Nordic Outlook

Hoping for a mild winter

- **Denmark: slowdown with some bright spots**
  - Parts of the economy continue to run hot amid overall decline
- **Sweden: households hit by triple whammy**
  - Lower real income, higher interest rates and energy price shock is a bad combination
- **Norway: clear slowdown underway**
  - A mild recession and modest rise in unemployment underway
- **Finland: from thaw to frost**
  - 2022 has been a positive surprise so far, but headwinds are gathering

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

Analysts

Editorial deadline 04 October 2022 *Investment Research*

Editor-in-Chief:

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

Macroeconomics:

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

This publication can be viewed at https://research.danskebank.com.

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

Important disclosures and certifications are contained from page 31 of this report.

Contents

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

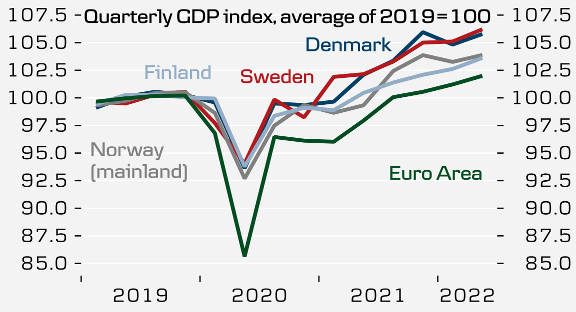
At a glance

Hoping for a mild winter

Inflation weighing economies down

A lot has happened in economies and markets since our last Nordic Outlook, but perhaps the most striking fact is the continued surge in inflation, which is now at or approaching double digits in many places. This surge means a further erosion of spending power in households, and also that central banks have become more aggressive in hiking interest rates. In turn, that means a weaker growth outlook, and we now expect recession both in the Nordic economies and Europe as a whole, including rising unemployment and falling house prices. Recession forecasts are normally rare, because if a recession can be forecasted, it can also be avoided, normally through easing of monetary policy. However, with inflation this high, that is not an option, and we are entering recession with open eyes. Our forecast is that this will just bring activity and employment back to more sustainable levels after the post-covid overheating, but a worse outcome is a clear risk.

Good Nordic starting point

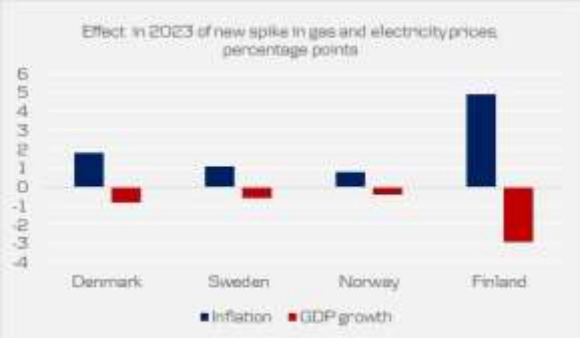


Source: Macrobond Fionancial

Energy prices are a big unknown

Of the Nordic countries, only Denmark uses gas as heating in households to a significant extend (in approximately 15% of homes). Nevertheless, gas prices have a big impact through their effect on electricity prices as well as on commercial users, and the gas supply situation in Europe is strained with supplies from Russia more or less ending. A cold winter this year or next could lead to new spikes in already high prices, driving inflation higher and subtracting further from spending power. Our estimates show that this could lower growth substantially as costs are passed on directly to consumers, especially in Finland, where electricity use is high and prices market sensitive. And the supply situation is also sensitive to sabotage, as the recent explosion of gas pipes near Denmark and Sweden shows.

New price spike could have large effect

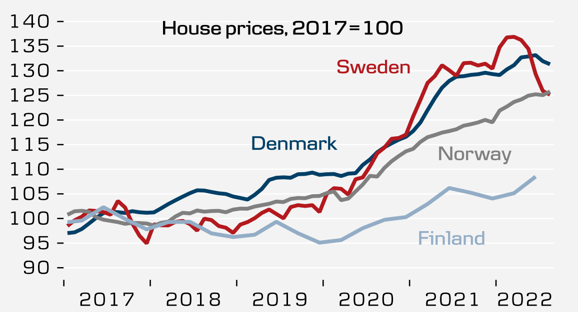


Assumes prices spike to August 2022 levels during coming and next winter, compared to market pricing. Source: Danske Bank

Households under pressure

Private consumption is holding up relatively well despite falling real incomes, but that is likely to change – indeed, lower consumer demand is an important key to bringing down inflation. On top of higher prices, higher interest rates will also significantly subtract from disposable real income, especially in Sweden and Norway, which have both high household debt and mostly variable interest rates. There is a risk that monetary policy might be tightened too much, leading to a deeper crisis. Higher interest rates are also negative for house prices, which are expected to fall across the Nordics. Still, many households have strong buffers after low spending during covid restrictions, and Nordic public finances are in a strong position if it becomes necessary to provide more assistance – something that Nordic governments have been relatively reluctant to do so far, compared to other countries.

House prices turning around



Source: Macrobond Financial

Denmark

Slowdown with some bright spots

- **We expect GDP to fall and unemployment to rise, but from levels that would have been unsustainable in any case.**
- **Just how quickly inflation can be normalised is very uncertain, and not only because of energy prices.**
- **Consumption is set to be undermined by weaker purchasing power and wealth erosion due to falling house prices, but high levels of savings should be supportive.**
- **Danish industry and exports look strong, but the outlook for construction and retailing is more uncertain.**
- **Strongly increasing long-term mortgage rates will likely put a damper on Denmark's economy, and no real easing of fiscal policy is in sight.**

Situation deteriorating, but from a high point

The global situation is also reflected in Denmark: Inflation has risen markedly since our last forecast ahead of the summer holidays, which means a gloomier outlook for the economy in the short term. Inflation both erodes purchasing power and triggers higher interest rates. We have therefore revised our expectations for GDP and employment lower, and now expect a significant slowdown. Worth noting, however, is that our forecast still does not point to a deep and entrenched crisis, overall. GDP is set to decline, but from a level that was already unsustainable after the pronounced upswing in 2021. Unemployment is likely to rise, but from near-record lows. If our forecast pans out, Denmark's economy will again be quite strong by the end of 2023.

Nevertheless, a significant sense of dread is to be expected among those households and companies most directly affected by price increases and the downturn in the economic cycle. The average household being in a decent financial position despite a major decline in real wages is little comfort to those hit by, say, both higher gas prices and unemployment, while some companies may struggle to pay their energy bills or face a severe slowdown, for example in the construction industry. We would also stress that the outcome risks being significantly worse than our forecast. Pronounced monetary policy tightening could hit the economy harder than expected in a situation where interest rates are rising sharply from extremely low levels, plus Europe's energy supplies remain uncertain and potentially subject to new steep price increases. Conversely, very modest credit growth since the financial crisis is just one of the many factors that point to this not being a deep crisis. High credit growth during an upswing often foreshadows a deeper and longer post-boom crisis.

A broad-based downshift

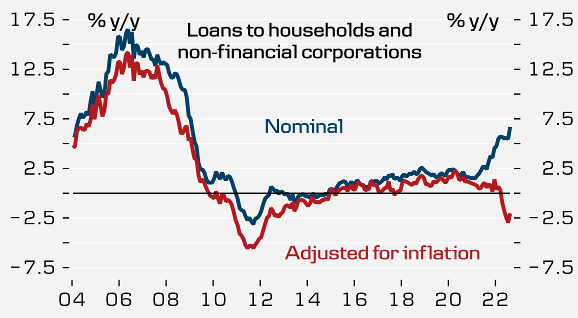
We expect the economic slowdown to be particularly hard felt in the construction industry. New home starts have been at historical highs in recent years, but are now being buffeted by higher interest rates, which are both negative for owner-occupied property prices and for rental property construction, plus several policy initiatives have targeted landlords.

