Danske Bank

Investment Research

18 June 2019

Nordic Outlook

Economic and financial trends

- Denmark: while we wait for the slowdown
  Global weakness has yet to manifest itself in Danish data

- Sweden: domestic demand at crawl speed
  Good GDP and export performance mask a darker reality

- Norway: pressure building
  Oil investments are lifting growth, wages accelerate and fiscal policy is eased

- Finland: end of austerity
  Public spending is on the rise, as the rest of the economy cools down

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

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

At a glance

Resilient, up to a point

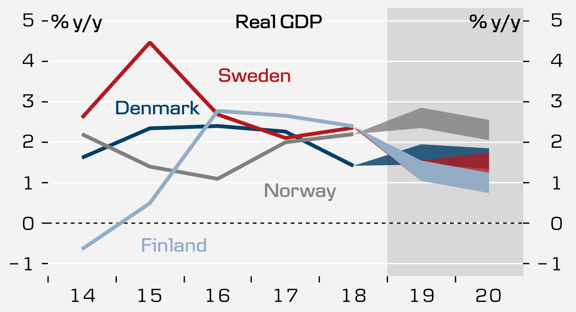
The global and especially the European economies have weakened since the middle of 2018, with serious headwinds for German manufacturing and lots of political uncertainty over a trade war, Brexit and the ongoing budget crisis in Italy. So far, the Nordic economies have been remarkably resilient, with continued decent GDP growth and quite strong export performances. The reasons are many: pharma and windmills in Denmark, exports of services in Sweden, demand from global oil investments in Norway and a major ship delivery from Finland, among others. However, this illustrates that the Nordic countries have entered the current period of slower global growth from a starting point of strong competitiveness.

Nevertheless, the Nordic countries are small open economies and very dependent on global developments. We expect lower global growth to become visible in Nordic data as well, but of course mitigated or aggravated by domestic developments. In Sweden, good GDP data currently cover over weak underlying domestic demand growth, not least from the housing market. However, oil investments strongly support the growth outlook in Norway, even if there is less growth in the global economy. Norway is one of the few countries in the world where interest rates are heading up, as growth and inflation actually warrant monetary tightening. We do not see the case for this in Sweden.

Political risks on top of economic ones

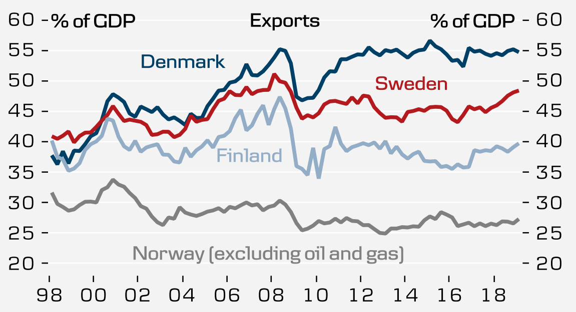
Trade war tensions are mostly between China and the US, with limited direct effect on the Nordics, although sectors such as Danish shipping are clearly affected and lower global growth matters for all. If the US starts to target Europe, Nordic producers would also be affected, for instance as suppliers to the European car industry. A disorderly Brexit would create problems closer to home and affect many Nordic companies directly. If it triggers a short-term recession or at least a slowdown in the UK, this would be felt in the rest of Europe. In terms of direct effects, Nordic exporters would be likely to face tariffs on some of their UK exports and all Nordic countries have a surplus against the UK in goods (but a deficit in services). Norway has the most exports but 80% of 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.

A mixed outlook



Source: Macrobond Financial, Danske Bank

Exports are holding up



Source: Macrobond Financial, Danske Bank

Denmark is most exposed to the UK

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

Denmark

While we wait for the slowdown

- **The slowdown in Europe has still not spread to Denmark or Danish exports but, in our view, it is likely that it will.**
- **Denmark's economy is well prepared if the slowdown becomes serious, as it has remained well balanced throughout this upswing.**
- **House prices are rising, supported by even lower interest rates and this in turn is fuelling private consumption but private consumption is not yet outpacing income growth.**
- **Inflation is lower than in other parts of Europe, though a hike in cigarette prices could send inflation noticeably higher.**
- **Interest rates seem set to hover around current levels for quite some time yet.**

Global signs of weakness have not yet hit Denmark

We have been seeing clear signs of a slowdown in key global growth indicators since mid-2018, especially in the industrial sector – not least in Germany, Denmark's most important trading partner. However, the trend remains difficult to discern in Denmark, where production, exports and employment remain buoyant and GDP growth has not slowed. This is in no small part due to the pharmaceutical industry, where production continues to increase and there is a tendency to be less sensitive to the global economic cycle. The windmill industry too is expanding, while the car industry, for example, which has been a serious drag in Germany, plays a minor role in Denmark.

Divergence in growth between Denmark and Germany, or indeed Sweden – Denmark's second most important trading partner – is not unusual. However, there is normally a fairly close correlation between the business cycle in Europe as a whole and Denmark and, given the slightly weaker global growth picture, some slowing in Denmark is likely in coming months. There is also a clear risk of a more serious slowdown or even a new crisis in the global economy in coming years. This would also affect Denmark, although Denmark's economy is well prepared to deal with any crisis, as no great imbalances have accumulated during this upswing. For example, there has been no surge in house prices or credit growth and competitiveness has not deteriorated.

Outlook is for unchanged interest rates

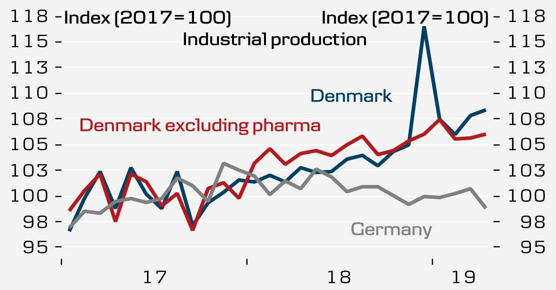
We are not expecting any change in interest rates from the European Central Bank (ECB) or Danmarks Nationalbank in the coming year. While it is true that the DKK is trading slightly weak to the EUR, this has been insufficient to trigger intervention by Danmarks Nationalbank since December and January; even then, it was very limited. A potential unilateral Danish rate hike would require much more pressure on the DKK and where that pressure might come from is difficult to see, given Denmark's large current account surplus and generally stable economy.

At a glance

Denmark	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP	1.7	1.6	1.8	1.6
Private consumption	1.5	2.3	1.8	2.2
Public consumption	0.4	0.5	0.4	0.4
Gross fixed investment	-1.6	3.0	-1.2	3.2
Exports	2.3	1.7	3.2	1.9
Imports	1.7	2.1	1.2	2.4
Gross unemployment (thousands)	102.8	102.2	102.1	101.6
Inflation	1.0	1.3	1.2	1.4
Government balance, % of GDP	0.5	0.0	0.3	0.0
Current account, % of GDP	6.2	6.6	7.1	7.1

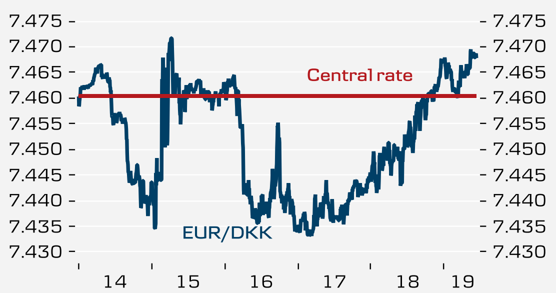
Source: Danske Bank

Danish production still growing



Source: Statistics Denmark, Macrobond Financial

'Weak' DKK...



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

The current modest weakness in the DKK is in our view connected to the fall in short market rates and weak global equity markets, as this reduces Danish investors' demand for DKK. If the ECB does decide to push through a rate cut, for example by lowering the deposit rate from -0.4% to -0.5%, we believe Danmarks Nationalbank would hesitate to follow suit. We do not know what the lower limit is for the Danish certificates of deposit rate but Danmarks Nationalbank has signalled a resistance to taking it back to -0.75% from its current -0.65% and given the current weakness in the DKK, not following the ECB's lead could easily be justified.

That the historically low level of interest rates could give an increased risk of overheating in the Danish economy, or parts of it, is a relevant concern. However, the Danish economy is not above the eurozone average on parameters such as credit growth, wage growth, inflation or inflation expectations and there is no reason to believe that monetary policy is particularly badly aligned with the Danish economy – unless it is misaligned with the eurozone as a whole. Nor are there any signs that the current level of interest rates is markedly below the so-called natural interest rate in either Denmark or the eurozone. The natural level of interest rates is the rate that creates a balance between savings and investments and would apply in a neutral business cycle situation. Globally speaking, it has been pushed very far down, in part by large pension savings, which is also the case, not least, in Denmark. This is another reason we do not expect to see any major changes in either short or long rates in Denmark in coming years.

Labour market well balanced

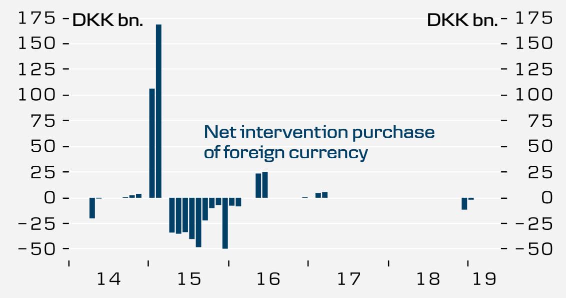
The number of people in employment reached 3 million in Q1 for the first time ever and was 1.5% higher than in Q1 18. The labour market is continuing to strengthen at more or less the same pace as before, supported by an essentially matching increase in the labour force. Hence, there has been little change in the level of unemployment, while the number of companies reporting labour shortages has eased slightly, though this is still a problem for many companies. Our forecasts point to enough economic growth for employment to continue to grow, albeit at a slightly slower tempo, and we expect the labour market to be able to handle this.

The increase in the labour force stems in part from the retirement age being increased from 65 years to 65.5 years in 2019, with the plan being for it to increase to 67 by 2022. The recent parliamentary election campaign prompted some discussions about giving certain groups of workers the option of early retirement and this could pull in the other direction. There is probably also room for an increase in employment among young people. Another aspect of the Danish labour market currently is that a very large share of the extra jobs are part time, as many older people, for example, are not working full time.

Wages also reflect the stability of the labour market. Wages for the same job rose by 2.5% in the private sector in 2018, just a little more than in 2017, according to both (employer organisation) DA's wage statistic and Statistic Denmark's new, so-called standardised index of average earnings. Historically, this is relatively modest wage growth but it has to be seen against the low level of inflation. Real wage growth is very much on a par with what we have previously seen at the same point in the business cycle.

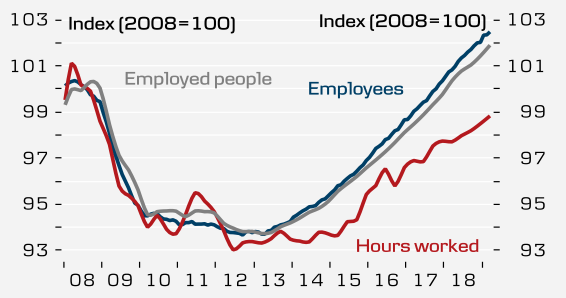
Given that we do not expect any great changes in the tightness of the labour market and only weakly rising inflation, we do not expect any significant changes in wage growth measured in this way. However, the wage figures in

...but very little intervention



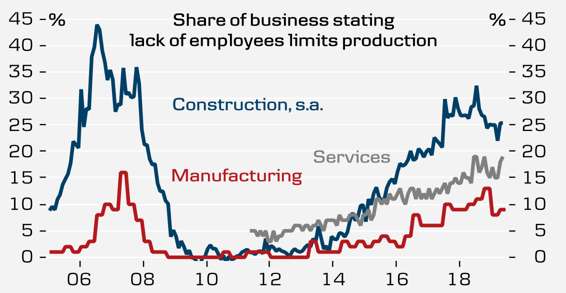
Source: Danmarks Nationalbank, Macrobond Financial

Jobs growth still buoyant



Source: Statistics Denmark, Macrobond Financial

Labour shortages stabilising



Source: Statistics Denmark, Macrobond Financial

our forecasts are based on Statistics Denmark's old wage statistics, which are now called implicit earnings index and which measure more the average wage for all employees. This is currently being pulled lower by quite a number of new jobs having a relatively low wage. Combined with the increase in part-time jobs, this means that income per wage earner is rising rather less than the income of the typical wage earner.

Inflation remains low – cigarette duty could pull inflation up strongly

Inflation in Denmark is low; indeed it is among the lowest in the EU. There are several reasons for this. First, Danes drive their cars less than other Europeans. Hence, when petrol prices rise, as they have recently, it tends to push inflation in the rest of the EU above the Danish rate. Meanwhile, rent increases in Denmark have been historically low and clothing prices have fallen record fast. This has all contributed to the trend in inflation.

