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Well-equipped overall to handle the global slowdown **/ p. 12**

Nordea Economic Outlook

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PROCEED WITH CAUTION

Uncertainty from the trade war and Brexit has eased, but downside risks remain
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Nordea

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"This year's big theme is the US presidential election, an event risk with the potential to significantly affect the global economy and financial markets."

Morten Lund
Nordea Analyst

“We are not completely out of the woods yet.”

Helge J. Pedersen
Nordea Group Chief Economist

Proceed with caution

The global economic outlook is brightening. The de-escalation of the trade war between the US and China, further clarification of Brexit and substantial monetary easing have restored confidence in financial markets.

In the Nordics, domestic demand will keep the wheels spinning. The increasing focus on the potential adverse effects of negative interest rates and the ECB's monetary policy strategy review suggest that further rate cuts are not on the cards in Europe. In the US, where the presidential election will be this year's dominant theme, the Fed will continue to ease monetary policy to sustain the historically long upswing.

For the first time in a year and a half we see signs of a brightening outlook for the global economy. With the phase one trade deal between the US and China, the prolonged trade dispute between the two countries seems to have eased somewhat. Also, it is now certain that the UK will leave the EU, and the major central banks' easing of monetary policy has restored calm in the financial markets and stabilised the situation in Emerging Markets exposed to the USD.

This will contribute to curbing the dramatic slowdown seen especially in the manufacturing industry over the past year. But, due to the weakness at the end of 2019, it will not significantly affect our view on global growth this year, which will come in just below 3%. In 2021, however, there is a chance of slightly stronger growth.

It should be emphasised, though, that we are not completely out of the woods yet. First, there is still the risk of a hard Brexit. Second, it is possible for the trade war to flare up again. And third, geopolitical risks, not only in the Middle East but also in other hot spots around the world, have again become the focus of attention in the financial markets as they could potentially affect the outlook for the global economy, as could the recent outbreak of the coronavirus in China.

The global slowdown has also affected the Nordic countries, albeit to varying degrees. Particularly Sweden and Finland have been exposed to the international downturn, while Norway and Denmark have fared better thanks to different corporate sector structures.

However, in all four countries the outlook for domestic demand in the coming years is benign. The reason is not least households' growing purchasing power. In addition to rising disposable incomes, they have also benefited from wealth gains as a result of, for instance, higher housing prices and stock market gains.

In other words, the very expansionary monetary policy has also been a key driver of developments in the Nordic countries. But much suggests that the view on how much more monetary policy can do for the real economy is changing. Also, there is an increasing focus on the adverse side-effects of negative interest rates and central bank printing presses running overtime.

For example, the Swedish Riksbank has raised its policy rate to 0%, and the newly appointed ECB chief Christine Lagarde has announced a strategic review of monetary policy in the Euro area, including, for instance, the almost 17-year-old inflation target and a linkage of monetary policy to new factors such as climate change and inequality. Unless the economic outlook deteriorates significantly, it is hard to imagine that the ECB, which still has an easing bias, will cut rates further while the review is being conducted.

On the other side of the Atlantic, we expect the Federal Reserve (Fed) to sanction another rate cut to keep the US economy on the growth track at a time when it shows signs of weakness due to the trade war. And although the myth is that the Fed refrains from changing the interest rate level in presidential election years, empirical evidence shows that this is far from true.

In our theme article "Electionomics", we show how the Fed over time has been able to preserve monetary policy autonomy, also in election years. We think it will continue to do so. The end justifies the means. That Jerome Powell & Co. risks being blamed for surrendering to pressure from President Trump, who on several occasions has criticised the Fed for pursuing a too tight monetary policy, is not important in this context.

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GLOBAL AND FINANCIAL MARKETS OVERVIEW

Confidence strikes back

While the global growth forecast is largely unchanged, downside risks have receded, and many central banks have eased monetary policy, making the outlook less bleak. We expect the US slowdown to continue for a few more quarters, alongside a gradual recovery in the Euro area. Consequently, the Fed is likely to cut its policy rate again, while the ECB is likely done easing.

Key takeaways

We have revised our global growth forecast slightly down due to Emerging Markets, while the forecast for the advanced economies is largely unchanged since our September forecast. The outlook seems brighter, however, as downside risks from the trade war and Brexit have eased, and the big central banks have come to the rescue once again.

Activity in the global manufacturing sector has stabilised, and a modest recovery is even underway in Chinese manufacturing. Still, we expect the US and Europe to suffer from last year's manufacturing slump, which is slowing job growth and is likely to eventually slow consumer demand growth. We expect a continued slowdown in the US in the first half of 2020 and a very gradual recovery in the Euro area before a more pronounced recovery sets in from the second half of this year and extending into 2021.

Downside risks still seem more prominent than upside risks. The US presidential election in November could calm trade war and US-Iran tensions, but Brexit risks will return later in the year, and the Fed's liquidity measures will eventually come to an end.

We expect one more rate cut from the Fed, while the ECB is likely to remain on hold. Longer-term bond yields could head lower for a while before taking another leg higher, the dollar is likely to weaken gradually from mid-2020 and oil-exporting economies are comfortable with lower oil prices.

US economy at a crossroads

We expect the US economy to slow in the first half of 2020 followed by a gradual recovery in the second half of the year. GDP forecasts for the US are largely unchanged from the September Economic Outlook despite a general sense of growing optimism.

The main reason for continued caution is that we believe the first half of 2020 will be dominated by the lagged adverse effects of last year's manufacturing weakness, feeding through a weaker labour market to weaker consumer demand and slower services sector activity. After all, the important ISM Manufacturing Index plunged in December to its lowest level since the financial crisis, pointing to an outright recession in the manufacturing sector.

However, recession fears for the broader economy have receded following the Fed's pre-emptive rate cuts and liquidity provisions in the second half of 2019 and the eased trade war tensions, which have already helped push some sentiment indicators into recovery territory. Barring new shocks, we expect a recovery to take hold in the second half of 2020.

This year's big theme is the presidential elections in November – an event risk with the potential to significantly affect the global economy and financial markets. Read more in the "Electionomics" theme on page 32.

2.8%

Global GDP growth in 2020

0

The number of policy rate changes expected from the ECB throughout the forecast horizon

24%

The risk of a US recession, according to the yield curve

Euro-area recovery

Recession risks are also fading in the Euro area, where business surveys point to stabilising, albeit weak, growth towards the end of last year and into this year. We expect a very gradual recovery during 2020 and have revised our growth forecasts up slightly.

Germany just dodged a recession last year, but the country remains a drag on the region nonetheless. The problems in the automotive sector are more deep-rooted than expected, and it will take a proper structural transition to lift it out of the slump. But even excluding the auto sector, industry will still perform poorly, given the weak global environment.

The labour market looks rather robust, though announcements of layoffs in big firms could dent wage growth and consumer confidence going forward. Domestic demand has been partly supported by modest fiscal stimuli over the past year, but we do not expect any major fiscal boost in the coming years as long as labour market statistics are decent. The risk of the Grand Coalition breaking down makes policy more unpredictable.

France was the main contributor to Euro-area growth last year for the first time since the financial crisis. Soaring consumer confidence, thanks to higher wage growth and social benefits, has driven strong domestic demand. The strikes at the end of last year in response to the government's pension reform plan will continue into this year, affecting growth at a time when support from net exports and business investment is due to fade.

Italy's economy is still stuck on a very sluggish growth path despite a relatively strong labour market and private consumption being the main driver. A collapse of the government coalition is still a risk. New elections, likely resulting in a victory for Matteo Salvini's League, would raise uncertainty once again and hamper growth even further.

Japan moderating

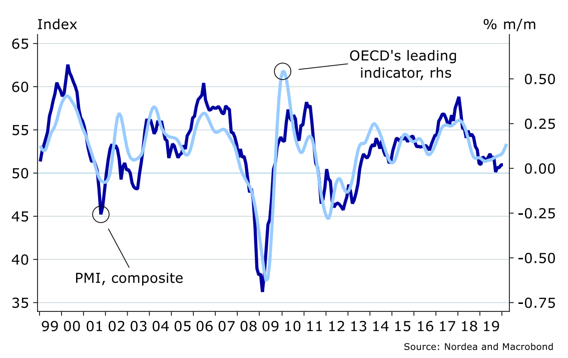
The Japanese economy is losing steam due to the sales tax increase last October. With the Bank of Japan near the limits of its capacity, fearing negative side-effects in the financial sector, a fiscal stimulus package has been announced in response to the sales slump and the expected post-Olympics slowdown later this year. We do not expect a major boost from this package.

"Recession fears for the broader US economy have receded following the Fed's pre-emptive rate cuts and liquidity provisions in the second half of 2019."

Morten Lund
Nordea Analyst

A / Euro-area recovery finally on the cards

OECD's leading indicator for the Euro area points upwards



B / Risks remain tilted to the downside

... but not nearly as much in this issue of Economic Outlook

Risk factor	Type of risk	Likelihood	Magnitude
Brexit "no-deal" 2.0	Downside	Medium	High
US recession	Downside	Medium	High
Tightening of financial conditions, ie equity sell-off, credit spread widening	Downside	Medium	Medium
Green New Deal (easier fiscal policy) to significantly boost Euro-area GDP	Upside	Low	High
China leading a significant recovery in global manufacturing activity	Upside	Medium	Medium
US-EU trade deal	Upside	Low	Medium

A /
OECD's leading indicator for the Euro area points to recovery.

B /
Brexit risks will return and top our downside risks. Will a major coordinated green fiscal package boost the Euro-area economy?

Sources: Nordea and Macrobond

GDP GROWTH FORECAST, % Y/Y

	World		Advanced		Emerging		US		Euro area		China		Japan		UK	
	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old
2018	3.6	3.7	2.2	2.2	4.6	4.7	2.9	2.9	1.9	1.9	6.6	6.6	0.3	0.8	1.3	1.4
2019E	2.8	3.0	1.6	1.6	3.6	4.1	2.3	2.3	1.2	1.0	6.2	6.2	1.0	0.9	1.3	1.2
2020E	2.8	2.9	1.0	1.1	3.9	4.3	1.5	1.5	0.7	0.7	5.9	5.9	0.7	0.4	1.1	1.2
2021E	3.2	3.3	1.4	1.5	4.3	4.6	1.9	1.9	1.1	1.1	5.7	5.7	0.5	0.4	1.4	1.4

China's slowdown

Easier monetary and fiscal policies in China, together with the decrease in downside risks related to the trade war, provide a robust starting point for 2020. We expect the political stance to remain supportive of growth when the Communist Party approaches its 100th anniversary in 2021. However, the large public sector deficit implies that a huge boost to, for example, infrastructural investment would not be sustainable. Growth at 5.9% in 2020 would mean a doubling of GDP since 2010 – the long-term target. In the longer run, growth is expected to gradually slow for structural reasons.

Trade war risks remain

With the fresh US-China deal, trade war-related uncertainty should decline significantly in the short term. Having sealed deals with Canada and Mexico, Japan and now China, Trump could start pushing the EU towards another trade deal. However, we assume that Trump is satisfied with the China deal strengthening his image as a dealmaker and that he will not want to rock the boat when running for re-election in November. As a result, we expect 2020 to be somewhat calmer from a trade-war perspective.

The general challenges for free trade are far from over, however. A second Trump term could imply a lot of trade-related uncertainty again in 2021. The "phase one" deal focused on boosting US exports to China and failed to solve the main structural disputes between the two countries. China will continue developing its state-led economic model, which will lead to increased criticism also from the EU. In 2020, one of the critical topics will be 5G and how the EU countries treat Huawei. The US-EU axis will also face a lot of challenges in a second Trump term.

Brexit is happening, but terms remain unclear

Uncertainty about the Brexit outcome has declined as Boris Johnson's landslide victory in the December election has put the divorce deal on a sure path to ratification. Hence, the UK should finally leave the EU on 31 January. Brexit is still not over as a risk factor, however. Focus now turns to phase two negotiations concerning the future relationship – perhaps even more difficult and more important for the economy than the phase one negotiations on "just" the divorce deal.

The two parties have only 11 months, until 31 December 2020, to complete the trade negotiations. In comparison, it took the EU and Canada seven years to complete their free trade agreement, and that was with good faith from both sides.

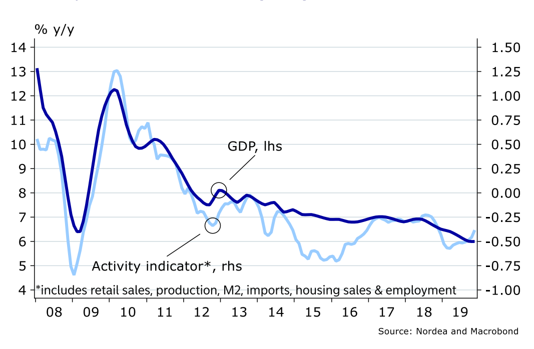
The negotiations would need to be done at an unprecedented pace for the UK to avoid leaving on WTO terms in 2021, i.e. a "no-deal" outcome. Although there is an option in the divorce deal to extend the transition period by one or two years, Boris Johnson has ruled out exercising that option via legislation.

Our base case is that the two parties will strike a basic, non-comprehensive free-trade deal. However, given the stretched time table, it is not a high-conviction call. We also see the risk of no-deal as materially higher compared to the risk around the former 31 October deadline when consensus and market pricing at some point switched towards a no-deal. Moreover, an extension of the transition period cannot be completely ruled out despite the December legislation. 2020 will be another year of high Brexit uncertainty.

> *"With the fresh US-China deal, trade war-related uncertainty should decline significantly in the short term."*
>
> **Tuuli Koivu**
> Nordea Chief Economist

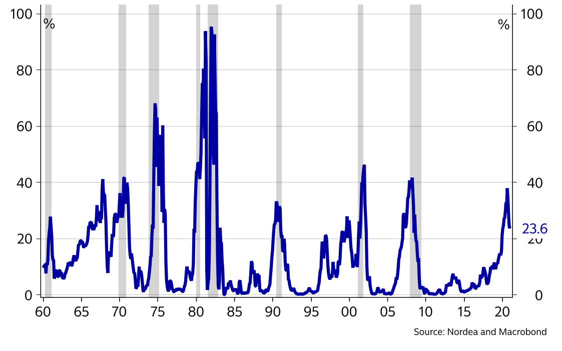
C / Chinese growth momentum is picking up

The activity indicator points to higher growth in the near term



D / US recession risks have eased, according to this measure

The yield curve is sending a more subtle recession warning now



C /
China is structurally slowing, but it is important for the world economy that the pace of slowdown is managed. This chart shows that policy easing still works.

D /
Pre-emptive Fed easing and a smaller tail risk from the trade war have "un-inverted" the yield curve.

Sources: Nordea and Macrobond

Fed to cut rates again

After three consecutive rate cuts the Fed left its policy rate unchanged in December, arguing that additional rate cuts would require a "material reassessment of the outlook". Thus, the Fed believes – or hopes – it has done enough for now to avoid a downturn and generally sees the economy in a good place. It does not intend to change rates in 2020.

The Fed's reaction function throughout 2019 showed that the FOMC will act quickly and pre-emptively to elevated risks rather than wait for hard data to turn bad. We believe a slowdown in the first half of 2020 will be enough to prompt another Fed cut, especially with surveys of inflation expectations at historical lows.

The Fed's liquidity injections via purchases of Treasury bills and its repo operations have calmed markets, but they were intended as a temporary measure. As the Fed turns the money printer back off, we believe a rate cut could be one way to soften the potential blow to risk perception.

Our "Electionomics" theme disputes the narrative of a Fed that avoids changing policy in an election year. If needed, the Fed will change its policy stance.

