

En högre växel



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En högre växel

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Trögheten i den globala konjunkturen har slagit mot små öppna ekonomier som de nordiska, i Finland så hårt att ekonomin föll tillbaka i recession under inledningen av det här året. Efter en trög återhämtning går dock de skandinaviska ekonomierna nu på högre varv.

I Sverige har den långsamma globala återhämtningen framför allt dämpat varuexporten. Nu syns dock tecken på en förbättring av exporten. Tillsammans med väl rustade hushåll, expansiv finans- och penningpolitik valåret 2014, växlar tillväxten upp de kommande kvartalen. Hushållen uppvisar redan idag en hög efterfrågan och investeringarna tog ordentlig fart under första kvartalet. Inflationen ligger dock långt under Riksbankens mål och Riksbanken sänker därmed reporäntan i juli. Det dröjer sedan till sommaren 2015 innan räntehöjningarna inleds. Kronan stärks mot euron, men försvagas mot dollarn då den amerikanska ekonomin utvecklas än starkare än den svenska.

Danmark vaknar långsamt upp ur sin törnrosasömn. Att hushållens konsumtion tar fart är centralt och det finns förutsättningar för det. Reallönerna ökar, hushållens förmögenhet stiger och optimismen spirar. Bostadsmarknaden stabiliseras och priserna har stigit något i de stora städerna, men låg omsättning gör att den ekonomiska utvecklingen hålls tillbaka, dels genom att bostadsmarknaden fortsatt ses som en risk, dels genom lägre bygginvesteringar.

Norsk ekonomi har överraskat positivt. Bostadsmarknaden har stabiliserats efter ett kortare prisfall i slutet av förra året. Mer expansiv kreditgivning och låga räntor har bromsat nedgången. Under prognosperioden väntas dock ekonomin växa något längsammare då bland annat olje-sektorn inte investerar lika tungt som tidigare. Inflationen är i linje med Norges Banks inflationsmål på 2 procent och styrräntan ligger därmed kvar oförändrad på 1,5 procent under hela prognosperioden. Norska kronan försvagas något mot flera valutor så även mot svenska kronan.

BNP, procentuell förändring årstakt

	2012	2013	2014P	2015P
Sverige*	1,3	1,6	2,7	2,4
Norge	3,4	2,0	1,8	1,6
Danmark	-0,4	0,4	1,3	1,7
Finland	-1,0	-1,4	-0,5	1,0

* Kalenderkorrigerad

Finland är sorgebarnet vad gäller tillväxt, såväl jämfört med övriga nordiska länder som med euroområdet. Tre år i rad med recession, BNP faller med 0,5 procent i år - så illa har det inte varit sedan 90-talskrisen. Finsk ekonomi har påverkats negativt av en svag global efterfrågan,

Ryssland och även av en svag efterfrågan på hemmaplan. Samtidigt är inflationen bland den högsta i EU. Mot slutet av prognosperioden väntas ett uppdämt behov få effekt både vad gäller investeringar och privat konsumtion och därmed bidra till en positiv tillväxt om än från en mycket låg nivå.

Även den globala tillväxten växlar upp. Världstillväxten ökar till 3,5 procent i år. Nästa år ökar takten till närmare 4 procent, vilket är klart över det historiska snittet de senaste 20 åren. Viktiga exportmarknader för de nordiska länderna såsom USA, Tyskland och Storbritannien bidrar till återhämtningen. Centralbankerna håller fortsatt i stafettspinnen och spelar en avgörande roll för utvecklingen framöver, inte minst för valutamarknaderna.

Den kalla vintern slog hårt mot tillväxten i USA, men expansiv penningpolitik, mindre kontraktiv finanspolitik, stigande löner och ett stort investeringsbehov gör att tillväxten blir högre än normalt under prognosperioden. Den amerikanska centralbanken, Fed, avslutar tillgångsköpen i höst och inleder räntehöjningar i början av nästa år. Det är något tidigare än vad som är prissatt i marknaden. Skälet är att inflationen bedöms ligga nära Feds mål på två procent vid kommande årsskifte samt att resursutnyttjandet är högre än vad Fed idag utgår ifrån. Löneökningarna tilltar redan i höst. Dollarn stärks mot flertalet valutor och inte minst mot euron.

Oron för att den kinesiska ekonomin ska växa långsammare fick regimen i Peking att sjösätta ett nytt stimulanspaket under våren. Det indikerar tydligt att beslutsfattnarna är angelägna om att nå upp till den målsatta tillväxten på 7,5 procent. Kina antas därmed fortsatt vara en viktig motor för världsekonomin under prognosperioden.

