Danske Bank

Investment Research

2 October 2018

Nordic Outlook

Economic and financial trends

- Denmark: still traction in the upswing
  There is still room for higher employment in low-growth recovery
- Sweden: in a state of flux
  The Riksbank looks set to hike rates despite the economic slowdown and low core inflation
- Norway: firing on all cylinders
  Private consumption and business investment are set to drive more growth
- Finland: as good as it gets
  Growth is set to decline but to still-high levels

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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

Less help from global updrift

The Nordic countries have been benefiting from a strengthening global recovery, but that is now changing. The recovery is maturing in Europe and in the US, and we are closer to the point where growth will have to go down a notch due to the capacity constraints in the economy. We expect global growth to decline next year, although to a level that is still in recovery territory, supported by even more expansionary fiscal policy in the US and only slight monetary tightening in Europe. In addition, there are many risks to global growth, including the trade war, Brexit and political uncertainty in Italy.

The Brexit negotiations are proving to be difficult and there is a risk that the EU and the UK cannot reach an agreement. In that case, Nordic exporters would be likely to face tariffs on their UK exports and all Nordic countries have a surplus against the UK in goods (but a deficit in services). Norway has the most exports, but 80% of that is oil and gas, which face only 2.5% tariffs under WTO rules. In contrast, Denmark's substantial food exports could face tariffs of 15.5-35.9%. However, the total value of agricultural exports to the UK is only 0.46% of Danish GDP. The UK is not as important as it once was to the Nordics and we do not expect a major economic impact.

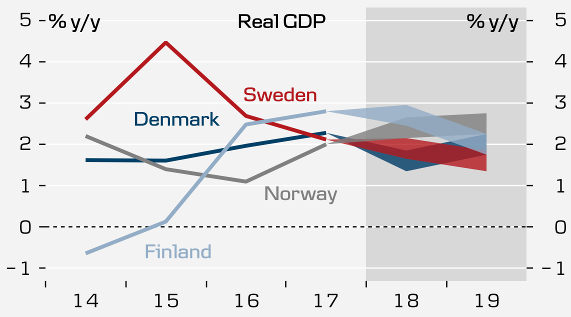
The Nordics are different

This will be a common backdrop for all four Nordic countries but we expect it to play out differently for each. Danish exports have performed poorly during the best period of growth in Europe and has some catching up to do, in our view. Sweden is already facing domestic pressure, especially in housing investment, and we expect a slowdown in growth. Also, Finland will slow but from a very high level and robust domestic demand growth is likely to support a continued strong recovery. In Norway's case, we expect higher oil investment to support the economy.

We are moving closer to the point where increasing interest rates will start to dampen growth. Norway has already seen its first rate hike in seven years and Sweden is likely to follow later this year, although this could prove premature. The euro area, and hence Finland and Denmark, is 14 months away from a rate hike as we see it, but we do expect it to come eventually.

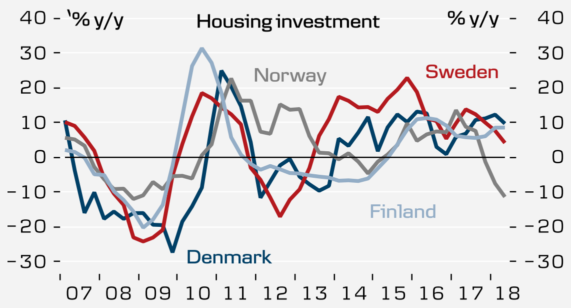
That is one reason why we might see more of a slowdown in 2020, beyond the horizon of this publication. Higher interest rates create risks to the housing market in those places where prices have increased the most and the economy is more driven by household borrowing. Sweden is vulnerable to this risk. We have already seen a clear drop in house prices and more could come. The Norwegian housing market is looking healthy again after the setback last year, but with high valuations and rather high credit growth, it too could face headwinds in the longer run. Although the housing market in general looks very sound, local areas in Denmark and, to some extent, Finland could also be at risk once interest rates increase in earnest.

Norway replaces Finland in front



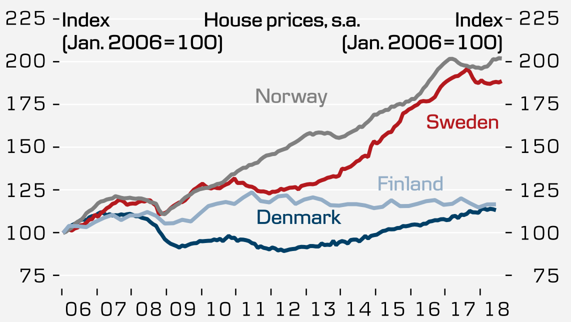
Source: Macrobond Financial, Danske Bank

Look out for housing investment effects



Source: Macrobond Financial

House prices have stabilised



Source: Macrobond Financial

Denmark

Still traction in the upswing

- **More widespread labour shortages and higher wage growth are signs the labour market is tightening, but there is still scope for job growth.**
- **Economic growth has been pulled lower in 2018 by temporary factors, not least the weather, so there is upside potential in 2019.**
- **Solid income growth has lifted private consumption, even though credit growth remains low.**
- **Exports have disappointed over the past one and a half years and the current account surplus has fallen, but a turnaround could be near.**
- **The Danish krone (DKK) has weakened against the euro (EUR), though not enough for us to expect interest rate hikes.**

Low-growth upswing continues

We have entered the sixth year of the upswing as measured by employment growth. While finding the labour for further economic growth appears to be increasingly difficult, companies have so far coped and the expansion continues at a largely unchanged pace – and with the labour force set to increase, growth can continue for some time yet. Nevertheless, a slowdown both in Denmark and in many other parts of the world looks increasingly inevitable. Before that, however, we expect to see a slight rise in GDP growth in Denmark in 2019, mainly because production has been pulled lower by the very warm, dry weather this year. Estimates suggest poor harvests could reduce GDP by 0.2-0.3%, while district heating production was also below the norm this spring.

Underlying annual GDP growth has been hovering just below 2% in recent years. That is low compared to previous upswings – in fact, it is closer to a level we would normally associate with a slowdown, if we look at the past 50 years or so of economic history in Denmark. Like many other countries, Denmark is experiencing very low productivity growth during this upswing, which is keeping overall growth down, while the number of hours worked has not risen by nearly as much as the number of people in work. Even the upswing itself is less pronounced, as demand is not being spurred on by significant credit growth. On the other hand, this means the risk of a sudden crisis is also somewhat lower than at the tail end of earlier upswings.

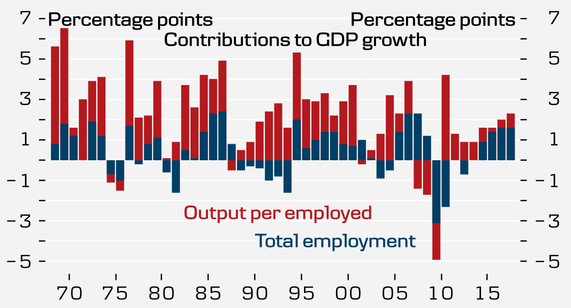
Denmark's GDP figures are unfortunately subject to substantial and partially inexplicable fluctuations. Figures for Q1 2018, for example, showed a fall of 0.8% compared to the previous year. This was not due to Denmark suddenly relapsing into crisis once again, but rather Statistics Denmark including the sale of a patent for roughly DKK9bn as exports and production in Q1 2017, even though production in reality occurred over a much longer period prior to the sale. The artificially high figure for 2017 means the growth figures for 2018 are artificially low. Our forecast assumes the GDP figure for last year will be revised down again, but if that does not happen, then our GDP figure for this year is 0.4 percentage points too high – all else being equal.

At a glance

Denmark	Current forecast		Previous forecast	
% y/y	2018	2019	2018	2019
GDP	1.6	2.0	1.8	1.8
Private consumption	2.5	2.3	2.3	2.4
Public consumption	0.6	0.5	1.1	0.5
Gross fixed investment	7.7	2.6	5.0	1.5
Exports	2.2	3.7	0.5	2.7
Imports	4.4	3.0	3.6	2.4
Gross unemployment (thousands)	108.0	100.7	108.9	102.7
Inflation	0.8	1.4	0.9	1.5
Government balance, % of GDP	0.4	-0.1	-0.2	-0.2
Current account, % of GDP	5.4	6.1	6.5	7.2

Source: Danske Bank

More in work, but GDP barely higher

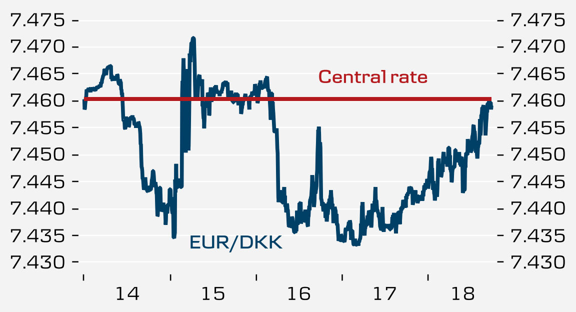


Source: Statistics Denmark, Danske Bank, Macrobond Financial

Rate hikes unlikely in next 12 months

Due to the fixed exchange rate mechanism, interest rates in Denmark are closely tied to interest rates in the euro area, and we expect the first rate hike from the ECB in December 2019. However, the DKK has been weakening in recent months, presumably triggered by a declining current account surplus and lower returns on Danish investments abroad. We see these factors as largely temporary and do not expect Danmarks Nationalbank to be prompted to hike interest rates before the ECB moves, though we cannot completely rule out this scenario. The government plans to withdraw around DKK50bn from its account at Danmarks Nationalbank in 2019, mainly to finance the redemption of mortgage loans in the social housing sector, which going forward will be financed by direct loans from the government. This could result in downward pressure on Danish yields and tends to weaken the krone, which Danmarks Nationalbank will presumably counter by buying DKK. While our main scenario is for no rate hikes from either the ECB or Danmarks Nationalbank until December 2019, we still expect long yields to rise as rate hikes draw closer. Uncertainty on long yields is considerably greater than on short yields, and recent years have seen several instances of long yields suddenly rising fast.

Weaker DKK

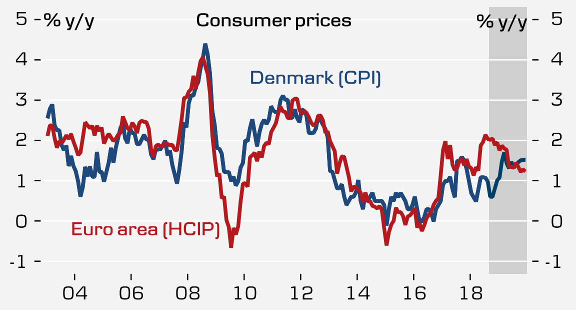


DKK per EUR.
Source: Danmarks Nationalbank, Macrobond Financial

Very low Danish inflation is temporary

Denmark had the lowest rate of inflation of all the EU countries in August 2018, and the gap between inflation in Denmark and the euro area is in fact unusually large. This is due, in particular, to very different trends in food prices, which over the past year have fallen by 1.4% in Denmark, but risen 2.0% in the euro countries. Another important factor is a substantial fall in the price of district heating in Denmark and the normal tendency for higher oil prices to result in greater price rises in other places than Denmark. However, we view all these factors as temporary and expect inflation in 2019 to be in line with the euro area at 1.4%. This is somewhat lower than the current euro area inflation rate of 2.0%, which has been pulled up by the higher prices on energy and food, but we do not expect this to be repeated. Before then, however, we may well have months in 2018 with an even greater inflation spread, as inflation in Denmark will decline this autumn for purely technical reasons if food prices do not suddenly rise again, for example due to the poor harvest. Over the past 20 years, inflation in Denmark has on average only deviated by 0.1 percentage points from inflation in the euro area, which makes sense given that Denmark in practice pursues the same monetary policy and has a very closely tied economic cycle. Now, Danish wage growth is more or less identical with the euro area average, even though the inflation rates are very different. However, as in the euro area, the underlying trend in inflation is up, driven by the upswing and wage growth, though the pace is still relatively slow.

Difference to increase before it diminishes

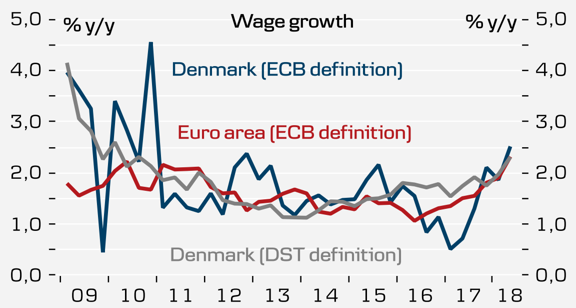


Source: Statistics Denmark, Eurostat, Macrobond Financial

Tighter labour market reflected in wages

The labour market is tightening, with the proportion of companies reporting labour shortages at nearly the same level as just prior to the last crisis. Other indicators too, such as the number of job vacancies, have risen, while the wage share – the share of income that goes to wages rather than profits – is close to record high. Wage growth itself has also noticeably accelerated and is now at its highest since 2010, though wage growth of 2.3-2.6% in the private sector (depending on the statistics) is not high, historically speaking. This is

Wage growth picking up in Denmark too



Source: Statistics Denmark, ECB, Macrobond Financial due to the low level of productivity growth giving less scope for wage growth than in previous upswings, and the low level of inflation in the post-crisis years both ensuring solid real wage growth and presumably also creating low wage demands from employees and greater resistance to wage increases among companies. Wage growth has also picked up among our trading partners, so Denmark's competitiveness is not under pressure due to wage trends.

