

Shifting gears



Overview 02

SHIFTING GEARS

Sweden 03

STRONG LINE-UP AT HOME

Norway 05

MODERATE GROWTH AND LOW INTEREST RATES

Denmark 07

UP ONE GEAR

Finland 09

DEPRESSION IS HERE

Key figures 11

FORECASTS FOR THE GLOBAL ECONOMY

Shifting gears

The Nordic countries are still at various stages in the economic cycle. Norway and Sweden are well under way, while Denmark is only slowly ascending from the bottom. Finland is hit by a renewed risk of ending up in a protracted economic recession.

The Scandinavian countries can still boast large surpluses on the external balances and healthy public finances. This illustrates that the Scandinavian countries are ready to step in as safe havens in the financial markets whenever it might be needed.

In **Sweden** strongly accelerating domestic demand is one of the main growth drivers this year. Although economic policy is very expansionary, unemployment is still relatively high and inflation far below the Riksbank's target. This paves the way for the bank lowering rates one more time this year to 0.5%, which marks the bottom of the current easing cycle.

The **Norwegian** economy has so far this year been stronger than initially assumed. Notably the housing market seems to be gaining traction after a brief period of price declines towards the end of 2013, aided by the banks' easier credit standards and lower lending rates. However, we still look for a slight slowdown during the forecast horizon notably as a consequence of a decline in overall investment activity.

In **Denmark** the government has continued its reform- and growth-oriented economic policy line. And the housing market finally shows signs of moderate improvement, although there are still considerable regional differences. Employment is rising again and domestic demand looks set to revive from recent years' slumber during the forecast period.

Finland has found it very difficult to shake off the financial crisis. Following recent years' steep declines in economic activity, the downturn continued this year. One of the chief reasons is the slowdown in the Russian economy and its severe impact on exports and cross-border shopping. However, in step with the international recovery, prospects will also brighten for Finland.

Small open economies such as the Nordic countries are very reliant on international economic trends. Our latest March forecasts envisaged milder winds blowing from this front in the years to come, benefiting the Nordic countries' export sectors. This is still our baseline scenario, but as growth in the global economy was considerably weaker in Q1 than we projected in March, we have downgraded our 2014 growth estimate for the world economy to 3.5% this year versus 3.7% in March, whereas we reiterate our 2015 growth estimate of 3.9%.

Hard winter hit the US

The downward revision for 2014 is mainly due to a weak Q1 in the US not least due to the hard winter. And although we maintain an overall positive view on the world's largest economy, we have lowered our 2014 growth forecast quite significantly. Economic trends so far this year in China and the Euro area have also disappointed, but we stick to our March forecasts for these two economies. One of the reasons for leaving our forecast for China unchanged is that the government launched a growth package as early as in April. For the Euro area the reasons are further monetary policy easing and generally improved confidence indicators for both households and businesses.

Persistent risks and low interest rates

We should point out that we still see the *biggest risks for growth on the downside*. The conflict between Ukraine and Russia is still the source of strong geopolitical risks. Moreover, it is still uncertain to which extent the generally improved confidence indicators will lead to rising demand. Lastly, we still see a major risk of the current slowdown in the emerging economies spilling over to the "old world".

Given the fragile growth in the world economy and the low inflation, monetary policy will remain lenient for a long time to come. Particularly the Euro area can look forward to a long period of ultra-low interest rates and massive liquidity infusion to avoid an unintended tightening of monetary conditions, while monetary policy in the US where economic trends are more favourable will gradually be tightened from early next year.

Against this background, we expect a general weakening of the euro, which will contribute to boosting competitiveness in Finland and Denmark. On the other hand, the NOK and the SEK will stabilise or even firm again following their sharp weakening when the need for safe havens eased as the financial markets started to emerge from the grip of the euro crisis.

Real growth, %

	2013		2014		2015	
	New	Old	New	Old	New	Old
World	3.0	3.0	3.5	3.7	3.9	3.9
Nordics	0.9	1.1	1.6	1.7	1.9	1.9
Sweden	1.6	1.5	2.7	2.8	2.4	2.5
Norway	2.0	2.0	1.8	1.5	1.6	1.2
Denmark	0.4	0.4	1.3	1.3	1.7	1.7
Finland	-1.4	-1.4	-0.5	0.3	1.0	2.0

Source: Nordea Markets, IMF, own calculations

Helge J. Pedersen, Global Chief Economist

helge.pedersen@nordea.com

+45 3333 3126

Strong line-up at home

- High GDP growth this year
- Strong domestic demand
- Recovering exports
- Riksbank remains under pressure from low inflation

Changing pace

The Swedish economy started to recover in H2 2013. Since then, it has grown at a healthy, albeit somewhat erratic, pace. Domestic demand remains the key driver of growth. Also exports of services have seen a healthy increase, thus contributing to driving GDP growth.

Exports of goods have started to recover, so far rather modestly. Much suggests that exports will pick up more markedly going forward. Hence, growth will be more broadly based, and GDP growth will shift into a higher gear. Next year, growth will be dampened slightly due to fiscal policy tightening and rising interest rates.

The backbone of the team

Household consumption rose 2% last year and the up-trend continued into this year. The increase in consumer spending is underpinned by rising real purchasing power and mortgage rates at record-low levels. Household net financial wealth rose by around SEK 500bn last year, corresponding to around 30% of household disposable income. Also house prices have increased.

Consumer confidence still remains at a relatively low level, possibly influenced by uncertainties about developments abroad, the debate on household indebtedness and potential measures to halt the pick-up in the housing market. The household savings ratio is also at a historical

high – in 2012 it was the highest in the EU. If consumer confidence increases, household savings may decline more than we currently forecast and thus provide an additional boost to consumption.

Households' financial strength also shows through in the sharply rising number of housing starts. Also investment within the service sector and by local governments is picking up. However, investment in the manufacturing sector, which is impacted by subdued capacity utilisation, looks set to decline near term. Overall investment will thus grow at a healthy clip especially this year and be a key growth engine.

Exports on a counter-attack

The increase in domestic demand is this year accompanied by growing goods exports. The global economy is expanding and indicators point to a recovery in demand for Swedish exports, especially from the US and the UK and to some extent also from the Nordics and the Euro zone. But demand from the BRIC countries will falter. The recovery in goods exports takes place from a low level, so towards the end of this year goods exports merely look set to reach the previous top level from early 2008, reflecting seven years of stagnation.

