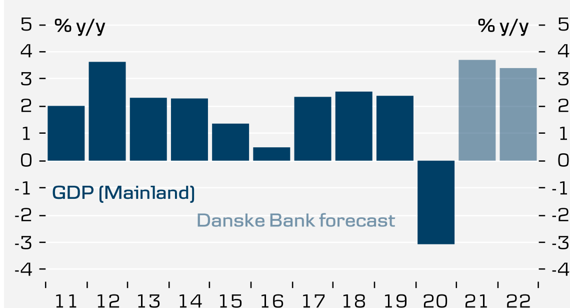
The slowdown at the beginning of this year was due mainly to private consumption falling since November after strong growth last summer. Further lockdowns have hit consumption of some services hard, and large parts of the retail sector have also been shut down in parts of the country. On the other hand, the saving rate rose further at the end of last year and in the first couple of months this year, which means that the rebound in consumer spending when the economy reopens could be even stronger than we anticipate.

However, part of the reason why the Norwegian economy has not fallen back into recession, despite higher infections and new restrictions, is that activity in sectors not directly affected by the lockdowns have kept the wheels turning.

Changes relative to previous forecast

Norway				
	Current forecast		Previous forecast	
% y/y	2021	2022	2021	2022
GDP (mainland)	3.7	3.4	4.0	3.3
Private consumption	6.0	7.0	8.0	5.5
Public consumption	2.0	2.0	2.0	2.0
Gross fixed investment	1.0	2.0	1.0	2.0
Exports	2.6	6.0	5.8	4.5
Imports	5.0	6.0	5.0	6.0
			0.0	0.0
Unemployment (NAV)	3.3	2.5	3.3	2.6
Inflation	2.8	1.4	2.5	2.1

Strong recovery



Source: Macrobond Financial, Danske Bank

Mainland exports in particular have grown and were almost 3% higher in January this year than in February last year. Mainland business investment, oil investment and housing investment all pushed up towards the end of last year.

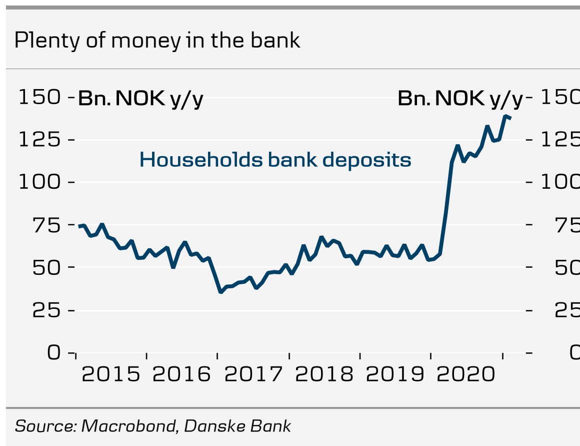
In addition, the government has expanded and extended its financial support programmes for lost revenue and layoffs, which means that the authorities will cover most of the income lost due to lockdown measures for both the firms and the workers affected.

As mentioned above, we still expect growth to bounce back strongly in H2, driven by an upswing in the sectors hit hardest by the pandemic. We also expect growth to be boosted by pent-up demand. Households have almost NOK 140bn more in the bank than at the end of 2019, which is equivalent to more than 8% of household income or 4.5% of GDP. We assume that some of these savings will be spent in H2 and into 2022. How much is naturally very difficult to say, which means that our forecast for private consumption this year and next is very uncertain. For example, bank deposits fell by almost NOK 10bn in June last year, and a repeat of that pattern would present a substantial upside to our forecast.

We are also seeing signs of activity in the business sector having been held back by uncertainty, whereas the fundamentals – at least at an aggregated level – are very sound. This could mean a stronger upswing in investment than we are assuming, and this is supported by investment expectations in the regional network survey. It will also be interesting to see how big a turnaround there is in housing investment, which is currently low and resulting in a relatively large housing deficit, especially in the big cities. It is therefore conceivable that there will be a repeat of the 10-12% surge in housing investment that we saw back in 2016 and 2017.

Highly expansionary fiscal policy in the US has led us to revise up our forecast for the global economy. We assume that this will push export growth even higher, but the risk is slightly more balanced here, because we expect a correction in global demand for goods, which could mean lower demand for commodities and other inputs.

Plenty of money in the bank



Source: Macrobond, Danske Bank

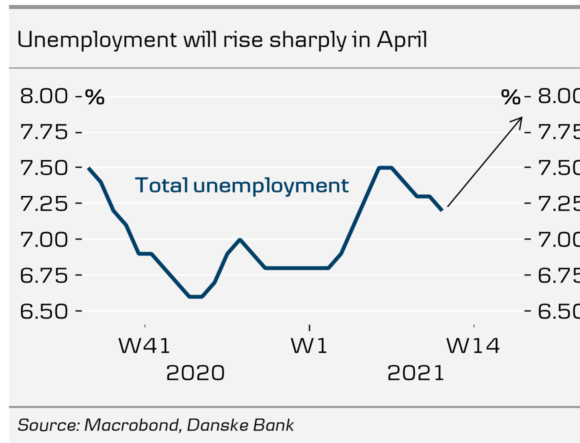
Ordinary unemployment falling

Due to the wave of infections and restrictions, unemployment began to rise again at the beginning of January after moving sideways during the autumn. Registered unemployment has nevertheless held fairly steady at 4% during the period. Around 90% of the rise in unemployment in January was due to temporary layoffs. The number of ordinary unemployed has therefore come down since early February.

As the restrictions have the desired effect and the vaccination rate increases, we expect the economy to be reopened gradually, with the hardest-hit sectors bringing back many of the staff previously laid off. This means that we expect unemployment to fall steadily over the course of the year. That said, there will also be some industries where activity levels do not return to pre-crisis levels in 2021/22, if ever. We expect that registered (full-time) unemployment, which stood at 2.3% in February 2020, will drop back towards 3% by the end of 2021.

This is supported by the firms in the regional network survey now expecting a substantial increase in employee numbers in the coming months, although it is difficult to distinguish between genuine new recruits and the return of staff

Unemployment will rise sharply in April



Source: Macrobond, Danske Bank

previously laid off in such a survey. More telling, perhaps, is the number of job vacancies registered with NAV, which were at roughly the same level in February this year as in the same month last year, adjusted for some errors in the statistics last year.

