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Motvind

Splittrad världsbild

Den globala återhämtningen fortsätter om än i måttlig takt. Krisen i Ukraina skapar mörka moln över Europa och bidrar till att återhämtningen i euroområdet går trögt. Ljuspunkter är USA och Storbritannien som växer i god takt, samtidigt som Kina är tillbaka på tillväxtspåret.

Sverige behåller ledningen

Utvecklingen i de nordiska länderna är blandad. Sverige har bäst förutsättningar för starkare tillväxt under de närmaste åren. Norsk ekonomi har överraskat positivt, men väntas bromsa in nästa år. Den danska ekonomin utvecklas åt rätt håll, men i långsam takt. Finland drabbas hårt av problemen i närområdet.

Tabellsamling

Redaktör

Annika Winsth,
Chefekonom

annika.winsth@nordea.com
Tel +46 8 614 8608

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Motvind

- Tudelad global återhämtning …
- … med ökade ränteskillnader
- Stort fokus på centralbankers agerande
- Valår, men ingen riktig fart i svensk ekonomi
- Svag regering kan innebära fyra förlorade år

Gång efter annan har den globala tillväxten under senare tid överraskat negativt och prognoserna reviderats ned. Så även denna gång. Återhämtningen är skör trots att det vidtagits kraftfulla struktur- och stimulansåtgärder för att stärka konkurrenskraft och tillväxt. Den här gången har ovanligt kallt väder i början av året, geopolitisk osäkerhet och oroande signaler från flera tillväxtländer slagit igenom på tillväxten.

BNP, procentuell förändring årstakt

	2013	2014P	2015P	2016P
Världen	3,1	3,4	3,8	3,9
USA	2,2	2,1	3,1	2,8
Euroområdet	-0,4	0,8	1,1	1,4
Japan	1,5	1,2	1,2	1,4
Kina	7,7	7,5	7,2	7,0

Prognosen är dock fortsatt global återhämtning, om än mer tudelad och långsammare. På den ljusa sidan finns bättre tillväxt i bland annat USA, Storbritannien och Norge, vilka är viktiga exportmarknader för Sverige, samtidigt som tillväxten i Kina ligger i linje med regimens mål.

Men trots återhämtning i flera länder revideras global tillväxt ned från 3,5 procent i år till 3,4 procent. Inte minst euroområdet växer långsammare och mycket talar för att den potentiella tillväxten, det vill säga så mycket ekonomin kan växa långsiktigt, blir lägre framöver. Det behövs därför ytterligare reformer för att få bättre fart på tillväxten. Tyvärr lär det inte ske i den utsträckning att det hinner få effekt under prognosperioden. Situationen i Ryssland och Ukraina är svårbedömd. Den största risken utgörs just av ökad osäkerhet och i mindre utsträckning av dämpad handel.

På finansmarknaderna har den ökade osäkerheten och de ekonomiska bakslagen fått genomslag på räntor i alla löptider, inte minst inom euroområdet. Den europeiska centralbanken, ECB, gör nu sitt yttersta för att få upp inflationen och efterfrågan. Fokus riktas mot euron och på en väl fungerande kapitalförsörjning till mindre och medelstora företag. Kredit- och kapitaltillgången lär förbli av central betydelse under hösten och centralbankerna håller därmed fortsatt i styrspaken. Ränteskillnader länder emellan lär dock öka framöver då den amerikanska centralbanken, Fed, och Bank of England blir först ut med att höja räntan under första halvåret 2015. Långt före den europeiska centralbanken, ECB, som förväntas låta räntan ligga still under hela prognosperioden.

USA – växlar upp

Styrkan i den amerikanska ekonomin är nu tillräcklig för att ekonomin ska vara självgående. Svackan i början av året var av tillfällig karaktär. Under andra halvåret 2014 och nästa år växer ekonomin snabbare än den potentiella tillväxten.

Inte minst arbetsmarknaden har utvecklats väl, där sysselsättningen ökar i god takt samtidigt som arbetslösheten faller tillbaka. Arbetsmarknaden och löneutvecklingen är kanske de viktigaste pusselbitarna för Fed. Än så länge ligger löneökningarna stabilt runt 2 procent, men mindre företag, vilka är mycket viktiga för sysselsättningen, signalerar allt större brist på kompentent arbetskraft. Det bör få lönerna att stiga snabbare framöver.

Inflationen har krupit upp och ligger nu nära Feds mål på 2 procent. Tillsammans med en stramare arbetsmarknad gör det att Fed inleder räntehöjningarna i mars nästa år. Det får till effekt att även räntor med längre löptid stiger och att dollarn stärks mot flera valutor. Euron handlas till 1,25 mot dollarn i slutet av 2015 enligt vår prognos.

Euroområdet – ECB gör mycket, men räcker det?

Nolltillväxt i euroområdet under andra kvartalet i år och indikatorer som inger föga hopp om tillväxten under tredje kvartalet. Då även dragloket Tyskland bromsade andra kvartalet väntas tillväxten för euroområdet som helhet ligga kvar under 1 procent i år. Recessionen i euroområdet uteblir, men orosmolnen är fortfarande många. Mycket expansiv penningpolitik, mindre åtstramande finanspolitik och en svagare euro bidrar dock till att utvecklingen sakta går åt rätt håll.

I grunden är tysk ekonomi i gott skick, men krisen i Ryssland och Ukraina dämpar tillväxten även om inte handeln med Ryssland är särskilt stor. För euroområdet som helhet är exporten till Ryssland knappa 5 procent. Men kostnaden för den osäkerhet krisen skapar, och inte minst problemet med energifrågan för Tyskland, ska inte underskattas.

Oroande låg inflation med risk för deflation fick ECB att öka stimulanserna i somras. Vi räknar inte med ytterligare åtgärder, men det förutsätter att inflationen och inflationsförväntningarna inte överraskar nedåt och att åtgärderna från i somras får önskad effekt. Inflationen väntas stiga något framöver på grund av högre energipriser, en svagare euro och en något högre tillväxt. ECB ligger kvar med oförändrad ränta under hela prognosperioden.

Kina – partiets tillväxtmål håller

Strukturreformer för att förbättra ekonomins funktionssätt varvas med stimulanser när ekonomin bromsar in för mycket. Historiskt har dock partiet sett till att tillväxten landat på målet, vilket förväntas ske även framöver. Det betyder en tillväxt på 7,5 procent i år och på lite drygt 7 procent de kommande åren.

Rysslands konflikt med stora delar av västvärlden har gynnat Kina. Handeln dem emellan har ökat i takt med embargo från väst, vilket syns bland annat i Kinas export av livsmedel till Ryssland.

Flera av tillväxtländerna, inte minst Brasilien som är en central handelspartner för många tillväxtländer, står inför stora utmaningar. Indien är möjligen undantaget där valutgången tidigare i år skapat förhoppningar om mindre korruption och minskade handelshinder.

BNP, procentuell förändring årstakt

	2013	2014P	2015P	2016P
Sverige	1,6	1,9	2,5	2,3
Norge, fastland	2,0	2,3	1,5	2,2
Danmark	0,4	0,5	1,3	1,7
Finland	-1,2	-0,5	0,3	1,2

Tillväxten i de nordiska länderna är tudelad. Norsk ekonomi har överraskat positivt, medan Finland fortfarande befinner sig i recession**.** Svensk och dansk tillväxt utvecklas åt rätt håll, men det går trögt.

Danmark – långsam återhämtning

Återhämtningen i dansk tillväxt har påbörjats, men BNP-nivån ligger fortfarande långt under nivån före krisen. Under sommaren har den geoplitiska osäkerheten påverkat ekonomin negativt, men den effekten bör klinga av. Arbetsmarknaden har överraskat positivt. Privat konsumtion tillsammans med en något starkare export driver återhämtningen. Hushållen fortsätter minska sina skulder och bostadspriserna i de större städerna ökar. I slutet av prognosperioden växer ekonomin med knappt 2 procent.

Norge – oljesektorn bromsar

Norsk ekonomi växte mer än förväntat under första halvåret, men signaler om betydligt lägre oljeinvesteringar dämpar tillväxten nästa år. En svagare utveckling inom oljesektorn får konsekvenser även för andra delar av ekonomin såsom tjänstesektorn. På arbetsmarknaden förväntas bristen på kompetent arbetskraft slå om till ett litet överskott, vilket håller tillbaka löneutvecklingen. Norges bank låter styrräntan ligga still under hela prognosperioden och norska kronan stärks mot euron.

Finland – det dröjer innan det vänder

Finsk ekonomi utvecklas svagt på bred front och är i behov av global återhämtning för att få fart på exporten. Det lär dock dröja då såväl Finland som flera av dess handelspartner drabbas extra hårt av krisen i Ryssland. Närområdet är centralt och sanktionerna känns av både direkt och indirekt. Inte heller konsumenterna är på plats och ekonomin förblir därmed i recession i år för att därefter växa med blygsamma 0,5 procent nästa år.

Sverige – omvärlden tynger

Även svensk ekonomi har utvecklats sämre än väntat till följd av att exporten inte har kommit igång. Det svaga utfallet under första halvåret gör att tillväxten stannar på 2 procent i år.

Valår brukar vara konsumtionsår, men i år tycks det inte ge riktigt samma draghjälp som tidigare. Sparandet är fortsatt mycket högt. Hushållen är ändå den viktigaste drivkraften framöver. Förutsättningarna finns även om de disponibla inkomsterna inte ökar lika starkt under resten av prognosperioden. Skattelättnadernas tid är förbi. Framöver ökar skattetrycket samtidigt som inflation och räntor stiger om än mycket måttligt.

Arbetsmarknaden fortsätter att förbättras och arbetslösheten kryper under 7,5 procent. Möjligen kan arbetsutbudet påverkas negativt av ett eventuellt regeringsskifte. Nuvarande politik har fokuserat på att stimulera arbetskraftsutbudet, vilket haft avsedd effekt men också hållit uppe arbetslösheten. Löneökningarna väntas bli måttliga**,** som högst något över 3 procent i slutet av prognosperioden. Det finns fortfarande lediga resurser, inte minst inom industrin som är löneledande.

Inflationen stiger något från en rekordlåg nivå, bland annat till följd av den svaga kronan. Riksbankens inflationsmål på 2 procent nås emellertid inte under prognosperioden och penningpolitiken fortsätter därmed att vara mycket expansiv. Kronan stärks mot euron då ECB för en än mer expansiv politik, medan den däremot försvagas något mot dollarn. Riksbanken har tydligt indikerat att andra verktyg måste till för att bromsa hushållens skulder. Vi utgår ifrån att det vidtas flera åtgärder, till exempel ökade amorteringskrav. Höjd fastighetsskatt är sannolikt uteslutet, men krav på räntebindningstider och begränsning av ränteavdragen är andra möjliga åtgärder.

Valutgången är svår att sia om. Risken för en svag minoritetsregering, oavsett vilken sida som vinner, är dock överhängande. Det kan betyda fyra mer eller mindre förlorade år för svensk ekonomi. Fyra år då det blir svårt att komma överens om större strukturfrågor och det mest handlar om att kompromissa om budgeten. I det läget är det en fördel att Sverige står starkt; med sunda offentliga finanser, välskötta företag och hushåll med högt sparande. Men på sikt är det inte bra med en svag regering. Konkurrensen på världsmarknaden är hård. Det är lätt att halka efter om inte långsiktiga strategier för infrastruktur, eneriförsörjning med mera finns på plats.

Annika Winsth
annika.winsth@nordea.com +46 8 614 8608

Growth, %

	2012	2013	2014E	2015E	2016E
World[1)]	3.1	3.1	3.4	3.8	3.9
USA	2.3	2.2	2.1	3.1	2.8
Euro area	-0.6	-0.4	0.8	1.1	1.4
China	7.7	7.7	7.5	7.2	7.0
Japan	1.5	1.5	1.2	1.2	1.4
Denmark	-0.4	0.4	0.5	1.3	1.7
Norway	3.4	2.0	2.3	1.5	2.2
Sweden	0.9	1.6	1.9	2.5	2.3
UK	0.3	1.7	3.0	2.5	2.2
Germany	0.9	0.5	1.6	1.5	1.5
France	0.4	0.4	0.4	0.7	1.2
Italy	-2.4	-1.8	-0.3	0.5	1.1
Spain	-1.6	-1.2	1.3	1.7	1.8
Finland	-1.5	-1.2	-0.5	0.3	1.2
Estonia	3.9	0.8	0.7	2.7	3.5
Latvia	5.2	4.1	3.3	2.9	4.1
Poland	2.1	1.6	3.2	3.4	3.5
Russia	3.4	1.3	0.5	1.3	1.5
Lithuania	3.7	3.3	2.5	2.8	4.3
India	4.7	4.7	5.1	5.8	6.3
Brazil	1.0	2.5	1.5	1.9	2.1
Rest of World	2.3	2.2	2.7	3.2	3.4

Inflation, %

	2012	2013	2014E	2015E	2016E
World[1)]	4.1	3.7	3.7	3.7	4.2
USA	2.1	1.5	2.0	2.3	2.4
Euro area	2.5	1.4	0.6	1.2	1.6
China	2.7	2.6	2.5	2.7	3.5
Japan	0.0	0.4	2.8	2.5	2.2
Denmark	2.4	0.8	0.7	1.2	1.6
Norway	0.7	2.1	2.1	1.7	1.6
Sweden	0.9	0.0	0.0	1.1	1.8
UK	2.8	2.6	1.8	2.1	2.3
Germany	2.1	1.6	0.9	1.5	1.8
France	2.2	1.0	0.7	1.2	1.3
Italy	3.3	1.3	0.3	1.0	1.2
Spain	2.4	1.5	0.0	0.6	1.3
Finland	2.8	1.5	1.0	0.5	0.8
Estonia	3.9	2.8	0.4	2.0	2.5
Latvia	2.3	0.0	0.6	1.7	2.0
Poland	3.7	1.2	0.4	0.8	2.2
Russia	6.5	6.5	7.2	6.0	5.4
Lithuania	3.1	1.0	0.3	1.5	2.3
India	9.7	10.1	7.9	7.1	6.2
Brazil	5.4	6.2	6.5	5.9	5.5
Rest of World	5.1	4.5	4.2	4.2	5.1

1) Weighted average of 186 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

Public finances, % of GDP

	2012	2013	2014E	2015E	2016E
USA	-6.8	-4.1	-2.9	-2.6	-3.0
Euro area	-3.7	-3.0	-2.5	-2.3	-2.0
China	-2.2	-1.9	-2.0	-2.0	-2.0
Japan	-9.8	-10.1	-9.5	-9.0	-9.0
Denmark	-3.9	-0.9	-0.3	-2.9	-2.3
Norway	13.9	10.9	11.0	11.2	10.8
Sweden	-0.7	-1.2	-2.2	-1.4	-0.6
UK	-6.1	-5.8	-5.0	-4.0	-3.1
Germany	0.1	0.0	0.2	0.3	0.2
France	-4.9	-4.3	-3.9	-3.5	-3.0
Italy	-2.9	-2.8	-2.6	-2.2	-2.0
Spain	-10.6	-7.1	-5.6	-6.0	-4.0
Finland	-1.8	-2.1	-1.8	-1.9	-1.6
Estonia	-0.2	-0.2	-0.5	-0.9	-0.5
Latvia	-1.4	-0.9	-1.0	-1.5	-1.0
Poland	-3.9	-4.3	-4.0	5.0	-2.5
Russia	-0.2	-0.8	0.0	-0.5	-0.7
Lithuania	-3.3	-2.2	-2.2	-2.0	-1.0
India	-7.4	-7.3	-7.0	-6.5	-6.0
Brazil	-2.8	-3.3	-3.4	-3.0	-2.8

Current account, % of GDP

	2012	2013	2014E	2015E	2016E
USA	-2.9	-2.4	-2.5	-2.5	-2.5
Euro area	1.8	2.6	2.9	2.9	2.2
China	2.3	2.1	2.0	2.0	1.5
Japan	1.0	0.7	1.0	1.2	1.5
Denmark	6.0	7.1	5.9	5.3	0.0
Norway	14.3	11.1	10.7	11.0	10.5
Sweden	6.5	6.8	6.0	5.6	6.0
UK	-3.8	-4.5	-3.9	-3.2	-2.7
Germany	7.0	7.4	7.3	7.0	6.0
France	-2.1	-1.9	-1.8	-2.0	-1.8
Italy	-0.4	0.9	1.5	1.5	1.2
Spain	-1.2	0.8	1.4	1.5	1.7
Finland	-1.9	-2.0	-1.9	-1.6	-1.4
Estonia	-1.8	-1.1	-1.2	-1.6	-1.8
Latvia	-2.5	-0.8	-2.0	-2.5	-3.0
Poland	-3.7	-1.4	-1.5	-2.0	-2.5
Russia	3.6	1.5	2.3	2.1	2.0
Lithuania	-0.2	1.5	-1.8	-3.0	-2.0
India	-4.7	-2.0	-0.5	-1.0	-1.5
Brazil	-2.4	-3.6	-3.3	-2.9	-2.6

Monetary policy rates

	2.9.14	3M	30.6.15	31.12.15	31.12.16
US	0,25	0,25	0,75	1,25	2,50
Japan	0,10	0,10	0,10	0,10	0,10
Euro area	0,15	0,15	0,15	0,15	0,15
Denmark	0,20	0,20	0,20	0,30	0,40
Sweden	0,25	0,25	0,25	0,25	1,00
Norway	1,50	1,50	1,50	1,50	1,50
UK	0,50	0,50	0,75	1,25	2,25
Switzerland	0,00	0,00	0,00	0,00	0,00
Poland	2,50	2,00	2,00	2,50	3,00
Russia	8,00	8,25	8,00	7,50	7,00
China	6,00	6,00	6,00	6,00	6,25
India	8,00	8,00	7,75	7,50	7,00
Brazil	11,00	11,00	12,00	12,00	12,00