Crowded substitutes' bench

Labour market trends follow the same pattern as previously, with the labour force growing at largely the same pace as the number of employed people. As a result, unemployment is stuck around the 8% level. Also huge mismatch problems in the labour market contribute to the relatively high level of unemployment.

Sweden: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2010 (SEKbn)	2011	2012	2013	2014E	2015E
Private consumption	1,617	1.7	1.6	2.0	2.7	2.3
Government consumption	890	0.8	0.3	2.0	1.2	0.9
Fixed investment	602	8.2	3.3	-1.1	6.0	4.2
- industry	74	17.1	8.3	-4.4	-2.0	5.4
- residential investment	110	10.4	-11.2	6.3	18.0	6.8
Stockbuilding*	23	0.5	-1.2	0.1	0.3	0.0
Exports	1,651	6.1	0.7	-0.4	4.7	5.2
Imports	1,445	7.1	-0.6	-0.8	6.4	4.6
GDP		2.9	0.9	1.6	2.6	2.7
GDP, calendar adjusted		3.0	1.3	1.6	2.7	2.4
Nominal GDP (SEKbn)	3,338	3,481	3,550	3,641	3,784	3,939
Unemployment rate, %		7.8	8.0	8.0	8.0	7.8
Employment growth		2.3	0.7	1.0	1.1	0.8
Consumer prices, % y/y		3.0	0.9	0.0	-0.1	1.4
Underlying inflation (CPIF), % y/y		1.4	1.0	0.9	0.5	1.3
Hourly earnings, % y/y		3.2	2.8	2.2	2.7	3.0
Current account (SEKbn)		216	229	230	236	258
- % of GDP		6.2	6.5	6.3	6.2	6.5
Trade balance, % of GDP		2.2	2.4	2.2	2.3	2.5
General govt budget balance (SEKbn)		0	-26	-45	-74	-27
- % of GDP		0.0	-0.7	-1.2	-2.0	-0.7
Gross public debt, % of GDP		38.6	38.2	40.6	41.5	40.6

* Contribution to GDP growth (% points)

But overall, the labour market situation has improved. The employment rate has increased to the average level of the past 15 years and the labour force participation rate is the highest since the early 1990s. The labour market will continue to improve going forward. Unemployment will fall, although the risk is tilted to the upside relative to our forecast.

Riksbank sidelined after rate cut

Although the domestic economy is showing healthy growth, the Riksbank remains in easing mode. Rates were cut in December 2013, and the Riksbank’s signals coupled with surprisingly low inflation strongly suggest a rate cut in July.

In our view, CPIF inflation bottomed in March. It is still low and will stay around 0.5% in coming months, mainly due to overall modest cost pressures. The inflationary pressure will mount going forward, albeit at a slow pace. Over the past year the SEK has stabilised following four years of appreciation. There are now signs that the sharp decline in import prices will gradually moderate.

Domestic costs also look set to rise, but only gradually and it will take some time before this increase is passed on to consumer prices. The hard-pressed export sector is the benchmark for the pay talks, which points to modest pay rises for a long while yet. CPIF inflation is not likely to reach the 2% target during the forecast period.

The ECB’s moves are key determinants of the SEK, and thus for inflation and the Riksbank’s policy. The ECB is expected to cut its key policy rates, but is not likely to introduce extensive quantitative easing measures.

The Riksbank is thus caught in a vice by sustained low inflation and further ECB action. Much indicates that following the generally expected rate cut in July, the Riksbank will wait until well into 2015 before hiking rates.

Open goal for the SEK

The SEK is influenced by a strong Swedish economy on the one hand and a Riksbank signalling low rates for a long period on the other. Uncertainties over this autumn’s parliamentary elections and the possibility of protracted talks on the formation of a new government may act as a drag on the SEK. This suggests a bumpy road ahead for the SEK and just a gradual appreciation versus especially the EUR. Conversely, the SEK should weaken against the USD, which looks set to strengthen on the back of a strong US economy and approaching Fed rate hikes.

Torbjörn Isaksson

torbjorn.isaksson@nordea.com

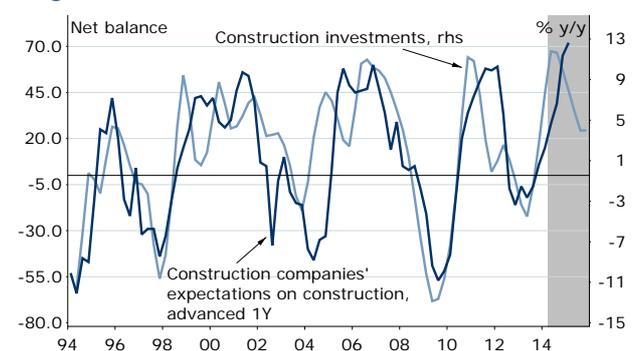
+46 614 8859

Recovering exports



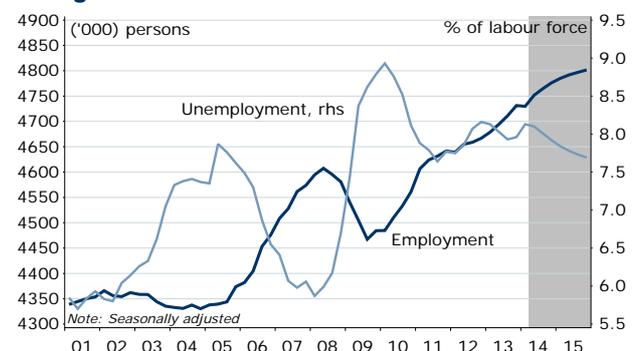
Source: Nordea Markets and Reuters Ecowin

Surge in construction investment



Source: Nordea Markets and Reuters Ecowin

Stronger labour market



Source: Nordea Markets and Reuters Ecowin

CPIF inflation stuck below target



Source: Nordea Markets and Reuters Ecowin

Moderate growth and low interest rates

- Declining oil investment leads to moderate growth
- Sustained low rates due to low inflationary pressure
- NOK weakening over time, but not versus the EUR

So far this year the Norwegian economy has performed better than we had feared. House prices have risen, consumer spending growth was relatively strong in Q1 and unemployment has stopped increasing. Based on these positive signals coupled with the banks' easier credit standards and lower lending rates, we have revised up our growth forecasts for the mainland economy by around ¼ percentage point for this year and slightly more for next year. Residential construction and business investment outside the oil sector are, however, declining fairly sharply. The downtrend in oil investment should also continue in 2015 and contribute to keeping mainland growth in the 1½-2% range, a level which is not strong enough to prevent unemployment edging higher. Inflation looks set to decrease once the effect of last year's NOK weakening starts to fade. Below-target inflation, weak growth and rising unemployment should keep Norges Bank's policy rate low in coming years. However, if banks lower their lending rates further, Norges Bank may respond by hiking rates.

