Nordea

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In Need of Vitamins

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In need of vitamins

Winter is upon us, and most of us need an extra dose of vitamins to withstand the dark and the chilly temperatures and to keep colds and winter blues at bay.

Metaphorically speaking, this is also the case for large parts of the world economy. The Anglo-Saxon economies, the US and the UK are heading for a self-sustaining recovery and no longer need new stimulus. But the same cannot be said for the Euro area, which after a good start to the year has now got a mild case of the blues. China and Brazil also have major difficulties in living up to previous growth rates. And in view of the WTO's warning of increasing protectionism and the fact that geopolitical risks are larger than they have been for a long time, the challenges of shifting global growth into a higher gear again seem significant.

Fiscal policy easing and help from oil prices

The latest proposed solutions to the growth problems were first aired at the recent G20 summit in Brisbane when it was decided to launch coordinated measures to promote economic growth through new infrastructure projects. The EU Commission has since followed up with its new growth plan, which focuses on creating economic progress through publicly and politically initiated investments. Moreover, there are signs that recent years' very tight fiscal policy discipline has eased. During a time when monetary policy is stretched to breaking point, these initiatives can at best be considered necessary, but not sufficient, to boost growth and reduce unemployment in crisis-struck Europe.

External events could also help the ailing economies, though. The recent dramatic and unexpectedly sharp oil price decline could thus be a crucial catalyst for growth in the world economy, which we expect to gain strength in coming years.

Tough conditions for Nordic economies

Given the weak international trends, growth conditions have been tough for the Nordic countries, which are all quite reliant on foreign trade.

Nonetheless, both Sweden and Norway have delivered relatively decent growth rates, not least driven by a strong upturn in domestic demand. Notably in Sweden inflation has still been extremely low and the Riksbank therefore aggressively cut interest rates to a historically low level of 0%. Credit growth remains strong and sharp increases in house prices could threaten financial stability. Those risks are now sought mitigated through macroprudential measures.

Also over the coming years we expect relatively high growth in both countries, but notably the Norwegian economy will be very reliant on oil price trends. OPEC's decision not to reduce its production quotas means that the uncertainty about growth in 2015 and 2016 is higher than previously assumed. However, it is our expectation that a possible sharp downturn in the economy will be addressed through a significant fiscal easing.

In recent years Denmark and Finland have been the laggards in the Nordic growth race and this will not change in the years ahead. Of the two countries, Denmark seems to have the best chances of emerging from the growth crisis on the back of significantly improved labour market conditions and a stabilisation of the housing market. Finland, on the other hand, is still stuck in recession. The slowdown in Russia hits the Finnish economy harder than the other Nordic countries, and in light of the serious structural problems that Finland is also struggling with, we see a risk of new growth disappointments – and a need for an extra dose of vitamins.

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Challenges on several fronts

- Amortisation requirements; households will manage
- Higher inflation, but still below target
- No further monetary stimulus; hikes a long way off
- Political turbulence may affect the krona

Decent GDP growth despite weak external demand

GDP growth has been volatile over the past two years. Still, the overall picture of the Swedish economy is one of an economy performing well. GDP growth has been around 2%, employment has increased sharply and inflation has remained low. But Sweden remains a dual economy, with growth driven by domestic demand, while exports have remained subdued.

This pattern will to a large extent persist over the forecast horizon. Sustained sluggish demand eg in the Euro area and among Sweden's Nordic neighbours is a challenge for Swedish exporters, and exports will likely only recover slowly. Against this backdrop, instead of gaining momentum GDP growth is expected to remain around 2%. Inflation should pick up somewhat, but stay below the Riksbank's 2% target over the forecast period.

The authorities are concerned

Households have been the key driver of Swedish growth over the past years. But in tandem with rising income, consumption and house prices, household debt has also increased. The debt-to-income ratio has risen from 106% to 170% over the past 15 years. Over the same period house prices have more than doubled, which is a worrying development in the eyes of many policymakers. Hence, a key theme going forward will be the authorities' attempt to halt household indebtedness and its effect on households.

Households will manage despite new requirements

The Swedish Financial Supervisory Authority has announced new amortisation requirements, stipulating for instance that new mortgage loans must be paid down to a level corresponding to an LTV of 50%. For the household sector overall the amortisation amounts are fairly small, but for individual households they may be quite significant.

The housing market trend coupled with the risks associated with household indebtedness is a complex issue. But there is no doubt that with the growing household debt, risks in the Swedish economy have also increased.

We think that the amortisation requirements will dampen further growth, but not trigger a decline in house prices or household consumption. We base our view on several factors, including the high household savings ratio, the fact that amortisations have already picked up and the strong likelihood of low mortgage rates for quite some time. Moreover, households will probably reduce other savings if forced to amortise their mortgage debt. Note also that the increase in residential construction over the past years was from a low starting point and is not likely to lead to any oversupply of dwellings. We do not expect any additional requirements to halt household indebtedness over the forecast period.

Low inflation, low interest rates

Although amortisations may be seen as savings, they still increase households' housing expenses. And higher mortgage rates would add even further to these expenses, which limits the Riksbank's room for manoeuvre in terms of hiking rates.

Sweden: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2011 (SEKbn)	2012	2013	2014E	2015E	2016E
Private consumption	1,693	0.8	1.9	2.4	2.2	2.0
Government consumption	921	1.1	0.7	1.4	1.6	0.8
Fixed investment	830	-0.2	-0.4	4.6	4.6	3.0
- industrial investment	170	-3.1	-1.4	-3.8	4.1	4.6
- residential investment	125	-11.8	2.1	18.8	9.2	3.2
Stockbuilding*	41	-1.1	0.0	0.3	0.0	0.0
Exports	1,707	1.0	-0.2	2.3	4.8	5.0
Imports	1,535	0.5	-0.7	5.1	5.1	4.1
GDP		-0.3	1.3	1.8	2.5	2.4
GDP, calendar adjusted		0.1	1.3	2.0	2.3	2.1
Nominal GDP (SEKbn)	3,657	3,685	3,775	3,895	4,044	4,205
Unemployment rate, %		8.0	8.0	7.9	7.7	7.5
Employment, % y/y		0.7	1.0	1.5	1.3	0.7
Consumer prices, % y/y		0.9	0.0	-0.2	0.3	1.6
Underlying prices (CPIF), % y/y		1.0	0.9	0.5	0.9	1.4
Hourly earnings, % y/y		2.8	1.9	2.1	2.8	3.0
Current account balance (SEKbn)		204.8	229.0	201.3	204.3	230.9
- % of GDP		5.6	6.1	5.2	5.1	5.5
Trade balance, % of GDP		3.7	3.8	3.1	2.9	3.1
General government budget balance (SEKbn)		-34.1	-51.3	-85.6	-61.9	-31.3
- % of GDP		-0.9	-1.4	-2.3	-1.6	-0.8
General government gross debt, % of GDP		37.7	40.6	40.9	40.5	40.2

* Contribution to GDP growth (% points)

The Riksbank is currently focusing on the too low inflation. Over the past four years, inflation as measured by the Riksbank's favourite yardstick, the CPIF (the CPI excluding mortgage rates), has averaged about 1%. Over the past year inflation has been even lower.

There are several signs that inflation has bottomed and we look for slightly rising inflation going forward, notably driven by SEK weakness. But despite the sharp increase in employment, wage increases will remain subdued as the hard-pressed export industry provides the benchmark for the pay talks. Because of this and the low level of inflation globally, Swedish inflation will stay below target in the years ahead.

The expected slow pick-up in inflation should be enough to prevent extraordinary stimulus in the form of for instance a repo rate in negative territory or currency market intervention. On the other hand, there is every indication that rate hikes will not appear on the agenda for a long time. We expect the Riksbank to start hiking rates in mid-2016 and subsequently progress at low speed.

The SEK under monetary policy fire

While the Riksbank is not expected to take further action to stimulate the economy, the ECB has announced a major expansion of its balance sheet, which probably will boost investor appetite for assets denominated in other currencies such as the SEK. In addition, in most respects the Swedish economy is considered more robust than the Euro-area economy, which also speaks in favour of krona strengthening versus the euro.

One uncertainty in Sweden is the political situation with an exceptionally weak minority government. We think that the government's draft budget for 2015 will be passed by parliament. But the risk of a government reshuffle or a new election later on remains, which periodically could put the SEK under pressure.

We see the opposite trend against the US dollar. The US economy is powering ahead, and a rate hike by the Fed is approaching, which underpins the USD. We see the SEK trading at 8.90 versus the EUR and at around 7.75 versus the USD in one year's time.

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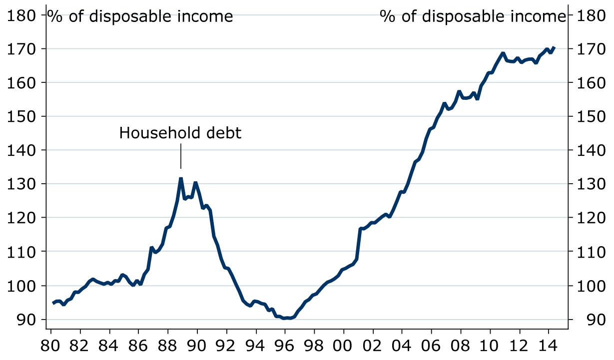
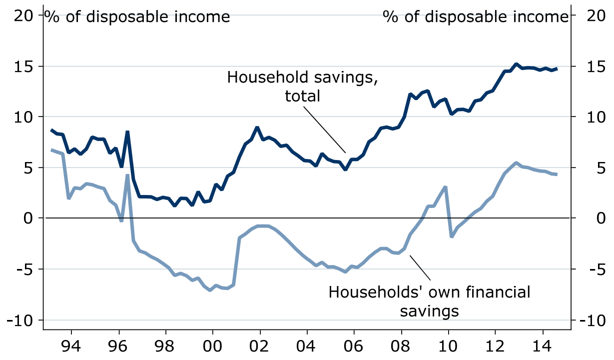
Rising debt ratio



