1 October 2019

Nordic Outlook

Economic and financial trends

- Denmark: sheltered for now, headwinds ahead
  Growth remains strong, but cannot resist the slowdown in Europe forever

- Sweden: danger signs accumulating
  Also the labour market is now showing significant signs of weakness

- Norway: economy approaching peak
  Oil investments keep growth strong, but to a lesser extend next year

- Finland: winter is coming
  The boom years are over, and growth is normalizing

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

Analysts

Editorial deadline 30 September 2019 *Investment Research*

Editor-in-Chief:

Las Olsen	Chief Economist	+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 76 14	anlars@danskebank.com
Michael Grahn	Sweden	+46 8 568 807 00	mika@danskebank.com
Frank Jullum	Norway	+47 85 40 65 40	fju@danskebank.com
Pasi Petteri Kuoppamäki	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: Thomson Reuters Datastream, 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 33 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

A darkening outlook

Since our last Nordic Outlook, the global economic situation has taken a turn for the worse. Manufacturing seems to be in a global recession, with Germany especially hard hit. The trade war between China and the US no longer looks likely to be resolved soon, and that is affecting global investments. The Nordic countries have held up remarkably well, but weaknesses are beginning to show, and it looks like the best part of the recovery is behind us or soon will be, even in Norway which remains supported by strong growth in oil investment.

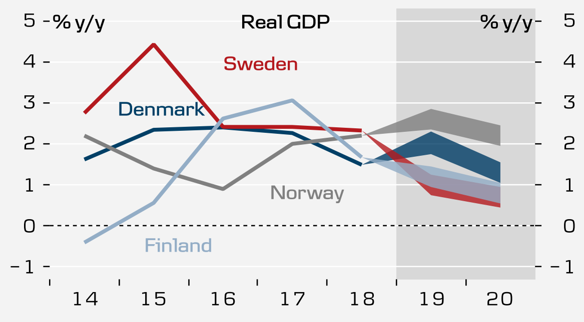
That does not mean that we are facing an economic crisis in the Nordic countries. We still forecast growth not too far from the economies' potential, with Sweden as the most troubling case. We have had a period of strong growth and rising employment across the Nordics and it is natural for that to come to an end. But the risk is that a natural slowdown turns into something worse. That risk is not equal across the Nordic countries. A crisis looks highly unlikely in Norway, whereas Sweden is at risk not just from the global slowdown, but also from a sharp decline in domestic spending growth, especially within housing investment.

If it becomes necessary, the Nordics are well placed to react to signs of crisis. Again Norway is ahead, with both ample room to loosen fiscal policy and as one of the few countries in Europe that has the option of cutting interest rates substantially – although in our main scenario, it looks more likely that rates will be hiked. Also Sweden and Denmark have very sound public finances and can easily afford to mitigate a crisis. According to the thinking in the European Central Bank, they should probably ease fiscal policy even in the absence of a crisis to take the pressure off monetary policy, but that is not on the agenda of either government. Finland's position is a little more difficult, as public finances are less strong and face strong structural headwinds in the future.

Brexit is a further risk

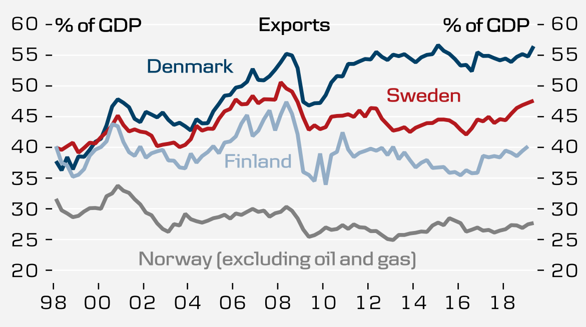
Trade war tensions are mostly between China and the US, with limited direct effect on the Nordics, although sectors such as Danish shipping are clearly affected. If the US starts to target Europe, Nordic producers would also be affected, for instance as part of the European car industry. A disorderly Brexit would create problems closer to home and affect many Nordic companies directly. If it triggers a short-term recession, this would be felt in the rest of Europe. In terms of direct effects, Nordic exporters would be likely to face tariffs on some on their UK exports and all Nordic countries have a surplus against the UK in goods (but a deficit in services). Norway has the most exports, but 80% of this is oil and gas, which face only 2.5% tariffs under rules and on which the UK government intends to impose no tariffs in the event of a no-deal Brexit. Denmark's substantial food exports would have to deal with more significant tariffs and would also face increased competition from non-EU producers. However, the total value of agricultural exports to the UK is only 0.5% of Danish GDP. The UK is not as important as it once was to the Nordics and we do not expect a major economic impact beyond the immediate effect.

Lower growth in 2020



Source: Macrobond Financial, Danske Bank

Exports holding up, so far



Source: Macrobond Financial, Danske Bank

Denmark is most exposed to the UK

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

Denmark

Sheltered for now, headwinds ahead

- **Economic growth in Denmark has been high so far this year, but we expect the slowdown in the rest of Europe to show up in the Danish figures soon.**
- **Exports and investments are particularly vulnerable to a slowdown abroad.**
- **In contrast, private consumption will be supported by income growth, falling interest rates and property tax rebates in 2020.**
- **We expect employment to grow more slowly than the labour force, so unemployment could well rise slightly.**
- **House prices are being bolstered by the decline in interest rates and we expect them to continue to rise, while apartment prices could come under some pressure.**

At a glance

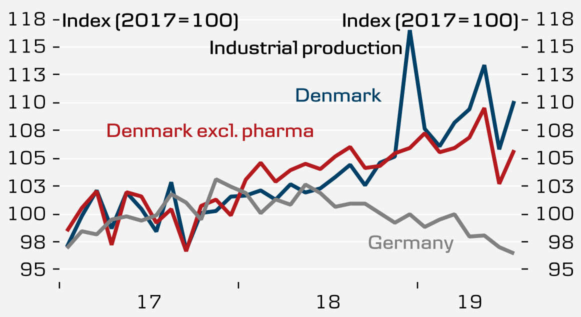
Denmark	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP	2.0	1.3	1.7	1.6
Private consumption	1.5	2.4	1.5	2.3
Public consumption	0.3	0.9	0.4	0.5
Gross fixed investment	-1.8	0.9	-1.6	3.0
Exports	4.5	1.6	2.3	1.7
Imports	0.3	1.9	1.7	2.1
Gross unemployment (thousands)	104.4	106.9	102.8	102.2
Inflation	0.8	1.2	1.0	1.3
Government balance, % of GDP	2.0	0.5	0.5	0.0
Current account, % of GDP	7.6	7.3	6.2	6.6

Source: Danske Bank

Few signs of weakness for now

The Danish economy continues to perform surprisingly well compared to its neighbours. GDP growth was solid in the first half of 2019, whereas the German economy stalled and the real rate of growth in Sweden was very modest. Even more remarkable is the fact that exports have been a key driver behind Denmark's economic growth despite global trade suffering from a worldwide slowdown in manufacturing. Part of the explanation at least is the strong Danish pharmaceutical and wind turbine industries, which are seeing exports grow and are not as dependent on the global business cycle as, for example, the rest of the machinery industry. Based on growth rates in H1, we have revised our growth expectations for 2019 higher, even though we have become more pessimistic on growth in the rest of the world. Looking a little further ahead, however, we expect that Denmark will, as usual, follow the general global trend. We have therefore revised down our expectations for growth in 2020, when we presume the global slowdown will affect both exports and business investment in Denmark.

Denmark still buoyant for now



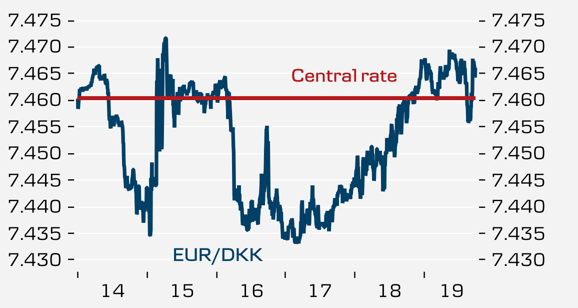
Source: Statistics Denmark, Macrobond Financial

The European Central Bank (ECB) has strongly encouraged countries in a position to ease fiscal policy to do so in order to lift growth and inflation in Europe, which the ECB itself has difficulty doing through, for example, further interest rate cuts of questionable effect. Denmark has some of the healthiest government finances in Europe and so is in a position to ease. However, the Danish economy has no real need for fiscal easing – unemployment, for example, is low, even though we expect it to rise slightly. Should Danish politicians decide to heed the ECB's call, it would be at odds with the usual Danish approach and also the spirit of the Danish budget. Nevertheless, the risk of such actions triggering overheating is no higher than in other European countries, while the risk of a crisis in confidence and, for example, markedly higher interest rates in Denmark is very small.

Interest rates set to remain low

Danmarks Nationalbank lowered its certificates of deposit rate from -0.65% to -0.75% in September. This came on the heels of a matching rate cut by the ECB, yet it triggered the greatest one-day weakening of the Danish krone (DKK) since 2015. This was due to the ECB's rate cut being in reality less, as the bank also introduced a new system, so-called tiering, that exempts some central bank deposits from negative interest rates. The DKK is now trading weak relative to the central parity rate, but Danmarks Nationalbank has ample opportunity to intervene in the FX market if necessary to hinder further weakening, and so we do not expect any imminent unilateral rate hike. Long yields have fallen in Denmark – just as in other parts of Europe – as expectations on growth and inflation have faded and the ECB has restarted its bond buyback programme.

'Weak' DKK



Source: Danmarks Nationalbank, Macrobond Financial

Labour market in balance

Several indicators suggest the labour market has slowed this year despite solid GDP growth. Labour shortages have eased, for example. However, this could be connected to much of the country's economic growth occurring in sectors that have high productivity levels and much of their production abroad. That being said, the labour market slowdown has been slight and unemployment has barely risen – despite the labour force growing quite strongly, in part due to the increasing retirement age. The labour force will continue to grow in the coming years, and given more subdued expectations for growth, we now expect to see a small increase in unemployment – though there is a great deal of uncertainty about this due, for example, to foreign labour, which could potentially depart as the slowdown continues.

Job growth has flattened slightly

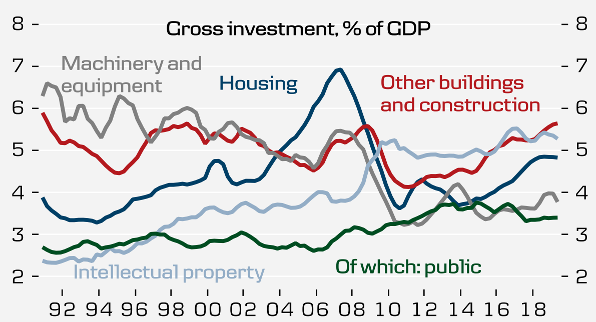
Source: Statistics Denmark, Macrobond Financial

Private sector wage growth is running at just under 2.5% annually, which is low, but in real terms on a par with the historical average due to the low level of inflation. This reflects a labour market more or less in balance and also fits well with what we see among Denmark's trading partners. Given the prospect of slightly higher unemployment, real wage growth could fall modestly, but as inflation is also expected to increase slightly, we are looking for essentially stable growth in nominal wages. The average wage (which is what is shown in our forecast) is rising somewhat slower, which may reflect relatively more people being hired in lower wage jobs.

Investments normalised

The upswing has in part been driven by rising corporate and housing investments after the financial crisis. Overall, investments are now back at historical norms, and we expect a lower contribution to growth from this front going forward, especially given the prevailing general slowdown. Investments in intellectual capital, such as patents, have been particularly high, especially in the pharmaceutical area. In contrast, machinery investments have been low. One could speculate as to why the low level of interest rates has not stoked higher levels of investment both in Denmark and in other parts of the world. Explanations may include the slowdown in productivity growth, greater general uncertainty and lower risk appetite.

Intellectual investments pulling higher



Note: 4 quarters' moving average. Not all types of investment are shown
Source: Statistics Denmark, Macrobond Financial

Higher – but still low – inflation ahead

Inflation in Denmark is low and has been for quite some time. Since 2018, much of the reason has been modest rent increases. Inflation fell to 0.4% over the summer, due to a number of temporary factors. For example, the weighting on vacation property rents in the consumer price index has fallen markedly this year, which pulled inflation sharply lower during the summer holiday season. Electricity and gas prices have also fallen heavily, with the fall in electricity prices mostly due to the PSO levy being set to zero in Q3. However, the PSO levy will not be phased out until 2022 and has been hiked considerably higher again for Q4. Both factors will contribute to pulling inflation up towards 1% again around the end of the year.

We also expect inflation to rise a little further next year. Tobacco duties will probably be raised on 1 January and if, as seems likely, the government's solution is to hike the price of a packet of cigarettes by DKK10, with the price initially rising by DKK5, we estimate this will contribute 0.19 percentage points to inflation in 2020. That being said, the parties that wish for a greater increase are in the majority, so the price rise could be higher (see *Cigarette prices pose significant upside risk to Danish CPI inflation*, 29 May, for more details).

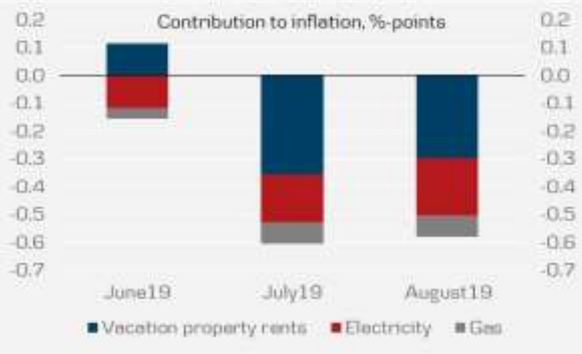
Wage increases in Denmark remain modest, and without an increase in labour market pressures it is difficult to see what might create significantly greater price pressures. We estimate inflation will come in at 0.8% this year and 1.2% in 2020.