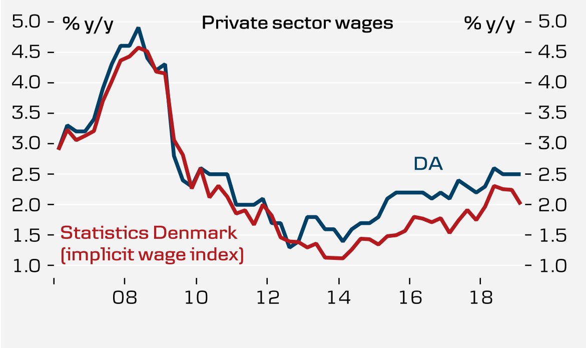
That said, we estimate that inflation will be higher this year than in 2018, not least because many district-heating plants have raised their prices significantly due to the ending of the so-called grundbeløb or 'basic amount' – a government subsidy scheme. More people will presumably find it more expensive to heat their homes when the other plants adjust their prices over the summer. Looking a little further ahead, the outlook for inflation remains modest. So long as there is not stronger upward pressure on wages, we believe the impact on service prices will be limited. This process is under way but the pace of change is slow. We expect inflation to come in at 1.0% this year and 1.3% in 2020.

However, there is a significant probability of tobacco duty being raised considerably in the not-too-distant future, as there appears to be majority support for this in parliament (see *Research Denmark – Cigarette prices pose significant upside risk to Danish CPI inflation*, 29 May). No agreement has been forthcoming so far but the most likely outcome is a hike in the price of a packet of cigarettes to DKK60. The rise in duty could be introduced as early as New Year but is more likely to be phased in over a number of years. A price of DKK60 per packet would raise consumer prices by around 0.8% overall.

Rising house prices supported by fall in interest rates

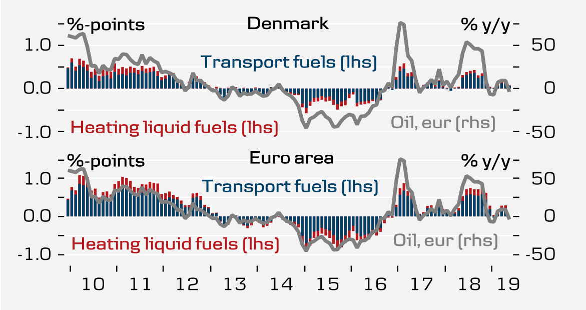
We expect the recent trend of rising house prices and marginally declining apartment prices to continue. We expect house prices to rise by 2-3% nationally both this year and next. We are slightly more upbeat on house prices than in our March forecast, as we expect them to get a boost from the prospect of lower interest rates for longer. That we do not expect stronger price growth is due to income growth slowing and because the past year's weaker growth in the apartment market means reduced profits from home sales and, therefore, less capital for home buying.

Wage growth remains modest



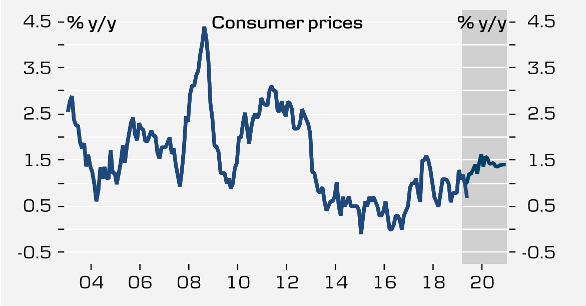
Source: DA, Statistics Denmark, Macrobond Financial

Oil price less heavily weighted in Danish inflation



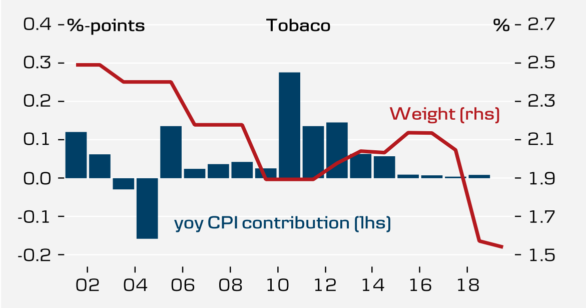
Source: Statistics Denmark

Higher but still modest inflation



Source: Danske Bank, Statistics Denmark, Macrobond Financial

Tobacco weight has fallen but remains high enough to cause serious CPI fluctuation



Source: Statistics Denmark, Macrobond Financial

Apartment prices have been under pressure for about a year now due to tighter credit controls and an increasing supply of new homes, among other things. This has slowed the very high price rises of previous years, which have also put the apartment market beyond the reach of many in the major cities. Despite falling interest rates, we expect apartment prices to continue declining slightly, in part because the prospect of higher property taxes in the more expensive areas is drawing closer.

That said, we do not expect the new property valuations and property tax reforms to hit the market too hard, as the large majority of Danish homeowners will not experience any noticeable change in their tax payments as a result of the new valuations.

Modest consumption growth with potential for both positive and negative surprises

We still expect private consumption to rise by 1.5-2.0% this year and next. Growth is being supported by real wage growth, rising employment and still appreciating house prices. We also expect the repayment of property taxes in 2020 to lift consumption at the end of the year.

Quarter-on-quarter consumption growth is relatively volatile at the moment, not least due to the uncertainty on car taxes in the spring. Nevertheless, the trend looks positive, with rising retail sales and higher consumer confidence than at the start of the year. Our slightly more downbeat view on consumption compared with our March forecast is due mainly to the outlook for more subdued real wage growth as a result of lower pay increases than expected.

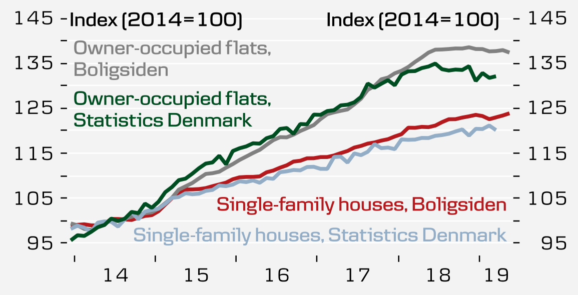
A slowdown abroad could ultimately pull Danish consumption lower if it prompts even greater reluctance to spend or increasing unemployment. Nevertheless, Danish households are well prepared for a global slowdown and have much better balanced finances than when the financial crisis struck 11 years ago.

We should also note that the risk is not all downside – on the contrary, there are several factors that could lead to higher consumption growth than in our current forecast. Recent falls in interest rates may not only mean savings on monthly mortgage payments and increased use of financial services in connection with loan remortgaging but they may also prompt Danes to increase their loan-financed consumption. So far, however, there has been little sign of consumers capitalising on low interest rates, rising house prices and income growth to increase levels of debt. The Danes' level of savings is climbing steadily and more and more are using the low level of interest rates to reduce their debts rather than increase consumption.

Healthy government finances

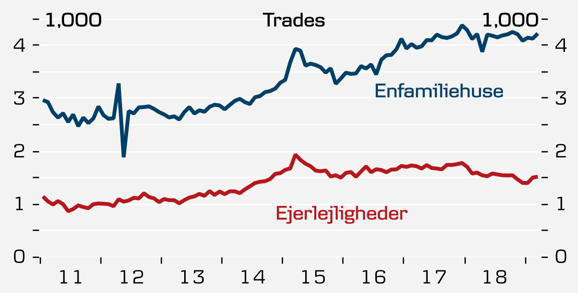
In contrast to many other European countries, Denmark's government finances are in fine shape and still supported by general economic growth. We expect to see modest government surpluses in both 2019 and 2020, with a larger surplus in 2019 than in 2020 – in part because the repayment of property taxes in 2020 will result in a temporary deterioration in government finances.

House prices continued to rise, while apartment prices have declined slightly



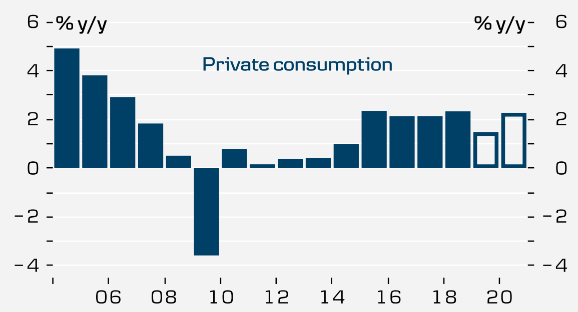
Source: Danske Bank, Statistics Denmark, Macrobond Financial

Sales activity for both houses and apartments has stabilised



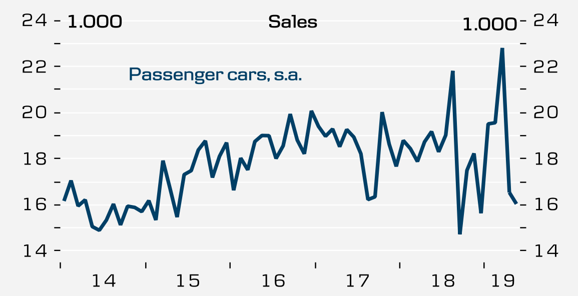
Source: Statistics Denmark, Macrobond Financial

Modest consumption growth continues



Source: Statistics Denmark, Macrobond Financial

Car sales induce considerable quarter-on-quarter volatility in consumption



Source: Statistics Denmark, Macrobond Financial

We expect government incomes again to experience a significant boost in 2019 from so-called PAL or pension return taxes and while 2018 was marked by a downturn in the financial markets and lower PAL taxes, the outlook for considerably lower interest rates than previously expected and a general pickup in the financial markets is likely to increase PAL taxes over the forecast period

We do not know yet what the new government's economic programme will be but we assume it will continue to pursue a more or less neutral fiscal policy at home – and there is still room to ease policy if the low level of growth abroad triggers a slowdown in Denmark.

Exports defy the global slowdown but can this continue

Danish exporters have kept the economy on track since summer 2018, mainly because an ever bigger share of exports is no longer so dependent on the business cycle – at least not in the short term. This is particularly true of the pharmaceutical industry but also the production of windmills and both have performed very well of late. That said, export growth has to be seen against the previous period of very strong growth among Denmark's trading partners, throughout 2017 and forward to summer 2018, which did not really translate into demand for Danish goods and services. Indeed, exports fell by just under 2% over this period, a period of some headwind from a strong DKK, though competitiveness remained solid.

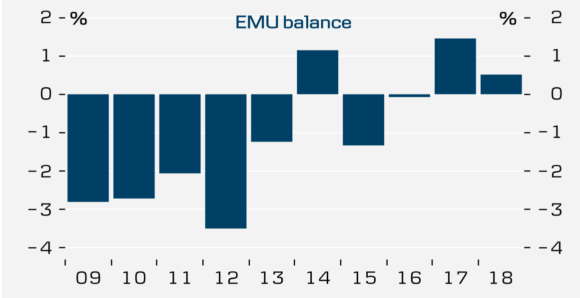
Shipping has had a tough year, as global trade growth has slowed. Shipping companies are particularly vulnerable to the trade war between China and the US, so if the two countries hammer out a deal later this year, as we expect, it would provide better conditions and shipping could pull service exports higher next year. However, any other outcome would be felt by Danish exporters.

We expect the economic cycle to right itself and thus provide reasonable conditions for export growth next year. Nevertheless, we estimate the upswing has peaked, so we will also probably have to get used to more modest demand growth for Danish goods and services, though the composition of exports may produce considerable fluctuations along the way.

Current account surplus structurally very high

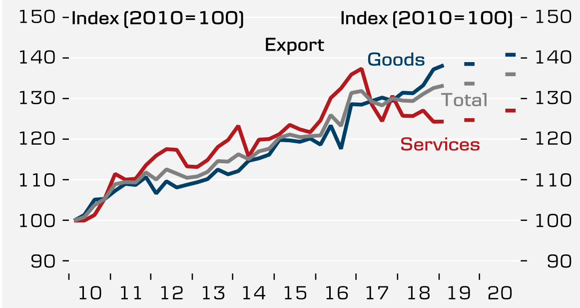
Solid export growth has also left its mark on the current account surplus, which has grown substantially of late after a year that has otherwise seen the lowest surplus when measured as a percentage of GDP in 10 years. The goods balance has been pulled higher by the significant growth in pharmaceutical exports in particular. However, the larger surplus is also due to shipping investments slowing from H1 2018, when Denmark imported DKK23.5bn in ships and planes. Companies have been hesitant to invest in machinery in this upswing, though business investment is not particularly low overall. During our forecast period, we expect investment to be supported by labour being relatively scarce, meaning investment may be necessary to expand corporate production capacity. However, we estimate that peak global growth is now behind us in this upswing, so we are not counting on any substantial increase in import demand through that channel. 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 6.2% of GDP this year and 6.6% in 2020.

