Nordea Economic Outlook

2 / 2021

UNRESTRICTED GROWTH

The global economy is experiencing its strongest upswing in almost 50 years.
/ p. 6

Nordea

Nordea Economic Outlook 2 / 2021

Group Chief Economist
Helge J. Pedersen

Chief Editor
Terry Baynes

Editorial deadline
10/05/2021

DENMARK

Helge J. Pedersen
Chief Economist Denmark
helge.pedersen@nordea.com
+45 5547 1532
Twitter: @helgejpedersen

Jan Størup Nielsen
Chief Analyst
jan.storup.nielsen@nordea.com
+45 5547 1540
Twitter: @JanStorup

Andreas Steno Larsen
Chief Global Strategist
andreas.steno.larsen@nordea.com
+45 5546 7229
Twitter: @AndreasStenoLarsen

SWEDEN

Annika Winsth
Chief Economist Sweden
annika.winsth@nordea.com
+46 10 156 9461
Twitter: @annikawinsth

Torbjörn Isaksson
Chief Analyst
torbjorn.isaksson@nordea.com
+46 8 407 9101
Twitter: @TorbjrnIsaksson

Susanne Spector
Chief Analyst
susanne.spector@nordea.com
+46 10 157 1625
Twitter: @SusanneSpectr

Gustav Helgesson
Analyst
gustav.helgesson@nordea.com
+46 73 312 5574
Twitter: @GustavHelgesson

Ludvig Cedemar
Analyst
ludvig.cedemar@nordea.com
+46 73 904 4974

NORWAY

Kjetil Olsen
Chief Economist Norway
kol@nordea.com
+47 2248 7788
Twitter: @kol_olsen

Dane Cekov
Analyst
dane.cekov@nordea.com
+47 24 01 22 95
Twitter: @DaneCekov

Lars Mouland
Chief Strategist
lars.mouland@nordea.com
+47 22 48 77 78

FINLAND

Tuuli Koivu
Chief Economist Finland
tuuli.koivu@nordea.com
+358 9 5300 8073
Twitter: @koivutuuli

Jan von Gerich
Chief Analyst
jan.vongerich@nordea.com
+358 9 5300 5191
Twitter: @JanVonGerich

Juho Kostiainen
Economist
juho.kostiainen@nordea.com
+358 9 5300 6728
Twitter: @JuhoKostiainen

Kristian Nummelin
Associate
kristian.nummelin@nordea.com
+358 9 5300 6819
Twitter: @Nummelin_K

Data sources are Macrobond, national statistical bureaus and own calculations unless otherwise noted. Visit us at: http://corporate.nordea.com

Nordea

Contents

“We expect global growth to be a hefty 5.8% this year and then decline to 4.5% next year, which is still well above the trend rate of growth."

Helge J. Pedersen
Nordea Chief Economist

"The Nordic countries will emerge from the crisis as the global winners."

Helge J. Pedersen
Nordea Group Chief Economist

Editorial

The global economy is heading for the strongest upswing in almost 50 years, driven by efficient vaccination programmes and unprecedented policy accommodation. Although inflation is edging higher, monetary policy will support the real economy for a long while yet. The Nordic countries have fared better than most through the pandemic and will also see a strong recovery over the coming years, driven by both the release of pent-up consumer demand and improved conditions for exporters in tandem with the lifting of coronavirus restrictions worldwide.

Spring is in the air, also in the world economy, which is experiencing the fastest recovery since 1973. We expect global growth to be a hefty 5.8% this year and then decline to 4.5% next year, which is still well above the trend rate of growth.

The global upswing will be led by the advanced economies, which have the financial and logistical capacity to roll out efficient vaccination programmes. This will pave the way for a fast reopening and a lifting of all coronavirus restrictions soon. Meanwhile, many developing countries will continue to struggle with high infection rates. Consequently, we are now in the unusual situation where the gap between rich and poor countries widens for the first time in many years.

Growth is also boosted by unprecedented policy accommodation, especially in the US, where the new Biden administration quickly got a massive recovery package worth almost 10% of GDP through Congress and has proposed new major multi-year investment plans in addition to the American Families plan. These plans, which among other things focus on green transition and digitalisation as well as tax-financed welfare benefits, also have the potential to radically change the foundation of US society.

In December last year the EU adopted its huge Next Generation EU recovery package (NGEU) worth EUR 750bn, of which a large part will be financed through joint loans. This has never happened before, and before the Recovery Fund can be set to work, the EU national parliaments must ratify the agreement. So far, 13 out of the 27 EU countries have ratified the plan, but the project has been put on hold by the German constitutional court, which will decide whether the joint loans would violate the EU's own treaties. Until the court has ruled, the German government cannot proceed with the ratification process.

It is hardly realistic that the German constitutional court kills the NGEU project and consequently, funds will likely as planned begin to flow to the EU countries in the course of H2 2021. But the situation exposes the EU's weaknesses in much the same way as the EU's scandal-ridden vaccination programme has done. The EU's bureaucratic decision processes are a main reason why the Euro area lags far behind the US in the global growth race.

Monetary policy is highly accommodative and will remain so for quite a while yet, despite the current pick-up in inflation. The central banks in both the US and the Euro area have indicated that monetary policy will stay accommodative until the scars from the coronavirus crisis have healed. And the sequence is clear. The central banks will taper their massive asset purchases before they start hiking rates. So rate hikes are not likely in the US until towards end-2022 and in the Euro area until well into 2023.

The central banks will thus continue to provide a safety net for government finances, which have deteriorated considerably during the coronavirus crisis. Government debt rose from 86% to 101% of GDP last year in the Euro area and from 109% to 128% of GDP in the US. This is a dramatic increase that is manageable only as long as interest rates are record low and the central banks hold most of this debt on their balance sheets. Over time, it is unsustainable.

In the Nordic countries, which have fared relatively well through the crisis compared with most other countries, the situation is quite different. Only Finland exceeds the Stability and Growth Pact limit of 60% of GDP. None of the other countries are near the limit which by the way is irrelevant for Norway. Denmark even emerged from the crisis with by far the strongest public finances in the EU. With the prospect of high economic growth this year and the next, driven by consumer spending and exports as the restrictions are lifted, the situation in the Nordic countries will even improve.

By almost all measures – financial and health – the Nordic countries will emerge from the crisis as the global winners. And who knows? Maybe the new US administration has looked to the Nordic welfare model for inspiration to design its latest fiscal packages.

Helge J. Pedersen
Group Chief Economist
helge.pedersen@nordea.com
+45 5547 1532
@helgejpedersen

HIGHLIGHTS • We continue to expect the recovery to be fast • Countries' short-term outlook depends on the pace of vaccinations • Inflation is back in focus • First rate hikes from the Fed expected in 2022 • Higher rates should benefit the dollar

Time to recover

The recovery from the coronavirus crisis is on its way, and we expect high growth rates in all major economies in 2021 and 2022. The rapid recovery will intensify price pressures, which have already received a boost from rising raw material prices and bottlenecks in supply chains. Higher inflation rates are expected, especially in the US where the Fed is expected to start hiking rates next year. Higher growth and rate prospects in the US are expected to benefit the dollar.

We continue to expect that the recovery after the coronavirus crisis will be strong and take most economies' growth numbers high both in 2021 and 2022. All the factors we listed in the January issue of Economic Outlook that boost the recovery continue to exist: immense fiscal and monetary support, pent-up demand and a high excess household savings. We also continue to expect that the services sector rebound will lead to a fast labour market recovery, unlike after a typical financial crisis where the reallocation of resources takes a lot of time.

However, there are vast differences among the countries when it comes to the exact timing and strength of the recovery. As vaccinations are concentrated in the developed economies, it is also clear that those countries will be much faster to remove the restrictions and to recover. Thus, while the US and the UK are already reopening their economies and most Euro-area countries are expected to follow suit in the coming weeks and months, many emerging economies are likely to continue to suffer from the coronavirus crisis in the beginning of 2022.

The biggest downside risk to our rather optimistic view is that something goes wrong in the fight against the virus and, for example, new mutations resistant to vaccines keep emerging. That could lead to weaker confidence among both households and companies as well as a delayed and weaker recovery.

US takes the lead in the West

Optimism is on the rise in the US as the economy reopens and the population approaches herd immunity. Three rounds of stimulus checks, coupled with generous unemployment benefits, have led to strong household balance sheets and income levels in aggregate, which will facilitate a surge in consumer spending. Up to three quarters of the checks have been saved or used to pay down debt, and consumers are thus ready to kick-start the recovery as restrictions are lifted. This should lead to a rapid recovery also in the labour market, causing a positive circle. However, given that expectations for the US economy are now really high, there is a risk that the spending surge might falter more quickly than expected as the distribution of savings is skewed towards higher income brackets.

5.8%

Global GDP growth in 2021

1.2 bn

The number of administered vaccines in the US and western Europe by 5 May

Source: Financial Times

-15.0%

IMF forecast for the US public sector deficit in 2021

GDP GROWTH FORECAST, % Y/Y

	World		US		Euro area		China	
	New	Old	New	Old	New	Old	New	Old
2019	2.8	2.8	2.2	2.2	1.3	1.3	6.1	6.1
2020E	-3.3	-3.5	-3.5	-3.5	-6.7	-7.2	2.3	2.1
2021E	5.8	5.0	6.2	4.0	4.5	4.5	8.5	8.0
2022E	4.5	4.5	4.0	3.1	4.0	4.0	5.5	5.5

China already in tightening mode

China's recovery is so well on track that its leaders are shifting their focus from the pandemic towards the long-term challenges of the economy. One of those challenges is the high level of debt, which is expected to be tackled by a gradually tighter policy stance this year. On the other hand, China is well-known for its very targeted measures and we expect that also this time, for instance, the real estate sector will cool off while some manufacturing sectors will continue to enjoy favourable conditions required to fulfil the leaders' target to double GDP by 2035.

Euro area: contre-la-montre

Although the pace of the recovery in the Euro area will be somewhat slower than in the US, we stick to our view that the economy as a whole should be close to the pre-crisis level at the end of 2021. At the moment, the Euro area is in a rush to save another high season in tourism, which is extremely important for the southern European countries. We continue to believe that, together with the seasonal variation of the virus, the pace of vaccinations will be sufficient to open up cross-border travelling within Europe in July. However, for that to happen, there should be no further setbacks on the vaccine front.

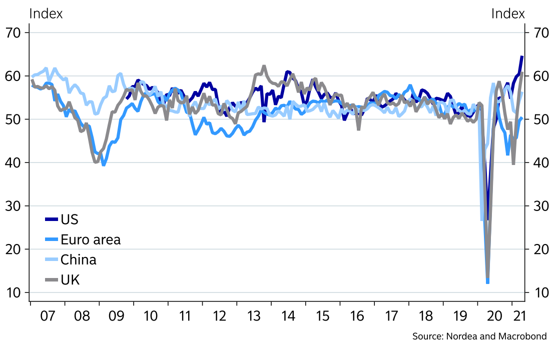
Inflation comeback

After very low inflation in most developed economies in 2020, inflation numbers have recently recovered, mostly due to the rebound in energy prices and faltering deflationary pressures in the services industry. The rise in producer prices has been even bigger due to a high share of raw material prices and the faster-than-expected recovery in manufacturing, which has led to many bottlenecks and price increases in global supply chains. However, much more than that is needed in order to see a significant and permanent rise in consumer price inflation. For that purpose, the exceptional amount of fiscal and monetary easing and the expected fast recovery especially in the US provides, of course, an interesting environment, and we have already seen higher inflation expectations both in the financial markets and in survey-based indicators. Thus, although the Fed has remained calm in its comments on inflation, the risk of considerably higher inflation clearly exists in the US. In the Euro area, inflation numbers are expected to be volatile in the near term but the million-dollar question is whether the weak link from the real economy to inflation that prevailed prior to the pandemic will return when the recovery gains speed and the slack in the economy declines.

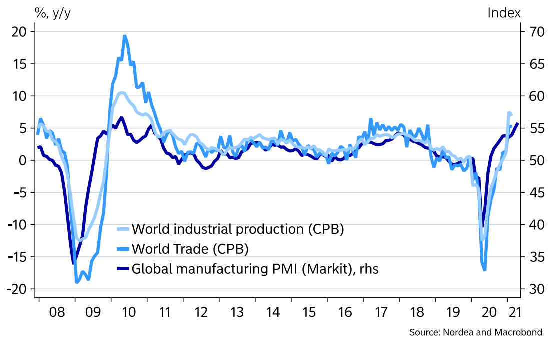
"The Euro area is in a rush to save another high season in tourism."

