Investment Research — General Market Conditions

05 January 2022

Nordic Outlook

Running out of spare capacity

- **Denmark: labour market on a knife-edge**
  - There is a risk that a tight labour market leads to overheating
- **Sweden: electricity and Omicron – temporary headwinds**
  - The underlying momentum is quite strong, though not very inflationary; no rate hikes expected for 2022
- **Norway: pressures mounting, rates rising**
  - The labour market is even tighter than expected as the economy runs hot; we expect three rate hikes in 2022
- **Finland: growth barriers ahead**
  - The labour force is an obstacle to growth at present and for public finances in the longer term

Editor-in-Chief: Chief Economist, Las Olsen, +45 45 12 85 36, laso@danskebank.com

Analysts

Editorial deadline 04 January 2022 *Investment Research*

Editor-in-Chief:

Las Olsen, *Chief Economist*	Denmark	+45 45 12 85 36	laso@danskebank.com

Macroeconomics:

Bjørn Tangaa Sillemann	Denmark	+45 45 12 82 29	bjsi@danskebank.com
Louise Aggerstrøm Hansen	Denmark	+45 45 12 85 31	louhan@danskebank.com
Jakob Sellebjerg Nielsen	Denmark	+45 45 13 82 87	jakon@danskebank.com
Jakob Ekholdt Christensen	Denmark	+45 45 12 85 30	jakc@danskebank.com
Michael Grahn, *Chief Economist*	Sweden	+46 8 568 807 00	mika@danskebank.com
Therese Persson	Sweden	+46 8 568 805 58	thp@danskebank.com
Frank Jullum, *Chief Economist*	Norway	+47 85 40 65 40	fju@danskebank.com
Pasi Petteri Kuoppamäki, *Chief Economist*	Finland	+358 10 546 7715	paku@danskebank.com

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Statistical sources: Refinitiv, Macrobond Financial, OECD, IMF, National Institute of Social and Economic Research, Statistics Denmark and other national statistical institutes as well as proprietary calculations.

Important disclosures and certifications are contained from page 34 of this report.

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The ***Nordic Outlook*** is a quarterly publication that presents Danske Bank's view on the economic outlook for the Nordic countries. The semi-annual publication *The Big Picture* sets out our global economic outlook.

At a glance

Running out of spare capacity

Strong recovery continues

Strong demand at home and abroad is boosting the recovery of the Nordic economies after the initial COVID-19 downturn in 2020, which was deep but less so than in many other parts of the world. New restrictions this winter are likely to slow the process only slightly. Job growth in particular was very strong in 2021, although a lack of qualified labour looks increasingly likely to be a constraint on further growth, but with important differences among industries and regions (e.g. the Swedish labour market looking less tight). The global surge in inflation is also clearly visible in the Nordics, but so far this is primarily because of rising energy prices and some catching up in other prices post-crisis. Whether or not inflation proves to be longer lasting will in large part depend on whether we start to see more wage increases.

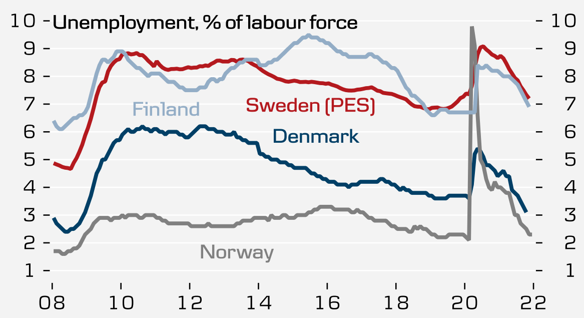
The lack of supply of materials and equipment is a limitation for many Nordic businesses. We expect these constraints to ease as global demand swings back towards services, but that process has been further delayed by the Omicron variant of COVID-19, and global supply chain problems are likely to be an important issue for most of 2022. Supply of energy from electricity and gas is also currently a concern in the Nordics, and this relates to factors such as geopolitical tensions and energy policy transitions, which are not very predictable. In addition, many businesses are running at full capacity in terms of machinery and buildings. This capacity can only be expanded through investment, which is time consuming and can only be gradual.

Policy tightening

Fiscal policy is being tightened as a natural consequence of measures that protect economies from the impact of COVID-19 running out. Norway is tightening monetary policy as Omicron has not led Norges Bank to delay the process of adjusting interest rates back towards a normal level, which is significantly higher in Norway than in the other Nordic countries. The European Central Bank (ECB) and the Swedish Riksbank have shown a large degree of patience after struggling with inflation that has been too low for most of the period since the financial crisis. The most important factor that could change the outlook for both central banks is wage growth, which is currently looking very moderate in both Sweden and the euro area. With Danish monetary policy tied to the ECB, an outlook for higher wage increases in Denmark does not mean that there is also an outlook for higher interest rates, but instead that wage growth could undermine Danish competitiveness if it really takes off.

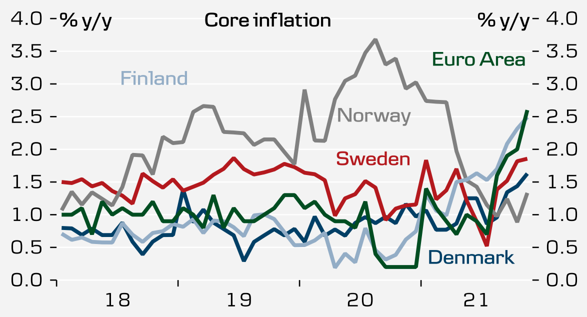
Nordic house prices accelerated during the COVID-19 crisis. Price growth has moderated following reopening. Given the outlook for growth and interest rates, we do not expect any broad-based housing market weakness. However, prices have become very high in some urban areas, which does require continued close attention.

Unemployment headed for low levels



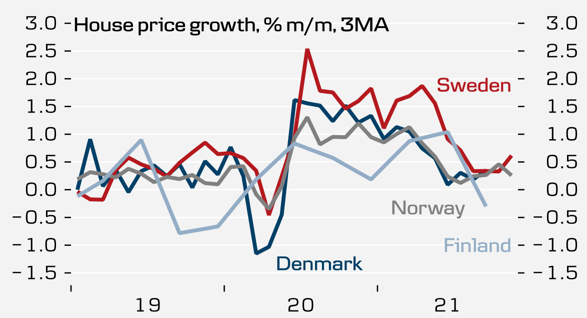
Note: National definitions, levels are not directly comparable.
Source: Macrobond Financial

Modest inflation, apart from energy prices



Source: Macrobond Financial

House prices have calmed down



Source: Macrobond Financial

Denmark

Labour market on a knife-edge

- **A pronounced upswing has almost drained the labour market of available resources and wages look set to climb – perhaps strongly**
- **We expect inflation to ease as the impact of energy prices fades, but underlying inflation is picking up**
- **Private consumption dampened by Covid-19 restrictions, uncertainty and a shortage of cars in the near term, but is set to grow later**
- **Exports benefiting from buoyant pharmaceutical and shipping industries and solid global demand for goods, but outlook for tourism remains challenging**
- **Housing market has calmed after manic start to 2021 and the overall market is balanced, but local markets present some risks**

Keeping the train on the track

Denmark's economy is in the midst of a particularly strong upswing, driven by a stimulatory economic policy and high levels of domestic and foreign demand in the wake of the involuntary restrictions placed on consumption during the corona crisis. This has triggered a sharp rise in the number of employees of 4.9% from January to October 2021. While the labour force has also expanded, employment growth has resulted in a very tight labour market with widespread labour shortages reported, a large number of job vacancies and nascent signs of accelerating wage growth.

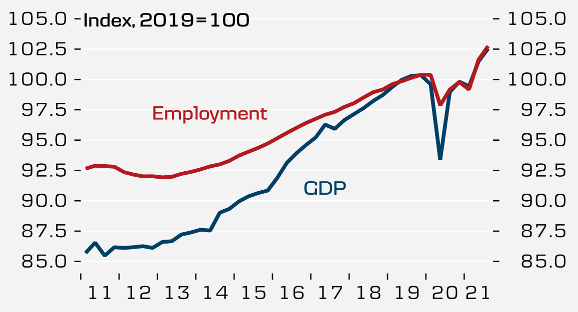
Employment growth has been very pronounced, also relative to GDP growth, which points to a certain slowdown in the demand for labour going forward. Nonetheless, we expect the tight labour market to be a dominant theme in the coming years. Unemployment cannot fall much further, and while the labour force is expanding (retirement age will increase again in 2022), the scarcity of labour will become a limiting factor. We also expect to see a period of solid wage growth. Our forecast includes annual wage growth in the private sector peaking at 3.5% in H2 22. That is just over one percentage point lower than when wage growth peaked ahead of the financial crisis. The inflation expectations incorporated into wage formation are probably lower now, while structural unemployment also appears to be lower at present. Nevertheless, there is a clear risk that wage growth could hit the levels seen in 2008. Our forecast is in part based on an expectation that demand growth will ease in 2023 as we leave behind the stimulus measures enacted in many economies in 2020-2021 and as monetary policy in the US, for example, is tightened – though what exactly the impact will be is rather uncertain. While Denmark's competitiveness is good now, we see a risk of developments getting out of hand via an overheating of the labour market that sows the seeds of a subsequent downturn.

Changes relative to previous forecast

Denmark	Current forecast			Previous forecast	
% y/y	2021	2022	2023	2021	2022
GDP	3.8	2.5	1.7	4.0	3.0
Private consumption	3.9	3.1	2.6	3.4	3.4
Public consumption	4.0	-1.2	-0.6	3.8	-0.8
Gross fixed investment	5.5	2.1	3.1	8.9	2.9
Exports	5.5	5.4	3.3	3.5	6.1
Imports	6.6	4.9	3.8	3.3	5.1
Gross unemployment (thousands)	106.4	71.3	69.4	111.3	90.8
Inflation	1.9	2.4	1.3	1.6	1.3
Government balance, % of GDP	0.0	1.3	0.9	-1.4	0.4
Current account, % of GDP	7.6	7.6	6.8	7.8	7.6

Source: Danske Bank

Massive job growth in 2021



Source: Statistics Denmark, Macrobond Financial

One risk to the outlook is that new measures to limit the spread of Covid-19 could hit the economy, as we saw last winter. However, a growth pause of this kind would not seriously dent overall demand, and would probably be followed by an even more powerful upswing, while companies would presumably do what they could to retain labour during any lockdown. Moreover, any increase in infection rates also means an increased need for staff to perform tests, etc.

We would stress that while we see a clear risk of a period with unsustainably high wage growth, a general overheating of the Danish economy similar to that prior to the financial crisis is a long way off. In contrast to back then, credit growth is currently very modest, private consumption is low relative to incomes and there is no sign of widespread overheating in the housing market.

Strong government finances

Strong economic growth contributed to more or less balanced government finances for both corona crisis years, 2020 and 2021. That is a markedly better result than most other countries, though it is partly due to the Danish crisis initiative of paying out hitherto frozen holiday allowance savings, which did not negatively impact government finances but in fact brought forward tax revenues. If the holiday allowance had to be found in government coffers, we estimate the deficits in 2020 and 2021 would have been 2.5% and 1.5% of GDP, respectively. The outlook for the coming years indicates a decent surplus due to the economy running at above capacity – and despite public sector employment having risen by 30,000 compared to pre-pandemic times. In expectation of the crisis costing much more than it actually did, the government increased its gross debt substantially in 2020. We expect the government will draw on its considerable balance at Danmarks Nationalbank to reduce this debt in the time ahead. In 2022, the government is set to receive almost DKK50bn in postponed taxes stemming from a crisis policy measure. However, companies have a similar amount lodged as abnormally large deposits in their tax accounts according to the Danish Tax agency which can be considered an advance tax payment, so the combined effect should be more or less neutral for government debt.

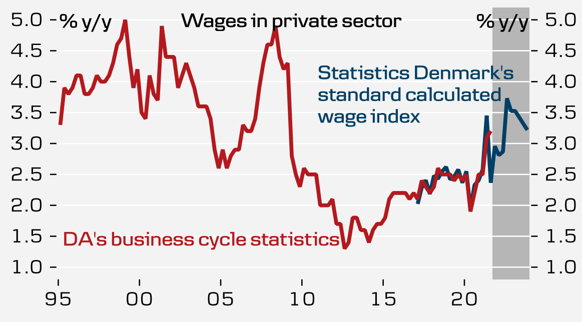
Industry particularly affected by higher energy prices

In the manufacturing sector, energy consumption is particularly concentrated in the plastics, glass and concrete industry and in the food and drinks sector. Of the almost 100 million gigajoules consumed by industry in total in 2020, these two areas each accounted for about one quarter. Some 31% of total energy consumed came from gas and 25% from electricity. Hence, gas and electricity are the most significant energy inputs for industrial production, and precisely these two sources of energy have set price records throughout the autumn and into the winter.

Manufacturing is the most energy-intensive sector, with the concrete industry and tile works, chemical producers and metal manufacturers obtaining a fairly large share of their production input from electricity and gas. Much of the above production requires high temperatures and therefore much energy.

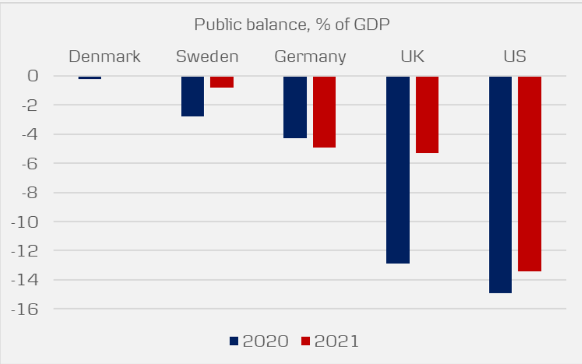
Current electricity and gas prices imply an excess charge for industry of around DKK400m a month compared to H1 21, assuming the spot price fully feeds through. Given the current shortages of both materials and labour, industry may well pass this bill on to its customers, and indeed that is what we have seen in

Wage growth heading higher



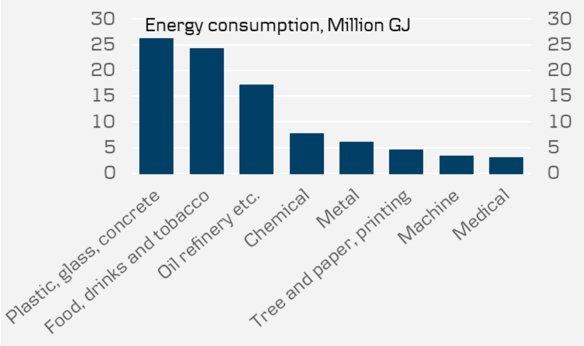
Source: DA, Statistics Denmark, Macrobond Financial, Danske Bank

Danish government finances stand out



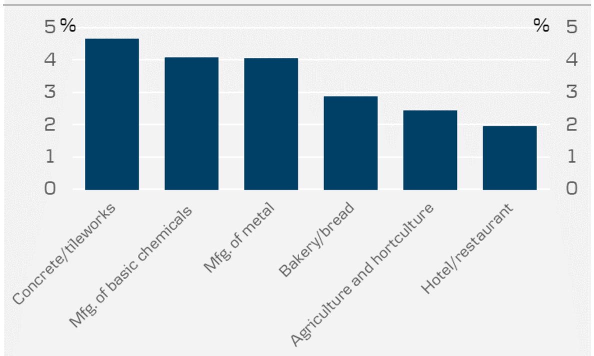
Source: Macrobond Financial, Danske Bank's forecast

A few areas account for the bulk of energy consumption by the industrial sector



Source: Danske Bank, Statistics Denmark

Share of total production input – electricity and gas



Source: Danske Bank, Statistics Denmark

producer prices, which in the past year have risen by almost 7% across the sector.