Danish government finances in fine fettle



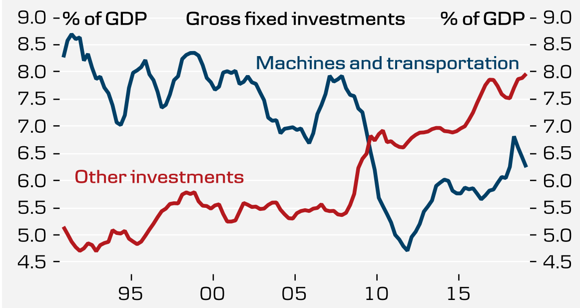
Source: Statistics Denmark, Macrobond Financial

Modest export growth ahead



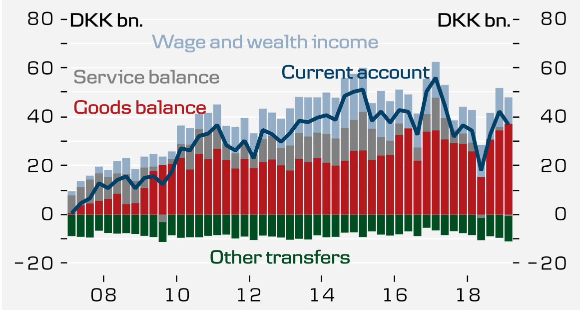
Source: Statistics Denmark, own calculations, Macrobond Financial

No longer a backlog of investments



Note: 4 quarters' moving average
Source: Statistics Denmark, Macrobond Financial

Larger plus on goods balance has pulled current account surplus up



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	1016.8	2.3	1.5	2.3
Government consumption	546.5	0.8	0.4	0.5
Gross fixed investment	491.9	5.1	-1.6	3.0
- Business investment	308.9	6.4	-4.1	3.5
- Housing investment	107.7	4.8	3.5	2.0
- Government investment	75.4	0.0	1.7	2.5
Growth contribution from inventories	0.1	0.1	0.4	-0.1
Exports	1212.9	0.6	2.3	1.7
- Goods exports	772.3	3.0	3.9	1.6
- Service exports	440.6	-3.2	-0.8	1.9
Imports	1094.4	2.7	1.7	2.1
- Goods imports	677.7	3.2	1.3	2.2
- Service imports	416.7	2.0	2.5	2.1
GDP	2218.3	1.4	1.7	1.6

Economic indicators	2018	2019	2020
Current account, DKK bn	127.4	141.3	153.6
- % of GDP	5.7	6.2	6.6
General government balance, DKK bn	11.3	10.8	0.1
- % of GDP	0.5	0.5	0.0
General government debt, DKK bn	757.4	740.0	739.5
- % of GDP	34.1	32.5	31.5
Employment (annual average, thousands)	2971.6	3015.9	3051.4
Gross unemployment (annual average, thousands)	108.0	102.8	102.2
- % of total work force (DST definition)	3.9	3.8	3.8
Oil price - USD/barrel (annual average)	71	72	80
House prices, % y/y	3.8	2.8	2.5
Private sector wage level, % y/y	2.2	1.8	2.0
Consumer prices, % y/y	0.8	1.0	1.3

Financial figures	17/06/2019	+3 mths	+6 mths	+12 mths
Lending rate, % p.a.	0.05	0.05	0.05	0.05
Certificates of deposit rate, % p.a.	-0.65	-0.65	-0.65	-0.65
2-yr swap yield, % p.a.	-0.26	-0.25	-0.25	-0.25
10-yr swap yield, % p.a.	0.33	0.20	0.20	0.30
EUR/DKK	7.47	7.46	7.46	7.46
USD/DKK	6.66	6.49	6.38	6.37

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

Sweden

Domestic demand at crawl speed

- **Domestic demand is moving at a crawl, as investment slows and consumers buckle.**
- **No spillover from new flats - stable outlook for successions market.**
- **Something fishy with foreign trade.**
- **Strong headwinds for inflation this summer.**
- **Rates lower and SEK weaker, forever?**
- **Limited scope for fiscal stimulus, despite significant potential.**

Over the past couple of quarters, GDP growth has been stronger than expected. However, the source of most of this growth has been either foreign demand or inventory build-up. A divergence between final domestic demand and GDP has emerged. The former can be viewed as ‘core GDP’, driven by important factors such as private consumption and gross fixed investments, of which dwellings are an important part. In essence, we expect core GDP to grow only slowly in coming quarters. In our view, it is likely to mirror the growth path seen in 2012-13.

Investment activity slowing

Overall investment activity in Sweden slowed in 2018 and might actually decline slightly this year. While investments in the services industries appear to have declined a little, investment activity is still rising in goods industries. Public investment continues to grow on the back of population growth.

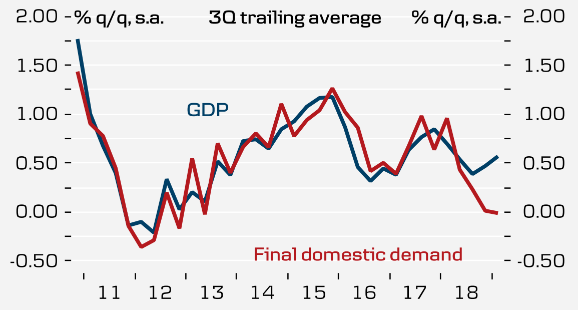
That said, the big threat to this outlook stems from investment in dwellings. In Q1, the correction in the housing market pulled down investment by 11% y/y. We expect investment activity to decline much further, by around 30% over a two-year horizon. This view is rooted in the assumption that an oversupply of expensive new flats will enter the market this year and that demand for these flats, primarily in Stockholm (and possibly Gothenburg), is limited. Not everything is dark though. Reduced expectations for Riksbank rate hikes and still decent employment growth have bolstered secondary market flat prices more than we had expected. In addition, multi-family dwelling starts are seeing some positive momentum again. However, as growth in both the total population and the working age population peaked in 2017, it seems reasonable to us to expect dwelling investments to slow in coming years.

At a glance

Sweden	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP, calendar adjusted	1.3	1.5	1.0	1.5
Private consumption	0.4	1.8	0.8	1.6
Public consumption	0.6	1.5	0.6	1.5
Gross fixed investment	-0.9	0.6	-0.3	1.7
Exports	4.4	3.3	4.1	3.2
Imports	2.0	2.6	3.2	2.8
Unemployment rate	6.6	7.1	6.6	7.1
Inflation	1.7	1.5	1.7	1.5
Government balance, % of GDP	0.1	0.5	0.1	0.5
Current account, % of GDP	4.0	4.1	4.4	4.2

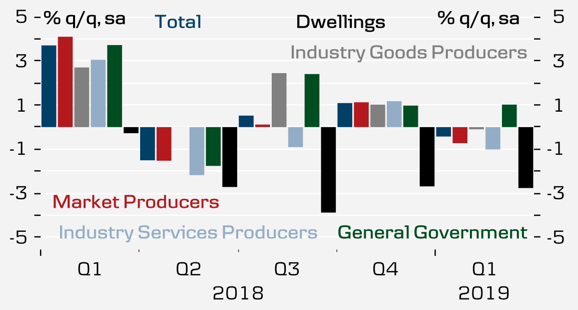
Source: Danske Bank

On average no growth in domestic demand in past three quarters



Source: SCB, Danske calculations

Investment activity in general has slowed over past year



Source: SCB

Even though we still find it reasonable to expect some further downward pressure on new flats prices, we change our view on the outlook for the secondary market. The spillover from declining prices on new flats to existing flats has not developed as we had expected and we have to conclude that prices have stabilised on the latter. This does not mean that we are 'bullish'. 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.

Consumers buckle as uncertainty rises

Consumer spending slowed considerably in 2018, partly because of new car taxes hitting the automobile segment, partly because of a deteriorating wealth situation. Following the 2017 decline, property prices have been stable and the outlook for the stock market has been very uncertain and volatile. However, consumers have probably also gradually become aware of deteriorating real wage growth and a more uncertain labour market outlook. According to the latest data, i.e. the April consumption indicator, year-on-year growth returned to zero.

It is not clear to us what is causing the current rather odd situation with weak consumption growth and a gradually more upbeat view on (secondary market) property prices. Is it possible that consumers are choosing to put their money into a home and cutting back on other spending instead?

Growth in working hours and employment is still solid at around 2% y/y. However, it is evident to us that the tide is slowly turning for the worse. New jobs vacancies are on a slippery slope and redundancies show a tendency to increase. As yet, this is very tentative but the signs are there.

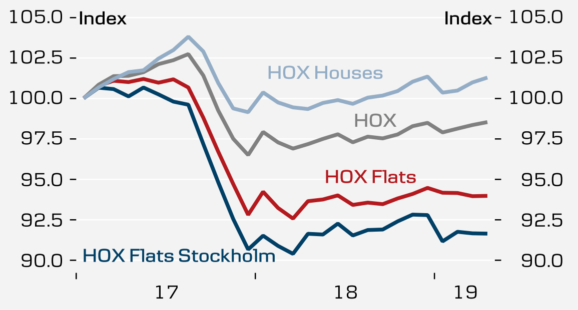
In our view, a more pronounced deterioration in the labour market is the biggest risk for consumers and the Swedish economy. If this risk is being realised, it is probably because of a global rather than a domestic setback.

Something fishy with foreign trade?

Over the past three quarters (up to Q1 19), net exports have been a significant contributor to GDP, adding around 0.5 percentage points on average to quarterly growth. Since the turn of the Millennium, there has only been one occasion (Q2 01-Q4 01) when there has been a bigger contribution over three quarters. Most of the contribution has actually been net exports of services, rather than net exports of goods. Before moving on, it should be noted that Q1 19 is slightly different compared with the previous quarters in the sense that both goods and services imports fell, contributing to quarterly GDP by +0.3 percentage points. It is not entirely clear to us that we should see this as positive for the outlook.

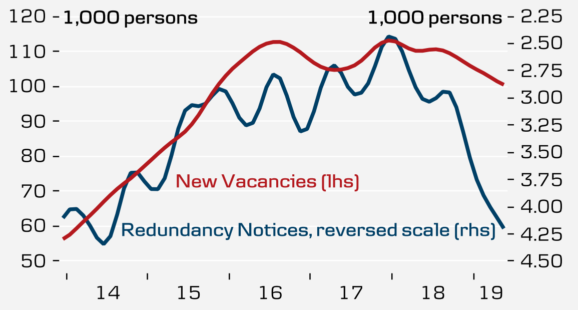
One thing to note is that trade statistics in the national accounts and current account statistics differ in particular for services. A significant spread between these definitions appears to have occurred since 2017 (see chart on the right). If the national account shows a more correct picture, the current account may have been understated. If it is the other way around, then GDP growth may be slightly overstated.

Surprisingly resilient property prices



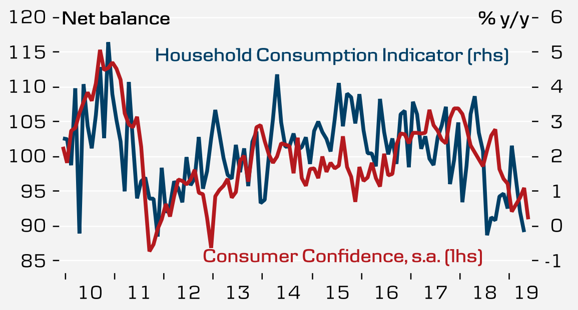
Source: Valueguard

Early labour market warning signs



Source: PES, SCB

Consumers feeling the pinch



Source: NIER, SCB

As Sweden is not known as a services exporter, this begs a question about what is driving net services exports. According to current account statistics, the major positive (surplus) contributors are telecom/info services, intellectual property and financial services, while the major negative (deficit) contributors are business services, travel and construction services. However, the recent improvement in overall net services is a mix of these factors and there is no apparent trend, with one possible exception, travel, which shows a smaller deficit. This may be because the SEK weakening is making foreign travel more expensive for Swedes.

Without taking any strong position, we can at least conclude net exports have shown an unusually strong contribution to growth over the past couple of quarters and that services have played an important part in this. Seeing yet another quarter of positive contribution would be truly exceptional. The previous time we saw this was in Q4 92-Q4 93, when the SEK abandoned the fixed rate regime.

Debt anchor playing second fiddle

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 not until actual debt deviates by 5 percentage points from the target, something need to be done. Options here range from either reducing the 35% target to say 30% (which seems to be the ‘default’) or abandoning the surplus target temporarily (spending more/cutting taxes) until the 35% is attained again.

It seems to be the case that neither the government nor the opposition intends to use the significant potential for public investments (>SEK200bn accumulated over the next four years) that is available. For instance, there could be transfers from the central budget to municipalities paying for investments. However, the 0.3% surplus target still appears to dominate the debt anchor, at least in the minds of Swedish politicians. The mindset still seems to us to be that higher taxes or lower spending elsewhere within the central budget must pay for every reform affecting the central government budget.

Current, the prospects for significant fiscal stimulus are limited.

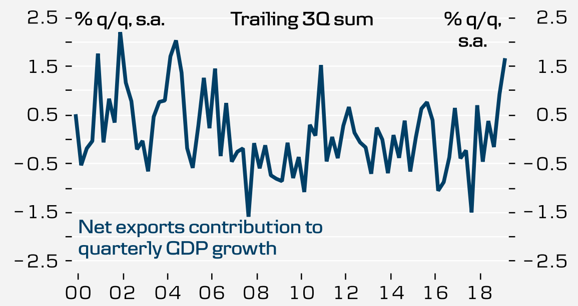
Strong headwinds for inflation in summer months

At the time of writing, CPIF inflation is still quite close to target but CPIC excluding energy is still too low for comfort and the overall outlook is gradually deteriorating.

