March 2014

Nordic Outlook

Economic and financial trends

- Denmark: Still waiting for the recovery
  - Despite a weak end to 2013, the Danish economy is set for stronger growth
- Sweden: From headwinds to tailwinds in 2014
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  - We expect Norwegian growth to be driven by exports and looser lending standards
- Finland: Recovery still waiting to happen
  - Gloomy domestic demand holds back Finnish economy

Markets Research

Editorial deadline 26 March 2014 *Investment Research*

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Important disclosures and certifications are contained from page 37 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 quarterly publication the *Global Scenarios* sets out our global economic outlook.

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Denmark

Still waiting for the recovery

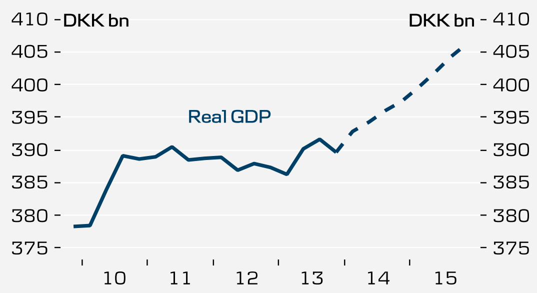
- **The Danish economy has disappointed. We have been waiting a long time for the recovery – and we are still waiting. However, we estimate that the turnaround is close and that we will see growth approaching trend levels as early as this year.**
- **We expect growth to be driven by a combination of increasing consumption and rising exports – though the outlook for exports looks brighter than the outlook for consumption in the near term.**
- **We expect private consumption to grow modestly on the back of rising disposable income and a slight increase in the propensity to spend. However, we see no reason to expect a consumption boom at the present time.**
- **In our view, further expansionary measures via economic policy would be unwarranted in coming years. The economy must right itself.**

Changes relative to previous forecasts

	Current forecast		Previous forecast	
% y/y	2014	2015	2014	2015
GDP	1.5	2.0	1.5	2.1
Private consumption	1.1	1.5	0.9	1.5
Public consumption	1.7	0.5	1.1	0.6
Gross fixed investment	2.2	2.8	-0.8	2.8
Exports	2.8	3.4	3.1	3.6
Imports	2.3	2.6	2.0	2.7
Gross unemployment (thousands)	145	140	148	139
Inflation	1.0	1.5	1.3	1.5
Government balance, % of GDP	-1.0	-2.3	-1.5	-2.8
Current account, % of GDP	6.8	6.1	7.1	7.2

Source: Statistics Denmark, Danske Bank

Danish economy is gaining momentum



Source: Statistics Denmark, Danske Bank

Simmering recovery

The consequences of the global economic and financial crisis have without doubt in our minds been far greater than most had expected. With respect to the Danish economy, the biggest surprise has been the duration of the crisis – for while the prerequisites for economic growth have been in place for some time, lacklustre demand has stymied progress.

Although the recovery is still on hold, there are nevertheless signs of improvement and we expect these to develop into a more tangible recovery over the forecast period. Thus, we look for growth this year of 1.5%, rising to just over 2% in 2015. We expect the marginally accelerating pace of growth to secure an increase in employment. However, as employment has already risen despite economic growth being very subdued, we believe the number of people in work will probably increase only slightly by the end of 2015.

Our overall optimism is based largely on the prospect of further economic recovery in Europe. Moreover, during the crisis years, Denmark has made progress on a number of domestic economic imbalances that had been a drag on the economy. Competitiveness has improved, for example, and the housing market has largely stabilised, so the prerequisites for both export-driven and domestically driven growth are in place. We expect economic policy – in its broadest sense – to be marginally expansive over the next two years, which should also help underpin growth. However, we would stress that a turnaround in the Danish economy is unlikely to come from shifts in economic policy. The room for policymakers to manoeuvre has already been more or less fully exploited, so there is no real basis for further stimulation.

Our current view of the Danish economy very closely resembles that outlined in *Nordic Outlook: December 2013*, 19 December 2013. GDP numbers disappointed in Q4 13 but we believe this was due mainly to temporary factors. If anything, we have become slightly more optimistic on growth.

Our forecast is based on the national accounts figures up to and including Q4 last year. We point out, however, that the statistical uncertainty attached to economic developments towards the end of last year is considerable. National accounts figures are frequently revised quite significantly and, while the figures for Q4 showed a decline in GDP of 0.5% compared with the previous quarter, statistically one cannot at present be certain that GDP actually fell, as an unchanged GDP readout lies within the statistical realms of possibility. As well as the statistical uncertainty, Statistics Denmark is set to undertake a major revision of the national accounts figures in September. Hence, the picture of how the Danish economy has developed in recent years may change quite substantially. Statistics Denmark expects, for example, that the revision will raise GDP in 2008 by 2.5%. This is due mainly to a 10.4% upward revision of investment, as the values created by research and development are viewed as investments according to the new calculations – as opposed to consumption related to production, which has been the case until now. Government consumption is being revised down, while private consumption is being revised up. The tax burden will be revised down by almost 3 percentage points from a statistical point of view. On the other hand, government consumption growth will be revised higher, as output from government production rather than input is what will be measured. What the revisions will mean for the overall growth picture is not yet clear.

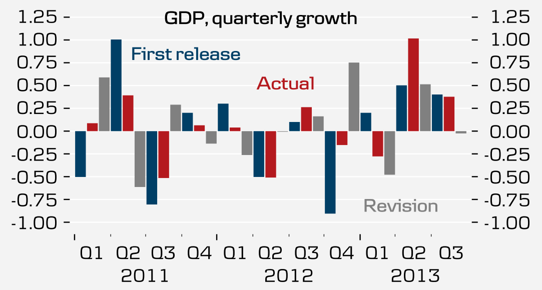
Consumption still making little headway

As expected, consumption again made little headway in 2013, though it was still surprising there was no consumption growth in a year of decent real income growth, tax cuts, lower interest rates and a pronounced rise in consumer confidence. Part of the explanation is a technical quirk in the calculation. Replacement purchases in connection with the storms Allan and Bodil are counted as negative consumption of insurance payments but do not reflect any real reluctance to spend (calculation of GDP is only marginally affected because the 'fall' in consumption is largely offset by an equivalent 'fall' in reinsurance imports). Adjusted for this effect, private consumption grew 0.4% in 2013, although again this is less than impressive and certainly below trend. It appears that households once again prioritised saving over consumption last year.

The insurance effect is set to lift private consumption in early 2014 but we also expect to see growth further ahead. Our forecast is for consumption to grow by 0.3-0.4% per quarter in 2014 and 2015, considerably higher than has been the case for the past three years. We base our forecast partly on an anticipated increase in real income but mainly on the expectation that households will spend a greater share of their income and thus cut the savings rate to a more normal level.

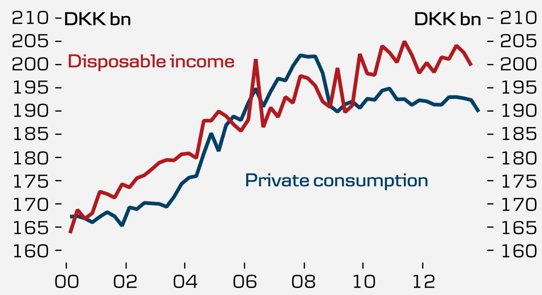
However, whether this happens and at what pace is extremely uncertain – as developments in 2013 clearly illustrated. Households still have much more debt than 10 years ago, although the value of their homes and other assets is at the same level relative to income as then – at least if you do not include the value of pension savings. There is probably still a strong desire to reduce debt further in many households and this could cap private consumption for several years yet.

Large revisions of quarterly GDP



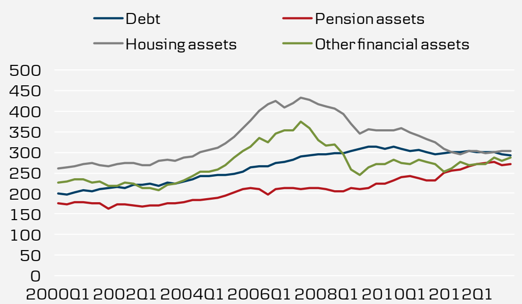
Source: Statistics Denmark, Danske Bank

Consumption fails to react to income



Note: Income is disposable gross income corrected for tax on converted capital (lump sum) pensions
Source: Statistics Denmark, Danske Bank

Debt level remains high



Source: Statistics Denmark, Danmarks Nationalbank, Realkredit Danmark

Real wages to rise again in 2014

Inflation looks set to be somewhat lower in 2014 than we had previously calculated. A fall in food prices is the main reason, though rents have also risen by remarkably little. The decline in food prices came on the back of falling commodity prices, though this trend now appears to have ended. In contrast, we expect oil prices to keep falling for the rest of the year in kroner terms. Overall, we have revised down our inflation forecast to 1% this year, though we still expect February's inflation of just 0.5% compared with the same month last year to be the low point for 2014. Imports are still the main factor pulling inflation lower, whereas consumer service prices rose 1.8% y/y in February.

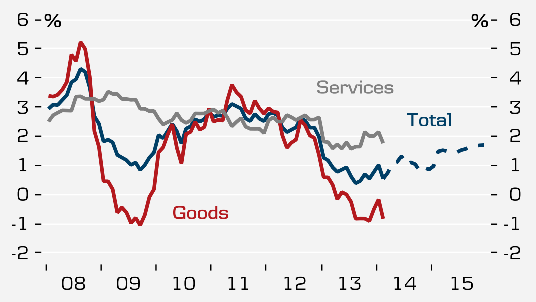
Private sector wages grew just 1.2% last year but with inflation running at a mere 0.8%, wages still managed to grow in real terms. Recent wage agreements point to wage growth of up to 2% per year in the private sector over the coming three years, though local wage negotiations are likely to pull this a little lower this year. Nevertheless, the decline in inflation will again mean real wages rising this year, even though the tax cuts scheduled for 2014 are significantly less than in 2013. We expect both wage growth and inflation to rise in 2015 as the recovery takes hold, though still at a pace that reflects the continuing presence of spare capacity in the economy.

Housing market on the mend – but still fragile

The Danish housing market has been on the mend since the end of 2012 but progress has been slow and certainly fragile. Although house prices slowed slightly overall in Q3 13, according to Statistics Denmark's quarterly house price index, when adjusted for season, they increased by 0.8% in Q4 13. According to the Association of Mortgage Banks' housing market data, house prices fell a bit in Q4 13, even when adjusting for season, so the recovery in the housing market is not very robust. Initial indications for 2014, based on the homes (an estate agency) monthly house price index, suggest modest growth in house prices in Q1 14. We expect the slow recovery in the housing market to continue in both 2014 and 2015 as the economy begins to gain traction. An improving labour market and very low interest rates will support the recovery in the housing market but progress will remain fragile. The supply of single family homes remains high, while registered sales of the same are low. While developments in both figures have stabilised, the gap reflects the reluctance of consumers to buy.

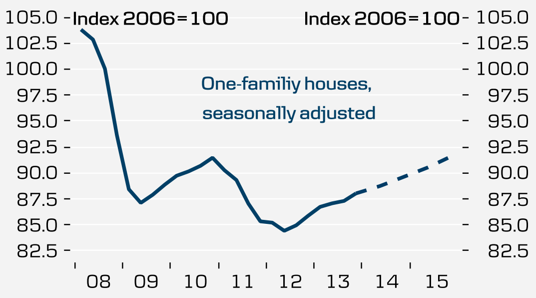
When considering the Danish housing market, it is important to remember that the national data masks major regional differences. Although the housing market overall has been slowly improving, the improvement has not been experienced in all areas. While house prices are increasing in the Capital Region of Denmark, the development is flatter in many provincial districts. House prices in the Capital Region of Denmark, Region Zealand and Central Denmark Region in Q4 13 were higher than in Q4 12, while they were lower in the Region of Southern Denmark and the North Denmark Region. Regional differences are likely to remain significant for the next few years.

Inflation to rise



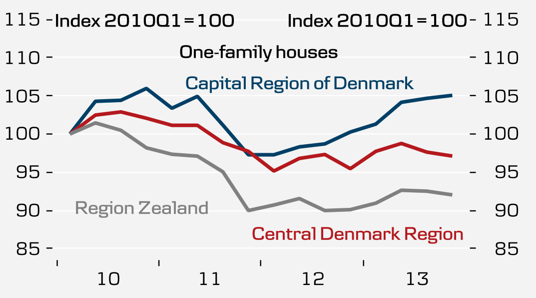
Source: Statistics Denmark and Danske Bank

Modest housing market recovery to continue



Source: Statistics Denmark and Danske Bank

Large regional differences in the housing market



Source: Statistics Denmark and Danske Bank

In contrast, owner-occupier apartments saw handsome price rises in 2013, up 7.7% y/y in December 2013. Since bottoming out in 2009, prices here have risen by almost 21%. Apartment prices are being supported by greater interest rate sensitivity, more speculative behaviour and a tendency for the more affluent and qualified increasingly to move to the major cities, which dominate the apartment market. Like house prices, apartment prices are also expected to rise in coming years.