Falling interest rates lift house prices more than apartment prices

We expect house prices to rise by around 2.5% nationally this year and next, supported in part by low interest rates that have fallen further in 2019. That we do not expect higher price rises on housing is due, among other things, to the steam going out of the business cycle and the past year's lacklustre growth in apartment prices, which means lower capital gains from home sales and thus less money for housing purchases.

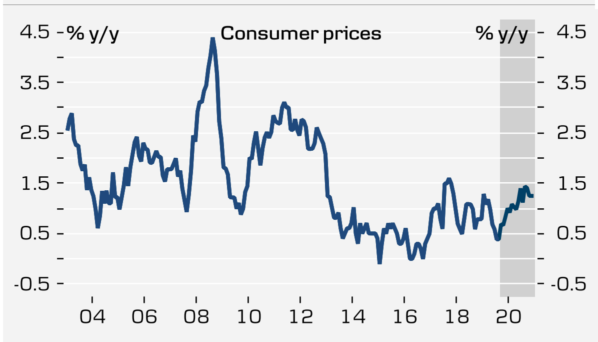
The housing market is experiencing additional uplift at the moment from the fall in interest rates in recent months. We expect this to have a somewhat greater impact on house prices than on apartment prices – especially in the more expensive areas. Here, it is not necessarily the financing costs that will determine how much can be borrowed, but rather other factors, such as income levels and payment capabilities. This has to be seen against the tightening of credit terms in recent years, which as well as making the apartment market in Copenhagen less interest-rate sensitive, is also much of the reason for the slowdown that has been ongoing since last spring.

Temporary factors pulling inflation lower



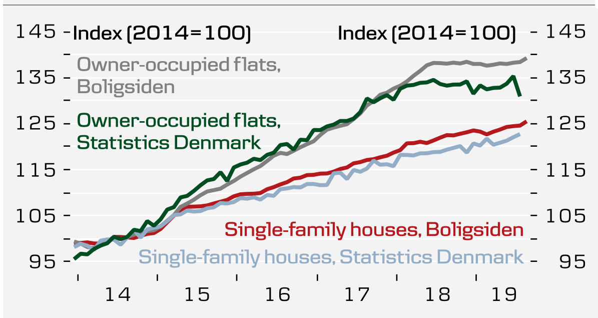
Source: Danske Bank, Statistics Denmark

Higher but still modest inflation



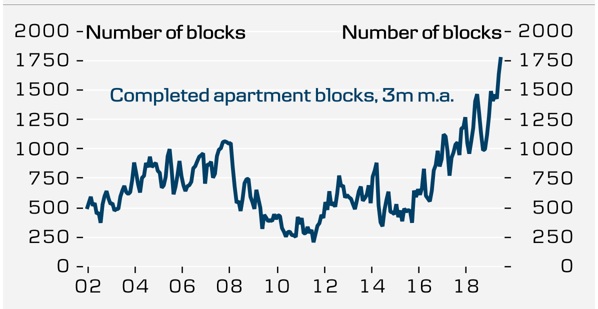
Source: Danske Bank, Statistics Denmark, Macrobond Financial

House prices still rising steadily



Note: Own seasonal correction
Source: Statistics Denmark, Boligsiden, Macrobond Financial

Apartment buildings keep being built



Source: Statistics Denmark, Macrobond Financial

We expect apartment prices to fall slightly next year, driven in part by the high level of construction activity in recent years continuing to support apartment supply and also by the prospect of rising property taxes in the more expensive areas coming closer. However, the new property valuations and housing tax reforms are generally not expected to cause much upset nationally, as the vast majority of Danish homeowners will not experience any notable change in their tax payments as a result of the new valuations.

Moderate consumption growth supported by loan remortgaging

We expect private consumption to rise by around 1.5% this year and 2.25% next year. That is decent growth overall, which will continue to be supported by real wage growth, increasing employment and still rising house prices. The payment of property tax rebates in 2020 is also expected to lift consumption towards the end of the year. Our consumption estimate not being higher this year is due to 2019 starting at a low level after a relatively weak end to 2018.

Consumption is also expected to be bolstered by the fall in interest rates in recent months – via savings on monthly mortgage payments, increased consumption of financial services in connection with remortgaging, and via the opportunity for higher, loan-financed consumption if supplementary loans are taken out in connection with remortgaging. However, we should be cautious about overestimating this effect, as many homeowners are remortgaging into fixed-rate repayment mortgages at the moment. To date, the trend is more towards falling interest rates being used to increase mortgage repayments rather than increase consumption.

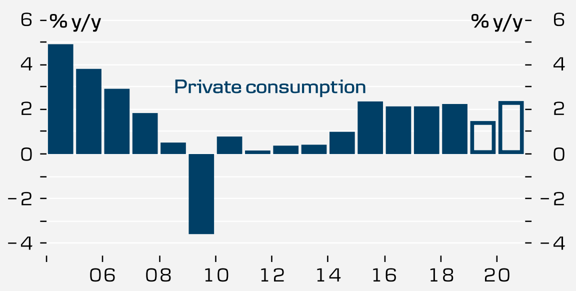
On the downside, a slowdown abroad could ultimately pull Danish consumption lower if the result is even more reluctance to spend or rising unemployment. However, Danish households are well prepared for a global slowdown and their economies are better balanced than when the global financial crisis struck 10 years ago. The decisive factor here is that Danes are emerging from a period of savings accumulation rather than one of debt-financed consumption.

Interest rate fall gives sizeable government surplus

Unlike many other European countries, government finances in Denmark are in robust good health and still supported by general economic growth. We expect solid government surpluses in both 2019 and 2020, with a greater surplus in 2019 than in 2020. Yields have fallen significantly this year compared to 2018, and given the growth in equity markets, government revenue from pension return (PAL) tax is on course to reach record levels. This will substantially lift the government balance both this year and next, and is in stark contrast to 2018, which was marked by a downturn in the financial markets.

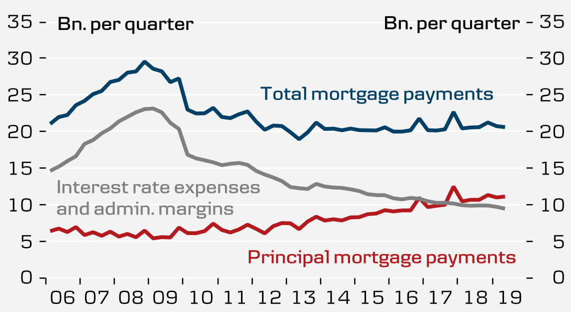
We do not yet know what the new government's economic programme will be, but we assume the government will continue to pursue a largely neutral fiscal policy. There is ample opportunity to ease fiscal policy if low growth rates abroad trigger a slowdown in Denmark. According to the European Central Bank there is already a need to ease fiscal policy in countries with solid government finances given the current limitations of monetary policy.

Moderate consumption growth to continue



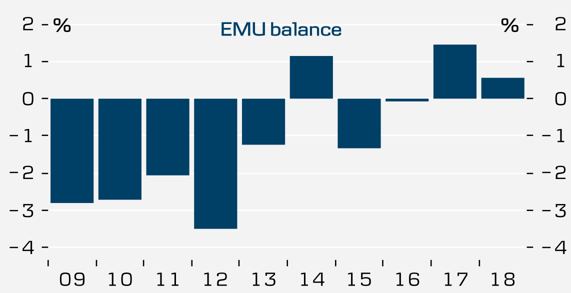
Source: Statistics Denmark, Macrobond Financial

Interest rate fall used for mortgage repayments rather than consumption



Source: Danmarks Nationalbank, Macrobond Financial

Danish government finances healthy



Source: Statistics Denmark, Macrobond Financial

Exports defy the global slowdown – but unlikely to continue

Exports continue to steam ahead and are still the most important source of growth in Denmark this year. Goods exports, in particular, have been buoyant – in fact this is just the second time since 2000 that annual growth has exceeded 10%. Industry has seen the greatest increase in demand, particularly the pharmaceutical industry, though energy exports have also been strong.

Exports are in many ways a success story, but there are doubtless also companies that have felt the slowdown south of the border – and their number will probably increase going forward, as Denmark will have to get used to lower growth rates among its export markets. Danske Bank's export barometer, which measures industrial activity among Denmark's most important trading partners, indicates we should expect reduced demand for Danish goods in the future. Exports of chemicals and chemical products – including medicines – have gone from accounting for 20% of total goods exports two years ago to currently 24%. We can hardly count on this trend continuing, which is another reason why we expect exports to face tougher times ahead.

Service exports have been through a more difficult time. Global trade has fallen over the past year and that is squeezing shipping companies. Meanwhile, the slowdown in Denmark's two largest markets for other services, Sweden and Germany, is also pulling service exports lower. Altogether, this has added up to a decline in service exports of close to 3% in the past year. The prerequisites for more growth here look limited in the coming months. We expect total exports to increase by 4.1% this year and 1.7% in 2020.

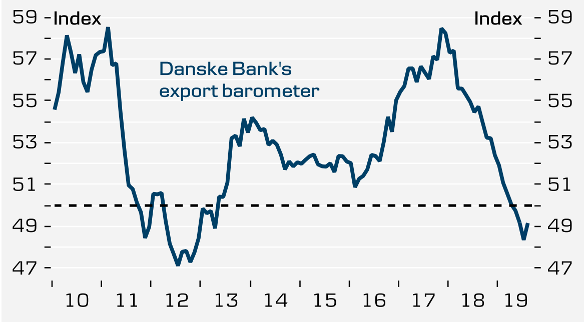
Current account surplus back at sky-high levels this year

The strong performance by Denmark's exporters has also left its mark on the current account surplus, which has grown considerably of late and follows a 2018 that saw the lowest surplus, in per cent of GDP terms, since 2009. The goods balance has been boosted, in particular, by the massive growth in pharmaceutical exports. Trade with chemical and chemical products alone has contributed DKK53bn in the first seven months of this year – some DKK13bn more than the same period last year. Major ship investments also pulled the figures substantially lower last year and this alone means the surplus on the goods balance will be DKK16bn higher this year.

The more modest pace of export growth during the forecast period will tend to pull the trade balance lower. On the other hand, the increased uncertainty on the outlook for the global economy and the more modest demand from abroad may contribute to companies holding back on material investments. As these typically include a large import content, this will contribute to keeping imports down.

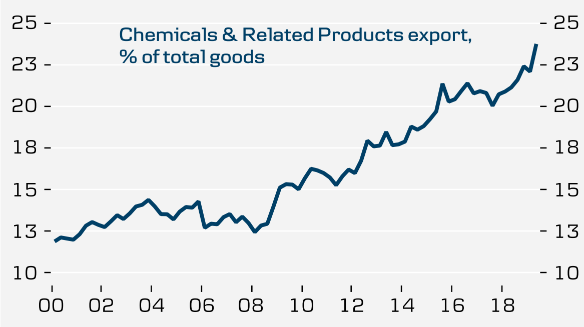
There should continue to be a large return on foreign wealth investments and thus a large capital income. Overall, we expect the current account surplus to come in at 7.6% of GDP this year and 7.3% in 2020.

Among Denmark's trading partners, industry has gone into reverse



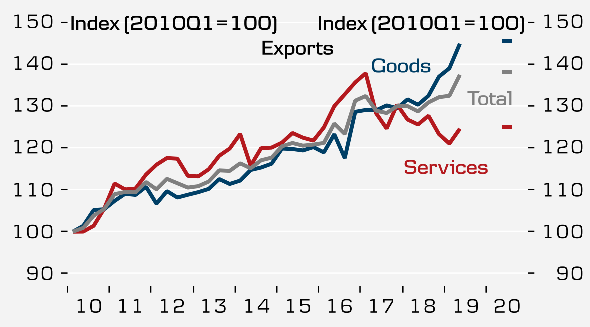
Source: Markit Economics, Statistics Denmark, Danske Bank, Macrobond Financial. Read more here: Export barometer, 9 Sept.