Source: Nordea Markets and Macrobond

Household savings already at a record high

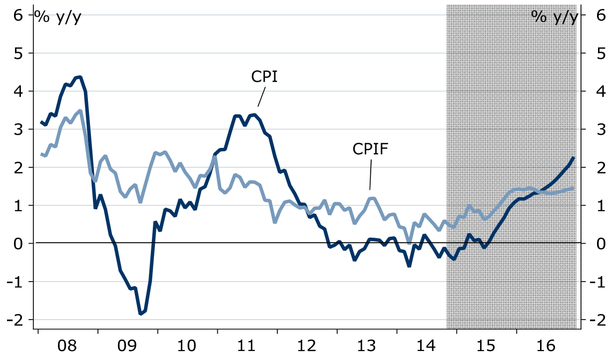


Source: Nordea Markets and Macrobond

Very low inflation among Sweden's trading partners

Source: Nordea Markets and Macrobond

Core inflation remains below target



Source: Nordea Markets and Macrobond

Low oil price will weaken growth

- Growth will slow in 2015
- Subdued inflation and wage growth ahead
- Unchanged interest rates for a long time

Oil price trends create uncertainty

Since the September issue of Economic Outlook the oil price has declined from USD 100 to USD 70 a barrel. The effect of the lower oil price on the mainland economy de-pends on how it impacts the oil companies' investment plans for the Norwegian shelf. Also, the oil companies' increased focus on cost efficiency may result in lower mainland income and production. Lastly, a lower oil price level could heighten uncertainty among consumers and businesses in mainland Norway. On the other hand, rather than leading to lower government spending, lower government receipts should lead to lower capital accumulation for the pension fund. Actually, if the oil price decline hits the economy hard, the government will likely respond by cutting taxes and increasing spending.

Our forecasts assume an oil price above USD 70. That will lower growth somewhat in 2016 compared to USD 100. But if the oil price drops further, the outlook for Norway may be grimmer than we describe here. An oil price level below USD 70 could have dire consequences.

Consumers keep the wheels turning

Household demand accounts for a far bigger share of the economy than oil investment, and here the picture has been rather mixed lately, with strong house price figures but slowing consumption growth. After a strong start to the year consumer spending growth has slowed. Slightly weaker wage increases might suggest weaker consumption growth, but growth in total household real income will remain at current levels. In addition, consumption should be supported by the high savings ratio, low interest rates and still rising house prices.

House prices have risen sharply during the autumn. Key factors behind this trend are banks' increased willingness to lend and lower lending rates. If banks' willingness to lend remains intact, prices will likely continue to rise going forward. More uncertainty in the labour market, however, point to more moderate price growth than so far this year. Still, we see decent growth also in 2015 due to the strong momentum at the start of the year. In 2016 we expect prices to rise by 2% y/y. Residential construction also looks set to pick up. But with moderate growth in prices of existing homes, housing investment is not likely to become a strong growth engine for the Norwegian economy.

Offshore investment to decline next year

Neither the latest survey of oil companies' investment plans from Statistics Norway nor the declining oil price justifies a change to our projection of a 15% drop in oil investment next year. Subsequently, planned new field expansions with Johan Sverdrup as the most significant one are the reason why we expect a more moderate drop in 2016. Should oil prices drop more than we expect, it will hardly influence investment in 2015, but in 2016 it could cause some projects with low profitability to be postponed or shelved.

Mainland business investment has shown a downtrend since early 2013, but with a low level of investment activity, low interest rates and banks that are far more willing to lend, the scene is set for growth going forward, albeit at a slow pace due to moderate production growth.

Norway: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2011 (NOKbn)	2012	2013	2014E	2015E	2016E
Private consumption	1.125	3,5	2,1	1,8	2,0	2,2
Government consumption	587	1,6	1,7	3,2	2,4	2,5
Fixed investment	596	7,6	6,8	1,1	-2,2	0,1
- gross investment, mainland	431	7,4	2,9	1,6	2,9	1,8
- gross investment, oil	148	15,1	17,1	0,0	-15,0	-5,0
Stockbuilding*	126	-0,3	0,5	0,6	0,3	0,0
Exports	1.154	1,4	-3,0	0,5	1,9	1,9
- crude oil and natural gas	568	0,5	-7,6	-1,5	1,0	0,5
- other goods	316	-0,2	1,0	2,8	3,4	3,7
Imports	796	3,1	4,3	1,1	1,2	1,6
GDP	2.792	2,7	0,7	2,1	1,4	1,7
GDP, mainland	2.158	3,8	2,3	2,6	1,6	2,0
Unemployment rate, %		3,2	3,5	3,5	3,9	4,2
Consumer prices, % y/y		0,8	2,1	2,0	1,6	1,6
Core prices, % y/y		1,2	1,6	2,4	1,9	1,6
Annual w ages, % y/y		4,0	3,9	3,0	3,0	3,0
Current account balance (NOKbn)		412,9	323,3	318,0	228,9	287,6
- % of GDP		13,9	10,5	10,0	7,0	8,5
Trade balance, % of GDP		12,9	10,2	8,7	5,9	7,3
General government budget balance (NOKbn)		404,5	349,3	300,0	240,0	280,0
- % of GDP		13,6	11,4	9,5	7,6	8,3

* Contribution to GDP growth (% points)

Exports and public sector support growth

Modest growth abroad and the past year's NOK weakening point to moderate growth in mainland exports. But as growth in imports will stay low, net exports will underpin GDP growth next year. Meanwhile, growth in government consumption and perhaps especially investment will remain fairly high in the years ahead.

All in all, we look for weak mainland GDP growth of about 1½% next year. Oil investment acts as a drag, while decent domestic demand growth and strong growth in net exports limit the slowdown. In 2016 mainland GDP growth should pick up somewhat again with more modest decline in oil investment. Employment growth will drop markedly in 2015; however, slowing labour supply growth will moderate the increase in unemployment.

Low wage and price growth

A lower oil price and the drop in oil investment will contribute to dampening wage growth, which is important for Norges Bank's interest rate stance. Wages in the oil services industry have risen sharply over the past years, pushing up overall wage growth. But with increased cost consciousness in the oil industry and a weaker labour market, wage growth should slow. We look for wage growth at 3% annually in 2015-16, down from 4% over the past years. The risk has tilted to the downside. With lower wage growth, inflation should drop markedly; we see core inflation hovering between 1½% and 2% over the next couple of years.

Unchanged interest rates

Our estimates for growth, wage growth and inflation are on the low side of Norges Bank's forecasts, which might suggest rate cuts ahead. However, we also expect a weaker import-weighted NOK than Norges Bank and experience tells us that it will take a lot to prompt the bank to cut rates when house prices and household indebtedness are continuing up. Note, though, that weaker growth as a result of a bigger oil price decline could trigger a rate cut.

During the autumn the NOK weakening has been driven by the lower oil price and increased expectations of a rate cut. As we do not expect a rate cut now, we see the NOK strengthening going forward, albeit a relatively moderate strengthening of the import-weighted rate. If the NOK strengthens more and/or growth and/or inflation turn(s) out lower than we project, Norges Bank will likely signal a rate cut. That could weaken the NOK and if the effect is strong enough, it could prevent the rate cut from materialising.

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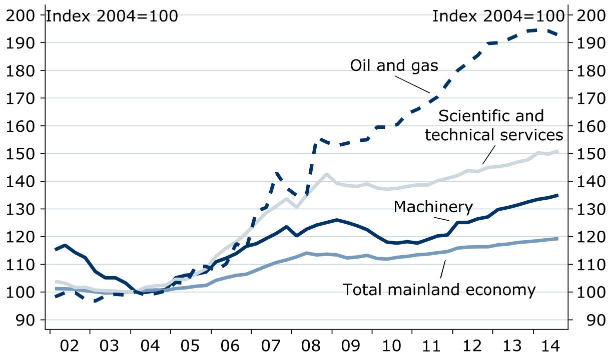
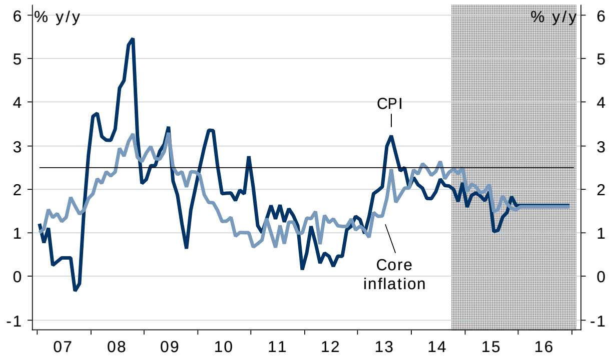
Wage growth has been high in oil-related industries



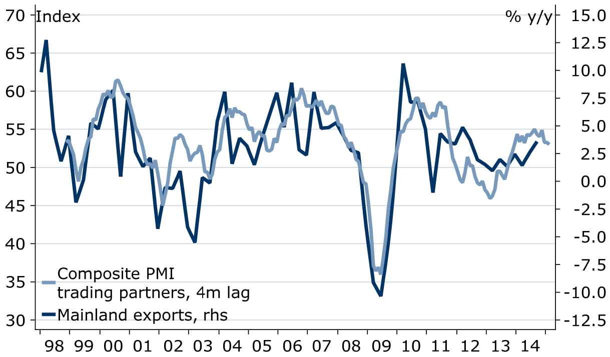
Source: Nordea Markets and Macrobond

Inflation will fall below target again



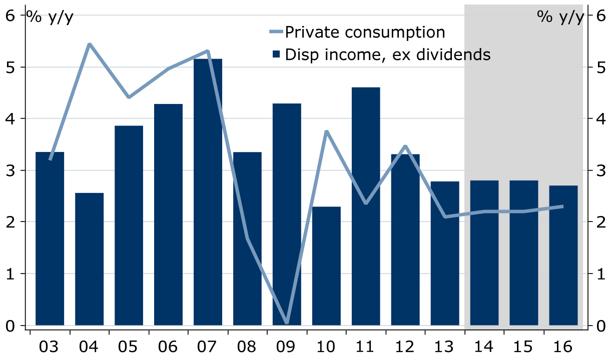
Source: Nordea Markets and Macrobond

Mainland exports to pick up



Source: Nordea Markets and Macrobond

Still decent income growth for households



Source: Nordea Markets and Macrobond

Hitting the growth wall?