For Russia, the forecast is made for the Key Rate, as opposed to the Refi Rate in earlier publications

Monetary policy rate spreads vs Euro area

	2.9.14	3M	30.6.15	31.12.15	31.12.16
US	0,10	0,10	0,60	1,10	2,35
Japan[1]	-0,15	-0,15	-0,65	-1,15	-2,40
Euro area	-	-	-	-	-
Denmark	0,05	0,05	0,05	0,15	0,25
Sweden	0,10	0,10	0,10	0,10	0,85
Norway	1,35	1,35	1,35	1,35	1,35
UK	0,35	0,35	0,60	1,10	2,10
Switzerland	-0,15	-0,15	-0,15	-0,15	-0,15
Poland	2,35	1,85	1,85	2,35	2,85
Russia	7,85	8,10	7,85	7,35	6,85
China	5,85	5,85	5,85	5,85	6,10
India	7,85	7,85	7,60	7,35	6,85
Brazil	10,85	10,85	11,85	11,85	11,85

1) Against the US

3-month rates

	2.9.14	3M	30.6.15	31.12.15	31.12.16
US	0,23	0,25	0,80	1,40	2,75
Euro area	0,17	0,20	0,20	0,25	0,30
Denmark	0,36	0,35	0,35	0,45	0,55
Sweden	0,50	0,50	0,50	0,50	1,30
Norway	1,76	1,75	1,75	1,75	1,75
UK	0,56	0,60	0,85	1,40	2,50
Poland	2,60	2,75	2,75	3,00	3,50
Russia	10,21	10,10	9,40	9,00	8,50
Lithuania	0,32	0,30	0,20	0,20	0,40

3-month spreads vs Euro area

	2.9.14	3M	30.6.15	31.12.15	31.12.16
US	0,07	0,05	0,60	1,15	2,45
Euro area	-	-	-	-	-
Denmark	0,19	0,15	0,15	0,20	0,25
Sweden	0,33	0,30	0,30	0,25	1,00
Norway	1,59	1,55	1,55	1,50	1,45
UK	0,39	0,40	0,65	1,15	2,20
Poland	2,43	2,55	2,55	2,75	3,20
Russia	10,04	9,90	9,20	8,75	8,20
Lithuania	0,15	0,10	0,00	-0,05	0,10

10-year government benchmark yields

	2.9.14	3M	30.6.15	31.12.15	31.12.16
US	2,34	2,70	2,90	3,25	4,10
Euro area	0,89	1,20	1,40	1,55	1,90
Denmark	1,20	1,35	1,60	1,75	2,05
Sweden	1,41	1,70	2,00	2,30	2,70
Norway	2,24	2,65	2,88	3,00	3,20
UK	2,38	2,80	3,00	3,30	3,70
Poland	3,07	3,50	3,50	4,50	5,00

10-year yield spreads vs Euro area

	2.9.14	3M	30.6.15	31.12.15	31.12.16
US	1,45	1,50	1,50	1,70	2,20
Euro area	-	-	-	-	-
Denmark	0,31	0,15	0,20	0,20	0,15
Sweden	0,52	0,50	0,60	0,75	0,80
Norway	1,35	1,45	1,48	1,45	1,30
UK	1,49	1,60	1,60	1,75	1,80
Poland	2,19	2,30	2,10	2,95	3,10

Exchange rates vs SEK

	2.9.14	3M	30.6.15	31.12.15	31.12.16
EUR/SEK	9,19	9,30	9,10	8,90	8,70
USD/SEK	6,97	7,05	7,11	7,12	7,13
JPY/SEK[1]	6,72	6,84	6,64	6,47	6,20
DKK/SEK	1,23	1,25	1,22	1,19	1,17
NOK/SEK	1,13	1,15	1,14	1,11	1,09
GBP/SEK	11,58	11,77	11,67	11,71	11,60
CHF/SEK	7,62	7,62	7,46	6,95	6,69
PLN/SEK	2,17	2,21	2,12	2,12	2,18
RUB/SEK	0,19	0,19	0,20	0,20	0,21
LTL/SEK	2,66	2,69	2,64	2,58	2,52
CNY/SEK	1,14	1,15	1,18	1,20	1,21

1) Per 100 units

Exchange rates vs EUR and USD

	2.9.14	3M	30.6.15	31.12.15	31.12.16
EUR/USD	1,32	1,32	1,28	1,25	1,22
EUR/JPY[1)]	137	136	137	138	140
EUR/GBP	0,79	0,79	0,78	0,76	0,75
EUR/CHF	1,21	1,22	1,22	1,28	1,30
EUR/SEK	9,19	9,30	9,10	8,90	8,70
EUR/NOK	8,14	8,10	8,00	8,00	8,00
EUR/PLN	4,22	4,20	4,30	4,20	4,00
USD/JPY	103,8	103,0	107,0	110,0	115,0
GBP/USD	1,66	1,67	1,64	1,64	1,63
USD/CHF	0,92	0,92	0,95	1,02	1,07
USD/SEK	6,97	7,05	7,11	7,12	7,13
USD/NOK	6,18	6,14	6,25	6,40	6,56
USD/PLN	3,21	3,18	3,36	3,36	3,28
USD/CNY	6,14	6,10	6,02	5,95	5,90
USD/INR	60,6	60,0	59,0	57,0	52,0
USD/BRL	2,24	2,30	2,40	2,35	2,30

Framåt i motvind

- Fortsatt dämpad export hämmar BNP-tillväxten
- Inflationen stiger men når ej 2-procentsmålet
- Räntehöjning dröjer
- Kronan i uppförsbacke i närtid men stärks på sikt

Fortsatt tudelad ekonomi

Den svenska ekonomin har varit tudelad de senaste åren. Medan den inhemska ekonomin har utvecklats starkt har exporten stagnerat. Mönstret väntas i stora drag bestå framöver. Endast en måttlig återhämtning väntas ske av exporten. Därmed skjuter inte BNP-tillväxten fart mer påtagligt. Inflationen når inte upp till 2-procentsmålet under prognosperioden, vilket talar för att räntehöjningar från Riksbanken är mycket avlägsna.

Dämpad efterfrågan i vår omvärld

Tillväxten på avsättningsmarknader för svensk export ökar med endast 2,5 procent i år för att sedan stiga till som mest 4 procent 2016. Det är en låg tillväxt i ett historiskt perspektiv. Under de senaste åren har marknadstillväxten uppgått till i genomsnitt 6 procent per år.

Euroområdet, till vilket nästan 40 procent av svensk export går, är den främsta hämskon. Euroområdets import stod stilla både 2012 och 2013 och återhämtningen är långsam kommande år. USA och Norge utgör ljuspunkter, vilka sammanlagt mottar knappt 20 procent av svensk export. Kronans försvagning är visserligen en välkommen lättnad då den ger utrymme för höjda exportpriser och förbättrad lönsamhet. Däremot lär den knappast bidra till högre exportvolymer i någon större omfattning och ändrar inte bilden av en dämpad export.

Hushållen konsumerar och lånar

Hushållens redan gynnsamma finansiella förutsättningar har stärkts ytterligare i och med den fortsatta nedgången av boräntorna. De expansiva förhållandena återspeglas i snabbt ökad konsumtion, stigande bostadspriser och ökat bostadsbyggande. Den höga aktiviteten på bostadsmarknaden syns i hushållens efterfrågan på krediter. Skulderna ökar för närvarande med 13 miljarder kronor, eller 0,4 procent av BNP, per månad.

Samtidigt som skulderna stiger har hushållens sparande ökat och är historiskt sett högt. Sparandet är också omfattande jämfört med många andra länder. Uppgången i sparandet är troligen delvis strukturellt då ersättningsnivåerna i socialförsäkringarna har sänkts.

Införda åtgärder för att stävja ökningen av hushållens skulder kan också ha lyft hushållens sparande. Ytterligare åtgärder införs sannolikt efter årsskiftet. Får vi tro myndigheters signaler ligger reformer för att höja amorteringsgraden närmast till hands. Vi bedömer att de i ett första steg utformas så att de dämpar utvecklingen men inte mer än att kredittillväxten fortsätter att vara stark samt att bostadspriserna och hushållens konsumtion fortsätter att stiga.

Finanspolitiken ger mindre draghjälp åt hushållen framöver. De råder en bred politisk enighet att vända årets budgetunderskott på ca 2 procent av BNP till överskott.

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

	2011 (mdkr)	2012	2013	2014E	2015E	2016E
Privat konsumtion	1 671	1,6	2,0	2,8	2,6	2,1
Offentlig konsumtion	924	0,3	2,0	0,9	1,4	0,8
Fasta bruttoinvesteringar	651	3,3	-1,1	3,7	4,0	3,5
- industri	85	8,3	-4,4	-4,0	3,9	5,2
- bostadsinvesteringar	125	-11,2	6,3	19,6	7,0	3,0
Lagerinvesteringar*	40	-1,2	0,2	0,2	0,0	0,0
Export	1 735	0,7	-0,4	2,7	4,4	4,6
Import	1 541	-0,6	-0,8	4,5	4,8	4,1
BNP		0,9	1,6	1,9	2,5	2,3
BNP, kalenderkorrigerad		1,3	1,6	2,0	2,3	2,1
Nominell BNP (mdr SEK)	3 481	3 550	3 641	3 755	3 900	4 053
Arbetslöshet (% av arbetskraften)		8,0	8,0	7,9	7,6	7,4
Sysselsättning		0,6	1,1	1,2	0,9	0,6
Konsumentpriser (årsgenomsnitt KPI)		0,9	0,0	0,0	1,1	1,8
Underliggande inflation (årsgenomsnitt KPIF)		1,0	0,9	0,6	1,4	1,5
Timlöner (nationalräkenskaper)		2,8	2,2	2,7	3,0	3,3
Bytesbalans (mdr SEK)		229,1	245,8	226,0	249,0	258,0
- % av BNP		6,5	6,8	6,0	5,6	6,0
Handelsbalans (% av BNP)		2,4	2,2	2,2	2,1	2,4
Offentligt finansiellt sparande (mdr SEK)		-26,4	-44,5	-82,0	-54,8	-24,0
- % av BNP		-0,7	-1,2	-2,2	-1,4	-0,6
Offentlig bruttoskuld, % av BNP		38,3	40,5	42,4	41,7	41,3

* Bidrag till BNP-utvecklingen, procentenheter

Den tudelade ekonomin syns också i investeringarna. Bygginvesteringarna, som i huvudsak påverkas av inhemska förhållanden, ökar. Maskininvesteringarna, som är beroende av exportindustrin, utvecklas däremot svagt.

Sysselsättningen ökar men få inflationsimpulser

Arbetsmarknaden visar på en stadig förbättring. Såväl sysselsättningen som arbetskraften växer i god takt. Arbetslösheten har dock bitit sig fast på ca 8 procent och nedgången förputsås vara långsam under prognosperioden.

Även om de lediga resurserna på arbetsmarknaden inte ska överskattas lär det inte uppstå några större flaskhalsar de närmaste åren. Med den pressade exportindustrin som utgångspunkt för avtalsförhandlingarna är det mycket som talar för att lönerna ökar i måttlig takt så långt fram som 2016.

Kronförsvagningen hittills i år innebär en förändring såtillvida att den tidigare kraftiga nedgången i importpriserna bromsas upp. Kronrörelsen innebär dock ingen markant förändring av inflationsutsikterna, särskilt som försvagningen bedöms vara tillfällig.

Även när det gäller skatter sker ett skifte, från att de har sänkts under ett antal år till vissa höjningar nästa år. Regeringen har aviserat höjda skatter på bland annat fordon, alkohol och tobak. Riksdagsvalet den 14 september kan resultera i en ny regering. Det skulle i sin tur kunna leda till att fler skatter höjs, vilket kan påverka inflationen. Det parlamentariska läget är dock oklart och det är osäkert hur handlingskraftig en eventuell ny regering blir.

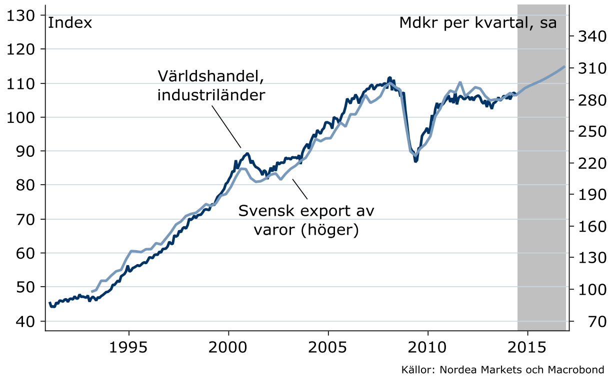
Riksbanken ligger still länge med kronan på släp

Sammantaget stiger inflationen framöver men bedöms inte nå 2-procentsmålet under prognosperioden. Riksbanken kämpar för att upprätthålla trovärdigheten för inflationsmålet, vilket förklarar den kraftiga räntesänkningen till historiskt låga 0,25 procent i juli i år. Givet Riksbankens starka betoning på inflationen, vår inflationsprognos och en expansiv penningpolitik från ECB bedömer vi att Riksbanken höjer räntan sent under prognosperioden och i långsam takt.

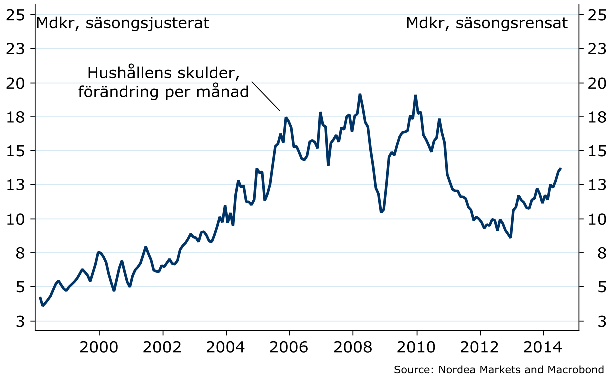
Förutsättning är på plats för en starkare krona då den relativt goda svenska ekonomin talar för en mindre expansiv penningpolitik än i många andra länder. Riksbankens penningpolitik tynger dock kronan i närtid. Därtill kan en utdragen process att bilda regering efter riksdagsvalet skapa osäkerhet och försvaga kronan. Så småningom lär dock Riksbanken höja styrräntan och det före till exempel ECB, vilket bidrar till att kronan vinner terräng igen. Mot dollarn sker dock en gradvis försvagning då tidiga räntehöjningar från Fed ger dollarkursen stöd.

Torbjörn Isaksson
torbjorn.isaksson@nordea.com +46 614 8859

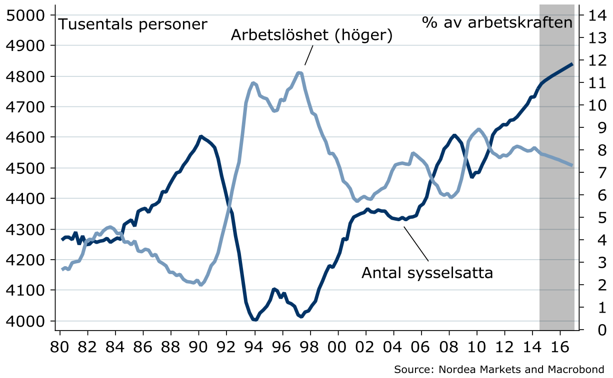
Långsam global återhämtning tynger svensk export



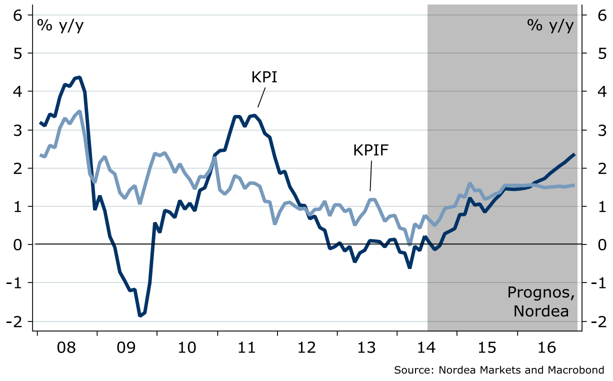
Hushållens kredittillväxt växlar upp



Bättre arbetsmarknad



Underliggande inflation når ej målet



Oil investment a drag

- Growth to slow in 2015
- Moderate inflation and wage growth
- Rates on hold for a long time

Better now, but slowdown more likely in 2015

Over the summer we have seen mixed signals from the Norwegian economy. The first survey of oil companies' investment plans for 2015 confirmed our belief that oil investment has peaked and will decline next year. Lower oil investment will act as a drag on growth far beyond the oil services industry. Consequently, we still expect growth to slow next year to around 1½% and unemployment to edge slightly higher. In 2016 GDP growth should rise to around 2%. Developments so far this year have, however, been stronger than we had expected. There are signs of declining unemployment and recent consumption readings have been benign. Fairly decent consumption growth should also curb the downtrend in GDP growth going forward.

