Nordic Outlook

Investment Research – General Market Conditions
5 December 2023

Coming in for a soft landing

Highlights

- It looks like we can get inflation down with only a modest increase in unemployment in the US, the euro area and the Nordic countries.
- The scene is set for rate cuts during 2024 and 2025, as central banks can gradually release the pressure.
- However, uncertainty is very high, and there is significant risk of both deeper crisis and re-emerging inflation over the coming years.

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Coming in for a soft landing

Global It looks increasingly like a soft landing for the major economies, but it is far from a done deal. The shock from higher interest rates could well lead to more of an economic setback, geopolitical risks loom and central banks cannot declare victory over inflation yet. While the soft landing is the main scenario, we see significant risk of a sharper decline in activity and employment, while we also see a risk of inflation pressures remaining so large that central banks will have to at least postpone rate cuts.

Euro area The economy is currently stagnating while inflation declines due to base effects and lower momentum. Monetary headwinds persist and we expect monetary policy to stay tight amid rate cuts as inflation only slowly moves down. Service inflation remains sticky on the back of large wage increases posing an upside risk to inflation. Rising real income will support a gradual strengthening in growth in the years to come despite headwinds from tight financial conditions and a gradual increase in unemployment. Fiscal rules will be reintroduced in some form from January 2024, which will make the fiscal stance restrictive.

Denmark The Danish economy has slowed down in much the same way as its neighbours, with the addition of strong production and export growth from Novo Nordisk. Outside of pharmaceuticals, manufacturing is contracting and housing construction weakening, but large parts of the service sector holding up well. Employment continues to rise, increasing overall household income and providing scope for greater private consumption now that real wages are also growing – though employment will eventually turn, in our view. Inflation has tumbled in Denmark, mostly due to temporary effects. Inflation will rise again, but probably not as strongly as we previously expected.

Sweden Despite two consecutive quarters of GDP decline, Sweden's economic slowdown is milder than anticipated. The labour market has demonstrated resilience, with unemployment rising marginally but remaining low. Several sectors, including manufacturing, are thriving, and consumption remains stable. Housing construction has plummeted since interest rate hikes began, but there are indications of a spring revival. Underlying inflation is falling at its fastest pace since the Riksbank's inflation target was established, though occasional rebounds remain a risk. The Riksbank, mirroring the ECB and Fed, has temporarily paused interest rate hikes to observe the impact of previous hikes while maintaining the option to raise rates if needed.

Norway The rate hikes continue to bite on the economy. Growth has stalled, driven by consumption and mainland investments. Unemployment remains low but is rising slightly and employment appears to have levelled off. Inflation has fluctuated a lot in the last couple of months, but it appears to have peaked and price and wage expectations are falling. The exchange rate has weakened again throughout the autumn, probably driven by lower oil prices and lower rate spreads vs. peers. Norges Bank has announced that they will probably hike the policy rate again in December, but this is far from a done deal and will be determined by economic developments going forward.

Finland Finland is falling into a recession. Rising interest rates are holding back the economy with lagged effects. Housing construction faces a significant slowdown; a proper recovery can be expected only in 2025. Flow of export orders remains sluggish in the short term. Economic growth should pick up in 2024 as a result of private consumption supported by falling inflation, lower interest rates and the reinvigoration of export demand. Unemployment will increase slightly. Housing prices have fallen in 2023, but the unleashing of pent-up demand and the fall in interest rates will stimulate the housing market in 2024. The new government will gradually start to tighten fiscal policy.

So far, so good

- Most of the data coming in from major economies support the expectation of a soft landing, where inflation pressure gradually declines with only modest disruptions for businesses and workers, following last year's overheating.
- A lot of things can still go wrong, though – the sharp increase in interest rates has not shown its full economic effect yet and there is significant risk of a too-sharp drop in demand, while war and geopolitical uncertainty could have more economic effects.
- On the other hand, there is also still the risk that inflation could return and prove more persistent given high wage growth – financial markets should not expect clarity and predictability to return just yet.

Will it be a soft or a hard landing following last year's overheating? That question remains unanswered, but so far, the majority of the data from the US and Europe, including the Nordic countries, look as much like a soft landing as we could hope. In many countries, inflation is declining faster than expected while economies are more stagnating than declining, employment remains high and households are reclaiming some of their lost spending power.

Of course, things are not "good" as such, certainly not for the victims of the world's many wars and violent conflicts, with the war between Hamas and Israel as the latest addition. This conflict could potentially also have negative economic consequences for the wider world through renewed supply problems and higher energy costs, and those kinds of effects on the economy from geopolitics is a serious risk for the outlook in general. However, the impact is likely to be smaller in today's environment of weaker global demand than for example last year, where the Russian invasion of Ukraine coincided with supply already struggling to meet demand across a range of industries.

The most likely path forward, in our view, is continued moderate economic growth and moderating underlying inflation pressure, which will allow central banks to gradually reduce interest rates starting in the summer of 2024. Unemployment will continue to slowly increase for a while, before we can return to normal growth rates and a stable labour market. This is the soft landing, and it has become more likely over recent months, as we see it.

However, the interest rate increase over the last two years is a big chock to the economy and we have not yet seen the

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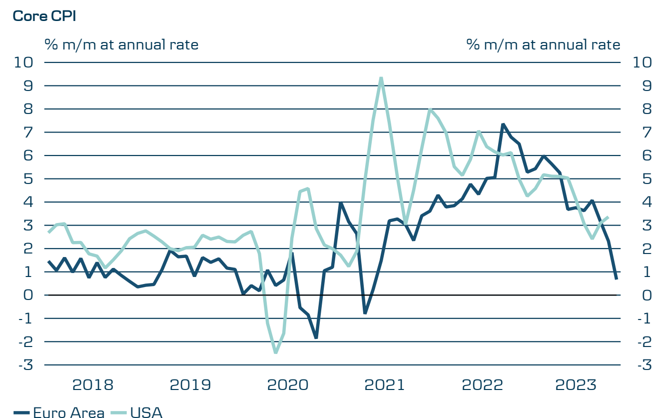
Las Olsen, Chief Economist at Danske Bank

full effect. In an overheating, household spending will often be driven by increasing borrowing, which higher interest rates can affect. That is not generally the case in the overheating we are now coming out of, as households have high savings from handouts and forced low spending during the pandemic. These savings have likely made demand more robust to high interest rates, but not permanently. US consumer spending is currently quite high relative to income and is likely to come under pressure, but it is difficult to say how much. There is a clear risk of a sharper reaction than forecast.

The increase in interest rates has dramatically changed the viability of investment activity in production and housing, especially given the large increase in both the level and the volatility of long-term interest rates as well. Declining investment activity is visible in many countries and the risk that this decline accelerates is a big part of why we still see hard landing as a significant risk for the economy overall.

Risks of a harder landing exists in all parts of the world. Relatively high spending levels could make US consumers more at risk of having to cut back, but Europe seems more vulnerable to energy-related shocks and has a weaker starting point with

Inflation moving quickly in the right direction



Remark: 3 month moving average
Source: Macrobond Financial

economies already in stagnation. China is struggling to uphold growth as they face both short and long-term challenges. The opposite risk also still exists. Inflation numbers look a lot more benign, but high wage growth in the US and Europe is a large part of why we expect price increases somewhat above 2% a year for some time yet. Central banks can live with that as long as it is only modestly higher and there is a strong belief that the inflation overshoot is temporary, but those conditions may not hold. We are already seeing signs of manufacturing activity bottoming out, for example. Hence, the risk of further rate hikes cannot be excluded completely, or the rate cuts may come later and more slowly than we and markets currently expect.

US
While loose fiscal policy, strong productivity growth and upbeat private consumption have supported the US economy so far in 2023, we continue to see cyclical headwinds building towards next year before a gradual recovery in 2025

Euro area
The economy stagnates and inflation has lost momentum. Rising real income will support a gradual uptick in growth as inflation moves lower, but uncertainty is high. We foresee a total of 175bp cuts from the ECB before year-end 2025.

China
China's economy suffers from many headwinds but growth muddles through around 5% held up by stimulus measures

A year of transition ahead

- Economic activity is currently stagnating while inflation is declining. Monetary headwinds persist, and both cyclical and structural issues weigh especially heavy on the manufacturing sector. Rising real income will support a gradual strengthening in growth despite headwinds from tight financial conditions and unwinding of fiscal support measures.
- Inflation is set to gradually decline over the forecast horizon while remaining above the 2% target in 2024 and most of 2025. Core inflation will continue to be elevated due to sticky service inflation from elevated wage growths and a tight labour market despite moderately rising unemployment rates. Higher than expected wage growth and energy price increases present upside risks, while weaker domestic demand due to stronger monetary policy transmission could lower inflation.
- We expect the ECB to deliver three rate cuts of 25bp next year followed by four cuts in 2025, which will bring the deposit rate to 2.25% by the end of 2025. The policy rate will be at levels that are still restrictive in 2024 while starting to support growth during 2025.
- EU will reintroduce revamped fiscal rules at the beginning of 2024 making the fiscal stance tighter. On the other hand, it also remains a key goal for Europe to support investments that can secure a leading position in the green transition.

	2022	Forecast 2023	2024	2025
GDP Growth	3.4%	0.5% [0.5%]	0.5% [0.8%]	1.2%
Inflation	8.4%	5.5% [5.5%]	2.5% [2.6%]	2.1%
Unem-ployment	6.7%	6.5% [6.5%]	6.8% [6.8%]	7.1%
Policy rate*	2.00%	4.00% [4.00%]	3.25% [3.25%]	2.25%

Parentheses are the old projections [From September 2023]
**End of period*
Source: Danske Bank, Eurostat, ECB

The euro area economy is currently stagnating following a strong recovery in 2021 and 2022 after the pandemic. Real GDP contracted in the third quarter of 2023 leaving the yearly growth rate close to zero percent as activity stagnated over the year. The economic effects of the response to elevated inflation by the ECB are working its way through the economy affecting the service sector and labour market at last. Meanwhile, inflation has declined sharply due to base effects on energy prices but also, more importantly, lower broad-based momentum. Going forward, growth will gradually strengthen as household real income rises despite of headwinds from tight financial conditions and unwinding of fiscal support measures.

Most indicators of underlying inflation have recently declined, and the momentum in core inflation has eased particularly due to a reduction in goods inflation. We expect the decline in goods inflation to continue as supply chains normalise while service inflation will prove stickier through a relatively larger role of wages. Fading base effects imply that the large declines

Fading base effects imply that the large declines in inflation are behind us.

Rune Thyge Johansen, Analyst at Danske Bank

in inflation are behind us and ahead lies an uncertain and lengthy final road of inflation towards the 2% target.

The labour market in the euro area has been remarkably strong this year despite the significant monetary policy tightening. Business surveys suggest that hiring has only recently stalled amid both a historically high vacancy rate and companies reporting labour shortages. These factors will shield the labour market, and we expect only a mild increase in the unemployment rate over the coming years due to lagged effects of monetary policy tightening and growth below potential.

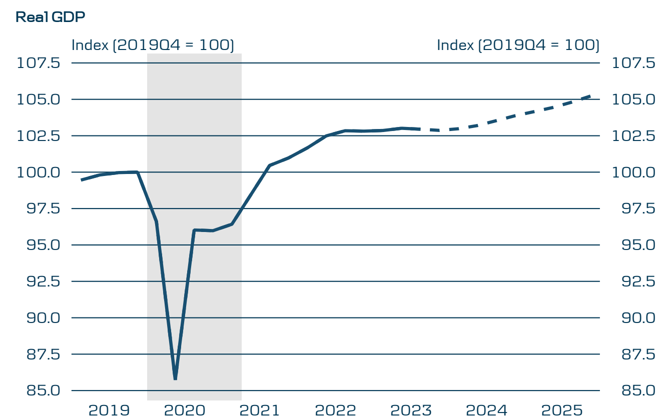
We expect that the ECB policy rate has peaked and foresee three 25bp rate cuts next year starting in June meaning that monetary policy will still be restrictive. Our projection entails that the deposit rate will be at 2.25% by the end of 2025, following four rate cuts in 2025. This will support growth during 2025 while keeping it below potential until inflation is firmly below target.

The macroeconomic and monetary policy outlooks are more uncertain than usual. The ECB may be forced to postpone rate cuts due to tight labour markets, sticky inflation, higher than expected wage growth, and energy price increases due to the war in Ukraine and the Middle East. A more rapid transmission of monetary policy and tightening of financial conditions is the largest risk for the growth outlook. This would hurt credit growth and investments thereby increasing financial stability risks. The risks on inflation are more balanced as the latter downside risk factors for growth would lower domestic demand and thereby inflation.

The fiscal rules in the EU, which prohibit a public budget deficit of more than 3% of GDP and debt-to-GDP above 60%, have been suspended since the emergence of the COVID-19 pandemic. A consensus on a new set of rules is still missing, but we expect an agreement on a "landing zone" before New Year. The old numerical targets will likely be reintroduced but with more leeway in the interpretation of the rules and the required fiscal adjustment. It is a priority for the EU to allow reforms and investments in areas like the green transition, digitalisation, energy, and defence. Regardless of the rules, the fiscal tailwind that supported the economy in recent year will turn into headwinds in 2024/25 as sustainable public finances will get renewed focus.

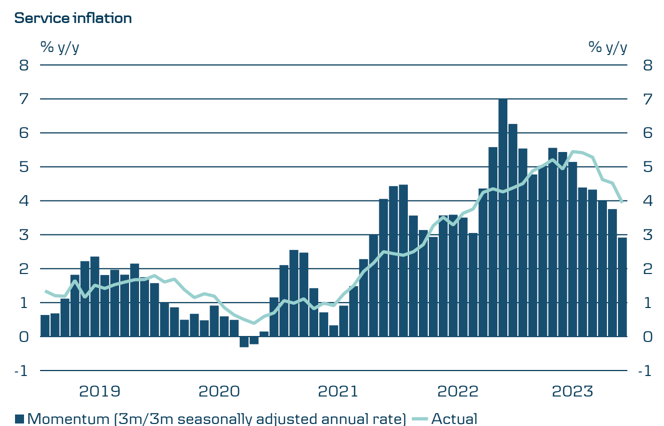
Still suffering from the previous energy crisis, the outlook for the German economy is weak. More austere fiscal policy spells headwinds, and structural issues such as 'slowbalisation' and a shrinking workforce set the scene for a weak growth outlook. The investments in infrastructure, digitalisation, and the green transition, which could provide an immediate silver lining, have been questioned with a recent court ruling on the country's debt brake and off-budget funds. Therefore, Germany is unlikely to return as the euro area's economic powerhouse anytime soon.