Tuuli Koivu
Nordea Chief Economist

A / Vaccinations boosted services sectors in the US and the UK
Service sector PMIs



B / Global manufacturing leading the recovery
Global trade and manufacturing



A /
The faster the pace of the vaccine rollout, the faster the services sector will recover.

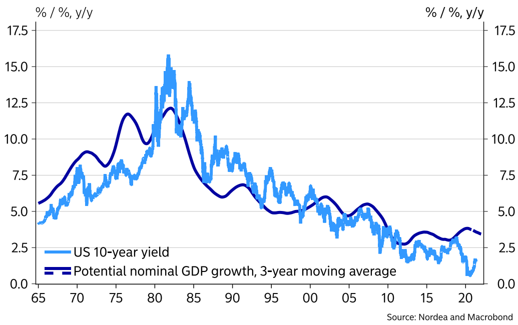
B /
Consumers' shift towards goods and a fast recovery in residential investment have boosted the recovery in global manufacturing.

Sources: Nordea and Macrobond

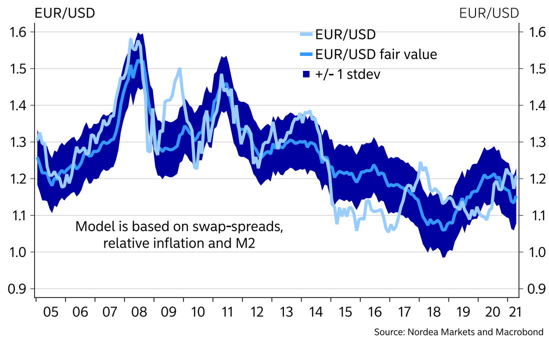
FOREIGN EXCHANGE RATES, MONETARY POLICY RATES AND BOND YIELDS, END OF PERIOD

					ECB	Fed	US	Germany
	EUR/USD	EUR/GBP	USD/JPY	EUR/SEK	Deposit rate	Fed funds target rate (upper end)	10Y benchmark yield	10Y benchmark yield
2019	1.12	0.85	109	10.51	-0.50	1.75	1.92	-0.19
2020	1.22	0.90	103.20	10.04	-0.50	0.25	0.93	-0.56
2021E	1.16	0.84	105.00	10.30	-0.50	0.25	2.00	0.00
2022E	1.15	0.84	110.00	9.70	-0.50	0.50	2.50	0.25

C / Bond yields continue to look low



D / The US is expected to beat all peers in growth terms this year, which could lead to a stronger USD



C /
Bond yields remain very low given the macroeconomic situation.

D /
The US is expected to outperform peers growth-wise this year, which may lead to a comeback for the USD.

Bond purchases not preventing higher yields

While major central banks are pledging not to reverse course any time soon, the Fed could find itself debating tapering its bond purchases already during the summer. The ECB will probably be slower in scaling down its purchases, but its appetite for large-scale purchases appears to be waning, and the pandemic-era bond purchase programme is set to be concluded in March 2022. While the ECB is likely to continue to buy bonds under its other bond purchase programmes after March 2022, the volumes will be much smaller. The lesson from history is that bond yields can, and often do, climb in times of even large central bank bond purchases.

In response to the booming economy, we expect the Fed to start raising rates already next year, which means that the short end of the curve may not stay anchored for that much longer. Longer yields have already risen from their lows and will continue to climb going forward. Almost no matter which macro-related bond yield model one uses, the conclusion is the same: long rates remain much lower than the macro outlook suggests. The deviations from macro-implied levels and the upside potential look much larger for US yields compared to Euro-area yields. While our baseline is for even US yields to remain at historically low levels throughout the forecast horizon, risks are tilted to the upside, as the inflation risks in the US economy are genuine, and massive economic growth could easily drive yields higher at a faster rate than we assume in our baseline scenario.

FX: USD to return to stronger levels

The USD has weakened materially over the past 9-12 months, which has been driven by mass money printing by the Federal Reserve not least in Q2 2020. The USD usually also weakens when the global economy rebounds in tandem, which is what we have seen in recent quarters. The US is now about to reap the growth rewards of the experimental policy mix of massive money printing and large-scale fiscal stimulus.

The US is likely to outperform all peers growth-wise this year, which over time usually leads to a stronger USD versus other currencies as a result of the side effects of a stronger growth pace. First, USD bonds may continue to yield better than most peers; second, the Fed is more likely to respond to strong growth rates via a slightly tighter policy, maybe via a tapering discussion already this summer.

Our view on USD interest rates could also lead to a reversal of the EUR/USD cross towards the second half of this year. We find it likely that EUR/USD will end 2021 at clearly lower levels compared to the current spot level as USD interest rates are simply more alive than EUR dittos, not least because the ECB seemingly wants to keep printing to support the economic rebound during the spring and early summer. The fixed income market also reflects relative growth perspectives, which simply look more upbeat in the US compared to Europe, among other things due to a more successful vaccine rollout. We target 1.15-1.16 for EUR/USD.

0%

We expect the German 10-year yield to climb back to zero by the end of 2021.

1.16

The level we expect EUR/USD to hit by the end of 2021

1

The number of expected rate hikes from the Fed in 2022

Tuuli Koivu
Chief Economist Finland
tuuli.koivu@nordea.com
+358 9 5300 8073
@koivutuuli

Andreas Steno Larsen
Chief Global FX/FI Strategist
andreas.steno.larsen@nordea.com
+45 55 46 72 29
@AndreasSteno

Jan von Gerich
Chief Analyst
jan.vongerich@nordea.com
+358 9 5300 5191
@JanVonGerich

Gustav Helgesson
Analyst
gustav.helgesson@nordea.com
+46 73 31 25 574
@GustavHelgesson

“The US is likely to out-perform peers growth-wise this year, which could lead to a stronger USD."

Andreas Steno Larsen
Nordea Chief Global FX/FI Strategist

“The scene is set for very high consumption growth going forward.”

Torbjörn Isaksson
Nordea Chief Analyst, Sweden

The Nordics in brief

The outlook is bright in the Nordics over a year into the pandemic, as the vaccine roll-out continues to gain momentum. The countries stand well-equipped, with strong public finances and households in good financial shape. As the pandemic loses its grip and societies gradually reopen, GDP growth is expected to take off, on the back of a surge in private consumption. Exports will likely also get a boost from the strong rebound in the world economy and better prospects for tourism.

SWEDEN

Expected GDP growth in 2021

+4.5%

Swedish households have seldom enjoyed such a favourable financial situation as they do now, setting the scene for strong growth in domestic demand. Employment is expected to continue to rise, and labour shortages will likely become a growing problem.

/ page 12

DENMARK

Expected rise in house prices in 2021

+12%

Denmark's economy has weathered the pandemic well and stands poised for a strong recovery. Households harbour huge pent-up spending potential, and public finances are strong, with Denmark having the lowest public sector deficit for 2020 among EU countries.

/ page 16

NORWAY

Expected Norges Bank policy rate at end-2021

0.50%

As vaccines are rolled out and Norwegian society gradually reopens, most things will be back to normal after summer, and the economy will recover rapidly. Clear signs of normalisation in the economy will pave the way for the first rate hike from Norges Bank in September.

/ page 20

FINLAND

Expected GDP growth in 2021

+3.0%

Finland's economy is expected to begin a tangible recovery during the summer, boosting GDP growth to 3% this year after contracting by 2.8% in 2020. Private consumption is expected to grow fast this year, with rising employment and the release of pent-up demand.

/ page 24

SWEDEN

Carpe diem

Households are longing to return to normal. Consequently, domestic demand, together with already strong exports, will be the key driver of growth. The scene is thus set for strong GDP growth and increasing labour shortages. Meanwhile, inflation will remain below the 2% target. Much indicates that the Riksbank will maintain its current monetary policy stance.

Growth boom

Despite a third wave of coronavirus, the recovery of the Swedish economy in general and the labour market in particular has continued this year. This shows that households and businesses have learned to live with COVID-19 and illustrates the growth potential once infection rates decline and the restrictions are lifted.

The dual trends in the economy intensified at the beginning of the year. Already in H2 2020, the situation normalised in most parts of the manufacturing sector. But certain services sectors such as culture, entertainment, hotels, restaurants and to some extent travel are still struggling. However, these crisis-hit sectors only account for 3.5% of the economy.

Vaccination of the population is critical for the growth outlook but is assumed to progress without major setbacks. The rollout of vaccines is ongoing, and a large part of the adult population will likely be vaccinated during the summer. Moreover, it is assumed that new variants of the virus will not cause the pandemic to escalate again.

When the pandemic soon loses its grip on society, GDP growth will take off and also spread to the crisis-hit sectors.

Seize the day

The pandemic has taught us that life is fragile. Households are now longing to return to normal as soon as possible and perhaps more than ever for a chance to enjoy life's possibilities.

4.5%

Forecast for GDP growth in 2021

6.8%

Forecast for unemployment in December 2022

2.5%

Forecast for wage growth in 2022

Sources: Statistics Sweden, Macrobond and Nordea

And they sure have the financial means to do so. Households have seldom enjoyed such a favourable financial situation as they do now. Last year, savings reached an all-time high as households were largely prevented from using their incomes to consume services. Thus, they have savings to spend once circumstances allow them to do so. Meanwhile, the rising stock markets have lifted households' financial wealth to new all-time highs, and credit growth is approaching record levels.

So, even if households spend only part of their available resources, the scene is set for very high consumption growth going forward. The flip side of the current situation is the growing indebtedness, but the risks posed by this trend mainly lie beyond our forecast horizon.

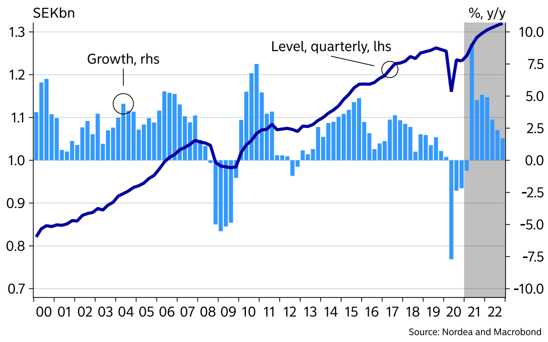
Red-hot housing market

Another factor suggesting a surge in consumption is the housing market. Rising housing prices tend to underpin households' propensity to consume. And the housing market is hot. The prospect of low interest rates for a long time as well as the scrapping of interest on deferred gains of up to SEK 3m and changed

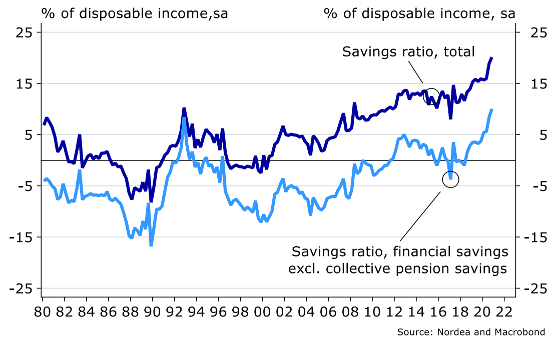
SWEDEN: MACROECONOMIC INDICATORS

	2018	2019	2020E	2021E	2022E
Real GDP (calendar adjusted), % y/y	2.1	1.4	-3.1	4.5	3.0
Underlying prices (CPIF), % y/y	2.1	1.7	0.5	1.6	1.2
Unemployment (SPES), %	7.0	7.0	8.5	8.0	7.0
Current account balance, % of GDP	2.5	5.1	5.4	5.5	5.1
General gov. budget balance, % of GDP	0.8	0.6	-3.1	-2.4	-0.4
General gov. gross debt, % of GDP	38.9	35.0	39.9	38.3	35.6
Monetary policy rate (end of period)	-0.50	-0.25	0.00	0.00	0.00
EUR/SEK (end of period)	10.13	10.51	10.04	10.30	9.70

A / Strong GDP growth
SEKbn per quarter and annual percentage change



B / Households' savings record high
% of disposable income, seasonally adjusted



A /
GDP growth is taking off this year but will level off next year at a high level.

B /
Households have savings to spend once circumstances allow them to do so.

preferences as a result of the pandemic have sent prices sky high. But the uptrend should start to level off after the summer. Still, housing prices on average are expected to be 14% higher in 2021 than in 2020.