BNP, procentuell förändring årstakt

	2012	2013	2014P	2015P
Världen	3,2	3,0	3,5	3,9
USA	2,8	1,9	2,5	3,3
Euroområdet	-0,6	-0,4	1,2	1,5
Kina	7,8	7,7	7,4	7,0

Euroområdet som helhet har lämnat recessionen bakom sig, men tillväxten i stora länder som Frankrike och Italien är obefintlig. Tyskland förblir motorn och beräknas växa med 2 procent i år. BNP-utfallet för första kvartalet, ledande indikatorer samt bredden i återhämtningen talar för en god men inte exceptionell tillväxt. Fokus på deflation gör att ECB sänker reporäntan - inlåningsräntan blir till och med negativ - och möjligen får vi se ytterligare åtgärder. Euron försvagas därmed, vilket är centralt för att få upp inflationen.

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Stark laguppställning på hemmaplan

- Hög BNP-tillväxt i år
- Stark inhemsk efterfrågan
- Exporten återhämtar sig
- Riksbanken pressas av låg inflation

Tempoväxling

Läget i den svenska ekonomin har förbättrats det senaste året även om utvecklingen har varit något ryckig. Den inhemiska efterfrågan har varit den främsta motorn men även exporten av tjänster har ökat.

En viss förbättring av varuexporten har kunnat skönjas de senaste kvartalen och det finns tecken på att en tydligare återhämtning står för dörren. Därmed breddas uppgången och BNP växlar upp. Tillväxten dämpas något nästa år då bland annat finanspolitiken blir något åtstramande samtidigt som räntorna stiger.

Stommen i laget

Hushållens konsumtion steg 2 procent förra året och uppgången har fortsatt i år. Den ökade konsumtionen ska ses mot bakgrund av stigande real köpkraft och boräntor på rekordlåga nivåer. Dessutom ökade hushållens finansiella nettoförmögenhet med ca 500 miljarder kronor förra året, motsvarande nästan 30 procent av hushållens disponibla inkomster. Därtill har bostadspriserna stigit.

Konsumentförtroendet är dock ännu förhållandvis lågt, möjligtvis påverkat av orosmolnen i omvärlden och signaler om eventuella åtgärder för att stävja hushållens skuld-

uppbryggnad. Hushållens sparkvot ligger också på en historiskt hög nivå och var 2012 den högsta i EU. Om tillförsikten stärks kan sparandet sjunka mer än prognosserat och ge extra skjuts till konsumtionen.

Hushållens finansiella styrka avspeglas också i en hög efterfrågan på bostäder. Bostadsinvesteringarna beräknas i år öka med 18 procent, den högsta ökningstakten på åtminstone 30 år. Även inom tjänstesektorn och i kommunerna stiger investeringarna. Inom industrin, som hämmas av ett dämpat kapacitetsutnyttjande, sker dock en minskning i närtid. De totala investeringarna ökar i god takt framför allt i år och är därmed en viktig drivkraft.

Exporten kontrar

Den stigande inhemska efterfrågan ackompanjeras i år av en ökad export av varor. Tillväxten har stärkts globalt och indikatorerna för svensk export skvallrar om en återhämtning. USA och Storbritannien samt till viss del även Norden och euroområdet väntas stå för ökningen medan efterfrågan från bland annat BRIC-länderna hackar. Återhämtningen sker dock från en låg nivå och varuexporten når sent i år endast upp till den tidigare toppnivån i början av 2008, dvs. en sju år lång stagnation.

Många på avbytarbänken

Utvecklingen på arbetsmarknaden uppvisar samma mönster som tidigare, det vill säga att arbetskraften ökar i ungefär samma takt som antalet sysselsatta. Arbetslösheten har därmed bitit sig fast på runt 8 procent. Även stora matchningsproblem bidrar till den relativt höga arbetslösheten.

Sverige: Makroekonomiska nyckeltal (årlig tillväxt i procent om inget annat anges)