- New period of low growth looming
- Stagnant consumer spending hurts
- Public budgets stretched to breaking point
- Labour market is the bright spot

The Danish economy has expanded since mid-2013. This is the longest period of positive growth in eight years, fuelling hopes that the economy is finally emerging from the grip of the crisis. However, under the nice surface, the risk of new growth disappointments still lurks. In Q3 exports and consumer spending contracted, and preliminary indicators for Q4 have not given grounds for much optimism. But over the coming years we expect growth to accelerate moderately again in step with rising demand both at home and internationally.

Exports have stalled

Over the past six months Danish exports have been hit hard by the stagnation in Europe and a sharp drop in trade with Russia. Near term, there is little indication of exports picking up anytime soon. However, slightly longer out there is hope that Danish exports will be boosted by the depreciation of the trade-weighted DKK exchange rate, which may significantly improve Danish competitiveness.

Large pent-up consumer potential

Consumer spending accounts for about half of demand in the Danish economy. Households' growing spending appetite is thus a vital condition for the overall Danish economy returning to the growth path. The conditions for this kind of consumer-driven upswing seem to be in place given the combination of rising employment, positive real wage trends, persistently upbeat consumer confidence readings, historically low interest rates, falling petrol prices and an improving housing market situation. However, these factors have not yet been strong enough to lift overall consumer spending out of the stagnation that has badly hit retail sales. In the years ahead we expect some of recent years' purchasing power improvement to manifest itself in increased spending. However, any increase will be curbed by households' continued deleveraging.

Investment activity worryingly low

Weak investment activity in the private sector has been a major problem for the Danish economy for a long time. During 2014 business investment started to slowly pick up again, but the level is still very low. At present, overall investment only makes up just over 18% of GDP. By comparison the pre-crisis figure was around 21%. If this level had been maintained, the Danish economy could have been lifted by investment to the tune of DKK 50bn annually.

However, near term we see few signs of meaningful investment growth – on the contrary, the latest slowdown in demand may dampen investment activity further. These worries were recently highlighted by the falling investment expectations for 2015 in the manufacturing industry. The low investment activity therefore still constitutes a major challenge for the Danish economy. Near term, it keeps the economy in zero-growth territory, and longer out the lack of investment may weaken the growth outlook. The low investment level is thus both a cyclical and a structural problem, which underlines the need for reforms to strengthen the overall conditions for businesses.

Denmark: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2011 (DKKbn)	2012	2013	2014E	2015E	2016E
Private consumption	872	0.4	0.0	-0.2	0.6	1.6
Government consumption	491	-0.2	-0.5	0.9	0.9	0.5
Fixed investment	336	0.6	0.9	3.2	1.5	3.3
- government investment	40	9.8	0.3	2.7	-6.3	-3.7
- residential investment	80	-8.2	-5.0	5.3	1.4	2.8
- business investment	216	1.2	3.4	2.7	4.0	5.4
Stockbuilding*	18	-0.6	-0.2	0.0	0.0	0.0
Exports	971	0.1	0.8	2.2	1.4	3.0
Imports	869	0.9	1.5	3.5	1.0	2.9
GDP		-0.7	-0.5	0.8	1.3	1.7
Nominal GDP (DKKbn)	1,833	1,867	1,886	1,911	1,960	2,022
Unemployment rate, %		6.1	5.8	5.1	5.1	4.9
Gross unemployment level, '000 persons		161.6	153.0	135.0	134.0	131.0
Consumer prices, % y/y		2.4	0.8	0.6	0.9	1.4
Hourly earnings, % y/y		1.6	1.2	1.3	1.4	1.7
Nominal house prices, one-family, % y/y		-3.3	2.7	3.4	2.9	3.5
Current account balance (DKKbn)		105.0	136.0	127.0	125.0	120.0
- % of GDP		5.6	7.2	6.6	6.4	5.9
General government budget balance (DKKbn)		-73.0	-14.0	-3.0	-55.0	-47.0
- % of GDP		-3.9	-0.7	-0.2	-2.8	-2.3
General government gross debt, % of GDP		44.4	43.8	45.1	45.2	45.9

* Contribution to GDP growth (% points)

Government coffers firmly shut

For the second year running the public budget deficit looks set to be very moderate. In early October the government announced that the tax rebate scheme for capital pensions will be extended and will now also include pension savings at the LD pension fund (mandatory labour market pension scheme). The new measures are expected to fetch about DKK 15bn in 2015, thus easing some of the pressure on the public budget. On the other hand, the oil price decline will increase the public budget deficit, which we expect to total 2.8% of GDP. The deficit thus still hovers alarmingly close to the EU budget threshold. And although one year with a budget deficit overrun will probably not make Denmark a candidate for the EU's procedure for excessive budget deficits, it will make further stimulus almost impossible.

Labour market the bright spot in Danish economy

The labour market is undoubtedly the main bright spot in the Danish economy. Over the past year, employment in the private sector has risen by more than 20,000 persons and unemployment has dropped to the lowest level since 2009. Businesses' hiring plans and the number of vacant positions suggest that this positive trend will continue into 2015. Initially, it may seem like a paradox that the labour market situation is so favourable during a period when overall activity in the Danish economy has been below the level normally required to maintain unchanged employment. Part of the explanation is that falling oil production in the North Sea has distorted total GDP figures so that other (and more labour-intensive) sectors have done better than the overall growth numbers would suggest. However, there is a considerable risk that the recent employment growth has been partly driven by expectations of an imminent increase in demand. Of course, this heightens the risk of sharply lower employment growth into 2015.

Lowest inflation level since the 1950s

Danish inflation is heading towards the lowest average rise since 1953. A combination of falling food prices, markedly reduced oil prices and increased price competition has driven inflation lower during the year. This trend is likely to continue into 2015 when for example the rollback of the energy security tax from early this year will put additional downward pressure on inflation. On the other hand, the effects of the weaker trade-weighted DKK exchange rate will help lift import prices. Viewed in this light, we expect the Danish consumer price index to rise by almost 1% in 2015 and slightly more in 2016.

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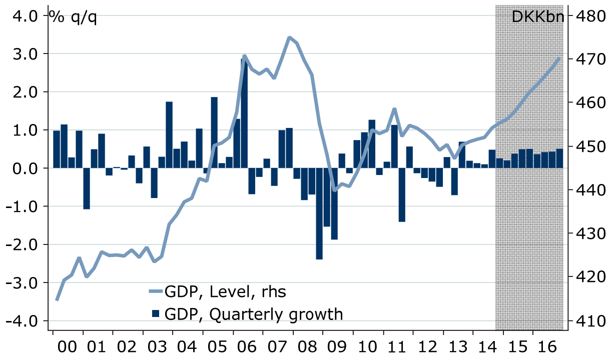
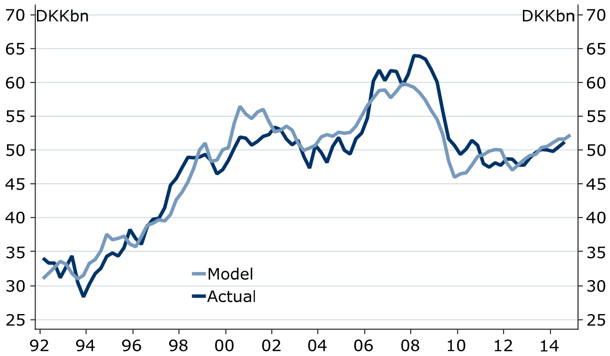
Baseline looks fine



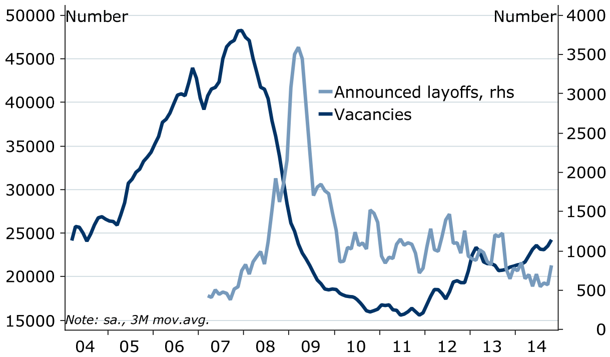
Source: Nordea Markets and Macrobond

Low business investment activity



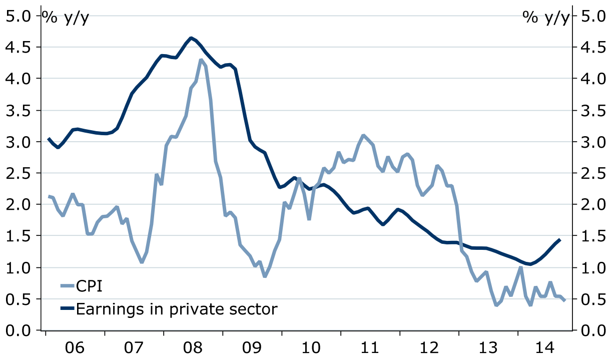
Source: Nordea Markets and Macrobond

Continued labour market improvement



Source: Nordea Markets and Macrobond

Low inflation ensures positive real wage growth



Source: Nordea Markets and Macrobond

Lean times ahead

- Economy contracting for fourth year in a row
- Spending exceeds income
- Exports to recover in late 2015
- Consumption and investment are lacking in fuel

Economy contracting for fourth year in a row

We have downgraded our near-term growth estimates for the Finnish economy. The main reason for this adjustment was the gloomier outlook for domestic demand. Private consumption will contract as households lack in purchasing power. The Finnish retail and services sectors will continue to face difficulties. The employment outlook is weak and investments are further dwindling. The lacklustre outlook for exports has not changed significantly during the autumn. There is no quick recovery on the horizon, although no major scale-back in expectations has occurred either.

We estimate that total production in Finland will contract in 2015 for the fourth year in a row. In 2016, production will see a fragile rise. The growth forecast for 2015 has been revised down by just over half a percentage point to -0.3% and the 2016 estimate has been slightly downgraded to 1.0%. We have maintained our estimate for the current year at -0.5%.

With the expected growth, it will not be until nearer the end of the current decade that pre-financial crisis total production levels are reached again. Therefore it appears that the period of average zero growth will be more than a decade long. In the great recession of the 1990s, the comparable period was a little short of seven years.

