Nordic Outlook

Investment Research
20 June 2023

Too soon to celebrate

Highlights

- The news has mostly been good in recent months when it comes to inflation, employment and the near-term growth outlook in most major economies
- However, we have yet to see the full effect of the monetary and fiscal tightening that has already happened, and inflation is still not sufficiently under control
- We expect prolonged slowdown and moderately higher unemployment, with the risk of a deeper recession still present
- This is also true in the Nordic countries, even though the outcome so far has surprised positively in Denmark and Sweden

http://www.danskebank.com/danskeresearch
Important disclosures and certifications are contained from page 35 of this report.

Danske Bank

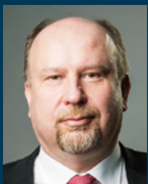
Analysts

Editor-in-Chief:
Las Olsen
Chief Economist
+45 45 14 14 94
laso@danskebank.com

Antti Ilvonen
Co-Editor and US
+358 44 518 0297
ilvo@danskebank.com

Allan von Mehren
China
+45 45 14 14 88
alvo@danskebank.com

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



Pasi Kuoppamäki
Euro area and Finland
+358 10 546 7715
paku@danskebank.com

Frank Jullum
Norway
+47 85 40 65 40
fju@danskebank.com

Louise Aggerstrøm Hansen
Denmark
+45 45 14 15 06
louhan@danskebank.com

Bjørn Tangaa Sillemann
Denmark
+45 45 14 15 07
bjsi@danskebank.com

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

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

Editorial deadline: Monday 19 June at 16:00 CET
Economics Research

This publication can be viewed at
www.danskebank.com/danskeresearch

Where no other source is mentioned statistical sources are: Danske Bank, Macrobond, EC, IMF and other national statistical institutes as well as proprietary calculations.

Contents

SUMMARY
04 Too soon to celebrate

GLOBAL
05 Little pain, but also little gain

EURO AREA
07 Divergent euro area outlook

US
09 Weakening growth ahead

CHINA
11 Muddling through

NORDIC SUMMARY
13 A mild slowdown so far

DENMARK
14 Stagnation outside the pharma industry

SWEDEN
18 Sweden will avoid recession

NORWAY
22 Growth slowing but activity high

FINLAND
26 Plight of consumers to last over summer

Follow us on Twitter to get the latest macroeconomic and financial market updates @Danske_Research

The Big Picture is focusing on the outlook for the global economy.
Read more about the prospects for Nordic economies in our Nordic outlook publication.

Important disclosures and certifications are contained from page 35 of this report.

Too soon to celebrate

Global

Most parts of the global economy have done better than expected so far this year, and we have largely been spared from higher unemployment and sharp contractions. However, we have also not seen sharp declines in core inflation, and we still expect that more economic pain will be necessary in order to get inflation re-anchored around 2%. The main scenario remains one of a very gradual cooling that will bring core inflation down over several years, but the risk of a worse outcome remains high.

Euro area

Despite a more positive outlook, a strong recovery is not yet in sight, as monetary headwinds persist and fiscal support is fading. Challenging times lie ahead especially for Germany's economy, because manufacturing outlook is weak. Securing a leading position in the green transition race remains a key goal, but growing political divisions in the EU pose a challenge. Existing inflation risks will keep ECB in tightening mode in our view. Following further rate hikes in the coming months, we expect the deposit rate to peak at 4.00% in Q3 23. We expect rate cuts only in the summer 2024.

Denmark

Employment, GDP and private consumption are doing better than expected, but much of the economy is in a slump. Consumption and the housing market are being supported by the decline in energy prices, but a more broad-based fall in inflation is needed. Pharmaceuticals are surging ahead, but other industrial sectors are feeling some headwinds. Denmark's current account surplus continues to grow and there is no reason to expect the rate spread to the eurozone will be reduced.

Sweden

The Swedish economy has exceeded expectations, and we no longer anticipate a recession this year. As a result, we have significantly revised the outlook for 2023 and now predict a period of modest yet positive growth. Despite high inflation, we believe the peak has passed and expect the 2% target to be reached earlier than in the Eurozone, particularly due to the comparatively lower wage agreement. We project the policy rate to peak at 4% in September, followed by rate cuts in April and every quarter of the following year, leading to a policy rate of 3% by the end of 2024.

Norway

Growth in the Norwegian economy has dropped off, but activity levels remain high. Unemployment is rising slightly but still low. Inflation has been higher than expected and wage growth will be around 5.3% this year The NOK-depreciation will act on inflation and means that we now expect Norges Bank to raise its policy rate in August as well as June, with the risk tilted to the upside. We believe that the weak NOK increases the risk of a hard landing, as it could force Norges Bank to raise rates further than the underlying growth and inflation picture would warrant.

Finland

Finland's economic growth will stagnate in 2023. Inflation remains high and rising interest rates are holding back the economy with lagged effects. Flow of export orders remains sluggish in the short term. Economic growth should pick up in 2024 as a result of private consumption supported by falling inflation, lower interest rates and the reinvigoration of export demand. The labour market looks stable and wages are rising faster than in recent years. Housing prices will fall and housing construction will slow down in 2023, but the unleashing of pent-up demand and the fall in interest rates will stimulate the housing market in 2024. The new government will gradually start to tighten fiscal policy.

Little pain, but also little gain

- Most parts of the global and Nordic economies have done better than expected, and we have largely been spared from higher unemployment and sharp contractions.
- However, we have also not seen sharp declines in core inflation, and we still expect that more economic pain will be necessary in order to get inflation re-anchored around 2%.
- The main scenario remains one of a very gradual cooling that will bring core inflation down over several years, but the risk of worse outcomes also remains high.

There is much to feel good about when evaluating the economy right now. Unemployment remains very low across Europe and the US. Inflation has declined sharply and many people are again experiencing real income growth. Many businesses are reporting higher incomes and a brightening outlook in the service sector, although the picture is more negative in the smaller manufacturing and construction sectors. The situation is about as good as could be hoped for, following the sharp decline in spending power and the sharp increase in interest rates that has taken place over the last year and a half.

However, it is too soon to celebrate. We do not have a soft landing because the economy has not landed yet. The decline in inflation so far is overwhelmingly driven by lower prices on energy and other commodities, while core inflation remains clearly too high both in our Nordic home countries and across most of the Western world. We still expect that it will require somewhat higher unemployment and general cooling of the economy to permanently return inflation to 2%, and we expect that to happen.

That is not to say that nothing has happened. The decline in commodity prices is, in our view, largely a result of global monetary policy tightening which has weakened demand for industrial goods, also reflected in softer economic signals in China after strong reopening-driven growth earlier this year. In Europe, gas and electricity prices have played an especially important role following Russia's invasion of Ukraine. They are now much lower than last year not only because of the economic slowdown but also simply because of the weather, which is something that is likely to cause more and more volatility in the years ahead.

Our forecast as outlined in this Nordic Outlook is that we will see such further economic cooling this year and next, as past tightening of monetary and fiscal policy takes more full effect on consumption and investment, and as policy in most countries we follow outside the US is tightened further. We expect it to be a rather soft landing, where a lot of the decline in core inflation will reflect declines in input costs that have already happened but not yet been passed on to consumers. Any landing has the risk of becoming hard even though that is not the intention, and that is certainly also true of this one. The size of the interest rate increases so far has few historical precedents, and estimates of their full effect are extra uncertain because we are so far from the norm. The current inflation and deflation episode is not really similar in type and scope to anything the global economy has experienced in the last 70 years, and that makes it extra difficult for central banks to know when they have tightened enough. As history shows, sharp downturns can be very sudden.

Turns for the worse can come very quickly

Note: Shaded areas denote recession
Sources: Macrobond Financial

We do not have a soft landing because the economy has not landed yet.

Las Olsen, Chief Economist at Danske Bank

One way that can happen is if the monetary tightening triggers some form of financial crisis beyond the intended reduction in balance sheets and loan availability. More than two months have passed without news of bank failures, and those failures we saw in the spring were related to specific issues in those banks. Authorities have done much to prevent a general weakening of confidence in the financial system. Still, renewed financial difficulties is one of the risks to watch.

A large increase in interest rates is, all else equal, clearly negative for real estate prices. We have indeed seen significant declines in prices of owner-occupied homes, especially if the high inflation in other areas is taken into account. Still, we have recently seen signs of at least temporary reprieve in many countries including the hard-hit Swedish market, and we have generally increased our expectations. On the other hand, it remains uncertain how negative the increase in interest rates will turn out to be for commercial real estate markets that have yet to find their footing in the new environment.

US
The US economy's first half of the year has been stronger than expected, but with the outlook for private consumption weakening and labour markets starting to cool, we still look for a modest GDP contraction later in the year.

Euro area
Modestly positive near-term outlook, but strong recovery not in sight, as monetary headwinds persist and fiscal support is fading. Despite the continuing fall in inflation, elevated wage cost pressures will keep ECB in tightening mode.

China
After a strong post-covid rebound in Q1, Chinese growth has weakened in Q2. We look for a muddling through recovery rest of the year supported by new stimulus, pent-up demand in service consumption and a gradual improvement in housing.

Divergent euro area outlook

- The near-term outlook has improved especially for the service sector but we do not expect strong growth. Monetary headwinds persist, and, both cyclical and structural issues weigh especially on manufacturing.
- Our forecasts show core inflation still above ECB's target by the end of 2024, with the green transition and higher than expected wage growth still presenting upside risks.
- Upside inflation risks will keep the ECB in tightening mode in our view. We expect the deposit rate to peak at 4.00% in Q3 23 and look for rate cuts not before the summer 2024.
- Fiscal rules will be reintroduced in some form at the beginning of 2024, which will make the fiscal stance tighter, but it also remains a key goal for Europe to secure a leading position in the green transition.

		Forecast	
	2022	2023	2024
GDP Growth	3.5%	0.5% (0.4%)	1.0% (0.6%)
Inflation	8.4%	5.3% (6.3%)	2.8% (3.5%)
Unemployment	6.7%	6.7% (6.9%)	6.6% (7.0%)
Policy rate*	2.00%	4.00% (4.00%)	3.25% (2.75%)

Paranthesis are the old projections (From April 2023)
**End of period*
Source: Danske Bank, Eurostat, ECB

The euro area economy weathered the energy crisis and inflation shock of 2022 better than feared. Energy prices have fallen more quickly than expected supporting consumer demand and leading indicators have turned the corner, suggesting the worst of the economic downturn lies behind us for now. Chinese pent-up demand will likely give a modest boost to activity in the near-term. However, despite the more upbeat near-term outlook, we see few reasons that point to a strong euro area recovery any time soon. Service industries have a bright outlook, but manufacturing and to some extent construction struggle with low demand and high interest rates.

The euro area economy has yet to feel the full impact of the ECB's monetary tightening. Higher mortgage rates have started to cool housing market activity and leave downside risks for business investments. The fiscal tailwind that supported the economy last year will increasingly fade in 2023/24, as sustainable public finances get renewed focus with the reinstatement of EU budget rules in 2024. A consensus on the EU fiscal rules is still missing and especially Germany remains sceptic about the proposal of countries striking individual deals on their public finances with the Commission. It looks increasingly likely that the

The euro area economy has yet to feel the full impact of the ECB's monetary tightening. Monetary policy works with long lags.

Pasi Kuoppamäki, Chief Economist Finland

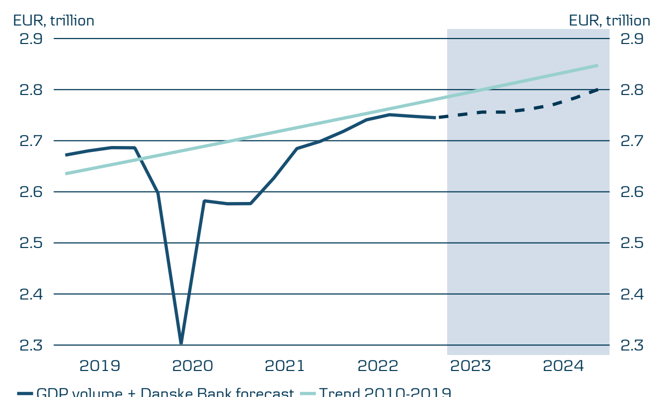
old 3% deficit and 60% debt target would reapply, but with some leeway in the interpretation of the rules. A strict application could trigger a slump in public investments at a time when demands from the green transition, digitalisation, energy and defence are piling up. The EU faces a dilemma on how to bring down debt levels that soared during Covid and the war in Ukraine, while also giving member states enough freedom to invest in slowing and mitigating climate change and repairing crisis-hit economies.

Labour markets remain on a strong footing. Business surveys suggest a majority of firms remain in hiring mode, but construction employment is cooling. With the economy growing below potential in 2023, we still look for a temporary rise in unemployment, but high open vacancies provide a cushion. Despite the moderation in natural gas and electricity prices, too high core inflation will remain a worry for ECB for some time yet. In light of faster rising wages and still existing corporate pricing power, we expect this process of cost-push inflation to extend into 2024, keeping price pressures elevated for longer. Our forecasts show core inflation still above ECB's target by the end of 2024, with the green transition and higher than expected wage growth still presenting upside risks.

