Danske Bank

Investment Research

28 March 2019

Nordic Outlook

Economic and financial trends

- Denmark: defying the global slowdown – for now
  Exports have performed well but continued recovery depends on growth abroad

- Sweden: good times are over
  Growth is heading down and rates are not headed up

- Norway: growth accelerating despite global slowdown
  Oil investments support continued strong growth

- Finland: bumpy ride ahead
  Three years of strong expansion are over

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Important disclosures and certifications are contained from page 39 of this report.

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

At a glance

Exposed to global risks

The global economy is looking weaker, with continued concerns over growth in China and a lot of discouraging data from the manufacturing sector, not least in the euro area. A lot of this weakness is likely to prove temporary. One reason is the current uncertainty about both the US-China trade war and Brexit, both of which we hope to get some clarification on. Another is the sharp slowdown in China, which looks likely to be reversed following the large amount of stimulus from Chinese authorities. Our main scenario is that the global economy will regain momentum and again support Nordic growth. Even so, there is a risk that we face a period of more prolonged weakness.

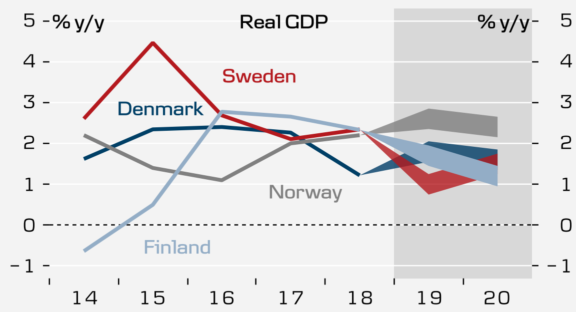
So far, though, the Nordics have been resilient to the global manufacturing slowdown, broadly speaking. Danish exports and industrial production have actually accelerated and Swedish manufacturers remain surprisingly upbeat. Finnish exports are supported by shipbuilding for the time being and Norway is more dependent on global oil investments than on the global manufacturing cycle - and oil investments are looking strong.

However, the Nordic countries are also in quite different positions and at different levels of risk from a more prolonged global slowdown. Even in the base case, we expect a pronounced decline in growth in Sweden for domestic reasons and export weakness would clearly hurt. Finland is slowing already, but is not at a similar risk of a sharp housing price drop as Sweden. Denmark will clearly weaken if Europe does, but has unusually large resistance compared to previous crises. It is difficult to see a scenario where Norway's economy weakens, at least in the near term. With Finland as a possible exemption, the Nordic countries have ample opportunity to use fiscal policy to counter a crisis.

Political risks on top of economic ones

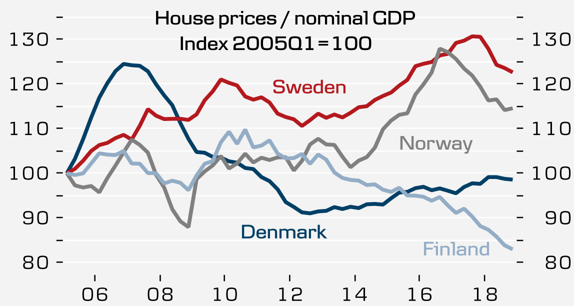
Trade war tensions are mostly between China and the US, with limited direct effect on the Nordics, although sectors like Danish shipping are clearly affected and lower global growth matters for all. If the US starts to target Europe, Nordic producers would also be affected, for instance as suppliers to the European car industry. A disorderly Brexit would create problems closer to home and affect many Nordic companies directly. If it triggers a short-term recession or at least a slowdown in the UK, this would be felt in the rest of Europe. In terms of direct effects, Nordic exporters would likely face tariffs on some of 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 faces only 2.5% tariffs under rules and which the UK government intends to impose no tariffs on in the case of a no-deal Brexit. Denmark's substantial food exports would have to deal with more significant tariffs and would also face increased competition from non-EU producers. However, the total value of agricultural exports to the UK is only 0.5% 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 beyond the immediate effect.

A mixed outlook



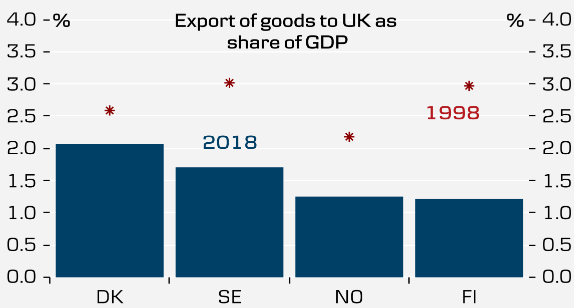
Source: Macrobond Financial, Danske Bank

Swedish house prices high relative to the economy



Source:Macrobond Financial, Danske Bank

Denmark is most exposed to the UK



Note: Norway figures are mainland GDP and export
Source: Macrobond Financial

Denmark

Defying the global slowdown – for now

- **The upswing in Denmark has almost accelerated despite the slowdown in the global economy, but growth in the slightly longer term is dependent on Europe picking up steam again.**
- **Rate hikes are not on the cards.**
- **There is scope for further increases in house prices, private consumption and investment.**
- **Exports have performed surprisingly well, and we remain fairly confident given the prospect of renewed growth abroad.**
- **Should there be a lasting global slowdown, Denmark is in a good position to ride it out.**

Still dependent on the outside world

The second half of 2018 brought a clear slowdown in the European economy which seems to be continuing into 2019. In Denmark, however, most data – including GDP growth – are painting a rather different picture. Growth has accelerated, driven by strong exports no less. This is a result of less cyclical industries accounting for a large share of Danish exports. Food, wind turbines and especially pharmaceuticals have been behind much of the recent boom – but were also to blame for exports failing to keep up with expansion abroad when it was at its strongest. In the slightly longer term, growth in Denmark is entirely dependent on the rest of Europe. We expect growth there to pick up again, and so on balance we are largely sticking to our expectation of healthy growth in Denmark in the coming years. That said, we are not anticipating any great increase in GDP growth from 2018 to 2019. Growth last year was pulled down 0.4pp by an artificially high GDP in 2017 which is set to be revised at some point. The hot, dry weather of 2018 lopped off another 0.2pp. Other things being equal, growth in 2019 will be higher by the same amount if the weather turns out more normal.

It is clear that a continued slowdown or fresh crisis in Europe poses a serious risk. This would also mean a slowdown in Denmark, but not necessarily a major crisis. Unlike in 2008, the Danish economy is in a good position to ride out a difficult period, because the economy is not out of balance to begin with. Credit growth is very low, limiting the risk of a steep drop-off in demand. House prices are low relative to interest rates and incomes. Competitiveness is good after a period of subdued wage growth. The risks there are in the Danish economy are mainly linked to specific industries and localities rather than nationwide overheating.

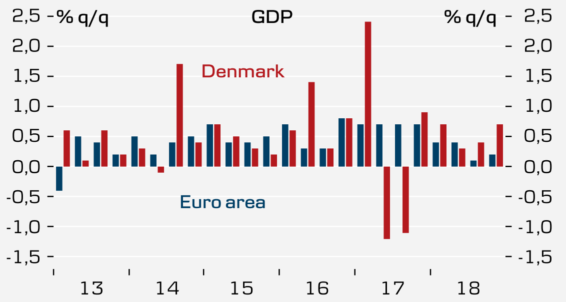
A fresh upswing in Europe and Denmark could come with risks of its own. Shortages of skilled labour are already an issue for many firms, and acceleration could lead to consumption and investment overheating. So although the slowdown in Europe has heightened the risk of a slowdown in Denmark too, it is still an economy with risks on both sides.

At a glance

Denmark	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP	1.8	1.6	2.0	1.6
Private consumption	1.8	2.2	1.9	2.3
Public consumption	0.4	0.4	0.4	0.4
Gross fixed investment	-1.2	3.2	0.7	3.6
Exports	3.2	1.9	2.7	2.0
Imports	1.2	2.4	1.3	2.9
Gross unemployment (thousands)	102.1	101.6	104.7	103.0
Inflation	1.2	1.4	1.3	1.6
Government balance, % of GDP	0.3	0.0	0.1	-0.1
Current account, % of GDP	7.1	7.1	6.0	5.9

Source: Danske Bank

Further healthy growth in Denmark



Source: Statistics Denmark, Eurostat, Macrobond Financial

Low interest rates for a long time yet

The Danish krone weakened slightly against the euro in 2018, and the Nationalbank intervened in December and January this year to support the currency. In our view, however, this weakness was due largely to Danish investors in foreign shares losing money, which reduced demand for kroner for hedging currency risks – in other words, a temporary phenomenon. We do not think we came anywhere near a unilateral Danish rate increase during the winter – that would presumably require much greater pressure on the krone. The currency market has also moved the other way in recent months, and there is no prospect of the Nationalbank hiking before the ECB, which will not be until at least 2020.

The likelihood of a further long period of low interest rates in Europe has sent long yields to new lows, supported by solid foreign interest in Danish bonds. Fundamentally, interest rates are low because inflation is low in the euro area, and given that inflation (and inflation expectations) in Denmark are no higher, it is hard to argue that monetary policy is poorly matched to Danish conditions. But just as there are differences between the economies of the various euro countries, there may also be differences between the various parts of the Danish economy – for example, persistently low interest rates could increase the risk of unsustainable price inflation in parts of the housing market.

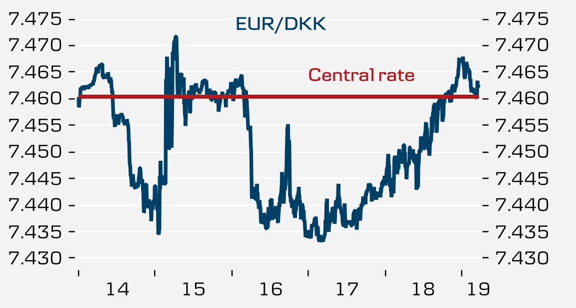
Inflation higher but still modest

For a long period during the autumn, Denmark had the lowest inflation of all the EU nations. This was due partly to food prices falling in Denmark but soaring elsewhere. The annual increase in rents in Denmark was also very modest last year. Rents make up 21% of the consumer price index, so slowly rising rents will have an appreciable impact on overall inflation. We expect 2019 to be another year of modest inflation, not least because the annual increase in rents in February was once again very small by historical standards. The increase of 0.9% means that rents have gone from pushing up inflation by around 0.5pp through to 2013 to contributing less than 0.2pp today. Rents have risen slowly across the different housing types, but especially for co-operative housing, where a number of associations have refinanced their loans and so been able to reduce monthly rentals.

We nevertheless expect inflation to be higher than last year, due not least to many district heating plants putting their prices up sharply following the demise of a government subsidy. On top of last summer's big drop in district heating prices, this has already pushed inflation up 0.16pp relative to last year, and more people will probably be finding it more expensive to keep warm as the remaining plants adjust their prices over the spring and summer. We have also seen a steep increase in food prices at the beginning of 2019.

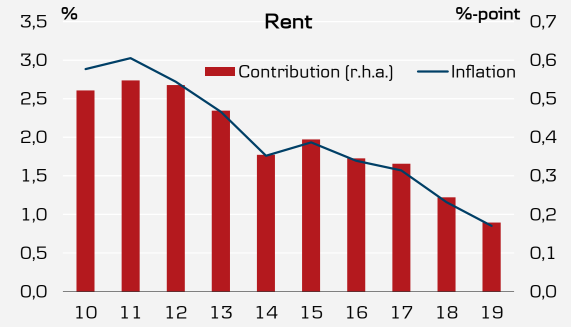
Looking slightly further ahead, there is nothing to suggest that inflation will hit the ECB's 2% target in the near future. For as long as there is no significant upward pressure on wages, there will be limits to how much impact they can have through prices for services. This process is under way, but will be protracted. We expect inflation to end up at 1.2% this year and 1.4% next year.

Krone back on track



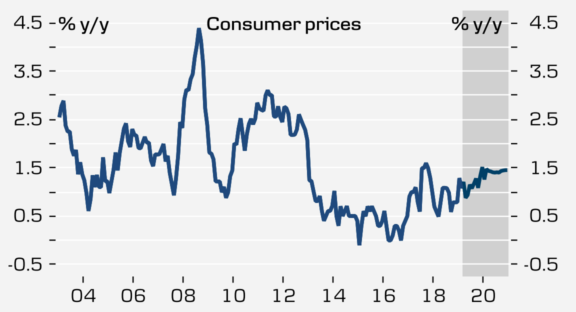
Note: DKK per EUR
Source: Danmarks Nationalbank, Macrobond Financial

Rents have risen slowly by historical standards



Source: Statistics Denmark

Inflation higher but still modest



Source: Danske Bank, Statistics Denmark, Macrobond Financial

Labour market in balance

Based on indicators such as registered unemployment and vacancies, the labour market tightened in 2018, a year which on average saw 1.9% more people in work than the year before. Despite this, the number of firms reporting shortages of labour as a constraint on production decreased. The percentage of people self-reported as unemployed was also the same at the end of the year as it was at the beginning of the year. Wage growth was up slightly on 2017 but appears to have slowed in the second half of the year. The overall picture of the labour market thus painted is one of somewhat mixed signals, but underneath it all we are seeing both healthy employment growth and healthy inflows into the labour force. It is also possible that concern about the global economy has prompted firms to hold back on recruitment, and there is thus a risk of a slowdown in the labour market in the time ahead.

