Danske Bank

Investment Research

16 June 2020

Nordic Outlook

Economic and financial trends

- **Denmark: recovery with pitfalls**
  - The recovery has begun, but risks are looming

- **Sweden: economy bottomed in Q2**
  - Spring was hard, but now there are signs of improvement

- **Norway: the recovery has started**
  - It has been a deep crisis, but key downside risks have been avoided

- **Finland: restart the engine**
  - The COVID-19 crisis has hit an economy that was already slowing down

Editor-in-Chief: Chief Economist, Las Olsen, +45 45 12 85 36, laso@danskebank.com

https://research.danskebank.com

Important disclosures and certifications are contained from page 34 of this report.

Analysts

Editorial deadline 15 June 2020 *Investment Research*

Editor-in-Chief:

Las Olsen, *Chief Economist*	Denmark	+45 45 12 85 36	laso@danskebank.com

Macroeconomics:

Bjørn Tangaa Sillemann	Denmark	+45 45 12 82 29	bjsi@danskebank.com
Louise Aggerstrøm Hansen	Denmark	+45 45 12 85 31	louhan@danskebank.com
Anders Køhlert Larsen	Denmark	+45 45 13 82 87	anlars@danskebank.com
Michael Grahn, *Chief Economist*	Sweden	+46 8 568 807 00	mika@danskebank.com
Therese Persson	Sweden	+46 8 568 805 58	thp@danskebank.com
Frank Jullum, *Chief Economist*	Norway	+47 85 40 65 40	fju@danskebank.com
Pasi Petteri Kuoppamäki, *Chief Economist*	Finland	+358 10 546 7715	paku@danskebank.com
Jukka Samuli Appelqvist	Finland	+358 44 263 1051	app@danskebank.com

This publication can be viewed at https://research.danskebank.com.

Statistical sources: Refinitiv, Macrobond Financial, OECD, IMF, National Institute of Social and Economic Research, Statistics Denmark and other national statistical institutes as well as proprietary calculations.

Important disclosures and certifications are contained from page 34 of this report.

Contents

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

It seems that the worst is over

Nordics relatively better off

Along with many other countries, the Nordics took a severe economic hit in March and April, as COVID-19 spread, consumers reacted and governments shut down activity. However, compared especially to the rest of Europe, the drop has been milder. That is simply a reflection of economic structures – the hardest hit industries such as hotels and restaurants are relatively smaller in the Nordics than in Southern Europe, but it also reflects differences in approaches. The Nordic countries have not shut down factories or construction sites, trade in goods across borders has continued, and populations that were the EU's most committed internet users before the crisis have continued to work and shop from home.

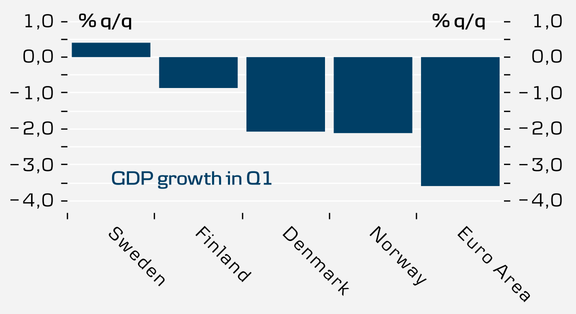
In addition, Norway and Denmark have been among the first countries to reopen the economy, and high frequency data, including our own spending monitor, show that activity has quickly returned. That was not a given, as consumers might have become more precautionary, and continued restrictions limit capacity. Sweden has famously chosen a strategy with a lot fewer formal lockdown measures, which might have made the decline in consumer spending smaller, but it has still been very significant, as consumers have stayed at home. It seems that Sweden has nevertheless been more severely hit than Denmark and Norway, but that is related to its much more cyclical manufacturing and exports – which is also the case in Finland to some extent.

Large risks remain

Compared to our 'best case' forecast in March, data from the Nordics have mostly been as expected, or better. However, global developments have been significantly worse. The severe shutdowns and income losses in the rest of Europe, as well as in many emerging markets, have made us less optimistic about the Nordic rebound. Still, compared to many other forecasters, we are on the optimistic site. While we expect economies outside the Nordics to recover most of the losses from the lockdowns relatively quickly, it may well be years before they recover fully, and we also warn that there is significant risk that we are wrong, or that a second wave of infections may cause a renewed crisis. We still have major uncertainties, with risks mostly, but not only, to the downside.

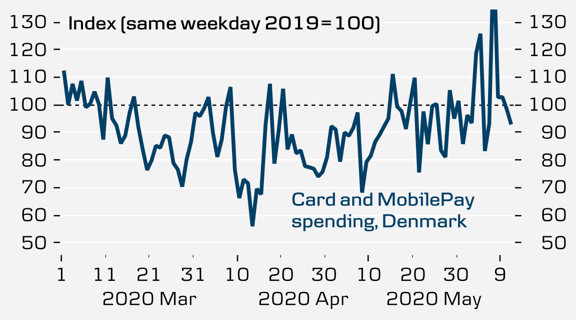
Nordic governments have had somewhat different strategies, but have all spent large amounts to spare their economies from the crisis. However, a single year of large deficits does not change the fact that government finances are very sound in Sweden and Denmark, and of course Norway. Finland has more debt and longer-term challenges, but compared to most other European countries, it also remains in a good fiscal position.

Nordics less bad in Q1



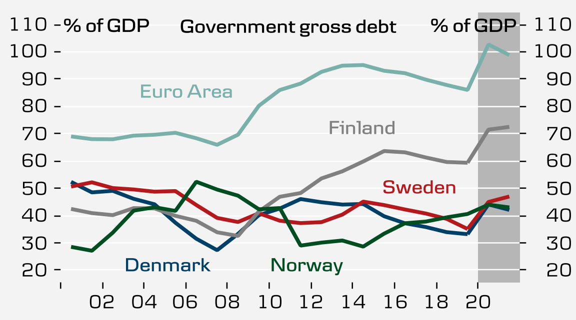
Source: Macrobond Financial

Spending is recovering



Source: Danske Bank

Still strong public finances



Source: Macrobond Financial, Danske Bank, European Commission

Denmark

Recovery with pitfalls

- **Denmark's economy is picking up again after the meltdown in March and April triggered by the corona crisis.**
- **The slump in Denmark appears not to have been as significant as feared, but the global crisis is deeper than expected and that will tend to dampen growth in Denmark going forward.**
- **Private consumption is close to fully recovered – as is housing market activity.**
- **High shares of healthcare and food products have supported industry and exports in Denmark.**
- **The crisis and the economic assistance packages have led to a large deficit, but from a very strong starting point for government finances.**

At a glance

Denmark	Current forecast		Previous forecast	
% y/y	2020	2021	2020	2021
GDP	-3.5	2.5	-2.5	2.5
Private consumption	-1.4	3.5	-1.5	3.7
Public consumption	1.4	0.5	1.7	0.7
Gross fixed investment	-6.0	-0.7	-2.4	1.2
Exports	-7.7	4.1	-4.9	1.6
Imports	-5.7	2.8	-3.6	1.4
Gross unemployment (thousands)	150.7	144.8	145.7	123.3
Inflation	0.5	1.2	1.0	1.2
Government balance, % of GDP	-6.9	-1.9	-4.8	-1.9
Current account, % of GDP	6.6	7.1	7.0	7.6

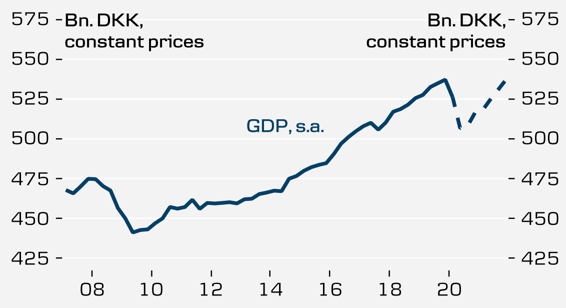
Source: Danske Bank

Picking up again

The corona crisis of recent months delivered a big shock to the Danish economy and we will continue to feel the after-effects for a long time to come. At the peak of the crisis in March and April, activity was probably down 15-20% on February due to the coronavirus and the ensuing lockdown. The economy has been reopening gradually since the middle of April, albeit with many safety measures and restrictions in place, and with tourism still sharply limited. However, activity in those businesses that have reopened has largely recovered. We expect this trend to continue, but totally closing the gap will take several years when taking into account the knock-on effects on the rest of the economy.

As far as we can estimate, the Danish economy has developed more or less as predicted in our forecast from March, or perhaps a little better. That we have nevertheless revised down our expectations for full-year GDP growth is due to the slowdown in the rest of the world looking set to be significantly worse – and we expect this will hinder the recovery in Denmark. Despite this, we are still more optimistic than, for example, the Ministry of Finance. The difference is due not least to our view on the global economy, which despite our downward revision is still considerably brighter than the Ministry's. However, there is no doubt that the level of uncertainty about both the Danish and the global economies is still significant and that things could turn out very differently to our forecast, for example if the virus flares up again.

Up, but not all the way

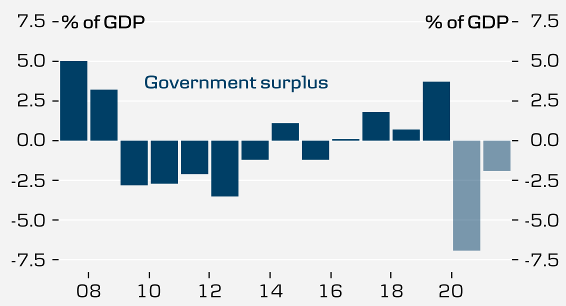


Source: Statistics Denmark, Danske Bank, Macrobond Financial

Government deficit manageable

The direct cost of the economic assistance packages in connection with the corona crisis is estimated at close to DKK100bn (with great uncertainty), and more initiatives to reinforce the recovery appear to be in the pipeline. On top of this are the automatic effects of the fall in GDP and rise in unemployment, which all in all means we face a deficit in 2020 approaching 7% of GDP for the first time in 37 years. To this we have to add the options for postponing tax and VAT payments, which for many companies has been extended into 2021, and so will be visible in the government's balance when it is calculated at the end of the

Return of the deficits



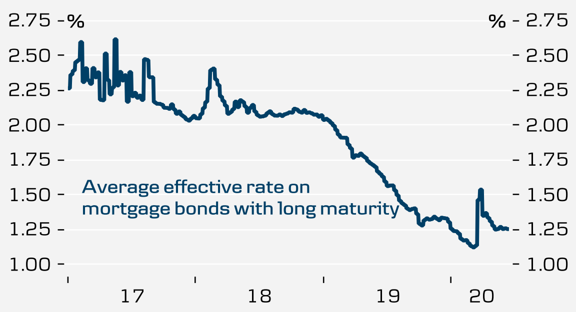
Source: Statistics Denmark, Danske Bank,, Macrobond Financial year. Public debt could also be boosted by plans to release holiday payments ahead of schedule. Once again, there is great uncertainty here about the specific amounts.

This year's deficit comes after a string of unexpectedly large surpluses – most recently in 2019, when the government initially expected a small deficit, but the result was a surplus of 3.8% of GDP. Surpluses in recent years have largely been driven by temporary factors, but of course so is the deficit in 2020. Moreover, this large debt will not attract any noticeable interest expenses and, as part of the bigger picture, has not changed the sustainability of government finances in Denmark.

Financial turmoil over

One source of concern in March was the pressure on the Danish krone (DKK) and the upward pressure on interest rates, not least on mortgage loans. However, the pressure on the DKK has eased as equity markets have climbed and after the rate hike by Danmarks Nationalbank, while bond markets are now almost back to where they started, which removes a major risk from the owner-occupied housing market and thus private consumption and investment. That said, the yield spread between Denmark and Germany has widened by 15-20bp, in part due to the central bank's rate hike in March and the Danish government's large borrowing requirement, which in Denmark's case is not eased by a central bank bond purchasing programme. On the other hand, Danmarks Nationalbank, as the manager of the government's debt, has broken with many years of tradition by raising a government loan to finance the borrowing requirement of almost DKK100bn in foreign currency, which indirectly functions as monetary policy easing in Denmark. This is likely to have been a very short-term loan. Investor interest in debt issues in DKK has been solid and we do not expect any significant change in either short or long yields in the coming year.

Mortgage rates have fallen again

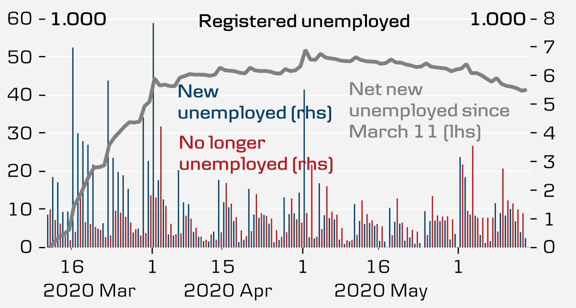


Source: Finance Denmark, Macrobond Financial

Labour market under pressure

Almost 45,000 more were registered as unemployed during the corona crisis, most of them in March. As well as that, more than 200,000 have been or are currently furloughed with pay, with employers being compensated by the government. An economic expert group with access to detailed information on those receiving compensation estimated that unemployment in mid-May would have increased by up to 90,000-100,000 if the wage compensation scheme had ended. That it was not set to rise more is because many of those receiving compensation had either returned to work, or were students, pensioners, or the like. Since then, many industries, including restaurants, have reopened, so we estimate that the number of registered unemployed will increase by 50,000 at most between now and the wage compensation schemes ending at the end of August. After that, we expect a gradual fall in unemployment.

Large rise in unemployment and more on the way



Source: Jobindsats.dk

The higher level of unemployment will likely put pressure on wages in local negotiations at the company level, but the new collective agreements for the private sector include unusually large wage growth of around 1% annually from an expanded so-called free-choice scheme, so pay increases will not stall. Moreover, the crisis appears to have hit the relatively low paid hardest, which will pull average wages higher – the opposite effect of what we have seen in recent years, where relatively more low-waged workers have found jobs.

Price increases evaporated but are slowly returning

Inflation hit zero in April and May. The pronounced fall was due, in particular, to the sharp fall in energy prices. Fuel, electricity and gas have become very cheap of late. Clothing shops have also been under pressure, but nevertheless only cut prices very slightly in the spring according to the sampled prices.