Despite reports of labour shortages there is no sign of job growth slowing, and we expect the number of jobs to continue growing at least into 2019 – when the labour force is expected to expand – although probably at a somewhat slower pace. Labour force growth continues to be driven by both foreign labour and higher labour market participation rates, especially for those aged over 60. The state pension age will increase by six months in 2019, but it is uncertain how much that will in reality boost the labour force, or how many will instead withdraw from the labour market in other ways. The influx of foreign labour is also something that cannot be taken for granted, as other parts of Europe are also experiencing labour shortages. We should also note that while the number of employed wage earners is currently record high, the number of hours worked is still 1.7% lower than the pre-crisis peak, as there are fewer self-employed and more people working part-time. This also provides some potential for increasing employment in terms of hours worked.

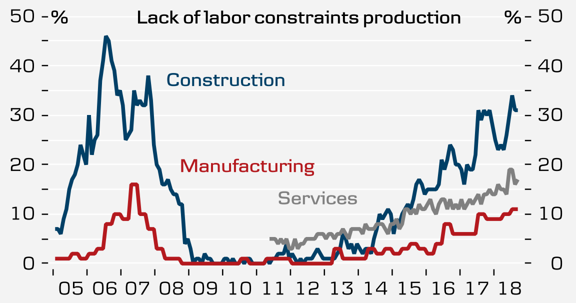
House prices rising, but apartment market has lost steam

The Danish housing market growing at two different paces is nothing new. Since 2012, the apartment market in the larger cities has been full steam ahead, while the housing market has generally grown at a more modest pace in the rest of the country. What is new is that we are now seeing more subdued price growth for apartments in Copenhagen than for houses nationally, with double-digit growth rates for apartment prices now replaced by something close to zero growth (although the choice of price statistic plays a role here).

Apartment price growth weakening, particularly in Copenhagen, has to be seen against the high level of prevailing prices and also the restrictions introduced at the start of the year on borrowers' choice of loan type, which has dampened the appetite of potential buyers. This is also reflected both in declining sales activity and an increase in the number of apartments for sale – though both are still at decent levels. We generally expect modest growth in the apartment market in the time ahead, though rising short-term interest rates and new property evaluations and taxation – which will particularly affect apartments in expensive areas – could cause some turbulence towards the end of next year. That being said, Copenhagen apartments make up less than 4% of the total owner-occupied housing market in Denmark, so the vast majority of Danish homeowners can look forward to decent price increases.

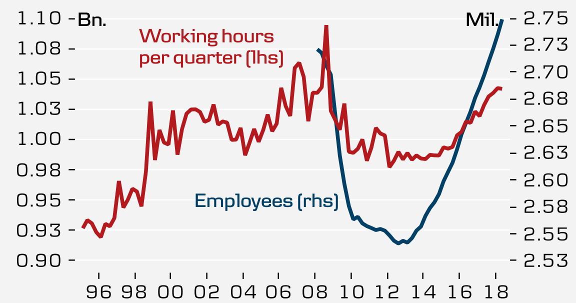
Generally rising house prices reflect rising incomes, general economic growth and very low interest rates. These are all factors that we expect to continue going forward, and while there are nascent signs of interest rates increasing, overall housing market growth should not be derailed.

Labour shortages more widespread



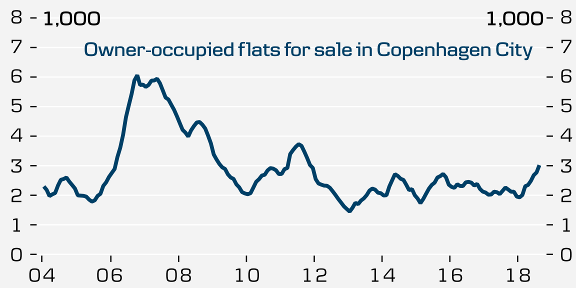
Source: Statistics Denmark, Macrobond Financial

Record number of employees, but not hours



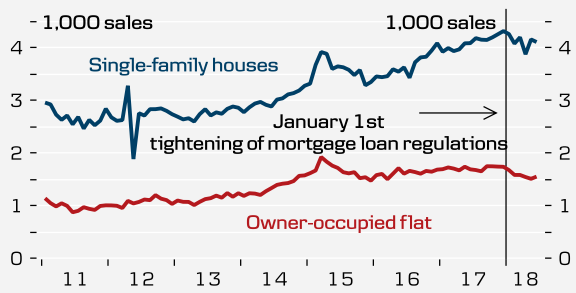
Source: Statistics Danmark, Macrobond Financial

50% more apartments for sale in Copenhagen than at start of the year



Source: Finance Denmark

Still decent sales activity despite fall after tightening of lending rules



Source: Statistics Denmark

Consumption rising, but we are still cautious 10 years after the crisis

Private consumption has risen in 2018; nothing overly impressive, but the Danes are continuing to spend more money. This is hardly surprising, for while wage growth is picking up, inflation remains subdued. Together with rising employment this means more money in people's wallets, and a fair share goes on consumption. However, while consumption is rising, the situation is quite different to what we saw prior to the crisis. This is reflected in the consumption ratio – how large a share of our disposable income goes on consumption – which is currently much lower than the pre-crisis level. Back then the Danes were spending more money than they earned. Now that has reversed. The Danes have become much more inclined to save their money, and credit growth to households is largely non-existent.

There is a significant probability that private consumption may surprise positively relative to our forecast. Should consumers begin to increase their level of borrowing, as we normally see during an upswing, that could mean considerably faster consumption growth than our current forecast indicates.

Two temporary factors will boost consumption this year and next year. Around DKK4bn of early retirement contributions was repaid on 1 July this year to people opting out of the scheme. That is around DKK1bn more than expected and should lift consumption, even though we expect a substantial portion of this money will be channelled into savings. Excess tax repayments to around ¾ million homeowners towards the end of 2019 are also expected to result in higher private consumption.

Small government surplus

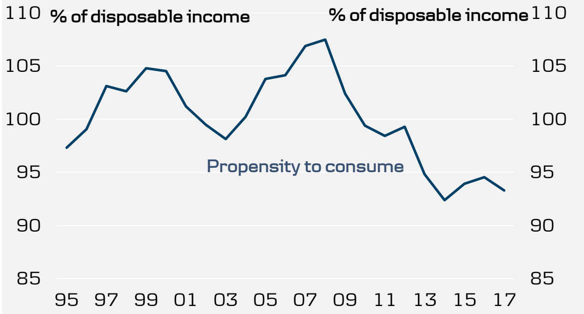
Danish government finances are in fine shape, with government revenues tending to deliver upside surprises. With regard to expenditure, temporary factors, such as the paying out of early retirement contributions and the repayment of excess property taxes, are expected to pull in the other direction during the forecast period. This is part of the reason why we do not expect a larger government surplus, even though the Danish economy is expanding. The sound economic situation in Denmark also explains why pursuing a tight fiscal policy makes good sense – particularly as the chances of the Danish economy overheating are greater than the chances of a decided slowdown in the short term. In contrast to many other European nations, Danish government finances are rather healthy and sustainable.

We are more optimistic than the government on its finances, in part because we expect more favourable developments in the labour market, and also because we expect the decline in PAL revenues (pension return tax) to be less than the government assumes. This is prompted by our expectation for a smaller increase in interest rates than the government bases its forecast on.

Exports have disappointed, but outlook is brightening

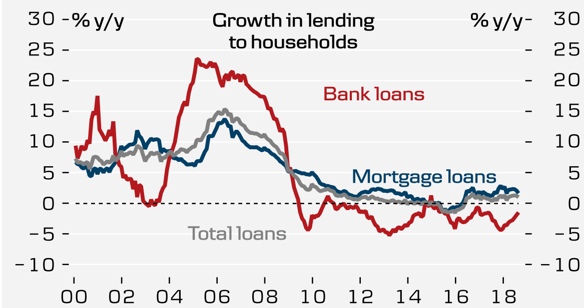
Exports have disappointed for quite some time now. By Q2 this year, exports were still below their end of 2016 level. Some of that may be due to the DKK strengthening over the same period, plus the agricultural sector has struggled through a very dry summer, which reduced production and therefore exports. That being said, Denmark's export markets have been very buoyant. On balance, export growth should be higher than we have seen recently.

Private consumption much better aligned with incomes



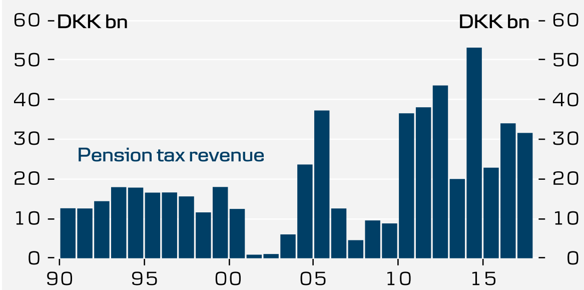
Note: Consumption ratio calculated after pension contributions and does not include housing investments
Source: Statistics Denmark and own calculations.

Credit growth close to zero – in sharp contrast to consumption boom in 2000s



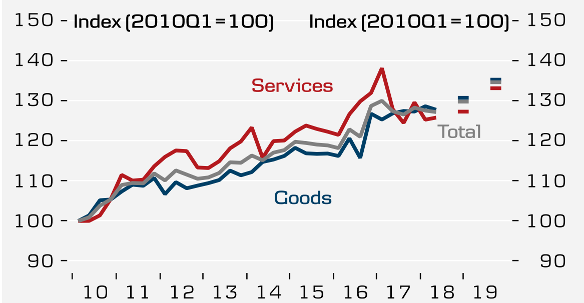
Source: Statistics Denmark, own calculations and Macrobond Financial

Government revenue from pension return tax expected to fall from a high level



Source: Statistics Denmark, Macrobond Financial

More exports ahead



Source: Statistics Denmark, own calculations, Macrobond Financial

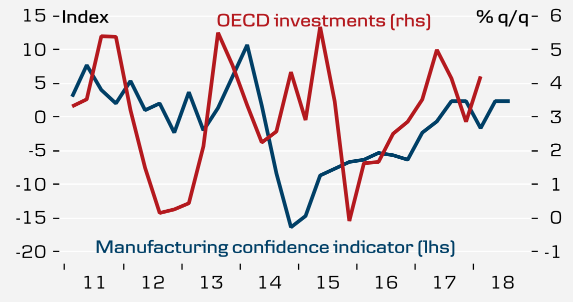
And indeed the outlook is beginning to brighten. There are signs of a pick-up in competitively challenged industrial exports, which have been one of the main reasons for the generally weak trend. Global investment growth has for some time been indicating that demand for Danish industrial products would increase, and preliminary figures suggest this is now getting under way.

Looking forward, conditions for Danish exporters will hardly get better than they have been for the past year. While we expect slightly lower growth in Denmark's two biggest export markets, Germany and Sweden, exchange rate headwinds have been easing this year and we generally expect exports will contribute more to growth going forward and again take their place as the most important growth engine in Denmark. We expect exports to rise by 2.2% overall this year and 3.7% next year.

Disappointing exports have also left their mark on the current account surplus, which has fallen considerably this year. This is mainly due to the balance of trade shrinking by DKK39bn in H1 compared to the same period last year. The surplus from shipping has more or less evaporated this year as shipping companies have struggled with a weaker dollar and lower freight rates, which is part of the explanation for the worsening trade balance.

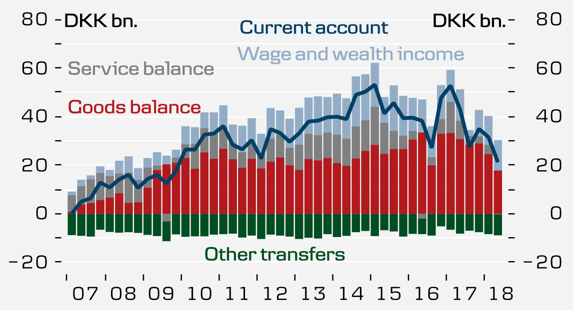
The reduced surplus also has to be seen in light of the increase in imports, however. Even after being corrected for an extraordinarily large import of ships in Q2, the demand for foreign goods and services has been growing, something that can also be seen in corporate investments, which are rising, albeit at a modest pace. This is a particularly positive development, as more business investment is exactly what is needed to extend the upswing. We expect this trend will continue as it becomes steadily more difficult to find qualified labour, and this will contribute to keeping the trade balance surplus down. The level of savings in Denmark is structurally very high and that will, in contrast, continue to give high net investment income and hence large capital incomes. Overall, we expect the current account surplus will fall from the 7-8% of GDP it has hovered around in recent years to 5.4% of GDP in 2018 and 6.1% in 2019.