Our main expectation, however, is that the current trend will continue. There is enough growth in our forecast to drive further job creation, and the labour force will also be boosted by the state pension age rising by six months in both 2019 and 2020 (and 2021 and 2022). There is also scope for a higher employment rate among those below the old pension age, especially the young. Hours worked have risen far less than the number of employed in this upswing, which means there is potential for more people to increase their hours. Of course, the growth in our forecast does also presuppose a continued influx of labour from abroad.

Lower interest rates to lift a weaker housing market

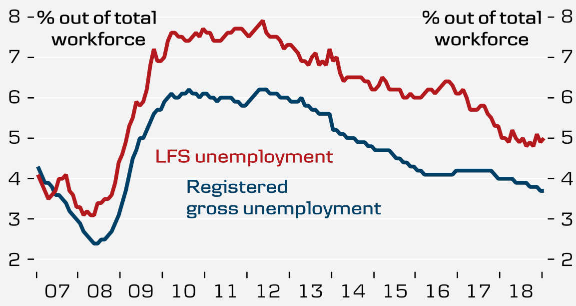
We expect the recent trend of rising house prices but gently falling apartment prices to continue. House price inflation is expected to slow from an annual rate of around 3-5% to 2-3% at national level. A number of indicators point to more modest increases in house prices, including reduced interest in viewings, lower turnover, and slightly bigger reductions in asking prices, although these are still at a low level. More subdued growth in incomes and a weaker apartment market (with smaller gains on sales there resulting in less capital for house purchases) may also cause house prices to rise slightly more slowly. However, house prices are unlikely to stall completely given the general improvement in consumer finances and the prospect of very low interest rates for quite some time to come.

Apartment prices have been under pressure for a year now, with tighter lending rules and a growing supply of new properties putting the brakes on previous years' strong price rises, which gradually also made it too expensive for many to enter the apartment market in the big cities. There is, however, no reason to expect prices to pick up significantly during the forecast period – despite falling interest rates, the prospect of higher property taxes in expensive areas is looming ever nearer.

Moderate underlying consumption growth could surprise to the upside

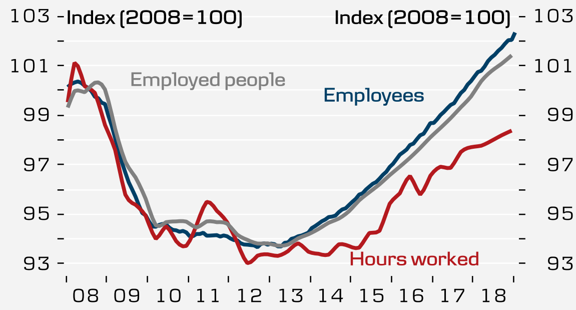
Private consumption has grown remarkably steadily at around 2% annually in recent years, and this is expected to continue both this year and next. Despite this stable year-on-year growth, driven partly by increases in real wages, employment and housing prices, there are likely to be significant intra-year fluctuations. For example, we can expect big swings in car sales after the recent worries over registration duties, and in energy consumption after the very mild weather so far this year.

Unemployment falling only slowly...



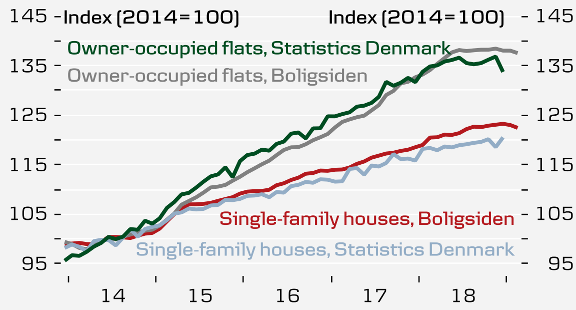
Note: LFS unemployment is survey-based and there were breaks in the data in 2016 and 2017
Source: Statistics Denmark, Macrobond Financial

...despite strong job creation



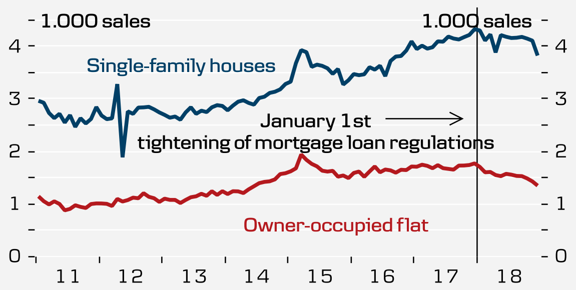
Source: Statistics Denmark, Macrobond Financial

House prices climbing more slowly, and apartment prices falling slightly



Note: Seasonally adjusted.
Source: Statistics Denmark, Boligsiden, Macrobond Financial

Turnover has slowed over the past year but is still healthy



Source: Statistics Denmark, Macrobond Financial

We are slightly less optimistic about private consumption than in our January forecast. This is partly because we expect more subdued growth in real wages, and partly because consumers have generally become less upbeat about both their personal finances and the economy.

However, there are still a number of factors that could bring stronger consumption growth than we are forecasting. The recent drop in interest rates could lead not only to savings on monthly payments and increased consumption of financial services due to the refinancing of loans, but also to an increase in debt-financed consumption. As yet, however, there are no signs of consumers translating low interest rates, rising property prices and higher incomes into increased debt. Quite the opposite –saving is rising steadily, and more and more people are taking advantage of very low interest rates to repay their debts rather than step up their spending.

Public finances to improve this year

Unlike in many other European countries, Danish public finances are in fine shape and remain supported by the overall economic recovery. We expect modest surpluses both this year and next. The surplus in 2020 will be smaller, however, due in part to the repayment of excess property taxes weighing temporarily on public finances.

In both years, central government revenue should once again be boosted considerably by revenue from the pension return tax (PAL). While 2018 saw a downturn in financial markets and so lower PAL revenue, stronger equity markets and the prospect of lower interest rates for longer are likely to boost PAL revenue during the forecast period.

Fiscal policy is expected to be more or less neutral in the coming years, largely reflecting the economic situation. Should growth surprise to the upside, however, it may be necessary to tighten fiscal policy given the tight labour market. On the other hand, there is also plenty of scope to relax fiscal policy should low growth abroad trigger a slowdown in Denmark.

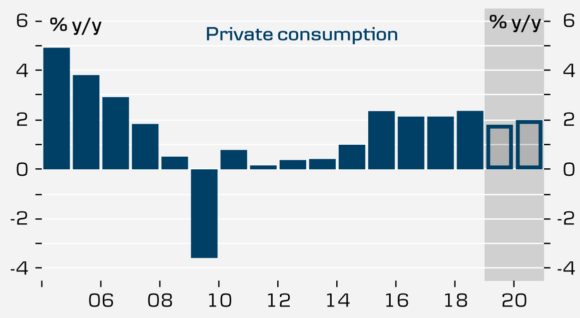
Strong exports have kept the economy rolling but the outlook is less rosy

Exports ended 2018 on a high and also seem to have hit 2019 running, which is remarkable given that growth in Denmark's most important export markets has slowed sharply since the summer. This can mainly be explained by an increasing share of Danish exports being less cyclically sensitive – in the short term at least. This applies especially to pharmaceuticals but also to wind turbines, and both industries have performed really well recently. The export boom should also be seen in the light of the preceding period of very strong growth in Denmark's trading partners in 2017 and through to summer 2018 not properly feeding through to demand for Danish goods and services. Total exports actually fell by almost 2% during this period – a period that admittedly saw some headwinds from a stronger krone, but competitiveness was still solid.

The past year has been tough for the shipping business with the slowdown in world trade. Denmark's shipping companies seem to have weathered the storm well, however, and conditions should improve considerably once the US and China finally strike a trade deal, which we expect to happen soon.

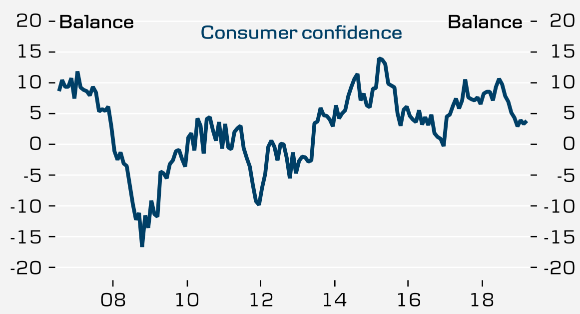
This strong export growth despite the weaker global climate has been the main reason for the Danish economy staying on track. We expect activity outside

Stable but moderate upswing in private consumption expected to continue



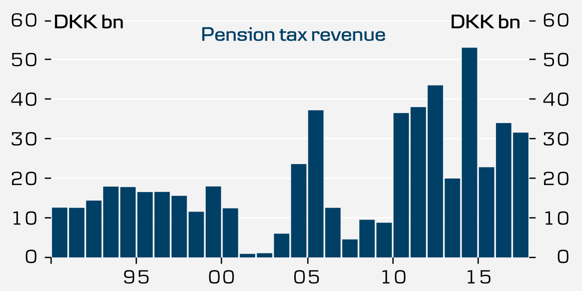
Source: Danske Bank, Statistics Denmark, Macrobond Financial

Consumer confidence has fallen sharply since the summer



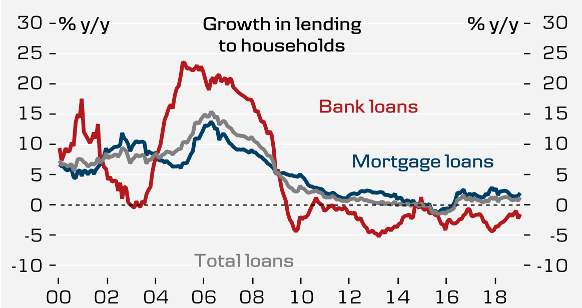
Source: Statistics Denmark, Macrobond Financial

Low interest rates and higher share prices to boost PAL revenue after a weak 2018



Source: Statistics Denmark, Macrobond Financial

If borrowing does take off, consumption could surprise to the upside



Source: Statistics Denmark, Macrobond Financial

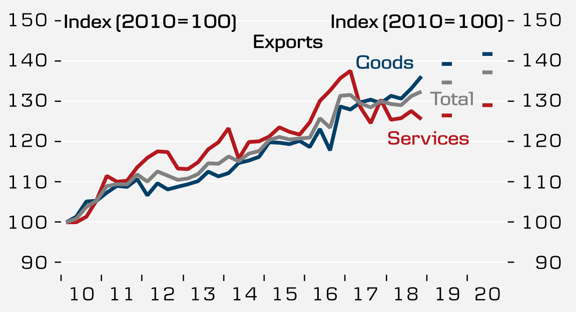
Denmark to pick up again and provide a solid basis for further export growth during the forecast period. If, against expectations, things go differently, Danish exporters will feel the pinch. While we expect activity in Denmark's export markets to recover, we also believe that the upswing has peaked, so exporters will probably have to get used to more moderate growth in demand for their goods and services, although the composition of exports may also result in substantial fluctuations along the way.

Decline in current account surplus only temporary

The strong export growth has also left its mark on the current account surplus, which has bounced back after a year that otherwise brought the smallest surpluses as a share of GDP for a decade. The balance of trade in particular has been boosted by the massive increase in pharmaceutical exports, but the current account surplus has also benefited from imports falling sharply in the second half of 2018 on the back of some very large shipping investments earlier in the year. Firms have held back on investment since, and this has contributed to the trade surplus. The industrial sector's investment expectations for 2019 and investment plans at the beginning of the year point towards a rebound. All in all, business investment is around the expected level given the state of the economy, though. We do not therefore expect any marked increase in import demand through this channel.

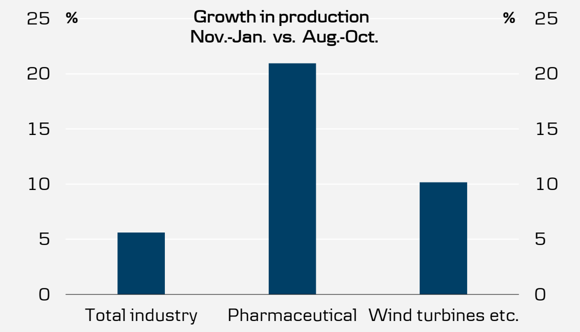
The recent upward trend in the current account will feed through into 2019, which is expected to be a year of larger surpluses. There will also again be substantial returns on foreign wealth and so considerable capital income. All in all, we expect a current account surplus of 7.1% both this year and next.