This is a clear sign of growing demand for labour in the sectors not directly affected by the coronavirus restrictions.

Wage growth to climb despite higher unemployment

Historically, there has been a strong relationship between unemployment and wage growth in Norway, even in the years after the financial crisis. The current high jobless levels should therefore spell moderate wage growth for the next few years. As mentioned above, however, much of the unemployment is only temporary in the form of layoffs, and there have been relatively large variations between sectors.

Our projections show unemployment remaining higher than normal for a long period, partly because some of the effects of the crisis are likely to be permanent, such as reduced business travel and more working from home. We nevertheless believe that wage growth will pick up this year and be higher than many expected. This is because these effects are structural – in other words, they reflect a need for change that is materialising in increasing bottlenecks in parts of the labour market. If we are right, this means that equilibrium unemployment will have risen, with the result that wage growth will be higher for a given level of unemployment.

Wage growth affected less than expected

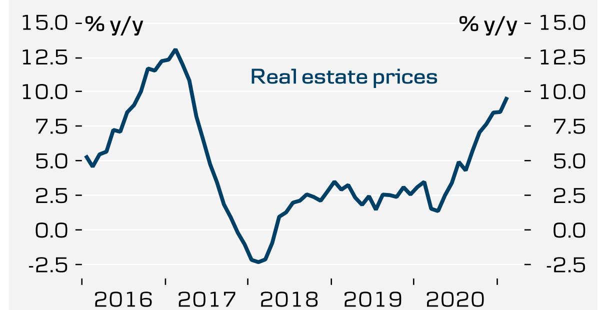
Source: Macrobond, Danske Bank

In theory, the system of centralised wage bargaining in Norway should help keep wage growth down in periods such as this, but it is questionable whether areas with high levels of activity (such as the public sector, construction, services, parts of manufacturing and the whole of the health sector) will show sufficient solidarity with low-paid part-timers in the hospitality sector.

We therefore expect wage growth to end up around 2.6% in 2021 once we take account of average wages falling as low-income groups return to work.

Either way, lower wage growth means that domestic price pressures will gradually ease during the year, albeit not quite to the same extent as assumed in our December forecast. Imported inflation will also fall further as the NOK continues to strengthen. Together with base effects, this means that we expect core inflation to slow to well below 2% at the end of the year. On the other hand, we are now seeing more examples of the local and global bottlenecks that we warned about in December, which may result in stronger price pressures than we have assumed.

Housing prices have again exceeded expectations



Source: Macrobond, Danske Bank

Limited supply pushing up housing prices

The housing market has tightened further so far in 2021. Prices were up almost 10% y/y in February, the highest rise for almost four years. Lower interest rates have naturally boosted purchasing power and contributed to higher prices, but there is also no escaping the fact that low construction activity ahead of the pandemic has resulted in a supply deficit that is pushing up prices through competitive bidding. Prices have risen more than we expected, and we have revised up our forecast for 2021 to 8.5%.

This forecast does, however, mean that much of the increase in prices has already taken place, and we expect prices to slow considerably in H2. Sales of

new homes have picked up, and housing starts have begun to climb, which will gradually bring a better balance to the market during the autumn. At the same time, we expect interest rates to begin to rise gradually from September, and together with the prospect of further rate increases in the coming years, this is likely to put a damper on prices through the expectations channel.

We therefore expect housing price inflation to slow to 2.5% next year.

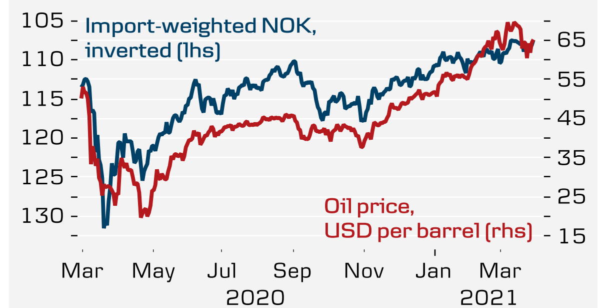
NOK buoyed by positive vaccine news

Movements in the NOK since the coronavirus crisis erupted show that it is mainly global factors that are determining the exchange rate. Since the initial downturn when risk appetite collapsed in March, the NOK has gradually moved with general risk appetite.

Since the good news on vaccines began to flow in at the beginning of November, risk appetite has picked up again, fuelled by higher oil prices and to some extent higher interest rate expectations. The import-weighted NOK exchange rate has strengthened by 3-4% in the same period.

We expect the global industrial cycle to peak during the course of the year, due to tightening in China and a reversal of the sharp growth in global consumption of goods. At the same time, we expect rising oil production from both OPEC+ and US shale producers to help put a lid on oil prices. On top of this, we expect markets increasingly to price in policy rate hikes and a scaling down of quantitative easing in the US, which will push up global real rates and boost the dollar. All of these factors will act as headwinds for commodities and commodity-based currencies such as the NOK. We therefore expect the NOK to weaken somewhat during the autumn despite signals of higher interest rates.

NOK driven by global factors



Note: Past performance is not a reliable indicator of current or future results.

Source: Macrobond, Danske Bank

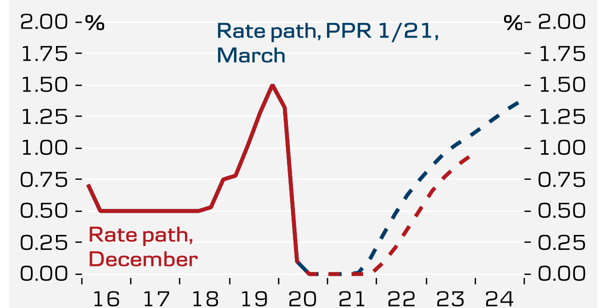
Norges Bank to hike in September

As expected, Norges Bank left its policy rate unchanged at 0.0% at its March meeting, but stated that it will most likely be raised in the latter half of 2021.

The accompanying monetary policy report presents interest rate projections showing a 50% chance of a first hike in September and almost a 100% probability of a hike by year-end. The background to this upward revision of the interest rate path is a combination of good news on vaccines, higher growth and interest rate expectations outside Norway, higher oil prices and stronger wage growth. The bank's projections now indicate a further 2.5 rate increases in 2022, 1.5 in 2023 and one in 2024, taking the policy rate to 1.5% at the end of 2024.