Declining oil investment

The June survey of oil companies' investment plans for 2015 is preliminary and more investment projects are in the pipeline. We expect fairly large upward revisions to the readings. For instance the Johan Sverdrup field, which will lead to some activity as early as 2015, was not included in the survey. But even including this, the survey points to a real drop in oil investment of 15% from 2014 to 2015, which is slightly more than our previous estimate. We look for zero investment growth in 2016.

The shift from years of strong growth in oil investment to declining growth will have a relatively strong impact on the Norwegian economy. Not only producers of drilling equipment etc will be hit; services such as engineering and traditional business services will also be affected. Many areas may move from skill shortage to skill surplus, which would dampen wage growth in these areas and, eventually, wage growth in general. Lower profitability in some sectors and a need to adapt to new markets should also put a lid on wage growth.

Consumers appear more optimistic

The pace of house price increases has accelerated driven by banks' increased willingness to lend. But we think that the pace will decelerate again during the remainder of the year and that prices will stay largely unchanged in 2015. House prices are already high, and with slightly rising unemployment and moderate wage growth, the probability of much higher prices is low. With an improved market for existing homes, residential construction will likely increase going forward, but not become a major growth engine due to the moderate price growth.

The outlook for consumer spending is more uncertain. Consumption growth this year has been surprisingly strong, but to some extent we see this as a temporary phenomenon. Modest real wage growth and slightly higher unemployment suggest moderate consumption growth going forward. On the other hand, interest rates are low and the savings rate high, which point to relatively good consumption growth. We see consumer spending rising just over 2% in 2015 and 2016, which means that consumption growth to some extent will offset the negative effect of declining oil investment on GDP growth.

Exports and government spending drive growth

Net exports from the mainland economy will likely also contribute positively to GDP growth. Improved conditions internationally and last year's NOK weakening point to an increase in mainland exports. And with im-

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

	2011 (NOKbn)	2012	2013	2014E	2015E	2016E
Private consumption	1,130	3.0	2.1	2.2	2.2	2.3
Government consumption	592	1.8	1.8	2.2	2.5	2.5
Fixed investment	539	8.3	8.4	-0.5	-2.8	1.4
- gross investment, mainland	375	4.5	4.4	-0.1	2.8	2.0
- gross investment, oil	144	17.4	15.1	1.0	-15.0	0.0
Stockbuilding*	114	-0.1	-0.2	0.0	0.0	0.0
Exports	1,154	1.1	-3.3	-0.7	1.3	1.5
- crude oil and natural gas	568	0.7	-7.7	-3.5	0.0	0.0
- other goods	316	1.7	0.4	2.4	3.0	3.0
Imports	779	2.3	2.9	0.4	0.9	2.3
GDP	2,751	2.9	0.6	1.4	1.1	1.7
GDP, mainland	2,075	3.4	2.0	2.3	1.5	2.2
Unemployment rate, %		3.2	3.5	3.4	3.7	3.9
Consumer prices, % y/y		0.7	2.1	2.1	1.7	1.6
Core prices, % y/y		1.2	1.6	2.5	1.7	1.6
Annual w ages, % y/y		4.5	3.9	3.5	3.3	3.3
Current account balance (NOKbn)		417.2	333.6	332.4	351.4	346.4
- % of GDP		14.3	11.1	10.7	11.0	10.5
Trade balance (NOKbn)		427.7	378.6	301.5	317.7	303.7
- % of GDP		14.7	12.6	9.7	9.9	9.2
General government budget balance (NOKbn)		404.5	327.1	343.0	358.9	357.5
- % of GDP		13.9	10.9	11.0	11.2	10.8

* Contribution to GDP growth (% points)

ports growth, net exports from the mainland economy should grow at a healthy clip next year. Growth in government consumption and perhaps especially investment should also be quite high, underpinning GDP growth. But mainland business investment is expected to be hit by the lower activity in the oil services industries. Still, relatively strong growth in consumer-oriented sectors and an initially low investment level will prevent a drop in mainland investment.

Low wage and price growth

Core inflation in H1 2014 was on target and 1½% points higher than during the same period in 2013. The increase is attributable to higher import prices in the wake of NOK weakening and more sharply rising prices of Norwegian goods and services, notably food. The effect of the NOK weakening will gradually fade, and we think that lower wage growth will dampen the rate of increase in the prices of Norwegian goods and services. In 2015 we see inflation dropping below 2% and subsequently remain in the 1½-2% range.

Interest rates to remain low for a long time

Weak growth at least in 2015, slightly rising unemployment, moderate wage growth and inflation well below target suggest that interest rates will stay low for a long time. But for the sake of financial stability, a rate cut is not likely. The fact that the NOK would start to weaken the minute a rate cut becomes a theme makes it even more unlikely. In 2016 growth should accelerate, but inflation pressures will remain low, and we therefore expect Norges Bank to stay on hold also in 2016. And unchanged rates in the Euro area further underpin unchanged rates in Norway.

With a flat trend in interest rates in Norway and the Euro area, EUR/NOK should remain fairly stable. But with overall EUR weakness and slightly higher growth in Norway in 2016, the NOK may strengthen versus the EUR over the forecast period.

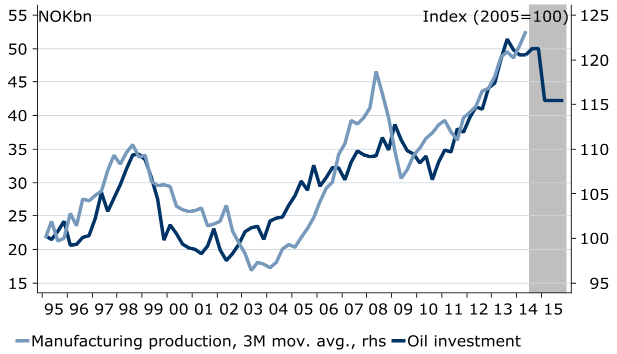
Consumers the wild card

Consumer spending has surprised on the upside, which could be a sign of a sharper, more permanent turnaround. Also the pace of house price increases is currently high. Consumption accounts for a much larger share of demand in the mainland economy than oil investment, so in the event of higher-than-expected consumption growth, overall growth may be higher than we expect. If house price growth also triggers renewed fears of financial imbalances, a rate hike could come earlier than expected. However, should Norges Bank signal an imminent rate hike, the NOK will likely strengthen, and possibly so much so that Norges Bank will be forced to back off.

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

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

Manufacturing hit by oil investment

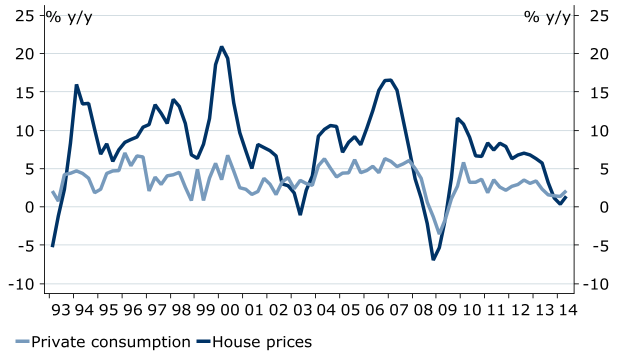


Source: Nordea Markets and Macrobond

Unemployment heading south

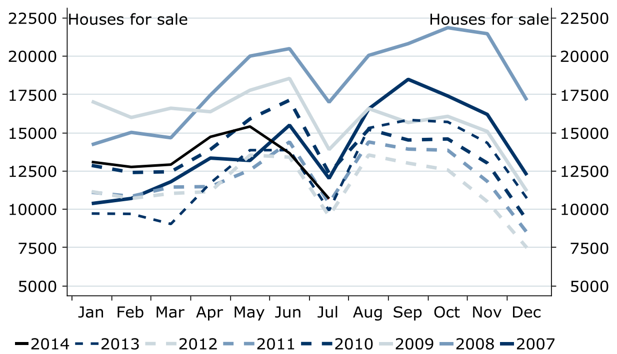
Source: Nordea Markets and Macrobond

Strong consumption



Source: Nordea Markets and Macrobond

Homes for sale herald better times ahead



Source: Nordea Markets and Macrobond

Erratic recovery taking shape

- Growth slowly returning to the Danish economy
- Income growth outpaces production growth
- Dark and bright sides of the labour market
- Distorted housing market

An economic upswing is seldom linear. Sometimes, growth is very strong, other times it is more subdued – or even negative. At the moment, this kind of erratic recovery is taking shape in the Danish economy. Near term, rising geopolitical unrest and the weakened momentum of several of Denmark's export markets have heightened the risk of a new growth setback in the Danish economy. However, our baseline scenario does not incorporate lasting damage to the recovery, which is expected to result in a growth rate of 2.0% in 2016.

Consumer spending – pick-up but no spending spree

After a long spell of stagnation, consumer spending has started to edge higher. And although growth is well below the historical average, it is testimony of reviving demand in the Danish economy. In recent years, mainly household consumption of goods has been under pressure, while demand for services has fared much better. This is also clearly reflected in Danish retail sales, which in volume terms are still 13% below the level in 2007. But over the past year, retail sales have slowly started to rise. We expect this trend to remain intact in coming years, in step with rising employment and positive real wage growth boosting household disposable income. This view is also supported by households' optimistic view on their future financial situation, their substantial wealth and the gradual housing market improvement.

Despite all these factors, which all point to increased household consumption, we are unlikely to see an actual spending spree. This is because households are still reducing their debts relative to their disposable income. This is happening although the latest lending survey by the Danish central bank shows that banks and mortgage lenders have generally eased credit standards slightly over the past six months while households' demand for new loans has gone up. In our view, the ongoing debt deleveraging is not yet over, which will limit the upside potential of consumer spending in the years ahead.

Temporary lull in exports

Over the summer geopolitical unrest and lower growth momentum in the Euro area have put downward pressure on production expectations in the manufacturing industry. The weaker export outlook increases the risk of the upswing in the Danish economy becoming weaker than anticipated so far. However, our baseline scenario assumes a relatively brief lull before growing demand in key export markets again drives exports higher. The trade balance surplus is nonetheless expected to shrink, as the projected pick-up in consumer spending and investment activity will lift imports. Against this backdrop, the substantial current account surplus also looks set to decline during the forecast period.

Income growth outpacing production growth

The value of overall production in Denmark is still more than 4% below the level in 2008. But if we focus on overall income growth instead of production, the traditional picture of the Danish economy changes. Now we see that the Danish welfare level is back at the pre-crisis level, with significant progress notably since the beginning of 2013. The gap between income growth and production growth is due to Danish companies increasingly relocating production to other countries and the result of Denmark's net wealth relative to other countries yielding significant returns. The increasing income from foreign

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

	2011 (DKKbn)	2012	2013	2014E	2015E	2016E
Private consumption	872	-0.1	0.1	1.0	1.5	1.9
Government consumption	508	0.4	0.7	0.8	1.0	0.6
Fixed investment	314	0.8	0.5	2.5	2.0	3.2
- government investment	40	7.7	-0.7	3.5	-4.6	-4.0
- residential investment	82	-8.0	-5.0	3.2	1.2	4.8
- business investment	192	2.8	2.6	2.0	3.6	4.1
Stockbuilding*	4	-0.3	0.2	0.2	0.0	0.0
Exports	962	0.4	1.0	1.8	2.5	4.0
Imports	868	0.9	1.4	5.0	4.5	4.7
GDP		-0.4	0.4	0.5	1.3	1.7
Nominal GDP (DKKbn)	1,792	1,826	1,857	1,864	1,874	1,902
Unemployment rate, %		6.1	5.8	5.1	5.1	4.9
Gross unemployment level, '000 persons		162	153	136	135	130
Consumer prices, % y/y		2.4	0.8	0.7	1.2	1.6
Hourly earnings, % y/y		1.5	1.2	1.2	1.4	1.8
Nominal house prices, one-family, % y/y		-3.3	2.7	2.8	3.1	3.5
Current account balance (DKKbn)		109.2	131.6	110.0	100.0	85.0
- % of GDP		6.0	7.1	5.9	5.3	0.0
General government budget balance (DKKbn)		-71.9	-15.8	-5.0	-54.0	-43.0
- % of GDP		-3.9	-0.9	-0.3	-2.9	-2.3
General government gross debt, % of GDP		45.3	44.4	44.8	45.6	46.3

* Contribution to GDP growth (% points)

investment and wages is an integrated part of the buffer that during the crisis ensured Denmark's safe-haven status in the financial markets.

Dark and bright sides of the labour market

Labour market trends have surprised on the upside. Over the past year, employment has risen and jobless figures have steadily declined – although much of this decline is due to more people leaving the labour market. And precisely the rising number of people who left the labour market during the crisis could prove very costly in the long run. According to the latest labour market survey, the portion of working-age people in active employment has dropped to a low since the statistics were first compiled in 1996. If the decline in the labour market participation rate becomes permanent, it will reduce the long-term growth potential and put heavy pressure on public budgets. Against this background, it is crucial that the Danish parliament continues recent years' structural reform programme aimed at boosting the labour supply and enhancing productivity.

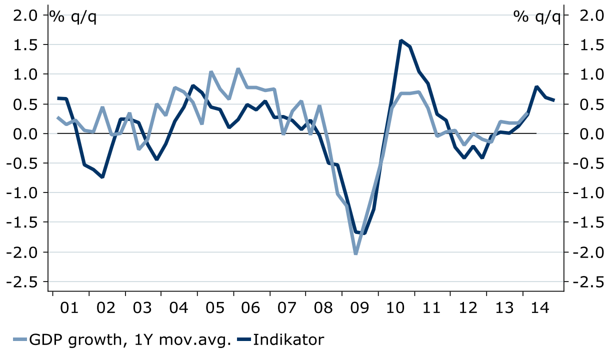
Distorted housing market

The Danish housing market is at a crossroads. Measured by the national average, prices have moved higher over the past 18 months, led by owner-occupied flats in the vicinity of the largest cities. But despite the higher prices there are still a lot of homes on the market relative to actual sales. Coupled with very low construction activity this means that the housing market cannot yet really drive overall economic activity higher.

We expect house prices to continue to rise during the forecast period – supported by growing employment and very low interest rates. But geographical differences will be significant, with price increases concentrated around the large cities where demographic trends will create higher demand. On the other hand, homes far away from these epicentres will be more exposed to downward price pressure given the imbalance between supply and demand. However, price trends in these areas will to some extent be supported by a spill-over effect from the large cities where prices in some places approach 2007 levels.

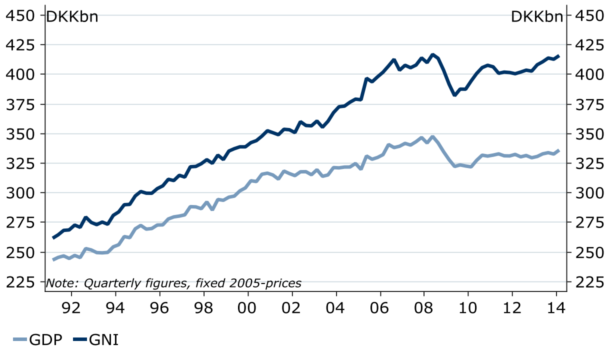
Jan Størup Nielsen
jan.storup.nielsen@nordea.com +45 333 3171

Higher growth in sight



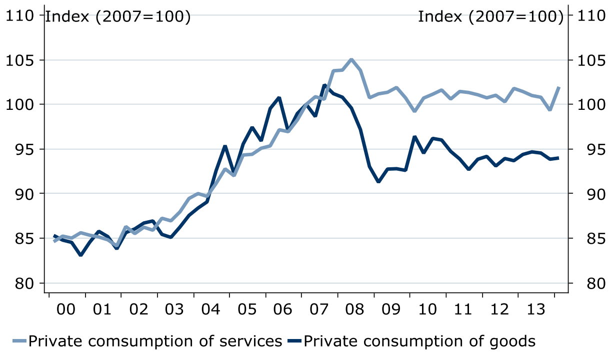
Source: Nordea Markets and Macrobond

Income growth outstripping production growth



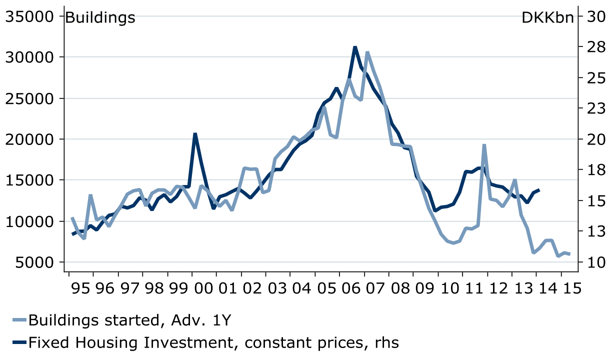
Kilde: Nordea Markets og Macrobond

Demand for goods under pressure



Kilde: Nordea Markets og Macrobond

Low housing market activity



Source: Nordea Markets and Macrobond

How low can you go?

- Sanctions destroy economic recovery
- Slower rise in wages, prices and pensions
- Economy up in H2 2015, driven by exports
- Continued weakness in consumption and investment

Sanctions destroy economic recovery

Global growth has accelerated, led by the industrialised countries, but there is no sign of a long-awaited pick-up in exports in Finland. Even though the first six months of this year offered a glimmer of hope with rising manufacturing orders, June was a huge setback and now the direction of orders is once again unclear. In addition, tax hikes have cancelled out the rise in household purchasing power. Against this backdrop, it is not surprising that the situation in trade and other domestic service industries is difficult and they have a weak employment outlook. Another disadvantage is that investment continues to decline.