Exports have rebounded



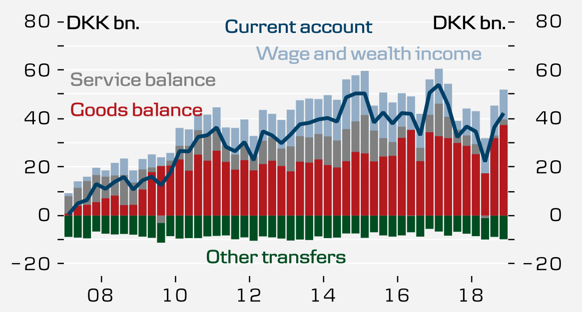
Source: Danske Bank, Statistics Denmark, Macrobond Financial

Less cyclical industries have looked strong of late



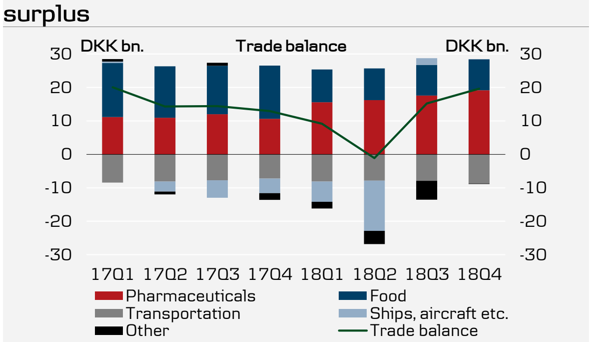
Source: Danske Bank, Statistics Denmark, Macrobond Financial

Bigger trade surplus boosts current account



Note: Seasonally adjusted.
Source: Statistics Denmark, Macrobond Financial

Pharmaceutical exports pushing up the trade surplus



Note: The trade surplus calculated from the foreign trade statistics does not exactly match the balance-of-payments statistics.
Source: Statistics Denmark

At a glance

National account	2018	2018	2019	2020
			Forecast	
	DKK bn (current prices)	% y/y		
Private consumption	1016.9	2.4	1.8	2.2
Government consumption	546.3	0.5	0.4	0.4
Gross fixed investment	490.3	5.0	-1.2	3.2
- Business investment	305.1	5.3	-3.1	3.8
- Housing investment	108.1	5.1	1.9	2.5
- Government investment	77.2	3.4	1.8	1.9
Growth contribution from inventories	0.1	0.1	-0.1	0.0
Exports	1212.1	0.5	3.2	1.9
- Goods exports	770.2	2.6	4.8	1.8
- Service exports	441.9	-2.6	0.3	2.0
Imports	1094.3	2.9	1.2	2.4
- Goods imports	678.9	3.5	2.0	2.5
- Service imports	415.4	1.7	-0.1	2.3
GDP	2215.6	1.2	1.8	1.6

Economic indicators	2018	2019	2020
Current account, DKK bn	133.7	162.1	167.7
- % of GDP	6.0	7.1	7.1
General government balance, DKK bn	11.3	7.8	1.1
- % of GDP	0.5	0.3	0.0
General government debt, DKK bn	767.0	742.0	740.0
- % of GDP	34.8	32.6	31.5
Employment (annual average, thousands)	2971.8	3011.8	3044.3
Gross unemployment (annual average, thousands)	107.9	102.1	101.6
- % of total work force (DST definition)	3.9	3.8	3.8
House prices, % y/y	3.8	2.4	2.3
Private sector wage level, % y/y	2.2	2.4	2.3
Consumer prices, % y/y	0.8	1.2	1.4

Financial figures	27/03/2019	+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.	-0.09	-0.05	-0.05	0.05
10-yr swap yield, % p.a.	0.59	0.75	0.80	0.95
EUR/DKK	7.47	7.46	7.46	7.46
USD/DKK	6.64	6.60	6.48	6.37

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

Sweden

Good times are over

- **Stubborn Riksbank set to fold eventually.**
- **Receding bad inflation set to keep core inflation below target.**
- **Broad-based decline in confidence.**
- **Stagnant real wages accompanied by employment warning signs.**
- **Population income growth a challenge for housing production costs.**

Stubborn Riksbank set to fold eventually

At the time of writing, there have been two inflation prints in a row significantly below the Riksbank's inflation forecasts. This is true for both target CPIF and core CPIF excluding energy. We expect March inflation, which is the final inflation data ahead of the Riksbank's April meeting, largely to keep that distance. In principle, this should cause some concern in the bank that its take on inflation is failing.

Instead, recent comments from Riksbank governors have been stubbornly defensive, still arguing that inflation and inflation expectations are close to the target and that another repo rate hike this autumn is still on the agenda. Although we do not share the Riksbank's outlook, in our view it would be surprising to see a change in tone so soon after the first rate hike in many years. In our view, it is simply too early to expect a change from the Riksbank, as there is still plenty of time for it to wait and see (hope) whether inflation turns higher as it expects.

Hence, we can very well envisage the Riksbank revising down the inflation outlook at the April meeting, resulting in a steeper inflation forecast, while keeping the repo rate path unchanged. Previously, such revisions have caused bearish market interpretations, which mean that the Riksbank has become more hawkish. We believe this is completely wrong and just a way to keep buying time. However, at the April meeting, the Riksbank is likely to decide on the QE programme and we expect it to signal an end to its current reinvestment of the portfolio, which runs until the end of June. The reason is that the Riksbank would hold 57% of government bonds if it were to manage SGB1047 the same way as it did SGB1052 and we believe the Debt Office this is simply too much to consent to.

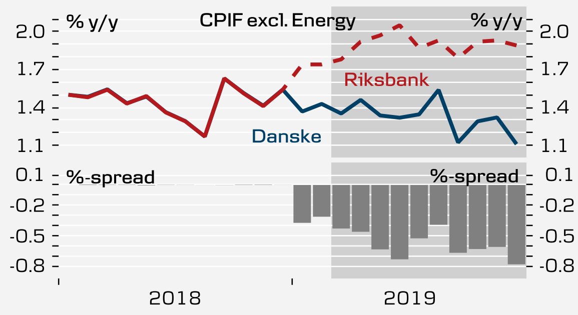
Recently, the Riksbank has been under heavy criticism for being responsible for the weakening SEK. We have indeed been part of that choir but instead of blaming only the Riksbank, we believe it is a combination of a mismatch between the inflation target and Swedish wage formation. It is a structural problem. Either the inflation target is wrongly calibrated, preconditioned on an assumption that eventually wage growth will rise to levels that are consistent with reaching the 2% target, or wage formation will have to be changed to produce higher deals. Currently, the 'mark' for deals in other sectors is set by the export-oriented manufacturing sector, which focuses only on competitiveness. Unless either or both of these factors changes, we believe the SEK will suffer. As things stand now, there are no signs the Riksbank is willing

At a glance

	Sweden			
	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP, calendar adjusted	1.0	1.5	1.4	1.9
Private consumption	0.8	1.6	0.8	1.9
Public consumption	0.6	1.5	0.3	1.8
Gross fixed investment	-0.3	1.7	1.7	1.7
Exports	4.1	3.2	2.3	3.1
Imports	3.2	2.8	1.3	2.5
Unemployment rate	6.6	7.1	6.5	6.9
Inflation	1.7	1.5	1.9	1.6
Government balance, % of GDP	0.1	0.5	0.5	0.8
Current account, % of GDP	4.4	4.2	4.0	4.0

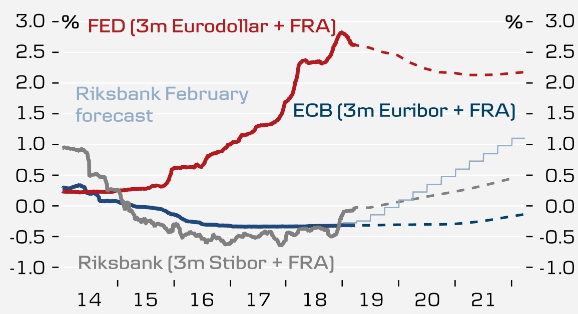
Source: Danske Bank

Core inflation likely to diverge further from Riksbank's forecast



Source: Riksbank, Macrobond Financial, Danske Bank calculations

Riksbank needs to align with the softer tone of the ECB and Fed



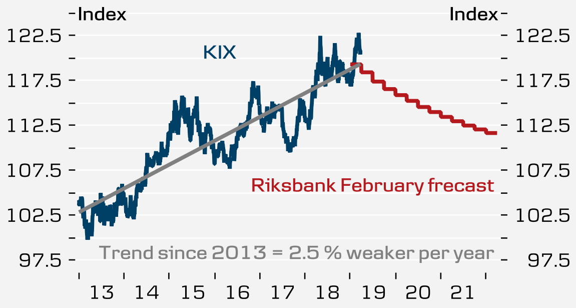
Source: Riksbank, Macrobond Financial, Danske Bank calculations to cut, broaden or make the target more flexible. Neither are there any signals that social partners are about to abandon the wage formation process, although from time to time there are complaints from employee organisations in domestic sectors. It is some of these, such as private services and retail trade, that are really decisive when it comes to wage cost pressures.

Hence, the SEK is stuck in a situation that could be termed a 'crawling peg', or a floating currency version of the Swedish devaluation policies of the 1970s and 1980s.

Although the Riksbank has repeatedly stated that it does not have a target for the SEK, in essence the achievement of the inflation target is dependent on a weaker SEK, as long as wage growth is too low and there is an absence of soaring energy prices or government tax hikes.

An important part of the outlook for the Riksbank is also to consider the stance by major central banks such as the Fed and ECB. The Fed has signalled that it is on hold and data dependent, while the ECB has postponed intended rate hikes and said it will supply new TLTROs. It would be strange to see the Riksbank contemplating rate hikes at least at a later stage with this in mind and against the backdrop of growth below trend and inflation slowing down below target.

SEK is victim of a structural mismatch between the inflation target and wage formation



Source: Riksbank, Macrobond Financial

Bad inflation forces are receding

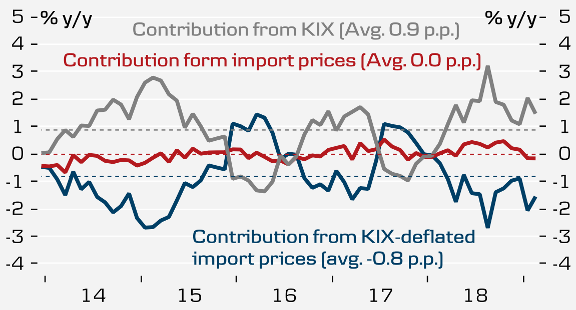
At a first glance, it appears that the Riksbank has been very successful in pursuing monetary policy, which has pushed up CPIF inflation from touching zero in early 2014 to print 2.5% in September 2018. Disregarding energy prices (which constitute only around 6% of the CPI basket), CPIF excluding energy also shows a bottom in early 2014 but the upward trend halted in late 2015/early 2016 and the average since then has been around 1.5%, i.e. still well below the target.

January inflation surprised quite extensively on the downside and the undershooting compared with the Riksbank's forecast prevailed also in February. It was the core measure that surprised. There is only a very slim chance that CPIF excluding energy will bounce back to the extent that the Riksbank's inflation forecast is back on track.

As we have laid out several times before in previous Nordic Outlooks, Swedish core inflation is determined primarily by wage growth. Currently, actual wage growth is running only marginally higher than central wage deals, i.e. at around 2.5% y/y which is too low to generate 2% inflation. Evidently, the remainder has to come from some other source.

Disentangling CPIF shows that if we strip out the 'bad' purchasing power reducing components, i.e. taxes, energy and import prices, the rest which we could term 'good inflation' actually shows a stable relationship to nominal wage growth. If wage growth does not increase from current levels, then good inflation will not rise and, in turn, nor will the sustainable part of CPIF inflation.

Weaker SEK has compensated only for global import price deflation



Source: Riksbank, Macrobond Financial, Danske Bank calculations

The Riksbank affects part of the 'bad' components, i.e. the SEK. It is important to realise that Swedish import prices have not moved on average over the past five years. This is despite the SEK weakening. Hence, it is the case that the Riksbank faces two headwinds on the inflation front: not only is wage growth too low to prop up domestic inflation but also imported inflation is too low, as SEK depreciation on average has barely offset the deflationary impact of imported global goods and services. We illustrate this in the chart on the previous page.

We can also see this structural mismatch in the 2% inflation target and the just over 2% outcome in central wage agreements and, in actuality, the economy-wide wage growth is inconsistent. Either one can argue that the inflation target is wrongly calibrated given the outcome of the way wage formation is conducted, or one can argue that wage formation needs to change so that wage growth can rise to a level that produces 2% CPIF inflation.

The latter would require domestic sectors to decouple from the 'mark' set by the export industry, which is exposed to foreign competition. It seems highly unlikely to us that either of the two factors will change – there have been no such signals. If they do not, then the SEK is likely to be hit, as the Riksbank normally responds with easier policy as inflation deviates from the target. A significant upward shift in global prices for goods and services to start generating inflation instead of deflation would change the preconditions for attaining the Riksbank's 2% inflation target. However, in our opinion, we are nowhere near such a situation yet.

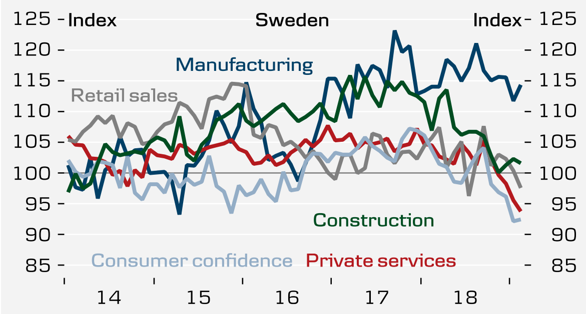
Confidence trending lower

NIER confidence data reveals a quite broad-based decline in confidence. Consumer, retail trade and private services confidence has fallen below the neutral 100 level, while confidence in the battered construction sector still remains above that level (but not for long). Surprisingly, Swedish manufacturing remains at an elevated level compared with other sectors and, in particular, compared with PMI manufacturing, which has fallen on the back of slowing export orders. We expect the manufacturing sector to suffer more considering the significant dip seen in German and European manufacturing data.

However, the most important data may be that on the labour market. Up to this point, employment and hours worked have continued to rise, bringing unemployment gradually lower, albeit at a slowing pace. Employment and activity rates are close to record highs.