Global investment pick-up provides basis for improved industrial exports



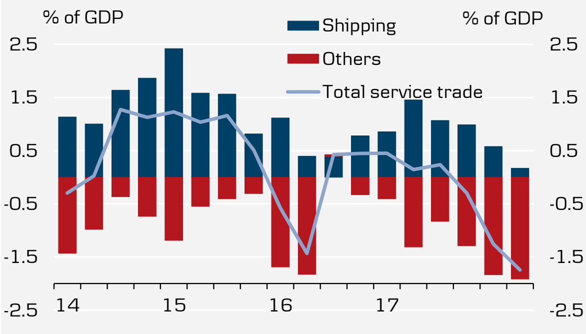
Source: Statistics Denmark, Macrobond Financial

Reduced current account surplus not so bad



Note: Seasonally corrected figures.
Source: Statistics Denmark, own calculations, Macrobond Financial

Surplus turned into deficit on balance of services



Note: Shipping surplus includes bunkering. Data are not seasonally corrected
Source: Statistics Denmarks and Macrobond Financial

At a glance

National account	2017	2017	2018 (Forecast)	2019 (Forecast)
	DKK bn (current prices)	% y/y		
Private consumption	978.0	1.6	2.5	2.3
Government consumption	536.6	0.6	0.6	0.5
Gross fixed investment	441.2	4.5	7.7	2.6
- Business investment	268.0	5.9	8.6	1.3
- Housing investment	99.6	8.7	9.9	6.2
- Government investment	73.6	-5.5	1.3	2.5
Growth contribution from inventories	0.1	0.1	-0.1	0.0
Exports	1184.4	4.4	2.2	3.7
- Goods exports	748.2	5.7	3.2	3.5
- Service exports	436.2	1.9	-1.6	4.2
Imports	1034.9	4.3	4.4	3.0
- Goods imports	642.2	5.4	5.5	2.6
- Service imports	392.7	2.6	2.5	3.8
GDP	2149.6	2.3	1.6	2.0

Economic indicators	2017	2018	2019
Current account, DKK bn	161.6	118.8	138.3
- % of GDP	7.5	5.4	6.1
General government balance, DKK bn	21.5	8.0	-3.2
- % of GDP	1.0	0.4	-0.1
General government debt, DKK bn	780.9	759.3	767.6
- % of GDP	36.3	34.7	33.9
Employment (annual average, thousands)	2920.6	2967.8	3003.3
Gross unemployment (annual average, thousands)	116.0	108.0	100.7
- % of total work force (DST definition)	4.2	4.0	3.7
Oil price - USD/barrel (annual average)	54	72	73
House prices, % y/y	4.0	4.0	3.0
Private sector wage level, % y/y	1.7	2.3	2.6
Consumer prices, % y/y	1.1	0.8	1.4

Financial figures	01/10/2018	+3 mths	+6 mths	+12 mths
Lending rate, % p.a.	0.05	0.05	0.05	0.05
Certificates of deposit rate, % p.a.	-0.65	-0.65	-0.65	-0.65
2-yr swap yield, % p.a.	0.03	0.00	0.10	0.25
10-yr swap yield, % p.a.	1.13	1.10	1.20	1.40
EUR/DKK	7.46	7.45	7.46	7.46
USD/DKK	6.43	6.48	6.32	5.96

Note: Forecasts for 2018 are based on an expectation of a downwards revision of GDP and exports in 2017 (see text).
Source: Statistics Denmark, Danmarks Nationalbank, Macrobond Financial, Danske Bank

Sweden

– in a state of flux

- **It seems that we are getting a rate hike in Sweden, despite the fact that core inflation is clearly below target.**
- **We have seen less of a slowdown in building investment in 2018 than expected, but that means it will be more of a negative factor for growth in 2019.**
- **Labour market performance is strong, but only resulting in modest wage growth.**
- **We can expect a budget that complies with the normal strict standards, even though the political situation is very complicated.**

Riksbank heading for a 'one and done'

Riksbank is about to raise the repo rate for the first time in seven years. In our view, the majority of the Executive Board has made a subliminal shift from emphasising core inflation to headline and inflation expectations instead. It is very unclear what has caused this shift in monetary policy perception over the past couple of months, but it is hard to escape the impression that the Executive Committee may to some extent be bowing to heavy criticism that the extreme policies have been bad for the SEK and induce excessive consumer borrowing, to mention a few matters. The SEK weakness has been bad for consumer purchasing power, exposes Swedish businesses to takeovers and makes Swedish assets cheap in general.

Regardless of which, we expect Riksbank to deliver a 25bp rate hike in December, and after that no more since we expect not only headline but more importantly core inflation to start moving lower again at the end of Q1 19 after a brief rise in the final months of this year. Hence, there is a quite short 'window of opportunity' for Riksbank to hike the repo rate this year. In essence, it is likely to be a 'one and done'.

That said, we really do not see that anything fundamental has happened to the Riksbank's response function. There is – as always – a limit to how much inflation can deviate before it triggers a change in economic forecasts and the policy stance.

From a more long-term perspective, it is questionable whether the 2% target really has been properly calibrated. The fact that several core measures such as CPIF excl. Energy, UND24, Trim85 or HICP excl. food and energy (which is ECB's preferred measure) all have long-term averages close to 1.5 %, suggest that the Riksbank is chasing an unattainable target. An alternative to lowering the target would be to broaden it to include other considerations such as financial stability. Next year, we would at least expect to see conclusions from a committee investigating the monetary policy framework.

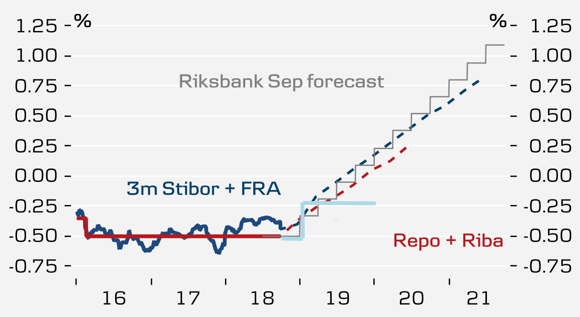
A quick look at market pricing suggests a 25bp rate hike up to and including February 2019 is almost entirely discounted, and another 25bp to September 2019. Riksbank's current path assumes a hike in December/February and then 25bp semi-annually in July and December or February.

At a glance

Sweden				
	Current forecast		Previous forecast	
% y/y	2018	2019	2018	2019
GDP, calendar adjusted	2.0	1.6	1.7	2.0
Private consumption	2.2	1.9	1.6	1.8
Public consumption	0.8	0.4	1.3	0.8
Gross fixed investment	3.1	1.3	-1.1	0.4
Exports	2.7	2.3	5.6	4.7
Imports	3.7	2.2	4.8	3.8
Unemployment rate	7.1	7.6	7.1	7.6
Inflation	1.9	1.6	1.6	1.3
Government balance, % of GDP	1.0	0.8	1.0	0.8
Current account, % of GDP	2.8	2.8	3.5	3.9

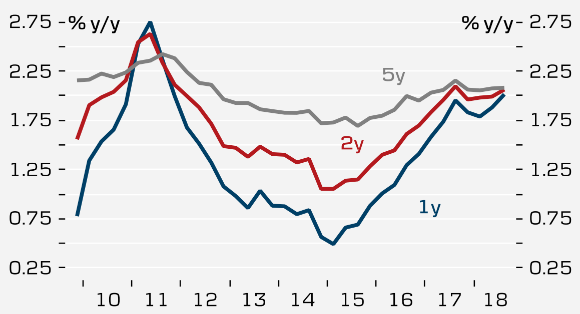
Source: Danske Bank

Riksbank set for a 'one and done'



Source: Riksbank, Macrobond Financial, Danske Bank calculations

Riksbank leans on inflation expectations stable at target



Source: Prospera

Inflation has a bad mix – we need a good one

Inflation is still stuck in a bad mix of drivers. Or to put it differently, Swedish inflation right now is 'bad'. It is to an excessive degree caused by higher energy prices and/or by a depreciating krona. Both these factors eat into consumer purchasing power. 'Good' inflation would be wage-driven. For instance, 4% wage growth causing 2% inflation would mean 2% real wage growth to the benefit of consumers. The Riksbank would be happy too, because this would suggest a more sustainable rise in core inflation. Unfortunately, however, that is not the case now.

Indeed, there has been no change in the main underlying driver, i.e. wage growth. Despite indicators signalling scarcity of labour for years by now, actual wage growth is just slightly higher than central agreements. Our statistical models suggest that roughly half of wage growth finds its way into core inflation. Hence, domestic cost pressures add way too little to inflation. There are signs of European wages gaining pace which could eventually spill over into Sweden. But that is unlikely to happen up to Q1 20 when the current wage deals run out. But even then a prerequisite will be that the export-oriented manufacturing industry agrees to higher deals, as this is the starting point for Swedish wage formation. Once set, those deals would spread to the rest of the economy.

Our inflation forecast implies that headline and core inflation will rise over the next couple of months, lending support to the Riksbank's idea of a rate hike around the turn of the year. Still, we see both CPIF and CPIF excl. Energy below the Riksbank's forecasts during that period. And next year we have a decidedly more bearish view on core inflation in particular, which will again be heading down towards the long-term average.

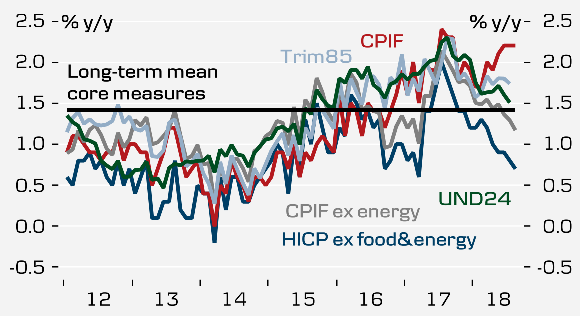
Growth less vigorous than thought

Swedish GDP revisions reveal that growth over the past ten (sic!) quarters has been slower than earlier estimated. 2016 and 2017 GDP growth was revised lower by 0.5 and 0.2 percentage points respectively to 2.7 % and 2.1 %. Not so impressive after all!

Perhaps more urgent, Q1 and Q2 growth was also revised lower by 0.3 and 0.2 percentage points respectively. In year-on-year terms, revisions suggest growth of 2.8 % and 2.5 % in Q1 and Q2 respectively.

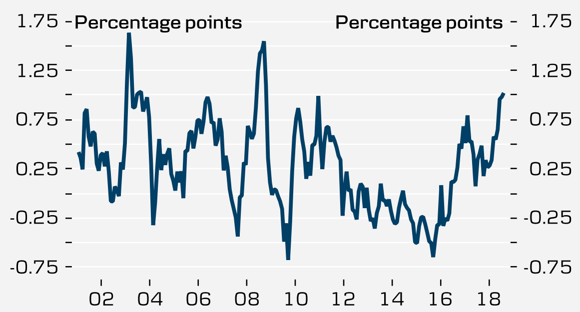
Starting with the positive aspects, the performance of the Swedish labour market so far has been impressive. Employment and participation rates have risen to multi-decade highs. Employment has been growing at close to 2% per year and the unemployment rate has been trending down towards 6%. In recent months we may have seen a certain moderation of this positive trend.

Declining core inflation is a lingering worry



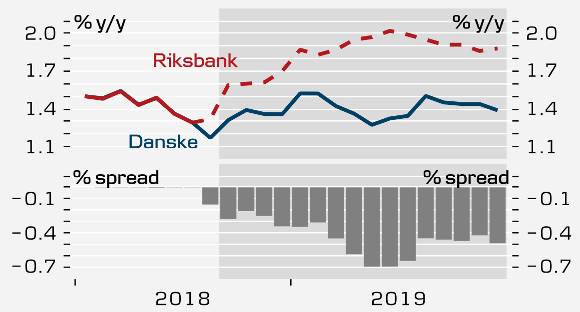
Source: Statistics Sweden, Riksbank, Eurostat

Energy boost to inflation should be close to peak



Source: Statistics Sweden, Danske calculations

Core inflation set to rise near-term, but still undershooting Riksbank's forecast ...



Source: Statistics Sweden, Riksbank, Danske Dank

Although the unemployment rate for those who are foreign born is very much higher than for the domestic born, employment growth shows a much more encouraging mixture. Here, growth for those who are foreign born has outpaced that of the domestic born, implying there is a positive form of 'integration' taking place. Needless to say, this does not cover aspects such as the degree of education, qualification or remuneration.

Nevertheless, this relatively strong performance has been a significant driver of Swedish economic growth over the past couple of years. The drawback is that productivity growth has been very modest, which falls back on real wage growth and by extension, real disposable income per capita.

The housing market has slowed less than we expected both in terms of house price correction and its impact on GDP.

We have misjudged the lag between residential property starts and completions, at least for the multi-dwelling segment of the market. Multi-dwelling investment developments have been better than we expected this far, as completions and hence residential investments in GDP have slowed less than expected.

Looking forward though, this means that the slowdown is still in front of us. A 30-40 % decline in residential investments still appears reasonable on a two-year horizon.

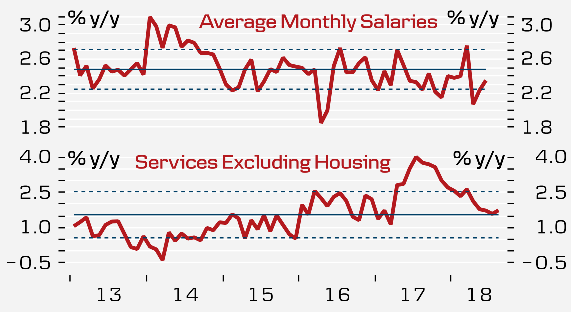
This will have a decidedly negative impact on growth, but nothing out of the ordinary.

As argued in pervious Nordic Outlooks, we expect the pent-up supply of newly produced flats which will flood the market in the next year or two to have negative repercussions for prices in the secondary market too. There is already wide-spread evidence that property developers, mainly in the Stockholm region, have reduced prices to a significant, although maybe not sufficient, degree.

It should be noted that mortgage credit growth has slowed markedly since the introduction of the 1% extra amortisation requirement on new loans in March. In recent months the seasonally adjusted annualised growth rate has dropped to about 5 %, which is close to the lows seen over the past two decades. In addition to the amortisation requirement, we estimate that each 25bp rate hike from Riksbank, if fully adopted by floating mortgage and consumer loan rates, would increase household interest costs by 20%, an effect that applies to all households with loans. Hence, even seemingly small changes to the repo rate are likely to have a marked impact on household spending going forward.