We expect that inflation has bottomed out for now and will gradually increase this year due to higher energy and tobacco prices, which will begin to feed through in the coming months. Flight prices remain a major wild card that could boost inflation in the slightly longer term if passenger numbers are restricted. However, we do not expect any effect from this in the short term and are pencilling in inflation at 0.5% this year. Turning to next year, we expect energy prices to pull inflation higher, but several factors will continue to keep prices down. The labour market is no longer tight, which generally reduces price pressures in the economy, while retailers may have to compete on prices to retain customers, plus the PSO levy is being phased out in 2021. We expect inflation to rise to 1.2% in 2021.

Reopening has restored consumption

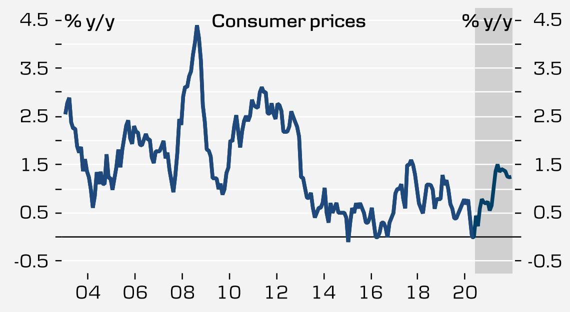
The lockdown of the Danish economy has been very significant for private consumption – both overall and between types of consumption. March and April saw consumption collapse, with some industries reporting that Danes had completely stopped spending as a result of the lockdown.

Nevertheless, we have seen a return to more normal consumption patterns as the Danish economy has begun to open up again, and we assess consumption here in early June – in terms of MobilePay and card payments – to be on a par with last year's levels. However, a decline in the use of cash and lower car sales mean that overall consumption remains below trend. Some types of consumption are also still very low, and even in those areas of the economy where more normal consumption levels can be seen, the uptick has not necessarily been enough to compensate for what was lost during lockdown. Overall, though, recent patterns of consumption reinforce our expectation that Danes' spending habits will return to normal relatively quickly. Another positive sign is that the increase in consumption appears to be broadly based across age groups. Older consumers, for example, do not appear to be noticeably more reluctant to go out and spend as the economy reopens.

Another bright spot is that Danes have been willing to invest in larger consumer goods, such as furniture, electrical goods and goods for home repairs and renovations. Moreover, there are already signs the housing market is picking up, with vacation home sales, in particular, rising sharply after Easter. And while car sales have fallen, the fall has been nowhere near as dramatic as feared. This suggests that many Danes whose finances were not directly affected by the corona crisis and the lockdown have not let the increased uncertainty translate into a marked reluctance to spend.

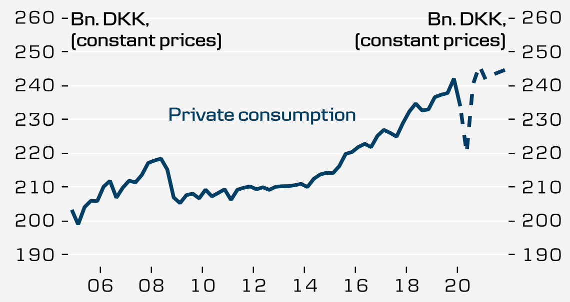
Nevertheless, despite the positive news, the corona crisis is expected to cost around DKK40bn in lost private consumption overall in 2020 and 2021. This should be seen against both the lockdown and the fact that households as a whole have experienced a loss of income.

Zero inflation set to be short-lived



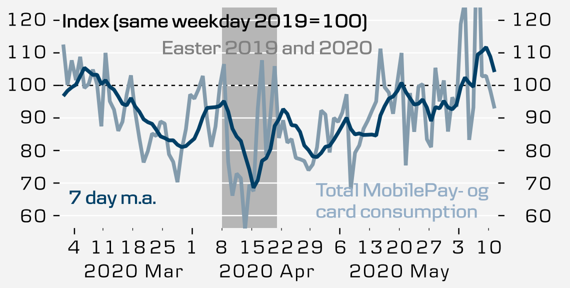
Source: Danske Bank, Statistics Denmark, Macrobond Financial

Private consumption plummets in H1, but recovering strongly



Source: Statistics Denmark, own calculations and Macrobond Financial

Consumption has gradually recovered in May, and is now approaching more normal levels



Note: Data only for card and MobilePay transactions
Source: Danske Bank

Moreover, we expect that consumers will be more reluctant to spend to some extent, so the share of income that goes to consumption – the consumption ratio – will decline. The Danish consumption ratio was already low prior to the crisis despite the economy having been in an upswing for a number of years. Hence, unlike previous crises, this is not a case of a major correction from very high levels of consumption to a permanently lower level – we expect the decline to be temporary, although it could take longer for consumption to right itself properly while uncertainty over both the economy and personal finances is high.

An unknown factor is whether the government might enact further private consumption stimuli in Denmark. Our current forecast assumes the equivalent of three weeks' holiday allowance will be paid out at the start of Q4 (due to a transition in the scheme, the past year's holiday allowance has been 'frozen'), which is set to return around DKK33bn to consumers. This should lift consumption – even if a significant share is likely to be channelled into savings.

Despite a degree of robustness, investments set to slow significantly

At a time of such great uncertainty as now, delaying investments makes good sense for many companies. This is also what their investment plans indicate – and we therefore expect to see a severe drop this year. During the financial crisis, business investment fell 13% in 2009, but while the decline in economic activity in many ways has been deeper during the corona crisis, we do not expect quite such a pronounced fall in business investment. This is due, in particular, to the different composition of investments now. In 2008, investments in intellectual property rights comprised 3.8% of GDP. In 2019 they comprised 5.4%. These investments will be kept buoyant to a great extent by progress in the pharmaceutical industry. The situation is almost the reverse for machinery investments, which are much more sensitive to the economic cycle.

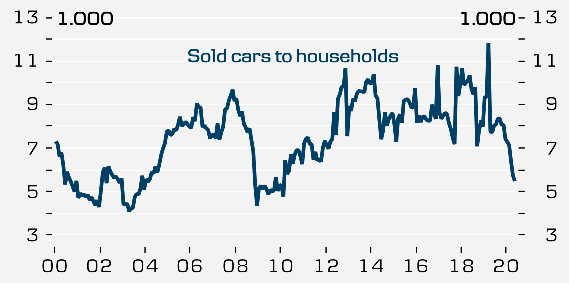
Housing market uncertainty, but the worst seems to be behind us

The housing market has been hit by the corona crisis, with the first month of lockdown characterised by sharply falling prices and sales activity – March saw the largest monthly fall in house prices (according to Statistics Denmark) in the statistic's history. This suggests that those who had to sell their homes during the worst weeks of the crisis had to do so at a sizeable discount.

However, the downturn appears to have been relatively temporary in nature, with prices bottoming out in late March/early April. As the economy has gradually reopened and mortgage rates have returned to more normal levels, the fall in house prices seems to have dissipated relatively quickly. Hence, the latest figures from 'Boligsiden' show that prices for both houses and apartments rose in May when corrected for normal seasonal fluctuations.

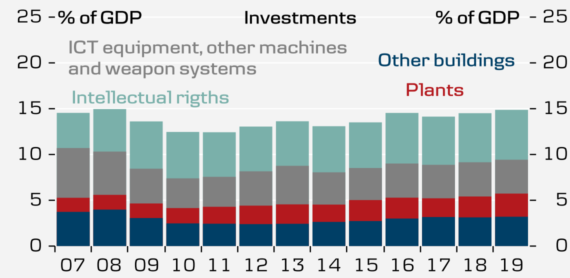
It is still too early to rule out further price falls. There is much uncertainty surrounding the economy, and a long-lasting slowdown could also hit the housing market in the coming quarters. Interest rates, too, are extremely uncertain, but our main scenario is a weak recovery in prices over the year. Whereas house and apartment sales appear to be back around normal levels, activity in the vacation home market has exploded since Easter, with more than

Car sales to households have fallen, but not as dramatically as feared



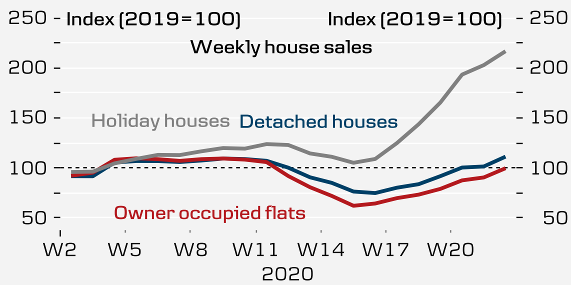
Source: Statistics Denmark and Macrobond Financial

Business investment has become much less cyclically sensitive since the last crisis



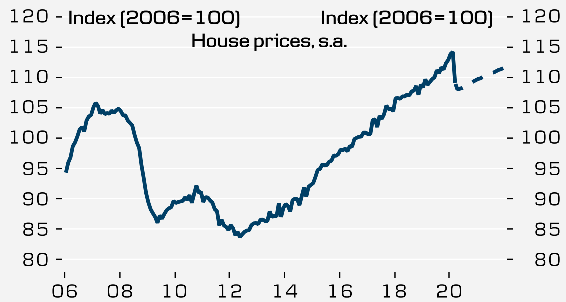
Source: Statistics Denmark, Macrobond Financial

Housing market activity has recovered quickly, and is far above the norm for vacation homes



Note: Data is seasonally corrected and smoothed out over four weeks
Source: Boligsiden and own calculations.

Worst price falls appear to be behind us



Note: Own seasonal correction, broken line is forecast
Source: Statistics Denmark, Danske Bank

twice as many vacation homes being sold now compared to normal. It seems that many Danes are preparing for a future where a greater share of holidays will be spent within the country's borders.

Robust exports still hit very hard

April was a hard month for many Danish exporters and goods exports were down 13.5% compared with the same month a year ago. That is the largest annual decline in more than 10 years, but still considerably better than feared. In Germany, for example, goods exports were down 31%. Danish exports have performed better due to the healthcare industry and the large share of agricultural exports, while the machinery industry is facing tough times in Denmark, too.

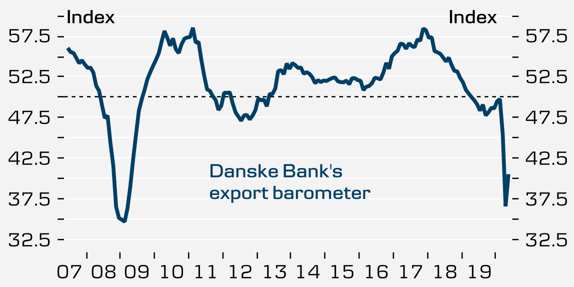
The most up-to-date figures we have for exports are for trade with countries outside the EU, which can be downloaded from the customs system. Well into May, exports were still around the same level as last year. This was due not least to pharmaceutical exports, especially to the US, which pulled the figures strongly up. We can be happy generally that pharmaceutical and food exports, which are relatively unaffected by the global economic cycle, account for more than 40% of Danish exports. This has supported the sector during a difficult time.

Other indicators point to exporting companies having a tough time. Some 60% of industrial companies responded that they were somewhat or very affected by domestic and international restrictions in May, while confidence indicators, too, reveal empty order books and sharply falling production expectations. We also expect that many exporters will face a difficult future, with demand unlikely to return to 2019 levels within our forecast period. While we are probably over the worst now, the state of the global economy remains a major concern. Our export barometer, which measures current economic activity in Denmark's most important export markets, hovered around a very low level in both April and May. We expect a recovery in the coming months, but a lot of production and demand has inevitably been lost in Q2.

Tourism has been far and away the hardest hit export business, with almost all activity closed down – which is why 12% of service exports have disappeared for this reason alone. In April, service exports were down 16.5% on an annual basis, mostly pulled lower by tourism. Hence, the government opening up for tourism from 15 June was very welcome news, although only tourists from Germany, Norway and Iceland may enter Denmark. These three nationalities accounted for 66% of total overnight stays in Denmark among foreign tourists last year. The large tourist industry in the capital will have to keep struggling with limited activity for now, as six documented nights are required to enter Denmark and most tourists in the capital come from other countries. Overall, the opening will help support tourism nonetheless.

The total travel deficit on the current account amounted to DKK10bn last year. In contrast, there was a surplus with respect to the three above-mentioned countries of DKK12bn. This indicates that travel will contribute to increasing the current account surplus this year. Denmark is further along in reopening its economy than most of its trading partners. This means that Danish demand for foreign goods and services will likely recover faster than foreign demand for Danish goods and services. We therefore also expect a decline in the trade surplus this year.