	2010 (mdkr)	2011	2012	2013	2014E	2015E
Privat konsumtion	1 617	1,7	1,6	2,0	2,7	2,3
Offentlig konsumtion	890	0,8	0,3	2,0	1,2	0,9
Fasta bruttoinvesteringar	602	8,2	3,3	-1,1	6,0	4,2
- industri	74	17,1	8,3	-4,4	-2,0	5,4
- bostadsinvesteringar	110	10,4	-11,2	6,3	18,0	6,8
Lagerinvesteringar*	23	0,5	-1,2	0,1	0,3	0,0
Export	1 651	6,1	0,7	-0,4	4,7	5,2
Import	1 445	7,1	-0,6	-0,8	6,4	4,6
BNP	3 338	2,9	0,9	1,6	2,6	2,7
BNP, kalenderkorrigeras		3,0	1,3	1,6	2,7	2,4
Nominell BNP (mdr SEK)	3 338	3 481	3 550	3 641	3 784	3 939
Arbetslöshet (% av arbetskraften)		7,8	8,0	8,0	8,0	7,8
Sysselsättning		2,3	0,7	1,0	1,1	0,8
Konsumentpriser (årsmedeldrag KPI)		3,0	0,9	0,0	-0,1	1,4
Underliggande inflation (årsmedeldrag KPIF)		1,4	1,0	0,9	0,5	1,3
Timlöner (nationalräkenskaper)		3,2	2,8	2,2	2,7	3,0
Bytesbalans (mdr SEK)		216	229	230	236	258
- % av BNP		6,2	6,5	6,3	6,2	6,5
Handelsbalans (% av BNP)		2,2	2,4	2,2	2,3	2,5
Offentligt finansiellt sparande (mdr SEK)		0	-26	-45	-74	-27
- % av BNP		0,0	-0,7	-1,2	-2,0	-0,7
Offentlig bruttoskuld, % av BNP		38,6	38,2	40,6	41,5	40,6

* Bidrag till BNP-utvecklingen, procentenheter

Den övergripande bilden är ändå att läget på arbetsmarknaden har förbättrats. Sysselsättningsgraden har stigit och ligger på de senaste 15 årens genomsnitt samtidigt som arbetskraftsdeltagandet är det högsta sedan början på 1990-talet. Läget på arbetsmarknaden fortsätter att förbättras framöver. Arbetslösheten sjunker men riskerna för en högre arbetslöshet än prognoserat överväger.

Riksbanken på sidlinjen efter sänkning

Trots en god tillväxt i den inhemska ekonomin under det senaste året befinner sig Riksbanken fortfarande i en sänkningscykel. Räntan sänktes i december 2013 och Riksbankens signaler tillsammans med överraskande låg inflation talar starkt för en räntesänkning i juli.

Vi bedömer att KPIF-inflationen bottnade i mars. Den ser ut att vara fortsatt låg och ligga omkring 0,5 procent även de kommande månaderna. Ett överlag lågt kostnadstryck är orsaken till den mycket låga inflationen. Inflationstrycket stiger framöver, om än långsamt. Kronan har stabiliserats det senaste året efter fyra år av förstärkning. Tecken syns nu på att det tidigare kraftiga fallet i importpriserna bromsar upp.

Även på hemmaplan stiger kostnaderna långsamt. Dessutom är ledtiderna långa innan de spiller över på konsumtionspriserna. Den hårt pressade exportindustrin är utgångspunkt för avtalsförhandlingarna, vilket talar för låga löneökningar längre än. KPIF-inflationen bedöms inte nå 2-procentsmålet under prognosperioden.

Viktigt för kronan, och därmed även för inflationen och Riksbanken, är ECB:s agerande. ECB bedöms sänka de viktigaste styrräntorna men ändå inte introducera omfattande kvantitativa lätnader.

Riksbanken är således fast i ett skruvståd mellan ihållande låg inflation och fler åtgärder från ECB. Efter den allmänt förväntade räntesänkningen i juli är det därför mycket som talar för att det dröjer en bra bit in på 2015 innan Riksbanken höjer räntan.

Frisparksläge för kronan

Kronan slits mellan å ena sidan en stark svensk ekonomi och å andra sidan en Riksbank som signalerar en låg styrränta längre än. Osäkerheten förknippad med höstens riksdagsval, där en eventuell regeringsombildning kan dra ut på tiden, kan tyngta kronan. Det talar för en skakig resa och endast en gradvis förstärkning av kronan mot euron. Mot dollaren går resan i motsatt riktning då en stark amerikansk ekonomi och annalkande räntehöjningar från Fed ger dollarkursen stöd.