Broad-based boost to domestic economy

In light of the red-hot housing market, we expect residential construction activity to remain at a relatively high level. We also foresee a pick-up in business investment in the services sector over the forecast period. And with the government's expansionary fiscal policy, which results in a budget deficit of some 2.5% of GDP this year, government consumption and investment are increasing. Still, public sector debt (Maastricht) will peak at around 40% of GDP.

Exporters struggle to keep up

The increase in global demand during the autumn was so strong that it created shortages of certain input goods. As a result, industrial production and goods exports could lose some momentum during the spring. The problems should mainly be temporary and, to begin with, mostly affect production in the automotive industry, which accounts for 17% of the manufacturing sector.

But 2021 will overall be characterised by a strong trend in exports. Industrial companies rush to expand production capacity to meet the high demand. Already in Q4 2020, investment in the manufacturing industry approached record-high levels, and we expect the expansion of production capacity to continue this year.

Quite surprisingly, exports of services rose towards the end of 2020. The uptrend looks set to continue even though tourism in and out of Sweden could still be constrained by restrictions on travels, especially to countries outside Europe, during most of this year.

But there's a limit to everything. The normalisation of energy prices, pick-up in longer bond yields and steps to tighten policies in some countries will likely slow down the global upturn and thus Swedish export growth next year.

Sharp increase in employment and labour supply

The increased domestic production has already boosted the labour market. Short-term unemployment is now below the pre-crisis level. Companies' optimistic hiring plans and a growing number of vacancies at the job centres reflect high labour demand. Against this backdrop, long-term unemployment should also decline, albeit at a slower pace.

Labour market inflows have also increased markedly. The increase is positive in most respects but will dampen the decline in unemployment. We expect unemployment to drop quickly to below 8% over the summer and then to gradually decline to below 7% by end-2022. Read more about the Swedish labour market in the theme article on page 15.

Inflation to normalise below target

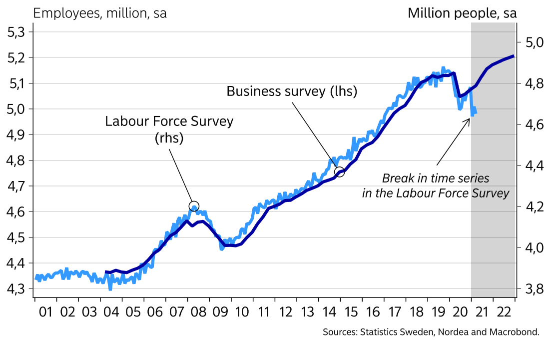
Labour shortages are already rising, and the situation is likely to worsen in the autumn. The collective bargaining agreement effective until the spring of 2023 includes annual pay rises of a modest 2%. But the tighter labour market will boost wage drift (pay rises in addition to those centrally agreed). Pay rises overall thus look set to rise from 2.0% in 2020 to 2.5% in 2022.

Despite this increase, pay rises will remain below the 3.3% average of the past 25 years. At the same time,

"Households have seldom enjoyed such a favourable financial situation as they do now."

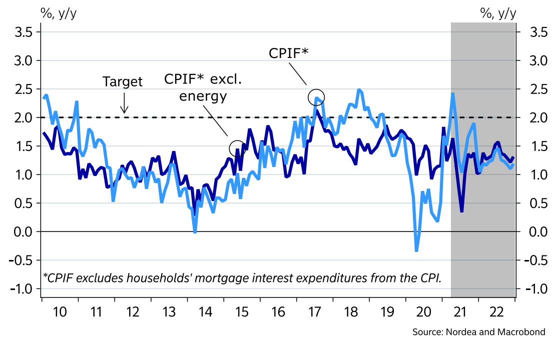
Torbjörn Isaksson
Nordea Chief Analyst

C / Employment set to rise



D / Both upside and downside risks to inflation

Annual percentage change



C /

Demand for labour remains high, and employment will rise swiftly. The forecast is based on Statistics Sweden's quarterly business survey of the number of employed people (excluding self-employed workers) and thus not according to the Labour Force Survey.

D /

The appreciation of the SEK exchange rate during the past year contributes to lower inflation. Wage growth will pick up but not sufficiently to stabilise inflation at 2%.

the SEK has strengthened. In April this year, the trade-weighted exchange rate of the SEK was 7.5% stronger than in the same period last year, and this will have a significant bearing on inflation. Imported goods and services account for almost a third of household consumption. Inflation, as measured by the CPIF, will consequently decline over the summer and remain in the 1-1.5% range during the remainder of the forecast period. This is in line with the trend over the past 20 years.

Risks to our inflation forecast are balanced. On the one hand, rising freight costs, shortages of certain goods and higher commodity prices could push inflation higher than currently expected. On the other hand, the stronger SEK and modest pay rises could contribute to a lower rate of inflation than forecast.

The Riksbank's strong focus on inflation

Even if inflation should end up higher than we project, the key question for the Riksbank is whether the increase is a temporary phenomenon. The Riksbank focuses on upholding the credibility of its 2% target as a nominal anchor, and in this perspective a temporary increase in inflation is not sufficient to prompt any action. The surprisingly strong economy and the prospect of a tighter labour market provide a helping hand to the Riksbank, but history shows that this most likely will not be sufficient. Despite a significant shortage of labour, pay rises were moderate even before the coronavirus crisis. This is part of the reason why the Riksbank would rather stimulate too much than too little. The pandemic makes inflation trends a bit more difficult to interpret, though, and this will make it easier for the Riksbank to accept a decline in inflation later this year.

Against this backdrop, we expect the Riksbank to keep the repo rate unchanged at zero over the entire forecast period ending in December 2022. The Riksbank's asset purchase programme progresses as planned, with continued purchases in H2 2021 and an unchanged balance sheet in 2022.

The SEK poses a restriction. If, for example the Riksbank decides to ease off the accelerator, it could cause the SEK to strengthen, which in turn would dampen inflation further. The policymakers at the Riksbank will no doubt try to avoid this. The fact that the Riksbank is on hold is not supporting the exchange rate, while improved market sentiment boosted by a broadly based and rapid economic recovery in Sweden and globally should benefit demand for the SEK. We see the exchange rate largely moving sideways this year. We expect EUR/SEK to continue to trade at levels somewhat above 10 and USD/SEK to move higher during 2021.

Torbjörn Isaksson
Chief Analyst
torbjorn.isaksson@nordea.com
+46 8 407 91 01
@TorbjrnIsaksson

Cloudy statistics hide strength

The number of unemployed at the Swedish Public Employment Service is rapidly declining, and demand for labour is growing. The statistics are difficult to interpret due to major changes to the labour force survey at the turn of the year, but the overall picture is one of rapid labour market recovery.

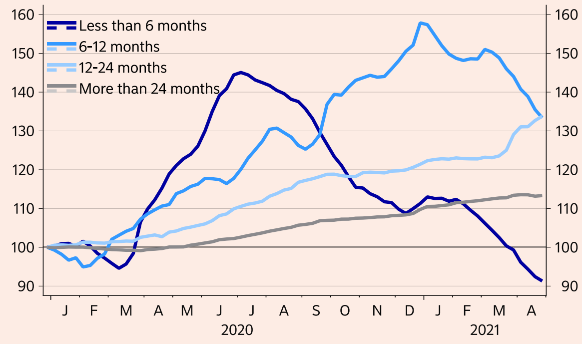
The weekly statistics of the Swedish Public Employment Service (SPES) are real-time data of the labour market situation. They paint a bright picture of swiftly declining unemployment. We see jobless rates in the weekly statistics falling below 8% this summer. The strong downward momentum should intensify as restrictions are lifted and crisis-hit industries take part in the strong recovery. We expect unemployment as measured by the SPES to drop to 7.5% by year-end. The annual average for 2021 will then be 8.0%.

Indicators suggest growing demand for labour. Hiring plans are increasing rapidly, there are more vacancies and low numbers of layoff notices so far in 2021. The labour shortages are going up. Relatively few new job seekers have registered with the SPES this year.

But the figures from Statistics Sweden's (SCB) Labour Force Survey (LFS) are difficult to interpret after major changes were made in January this year due to new definitions, questions and methods. A key change is the rephrasing of questions about unemployment, resulting in higher unemployment and more discouraged workers. The changes are hard to quantify, but the difference in unemployment based on the new and previous questionnaire was 0.8% point in March. The definition of employment has also been changed. The break in the time series may be as many as 100.000 fewer people employed. The 2021 outcome is thus not comparable to previous years. Therefore we're not basing our forecasts on LFS data this year but on the SPES and the number of people employed according to the SCB's data for employment in business and the public sector (short-term employment data, KS). Excluding the LFS time series break, we see employment growth at 1.5% in 2021 in line with our KS forecast.

A / Lower number of short-term unemployed than before the crisis

Index, January 2020 = 100



Source: Macrobond and Nordea

Despite the labour market recovery, there are large gaps between different groups. The number of short-term unemployed (less than 6 months) is already lower than before the crisis while the number of long-term unemployed is growing. The increase is moderate compared to the many jobs lost at the onset of the pandemic. About 100,000 people lost their jobs during the first seven weeks of the pandemic. A year later the number of people unemployed for 12-24 months is 7,500 higher than during the year-earlier period, suggesting that most of those who lost their jobs early in the pandemic have found new jobs or taken up studying. When short-term unemployment falls, others move up in the line.

The number of people unemployed for 6-12 months is declining rapidly and we see a continued drop to 70,000 by end-2021 versus 110,000 at the beginning of the year. Even those unemployed for more than 12 months stand a good chance of finding work when the economy reopens. Long-term unemployment is not a permanent state. Many entry-level jobs are likely to come back when the restrictions are eased, implying that many long-term unemployed will get new jobs already this year; we expect just under 200,000 long-term unemployed (more than 12 months) by year-end. At the same time we see a total number of registered unemployed of 395,000 – about 60,000 fewer than at the start of the year.

After the financial crisis the population grew rapidly, and labour force participation rose. That is positive. But this combination is a key reason why unemployment remained at high levels after the financial crisis despite strong employment growth. Population growth will be slow in coming years. And the labour force participation rate will not increase as fast, partly due to demographics. This also suggests a fairly rapid decline in unemployment going forward.

"Unemployment should decline further as restrictions are lifted and crisis-hit industries recover."

Susanne Spector
Nordea Chief Analyst

Susanne Spector
Chief Analyst
susanne.spector@nordea.com
+46 10 157 16 25
@SusanneSpectr

DENMARK

Progress

The Danish economy has emerged relatively unscathed from the coronavirus crisis, and the scene is thus set for a strong recovery once it is over. There is still huge pent-up spending demand among households, and Danish exporters are well positioned to take advantage of rising global growth. Also Danish public finances are better than expected, so, despite unprecedented fiscal stimulus, Denmark's public sector deficit for 2020 is the lowest among the EU countries.

In 2020 the Danish economy contracted by 2.7%, the biggest decline recorded since 2009. The number masks a sharp drop in Q2 2020 and positive growth rates in both Q3 and Q4.

Towards the end of 2020, new tight restrictions were implemented to contain a sharp increase in infections. But since 1 March this year these restrictions have been gradually eased, and recently the reopening has accelerated further. As one of very few countries in the world, Denmark has chosen not to use the vaccines from AstraZeneca and Johnson & Johnson. Even so, all adults over 50 years of age are expected to have been offered vaccination by early-July, while the entire population over 15 years will likely have been offered vaccination in August. If the current vaccination plan holds, the Danish economy will probably be free of most restrictions by end-Q2 this year.

Despite the restrictions in the early months of 2021, preliminary indicators point to only a modest decline in activity. This, coupled with a major boost from the fast reopening, has strengthened confidence in a strong economic recovery in 2021. Hence, we have revised up our forecast for GDP growth this year from 2.5% to 3.0%. This means that the activity level will likely as early as in the autumn be higher than the previous record high from end-2019. The solid economic recovery is expected to continue into 2022, although higher interest rates, a less accommodative fiscal policy and a housing market slowdown will likely put a lid on growth rates.

3.0%

Expected GDP growth in 2021

12%

Expected increase in housing prices in 2021

August 2021

Expected completion of the vaccination programme

Sources: Nordea estimates and Macrobond

Huge spending potential among households

Household consumption has been a key factor behind the relatively strong performance of the Danish economy during the coronavirus crisis. Despite the many restrictions in 2020, total household consumption only declined by 1.9%; during the financial crisis the drop was almost twice as big.