May inflation turned out spot on the Riksbank’s forecasts. In June and July, charter prices generally rise sharply, which is part of our forecast. However, several travel agencies have reported bookings 10-15% below those seen in 2018. It remains to be seen whether this tendency means less upward pressure on charter prices than normal in June and July, Sweden’s main holiday months.

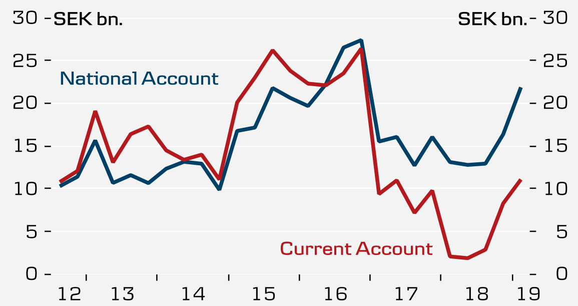
In addition, it seems energy too may be important. Electricity prices have plunged well below 2018’s level in early June and lower global oil prices have caused significant price cuts on car fuels in June. Energy prices are inherently volatile but should these levels persist, we believe CPIF inflation is likely to slow to around 1.5% y/y.

Significant contribution to GDP from net exports over past three quarters



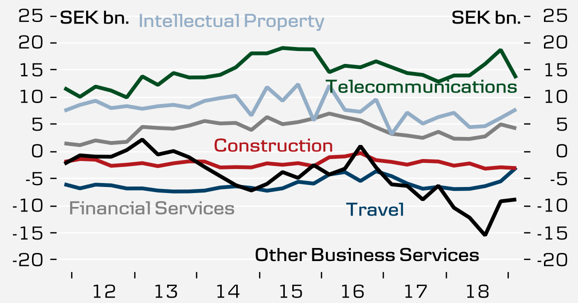
Source: SCB, Danske calculations

Is current account net services too low or national account too low?



Sources: SCB

A mix of factors behind recent improvement in net services exports



Source: SCB

The debt anchor and the Maastricht debt

NIER	2018	2019	2020	2021	2022	2019-2022
GDP, current prices	4,791	4,961	5,115	5,300	5,488	
Mastricht Debt						
Public Sector	1,864	1,718	1,758	1,785	1,820	
% of GDP	39	35	34	34	33	
Central Government	1,196	1,011	1,012	996	996	
% of GDP	25	20	20	19	18	
Municipalities	668	707	746	789	824	
DA at 35 %	1,677	1,736	1,790	1,855	1,921	
"Reform space"		18	32	70	101	221
% of GDP		0.4	0.6	1.3	1.8	

Source: NIER, Danske calculations

The more fundamental problem concerning the inflation outlook is, as has been the case for many years, the lack of domestic wage cost pressures. Recent signals from employer and employee organisations do not suggest any great change. The export-oriented industry negotiations, which are the 'mark' for the domestic sectors, are likely to end up at central agreements just above 2% y/y. In our opinion, the agreement will probably be for three years, unless the economic outlook weakens drastically, in which case we believe a shorter deal is more probable. This is set to be a more important subject in the two editions of *Nordic Outlook*, as we approach the start of negotiations in the next wage round (late Q1 20).

Rates lower and SEK weaker forever?

Both an increasing number of softer central banks and a weaker inflation outlook are squeezing the Riksbank.

Even though the Fed has scaled back formal rate hikes and opened the way for possible rate cuts, it is still uncertain whether it will announce and cut rates later this summer/autumn. That said, the market now prices significant cuts for both this year and next and this is also what we at Danske Bank expect. In addition, the ECB has signalled a very dovish stance, reintroducing TLTROs and guiding for a postponement of rate hikes to mid-2020.

The Riksbank needs to take into account these signals. It surprised at the April meeting by being prematurely dovish – we had expect such a step to come later. Since then, as laid out above, major central banks have softened.

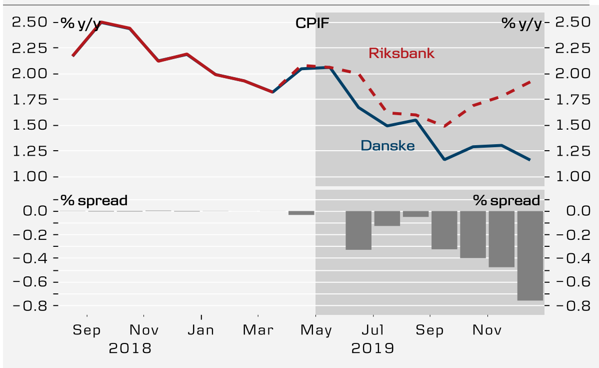
May inflation was in line with the Riksbank's forecast. The market reaction was negative (rates up, SEK stronger), albeit muted, as the market expected a significantly weaker outcome. Even after this outcome, markets price only a miniscule probability of a December 2019 rate hike, with almost no more up to September 2020. We expect underlying inflation, CPIF excluding energy, to settle just below 1.5% y/y as long as there is no change in wage growth. As mentioned above, we believe the chances of a change in wage formation early next year are slim.

Against the backdrop of an uncertain global and domestic economy, low international and domestic inflation pressures and softer major central banks, we expect the Riksbank to keep the repo rate unchanged in 2019 and probably in 2020. Should these factors change, we will adjust our outlook accordingly.

The Riksbank also surprised in April by extending the QE programme, which now runs to December 2020.

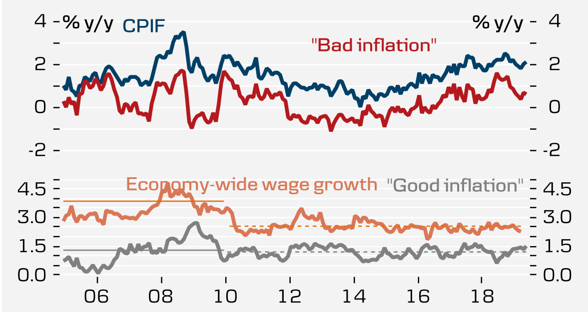
This scenario is nothing new. The Riksbank has postponed rate hikes for many, many years. The reaction in the FX market has usually been to weaken the SEK. Hence, the base case is that there is a risk of a chronically weaker SEK as long as the discrepancy between the inflation target and wage-driven domestic cost pressures prevails. A main uncertainty in this regard is the Fed's behaviour. If it cuts rates, the USDSEK might fall. However, if it does not, it might rise instead.

CPIF forecasts may be overly optimistic given drop in energy prices



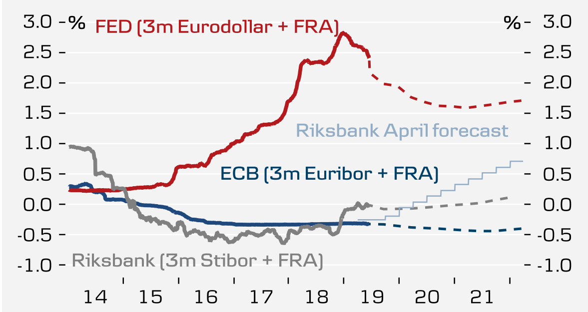
Source: Riksbank, Danske Bank

Slim chance of a change in the structural inflation problem



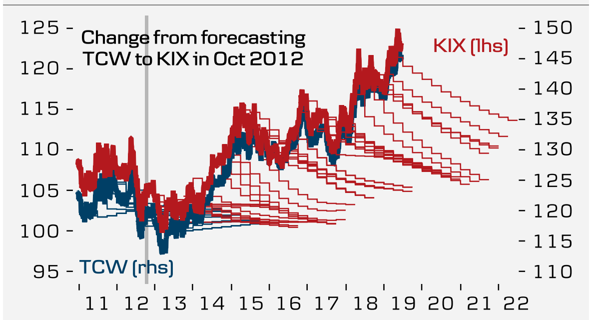
Note: "Bad inflation" (tax, energy and imported inflation) = reduces consumer purchasing power
"Good inflation" = wage driven, consistent with stable real wage gains
Source: SCB, Mediation Office, Danske Bank calculations

Almost no Riksbank hikes priced any longer



Sources: Macrobond Financial

SEK – ever weaker it seems



Source: Riksbank

At a glance

			Forecast	
National account	**2018**	**2018**	**2019**	**2020**
	SEK bn (current prices)		% y/y	
Private consumption	2114.5	1.2	0.4	1.8
Government consumption	1253.2	0.9	0.6	1.5
Gross fixed investment	1223.1	4.0	-0.9	0.6
Growth contribution from inventories	48.2	0.3	-0.1	-0.1
Domestic demand	4639.0	1.9	0.1	1.4
Exports	2253.0	3.9	4.4	3.3
Aggregate demand	6892.0	2.8	1.5	2.0
Imports	2102.1	3.8	2.0	2.6
Growth contribution from net exports	150.9	0.2	1.2	0.5
GDP	4789.9	2.4	1.3	1.7
GDP, calendar adjusted	4795.2	2.5	1.3	1.5

Economic indicators	**2018**	**2019**	**2020**
Trade balance, SEK bn	150.9	209.1	231.9
- % of GDP	3.1	4.3	4.7
Current Account, SEK bn	148.0	195.3	202.7
- % of GDP	3.1	4.0	4.1
Public sector savings, SEK bn	34.0	5.0	25.0
- % of GDP	0.7	0.1	0.5
Public debt ratio, % of GDP*	37.0	34.0	33.0
Unemployment, % of labour force	6.3	6.6	7.1
Hourly wages, % y/y	2.6	2.6	2.7
Consumer prices, % y/y	1.9	1.7	1.5
House prices, % y/y	-3.0	-3.0	-1.0
* Maastricht definition			

Financial figures	**17/06/2019**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	-0.25	-0.25	-0.25	-0.25
2-yr swap yield, % p.a.	-0.05	-0.15	-0.15	-0.20
10-yr swap yield, % p.a.	0.60	0.50	0.50	0.50
EUR/SEK	10.64	10.80	10.90	11.00
USD/SEK	9.49	9.39	9.32	9.40

Source: Danske Bank

Norway

Pressure building

- **Underlying growth has been largely as expected.**
- **Growth is broad-based but driven primarily by higher oil investment.**
- **Unemployment is still falling and the labour market is tightening significantly.**
- **Wage growth is therefore likely to rise further and may be higher than we previously anticipated.**
- **Inflation has continued to climb and has been above the 2% target since November.**
- **Norges Bank has clearly signalled a further rate hike in June, and we expect another one before Christmas barring global economic collapse.**
- **Lower oil prices and mounting global risks have weakened the krone since our March forecast.**

Domestic risks down, global risks up

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 couple of years. Stronger growth and fewer jobless have caused wages and inflation to accelerate, and we expect this trend will continue.

Both oil investment and fiscal policy actually look set to be stronger stimuli than anticipated in our March forecast.

Pressures in the labour market would also appear to be slightly stronger than suggested by simple indicators, and the risk to our wage growth forecast seems to be to the upside.

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

Upswing in oil-related industries stronger than expected

Growth in the Norwegian economy has held up well since our previous forecast. While mainland GDP climbed only a modest 0.3% q/q in Q1, this was due to pure supply-side factors hitting production in the power sector and agriculture. Allowing for this, there was growth of 0.8% in Q4 and 0.5% in Q1, which is well above trend. Growth was propped up by rapidly rising oil investment and a solid increase in private consumption despite the retail downturn.

It is also worth noting that housing investment has begun to pick up, reducing much of the downside risk to the Norwegian economy. On the other hand, declining investment in the rest of the business sector and in the public sector has weighed on growth.

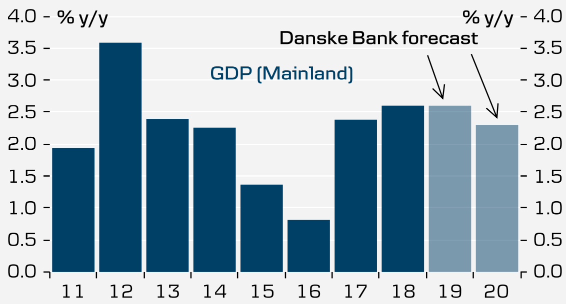
Norges Bank's latest regional network survey indicates that growth will hold at around 3% for the rest of this year. This is slightly higher than in the previous

At a glance

Norway				
	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP (mainland)	2.6	2.3	2.6	2.4
Private consumption	2.0	2.4	2.0	2.3
Public consumption	1.7	1.7	1.8	1.8
Gross fixed investment	4.8	3.0	4.7	1.8
Exports	3.0	3.5	3.5	3.0
Imports	3.3	2.7	3.0	3.0
			0.0	0.0
Unemployment (NAV)	2.3	2.2	2.3	2.2
Inflation	2.5	1.7	2.2	1.7

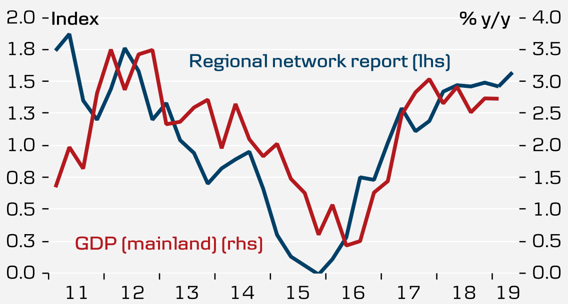
Source: Danske Bank

Growth remains above trend ...