Exports rising on back of pharmaceuticals



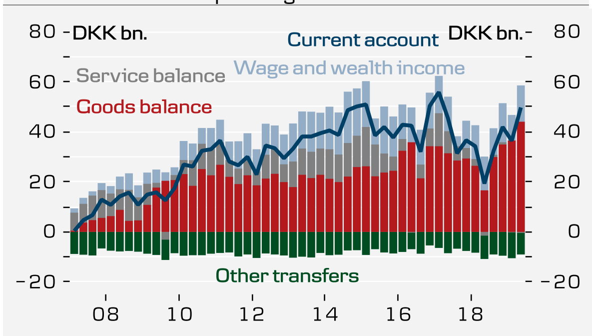
Source: Statistics Denmark, Macrobond Financial

Outlook for exports is more modest



Source: Statistics Denmark, own calculations, Macrobond Financial

Pharmaceuticals and shipping, in particular, are pulling current account surplus higher vs. 2018



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

At a glance

National account	2018	2018	2019	2020
			Forecast	
	DKK bn (current prices)		% y/y	
Private consumption	1015.8	2.2	1.5	2.4
Government consumption	546.2	0.9	0.3	0.9
Gross fixed investment	498.7	6.5	-1.8	0.9
- Business investment	315.6	8.7	-4.4	1.0
- Housing investment	107.7	4.8	3.1	1.3
- Government investment	75.4	0.1	2.0	0.0
Growth contribution from inventories		0.2	-0.3	0.0
Exports	1211.6	0.4	4.5	1.6
- Goods exports	769.5	2.6	8.0	1.8
- Service exports	442.1	-3.1	-2.0	1.3
Imports	1101.3	3.3	0.3	1.9
- Goods imports	680.7	3.7	0.2	2.4
- Service imports	420.6	2.7	0.4	1.2
GDP	2223.1	1.5	2.0	1.3

Economic indicators	2018	2019	2020
Current account, DKK bn	127.9	174.6	171.7
- % of GDP	5.8	7.6	7.3
General government balance, DKK bn	12.4	46.0	12.0
- % of GDP	0.6	2.0	0.5
General government debt, DKK bn	760.1	743.0	739.5
- % of GDP	34.2	32.4	31.5
Employment (annual average, thousands)	2971.3	3002.3	3027.8
Gross unemployment (annual average, thousands)	107.9	104.4	106.9
- % of total work force (DST definition)	3.9	3.8	4.0
Oil price - USD/barrel (annual average)	71	65	60
House prices, % y/y	3.8	2.5	3.0
Private sector wage level, % y/y	2.2	2.0	2.1
Consumer prices, % y/y	0.8	0.8	1.2

Financial figures	30/09/2019	+3 mths	+6 mths	+12 mths
Lending rate, % p.a.	0.05	0.05	0.05	0.05
Certificates of deposit rate, % p.a.	-0.75	-0.75	-0.75	-0.75
2-yr swap yield, % p.a.	-0.37	-0.40	-0.45	-0.35
10-yr swap yield, % p.a.	-0.05	-0.10	-0.15	-0.05
EUR/DKK	7.47	7.47	7.46	7.46
USD/DKK	6.83	6.79	6.60	6.49

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

Sweden

Danger signs accumulating

- **GDP growth may touch zero**
- **Business investment spending in decline adds to residential construction set-back**
- **Significant deterioration in the labour market**
- **Inflation and expectations have fallen well below target**
- **Riksbank in benign neglect of recent weakness**
- **Modest fiscal stimulus, politicians disregard significant potential**

Over the summer, Swedish data has in general been disappointing. Most importantly, Q2 GDP growth dropped to 1.0% yoy and unemployment soared to 7.4% sa in August, while August CPIF inflation dropped to 1.3% yoy and broad-based inflation expectations fell below the 2% target on all horizons. In our view, this resembles developments in 2011-12 during the so-called "Euro crisis". The Riksbank appears to be in a state of benign neglect, still opting for a rate hike at the turn of the year. This is despite weakening signals about the state of the global business cycle, a softer stance from major central banks and a sharp drop in European and Swedish long-term yields to negative ATLs. We believe the Riksbank will eventually have to change course and cut rates next year. The government's budget bill is neutral, adding reforms of some SEK25-30bn. That said, leaving the strict adherence to the surplus target would free up significant room for fiscal spending without jeopardising stable government finances.

Business investment spending in decline

Residential investment remains in decline and will most likely continue to be a drag on economic growth in the coming year or so, in our view. Indeed, according to National Accounts data, dwellings investment has been declining consecutively since Q1 last year. The outlook for new residential investment is bolstered by the decline in bond yields seen this year and which accelerated this summer. This has clearly had a positive impact on consumers, boosting expectations that property prices will continue to rise. This is also seen in the slow appreciation of actual price indices, for instance HOX. That said, there are factors that point in the other direction. As we have argued for some time, there appears to be a significant excess supply of multi-family dwellings in the pipeline, roughly one year's worth of production. About half of that is high priced tenant-owned apartments. Over the past year, prices of these have been reduced, but so far there has been very little (if any) spill-over to existing tentant-owned apartment prices. There is also some uncertainty about future demand as population growth forecasts have been scaled back, suggesting a slightly reduced demand outlook. In our view, prices will at best increase in line with disposable income growth (i.e. 3-4% per year). Abolishing the 30% interest rate deduction or reintroducing a property tax would hold back these price gains.

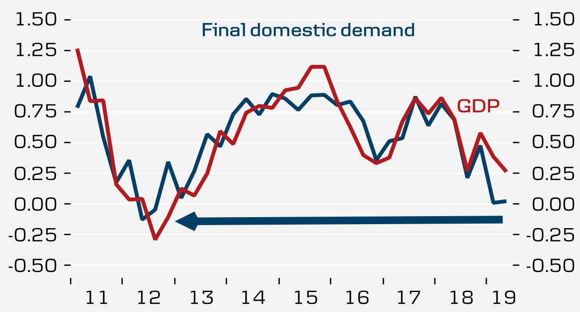
At the same time, over the past four quarters up to Q2 19, total gross fixed investment has been flat. In addition to residential investment, business investment spending has also turned down. This should actually be more worrying than the drop in construction as it suggests Swedish corporates are taking a defensive

At a glance

Sweden	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP, calendar adjusted	1.0	0.7	1.3	1.5
Private consumption	0.7	1.9	0.4	1.8
Public consumption	0.7	1.5	0.6	1.5
Gross fixed investment	-1.8	-2.2	-0.9	0.6
Exports	4.2	2.7	4.4	3.3
Imports	1.7	2.1	2.0	2.6
Unemployment rate	6.8	7.8	6.6	7.1
Inflation	1.7	1.1	1.7	1.5
Government balance, % of GDP	0.1	-0.5	0.1	0.5
Current account, % of GDP	3.7	3.7	4.0	4.1

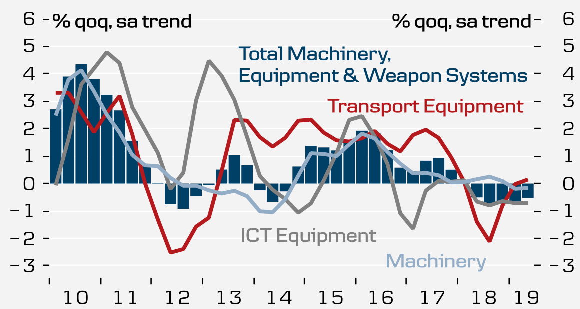
Source: Danske Bank

Lack of domestic growth pulling GDP to a standstill



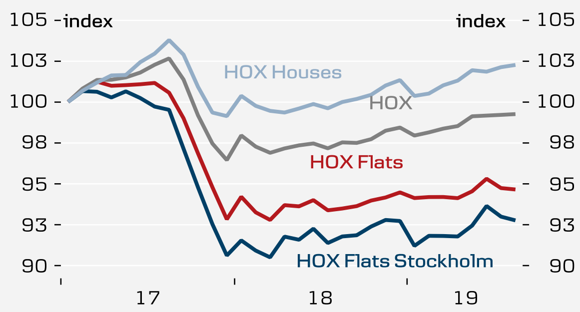
Source: SCB, Danske Bank calculations, Macrobond Financial

Business equipment investment also in decline



Source: SCB, Macrobond Financial

Resilient property prices on the back of lower interest rates



Source: Valueguard, Macrobond Financial stance. This is most pronounced in machinery investments where there has been an outright decline in transport and ICT equipment and only a minor drop in machinery investments, so far. We suspect that the drop in transportation investment might be related to the problems in the German transportation industry, but exactly how is unclear. The overall decline in this segment, Machinery, Transportation and ICT investments, is now bigger and longer than during the Euro crisis.

On the positive side, buildings and structures outside residential and business intellectual property investments are both rising, albeit the pace is slowing.

Sharp labour market deterioration raises the stakes

The Swedish labour market is deteriorating sharply. This has become evident recently, over the summer months, although the signs have been there for a while. Job vacancies have been declining quite rapidly, overtime hours have plunged, hiring intentions have been scaled back and the number of new registered unemployed at the PES has soared. Concerning overtime work hours, there has been a significant drop to the lowest level ever measured, which could be a sign that more reductions in the workforce can be expected.

The LFS survey has shown a drop in seasonally-adjusted employment since the beginning of the year, but the decline has been more pronounced during the summer. This drop has its mirror image in rising unemployment. The deterioration is very marked, similar to the developments seen in 2008-2009. We believe, however, that it is the wrong reference point. We would rather look to the 2011-12 Euro crisis for guidance as to how the current situation could develop.

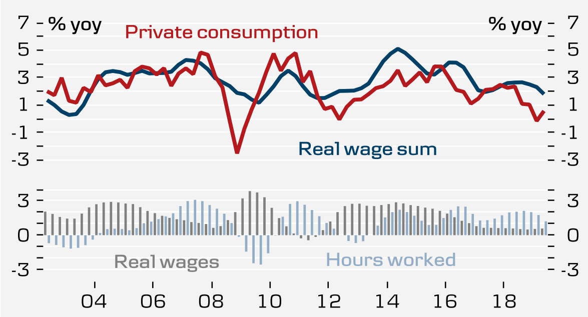
Contrary to our belief in the previous NO, it seems that the source of the deterioration is domestic rather than foreign. Data up to August suggests that health care, retail trade and hotels/restaurants are responsible for the decline in employment since the start of the year. The decline is most evident in health care, implying restrictions on municipal finances may be a factor. Retail sales employment may be structural, as shops are struggling with online retailers. And hotels/restaurants may just feel the pinch from slowing income growth. There are no signs yet in the LFS that manufacturing or construction employment is declining. But this is obviously a risk as both of these sectors are under increasing pressure.

The potential repercussions on other sectors are manifold. On top of a deteriorating labour market, consumers have had to cope with a significant slowdown in real wage growth over the past two years, now close to zero. Surely this is not a good recipe for stronger consumption. Moreover, homebuyers appears to have realised that mortgage interest rates are likely to remain low for a long time. But have they considered the risk of being unemployed? This is clearly a factor that could hold back house price gains to some extent. Finally, a weaker labour market is hardly beneficial for wage earners in the upcoming wage round early next year. Even though we expect central agreements to remain unchanged at 2.2% per year, there is clearly a risk of a lower outcome. Rising unemployment and a lower wage deal, in turn, would not be supportive for higher inflation in coming years. That could create some extra stress for the Riksbank concerning the inflation outlook.

Inflation and expectations have fallen below target

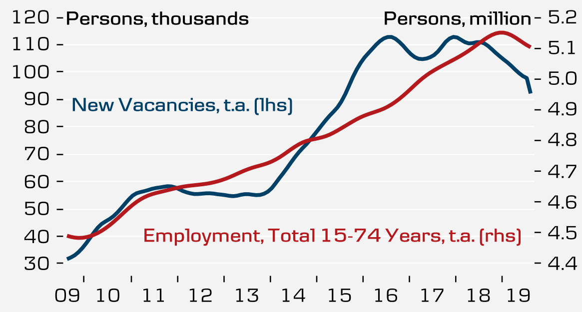
Inflation is slowing. CPI and the target variable CPIF dropped to 1.4% yoy and 1.3% yoy respectively. The underlying CPIF excl. Energy has been hovering

Slowing hours worked add to weakening real income growth



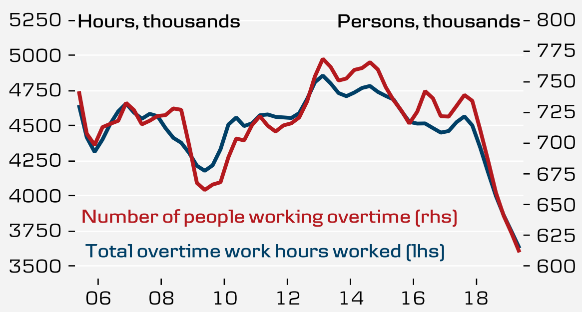
Source: SCB, MO, Danske Bank calculations, Macrobond Financial

Early warning from vacancies was correct – employment is falling



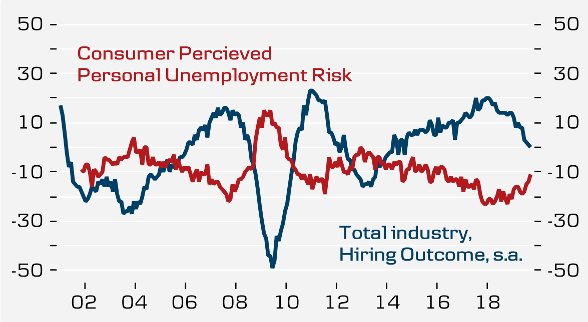
Source: PES, SCB, Macrobond Financial

Overtime hours are plummeting



Source: SCB, Macrobond Financial

Consumers perceive higher risk of being unemployed as hiring stalls



Source: NIER, Macrobond Financial

around 1.5% yoy since 2015, having been lower in the years before that. We find it extremely hard to see what would push inflation higher to the target on a sustainable basis.

This is actually nothing new. We have been pushing the idea for many years now that the fundamental problem concerning the inflation outlook is the lack of domestic wage cost pressures. As discussed in the previous section, this problem is likely to escalate as the labour market deteriorates. In our view, the risk of a lower central wage deal in March 2020 means there is a risk of sustainably lower inflation as domestic cost pressures are reduced. In turn, there is less pressure on retail trade and private services to raise prices.

Another potentially important inflation driver is the SEK, as it impacts consumer import prices (30% weight of CPI). Over the past five years the SEK has depreciated by on average 2.9% per year. Despite that, consumer import prices have actually remained unchanged. Hence, it appears as if Sweden imports global (mostly goods) deflation, which the continuing SEK depreciation just cancels out. By August, the KIX index had weakened 2.7% yoy, while import prices has dropped by 0.6% yoy. Riksbank's own KIX forecast suggests that import prices should continue down. Our own model based on rate differentials suggests the same.

Soaring energy prices may, of course, come to Riksbank's rescue, as seen in previous years. If global recession risks materialise, its problems will increase. Our inflation forecast is based on a simplified assumption about energy prices: they move according to a seasonal pattern, but the average price levels remain unchanged. This is a way to square out both up and downside risks.

Looking forward, we expect inflation to settle at a level just above 1% yoy as wage growth is the only sustainable factor. And it is too low to reach 2% by itself.

On the back of the recent inflation drop, inflation expectations have started to move lower, too. As usual the decline is most amplified in the shorter one and two-year horizons, however, even five-year expectations are declining somewhat. As expectations are "adaptive" we expect a further decline and this will, no doubt, be a growing headache for the Riksbank.

Riksbank in benign neglect of recent weakness

During the summer, including the July and September meetings, the Riksbank has been behaving in a manner that we can only describe as benign neglect. Despite the fact that GDP growth, unemployment, inflation and inflation expectations have all been disappointing relative to the Riksbank's forecasts and/or targets, it has constantly argued that economic developments have been roughly in line with forecasts, something we have a hard time agreeing with.

