Danske Bank

Investment Research

27 March 2018

Nordic Outlook

Economic and financial trends

- Denmark: Still a little more to come
  - Judging from the latest figures, the Danish recovery is slightly disappointing.

- Sweden: Consumers next to feel the heat
  - Drop in house prices will depress construction, and the risk is that it will lead to a drop in consumer spending.

- Norway: Rate hike inching closer
  - Growth is becoming more self-sustained, inflation is heading up and so are interest rates.

- Finland: Rising employment lifts spirits
  - The strong recovery in 2017 looks set to continue, although at a slightly slower pace.

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

https://research.danskebank.com

Analysts

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Editor-in-Chief:

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

Macroeconomics:

Bjørn Tangaa Sillemann	Denmark	+45 45 12 82 29	bjsi@danskebank.com
Louise Aggerstrøm Hansen	Denmark	+45 45 12 85 31	louhan@danskebank.com
Christian Alexander Lilholt Toftager	Denmark	+45 45 12 81 57	ctof@danskebank.com
Michael Grahn	Sweden	+46 8 568 807 00	mika@danskebank.com
Frank Jullum	Norway	+47 85 40 65 40	fju@danskebank.com
Pasi Petteri Kuoppamäki	Finland	+358 10 546 7715	paku@danskebank.com
Jukka Samuli Appelqvist	Finland	+358 44 263 1051	app@danskebank.com

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Important disclosures and certifications are contained from page 32 of this report.

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

At a glance

A mixed picture at home and abroad

Not all recoveries are the same

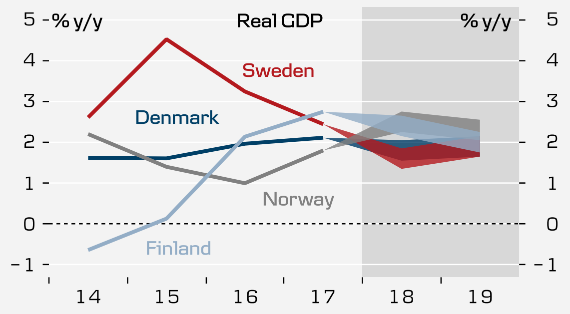
The recovery continues both in the world economy and in the Nordic countries but with a few more reservations than three months ago when we published *Nordic Outlook – January 2018* on 5 January. In the euro area especially, growth indicators have turned a little less upbeat recently, partly reflecting the weight of a stronger euro on businesses. The risk of a trade war has increased, which is not good news for small open economies, even if the argument is mainly between the US and China. In Denmark, a range of indicators has turned out on the disappointing side. In Sweden, the decline in house prices looks as though it is continuing, which, in our view, will definitely hurt construction and might hurt consumers as well. Finland has revised the very strong 2017 growth numbers down a little but is otherwise continuing its robust recovery. Norway has few signs of weakness in its current cycle, especially as the housing market is looking more stable and more balanced.

We do not forecast big differences in headline GDP growth rates, which we expect to stick fairly close to 2%. In today's world, this is above trend, also in the Nordic countries. However, the feeling could be quite different. Finland still has spare capacity to be activated by strong demand. Norway is closing the gap, as Denmark has also done. Economic discussions tend to be about risks related to overheating, such as a lack of qualified labour or economies too dependent on credit. In Sweden, the slowdown could shift the focus and there is a risk that growth could fall below potential, which would lead to a less welcoming labour market.

Different economies, different rate outlooks

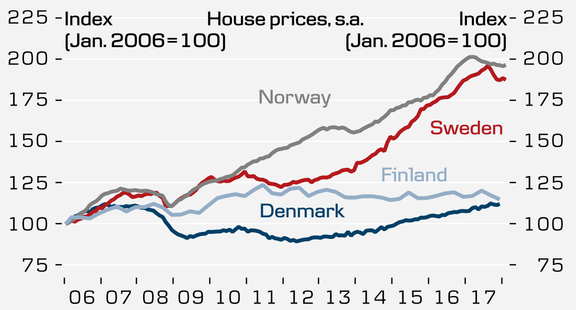
Different economic circumstances are also reflected in different outlooks for inflation and interest rates. The contrast is especially clear between Sweden and Norway. The Norwegian economy is likely to produce increasing inflation, partly because a tighter labour market leads to higher wage growth and Norges Bank is likely to hike interest rates in September. On the contrary, inflation in Sweden is already declining and we expect it to go lower, as temporary factors have kept price growth elevated recently. There is not enough wage growth in Sweden to support the current level of inflation. It seems that high economic growth and low unemployment are no longer directly leading to higher wage growth the way they did in the past, possibly because a long period of very low inflation has resulted in lower wage demands. This does not look likely to change, especially given the weaker growth we expect this year and next. In our view, this makes it likely that the Riksbank will have to postpone its plans for a rate hike this summer.

Trading places



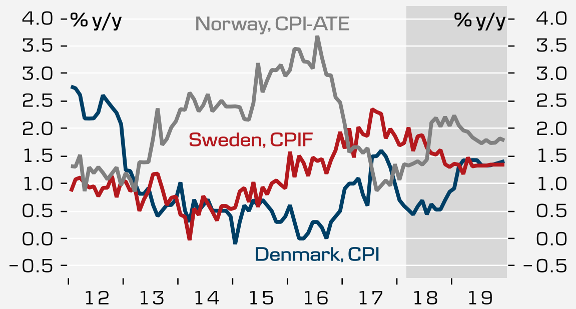
Note: Danish growth in 2017 is likely to be revised down
Source: Macrobond Financial, Danske Bank

Swedish house prices set to decline further



Source: Macrobond Financial, Danske Bank

Inflation in opposite directions



Source: Macrobond Financial, Danske Bank

Denmark

Still a little more to come

- **The upswing is continuing in Denmark, though the economy did not perform quite as well as we had hoped in 2017.**
- **While the labour market risks overheating, this remains a risk, not a reality.**
- **Consumers are benefiting from rising real incomes and house prices, though consumption is not keeping up.**
- **Given the strong growth in our export markets, Danish exports have disappointed, which means they have potential for growth.**

Job and revenue growth outpace GDP

The Danish economy has grown noticeably – something households have been able to feel since 2013, when employment began to rise and real wage growth again turned positive. The upswing was also finally reflected in corporate top line growth in 2017, as revenues rose 6.3% – and that in a year when inflation was just 1.1%. Moreover, both revenues and employment have seemingly continued to grow in the first few months of 2018. Confidence indicators, both consumer and business, are high. The Danish economy is no longer marked by underutilised capacity – the output gap has closed.

Nevertheless, there are still notable laggards in the upswing. Exports were down 0.3% in Q4 2017 compared with the same period in 2016, while corporate investment was 1% lower and private consumption just 0.8% higher. Naturally, we should not attach too much importance to a single quarter, but certainly some of the key components of demand cannot be characterised by unequivocal growth. We expect to see more growth in all three of these areas in the coming years, as the prerequisites are in place, though of course there is a real possibility that progress here will continue to disappoint, and ultimately this will also be felt by companies and households.

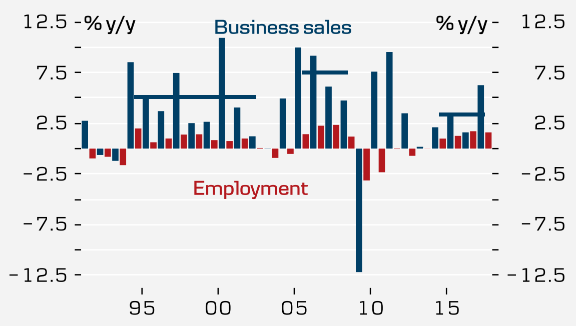
The picture becomes even more muddied if we look at GDP. Last year, GDP grew by 2.1%, which is quite solid in terms of the post-crisis benchmark for an upswing. However, 0.4 percentage points of that figure were due to the sale of a single patent for around DKK9bn in Q1. In reality, the bulk of that input should be included in the GDP calculation for the previous years, not 2017. As the patent sale added so much to GDP in 2017, growth could well decline significantly in 2018. We have ignored this effect in our forecast, as we assume this element will be revised – something Statistics Denmark has also signalled. However, the revision will then mean growth in 2017 being considerably lower than the current official figures, which are the ones included in the table in this publication.

At a glance

Denmark	Current forecast		Previous forecast	
% y/y	2018	2019	2018	2019
GDP	1.8	1.9	2.0	1.9
Private consumption	1.9	2.6	2.0	2.5
Public consumption	1.0	0.5	0.7	0.5
Gross fixed investment	5.8	4.2	5.5	4.3
Exports	2.5	2.9	2.7	2.6
Imports	4.2	3.6	3.4	3.6
Gross unemployment (thousands)	107.9	102.7	111.7	107.1
Inflation	0.6	1.3	1.2	1.4
Government balance, % of GDP	-0.2	-0.1	-0.3	-0.1
Current account, % of GDP	7.5	7.5	7.7	7.3

Source: Danske Bank

Feels like growth



Note: horizontal lines give average revenue growth during periods of rising employment.
Source: Statistics Denmark, Macrobond Financial

Upside risks dominate, also for public finances

Whether you include the patent sale or not, the GDP figures for 2017-2018 look somewhat disappointing given the strength of the upswing otherwise and seen in relation to other countries. Much of the explanation lies in a mysterious and pronounced fall in GDP in Q3 2017 that was only just recouped in the following quarter. Nevertheless, despite slightly lacklustre GDP growth, the main risk to the Danish economy is still overheating rather than a crisis. That being said, while growth is without doubt above trend, so far there is little sign of overheating in either the labour or housing market. Overheating thus remains a risk, not a reality. Another risk to growth is a potential labour conflict among public sector workers. One week's lockout could reduce production in the public sector and hence GDP by around 1% in Q2, though this would of course be temporary and some of the lost production could be recovered in subsequent quarters. Private sector companies might also be affected, for example if the conflict hits public transport.

Public finances have been in significantly better shape than expected in recent years – not least due to the tax on pension returns, but also because of solid household and corporate revenues, incomes and profits. Even though we are again more optimistic than the government on public finances in the coming years, there is a real chance public finances will outperform our expectations.

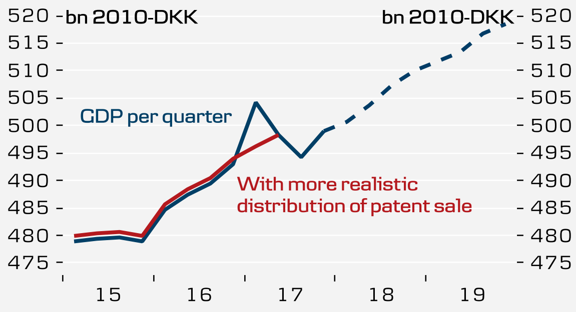
Interest rates remain low

The Danish krone (DKK) exchange rate remains stable, with Danmarks Nationalbank not needing to intervene in the FX market since March 2017. The DKK continues to be supported by a very large current account surplus, even though the weakening of the dollar in 2017 could as such have put downward pressure on the DKK against the euro (EUR). The DKK is also being supported by substantial overseas interest in Danish callable mortgage bonds, which foreign investors have placed around DKK100bn (net) in since spring 2016. With the highest possible credit rating and a liquid market, Danish mortgage bonds represent a good alternative to government bonds in the eurozone, where return is being squeezed by the ECB's bond purchase programme, and that applies both to investors from Europe and also further afield. Foreign investor interest provides much of the explanation for why effective interest rates on mortgage loans were pushed down to new lows in 2017. Meanwhile, the ECB will further taper its bond purchase programme in Q4 this year and most likely discontinue it in 2019, which may pull long yields up again, as we saw in early 2018. We also expect the ECB to slowly edge towards an actual rate hike in spring 2019 and Danmarks Nationalbank to follow suit, though monetary policy rates will likely not be positive again until we are into 2020.

Investment has picked up, but still room for more

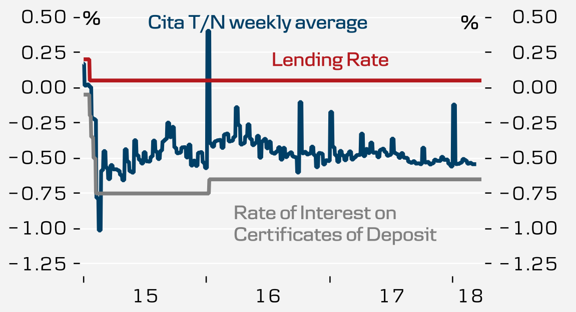
Low interest rates and rising house prices have made new-builds attractive, adding considerable impetus to housing investment in the past few years. Building activity has been particularly evident in Copenhagen and Aarhus, where house prices have risen most. Investment has generally picked up well in Denmark, and business investment, too, has been increasing for quite some time. However, the momentum here has come from non-material investments, while the level of physical investment has remained modest in historical terms.

Slightly lacklustre GDP growth in 2017



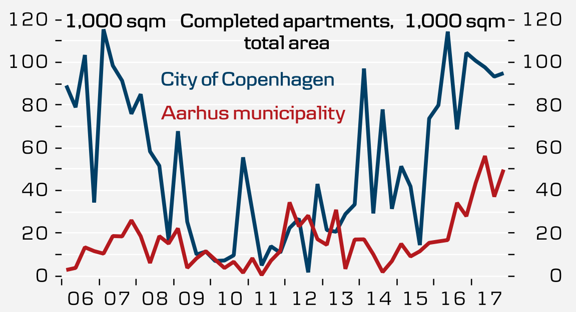
Source: Statistics Denmark, Danske Bank, Macrobond Financial

Fixed-income market signals stable DKK



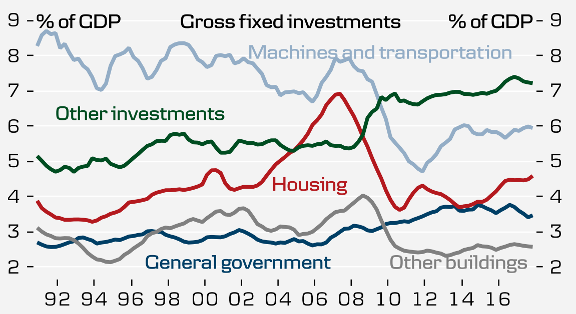
Source: Danmarks Nationalbank, Nasdaq OMX, Macrobond Financial

Construction activity has been buoyant in the larger cities for some time now.