Housing market turbulence impacts economy

During winter the housing market seems to have stabilised. Prices rose quite sharply at the beginning of the year and the uptrend in new homes put on the market has come to a halt. Also, the time on market is no longer increasing. But the number of homes for sale is still higher than in recent years. This, coupled with a relatively high number of homes under construction, should contribute to weak price growth in the years ahead. By end-2015 prices are probably only a few percentages above current levels.

The drop in house prices during the autumn has left its mark on the real economy. Housing starts have declined and so far there are few signs of improvement. But the improved market for existing homes should contribute to gradually rising residential construction going forward.

Banks' easier credit standards may be one of the key factors behind the housing market turnaround. Most banks have for instance lowered mortgage rates by 0.2% point.

Consumption growth in 2013 was weak, possibly because of the weakness in the housing market. A more positive housing market and lower mortgage rates may provide a bigger boost to consumption than previously assumed. But with relatively low growth in the Norwegian economy and slightly higher unemployment, we do not expect any spending spree.

Declining oil investment

Following a period of strong growth, oil investment is flattening and looks set to fall next year. This will have a direct impact on the mainland economy due to declining demand for capital goods and an indirect impact through lower wage and consumption growth.

Business investment growth in the mainland economy has also flattened and even declined in the past few quarters. We do not see this as the beginning of a downtrend. With moderate output growth and easier access to credit, business investment could rise going forward, albeit probably only at a modest pace.

Exports and government demand are positives

Also mainland exports have disappointed over the past few quarters, with close to zero growth. However, we still believe that stronger growth among Norway's trading partners coupled with the NOK weakening will lead

Norway: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2010 (NOKbn)	2011	2012	2013E	2014E	2015E
Private consumption	1,090	2.6	3.0	2.1	2.0	2.0
Government consumption	558	1.1	1.8	1.8	2.2	2.5
Fixed investment	482	7.7	8.3	8.4	-0.2	-1.6
- gross investment, mainland	340	6.3	4.5	4.4	-1.4	2.6
- gross investment, oil	125	11.1	14.3	16.7	3.0	-10.0
Stockbuilding*	110	-0.1	-0.1	-0.2	0.0	0.0
Exports	1,030	-0.7	1.1	-3.3	0.9	1.3
- crude oil and natural gas	471	-5.6	0.7	-7.7	0.0	0.0
- other goods	299	-0.1	1.7	0.4	1.3	3.0
Imports	776	3.8	2.3	2.9	0.7	1.1
GDP	2,544	1.3	2.9	0.6	1.4	1.2
GDP, mainland	1,987	2.6	3.4	2.0	1.8	1.6
Unemployment rate, %		3.3	3.2	3.5	3.7	4.0
Consumer prices, % y/y		1.2	0.8	2.1	1.8	1.9
Core inflation, % y/y		0.9	1.2	1.6	2.2	1.8
Annual wages, % y/y		4.2	4.0	3.9	3.5	3.3
Current account (NOKbn)		351.0	417.2	333.7	350.6	369.2
- % of GDP		12.8	14.3	11.1	11.2	11.3
Trade balance, % of GDP		13.6	13.3	10.7	10.2	10.4
General govt budget balance (NOKbn)		374.1	404.5	327.1	345.0	365.0
- % of GDP		13.6	13.9	10.9	11.0	11.2

* Contribution to GDP growth (% points)

to higher export growth going forward.

Prospects of sustained moderate economic growth and a wide room for manoeuvre thanks to the oil spending rule suggest that the government's oil revenue spending will lead to a slightly more expansionary budget in 2015. Up till now the government has demonstrated its focus on following what it calls a responsible policy course, and we therefore do not foresee any major expansionary moves by the government.

Higher unemployment and lower inflation

Employment growth has slowed recently, and in our baseline scenario we expect it to remain moderate. Although labour supply growth also looks set to slow somewhat in tandem with a weaker labour market, unemployment will likely rise slightly. As a result, wage growth this year and the next should end up in the 3-3½% range, which is slightly lower than in recent years.

Core inflation has picked up from about 1% one year ago to 2½% at present due to higher imported inflation in the wake of the past year's sharp NOK weakening and higher domestic inflation. The effect of the weakening of the NOK will abate going forward, and more subdued wage growth could contribute to slightly lower domestic inflation. Over time we expect inflation to hover around 2%.

Policy rate on hold and weak trade-weighted NOK

With rising unemployment, moderate wage growth and below-target inflation, Norges Bank is in no hurry to hike its policy rate. But if banks lower their lending rates further, Norges Bank may respond by tightening monetary policy, although it will proceed with caution. A higher policy rate or even signals of a higher policy rate will strengthen the NOK.

The NOK weakened sharply last year with the slowdown in growth in Norway, but has so far this year recovered some of the ground lost. Sustained weak growth and prospects of a prolonged period of low interest rates indicate that the trade-weighted NOK will weaken over the coming year, especially due to the expected strengthening of the GBP, USD and SEK. However, with overall EUR weakness, the value of the NOK versus the EUR is not likely to change much over time.

With a policy rate on hold, short market rates in Norway will remain at low levels while rising long yields internationally will push Norwegian equivalents higher.