ECB on hold

We expect no more policy easing from ECB at this point. Activity indicators cautiously point to a mild recovery, core inflation has inched higher and the Governing Council is getting more wary of the negative side-effects of negative interest rates. The ECB so far looks slightly less dovish under President Lagarde.

However, policy is already highly accommodative with the asset purchase programme likely to continue at EUR 20bn per month throughout 2021, five additional TLTRO auctions announced and forward guidance anchoring expectations.

Therefore, 2020 could be a window to think about the bigger picture and review the overall strategy, with a conclusion expected by the end of the year.

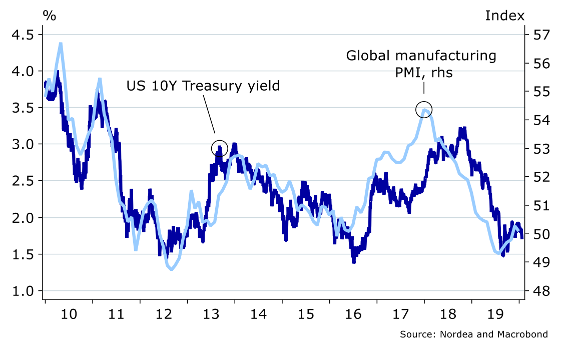
Too early for a more permanent rise in yields

The risk picture for bond yields has shifted and it is no longer a given that yields will remain at extremely depressed levels for years. Our baseline forecasts see yields heading lower towards the summer, supported by weak economic data, continued global uncertainties and one more cut from the Fed, but yields will move higher when the global economy eventually recovers.

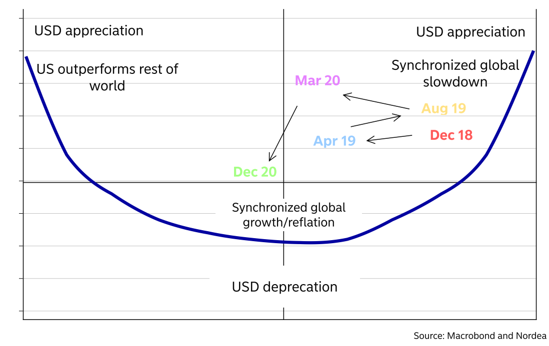
"The ECB so far looks slightly less dovish under President Lagarde."

Anders Svendsen
Nordea Chief Analyst

E / Higher long-term bond yields require stronger growth
US 10-year yields follow the economic outlook



F / A synchronised global rebound needed to dent the USD
USD smile. If the world slows, the USD performs.



E /
Bond yields have risen on abating downside risks. However, additional increases from here will require better numbers.

F /
A synchronised global rebound is needed to dent the USD.

Sources: Nordea and Macrobond

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

					ECB	Fed	US	Germany
	EUR/USD	EUR/GBP	USD/JPY	EUR/SEK	Deposit rate	Fed funds target rate (upper end)	10Y benchmark yield	10Y benchmark yield
2018	1.14	0.90	110	10.1	-0.40	2.50	2.69	0.24
2019	1.12	0.85	109	10.5	-0.50	1.75	1.92	-0.19
2020E	1.15	0.86	113	10.4	-0.50	1.50	1.80	-0.30
2021E	1.22	0.85	115	10.3	-0.50	1.50	2.10	0.00

The ECB retains an explicit easing bias, which should allow the market to price in the risk of more rate cuts, should the economic outlook warrant such pricing. However, as the ECB has only very limited room for further rate cuts in any case, the EUR yield curve is likely to flatten in any period of generally falling yields, as long yields fall more than shorter ones. Lower EUR yields later this year are also supported by the limited supply of bonds – with especially German bond issuance still low while the ECB is a net buyer in the market.

Towards the end of our forecast horizon, we have actually raised our yield forecasts to some extent, especially in the Euro area. The past months have illustrated that yields will move in tandem with global economic developments and are not necessarily nailed to rock-bottom levels forever. The somewhat higher yields we see in 2021 reflect our expectations of an improved global economy. Still, based on most historical measures, we expect yields to remain low throughout our forecast horizon, and any increase is set to be relatively modest.

FX

We continue to see downside risks to EUR/USD through the first half of 2020. Continued weakness in key figures and political tensions could keep the USD in high demand in Q1 and Q2.

The USD had a relatively strong 2019 as weak global data and geopolitical uncertainty spurred demand for safe havens in the FX market. EUR/USD moved lower despite three cuts from the Fed and only one cut from the ECB. This goes to show that FX and rates are not the same thing.

Ultimately, a more synchronised upswing than what we forecast for the first half of 2020 is needed to turn the tide for the strong USD. Once we get firmer signals that growth outside the US is catching up to US standards, we will also see a negative repricing of the USD outlook, but it may take a while. Into 2021 we see rising EUR/USD levels due to a better growth outlook.

The GBP will likely continue to suffer from renewed uncertainty from the trade negotiations between the UK and the EU, while we see the NOK as a better pick than the SEK in the Scandi FX space.

Oil in a good place

The oil price starts 2020 at more or less comfortable levels for the oil exporting countries. However, the futures curve, which we use as baseline input in our forecasts, suggests a decline of up to 7% one year ahead.

The continued increase in global oil supply – with the US being the main contributor – is behind this trend. However, demand side factors look relatively positive, while the global PMI manufacturing has seemingly bottomed out. Still, continued production cuts from OPEC+ countries remain the key element for keeping the oil market in balance. Without new production cuts in early December, positive risk sentiment globally would hardly have been enough to bring the oil price to the current levels.

Overall, with downside risks having diminished at the start of 2020 compared to early 2019, the risks for the oil market now look markedly lower than a year ago. Geopolitical tensions in the Middle East may re-emerge, causing temporary price spikes. However, absent any bigger escalations, these moves will likely be short-lived.

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50bp

The approximate increase in German 10-year government bond yields since the September Economic Outlook

1.15

The level we expect EUR/USD to hit by the end of 2020

7%

The oil price drop in one year, implied by the futures market.

“The outlook seems brighter as downside risks from the trade war and Brexit have eased.”

Anders Svendsen
Nordea Chief Analyst

"Swedish economic growth should start to recover during 2020."

Torbjörn Isaksson
Nordea Chief Analyst, Sweden

The Nordics in brief

The Nordics stand on solid footing overall and are relatively well-equipped to handle the global slowdown. Sweden is poised for a broad-based recovery later in 2020, while Denmark is headed for a soft landing after a six-year upswing. Expect smooth sailing in Norway after a strong 2019, while growth is stalling in Finland where structural reforms are vital.

SWEDEN

Annual growth in hourly wages, 2013-2021

2.5%

Annual pay increases have been stuck at the above level for the past seven years. Demand for labour is sluggish, and unemployment is expected to climb to around 7.5%. Nevertheless, the subdued economy will improve in 2020 thanks to a recovery in exports and domestic demand.
/ page 14

DENMARK

Expected GDP growth in 2020 and 2021

1.5%

The above growth rate for 2020 reflects a dip from 2% in 2019. The Danish economy's long and healthy upswing since 2013 has depleted idle resources, which, in turn, has curbed the pace of expansion. Alongside the global slowdown, the Danish economy has started to cool slightly.
/ page 18

NORWAY

Oil investment growth in 2021

-5%

Norway's economy is in balance after a banner 2019. The growth picture is shaped by oil investments, which will shift from strong growth last year to a moderate drop next year. However, solid demand from the mainland, especially private consumption, will bolster economic growth.
/ page 22

FINLAND

GDP growth in 2020

1.0%

Growth in the Finnish economy is expected to slow down from the above level in 2020 to 0.5% in 2021. The labour market is forming a bottleneck for the economy. With employment growth at a standstill, structural reforms to support the labour supply are needed urgently.
/ page 26

SWEDEN

Stabilisation

Swedish economic growth will remain subdued in the near term but should start to recover during 2020 driven by growing domestic demand and exports. Employment growth looks set to stay weak, with unemployment rising. Inflation pressures will be moderate, but the Riksbank will keep the repo rate at 0%. The SEK will stabilise at a relatively weak level.

Swedish GDP growth slowed in 2019 and was likely still weak around the turn of the year. The slowdown means that resource utilisation will drop below normal levels.

However, an important shift in the composition of growth is taking place as domestic demand is rising again after the past two years' weak trend while exports are slowing after a relatively strong period. The decline in exports is the key reason why GDP growth will remain subdued in the near term. The shift in growth drivers is positive for the labour market as the domestic economy is crucial for employment trends.

Later in 2020, while domestic demand continues to pick up, exports should start to rise again. As a result, GDP growth will improve in 2020 but still remain at below-normal levels. Employment will rise gradually but unemployment will continue to increase in 2020 with more people entering the labour market. Pay rises will remain modest.

There has also been a shift in monetary policy from strict inflation targeting to reducing risks related to an expansionary policy line for a long period. Hence, the Riksbank will keep the repo rate unchanged over the entire forecast period despite an inflation rate clearly below the 2% target.

0.8%

Our forecast for GDP growth in 2020

2.5%

The new normal. Annual growth in hourly wages, 2013-2021

1.3%

Our forecast for CPIF inflation in 2020, annual average

Sources: Nordea estimates and Macrobond

Testing times for Swedish exporters

World trade has been sluggish over the past two years, among both emerging market and industrialised countries. Particularly the latter are generally very important for Swedish exporters. Swedish goods exports, however, outperformed the trend in global trade in 2019 due mainly to industry-specific factors. For example, exports of pharmaceuticals have increased, which coincides with growing exports to China. China is now a key market almost in line with the UK.

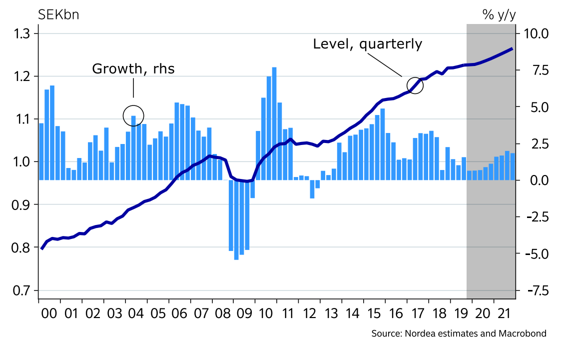
Some industries may also have a significant bearing on trends going forward, but much suggests that Swedish goods exports weakened around the turn of the year (2019/20). However, we expect a recovery to start around mid-2020, in step with the pick-up in global economic activity.

Also exports of services held up well amid the global uncertainty in 2019. Services exports account for 14% of GDP and are a key growth engine. In Q3 2019 services exports were a hefty 13% higher than in the year-earlier period and almost 20% higher than three years earlier. The increase over the past years is broadly based, with growing exports of business services, tourism and services related to information and communication technology. However, exports have been fairly erratic. For example, R&D exports rose by no less than 24% in Q3 2019, explaining a large part of the quarterly pick-up in services exports and as much as 0.2% point of the quarterly increase in GDP of 0.3%.

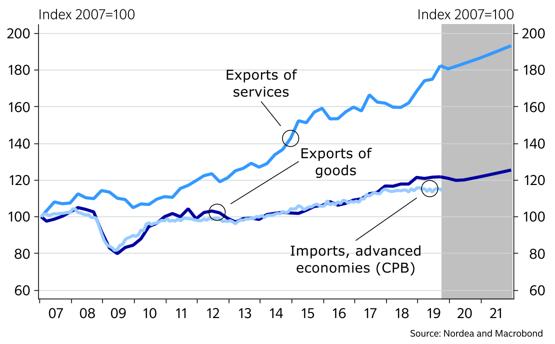
SWEDEN: MACROECONOMIC INDICATORS

	2017	2018	2019E	2020E	2021E
Real GDP (calendar adjusted), % y/y	2.7	2.3	1.1	0.8	1.8
Underlying prices (CPIF), % y/y	2.0	2.1	1.7	1.3	1.4
Unemployment rate, %	6.7	6.3	6.8	7.3	7.4
Current account balance, % of GDP	3.4	2.7	4.9	4.9	5.3
General gov. budget balance, % of GDP	1.4	0.9	0.5	-0.1	-0.4
General gov. gross debt, % of GDP	40.7	38.8	35.1	34.3	33.5
Monetary policy rate (end of period)	-0.50	-0.25	0.00	0.00	0.00

A / GDP growth to pick up in 2020
SEKbn per quarter and annual percentage change



B / Goods exports track global demand trends
Swedish export and global trade levels, index 2007=100



A /
Declining exports will put a damper on growth near term, but we expect a more broadly-based recovery later in the year.

B /
No pain, no gain. Indicators suggest that exports declined around the turn of the year (2019/20) but will recover later in 2020.

Services exports are expected to continue to perform relatively well going forward. Even so, growth this year looks set to slow as also exporters of services will feel the impact of weaker global trade. Moreover, the SEK has stabilised, curbing the uptrend in tourism in Sweden.

Household comeback

Households can look forward to an improved wealth position. Housing prices are rising again after showing a weak trend in 2017 and 2018; usually, this means rising household consumption. And housing prices will likely continue to rise in future. The Riksbank's rate hike in December 2019 may temporarily dampen the pick-up, but the prospect of low interest rates in the foreseeable future will likely be more important for housing prices than rising unemployment and the Riksbank's isolated rate hike.

Rising housing prices bode well for the economy in the short term but could entail increased risks longer out. Household borrowing has also grown, which means that households' indebtedness is rising fast again, making them more vulnerable to changed conditions and especially rising interest rates.

The sharply rising equity prices have also boosted household wealth. In Q3 2019 household financial wealth was no less than SEK 840bn higher than in the prior year. This corresponds to 35% of households' disposable income. Tax cuts and modest inflation are other factors underpinning household finances. We expect households' real disposable income to rise by about 2% in 2020 and by around 1.5% in 2021.

Household savings put into perspective

Household savings may appear to be at a high level. The savings ratio (savings relative to disposable income) was around 12% in 2017. However, occupational pension savings payed by employers, which are not liquid assets for many households, accounted for more than half of the savings ratio. Moreover, real savings (household fixed investments in single-family houses) totalled close to 4%. The remaining part, which consists of households' own financial savings, was therefore close to zero during 2015-17. This coincided with sharply rising consumption. Also taking into account the fact that tenant-owned dwellings, the number of which rose sharply during that period, are included in households' financial assets, households' own financial savings were low in 2015-17.

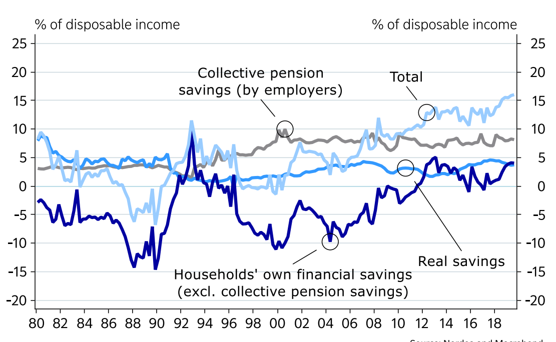
But households' precautionary savings increased markedly in 2018 and 2019, most probably because of uncertainty over the housing market weakening. Against this background there should be no need to significantly increase savings further. The rising incomes in 2020 and 2021 could therefore positively affect consumption.

The effects of the improved conditions for households are beginning to show through. Since mid-2019 household consumption has increased, and this positive trend looks set to continue, although the pace of growth will be below normal. One reason for this is the less favourable labour market situation compared with previously. Another reason is that housing prices are not expected to rise at the same rapid pace as during the past 20 years. The positive wealth effects will therefore be less strong than in previous recovery periods.