At a glance

Denmark	Current forecast		Previous forecast	
% y/y	2022	2023	2022	2023
GDP	3.0	-0.6	3.5	0.7
Private consumption	-1.5	-1.0	2.1	1.3
Public consumption	0.4	-0.2	-0.3	0.9
Gross fixed investment	4.8	-2.1	3.3	-0.4
Exports	5.3	1.7	4.1	2.2
Imports	3.7	1.5	1.9	2,.5
Gross unemployment (thousands)	76.2	89.7	70.2	75.9
Inflation	7.5	3.4	6.4	2.6
Government balance, % of GDP	1.3	1.0	1.0	0.7
Current account, % of GDP	10.0	9.0	8.8	8.1

Source: Danske Bank

Low credit growth an argument against deep crisis



Source: Danmarks Nationalbank, Statistics Denmark, Macrobond Financial

Curtailing public investment in 2023 is also part of the government's fiscal policy plans. Retailing appears to have suffered from a normalisation after booming sales during the pandemic and from consumers seemingly reacting to significant price increases on food, etc. by cutting back on the amount bought and quality rather than increasing consumption in krone terms. In contrast, industrial production has risen 10% since December 2021 – for while Danish industry is also being hit by the global slowdown, it is not particularly sensitive to the economic cycle, not least due to the large pharmaceutical industry.

Pronounced increase in mortgage rates

Danmarks Nationalbank has raised its benchmark rate by 1.25 percentage points (pp) since June, but financial conditions in Denmark have tightened by much more than that figure would indicate. Interest rates on a 30Y mortgage loan have risen markedly. Expectations of more rate hikes to come, fading risk appetite and greater volatility in the fixed income market are among the reasons why the bonds behind new 30Y mortgage loans now carry a coupon of 5%. As for Danmarks Nationalbank, we expect its hiking pace to track the European Central Bank (ECB), but with a risk of Danish hikes being perhaps 0.1pp less given that the krone (DKK) is trading to the strong side against the euro (EUR).

Modest wage growth despite low unemployment

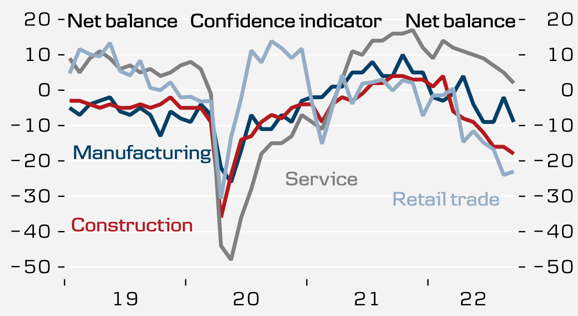
Registered unemployment fell to 2.5% this spring, which is only 0.1pp above the record set just prior to the financial crisis, and the number of job vacancies rose substantially. In May, more than 40% of companies in the industrial, construction and service sectors reported labour shortages as a limiting factor for production. Since then, nascent signs of a shift in the labour market have emerged, and this will likely continue given the drop in demand. Nevertheless, the strong starting point provides a buffer of unfilled jobs, and compared to previous slowdowns we expect unemployment to increase just moderately.

Wage growth has been modest so far in 2022 despite the tight labour market, and we have revised down our forecast for the year as a whole. We still expect wages to rise in connection with the collective bargaining rounds in 2023, but given rising unemployment and the economic slowdown, we do not expect the increase to be as high as in 2008, when private sector wage growth hit 4.5%. High inflation and modest wage growth mean real wages in 2022 will experience their biggest decline since 1950. Our wage forecast assumes that companies and employees do not expect inflation to remain high. We do not anticipate real wages continuing to fall, and if inflation gains a firm footing, we should expect wage growth to increase accordingly.

Government finances surprise again

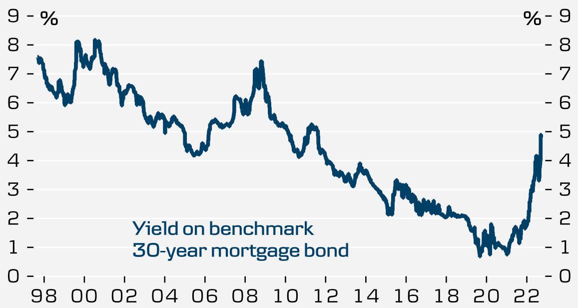
Danish politicians, too, have agreed a raft of measures to help households hit by inflation. These include a so-called 'heating cheque', an additional 'elderly cheque' and a temporary reduction in the levy on electricity in H1 23. The overall cost is expected to be DKK2.7bn in 2022 and DKK5.3bn in 2023, or 0.1% and 0.2% of GDP, respectively. There is also a loan scheme that allows companies and households to spread the costs associated with higher energy prices in the coming year over the following four years. The government expects households to borrow DKK20bn and companies DKK25bn, which of course is a very uncertain estimate that in part depends on how energy prices develop. Lending will be through the energy companies, who in turn borrow

Corporate expectations subdued



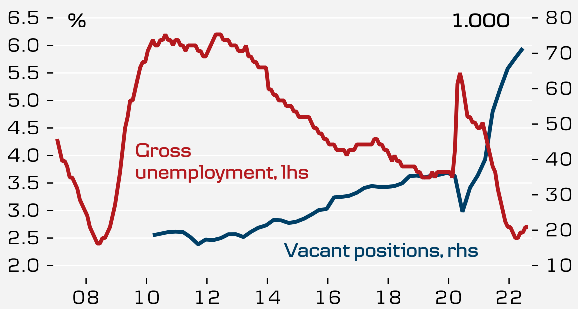
Kilde: Danmarks Statistik, Macrobond Financial.

Marked interest rate rise for homebuyers



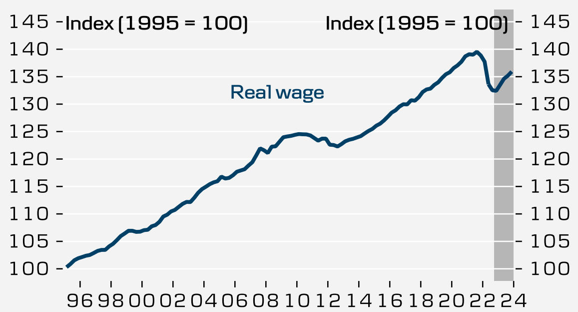
Source: Finance Denmark, Macrobond Financial

Tight labour market



Source: Statistics Denmark, Macrobond Financial

Pronounced drop in real wages



Source: DA, Statistics Denmark, Danske Bank the money from the government, which will thus be included in the government's financing requirement. Pulling in the other direction is yet another significant upward revision to the government account, which is now posting a surplus equal to 3.6% of GDP in 2021. We expect the surplus to be pulled down this year by lower proceeds from pension return (PAL) taxes, etc., though we are basically still pencilling in a surplus given that economic output is above the long-term potential.

A parliamentary election looks to be on the cards this autumn. Opinion polls make predicting who might form a government difficult. However, going by statements from the various parties there appears to be a rough consensus on how tight fiscal policy should be.

Broad and significant price pressures

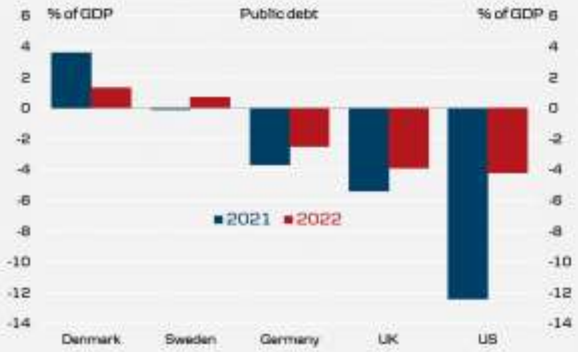
Consumer prices have taken off rapidly this year. Inflation is now at a near 40-year high after what started out as rising energy prices morphed into broad-based price pressures throughout the economy. It is now easier to count the prices that have not accelerated than those that have. Clothing prices have not picked up that much so far, presumably because the collections being sold have so far been produced at low cost. We expect higher production costs to feed through to prices here soon.