Despite the financial market jitters and significant fall in inflation during spring 2023, elevated inflation risks will keep ECB in tightening mode in our view. Following further rate hikes in the coming months, we expect the deposit rate to peak at 4.00% in Q3 23. We expect rate cuts only in the summer 2024, mostly in order to keep an unchanged monetary policy stance, considering declining inflation and inflation expectations. Our forecast foresees the deposit rate at 3.25% by the end of 2024. Overall, the monetary policy outlook remains uncertain. Tight labour market and sticky inflation could require the ECB to extend high rates further into late 2024. On the other hand, positive surprises in inflation or risks to financial stability could require a more lenient monetary policy stance. A rapid tightening of the financial conditions and a banking sector crisis constitute the most prominent downside risks to the macro outlook, while pandemic-related savings buffers and accelerated investment spending on defence and the green transition pose upside potentials.

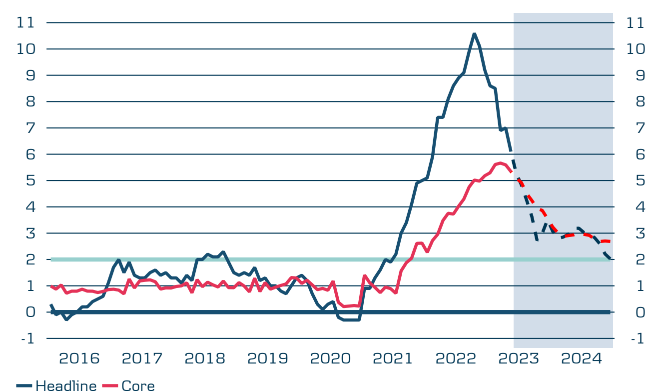
The outlook for Germany's economy, which is still in an adjustment phase after Covid-19 pandemic and closure of gas imports from Russia, is challenging. German GDP has shrunk two quarters in a row. More austere fiscal policy spells headwinds, and structural issues such as 'slowbalisation' and a shrinking workforce set the scene for a muted growth outlook. Germany imports more LNG, but the closure of nuclear power and slow progress in green transition implies higher energy prices than before. Investments in infrastructure, digitalisation and the green transition could provide a silver lining going forward, but Germany is unlikely to return as the euro area's economic powerhouse anytime soon.

Improved euro area outlook still looks sluggish



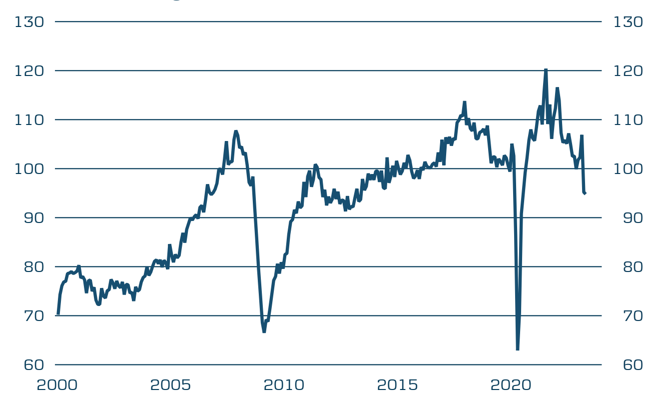
Sources: Macrobond Financial, Eurostat, Danske Bank

Headline inflation falling, but core stays above 2% in 2024



Sources: Macrobond Financial, Eurostat, Danske Bank

German manufacturing outlook has weakened



Sources: Macrobond Financial, German Federal Statistical Office, Danske Bank

Weakening growth ahead

- Early 2023 has been clearly stronger than feared for the US economy. While private consumption has been the main driver of growth, the plunge in real disposable incomes suggests consumption will eventually correct lower.
- Labour markets have begun gradually cooling and underlying inflation is moderating as policy tightening takes effect. We think the Fed is done hiking, but do not expect rate cuts before Q1 2024.
- As yields are likely close to or even past their peak, investments will support growth towards 2024. We still pencil in a shallow recession later in the year, but lift our GDP forecasts to 1.1% in 2023 (from 0.8%) and 0.5% (from 0.3%).
- We expect inflation to remain sticky, yet continue moderating towards the latter half of the year. We expect headline inflation to average 4.1% in 2023 & 2.2% in 2024, with core inflation remaining higher for longer at 4.7% in 2023 & 2.5% in 2024.

		Forecast	
	2022	2023	2024
GDP Growth	2.1%	1.1% (0.8%)	0.5% (0.3%)
Inflation	8.0%	4.1% (4.2%)	2.2% (2.0%)
Unemployment	3.6%	3.7% (3.7%)	4.3% (4.2%)
Fed Funds*	4.50%	5.25% (5.25%)	4.25% (4.25%)

Paranthesis are the old projections (From April 2023)
**End of period*
Source: Danske Bank, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Fed

The US economy's first half 2023 has been markedly stronger than expected. While warm winter likely played a role, private consumption not least in the services sector has been the backbone of growth.

We identify two main reasons for the upside surprise. First, compared to the sharp tightening through most of last year, financial conditions eased from late 2022 and into 2023. This reflects several factors including the debt ceiling driven drain of the US Treasury General Account, which provided a temporary lift to liquidity, as well as lower oil prices easing the decline in real disposable income.

Second, excess savings accumulated over the pandemic have likely continued to provide a buffer for consumption. As the sharpest increases in wages have been concentrated on lower-paying sectors, consumption has been supported across different income groups, and not just the wealthiest.

However, we remain skeptical that the benign growth environment will persist far into H2. As the US Treasury refills its cash balances following the debt ceiling raise, scarcer liquidity will li-

kely contribute to tightening financial conditions going forward. We also expect the Fed to continue QT well into 2024, which will passively tighten monetary policy. Longer-term monetary indicators remain deep in recessionary territory.

Fiscal policy is set to tighten over the coming years. The spending cuts included in the debt ceiling agreement have a negative, yet minor impact on the growth outlook. Relative to Congressional Budget Office's baseline assumptions, the deficit reduction is estimated to be 0.26% of GDP for 2024 (which sets total deficit at 5.5% of GDP) and 0.40% of GDP for 2025.

Private consumption volume has so far been little affected by the decline in real disposable income, but as excess savings run out, we expect a modest correction lower. Easing wage growth combined with sticky core inflation suggests purchasing power will recover only modestly this year.

Looking at cumulative deviation in nominal households' savings relative to pre-pandemic trend suggests that there is still around USD1.4 trillion of excess savings remaining. However, adjusting households' total accumulated wealth for inflation shows, that the 'excess wealth' created by the pandemic stimulus measures has already been wiped out. Savings from the pandemic-period consist of more liquid assets, and as such are more readily available to support consumption, but we still expect the spending support to moderate towards the end of the year.

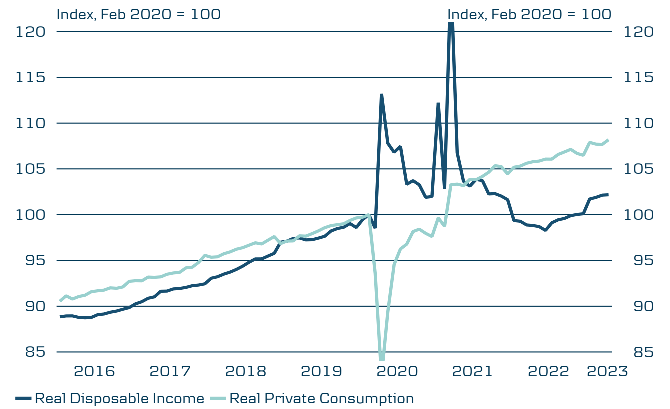
Investment volumes especially on the residential sector declined sharply last year. While we do not foresee the Fed cutting rates before Q1 2024, we think the hiking cycle is now over. As such, some leading housing indicators have already started to recover, and investments could become an increasingly important growth driver towards 2024.

Core inflation remains far too fast, not least reflecting tight labour markets. Wages & salaries rose 4.7% q/q AR in Q1, which is still above levels consistent with 2% inflation. That said, recovering labour force participation and moderating demand will help with balancing the labour market. Unemployment rate rose to 3.7% in May as slack is slowly starting to build, and we expect a further rise above 4% towards 2024.

Underlying inflation in service sectors has finally begun to moderate. Manufacturing PMI price indices signal that goods inflation will also remain very modest going forward. All together, we expect core inflation to remain elevated at 4.7% in 2023 but moderate to 2.5% in 2024. With energy contribution remaining low, and food price inflation easing, headline inflation is set to slow more sharply, we look for 4.1% in 2023 & 2.2% in 2024.

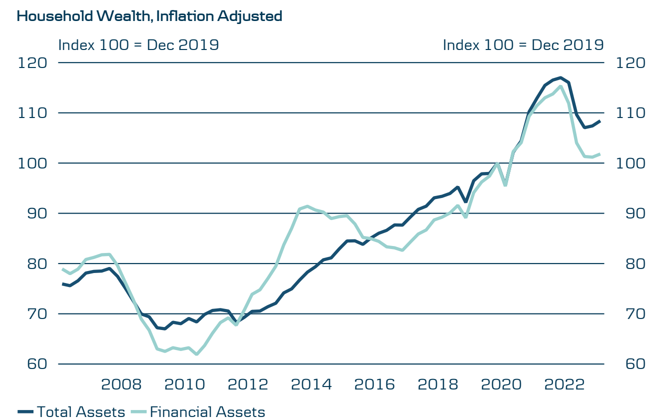
Risks to the outlook remain tilted to the downside for growth and upside for inflation. The risk of inflation stabilizing at a too elevated level still persists despite the recent positive developments. While we revise our growth forecasts higher after stronger-than-expected H1, the development also prolongs solving the underlying inflation problem, risking a downturn further out in the future. Finally, re-emerging financial stability concerns would pose an additional downside risk to our forecasts.

Private consumption has not yet adjusted to the decline in real disposable income



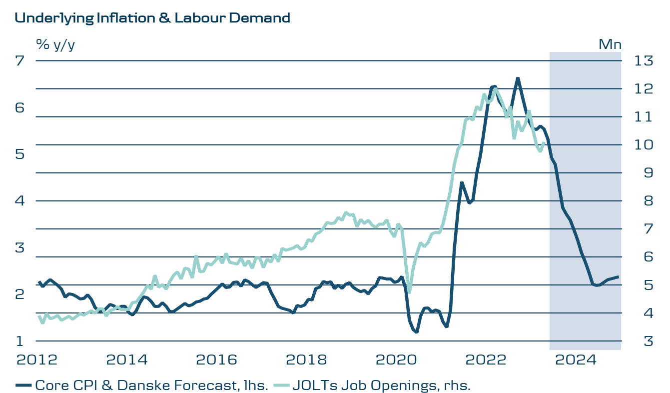
Sources: Macrobond Financial, U. S. Bureau of Economic Analysis

Real value of households' accumulated wealth has declined back to pre-covid trend



Sources: Macrobond Financial, The Federal Reserve's Distributional Financial Accounts, U. S. Bureau of Labour Statistics.

Both labour markets and underlying inflation have started to gradually cool



Macrobond Financial, U. S. Bureau of Labour Statistics, Danske Bank

Muddling through

- After a strong start to 2023, economic data disappointed in Q2 and we have lowered our GDP forecast for this year to 5.8% from 6.2%. For the rest of 2023 our scenario implies muddling through with annualized quarterly growth around 4½-5% underpinned by moderate stimulus. In 2024 our forecast is reduced to 4.8% from 5.0%.
- The main engines of growth are set to be private service consumption and a gradual recovery in construction and private manufacturing investments. We expect export growth to remain weak as global goods demand stays soft.
- While a leading role in many green technologies benefit China, a long list of medium term economic challenges are present, which creates uncertainty about China's outlook. However, we still look for economic growth to be able to reach around 4½% over the next 5-10 years due to a strong focus on investments in education and technology and continued support to the private sector.
- Geopolitical tensions are set to continue with intense rivalry between US and China. However, we still see a low probability of war on Taiwan in the next 2-3 years as the costs of a war would be enormous for all involved parties. In the long term the risk is real, though. Look out for Taiwan election in early 2024.

		Forecast	
	2022	2023	2024
GDP Growth	3.0%	5.8% (6.2%)	4.8% (5.0%)
Inflation	2.0%	1.2% (2.5%)	2.0% (2.5%)
Unemployment	5.5%	5.2% (5.3%)	5.1% (5.1%)
Policy Rate*	2.75%	2.55% (3.00%)	2.45% (3.50%)

Paranthesis are the old projections (From April 2023)
**End of period (1-year Medium Lending Facility)*
Source: Danske Bank, Macrobond Financial

New uncertainties

While China's re-opening rebound in Q1 was stronger than expected, the recent economic data have slowed more than projected. In effect, we have lowered our forecast back below 6% for this year. Especially manufacturing and the housing market lost pace in April and May while the service sector has continued to grow at a more robust pace reflecting pent-up demand from the zero-covid lockdown years.

The bumpy road of the recovery leaves a high degree of uncertainty about the outlook. However, our baseline scenario is for policy makers to aim for growth around 4½-5% rest of the year and that stimulus will be calibrated to hit this goal. The strong service sector activity is providing decent job growth and more support to wage growth, leaving a decent picture for household income gains. Hence we expect private consumption to continue to underpin a moderate recovery. The manufacturing sector is challenged by a weak external environment but moderate growth in investments and consumption is expected to underpin manufacturing growth at or slightly above potential growth. The construction sector is still struggling but we have witnessed a lift in home sales compared to the

very low levels last year, and we should see this gradually feed through to a rise in housing starts.