Governor Øystein Olsen commented: "When there are clear signs that economic conditions are normalising, it will again be appropriate to raise the policy rate gradually from today's level." Assuming the vaccine rollout goes to plan, and the economy can be reopened from June/July, we expect there to be clear signs of normalisation in September. We therefore still expect Norges Bank to raise its policy rate in September this year.

Norges Bank signalling rate hike this year



Note: Past performance is not a reliable indicator of current or future results.

Source: Macrobond, Danske Bank

At a glance

			Forecast	
National account	**2020**	**2020**	**2021**	**2022**
	NOK bn (current prices)	% y/y		
Private consumption	1407.1	-7.6	6.0	7.0
Public consumption	909.6	1.7	2.0	2.0
Gross fixed investment	906.9	-3.9	1.0	2.0
Petroleum activities	179.2	-4.9	-4.0	-4.0
Mainland Norway	721.8	-3.9	1.0	2.5
Dwellings	45.7	-4.0	2.8	3.0
Enterprises	45.0	-6.3	-1.0	3.0
General government	218.1	-0.3	1.2	1.3
Exports	1102.9	-0.9	2.6	6.0
Crude oil and natural gas	349.5	11.0	3.5	3.5
Traditional goods	407.6	-2.3	4.2	4.0
Imports	1123.0	-12.2	5.0	6.0
Traditional goods	747.2	2.3	4.0	3.5
GDP	3408.6	-1.5	3.7	3.7
GDP Mainland Norway	3042.3	-3.1	3.7	3.4

Economic indicators	**2020**	**2021**	**2022**
Employment, % y/y	-1.3	0.7	1.8
Unemployment (NAV), %	5.0	3.3	2.5
Annual wages, % y/y	3.1	2.6	3.0
Consumer prices, % y/y	1.3	2.8	1.4
Core inflation	3.0	2.0	1.6
Housing prices, % y/y	4.5	8.5	2.5

Financial figures	**06-04-2021**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	0.00	0.00	0.25	0.50

Source Statistics Norway,: Norges Bank, Macrobond Financial, Danske Bank

Finland

New lockdown delays recovery

- **Finnish economy has been resilient in facing the corona crisis. In 2020, GDP contracted 2.8%. The epidemic situation has become more difficult during spring 2021 and new lockdown measures have been placed. The lockdown and vaccination should suppress Covid-19 and make it possible to reopen the economy during summer.**
- **Private consumption suffers from the epidemic in the near-term, but we forecast a quick recovery in H2. External demand for export industries has improved, which should help to speed up investment activity. On average, we expect GDP to grow 2.3% in 2021 (was +2.2).**
- **Stringent lockdown restrictions are likely to bring a new wave of layoffs. Labour market will recover once the epidemic is under control but Q2 21 will still be difficult. On average, we expect unemployment rate to be 8.0% in 2021 and decrease to 7.2% in 2022.**
- **The Finnish housing market performed surprisingly well in 2020 and household's intentions to buy housing and withdraw loans remain at a very high level.**
- **Public deficit will continue to grow significantly in 2021. Debt-to-GDP ratio is set to rise to 70%. Age-related costs will push debt higher in the latter part of 2020s and a combination of tax increases and spending cuts looks likely.**

Changes relative to previous forecast

Finland	Current forecast		Previous forecast	
% y/y	2021	2022	2021	2022
GDP	2.3	3.0	2.2	2.8
Private consumption	4.0	3.0	3.5	2.7
Public consumption	1.5	1.0	1.5	1.0
Gross fixed investment	2.0	3.0	2.0	3.0
Exports	3.5	6.0	5.0	6.0
Imports	5.0	5.0	5.0	5.0
Unemployment rate	8.0	7.2	8.0	7.2
Inflation	1.4	1.5	1.0	1.5
Government balance, % of GDP	-3.5	-2.3	-4.1	-2.4
Current account, % of GDP	-0.2	-0.2	-0.6	-0.6

Source: Danske Bank

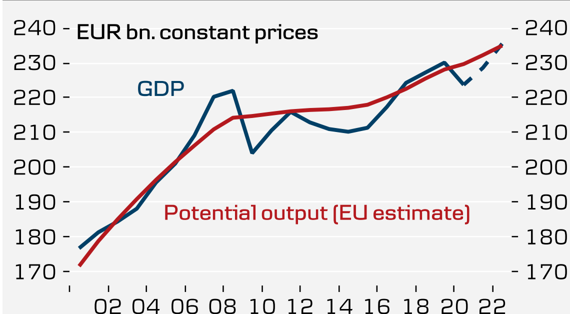
Spring lockdown before summer reopening

Finnish economy has survived the corona pandemic and its economic consequences better than expected. In 2020, Finnish GDP contracted 2.8%, which is less than in most other EU countries. Relatively speaking, Finland survived the first wave of corona crisis with limited economic damage. In Q4 2020, GDP increased 0.4% q/q despite the second wave of Covid-19 starting to strain the economy. However, the second wave constitutes a strong headwind for the economy in early 2021. Health authorities (THL) have estimated that everyone willing to take the vaccine over the age of 16 will have been vaccinated in early July. Vaccinations together with lockdown measures during the spring should suppress the second wave and allow reopening the economy.

During the COVID crisis, the Finnish economy has been relatively stable and many industries have continued to operate without interruptions. First, the pandemic itself has been relatively mild compared to most other countries and the objective risk of catching the virus has been low. Second, and partially related, the lockdown measures have been less stringent than in many countries. Third, industrial production did not plummet in spring. Factories were not closed for health reasons or lack of components, and the industrial structure with a focus on investment goods with long production times provided work. Fourth, already existing good capabilities for remote work have helped to maintain productivity. Fifth, tourism plays a less significant role for the Finnish economy compared to many of the worst hit countries, especially in Southern Europe. Finns spend their money domestically instead of traveling abroad.

The shock to the labour markets has been sizeable but the unemployment rate has not risen us much as feared. In spring 2020 approximately 170,000 workers were laid off but roughly 2/3 of them were able to return to work over summer.

Output gap closing at the end of forecast horizon



Source: Macrobond Financial, Statistics Finland

Layoffs have stayed at an elevated level during early 2021. Public finances suffered a massive blow in 2020 from crisis aid to businesses and decreasing tax revenue. The fiscal measures together with low interest rates, interest only periods and temporary modification of the insolvency law have helped to avoid bankruptcies, which still remain at a very low level.

