Nordea

Economic Outlook

#3 / 2023

HEAVY STEPS

Higher interest rates continue to challenge households and businesses

Nordea Economic Outlook

3/2023

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"Higher interest rates now longer, the austerity also bites on labor market"

Annika Winsth
Chief economist Sweden

“The weak krona is an increasing risk. "

Annika Winsth
Chief economist Sweden

Heavy steps

Despite very strong austerity measures in a short period of time, demand is still good in many parts of the world. Not least the labor markets are showing strength and resilience has proven to be better than feared. This has caused central banks to signal that key interest rates should be kept at a high level for a longer period. They are clear that demand needs to be moderated so that the inflationary pressure comes down permanently. The economic downturn will thus be more prolonged and the risks of a worse development outweigh.

One reason why the resistance was greater than expected is likely to be the extensive stimulus as well as central banks as a politician via expansionary policies added to the economies in connection with the pandemic and the war in Ukraine. Not least households have built up large reserves, which they now use to keep up consumption.

For the central banks, this means that they need to take in more, but above all that it will take longer before they lower policy rates.

This summer, this has been reflected in strong interest rate increases in bonds with longer maturities. The questions that are now being asked are how high the price of money will be, how long it will be before policy rates are lowered and how long households' money will last.

The US is the country where the central bank was early on with austerity measures and raised the most. The American economy is still good, although there are signs that the very strong labor market may have peaked. The consensus view among forecasters is that the US central bank, the Fed, is succeeding in softening the economy and that the negative consequences on, for example, the labor market will therefore not be particularly large.

It is wise to remember that historically this kind of soft landing has rarely been successful. Sooner or later, the consequences have become more serious. The risks are therefore also on the downside in our forecast.

The world's second largest economy, China, was expected to be a much-needed engine when the country opened up after the last covid lockdown. However, the contribution to world trade, and thus to global growth, has been considerably less than expected. Now we see that the domestic economy is also being dampened. The uncertainty many households experience means that they neither dare to consume nor buy homes in any greater meaning. To that must be added the very extensive problems in the commercial real estate market, which have long lain like a wet blanket over the economy, and where the risks and consequences have now increased. Another risk is the political situation, which affects how both the outside world and households act.

Foreign investment in China is falling rapidly and companies around the world are reflecting on whether they can or dare to operate in China in the future. Many Swedish companies continue to make maintenance investments in China, but are more cautious about new investments. The country is also no longer as cheap to produce in, which is another reason to look around for other manufacturing countries.

The euro area is the region of the major economies that has so far been most affected by the slowdown. Above all, things are slow in Germany. It is problematic as the German economy often acts as an engine for both southern Europe and the Nordics. Germany has a large trade with China and is affected by more subdued demand from there, but Germany has also become expensive for many companies to operate in. To that must be added challenges with transition in the all-important car industry and energy supply. In the euro area, the purchasing managers' index for both industry and the service sector indicates that the economy is shrinking. The risk is therefore that the decline will be felt. The European Central Bank has probably finished raising, although a further increase cannot be ruled out. Regardless, higher interest costs continue to eat into the economy at the same time as inflation is well above target, putting pressure on households and businesses as well as the ECB.

As a consequence of the austerity measures, world trade has been significantly dampened and a lot is needed for that development does not continue. It will probably take until next summer before the central banks lower the policy rates.

The Nordic countries are all small open economies and are greatly influenced by the outside world and by global trade. It is therefore reasonable to assume that our export companies are facing tougher times. The in many cases very strong reports that have been submitted have been based on historical outcomes. Going forward, things don't look as bright.

Denmark stands out with the best before the sentences. The pharmaceutical industry, with Novo Nordisk having a valuation almost on par with Danish GDP, is the explanation. Not least after the pandemic, this sector has exploded. This means that the dependence on these companies is very high. However, the sector seems to have good conditions going forward as well.

The other three economies have similar challenges, but they are most noticeable in Sweden. We have a greater sensitivity to interest rates than other countries, which poses a risk for both household debt and for at least parts of the commercial real estate industry.

To that must be added the weak krona, which constitutes an increasingly large social problem. The risk is that it forces the Riksbank to raise the interest rate not only in September but also in November, despite the weak economy. Households' resilience has so far been good, but even if households still have strong balance sheets, demand is expected to moderate significantly this autumn when the labor market also declines.

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HIGHLIGHTS • Central banks still concerned about inflation • Global growth outlook continues to be weak • The restart of the Chinese economy is challenging • Only rate cuts are excluded • Dollar dominance is over

GLOBAL AND FINANCIAL MARKETS OVERVIEW

Narrow path

Central banks are still concerned about inflation, which is slowing down, but is still above the target level. Consequently, it will take time before monetary policy will be eased, and the global outlook continues to be weak. In China, restarting the economy has turned out to be more challenging than expected, and leaders are facing challenges in trying to restore confidence among households and companies. Interest rates may be close to peaking, but rate cuts are not around the corner.

High inflation has been the main theme of the global economy for more than two years now. Although it is now slowing down, it remains uncertain whether inflation rates will remain above the central banks' targets for longer. These worries stem mainly from the fact that even though monetary policy tightening has significantly weakened economic growth, labor markets have remained surprisingly strong. If this continues, wage and price pressures could remain strong also going forward. Thus, expectations of monetary policy easing have been delayed further, and it may turn out to be necessary to tighten monetary policy even more in many countries in order to restore price stability. This implies that the global growth outlook will remain weak and the risk of a recession still exists.

In China, economic growth has been weaker than expected. Although the service sector has continued to re cover from the zero-COVID policy, it seems that uncertainty about the country's future economic policy and geopolitical tensions have hurt confidence among households and private companies. As a result, economic activity, especially in the housing sector, continues to be weak, hurting both consumption and fixed in vestments.

Is inflation coming down to targeted levels?

Headline inflation has continued to decline sharply in basically all western countries. However, this has mainly been due to a decline in energy prices and the stabilization of food prices. At the same time, the decline in core inflation has been much more gradual, and is still clearly above central banks' targets in many countries.

Looking forward, we expect headline inflation to continue to go down. One explanation for the decline continues to be energy. We build our forecasts around the oil future curve and do not assume the oil price to contribute significantly to inflation numbers in the near term. Even if there are certain supply side limitations that could cause upward pressure on the oil price, we expect the weak global outlook to balance the situation. Furthermore, should volatility in natural gas prices have increased when winter approaches and keeps Europe on its toes, the full gas storages and the long-term weather forecasts expecting a mild winter speak for ra ther stable energy price expectations.

Another factor limiting inflation is weak global demand, which, together with stable energy prices, have implied that producer price pressures have been and will remain moderate. Thus, goods price inflation is likely to remain stable in the coming quarters.

Labor markets and wage increases will obviously be an important factor driving future inflation. Given that the US labor market only shows rather moderate signs of cooling off and since Euro-area wage agreements with historically high increases have been negotiated in many countries to cover at least the whole of 2024, it seems that wages will boost especially service price in inflation significantly also in the future. However, as we expect demand to continue to be weak, we also assume that not all companies can pass on all rising wage costs to their final prices, and we expect that the recent rise in companies' profit margins will be reversed. This would allow inflation to return to central banks' targets, despite relatively strong wage increases.

2.9%

Global GDP growth in 2023.

5.3%

Core inflation in the Euro area in Au gust 2023

3.8%

Unemployment rate in the US in August.

Surprisingly resilient US economy

The US economy has continued to grow, even though monetary policy tightening has persisted for more than a year and a half now. It seems that the economy is more resilient to higher rates than expected, partly due to the high share of fixed mortgage rates and the fact that many large companies issued long-term bonds during the period of very low rates. As a result of robust economic activity, the labor market continues to be strong and shows only moderate signs of cooling off. Thus, even if a number of sectors' price developments are weak, we assume that the Fed needs to continue to tighten monetary policy in order to get inflation sustainably back on target.

The restart of China's economy faces challenges

China's economic growth has been weaker than expected, and the future looks gloomy as well. Growth has slowed down more than expected, and the development, especially in the real estate sector, raises concerns. Housing sales have dropped again and construction activity continues to decline. At least a slight downward correction in housing prices is going on, and many companies are facing problems in financing their activities.

Overall, it seems that its leaders have not been able to restore confidence in the economy after the end of the zero-COVID policy. At the same time, development in exports is sluggish due to weak global demand, heightening worries over China's growth outlook. So far, the scale of policy stimulus has remained limited, and with out a significant change in China's political stance, the growth outlook is likely to remain weaker than what we have previously penciled in for China.

Growth outlook is still weak in the Euro area

Euro-area GDP has remained almost constant for the past year. Despite the challenges tighter monetary policy is posing to manufacturing and retail sales, for example, the labor market has so far continued to be strong as economic activity has increased in the service sector. However, the most recent PMIs indicate that growth is now also losing momentum in the service sector, which could open the door for lower wages in creases and lower inflation. However, that process will be slow due to the centralized wage negotiation system and will require patience from the ECB to not tighten monetary policy too much when tackling stubbornly high inflation.

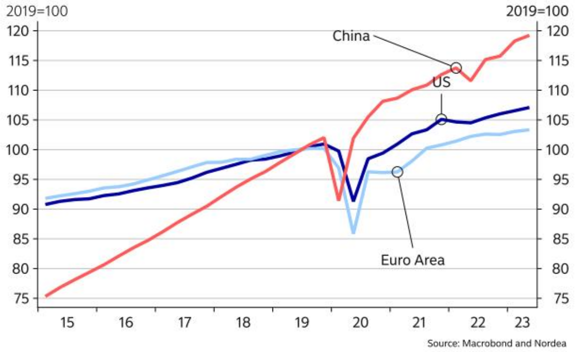
"China's economic growth have been weaker than expected, and the future looks gloomy as well."

Tuuli Koivu
Nordea Chief Economist

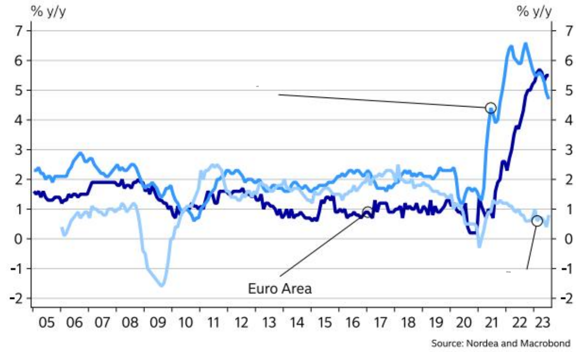
1 / GDP GROWTH FORECAST, % Y/Y

Year	World New	World Old	US New	US Old	Euro area New	Euro area Old	China New	China Old
2022	3.5	3.5	2.1	2.1	3.4	3.5	3.0	3.0
2023E	2.9	3.0	2.0	1.2	0.5	1.0	5.0	6.0
2024E	2.5	2.7	0.9	1.0	1.0	1.0	3.0	4.0
2025E	2.7	-	1.9	-	1.0	-	3.0	-

A / GDP growth has surprised positively in the US
GDP in the US, the Euro area and China in volumes, 2019=100



B / Inflation continues to be high
Core inflation in the US, the Euro area and China, %



A /
A /
Growth has been sluggish
In China, service sector gish
in the Euro area
development is hurt by and
China, while sur COVID
lockdowns, which is
positively in the US
keeping inflation
pressures low.

