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Economic Outlook: Nordic divergence

The Nordic countries display diverging economic growth patterns, according to the economic outlook by Nordea's economists published today.

- The once so strong Norwegian economy is heading for a sharp downturn driven by a declining housing market, while Denmark is gaining momentum after several years of housing market crisis. While benefiting from domestic tailwinds Sweden has faced problems in its export markets, but now better times are ahead as activity internationally picks up. Finland is struggling with huge growth problems overall, says Helge J. Pedersen, Nordea's Global Chief Economist.

Nordea's economists expect the Nordic economies combined to grow by 0.8% this year, rising to 1.6% in 2014 and 1.8% in 2015. This is well ahead of the Euro-zone economy, which will contract by 0.4% this year and only expand by 1% in 2014 and 1.5% in 2015.

The Nordea economists have sharply revised down their growth forecast for **Norway** since September. There are clear signs of a turnaround in the housing market, with declining house prices in both 2014 and 2015 contributing to a sharp drop in housing construction. And oil investment is about to peak. Declining house prices, lower income growth and mounting economic uncertainty will affect consumer spending, which is already showing lower-than-expected growth this year. But two rate cuts and a potential substantial increase in oil revenue spending should dampen the downturn.

The **Danish** economy is shifting gears driven by improved business cycles abroad and gradually rising domestic demand. Nordea's economists expect growth to be sufficiently strong to trigger a turnaround in the labour market next year. The housing market, the Achilles' heel of the economy over the past years, is stabilising, and home prices are expected to gradually rise.

Growth in the **Swedish** economy has remained weak in 2013. Domestic consumption is growing at a decent pace, but exports have not started to pick up mainly due to weakness among European economies. The economy will gain momentum in 2014, when exports contribute to growth as global demand improves. In election year 2014 the domestic economy is stimulated by an expansionary economic policy mainly benefitting households. Investment activity will pick up as production rises.

Rising leading indicators and improving fundamentals globally are not yet reflected in **Finnish** data and the economists have revised down their forecast for Finland substantially. After a contraction this year the economists expect the economy to expand gradually over the coming years with exports leading the way. Domestically low growth implies moderate inflation and weakness in employment, household consumption, investment and public finances. The increase in unemployment is curtailed by a simultaneous decline in the labour force.

Real growth, %	2011	2012	2013	2014	2015
World	4.0	3.3	3.0	3.7	3.9
Nordics	2.5	1.0	0.8	1.6	1.8
Denmark	1.1	-0.4	0.3	1.3	1.7
Finland	2.7	-0.8	-1.0	0.8	2.0
Norway	2.5	3.4	1.8	1.3	1.2
Sweden	3.7	0.7	1.0	2.4	2.4

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