Spending exceeds income

The long period of stagnation is heavily reflected by key economic indicators. Finland's national income (net), which takes into account both the consumption of capital and the current account deficit, has contracted by about a tenth in real terms. At the same time, the population has grown. Calculated per capita, real national income has fallen by about 13% over the last seven years.

For the first time in two decades, the overall economy is consuming more than it is earning. The total savings of all sectors (income minus expenditure) fell into negative territory in 2013. The public sector is in the red, while the private sector is still in the black. The public sector deficit is known to all, as is the gradual deterioration in the household savings rate. However, the most worrying signal is the rapid collapse in corporate sector saving, which indicates that corporate profitability is weakened domestically. If this trend is prolonged, employment will quickly suffer, as companies have been better able to maintain profitability in their operations abroad.

The trend in national income and savings is slow to change. We estimate that national income will grow slightly in nominal terms in 2015, but in real terms – and per capita – it will fall further. The period during which the total consumption expenditure exceeds disposable income appears to become a prolonged one. With the overall economy piling on more debt, companies' and households' ability to finance new investments and repay existing debts is being compromised.

Exports to recover in late 2015

The value of goods exports showed promising signs of growth in September. However, third-quarter exports fell compared to the previous quarter, as the growth came on the heels of two weaker months. We attribute the spurt in September to the timing of deliveries, rather than a

Finland: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2011 (EURbn)	2012	2013	2014E	2015E	2016E
Private consumption	106	0.1	-0.7	-0.4	-0.3	0.4
Government consumption	47	0.7	1.5	-0.4	0.3	0.3
Fixed investment	44	-2.5	-4.9	-4.2	-1.1	3.1
Stockbuilding*	3	-1.1	-0.4	0.6	-0.2	-0.1
Exports	77	1.2	-1.7	0.0	1.0	3.7
Imports	79	1.3	-2.5	0.0	0.5	3.0
GDP		-1.5	-1.2	-0.5	-0.3	1.0
Nominal GDP (EURbn)	197	199	201	203	204	208
Unemployment rate, %		7.7	8.4	8.6	9.0	9.0
Industrial production, % y/y		-8.4	-2.0	-1.0	0.0	2.0
Consumer prices, % y/y		2.8	1.5	1.1	0.4	1.0
Hourly earnings, % y/y		3.2	2.2	1.4	1.0	0.8
Current account balance (EURbn)		-3.8	-4.1	-3.8	-3.6	-3.0
- % of GDP		-1.9	-2.0	-1.9	-1.8	-1.5
Trade balance (EURbn)		-0.7	-0.4	-0.4	-0.2	-0.1
- % of GDP		-0.4	-0.2	-0.2	-0.1	0.0
General government budget balance (EURbn)		-4.2	-4.9	-3.8	-4.2	-3.6
- % of GDP		-2.1	-2.4	-1.9	-2.1	-1.7
General government gross debt (EURbn)		105.5	112.7	119.1	125.7	132.4
- % of GDP		53.0	56.0	58.8	61.6	63.6

* Contribution to GDP growth (% points)

recovery in demand. Exports are currently most likely somewhere between the August and September figures, with a flat-line trend. We will probably have to wait until the latter half of 2015 for a more permanent recovery.

There are several factors pulling down export growth. Although global growth, driven by traditional industrialized countries such as the US and the UK, has strengthened almost as expected, the increase in world trade has been less impressive than usual. Exports to the euro zone and outside the EU have risen during the current year, even though exports to Russia have nosedived in recent months due to economic sanctions. Exports to Sweden, the UK and other non-euro EU countries have diminished.

Modest imports by our trading partners signal weak demand. Moreover, there is plenty of room for improvement in competitiveness when fighting for market share in weakly growing markets.

Consumption and investment are lacking in fuel

Economic growth in Finland will remain much more sluggish than usual compared to the euro zone and our peer countries.

The growth outlook for Finland's domestic market is non-existent. Consumers cannot spend more because their purchasing power is not improving and their savings are already at a minimum. And with no growth outlook, companies are cutting jobs and withholding investments. Therefore we expect private consumption and investments alike to be down in 2015. There will be less investment in construction, machinery and equipment, and research and development.

Employment is set to deteriorate further. We forecast the unemployment rate to rise to 9% on average in 2015 and 2016. The absence of economic growth and the weak labour market point towards very moderate wage increases during the entire forecast period.

The rise in consumer prices, which has outpaced the rest of Europe, will gradually begin to lose steam, as domestic price pressures subside due to sluggish demand, and the price of oil remains low. Based on these factors, we expect the rise in consumer prices to decelerate to 0.5% in 2015 and to remain low going forward.

The lack of economic growth, the weak labour market, the modest rise in household incomes and the deterioration of corporate profitability will make it harder to increase tax revenue. This means that the central government and municipalities will not be able to significantly cut their budget deficits and public debt will continue to increase at a rapid rate.

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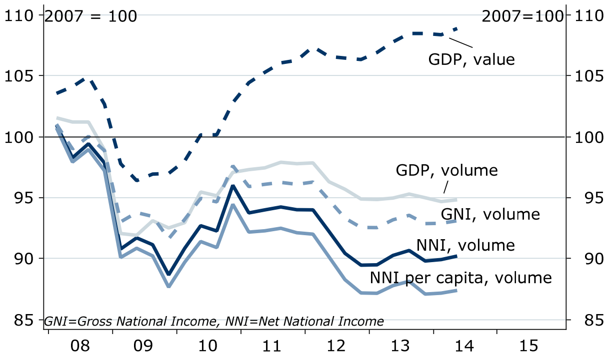
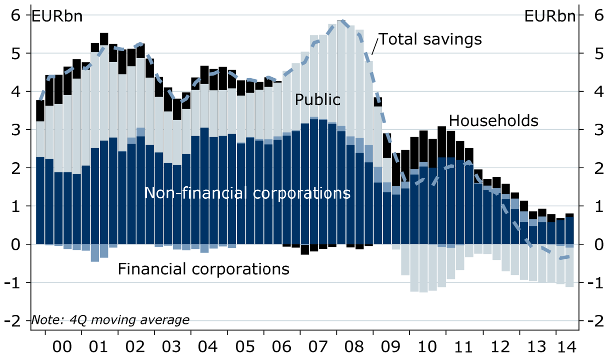
National income has collapsed in real terms



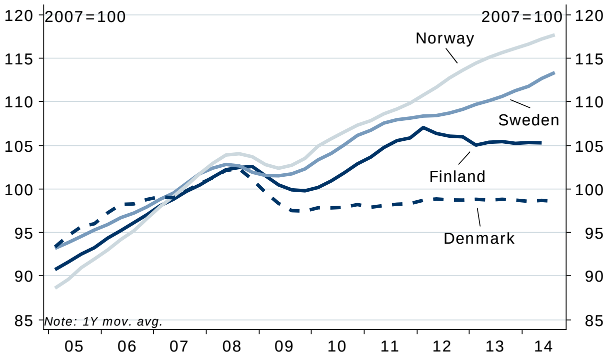
Source: Nordea Markets and Macrobond

Corporate profitability has deteriorated sharply



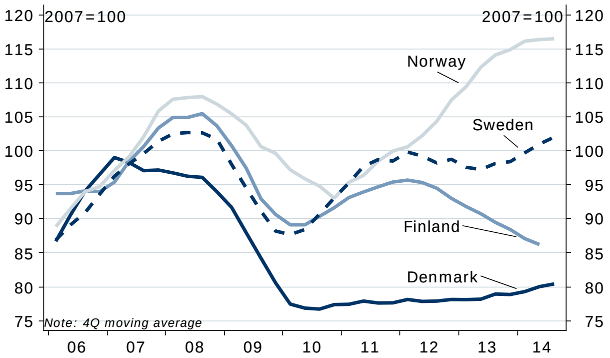
Source: Nordea Markets and Macrobond

There is no support yet for growth in consumption



Source: Nordea Markets and Macrobond

Investments are at their lowest since 2003



Source: Nordea Markets and Macrobond

Modest, uneven and beset by risks

- GDP growth to pick up but will remain subdued in both advanced economies and emerging markets
- Mostly negative news since September. Greatest risks to our baseline growth scenario still on the downside
- Divergent monetary policies in an uneven global recovery

The global economy continues to grow, but the recovery remains modest, uneven and beset by risks. Over the next two years growth in both advanced economies and emerging markets will generally remain subdued relative to the strong pre-crisis expansion and stay below the long-term average, see chart.

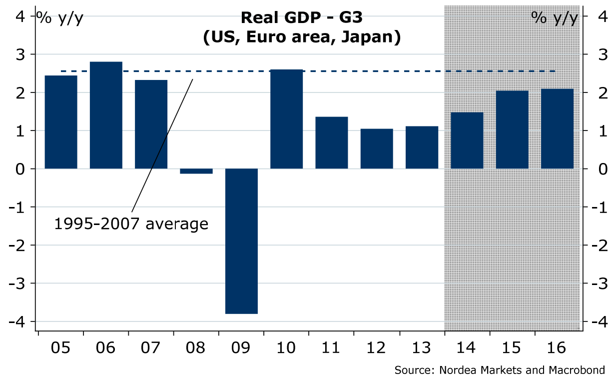
The reason is that most factors weighing on global growth in 2014 will remain in place, although probably to a smaller degree. In advanced economies, high private and government debt, elevated unemployment, unfavourable credit conditions (due to new regulations) and general uncertainty will likely continue to act as a drag on the recovery. Not least the fact that the world has become even more leveraged since the financial crisis in 2008 points to a continued modest global recovery, see chart.

Emerging markets will still outpace the advanced economies, but less so than in past decades partly due to a continued gradual policy-driven slowdown in China.