B /
B /
Labor markets are Core
inflation still tight and
accumulate price and
wage pres stubbornly
high es sures in the US
and especially in the
Euro Euro area.
area.

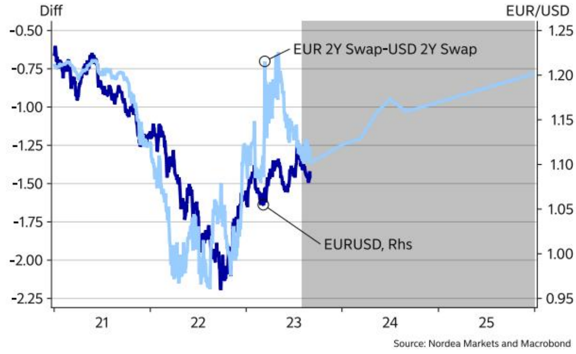
Sources: Nordea and Macrobond
Sources: Nordea and Macrobond

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

Year	EUR/USD	EUR/GBP	USD/JPY	EUR/SEK	ECB: Deposit rate	Fed: Fed funds take get rate (upper end)	US: 10Y benchmark yield	Germany: 10Y benchmark yield
2022	1.07	0.89	131.94	11.12	2.00 am	4.50	3.88	2.56
2023E	1.07	0.87	148.00	12.00	3.75	5.75	4.40	2.60
2024E	1.12	0.92	135.00	11.20	3.00 am	5.00	4:00 a.m	2.40
2025E	1.15	0.95	130.00	10.70	2.00 am	4:00 a.m	4:00 a.m	2.20

C / Long yields reaching new multi-year highs
10-year EUR and US rates

D / Rate differential points to a higher EURUSD ahead
EUR/USD spot rate and 2 year interest rate differential



Only rate cuts are excluded

Major central banks have finally moved into a genuine data-dependent mode, meaning that the pattern of predicting the outcome of policy meetings well in advance is finally over. While peak rates are at least likely to be close, further hikes certainly cannot be excluded. Only rate cuts are excluded for now.

In our baseline forecasts, the Fed will hike rates once more by 25 bp during the autumn, while we do not see any further increases from the ECB. Risks remain tilted towards further tightening, though. While inflation pressures have clearly receded from their highs, the road towards the 2% target could yet prove long and bumpy, which is why we do not expect to see rate cuts

until well into 2024 at the earliest.

Also, financial markets have recently started to condemn the idea of higher interest rates for longer, which has been illustrated by longer yields heading higher and US yields even making fresh 16-year highs. It is nat urally not only the central banks' outlook that guides long yields. Both the Fed and the ECB are allowing their bond holdings to fall, while public deficits remain sizeable, which means private investors need to buy a lot more bonds than has been the case for a long time.

Growth expectations have also boosted bond yields, especially as the risk of a US recession is now considered less likely than before. Especially in the US, bond yields may stay above 4% for several years, while a return to the rock-bottom levels that prevailed in the Euro area for a long time is not in sight either.

Dollar to fare better than feared

After a strong footing last year, 2023 has been mixed for the USD. Our view of a resilient US economy and higher US rates for longer than markets currently expect should support the USD going forward. Markets could get wrongfooted as positioning has been well against the USD since Q4 2022. Thus, the risk is for a lower EUR/USD in the short to medium term. Eventually, global growth should pick up when global inflation and rates come down. This will lead to a weaker USD

over the longer term.

The risk-sensitive G10 currencies (CAD, AUD, NZD, NOK and SEK) will not be in favor until central banks start cutting rates. However, eventually cyclical curren cies should start to perform once global growth is already slowed to pick up steam and inflation becomes less of a

concerns.

The JPY has been a disappointment, with the Bank of Japan (BoJ) falling behind other G10 central banks. We still believe that a normalization of monetary policy is on the cards. However, the BoJ is unlikely to move substantially in time to mend the wounds inflicted on the JPY. More likely, the JPY will recover somewhat once other G10 central banks cut rates, and that will take

some time.

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C /
Long bond yields have not peaked yet.

D /
Interest rate difference ential points to a higher EURUSD ahead. However, we don't see the USD weakening as much as rate markets cur purely suggest.

2.60%

The level we expect the German 10-year yield to end the year that

1.07

The level we expect EUR/USD to hit by the end of 2023

3.75%

Peak ECB deposit rate.

"While peak rates are likely to be close, further hikes cannot be excluded."

Ja n von Gerich
Chief Analyst

"Next year is characterized by an adjustment to a higher interest rate situation

Torb jörn Isa ksson
Nordea chief analyst, Sweden

The Nordics in brief

The economic development, and not least the labor markets, in the Nordic countries have so far shown resilience. The higher interest rate and high inflation are putting pressure on households and businesses, weighing on the economic outlook. The labor market cools off, as a consequence of more subdued activity. In Sweden and Finland, it takes time for the economies to recover.

SWEDEN

Real disposable income 2023

-3.0%

There will be a protracted Swedish economic downturn and the recovery will only come in 2025. The industry is burdened by falling global demand at the same time as new construction falls sharply. Higher interest rates continue to put pressure on households. The weak krona contributes to the Riksbank raising to 4.25 percent in November. A certain weakening is also expected in the strong labor market.

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DENMARK

Number of wage earners

3 million

The strong industrial product ion, especially in the pharmaceutical industry contributes to a counter sustainable Danish economy. Employment is at record high levels. Tighter credit conditions and lower export volumes are expected to moderate economic growth ahead. However, the decline will be somewhat milder compared to the other Nordic countries. the countries.

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NORWAY

The policy rate at the end of 2024

4.25%

The high inflation and weak currency have dampened the purchasing power of households. Rare goods trade has fallen and now there are also signs of declining service consumption. The Norwegian economy is cooling down in the near future and in addition Norges Bank is raising the key interest rate to 4.25 percent in September, with the risk that it will be more in the future. Only next year is a positive real wage development expected.

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FINLAND

GDP growth in 2023 and 2024

0.0%

The Finnish economy is stagnating and an unchanged GDP is expected for the current and next year. Rising interest rates and increasingly stressed households have dampened activity on the urban housing market, and new housing production has fallen sharply. The green transition and the fact that Finland has become self-sufficient in electricity production are expected to support growth in the long term.

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HIGHLIGHTS • GDP develops weakly this year and next year • The situation on the labor market deteriorates starting this autumn • Inflation falls • The Riksbank raises this autumn but lowers the key interest rate starting next year • The weak exchange rate of the krona is a growing cloud of anxiety

SWEDEN

Autumn rust

It continues to blow cold in the Swedish economy. The tight monetary policy is gradually having an impact here at home and with our important trading partners. Some relief occurs when inflation falls and key interest rates are lowered slightly. A large part of the forecast period is nevertheless characterized by subdued economic development and rising unemployment as households and companies adapt to a permanently higher interest rate situation.

The tenacity

From an unusually strong starting position, growth in the Swedish economy lost momentum already at the beginning of 2022. GDP stagnated thereafter and we expect the economy to shrink this year. Domestic demand is the main drag, but the export industry is also facing tougher times. In the wake of the monetary policy tightening, many challenges remain and GDP will develop weakly even in 2024.

Inflation falls and the Riksbank lowers the interest rate next year, which provides some relief for tested households and companies. A slow recovery can thus begin in 2025. However, resource utilization remains lower than normal throughout the forecast period.

There are flashes of light. The labor market has been surprisingly strong so far this year and the decline in employment going forward is estimated to be fairly mild. In addition, GDP has developed strongly in nominal terms, i.e. in current prices. This applies, among other things, to household consumption and income.

This year it may have contributed to fewer bankruptcies, higher employment and a general resilience in the economy. However, the central banks' interest rate increases and shrinking balance sheets eat away at the financial position of households and the coffers of companies. Nominal growth is also dampened thereby. This contributes to lower inflation, but also to lower demand and production. The key interest rates will be lowered in 2024 and 2025, but the interest rate at the end of the forecast period is still significantly higher than before the pandemic.

6200

Swedish GDP in 2023 i current prices, billion kroner.

8.5%

Unemployment peak in mid-2024

-3%

Households' real haze disposable income in 2023

Source: Nordea's forecasts

No traction from the outside in the near future

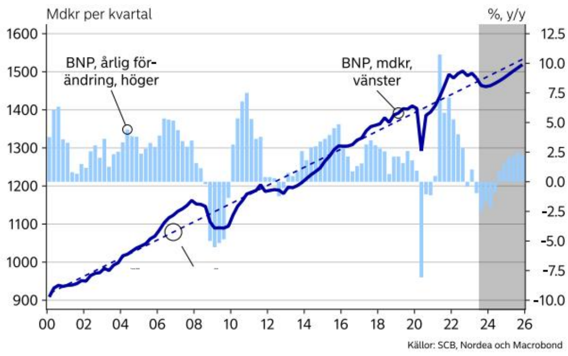
In connection with the pandemic, global demand shifted to goods as financially strong households were prevented from buying services. The pandemic is increasingly distant and consumption patterns have normalized in most countries. In combination with that central banks have stepped on the brakes, global demand for goods has fallen this year, which is reflected in an unusually large decline in world trade.

The global industrial economy has thus cooled, and this also affects Swedish exporters. In the short term, the means of transport industry seems to have a stable development as they are still managing the previously overflowing order books. Manufacturers of defense equipment also have a favorable development, which is important at a regional level but cannot compensate for the otherwise reduced demand for goods.

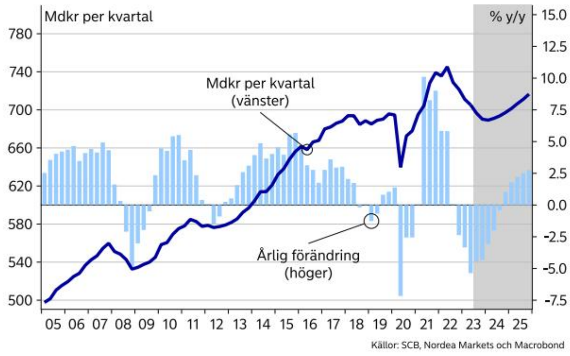
3 / SWEDEN: MACROECONOMIC KEY FIGURES

	2022	2023E	2024E	2025E
GDP (calendar corrected), % y/y	2.8	-1.0	-0.2	2.2
Consumer prices (CPIF), % y/y	7.7	6.1	2.4	1.6
Unemployment rate (AKU), %	7.5	7.3	8.3	8.0
Hourly wages (KL), % y/y	2.8	3.8	3.8	3.5
Gross public debt, % of GDP	32.8	32.2	34.0	34.4
Policy rate (year-end)	2.50	4.25	3.75	2.50
EUR/SEK (year-end)	11.12	12.00	11.20	10.70

E / GDP develops weakly this year and next year
Billions of kroner and annual percentage change



F / Household consumption and new housing allowances, a growth sink
Billions of kroner and annual percentage change



E /

Nice level after all. After the high GDP growth in 2021 is GDP close to trend despite weak growth during the forecast years.

F /

The graph shows household consumption plus investments in new homes at fixed prices. The decline is an important reason why GDP is falling this year.

The overall picture is therefore that most export companies, and eventually also the means of transport industry, face a subdued demand for goods in the coming year. A recovery is assumed to take place in 2025.

The weak development leads to the industry's investments falling both this year and next year, before a stabilization takes place thereafter.