We expect inflation (y/y) is very close to peaking, but fluctuations in energy prices could rapidly change that outlook. Moreover, even if inflation declines, the high price pressures on goods and services will remain in place. Consumer food prices have risen sharply and should by now have largely reacted to this spring's increases in global food prices. However, more expensive energy, in particular, is also driving up costs for grocery stores and thus consumer food prices here in Denmark, and that will keep the upward pressure on prices. That being said, the trend towards saving on grocery spending is pulling in the other direction.

Global inflationary pressures have retreated somewhat lately via lower prices on commodities and food, oil and a noticeable drop in freight rates. The question now is whether these falls can offset the lag in higher costs that has not yet fed through to consumer prices. The proportion of retailers expecting to hike prices further in the coming three months remains very high but has at least stopped increasing. Moreover, retail inventories appear to be growing rapidly at the moment, which coupled with receding demand tends to point towards discounts and lower prices.

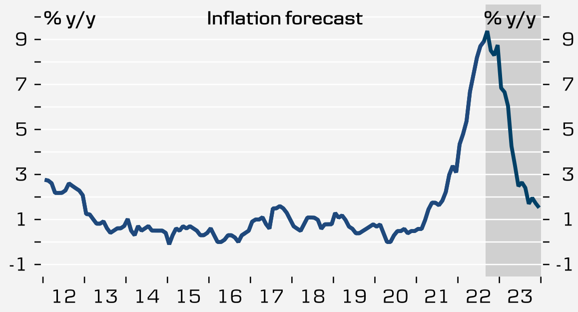
We estimate the temporary cut in electricity levies in H1 23 will reduce inflation by 0.9pp during the period. On the other hand, notice has been given of higher network tariffs to cover the electricity companies' loss of power from the electricity grid, which we calculate will lift inflation by around 0.3pp during the winter months. We thus expect inflation to print at 7.5% in 2022 and 3.4% in 2023.

Danish government finances in a class of their own



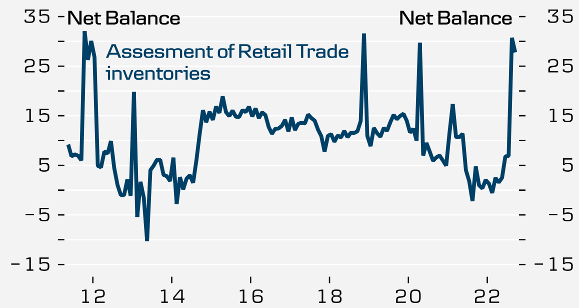
Source: Macrobond Financial, Danske Bank

Inflation peak in sight



Source: Statistics Denmark, Danske Bank, Macrobond Financial

Retail stocks increasing



Source: Statistics Denmark, Macrobond Financial

Consumers hit hard by rising prices

The outlook for consumers has turned more negative and we now expect consumption to decline both this year and next. The gloomier outlook is mainly due to rising prices eroding purchasing power more than expected. Danes experienced the biggest decline in real wages since the 1950s in H1 22 and there is little prospect of real wage growth in Denmark before mid-2023 at the earliest. In addition, increases in interest rates have been more pronounced than expected and house price expectations have been revised lower. All these factors will tend to pull private consumption lower during the forecast period.

So far, the tendency has been for consumers to mainly cut back consumption where prices have risen most. Hence, energy and grocery consumption have fallen considerably after correcting for price changes. Conversely, dining out, for example, has held up surprisingly well, though this should be seen against a significant pent up consumption need here post-pandemic. Going forward, we expect to see a more broadly based decline in consumption.

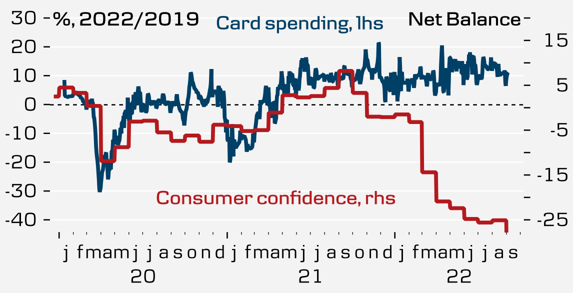
Despite the gloomier prospects for consumption, Danish household finances are relatively well equipped to endure a downturn. Recent years have been characterised by many increasing their savings rather than living beyond their means, and that tendency has been reinforced during the corona crisis. Hence, consumers have a much bigger financial buffer now compared to at the onset of other crises, which have generally been characterised as coming after a period of credit-driven consumption growth. This is also one reason why we expect consumption to bounce back relatively quickly once price pressures begin to ease, which is in stark contrast to the very long recovery in private consumption we witnessed after the financial crisis, when it took more than 7 years for consumption to return to pre-crisis levels.

Our consumption forecast is subject to considerable uncertainty, with much depending on price movements. The average level of savings among Danes is solid. However, a cold winter followed by persistently high prices and a more pronounced shift in the labour market could potentially lead to a greater decline in consumption.

Rising interest rates buffeting the housing market

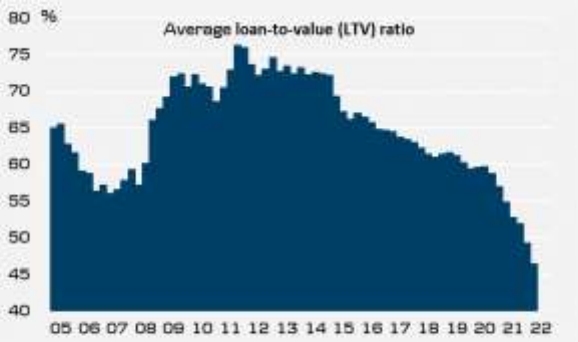
A deteriorating economic outlook along with rapidly rising interest rates and increasing overheads – not least for energy – is expected to push housing prices lower during our forecast period. Housing market activity has already taken a dive – both due to a post-pandemic readjustment and as a result of high financing costs and increased uncertainty about the future. There has also been an increase in supply, longer sales times and a greater tendency towards price discounts. We therefore expect a significant decline in prices of almost 10% between now and the end of 2023 – and this despite nominal income growth and high inflation generally being supportive of house prices. The impact from the increases in interest rates is expected to be greater on houses in the more expensive areas and on apartments in the major cities, as prices clearly rose most here while interest rates were low. This is now also being reflected in a tendency towards higher price discounts in the more expensive areas compared to the rest of the country. These areas are also set to be hit hardest by the housing tax reform and the new property valuations.

No sign of increased savings despite dramatic decline in consumer confidence



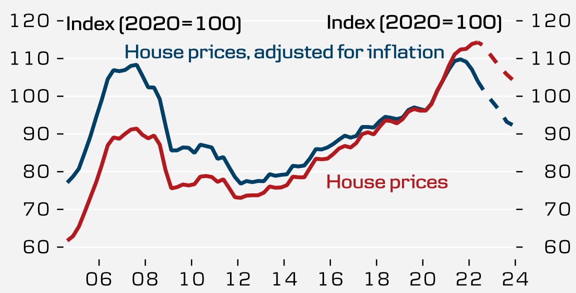
Source: Statistics Denmark, Danske Bank and Macrobond Financial

Homeowners have used period of declining interest rates to repay debts rather than up consumption



Note: Average LTV ratios among Realkredit Danmark customers.
Source: Realkredit Danmark.

House prices expected to fall significantly



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

Despite the bleak outlook, homeowners appear quite resilient to falling prices in the coming years. The period of extremely low interest rates has very much been used to reduce housing debt, with the average loan-to-value (LTV) ratio currently at a multi-decade low. Nor, it seems, has the massive remortgaging activity in 2022 unleashed by rising long yields been used to increase consumption, but rather has overwhelmingly been channelled into reducing debt. Furthermore, the strong price increases since the onset of the corona crisis mean that the vast majority of homeowners will find that even a noticeable fall in prices of around 10% over the coming years will leave their home equity above pre-pandemic levels.