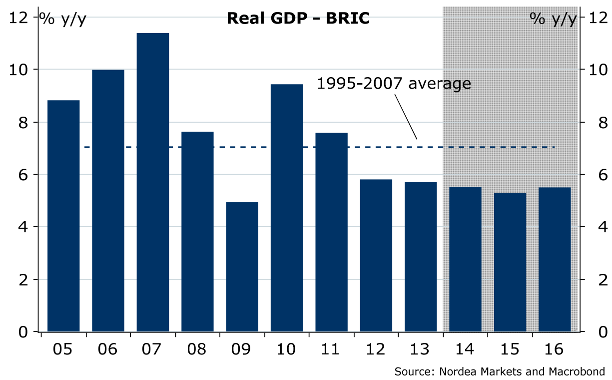
Recent economic data suggest that these factors are impinging on economic activity to a greater extent than previously anticipated. On the other hand, oil prices are now expected to remain significantly lower than earlier assumed. Overall, global GDP growth is now projected at 3.3% in 2014, accelerating to 3.8% in 2015 and 3.9% in 2016. In September the growth forecasts were 3.4%, 3.8% and 3.9%, respectively, see table.

The projection of slightly stronger global growth over the next two years is based on the assumption of continued highly accommodative monetary policies, moderating fiscal tightening, less drag from private-sector deleveraging, more supportive credit conditions and a decline in geopolitical tensions.

Stuck in low gear



GDP growth to pick up but will remain subdued



Global trade remains sluggish

GDP growth forecast, % y/y

	Global		G3		BRIC		US		Euro area		China		Japan		UK	
	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old
2013	3.3	3.1	1.2	1.2	5.7	5.8	2.2	2.2	-0.4	-0.4	7.7	7.7	1.5	1.5	1.7	1.7
2014	3.3	3.4	1.5	1.6	5.5	5.7	2.3	2.1	0.8	0.8	7.4	7.5	0.3	1.2	3.0	3.0
2015	3.8	3.8	2.1	2.2	5.2	5.8	3.2	3.1	1.0	1.1	7.2	7.2	0.9	1.2	2.5	2.5
2016	3.9	3.9	2.1	2.2	5.2	5.9	2.8	2.8	1.5	1.4	7.0	7.0	1.5	1.4	2.2	2.2

Note: "Old" is the EO September 2014 forecast

As discussed in the box “Risks scenarios”, the risks to our baseline growth scenario are now seen as balanced.

Among advanced economies, growth is projected to pick up, but will remain painfully slow in the Euro area and Japan and generally faster in the US, the UK and elsewhere. Among emerging markets, growth is projected to remain high in Emerging Asia, with a modest slowdown in China and a pick-up in India, but to stay subdued in Brazil and Russia.

Balanced news since September

The unchanged outlook for the global economy since September reflects the estimated net impact of both positive and negative news over the past few months.

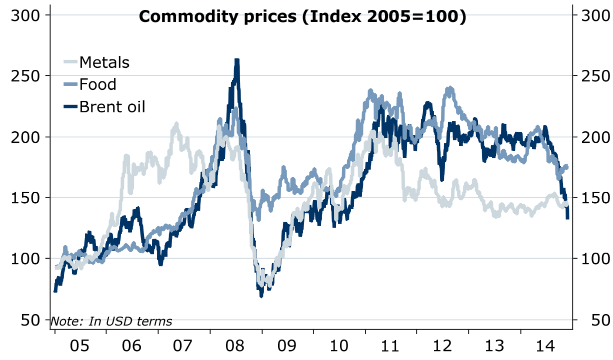
On the positive side, the sharp plunge in commodity prices and especially the drop of around 35% in **oil prices** since mid-year should be a significant boost, equivalent to a huge tax cut, for oil importers and global growth, if sustained. Our new forecast is based on an assumed average Brent oil price of USD 76 a barrel in 2015, which is USD 30 lower than our September forecast. As discussed in the box “From empty barrels to oil in abundance”, this could boost global GDP growth by up to 0.6% point in 2015 relative to our September baseline scenario, all else equal.

The strongest boost to growth from lower oil prices should be expected in Japan and China as well as other oil-consuming emerging markets, but also the US and the Euro area should benefit. Russia, on the other hand, will suffer although the impact will be softened by the depreciating RUB.

In the **US**, a self-sustaining recovery seems to remain on track. Despite various shocks to the economy, GDP growth has exceeded 3% in four out of the past five quarters. The stronger US economy – supported by easy monetary conditions, much-reduced fiscal drag and much-improved household balance sheets – is most evident in the labour market. The unemployment rate is expected to hit the Fed’s NAIRU estimate of 5.4% (the level consistent with full employment) by mid-2015, if not earlier. We expect GDP growth to reach 3.2% in 2015, which is a small upward revision from 3.1% in September. For 2016, our growth forecast is unchanged at 2.8%.

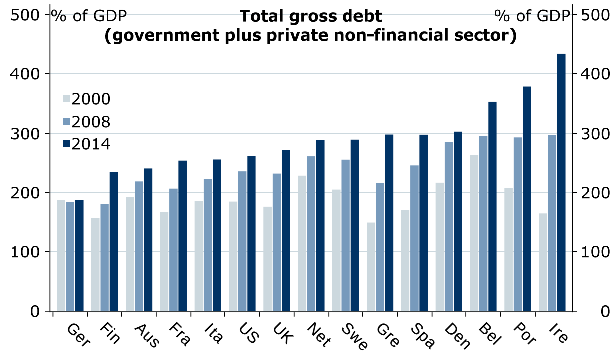
In **China**, recent developments have made us more confident that the government is able to manage the rebalancing of the economy and achieve a controlled slowdown to more sustainable growth levels. With its targeted fiscal and monetary policy measures including the recent rate cut, the government has successfully reenergised the economy after the weakness at the start of the year. As a result, fears of a hard landing for the economy as a whole have diminished, even though the industrial sectors closest to the cooling property market are clearly suffering.

Drop in commodity prices good for global growth



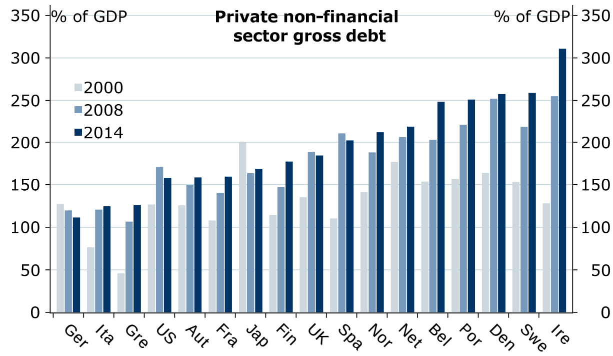
Source: Nordea Markets and Macrobond

The world has become even more leveraged



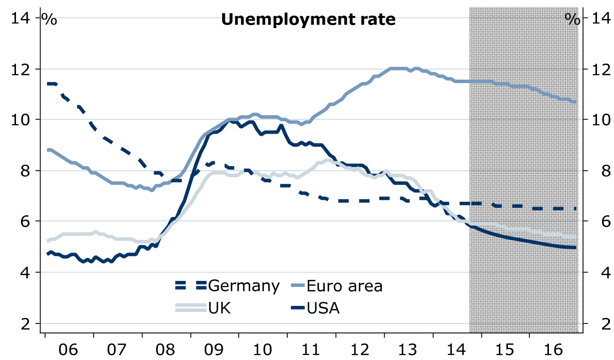
Source: Nordea Markets and Macrobond

Private-sector deleveraging not completed



Source: Nordea Markets and Macrobond

Different stages of economic recovery



Source: Nordea Markets and Macrobond

After all, the centrally controlled Chinese economy tends to be just as the government wants it. Against this backdrop, growth is projected to decrease from 7.4% in 2014 to 7.2% in 2015 and 7.0% in 2016, roughly unchanged from our September forecast.

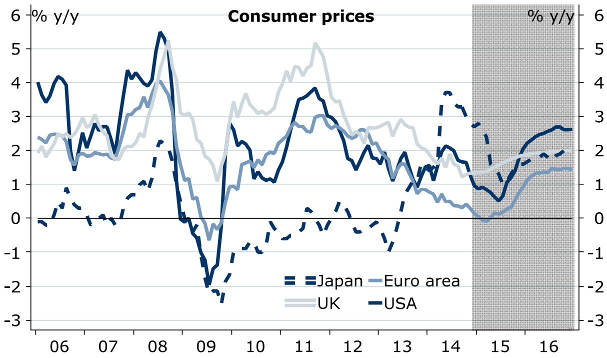
On the negative side, we still find the **Euro area** where growth is now projected at 0.8% in 2014, 1.0% in 2015 and 1.5% in 2016. The 2015 forecast is 0.1% point lower than our September forecast, largely due to less carry-over from 2014. This is despite significantly lower oil prices and a weaker EUR than previously anticipated. The downgrade is most pronounced for Germany where GDP growth unexpectedly averaged zero in Q2 and Q3. France and Italy have performed (as weakly) as expected, while the outlook for Spain is slightly upgraded. However the 2016 GDP forecast is raised by 0.1% point.

There are several reasons for the renewed downward revision to the Euro-area growth outlook. First, the risk that continued geopolitical tensions with Russia spill over to the economy seems to have materialised. Sentiment and industrial production has deteriorated more than expected, especially in Germany. Second, particularly Germany, like other export-dependent economies, seems to be hit by continued surprisingly sluggish global trade growth. In a marked break with pre-crisis norms, global trade is only keeping pace with global GDP rather than expanding more rapidly. In the decade prior to 2008, trade intensity rose steadily, with trade growth being around twice the pace of global GDP growth. The recent downshift reflects weakness in import-intensive demand, possibly partly related to the shifting growth mix in China as well as weak business investment globally and probably also increased protectionism.

Going forward, we still consider slow growth as a more likely scenario than stagnation or recession. The planned slowdown in the pace of fiscal tightening, decreasing private-sector deleveraging needs, improved access to credit, further weakening of the EUR and more monetary policy stimulus are expected to support the recovery. In addition, we assume that headwinds to sentiment from geopolitical tensions will gradually fade. Still, unemployment will stay high and inflation will remain below target. The impact of lower commodity prices on inflation, however, should be softened by the depreciating EUR.