The strong resilience of household consumption is attributable to a benign housing market trend as well as the payout of frozen holiday pay, which, combined with declining interest expenses and continued positive real wage growth, has lifted household disposable incomes markedly. The growing incomes have also resulted in an increase in household savings, despite the sharp pick-up in their consumption of goods. If households start to save less again and spend more on especially services in tandem with the reopening, it could boost overall economic activity significantly over the summer.

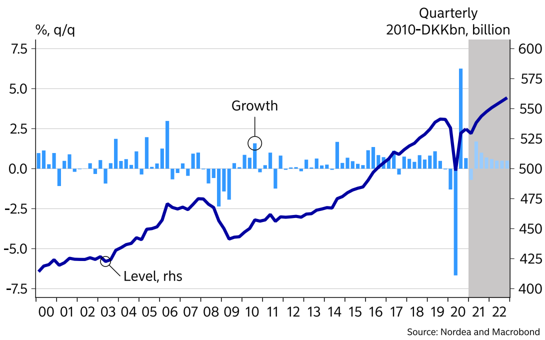
Buoyant housing market activity

During the crisis, the performance of the Danish housing market was far better than expected. Since spring 2020 activity has been high, with more homes sold and a steady increase in selling prices. This surprising trend has mainly been driven by the cheap financing available and the continued rise in disposable incomes. Also, as many people have been working from home during the lockdowns, they may have reconsidered their housing priorities, and this has boosted demand.

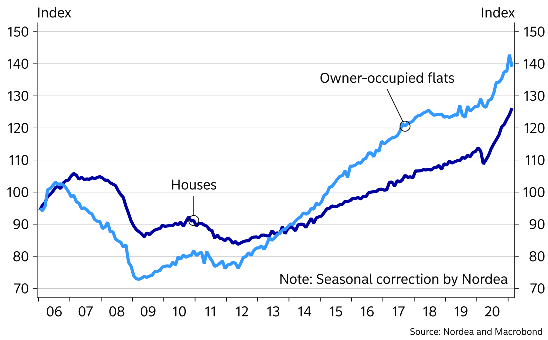
DENMARK: MACROECONOMIC INDICATORS, BASELINE SCENARIO

	2018	2019	2020	2021E	2022E
Real GDP, % y/y	2.2	2.8	-2.7	3.0	2.8
Consumer prices, % y/y	0.8	0.8	0.4	1.1	1.4
Unemployment rate, %	3.8	3.7	4.7	4.2	3.6
Current account balance, % of GDP	7.0	8.8	7.8	6.7	6.9
General gov. budget balance, % of GDP	0.7	3.8	-1.1	0.0	0.4
General gov. gross debt, % of GDP	34.0	33.3	42.2	40.0	39.0
Monetary policy rate, deposit (end of period)	-0.65	-0.75	-0.60	-0.50	-0.50
USD/DKK (end of period)	6.53	6.66	6.08	6.42	6.48

A / Prospects of solid GDP growth
Quarterly GDP in constant 2010 prices and forecast



B / Sharp increase in housing prices
Monthly price index, single-family houses and owner-occupied flats



A /
The Danish economy is facing a long period of robust economic growth.

B /
Housing prices have risen sharply during the coronavirus crisis.

Preliminary data suggests that housing market activity gained further momentum in early 2021. As a result, in March the Systemic Risk Council expressed concern about developments, especially in the areas around Copenhagen. Against this backdrop, it expects to recommend new measures to curb the mounting housing market risks in June. Ultimately, it will be up to the government to decide whether it wants to follow the council's recommendations.

We expect the average price of single-family houses to rise by around 12% this year. In that case, it will be the highest annual price increase since 2006. However, it should be emphasised that the current selling prices already reflect a large part of this increase. The reason is that the forecast is based on the average selling prices for the whole year, and as prices mainly rose in late 2020 and early 2021, this factor alone will significantly jack up the annual rate of increase for 2021 as a whole.

Our forecast assumes that a better supply and demand balance will be established in the housing market during H2 2021 as more homes are put on the market and demand starts to weaken. Combined with upward pressure on financing costs, this should cause the surge in the average price per square meter of houses to level off. The flattening trend is expected to continue into 2022 when prices are expected to rise by "only" 2.5%.

Strong labour market may pose challenges

During the coronavirus crisis the number of wage-earners has declined sharply. When the crisis peaked in late spring last year, there were 75,000 fewer wage-earners than before the crisis. And even though many people did find jobs during the autumn, the number of jobs lost in the Danish labour market remains over 30,000 today. That number would probably have been even higher if parliament and the labour market organisations hadn't introduced measures throughout the crisis that kept a large number of people in jobs that might otherwise have been lost due to the lockdowns.

Recent indicators suggest that a sharp labour market turnaround is in the making as a result of the gradual reopening of the economy. The number of new job vacancies has increased significantly, and labour shortages are developing. This is especially evident in the construction sector where more than one-fourth of employers say they find it difficult to fill vacancies. This is the highest level recorded in over two years. Labour shortages are also now emerging in the industrial sector and the services sector.

The prospect of rising employment is of course good news for the Danish economy and Danish households. But if many companies end up struggling with a shortage of labour, it could potentially weaken Denmark's competitiveness and, in turn, the strength of the expected economic recovery.

Higher inflation

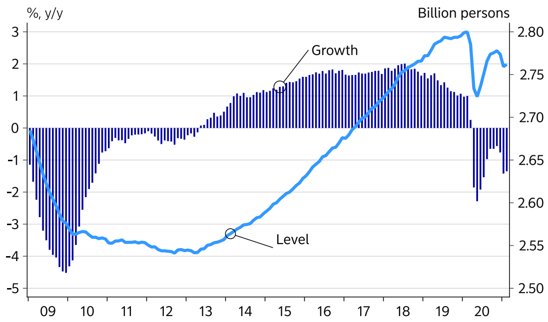
The turnaround in the labour market also paves the way for a higher rate of increase in nominal wages. However, any pick-up in nominal wages will coincide with a slightly faster increase in consumer prices than seen so far. We expect inflation this year to be 1.1% – the highest level since 2017 and somewhat higher than the average consumer price increase of 0.4% in 2020. The higher rate of inflation is mainly due to higher excise duties on cigarettes, slightly higher rents and rising petrol prices.

"The Danish economy has emerged relatively unscathed from the crisis, which provides a strong starting point for future growth."

Jan Størup Nielsen
Nordea Chief Analyst

C / Number of wage-earners has declined

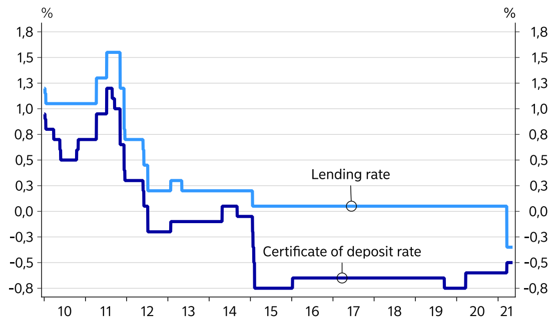
Monthly figures, number of wage-earners



Source: Nordea Markets and Macrobond

D / Narrower interest rate corridor

The Danish central bank's lending rate and CD rate



Kilde: Nordea og Macrobond

C /
The number of wage-earners in the Danish labour market has declined during the crisis.

D /
The difference between the Danish central bank's deposit and lending rates has been reduced.

The uptrend in inflation is expected to continue in 2022 when especially services prices are likely to rise a bit faster than previously. At the same time, inflation in Denmark is projected to rise slightly faster than in the Euro area in 2022, as the Danish economy overall has fared better during the pandemic than many other countries in the Euro area and because rising rents weigh more in the Danish consumer price index.

Growing exports

Last year Danish exports plummeted by more than 7.5%. This means that the decline in exports matches that recorded during the financial crisis in 2009. However, it should be emphasised that a major part of this decline is due to a sharp drop in exports of services, including spending by foreign tourists in Denmark. But Danish goods exports have also declined during the coronavirus crisis. Especially exports to other European countries have weakened, while large exports of pharmaceutical products have contributed to maintaining a high level of goods exports to the US.

With the prospect of a global economic recovery and growing demand in Europe, the outlook for Danish exporters looks bright. They benefit from improved competitiveness as a result of better productivity trends and terms of trade (reflecting the development of Danish export prices relative to import prices). Moreover, Danish exports are expected to benefit strongly from the green transition as many countries will invest massively in areas where Danish companies have strong competitive positions.

Narrower interest rate corridor

In March, the Danish central bank announced a major change to the monetary policy system in Denmark. As a result of this change, the certificate of deposit rate was raised by 0.1% point, while the current account rate was lowered by 0.5% point, and the lending rate was reduced from +0.05% to -0.35%. As a result of the adjustments, the Danish central bank now only has one deposit rate, which is on a par with that of the ECB.

During the first months of the year, the Danish krone strengthened further against the euro. The DKK appreciation prompted the Danish central bank to sell Danish kroner to defend its fixed exchange rate regime in February for the first time since 2017. Initially, we do not expect the central bank's intervention to herald an independent Danish rate cut. Our baseline scenario is that the central bank will keep its policy rates unchanged until end-2022. But Danish market rates on longer maturities are expected to rise gradually in tandem with the recovery of the Euro-area economy. During this period, Denmark's healthy public finances and large current account surplus will likely continue to underpin a small interest rate differential between Denmark and the Euro area.

Jan Størup Nielsen
Chief Analyst
jan.storup.nielsen@nordea.com
+45 5547 1540
@JanStorup

Strong public finances

Despite unprecedented large aid packages, Denmark's public finances have emerged from the crisis in good shape. Gross government debt is heading lower again, and the government's net worth has risen to a record-high level.

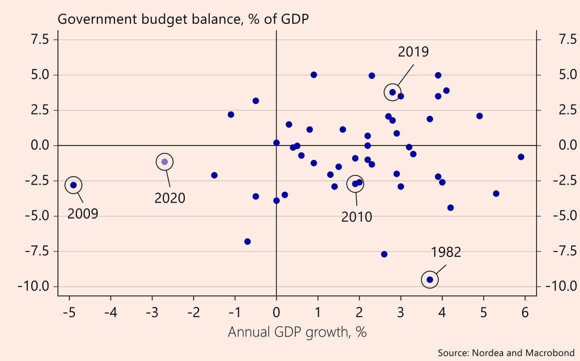
The general government budget deficit in Denmark was 1.1% of GDP in 2020. Although this is the largest deficit since 2016, it is the lowest among all the EU countries and markedly lower than the EU average of 6.9%. Moreover, it is much lower than anticipated when the crisis hit.

There are several reasons why public finances have made it through the crisis so well. A key factor is that global stock markets gained significantly during the crisis. This affects the public budget balance directly through pension return tax revenues, which in 2020 totalled DKK 48bn. This amount exceeds government revenues from property taxes in 2020 by more than 50%, and it is more than twice the average pension return tax revenues over the past 20 years.

Another reason for the low budget deficit is that the fiscal policy stimulus during the crisis was to a large extent provided through payout of frozen holiday pay. As this money represents wage-earners' own savings and is not taxed until the time of payout, it has, contrary to traditional fiscal policy easing, channelled large one-off revenues into the state coffer. In 2020 tax revenues in this connection totalled some DKK 18bn. Without the revenues from the pension return tax and frozen holiday pay, the budget deficit would have been around 4% of GDP.

A third factor that supported public finances during the crisis was that many of the stimulus measures aimed to protect companies' liquidity – for example through deferred payments of tax and VAT. As the measures thus mainly involved timing differences in tax payments, the direct effect on the public budget balance has been limited. In addition, companies have made less use of the direct compensation schemes than expected.

A / Limited general government budget deficit



We expect the general government budget balance to be restored in 2021 thanks to the strong economic upswing and expectations of new, substantial pension return tax revenues. At the same time, new one-off revenues from the payout of the remaining frozen holiday pay will also improve the general government budget balance this year.

Government's net worth at record-high level

Public finances look in even better shape if we focus on the government's net worth during the crisis. Although the general government budget deficit detracted almost DKK 27bn viewed in isolation, a significant gain on the government's shareholdings in Ørstad boosted the government's net worth by DKK 108bn in 2020 to a record-high level of about 10% of GDP.

The substantial government assets and low budget deficit in an international context naturally create a strong starting point for the financing of the gross general government debt. During the crisis government debt rose by just under 10% points of GDP to some 42.2% of GDP currently.