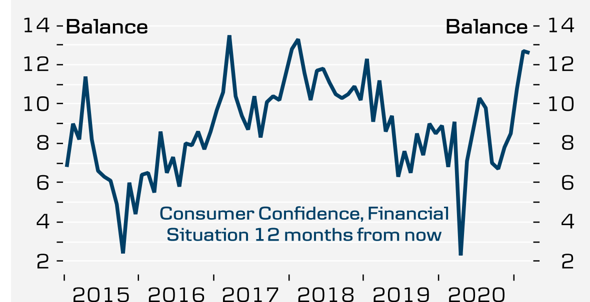
Economic activity is reduced by the second wave and related lockdown measures during spring 2021. The reopening of the economy and safe movement of people will free pent-up consumer spending on services and encourage businesses to invest in H2. Export industries will benefit from recovery and continuing fiscal stimulus in export markets, which will bring more new orders. Public spending remains high.

We have revised our GDP growth forecast to 2.3% in 2021 (was 2.2%) following better than expected recovery in H2 2020 and promising vaccination campaign. The first months of 2021 are difficult but gradual recovery is expected to begin in spring and it is set to gather strength in H2. We forecast a 3.0% increase in GDP (was 2.8%) in 2022. The growth path would take Finnish quarterly GDP close to pre-crisis level at the end of 2021 and reach potential output in 2022.

Private consumption ready to rebound

Finland is a small open economy and changes in external exports demand typically drive the business cycle. This time was different and fluctuations in domestic private demand have been unprecedented. In Q2 20, private consumption fell 9.7% (q/q) due to lockdown measures and reaction to the risk of catching the virus. In Q3, we saw a similar swing in the other direction when private consumption grew 8.0% (q/q). Fourth quarter was down 1.5% (q/q) largely due to the second Covid-19 wave and people staying more at home. Despite partial recovery, consumption remains depressed and well below pre-corona levels. In spring 2021, new lockdown restrictions have been re-instantiated. Restaurants are allowed to sell only takeaway food, schools are remote for upper grades and adult sporting facilities are closed or operate at reduced capacity. Stores and many services, like hairdressers, remain open. More stringent restrictions apply in the Helsinki region. Grocery sales and online sales have been winners now because people spend more time at home and eating less in restaurants and office cafeterias. Office workers are advised to continue remote work.

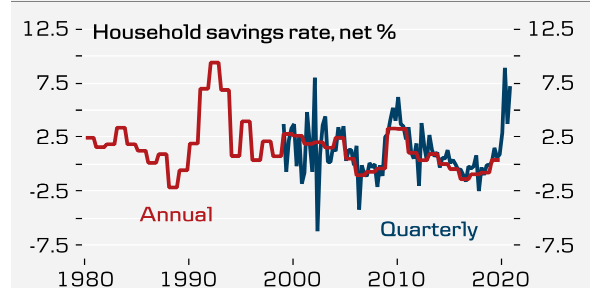
Consumers expect a better future



Source: Macrobond Financial data, Statistics Finland

Household income did not experience similar volatility as private consumption in 2020. Savings rate rose significantly and households on average have more deposits, which serves as a buffer against risks and makes it easier to increase consumption when the lockdown ends. Broadly speaking, household finances remain in good shape. Employment has fallen less than expected, open vacancies are available, average wages are still rising and inflation remains low supporting purchasing power. Reduction in employment has led to a smaller aggregate wage sum but the situation should improve during 2021. Unemployment benefits, steady pension payments and wage increases are helping to maintain purchasing power.

Households have accumulated extra savings



Source: Macrobond Financial data, Statistics Finland

Households are likely to remain cautious in the next few months but consumers are expected to return to their important role in supporting the recovery in H2 21. Once the vaccination process has advanced enough the boost from pent-up consumer demand is likely to be substantial. We expect consumption of services to increase significantly, but retail trade could suffer modest setback

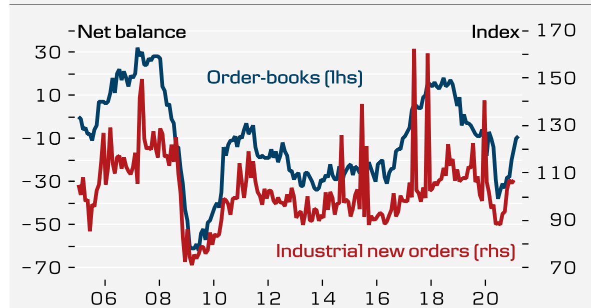
as consumers return from eating at home to restaurants. Private consumption shrank by 4.9% in 2020. We expect private consumption to make a 4.0% recovery in 2021. In our forecast, the growth of private consumption continues at 3.0% in 2022.

Outlook for manufacturing improving

Finnish exports developed poorly before the crisis already. On the other hand, Finnish factories did not close in 2020 due to corona restrictions or lack of components. Exports started to recover after a 10.9% dip in Q2 20. Exports grew by 8.8% q/q in Q4 20, largely thanks a large cruise ship delivery, but still remained 1.4% below Q4 19. Especially service exports remain depressed. One obvious factor supressing service exports is tourism, although its net effect is less clear due to Finland's negative tourism account. Domestic travel also supports the tourism industry in Lapland but some bankruptcies may still be unavoidable despite government aid. Imports fell 1.4% in Q4 20 turning the net contribution from foreign trade positive.

Finnish industrial manufacturing has only seen a relatively small contraction compared to the situation in many other European countries. The main worry has been the lack of new orders and the possibility of larger export driven companies experiencing difficulties, layoffs or bankruptcies. The worst has been avoided and the confidence in manufacturing has improved in early 2021. There has been some recovery in new orders after summer 2020 and the order books were approximately normal in March 2021. The structure of Finnish export industries with a relatively large share of long-term projects like passenger ships has been more robust against quick shifts in the business cycle.