As if these problems were not enough, it did not stop there. The sanctions against Russia and Russian counter-sanctions hit the Finnish economy both directly and indirectly. We do not know how long the situation will continue like this or even worse. Uncertainty makes companies and households cautious, so investments and larger acquisitions are considered carefully. The sanctions will also curb growth in the rest of Europe both directly and indirectly through weakening confidence. This will deteriorate Finland's economic outlook even further.

Economists are criticised – justly – for too often seeing an upward turn as being six months away. We believe that due to the sanctions a pick-up should not be expected until well into 2015 at the earliest. We estimate that Finland's GDP will contract this year for the third consecutive year and grow very modestly in the next few years. We have reduced our growth forecast for 2015 by 0.7 percentage points to 0.3% and expect only a meagre rise of 1.2% for 2016. The forecast for this year remains intact (-0,5%). We estimate that the level seen in total production in 2007 will not be reached until 2017.

The expected growth of below 0.5% for 2015 means that in practice Finland is only one shock away from a fourth consecutive year of its economy contracting. This did not happen even during the depression in the 1990s.

Slower rise in wages, prices and pensions

Economic growth in Finland continues to be, as in the past few years, significantly slower than in the euro area and in the most important peer countries. This indicates an exceptional underachievement.

The prolonged crawl essentially changes the operating environment and forces us to ask questions we are not used to: how low can some key indicators fall and what problems will that cause?

Due to the lagging performance, employment will weaken more and longer than expected. We forecast the unemployment rate to rise to 9% on average in 2015 and 2016. This would mean that there will be 20,000 unemployed more next year than we previously estimated. For 2016 the change in the unemployment estimate is even greater.

The rise in consumer prices has decelerated quickly in the past few months and will continue to do so. The weak labour market will continue to keep producer and wholesale prices in check. There is no significant domestic price pressure. There should not be any

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

	2011 (EURbn)	2012	2013	2014E	2015E	2016E
Private consumption	105	0.1	-0.7	0.2	0.5	0.7
Government consumption	46	0.7	1.5	0.4	0.3	0.3
Fixed investment	37	-2.5	-4.9	-4.9	-0.1	3.4
Stockbuilding*	2	-1.1	-0.4	0.5	-0.2	0.0
Exports	77	1.2	-1.7	-0.2	2.1	4.1
Imports	79	1.3	-2.5	0.3	1.4	3.6
GDP		-1.5	-1.2	-0.5	0.3	1.2
Nominal GDP (EURbn)	189	199	201	202	205	210
Unemployment rate, %		7.7	8.5	8.7	9.0	9.0
Industrial production, % y/y		-8.4	-2.0	-2.0	2.0	3.0
Consumer prices, % y/y		2.8	1.5	1.0	0.4	0.8
Hourly earnings, % y/y		3.2	2.2	1.3	1.0	0.8
Current account balance (EURbn)		-3.8	-4.1	-3.9	-3.4	-2.8
- % of GDP		-1.9	-2.0	-1.9	-1.6	-1.4
Trade balance (EURbn)		-0.7	-0.4	-0.6	-0.3	-0.2
- % of GDP		-0.4	-0.2	-0.3	-0.1	-0.1
General government budget balance (EURbn)		-3.5	-4.1	-3.7	-3.9	-3.4
- % of GDP		-1.8	-2.1	-1.8	-1.9	-1.6
General government gross debt (EURbn)		103.2	110.2	116.9	123.9	130.4
- % of GDP		53.6	57.0	57.9	60.4	62.2

* Contribution to GDP growth (% points)

pressure from import prices either, as energy prices are expected to decline somewhat. Interest rates will also remain low. Based on these factors, we expect the rise in consumer prices to decelerate to under 0.5% in 2015 and to remain below 1% going forward. If this happens, speculation over deflation will start next year.

Lack of economic growth, weaker employment and lower inflation point towards very moderate wage increases during the entire forecast period. Households' aggregate wages and salaries will hardly grow at all. Low inflation and low wage increases will in turn mean quite modest raises to pensions.

The slow trudge of the economy makes it even more difficult to stop the increase in public debt. Without major spending cuts the financing deficit of the state and the municipalities will unavoidably remain large. As a result, losing the highest credit rating will only be a matter of time. Moreover, we are in a weak position to receive the next blow striking the world economy.

Economy up in H2 2015, driven by exports

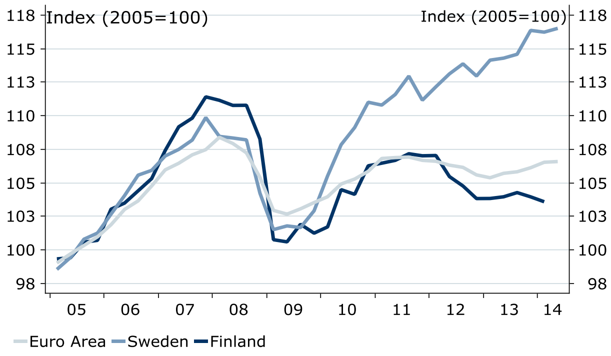
Our forecast assumes that the economy will start to rise driven by exports. However, exports are not likely to start recovering until much later than previously anticipated: in H2 2015. Improved exports require that investment will gradually gather momentum around the world and that the imports of the most important trading partners will start to grow. A pick-up in export is unlikely to take place soon, as the uncertainty caused by the Russian situation and sanctions holds back investment and there are no signs of a major recovery in the imports of the trading partners either.

Weakness continues in consumption and investment

The weakness of domestic demand is a significant obstacle to growth, and it will take quite a while before domestic demand turns into a growth driver. Weaker employment will weigh on household purchasing power and confidence as well as on private consumption. The outlook of residential construction will not improve gradually until next year, but the output will remain low. Prospects for a pick-up in machinery and equipment investment are for the time being poor.

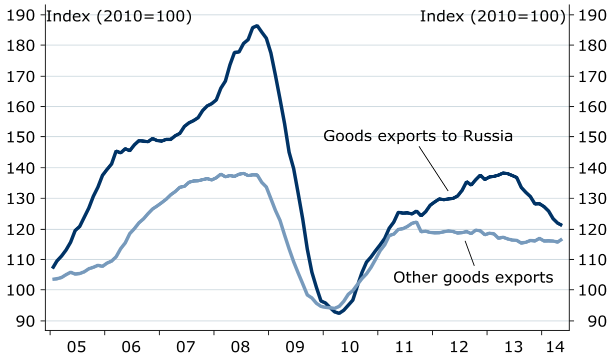
Pasi Sorjonen
pasi.sorjonen@nordea.com +358 9 165 59942

GDP contracts for the third consecutive year in 2014



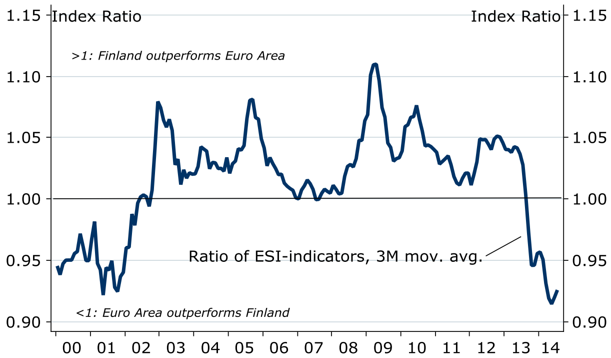
Source: Nordea Markets and Macrobond

Exports to Russia are falling



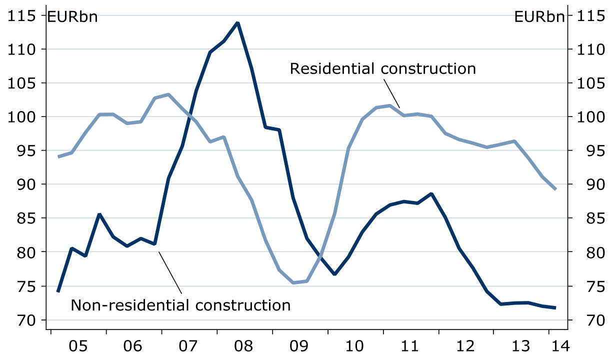
Source: Nordea Markets and Macrobond

Economic sentiment is unusually low



Source: Nordea Markets and Macrobond

Construction outlook is weak



Source: Nordea Markets and Macrobond

Finally kicking into higher gear

- Stronger growth despite risks
- Inflation pressures are building
- QE to end in October – first rate hike in March 2015
- Fed is behind the curve – may have to play catch-up

Although real GDP growth stalled during the first half of 2014, we have little doubt that the US economy is on a self-sustaining growth path that will allow the Fed to start raising interest rates in 2015.

In our view, mid-2013 will mark the transition from three years of US economic growth of close to 2% to three years of around 3% growth. According to recently revised GDP data, the economy expanded at an average pace of 4% in H2 2013. This strength and the 4.2% growth rate currently reported for Q2 make us more confident that the weakness in Q1 largely reflects payback for exaggerated strength in H2 2013 combined with a hit from the weather and strangely weak healthcare spending, rather than a more worrying slowdown in the underlying trend. Current consumer and business confidence indicators support this view.

With the continued fading of several drags, including fiscal tightening, private-sector deleveraging and the credit crunch, the pieces are in place for sustained above-trend growth of around 3% in H2 2014 and 2015.

In 2016, however, a gradual slowdown in activity is expected, towards an estimated 2% potential growth pace as full employment is reached and monetary policy is tightened further.

Heading for full employment

The economy's strength is increasingly showing through in the job market. Employment rose to a new high in May as the US finally replaced all of the 8.8 million jobs lost during the recession, and job growth has accelerated above 200,000 per month since the start of the year, almost double that needed to reduce unemployment given current labour force growth. Most encouraging is the recent strength in construction, manufacturing and state and local government jobs, most of which are in the middle of the income spectrum.

The pace of job growth seems likely to accelerate further. Employers are posting job openings at pre-recession rates and small business confidence has largely recovered from the recession.

Against this background, we expect unemployment to reach 6% by end-2014, 5½% by end-2015 and 5% by end-2016, assuming a modest increase in the labour force participation rate. According to the Fed, an unemployment rate around 5½% is consistent with full employment. In our view, the full employment rate (NAIRU) is likely closer to 6%.

Wage inflation has been stuck near 2% in recent years. However, with continued diminishing slack in the labour market we expect to see stronger wage growth over the next 3-6 months and a gradual drift higher over the next several years, bolstering real income growth. Small firms are reporting broader gains in compensation plans as well as shortages of qualified applicants, and in the past those trends have tended to lead to a pick-up in wage increases. Also the fact that short-term unemployment has fallen back almost to pre-recession levels suggests that wage pressures are slowly building.

Labour shortages have already emerged in some parts of

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

	2011 (USDbn)	2012	2013	2014E	2015E	2016E
Private consumption	10.689	1,8	2,4	2,3	2,8	2,3
Government consumption and investment	3.169	-1,4	-2,0	-0,5	0,9	1,0
Private fixed investment	2.198	8,3	4,7	5,2	6,5	5,8
- residential	386	13,5	11,9	2,2	7,6	7,5
- equipment and softw are	838	6,8	4,6	6,3	7,2	6,3
- non-residential structures	382	13,1	-0,5	8,4	6,6	5,3
- intellectual property products	592	3,9	3,4	3,6	4,0	4,0
Stockbuilding*	42	-1,9	2,2	0,0	-0,4	0,0
Exports	2.106	3,3	3,0	3,3	6,2	6,0
Imports	2.686	2,3	1,1	4,2	5,2	4,4
GDP		2,3	2,2	2,1	3,1	2,8
Nominal GDP (USDbn)	15.518	16.163	16.768	17.408	18.322	19.255
Unemployment rate, %		8,1	7,4	6,2	5,6	5,2
Industrial production, % y/y		3,8	2,9	4,0	3,6	3,4
Consumer prices, % y/y		2,1	1,5	2,0	2,3	2,4
Consumer prices, ex. energy and food, % y/y		2,1	1,8	1,9	2,3	2,5
Hourly earnings, % y/y		1,9	2,1	2,1	2,4	3,1
Current account balance (USDbn)		-460,8	-400,3	-439,8	-458,1	-481,4
- % of GDP		-2,9	-2,4	-2,5	-2,5	-2,5
Federal government budget balance (USDbn)		-1089,2	-680,3	-500,0	-475,0	-550,0
- % of GDP		-6,8	-4,1	-2,9	-2,6	-3,0
General government gross debt, % of GDP		70,1	72,0	74,4	74,0	73,6

* Contribution to GDP growth (% points)

the energy, high-tech, manufacturing and transportation industries. The fact that job openings have far outpaced the number of people being hired suggests that US workers might not have the right skills.

Headline and core inflation have increased this year and both (CPI) rates are currently close to the Fed's 2% target. Going forward, we expect core inflation to slowly move higher as evidence of a tighter labour market points to stronger wage increases. At the same time, low rental vacancy rates suggest rents (40% of core CPI) should accelerate further.

Evidence of higher wage increases are expected to cause markets to price in more tightening by the Fed. The result will likely be increases in bond yields and a generally stronger USD over the forecast horizon. Fortunately, US households, businesses and the banking system seem to be prepared for higher rates.

Home prices have rebounded strongly since hitting bottom more than two years ago. Given the better job market and falling rental vacancy rates, home prices are likely to continue rising, at a 3-5% annual pace.

Fed behind the curve

The Fed has already signalled that it is likely to end its bond purchases in October, nearly six years after the first quantitative easing programme (QE) started in late 2008.

With labour market slack diminishing, we believe the first rate hike by the Fed is likely to occur in March 2015. Initially the Fed is expected to tighten slowly, but because the Fed seems to be underestimating inflation risks, we see risks of more aggressive tightening later in the cycle. Rather than outright bond sales, the fed funds rate and the interest rate paid on excess reserves held by banks at the central bank are likely to be the Fed's key tools when it comes to tightening policy.

Currently we expect the fed funds rate to reach 1.25% by end-2015 and 2.50% by end-2016.

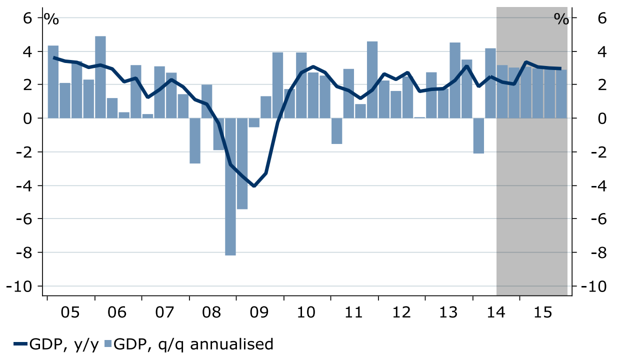
Risks to the outlook

In addition to global downside risks to the US outlook, a disorderly response from financial markets to the Fed's QE exit and subsequent rate hikes remains a concern. Another key domestic risk is that US political/regulatory uncertainty continues to hold back business investment. However, there are also upside risks to the US outlook. Thus, we could see a stronger-than-expected rebound in US business investment as pent-up demand is released.

Overall, risks to the US outlook are viewed as roughly balanced.

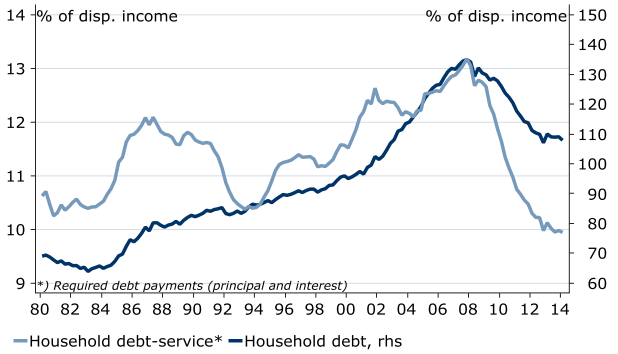
Johnny Bo Jakobsen
johnny.jakobsen@nordea.com +45 3333 6178

Above-trend growth appears solid on track



Source: Nordea Markets and Macrobond

The consumer is back – deleveraging has stopped

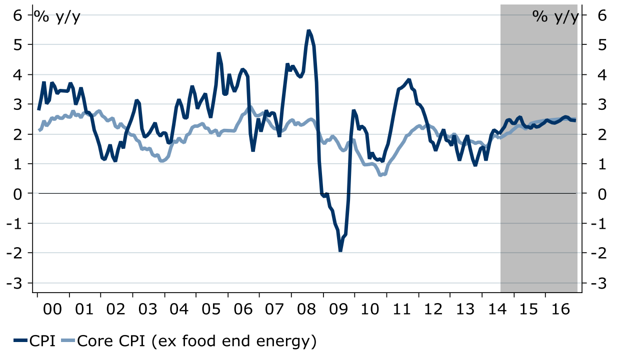


Source: Nordea Markets and Macrobond

Continued labour market improvement

Source: Nordea Markets and Macrobond

Inflation is creeping up on the Fed



Source: Nordea Markets and Macrobond

No great expectations

- Frustratingly slow recovery
- Domestic demand to firm somewhat
- Weaker euro and slightly higher inflation
- Low ECB rates for years to come

The slow and uneven recovery of the Euro-area economy has come to a critical point. One could actually ask whether this still is a recovery because after four consecutive quarters of growth, GDP stagnated in Q2 and clouds are hanging over Q3. The German engine sputters, France and Italy are held back by structural weakness. Ongoing improvement in countries like the Netherlands, Ireland and Spain cannot compensate for that.