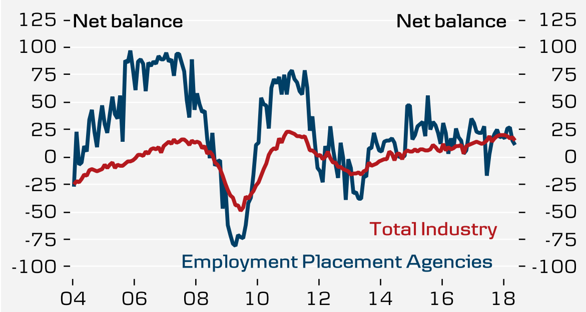
That said, we are now looking for signs of weakness. There are a few indications of a negative change in the trend. For instance, employment at employment placement agencies often leads the overall industry trend. Here, there has been a sharp negative shift in the balance of respondents to a majority of negative answers. Likewise, PMI employment and NIER hiring plans both show a stable downward trend since mid-2017 but growth remains in positive territory. Finally, lay-offs spiked sharply higher in February for the first time since May 2008. All of these pieces suggest, if we put them together, that the labour market may be about to start deteriorating.

Confidence in most sectors has fallen below neutral



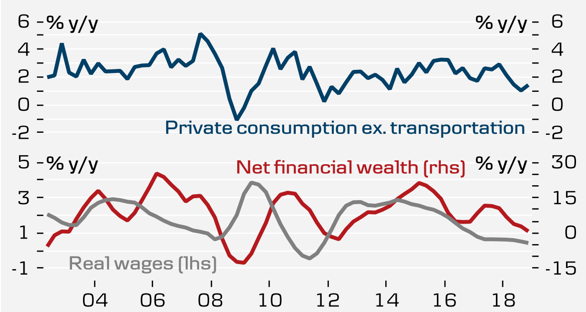
Source: NIER

Is the fall in employment at employment agencies a precursor for the rest?



Source: NIER

Although the negative impact of wealth may be temporary, real wage growth is stuck near zero

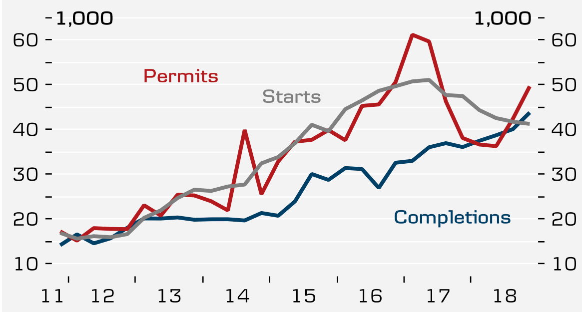


Source: SCB, Mediation Office, Danske Bank calculations

Consumers face stagnant real wages and wealth

As argued in *Nordic Outlook – January 2019*, 4 January, rising inflation has pulled down the economy-wide real wage growth in Sweden to around 0.5% on average for the past two years, very different from the around 2.5% annual average over the previous five years. Recent prints are getting gradually closer to zero. As inflation slows in 2019 and wage growth remains in the 2.0-2.5% range, real wage growth may improve but only marginally so. Tax cuts in the M/CD budget may add some stimulus to richer households, which are the main beneficiaries. In Q4, stock markets withdrew SEK760bn from household wealth (-5.7 % q/q). In Q1, we expect rebounding stock markets to give back most of this. However, property prices are still moving sideways. In addition, as we still see an overwhelming number of negative factors weighing on prices of new properties, this may continue to be a headwind for consumer sentiment. Again, the still-strong labour market is our primary reason for not being outright bearish on private spending. However, as stated above, there are signs of change in the positive trend.

Multi-dwelling completions outpaced starts for the first time in 5 years in Q4



Source: Statistics Sweden

Housing and construction in steep correction

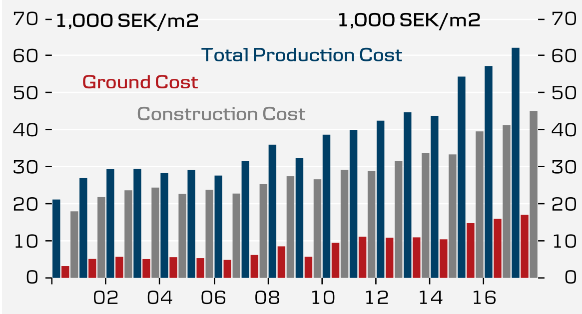
There is still no visible change to prices of tenant-owned flats, moving sideways in 2018 after the decline in the second half of 2017. Yet again, however, we stick to the view that prices are more likely to take another leg down in 2019 than to stabilise or move higher. Why? The answer is because we simply cannot conceive what factors would keep them unchanged or push them higher.

Housing investments slowed less than we expected in 2018 but now it is clear to us that the decline is in full play. Q4 data showed multi-dwelling completions outpacing starts for the first time since Q4 12, confirming the correction phase. Developers still need to reduce an estimated 50,000 pent-up supply of flats by further cutting prices on new production to balance the market. This is mainly a Stockholm problem. We expect these price cuts to spillover into the successions market too and retain the view that prices are likely to fall another 5-10 % in 2019, before bottoming out.

We do not believe that the problem is entirely due to restrictions put in place by authorities, such as the 2016-17 amortisation requirements and the left-to-live-on calculations (KALP). However, these factors and the significant pent-up supply mentioned above are likely to have a negative impact on 'price psychology'. Previously, a buyer could reserve a newbuild flat one to two years in advance and the price of both that flat and the buyer's current dwelling would follow a positive trend. Today, this price process has changed completely. Demand is suffering and developers are having a hard time finding financing.

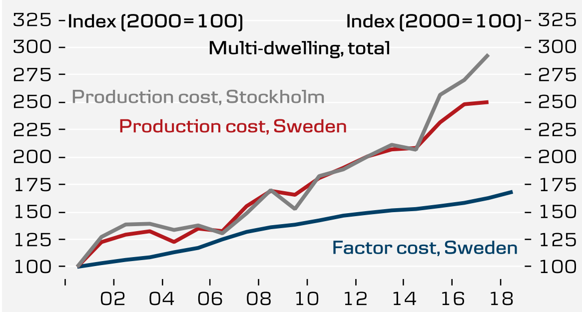
All this said, it is also very clear that some developers have priced themselves out of the market. The total production cost for multi-family dwellings increased by 150% and 195% in Sweden and Stockholm, respectively, between 2000 and 2017 to SEK45,400 and SEK62,200, respectively. Of this, construction costs accounted for 75% and 65% of the increase, respectively. The biggest part of construction costs, materials (40%) also showed the highest prices increase over this period. This suggests there is probably a case for weak competition and likewise weak (not to say negative) productivity growth.

Multi-dwelling production costs in greater Stockholm have soared



Source: Statistics Sweden

Higher ground cost explains only a small part of the 'Klondyke gap' from 2012 onwards



Source: SCB

This has been confirmed by, for example, the CEO of Bonava, one of the major Swedish producers. Furthermore, the table overleaf shows that the cost of producing a rental property in the three major cities is about the same as it is in the regions outside these cities. However, it is around 50% more expensive to produce a tenant-owned flat in the cities than it is outside the cities, where tenant-owned flats are already around 30% more expensive than rental flats. The ground cost accounts for part of this significant difference. However, there is also a big 'price gap' between 'production cost' (BPI) and 'construction cost' (FPI), which cannot be explained by the ground cost. In our view, this is probably an indication of the 'Klondyke' state of real estate production, suggesting excessive profits for a number of years.

Apparently, falling demand is now reducing these profits significantly and will continue to do so for a while.

The 30-40% decline in residential investments we have been aiming for previously still appears reasonable on a two-year horizon. Hence, we expect this to have a negative impact on GDP growth for another six to eight quarters yet.

Taking a much longer perspective, looking 10 years forward, suggests that costs are likely to be a challenge for demand. According to Statistics Sweden, the population will grow by close to one million. The increase in the working age population is set to be just shy of 300,000, while the number of children up to 19 years and elderly people above 80 years will increase by more than 200,000 and just shy of 250,000, respectively. The entire increase in the working population will be born abroad. In addition, most of them will come from countries with conflicts. This suggests production of dwellings will need to consider the likely lower income levels in this part of the population. Already today, buying an average priced normally sized apartment would require two normal income earners to amortise 3% to start with. Debt service takes 30% of disposable income and, in addition, the monthly fee to the associations has to be paid.

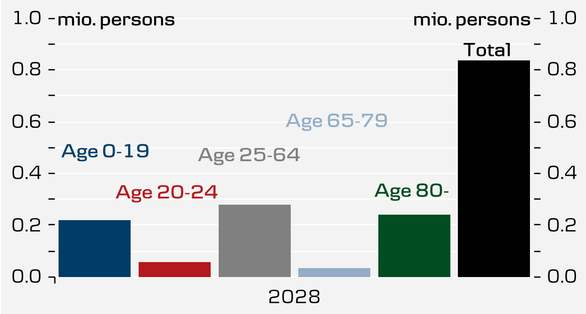
A political mess

The new Red/Green Government's 73-point deal with the Liberals and the Centre Party is in essence a sharp right turn for the Government. It has been heavily criticised by its supporters to the left and the parties are losing support.

The right-wing budget, which was enacted by the Riksdag in December, before the 73-point deal was struck, includes mostly income tax cuts. It is slightly expansionary but still based on an expected slight budget surplus in 2019. According to the SDP Finance minister, this means there is very little room for additional reforms this year. Looking forward, we believe reforms will require annual confirmation from the Liberals and the Centre Party to get support in the parliament. Hence, there is plenty of time for political chaos in coming years.

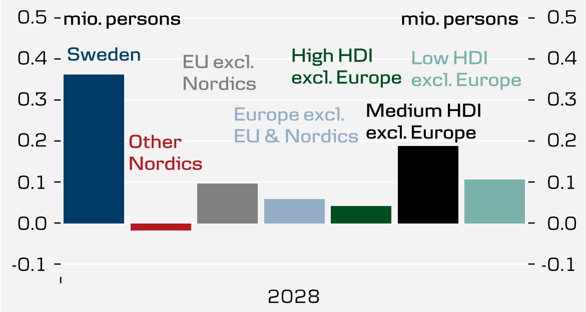
Even so there should be limited repercussions from this as Sweden has a very rigid budget framework: (1) a 0.3% budget surplus target, (2) a 35% Maastricht definition public debt anchor to be introduced in 2019 and attained in 2019, (3) three-year expenditure ceilings for the central government finances and (4) budget balance requirements for municipalities.

Change in Sweden's population 2018-28, SCB forecast, by age...



Source: SCB

..of which 400,000 are set to come from 'conflict countries'



Source: SCB

A normal family will be hit by all loan restrictions when buying a normal flat

	DI	Flat size, m2	Cost average TO flat	Mortgage loan, 85 %	Debt ratio (33 % muni	Extra 1 % amortization	Debt service (% of DI)	SEK/mth
Sweden	430,000	67.5	3.6	3.1	479	Ja	29	10,237
3 big city regions	442,000	64.3	4.0	3.4	511	Ja	30	11,232
Other regions	406,000	73.4	3.0	2.5	416	Nej	19	6,307

Source: SCB, Danske Bank calculations

At a glance

			Forecast	
National account	**2018**	**2018**	**2019**	**2020**
	SEK bn (current prices)	% y/y		
Private consumption	2041.0	1.2	0.8	1.6
Government consumption	1196.2	0.9	0.6	1.5
Gross fixed investment	1142.6	3.3	-0.3	1.7
Growth contribution from inventories	30.3	0.4	0.0	-0.1
Domestic demand	4410.1	1.6	0.5	1.6
Exports	2076.3	3.5	4.1	3.2
Aggregate demand	6486.4	2.5	1.6	2.1
Imports	1907.6	2.9	3.2	2.8
Growth contribution from net exports	168.7	0.4	0.5	0.3
GDP	4578.8	2.3	1.0	1.8
GDP, calendar adjusted	4579.2	2.4	1.0	1.5

Economic indicators	**2018**	**2019**	**2020**
Trade balance, SEK bn	186.8	212.2	226.6
- % of GDP	4.0	4.5	4.7
Current Account, SEK bn	162.6	205.9	200.3
- % of GDP	3.5	4.4	4.2
Public sector savings, SEK bn	32.1	4.8	24.8
- % of GDP	0.7	0.1	0.5
Public debt ratio, % of GDP*	37.0	34.0	33.0
Unemployment, % of labour force	6.3	6.6	7.1
Hourly wages, % y/y	2.6	2.6	2.7
Consumer prices, % y/y	1.9	1.7	1.5
House prices, % y/y	-3.0	-3.0	-1.0
* Maastricht definition			

Financial figures	**27/03/2019**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	-0.25	-0.25	-0.25	-0.25
2-yr swap yield, % p.a.	0.08	0.00	0.00	0.00
10-yr swap yield, % p.a.	0.83	0.90	0.95	0.95
EUR/SEK	10.44	10.40	10.30	10.30
USD/SEK	9.28	9.20	8.96	8.80

Source: Danske Bank

Norway

Growth accelerating despite global slowdown

- **Since our January forecast, growth in the Norwegian economy has accelerated despite a weaker global economy.**
- **Stronger industrial production on the back of higher oil investment is probably the main reason.**
- **Unemployment is still falling, but less quickly than a couple of years ago due to an increased labour supply and nascent bottlenecks.**
- **Inflation has picked up and has now been above the 2% target for four months.**
- **Wage growth last year was exactly as expected, and there is the prospect of further increases this year and next.**
- **Norges Bank duly raised its policy rate at the March meeting. We now expect a further hike as early as June and another in December.**
- **Higher oil prices and higher interest rate differentials will strengthen the krone further.**

At a glance

Norway				
	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP (mainland)	2.6	2.4	2.6	2.4
Private consumption	2.0	2.3	2.2	2.3
Public consumption	1.8	1.8	1.7	1.8
Gross fixed investment	4.7	1.8	4.7	2.0
Exports	3.5	3.0	3.5	3.0
Imports	3.0	3.0	3.0	3.3
			0.0	0.0
Unemployment (NAV)	2.3	2.2	2.3	2.2
Inflation	2.2	1.7	1.6	1.7

Source: Danske Bank

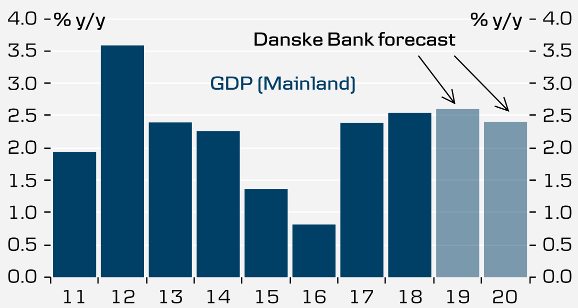
Continued upswing in oil-related industries

While the global outlook has deteriorated, we still expect growth in Norway to remain 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 this trend is likely to continue.