Industrial orders improving



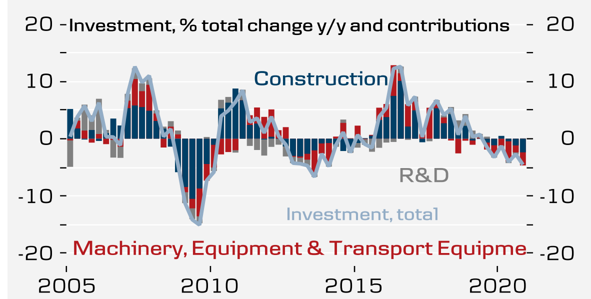
Source: Macrobond Financial data, Statistics Finland, EK

The expected global recovery in 2021 will improve the outlook for exports markedly but Finland produces a lot of investment goods and intermediate goods that are usually not first to recover. Consequently, the external demand is likely to remain subdued in H1. The EU recovery fund as well as CAPEX in the US should bring a boost next year. Exports declined by 6.6% in 2020. For 2021, we are forecasting a modest recovery with exports growing by 3.5%. In our forecast, the recovery continues in 2022 with exports growing by 6.0%.

Investments to a modest recovery

Investment demand decreased already in 2019 and the outlook was never particularly great for 2020 given the decreasing capacity utilisation. During the corona crisis, the volume of investments contracted further but less than we had anticipated. In 2020, the investments fell by 3.1%. Industrial investment has fallen more rapidly, as expected, but construction has supported the overall level of investment. There has not been any sign of construction projects being delayed and we even saw a small uptick in new starts for apartment construction. Urbanisation continues to drive housing related construction.

Investment activity was weak in 2020



Source: Macrobond Financial data, Statistics Finland

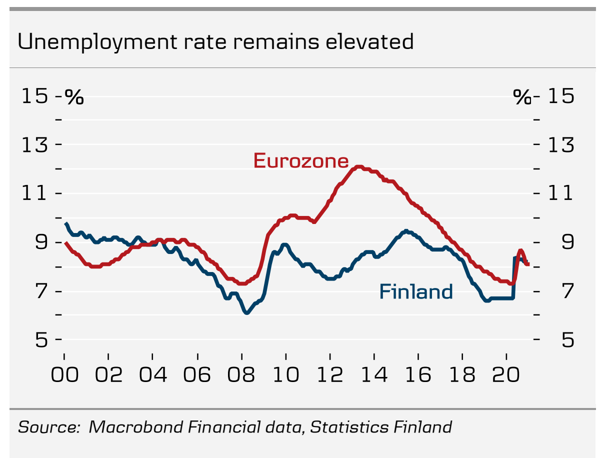
In any case, the corona crisis is likely to impact investment demand in many ways going forward. The news about future vaccinations improve morale but it would be too optimistic to think that investments get going fast. Office and hotel construction is postponed until society has opened significantly. Business investment is still delayed by a lack of demand, as well as the high level of uncertainty. Surveys show that SME companies are more cautious, while larger companies intend to invest more in 2021. Forest industry companies have announced sizable projects spanning over next few years. Energy sector companies plan to invest more after a weak 2020. As a positive contributor, the government intends to spend more on infrastructure, which should stimulate construction in the medium term. In total, we expect investments to grow 2.0% in 2021. For 2022, we are expecting only a modest acceleration for investment growth to 3.0%.

New lockdown restrictions are likely to bring more layoffs

Labour market has endured the corona pandemic with considerable resiliency. Unemployment has risen, but not as much as many feared. Despite several months of headwinds from the second wave of Covid-19, the Finnish labour market remains stable. During last summer and early fall, the labour market had some time to recover from the first wave of corona. Many people returned to work after having been temporarily laid off. Also unemployment rate started to decline. However, the recovery period was short-lived, and a second wave of the epidemic brought the improvement to a halt. Unemployment is still likely to rise further and there will be a new spike in layoffs following the restaurant closures that began in March 9 and new restrictions planned for April.

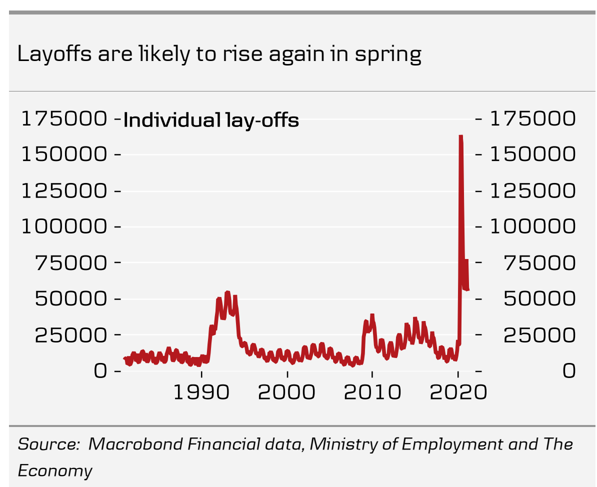
Service industry jobs will not recover until the epidemic is under control again. Restaurants and tourism-related service businesses suffer the most, but new movement restrictions planned for April are likely to lead to layoffs also in retail and many other services, like hairdressers. Manufacturing and construction will face less challenges. We forecast the average annual unemployment rate to rise from 7.8% in 2020 to 8.0% in 2021. After a difficult H1, the second half of 2021 will likely see a considerable rebound in employment once the vaccinations make it possible to start gradually opening the economy. Recovery will create more jobs and unemployment rate begins to fall. If no new sizeable lockdown measures are needed in the future, the labour market will continue to recover relatively quickly. Service sector jobs are easier to replace than jobs in export industries. Consequently, this time, the recovery will be faster than after the financial crisis. It is also encouraging that despite prolonged second wave of the epidemic, the number of open vacancies has stayed reasonably high. Many companies try to hold on to skilled labour in anticipation of a future recovery.

Unemployment rate remains elevated



Source: Macrobond Financial data, Statistics Finland

Layoffs are likely to rise again in spring



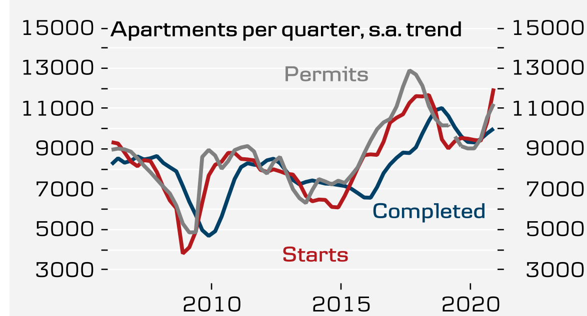
Source: Macrobond Financial data, Ministry of Employment and The Economy

Housing market is still booming

The Finnish housing market performed very well in 2020. Generally speaking, the corona crisis has had only a modest impact on the housing market. In some ways, it even seems to have supported active sales. When people spend a lot of time at home, and also work from home, it can lead to an increased need to find new housing. In surveys, household's intentions to buy housing and withdraw loans has risen to very high levels. The result is somewhat surprising during an economic downturn, and it is probably partly related to a new life situation where much time is spent at home.