Moreover, the Riksbank sees the trade war between USA and China mainly as a risk to the forecast and the same applies to Brexit. It does not mention the dire state of German manufacturing, something we ourselves rank as a high risk for Swedish exporters going forward.

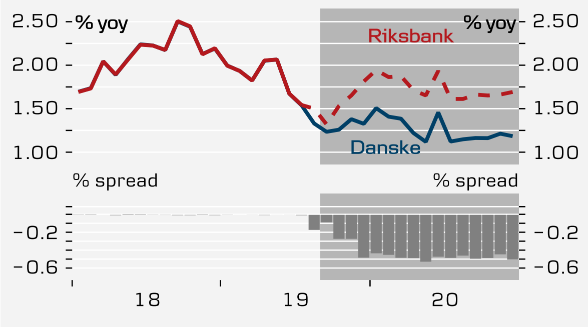
We are also surprised by the relaxed attitude towards the opposite stance taken by major central banks such as the Fed and the ECB. The Fed has cut rates by 50bp during this period while the ECB has delivered a comprehensive package of rate cuts, QE and a tiered deposit rate.

The bulk of employment decline is in health care, trade and restaurants

Employment, thousands	2018, level	Ytd change, persons	Ytd change, %
Agriculture, Forestry & Fishing	87	-6	-6,6
Manufacturing & Mining, Energy & Environment	565	-2	-0,3
o/w Manufacture of Machinery & Transport	270	-3	-1,2
Construction	350	-3	-0,8
Trade	577	-13	-2,2
Transport	245	0	0,2
Hotels & Restaurants	172	-8	-4,8
Information & Communication	239	7	2,8
Financial Intermediation, Business Services	853	2	0,3
Public Administration etc.	356	6	1,7
Education	590	4	0,7
Health Care	763	-20	-2,7
Personal & Cultural Services	263	-2	-0,6
Total	5061	-33	

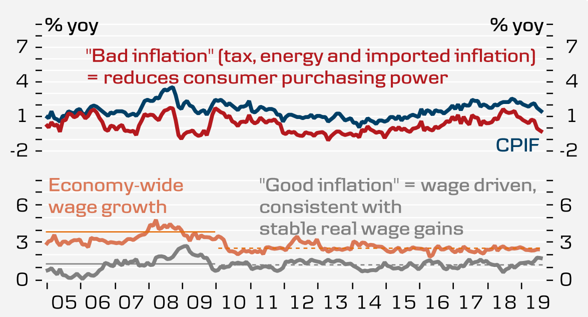
Source: SCB

We expect inflation to continue to undershoot the Riksbank's forecast



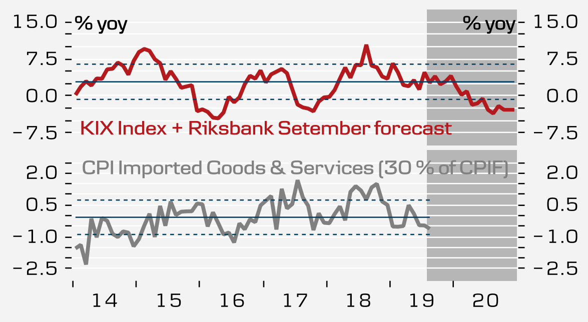
Source: SCB, Riksbank, Danske Bank, Macrobond Financial

Wage growth is too slow for 2% inflation – unlikely to change



Sources: SCB, Macrobond Financial

Riksbank's KIX forecast suggests declining import prices - unrealistic



Source: SCB, Riksbank, Macrobond Financial

The Board is clearly split about the future path of interest rates, although a majority still adhere to the idea that the repo rate should be raised again in December or February.

We believe data will continue to undershoot Riksbank forecasts during the autumn and winter. As data deteriorate, the Riksbank will slowly change its stance, postponing the repo path in October or December. Eventually, it will need to cut the repo rate again. We expect it to cut in February, but it may of course take a little longer. We do not see any reason for the Riksbank to change QE at this stage.

The Riksbank has postponed rate hikes for many, many years. The reaction in the FX market has usually been to weaken the SEK. Hence, again the base case is that there is a risk of a chronically-weaker SEK as long as the discrepancy between the inflation target and wage-driven domestic cost pressures prevails.

Unused fiscal potential

This year has seen the introduction of a new 35% debt anchor, which applies to the Maastricht (public sector) debt. Most forecasters, including the Ministry of Finance, NIER, the Debt Office and the Budget Management Authority (ESV), expect debt to fall below this level in 2019 and to continue to fall in coming years. The framework says that nothing needs to be done until actual debt deviates by five percentage points from the target.

The Government hasn’t shown any intention of using the significant potential for public investments or transfers to municipalities that is actually available, if the debt anchor was to dominate the surplus target instead of the other way around. To be fair, nor has the opposition. Swedish political parties appear to be unanimous about the current set-up of the fiscal framework.

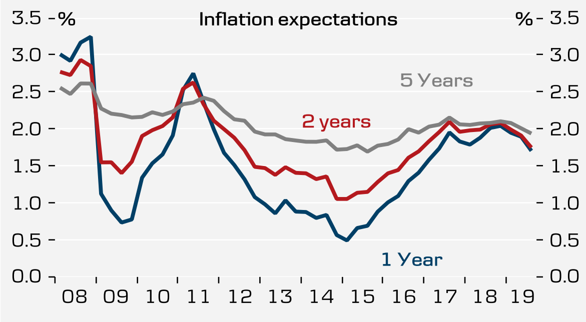
In the September budget bill, the Government proposed reforms in the order of SEK30bn for 2020, to a significant degree income tax cuts for high income earners and pensioners. The room for economic reforms is based entirely on state revenues, as with the aim of retaining a 0.3% surplus. The impact is deemed roughly neutral.

The table on the right spells out other scenarios based on different GDP growth scenarios, where the debt ratio is kept intact at 35%, suggesting possible “stable” deficits that would create significant room for reforms in coming years.

It seems any Government will stick to the current fiscal framework. That means that the public debt ratio will continue to decline in coming years, foregoing the possibility of investing in public infrastructure such as schools, child and elderly care needed in municipalities as the population grows. For example, this is the case with the Government’s current forecast shown in the upper part of the table. In addition, there is a scenario in which the debt level is kept at the 35% debt anchor; as can be seen, this would violate the Maastricht 3% deficit criterion at some point.

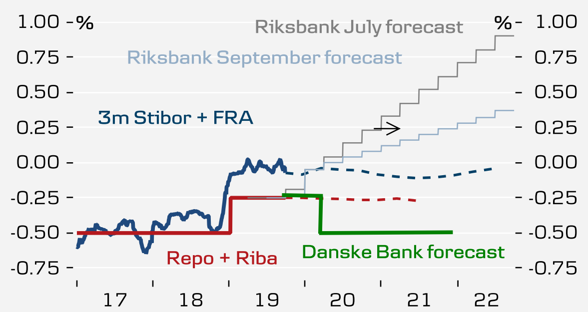
Instead, a “middle of the road” approach looks viable which includes *both* a reform space to be used as well as a reduction of the debt level. The possibilities are there. We think a change of mind about the fiscal framework is required, however.

Inflation expectations are turning lower now, being below 2% target



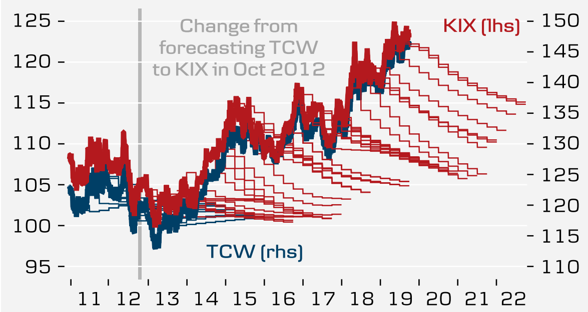
Source: Prospera, Macrobond Financial

Riksbank opt for hikes, market prices none, we expect a cut in February



Source: Prospera, Macrobond Financial

SEK – ever weaker it seems



Source: Riksbank, Macrobond Financial

The debt anchor and the Maastricht debt – two alternative scenarios

Government Budget Bill, September 2019	2018	2019	2020	2021	2022
Mastricht Debt					
Public Sector	1 859	1 732	1 716	1 696	1 642
% of GDP	38,8	34,8	33,4	31,8	29,6
Financial savings, % of GDP	0,9	0,4	0,3	0,4	1,2
Scenario 1: DA at 35 % of GDP		1742	1798	1867	1942
"Reform space", SEK Bn		-10	-82	-171	-300
Financial savings, % of GDP		-0,2	-1,6	-3,2	-5,4
Scenario 2: Middle of the road "reform space", SEK bn		-5	-41	-85	-150
Financial savings, % of GDP		-0,1	-0,8	-1,6	-2,7
Public debt, SEK Bnbn		1737	1757	1781	1792
% of GDP		34,9	34,2	33,4	32,3

Source: NIER, Danske Bank calculations

At a glance

			Forecast	
National account	**2018**	**2018**	**2019**	**2020**
	SEK bn (current prices)		% y/y	
Private consumption	2114.5	1.6	0.7	1.9
Government consumption	1253.2	0.4	0.7	1.5
Gross fixed investment	1223.1	4.6	-1.8	-2.2
Growth contribution from inventories	48.2	0.4	-0.2	-0.1
Domestic demand	4639.0	2.1	0.0	0.7
Exports	2253.0	3.1	4.2	2.7
Aggregate demand	6892.0	2.7	1.2	1.3
Imports	2102.1	3.6	1.7	2.1
Growth contribution from net exports	150.9	-0.1	1.2	0.4
GDP	4789.9	2.3	1.0	1.0
GDP, calendar adjusted	4795.2	2.4	1.0	0.7

Economic indicators	2018	2019	2020
Trade balance, SEK bn	117.5	174.8	194.3
- % of GDP	2.4	3.6	3.9
Current Account, SEK bn	114.6	181.5	184.2
- % of GDP	2.4	3.7	3.7
Public sector savings, SEK bn	43.0	4.8	-24.8
- % of GDP	0.7	0.1	-0.5
Public debt ratio, % of GDP*	39.0	35.0	34.0
Unemployment, % of labour force	6.3	6.8	7.8
Hourly wages, % y/y	2.6	2.6	2.4
Consumer prices, % y/y	1.9	1.7	1.1
House prices, % y/y	-2.9	1.0	1.0
* Maastricht definition			

Financial figures	30/09/2019	+3 mths	+6 mths	+12 mths
Leading policy rate, % p.a.	-0.25	-0.25	-0.50	-0.50
2-yr swap yield, % p.a.	-0.09	-0.15	-0.30	-0.30
10-yr swap yield, % p.a.	0.27	0.35	0.35	0.35
EUR/SEK	10.72	10.80	10.90	11.00
USD/SEK	9.81	9.82	9.65	9.57

Source: Danske Bank

Norway

Economy approaching peak

- **Growth has been largely as expected and remains well above trend, but there is the prospect of somewhat lower growth next year.**
- **Growth has been broad-based but driven primarily by higher oil investment and government demand.**
- **Unemployment has bottomed out, but demand for labour is still rising.**
- **Consequently, wage growth seems to be picking up and may be higher than we previously anticipated.**
- **Inflation has slowed slightly but is still above the 2% target.**
- **Norges Bank raised its policy rate to 1.5% in September and signalled that it is close to peaking. We still anticipate a further hike in March.**
- **Mounting global risks have weakened the krone considerably over the summer.**

At a glance

Norway	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP (mainland)	2.6	2.2	2.6	2.3
Private consumption	2.0	2.4	2.0	2.4
Public consumption	2.0	1.7	1.7	1.7
Gross fixed investment	4.8	3.0	4.8	3.0
Exports	3.0	4.0	3.0	3.5
Imports	3.5	2.5	3.3	2.7
Unemployment (NAV)	2.3	2.2	2.3	2.2
Inflation	2.2	2.2	2.5	1.7

Source: Danske Bank

Norway holding firm despite increasing global uncertainty

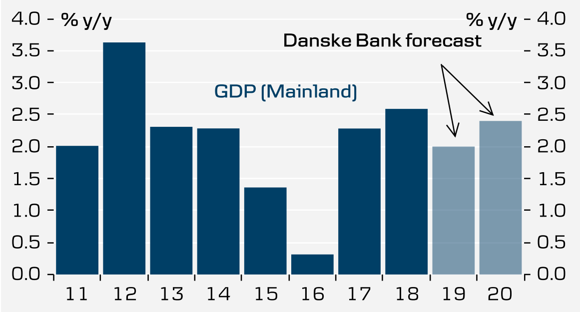
The global outlook has deteriorated further, but we still expect growth in Norway to remain above trend, unemployment to fall and capacity utilisation to rise over the next year. Stronger growth and fewer jobless have caused wages to accelerate and inflation to hold above the 2% target.

The growth outlook has deteriorated somewhat since our previous forecast in June, but this is probably a result of greater uncertainty about the global economy.

Pressures in the labour market still appear to be somewhat stronger than suggested by the simplest indicators. The UV ratio – the number of unemployed per vacancy –is now down to 1.03. Wage growth has also accelerated slightly further than we anticipated at the time of our June forecast, but wage expectations remain moderate. Core inflation has slowed slightly but is still above the 2% target. Stronger wage growth and a weaker krone will most probably push inflation up again slowly.

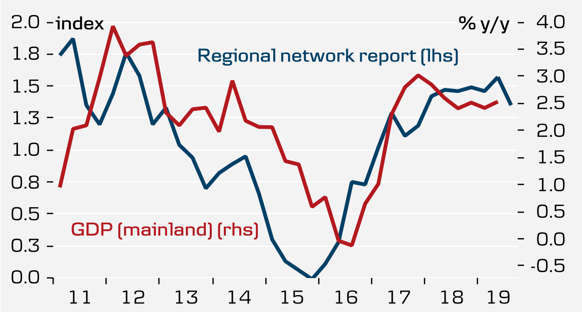
Norges Bank raised its policy rate to 1.5% in September and signalled that interest rates are close to peaking, but are more likely to rise than fall next year. Based on the analysis in this report, we still think Norges Bank will need to hike again in March 2019 and will then go on hold until there is clarity on the outlook for the global economy.