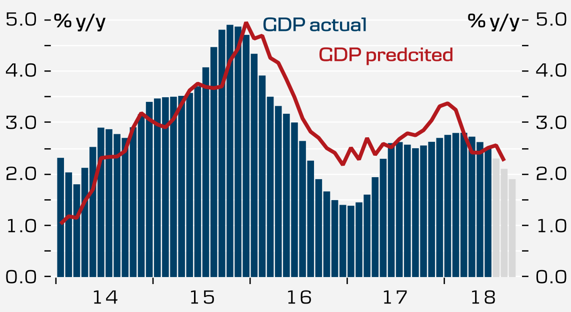
Now that said, the outlook for consumer spending has already deteriorated to some extent. We believe a significant slowdown in many segments, at least to a degree, has been hidden by strong consumption of energy in Q1 and the car tax bonus malus system (introduced in July 2018) boosting consumption of transportation in Q2. Actually, we can easily see a negative print for consumption growth in Q3 for this reason. But there is also a slightly disappointing disposable income growth in the background and decline in housing wealth possibly affecting consumer confidence in a negative fashion.

..but wage growth is way too slow to push up services and domestic inflation



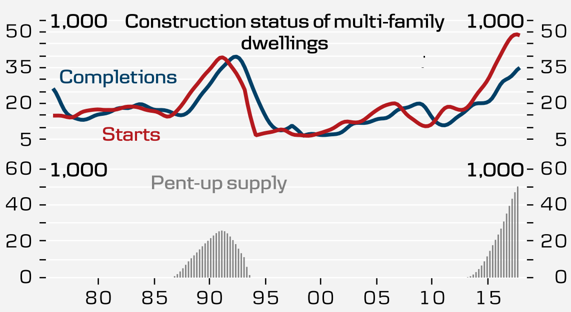
Source: Sweden Statistics

Monthly data right now well in line with our forecast



Source: Statistics Sweden, Danske Bank

Pent-up multi-dwelling supply is still rising – housing in a slow motion train crash?



Source: Statistics Sweden, Danske Bank calculations

If this was not enough, the apparent slowdown in the European manufacturing cycle is something to keep on the radar. European manufacturing PMIs have definitely taken a dent, but the indications for the impact on Swedish exporters remain mixed. To be sure, Swedish PMI has suffered, basically all components such as orders, production and employment have declined, suggesting a growth slowdown. But NIER manufacturing confidence is high, driven by optimistic production expectations, as are actual orders/production statistics from SCB. It should also be said that business investments remain strong, suggesting a positive mood. All in all, however, the outlook is quite dim.

Politics in disarray

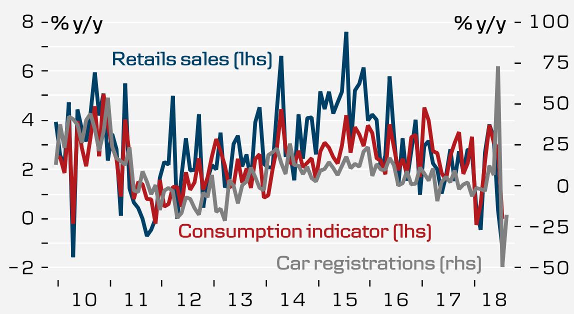
The Swedish general election ended in the most complicated political situation probably ever for politics and for government formation.

At the time of writing the situation is a s follows. A conservative Moderate (M) was elected speaker on 24 September as he got support from a Riksdag majority, which is in contrast to the previous practice that the speaker comes from the biggest party. The Social Democrat (S) PM Löfvén had to step down after a vote of confidence on 25 September. This means that the conservative M party leader Kristersson is likely to be the prime choice as the next PM. This is also the choice of the Alliance parties. However, these parties have 143 Riksdag seats together versus the left-wing Red/Green block's 144 seats. Hence, it will need support from the anti-immigration Sweden Democrats (SD) who have the remaining 62 seats.

However, both the Liberals (L) and the Centre Party (C) have stated that under no circumstances do they want to be dependent on SD. Hence, an Alliance government supported by SD is not a viable option. Instead, L and C want the Alliance to co-operate with S, something the latter is likely to reject, just as C and L have rejected S's proposal to co-operate with an S-based government which would gather forces in the middle of the political field.

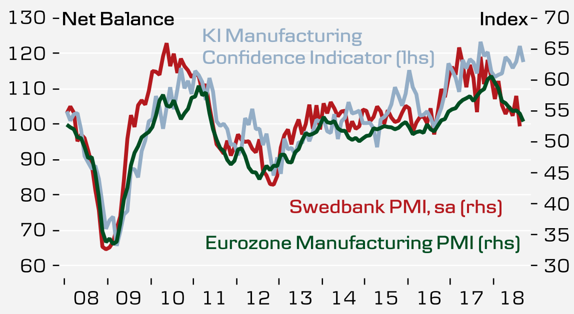
Hence, positions appears to be stuck. A possible solution would be to form a right-wing government with M and the Christian Democrats (CD) which constitutes the right-wing of the Alliance. This would make it possible for C and L to support Alliance policies without being part of the government, which would also get support from SD. This way C and L would be strained by the anti-immigration policies of the SD. The question is just why SD would support such a government without concessions. That said, this is our prime candidate, but a M/KD government would be weak, making up only some 25% of the seats. Hence, there is a high probability of an extra election, if such a government cannot find support to get its budget through the Riksdag. The speaker has four attempts to form a government before an extra election is called.

A very weak start to Q3 for consumers



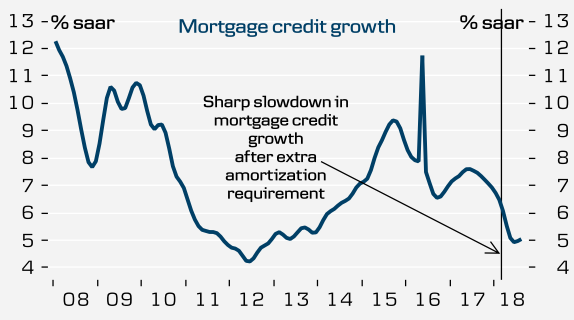
Source: Statistics Sweden, Bil Sweden

NIER's manufacturing survey deviates from PMIs because it is boosted by expectations



Source: NIER, Swedbank, Markit

Amortisation and slowing housing transaction volumes reduce credit growth

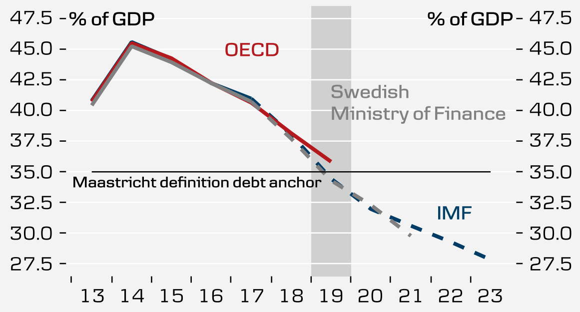


Source: Statistics Sweden, Danske Bank calculations

A new government will have to present its budget by 15 November at the latest. In late November total expenses are set (ceilings) and income is projected. It will be passed by the Riksdag in mid-December as an entity, i.e. as one budget. Over the past couple of years, however, the budget procedure has become less rigid as parts of it have been 'cut out'. Given the extremely uncertain political outlook for Swedish politics, there is also a risk that this may happen again, although this risk should not be exaggerated.

With these uncertainties in mind, it is worth emphasising that Sweden has a very rigid budget framework: 1) a 0.3% budget surplus target, 2) a 35% Maastricht-definition public debt anchor to be introduced in 2019 and also attained in 2019, 3) 3-year expenditure ceilings for the central government finances and 4) budget balance requirements for municipalities. Hence, even if government formation becomes cumbersome, the risk for budget difficulties appears minimal as current policies will just continue to apply.

Public debt expected to hit debt anchor at introduction in 2019



Source: OECD, MoF, IMF

At a glance

National account	2017	2017	2018 (Forecast)	2019 (Forecast)
	SEK bn (current prices)	% y/y		
Private consumption	2040.8	2.2	2.2	1.9
Government consumption	1195.6	0.0	0.8	0.4
Gross fixed investment	1142.6	6.1	3.1	1.3
Growth contribution from inventories	30.8	0.1	0.3	0.1
Domestic demand	4409.8	2.6	2.0	1.4
Exports	2076.7	3.2	2.7	2.3
Aggregate demand	6486.5	2.9	2.4	1.8
Imports	1907.6	4.8	3.7	2.2
Growth contribution from net exports	169.1	-0.4	-0.3	0.1
GDP	4578.9	2.1	1.9	1.6
GDP, calendar adjusted	4579.2	2.4	2.0	1.6

Economic indicators	2017	2018	2019
Trade balance, SEK bn	169.1	153.7	159.8
- % of GDP	3.7	3.3	3.4
Current Account, SEK bn	166.1	132.2	131.6
- % of GDP	3.6	2.8	2.8
Public sector savings, SEK bn	54.9	47.8	39.7
- % of GDP	1.2	1.0	0.8
Public debt ratio, % of GDP*	41.0	37.0	35.0
Unemployment, % of labour force	6.7	7.1	7.6
Hourly wages, % y/y	2.5	2.6	2.7
Consumer prices, % y/y	1.8	1.9	1.6
House prices, % y/y	-2.0	-10.0	2.0

* Maastricht definition

Financial figures	01/10/2018	+3 mths	+6 mths	+12 mths
Leading policy rate, % p.a.	-0.50	-0.50	-0.25	-0.25
2-yr swap yield, % p.a.	-0.01	0.20	0.10	0.15
10-yr swap yield, % p.a.	1.28	1.20	1.15	1.10
EUR/SEK	10.33	10.20	10.20	10.30
USD/SEK	8.91	8.87	8.64	8.24

Source: Danske Bank

Norway

Firing on all cylinders

- **Growth has been much as expected**
- **Unemployment is no longer falling as fast, but the labour market still looks tighter**
- **Inflation has picked up, and wages are accelerating as expected**
- **The Norwegian economy will be boosted by higher oil investment going forward, and we see the risk as clearly to the upside**
- **Norges Bank has raised its key rate for the first time in seven years and is signalling two further hikes a year for the next three years**
- **We still think the krone is fundamentally undervalued**

Stronger turnaround in the oil sector

We expect growth to hold above trend, unemployment to fall and capacity utilisation to rise over the next couple of years. Stronger growth and fewer jobless have caused wages and inflation to accelerate, and we think this trend is set to continue.

We nevertheless expect a rotation in the contributors to growth, with government demand and housing investment making less of a contribution, and private consumption and investment contributing more. We are seeing clear signs of growing optimism in the oil sector, and we have revised up our forecast for oil investment next year. There are also clear signs that the labour market is growing tighter, despite unemployment no longer falling as fast.

As expected, the strong rise in housing prices during the spring has slowed, probably as a result of continued growth in the number of properties for sale bringing better balance to the market. Together with signals of higher interest rates ahead, we expect this to mean only moderate increases in house prices during the forecast period.

Growth has been as we expected

Growth in the Norwegian economy has been much as we expected since our previous forecast in June. Adjusted for lower power production (a supply-side phenomenon driven by unusually hot, dry weather), mainland GDP grew 0.7% q/q in Q2. The underlying data confirmed our predictions of a growth rotation process. The demand stimulus from housing investment is fading, while private consumption and investment are making stronger contributions to growth. Net exports did fall a fair way in Q2, but we believe this was only temporary even though there may be signs of a global slowdown. The Q2 figures confirmed our expectation that growth is still above trend, with the result that unemployment should continue to fall and pressure on wages and prices should gradually build.

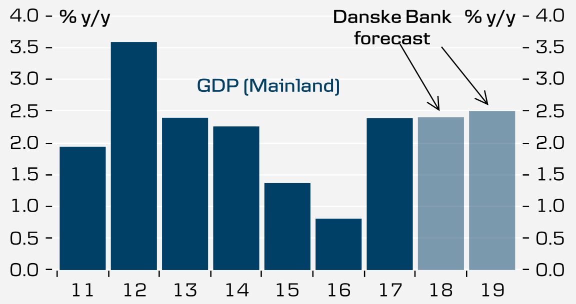
The August round of Norges Bank's regional network survey confirmed that growth in the Norwegian economy is still well above trend. The aggregated output index did edge down from 1.47 to 1.46, but still points to quarterly growth in mainland GDP of 0.73% over the next two quarters.

At a glance

Norway	Current forecast		Previous forecast	
% y/y	2018	2019	2018	2019
GDP (mainland)	2.4	2.5	2.5	2.3
Private consumption	2.3	2.5	2.5	2.3
Public consumption	1.9	1.8	1.8	1.8
Gross fixed investment	-0.4	4.4	3.0	2.0
Exports	0.8	2.4	2.0	2.0
Imports	3.3	3.0	2.0	2.0
Unemployment (NAV)	2.4	2.1	2.3	2.2
Inflation	2.8	1.6	2.0	1.9

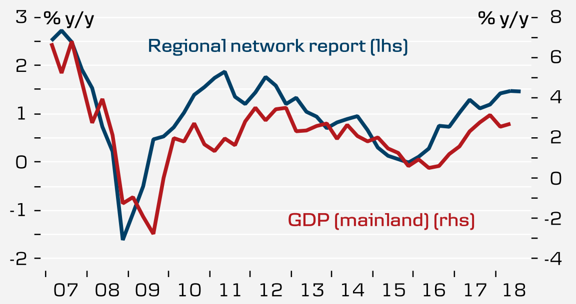
Source: Danske Bank

Growth is accelerating



Source: Macrobond Financial, Danske Bank

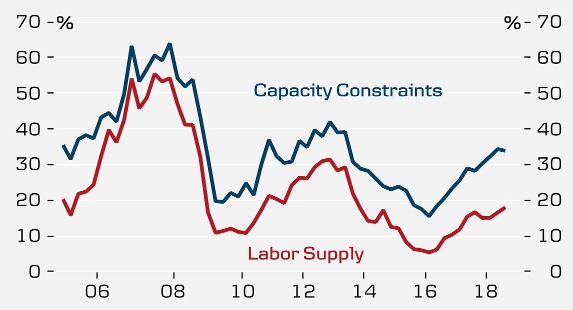
No signs of weakness in leading indicators



Source: Macrobond Financial, Danske Bank

However, the underlying data were a shade weaker than the headline figures – in particular, we would note that expected investment growth was somewhat lower than in the previous survey, and capacity utilisation fell slightly from 34.36% in May to 33.88% in August. This is still one of the highest levels we have seen since 2013, but could indicate that growth capacity has increased (reduced pressures).