Source: Statistics Denmark, Macrobond Financial

Building and machinery investments still low



Note: 4-quarter moving average
Source: Statistics Denmark, Macrobond FInancial

There is probably potential for more here as demand increases and it becomes ever more difficult to hire the right labour.

Labour shortages a risk

Employment growth has primarily been via the labour force expanding – both domestic and from abroad – as the number of unemployed has only fallen slightly. Our forecast is based on this pattern continuing, supported in part by rising retirement and early retirement ages. However, the risk is that the pace of expansion cannot be maintained, as labour markets throughout northern and eastern Europe are tightening. Several sectors are reporting increasing problems with recruiting labour and the number of vacant positions is rising, though wage growth, on the other hand, has only been rising weakly. Over the past six months, wage growth in Denmark has been slightly lower than among our trading partners, at least in the manufacturing sector. This has to be seen against the surprisingly low level of inflation, which ensures solid real wage growth – and given this, we expect just moderately higher wage growth in the coming years, even if supply and demand in the labour market point to a more significant increase. As we write, the question of whether or not a major labour conflict in the public sector – focused on wages, among other things – will materialise this spring remains unresolved.

Higher interest rates not expected to knock housing market off course

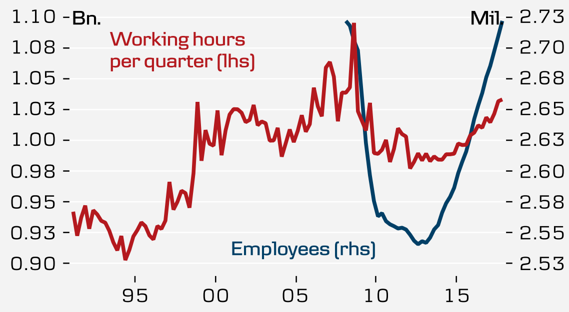
The housing market is in fine shape, with prices rising across most of the country – and the outlook is for this to continue, supported by general economic growth and rising household income. In addition, modest interest rate increases from very low levels are not expected to be sufficient to knock the housing market off course. Relatively few properties for sale, short sales times and just modest price discounts support the picture of this being a seller's market.

During our forecast period the big question is when interest rates will rise and by how much. We had a taste of this in February, when long yields in particular rose a notch. However, much of the rise in yields we saw in February has already evaporated, with long mortgage bond yields now back at the levels seen last summer.

Rising interest rates do not affect the housing market equally. There is a clear tendency whereby areas, where prices have risen quickly to high levels, are also the areas where prices react most strongly to interest rate increases. We therefore expect higher interest rates to put more of a damper on apartment prices in the major cities than on house prices in the rest of the country, as urban apartment prices have risen sharply in recent years.

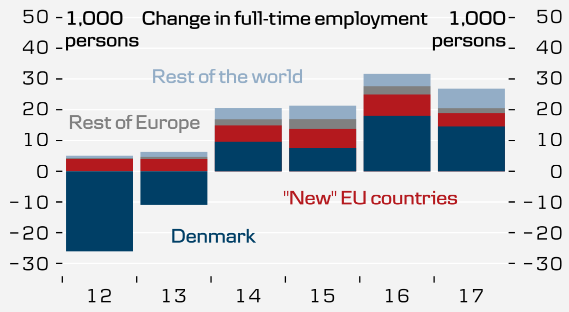
It is still too early to assess the impact of the tighter regulations introduced on 1 January this year regarding the type of loan that could be chosen by relatively indebted households. We expect the overall effect on the housing market as a whole will be limited, though it could have some impact on the willingness of buyers to pay in areas where prices have risen sharply.

More jobs, but more of them part-time



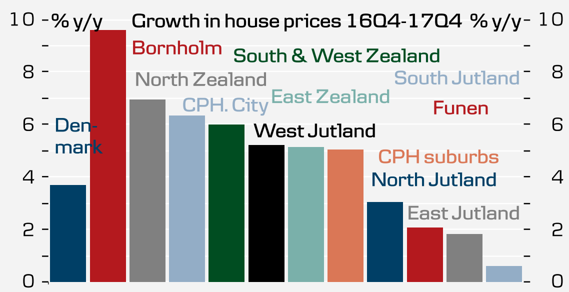
Source: Statistics Denmark, Macrobond Financial

Job growth partly driven by immigration



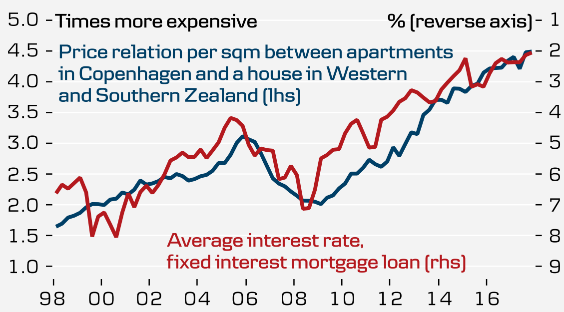
Note: "New EU countries" are countries included since 2005.
Source: jobindsats.dk, Macrobond Financial

Growth on the housing market is not just happening in the big cities



Source: Statistics Denmark, Macrobond Financial

Rising interest rates hit expensive areas hardest



Source: Finance Denmark, Danmarks Nationalbank, Macrobond Financial

The consumption boom that never was

Private consumption never really took off in 2017. Even taking into account the effect of the negotiations on car duties in the autumn, underlying consumption was not impressive, in part due to consumption of services disappointing. Consumption was in fact surprisingly weak, even if we allow for higher inflation eroding consumers' purchasing power in 2017. Moreover, incomes continued to grow throughout the year, implying that the Danes' consumption ratio – share of income spent on private consumption – is very low, historically speaking. This is also reflected in very low lending growth to households, which despite rising income and growing home equity have still not begun to increase their level of borrowing.

We expect consumption growth to pick up during the forecast period. Overall economic growth and high real income growth – in part due to lower than expected inflation – should lift consumption relative to 2017. In addition, one-off payouts of early retirement contributions in 2018 and property tax rebates in 2019 are expected to add to consumption to some extent. However, despite the favourable conditions for rising consumption, several indicators point to a relatively subdued start to the year private consumption-wise. Dankort (Danish debit card) sales have grown only very modestly, which serves to underline that the outlook is for modest consumption growth rather than a boom.

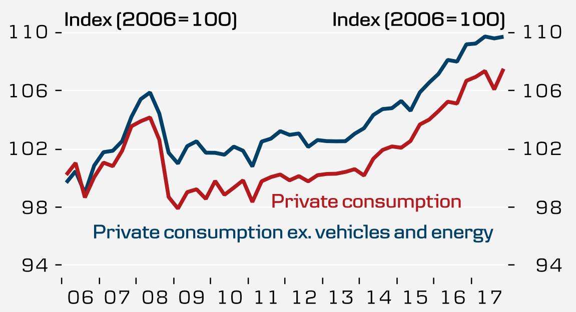
The low consumption ratio also means there is potential for considerably higher private consumption growth than our current forecast indicates. Should Danes begin to convert more of that growth in real income into increased consumption and subsequently raise their levels of borrowing, then consumption growth could potentially go considerably higher.

Inflation low once again

Underlying price pressures in the economy remain low. Inflation has been falling since last autumn, and in the first two months of the year returned to the lows that have characterised the past five years. Food and energy prices have eased a little again, which has pulled inflation lower, but several other more permanent factors also make us think inflation will remain at a relatively low level throughout 2018. These include the annual adjustment to rents, which was very low this year and is included in the inflation figures in February. Rents in the regulated rental sector looked set to rise by a little more than in 2017, but free market rents apparently rose considerably less, which taken together pulled inflation lower by 0.1 percentage points for the rest of the year. The price for driving over Storebælt, the toll bridge that connects Zealand and Funen, was cut by DKK46 in January, which will also contribute to keeping inflation down this year.

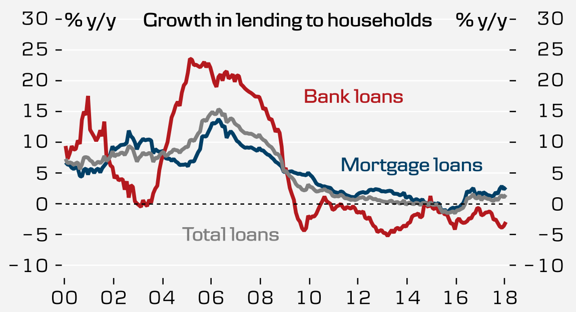
We do not expect inflation to rise above 1% again until sometime in 2019. A number of factors that are pulling inflation lower this year will disappear from the statistics at that point. We also expect slightly higher wage pressures here in Denmark to be reflected in higher inflation via increased prices for services. However, just as with the eurozone, we expect the road back to inflation of around 2% to still be a long one. We have projected inflation to rise from 0.6% in 2018 to 1.3% in 2019.

Private consumption expected to pick up after disappointing in 2017



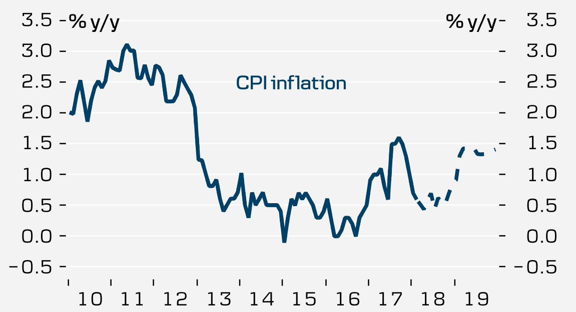
Source: Statistics Denmark, own calculations, Macrobond Financial

Credit essentially not increasing – in sharp contrast to consumption boom in the 2000s



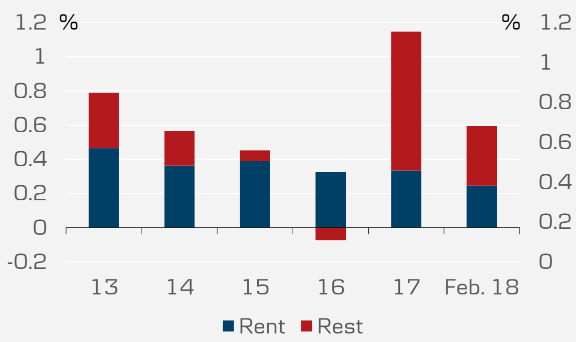
Source: Statistics Denmark, own calculations, Macrobond Financial

Inflation outlook modest



Source: Statistics Denmark, own calculations, Macrobond Financial

Rents contributing less and less to inflation



Source: Statistics Denmark, own calculations

Exports disappointed, but growth ahead

Exports seriously disappointed in 2017. The method used to include new data on goods sold abroad meant that growth in goods exports for 2017 came in at 6.4%, but there was little sign of growth during the year. Energy exports, which fluctuate a lot depending on the amount of oil and gas extracted from the North Sea, may explain some of the weakness, but definitely not all. Unfortunately, exports do not appear to have picked up in 2018, as the entire sector has looked weak so far this year.

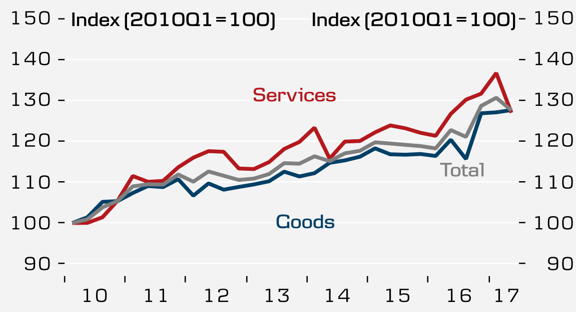
Denmark's export markets have, meanwhile, been experiencing solid growth, led by the eurozone and not least our largest trading partner, Germany. Moreover, Danish manufacturing companies are again competitive after a long post-crisis period when Danish wages rose less than abroad. Denmark's competitiveness has, however, suffered from the pronounced strengthening of the euro (EUR) and thus the DKK in 2017, which has tended to weaken exports. DKK strengthening against the USD and SEK, in particular, has made Danish goods more expensive in a number of important markets. However, this effect plays no role in connection with the eurozone, yet export growth to this region has also been weak in DKK terms. Particularly disappointing is that manufacturing exports have not performed better at a time of rising investment appetite in Europe.

Service exports have also experienced the consequences of a stronger DKK, as Sweden is the main recipient of Danish services apart from shipping. Service exports had a very poor 2017. Correcting for the extraordinary payment of around DKK9bn to use a Danish-owned patent, service exports actually fell in 2017. The Danish shipping fleet appears to have got more wind in its sails in 2017, so it has been exports of other services and particularly building and construction services that have slowed. This may be due to the increase in construction activity here in Denmark over the past year, which may have contributed to keeping the construction industry busy at home.

Export conditions are unlikely to become even more favourable in 2018 and 2019 than they were last year, but they will, nevertheless, remain benign. Growth in Denmark's most important export markets will likely slow a little, and the stronger DKK will continue to dampen sales of goods and services outside the eurozone. However, further opportunities should open for Danish manufacturers as the global upswing becomes more investment-driven, and we generally have higher expectations for exports this year. We expect total exports to increase by 1.8% this year and 2.9% next year.