Only minor tweaks to our growth forecasts



Source: Macrobond Financial, Danske Bank

GDP growth likely to remain above trend



Source: Macrobond Financial, Danske Bank

Continued upswing in oil-related industries

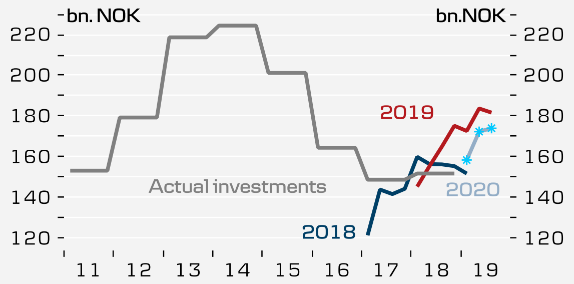
Growth in the Norwegian economy has held up well since our June forecast. Mainland GDP grew 0.7% q/q in the second quarter and again in July. Strong increases in oil investment and government demand were the main drivers. There were moderate increases in housing investment and private consumption, but a moderate decrease in business investment. Net exports were more or less neutral.

Norges Bank's latest regional network survey indicates that growth will hold at around 2.7% over the next six months. This is slightly lower than in the previous survey but still well above trend.

The outlook is particularly strong for oil-related industries, but the regional network points to broad-based growth apart from retail trade. Capacity utilisation climbed to 42.14, the highest level since August 2008. In oil-related industries, capacity utilisation is now up at 67.98.

In the latest investment survey, the oil companies estimated investment of NOK181.7bn in 2019, which is NOK2bn less than in the previous survey. The survey still suggests investment growth of almost 20% this year, but we would anticipate something more like 15% in reality given the rise in capacity utilisation. The oil companies' estimate for 2020 is naturally very uncertain, but is more than 5pp higher than the estimate for 2019 at the same point last year. At the very least, this suggests that there is relatively little risk of a sharp fall in oil investment next year, eliminating much of the downside risk to the Norwegian economy. We tentatively forecast that oil investment could rise another 2-3% next year.

Oil investment to increase further next year



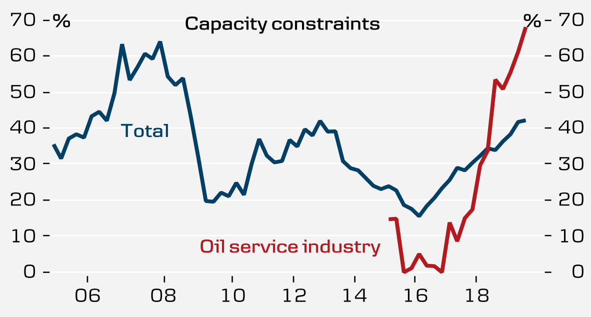
Source: Macrobond Financial, Danske Bank

Looking through the monthly volatility, it appears that the underlying trend in retail sales has picked up again since the spring. Stronger wage growth, lower inflation thanks to lower power prices, and solid growth in employment mean that household income is absorbing higher interest costs relatively well. We have also seen a rise in consumer confidence recently, and fears of a housing crash appear to be receding. Therefore we do not anticipate any major increase in the savings rate and we expect spending to rise with income, i.e. by around 2-2.5%.

We expect private investment to pick up again in the second half of the year. Higher capacity utilisation, stronger growth, growing optimism and further favourable credit conditions will support investment. The regional network survey also shows that firms still anticipate strong investment growth going forward, although their expectations are down slightly on the previous survey.

Overall investment in the construction sector still looks set to grow strongly. This is due to a combination of a gradual increase in residential construction, further growth in commercial construction and, not least, strong growth in infrastructure investment due to projects in both the public sector and the power sector.

Capacity problems in the oil sector



Source: Macrobond Financial, Danske Bank

We are now seeing a clearer slowdown in mainland exports. Although the annual rate of growth in the second quarter was above 5%, there was a clear decline over the course of the quarter. This could indicate that the effects of weaker global growth are now being felt more keenly despite the krone weakening somewhat during the period. The regional network also pointed to slightly weaker export growth going forward.

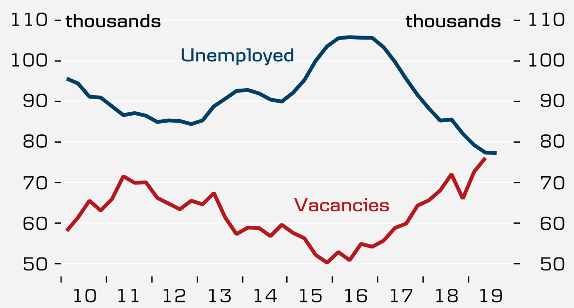
All in all, we have made only marginal changes to our growth forecasts this time around. We still anticipate mainland GDP growth of 2.6% in 2019, but have revised down our estimate for 2020 to 2.2%.

Just how tight is the labour market?

Unemployment seems to have started to bottom out after falling almost continuously for three years. The registered unemployment rate in August was 2.2%, unchanged from April.

Meanwhile, only 22.7% of firms in the regional network reported labour shortages as a constraint on production, which is actually slightly fewer than in the previous survey. However, the aggregate data do conceal major variations between industries: more than 50% of firms in the construction sector and 43% in oil-related industries are having recruitment problems, but just 2% in the retail trade.

Fewer and fewer jobless



Source: Macrobond Financial, Danske Bank

A comparison with other labour market indicators paints a slightly different picture. For example, the UV ratio – the number of unemployed per vacancy – is now down to 1.03, the lowest level since before the financial crisis. In the second quarter, there were 77,000 jobless (including people on job creation schemes) and 76,000 vacancies. The number of vacancies has risen by 8,000 over the past year and by 3,400 in the last quarter alone. This suggests that demand for labour is still growing, which is confirmed by a variety of employment indicators. It may also suggest that unemployment is bottoming out as a result of bottleneck problems in parts of the labour market, rather than lower economic growth. This is supported by hours worked still growing faster than employment, which implies that average working hours are on the up.

Wage growth picking up noticeably

The clearest sign that the labour market is really beginning to tighten, however, is what is happening to wages. The LO (Trades Union Congress) and the NHO (Confederation of Norwegian Enterprise) agreed on a pay target this year of 3.2%, but this assumes lower wage drift than last year, which we find ambitious given a tighter labour market and slightly improved profitability in the business sector.

Other pay settlements, in both the private and public sectors, have come out largely in line with the LO/NHO deal, and here too, closer scrutiny suggests the target level to be at the lower end of what is likely.

Furthermore, Statistics Norway's quarterly data show wage growth of 3.4% y/y as early as the second quarter. This is the highest since 2013 and confirms other indications that the labour market was about as tight in the first half of this year as it was in 2013.

We have therefore revised our wage growth forecast for 2019 up marginally to 3.4%, but lowered our forecast for 2020 to 3.6%.

Inflation has been somewhat weaker than expected since our June forecast, with the core rate slowing to 2.1% y/y in August. This was driven mainly by a surprise drop in imported inflation to 1.1% y/y, while domestic inflation held at 2.6%.

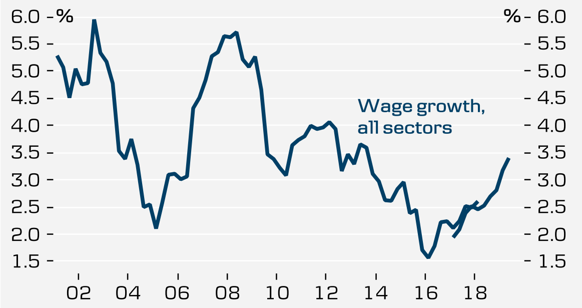
We expect inflation to head up over the rest of this year and into 2020. Higher capacity utilisation and lower unemployment will continue to push up wage growth. Therefore, we expect domestic inflation to be in the range of 2.75-3%. With the krone once again somewhat weaker than we had anticipated, imported inflation also looks likely to climb a fair way in the coming months.

All in all, we expect core inflation of around 2.2-2.5% over the rest of the year. If the krone does not strengthen as we expect, core inflation will not therefore head back down towards the 2% target until wage growth slows.

Housing market still nicely balanced

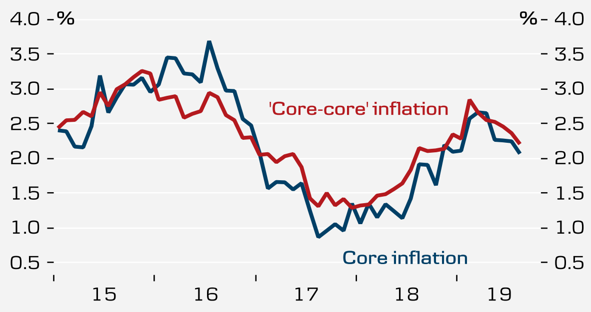
After levelling off towards the end of last year, housing prices have picked up again in 2019. There are still plenty of properties in the market, driven by strong growth in housing starts over the past two to three years. Demand has been strong enough to absorb this supply, however, and the stock-to-sales ratio has not risen appreciably. It would therefore seem that the risk of the economy being hit by a collapse in the housing market has decreased considerably in recent months. In Oslo, there are actually signs of a decline in the stock-to-sales ratio, which could bring a risk of housing prices turning out stronger than expected.

Wage growth slightly stronger than expected



Source: Macrobond Financial, Danske Bank

Core inflation still above 2%



Source: Macrobond Financial, Danske Bank

Pulling in the other direction, however, are the past year's interest rate increases. There is also the new debt register, which could mean that some borrowers face greater restrictions. The FSA has also proposed tightening up mortgage regulations, including a reduction in the maximum loan-to-value ratio from five to four times income, but this has not been approved as yet.

We therefore expect housing prices to continue to rise more slowly in 2019 and into 2020. Due to strong growth in homebuilding in 2016 and 2017, there will still be a large number of new properties coming onto the market. So there is little reason to expect housing prices to rise much faster than wages.

We still do not see any great risk of a serious downturn in the housing market, unless interest rates rise much further than we expect. Our calculations indicate that, even with debt at five times income, housing purchasing power will decrease by only 1pp with three rate hikes in 2019.

Four hikes in a year

Norges Bank raised its policy rate to 1.5% in September and signalled that interest rates are close to peaking but more likely to rise than fall next year. In the short term, however, the bank indicated that the policy rate is most likely to hold at 1.5%:

"The Executive Board's current assessment of the outlook and balance of risks suggests that the policy rate will most likely remain at this level in the coming period."

Based on the analysis in this report, we still think Norges Bank will need to hike again in March next year and will then go on hold until there is clarity on the outlook for the global economy.

Currency markets dominated by global risks

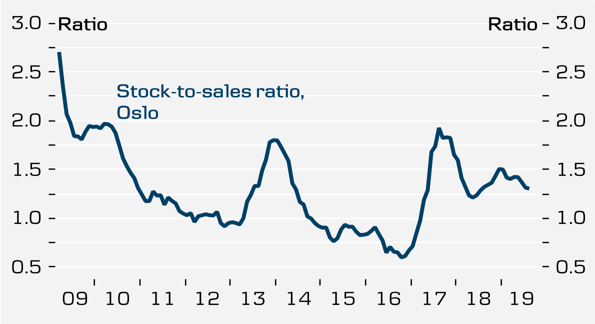
Once again, the krone has been much weaker than we anticipated. We are still seeing clear signs of a reduced appetite for risk in global financial markets undermining the krone.

Our oil experts expect the price of oil to hold around current levels. Together with the prospect of a much more aggressive central bank than in other countries, this in isolation would suggest that the krone is set to strengthen.

However, we also see a significant risk of the global slowdown continuing – or even escalating – due to unusual levels of political risk. This will probably prevent the krone from strengthening in line with growing interest rate differentials.

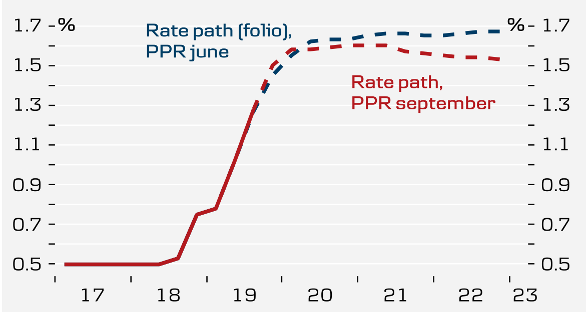
We therefore forecast an exchange rate of 9.65 to the euro in three months and 9.50 in a year.