Capacity utilisation rising more slowly, but labour getting scarcer



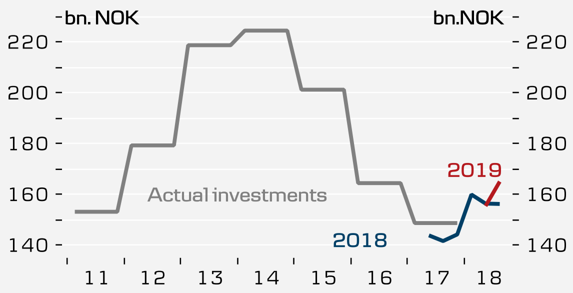
Source: Macrobond Financial, Danske Bank

On the other hand, the share of firms reporting labour shortages as a constraint on production increased from 16.59% to 18.06%, the highest since August 2013, which confirms that the labour market is getting tighter. Looking at individual sectors, the growth outlook has improved for mainland manufacturing, business services and retail, and deteriorated for construction and household services. Rather surprisingly, the outlook is also slightly weaker for oil-related industries. Perhaps the most interesting thing about the entire survey, however, was that 53% of firms in oil-related industries are now reporting capacity problems, which confirms our view that a major turnaround there is on its way. All in all, it was a solid report that confirms that growth should remain above trend for the next two quarters.

We expect growth to hold above trend next year too, driven by a process of growth rotation where private demand and oil investment gradually take over as the main growth engine as the contributions from government demand and housing investment fade. Our expectation of stronger private consumption is due to faster growth in households' real disposable income. Higher wage growth, lower inflation and stronger job growth should all help growth in real disposable income to climb towards 2.8% next year, completely cancelling out the effect of higher interest rates.

We also expect private investment (excluding housing investment) to strengthen further. Higher capacity utilisation, stronger growth, growing optimism and further favourable credit conditions will support investment. The regional network survey also showed that firms anticipate much stronger investment growth, although their expectations were slightly more subdued than in the previous round in May. The investment survey, on the other hand, suggests that investment growth in both manufacturing and the power sector will be slightly lower in 2019 than in 2018, in particular due to lower investment growth in the power sector.

Marked rise in oil investment



Source: Macrobond Financial, Danske Bank

We expect a solid contribution to growth from oil investment for the rest of this year and next year. Cost-cutting in the Norwegian sector has pushed the average breakeven price for investments down to USD21 per barrel. Meanwhile, spot prices have climbed to USD80 and prices for delivery in three to four years are still around USD70.

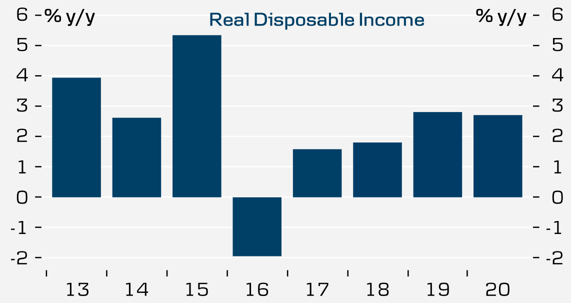
The Q3 oil investment survey contained a substantial upward revision of the oil companies' estimates of investment in 2019. Once we allow for the effect on the 2018 estimates from the submission of the plan for the development and operation of the new Johan Sverdrup field towards the end of last year, the survey suggests an increase in oil investment next year of 10–12%. We have therefore revised up our forecast for oil investment in the Norwegian sector in 2019 from 7% to 11%, which means that oil investment should make a contribution of around 0.5pp to mainland GDP growth next year.

It was particularly encouraging to see that exploration related investment is expected to hit NOK31bn next year, almost 25% more than this year. This confirms the signals that the upturn in the oil sector is entering a new phase where investment in new projects increasingly complements the development of existing fields. This means that there is increasingly a not insignificant upside risk to our forecasts for oil investment – and so also for the Norwegian economy – not only next year but also further ahead.

Nor do we see any great risk of a serious downturn in private consumption, unless interest rates rise much further than we expect. Our calculations show that even households with debt at five times income will see an improvement in their real purchasing power with interest rates raised two to three times a year in 2019-21. Overall, households' real disposable income after interest costs should climb by 2-2.5% a year even with two hikes a year. This would be enough to keep growth above trend during the period.

We have made a few adjustments to our forecasts and we now anticipate growth in mainland GDP of 2.4% in 2018 and 2.5% in 2019. This is still well above the trend rate and means that capacity utilisation should rise further and unemployment should continue to come down.

Solid growth in household income despite rising interest rates



Source: Macrobond Financial, Danske Bank

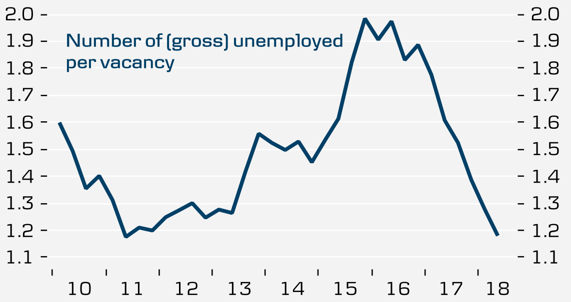
Growing signs of capacity problems

Unemployment has fallen less quickly than expected since our June forecast. In principle, this could be a sign that the labour market is deteriorating, as might result if growth was slowing. We do not, however, believe this to be the case. As mentioned earlier, all growth indicators suggest that growth is holding up, and a number of technical factors affecting NAV's collection methodology pushed unemployment up artificially in July and August.

Even adjusted for this, unemployment is still higher than expected, but this seems to be due to stronger growth in the labour supply rather than slower job growth. The annual rate of increase in employment is actually now up at 54,000 people, the highest for more than six years. Meanwhile, the labour supply has really begun to take off, with 44,000 more people in the labour force in June than a year earlier.

What is more, almost all labour market indicators point to demand for labour holding up. Data from Statistics Norway also show that the number of vacancies in Norway climbed to 68,700 in Q2, up more than 9,000 on a year earlier. If we compare this with gross unemployment (which includes job creation schemes), the UV ratio in Norway is now 1.18, which is its lowest since Q2 2011 and suggests that the labour market is already relatively tight.

Low UV ratio



Source: Macrobond Financial, Danske Bank

Inflation picking up

Inflation has been higher than expected since our June forecast. The core rate was 1.9% y/y in August, up from 1.2% in May. Ignoring pure base effects due to low inflation in August last year, it seems that the rise in inflation is relatively broad-based. Food, other domestic goods, imported goods and services all increased a fair bit in price over the summer.

We expect this trend to continue for the rest of the year, but core inflation will probably hold around 2% due to base effects. We certainly do not see any great risk of the core rate significantly overshooting the 2% target in the coming months. Next year, domestic inflation will accelerate, driven by stronger wage growth, while imported inflation will gradually slow as the effect of the krone's depreciation this year fades.

Our target for "core-core" inflation – which excludes ever-volatile airfares and food prices – is slightly higher than for core inflation. But this is also partly because the increase in sugar taxes, which ought to push inflation up 0.3pp, has almost completely fed through into prices, as Statistics Norway assumes in its computation of the CPI adjusted for taxes and energy (CPI-ATE).

We are still seeing clear signs of wage growth beginning to pick up. This year's national settlements point to wage growth of around 3% this year, based on our expectation that wage drift will increase as a result of a tighter labour market.

This year's pay settlements therefore tie in well with the historical relationship between unemployment and wage growth described by the Phillips curve, as mentioned in our previous reports. We assume that this relationship will continue to apply. We have not therefore made any changes to our forecasts for wage growth and still assume a rate of 3.0% in 2018 and 3.5% in 2019.

Housing market calming down

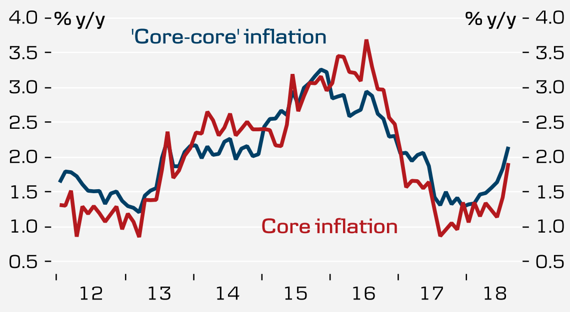
After rising rapidly during the winter and spring, housing prices have levelled off somewhat over the past three months. This seems to be the result of a growing supply of properties on the market despite turnover holding up well.

There has been a particular slowdown in Oslo, which has helped put the brakes on prices nationally. This probably has to do with the number of properties for sale in the city rising from around 1,300 in March to almost 2,200 in August. Part of this is seasonal, of course, but once we allow for this, there are still 20% more homes on the market than in March. So although turnover in the housing market has been record-high, the stock-to-sales ratio – the number of properties on the market divided by monthly turnover – has climbed from 1.15 to 1.32. This has also helped push the stock-to-sales ratio up nationally.

We expect housing prices to continue to rise more slowly for the rest of the year. Due to strong growth in homebuilding in 2016 and 2017, there will still be a large number of new properties coming onto the market. We also expect mortgage rates to rise during the autumn, and homebuyers to begin to factor in further rate increases over the next couple of years.

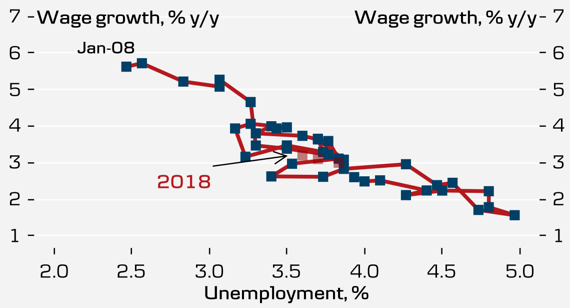
On the other hand, we do not see any great risk of a serious downturn in the housing market unless interest rates rise much further than we expect. Our calculations indicate that, even with debt at five times income, housing purchasing power will decrease by only 1pp with three rate hikes next year.

Inflation on the up



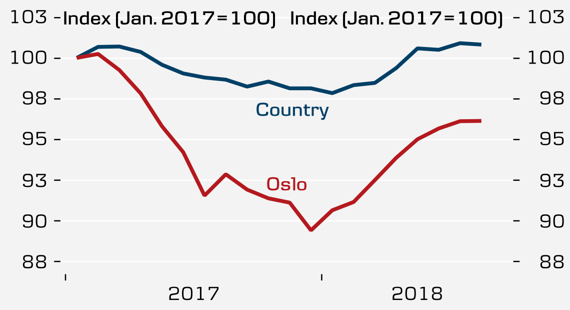
Source: Macrobond Financial, Danske Bank

Higher wage growth in line with expectations



Source: Macrobond Financial, Danske Bank

Housing prices have begun to level off



Source: Macrobond Financial, Danske Bank

Gradual increase in interest rates

As expected, Norges Bank raised its key rate by 25bp to 0.75% at the September rate-setting meeting. The bank's interest rate projections in the accompanying monetary policy report indicate two further hikes in each of the next three years.

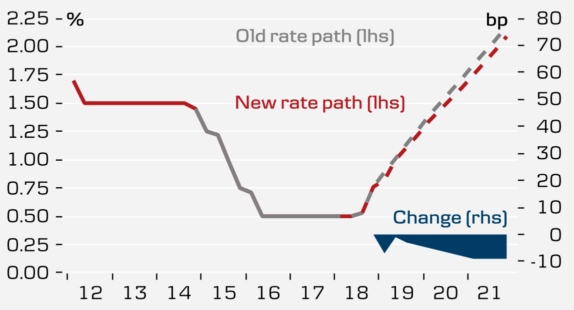
It is clear that the central bank's strategy is a trade-off between the need to raise interest rates to rein in pressures in the economy, and the need to avoid overly sudden changes in interest rates given high household debt. As we have mentioned in previous forecasts, this indicates that significant departures from expectations will be needed for the bank to move from its strategy.

At the same time, it should be noted that capacity utilisation is now believed to be about normal, while growth is still above trend, and wages and prices are accelerating. This suggests that the central bank should not wait too long to normalise interest rates if it wants to avoid big problems in the real economy further ahead.

So, although we are still forecasting two hikes next year, we think the risk is to the upside, based on our expectations for the economy as presented in this report. We are also particularly interested in what interest rates can be expected beyond the three-year horizon for Norges Bank's projections. Long-term neutral real rates around zero would appear to be the bare minimum for the Norwegian economy.

We still expect the next rate increase to follow in March next year.

Norges Bank signalling gradual rise in interest rates



Source: Macrobond Financial, Danske Bank

We still expect the krone to strengthen

Once again the krone has been much weaker than we anticipated. Strong growth in the Norwegian economy and the increasing prospect of higher interest rates, along with higher oil prices, should have resulted in a stronger krone.

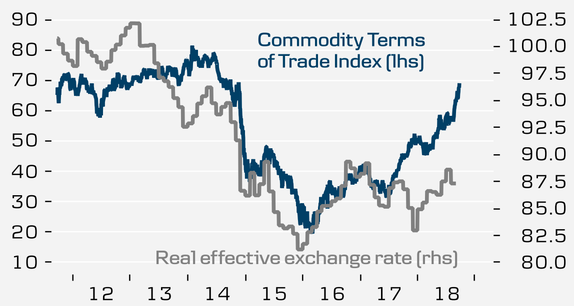
However, a number of global factors have reduced interest in the currency: the trade conflict between China and the US, the troubles in Turkey and Russia, fiscal uncertainty in Italy and the general election in Sweden have all served to undermine the krone, either through a general decline in risk appetite or through contagion from a weaker Swedish krona.