"The prospect of low interest rates in the foreseeable future will likely be more important for housing prices than rising unemployment and the Riksbank's rate hike."

Torbjörn Isaksson
Nordea Chief Analyst

C / Household savings on the rise over the past years
Savings as a percentage of disposable income



D / Risk scenarios
Factors that pose a risk to our headline scenario

Risk factor	Type of risk	Likelihood	Magnitude
Sharper rise in home prices	Upside	Medium	High
Stronger household consumption	Upside	Considerable	Medium
Weaker exports	Downside	Medium	Medium
Stronger employment growth	Upside	Medium	High
Riksbank, rate cut	Upside	Small	Low
SEK appreciation	Ambigious	Medium	Medium

Source: Nordea

C /
Households' own financial savings should remain relatively stable in future.

D /
A stronger upturn in home prices may boost domestic demand as well as employment.

Moderate investment level despite public sector

Low interest rates, households' improved financial situation and rising housing prices will also help boost residential construction. The number of housing starts peaked at 64.000 flats in 2017. Since then, the number has declined, but should in our view level off at around 40.000 flats in 2021. New housing construction will thus act as a drag on investment growth over the forecast period, but to a declining degree. As the export industry is entering a calmer phase, investment in the industrial sector looks set to decline. Meanwhile, the private services sector will stagnate in 2020, but government investment expenditure should rise at a healthy clip. All in all, total investment dropped in 2019 and it will likely continue to fall in 2020 and only rise slightly in 2021.

Not only government investment looks set to rise, we also expect government consumption to pick up. The growing population and larger proportion of people below or above working age will drive especially local government expenditure higher. Several municipalities have raised taxes and they receive more government grants compared to what has previously been announced. Still, there is a clear risk that the level of local government debt will increase in the coming years.

Coupled with tax cuts, fiscal policy should be mildly expansionary in 2020 and 2021. The past years' surplus in the public sector's financial savings will consequently turn into a deficit in 2021.

Unemployment to continue up

The labour market situation has gradually weakened over the past two years. Unemployment started to rise in mid-2018 and hit almost 7% at end-2019, a level we consider to be close to the so-called equilibrium unemployment rate.

The higher rate of unemployment is due to the decline in the demand for labour caused by the drop in domestic consumption in 2018 and 2019. But still the influx to the labour market continued and unemployment rose. We expect this pattern to continue over most of the forecast period. Unemployment looks set to stabilise at close to 7.5% in 2021.

Employment growth has slowed over the past year but employment has not declined. The employment rate, which measures the number of people employed relative to the population, therefore remains at a high level, reflecting a mild slowdown of the Swedish economy.

With the expected recovery of the domestic economy driven mainly by an increase in household consumption, there is a good chance that employment growth will start to gradually pick up again. However, the increase in both domestic demand and employment will likely be modest. Demographic factors will curtail employment growth and drive unemployment higher. The proportion of Swedish-born persons, who have a high employment rate, will decline by 35.000 persons from the end of 2019 to the end of 2021. At the same time the number of foreign-born persons, who generally find themselves in a more difficult position in the labour market, will increase by around 100.000 persons.

National wage round to end soon

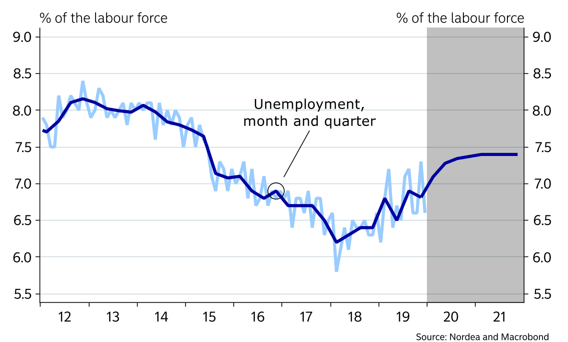
The annual rate of pay increases has been stable at 2.5% over the past seven years. This is quite exceptional considering the high level of activity during most of this period.

"The annual rate of pay increases has been stable at 2.5% over the past seven years. This is quite exceptional considering the high level of activity during most of this period."

Torbjörn Isaksson
Nordea Chief Analyst

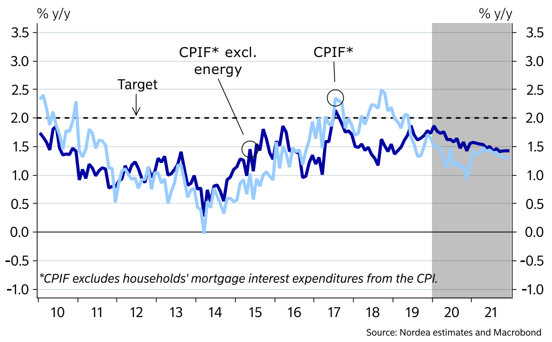
E / Unemployment is going up

Percentage of labour force



F / Inflation deviating from target

Annual percentage change



E /

The monthly unemployment figures are highly volatile, but the trend is upwards.

F /

Low inflation is not a sign of problems in the Swedish economy. On the contrary, it is a sign of an economy performing well, with substantial foreign trade and fierce competition in the domestic market.

During the spring of 2020, 500 new pay deals covering 2.8 million wage earners are to be concluded. The manufacturing industry will be the first to sign a deal, which will act as a benchmark for other sectors in the economy. The rate of inflation has increased in recent years, which could lead to higher union demands. On the other hand, competition in the global market is fierce and global growth has slowed. Against this backdrop, it is likely that the current wage round results in pay rises around the same level as in previous years, i.e. at some 2%. The new collective agreement may also meet the unions' demand for higher allocations from company wage pools to the lowest-paid workers, but this will only have a very marginal effect on the overall rate of wage increase.

Pay rises beyond those agreed during the centralised talks have been modest over the past several years, and we expect this pattern to continue in the coming years. All in all, we expect the overall rate of wage increase to be unchanged at 2.5% in both 2020 and 2021.

Low inflation puts pressure on the Riksbank

Domestic price pressures have been subdued in recent years, and with pay rises remaining at a modest level we see no major changes to the domestic cost picture going forward. Instead, inflation trends are driven by the SEK and energy prices. The weak SEK and rising energy prices are key factors behind recent years' inflation pick-up. But the SEK rate has stabilised and will likely strengthen in future, albeit at a very slow pace. This will keep a lid on import prices, and inflation will decline. Moreover, energy prices have moved lower. Against this backdrop, inflation will likely remain clearly below the Riksbank's 2% target in both 2020 and 2021.

Still, the Riksbank will remain sidelined and keep the repo rate unchanged during the entire forecast period. Recently, the Riksbank argued that problems could arise if market players start to see negative interest rates as a permanent phenomenon. And the bank's worries about the effects of negative interest rates for a prolonged period appear to be the key reason why it hiked the repo rate to 0% in December 2019. This raises the bar for what it takes to get the Riksbank to lower the repo rate again into negative territory. But should the Riksbank take action, contrary to expectations, it is just as likely to expand its bond buying programme as to cut rates.

With an unchanged monetary policy line in the foreseeable future, the 'playing field' of the SEK is largely intact. However, rising global growth and improved sentiment in the global financial markets should boost overall appetite for the SEK. Still, any appreciation of the SEK will be modest, and the SEK is therefore expected to trade at historically relatively weak levels over the entire forecast period.

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DENMARK

Cooling down

Following several years of high activity, the Danish economy looks set to slow slightly in the coming years. However, the slowdown happens at a time when households and businesses have built up large reserves. The Danish economy is therefore well positioned to mitigate the negative fallout from lower global growth.

Soft landing

The Danish economy has enjoyed a long and healthy upswing since 2013. During this period employment has risen by about 250,000 persons or nearly 10%. Given the long and solid upswing, idle resources in the Danish economy have diminished sharply, making it increasingly difficult to expand at a faster pace than the long-term potential growth rate, which is currently estimated at about 1.5%

Coupled with moderate growth trends in the global economy this means that the Danish economy has started to cool slightly. We estimate that the 2019 growth rate of about 2% will be followed by rates approximating 1.5% in both 2020 and 2021.

Uncertainties about the prospect of a soft landing are currently seen as balanced and mainly relate to trends in the global economy. On the other hand, we do not at present see any major imbalances in the domestic economy, which is in a fundamentally different situation than in the period leading up to the financial crisis.

Households have ample buffers

The Danish upswing has been driven by a solid increase in consumer spending. Since 2015 consumer spending has risen by some 2% annually. Growing employment, positive real wage growth and considerably lower interest expenses during this period have left households with more money to spend – and enough to spare to continue to save up and add to their buffers. Over the past ten years, the propensity to consume – measuring the income to spending ratio – has thus been below 100, showing that households have channelled part of their income into savings throughout this period.

In combination with equity market gains and falling interest rates, the ample savings buffers have lifted household wealth to record-high levels. And as household debt has only risen slowly despite higher housing prices, this has significantly boosted household net wealth, which now makes up more than 180% of GDP – a historically high level that places Denmark in the upper one-fourth of the EU countries.

Until the end of 2021 households are expected to continue to benefit from sustained employment growth and nominal wage growth that outstrips inflation. However, the pace of increase is likely to be lower than in previous years due to the slightly decelerating activity overall.

1.5%

Expected GDP growth in 2020

-0.75%

Danish central bank's expected policy rate in 2021

200bn

Current account surplus over the past year

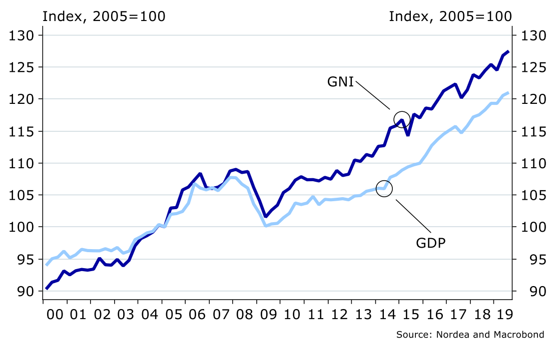
Sources: Nordea estimates and Macrobond

DENMARK: MACROECONOMIC INDICATORS

Monetary policy rate refers to the certificate of deposit rate

	2017	2018	2019E	2020E	2021E
Real GDP, % y/y	2.0	2.4	2.1	1.5	1.5
Consumer prices, % y/y	1.1	0.8	0.8	1.2	1.4
Unemployment rate, %	4.2	3.8	3.7	3.8	3.9
Current account balance, % of GDP	7.7	7.0	9.0	8.8	8.1
General gov. budget balance, % of GDP	1.5	0.5	2.6	0.6	-0.2
General gov. gross debt, % of GDP	35.8	33.9	33.7	33.7	33.6
Monetary policy rate, deposit (end of period)	-0.65	-0.65	-0.75	-0.75	-0.75
USD/DKK (end of period)	6.20	6.53	6.66	6.49	6.12

A / Rising growth and prosperity
Quarterly change in GNI and GDP



B / Risk scenarios
Factors affecting the baseline scenario

Risk factor	Type of risk	Likelihood	Magnitude
Global growth slowdown	Downside	Medium	High
Hard Brexit	Downside	Low	Medium
Geopolitical tensions	Downside	Low	Low
Higher global growth	Upside	Medium	High
Increased marginal propensity to consume among	Upside	Low	Medium
Easier fiscal policy	Upside	Low	Low

Source: Nordea estimates

A /
Large current account surplus has made wealth increase faster than production.

On the other hand, about 800,000 Danish homeowners can look forward to a one-off payment totalling some DKK 14bn in overpaid property taxes. Assuming that the same will happen as when funds from the special pension savings scheme were paid out in 2009, 60% of the tax refund will be channelled into consumer spending, equalling a lift of about ¾%. However, the homeowners will not receive the tax refund until the new public property valuations are ready, which will likely be during the period from mid-2020 and up to 2022.

Major progress in the pharmaceutical industry

After a period of waning growth, 2019 saw renewed acceleration in Danish exports. At first glance this may seem like a paradox, as activity in Denmark's key export markets was considerably lower in 2019 compared with the preceding years.

The remarkable improvement is first and foremost the result of a surge in the production of pharmaceutical products, which are now Denmark's main export products in terms of turnover. Sales of Danish food products also rose noticeably in 2019. This is particularly the case for pork exports to China, which multiplied during the year. One of the reasons was the outbreak of African swine fever in a number of Asian countries.

The acceleration in Danish goods exports in 2019 was thus driven by larger sales to countries in North America and Asia, whereas sales to European countries contracted compared to previous years. We expect that Danish exports will remain at a high level in 2020 with annual growth of around 2.5%.

The substantial increase in goods exports has contributed to lifting the current account surplus to more than DKK 200bn over the past 12 months or to more than 8% of GDP. However, an increasingly larger share of Danish goods exports stems from production and sales of goods by Danish companies abroad. That is the reason why the rising level of Danish goods exports does not necessarily create more jobs in Denmark – but it does contribute to the higher prosperity overall in the country.

Rising investment activity

Since the upswing started in 2013, business investment has increased at a solid pace thanks to falling financing costs and growing demand. Investment activity has thus contributed significantly to recent years' economic growth in Denmark. Investment in intellectual property rights (research and development) accounts for the sharpest increase, now making up more than 30% of total business investment. Again, the main growth engine is the pharmaceutical industry, reflecting this industry's increasing importance for the Danish economy.

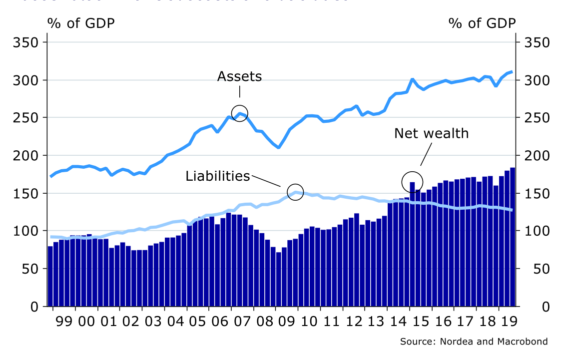
Business investment in machinery and information and communication equipment has only risen moderately. This may help explain the continued very large savings surplus among non-financial companies, which has risen to more than 5% of GDP over the past year. The chances of further business investment growth in 2020 seem good. At the start of the year, manufacturing companies' investment expectations are at the highest level recorded since 2011.

"The Danish economy is set for a soft landing."

Jan Størup Nielsen
Nordea Chief Analyst

C Record-high household net wealth

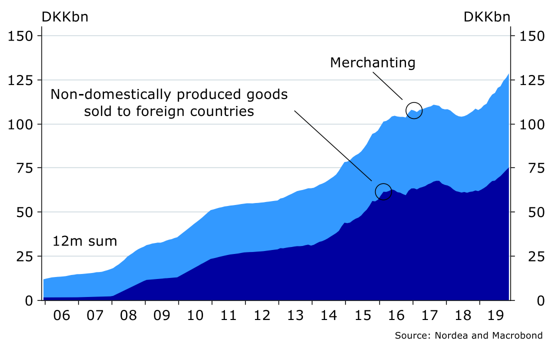
Households' financial assets and liabilities



Source: Nordea and Macrobond

D / Major progress in exports outside Denmark's borders

Goods exports not crossing Danish borders



Source: Nordea and Macrobond

C /
Solid growth in household net wealth – now making up 180% of GDP.

D /
Sharp rise in proportion of Danish exports produced outside Denmark's borders.

New ambitious climate law

Shortly before Christmas a broad majority in the Danish parliament adopted a new climate law, committing to reducing the country's greenhouse gas emissions by 70% relative to the 1990 level by 2030 – albeit not including the effects of biomass burning and the emissions from international transport undertaken by Danish companies. The new law includes a long-term target of climate neutrality by 2050.