Housing market well balanced



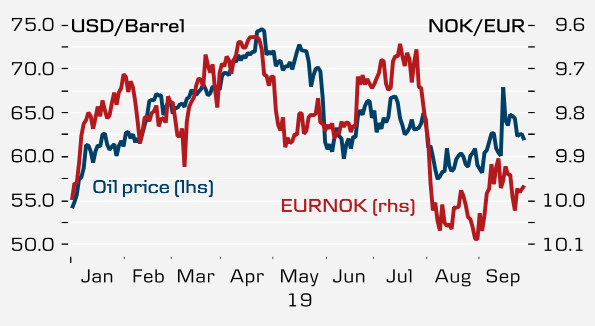
Source: Macrobond Financial, Danske Bank

Norges Bank sticking to plan



Source: Macrobond Financial, Danske Bank

Krone dragged down by global risks



Source: Macrobond Financial, Danske Bank

At a glance

National account	2018	2018	2019	2020
			Forecast	
	NOK bn (current prices)	% y/y		
Private consumption	1533.6	1.9	2.0	2.4
Public consumption	826.8	1.4	2.0	1.7
Gross fixed investment	851.5	2.8	4.8	3.0
Petroleum activities	154.1	1.9	15.0	3.0
Mainland Norway	697.2	3.0	3.0	1.3
Dwellings	193.5	-6.2	1.0	2.0
Enterprises	311.0	6.8	4.0	2.5
General government	192.7	7.5	2.0	1.5
Mainland demand	3057.5	2.0	2.3	2.0
Growth contribution from stockbuilding		0.0	-0.2	0.0
Exports	1357.3	-0.2	3.0	4.0
Crude oil and natural gas	569.4	-4.8	-2.0	8.0
Traditional goods	681.8	2.0	4.5	3.0
Imports	1152.2	1.9	3.5	2.5
Traditional goods	681.8	3.2	4.0	2.3
GDP	3530.9	1.3	1.8	3.0
GDP Mainland Norway	2906.9	2.2	2.6	2.2

Economic indicators	2018	2019	2020
Employment, % y/y	1.7	1.7	1.4
Unemployment (NAV), %	2.5	2.3	2.2
Annual wages, % y/y	2.8	3.4	3.6
Consumer prices, % y/y	2.7	2.2	2.2
House prices, % y/y	0.7	2.2	2.5
Core inflation	1.6	2.3	2.3

Financial figures	30/09/2019	+3 mths	+6 mths	+12 mths
Leading policy rate, % p.a.	1.50	1.50	1.75	1.75
2-yr swap yield, % p.a.	1.87	1.90	2.00	2.05
10-yr swap yield, % p.a.	1.72	1.65	1.70	1.70
EUR/NOK	9.93	10.00	9.70	9.50
USD/NOK	9.08	9.09	8.58	8.26

Source: Danske Bank

Finland

Winter is coming

- **The Finnish economy has slowed down after three years of strong expansion. GDP grew 1.7% in 2018, largely on the back of consumption and investment. GDP growth slowed down to 1.2% in Q2 2019. Economic sentiment has cooled further in summer 2019 and we have made small downward revisions to our GDP forecast.**
- **Consumer confidence has weakened, but purchasing power continues to grow driven by rising wages and low inflation. We expect private consumption to be a key growth driver in 2019 and 2020.**
- **The outlook for the export industries is subdued. Finland is relatively modestly exposed to Brexit and the ongoing trade war, but headwinds from the weaker European outlook weigh on exports.**
- **The Finnish housing market is stable but increasing supply of new housing is likely to prevent prices from rising. The market is deeply divided geographically. Construction is cooling down towards the end of 2019, but activity remains high in the growth centres.**
- **Debt-to-GDP ratio has improved for three consecutive years thanks to solid economic growth and increased tax revenue. This improvement is expected to continue in 2020, but the progress should be slower than previously anticipated due to more expansionary fiscal policy by the newly appointed government. Ageing limits fiscal space during 2020s.**

At a glance

Finland	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP	1.2	0.8	1.3	1.0
Private consumption	0.8	1.0	0.8	1.2
Public consumption	1.5	1.5	0.5	1.5
Gross fixed investment	0.5	0.6	0.0	1.0
Exports	3.5	1.5	3.0	2.0
Imports	2.0	2.0	2.0	2.5
Unemployment rate	6.6	6.6	6.5	6.4
Inflation	1.1	1.4	1.2	1.5
Government balance, % of GDP	-0.4	-0.4	-0.3	-0.2
Current account, % of GDP	-0.8	-0.8	-1.7	-1.4

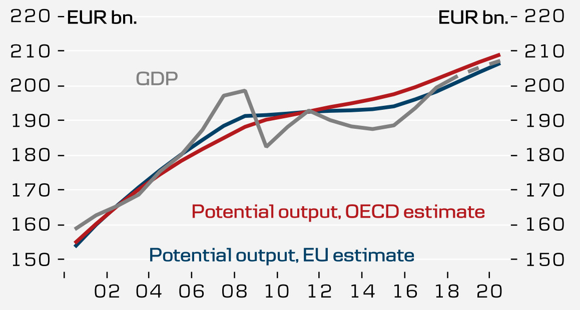
Source: Danske Bank

Slow but steady

The Finnish economy is gradually slowing after an expansionary period that started in 2015. In retrospect, the fastest boom year was 2017, when the economy expanded 3.1%, a whopping number given the current demographic structure. In 2018, the growth slowed down to 1.7%. We are expecting further slowdown during the forecast period due to the fading construction boom and stagnant employment. In our forecast, GDP growth is 1.2% in 2019 (was 1.3%) and 0.8% in 2020 (was 1.0%).

GDP growth unexpectedly accelerated to 0.8% q/q in Q2 2019. Both private and public consumption continue to support the economy and also export growth has so far been slightly higher than anticipated. However, the acceleration results partly from the fact that private consumption recovered in Q2 after a weaker than expected start in Q1 due to difficulties in car sales. Consequently, we should not read too much into it. Despite robust growth so far, the business surveys indicate a much slower pace for H2. Economic sentiment has cooled noticeably for both consumers and businesses.

Output gap is more or less closed



Source: Macrobond Financial, Statistics Finland

On the other hand, we should not be too pessimistic either: overall, the economy is still performing reasonably well, although the pace has clearly slowed. Leading indicators have declined, but they are still close to long-term average levels. During the forecast horizon, consumption demand should continue to be the steady but slow engine for the economy, while investment and exports are expected to slow down. Order books have been on a declining trend but they still look average in both manufacturing industry and construction. Last year growth in private consumption was not quite as impressive as the underlying rise in wages and employment suggested, but this provides some reassurance for the opposite pattern in the future. In the short run, domestic risks are still modest and the largest risks are to be found in external factors like the trade war and Brexit.

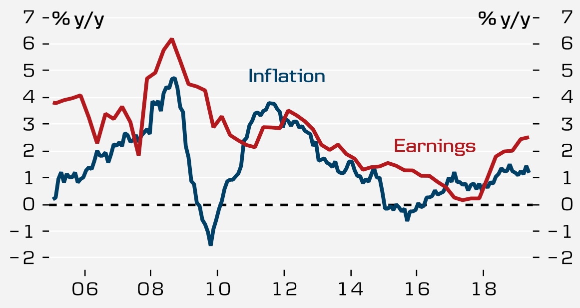
The output gap of the Finnish economy has been closed and the period of rapid cyclical recovery is over. The current unemployment rate is close, or even below, usual estimates for structural rate or NAIRU. Finland lost potential output from the demise of Nokia´s mobile phone business and structural change in the forest industry. Forest industry companies have announced the closure of two paper mills in 2019, which reflects the ongoing structural change. New large-scale investment projects are on the horizon, but they will take some time.

In H2 2019, growth in GDP is likely to rely increasingly on domestic factors, especially private consumption. In our opinion, the risks are fairly balanced. Growth could easily turn out to be slightly faster, but downside risks have potential for larger upsets. In the future, consistently maintaining growth above 1.5% will become increasingly difficult due to demographics. The working age population is shrinking and the unemployment rate is already at the structural level. Improving growth potential depends on investments in productivity and structural labour market policies. The possibility of increased tax deduction for corporate investment expenditure, as planned by the government, may speed up some investment plans.

Consumers still happy

Rising wages and low inflation continue to support households. However, slower employment growth implies less of a boost for purchasing power and consumption in 2019 and 2020. The unemployment rate is low, but there has not been a further decrease since January. The exact magnitude of next year’s wage increases is currently being negotiated between the labour unions and it is likely that nominal wage growth will continue to exceed inflation by a heathy marginal. Consumer confidence has decreased in recent months, but households are still reasonably confident about their personal finances and employment security, even if they are more reserved about the general macroeconomic outlook. In addition to wage growth, households are getting support from low interest rates that help to keep the interest rate burden low despite growth in household indebtedness. Households have also turned more cautious on additional debt and the debt to disposable income rate fell in 2018 for a first time in a long while.

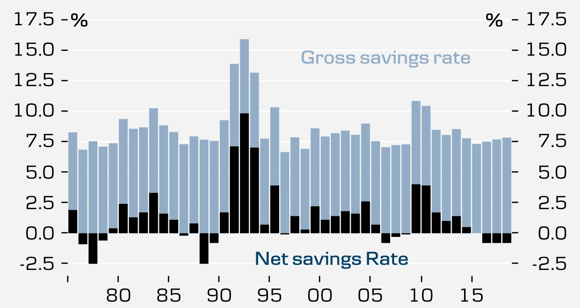
Solid earnings growth



Source: Macrobond Financial data

The Fin-FSA has been worried about growing household debt in recent years. To combat this, it tightened the maximum loan-to-collateral (LTC) ratio in 2018. The maximum amount of housing loan was capped at 85% of the collateral. The new regulation does not apply to first-time buyers. As for consumer lending, which is growing considerably faster than housing loans, Fin-FSA has few tools. A positive credit register is one tool under consideration and has widespread support, but progress is likely to take some time.

Household savings rate back to positive territory



Source: Macrobond Financial data, Statistics Finland

Payment difficulties have increased but they are mostly related to payday loans and affect only a relatively small minority. We believe that the risks in household sector finances are still moderate. The net savings rate was negative in 2016-17 but it returned back to positive territory last year. A reversal in the decreasing savings rate is welcome, even though household debt is not exceptionally high when compared internationally. In principle, exposure to rising rates may become a more significant factor later in the 2020s given that in Finland most loans for households link to variable Euribor rates. Currently, this seems nothing more than a quite distant possibility.

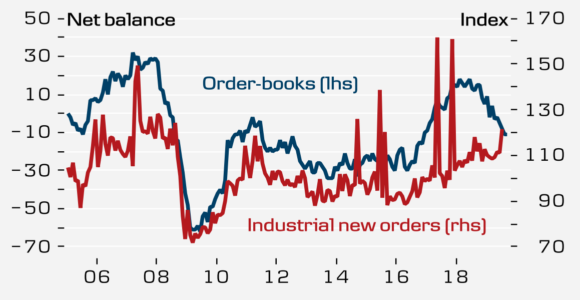
In 2020, we expect private consumption to follow the development in earnings and continue to support the Finnish economy, although we cannot rule out a further rise in the savings rate. Domestic demand is important, but wage increases staying modest would help to maintain manufacturing industry price competitiveness in tough export markets.

Exports growth set to slow down in 2020

Finnish exports have so far had a relatively good year compared with some other European countries. However, global trade is weakening and it will begin to gradually have a larger impact in the future. Some unusually large items, like a cruise ship delivered to Germany, kept exports growing strong in Q1 2019 and we are expecting another big ship delivery in Q4. The volume of exports increased by 4.2% in H1 2019. At the same time, the volume of imports increased only 1.2%. Thus, net exports are expected to have a fairly strong positive impact on GDP this year.

Preliminary customs statistics from July 2019 indicate that the value of Finnish goods exported have increased by 3.2% ytd, while the value of imports has remained roughly constant. Exports' growth has been much faster to non-EU countries, increasing by approximately 6% ytd. Finland's main export markets in the EU, like Germany and Sweden, are slowing down. Finnish export industries continue to benefit from improved price competitiveness and new industrial orders have developed reasonably well despite the weakening global demand environment. Nevertheless, the rapid recovery for export industries is behind us and we expect net exports to play a slightly negative role for growth in 2020. Services' exports have a little more potential but their magnitude remains difficult to estimate. In total, we expect the volume of exports to rise by 3.5% in 2019, but slow down to 1.5% in 2020. The main risks are a more pronounced slowdown in the euro area growth or an unfavourable outcome from Brexit.

Industrial orders past their peak

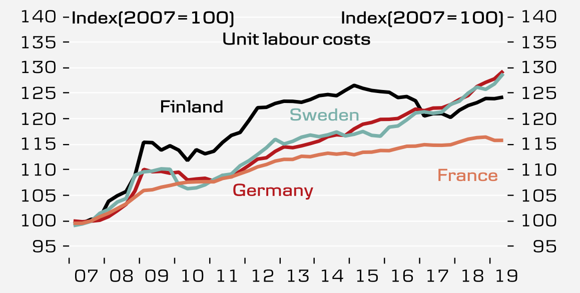


Source: Macrobond Financial data

Only modest growth in investments

In 2018, investments increased by 3.3%. Industrial investment was sluggish and the weaker global outlook probably contributed to the slowdown. Investment activity has been relatively weak for many years as capacity utilisation is still relatively, high despite weakening demand, which possibly implies a pent-up need to invest. Surveys for both larger and SME companies show interest in investment projects. The Confederation of Finnish Industries (EK) survey also shows new investment plans in some industries, but uncertainty about the economic outlook has increased in recent months. Currently, no large-scale industrial investments are underway, but we still expect industrial capex to improve at a modest pace in 2019-20. There are several substantial and some quite promising investment projects under consideration in the forest industry. However, it will take time before any of these still uncertain projects are launched and the investment decision hangs in part on the new government's decision on how much forest resources can be tapped, while still maintaining ambitious environmental goals. Forests are growing more than the total felling but forest net growth could potentially play a big role in climate change policy as a significant carbon sink. In September, Google announced an additional EUR600 million investment into its data center in Hamina.