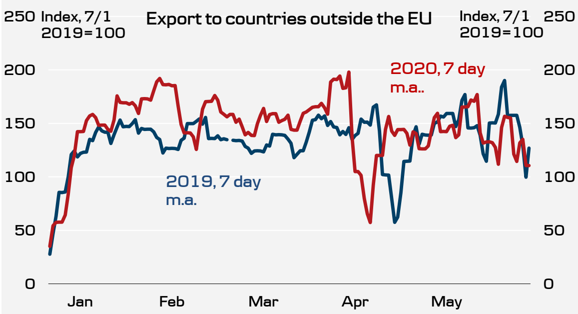
Export market activity has plunged



Note: Index at 50 differentiates progress and setbacks, cf. Export barometer

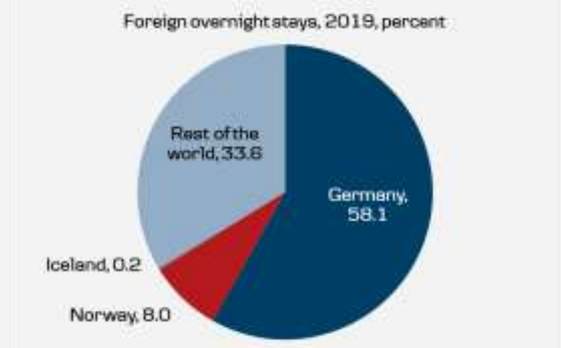
Source: Danske Bank, IHS Markit, Statistics Denmark, Macrobond Financial

Exports outside the EU have been maintained



Source: Statistics Denmark, Danske bank

Opening up for German tourists will make a big difference



Source: Statistics Denmark

At a glance

			Forecast	
National account	**2019**	**2019**	**2020**	**2021**
	DKK bn (current prices)		% y/y	
Private consumption	1048.6	2.3	-1.4	3.5
Government consumption	558.0	0.5	1.4	0.5
Gross fixed investment	515.2	3.4	-6.0	-0.7
- Business investment	315.1	1.5	-9.4	-0.2
- Housing investment	120.7	8.0	-1.8	-2.4
- Government investment	79.4	4.0	1.2	0.3
Growth contribution from inventories		-0.4	-0.5	0.0
Exports	1296.9	1.6	-7.7	4.1
- Goods exports	799.0	6.0	-6.3	3.5
- Service exports	498.0	-5.7	-9.3	5.3
Imports	1140.7	0.1	-5.7	2.8
- Goods imports	683.5	0.5	-5.5	3.5
- Service imports	457.1	-0.5	-5.9	1.8
GDP	2321.5	2.4	-3.5	2.5

Economic indicators	**2019**	**2020**	**2021**
Current account, DKK bn	180.8	147.9	166.9
- % of GDP	7.8	6.6	7.1
General government balance, DKK bn	88.1	-155.0	-45.0
- % of GDP	3.8	-6.9	-1.9
General government debt, DKK bn	770.8	995.8	985.8
- % of GDP	33.2	44.1	42.1
Employment (annual average, thousands)	2998.3	2937.7	2955.2
Gross unemployment (annual average, thousands)	104.2	150.7	144.8
- % of total work force (DST definition)	3.7	5.4	5.2
Oil price - USD/barrel (annual average)	64	43	50
House prices, % y/y	3.8	-0.3	1.2
Private sector wage level, % y/y	2.0	2.3	1.8
Consumer prices, % y/y	0.8	0.5	1.2

Financial figures	**15/06/2020**	**+3 mths**	**+6 mths**	**+12 mths**
Lending rate, % p.a.	0.05	0.05	0.05	0.05
Certificates of deposit rate, % p.a.	-0.60	-0.60	-0.60	-0.60
2-yr swap yield, % p.a.	-0.13	-0.10	-0.10	-0.05
10-yr swap yield, % p.a.	0.07	0.15	0.25	0.45

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

Sweden

Economy bottomed in Q2

- **The economy fared better than expected in Q1, but the plunge in Q2 GDP is likely to be bigger than previously thought as suggested by the April GDP indicator. Hence, the outlook for 2020 as a whole will be only moderately reduced.**
- **There are now green shoots visible in different parts of the economy suggesting it bottomed in early to mid-Q2. It is now a matter of how quickly the economy recovers, unless a second COVID-19 wave surfaces.**
- **All-time low wage and inflation expectations and a stronger SEK continue to pose a significant threat for the upcoming postponed wage round. In turn, this could shift the long-term inflation path for core inflation down a notch.**
- **We expect the Riksbank to focus on balance sheet measures for the time being, even though it is unclear how this will raise inflation.**
- **The budget deficit is soaring on the back of government measures, but there are indications of less usage of these than anticipated.**

Swift policy responses have resulted in green shoots

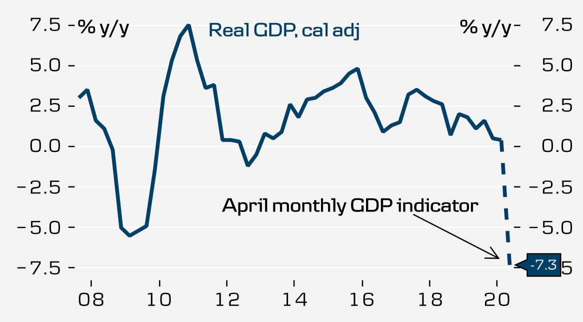
In *Nordic Outlook – Economic and financial trends*, 27 March, at the early stages of visible economic impact from social distancing and global lockdowns in response to the spreading coronavirus, we expected a sharp contraction in the first half of the year with the bulk of the decline in Q2 to be replaced with a moderate recovery in the second half of the year. Given vast uncertainties surrounding the forecast at the time, the economy seems to be reasonably on track with the forecast: Q1 was actually better, showing positive growth, while Q2 is likely to show a slightly bigger drop. It seems the economy was almost in freefall in the last two weeks of March and in April, but stabilised in May. There are several green shoots. Firstly, GDP was unchanged in Q1, whereas it dropped quite significantly in many countries. Secondly, the April activity indicator revealed a mere 7.3% y/y decline (wda), which is much less than assumed in the 'disaster forecasts' produced by many forecasters. Thirdly, after the record surge in March and April, layoff notices dropped drastically in May and early June, albeit not fully back to normal. Fourthly, short-week furloughs appear to have been used to a lesser extent up to the first week in June than assumed by the government. Fifth, it appears as if PMIs/NIER confidence bottomed in April, showing a small rebound in May. Looking at the price side of the economy, things are quite the opposite. The deflation risk we suggested in late March became true as April CPIF showed significant deflation, stemming mainly from price cuts in clothing and hotels/restaurants aside from the energy plunge. It was only the government that added measures in April and May. Riksbank's loan facilities have only been used to a very limited extent.

At a glance

Sweden	Current forecast		Previous forecast	
% y/y	2020	2021	2020	2021
GDP, calendar adjusted	-4.1	3.7	-2.8	2.3
Private consumption	-5.0	4.3	-0.8	1.7
Public consumption	0.7	-0.7	1.0	1.2
Gross fixed investment	-8.1	4.3	-6.1	0.9
Exports	-1.0	4.2	-3.9	2.8
Imports	-3.3	5.2	-3.7	2.5
Unemployment rate	8.8	8.5	8.8	8.5
Inflation	-0.1	1.1	0.6	1.2
Government balance, % of GDP	-7.4	-1.0	-3.0	-1.0
Current account, % of GDP	4.9	4.6	4.9	4.6

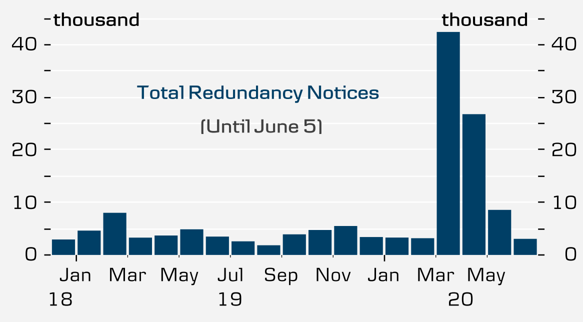
Source: SCB, Danske Bank

Indicator suggests huge drop, but less than feared



Source: SCB

Layoffs heading towards normal again



Source: SCB

Only a minor downward revision of growth outlook

As mentioned above, Q1 GDP and unemployment turned out much better than expected in the previous Nordic Outlook, being unchanged q/q. That is also a considerably better outcome than in Nordic neighbours or in most other countries for that matter. That said, even though this is probably a result of the Swedish coronavirus strategy, this is NOT pursued for economic reasons, but rather to mitigate the pressure on public health care. Looking at the limited info available for Q2, it appears as if the economy plunged in April, but bottomed in May. Hence, the worst is probably over unless there is a resurgence of coronavirus contagion again.

On the back of this, we have lowered the GDP forecast slightly, but make no change to the overall outlook for 2020 unemployment as government's short-week furloughs keep the recorded unemployment rate down.

Taking the starting point in the special character of the economic impact from coronavirus health defence measures, i.e. that it resulted in simultaneous supply and demand shocks, it now seems as if it has caused somewhat of a 'flash crash'. In this fact lies also the reason to be positive, economies should rebound faster than normal as economies reopen. In other word the dive is unusually deep, but probably also unusually short-lived.

Swedish consumers doing alright – after all

Swedish consumers may be slightly better off than elsewhere, but the data is a bit mixed. Both consumer and retail confidence recovered slightly in May and levels remained somewhat better than what was seen in the 2008-2009 crisis. To be noted is that consumers became less pessimistic about their own economic situation (micro index). Retail trade has been surprisingly resilient, declining a mere 1.3% y/y in April. However, the consumption indicator plunged an unprecedented 10.0% y/y the same month (more than twice the decline seen in 2008 and the bulk of the impact was in the usual suspects, i.e. hotels, restaurants and transportation, accompanied by an even bigger drop in retail apparel sales. The resilience in retail appears to stem from higher food and DIY stores sales. The data suggests the overall decline in consumption was bigger in March and moderated slightly in April.

Private services and manufacturing hard hit

Hence, retail trade is doing OK relative to other business sectors. Both PMI and NIER confidence says manufacturing has been hit and although both indicators probably bottomed in April and May, there is little to suggest a recovery has begun as export orders remained very weak in May. On a positive note, delivery times started to decline in May, possibly indicating that global supply chains are starting to untangle. Indeed, goods exports plunged these months, but imports fell even stronger. Hence, albeit narrowing slightly, the goods trade balance is still showing a surplus and the impact on GDP should be positive. Hard data such as production and orders show about the same decline as was the case during the Great Recession.

Lowered growth forecast, but furloughs keep unemployment in check

Sweden, Forecasts March NO

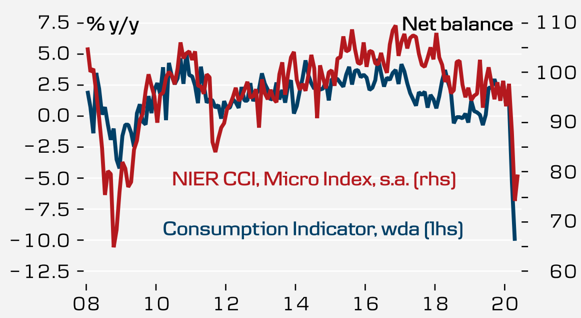
		20Q1	20Q2	20Q3	20Q4	2020
GDP	q/q %, SA	-1.1	-3.9	1.2	1.1	
	% yoy, CA	-0.4	-4.3	-3.9	-2.6	-2.8
UR	%, SA	7.6	8.5	9.6	9.4	8.8

New forecast

LFS etc		20Q1	20Q2	20Q3	20Q4	2020
GDP	q/q %, SA	0.1	-7.1	1.2	1.1	
	% yoy, CA	0.4	-6.3	-6.2	-4.7	-4.1
UR	%, SA	7.1	9.0	9.6	9.4	8.8

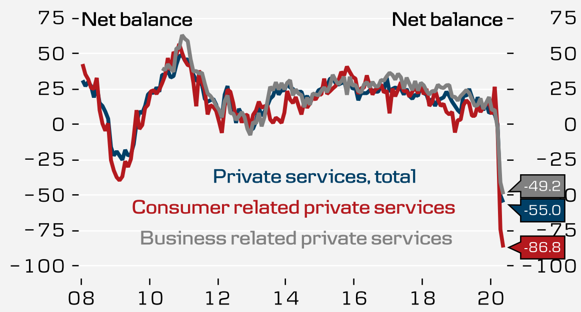
Source: PES, Macrobond Financial

NIER survey suggests 10 % April consumption drop was the bottom



Source: SCB, NIER

But services companies suffer, especially consumer-related



Source: NIER

However, it is really the private services sector that has been at the epicentre of the coronavirus earthquake. This is because it is squeezed at both ends, i.e. in business-related services as well as consumer-related services. This may be the reason why data give mixed impressions. According to NIER data, overall services confidence is at an all-time low (well below 2008 levels) and although business-related branches show huge declines, it is actually much worse in consumer-related branches. Services PMI does not give the same alarming signals, which may signal a difference in branches surveyed (possibly more business-related). Both indicators, however, show a slight rebound.

Construction unscathed as property prices rise again

Construction has escaped quite unscathed. Confidence as well as production both show a very limited decline compared to other sectors. Actually, Q1 multi-dwelling housing starts remained close to the 10,000 rate seen in Q4 and appear to have stabilised at this level after the peak seen in 2017. Another green shoot visible in the housing market is that Danske Bank's Boprisindikator suggests tenant-owned flat prices in the Stockholm municipality rose slightly more than 1% m/m in seasonally adjusted terms and there are signs of another seasonally 2.4% m/m gain in the first half of June, implying half of the March and April drop has been recovered. This suggests homebuyers are taking a positive stance from rising stock markets, low mortgage rates and loosening amortisation requirements, and disregarding the threat of being unemployed.

Worst is over for the labour market

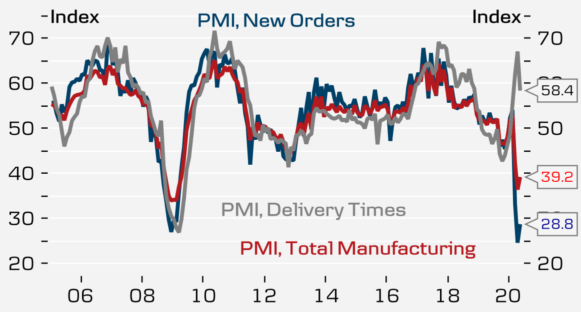
Labour market data shows that layoffs peaked in March at an all-time high (about twice the historical high), moderated but still remained at extreme levels in April, just to drop considerably in May and early June, where levels are still above but much closer to the normal average. Hence, the labour market indicates that the worst is over (chart in section 1 above).

According to the April LFS survey, hours worked again fell by about 6% m/m, which coincides with an extra increase of about 200,000 in the number of employed not at work. This decline in the overall total of employed at work is probably a direct consequence of the government's short-week furlough programme. Adding them to the 432,000 unemployed would put a 'coronavirus-adjusted' unemployment rate at 11.5% in April. Applications have been granted for 533,000 employed up to 10 June, amounting to a cost just shy of SEK26bn. The 200,000 (fully employed) in the LFS statistics are probably these 533,000 in different degrees of furlough (i.e. on average about 40% furlough). The total usage of this measure over the past three months assuming it was started being used in mid-March retroactively, appears to be slightly below the pace assumed by the government (SEK26bn versus SEK31bn).

Mixed, unclear outlook for investments

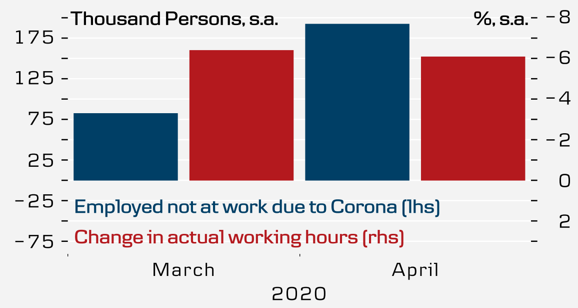
Turning to investments, it was residential property companies and trade - hence possibly coronavirus-related - that caused an overall 3% decline in Q1 compared to last year. Industry, energy and business services actually increased investments despite the coronavirus crisis. About half of investments were in machinery and equipment and the rest split on different types of construction. Looking forward, with some more upbeat signals in construction and housing, and a rather pessimistic outlook for the other sectors, it is not unimaginable to see the opposite development in coming quarters.