Exports in front

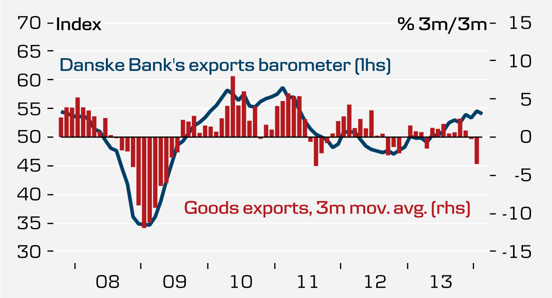
Exports have generally performed well since the global economic and financial crisis struck in 2008. This was also the case in 2013, when exports rose 3.7% over the year, which was actually quite impressive in a year that saw overall euro area GDP grow by just 0.5%. However, exports stumbled and fell slightly in Q4 despite the good progress over the year. In our view, though, this is no reason for undue anxiety. Export conditions during our forecast period look fine at present: the economies of our export markets are generally expanding and countries such as Germany, Sweden and the UK are seeing quite high growth rates. Moreover, when we aggregate PMI figures from Denmark's trading partners, our export markets look set to continue growing – to the benefit of Danish exporters. We expect the euro area to grow by around 1.25-1.50% this year, which is up considerably on last year.

It is not only developments in Denmark's export markets that are preparing the ground for further export growth in coming quarters. Wage growth in Denmark has been a little lower in recent years compared with the countries that are its main trading partners. This has partially restored its lost competitiveness and again we believe this will tend to support exports in coming years. The so-called Growth Plan and the budget for 2014 also represent small steps in the right direction, as they secure better conditions for Danish exporters, including slightly lower corporate taxes. Nevertheless, Danish exports continue to be hampered by high taxes and duties, so there is good reason for further initiatives here, though even these small steps will help.

Given the above, we expect export growth of around 2.5% this year, rising to 3.5% next year. The reason we do not forecast export growth to be higher is that we expect the fragile economic situation in the emerging markets to be a drag on the export of both goods and services.

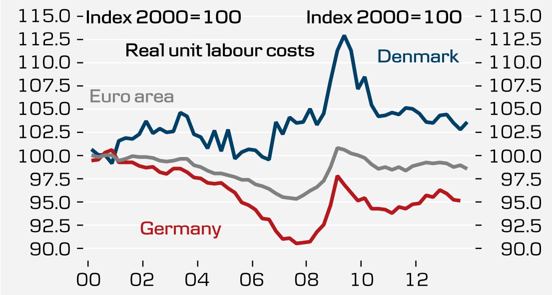
We also expect imports to increase but Denmark's still weak domestic economy is likely to keep import growth below export growth. A new record could thus be on the cards for the balance of payments, though as we expect terms of trade to weaken slightly and the return on Denmark's investments abroad to fall, we believe the current account surplus will dip compared with the record levels reached in 2013.

Export barometer indicates growth



Note: Goods exports excluding ships and aircrafts.
Source: Statistics Denmark, Danske Bank

Partial recovery of Danish competitiveness



Source: Eurostat and Danske Bank

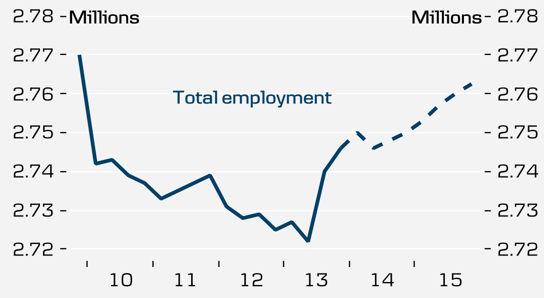
Labour market in swift turnaround

One of the major economic surprises of 2013 was the slight rise in employment. With economic growth at an extremely modest 0.4% for the year as a whole, or 0.6% from Q4 12 to Q4 13, the usual rule of thumb would suggest falling employment. Yet, according to the national accounts figures, employment increased by a little over 20,000 in 2013 – and while other statistics suggest employment growth has probably not been as pronounced as the national accounts figures indicate, there is still no denying the labour market is improving.

As we expect economic growth to accelerate over the forecast period, there is reason to expect further progress for employment. Our optimism is supported by Dansk Jobindex (a job ads website), which in February carried the highest number of new online job ads since 2008. Moreover, both Statistics Denmark's economic tendency survey and Green's confidence survey indicate that companies plan to increase their workforces.

This said, we doubt that employment growth can continue at the present rate. Indeed, our view is that the pace of job creation will slow a little, as many companies essentially have ample labour resources relative to production. Nevertheless, employment should continue to grow modestly and we expect to see 15,000-20,000 new jobs created by the end of 2015. We expect employment to increase mainly in the service sector, though construction should get a temporary activity and jobs boost in early 2014 following the mild winter and the reconstruction work necessitated by the two hurricanes that struck Denmark.

Employment is expected to increase



Source: Statistics Denmark, Danske Bank

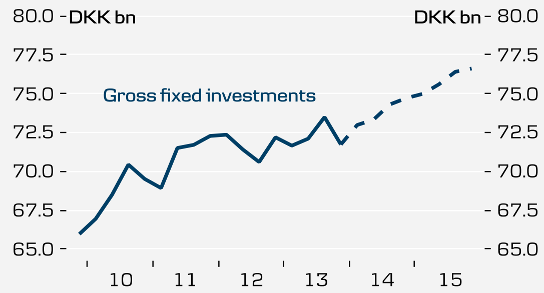
Investment drought ending

The Danish economy has suffered on many fronts but one of the big victims of the current crisis has been corporate investment. Investment was running high before the crisis struck – driven in part by hectic building activity on the back of the housing bubble. Since then, investment activity has fallen dramatically but this trend could well be reversed in 2014, in our opinion. We expect economic growth, coupled with low interest rates, an increasing appetite for risk in the financial markets and more stable bank lending, to form the foundation for a tenuous yet real increase in corporate investment in coming years. In our previous forecast, we expected the so-called investment window to shift investment activity from 2014 to 2013 but this effect does not appear to have been strong enough to warrant fears of a decline in investment this year.

Corporate investment is not the only area where we expect to see growth. The same applies to housing investment, which in our view will not only be artificially stimulated this year by the clean-up after hurricanes Allan and Bodil but will also be slowly pushed higher by the ongoing recovery in the housing market.

The public sector is also expected to stimulate investment activity this year, via both direct government investment and government-managed investment projects. Overall, we expect to see corporate investment growth of 3% this year, rising to 5% next year.

Investments will contribute to growth



Source: Statistics Denmark, Danske Bank

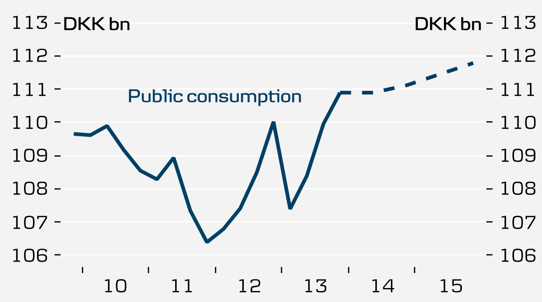
Public sector spending set to rise

Denmark's public sector has for many years faced the challenge of insufficient control. Public consumption was actually much higher than had been decided politically at the start of the crisis, while the opposite has been the case in more recent years. However, 2013 saw public consumption increase nicely over the year – despite the teachers' conflict in Q2. Indeed, public consumption had reached its highest level ever by the end of 2013, measured in both fixed and current prices. Politically, you can always argue for even greater government spending but claims that the public sector has been pared to the bone should perhaps be taken with a pinch of salt.

Public consumption's significance as a percentage of the economy has fallen slightly in recent years. Despite this, public consumption still accounts for more than 28% of GDP, which is considerably more than the norm for the Danish economy.

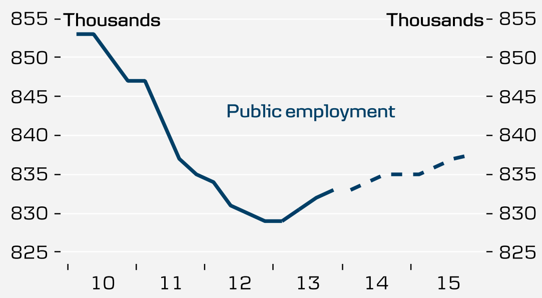
The increase in public consumption in fixed prices in 2013 means there is no room for further increases in 2014 if the budget targets for this year are to be reached. Nevertheless, we estimate that public consumption will rise marginally in 2014, bringing the annual growth rate to 1.7%, which is somewhat higher than the government predicted in its latest forecast. We expect the rise in public consumption to push public sector employment a little higher over the forecast period.

Slight increase in public consumption



Source: Statistics Denmark, Danske Bank

Public employment will also increase



Note: Figure is public employment excluding leave; data break in Q2 13 due to the teachers' conflict
Source: Statistics Denmark, Danske Bank

Denmark: Forecast at a glance

National account	2012	2012	2013	2014	2015
			Forecast		
	DKK bn (current prices)		% y/y		
Private consumption	895.6	-0.1	0.0	1.1	1.5
Government consumption	519.5	0.4	0.9	1.7	0.5
Gross fixed investment	320.0	0.8	0.8	2.2	2.8
- Business investment		3.0	3.4	1.5	5.0
- Housing investment		-8.0	-5.0	4.2	2.1
- Government investment		7.7	-0.7	2.1	-6.2
Growth contribution from inventories		-0.3	0.2	0.0	0.0
Exports	1000.4	0.4	1.0	2.8	3.4
- Goods exports	610.7	-0.7	2.3	2.6	4.2
- Service exports	389.7	2.3	-1.0	3.0	2.1
Imports	907.7	0.9	1.5	2.3	2.6
- Goods imports	576.1	0.5	4.1	1.3	3.0
- Service imports	331.6	1.6	-3.0	4.2	1.9
Growth contribution from net exports		-0.2	-0.2	0.4	0.6
Gross domestic product	1825.6	-0.4	0.4	1.5	2.0

Economic indicators	2012	2013	2014	2015
Current account, DKK bn	109.2	135.4	130.0	121.0
- % of GDP	6.0	7.3	6.8	6.1
General government balance, DKK bn	-71.9	-17.2	-20.0	-45.0
- % of GDP	-3.9	-0.9	-1.0	-2.3
General government debt, DKK bn	821.0	826.9	826.0	871.0
- % of GDP	45.0	44.5	43.3	44.1
Employment, ex. leave (thousands)	2728.3	2733.8	2748.5	2758.1
Gross unemployment (thousands)	161.7	153.1	145.1	139.7
- % of total work force (DST definition)	6.1	5.8	5.5	5.3
Oil price - USD/barrel	112.0	109.0	104.0	98.0
House prices, % y/y	-3.3	2.4	1.1	2.0
Private sector wage level, % y/y	1.5	1.2	1.5	1.8
Consumer prices, % y/y	2.4	0.8	1.0	1.5

Financial figures	26/03/14	+3 mths	+6 mths	+12 mths
Repo rate, % p.a.	0.20	0.20	0.20	0.20
2-yr swap yield, % p.a.	0.66	0.70	0.75	0.80
10-yr swap yield, % p.a.	2.06	2.10	2.30	2.70
EUR/DKK	7.465	7.46	7.46	7.46
USD/DKK	5.41	5.25	5.45	5.65

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

Sweden

From headwinds to tailwinds in 2014

- **In this first strike at a forecast for 2014, we hope for the best but feel there is a risk that developments of years past may very well come back to haunt us.**
- **In the previous edition of *Nordic Outlook*, we stated that imminent improvements were vital for us to keep a positive view on the business cycle. Our prayers were answered as the Q4 13 GDP outcome was a very strong 1.7% q/q, resulting in a full-year outcome of 1.5% y/y. Previous quarters were also revised stronger, producing a more intelligible cyclical pattern.**
- **Although much of the strong ending to 2013 was due to temporary factors, we have raised our growth forecast for 2014 from 2.5% y/y to 3.0% y/y. Our forecast for 2015 remains the same, at 2.5% y/y.**
- **Despite holding a very subdued view on price and wage pressures, we continue to be underwhelmed by inflation outcomes. In short, we have further lowered our inflation outlook, to 0.2% y/y (from 0.5% y/y) for 2014 and 1.5% y/y (from 1.6% y/y) for 2015.**
- **The Swedish economy is currently in deflation. The monetary policy instrument, the repo rate, is 0.75%. Fiscal policy is at its expansionary limit and set to tighten in the next term(s) of government. The unemployment rate is above 8% and any further domestic economic progression is conditional on a return of external demand for Swedish exports.**
- **A few straightforward conclusions can be drawn. (1) This is the end game, when the economy must start to approach its pre-crisis trajectory or at least something very close to it. (2) Whatever small contribution further monetary policy easing would lend to the economy would help. The Riksbank hawks should, therefore, lower the repo rate further. While the Riksbank might not do so, we would point to a continued and increasing need for lower real rates to support the real economy.**

Neither hot nor cold

In the first few paragraphs we touch on the most important prerequisites when constructing a forecast for the small open Swedish economy: (1) Economic and financial conditions, including interest rates, the exchange rate, stock and housing market developments and the overall fiscal stance. (2) International developments or, more specifically, the weighted import demand on Swedish export markets, World Market Growth (WMG).