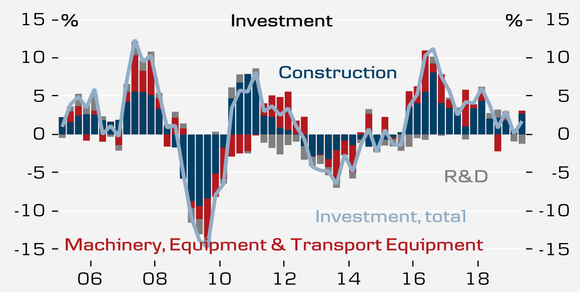
Internal devaluation restored price competitiveness



Source: Macrobond Financial, Statistics Finland

The housing boom was one of the main drivers of recovery in the Finnish economy in 2015-18. In 2018, construction investment in housing grew at a rate of 5.8%. We expect a gradual slowdown during the forecast horizon. The number of new housing permits has declined markedly and new starts have also peaked. The level of ongoing housing construction is still high and indicates strong supply of apartments in growth centres, especially the Helsinki region, in H2 2019. The number of unsold apartments has not risen much so far, however. In any case, the risk of a housing overhang already implies that construction companies are being cautious in the near term. Such caution will probably lead to only a minor slowdown, because growth of the urban population still creates consistent demand for new housing in the medium term. The new government intends to

Investment activity

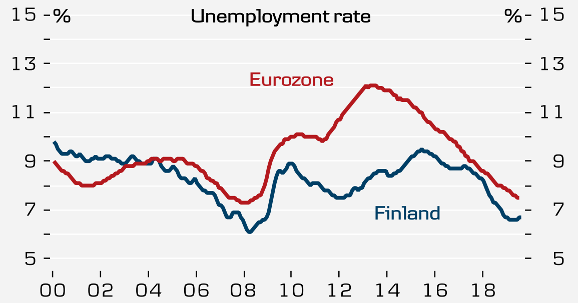


Source: Macrobond Financial data, Statistics Finland spend more on infrastructure, which should stimulate construction in 2020-2023. In total, we expect fixed investment to grow at a sluggish pace during the forecast horizon: 0.5% in 2019 and 0.6% in 2020.

Labour market as good as it gets – for now

The past couple of years have seen a strong improvement in the Finnish labour market. Unfortunately, the rise in employment has slowed down markedly this year. The labour market is still strong in terms of open vacancies, but we have not seen much further decrease in unemployment or rise in employment during recent months. In August, the trend estimate for unemployment rate was 6.7%, which was a bit higher than the 6.6% observed at beginning of the year. The figure is high considering we are already late in the business cycle, but the Finnish unemployment rate has been lower than this only once in recent history, in 2008, just before the financial crisis. Estimates of structural unemployment or NAIRU have typically been above 7%, meaning that the labour market is tight already. Consequently, lack of skilled labour continues to be a major obstacle to growth. At the same time, it has become more difficult to fill vacancies in some lower-skilled occupations as well. We expect the annual average unemployment rate will fall to 6.6% in 2019 and stay there in 2020. The number of open vacancies is high enough to maintain good employment, but cyclical headwinds and structural barriers make further improvement unlikely.

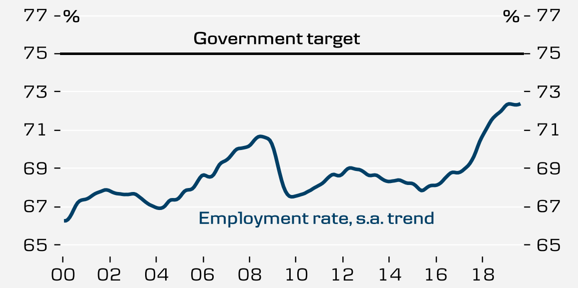
Unemployment rate has reached structural barriers



Source: Macrobond Financial data, Statistics Finland

The employment rate rose significantly in 2018 and surpassed the official target of 72% set by the previous government in late 2018. The largest increase was for older groups of workers. In August 2019, the trend indicator of employment rate stood at 72.5%, which means that the improvement has stalled. The new government raised the target to 75% employment rate, but the weaker cyclical outlook has taken the tailwind away. The new left-leaning government has planned to cancel some reforms, designed to activate job seeking and extend working hours and introduced by the previous government. The proposed new reforms are mostly soft tools from increased job seeking services to some kind of earned income tax credit. These measures increase public expenditure and are unlikely to be enough to reach the 75% target. In the long run, an employment rate above 75%, similar to other Nordic countries, would help a lot in achieving long-term budget sustainability as the population ages rapidly. The ageing population is starting to have an impact on the supply of labour and public expenditure already.

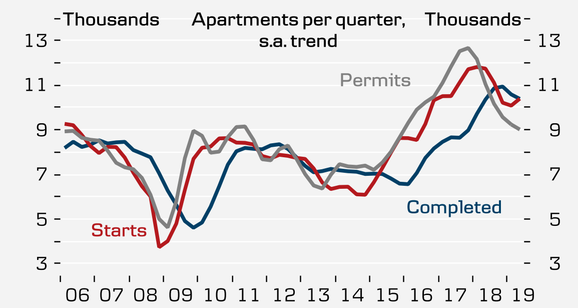
Employment rate has a long way to go



Source: Macrobond Financial, Statistics Finland

Nominal earnings growth was close to zero and labour costs fell more than anywhere else in the EU in 2017. In 2018, earnings growth returned to a more typical range. Together with wage drift, we expect average earnings to rise 2.5% in 2019 and 2.7% in 2020. This level is still sustainable and lower than in some export competitors, like Sweden or Germany. However, difficulties in filling vacant positions clearly increase the risk of higher wage drift in some industries, like ICT and construction.

Supply of new housing set to peak in 2019



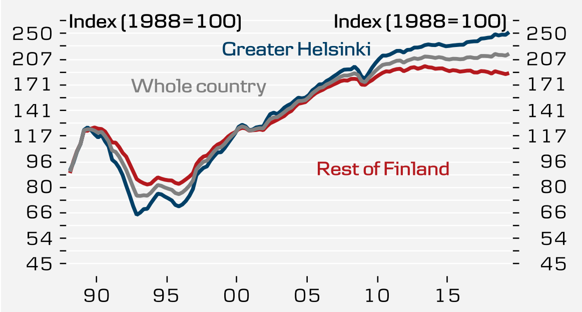
Source: Macrobond Financial, Statistics Finland

Supply of housing continues to increase in 2019

Prices of old dwellings stayed roughly unchanged y/y in Q2 2019. On average, prices grew 1.6% in the Helsinki region and declined by 1.3% in the rest of the country. For approximately the past five years, average house prices have seen only modest rise in Finland and real prices have fallen. However, the average price development does not capture the situation in full, as it is calculated from decreasing prices in some regions and rising prices in the largest cities. In 2018, prices of old dwellings grew on average 2.5% y/y in the Helsinki region and decreased by 1.3% elsewhere. A similar main trend has continued in 2019 and is likely to continue in 2020, although strong supply of new housing in the Helsinki region is likely to lead to some cooling of the housing market in the capital region.

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

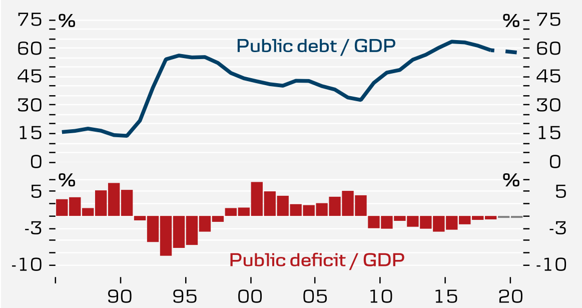
Diverging housing prices



Source: Macrobond Financial, Statistics Finland

Renting has become more popular among younger generations and migrants. Consequently, the professional renting business and the private buy-to-let market have grown. Strong demand from both professional and private investors has led to a boost in housing construction. For the most part, there are no signs of oversupply, at least not in most locations. The rise in rents has exceeded the rise in housing prices or wages for some years, but the rise in market rents has moderated to 1.2% in Q2 2019. Supply of new housing is increasing significantly at the moment and this weighs on both prices and rents. Construction companies have spotted a saturation in demand and are clearly cautious on new projects. Based on the number of housing permits and starts, the supply of new housing is likely to rise a bit towards the end of 2019, but fall somewhat in 2020. Despite a slowdown, the volume of construction is likely to stay at a historically high level in growth centres. Urbanisation will continue in the future as well and the demand for new housing is not going away.

Debt-to-GDP improving slowly



Source Macrobond Financial, Statistics Finland

Low interest rates, a solid labour market and a robust rise in households' purchasing power continue to support the housing market. In growth centres, prices continue to rise, albeit at a slower pace than before. On average, we expect prices to increase by only 0.5% in 2020, which is considerably slower than the rise in other consumer prices.

Farewell to austerity

The Finnish central government has been running a long-standing deficit since the financial crisis, but strong growth in employment has brought public finances closer to balance in recent years. Also municipalities have also been financing their spending with debt, but the general government deficit is much smaller thanks to 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. Public debt grew quite fast after the financial crisis and the debt rose to over 60% of GDP in 2014, but the economic boom since 2016 helped to drag the debt ratio below 60% again.

Measured by the change in the cyclically-adjusted primary balance, the 2019 budget still looks modestly contractionary but the fiscal policy is moving towards a more expansionary stance and, simultaneously, GDP growth is slowing down. The central government budget deficit is set to rise to over EUR2 billion in 2020. Despite an outlook for lower GDP growth and a more generous central government budget, we expect only a modest 0.4% general government budget deficit per GDP. A smaller deficit in local government and a surplus in social security lend some support to the overall numbers. The general government debt to GDP ratio fell to 58.7% in 2018, according to our latest estimate based on revised GDP numbers. Planned asset sales reduce the need for additional debt. The debt ratio should keep falling modestly in 2019-2020, but ageing will hit public finances hard during the next decade. Therefore, the space for active fiscal policy is more limited than the current numbers would suggest.

Structural reforms are still needed to boost potential growth and improve labour participation in order to deal with the rise in age-related expenditure caused by an ageing population and a rising dependency rate. The outlook on the sovereign rating has improved in recent years, but rating agencies need further evidence of sustained growth and successful structural reforms. There is a pause in many reforms, because the new left-leaning government is only starting to make serious plans. Labour market reforms look unconvincing so far and social and health care reform are not high on the agenda. Sovereign ratings are likely to stay unchanged for a while, until there is solid evidence of sustainable public finances

At a glance

			Forecast	
National account	**2018**	**2018**	**2019**	**2020**
	EUR bn (current prices)	% y/y		
GDP	234.5	1.7	1.2	0.8
Imports	92.1	5.0	2.0	2.0
Exports	90.4	1.8	3.5	1.5
Consumption	176.8	1.7	1.0	1.2
- Private	123.7	1.8	0.8	1.0
- Public	53.1	1.5	1.5	1.5
Investments	55.5	3.3	0.5	0.6

Economic indicators	**2018**	**2019**	**2020**
Unemployment rate, %	7.4	6.6	6.6
Earnings, % y/y	1.7	2.5	2.7
Inflation, % y/y	1.1	1.1	1.4
Housing prices, % y/y	0.6	0.2	0.5
Current account, EUR bn	-3.7	-2.0	-2.0
- % of GDP	-1.6	-0.8	-0.8
Public deficit, % of GDP	-0.7	-0.4	-0.4
Public debt/GDP, % of GDP	58.7	58.4	57.7

Financial figures	**30/09/2019**	**+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.	-0.45	-0.50	-0.50	-0.40
10-yr swap yield, % p.a.	-0.13	-0.20	-0.20	-0.10
EUR/USD	1.09	1.10	1.13	1.15

Source: Danske Bank

Global overview

Weak global momentum amid geopolitical risks

- **Momentum in the global economy continues to weaken amid unresolved trade tensions between China and the US and Brexit discussions in Europe. We lowered our global growth projections in late August (see *here*).**
- **The global manufacturing sector is particularly feeling the strain while the service sector is holding up, although some weakening is starting to appear.**
- **A conclusive trade deal between China and the US is not around the corner, but an interim deal could be reached at a trade meeting in October.**
- **The global economy will continue to weaken through the end of this year, but is expected to stabilise in early 2020 followed by a modest recovery.**
- **We expect the recovery will be supported by stimulus measures from global central banks and fiscal easing in China.**
- **Risks for global growth are skewed to the downside from possible escalation of the trade war between the US and China, a region-wide military conflict in the Middle East, and too slow and/or insufficient global monetary policy stimulus.**

Global economic momentum remains weak…

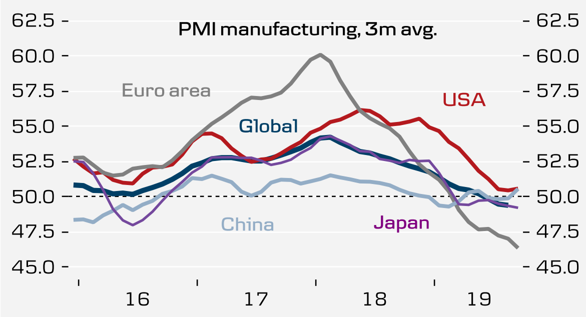
The global macroeconomic and political backdrop has weakened further over the summer. Some of the downside risks that we feared in our last global update in early June (see *here*) materialised, most notably the decision by Donald Trump's administration in late July to escalate the trade war with China, after signalling an intention to hit the remaining USD300bn of imports from China with 10% tariffs. On the back of the announcement in late July, global risk sentiment dived further and global bond yields fell to new lows.

The global manufacturing sector continues to feel the strains from the uncertainty posed by the trade war between China and the US. This is especially the case for European export companies, which have seen a sharp worsening in business sentiment. The euro area manufacturing PMI has fallen into contractionary territory. The service sector globally has held up quite well, supported by solid income growth and good employment prospects, but even this sector has now started to show some weakness.