Danmarks Nationalbank to keep rates on hold

As inflation rises in the euro area, so too does the likelihood of a rate hike from the European Central Bank (ECB). However, we still see this as being in 2023 at the earliest, if at all. Hence, there is also little prospect of a rate hike from Danmarks Nationalbank. If anything, the opposite seems more likely, as the Danish krone (DKK) is now roughly just as strong as prior to the central bank cutting interest rates by 10bp in September. However, we do not expect the bank to enact another rate cut, but rather to intervene heavily in the FX market if necessary given the already very low level of interest rates. Intervention would also increase liquidity in the Danish money market, where market rates have been pushed higher by government finances being significantly better than expected. Increasing government savings suck DKK out of the market, while intervening to sell DKK would pull in the opposite direction. The ECB has indicated it will scale back bond purchases in 2022, which also indirectly affects Denmark and is one reason why we expect to see a modest increase in long yields during the year.

Upward pressure on consumer prices growing

Inflation rose sharply in 2021 – in the second half of the year driven almost exclusively by increasing energy prices. Oil prices took a knock as the new corona variant (Omicron) emerged, pulling fuel prices substantially lower in December. Yet, there is little to indicate that pressures have otherwise eased on energy prices. This winter's weather may be important for how high electricity and gas prices go.

The next question is to what extent prices on other goods and services will be affected by rising energy bills, materials shortages and the tight labour market. So far, goods prices have not risen much. However, restaurant prices have climbed considerably and this could be the first sign that prices are set to rise more generally. We expect core inflation to increase, though we still reckon the low level of inflation seen over the past ten years has created a certain aversion to raising prices, due to a fear of losing customers, and that this will put a damper on price increases. Moreover, rents will have a crucial significance for inflation, as they account for 22% of the consumer price index. We expect that rent increases will build gradually through our forecast period, as rents in the regulated sector of the rental market can be adjusted by the rate of inflation in the previous year. Incidentally, 2022 will be the first year with quarterly rent increases registered in the consumer price index, which will lift inflation slightly in the coming year due to technical reasons. Following inflation of 1.9% last year, we expect an increase to 2.5% this year and a decline to 1.3% in 2023 on the back of a normalisation of energy prices. In contrast, higher core inflation will tend to push prices higher.

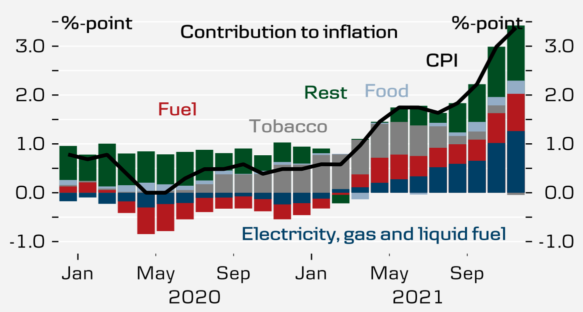
Weak winter months set to be overtaken by solid consumption growth

Danes still have money in their pockets from postponed consumption during lockdown, holiday allowance payouts in 2020 and 2021 that have not yet been spent, from accelerating wage growth and also from steadily rising employment.

DKK close to being too strong

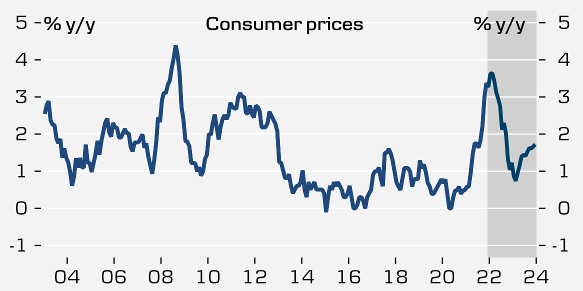
Source: Danmarks Nationalbank, Macrobond Financial

Inflation still mainly driven by energy



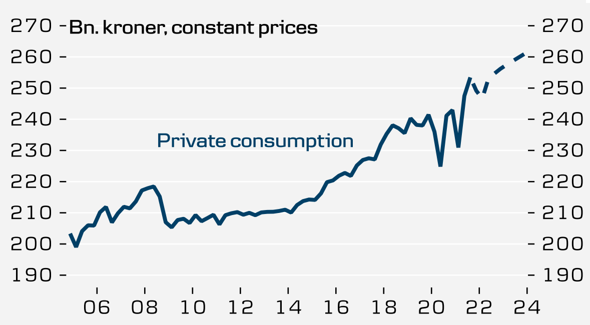
Source: Danske Bank, Statistics Denmark, Macrobond Financial

Very high inflation will ease alongside energy prices



Source: Danske Bank, Statistics Denmark, Macrobond Financial

Consumption set to recover



Source: Statistics Denmark, own calculations, Macrobond Financial

Despite having the prerequisites for significant consumption growth, we expect winter 2021/22 to see a decline in consumption. First, because we expect the current Covid-19 restrictions to put a damper on growth in early 2022 – not least in the service industries, which had otherwise rebounded strongly in the autumn. Travel is the largest component of consumption that never really got back to normal and sales here are currently down by around 40% on 2019 levels. It seems that a longer period of having Covid-19 under control is needed before Danes again dare to plan further ahead.

Second, supply chain issues are putting a damper on car consumption in particular, while widespread labour shortages mean finding tradesmen for home improvements is a challenge (whether that is categorised as private consumption or housing investment from a national accounts perspective). A resolution of supply chain problems in the car industry could potentially boost consumption in the coming years, and we are already seeing a surprisingly rapid transition from fossil-fuelled to green cars.

Third, we expect rising energy expenses to suppress much of the rest of consumption – not least for households that heat using electricity, oil or gas. The widespread availability of district heating and generally buoyant finances should lessen this effect to some degree, but it is nevertheless clearly negative for consumption, as the opportunities for consumers to reduce their energy needs is limited.

That being said, despite the weak start to 2022, we expect consumption growth to be higher than normal in the coming years as consumers' additional financial leeway is translated into consumption. While there are signs of overheating in the Danish economy, not least in the labour market, compared to the years leading up to the financial crisis there are no signs of a credit-driven consumption boom, and indeed the risk of one during our forecast period is very limited.

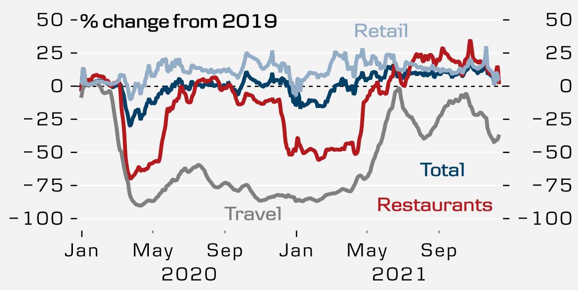
Soft landing for the housing market, but not without risk

Activity in the housing market has eased considerably, with far fewer sales and showings than last winter. Price growth has also slowed, from around 1% a month last winter to a more modest 0.2-0.5%. Prices continuing to rise indicates the bottom has far from fallen out of the market despite the sharp downturn in activity –showings are still up on 2019, for example. Moreover, supply remains limited.

Looking ahead, we expect the ongoing post-pandemic normalisation process, slightly rising interest rates and the fact that prices have already appreciated strongly will tend to subdue price growth. We also anticipate that both vacation home prices and prices on owner-occupied apartments will slightly underperform the single-family house market. This is due, in particular, to the relatively pronounced price increases witnessed in these segments during the pandemic, which should in turn tend to limit price growth going forward.

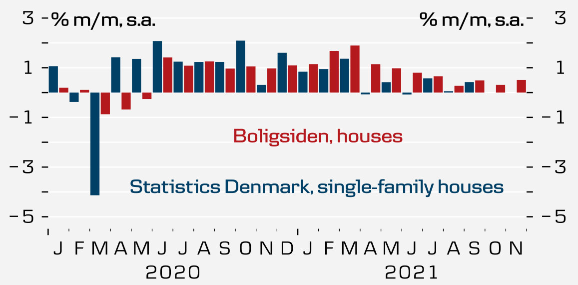
Prices have generally risen very significantly in certain parts of the country – not least in and around Copenhagen. Looking at the share of income spent on interest and taxes for an average house or apartment – the so-called housing burden – it is more than ten years since buying in Copenhagen was so expensive, with the housing burden for both apartments and houses now somewhat above the historical average. Nationally, however, the housing

Consumption of services hit hardest by new restrictions, but will bounce back quickly



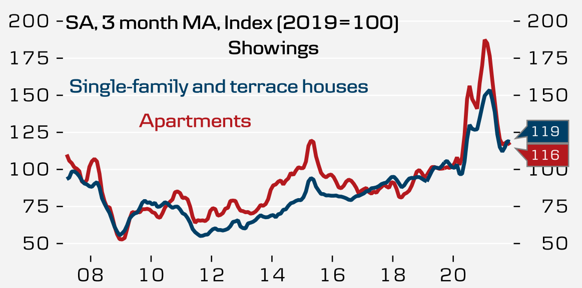
Note: MobilePay and card transactions, 2-week moving average
Source: Danske Bank

House prices growing at subdued pace



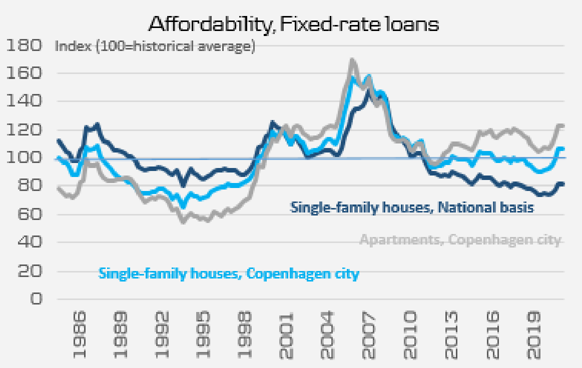
Note: Own seasonal adjustment
Source: Statistics Denmark, Boligsiden and Macrobond Financial

Property showings still higher than prior to pandemic



Source: home, Macrobond Financial and own calculations

Buying a home in Copenhagen has become expensive



Source: Finance Denmark, Realkredit Danmark and own calculations burden remains somewhat below the historical average, as low interest rates and rising incomes are sufficient to compensate for appreciating prices. If we also include mortgage repayments in our calculations, then we would have to go all the way back to the housing bubble years ahead of the financial crisis to find the last time it was so expensive to buy a home in the capital. This ups the risk that the market could turn – both because fewer can afford to buy when prices rise so high and because an increase in interest rates could have a greater impact when homeowners have less financial leeway.

A further point to note is that the apartment market is expected to be hit harder than the single-family house market by the property tax reform. This is because property and land valuations are expected to increase by proportionately more for apartments, as they have a greater tendency to be located in the areas where prices have risen most in relative terms. However, when the property valuations for apartments will be released is very uncertain and we should probably reckon on 2023 at the earliest. From a national perspective, neither the reform nor the new valuations should cause any significant volatility in house prices, though there could be considerable local differences.

Pandemic causes skew in exports to persist

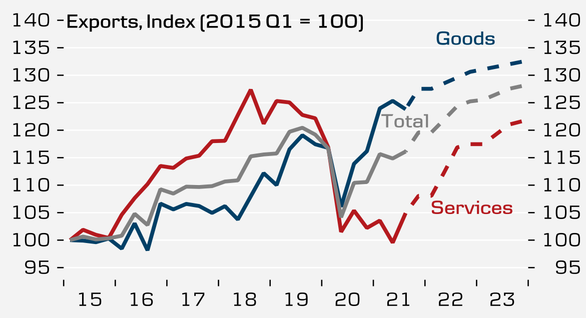
Most Danish exporters had a good year in 2021. Demand for Danish goods was high and underpinned by the buoyant consumption of goods globally and solid levels of competitiveness. The need to transport goods between continents also boosted activity among Danish shipping companies, who experienced a period of historically high freight rates that contributed to strong earnings growth. That being said, traffic jams at ports are capping the volumes that can be transported and hence the potential contribution to exports in fixed-price terms.

Companies are struggling with supply chain issues, and this could well draw out. New waves of Covid-19 infections will tend to maintain a pattern of consumption skewed towards goods, which could intensify supply problems. That being said, Danish goods exports as a whole benefit from Denmark's very substantial pharmaceutical industry not being very sensitive to e.g. global supplies of microchips or steel. The inflow of new orders slowed in Q4 21 and Danish export markets have also shifted down a gear. However, we expect the pandemic to support the demand for goods (at the expense of services).

Service exports in Q3 21 were 16% down on the first half of 2019, when they last peaked. Tourism regained some ground after many Germans spent their summer holidays in Denmark, yet travel exports were still 50% lower in Q3 compared to pre-pandemic levels. While German overnight stays may fill vacation homes again this year, that does not change the fact that the tourism business will remain under pressure in the time ahead. We expect a tough winter followed by a surge in tourism in the summer months, but we do not expect tourism to reach pre-pandemic levels within our forecast period.

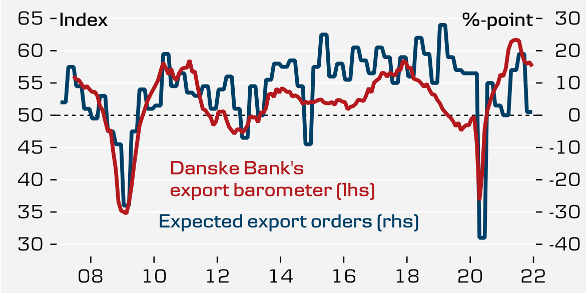
The current account surplus fell in 2021, in part due to a surge in imports on the back of relatively high business investment and a solid appetite for consumption. The shift in the terms of trade has been quite extreme in the past year, with a marked increase for services due to high freight rates, which has pushed the surplus on the services balance higher. In contrast, goods imports have become considerably more expensive due to rising energy prices in particular. Denmark is a net importer of energy, so rising energy prices tend to reduce the current account surplus.