The domestic arguments for a stronger krone have actually strengthened since our June forecast, which means that the currency has moved even further away from long-term equilibrium levels. Hence we have seen the krone gaining gradually against most currencies in September as global risk appetite has improved, although there was a slight hiccup when Norges Bank proved less aggressive than expected.

We nevertheless expect to see the krone make further gains, with the usual exception of December when liquidity tends to be limited. A simple calculation shows that the improvement in the terms of trade due to rising oil prices over the past year is still not reflected in the krone.

We therefore forecast an exchange rate of 9.20 to the euro in one year's time.

Still some way to go for (real) exchange rate



Source: Macrobond Financial, Danske Bank

At a glance

			Forecast	
National account	**2017**	**2017**	**2018**	**2019**
	NOK bn (current prices)	% y/y		
Private consumption	1472.0	2.3	2.3	2.5
Public consumption	797.0	2.5	1.9	1.8
Gross fixed investment	824.5	3.6	-0.4	4.4
Petroleum activities	155.0	-3.8	3.0	11.0
Mainland Norway	669.5	7.0	0.0	3.5
Dwellings	198.6	7.0	-8.7	0.5
Enterprises	295.8	9.3	3.1	5.2
General government	175.1	3.6	3.3	0.6
Mainland demand	2938.6	3.3	2.8	2.3
Growth contribution from stockbuilding	0.0	0.1	0.5	-0.2
Exports	1196.9	-0.2	0.8	2.4
Crude oil and natural gas	459.5	1.5	-2.5	1.0
Traditional goods	381.3	1.7	3.0	2.8
Imports	1092.7	1.6	3.3	3.0
Traditional goods	635.6	2.7	3.0	3.3
GDP	3304.4	2.0	2.0	2.1
GDP Mainland Norway	2798.1	2.0	2.4	2.5

Economic indicators	**2017**	**2018**	**2019**
Employment, % y/y	1.1	1.3	1.2
Unemployment (NAV), %	2.7	2.4	2.1
Annual wages, % y/y	2.3	3.0	3.5
Consumer prices, % y/y	1.9	2.8	1.6
House prices, % y/y	5.0	1.5	1.5
Core inflation	1.4	1.6	1.9

Financial figures	**01/10/2018**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	0.50	0.75	1.00	1.25
2-yr swap yield, % p.a.	1.56	1.65	1.95	2.20
10-yr swap yield, % p.a.	2.33	2.40	2.50	2.65
EUR/NOK	9.45	9.20	9.20	9.10
USD/NOK	8.14	8.00	7.80	7.28

Source: Danske Bank

Finland

As good as it gets

- **The Finnish economy has continued to perform well in 2018. GDP rose 2.5% y/y wda in Q2 and growth was broad-based. Leading indicators have peaked, but the level remained strong in September 2018. We have kept our 2018-19 GDP growth forecast unchanged, but expect unemployment to fall more than expected before.**
- **Consumer confidence has consistently stayed at a very high level and improving employment continues to boost private consumption.**
- **The outlook for the export industries is reasonably good thanks to growth in export markets and improved price competitiveness. Finland is relatively modestly exposed to Brexit and trade wars.**
- **The Finnish housing market is stable and bubble-free but the market is strongly divided geographically.**
- **Fast GDP growth has increased tax revenue and continues to improve public finances. However, higher labour force participation will be needed to deal with the deteriorating old-age dependency rate in the future. The rating outlook is getting brighter, but rating agencies need further evidence of successful structural reforms. Social and health care reform (SOTE) may be the key to regaining AAA sovereign credit ratings, but its fate is still quite unclear.**

At a glance

Finland				
	Current forecast		Previous forecast	
% y/y	2018	2019	2018	2019
GDP	2.7	2.0	2.7	2.0
Private consumption	2.1	1.6	2.1	1.6
Public consumption	2.0	0.5	0.9	0.5
Gross fixed investment	4.0	3.5	4.0	3.5
Exports	3.2	4.0	4.2	4.5
Imports	3.0	3.5	4.2	4.0
Unemployment rate	7.6	7.3	8.0	7.7
Inflation	1.2	1.5	1.0	1.4
Government balance, % of GDP	-0.3	0.1	-0.3	-0.1
Current account, % of GDP	-0.6	-0.2	0.5	0.7

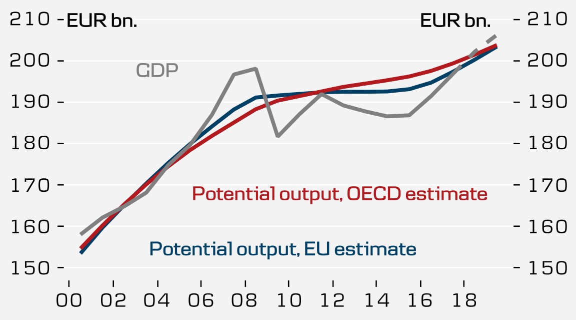
Source: Danske Bank

Lack of skilled labour becoming a bottleneck

In Finland, GDP increased by 2.8% in 2017 and we expect a roughly similar speed of growth this year. Finnish GDP finally surpassed the pre-financial crisis peak production level in Q2, although growth slowed to 0.3% q/q and 2.5% y/y after a strong Q1. Exports and investment have slowed down more than expected, but consumption has remained strong. Leading indicators are past their peak, but levels are good and the risk outlook neutral. In general, the outlook for the next couple of years remains good, although we expect that the growth rate will slow in 2019 already. We have kept our GDP growth forecast unchanged at 2.7% in 2018 and 2.0% in 2019. Beyond our forecast horizon, given structural barriers and ageing global expansion, growth is likely to converge closer to potential GDP growth at roughly 1.5%, we estimate.

All the main components of GDP continue to support the economy in 2019. A combined effect of improving employment, rising wages and low inflation has led to an acceleration of private consumption in 2018, which should carry at a slightly reduced speed into 2019. Exports are higher than last year, but growth has clearly weakened. Export industries continue to benefit from growing global demand and improved domestic price competitiveness, but weakness in the Russian economy and Swedish krona may weigh on export volumes. Capacity constraints have been addressed by major investment projects and there is less growth to be seen in the near future. After a strong upswing in production, GDP growth rates should return closer to the long-term trend level in the medium term.

GDP reaching towards potential



Source: Macrobond Financial data, Statistics Finland

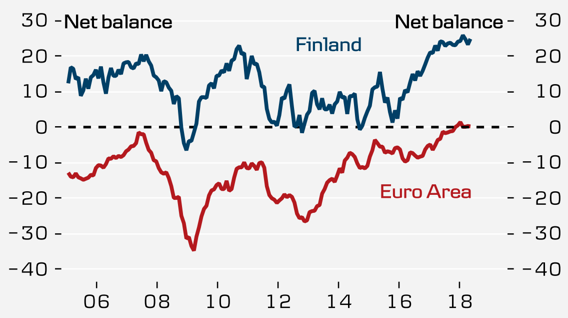
Consumer confidence has remained at a very high level for well over a year now. Households continue to be extremely confident about both their personal finances. Rewards from the on-going recovery are starting to benefit consumers more. The unemployment rate is decreasing and nominal wage growth exceeds inflation into the foreseeable future. The interest rate burden remains extremely low at least in 2019.

Leading indicators continue to indicate robust growth across industries, although confidence indicators have peaked already. The current growth rate is above the long run potential and the economy is closing the output gap quickly. Maintaining growth will become increasingly difficult in the future due to demographics. Improving growth potential depends partly on structural policies and the labour participation rate, which is well below other Nordic countries. Investment in R&D has stayed low compared to history, which may imply a lacklustre rise in productivity.

Private consumption supports growth

Growth in private consumption slowed down to 1.3% in 2017. However, considering the negative average real earnings growth, consumption held its ground quite well with the help of tax cuts and low inflation. In 2018, the growth in private consumption is expected to accelerate to 2.1%. As a consequence, domestic demand is set to support the Finnish economy, balancing slower export growth. Wage growth is still somewhat modest but relatively low inflation and the rise in employment help consumers. All in all, the total wage sum for the whole economy is growing at a healthy rate of 4-5% with the help of rising labour participation. The net effect from changes in income taxes is roughly neutral in 2018 and 2019.

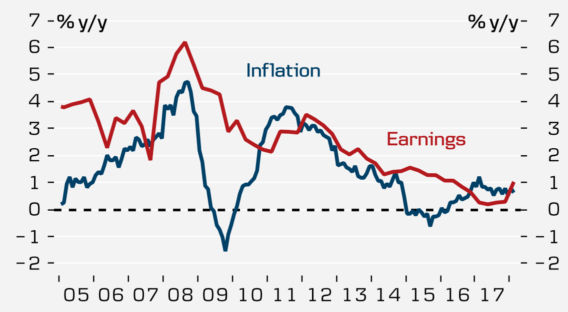
Consumer confidence is very high



Source: Macrobond Financial data, Statistics Finland

Private consumption has been quite robust in Finland even during a long period of weak economic growth. However, an increasing share of consumption has been financed using debt. In 2017, the net savings rate decreased to -0.9%, which is the lowest level of savings in Finland since 1988. So far, household debt compared to disposable income is not exceptionally high in an international comparison and, thanks to low interest rates, the interest-rate burden paid by households is very low. Improving employment and wage growth is likely to reverse the pattern of a decreasing savings rate, and we expect private consumption to follow the development in earnings more closely in the future. Consequently, we believe that the risks in the household sector finances are still moderate. In principle, exposure to rising rates may become a more significant factor later on given that in Finland most loans for households are linked to variable Euribor rates.

Earnings growth is recovering



Source: Macrobond Financial data

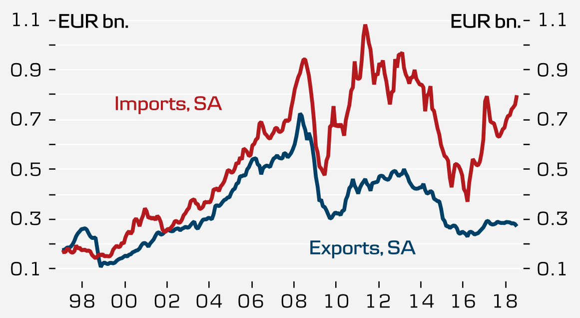
The Fin-FSA has been worried about the growing household debt. To combat the issue, they decided to tighten the maximum loan-to-collateral (LTC) ratio beginning from 1 July 18. The maximum amount of housing loan was capped to 85% of the current value of the collateral posted at the time of loan approval. The new regulation will not apply to first-time buyers for whom the LTC ratio remained unchanged at 95%. As for consumer lending, which is growing considerably faster than housing loans, Fin-FSA has few tools. A positive credit register is one tool under consideration but progress is going to take some time.

Export outlook remains solid

In 2017, exports of goods and services grew by 7.5%, the highest annual rate seen in Finland after the financial crisis. During the same period, import growth was only 3.5% and net exports were a big contributing factor to GDP growth. In comparison, the development of export industries has been slightly disappointing this year. In H1 18, the growth rate for exports was only 2.5% y/y. Imports grew at nearly the same rate and, consequently, net exports are not boosting GDP anymore. At the moment, growth is relying on domestic sources such as private consumption and investment.

Despite a slow start, there is no particular reason to be worried about manufacturing industries and the outlook for exports remains bright. Business confidence and order books are well above long-term average levels and production expectations have stayed high. However, it is clear that the fastest recovery for export industries is already behind us. According to the customs reports, the value of goods exports has risen by approximately 6.6% y/y in the January-July period. The figure is fairly good considering that the level of comparison from last year is already quite high, although much of the growth was driven by rising export prices rather than volume. The growth in the value of goods exports has been fast, especially to the euro area. However, the growth profile is diverse and goods exports have risen in most main industries and areas. Manufacturing industries benefit from growth in export markets, improving price competitiveness and new production facilities in forest and automotive industries.

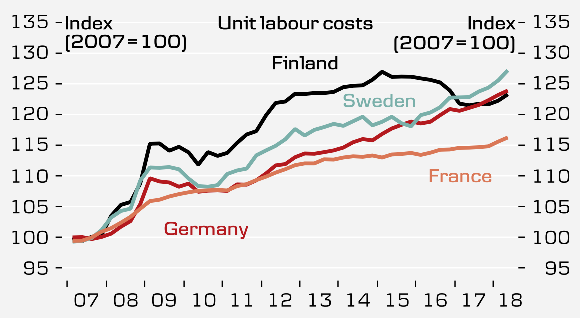
Exports to Russia stable but modest



Source: Macrobond Financial data

Export price competitiveness has been a problem for Finnish industries after the financial crisis, when productivity growth has not kept up with the wage growth. Because Finland cannot devalue its currency, the government has pursued a policy of 'internal devaluation' together with the central labour organisations. The policy has been successful in helping Finland improve its competitiveness and cut unit labour costs relative to other EU countries. Even though the most significant tailwind at the moment is strong global demand, it seems that also improved price competitiveness is contributing positively to export performance.

Internal devaluation restored price competitiveness



Source: Macrobond Financial, Statistics Finland

Business surveys for manufacturing show considerable optimism for the coming winter. Exceptionally fast export growth in 2017 was to some extent explained by large individual items such as large ship deliveries. Given that there will be fewer large ship deliveries this year, some slowdown was to be expected. We expect the volume of exports to rise by 3.2% in 2018 and 4.0% in 2019. The forecast may seem modest but given the slow start to the year, the grow needs to pick up in H2 in order for the projected level to be reached.