The outlook for the housing market is very uncertain right now and visibility is low – not least due to developments in interest rates. Rates are not only rising faster than we have previously experienced, but from a historically low level.

Exports solid despite headwinds

Danish industry has performed remarkably well since the pandemic broke out. Production is up 24% compared to unchanged in the euro area, and that has been reflected in goods exports, which have grown faster since the onset of the pandemic than at any other time since the financial crisis.

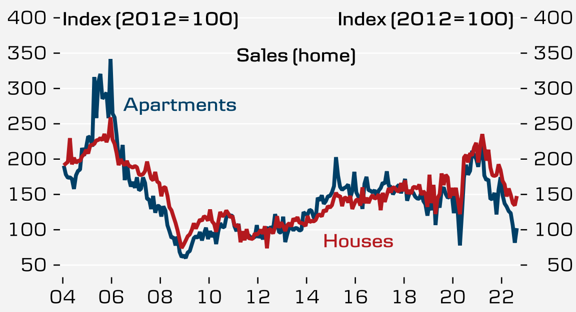
That being said, headwinds have increased for exporters. Activity levels in Denmark's export markets have fallen, and that will inevitably affect Danish companies. Nevertheless, we still expect goods exports to grow. Danish goods exports follow a decidedly different pattern than that dictated by the business cycle due to major exports of pharmaceuticals, wind turbines and food. The DKK has weakened considerably, which particularly benefits the competitiveness of Danish companies who export to the US market. While the trend has shifted, such that more companies are reporting demand as a limiting factor for production and fewer are reporting materials and labour shortages, the former is still the least of the problems. Many companies probably still have some time yet before order books seriously begin to thin.

Service exports are being weighed down by the lack of tourists, but the trend has turned and travel exports in Q2 22 were back at 2019 levels in DKK terms, if not in real terms. Service exports excl. shipping and travel (for example, consulting services) mainly target Denmark's neighbours and have performed well over the past year, contributing to an increased balance of services surplus.

Denmark's current account surplus hit new heights equivalent to 13.4% of GDP in May-July, and that despite Denmark's status as a net energy importer, which has pulled the figures considerably down. Well over half the surplus has been landed by Danish shipping due to very high freight rates. This has been reflected in terms of trade, which have increased by 30,4% for services since 2020, while rising energy prices have, in contrast, contributed to lowering the terms of trade for goods by 13,5% over the same period.

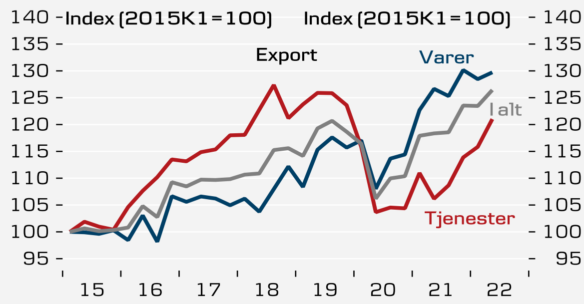
This extreme situation is set to shift after the marked decline in freight rates since the spring, which will tend to pull the surplus lower again in H2 22. Conversely, the economic slowdown in Denmark and globally will likely contribute to a larger surplus, as import demand will be subdued by limited domestic demand, whereas goods exports will be less affected by the economic cycle. The reopening of the Tyra gas field in winter 2023-24 will give a significant upward push but not have much impact on the forecast for next year.

Sales activity dramatically down from very high levels



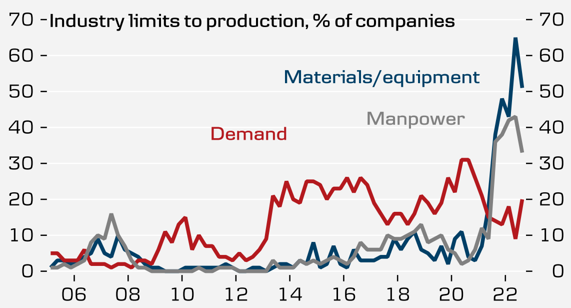
Source: home, own calculations, Macrobond Financial

Exports have been strong



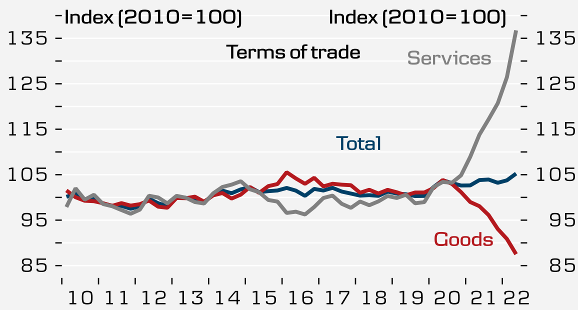
Source: Statistics Denmark, Danske Bank, Macrobond Financial

Curve for production limitations has turned



Source: Statistics Denmark, Macrobond Financial

Extreme developments in terms of trade



Source: Statistics Denmark, Macrobond Financial

At a glance

National account	2021	2021	2022	2023
			Forecast	
	DKK bn (current prices)	% y/y		
Private consumption	1107.2	4.3	-1.5	-1.0
Government consumption	608.4	4.2	0.4	-0.2
Gross fixed investment	566.1	6.2	4.8	-2.1
- Business investment	330.1	6.3	6.5	-1.9
- Housing investment	150.7	9.9	7.5	-5.1
- Government investment	85.3	0.4	-6.4	3.0
Growth contribution from inventories		0.0	1.9	0.5
Exports	1494.0	8.0	5.3	1.7
- Goods exports	893.4	11.4	2.8	1.4
- Service exports	600.5	2.3	9.4	2.1
Imports	1315.2	8.0	3.7	1.5
- Goods imports	814.4	10.5	1.5	1.3
- Service imports	500.8	4.2	7.2	1.8
GDP	2504.2	4.9	3.0	-0.6

Economic indicators	2021	2022	2023
Current account, DKK bn	206.2	278.5	259.2
- % of GDP	8.2	10.0	9.0
General government balance, DKK bn	91.0	35.0	30.0
- % of GDP	3.6	1.3	1.0
General government debt, DKK bn	917.0	890.0	870.0
- % of GDP	36.6	31.8	30.2
Employment (annual average, thousands)	3045.8	3165.6	3178.1
Gross unemployment (annual average, thousands)	105.9	76.2	89.7
- % of total work force (DST definition)	3.7	2.7	3.2
Oil price - USD/barrel (annual average)	71	106	95
House prices, % y/y	11.2	2.3	-5.9
Private sector wage level, % y/y	3.0	3.5	4.0
Consumer prices, % y/y	1.9	7.5	3.4

Financial figures	03/10/2022	+3 mths	+6 mths	+12 mths
Lending rate, % p.a.	0.80	2.05	2.55	2.55
Certificates of deposit rate, % p.a.	0.65	1.90	2.40	2.40

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

Sweden

Households hit by triple whammy

- **A toxic cocktail of economic shocks will hit Swedish firms and consumers hard in the coming months, and GDP growth will turn tangibly negative for a couple of quarters**
- **The labour market could be the next victim, and the situation could worsen if people lose their jobs**
- **The housing market is in retreat: housing prices are falling fast with no turnaround in sight, and construction costs are rising at the fastest rate for 30 years**
- **Inflation will remain high in the near term at around 10%, but falling prices for commodities, intermediates and freight point to lower inflation next year**
- **The Riksbank will continue to "lift" its policy rate rapidly during the autumn and possibly further again early next year, tripling interest costs for firms and consumers**
- **Fiscal policy is not expected to be inflationary but to offer partial compensation for power prices, and there is limited fiscal space with current rules**

A toxic cocktail of shocks

The Swedish economy was surprisingly robust in the first half of 2022. The reasons were probably an expectation that last year's recovery would continue, a substantial accumulation of wealth, and the prospect of further relatively low inflation and low interest rates. The economy was also reopening after the pandemic, triggering strong demand for leisure activities such as travel, hotel and restaurant visits, and cultural events.