Erik Bruce

erik.bruce@nordea.com

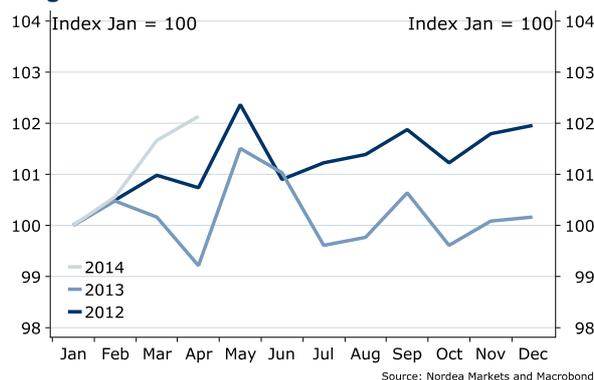
+47 2248 4449

Joachim Bernhardsen

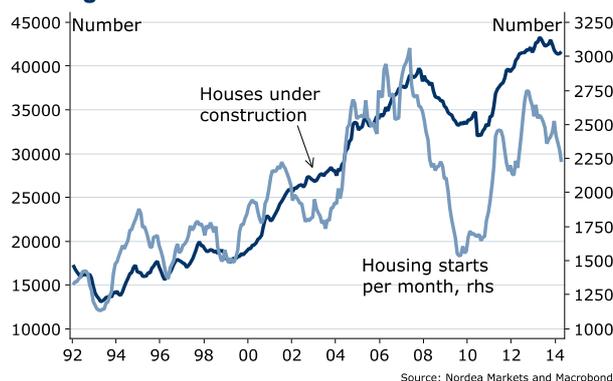
joachim.bernhardsen@nordea.com

+47 2248 7913

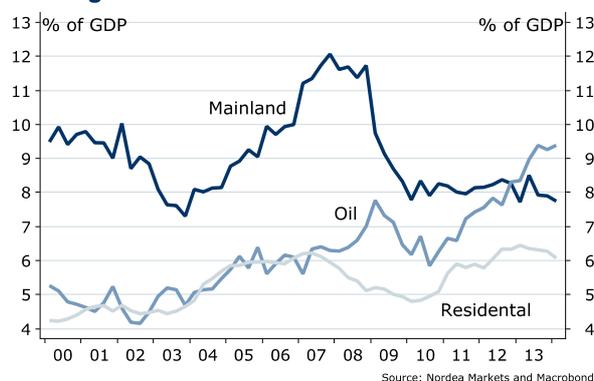
Strong retail sales in Q1



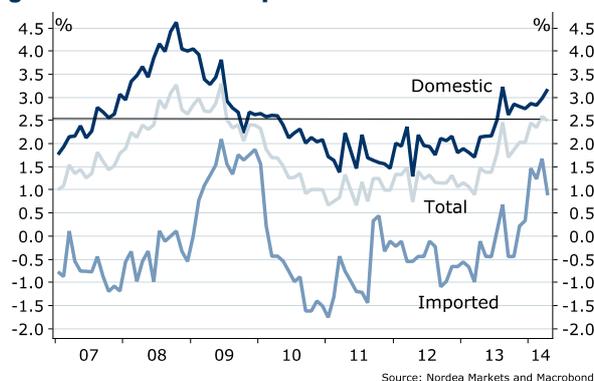
Housing starts have fallen



Flattening trend in investment



Higher domestic and imported inflation



Up one gear

- Rising activity in the Danish economy
- Risk of labour market erosion
- Public budgets stretched to breaking point
- Housing market an accelerator rather than a drag

After five years of zero growth, activity is rising again in the Danish economy. Leading indicators suggest that the nascent upturn will gain further traction over the coming quarters, evolving into a self-sustaining economic upswing in 2015. In light of this, we reiterate our growth forecasts of 1.3% for 2014 and 1.7% for 2015.

Households to drive growth

Consumer spending makes up about half the Danish economy. Thus, to create a self-sustaining economic upswing it is crucial that consumption starts to rise again. All the preconditions for a consumer-driven upswing seem to be in place; real wage growth is back in positive territory thanks to the low inflation, household wealth is rising and households take a positive view on the future. However, so far this optimism has only to a limited extent manifested itself in actual consumption. One of the reasons is that households currently focus strongly on debt reduction – gross debt versus disposable income is at a low since early 2007. Against this background, lending to households has stagnated. Although consumers are likely to keep focusing on paying off debts, we expect they will become less cautious in the years ahead and help shift the pace of economic growth in Denmark into a higher gear through a moderate increase in spending.

Imports to rise faster than exports

While domestic demand has been subdued for a long period, exports have grown at a healthier clip. And solid

progress in key export markets will ensure a continued growth contribution from exports. Still, the trade balance surplus will contract, as the expected pick-up in consumer spending and investment activity will drive imports higher. The rapidly growing current account surplus also looks set to be reduced during the forecast period. However, due to a substantial surplus on the items for salaries and capital income as well as services, the current account will continue to show a solid surplus – and ultimately contribute to sustained growth in Denmark's net external wealth.

Risk of labour market erosion

During the crisis the labour market has undergone major changes. The proportion of people of working age in jobs has now fallen to the lowest level in more than 20 years. This seems to contrast sharply with the general picture of labour market trends with rising employment in recent quarters coupled with a relatively sharp drop in unemployment. The explanation of this paradox is that an increasingly large share of the working age population is now outside the labour market – either as a consequence of recent years' employment policy reforms or because of reduced job opportunities.

Near term the declining participation rate will have a limited impact, as businesses are able to attract the required manpower and wage growth is contained. In a slightly longer perspective, however, the lower participation rate may have severe consequences for economic growth. Moreover, the likely sustainability of public budgets may also come under heavy pressure.

Public budgets stretched to breaking point

2013 ended with the smallest public budget deficit since the onset of the crisis. We expect this trend to continue

Denmark: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2010 (DKKbn)	2011	2012	2013	2014E	2015E
Private consumption	855	-0.7	-0.1	0.0	1.5	1.9
Government consumption	510	-1.4	0.4	0.8	0.8	0.9
Fixed investment	301	3.3	0.8	0.7	2.3	2.4
- government investment	38	4.4	7.7	0.5	1.1	-5.0
- residential investment	67	17.8	-8.0	-5.0	4.0	4.7
- business investment	196	-1.7	2.8	2.7	2.1	3.1
Stockbuilding*	-3	0.4	-0.3	0.2	0.2	0.0
Exports	888	7.0	0.4	1.2	3.0	3.6
Imports	790	5.9	0.9	1.7	4.0	4.4
GDP		1.1	-0.4	0.4	1.3	1.7
Nominal GDP (DKKbn)	1,760	1,792	1,826	1,858	1,894	1,920
Unemployment rate, %		6.0	6.1	5.8	5.1	5.0
Gross unemployment level, '000 persons		159.7	161.8	153.0	135.3	132.5
Consumer prices, % y/y		2.8	2.4	0.8	0.9	1.6
Hourly earnings, % y/y		1.8	1.5	1.2	1.6	1.7
Nominal house prices, one-family, % y/y		-2.8	-3.3	2.6	2.6	2.9
Current account balance (DKKbn)		106.5	109.2	135.8	100.0	80.0
- % of GDP		5.9	6.0	7.3	5.3	4.2
General government budget balance (DKKbn)		-36.6	-71.9	-17.2	-20.0	-55.0
- % of GDP		-2.0	-3.9	-0.9	-1.1	-2.9
General government gross debt, % of GDP		46.3	45.2	44.3	43.8	43.4

* Contribution to GDP growth (% points)

this year when the deficit is expected to come out at 1% of GDP. However, beneath the nice surface lurks the fact that government revenue was artificially propped up by one-off receipts from the capital pension tax reform in 2013 and 2014. This also means that it is possible to maintain a relatively lenient fiscal policy this year.