Turning first to the financial and economic policy conditions environment, we could simply conclude that economic policy will remain supportive of growth even past the forecast horizon. The Riksbank lowered the repo rate in December last year and is set to keep the policy rate at very low nominal levels for a very long period, mirroring the stance of, for example, the Federal Reserve (Fed), the European Central Bank (ECB) and other major

Losing market share, a new normal?

Source: National Institute for Economic and Social Research, National Institute for Economic Research (KI) and Statistics Sweden (SCB), Danske Bank calculations central banks. The chances are that the Riksbank – if anything – will be forced to cut rates further in the face of continued low wage and price pressure. The shifts in market rates over the past few quarters, with rising risk premiums not only in 'tapering'-struck American fixed income markets but also in Swedish fixed income markets adds to the woes given; hence, high and rising real interest rates.

Nonetheless, as 2014 unfolds, we suspect that economic headwinds to the Swedish economy will turn into tailwinds, if nothing else because the Swedish economy comes across as fundamentally sound when compared with most other developed economies, which should let cyclical forces work uninhibited in the domestic economy too. Market rates and the Swedish krona should thus resume a stronger but fundamentally motivated trajectory once financial markets lay the tapering discussion to rest. In a year's time, we estimate that the SEK will shoot towards the EUR/SEK 8.60 mark and that long-term swap rates will move closer to 3% again.

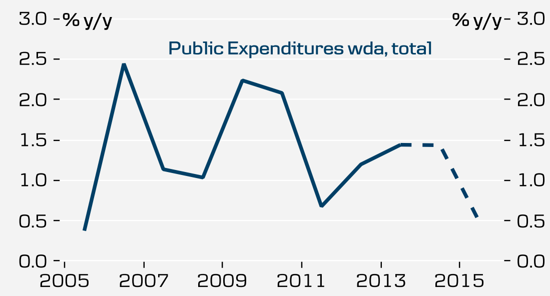
Even in nations where fiscal policy is suitably concentrated on structural issues, any fiscal decision is likely to have cyclical consequences when being promulgated through the economy. The latest enacted tax cut for low and middle-income earners should thus serve to uphold private consumption growth in particular and GDP growth in general in 2014 too. This said, the presumably structural measures over the past terms of government – mainly tax cuts for low and middle-income earners – are based on an optimistic 2.5% y/y potential GDP growth rate, which is quite a long way from our own 1.5% y/y estimate. While we can understand the political rationale behind such arguments, given the strong legal framework surrounding the sustainability of fiscal policy, the government is likely in time to be forced to cut back on some of its promises or even reduce spending (or hike taxes). In our forecast, government expenditures are set to expand by 1.7% y/y in 2014 but slow to 0.3% y/y in the post pork-barrel election period of 2015. This will not help to rein in central government net lending much and in 2015 the deficit is still as high as 1.2% of GDP, only marginally lower than this year when we expect a deficit of 1.5% despite the expected stronger growth.

To conclude our discussion on the economic policy mix, our estimates indicate that while monetary policy is expansionary (although not sufficiently so) throughout the forecast horizon, we see a risk of overly expansionary fiscal policy necessitating future austerity, perhaps at a more sensitive stage of the business cycle.

As customary these days, domestic equity markets have not displayed any allegiance to domestic real developments but rather focused on the tug of war between Fed tapering and real improvements in the US and global economy. Going forward, the fear of tapering should be replaced by genuine confidence in the real economy, pushing Swedish equity markets to grow in line with nominal GDP, i.e. rise by 3-5% a year.

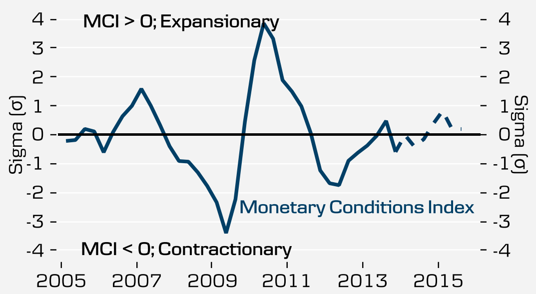
Another important asset market, vital for explaining, inter alia, household consumption behaviour, is the housing market. Until recently, we were expecting a small fall in house price levels in order to become more aligned with fundamentals. However, price data for 2013 did not show any signs of abating but rather a reacceleration. Nonetheless, we continue to expect a controlled decline in price levels over the coming years, as we deem it

The end of economic bridge politics



Source: *National Institute for Economic Research (KI) and Statistics Sweden (SCB)*, Danske Bank calculations

Monetary conditions broadly balanced



Note: MCI is calculated as the deviation from a filtered trend of different interest rates and an exchange rate index (all variables are normalised and adjusted for inflation)
Source: Macrobond. Danske Bank calculations

necessary to safeguard both household finances and the financial system. In 2014, we expect a decline of circa 5% y/y and a slightly milder adjustment of -3% y/y in 2015. From a longer term perspective, our view is that Swedish house prices are quite a long way above their fundamental value, underlining that something might have to yield; either prices demonstrate a more abrupt correction or – in a more benign scenario – household incomes rise faster than house prices.

Summing up economic and financial conditions, we believe that supply and the price of credits no longer pose restrictions on the Swedish economy; instead, it is demand for credits – viable investment projects – that is lacking. This probably has more to do with depressing expectations of future incomes than anything else. A more pronounced shift in the income outlook– in line with our short-term forecasts – will nonetheless benefit from credits being freely available. There is even a non-negligible risk that this process will pick up steam much faster than we expect due to the extremely loose global monetary conditions, creating a not so clear cut policy dilemma for many central banks.

Sweden is losing out on export markets

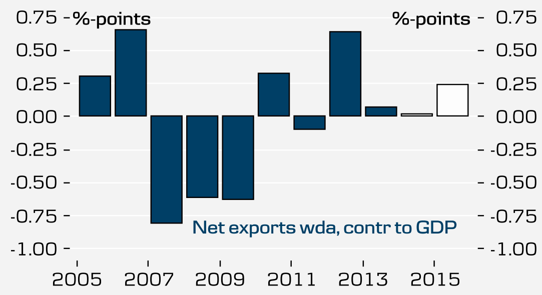
Turning next to international developments, from a Swedish perspective, we can see clearly that the stronger US economy is reverberating through to the global economy, with Great Britain being the prime beneficiary, core European country economies slowly healing and indicators stabilising even in the hardest hit peripheral countries in Europe. Furthermore, and in spite of recent volatility, in many developing nations the economic situation is ameliorating, which is, at least in some part, attributable to the return of American demand.

Though the stabilisation is tentative, the US and Europe represent some 85% of Swedish export markets, solidifying previous expectations of a rebound in Swedish export markets and, hence, export growth. All in all, we expect world market growth to reach almost 6.0% y/y in both 2014 and 2015, which – to be fair – is still quite weak compared with historical recovery phases.

The opaque state of production factors and the volatility of external demand over the past few years make it unusually difficult to decide whether the investment-goods laden Swedish exports industry is at an advantage or at a disadvantage as international demand picks up again. Exports in 2013 were thoroughly depressing, falling almost 1% y/y and the main impetus behind these developments has been weak input goods exports. Elsewhere, developments are also bleak, with the noticeable exceptions of the transportation and consumption goods industries, both posting high positive growth in 2013.

Looking ahead, export indicators are, nonetheless, mostly positive: the Export Managers Index surveyed by Business Sweden, the export order component in the NIER's business confidence survey as well as in the PMI survey all point to a broad based, if a tad anaemic, upturn in exports over coming months and quarters. Importantly, Statistics Sweden's data on export orders has finally started to improve over the past few months. All in all, and despite the recent strengthening of export indicators, some caution is probably warranted, as these indicators have demonstrated an inclination to be overly optimistic on the export outlook ever since the onset of the financial crisis. Under any circumstances, the belated upswing in exports will not suffice to reach pre-crisis standards but at least produce a more positive

Last chance for net exports to contribute



Source: National Institute for Economic Research (KI) and Statistics Sweden (SCB), Danske Bank calculations full-year reading for 2014. We expect a rise in exports amounting to 3.5% y/y for the current year and a still subdued 4.6% y/y in 2015. Alas, we can readily conclude that ever since the rebound following the financial crisis, the Swedish export industry has continually lost market shares, which raises some serious questions on the future of Swedish exports.

Ambiguous investment outlook

A stylised Swedish business cycle model would demonstrate strong causality between exports and investments, and despite the stronger reliance on domestic industries for propelling investment growth in the wake of the financial crisis, this relationship remains intact. Investments fell back somewhat in 2013, mirroring the weak exports outlook as it was concentrated in the manufacturing industry. Investments in the services industry have also been notably lower, whereas housing investments were (again) the odd man out, reflecting a continually tighter housing market.

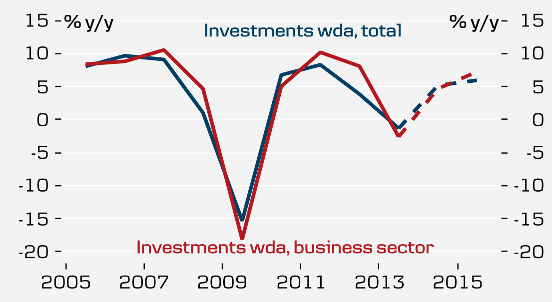
When looking ahead we cannot rely solely on a more upbeat Statistics Sweden's investments survey, as it has proven to be anything but reliable in the aftermath of the 'great recession'. However, estimates of capacity utilisation from both Statistics Sweden and the NIER have also been improving, something that in conjunction with rising production implies a more positive near-term outlook for investments – at least in the business sector. Furthermore, and as we have highlighted in many previous editions of Nordic Outlook, given a certain degree of structural transformation of the Swedish economy and a prolonged period of low or even negative gross investments, we would expect to see some dynamics developing going forward. Restructuring and replacement investments, in combination with a rebound in both external and domestic demand, should eventually suffice to drive (net) investment growth in the business sector higher, even though we still expect this to be rather subdued in an historical perspective.

One sector that seems unaffected by all negative dynamics surrounding it is the housing sector. Fiscal incentives, an excess of cheap financing, a continued rise in price levels and a chronic lack of housing supply, predominantly in urban areas, have for better or worse kept the soil fertile for housing investments. Now that labour market conditions seem to be improving in tandem with the economic outlook, housing demand is – in a word – returning. Due to the risks we associate with the elevated price levels and the apparent regulatory objective of stabilising mortgage debt, we have nonetheless chosen to temper our expectations on housing investments growth to some degree.

We expect public investments to continue at a high level over our forecast horizon but we believe most of the zest is probably gone and only small increases in public investments in, for example, defence and infra structure have been announced.

All in all, we expect solid growth in gross fixed capital formation over the forecast horizon. In 2014, predominantly housing investments will push overall investments to 5.1% y/y. In 2015, the strains on capacity in the business sector are the main impetus behind investment growth of 5.9% y/y.

Investments on the rebound



Source: ***National Institute for Economic Research (KI) and Statistics Sweden (SCB),*** *Danske Bank calculations*

Anaemic labour markets

Despite a superficial weakening of Swedish labour markets in 2013, employment actually developed strongly throughout the year and the lingering impression is instead one of relative stability. To some extent, this may be due to the newfound flexibility among both employers and unions, which has let hours worked (and thus by and large also the monthly pay cheque) become a buffer instead of large lay-offs at the first sign of a deceleration. This pattern has been discernible since the onset of the great recession and seems to have worked well, even though we cannot fully suppress the feeling of this merely being traditional labour hoarding, albeit a somewhat more sophisticated version.

Despite the labour market normally lagging growth by a couple of quarters, we can clearly see that labour markets have turned a corner, with employment on a more positive upward trend. Looking forward, we become even more optimistic due to the continued improvement of labour market indicators. Not only have notices of lay-offs come down to ‘normal’ levels, employment plans and other survey data on the labour market are unanimously improving. Also, investment growth has historically proven to be perhaps the most reliable indicator for employment as investments not only demand people to construct and install but also to operate new equipment. We do not think this time around will be much different but remain observant of the large pool of people outside the labour force who might keep unemployment rates higher for longer even with pronounced improvements in employment.

To conclude, the good news is that labour markets seem to be safely through the worst, with most forward-looking indicators also pointing in a positive direction. Therefore, we expect employment to improve near term. However, growth in average hours worked has been rather depressed, which is why a more pronounced upturn might take some time. As investment growth picks up steam and developments in more labour-intensive industries such as construction and retail also progress, we should nonetheless see a more substantial improvement in both employment and the unemployment rate this year. In numerical terms, we estimate that employment will grow by 1.3% y/y and 1.4% y/y in 2014 and 2015, respectively. This will be enough to push the unemployment rate closer to 7% by the end of the forecast horizon. However, students looking for a job, the low level of average hours worked and people returning from outside the labour force constitute risks to our forecasts.

