Nordea

Press release



# Economic Outlook: The Nordics slow down but still considered safe haven

If your biggest wish for Christmas is economic expansion, you should pin your hopes on the US and China which appear to be well on their way out of the doldrums. The Euro zone, on the other hand, is back in recession and this has also hit the Nordic economies, with the exception of oil rich Norway. Consequently, we have revised down our 2012 and 2013 growth estimates for this region. However, the Nordics will maintain their safe-haven status in the financial markets, not least due to the countries' relatively sound public finances compared to most other countries, says Nordea Chief Economist Helge J. Pedersen.

Growth in the Norwegian economy is robust and largely as expected in our September forecast. Retail sales figures have been weaker than expected, but this has been fully compensated by strong growth in the consumption of services and abroad during the summer holiday season. We see no reason to change our view that growth will remain strong in the years ahead. But a strong inflow of labour will prevent major capacity problems and wage growth will stay at the current level. Inflation should remain well below target and Norges Bank will therefore take a cautious rate setting approach. Low interest rates internationally and the risk of excessive NOK strengthening will also make Norges Bank hold back. Gradually, as the international economies recover, enough room will be created for a tentative rate hike without the NOK appreciating too much.

Cold winds have hit the Swedish economy. The global downturn hurts exports and domestic demand is also weakening. The uncertain future weighs on both consumer spending and investment activity; overall economic trends will thus be lacklustre over the coming quarters, which will also see rising unemployment. However, growth will rebound somewhat during 2013 and gather further momentum in 2014 when the labour market will also show signs of improving. In light of the weak economic trends and very low underlying inflation, the Riksbank can easily lower rates further. We look for rate cuts in both December this year and February 2013. Tightening will not be resumed until 2014. The prospect of a lower policy rate will also weaken the SEK near term.

Exports have been the ray of sunshine in the Danish economy in recent years, but now the Euro-area recession has also hit this sector. Therefore it is crucial that domestic demand shifts into a higher gear to boost the economy. In our view, things are starting to look brighter. The record-low interest rates will support the housing market and following recent years' stagnant consumer spending, the pent-up demand among Danish households is quite substantial and only waiting to be released. At the same time investment activity will again make a positive growth contribution to the Danish economy, driven by both public and private investment and supported by the government's so-called investment window.

The Finnish economy has technically avoided sliding into a recession this year, but only because GDP has followed a zigzag pattern along a downward sloping path. The naked truth is that the economy is contracting. Consistent with an expected mild Euro area recovery, we anticipate a moderate export-led pick-up in economic activity already before the summer of 2013. The weak short-term outlook, however, weighs on investment and employment, which are both expected to deteriorate for most of 2013. Higher unemployment, higher income taxes and VAT are all factors that restrict advances in household purchasing power and keep private consumption growth moderate in a historical comparison. We have revised our GDP forecast for 2013 slightly down to 1.0 per cent.

Read the report on nordeamarkets.com

**For further information:**

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