We expect growth to gradually increase during 2024



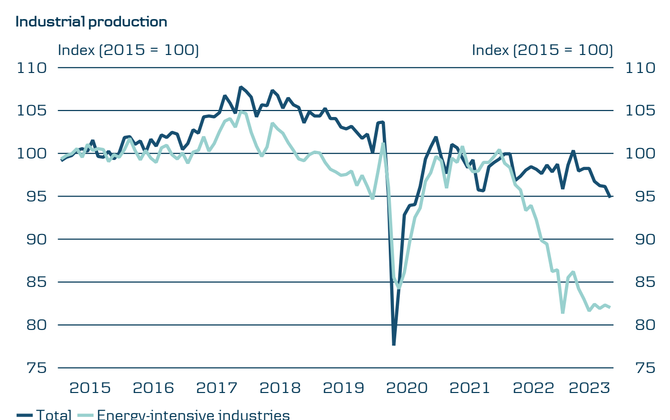
Source: Eurostat, Danske Bank, Macrobond Financial

Service inflation is still worrisome



Source: ECB, Danske Bank, Macrobond Financial

Germany is struggling with surging energy costs



Source: Statistisches Bundesamt, Macrobond Financial

Cyclical headwinds towards 2024

- The US economy is cooling towards winter, but there is no crash landing in sight. We expect the Fed to initiate quarterly 25bp rate cuts from March 2024 continuing through 2024-2025.
- Current low savings rate, weakening labour market and delayed pass-through of monetary policy leave cyclical balance of risks tilted to the downside, especially for private consumption. Loose fiscal policy, rising labour supply and faster productivity growth pose upside risks to our forecasts on a more structural basis.
- We expect growth to remain below potential through 2024. As real monetary policy stance is set to remain restrictive, we only foresee a gradual recovery in 2025. We forecast 2024 GDP growth at 1.1% and 2025 at 1.6%.
- Slowing unit labour cost growth and lower commodity prices ease inflation pressures, while high labour demand and potentially sticky housing inflation pose upside risks. We expect headline CPI growth to average 2.1% in 2024 and 2.5% in 2025. Core inflation is set to average 2.7% in 2024 and 2.4% in 2025.

		Forecast		
	2022	2023	2024	2025
GDP Growth	1.9%	2.4% (1.9%)	1.1% (0.6%)	1.6%
Inflation	8.0%	4.1% (4.0%)	2.2% (2.1%)	2.5%
Unem-ployment	3.6%	3.7% (3.6%)	4.4% (4.1%)	4.4%
Fed Funds*	4.50%	5.50% (5.50%)	4.50% (4.50%)	3.50%

Parenthesis are the old projections (From September 2023)
**End of period*
Source: Danske Bank, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Fed

While the US economy has continued to grow above expectations through most of 2023, signs of weakening have emerged towards the winter. The manufacturing sector outlook is cautiously improving, but services sector is still headed towards a slowdown. The former will be supported by a favourable turn in the inventory cycle and continued focus on investments. Over the longer horizon though, we see limited room for growth in final consumer demand for manufactured goods.

American consumers have been much more willing to use up their accumulated savings than Europeans, which has a been a key factor contributing to the US economic outperformance this year. However, this also leaves the US somewhat more exposed to downside surprises going forward, as savings buffers have largely been depleted.

Slowly weakening labour market could be a trigger for more cautious consumer sentiment, as rising labour share and pass-through of monetary policy increase businesses' pres-

sure for cost cuts. Monetary policy transmission happens both via rising financing costs of existing debt and via lower demand for new credit. The Fed's rate hikes have clearly had a strong impact on the latter, as demand for new housing loans has hit a 28-year low. But impact on corporate profits and households' disposable income has so far been very limited due to fixed interest rates and pre-pandemic deleveraging (Chart 1). In contrast to Nordic economies with high share of variable interest rate debt, much of the tightening impact has not yet been felt in the US.

On the other hand, loose fiscal policy and stronger potential growth could continue to offset weakness elsewhere. We discussed the interplay of fiscal policy and productivity-enhancing investments earlier this year in Research US - Could investment boom pave the way for a soft landing? 22 August, and ever since realized data has been promising. Productivity growth has continued to surprise to the upside, and labour supply has recovered driven by both higher participation rate and immigration.

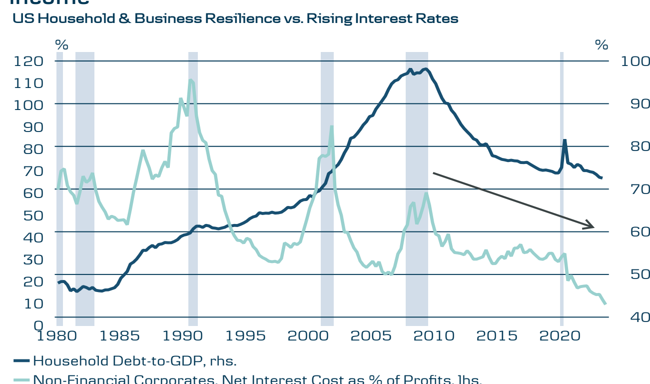
We expect public deficits to remain close to 2023 levels also in 2024-2025 irrespective of the outcome in the next year's elections. Prediction markets see the presidential election as a very close call, Republicans are the favourites to overtake Senate control while Democrats could well flip the majority in the House. A mixed congress would limit room for major fiscal reforms, and as such, spending on health care and social security as well as higher interest outlays will underpin total deficits around 5-6% of GDP over the coming years. While the relative cyclical outlook might be turning less favorable for the US, fiscal policy and stronger potential growth continue to support the long-term US outlook vis-à-vis Europe.

Underlying inflation is set to continue gradual easing, with balanced risk outlook. Main downside risks stem from weaker-than-expected growth outlook, while tight energy, labour and housing markets pose upside risks especially towards 2025.

Labour demand remains uncomfortably high, but nominal wage sum growth has still slowed down as labour supply has recovered. Together with improved labour productivity, this caused an outright decline in unit labour costs in Q3. Housing inflation has been a key driver of slower core inflation this year. Based on more timely indicators of rental prices, we expect housing disinflation to continue until around Q3 2024. That said, the stalled growth in housing supply could increase the risk of renewed housing inflation towards 2025. For now, we expect headline inflation to reach 2% by Q3 2024, but still pencil in core inflation slightly above 2% even in 2025 (Chart 2).

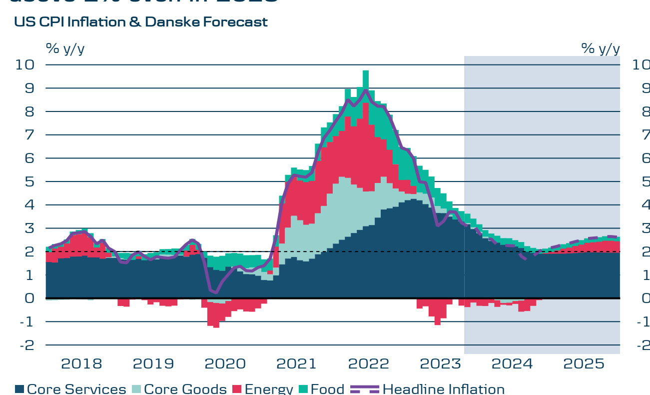
Monetary policy focus turns towards adjusting the nominal policy rate to slowing inflation. We expect the Fed to initiate quarterly 25bp rate cuts from March 2024 and continue through 2024-2025, which would set the Fed funds rate target to 3.25-3.50% by Q4 2025. As we anticipate underlying inflation pressures to range between 2.0-2.5% at the time, the real policy rate would have declined to around 1% level (Chart 3). In light of most mainstream estimates of R*, this would mean that real monetary policy stance remains neutral to slightly restrictive through 2025. We see the balance of risks tilted towards a faster cutting cycle, if the cyclical headwinds risk turning into a recession.

The Fed's rate hikes have so far had limited impact on businesses' interest costs and household disposable income



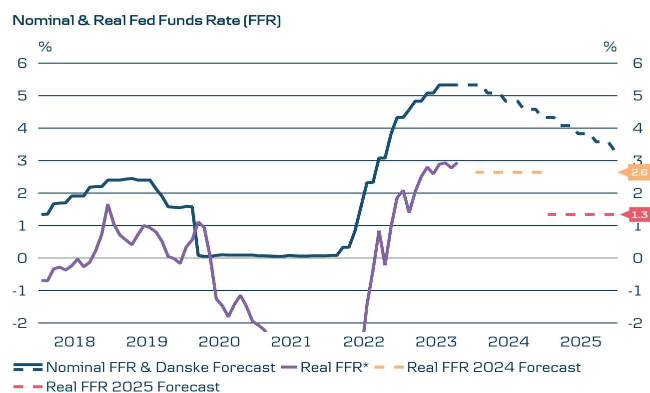
Sources: Macrobond Financial, Federal Reserve, U. S. Bureau of Economic Analysis. Shaded areas illustrate past recessions as defined by the NBER.

Inflation likely to continue easing towards 2024, but we still see some risks of underlying inflation persisting above 2% even in 2025



Sources: Macrobond Financial, U. S. Bureau of Labor Statistics, Danske Bank

We expect real policy rate level to remain restrictive in 2024 and ease towards a more neutral level in 2025



Sources: Macrobond Financial, Refinitiv, Danske Bank. Historical real Fed Funds Rate estimated by deflating the nominal rate with inflation swap markets' 1y inflation expectations. 2024 and 2025 real Fed Funds Rate estimated by deflating Danske forecast of average nominal rate with Danske forecast of average inflation over the respective years.

Muddling through

- China has managed to keep growth around their 5% target this year despite a deep housing crisis and weak exports due to the global manufacturing recession.
- We expect China to continue this muddling through scenario and look for growth at 5.4% in 2023 (previous 4.8%), 4.5% in 2024 (previous 4.2%) and 4.5% in 2025.
- In 2025 we look for growth to be 4.7% in line with where we currently see structural growth.
- Risks are skewed to the downside and still related to the housing crisis and financial risks.
- China faces many long term headwinds with US tech sanctions, demographics, high debt and a too high dependency on housing. However, China's strong investments in technology, innovation and education in our view still leaves scope for average growth of around 4-4½% over the next 5-10 years.
- Intense geopolitical rivalry is here to stay despite the recent improved dialogue between US and China. EU-China tensions are also on the rise over a rising trade imbalance that is unlikely to go away.

	2022	Forecast 2023	2024	2025
GDP Growth	3.0%	5.4% (4.8%)	4.5% (4.2%)	4.5%
Inflation	2.0%	0.5% (0.8%)	1.0% (1.2%)	1.5%
Unem-ployment	5.5%	5.3% (5.4%)	5.2% (5.5%)	5.2%
Policy Rate*	2.75%	2.50% (2.55%)	2.50% (2.45%)	3.00%

Parenthesis are the old projections (From September 2023)
**End of period (1-year Medium Lending Facility)*
Source: Danske Bank, Macrobond Financial

Muddling through scenario to continue supported by continued stimulus

Economic growth in Q3 was stronger than expected at 1.2% q/q putting China on track to surpass the government's growth target of 5% for this year. On the back of the stronger data we have lifted our 2023 forecast to 5.4% from 4.8%. The economy is held up with crutches, though, and without stimulus the economy would likely slid into a deep recession. However, we do expect Chinese policy makers to continue to provide stimulus and support to the financial system and aim for growth in the 4½-5% zone over the coming year. Due to unfavorable base effects from a strong Q1 in 2023 the annual growth rate for all of 2024 will be pushed down and we expect it to fall to 4.5% (previously 4.2%). In 2025 we project growth to continue at 4.5% as trend growth is gradually moving lower.

We expect the housing crisis in China to continue in 2024 with construction activity staying at depressed levels. How-

China is currently in a painful structural rebalancing trying to wean itself off the reliance on housing as a structural demand driver and instead transition into an economy with private consumption and high-tech manufacturing being the main demand engines

Allan von Mehren, Chief Analyst at Danske Bank

ever, we do not expect housing investments to decline even more as activity will be supported by government plans for construction projects, the so-called '3 major projects' covering 1) renovation of 'urban villages', 2) more social and affordable housing and 3) infrastructure for emergency facilities during natural disasters. In growth terms the drag to GDP is therefore set to fade with growth in construction investments going from below -10% to around zero. Similarly, we see the headwind from exports easing somewhat, as leading indicators suggest the global manufacturing recession is fading over the coming quarters. We continue to look for moderate growth in private consumption, infrastructure as well manufacturing investments in green-tech over the next year. Chinese consumer prices fell into deflation in October falling 0.2% y/y. However, it was caused by a big decline in food prices and with core inflation at 0.6% y/y we are not yet seeing broad based deflation in China.

We still see risks being to the downside, but also believe China has enough tools to avoid a deeper financial and economic crisis. Most importantly, China can turn to quantitative easing, provide stronger incentives for home buyers and increase support to ailing developers.

China in a painful rebalancing of the economy

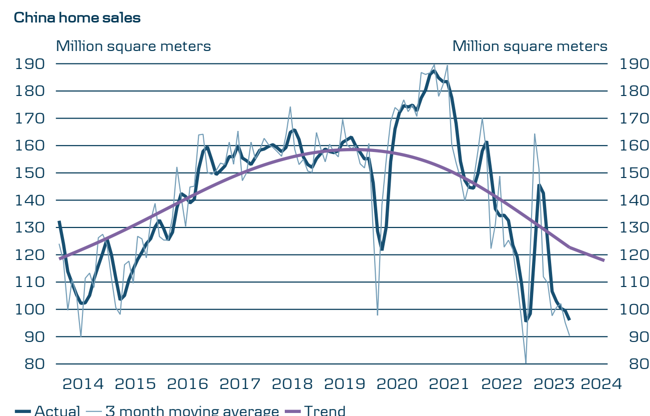
China is in a painful structural rebalancing to wean itself off the reliance on housing as a demand driver and transition to an economy where private consumption and high-tech manufacturing are the main demand engines. Chinese leaders seem willing to take short term pain from a housing crisis for longer term gains. The transition is difficult and is set to continue to weigh on growth in the next couple of years with household confidence staying low. Not least due to a weak housing market, where house prices are likely to fall further. In the long term, China could come out stronger, though, with an economy less geared towards housing and more towards innovation, high-tech and private consumption. It may take a while for this picture to materialize, and until then we are likely to continue to see a negative sentiment around China's economy.