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Tecken på stigande export

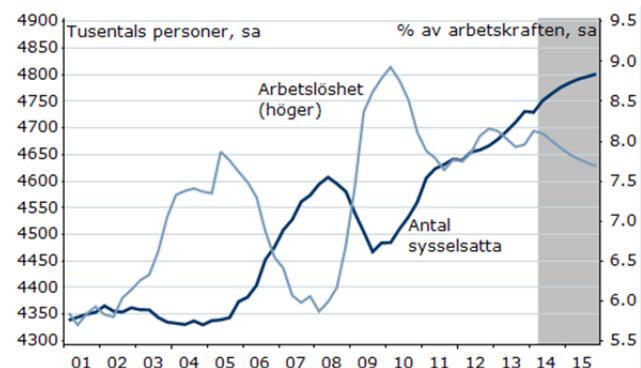


Source: Nordea Markets and Reuters Ecwin

Kraftig uppgång i bygginvesteringarna



Bättre arbetsmarknad



Underliggande inflationen långt under målet



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 $\frac{1}{4}$ 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 downturn. 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.

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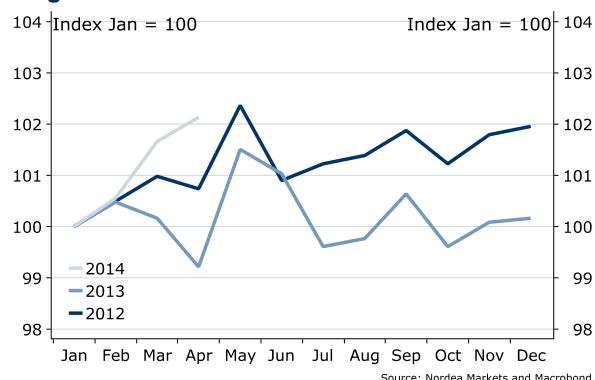
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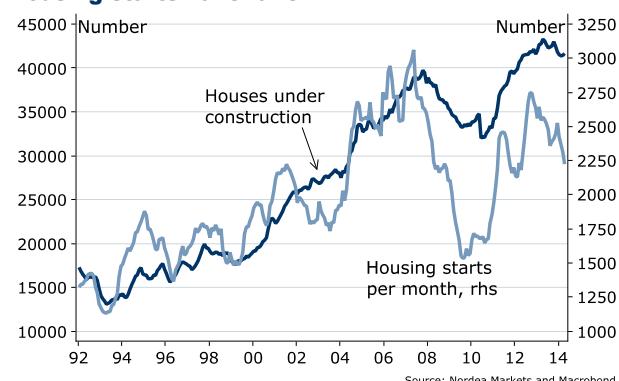
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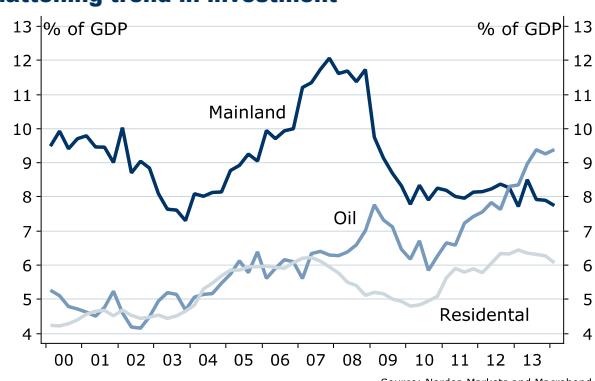
Strong retail sales in Q1



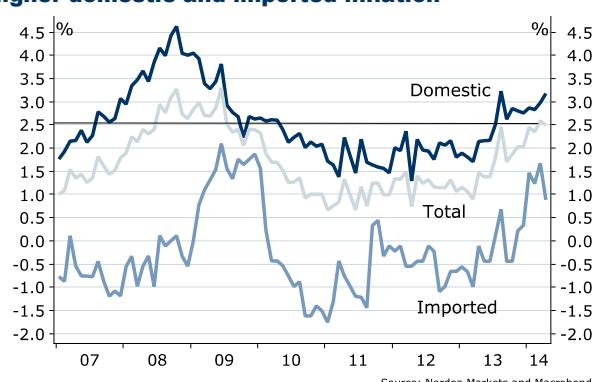
Housing starts have fallen



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.

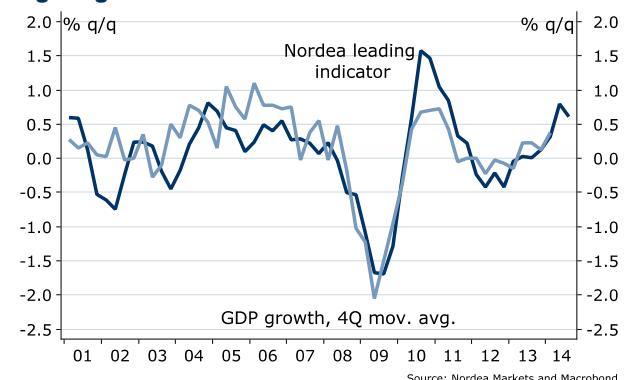
Going forward, house prices should continue to rise slightly at the national level. At the same time, we expect the generally accelerating activity in the Danish economy to help lift housing turnover and construction activity. However, under the surface the risk of a new housing market setback still 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.