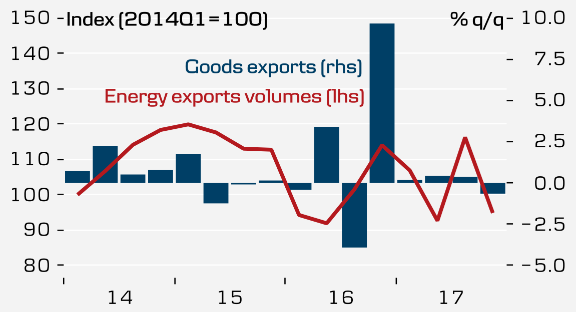
The current account continues to run a very large surplus despite exports disappointing. This is because import growth has also been limited, as private consumption growing just slowly also leaves its mark on the demand for foreign-produced goods. Moreover, corporate investments in machinery and buildings have been rather modest, which also contributes to keeping imports down. In our opinion, physical investments could potentially increase, which would gradually raise imports and cause the trade balance surplus to fall slightly. The level of savings in Denmark is structurally very high, which will, in contrast, continue to give high net investment income. Overall, we expect the current account surplus to be 7.5% of GDP in 2018 and 2019.

Exports disappointed in 2017



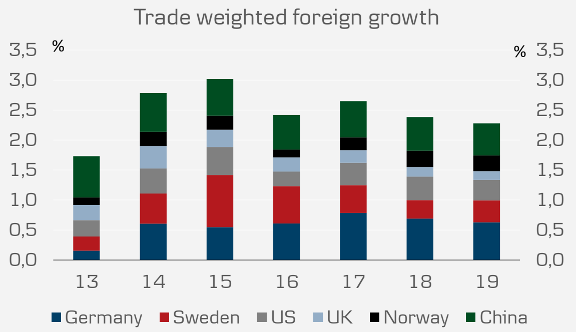
Source: Statistics Denmark, own calculations, Macrobond Financial

Energy exports have been a drag, but that alone cannot explain weak goods exports



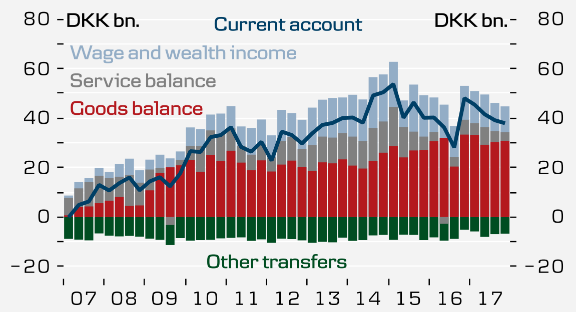
Source: Statistics Denmark, Macrobond Financial

Solid growth in Denmark's export markets



Source: Statistics Denmark, OECD, own calculations

Current account surplus still very large



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

At a glance

National account	2017	2017	2018 (Forecast)	2019 (Forecast)
	DKK bn (current prices)	% y/y		
Private consumption	976.1	1.5	1.9	2.6
Government consumption	535.8	1.1	1.0	0.5
Gross fixed investment	435.6	2.5	5.8	4.2
- Business investment	262.9	3.9	5.8	4.4
- Housing investment	98.3	4.8	7.4	7.0
- Government investment	74.4	-4.5	4.0	0.0
Growth contribution from inventories	0.1	0.1	0.3	-0.2
Exports	1183.2	4.6	2.5	2.9
- Goods exports	750.2	6.4	1.2	2.9
- Service exports	433.0	1.3	4.8	3.0
Imports	1033.0	4.1	4.2	3.6
- Goods imports	641.9	5.3	3.7	3.8
- Service imports	391.2	2.2	5.1	3.2
GDP	2142.5	2.1	1.8	1.9

Economic indicators	2017	2018	2019
Current account, DKK bn	164.1	164.7	170.7
- % of GDP	7.7	7.5	7.5
General government balance, DKK bn	21.5	-4.9	-1.3
- % of GDP	1.0	-0.2	-0.1
General government debt, DKK bn	780.9	783.3	781.1
- % of GDP	36.4	35.7	34.5
Employment (annual average, thousands)	2923.1	2966.6	2996.1
Gross unemployment (annual average, thousands)	116.6	107.9	102.7
- % of total work force (DST definition)	4.3	4.0	3.8
Oil price - USD/barrel (annual average)	54	63	65
House prices, % y/y	4.0	3.8	2.5
Private sector wage level, % y/y	1.7	2.0	2.3
Consumer prices, % y/y	1.1	0.6	1.3

Financial figures	26/03/2018	+3 mths	+6 mths	+12 mths
Lending rate, % p.a.	0.05	0.05	0.05	0.05
Certificates of deposit rate, % p.a.	-0.65	-0.65	-0.65	-0.65
2-yr swap yield, % p.a.	-0.01	0.10	0.15	0.35
10-yr swap yield, % p.a.	1.19	1.35	1.40	1.75
EUR/DKK	7.45	7.45	7.45	7.45
USD/DKK	6.04	6.05	5.96	5.82

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

Sweden

Consumers next to feel the heat

- **At the February meeting, the Riksbank surprised by making a soft verbal forward guidance, in essence pushing the repo rate forecast further out in time to H2 18. In our view, Riksbank is still too optimistic about actual inflation and inflation expectations and will not trigger rate hikes this year and probably not in 2019 either, as inflation remains too low.**
- **March and April will be important months for inflation developments. We expect a much weaker core inflation development than Riksbank this year as 'base effects' from last year price hikes are unlikely to be repeated. As in past years, wage cost pressures are still lacking to push domestic inflation higher.**
- **Property prices are likely to resume their decline after a few months of stabilisation. Residential construction is set to slow, as an oversupply of expensive flats needs to be managed first. Private consumption is also set to react to falling property prices by slowing down markedly. However, there is a risk of a bigger setback - in the worst case, private spending could come to a standstill. As long as the global business cycle remains buoyant, however, there are balancing factors in terms of business fixed investments and net exports. The recent moderation in Eurozone PMI is not a problem for Swedish exporters but needs to be monitored.**

Riksbank to delay repo rate forecast in April

In February, the Riksbank again kept the repo rate and the repo rate path unchanged as expected, while lowering the inflation forecast. At first we were puzzled by this revision as it could be seen as if the Riksbank had shifted its response function in a more hawkish fashion. That, however, turned out to be an entirely wrong conclusion. Riksbank instead explicitly stated that it had been close to shifting the repo rate path forward, as inflation had been a disappointment and that it now see it slightly lower than previously

In our view, this is an odd reaction from the Riksbank, which may be seen as a kind of verbal forward guidance not used previously. Riksbank said it now expects to start raising the repo rate in the second half, a clear delay compared to 'mid-2018' as stated before.

The backdrop ahead of the upcoming April meeting is that inflation turned out lower than expected in both January and February, at the same time as residential property prices stabilised at best. We expect inflation and property prices to decline further over the coming month(s), adding to the pressure on the Riksbank to delay rate hikes. As before, we do not expect the Riksbank to raise rates this year or even in 2019. Rate hikes are simply not on the horizon.

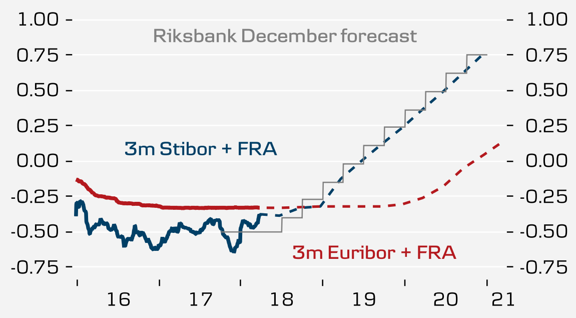
The Riksbank continues to buy government bonds worth some SEK11bn per quarter for six consecutive quarters (to mid-2019), from the beginning of January 2018. This is the sum of around SEK15bn in coupon payments and the redemption of the SGB1052 bond in early 2019. These reinvestments are front-

At a glance

Sweden	Current forecast		Previous forecast	
% y/y	2018	2019	2018	2019
GDP, calendar adjusted	1.7	2.0	1.7	2.0
Private consumption	1.6	1.8	1.6	1.9
Public consumption	1.3	0.8	1.3	0.8
Gross fixed investment	-1.1	0.4	1.1	0.4
Exports	5.6	4.7	5.1	4.7
Imports	4.8	3.8	5.0	3.8
Unemployment rate	7.1	7.6	7.1	7.6
Inflation	1.6	1.3	1.6	1.4
Government balance, % of GDP	1.0	0.8	0.6	0.4
Current account, % of GDP	3.5	3.9	4.8	5.4

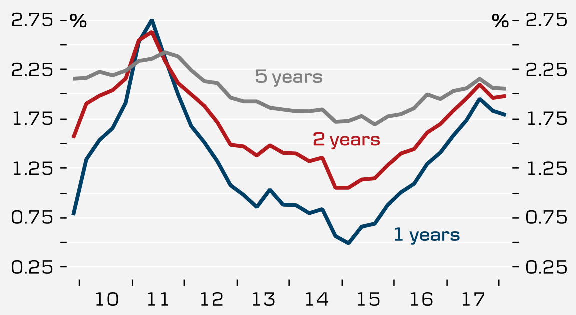
Source: Danske Bank

Market pricing and Riksbank still too hawkish



Source: Riksbank, Macrobond Financial

Inflation expectations have turned lower



Source: Kantar SIFO Prospera, Macrobond Financial loaded compared with maturing bonds. Riksbank reinvestments will absorb the nominal issuance from the Debt Office, which will retain downward pressure on longer-dated bonds. Net issuance was further reduced as the Debt Office understated tax revenues and had to reduce bond funding.

Q1 broad-based inflation expectations were sideways to slightly lower compared to Q4, which in turn was the first decline in about two years. If inflation falls further as we expect, it is highly likely that this will pull down expectations further. At some point, this may prove to resurface as a headache for the Riksbank.

March or April inflation a watershed

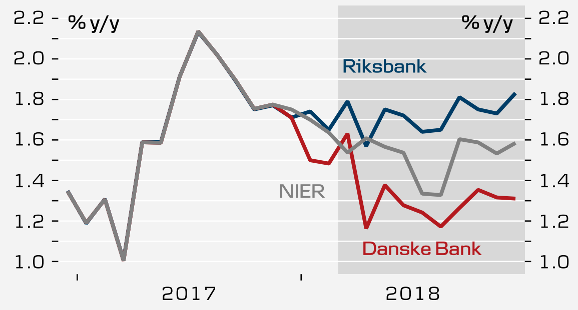
Inflation took a multi-step leap in the first half of 2017 on the back of several factors that we deem temporary. Several direct taxes hikes on items such as electricity, car fuel, alcohol and white goods/electronics raised the inflation rate considerably. Electricity companies raised grid fees sharply. Municipalities raised elderly care charges and banks raised card fees, both are quite uncommon. In addition, Statistics Sweden made a methodological change to the way it measures charter holiday packages. By nature they are of a ‘one-off’ kind. We generally expect any repetition of these hikes, in principle only the tax hikes, to be smaller in 2018 than in 2017, resulting in a negative base effect on inflation mainly in the first half of 2018.

The watershed in terms of inflation forecasts between us and the Riksbank is March or April. We are slightly more uncertain about which month it will be, as the usual price patterns ahead of Easter (this time in March, last year in April) do appear unstable. Either way, inflation is in our view destined to underperform significantly relative to the Riksbank’s forecast in 2018. Actually, over March and April taken together Riksbank assumes an increase of 0.8% in core CPIF excluding Energy, implying a repetition of 2017. The Riksbank has a fairly normal assumption for March, +0.3% m/m, a reasonable assumption. However, on top of that there is the strong April increase of some +0.5%, which we find hard to understand, especially as April 2017 was boosted by the new methodology of measuring charter holidays.

It might be that the Riksbank expects a strong boost to international flights and charter holidays from the new ‘flights tax’ that will be introduced on 1 April. The tax is set at SEK60, SEK250 and SEK400 for domestic, European and global destinations, respectively. We estimate that if fully rolled over to customers, this would raise prices by 5-10%, which would add 0.1-0.2 percentage points to inflation. Currently, when looking at international destinations, ticket prices appear to be below last year’s April levels, judging from Travelmarkets’ flight price index (flygprisindex).

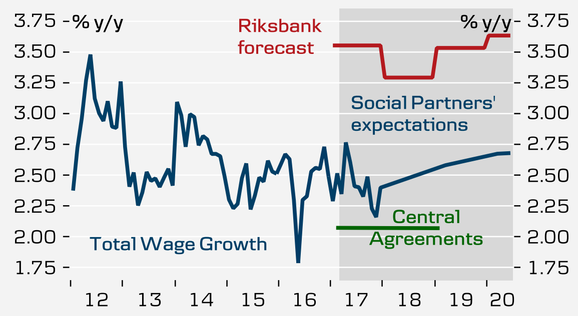
Looking beyond the nitty-gritty, the basic two fundamental inflation drivers, wage growth and currency movements, still suggest insufficient inflationary pressures.