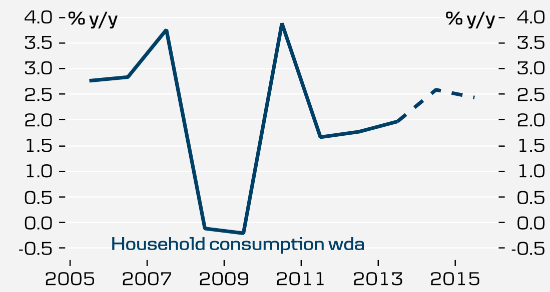
Consumption picking up steam

Nominal disposable income growth is low and has been low for some time. However, due to even more subdued price increases, we expect real disposable income to post decent growth rates, around 2% y/y, over our forecast horizon. In 2014, we expect large income tax cuts and still restrained pricing behaviour to drive disposable income growth higher. In addition, short-term risks to the housing market seem to have subsided and equity markets have shown real stamina; therefore, possible wealth effects should also leave a positive impact on the consumption outlook. Indeed, household confidence is improving, after reaching a nadir in the latter part of 2013 and the NIER’s consumer confidence index is now some way above its historical

Labour markets set in stone

Source: National Institute for Economic Research (KI) and Statistics Sweden (SCB), Danske Bank calculations

Consumption continuing on a strong note



Source: National Institute for Economic Research (KI) and Statistics Sweden (SCB), Danske Bank calculations average, suggesting a rather dramatic shift from early 2013. Back then, the general risk sentiment was artificially pessimistic in anticipation of a number of decisive international events but notices of lay-offs had also shot up and the Riksbank seemed intent on driving down housing wealth, no matter what the costs.

In response, households increased their savings further, from already very high levels. Now, as headwinds have receded and been replaced by tailwinds, we expect strong underlying household consumption growth throughout the forecast horizon. Furthermore, the historically high savings ratio even constitutes an upside risk, as we expect only a rather tepid decrease over coming quarters. Should a more positive international scenario unfold, any remaining fears of joblessness and/or dramatic house price falls will probably be laid to rest, leading savings lower faster than we currently forecast. However, learning from the experiences of recent years, we have chosen not to revise this variable to any great extent.

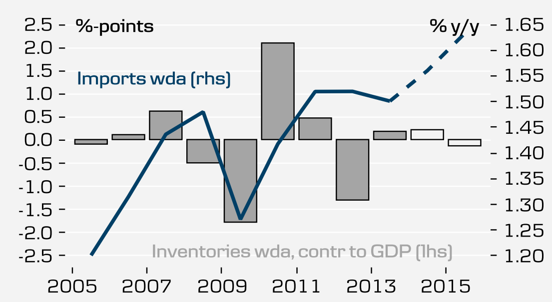
Restrained price developments, fiscal incentives, a stronger labour market and a generally improved sentiment mean we forecast strong household consumption growth of 2.5% y/y, on average, in both 2014 and 2015.

Imports and the inventory cycle

In an advanced small open economy such as Sweden, the outlook for imports is largely a derivative of your exports forecast. This is due to imports, in the form of input material and goods, being an integral part of value-added activities in the exports sector. In Sweden, estimates of the import content of exports range between a third and a half of value added, which clearly demonstrates the strong link. In addition, the high dependence on the export sector implies that factor utilisation and thus consumption and investments are to a high degree (directly and indirectly) dependent on exports. Hence, unforeseen swings in the global outlook tend to have a very strong impact on both imports and inventories and are a continual source of forecast errors.

Naturally, but a little vaingloriously perhaps, economists tend to be omnipotent in forecasts, implying that imports follow the demand forecast and there is seldom any need to assume anything but a return to stable inventory levels – the inventory cycle (contribution) thus always returns to stability (0pp contribution). In this respect, we at Danske Bank are no different from our competitors and we expect only a small positive contribution to GDP from inventories this year. This hangs through from 2013, which saw a significant inventory contribution in the final quarter, the expected recoil at the beginning of this year will vice versa carry through into 2015. Imports grow in line with external and domestic demand components, implying a rather stable growth of 3.2% y/y in 2014 and 2015, despite a shift in underlying demand from domestic to external sectors.

A less disturbing inventory cycle



*Source: **National Institute for Economic Research (KI) and Statistics Sweden (SCB)**, Danske Bank calculations*

Resource utilisation and inflation

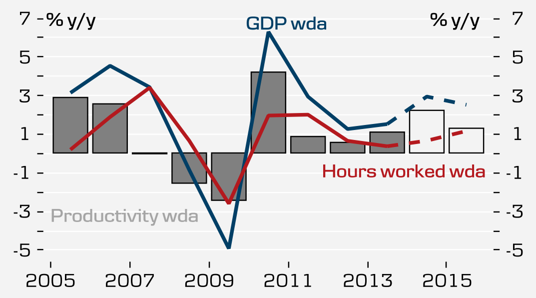
In the preceding text, we have touched on the main components when compiling GDP and the lingering impression is one of an improving economic environment. However, it is a recovery that is rather bleak by any historical comparison and one that is still laden with large risks on the downside, ready to push the world economy and the export dependent Swedish economy into the doldrums again without much notice. Nevertheless, and despite apparent downside risks, for the first time in many years, we are also able to identify upside risks in the nexus of very strong liquidity, rising asset prices and a more pronounced shift in sentiment.

To sum up, we expect GDP growth to accelerate over the forecast period, as we have chosen to keep our optimistic stance. In 2014, we now estimate GDP growth of 3.0% y/y (previously 2.5% y/y), after a very strong end to the previous year. For 2015, we maintain our forecast of 2.5% y/y GDP growth but the composition is skewed more towards domestic demand components than is customary for this stage of the business cycle. That said, compared with 2014, the composition of demand is more balanced in 2015, as external demand and domestic investments increase their respective shares of GDP.

This is optimistic in comparison with other forecasters maybe but, from an historical perspective this is still a meagre outcome for a recovery phase. However, we believe that the great recession has altered the structures of the world economy and, hence, also of the Swedish economy. The most obvious change is an ongoing, fundamentally warranted, strengthening of the Swedish krona that still has some way to go. The stronger (real) SEK pushes low-value added export companies into dire straits and some of them will probably be put out of business or be forced to relocate production to other economies. Still having a rather rigid labour market, the effects on the Swedish economy are already visible – stubbornly high unemployment rates. Eventually, we might see more decisive political measures to address this problem but given the highly sensitive ideological nature of the resolutions on offer, we suspect this will take a long time. In the meantime, estimates on potential growth should recede, and we 'guesstimate' – with the use of mainly demographical projections – long-term GDP growth at no higher than 1.5% y/y. Beware, though, that given the very limited, post-crisis, time series on hand, effects on potential estimates are difficult to assess quantitatively and are also very sensitive to specifications.

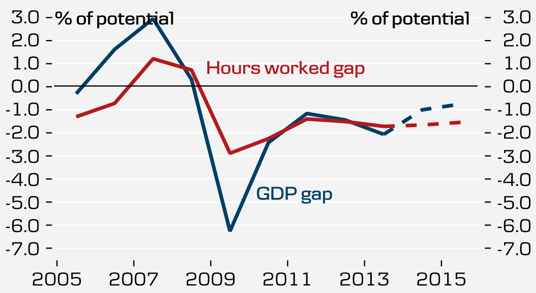
Weak potential growth means even the feeble growth rates we expect over the next couple of years should be able to cut slack, increase resource utilisation and give way to greater inflationary pressures. Make no mistake about this though, current levels of resource utilisation are very low and have undoubtedly been a restraining factor in this autumn's wage negotiations. Ahead, the deflationary impact of low wage growth will be balanced to some extent by low productivity growth, keeping cost pressures – measured in terms of unit labour costs (ULC) – positive but below 1% y/y over our forecast horizon, levels simply incompatible with the inflation target (2%). Also, the structural strengthening of the SEK weighs further on the outlook, which is why we probably need to move beyond the forecast horizon to see the operational inflation target, CPIF (CPI excluding the impact of interest costs), being attained.

Bleak productivity growth...



*Source: **National Institute for Economic Research (KI) and Statistics Sweden (SCB)**, Danske Bank calculations*

...but resource utilisation still low...



*Source: **National Institute for Economic Research (KI) and Statistics Sweden (SCB)**, Danske Bank calculations*

Riksbank, nuts about inflation

It has been open season on the Riksbank for some time and by now most people, including ourselves, have probably taken a shot or two at the central bank. The thrust of the arguments has honed in on the low inflation outcomes and the – thus far – apparent reluctance of the Riksbank majority to react in force.

In comparison with our previous forecast, inflationary pressures have receded further, in tandem with inflation expectations and into deflationary territory. Worryingly, genuine inflation, such as wages and rents, which tends to stick, has come in much below both our own and the Riksbank's forecasts. In other words, we must yield to perilously low inflation and a feeble inflation outlook and reject any macro prudential arguments henceforth. From a stabilisation policy perspective, the Swedish economy is arguably in a worse state than, for example, the US or the Euroland economies as it has higher nominal rates and lower inflation, implying considerably higher real rates. Considering that medium- (and long-) term inflation expectations are on a down trend as well as many pre-crisis leverage decisions being based on higher inflation (i.e. lower real rates) and real income growth projections, the risks of the Riksbank and the Swedish economy becoming liquidity trapped are only one negative shock away. In short, the Riksbank should lower the repo rate further, in our view.

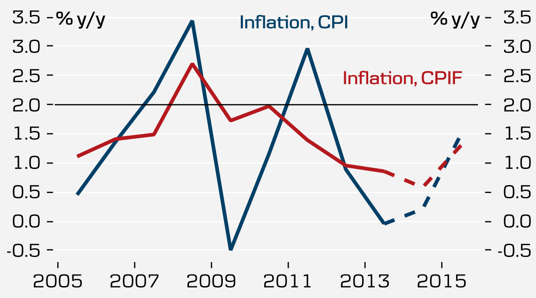
Encouragingly, the Riksbank has recently declared itself guilty of making too high inflation forecasts, hence holding interest rates too high as well. For any modern monetary policymaker this is quite a big deal. Thus, the Riksbank has repeatedly stated that not even stronger (than forecast) economic data would suffice to change its expansionary monetary policy stance. In addition, continued below forecast inflation outcomes would almost certainly provoke a reaction from the Riksbank.

Under any circumstances, recent Riksbank communication suggests that the Riksbank wants, or perhaps needs, to see inflation closing in on the 2% inflation target before eventually hiking rates. We would even go so far as to say that the Riksbank also wants to see 'the right type' of inflation before embarking on any hiking cycle.

What then is the right type of inflation? It is, in two words, wage inflation. Bar domestically generated, old school, wage inflation, of some magnitude, we believe the Riksbank will be very attentive not to push inflation expectations further south of the inflation target. Low for long remains the Riksbank mantra but, once the inflation genie has reappeared, we are certain the Riksbank response will be made in force, implying a swifter hiking cycle once the conditions to hike are there.

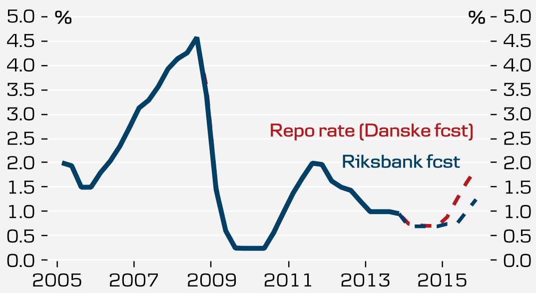
To sum up, we believe there is a not negligible chance of further, and what we feel are already warranted, monetary policy measures. Nevertheless, what the Riksbank *should* do and what the Riksbank eventually *chooses* to do always seem to be shrouded in political and philosophical veils of unknown origin, which is why we have refrained from incorporating additional monetary expansion into our point forecasts. It would be so much easier if only the Riksbank would '*Ring out false pride in place and blood, The civic slander and the spite; Ring in the love of truth and right, Ring in the common love of good'* and cut.

...and inflation to remain below target



*Source: **Statistics Sweden (SCB)**, Riksbank, Macrobond, Danske Bank calculations*

A cut...and a hike is a long way off...