…as the trade war between the US and China is unresolved

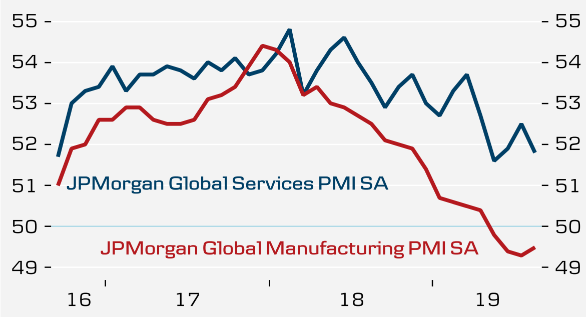
Recently, the US and Chinese governments have signalled a willingness to restart trade negotiations with a high-level meeting expected in October. While we think a substantial trade deal between the two countries is still not imminent, an interim deal could be reached at that meeting. Such a deal could include China buying some agricultural goods again in return for a further delay in tariff rates, while

The global manufacturing sector (especially in Europe) is feeling the strain of global uncertainty



Source: IHS Markit, Macrobond Financial, Danske Bank

While the service sector has held up relatively well so far



Source: Macrobond Financial, Danske Bank

Global growth set to slow considerably in 2019 followed by a modest rebound in 2020

% y/y	2018	2019	2020	2021
Global of which	3.6	3.0	3.2	3.3
USA	2.9	2.3	1.7	1.8
Euro area	1.9	1.1	0.9	1.3
Japan	0.8	1.4	0.5	0.3
UK	1.4	1.2	1.3	1.4
Emerging Markets of which	4.5	3.9	4.5	4.6
China	6.6	6.2	6.0	6.0
India	7.3	6.5	7.0	7.0

Source: Macrobond Financial, Danske Bank Research Estimates kicking the can down the road on the thorny issues. However, the two sides would need to agree on how much China needs to buy, which might not be easy.

An interim deal would be good for market sentiment as it lowers the tail risk of a full-blown economic war. But it would not resolve the thorny issues that have separated the two sides since May and hence may not cause a big rebound in investment and global trade.

Major central banks have eased monetary policy

In response to the weakening outlook for the global economy and sharply falling marked-based inflation expectations, major global central banks have eased monetary policy. The outlook for underlying inflation pressures also continues to look muted. As a result, the Fed cut its policy rate in both July and September and we expect it to implement an additional four cuts at the upcoming policy meetings. The ECB cut its policy rate at its September policy meeting and at that time also restarted QE and introduced a tiering system for bank deposits at the central bank. In China, the central bank has lowered the reserve requirement for banks and has allowed local governments to borrow more.

We have lowered our global growth forecasts

We have downgraded the outlook for the global economy in future years. We now expect global growth to be 3% in 2019, followed by a slight pick-up to 3.2% in 2020 and 3.3% in 2021 (versus 3.2% in 2019 and 3.4% in both 2020 and 2021 in the *June Big Picture*). Following weakness in coming months, we expect the global economy to stabilise early in 2020 and witness a modest recovery subsequently, as the stimulus measures from global central banks and fiscal easing in China start to kick in.

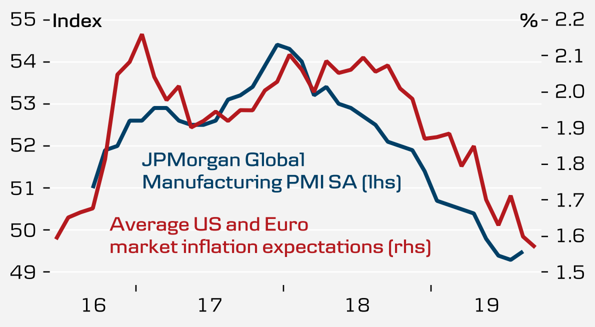
Risks on the horizon for the global economy

While our baseline assumes modest growth in the global economy, the risk of a more pronounced downturn is increasing. Among the key downside risks are further escalation of the trade war between the US and China, possible US car tariffs versus Europe, a hard Brexit this autumn or too slow and small stimulus by major central banks.

In recent weeks tensions in the Middle East have risen after Saudi Arabian oil installations were attacked. Oil prices have spiked subsequently as the prospect of a military conflict between Iran and Saudi Arabia/US remains. While we think the two sides will go a long way to avoid it, tensions could accidentally escalate to a full-blown conflict. In that case, oil prices could surge to USD150/bbl, which would hit global growth significantly (see more *here*).

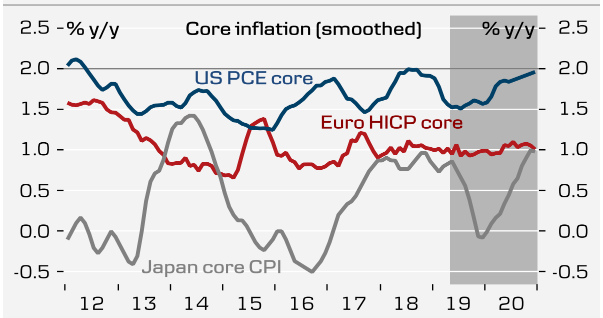
Furthermore, another key risk is a negative spiral in confidence and actual spending in the global economy prompted by the current negative headlines. In our view, the risk of the downturn resulting in a global recession is around 30% over the next 18 months

Market-based inflation expectations in the US and euro area have plummeted along with the global manufacturing sector



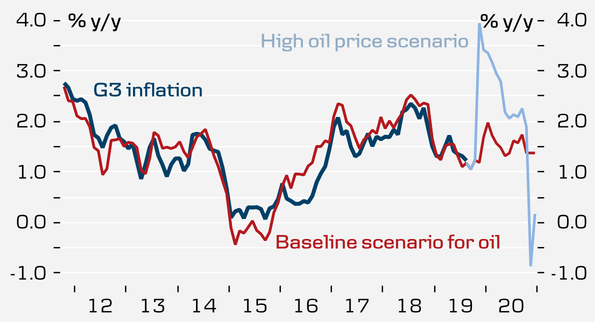
Source: Macrobond Financial, Danske Bank

Underlying inflation pressures will remain muted



Source: Macrobond Financial, Danske Bank Research Estimates

Global inflation will surge if a region-wide military conflict in the Middle East pushes the oil price to $150 per barrel



Source: Macrobond Financial, Danske Bank

Financial forecast

Bond and money markets

		Key interest rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK	Currency vs NOK	Currency vs SEK
USD	30-Sep	2.00	2.10	1.66	1.59	109.4	-	682.8	908.1	980.6
	+3m	1.50	1.22	1.30	1.30	110.0	-	678.8	909.1	981.8
	+6m	1.00	1.00	0.90	1.00	113.0	-	660.4	858.4	964.6
	+12m	1.00	1.00	1.00	1.10	115.0	-	648.7	826.1	956.5
EUR	30-Sep	-0.50	-0.41	-0.45	-0.13	-	109.4	746.6	993.0	1072.3
	+3m	-0.50	-0.41	-0.50	-0.20	-	110.0	746.7	1000.0	1080.0
	+6m	-0.50	-0.41	-0.50	-0.20	-	113.0	746.3	970.0	1090.0
	+12m	-0.50	-0.41	-0.40	-0.10	-	115.0	746.0	950.0	1100.0
JPY	30-Sep	-0.10	-0.10	-0.15	-0.02	120.5	107.9	6.20	8.24	8.90
	+3m	-0.10	-	-	-	116.6	106.0	6.40	8.58	9.26
	+6m	-0.10	-	-	-	119.8	106.0	6.23	8.10	9.10
	+12m	-0.10	-	-	-	126.5	110.0	5.90	7.51	8.70
GBP	30-Sep	0.75	0.76	0.66	0.67	88.9	123.0	839.8	1117.0	1206.2
	+3m	0.75	0.79	0.70	0.70	90.0	122.2	829.7	1111.1	1200.0
	+6m	0.75	0.79	0.70	0.70	90.0	125.6	829.2	1077.8	1211.1
	+12m	0.75	0.79	0.80	0.75	90.0	127.8	828.9	1055.6	1222.2
CHF	30-Sep	-0.75	-0.77	-0.79	-0.40	108.5	99.3	687.9	915.0	988.0
	+3m	-0.75	-	-	-	110.0	100.0	678.8	909.1	981.8
	+6m	-0.75	-	-	-	112.0	99.1	666.3	866.1	973.2
	+12m	-0.75	-	-	-	114.0	99.1	654.4	833.3	964.9
DKK	30-Sep	-0.75	-0.44	-0.37	-0.05	746.6	682.8	-	133.0	143.6
	+3m	-0.75	-0.45	-0.40	-0.10	746.7	678.8	-	133.9	144.6
	+6m	-0.75	-0.45	-0.45	-0.15	746.3	660.4	-	130.0	146.1
	+12m	-0.75	-0.45	-0.35	-0.05	746.0	648.7	-	127.3	147.5
SEK	30-Sep	-0.25	-0.07	-0.09	0.27	1072.3	980.6	69.6	92.6	100.0
	+3m	-0.25	-0.10	-0.15	0.35	1080.0	981.8	69.1	92.6	-
	+6m	-0.50	-0.35	-0.30	0.35	1090.0	964.6	68.5	89.0	-
	+12m	-0.50	-0.35	-0.30	0.35	1100.0	956.5	67.8	86.4	-
NOK	30-Sep	1.50	1.78	1.87	1.72	993.0	908.1	75.2	100.0	108.0
	+3m	1.50	2.00	1.90	1.65	1000.0	909.1	74.7	-	108.0
	+6m	1.75	2.15	2.00	1.70	970.0	858.4	76.9	-	112.4
	+12m	1.75	2.15	2.05	1.70	950.0	826.1	78.5	-	115.8

Commodities

		2019				2020				Average	
	30-Sep	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020
ICE Brent	62	65	70	70	75	75	75	75	75	70	75

Source: Bloomberg, Danske Bank

Economic forecast

Macro forecast. Scandinavia

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2018	1.5	2.2	0.9	6.5	0.4	3.3	0.8	2.2	3.9	0.5	34.1	5.8
	2019	2.0	1.5	0.3	-1.8	4.5	0.3	0.8	2.0	3.8	2.0	32.4	7.6
	2020	1.3	2.4	0.9	0.9	1.6	1.9	1.2	2.1	4.0	0.5	31.5	7.3
Sweden	2018	2.4	1.6	0.4	4.6	3.1	3.6	2.0	2.6	6.3	0.9	38.5	0.4
	2019	1.0	0.7	0.7	-1.8	4.2	1.7	1.7	2.6	6.8	0.1	35.0	3.7
	2020	0.7	1.9	1.5	-2.2	2.7	2.1	1.1	2.4	7.8	-0.5	34.0	3.7
Norway	2018	2.2	1.9	1.4	2.8	-0.2	1.9	2.7	2.8	2.4	-	-	-
	2019	2.6	2.0	2.0	4.8	3.0	3.5	2.2	3.4	2.3	-	-	-
	2020	2.2	2.4	1.7	3.0	4.0	2.5	2.2	3.6	2.2	-	-	-

Macro forecast. Euroland

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euro area	2018	1.9	1.4	1.1	2.3	3.5	2.7	1.8	2.3	8.2	-0.5	85.1	3.6
	2019	1.2	1.2	1.5	2.6	2.4	2.6	1.2	2.2	7.7	-0.9	85.8	3.3
	2020	0.9	1.4	1.8	1.4	1.4	2.6	0.9	2.3	7.5	-0.9	84.3	3.2
Germany	2018	1.5	1.2	1.4	3.5	2.3	3.7	1.9	3.0	3.4	1.7	60.9	7.3
	2019	0.5	1.5	2.1	2.9	0.8	2.8	1.4	3.2	3.1	1.0	58.4	6.0
	2020	0.7	1.4	2.3	1.3	0.7	2.7	1.5	3.0	3.0	0.8	55.6	5.9
Finland	2018	1.7	1.8	1.5	3.3	2.2	5.0	1.1	1.7	7.4	-0.7	59.1	-1.4
	2019	1.2	0.8	1.5	0.5	3.5	2.0	1.1	2.5	6.6	-0.4	58.4	-0.8
	2020	0.8	1.0	1.5	0.6	1.5	2.0	1.4	2.7	6.6	-0.4	57.7	-0.8

Macro forecast. Global

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
USA	2018	2.9	3.0	1.7	4.6	3.0	4.4	2.4	3.0	3.9	-3.9	106.0	-2.3
	2019	2.3	2.5	2.3	1.6	-0.5	2.0	2.0	3.1	3.6	-4.2	106.0	-2.6
	2020	1.7	2.4	0.9	1.1	0.7	2.2	2.3	3.4	3.4	-4.2	106.0	-2.7
China	2018	6.6	8.2	-	5.0	-	-	2.2	8.5	-	-4.1	50.1	0.7
	2019	6.2	7.5	-	5.0	-	-	2.5	8.0	-	-6.1	53.9	0.0
	2020	6.0	7.8	-	4.6	-	-	2.2	7.5	-	-5.5	57.1	-0.1
UK	2018	1.4	1.6	0.6	-0.1	-0.9	0.7	2.5	3.0	4.1	-1.5	86.8	-4.0
	2019	1.2	1.9	2.5	-0.6	0.7	4.2	1.9	3.5	3.8	-1.4	83.8	-3.8
	2020	1.3	1.6	1.3	-2.0	0.8	-2.4	1.4	3.5	3.6	-1.1	82.9	-3.5
Japan	2018	0.8	0.3	0.8	1.1	3.4	3.3	0.9	-	2.4	-	-	-
	2019	1.4	1.0	2.2	2.4	-1.7	-0.6	1.0	-	2.4	-	-	-
	2020	0.5	-0.3	1.7	0.6	1.7	1.2	1.6	-	2.5	-	-	-

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

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this report are listed on page 3 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 report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. 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').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, 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 responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank 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 herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

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/A, 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 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 who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA 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.

Report completed: 30 September 2019, 16:00 CEST

Report first disseminated: 1 October 2019, 06:00 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

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

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

David Boyle
+47 85 40 54 17
dboy@danskebank.com

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

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

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

Christopher Hellesnes
+46 8 568 80547
cahe@danskebank.com

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

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

Haseeb Syed
+47 85 40 54 19
hsy@danskebank.com

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

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

Sweden

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

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

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

Michael Grahn
+46 8 568 807 00
mika@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 Analyst & Head of
Frank Jullum
+47 85 40 65 40
fju@danskebank.com

Jostein Tvedt
+47 23 13 91 84
jtv@danskebank.com

Emerging Markets

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

Vladimir Miklashevsky
+358 (0)10 546 7522
vlmi@danskebank.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