During the first wave of corona, there was a brief period when also the housing market went through a temporary shock. Prices never dropped but the transaction volumes went down by approximately one-third. However, the effect was short-lived and sales volumes bounced back to normal during the summer. Towards the end of 2020, the development of housing transactions accelerated and the demand for housing loans still continues to be strong. In additions to households, also private investors continue to buy apartments. The housing market gets support from low interest rates. On the other hand, higher unemployment and plentiful supply of new housing will help to keep a lid on the price development during the forecast period. Supply of old apartments advertised online has decreased to some extent, but construction of new apartments maintains a good pace in growth centres where demand is high. We are expecting the average prices of old dwellings to rise by 1.7% in 2021 and 1.5% in 2022.

Permit data indicates active housing construction



Source: Macrobond Financial, Statistics Finland

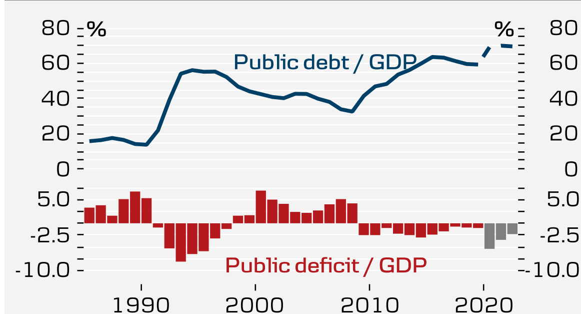
For several years, the average house prices have seen only modest rise in Finland with very much geographical variation. Prices rise in growth centres and fall in locations with shrinking population. A similar main trend is likely to continue in the long run. Construction has been one of the key drivers for the Finnish economy for the past years. Already before the corona crisis, the boom was fading. Latest data from permits indicates that housing construction will keep a reasonably good pace especially in the Helsinki region even if other areas of construction, like office spaces, are likely to decline.

Public deficit remains large in 2021

Finnish government announced seven additional budgets for 2020. In total, nearly EUR 21.4 billion of new net debt was taken. Public support for corona strained companies has helped to avoid bankruptcies. Recovery will be swifter with intact economic structures and less damage to potential output. Wider unemployment benefits (covering also entrepreneurs and dropping the usual waiting period), support to municipalities, healthcare purchases, and reduced revenues all contribute to the massive deficit. Active fiscal stimulus measures also widen the public deficit. The government aims to increase infrastructure spending and spending on education. Social spending is also getting some additional funding. Ministry of Finance estimates that net central government borrowing totals EUR 11.7 billion in 2021. General government debt is expected to total approximately EUR 172 billion at the end of 2021. In our opinion this could turn out to be slightly too pessimistic if the recovery gains speed as we forecast.

Given unusual times, rating agencies are patient about growing debt burden, but structural reforms are still expected. Sizable guarantee liabilities for export industries pose an additional risk to public finances. Finland has the highest ratio of public loan guarantees to GDP in the EU. Finnvera's (state-owned financing company, the official export credit agency) capacity to guarantee loans has been increased by 10 billion euros up to roughly 12 billion during the corona crisis. On top of more typical public spending, the Finnish air force is set to acquire new fighter jets, with the upcoming cost set to add roughly EUR1 billion annually to public debt over the next decade, starting in 2021. According to current estimates, Finland expects to receive approximately EUR 2.9 billion out of the EU's 750 billion euro recovery package over the next few years. A large share of the funds will be used on "green transition" and digitalization. On the other hand, Finland's own contribution to the fund will be around EUR

Debt-to-GDP set to reach 70% in 2021



Source: Macrobond Financial, Statistics Finland, Danske Bank

6.6 billion. Public debt-to-GDP ratio will rise to approximately 70 per cent in 2021.

The Finnish central government has been running a long-standing deficit since the financial crisis but strong growth in employment brought public finances closer to balance before the corona crisis. Also municipalities have been financing their spending with debt, ageing population is often behind weaker local government budgets. The general government deficit has been narrowed by the surplus in social security funds, which consist mostly of statutory pension companies. Finland will need to address sustainability of public finances from a whole new position once the corona crisis is over. In the future, high employment rate remains important for healthy public finances. Structural reforms are needed to boost potential growth and improve labour participation in order to deal with the rise in age-related expenditure caused by an ageing population and rising dependency rate. Corona virus will not make the old issues go away.

At a glance

			Forecast		
National account	**2020**	**2020**	**2021**	**2022**	
	EUR bn (current prices)	% y/y			
GDP	237.5	-2.8	2.3	3.0	
Imports	84.2	-6.6	5.0	5.0	
Exports	85.2	-6.6	3.5	6.0	
Consumption	178.4	-2.7	3.2	2.4	
- Private	120.3	-4.9	4.0	3.0	
- Public	58.1	2.3	1.5	1.0	
Investments	56.0	-3.1	2.0	3.0	
Economic indicators		**2020**	**2021**	**2022**	
Unemployment rate, %		7.8	8.0	7.2	
Earnings, % y/y		1.8	2.5	2.5	
Inflation, % y/y		0.3	1.4	1.5	
Housing prices, % y/y		1.4	1.7	1.5	
Current account, EUR bn		0.7	-0.5	-0.5	
- % of GDP		0.3	-0.2	-0.2	
Public deficit, % of GDP		-5.4	-3.5	-2.3	
Public debt/GDP, % of GDP		69.2	70.0	69.6	
Financial figures		**06-04-2021**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.		-0.50	-0.50	-0.50	-0.50

Source: Statistics Finland, Macrobond Financial, Danske Bank

Global overview

Divergent fortunes

- **We expect April to be the overall turning point in the pandemic as restrictions are gradually lifted with warmer weather and vaccine progress.**
- **Despite challenges with vaccine deliveries, we do not expect countries to reimpose restrictions next fall. We have raised our forecasts for G4 GDP above consensus following the new US fiscal package and strong manufacturing sector growth globally.**
- **We expect US to outperform Euro Area and reach its pre-corona GDP trend already in Q3 this year, while Chinese growth rates continue moderating due to fading stimulus support.**

Global pandemic situation remains mixed

The short term economic outlook continues to be dominated by the Covid-19 situation. US activity has remained stronger than expected over the winter and the relatively fast pace of vaccinations has already enabled many states to lift restrictions. Meanwhile vaccination pace in the euro area has remained slow although we expect it to pick up during Q2. The number of new cases remains elevated in the euro area, while UK and US have seen infection figures drifting lower. The situation in Emerging Markets remains uncertain as the pace of vaccinations in many countries is significantly slower compared to the US and Europe. Especially Brazil has been hard hit with a high number of new infections and deaths. In India we also see a concerning increase again.