Conditions continue to favour goods exports



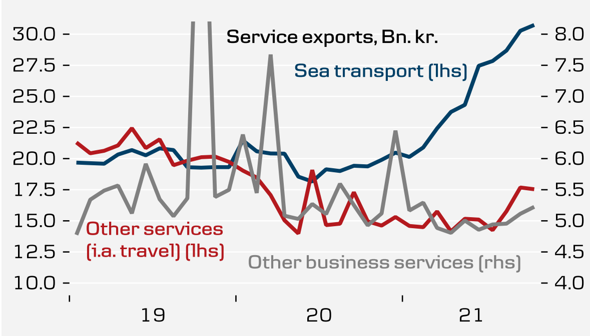
Source: Statistics Denmark, Danske Bank, Macrobond Financial

Demand remains strong but growth slowing



Note: Index 50 delineates between growth and contraction, see our Export Barometer. RH axis indicates difference in percentage points of companies expecting more orders relative to how many expect fewer.
Sources: Danske Bank, IHS Markit, Statistics Denmark, Macrobond Financial.

Mixed results for service exports



Source: Statistics Denmark, Danske Bank, Macrobond Financial

At a glance

National account	2020	2020	2021	2022	2023
			Forecast		
	DKK bn (current prices)		% y/y		
Private consumption	1038.1	-1.4	3.9	3.1	2.6
Government consumption	574.5	-1.7	4.0	-1.2	-0.6
Gross fixed investment	521.0	5.1	5.5	2.1	3.1
- Business investment	308.8	2.1	5.3	3.0	1.9
- Housing investment	129.2	10.1	6.7	2.1	2.5
- Government investment	83.0	9.8	4.1	-1.8	9.0
Growth contribution from inventories		-0.1	0.2	0.5	0.0
Exports	1278.5	-7.0	5.5	5.4	3.3
- Goods exports	780.1	-2.2	10.5	3.1	2.1
- Service exports	498.4	-14.1	-2.2	9.3	5.4
Imports	1128.2	-4.1	6.6	4.9	3.8
- Goods imports	675.1	-1.5	11.2	2.3	2.9
- Service imports	453.2	-7.8	-0.3	9.2	5.2
GDP	2329.6	-2.1	3.8	2.5	1.7

Economic indicators	2020	2021	2022	2023
Current account, DKK bn	191.9	187.1	197.5	181.1
- % of GDP	8.2	7.6	7.6	6.8
General government balance, DKK bn	-4.3	0.0	35.0	25.0
- % of GDP	-0.2	0.0	1.3	0.9
General government debt, DKK bn	980.8	930.0	880.0	870.0
- % of GDP	42.1	37.6	33.9	32.5
Employment (annual average, thousands)	2981.9	3057.2	3137.2	3158.5
Gross unemployment (annual average, thousands)	132.4	106.4	71.3	69.4
- % of total work force (DST definition)	4.6	3.7	2.5	2.5
Oil price - USD/barrel (annual average)	42	66	75	75
House prices, % y/y	4.3	10.5	3.5	2.0
Private sector wage level, % y/y	2.3	2.8	3.2	3.4
Consumer prices, % y/y	0.4	1.9	2.4	1.3

Financial figures	04/01/2022	+3 mths	+6 mths	+12 mths
Lending rate, % p.a.	0.05	0.05	0.05	0.05
Certificates of deposit rate, % p.a.	-0.60	-0.60	-0.60	-0.60

Source: Statistics Denmark, Danmarks Nationalbank, Macrobond Financial, Danske Bank

Sweden

Electricity and Omicron – temporary headwinds

- **Growth has been stronger than expected but new Covid restrictions, remaining shortages and record high electricity prices are ner-term headwinds.**
- **2022 will be a calmer housing market year, after the rally in 2021. Monetary policy continues to support housing markets.**
- **Electricity prices boost headline CPIF inflation to all time high levels, but this core inflation CPIF developed normally in 2021 and is expected to do so in the coming years.**
- **Riksbank will stay put on rates in 2022 while continuing to taper the QE program. There is a small probability of balance sheet reduction in H2 if the economy develops smoothly.**
- **Public finances are strong and the Maastricht debt will drop below the 35 % debt anchor.**

Strong GDP during Q3 should moderate in Q4 and Q1, supply chain disruptions still affecting

The Swedish economy strengthened significantly during the third quarter of 2021 (+ 2% q/q s.a) leaving GDP 2.1% above pre-crisis level. Growth was primarily driven by a strong recovery in sectors that took a large hit by the pandemic such as hotels, restaurants and cultural services. Also business investment of all types accelerated, giving a positive signal about corporate sentiment. So far, a lot of data is still missing for the fourth quarter, but October figures indicate a strong start from both the production and consumption side. The supply chain problems appear to last longer than first expected, even if there are some positive signs from freight rates and the indicator for delivery problems in business surveys. We expect supply chain issues to continue to hamper manufacturing well into 2022. Given the new spread of covid-19 which has forced some countries to introduce new restrictions, the risks for further problems in the supply chains have increased.

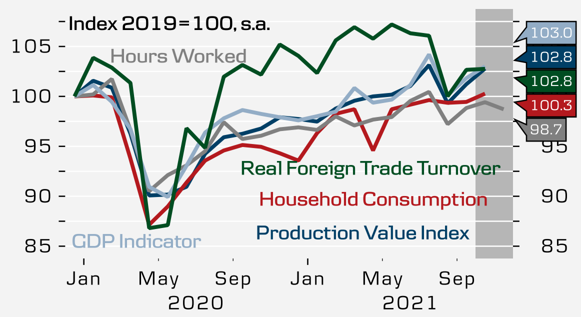
Despite this supply chain problems manufactures has remained optimistic and indicators from both NIER and PMI have remained on high levels. On the other hand, the shortage of inputs has become increasingly clear and Q3 figures suggest this is a rising problem and something that will continue to weigh on the industry in the coming months. The high order intake has also lost momentum during the autumn,

Sweden is a small open economy and hence is very much affected by what happens in the global economy. And the peak in the global manufacturing industry can hence be reflected in net export which has been the most obvious drag on growth, third quarter in a row now.

Changes relative to previous forecast

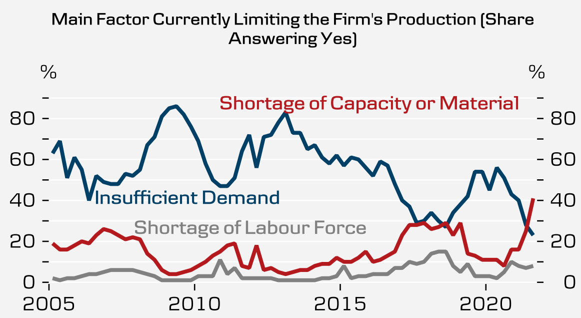
Sweden					
	Current forecast			Previous forecast	
% y/y	2021	2022	2023	2021	2022
GDP, calendar adjusted	4.5	3.0	2.2	3.9	3.5
Private consumption	5.5	4.1	2.4	3.8	4.1
Public consumption	3.2	1.4	1.2	2.9	1.7
Gross fixed investment	6.9	5.4	2.2	6.5	5.2
Exports	6.6	3.4	4.0	6.0	3.0
Imports	8.8	5.6	3.4	7.3	4.0
				0.0	0.0
Unemployment rate	8.8	7.3	6.5	8.8	7.5
Inflation	2.1	2.0	1.3	2.0	1.6
Government balance, % of GDP	-0.8	0.2	0.7	-0.8	0.2
Current account, % of GDP	4.9	3.9	4.1	5.3	4.7

Moderating growth in near term



Source: Statistics Sweden, Macrobond

Manufacturers struggle with input shortages



Source: NIER, Macrobond

Consumption headwinds knocking on the door

Household consumption continues to recover and is now above pre pandemic-levels. The composition of consumption has changed markedly during the pandemic. Especially in 2021, goods consumption has been very high and is well above the previous trend line, which is in line with international developments. Service consumption is still well below pre-crisis levels and will probably never reach the previous trend line.

During the fourth quarter, we expect service consumption to continue to recover, while consumption of goods is expected to have developed more sideways. Given the new restrictions imposed by the end of December, the question is what the composition of consumption will look like in the coming months. As the pandemic has become so protracted, we have learned to live with the pandemic in a completely different way, meaning declines like the spring of 2020 are not something we expect to see again Going forward services consumption is likely to see a new slowdown and consumption of goods is not expected to contribute upwards in the same way as in 2021. In addition, we are faced with a global energy crisis and in Sweden this is above all reflected in sky-high electricity prices. This is something that is expected to weigh on consumption, especially in early 2022. In the last *Nordic Outlook*, 5 October 2021, we calculated what a price increase of 20% -30% (which have been seen lately) could cost households and the answer is that it can be compared to 3-6 0.25 bp from the Riksbank, Where electricity prices will develop is difficult to estimate as they are largely affected by weather and wind, but if prices remain this high it will take a large bite from consumers purchasing power.

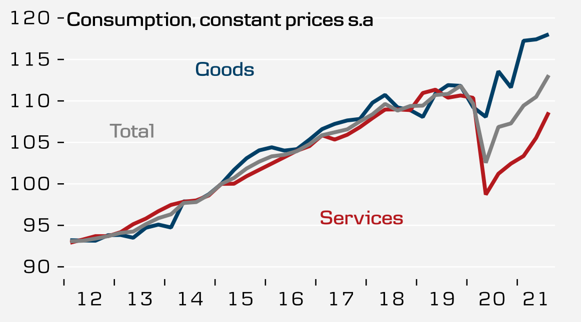
There has been a lot of discussion about households saving in the barns during the pandemic, which clearly can be seen in household net savings which was especially high during mid-2020. In recent quarters, savings have been negative as consumption has been higher than the disposable income. Seen over time, net saving is still above historical trend line which should imply some room for unexpected expenses on an aggregated level, but not necessarily at a dis-aggregated level.

Following the new covid-19 situation in combination with high electricity prices, we have lowered our forecast for household consumption during the first quarter of 2022, but believe that consumption will pick up again during spring when the weather is warmer and the spread of infections hopefully has improved while electricity consumption is lower.

Further improvement in the labour market

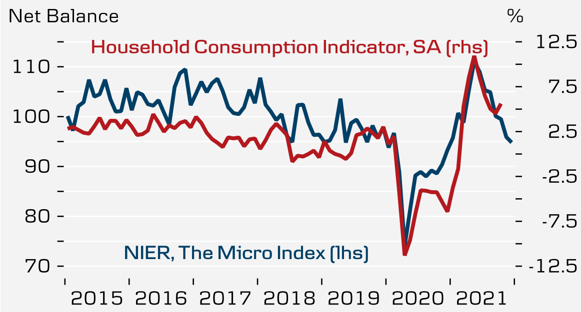
The uptick in unemployment rate was much smaller than first anticipated as short term furloughs came in to place quite fast which to our own calculations resisted unemployment rate by up to 4 p.p. As probably widely known it's hard to interpret the statistic from the labour force survey (LFS) from Statistic Sweden due to changes in the statistics and the series has been very volatile. Hence we believe statistics from Public Employment Service (PES) reflects a more accurate picture. The PES unemployment rate has steadily declined since the peak last summer at 9.1% reaching 7.2% in November and is hence below pre pandemic levels. Also statistics from LFS has declined but is over 1 pp. above the PES level. In contrast to some other countries, for instance the US, the labour force participation was relatively stable during the pandemic due to the short term layoff program.

Goods market is a clear winner of the pandemic



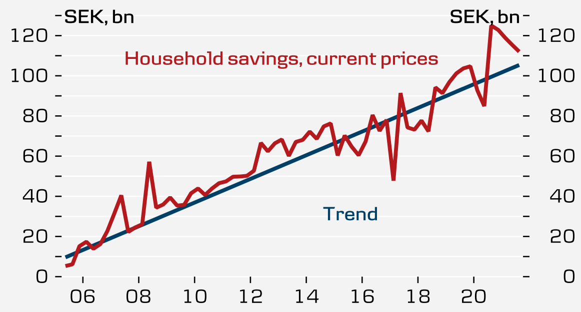
Source: Statistics Sweden

NIER survey strengthen the picture of lower household consumption during Q1



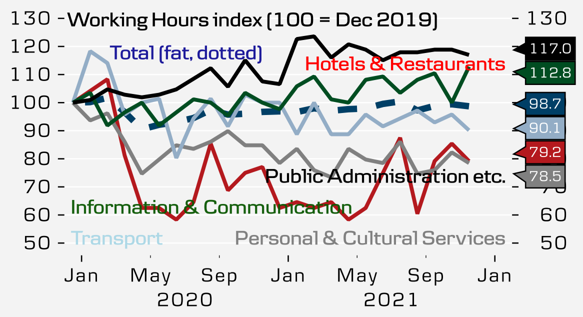
Source: Statistics Sweden, Macrobond, NIER

Households savings is above historical trend



Source: Statistics Sweden, Macrobond

Hours worked lags behind in especially hotel& restaurants and personal & cultural services



Source: Statistics Sweden, Macrobond

Although the unemployment rate is declining, there are large sectoral differences. Hours worked in for instance hotel and restaurants and the cultural sector is still over 20 % lower compared to before the pandemic despite high consumption in these sectors during the fall. An explanation to this could be the rising problem to find labour. Short term indicators such as hiring plans in NIER and the vacancy rate give the picture that there is a strong demand for labour but with lack of workers as a rising problem, but the problem to find workers is still lower than the peak in 2017 (see graph). This is of course something we need to keep an eye on, also in the aspects of wage growth. But it's good to keep in mind that despite the high levels of labour shortage in 2017, no significant wage growth was seen.

Calmer housing market, the clear trend of houses outperforming flats during the pandemic is fading

The housing market have stabilized during fall after the fast increase seen during spring and 2020. Up to November housing prices are up by 13.5% compared to the average price in 2020 and behind this number the fact is that one family houses are up by 17.2% while tenant-own flats are up 'only' 8.4%. Most of these price increases took place in spring, while the price development during autumn has been much more subdued. One interesting aspect is that the clear trend during the pandemic, with house prices being the clear winner, thetrend is fading and prices on tenant-owned flats have increased slightly more since August.

That the price development is moderating was expected as the price increases that were seen in the spring are not sustainable in the long run given the low wage growth. On the other hand, the fact that the mortgage interest ratio as a percentage of the disposable income is record low continue to support prices.