Source: Riksbank, Macrobond, Danske Bank calculations

Sweden: Forecast at a glance

National account	2012	2012	2013	2014	2015
			Forecast		
	SEK bn		% y/y		
Private consumption	1718.2	1.6	2.0	2.5	2.5
Government consumption	955.7	0.3	2.0	1.6	0.7
Fixed gross cap formation	674.2	3.3	-1.3	5.0	6.3
Stocks*	-4.4	-1.3	0.2	0.2	-0.1
Domestic demand	3348.1	1.6	1.3	2.7	2.8
Exports	1722.4	0.7	-0.9	3.3	5.1
Aggregate demand	3343.7	0.3	1.5	3.0	2.6
Imports	1516.4	-0.6	-1.2	3.7	5.1
Net exports*	206.1	0.6	0.1	0.0	0.3
GDP	3549.7	0.9	1.5	2.8	2.8
- GDP, Calendar adjusted		1.3	*1.5*	*3.0*	*2.5*

* contribution to GDP growth

Economic indicators	2012	2013	2014	2015
Trade balance, SEK bn	84.6	81	92	101
in % of GDP	2.4	2.2	2.4	2.6
Current Account, SEK bn	229.1	240	243	260
in % of GDP	6.5	6.6	6.4	6.6
Public sector savings, SEK bn	-17.7	-44	-57	-48
in % of GDP	-0.5	-1.2	-1.5	-1.2
Public debt ratio, % of GDP*	38.2	41.0	41.5	41.9
Unemployment, % of labour force	8.0	8.0	7.8	7.5
Hourly wages, % y/y	3.1	2.1	2.3	2.6
Consumer prices, % y/y	0.9	0.0	0.2	1.5
House prices, % y/y	-1.4	3.5	-5.0	-3.0

* Maastricht definition

Financial figures	26.03.14	+ 3 mths	+ 6 mths	+ 12 mths
Repo-rate	0.75	0.75	0.75	0.75
2-yr swap yield	1.07	1.05	1.10	1.20
10-yr swap yield	2.47	2.50	2.60	2.85
SEK/EUR	8.90	8.80	8.80	8.60
SEK/USD	6.45	6.20	6.42	6.52

Source: Danske Bank

Norway

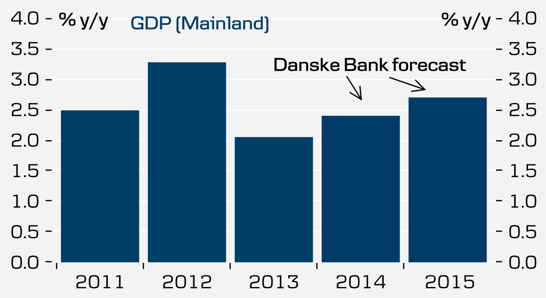
Growth picking up

- **Growth impulses from the oil industry and homebuilding are diminishing.**
- **Norwegian economic growth seems to be picking up, nevertheless, driven by exports and looser lending standards.**
- **The risk of a serious setback – especially in terms of the housing market – has eased.**
- **Inflation will be around target and unemployment largely stable.**
- **The krone will therefore strengthen somewhat.**
- **The chances of a rate cut are now very low and interest rates will probably go up before summer 2015.**

Stronger growth

After a long period of strong growth, the Norwegian economy decelerated towards the end of last year. The slowdown was due to surprisingly weak spending growth and lower growth in the oil supply sector and housing investment. Growth seems to have stabilised since and is now picking up again. We expect growth to be more or less on trend over the next couple of years, or around 2.5%. Although we expect oil investment to rise more slowly after several years of strong increases and so make less of a contribution to economic growth, this will be offset to some extent by stronger export growth, more relaxed bank lending standards and, perhaps, more expansionary fiscal policy. Signs of stabilisation in the housing market mean that we consider a sharp drop in housing investment unlikely. The slowdown has nevertheless given Norges Bank scope to leave its policy rate unchanged for longer than previously expected. The krone has now weakened sufficiently that the chances of further rate cuts are limited. We therefore expect the import-weighted exchange rate to strengthen further during the year.

Return to trend growth



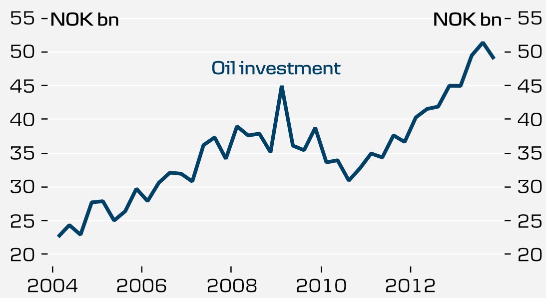
Source: Macrobond

Export-driven growth

The strong growth impulses from the oil sector diminished in H2 last year, pulling down economic growth, but there are signs of these impulses beginning to strengthen again somewhat. Mainland GDP climbed 0.6% q/q in Q4 and Norges Bank's regional network survey is suggesting a rather brighter growth outlook than at the end of last year.

Oil investment will make a solid contribution to growth once again in 2014, albeit a much smaller one than last year. According to Statistics Norway's latest oil investment survey, oil investment will grow by around 7% in 2014, much the same as indicated by the previous survey in November.

Oil prices are holding well over USD100/bbl, reducing the downside risk in the long term too Oil



Source: Macrobond

There have been clear signals from the oil companies, however, that investment levels in the coming years will be much lower than previously assumed. Parts of the supply sector have also begun to feel a drop-off in orders and some have announced redundancies. We are therefore assuming – with limited confidence – a moderate decline in investment levels in 2015 and a corresponding recovery in 2016. It appears that we may see different oil-related industries perform very differently in 2014 and 2015. Major variations on the supply side are part of the explanation, while position in the value chain will also affect market developments.

The deterioration in the housing market towards the end of last year seems to have resulted in reduced construction activity. Sales of new homes have fallen sharply and housing starts collapsed in January, which will pull down GDP growth, especially in Q1. On the other hand, homebuilding is now lagging sales, which means that stocks of unsold new homes will gradually be absorbed. Together with signs of stabilisation in the market for existing homes, this means that we expect construction activity to pick up again in H2. The civil engineering sector will also see strong growth, due primarily to an increase in public infrastructure investments.

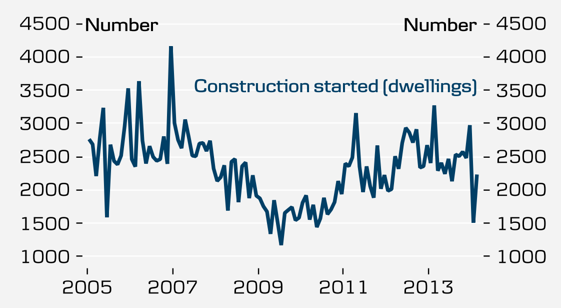
Growth in private consumption has once again been disappointingly weak. This is due partly to slightly slower growth in household disposable income but further increases in the savings rate have also contributed to weak spending growth. However, we see no real danger of a serious downturn in private consumption unless household finances deteriorate sharply.

As mentioned earlier, it appears that growth is now picking up despite the slowdown in oil investment. We believe that this is due to strong export growth and the relaxation of banks' lending standards.

Global economic growth has accelerated and, together with a substantial fall in the krone, given exporters a real lift. We are already seeing signs of this in leading indicators such as the PMI and Statistics Norway's business tendency survey, where the confidence indicator hit its highest level for two years in Q4. Actual industrial production has also increased this year after slowing towards the end of last year.

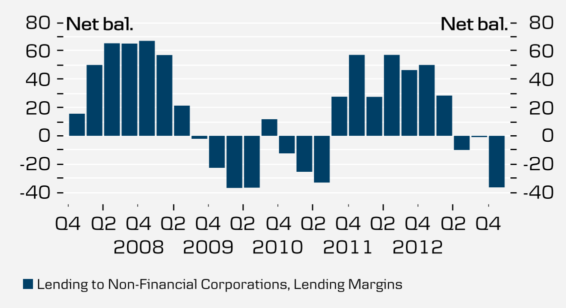
Uncertainty still surrounds the size and impact of the new countercyclical capital buffer announced in December last year but banks have come a long way in satisfying the new capital requirements. As lending margins have increased substantially over the past two years, we expect bank lending standards to be significantly more relaxed going forward. Easier access to credit will probably boost both the housing market and business investment. Norges Bank's latest bank lending survey confirms this picture, with banks reporting looser lending standards for both business and household borrowers. Banks are also reporting slightly lower margins on business lending, which is being exacerbated by global capital markets continuing to rally, resulting in large volumes and lower credit premiums.

Homebuilding down



Source: Macrobond

Looser lending standards



Source: Macrobond

Reduced risk of housing crash

After several years of strong growth, the housing market turned downwards last summer. House prices rose more slowly, time to sell increased, turnover fell and stocks of unsold homes grew. The risk of a serious downturn in the housing market therefore seemed to be mounting but we still did not consider it likely. The most important reason for this was that households' ability to service their mortgage debt was still very good.

All experience suggests that for as long as there is no dramatic deterioration in households' debt-servicing capacity, the housing market will not collapse. At the end of 2013, Norwegian households were spending just over 6% of disposable income on interest payments. This is considerably lower than in the 1980s and is also lower than in 2002 and 2008.

A decline in household debt-servicing capacity can come about via two main channels – a drop in incomes or a sharp increase in interest rates. Neither of these seems particularly likely in the coming years, which is why we still see the risk of a crash as limited.

Somewhat weaker house price inflation will also gradually help slow growth in household debt. There is therefore a good chance that the household debt burden will stabilise at current levels, which would reduce the downside risk if the Norwegian economy suffered a negative shock.

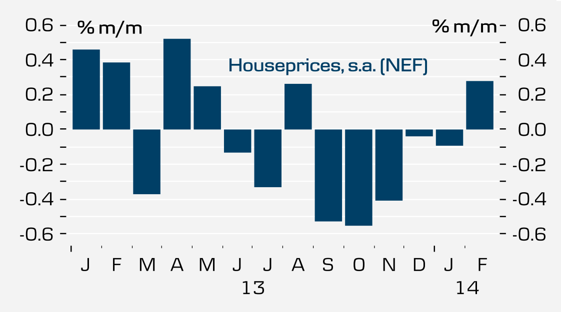
Developments since the last *Nordic Outlook* have also reduced the risk of a housing crash in Norway. Prices have stabilised and turnover is high, although time to sell is rising and the stock of unsold homes is expanding somewhat. It is also worth noting that a higher stock-to-sales ratio and longer time to sell may be signs of a healthier housing market. Inventory-to-sales is still below 2.5 months, so although it has increased somewhat over the past year, it is still lower than normal and far lower than in the countries that suffered a housing crash in 2007-2008.

Consumer spending remains weak. Despite making a good start to 2013, growth fell sharply in H2. However, this was only partly attributable to a deterioration in household finances and we still expect household real disposable income to grow by around 3% in 2014 and 2015.

The savings rate has continued to climb and is now record-high. The rise in savings since the financial crisis in 2008 has come despite low unemployment, low interest rates, high house prices and expansionary fiscal policy. This may have been due partly to greater uncertainty about economic growth in neighbouring countries and partly to a sharper focus on the need to step up pension savings in connection with the retirement reforms.

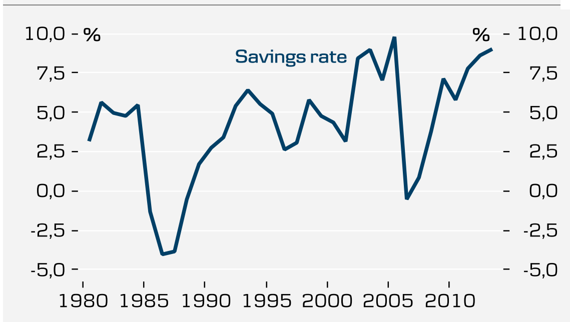
Either way, the result is that the household sector's financial position is far stronger than in the years before the financial crisis. Financial saving is actually increasing despite the rapid growth in debt, so we see no sign of the rise in savings in Norway being driven by a need to correct imbalances in households' underlying finances. The record-high savings rate being the prime reason for weaker consumption growth also reduces the downside risk to consumer spending during the forecast period. We predict further

House prices climbing again



Source: Macrobond

Record-high savings rate



Source: Macrobond

moderate growth in the savings rate, with the result that spending grows slightly more slowly than income, but still by 2.5-3%.

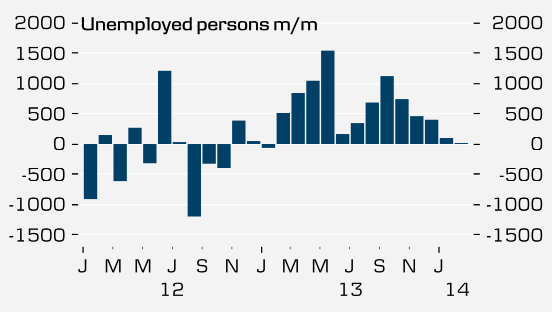
Unemployment stabilising

With economic data painting a somewhat mixed picture, developments in the labour market serve as a useful cross-check for whether growth is above or below trend. Gross unemployment, which includes those on job creation schemes and is our preferred jobless measure, rose gradually in 2013. It increased by more than 1,100 people m/m as recently as September but slowed slowly but surely over the rest of the year and was virtually unchanged m/m in February this year. This is a good indication that growth is now very near the trend rate.

Statistics Norway's LFS data also show that employment is picking up. The LFS data may, however, be overestimating employment at the moment, as there is a large element of foreign labour in industries that are now downsizing, such as construction and shipbuilding, and these people will not show up in the LFS data.

Based on our forecast that economic growth will gradually pick up, we expect that employment growth will eventually exceed 1%, with the result that unemployment stabilises around current levels. One reason is that growth in the labour supply is slowing as a result of lower net immigration. This is probably due to the deterioration in the labour market, which goes to show that the Norwegian labour market has become more flexible since the enlargement of the EU in the 2000s.

Jobless rate no longer climbing



Source: Macrobond

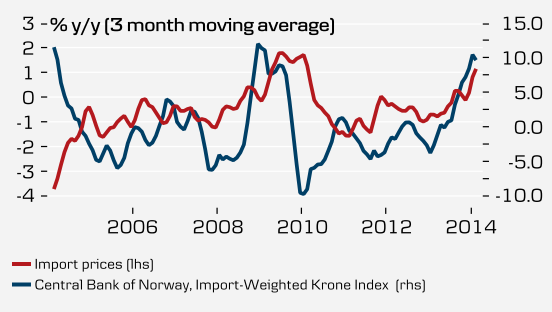
Inflation set to fall

Core inflation is on the rise, and the period of disinflation definitely seems to be over. This is due primarily to the weakening of the krone exerting upward pressure on import prices. At the same time, productivity growth is still moderate and this, coupled with wage growth close to 4% last year, has contributed to domestic prices rising at 2.75-3% y/y.