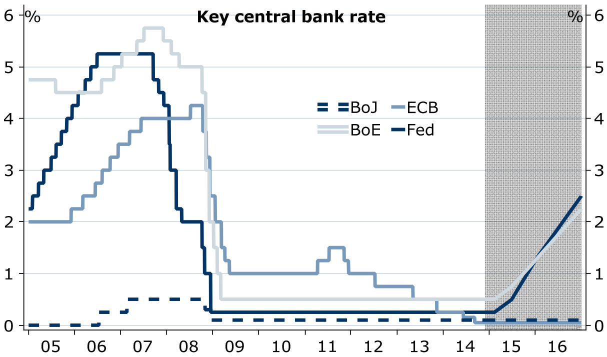
In **Japan**, aggressive monetary easing and a massive JPY depreciation have not been enough to prevent the economy from sliding into yet another recession, the fourth since 2008, after the consumption tax was raised from 5% to 8% in April. As a consequence, Prime Minister Abe has delayed for 18 months the consumption tax increase to 10% planned for next year. Such a move is believed to add ¼-½% point to GDP growth in 2015. Abe has called a snap election for 14 December to seek public approval for his decision. Although Abe's approval ratings have fallen in recent weeks, his Liberal Democratic

Inflation to remain subdued



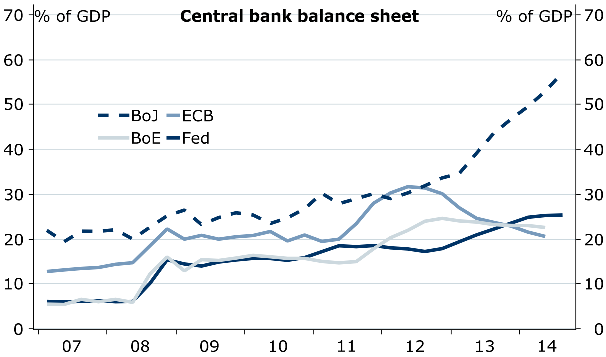
Source: Nordea Markets and Macrobond

Diverging monetary policies



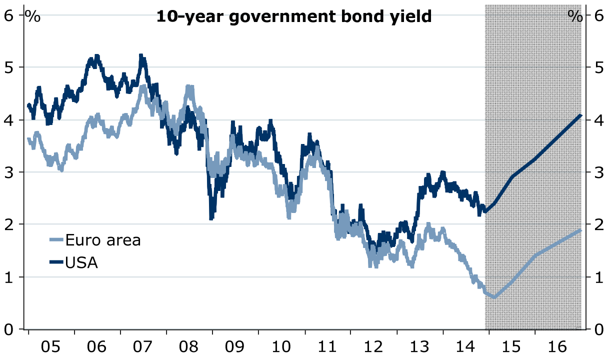
Source: Nordea Markets and Macrobond

Diverging monetary policies



Source: Nordea Markets and Macrobond

Financial conditions to remain accommodative



Source: Nordea Markets and Macrobond

Party is practically assured of victory, which could allow Abe to be bolder on structural economic reforms.

Recent indicators suggest that growth has returned into positive territory in Q4 2014, and not least thanks to continued very aggressive monetary easing we expect the recovery to continue in 2015 and 2016, with GDP growth of 0.9% and 1.5%, respectively. In September our forecasts were 1.2% and 1.4%. With the BoJ's commitment to expanding its balance sheet by around 15% of GDP per year as long as necessary to reach the 2% inflation target, the central bank's QE programme is far more comprehensive than anything attempted by other major central banks.

Divergent monetary policy

Inflation overall remains below central bank targets in the advanced economies, an indication that many of these economies have substantial excess capacity, and deflation continues to be a concern. As a result, global monetary policy is likely to remain highly accommodative over our forecast horizon.

Overall, inflation is likely to remain subdued for some time, given ongoing weakness in demand, weak wage increases and the fall in commodity prices. However, divergence in the individual countries' position in the business cycle results in divergent monetary policies.

The **Fed** ended its asset purchases in October, and we expect the first rate hike in June 2015. After lift-off, rates are expected to be raised gradually as the labour market slack is eliminated and wage increases pick up. Also the **BoE** is expected to start normalising monetary policy in 2015, with the first rate hike in June.

The **ECB**, on the other hand, is expected to further crank up its monetary stimulus programme due to the weak economy and the risk of deflation. Especially in the Euro area, lower-than-expected inflation could have potentially very negative effects on economic activity by making price and wage adjustments more challenging and deleveraging more difficult. Hence, we expect the ECB to soon expand its asset purchases (QE) to include government bonds and investment-grade corporate bonds. We expect no ECB rate hikes in 2015 and 2016. For more analysis, see the box "ECB QE necessary but not sufficient to revive the Euro area".

A weaker EUR as the result of current and new ECB easing measures should support growth and contribute to inflation moving closer to target, but it will be a long way.

The **BoJ**'s "quantitative and qualitative monetary easing" (QQE) will continue until the inflation target has been sustainably achieved. Thus, an end to QQE seems unlikely in 2015 and 2016. Given the BoJ's target for its asset purchases, we could therefore see the central bank's balance sheet expanding to a staggering level of around 90% of GDP by end-2016 (compared to the current level of 25% of GDP for the Fed).

Overall, global financial conditions are expected to remain accommodative. A further general strengthening of the USD, as the result the outperformance of the US economy and divergent monetary policies, is believed to be favourable for a rebalancing of global growth and inflation. However, the risk that sudden large currency moves translate into financial market turbulence should not be ignored. For more on this, see the box "Risks scenarios".

We expect a gradual and moderate upward drift in bond yields over the coming years as the global economy moves further away from crisis mode. Due to monetary policy divergence, transatlantic bond spreads are likely to continue widening as Europe lags behind the US.

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Risk scenarios

Our baseline scenario is based on the assumption of continued highly accommodative monetary policy, moderating fiscal tightening, less drag from private-sector deleveraging, more supportive credit conditions and a decline in geopolitical tensions. However, several risks to our baseline could affect the global growth outlook in both a positive and negative direction.

On balance, at this juncture we see the risks to our baseline growth scenario as balanced.

Upside risks:

- Stronger-than-expected boost to economic sentiment as geopolitical concerns fade.
- Stronger-than-expected US recovery as pent-up demand is released.
- Less-than-expected tightening of Fed monetary policy.
- A much easier fiscal policy line is accepted in the Euro area, increasing aggregate demand.
- Stronger-than-expected lift to demand from the recent drop in oil prices.
- Structural reforms in France and Italy as well as in key Emerging Markets including India and Brazil.

Downside risks:

- Further escalation of geopolitical tensions (Russia-Ukraine, the Middle East, the South China Sea), with negative feedback on confidence.
- More pronounced private sector deleveraging than expected, especially in Europe.
- Financial market instability, potentially including capital flight from Emerging Markets, as the Fed normalises policy. Could potentially lead to increased protectionism and more currency war.
- Chinese credit bubble bursts, potentially triggered by housing market collapse.
- US political/regulatory uncertainty continues to hold back business investment.
- The ECB shies away from large-scale asset purchases, thereby increasing the risk of deflation in the Euro area.

Baseline and risk scenarios for global GDP growth

Source: Nordea Markets and Macrobond

Baseline and risk scenarios for global GDP growth

% y/y	Probability,%	2014	2015	2016
Downside	20	3.2	3.3	3.1
Baseline	60	3.3	3.8	3.9
Upside	20	3.4	4.3	4.7

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ECB QE necessary, but not sufficient

When monetary policy rates are down to zero, the most conventional tool of a central bank is exhausted. But central banks have a range of unconventional measures at their disposal, in particular asset purchases, also known as Quantitative Easing (QE). The ECB is aiming at expanding its balance sheet back to the level of March 2012, ie to EUR 3,000bn from currently EUR 2,030bn. The increase corresponds to around 10% of GDP. Before digging into how QE could work in the Euro area, it is worth considering why it actually makes sense in the first place.

The economic case for more stimulus

Growth in the Euro area is slow, while unemployment at 11.5% is high and barely shrinking. Every headwind like the one blowing from Russia and Ukraine leads to worries about a recession. This is not what economists would call a “stable equilibrium”. In a broader perspective, the lack of dynamism could increase social tensions in many member countries. Future elections could easily lead to euro-unfriendly results, renewed turmoil in financial markets and slumping economic confidence.

There can be little doubt about the need for supply-side reforms that improve conditions for companies to invest and create jobs. That calls for reforms in areas such as labour and product markets as well public finances and administration. However, the Euro-area economy also suffers from a persistently significant underutilisation of its production capacity. This is reflected in the output gap that we consider to be in the range of 2.5% to 3% of potential GDP. With inflation close to zero in the Euro area – partly due to the large output gap – the economy risks falling into a “bad-equilibrium” trap, a vicious circle where increasing deflation expectations lead to even weaker demand, an even larger output gap etc. For policymakers, deflation is not easy to avoid, but once it has begun, it is even harder to fight.

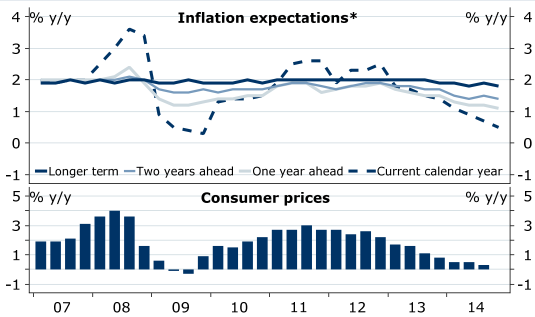
This threat creates a case for demand-side policies, ie a boost from either fiscal or monetary policy or both. We tend to agree with those who argue that, in theory, fiscal policy would be the more effective tool for the Euro area. This is for two reasons: 1) The “credit channel” of monetary policy is partly blocked with many banks being unable or unwilling to extend their balance sheets. 2) The economy shows symptoms of a “balance sheet recession” where private households and companies try to deleverage by reducing spending. What makes sense for the individual creates a dangerous lack of demand at the macro level.

The textbook solution is that governments increase structural deficits by spending more or taxing less. In practice, however, this road seems blocked in the Euro area: Governments with the leeway to provide a stimulus – eg the German government – don’t believe in the efficiency of the measure. Those who do believe in it – eg France and Italy – lack the leeway given high levels of public debt and the rules of the Stability and Growth Pact. Given that and the ECB’s mandate to keep inflation *close to but below 2%*, monetary policy remains the only game in town, even if it is the second-best solution.