Riksbank is on its own (on CPIF excl. Energy)



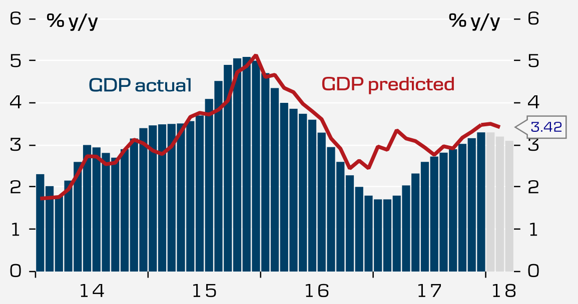
Source: Riksbank, NIER, Danske Bank, Macrobond Financial

Wage growth/expectations incompatible with inflation target



Source: Prospera, Riksbank, Mediation Office, Macrobond Financial

GDP appears to be cooling in Q1



Source: Statistics Sweden, Danske Bank, Macrobond Financial

Imminent impact of falling property prices on residential investment

Recent data suggest GDP peaked in Q4 17 at 3.3% y/y but that it continued at a good cruising speed close to 3% in Q1 18. In recent quarters, about one-third of GDP growth or about 1 percentage point has been the direct result of residential construction.

We see a growing probability that this trend is shifting in the opposite direction.

Construction of dwellings is strongly correlated with residential property prices. Past episodes with declining prices in the early 1990s, in the financial crisis in 2008-09 and the euro crisis in 2011- 12 all had a strong negative impact on residential investments and, hence, on GDP growth. History suggests that a 10% decline in residential property prices transforms into a 30-40% drop in new dwellings over eight to 10 quarters. In addition, it could have repercussions on private consumption and possibly other parts of the economy.

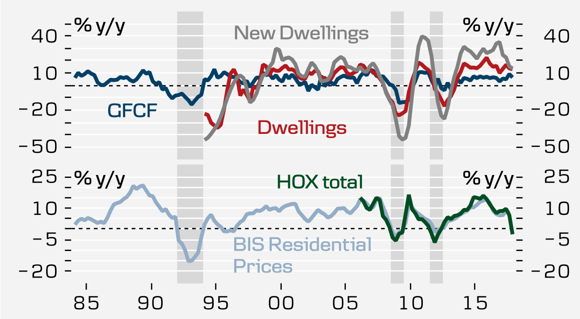
In Sweden, there is probably still a lack of housing as the growth of new households has been stronger than the construction of new dwellings. Most public forecasters still hold this to be true for the coming years. However, since mid-2017 it has become evident that this possible general lack of housing coincides with a strong, specific oversupply of expensive condominiums. In other words, there appears to be a mismatch in demand and supply for housing that resembles the mismatch in the labour market (lack of high-paid skilled workers, abundant supply of low-paid low-skilled). The exact unwinding of this situation remains to be seen, however, we doubt it can be accomplished without at least a few small property developers going bankrupt in the process. Eventually, unsold properties will be bought by other developers and most likely marketed at lower, more affordable prices where demand is. Currently, we don't see that yet. Instead, many developers still show sharply declining sales relative to ongoing production.

HOX property price data show that Stockholm condo prices have dropped 10% between the peak August 2017 and February 2018. Danske Bank's indicator tentatively suggests there has been further weakness in March. The magnitude of the price drop seen in Stockholm is likely to spread around the Swedish economy into a general price correction. Actually, March is a very important month in the sense that it will be the very first month after the new amortisation requirement, which may have caused some front-running in February to avoid it. Apparently, prices dropped in February still. What could cause prices to stabilise?

We continue to argue that we cannot see why they should at this instance because: (1) the Riksbank is 'happy' with the current situation, (2) the FSA has raised the monthly debt service burden for new buyers by an extra one percent, (3) expensive condo supply will continue to increase in early 2018 and (4) banks and mortgage institutions are likely to become more cautious and restrictive with lending. Hence, our best guess is that the decline will continue for some time.

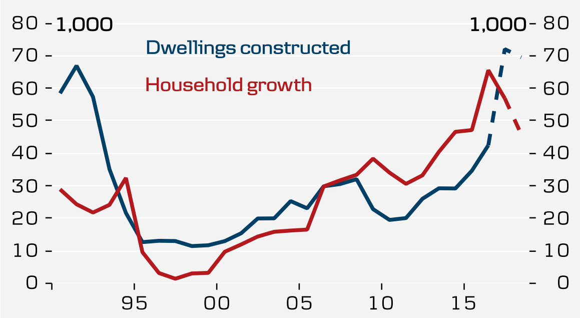
Swedish GDP growth accelerated slightly in Q4 17 to 3.3% y/y. However, this probably marks the peak of the recent cycle GDP growth will slow as residential investment and private spending slow.

Dip in HOX means dip in residential construction



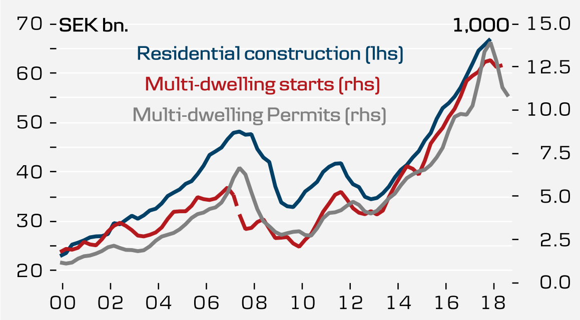
Source: Statistics Sweden, BIS, KTH Valueguard, Macrobond Financial

'Housing gap' may be closing soon



Source: Statistics Sweden, Boverket, Macrobond Financial

Permits are paving the way for a decline



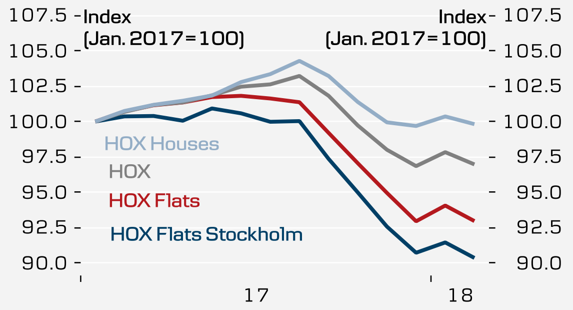
Source: Statistics Sweden, Macrobond Financial

The impact on the economic outlook from slowing residential construction will be quite pronounced, slowing economic growth slightly below trend in 2018. This scenario rests on the assumption that spill-over effects on other parts of the economy are moderate and, most importantly, that the labour market continues to improve. Currently, we see no reason why the strong labour market should deteriorate.

Indeed, Swedish households operate from a strong position. Employment is growing strongly and unemployment is declining. Both the employment rate and the activity rate are at the highest levels in decades. Most of the employment growth is actually by foreign born labour, although recent data reveal some moderation here. Data suggest most of this is either public jobs or in private services. Despite the lacklustre growth in nominal wages, nominal disposable income growth has remained in the 3-4% range.

Moreover, households save a lot, the savings ratio is close to 17 % and roughly half of that is in equities, funds or bank accounts, giving some flexibility to react to worsening conditions if needed. Hence, if needed households could at least partially offset any distractions with savings.

Flats resumed the decline in February



Source: KTH Valueguard, seasonally adjusted and rebased, Macrobond Financial

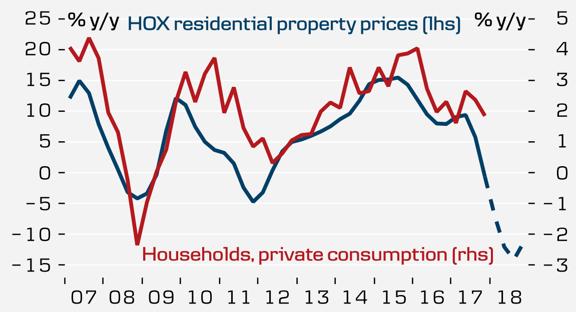
The same is true when looking at the balance sheets. Roughly 45% of household assets is caught up in residential properties: houses, land and condos and part of the financial assets are fixed in pensions, both public and private. Nonetheless, households on average appear to have some flexibility in terms of possible adjustments of financial assets.

Against this strong backdrop, it should be pointed out that consumer spending after many sanguine years currently shows some weakness, as seen in falling car registrations and slowing retail sales.

If the labour market deteriorates, there is a risk of a more pronounced slowdown in GDP growth. A further decline in house/condo prices could also hit wealth and consumer confidence, causing a more marked slowdown in retail sales and consumer spending.

Longer term, this poses a risk that the long-standing rise in Swedes' real income and wealth, a 'feel-good' factor, might start to level off in 2018.

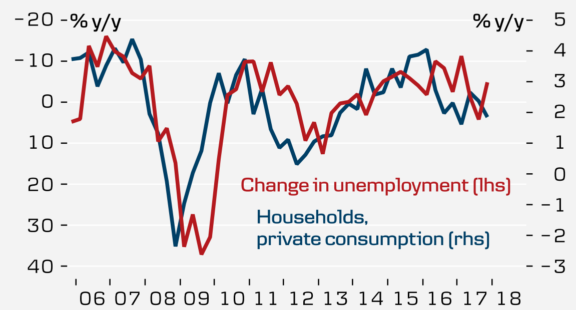
House prices may hit households too



Source: Statistics Sweden, Valueguard, Macrobond Financial

The synchronous, global economic backdrop is very positive for the export industry. It remains to be seen to what extent stronger exports and/or slowing imports will contribute to GDP. We do not believe it will be strong enough to counterbalance the negative impact on domestic demand from falling house prices in 2018. Lately, two risks have appeared on the radar screen. Firstly, Eurozone PMIs have declined for three consecutive months, suggesting a moderation of the industrial cycle. Secondly, President Trump has initiated his trade war. Although mainly aimed at China, it may slow global trade to the detriment for Swedish exporters, too.

Unemployment is a laggard



Source: Statistics Sweden, Macrobond Financial

Households at risk too

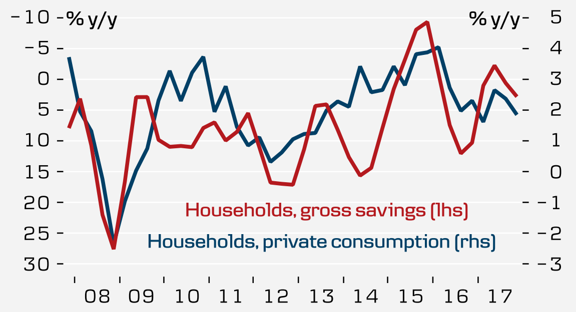
Although we have focused on falling house prices' negative impact on residential construction, in principle construction of new multi-family dwellings, there is a significant risk that there will be repercussions on household spending too. We actually already do expect a marked slowdown in private spending in 2018, this has been an important part of our forecast for some time.

Looking back, history actually suggests the impact on spending may be even quicker than on residential construction. The chart on the right shows a striking correlation, which suggests that our expected decline in property prices, in worst case, could bring private spending to a standstill for a couple of quarters.

That said, such a statement will have to be checked for labour market conditions. As it turns out, there is a strong correlation here too, but both unemployment and employment growth appears to be laggards in this process, rather than drivers of private spending. Hence, a deteriorating labour market is probably the cause of a slowdown in spending.

Households' savings rate is extremely high, around 17 % of disposable income. Should we expect households to compensate for potentially weaker times by drawing down on savings and keeping up consumption? Although this might seem as a reasonable idea, unfortunately, there does not seem to be a positive relationship here. On the contrary, it might actually suggest the opposite: spending contractions seems to be coinciding with rising savings. Hence, we don't have high hopes that high savings would bolster a spending slowdown.

Lower spending goes with higher savings



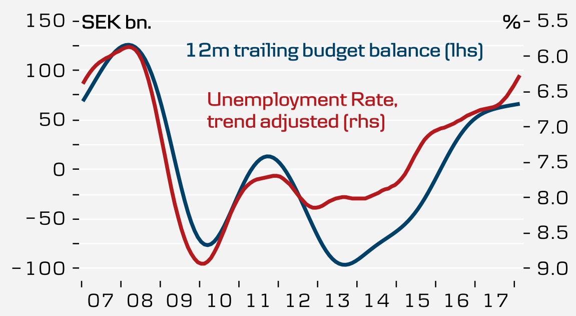
Source: Statistics Sweden, Macrobond Financial

Fiscal situation will not change drastically with elections

The budget outcome in 2017 was a big surprise. At the beginning of 2017 the Debt Office forecast a SEK30bn deficit, in October it saw a SEK30bn surplus. After that, with the December outcome, it became clear that 2017 ended with a SEK62bn surplus. It is obvious that the Debt Office missed out on the underlying strong trend in tax revenues.

Hence, Swedish government finances are indeed strong and the public debt to GDP ratio (Maastricht definition) is gradually approaching the 35% debt anchor target to be introduced in 2019. In essence, this means that whichever government will win the election later this year will probably be in a comfortable situation, and could choose to either cut taxes, raise spending or a mix of both. That said, none of the potential governing constellation has been particularly keen to take advantage of this favourable situation. Hence, at least short term, the situation of a declining debt ratio is likely to continue. That is, of course, unless there is a severe slowdown and automatic stabilisers start to work and start to erode government finances. Now, we do expect a slowdown in the Swedish economy to slightly below trend, but that should not be a problem for finances. As laid out above, should private spending take a deeper dive than expected, with negative repercussions on the labour market, then the positive outlook for public finances would weaken, too.

Tax increases and improving labour market positive for budget



Source: Debt Office, Statistics Sweden, Macrobond Financial

Currently, the outcome in the general election is blurred. There seem to be no viable majority alternatives. The options are probably either a continuation of the Red/Green minority government (note that the Greens are below the parliamentary threshold in the latest polls) or an opposition Alliance minority (ditto: two of the four parties are below or close to the same threshold). And the anti-immigration Sweden Democrats are still big enough as the third party to drive a wedge between the blocks. Needless to say, Red/Green will focus on welfare and job support, Alliance will focus on job creation and tax cuts.