Given the normal time lag of 6-9 months between movements in the krone and prices of imported goods in the stores, higher import prices will probably continue to push up core inflation for a few months yet. The krone has now begun to recover, however, and so this effect will dwindle in H2.

There is also the prospect of wage growth of around 3.5% this year, which is slightly lower than last year. Together with signs that productivity growth has bottomed out, this means that domestic inflation will stabilise. We therefore expect core inflation to rise through to the summer but then drop back towards an annual rate of just over 2% towards the end of the year.

Imported inflation set to fall soon



Source: Macrobond

Krone rally to continue

The deterioration in the krone last year was fuelled by a number of factors. Many of the safe-haven flows into the krone in autumn 2012 headed back out of the country as global risk appetite recovered. This was exacerbated by lower oil prices and a general increase in uncertainty about the outlook for the Norwegian economy.

However, the relative economic situation still indicates that the krone will remain comparatively strong for the next couple of years. It is also worth noting that the krone is still weaker than assumed by Norges Bank at its rate-setting meeting in December.

As expected, the bank once again left interest rates unchanged at its meeting in March. Its projections for both the domestic and the global economy were more or less unchanged from December, so there were no major revisions of the interest rate path either. Norges Bank still envisages a first rate hike in early summer 2015, with interest rates then gradually pushing up during the forecast period.

Norway: Forecast at a glance

National accounts	2012 (2011 prices)	Forecast 2013	Forecast 2014	Forecast 2015
	NOK bn			
Private consumption	1163.7	2.1	2.5	2.9
Public consumption	602.7	1.6	2.0	2.2
Gross fixed investment	583.8	8.7	0.7	4.6
Petroleum activities	166.1	18.0	0.0	5.0
Mainland Norway	391.3	4.7	1.1	4.0
Dwellings	129.4	6.4	-2.3	2.8
Enterprises	175.8	1.0	2.5	4.7
General government	86.1	9.5	3.6	4.1
Mainland demand	2157.6	2.4	2.0	2.6
Growth contribution from stockbuilding		0.0	0.0	-0.1
Exports	1165.8	-3.9	1.7	2.0
Crude oil and natural gas	572.4	-7.3	1.5	1.0
Traditional goods	482.5	0.8	2.2	3.7
Total demand	3626.7	3.2	0.7	2.2
Imports	796.2	2.5	2.7	3.5
Traditional goods	482.5	2.5	2.9	3.4
GDP	2830.5	0.6	1.0	2.0
GDP Mainland Norway	2146.1	2.0	2.4	2.7

Other posts	2013	2014	2015
Employment, % y/y	1.2	1.0	1.2
Labour force, % y/y	1.1	1.0	1.2
Unemployment (LFS), %	3.5	3.5	3.5
Annual wages, % y/y	3.9	3.5	3.6
Consumer prices, % y/y	2.1	2.4	2.0
Core inflation	1.6	2.5	2.2

Financial figures	26/03/2014	+3m	+6m	+12m
Deposit rate	1.50	1.50	1.50	1.50
2y swap rate. %	1.94	2.00	2.05	2.15
10y swap rate, %	3.11	3.20	3.35	3.60
EUR/NOK	8.34	8.20	8.10	8.00
USD/NOK	6.04	5.77	5.91	6.06

Source: Danske Bank

Finland

Recovery still waiting to happen

- **We have revised down our forecast and expect Finnish GDP to grow only 0.5% in 2014. The Finnish economy slipped deeper into recession in Q4 13 and manufacturing figures were disappointingly weak in January. We continue to expect a modest export-led recovery in 2014 on the back of growth in western markets, although the crisis in Crimea is casting a shadow on exports to Russia.**
- **The outlook for domestic demand is gloomy. Household purchasing power is flat, due to tax hikes and a moderate wage agreement. Surveys point to weak expectations in retail trade and especially construction. Manufacturing capex is also weak. The public sector is being forced to cut the deficit and we do not expect additional stimulus for the time being.**
- **Exports have lagged the eurozone's recovery, but we expect modest growth in 2014. Exports have suffered long-term damage from the fall of Nokia and the forestry industries, which are only slowly being replaced. Exports have also suffered from a high share of investment goods, which are in short demand at the moment and poor price competitiveness caused by wage increases between 2008-12.**
- **Despite the poor economic performance since 2012, employment has remained decent, corporate bankruptcies low, the housing market calm and the banking system solid. Household and corporate balance sheets continue to be healthy and very low interest rates support activity as nearly all housing loans are linked to variable euribor rates.**
- **The new structural reforms announced in August 2013 (*see Research Finnish Economy: Focus on structural reforms, 30 August 2013*) should take Finland a long way towards more sustainable public finances. Details of the reforms are due to be published in late March. The debt to GDP ratio continues to increase in the absence of decent growth. The structural reforms and modest debt level help to maintain Aaa ratings in 2014, although the weak economic outlook worries rating agencies.**

Late recovery

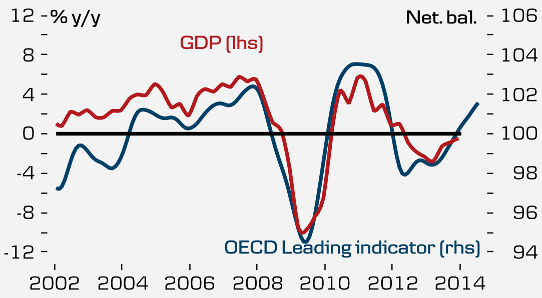
Finland's GDP disappointed in Q4 13 and fell 0.3% q/q, making it the seventh consecutive quarter without growth. GDP was 1.4% lower in 2013 y/y. Thus, after revisions, the Finnish economy was stuck in recession. The situation did not improve much in Q1 14, although the monthly working day adjusted GDP indicator was 0.2% up y/y in January. The figures give a poor starting point for 2014. We expect net exports to pull GDP onto a positive trend, while domestic demand continues to crawl slowly.

Changes relative to previous forecast

	Current forecast		Previous forecast	
	2014	2015	2014	2015
GDP	0.5	1.8	1.1	2.0
Unemployment rate	8.4	8.3	8.4	8.2
Inflation, %	1.3	1.4	1.2	1.5
Earnings, %	1.3	1.2	1.4	1.2
Housing prices, %	0.5	1.5	1.0	1.5
Current account, % of GDP	-0.8	-0.5	-0.8	-0.6
Public debt, % of GDP	58.5	60.5	61.0	62.0

Source: Danske Bank

OECD leading indicator signals growth in 2014



Source: Macrobond

Recent events in Ukraine and Russia cast a shadow on the exports-led recovery, especially if sanctions against Russia disrupt trade.

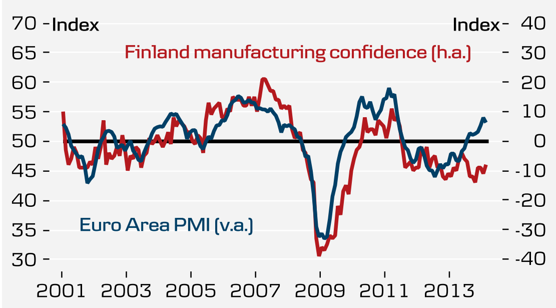
The underlying figures for domestic demand were weak across the board in Q4. Private consumption fell 0.7% q/q, because weak purchasing power and fear of unemployment hit trade. Only durable goods sales were slightly up, supported by car sales recovering from a tax shock in 2012. Investments were 8.9% lower y/y. Construction fell earlier in 2013 and industrial capex fell in Q4. Only public consumption rose slightly by 0.4% q/q, although the government is trying to curb expenditure. Exports slipped a bit, but were still 1.6% higher y/y in Q4. An improving trend in goods exports was halted in January, when the value of goods exports fell 9% y/y. Adjusting for larger ship deliveries in 2013, exports to the EU have started to rise, while exports outside were significantly down in January. Manufacturing figures were downbeat in January, but retail sales recorded a volume increase of 0.8% y/y.

We expect the export markets in the EU to gain strength, especially if pent-up demand for investment goods transforms into orders. Inventories have been depleted and manufacturing will need to step up production if new orders begin to grow. So far, the situation is sluggish.

Leading indicators have improved, but continue to be on the weak side. Consumer confidence has been stable and manufacturing was less pessimistic in February. The OECD leading indicator, which has been a fairly robust indicator in recent years, has continued to improve. Manufacturing export expectations have risen, which supports our view that exports are pulling Finland out of recession. The rise in the euro area purchasing manager index is also promising as Finnish manufacturing confidence tends to follow with a lag.

Assuming the US leads a global recovery and the euro area is also gaining strength, we expect orders to rise and output to grow before summer 2014. Due to weaker-than-expected Q3-Q4 13 figures and poor manufacturing orders in January, we have revised our estimate for 2014 downwards. We expect GDP to rise only by 0.5% (previously 1.1%) as we see weakness in domestic demand and a slow reaction in exports to the global outlook. A recession in an important export market such as Russia would not leave the Finnish economy untouched.

Manufacturing confidence lags euro area PMI



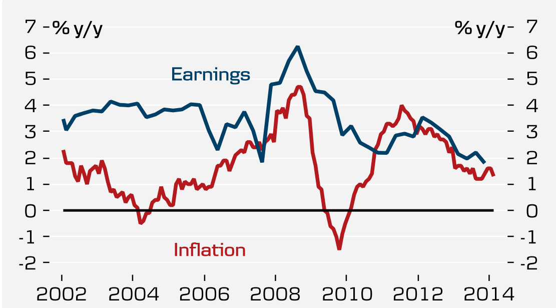
Source: Macrobond

Consumers resilient in the face of flat earnings

Consumer buying power has been roughly flat since 2012, while consumption grew substantially in 2010 and 2011 on the back of low interest rates and rising real wages. Private consumption was 0.7% down q/q and 1.8% lower y/y in Q4. Part of the household consumption weakness in 2013 was artificial, as the national TV licence fee was transformed into a tax, which shifted half a billion euros from private consumption to public consumption. The sales volume of retail trade rose by 0.6% y/y in October 2013 and the motor vehicle trade partially recovered from the tax shock in 2012, but the future outlook continues to be soft.

The outlook is weak as consumer confidence remains at low levels and purchasing power is likely to stay relatively flat in 2014-15. In the forecasting period, wage growth will be roughly in line with inflation at a time when tax increases take effect. We also expect consumer confidence to

Inflation and wage growth continue to decline



Source: Macrobond

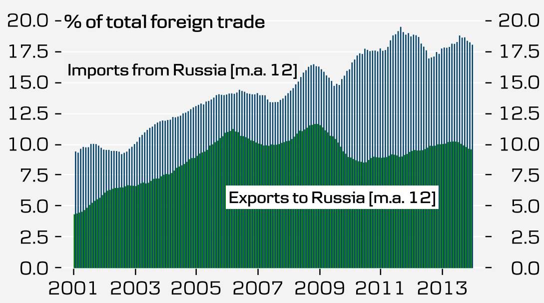
remain at mediocre levels at best as employment figures continue to weaken in the next few months. Low interest rates will help to sustain private activity, but past high growth figures are not realistic or sustainable. The outlook into 2015 is also restrained with only modest wage growth and an already low savings rate with little additional room to boost spending. We expect private consumption to grow 0.2% in 2014.

Inflationary pressures are modest because of the existing output gap (roughly 2-3% of the GDP), less pressure from global food and energy prices and moderate wage increases limit cost pressures. Tax hikes pushed consumer prices by approximately 0.5% higher at the beginning of 2014. Inflation slowed down to 1.3% in February, due to a slowdown in food prices. HICP inflation was 1.6%, the highest in the eurozone. We expect the national inflation index to average 1.3% in 2014 and 1.4% in 2015.

Export-led recovery in Finland shadowed by Russia

The volume of exports rose 1.9% y/y in October-December 2013. The rise was based on goods exports while volatile services exports contracted. Exports fell 0.6% versus Q3 14 as a result.

Exports to Russia are important but volatile



Source: Macrobond

The outlook for the main Finnish export markets Germany and Sweden has remained relatively positive. Exports to Russia failed to rise in 2013 as the Russian economy developed less favourably than expected. We expect the strength in the US and EU economies to boost Finnish exports in 2014, although the shadow from the east has emerged.

The crisis in Crimea has caused some tension in EU-Russian commercial relations and the weaker rouble has already affected export competitiveness. EU sanctions against Russia have not caused further problems in trade so far, although Russian customs have separately announced that they will stop handling TIR freight shipments at the Finnish border. Russia counted for about 9.5% of Finnish goods exports in 2013 and 18% of goods imports (oil and gas count substantially). Russian trade has been volatile in the past. The collapse of trade with the Soviet Union was a major reason behind the Finnish depression in the early 1990s. The Russian crisis in 1998 nearly halved Finnish exports to Russia, but at that time Finland did not suffer a recession, because other exports performed well and Nokia was growing fast. This time could be a halfway event; the Finnish economy is not nearly as sensitive to Russia as it was to the Soviet Union, but Finland does not have Nokia-size success stories either.