Supply chains and orders are mending



Source: NIER

Coronavirus caused an extra 200,000 increase in employed not at work



Source: Swedbank, Markit

Q1 investment survey showed mild reduction

Bransch	Q1 2020	Q1 2019	% yoy
Industry	14950	14487	3%
Energy	10038	8755	15%
Construction	1789	1977	-10%
Trade	4667	5422	-14%
Transportation	4510	4097	10%
Info & communication	3563	3895	-9%
Financials	954	886	8%
Property companies	32869	36865	-11%
Business services	4316	3729	16%
Total	**77856**	**80329**	**-3%**

Source: SCB

Deflation warning remains intact

Despite the fact that the plunge in April in headline and core inflation turned out to be a temporary coronavirus-related setback, there is still very much a deflation threat looming. May showed a bounce back in those three price components that caused the deviation in April: clothing, recreation and hotels/restaurants. Even though we had expected that the price pressure could prevail for some time, it now looks as if the coronavirus effect is over and done. Looking forward, inflation should in principle develop according to normal seasonal patterns.

Energy prices also rebounded in May and we expect them to gradually approach normal levels. Core inflation fundamentals, however, are still deteriorating.

There are two significant threats to the core inflation outlook. Firstly, Social Partners' average inflation expectations dropped to all-time lows on 1y and 2y and 5y horizons. This is likely to weigh on the postponed wage negotiations that are set to restart in late October. It is quite hard to imagine that a new deal will be on the low side of the current one. Hence, this will put further pressure on domestic wage costs. Secondly, due to the Riksbank's relaxed attitude the SEK is strengthening as risk sentiment has taken over from short-dated rate spreads as the prime driver. Beside the direct negative impact on consumer import prices, a stronger SEK is likely to be an argument for lower wage deals on the part of employers' negotiators as it reduces competitiveness. These factors in turn will lower the expected path for core inflation to hover around 1% long term. A weaker SEK would moderate such a path.

Riksbank holding off the trigger

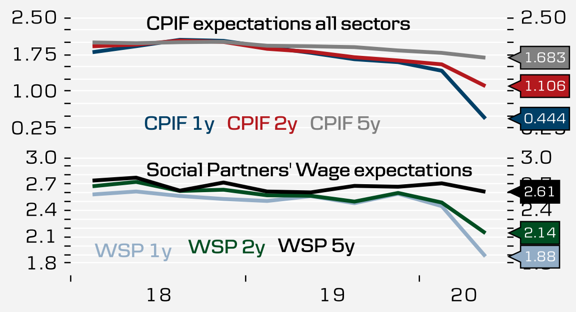
The Riksbank appears quite content with its emphasis on sustaining credit supply to fight the acute crisis. It is very hard to judge whether the Riksbank has been successful in its policies or not. On the one hand, it is pretty clear that all loan facilities have had quite limited use, some of them close to none (table next page). On the other hand, the SEK300bn extended QE programme has shown strong demand primarily in covered bonds but also in govvies and munis. It has been very successful in the sense that it has moderated the upward pressure on government bond yields form soaring government funding requirement and reduced mortgage and credit spreads significantly.

For now, we do not expect the Riksbank to pull the rate trigger in the next 12 months and cut rates back into negative. It has laid out a number of rather dubious reasons for that stance, but judging from comments from several board members, it seems it could be willing to cut the repo rate at a later stage to help kick-start the economy.

Significant rise in government deficit

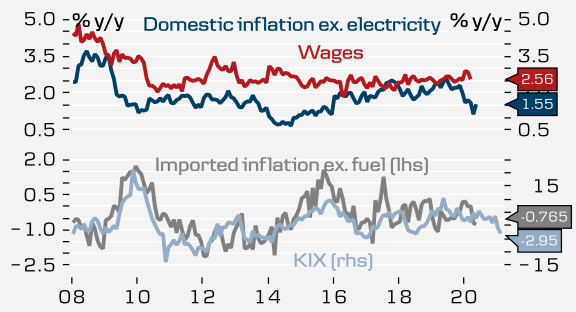
The Swedish government has continue to add to the measures already signalled in late March. Loan guarantees, delayed tax payments and measures that directly affect the budget now amount to some SEK800bn (15% of GDP) if fully used. It remains to be seen, however, how much of this will actually be used to bridge the revenue gap that was caused by social distancing recommendations. There are indications, such as the fact that May showed an unexpected SEK10bn surplus instead of a SEK17bn deficit, that the Debt Office has overstated the use of both postponed tax payments as well as understating tax revenues. The use of the short-week furlough was SEK3bn higher than expected. Hence, overall it

Inflation and wage expectations at all-time lows



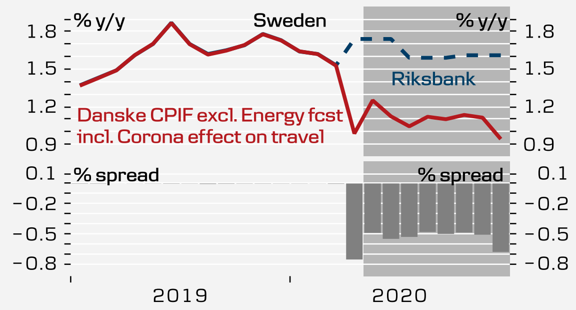
Source: Prospera, Danske Bank calculation

Wage and KIX outlook – a poisonous combo



Source: Mediation Office, SCB, Danske Bank calculation

No sunrise for core inflation



Source: SCB, Mediation Office, Danske Bank calculations

Usage of Riksbank's Corona-fighting measures

Facility	Amount	Use
2y loans, SEK bn	500	160
3m, SEK bn	Unlimited	26
3m, USD bn	60	2
QE, SEK bn	300	116
o/w Cov		82

Source: Riksbank

may be the case that not all of the SEK400bn deficit projected by the Debt Office for 2020 will be used. That said, it is way too early after just one month to conclude that this is the case. For now, it seems the pressure to deliver new measures has eased considerably. The risks, hence, should be tilted towards a lower rather than a higher deficit. The Debt Office has declared that in such a case, this will be matched by a drawdown of T-bill funding.

The slightly weaker GDP forecast coupled with added government measures and hence a raised deficit means that the Maastricht debt ratio is likely to end up in the 40-45% range by the end of the year.

At a glance

National account	2019	2019	2020	2021
			Forecast	
	SEK bn (current prices)		% y/y	
Private consumption	2178.9	1.2	-5.0	4.3
Government consumption	1295.7	0.5	0.7	-0.7
Gross fixed investment	1299.0	-1.1	-8.1	4.3
Growth contribution from inventories		-0.3	-1.0	1.1
Domestic demand	4833.2	0.4	-4.3	2.9
Exports	2384.7	4.2	-1.0	4.2
Aggregate demand	7218.0	1.4	-3.6	4.3
Imports	2191.5	1.8	-3.3	5.2
Growth contribution from net exports		1.1	0.9	-0.2
GDP	5026.5	1.2	-3.9	3.8
GDP, calendar adjusted	5030.2	1.3	-4.1	3.7

Economic indicators	2019	2020	2021
Trade balance, SEK bn	176.331	222.7	211.4
- % of GDP	3.6	4.7	4.3
Current Account, SEK bn	224.8	232.1	225.8
- % of GDP	4.6	4.9	4.6
Public sector savings, SEK bn	4.8	-350.0	-50.0
- % of GDP	0.1	-7.4	-1.0
Public debt ratio, % of GDP*	35.0	45.0	47.0
Unemployment, % of labour force	6.8	8.8	8.5
Hourly wages, % y/y	2.6	2.0	2.0
Consumer prices, % y/y	1.8	-0.1	1.1
House prices, % y/y	2.0	-1.0	2.0

* Maastricht definition

Financial figures	15/06/2020	+3 mths	+6 mths	+12 mths
Leading policy rate, % p.a.	0.00	0.00	0.00	0.00
2-yr swap yield, % p.a.	0.05	0.05	0.05	0.10
10-yr swap yield, % p.a.	0.37	0.45	0.50	0.65

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

Norway

The recovery has started

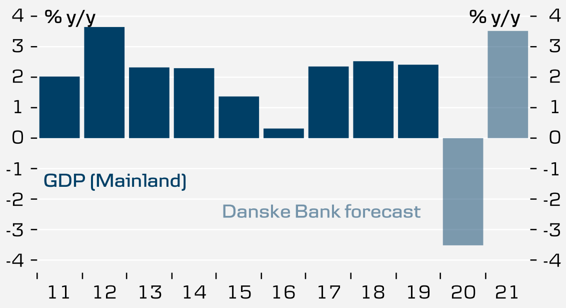
- **Activity bottomed in mid-April, with a solid recovery in H2 still most likely.**
- **Some of the downside risks are being reduced or removed.**
- **As we expect some negative effects to be persistent or at least more long lasting, we believe the economy will remain below trend until mid-2022.**
- **Unemployment will remain above normal in the same period.**
- **There are still limited risks in the housing market.**
- **The appreciation of the NOK is set to continue.**
- **We expect Norges Bank to leave the policy rate at 0.0% until the first 25bp hike in Q4 21.**

At a glance

Norway				
	Current forecast		Previous forecast	
% y/y	2020	2021	2020	2021
GDP (mainland)	-3.5	3.5	-2.5	3.3
Private consumption	-5.0	4.0	-1.5	2.7
Public consumption	3.5	2.0	2.1	2.5
Gross fixed investment	-6.5	0.0	-1.5	-0.3
Exports	-4.5	5.0	2.0	4.0
Imports	-8.0	3.5	-2.0	3.0
Unemployment (NAV)	5.1	3.5	4.7	2.7
Inflation	1.5	2.8	2.1	2.3

Source: Danske Bank

Major hit but solid recovery



Source: Macrobond Financial, Danske Bank

Baseline scenario more likely

In *Nordic Outlook – March 2020*, 27 March, we presented a base case for the Norwegian economy for 2020 and 2021. This base case assumed that the economy would gradually reopen in late April/early May and that growth bounced back from May. Our base case also presupposed that Norway managed to limit the spread of the virus and that the economic countermeasures should not only reduce the long-term effects but also stimulate demand once the worst of the fear subsided.

Our prediction allowed for some of the negative effects to prove more persistent, such as on tourist traffic, and we believed that some businesses would not survive the crisis. This implied that the economy would run below the full capacity level even at the end of 2021.

However, uncertainty was abnormally high and we identified several risk factors that could impose a threat to our baseline scenario and result in a deeper or more prolonged recession. Three months later, we are starting to see most of these downside risks reducing or even being removed.

Hence, our base-case scenario from March is becoming gradually more likely and the overall picture painted back in March is more or less intact. The economy bottomed roughly around mid-April and recovered through May and into June, as the economy gradually reopened, mitigation has been under control and the counteracting measures, including monetary and fiscal policy, have proven quite effective.

However, we underestimated the depth and length of the cross-country travel restrictions. In addition to a downward adjustment of global growth and a more broad-based (voluntarily) lockdown, this pulls our base case forecast for 2020 downwards. However, the effect is limited, as this also results in higher domestic consumption as trade leakages are more or less removed.

We now expect growth to pick up into the second half of the year and normalise into 2021. This would still imply a 3.5% decline in mainland GDP in 2020 and 3.5% growth in 2021.

Downside risks lowered

A mentioned, in March we identified some downside risks that could result in a deeper and more prolonged recession. Since then, we have carefully monitored these risk factors and our current conclusion is that most of them are being lowered or even removed.

1. Behaviour set to be permanently altered

As the coronavirus crisis represented a new and unknown threat, the 'empirical' guidelines for how this would affect behaviour in a more long-term perspective were scarce or even non-existent. There was a fear that even if the economy reopened as expected, the economic gains would be dampened by a permanent change in behaviour, as lower mobility could result in higher savings and weaker demand, especially in retail and service sectors. As illustrated by the Apple Mobility Index, mobility in society fell significantly from early March to around 50% of the normal level. Since the reopening started on 20 April, mobility has increased, returning to a normal level towards the end of May. There is nothing in the data that supports the idea of a permanent shift in behaviour.

2. Once the economy reopens, mitigation will increase

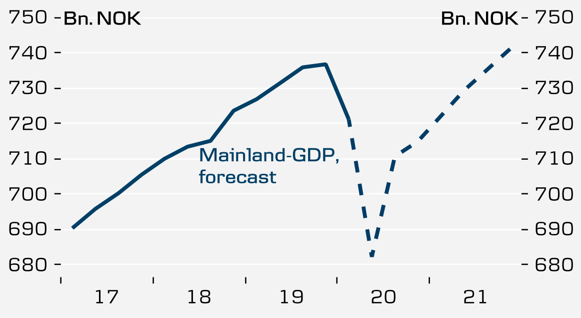
As the lockdown was introduced (or actually some days earlier), the daily increase in the number of mitigated started to slow down. However, there was a risk that once society reopened, this pattern could reverse. There is still no final verdict but seven weeks after the reopening, there are no signs of second round waves. On the contrary, the daily growth in the number of infected has continued to fall to between 0.1% and 0.2% d/d. In addition, the number of hospitalised has fallen from 162 to 22 (10 June) and the number in intensive care from 22 to two. There is nothing in these data to support the idea of a second wave of corona infections.

3. Higher savings set to dampen private consumption

In tandem with the fear of less mobility, there was a risk that the coronavirus crisis could permanently lead to higher savings among households, hence dampening private consumption and overall growth. First, the rapid growth in the number of temporary lay-offs could lead to a focus on the need for higher liquidity reserves, hence rising savings, as households were introduced to a type of shock not seen since the 1930s. Second, the effect of reduced mobility could lead to lower demand in some areas, especially in some service sectors, where social distancing could prove difficult.