In the medium term, there is little doubt that China's potential growth rate has come down as China faces challenges on many fronts: high debt level in key sectors, falling labour supply, Western technology restrictions, geopolitical uncertainty and a difficult transition to consumption driven growth. Our baseline scenario is that China will be able to grow around 4%

The bumpy road of the recovery leaves a high degree of uncertainty about the outlook.

Allan von Mehren, Chief Analyst at Danske Bank

on average over the next 5-10 years. While clearly lower than in the past, it will still make Chinese economy significantly bigger and in our view lead to a rise in the middle class by 3-400 million people over the next decade.

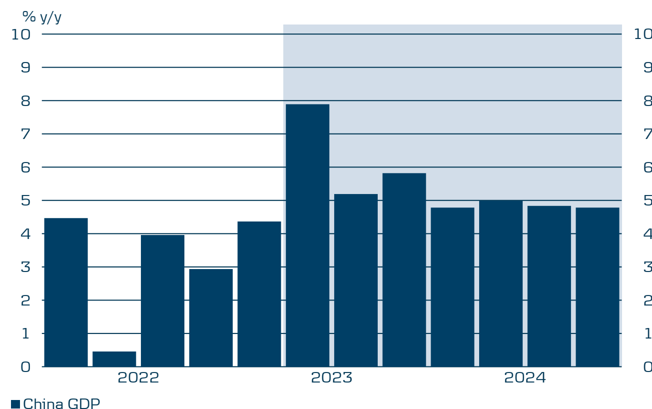
Charm offensive to private sector and foreign companies

Since the Communist Party Congress in October last year, China's leaders have been on a charm offensive to the private sector stressing that private companies play a key role in China's development and signaling that a level playing field between state and private sector companies must be achieved. Similarly Chinese leaders have been courting foreign companies that suffered during the zero-covid policies and who face increased geopolitical uncertainties. Chinese leaders have reaffirmed China remains open for business while at the same time working on increased self-reliance in key technological areas and focus on strengthening the domestic markets. But renewed focus on de-risking supply chains by foreign business and concern about the risks around Taiwan provide clear headwinds for foreign investments in China.

US and EU highlight "de-risking, not decoupling"

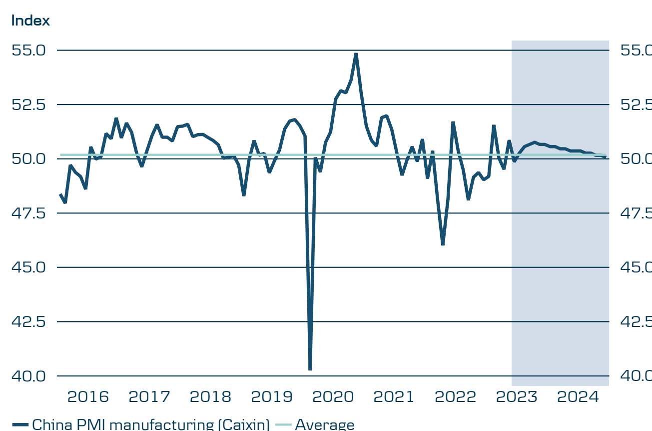
Western countries increasingly aim for a united front against China in areas such as technology restrictions within advanced microchips, trade and foreign infrastructure investments. At the same time G7 nations at the recent G7 summit balanced this with a message that the goal is de-risking, but not decoupling from China. Nevertheless, China sees the Western strategy as one of containment and suppression of China's development and tensions between China and G7 nations remain elevated and we expect this continue for the foreseeable future. On the geopolitical front, elections in Taiwan in early 2024 and the US Presidential election in November 2024 will be key events. We don't expect a war on Taiwan over the next 2-3 years as the cost for all countries would be enormous, see Research China: The risk of a Taiwan war and what it implies – part 1, 11 August 2022. But we see a non-negligible risk, it could come on a 10-15 years horizon.

Chinese growth moderation after strong Q1



Sources: Macrobond Financial, NBS, Danske Bank

Home sales off the lows



Sources: Macrobond Financial, Markit, Danske Bank

In the medium term, there is little doubt that China's potential growth rate has come down as China faces challenges on many fronts.

Allan von Mehren, Chief Analyst at Danske Bank

A mild slowdown so far

Sweden

The economy has performed much better than expected during winter and spring, and we have revised up the forecast for GDP this year. Consumer spending and the housing market are weak (although not as weak as feared), but the export-driven business sector and the labour market are strong. Inflation is heading down but is still too high, and the Riksbank will increase interest rates further, also out of concern about the weak SEK.

Norway

Growth in the Norwegian economy has dropped off, but activity levels remain high. Unemployment is rising slightly but still low. Inflation has been higher than expected and wage growth will be around 5.3% this year The NOK-depreciation will act on inflation and means that we now expect Norges Bank to raise its policy rate in August as well as June, with the risk tilted to the upside. We believe that the weak NOK increases the risk of a hard landing, as it could force Norges Bank to raise rates further than the underlying growth and inflation picture would warrant.

Finland

The economy is stagnating this year but we expect growth to pick up in 2024, supported by higher demand at home and abroad. Unemployment remains low and that is also the outlook going forward. House prices are under pressure this year, but should recover somewhat once interest rates start to decline again. We expect the new government to take measures aimed at balancing public finances, however it is not certain that it will succeed and the debt ratio might still climb higher.

Denmark

Employment, GDP and private consumption are doing better than expected, but much of the economy is in a slump. Consumption and the housing market are being supported by the decline in energy prices, but a more broad-based fall in inflation is needed. Pharmaceuticals are surging ahead, but other industrial sectors are feeling some headwinds. Denmark's current account surplus continues to grow and there is no reason to expect the rate spread to the eurozone will be reduced.

Stagnation outside the pharma industry

- Employment, GDP and private consumption are doing better than expected, but much of the economy is in a slump with no imminent end in sight.
- Consumption and the housing market are being supported by the decline in energy prices, but a more broad-based fall in inflation is needed.
- Pharmaceuticals are surging ahead, but other industrial sectors are suffering because of the global slowdown in manufacturing.
- Denmark's current account surplus continues to grow and there is no reason to expect the rate spread to the eurozone will be reduced.

	2022	Forecast 2023	2024
GDP Growth	3.8%	1.5% (0.5%)	1.0% (1.3%)
Inflation	7.7%	4.1% (5.1%)	3.2% (3.6%)
Unemployment	2.6%	2.9% (3.1%)	3.4% (3.6%)
Policy rate*	1.75%	3.60% (3.60%)	2.85% (2.35%)

Paranthesis are the old projections (From April 2023)
**End of period*
Source: Danske Bank, Statistics Denmark, Nationalbanken

Denmark's economy, like many others, has surprised to the upside in that GDP and employment have performed better than expected while inflation has fallen. However, we still need to see the broad-based decline in inflation that will confirm the economy has truly landed after overheating. Until that happens, we continue to perceive a significant risk of a genuine crisis. We have by no means experienced the full impact of the monetary policy tightening seen in 2022 and 2023 in Denmark and abroad, and the effect of this could well prove to be more pronounced than hoped.

That being said, our main scenario is for a rather mild weak spell in the coming quarters that will produce a modest decline in the number of people in work and a slight increase in unemployment. Overall demand will continue to be pulled lower, not least by investment on the back of the increase in interest rates, the decline in house prices and the global slowdown in manufacturing. Danish GDP has been borne higher on the shoulders of the pharmaceutical industry – without that, we would likely have seen GDP decline in both Q4 22 and Q1 23.

Our forecast assumes the stellar level of growth here will not continue at the same pace.

Consumption ticking higher as real incomes are restored
Consumption fell sharply in 2022 as the erosion of purchasing power, rising interest rates and a dramatic decline in consumer confidence made consumers ultra cautious. Retailers in particular felt the decline, which was driven by both the downturn in purchasing power and a normalisation of consumption patterns after the pandemic, when a large share of services consumption was rerouted into the consumption of goods.

We still need to see the broad-based decline in inflation that will confirm the economy has truly landed after overheating.

Las Olsen, Chief Economist at Danske Bank

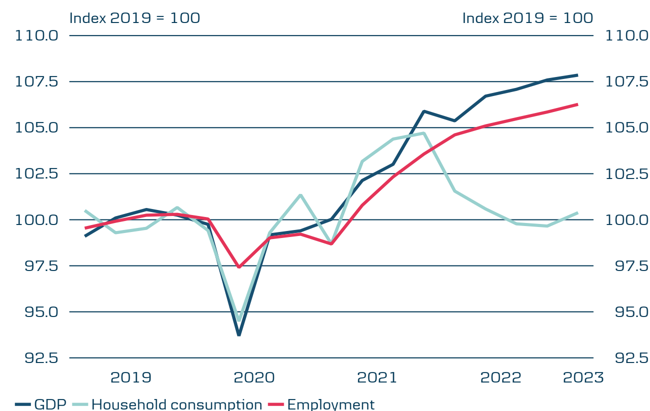
However, the fall in consumption has undergone a modest reversal since the start of the year – most noticeably among the service industries, though retail sales and car sales have also grown of late. Less uncertainty on energy prices going forward, a labour market that continues to display resilience and real wage growth have begun to support consumption. Moreover, a significant shift in car sales towards more expensive vehicles – not least electric cars – has meant car sales now make a positive contribution to consumption despite relatively limited sales in terms of units sold. While we expect consumption to grow over our forecast period, that growth will be rather modest. Consumers are set to experience increasing headwinds from higher interest rates, which are affecting a growing number of homeowners, and while we continue to expect only a marginal slowdown in the labour market, that will nevertheless tend to increase consumer caution.

Danish households have generally been good at bolstering their personal finances – not only during the Covid-19 pandemic, but over a number of years. Hence, many families have considerable resources to fall back on when economic uncertainty increases. This is in sharp contrast to when the financial crisis struck following a period of significant overconsumption and a tendency to live beyond one's means in many households. The current situation provides a much better foundation for consumption to grow once the economic clouds have lifted.

Inflation falling like a stone, but underlying price pressures remain intact

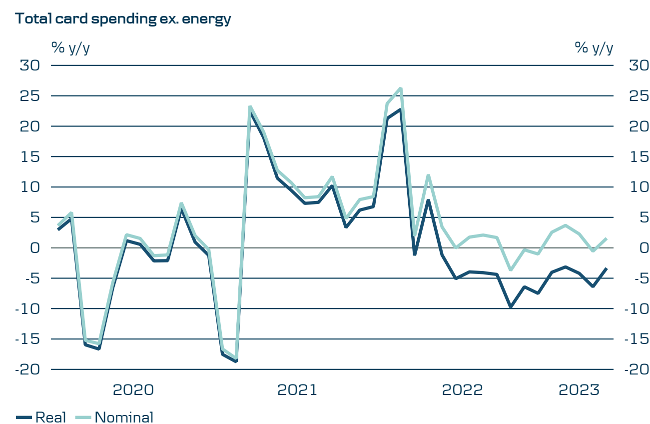
Inflation has fallen even faster than it rose last year and also faster than expected – not least due to a very pronounced decline in energy prices, with electricity prices in particular pulling inflation sharply lower. The temporary suspension of the electricity tax meant that electricity in May was cheaper than in any other month since 2009. Fuel prices have also fallen in tandem with oil prices, especially as the euro and hence the krone has strengthened considerably against the dollar this

A partial weakness



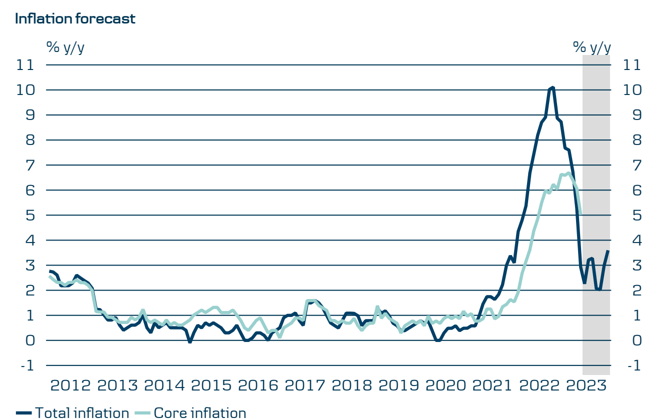
Source: Statistics Denmark, Macrobond Financial

Consumption appears to have bottomed out in late 2022



Source: Danske Bank, Statistics Denmark and Macrobond Financial

Energy pulling inflation sharply lower



Source: Statistics Denmark, Macrobond Financial, Danske Bank

year. Food prices, too, have undergone a shift and are no longer rising strongly. These factors have prompted us to revise our inflation forecast substantially lower.

While total inflation is lower than expected, there is little to indicate that core inflation is set to trend down, though lower energy bills of course help. Meanwhile, the proportion of retailers expecting to hike prices has fallen greatly, which also sits well with a decline in demand. On the other hand, companies have experienced increasing labour costs as wage growth has picked up, and indeed the tight labour market is a key reason why we expect core inflation to remain high next year.

Prospect of fewer jobs but at higher pay

The number of people in work has increased by close to 50,000 over the past year, which is a surprisingly high number, in our view, considering production growth has been rather limited outside of the pharmaceutical industry. The explanation is presumably a significant unfilled demand for labour at many workplaces and perhaps also a decline in real wages of more than 5% making the hiring of additional employees more attractive. The intake of workers has very much come from abroad, though also from a higher participation rate. The influx into the labour market has in fact been so high that registered unemployment has risen by more than 10,000 in one year, even though employment has, as mentioned, also risen.
Our forecast assumes the unfilled demand for labour gradually gets covered and so employment falls a little, though when this will happen is difficult to pinpoint. The number of job vacancies is still greater than normal, which tends to indicate employment is set to remain high. On the other hand, experience shows that shifts in the labour market cycle, for example triggered by interest rate hikes, can be sudden and powerful in the relatively flexible Danish labour market, so the level of uncertainty is substantial.