However, it is important to underline that much of this debt accumulation during 2020 is due to the fact that the forecasts from the Ministry of Finance assumed a significantly larger deterioration of public budgets than was realised. As debt issuance during the coronavirus crisis was based on these forecasts, the government's account with the Danish central bank gradually swelled; it currently stands at a 3-year high.

These ample reserves also mean that the actual borrowing requirement over the remainder of the year is very limited. We believe that gross government debt measured as a percentage of GDP peaked already at the turn of the year and will steadily decline in coming years.

"Denmark's public finances have emerged from the coronavirus crisis in good shape."

Jan Størup Nielsen
Nordea Chief Analyst

Jan Størup Nielsen
Chief Analyst
jan.storup.nielsen@nordea.com
+45 5547 1540
@JanStorup

NORWAY

At an inflection point

The Norwegian economy is at an inflection point. As vaccines are rolled out, Norwegian society will gradually reopen. After summer, most things will be back to normal and the economy will recover fast. Clear signs of normalisation will pave the way for the first rate hike from Norges Bank in September. Housing prices are near the peak and will flatten out ahead. The NOK could strengthen further.

For the time being, the measures to contain the coronavirus affect the Norwegian economy. The recovery since the summer and autumn of last year has paused, and mainland activity fell by 1.3% in the first two months of 2021. But the new lockdowns have only had a limited effect on unemployment, which has remained fairly stable around 4% over the past months. In comparison, unemployment rose from 2.2% to over 10% as a result of the lockdowns in March 2020.

The economy is now at an inflection point. COVID-19 infection cases are declining, and parts of the economy are gradually reopening. Although some vaccine types will likely be removed from the vaccination programme, Norway will receive many more doses from Pfizer than originally assumed. Moreover, the interval between the first and second shot has been extended so that more people can get their first vaccine sooner. Hence, all adults will still be offered a first shot by July at the latest. The vaccines from Moderna and Pfizer offer good protection after just one dose, and the summer will have a dampening effect on the spread of the virus. We are therefore convinced that the summer will mark a turning point for both the pandemic and the economy.

3.5%

Growth in mainland GDP in 2021

2.5%

Registered unemployment rate at end-2021

0.50%

Norges Bank's policy rate at end-2021

Source: Nordea estimates

Strong recovery driven by households

The recovery looks set to be strong. Once the restrictions are eased and gradually lifted, spending and demand will rise sharply. Households have been "forced" to save up more due to the limited consumption opportunities. Compared with a normal consumption pattern, above 10% of their annual disposable income has gone into savings since March 2020. The consumption of services has been much lower than usual, and travel restrictions have reduced consumers' spending outside Norway to almost zero. When the services sector reopens, households' large savings buffer and people's strong desire to return to normal should trigger a sharp increase in the consumption of services. We will therefore see the economy rapidly returning to a more normal situation when activity is allowed to resume again.

Lower unemployment and higher wage growth

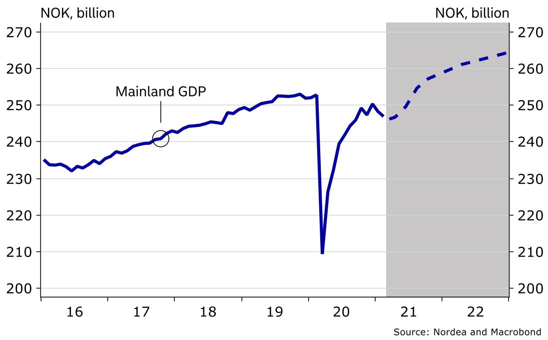
In our view, economic activity could be back at pre-crisis levels before the end of summer. In tandem with the recovery, unemployment will decline fairly rapidly. We think registered unemployment will be near normal levels in early 2022.

Collective bargaining has resulted in a general wage increase of 2.6% this year. Given the Technical Calculation Committee for Income Settlements' estimate of 2.8% consumer price growth, real wages look set to remain largely unchanged. But we would not be surprised if local wage settlements bring overall wage growth above the norm. Activity is high in many parts of the economy not affected by the lockdowns, and there are signs of a growing shortage of qualified labour. On the other hand, low-income wage-earners have been hit

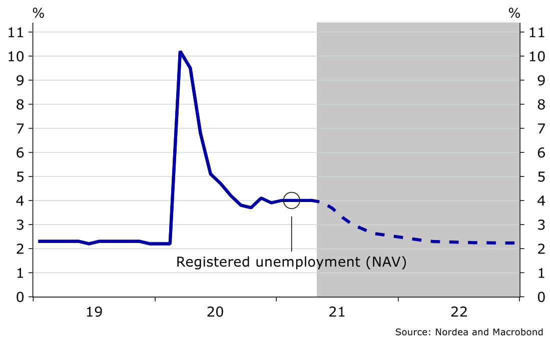
NORWAY: MACROECONOMIC INDICATORS

	2018	2019	2020E	2021E	2022E
Real GDP (mainland), % y/y	2.2	2.3	-2.5	3.5	4.0
Household consumption	1.6	1.4	-7.6	4.9	9.0
Core consumer prices, % y/y	1.5	2.2	3.0	1.8	1.7
Annual wage growth	2.8	3.5	3.1	2.6	3.1
Unemployment rate (registered), %	2.5	2.3	5.0	3.4	2.3
Monetary policy rate, deposit (end of period)	0.75	1.50	0.00	0.50	1.25
EUR/NOK (end of period)	9.90	9.87	10.47	9.75	9.50

A / GDP back at February level during the summer
Mainland GDP, m/m, NOKbn



B / Unemployment will decline
Registered unemployment, % of labour force



A /
Powerful rebound in the Norwegian economy as we move towards the summer.

B /
Unemployment will return to normal levels in early 2022.

disproportionately hard by the pandemic. When they return to work, the composition of the labour force could drag down the calculated rate of annual wage growth, much in the same way as it boosted annual wage growth last year.

We expect wage pressures to increase as the labour market situation improves and unemployment declines. After a couple of years of low-to-no real wage growth, a stronger labour market will boost the bargaining power of the trade unions. Hence, real wage growth will pick up in the coming years.

Inflation ~2%; inflation abroad is the wild card

The strong NOK depreciation in March last year and much higher electricity prices at the start of this year than last year have contributed to the rather high level of inflation YTD. Now the NOK is roughly back at pre-pandemic levels and imported inflation looks set to decline markedly in coming months.

Gradually, the effect of last year's NOK depreciation on inflation will fade. But global commodity and input prices have risen sharply due to a combination of production bottlenecks, lack of transportation capacity and increased demand. Companies globally say they plan to increase prices as their input costs have risen but also because the economic recovery allows them to raise their margins. Higher prices abroad will have a positive effect on consumer prices in Norway. This, coupled with higher wage growth, suggests that headline inflation could hover around 2% in coming years.

First rate hike in September

In March, Norges Bank brought forward its first planned rate hike to H2 2021, with a 50/50% probability for September and December. Norges Bank is therefore set to become the first central bank in the world to hike rates after the pandemic. Norges Bank has said that it wants to see clear signs of economic conditions normalising before it hikes rates. We think this will become very clear in late summer this year and therefore expect the first rate hike in September.

The high indebtedness of households usually puts a limit on how fast the central bank can hike rates without dampening consumption too much. But households' very strong financial position after the pandemic will allow Norges Bank to proceed more swiftly than usual. As the economy normalises, Norges Bank will feel more secure hiking rates. And based on its wish to return to a normal interest rate level as soon as economic fundamentals permit, we think Norges Bank will revise up its projected interest rate path throughout the year. Hence, we may see more and faster rate hikes than the central bank has previously signalled.

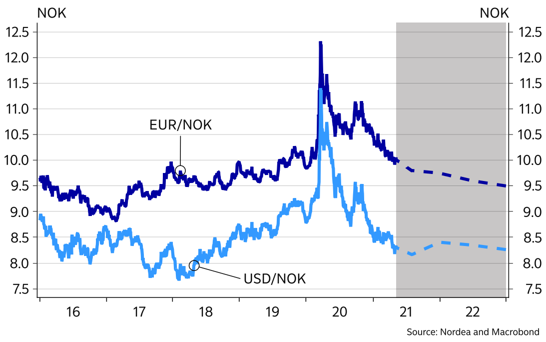
Housing prices will level off

The increase in housing prices over the past year has been exceptionally sharp. Norges Bank's policy rate cuts to zero significantly boosted households' purchasing power and have been a key factor behind the surge in housing prices. We now believe that housing prices are near the peak. The effect of the rate cuts is already well reflected in the prices and interest rates will gradually rise later this year. This will have a dampening effect on price growth, and we expect housing prices to move largely sideways ahead. Over the past months, demand for new housing has risen to record highs, and sales of holiday cottages have also been buoyant. We expect new housing starts and residential investment to continue to increase going forward.

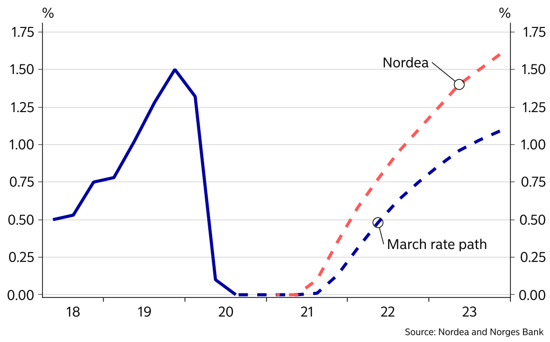
"The Norwegian economy is at an inflection point."

Dane Cekov
Analyst, Norway

C / Gradually lower EUR/NOK ahead, USD/NOK largely stable



D / Norges Bank will hike rates after the summer
Norges Bank and Nordea, rate forecasts, %



C /
The NOK har strengthened markedly since March 2020.

D /
Norges Bank will hike rates twice this year.

Slightly higher oil prices ahead

Since the turn of the year, oil prices have increased further. We think oil prices could rise a bit more, in tandem with the normalisation of the global economy. This will boost demand for oil and reduce inventories further, paving the way for even higher oil prices. Any production increases by OPEC+ will likely be well planned and controlled. The wild card for oil prices is US shale oil production. The question is if and how fast US shale oil production will increase. However, the appetite for investing in new shale oil projects is very low, and this suggests a more moderate pick-up in production. The longer it takes before US oil production increases, the more oil prices could rise in tandem with the growing demand.

An oil price around or above the current level is good news for the Norwegian oil sector and the oil-related industries. The sector has also benefited from the tax package the Norwegian parliament passed last year. Hence, projects that were shelved in the spring last year are back on the table again, leading to renewed investment activity on the Norwegian shelf.

Gradually stronger NOK, but not against USD

The NOK is to a large extent driven by oil prices, interest rate differentials and market sentiment. Hence, it is not surprising that the Norwegian exchange rate has strengthened after the pick-up in oil prices and Norges Bank's (as one of a few central banks) signals of rate hikes soon.

Norges Bank's rate hikes and the prospect of higher oil prices ahead point to a stronger NOK in trade-weighted terms. However, as usual, we cannot rule out short periods of NOK weakness as the NOK is vulnerable to shifts in global risk sentiment.

We believe EUR/NOK will come down to NOK 9.75 later this year. But further downside is probably limited. EUR/NOK mostly traded in the NOK 9.50-10.00 range in 2018-19, and we do not expect it to move much lower than NOK 9.50.

Turning to USD/NOK, we expect the cross to move fairly sideways in the coming period. The US economy is also at an inflection point. Thanks to a rapid vaccination programme, unprecedented fiscal stimulus and a very accommodative monetary policy, the US economy looks set to rebound sharply. This will pave the way for the Federal Reserve to gradually hike rates faster than indicated so far. The combination of higher rates and a better growth outlook than for most countries point in the direction of a stronger USD. With both the NOK and the USD appreciating at the same time, USD/NOK should trade fairly sideways in the period ahead.

"Norges Bank will hike its key rate in September."