Interest rates are therefore on their way up, making monetary policy gradually less expansionary. There will nevertheless be a solid improvement in households' purchasing power thanks to higher real wage growth and continued job creation. Further strong growth in public infrastructure investment and the beginnings of an upswing in housing investment will prop up construction activity.

Housing prices have performed slightly better than predicted in our January forecast. The supply of properties for sale remains high but is being absorbed by brisk demand, and the market seems well balanced. With interest rates set to rise, however, only a moderate increase in housing prices is anticipated during the forecast period.

Boom set to continue



Source: Macrobond Financial, Danske Bank

No headwinds this year

As expected, growth in the Norwegian economy has accelerated since our January forecast. Other than consumption of goods, there have been no signs of weakness in the economy. Industrial production has picked up, driven by oil-related industries.

Mainland GDP growth came out at 0.9% q/q in the fourth quarter, resulting in a calendar-adjusted increase for the year of 2.5%. Big increases in both oil investment and mainland investment were the main reason for this stronger growth.

Norges Bank's latest regional network survey confirmed that growth in the Norwegian economy is still well above trend. The aggregated output index edged down to 1.46, but this still points to mainland GDP growth of around 0.73% q/q over next two quarters.

As expected, oil-related industries pushed the index up, but the export industry was also somewhat stronger than in the previous survey. Also as expected, the retail trade pulled the index down, but so to some extent did construction. Capacity utilisation rose to 38.27, the highest since May 2013, and indicates that the output gap has already closed.

As mentioned above, we anticipate further above-trend growth in 2019. We also expect this growth to be broad-based, with strong contributions from oil investment, public infrastructure investment, private consumption and investment, and exports.

In the latest investment survey, the oil companies expected to invest NOK172.7bn on the Norwegian continental shelf in 2019. In isolation, therefore, the survey suggests investment growth of almost 14% this year. The first estimate for 2020 is naturally very uncertain, but is almost 10% higher than the estimate for 2019 at the same point last year. At the very least, this suggests that there is little risk of a sharp fall in oil investment next year, eliminating much of the downside risk to the Norwegian economy.

As mentioned several times before, we believe that the weak retail sales at the end of 2018 were due partly to higher energy prices. We do not, therefore, see any great risk of a serious downturn in private consumption, unless interest rates rise much further than we expect. Our calculations suggest that, with power prices more or less normalising during the course of this year, headline inflation will drop well below 2% by the end of the year, taking growth in household real disposable income in 2019 to more than 2.5%. With a moderate rise in the savings rate, this means that private consumption will increase by just over 2% this year.

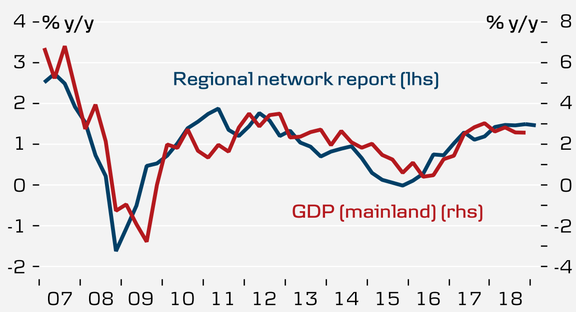
We also expect private investment to strengthen further during the year. Higher capacity utilisation, stronger growth, growing optimism and further favourable credit conditions should support investment. The regional network survey also showed that firms still anticipate strong investment growth, and their expectations were slightly Construction activity set to improve stronger than in the previous survey in November.

At the same time, overall investment in the construction sector looks set to be much higher than in 2018. This is due to a combination of residential construction stabilising, stronger growth in commercial construction and, not least, further strong growth in infrastructure investment due to projects in both the public sector and the power sector.

We also now anticipate much stronger growth in mainland exports despite global growth being expected to slow. This is because we are now seeing the turnaround in oil investment spreading to the global market.

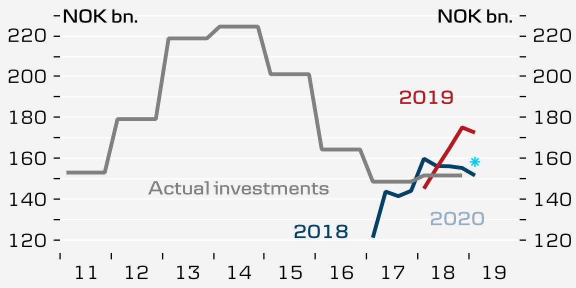
We have made only marginal changes to our growth forecast this time around. We have made no revisions to our forecast for GDP growth this year, and still expect mainland-GDP to grow 2.6 %, which is well above trend and means that capacity utilisation will continue to rise and unemployment will continue to fall. For 2020, we still anticipate growth of 2.4%, which is also some way above trend.

GDP growth to remain around 3%



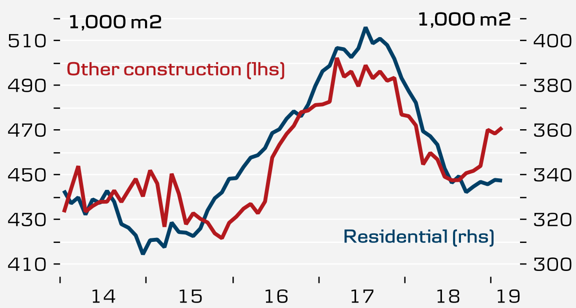
Source: Macrobond Financial, Danske Bank

Oil investment should continue to expand next year



Source: Macrobond Financial, Danske Bank

Construction activity set to improve



Source: Macrobond Financial, Danske Bank

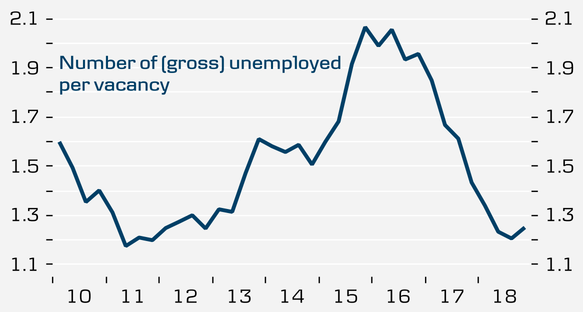
Labour market tightening again

Unemployment has fallen slightly further than expected since our January forecast. This seems to be due mainly to the levelling off of unemployment after last summer being caused by a change in methodology at the Norwegian Labour and Welfare Administration (NAV) rather than a change in the underlying trend. NAV itself estimates that the change in its methodology may have pushed the jobless rate up 0.1-0.2pp.

Almost all labour market indicators point to demand for labour holding up. At the same time, figures from Statistics Norway show that the number of vacancies decreased moderately in the fourth quarter, which may mean that vacancies are now slowing up. There are now 1.18 unemployed per vacant position in Norway, which is marginally higher than the UV ratio in January, but still around the levels seen in the previous boom in 2011-13.

The regional network survey suggests that labour shortages are still not a serious issue, with only one in five firms reporting problems sourcing labour as a constraint on production. However, the aggregated data conceal a very strong influx of labour into the retail sector, while oil-related industries, services and construction are roughly on a par with 2013.Based on our expectation that growth will stay above trend, we expect employment growth to remain high. A growing labour supply and emerging bottlenecks are likely to mean, however, that unemployment does not fall to the same extent. We still expect registered unemployment to fall to 2.3% in 2019 and 2.2% in 2020.

Labour market to remain tight



Source: Macrobond Financial, Danske Bank

Normalisation of power prices will bring lower inflation

Inflation has been much higher than expected since our January forecast. Core inflation hit 2.6% y/y in February, driven both by higher prices for domestically produced goods and services and by higher import prices. Domestic inflation climbed to 2.8%, and imported inflation to 2.3%. We believe part of the increase in February was due to temporary factors that will reverse in March, but despite these monthly variations there is no doubt that core inflation is on the way up.

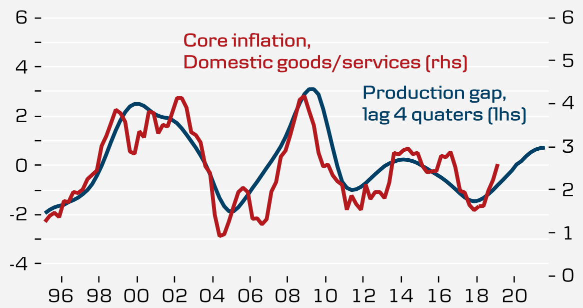
We expect this trend to continue over the course of the year. Higher capacity utilisation and lower unemployment will continue to push up wage growth. Domestic inflation will therefore head up towards, and maybe even pass, 3% during the year. With the krone once again somewhat weaker than we had anticipated, imported inflation looks set to hold up. However, we expect imported inflation to peak towards the end of this year as the krone recovers, and then fall gradually as we head into 2020.

All in all, we expect core inflation to be in the 2.2-2.5% range through to the summer but then head down as import prices turn.

We are still seeing clear signs of wage growth beginning to pick up. It now looks as though wage growth last year was 2.9%, marginally higher than our previous forecast of 2.8%. The two sides have yet to reach an agreement in the 2019 pay talks and have moved to conciliation with a deadline of the end of March.

We expect a tighter labour market and healthy profitability again both this year and next. The firms in the regional network anticipate wage growth of 3.0% this year, which is about 0.3pp more than they predicted for 2018 at the same time last year. This points to wage growth this year of just over 3%. On the other hand, the regional network report reveals signs of bottlenecks emerging in the labour market, and such periods have often produced higher national settlements and, not least, higher wage drift.

Domestic inflation likely to pick up



Source: Macrobond Financial, Danske Bank

Based on signals from the wage talks so far, however, we have revised down our forecast for wage growth this year to 3.3%. Our forecast for 2020 is unchanged at 3.8%.

Well-balanced housing market

After levelling off towards the end of last year, housing prices have picked up again in 2019. There are still plenty of properties on the market, driven by strong growth in housing starts over the past two to three years. Demand has been strong enough to absorb this supply, however, and the stock-to-sales ratio has begun to come down. It would therefore seem that the risk of the economy being hit by a collapse in the housing market has decreased considerably in recent months.

We expect housing prices to continue to rise more slowly in 2019. 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 twice more this year.

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 in 2019.

Two more rate increases this year

As expected, Norges Bank raised its key rate by 25bp to 1.00% at the March meeting. The bank also signalled a more than a 50% chance of the next hike coming as early as June, with a third following in December. Given the global slowdown and, not least, signals that other central banks will be proceeding much more cautiously, this was something of a surprise.

The interest rate path in the new monetary policy report also revealed slightly more moderate interest rate expectations further out than in the previous report. The bank is now projecting three rate increases by the end of 2021, taking the policy rate to around 1.75%.

Norges Bank painted a picture of the Norwegian economy that ties in well with our own expectations, with growth remaining above trend for the next couple of years and causing capacity utilisation to rise, unemployment to fall further, and wage and price inflation to accelerate.

We have not therefore amended our forecast and still expect a further rate increase in June and another in December. Next year, we expect interest rates to be raised twice more, taking the policy rate to 2%.

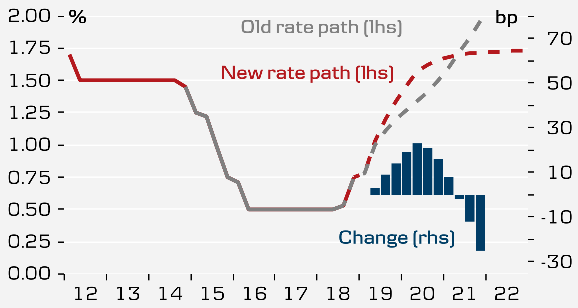
Will the krone finally recover?

Once again, the krone has been much weaker than we anticipated. This has become even more inexplicable since our January forecast, given that the krone's fundamental drivers (interest rate differentials and oil prices) point to a much stronger exchange rate.

Wage growth to increase in line with our projections

Source: Macrobond Financial, Danske Bank

More aggressive signals from Norges Bank



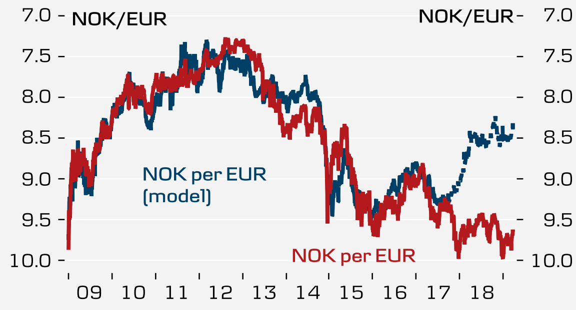
Source: Macrobond Financial, Danske Bank

Our oil experts expect oil prices to head back towards USD80 per barrel during the course of the year. Together with the prospect of a much more aggressive central bank than in other countries, this would suggest that the krone is set to strengthen.