Last year's marked decline in real wages has now been swapped for growth, and despite sharply rising interest rate expenses that is sufficient to drive consumption slightly higher.

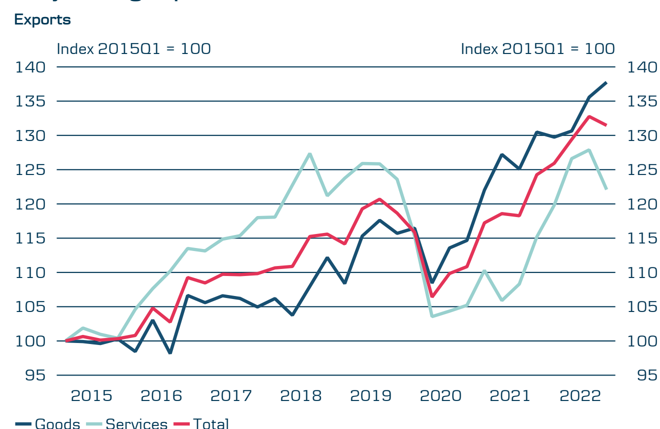
Louise Aggerstrøm Hansen, Chief Analyst at Danske Bank

Wage growth has been modest despite low unemployment and high inflation, with private sector wage growth at 3.1% y/y in Q1 23, according to figures from DA (Confederation of Danish Employers). However, this looks set to change considerably here in Q2 as the new collective agreements kick in. We expect wages to have risen by roughly 9% within 18 months from now.

Global recession in industry now felt by many exporters

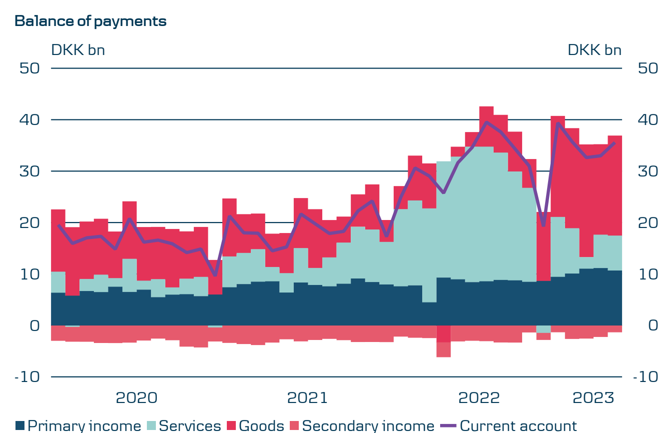
Danish exports have performed remarkably well in recent years, especially goods exports, which have increased by 23%

Very strong exports



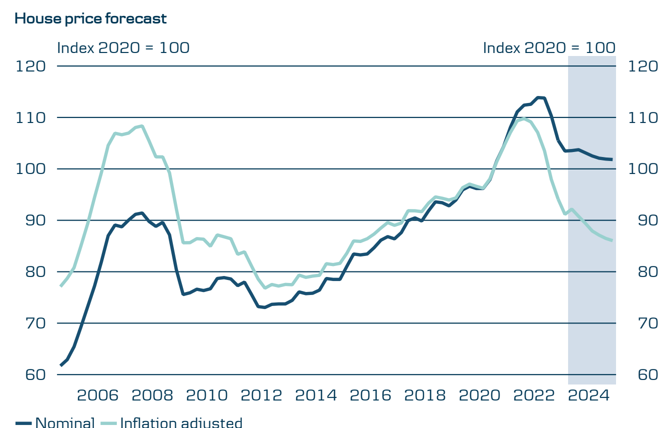
Source: Statistics Denmark, Macrobond Financial:

Huge current account surplus by no means temporary



Source: Statistics Denmark, Macrobond Financial

Biggest price falls are behind us



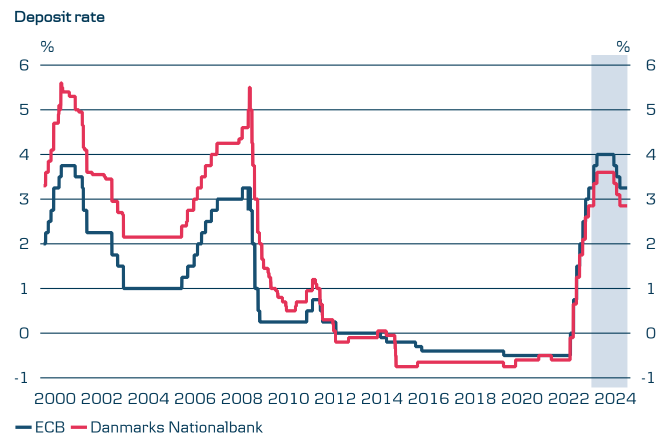
Source: Statistics Denmark, Macrobond Financial and own calculations

since the outbreak of the pandemic, thus far outstripping peer economies. Much of that success was due to pharmaceuticals, and many other exporters have now begun to feel the slowdown in global industry. This is particularly true of those sectors sensitive to the business cycle, such as the machinery, metal and furniture industries, where a lack of demand is also being increasingly reported. As order books thin, many will experience tougher times, though the mix of industries makes the overall Danish export sector relatively robust to any setbacks in Danish export markets.

While total inflation is lower than expected, there is little to indicate that core inflation is set to trend down, though lower energy bills of course help.

Bjørn Tangaa Sillemann, Chief Analyst

Rate spread here to stay



Source: Macrobond Financial, Danske Bank

After something of a rollercoaster ride, service exports have normalised recently. Freight rates have retreated to more normal levels and tourism is largely back to pre-pandemic levels. The number of overnight stays by international guests has fully recovered. Hence, the huge surpluses on the services balance are now history, though the total current account surplus for the first four months of the year was nonetheless 14.8% of GDP. Even ignoring shipping and pharmaceuticals, Denmark has a very large structural foreign trade surplus and Danish net foreign wealth continuously generates large net investment income. All of these factors contribute to keeping the current account surplus at a very high level, just as the reopening of the Thyra gas field will also lift the surplus markedly next year.

Housing market still in surprisingly good shape

In the housing market, rising interest rates have had a noticeable impact on prices, which have fallen almost 8.5% since their peak. However, we have also seen clear signs of improvement in the housing market in recent months, where activity has picked up after plummeting in 2022. Likewise, the significant price falls that also characterised last year have been replaced by flat or very slightly positive growth across both house and apartment prices.

The data suggests homebuyers continue to have robust finances and the capacity to buy property at higher interest rate levels, while the general level of inflation and the prospect of considerable nominal income growth – not least driven by higher wage growth – are tending to pull house prices up.

Nevertheless, progress in the housing market will be far from stable over the next year, in our view. Interest rates have risen sharply, with especially short rates looking set to increase more than expected, while long rates have not yet declined. Interest rate effects typically feed through to prices with a delay, and with short rates in particular surprising to the upside, we expect to see further price falls ahead. A weakening of the labour market in the second half of 2023 would also tend to increase restraint in the housing market.

We expect to see prices decline further in the more expensive areas in particular. This is both because prices here are typically more interest rate-sensitive and also because this was where prices rose most during the pandemic. In addition, property tax reforms are expected to have particularly negative consequences for apartments in expensive areas.

Government surplus goes from big to bigger

Figures for the government's budget surplus in recent years have again been revised higher to now equate to 4.1% of GDP in both 2019 and 2021, 3.5% of GDP in 2022, while even in 2020, when Covid-19 was at its height, there was a solid surplus of 0.4% of GDP. Given these figures, the Ministry of Finance has made only a modest adjustment to its structural calculations so that expenses can now increase, or income decrease, by 0.4% of GDP relative to the original calculations. The government has not planned to take advantage of this opportunity to ease fiscal policy in 2024 because it does not wish to further fan inflation.

DKK in calmer waters

The European Central Bank (ECB) has hiked interest rates by 4 percentage points in just under a year, while Danmarks Nationalbank has only increased its benchmark rate by 3.7 percentage points over the same period. Strengthening pressures on the Danish krone (DKK) eased after the latest widening of the rate spread in February, and we expect the Danish central bank will match the ECB's rate changes in the coming year. That said, the still very large Danish current account surplus represents a risk that the rate spread may need to be increased further to avoid an unduly strong DKK.

Sweden will avoid recession

- Two-track economy but unexpectedly strong overall
- Numerous indicators pointing to rapid drop-off in inflation
- Riksbank will still raise rates out of concern about high inflation and weak SEK
- Housing prices have stabilised despite unfavourable climate

	2022	Forecast 2023	2024
GDP Growth	2.9%	0.5% (-1.0%)	1.9% (1.7%)
Inflation	8.4%	8.4% (9.6%)	1.9% (2.3%)
Unemployment	7.5%	7.5% (8.0%)	7.8% (7.9%)
Policy rate*	2.50%	4.00% (4.25%)	3.00% (3.25%)

Paranthesis are the old projections (From April 2023)
**End of period*
Source: Danske Bank, Statistics Sweden, Riksbanken

The Swedish economy has performed much more strongly than expected during the late winter and spring months, and we no longer expect it to drop into recession this year. We have therefore revised the outlook for 2023 up considerably and now anticipate a period of weak but positive growth. The economy is increasingly running on two tracks, with the drag from consumers and the housing market offset by a strong business sector and labour market. Our previous expectation was that GDP would drop sharply in the fourth quarter of 2022 and first quarter of 2023 under the weight of falling real wages, high energy prices and rapidly rising interest rates. This did not happen. Although household consumption and housing investment have continued to decline, this has been outweighed by strength in the business sector and the labour market.

There is no doubt that households are still in a precarious position. The Riksbank has not finished raising interest rates, the outlook for energy prices is unclear, and real wages will continue to fall, albeit more slowly than before. It seems reasonable to expect all this to continue to pull down spending

for another quarter or so. While the savings rate has picked up a little recently, households seem to have been dipping into their liquid financial assets instead. But it is not all doom and gloom. Consumer confidence has bottomed out and seems to be picking up. A strong labour market is also supporting incomes. Our view is that household consumption should start to recover in the second half of the year.

The Swedish economy is doing much better than we expected, thanks to a strong business sector and labour market.

Michael Grahn, Chief Economist Sweden

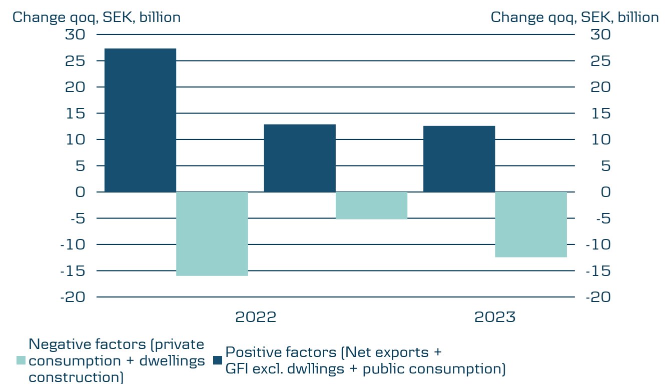
Developments in the business sector contrast starkly with the bleak consumer outlook. Gross fixed capital formation excluding housing has continued to rise. One key factor here is that Swedish exports grew strongly after the pandemic and the outbreak of war in Ukraine and are continuing to do so, and business investment is of course closely correlated with export growth. The weaker SEK has undoubtedly played a key role in boosting the competitiveness of Swedish goods and services, and this in turn is increasing the need to invest in machinery, equipment, research and so on. Alongside export-driven investment, growing activity in infrastructure is compensating for weaker housing investment, with the result that construction as a whole is proving stable.

Over the past four quarters, net exports have recovered strongly and are approaching the peak levels of 2020 and 2021. Although this is truly impressive, it conceals two very distinct trends. Strong demand for imported services has resulted in a substantial services deficit over the past year, masking an almost explosive increase in the goods surplus. Net exports of goods are close to the record-high levels of 2004-2006, while net exports of services are back down in the same negative territory as during that period.

Given the strength of both goods exports and business investment, it is hard to argue that things are going badly for Sweden, although the economy has clear weak points in consumer spending and the housing market.

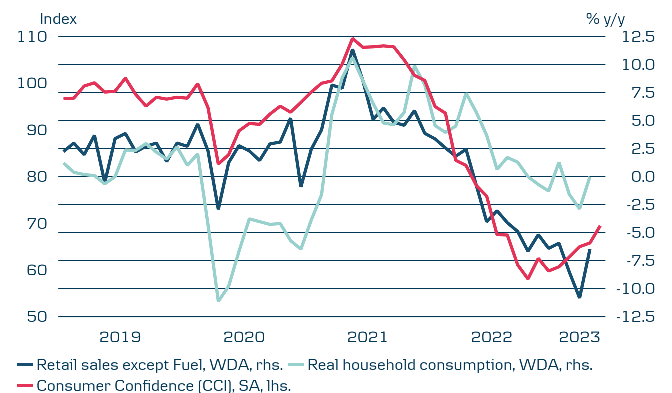
The labour market is also shown immense resilience. Employment is rising, job openings are high, and unemployment has been trending down. According to data from the Swedish Public Employment Service, the jobless rate is at its lowest since 2009. Part of the reason why unemployment has continued to fall despite weaker demand is probably the labour shortages previously reported by many firms. The National Institute of Economic Research recently produced an indicator in this area which shows that firms are retaining more staff than expectations for future demand would justify. It is primarily construction and retail that previously warned of downsizing, and they are continuing to do so, but to a lesser extent than before.