After no growth in Q2, slow growth ahead

Going forward, we still consider slow growth as more likely than stagnation or recession. First, although some sentiment indicators have recently fallen, most are still at a healthy level. We assume that geopolitical conflicts will not escalate further. Headwinds for sentiment from that side should therefore abate. Second, domestic demand should benefit from a less restrictive fiscal policy. However, we do not expect France and Italy to succeed against Brussels and Berlin in their efforts to loosen the Stability Pact significantly. Third, recent indications from the bank lending survey point towards less restrictive lending standards and rising loan demand. Once the ECB's bank stress tests and the Asset Quality Review are over in Q4, banks should become more willing to lend with the support of cheap ECB funding (see below).

Progress in growth-enhancing structural reforms is spread unevenly and will probably continue to be so. France still seems to rely more on help from the ECB and attempts to change fiscal rules than on its own efforts to improve competitiveness. Italy is moving in the right direction, judging from the prime minister's ambitious plans. Implementation is the key, and given decades of standstill there is a long way to go. The pace of reform in Spain seems to be slowing ahead of the big election year 2015, but a lot has been achieved already.

Supportive global environment, despite Russia

For an economy plagued by structural deficiencies and banks still reluctant or unable to lend, export performance is particularly important. In recent years, Euro-area exports have developed broadly in line with global trade. Most recently, exports to Russia were down 17% y/y; they could easily fall by 25% for this year as a whole. That is painful for some companies. However, the Russian economy has been quite weak for a while and many European companies relying on exports to Russia have had time to re-orientate their activities.

In 2013 Russia accounted for 4.7% of Euro-area exports. That is less than exports to Sweden and Denmark combined (5%). The UK, the US and Asia are far more important export destinations. Given our growth outlook for these regions, the overall export environment looks slightly worse than it looked half a year ago, but it is still supportive.

Sentiment effects on growth can be much larger than the direct and indirect impact of the Russian-Ukrainian crisis on trade. But, as mentioned above, we don't expect an escalation.

Growth forecast revised down

With no growth in Q2 and expected slow growth for the rest of this year, we revise down our 2014 forecast for GDP growth to 0.8%. This could roughly be the potential growth rate of the Euro-area economy. We also lower our forecast for 2015 to 1.1% (from 1.5%). That reflects less carry-over from 2014 to 2015, a reassessment of the outlook for the French and the Italian economies and less growth for Germany due to headwinds from abroad. Progress in bringing unemployment down will probably be incremental.

Our first look into 2016 sees growth of 1.4%. Very low interest rates and slightly higher employment should support domestic demand. As monetary policies in the US and the Euro area are moving in different directions, we expect the euro to weaken further. That should help exports. However, the global environment (US, China)

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

	2011 (EURbn)	2012	2013	2014E	2015E	2016E
Private consumption	5,427	-1.4	-0.6	0.8	0.9	1.0
Government consumption	2,033	-0.6	0.2	0.9	0.9	1.3
Fixed investment	1,797	-3.8	-2.8	1.0	2.4	3.9
Exports	4,187	2.7	1.5	3.1	4.0	3.8
Imports	4,058	-0.8	0.4	3.5	4.3	4.5
Net exports*	129	0.9	0.3	0.0	0.1	-0.2
GDP		-0.6	-0.4	0.8	1.1	1.4
Nominal GDP (EURbn)	9,444	9,483	9,579	9,699	9,906	10,176
Unemployment rate, %		11.3	12.0	11.6	11.4	11.1
Consumer prices, % y/y		2.5	1.4	0.6	1.2	1.6
Current account balance, % of GDP		1.8	2.6	2.9	2.9	2.2
General government budget balance, % of GDP		-3.7	-3.0	-2.5	-2.3	-2.0
General government gross debt, % of GDP		92.7	95.0	96.0	95.4	95.0

* Contribution to GDP growth (% points)

could be less supportive by then.

Moderate rise in inflation ahead

It is our long-held view, that the Euro area is one major shock away from deflation. We don't consider the impact from the various geopolitical crises to be such a major shock. Although headline inflation fell to 0.4% y/y in July and could fall again in the short term, there have recently been signs of disinflationary forces not gaining strength, for example a core rate stable around 0.8% y/y and smaller declines in import and producer prices.

We expect base effects from energy prices to lift the headline rate to ¾% in Q4. A weaker euro and slowly decreasing slack in the economy should lead to inflation picking up over time. The inflation rates we expect for 2015/16 (1.2% and 1.6%) justify and require an extremely lenient ECB policy also going forward.

ECB still has an easing bias

Monetary policy rates are at rock bottom, with the deposit rate even being negative since early June. In September and December, the ECB will launch the first two targeted long-term refinancing operations (TLTROs). Though no magic bullet, extremely cheap bank funding should contribute to a better credit environment, keep short rates anchored very close to zero and continue to support spread narrowing in EUR government bond markets. We also expect the ECB to buy asset-backed securities, once preparations are finished.

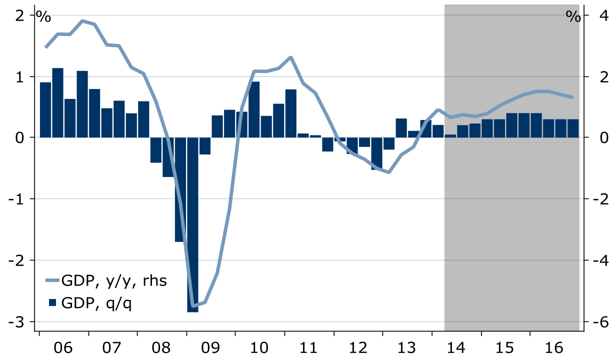
Asset purchases on a larger scale (quantitative easing, QE) including government bonds are not part of our main scenario. However, if the TLTROs fail and inflation expectations get "de-anchored", QE could become a reality next year. After all, the ECB has done many things over recent months that seemed out of the question before. As bond yields are already so low, the positive impact of such a programme would probably be limited.

The ECB has achieved a lot to rein in the crisis. Since Mario Draghi's "whatever it takes" speech in July 2012, spreads of peripheral bond yields over German bunds have narrowed to multi-year lows. Some countries' bond yields are at all-time lows. And yet, the ECB cannot solve the Euro-area's structural problems. It can, however, continue to buy time for structural reforms to happen, without having the power to enforce the reforms. The fragile recovery will need monetary policy support for a long time. We now expect no rate hikes until end-2016 and only a moderate rise of longer-term bond yields in the wake of higher US Treasury yields.

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

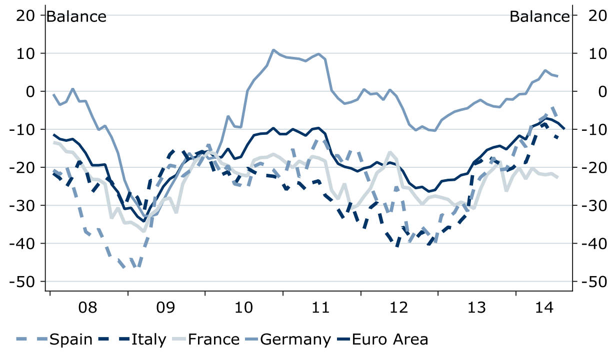
Suvi Kosonen
suvi.kosonen@nordea.com +358 9 165 59002

Not back to strong growth



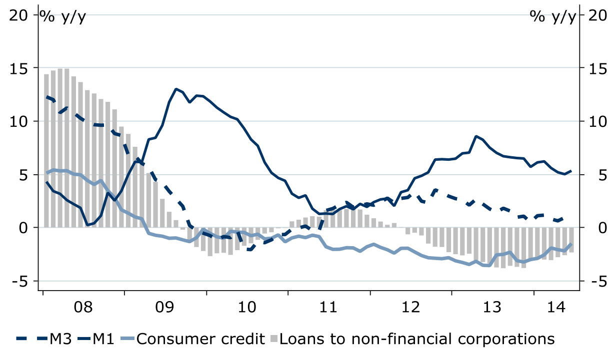
Source: Nordea Markets and Macrobond

Improved consumer sentiment, except for France



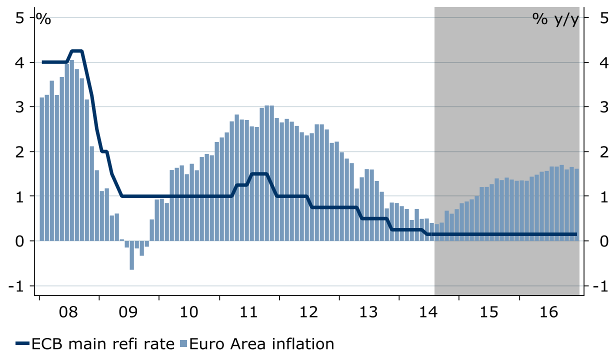
Source: Nordea Markets and Macrobond

Credit flows still very subdued



Source: Nordea Markets and Macrobond

Low ECB rates for a long time



Source: Nordea Markets and Macrobond

Europe's locomotive faces headwinds from abroad

The German economy is in good shape. We expect it to grow by around 1.5% pa from 2014 to 2016, driven by domestic demand This would be above the potential growth rate of around 1¼%. We reduced our growth forecasts for 2014 and 2015 due to external factors: the recovery in France and Italy seems to proceed at an even slower pace than we expected earlier. Moreover, as a global supplier of capital goods, the German export sector and its suppliers feel the impact of geopolitical uncertainty. This comes on top of exports to Russia steeply falling.

The recent fall in manufacturing orders and Ifo expectations give rise to a cautious short-term outlook. However, the decline in GDP in Q2 by -0.2% q/q should not be seen as a new trend as it was partly driven by temporary factors such as weather conditions and extra time off after public holidays. Housing construction is likely to pick up again, driven by record-low interest rates and optimistic consumers. Public spending supports growth, too.

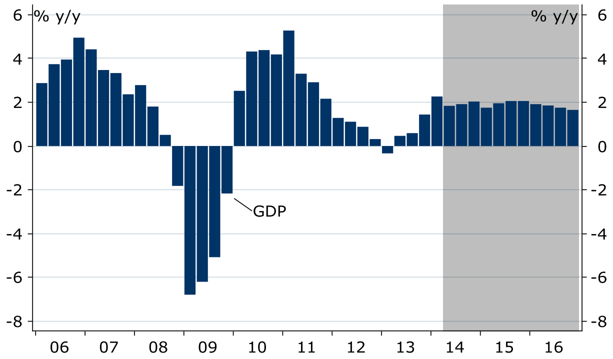
Consumer spending will continue to be the main growth driver on the back of a robust labour market. We expect some further increase of wage growth. With inflation remaining low, private households will see real wage increases supporting consumption.

There is a widespread feeling among companies (and beyond) that the euro crisis is still cooking under a calm surface. Moreover, the grand coalition government so far favours social policy over supply side reforms. Against this backdrop, we do not expect a very strong increase in machinery and equipment investment, despite low rates.

Despite stronger domestic demand, the German economy remains dependent on external developments, for better or worse. On its own, it is not strong enough to lift the Euro area out of the quagmire.

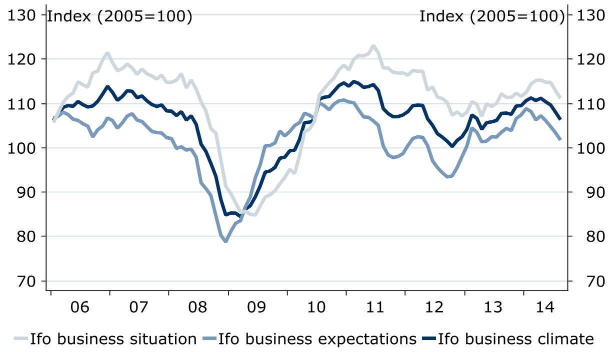
Holger Sandte
holger.sandte@nordea.com +45 3333 1191

Onging but not very strong growth



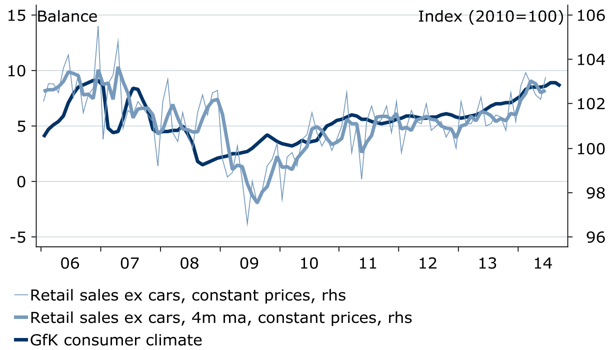
Source: Nordea Markets and Macrobond

Business sentiment affected by uncertainty



Source: Nordea Markets and Macrobond

Private consumption in good shape



Source: Nordea Markets and Macrobond

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

	2011 (EURbn)	2012	2013	2014E	2015E	2016E
Private consumption	1,498	0.7	1.0	1.1	1.2	1.4
Government consumption	500	1.0	0.4	0.7	0.8	1.0
Fixed investment	473	-1.3	-0.7	4.3	3.7	4.3
Exports	1,321	3.8	1.1	3.5	4.1	4.4
Imports	1,186	1.8	1.6	5.6	4.6	5.1
Net exports*	136	0.9	-0.2	-0.7	0.0	-0.1
GDP		0.9	0.5	1.6	1.5	1.5
Nominal GDP (EURbn)	2,610	2,751	2,814	2,886	2,966	3,054
Unemployment rate, %		6.8	6.9	6.7	6.6	6.5
Consumer prices, % y/y		2.1	1.6	0.9	1.5	1.8
Current account balance, % of GDP		7.0	7.4	7.3	7.0	6.0
General government budget balance, % of GDP		0.1	0.0	0.2	0.3	0.2
General government gross debt, % of GDP		81.0	78.4	76.0	73.6	72.0

* Contribution to GDP growth (% points)

Bank of Exit

The UK economy is experiencing a strong domestic recovery. On a quarterly basis growth has been running at 0.7-0.8% for five consecutive quarters, supporting a stable recovery going forward. Growth is above its pre-crisis level and household consumption is showing strong momentum. GDP growth slows in 2015 and 2016 as both monetary and fiscal policy turn less expansionary.

The labour market has improved remarkably. Employment is at historical highs and the employment rate stands at 73%. Unemployment has fallen rapidly and is down to 6.4% in June, the lowest rate since 2008. Productivity growth is still weak but will increase gradually. We expect unemployment to fall at a slower pace going forward.

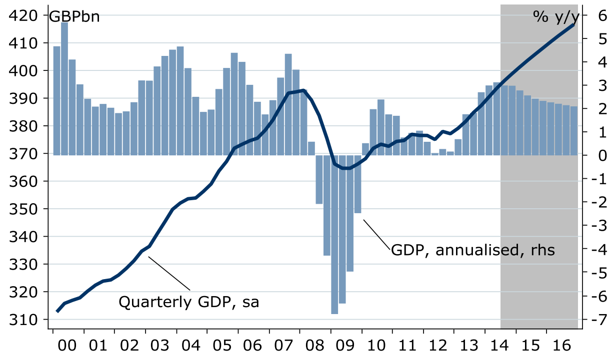
Real wages have been falling sharply following the financial crisis. When the labour market tightens and skill shortage appears, wage growth will pick up gradually. Inflation has fallen over the past year, partly reflecting lower contribution from food and energy prices. With muted wage growth and GBP appreciation, CPI inflation will rise slowly, approaching 2% in the end of this year.

House prices have risen by 22% from the bottom in 2009, but there are signs of stabilisation, partly as a result of more restrictive lending standards. But it is still rather uncertain if macro prudential tools will cool down the housing market effectively.

The Bank of England clearly contemplates its exit strategy from the current very loose monetary policy. As manifested in recent speeches by Governor Carney, the exit is approaching. The subdued inflation outlook and tighter macro-prudential policy, however, suggest that the BoE will not sanction a first rate hike until the second quarter of 2015. Due to differences in the expected monetary stance, the GBP is expected to strengthen against the EUR but weaken somewhat against the USD.

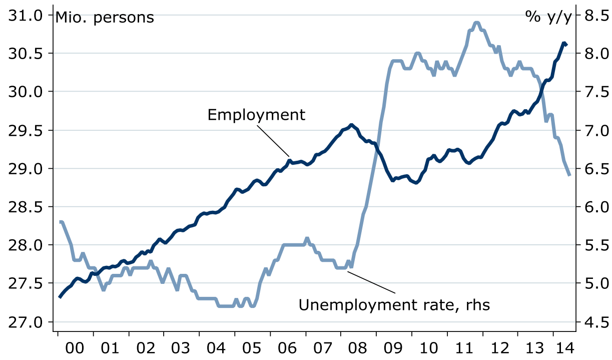
Lena Sellgren
lena.sellgren@nordea.com +46 8 614 8862

Strong growth momentum...