In 2020 the Danish parliament is expected to launch a climate action plan with concrete political initiatives. It has been agreed that the reduction of greenhouse gas emissions must be as cost effective as possible and take into consideration Denmark's competitiveness and employment situation. However, the implementation of the climate law will very likely entail several excise duty hikes, which will put upward pressure on consumer prices in the years to come.

Increased public sector spending

In addition to the increased spending for the green transition, the Social Democratic minority government has presented a budget deal, which in 2020 proposes an increase in public spending of 1.3%. This is a sharp increase compared to the average spending growth since the financial crisis and viewed in isolation it will lift GDP growth by 0.3% in 2020. With higher public spending, it is also likely that the number of public-sector employees will reach a new high since 2011.

The increase in the number of public-sector employees will partly be offset by continued labour force expansion. The latter is to some degree the result of a higher number of non-ethnic Danish employees and, more notably, of the effect of the 2011 withdrawal reform, which means that the state pensionable age will be upped by six months to 66 years of age in 2020.

Overall, we expect employment to rise by some 30,000 persons in the period up to end-2021. But because the labour market inflow is expected to grow even faster during this period, it will trigger slight upward pressure on unemployment. As a result, businesses' general difficulties in recruiting skilled labour are expected to ease – which is also confirmed by Statistics Denmark's monthly survey where a declining number of businesses state labour shortage as a production-limiting factor. This is particularly the case in industry, but the shortage of labour is also currently less pronounced in the construction sector than it was one year ago.

The labour market cooling is likely to lead to a sideways trend in nominal wage growth at about 2.5% annually. However, a lot depends on the ongoing pay negotiations which are scheduled to be finalised during the spring.

Regulation to counterbalance low interest rates

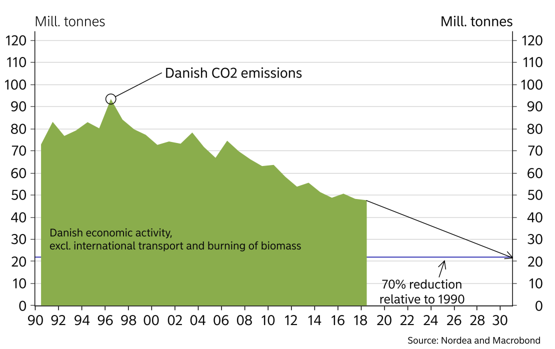
Since the autumn of 2014 the Danish central bank's key policy rate has been negative. It is currently -0.75% and Denmark is thus one of the counties with the most experience with the effects of negative interest rates both in terms of time and scope.

In order to prevent an overheating of the Danish economy as a result of the prolonged period of quite significantly negative interest rates, the authorities have for some time gradually tightened regulations. This has been done both in the housing market and the financial sector where the countercyclical capital buffer is expected to be increased to 2.5% in Q1 2020. According to the Systemic Risk Council the aim is to

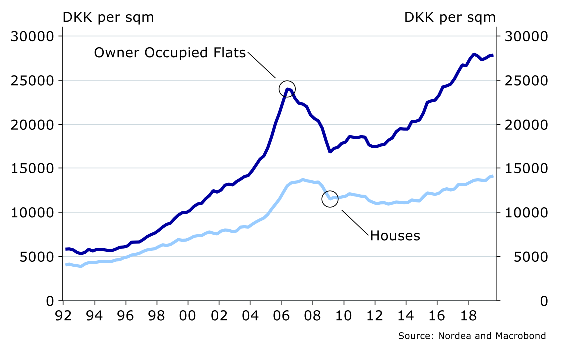
"An ambitious climate law will set economic policy direction for many years to come."

Jan Størup Nielsen
Nordea Chief Analyst

E / Climate law to reduce CO2 emissions by 70%
Danish CO2 emissions



F / Housing market showing signs of picking up again
Development in nominal housing prices



E /
With the adoption of the new climate law, a broad majority of the Danish parliament has committed to reducing Denmark's CO2 emissions by 70% by 2030.

F /
Declining interest rates and deferral of tax reform have boosted housing prices.

make the financial system more robust during a period showing signs of increased risk accumulation.

We expect the European Central Bank (ECB) to leave its policy rate unchanged until the end of 2021. During this period our baseline scenario is that the Danish central bank will maintain an unchanged interest rate spread to the Euro area. But we cannot rule out that the Danish central bank will consider a small, independent rate hike if the current krone weakness against the euro continues. At the same time, given the prospect of the ECB leaving its monetary policy unchanged for an extended period, we generally expect only minor movements in Danish market rates throughout the forecast period.

Housing market revival

2019 was a good year for the housing market. Housing prices rose across most of the country and preliminary data indicate that trading activity has reached the highest level in more than 10 years. The growing demand has resulted in shorter sales periods. The same trend is seen in the market for second homes.

The market for owner-occupied flats also ended 2019 on a stronger note – although the year started with stabile prices nationwide and minor price declines in Copenhagen, Aarhus and Odense. We believe that the reasons why prices of owner-occupied flats in large cities fell slightly were the already high prices, which limit the number of potential buyers, stricter credit standards and many newly constructed flats, which have considerably increased the housing supply. To this should be added the property tax reform, which was scheduled to take effect in 2021 but has been deferred to 2024, and which has curbed the demand particularly for large and expensive owner-occupied flats.

Lately, activity in the market for owner-occupied flats has increased again. Key reasons are the significant interest rate decline in 2019 and the deferral of the property tax reform. Viewed in isolation we expect the changed tax rules to reduce prices of owner-occupied flats by 5-10%, while prices of single-family houses will probably go up by a couple of per cent. But given the deferred commencement date of the tax reform, housing prices will probably only to a limited extent factor in these effects in the coming year.

That is why we expect housing prices to continue to move higher – driven by persistently low interest rates and the expected stronger purchasing power of households. In 2020 and 2021 housing prices are expected to rise by around 3% annually, which is on a par with the projected growth in household income. However, the market for owner-occupied flats may be hit by lower demand if the government, as announced in the budget deal, will scrap the option of financing parent-assisted purchases of flats under the Danish business taxation scheme at the beginning of 2021.

"The negative interest rate on the central bank's certificates of deposit looks set to stay for an indefinite period."

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NORWAY

In balance

2019 was a good year that restored balance in the Norwegian economy. The pace of growth will now shift to a more moderate level in line with the trend, which will keep the economy in balance. Oil investments shape the growth picture. These will change from strong growth last year to a modest drop next year. Economic growth will be supported by good growth in mainland demand, notably private consumption. Unemployment will remain stable at low levels while wage settlements will boost households' purchasing power. Norges Bank will stay on hold, and the NOK could strengthen somewhat.

2019 was a good year

Global growth was subdued in 2019, and the trade war between the US and China as well as Brexit dominated the risk picture. The resulting uncertainty dampened global investment activity. Lower demand for capital goods mainly affected the industrial sector. In addition, the car industry was hit by new emission standards. Some of Norway's biggest trading partners were hit hard, including major EU countries.

As most of Norway's mainland exports go to the EU, it would seem reasonable to assume that weaker growth there would affect the Norwegian economy. But economic developments in Norway were, in sharp contrast to developments internationally, mainly due to the unique structure of the Norwegian corporate sector. Especially oil investment was a key growth driver in Norway, and a sharp increase in oil investment on the Norwegian shelf was the main reason why last year was such a good year for the economy. Mainland GDP rose by as much as 2.5%, clearly above the trend growth rate.

The growth picture is shaped by investment

The growth picture is shaped by oil investment. The large investment projects on the Norwegian shelf are now about to be completed, and growth will slow from a hefty 14% in 2019 to a more moderate level of some 3% this year. Next year investment could drop by just as much. Industrial production tracks the trend in oil investment and will also decline. As a result, growth in the Norwegian economy will slow.

Investment activity in manufacturing and the power industry will also contribute negatively to growth.

14%

Real oil investment growth in 2019

-5%

Oil investment growth in 2021

1.5%

Real wage growth in 2020 and 2021

Sources: Nordea estimates and Macrobond

Last year, investment in manufacturing rose by no less than 30%. Growth rates at this level are not going to be repeated in the next two years. According to Statistics Norway, investment in both manufacturing and the power industry will slow slightly this year, mostly because the large investment projects contributing to growth in 2019 are now being completed.

The outlook for investment in the remaining mainland corporate sector is better. Especially investment in the services sector, which accounts for the largest part of mainland investment, should grow at a healthy pace. Investment in other goods-producing sectors will also grow. All in all, we expect a rather flat trend in overall mainland business investment.

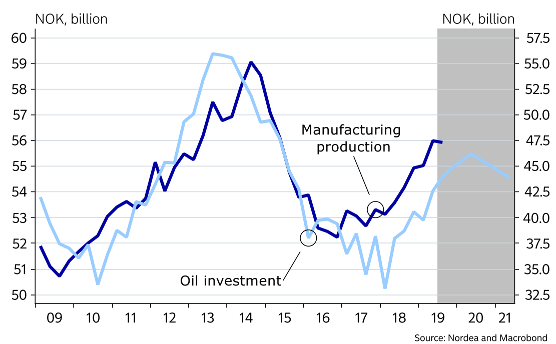
Growth underpinned by consumer spending

Despite the slowdown, the Norwegian economy should still perform rather well as consumer spending will help underpin growth. In 2013-18 average real wages trended sideways due to weak wage growth in the wake of the oil crisis and periodically high inflation driven by NOK weakening and higher electricity prices. But, with the labour market tightening, wages have risen over the past few years.

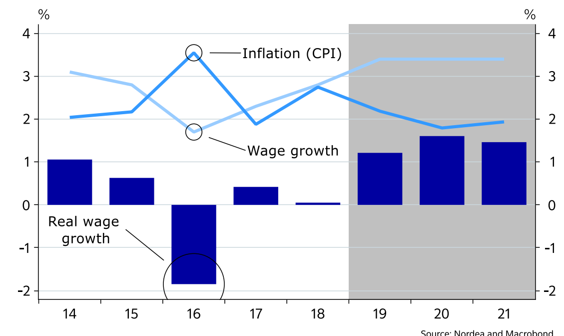
NORWAY: MACROECONOMIC INDICATORS

	2017	2018	2019E	2020E	2021E
Real GDP (Mainland), % y/y	2.0	2.2	2.5	1.8	1.6
Core consumer prices, % y/y	1.4	1.5	2.2	2.1	1.9
Unemployment rate, %	4.2	3.9	3.7	3.5	3.5
Current account balance, % of GDP	4.6	7.1	3.3	5.9	6.8
General gov. budget balance, % of GDP	5.0	8.1	7.1	6.7	6.1
Private consumption, % y/y	2.2	1.9	1.6	2.2	2.2
Monetary policy rate, deposit (end of period)	0.50	0.75	1.50	1.50	1.50
EUR/NOK (end of period)	9.82	9.90	9.87	9.60	9.50

A / Industrial production will decline
Oil investment and industrial production, NOKbn



B / Real wage growth gaining momentum
Inflation, wage growth and real wage growth, % y/y



A /
Oil investment is crucial for the Norwegian manufacturing industry.

B /
Better times for wage earners. Real wage growth is gaining momentum.

Last year was the first time in five years that Norwegians' purchasing power increased (by just over 1%). And employment grew by almost 2%. But consumption growth remained weak.

A key factor behind the modest consumption growth last year was Norges Bank's rate hikes. The three rate hikes contributed to reducing the average household's disposable income by 0.75%. The higher rates probably also led to higher saving.

Norges Bank appears to be done hiking rates in this cycle. And sustained low unemployment will contribute to underpinning wage growth. With inflation close to the 2% target over the coming years, the scene is set for sustained purchasing power growth. This should support good private consumption growth in the period ahead.

Moderate pick-up in housing prices

Last year's increase in interest rates and good supply of new housing have contributed to keeping a lid on housing prices. But the overall rate hike was modest, and interest rates are still very low. The rate hikes were sanctioned due to strong growth in the economy and employment, which was positive for housing demand. With more moderate economic growth ahead, the rate of increase in housing prices should also remain moderate in the years ahead and just about match income growth. Residential construction activity will rise a tad. The housing market is well balanced and the risk of a significant turnaround in the market is considered to be very low.

Neutral budgets

We assume a neutral fiscal policy line in the years ahead. But it will require much discipline from the politicians. Sharply growing benefits will absorb a large part of the relatively modest increase in expenditure required for fiscal policy to remain neutral. Strong focus on infrastructure and disagreement on toll road financing will intensify the pressure on the state coffers. We think the government will largely succeed with its ambitions and look for relatively modest growth in public demand over the next two years. But the risk appears to be on the upside. With a new minority government, it will be difficult to keep the purse strings tightened.

Export growth in line with market growth

Despite the trade war and lower growth among Norway's trading partners, mainland exports rose markedly last year, driven by a weak NOK and good demand from the global oil industry. The investment cycle of the global offshore industry largely matches the trend on the Norwegian shelf. Hence, growth in oil-related exports will also slow going forward. On the other hand, growth in commodity-related exports should rise in the years ahead. Product prices in these sectors have risen sharply in recent years, largely driven by the weaker NOK. Companies in these sectors invested heavily last year, and the increased capacity will lead to higher production. Also, growth in Norway's export markets should gradually pick up. Hence, mainland export growth should largely track global market growth (around 3%).

Low unemployment, good wage growth

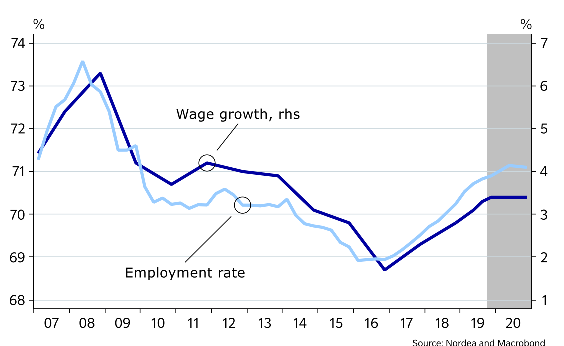
Overall, we expect mainland GDP growth to slow from 2.5% last year to 1.75% this year and just over 1.5% in 2021. Hence, employment growth will also slow. The low growth rate next year in a historical perspective is by no means alarming as it is in line with the potential rate of growth.

"Consumer spending will underpin growth in Norway."

Dane Cekov
Nordea Analyst

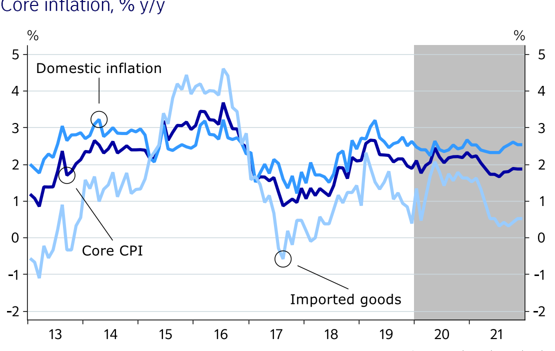
C / Tighter labour market leads to higher wage growth

Employment and wage growth, % y/y



D / Core inflation closer to the target

Core inflation, % y/y



C /
Wage growth has risen in accordance with textbook theory.

D /
Inflation will remain close to the 2% target.

With trend growth in productivity of around 1% and growth in the working-age population of 0.5-0.75%, trend growth in the economy lands at roughly 1.5%. Unemployment may thus decline slightly further this year before stabilising at a low level next year.

Unemployment is probably close to an "equilibrium level" – if anything, possibly a tad on the tight side. The Norwegian economy is thus well balanced. Growth on a par with the trend rate of growth will help keep unemployment low and stable and maintain the economic balance.