The long term growth potential are also facing headwinds from a falling working age population, US tech sanctions and lower foreign investments. But we still see China's trend growth in the coming 3-4 years around 4½%. Without the strong headwinds trend growth would in our view be in the neighborhood of 6-7%. One reason we still see a decent growth potential is that China's GDP per capita is still only 25% of the US even when adjusted for purchasing power parity (PPP). China still has a big catching up potential. Also China's strong focus and investments in technology , innovation and education will gradually lift productivity levels at a decent rate. China invests heavily in green-tech, AI, quantum computing, robots and new materials in an ecosystem where both the state, the private sector and universities are playing key roles.

Geopolitical tensions here to stay

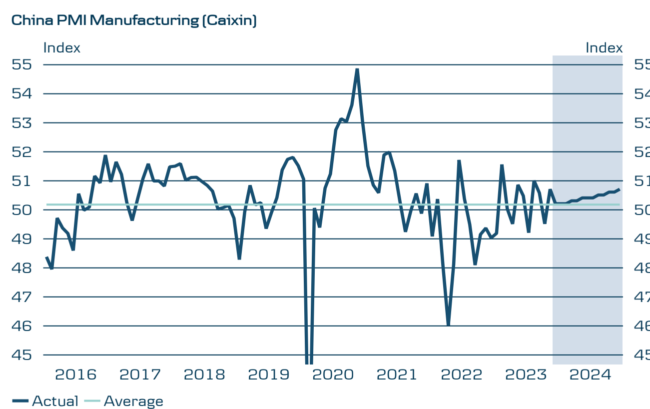
Geopolitical tensions with the US has eased lately following the November meeting between US President Joe Biden and Chinese leader Xi Jinping. However, we still expect an intense rivalry between US and China as there are key fundamental differences between the two super powers when it comes to the global order, key values, economic systems – and not least the issue of Taiwan. This is set to continue to cause tensions and rivalry for many years to come. Trade tensions are also brewing between EU and China as the trade imbalance is on the rise due to China's strong position in green-tech; an area where EU will need to import a lot more goods over the coming 5-10 years as part of the green transition.

Home sales remain depressed in China



Sources: Macrobond Financial, NBS, Danske Bank

Manufacturing to gain from easing global manufacturing recession



Sources: Macrobond Financial, Markit, Danske Bank

Slowdown with nuances

Sweden

Sweden's economy has entered a technical recession, although not as severe as many earlier anticipated and remains resilient, with manufacturing growing and a strong labour market. Housing construction has drastically declined, but there are signs of a recovery. Although there remain risks for occasional rebounds inflation is falling rapidly. The Riksbank has paused interest rate hikes but is prepared to raise them if necessary.

Norway

The rate hikes continue to bite on the economy. Growth has stalled, driven by consumption and mainland investments. Unemployment remains low but is rising slightly and employment appears to have levelled off. Inflation has fluctuated a lot in the last couple of months, but it appears to have peaked and price and wage expectations are falling. The exchange rate has weakened again throughout the autumn, probably driven by lower oil prices and lower rate spreads vs. peers. Norges Bank has announced that they will probably hike the policy rate again in December, but this is far from a done deal and will be determined by economic developments going forward.

Denmark

The Danish economy has slowed down in much the same way as its neighbours, with the addition of strong production and export growth from Novo Nordisk. Outside of pharmaceuticals, manufacturing is contracting and housing construction weakening, but large parts of the service sector holding up well. Employment continues to rise, increasing overall household income and providing scope for greater private consumption now that real wages are also growing – though employment will eventually turn, in our view. Inflation has tumbled in Denmark, mostly due to temporary effects. Inflation will rise again, but probably not as strongly as we previously expected.

Finland

The economy is falling into a recession, but we expect growth to pick up during 2024, supported by higher demand at home and abroad. House prices are under pressure, but should recover somewhat once interest rates start to decline in 2024. Housing construction falls. Unemployment rises especially in construction. The new government takes measures aimed at balancing public finances, but the debt ratio still climbs higher in 2024.

Fair to middling

- Like other European countries, Denmark's economy is essentially stagnant, with the caveat that pharma giant Novo Nordisk is keeping overall activity growth above water.
- Despite the stagnation, employment continues to rise, increasing overall household income and providing scope for greater private consumption now that real wages are also growing –though employment will eventually turn.
- Inflation has tumbled in Denmark, mostly due to temporary effects. Inflation will rise again, but probably not as strongly as we previously expected.
- Contrary to our expectations, house prices have increased this year despite much higher interest rates. Declining interest rates in the coming years could provide more of a tailwind for the housing market, though some areas remain a cause of concern.

	2022	Forecast 2023	2024	2025
GDP Growth	2.7%	1.1% [1.7%]	1.0% [1.2%]	1.6%
Inflation	7.7%	3.3% [4.0%]	2.0% [3.2%]	1.9%
Unem-ployment	2.5%	2.8% [2.9%]	3.1% [3.2%]	3.3%
Policy rate*	1.75%	3.60% [3.60%]	2.85% [2.85%]	1.85%

Paranthesis are the old projections [From September 2023]
**End of period*
Source: Danske Bank, Statistics Denmark, Nationalbanken

In terms of developments since pre-pandemic times, the Danish economy is very strong and GDP growth significantly higher than in most other EU countries. This is largely due to the huge success of Novo Nordisk and the rest of the pharmaceutical industry. Reality for the broader corporate sector is much more mixed, with growth in some areas, such as the travel and restaurant industries, and contraction in others, such as housing construction and much of the manufacturing sector. Employment continues to rise, but we expect this to turn soon. Economic developments in Denmark are similar to what is happening in many other parts of Europe, but with Novo Nordisk added as an extra, positive layer.

We expect this picture to continue in the coming years. Our forecast is for a soft landing, with lower-than-normal growth in Europe, moderately rising unemployment and inflation stabilising in the course of 2024 and 2025. Denmark will be in a similar situation, but with two important differences. First, Novo Nordisk looks likely to continue having such a

Economic developments in Denmark are similar to what is happening in many other parts of Europe, but with Novo Nordisk added as an extra, positive layer

Las Olsen, Chief Economist at Danske Bank

high level of production growth that it will noticeably boost Denmark's overall GDP figures, though by just how much is difficult to say. Second, inflation in Denmark has already fallen to 0.1%, so it will likely rise before falling again. However, this is mostly a reflection of the way energy prices feed through in Denmark – apart from that, Denmark quite closely resembles the rest of Europe here too. The greatest risk to our forecast is the potential for a hard landing, with the economy suffering a more direct setback and a sharp increase in unemployment triggered by the large hikes in interest rates over the past couple of years. If that were to happen, we would then expect a subsequent recovery.

The overall picture for Danish GDP has become somewhat more negative since our last forecast. The figures now show a decline in GDP in both Q2 and Q3 this year, and that has of course been reflected in our forecast, even though there is a significant risk of these figures being revised again. Hence, our lower forecast for GDP does not reflect any major change in our view of the corporate world or the labour market.

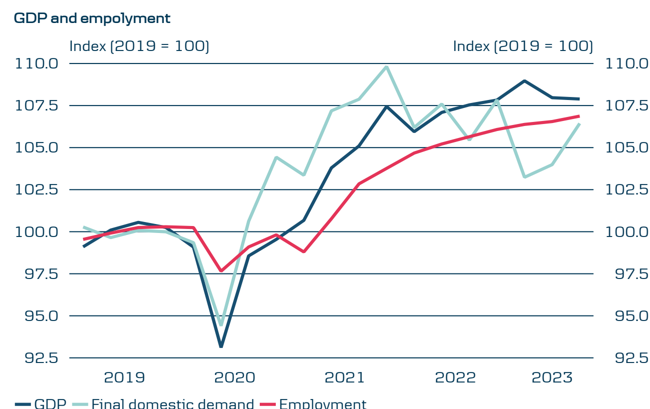
Private consumption looks set to rise

Private consumption fell 1.6% in 2022, and while it has corrected somewhat this year, it remains considerably below the 2021 level. One obvious potential explanation is the pronounced decline in real wages last year, but total household income is in fact increasing, as the fall in real wages is being more than offset by rising employment and other income. Hence, the current, relatively low level of consumption must be ascribed to a keen appetite for saving, at least in a good many households. The low level of consumption relative to income provides a good starting point for consumption in 2024-2025, when we generally expect to see incomes rise decently. Our forecast assumes only a rather slow pickup in the propensity to buy, but a real recovery in consumer confidence could potentially boost consumption significantly. Conversely, consumption could of course face renewed pressure if unemployment were to rise more than expected, though the solid outlook for private consumption means that even a hard landing for the economy is unlikely to develop into a major downturn, as we saw with the financial crisis, for example.

Generally strong export sector slowing

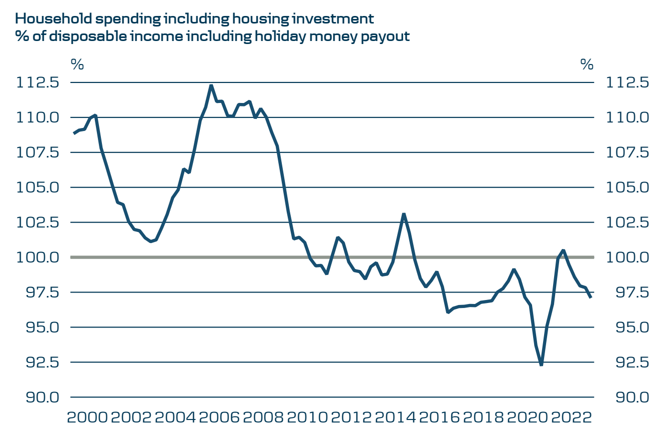
Total goods exports have been buoyant for a long time in Denmark, though much of that has been due to the pharmaceutical industry – with Danish exporters more generally now facing weaker demand. Most manufacturers are reporting a significant lack of demand, with production consequently falling across the various sectors. Industrial production ex. pharmaceuticals has fallen 15% since summer 2022, when it last peaked. A 2½% strengthening of the effective Danish

A mixed picture



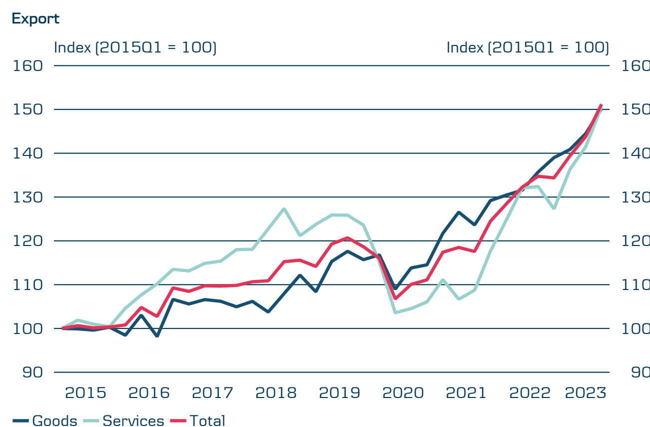
Source: Statistics Denmark, Macrobond Financial

Consumption low for now



Note: 4-quarter moving average.
Source: Statistics Denmark, Macrobond Financial, Danske Bank

Generally strong export sector slowing



Source: Statistics Denmark, Macrobond Financial:

krone (DKK) exchange rate over the same period has not helped, making it harder to compete with Swedish exporters, for example, who are benefiting from a weak Swedish krona (SEK). We should remember, however, that prior to this setback Danish companies were very busy. This is one reason why we have not yet seen an actual weakening of the labour market – industrial employment figures have risen further in Q3, and more companies than normal are still reporting labour shortages.

Service exports have proved robust in 2023, with tourism in particular contributing to growth. Danish exports of business services have also grown quite strongly in DKK terms despite the currency strengthening. In contrast, shipping has been hit by a return to more normal times as the need to transport goods across the world's oceans has slowed.

Q3 23 saw the huge current account surplus shrink a little, while the rest of the year has also been revised down somewhat, with the current account surplus for the first nine months of the year now equivalent to 10% of GDP. After the extraordinary surplus landed by shipping in 2022, the normalisation of freight rates has meant the surplus from services largely disappearing again. On the other hand, the surplus from goods trading has grown strongly this year – particularly due to the sale of goods that have never been in Denmark. This is something that has to be seen against the strong growth in the pharmaceutical industry. Nevertheless, the current account surplus is structurally very large in Denmark – even without the pharmaceutical industry. This is due to strong competitiveness, which ensures a surplus on the trade balance, while returns on Danes' large pension savings, in particular, provide a net investment income that contributes 3-4% of GDP to the current account surplus at the same time as the accumulation of savings, especially for pensions, dampens consumption.

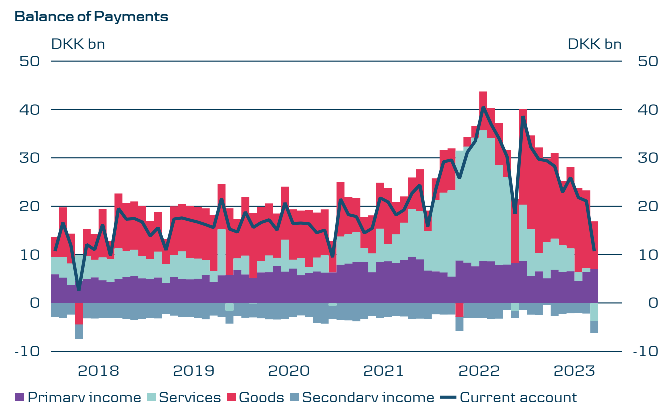
Going forward, we expect Denmark will continue to run a very large current account surplus. Unlike the effect from temporarily very high freight rates, the surplus from pharmaceutical trading will presumably prove more permanent in nature. Moreover, the reopening of the Thyra gas field will also boost the surplus next year. The Danish Energy Agency expects the field to deliver just over 30m MwH of gas annually, which at current gas prices has a market value of around DKK10bn, or roughly 0.4% of GDP.