The big unknown is whether the factors that have made the krone weaker than expected over the past year are permanent or temporary. We reckon it is a mix of the two, which means that the krone will recover as these fundamental drivers improve over the next 12-24 months, but not to the extent that traditional models might suggest.

We therefore forecast an exchange rate of NOK9.30 to the euro in a year's time.

Deviation between modelled and actual NOK exchange rate – permanent or temporary?



Source: Macrobond Financial, Danske Bank

At a glance

			Forecast	
National account	**2018**	**2018**	**2019**	**2020**
	NOK bn (current prices)		% y/y	
Private consumption	1532.9	2.0	2.0	2.3
Public consumption	830.6	1.5	1.8	1.8
Gross fixed investment	849.3	0.9	4.7	1.8
Petroleum activities	154.1	3.3	13.0	3.0
Mainland Norway	693.7	0.7	2.5	1.6
Dwellings	192.3	-6.0	0.5	2.0
Enterprises	309.3	1.8	3.3	1.5
General government	192.1	6.6	3.5	1.5
Mainland demand	3057.2	1.6	2.4	2.0
Growth contribution from stockbuilding		0.1	0.0	0.0
Exports	1347.5	-0.8	3.5	3.0
Crude oil and natural gas	570.0	-4.8	-1.0	2.5
Traditional goods	413.3	2.5	3.7	3.0
Imports	1151.1	0.9	3.0	3.0
Traditional goods	689.2	3.1	3.0	2.8
GDP	3537.1	1.4	2.5	2.7
GDP Mainland Norway	2908.0	2.2	2.6	2.4

Economic indicators	**2018**	**2019**	**2020**
Employment, % y/y	1.5	1.2	0.9
Unemployment (NAV), %	2.4	2.3	2.2
Annual wages, % y/y	2.8	3.3	3.8
Consumer prices, % y/y	2.7	2.2	1.7
House prices, % y/y	0.7	2.0	3.0
Core inflation	1.6	2.2	2.1

Financial figures	**27/03/2019**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	1.00	1.25	1.25	1.50
2-yr swap yield, % p.a.	1.69	1.90	2.15	2.30
10-yr swap yield, % p.a.	1.95	2.10	2.20	2.35
EUR/NOK	9.67	9.50	9.40	9.30
USD/NOK	8.59	8.41	8.17	7.95

Source: Danske Bank

Finland

Bumpy ride ahead

- **The Finnish economy is slowing down after a three-year strong expansion. GDP grew 2.3% in 2018, largely on the back of consumption and investment. A significant rise in inventories and statistical difference blurred the reasonably strong H2 figures. Economic sentiment has cooled a bit in early 2019 and we have made minor revisions to our GDP forecast.**
- **Consumer confidence has weakened but purchasing power continues to grow on the back of strong employment and rising wages. We expect private consumption to be the main growth driver in 2019 and 2020.**
- **The outlook for the export industries is subdued. Finland is relatively modestly exposed to Brexit and the ongoing trade war.**
- **The Finnish housing market is stable but an increasing supply of new housing is likely to prevent prices from rising. The market is strongly divided geographically. Construction is set to cool down towards the end of 2019.**
- **Fast GDP growth has increased tax revenue and public finances are nearly balanced over the forecast period. The rating outlook is becoming brighter but rating agencies need further evidence of successful structural reforms before any upgrade. The parliamentary election in April 2019 causes temporary uncertainty about the future direction of the economic policy.**

At a glance

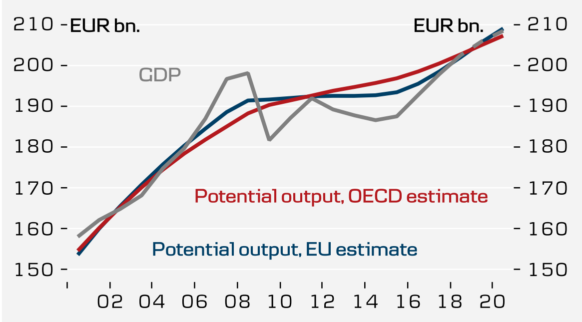
Finland				
	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP	1.7	1.2	1.7	1.5
Private consumption	1.6	1.3	1.6	1.3
Public consumption	0.5	0.5	0.5	0.5
Gross fixed investment	1.0	1.0	1.5	2.0
Exports	2.5	2.0	2.5	2.0
Imports	3.0	2.0	2.3	1.5
Unemployment rate	6.5	6.4	7.0	6.9
Inflation	1.3	1.5	1.5	1.5
Government balance, % of GDP	0.0	0.1	0.0	0.1
Current account, % of GDP	-1.5	-1.2	-0.4	-0.2

Source: Danske Bank

Three-year boom slowing to trend growth at best

Finland's economy is slowing after a three-year strong expansion. GDP grew 2.3% in 2018, largely on the back of consumption and investment. The contribution from net exports was negative. A significant rise in inventories and statistical difference blurred the reasonably strong H2 figures. Economic sentiment has cooled a bit in early 2019 and April's parliamentary election adds some uncertainty. We expect GDP to grow 1.7% in 2019 and 1.2% in 2020, which means a slowdown to slightly below trend growth. Risks are heavier on the downside.

Output gap is more or less closed



Source: Macrobond Financial, Statistics Finland

Overall, the economy is still performing reasonably well, although the pace has slowed. Growth in exports and investments has slowed and even private consumption has not been as impressive as the underlying rise in wages and employment might suggest. Leading indicators continue to indicate a reasonably stable outlook for coming months. Order books still look average in both manufacturing industry and construction. The business cycle is past its peak but there is nothing too alarming on the horizon and the domestic risk outlook is fairly neutral.

The output gap of the Finnish economy has basically been closed and the period of rapid cyclical recovery is now over. Finnish GDP finally surpassed the pre-financial crisis peak production level in Q1 18, although GDP per capita is still considerably below its previous record. Finland lost potential output in the demise of Nokia´s mobile phone business and structural change in the forest industry. Forest industry companies have announced closure of two paper mills in 2019, which reflects the ongoing structural change.

According to Statistics Finland's first official estimate, the volume of GDP increased in Q4 18 by 0.7% q/q and 2.2% y/y. On the surface, the numbers look quite good but their interpretation is somewhat challenging. In Q3 18, most of the growth came from inventories while other demand components fell short of expectations. Expanding inventories probably partly reflect timing factors related to export industries. However, large inventories raise the worry that production may slow in the future due to a rebalancing of inventory levels. A significant rise in statistical difference blurred the reasonably strong Q4 figures, which means we do not know to where a large part of the output in H2 was sold.

In 2019, growth in GDP is likely to rely increasingly on domestic factors, especially private consumption. Our forecast for 2019 is 1.7% (the same as in *Nordic Outlook – January 2019*, 4 January). In 2020, we expect the economy to grow 1.2% (was 1.5%). Maintaining growth will become increasingly difficult 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 with history, which may imply a lacklustre rise in productivity. Worryingly, labour productivity fell 0.6% in 2018.

Cautious households to keep the growth going

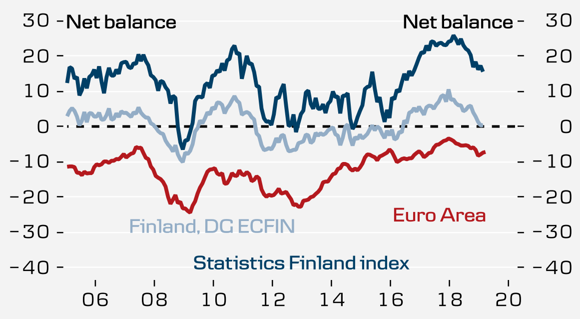
A combined effect of improving employment, rising wages and low inflation should continue to support private consumption in 2019. Consumer confidence has decreased in recent months but continues to be close to average long-term level. Domestic confidence indicator is above the average, while a new confidence indicator published by DG ECFIN is slightly below average. Households are confident about their personal finances and employment security but are more reserved about the general macroeconomic outlook. The unemployment rate is decreasing and nominal wage growth exceeds inflation into the near future. The interest rate burden is set to remain extremely low in the near term.

Private consumption did not increase quite as much as expected in 2018. Households became a bit more cautious and the savings rate went up from unusually low figures. Net savings rate had been negative in 2016-17. A reversal in the decreasing savings rate is welcome considering that an increasing share of household consumption has been financed using debt. The indebtedness rate fell in 2018 and household debt compared with disposable income is not exceptionally high in an international comparison Due to low interest rates, the interest-rate burden on households is very low. Consequently, we believe that the risks in 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 link to variable Euribor rates. Some indicators show increasing risk taking; payment difficulties have increased especially on instant-loans and rapid growth of housing company debt has raised worries about new kind of risks.

The Fin-FSA has been worried about growing household debt in recent years. To combat this, it tightened the maximum loan-to-collateral (LTC) ratio as of 1 July 2018. The maximum amount of housing loan was capped at 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 and has widespread support but progress is likely to take some time.

In 2019, we expect solid growth in private consumption to continue and domestic demand is set to support the Finnish economy. Wage growth is still relatively modest compare with the strong economic cycle but relatively low inflation and a rise in employment is helping consumers. We expect private consumption to follow the development in earnings relatively closely, although we cannot rule out a further rise in savings rate. The net effect of changes in

Consumers have become more cautious



Source: Macrobond Financial data, Statistics Finland income taxes is roughly neutral in 2019. Wage increases staying modest would help to maintain price competitiveness in tough export markets.

Exports lifted by ship deliveries in 2019

Global trade weakening is taking its toll and export growth has been slower in recent months. In 2018, exports rose only 1.4%, while imports rose 4.2%. Finland's main export markets in the EU did not perform as well as in 2017 and exports to Russia remained at a low level. Preliminary information from January 2019 shows relatively flat exports, except for a ship delivery to Germany. Indeed, we expect exports to pick up modestly in 2019 as a result of two medium-sized ship deliveries. Export industries continue to benefit from improved domestic price competitiveness and we expect the global demand environment to remain reasonably solid to bring new orders. Nevertheless, the rapid recovery for export industries is behind us and we expect goods exports and imports to be fairly balanced ahead, with net exports playing a minor role for growth. Services exports have a little more potential but their magnitude remains difficult to estimate. In total, we expect the volume of exports to rise by 2.5% in 2019 and 2.0% in 2019. The main risks are a more pronounced slowdown in the euro area growth and a hard Brexit.

Export price competitiveness has been a problem for Finnish industries since the financial crisis, as productivity growth has not kept up with 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. Currently, price competitiveness is not a major headwind but it still requires close attention.

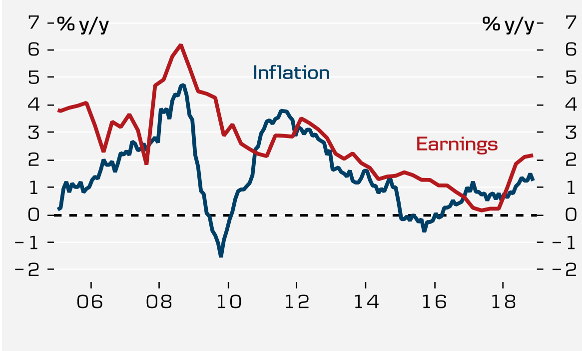
Investment boom is over for now

In 2018, investments increased by 3.4%. In particular, industrial investment fell short of expectations in 2018. The weaker global outlook contributed to the slowdown, as capacity utilisation is running high. Currently, no large-scale industrial investments are underway but we still expect industrial capex to improve at a modest pace in 2019-20. Surveys for both larger and SME companies show interest in investment projects and investment activity has been relatively weak for many years. However, uncertainty has increased in recent months, elections give a reason to wait and see what kind of government Finland will have and a survey among bankers showed lower growth expectations in investment based lending.

There are several substantial and some quite promising investment projects under consideration in the forest industry. However, it will take time before any of these still-uncertain projects are started and the investment decision hangs in part on the next government's decision how much forest resources can be tapped. Forests are growing more than total felling but climate change policy sees forest net growth as a significant carbon sink.