The parties in the labour market took responsibility during the oil crisis. Wage growth in 2016 was the lowest recorded by Statistics Norway in the 2000s. Due consideration was given to uphold companies' competitiveness and employment. In line with labour market conditions tightening, wage growth has accelerated in recent years. Stronger competition for labour has given most wage earners more negotiation power. Many, but not all, sectors of the labour market now report clear shortages of skilled labour. This will affect wage settlements ahead. We thus look for real wage growth of about 1.5% in the next few years – implying nominal wage growth of just under 3.5%.

Core inflation close to target

Core inflation rose quite sharply last year to well above the inflation target. The contributing factors included a weaker NOK and rising wage growth.

The NOK weakening in the autumn will help keep up core inflation for a while. But gradually, importers will have adjusted their prices, and imported inflation will abate. The expected NOK appreciation will further curb prices of imported goods.

But wage growth has also accelerated quite sharply and will remain high. The Norwegian labour market is reacting in accordance with textbook theory. This implies relatively high growth in prices of goods and services produced in Norway. All in all, we expect core inflation to remain close to the inflation target throughout the forecast period.

Norges Bank is in a good place

After three rate hikes last year, Norges Bank is now in a good place. Core inflation is close to target, capacity utilisation is almost at a normal level and unemployment remains low. The economy is in balance. Our economic forecasts suggest little need to adjust the interest rate level. We thus expect Norges Bank to keep its policy rate unchanged over the next two years.

Not just downside risks

Downside risks to our forecasts for the Norwegian economy mainly relate to global trends. A more pronounced or protracted downturn in the global economy than expected will hit the Norwegian economy both in terms of lower oil and commodity prices and weaker growth in Norway's export markets. A correction in international equity markets will also affect global growth and thus the Norwegian economy.

But there are not only downside risks to our forecasts. The positive dynamics of domestic demand may turn out to be stronger than we currently predict. The upturn in the Norwegian economy could last longer if business investment growth remains higher for longer than we project at present.

"Norges Bank is in a good place."

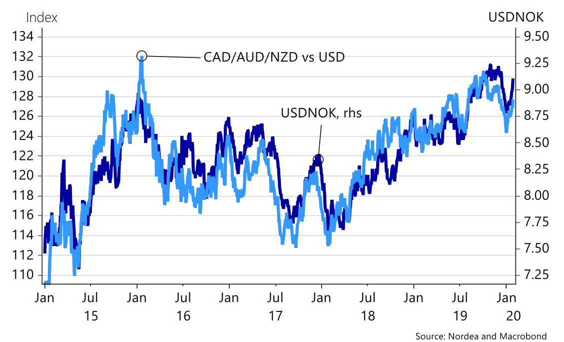
Kjetil Olsen
Nordea Chief Economist, Norway

E / Balanced risk picture
Our assessment of the main risk factors

Risk factor	Type of risk	Likelihood	Magnitude
Sharp drop in oil prices	Downside	Medium	High
Escalation of the trade war with tariffs on cars	Downside	Medium	Medium
Rapid tightening of financial conditions	Downside	High	Medium
Sharp increase in oil prices	Upside	Low	Medium
Swift rebound in the world economy	Upside	Medium	Low
Removal of tariffs between the US and China	Upside	Medium	Low

Source: Nordea estimates

F / NOK weakened in line with other commodity currencies
The NOK and other commodity currencies in terms of USD



E /
A balanced risk picture

F /
The NOK weakening is not unique.

Moreover, the labour market has surprised on the upside after the mainland economy started to recover. Stronger employment growth and, in turn, tighter labour market conditions could trigger higher wage growth than we estimate at the moment.

NOK 2020: More of the same or a turning point?

The NOK weakened last year despite very favourable trends in the Norwegian economy and rate hikes from Norges Bank. The development has at times been surprising. We think much of last year's NOK depreciation was the result of global trends.

The weakening of the NOK is not unique at all. Compared with other currencies, the NOK has closely tracked currencies such as the AUD, the NZD and to some degree the CAD. The common denominator is that they are all considered as risk-sensitive currencies prone to weakening in times of economic uncertainties globally – and that was very much the case last year.

The counterparts to these risk-sensitive currencies are safe haven currencies such as the USD, the CHF and the JPY. Last year was a good year for the safe haven currencies. Developments in the FX market show that uncertainty was probably the biggest problem for the NOK last year.

In an uncertain environment with investors fleeing to safe havens, Norges Bank's rate hikes have not affected the NOK noticeably. We think it is because interest rates were not high enough. They were admittedly raised higher, but interest rates in the US have been even higher. In an uncertain climate, FX market players have thus not found convincing arguments for buying the NOK.

The outlook for the global economy is somewhat brighter for 2020. Trade war jitters should ease following the phase 1 agreement between the US and China. This is good news for the NOK.

Moreover, Norwegian interest rates (or rather the rate spread) may finally be high enough. Norwegian interest rates are currently on their way to surpassing US equivalents. In recent years, FX investors have profited from buying the USD and selling the NOK thanks to the rate spread. But with the spread now narrowing, the incentives to sell the NOK are weaker. The easing sales pressure may alone be enough to trigger NOK appreciation.

The NOK has been weak in recent years despite strong domestic economic fundamentals. The NOK performance is increasingly driven by international trends and the NOK will likely not strengthen until we see signs of an improving global economy. The combination of falling interest rates in the US and higher interest rates in Norway should gradually help underpin the NOK.

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FINLAND

Bogged down

Economic growth is badly needed in Finland. It can only come from one of two sources – productivity growth or an increase in the number of hours worked – and neither of them looks very promising at the moment. Without reforms, economic growth in Finland will lose steam for good.

Along the lines of our autumn forecast, we expect economic growth in Finland to continue to slow down to 1% in 2020 and amount to a measly 0.5% in 2021. Household consumption will hold up a little while longer, fuelled by real income growth, but there is no reason to expect that growth in investment and exports will give a boost to the economy.

Companies' willingness to invest is curbed by global uncertainty, and investment in machinery and equipment is already in decline. Growth in construction has nearly ground to a halt, too. Considering that at the same time Finland's largest exports markets, namely Germany, Sweden and the US, are stalling and the structural reforms in Finland have come up short, sources of growth have become hard to find.

Household income growth remains strong

In 2020, household consumption will underpin the Finnish economy, as a growing wage drift and the expiry of the cuts made to holiday bonuses in the public sector will contribute to income growth. We expect household incomes to rise 3% in 2020 and 2.8% in 2021. This means that households' real purchasing power will continue to be strong while the rise in consumer prices will remain slow.

The household savings rate is nonetheless rising, and the decline in consumer confidence indicates no changes to this trend. There is also no reason to expect that fiscal policy will give much of a boost to private consumption, as tax raises weaken purchasing power despite the increase of welfare benefits fuelling consumption. With households putting a higher percentage of their income into savings, consumption growth will only amount to 1.4% in 2020 and slow down further to 1.2% in 2021.

0.5%

GDP growth in 2021.

6.7%

Structural unemployment rate.

55%

Employment rate of workers aged 60–64.

Sources: Nordea, Ministry of Finance and Macrobond

Employment growth at a standstill

In Finland, the unemployment rate seems to be stuck at 6.7% despite a record number of vacancies. According to the Ministry of Economic Affairs and Employment, the total number of vacancies was about 63,000 in November. At the same time, there were close to 229,000 unemployed jobseekers. As the Finnish jobseekers simply do not seem to match with the vacancies, it looks like it will be impossible to bring the unemployment rate down without structural reforms. And so far there have been no signs of structural reforms supporting the labour supply.

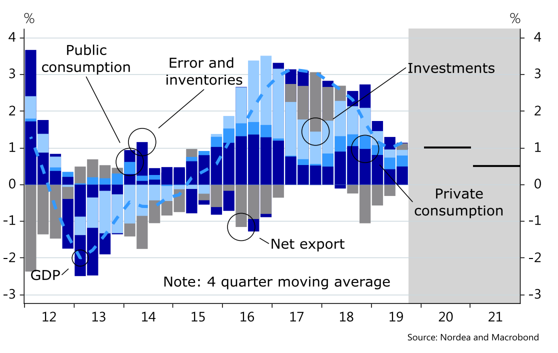
We expect the employment rate to rise very slowly, ending up below 73% in 2021, and the unemployment rate to fall by 0.2% or so in the next two years without any significant structural reforms. This means that employment will not spur the Finnish economy to grow faster or provide relief to the public finances in the coming years.

The Finnish economy has not seen moderate growth for more than a few years, and the labour supply is already creating a major bottleneck. With the num-

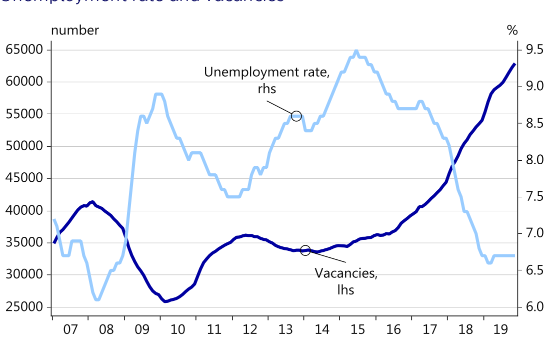
FINLAND: KEY FIGURES

	2017	2018	2019E	2020E	2021E
Real GDP, % y/y	3.1	1.7	1.5	1.0	0.5
Consumer prices, % y/y	0.7	1.1	1.0	1.1	1.2
Unemployment rate, %	8.6	7.4	6.7	6.6	6.5
Wages, % y/y	0.2	1.7	2.5	3.0	2.8
General gov. budget balance, % of GDP	-0.7	-0.8	-1.0	-1.3	-1.4
General gov. gross debt, % of GDP	60.9	59.0	58.5	58.8	59.5
ECB deposit interest rate (at year-end)	-0.40	-0.40	-0.50	-0.50	-0.50

A / Finland's economic growth will slow down
GDP growth by demand



B / The level of structural unemployment reached
Unemployment rate and vacancies



A /
Economic growth continues at a decelerating pace towards the end of the forecast period. We forecast growth of 1.0% for 2020 and 0.5% for 2021.

B /
The labour supply problem has become evident in Finland, and the level of structural employment seems to be at 6.7%.

ber of older workers exiting the labour market constantly exceeding the number of young people entering it, the situation is not going to get any easier going forward either. In addition to the unemployed, older workers represent an underutilised labour resource, although their employment rate has clearly been on the rise. But despite this, the employment rate of people aged 60–64 is just 55% in Finland, whereas in Sweden more than 70% of the people in the same age group are still employed. Taking actions to increase the employment rate of people over 60 might very well be the fastest way to alleviate the acute labour shortage. Labour migration, on the other hand, is a more long-term solution to the challenge posed by an ageing population.

But the most opportune time for employment reforms may already be slipping by. Based on both the Confederation of Finnish Industries EK and the European Commission's business confidence indicators, companies in the manufacturing sector are already expecting to make staff cuts in the coming months. Companies in the service sector, on the other hand, are expecting to continue hiring for now. The slowdown in growth will inevitably hit the service sector, too, and there is ample time for economic conditions to change before any political decisions are made.

Still no revival in exports

The structure of exports is becoming more service-centric, and services now account for about one-third of Finland's exports. But the goods exported from Finland alone have never told the whole story, as the value added in Finland is different from one product to another. With more complex global value chains, the value of an individual product is often not created in just one country.

A significant share of all products manufactured across the world eventually end up in China or the US. For Finnish exports, these are also the main markets where final demand lies, followed by Sweden and Germany. And in all four countries, the economic outlook is not looking very bright at the moment. China's growth is floundering, and the country's focus is turning inwards. In the US, economic growth has already begun to slow down, too. The German economy has barely grown for some time now, and our expected growth rate of about 1% in Sweden is much lower than usual. Nonetheless, we expect the economic prospects to become brighter in both Sweden and the eurozone towards the end of our forecast horizon, which means that exports will gradually start to boost growth again in 2021.

Are we still a country with skilled people?

While the slowdown in Finland's economic growth is an urgent issue, it ultimately poses a problem in the long term. There are many long-term solutions for raising the employment rate and improving productivity – and some of them widely, if not universally, supported. Focusing on skills and equal opportunities will likely boost both productivity growth and employment in the long run.

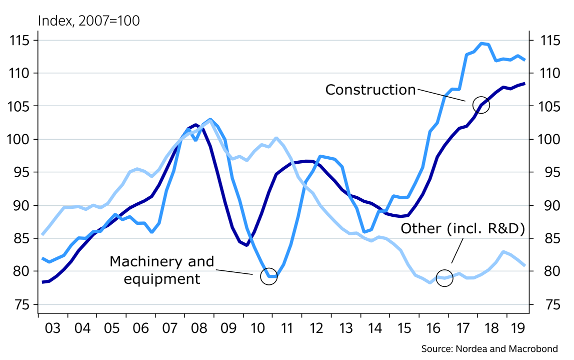
However, the trend in educational level has not been promising in the recent years. According to the PISA survey published in December, the percentage of low-performing readers among Finnish students has increased from 9% in 2009 to 14%. Their reading proficiency is too weak for studying and participating in society. Scores in mathematical literacy have clearly fallen in the 2000s and there are still no signs of improvement. The percentage of low performers is increasing in mathematics, too. The performance of Finnish students in science literacy is still ranked among the best in OECD countries but this score also continues to drop. About 15% of each age group in

"Older workers in particular represent an underutilised labour resource."

Sanna Kurronen
Nordea Senior Analyst

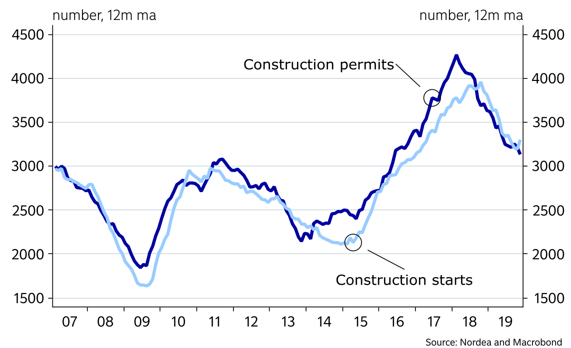
C / Investment growth has fizzled

Investments



D / New construction starts in decline

Building permits and construction starts



C /
Investment in research and development has dwindled since the financial crisis. Investment in intangible assets is crucial for ensuring productivity growth.

D /
Construction is already past its peak and the slowdown will continue in 2020

Finland only has basic education, making them more unlikely to be able to adapt to the continuous changes of work and employment.

Unfortunately, the lower skill level of students in comprehensive school is not the only sign of skills erosion in Finland. The percentage of highly educated people in each age group has also peaked. Finns born in 1977 are the most highly educated age group measured by the percentage of graduates from universities. The stagnation of the educational level is exceptional by international standards, weakening Finland's chances of remaining one of the countries with the most highly-skilled workers.

The Western productivity puzzle

With current population forecasts indicating that the Finnish population will begin to shrink in the 2030s without significant migration flow and the number of working age people already in decline, improving productivity becomes necessary for generating growth and well-being in the longer term.

In the short term, public authorities have limited ways to boost productivity growth. Businesses need healthy competition, a stable environment for making capital investments and an open environment to benefit from the ideas of others, research and educated workers. Political decision-making can influence all these aspects, but mostly in the longer term.

In recent years, productivity growth has been weak in the West in general. It already began to slow down in the US before the financial crisis and there has been plenty of speculation as to the reasons for this, including the deceleration of the 'creative destruction' and the lack of competition caused by global giants taking over the markets.