Danmarks Nationalbank moving in lockstep with the ECB
Bolstered by the large current account surplus, the DKK is fundamentally strong, so monetary policy rates need to be a little lower in Denmark than in the eurozone to balance the demand for DKK. While the ECB has raised interest rates by 4.5 percentage points (pp) since summer 2022, Danmarks Nationalbank has made do with 4.2pp. However, strengthening pressures on the DKK have eased since the spring, and Danmarks Nationalbank has moved in lockstep with the ECB for the past five rate hikes. We expect that Denmark's central bank will also mirror the rate cuts we expect from the ECB from June 2024 onwards. Uncertainty levels are considerable of course, but our forecast is for a lending rate of just below 2% from Danmarks Nationalbank by the end of 2025.

Inflation has fallen surprisingly quickly

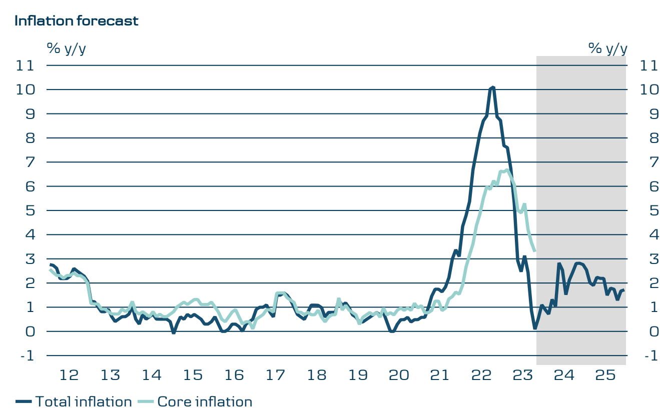
Inflation has fallen very quickly this year – and faster than

Current account surplus has declined from a record amount



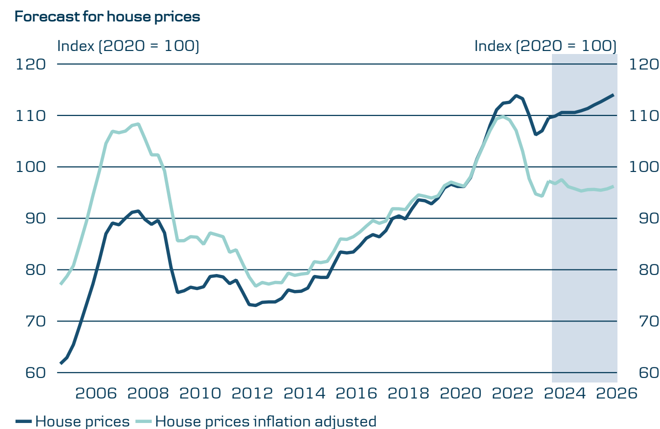
Source: Statistics Denmark, Macrobond Financial:

Very low inflation is temporary, but price pressures have eased



Source: Statistics Denmark, Macrobond Financial, Danske Bank

Modest increases in house prices



Source: Statistics Denmark: Danske Bank

Underlying price pressures have eased quite considerably, but this will change as wages grow in line with what is prescribed in the collective bargaining agreements

Bjørn Tangaa Sillemann, Chief Analyst

in most other countries. Overall inflation was just 0.1% y/y in October. However, we expect this marked the low point and that inflation will hover closer to 1% over the winter and spring. Very low inflation in October was largely due to Danish electricity prices quite quickly reflecting market prices, which have fallen heavily compared to autumn 2022. Food prices also declined slightly once again, with Danish food price inflation in October the lowest in the EU.

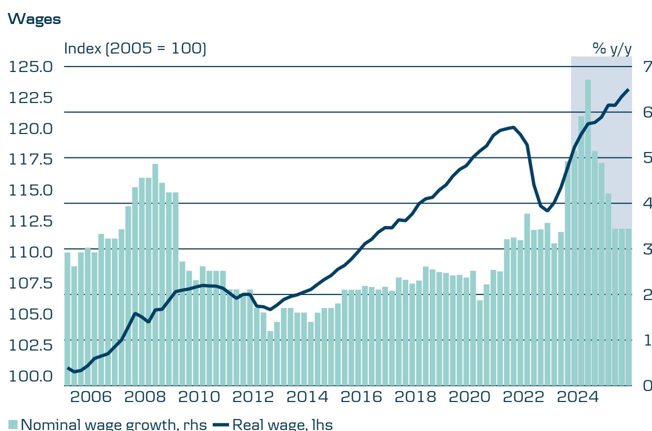
Nevertheless, underlying price pressures also appear to have eased quite considerably in the past few months. In fact, price developments in July-October align very well with a 2% annual inflation rate. Retailers are expecting to cut prices, while service providers are no longer expecting higher prices. We should also remember that labour is cheap right now, as wages have risen by substantially less than the prices companies charge – however, this will change as wages grow in line with what is prescribed in the collective bargaining agreements. This is also why we reckon on price pressures increasing once more next year, with inflation rising above 2% again as base effects from the normalisation of energy prices fade from the inflation measure. We estimate inflation will print at 3.3% in 2023, after which several months of low inflation next year will result in 2024 coming in at 1.9% overall. We see inflation at 1.9% in 2025.

Resilient housing market

The housing market has generally proved extremely robust, in particular due to the labour market being stronger than expected. Statistics Denmark has calculated that house prices rose in Q2 23 by 1.5%, which is considerably more than other price statistics have indicated. Moreover, preliminary figures indicate that prices have also risen in the second half of the year, which is why we are forecasting an overall decline in house prices of a modest 1.5% for 2023 as a whole. Buyers have so far accepted that purchasing and owning a home has become markedly more expensive after the increase in interest rates, with the price falls in 2022 only partially compensating for the higher interest payments.

Nevertheless, owning a house in Denmark has become no more expensive than the average for the past 40 years, so a decline in prices is not necessarily on the cards. And nor is that our expectation. A gradual restoration of consumer purchasing power should support the housing market, though still high interest rates and a modest weakening of the labour market will give some headwinds in 2024. After that, however, interest rates are set to become a tailwind as Danmarks Nationalbank begins to cut. We look for price growth of 1.5% in 2024 and 2.0% in 2025.

High wage growth set to restore real wages



Note: Private sector wages according to Confederation of Danish Employers (DA). Real wage figures are seasonally adjusted.
Source: DA, Statistics Denmark, Macrobond Financial, Danske Bank

Our forecast rests on our expectation of a soft landing for the economy and the labour market, while a more pronounced slowdown could induce a renewed decline in house prices. A major setback for the economy would likely expose the more expensive areas to relatively greater price falls. In addition, property tax reforms due to come into force in 2024 herald a difficult patch for the apartment market in expensive areas.

Higher unemployment and higher wages

Unemployment has been slowly increasing in 2023, and we expect this trend to continue next year and some way into 2025 as the economy undergoes a soft landing. To date, unemployment has risen even though employment has also risen, as there has also been a quite pronounced increase in the labour force, largely due to an inflow of foreign labour. Wage-earner numbers have thus increased by 34,200 over the past year, according to September's figures. Just a little over 4,000 new employees are in the industrial sector and slightly more than 7,000 in the public sector. Hence, employment has risen greatly in areas also outside the pharmaceutical industry, even though activity levels have at best stagnated when disregarding the growth in pharma. One explanation is the high level of vacant positions and widespread shortages of labour experienced previously, but we do not expect this to continue and have instead pencilled slightly declining employment into our forecast.

While unemployment is rising, wage growth is also ticking up thanks to the collective bargaining agreements entered into earlier this year. Private sector wages were 4.9% higher in Q3 23 compared to a year ago. That is the largest increase in 24 years, but actually lower than what we would expect based on the outcome of the collective agreements. Much of the wage formation occurs in local negotiations, and the figures suggest that underlying wage pressure in the negotiations remain muted. Nevertheless, the agreements mean that wage growth in the private sector will accelerate in 2024, after which we expect a normalisation during 2025, when the loss in real wages in 2022 will be recouped. Wage growth in the coming years will likely be higher than among Denmark's trading partners, so Danish competitiveness is set to be eroded after improving in recent years.

Sweden leaning against the wind

- GDP in the third quarter of 2023 decreased for the second quarter in a row, so Sweden is now in a technical recession. However, it is not as severe as many had predicted. For example, the Swedish labour market has proven to be more resilient than expected. Unemployment has increased slightly, but it is still at a low level.

- Several parts of the Swedish economy are still strong. Manufacturing is growing while consumption remains stable. Housing construction has collapsed since the policy rate started being raised. The housing market may turn as there are indications that housing starts may pick up in the spring.

- Although there remain risks of occasional rebounds, it is now clear that many different measures of underlying inflation in recent months are falling at the fastest rate measured since the Riksbank introduced the inflation target.

- The Riksbank have adopted the same monetary policy strategy as, among others, the ECB, and the Fed, i.e., they are basically finished with the interest rate increases and are waiting out for the effect of what has already been done, but at the same time, they are prepared to raise more if necessary.

	2022	Forecast 2023	2024	2025
GDP Growth	2.9%	-0.2% [0.0%]	1.3% [1.7%]	1.8%
Infla-tion	8.4%	8.6% [8.4%]	2.3% [1.8%]	1.0%
Unem-ployment	7.5%	7.6% [7.5%]	8.2% [7.8%]	8.0%
Policy rate*	2.50%	4.00% [4.00%]	3.25% [3.00%]	2.50%

Parentheses are the old projections [From September 2023]
**End of period*
Source: Danske Bank, Statistics Sweden, Riksbanken

The GDP indicator for the third quarter was weaker than expected as it decreased by 0.3% in seasonally adjusted terms compared to the second quarter. Despite this has the GDP data of 2023 been stronger than what many forecasters anticipated. The GDP in the fourth quarter will need to be a complete disaster for the Swedish doomsday prophecies to come true and our previous forecast of flat growth in 2023 to be way off the mark. Our view of the Swedish economic outlook is largely unchanged, as Sweden already seems to have weathered many of the storms gathering globally. Sweden will not, however, be entirely immune to the effects of a weaker global climate so we have downgraded our growth forecast to a degree.

Large parts of the Swedish economy remain stable. The real goods balance is clearly trending upwards, presumably due in large part to the weak SEK. Manufacturing investment seems to be unaffected and is still steadily growing. Household con-

What we are seeing now is more a sign of an overheated labour market normalising rather than taking a serious turn for the worse

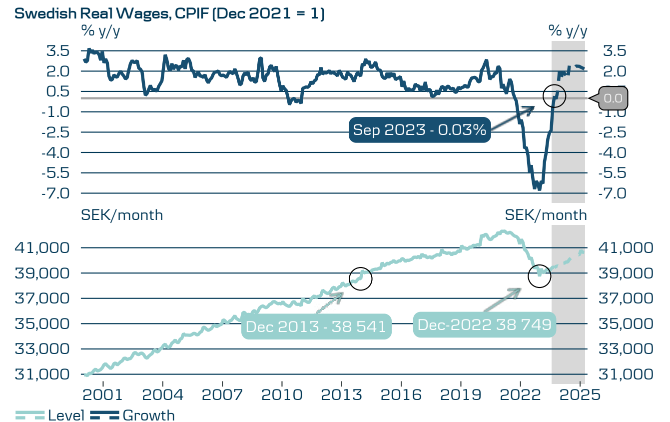
Gustav Sundén, Macro Analyst

sumption and retail sales are both stable and actually stronger than six months ago. Although households are inevitably poorer due to the erosion of real wages and rising interest costs, they are still living (or at least spending) the same as before inflation and interest rates shot up. We reckon that the policy rate has now peaked, and real wages have properly bottomed out and been rising again since September, so consumer spending may strengthen further. Sweden is leaning against the wind in an otherwise stormy global climate. One example of how Sweden is standing out can be seen if we compare industrial production with Germany. We find a clear trend change over the past five years, with the two countries previously performing very similarly but Sweden now appearing to pull ahead.

However, some argue that the Swedish labour market is now indicating an approaching severe recession. We are seeing more redundancies, fewer vacancies, and rising bankruptcies. Because of this has the labour market cooled somewhat recently which is in line with these indicators. The number of unemployed in Statistics Sweden's Labour Force Survey (LFS) has risen by 80,000 since bottoming out in September 2022. The Swedish Public Employment Service's figures for registered unemployed paints a different picture, though, having continued their steady fall since the pandemic right through to June this year and only rising by 8,000 since. Since the LFS is based on survey data and the Employment Service's measure is based on the number of people actually registered as unemployed, it is only natural for us to pay closer attention to the latter. With the deterioration in vacancies and redundancies also comes from extremely favourable levels by historical standards, the changes we are now seeing are more a sign of an overheated labour market normalising rather than taking a serious turn for the worse.

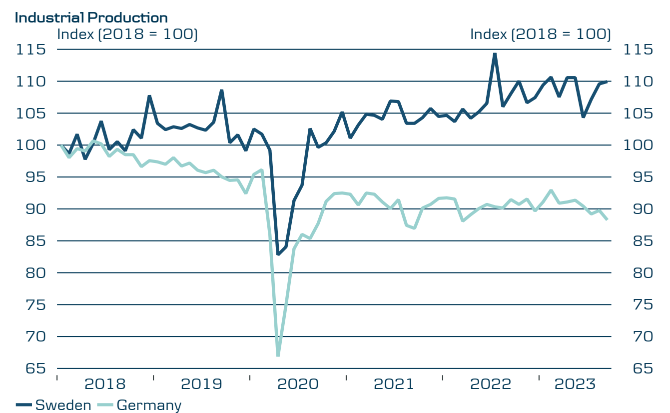
The rise in unemployment is the result of a slight fall in employment, which has led to a corresponding increase in the number of unemployed at the same time that inflows into the labour force have eased. As Sweden excels internationally in its labour force growth, it is natural for unemployment to rise. To some extent, then, the rising unemployment rate can be explained by an increased number of jobseekers outside the labour force not finding work, rather than simply firms downsizing to maintain profitability. We therefore still consider it unlikely that the labour market will deteriorate to the point where it weighs down significantly on the rest of the economy. Most bankruptcies are currently among micro-companies, and more than half of all companies going under have no employees at all, which means that the number of people losing their jobs because of bankruptcies is still at low levels. The sectors worst affected are construction and retail. However, if we compare the situation now with 5-7 years ago, their shares of

Real wages have bottomed out and are recovering



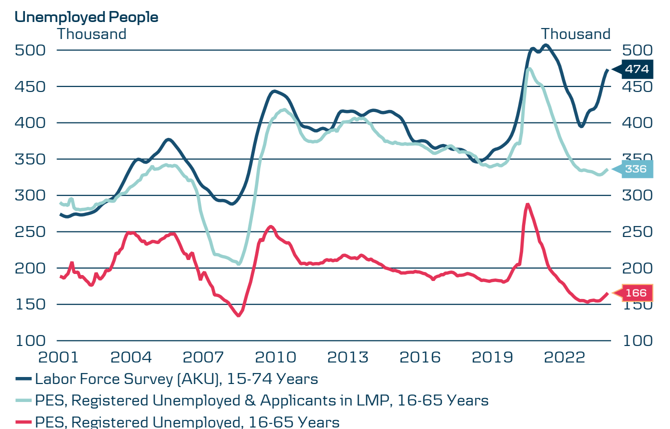
Source: Mediation Office, Statistics Sweden, Danske CPI forecast and 2023 wage deal projection

Germany cannot keep up with the tempo of the Swedish industrial production



Source: German Federal Statistical Office, Statistics Sweden

Which measure of unemployment is the correct one?