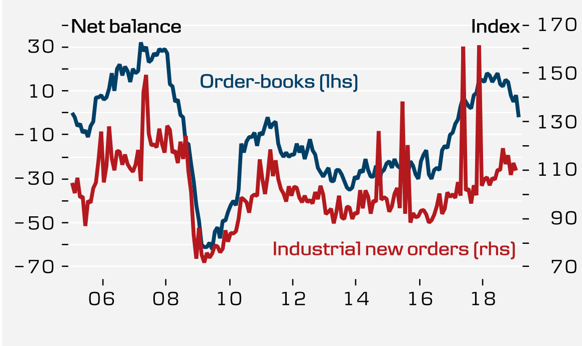
The housing boom was one of the main drivers of recovery in the Finnish economy in 2016-18. In 2018, construction investment in housing grew at a rate of 5.4%. Growth slowed down towards the end of the year and we expect a further slowdown in 2019. The number of new housing permits declined markedly in H2 18, which indicates less housing construction in mid-2019. The level of ongoing housing construction is still high and indicates increasing apartment supply in growth centres, especially the Helsinki region, in early 2019. The number of unsold apartments has already started to rise and the risk

Earnings growth is recovering



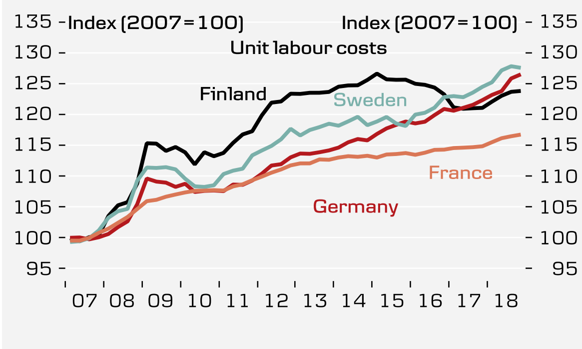
Source: Macrobond Financial data

Industrial orders past their peak



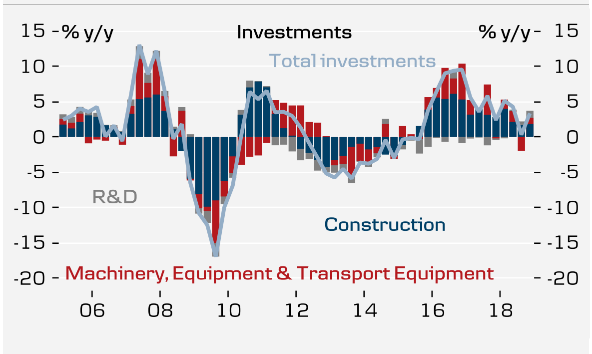
Source: Macrobond Financial data

Internal devaluation restored price competitiveness



Source: Macrobond Financial, Statistics Finland

Investment activity



Source: Macrobond Financial data, Statistics Finland of a housing overhang means construction companies are cautious in 2019. In total, we expect fixed investments to grow by only 1.0% in both 2019 and 2020.

Unemployment rate continues to fall

In Finland, the labour market has improved markedly over the past couple of years. In January, the trend estimate for the unemployment rate was 6.4%, which is 1.8pp lower than at the same time in 2018. The Finnish unemployment rate has been lower than this only once in recent history – in 2008, just before the financial crisis. Estimates of structural unemployment or NAIRU are typically between 7% and 8%, meaning the labour market is tight already. An improvement in employment has been rapid in the past but the pace seems to be slowing down. Corporate surveys indicate that a lack of skilled labour is the biggest obstacle to growth and that it has become more difficult to fill vacancies in lower skilled occupations as well. We expect the annual average unemployment rate to fall to 6.5% in 2019. The number of open vacancies has increased significantly, indicating that employment should continue to improve in the future. Given the high structural unemployment and lower growth trajectory, we forecast little further improvement in 2020.

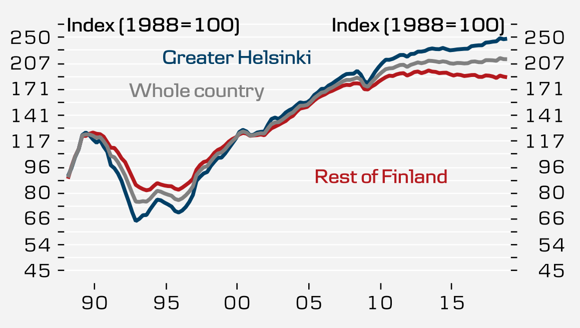
The employment rate has reached and even surpassed the official target level of 72% set for this parliamentary term. In January 2019, the trend indicator of the employment rate was 72.6%, which is 3.7pp higher than just two years ago. The largest increase has taken place for older groups of workers but, more recently, employment has started to improve for the younger workforce too. 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. The ageing population is starting to have an impact on the supply of labour and public expenditure.

Wage growth fell to an 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, earnings growth returned to a more typical range. Together with wage drift, we expect average earnings to rise 2.5% in both 2019 and 2020. This level is still quite tolerable and lower than for some export competitors such as Sweden or Germany. However, difficulties in filling vacant positions clearly increase the risk of higher wage drift in some industries such as Information and communication technology and construction.

Supply of new housing on the rise

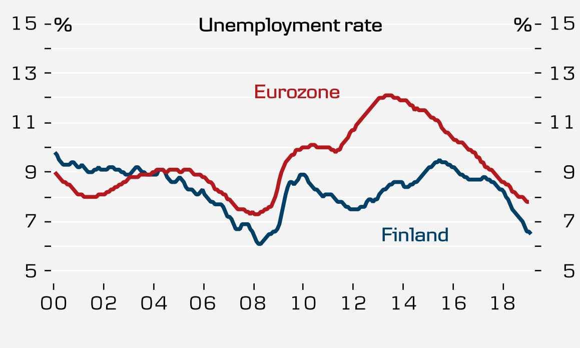
Growth in construction has been one of the key drivers for the Finnish economy for the past three years. Better employment opportunities and a growing interest in an urban lifestyle continue to drive an increasing number of Finns into cities. Most immigrants end up in larger cities as well. Consequently, the Finnish housing market has become segregated geographically. Growth in housing demand has raised prices and caused a construction boom in Helsinki and a few other cities, while the real estate market in the rest of the country has remained flat or declining. In some scarcely populated parts of the country, the housing market does not function well and part of the housing stock is nearly worthless. Migration to growth centres has created especially strong demand for compact apartments and construction companies have increased the supply reasonably quickly. Consequently, 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

Unemployment rate nearly at record low



Source: Macrobond Financial data, Statistics Finland

Employment surpasses the government's target

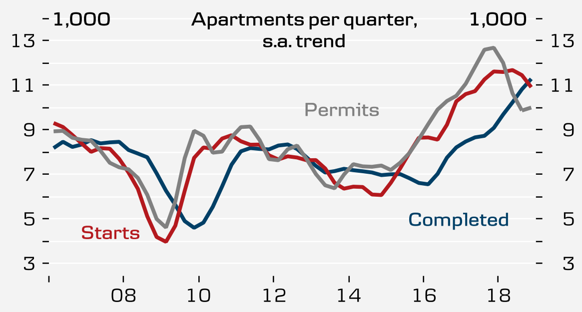
Source: Macrobond Financial, Statistics Finland

Renting has become more popular among younger generations and the buy-to-let market has grown. More than half of new apartments are 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, at least not in most locations. The rise in rents has exceeded the rise in housing prices or wages for some years but the rise in market rents moderated to only 1.4% in 2018. Supply of new housing is increasing significantly in 2019 and this weighs on both prices and rents. |The number of construction permits fell markedly in the autumn and supply of new housing is likely to follow towards the end of 2019. Construction companies have spotted a saturation in demand and are clearly cautious on new projects. However, urbanisation is likely to continue for some time and demand for some amount of new housing is not going away.

Prices of old dwellings rose 0.6% in 2018. On average, house prices have been relatively flat in Finland for approximately the past five years and real prices have fallen. 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 the largest cities. In 2018, prices of old dwellings grew on average 3.0% y/y in the Helsinki region and decreased by 1.6% elsewhere. A similar main trend is likely to continue, although a strong supply of new housing in the Helsinki region is likely to lead to some cooling of the housing market also in the capital.

Low interest rates, a strong labour market and relatively high consumer confidence support the housing market. However, given the significant rise in supply, we forecast housing prices will stay on average unchanged in 2019. In growth centres, prices continue to rise, albeit at a slower pace than before. We are projecting slow price increase also for 2020. On average, we expect prices to increase by only 0.5%, which is considerably slower than the rise in other consumer prices.

Supply of new housing set to peak in 2019



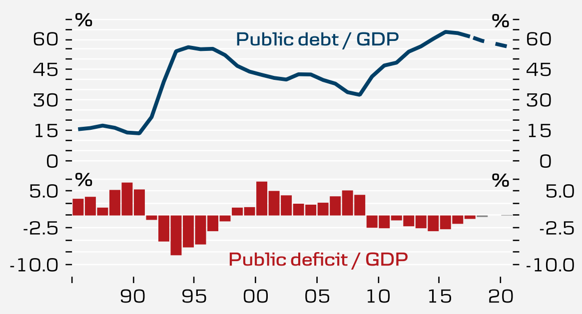
Source: Macrobond Financial, Statistics Finland

Public finances temporarily in balance

The Finnish central government has run a long-standing deficit since the financial crisis but strong employment growth has brought public finances closer to balance in recent years. In addition, municipalities have been financing their spending with debt but the general government deficit is much smaller due to surplus in social security funds, mostly statutory pension companies. Deficits have helped to maintain the welfare state, with fairly generous social security. However, public debt has grown quite fast and debt rose to >60% of GDP for the first time in 2014.

Due to the economic recovery and some spending cuts, growth in general government debt has slowed down. Debt is still growing in absolute terms but GDP growth is considerably faster and the debt-to-GDP ratio is already down quite a bit from its peak level in 2015. The general government deficit narrowed slightly less than expected in 2018, because local government had some one-off items, but we expect the budget to be roughly balanced over the forecast period. Despite the lower GDP growth outlook, the debt-to GDP ratio continues to improve. We forecast the ratio will fall to 56.3% by 2020. The government has been able to maintain a fairly austere fiscal policy in the parliamentary election year 2019. Measured by the change in the cyclically adjusted primary balance, the 2019 budget looks modestly contractionary. The upcoming election in April 2019 increases the risk of unnecessarily expansionary fiscal policy in the future but the outcome of the election is uncertain. It is quite possible that many of the projects that are under consideration in electoral debates will never see the light of day in practice.

Debt to GDP levelling down



Source: Macrobond Financial, Statistics Finland

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 a rising dependency rate. Otherwise, the debt ratio is likely to start to rise again in the 2020s. The rating outlook is solid but the rating agencies are likely to need further evidence of sustained economic growth and successful structural reforms. The much-debated social and healthcare reform (SOTE) was abandoned officially in March, leading to the resignation of the government just a month before the election. The next governing coalition is likely to be different but some version of a similar healthcare reform will be on its agenda as well. Successful healthcare reform could be one way of regaining an ‘AAA’ sovereign credit rating. Although we believe it should be noted that the Finnish healthcare system is already quite cost efficient, so it is not clear how much potential there is to reduce healthcare costs with such reform.

At a glance

National account	2018	2018	2019	2020
			Forecast	
	EUR bn (current prices)	% y/y		
GDP	233.6	2.3	1.7	1.2
Imports	92.3	4.2	3.0	2.0
Exports	91.0	1.5	2.5	2.0
Consumption	177.9	1.6	1.3	1.1
- Private	124.8	1.4	1.6	1.3
- Public	53.0	1.4	0.5	0.5
Investments	52.6	3.2	1.0	1.0

Economic indicators	2018	2019	2020
Unemployment rate, %	7.4	6.5	6.4
Earnings, % y/y	1.8	2.5	2.5
Inflation, % y/y	1.1	1.3	1.5
Housing prices, % y/y	0.6	0.0	0.5
Current account, EUR bn	-3.8	-3.5	-3.0
- % of GDP	-1.6	-1.5	-1.2
Public deficit, % of GDP	-0.6	0.0	0.1
Public debt/GDP, % of GDP	58.9	57.6	56.3

Financial figures	27/03/2019	+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.	-0.18	-0.15	-0.15	-0.05
10-yr swap yield, % p.a.	0.48	0.65	0.70	0.85
EUR/USD	1.13	1.13	1.15	1.17

Source: Danske Bank

Global overview

Looking for the rebound

- **The global economy struggled in Q1 but we expect a rebound soon. While downside risks have increased, a recession is not around the corner.**
- **A trade agreement between China and the US is still likely in Q2.**
- **ECB, Fed and Bank of Japan are on hold, while China has eased.**
- **Political uncertainty remains high but should abate this year and next.**

Weak Q1 data…

The global economy, in particular in China and Europe, continued to look weak in Q1 after a weak end to 2018. Markit PMI manufacturing indices for the euro area, China and Japan are all below 50 indicating contraction. The US index also declined but right now it is still above the 50 threshold. While the US manufacturing sector is not immune to what happens in the rest of the world, the domestic part of the economy is in fine shape and fiscal policy remains expansionary.

… but we expect a rebound in Q2

We stick to our long-held view that the global economy should rebound in Q2 and that we do not expect the slowdown to turn into a recession this year, although it is difficult to forecast the timing of one. There is a risk that the rebound drags out and that Q2 is not going to be as strong as we previously thought, so in that sense we are probably more concerned than we were around year-end.

Looking at China, we continue to see signs of recovery. One of our favourite cyclical indicators, metal price inflation, continues to underpin a picture of recovery. While the indicator is noisy, we rarely see a move for this long without it showing up in the PMI data as well. Further fiscal easing through VAT cuts should also boost the domestic Chinese economy.

In Europe, the manufacturing sector is struggling, as Europe is hit by a combination of bottlenecks in the car sector, slowdown in China, trade war concerns and Brexit. On a positive note the euro area service sector continues to prove relatively resilient to the manufacturing slowdown and domestic demand remains a growth driver on the back of rising real wage growth and fiscal stimulus. As we think some of the headwinds will fade in Q2, we expect Europe to pick up momentum again, although growth will likely remain lower at 1.3% in 2019 than we expected in the last Nordic Outlook (1.6%).

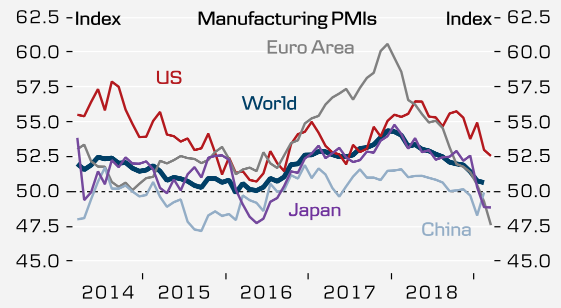
While the US economy is not immune to what happens in the rest of world, which is definitely true for the manufacturing sector, we think the US economy remains in good shape, although growth is likely not going to stay as strong as in 2018, when it (besides an equal high growth rate in 2015) was at its highest level since 2005. Consumer confidence remains high, real wage growth is decent and employment continues growing. Investment and the housing market are two fragile areas, however.