While public finances appear convincingly robust this year, the outlook for 2015 seems more worrying – not least given the fact that the next general election must be held in the autumn of 2015 at the latest. With the lapse of the temporary tax receipts, the public budget deficit could come alarmingly close to the limits stipulated in the budget act. If economic growth does not rebound, as expected, or the notoriously fluctuating receipts from pension taxation are much lower than expected, the government may be forced to impose tightening measures at a critical point during the economic cyclical recovery.

Housing market set to rebound

During the crisis falling house prices and low housing turnover have weighed heavily on the Danish economy. However, the past two years have seen rising prices again, mainly for owner-occupied flats in the large cities. The slight increase in prices has occurred during a period of low housing turnover and shown an uneven geographical distribution. Coupled with very low new construction activity this means that the housing market is still a drag on the Danish economy – both in terms of a low level of fixed residential investment and because it is not acting as a catalyst for demand for furniture, new kitchens and other forms of consumer spending typically following in the wake of buying a new home.

Going forward, house prices should continue to rise slightly at the national level. At the same time, we expect the generally accelerating activity in the Danish economy to help lift housing turnover and construction activity. However, under the surface the risk of a new housing market setback still lurks. Homeowners' high sensitivity to interest rates and relatively low inclination to pay off their mortgage loans are major challenges that will most likely put a lid on the household consumption ratio for a long time to come.

Jan Størup Nielsen
jan.storup.nielsen@nordea.com

+45 333 3171

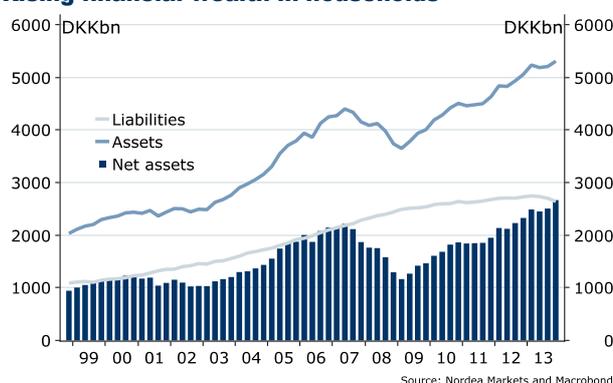
Higher growth ahead



Fewer labour market participants



Rising financial wealth in households



Low housing market activity curbs growth



Depression is here

- Third year in a row with contracting economy
- A pick-up in exports difficult to avoid
- Weak trend in employment and investment continues
- Economy contracts, inflation is at the top in the EU

Third year in a row with contracting economy

There is no official definition for depression, but all its elements start to be in place in Finland. Exports are stagnant and investment is estimated to contract for the third and private consumption for the second year in a row. Fiscal consolidation is needed in the public sector. The last time domestic demand has decreased for this long was at the beginning of the 1990s.

We estimate Finnish GDP to contract 0.5% in 2014 and to grow 1.0% in 2015. We have substantially lowered both estimates (from growth of 0.3% and 2.0%). 2014 is set to be the third consecutive year during which the Finnish economy contracts. The last time this happened was during the depression in 1990–1992. This time, however, we have faced a double recession: first in 2009 and now in 2012–2014.

In European and Nordic comparison, Finland is an underachiever. In the euro area, the economy has grown for four quarters, and all other Nordic countries are also on a rising track. Normally, Finland beats the euro area both in terms of economic growth and sentiment, but now we are badly lagging in both.

The official preliminary information on Finland's GDP in Q1 2014 has not been published yet. However, on the basis of monthly statistics, Statistics Finland estimates that GDP will have contracted 0.4% from the previous

quarter. In light of other available information, such a change sounds rather sharp, but the sign is probably correct.

Our forecast assumes that the economy has contracted 0.3% in Q1, that growth is zero in Q2 and that modest growth is not reached until towards the end of the year. With these assumptions, total production will either decrease or remain unchanged for ten consecutive quarters.

A pick-up in exports difficult to avoid

The global outlook has brightened mainly in line with expectations since last autumn. Both global industrial production and world trade have picked up as expected on the basis of leading indicators. Economic activity has improved in markets that are important for Finland, such as the United States, the euro area, Sweden and the United Kingdom. If the global recovery continues and international demand keeps growing, it is difficult for Finnish exports to avoid picking up.

Our forecast assumes that exports will not recover until late autumn and even then the recovery will be slow. Improved exports require that investment will gradually gather momentum around the world and that the imports of the most important trading partners will start to grow. In the past few months, the imports have increased very modestly or even decreased further. In addition, the dispute between Russia and Ukraine should not continue for very much longer. The Finnish economy would suffer markedly from new economic sanctions imposed on Russia.

Despite this, domestic demand is an even greater worry, as its weakness is a significant obstacle to growth. After

Finland: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2010 (EURbn)	2011	2012	2013	2014E	2015E
Private consumption	99	2.5	0.3	-0.8	-0.5	0.7
Government consumption	44	0.5	0.5	0.8	0.4	0.3
Fixed investment	34	5.8	-0.8	-4.6	-3.3	3.5
Stockbuilding*	-1	1.5	-1.4	-1.1	0.0	0.0
Exports	72	2.8	-0.2	0.3	0.6	4.4
Imports	70	6.2	-0.7	-1.8	-0.2	4.6
GDP		2.8	-1.0	-1.4	-0.5	1.0
Nominal GDP (EURbn)	178.7	188.7	192.4	193.4	196.2	202.4
Unemployment rate, %		7.8	7.7	8.2	8.5	8.3
Industrial production, % y/y		-0.6	-5.3	-2.6	0.0	3.0
Consumer prices, % y/y		3.4	2.8	1.5	1.3	1.5
Hourly wages, % y/y		2.7	3.2	2.2	1.4	1.4
Current account (EURbn)		-2.7	-2.7	-1.6	-0.6	-0.4
- % of GDP		-1.5	-1.4	-0.8	-0.3	-0.2
Trade balance (EURbn)		-1.3	0.1	0.3	0.9	1.0
- % of GDP		-0.7	0.0	0.2	0.4	0.5
General govt budget balance (EURbn)		-1.4	-3.5	-3.9	-4.5	-4.2
- % of GDP		-0.7	-1.8	-2.0	-2.3	-2.1
Gross public debt (EURbn)		93.1	103.2	110.2	118.0	125.6
- % of GDP		49.3	53.6	56.9	60.2	62.1

* Contribution to GDP growth (% points)

a long economic downhill, the outlook of employment, consumption and investment will inevitably remain weak. Deep down, the economic problems are structural, so they cannot be fixed with an expansionary economic policy.