Restrictions will be gradually lifted towards summer

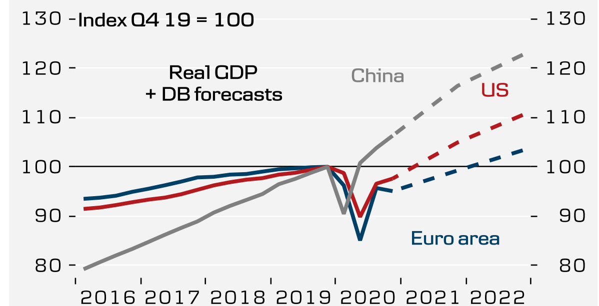
We expect economic activity to pick up in April, as both faster pace of vaccinations and seasonality limit the spread of the virus. As with many other contagious diseases such as the flu, warmer weather should reduce the number of new cases similar to last year. In our base scenario, we expect most countries to be able to ease restrictions over the summer which should rapidly support economic activity. Despite delays in vaccine deliveries, EU countries are expected to be able to vaccinate the majority of their population by the end of summer. US president Joe Biden has promised that all US citizens will be offered the first dose of vaccine by 1st of May. Even though the exact timing of vaccination progress still remains uncertain, we do not expect new restrictions to be necessary in the autumn once the weather cools again.

Divergent fortunes

While we expect economic activity to pick up globally over the summer as restrictions are lifted, the recovery will not be an even one. US activity has already started to recover while Europe has been struggling with new waves of infections. Faster pace of vaccination implies faster reopening which is even further supported by the fiscal package approved in March. We recently revised our forecasts for US GDP growth higher to 7.5 % for this year and 5.3 % for next year.

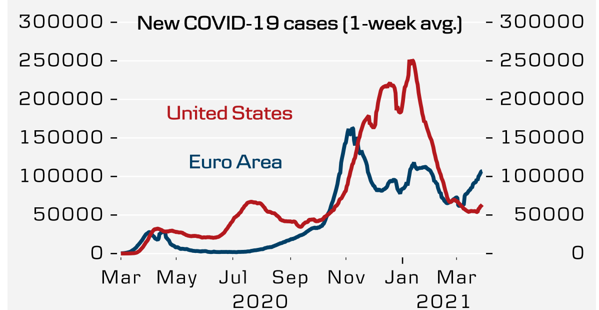
Fed has also communicated that it will continue its expansionary monetary policy as it considers the upcoming pick-up in inflation figures to be mostly caused by transitory factors. While inflation figures will most likely rise

US to reach pre-pandemic path of GDP growth in Q3 2021



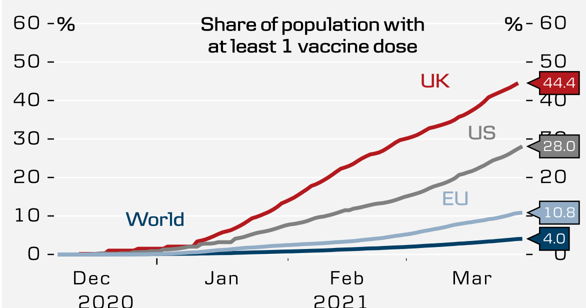
Source: Macrobond Financial, Danske Bank forecasts

Euro Area infections edging higher



Source: Johns Hopkins CSSE

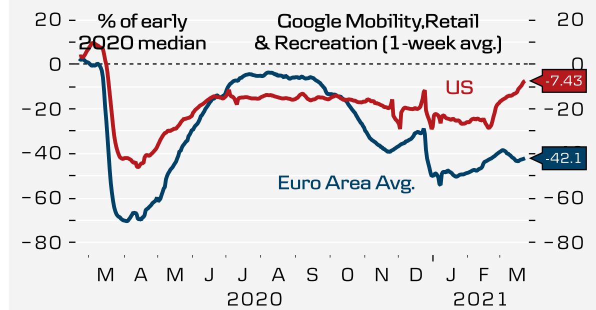
UK and US ahead of EU countries in vaccinations



Source: Macrobond Financial, Our World in Data

beginning from April due to release of pent up demand, fiscal stimulus and base effects, we do believe that the underlying inflation pressure is also rising as the US economy approaches full capacity. We forecast PCE core inflation to move near 2 % by the end of 2022.

US activity has rebounded as restrictions have been lifted



Source: Macrobond Financial, Google

Euro Area recovery delayed, not derailed

While the ongoing restrictions and slower than expected vaccination progress have weighed on the Euro Area recovery, the overall activity has not declined nearly as much as during the first Covid-19 wave. Firstly, the manufacturing sector has continued its strong rebound and secondly, firms have learned to adjust their businesses to the restrictions. While we expect that GDP has continued declining by -0.5 % q/q in Q1, we believe the release of pent up demand will boost the recovery especially in the services sector over Q2/Q3.

Fiscal and monetary policy will continue to be expansionary while labour markets have remained resilient through the Covid-19 crisis. Moderating Chinese demand could limit manufacturing growth over the latter half of the year, as local authorities are again pushing for deleveraging. The increased demand from the US due to the new fiscal package could counteract some of the effect. Overall, we have revised our forecast for 2021 GDP slightly lower to 4.4 % from 4.9 %. However, this reflects delayed recovery due to the Q1 2021 restrictions, and we expect stronger growth in 2022 (4.1 % vs. 3.4 %).