Investments in research and development boost productivity growth but with a delay. This gives more reason to be worried in Finland, as the country's research and development expenditure has collapsed over the past decade or so. On the other hand, Finland's weak productivity growth could also be attributed to the diminishing of Nokia and the structural transformation in the forest sector. Adapting to such major changes always takes time. But as the acceleration of productivity growth looks far from certain, it becomes essential to boost employment to stimulate economic growth in the next few years.

Stalling investment across the board

The ECB's loose monetary policy will continue to bolster the economy but there are no new boosts in sight. Access to finance is not a concern for businesses according to surveys, and dwindling investment in machinery and equipment is primarily a result of the decline of growth in global demand.

Growth in construction has already decelerated due to the slowdown in new residential construction. Based on the number of new construction starts, the trend continues to be downward. Overall, investment will remain at the same level as last year in our forecast for 2020 and grow slightly in 2021.

Housing market

Last year, the housing market proved to be a ray of light for the Finnish economy. After several slow years, the housing market was exceptionally active, measured by both the sales volumes and housing loans drawn down. In January–November 2019, the number of housing loans drawn down grew by 5.2% compared to the previous year.

E / The decline in consumer confidence has halted

Consumer confidence

F/ Risks tilted to the downside

The risks and opportunities of the Finnish economy

Riskfactor	Type of risk	Likelihood	Magnitude
Private consumption	Upside	Medium	High
Climate action uncertainty	Downside	Considerable	Medium
Weakening competitiveness	Downside	Medium	Medium
Government's economic policy	Upside/ Downside	Medium	High
Domestic investment projects	Upside	Medium	Medium

Source: Nordea

E /
The decline in consumer confidence seems to have halted at least momentarily, and consumer demand has the potential to surprise on the upside in 2020.

F /
Risks to the Finnish economy are balanced. The biggest risks are domestic, especially in 2020.

The surprising thing about the housing market picking up was that it happened at the same time as employment growth practically halted and consumer confidence weakened. It is therefore possible that the growth we saw in the housing market last year was partly due to the release of pent-up demand. Slower economic growth and weaker consumer confidence will inevitably be reflected in the housing market, too, and that is why we expect the growth in the housing market to slow down.

The divergence in housing prices has continued to increase rapidly. From a regional perspective, house prices have risen in growing cities and fallen in depopulated areas. There has also been divergence in prices within the regions, as the prices of studio apartments have risen much faster than the prices of other types of homes on the back of increased demand for investment flats, which will be supported by low interest rates going forward, too.

A slowdown in new construction could lead to an increase in house prices if the number of new apartments in growing cities cannot keep up with the growing demand for homes due to migration.

Slower economic growth and weaker consumer confidence will increase uncertainty in the housing market in the coming years. At the same time, low interest rates will continue to support the housing market. We expect house prices to remain steady on average, with prices going up in growing cities and continuing their downward trend in depopulated areas.

Are climate actions taking effect yet?

The trade war seems to have calmed down for 2020, as Trump's deal creates a positive momentum in US exports to China. But there are still plenty of uncertainties concerning both the global markets and Finland specifically. We believe that domestic demand in particular has the potential to be a positive surprise for the Finnish economy. If households feel confident enough to make larger purchases, consumer demand may increase faster than expected.

The fight against climate change continues to cause uncertainty, which may cause both businesses and households to remain in wait-and-see mode. While investments in low emission technologies seem inevitable, the uncertainty surrounding future climate policy may cause companies to postpone investments and households to remain cautious.

The ongoing wage negotiations involve a clear risk of Finland's cost competitiveness deteriorating. In the best case, the government's economic policy may offer a marked boost to employment and growth or, in the worst case, further erode labour supply.

"Household purchasing power remains strong."

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RUSSIA

Gathering pace

Economic activity was clearly below potential in 2019, but improving consumer confidence, a stronger global economic outlook and more streamlined execution of national projects could help kickstart economic growth in 2020. This year is pivotal for Russia's ability to achieve its ambitious targets set for 2024.

Old goals for a new government

The government's resignation in mid-January came as a big surprise in an otherwise relatively dull Russian economic landscape. However, these changes are not likely to reshape the current economic agenda centred around the 2024 goals set in Putin's May decree. The budget rule – an important pillar of Russian macro stability – will also remain intact.

Temporary slowdown in 2019

For the Russian economy, 2019 was a year of adjustment. Consumers had to get over the value-added tax hike from 18% to 20%. The government was setting up the framework for execution of national projects (comprehensive action plans through 2024 for infrastructure development, digital economy, education, healthcare, export diversification, support to SMEs etc., see chart A). Investors needed to overcome their risk aversion towards Russia after sanctions threats scared them off in 2018.

As expected, the economy felt the pain of the adjustment. The higher tax burden was exacerbated by exceptionally slow budget spending throughout the year as the national projects took time to get on track. The absence of investment growth (0% y/y over the first three quarters of 2019) came as a negative surprise. However, the situation started to improve in the second half of the year, paving the way for better numbers in 2020.

Hopes for a recovery in 2020

The execution of national projects is likely to be more streamlined in 2020 than in 2019. Consumption trends are also reassuring, with the second half of 2019 being slightly stronger than the first half. Improving consumer confidence gives reason to expect a further recovery of consumer demand in 2020 (chart B). A stronger RUB (+12.5% vs the USD in 2019) and new social security measures announced by Putin in January (around 0.3-0.5% of GDP in 2020) will also support domestic demand. As in previous periods of RUB appreciation, consumers are likely to increase their cross-border online purchases to reap the immediate benefits of a stronger currency.

Exports are another pillar of recovery in 2020, as opposed to 2019 when exports decreased in real terms for the first time since 2016 (chart D). The stronger global economy, the launch of the Power of Siberia pipeline to deliver gas to China and a good grain harvest all set the stage for a return to export growth of around 4%. Taken together, positive consumption and exports expectations have allowed us to revise our 2020 GDP growth forecast up from 1.5% to 1.9%.

Monetary easing to bear fruit

The Central Bank of Russia (CBR) was in an active easing cycle in 2019, cutting rates five times in a row by a total of 150bp. As a result, the cost of corporate loans is heading towards levels that are record-low after the 2014 crisis (chart C).

0.7 pp

Upward revision of our private consumption growth forecast for 2020

6%

Expected key rate at the end of 2020

62.5

Our USD/RUB forecast for the end of 2020

Sources: Nordea estimates and Macrobond

RUSSIA: MACROECONOMIC INDICATORS

	2017	2018	2019E	2020E	2021E
Real GDP, % y/y	1.6	2.3	1.2	1.9	2.0
Consumer prices, % y/y	2.5	4.3	3.0	4.0	4.0
Unemployment rate, %	5.2	4.8	4.6	4.4	4.2
Current account balance, % of GDP	2.1	7.0	5.7	5.5	5.1
Federal gov. budget balance, % of GDP	-1.4	2.5	1.7	0.8	0.5
Private consumption, % y/y	3.2	2.3	2.5	2.5	2.3
Monetary policy rate (end of period), %	7.75	7.75	6.25	6.00	6.00
USD/RUB (end of period)	57.6	69.4	62.1	62.5	66.0

Easier monetary conditions reinforce green shoots across the economy. The room for further easing is, however, limited in our view (one more 25bp cut), especially after the newly announced social security measures. However, before proceeding to further cuts, the CBR is likely to take a prolonged pause to assess the impact of already realised monetary easing and newly promised fiscal support on inflation.

2020 will shape outlook for 2024

Even though 2024 still seems far away, we believe that 2020 will be a crucial year for achieving the ambitious targets set for 2024. One of these targets is to make Russia the fifth-largest economy in the world in PPP terms by 2024, surpassing Germany. The official government growth forecast implies that 2020 is the last year when growth will remain moderate (below 2%). A breakthrough to a sustainable 3% annual growth rate is to occur in 2021, according to the government. Achieving this goal requires all the preparatory work scheduled for 2019-20 to be accomplished in time. Otherwise, the gap between actual growth and the very ambitious targets set across all economic development dimensions will widen quickly. The newly appointed government will be intensely focused on accelerating the execution of national projects.

RUB outlook relatively positive

The RUB has reversed most of its weakness of 2018, largely driven by sanctions risks that never materialised. Current exceptionally strong macroeconomic fundamentals (high international reserves, twin surplus and healthy public finances), as well as a country risk premium at a record low since 2007, give reason to expect a sovereign rating upgrade possibly already in 2020. The RUB is likely to follow the general EM FX trends in 2020, which we expect to be moderately positive thanks to an improving global growth outlook. We expect the RUB to appreciate some more in Q1, supported by the seasonality pattern, and then to stabilise at slightly weaker levels later in the year.

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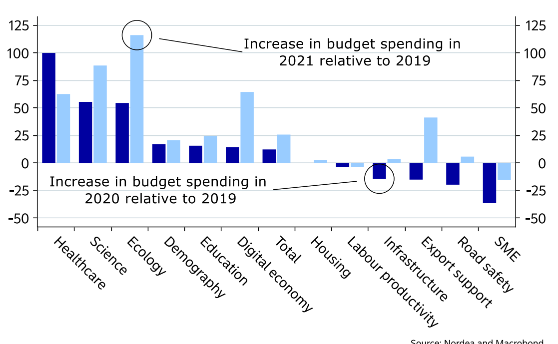
A / National projects are seen as growth drivers

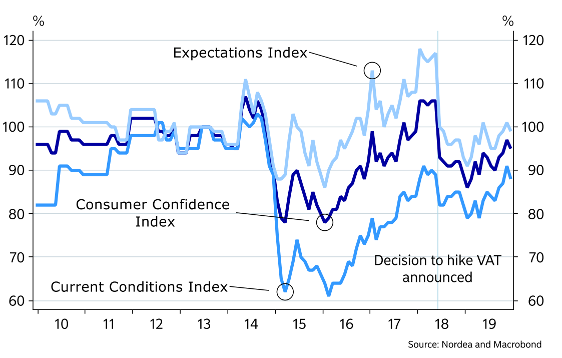
Federal budget spending dynamics in 2020-2021 relative to 2019



Source: Nordea and Macrobond

B / Consumer confidence showing signs of recovery

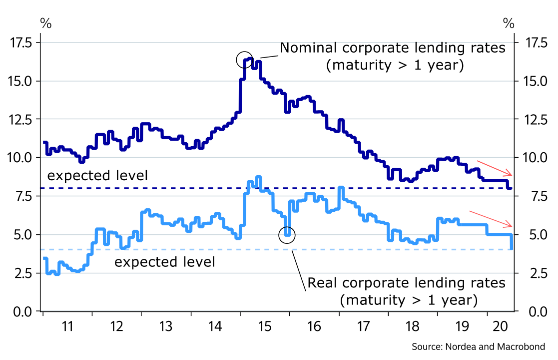
Survey-based consumer confidence indicators



Source: Nordea and Macrobond

C / Lower interest rates are to stimulate growth

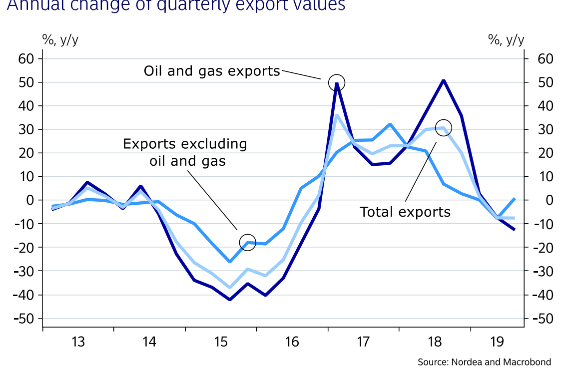
Nominal and real interest rates on corporate loans



Source: Nordea and Macrobond

D / External trade was hit in 2019

Annual change of quarterly export values



Source: Nordea and Macrobond

A /
Higher budget spending on national projects in 2020-21 is one of the important growth drivers. Progress in the projects with the highest planned spending increase is an important indicator for assessing the growth outlook.

B /
Consumer confidence is again on an upward trend as people are gradually getting over the VAT hike. A stronger RUB also helps significantly.

C /
Monetary easing that took place in 2019 is one of the potential growth drivers in 2020.

D /
Both oil and non-oil exports declined in 2019 amid a slowing global economy and an accident with the "Druzhba" pipeline.

Sources: Nordea estimates and Macrobond

Electionomics

The upcoming US presidential election will be a major theme for financial markets in 2020. Normally, the economy fares better in election years, but this year could be different. If Trump is re-elected, expect more of the same policies, but on steroids.

All eyes will be on the outcome of this year's US election held on 3 November 2020. Historically, election years have delivered a boost to the US economy, but the circumstances are different this time around.

Data from 1948 until today show that the US economy tends to perform better in election years. Not a lot better, but clearly better. GDP growth is on average 0.3% higher than in non-election years. Compared to potential growth, election years outperform by 0.4% (see chart A).

The main reason is fiscal policy, as politicians usually prefer an expansionary policy ahead of an election. According to our estimates, fiscal policy has from 1985 until today added around 0.1%-point to GDP growth in election years, while subtracting 0.2%-point in the subsequent year.

Why this time could be different

This time could, however, be different for two reasons. First and foremost, President Trump "front-loaded" his fiscal easing in 2018 and 2019 – the second and third year of his presidency – via both tax cuts and increased government spending. These measures, which likely added 0.5-1%-point to GDP growth each year, came at a time when the US economy was already growing above potential. Hence, the policies contradicted the usual counter-cyclical nature of the fiscal balance (see chart B).

Second, Congress is currently more divided compared to 2018. Not only are the two chambers now split, but the impeachment process against President Trump led by the Democratic-led House has complicated a bipartisan deal. We therefore find it unlikely that the Democratic House majority would support another round of significant fiscal stimulus – especially given that Trump's approval ratings on the economy are much higher compared to his overall ratings.

On the other hand, fiscal austerity is probably not palatable to the Democrats either. They are, after all, also preparing for a presidential campaign. We therefore anticipate fiscal policy to be fairly neutral in 2020.

The Fed is not on "election pause"

Besides the focus on fiscal policy, a common narrative is that the Fed is "election neutral" and avoids rocking the boat in election years. While probably true in principle, the Fed still changes its policy when needed, election year or not.

Since 1971, when the Fed introduced its Fed funds rate, the bank has changed its policy rate every single election year except for 2012 (the year the Fed announced QE3). In the 3-month period leading up to the elections, the Fed has either hiked or cut rates in seven out of 12 years (eight including QE3 in 2012).

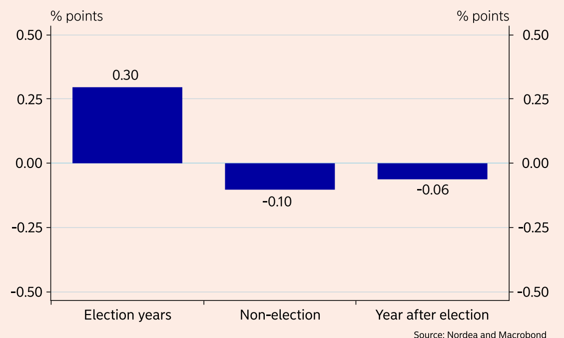
Another common view is that the Fed has an easing bias in election years – perhaps due to the famous "heated discussion" between President Nixon and former Fed Chairman Arthur Burns in which the latter succumbed to the president's wishes on monetary policy. Market participants have recently been reminded of this episode, as Trump has been an unusually loud critic of the Fed (and in particular Chairman Powell).