In addition, factors such as sudden homework (which increased demand for larger homes), stricter restrictions on travelling, restaurants etc. which left more in the pockets for housing and interest rates were expected to remain low for even longer in focus was important factors for the increase. Lately however, this focus has seen a shift and Inflation prints have surprised on the upside adding more uncertainties about how the Riksbank will act.

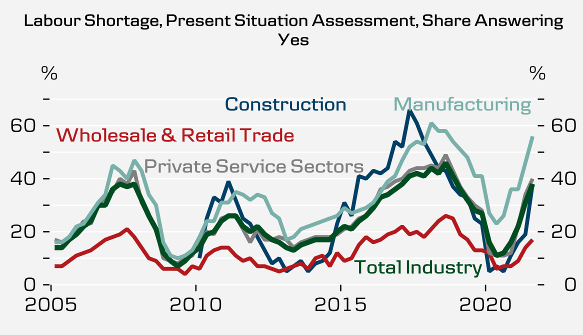
If looking forward, factors that suggest prices will continue to rise are the low interest rate situation, because despite the fact that we probably have reached the interest rate bottom, the interest rate situation is expected to be low and the Riksbank on hold for a long time to come. Given the political situation and the election year we see that the probability for changes in housing politics is low. In addition, the demand for larger homes is likely to stand given the covid-19 situation and also the new 'hybrid situation' which many firms approaching and gives the opportunity to work from home.

On back of gains in property prices dwellings construction is rising and is now close to the 2017 top levels, which will be important to keep an eye on. Should supply exceed demand, it may have a negative effect on housing prices.

However, it should be remembered that it is regularly takes approximately two years to complete a new home, which means that this probably is a theme for 2023. A risk in the near future to consider is rather the rise in electricity prices which will be an extra burden on house owners and in turn probably affect the consumption which might dampening the housing market.

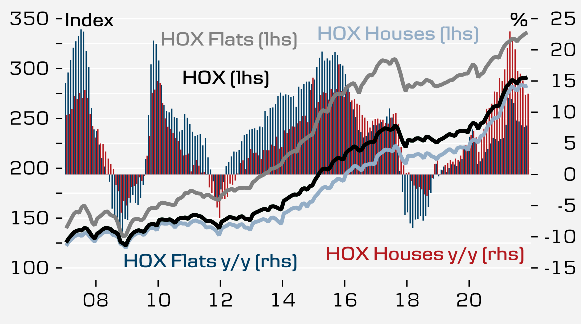
During 2022 we expect the upward trend to continue but in a much more moderate pace hence we keep our forecasts unchanged with housing prices on

Labour shortage is a rising problem but below 2017 peak



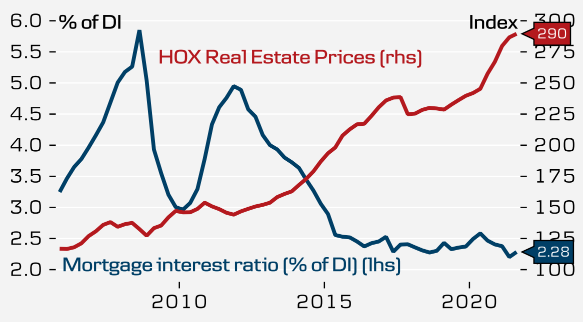
Source: NIER, Macrobond

House prices have outperformed tenant-owned flats during the pandemic



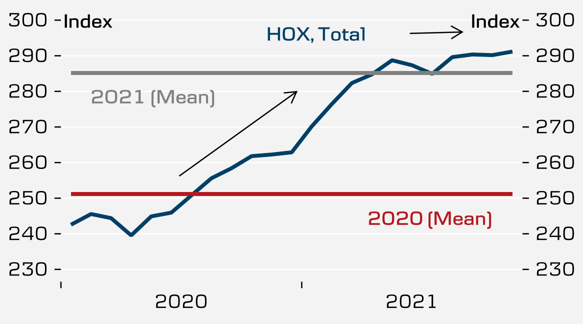
Source: Valueguard, Macrobond

Mortage interes rates as % of income is on record low



Source: Valueguard, Statistcs Sweden, Macrobond

Prices have developed more sideways during fall



Source: Valueguard, Macrobond

average increase by 14% in 2021 and 4% in 2022. We expect 2023 to be a more ‘normal’ year at the housing market with a price increase of 2%.

Electricity squeeze obscures moderate core inflation

Inflation has in recent months turned out higher than we forecasted in the previous edition of Nordic Outlook. The main reason is as everywhere else in EU, soaring energy prices, especially electricity. This will catapult headline CPIF inflation to the highest levels since the inflation target was introduced in 1995, close to 4.5 % yoy during the winter months.

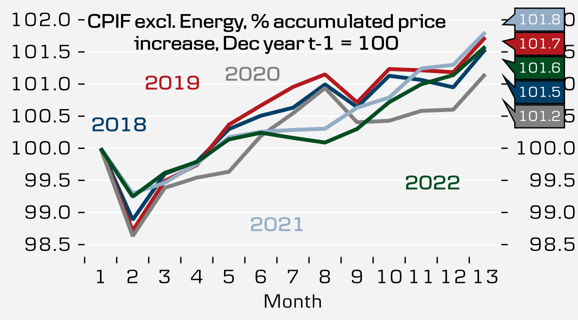
That said, core inflation has been slightly higher too. However, looking at price developments in a slightly different manner, the core price level developed in a pretty normal fashion in 2021. Actually, aggregating price gains throughout the year and comparing with previous years shows that the price level rose to about the same extent in 2021 as in 2018 and 2019, while the smaller rise in 2020 stands out in contrast. Hence, the reason for the higher core inflation rate in recent months is rather because price increases were low in 2020 than high in 2021.

For obvious reasons services prices such as transportation, recreation and hotels/restaurant prices have been most affected by the pandemic but a few goods categories, such as cars and clothing, were also highly affected. For some of them eg transportation and recreation it seems to be more of a disruption of seasonal patterns rather than a shift in price momentum.

Looking forward we expect normal core price increases throughout 2022. This implies a decline in core inflation towards 1.5 % yoy. Looking at the outlook for inflation fundamentals i.e. wage growth and currency movements, these are likely to support a moderation in core inflation. Firstly, the wage deal struck in late 2020 was frontloaded with most of the wage increase coming in the first year of the 29 month deal. Hence, wage growth will slow down in the coming year. Despite labor shortage in some sectors there has been no signs of wage drift and we strongly doubt there will be much of it going forward. According to the latest Prospera survey, Social Partners’ wage expectations are still quite contained and do not pose a significant threat to inflation pressures. On the contrary, over the past 13 years actual real wage gains have on average outperformed expectations even including periods with negative real wage growth. Turning to the currency, the KIX index (a trade-weighted currency index developed by Riksbank) has weakened about 3 % recently, bringing the year-to-date change to roughly the same magnitude. The KIX probably needs to depreciate by the same magnitude in 2022 as it appreciated in 2020 (ca 8%) to have any detectable impact on consumer import prices. Such strong assumption is not part of our forecast, although we expect the SEK to weaken slightly, say 2-3 %.

Although there are major uncertainties for 2022 in terms of a lingering pandemic which may continue to disrupt both consumer services prices and goods supply chains, it is electricity prices that are in the driver seat. At the time of writing the average spot price on Nordpool for the first 3 weeks in December is close to SEK 2 kr/KwH vs 0.85 kr/KwH in November. If persistent throughout the month it alone will add about 1 p.p. to CPIF inflation in December, pulling the yoy percent change to 4.5 % yoy. As yet, there are no indications that the current elevated electricity prices have caused any secondary effects into eg. rent negotiations or wage growth.

Price path was normal in 2021, it is a weak 2020 that stand out, backloading core inflation

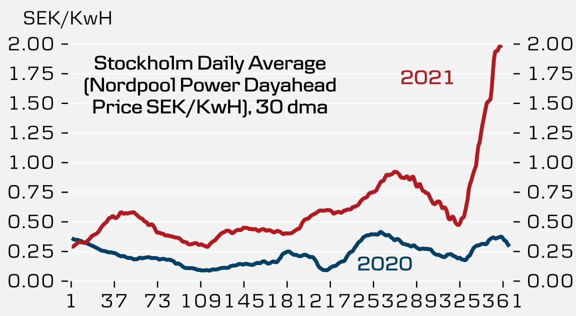


Source: SCB, Danske Bank forecast

History gives no reason to demand wage compensation for temporarily high inflation

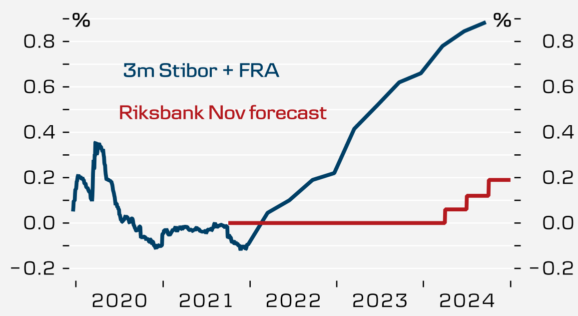
Source: SCB, Mediation Office, Prospera, Danske calculations

Skyrocketing electricity singlehandedly adds more than half to CPIF inflation



Source: Nordpool

Markets pricing rate hikes well ahead of Riksbank forecast – way too much in our view



Source: Riksbank, Danske Bank calculations

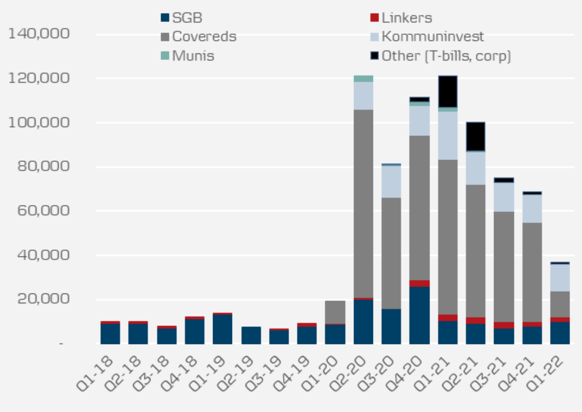
Riksbank remains transitory, but wary

Riksbank's Executive Board has clearly signalled that it will keep the repo rate unchanged until the end of 2024, while keeping the balance sheet unchanged in 2022. In our view this is a reasonable approach. The Riksbank sent a quite relaxed message at the November meeting, basically saying it remains in the "transitory camp" when it comes to the inflation outlook while keeping an eye on spill-over effects to inflation expectations and/or wage growth.

The Riksbank did surprise in November by changing the composition of bond purchases to equal amounts (SEK 12bn each) of government, covered and municipal bonds in Q1. This distribution is for Q1 only, but should it be maintained for the rest of the year it may lead to liquidity problems for the government bond market as Riksbank in such a case would purchase the entire net supply (DO gross issuance less maturing bonds), reducing the amount of tradeable "free float".

In the event that growth and inflation developments turn out smooth relative to Riksbank's forecast we do not exclude an advance of the conjuncture when tapering is moving into outright balance sheet reduction. At the earliest that could probably happen in the second half of 2022. Several Board members, notably Governors Flodén, Breman and Ohlsson appear ready to take a step in this direction if needed.

Riksbank opted not only for further tapering in 2022 but also altered the Q1 composition to less covereds



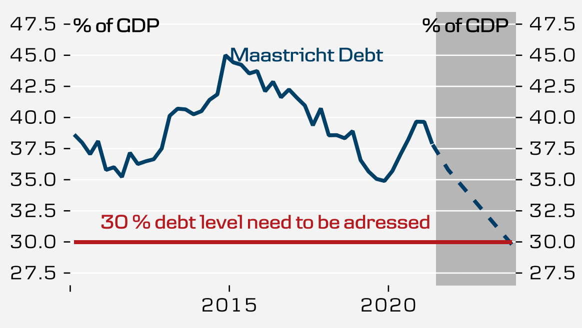
Source: Riksbank

Shifting to a debt anchor target could raise public capital ratio benefitting the whole economy

Swedish government finances remain strong in the aftermath of the 2020 Covid outbreak. At the same time fiscal policy is in disarray, at least in a political sense.

Since the general political agreement in May 2020 to give unprecedented fiscal support to the economy, actual usage of the measures has been much less than expected. That trend has continued in 2021. Comparing with the Debt Office's forecasts the borrowing requirement has been more than SEK 10 bn less than perceived per month in the Jan-Nov period. Consequently, the DO has scaled down its funding forecast and lowering bonds supply. This said, with a difference vs forecast of about SEK 40bn in just two months there is a good chance that the 2021 annual budget surplus may be close to SEK60bn, which is remarkable.

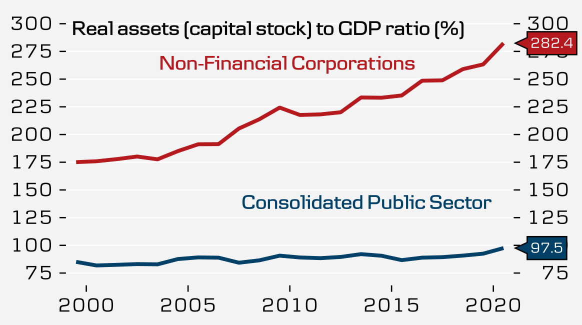
Maastricht debt well below 35 % debt anchor already by end 2022 – going down



Source: ECB, Danske Bank forecast

After significant political turmoil this autumn the previous Social Democrat Finance Minister Magdalena Andersson was elected new party leader and subsequently Prime Minister. This time, however, the Greens opted to stay outside a government coalition and she is how heading a minority government. But although she has the confidence of the parliament, she has to rule with the opposition's 2022 budget proposal (basically more tax cuts instead of spending). However, the overall "reform package", about SEK 60 bn (just above 1 % of GDP) in new reforms, remains the same. About SEK 20 bn goes to households in terms of tax cuts and transfers, although not including any compensation for the surge in electricity prices as proposed by opposition parties. SEK 37 bn in public consumption and transfers to municipalities. The "risk tax" on bans is expected to add SEK 6 bn to revenues. The budget surplus for 2022 could very well pass SEK 100 bn if the underlying positive trends persist.