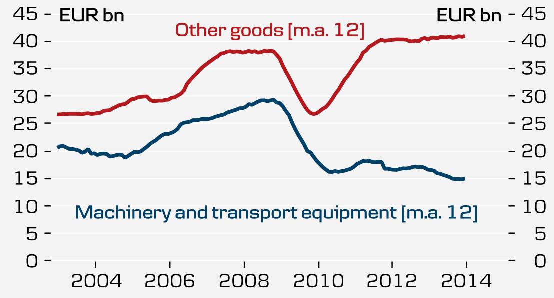
The events behind the eastern border have other important implications for Finland as well. Not only trade, but tourism and some investment plans (Rosatom is building a nuclear reactor in Finland) could be affected. Russian tourists make half of the visits to Finland and their travel is likely to fall, based on the number of visa applications and border crossings in February. Currently, we expect the weakening to be temporary and not a major factor for the outlook for 2014, but the situation could change.

Exports of goods have suffered long-term damage from the descent of Nokia and forestry industries. Exports have also suffered from the high share of investment goods, which are in short demand at the moment and poor price competitiveness caused by wage increases between 2008-12.

If pent-up investment demand is released in Europe and Finland regains competitiveness through wage moderation, exports could grow relatively quickly in the medium term. Also, a weaker euro would boost the export outlook.

One reason for the poor development is the loss of price competitiveness compared with Germany and some other countries. Labour costs rose faster in Finland than in most other EU countries in 2008-12. This has been partly mitigated by a strong SEK exchange rate, which has helped Finnish companies versus Swedish companies. There exists a widespread drive to improve competitiveness in order to preserve the strong manufacturing base in Finland. Exports are seen as the best and only way out of the slump. Labour unions have agreed on a very moderate wage rise in the medium run. Wages will rise only EUR20 per month in 2014 and 0.4% in 2015, in addition to some wage drift. The corporate tax rate fell to 20% at the beginning of 2014. Thus, all hopes are on exports and not on domestic demand.

Investment goods drag down Finnish exports



Source: Macrobond

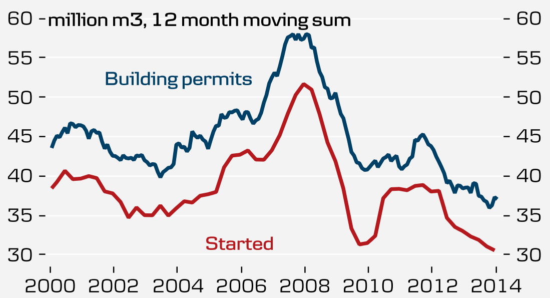
Poor manufacturing confidence and low order book levels suggest that exports continued to perform modestly at best in early 2014. Assuming a continued recovery in the euro area and a brighter global outlook, we expect exports to rise by 2.0% in 2014.

There was a current account surplus between 1994-2010, but it fell with the trade balance into a small deficit in 2011. The current account deficit was at 1.1% per GDP in 2013. We expect a current account deficit also in 2014-15, driven by large net transfers. The trade balance has actually returned to a surplus, due to falling imports. The current account deficit is forecast to improve to 0.5% per GDP in 2014 and to be nearly balanced in 2015.

Widespread weakness in investments

In 2013, investments fell by 4.6%. The continued slump in construction contributed to the decline. Also, the downturn in machinery, equipment and transport equipment investments intensified the overall development in H2 13. Weakness in the construction sector was expected as building permits continued to slip. The level of permits indicates a difficult H1 14 despite the positive turn in December. Low demand in manufacturing does not bode well for investments until exports markedly pick up from current levels. Weary construction confidence and low intentions for industrial investments confirm the cloudy picture. Due to the challenging situation in public finances, we do not expect any significant stimulus from the government in 2014-15.

Indicators suggest weak construction activity



Source: Macrobond

We expect investments to continue to decline 1% in 2014, which would mark a third consecutive year that fixed investments have declined. The last time investments contracted for three successive years was in the early 1990s recession. In 2015, increasing external demand and a recovery in the construction sector turned investments into 2.5% growth.

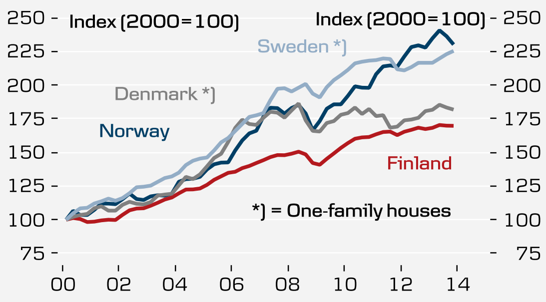
Housing prices briefly declined

Prices for old dwellings in blocks of flats and terraced houses fell by 1% m/m in December. According to the preliminary figures, the decline continued in January by 0.5% m/m.

Housing prices have been broadly flat for the past three years in most cities and increased primarily in Helsinki. In 2013, prices increased by 1.6%, driven by the development in the Helsinki Metropolitan Area. In 2013, an important event in the housing market was when the transfer tax was increased in March. This contributed to a clear fall in property transactions and increased selling times accordingly. The number of residential property transactions in 2013 was around 10% below the previous year's figures. Due to the poor economic development, intentions to buy a dwelling declined towards the end of the year. At the same time, banks tightened lending standards and average housing loan margins increased from 136 basis points (bp) at the end of 2012 to 156bp at the end of 2013, according to the Bank of Finland. Housing loan stock continues to grow albeit at a slower pace. In January 2014, the stock grew by 2% y/y – well below the 6% figures seen in 2010-12.

Housing market conditions remain uncertain for 2014. The demand side is being squeezed due to unemployment increases and real wages stagnating. The economic outlook is murky and the incentive to buy has declined as the share of deductibility of housing loan interests in taxation is set to decrease to 75% in 2014 and 70% in 2015. No significant support is to be expected from the supply side as banks react to new regulatory demands and the low interest environment although housing loan margins stabilised in the latter part of 2013.

Housing prices in the Nordic countries



Source: Macrobond

Despite some of the above-mentioned headwinds, there are also factors pushing in the other direction. The interest rate burden has stayed at record low levels despite increases in bank lending margins. The debt-to-income ratio of Finnish households, although it has been increasing, is still well below that of other Nordic countries. Finnish households are still able to amortise debt as the exceptionally low interest rate transmits effectively in the Finnish housing market due to the high percentage of variable rate loans. Also, the chronic lack of supply in growth centres, especially in the Helsinki Metropolitan Area, supports the price level. As mentioned in the previous segment, the outlook for newbuilding is subdued.

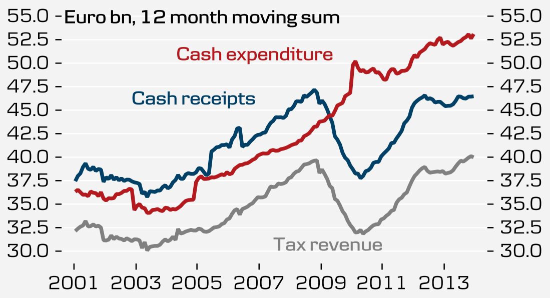
In order to prevent future housing market bubbles, in February, the government proposed a new loan-to-value limit in housing loans. The law is widely expected to come into force from H2 16. The law plans to limit the housing loan amount to 90% (95% for first-time buyers) of the collateral, which is usually the dwelling in question. As the definition of the collateral includes other assets, this should not significantly affect the housing market as it currently lies. The main benefit is for the FSA to limit the collateral conditions in exceptional circumstances. The banking industry has also taken a positive stand on the law.

We expect nominal prices to rise only 0.5% in 2014. Next year, we forecast housing prices to increase by 1.5%. Despite the past price increases, we do not see a major risk of a bubble, as prices have generally risen in line with earnings. A major decline in housing prices could be initiated only by much higher long-term unemployment or surging interest rates, which both look unlikely despite the lacklustre economic outlook.

In the absence of growth, debt keeps on growing

One of the main economic objectives of the coalition government has been to stop the rise in the debt level. However, after two years of falling GDP, the public debt-to-GDP increased from 49.3% in 2011 to 56.9% at the end of 2013. The government has raised slightly below EUR5bn in savings by raising taxes and cutting spending. Central government spending levels in the budget for 2014 are slightly below 2013 figures. According to the budget, the net loan amount will increase by EUR7bn. Stimulus to support the economy is unlikely before the parliamentary elections in spring 2015. All in all, the debt continues to grow in the absence of growth. This is to be expected as cyclical expenditures increase and the tax base shrinks.

Central government to remain in deficit



Source: Macrobond

The main challenge in public finances lies in the long-term sustainability gap as the ageing population begins to burden the healthcare system and limit the growth potential. Finally, the coalition government turned its attention to the long-run questions in the autumn 2013, when the administration published new structural reforms intended to increase the labour force participation rate and labour productivity (*see 'Research Finnish economy: Focus on structural reforms',* 30 August 2013). These measures, if properly implemented, could turn the debt ratio into a decline after 2015. On 25 March, the government announced new austerity measures (see *Research Finland: Fiscal austerity to last several years*, 26 March). The additional austerity totalled EUR2.3bn between 2015 and 2018. As a result of the tax increases and expenditure cuts, the Left Alliance resigned from the government.

The forthcoming EU-wide revision of national accounts (ESA 2010) has the potential to lift reported GDP and thus keep the debt ratio lower than otherwise from July 2014 onwards, when the new statistical method is adopted. The revision will count R&D expenditure as investment, which could raise GDP by 4% in Finland and as a side effect lower the debt ratio by 2 percentage points. We forecast the debt ratio to be 58.5% in 2014 and to reach 60.5% by the end of 2015 even with the new method.

Public consumption increased by 0.8% in 2013 but this was mainly due to changes in the calculation of expenses in the public broadcasting. As this one-time effect vanishes and tight budgets continue, public spending is expected to stay nearly flat in the next years. Even though Finland is one of the least indebted euro area countries, no political party has the appetite for expansionary public finances. The remaining space for fiscal expansion is being reserved as a buffer against major shocks and future demographic changes.

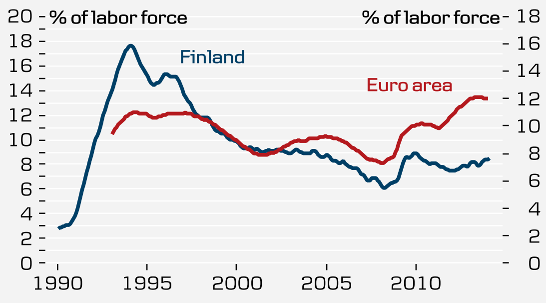
Within the euro area, the Republic of Finland continues to enjoy one of the lowest risk premiums compared to Germany. The triple-A rating with stable outlook from all three major credit rating agencies underlines the strength and confidence in the public finances. We expect the fairly low level of public debt, excellent track record and policy decisions to continue to keep the Finnish risk premium low, interest rates low and credit ratings high.

Weakness in the labour market

The official employment figures have remained surprisingly stable despite two consecutive years of declining GDP. The unemployment rate stayed close to 8% in 2010-13. According to Statistics Finland, the seasonallyadjusted unemployment rate was 8.4% in January. However, the official figure understates the poor labour market conditions, as people are giving up on looking for work, which can be seen in the shrinking labour force and the increasing share of inactive population. Also, the number of registered unemployed at the employment and economic development offices has continued to increase in recent months. In addition, news of new lay-offs has been persistent and according to surveys, intentions to hire new workers are sluggish in almost all industries. New vacancies at employment offices stood at 55,000, down 1,000 from 2013.

We forecast the unemployment rate to increase until mid-2014 as the economic downturn weighs on the labour market. The average unemployment rate is expected to be 8.4% in 2014. In 2015, the better economic environment together with a shrinking labour force should stabilise unemployment at around 8.3%. The number of employed persons is likely to continue to fall slightly as the ageing trend will limit the supply of labour in coming years. Lost manufacturing jobs are largely being replaced by jobs in the services sectors.