At a glance

			Forecast	
National account	**2017**	**2017**	**2018**	**2019**
	SEK bn (current prices)	% y/y		
Private consumption	2030.0	2.4	1.6	1.8
Government consumption	1198.2	0.4	1.3	0.8
Gross fixed investment	1148.6	6.0	-1.1	0.4
Growth contribution from inventories	35.2	0.1	0.2	0.2
Domestic demand	4412.0	2.8	0.8	1.2
Exports	2085.9	3.7	5.6	4.7
Aggregate demand	6497.9	3.1	2.5	2.5
Imports	1893.7	5.0	4.8	3.8
Growth contribution from net exports	192.2	-0.3	0.6	0.6
GDP	4604.2	2.4	1.6	1.9
GDP, calendar adjusted	4784.0	2.7	1.7	2.0

Economic indicators	**2017**	**2018**	**2019**
Trade balance, SEK bn	198.0	224.6	252.8
- % of GDP	4.4	4.9	5.4
Current Account, SEK bn	186.4	162.6	183.9
- % of GDP	4.1	3.5	3.9
Public sector savings, SEK bn	55.3	47.8	39.7
- % of GDP	1.2	1.0	0.8
Public debt ratio, % of GDP*	41.0	37.0	35.0
Unemployment, % of labour force	6.7	7.1	7.6
Hourly wages, % y/y	2.5	2.6	2.7
Consumer prices, % y/y	1.8	1.6	1.3
House prices, % y/y	-2.0	-10.0	2.0
* Maastricht definition			

Financial figures	**26/03/2018**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	-0.50	-0.50	-0.50	-0.50
2-yr swap yield, % p.a.	-0.17	-0.10	-0.05	0.05
10-yr swap yield, % p.a.	1.26	1.45	1.50	1.60
EUR/SEK	10.08	10.30	10.30	10.10
USD/SEK	8.18	8.37	8.24	7.89

Source: Danske Bank

Norway

Rate hike inching closer

- **Growth in the Norwegian economy has been slightly stronger than expected.**
- **Capacity utilisation is continuing to rise, unemployment is set to fall further and wage growth is picking up.**
- **Core inflation has been stable since autumn and will be pushed up by higher import prices and, in time, higher wage growth.**
- **Stronger growth and higher interest rates abroad mean that we now anticipate a first rate hike in September.**
- **The housing market is stabilising, but we do not expect any significant increase in prices over the next two to three years.**
- **The krone has strengthened more or less as we predicted in our previous forecast.**

More self-sustained growth

Economic growth in Norway has held above trend, unemployment is falling and capacity utilisation is rising. Stronger growth and lower unemployment mean that inflation is picking up and we expect the first rate hike will now come in September.

We expect growth to remain above trend for the next couple of years, so this picture should remain unchanged. We nevertheless expect significant growth rotation, with government demand and housing investment making less of a contribution, and private consumption and investment contributing more. Oil-related industries could also perform better than expected and make a greater contribution to growth in the mainland economy.

The housing market has been the main risk factor, but we are now seeing clear signs of stabilisation. The risk now relates primarily to high levels of household debt, which makes the economy vulnerable if interest rates rise faster than expected.

Stronger-than-expected growth

Growth in the Norwegian economy has been slightly stronger than expected. Mainland GDP climbed 0.6% q/q in Q4, while the revision of Q3 took the annual growth rate up to 2.6% in Q4. This is the strongest growth for almost four years. We are still seeing signs of growth rotation, with solid increases in private consumption and mainland business investment, while housing investment and net exports have fallen.

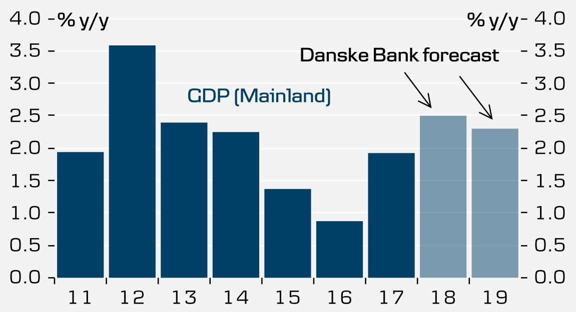
The February round of Norges Bank's regional network survey suggests that growth will remain above trend for the next two quarters. The aggregated output index for the next six months climbed to 1.42 from 1.19 in November.

At a glance

Norway	Current forecast		Previous forecast	
% y/y	2018	2019	2018	2019
GDP (mainland)	2.5	2.3	2.3	2.2
Private consumption	2.5	2.3	2.6	2.3
Public consumption	1.8	1.8	1.7	1.9
Gross fixed investment	3.0	2.0	2.7	2.5
Exports	2.0	2.0	2.7	2.2
Imports	2.0	2.0	1.4	3.0
Unemployment (NAV)	2.3	2.2	2.4	2.3
Inflation	2.0	1.9	2.0	2.0

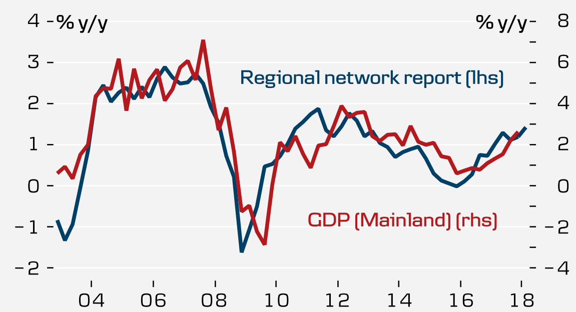
Source: Danske Bank

Stronger growth



Source: Macrobond Financial, Danske Bank

Growth to remain above trend



Source: Macrobond Financial, Danske Bank

This corresponds to mainland GDP growth of 0.7% q/q for the next two quarters. The underlying data in the report was also highly encouraging. There were improvements in all sectors bar retail, and the greatest improvement was in oil-related industries, where the overall growth outlook is now at its brightest since the oil downturn began.

As mentioned above, we expect growth to remain above trend next year, driven by a process of growth rotation where private demand gradually takes over as the main growth engine as the contributions from government demand and housing investment fade. Our expectation of stronger growth in private consumption is due entirely to stronger growth in households' real disposable income. Higher wage growth, lower inflation and stronger job growth would all help growth in real disposable income accelerate from 1.5% in 2017 to around 2.5% this year and next, despite interest rates being expected to rise slightly.

We also expect private investment (excluding housing investment) to strengthen further. Higher capacity utilisation, stronger growth, growing optimism and further favourable credit conditions should support investment, and it was particularly encouraging to see growth in business lending accelerating from around 2% y/y early last year to more than 6% y/y in January this year, the highest rate of growth since 2012. The regional network survey also showed that firms anticipate much stronger investment growth. In fact, investment expectations have not been higher since March 2007.

We have made only minor tweaks to our forecasts this time around and now anticipate growth in mainland GDP of 2.5% in 2018 and 2.3% in 2019. This is above the trend rate and means that capacity utilisation would rise further and unemployment continue to fall.

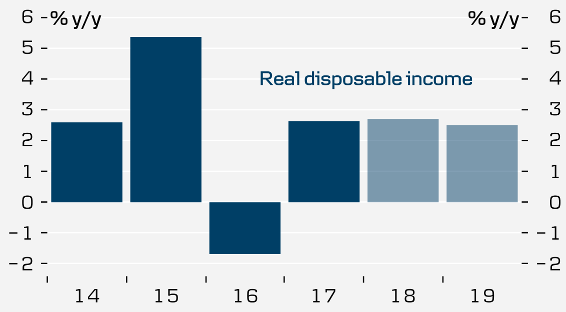
Unemployment to fall further

As expected, unemployment has continued to fall in the first part of 2018. There are even signs of the decline in gross unemployment (including those on job creation schemes) accelerating. There were 15,000 fewer people out of work in February than a year earlier, and the jobless rate is at its lowest since February 2009.

As we expect economic growth to hold above trend, we also expect a further fall in unemployment. The underlying demographic trend points to a continued decline in labour force participation and so weak growth in the labour supply. On the other hand, we expect a positive cyclical effect to pull in the opposite direction. On balance, we anticipate slightly stronger growth in the labour supply, causing the decline in unemployment to decelerate during the course of the year. Due to a brighter economic outlook in neighbouring countries, however, we would not see anything like the same rate of growth in the labour force as a result of labour migration as we saw in the previous economic boom.

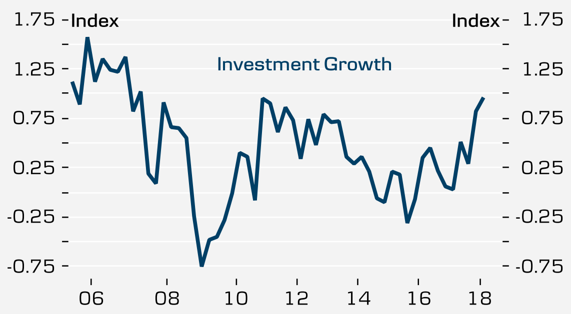
Leading employment indicators paint a rather mixed picture, but all show accelerating employment growth. Statistics Norway's vacancy data also revealed the highest number of job vacancies for almost five years, and 10,000 more than a year ago.

Stronger growth in incomes to fuel consumption



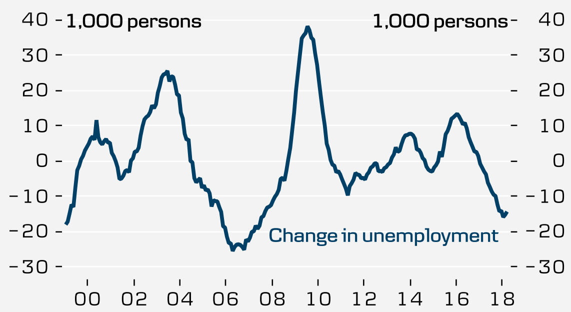
Source: Macrobond Financial, Danske Bank

Investment on the rise



Source: Macrobond Financial, Danske Bank

Decline in unemployment is accelerating



Source: Macrobond Financial, Danske Bank

Inflation and wage growth set to rise

Inflation is now showing clear signs of stabilising, and we still expect core inflation to push up gradually during the year to around 2% after the summer. This is due to a combination of base effects, higher import prices and gradually accelerating costs.

It is important to stress, however, that this does not mark the beginning of a lasting period of higher inflation. Our expectation of a stronger krone over the course of 2018 would gradually put a damper on import prices, and thus also core inflation, towards the end of this year and into next year.

As in many other countries, there seems to have been a structural shift in wage formation in recent years. However, dwindling unemployment and a gradual return to normal activity levels probably means that wage growth will be somewhat higher over the next couple of years than in 2017.

According to Norges Bank's expectations survey, the social partners anticipate wage growth of 2.9%. A further decrease in unemployment would probably push wage growth higher still. Interestingly, it seems that the relationship between unemployment and wage growth, known as the Phillips curve, has not changed much over the past two business cycles. We assume that this relationship will continue to apply.

We have not therefore made any changes to our forecasts for wage growth and still assume a rate of 3.0% in 2018 and 3.5% in 2019.

Housing market to stabilise

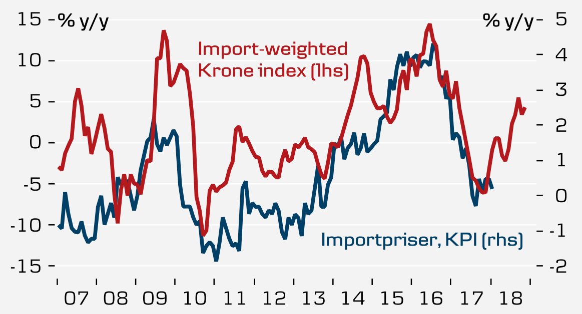
Housing prices appear to have stabilised. After rising in February, they are now at roughly the same levels as in September last year.

The turnaround in the housing market is due primarily to a better balance between supply and demand. For one thing, turnover is slowly but surely picking up. For another, the number of properties coming onto the market has been lower than turnover for a while, which means that the stock of unsold properties has fallen somewhat.

The stock-to-sales ratio has therefore dropped to 2.1 (months), the lowest level since May last year. With further low interest rates and unemployment, debt-servicing capacity will remain positive. We expect prices nationwide to climb 2-3% annually over the next two to three years, which means unchanged prices in real terms.

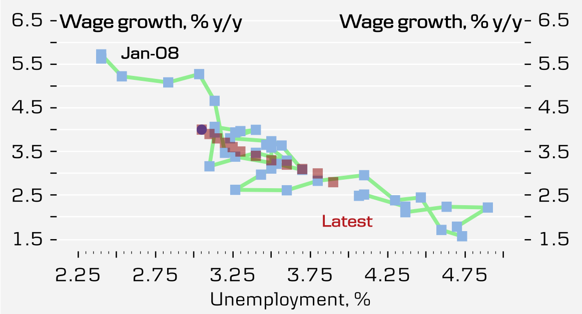
To our mind, the greatest risk to the housing market is if interest rates rise faster than expected. High levels of household debt, combined with variable mortgage rates, mean that debt-servicing capacity is highly vulnerable to rapid rate increases. This is also the greatest risk to our expectations for the Norwegian economy as a whole over the next couple of years.