All of this has changed dramatically in recent months, with inflation approaching 10%. Households will be hit by a toxic cocktail over the autumn and winter as their purchasing power is eroded on three fronts: 1) The most obvious effect is a substantial decline in real wages. If we use core inflation as the deflator (to exclude the effect of interest rates and energy prices), our forecast shows real wages falling by an annual rate of 4% in both the third and fourth quarters before improving slightly. 2) The Riksbank has been tightening monetary policy at an accelerating rate since April, and it is clear that the policy rate will hit 2.5% or more at the beginning of next year. That is the highest since the financial crisis in 2008/09, and the impact will be much greater this time around because many households have much higher levels of debt. We reckon that interest costs as a share of disposable income after tax will gradually triple from just over 2% to just over 6%. This will happen much more quickly than in many other countries, as around half of Swedish mortgages are variable-rate products. 3) Swedish power prices are now feeling the full force of Russia's strangulation of gas supplies to the EU, the summer heatwave in Europe and recent years' decisions in Germany and Sweden to phase out nuclear power.

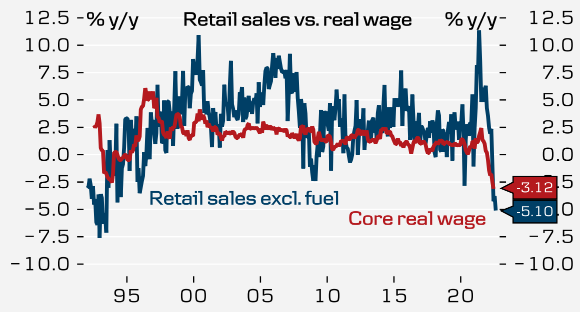
This is most marked in the two southernmost electricity regions, which are home to the most households and so the greatest power consumption. Prices at

At a glance

Sweden				
	Current forecast		Previous forecast	
% y/y	2022	2023	2022	2023
GDP, calendar adjusted	2.4	-1.2	1.1	1.6
Private consumption	3.4	-1.3	2.6	1.7
Public consumption	-0.3	1.1	0.1	1.2
Gross fixed investment	4.6	-2.2	-0.3	1.3
Exports	4.9	2.4	5.4	3.9
Imports	8.7	1.8	6.3	3.4
Unemployment rate	7.4	8.2	7.4	7.2
Inflation	8.0	6.1	6.4	3.5
Government balance, % of GDP	0.7	-0.9	-0.3	0.3
Current account, % of GDP	3.7	4.1	4.9	5.2

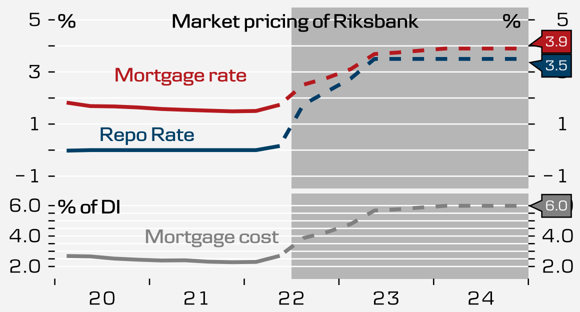
Source: Danske Bank

Biggest drop in real wages in 30 years weighs on retail sales



Source: Swedish National Mediation Office, Statistics Sweden, Danske Bank calculations

Market pricing of Riksbank implies a tripled mortgage cost on average loans is coming



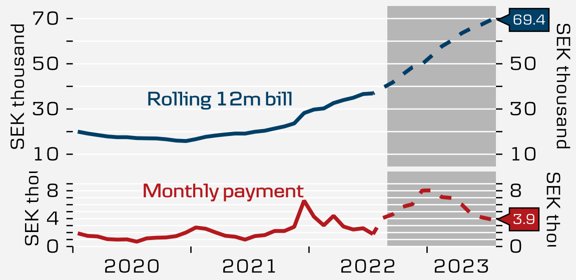
Source: Sveriges Riksbank, Statistics Sweden, Macrobond, Danske Bank calculations consumer level have been around 2-4 times higher than normal recently. If these levels were to persist during the winter when consumption is high, this would choke consumption, especially for those in detached homes. For example, the annual cost of electricity for a normal detached house consuming 20,000 kWh a year would climb from around SEK 16,000 to SEK 60-70,000, or around 10% of disposable income. For obvious reasons, it is unlikely that things will go that far. All political parties support measures to mitigate these extreme power prices, but the level of compensation is not yet clear.

Consumers' record-low confidence and spending plans are also being affected by developments in financial markets. In a climate of global asset deflation, the values of households' fixed-income, equity and housing assets are falling, as is the real value of their bank deposits.

Most indications are therefore that consumers will rein in their spending sharply during the autumn and winter. It seems unlikely that the saving rate will fall further, partly because it has already dropped sharply over the past year (from 21% to 14%) and partly because consumers tend to put more aside when times are tough.

With normal temperatures and current high prices, electricity costs for average house would rocket

Electricity cost 20 000 kWh villa, Electricity Area 3 floating prices



Source: Nord Pool, Statistics Sweden, Danske Bank calculations

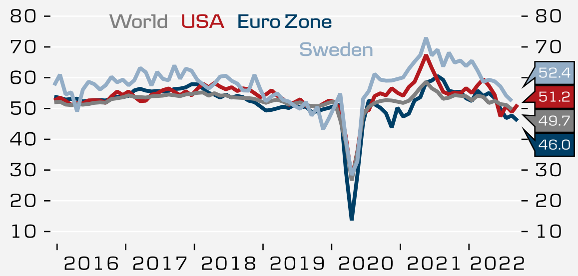
Firms increasingly pessimistic

The steep rise in inflation, interest rates and power prices is also having adverse effects on Swedish firms. New orders are still rising in Sweden according to the composite PMI for manufacturing and services, but with the global and especially the euro-area PMIs now showing new orders falling, it is only a matter of time before this feeds through to firms in Sweden. The real trade balance has deteriorated this year and is showing a deficit. Further deterioration would be expected to have negative effects on both production and investment activity.

Although confidence is still much stronger than normal in manufacturing, it has dropped back in other sectors. The construction sector is now at normal levels, while private services and retail confidence is well below normal, the latter presumably as a reaction to pronounced consumer pessimism.

Declining global new orders will gradually hit Swedish companies

PMI composite New Orders



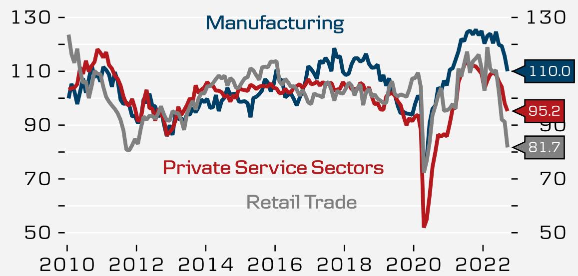
Source: Swedbank, S&P Global

Price expectations are record-high across the business sector, especially in retail of course, and they are still rising in services. Expectations have begun to fall back appreciably in manufacturing from their most extreme levels, but remain high. As sales weaken, it is likely that price expectations will gradually return to more normal levels over the coming year.

Shortages of skilled labour have been a dominant theme in the post-Covid recovery, but firms' employment plans are showing signs of softening. The outlook for the labour market is discussed further in the following section.

Business confidence coming down more and more quickly

Konjunkturinstitutet Confidence survey



Source: Swedish National Institute of Economic Research

Labour market strong but for how much longer?

Employment is high and unemployment has continued to fall, according to figures from the Swedish Public Employment Service. Demand has been so strong that firms have actually been reporting shortages of staff not just in specific segments or cities but as a broad-based problem across the business sector in recent quarters. The labour market is therefore in a strong starting position, although we can always point at structural problems as long-term unemployment, for example, is higher than we would like, and matching problems seem to have increased during the pandemic.