Strong business sector compensating for weak household consumption and housing sector



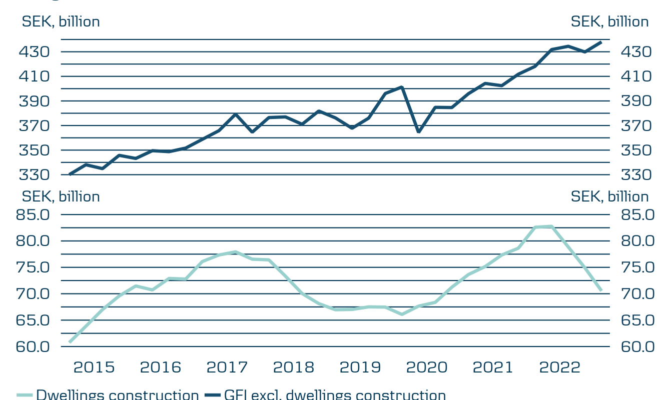
Source: SCB, Danske Banks beräkning

Retail sales and consumer confidence indicating consumption has bottomed out



Source: SCB, The National Institute of Economic Research (NIER)

Investments outside the housing sector continue to grow



Source: SCB

Across the business sector as a whole, there still seems to be relatively healthy demand for labour. We retain our previous view that unemployment will probably rise somewhat from current levels, but we do not anticipate any sudden increase and are forecasting an average rate of 7.9% for next year.

Like the economy as a whole, the housing market has surprised to the upside in recent months. The bulk of the fall in housing prices came in spring 2022, before the Riksbank began to raise interest rates, with prices then stabilising somewhat during the autumn and rising again so far this year. The upswing has been driven by apartment prices, while house prices are slightly down. It should be noted, however, that house prices climbed much further than apartment prices during the pandemic, so it is only natural for there to be a larger correction in house prices. High energy prices are also a factor.

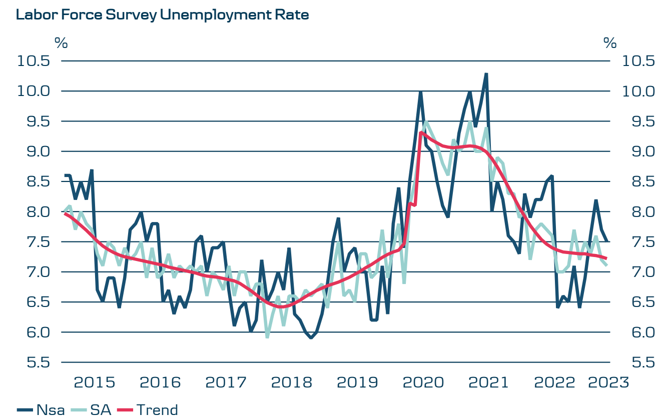
Housing prices now look likely to fall less far than previously feared

Therese Persson, Macro Analyst

House prices are still 10% higher than before the pandemic, and apartment prices 4% higher. We previously predicted that housing prices would drop 25% from their peak, but we have now revised this to an overall decline of 15% in seasonally adjusted terms, which provides for a further slight fall in prices in the coming months. The risks we have pointed out previously are still present, but the labour market has been much more resilient, and households have become less pessimistic since the beginning of the year, so things will probably not turn out quite as bad as we initially feared.

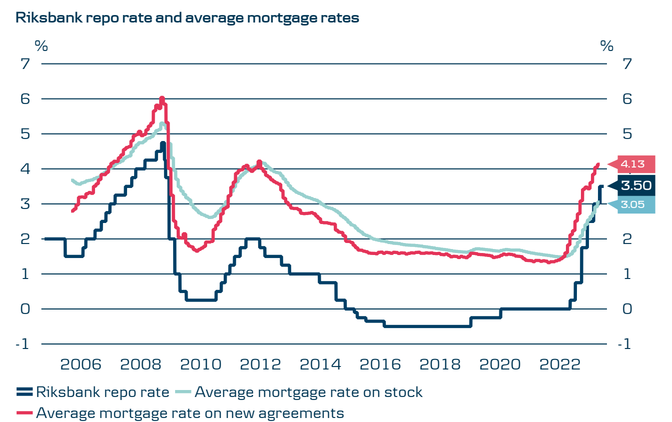
Although there are still some concerns (energy prices, the exchange rate), it is becoming ever clearer that inflation is on the wane, and there is a growing body of evidence to support our view. The factors that sent global and domestic goods prices into orbit have long been on the retreat. We are thinking here mainly of transport costs such as container freight rates, which soared following the Covid-related disruption of global supply chains, but key inputs for manufacturing and food production were also hit, leading to rapidly escalating price pressures. Most commodities showed a similar tendency. All of this is now rapidly receding, however, and will gradually pull down goods inflation, which is already falling. At the factory gate, there are clear signals that inflation has already dropped off considerably. The domestic supply price index (ITPI), which measures producer prices for consumer goods and covers both domestic and foreign goods in the same manner as the CPI, has dropped more than 5 percentage points since peaking in November at 18.2% y/y. One contributing factor seems to be food prices, which are being favoured by falling prices for fertiliser and agricultural goods. The National Institute of Economic Research's monthly confidence surveys also show that price expectations in the consumer goods industry have dropped back to levels consistent with the Riksbank's inflation target.

Continued labour shortage leading to lower unemployment



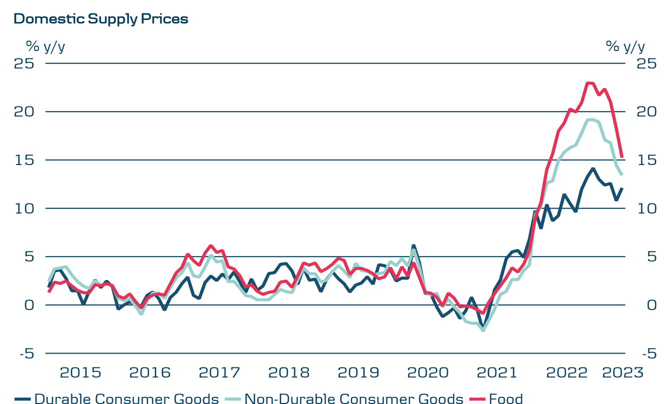
Source: SCB

Mortgage rates set to increase in near future



Source: SCB

Manufacturing industry indicating reduced inflation pressure



Source: SCB

Services inflation has yet to turn around in the same way, but there seems to be a particularly good chance of a favourable path in Sweden given relatively low pay settlements and rent increases. That said, it is clear that the Riksbank's rate hikes are not just reducing purchasing power and reining in inflationary pressures, but also leading to generally higher cost pressures for premises – not just housing but also shops, hotels, restaurants and so on – which businesses will have to try to offset with price increases. While the service price index shows a big rise in commercial rents last year, the rate of increase now seems to be slowing.

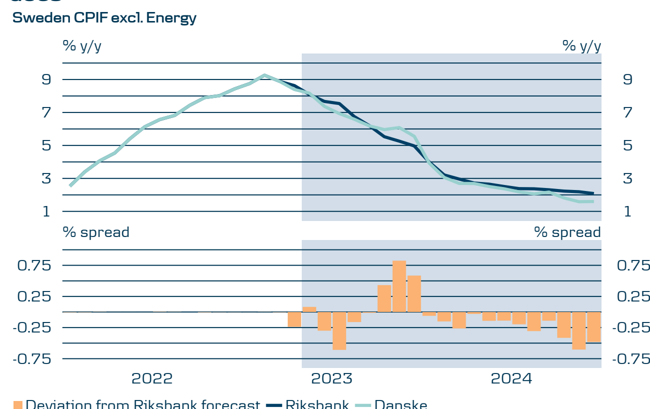
All in all, we see a good chance of inflation dropping back at a rate consistent with the Riksbank's forecast. Our own forecast for core inflation (CPIF ex energy) is slightly below the Riksbank's equivalent.

Although in all probability inflation has peaked and will now head down rapidly, we do not expect the Riksbank to change its mind about further rate increases at its meetings in June and September. The main reason, of course, is that the prevailing rate of inflation is still well above target. The bank will want to be sure that it is not relaxing monetary policy too early and so running the risk of inflation flaring up again. Another factor is what moves are made by other central banks, especially perhaps the ECB given that the euro area accounts for more than 60% of Sweden's foreign trade. The Riksbank cannot stray too far from the ECB's monetary policy without this having implications for the SEK. Several members of the Riksbank's executive board have recently expressed concern about an ever weaker SEK, as this is seen – rightly or wrongly – as inflationary. We reckon that the exchange rate is currently well down the list of inflation drivers, however, as its role in inflation is being exaggerated, although naturally a factor. Of course, monetary policy is not just about changing the policy rate. We also expect it to be tightened by the Riksbank stepping up sales of its government bond holdings.

Not until inflation approaches the 2% target, which will not be until early next year, will the Riksbank begin to lower the policy rate again. We are projecting that it will cut the policy rate by 25bp per quarter in 2024, taking it to 3.0% at the end of the year.

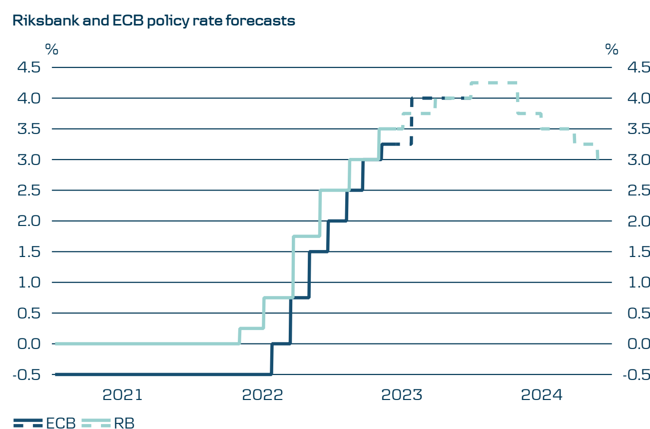
If monetary policy can be considered to have been extremely active over the past year, the opposite can probably be said about fiscal policy. Other than the two power price subsidies for households and firms, fiscal policy has been almost non-existent. While we appreciate that the government does not want to counteract efforts to bring down inflation via monetary policy, fiscal policy should not completely take a back seat as is currently the case. Looking ahead, there ought to be plenty of scope for fiscal stimulus in the autumn budget for 2024, especially with central government finances continuing to trump expectations and Maastricht debt well below the debt anchor of 35% of GDP.

We expect inflation to drop faster than the Riksbank does



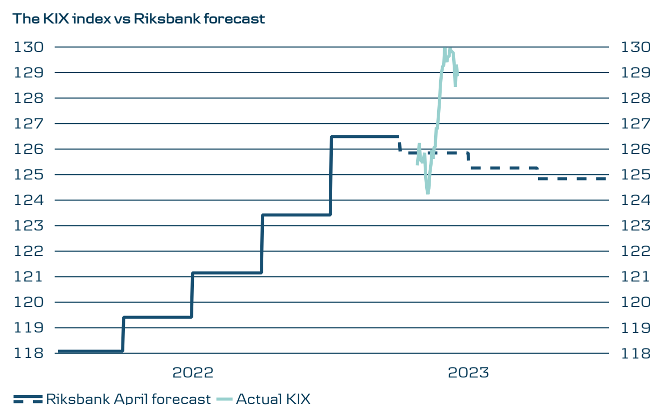
Source: SCB, Danske Bank, Riksbanken

The Riksbank must stay close to ECB policy rate



Source: Riksbank, ECB, Danske Bank

SEK already much weaker than the Riksbank had anticipated



Source: Riksbank

Growth slowing but activity high

- Growth is slowing, but activity and price pressures remain strong
- We still expect inflation to fall and unemployment to rise
- Households have been using savings to prop up spending – and so growth – but this will soon come to an end
- NOK is likely to remain relatively weak over the summer
- Policy rate will probably peak at 3.75% in August, but upside risk has increased due to high inflation

	2022	Forecast 2023	2024
GDP Growth	3.8%	1.1% (1.0%)	1.4% (1.5%)
Inflation	5.8%	5.3% (4.8%)	2.5% (2.5%)
Unemployment	1.8%	1.9% (2.1%)	2.3% (2.4%)
Policy rate*	2.75%	3.75% (3.25%)	2.75% (2.75%)

Paranthesis are the old projections (From April 2023)
**End of period*
Source: Danske Bank, Statistics Norway,
Norwegian Labour and Welfare Organization (NAV), Norges Bank

Growth in the Norwegian economy has now dropped off, but activity levels remain high. Unemployment is rising slightly but still low. There remain considerable variations between sectors, with strong and growing optimism in oil services, normal growth in the service sector, zero growth in mainland manufacturing and growing pessimism in retail and construction. Inflation was much higher than expected in May, driven by food, transport, health care and rents. The main pay settlement in the private sector provides for wage growth of 5.2% this year, while settlements in the public sector have come in slightly higher. Uncertainty around local settlements is greater than normal given the aforementioned relatively large variations, but wage growth this year will in any case be slightly higher than the 5% we assumed in our April forecast.