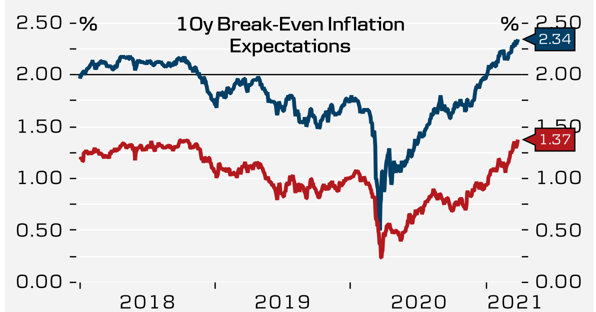
Peak in Chinese industrial cycle already behind us

Source: Macrobond Financial

Chinese growth moderates towards end of the year

Chinese economy has continued its strong recovery over the winter, but declining PMI levels suggests that growth has started to moderate. However, the upward revision in our forecast for US growth implies stronger outlook for Chinese exports. Still, withdrawal of fiscal stimulus and push for deleveraging will dampen GDP growth going forward. We do not see a strong rise in Chinese money market rates or bond yields but we expect reduced investment and credit towards infrastructure projects. China will continue to provide incentives for consumers to purchase durable goods in order to stimulate investments in high-tech manufacturing. Although this is not a new strategy, the move towards higher quality and higher margin products is part of China's new Five-Year Plan. Given the stronger US outlook and solid start of the year, we revised our above-the-consensus 2021 GDP forecast even higher to 9.5 % (from 9.2 %) while maintaining 2022 forecast at 5.4 %.

Inflation expectations have continued rising



Source: Macrobond Financial

Inflation remains a key risk

While our baseline scenario paints an optimistic outlook for economic recovery, we still see risks tilted to the downside. One key risk is inflation, as we have assumed that the monetary policy stance in both Europe and US will remain very accommodative over 2021. Both ECB and Fed have so far communicated that any transitory factors driving inflation figures higher will be disregarded in policy decisions. However, a very rapid increase in demand, supply shortages together with rising wage pressures could lead to higher inflation, which in turn could push central banks to tighten policies earlier than anticipated.

Another key risk factor is naturally the virus itself and possibility of mutations which could become immune to the current vaccines. New lockdowns next fall or over the coming years would naturally be a key headwind for the global economic outlook and markets.

Economic forecast

Macro forecast. Scandinavia

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2020	-2.7	-2.0	-0.1	2.1	-7.7	-4.8	0.4	2.3	4.6	-1.1	42.2	7.8
	2021	3.0	2.5	1.5	4.4	5.1	5.7	0.9	2.2	4.6	-2.5	40.0	7.9
	2022	3.4	4.0	-0.3	3.5	6.8	5.9	1.2	2.2	4.0	-1.0	37.6	8.2
Sweden	2020	-3.1	-4.7	-0.5	0.6	-5.2	-5.8	0.5	2.0	8.3	-3.2	40.0	1.3
	2021	3.4	3.2	1.6	3.6	7.5	7.3	1.2	1.9	8.5	-1.7	39.0	5.1
	2022	3.3	4.2	1.5	3.2	4.1	4.1	0.8	1.9	7.3	-0.4	36.0	5.1
Norway	2020	-2.5	-7.6	1.7	-3.9	-0.9	-12.2	1.3	3.1	5.0	-	-	-
	2021	3.7	6.0	2.0	1.0	2.6	5.0	2.8	2.6	3.3	-	-	-
	2022	3.4	7.0	2.0	2.0	6.0	6.0	1.4	3.0	2.5	-	-	-

Macro forecast. Euroland

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euro area	2020	-6.8	-8.1	1.1	-8.5	-9.8	-9.3	0.3	-0.7	7.9	-8.8	101.7	2.6
	2021	4.4	2.8	4.2	5.1	12.9	11.3	1.8	3.6	8.5	-6.2	102.1	2.6
	2022	3.4	5.3	1.8	2.1	3.5	4.3	1.1	1.0	8.6	-4.4	102.3	2.8
Germany	2020	-5.3	-6.3	3.3	-3.9	-10.2	-9.0	0.4	0.0	4.2	-6.0	71.2	6.0
	2021	3.2	-0.7	2.1	3.0	14.7	10.7	2.5	1.2	4.4	-4.0	70.1	6.3
	2022	3.9	5.1	1.4	2.1	4.7	4.3	1.3	1.8	3.8	-2.5	69.0	6.1
Finland	2020	-2.8	-4.9	2.3	-3.1	-6.6	-6.6	0.3	1.8	7.8	0.0	69.2	0.8
	2021	2.3	4.0	1.5	2.0	3.5	5.0	1.4	2.5	8.0	-3.5	70.0	-0.2
	2022	3.0	3.0	1.0	3.0	6.0	5.0	1.5	2.5	7.2	-2.3	69.6	-0.2

Macro forecast. Global

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
USA	2020	-3.5	-3.9	1.1	-1.8	-12.9	-9.3	1.2	4.6	8.1	-16.0	126.4	-2.1
	2021	7.5	8.4	1.6	8.9	5.6	11.2	2.3	2.0	4.7	-12.2	132.3	-2.1
	2022	5.3	6.7	3.1	3.7	2.0	4.4	1.7	2.3	3.5	-7.2	131.9	-2.1
China	2020	2.3	1.5	-	3.0	-	-	3.0	7.5	-	-11.9	-	0.6
	2021	9.5	9.0	-	10.0	-	-	2.0	7.0	-	-11.8	-	0.4
	2022	5.4	7.0	-	4.0	-	-	2.5	7.0	-	10.9	-	0.4
UK	2020	-9.8	-10.6	-6.5	-8.8	-15.8	-17.8	0.9	2.0	4.5	-19.0	109.1	-2.0
	2021	5.2	4.2	4.0	6.2	6.4	6.1	1.6	1.2	4.9	-7.7	109.3	-3.8
	2022	6.9	8.3	2.1	11.9	5.9	8.2	1.9	1.6	4.6	-4.5	108.3	-3.6
Japan	2020	-4.9	-6.4	2.7	-4.2	-12.4	-6.8	-0.2	-	2.8	-	-	-
	2021	3.1	1.3	3.3	3.3	10.5	2.5	0.3	-	2.7	-	-	-
	2022	2.0	2.4	-1.1	3.2	4.1	3.5	0.6	-	2.5	-	-	-

Sources: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % of GDP.

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