Service rally also in foreign trade

Demand for services has been high in several parts of the economy over the past year. Production has been resilient and investments increased in the service sector last year. In particular, foreign trade in services has increased rapidly for a long time. During the second quarter of this year, the export of services was 20 percent higher compared to 2019. For imports, the increase is even greater, as much as 30 percent. The increases are dominated by various types of business services and services related to information and telecommunications. In other words, continue

exchange with the outside world to increase and globalization seems to be increasing, at least in this respect, for Sweden. The trend for trade in services is thus strong, but it is also affected by a weakening of the economy in the future.

Sluggish for consumption and house prices

In their efforts to maintain consumption, households have spent money on the purchase of goods and services this year in a rarely seen way. It still hasn't been enough. The high inflation has meant that households are getting less and less for their money, with reduced consumption volumes as a result. The rising interest costs are also eroding purchasing power and also weighing on housing prices. House prices have recovered somewhat over the summer after the previous decline, but we fear that prices will fall further going forward, albeit more gradually than the previous sharp decline. It is significant in several respects. For example, the development of housing prices usually affects households' propensity to consume.

Most of the forecast period is characterized by households' adjustment process to the higher interest rate situation. In addition, employment falls and unemployment rises in the future, which weighs on income development and creates uncertainty among households. At the same time, the financial ones are fading the reserves.

Lower inflation and slightly lower interest rates in 2024 provide some support for consumption and housing prices. At the end of 2025, house prices are still well below the peak level from 2022, while consumption volumes are largely unchanged since 2021.

The housing market also weighs on investments

As a consequence of households' tougher financial situation and falling housing prices, housing construction has plummeted. We expect the number of construction starts to drop to an annual rate of approx. 22,000 apartments, which is only a third compared to the peak year of 2021. A certain recovery is expected in 2025. The decline in housing construction is the main reason why total investments fall both this year and next year. Alongside industry, the service sector also has a slump this year, while investments in the energy sector counteract the decline.

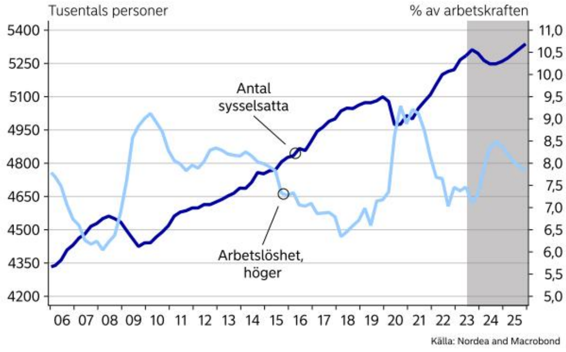
Similarly, government investments and public consumption are increasing. The increase reflects, among other things, the upgrading of the defence. Despite this, the public sector's consumption and investments are not a major economic airbag this year. The municipalities are struggling with high costs and in the future also with weaker revenues.

The pressure on economic policy makers to support the economy is gradually increasing. This suggests, among other things, that the municipalities will be allocated state funds in the next year, with increased consumption and investments as a result. The state budget is nevertheless close to balance during the forecast years and the public debt (Maastricht) remains below 35 percent of GDP.

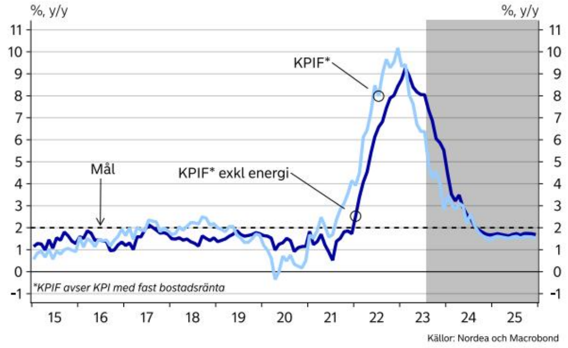
"The trend for foreign trade in services is strong, but it is also affected of one conjunctural weakening."

Torbjörn Isaksson
Chief Analyst

G / Rising unemployment
Thousands of people and % of the workforce



H / Inflation continues to fall
Annual percentage change



G / Employment eventually declines. The decline is still relative mild during the forecast period.

H / The sky-high inflation gives way. Lower global input prices are helping. At home, demand is dampened, which also contributes to lower inflation.

Employment is falling

The weak development of GDP finally has an impact on the labor market. A turn for the worse took place this summer and unemployment rises to a maximum of 8.5 percent during the forecast period, read more about the labor market on page 15. The wage agreements are set for the next two years with an agreement value of approximately 3.5 percent per year , and a weaker labor market reduces the likelihood that wage drift will accelerate. We estimate that the total salary increases will land just below 4 percent.

Hope for lower inflation

The inflation outlook remains uncertain. However, the price increases show signs of slowing down. The process is partly that reversed compared to the upswing that began in 2021. Energy prices, other commodity prices and global transport costs reverse first, which is then followed by changes in consumer prices of goods in particular.

Many service industries also benefit from the fact that said input goods have fallen sharply in price, for example via costs for heating, transport, travel and materials associated with certain services.

In addition, the weak domestic demand means that it becomes more difficult for companies to pass on cost increases, which strengthens the image of lower service inflation.

Wage increases pull in the other direction as the shift generates price impulses. However, the wage increases that are forecast do not reach levels that threaten the inflation target.

Weak exchange rate stresses the Riksbank

The krone's weak exchange rate is an inflation risk. On the one hand, there is uncertainty as to how the exchange rate will develop, and on the other hand it is difficult to assess how big the impact will be on consumer prices. Our assessment is that the krona will continue to trade at weak levels in the near term, among other things, as subdued global growth creates an environment in which the krona rarely thrives. The krona's cancerous course delays the decline, but it does not prevent inflation from falling. Overall, lower input prices lead to subdued demand and a stable exchange rate to inflation falling to around 2 percent next year.

The weakness of the krona is the main reason why the Riksbank is raising interest rates again this autumn. A continued depreciation risks leading to higher imported inflation, and the Riksbank raises the key interest rate to prevent that from happening. However, there are few domestic reasons to tighten monetary policy further.

Inflation below the 2 percent target in combination with the weak economy leads to the Riksbank following the example of other central banks and lowering the key interest rate starting next year. At the end of the forecast period, the central banks' key interest rates are still several percentage points higher than before the increase cycle began in 2022.

Multiple risks

Monetary policy works with a delay and it is difficult to assess the full effects of the last year's unexpected and sharp interest rate increases. If inflation becomes unexpectedly high, central banks should continue to tighten monetary policy, with a weaker economy as a result.

In that context, the krona is a particular worry for Sweden. Among the opportunities for better development is the high nominal growth of, among other things, household incomes and consumption. It may also in the future mitigate some of the negative effects on, for example, the labor market which are otherwise often associated with reduced consumption and production volumes.

"Crown cancer is main cause ken to this fall" The Riksbank raises the policy rate

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Declining resilience

The labor market has been unexpectedly resilient, but now there are more and more signs of a deteriorating situation. There are reasons to believe that the weakening of the labor market will be relatively mild, but a weaker labor market contributes to increased uncertainty in the economy.

Labor markets in many countries have been surprisingly strong in recent years. GDP stagnated last year, but despite that, employment grew by almost 3 percent. In Sweden, the strong demand and high labor shortage have opened doors for people who previously had difficulty entering the labor market. During the summer, the last milestone in the recovery was passed when the number of unemployed people who had been without a job for more than two years also fell to lower levels than before the pandemic. According to the Statistics of the Employment Agency, unemployment is the lowest in 15 years. If people who participate in labor market policy measures are excluded, the unemployment rate is the lowest in at least 30 years.

One reason why the labor market has performed better than expected may be the high inflation. Even if, for example, consumption declines in fixed prices, it increases rapidly in current prices, which can contribute to keeping company profits upright. Research on nominal effects is sparse and experience limited, but there may be reason to believe that strong nominal growth has significance for the labor market in the short term.

Lower demand for labour

Now, however, there are more and more signs that the labor market will weaken. The demand for labor is good, but the number of vacant jobs and companies' hiring plans have fallen from previous highs. In both the US and Sweden, the demand for labor has fallen without unemployment rising so far, which increases the hope for an economic soft landing. This is encouraging, but it is also worth noting that this is a relatively common pattern at the beginning of a phase with a weaker position in the labor market.

E / Clearer signs of a turnaround
Annual percentage change

Change in new vacancies and vacancies normally leads employment and unemployment by six months. In order for the demand for labor to continue to fall without weakening the labor market, a clear improvement in the matching on the labor market is required. The high labor shortage could suggest that there is some room for the match to improve as demand moderates, but it is unlikely to be enough to hold off a sharper rise in unemployment.

In the near term, however, high shortage numbers may contribute to the turnaround being slower than normal because there are still vacancies to fill and it is likely that more companies than normal will choose to hibernate staff.

Another sign of lower demand for labor is that the notification rate is rising. In July, approximately 3,500 per sons were notified, which is an unusually high number for the month. The notification numbers were unusually low last year, but have been around or just above a historical average throughout 2023. The influx of job seekers is also increasing. In addition, both decrease the number of temporary employees and the number of hours worked. All of these variables are usually early signs of a turnaround.

The employment agency's weekly statistics also show a more clear weakening of the labor market in recent weeks. It is likely that unemployment, according to Arbetsförmedlingen's figures, bottomed out in July. According to Statistics Norway's Labor Force Survey, the bottom of unemployment has already been passed, but the interpretation of Statistics Norway's figures is made difficult by a reduced response rate and high volatility in the monthly figures. During the autumn, unemployment is expected to rise by approximately half a percentage point. Employment is also expected to turn downward and begin to fall more clearly later this autumn.

The decline in the labor market will be less than the fall in GDP and production. But the weaker labor market reinforces the perception of a worse economy. Resilience is waning and rising unemployment weighs on disposable incomes and contributes to the general uncertainty that often characterizes recessions.

"Now, however, all on more sign to the labor market to will weaken."

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HIGHLIGHTS • Highest employment ever • Wages are again rising faster than prices • Low supply of homes for sale underpins prices • Interest rates close to peaking

DENMARK

Growth journey

The Danish economy has been on a remarkable growth journey, which has boosted employment to the highest level ever. The current account surplus has thus risen sharply and public finances have been positive for six years running. However, signs of an impending slowdown are starting to show, not least through the higher interest rates and downturn in key export markets. This is expected to push the Danish economy into a new phase, with lower activity and growing unemployment. However, the dampening will be relatively mild and soon replaced by renewed progress during 2024.

Long period of solid growth

The Danish economy has expanded by an annual av erage of 2.5% per year since 2013. That is a markedly higher growth pace than the years following the financial crisis, when the Danish economy almost ground to a halt for several years. This was achieved despite the major setbacks caused by the COVID-19 lockdowns.

This long stint of solid progress has brought the Danish economy closer to the capacity limit, making it increasingly difficult to keep moving forward based on existing resources. This challenge has been partly offset by a strong influx of foreign labour. Still, the latest data indicate a gradually slowing growth pace.
This is particularly the case in the construction sector, which is traditionally very sensitive to interest rates creases.

Against this background, we expect economic growth of around 1.3% this year. Compared with our May forecast, this is an upward revision from 0.5%.
This is mainly due to a surprisingly strong performance in the first half of the year, while we expect a mild contraction in the remainder of the year. The weakness is expected to be carried over into next year with a drop in GDP growth to 1.0%. Lastly, we include a forecast for 2025, with a growth rate of 1.7%.