Public capital spending has been left behind



Source: SCB

From a purely economic perspective, Swedish fiscal policy is an unused resource. And the surplus/balance target is at odds with the 35 % debt anchor. At some point, in 2022 or 2023, the combination of the target and economic growth will push the debt ratio below the debt anchor, a situation that will call for parliamentary scrutiny. For the moment, it appears as if most political parties will reduce the debt anchor in such a situation. A more rewarding venue would be if politicians decided to aim for a stable debt anchor preferably in combination with budget divided into operating and capital expenses. For instance, the operating budget could be required to be in balance while capital budgets could be in deficits to keep the debt anchor stable. That would be a way to raise public investment spending and hence the capital ratio without jeopardizing public finances to be able to cope with upcoming “crises”. A look at the relative performance of public and private capital stock ratios shows that the first one has been significantly left behind the latter. Supposedly, the whole economy would benefit from a higher public capital ratio. Especially so as government and municipal borrowing costs are record low.

At a glance

			Forecast		
National account	**2020**	**2020**	**2021**	**2022**	**2023**
	SEK bn (current prices)		% y/y		
Private consumption	2193.9	-4.7	5.5	4.1	2.4
Government consumption	1326.7	-0.5	3.2	1.4	1.2
Gross fixed investment	1234.7	0.6	6.9	5.4	2.2
Growth contribution from inventories		-0.8	0.2	0.1	-0.3
Domestic demand	4753.2	-3.0	5.4	3.9	1.7
Exports	2221.4	-5.2	6.6	3.4	4.0
Aggregate demand	6974.6	-3.7	5.8	3.7	2.4
Imports	1991.2	-5.8	8.8	5.6	3.4
Growth contribution from net exports		0.0	-0.6	-0.8	0.4
GDP	4983.4	-2.8	4.6	3.0	2.0
GDP, calendar adjusted	4981.0	-3.1	4.5	3.0	2.2

Economic indicators	**2020**	**2021**	**2022**	**2023**
Trade balance, SEK bn	228.9	199.0	157.7	176.8
- % of GDP	4.6	3.8	2.9	3.2
Current Account, SEK bn	288.9	254.0	207.7	226.8
- % of GDP	5.8	4.9	3.9	4.1
Public sector savings, SEK bn	-141.0	-40.0	10.0	40.0
- % of GDP	-2.8	-0.8	0.2	0.7
Public debt ratio, % of GDP*	40.0	37.0	33.0	30.0
Unemployment, % of labour force	8.3	8.8	7.3	6.5
Hourly wages, % y/y	2.1	2.7	1.8	2.1
Consumer prices, % y/y	0.5	2.1	2.0	1.3
House prices, % y/y	7.5	14.0	4.0	2.0

* Maastricht definition

Financial figures	**04/01/2022**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	0.00	0.00	0.00	0.00

Source: Statistics Sweden, Macrobond Financial, Danske Bank

Norway

Pressures mounting, rates rising

- **Capacity utilisation has been much higher than many expected, resulting in higher activity levels than normal at the end of 2021**
- **Demand for labour is strong, and supply constraints are exacerbating the shortages.**
- **High power prices will rein in consumer spending, and rising infections have brought new restrictions and reduced mobility, but this will not be enough to take the heat out of the economy.**
- **Wage and price pressures are mounting as a result.**
- **Norges Bank therefore raised its policy rate by 25bp in December and signalled another hike in March and two more by the end of the year**
- **The housing market has calmed down as we predicted, and we expect price rises to remain moderate.**
- **The NOK is being driven mainly by global factors, and we still anticipate a moderate fall in the course of th.e year**

Changes relative to previous forecast

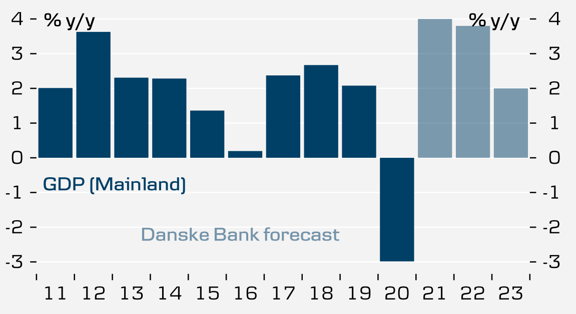
Norway	Current forecast			Previous forecast	
% y/y	2021	2022	2023	2021	2022
GDP (mainland)	4.0	3.8	2.0	3.8	4.0
Private consumption	4.2	6.5	2.0	4.2	7.0
Public consumption	3.0	1.3	1.3	3.0	1.7
Gross fixed investment	1.0	3.1	2.0	1.0	2.0
Exports	4.1	6.0	4.0	2.7	7.0
Imports	2.0	7.5	4.0	3.5	7.0
Unemployment (NAV)	3.1	2.3	2.2	3.1	2.3
Inflation	3.4	2.6	1.8	3.2	1.6

Source: Danske Bank

Higher-than-normal activity levels

Economic growth in Norway has panned out largely as we predicted in our last forecast. The strongest reopening effects are behind us, and the high capacity utilisation means that growth in several sectors is being constrained from the supply side. Private consumption has of course been the most important growth driver, with a substantial increase in spending on services. Rising infections and uncertainty about the new omicron variant have reduced mobility and led to new restrictions from the authorities. This is mainly hitting hospitality and culture hard, but these industries account for just 3% of the economy and so the impact will be fairly limited. The government has also introduced measures which will largely shield both employers and workers from the negative income effects of the closures.

Strong growth



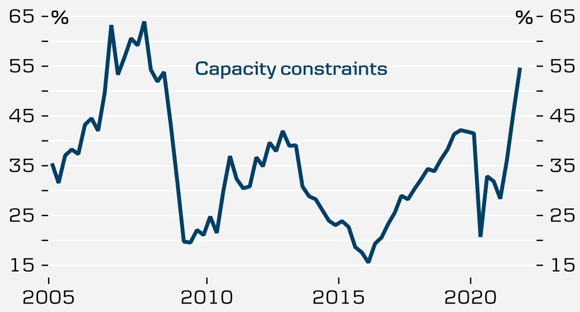
Source: Macrobond Financial, Danske Bank

Norges Bank's latest regional network survey confirms that firms were anticipating a slight slowdown even before the new restrictions were announced, to annualised growth of around 2% in the first part of 2022, or close to a "normal" growth rate. As a whole, they still expect healthy profitability, higher investment and higher employment. The picture in the individual sectors, however, is more mixed this time around. Retailers now expect activity to fall, albeit from record-high levels, and firms in household services are much less optimistic than in September. The outlook for domestically oriented manufacturing is also less positive, which may be due to problems with cost pressures, delays and the postponement of construction projects. On the other hand, there is strong or growing optimism in the oil industry, the export industry, construction and business services.

However, a growing share of firms are encountering capacity constraints of various kinds, including shortages of labour. In fact, almost 55% reported that production is being held back by capacity constraints, which is the highest figure since before the financial crisis. The share of firms reporting that shortages of labour are affecting their production also climbed, from 31% to more than 40%, again the highest since before the financial crisis. These results from the regional network survey indicate that capacity utilisation in the Norwegian economy has not been higher for more than 13 years, and that activity in the economy is much higher than normal.

We have revised up our estimates for 2021 marginally despite parts of the service sector being locked down from the beginning of December. All in all, we now expect mainland GDP to grow 4.0% in 2021, up from 3.8% in our September forecast. In the light of the latest restrictions and worsening capacity issues, we have revised down our growth forecast for 2022 from 4.0% to 3.8%. Our first forecast for 2023 shows a clear slowdown, but growth will still be around 2%, which is slightly above the trend rate. This is partly because we expect global capacity issues, with long delivery times and high costs, to resolve from late 2022 and into 2023.

Increasing capacity constraints



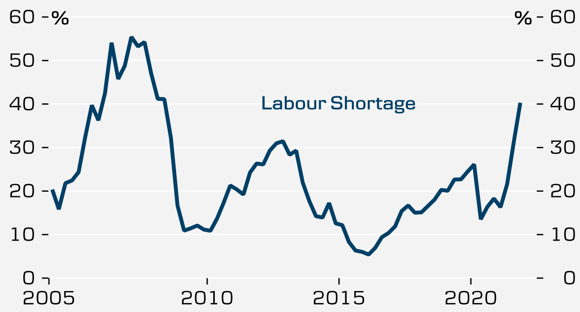
Source: Macrobond, Danske Bank

Growing labour supply problems

Unemployment fell towards the end of 2021 with the reopening of the economy, hitting 2.3% in December, around the same level as in 2019. With the number of jobless coming down, employment climbed by 2.2% or more than 61,000 in the third quarter, partly because more of those temporarily laid off returned to work.

Despite this strong job growth, there were 96,000 vacancies, up 3,000 from the start of the quarter. This points to extremely strong growth in demand for labour even in the sectors that did not feel the boost from the reopening of the economy. A closer look at flows in the labour market shows that there were around 30,000 fewer foreign nationals on temporary work permits than normal in the third quarter. This is partly because there are still some complications with crossing borders, but may also be a result of substantial labour shortages in neighbouring countries. The big uncertainty is therefore whether these flows will return to pre-Covid levels. If not, this could spell higher wage growth, higher interest rates, higher natural unemployment and lower potential growth than before the pandemic.

Unemployment falling fast/Growing labour shortages



Source: Macrobond, Danske Bank

Unemployment fell more or less as expected in the latter part of 2021. Further waves of infection in other countries may nevertheless squeeze the supply of foreign labour further, which could put the brakes on growth. We still expect unemployment to fall further in 2022 and 2023, but much more slowly than in 2021.

Growing matching problems/Sky-high vacancies

Source: Macrobond, Danske Bank

Wage expectations rising, core inflation on the up

An increasingly tight labour market with growing problems sourcing labour means that wage growth looks set to be higher than previously forecast. The wage statistics are quite tricky to interpret due to the distortions in 2020 and 2021 from it mainly being low-income groups that were laid off (pushing average wage growth up in 2020 and down in 2021). But if we attempt to allow for this, it would appear that wage growth accelerated towards the end of 2021. This is supported by expectations surveys, with business leaders, social partners and economists all revising up their expectations in the course of the year. We now estimate wage growth at 3.2% in 2021.

In 2022, we expect pressures to mount further, and wage growth to be higher than in 2021. Given slightly lower unemployment, and growing matching problems in the labour market, we forecast wage growth this year of 3.4%. We also believe the risk could be to the upside, as parts of the public sector, including health workers, will be wanting compensation for their pay lagging behind the private sector in 2021. We then predict wage growth of 3.6% in 2023.

Rising wage expectations

Source: Macrobond, Danske Bank

The higher wage growth means that domestic cost pressures will be stronger than previously assumed, which will impact on inflation via domestic prices. At the same time, imported inflation is levelling off, due to base affects and the decline in the NOK last spring. On top of this, we are now seeing clearer signs that (global) cost increases due to higher prices for materials, freight and energy are spreading through the value chain and feeding into consumer prices. In the regional network survey, the diffusion index for price expectations over the next 12 months climbed to 62.5, the highest since 2015, when core inflation came close to 3.5% a couple of months later.

Core inflation is already bottoming out and will rise gradually in the course of 2022. We are therefore assuming that inflation will approach 1.75-2% again towards the end of the year.

Both the regional network survey and Norges Bank's expectations survey show clear signs of rising inflation expectations.

Inflation set to climb

Source: Macrobond, Danske Bank

Housing market stabilising as expected

Although interest rates are rising, and housing prices may now be above their long-term "equilibrium" levels, housing prices continued to climb towards the end of 2021. As mentioned in our September forecast, this may be because the market is still relatively tight as measured by the stock-to-sales ratio. Sales and housing starts have also been much more modest than we assumed previously. This is probably due mainly to a sharp rise in building costs combining with long delivery times to cause delays in some projects. With signs that timber prices at least are now coming down again, we expect this situation to turn around in the course of 2022, with the result that housebuilding picks up again. A growing supply of housing, combined with gradually higher interest rates, will probably mean that housing prices more or less level off.

We therefore expect only moderate housing price inflation over the next couple of years, slowing from 9% in 2021 to just over 2% in 2022 and around 2% in 2023.

It is important to stress that the risk of a strong supply-driven decline in housing prices is only moderate. While the supply of properties has improved somewhat, and there is now a better balance in the market, it remains relatively tight in terms of the stock-to-sales ratio.

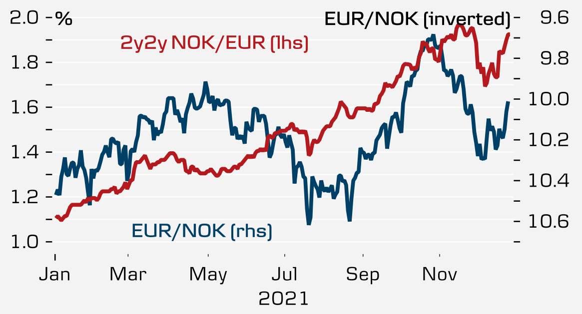
NOK mostly dependent on global factors

We have long argued that it is mainly global factors that have been driving the NOK exchange rate rather than expectations of the Norwegian economy and Norwegian interest rates.

While fluctuations in oil and gas prices have led to substantial movements in the NOK since the summer, forward prices for a barrel of oil are now USD 7-8 higher than three months ago, and Norges Bank has both raised its policy rate again and signalled a further hike in March. We nevertheless note that the NOK, both measured against the EUR and on an import-weighted basis, is around the same level as when we published our last forecast.

In the course of 2022, we still expect policy rate hikes and a scaling down of quantitative easing in several countries to push up global real rates, boost the USD and slow/reverse the rise in inflation expectations. All of these factors will act as headwinds for commodities and commodity-based currencies such as the NOK. We therefore still expect the NOK to weaken somewhat despite signals of higher interest rates. There is, of course, some risk of the energy markets increasingly beginning to expect more permanent pressures on the supply side, with the result that forward oil and gas prices also rise considerably further.

Wider interest rate differential has not helped NOK



Source: Macrobond, Danske Bank

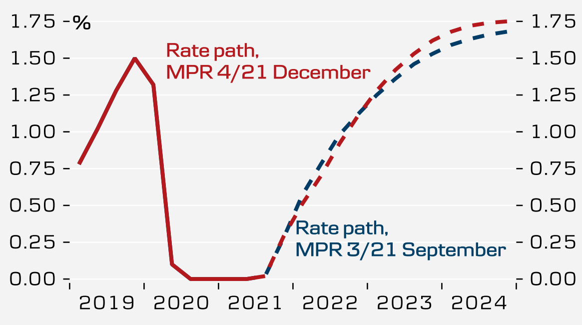
Norges Bank continues normalisation of monetary policy

As we expected, Norges Bank raised its policy rate by 25bp to 0.5% at its December meeting and signalled that it will most likely go up again in March. The projections in the accompanying monetary policy report show two further hikes this year and slightly more than two more in 2023 and 2024, taking the policy rate to just over 1.75% at the end of 2024.