Remark: Seasonally adjusted
Source: Public Employment Service, Statistics Sweden

The Riksbank has sent a clear signal indicating that they are finished with interest rate hikes, with the reservation that more hikes may come if inflation surprises upwards.

Michael Grahn, Chief Economist Sweden

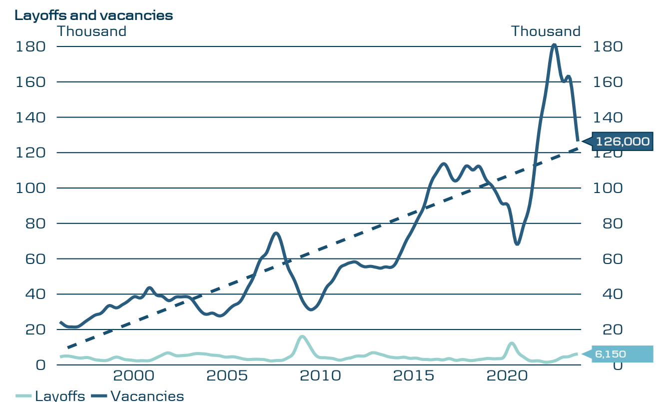
the total number of bankruptcies are actually unchanged. Nor is the economic climate solely causing bankruptcies. Credit reference company UC reports that more than half of all bankruptcies in the construction sector could be linked to fraud. The current situation is also partly a delayed effect of the pandemic. Most firms that were not really the target of support measures such as the option of deferring tax liabilities were nevertheless able to take advantage of them. Many firms have therefore been living on borrowed time and would presumably have failed earlier without this support even if there had not been a pandemic.

The big drag on the Swedish economy is still residential construction. It does, however, seem to have bottomed out in recent months. We are also now getting indications of an upswing heading into spring, with Byggfakta's housing starts indicator climbing 3.2% in October. With previous months also revised up, this means that it has risen for three successive months. The indicator is intended to be forward-looking and provide early information on construction and homebuilding activity. Comparing Statistics Sweden's data for residential construction with the housing starts indicator lagged by two quarters. As can be seen from the chart, the housing starts indicator is a good leading variable which points to an increase in activity heading into spring.

Most worries about the inflation outlook have eased significantly. Since the Riksbank's meeting at the end of September, when it announced it would be hedging part of its foreign exchange reserves against currency risk, the SEK has gained around 5% and the KIX index is basically back to where it was at the beginning of 2023. This latest movement should help put a damper on imported inflation. Pandemic-related supply chain issues have now completely resolved, and so goods inflation is on the retreat. Energy prices are also much lower than last year. Electricity prices are at much reduced levels, and forward prices suggest that they will remain there. RBOB gasoline futures measured in SEK have fallen around 20% since September, which has been noticeable at Swedish pumps. The government has announced an increase in energy tax from the beginning of next year, as well as a substantial decrease in the carbon reduction obligation. Exactly how what the net effect of these changes will be on inflation remains to be seen.

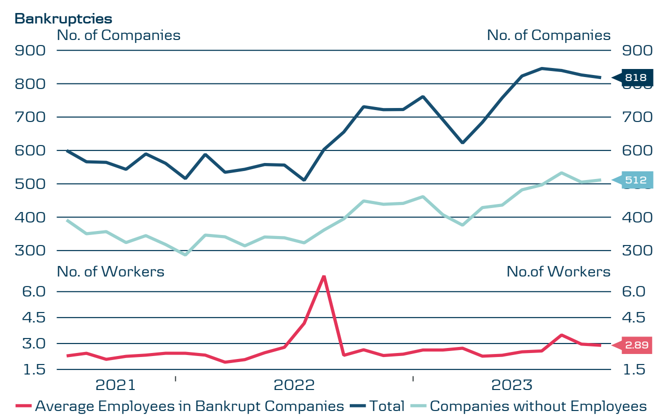
Services inflation is still giving the Riksbank a headache, and holidays and leisure still seem to be the main culprits. For example, the National Institute of Economic Research's monthly confidence survey points to a sharp increase in travel agencies price plans in December. However, it should be noted

Swedish labor market normalizes from historically strong levels



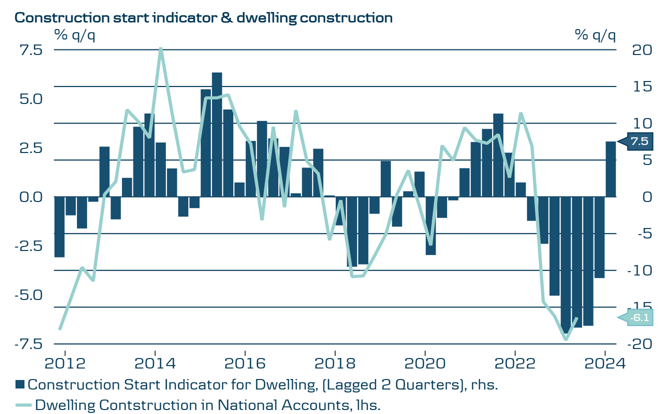
Remark: Trend- and seasonally adjusted
Source: Statistics Sweden

The bankruptcies have the mild effect on the labor market



Remark: Seasonally adjusted
Source: Creditsafe, Swedish Agency for Growth Policy Analysis

A light in the tunnel! - Signs of a turnaround for dwellings construction 2024



Remark: Seasonally adjusted
Source: Byggfakta, Statistics Sweden

that the Riksbank's biannual business survey indicates that household-related firms in general are planning to cut prices. The high inflation figures for October mean that there is an increased risk of further substantial rises in rents next year. Housing companies will be calling for even bigger increases than in 2023, and calculations show that many housing associations may need to raise their charges more in 2024 to deal with rising interest costs as fixed-rate loans are refinanced. Pulling in the other direction, wage growth has been restrained by international standards, which would indicate that services inflation (the bulk of which is domestic) should manage to normalise in 2024.

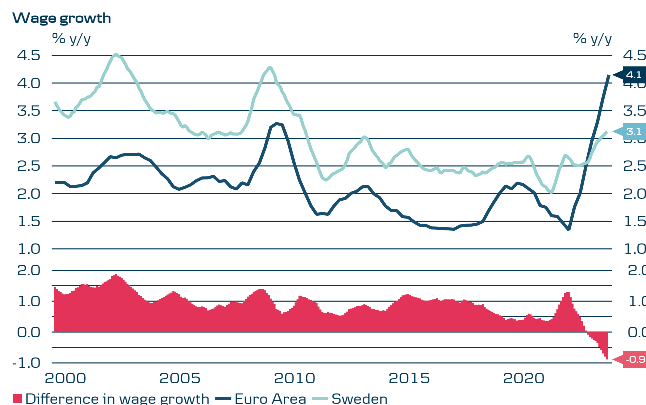
Overall, most indicators suggest that inflationary pressures in Sweden are now rapidly subsiding on a broad basis. Our estimate of inflation here and now ("front-loaded" inflation based on the past three months) is below the annual rate, and the decline in the annual rate is decelerating. The median of the Riksbank's various measures of underlying inflation saw its biggest monthly fall in October since the inflation target was introduced.

The Riksbank has most likely finished their hiking cycle. Although the Riksbank still needs to ensure that inflation (both CPIF and the core CPIF excl. energy) continues to drop towards the 2% target, the need for any further hikes would appear to be limited. One reason for this is that the real policy rate will continue to rise even as inflation falls. And why should monetary policy be tightened further when inflation is already on the way down? Many commentators have highlighted the SEK as a problem for the Riksbank, but in reality, the Riksbank has no exchange rate target – it only has an inflation target. The SEK has also rallied and performed much better than the Riksbank anticipated, thus at the moment it should rather have an inflation easing effect. We interpret the decision to leave the policy rate unchanged in November as the Riksbank taking the same approach as the ECB and the Fed of an "hawkish hold" where the central banks communicate that they are done with raising rates in principle but is prepared to raise them further if inflation unexpectedly flares up again. This would mean a return to its previous approach of looking ahead and basing monetary policy on forecasts and the usual time lags rather than steering its monetary policy after inflation outcomes.

Once inflation nears the 2% target, which will not be until the second quarter next year, the Riksbank will begin to lower the policy rate again. We anticipate 25 bps cuts at each of its main monetary policy meetings from June onwards, taking the policy rate to 3.25% at the end of 2024.

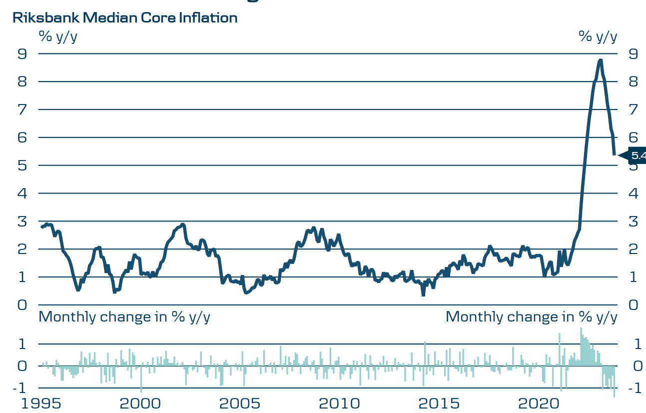
When it comes to fiscal policy, sadly we have not seen any progress, and we still see no prospect of a more expansionary policy in 2024. The government's autumn budget contains reforms amounting to SEK 39 billion, including SEK 16 billion in welfare spending, such as grants to local government, SEK 13 billion in income tax reductions and SEK 6 billion in tax cuts on petrol and diesel. In other words, the government is sticking to its line that stimulating the economy could undermine the Riksbank's efforts to rein in inflation. As we have said before, however, we are strongly sceptical to the idea of that increased stimulus would prove inflationary.

Low relative wage growth will slow Swedish services inflation faster than in Euro zone



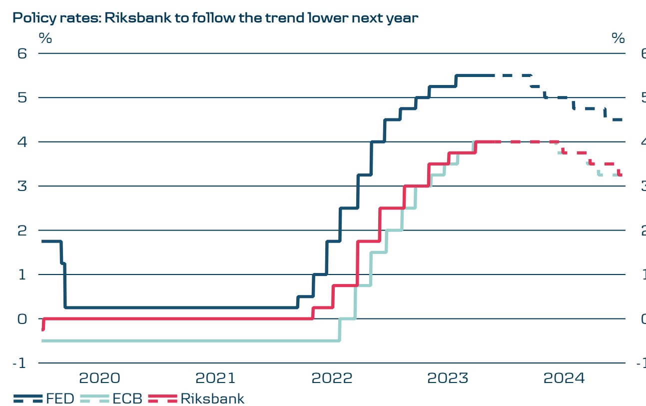
Remark: 1 year moving average
Source: Eurostat, ECB, The Swedish National Mediation Office, Statistics Sweden

Riksbank median core inflation drops at the fastest pace since the inflation target was introduced



Source: Riksbank

Riksbank has aligned with ECB's and Fed's "hawkish hold" approach



Source: Fed, ECB, Riksbank

Growth and inflation both slowing

- Economy continues to cool
- Major variations, with oil services the star performer
- Unemployment rising moderately, employment seems to be softening
- Persistently high interest rates increase downside risk
- NOK still exposed to global factors
- December rate decision very uncertain, but rates will come down next year

		Forecast		
	2022	2023	2024	2025
GDP Growth	3.8%	1.1% (1.2%)	1.1% (1.4%)	2.1%
Inflation	5.8%	5.6% (5.8%)	3.0% (2.5%)	2.0%
Unem-ployment	1.8%	1.9% (1.9%)	2.3% (2.3%)	2.5%
Policy rate*	2.75%	4.25% (4.25%)	3.25% (3.25%)	2.25%

Parentheses are the old projections (From September 2023)
**End of period*
Source: Danske Bank, Statistics Norway,
Norwegian Labour and Welfare Organization (NAV), Norges Bank

There are now clear signs that both growth and inflation are slowing. Negative real wage growth and ever higher mortgage rates are strong headwinds for households, impacting particularly on private consumption and housing investment. The previously strong growth in business investment is also now stalling, thanks to reduced capacity requirements, growing uncertainty, pressure on profitability in many industries and, not least, a substantial increase in financing costs. On top of this, there are signs that mainland exports are slowing slightly, perhaps as a result of the downturn in the global manufacturing cycle over the summer. Besides weak growth in housing investment, there have been relatively few commercial property starts, so the outlook for construction remains weak. The only ray of light right now is oil services, with high levels of oil investment boosting activity and pointing to strong growth until at least the end of next year. The big uncertainty is business services. Although it has seen high levels of activity and strong growth in the wake of the pandemic, the sector relies

on orders from the likes of manufacturing and construction where the brakes are now very much on.

This picture was confirmed by the GDP figures for the third quarter, with mainland GDP growing just 0.1% after zero growth in the second quarter. With the exception of strong growth in oil investment, the slowdown is broad-based. Housing investment is performing very poorly, which has been evident in housing starts for some time. We are also now seeing a drop in business investment, and mainland exports have weakened.

We have downgraded our growth forecast from 1.2% to 1.1% for this year and from 1.4% to 1.1% for next year, due mainly to lower investment in the mainland economy. We then expect growth to pick up to 2.1% in 2025 on the back of lower interest rates and higher real wage growth.

Broad-based slowdown.