Source: Macrobond Financial, Danske Bank

...and appears to be picking up



Source: Macrobond Financial, Danske Bank

round of the survey and suggests that growth will not only hold up but actually accelerate despite the global slowdown.

As anticipated, expectations were buoyed by a further improvement in the growth outlook for oil-related industries and construction, while exporters now anticipate somewhat weaker growth. Somewhat surprisingly, the outlook for retail improved slightly, but this does come on the back of a relatively weak period. Capacity utilisation climbed to 41.68, its highest level since November 2012, suggesting that pressures in the economy may be slightly stronger than anticipated.

In the latest investment survey, the oil companies estimated investment of NOK183.7bn in 2019, which is NOK11bn more than in the previous survey. In isolation, the survey now suggests investment growth of around 20% this year, but we would anticipate something more like 15% given the rise in capacity utilisation. The oil companies' estimate for 2020 is naturally very uncertain, but is more than 10% 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 remaining downside risk to the Norwegian economy. We tentatively forecast that oil investment will rise by 3-4% next year.

It now seems that fiscal policy will be more expansionary than expected. The Ministry of Finance estimates a fiscal stimulus of 0.5% of mainland GDP, in a year when capacity utilisation will be higher than normal and growth above trend. Although the increased fiscal stimulus is down to a number of technical factors that led to lower public spending last year, it does not change the likelihood that fiscal policy will make a bigger contribution this year.

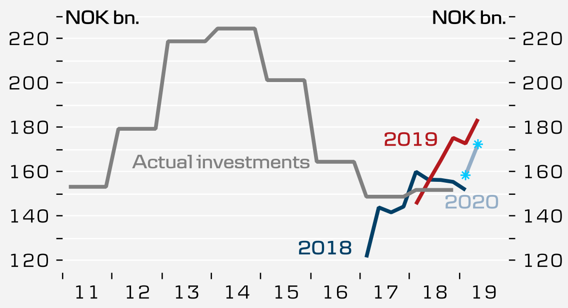
Developments in recent months lend support to our assumption that the decline in retail sales late last year and early this year was partly a result of higher energy prices. Continued strong growth in consumption of services also points to further solid growth in purchasing power. Our calculations suggest that, with power prices more or less normalising during the course of this year, headline inflation will drop well below 2% by the end of the year, taking growth in household real disposable income in 2019 to more than 2.5%. With a moderate rise in the savings rate, this means that private consumption would increase by just over 2% this year.

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

Overall investment in the construction sector still looks likely to be a fair bit higher than in 2018. This is due to a combination of residential construction stabilising, stronger growth in commercial construction and, not least, further strong growth in infrastructure investment due to projects in both the public sector and the power sector.

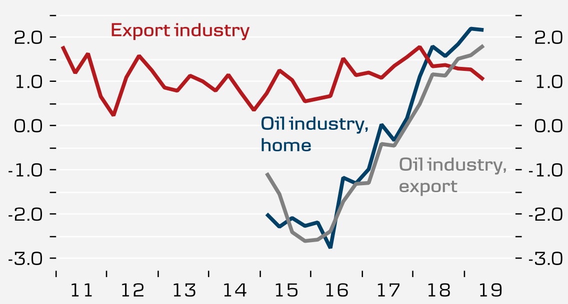
Mainland exports have performed surprisingly well so far during the global slowdown, climbing more than 8% y/y in the first quarter. This is probably due not only to the weak krone cushioning the effects of weaker global growth, but also to parts of the export industry having exposure to global oil investment. The regional network survey is now suggesting a slightly weaker outlook for

Oil investments higher than expected



Source: Macrobond Financial, Danske Bank

Oil industry countering slowdown in exports



Source: Macrobond Financial, Danske Bank

exports, and we have revised down our estimates somewhat in light of China and the US failing to reach a trade deal.

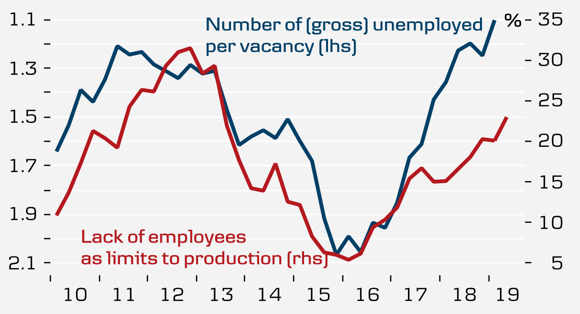
All in all, we have made only marginal changes to our growth forecast this time around. We still anticipate mainland GDP growth of 2.6% this year, but have revised our estimate for next year down very slightly to 2.3%.

Just how tight is the labour market?

Unemployment has come down more or less as expected since our March forecast, and the registered unemployment rate stood at 2.3% in May. Gross unemployment, which also includes job creation schemes, has fallen below 78,000, which is 7-8,000 less than a year ago.

In its latest economic survey of Norway, the OECD noted that shortages of labour may be holding back economic growth. However, only 23% of firms in the regional network are reporting labour shortages as a constraint on production. While this is a much higher percentage than during the oil crisis, when it fell to 5%, it is still a fair way below the levels seen during the last oil boom in 2012, when it climbed above 30%, and a long way below the more than 50% seen in 2007.

Labour market at pre-finance crisis levels of tightness



Source: Macrobond Financial, Danske Bank

However, a closer look at some other labour market indicators suggests that the market may be somewhat tighter than the regional network is indicating. For one thing, Norges Bank's estimates of both the output gap and general capacity constraints in the Norwegian economy suggest that overall pressures are currently very close to the situation seen in 2012-13.

Of course, there is nothing to say that labour shortages have to be as precarious as capacity in general, but other labour market indicators paint the same picture. For example, the UV ratio – the number of unemployed per vacant position – has now dropped below 1.1 for the first time in the history of the statistics, well below the level of 1.2 seen in 2012-13. The Norwegian Labour and Welfare Administration (NAV) tightness indicator, which shows firms' recruitment needs relative to current employment in different professional groups, is also much higher than in 2012.

In its December 2018 monetary policy report, Norges Bank presented the results of an analysis of how firms in its regional network viewed capacity utilisation and labour shortages in the November survey. Around half of all firms reported difficulties recruiting at least one type of employee, and around 30% responded that they hire contractors or outsource part of their operations in such a situation.

Wage growth picking up noticeably

The clearest sign that the labour market is really beginning to tighten, however, is what is happening to wages. In the biggest pay settlement, In the central wage negotiations, the parts agreed on a target this year of 3.2%, but this assumes lower wage drift than last year, which is ambitious given a tighter labour market and slightly improved profitability in the business sector.

Other pay settlements, in both the private and public sector, 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 are showing wage growth of 3.2% y/y as early as the first quarter. Including variable components (bonuses etc.), wage growth was actually up at 3.5%. This is the highest since 2013 and confirms other indications that the labour market was as tight at the beginning of this year as it was in 2013.

We are therefore sticking with our wage growth forecast of 3.3% for this year, up from 2.8% last year, with the risk very much to the upside.

Moving on to prices, headline inflation has continued to exceed expectations since our March forecast, but core inflation fell back to 2.3% y/y in May, with domestic inflation at 2.8% and imported inflation slowing to 1.3%. The considerable fluctuations since the start of the year are due to unusually strong effects from the New Year sales and price movements for Easter-related goods in March and April. Despite these monthly variations, there appears little doubt that core inflation is on the way up.

We expect this trend to continue over the course of the year. Higher capacity utilisation and lower unemployment will continue to push up wage growth. We expect domestic inflation will hold around 3% for the rest of this year. With the krone once again somewhat weaker than we had anticipated, imported inflation looks likely to hold firm.

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

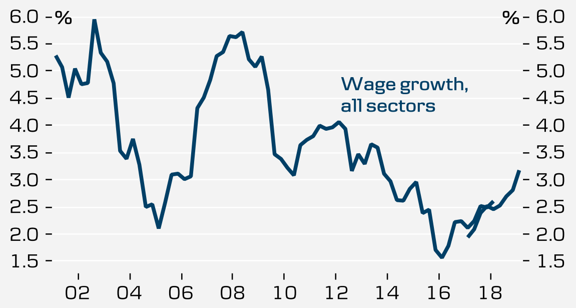
Housing market still nicely balanced

After levelling off towards the end of last year, housing prices have picked up again in 2019. There are still plenty of properties on the market, driven by strong growth in housing starts over the past two to three years. Demand has been strong enough to absorb this supply, however, and the stock-to-sales ratio has 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.

We expect housing prices to continue to rise more slowly in 2019. Due to strong growth in homebuilding in 2016 and 2017, there will still be a large number of new properties coming onto the market. We also expect mortgage rates to go up twice more this year, so there is little reason to expect housing prices to rise much faster than wages.

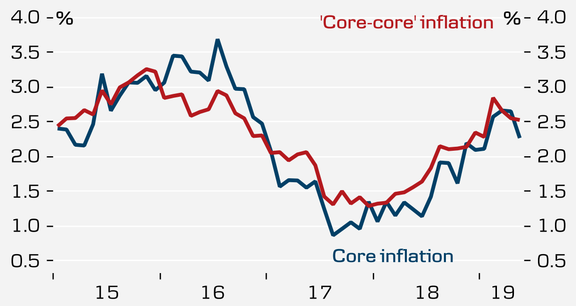
We still do not see any great risk of a serious downturn in the housing market, unless interest rates rise much further than we expect. Our calculations indicate that, even with debt at five times income, housing purchasing power will decrease by only 1pp with three rate hikes in 2019.

Wage growth rising as expected



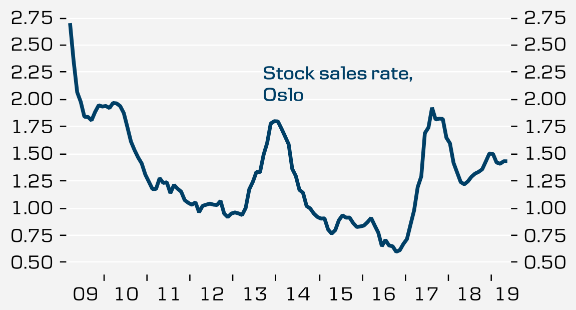
Source: Macrobond Financial, Danske Bank

Underlying inflation well over 2%



Source: Macrobond Financial, Danske Bank

Housing market well balanced



Source: Macrobond Financial, Danske Bank

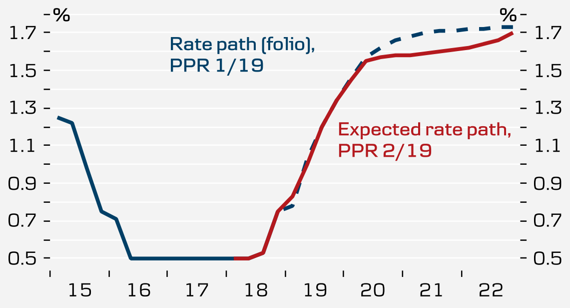
Two more rate increases this year

In its March monetary policy report, Norges Bank signalled around a 70% probability of the next rate hike coming in June and more than a 50% chance of a further hike before the year is over. In May, at one of the bank's interim meetings without a press conference or monetary policy report, governor Øystein Olsen said straight out: "The Executive Board's current assessment of the outlook and balance of risks suggests that the policy rate will most likely be raised in June."

Since that meeting, however, global risks have increased, and interest rate expectations for Norway's trading partners have fallen further. At the margin, these expectations will also exert downward pressure in Norway. On the other hand, as discussed above, the outlook is for growth in the Norwegian economy to accelerate and for capacity utilisation, wages and prices to rise further, which points towards expectations reflecting further rate increases this year.

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

Norges Bank keeping to plan



Source: Macrobond Financial, Danske Bank

Will the krone finally recover?

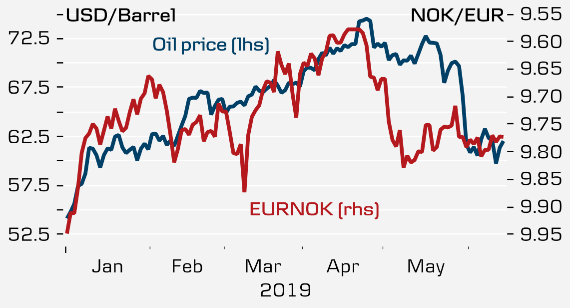
Once again, the krone has been much weaker than we anticipated. Part of the reason, however, has been more fundamental, with oil prices down to around USD60 per barrel. We are also seeing signs of a reduced appetite for risk in global financial markets undermining the krone.