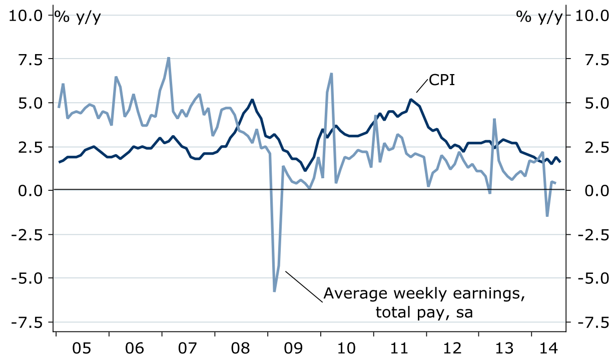
Source: Nordea Markets and Macrobond

...and unemployment has fallen sharply



Source: Nordea Markets and Macrobond

Muted wage growth and slow pick-up in inflation



Source: Nordea Markets and Macrobond

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

	2011 (GBPbn)	2012	2013	2014E	2015E	2016E
Private consumption	992	1.4	2.2	2.5	2.5	2.0
Government consumption and investment	337	1.6	0.7	0.8	0.0	0.0
Fixed investment	221	0.8	-0.8	7.0	4.5	2.9
Stockbuilding*	10	-0.2	0.4	-0.2	0.0	0.0
Exports	493	1.7	0.5	2.7	4.7	5.5
Imports	516	3.4	0.2	1.2	3.9	4.1
GDP		0.3	1.7	3.0	2.5	2.2
Nominal GDP (GBPbn)	1,537	1,558	1,613	1,698	1,776	1,856
Unemployment rate, %		8.0	7.6	6.5	6.0	5.7
Consumer prices, % y/y		2.8	2.6	1.8	2.1	2.3
Current account balance, % of GDP		-3.8	-4.5	-3.9	-3.2	-2.7
General government budget balance, % of GDP		-6.1	-5.8	-5.0	-4.0	-3.1
General government gross debt, % of GDP		89.1	90.6	91.9	92.8	93.7

* Contribution to GDP growth (% points)

The jury is still out

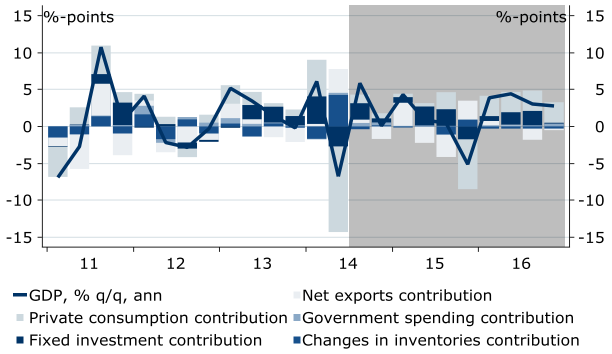
Abenomics is gaining traction and there are cheerful signs of corporate investment picking up. It has raised hope of putting an end to the economic paralysis that has haunted Japan for two decades. Before this can materialise, corporate tax needs to be cut and return on investment boosted, so fewer companies will shift production overseas. These were among the market-friendly measures unveiled by Abe in late June, when he finally shot off the third arrow. The move has made us turn more optimistic on Japan's medium-term outlook. However, implementation is the key so our cautious stance remains intact.

The latest household spending indicators have been distorted by the sales tax hike in April. If private consumption is to become a stable source of growth in the longer term, wages must rise much faster. Current conditions are favourable in terms of growing corporate profits and a tight labour market. For the first time since the early 1990s, there are enough jobs available for everyone in the labour force, though it is propelled by a decline in labour supply and not a large increase in job creation. Unfortunately, this alone is not enough. Any meaningful wage increase would require a change to the rigid labour market laws that prohibit firing overpaid and unproductive regular workers. Also, employers need to be convinced that the growth revival is not merely temporary and thus be willing to raise base salaries across the board.

Regarding monetary policy the BoJ remains confident to achieve the 2% inflation target against the backdrop of continuously rising inflation expectations. Hence, we see no expansion of the quantitative and qualitative easing (QQE) programme at this point. One factor could affect our view and that is exports, which have been described as weak by the BoJ. Even so, that is expected to improve in the near term on stronger overseas demand. We maintain our forecast of a weaker JPY against the USD on a two-year horizon.

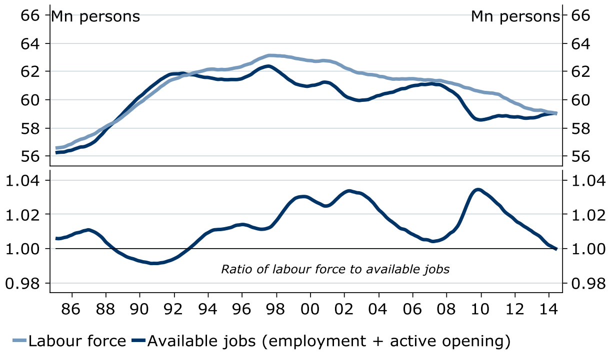
Amy Yuan Zhuang
amy.yuan.zhuang@nordea.com +45 3333 5607

Japan is not out of the woods yet



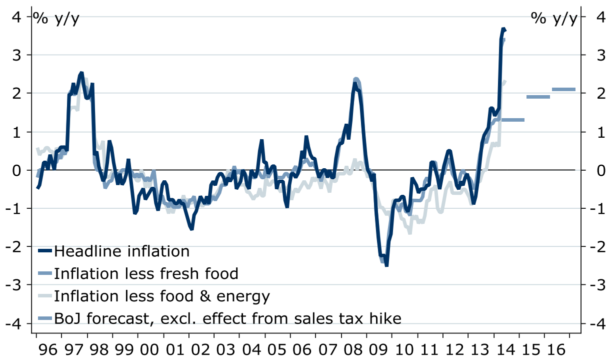
Source: Nordea Markets and Macrobond

Tight labour market should support wage growth



Source: Nordea Markets and Macrobond

BoJ confident of achieving 2% inflation



Source: Nordea Markets and Macrobond

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

	2011 (JPY bn)	2012	2013	2014E	2015E	2016E
Private consumption	277,725	2.1	2.0	-1.0	-0.7	1.3
Government consumption	96,117	1.7	2.0	0.9	1.0	0.7
Fixed investment	97,107	3.2	2.7	6.6	4.9	3.8
Stockbuilding*	-1,883	0.1	-0.3	0.3	0.1	0.0
Exports	71,298	-0.1	1.5	5.9	4.1	3.9
Imports	75,572	5.3	3.3	5.7	4.2	5.0
GDP		1.5	1.5	1.2	1.2	1.4
Nominal GDP (JPY bn)	471,311	473,916	478,098	492,145	504,653	519,637
Unemployment rate, %		4.3	4.0	3.6	3.5	3.5
Consumer prices, % y/y		0.0	0.4	2.8	2.5	2.2
Current account balance, % of GDP		1.0	0.7	1.0	1.2	1.5
General government budget balance, % of GDP		-9.8	-10.1	-9.5	-9.0	-9.0

* Contribution to GDP growth (% points)

Uncertainty weighs

- Economy closer to zero growth
- Geopolitical uncertainty – a major drag
- Government will become the main investor

The Russian economy continues to suffer from numerous negative trends such as low investment activity, weakening consumption growth and increased inflation threats. Geopolitical risks and sanctions imposed by the US and the EU only increase uncertainty over economic growth in Russia. However, a weaker RUB and relatively high oil prices keep the export-oriented economy afloat. We cut our 2014 and 2015 forecasts to 0.5% and 1.2%, respectively. In 2016 we expect a more healthy investment environment and forecast 1.5% GDP growth.

Geopolitics and sanctions

Uncertainty over the situation in eastern Ukraine is weighing on the Russian economy. Sanctions already imposed on Russia are not a big threat but uncertainty over further tit-for-tat sanctions negatively impacts business sentiment and especially capital investment activity, which remains the major drag on the Russian economy.

The US imposed new sanctions on Russia in mid-July. At end-July the EU followed suit, imposing new sanctions on Russia which include an arms embargo and restrictions on exports to Russia of oil (but not gas) exploration technologies. Also, EU citizens and firms are not allowed to buy or sell debt, equity and other financial instruments with a maturity of more than 90 days issued by Russian state-owned banks.

The financial sector will be under more intense pressure. The sanctions practically seriously impede access to Western capital markets. But we cannot say that the external markets will be completely closed for sanctioned Russian companies. Moreover, the government announced its readiness to ease access to budget money to compensate for the increased costs of funding, and the Bank of Russia (CBR) will provide financial institutions with extra rouble liquidity. There is no doubt that higher funding rates will spill over to the internal Russian market, which will only aggravate the situation given the rather restrictive monetary policy pursued by CBR.

Weakening consumption and weaker investment

What is even more important is that the anticipation of further sanctions brings a lot of uncertainty, which negatively affects investment activity – a major drag for the Russian economy.

Investment activity has been low since the beginning of 2014, and the situation has even worsened with investors being demotivated by geopolitical uncertainty and the CBR policy. Expectations of low investment coupled with decreasing consumption growth momentum adversely affect the growth outlook for the Russian economy. Retail sales growth has been gradually decelerating since the beginning of 2014 and reached 0.5% y/y in June, which is an exceptionally weak level. The decline was accompanied by decreasing real wage growth. We think that by the end of 2014 household consumption growth will be around 2%, and we see no reason to expect any acceleration in 2015 and 2016. Thus, expectations for consumption growth going forward are not so bright, and it is hard to imagine household consumption as a future strong driver for the economy. Net exports may slightly improve in 2014 driven by lower imports, but in the long run net exports will continue to have a negative impact on overall GPD growth.

As the result we have lowered our forecast for investment, consumption and GDP growth. By end-2014 we expect a 5% y/y decrease of capital investment, 2.7% growth of household consumption and only 0.5% of GDP growth.

Potential points of growth

In the long run we expect geopolitical tensions to fade, which could potentially reduce the level of uncertainty and lift capital investment in 2015-16. Also Gazprom's historical gas deal with China will add its 50 cents. The deal entails a long chain of positive effects, including benefits for Russian steelmakers and other companies involved in construction projects. The deal might contribute about 0.2-0.3% to GDP growth in 2015-16.
Turning to the budget, the government may finally change the Russian 'budgetary rule' currently in effect and start to invest more in the domestic economy, preferably via infrastructure projects. The January-July budget surplus totalled 1.7% of GDP, and reserves are ample. We expect the government and government-owned companies to become a key driver of investment activity in the country.

The central bank, rates and the rouble

The CBR continues to pursue its inflation targeting policy, with increasing control over the money market and decreasing intervention on the currency market. Given the accelerated CPI growth, which in June reached a post-2011 peak of 7.8% y/y on the back of the weak rouble, the CBR has raised key rates by 250 bp since the beginning of 2014. After Russia banned food imports from countries which imposed sanctions, the risk of higher inflationary pressures intensified as the import ban may add 1-1.5% to CPI growth in the medium term. Hence, the CBR may continue to maintain a rather hawkish stance in 2014. We do not expect any key rate changes during the rest of the year, although we cannot rule out one more hike. In 2015 we expect inflation to decelerate given the anticipation of a stronger RUB and the end of the sanctions war, which would allow the CBR to ease monetary policy.

However, currently the rouble still suffers from capital outflows given the geopolitical tensions around Ukraine, which may continue to weigh on the RUB in the medium term. In the long run, RUB traders will likely shift their focus away from geopolitics back to fundamentals, which remain supportive even despite domestic economic growth problems. The current account surplus is widening, the commodity market is relatively stable, and capital outflows are expected to contract. The RUB may finally restore its lost correlation with oil market dynamics – our oil price forecast of USD 103-109/bbl for 2014-15 is RUB supportive. On the other hand, domestic economic growth problems will cap any RUB gains in the long run.

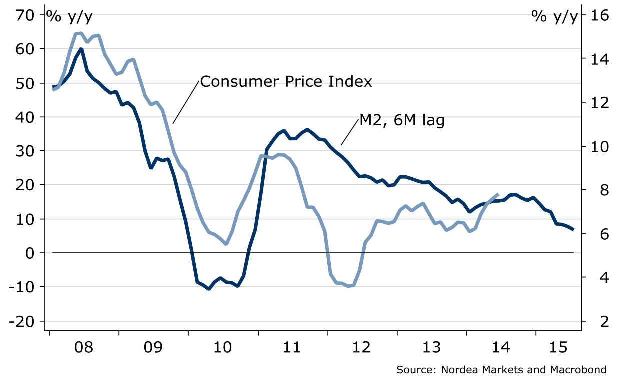
While the RUB has long-term potential, it can become more volatile as the CBR continues to move towards a more flexible rouble. The CBR plans to complete the transition to a floating exchange rate regime by end-2014. It means that soon the CBR will abandon the corridor band for the RUB. However, it is highly likely that the CBR will reserve the right to intervene in the currency market even after the decision. The only difference will lie in the fact that the potential interventions will be more modest and the mechanism of the interventions will be unknown.

Dmitry Savchenko
dmitry.savchenko@nordea.ru +7 495 777 34 77 4194

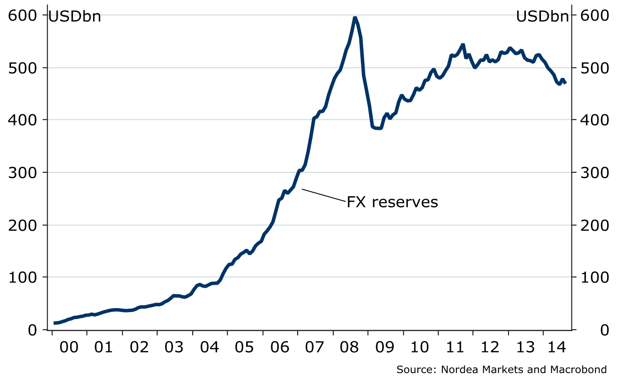
Geopolitical risks affect GDP growth

Decelerating retail sales

Inflation pressure – a major challenge



Enough reserves for government expenditures



Recovery loses steam amid new headwinds

Following a -1.4% y/y contraction in Q1, which was affected by one-off factors such as low energy demand and prices, Estonia's economy was confronted with sluggish import demand and a loss of momentum in key export markets (incl. Russia and the Euro area). With the intensification of Russian-related geopolitical risks, exports to the Baltic and selected Euro-area countries will be affected.

The share of goods exports that go to Russia has fallen by a percentage point from the end of last year to 9.6% of exports in June. Agricultural and food products constitute 17% of exports to Russia, of which only 5% is subject to the 6 August import ban imposed by Russia.

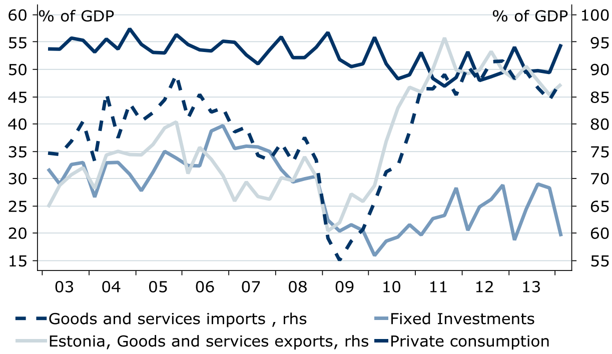
Due to the temporary demand shock felt in other exporting countries, not only the sanctioned goods exported to Russia (0.5% of total goods exports), but possibly the whole category of such goods (some 5% of exports) will experience price pressures. Lower food prices together with still falling import prices will result in a subdued recovery of inflation from the end of the year.

Apart from the drag on exports and depressed prices, we expect investment to fall y-o-y in 2014. Overall, the economic recovery will decelerate in H2 after stronger-than-expected 2.2% y/y GDP growth in Q2. The current 5% real wage growth is expected to moderate gradually into next year, hence supporting consumption which will remain the key growth engine. Consumer and retail confidence has remained resilient so far. With the global and Euro-area recovery proceeding, there is no reason to expect a major shift in unemployment unless the East-West crisis escalates. Also public finances have remained stronger than expected due to improving tax collection.

Overall, the economy is expected to re-accelerate only gradually next year as export demand and investment appetite remain constrained by a subtle geopolitical situation. 2016 will see a rise in the share of EU co-financed state investment. With only a gradual recovery in sight for the Euro area, any pick-up in growth momentum in Estonia will likely remain muted.

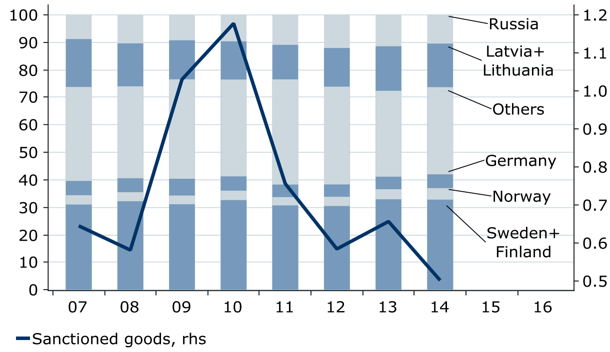
Tõnu Palm
tonu.palm@nordea.com + 372 628 3345

Exports face headwinds, slow investment recovery



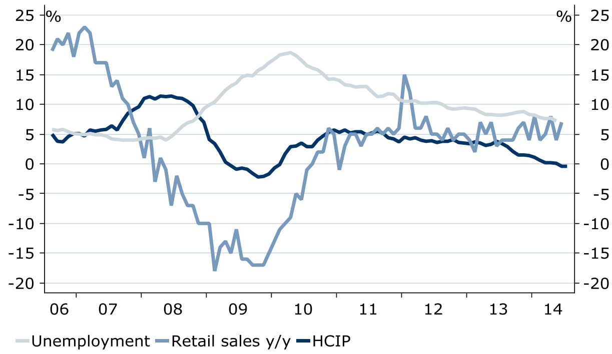
Source: Nordea Markets and Macrobond

Russia and sanctioned goods – share of exports



Source: Nordea Markets and Macrobond

Labour market continues to support consumption



Source: Nordea Markets and Macrobond

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

	2011 (EURbn)	2012	2013	2014E	2015E	2016E
Private consumption	8.2	4.9	4.2	3.3	3.4	3.4
Government consumption	3.1	3.8	1.3	1.0	1.0	2.0
Fixed investment	3.8	10.8	1.0	-1.8	4.7	5.2
Exports	14.7	5.6	1.8	-0.6	1.9	4.6
Imports	14.1	8.8	2.6	-0.2	2.0	4.7
GDP		3.9	0.8	0.7	2.7	3.5
Nominal GDP (EURbn)	16.2	17	18	19	20	21
Unemployment rate, %		10.0	8.6	8.1	8.2	7.6
Consumer prices, % y/y		3.9	2.8	0.4	2.0	2.5
Current account balance, % of GDP		-1.8	-1.1	-1.2	-1.6	-1.8
General government budget balance, % of GDP		-0.2	-0.2	-0.5	-0.9	-0.5

Post-euro optimism boosts consumer confidence

Latvia may not repeat the Estonian post-euro adoption growth miracle, but with consumer confidence at post-crisis record highs, Latvian consumers are obviously enjoying the benefits of the euro. Indeed, with average annual inflation at just 0.2%, fears of euro-triggered inflation evidently did not materialise. Instead, low inflation and accelerating nominal wage growth resulted in a significant increase in households' real purchasing power.