The labour market is late-cyclical, however, and while the Swedish economy has already begun to slow, any rise in unemployment will come at a lag. It is therefore increasingly important to keep an eye on indicators that can provide an early warning, such as 1) employment plans/new vacancies, 2) hours worked, and 3) redundancies. Looking at firms' employment plans, manufacturing and private service sector are the only sectors looking to recruit, but decreasingly so, while retail expects to reduce the workforce from here and constriction unchanged. When it comes to redundancies, there was an increase in August – in fact the biggest in August for eight years – but it remains to be seen whether this was a one-off or a first sign of a shift in the labour market.

Given the weaker economic outlook ahead, with demand slackening both domestically and globally, it is unfortunately only a matter of time before the labour market deteriorates too. The Riksbank is expecting unemployment to climb from 7.5% this year to 7.9% next year, which we consider rather optimistic – we see the unemployment rate rising to 8.2% next year. However, there is some probability that the government will reintroduce some form of short-time working, which could slow the rise in unemployment.

Difficult round of pay talks ahead

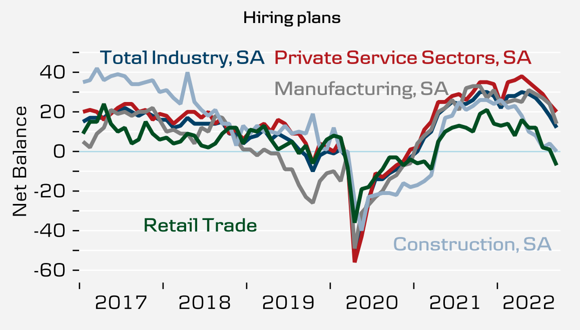
The next round of pay talks is getting closer, with new deals for more than 2 million workers due to be struck in March next year. Unions and employers often have a very different take on how much wages should rise, with the two sides prioritising different factors. Now that the cost of living is rocketing and purchasing power is being gobbled up by sky-high inflation, with the result that 2022 has seen negative real wage growth on a scale last seen back in the 1990s, the coming round of talks will be even trickier. The unions are expected to attach much more importance to the strong profitability in the business sector over the past 18 months, and to the last round of talks resulting in the lowest wage growth since the current system led by the manufacturing sector was introduced in 1998. Employers, on the other hand, are likely to stress the decline in new orders and weaker growth outlook. Prospera's quarterly survey shows that the gap between the two sides' wage expectations has never been wider, even though both anticipate much weaker economic growth.

However, we would have been much more worried about wages accelerating further and presenting a greater risk to our long-term inflation projections if the pay deals would have been settled today and not in five months from here. See more in the following section.

Rise in inflation to slow and then reverse in 2023

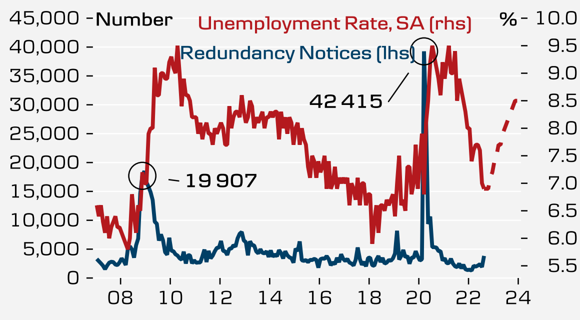
The outlook for inflation is very uncertain both in the near term and in terms of how quickly it comes back down next year. Core inflation could exceed our expectation of just over 7% in the coming months. We see food, furniture, car, transport and restaurant prices all climbing more than 10% y/y, some of them considerably more. Food prices are an obvious upside risk, even though they have already risen sharply this year, thanks partly to the weaker SEK. The currency's depreciation could also affect many of the goods and services that are imported into Sweden (30% of the CPI). It is also very unclear how energy prices will move over the autumn and winter, but we assume they will add another 2-3pp to CPIF inflation.

Retailers are planning to cut workforce



Source: Swedish National Institute of Economic Research, Macrobond

Just a matter of time until this shows up as higher unemployment



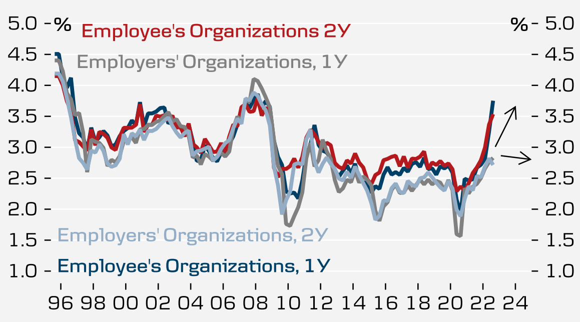
Source: Danske Bank forecast, Statistics Sweden, Macrobond

Historical wage agreements

Wage round	Wage demands The Industrial Unions	Outcome	% of the demands
2004	3.5%	2.4%	69%
2007	3.9%	3.4%	87%
2010	2.6%	1.7%	65%
2011	3.7%	2.6%	70%
2013	2.8%	2.3%	82%
2016	2.8%	2.2%	79%
2017	2.8%	2.2%	79%
2020	3%	1.8%	60%
Average			**74%**

Source: Danske Bank, Swedish National Mediation Office

Widening gap between employers' and unions' wage expectations

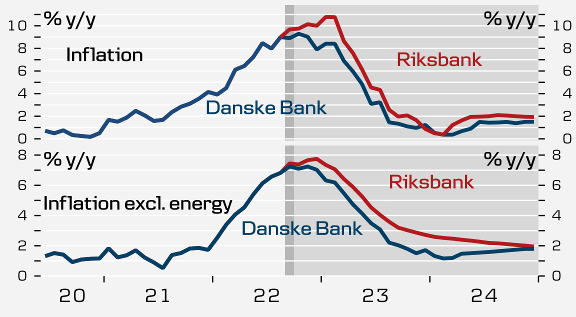


Source: Danske Bank forecast, Statistics Sweden, Macrobond

Looking ahead to next year, there are many factors that point to inflation heading back down. Supply disruptions seem to be resolving, as reflected in shorter delivery times and reduced inflationary pressures at the producer level. Falling container rates and lower commodity prices for food, base metals, industrial intermediates, timber products, semiconductors, chemicals and oil will gradually feed through to the consumer level in the form of falling inflation.

That said, there are still some prices that need to go up. At present, we can only guess how high rents will be raised. We are assuming a modest increase of 3% but cannot rule out something around 5%. The upcoming pay deals could also be inflationary if they come out much higher than the 2.5-3% per year we are anticipating. With a weaker economy and a weaker labour market, however, we expect unions and employers to agree that it is more important to save jobs than to demand high levels of compensation for the strong rate of inflation. Many firms too are being hit by higher interest rates and power prices pushing up costs.

Inflation high near-term, should fall back quite quickly next year



Source: Sveriges Riksbank, Statistics Swede, Danske Bank

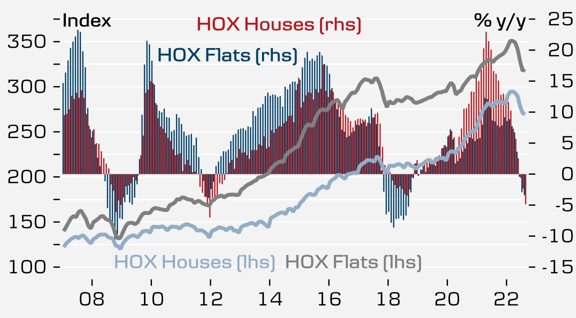
Housing market on the retreat

Housing prices have dropped 6% in seasonally adjusted terms since the beginning of this year, and the decline has been spread evenly across apartments and houses. Prices for houses in Stockholm and Malmö have performed worst, falling 9% and 8% respectively, while apartments in Malmö have fared best to date. In August, house prices continued to come down, while apartment prices surprised by recovering slightly. Given that the Riksbank hiked its policy rate by 1pp in September, power prices remain high, and inflation is seriously eroding purchasing power, we find it hard to see property prices not falling further.