The NOK has depreciated by 3-4 % since then and is now more than 10 % weaker than a year ago, which has a number of implications for the economic outlook. First, it will act on inflation, because more than a third of the goods in the consumer price index are imported. To some extent, therefore, a weaker currency will work against the expected drop in infla-

Growth is slowing, but price pressures are still too strong.

Frank Jullum, Chief Economist Norway

tion and increase the risk of inflation remaining high for longer. This means that we have revised up our interest rate forecast and now expect Norges Bank to raise its policy rate in August as well as June.

For households, this means that the increase in their pay packets will largely be gobbled up by inflation, and purchasing power will be further eroded by the central bank raising rates a total of four times in 2023. The weaker NOK could also push up costs for importing industries, which will have varying degrees of success in passing them on to customers, meaning that earnings may come under pressure.

On the other hand, a weaker currency is great news for exporters and may help offset the negative effects of what is shaping up to be a global manufacturing recession. In some exporting industries, the currency effect could actually outweigh the volume effect, leading to increased profitability. In a situation where there is immense pressure on parts of the labour market, this could result in stronger growth in both employment and wages.

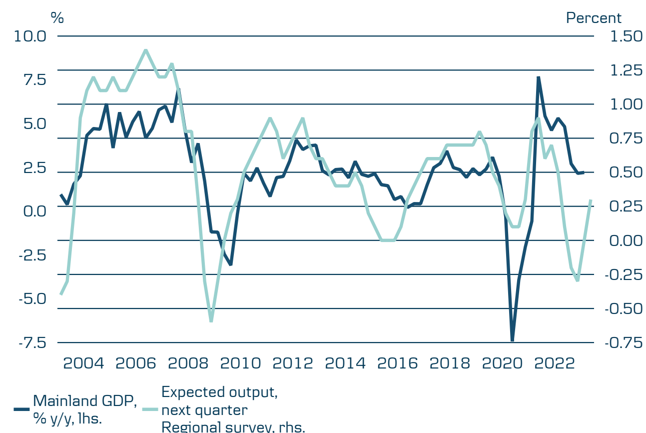
Overall, though, we believe that the weak NOK increases the risk of a hard landing for the Norwegian economy. The reason is that it could force Norges Bank to raise rates further than the underlying growth and inflation picture would warrant. As mentioned in our April forecast and discussed further below, the household sector finds itself in a very vulnerable position. Savings have been used to maintain spending, but this buffer is running low and income growth is extremely weak.
One ray of light is that both wage and price expectations seem to be easing despite the weaker NOK. According to Norges Bank's expectations survey, inflation is expected to slow to 3.5% next year, and the unions are anticipating wage growth of 4.4% in 2024. This goes to show that the credibility of the inflation target is not under pressure and buys Norges Bank a little more room for manoeuvre.

We have therefore made only minor tweaks to our growth forecast from April, although the downside risk has increased. We now expect mainland GDP to grow 1.1% this year and 1.4% next year. This is below a normal level, which means that unemployment will continue to rise well into 2024.

Households in more trouble

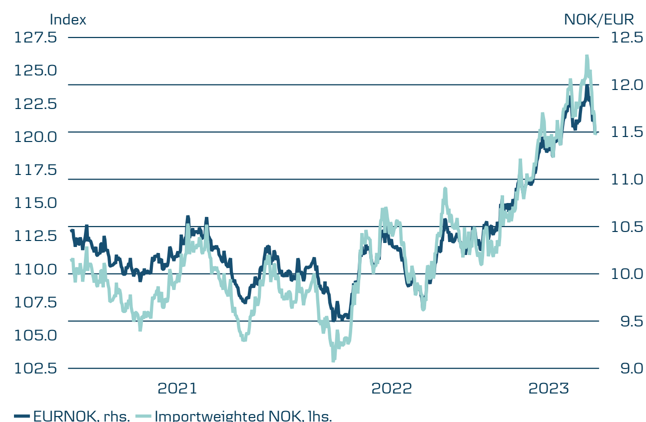
Much of the reason why growth has been surprisingly strong is that Norwegian households have used their savings to prop up spending as incomes have dwindled. Strong inflation has brought a marked decline in real wages, and rate increases have also hit households hard given their high levels of debt. Real disposable income fell almost 3% last year, yet consumption climbed almost 7%. The reason, of course, is that households were able to spend some of the extraordinary savings accumulated during the pandemic.

Growth is stabilising



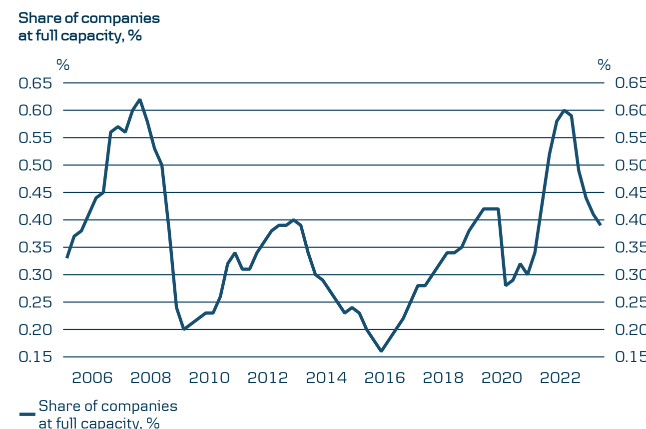
Sources: Macrobond Financial, Danske Bank

Weaker NOK rises the risk of inflation prolonging



Sources: Macrobond Financial, Danske Bank

The pressure is easing



Sources: Macrobond Financial, Danske Bank

We now expect real wages to be more or less flat this year, and Norges Bank to deliver a total of four rate increases (March, May, June and August). Based on this, we expect real disposable income to fall more than 3%. For households to maintain their spending over the rest of the year, and so prevent a clear economic slowdown, the savings rate would need to come down further. With cash holdings (in real terms) already well below the long-term trend, we seriously doubt that this is possible. We therefore expect spending to be reined in sharply in the coming months and see a clear risk of things turning out even worse than we are forecasting.

The danger here is if unemployment begins to rise faster – or the housing market deteriorates further – than we are assuming.

Unemployment on the rise but remains low

Unemployment is now rising moderately, although it is still at low levels. So far this year, the number of people registered as unemployed has risen by around 5,000, and the unemployment rate has climbed to 1.8%. Interestingly, the LFS shows an increase of around 18,000 in the number of jobless over the same period. As ever, we set more store by the registered unemployment figures from NAV due to the LFS data being survey-based. However, at times when firms are cutting back on recruitment without making redundancies, this could be a sign of a weaker market. Those who are not entitled to unemployment benefits (such as young people) and do not enter the labour market may consider themselves to be jobseekers and so count as unemployed in the LFS but will not be captured by the NAV data as they do not apply for benefits. And although demand for labour is still strong, the number of new job openings has been falling and is back to pre-pandemic levels. We therefore still expect there to be 10-15,000 more unemployed at the end of this year than at the end of last year, and that unemployment will rise further next year.

Pay settlements higher than expected

The outcome of this year's central pay settlements indicates wage growth of 5.2-5.3%. As usual, however, the final figure depends on how local settlements pan out during the year. A tight labour market and strong profitability in parts of the business sector point to higher local settlements and so even higher wage growth. On the other hand, we believe that the labour market is softening, and there are also many industries where profitability is already under pressure, which will pull in the other direction. We tentatively predict that wage growth will end up at 5.3% this year, i.e. that the local settlements will turn out roughly as expected.

There is in any case much to suggest that wage growth will be slower in 2024. Inflation expectations will probably be much lower than this year, which means that real wage growth can be achieved with less nominal wage growth. We also expect the labour market to be somewhat weaker than this year, and profitability in the business sector to come under growing pressure.

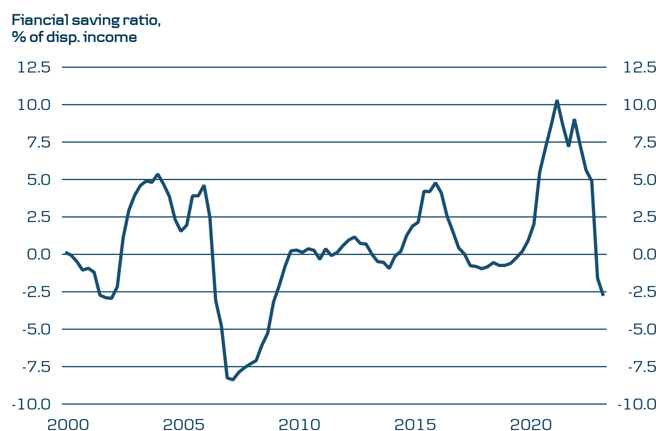
Norges Bank's expectations survey shows that the unions are anticipating wage growth of 4.4% next year and employers 4%, and our own prediction is midway between the two.

Inflation remains high and even seems to be accelerating. The core rate is approaching 7%, and inflation is set to remain

Households under increasing pressure

Sources: Macrobond Financial, Danske Bank

Household savings are declining



Sources: Macrobond Financial, Danske Bank

Weaker labour demand

Sources: Macrobond Financial, Danske Bank

Calls for real wage growth increase the risk of wage and price spirals.

Frank Jullum, Chief Economist Norway

higher than we anticipated given wage growth above 5% and a much weaker NOK. However, the risk of inflation really taking off again is relatively limited, as that would require the currency to continue to depreciate and/or the labour market to tighten again. We anticipate a substantial decline in global commodity-driven inflation and expect this to contribute to disinflation in Norway as well in time. We also believe that weaker demand could make it harder to pass on cost increases along the value chain, meaning that margins will need to take the hit instead. All in all, we forecast that core inflation will average 5.6% this year but be around 4% in December. Next year, we predict inflation of 3.0%, driven partly by a slightly stronger NOK.

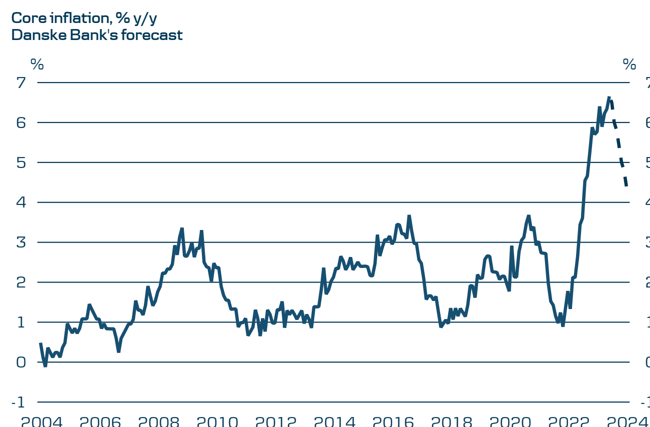
NOK will remain weak over the summer

As mentioned above, the NOK has depreciated further since our April forecast, due to a combination of lower oil and gas prices, turbulent financial markets and smaller (and in some cases negative) interest rate differentials to other countries. It is difficult to see any of these reversing in the near term as central banks continue to put the brakes on growth to bring inflation under control. We therefore think it most likely that the NOK will remain relatively weak over the summer.
After that, however, we expect inflation to have begun to come down and central banks to be signalling that rates have peaked. There may then be a greater focus on relative growth, which could gradually support the NOK. We also expect more focus on the global energy situation. Put simply, we envisage a divide between energy importers and energy exporters, and Norway as part of the latter club can look forward to its currency strengthening considerably in the medium term.

Norges Bank will need to raise rates further

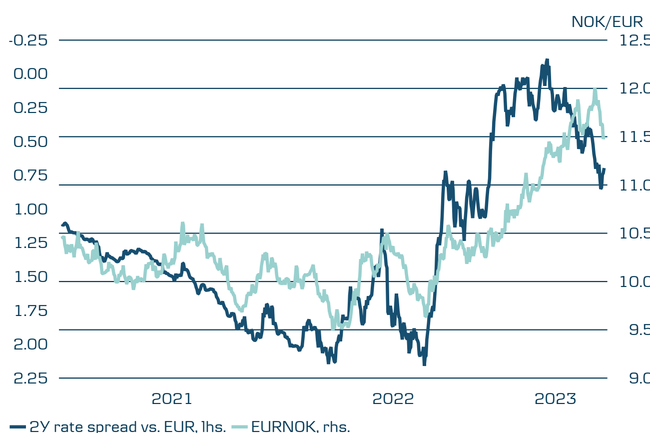
As expected, Norges Bank raised its policy rate by 25bp to 3.25% at its meeting in May and signalled that it will most likely go up further in June. However, the bank also wrote: "If the krone remains weaker than projected or pressures in the economy persist, a higher policy rate than envisaged earlier may be needed." The NOK has since weakened further, inflation has been higher than expected, the labour market has remained tight, and interest rate expectations in other countries have risen. We therefore expect the bank to raise the policy rate again in August to a terminal rate of 3.75%. However, recent strong inflation figures increase the risk of the bank having to conduct an even tighter monetary policy.
We still believe that the effects of the rise in rates over the past year are not yet fully reflected in the economy, and that both growth and inflation will continue to fall. We also expect the NOK to rally slightly over the summer. With wage and price inflation having taken hold and requiring tighter monetary policy, we do not expect a first rate cut before March next year. As discussed above, however, consumption could take a dive at some point as households adjust spending to incomes, in which case Norges Bank could cut the policy rate as early as this year.