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

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

We therefore forecast an exchange rate of 9.30 to the euro in a year's time.

NOK weakness largely driven by lower oil price



Source: Macrobond Financial, Danske Bank

At a glance

National account	2018	2018	2019	2020
			Forecast	
	NOK bn (current prices)		% y/y	
Private consumption	1532.9	2.0	2.0	2.4
Public consumption	830.6	1.2	1.7	1.7
Gross fixed investment	849.3	1.0	4.8	3.0
Petroleum activities	154.1	2.7	15.0	3.0
Mainland Norway	693.7	1.1	2.5	1.5
Dwellings	192.3	-6.0	0.8	2.0
Enterprises	309.3	2.6	3.7	3.0
General government	192.1	6.8	2.4	1.5
Mainland demand	3057.2	1.6	2.4	2.0
Growth contribution from stockbuilding		0.0	-0.2	0.0
Exports	1347.5	-0.7	3.0	3.5
Crude oil and natural gas	570.0	-4.7	-1.0	4.0
Traditional goods	413.3	2.7	4.2	3.2
Imports	1151.1	0.6	3.3	2.7
Traditional goods	689.2	2.5	4.0	2.5
GDP	3537.1	1.4	2.5	2.8
GDP Mainland Norway	2908.0	2.2	2.6	2.3

Economic indicators	2018	2019	2020
Employment, % y/y	1.5	1.4	0.9
Unemployment (NAV), %	2.4	2.3	2.2
Annual wages, % y/y	2.8	3.3	3.8
Consumer prices, % y/y	2.7	2.5	1.7
House prices, % y/y	0.7	2.0	2.5
Core inflation	1.6	2.5	2.1

Financial figures	17/06/2019	+3 mths	+6 mths	+12 mths
Leading policy rate, % p.a.	1.00	1.25	1.50	1.75
2-yr swap yield, % p.a.	1.73	1.90	2.10	2.25
10-yr swap yield, % p.a.	1.84	2.00	2.10	2.25
EUR/NOK	9.77	9.60	9.40	9.30
USD/NOK	8.71	8.35	8.03	7.95

Source: Danske Bank

Finland

End of austerity

- **The Finnish economy is slowing down after a three-year strong expansion. GDP grew 2.4% in 2018, largely on the back of consumption and investment. A significant rise in inventories and statistical difference blurred the reasonably strong H2 figures. Economic sentiment cooled a bit in early 2019 and we make downward revisions to our GDP forecast.**
- **Consumer confidence has weakened but purchasing power continues to grow on the back of strong employment and rising wages. We expect private consumption to be a key growth driver in 2019 and 2020.**
- **The outlook for the export industries is subdued. Finland's exposure to Brexit and the ongoing trade war is relatively modest, but headwinds from the weaker European outlook weigh on exports.**
- **The Finnish housing market is stable but the increasing supply of new housing is likely to prevent prices from rising. The market is strongly divided geographically. Construction is set to cool down towards the end of 2019.**
- **The debt-to-GDP ratio has improved for three consecutive years thanks to solid economic growth and increased tax revenue. Improvement is set to continue but the progress will be slower than previously anticipated due to the more expansionary fiscal policy of the newly appointed government.**

At a glance

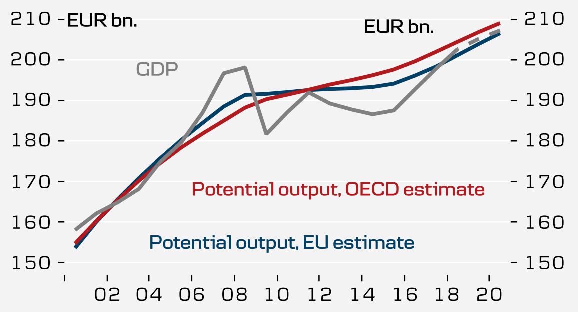
Finland	Current forecast		Previous forecast	
% y/y	2019	2020	2019	2020
GDP	1.3	1.0	1.7	1.2
Private consumption	0.8	1.2	1.6	1.3
Public consumption	0.5	1.5	0.5	0.5
Gross fixed investment	0.0	1.0	1.0	1.0
Exports	3.0	2.0	2.5	2.0
Imports	2.0	2.5	3.0	2.0
Unemployment rate	6.5	6.4	6.5	6.4
Inflation	1.2	1.5	1.3	1.5
Government balance, % of GDP	-0.3	-0.2	0.0	0.1
Current account, % of GDP	-1.7	-1.4	-1.5	-1.2

Source: Danske Bank

Looking for a soft landing

Finland's economy is slowing after a three-year strong expansion. GDP grew only 1.2% y/y in Q1 19, after a brisk 2.4% growth in 2018. Consumption and investment were the main growth engines in 2018, while contribution from net exports was negative. Year 2019 had a weaker than expected start, because private consumption sank 1.2% q/q. Net exports turned positive partly thanks to weaker imports. Economic sentiment cooled a bit in early 2019 and the change in government adds some uncertainty about the future fiscal policy. Despite the weak Q1, we continue to see moderate strength in domestic demand.

Output gap is more or less closed



Source: Macrobond Financial data, Statistics Finland

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

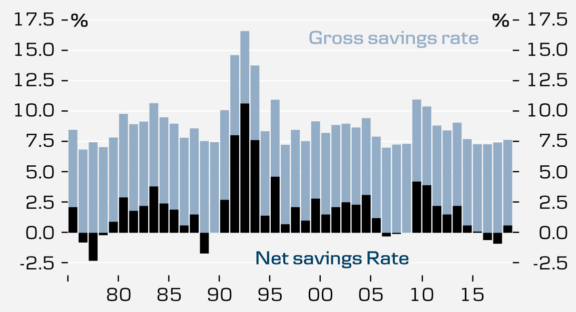
The output gap of the Finnish economy has basically been closed and the period of rapid cyclical recovery is now over. Finnish GDP finally surpassed the pre-financial crisis peak production level in Q1 18, although GDP per capita is still considerably below its previous record. Finland lost potential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

In H2 19, growth in GDP is likely to rely increasingly on domestic factors, especially private consumption. Our forecast for 2019 is 1.3% (was 1.7%). In 2020, we expect the economy to grow 1.0% (was 1.2%), which means a slowdown to slightly below trend growth. Risks are heavier on the downside. Maintaining higher than 1.5% growth will become increasingly difficult due to demographics. Working age population is shrinking and unemployment is close to or below structural level. Improving growth potential depends partly on structural policies and the labour participation rate, which is below other Nordic countries. Investment in R&D has stayed low compared with history, which may imply a lacklustre rise in productivity. Worryingly, labour productivity fell in 2018.

Consumers getting thriftier

A combined effect of improving employment, rising wages and low inflation should support private consumption in 2019. The unemployment rate is decreasing and nominal wage growth exceeds inflation into the near future. The interest rate burden is set to remain extremely low in the near term, which helps to manage the debt burden. Households took more debt during the long recession after the financial crisis, but recently households have turned more cautious on additional debt. The debt to disposable income rate fell in 2018. Consumer confidence has decreased in recent months. Households are confident about their personal finances and employment security but are more reserved about the general macroeconomic outlook. All in all, households' financial situation is improving, but they tend to save more than before.

Household savings rate back to positive territory

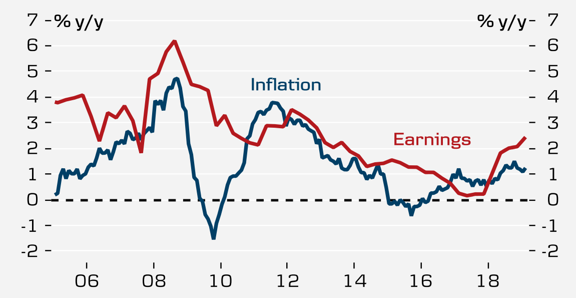


Source: Macrobond Financial data, Statistics Finland

Private consumption contracted by 1.2% q/q and by 0.6% y/y in Q1. It is clear that car sales were hit by uncertainty over taxation, but surprisingly also consumption of non-durable goods was weak. Volume of services increased and business confidence in the service industry remains high. The reported weakness in Q1 was partly temporary - in our view - and we expect clear growth in private consumption during the rest of 2019. Part of the purchasing power flows also to global internet retailers. This competition makes life tougher for domestic retail chains.

The savings rate went up from unusually low figures in 2018. The net savings rate was negative in 2016-17. A reversal in the decreasing savings rate is welcome considering that an increasing share of household consumption has been financed using debt. The indebtedness rate fell in 2018 and household debt compared with disposable income is not exceptionally high in an international comparison. Due to low interest rates, the interest-rate burden on households is very low. Consequently, we believe that the risks in the household sector's finances are still moderate. In principle, exposure to rising rates may become a more significant factor later in 2020s given that in Finland most loans for households link to variable Euribor rates. Some indicators show increasing risk taking; payment difficulties have increased especially on instant-loans and rapid growth of housing company debt has fuelled worries about new kind of risks.

Earnings growth is rising



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 as of 1 July 2018. The maximum amount of housing loan was capped at 85% of the current value of the collateral posted at the time of loan approval. The new regulation will not apply to first-time buyers for whom the LTC ratio remained unchanged at 95%. As for consumer lending, which is growing considerably faster than housing loans, Fin-FSA has few tools. A positive credit register is one tool under consideration and has widespread support but progress is likely to take some time.

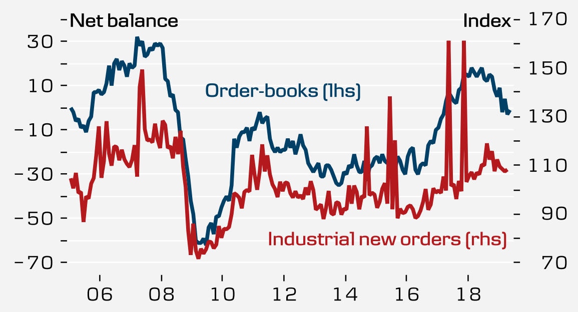
In 2020, we expect modest growth in private consumption to continue and domestic demand is set to support the Finnish economy. Wage growth together with low inflation and a rise in employment is helping consumers. We expect private consumption to follow the development in earnings relatively closely in 2020, although we cannot rule out a further rise in savings rate. Domestic demand is important, but wage increases staying modest would help to maintain manufacturing industry price competitiveness in tough export markets.

Exports not immune to the trade war

Global trade weakening is taking its toll and export growth has generally been slower in recent months. Some unusually large items, like a cruise ship delivered to Germany, kept exports growing strong in Q1 19, however. The volume of exports increased by 3% q/q and by 4% y/y in the first quarter. At the same time, the volume of imports contracted by 2% y/y. Thus, net exports had a strong positive impact on GDP. We expect rest of the year to be more balanced, although another ship delivery is set to boost exports late 2019.

Preliminary customs information from April 2019 indicates that the value of Finnish exports decreased by 3%, while the value of imports increased by 5% y/y in April. Exports to EU member states decreased by 12%, while exports to non-EU countries increased by 12%. Finland's main export markets in the EU are slowing down and exports to Russia remained at a low level. Finnish export industries continue to benefit from improved price competitiveness, which was achieved through an internal devaluation, and we expect the global demand environment to remain solid enough to bring new orders to fuel some positive growth. Nevertheless, the rapid recovery for export industries is behind us and we expect net exports to play only a minor 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 3.0% in 2019 and 2.0% in 2020. The main risks are a more pronounced slowdown in euro area growth and a hard Brexit.

Industrial orders past their peak

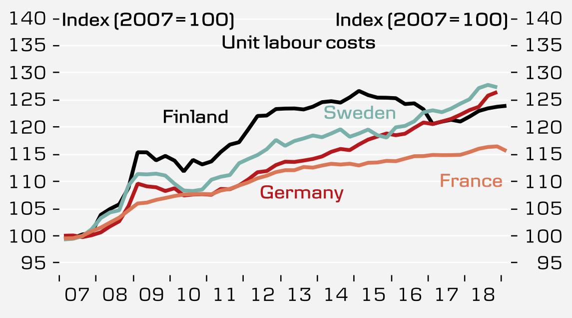


Source: Macrobond Financial data

Cautious investment outlook

In 2018, investments increased by 3.2%. Industrial investment was sluggish, the weaker global outlook probably contributed to the slowdown. Investment activity has been relatively weak for many years and capacity utilisation is running high, which possibly implies pent-up need to invest. Surveys for both larger and SME companies show interest in investment projects. A 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 how many forest resources can be tapped. Forests are growing more than total felling but climate change policy sees forest net growth as a significant carbon sink.