Kjetil Olsen
Nordea Chief Economist, Norway

Kjetil Olsen
Chief Economist, Norway
kol@nordea.com
+47 2248 7788
@kol_olsen

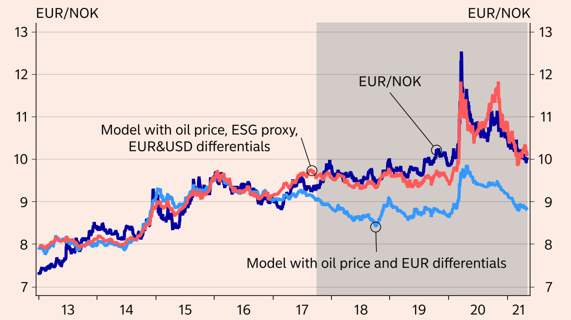
Dane Cekov
Analyst
Dane.cekov@nordea.com
+47 2401 2295
@DaneCekov

Impact of ESG on the NOK

Has the oil price become a less important determinant for the NOK? Many think so due to developments especially during 2017-2018 when the NOK depreciated despite higher oil prices. We suggest that the NOK was adversely impacted by the growing awareness around ESG but that the link has come back to life as the ESG factors may have been baked into today's stock prices.

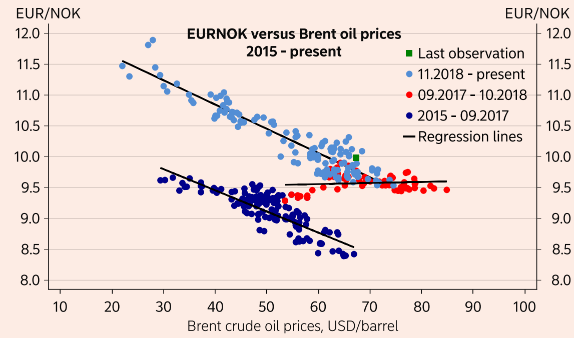
The oil price is a well-known key determinant for the NOK. A higher oil price contributes to a stronger NOK at least through two channels: 1) A positive shock for the economy, which improves Norway's terms of trade and wealth; 2) Increased attractiveness and value of oil-related stocks. Foreign investors are then more likely to purchase Norwegian oil stocks and in the process buy NOK.

A / ESG factor bridges the gap



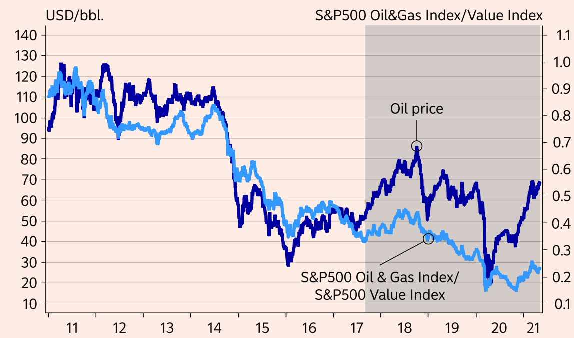
Source: Nordea Markets and Macrobond

B / NOK and oil disconnected briefly



Source: Nordea Markets and Macrobond

C / ESG focus has hurt oil stocks



Source: Nordea Markets and Macrobond

However, our long-trusted empirical model for EUR/NOK, with the oil price and interest rate differentials as explanatory factors, broke down in 2017, see chart A. That something happened is clearly visible also from chart B, which shows the correlation between oil prices and EUR/NOK. Prior to 2017 and from 2019 onwards, there is a clear negative correlation; a higher oil price goes hand in hand with a lower EUR/NOK. For a brief period, however, from late 2017 to late 2018, this correlation became positive.

In our search for an answer to this puzzle, we think that the ESG wave has likely had an impact on the NOK.

In recent years ESG factors have become more important for investors. For many, oil-related companies have become unattractive. The growing importance of ESG investing has resulted in a decline in the market value of oil stocks relative to the market value of other (cyclical) stocks beyond what can be explained by the oil price itself, see chart C. This decoupling between the market value of oil stocks and the oil price started around the same time as the link between the NOK and the oil price broke down. This could partly explain why a regression model with only interest rate differentials and oil prices does a poor job of explaining the EUR/NOK development after late 2017. When including the market value of oil-related companies relative to the market value of other companies, we see a clear improvement where our new regression model explains most of the movements in EUR/NOK, see chart A. As ESG factors may have been baked into today's stock prices, the relationship between oil prices and the NOK seems to have been re-established, but at a possible permanently weaker level.

"ESG focus has led to a permanent weaker NOK."

Kjetil Olsen
Nordea Chief Economist

Kjetil Olsen
Chief Economist, Nordea Norway
kol@nordea.com
+47 2248 7788
@kol_olsen

Dane Cekov
Analyst
dane.cekov@nordea.com
+47 2401 2295
@DaneCekov

HIGHLIGHTS • The economy is already looking to the summer • Improved employment will support growth • Private consumption will be a key driver of the economy • Manufacturing and exports are growing well • Public finances have a structural deficit • Manufacturing investment is expected to start growing this year

FINLAND

The fuse is lit

The Finnish economy will recover quickly this year and the next. The decreasing savings ratio and growing employment will accelerate domestic consumption. Manufacturing and exports are already growing well, driven by the recovering global economy. Public finances, on the other hand, face plenty of challenges.

v

A strong recovery

The third wave of the coronavirus pandemic was quickly beaten back in Finland during April. The vaccination rate is approaching a high enough level to keep the risk of a significant turn to worse small. Still, the virus mutations create uncertainty and may aggravate the situation again.

The Finnish GDP contracted by 2.8% last year, and like the rest of the Nordic countries, Finland has survived the coronavirus crisis with relatively moderate financial damage. Many service sectors are, however, still having difficulties after the lockdown restrictions imposed early in the year, but the outlook for the rest of the year is positive in the home market. In manufacturing, production has already surpassed the pre-pandemic levels, and the order books have started to fill up again.

The economy is forecast to start a tangible recovery during the summer, boosting GDP growth to 3% this year. Growth is expected to remain at 3% in 2022, but to slow down significantly after that, as the working population continues to shrink.

The risks facing the economy have not disappeared, and the forecasts include a considerable degree of uncertainty due to strong cyclical fluctuations. Our forecast is based on the assumption that the coronavirus pandemic will be completely over in Finland during the summer, and that no restrictions affecting the economy will have to be imposed anymore. If the pandemic surges in Finland or elsewhere, it will affect the economic outlook negatively.

3.0%

Our forecast for GDP growth in 2021 and 2022

73%

Our forecast for employment rate at end-2022

5.7%

Household savings ratio in 2020

Source: Nordea, Statistics Finland

Employment on the rise

Employment growth continued in early 2021, despite the coronavirus restrictions still hitting employment in the restaurant, hotel and culture sectors in particular. There were 322,000 people who were unemployed or furloughed in March. In manufacturing, construction and other services, employment is already at the levels seen before the pandemic.

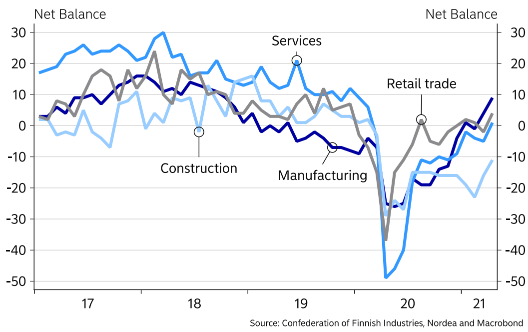
The forecast expects employment to rise rapidly starting from the summer when the demand in the service sectors will improve. The employment rate is anticipated to reach 73% towards the end of 2022, and the availability of labour will start to restrict economic growth in some sectors very quickly.

The wage bargaining round that will take place next autumn will be very interesting, considering the introduction of the new, more decentralized system. While there are factors prompting wage raises, such as an improved economic outlook and higher inflation, unemployment is still high and the ability of businesses to pay higher wages is low due to the pandemic. We expect wages to rise 2% next year, which is the same pace as this year.

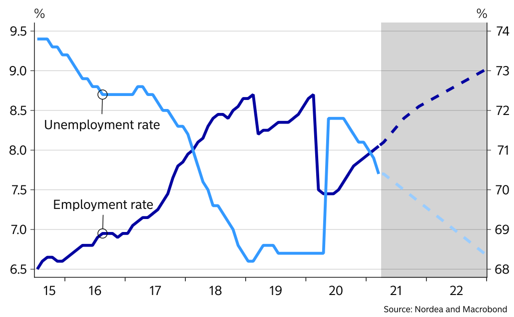
FINLAND: KEY FIGURES

	2018	2019	2020E	2021E	2022E
Real GDP, % y/y	1.3	1.3	-2.8	3.0	3.0
Consumer prices, % y/y	1.1	1.0	0.3	1.6	1.5
Unemployment rate, %	7.4	6.7	7.8	7.6	7.0
Wages, % y/y	1.7	2.1	1.8	2.0	2.0
Public sector surplus, % of GDP	-0.9	-0.9	-5.4	-3.5	-2.5
Public sector debt, % of GDP	59.7	59.5	69.2	71.2	71.8
ECB deposit interest rate (at year-end)	-0.40	-0.50	-0.50	-0.50	-0.50

A / Production is on the rise in all the main sectors
Production volumes by sector, Balances



B / The labour market will recover quickly
Trend in employment rate and unemployment rate



A /
The retail sector and manufacturing have recovered quickly, but the outlook is positive in construction and services, too.

B /
The labour market will continue to recover this year. The employment rate is expected to reach 73%.

Consumption comes roaring back

Domestic consumption is revving up as the spring progresses, since the coronavirus pandemic has been brought under control and the restrictions are being lifted gradually. One encouraging sign is that card payments within services increased in late April. Private consumption is expected to grow 4% this year with rising employment and the release of pent-up demand, which will push the savings ratio down. (More on the outlook for consumption and savings on p. 27.)

The rising inflation will eat away part of increasing purchasing power. In March, inflation stood at 1.3%. It has accelerated because the prices of oil products have risen, but the prices of other raw materials and industrial production inputs have also shot up as a result of inventories being supplemented early in the year.

In the service sector, the inflation pressure is still low, but the peak in demand resulting from the lifted coronavirus restrictions may generate supply bottlenecks in the tourism sector, for instance. The quick rise in prices is, however, expected to remain temporary, and the price rise is not expected to accelerate anymore next year.

Manufacturing is speeding up

Growth in manufacturing has continued this year, and production volumes have already surpassed the pre-pandemic levels. The manufacturing outlook has improved in all industrial sectors, except for the production of printing paper, which is suffering from a structural decline in demand. The growth pace has been the quickest in the timber industry, supported by the rapid global recovery of construction.

One particular manufacturing driver has been the quick recovery of exports propelled by the growing world trade. Backed by this trend, Finnish export demand is expected to rise 8% this year. The order books of the export industry already look normal, and new orders are coming in at such a pace that the growth outlook remains excellent for the next few years.

For Finnish service exports, growth continues to be subdued, even though the sector does not depend on tourism as heavily as in many other European countries. Service exports, which cover about one-third of total exports, are again expected to outperform goods exports after the coronavirus crisis is over, driven by ICT services.

The improved outlook for manufacturing is also increasing businesses' plans for investment. Manufacturing investments are forecast to start growing this year, as companies begin to carry out postponed repair investments as well as allocate more resources to new capacity and product development.

Booming housing market drives construction

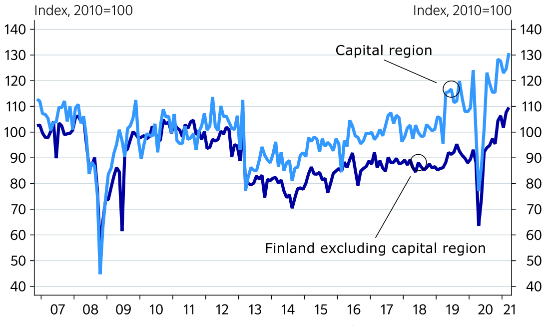
Home sales have broken records this spring, and the trend is no longer explained solely by the recovery from the abrupt halt brought on by the start of the pandemic last spring. Funds saved from other spending have, together with new mortgage loans, been used on the housing market for changing homes to meet the needs of more frequent remote working. Investment properties have also attracted buyers despite the subdued rental demand in cities due to distance learning and weak employment in the service sectors.

"Private consumption will serve as the driver of the economic recovery this year."