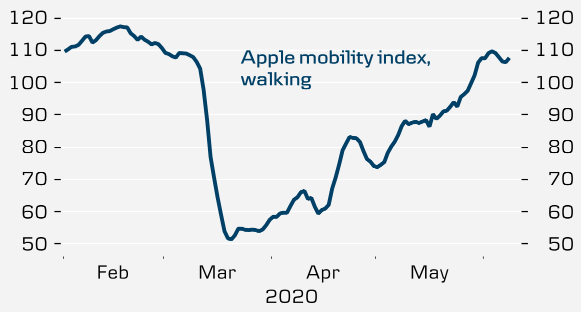
However, weekly debit card transactions from DNB give no support to such concerns. After a c.15% monthly declines in both March and April, consumer demand seems to have been close to 2019's level in May, which fits well with the mobility data. In addition, details reveal a significant rotation among consumption groups, as service consumption took a 25% hit in March and April, while the fall in goods consumption was below 2%. Some areas of goods consumption have seen a 30-40 % increase in demand compared with 2019.

Some permanent effects imply long-term losses



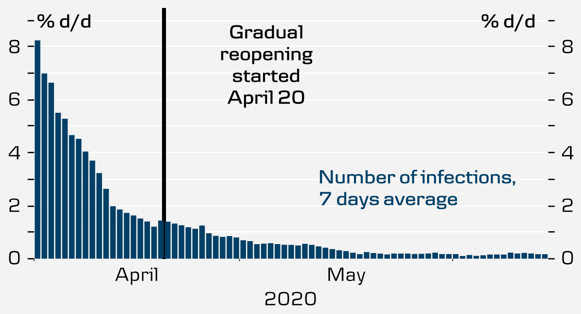
Source: Macrobond Financial, Danske Bank

Mobility back to normal



Source: Macrobond Financial, Danske Bank

Coronavirus under control



Source: Macrobond Financial, Danske Bank

This confirms one of our assumptions regarding the outlook for consumption: money saved on less travelling and so on will largely be spent on other goods/services. That said, the saving ratio increased in March/April but consumption data for May and the first half of June suggests this has partly reversed. Hence, there is evidence of higher savings but not to an extent that threatens private consumption sufficiently to trigger a deeper recession.

4. Lower housing prices will affect housing starts and the construction sector negatively

As (temporary) unemployment exploded in March, there was a risk of a severe fall in housing prices, which in turn could negatively affect both private consumption and the construction sector via lower housing starts. Housing prices fell 1.5% m/m in March and the number of transactions was 15% lower than in 2019. However, prices declined a more moderate 0.2% in April, before increasing 1.4% in May. At the same time, the number of transactions picked up and was 7.5% lower than in May 2019. So far, there is no data supporting a pickup in housing starts that can support the construction sector in coming months/quarters. However, a stabilisation in the secondary market visible in May would usually improve new home sales and eventually housing starts. Despite it being premature to conclude, we believe the risk of a large correction n the housing market is coming down.

5. Lower oil prices set to reduce oil investments

Even in the baseline scenario from March, we expected a significant decline in oil investments in 2020 and 2021 as the oil price had already fallen to USD25/bbl at the time of writing and oil companies were starting to signal significant cuts in oil investments ahead. However, the risk was skewed to the downside, as demand could take a harder hit from even lower global growth and oil companies could face even tighter financial conditions.

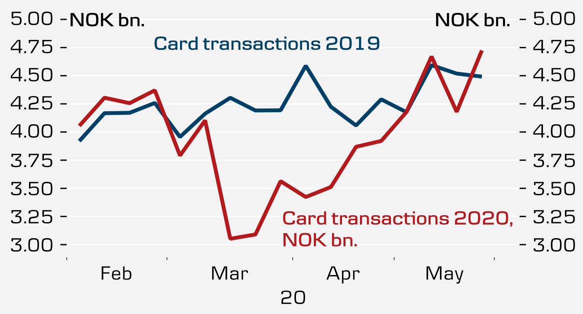
We still expect oil investments to fall in 2020 and 2021. However, since late April, oil prices have recovered strongly on a mix of higher demand and lower supply. At the current level of around USD40/bbl and especially as forward prices from early 2024 have moved above USD50/bbl (regarded to be the 'stress test level' for projects on the Norwegian shelf), the downside risks to oil investments are abating.

In addition, the authorities have recently agreed to make some temporary changes to the tax system for oil companies. In short, we expect the new regime to lower after-tax breakeven prices by c.USD5-6/bbl, effectively working as a corresponding rise in oil prices. As a result, we have made an upward revision to our estimate for oil investments, in both 2020 and 2021.

6. A deeper and more prolonged global recession would affect the export industry more negatively

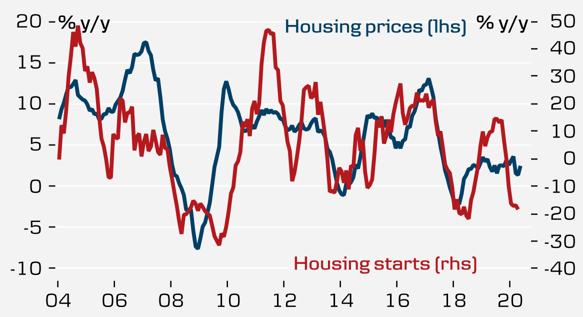
As mentioned above, we have adjusted our global forecast downwards since March. However, there are tentative signs of stabilisation and even recovery in the global economy, as well as economies reopening, mobility increasing gradually and counteracting measures proving effective. At least, looking at both economic data, infection numbers and policy response, we believe the risk of a deeper and more prolonged global recession has decreased lately. Hence, the risk

Private consumption back at 2019-levels



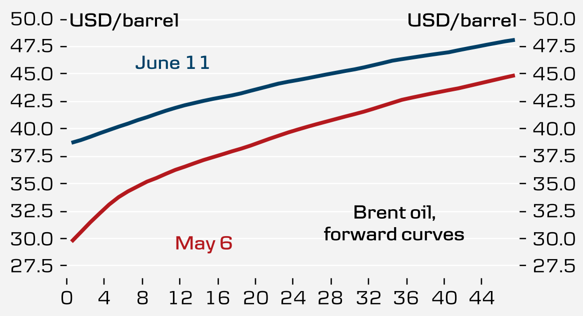
Source: Macrobond Financial, Danske Bank

Housing market has stabilised – housing starts to pick up?



Source: Macrobond Financial, Danske Bank

Higher oil prices



Source: Macrobond Financial, Danske Bank

of a more severe headwind to the economy from a significant hit to the export sector is decreasing correspondingly.

Further counteracting measures introduced

As early as March, many counteracting measures had been introduced and, so far, it seems this has worked well in stabilising the economy. Since the March report, the authorities have presented additional measures.

Through various additional fiscal policy measures, we now expect the discretionary fiscal effect to be 5.6% of GDP in 2020, compared with 3.9% when we published *Nordic Outlook – March 2020*, 27 March,. The most important announcements were a more general stimulus package aimed at supporting long-term growth prospects at 0.9% of GDP on 29 May and a change in the tax regime for oil companies in the form of tax extensions, which we expect to add c.0.3% of GDP (Danske Bank calculations, no official estimate available).

Norges Bank cut its policy rate by 25bp. to 0.00% on 7 May, to a total of 1.50pp from 1.50% to 0.00% since 13 March. We expect this to ease further the pressure on some firms and households relatively quickly. It should also boost economic growth once the negative effects of the shutdown reverse. These big rate cuts have probably also served above all to restore confidence in things getting better, thus avoiding unnecessary tightening of belts by banks, firms and households.

Recovery in H2, normalisation in 2021

As mentioned above, our base line scenario from March seems increasingly likely. This base case assumed a sharp recession in March and April but a strong bounce back in May and June and further recovery in H2, as downside risk continue to fade.

Some of the negative effects will be more persistent, such as on tourist traffic and we still believe some businesses will not survive the crisis. This implies that the economy will run below the full capacity level well into 2021.

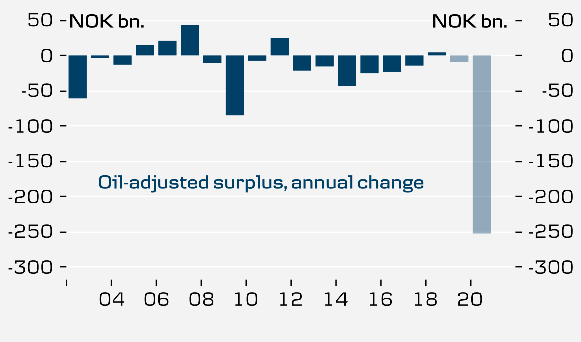
We now expect mainland GDP to fall 3.5% in 2020 but deliver 3.5% growth in 2021.

Significant impact on labour market

There has been a significant increase in the number of applications for unemployment benefit in recent weeks, with overall unemployment peaking at 15.5% on 7 April. This was the highest jobless rate in Norway since World War II. As the economy started to recover around mid-April, unemployment gradually decreased and stood at 11.4% on 9 June. We expect this trend to continue as overall demand picks up and capacity utilisation increases. However, there is reason to expect a continued number of new lay-offs in manufacturing, including oil-related sectors, and construction in the coming weeks and couple of months until these sectors experience stronger demand over the summer.

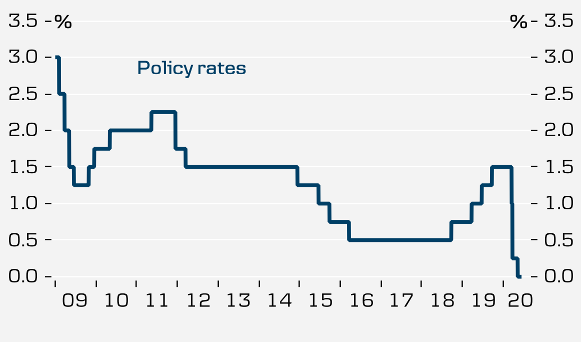
Still we expect the unemployment rate (full-time unemployed) to fall only moderately from the current 5.7% to slightly below 4% at the end of the year.

More expansionary fiscal policy



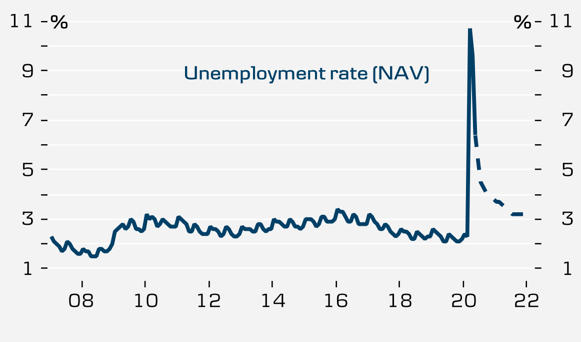
Source: Macrobond Financial , Danske Bank

Policy rates cut to zero



Source: Macrobond Financial, Danske Bank

Unemployment coming down – but not all the way



Source: Macrobond Financial, Danske Bank

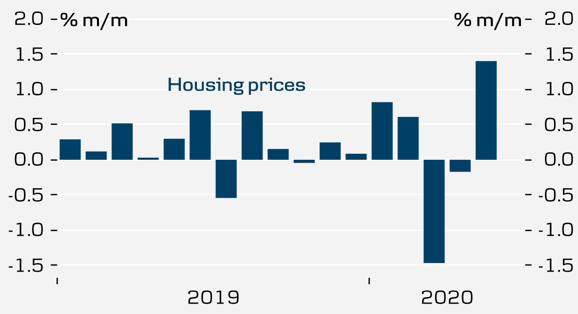
Housing market seems to be stabilising sooner than expected

The big leap in unemployment brings with it the risk of a serious downturn in the housing market. However, as we argued in *Nordic Outlook – March 2020*, 27 March, the government's measures will largely compensate households for direct losses of income and mortgage rates are falling fast, so there is little reason to expect any major wave of repossessions. This is supported by the banks reportedly being relatively willing to grant mortgage holidays.

Therefore, we expected housing prices to fall 'over the next couple of months' but could see them bouncing back towards the end of the year as unemployment comes down, uncertainty recedes and mortgage rates fall. As mentioned above, the housing market has stabilised even sooner than we had expected, as prices in May were already close to the pre-coronavirus outbreak level.

However, as unemployment rates will be higher and real wage growth lower than expected pre-coronavirus, we do not expect a full recovery despite lower mortgage rates. Still, we expect housing prices to fall only marginally this year and to rise by 2-3% in 2021. However, if our expectation of a pickup in housing starts proves wrong, a negative supply shock could quickly result in much higher prices, especially in the Oslo area.

Housing prices have stabilised…



Source: Macrobond Financial, Danske Bank

Stronger NOK and lower wage growth set to weaken inflation eventually

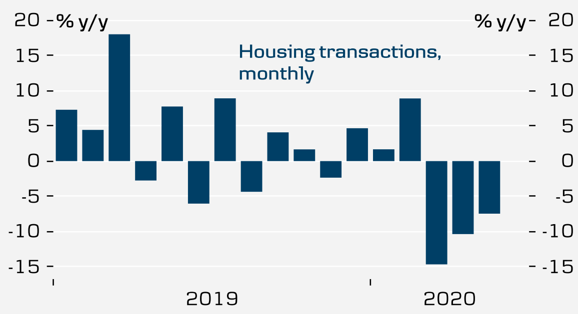
In our view, the depreciation of the exchange rate in Q1 will lead to much faster growth in prices for some imported goods, pushing up overall inflation over the course of 2020. There also seem to be some signs of increasing pricing power in the retail sector, as cross-country travel restrictions reduce competition for domestic stores.

Meanwhile, this year's wage talks have been postponed, which – along with the challenges facing firms – means that wage growth in 2020 will now be much lower than we previously assumed. We now believe it could easily turn out to be below 2.0% and will gradually dampen domestic inflation.

In addition, the import-weighted NOK has appreciated 12-13% since the peak and we expect this trend to continue at least for some months. This would soften the impact on imported inflation towards the end of the year.

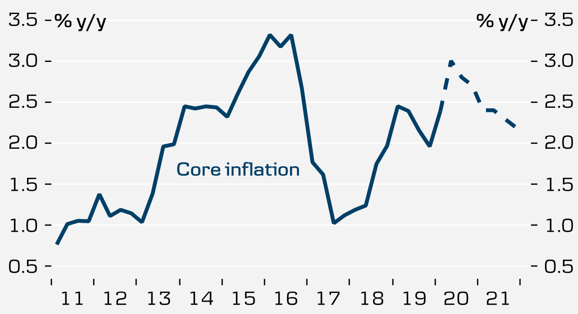
The main factors behind the appreciation of the NOK are (1) underlying capital flows being turned upside down as Norges Bank continues buying significant NOK amounts on behalf of the government to finance fiscal spending, (2) positioning as foreigners return to the NOK market after heavy net selling (rebounding commodities amid gradual reopenings support this) and (3) optimism as to the Norwegian reopening and underlying COVID-19 data as discussed above.