This is a moderate upward revision of the interest rate path in the September monetary policy report, due simply to capacity utilisation in the Norwegian economy (including the labour market) being higher than expected, and rising wage and price expectations. Meanwhile, the central bank does of course acknowledge that the latest Covid restrictions and high power prices will put a damper on growth in the near term, but finds that these are most likely temporary factors that will not reduce growth sufficiently on their own to derail the bank's hiking plans. At the short end, through to around September 2022, the bank's projections have been revised down slightly, reflecting the growing uncertainty in the near term. The bank also says straight out that if infections rise to the point where more stringent and/or protracted restrictions are needed, the March hike could be pushed back. In this case, the signalled rate increases will be postponed rather than cancelled. On the other hand, the bank expresses concern about rising wage and price inflation, which could cause the policy rate to be raised more quickly than forecast.

We largely share Norges Bank's view of the outlook for the Norwegian economy, so we too expect the policy rate to go up again in March, with two further hikes later this year. The risk here is clearly to the upside, and we are much more likely to see four hikes this year than two. We then expect two further rate increases in 2023, taking the policy rate to 1.75% in autumn next year, again with the risk to the upside.

Norges Bank revises up rate forecast after 2022



Source: Macrobond, Danske Bank

At a glance

			Forecast		
National account	**2020**	**2020**	**2021**	**2022**	**2023**
	NOK bn (current prices)	% y/y			
Private consumption	1417.5	-6.6	4.2	6.5	2.0
Public consumption	905.6	1.8	3.0	1.3	1.3
Gross fixed investment	907.0	-5.6	1.0	3.1	2.0
Petroleum activities	180.3	-4.1	-1.5	-6.0	8.0
Mainland Norway	720.7	-3.6	0.9	4.0	3.0
Dwellings	46.2	-4.0	3.2	5.7	3.0
Enterprises	44.7	-5.0	1.4	4.5	3.5
General government	216.4	-1.1	-2.5	1.5	1.5
Exports	1110.0	-1.2	4.1	6.0	4.0
Traditional goods	408.5	-2.5	6.5	3.0	3.0
Imports	1125.3	-11.9	2.0	7.5	4.0
Traditional goods	747.1	-2.5	5.0	5.0	2.3
GDP	3413.5	-0.7	3.8	3.8	2.0
GDP Mainland Norway	3043.0	-2.3	4.0	3.8	2.0

Economic indicators	**2020**	**2021**	**2022**	**2023**
Employment, % y/y	-1.5	1.1	2.0	0.9
Unemployment (NAV), %	5.0	3.1	2.3	2.2
Annual wages, % y/y	3.1	3.2	3.4	3.6
Consumer prices, % y/y	1.3	3.4	2.6	1.8
Core inflation	3.0	1.7	1.8	2.1
Housing prices, % y/y	4.5	9.0	2.0	2.0

Financial figures	**04/01/2022**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	0.25	0.50	0.75	1.00

Source: Statistics Norway, Norges Bank, Macrobond Financial, Danske Bank

Finland

Growth barriers ahead

- **Economic activity has continued to recover in Finland, but headwinds have appeared with reimposed restrictions.**
- **According to the first official estimate, Finnish GDP increased 0.8% q/q in Q3 2021, which brought it above the pre-COVID level.**
- **Manufacturing has continued to grow, order books look thick and capacity utilisation has increased.**
- **Unemployment has fallen further, open vacancies are plentiful and the employment rate is at the pre-COVID level. Labour shortages are visible.**
- **The Finnish housing market activity is elevated and households' intentions to buy housing and withdraw loans remain at a very high level. Increasing housing construction should reduce price pressures.**
- **Public debt growth has slowed down because of higher tax revenue and the decision to tap liquidity reserves. The debt-to-GDP ratio is set to fall and stay below 70% in 2022-23.**

Changes relative to previous forecast

Finland	Current forecast			Previous forecast	
% y/y	2021	2022	2023	2021	2022
GDP	3.5	2.8	1.6	3.3	3.0
Private consumption	3.5	3.5	1.5	4.0	3.5
Public consumption	2.5	1.0	0.5	2.5	1.0
Gross fixed investment	2.0	4.0	3.0	4.0	4.0
Exports	4.0	6.0	3.0	3.5	6.5
Imports	3.5	6.5	3.0	4.5	6.5
Unemployment rate	7.6	6.9	6.6	7.7	7.1
Inflation	2.2	2.6	1.8	2.0	1.8
Government balance, % of GDP	-2.7	-2.3	-1.3	-4.4	-2.6
Current account, % of GDP	1.0	0.8	0.7	0.6	0.6

Source: Danske Bank

Strong recovery and high confidence

The Finnish economy has managed the corona pandemic with limited long-term economic damage. Structures intact, the economy has been able to regain speed faster than we expected. GDP exceeded its pre-covid-19 level in Q3 2021.

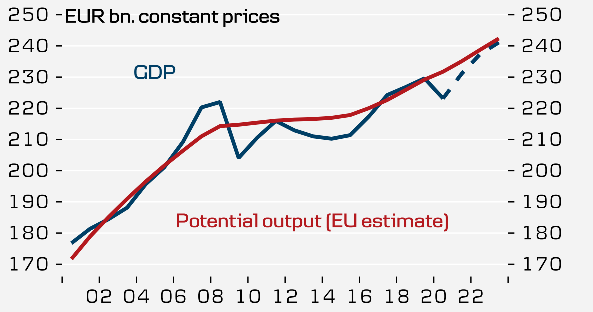
Covid-19 cases have increased in Finland in recent weeks, and the government has reimposed some restrictions. Google mobility data shows that people move less again, which is a sign of stress for many service industries.

During the ups and downs of the COVID-19 crisis, the Finnish economy has been relatively stable and many industries have continued to operate without interruptions. The pandemic itself has been relatively mild compared to most countries. Consequently, the lockdown measures have been less stringent. This time the restrictions are also relatively modest and allow the economy to operate fairly normally. The requirement for vaccine passport introduced in October shut out part of the population from using restaurant services and opening hours are reduced. Most recent restrictions closed swimming halls and gyms in most of the country at least until mid-January. People can still access many personal services like hairdressers.

Good capabilities for remote work have helped to maintain productivity at the same level. A relatively large share of manufacturing, which has not experienced significant interruptions, and a small share of tourism industries have structurally supported and continue to stabilise the economy, especially compared to the worst hit countries in Southern Europe. Last summer, most Finns spend their money domestically instead of traveling abroad.

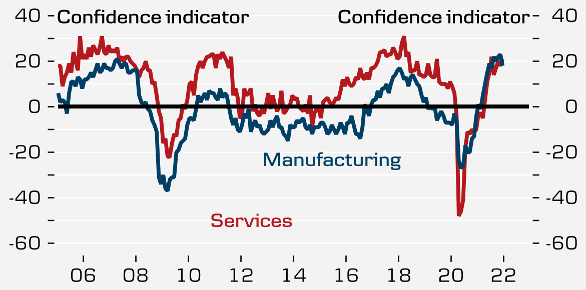
Retail sales stayed at an elevated level in late 2021 and service businesses did much better than in 2020. Manufacturing continued to grow, although at a slower pace, and capacity utilisation increased in late 2021. Despite increasing uncertainty in December, business confidence indicators were positive. So far,

Output gap closing



Source: Macrobond Financial, Statistics Finland

Business confidence above average

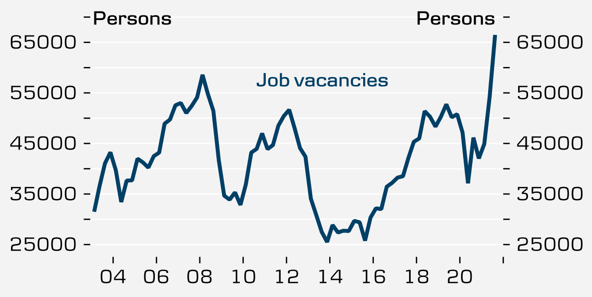


Source: Macrobond Financial data, Statistics Finland the slowdown in the global manufacturing cycle or worries of new COVID-19 variants do not seem to have derailed the recovery in the Finnish economy. Surveys indicate that especially large companies plan to invest more.

Construction as a whole is also growing, especially housing construction has increased and permits indicate high level of construction also in H1 2022.

Labour market has performed better than expected and companies already complain about lack of skilled labour. According to a survey carried out by Finland Chamber of Commerce, nearly three quarter of companies estimate that their operations have been hampered by the lack of skilled labour. Open vacancies are at all-time-high level and employment rate is at pre-covid level. The unemployment rate is still slightly higher than before the crisis, which implies two things: some industries are not back to normal and supply of labour has increased, because the employment rate is back to previous peak already. Total wages and salaries were nearly 6% above pre-covid peak in October, which exceeds the rise in consumer prices by roughly 2 percentage points.

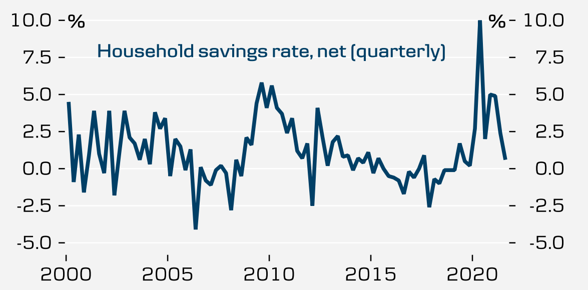
Open vacancies are plentiful and harder to fill



Source: Macrobond Financial data, Statistics Finland

Public finances suffered a massive blow in 2020. Public deficit remains large in 2021, but higher tax revenues have helped to narrow the deficit and the central government needs to issue significantly less debt than initially budgeted. The State Treasury has decided not to withdraw approximately EUR 8 billion of the initially budgeted net borrowing requirement of EUR 11.7 bn. The decision was based on the strong liquidity position of the central government. The budget proposal for 2022 shows a deficit of EUR 6.9 bn, which will be covered by increased borrowing. We now expect public debt-to-GDP ratio to stay well below 70% in 2022 and 2023.

Savings rate makes space for more consumption



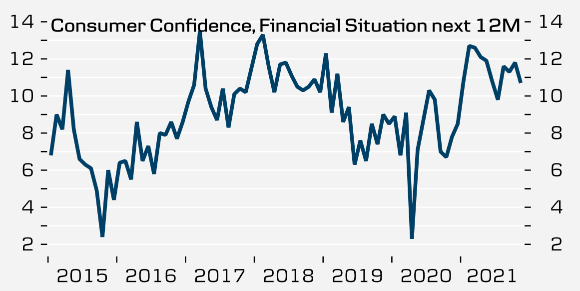
Source: Macrobond Financial data, Statistics Finland

We expect weaker growth over the winter, COVID-19 restrictions and Global slowdown weigh on the outlook, but a more broad based recovery should resume during spring 2022. Exports, fixed investment and private consumption should keep growing. We now expect GDP to have grown 3.5% in 2021. We forecast 2.8% growth in 2022 (was 3.0%) and 1.6% in 2023, which is close to potential trend growth. Lack of skilled labour and other structural barriers become bigger issues going forward.

Private consumption still has room to grow

For a small open economy like Finland, changes in external exports demand typically drive the business cycle. However, during the corona crisis, changes in domestic private consumption have been the main driver of demand fluctuations. Vaccinations and relatively good health situation allowed the government to lift many restrictions in summer 2021. Covid-19 cases have increased in Finland in recent weeks, and the government has re-imposed some restrictions. As a whole businesses confidence was high in late 2021 in retail trade and services. Consumer confidence in own finances was also high.

Consumers confident about the future



Source: Macrobond Financial data, Statistics Finland

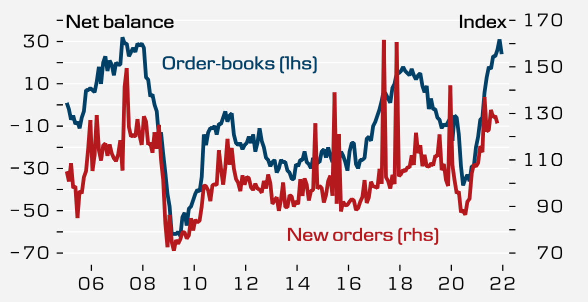
There exists further room for private consumption to recover, when the epidemic situation has again improved and people move more freely. Services consumption is well below pre-covid level, while consumption of goods has developed more strongly. A similar trend has been observed in most European countries. Household income has developed favourably following higher employment and wages. In addition to labour income, consumers have significant savings accumulated during the earlier lockdown period. Savings rate came down in Q3 2021, but there is room to increase consumption by using higher wage income and credit. The labour market has strength to support purchasing power because open vacancies are at a high level and we expect wages to increase at least same speed as inflation at annual level. Interest rates stay low and supportive for consumption in 2022

Inflation was 3.7% in November. Higher inflation restricts the growth of purchasing power temporarily but there is little sign of persistent price pressures. Inflation reflects mostly more expensive energy and base effect from weak 2020. Housing and renovation related expenditures have also contributed to higher inflation. We expect inflation to fall towards the end of 2022, although higher wage increases could push inflation higher also in the medium term.

Manufacturing constrained by capacity

The global manufacturing cycle has supported Finnish exports, but growth slowed down in late 2021. The outlook going forward is still relatively good, even if early signs of a peak are visible. Demand for many goods, such as packaging materials, sawn wood, vehicles and investment goods, has been strong. There is some way to go to reach full recovery especially in services exports. One obvious factor supressing service exports is tourism, although its general equilibrium effects are less clear due to Finland's negative tourism account. Domestic travel supports the tourism industry.

Manufacturing order books are thick



Source: Macrobond Financial data, Statistics Finland, EK

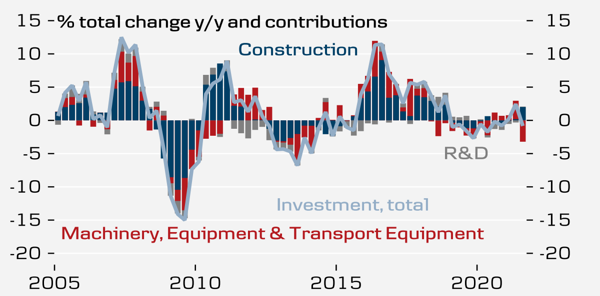
Confidence in manufacturing was at a high level in late 2021, albeit a decline was observed in December. Business surveys have indicated above average production outlook and order books in recent months. Signs of a peak in the global manufacturing cycle are most visible in the value of new orders, which have moved sideways in recent months. Shortage of some components is also a headwind, but we expect growth in Finnish manufacturing to continue in 2022. The structure of Finnish export industries with a relatively large share of long-term projects like passenger ships has been more robust against quick shifts in the business cycle during the corona crisis.