Frank Jullum, Chief Economist Norway

Employment has stopped growing

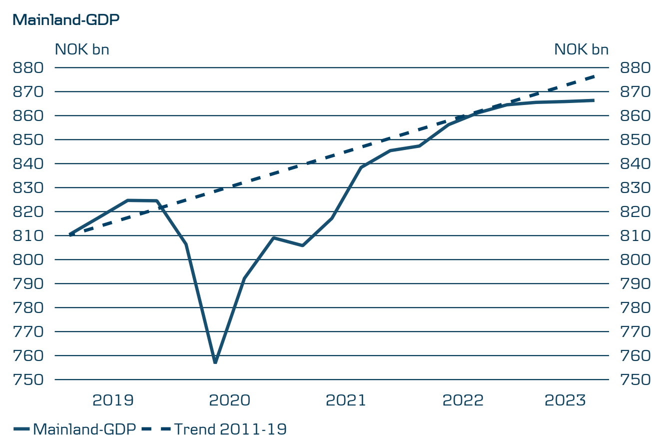
Unemployment is continuing to rise moderately, although it is still at low levels. The number of people out of work has increased by just over 10,000 so far this year, but the jobless rate has risen only modestly to 1.9%. New job openings have been falling slowly but surely since autumn last year, however, pointing to a gradual decline in demand for labour. It is also now clear that employment growth is slowing – it has been more or less flat in recent months. Furthermore, employment has grown slightly more quickly than production for large parts of 2023, meaning that productivity growth has slowed to around zero. This could present a risk of employment underperforming GDP growth slightly for a period.

We have revised down our forecast for unemployment this year to 1.9% but still expect an increase to 2.3% next year. Although we expect growth to pick up in 2025, we expect productivity growth to improve gradually, with the result that unemployment edges up further to 2.5%.

Price and wage inflation slowing

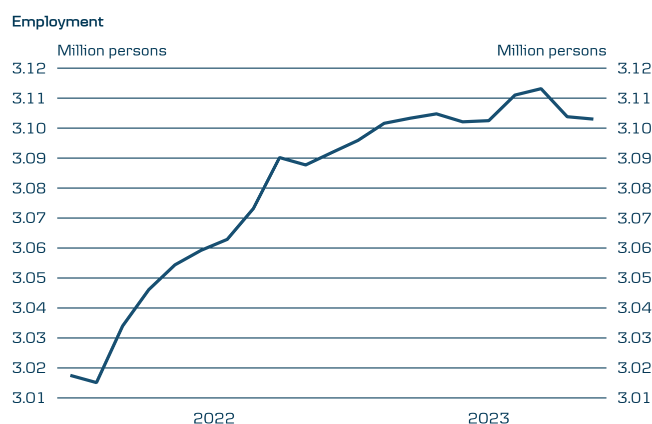
As the economy has cooled, so too has inflation, although it is still running at 4% (6% if we exclude power prices). Core inflation was up at 7% in June, but the annualised monthly rate has been between 4% and 5% for the past three months. Other underlying indicators also suggest that inflation is no longer as broad-based as it was. Norges Bank's alternative inflation measures, such as the trimmed mean and weighted median, put inflation in the region of 5%. The central bank's expectations survey shows that inflation expectations too are coming down. The average expectation among respondents (CEOs, economists and the labour market organisations) is now 4.3% in 12 months, down from 5.1% in the previous sur-

Growth levels off



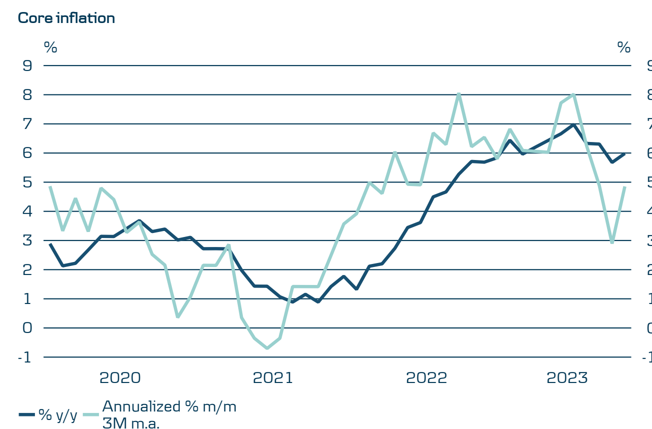
Sources: Macrobond, Danske Bank

Employment slows down



Sources: Macrobond, Danske Bank

Inflation seems to have peaked



Sources: Macrobond, Danske Bank

vey, and 3.9% in 24 months, down from 4.5%. Expectations five years ahead are unchanged at 2.8%.

Most price drivers have now reversed and are helping to reduce the pressure on prices. Freight costs and commodity and energy prices have fallen a long way from their peak, and this is gradually feeding through the value chain. Producer prices are falling worldwide, and leading indicators point to both purchasing and selling prices either falling or rising less quickly than before. In other words, global price pressures are easing. The NOK, meanwhile, is pulling in the other direction. The import-weighted exchange rate has fallen around 4% since mid-August and will prop up import prices for a while.

Wage growth also seems set to rise further. The annual rate was 6.4% in the third quarter, up from 5.2% in the second, due mainly to the central pay rises in this year's pay settlements starting to be paid out. These figures are still well in line with our expectation that wage growth will end up at 5.4% this year.

In Norges Bank's expectations survey, however, respondents now anticipate wage growth this year of 4.9%, down from 5.4% in the previous round. Next year, they expect wage growth to slow to 4.4%, down from 4.8%, perhaps the biggest eye-opener being that employees now expect wages to rise 4.5% next year. With unemployment rising slowly, slightly weaker profitability in parts of the business sector, and lower price expectations, we also see wage growth slowing next year to 4.4%. We expect this trend to continue into 2025 with wage growth of 3.5%.

Our forecast is that core inflation will slow to 3.6% in 2024 and 2.0% in 2025.

Lower wage expectations are good news

Frank Jullum, Chief Economist Norway

More properties on the market

The housing market has deteriorated very clearly over the summer and autumn. While the drop in prices has been moderate, the number of properties on the market has risen quite sharply. Turnover has largely held up but has not been enough to absorb the increase in supply.

More properties on the market could be a sign that sellers' price expectations are too high, which would point to a further drop in prices in the coming months.

On the other hand, housing starts are at very low levels, which could result in a growing shortage of housing towards the end of next year and into 2025. Given the prospect of gradually lower interest rates, this could boost housing prices. This is

Wage expectations dropping

Expected wage growth next year, Labour unions

Sources: Macrobond, Danske Bank

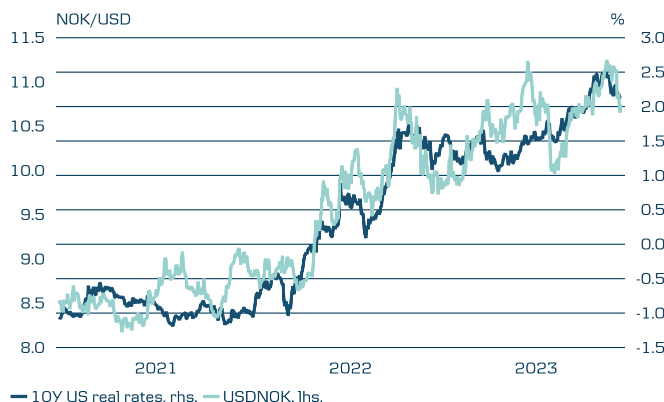
Higher supply of houses

Houses for sale

Sources: Macrobond, Danske Bank

The NOK is driven by global monetary policy

Interest & exchange rates



Sources: Macrobond, Danske Bank

supported by real housing prices deflated by wage growth falling more than 10% in the course of 2023 and 2024.

NOK will remain volatile

The NOK has weakened further since our previous forecast. Lower oil prices are probably the main reason, but we have also seen smaller interest rate differentials to other countries in the wake of slightly weaker figures for the Norwegian economy. However, the NOK is still very much at the mercy of global risk appetite. A belief that inflation has peaked and interest rates are close to doing the same has fuelled increased risk appetite since the end of October, and this has contributed to a moderate improvement – or at least stabilisation – in the (import-weighted) exchange rate.

We are concerned, though, that an increase in risk appetite on the back of weaker growth and inflation could reverse if growth continues to slow and recession risks mount. In the worst case, this period could persist well into 2024, and we know that minor currencies like the NOK can have a tough time in such periods. These fears will probably recede as central banks begin to lower interest rates again, and we then see a stronger NOK.

We may be wrong, however, and see a soft landing for the global economy with lower inflation and weaker growth without ending up in recession. Risk appetite will then increase, and oil prices will climb slightly, gradually supporting the NOK. In the medium term, we still envisage a divide between energy importers and energy exporters, and Norway as part of the latter club can look forward to its currency strengthening considerably during that period.

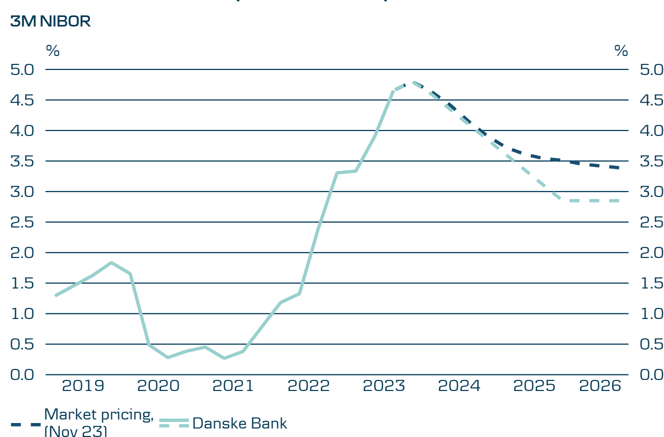
December meeting could go either way, but multiple cuts coming next year

As expected, Norges Bank raised its policy rate by 25bp to 4.25% at the September rate-setting meeting but left it unchanged in November, writing: “Based on our current assessment of the outlook, the policy rate will likely be raised in December. The Committee will have received more information about the inflation outlook ahead of its monetary policy meeting in December. If we become more assured that underlying inflation is on the decline, the policy rate may be kept on hold.”

The bank has since stressed that “underlying inflation” here refers not just to inflation data but also to all of the other factors that influence inflation over time. We therefore think that the outcome of the December meeting is still relatively open. For one thing, Norges Bank’s two measures of underlying inflation – the trimmed mean and weighted median – show that there is still a clear downward trend. If these two measures continue to fall, or rise much more moderately than the CPI-ATE, this would be a sign that the rebound in core inflation in October was down to a limited selection of goods and services. That would not only increase the chances of a correction in November, but also signal that inflation is clearly trending down.

Interest rates are expected to drop in 2024

3M NIBOR



Sources: Macrobond, Danske Bank

We have previously argued that Norges Bank can pay less attention to the weaker NOK when other inflation drivers are pulling in the other direction and inflation expectations are well anchored. The bank’s expectations survey for the fourth quarter is very interesting in this regard. Both price and wage expectations fell, and there is much to suggest that the bank will need to revise down its wage forecast for 2024 in the December monetary policy report.

Looking at the factors that influence the bank’s interest rate projections, it is only exchange rates that will be exerting upward pressure on the policy rate path in the December report. Wages, oil prices, global rates and domestic demand will all be pulling the other way. The inflation numbers for October were exactly as expected, so the November data will be crucial. Were the bank to publish its policy rate path today, we would probably see a significant downward revision from September. This is clearly a strong argument for staying on hold in December if the bank is in any doubt.

Dwindling growth and inflation both at home and abroad would suggest that interest rates will need to come back down before too long. The question is when and by how much. Based on the analyses underlying our forecast, it would seem sensible to begin the process of normalising (cutting) the policy rate during the spring and get it back around normal levels no later than the end of 2025. We therefore predict four rate cuts next year and a further three in 2025.

Consumer revives after a cold economic winter

- Finland's economy is in recession, but it will pick up during 2024 as a result of private consumption supported by falling inflation and the gradual reinvigoration of export demand.

- Labour markets will remain fairly steady even though some sectors will reduce workforce. Many companies are still struggling with labour shortages and wages are rising faster than in recent years.

- Housing markets will remain quieter than normal, but the fall in interest rates and the unleashing of pent-up demand will result in housing markets picking up in 2024. There will be no significant recovery in housing construction until in 2025.

- The Finnish government continues to take fiscal adjustment measures aimed at balancing public finances, but the deficit will remain large and the debt ratio will increase.

	2022	Forecast 2023	2024	2025
GDP Growth	1.6%	-0.5% [-0.2%]	0.3% [0.8%]	1.9%
Infla-tion	7.1%	6.2% [6.5%]	1.9% [2.3%]	1.5%
Unem-ployment	6.8%	7.3% [7.2%]	7.8% [7.0%]	7.2%
Policy rate*	2.00%	4.00% [4.00%]	3.25% [3.25%]	2.25%

Parentheses are the old projections [From September 2023]
**End of period*
Source: Danske Bank, Statistics Finland, EKP

Finland's economy will slip into recession in the second half of 2023, but the gross domestic product will likely resume growth in 2024. In the early part of 2023, the economy was still growing compared to the last quarter of 2022. The gross domestic product stagnated compared to one year earlier. The growth was mainly due to net exports and increasing public consumption, as private consumption stagnated and investments decreased. According to the first estimate by Statistics Finland, the gross domestic product decreased during the third quarter by 0.9% compared to the previous quarter. Adjusted by working days, the gross domestic product was lower by 1.0% year-on-year. The increased number of bankruptcies indicates that many companies suffer from weak demand and higher financing costs. Leading indicators, such as confidence of companies and consumers, show that the economy remained weak in the fourth quarter.

There has been a considerable fall in inflation, but the already happened weakening of purchasing power and rising interest

The economic outlook for the near future is weak, but falling inflation and interest rates will increase the purchasing power of consumers next year. We expect that the unleashing of pent-up demand will increase demand in both consumer durables and the housing markets in 2024

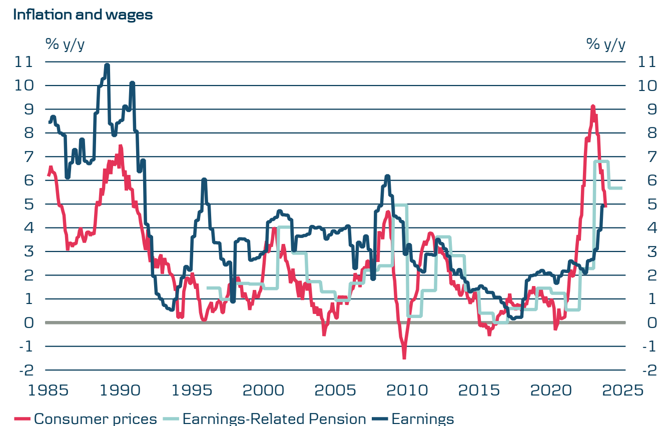
Pasi Kuoppamäki, Chief Economist Finland

rates still hold back both consumers and the investments of companies. The savings ratio was negative in 2022, as consumers maintained their standard of living by using the savings they had accumulated during the COVID-19 pandemic. However, the savings ratio was again positive in 2023, and saving for a rainy day will likely increase as consumers' unemployment worries grow. The increased savings ratio improves the financial security of households, but it temporarily weakens consumer demand. Stability of labour markets is still important in terms of domestic demand.