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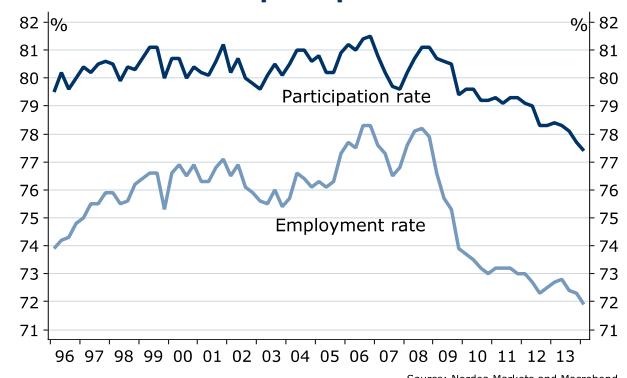
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Higher growth ahead



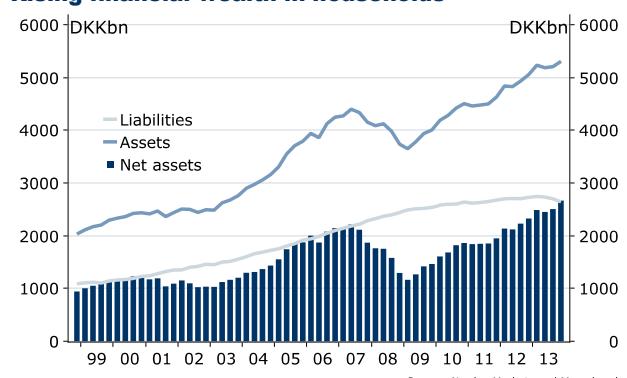
Source: Nordea Markets and Macrobond

Fewer labour market participants



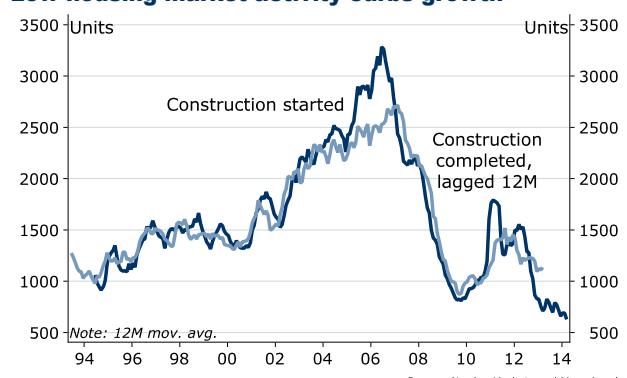
Source: Nordea Markets and Macrobond

Rising financial wealth in households



Source: Nordea Markets and Macrobond

Low housing market activity curbs growth



Source: Nordea Markets and Macrobond

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.

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Finland is falling behind its peers



Economic sentiment is unusually low



The economy falls, but wages and earnings rise



Consumer prices are rising faster than elsewhere



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

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 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

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 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

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 SEK

	3.6.14	3M	31.12.14	30.6.15	31.12.15
EUR/SEK	9,10	8,95	8,80	8,70	8,60
USD/SEK	6,69	6,58	6,77	6,80	6,88
JPY/SEK ¹	6,53	6,45	6,57	6,47	6,25
DKK/SEK	1,22	1,20	1,18	1,17	1,15
NOK/SEK	1,11	1,07	1,05	1,05	1,06
GBP/SEK	11,20	10,78	11,28	11,15	11,03
CHF/SEK	7,46	7,34	6,77	6,59	6,37
PLN/SEK	2,20	2,18	2,15	2,18	2,18
RUB/SEK	0,19	0,19	0,20	0,20	0,20
LTL/SEK	2,63	2,59	2,55	2,52	2,49
CNY/SEK	1,07	1,07	1,11	1,13	1,16

1) per 100 units

Exchange rates vs EUR and USD

	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/GBP	0,81	0,83	0,78	0,78	0,78
EUR/CHF	1,22	1,22	1,30	1,32	1,35
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/PLN	4,14	4,10	4,10	4,00	3,95
USD/JPY	102,4	102,0	103,0	105,0	110,0
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/SEK	6,69	6,58	6,77	6,80	6,88
USD/NOK	6,00	6,14	6,42	6,45	6,48
USD/PLN	3,05	3,0	3,2	3,1	3,2
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

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