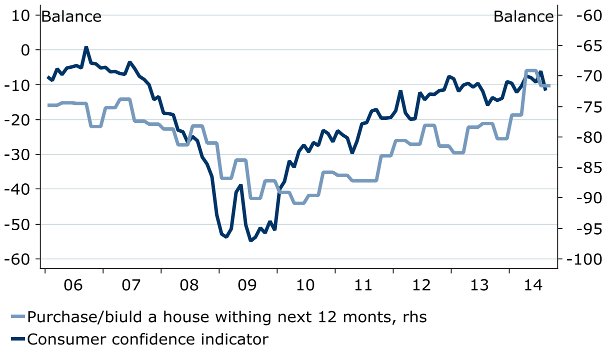
Domestically-oriented retail trade and construction sectors will remain the key economic growth drivers, whereas activity in export-oriented manufacturing and transport sectors remains subdued. The number of households planning to buy or build a house over the next 12 months has reached an all-time record-high, suggesting that activity in the housing market, which was relatively weak during the whole post-crisis period, may ultimately pick up. The Achilles' heel of the Latvian economy remains capital investments, especially in manufacturing sector, which may undermine the long-term sustainability of economic growth.

The greatest threat to economic development is growing geopolitical tensions in Russia and Ukraine. Russia is Latvia's largest export partner (16% of exports) followed by Lithuania and Estonia, which themselves have significant exposures to Russia. Hence, a worsening situation may trigger negative economic repercussions in the whole Baltic region.

The direct effect of the Russian ban on food product imports is estimated to be quite limited (0.4% of GDP). However, with the Lithuanian, Estonian, Finnish and Polish economies being affected, the indirect longer-term effects may be more significant. On a positive note, the existence of the Incukalns underground gas storage facility (which has a capacity to supply up to 140% of annual gas consumption) ensures that Latvia has virtually no risk of imminent energy supply shocks from Russia.

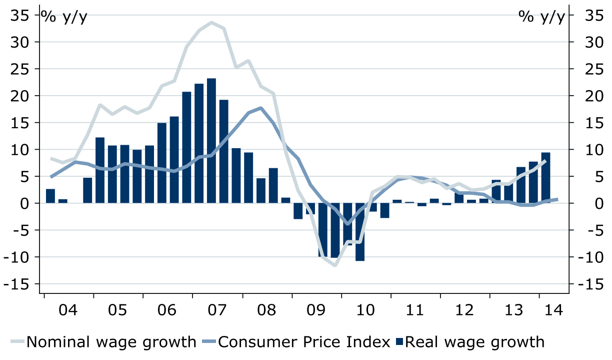
Žygimantas Mauricas
zygimantas.mauricas@nordea.com +370 612 66291

Latvian consumers are highly optimistic



Source: Nordea Markets and Macrobond

Real wage growth is accelerating



Source: Nordea Markets and Macrobond

Retail trade will drive economic growth

Source: Nordea Markets and Macrobond

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

	2011 (EURbn)	2012	2013	2014E	2015E	2016E
Private consumption	12.6	5.8	5.4	4.1	3.5	3.7
Government consumption	3.6	-0.2	3.6	2.5	2.0	2.0
Fixed investment	4.3	8.7	-4.3	0.4	3.4	7.4
Exports	11.9	9.4	1.0	1.0	2.0	4.0
Imports	12.9	4.5	-1.7	0.6	2.3	4.2
GDP		5.2	4.1	3.3	2.9	4.1
Nominal GDP (EURbn)	20.3	22.1	23.3	24.2	25.3	26.9
Unemployment rate, %		14.9	11.9	10.6	9.5	8.4
Consumer prices, % y/y		2.3	0.0	0.6	1.7	2.0
Current account balance, % of GDP		-2.5	-0.8	-2.0	-2.5	-3.0
General government budget balance, % of GDP		-1.4	-0.9	-1.0	-1.5	-1.0

Cold winds blowing from the East

Lithuania remained among the fastest growing economies in the EU with robust 3.0% and 3.1% y/y GDP growth in Q1 2014 and Q2 2014, respectively. Rapid productivity growth is the major growth driver, which more than offsets negative effects from the shrinking labour force and weak capital investment. Lithuania is to become the first Baltic state to reach the pre-crisis GDP level and to surpass Greece and Portugal (EU old-timers) in terms of GDP per capita (PPS) in 2014.

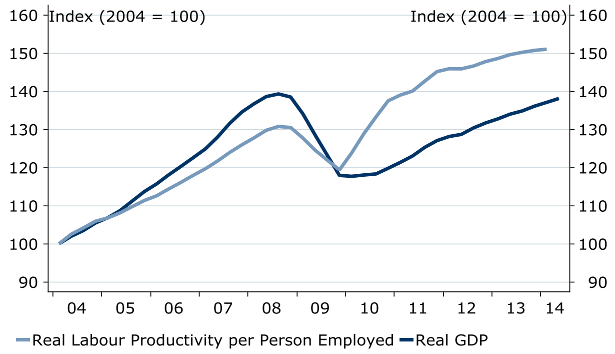
Rising geopolitical tensions between Russia and the West pose a substantial risk to Lithuania's economic development. The negative effect of recently imposed Russian economic sanctions is estimated to be somewhat limited (-0.8% of GDP). So, all else equal, GDP growth should remain in positive territory both in 2014 and 2015. The Lithuanian food industry has already experienced temporary export bans to Russia (the "milk war" in October-December 2013 and the "sausage war" since January 2014), which apparently did not have substantial long-lasting negative effects.

However, with as much as 19.8% of export (85% of which, however, are re-exports of goods from the EU to Russia) and close to 30% of transport sector revenues coming from Russia, Lithuania has a lot to lose if EU-Russian economic relations continue to cool.

Lithuania will become the 19th member of the Euro zone in 2015 – one year behind Latvia (2014) and four years behind Estonia (2011). As a result of the improved fiscal situation and the upcoming euro adoption, S&P and Fitch upgraded sovereign credit ratings to A-, which eventually pushed long-term borrowing costs to record lows. But consumers are fearful of inflation; more than 30% expects substantial price increases over the next 12-month period. However, similar "euro-driven inflation" fears were observed in Latvia, but expectations largely failed to materialize.

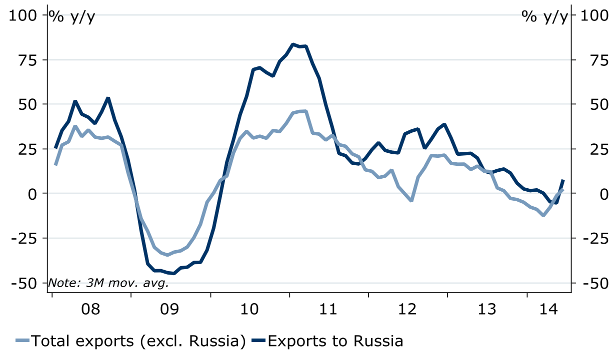
Žygimantas Mauricas
zygimantas.mauricas@nordea.com +370 612 66291

Productivity is driving GDP growth



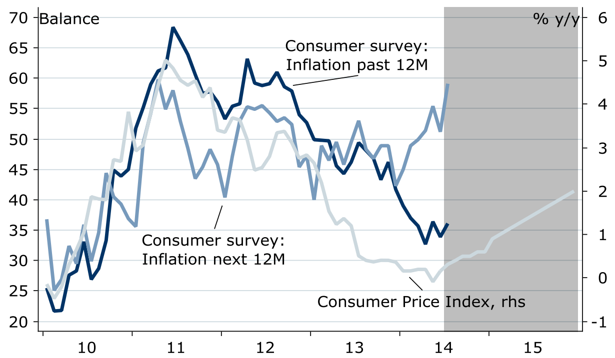
Source: Nordea Markets and Macrobond

Russia was important export growth driver



Source: Nordea Markets and Macrobond

Consumers fear "euro-driven" inflation



Source: Nordea Markets and Macrobond

Lithuania: Macroeconomic indicators (% annual real changes unlss otherwise noted)

	2011 (LTLbn)	2012	2013	2014E	2015E	2016E
Private consumption	66.9	3.9	4.7	4.6	3.7	4.0
Government consumption	19.9	0.6	1.9	1.6	1.5	2.0
Fixed investment	19.3	-3.6	12.8	7.0	3.3	6.3
Exports	82.5	11.8	10.3	-3.2	-0.4	4.7
Imports	85.5	6.1	10.3	-0.4	0.1	4.2
GDP		3.7	3.3	2.5	2.8	4.3
Nominal GDP (LTLbn)	106.9	113.7	119.6	123.5	129.0	137.0
Unemployment rate, %		13.4	11.8	10.8	10.0	9.3
Consumer prices, % y/y		3.1	1.0	0.3	1.5	2.3
Current account balance, % of GDP		-0.2	1.5	-1.8	-3.0	-2.0
General government budget balance, % of GDP		-3.3	-2.2	-2.2	-2.0	-1.0

Walk the line

- Beijing seeks to balance growth and reform
- Steady growth means stable employment
- Reforms are vital to sustain long-term potential
- CNY is back to appreciating path

A targeted soft landing

The Chinese economy can be compared to a fast-driving car. In order to make a safe turn, speed must be reduced gradually. That explains why growth deceleration will continue for years to come. Beijing's aim is to push for structural reforms while maintaining steady growth and employment. GDP growth for the coming three years will likely be kept above 7%.

The economy has so far this year followed the same pattern as the previous two years. Emphasis on reform was highlighted in Q1, when investment was held back, production dropped and growth disappointed. In Q2 the growth concern triumphed so the government advanced railway investment and reconstruction of shanty towns that were planned to start later. Thanks to the fiscal stimuli, as well as stronger overseas demand and a broad-based CNY weakening, the economy recovered modestly over the summer.

Short-term momentum will improve

The stronger sentiment in the export sector could last some time. While demand from the US is expected to stay solid, more orders could tick in from China's emerging trading partners. Food exports to Russia is expected to be lifted by the Russian government's 1-year ban on importing agricultural products from the EU, the US, Canada, Australia and Norway. Already a week after the ban was announced, Russia has agreed to buy more fruit, vegetables and pork from China. In addition, the new governments in India and Indonesia have both identified the industrial sector as key to reviving growth and may increase their purchases of Chinese machinery.

The housing market cooled down during H1 and sparked nervousness about the bubble bursting. We see the slowdown as a reaction to the government's prolonged restrictions, including the purchase ban, which have been relaxed lately. This should stabilise prices and transaction volumes shortly. Overall, as long as the urbanisation process continues and Chinese households still lack investment alternatives, we stick to our long-held stance of no nationwide housing market collapse.

Credit risk the largest threat to growth

Excess capacity, in which demand for products is less than the potential supply, remains one of our largest concerns about the Chinese economy. This is most evident in the heavy industrial sectors, including chemicals, ferrous and non-ferrous metals. The root of the problem can be traced back to the early stage of China's industrialisation process. At that time demand for fuel, metals and chemicals skyrocketed, making steel and coal mining among the most profitable industries. Not surprisingly, it attracted enormous investment from the well-capitalised state-owned enterprises (SOEs) with support from local governments. Eventually it led to overinvestment and overcapacity. According to the IMF, capacity utilisation across all industries barely tops 70%, 15% points lower than what is perceived as healthy.

The evil twin to overcapacity is deflationary pressure, which is reflected by persistently falling producer prices. As wage costs continue to rise rapidly (by an average of 10%), producers in the heavy industries are squeezed hard on their profit margins. 30% of the large steelmakers have reported losses in H1 this year. Rising losses lower their debt service ability and threaten overall financial stability. Of China's total non-financial corporate debt, about 150% of GDP at the end of 2013, 70% is assumed to be from the SOEs and semi-public companies, which dominate the heavy industries.

The seriousness of excess capacity has not gone unnoticed by the government. Li Keqiang has vowed to address the issue by closing down unused production facilities and cutting new investment in these sectors. A recent report revealed that investment in steel in H1 this year fell by 8.4% compared to the same period last year. 2000 small coal mines will be shut down by 2015.

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

	2011 (CNYbn)	2012	2013E	2014E	2015E	2016E
Private consumption	16,896	8.3	7.6	7.8	8.1	8.3
Government consumption	6,316	8.6	8.1	8.1	8.0	8.0
Fixed investment	21,568	9.1	9.2	9.0	9.0	8.5
Stockbuilding*	1,266	-0.4	0.0	0.3	0.1	-0.3
Exports	13,477	5.2	8.6	7.5	7.0	7.0
Imports	12,261	6.2	10.6	10.5	11.0	10.5
GDP		7.7	7.7	7.5	7.2	7.0
Nominal GDP (CNYbn)	47,310	51,947	56,885	62,600	68,795	76,046
Unemployment rate, %		4.1	4.1	4.1	4.1	4.1
Consumer prices, % y/y		2.7	2.6	2.5	2.7	3.5
Current account balance, % of GDP		2.3	2.1	2.0	2.0	1.5
General government budget balance, % of GDP		-2.2	-1.9	-2.0	-2.0	-2.0

* Contribution to GDP growth (% points)

Another visible government effort to deal with the credit risk is to change moral hazard thinking among corporates and hence their borrowing behaviour. Beijing's attitude towards default has changed dramatically since early this year and it is no longer willing to bail out every troubled company. As a result, borrowers of numerous bank loans, bonds and trust products have failed to meet obligations lately. As the defaults have been small in size, the implications have been manageable. We expect the government to continue deflating the credit bubble in a careful manner. Of course, the "too big to fail" players can still count on state support, so a full-blown financial crisis seems implausible at this stage.

We identify several risk factors that each has the ability to jeopardise economic stability, including excess capacity in the heavy industrial sector, debt overload among corporates, the real estate bubble and geopolitical conflicts with the other Asian countries. Nevertheless, the economy will not likely face a hard landing, that is, GDP growth at 4% or lower. This is because the economy remains heavily managed by the central government, which has many tools at its disposal, including public infrastructure investment and monetary easing measures.

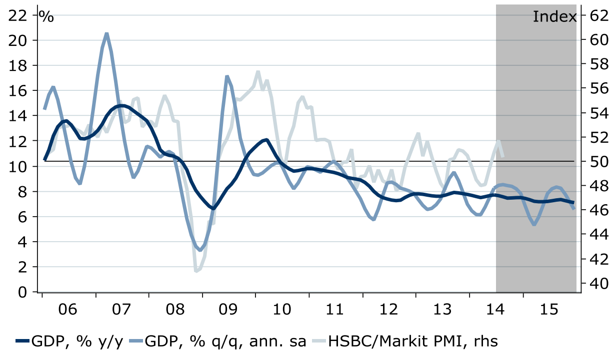
CNY strength is here to stay

After a period of government-engineered depreciation, the CNY has returned to the appreciation path, gaining 1.7% versus the dollar since early June. Beijing no longer has a reason to extend the currency weakness as the goal of discouraging speculative inflows was achieved. In fact, there are plenty of arguments for a stronger CNY. First, appreciation will adjust for China's current account surplus. Secondly, domestic purchasing power will be boosted for the hundreds of millions of Chinese who travel and shop abroad. Thirdly, senior officials have repeatedly warned about the potentially large costs of persistent dollar accumulation and urged a pause in FX intervention, which will push the CNY higher. Fourthly, Chinese equity markets are scheduled to be fully accessible for Hong Kong investors by October, creating more demand for yuan assets. Lastly, resumed CNY strength would end the abnormally high demand for foreign currency deposits (from both household and corporate) in the country and reduce risk of a run on yuan deposits.

The CNY will not only become stronger, it is going global as well. Over the past few months, China has been active in expanding offshore yuan centres and making currency cooperation deals with a number of countries. The newly established New Development Bank between the BRICS countries is another sign of China's ambition to gain more international influence.