Fixed mortgage rates rose sharply back in the spring, while variable rates have been relatively low. With the Riksbank's latest hike and the prospect of more, variable rates too can be expected to rise rapidly in the coming period. This will put further pressure on households, because around 50% of mortgages in Sweden are variable-rate products.

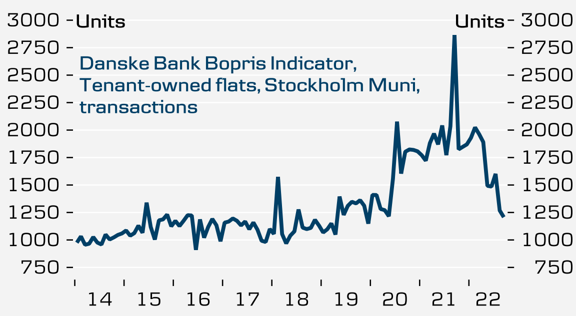
Historically, it has been higher interest costs above all that have triggered downturns in the housing market (ignoring 2017 when the decline was due primarily to the introduction of the minimum repayment rules and high levels of residential construction in the preceding years). Now, once again, the drop in housing prices is being driven by rising interest costs. They have already more than doubled as a share of disposable income since the beginning of this year, and we expect them to have tripled by the end of the year given the continued rise in interest rates. We do not, however, anticipate a housing crash. We do see prices falling another 10 per cent, but that would only take them back to the levels of summer 2020, although that would still wipe out two years of price increases. A temporary easing of the minimum repayment rules would probably cushion the fall, but it is uncertain whether this might happen.

Housing prices are likely to drop another 10%, back to the mid-2020 price level



Source: Valueguard, Macrobond, Danske Bank

Turnover much lower but not so much a collapse as a return to pre-pandemic levels



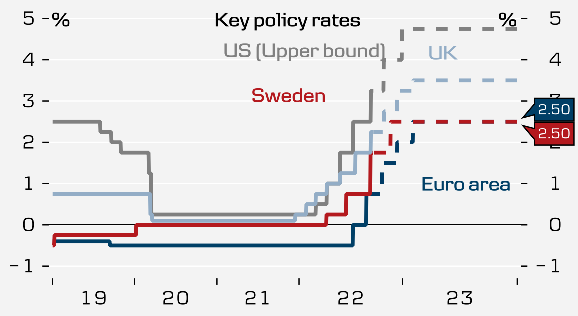
Source: Danske Bank's housing price indicator, Macrobond

Short but aggressive hiking cycle

The Riksbank decided at its September meeting to raise its policy rate by a further 100bp, taking it to 1.75%, a level last seen in February 2012. We thought the bank would settle for a 75bp increase, but instead it signalled that future hikes would be smaller. The bank's projections now indicate an increase of 50bp in November followed by one of 25bp in February, which means that the Riksbank is signalling a policy rate peak of 2.5%, in line with our own forecast. Confidence in the Riksbank's policy rate projections is very weak, however, as reflected in the market currently pricing in further hikes of 160bp by May next year.

This is too aggressive in our opinion, and we are sticking for now to our forecast of a 75bp increase in November. It should, however, be stressed that the threshold for hiking in increments of more than 50bp has risen since the Riksbank revised up its inflation forecast for the coming months at the September meeting. So it is more likely to be pressure from other central banks (the ECB and the Federal Reserve) that would motivate a bigger rise in November. We cannot rule out a further hike in February, but this is not in our base scenario, and we are sticking to our view that the window for rate hikes is relatively limited. This is partly because we expect inflation to drop back in 2023, but also because of the weaker economic outlook.

Riksbank to hike at least another 75bp before peaking



Source: Danske Bank forecasts, Macrobond

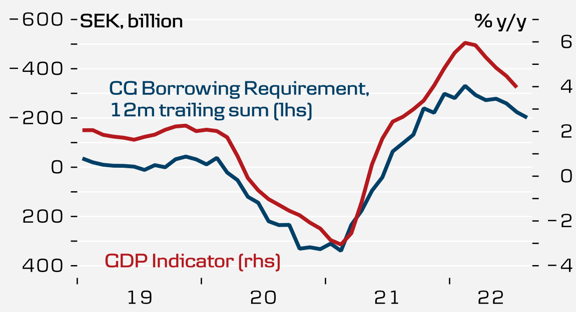
Inflationary fiscal policy unlikely

As things stand, we cannot see the proposals from the right-wing parties for compensation for sky-high power prices (whatever its exact form) being inflationary, as suggested by a number of academic economists. Instead, we think we are looking at partial compensation in the form of the grid operator's future bottleneck income being recirculated to firms and consumers, with the net result that they still face much higher electricity costs than normal – in other words, power prices will still be contractionary.

At the time of writing, talks are still under way on what form the new government will take and what its economic policy will be. It will come as no surprise that lower taxes and contributions are on the agenda. However, the new government's economic policy will need to comply with the established fiscal policy framework, and fiscal space is, as far as we can tell, too limited for this to amount to economic stimulus.

Instead, we see a risk of the automatic stabilisers coming into play if the labour market deteriorates sharply, and the central government budget moving into deficit (and potentially a substantial deficit).

Negative GDP growth in coming quarters spells growing budget deficit



Source: Swedish National Debt Office, Statistics Sweden

At a glance

			Forecast	
National account	**2021**	**2021**	**2022**	**2023**
	SEK bn (current prices)	% y/y		
Private consumption	2357.3	5.9	3.4	-1.3
Government consumption	1411.5	2.5	-0.3	1.1
Gross fixed investment	1412.5	6.0	4.6	-2.2
Growth contribution from inventories		0.3	0.6	-0.8
Domestic demand	5217.3	5.3	3.9	-1.8
Exports	2480.2	7.6	4.9	2.4
Aggregate demand	7697.5	6.0	4.3	-0.4
Imports	2245.7	9.3	8.7	1.8
Growth contribution from net exports		-0.3	-1.3	0.3
GDP	5281.9	4.8	2.4	-1.4
GDP, calendar adjusted	5438.1	4.6	2.4	-1.2

Economic indicators	**2021**	**2022**	**2023**
Trade balance, SEK bn	230.3	158.6	177.5
- % of GDP	4.2	2.8	3.2
Current Account, SEK bn	285.3	208.6	227.5
- % of GDP	5.2	3.7	4.1
Public sector savings, SEK bn	-5.0	40.0	-50.0
- % of GDP	-0.1	0.7	-0.9
Public debt ratio, % of GDP*	37.0	31.0	31.0
Unemployment, % of labour force	8.8	7.4	8.2
Hourly wages, % y/y	2.7	2.5	2.8
Consumer prices, % y/y	2.2	8.0	6.1
House prices, % y/y	14.0	0.0	-8.0

* Maastricht definition

Financial figures	**03/10/2022**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	1.75	2.50	2.50	2.50

Source: Statistics Sweden, Macrobond Financial, Danske Bank

Norway

Clear slowdown under way

- **Growth is slowing, and the outlook is deteriorating further**
- **Capacity utilisation is falling from high levels**
- **The labour market remains tight, but there are now signs of the tide turning**
- **The housing market has been tighter than expected, but the sharp rise in mortgage rates will lead to falling prices**
- **Norges Bank has been more aggressive, but rates are now close to peaking**
- **The NOK remains volatile as uncertainty has grown, which spells a further period of pressure on the currency**

At a glance

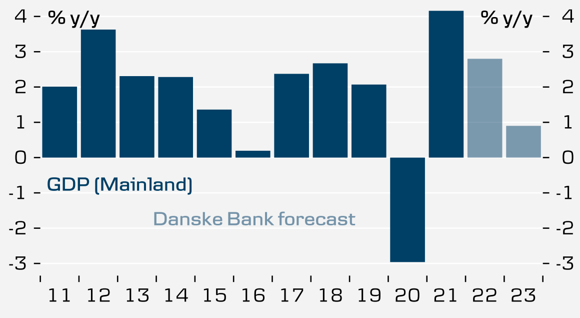
Norway				
	Current forecast		Previous forecast	
% y/y	2022	2023	2022	2023
GDP (mainland)	2.8	0.9	3.6	1.6
Private consumption	4.6	0.9	6.7	2.5
Public consumption	0.9	1.3	1.3	1.3
Gross fixed investment	1.0	4.0	3.1	2.0
Exports	3.0	3.0	6.0	4.0
Imports	8.0	3.5	7.5	4.0
Unemployment (NAV)	1.8	2.4	1.8	2.1
Inflation	5.5	3.4	4.6	2.0

Source: Danske Bank

Negative growth ahead

Growth slowed during the summer. After disappointing with only a moderate rise of 0.7% in the second quarter, mainland GDP surprised to the downside by falling 0.3% m/m in July. The slowdown was also broad-based, with decreases in private consumption (including services), business investment, residential investment, oil investment and net exports (excluding oil). This could mean that it is no longer just capacity constraints weighing on growth, but that demand is also beginning to soften. If so, the pressures in the economy may now be set to ease.