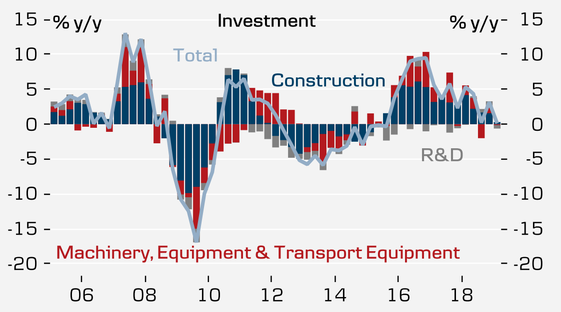
Internal devaluation restored price competitiveness



Source: Macrobond Financial data, Statistics Finland

The housing boom was one of the main drivers of recovery in the Finnish economy in 2016-18. In 2018, construction investment in housing grew at a rate of 5.4%. Growth slowed down towards the end of the year and we expect a further slowdown in 2019. The number of new housing permits has declined markedly and new starts have also peaked. The level of ongoing housing construction is still high and indicates increasing apartment supply in growth centres, especially the Helsinki region, in H1 19. The number of unsold apartments has already risen a bit and the risk of a housing overhang means construction companies are set to be cautious in H2 19. Caution probably leads to only a minor slowdown, because the growth of the urban population still creates demand for new housing in the medium term. The new government intends to spend more on infrastructure, which should stimulate construction in 2020-2023. In total, we expect fixed investments to remain flat in 2019 and grow 1% in 2020.

Investment activity

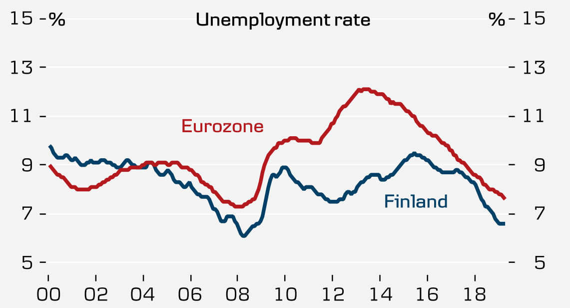


Source: Macrobond Financial data, Statistics Finland

Labour market losing steam

The past couple of years have seen a strong improvement in the Finnish labour market. Unfortunately, the fastest rise in employment has slowed down this year. The labour market is still strong but we have not seen much further decrease in unemployment or rise in employment during recent months. In April, the trend estimate for unemployment rate was 6.6%. The figure is high considering that 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 are typically between 7-8%, meaning that the labour market is tight already. Consequently, lack of skilled labour continues to be a major obstacle to growth and that it has become more difficult to fill vacancies in lower-skilled occupations as well. We expect the annual average unemployment rate to fall to 6.5% in 2019. The number of open vacancies has increased significantly, indicating that employment should continue to improve in the future. Given the high structural unemployment and lower growth trajectory, we forecast little further improvement in 2020.

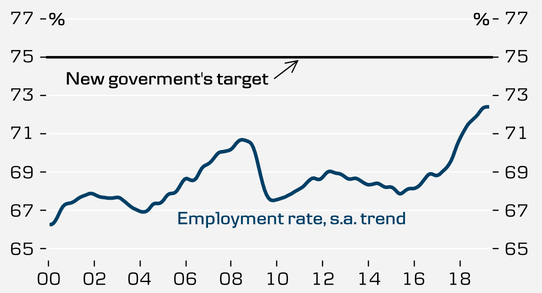
Unemployment rate nearly record low



Source: Macrobond Financial data, Statistics Finland

The employment rate has reached and even surpassed the official target level of 72% set for the past parliamentary term. In April 2019, the trend indicator of employment rate was 72.4%, which is 3.1pp higher than just two years ago. Largest increase has taken place for older groups of workers. In 2018, the progress was impressive but the employment rate has not risen since December. Current stagnation raises questions about the recently announced new target level of 75% set by the newly elected government. Some past policy changes are only gradually taking effect, which provides some reassurance for continuing improvement in the future but it is unlikely that the target will be reached without new measures. 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.

Employment rate has a long way to go



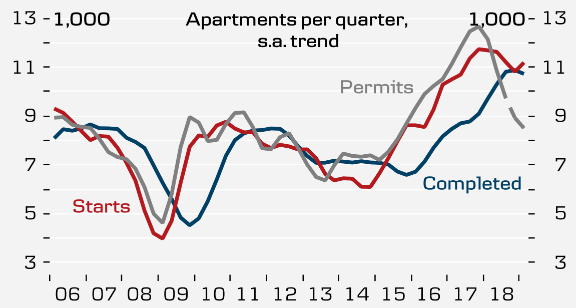
Source: Macrobond Financial data, Statistics Finland

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

Supply of housing continues to increase in 2019

Prices of old dwellings stayed unchanged in Q1 19. On average, prices grew 1.7% in the Helsinki region and declined by an equal amount in the rest of the country. For approximately the past five years, average house prices have only risen modestly in Finland and the 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 is likely to continue, although a strong supply of new housing in the Helsinki region is likely to lead to some cooling of the housing market also in the capital.

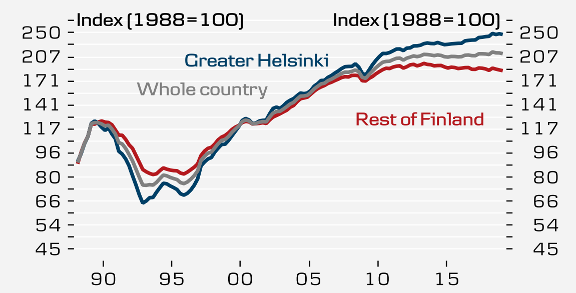
Supply of new housing set to peak in 2019



Source: Macrobond Financial data, Statistics Finland

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

Diverging housing prices



Source: Macrobond Financial data, Statistics Finland

Renting has become more popular among younger generations and the buy-to-let market has 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 moderated to only 0.9% in Q1 19. Supply of new housing is increasing significantly at the moment and this weighs on both prices and rents. The number of construction permits fell markedly in the fall and the number of new starts is gradually starting to decline. Construction companies have spotted a saturation in demand and are clearly cautious on new projects. However, the supply of new housing is likely to still rise towards the end of 2019. Despite the slowdown, the volume of construction is likely to stay at a historically high level. Urbanisation is set to continue in the future as well and the demand for new housing is not going away.

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

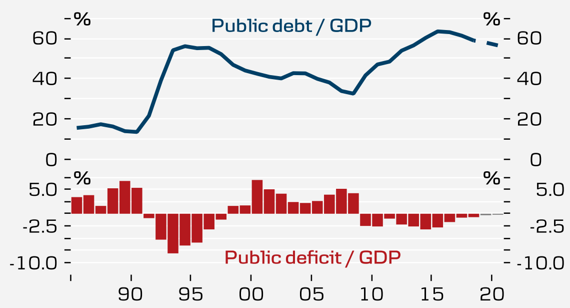
Public spending on the rise

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. However, the public debt has grown quite fast and the debt rose to over 60% of GDP for the first time in 2014.

Thanks to the economic recovery and some spending cuts, the growth of the general government debt has slowed down. The debt is still growing in absolute terms but the GDP growth has been considerably faster and the debt-to-GDP ratio is already down quite a bit from its peak level in 2015. Relative to GDP, the debt ratio continues to improve during the forecast period, albeit at a slightly slower rate than previously anticipated. The new government aims to run a more expansionary fiscal policy. 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 during the new parliamentary term and, simultaneously, GDP growth is slowing down. The budget is expected to run a small but persistent deficit during the forecast period. Even so, the debt-to-GDP ratio is estimated to fall to 57.3% by 2020.

Structural reforms are still needed to boost potential growth and improve labour participation in order to deal with the rise in age-related expenditure caused by an ageing population and rising dependency rate. Otherwise, the debt ratio is likely to start to rise again in the 2020s. The rating outlook is solid but the rating agencies are likely to need further evidence of sustained economic growth and successful structural reforms. It is unlikely that there will be quick changes in the credit rating to either direction. The much debated social and healthcare reform (SOTE) will once again be one of the main project for the new government but currently there is little discussion about the potential ways in which it could lead to needed cost savings. In theory, a successful healthcare reform could be one way of regaining an ‘AAA’ sovereign credit rating. However, it should be noted that the Finnish healthcare system is already quite cost efficient, so it is unclear how much potential there is to reduce healthcare costs with such a reform. When it comes to public finances, the new government is counting a lot on the notion that the employment rate will continue to improve during its parliamentary term. However, not many new labour market policies have been introduced so far and it may turn out that the current official projections are too rosy.

Debt-to-GDP improving slowly



Source Macrobond Financial data, Statistics Finland

At a glance

			Forecast	
National account	**2018**	**2018**	**2019**	**2020**
	EUR bn (current prices)	% y/y		
GDP	233.6	2.4	1.3	1.0
Imports	92.3	3.8	2.0	2.5
Exports	91.0	1.4	3.0	2.0
Consumption	177.9	1.4	0.7	1.3
- Private	124.8	1.4	0.8	1.2
- Public	53.0	1.4	0.5	1.5
Investments	52.6	3.2	0.0	1.0

Economic indicators	**2018**	**2019**	**2020**
Unemployment rate, %	7.4	6.5	6.4
Earnings, % y/y	1.8	2.5	2.5
Inflation, % y/y	1.1	1.2	1.5
Housing prices, % y/y	0.6	0.0	0.5
Current account, EUR bn	-4.4	-4.0	-3.5
- % of GDP	-1.9	-1.7	-1.4
Public deficit, % of GDP	-0.7	-0.3	-0.2
Public debt/GDP, % of GDP	58.9	58.3	57.3

Financial figures	**17/06/2019**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	-0.40	-0.40	-0.40	-0.40
2-yr swap yield, % p.a.	-0.32	-0.30	-0.30	-0.30
10-yr swap yield, % p.a.	0.25	0.15	0.15	0.25
EUR/USD	1.12	1.15	1.17	1.17

Source: Danske Bank

Global overview

Renewed trade dispute casts shadow over global economy

- Re-escalation of the trade war between China and the US and weakening market confidence are weighing on the global economic outlook.
- As a result, we have lowered our projections for global growth to 3.2% in
- 2019 and 3.4% in 2020, a downward revision of 0.1 percentage point for both years since the Nordic Outlook in March.
- We see a modest recovery in 2020 on the back of a trade deal between the US and China in H2 and further stimulus measures by China and US central banks.
- However, risks are skewed to the downside given the possibility of a lack of a China and US trade agreement (or even further escalation) and lack of timely policy action.
- The risk of a recession over the next year is, in our view, low given the muted inflation pressures making room for central banks to ease and low interest rates providing governments with room for further stimulus.

Global economic momentum weakening…

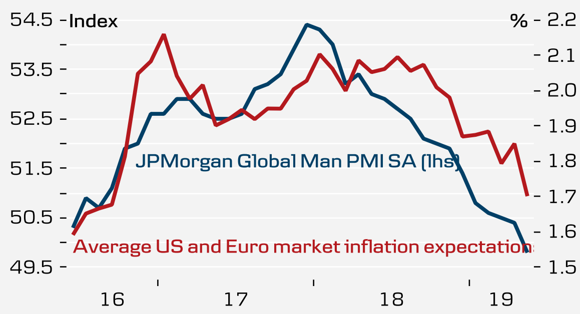
The moderation in the global economy in the first half of 2019 that we called for in *Big Picture – No recession yet*, 4 December, has indeed materialised. However, the downturn has been deeper than we thought. Financial markets confidence took a sharp dive in December following the softening outlook for the global economy and uncertainty about trade relations between the US and China. The slowdown has been evident in manufacturing PMIs, mainly in advanced economies, which have fallen, in particular, for the eurozone, albeit coming off of high levels.

In response to the weakening momentum in the global economy and sharply declining inflation expectations, major central banks reacted intensely at the beginning of the year. The US Federal Reserve lowered its rate expectations from two hikes in 2019 to no hikes and expecting only one hike from two hikes next year. The ECB announced new liquidity operations (TLTRO) and extended forward guidance in March. These efforts together with policy stimulus in China in H2 18 stimulated recovery in global risk sentiment in Q1.

…with renewed stand-off between US and China further challenging global outlook

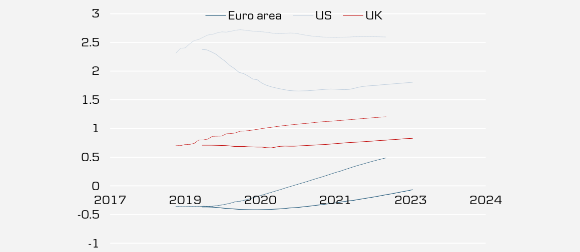
In April, the trade dispute between China and the US took a turn for the worse after President Donald Trump decided to slash tariffs on another USD200bn of imports from China. The US move was prompted by concerns about backtracking on the deal from the Chinese side. China retaliated immediately by levying tariffs on US exports. The new trade tensions throw into doubt the prospects of the two sides finding an agreement. However, we still think there is a good chance of an agreement in H2 but possibly only after a substantial deterioration in market sentiment and possible further trade war escalation with US imposing tariffs on the remaining USD300bn of imports from China over the summer.