The ECB has done a lot already

It can be argued that the ECB already has done a lot to support the recovery. Here is a list of the most important measures recently taken:

- The main refinancing rate has been cut to 0.05%, the deposit rate to -0.2%.
- The ECB has been very clear that interest rates will stay low for an extended period of time (forward guidance).
- The ECB provides banks with funding for up to four years at very low rates (main refi rate +10bp), the so-called Targeted Long-Term Refinancing Operations (TLTROs).
- The ECB just started a third covered bond purchase programme and also buys asset-backed securities. One can’t know for sure what shape the economy would have been in if these measures hadn’t been taken. We think the economy would have been weaker and the risk of deflation even higher.



Source: *Survey of Professional Forecasters, Nordea Markets and Macrobond

Despite the significant easing of monetary policy a whole range of indicators, both market- and survey-based, indicate that inflation expectations risk falling significantly short of the ECB's target also over the medium and longer term. That calls for a stronger weapon: broad-based asset purchases, not least including government bonds. When Mario Draghi explained the ECB's reaction function in April this year, he explicitly mentioned a *worsening of the medium-term outlook for inflation* as a trigger for such a programme.

Various channels of QE

There is considerable uncertainty about how QE works exactly. William Dudley from the New York Fed acknowledged that in early 2014:

> *"We don't understand fully how large-scale asset purchase programs work to ease financial market conditions – is it the effect of the purchases on the portfolios of private investors, or alternatively is the major channel one of signalling?"*

As we see it, it makes sense to distinguish between five channels:

- **Signalling channel**: QE signals to markets that economic conditions are worse than previously thought and that low short-term rates will be warranted for longer than expected. Closely linked to this strengthening of the forward guidance is the …
- **Confidence channel**: QE enhances the business climate and boosts consumer confidence if it is seen as a game changer to the better.
- **Interest rate channel:** For most investment and consumption decisions, it is the expected medium- to long-term real interest rates that matter. By bringing nominal and real rates down, the ECB supports private sector demand.
- **Portfolio balance channel**: By lowering bond yields, the central bank changes relative asset prices for the purpose of pushing investors into riskier assets such as equities. That creates positive wealth effects supporting consumption and investment.
- **Foreign exchange channel**: Adjusting port folios due to the impulse from the central bank also means considering buying foreign assets, which – all else equal – weakens the domestic currency. As we read the ECB, weakening the EUR is clearly part of the strategy

Will QE work in the Euro area?

We think that the Euro area will avoid deflation, not least because we expect the ECB stimulus to weaken the EUR further. For various reasons, however, we don't expect a major effect on Euro-area growth:

- The ECB's QE will likely be limited compared to what the Fed did. Also, the ECB acts rather late so some of the Euro area's diseases have become chronic and harder to cure.
- The signalling effect might be positive in periphery countries; in Germany, however, QE could easily be seen as a sign that "the end is near".
- Bond yields are very low already.
- QE might affect asset prices only (possibly creating bubbles), but not the real economy to any significant degree as the wealth effects can be expected to be much smaller than in the US and the UK.
- The US economy shifted into a higher gear when private households stopped deleveraging and the drag from federal fiscal policy tightening started to fade. In the Euro area, by contrast, private sector deleveraging is far from over, which makes the conditions for QE less favourable compared to the US.
- Corporate credit is mostly driven by banks, so there is a less direct link to (sovereign and corporate) bond yields.
- We expect the euro to weaken further. However, it is not an easy job to weaken a currency in a world where other central banks try to do the same.

As a result of these considerations, we see no reason to raise markedly our growth forecast for the Euro area for 2016. We raise it just a bit to 1.5% from 1.4% due to the lower forecast for the oil price.

The Euro area risks losing more than just a couple of years if governments do not strengthen their economies and the institutional framework of the Euro area further. Broad-based asset purchases might be a necessary tool to foster higher growth and inflation, but they are not sufficient.

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From empty barrels to oil in abundance

The Brent oil price has dropped by around 35% since June. The total turnaround of the oil market from scarcity to abundance over the summer has taken the market by surprise.

Brent oil price forecast in USD per barrel

	Q1	Q2	Q3	Q4	Year
2012	118	109	109	110	112
2013	113	103	110	109	109
2014E	108	110	103	80	100
2015E	73	73	78	80	76
2016E	81	83	87	89	85

The drivers of the recent oil price fall are not clear cut as lower prices reflect both slowing oil demand growth and surging oil supply. In the medium term oil prices tend to revert to a new equilibrium as oil companies' investment cuts will eventually take a toll on supply growth. There are no clear signs that the drop in oil prices has had any significant impact on oil supplies yet; thus the price weakness is still expected to continue into 2015 if no unexpected supply outages take place.

Oil supply grows at a formidable rate

Falling oil prices, no changes to dividend policies and high production costs have forced oil companies to cut back on investments as profit margins have been squeezed. This will cut production growth, tighten the market and contribute to higher oil prices in 2-3 years' time.

Shale oil, in contrast, can adjust faster to an oil price decline as the investment-exploration-production cycle is much shorter. Shale oil is not cheap to produce and the question is how much oil prices can fall before production slows down? The answer is complex as production costs vary from area to area and well to well. More efficient rigs and improving technology have increased production per well and driven costs per well lower. Moreover, lower oil prices will reduce costs as equipment and rigs are hired on short-term contracts, helping to drive down rental prices for subsequent contracts. Several companies have hedged against oil price declines since the production period is relatively short. According to Rystad Energy, oil prices can fall to USD 60-75/barrel before production volumes are significantly affected.

OPEC, accounting for 40% of the global oil supply, has not managed to increase production capacity significantly for a long period of time. Although the fast return of Libyan oil production recently and oil flows from Iraq have been little disrupted by the IS progression, political unrest in vital oil-producing regions such as the Middle East, North Africa and Latin America still poses a big threat to the stability of the global oil market and oil prices. A sharp fall in oil prices can increase the risk of political turmoil in countries such as Venezuela, Iran and Iraq. High fuel subsidies and expensive public spending programmes have exacerbated the vulnerability to sudden declines in oil prices.

Cyclical and structural changes slow demand growth

The demand for oil has weakened sharply as a consequence of the poorer outlook for economic growth in large oil-consuming countries. China, Japan and the Euro area are giving particular cause for concern. Although cyclical factors explain part of the recent drop in oil prices, it is also due to structural changes such as technological improvements in the North American shale oil production, lower oil intensity (units of oil per unit of GDP) in China and India and increasing focus on climate/pollution. Energy efficiency gains, a gradual removal of fuel subsidies, a sharp fall in production costs of wind and solar power and technological developments have gradually started to bite even in the oil market's last stronghold – the transportation sector.

Overcapacity and a structural slowdown especially in energy-intensive industries such as steel, tighter credit conditions and a move towards more consumption-driven growth in China have restrained growth in industrial oil products such as gasoil and diesel. The oil price decline has triggered some stockbuilding. As storage capacity is not infinite, this situation may soon lead to weaker market conditions and further price declines.

Nordea World Oil Balance

mb/d	2013	2014E	2015E	2016E
Demand	91.8	92.4	93.3	94.5
Non-OPEC supply	54.6	56.4	57.7	58.6
OPEC NGLs	6.3	6.4	6.5	6.5
OPEC crude supply	30.5	30.1	30.1	30.0
Call on OPEC crude + Stock chg.	30.9	29.6	29.1	29.4

Oil price slump underpins economic growth

The recent sharp fall in oil prices of around 30% will have a positive impact on the world economy. A drop in the oil price of USD 10/barrel will by rule of thumb, push global GDP higher by around 0.2%, according to the IMF. Our new forecast is based on an assumed average Brent oil price of USD 76/barrel in 2015, which is USD 30 lower than our September forecast. This could boost global GDP growth by up to 0.6% point in 2015 relative to our September baseline scenario, all else equal.

A fall in oil prices involves a redistribution of income from oil producers to oil consumers, and because of time lags this reallocation tends to be a net benefit for global growth. Thus, oil consumers are mainly households, which see their purchasing power rising when oil prices fall, and they are likely to allocate this gain quite quickly to increased real expenditure on goods and services. Oil producers, by contrast, are mainly rich governments and corporates, and it may take them much longer to reduce their expenditures in line with their lower real incomes.

Lower oil prices have a short-term disinflationary effect and thereby potentially an impact on monetary policy. Although lower oil prices strengthen consumers' purchasing power and reduce energy costs for companies, there is a risk that inflation expectations may get de-anchored, especially in the context of weak economic growth. Thus, for areas already struggling with low inflation such as the Euro area, sharply falling oil prices may lead to deflation. This is not our baseline scenario, though.

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Growth, %

	2012	2013	2014E	2015E	2016E
World[1)]	3,4	3,3	3,3	3,8	3,9
USA	2,3	2,2	2,3	3,2	2,8
Euro area	-0,7	-0,4	0,8	1,0	1,5
China	7,7	7,7	7,4	7,2	7,0
Japan	1,5	1,5	0,3	0,9	1,5
Denmark	-0,7	-0,5	0,8	1,3	1,7
Norway	3,8	2,3	2,6	1,6	2,0
Sweden	-0,3	1,3	1,8	2,5	2,4
UK	0,7	1,7	3,0	2,5	2,2
Germany	0,6	0,2	1,5	1,1	1,5
France	0,4	0,4	0,4	0,7	1,1
Italy	-2,4	-1,8	-0,3	0,5	1,0
Spain	-2,1	-1,2	1,4	1,8	1,8
Finland	-1,5	-1,2	-0,5	-0,3	1,0
Estonia	4,7	1,6	1,7	2,2	3,4
Latvia	4,8	4,2	3,3	2,9	4,1
Poland	2,1	1,6	3,4	3,0	3,5
Russia	3,4	1,3	0,4	0,6	1,0
Lithuania	3,7	3,3	2,6	2,8	4,3
India	4,8	4,7	5,3	5,9	6,3
Brazil	1,0	2,5	0,1	1,0	1,7
Rest of World	4,0	3,6	3,3	4,0	4,5