Weak trend in employment and investment continues

The lack of growth weakens the employment and investment outlook this year. We estimate that the unemployment rate will increase to 8.5% on average. Weaker employment will not weigh on private consumption only, but also on consumer confidence and construction. The environment is not encouraging for a pick-up in machinery and equipment investment.

We expect domestic demand, along with foreign trade, to drive economic growth in 2015. By then, the pressure on weakening employment is expected to gradually ease and the economic sentiment to improve. Pent-up demand will most likely propel investment, construction, households' larger acquisitions and the housing market.

Economy contracts, inflation is at the top in the EU

According to Eurostat, the rise in (harmonised) consumer prices was the third fastest in Finland in January–April. The two countries with a faster trend were Norway and the UK. The rise of 1.5% is more than double the average in the euro area. This is odd, considering the general status of the economy.

Reasons for the fast rise include at least tighter commodity taxes and too high salary raises. After 2007, total production has shrunk about 5%, whereas the general income level has risen by more than 20%. It is probable that with lower sales volumes and higher labour costs the easiest way for companies to maintain profitability has been to raise prices.

Against this backdrop, further raises of commodity taxes would be disastrous. They would raise consumer prices further and erode the already weak household purchasing power. In addition, they could lead to demands for higher salary raises in the next round of collective bargaining.

In the past few years, inflation based on the national consumer price index has been slightly lower than harmonised inflation. The difference stems mainly from the fact that the national index, unlike the harmonised one, includes the costs of owner-occupied housing, which have been curbed by the sharp decline in interest rates and the passed peak in housing prices. We expect national inflation to decrease to 1.3% this year and to be 1.5% in 2015.

Pasi Sorjonen

pasi.sorjonen@nordea.com

+358 9 165 59942

Finland is falling behind its peers



Source: Nordea Markets and Reuters Ecowin

Economic sentiment is unusually low



Source: Nordea Markets and Reuters Ecowin

The economy falls, but wages and earnings rise



Source: Nordea Markets and Reuters Ecowin

Consumer prices are rising faster than elsewhere



Source: Nordea Markets and Reuters Ecowin

Growth, %

	2011	2012	2013	2014E	2015E
World ¹⁾	4.0	3.2	3.0	3.5	3.9
USA	1.8	2.8	1.9	2.5	3.3
Euro area	1.6	-0.6	-0.4	1.2	1.5
China	9.3	7.8	7.7	7.4	7.0
Japan	-0.4	1.4	1.5	1.3	1.0
Denmark	1.1	-0.4	0.4	1.3	1.7
Norway	2.6	3.4	2.0	1.8	1.6
Sweden	2.9	0.9	1.6	2.6	2.7
UK	1.1	0.3	1.7	3.0	2.2
Germany	3.4	0.9	0.5	2.0	2.0
France	2.1	0.4	0.4	0.8	1.5
Italy	0.6	-2.4	-1.8	0.3	1.0
Spain	0.1	-1.6	-1.2	1.0	1.5
Finland	2.8	-1.0	-1.4	-0.5	1.0
Estonia	9.6	3.9	0.7	2.8	3.8
Poland	4.5	2.0	1.6	3.1	3.6
Russia	4.3	3.4	1.4	1.5	2.0
Latvia	5.3	5.2	4.1	3.8	4.0
Lithuania	6.0	3.7	3.2	3.2	3.6
India	7.7	4.8	4.7	5.0	6.0
Brazil	2.7	1.0	2.3	1.5	1.9
Rest of World	4.6	3.6	3.3	3.6	4.1

¹⁾ Weighted average of 184 countries. Weights for all countries and data for Rest of World are from the most recent World Economic Outlook, by the IMF. The weights are calculated from PPP-adjusted GDP-levels

Inflation, %

	2011	2012	2013	2014E	2015E
World ¹⁾	4.9	4.0	3.7	3.4	3.7
USA	3.1	2.1	1.5	1.7	2.2
Euro area	2.7	2.5	1.4	0.8	1.5
China	5.4	2.6	2.6	2.5	3.5
Japan	-0.3	0.0	0.4	2.7	2.3
Denmark	2.8	2.4	0.8	0.9	1.6
Norway	1.2	0.8	2.1	1.8	1.9
Sweden	3.0	0.9	0.0	-0.1	1.4
UK	4.5	2.8	2.6	1.9	2.2
Germany	2.5	2.1	1.6	1.1	1.8
France	2.3	2.2	1.0	1.0	1.3
Italy	2.9	3.3	1.3	0.6	1.3
Spain	3.1	2.4	1.5	0.5	1.0
Finland	3.4	2.8	1.5	1.3	1.5
Estonia	5.0	3.9	2.8	1.9	3.0
Poland	4.3	3.7	0.9	1.1	2.0
Russia	6.1	6.6	6.4	6.0	5.5
Latvia	4.4	2.3	0.0	1.8	2.5
Lithuania	4.1	3.2	1.2	1.2	2.4
India	8.9	9.3	10.9	7.0	6.0
Brazil	6.6	5.2	6.2	6.0	5.8
Rest of World	6.8	6.3	5.8	5.4	5.2

Public finances, % of GDP

	2011	2012	2013	2014E	2015E
USA	-8.4	-6.8	-4.1	-2.9	-2.6
Euro area	-6.2	-4.1	-3.7	-3.0	-2.5
China	-1.1	-1.7	-1.9	-2.0	-2.5
Japan	-9.6	-9.8	-10.1	-9.5	-9.0
Denmark	-2.0	-3.9	-0.9	-1.1	-2.9
Norway	13.6	13.9	10.9	11.0	11.2
Sweden	0.0	-0.7	-1.2	-2.0	-0.7
UK	-7.6	-6.1	-5.8	-5.0	-4.1
Germany	-0.8	0.1	0.0	0.3	0.2
France	-5.2	-4.9	-4.3	-3.9	-3.5
Italy	-3.6	-2.9	-3.0	-2.4	-2.0
Spain	-9.6	-10.6	-7.1	-5.5	-4.1
Finland	-0.7	-1.8	-2.0	-2.3	-2.1
Estonia	1.2	-0.2	-0.2	-0.5	-0.1
Poland	-5.0	-3.9	-4.4	4.5	-3.0
Russia	0.8	-0.2	-0.7	-0.8	-0.9
Latvia	-3.6	-1.4	-1.3	-1.0	-0.5
Lithuania	-5.5	-3.2	-2.2	-2.0	-1.6
India	-6.7	-5.5	-5.5	-5.0	-5.0
Brazil	-2.6	-2.1	-3.0	-3.8	-3.3