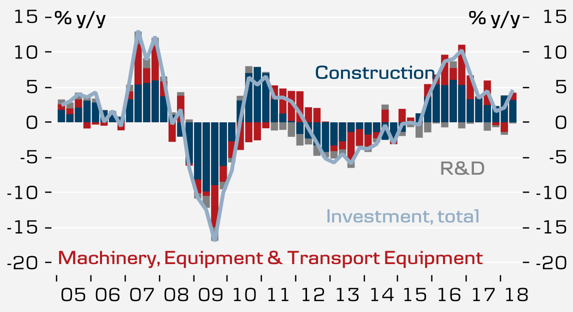
Investment statistics revised down

In H1 18, investments grew 3.3% y/y. The growth rate is in line with previous expectations and investments continue to support growth during the forecast horizon. We expect industrial capex to improve at a reasonable pace in 2018-2019 due to the high capacity utilisation rate, strong external demand and low level of investment during the past decade. However, investment growth has already begun to cool down, with construction investment leading the way. In 2017, investments increased by 4.0%, which is already considerably less than 8.5% seen in 2016. We expect investments to continue to grow by 4.0% in 2018 and 3.5% in 2019. It should also be noted that Statistics Finland has significantly revised down last year's figures for industrial investment and R&D investment. The revision brought the official figure for all gross fixed capital formation for 2017 down to 4.0%, from 5.8% published in June.

The investment boom in 2016 and 2017 began from a surge in housing construction but later on spread to industrial investment, as well as transportation equipment. Even with the recent downward revisions, the volume of industrial investment is close to a pre-financial crisis record high level. Strong domestic and export demand and low interest rates continue to support investment, but the growth rate is likely to gradually decrease when the construction boom slows down. Some larger industrial investments such as the Äänekoski bio-product mill have also been recently finished. There are several substantial new investment projects under consideration in the forest industry but it will take time before any of these still uncertain projects get started, let alone show up in statistics.

Housing investment is expected to remain at a very high level in 2018-2019 but there is not much room for additional growth. There are already some signs of the housing boom ending, but the process will be gradual. Construction investment grew 10.0% in 2016 but already slowed down to 5.1% in 2017. Strong growth has continued in H1 18 (6.2% y/y) but the amount of new housing permits is decreasing for the first time in several years. The level of new permits is still very high and indicates robust apartment construction in growth centres, especially the Helsinki region. The peak for housing starts is likely to be in 2018, leading to a peak in completed apartments following in 2019. The fact that the number of completed apartments is rising helps to cool the market down.

Investment activity



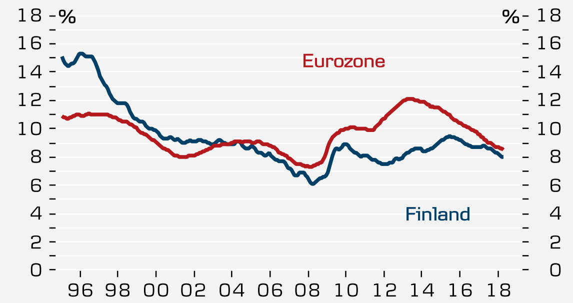
Source: Macrobond Financial data, Statistics Finland

Unemployment decreasing faster than expected

In Finland, the labour market has improved markedly over the past 12 months but the unemployment rate is still high considering the strong business cycle. In August 2018, the trend estimate for unemployment from Statistics Finland was 7.5%, which is 1.1pp lower than at the same time a year ago. Improvement has been rapid in the past but the pace seems to be slowing down. No further decrease has been seen since June. Progress will be more difficult going forward given that much of the current unemployment is likely to be structural.

The employment rate has risen both through decreasing unemployment and increasing labour force participation. The strong business cycle has encouraged people previously outside the labour force to come back and seek employment. In August, the trend estimate for the employment rate was 71.8% (up by 2.2pp from last year). The progress has been excellent but, somewhat alarmingly, the growth in employment has slowed down in recent months. In any case, the government's target of 72% is likely to be reached and even surpassed quite soon. So far, much of the progress has taken place for older groups of workers, with employment seeing little improvement for the younger workforce. Some past policy changes are only gradually taking effect, which provides some reassurance for continuing improvement in the future. In the long run, an employment rate above 75%, similar to other Nordic countries, would help a lot in achieving long-term budget sustainability as the population ages rapidly.

Sticky unemployment rate

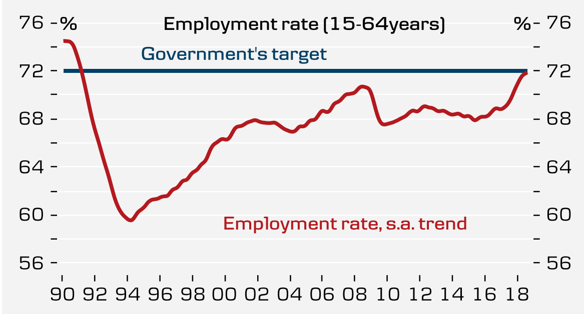


Source: Macrobond Financial data, Statistics Finland

In addition, the number of open vacancies has increased significantly, indicating that employment should continue to improve in the future. We expect that the annual unemployment rate will fall to 7.6% in 2018 and 7.3% in 2019. The forecast has been revised from 8.0% and 7.7%, respectively. An increasing share of open vacancies is reported by employers as being 'hard-to-fill', which indicates that we are not as much above the NAIRU anymore. Consequently, the unemployment rate is likely to be sticky and further progress harder.

Wage growth dropped to a historically low level in 2017. Even nominal earnings growth was close to zero and labour costs fell more than anywhere else in the EU. In 2018, earning growth is returning to a more typical range. Together with wage drift, we expect average earnings to rise 2% in 2018 and 2.3% in 2019. This level is still quite tolerable and lower than in some export competitors like Sweden or Germany. However, difficulties in filling vacant positions clearly increase the risk of higher wage drift in some industries like construction.

Employment rising towards the government target

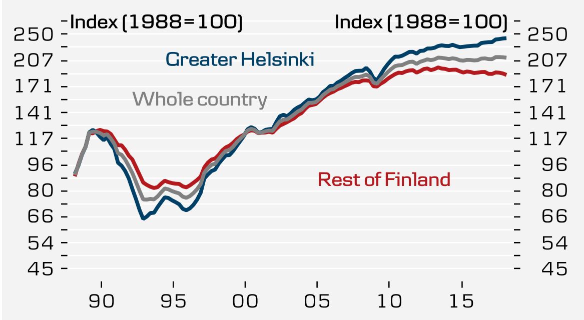


Source: Macrobond Financial, Statistics Finland

Strong supply of housing cools the price pressure

Better employment opportunities and growing interest in an urban lifestyle continue to drive an increasing number of Finns into cities. Most immigrants end up in cities as well. Consequently, the Finnish housing market has become segregated geographically, as well as by the type of housing in question. Growth in housing demand has raised prices and caused a construction boom in Helsinki and a few other towns, while the real estate market in the rest of the country has remained more of less flat or is even declining. In some scarcely populated parts of the country, the housing market does not function well and part of the housing stock is worthless. Migration to growth centres has created especially strong demand for compact apartments, and construction companies have increased the supply reasonably quickly. Even if Helsinki is fairly expensive, the price rise has not been anything like that seen in other Nordic growth hubs such as Stockholm or Oslo.

Diverging housing prices



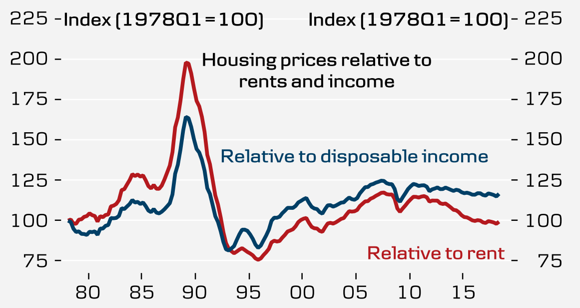
Source: Macrobond Financial, Statistics Finland

Renting has become more popular among younger generations and the buy-to-let market has grown. More than half of new apartments end up bought by professional or private investors, which has led to a boost in housing construction. For the most part, there are no signs of oversupply, however. The rise in rents has exceeded the rise in housing prices or wages. Rents are rising approximately at an annual rate of 2.5% in 2018. Supply of new housing is increasing significantly in 2018 and is likely to be high also 2019, which provides downward pressure for prices: both rents and housing prices are likely to rise only moderately in 2019.

Prices of old dwellings rose 1.6% in 2017. On average, house prices have been nearly flat in Finland for approximately the past five years. However, the average price development does not capture the situation in full, as it is calculated from decreasing prices in some regions and rising prices in others, such as Helsinki and its surrounding municipalities. Prices of old dwellings grew on average by 2.7% y/y in the Helsinki region and decreased by 0.9% elsewhere in Q2. A similar main trend is likely to continue. In Helsinki, new apartments in particular have been in strong demand, and construction has followed demand. Prices of new apartments rose by 5.0% in the Helsinki region in 2017. The price of new apartments was more or less flat in Q2 18, indicating that supply is not far behind demand. The price rise of new apartments is likely to be slow in the near future due to rapidly increasing supply.

Low interest rates, plentiful jobs and high consumer confidence support the housing market, and we still expect prices to grow modestly. There seems to be only a small risk of overheating in the future. On average, house prices are expected to increase by 0.8% in 2018 and 1.2% 2019.

Relative housing prices are at historical average



Source: Macrobond Financial, Statistics Finland

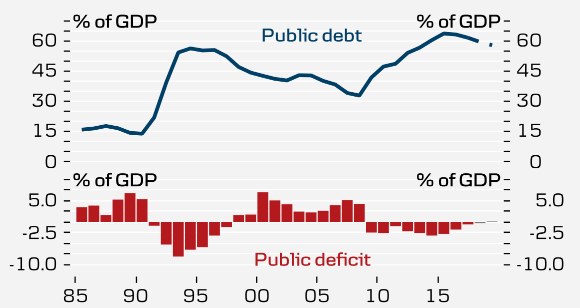
Public finances nearly balanced, for the moment

Every budget for the Finnish central government has had a significant deficit since the financial crisis. Thanks to surplus in social security funds, which consist mostly of statutory pension companies, the general government deficit is smaller. As a consequence, the public debt has grown quite fast. Deficits have helped to maintain the welfare state with fairly generous social security, even if some benefit cuts have been made. Municipalities have also been running a deficit on average. Planned social and health care reform SOTE would add a new layer of provincial administration with independent budget.

Thanks to economic recovery, improving tax revenue and austerity measures, the general government debt to GDP ratio is already down quite a bit from its peak level in 2015. The ratio is forecast to fall below 60% in 2018. General government is very close to reaching a modest surplus in 2019. The government has been able to maintain a fairly austere fiscal policy also in parliamentary election year 2019. Measured by the change in the cyclically adjusted primary balance, the 2019 budget looks modestly contractionary.

Structural reforms are still 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. Otherwise, the debt ratio is likely to rise again in the 2020s. The rating outlook is getting brighter, Fitch changed the outlook to positive in August, but rating agencies are likely to need further evidence of sustained economic growth and successful structural reforms. Successful social and health care reform (SOTE) could be one way of regaining a AAA sovereign credit rating. At the moment, the fate of the SOTE project is still quite unclear and its true potential to reduce healthcare costs hotly debated. This government may fail to enact and get approval for the law needed for the reform.

Debt to GDP levelling down



Source Macrobond Financial, Statistics Finland

At a glance

		Forecast		
National account	**2017**	**2017**	**2018**	**2019**
	EUR bn (current prices)	% y/y		
GDP	223.8	2.8	2.7	2.0
Imports	85.2	3.5	3.0	3.5
Exports	86.3	7.5	3.2	4.0
Consumption	173.5	0.8	2.1	1.3
- Private	122.0	1.3	2.1	1.6
- Public	51.5	-0.5	2.0	0.5
Investments	50.5	4.0	4.0	3.5

Economic indicators	**2017**	**2018**	**2019**
Unemployment rate, %	8.6	7.6	7.3
Earnings, % y/y	0.2	2.0	2.3
Inflation, % y/y	0.7	1.2	1.5
Housing prices, % y/y	1.6	0.8	1.2
Current account, EUR bn	-1.5	-1.5	-0.5
- % of GDP	-0.7	-0.6	-0.2
Public deficit, % of GDP	-0.6	-0.3	0.1
Public debt/GDP, % of GDP	61.3	59.3	57.7

Financial figures	**01/10/2018**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	-0.40	-0.40	-0.40	-0.40
2-yr swap yield, % p.a.	-0.10	-0.10	0.00	0.15
10-yr swap yield, % p.a.	1.00	0.95	1.05	1.25
EUR/USD	1.16	1.15	1.18	1.25

Source: Danske Bank

Global overview

From boom to cruising speed

- **After moderation in the global economic cycle in the first half of the year, more stabilisation has been observed in H2.**
- **We still expect growth to stay above potential this year and next, led by the US and China.**
- **Inflation pressures are set to rise modestly, implying a gradual withdrawal of monetary policy support in advanced economies.**
- **The main risks to our forecast are a prolonged trade war between the US and China and inflation increasing faster than expected, prompting sharper monetary policy tightening.**

The global manufacturing cycle peaked in early 2018…

After a strong synchronised upturn in the global industrial cycle since early 2016, the global economy has seen a rocky start to 2018. More stabilisation has been observed amid signs that the global manufacturing cycle is losing momentum somewhat but at a much slower pace. Our medium-term business cycle model, supported by still solid PMIs despite the recent decline, still suggests a solid and broad-based economic expansion. Inflation dynamics show a somewhat mixed picture, but with wage growth trending upwards more confidence is showing in normalising/tightening monetary policy. Market sentiment is somewhat lacklustre on the back of the recent EM turmoil and trade war.