+1.3%

Expected GDP growth into 2023

3 m

Historical milestone for number of wages earned yours

-0.40%

points

Spread between the posit rates – Danish central bank and ECB

Sources: Nordea estimates and Macro-

Industrial production surging ahead

Since early 2020, overall industrial production in Denmark has increased by more than 50%. That is a sharp acceleration compared to previously. Moreover, it is an entirely different trend than in for instance Germany and Sweden where industrial production has moved sideways in recent years. The key explanation for this strong growth is the pharmaceutical industry, which represents just over 20% of total production. Here, production has roughly tripled since the beginning of 2020. On the other hand, production in other sectors that do not include the pharmaceutical industry has declined since last summer.
This is also the case for the large mechanical engineering industry in Denmark, which has contracted more than 10% over the past year alone.

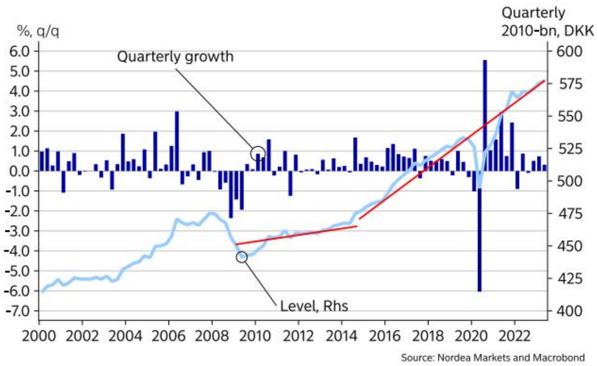
The calculation of industrial production includes sales of goods produced both in and outside the country. The pharmaceutical industry is typically characterized by being highly productive and at the same time much of the activity takes place abroad. There fore, industrial production has also increased significantly more than employment in recent years.

Correspondingly, the strong growth in the pharmaceutical industry is a crucial precondition for the current account performance. Over the past few years, the current account surplus has totaled almost DKK 400bn, or more than 13% of GDP.

4 / DENMARK: MACROECONOMIC INDICATORS, BASELINE SCENARIO

	2022	2023E	2024E	2025E
Real GDP, % y/y	2.7	1.3	1.0	1.7
Consumer prices, % y/y	7.7	4.0	2.3	2.0
Unemployment rate, %	2.6	2.9	3.3	3.1
Current account balance, % of GDP	13.5	12.4	11.1	10.4
General Govt. budget balance, % of GDP	3.4	2.3	1.4	0.5
General Govt. gross debt, % of GDP	29.7	29.8	29.5	28.7
Monetary policy rate (end of period)	1.75	3.35	2.60	1.60
USD/DKK (end of period)	6.97	6.96	6.65	6.48

J / Long period of solid growth in the Danish economy
Quarterly GDP in 2010 prices, level and q/q changes



K / Sharp rise in industrial production
Indexed industrial production trends, total/excluding the pharmaceutical industry

J /
Strong economic growth in the Danish economy over the past decade. However, in recent quarters activity has flattened due to high capacity utilization.

K /
Danish industrial production has surged ahead in recent years. Growth has been con centered in the pharmaceutical industry. Excluding this sector, production has been falling over the past year.

Waning investment activity

Tighter credit conditions and an uncertain demand situation in several key export markets have pushed investment activity lower. Especially notable is housing investment, where the number of housing starts has plunged. On the other hand, companies' investments in intellectual property rights have risen to an all-time high – again mostly driven by the pharmaceutical industry. The divergent trend clearly underlines that it is mainly higher interest rates that currently constrain investment in the most cyclically sensitive sectors.

Prospect of higher household spending

Last year, the erosion of purchasing power was one of the reasons why overall household spending declined by more than 2%. However, during 2023 consumer sentiment reversed in step with falling inflation and higher wage growth. Also, record-high employment has rein forced overall domestic purchasing power – triggering a renewed rise in retail sales. We expect consumer spending to rise further over the forecast horizon, mainly as a result of the positive real wage growth. In addition, the refund of overpaid housing taxes could boost consumption.

The labor market continues to surprise

Despite the slowdown in construction activity, lower industrial production outside the pharmaceutical sector and the waning investment activity, the labor market continues to surprise on the upside. Since early 2020 overall employment has thus grown by almost 200,000 people or some 7%. In June the number of wage earners was very close to three million.

The surge in employment has only been possible because of a large influx of foreign nationals to the Danish labor market during the same period. As a result, foreigners now make up more than 12% of the overall labor force.

Thanks to the strong employment growth, unemployment has been maintained at a very low level. In fact, many businesses, particularly in the service industry, still cite labor shortages as a constraint. However, in our view, unemployment will rise moderately towards the end of 2024 in response to generally lower economic activity. But even taking into account the expected rise in unemployment of about 3.3%, the level will remain very low in a historical perspective.

Declining inflation and higher wage growth

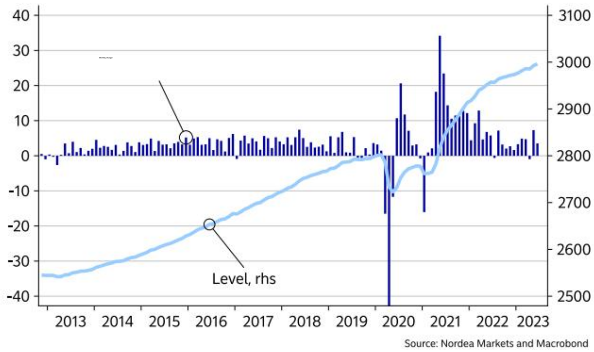
After peaking at just over 10% in October, 2020 inflation has steadily decreased to a level of 3.1% in July this year. The main reason is the sharp drop in energy prices, not least for electricity and gas, which are down about 30% compared to a year ago. Prices of several products have also stopped rising as a result of cheaper commodities and freight costs as well as weaker demand. In July, product prices were thus marginally lower compared to July 2022. This was the first time since 2020 that product inflation was negative.

On the other hand, service prices continue to rise quite steeply. One of the main reasons is since the service in industry is traditionally very labour-intensive and therefore also very sensitive to the higher rate of wage increases. At the same time, consumer demand for services is still strong, which is also one of the factors driving higher inflation.

"The Danish economy have been on a re marked on duty no. A growth is slow down looming, but it will likely be relatively mild."

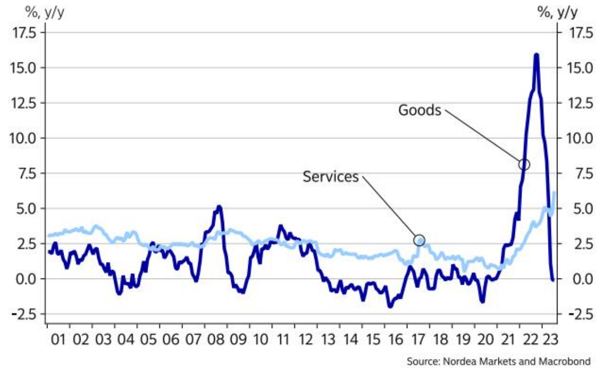
Jan Storup Nielsen
Chief Analyst

L / Record-high employment
Number of wage earners, monthly change and level



M / Falling product prices but service price inflation continues to rise

Annual change of prices of products and services, %



L /
The number of wage earners has risen sharply in recent years, fast approaching a historical milestone of 3 million persons.

W/
Product prices have been the main catalyst of the overall drop in Danish inflation since the autumn of 2022. Service inflation continues to rise, though.

We expect average inflation to land on 4.0% this year, mainly due to the high levels at the beginning of the year.
Next year we expect a decline to 2.3%, as goods prices are likely to significantly drive the overall rate of inflation lower.
However, it should be stressed that the forecast is very uncertain, as it is highly dependent on future developments, particularly in energy prices.

The decline in inflation coincides with rising wages in creases. With the collective agreements in the spring, salaries in the private sector are expected to rise by around 3.7% this year and around 4.5% next year. That is also the case for employees in the public sector, for which collective bargaining will start next year. However, in the Danish labor market there is a long-standing tradition of pay rises in the public sector largely mirroring the trend in the private sector. The wage trend in the public sector is thus generally expected to follow the private sector – albeit with a slight delay given the different collective agreement periods.

Low supply underpins home prices

The combination of record-high employment and low supply of homes for sale has somewhat surprisingly led to a renewed rise in home prices. The low number of homes for sale follows several years of very high trading activity. We forecast that prices of single-family houses will rise a bit further over the summer. But not enough to prevent average sales prices this year being at least 2% lower year-on-year.

We expect that normalization of the supply of homes for sale and continued high financing costs will mean that sales prices will move sideways throughout 2024. But we see quite a significant risk that prices will start falling again as more and more homeowners will feel the pinch of the markedly higher interest rates. Into 2025, prices should start to climb a bit higher, to reach the same level as in early 2022. Adjusted for inflation, real home prices should still be around 15% lower than at the beginning of 2022.

Solid public finances

In 2022, the public budget surplus was 3% of GDP. It was the sixth year running with positive public finances, and since 2019 Denmark has been the EU country with the largest surplus relative to GDP. Government gross debt has thus fallen below 30% of GDP thanks to the current surplus. This is a historically low level, except for a short period up to the financial crisis in 2007-08.

Public finances are expected to continue to record a surplus in coming years. However, it will most likely be smaller compared to previous years, as, for example, pension return tax receipts will likely be significantly reduced.

Moreover, in 2023 and 2024, public budgets will be affected by the refund of more than DKK 13bn to home owners, who paid too much in housing taxes from 2011 to 2020.

Interest rates close to peaking

Since the summer of 2022, the ECB has raised its policy rate by a total of 4.25% points. The Danish central bank has only partially mirrored this aggressive monetary policy tightening. One of the reasons is the historically large current account surplus, which has increased Danish companies' demand for Danish kroner. To counter the pressure on the DKK, the Danish central bank has several times had to widen the interest rate differential, so the policy rate is now 0.4 percentage points lower than in the Euro area. This has eased the pressure for a stronger DKK and the Danish central bank has not intervened in the currency market since the beginning of 2023.

In our baseline scenario we do not expect more rate hikes from the ECB or the Danish central bank this time around.
The first rate cuts are not projected until around mid 2024, though. This should maintain short Danish rates at around the current level until the turn of the year.

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Rising sales of electric cars

As part of the ambition to reduce greenhouse gas emissions, vehicle taxation has been significantly changed. This has led to a sharp rise in the fleet of electric cars, while the number of diesel cars has declined. Despite this increase, there is still a long way to go to fulfill the ambition of one million zero and low-emission cars on Danish roads in 2030.

In 2020 a broad majority of the Danish Parliament adopted the Danish climate law. According to the law, Denmark must reduce greenhouse gas emissions by 70% by 2023 compared to 1990. Also, a long-term target was set to make Denmark climate-neutral by 2050 at the lat
Est.

In 2021 Denmark had reduced greenhouse gas emissions by 40%. A key reason was a successful reduction of emissions from utility companies as a result of the transition to renewable energy sources such as wind and solar
power.

However, the reduction from the utility companies has meant that an increasingly larger share of household emissions comes from transport. In 2021 driving thus ac counted for 47% versus 23% in 1990. According to an analysis from Statistics Denmark, total emissions from family car travel have been more or less constant since 1990, even though the number of cars on the roads has risen sharply during that period. The reason is that the Danish car fleet has become much more energy efficient

since then.