…so has the number of transactions



Source: Macrobond Financial, Danske Bank

Disinflation throughout next year



Source: Macrobond Financial, Danske Bank

Norges Bank on hold until late 2021

Norges Bank has cut its policy rate sharply to a record-low 0.0%, with cuts of 50bp on 13 March, a further 75bp on 20 March and 25bp on 7 May.

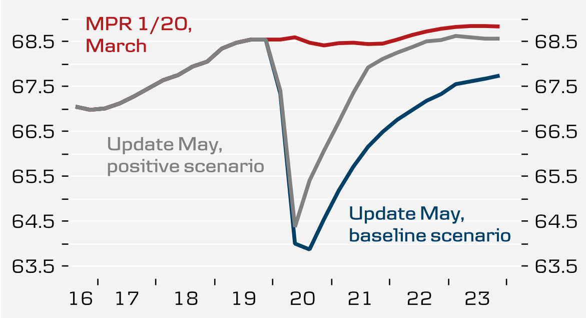
At the intermediate meeting in May, Norges Bank published a Monetary policy update, a light version of the monetary policy report. The update painted a rather gloomy picture of the economy and the corresponding rate path signalled unchanged rates for the entire forecast period (ends 2023). Moreover, Norges Bank stated, '*In the analysis in this report, as a technical assumption the policy rate is held constant at 0% throughout the projection period*'. To us, this indicated that the model-based analysis actually called for even more stimulus but that the costs of introducing negative rates were considered to be higher than the gains. Hence, we consider the probability of negative policy rates in Norway to be extremely low.

In the update, Norges Bank also introduced two alternative scenarios, one more positive and one more negative than the baseline. As mentioned above, the latest developments have mainly been on the positive side and some important downside risks seem reduced.

Hence, in our view, Norges Bank will probably adjust the forecasts upwards, in the Monetary Policy Report on 18 June, hence moving towards the positive alternative scenario from May but probably ending up somewhere between the baseline and the positive scenario, as some downside risks still persist. As a result, we expect Norges Bank to adjust the expected rate path upwards, signalling a gradual rate hike from the end of 2022 and into 2023, but keep rates well below neutral rates, even at the end of the forecast period.

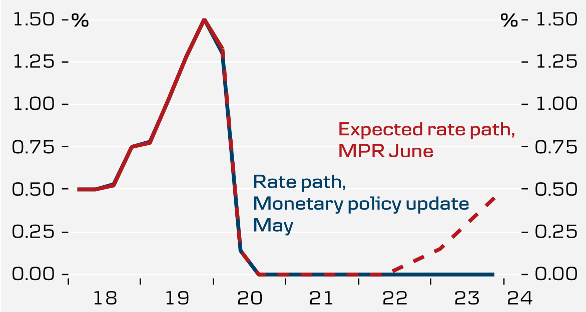
Based on the analysis presented in this document, we expect capacity utilisation to return to normal roughly in mid-2022. The current monetary policy stance is extremely supportive, as real rates ret -2% (looking at inflation target and inflation expectations), -3% (core inflation) and -1.3% (headline inflation). Based on our understanding of Norges Bank's reaction function, this calls for the start of a gradual normalisation process some time ahead of this. We now expect Norges Bank to leave rates at 0.0% before delivering the first 25bp rate hike in Q4 21.

Norges Bank moving towards positive scenario...



Source: Macrobond Financial, Danske Bank

...hence signal higher rates at the end of 2022



Source: Macrobond Financial, Danske Bank

At a glance

			Forecast	
National account	**2019**	**2019**	**2020**	**2021**
	NOK bn (current prices)	% y/y		
Private consumption	1503.9	1.7	-5.0	4.0
Public consumption	866.2	2.2	3.5	2.0
Gross fixed investment	926.6	5.0	-6.5	0.0
Petroleum activities	178.1	15.0	-4.0	-10.0
Mainland Norway	744.3	3.7	-8.0	2.5
Dwellings	54.3	1.0	2.0	2.3
Enterprises	54.2	5.5	2.0	1.5
General government	211.3	3.0	1.0	1.5
Mainland demand	3204.3	2.3	2.0	2.0
Growth contribution from stockbuilding		0.0	0.0	0.0
Exports	1300.9	1.8	-4.5	5.0
Crude oil and natural gas	453.5	-4.5	11.0	3.5
Traditional goods	433.3	4.8	-5.5	4.0
Imports	1250.5	5.0	-8.0	3.5
Traditional goods	737.8	5.3	2.3	2.4
GDP	3537.6	1.3	-2.5	3.2
GDP Mainland Norway	3039.0	2.4	-3.5	3.5

Economic indicators	**2019**	**2020**	**2021**
Employment, % y/y	1.7	-1.3	0.7
Unemployment (NAV), %	2.3	5.1	3.5
Annual wages, % y/y	3.5	2.0	2.0
Consumer prices, % y/y	2.3	1.5	2.8
Core inflation	2.3	2.8	2.0
Housing prices, % y/y	2.3	0.0	3.0

Financial figures	**15/06/2020**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	0.00	0.00	0.00	0.00
2-yr swap yield, % p.a.	0.50	0.65	0.70	0.90
10-yr swap yield, % p.a.	0.82	1.10	1.30	1.50
EUR/NOK	9.93	10.80	10.50	10.30
USD/NOK	9.08	9.39	9.46	9.28

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

Finland

Restart the engine

- **The coronavirus epidemic and measures to curb it hit the Finnish economy hard in Q2. The service sector, in particular, has suffered significantly. The economy is opening and private consumption is already starting to recover but export industries continue to weaken. We expect GDP to fall 5.5% in 2020. In our view, a partial recovery in 2021 is likely if the epidemic is contained and policy response remains large.**
- **The labour market was strong before the coronavirus epidemic escalated. Initial adjustment has come through significant temporary layoffs in labour-intensive service industries. We believe actual unemployment will rise less.**
- **The Finnish housing market is stable and adjusted mainly through less trade, rather than through prices. Transactions fell by around one-third in April and May but we saw a normalisation in late May.**
- **Public support for coronavirus outbreak-strained companies and the blow from the recession have widened the public deficit significantly. The government is shifting from crisis mode towards more targeted stimulus. We estimate gross issuance rises to around EUR40bn in 2020 and that the debt-to-GDP ratio will rise well above 70%. Even with a recovery, the deficit is likely to be large in 2021 too. Ageing-related costs are set to push debt higher in the 2020s.**

Changes relative to previous forecast

Finland	Current forecast		Previous forecast	
% y/y	2020	2021	2020	2021
GDP	-5.5	3.5	-4.0	2.0
Private consumption	-6.0	4.5	-4.0	2.0
Public consumption	4.0	1.0	2.0	1.0
Gross fixed investment	-10.0	3.0	-10.0	3.0
Exports	-13.0	6.0	-10.0	5.0
Imports	-11.0	5.0	-10.0	5.0
Unemployment rate	8.0	8.0	8.0	7.5
Inflation	0.2	1.2	0.6	1.2
Government balance, % of GDP	-9.4	-3.8	-3.0	-2.1
Current account, % of GDP	-1.5	-1.3	-0.6	-0.4

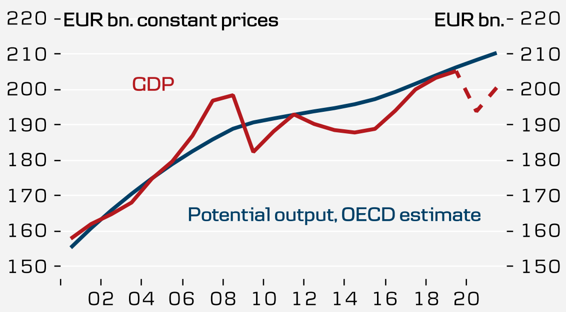
Source: Danske Bank

Light at the end of the tunnel

The Finnish economy was already slowing down before the coronavirus outbreak. Finland is in recession, as GDP has now contracted in two consecutive quarters. According to the revised data, in Q4 19, GDP contracted by 0.6% from Q3 19. According to Statistics Finland's preliminary data, in Q1 20, GDP decreased by 0.9% from Q4 19. GDP adjusted for working days decreased by 1.1% y/y in Q1.

Following the lockdown measures announced on 16 March, private consumption fell significantly. Restaurants closed, although takeaway sales were allowed, and people were advised to stay home. Most specialist retail stores and many services such as hairdressers were allowed to be open but customer demand disappeared. Car sales roughly halved. Grocery sales and online sales went up as a reaction to people spending more time, and eating, at home. However, the lockdown did not close construction sites or factories and many parts of the economy continued to function relatively normally. Office workers and schoolchildren largely went online at home and started working and studying remotely. Schools reopened for the last two weeks of May and some white-collar workers have returned to their offices. The use of digital tools is likely to be intensive in the future as well. Restaurants opened on 1 June and consumer spending has moved towards more normal patterns. People favour domestic travel over foreign travel, with most big events cancelled this summer.

Output gap growing significantly



Source: Macrobond Financial, Statistics Finland

Several factors caused the pre-coronavirus outbreak economic weakness. Housing construction has peaked and industrial investment turned more cautious, partly because of trade war related uncertainty. Forest industry labour disputes caused significant disruption in early 2020, including to export figures in March. On the positive side, employment had improved and open vacancies were plentiful in Q1.

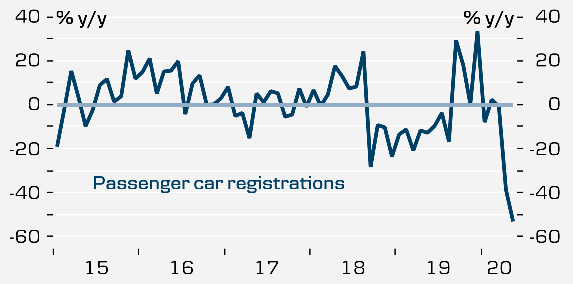
The coronavirus outbreak, the global economic crisis and the tough domestic measures to contain the epidemic hit the economy hard but Finnish figures have been modest compared with many other EU countries. The value of new manufacturing orders fell by 13% in April, which is a lot better than the -38% observed in Germany. The shock to the labour markets was sizable but layoffs did not exceed our earlier estimate of 200,000 layoffs and many have returned to work already. Public finances bore the brunt of the crisis aid to corporates and the general recession, leading to an increasing budget deficit. The fiscal measures, together with low interest rates and patient landlords forfeiting rents, have helped to avoid bankruptcies, which remained surprisingly low up to early June. Intact economic structures ease the recovery phase. Significant public stimulus is on the way and public consumption and infrastructure spending are increasing. Overall, economic data up to early June was roughly in line with our previous forecast. However, the lockdown is not fully over yet and export markets look weaker than assumed in March. We have revised our GDP growth forecast to -5.5% for 2020 (was 4.0%). A partial recovery in 2021 is likely if the policy response is large and global trade rebounds as we expect. We forecast a 3.5% increase in GDP. In our view, the risks are on the downside, due largely to high global market uncertainty.

Private consumption coming to a halt

Before the coronavirus epidemic began, we based our growth forecast on the assumption that the household sector would be the backbone of the Finnish economy in 2020, shielding it from weak export demand. This premise changed dramatically with the coronavirus crisis, which made private consumption the focal point of a deep recession. Following the lockdown measures announced on 16 March, private consumption decreased rapidly, leading to a significant demand shock for labour-intensive service industries on top of the earlier demand and supply shocks that had already affected export industries. The lockdown had eased significantly by mid-June and private consumption has made some recovery. The coronavirus crisis has made petroleum cheaper and total consumer price inflation is close to zero in 2020.

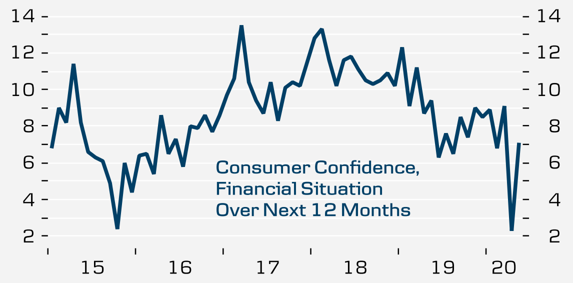
The reduction in employment leads to a smaller wage sum but unemployment benefits and higher pensions together with very low inflation should lead to higher real purchasing power. In our view, it is likely the household savings rate went up in Q2, which means that households have savings to boost consumption, if they wish to do so. With not all businesses open yet, big events such as concerts cancelled and people altering their summer holiday plans, consumption patterns are different. In our opinion, higher unemployment is set to be a drag on consumption recovery well into 2021. People are set to buy fewer and cheaper cars, with used car sales more robust than new registrations. We expect private consumption to shrink by 6% in 2020 and make a 4.5% recovery in 2021. Unlike

Car registrations halved in April-May



Source: Statistics Finland, Macrobond Financial

Consumers have faith in their own finances



Source: Statistics Finland, Macrobond Financial for total GDP, private consumption has more balanced risks and could surprise positively.

So far limited damage to exports

Finnish exports contracted 7% q/q in Q1 20 but this related mostly to strikes and plant closures in forest industries, not the coronavirus pandemic. The COVID-19 outbreak is only gradually starting to have an influence on Finnish exports and the manufacturing industries. Goods exports fell 20% in April due to a significant decline in exports of transport equipment and oil products. However, the decline in the value of oil products results from a fall in oil prices and does not reflect the development value added in Finland. Generally, industrial manufacturing and new orders have seen only a relatively modest contraction so far compared with the situation in many other European countries. In April, industrial output fell 2.2% m/m and was 3.1% lower than 12 months earlier. The structure of Finnish export industries, with a relatively large share of long-term projects such as passenger ships, is relatively robust against quick shifts in the business cycle. However, the headwind may continue to be strong for Finnish export industries for an extended period and we are still expecting the situation to worsen towards the end of 2020, unlike that in service industries.