However, data does not support this easing bias narrative. Out of the last 12 election years, the Fed has hiked rates in eight of them. Six of those times, the

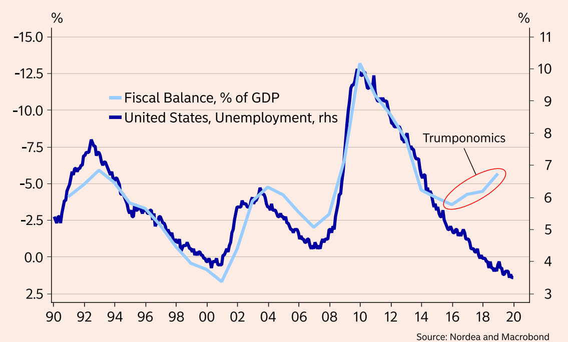
"A common narrative is that the Fed is "election neutral" and avoids rocking the boat in election years. While probably true in principle, the Fed still changes its policy when needed, election year or not."

Morten Lund
US Analyst

A / USD GDP in election and non-election years
GDP growth is usually higher in election years



B / Fiscal balance vs. unemployment
Normally, fiscal policy in counter-cyclical, but not in Trumponomics



A /
Due to especially expansionary fiscal policy, GDP growth tends to be higher in election years.

B /
President Trump "frontloaded" fiscal easing, opposing fiscal policy's counter-cyclical nature.

hikes were in the 6-month period leading up to the elections. Hence, the Fed has not historically had an easing bias nor been on "election pause".

Consequently, we do not think the 2020 election will prevent the Fed from adjusting policy if necessary. Instead, we expect the Fed to cut rates in March as leading indicators point to weaker activity numbers, and inflation expectations continue to be stubbornly low.

Markets in election years?

With the Fed not being on "election pause" in March, we think FOMC decisions should once again be a clear driver of financial markets in 2020. But how will the election alone affect markets this year?

In chart D, we have listed how S&P 500, US 10-year Treasury yields, the broad dollar index (DXY) and VIX perform in election years. The first three do not show a clear pattern. Yields increase in seven out of 12 election years and do not on average show a significant divergence. Although S&P 500 and VIX do, respectively, decline and rise on average in election years (measured by y/y percentage change), this is primarily driven by the Global Financial Crisis in 2008. Excluding 2008, S&P 500 performs equally well in election and non-election years, while the VIX index is not significantly higher or lower compared to non-election years.

When looking at the DXY, there is, however, a tendency for the dollar to appreciate. Intuitively, this also makes sense as the dollar benefits from an election year's usual cocktail of higher political uncertainty and higher US growth (vs. the rest of the world) as described above.

The question then is whether this pattern will repeat itself in 2020. We think so. The isolated impact from the election uncertainty should thus be negative for EUR/USD – especially if Trump wins (see more below). Back in 2016, EUR/USD increased in the run-up to the election, but that was driven by expectations of Hillary Clinton winning. With Trump's surprising win, the dollar gained, yields rallied, and EM FX weakened (in particular the Mexican peso).

We generally expect the same reaction, although probably to a lesser degree, as this time Trump is the favourite. But "how much less" depends to a large extent on who will be the Democrats' presidential candidate (see more below).

We believe four factors will be crucial for the election outcome, which is what the markets will be trading during the year: The economy, the democratic candidate, impeachment and the Midwest.

The economy

The economy is perhaps the most important factor, at least if we use history as a guide. The so-called Misery Index, which includes the sum of unemployment and inflation (CPI % y/y) and indicates the state of the economy, has been a good "forecaster" of the US presidential election outcome.

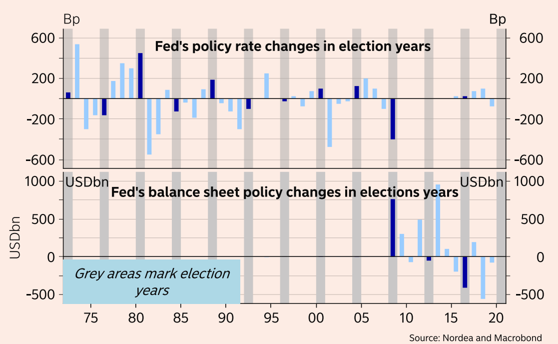
Post-Eisenhower, the 12-month moving average change in the Misery Index has predicted the outcome of a president's re-election six out of eight times. This is, for example, more precise than approval ratings at the beginning of election years (see chart E). Moreover, the misses in the Misery Index in 1976 and 1992, respectively, can probably be attributed to the Watergate scandal and the US economy already being in recession in 1990-91.

"The isolated impact from the election uncertainty should be negative for EUR/USD – especially if Trump wins."

Morten Lund
US Analyst

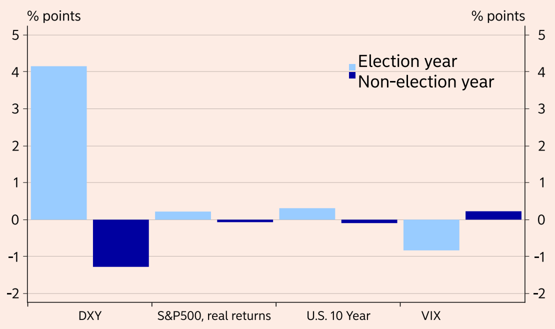
C / Fed policy changes in election years

The Fed adjusts policy if necessary, election year or not



D / S&P 500, yields, USD & VIX in election years, excl. 2008

Stronger dollar in election years

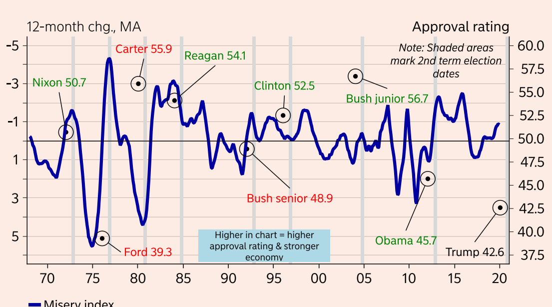


C /
Since 1971, when the Fed introduced its Fed funds rate, the bank has changed its policy rate in every single election year except for 2012. However, in that year the Fed announced QE3.

D /
The dollar usually strengthens in election years, while there is no clear pattern for equities and yields.

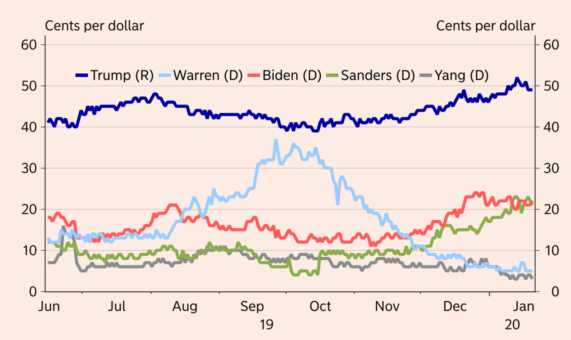
E / Approval ratings & Misery Index (unemployment & CPI)

Momentum in the economy often determines US elections



F / US 2020 presidential election betting odds

Trump is the favourite while Biden is next in line



E /
The Misery Index has been a good "forecaster" of US presidential elections – better than approval ratings at the beginning of election years.

F /
Warren has lost momentum as the Democrats' nominee. Former Vice President Biden is the favourite.

Four critical factors

Thus, a recession hitting would be a bigger risk for Trump's re-election chances, compared to his approval ratings falling due to non-economic issues.

Impeachment

Trump may not be a candidate come November if he is convicted by the Senate in the impeachment trial. The House of Representatives voted in December 2019 to impeach President Trump for abuse of power and obstruction of Congress related to his dealings with Ukraine. The trial in the Senate is purely political, and it is widely expected that the Republican-controlled Senate will protect President Trump. However, new evidence of wrongdoing, much weaker economic key figures or severely lower approval ratings would increase the odds that the Senate forces Trump to resign or even convicts him.

If Trump is out of the 2020 presidential race, Vice President Pence and probably also Mitt Romney are likely to become Republican candidates.

The democratic candidate

Democratic primaries and caucuses will run through the first half of the year, starting 3 February in Iowa. At some point, it will become clear which Democratic candidate will run in November. Biden, Sanders and Warren are the current favourites.

It will make a huge difference if the Democratic candidate is "moderate" or from the party's left wing. Biden is considered moderate, while both Warren and Sanders represent different parts of the party's left wing.

A left-wing Democrat will probably make it more likely that the next president will be Republican, simply because some moderate Democratic voters may favour a Republican over a left-wing Democrat. However, at the same time a left-wing Democratic candidate increases the odds of more dramatic change if they win in November. Thus, a left-wing Democratic candidate is likely to foster more market volatility.

"The Misery Index has predicted the outcome of a president's re-election six out of eight times since 1960."

Morten Lund
US Analyst

The Midwest

A few states in the Midwest – Michigan, Pennsylvania and Wisconsin – helped tip the 2016 presidential election in Trump's favour. These states had been Democratic since the early 1990s, and Trump managed to turn them Republican by small margins. A disproportionally big part of the presidential campaign will likely take place in these states, and polls showing big leads on either side are likely to affect markets.

How will markets react to the different candidates?

There are four possible scenarios for the 2020 election outcome: 1) Four more years with Trump; 2) Biden, or another moderate Democrat; 3) Sanders/Warren or another left-wing Democrat; 4) Pence/Romney or another Republican that is not Trump. During the coming year, financial markets will react to changes in the odds of the respective scenarios based on the candidates' policies. Here's how:

1) Trump: Improving Trump polls would have a mildly negative effect on risk sentiment. The trade war gets most of the blame for the global manufacturing slowdown, and a second Trump term comes with a high risk of escalation, especially towards the European car industry. But the impact is only mildly negative, given that US equities are at an all-time high supported by Trump's constant pressure on the Fed and the massive boost to the economy from tax cuts and deregulation.

2) Biden: Markets are likely to take improving odds of a Biden win as mildly positive news. The risk of friendly fire in the trade war would diminish even if tariffs are not likely to be reduced. But the impact is only mildly positive, as Biden has promised to roll back Trump's tax cuts at least for the highest income groups, which will have some adverse impact on the economy in the medium term.

3) Warren/Sanders: Improving odds of a Warren/Sanders presidency would have the most negative effect on risk sentiment. The adverse impact of regulation and higher taxes would be seen as clearly outweighing the positives of increased spending on climate, infrastructure and debt relief. Moreover, change as such is not something that improves risk sentiment and certainly not on the scale suggested by the Democratic left wing.

4) Pence/Romney: A Republican president that is not Trump would be the best of all worlds for risk sentiment. The risk of an escalation of the trade war would diminish, while none of the Trump administration's tax cuts and deregulation would be rolled back.

Overall, we think the 2020 US presidential election could increase market volatility more than usual. Not only has President Trump – especially via his notorious Twitter account – proven to be a bigger "market mover" than, for instance, his predecessor President Obama, but the relatively high probability of the Democrats' nominee being a pure left-wing rather than a moderate could spur some nervousness. In turn, this could keep volatility somewhat high even throughout the first half of the year, when the Democratic primaries and caucuses take place.

"Improving odds of a Warren/ Sanders presidency would have the most negative effect on risk sentiment."

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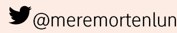

Real GDP, % y/y

	2017	2018	2019E	2020E	2021E
World[1]	3.8	3.6	2.8	2.8	3.2
Advanced economies	2.5	2.2	1.6	1.0	1.4
USA	2.4	2.9	2.3	1.5	1.9
Euro area	2.7	1.9	1.2	0.7	1.1
Japan	2.2	0.3	1.0	0.7	0.5
Denmark	2.0	2.4	2.1	1.5	1.5
Norway	2.0	2.2	2.5	1.8	1.6
Sweden	2.7	2.3	1.1	0.8	1.8
UK	1.9	1.3	1.3	1.1	1.4
Germany	2.8	1.5	0.6	0.3	0.9
France	2.4	1.7	1.3	0.9	1.1
Italy	1.8	0.7	0.2	0.3	0.5
Spain	2.9	2.4	2.0	1.5	1.6
Finland	3.1	1.7	1.5	1.0	0.5
Baltics	2.2	4.3	3.2	2.8	2.7
Emerging economies	4.8	4.6	3.6	3.9	4.3
China	6.8	6.6	6.2	5.9	5.7
Russia	1.6	2.3	1.2	1.9	2.0
India	6.9	7.4	4.9	5.6	6.3
Brazil	1.1	1.1	0.9	2.0	2.4
Poland	4.9	5.1	4.0	3.1	2.7
Rest of World	3.4	2.9	1.7	1.9	2.6

Consumer prices, % y/y

	2017	2018	2019E	2020E	2021E
World[1]	3.2	3.8	3.6	3.7	3.4
Advanced economies	1.7	1.9	1.4	1.5	1.4
USA	2.1	2.5	1.8	1.8	1.6
Euro area	1.5	1.8	1.2	1.2	1.1
Japan	0.5	1.0	1.0	1.3	0.7
Denmark	1.1	0.8	0.8	1.2	1.4
Norway	1.9	2.7	2.2	1.8	1.9
Sweden	1.8	2.0	1.8	1.3	1.4
UK	2.7	2.5	1.8	1.5	2.0
Germany	1.7	1.9	1.4	1.0	0.9
France	1.2	2.1	1.3	1.3	1.1
Italy	1.3	1.2	0.6	0.5	0.6
Spain	2.0	1.7	0.8	0.9	1.0
Finland	0.7	1.1	1.0	1.1	1.2
Baltics	3.5	2.7	2.6	2.3	2.3
Emerging economies	4.4	5.1	5.2	5.2	4.8
China	1.6	2.1	2.9	3.0	2.8
Russia	2.5	4.3	3.0	4.0	4.0
India	3.6	3.4	3.4	4.1	4.1
Brazil	3.4	3.7	3.8	3.5	3.8
Poland	2.0	1.6	2.4	3.5	3.4
Rest of World	5.6	6.4	6.2	6.1	5.4

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

Public sector balance, % of GDP

	2017	2018	2019E	2020E	2021E
USA	-4.5	-5.7	-5.6	-5.5	-5.5
Euro area	-1.0	-0.6	-1.2	-1.1	0.0
Japan	-3.5	-3.2	-3.0	-2.2	-1.9
Denmark	1.5	0.5	2.6	0.6	-0.2
Norway	5.0	8.1	7.1	6.7	6.1
Sweden	1.4	0.9	0.5	-0.1	-0.4
UK	-1.8	-1.4	-1.4	-1.5	-1.5
Germany	1.2	1.9	1.1	1.0	0.7
France	-2.8	-2.5	-3.3	-2.4	-2.4
Italy	-2.4	-2.1	-2.0	-2.5	-2.6
Spain	-3.1	-2.5	-2.2	-1.9	-1.9
Finland	-0.7	-0.8	-1.0	-1.3	-1.4
Baltics	-0.1	0.0	-0.1	0.0	-0.3
China	-3.9	-4.8	-6.1	-6.3	-6.3
Russia	-1.4	2.5	1.7	0.8	0.5
India	-7.0	-6.4	-7.5	-7.2	-7.0
Brazil	-7.9	-7.2	-7.5	-6.9	-6.6
Poland	-1.5	-0.4	-1.5	-2.5	-2.5