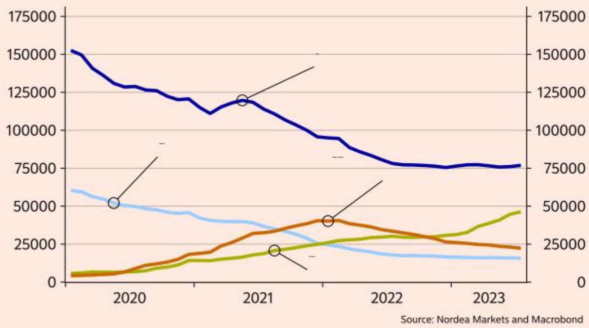
To reduce transport emissions, the Danish government in late 2020 adopted an agreement on a green transition of road transport. With this agreement the government aims to reach 775,000 electric cars in 2030. According to The Ministry of Taxation this should decrease emissions by a total of 2.1 million tonnes. The government also announced an ambition of having as many as one million low- or zero-emission cars on the road by 2030.

Sharp rise in sales of electric cars

As part of the agreement, it was decided to change the registration tax to favor the purchase of green cars much more. Especially for 100% electric cars, for which the tax was significantly reduced. On the other hand, the registration tax for conventional cars was increased. Theses
changes have noticeably impacted car sales in recent years. More than 46,000 electric cars were sold over the past year. This equals almost 30% of all passenger cars sold – the highest share ever recorded.

This sharp rise in sales has increased the fleet of electric cars to just over 150,000 by end-July. This equals an increase of more than 65% versus the year-earlier period.
Conversely, numbers of petrol cars and diesel cars on Danish roads have dropped by just under 20,000 and just over 46,000, respectively, over the past year. However, compared to the total car fleet on Danish roads, electric cars still only make up about 5.5%.

N / Sharp rise in sales of electric cars
Number of newly registered cars



Important component of consumer spending

In recent years, car sales have made up some 4% of all household consumption. Historically, car sales have fluctuated widely and thus impacted the trend in overall household consumption. In the coming years several positive effects could influence car sales and consumer spending.

Persistently high interest rates and projections of steadily rising unemployment will likely curb the demand for new cars. On the other hand, prospects of positive real wage growth and continued high levels of household savings indicate solid underlying demand for new green cars also going forward.

In addition, the 2020 agreement on registration taxes includes a model in which taxes on cars with charging ports are gradually raised towards 2030. This means that prices will rise as early as the turn of the year, which will especially affect plug-in hybrid cars. This could trigger a hoarding effect over the autumn, but weaken demand going into 2024.

But all in all, the new registration tax structure has shown that it is possible to change households' consumption pattern. That's why it is very much a question of political priorities to ensure that the ambition of having one million green cars on Danish roads by 2023 is fulfilled.

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“A green transition of the transport sector is a crucial precondition for reaching the ambitious climate goals. It will require a sharp in in crease sales of electric cars future.” in

Jan Storup Nielsen
Nordea Chief Analyst

HIGHLIGHTS • The Norwegian economy will slow down • Households will tighten their belts • Norges Bank close to the interest rate peak • Housing prices will fall slightly before they rise again • Weaker NOK for longer

NORWAY

Cooling down

The Norwegian economy is cooling down. Activity has flattened, and unemployment has risen slightly but is still at a very low level. Higher price and wage growth and a weaker NOK have led to a steeper interest rate increase. Households and the housing market have started to feel the pinch of the rate hikes. Household spending will start to decrease, construction activity will remain at a low level and unemployment will rise somewhat, going forward. The cooling of the economy is, however, slowed by increased oil investments and good profitability in the export sector, thanks to the weak NOK. The policy rate will likely peak at 4.25% in September, but it will take a long time before inflation falls towards the 2% inflation target. Thus, we do not expect rate cuts until 2025. In the near term, the NOK will weaken further, but will probably regain a bit of strength further out.

Resilient but not invincible

The Norwegian economy has continued to show great resilience to higher rates and price growth than expected. The Norwegian economy has been surprisingly strong for a long time, and since the start of the year, activity has stabilized at a high level. Registered unemployment has risen slightly from 1.7% to 1.9% this year, but it is still at a very low level. The NOK has remained weak, and underlying inflation reached a new record during the summer. A more resilient economy, weaker NOK, higher wages and price growth are the reasons why Norges Bank has hiked rates at a faster pace and warned of an even higher interest rate peak than previously.

The central bank's rate hikes may seem to have had a small effect on the economy and inflation. But it takes time before the full effect of rate hikes feeds through, especially in the wake of the pandemic. The rate cuts in 2020 increased disposable incomes for everyone with debt, at the same time as spending was limited by the measures to contain the virus.

Consequently, savings skyrocketed. Rate hikes and high price growth have reduced purchasing power, but savings have declined again. Consumption was therefore not as dampened as many had expected.
Savings will hardly fall as much going forward, and the effect of the latest rate hikes will thus be more pronounced.

We therefore expect the cooling of the Norwegian economy to be more palpable in the coming period.
Autumn and winter will be a bit tough. So far, it is mainly the construction sector and parts of the retail sector that have shown clear signs of weakness.
Eventually, a broader part of the Norwegian economy will see a subdued trend. We are sure that

2.5%

Forecast for registered unemployment rate at end-2024

4.25%

Forecast for Norway Bank's policy rate at end-2024

11 a.m

Forecast for EURNOK at end-2024

Sources: Nordea estimates

eroding purchasing power will prompt households to tighten their belts going forward. Accordingly, the service sector will also experience lower demand in the future. Increased petroleum investments and prospects of moderate wage growth over the coming years will be an important counterweight, though. Thus, we still do not expect any severe downturn for the Norwegian economy.

Spending will decrease

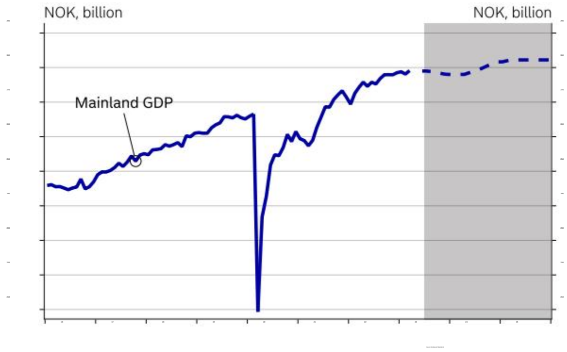
Household spending has been surprisingly strong for a long time, thanks to a lower propensity to save, but also accumulated savings after the pandemic. At the same time, most people have jobs. However, we are now seeing signs of a reversal. Goods consumption has surprisingly not fallen in step with the normalization after the pandemic, and it seems to continue to fall, especially large durable goods pur chases, such as cars, boats and sports equipment.

Now, we also see signs that service consumption, which surged after the pandemic, is slowing down.

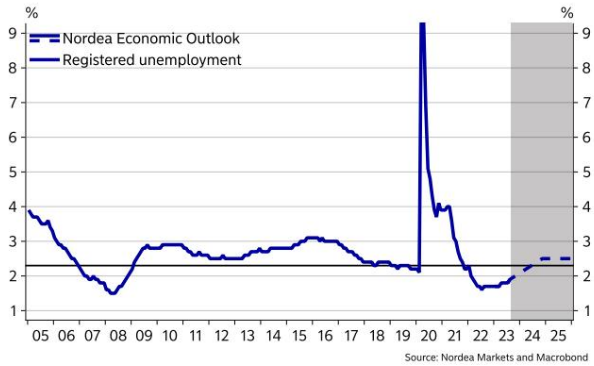
5 / NORWAY: MACROECONOMIC INDICATORS

	2022	2023E	2024E	2025E
Real GDP (mainland), % y/y	3.8	1.2	0.5	1.0
Household consumption	6.9	-1.2	-0.5	1.5
Core consumer prices, % y/y	3.9	6.5	5.0	3.5
Annual wage growth	4.3	5.6	5.0	4.0
Unemployment rate (registered), by %	1.8	1.9	2.3	2.5
Monetary policy rate, deposit (end of period)	2.75	4.25	4.25	3.75
EUR/NOK (end of period)	10.51	11.50	11.00	10.50

O / Largely stagnant economy going forward
Mainland GDP, NOK billion.



P / Slightly higher registered unemployment in future
% of labor force



O /
Economic activity will fall going forward.

P /
Unemployment set to rise slightly from a very low level.

In the past year, many consumers in Norway have experienced a historic decline in purchasing power. As a result of higher interest rates, lower real income and higher unemployment, households as a whole will need to tighten their belts in the future. Therefore, we expect overall spending to fall this year and towards next summer.

Although unemployment will rise slightly going forward, it will remain at historically low levels. Most people will thus still be employed and many will likely see wages increase

more than prices next year and in 2025. At the same time, households still have large savings buffers overall. If consumers use their savings, spending could be less affected in the future than the decline in purchasing power would suggest. This will prevent a sharp drop in spending, going forward. A stabilization of the interest rate level and real

wage growth will improve purchasing power next year and in 2025. This points to increased consumption after next summer and towards the end of 2024, and especially, in 2025, when the policy rate will likely go down somewhat.

Clear expectation of real wage growth next year

Annual wage growth will likely be around 5.5-5.75%, clearly above the 5.2% collectively agreed in the wage leading sectors. If so, this will be the highest annual wage growth in 15 years. There is a clear tendency for the final wage growth rate to be higher than that negotiated for the wage-leading sectors when labor market conditions are tight and profitability generally is good, as in the current situation. Likewise, inflation will also be higher than the level assumed in the wage negotiations. Most of us will thus likely experience a year when inflation is higher than wage growth. This may affect wage negotiations next year, despite somewhat higher unemployment at that time. The employee side again has clear expectations of positive real wage growth next year, but employers also expect wage growth to be higher than inflation.

Over the next couple of years, we project slightly lower nominal wage growth as inflation slows, but positive real

wage growth. With estimated CPI growth of 4% next year, we expect wage growth to be around 5%.

Lower inflation but it takes time to reach 2%

The fall in energy prices from a high level last year will curb headline inflation now that energy prices have come down and base effects start to kick in. After inflation of

around 6% last year and this year, CPI growth will increase much more next year.

While overall inflation will decline, there is reason to believe that core inflation (adjusted for energy prices) will remain high. Core inflation has been and will likely continue to be broad-based. Increased import costs, wages

costs and rents will contribute to core inflation well above

6% this year. Core inflation will fall next year, but with continued high wage growth and the effects of a weak NOK, it will take a long time before core inflation is close to Norges Bank's inflation target of 2%. We may have to wait until 2026 before core inflation is below 3%.

"It will take some time before Nor ges Bank will consider cut things rate."