Import prices to rise over the summer



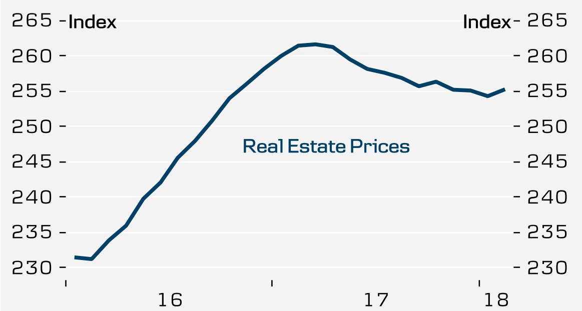
Source: Macrobond Financial, Danske Bank

Phillips curve in good shape



Source: Macrobond Financial, Danske Bank

Housing prices have levelled off



Source: Macrobond Financial, Danske Bank

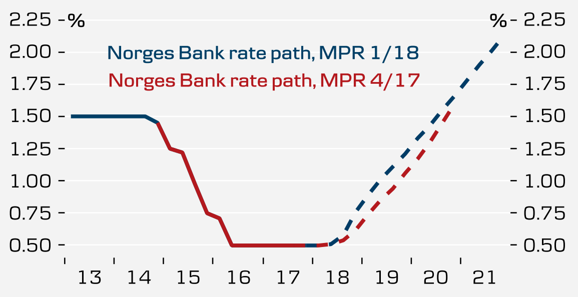
Norges Bank to raise rates faster than previously indicated

As expected, Norges Bank left its policy rate unchanged at the March meeting, but the interest rate projections in the new monetary policy report now show a first rate hike in September. As we predicted, domestic growth and interest rates abroad pushed up the interest rate path from the December report, while lower wage growth and price inflation and slightly higher money market rates pulled the other way.

Most interesting, perhaps, is that Norges Bank notes that, in isolation, the reduction in the inflation target from 2.5% to 2.0% spells slightly lower interest rates further ahead. This was not enough to cancel out the effects from global rates pulling in the other direction, but the rate path was revised up slightly less far in 2019-21 than we had anticipated. The new path signals just under two hikes a year in 2019-21, taking the bank's key rate to around 2.25% at the end of 2021.

Since the analysis in the monetary policy report is closely in line with our own, we have revised our own interest rate expectations and now assume that the key rate will be raised to 0.75% at the September meeting and twice more in 2019.

Rate hike inching closer



Source: Macrobond Financial, Danske Bank

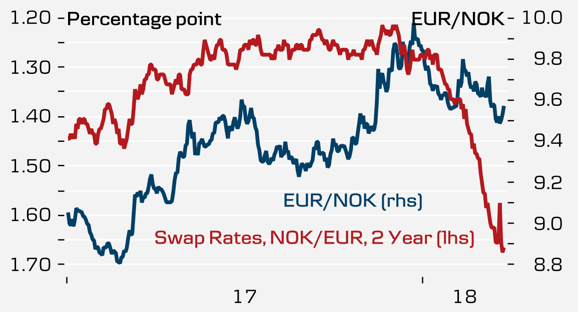
Krone seems undervalued

As expected, the krone has strengthened a fair bit since our previous report. Stronger growth, slightly higher interest rate differentials, higher oil prices and lower global risk have boosted the currency, as has reduced concern about the housing market.

In the short term, market expectations now seem to be closely in line with our own. This suggests that domestic factors are set to give the krone less of a helping hand. On the other hand, our models indicate that the krone is somewhat undervalued in both the medium and the long term.

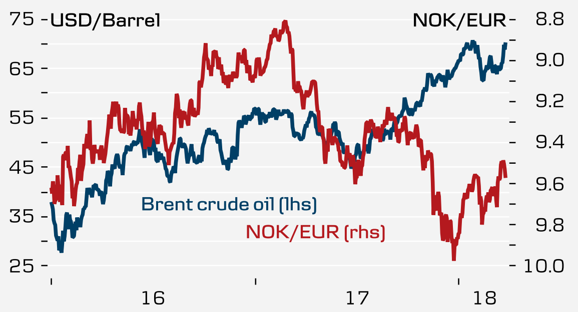
We therefore expect it to continue to gain against most currencies in 2018. For example, we can see the EUR/NOK cross pushing down towards 9.10 at the end of the year.

Relative interest rates have not taken the krone with them...



Source: Macrobond Financial, Danske Bank

...and neither have oil prices



Source: Macrobond Financial, Danske Bank

At a glance

National account	2017	2017	2018	2019
			Forecast	
	NOK bn (current prices)	% y/y		
Private consumption	1474.7	2.3	2.5	2.3
Public consumption	790.6	2.0	1.8	1.8
Gross fixed investment	784.2	3.5	3.0	2.0
Petroleum activities	149.5	-4.0	6.5	6.0
Mainland Norway	637.3	5.9	2.1	1.0
Dwellings	203.4	7.1	-3.5	-4.0
Enterprises	255.3	5.1	6.4	3.7
General government	178.6	5.8	2.7	1.9
Mainland demand	2902.6	3.0	2.5	1.8
Growth contribution from stockbuilding		-1.6	-0.2	0.0
Exports	1148.2	0.8	2.0	2.0
Crude oil and natural gas	441.8	1.9	-0.3	-0.5
Traditional goods	381.5	2.2	4.0	3.5
Imports	1082.2	2.2	2.0	2.0
Traditional goods	635.1	3.2	2.5	2.6
GDP	3279.4	1.8	2.1	2.0
GDP Mainland Norway	2803.8	1.8	2.5	2.3

Economic indicators	2017	2018	2019
Employment, % y/y	1.1	1.2	1.1
Unemployment (NAV), %	2.7	2.3	2.2
Annual wages, % y/y	2.3	3.0	3.5
Consumer prices, % y/y	1.8	2.0	1.9
House prices, % y/y	5.9	-0.5	2.0
Core inflation	1.5	1.9	2.0

Financial figures	26/03/2018	+3 mths	+6 mths	+12 mths
Leading policy rate, % p.a.	0.50	0.50	0.50	0.75
2-yr swap yield, % p.a.	1.50	1.55	1.75	1.95
10-yr swap yield, % p.a.	2.30	2.50	2.60	2.95
EUR/NOK	9.49	9.40	9.20	9.10
USD/NOK	7.70	7.64	7.36	7.11

Source: Danske Bank

Finland

Rising employment lifts spirits

- **The Finnish economy is set to continue on a growth path. However, we expect the growth rate to slow down to 2.4% in 2018 and 2.0% in 2019.**
- **Consumer confidence broke an all-time record in February and improving employment continues to boost private consumption.**
- **The outlook for the export industries is strong thanks to growth in export markets, improved price competitiveness and new production facilities in forest and automotive industries.**
- **The Finnish housing market is stable and bubble-free but the market is strongly divided geographically.**
- **Solid GDP growth improves public finances but higher labour force participation is needed to deal with the deteriorating old-age dependency rate in the future.**

At a glance

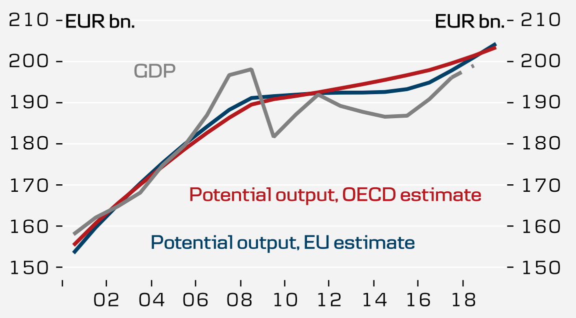
Finland	Current forecast		Previous forecast	
% y/y	2018	2019	2018	2019
GDP	2.4	2.0	2.3	1.9
Private consumption	2.1	1.6	2.0	1.5
Public consumption	0.5	0.5	0.4	0.2
Gross fixed investment	3.5	3.5	4.5	3.5
Exports	4.5	4.5	4.0	4.0
Imports	4.5	4.0	4.5	3.5
Unemployment rate	8.0	7.7	8.0	7.7
Inflation	1.0	1.4	1.2	1.4
Government balance, % of GDP	-0.2	-0.2	-1.0	-0.8
Current account, % of GDP	0.6	0.8	-0.2	0.2

Source: Danske Bank

Finland is getting used to economic growth again

According to the latest national account figures, Finnish GDP increased by 2.7% in 2017. The growth figure is good, albeit somewhat lower than the first flash estimates from Statistics Finland (3.2%) or our previous forecast (3.1%). In any case, growth has not been this fast in Finland in many years. The general outlook for the next couple of years remains very good, although we expect that the growth rate will slow down a little. We expect GDP growth to be 2.4% in 2018 and slow down to 2.0% in 2019. Finnish GDP is set to finally surpass the pre-financial crisis peak production level this year. All the main components of GDP simultaneously supported the economy in 2017. Private consumption provided the steady backbone, but the main drivers for fast economic growth were private investment and exports. Exports grew 7.8% and private investment 8.4%. Export industries have benefited from growth in the euro area and improved domestic price competitiveness. At the same time, growing demand and low interest rates have boosted manufacturing investment. The outlook for exports and investment is still good but growth rates are set to return to more typical territory.

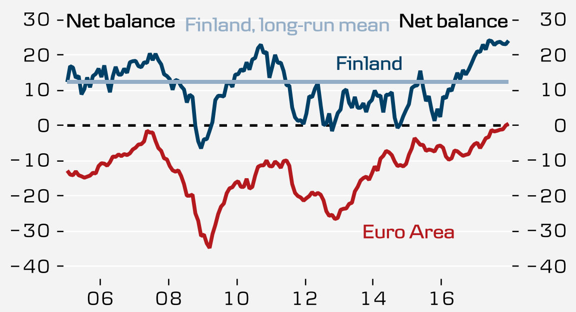
GDP reaching towards potential



Source: Macrobond Financial data, Statistics Finland

Consumer confidence has been increasing steadily for over two years and broke an all-time record in February. At present, households are extremely confident about both their personal finances and the general macroeconomic outlook. Also business confidence is currently well above the long-term average level in all major industries. Leading indicators provide strong evidence to indicate that robust growth is likely to continue in the coming months.

Consumer confidence is very high



Source: Macrobond Financial data, Statistics Finland

In 2018, rewards from the on-going recovery are starting to benefit consumers more. The unemployment rate is set to decrease and the stagnant wages should start to rise again. At the same time, productivity growth should slow down a little when employment rises more than in the past. The current growth rate is well above the long run potential and the economy is now closing the output gap quickly. Maintaining growth will become increasingly difficult in the future due to demographics. Improving growth potential depends partly on structural policies and labour participation rate, which is well below other Nordic countries.

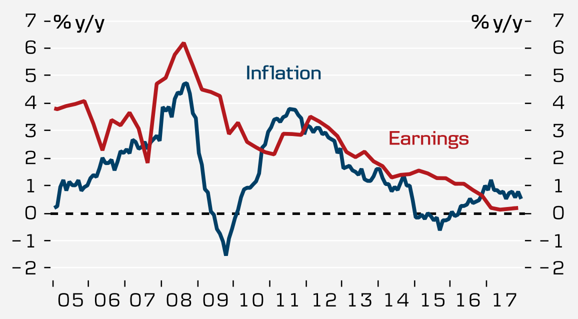
Households believe in the future

Private consumption grew 1.6% in 2017 despite negative average real earnings growth. In 2018, we expect growth in private consumption to accelerate to 2.1%. Wage growth is still somewhat modest but low inflation and a rise in employment should help consumers. The net effect from changes in income taxes is roughly neutral in 2018.

Private consumption was surprisingly robust in Finland during the recession. Low inflation and cuts in income taxes have supported purchasing power and counterbalanced lacklustre earnings growth. However, an increasing share of consumption has been financed using debt. In 2016, the net savings rate turned negative and it decreased further in 2017, reaching -0.9%. This is the lowest level of savings since 1988. So far, the household debt compared to disposable income is not exceptionally high on an international comparison and, thanks to low interest rates, the interest-rate burden paid by households is still very low. We do not expect the savings rate to fall much further and see that the risks in the household sector finances are still moderate. Exposure to rising rates may become a more significant factor later on given that most Finnish housing loans are linked to variable Euribor rates.

The Fin-FSA has been worried about the household debt growth rate and recently announced its decision to tighten the maximum loan-to-collateral (LTC) ratio for loans other than housing loans for first-time buyers. Starting from 1 July 18, the maximum amount of housing loan will be capped to 85% of the current value of the collateral posted at the time of loan approval. The new regulation will not apply to first-time buyers for whom the LTC ratio will remain unchanged at 95%. At least theoretically, the new legislation might actually encourage first-time buyers to take larger loans, which is unlikely to be the aim of the regulation. It remains to be seen whether this actually happens. As for consumer lending, Fin-FSA has very few tools. A positive credit register is one tool under consideration.

Weak real earnings growth in 2017



Source: Macrobond Financial data

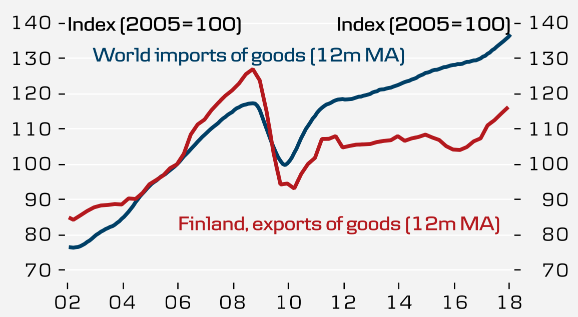
Solid order books support exports

Exports of goods and services rose by 7.8% in Q4 17 y/y, which is also the average growth rate for the whole year. In Q4 17, export growth improved considerably from slightly weaker months in the autumn, when it seemed that the growth rate would slow down alarmingly. According to the most recent customs reports from January, the value of goods exports rose by 12% y/y. This is a very impressive number considering that the level of comparison from last year is already quite high. Thanks to a good level of order books in the main industries and the new Äänekoski bio-product mill, we expect exports to continue on a growth track.

Industrial new orders improved towards the end of the year and the order books are starting to look quite promising. Exceptionally fast export growth in 2017 is partly explained by some individual items, including a large ship delivery (Mein Schiff 6) in Q1 that helped to boost the numbers. Given that there will fewer large ship deliveries this year, some slowdown is likely but we expect exports to rise by 4.5% in both 2018 and 2019.