Current account, % of GDP

	2017	2018	2019E	2020E	2021E
USA	-2.3	-2.4	-2.5	-2.6	-2.5
Euro area	3.2	2.9	2.8	2.7	2.6
Japan	4.2	3.5	3.3	3.3	3.3
Denmark	7.7	7.0	9.0	8.8	8.1
Norway	4.6	7.1	3.3	5.9	6.8
Sweden	3.4	2.7	4.9	4.9	5.3
UK	-3.3	-3.9	-3.5	-3.7	-3.7
Germany	8.1	7.3	7.0	6.6	6.2
France	-0.7	-0.6	-0.5	-0.5	-0.4
Italy	2.6	2.5	2.9	2.9	2.8
Spain	1.8	0.9	0.9	1.0	1.0
Finland	-0.8	-1.4	-1.2	-1.4	-1.4
Baltics	1.3	0.9	0.2	0.0	-0.4
China	1.6	0.4	1.0	0.9	0.8
Russia	2.1	7.0	5.7	5.5	5.1
India	-1.8	-2.1	-2.0	-2.3	-2.3
Brazil	-0.4	-0.8	-1.2	-1.0	-1.1
Poland	0.1	-0.6	-0.9	-1.1	-1.6

Source: IMF and Nordea estimates

The appendix with a full overview of macroeconomic indicators for Nordics and Russia is available in the electronic version of the Nordea Economic Outlook. You can download it from http://e-markets.nordea.com

Monetary policy rates, %

	23.1.20	3M	30.6.20	31.12.20	31.12.21
US*	1.75	1.50	1.50	1.50	1.50
Japan	-0.10	-0.10	-0.20	-0.20	-0.20
Euro area	-0.50	-0.50	-0.50	-0.50	-0.50
Denmark	-0.75	-0.75	-0.75	-0.75	-0.75
Sweden	0.00	0.00	0.00	0.00	0.00
Norway	1.50	1.50	1.50	1.50	1.50
UK	0.75	0.75	0.75	0.75	1.00
Switzerland	-0.75	-0.75	-0.75	-0.75	-0.75
Poland	1.50	1.50	1.50	1.75	1.75
Russia	6.25	6.25	6.00	6.00	6.00
China	4.35	4.10	3.60	3.60	3.60
India	5.15	4.90	4.90	4.90	4.90
Brazil	4.50	4.00	4.00	4.50	5.25

Monetary policy rate spreads vs Euro area, %-points

	23.1.20	3M	30.6.20	31.12.20	31.12.21
US	2.25	2.00	2.00	2.00	2.00
Japan[1]	-1.85	-1.60	-1.70	-1.70	-1.70
Euro area	-	-	-	-	-
Denmark	-0.25	-0.25	-0.25	-0.25	-0.25
Sweden	0.50	0.50	0.50	0.50	0.50
Norway	2.00	2.00	2.00	2.00	2.00
UK	1.25	1.25	1.25	1.25	1.50
Switzerland	-0.25	-0.25	-0.25	-0.25	-0.25
Poland	2.00	2.00	2.00	2.25	2.25
Russia	6.75	6.75	6.50	6.50	6.50
China	4.85	4.60	4.10	4.10	4.10
India	5.65	5.40	5.40	5.40	5.40
Brazil	5.00	4.50	4.50	5.00	5.75

1) Spread vs USA

3-month rates, %

	23.1.20	3M	30.6.20	31.12.20	31.12.21
US	1.81	1.60	1.60	1.65	1.70
Euro area	-0.39	-0.42	-0.42	-0.40	-0.40
Denmark	-0.41	-0.45	-0.45	-0.45	-0.45
Sweden	0.20	0.25	0.25	0.25	0.25
Norway	1.83	1.75	1.85	1.85	1.85
Russia	6.44	6.50	6.20	6.20	6.20

3-month spreads vs Euro area, %-points

	23.1.20	3M	30.6.20	31.12.20	31.12.21
US	2.20	2.02	2.02	2.05	2.10
Euro area	-	-	-	-	-
Denmark	-0.02	-0.03	-0.03	-0.05	-0.05
Sweden	0.59	0.67	0.67	0.65	0.65
Norway	2.22	2.17	2.27	2.25	2.25
Russia	6.83	6.92	6.62	6.60	6.60

10-year government benchmark yields, %

	23.1.20	3M	30.6.20	31.12.20	31.12.21
US	1.75	1.70	1.60	1.80	2.10
Euro area	-0.26	-0.30	-0.40	-0.30	0.00
Denmark	-0.26	-0.30	-0.40	-0.30	0.00
Sweden	0.11	0.02	0.05	0.10	0.20
Norway	1.43	1.50	1.50	1.50	1.50

10-year yield spreads vs Euro area, %-points

	23.1.20	3M	30.6.20	31.12.20	31.12.21
US	2.01	2.00	2.00	2.10	2.10
Euro area	-	-	-	-	-
Denmark	0.00	0.00	0.00	0.00	0.00
Sweden	0.37	0.32	0.45	0.40	0.20
Norway	1.69	1.80	1.90	1.80	1.50

Exchange rates vs EUR

	23.1.20	3M	30.6.20	31.12.20	31.12.21
EUR/USD	1.11	1.09	1.11	1.15	1.22
EUR/JPY	121.37	120.99	123.21	129.95	140.30
EUR/DKK	7.47	7.47	7.46	7.46	7.46
EUR/SEK	10.54	10.60	10.50	10.40	10.30
EUR/NOK	9.96	9.90	9.85	9.80	9.70
EUR/GBP	0.85	0.88	0.87	0.86	0.85
EUR/CHF	1.07	1.08	1.08	1.10	1.15
EUR/PLN	4.24	4.30	4.25	4.20	4.20
EUR/RUB	68.74	65.95	68.27	71.88	80.52
EUR/CNY	7.68	7.52	7.72	7.99	8.66
EUR/INR	78.72	77.39	79.92	83.95	89.06
EUR/BRL	4.64	4.58	4.66	4.89	5.19

Exchange rates vs USD

	23.1.20	3M	30.6.20	31.12.20	31.12.21
-					
USD/JPY	109.51	111.00	111.00	113.00	115.00
USD/DKK	6.74	6.85	6.72	6.49	6.12
USD/SEK	9.51	9.73	9.46	9.04	8.44
USD/NOK	8.99	9.08	8.87	8.52	7.95
GBP/USD	1.31	1.24	1.28	1.34	1.44
USD/CHF	0.97	0.99	0.97	0.96	0.94
USD/PLN	3.82	3.95	3.83	3.65	3.44
USD/RUB	62.04	60.50	61.50	62.50	66.00
USD/CNY	6.93	6.90	6.95	6.95	7.10
USD/INR	71.04	71.00	72.00	73.00	73.00
USD/BRL	4.18	4.20	4.20	4.25	4.25

* Upper part of target range
Source: Nordea estimates

Appendix

SWEDEN: Macroeconomic indicators

	2016 (SEKbn)	2017	2018	2019E	2020E	2021E
Private consumption	1,999	2.1	1.7	1.0	1.6	1.8
Government consumption	1,165	0.1	0.4	0.5	1.3	1.4
Fixed investment	1,068	5.6	4.2	-1.2	-0.4	1.1
- industrial investment	163	0.8	6.1	-0.9	-3.5	0.5
- residential investment	233	7.9	-3.8	-6.5	-3.8	-3.8
Stockbuilding*	23	0.1	0.4	-0.3	0.0	0.0
Exports	1,910	4.3	3.2	4.4	1.1	3.2
Imports	1,749	4.8	3.6	2.0	1.0	2.5
Real GDP, % y/y		2.4	2.2	1.1	1.1	1.9
Real GDP (calendar adjusted), % y/y		2.7	2.3	1.1	0.8	1.8
Nominal GDP (SEKbn)	4,416	4,621	4,834	5,017	5,156	5,339
Unemployment rate, %		6.7	6.3	6.8	7.3	7.4
Employment, % y/y		2.3	1.5	0.7	0.3	0.5
Consumer prices, % y/y		1.8	2.0	1.8	1.3	1.4
Underlying prices (CPIF), % y/y		2.0	2.1	1.7	1.3	1.4
Hourly earnings, % y/y		2.5	2.5	2.5	2.5	2.5
Current account balance (SEKbn)		159.3	128.6	247.2	254.8	282.5
Current account balance, % of GDP		3.4	2.7	4.9	4.9	5.3
Trade balance, % of GDP		2.7	2.5	3.6	3.2	3.3
General gov. budget balance (SEKbn)		64.6	42.9	24.0	-2.9	-19.2
General gov. budget balance, % of GDP		1.4	0.9	0.5	-0.1	-0.4
General gov. gross debt, % of GDP		40.7	38.8	35.1	34.3	33.5
Monetary policy rate (end of period)		-0.50	-0.25	0.00	0.00	0.00
USD/SEK (end of period)		8.18	8.86	9.36	9.04	8.44
EUR/SEK (end of period)		9.83	10.13	10.51	10.40	10.30

* Contribution to GDP growth (% points)

DENMARK: Macroeconomic indicators

	2016 (DKKbn)	2017	2018	2019E	2020E	2021E
Private consumption	984	1.6	2.6	1.5	1.8	1.9
Government consumption	524	1.0	0.4	0.2	1.3	0.8
Fixed investment	443	3.0	5.4	0.7	1.9	2.7
- government investment	77	-7.4	2.0	1.9	1.9	3.5
- residential investment	89	12.1	5.3	7.9	-0.6	2.2
- business investment	64	3.0	6.7	-3.4	2.7	2.8
Stockbuilding*	13	-0.1	0.3	0.0	0.0	0.0
Exports	1,126	4.6	2.4	3.2	2.7	2.5
Imports	985	4.3	3.6	0.8	3.1	3.3
Real GDP, % y/y		2.0	2.4	2.1	1.5	1.5
Nominal GDP (DKKbn)	2,108	2,175	2,246	2,313	2,382	2,453
Unemployment rate, %		4.2	3.8	3.7	3.8	3.9
Gross unemployment level, '000 persons		116	108	103	106	111
Consumer prices, % y/y		1.1	0.8	0.8	1.2	1.4
Hourly earnings, % y/y		2.2	2.5	2.5	2.6	2.6
Nominal house prices, one-family, % y/y		4.0	3.8	2.9	3.3	3.0
Current account balance (DKKbn)		169	158	208	210	200
Current account balance, % of GDP		7.7	7.0	9.0	8.8	8.1
General gov. budget balance (DKKbn)		33.1	10.7	60.0	15.0	-5.0
General gov. budget balance, % of GDP		1.5	0.5	2.6	0.6	-0.2
General gov. gross debt, % of GDP		35.8	33.9	33.7	33.7	33.6
Monetary policy rate, deposit (end of period)		-0.65	-0.65	-0.75	-0.75	-0.75
USD/DKK (end of period)		6.20	6.53	6.66	6.49	6.12
EUR/DKK (end of period)		7.45	7.46	7.47	7.46	7.46

* Contribution to GDP growth (% points)

NORWAY: Macroeconomic indicators

	2016 (NOKbn)	2017	2018	2019E	2020E	2021E
Private consumption	1,411	2.2	1.9	1.6	2.2	2.2
Government consumption	755	1.9	1.4	2.7	1.8	1.6
Fixed investment	781	2.6	2.8	5.5	1.1	-0.4
- gross investment, mainland	603	6.8	3.0	3.5	0.7	0.7
- gross investment, oil	165	-5.4	1.9	14.0	3.0	-5.0
Stockbuilding*	105	0.1	0.1	0.1	-0.1	0.0
Exports	1,099	1.7	-0.2	2.1	3.7	2.8
- crude oil and natural gas	374	5.1	-4.8	-2.0	5.0	2.2
- other goods	356	1.7	2.0	4.0	3.0	3.2
Imports	1,037	1.9	1.9	5.1	2.4	1.8
Real GDP, % y/y	3,098	2.3	1.3	1.9	2.2	1.7
Real GDP (Mainland), % y/y	2,738	2.0	2.2	2.5	1.8	1.6
Unemployment rate, %		4.2	3.9	3.7	3.5	3.5
Consumer prices, % y/y		1.9	2.7	2.2	1.8	1.9
Core consumer prices, % y/y		1.4	1.5	2.2	2.1	1.9
Annual wages, % y/y		2.3	2.8	3.4	3.4	3.4
Current account balance (NOKbn)		152	252	120	226	271
Current account balance, % of GDP		4.6	7.1	3.3	5.9	6.8
Trade balance, % of GDP		3.5	5.8	1.5	2.9	3.3
General gov. budget balance (NOKbn)		165	287	261	256.3	241.8
General gov. budget balance, % of GDP		5.0	8.1	7.1	6.7	6.1
Monetary policy rate, deposit (end of period)		0.50	0.75	1.50	1.50	1.50
USD/NOK (end of period)		8.18	8.66	8.79	8.35	7.79
EUR/NOK (end of period)		9.82	9.90	9.87	9.60	9.50

* Contribution to GDP growth (% points)

FINLAND: Macroeconomic indicators

	2016 (EURbn)	2017	2018	2019E	2020E	2021E
Private consumption	118	1.0	1.8	1.2	1.4	1.2
Government consumption	51	0.2	1.5	1.5	1.8	0.4
Fixed investment	49	4.0	3.3	-0.7	0.3	0.5
Stockbuilding*	1	0.0	0.6	0.2	-0.2	-0.3
Exports	76	8.8	2.2	4.4	1.3	1.6
Imports	78	4.1	5.0	3.0	1.5	1.5
Real GDP, % y/y		3.1	1.7	1.5	1.0	0.5
Nominal GDP (EURbn)	217	226	234	240	245	250
Unemployment rate, %		8.6	7.4	6.7	6.6	6.5
Industrial production, % y/y		8.4	0.1	2.3	1.5	1.2
Consumer prices, % y/y		0.7	1.1	1.0	1.1	1.2
Hourly earnings, % y/y		0.2	1.7	2.5	3.0	2.8
Current account balance (EURbn)		-1.7	-3.3	-2.8	-3.5	-3.5
Current account balance, % of GDP		-0.8	-1.4	-1.2	-1.4	-1.4
Trade balance (EURbn)		1.5	0.8	2.0	1.7	1.5
Trade balance, % of GDP		0.7	0.3	0.8	0.7	0.6
General gov. budget balance (EURbn)		-1.6	-1.9	-2.4	-3.2	-3.5
General gov. budget balance, % of GDP		-0.7	-0.8	-1.0	-1.3	-1.4
General gov. gross debt (EURbn)		137.4	138.4	140.6	144.3	148.5
General gov. gross debt, % of GDP		60.9	59.0	58.5	58.8	59.5
Monetary policy rate (end of period)		-0.40	-0.40	-0.50	-0.50	-0.50
EUR/USD (end of period)		1.20	1.14	1.12	1.15	1.22

* Contribution to GDP growth (% points)

RUSSIA: Macroeconomic indicators

	2016 (RUBbn)	2017	2018	2019E	2020E	2021E
Private consumption	45,317	3.2	2.3	2.5	2.5	2.3
Government consumption	15,729	0.4	0.5	0.4	0.8	0.8
Fixed investment	18,911	5.5	2.0	0.5	2.5	3.5
Exports	22,138	5.1	6.0	-0.6	4.0	3.0
Imports	17,689	17.4	4.0	2.5	7.0	5.5
Real GDP, % y/y		1.6	2.3	1.2	1.9	2.0
Nominal GDP (RUBbn)	86,149	92,037	98,203	102,363	108,480	115,075
Unemployment rate, %		5.2	4.8	4.6	4.4	4.2
Consumer prices, % y/y (end of year)		2.5	4.3	3.0	4.0	4.0
Current account balance, % of GDP		2.1	7.0	5.7	5.5	5.1
General gov. budget balance, % of GDP		-1.4	2.5	1.7	0.8	0.5
Monetary policy rate (end of period)		7.75	7.75	6.25	6.00	6.00
USD/RUB (end of period)		57.6	69.4	62.1	62.5	66.0
EUR/RUB (end of period)		69.1	79.3	69.7	71.9	80.5

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