Global economy and inflation expectations have dived over the past half year



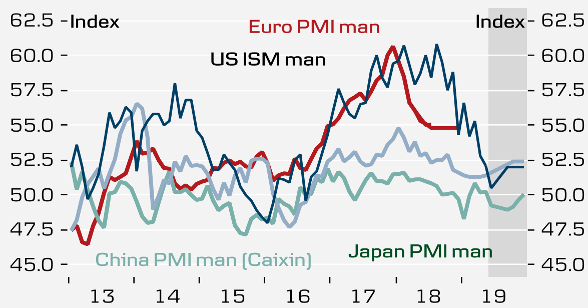
Note: The chart shows the money-market curves in the respective countries on 4 December 2018 and 28 May 2019; a downward shift indicates the market expects lower interest rates
Source: Macrobond Financial, Danske Bank

Leading to expectations of an easier monetary policy stance



Note: The chart shows the money-market curves in the respective countries on 4 December 2018 and 28 May 2019; a downward shift indicates the market expects lower interest rates
Source: Macrobond Financial, Danske Bank

A further fall in PMIs is expected in the coming months



Source: Macrobond Financial, Danske Bank

The uncertainty prompted by renewed trade tensions between the world's two biggest economies will weigh on investor sentiment. As a result, we see further downside for PMI manufacturing in the coming months, mostly in China but spilling over to the eurozone and other close China trading partners such as Japan and Australia.

As a result, we lower our global growth forecasts

Given the heightened uncertainty and delays in finding a China and US trade agreement, we lower our outlook for the global economy, expecting it to grow by 3.2% in 2019 compared with 3.6% in *Big Picture – No recession yet*, 4 December. However, in 2020, we expect the global economy to see a modest recovery due to a recovery in investment and private consumption on the back of a trade deal between the US and China and monetary stimulus measures in China and the US. As a result we see global growth rebounding slightly to 3.4% in 2020.

Muted inflation pressures keep central bank easing options open

Following the almost decade-long economic expansion, unemployment remains at record-low levels in advanced economies. Given the tight labour market, wage growth has continued to tick up, reaching the highest levels seen since the financial crisis. Despite the solid wage growth, inflation pressures remain muted in most advanced economies. Even in the US, despite being furthest into the business cycle and implementing a sizeable fiscal expansion in 2018, headline and PCE core inflation are only 1.7% and 1.5%, respectively, well below the Fed's 2.0% target. Eurozone inflation is even lower with core inflation around 1%.

In light of the muted inflation pressures, we expect global central banks to stand ready with additional easing if the global economy slows or inflation expectations fall further. We see a good chance the Fed will cut its interest rate in the autumn as an 'insurance' against further economic moderation. We expect the Chinese central bank to implement additional stimulus and the Bank of Japan to keep its accommodative policy, while we expect the ECB to keep rates unchanged until at least 2021.

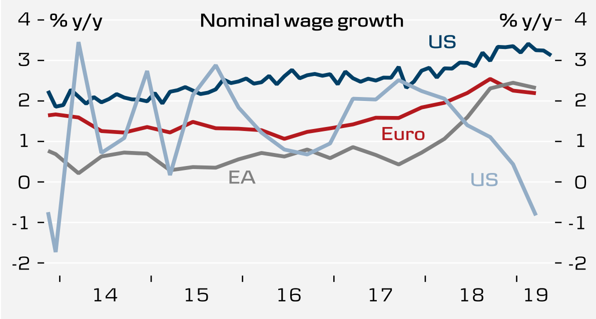
Global outlook clouded by uncertainty

Our forecast is clouded by considerable uncertainty about US-China trade relations and reactions by central banks. On aggregate, the risks to our forecast are skewed to the downside, notably by a further deterioration in China-US trade relations but possibly also by US action against its other key trading partners such as the EU, Mexico and Japan. Among other downside risks are a no-deal Brexit in the autumn, military conflict in the Middle East between Iran and the US and a prolonged stand-off between Italy and the EU.

But a recession is not around the corner

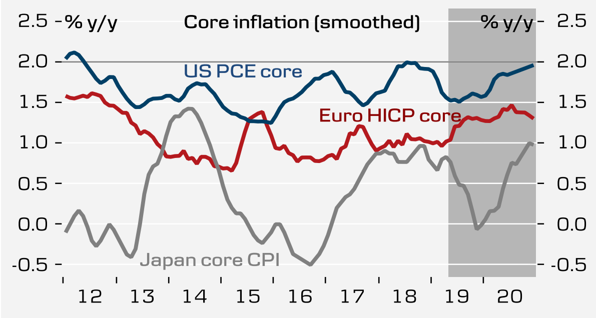
Despite the downside risk, we do not see an imminent recession in the world economy. We think that central banks will have ammunition to fend off a possible economic downturn, notably the Fed, given the muted inflation outlook mentioned above. Typically, a recession sets in when the economy runs too hot and inflation outpaces the inflation target, prompting the central bank to step on the brakes. Furthermore, with interest rates at the current low levels, governments have more fiscal space to stimulate the economy in the event of a downturn (notably in China and Germany), although such stimulus may face political obstacles and a long implementation lag.

Wage and unit labour cost growth still at muted levels



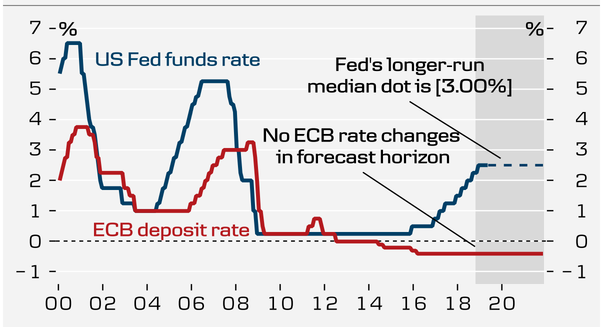
Source: Macrobond Financial, Danske Bank

Underlying inflation still at modest levels globally



Source: Macrobond Financial, Danske Bank

Global central banks will not tighten monetary policy in near future



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	17-Jun	2.50	2.40	1.88	2.03	112.1	-	665.9	871.1	948.7
	+3m	2.25	1.93	1.80	1.95	115.0	-	649.0	834.8	939.1
	+6m	1.75	1.75	1.55	1.75	117.0	-	637.5	803.4	931.6
	+12m	1.75	1.75	1.65	1.90	117.0	-	637.2	794.9	940.2
EUR	17-Jun	-0.40	-0.32	-0.32	0.25	-	112.1	746.8	976.9	1063.9
	+3m	-0.40	-0.31	-0.30	0.15	-	115.0	746.3	960.0	1080.0
	+6m	-0.40	-0.31	-0.30	0.15	-	117.0	745.9	940.0	1090.0
	+12m	-0.40	-0.31	-0.30	0.25	-	117.0	745.5	930.0	1100.0
JPY	17-Jun	-0.10	-0.07	-0.08	0.05	125.6	108.6	5.94	7.78	8.47
	+3m	-0.10	-	-	-	123.1	107.0	6.07	7.80	8.78
	+6m	-0.10	-	-	-	128.7	110.0	5.80	7.30	8.47
	+12m	-0.10	-	-	-	128.7	110.0	5.79	7.23	8.55
GBP	17-Jun	0.75	0.79	0.87	1.05	89.0	125.9	838.7	1097.2	1194.9
	+3m	0.75	0.84	0.90	1.00	90.0	127.8	829.2	1066.7	1200.0
	+6m	0.75	0.84	0.90	1.00	90.0	130.0	828.8	1044.4	1211.1
	+12m	0.75	0.84	0.90	1.20	90.0	130.0	828.3	1033.3	1222.2
CHF	17-Jun	-0.75	-0.71	-0.75	-0.17	112.1	99.9	666.3	871.7	949.3
	+3m	-0.75	-	-	-	112.0	97.4	666.3	857.1	964.3
	+6m	-0.75	-	-	-	113.0	96.6	660.1	831.9	964.6
	+12m	-0.75	-	-	-	115.0	98.3	648.3	808.7	956.5
DKK	17-Jun	-0.65	-0.35	-0.26	0.33	746.8	665.9	-	130.8	142.5
	+3m	-0.65	-0.33	-0.25	0.20	746.3	649.0	-	128.6	144.7
	+6m	-0.65	-0.33	-0.25	0.20	745.9	637.5	-	126.0	146.1
	+12m	-0.65	-0.33	-0.25	0.30	745.5	637.2	-	124.7	147.6
SEK	17-Jun	-0.25	-0.02	-0.05	0.60	1063.9	948.7	70.2	91.8	100.0
	+3m	-0.25	-0.10	-0.15	0.50	1080.0	939.1	69.1	88.9	-
	+6m	-0.25	-0.10	-0.15	0.50	1090.0	931.6	68.4	86.2	-
	+12m	-0.25	-0.10	-0.20	0.50	1100.0	940.2	67.8	84.5	-
NOK	17-Jun	1.00	1.55	1.73	1.84	976.9	871.1	76.4	100.0	108.9
	+3m	1.25	1.84	1.90	2.00	960.0	834.8	77.7	-	112.5
	+6m	1.50	2.00	2.10	2.10	940.0	803.4	79.4	-	116.0
	+12m	1.75	2.15	2.25	2.25	930.0	794.9	80.2	-	118.3

Commodities

		2019				2020				Average	
	17-Jun	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020
ICE Brent	62	65	70	75	80	80	80	80	80	72	80

Source: Bloomberg, Danske Bank

Economic forecast

Macro forecast, Scandinavia

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2018	1.4	2.3	0.8	5.1	0.6	2.7	0.8	2.2	3.9	0.5	34.1	5.7
	2019	1.7	1.5	0.4	-1.6	2.3	1.7	1.0	1.8	3.8	0.5	32.5	6.2
	2020	1.6	2.3	0.5	3.0	1.7	2.1	1.3	2.0	3.8	0.0	31.5	6.6
Sweden	2018	2.5	1.2	0.9	4.0	3.9	3.8	2.0	2.6	6.3	0.9	38.5	0.4
	2019	1.3	0.4	0.6	-0.9	4.4	2.0	1.7	2.6	6.6	0.1	34.0	4.0
	2020	1.5	1.8	1.5	0.6	3.3	2.6	1.5	2.7	7.1	0.5	33.0	4.1
Norway	2018	2.2	2.0	1.2	1.0	-0.7	0.6	2.7	2.8	2.4	-	-	-
	2019	2.6	2.0	1.7	4.8	3.0	3.3	2.5	3.3	2.3	-	-	-
	2020	2.3	2.4	1.7	3.0	3.5	2.7	1.7	3.8	2.2	-	-	-

Macro forecast, Euroland

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euro area	2018	1.9	1.3	1.0	3.3	3.2	3.2	1.8	2.3	8.2	-0.5	85.1	3.6
	2019	1.2	1.2	1.9	2.6	2.3	3.2	1.5	2.2	7.7	-0.9	85.8	3.3
	2020	1.4	1.4	1.8	1.7	2.2	2.7	1.4	2.4	7.5	-0.9	84.3	3.2
Germany	2018	1.5	1.1	1.0	2.7	2.2	3.4	1.9	3.0	3.4	1.7	60.9	7.3
	2019	0.7	1.9	1.7	2.9	1.5	3.2	1.4	3.2	3.1	1.0	58.4	6.0
	2020	1.3	1.3	2.3	2.3	1.7	2.7	1.5	3.0	3.0	0.8	55.6	5.9
Finland	2018	2.3	1.4	1.4	3.2	1.5	4.2	1.1	1.8	7.4	-0.7	58.9	-1.6
	2019	1.3	0.8	0.5	0.0	3.0	2.0	1.2	2.5	6.5	-0.3	58.3	-1.7
	2020	1.0	1.2	1.5	1.0	2.0	2.5	1.5	2.5	6.4	-0.2	57.3	-1.4

Macro forecast, Global

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
USA	2018	2.9	2.6	1.5	5.2	4.0	4.5	2.4	3.0	3.9	-3.9	106.0	-2.3
	2019	2.5	2.3	1.6	2.4	2.4	2.1	2.0	3.1	3.6	-4.2	106.0	-2.6
	2020	2.0	2.1	1.0	3.4	2.8	3.0	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	8.0	-	4.7	-	-	2.0	8.3	-	-4.5	53.9	0.7
	2020	6.2	7.8	-	4.6	-	-	2.2	8.0	-	-4.3	57.1	0.7
UK	2018	1.4	1.8	0.4	0.2	0.1	0.7	2.5	3.1	4.1	-1.5	86.8	-4.0
	2019	1.5	1.8	2.5	1.5	2.0	8.5	1.8	2.9	3.7	-1.4	83.8	-3.8
	2020	1.6	1.4	0.6	0.1	2.0	-2.9	1.4	3.3	3.4	-1.1	82.9	-3.5
Japan	2018	0.8	0.3	0.7	1.1	3.3	3.4	0.9	-	2.4	-	-	-
	2019	1.0	0.3	1.7	1.1	-1.1	-1.8	1.0	-	2.5	-	-	-
	2020	0.5	-0.4	0.8	0.3	3.5	1.1	1.6	-	2.5	-	-	-

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

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