Unemployment rate to stay above 8%



Source: Macrobond

Finland: Forecast at a glance

National accounts	2011	2012	2013	2014	2015
			Forecast		
		Volume, y-o-y %			
GDP	2.8	-1.0	-1.4	0.5	1.8
Imports	6.2	-0.7	-1.8	1.0	3.0
Exports	2.8	-0.2	0.3	2.0	4.0
Consumption	1.9	0.4	-0.3	0.2	0.5
- Private	2.5	0.3	-0.8	0.2	0.9
- Public	0.5	0.5	0.8	0.3	0.3
Investments	5.8	-0.8	-4.6	-1.0	2.5

Key Performance Indicators	2011	2012	2013	2014	2015
Unemployment rate, %	7.8	7.7	8.2	8.4	8.3
Earnings, %	2.7	3.5	2.0	1.3	1.2
Inflation, %	3.4	2.8	1.5	1.3	1.4
Housing prices, %	2.7	1.7	1.6	0.5	1.5
Current account, Bn, EUR	-2.8	-3.2	-1.6	-1.0	-0.5
Current account/GDP, %	-1.5	-1.7	-0.8	-0.5	-0.2
Public deficit/GDP, %	-0.7	-1.8	-2.0	-1.7	-1.4
Public debt/GDP, %	49.3	53.6	56.9	58.5	60.5

Financial figures	26/03/2014	+ 3 mths	+ 6 mths	+ 12 mths
Repo rate, %	0.25	0.15	0.15	0.15
2 year swap rate	0.48	0.50	0.55	0.60
10 year swap rate	1.79	1.85	2.05	2.45
EUR/USD	1.38	1.42	1.37	1.32

*Source: Danske Bank * Forecasts: Sampo Bank/Economists*

Global overview

Recovery continues with bumps on the road

- **Global growth slowed somewhat at the beginning of 2014 as especially China and the US economy lost some momentum. However, the global economy is expected to gain some speed again in H2.**
- **The medium-term drivers for global growth are still decent: less political uncertainty, an end to austerity, falling commodity prices and pent-up demand. However, there will be bumps on the road as seen currently, with bad weather in the US and Chinese tightening in 2013 having dampened growth temporarily.**
- **Monetary policy is expected to stay very accommodative for a long time as a lot of slack remains and rising energy production is putting downward pressure on inflation.**

Global GDP outlook versus consensus

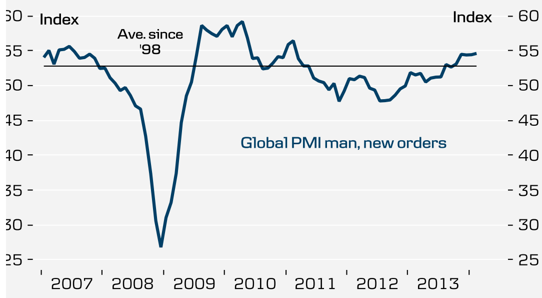
% y/y	2014 Danske Bank	2014 Consensus	2015 Danske Bank	2015 Consensus
USA	2.8	2.7	3,4	3,0
Euro area	1,3	1.1	1,7	1.5
Japan	2,0	1.4	1,6	1,2
China	7,6	7.4	7,4	7,2
Global	3.8	3,7	4,1	3,9

Source: Danske Bank, Bloomberg

The global recovery is expected to continue its gradual path away from crisis and towards a firmer footing in coming years. The end of the euro crisis and an end to years of austerity in Europe and to some extent also the US have provided a platform for a recovery. Asset prices have increased significantly, providing consumers with greater wealth and companies with cheaper financing costs. Both business and consumer sentiment improved in 2013 and consumer spending and investments have slowly gained some pace.

In the short term, we are likely to hit a small speed bump. Bad weather and higher gasoline prices in the US have restrained spending, inventories are a bit on the high side and a rise in US mortgage rates in recent years has slowed the housing recovery. China has also slowed following policy tightening during the autumn 2013. However, these forces are expected to be temporary and we look for growth to regain speed in H2.

Global recovery continues to unfold



Source: Danske Bank, Macrobond Financial

In Europe, growth surprised on the upside in 2013. The UK has seen strong growth and countries burdened by the debt crisis have seen a significant fall in bond yields and improving sentiment. Activity is starting to respond positively to this, not least in Spain. The European recovery is underpinned by significant pent-up demand following the crisis years and a sharp turn in sentiment.

The weak link in the global economy is emerging markets (EM), which has still not risen from the dust. China has reached a lower long-term growth level and local imbalances in some EM countries have led to capital outflows and policy tightening. During 2014, however, we believe a rise in exports will come from the recovery in developed markets and a significant weakening of many EM currencies. This should pave the way for a slow recovery in EM.

Currently, the main risks include an escalation in geopolitical risks coming from the Ukraine/Russia conflict and a potential credit event in China.

Economic forecast

Macro forecast, Scandinavia

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2013	0.4	0.0	0.9	0.8	0.2	1.0	1.5	0.8	5.8	-0.9	44.5	7.3
	2014	1.5	1.1	1.7	2.2	0.0	2.8	2.3	1.0	5.5	-1.0	43.3	6.8
	2015	2.0	1.5	0.5	2.8	0.0	3.4	2.6	1.5	5.3	-2.3	44.1	6.1
Sweden	2013	1.5	2.0	2.0	-1.3	0.2	-0.9	-1.2	0.0	8.0	-1.2	41.0	6.6
	2014	2.8	2.5	1.6	5.0	0.2	3.3	3.7	0.2	7.8	-1.5	41.5	6.4
	2015	2.8	2.5	0.7	6.3	-0.1	5.1	5.1	1.5	7.5	-1.2	41.9	6.6
Norway	2013	2.0	2.1	1.6	8.7	0.0	-3.9	2.5	2.1	3.5	-	-	-
	2014	2.4	2.5	2.0	0.7	0.0	1.7	2.7	2.4	3.5	-	-	-
	2015	2.7	2.9	2.2	4.6	-0.1	2.0	3.5	2.0	3.5	-	-	-

Macro forecast, Euroland

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euroland	2013	-0.4	-0.5	0.3	-2.8	-0.1	1.3	0.1	1.4	12.1	-3.1	95.5	2.7
	2014	1.3	0.9	0.1	3.2	0.2	3.8	3.5	0.7	12.0	-2.5	95.9	2.9
	2015	1.7	1.4	-0.1	4.1	0.0	4.4	4.4	1.0	11.7	-2.4	95.4	3.0
Germany	2013	0.5	1.0	0.7	-0.5	0.2	1.0	1.0	1.6	5.3	0.0	79.6	7.0
	2014	2.5	1.4	0.9	6.3	-0.1	5.9	4.4	1.3	5.3	0.1	77.1	6.6
	2015	3.0	1.8	0.4	7.8	0.0	4.9	4.8	2.0	5.1	0.2	74.1	6.4
France	2013	0.3	0.4	1.7	-2.1	0.0	0.6	0.8	1.0	10.8	-4.1	93.5	-1.8
	2014	1.0	1.1	0.7	1.7	0.0	3.7	3.9	0.7	11.2	-3.8	95.3	-1.5
	2015	1.4	1.3	0.0	3.9	0.0	4.5	4.5	1.0	11.3	-3.7	96.0	-1.5
Italy	2013	-1.9	-2.4	-0.1	-5.1	-0.6	0.1	-2.5	1.3	12.2	-3.0	133.0	1.0
	2014	0.5	0.3	0.0	1.2	0.3	3.6	3.5	0.8	12.4	-2.7	134.0	1.2
	2015	1.3	1.3	-0.2	2.1	0.0	4.1	4.1	1.5	12.1	-2.5	133.1	1.1
Spain	2013	-1.2	-2.1	-2.3	-5.1	0.0	4.9	0.4	1.5	26.4	-6.8	94.8	1.4
	2014	0.8	1.4	-2.9	1.0	0.0	5.2	4.4	0.3	26.4	-5.9	99.9	2.6
	2015	1.5	1.2	-0.2	2.2	0.0	4.8	4.1	0.7	25.3	-6.6	104.3	3.1
Finland	2013	-1.4	-0.8	0.8	-4.6	-	0.3	-1.8	1.5	8.2	-2.0	56.9	-0.8
	2014	0.5	0.2	0.3	-1.0	-	2.0	1.0	1.3	8.4	-1.7	58.5	-0.5
	2015	1.8	0.9	0.3	2.5	-	4.0	3.0	1.4	8.3	-1.4	60.5	-0.2

Macro forecast, Global

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
USA	2013	1.9	2.0	-0.6	4.4	0.0	2.8	1.4	1.1	7.4	-4.0	73.0	-2.7
	2014	3.0	2.7	-0.4	6.2	0.0	9.0	4.5	1.2	6.7	-3.4	74.0	-2.8
	2015	3.4	3.0	0.7	7.5	0.0	8.0	6.5	1.7	6.3	-2.5	72.0	-2.9
Japan	2013	1.7	2.0	1.6	2.0	-0.2	1.8	2.7	0.2	4.0	-9.5	243.0	0.8
	2014	2.0	1.0	1.0	3.0	0.1	7.0	4.2	2.8	3.8	-6.8	242.0	1.5
	2015	1.6	0.2	0.9	1.8	0.3	7.3	2.6	2.2	3.6	-5.7	242.0	1.8
China	2013	7.7	-	-	-	-	-	-	2.7	4.3	-1.5	22.8	1.9
	2014	7.6	-	-	-	-	-	-	2.9	4.3	-1.8	20.9	2.5
	2015	7.4	-	-	-	-	-	-	3.2	4.2	-1.8	19.3	2.7
UK	2013	1.8	2.3	0.7	-0.9	0.3	0.7	0.7	2.6	7.6	-4.7	88.9	-2.8
	2014	2.8	2.0	0.8	9.1	-0.1	2.5	1.7	1.9	6.8	-3.7	94.9	-2.3
	2015	2.6	2.0	-0.5	6.6	0.0	4.5	2.8	1.8	6.5	-2.7	96.6	-1.9

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

Financial forecast

Bond and money markets

		Key int. rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK
USD	26-Mar	0.25	0.23	0.57	2.87	138.0	-	541.1
	+3m	0.25	0.25	0.55	2.80	142	-	525
	+6m	0.25	0.25	0.80	3.05	137	-	545
	+12m	0.25	0.45	1.30	3.40	132	-	565
EUR	26-Mar	0.25	0.32	0.48	1.79	-	138.0	746.5
	+3m	0.15	0.30	0.50	1.85	-	142	746.0
	+6m	0.15	0.30	0.55	2.05	-	137	746.0
	+12m	0.15	0.30	0.60	2.45	-	132	746.0
JPY	26-Mar	0.10	0.14	0.19	0.82	141.1	102.3	5.29
	+3m	0.10	0.15	0.20	0.85	149	105	5.01
	+6m	0.10	0.20	0.25	0.90	151	110	4.94
	+12m	0.10	0.20	0.25	0.95	151	114	4.94
GBP	26-Mar	0.50	0.52	1.04	2.79	83.5	165.3	894.4
	+3m	0.50	0.55	1.15	2.95	83.0	171	899
	+6m	0.50	0.56	1.35	3.15	80.0	171	933
	+12m	0.50	0.82	1.85	3.45	79.0	167	944
CHF	26-Mar	0.00	0.02	0.09	1.28	122.3	88.6	610.5
	+3m	0.00	0.00	0.15	1.45	123	87	607
	+6m	0.00	0.00	0.15	1.45	124	91	602
	+12m	0.00	0.00	0.35	1.55	126	95	592
DKK	26-Mar	0.20	0.30	0.66	2.06	746.5	541.1	-
	+3m	0.20	0.35	0.70	2.10	746	525	-
	+6m	0.20	0.35	0.75	2.30	746	545	-
	+12m	0.20	0.35	0.80	2.70	746	565	-
SEK	26-Mar	0.75	0.93	1.07	2.47	889.7	645.0	83.9
	+3m	0.75	0.95	1.05	2.50	880	620	84.8
	+6m	0.75	0.95	1.10	2.60	880	642	84.8
	+12m	0.75	0.95	1.20	2.85	860	652	86.7
NOK	26-Mar	1.50	1.70	1.94	3.11	834.1	604.6	89.5
	+3m	1.50	1.73	2.00	3.20	820	577	91.0
	+6m	1.50	1.75	2.05	3.35	810	591	92.1
	+12m	1.50	1.85	2.15	3.60	800	606	93.3

Equity Markets

Regional		Risk profile 3 mth.	Price trend 3 mth.	Price trend 12 mth.	Regional recommendations
USA	Corporate earnings surprise	Medium	-10/0%	0%-5%	Mild overweight
Emerging markets (USD)	Uncertainty has hit Asia	Medium	-10/0%	0%-5%	Underweight
Europe (ex. Nordics) (EUR)	Recovering economy, attractive valuation	Medium	-10/0%	5%-10%	Mild overweight
Nordics	Strong cyclical profile	Medium	-10/0%	0%-5%	Mild overweight

Commodities

		2014				2015				Average	
	26-Mar	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2014	2015
NYMEX WTI	99	99	99	97	95	94	93	93	92	98	93
ICE Brent	107	108	104	102	100	99	98	97	96	104	98
Copper	6,603	7,200	7,080	6,980	7,020	7,080	7,160	7,260	7,360	7,070	7,215
Zinc	1,991	2,030	2,015	2,000	2,010	2,030	2,050	2,070	2,090	2,014	2,060
Nickel	16,195	14,200	14,200	14,200	14,500	14,800	15,100	15,400	15,700	14,275	15,250
Aluminium	1,753	1,760	1,760	1,760	1,770	1,780	1,790	1,800	1,810	1,763	1,795
Gold	1,315	1,260	1,245	1,230	1,205	1,195	1,185	1,175	1,165	1,235	1,180
Matif Mill Wheat (€/t)	213	195	200	203	204	209	211	213	215	200	212
Rapeseed (€/t)	409	370	377	375	369	378	381	384	387	373	382
CBOT Wheat (USd/bushel)	710	590	585	580	575	580	585	590	595	583	588
CBOT Corn (USd/bushel)	487	435	425	415	405	410	415	420	425	420	418
CBOT Soybeans (USd/bushel)	1,425	1,400	1,380	1,340	1,300	1,310	1,320	1,330	1,340	1,355	1,325

Source: Danske Bank

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Nordic Outlook is a quarterly forecast, but new statistical data may give rise to changes in our views on individual economies.

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