Core inflation close to peak



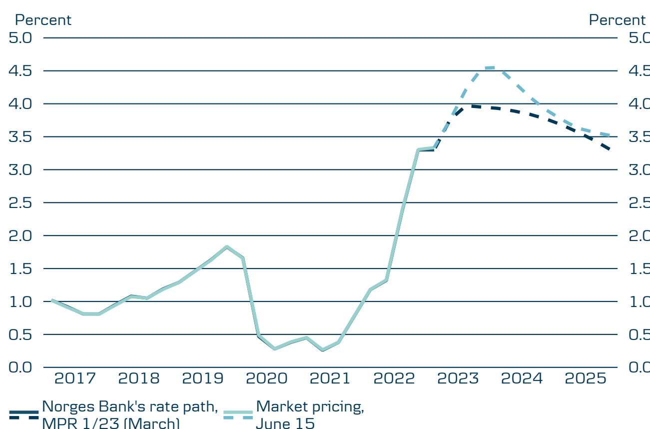
Sources: Macrobond Financial, Danske Bank

Signs of recovery in the NOK



Sources: Macrobond Financial, Danske Bank

Higher rates going forward



Sources: Macrobond Financial, Danske Bank

Plight of consumers to last over summer

- Finland's economic growth will stagnate in 2023, but it will pick up in 2024 as a result of private consumption supported by falling inflation and the reinvigoration of export demand.
- Labour markets will remain steady even though some sectors will reduce workforce. Many companies are still struggling with labour shortages and wages are rising faster than in recent years.
- Housing prices will fall and housing construction will slow down in 2023, but the fall in interest rates and the unleashing of pent-up demand will result in housing markets picking up in 2024.
- We expect that the new government will start to take fiscal adjustment measures aimed at balancing public finances, but there is a risk that the debt ratio will nevertheless take an upward turn again.

		Forecast	
	2022	2023	2024
GDP Growth	2.1%	-0.2% (-0.2%)	0.8% (0.9%)
Inflation	9.1%	5.9% (5.5%)	2.1% (2.1%)
Unemployment	6.8%	7.0% (7.0%)	6.8% (6.8%)
Policy rate*	2.00%	4.00% (4.00%)	3.25% (2.75%)

Paranthesis are the old projections (From April 2023)
**End of period*
Source: Danske Bank, Statistics Finland, EKP

Finland's economy slipped into mild recession in the second half of 2022, but gross domestic product increased by 0.2 per cent in the first quarter of 2023 compared to the fourth quarter of last year. Inflation weakens the purchasing power of consumers, and rising interest rates hold back both consumers and the investments of companies. Labour markets have remained stable, which has increased economic resilience. The economic headwinds weakened in the spring months, as inflation decreased due to the falling energy prices. The continued slight growth in the euro area and the lifting of COVID-19 restrictions in China helped maintain stable foreign trade, although the gradual weakening of the flow of export orders indicates that there will be a slight decrease in exports going forward. In the next few years, investments in the green transition and particularly in wind power will boom and create new business opportunities, including the hydrogen economy. However, the economy is still affected by multiple factors delaying an upturn. Persistent inflation continues to force consumers find ways to save costs, rising interest rates are holding back the economy with lagged effects, housing construction slows down and the flow of export orders remains sluggish in the short term. Our forecast for Finland's economy remains more or less unchanged, even

though the forecast for the euro area was increased. In this respect, Finland's economy can be said to be post-cyclical.

The slowdown in inflation, rapid increase in earnings and falling interest rates will alleviate consumers' worries in 2024, when private consumption together with reinvigoration of export and investments will again turn the economy around. However, growth in demand will remain modest, and labour shortage will dampen high-growth companies' possibilities to expand their business. Fiscal adjustment measures related to public finances curb public spending, but further recovery measures will not even be necessary due to the strong labour market.

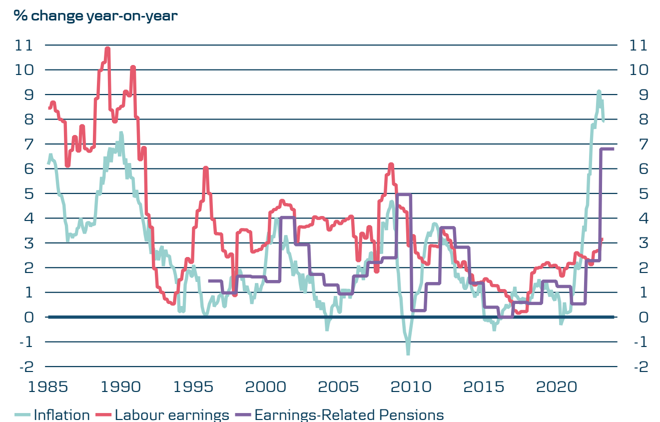
This year, inflation and the rise in interest rates will weaken consumer demand, but next year, the purchasing power of consumers will increase and a fall in interest rates will release pent-up demand in both consumer durables and the housing markets.

Pasi Kuoppamäki, Chief Economist Finland

The good employment situation and savings accumulated during the COVID-19 crisis have made it possible to maintain the standard of living despite high inflation. A growing number of households have been forced to resort to their savings and find ways to balance their finances. In 2022, the savings ratio fell to its lowest level since 1988, and the stock of households' deposits decreased in early 2023. Not all excess savings were used, but as interest rates rise, an increasing share of the income of debt-ridden households goes to interest expenses. Consumers adjust, for example, by postponing purchases of consumer durables. Demand for loan repayment holidays will likely increase. However, purchases of consumer durables increased in the first quarter, but the level remains weak. Based on the consumer confidence survey, the level of purchase intentions is low as summer approaches. We expect consumer demand to recover in 2024, as real purchasing power will increase and pent-up demand will be unleashed.

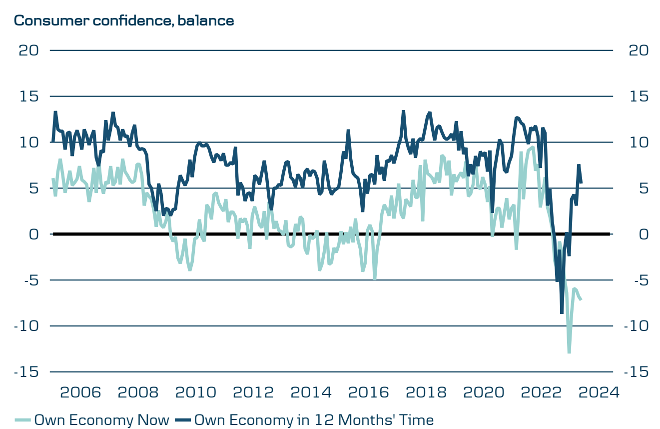
Finland's harmonised inflation rate has remained at a level that is slightly lower than the average inflation rate in the euro area. In the winter, the situation was made easier by the fact that consumers are less dependent on natural gas compared to the rest of Europe. Underlying inflation has nevertheless increased in Finland as well, and it will take a long time for inflation to fall, even though the price of energy will gradually fall below the previous year's level. The growth of wage and salary earnings will accelerate to around 4%, which is likely to maintain inflation caused by cost pressures especially in the service sectors. The high inflation rate in the euro area combined with the tighter labour market situation will also be problematic to central banks. We expect the ECB to gradually increase the deposit facility rate to 4%. Our forecast means that the 12-month Euribor rate

Inflation falling gradually, earnings rising faster



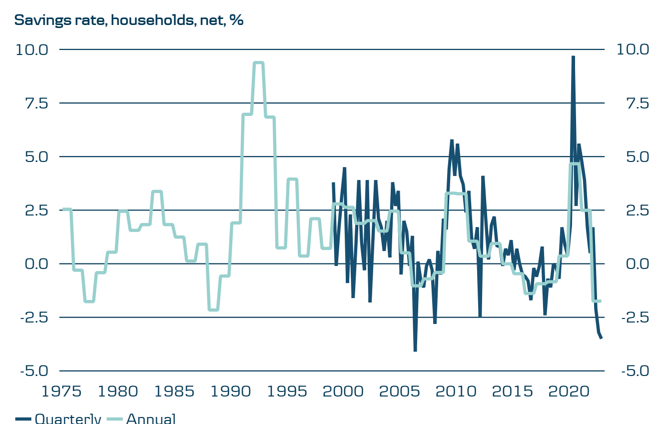
Sources: Macrobond Financial, Statistics Finland, Danske Bank

Consumer confidence recovered modestly in early 2023



Sources: Macrobond Financial, Statistics Finland, Danske Bank

Households use savings to maintain living standard



Sources: Macrobond Financial, Statistics Finland, Danske Bank

will rise slightly from its current level. The burden imposed by rising interest rates on consumers and companies will increase with a delayed effect towards the end of the year. A decrease in the key interest rates may be possible in 2024, provided that inflation falls and there is no large-scale increase in wages. Euribor rates may fall already towards the end of 2023 in anticipation of monetary policy changes. A decline in interest rates would make the situation easier for debtors and it would support the housing market.

A weak growth outlook, higher interest rates and the easing of capacity constraints are weighing on industrial investments in the short term. There will be a clear reduction in housing construction. Investments in the energy sector will nevertheless support aggregate demand and create new business opportunities.

Pasi Kuoppamäki, Chief Economist Finland

During the first months of the year, the number of housing transactions was roughly a third below last year's level and, in April, the prices of re-sold apartments fell by 6% year-on-year. The rise in the interest rate level continues to weigh on the market, and consumers' planned housing purchases are at an exceptionally low level, so we are still expecting to see a slight decline in prices. The increase in interest rates for housing company loans may mean that there are pressures to sell in some locations and price reductions are possible regarding new construction sites. However, most people with housing loans can still manage their loans, and it seems that there is no significant increase in the number of enforced sales, so any major changes in the price level seem unlikely. Recovering economic growth, the predicted fall in interest rates and the unleashing of pent-up demand will stimulate the market at a rather rapid pace in 2024. Sluggish demand, increased construction costs and the increase in interest rates lead to a downward trend in housing construction in 2023. The stock of unsold new apartments will increase on a temporary basis, but pent-up demand will turn new construction around in 2024. Export demand took a hit due to the collapse of Russian trade, but many companies with export to Russia have found other markets. Export to the USA and China has increased. However, the volume of export orders has been low in the past months and we expect a decline in the export of goods this year. The development of service export is looking more positive. Dim growth outlook, higher interest rates and the easing of capacity constraints are weighing down industrial investments in the short term. However, investments in the energy sector and national defence support aggregate demand. In the next few years, investments in the green transition will increase to billions of euros.

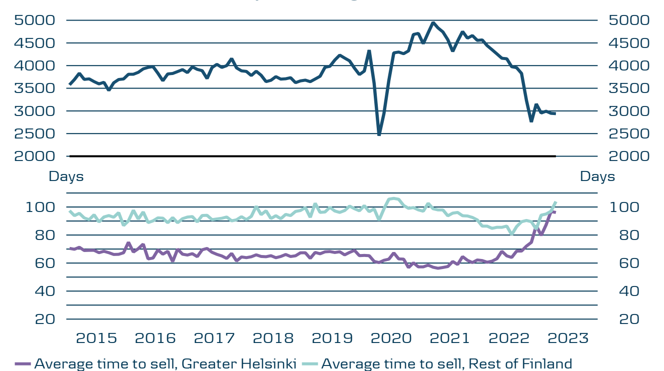
Plentiful open vacancies still help to stabilise labour market

Open vacancies, seasonally adjusted

Sources: Macrobond Financial, Statistics Finland, Danske Bank

Housing market remains cool, which grows the pent-up demand

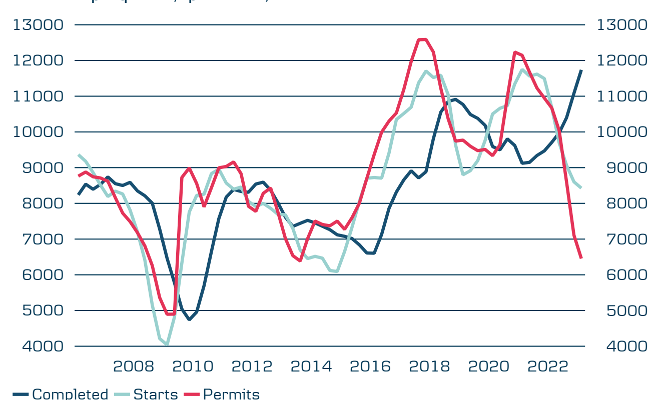
Real Estate Transactions, Monthly, Old Dwellings, s.a.



Sources: Macrobond Financial, Statistics Finland, Danske Bank

Housing construction into a clear decline in late 2023

Number of per quarter, apartments, s.a. trend



Sources: Macrobond Financial, Statistics Finland, Danske Bank

The slowdown of export demand, increased costs, the increasing interest rate burden and the more cautious buying behaviour of consumers will weaken business opportunities of many companies, which will result in a slight increase in layoffs and redundancies. On the other hand, companies have faced labour shortages, which encourages them to hold on to their skilled employees. There are still plenty of job opportunities, even though the number of open vacancies has decreased over the past few months. We expect the labour market to remain stable throughout the year, despite the fact that a slight increase in unemployment still seems likely.