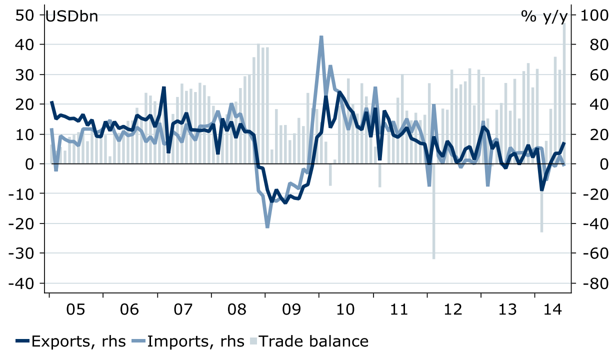
Amy Yuan Zhuang
amy.yuan.zhuang@nordea.com +45 3333 5607

GDP growth will keep trending down



Source: Nordea Markets and Macrobond

Export recovery thanks to the "new" friends

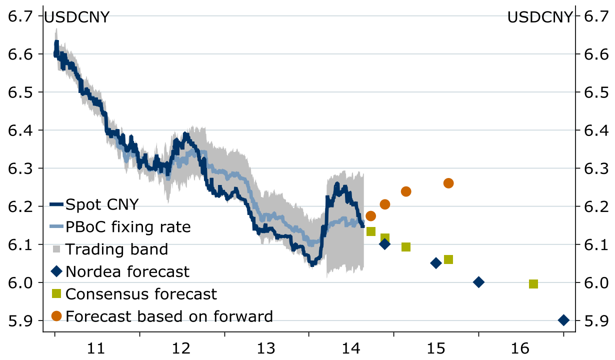


Source: Nordea Markets and Macrobond

Overcapacity puts pressure on producer prices

Source: Nordea Markets and Macrobond

CNY back on track



Source: Nordea Markets and Macrobond

A way out for India

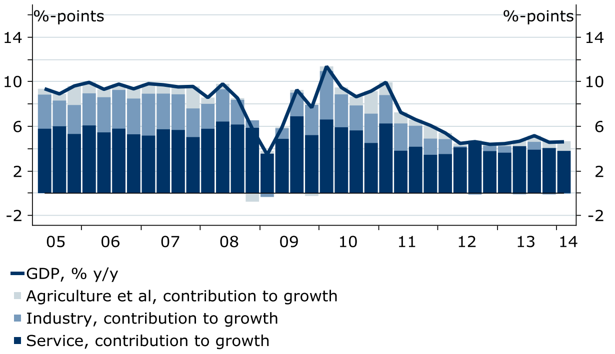
Narendra Modi, the new prime minister, may be just the medicine that India's economy needs. Since being elected in May, he has promised to cut red tape, fight corruption and ease entry barriers for foreign companies. India has a large pool of cheap labour, enabling it to follow China's example of economic success. But the great growth potential can only be exploited through deep structural reforms. Given Modi's strong personality and his majority in Parliament, his growth strategies are likely to be more than just empty talk. Therefore, the medium-term outlook for India is no longer dark and murky.

Due to supply-side bottlenecks, the industrial sector has contributed nearly nothing to growth since 2012. Thus, one high-priority structural initiative is investment in infrastructure and manufacturing. Today, fixed investment in India accounts for 30% of GDP, about the same as in China in the early 1990s. More investment in machinery and equipment could help India become the next world factory and boost its export diversity. Higher goods exports are regarded as a sustainable and preferred approach to adjust the current account balance than simply curbing gold imports. Industrial investment will boost the long-term growth potential as well because of its recognised impact in terms of raising labour productivity. Lastly, India certainly needs more spending on infrastructure, such as transportation and sanitation.

The brighter growth prospects, more transparent governance and easier business conditions are likely to attract more foreign capital, in terms of both direct and portfolio investment. These factors speak for a stronger INR in the medium term. More foreign investment in India could also translate into higher tax revenue to the government and a smaller fiscal deficit. Though still too early to say, the new Finance Minister Jaitley seems keen to demonstrate fiscal discipline, which would be welcoming news for investors. Lastly, the well-liked RBI governor, Mr Rajan, who has been in office for a year, has successfully reestablished the central bank's credibility by committing himself to reduce the sky-high inflation.

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

India cannot live without industries

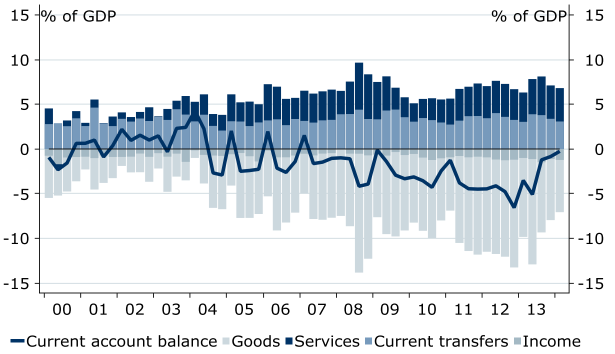


Source: Nordea Markets and Macrobond

It is not too late to copy the China miracle

Source: Nordea Markets and Macrobond

Improved c/a balance is INR supportive



Source: Nordea Markets and Macrobond

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

	2011 (INRbn)	2012	2013	2014E	2015E	2016E
Private consumption	51,419	6.0	4.8	5.2	6.8	7.8
Government consumption	10,259	7.8	4.2	3.0	2.6	2.0
Fixed investment	27,737	3.1	-1.1	0.5	4.9	6.4
Exports	21,503	9.0	5.8	6.0	7.9	10.7
Imports	27,219	11.8	-1.0	3.9	6.1	11.1
GDP (production approach)		4.7	4.7	5.1	5.8	6.3
Nominal GDP (INRbn)	90,097	97,918	110,136	123,092	137,752	153,638
Wholesale prices, % y/y		9.7	10.1	7.9	7.1	6.2
Current account balance, % of GDP		-4.7	-2.0	-0.5	-1.0	-1.5
General government budget balance, % of GDP		-7.4	-7.3	-7.0	-6.5	-6.0

Stuck in a growth rut

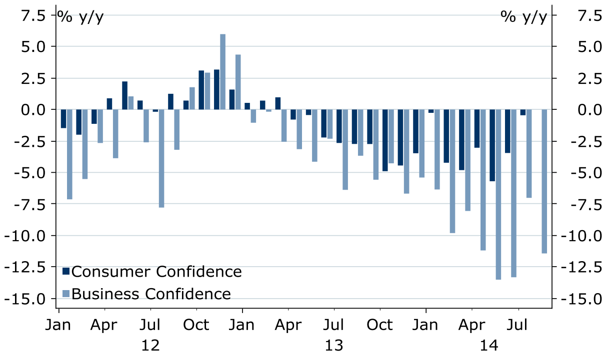
Not even the cheers from the FIFA World Cup have managed to spur the fragile economy that seems to be stuck in a growth rut. Recent months have seen dismal production figures, shrinking employment and a fall in confidence indicators that does not bode well for investment and spending in the near term. The economic outlook has indeed turned gloomier. We expect growth around 1.5% in 2014 and forecast growth to pick up only gradually during 2015 and 2016. The recovery is expected to be driven by stronger demand from abroad and a weaker BRL. Downside risks mainly stem from the high inflation environment and the decreasing primary fiscal surplus that could erode further this year.

Incumbent President Rousseff is still favoured to win the October election, but the race has re-opened with the death of candidate Eduardo Campos, whose likely replacement Marina Silva is polled neck-to-neck with Dilma Rousseff in a potential second round. The incumbent's popularity has been falling during the past year as a result of the slowing economy and the high inflation, but she is still widely seen as the favourite to win. Whoever wins will face pressure to revive growth, through confidence-boosting policy realignment and/or structural reforms, and tighten fiscal policy to reduce risks of further sovereign credit rating downgrades.

We expect the BRL to weaken slightly over the forecast horizon due to the weak economy, persistent high inflation and rising interest rates in the US. The central bank (BCB) has taken a breather in its efforts to raise domestic policy rates, leaving the Selic target rate at 11% since April. We expect the policy rate to be kept on hold for the rest of this year, as the BCB is more concerned about the economy than inflation. We expect monetary policy to remain tight throughout the forecast horizon as we expect inflation to remain uncomfortably close to the upper end of the inflation target of 4.5% ± 2% during the entire period.

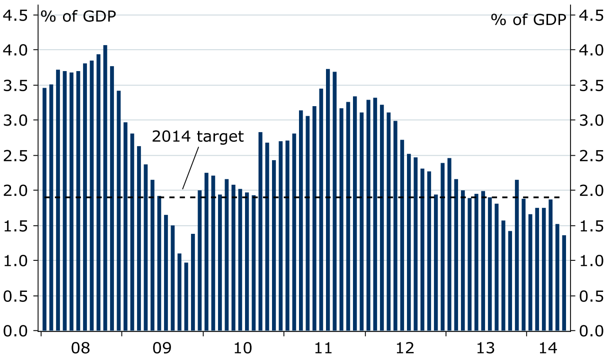
Lisa Alexandersson
lisa.alexandersson@nordea.com +46 7 0624 1186

Domestic concerns weighing on growth



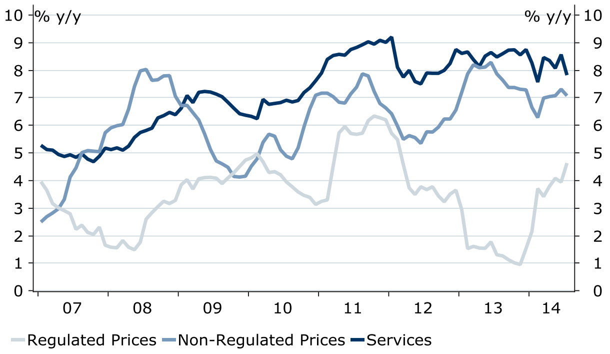
Source: Nordea Markets and Macrobond

Further erosion of the fiscal surplus this year



Source: Nordea Markets and Macrobond

Pressures over regulated prices are rising



Source: Nordea Markets and Macrobond

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

	2011 (BRLbn)	2012	2013	2014E	2015E	2016E
Private consumption	2,499	3.2	2.6	0.6	1.1	1.2
Government consumption	857	3.3	2.0	3.7	2.2	1.6
Fixed investment	799	-4.0	5.1	-2.3	4.0	4.8
Exports	493	0.5	2.6	3.1	6.5	5.3
Imports	523	0.3	8.3	0.4	3.5	4.6
GDP		1.0	2.5	1.5	1.9	2.1
Nominal GDP (BRLbn)	4,143	4,392	4,845	5,179	5,574	6,024
Unemployment rate, %		5.5	5.4	5.5	5.6	5.8
Consumer prices, % y/y		5.4	6.2	6.5	5.9	5.5
Current account balance, % of GDP		-2.4	-3.6	-3.3	-2.9	-2.6
General government budget balance, % of GDP		-2.8	-3.3	-3.4	-3.0	-2.8

Transport the last stronghold

Oil prices are expected to be somewhat weaker in the first part of the forecast period as some of the politically-related locked in volumes will return to the market. At the end of the period, investment cuts will weigh on oil supply growth and the market will become gradually tighter. There is a considerable upside risk to our oil price forecast as the oil price outlook for 2015-16 will be clouded by geopolitical unrest in major oil-producing countries.

The North American oil boom mainly driven by the shale/tight production in the US is expected to grow at a healthy rate. The resurgence of North American oil production and a flexible output by OPEC's de facto leader Saudi Arabia will continue to be vital to balance the market and offset the substantial supply disruption we have seen in the MENA region. Thus, the oil market looks well balanced from the outset of the forecast period. But the tide can easily turn. The nuclear talks between Iran and the West are slowly progressing, but it is still too early to say when we will see more Iranian barrels in the market. The risk of political supply disturbances has risen sharply this year due to growing unrest and risk of a division of Iraq and instability in Libya. The US and EU sanctions on Russia are not expected to have any significant short-term impact on oil supplies, but may put the start-up of much-needed new capacity expansion projects on hold.

In addition, galloping cost growth and flattening oil prices have squeezed oil companies' margins. Consequently, new and more expensive oil projects have been put on hold and this will curb supply growth, but with a lag of 2-3 years.

Oil demand growth has shown clear signs of weakness, but we expect it will pick up again with economic growth. China will continue to be the main driver, but at a slower pace than before. The oil demand growth outlook for both the Euro area and Russia looks more subdued as sanctions will weigh on the growth potential. Japan is expected to reduce its demand for oil as some nuclear power stations will restart. The focus on pollution and green energy is expected to increase before the UN climate summit in Paris next year. Fuel efficiency standards and fuel switching will have a growing impact on the oil market in future. How fast the new environmental policies will impact the oil market depends on when technological breakthroughs lead to a big shift in the transportation sector. The transport sector currently accounts for about 60% of global oil consumption, and the use of energy in this sector has so far been more or less shielded from competition.

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

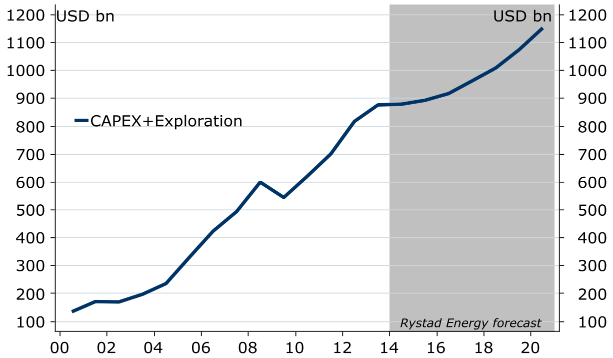
Oil price forecasts Brent – baseline (USD/barrel)

	Q1	Q2	Q3	Q4	Year
2012	118	109	109	110	112
2013	113	103	110	109	109
2014E	108	110	107	107	108
2015E	107	104	106	105	106
2016E	105	103	105	107	105

Saudi Arabia produces at record levels

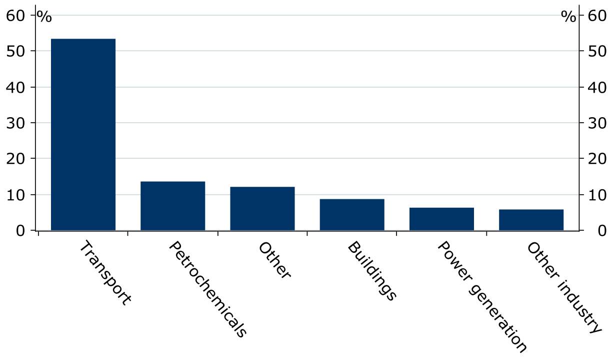
Source: Nordea Markets, IEA and Macrobond

Oil investments slowing



Source: Nordea Markets, Rystad Energy and Macrobond

Oil demand split by sector



Source: Nordea Markets, IEA and Macrobond

Risk scenarios

Our baseline scenario is based on the assumption that the global economy continues its gradual shift from crisis to recovery mode, supported by a generally ultra-easy monetary policy stance and less restrictive fiscal policy. In addition, current headwinds from geopolitical concerns including those related to the Russia-Ukraine conflict are assumed to turn to tailwind for global growth as tensions gradually fade.

However, several risks to our baseline could affect the global growth outlook in both a positive and negative direction.

On balance, at this juncture we see the greatest risks on the downside.

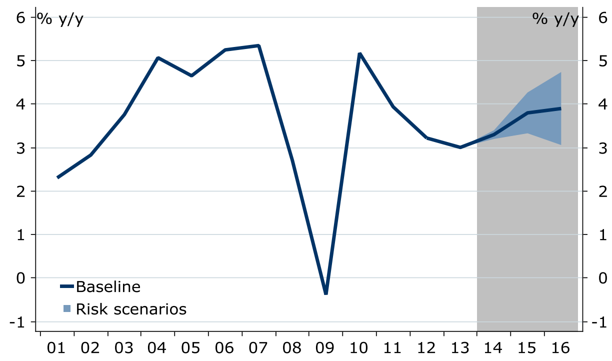
Upside risks:

- Stronger-than-expected boost to economic sentiment as geopolitical concerns fade.
- Stronger-than-expected US recovery as pent-up demand is released.
- Less-than-expected tightening of Fed monetary policy.
- Large-scale asset purchase programme (Quantitative Easing, QE) by the ECB, leading to higher growth via wealth effects and a weaker euro.
- An easier fiscal policy line is accepted in the Euro area, increasing aggregate demand.
- Lower oil prices, maybe as a result of increasingly larger shale gas production.
- Structural reforms in key Emerging Markets including India and Brazil.

Downside risks:

- Further escalation of geopolitical tensions (Russia-Ukraine, Syria, Iraq, Gaza, Libya), with negative feedback on confidence and potentially higher oil prices.
- Higher interest rates curb demand more than anticipated (potentially as a result of bursting asset price bubbles). Could potentially lead to increased protectionism.
- (Financial) spill-over from emerging-market crisis, potentially triggered by tighter monetary conditions as the Fed normalises policy.
- Chinese housing market collapse.
- US political/regulatory uncertainty continues to hold back business investment.
- Euro-area crisis flares up, potentially stemming from the financial sector (as the Asset Quality Review and stress test might bring worse result than expected; or the ECB gets restricted by a court decision to act as a "lender of last resort").

Baseline and risk scenarios for global GDP growth



Source: Nordea Markets and Macrobond

Baseline and risk scenarios for global GDP growth

	Probability,%	2014	2015	2016
Downside	25	3.2	3.3	3.1
Baseline	60	3.3	3.8	3.9
Upside	15	3.4	4.3	4.7

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

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

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

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

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

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

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

Klaus Lund Ruhlmann, Assistant Analyst
Klaus.lund.ruhlmann@nordea.com, +45 3333 1502

Sofie Roer Højgaard, Assistant Analyst
sofie.roer.hojgaard@nordea.com, +45 3333 42410

Finland:

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

Pasi Sorjonen, Chief Analyst
pasi.sorjonen@nordea.com, +358 9 165 59942

Suvi Kosonen, Analyst
suvi.kosonen@nordea.com, +358 9 165 59002

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.no, +47 22487913

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

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

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

Estonia:

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

Lithuania:

Žygimantas Mauricas, Chief Economist Lithuania
zygimantas.mauricas@nordea.com, +370 612 66291

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

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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