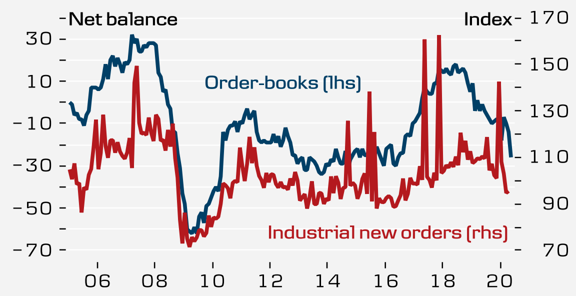
In 2019, Finnish exports had a fairly good year compared with some other European countries, explained by two large cruise ships being delivered and Finland entering 2019's difficult period of European manufacturing with healthy order books. However, the order books for Finnish companies have been on a declining trend for a long time and, in our view, the coronavirus pandemic is likely to strengthen this trend. The coronavirus outbreak has hit Finland's main markets in Europe and subdued growth in other significant markets, ranging from China to the US. Demand for Finnish goods is set to shrink, subcontractors may not be able to obtain the necessary parts in order to finish goods for delivery and services exports are set to suffer a heavy blow. We hope customers will not cancel existing orders and that work will continue on the remaining orders. As for tourism, Finland has a negative travel balance, which gives it a buffer against the decline in travel.

The expected global recovery in 2021 is set to improve the outlook for exports markedly but Finland produces many investment goods and, consequently, external demand is likely to continue to be weak throughout the forecast horizon. We expect exports to decline by 13% in 2020. For 2021, we forecast a modest recovery with exports growing by 6%. However, our estimates come with considerable uncertainty.

Investment demand looking weak

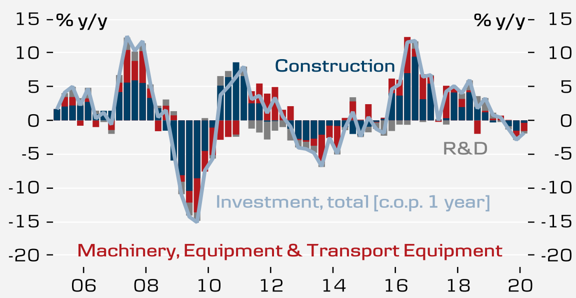
Investment demand was already quite weak in H2 19 and the contraction continued in Q1 20. The weak global outlook contributed to the slowdown in 2019 and the decreasing capacity utilisation rate indicates that the difficulties were not over in early 2020. We expect the coronavirus crisis to hit investment demand in many ways in H2 20. The uncertainty and, possibly, a lack of foreign workers is delaying construction projects. We may also see the cancellation of some projects. The high level of uncertainty is also delaying business investment, even if debt financing is ample. As a positive contributor, the government intends to spend more on infrastructure, which should stimulate

Industrial orders books shrinking



Source: Statistics Finland, Confederation of Finnish Industries, Macrobond

Investments already contracting before coronavirus



Source: Macrobond Financial, Statistics Finland construction in the medium term. In total, we expect fixed investment to shrink by 10% in 2020. For 2021, we expect investments to grow by 3%, following a modest recovery in construction and manufacturing investment. However, with a growth rate like this, it would take a long time to reach the level of investment seen in 2018.

Number of layoffs declining

During the spring, we saw a significant wave of layoffs from different companies in many industries, as well as municipalities. Over 200,000 workers had been laid off at the end of May but the number has shrunk to under 150,000 in June. The largest reductions were in accommodation and food services and the number of layoffs started to decline when restaurants were allowed to take customers again on 1 June. However, nearly all industries are affected, from manufacturing and construction to the public sector, and the level of temporary layoffs is likely to be elevated despite restaurants opening.

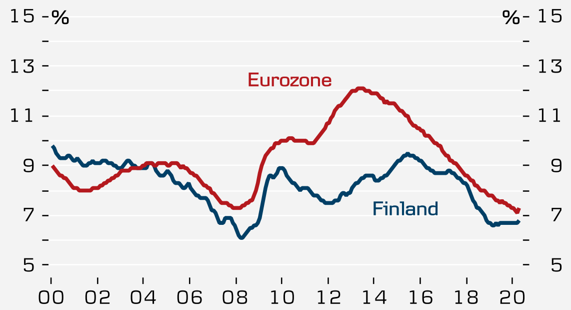
The government has passed a law that makes temporary layoffs faster. The usual 14-day notice period has been shortened to five days. This way companies can adjust their costs more quickly and they do not have to make decisions proactively. In the Labour Force Survey, most workers remain employed until the layoff has lasted over three months. Consequently, official unemployment is set to start rising significantly only in the summer and early autumn, assuming that workers have not returned to work before then. We expect the average annual unemployment rate to rise from 2019's 6.7% to 8.0% in 2020, remaining unchanged in 2021.

The starting level for employment before the coronavirus outbreak was very high by Finnish standards. The official target rate for employment set by the government is 75% and, recently, there has been discussion around possibly raising the target to as high as 78%. It is clear to us that Finland will not hit these ambitious targets anytime soon but the need for labour market reforms has not disappeared. Quite the contrary, the inevitable rise in public debt makes it all the more important that Finland is able to maintain a high employment rate in the longer term to cope with rising public expenditure following from demographics.

Housing market remains stable

The corona crisis will have some impact on the housing market but we are expecting only minor price effects. Adjustment is likely to come mostly through temporarily lower sales volumes. Prior to the coronavirus-related lockdown, the Finnish housing market was performing quite well. In April, volumes fell by approximately one-third but they seem to have bounced back to normal towards the end of May. We expect the average price of old dwellings to fall by 1% in 2020. We feel that this is the most likely scenario but we note that the risks are higher than usual. If the employment situation continues to deteriorate, it would have a negative effect on housing markets due to declining household incomes. Currently, households' interest in buying seems to be quite robust and the housing market is getting support from low interest rates. The relevant information is available online and it is even possible to do sales digitally. Real estate brokers switched to private apartment showings in the spring but are gradually returning to normal business procedures.

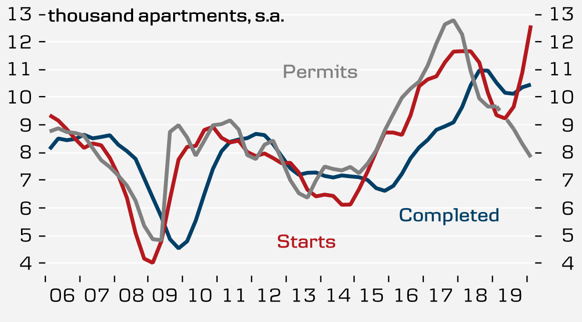
Official unemployment rate remains at low level



Source: Macrobond Financial, Statistics Finland

For several years, average house prices have seen only modest rises in Finland, with significant underlying geographical variations. We believe a similar trend is likely to continue long term, although a lengthier recession and a rise in unemployment would put more pressure on the pricing of expensive apartments in larger cities. Construction has been one of the key drivers for the Finnish economy in the past few years. Before the coronavirus crisis, the boom was fading based on the number of housing permits, even though there was a spike in starts in February due to some big projects beginning. In our view, the coronavirus epidemic is likely to steepen the declining trend but the process is gradual. Despite the ongoing slowdown and the epidemic, the volume of construction is likely to remain at a fairly high level in growth centres, especially in Helsinki Region. The supply of new housing has increased significantly in recent years. However, there is no sign of oversupply in the Helsinki region and the risk of larger price drops is small unless general economic conditions worsen more than predicted.

Housing permits indicate lower construction

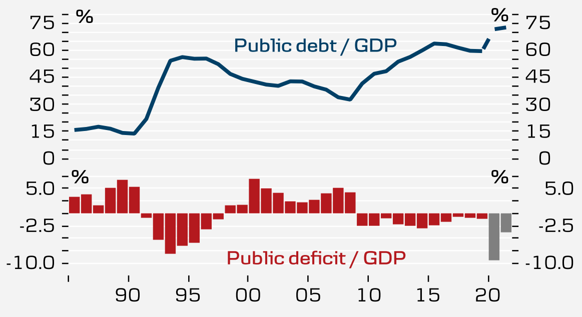


Source: Macrobond Financial, Statistics Finland

Record public debt growth saves the day

The Finnish government has announced four additional budgets, which total nearly EUR19bn of new net debt. More is likely to come later in 2020. Significant public support for coronavirus strained companies has helped to avoid bankruptcies. Recovery is easier with intact economic structures. Wider unemployment benefits (covering also entrepreneurs and dropping the waiting period), support to municipalities, healthcare-related purchases and usual reduced revenues all contribute to the significant deficit. Active fiscal stimulus measures, which make up a large part of the fourth additional budget, widen the public deficit. The government aims to increase infrastructure spending and spending on education. Social spending is also getting some additional funding. Together with the need to fund redemptions, central government gross issuance rises above EUR40bn in 2020. The public debt-to-GDP ratio is set to rise well above 70%. The deficit is likely to be large in 2021 too. Rating agencies are being patient but structural reforms are still expected. Sizable guarantee liabilities pose an additional risk to public finances. Finland has the highest ratio of public loan guarantees to GDP in the EU. Finnvera's (state-owned financing company, the official export credit agency) capacity to guarantee loans has increased by EUR10bn to around EUR12bn.

Debt-to-GDP set to rise sharply in 2020



Source Macrobond Financial, Statistics Finland

The Finnish central government has been running a long-standing deficit since the financial crisis but strong growth in employment brought public finances closer to balance in recent years. In addition, municipalities have been financing their spending by debt but the general government deficit is much smaller due to a surplus in social security funds, which consist mostly of statutory pension companies. Deficits have helped to maintain the welfare state, with fairly generous social security. Finland needs to address the sustainability of public finances from a whole new position once the coronavirus is gone. In the future, a high level of employment remains important. Structural reforms are necessary to boost potential growth and improve labour participation in order to deal with the rise in age-related expenditure caused by an ageing population and rising dependency rate. The coronavirus outbreak will not make the old issues go away.

At a glance

			Forecast		
National account	**2019**	**2019**	**2020**	**2021**	
	EUR bn (current prices)	% y/y			
GDP	240.1	0.9	-5.5	3.5	
Imports	94.8	2.2	-11.0	5.0	
Exports	96.0	7.2	-13.0	6.0	
Consumption	181.7	0.6	-3.0	3.4	
- Private	126.3	1.0	-6.0	4.5	
- Public	55.5	0.9	4.0	1.0	
Investments	56.8	-0.8	-10.0	3.0	

Economic indicators	**2019**	**2020**	**2021**
Unemployment rate, %	6.7	8.0	8.0
Earnings, % y/y	2.4	2.6	2.5
Inflation, % y/y	1.0	0.2	1.2
Housing prices, % y/y	0.7	-1.0	1.0
Current account, EUR bn	-1.8	-3.5	-3.0
- % of GDP	-0.7	-1.5	-1.3
Public deficit, % of GDP	-1.1	-9.4	-3.8
Public debt/GDP, % of GDP	59.4	71.5	72.5

Financial figures	**15/06/2020**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	-0.50	-0.50	-0.50	-0.50
2-yr swap yield, % p.a.	-0.33	-0.30	-0.30	-0.25
10-yr swap yield, % p.a.	-0.14	-0.05	0.05	0.20

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

Global overview

Reopening, recovery and risks

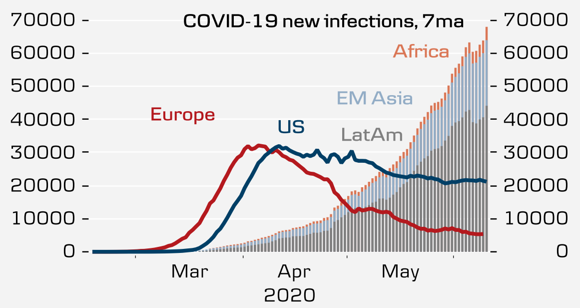
- **Although the coronavirus has sent the world economy into a very deep recession, we continue to believe it will be relatively short-lived, seeing a rebound on the cards in late Q2/early Q3 as economies open up.**
- **High-frequency data support the view that advanced economies are recovering, as the virus comes under control and economies start to reopen.**
- **Based on better news on treatment and the positive experiences in Denmark and Norway, as well as significant policy support, we increased the probability of the positive scenario playing out from 10% to 15% and lowered the probability of the downside scenario from 40% to 35% in our recent updated global macro outlook (see *The Big Picture – Reopening, recovery and risks*, 2 June).**
- **Key downside risks include a new wave of infections and economy-wide lockdowns in advanced economies, a related emerging market crisis, escalation of tensions between the US and China resulting in the cancellation of the phase-1 trade agreement, a no-deal Brexit and a surge in bankruptcies and unemployment.**

Reopening of economies on track so far

The development of the COVID-19 outbreak has unfolded roughly in line with our expectations in recent weeks/months. While the decline in US daily cases has not fallen as much as we expected (although much more testing blurs the picture), individual US states have gone ahead with reopening anyway. It is positive that so far we have not seen an rise in the number of infections in the US and Europe, despite the reopening of many countries. That said, the numbers in states such as Texas, California and Florida do not look encouraging at the moment. The virus's development in emerging markets/developing countries has been significantly worse than we had assumed. Many countries have seen a continued strong increase in new infections, not least India and Brazil. Even so, many governments have chosen to reopen their economies as the cost of the lockdowns has been severe and has had a big human cost as well.

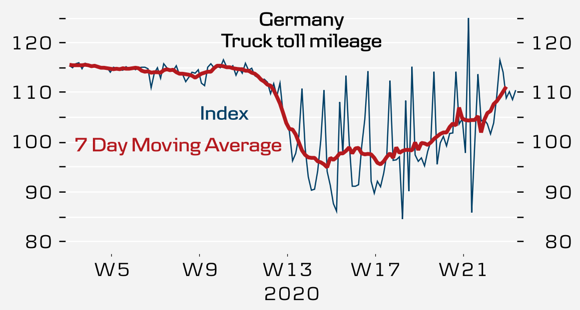
Looking at high-frequency data for the advanced economies, things seem to be moving in the right direction, although economic activity remains subdued (see *US Macro Monitor – Jobs report for May supports our view that the healing has begun*, 9 June, and *Euro Area Macro Monitor – Spring is in the air*, 5 June). This supports our base case that the worst is behind us in the US and Europe. While the experiences in Denmark and Norway are positive, with transaction card spending close to being back to the same level as in 2019 in nominal terms, the Chinese example has shown that even after lockdown ends, private demand will rebound only gradually. Hence, the uncertainty surrounding the outlook remains extremely high.