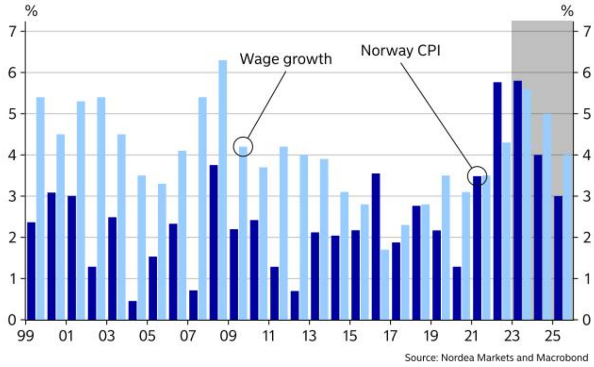
Kjetil Olsen
Nordea Chief Econo mist, Norway

Close to peak rates, rate cuts far away

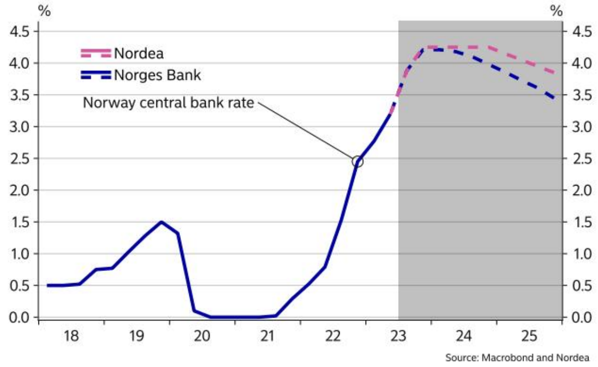
Norges Bank hiked its policy rate to 4.0% in August and signaled a new hike in September. We think the policy rate will peak in September at 4.25%, but we cannot rule out that it will be slightly higher. The bank still worries that inflation and wage growth could take hold at an el evated level, although growth and economic pressures should abate going forward. A possible NOK weakening will add to price pressures and could also trigger stronger wage growth. In our view, a much weaker NOK is the big risk factor for an even higher interest rate peak than we estimate at present.

Although the interest rate peak is close, Norges Bank is not about to consider a rate cut. Unemployment will rise, and although inflation will fall somewhat in the future, it will stay well above 2% in the next few years. We do not expect the bank to reduce its policy rate until 2025, and then cuts will not be significant.

Q / Positive real wage growth next year and in 2025
CPI and annual wage growth, y/y %



R / Rates will stay higher for longer
Policy rate, Nordea's and Norges Bank's forecast, %



Housing market correction before prices pick up

Given Norges Bank's rate hikes, the trend in housing prices has been surprisingly strong this year, increasing 5.2% so far. Seasonally adjusted, housing prices have thus basically been unchanged from the peak last summer.

The changes in housing loan regulations, which took effect from the new year, have probably contributed to better price performance for existing houses than would otherwise have been the case. Borrowers must now be able to sustain a rate increase of 3 percentage points instead of 5 percentage points (but in any case a rate of 7%). This means that banks can lend more to borrowers than under the old rules.

At the same time, housing market sentiment has reached a turning point. Prices have fallen a good deal over the summer, and we expect housing prices to continue to fall towards year-end. The current level of housing prices does not reflect Norges Bank's latest rate hikes, and interest rates will increase further. At the same time, slightly higher unemployment also points to a slower housing market. On the other hand, there is little new construction of housing. We therefore project a moderate decline in housing prices of some 5% (seasonally adjusted). In the long term, housing prices could increase thanks to increased income when the policy rate is lowered.

Weaker NOK for longer

The NOK has fluctuated widely this year. The currency is still close to the crisis levels at the time when the corona virus pandemic broke out. The interest rate differential between Norway and its trading partners is clearly narrower, which has been a very important driver of the NOK weakening. The interest rate differential between the NOK and the EUR has not been this low since before the financial crisis. The NOK also has a lower interest rate compared to other major currencies, such as the USD and the GBP. The NOK has gone from being a high-rate currency to a low-rate currency. At the same time, the NOK is also more exposed to risk than most other currencies.

That is why it should come as no surprise that the NOK is one of the currencies that has weakened the most this year and which fluctuates the most when interest rates and stock markets are volatile.

We expect the NOK to remain weak over the coming pe riod in spite of relatively high energy prices. For the NOK to strengthen, interest rates abroad must come down.

However, it will take some time before global inflation declines sufficiently for central banks to cut rates.

We do not expect rate cuts among the large western economies until next summer, but they will likely occur sooner than in Norway. Coupled with increased oil investments, which lead to increased demand for the NOK, and continued relatively high energy prices, an improved interest rate differential could result in a slightly stronger NOK in the long term. However, in the short term, there is a clear risk of an even weaker NOK. It may be a turbulent autumn for financial markets, as inflation, especially in the US, seems to be more resilient than markets anticipate. A stock market correction will weigh on the NOK. We expect EUR/NOK to trade around 11.50 at end-2023, 11 towards wards end-2024 and down towards 10.5 by end-2025.

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Q /
Wage growth has risen in line with tighter labor market conditions and higher price growth Real wages will increase in 2024 and 2025.

R /
The interest rate peak is close in Norway, but no rate cuts until 2025.

“A stock market correction will weigh Wed, the ENOUGH.”

Dan Chekov
Senior Strategist, Norway

What could speed up rate cuts?

Norges Bank has hiked its policy rate faster and warned of a higher interest rate peak than previously. We think the policy rate will peak in September at 4.25%, but we are not sure it will stop there. The interest rate market is now discounting rate cuts next year. In our view, interest rates will not start to gradually move lower until 2025. A faster pace of rate cuts would require a much more severe down turn in the Norwegian economy and a more rapid rise in unemployment than Norges Bank currently projects. And even then, Norges Bank would likely proceed at a moderate pace. Hence, we see very little downside to interest rates over the next few years.

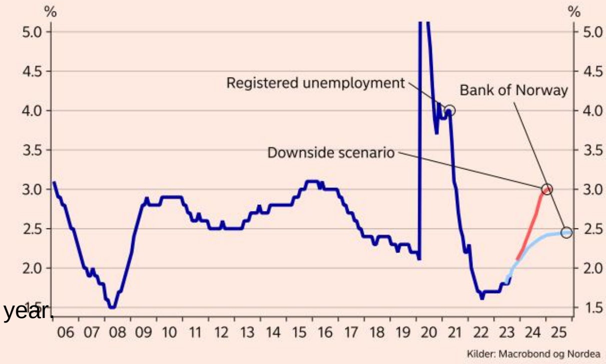
Since interest rates started rising a couple of years ago, many have believed that they were about to peak and the policy rate would soon be cut again. However, the peak level has been raised and steadily put off due to stronger price pressures and a more resilient economy than expected. Now it looks like Norges Bank's policy rate is close to peaking again. We think it will most likely peak in September at 4.25%, but we cannot rule out a slightly higher peak. In our view, a much weaker NOK is the biggest risk factor for an even higher interest rate peak than we estimate at present. A new sharp NOK weakening will add to price pressures and could trigger stronger wage growth. Norges Bank still worries that growth in prices and wages could take hold at an elevated level, although growth and economic pressures should abate going forward and unemployment will rise.

Many expect that the policy rate will be cut as soon as unemployment starts to rise. Norges Bank has long predicted a rise in unemployment, but despite an expected rise from the current 1.9% to almost 2.5% towards the end of 2024, the central bank's interest rate forecast only shows a marginally lower interest rate from the end of next year. Norges Bank does not forecast a drop in inflation to wards 2% until end-2026, when the policy rate is expected to be around 3%.

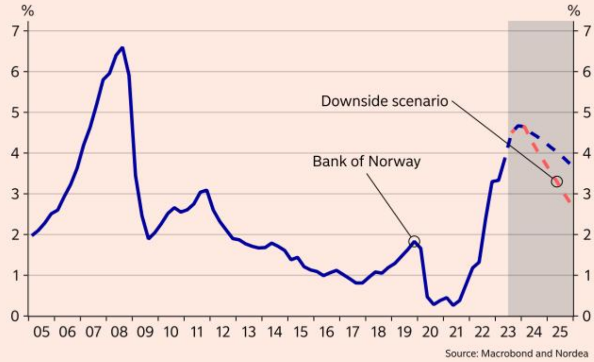
To speed up the interest rate cuts, either inflation will have to subside more quickly or the economic slowdown must be much more severe than in the baseline scenario. Inflation will abate next year, but with continued strong wage growth and the fallout from the NOK weakening, it will be a long time before underlying inflation is back in the vicinity of Norges Bank's 2% inflation target. That is why we see a greater probability of a more severe economic downturn than a more rapid drop in inflation.

We have looked at a downside scenario where unem employment rises as much as during the financial crisis (see Chart S). There is uncertainty about the effects of the already implemented rate hikes, and in this scenario when the effects come they will be much stronger than expected. But in this scenario the rate cuts will probably be more moderate than during the financial crisis. Firstly, it will take time before it becomes evident that economic trends are significantly weaker. A first rate cut is not likely to occur until Q2 next year at the earliest. Furthermore, even if unemployment increases more than anticipated, price growth will still be well above the tar get. The central bank will therefore not be able to look exclusively at developments in the real economy, but will have to keep an eye on the strong inflation. This is how the current situation is different from the financial crisis. Also, the NOK will be vulnerable. Aggressive rate cuts would weaken the NOK considerably and lead to further upward price pressure. All in all, it will probably take a lot for Norges Bank to cut interest rates more than once per quarter in such a downside scenario.

S / Norges Bank will assess rate cut if unemployment rises more than expected
Registered unemployment, %



T / In this scenario the policy rate will be cut faster, but not as much as during the coronavirus pandemic
Policy rate, %



"Even if in the see we vere down turn Norwegian economy, that a Bank would proceed moderate pace."

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HIGHLIGHTS • Economic growth is sputtering • Inflation will fall considerably • Household spending is miserly • Labor market turns for the worse • Housing market remains sluggish • Construction investments are on hold • Exports suffering from stagnant global economic growth

FINLAND

Autumn chills

Economic growth was healthy in the first half of the year, but the outlook going forward is clearly weaker. Higher interest rates will continue to put pressure on consumers, and residential construction. Demand for exports has also deteriorated as global economic growth has slowed down. However, investments in the green transition act as drivers of future growth.

Economic growth is sputtering

The Finnish economy grew during the first half of the year on the back of growth in service demand. Meanwhile, the net exports figure improved because imports slowed down even more than exports. This was due to lower consumption of goods and a de creased need for imported electricity thanks to growth in domestic output. Meanwhile, the slow down in construction has already begun to curb investment.

The employment situation remained good in the first half of the year, wages were raised over the summer and inflation fell thanks to lower energy prices. All of these factors have gradually begun to improve consumer purchasing power, which is nevertheless still weak. In fact, households have continued to spend their savings to maintain their lifestyle. The recovery in household real income is expected to continue, but at the same time an uptick in unemployment will limit growth.

The economic outlook for the rest of the year and 2024 is still challenging, despite the good first half of the year. The slump in the housing market is causing a clear slowdown in residential construction. Simi larly, order backlogs in the manufacturing sector have begun to dwindle and export prices are falling due to sluggish global demand, which is also weighing on the growth outlook for next year.

We reiterate our zero economic growth outlook for this year, and are lowering our growth forecast for next year to 0% due to a deteriorated outlook for manufacturing and construction. For 2025, we forecast economic growth of 1.5%.

The growth in domestic energy generation, the new investment opportunities offered by clean energy and a recovery in consumer purchasing power will brighten the long-term outlook for the economy.

0.0%

Our forecast for GDP growth in 2023 and 2024

2.1%

Inflation forecast for 2024

8.0%

Our forecast for the unemployment rate in 2024

Sources: Statistics Finland and Nordea.