We expect global recovery to be strong enough to support growth in Finnish goods exports during the whole forecast horizon. The EU recovery fund as well as CAPEX in the US should bring a boost in 2022. Increasing travel should help to increase service exports in late 2022. The total exports volume declined 6.8% in 2020. For 2021, we are expecting exports growth of 4%. In our forecast, the recovery continues in 2022 with exports growing 6%. Export growth winds down to more average level of 3% in 2023.

Invest you must

The investment outlook is positive after a prolonged weakness predating the corona crisis. Gross fixed capital formation decreased already in 2019 and the outlook was never particularly great for 2020. During the corona crisis, the volume of investments contracted further but less than we had feared and much less than, for example, during the financial crisis. In 2020, investments fell by 0.8%. Industrial investment fell more sharply, as expected, but construction supported the overall level of investment.

Investment activity has lagged behind so far



Source: Macrobond Financial data, Statistics Finland

The investment outlook has shifted to positive in 2021, because the manufacturing boom has led to significant capacity constraints and construction is catching up with higher demand for housing.

Fixed investment was weak in Q3, but surveys indicate that especially the energy sector and large companies plan to invest more. The weak investment figure was largely caused by an extraordinary transport equipment sales abroad recorded as a negative investment. Forest industry companies have announced sizable projects spanning over the next few years. Construction as a whole is growing. Especially housing construction has increased and the supply of new apartments will increase in 2022. R&D investment has recorded little growth. In total, we expect investments to grow 4% in 2022 and 3% in 2023.

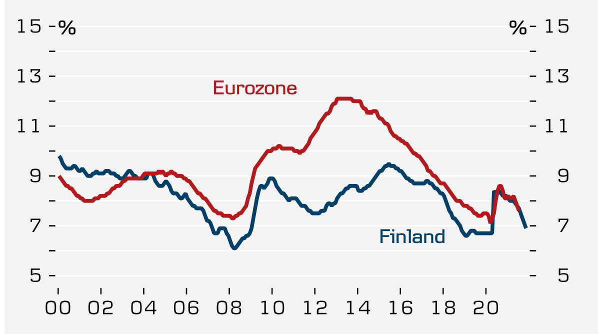
Labour market plays a big role

Labour market has endured the corona pandemic with considerable resiliency. Unemployment rose, but not as much as many feared. Temporary layoffs surged to a new record in spring 2020, but the situation has nearly normalised in 2021. Layoffs may temporarily increase during new lockdown measures. The unemployment rate trend fell to 6.9% in November 2021. The employment rate has risen to pre-corona peak level. Open vacancies are plentiful and companies have identified lack of skilled labour as a significant obstacle to growth. Structural issues and skills mismatch imply that a 7% unemployment rate is close to full employment in Finland. Lack of skilled labour implies that GDP growth is soon going to fall towards potential growth, which is limited by an ageing population and slow productivity growth.

Service industry vacancies continue to increase when the epidemic is under control and people start traveling more. Need for labour can partly be met by increasing the employment rate and partly by employment based immigration. We forecast the average annual unemployment rate to fall from 7.6% in 2021 to 6.9% in 2022 and to 6.6% in 2023.

Increase in average earnings and employment lifted the total sum of wages and salaries by 5.6 per cent year-on-year in August to October. Many collective wage agreements are maturing over the winter and spring, which brings unions to the bargaining table. Agreements will be made at a more local level in some key industries like the forest industry. We expect that higher inflation and tighter labour market will push wages up in 2022, but export competitiveness sets some limits.

Unemployment rate has fallen



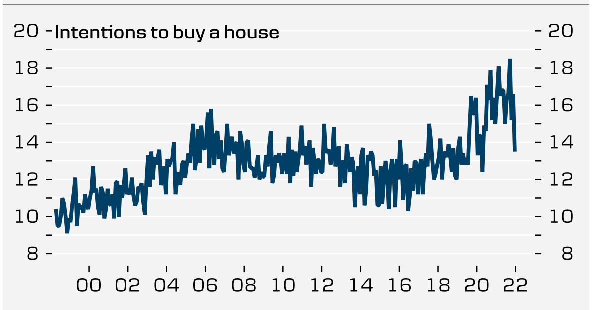
Source: Macrobond Financial data, Statistics Finland

The housing market boom is maturing

The Finnish housing market has continued to perform well in 2021. Transaction volume is above normal and household purchase intentions were high in late 2021, according to Statistics Finland monthly survey. In some ways, the corona crisis has supported active sales. When people spend a lot of time at home, and also work from home, there exists an increased need to find new housing. Remote working arrangements and travel bans related to Covid-19 have also caused a temporary boom in second homes in the countryside, which we expect to calm down in 2022. Search for yield has also encouraged many individuals to become real estate investors and enter buy-and-let market. We expect increasing supply to cool the rent market in 2022.

Prices of old dwellings in housing companies rose 5.7% in Helsinki region and 1.5% year-on-year in rest of the country in October. National average was 3.6%. Prices of one-family houses in the Helsinki region have risen more than prices of apartments, which was unusual before Covid-19. Regional differences have moderated during the crisis, which has caused people to look for more space outside city centers. We expect the shift to be temporary. Finland is behind many other EU countries in terms of urbanisation, which makes it likely

Household interest in home purchase has peaked

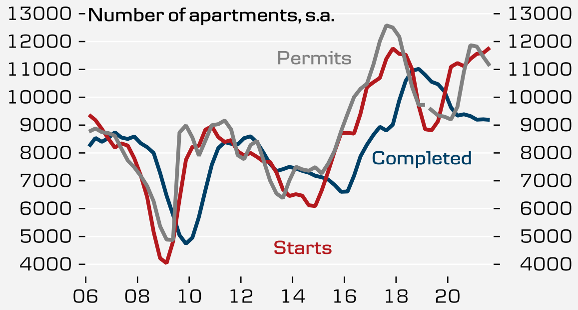


Source: Macrobond Financial, Statistics Finland that a trend towards urban living will continue in the future. Construction permits and new starts indicate increasing housing supply. We expect price

development to moderate, once people start to spend more time outside homes, most remote work needs are met and housing supply increases in 2022. Investor demand helps to maintain housing market activity and low interest rates together with good employment outlook keep the waters calm for indebted households

Average housing loan size has grown and Finnish customers take longer loans than before. The Fin-FSA has expressed some concern over household indebtedness and decided to tighten the maximum loan-to-collateral (LTC). The maximum amount of housing loan was capped at 85% of collateral as of 1 October. The same limit was already in place before the corona crisis begun, so the change in legislation just amounts to returning to normal. The new regulation does not apply to first-time buyers. Additional regulation is in planning phase. FIN-FSA recommends lenders to exercise restraint in granting loans that are large relative to income and have a long repayment period.

Permit data indicates active housing construction

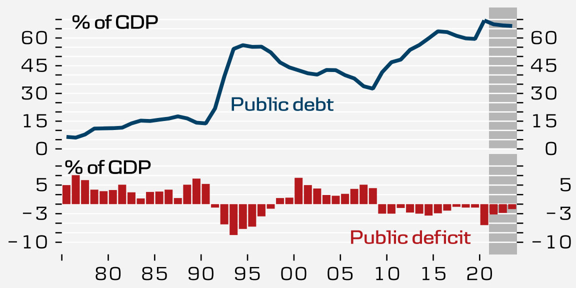


Source: Macrobond Financial, Statistics Finland

Public debt ratio set to fall in the forecast period

Public deficit remains large despite the economic recovery, but debt increases less because central government tapped liquidity reserves in 2021. The liquidity reserves grew in 2020, when the government borrowed more than was needed. Central government net borrowing (EDP) stands at roughly EUR 8 bn in 2021. The State Treasury has decided not to withdraw approximately EUR 8 billion of the initially budgeted net borrowing requirement of EUR 11.7 billion. The decision was based on the strong liquidity position of the central government and higher tax revenue. The State Treasury estimates that the central government's new borrowing amounts to EUR 3.7 billion in 2021. The latest budget proposal for 2022 shows a deficit of EUR 6.9 bn, which will be covered by increased borrowing. On top of more typical public spending, the Finnish air force is set to acquire new F-35 fighter jets, with the upcoming cost set to add roughly EUR1 billion annually to public debt over the next decade. Local government will run a deficit as well, while social security funds have a surplus. We expect general government debt-to-GDP ratio to fall and stay well below 70% in 2022 and 2023.

General government debt and deficit ratios



Source: Macrobond Financial, State Treasury, Statistics Finland

An improved outlook for the forecast horizon does not change the longer-term trend towards increasing ageing related costs and slower economic growth reducing possibilities to raise more tax revenue. The debt-to-GDP ratio is likely to increase again beyond the forecast horizon. This will narrow fiscal policy space in coming years, even if Finland stays well below the euro area average debt ratio. Sizable guarantee liabilities (roughly 25% per GDP) pose an additional risk to public finances. Rating agencies are patient but expect structural reforms. In the future, a high employment rate remains important for healthy public finances. Structural reforms are needed to boost potential growth and improve labour participation in order to deal with the rise in age-related expenditure caused by an ageing population and rising dependency rate.

Ageing population implies significant increase in age-related costs, and a reform to move social and health care burden from municipalities to higher level of local government (wellbeing services county) is under way. The first ever county elections will be conducted in Finland in January 2022 to elect a county council for each wellbeing services county. The wellbeing services counties are autonomous, and the highest decision-making power in each county will be exercised by a county council. This will change the way public finances are managed, but not the big picture in terms of total debt and deficit.

At a glance

National account	2020	2020	2021	2022	2023
			Forecast		
	EUR bn (current prices)	% y/y			
GDP	236.2	-2.8	3.5	2.8	1.6
Imports	84.7	-6.5	3.5	6.5	3.0
Exports	85.5	-6.8	4.0	6.0	3.0
Consumption	178.4	-3.1	3.1	2.7	1.2
- Private	120.7	-4.7	3.5	3.5	1.5
- Public	57.7	0.2	2.5	1.0	0.5
Investments	57.1	-0.8	2.0	4.0	3.0

Economic indicators	2020	2021	2022	2023
Unemployment rate, %	7.8	7.6	6.9	6.6
Earnings, % y/y	1.8	2.4	2.8	2.6
Inflation, % y/y	0.3	2.2	2.6	1.8
Housing prices, % y/y	1.5	4.0	2.0	1.8
Current account, EUR bn	2.0	2.5	2.0	2.0
- % of GDP	0.8	1.0	0.8	0.7
Public deficit, % of GDP	-5.5	-2.7	-2.3	-1.3
Public debt/GDP, % of GDP	69.6	67.7	67.0	66.7

Financial figures	04/01/2022	+3 mths	+6 mths	+12 mths
Leading policy rate, % p.a.	-0.50	-0.50	-0.50	-0.50

Source: Statistics Finland, Macrobond Financial, Danske Bank

Global overview

Slower growth and rising inflation uncertainties

- **COVID-19 restrictions are set to weigh on economic activity this winter but growth will remain positive. Global goods consumption will stay elevated and production will have a hard time following suit over the next three to six months.**
- **Economic activity should pick up in the spring from waning COVID-related restrictions, easing global supply chain problems and economic policy stimulus in China.**
- **Inflation is set to ease in 2022 but at a slower pace than previously expected, forcing the Fed in particular to embark on a tighter monetary policy.**
- **A large inflation surprise forcing an abrupt central bank response and/or spreading of more dangerous and transmissible COVID-19 variants are the key risks.**

'Dancing' with COVID-19 to continue until a vaccine is ready

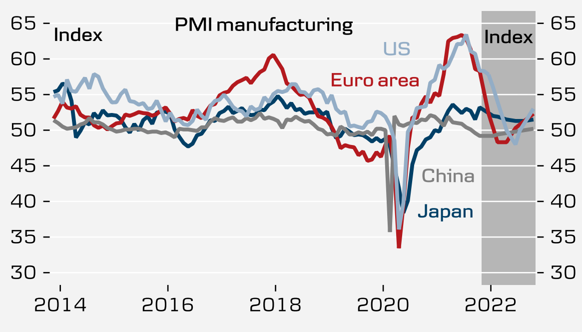
After the brisk recovery from the COVID-19 crisis in 2020, momentum in the global economy is moving into a lower gear. Fading re-opening effects, waning fiscal stimulus and global supply chain challenges have weighed on manufacturing activity, while service sector activity was challenged by the Delta variant pre-summer in many emerging markets and the US and is now being challenged by the Omicron variant, which has caused both Europe and US to impose new restrictions.

At the same time, global inflation is rising to levels not seen since the run-up to the financial crisis in 2008. Rising energy and commodity prices, cost-push effects from supply chain bottlenecks, high goods demand and re-opening effects in services are some of the key factors globally. However, notably in the US, the combination of significant fiscal easing together with very lax monetary policies has added further to inflation pressures.

COVID restrictions to weigh on economic activity this winter

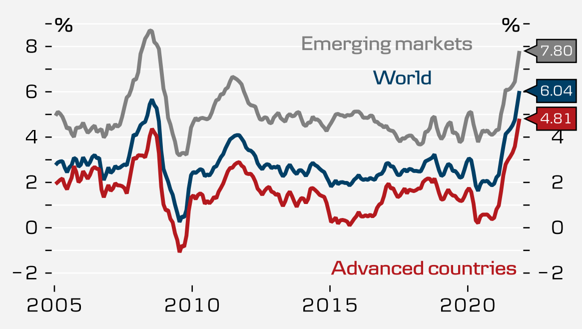
Despite the relatively high degree of vaccination rates in the western world, COVID-19 cases are rising again in many countries in the Northern Hemisphere as the more contagious Omicron variant spreads. While fewer are at risk of serious illness following the roll-out of vaccinations in many countries, hospitalisations are going up, especially in countries with low vaccine uptake, but also because protection from the vaccines is waning faster than expected and restrictions are much looser compared to the same time last year. Booster shots especially for the elderly and people in high-risk groups are pulling in the other direction. Still, several European countries have already re-imposed restrictions and more are likely to follow, while emerging markets have seen a sharp fall in infection rates and a resumption in economic activity.