Inflation, %

	2012	2013	2014E	2015E	2016E
World[1)]	4,4	4,0	3,9	3,8	4,0
USA	2,1	1,5	1,6	1,1	2,5
Euro area	2,5	1,4	0,5	0,3	1,4
China	2,7	2,6	2,0	2,5	3,0
Japan	0,0	0,4	2,8	1,3	1,6
Denmark	2,4	0,8	0,6	0,9	1,4
Norway	0,7	2,1	2,0	1,6	1,6
Sweden	0,9	0,0	-0,2	0,3	1,6
UK	2,8	2,6	1,6	1,6	2,0
Germany	2,1	1,6	0,8	0,5	1,5
France	2,2	1,0	0,7	0,5	1,0
Italy	3,3	1,3	0,2	0,2	1,0
Spain	2,4	1,5	-0,1	0,1	1,3
Finland	2,8	1,5	1,1	0,4	1,0
Estonia	3,9	2,8	0,2	2,0	2,5
Latvia	2,3	0,0	0,7	1,7	2,0
Poland	3,7	1,2	0,2	0,6	2,2
Russia	6,5	6,5	9,0	7,8	6,0
Lithuania	3,1	1,0	0,2	1,5	2,3
India	9,7	10,1	7,3	7,2	7,0
Brazil	5,4	6,2	6,4	5,9	5,5
Rest of World	6,6	6,2	6,4	6,5	6,0

1) Weighted average of 186 countries. Weights for all countries and data for Rest of World are from the most recent World Economic Outlook, by the IMF. The weights are calculated from PPP-adjusted GDP-levels

Public finances, % of GDP

	2012	2013	2014E	2015E	2016E
USA	-6,8	-4,1	-3,4	-2,6	-3,0
Euro area	-3,7	-3,0	-2,5	-2,3	-2,0
China	0,2	-0,9	-2,0	-2,0	-2,0
Japan	-9,8	-10,1	-9,5	-9,0	-9,0
Denmark	-3,9	-0,7	-0,2	-2,8	-2,3
Norway	13,6	11,4	9,5	7,6	8,3
Sweden	-0,9	-1,4	-2,3	-1,6	-0,8
UK	-6,1	-5,8	-5,0	-4,0	-3,1
Germany	0,1	0,1	0,2	0,0	0,2
France	-4,9	-4,1	-4,4	-4,5	-4,0
Italy	-3,0	-2,8	-3,0	-2,7	-2,2
Spain	-10,3	-6,8	-5,6	-4,6	-3,9
Finland	-2,1	-2,4	-1,9	-2,1	-1,7
Estonia	-0,2	-0,2	-0,1	-0,7	-0,4
Latvia	-1,4	-0,9	-1,0	-1,5	-1,0
Poland	-3,9	-4,3	-3,5	-3,0	-2,5
Russia	-0,2	-0,8	-0,1	-0,6	-0,8
Lithuania	-3,3	-2,2	-2,2	-2,0	-1,0
India	-7,4	-7,2	-7,0	-6,5	-6,0
Brazil	-2,8	-3,3	-4,0	-3,8	-3,2

Current account, % of GDP

	2012	2013	2014E	2015E	2016E
USA	-2,9	-2,4	-2,4	-2,5	-2,5
Euro area	1,8	2,6	2,9	3,2	2,7
China	2,6	1,9	2,0	2,0	1,5
Japan	1,0	0,7	1,0	1,2	1,5
Denmark	5,6	7,2	6,6	6,4	5,9
Norway	13,9	10,5	10,0	7,0	8,5
Sweden	5,6	6,1	5,2	5,1	5,5
UK	-3,7	-4,2	-4,5	-3,7	-3,2
Germany	7,2	6,9	7,1	7,1	6,0
France	-2,5	-2,0	-1,9	-1,9	-2,2
Italy	-0,5	1,0	1,5	1,5	1,8
Spain	-0,4	1,5	1,0	0,7	0,9
Finland	-1,9	-2,0	-1,9	-1,8	-1,5
Estonia	-1,8	-1,1	-1,4	-0,9	-0,8
Latvia	-2,5	-0,8	-2,0	-2,5	-3,0
Poland	-3,5	-1,3	-1,8	-2,0	-2,5
Russia	3,6	1,6	2,5	1,9	1,2
Lithuania	-0,2	1,5	-1,8	-3,0	-2,0
India	-4,7	-1,7	-1,0	-1,2	-1,5
Brazil	-2,4	-3,6	-3,6	-3,5	-3,2

Monetary policy rates

	2.12.14	3M	30.6.15	31.12.15	31.12.16
US	0,25	0,25	0,50	1,25	2,50
Japan	0,10	0,10	0,10	0,10	0,10
Euro area	0,05	0,05	0,05	0,05	0,05
Denmark	0,20	0,10	0,10	0,10	0,10
Sweden	0,00	0,00	0,00	0,00	1,00
Norway	1,50	1,50	1,50	1,50	1,50
UK	0,50	0,50	0,75	1,25	2,25
Switzerland	0,00	0,00	0,00	0,00	0,00
Poland	2,00	2,00	2,00	2,50	3,00
Russia	8,25	9,50	9,50	9,00	8,00
China	5,60	5,60	5,60	5,60	6,00
India	8,00	8,00	7,75	7,50	7,00
Brazil	11,25	11,75	12,00	12,00	12,00

Monetary policy rate spreads vs Euro area

	2.12.14	3M	30.6.15	31.12.15	31.12.16
US	0,20	0,20	0,45	1,20	2,45
Japan[1]	-0,15	-0,15	-0,40	-1,15	-2,40
Euro area	-	-	-	-	-
Denmark	0,15	0,05	0,05	0,05	0,05
Sweden	-0,05	-0,05	-0,05	-0,05	0,95
Norway	1,45	1,45	1,45	1,45	1,45
UK	0,45	0,45	0,70	1,20	2,20
Switzerland	-0,05	-0,05	-0,05	-0,05	-0,05
Poland	1,95	1,95	1,95	2,45	2,95
Russia	8,20	9,45	9,45	8,95	7,95
China	5,55	5,55	5,55	5,55	5,95
India	7,95	7,95	7,70	7,45	6,95
Brazil	11,20	11,70	11,95	11,95	11,95

1) Spread vs USA

3-month rates

	2.12.14	3M	30.6.15	31.12.15	31.12.16
US	0,23	0,25	0,60	1,40	2,75
Euro area	0,08	0,05	0,05	0,05	0,10
Denmark	0,31	0,20	0,15	0,15	0,20
Sweden	0,27	0,20	0,20	0,25	1,10
Norway	1,64	1,70	1,70	1,70	1,70
UK	0,55	0,60	0,85	1,40	2,50
Poland	2,06	2,00	2,10	2,60	3,10
Russia	12,74	11,00	10,90	10,50	9,80
Lithuania	0,19	0,05	5,00	1,00	0,15

3-month spreads vs Euro area

	2.12.14	3M	30.6.15	31.12.15	31.12.16
US	0,15	0,20	0,55	1,35	2,65
Euro area	-	-	-	-	-
Denmark	0,23	0,15	0,10	0,10	0,10
Sweden	0,19	0,15	0,15	0,20	1,00
Norway	1,56	1,65	1,65	1,65	1,60
UK	0,47	0,55	0,80	1,35	2,40
Poland	1,98	1,95	2,05	2,55	3,00
Russia	12,66	10,95	10,85	10,45	9,70
Lithuania	0,11	0,00	4,95	0,95	0,05

10-year government benchmark yields

	2.12.14	3M	30.6.15	31.12.15	31.12.16
US	2,18	2,40	2,90	3,25	4,10
Euro area	0,70	0,60	0,90	1,40	1,90
Denmark	0,92	0,80	1,15	1,60	2,05
Sweden	1,04	1,25	1,50	2,10	2,50
Norway	1,85	2,28	2,51	2,95	3,16
UK	1,89	2,20	2,80	3,30	3,70
Poland	2,41	2,75	3,00	3,75	4,40

10-year yield spreads vs Euro area

	2.12.14	3M	30.6.15	31.12.15	31.12.16
US	1,47	1,80	2,00	1,85	2,20
Euro area	-	-	-	-	-
Denmark	0,22	0,20	0,25	0,20	0,15
Sweden	0,34	0,65	0,60	0,70	0,60
Norway	1,15	1,68	1,61	1,55	1,26
UK	1,19	1,60	1,90	1,90	1,80
Poland	1,71	2,15	2,10	2,35	2,50

Exchange rates vs EUR

	2.12.14	3M	30.6.15	31.12.15	31.12.16
EUR/USD	1,25	1,20	1,18	1,15	1,15
EUR/JPY	147,7	138,0	141,6	143,8	143,8
EUR/DKK	7,44	7,45	7,46	7,46	7,46
EUR/SEK	9,25	9,20	9,10	8,90	8,70
EUR/NOK	8,67	8,10	8,00	8,00	8,00
EUR/GBP	0,79	0,76	0,75	0,74	0,74
EUR/CHF	1,20	1,22	1,22	1,28	1,30
EUR/PLN	4,18	4,20	4,30	4,20	4,00
EUR/RUB	65,2	62,4	61,4	55,2	52,9
EUR/LTL	3,45	3,45	3,45	3,45	3,45
EUR/CNY	7,68	7,32	7,10	6,84	6,79
EUR/INR	77,4	74,4	74,3	65,6	59,8
EUR/BRL	3,18	3,12	3,19	2,88	2,76

Exchange rates vs USD

	2.12.14	3M	30.6.15	31.12.15	31.12.16
-					
USD/JPY	118,3	115,0	120,0	125,0	125,0
USD/DKK	5,96	6,21	6,32	6,49	6,49
USD/SEK	7,41	7,67	7,71	7,74	7,57
USD/NOK	6,94	6,75	6,78	6,96	6,96
GBP/USD	1,57	1,58	1,57	1,55	1,55
USD/CHF	0,96	1,02	1,03	1,11	1,13
USD/PLN	3,35	3,5	3,6	3,7	3,5
USD/RUB	52,2	52,0	52,0	48,0	46,0
USD/LTL	2,77	2,88	2,93	3,00	3,00
USD/CNY	6,15	6,10	6,02	5,95	5,90
USD/INR	62,0	62,0	63,0	57,0	52,0
USD/BRL	2,55	2,60	2,70	2,50	2,40