Current account, % of GDP

	2011	2012	2013	2014E	2015E
USA	-2.9	-2.7	-2.3	-2.5	-2.5
Euro area	0.3	0.4	1.8	2.6	2.9
China	1.9	2.3	2.1	2.0	1.5
Japan	2.0	1.0	0.7	0.5	1.0
Denmark	5.9	6.0	7.3	5.3	4.2
Norway	12.8	14.3	11.1	11.2	11.3
Sweden	6.2	6.5	6.3	6.2	6.5
UK	-1.5	-3.8	-4.4	-3.7	-3.1
Germany	6.3	7.0	7.4	7.3	7.0
France	-2.5	-2.1	-1.9	-1.8	-2.0
Italy	-3.1	-0.4	0.9	1.5	1.5
Spain	-4.0	-1.2	0.8	1.4	1.5
Finland	-1.5	-1.4	-0.8	-0.3	-0.2
Estonia	1.8	-1.8	-1.5	-1.7	-1.6
Poland	-5.0	-3.7	-1.4	-1.5	-2.5
Russia	5.4	4.3	3.0	2.5	1.9
Latvia	-2.3	-2.5	-1.6	-2.0	-2.5
Lithuania	-3.7	-0.2	0.9	-1.0	-3.0
India	-3.8	-5.1	-2.8	-2.0	-2.5
Brazil	-2.1	-2.6	-3.6	-3.5	-2.8

Monetary policy rates

	3.6.14	3M	31.12.14	30.06.15	31.12.15
US	0.25	0.25	0.25	0.75	1.25
Japan	0.10	0.10	0.10	0.10	0.10
Euro area	0.25	0.15	0.15	0.15	0.25
Denmark	0.20	0.20	0.30	0.40	0.50
Sweden	0.75	0.50	0.50	0.50	1.25
Norway	1.50	1.50	1.50	1.50	1.50
UK	0.50	0.50	0.50	0.75	1.25
Switzerland	0.00	0.00	0.00	0.00	0.25
Poland	2.50	2.50	2.50	2.75	3.25
Russia	8.25	7.50	6.50	6.00	5.50
China	6.00	6.00	6.00	6.25	6.25
India	8.00	8.00	8.00	7.75	7.50
Brazil	11.00	11.00	11.00	12.00	12.00

3-month rates

	3.6.14	3M	31.12.14	30.6.15	31.12.15
US	0.23	0.30	0.55	1.05	1.60
Euro area	0.31	0.20	0.20	0.20	0.40
Denmark	0.34	0.30	0.35	0.45	0.65
Sweden	0.90	0.65	0.65	0.80	1.55
Norway	1.85	1.85	1.75	1.75	1.75
UK	0.53	0.55	0.60	0.90	1.40
Poland	2.72	2.75	2.75	3.00	3.50
Russia	9.67	9.00	8.00	7.50	7.00
Lithuania	0.41	0.30	0.20	0.20	0.40

10-year government benchmark yields

	3.6.14	3M	31.12.14	30.6.15	31.12.15
US	2.53	3.00	3.25	3.60	3.90
Euro area	1.39	1.55	1.90	2.15	2.35
Denmark	1.43	1.60	2.00	2.25	2.45
Sweden	1.84	2.10	2.50	2.80	3.10
Norway	2.67	2.89	3.17	3.32	3.31
UK	2.66	2.90	3.25	3.45	3.70
Poland	3.69	4.00	4.50	4.85	5.00

Monetary policy rate spreads vs Euro area

	3.6.14	3M	31.12.14	30.6.15	31.12.15
US	0.00	0.10	0.10	0.60	1.00
Japan ¹⁾	-0.15	-0.15	-0.15	-0.65	-1.15
Euro area	-	-	-	-	-
Denmark	-0.05	0.05	0.15	0.25	0.25
Sweden	0.50	0.35	0.35	0.35	1.00
Norway	1.25	1.35	1.35	1.35	1.25
UK	0.25	0.35	0.35	0.60	1.00
Switzerland	-0.25	-0.15	-0.15	-0.15	0.00
Poland	2.25	2.35	2.35	2.60	3.00
Russia	8.00	7.35	6.35	5.85	5.25
China	5.75	5.85	5.85	6.10	6.00
India	7.75	7.85	7.85	7.60	7.25
Brazil	10.75	10.85	10.85	11.85	11.75

¹⁾ Spread vs USA

3-month spreads vs Euro area

	3.6.14	3M	31.12.14	30.6.15	31.12.15
US	-0.08	0.10	0.35	0.85	1.20
Euro area	-	-	-	-	-
Denmark	0.03	0.10	0.15	0.25	0.25
Sweden	0.59	0.45	0.45	0.60	1.15
Norway	1.54	1.65	1.55	1.55	1.35
UK	0.22	0.35	0.40	0.70	1.00
Poland	2.41	2.55	2.55	2.80	3.10
Russia	9.36	8.80	7.80	7.30	6.60
Lithuania	0.10	0.10	0.00	0.00	0.00

10-year yield spreads vs Euro area

	3.6.14	3M	31.12.14	30.6.15	31.12.15
US	1.14	1.45	1.35	1.45	1.55
Euro area	-	-	-	-	-
Denmark	0.04	0.05	0.10	0.10	0.10
Sweden	0.45	0.55	0.60	0.65	0.75
Norway	1.28	1.34	1.27	1.17	0.96
UK	1.26	1.35	1.35	1.30	1.35
Poland	2.30	2.45	2.60	2.70	2.65

Exchange rates vs EUR

	3.6.14	3M	31.12.14	30.6.15	31.12.15
EUR/USD	1.36	1.36	1.30	1.28	1.25
EUR/JPY	139.4	138.7	133.9	134.4	137.5
EUR/DKK	7.46	7.46	7.46	7.46	7.46
EUR/SEK	9.10	8.95	8.80	8.70	8.60
EUR/NOK	8.17	8.35	8.35	8.25	8.10
EUR/GBP	0.81	0.83	0.78	0.78	0.78
EUR/CHF	1.22	1.22	1.30	1.32	1.35
EUR/PLN	4.14	4.10	4.10	4.00	3.95
EUR/RUB	47.7	47.3	44.9	43.5	42.1
EUR/LTL	3.45	3.45	3.45	3.45	3.45
EUR/CNY	8.51	8.36	7.93	7.71	7.44
EUR/INR	80.7	78.9	75.4	70.4	66.3
EUR/BRL	3.10	3.13	3.12	3.26	3.25