Momentum in global manufacturing to fall before stabilising in mid-2022



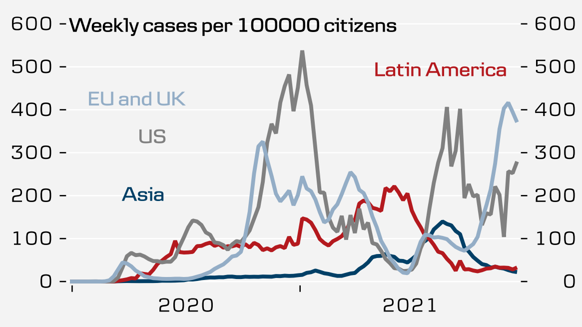
Notes: The US, Japan and euro area are from Markit PMI while China is from National Bureau of Statistics (NBS).
Source: Markit, China NBS, Macrobond Financial and Danske Bank

Inflation rising in both advanced and developed economies



Source: Oxford University, Macrobond Financial

Europe and US are seeing rising cases, whereas emerging markets have it under control



Source: Macrobond Financial, WHO and Danske Bank

While we think that restrictions will generally be lighter than last winter's, we still anticipate that COVID-19 will cause headwinds for economic growth. Restrictions have been imposed in many European countries, while the US and other emerging markets are also at risk given their relatively low vaccine coverage. Apart from restrictions, economic activity can be hit by people becoming more fearful of catching the virus, which will weigh on service sector activity in particular.

Without the hard lockdowns, the direct hit to economic growth is likely to remain much more moderate than was the case a year ago. The biggest impact is a shift away from service consumption towards goods consumption, which means that bottlenecks (high freight rates, long delivery times, empty shelves, higher underlying price pressure etc) remain unresolved for the next three to six months. We have nevertheless lowered our near-term forecasts (Q4 2021 and Q1 2022) for both the US and Eurozone due to lower expected service consumption, which more than outweighs possible solid goods consumption.

Economic activity should pick up in the spring

Economic activity should pick up in spring 2022 as soon as new cases come down, the fear factor declines and governments lift restrictions, supporting service sector activity. This should also ease supply chain obstacles, supporting a pick-up in production and supply of goods. Furthermore, global growth should at that stage be supported by strengthening economic growth in China on the back of policy stimulus being rolled out in the next months. However, economic policies in the US and Europe will be less accommodating. The impact of the US infrastructure package on the country's growth should be felt mostly in about 2024-28 due to the fiscal policy lag for infrastructure projects (lag of shovel-ready projects), and the Build Back Better Act will be partly financed by higher taxes limiting the impact on economic growth. Furthermore, negative real wage growth given the rise in inflation in Europe and the US will be a headwind for private consumption.

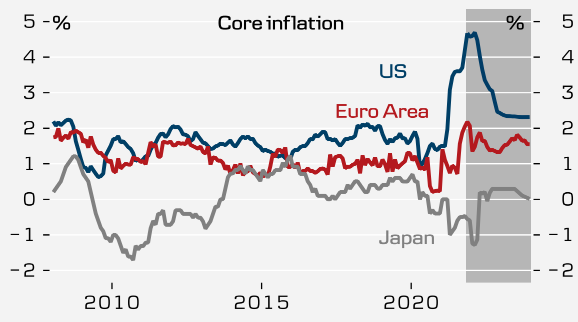
Overall, we have become more cautious on economic growth since the last Big Picture in August. We have lowered our annual growth forecast for 2022 by almost a percentage point in both the US and China, with real GDP growth of 3.5% and 4.5%, respectively. We see the euro area and Japan as both growing at the same pace as before, about 4.2% and 2.0%, respectively. We are generally more cautious than consensus on G4 growth for 2022, especially for the US and China. Given the different speeds of recovery, both the US and Chinese economies have reached their pre-crisis levels, the euro area is almost there and Japan is further away. However, apart from China, none of the three other countries has reached their pre-crisis growth trajectory. Given that we think that there will be a permanent effect on labour supply, especially in the US, the economy is unlikely to fully recover the gap.

While there are certainly risks from new variants, we expect this winter to be the last one whne governments may be forced to impose strict restrictions. Because of the combination of a better vaccine booster strategy and better treatments, we expect the advanced economies to finally start living with the virus. This will support the global economy in 2023.

Inflation to fall back in 2022, but at a slower pace than previously expected

While we still expect inflation to fall back to more modest levels, price pressures are going to persist for longer than previously expected. Inflation pressures are clearly strongest in the US. In our base case, we expect US inflation to move higher in the coming months into 2022, due to higher energy and food prices and still-rising goods prices, before moving lower over the course of the year. Inflation is set to stay above 2% both in 2022 and 2023. In the euro area, we expect inflation to remain above the ECB's target until H2 2022 but fall back to a 1.5-1.7% range thereafter. Energy prices in particular should remain a key inflation driver in the coming months, but we think this tailwind should start to fade in the course of 2022. As we expect wage growth to pick up in 2022, we see scope for an acceleration in services and core inflation in the coming years. In China, headline inflation is significantly weaker, although factory price pressures remain significant. The balance of risks is clearly skewed to the upside.

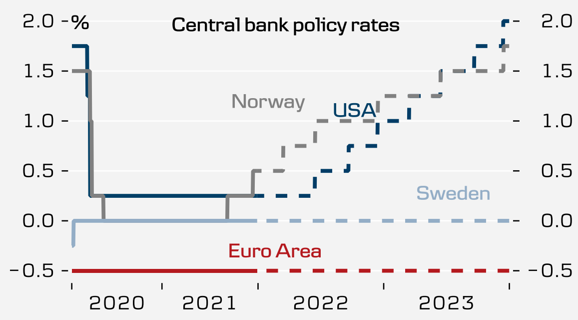
US inflation pressures clearly standing out



Source: Macrobond Financial, Danske Bank

With the rebound in the economies and significant inflation pressures, central banks have started signalling a roll-back of monetary stimuli. How fast this happens will differ from country to country, so monetary policy divergence is an important theme. The Federal Reserve has announced a relatively fast reduction in the monthly QE bond buying pace, which we expect to end in March this year. We look for that to be followed by three rate hikes (in May, September and December) followed by an additional four hikes in 2023. Risk is definitely skewed towards the Fed tightening sooner and faster than what we have pencilled in, with markets increasingly pricing in a hike as soon as in March. The ECB will reduce its asset purchases in 2022 after ending its PEPP programme in March. While we do not expect the ECB to hike rates this year, we see a likelihood of a rate hike in 2023. In China, both monetary and fiscal policy will be in easing mode to stabilise economic growth. We do not expect the Bank of Japan to claw back its monetary policy support anytime soon.

Central bank divergence



Source: Macrobond Financial, Danske Bank

Higher inflation pressures and/or new more dangerous coronavirus variants are a key risk to the global economy

A key downside risk to the global economy is significantly higher inflation forcing a more abrupt global central bank tightening. Overall, we see upside risks for global inflation, especially over the next six months, with bottlenecks in manufacturing remaining unresolved and a lower labour supply that could trigger acceleration in wages amid excess demand and business passing on more of the high costs to the consumers, thereby triggering a wage-inflation spiral. In this scenario, businesses will start to pass on higher costs to customers and wage growth will accelerate to unsustainably high levels. To reign in the higher inflation and avoid a de-anchoring of inflation expectations, global central banks will have to impose a more forceful monetary policy tightening, which will be a major blow to global risk sentiment, increasing the risk of a significant economic backlash and a sell-off of risky assets. Among other key risks is continuous COVID-19 mutations that are more contagious and possibly resistant to vaccines.

Economic forecast

Macro forecast. Scandinavia

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2021	3.8	3.9	4.0	5.5	5.5	6.6	1.9	2.8	3.7	0.0	37.6	7.6
	2022	2.5	3.1	-1.2	2.1	5.4	4.9	2.5	3.2	2.5	1.3	33.9	7.6
	2023	1.7	2.6	-0.6	3.1	3.3	3.8	1.3	3.4	2.5	0.9	32.5	6.8
Sweden	2021	4.5	5.5	3.2	6.9	6.6	8.8	2.1	2.7	8.8	-0.8	37.0	4.9
	2022	3.0	4.1	1.4	5.4	3.4	5.6	2.0	1.8	7.3	0.2	33.0	3.9
	2023	2.2	2.4	1.2	2.2	4.0	3.4	1.3	2.1	6.5	0.7	30.0	4.1
Norway	2021	4.0	4.2	3.0	1.0	4.1	2.0	3.4	3.2	3.2	-	-	-
	2022	3.8	6.5	1.3	3.1	6.0	7.5	2.6	3.4	2.3	-	-	-
	2023	2.0	2.0	1.3	2.0	4.0	4.0	1.8	3.6	2.2	-	-	-

Macro forecast. Euroland

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euro area	2021	5.2	3.5	3.7	3.4	9.5	7.0	2.4	3.1	7.7	-6.9	99.8	3.1
	2022	4.0	6.4	1.2	2.0	6.5	6.8	2.5	2.0	7.3	-3.6	97.6	3.2
	2023	2.0	2.0	1.3	2.2	5.1	5.2	1.7	0.0	7.1	-2.1	96.7	3.4
Germany	2021	2.7	-0.5	2.5	2.2	7.7	7.9	3.0	1.2	3.6	-4.9	71.4	6.6
	2022	4.0	6.9	1.2	2.5	5.4	6.7	2.5	1.8	3.2	-2.1	69.2	6.6
	2023	1.9	1.9	1.3	2.2	5.1	5.2	0.0	0.0	2.9	-0.5	68.1	6.8
Finland	2021	3.5	3.5	2.5	2.0	4.0	3.5	2.2	2.4	7.6	-2.7	67.7	1.0
	2022	2.8	3.5	1.0	4.0	6.0	6.5	2.6	2.8	6.9	-2.3	67.0	0.8
	2023	1.6	1.5	0.5	3.0	3.0	3.0	1.8	2.6	6.6	-1.3	66.7	0.7

Macro forecast. Global

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
USA	2021	5.4	7.8	0.7	7.8	3.7	13.2	4.7	3.9	5.4	-13.4	129.7	-3.5
	2022	3.5	2.9	0.8	3.6	1.9	3.3	4.5	4.6	4.0	-4.7	125.6	-3.5
	2023	2.2	2.1	1.0	3.4	1.6	1.9	2.2	4.6	3.8	-3.1	124.0	-3.3
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	4.5	6.0	-	3.0	-	-	2.0	5.5	-	-7.0	72.0	1.0
	2023	5.0	6.0		4.5			2.2	5.5		-6.8	74.5	0.7
UK	2021	6.9	3.8	15.8	4.5	-3.0	1.0	2.6	4.9	4.6	-5.3	96.9	-3.4
	2022	5.1	6.1	3.3	6.5	3.3	4.8	5.2	3.2	4.0	-0.6	96.7	-5.3
	2023	2.4	2.5	0.8	4.8	3.4	3.7	2.9	3.9	3.7	0.5	96.7	-4.7
Japan	2021	1.8	1.4	2.7	-1.1	10.9	5.9	-0.2	-	2.8	-	-	-
	2022	2.4	3.3	2.2	-0.5	3.0	2.0	0.4	-	2.6	-	-	-
	2023	1.2	1.4	0.7	0.4	3.2	2.0	0.5	-	2.5	-	-	-

Sources: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % of GDP.

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Report completed: 04 January 2022, 14:00 CEST

Report first disseminated: 05 January 2022, 06:00 CEST

Danske Bank Research

Head of Global Research, Heidi Henrika Schauman, +358 50 3281229, schau@danskebank.com

International Macro

Chief Analyst & Head of

Jakob Ekholdt Christensen
+45 45 12 85 30
jakc@danskeban.com

Aila Evchen Mihr
+45 45 13 78 67
amih@danskebank.com

Allan von Mehren
+45 45 12 80 55
alvo@danskebank.com

Antti Ilvonen
+358 445 180 297
ilvo@danskebank.com

Bjørn Tangaa Sillemann
+ 45 45 12 82 29
bjsi@danskebank.com

Mikael Olai Milhøj
+45 45 12 76 07
milh@danskebank.com

Minna Emilia Kuusisto
+358 44 260 9979
mkuus@danskebank.com

Fixed Income Research

Chief Analyst & Head of

Jan Weber Østergaard
+45 45 13 07 89
jast@danskebank.com

Daniel Brødsgaard
+45 45 12 80 83
dbr@danskebank.dk

Jens Peter Sørensen
+45 45 12 85 17
jenssr@danskebank.com

Piet P.H. Christiansen
+45 45 13 20 21
phai@danskebank.com

FX and Corporate Research

Chief Analyst & Head of

Kristoffer Kjær Lomholt
+45 45 12 85 29
klom@danskebank.com

Antti Ilvonen
+358 445 180 297
ilvo@danskebank.com

Arne Lohmann Rasmussen
+45 45 12 85 32
arr@danskebank.com

Jens Nærvig Pedersen
+45 45 12 80 61
jenpe@danskebank.com

Lars Sparresø Merklin
+ 45 45 12 85 18
lsm@danskebank.dk

Credit Research

Chief Analyst & Head of

Jakob Magnussen
+45 45 12 85 03
jakja@danskebank.com

Bendik Engebretsen
+47 85 40 69 14
bee@danskebank.com

Benedicte Tolaas
+47 85 40 69 13
beto@danskebank.com

Brian Børsting
+45 45 12 85 19
brbr@danskebank.com

David Andrén
+46 8 568 80602
davia@danskebank.com

Johan Malmborg
+46 8 568 80505
malmb@danskebank.com

Linnea Sehlberg
+46 8 568 80547
sehl@danskebank.com

Louis Landeman
+46 8 568 80524
llan@danskebank.com

Mads Rosendal
+45 45 12 85 08
madros@danskebank.com

Mark Thybo Naur
+45 45 12 85 19
mnau@danskebank.com

Marko Radman
+47 85 40 54 31
mradm@danskebank.com

Rasmus Justesen
+45 45 12 80 47
rjus@danskebank.dk

Sverre Holbek
+45 45 14 88 82
holb@danskebank.com

Sweden

Chief Analyst & Head of

Michael Boström
+46 8 568 805 87
mbos@danskebank.com

Chief Economist

Michael Grahn
+46 8 568 807 00
mika@danskebank.com

Filip Andersson
+46 8 568 805 64
f ian@danskebank.com

Jesper Jan Petersen
+46 8 568 805 85
jesppe@danskebank.com

Stefan Mellin
+46 8 568 805 92
mell@danskebank.com

Therese Persson
+46 8 568 805 58
thp@danskebank.se

Denmark

Chief Economist & Head of

Las Olsen
+45 45 12 85 36
laso@danskebank.com

Bjørn Tangaa Sillemann
+ 45 45 12 82 29
bjsi@danskebank.com

Louise Aggerstrøm Hansen
+ 45 45 12 85 31
louhan@danskebank.com

Norway

Chief Economist & Head of

Frank Jullum
+47 85 40 65 40
f ju@danskebank.com

Finland

Chief Economist & Head of

Pasi Kuoppamäki
+358 10 546 7715
paku@danskebank.com

Danske Bank, Holmens Kanal 2-12, DK - 1092 Copenhagen K. Phone +45 45 12 00 00 https://research.danskebank.com