At the time of writing this report, a new government programme has just been finalised and the new government led by Petteri Orpo is being formed. The fiscal policy stance will be tightened. Financial work incentives will be improved, earned income taxation will be lowered and unemployment benefits, as well as housing subsidies, weakened. Rules on employment-based immigration will be slightly tighter. According to the Ministry of Finance's calculations, Finland's public finances should be balanced through expenditure cuts, tax increases or structural reforms accelerating growth at the level of EUR 6bn in the upcoming parliamentary term. The new government programme aims to achieve this. The new government intends to cut expenditure by EUR4bn. The rest of the balancing needs is to be achieved mainly through higher employment. Despite the tightening of fiscal policy, we expect the public sector to continue to incur debt at a slow rate. Austere fiscal policy is likely to slow down economic growth at the beginning but the rise in public debt will slow and the fiscal space grow. Structural reforms may speed up economic growth in the medium term.

Public debt has increased at a rapid rate and it continues to grow. In 2023, weakened economic growth, energy subsidies, higher interest rates and the increase in the national defence budget will increase the public deficit. In addition, the healthcare and social welfare reform will increase costs, for example, due to the harmonisation of wages, which will have an impact on the public deficit. According to the government's supplementary budget proposal, the net borrowing of the state is estimated to amount to approximately EUR 10.4bn in 2023. The growth in the interest expenses for the national debt increases the deficit by nearly EUR 2bn. The fall in the price of electricity will likely reduce the actual expenditure compared to the budget. The total deficit for the public sector will increase compared to 2022. The public debt to GDP ratio will decrease in 2023 due to the growth in nominal GDP, but we expect the ratio to rise in 2024, unless economic growth picks up more than expected or the new government front-loads fiscal adjustment measures.

The 10-year interest rate for Finland's national debt has remained rather stable at approximately 3% throughout the first part of the year, as markets expect the interest rate level to fall below the current short-term interest rates. Compared to Germany, the difference in interest rates has remained rather stable during this year. Credit rating institutions have taken a calm approach to the incurrence of debt, but they are still waiting for structural reforms, which would narrow the sustainability gap, and for the fiscal adjustment measures related to public finances. We expect Finland's credit ratings to remain unchanged in 2023.

New government aims to restrict the growth in public debt

Sources: Macrobond Financial, Statistics Finland, Danske Bank

Macro forecasts - Denmark

	2022	2022	Forecast 2023	2024
National Accounts	**DKK bn (Current prices)**	y/y	y/y	y/y
Private consumption	1162.4	-2.4%	0.6%	1.7%
Government consumption	615.4	-3.5%	-0.7%	1.8%
Gross fixed investment	651.7	8.6%	-7.2%	-2.9%
- Business investment	391.0	11.9%	-6.2%	-2.0%
- Housing investment	174.0	7.8%	-12.5%	-8.2%
- Government investment	86.7	-2.7%	-1.1%	2.5%
Growth contribution from inventories		0.8%	-1.6%	0.0%
Exports	1939.4	8.6%	5.7%	1.2%
- Goods exports	1045.2	5.7%	7.0%	1.9%
- Service exports	894.2	12.9%	4.3%	0.5%
Imports	1642.0	4.2%	0.1%	0.7%
- Goods imports	981.4	-2.2%	-2.3%	1.0%
- Service imports	660.6	14.7%	3.5%	0.3%
GDP	2797.9	3.8%	1.5%	1.0%
Economic indicators				
Current account, DKK bn		367.2	393.0	410.1
- Share of GDP		13.1%	13.5%	13.5%
General government balance, DKK bn		97.4	65.0	35.0
- Share of GDP		3.5%	2.2%	1.2%
General government debt, DKK bn		841.7	800.0	780.0
- Share of GDP		30.1%	27.4%	25.7%
Employment (annual average, thousands)		3163.5	3195.8	3166.3
Gross unemployment (annual average, thousands)		75.7	85.1	99.2
- Share of total work force (DST definition)		2.6%	2.9%	3.4%
House prices, y/y		-0.1%	-7.0%	-1.5%
Private sector wage level, y/y		3.6%	4.7%	5.3%
Consumer prices, y/y		7.7%	4.1%	3.2%
Financial figures	**20/06/2023**	**+ 3 months**	**+6 months**	**+12 months**
Lending Rate	3.25%	3.50%	3.75%	3.75%
Certificates of deposit Rate	3.10%	3.35%	3.60%	3.60%

Source: Danske Bank, Statistics Denmark, Nationalbanken

Macro forecasts - Sweden

	2022	2022	Forecast 2023	2024
National Accounts	**SEK bn (Current prices)**	**y/y**	**y/y**	**y/y**
Private consumption	2612.1	1.9%	-2.2%	1.7%
Government consumption	1488.2	0.1%	1.4%	1.1%
Gross fixed investment	1621.5	6.1%	1.4%	2.3%
Contribution from invetory change	76.9	0.5%	-0.9%	0.1%
Domestic demand	5798.7	3.7%	-1.2%	1.8%
Exports	3151.8	7.0%	3.2%	2.8%
Aggregate demand	8950.4	4.8%	0.4%	2.1%
Imports	2987.7	9.4%	0.4%	2.6%
Contribution from net exports	164.1	-0.8%	1.5%	0.2%
GDP	5962.8	2.8%	0.3%	1.9%
GDP, calendar adjusted	5951.8	2.9%	0.5%	1.9%
Economic indicators				
Trade Balance, SEK bn		161.5	250.5	260.9
- share of GDP		2.7%	4.2%	4.3%
Current Account, SEK bn		211.5	300.5	310.9
- share of GDP		3.6%	5.0%	5.1%
Public budget, SEK bn		40.0	-25.0	-50.0
- share of GDP		0.7%	-0.4%	-0.8%
Public debt ratio*		31.0%	29.0%	29.0%
Unemployment rate		7.5%	7.5%	7.8%
Consumer prices, y/y		8.4%	8.4%	1.9%
CPIF, y/y		7.7%	6.0%	2.1%
CPIF excl. Energy, y/y		5.9%	7.3%	2.4%
Hourly Wages, y/y		2.5%	4.0%	3.3%
House prices, y/y		-1.2%	-8.0%	1.0%
*Maastricht definition				
Financial Figures	**20/06/2023**	**+3 months**	**+6 months**	**+12 months**
Leading policy rate	3.50%	4.00%	4.00%	3.75%

Source: Danske Bank, Statistics Sweden, Valueguard, Sveriges Riksbank

Macro forecasts - Norway

	2022	2022	Forecast 2023	2024
National Accounts	**NOK bn (Current prices)**	**y/y**	**y/y**	**y/y**
Private consumption	1806.4	6.9%	-2.0%	1.2%
Government consumption	1037.2	0.1%	1.4%	1.5%
Gross fixed investment	1095.5	4.3%	0.5%	4.0%
Petroleum activities	176.0	-6.5%	5.0%	5.0%
Mainland Norway	918.7	6.7%	1.0%	1.0%
Dwellings	232.1	-1.4%	-5.0%	1.0%
Enterprises	448.8	14.5%	2.5%	-0.5%
General government	237.8	1.2%	1.0%	2.5%
Exports	3100.6	5.9%	4.0%	2.0%
Crude oil and natural gas	1972.9	0.3%	3.5%	3.5%
Traditional goods	626.0	-0.3%	4.0%	3.0%
Imports	1521.5	9.2%	3.0%	2.0%
Traditional goods	991.7	2.5%	-1.0%	1.5%
GDP	5570.7	3.3%	1.0%	1.5%
GDP Mainland Norway	3570.9	3.8%	1.1%	1.4%
Economic indicators				
Employment, y/y		3.9%	0.8%	-0.1%
Unemployment rate (NAV)		1.8%	1.9%	2.3%
Annual wages, y/y		4.3%	5.3%	4.2%
Core inflation, y/y		3.9%	5.6%	3.0%
Consumer prices, y/y		5.8%	5.3%	2.5%
House prices, y/y		4.9%	-2.0%	0.0%
Financial figures	**20/06/2023**	**+3 months**	**+6 months**	**+12 months**
Leading policy rate	3.25%	3.75%	3.75%	3.25%

Source: Danske Bank, Statistics Norway, Real estate Norway, Norwegian Labour and Welfare Organization (NAV), Norges Bank

Macro forecasts - Finland

			Forecast	
	2022	2022	2023	2024
National Accounts	**EUR bn (Current prices)**	**y/y**	**y/y**	**y/y**
GDP	266.7	2.1%	-0.2%	0.8%
Imports	127.1	7.5%	-2.0%	2.0%
Exports	119.7	1.7%	-0.5%	1.5%
Consumption	203.1	2.3%	0.5%	0.8%
- Private	138.3	2.1%	-0.2%	1.0%
- Public	64.8	2.9%	2.0%	0.5%
Investments	65.7	5.0%	-4.5%	2.5%
Economic Indicators				
Unemployment rate		6.8%	7.0%	6.8%
Earnings, y/y		2.4%	4.1%	3.7%
Inflation, y/y		7.1%	5.9%	2.1%
Housing prices, y/y		0.6%	-5.5%	4.0%
Current account, EUR Bn		-10.3	-4.0	-3.0
- share of GDP		-3.9%	-1.4%	-1.0%
Public deficit, share of GDP		-0.8%	-2.7%	-1.9%
Public debt, share of GDP		73.0%	72.1%	72.6%
Financial Figures	**20/06/2023**	**+3 months**	**+6 months**	**+ 12 months**
Leading Policy Rate	3.50%	4.00%	4.00%	3.75%

Source: Danske Bank, Statistics Finland, ECB

Macro Forecasts - Euro area

	2023 Q1	Q2	Q3	Q4	2024 Q1	Q2	Q3	Q4
GDP, q/q	-0.1%	0.2%	0.2%	0.0%	0.2%	0.3%	0.5%	0.6%
Unemployment rate	6.6%	6.7%	6.7%	6.8%	6.8%	6.8%	6.7%	6.6%
HICP, y/y	8.0%	6.1%	4.2%	3.1%	2.9%	3.1%	2.9%	2.3%
Core HICP, y/y	5.5%	5.3%	4.6%	3.8%	3.0%	2.9%	2.9%	2.7%
ECB deposit rate*	3.00%	3.50%	4.00%	4.00%	4.00%	3.75%	3.50%	3.25%

**End of period*
Source: Danske Bank, Eurostat, ECB

Macro Forecasts - United States

	2023 Q1	Q2	Q3	Q4	2024 Q1	Q2	Q3	Q4
GDP, q/q	0.3%	0.2%	-0.2%	-0.2%	0.2%	0.3%	0.5%	0.6%
Unemployment rate	3.5%	3.6%	3.8%	4.0%	4.1%	4.3%	4.4%	4.4%
CPI, y/y	5.8%	4.1%	3.6%	3.0%	2.6%	2.2%	1.8%	2.1%
Core CPI, y/y	5.6%	5.3%	4.3%	3.6%	2.9%	2.3%	2.3%	2.4%
Fed Funds target rate*	5.00%	5.25%	5.25%	5.25%	5.00%	4.75%	4.50%	4.25%

**End of period*
Source: Danske Bank, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Fed

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Las Olsen, Chief Economist, Allan von Mehren, Director, Minna Kuusisto, Director, Antti Ilvonen, Associate, Bjørn Tangaa Sillemann, Associate, Louise Aggerstrøm Hansen, Director, Michael Grahn, Chief Economist, Pasi Kuoppamäki, Chief Economist, Frank Jullum, Chief Economist, and Therese Persson, Analyst.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and regulated by the Danish Financial Services Authority (Finanstilsynet). Danske Bank is authorised by the Prudential Regulation Authority in the UK. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

Danske Bank's research reports are prepared in accordance with the recommendations of Capital Market Denmark.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Quarterly

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.
This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 19 June 2023, 17:00 CET

Report first disseminated: 20 June 2023, 6:00 CET

Global Danske Research

Global Head of Research
Heidi Schauman
+358 50 328 1229
heidi.schauman@danskebank.com

Macro

Chief Economist & Head of
Las Olsen
+45 45 14 14 94
laso@danskebank.com

Allan von Mehren
+45 45 14 14 88
alvo@danskebank.com

Antti Ilvonen
+358 44 518 0297
ilvo@danskebank.com

Bjørn Tangaa Sillemann
+45 45 14 15 07
bjsi@danskebank.com

Frank Jullum
+47 85 40 65 40
fju@danskebank.com

Louise Aggerstrøm Hansen
+45 45 14 15 06
louhan@danskebank.com

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

Pasi Kuoppamäki
+358 50 424 0025
paku@danskebank.com

Sweden

Head of
Filip Andersson
+46 8 568 805 64
fian@danskebank.com

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

Jesper Fjärstedt
+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.com

Joel Rossier
+46 8 568 805 98
joero@danskebank.com

Fixed Income Research

Chief Analyst & Head of
Jan Weber Østergaard
+45 45 13 07 89
jast@danskebank.com

Frederik Romedahl Poulsen
+45 28 90 84 21
frpo@danskebank.com

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

Jonas Hensch
+45 22 40 29 33
jhens@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

Mohamad Al-Saraf
+45 45 14 12 24
moals@danskebank.com

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

Kirstine Grønborg Kundby-Nielsen
+45 20 30 11 61
kigrn@danskebank.com

Credit Research

Chief Analyst & Head of
Jakob Magnussen
+45 45 12 85 03
jakja@danskebank.com

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

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

Christian Svanfeldt
+46 8 568 815 38
chrsv@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

Olli Eloranta
+358 407 715 769
oelo@danskebank.com

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

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

Marcus Gustavsson
+46 8 568 804 02
marcg@danskebank.com

Mille Fjeldstad
mifj@danskebank.com