Juho Kostiainen
Nordea Economist

C / The housing market is burning hot

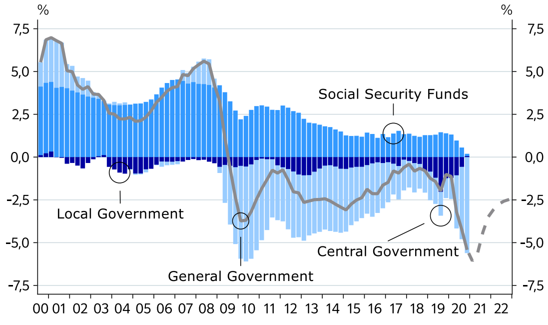
Number of home sales, index 2010=100



Source: Federation of Real Estate Agency, Nordea and Macrobond

D / Government finances have deteriorated rapidly

Moving total of government, municipal and social welfare fund annual deficits



Source: Nordea and Macrobond

C /
The housing market has been hot since last summer. Rising employment is expected to continue to sustain demand for the rest of the year.

D /
Government budget deficit has grown rapidly. Public finances will not be balanced without major consolidation measures.

Housing prices have continued to rise in the growth centres, and improved employment, the low interest rate level and scarce supply will support the prices throughout the rest of the year. In locations with declining population, housing prices are expected to continue to fall.

Thanks to the increased demand and the rise in housing prices, the number of permits and new housing construction starts is rising again in the growth centres. In other construction sectors, especially for commercial and office buildings, new construction starts continues to decline. As a whole, construction is expected to remain at last year's level in 2021 but to return to a growth track next year.

No balance to public finances

The public sector deficit grew to 5.4% of GDP last year. This is almost entirely attributable to government finances, as municipalities and social welfare funds broke even with the government's support.

Public spending has rocketed with the growing unemployment benefits and coronavirus relief for businesses, which is why the government spending limits have been exceeded in 2020 and 2021. On top of the costs for unemployment and other spending arising from the pandemic, the government expenditure budgeted for 2021 includes a EUR 1.7bn reservation for the project to replace the Finnish Air Force's fighter jets. The total costs of this project are expected to be EUR 10bn. After its discussions on the framework on spending, the government decided to continue to exceed the spending limits in 2023 and 2024, which will make the structural government deficit even larger.

This means that the public finances will not be balanced despite rapid economic growth, as spending has been increased permanently and the employment measures that would support the public finances have not been sufficient. As a result, it looks like balancing public sector spending and cutting the budget deficit will need to be addressed by the next governments. The ratio of public sector debt to GDP jumped 10 percentage points to 69.2% last year. Despite the major government deficits, the ratio will grow moderately this year and the next, as economic growth is projected to be strong.

Financial challenges after the pandemic

The financial damage caused by the coronavirus crisis seems relatively moderate in Finland, and the momentum of the global economy and the use of savings for consumption will send the economy back to a growth track. However, it looks like rapid economic growth will not last beyond the next few years due to the re-emerging structural challenges. A shrinking working population, high structural unemployment, growing costs of health care and subdued productivity growth are a ticking time bomb and the fuse is already lit.

The lack of skilled labour will restrict economic growth starting from next year, so now should be the time to take quick action to make social welfare more motivating, to invest in employment services and education and to promote labour migration. Finland will need an increasing share of the working-age population to be employed in order to be able to cover the rising costs of the welfare state in the future. The financial operating environment and taxation will also need to be attractive to businesses and investments to generate productivity growth in both businesses and public services.

Juho Kostiainen
Economist
juho.kostiainen@nordea.com
@JuhoKostiainen

Income, consumption and savings

Finnish households have accrued savings during the coronavirus pandemic, as their consumption opportunities have been limited. Who has been saving, and which sectors will benefit once the economy opens up?

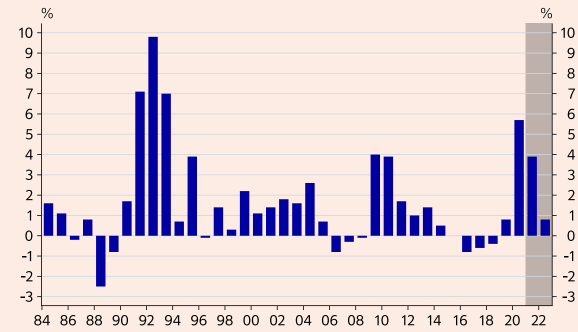
Household disposable net income in Finland increased last year despite the pandemic, as earned income remained at the previous year's level despite the weak trend in employment. One contributing factor was public sector wages, which increased when the cuts made to holiday pay expired. The increase in unemployment benefits in turn added to income transfers, which grew by 5%. Employment decreased last year especially among people below 30, as many of them work in the service sectors, which have suffered the most from the pandemic. As the trends were different in the different sectors, the changes in disposable income varied a lot.

Private consumption contracted by 4.9% in real terms last year, as consumption opportunities were limited. The sharpest declines in sales were seen in services and semi-durable goods, such as clothes. The weak trend has continued this spring in the restaurant and culture sectors. In contrast, consumer staples and durables, such as vehicles, have not been affected by the pandemic. In fact, there are already problems in the availability of bicycles, and the demand for electric and hybrid cars has boosted car sales.

Due to lower consumption and increased total income, households saved on average 5.7% of their disposable income last year, accumulating about EUR 7bn in savings in total. On top of this, households took out EUR 6.2bn more debt last year, primarily in the form of mortgage loans, as people invested more in their homes. Higher savings and debt are reflected in bank deposits, which have ballooned by EUR 8.9bn. People have also used their money to invest in funds and equities, generating a net inflow of EUR 3.2bn last year. The data for fixed assets is not yet available from last year.

A / Savings ratio has soared

Household savings ratio, % of disposable income



Source: Statistics Finland, Nordea and Macrobond

If private consumption jumps to the level corresponding to income over the next 12 months, it would grow by 6% even without any spending of accumulated savings. Some of the money will, however, be consumed abroad when people start to travel again. In 2019, Finns spent EUR 5.1bn abroad, which is EUR 1.7bn more than what foreigners spent in Finland. Last year, the trips made by Finns abroad dropped to one tenth compared to previous years. This suggests that as tourism starts to recover, more money will flow outside Finland again.

Usually, the savings ratio has not turned negative after a recession, as people have continued to be careful and save for several years. The coronavirus pandemic has enabled especially the well-to-do households and older age groups to accrue savings. As their marginal propensity to consume is low even in normal circumstances, it will take them longer to start spending the savings they have on their bank accounts. Correspondingly, young service sector employees with low incomes who normally consume a larger share of their income have not been able to save as much during the pandemic.

We assume in our forecast that the household savings ratio will decrease significantly this year. Despite this, private consumption growth will be strong this year and the next, but there is an upside risk if people start to use their savings faster than in previous recessions.

Once the pandemic ends, consumption will initially be directed at sectors that have suffered the most from the coronavirus as a result of business restrictions. The demand for restaurants and culture will recover quickly. Hotels and public transport will also recover, but the remote work practices changed by the pandemic may decrease commuting and business travel permanently to some extent. On the other hand, the demand for home renovation services and new electronic appliances will most likely be subdued for a while, as consumption will lean towards services.

"Last year, households saved 5.7% of their disposable income."

Juho Kostiainen
Nordea Economist

Juho Kostiainen
Economist
juho.kostiainen@nordea.com
@JuhoKostiainen

KEY FIGURES

Real GDP, % y/y

	2018	2019	2020E	2021E	2022E
World[1]	3.5	2.8	-3.3	5.8	4.5
Advanced economies	2.2	1.6	-4.7	4.8	3.9
USA	3.0	2.2	-3.5	6.2	4.0
Euro area	1.9	1.3	-6.7	4.5	4.0
Japan	0.3	0.7	-5.1	2.8	2.1
Denmark	2.2	2.8	-2.7	3.0	2.8
Norway	2.2	2.3	-2.5	3.5	4.0
Sweden	2.1	1.4	-3.1	4.5	3.0
UK	1.3	1.5	-10.1	5.0	5.6
Germany	1.3	0.6	-5.1	3.5	4.0
France	1.8	1.5	-8.2	6.0	4.0
Italy	0.8	0.3	-8.9	5.0	4.0
Spain	2.4	2.0	-10.8	7.0	6.0
Finland	1.3	1.3	-2.8	3.0	3.0
Baltics	2.2	4.3	-2.1	3.4	4.0
Emerging economies	4.5	3.7	-2.3	6.4	4.9
China	6.8	6.1	2.3	8.5	5.5
Russia	2.5	1.3	-3.5	3.1	2.5
India	6.1	4.2	-7.4	11.0	6.2
Brazil	1.3	1.1	-4.5	3.5	2.4
Poland	5.4	4.5	-2.7	3.5	4.5
Rest of World	3.0	2.3	-3.4	4.1	4.3

1) Weighted average of 186 countries. The weights are calculated from PPP-adjusted GDP-levels. Source: IMF, Bloomberg and Nordea estimates

Consumer prices, % y/y

	2018	2019	2020E	2021E	2022E
World[1]	3.7	3.7	3.5	3.4	3.0
Advanced economies	1.9	1.3	0.7	1.6	1.6
USA	2.5	1.8	1.2	2.2	1.9
Euro area	1.8	1.2	0.3	1.8	1.4
Japan	1.0	0.5	0.0	0.1	0.7
Denmark	0.8	0.8	0.4	1.1	1.4
Norway	2.7	2.2	1.3	2.7	1.6
Sweden	2.0	1.8	0.5	1.4	1.2
UK	2.5	1.8	0.9	1.5	1.9
Germany	1.9	1.4	0.4	2.2	1.1
France	2.1	1.3	0.5	1.1	1.2
Italy	1.2	0.6	-0.1	0.8	0.9
Spain	1.7	0.7	-0.3	1.0	1.3
Finland	1.1	1.0	0.3	1.6	1.5
Baltics	2.7	2.4	0.4	1.7	2.1
Emerging economies	5.1	5.5	5.8	4.8	4.1
China	2.1	2.9	2.4	1.2	1.9
Russia	2.9	4.5	3.4	4.5	3.4
India	3.4	4.8	6.2	4.9	4.1
Brazil	3.7	3.7	3.2	4.6	4.0
Poland	1.6	2.3	3.4	3.2	2.5
Rest of World	6.5	6.1	6.6	5.9	4.7

Public sector balance, % of GDP

	2018	2019	2020E	2021E	2022E
USA	-5.4	-5.7	-15.8	-15.0	-6.1
Euro area	-0.5	-0.6	-8.8	-6.4	-4.7
Japan	-3.0	-2.5	-5.0	-3.0	-2.8
Denmark	0.7	3.8	-1.2	0.0	0.4
Sweden	0.8	0.6	-3.1	-2.4	-0.4
UK	-2.2	-2.3	-13.4	-11.8	-6.2
Germany	1.8	1.5	-6.0	-4.0	-2.5
France	-2.3	-3.0	-10.5	-8.3	-6.1
Italy	-2.2	-1.6	-10.8	-7.8	-6.0
Spain	-2.5	-2.9	-12.2	-9.6	-8.6
Finland	-0.9	-0.9	-5.4	-3.5	-2.5
Baltics	0.0	0.0	-6.3	-6.5	-2.9
China	-4.7	-6.3	-7.0	-6.5	-6.0
Russia	2.9	1.9	-4.1	-0.8	-0.3
India	-6.3	-7.4	-9.0	-8.0	-7.0
Brazil	-7.1	-5.9	-13.4	-8.3	-7.2
Poland	-0.2	-0.7	-8.2	-4.7	-2.6

Current account, % of GDP

	2018	2019	2020E	2021E	2022E
USA	-2.2	-2.2	-3.1	-3.9	-3.1
Euro area	2.9	2.3	2.3	2.8	2.7
Japan	3.5	3.6	2.5	3.0	3.2
Denmark	7.0	8.8	7.8	6.7	6.9
Sweden	2.5	5.1	5.4	5.5	5.1
UK	-3.7	-3.1	-3.9	-3.9	-4.0
Germany	7.4	7.1	7.1	7.6	7.0
France	-0.6	-0.7	-2.3	-2.1	-1.8
Italy	2.5	3.0	3.6	3.5	3.4
Spain	1.9	2.1	0.7	1.0	1.9
Finland	-1.8	0.0	0.0	-0.5	-0.5
Baltics	0.3	1.9	4.5	3.3	2.3
China	0.2	1.0	0.5	1.0	0.5
Russia	7.0	3.8	2.2	3.9	3.3
India	-2.1	-1.1	-0.5	-1.0	-1.5
Brazil	-2.2	-2.7	-0.9	-0.6	-0.8
Poland	-1.3	0.5	3.5	2.0	1.3