Global forecasts

% y/y	2017	2018	2019	2020
USA	2.2	2.9	2.4	1.9
China	6.8	6.6	6.2	6.2
Euro area	2.5	1.8	1.3	1.5
Germany	2.5	1.5	0.9	1.4
Japan	1.9	0.8	0.9	0.5
UK	1.8	1.4	1.0	1.3

Source: Danske Bank

Manufacturing PMIs for the euro area, China and Japan are all below 50 indicating contraction



Source: Markit, Macrobond Financial, Danske Bank

Chinese economy is bottoming out in Q1 19

Source: Markit, Macrobond Financial, Danske Bank

Central banks on hold

Despite signs that wage growth is finally picking up with the tightening of the labour market, the major central banks have turned more dovish over the past three months. The Fed has shifted gear and is now indicating it is done hiking rates at least for this year but probably also for this expansion. Accordingly, we think the same, but we still think it is too soon for the Fed to start cutting rates, as the US economy remains in good shape, in our view. The Fed is also ending its balance sheet reduction.

The ECB has become more concerned that the recent slowdown in Europe is more structural than temporary of nature and surprised us by announcing another series of TLTRO loans to banks starting in September and extending the rate forward guidance to rates remaining at present levels *'at least through the end of 2019'*. ECB president Draghi also opened the door for more easing if necessary. Consequently, we no longer expect the ECB to raise rates over the next 12 months. On the back of ECB's dovish policy shift, we no longer expect a big move higher in EUR/USD over the next 12M, as it should have been driven by ECB policy tightening. We have lowered our EUR/USD forecast to 1.17 in 12M from 1.25 previously.

Bank of Japan is still in wait-and-see mode and it will probably take a significant worsening of the economy and prospects in meeting the inflation target to change that. In China the Reserve Requirement Ratio (RRR) has been lowered four times over the past year and we look for a further cut in Q2. We also expect further targeted cuts in interest rates for lending that goes into the real economy. PBoC will also continue to direct the 'Big Four' state-owned banks to lend more to the private sector.

Political risks are abating

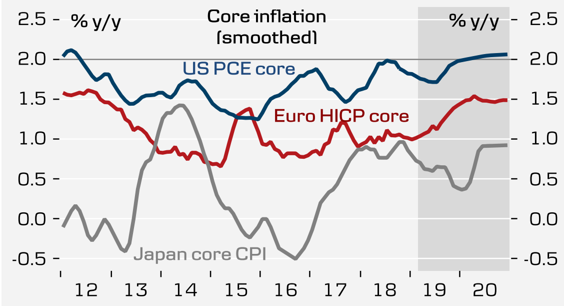
Over the past years, we have witnessed heightened political uncertainty in Europe, the US and other parts of the world. 2019 is no different but hopefully political risks are abating, which would be good news for the world economy.

The trade war between the US and China has been a major source of uncertainty for the global economy over the past year. Good news is that a deal seems to be drawing closer, in line with our expectations, but the two sides still need to finalise the last details before US President Trump and China President Xi Jinping can meet to sign it off. The main problem is to agree upon an enforcement mechanism. We still expect a deal to be signed off at a US-China summit in Q2 (both April and June have been mentioned).

A trade deal between the US and China would not only remove uncertainty for companies and help boost global trade, but also underpin a recovery in China and thus remove a significant drag from the biggest contributor to global growth. This is also positive seen with European eyes, as the slowdown in China has weighted on Europe as well.

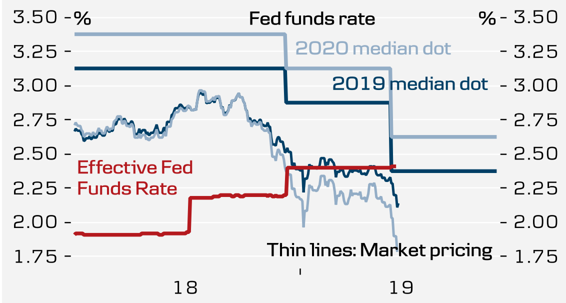
Brexit continues to be a key event for Europe and despite being close to the deadline (which has now been extended to 12 April), we are not sure what it means. We will soon get wiser but our interpretation of what has happened over the past few months is that the risk of a no-deal Brexit has declined but not disappeared. Near term, we expect a long extension of Brexit of a least nine months. Longer term, the two most likely outcomes, in our view, are either a decent Brexit (May's deal or something similar) or a second referendum. Brexit has had a big impact on the UK economy, as business investments have fallen throughout 2018. As the UK is the second largest EU28 economy, it is also a headwind for the rest of Europe but probably not the most important factor explaining the slowdown.

Underlying inflation pressures remain lacklustre in Japan and the Eurozone



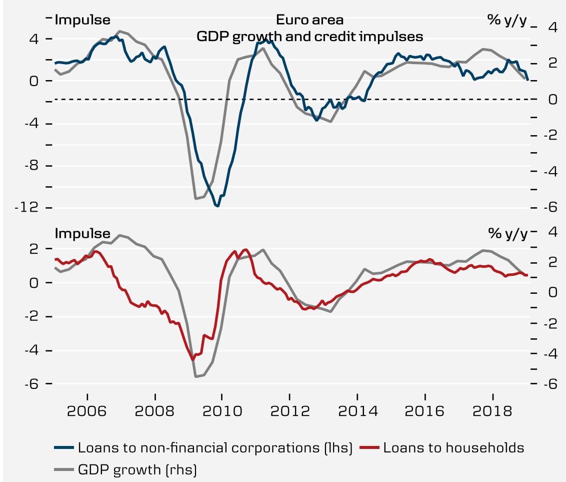
Source: Macrobond Financial, Danske Bank

Fed signals it is on hold in 2019, while markets have started pricing in rate cuts



Source: Federal Reserve, Bloomberg data, Macrobond Financial

ECB is eager to spur lending growth to the real economy through another round of liquidity operations



Source: Macrobond Financial, Danske Bank

Financial forecast

Bond and money markets

		Key interest rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK	Currency vs NOK	Currency vs SEK
USD	27-Mar	2.50	2.61	2.32	2.34	112.7	-	662.3	857.9	924.5
	+3m	2.50	2.60	2.55	2.65	113.0	-	659.9	840.7	920.4
	+6m	2.50	2.60	2.55	2.70	115.0	-	648.3	817.4	895.7
	+12m	2.50	2.60	2.60	2.70	117.0	-	637.2	794.9	880.3
EUR	27-Mar	-0.40	-0.31	-0.18	0.48	-	112.7	746.7	967.2	1042.3
	+3m	-0.40	-0.31	-0.15	0.65	-	113.0	745.7	950.0	1040.0
	+6m	-0.40	-0.31	-0.15	0.70	-	115.0	745.5	940.0	1030.0
	+12m	-0.40	-0.31	-0.05	0.85	-	117.0	745.5	930.0	1030.0
JPY	27-Mar	-0.10	-0.06	-0.03	0.11	125.6	110.6	5.94	7.70	8.30
	+3m	-0.10	-	-	-	124.3	110.0	6.00	7.64	8.37
	+6m	-0.10	-	-	-	126.5	110.0	5.89	7.43	8.14
	+12m	-0.10	-	-	-	131.0	112.0	5.69	7.10	7.86
GBP	27-Mar	0.75	0.83	0.95	1.19	85.4	132.0	874.2	1132.4	1220.3
	+3m	0.75	0.84	1.20	1.40	83.0	136.1	898.4	1144.6	1253.0
	+6m	0.75	0.84	1.30	1.55	82.0	140.2	909.1	1146.3	1256.1
	+12m	0.75	0.84	1.30	1.70	83.0	141.0	898.2	1120.5	1241.0
CHF	27-Mar	-0.75	-0.70	-0.64	0.02	112.1	99.4	666.3	863.1	930.1
	+3m	-0.75	-	-	-	114.0	100.9	654.1	833.3	912.3
	+6m	-0.75	-	-	-	115.0	100.0	648.3	817.4	895.7
	+12m	-0.75	-	-	-	117.0	100.0	637.2	794.9	880.3
DKK	27-Mar	-0.65	-0.32	-0.09	0.59	746.7	662.3	-	129.5	139.6
	+3m	-0.65	-0.32	-0.05	0.75	745.7	659.9	-	127.4	139.5
	+6m	-0.65	-0.32	-0.05	0.80	745.5	648.3	-	126.1	138.2
	+12m	-0.65	-0.32	0.05	0.95	745.5	637.2	-	125	138
SEK	27-Mar	-0.25	-0.02	0.08	0.83	1042.3	924.5	71.6	92.8	100.0
	+3m	-0.25	-0.05	0.00	0.90	1040.0	920.4	71.7	91.3	-
	+6m	-0.25	-0.05	0.00	0.95	1030.0	895.7	72.4	91.3	-
	+12m	-0.25	-0.05	0.00	0.95	1030.0	880.3	72.4	90	-
NOK	27-Mar	1.00	1.36	1.69	1.95	967.2	857.9	77.2	100.0	107.8
	+3m	1.25	1.77	1.90	2.10	950.0	840.7	78.5	-	109.5
	+6m	1.25	1.85	2.15	2.20	940.0	817.4	79.3	-	109.6
	+12m	1.50	1.93	2.30	2.35	930.0	794.9	80.2	-	110.8

Commodities

		2019				2020				Average	
	27-Mar	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020
ICE Brent	68	65	70	75	80	80	80	80	80	72	80

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	2018	1.2	2.4	0.5	5.0	0.5	2.9	0.8	2.3	3.9	0.5	34.6	6.0
	2019	1.8	1.8	0.4	-1.2	3.2	1.2	1.2	2.5	3.8	0.3	32.6	7.1
	2020	1.6	2.2	0.4	3.2	1.9	2.4	1.4	2.8	3.8	0.0	31.5	7.1
Sweden	2018	2.4	1.2	0.9	3.3	3.5	2.9	2.0	2.6	6.3	0.7	37.0	0.5
	2019	1.0	0.8	0.6	-0.3	4.1	3.2	1.7	2.6	6.6	0.1	34.0	4.4
	2020	1.5	1.6	1.5	1.7	3.2	2.8	1.5	2.7	7.1	0.5	33.0	4.2
Norway	2018	2.2	2.0	1.5	0.9	-0.8	0.9	2.7	2.8	2.4	-	-	-
	2019	2.6	2.0	1.8	4.7	3.5	3.0	2.2	3.3	2.3	-	-	-
	2020	2.4	2.3	1.8	1.8	3.0	3.0	1.7	3.8	2.2	-	-	-

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	2018	1.8	1.3	1.0	3.1	3.0	2.9	1.8	2.3	8.2	-0.6	86.9	3.8
	2019	1.3	1.2	2.3	2.7	2.8	3.5	1.5	2.2	7.8	-0.8	84.9	3.6
	2020	1.5	1.6	2.4	2.0	2.7	3.5	1.5	2.4	7.5	-0.7	82.8	3.6
Germany	2018	1.5	0.9	1.0	2.7	2.2	3.4	1.9	3.0	3.4	1.6	60.1	7.8
	2019	0.9	0.9	2.8	3.3	2.2	4.6	1.8	3.2	3.1	1.2	56.7	7.3
	2020	1.4	1.6	2.2	3.1	3.1	4.6	1.8	3.0	2.9	1.1	53.7	6.9
Finland	2018	2.3	1.4	1.4	3.2	1.5	4.2	1.1	1.8	7.4	-0.6	58.9	-1.9
	2019	1.7	1.6	0.5	1.0	2.5	3.0	1.3	2.5	6.5	0.0	57.6	-1.5
	2020	1.2	1.3	0.5	1.0	2.0	2.0	1.5	2.5	6.4	0.1	56.3	-1.2

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	2018	2.9	2.6	1.5	5.3	3.9	4.6	2.4	3.0	3.9	-4.0	106.0	-3.2
	2019	2.4	2.4	1.3	2.9	2.1	3.5	1.8	3.3	3.6	-4.6	107.0	-3.6
	2020	1.9	2.1	1.0	2.7	2.4	2.6	2.4	3.5	3.5	-4.6	108.0	-3.7
China	2018	6.6	8.2	-	5.0	-	-	2.2	8.5	-	-4.1	50.1	0.7
	2019	6.2	8.0	-	4.7	-	-	2.0	8.3	-	-4.5	53.9	0.7
	2020	6.2	7.8	-	4.6	-	-	2.2	8.0	-	-4.3	57.1	0.7
UK	2018	1.4	1.9	0.2	0.0	0.2	0.8	2.5	3.0	4.1	-1.3	85.0	-3.3
	2019	1.0	1.4	1.3	-0.7	1.4	2.2	1.6	3.5	3.9	-1.5	84.1	-3.2
	2020	1.3	1.5	0.6	1.7	2.0	2.0	1.5	3.8	3.8	-1.3	83.2	-3.0
Japan	2018	0.9	0.3	0.5	1.8	3.1	2.7	0.9	-	2.8	-	-	-
	2019	0.9	1.0	0.8	1.5	2.0	2.1	1.4	-	2.4	-	-	-
	2020	0.5	0.0	0.8	-0.3	2.8	1.2	2.0	-	2.4	-	-	-

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

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