The growth in the value of goods exports has been exceptionally rapid to the euro area. However, the growth profile is diverse and goods exports have risen in all main industries and areas. The outlook continues to be good thanks to growth in export markets, improving price competitiveness and new production facilities in

Finland's exports regaining market share



Source: Macrobond Financial data

forest and automotive industries. A steady improver has been the automotive plant in Uusikaupunki, where a new production line for Mercedes-Benz GLC-Class SUVs started in January 2017. The plant continues to expand and is seeking to recruit approximately 1,000 new employees this year.

Export price competitiveness has been a core issue in the government's plan to boost growth. Because Finland cannot devalue its currency, the government has pursued a policy of 'internal devaluation' that culminated in the so-called competitiveness pact that was formed together with the labour organisations in June 2016. The pact has helped Finland improve its competitiveness and cut unit labour costs relative to other EU countries.

Even though the most significant tailwind at the moment is clearly stronger global demand, it seems that improved price competitiveness is contributing positively to export performance. The outlook for most of the main Finnish export markets has remained good, especially Germany and the US. Also, we expect Russia to continue its recovery in 2018. Business surveys show considerable signs of optimism and the outlook for the near future is promising. An increasingly large share of exports comes from services. Growth in services exports amounted to an impressive 8.4% in Q4 17. One of the bright spots in service exports has been the tourism industry, which has benefited from larger inflows of foreign visitors especially from Asia and Russia.

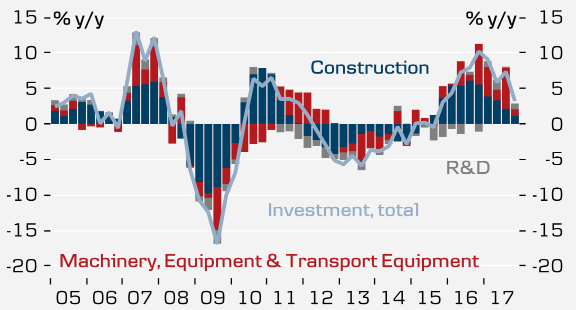
Private investment slightly disappointing in Q4

Compared with otherwise good growth, investment development was a little disappointing in Q4 17. Investments contracted unexpectedly by 0.4% q/q. Much of this is due to a fall in public investments, while private investment remained roughly unchanged. Despite one weaker quartile, we expect industrial capex to maintain growth still at a reasonably good level also in 2018–2019 due to solid growth, improving cost competitiveness and a low level of investment in recent years. However, the unusually fast investment growth is set to slow down, when construction is past its peak levels. In 2017, investments increased by 6.3%, already down slightly from 7.4% in 2016. We expect investments to grow by 3.5% in both 2018 and 2019.

All in all, 2017 was a second strong year for private investment after several weak ones. Initially, the growth was driven mainly by a surge in housing construction in larger cities but later on it spread to industrial investment, as well as transportation equipment. Growing export demand, strong domestic demand, high business confidence and low interest rates have boosted investment to the fastest growth since the pre-financial crisis levels. We still forecast growth in investment but the growth rate is likely to slow down when the construction boom slows down and some larger industrial investments like the Äänekoski bio-product mill are finished. There are several substantial new investment projects under consideration in the forest industry but it will take time before any of these still uncertain projects get started, let alone show up in statistics.

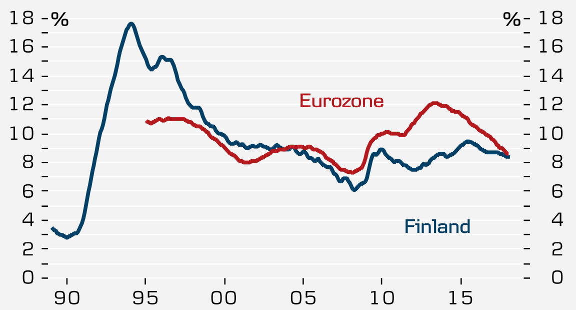
The structure of investment demand has changed, with construction playing a smaller role and more emphasis being on industrial investment. The growth in investment is driven solely by the private sector, as public investment decreased by 2.9% in 2017. Also, R&D expenditure has finally started to increase after many years of decline. This is good news for the future development of potential output.

Investment activity



Source: Macrobond Financial data, Statistics Finland

Sticky unemployment rate



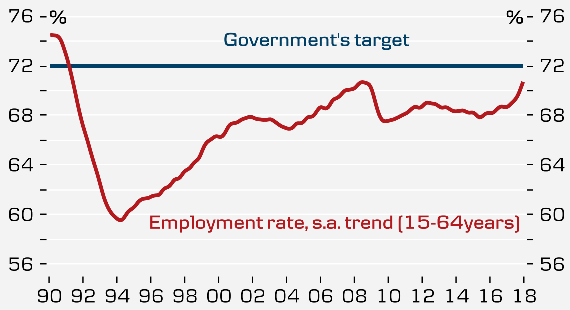
Source: Macrobond Financial data, Statistics Finland

We expect housing investment to remain at a reasonably high level in 2018-19. There are already some *signs* of the housing boom ending but the process will be gradual. Construction investment grew by a whopping 10.2% in 2016 but already slowed down to 4.6% in 2017. In Q4 17, the q/q growth rate was only 0.2%. In any case, housing permits and new starts continue to indicate robust apartment construction in growth centres, especially the Helsinki region. Compared to previous years, the number of completed apartments is also rising, which helps to cool down the market. Investment in non-residential buildings is driven partly by demand from the industrial sector for new production capacity.

Recovery finally reached the labour market

The unemployment rate has been sticky despite strong economic growth. The employment rate has fortunately started to tell a better story. In February 2018, the official trend estimate from Statistics Finland for unemployment fell to 8.4%, which is only 0.7pp better than in February 2016, when the economic recovery started to be more visible. The slow decrease in the unemployment rate seems to indicate that much of the current unemployment is structural. Employment is improving much faster, however, as more people previously outside the labour force are returning to seek jobs and find jobs. The trend estimate for the employment rate was 71.1% (up by 2.7 pp in two years). Economic growth and policy measures to activate job seekers have made the government's target of 72% possible to reach in 2019, when this government's term ends. In the long run, an employment rate above 75%, similar to other Nordic countries, would help a lot to achieve long-term budget sustainability as the population ages rapidly.

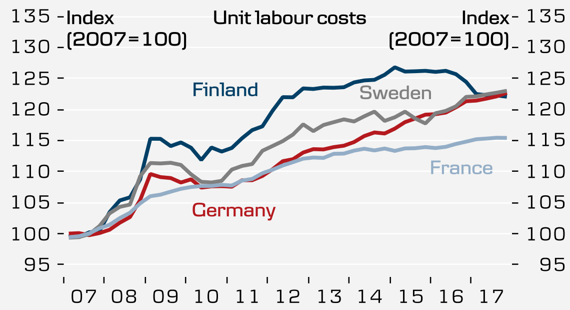
Employment rising toward government target



Source: Macrobond Financial, Statistics Finland

The number of open vacancies has increased significantly, while the economy continues to grow. We expect the annual unemployment rate to fall to 8.0% in 2018 and 7.7% in 2019. We expect employment to keep rising steadily, but a large share of the jobs are part-time. The forecast is also based on the assumption that disguised unemployment falls and more people become active jobseekers, which implies that the unemployment rate could be sticky in the future as well. The current unemployment rate is still above the NAIRU level.

Internal devaluation restored price competitiveness

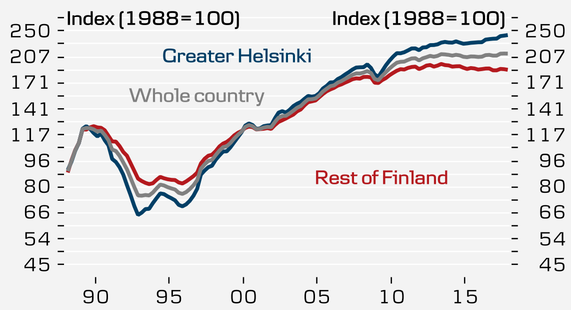


Source: Macrobond Financial, Statistics Finland

Wage growth dropped to a historically low level in 2017 in the aftermath of the competitiveness pact that the labour market organisations signed in 2016. Earnings growth was close to zero in 2017 and labour costs fell more than anywhere else in the EU. Progress towards higher employment would benefit from modest wage increases also going forward. However, faster economic growth has induced strong labour unions to demand more. Many industries have already reached two year agreements, and together with wage drift, we expect earnings to rise roughly 2% per year, which is slightly less than seen in Sweden or Germany, for example. Going forward, we expect the Finnish labour market to develop towards more local agreement.

Supply rising in the housing market

Diverging housing prices



Source: Macrobond Financial, Statistics Finland

Smaller family sizes, better employment opportunities and growing interest in an urban lifestyle are driving an increasing number of Finns into cities. Most immigrants end up in cities as well. Consequently, the Finnish housing market has become segregated geographically, as well as by the type of housing in question. Growth in housing demand has raised prices and caused a construction boom in Helsinki and a few other towns, while the real estate market in the rest of the country has remained more of less flat or is even declining. Migration to growth centres has created especially strong demand for compact, reasonably priced apartments. Renting has become more popular among younger generations and the buy-to-let market has grown. Both real estate funds and private investors have been flocking into residential property, which has helped to boost housing construction. The rise in rents, which has exceeded the rise in housing prices or earnings, moderated to 1.5% in 2017. The supply of new housing is increasing significantly in 2018, which is likely to keep prices and rents on only a moderately rising trend.

Prices of old dwellings rose 1.1% in 2017. On average, house prices have been nearly flat in Finland for approximately past five years. However, the average price development does not capture the situation in full, as it is calculated from decreasing prices in some regions and rising prices in others, like Helsinki and its surrounding municipalities. Prices of old dwellings grew on average by 2.7% y/y in Helsinki Region in 2017, while prices decreased 0.3% elsewhere. In Helsinki, new apartments in particular have been in strong demand, and construction has followed demand. Prices of new apartments rose by a whopping 7.1% in Helsinki Region in January-September 2017. The speed decelerated in Q4 and prices of new apartments rose only 1.4% in Finland.

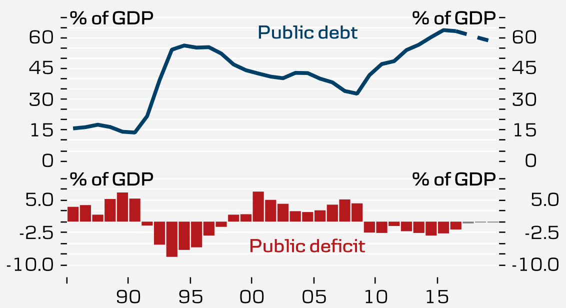
Low interest rates and high consumer confidence support the housing market, and we still expect prices to grow modestly, and there seems to be only a small risk of overheating in the future. Supply of new city apartments is likely to be high in 2018 and probably also in 2019. On average, we expected housing prices to increase by 1.5% in 2018 and 2019. Even slightly more peripheral areas may benefit from the current economic upswing.

Public finances close to balance, ‘but no cigar yet’

In Finland, every budget for the central government has had a significant deficit since the financial crisis. This has helped to maintain the welfare state with fairly generous social security, even if some cuts have been done. Municipalities have also been running a deficit on average, while social security funds have had a declining surplus. As a consequence, public debt has grown quite fast. Thanks to economic recovery and austerity measures, general government debt to GDP ratio peaked in 2015 and the ratio could fall to below 60% in 2018 already. The central government budget for 2018 is likely to have a deficit below the budgeted EUR3bn, because economic growth has a significant impact on tax revenue and unemployment related expenditure could fall. General government is very close to reaching a modest surplus in 2019, but forthcoming parliamentary elections may lead to a more lax budget and smaller social security fund surplus could keep the balance in the red.

Structural reforms are still needed to boost potential growth and improve labour participation in order to deal with the rise in age-related expenditure caused by an ageing population and rising dependency rate. Otherwise, the debt ratio is likely to rise again in the 2020s. The rating outlook is getting brighter, but rating agencies are likely to need further evidence of sustained economic growth and successful structural reforms. Successful social and health care reform (SOTE) may be the key to regaining AAA sovereign credit ratings soon.

Debt-to-GDP levelling down



Source Macrobond Financial, Statistics Finland

At a glance

			Forecast	
National account	**2017**	**2017**	**2018**	**2019**
	EUR bn (current prices)	% y/y		
GDP	223.8	2.7	2.4	2.0
Imports	85.2	3.5	4.5	4.0
Exports	86.3	7.8	4.5	4.5
Consumption	173.5	1.5	1.6	1.3
- Private	122.0	1.6	2.1	1.6
- Public	51.5	1.3	0.5	0.5
Investments	50.5	6.3	3.5	3.5

Economic indicators	2017	2018	2019
Unemployment rate, %	8.6	8.0	7.7
Earnings, % y/y	0.2	1.8	2.0
Inflation, % y/y	0.7	1.0	1.4
Housing prices, % y/y	1.1	1.5	1.5
Current account, EUR bn	1.6	1.5	2.0
- % of GDP	0.7	0.6	0.8
Public deficit, % of GDP	-0.4	-0.2	-0.2
Public debt/GDP, % of GDP	61.4	59.6	58.0

Financial figures	26/03/2018	+3 mths	+6 mths	+12 mths
Leading policy rate, % p.a.	-0.40	-0.40	-0.40	-0.40
2-yr swap yield, % p.a.	-0.15	-0.05	0.00	0.20
10-yr swap yield, % p.a.	1.01	1.20	1.25	1.60
EUR/USD	1.23	1.23	1.25	1.28

Source: Danske Bank

Global overview

A moderate deceleration

- **We look for a moderate decline in global growth over the next two years due to central bank tightening and higher bond yields. Fiscal stimulus will underpin US activity.**
- **Growth should be strong enough to lead to a further decline in unemployment across regions, which will gradually increase inflation pressures.**
- **The Fed is set to continue a gradual hiking path, while we expect the ECB to deliver the first hike of 10bp in Q2 19.**
- **While the risk of a trade war has increased, we still expect the protectionist measures between the US and China to moderate in the big picture.**

Economic momentum set to cool down

Global growth started 2018 on a strong footing with decent activity across all regions in the world. Looking ahead, we expect the generally positive picture to continue in the next couple of years, although growth is set to move down a notch. On the one hand, fiscal stimulus, robust consumer and business sentiment, decent household income growth and strong profit growth are all factors that support a continued global upswing. However, as central banks step carefully on the brakes and bond yields move higher, we expect the global cycle to cool down a bit.