..:but global economy should still grow above potential

While global growth might be decelerating, we do not expect it to turn into a marked downturn over the next two years — rather, growth in the world economy should go from boom to a soft landing in line with its potential. As a result, we expect the global economy to grow 3.8% in 2018, falling to 3.7% and 3.6% over the course of 2019-20 as major central banks tighten monetary policies, capacity constraints weigh on production and lower impetus from the manufacturing sector.

We have become slightly more upbeat on US economic growth, mainly because of the sizeable fiscal expansion still ongoing. In China, growth has slowed down this year on the back of financial tightening and probably also negative effects of the US-China trade war. Although we see a high risk of a further escalation in the trade war, we believe China will counter negative effects by monetary and fiscal stimulus. Hence, we continue to look for a moderate slowdown and not a hard landing. In the euro area, we expect a gradual decline towards potential growth of 1.5%: real GDP growth to 2.0% in 2018, but slowing to 1.7% and 1.5% in 2019 and 2020, respectively, as the stronger euro and global growth moderation weigh on net exports, offsetting modest investment growth.

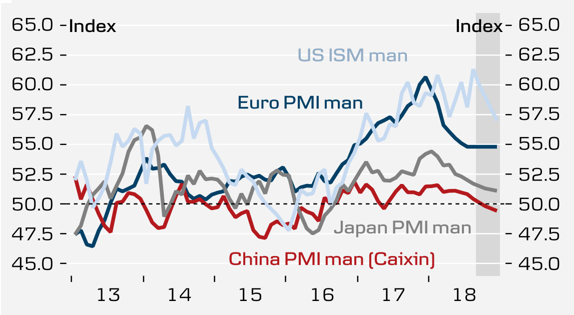
A pertinent question, in our view, is how long the recovery can go on for, with our forecast suggesting that the current US expansion is the longest since the Second World War. We do not see the trigger for a recession over the forecast

Global forecasts

% y/y	2017	2018F	2019F	2020F
Global	3.7	3.8	3.7	3.6
USA	2.2	2.8	2.5	2.0
Euro area	2.5	2.0	1.7	1.5
Japan	1.7	1.0	1.1	0.5
UK	1.7	1.3	1.5	1.5
China	6.9	6.6	6.4	6.2

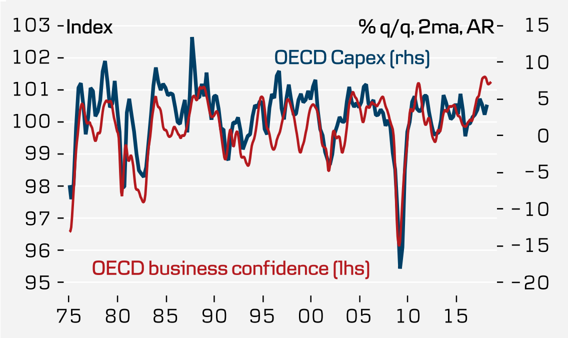
Source: Bloomberg, IMF, Danske Bank

Global manufacturing from acceleration to soft landing across regions



Source: Markit, Macrobond Financial, Danske Bank

Global capex boom not kicking off despite high business confidence



Source: Macrobond Financial, Danske Bank

period. The flat US yield curve can be said to be a danger sign of markets expecting a recession, but again, not likely within our forecast horizon although it may change the Fed's indication of three hikes in 2019.

Gradual monetary policy tightening with looming inflation pressures

Typically, a recovery ends when central banks have to step on the brakes if inflation threatens to exceed the central bank's target permanently. Continued solid economic growth and a tightening of labour markets in many countries, have translated into some wage pressure, which in turn should support an ongoing upward trend in inflation. Since the start of the summer, headline inflation has been boosted by the rise in oil prices to exceed the inflation target in certain jurisdictions, but in our base case, where the rise in oil prices is temporary, the impact on inflation should fade. Core inflation is rising only modestly as wage growth is starting to pick up across most jurisdictions and in particular where unemployment rates are close to full employment, such as the US, Germany and Japan. Hence, we see core inflation reaching 1.4% in the euro area and 2.2% in the US by 2019. We believe the biggest upside risk to inflation is in the US, given its sizeable fiscal expansion and limited slack in the economy but also non-linearity of the so-called Phillips curve may show upward pressure in the euro area and some Nordic countries.

We continue to expect a gradual tightening of monetary policy in the G3 should the US yield curve not invert markedly. The Fed is widely expected to raise interest rate once more this year, followed by three hikes next year, marking a gradual hiking cycle compared with the past. In the euro area, the ECB is anticipated to gradually end its bond buying programme by the end of this year as economic fundamentals warrants this. Given the most rise in the (core) inflation outlook, we expect the first ECB hike in December 2019. The same goes for the Bank of Japan, which is also struggling to get inflation back towards its 2% target. This will only happen very slowly and therefore we expect the BoJ to continue to raise its yield target cautiously in 2019 by 0.10% in an attempt towards removing the unprecedented policy support.

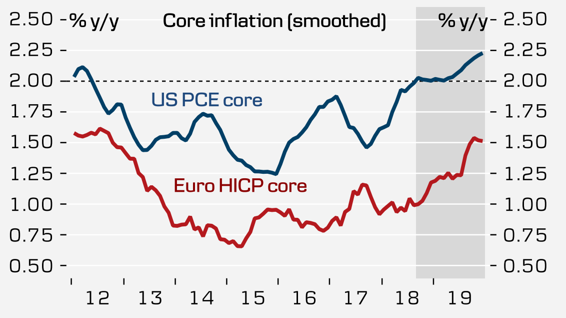
Trade war, EM turmoil and European politics the main risk

The risks to our forecast are tilted to the downside. One clear risk for the eurozone is the Italian government, which has been in place since June this year. While the budget negotiations this time do not suggest the sizeable fiscal expansion as first envisaged and feared by markets, it nevertheless does not get to the the root cause of the dilemma, which is the very large debt burden and Italy's stance towards the rest of Europe. Furthermore, the recent EM turmoil, in particular Argentina and Turkey, may give jitters to global sentiment.

Another significant downside risk is a further escalation of the trade conflict between the US and major trading partners such as the EU and China. The intensification of the US-China trade war is of particular concern as such an escalation will weigh on global trade and investor sentiment. Risk to the economy is increasing as the trade war escalates and at the moment we see a somewhat high probability that it escalates further. In other words, it gets better before it gets worse.

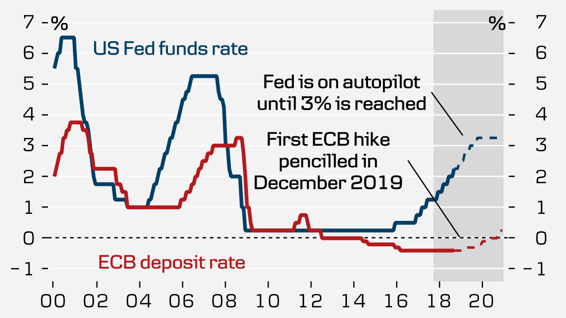
Some of the downside risks to growth could be mitigated by a boost from potential fiscal expansion in both the US and Europe.

Global inflation pressures rising gradually...



Source: Macrobond Financial, Danske Bank

...implying only gradual tightening of global monetary policies



Source: Macrobond Financial, Danske Bank

Financial forecast

Bond and money markets

		Key int. rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK
USD	01-Oct	2.25	2.40	2.99	3.13	116.0	-	642.6
	+3m	2.25	2.80	3.10	3.10	115.0	-	648.0
	+6m	2.50	3.00	3.30	3.25	118.0	-	631.8
	+12m	3.00	3.30	3.35	3.30	125.0	-	596.4
EUR	01-Oct	0.00	-0.32	-0.10	1.00	-	116.0	745.6
	+3m	0.00	-0.33	-0.10	0.95	-	115.0	745.3
	+6m	0.00	-0.33	0.00	1.05	-	118.0	745.5
	+12m	0.00	-0.33	0.15	1.25	-	125.0	745.5
JPY	01-Oct	-0.10	-0.05	0.06	0.36	132.2	113.9	5.64
	+3m	-0.10	-	-	-	128.8	112.0	5.79
	+6m	-0.10	-	-	-	134.5	114.0	5.54
	+12m	-0.10	-	-	-	142.5	114.0	5.23
GBP	01-Oct	0.75	0.80	1.16	1.66	89.1	130.2	836.8
	+3m	0.75	0.82	1.30	1.70	89.0	129.2	837.4
	+6m	0.75	0.93	1.40	1.80	84.0	140.5	887.5
	+12m	1.00	1.07	1.60	1.95	83.0	150.6	898.2
CHF	01-Oct	-0.75	-0.74	-0.50	0.55	114.1	98.3	653.6
	+3m	-0.75	-	-	-	113.0	98.3	659.5
	+6m	-0.75	-	-	-	116.0	98.3	642.7
	+12m	-0.75	-	-	-	120.0	96.0	621.3
DKK	01-Oct	0.05	-0.30	0.03	1.13	745.6	642.6	-
	+3m	0.05	-0.30	0.00	1.10	745.3	648.0	-
	+6m	0.05	-0.30	0.10	1.20	745.5	631.8	-
	+12m	0.05	-0.29	0.25	1.40	745.5	596.4	-
SEK	01-Oct	-0.50	-0.46	-0.01	1.28	1033.3	890.6	72.2
	+3m	-0.50	-0.25	0.20	1.20	1020.0	887.0	73.1
	+6m	-0.25	-0.10	0.10	1.15	1020.0	864.4	73.1
	+12m	-0.25	-0.10	0.15	1.10	1030.0	824.0	72.4
NOK	01-Oct	0.75	1.10	1.56	2.33	944.6	814.1	78.9
	+3m	0.75	1.24	1.65	2.40	920.0	800.0	81.0
	+6m	1.00	1.39	1.95	2.50	920.0	779.7	81.0
	+12m	1.25	1.64	2.20	2.65	910.0	728.0	81.9

Commodities

		2018				2019				Average	
	01-Oct	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2018	2019
NYMEX WTI	73	63	68	68	68	69	69	70	70	67	70
ICE Brent	83	67	75	72	72	72	72	74	74	72	73

Source: Bloomberg, Danske Bank

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	2017	2.3	1.6	0.6	4.5	4.4	4.3	1.1	1.7	4.2	1.0	36.4	7.5
	2018	1.6	2.5	0.6	7.7	2.2	4.4	0.8	1.9	4.0	0.4	34.7	5.4
	2019	2.0	2.3	0.5	2.6	3.7	3.0	1.4	2.3	3.7	-0.1	33.9	6.1
Sweden	2017	2.5	2.2	0.0	6.1	3.2	4.8	1.8	2.5	6.7	1.2	41.0	4.2
	2018	2.0	2.2	0.8	3.1	2.7	3.7	1.9	2.6	7.1	1.0	37.0	2.8
	2019	1.6	1.9	0.4	1.3	2.3	2.2	1.6	2.7	7.6	0.8	35.0	2.8
Norway	2017	1.8	2.3	2.0	3.5	0.8	2.2	1.8	2.3	2.7	-	-	-
	2018	2.4	2.3	1.9	-0.4	0.8	3.3	2.8	3.0	2.4	-	-	-
	2019	2.5	2.5	1.8	4.4	2.4	3.0	1.6	3.5	2.1	-	-	-

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	2017	2.5	1.7	**1.2**	**2.8**	5.5	4.1	1.5	1.6	9.1	-0.9	86.7	3.5
	2018	2.0	1.5	**1.1**	**3.0**	2.9	2.8	1.7	2.2	8.3	-0.7	86.0	3.4
	2019	1.7	1.9	**2.1**	**1.9**	3.1	3.8	1.5	2.3	8.0	-0.6	85.5	3.4
Germany	2017	2.5	2.0	1.6	3.6	5.3	5.3	1.7	2.6	3.8	1.3	64.1	7.9
	2018	2.0	1.5	1.1	3.5	3.1	3.9	1.7	3.0	3.4	1.2	60.2	7.9
	2019	1.9	2.2	2.3	3.1	3.7	5.4	1.6	3.2	3.3	1.0	56.3	7.6
Finland	2017	2.8	1.3	-0.5	4.0	7.5	3.5	0.8	0.2	8.6	-0.7	61.3	-0.7
	2018	2.7	2.1	2.0	4.0	3.2	3.0	1.2	2.0	7.6	-0.3	59.3	-0.6
	2019	2.0	1.6	0.5	3.5	4.0	3.5	1.5	2.3	7.3	0.1	57.7	-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	2017	2.2	2.5	-0.1	4.8	3.0	4.6	2.1	2.5	4.4	-3.5	105.0	-2.5
	2018	2.8	2.5	1.4	5.7	5.1	3.8	2.5	2.8	3.9	-4.0	106.0	-3.0
	2019	2.5	2.4	1.2	4.1	3.4	2.8	2.0	3.1	3.6	-4.6	107.0	-3.4
China	2017	6.9	-	-	-	-	-	2.0	9.0	4.1	-3.7	47.6	1.4
	2018	6.6	-	-	-	-	-	2.3	8.7	4.3	-3.4	50.8	1.1
	2019	6.4	-	-	-	-	-	2.3	8.5	4.3	-3.4	53.9	1.2
UK	2017	1.7	1.9	-0.1	3.3	5.7	3.2	2.7	2.2	4.4	-1.8	87.5	-4.1
	2018	1.3	1.2	1.2	0.7	-0.9	-0.2	2.5	2.5	4.1	-1.8	85.4	-4.4
	2019	1.5	1.6	0.6	1.4	1.5	1.7	1.5	2.9	3.9	-1.7	85.3	-4.0

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

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