Source: IMF and Nordea estimates

Monetary policy rates, %

	6.5.21	3M	31.12.21	30.6.22	31.12.22
US*	0.25	0.25	0.25	0.25	0.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10
Euro area	-0.50	-0.50	-0.50	-0.50	-0.50
Denmark	-0.50	-0.50	-0.50	-0.50	-0.50
Sweden	0.00	0.00	0.00	0.00	0.00
Norway	0.00	0.00	0.50	1.00	1.25
UK	0.10	0.10	0.10	0.10	0.10
Switzerland	-0.75	-0.75	-0.75	-0.75	-0.75
Poland	0.10	0.10	0.10	0.30	0.50
China	4.35	4.35	4.35	4.35	4.35

Monetary policy rate spreads vs Euro area, %-points

	6.5.21	3M	31.12.21	30.6.22	31.12.22
US	0.75	0.75	0.75	0.75	1.00
Japan[1]	-0.35	-0.35	-0.35	-0.35	-0.60
Euro area	-	-	-	-	-
Denmark	0.00	0.00	0.00	0.00	0.00
Sweden	0.50	0.50	0.50	0.50	0.50
Norway	0.50	0.50	1.00	1.50	1.75
UK	0.60	0.60	0.60	0.60	0.60
Switzerland	-0.25	-0.25	-0.25	-0.25	-0.25
Poland	0.60	0.60	0.60	0.80	1.00
China	4.85	4.85	4.85	4.85	4.85

1) Spread vs USA

3-month rates, %

	6.5.21	3M	31.12.21	30.6.22	31.12.22
US	0.17	0.20	0.35	0.35	0.65
Euro area	-0.53	-0.55	-0.55	-0.55	-0.55
Denmark	-0.21	-0.25	-0.25	-0.30	-0.35
Sweden	-0.03	0.00	0.00	0.05	0.05
Norway	0.28	0.30	1.00	1.40	1.75

3-month spreads vs Euro area, %-points

	6.5.21	3M	31.12.21	30.6.22	31.12.22
US	0.70	0.75	0.90	0.90	1.20
Euro area	-	-	-	-	-
Denmark	0.32	0.30	0.30	0.25	0.20
Sweden	0.50	0.55	0.55	0.60	0.60
Norway	0.81	0.85	1.55	1.95	2.30

10-year government benchmark yields, %

	6.5.21	3M	31.12.21	30.6.22	31.12.22
US	1.58	1.80	2.00	2.30	2.50
Euro area	-0.23	-0.15	0.00	0.15	0.25
Denmark	0.06	0.10	0.25	0.35	0.45
Sweden	0.38	0.50	0.57	0.70	0.95
Norway	1.48	1.55	1.80	2.00	2.15

10-year yield spreads vs Euro area, %-points

	6.5.21	3M	31.12.21	30.6.22	31.12.22
US	1.81	1.95	2.00	2.15	2.25
Euro area	-	-	-	-	-
Denmark	0.29	0.25	0.25	0.20	0.20
Sweden	0.61	0.65	0.57	0.55	0.70
Norway	1.71	1.70	1.80	1.85	1.90

Exchange rates vs EUR

	6.5.21	3M	31.12.21	30.6.22	31.12.22
EUR/USD	1.21	1.20	1.16	1.15	1.15
EUR/JPY	131.5	126.0	121.8	126.5	126.5
EUR/DKK	7.44	7.44	7.44	7.45	7.45
EUR/SEK	10.17	10.20	10.30	10.00	9.70
EUR/NOK	10.02	9.80	9.75	9.60	9.50
EUR/GBP	0.87	0.85	0.84	0.85	0.84
EUR/CHF	1.10	1.10	1.10	1.10	1.12
EUR/PLN	4.57	4.51	4.45	4.40	4.35
EUR/RUB	89.46	90.00	86.00	84.00	85.00
EUR/CNY	7.79	7.80	7.83	7.76	7.82

Exchange rates vs USD

	6.5.21	3M	31.12.21	30.6.22	31.12.22
-					
USD/JPY	109.1	105.0	105.0	110.0	110.0
USD/DKK	6.17	6.20	6.41	6.47	6.48
USD/SEK	8.44	8.50	8.88	8.70	8.43
USD/NOK	8.32	8.17	8.41	8.35	8.26
GBP/USD	1.39	1.41	1.38	1.35	1.37
USD/CHF	0.91	0.92	0.95	0.96	0.97
USD/PLN	3.79	3.76	3.84	3.83	3.78
USD/RUB	74.22	75.00	74.14	73.04	73.91
USD/CNY	6.46	6.50	6.75	6.75	6.80

* Upper part of target range
Source: Nordea estimates

The appendix with a full overview of macroeconomic indicators for Nordics is available in the electronic version of the Nordea Economic Outlook. You can download it from http://corporate.nordea.com

Appendix

SWEDEN: Macroeconomic indicators

	2017 (SEKbn)	2018	2019	2020	2021E	2022E
Private consumption	2,115	1.8	1.2	-4.7	5.5	3.5
Government consumption	1,204	0.8	0.3	-0.5	2.2	2.0
Fixed investment	1,163	1.4	-3.1	0.6	3.5	3.0
- industrial investment	167	1.3	0.5	1.4	7.7	3.2
- residential investment	263	-6.4	-7.9	2.3	0.8	-1.6
Stockbuilding*	27	0.2	-0.1	-0.8	0.2	0.2
Exports	2,023	4.2	4.8	-5.2	10.2	4.3
Imports	1,906	3.8	1.3	-5.8	10.1	4.7
Real GDP, % y/y		2.0	1.4	-2.8	4.6	3.0
Real GDP (calendar adjusted), % y/y		2.1	1.4	-3.1	4.5	3.0
Nominal GDP (SEKbn)	4,625	4,828	5,025	4,952	5,246	5,482
Unemployment rate (SPES), %		7.0	7.0	8.5	8.0	7.0
Employment (KS), % y/y		2.6	1.1	-1.2	1.5	1.5
Consumer prices, % y/y		2.0	1.8	0.5	1.4	1.2
Underlying prices (CPIF), % y/y		2.1	1.7	0.5	1.6	1.2
Hourly earnings (NMO), % y/y		2.6	2.6	2.0	2.5	2.5
Current account balance (SEKbn)		122.7	257.0	266.8	288.2	278.6
Current account balance, % of GDP		2.5	5.1	5.4	5.5	5.1
Trade balance, % of GDP		2.5	3.8	4.4	4.5	4.4
General gov. budget balance (SEKbn)		39.9	29.7	-151.9	-123.4	-24.5
General gov. budget balance, % of GDP		0.8	0.6	-3.1	-2.4	-0.4
General gov. gross debt, % of GDP		38.9	35.0	39.9	38.3	35.6
Monetary policy rate (end of period)		-0.50	-0.25	0.00	0.00	0.00
USD/SEK (end of period)		8.86	9.36	8.21	8.88	8.43
EUR/SEK (end of period)		10.13	10.51	10.04	10.30	9.70

* Contribution to GDP growth (% points)

DENMARK: Macroeconomic indicators

	2017 (DKKbn)	2018	2019	2020	2021E	2022E
Private consumption	1,017	2.7	1.4	-1.9	4.0	2.5
Government consumption	535	0.3	1.2	-0.1	3.7	0.8
Fixed investment	465	4.8	2.8	2.1	3.2	4.5
- government investment	72	2.5	0.3	8.3	16.2	2.5
- residential investment	101	2.9	6.2	6.9	8.1	1.8
Stockbuilding*	15	0.3	-0.3	-0.2	0.0	0.0
Exports	1,208	3.2	5.0	-7.7	4.8	5.5
Imports	1,050	4.8	2.4	-4.8	6.4	5.1
Real GDP, % y/y		2.2	2.8	-2.7	3.0	2.8
Nominal GDP (DKKbn)	2,193	2,254	2,335	2,324	2,409	2,511
Unemployment rate, %		3.8	3.7	4.7	4.2	3.6
Gross unemployment level, '000 persons		108	104	131	120	105
Consumer prices, % y/y		0.8	0.8	0.4	1.1	1.4
Hourly earnings, % y/y		2.5	2.5	2.3	2.1	2.4
Nominal house prices, one-family, % y/y		3.8	3.0	4.4	12.0	2.5
Current account balance (DKKbn)		158	207	181	160	175
Current account balance, % of GDP		7.0	8.8	7.8	6.7	6.9
General gov. budget balance (DKKbn)		15.6	88.3	-26.7	0.0	10.0
General gov. budget balance, % of GDP		0.7	3.8	-1.1	0.0	0.4
General gov. gross debt, % of GDP		34.0	33.3	42.2	40.0	39.0
Monetary policy rate, deposit (end of period)		-0.65	-0.75	-0.60	-0.50	-0.50
USD/DKK (end of period)		6.53	6.66	6.08	6.42	6.48
EUR/DKK (end of period)		7.46	7.47	7.44	7.45	7.45

* Contribution to GDP growth (% points)

NORWAY: Macroeconomic indicators

	2017 (NOKbn)	2018	2019	2020	2021E	2022E
Private consumption	1,472	1.6	1.4	-7.6	4.9	9.0
Government consumption	791	0.5	1.9	1.7	3.0	1.0
Fixed investment	809	2.2	4.8	-3.9	0.8	1.3
- gross investment, mainland	659	1.5	4.0	-3.9	1.8	2.5
- gross investment, oil	150	0.7	12.6	-4.9	-3.5	-4.0
Stockbuilding*	122	0.7	0.0	-0.7	0.3	0.0
Exports	1,197	-1.2	0.5	-0.9	3.3	5.0
- crude oil and natural gas	460	-5.0	-4.3	9.5	2.5	4.5
- other goods	381	1.5	4.6	-2.3	4.0	5.0
Imports	1,082	1.4	4.7	-12.2	5.5	6.5
Real GDP, % y/y	3,295	1.1	0.9	-0.8	3.7	4.1
Real GDP (Mainland), % y/y	2,872	2.2	2.3	-2.5	3.5	4.0
Registered unemployment rate, %		2.5	2.3	5.0	3.4	2.3
Consumer prices, % y/y		2.7	2.2	1.3	2.7	1.6
Core consumer prices, % y/y		1.5	2.2	3.0	1.8	1.7
Annual wages, % y/y		2.8	3.5	3.1	2.6	3.1
Monetary policy rate, deposit (end of period)		0.75	1.50	0.00	0.50	1.25
USD/NOK (end of period)		8.66	8.79	8.56	8.11	8.14
EUR/NOK (end of period)		9.90	9.87	10.47	9.75	9.50

* Contribution to GDP growth (% points)

FINLAND: Macroeconomic indicators

	2017 (EURbn)	2018	2019	2020	2021E	2022E
Private consumption	120	1.8	0.7	-4.9	4.0	3.9
Government consumption	52	1.8	2.0	2.3	2.4	0.8
Fixed investment	53	3.5	-0.9	-3.1	1.2	3.9
Exports	85	1.4	6.7	-6.6	7.0	6.8
Imports	85	5.6	2.2	-6.6	7.0	7.1
Real GDP, % y/y		1.3	1.3	-2.8	3.0	3.0
Nominal GDP (EURbn)	226.3	233.7	240.3	237.5	248.4	259.7
Unemployment rate, %		7.4	6.7	7.8	7.6	7.0
Industrial production, % y/y		-2.8	2.6	0.0	5.0	3.0
Consumer prices, % y/y		1.1	1.0	0.3	1.6	1.5
Hourly earnings, % y/y		1.7	2.1	1.8	2.0	2.0
Current account balance (EURbn)		-4.3	-0.8	0.7	-1.2	-1.2
Current account balance, % of GDP		-1.8	0.0	0.0	-0.5	-0.5
Trade balance (EURbn)		0.3	2.3	0.0	1.8	1.8
Trade balance, % of GDP		0.1	1.0	0.0	0.7	0.7
General gov. budget balance (EURbn)		-2.0	-2.3	-12.9	-8.6	-6.4
General gov. budget balance, % of GDP		-0.9	-0.9	-5.4	-3.5	-2.5
General gov. gross debt (EURbn)		139.6	142.9	164.3	176.9	186.5
General gov. gross debt, % of GDP		59.7	59.5	69.2	71.2	71.8
Monetary policy rate (end of period)		-0.40	-0.50	-0.50	-0.50	-0.50
EUR/USD (end of period)		1.14	1.12	1.22	1.16	1.15

* Contribution to GDP growth (% points)

Nordea

Nordea Bank AB (publ) Research 2 2021