Finland's harmonised inflation rate has remained at a level that is slightly lower than the average inflation rate in the euro area and the falling energy prices in particular pushed the harmonised inflation rate to 2.4% in October. As a result of the rise of interest rates, the domestic measure of inflation was at 4.9%. Underlying inflation still remains at an elevated level, and it will take a long time for inflation to fall, even if the price of energy remains low this winter, as well. The growth of wage and salary earnings accelerated to around 4%, which is likely to maintain inflation caused by cost pressures especially in the service sectors. We expect that inflation will continue to decrease, as the falling energy prices will also lower the prices of goods in the longer term and weak demand will increase the pressure for price competition. The fall in inflation combined with the 2024 increase in wage and salary earnings and employment pensions will help increase real purchasing power, which is a key driver for the recovery of private demand. We expect an upward turn in private consumption in 2024, but the gradual increase in unemployment will keep demand moderate.

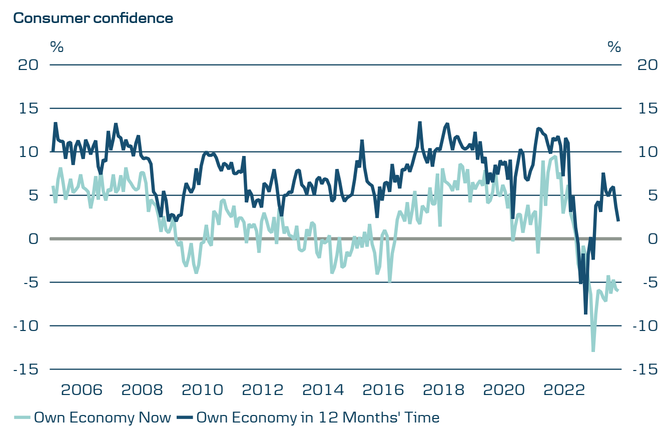
The high inflation rate in the euro area combined with the tight labour market situation has also been problematic to central banks. The rise of interest rates already has a strong effect on the economy, but the reference rates for housing loans will in many cases still rise year-on-year, even if there is no further increase in market rates. We expect the ECB to maintain the deposit facility rate at 4% until next summer, at which point the key interest rates may already be lowered, as inflation pressures have subsided to a sufficient extent, the labour market has cooled down and the real interest rate would climb too high if nominal interest rates are not decreased. Our forecast means that the 12-month Euribor rate will gradually go down from its current level. A decline in interest rates would make the situation easier for debtors and it would support consumption prospects and the housing market in 2024.

Inflation falling making space for real earning growth



Sources: Macrobond Financial, Statistics Finland, Danske Bank

Consumer confidence still weak



Sources: Macrobond Financial, Statistics Finland, Danske Bank

Investments contracting after economic outlook cools

Sources: Macrobond Financial, Statistics Finland, EK, Danske Bank

The stagnating growth of the world economy and the lacklustre economy in the European single market, which is important to Finland, weaken export demand in the near future, but the situation should improve before the end of 2024. Icon of the Seas, the cruise ship which will be completed by the end of the year, will slightly improve the official export figures. The gradual weakening of new industrial orders and the low volume of orders predicted in the industrial confidence survey indicate that exports will decrease in the winter. The weak demand is partly due to inventory cycles. For example, many customers of the forest industry are disposing of their excessive stocks. The inventory cycle will gradually shift and the flow of new orders will increase.

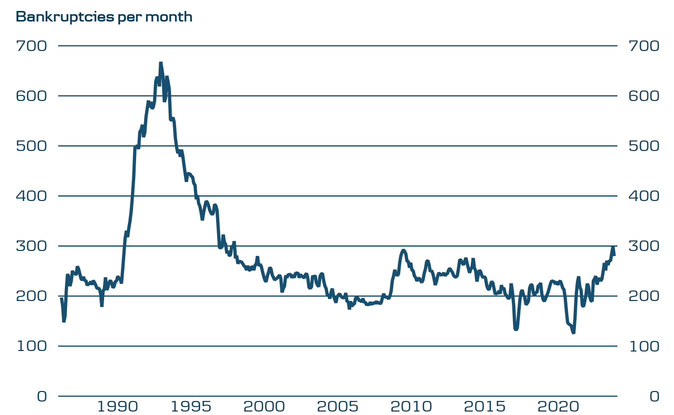
There has been a rather widespread decline in investments. Housing construction is slowing down dramatically and investments in research and product development have stagnated. The decline in industrial capacity utilization, high cost of construction and higher financing costs discourage companies from investing in the near future. There will be a slight increase in public investments, but the need to cut the public deficit limits the possibilities. In the next few years, investments in the green transition and particularly in wind power will nevertheless boom and create new business opportunities, including the hydrogen economy. As a result of the completion of new wind power plants and the third reactor in Olkiluoto nuclear power plant, Finland is now self-sufficient in terms of electricity. After the current projects have been completed, any construction of additional capacity requires that the demand for electricity is expected to increase. Investments can be expected to increase towards the end of 2024, when revived economic growth and falling interest rates will have a positive effect on the investment climate.

The employment rate increased in 2022, but the upward trend stopped this year and the seasonally adjusted unemployment rate increased to 7.6% in October. The unemployment rate was at its lowest, at 6.1%, in April 2022 after the recovery following the lifting of the COVID-19-related restrictions. Unemployment is increasing in the construction industry, and hiring prospects in other main industries are also not strong. However, a considerable number of companies is still suffering from a shortage of skilled labour, and there is a risk that the working-age population shrinks. In many sectors, the shortage of skilled labour will likely slow down the weakening of labour markets, even though the recession forces companies to adjust.

Compared to the previous forecast, the outlook in the European export markets is cooler and consumers are increasingly worried about unemployment. We have slightly lowered our forecast for Finland's economy for 2023 and 2024. We expect that demand will pick up in 2025, aided partly by the economy returning to trend growth following a slump and by an increase in construction and other investments after a weak period. In 2025, a shortage of skilled labour will again dampen high-growth companies' possibilities to expand their business.

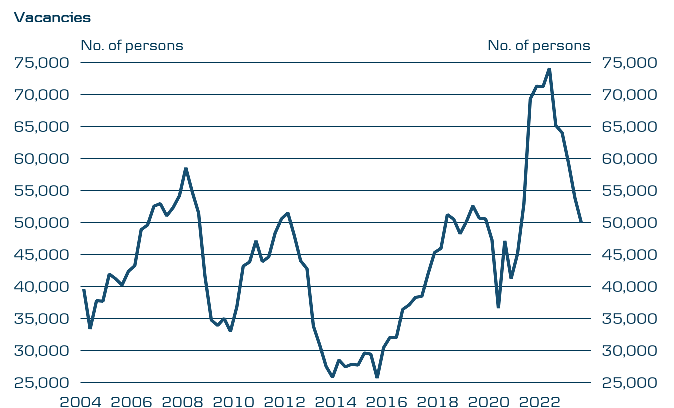
This year, the number of housing transactions was a third below last year's level. According to preliminary information from Statistics Finland, the prices of re-sold owner apartments fell by 7.3% year-on-year and, in the third quarter, by 2% compared to the previous quarter, whereas the prices of old

Higher interest rates and recession increase bankruptcies



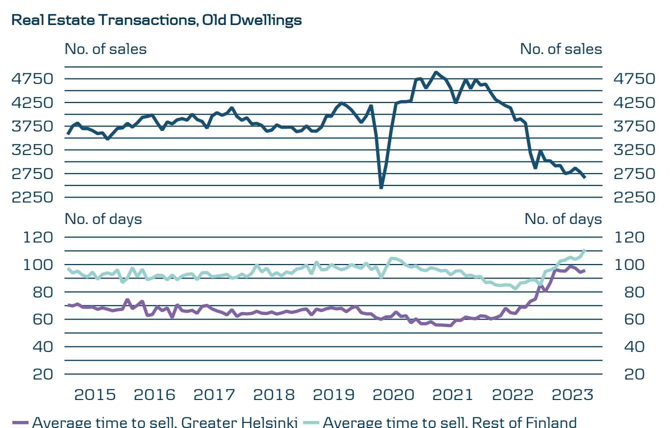
Remark: Seasonally adjusted, 3 month moving average
Sources: Macrobond Financial, Statistics Finland, EK, Danske Bank

Number of open vacancies has fallen



Remark: Seasonally adjusted
Sources: Macrobond Financial, Statistics Finland, Danske Bank

Housing market remained cool during the Autumn



Remark: Seasonally adjusted
Sources: Macrobond Financial, Statistics Finland, Danske Bank

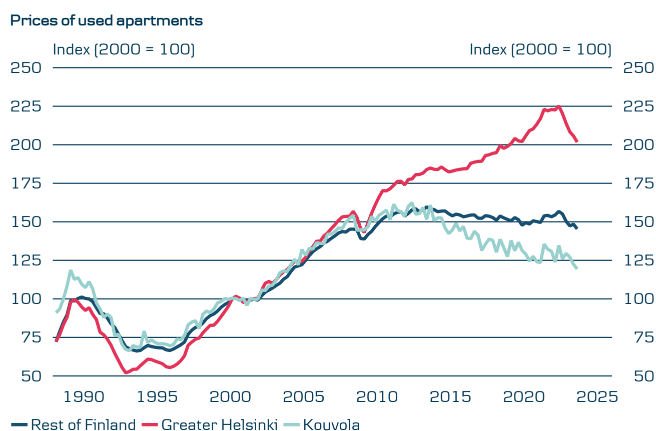
detached houses fell by 9.6% year-on-year. The prices of new apartments fell by 5% year-on-year, but the exemption periods for maintenance charges and other benefits that are offered to buyers blur the picture regarding the price development. The sales of new apartments plunged, as a result of which there will be a significant decrease in construction. In the winter, the higher interest rate level continues to weigh on the housing market, there is an oversupply of new apartments, and consumers' planned housing purchases are at a low level. However, most people with housing loans have still been able to manage their loans as before. The transfer tax exemption applied to first-time home buyers will be revoked at the turn of the year, which will stimulate housing markets during the last months of 2023. The circumstances for an increase in housing transactions will improve in spring 2024, at which point reference rates for housing loans are expected to fall and the transfer tax rate has been cut. Spring is usually a peak period for housing transactions and it is possible that pent-up demand will be unleashed.

Sluggish demand, increased construction costs and the higher interest rate level lead to a notable downward trend in housing construction, which will last throughout 2024. In the construction sector, the number of bankruptcy petitions increased already in summer 2023. The stock of unsold new apartments will increase on a temporary basis, which puts pressure on the price level and reduces incentives for further construction. The unleashing of pent-up demand will increase the demand for new construction in the second half of 2024, but due to the time required for permit applications and other processes related to construction, any considerable revival of housing construction will not take place until in 2025.

The government will aim to balance Finland's public finances through expenditure cuts, tax increases and by means of structural reforms accelerating growth at the level of EUR 6bn in the upcoming parliamentary term. Approximately EUR 4bn will be achieved through expenditure savings, with the aim being that the remaining EUR 2bn will be achieved through a higher employment rate. Despite the savings measures, the public deficit will remain large and the debt-to-GDP ratio will increase. There are major cost pressures, for example, in the healthcare and social welfare sector, and the increased interest expenses on the public debt will widen the deficit. The planned cuts to social security would already have some effect in 2024, but most of the targets require further preparation and will be implemented in subsequent years. If implemented, the labour market reforms may increase workforce supply, but the reforms face resistance from the trade unions. Public debt has increased at a rapid rate and it continues to grow. According to the government's budget proposal, the net borrowing of the state is estimated to exceed EUR 10bn in 2024. The public debt-to-GDP ratio will increase due to the mounting debt and weak growth of the nominal GDP.

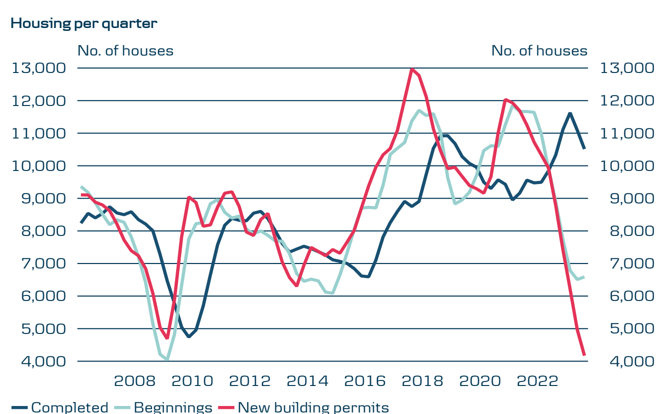
After the summer, the 10-year interest rate on the public debt of Finland stayed above 3%, as the markets expect short-term rates to go down at a rather slow pace. Compared to Germany, the difference in interest rates has remained rather stable during this year. Credit rating institutions have taken a calm approach to the incurrence of debt, but they are still waiting for structural reforms, which would narrow the sustainability gap, and for the fiscal adjustment measures related to public finances. We expect Finland's credit ratings to remain unchanged in 2024.