Inflation will fall considerably

The rise in consumer prices slowed down considering lead in the first half of the year, thanks to a drop in energy prices. In July, the annual change in the consumer price index was 6.5%, compared to more than 9% at the end of last year. Using the EU's Harmonized Index of Consumer Prices, inflation in Finland was 3.4% in August, but this figure does not include the effect of loan interest on prices.

Inflation is expected to continue to decline for the rest of the year, and in 2024 full-year inflation is forecast to be as little as approximately 2%. The de crease in the cost of transportation, industrial prod ucts and energy, combined with weakening de mand, will curb the rise in the prices of goods and food.

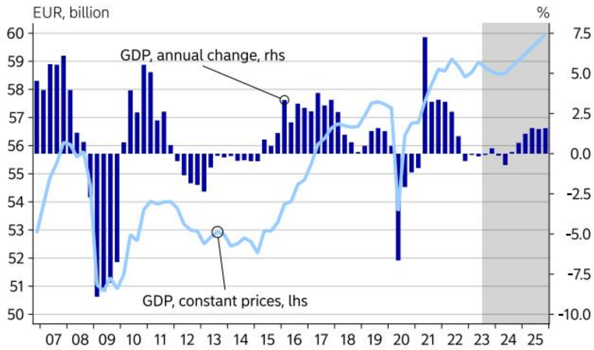
Increases in the prices of services, on the other hand, continue to be high at about 5%. Wage growth and strong demand for services are maintaining the rise in service prices.

The increase in the average mortgage interest rate will also have a large effect on the Finnish inflation indicator this year. Next year, the impact of interest rises on inflation will decrease considerably. Meanwhile, the drop in house prices has reduced living ex
thought.

6 / FINLAND: MACROECONOMIC INDICATORS

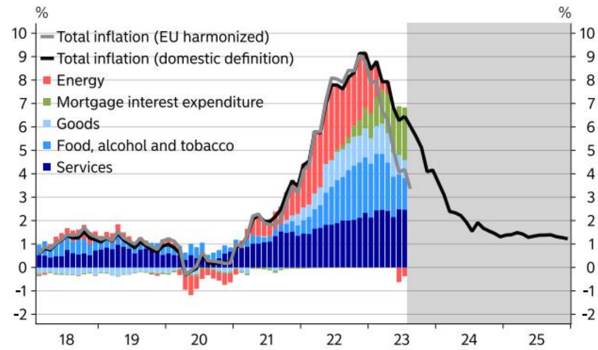
	2022	2023E	2024E	2025E
Real GDP, % y/y	1.6	0.0	0.0	1.5
Consumer prices, % y/y	7.1	6.4	2.1	1.4
Unemployment rate, %	6.8	7.2	8.0	7.4
Wages, % y/y	2.4	4.0	3.5	3.0
Public sector surplus, % of GDP	-0.9	-1.2	-2.2	-1.8
Public sector debt, % of GDP	73.0	73.4	75.9	76.9
ECB deposit interest rate (at year-end)	2.00	3.75	3.00	2.00

U / GDP growth coming to a halt
EUR billion at 2010 prices and annual change percentage



Source: Nordea and Macrobond

V / Inflation is now clearly falling
Contributions to annual change



Source: Nordea and Macrobond

Household spending is miserable

Household spending has been lackluster since last year, as inflation and the rise in interest rates have eroded consumer purchasing power. However, the consumption of services has continued to grow while the goods trade has contracted. The strong performance of the service sector has kept up economic growth. The value added in Finland for every euro spent on services is higher than that spent on goods consumption because a smaller percentage of the value goes abroad through imports.

The weak purchasing power of households is gradually turning to slow growth due to falling inflation and the wage increases that took place in the summer. Wages will rise by about 3% on average this year, in addition to which workers were paid various one-off bonuses pending on the sector that amounted to around 1% of the total salaries and wages. Thanks to these increases, total salaries and wages grew rapidly over the summer.

Despite a slight improvement in purchasing power, households will still be forced to spend their savings to maintain their consumption. Mortgage holders in particular have seen their expenses rise more than the rest, be cause the interest on their loans has increased in line
with reference rates.

The labor market takes a turn for the worse

The employment situation remained robust in the first half of the year, partly boosted by high consumption of services. The latest observations from the labor market, however, indicate that the unemployment rate has exceeded 7% and that the employment rate has declined.
The number of job vacancies has also begun to decrease markedly.

We expect unemployment to continue rising slowly for the remainder of this year. The slowdown in construction and manufacturing, in particular, will begin to increase temporary layoffs and unemployment.

The uptick in unemployment is expected to be moderate, however, and the unemployment rate is forecast to rise to 8%.

The housing market remains sluggish

House sales have been subdued since the second half of last year. Higher interest rates, the drop in house prices and the increase in other living costs have made home buyers consider their purchasing decisions for longer than before. Property investors have also stopped buying apartments.

The slump in house sales has lengthened selling times especially in growth centers. The increase in selling times can be attributed to weaker demand as well as to an increase in supply, as plenty of new apartments are still being completed. The high number of rental apartments built in recent years and the decreased interest of property investors has weakened demand for small apartments in particular.

Housing prices have decreased across Finland by 8% year-on-year. However, we believe that most of the de cline in housing prices has already occurred. In the Greater Helsinki Area, the housing supply currently outstrips demand, which is why we expect prices there to drop by a few more per cent.

Housing sales are expected to pick up in the second half of this year as the rise in interest rates slows down and housing prices stop declining. That said, the oversupply in housing is expected to continue next year until the stock of unsold new homes is off the market.

Construction investments on hold

With house sales still very sluggish, the number of new residential construction starts has fallen by 25% year-on-year, signaling that construction will contract sharply this year and next as ongoing projects are completed.
The number of apartments to be completed next year will be as much as a third lower than this year.

U /
Finland's economy growth is forecast to fall to zero this year.

V /
Inflation will broadly ease, but the increase in the average interest on mortgages will keep consumers rising this year.

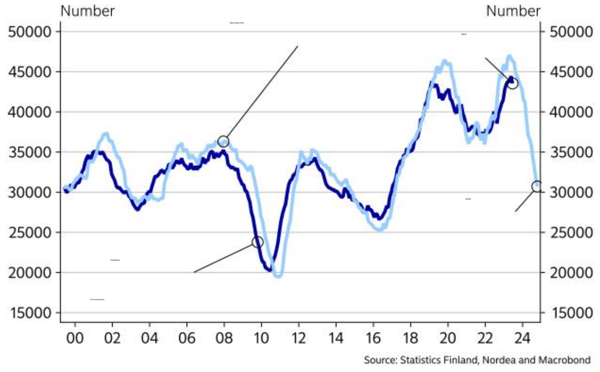
“Consumer purchasing power have begin to re cover.”

Juho Kostiainen
Economist

Machine Translated by Google

W / Finland's imports are declining more than exports
EUR billion, at 2010 prices

X / Housing construction will contract markedly
Moving total annual quantity



w/
Finland's imports are forecast to contract even more than exports, which means net ex ports will support economic growth this year.

X /
The decrease in new residential construction starts will result in the number of completed apartments falling by nearly a third next year.

The stock of unsold new homes has grown considerably, and new construction starts are not expected to begin growing again until late 2024. The slowdown has been more moderate in non-residential construction. Renovate

tion has picked up as new construction has sagged, and this is maintaining activity in the sector.

Investments in machinery and equipment have held up better than construction, but dwindling manufacturing demand will decrease these investments, too. Over the longer term, the investment environment in Finland has become more attractive due to clean power being readily available, which will provide opportunities for many green investments. We discuss the outlook for investments in the green transition in our theme article on page

27.

Exports suffering from stagnant global growth

The flow of new orders in the manufacturing sector has begun to dry up and the order backlog has shrunk, pres aging a contraction in goods exports and, consequently, manufacturing output. The economic woes of Finland's key export partners, namely Sweden and Germany, are hurting Finland's exports. Moreover, export prices have begun to fall, which will be reflected in the profitability of export companies.

In the foreign trade for services, imports have outgrown exports. One of the factors behind this is a weaker tourism balance, as Finns traveled abroad after the COVID pan demic while at the same time the number of Russian and
Asian visitors to Finland have remained at a low level.

Domestic power generation has grown thanks to the new nuclear power plant in Olkiluoto and the construction of additional wind power, which has improved the trade balance. In fact, imports will decrease even more than exports this year, and the contribution of net exports to economic growth will be positive as the trade balance im

prove

The moderate wage increases in Finland compared to many competitor countries, coupled with the drop in the price of electricity, will maintain the competitiveness of manufacturing.

Government begins to balance public finances

Finland's public sector deficit was only 0.9% of GDP last year. The rapid growth in tax revenue continued in the first months of this year, but at the same time a growing need for services and rising costs have increased spending. The forecast increase in unemployment and rapid layoffs will also push expenses up towards the end of the year.

The new government program includes major cost cutting measures aimed at balancing public finances. In particular, the government plans various labor market reforms that would set stricter conditions for the unemployed

ment benefits. More detailed information on the reforms and their timetable will be made available in the government's budget negotiations on 19 and 20 September.

The public sector deficit is expected to increase to 1.2% this year. The deficit next year will largely depend on economic development and the government's budget decisions. However, without any cost-cutting measures, the deficit is expected to grow next year as well.

Public debt increased to 73% of GDP last year. The debt to GDP ratio is expected to continue to increase this year and next as deficits grow and nominal GDP growth slows down due to falling inflation.

"Weak house ing

demand will plunge

the

construcaion sector into

recession."

Juho Kostiainen
Economist

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Investing in the green transition

Finland's investments in the green transition continue, with more money pouring into low-emission industrial production and electric transportation, in addition to wind power. As imported electricity and fossil fuels are replaced with domestic electricity, the effect of external energy shocks on the Finnish economy will be mitigated and the amount of value added in Finland will increase.

From power generation to electrification

Investment in the green transition has taken a big leap forward in recent years. More than 3 billion euros of investments in wind power were completed last year and about two billions' worth will be completed this year in addition to the launch of the new nuclear power plant. As a result, this summer Finland achieved self-sufficiency in electricity generation on a monthly level for the first time in nearly two decades. Moreover, the electricity output will continue to grow since a number of offshore wind power projects are also being launched to supplement onshore capacity. Emission-free and cheap electricity and power distribution networks in Finland have begun to attract numerous foreign investment projects that are reliant on these.

In fact, the first green hydrogen production facilities are already being built. Finland has a favorable environment for the production of green hydrogen because, in addition to the supply of clean and cheap electricity, the heat generated in production can be used for district heating. Meanwhile, green hydrogen can be used to replace fossil energy, for example in the oil refining or steel industries. Hydrogen can also be refined into synthetic fuels, such as methane or ammonia for heavy transports.

The electrification of industry is already underway on a broader scale, as current heating and power plants use fossil fuels are being replaced with electric boilers or bio energy plants, for which the high cost of emission allowances has created financial incentives. Finland will enjoy a competitive advantage in the manufacture of batteries as well, a potential that has so far gone largely untapped.

Y / Net electricity imports to Finland
Gigawatt hours per month

Impact of green investments on the economy

The green investment figures published on the Data Dashboard of the Confederation of Finnish Industries (EC) include a total of 2 billion euros in green investments to be completed in 2024 and as much as 4 billion euros to be completed in 2025, which do not include onshore wind power investments. In total, the Data Dashboard records projects worth up to 140 billion euros, which reflects the enormous interest in green investments, of which only a fraction will nevertheless be realized.