Virus development across regions



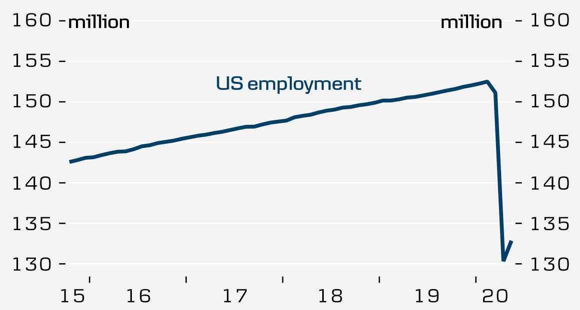
Note: For Africa, emerging market Asia and Latin America the series shows top 10 worst hit countries
Source: ECDP, Macrobond Financial, Danske Bank

German truck toll mileage rebounding



Source: German Federal Statistical Office, Macrobond Financial

Against expectations, US employment rose in May



Source: BLS, Macrobond Financial

Base case (50%): a gradual recovery from H2 onwards

The COVID-19 outbreak has sent the world economy into the deepest recession since the Great Depression. The shock has been felt in advanced markets and, lately, increasingly so in emerging and frontier markets.

The ongoing opening up of economies, declining fears of catching COVID-19 and policy support are now engendering a recovery that we expect to gather speed in H2 (see *The Big Picture – Reopening, recovery and risks*, 2 June). As outlined above, there are early indications that spending is recovering fairly fast in some of the countries that have opened up. We expect the gradual improvement to continue but not as fast as in, for example, Denmark and Norway, as they have been prime examples of getting the virus under control. The return of consumers releasing pent-up demand should also lift business optimism and hence investments over time. We see pent-up demand as a key driver over the next few quarters, albeit with waning effects over time.

Aggressive monetary easing on a global scale also supports our base case and has helped in lifting market sentiment. In the US, the Fed has cut its policy rate to 0%, is buying bonds at an unprecedented pace via its unlimited QE programme and has created many different lending facilities. The ECB recently expanded its pandemic QE programme 'PEPP' by another EUR600bn and extended the expiration date to June 2021. The People's Bank of China (PBoC) has also taken a range of steps to ease monetary policy. The global fiscal policy response to the crisis has also been swift and sizable. In the US, discussions on another emergency spending package have started (not least extending the temporarily higher unemployment benefits) and in the EU negotiations on the EU recovery fund have begun. Looking at financial markets, equities have risen a lot since the bottom in March, commodity prices have rebounded, vulnerable currencies such as the SEK and NOK have made a comeback and high yield spreads have narrowed.

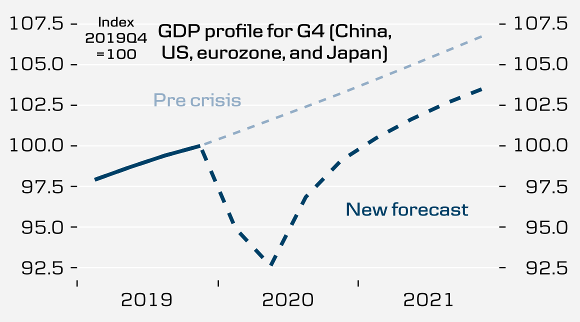
Although we are expecting a rebound in H2 20, we believe it will take time for GDP to return to the level before the coronavirus outbreak. The same goes for unemployment. This is because we believe there has been some permanent damage to the economy stemming from the COVID-19 outbreak and sectors such as tourism and travel will recover only slowly over the next two years. In 2021, we expect the recovery to continue but GDP growth will slow to more normal levels (although stay above potential GDP growth, i.e. unemployment will continue to fall).

A sizeable contraction in the global economy in H1 20 followed by a rebound in H2 and the early part of 2021

% y/y	2019	2020	2021
Global	2.8	-3.3	5.6
USA	2.3	-5.3	4.4
Euro area	1.2	-6.7	5.2
Japan	0.7	-4.0	2.6
UK	1.4	-5.8	4.2
Emerging Markets of which	3.6	-1.6	6.4
China	6.2	1.0	9.0
India	4.2	1.9	7.4

Source: Danske Bank projections

We expect the economy to rebound but believe it will take time to come back to index 100, especially in the advanced economies



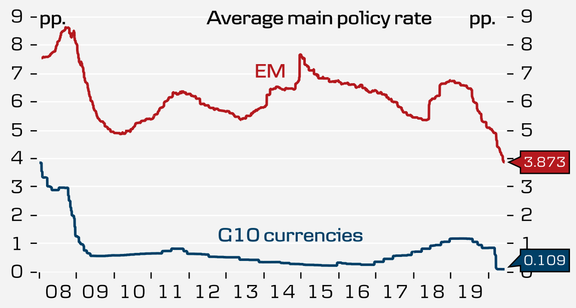
Source: Macrobond Financial, Danske Bank forecasts

Positive (15%) and negative (35%) scenarios

While our base case represents a cautiously optimistic outlook for the world economy, we assign a 35% probability of a prolonged economic downturn. We recently lowered the probability from 40% to 35%. Economic visibility is quite low at the moment, as we are in uncharted territory with an economic shock without precedent in modern times. Unfortunately, there are many things that could go wrong, causing the recovery to drag out, related to the virus but also geopolitical risks, such as relations between the US and China and Brexit. We believe that if the negative scenario becomes increasingly likely, there would be an extension and/or expansion of the emergency policies implemented by politicians and central banks around the world. The discussions of negative policy rates in the US, for example, would probably intensify given the limited policy space left.

The recovery could also prove stronger and we recently lifted the probability of the positive scenario to 15% from 10% previously. We have been caught by surprise at how quickly consumer spending has returned in countries such as Denmark and Norway, where the COVID-19 outbreak seems to be under control with few new cases each day and the fear of catching the virus much diminished. If other countries are lagging Denmark and Norway by only a few weeks and the fear of catching COVID-19 declines in the larger economies, we may see a swift recovery in these countries as well.

Going to zero? Both emerging market and advanced country central banks have cut policy rates in response to the crisis



Note: The chart is based on policy rates in the G10 countries and the 19 biggest emerging markets

Source: Macrobond Financial, 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	2019	2.4	2.3	0.5	3.4	1.6	0.1	0.8	2.2	3.7	3.8	33.2	7.8
	2020	-3.5	-1.4	1.4	-6.0	-7.7	-5.7	0.5	2.3	5.4	-6.9	44.1	6.6
	2021	2.5	3.5	0.5	-0.7	4.1	2.8	1.2	1.8	5.2	-1.9	42.1	7.1
Sweden	2019	1.3	1.2	0.5	-1.1	4.2	1.8	1.8	2.6	6.8	0.5	35.7	1.1
	2020	-4.1	-5.0	0.7	-8.1	-1.0	-3.3	-0.1	2.0	8.8	-7.4	45.0	4.9
	2021	3.7	4.3	-0.7	4.3	4.2	5.2	1.1	2.0	8.5	-1.0	47.0	4.6
Norway	2019	2.3	1.5	1.7	6.1	1.5	5.2	2.2	3.5	2.3	-	-	-
	2020	-3.5	-5.0	3.5	-6.5	-4.5	-8.0	1.5	2.0	5.1	-	-	-
	2021	3.5	4.0	2.0	0.0	5.0	3.5	2.8	2.0	3.5	-	-	-

Macro forecast. Euroland

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euro area	2019	1.2	1.3	1.8	5.8	2.5	4.0	1.2	2.0	7.6	-0.6	84.1	3.3
	2020	-6.7	-6.9	1.5	-8.8	-11.9	-9.7	0.3	0.4	8.9	-8.5	102.7	3.4
	2021	5.2	7.2	3.5	0.7	12.9	12.6	1.1	1.3	8.1	-3.5	98.8	3.6
Germany	2019	0.6	1.7	2.7	2.6	1.0	2.5	1.4	3.2	3.2	1.4	59.8	7.1
	2020	-5.5	-5.2	3.0	-4.5	-15.1	-11.0	0.7	1.7	4.0	-7.0	75.6	5.7
	2021	4.7	6.0	3.6	1.8	13.7	13.9	1.5	2.2	3.5	-1.5	71.8	7.0
Finland	2019	1.0	1.0	0.9	-0.8	7.2	2.2	1.0	2.4	6.7	-1.1	59.4	-0.8
	2020	-5.5	-6.0	4.0	-10.0	-13.0	-11.0	0.2	2.6	8.0	-9.4	71.5	-1.5
	2021	3.5	4.5	1.0	3.0	6.0	5.0	1.2	2.5	8.0	-3.8	72.5	-1.3

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	2019	2.3	2.6	2.3	1.3	0.0	1.0	1.8	3.2	3.7	-4.6	105.0	-2.5
	2020	-5.3	-5.6	2.7	-10.0	-8.0	-12.4	2.1	3.1	9.0	-17.9	127.0	-2.6
	2021	4.4	5.3	3.3	2.1	3.3	4.3	2.1	3.3	7.0	-9.8	134.0	-2.5
China	2019	6.2	8.0	-	3.8	-	-	2.7	8.0	-	-6.1	-	0.5
	2020	1.0	2.5	-	0.0	-	-	2.7	7.5	-	-6.3	-	0.4
	2021	9.0	9.0	-	10.0	-	-	2.2	7.5	-	-6.2	-	0.2
UK	2019	1.4	1.1	3.5	0.6	4.8	4.6	1.8	3.5	3.8	-2.1	85.4	-3.5
	2020	-5.8	-7.0	0.9	-9.5	-10.9	-13.5	1.4	1.9	7.3	-13.9	97.6	-3.7
	2021	4.2	4.1	3.9	2.8	3.2	4.2	1.7	3.0	6.0	-3.2	99.4	-3.7
Japan	2019	0.7	0.1	1.9	1.3	-1.6	-0.6	0.6	-	2.4	-	-	-
	2020	-4.0	-5.2	3.2	-6.4	-11.5	-10.3	0.1	-	4.0	-	-	-
	2021	2.6	3.3	4.9	-2.0	3.5	2.4	0.2	-	3.8	-	-	-

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

Disclosure

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this report are listed on page 2 of this report.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Quarterly.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 15 June 2020, 14:00 CEST

Report first disseminated: 16 June 2020, 06:30 CEST

Danske Bank Research

Global Head of FICC Research, Thomas Harr, +45 45 13 67 31, thhar@danskebank.com

International Macro

Chief Analyst & Head of
Jakob Ekholdt Christensen
+45 45 12 85 30
jakc@danskeban.com

Aila Evchen Mihr
+45 45 13 78 67
amih@danskebank.com

Allan von Mehren
+45 45 12 80 55
alvo@danskebank.com

Bjørn Tangaa Sillemann
+ 45 45 12 82 29
bjsi@danskebank.com

Mikael Olai Milhøj
+45 45 12 76 07
milh@danskebank.com

Piet P.H. Christiansen
+45 45 13 20 21
phai@danskebank.com

Fixed Income Research

Chief Analyst & Head of
Arne Lohmann Rasmussen
+45 45 12 85 32
arr@danskebank.com

Daniel Brødsgaard
+45 45 12 80 83
DBR@danskebank.dk

Jan Weber Østergaard
+45 45 13 07 89
jast@danskebank.com

Jens Peter Sørensen
+45 45 12 85 17
jenssr@danskebank.com

Foreign exchange

Chief Analyst & Head of
Christin Kyrme Tuxen
+45 45 13 78 67
tux@danskebank.com

Jens Nærvig Pedersen
+45 45 12 80 61
jenpe@danskebank.com

Kristoffer Kjær Lomholt
+45 45 12 85 29
klom@danskebank.com

Lars Sparresø Merklin
+ 45 45 12 85 18
lsm@danskebank.dk

DCM Research

Chief Analyst & Head of
Jakob Magnussen
+45 45 12 85 03
jakja@danskebank.com

Bendik Engebretsen
+47 85 40 69 14
bee@danskebank.com

Brian Børsting
+45 45 12 85 19
brbr@danskebank.com

David Andrén
+46 8 568 80602
davia@danskebank.com

Henrik René Andresen
+45 45 13 33 27
hena@danskebank.com

Louis Landeman
+46 8 568 80524
llan@danskebank.com

Mark Thybo Naur
+45 45 12 85 19
mnau@danskebank.com

Natasja Cordes
+45 45 14 38 54
naco@danskebank.com

Niklas Ripa
+45 45 12 80 47
niri@danskebank.com

Nicolai Pertou Ringkøbing
+45 45 12 80 56
nrin@danskebank.com

Sverre Holbek
+45 45 14 88 82
holb@danskebank.com

Sweden

Chief Analyst & Head of
Michael Boström
+46 8 568 805 87
mbos@danskebank.com

Chief Economist
Michael Grahn
+46 8 568 807 00
mika@danskebank.com

Carl Milton
+46 8 568 805 98
carmi@danskebank.com

Jesper Jan Petersen
+46 8 568 805 85
jesppe@danskebank.com

Stefan Mellin
+46 8 568 805 92
mell@danskebank.com

Therese Persson
+46 8 568 805 58
thp@danskebank.se

Denmark

Chief Economist & Head of
Las Olsen
+45 45 12 85 36
laso@danskebank.com

Bjørn Tangaa Sillemann
+ 45 45 12 82 29
bjsi@danskebank.com

Louise Aggerstrøm Hansen
+ 45 45 12 85 31
louhan@danskebank.com

Norway

Chief Economist & Head of
Frank Jullum
+47 85 40 65 40
fju@danskebank.com

Emerging Markets

Chief Analyst & Head of
Jakob Ekholdt Christensen
+45 45 12 85 30
jakc@danskeban.com

Finland

Chief Strategist & Head of
Valtteri Ahti
+358 (0)10 546 7329
vah@danskebank,com

Chief Economist
Pasi Kuoppamäki
+358 10 546 7715
paku@danskebank.com

Jukka Samuli Appelqvist
+ 358 44 263 1051
app@danskebank.com

Danske Bank, Holmens Kanal 2-12, DK - 1092 Copenhagen K. Phone +45 45 12 00 00 https://research.danskebank.com