Housing prices have fallen to pre-COVID-19 level



Sources: Macrobond Financial, Statistics Finland, Danske Bank

Housing construction into a significant decline



Remark: Trend- and seasonally adjusted
Sources: Macrobond Financial, Statistics Finland, Danske Banka

Public debt grows despite expenditure cuts

Sources: Macrobond Financial, Statistics Finland, Danske Bank

Macro forecasts - Denmark

	2022	2022	Forecast 2023	2024	2025
National Accounts	DKK bn (Current prices)	y/y	y/y	y/y	y/y
Private consumption	1188.4	-1.6%	1.0%	1.8%	1.7%
Government consumption	616.7	-2.8%	1.2%	2.0%	1.6%
Gross fixed investment	615.6	3.2%	-4.6%	-0.4%	2.2%
- Business investment	378.9	9.4%	-3.7%	-0.1%	2.8%
- Housing investment	148.0	-8.5%	-11.6%	-3.1%	1.3%
- Government investment	88.8	0.3%	3.0%	1.8%	1.4%
Inventories growth contribution		0.4%	-1.4%	0.3%	0.0%
Exports	1982.5	10.8%	10.3%	3.6%	1.6%
- Goods exports	1049.6	7.1%	8.7%	2.9%	2.3%
- Service exports	932.9	16.3%	12.1%	4.4%	0.8%
Imports	1668.3	6.5%	8.7%	5.4%	1.8%
- Goods imports	988.8	1.2%	5.0%	7.3%	2.1%
- Service imports	679.5	14.9%	14.0%	3.0%	1.3%
GDP	2831.6	2.7%	1.1%	1.0%	1.6%
Economic indicators					
Current account, DKK bn		367.2	296.6	334.0	345.0
- Share of GDP		13.0%	10.5%	11.5%	11.5%
General government balance, DKK bn		97.4	56.0	30.0	20.0
- Share of GDP		3.4%	2.0%	1.0%	0.7%
General government debt, DKK bn		844.7	835.0	810.0	795.0
- Share of GDP		29.8%	29.7%	27.9%	26.5%
Employment*		3167.9	3207.1	3194.5	3178.0
Gross unemployment*		75.6	83.6	93.3	100.3
- Share of total work force**		2.5%	2.8%	3.1%	3.3%
House prices, y/y		-0.1%	-1.5%	1.5%	2.0%
Private sector wage level, y/y		3.5%	4.1%	5.7%	3.6%
Consumer prices, y/y		7.7%	3.3%	2.0%	1.9%
Financial figures					
Lending Rate***		1.90%	3.75%	3.00%	2.00%
Certificates of deposit Rate***		1.75%	3.60%	2.85%	1.85%

*Remark: *annual average, thousands, **DST definition, ***End of period*
Source: Danske Bank, Statistics Denmark, Nationalbanken, Confederation of Danish Employers (Dansk Arbejdsgiverforening)

Macro forecasts - Sweden

	2022	2022	Forecast 2023	2024	2025
National Accounts	**SEK bn (Current prices)**	y/y	y/y	y/y	y/y
Private consumption	2615.2	1.8%	-1.7%	1.1%	2.0%
Government consumption	1485.3	-0.1%	2.3%	0.9%	1.5%
Gross fixed investment	1618.1	6.0%	-1.0%	1.3%	2.3%
Contribution from invetory change	77.7	0.5%	-0.9%	0.1%	0.0%
Domestic demand	5796.3	3.5%	-1.4%	1.2%	1.9%
Exports	3174.2	7.3%	2.6%	2.9%	3.2%
Aggregate demand	8970.4	4.8%	0.0%	1.8%	2.4%
Imports	2985.6	9.2%	0.7%	2.9%	3.6%
Contribution from net exports	188.5	-0.8%	1.0%	0.1%	-0.1%
GDP	5984.8	2.9%	-0.4%	1.2%	1.8%
GDP, calendar adjusted	5972.7	3.0%	-0.2%	1.3%	1.8%
Economic indicators					
Trade Balance, SEK bn		171.5	232.2	237.8	232.7
- share of GDP		2.9%	3.9%	3.9%	3.8%
Current Account, SEK bn		221.5	282.2	287.8	282.7
- share of GDP		3.7%	4.7%	4.8%	4.6%
Public budget, SEK bn		40.0	-25.0	-50.0	-50.0
- share of GDP		0.7%	-0.4%	-0.8%	-0.8%
Public debt ratio*		31.0%	29.0%	29.0%	29.0%
Unemployment rate		7.5%	7.6%	8.2%	8.0%
Consumer prices, y/y		8.4%	8.6%	2.3%	1.0%
CPIF, y/y		7.7%	6.0%	1.9%	1.3%
CPIF excl. Energy, y/y		5.9%	7.6%	2.4%	1.6%
Hourly Wages, y/y		2.5%	4.0%	3.3%	2.5%
House prices, y/y		0.0%	-7.2%	-1.0%	4.0%
*Maastricht definition					
Financial Figures					
Leading policy rate*		2.50%	4.00%	3.25%	2.50%

**End of period*
Source: Danske Bank, Statistics Sweden, Valueguard, Sveriges Riksbank

Macro forecasts - Norway

	2022	2022	Forecast 2023	2024	2025
National Accounts	**NOK bn (Current prices)**	y/y	y/y	y/y	y/y
Private consumption	1816.0	6.2%	-1.0%	1.2%	2.5%
Government consumption	1037.5	1.1%	2.0%	1.3%	1.6%
Gross fixed investment	1123.9	5.2%	0.5%	4.0%	4.0%
Petroleum activities	177.0	-7.2%	6.0%	6.0%	2.0%
Mainland Norway	928.2	7.6%	1.0%	-1.0%	1.0%
Dwellings	235.4	-1.4%	-12.0%	-3.0%	5.0%
Enterprises	451.0	17.1%	1.8%	-2.0%	0.0%
General government	241.7	1.3%	1.0%	3.0%	3.0%
Exports	3165.7	4.7%	4.0%	2.0%	2.0%
Crude oil and natural gas	2014.4	1.3%	3.5%	3.5%	3.5%
Traditional goods	626.4	-1.7%	4.5%	3.0%	3.0%
Imports	1556.2	12.3%	3.0%	1.8%	1.8%
Traditional goods	972.5	3.1%	-1.0%	1.5%	1.5%
GDP	5695.4	3.0%	1.3%	1.4%	2.0%
GDP Mainland Norway	3642.5	3.8%	1.1%	1.1%	2.1%
Economic indicators					
Employment, y/y		3.9%	1.2%	-0.1%	0.4%
Unemployment rate (NAV)		1.8%	1.9%	2.3%	2.5%
Annual wages, y/y		4.3%	5.4%	4.4%	3.5%
Core inflation, y/y		3.9%	6.2%	3.6%	2.0%
Consumer prices, y/y		5.8%	5.6%	3.0%	2.0%
House prices, y/y		4.9%	-2.5%	-1.0%	5.0%
Financial figures					
Leading policy rate*		2.75%	4.25%	3.25%	2.25%

**End of period*
Source: Danske Bank, Statistics Norway, Real estate Norway, Norwegian Labour and Welfare Organization (NAV), Norges Bank

Macro forecasts - Finland

	2022	2022	Forecast 2023	2024	2025
National Accounts	**EUR bn (Current prices)**	**y/y**	**y/y**	**y/y**	**y/y**
GDP	268.6	1.6%	-0.5%	0.3%	1.9%
Imports	128.1	8.5%	-4.5%	1.5%	2.0%
Exports	121.7	3.7%	-0.5%	1.0%	3.0%
Consumption	202.9	1.4%	0.6%	0.4%	0.9%
- Private	138.3	1.7%	-0.5%	0.5%	1.2%
- Public	64.6	0.8%	3.0%	0.2%	0.2%
Investments	65.1	3.2%	-5.5%	0.0%	4.0%
Economic Indicators					
Unemployment rate		6.8%	7.3%	7.8%	7.2%
Earnings, y/y		2.4%	4.0%	3.4%	2.5%
Inflation, y/y		7.1%	6.2%	1.9%	1.5%
Housing prices, y/y		0.6%	-6.0%	2.0%	3.0%
Current account, EUR Bn		-6.8	-2.0	-1.0	0.0
- share of GDP		-2.5%	-0.7%	-0.3%	0.0%
Public deficit, share of GDP		-0.8%	-2.8%	-3.0%	-2.7%
Public debt, share of GDP		73.3%	73.8%	75.3%	75.4%
Financial Figures					
Leading Policy Rate*		2.00%	4.00%	3.25%	2.25%

**End of period*
Source: Danske Bank, Statistics Finland, ECB

Macro Forecasts - Euro area

	2024 Q1	Q2	Q3	Q4	2025 Q1	Q2	Q3	Q4
GDP, q/q	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%
Unemployment rate	6.6%	6.7%	6.8%	6.9%	7.0%	7.1%	7.2%	7.2%
HICP, y/y	2.7%	2.4%	2.3%	2.4%	2.2%	2.2%	2.1%	2.0%
Core HICP, y/y	2.8%	2.4%	2.2%	2.2%	2.1%	2.1%	1.9%	1.9%
ECB deposit rate*	4.00%	3.75%	3.50%	3.25%	3.00%	2.75%	2.50%	2.25%

**End of period*
Source: Danske Bank, Eurostat, ECB

Macro Forecasts - United States

	2024 Q1	Q2	Q3	Q4	2025 Q1	Q2	Q3	Q4
GDP, q/q	0.0%	-0.1%	0.3%	0.3%	0.4%	0.5%	0.6%	0.6%
Unemployment rate	4.1%	4.3%	4.5%	4.5%	4.5%	4.4%	4.4%	4.3%
CPI, y/y	2.6%	2.3%	1.9%	2.0%	2.2%	2.4%	2.6%	2.6%
Core CPI, y/y	3.3%	2.7%	2.6%	2.4%	2.4%	2.4%	2.5%	2.4%
Fed Funds target rate*	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%	3.75%	3.50%

**End of period*
Source: Danske Bank, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Fed

Macro Forecasts - United Kingdom

	2024 Q1	Q2	Q3	Q4	2025 Q1	Q2	Q3	Q4
GDP, q/q	-0.1%	0.0%	0.1%	0.2%	0.3%	0.3%	0.3%	0.4%
Unemployment rate	4.5%	4.5%	4.6%	4.7%	4.8%	4.9%	4.9%	4.8%
CPI, y/y	4.0%	2.5%	2.4%	2.3%	2.1%	1.9%	1.9%	1.7%
Core CPI, y/y	5.0%	3.6%	2.9%	2.4%	2.2%	2.0%	1.9%	1.9%
BoE Bank Rate*	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%	3.50%	3.00%

**End of period*
Source: Danske Bank, Bank of England, The Office for National Statistics

	Year	GDP*	Private cons.*	Public cons.*	Fixed inv.*	Ex-ports*	Im-ports*	Infl-ation*	Wage growth *	Unem-ployme. **	Public budget ***	Public debt ***	Current acc. ***
Danmark	2022	2.7	-1.6	-2.8	3.2	10.8	6.5	7.7	3.5	2.5	3.4	29.8	13.0
	2023	1.1	1.0	1.2	-4.6	10.3	8.7	3.3	4.1	2.8	2.0	29.7	10.5
	2024	1.0	1.8	2.0	-0.2	3.6	5.4	2.0	5.7	3.1	1.0	27.9	11.5
	2025	1.6	1.7	1.6	2.3	1.6	1.8	1.9	3.6	3.3	0.7	26.5	11.5
Sweden	2022	3.0	1.8	-0.1	6.0	7.3	9.2	8.4	2.5	7.5	0.7	31.0	3.7
	2023	-0.2	-1.7	2.3	-1.0	2.6	0.7	8.6	4.0	7.6	-0.4	29.0	4.7
	2024	1.3	1.1	0.9	1.3	2.9	2.9	2.3	3.3	8.2	-0.8	29.0	4.8
	2025	1.8	2.0	1.5	2.3	3.2	3.6	1.0	2.5	8.0	-0.8	29.0	4.6
Norway	2022	3.8	6.2	1.1	5.2	4.7	12.3	5.8	4.3	1.8	-	-	-
	2023	1.1	-1.0	2.0	0.5	4.0	3.0	5.6	5.4	1.9	-	-	-
	2024	1.1	1.2	1.3	4.0	2.0	1.8	3.0	4.4	2.3	-	-	-
	2025	2.1	2.5	1.6	4.0	2.0	1.8	2.0	3.5	2.5	-	-	-
Euro area	2022	3.4	4.2	1.6	2.8	7.4	8.0	8.4	3.1	6.7	-3.6	92.6	1.0
	2023	0.5	0.4	0.0	0.9	0.2	-0.3	5.5	5.6	6.5	-3.2	90.6	2.5
	2024	0.5	0.6	0.7	0.6	1.7	2.0	2.5	4.6	6.8	-3.0	89.9	2.0
	2025	1.2	1.1	0.8	1.5	2.7	2.6	2.1	3.7	7.1	-2.8	88.8	2.4
Finland	2022	1.6	1.7	0.8	3.2	3.7	8.5	7.1	2.4	6.8	-0.8	73.3	-2.5
	2023	-0.5	-0.5	3.0	-5.5	-0.5	-4.5	6.2	4.0	7.3	-2.8	73.8	-0.7
	2024	0.3	0.5	0.2	0.0	1.0	1.5	1.9	3.4	7.8	-3.0	75.3	-0.3
	2025	1.9	1.2	0.2	4.0	3.0	2.0	1.5	2.5	7.2	-2.7	75.4	0.0
United States	2022	1.9	2.5	-0.9	1.3	7.0	8.6	8.0	5.3	3.6	-5.5	123.3	-3.9
	2023	2.4	2.1	3.9	0.4	1.7	-2.1	4.1	4.3	3.7	-5.8	124.6	-3.0
	2024	1.1	0.2	3.3	3.1	-1.7	0.4	2.2	3.2	4.4	-5.8	126.8	-2.8
	2025	1.6	0.7	2.0	5.4	3.8	4.2	2.5	2.5	4.4	-5.8	128.6	-2.6
China	2022	3.0	2.8	-	4.0	-	-	2.0	-	5.5	-7.5	77.0	2.2
	2023	5.4	6.6	-	4.6	-	-	0.5	-	5.3	-7.5	83.0	1.5
	2024	4.5	5.5	-	3.8	-	-	1.0	-	5.2	-7.2	87.4	1.4
	2025	4.5	5.5	-	3.8	-	-	1.5	-	5.2	-7.0	91.8	1.1
United Kingdom	2022	4.3	-	-	-	-	-	9.1	-	3.7	-	-	-
	2023	0.5	-	-	-	-	-	7.4	-	4.2	-	-	-
	2024	0.0	-	-	-	-	-	2.8	-	4.6	-	-	-
	2025	1.0	-	-	-	-	-	1.9	-	4.9	-	-	-

Source: OECD and Danske Bank.
* % y/y. ** % of labour force. *** % of GDP.

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