Green investments will not only create jobs in Finland during the construction stage, but also increase the amount of value added in the country after their completion. A premium is paid on the market for low-emission products, which increases the value added in Finland. Investments in the green transition are often lucrative and end up paying off in the form of lower energy costs or better selling prices.

Finland's net imports of electricity have been worth about 500 million euros annually, and they spiked to as much as 2 billion euros in 2022, when electricity prices were high. Self-sufficiency in electricity will decrease imports and re sult in the money spent on electricity remaining in Finland. However, low-wind days and potential problems with domestic supply or transmission will raise the price of electricity, so the decrease in exports won't remove price volatility entirely.

Net total energy imports have amounted to 5 billion euros annually, with the majority consisting of oil products. The electrification of transportation will decrease oil imports, which will be replaced by electricity generated in Finland. The electrification of passenger cars is a major investment that will be partly paid for by households. However, for those who drive a lot, an investment in an electric vehicle will pay off in the long run because of its cheaper operating costs.

“Investments that aiming cutting emissions of are ten also lu creative.”

Juho Kostiainen
Economist

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7 / Real GDP, % y/y

	2022	2023E	2024E	2025E
World 1)	3.5	2.9	2.5	2.7
Advanced economies	2.6	1.3	1.0	1.5
USA	2.1	2.0	0.9	1.9
Euro area	3.4	0.5	1.0	1.0
Japanese	1.1	1.6	1.0	1.0
Denmark	2.7	1.3	1.0	1.7
Finland	1.6	0.0	0.0	1.5
Norway (Mainland)	3.8	1.2	0.5	1.0
Sweden	2.8	-1.0	-0.2	2.2
UK	4.0	0.3	0.6	1.5
Germany	1.9	-0.5	0.5	1.0
France	2.5	0.5	1.0	0.9
Italy	3.8	1.0	0.5	0.5
Spain	5.5	2.0	2.0	2.0
Emerging economies	4.0	3.9	3.4	3.5
China	3.0	5.0	3.0	3.0
India	7.2	6.1	6.3	6.6
Brazil	3.0	2.3	1.5	2.0
Poland	4.9	0.3	2.4	3.7
Rest of World	4.3	2.9	3.0	2.9

1) Weighted average of 186 countries. The weights are calculated from PPP adjusted GDP levels.
Source: IMF April 2023. Bloomberg and Nordea estimates

8/ Consumer prices. % y/y

	2022	2023E	2024E	2025E
USA	8.0	4.5	2.3	2.1
Euro area	8.4	5.9	3.4	2.3
Japanese	2.5	2.7	2.2	1.6
Denmark	7.7	4.0	2.3	2.0
Finland	7.1	6.4	2.1	1.4
Norway	5.8	5.8	4.0	3.0
Sweden	8.4	8.7	4.0	1.3
UK	9.1	6.8	3.0	1.8
China	1.9	2.0	2.2	2.2
India	6.7	4.9	4.4	4.1
Brazil	9.3	5.0	4.8	3.0
Poland	14.4	11.9	6.1	4.1

Source: IMF April 2023 and Nordea estimates

9 / Monetary policy rates

	4.9.2023	3M	30.6.2024	31.12.24	31.12.25
US*	5.50	5.75	5.75	5.00	4:00 a.m
Euro area	3.75	3.75	3.50	3.00 am	2.00 am
Denmark	3.35	3.35	3.10	2.60	1.60
Sweden	3.75	4.25	4.25	3.75	2.50
Norway	4:00 a.m	4.25	4.25	4.25	3.75
China	4.35	4.10	4.10	4.10	4.10

*Upper part of target range.
Source: Nordea estimates

10/ 3-month rates. %

	4.9.2023	3M	30.6.2024	31.12.24	31.12.25
US	5.55	5.60	5.50	4.80	3.90
Euro area	3.80	3.80	3.45	2.95	2.00 am
Denmark	3.80	3.85	3.50	3.00 am	2.00 am
Sweden	4.07	4.35	4.35	3.80	2.40
Norway	4.71	5.00	4.75	4.70	4.10

Source: Nordea estimates

11 / 10-year government benchmark yields. %

	4.9.2023	3M	30.6.2024	31.12.24	31.12.25
US	4.19	4.40	4.20	4:00 a.m	4:00 a.m
Euro area	2.49	2.60	2.50	2.40	2.20
Denmark	2.85	2.85	2.70	2.60	2.30
Sweden	2.73	3.00 am	2.90	2.85	2.70
Norway	3.92	4:00 a.m	3.95	3.70	3.70

Source: Nordea estimates

12 / Exchange rates

	4.9.2023	3M	30.6.2024	31.12.24	31.12.25
EUR/USD	1.08	1.07	1.10	1.12	1.15
EUR/JPY	157.9	158.4	156.2	151.2	149.5
EUR/DKK	7.45	7.45	7.45	7.45	7.45
EUR/SEK	11.88	12.00	11.50	11.20	10.70
EUR/NOK	11.48	11.50	11.50	11 a.m	10.50
EUR/GBP	0.86	0.87	0.88	0.92	0.95
EUR/CHF	0.95	0.95	0.98	1.00	1.03
EUR/PLN	4.46	4.45	4.45	4.40	4.35
EUR/CNY	7.85	7.86	7.92	7.84	7.94

Source: Nordea estimates

Appendix

Appendix 1 / DENMARK: Macroeconomic indicators

	2022 (DKKbn)	2023E	2024E	2025E
Private consumption	1.225	0.2	1.2	1.7
Government consumption	617	1.0	1.6	0.5
Fixed investment	616	-3.8	-1.3	1.8
- government investment	89	-3.2	2.9	3.3
- residential investment	148	-13.7	-2.5	1.5
stock building*	57	0.0	0.0	0.0
Exports	1,983	6.0	3.1	4.1
Imports	1,668	2.7	2.9	4.0
Real GDP. % y/y		1.3	1.0	1.7
Nominal GDP (DKKbn)	2,832	2,823	2,895	2,933
Unemployment rate. %		2.9	3.3	3.1
Gross unemployment level. '000 persons		84.0	98.0	92.0
Consumer prices. % y/y		4.0	2.3	2.0
Hourly earnings. % y/y		3.7	4.5	4.0
Nominal house prices. one-family. % y/y		-2.2	0.1	0.0
Current account balance (DKKbn)		350.0	321.0	304.7
Current account balance. % of GDP		12.4	11.1	10.4
General Govt. budget balance (DKKbn)		65.0	40.0	14.9
General Govt. budget balance. % of GDP		2.3	1.4	0.5
General Govt. big debt % of GDP		29.8	29.5	28.7
Monetary policy rate. deposit (end of period)		3.35	2.60	1.60
USD/DKK (end of period)		6.96	6.65	6.48
EUR/DKK (end of period)		7.45	7.45	7.45

*) Contribution to GDP growth (% points)

Appendix 2 / FINLAND: Macroeconomic indicators

	2022 (EURbn)	2023E	2024E	2025E
Private consumption	138.3	-0.2	0.2	1.0
Government consumption	64.6	7.5	1.7	1.6
Fixed investment	65.1	-5.3	-0.4	2.4
Exports	121.5	-1.1	-1.4	2.4
Imports	127.8	-5.2	-0.7	2.4
Real GDP. % y/y		0.0	0.0	1.5
Nominal GDP (EURbn)	268.7	279.5	281.1	286.9
Unemployment rate. %		7.2	8.0	7.4
Consumer prices. % y/y		6.4	2.1	1.4
Hourly earnings. % y/y		4.0	3.5	3.0
Current account balance (EURbn)		-5.0	-3.0	-2.0
Current account balance. % of GDP		-1.8	-1.1	-0.7
Trade balance (EURbn)		-0.5	0.0	1.0
Trade balance. % of GDP		-0.2	0.0	0.3
General Govt. budget balance (EURbn)		-3.4	-6.2	-5.3
General Govt. budget balance. % of GDP		-1.2	-2.2	-1.8
General Govt. gross debt (EURbn)		205.1	213.2	220.5
General Govt. big debt % of GDP		73.4	75.9	76.9
Monetary policy rate (end of period)		3.75	3.00 am	2.00 am
EUR/USD (end of period)		1.07	1.12	1.15

*) Contribution to GDP growth (% points)

Appendix 3 / NORWAY: Macroeconomic indicators

	2022 (NOKbn)	2023E	2024E	2025E
Private consumption	1,658.5	-1.2	-0.5	1.5
Government consumption	950.9	2.8	1.5	1.0
Fixed investment	982.5	0.8	1.5	3.3
- gross investment. mainland	816.9	0.0	1.0	3.5
- gross investment. oil	164.8	4.0	5.0	3.0
Exports	1,249.2	4.0	2.0	2.5
- crude oil and natural gas	380.6	6.0	3.0	2.0
- other goods	428.4	3.5	1.5	2.0
Imports	1,274.9	0.0	1.0	1.5
Real GDP. % y/y	3,714.4	1.7	0.9	2.1
Real GDP (Mainland). % y/y	3,317	1.2	0.5	1.0
Registered unemployment rate. %		1.9	2.3	2.5
Consumer prices. % y/y		5.8	4.0	3.0
Core consumer prices. % y/y		6.5	5.0	3.5
Annual wages. % y/y		5.6	5.0	4.0
Monetary policy rate. deposit (end of period)		4.25	4.25	3.75
USD/NOK (end of period)		10.75	9.82	9.13
EUR/NOK (end of period)		11.50	11 a.m	10.50

*) Contribution to GDP growth (% points)

Appendix 4 / SWEDEN: Macroeconomic indicators

	2022 (SEKbn)	2023E	2024E	2025E
Private consumption	2,613	-2.2	0.5	2.3
Government consumption	1,491	1.9	2.1	1.6
Fixed investment	1,622	-3.2	-2.9	2.2
- industrial investment	232	4.6	-3.2	2.5
- residential investment	321	-23.3	-17.9	1.4
stock building*	78	-0.5	-0.4	0.0
Exports	3,157	0.1	-0.7	3.1
Imports	2,982	-1.1	-1.2	3.3
Real GDP. % y/y		-1.3	-0.2	2.0
Real GDP (calendar adjusted). % y/y		-1.0	-0.2	2.2
Nominal GDP (SEKbn)	5,979	6,215	6,276	6,514
Unemployment rate (LFS). %	7.5	7.3	8.3	8.0
Employment (LFS). % y/y	2.7	1.8	-0.7	1.0
Consumer prices. % y/y	8.4	8.7	4.0	1.3
Underlying prices (CPIF). % y/y	7.7	6.1	2.4	1.6
Hourly earnings (NMO). % y/y	2.8	3.8	3.8	3.5
Current account balance (SEKbn)	296.2	353.4	349.4	260.1
Current account balance. % of GDP	5.0	5.7	5.6	4.0
Trade balance. % of GDP	3.9	3.9	3.8	2.8
General Govt. budget balance (SEKbn)	66.2	-43.1	-97.2	-26.6
General Govt. budget balance. % of GDP	1.1	-0.7	-1.5	-0.4
General Govt. big debt % of GDP	32.8	32.2	34.0	34.4
Monetary policy rate (end of period)	2.50	4.25	3.75	2.50
USD/SEK (end of period)	10.42	11.22	10.00	9.30
EUR/SEK (end of period)	11.12	12.00	11.20	10.70

*) Contribution to GDP growth (% points)