We believe the US expansion will continue in coming years, as optimism among consumers and businesses is very high and the total policy mix has become more expansionary, as the Federal Reserve seems reluctant to offset Trump's very expansionary fiscal policy one to one. The good news is that growth has become more balanced, as both private consumption and business investments are contributing to overall economic growth now.

In the euro area, survey indicators such as the PMI seem to have peaked, but they remain on a high level and are in line with our expectation of only a slight moderation in economic momentum, with continued growth above potential. We forecast growth of 2.1% in 2018 and 1.9% in 2019, with risks on the upside. One of the factors dampening euro area activity is the strengthening of the euro over the past year.

The Japanese economy has been going strong for two years now, the longest economic recovery since the beginning of the 2000s. Growth is primarily driven by foreign demand, whereas private consumption is still looking weak. As growth in Japan's most important export markets becomes slightly more subdued and exporters will have to deal with a stronger yen, we expect GDP growth to slow at 1.3% this year and around trend growth at 0.8% in 2019.

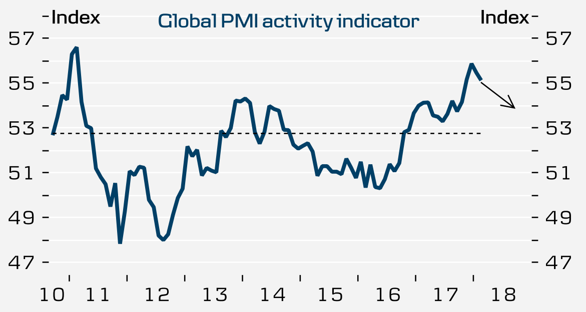
Turning to China, we look for a moderate slowdown, as financial tightening during 2017 is increasingly feeding through to the housing market and infrastructure investments. An increased focus on fighting financial risks will also push through deleveraging. Export growth is also set to cool off a bit from a bit lower momentum on export markets.

Global forecasts

% y/y	2017	2018		2019	
		Danske Bank	Consensus	Danske Bank	Consensus
USA	2.3	2.4	2.8	2.1	2.4
Euro area	2.5	2.1	2.4	1.9	2.0
Japan	1.7	1.3	1.3	0.8	1.0
China	6.7	6.5	6.6	6.3	6.2

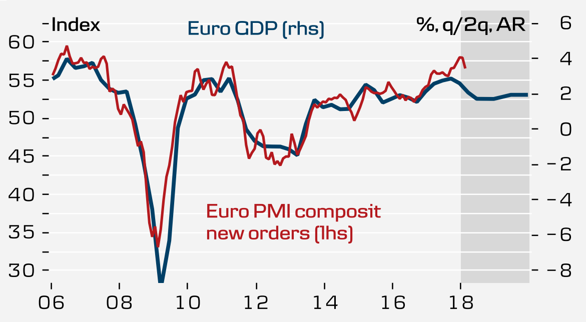
Source: Bloomberg, IMF, Danske Bank

Global PMI has probably peaked



Source: Markit, Macrobond Financial, Danske Bank

Euro area growth to slow but to stay above trend



Source: Macrobond Financial, Danske Bank

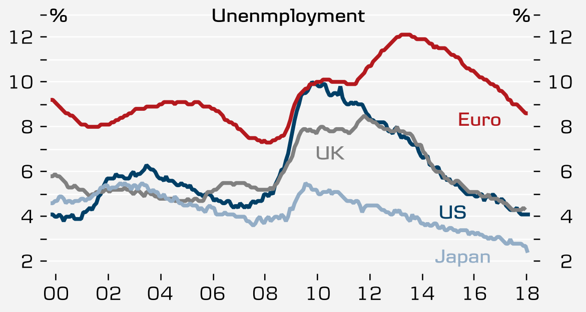
Inflation pressures rise but no big overheating

Global inflation pressures are rising as unemployment is set to fall further in the coming years and as the US has eased fiscal policy at a time of limited spare capacity, see *Part 1: Global Inflation: US stimulus and closing output gaps pose upside risks*, 26 February 2018. We believe US inflation will move gradually higher due to the more expansionary economic policy but it takes time for it to materialise, as low inflation is persistent. We expect core inflation to move higher but, in our view, it is mostly a 2019 story. The combination of gradually higher inflation and solid growth implies the Fed is going to continue its gradual hiking cycle.

In the euro area, inflation pressures remain subdued, with February inflation dipping to 1.1%, while core inflation remains at 1.0%. Although the ECB has become more confident in the convergence path of inflation to its aim in light of upside growth surprises, a clear turning point in the underlying inflation pressures is not yet apparent. We think the ECB will likely end its QE programme at end-2018, but we expect the ECB to remain data-dependent on the timing of the first rate hike and in light of the muted inflation outlook expect a 10bp hike not before Q2 19, with risks skewed to later (see *ECB Research - 10bp, 20bp or …? ECB in uncharted waters*, 20 March 2018).

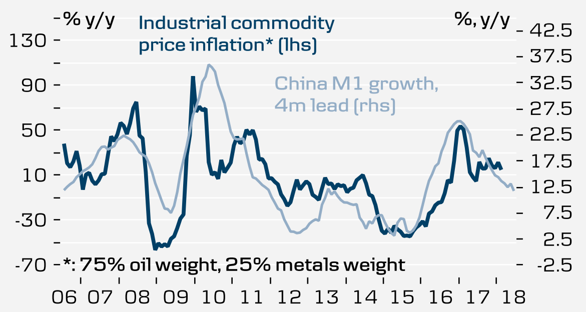
One factor that is working to put a lid on global inflation pressures is the tightening of monetary policy in China. It has led to a softening in Chinese construction and lower inflation in industrial commodity prices.

The decline in unemployment has come far



Source: Macrobond Financial, Danske Bank

Monetary tightening in China to ease inflation pressure coming from commodity prices



Source: Macrobond Financial, Danske Bank

Trade war the main risk

The main risk to global growth is a trade war. While US President Donald Trump was mostly talking tough in 2017, he has now started to take actual protectionist measures by raising tariffs on steel, aluminium, solar panels and washing machines. He is also set to raise tariffs on Chinese goods worth of USD50bn. While we expect China to retaliate, we do not expect it to lead to a full-blown trade war. Both countries would lose from this. In addition, USD50bn only corresponds to 0.4% of Chinese GDP and the actual negative effect on GDP would probably be in the order of 0.1% points, not something that China would want to start a trade war about. However, as long as there is uncertainty about the actual measures, the risk of a trade war will be a cloud over the global economy and financial markets.

Financial forecast

Bond and money markets

		Key int. rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK
USD	26-Mar	1.50	2.15	2.58	2.85	123.3	-	604.3
	+3m	2.00	2.32	2.60	3.05	123.0	-	605.3
	+6m	2.00	2.40	2.80	3.15	125.0	-	595.6
	+12m	2.25	2.85	3.05	3.35	128.0	-	581.8
EUR	26-Mar	0.00	-0.33	-0.15	1.01	-	123.3	744.9
	+3m	0.00	-0.33	-0.05	1.20	-	123.0	744.5
	+6m	0.00	-0.33	0.00	1.25	-	125.0	744.5
	+12m	0.00	-0.33	0.20	1.60	-	128.0	744.8
JPY	26-Mar	-0.10	-0.05	0.05	0.26	130.4	105.8	5.71
	+3m	-0.10	-	-	-	131.6	107.0	5.66
	+6m	-0.10	-	-	-	137.5	110.0	5.41
	+12m	-0.10	-	-	-	143.4	112.0	5.19
GBP	26-Mar	0.50	0.60	1.03	1.53	88.2	139.7	844.3
	+3m	0.75	0.77	1.25	1.75	87.0	141.4	855.7
	+6m	0.75	0.89	1.45	1.90	86.0	145.3	865.7
	+12m	1.00	1.14	1.70	2.10	84.0	152.4	886.6
CHF	26-Mar	-0.75	-0.74	-0.49	0.48	117.0	94.9	636.7
	+3m	-0.75	-	-	-	119.0	96.7	625.6
	+6m	-0.75	-	-	-	121.0	96.8	615.3
	+12m	-0.75	-	-	-	123.0	96.1	605.5
DKK	26-Mar	0.05	-0.30	-0.01	1.19	744.9	604.3	-
	+3m	0.05	-0.30	0.10	1.35	744.5	605.3	-
	+6m	0.05	-0.30	0.15	1.40	744.5	595.6	-
	+12m	0.05	-0.30	0.35	1.75	744.8	581.8	-
SEK	26-Mar	-0.50	-0.44	-0.17	1.26	1008.0	817.7	73.9
	+3m	-0.50	-0.45	-0.10	1.45	1030.0	837.4	72.3
	+6m	-0.50	-0.45	-0.05	1.50	1030.0	824.0	72.3
	+12m	-0.50	-0.45	0.05	1.60	1010.0	789.1	73.7
NOK	26-Mar	0.50	1.06	1.50	2.30	949.3	770.1	78.5
	+3m	0.50	0.90	1.55	2.50	940.0	764.2	79.2
	+6m	0.50	0.90	1.75	2.60	920.0	736.0	80.9
	+12m	0.75	1.15	1.95	2.95	910.0	710.9	81.8

Commodities

		2018				2019				Average	
	26-Mar	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2018	2019
NYMEX WTI	58	58	58	60	60	60	60	61	61	58	61
ICE Brent	70	62	62	64	64	64	64	65	65	63	65

Source: Bloomberg, Danske Bank

Economic forecast

Macro forecast, Scandinavia

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2017	2.1	1.5	1.1	2.5	0.1	4.6	4.1	1.1	4.3	1.0	36.4	7.7
	2018	1.8	1.9	1.0	5.8	0.3	2.5	4.2	0.6	4.0	-0.2	35.7	7.5
	2019	1.9	2.6	0.5	4.2	-0.2	2.9	3.6	1.3	3.8	-0.1	34.5	7.5
Sweden	2017	2.7	2.4	0.4	6.0	0.1	3.7	5.0	1.8	6.7	1.2	41.0	4.1
	2018	1.7	1.6	1.3	-1.1	0.2	5.6	4.8	1.6	7.1	1.0	37.0	3.5
	2019	2.0	1.8	0.8	0.4	0.2	4.7	3.8	1.3	7.6	0.8	35.0	3.9
Norway	2017	1.8	2.3	2.0	3.5	-1.6	0.8	2.2	1.8	2.7	-	-	-
	2018	2.5	2.5	1.8	3.0	-0.2	2.0	2.0	2.0	2.3	-	-	-
	2019	2.3	2.3	1.8	2.0	0.0	2.0	2.0	1.9	2.2	-	-	-

Macro forecast, Euroland

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euro area	2017	2.5	1.7	**1.2**	**3.1**	-	5.3	4.3	1.5	9.1	-1.1	89.3	3.5
	2018	2.1	1.7	**1.5**	**3.8**	-	4.6	4.6	1.4	8.4	-0.9	87.2	3.0
	2019	1.9	1.9	**1.3**	**4.2**	-	3.4	4.4	1.3	8.0	-0.8	85.2	2.9
Germany	2017	2.5	2.1	1.6	3.9	-	5.3	5.6	1.7	3.8	0.9	64.8	7.8
	2018	2.2	1.8	2.3	3.4	-	5.0	6.0	1.6	3.5	1.0	61.2	7.5
	2019	2.0	2.3	2.2	4.5	-	3.1	4.8	1.5	3.3	1.0	57.9	7.2
Finland	2017	2.7	1.6	1.3	6.3	-	7.8	3.5	0.7	8.6	-0.4	61.4	0.7
	2018	2.4	2.1	0.5	3.5	-	4.5	4.5	1.0	8.0	-0.2	59.6	0.6
	2019	2.0	1.6	0.5	3.5	-	4.5	4.0	1.4	7.7	-0.2	58.0	0.8

Macro forecast, Global

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
USA	2017	2.3	2.7	0.1	4.0	-0.1	3.4	3.9	2.1	4.4	-3.6	106.0	-2.4
	2018	2.4	2.2	0.0	5.1	0.0	3.6	2.6	2.5	4.0	-4.1	109.0	-3.0
	2019	2.1	1.9	0.4	4.9	0.0	3.1	3.0	2.1	3.8	-5.2	113.0	-3.1
China	2017	6.7	-	-	-	-	-	-	2.0	4.1	-3.7	47.6	1.4
	2018	6.5	-	-	-	-	-	-	2.3	4.3	-3.4	50.8	1.1
	2019	6.3	-	-	-	-	-	-	2.3	4.3	-3.4	53.9	1.2
UK	2017	1.7	1.8	0.6	3.9	-0.4	4.5	3.0	2.7	4.4	-2.4	87.0	-4.6
	2018	1.3	1.3	0.5	1.9	0.1	2.4	2.2	2.2	4.1	-2.0	87.3	-4.7
	2019	1.2	1.0	0.4	2.0	0.0	2.6	1.8	1.8	4.1	-1.8	87.4	-4.6

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

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