Exchange rates vs USD

	3.6.14	3M	31.12.14	30.6.15	31.12.15
-	-	-	-	-	-
USD/JPY	102.4	102.0	103.0	105.0	110.0
USD/DKK	5.49	5.49	5.74	5.83	5.97
USD/SEK	6.69	6.58	6.77	6.80	6.88
USD/NOK	6.00	6.14	6.42	6.45	6.48
GBP/USD	1.68	1.64	1.67	1.64	1.60
USD/CHF	0.90	0.90	1.00	1.03	1.08
USD/PLN	3.05	3.0	3.2	3.1	3.2
USD/RUB	35.1	34.8	34.5	34.0	33.7
USD/LTL	2.54	2.54	2.66	2.70	2.76
USD/CNY	6.25	6.15	6.10	6.02	5.95
USD/INR	59.3	58.0	58.0	55.0	53.0
USD/BRL	2.28	2.30	2.40	2.55	2.60

Economic Research Nordea

Denmark:

Helge J. Pedersen, Global Chief Economist
helge.pedersen@nordea.com, +45 3333 3126

Johnny Bo Jakobsen, Chief Analyst
johnny.jakobsen@nordea.com, +45 3333 6178

Anders Svendsen, Chief Analyst
anders.svendsen@nordea.com, +45 3333 3951

Holger Sandte, Chief Analyst
holger.sandte@nordea.com, +45 3333 1191

Jan Størup Nielsen, Senior Analyst
jan.storup.nielsen@nordea.com, +45 3333 3171

Amy Yuan Zhuang, Senior Analyst
amy.yuan.zhuang@nordea.com, +45 3333 5607

Aurelija Augulyte, Senior Analyst
aurelija.augulyte@nordea.com, +45 3333 6437

Deanie Haugaard Jensen, Assistant Analyst
deanie.haugaard@nordea.com, +45 3333 3260

Daniel Freyr Gustafsson, Assistant Analyst
daniel.freyr.gustafsson@nordea.com, +45 3333 5115

Emil Kuch Jørgensen, Assistant Analyst
emil.kuch.jorgensen@nordea.com, +45 3333 1502

Jacob Hermann, Assistant Analyst
jacob.hermann@nordea.com, +45 3333 1145

Jacob Revsbech, Assistant Analyst
jacob.revsbech@nordea.com, +45 3333 4007

Finland:

Aki Kangasharju, Chief Economist Finland
aki.kangasharju@nordea.com, +358 9 165 59952

Pasi Sorjonen, Chief Analyst
pasi.sorjonen@nordea.com, +358 9 1655 9942

Norway:

Steinar Juel, Chief Economist Norway
steinar.juel@nordea.com, +47 2248 6130

Erik Bruce, Chief Analyst
erik.bruce@nordea.com, +47 2248 4449

Thina M. Saltvedt, Chief Analyst
thina.margrethe.saltvedt@nordea.com, +47 2248 7993

Joachim Bernhardsen, Analyst
joachim.bernhardsen@nordea.com, +47 2248 7913

Sweden:

Annika Winsth, Chief Economist Sweden
annika.winsth@nordea.com, +46 8 614 8608

Torbjörn Isaksson, Chief Analyst
torbjorn.isaksson@nordea.com, +46 8 614 8859

Andreas Wallström, Chief Analyst
andreas.wallstrom@nordea.com, +46 8 534 910 88

Bengt Roström, Senior Analyst
bengt.rostrom@nordea.com, +46 8 614 8378

Lena Sellgren, Senior Analyst
lena.sellgren@nordea.com, +46 8 614 88 62

Rickard Bredeby, Assistant Analyst
rickard.bredeby@nordea.com, +46 8 614 80 03

Sofie Andersson, Assistant Analyst
sofie.b.andersson@nordea.com, +46 8 614 80 03

Vera Batyalova, Assistant Analyst
vera.batyalova@nordea.com, +46 8 614 80 03

Estonia:

Tõnu Palm, Chief Economist Estonia
tonu.palm@nordea.com, +372 628 3345

Lithuania:

Zygmantas Mauricas, Chief Economist Lithuania
zygmantas.mauricas@nordea.com, +370 5 2657 198

Russia:

Dmitry A. Savchenko, Chief Economist Russia
dmitry.savchenko@nordea.ru, +7 495 777 34 77 4194

Dmitry S. Fedenkov, Head of Research, Russia
dmitry.fedenkov@nordea.ru, +7 495 777 34 77 3368

Nordea Markets is the name of the Markets departments of Nordea Bank Norge ASA, Nordea Bank AB (publ), Nordea Bank Finland Plc and Nordea Bank Danmark A/S.

The information provided herein is intended for background information only and for the sole use of the intended recipient. The views and other information provided herein are the current views of Nordea Markets as of the date of this document and are subject to change without notice. This notice is not an exhaustive description of the described product or the risks related to it, and it should not be relied on as such, nor is it a substitute for the judgement of the recipient.

The information provided herein is not intended to constitute and does not constitute investment advice nor is the information intended as an offer or solicitation for the purchase or sale of any financial instrument. The information contained herein has no regard to the specific investment objectives, the financial situation or particular needs of any particular recipient. Relevant and specific professional advice should always be obtained before making any investment or credit decision. It is important to note that past performance is not indicative of future results.

Nordea Markets is not and does not purport to be an adviser as to legal, taxation, accounting or regulatory matters in any jurisdiction.

This document may not be reproduced, distributed or published for any purpose without the prior written consent from Nordea Markets.

Nordea, Markets Division
Nordea Bank Norge ASA
17 Middelthuns gt.
PO Box 1166 Sentrum
N-0107 Oslo
+47 2248 5000

Nordea AB (publ)
10 Hamngatan
SE-105 71 Stockholm
+46 8 614 7000

Nordea Bank Finland Plc
Aleksis Kiven katu 9, Helsinki
FIN-00020 Nordea
+358 9 1651

Nordea Bank Danmark A/S
3 Strandgade
PO Box 850
DK-0900 Copenhagen C
+45 3333 3333