Mild recession expected



Source: Macrobond, Danske Bank

Norges Bank's regional network survey confirmed the slowdown and presented a weaker growth outlook. The aggregated output index for the next six months fell from 0.8 to -0.16, which corresponds to annualised growth of around -0.3% over the next two quarters. Furthermore, only 57.7% of firms reported operating at full capacity, down from 60.8% in May, and the share of firms reporting labour shortages as a constraint on production dropped from 50.4% to 45.6%. This suggests that the combination of weaker global growth, faster inflation and higher interest rates is now eroding demand, and that the output gap is closing. This slowdown is broad-based, with pessimism in retail, construction and domestically-oriented manufacturing, and less optimism in services, but slightly greater optimism among exporters and especially in the oil-related industry.

Firms in the survey continued to revise down their expectations for employment and investment, and profitability is now falling sharply. It was also interesting that expectations for wage growth this year climbed only moderately from 3.9% to 4.0% despite the labour market being seen as very tight.

We anticipate a clear slowdown in the global economy, much weaker growth in consumption due to strong inflation, higher interest rates and rising unemployment, and a more moderate upswing in investment as profitability in the business sector comes under pressure and financing options narrow. We therefore expect a continued slowdown over the rest of this year and the first half of next year.

We have revised down our growth forecast quite sharply and now predict mainland GDP growth of 2.8% this year and 0.9% next year.

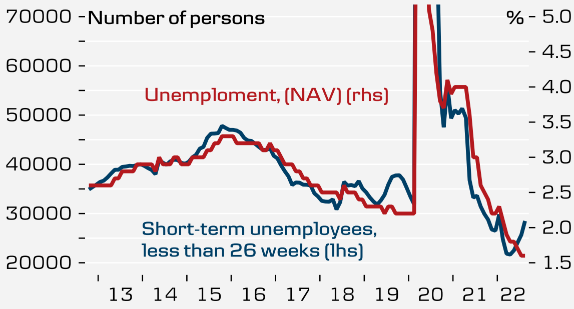
Unemployment to bottom out and employment to fall gently

The labour market is still very tight, and unemployment is at its lowest since before the financial crisis. The number of vacancies is also still climbing and is now above 107,000, the highest on record.

But there are now some signs that things are about to change. The monthly data for new job vacancies appear to have peaked in May, trending down gently over the summer to around the same level in August as at the beginning of the year. The number of short-term jobless, often a leading indicator for unemployment as a whole, has also risen somewhat in recent months. Finally, LFS data suggest that job creation may now have stalled, although the figures are uncertain. After growing strongly since spring last year, employment levelled off from April to July and fell in August.

Our forecast for unemployment this year is unchanged at 1.8%, but we have revised up our forecast for next year from 2.1% to 2.4%.

Labour market about to turn



Source: Macrobond, Danske Bank

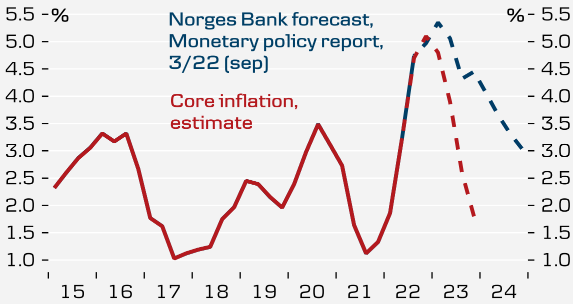
Wage and price pressures to ease

Inflation has risen much further since our June forecast than previously anticipated. A combination of strong cost increases throughout the value chain and rampant demand has resulted in a stronger cost pass-through than expected. Core inflation hit an annual rate of 4.7% in August and is likely to rise further. This inflation is also broad-based, with big increases in prices for imported goods, Norwegian foods and various types of services, including hotels and restaurants.

Although these cost pressures will persist for a while, we expect the pass-through to consumer prices to become gradually more muted. Private consumption is likely to perform poorly for a period, and weaker demand will make it much harder for firms to pass on cost increases to customers.

We therefore expect core inflation to climb to an average of 3.7% this year but drop back to an average of 3.3% next year.

Core inflation approaching peak



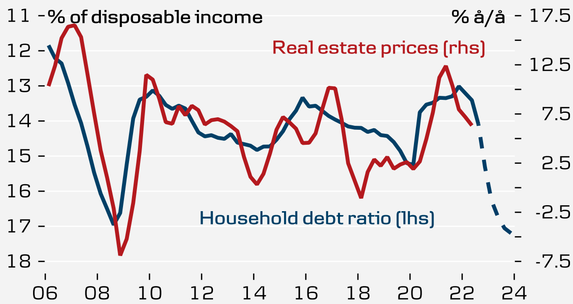
Source: Macrobond, Danske Bank

The trouble, of course, is that this will put pressure on firms' profitability, and we expect this to increase their interest in cost-cutting when it comes to labour too. As mentioned above, we therefore expect unemployment to rise, and the combination of rising unemployment and pressure on profitability will result in more moderate wage growth further ahead. Next year, however, relatively high inflation expectations mean that we expect wage growth to climb to 4.2%.

Housing prices to fall

We have long predicted that housing prices would slow this year as a result of rising mortgage rates, already high (real) prices and a growing supply of housing. So far this year, however, prices have been stronger than we expected. Part of this is because supply has not increased as much as we anticipated. One possible explanation is that the sharp rise in construction costs since autumn last year, combined with long delivery times for many building materials, has led to some planned projects being delayed or cancelled.

Higher interest rates spell lower housing prices



Source: Macrobond, Danske Bank

At the same time, it appears that the interest rate expectations channel has had less of an effect than we originally thought. With already high housing prices and still high debt levels, it would have been natural for Norges Bank's signalling of a doubling of mortgage rates to have impacted on expectations for housing prices. Given the central bank's more aggressive monetary policy since the summer, with the policy rate rising 150bp in just three months, we now expect things to change.

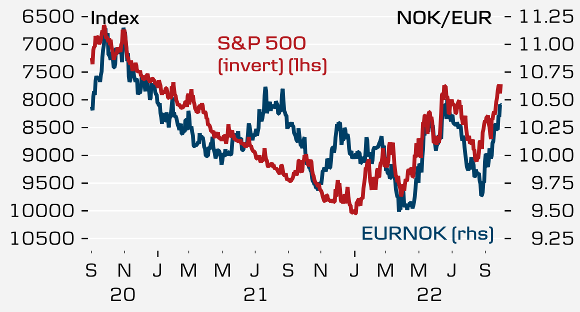
We now see prices falling somewhat further over the rest of this year than we thought previously, giving an increase of just over 5% for 2022 as a whole. With a negative overhang into next year, further increases in mortgage rates and a slightly larger supply of properties, we then expect prices to decrease by just over 2% in 2023.

Turnaround for the NOK?

The outlook for the NOK through to the end of 2023 is uncertain. In our base scenario, we expect it to depreciate towards the end of this year as a result of weaker global growth, lower commodity prices and a general tightening of global financial conditions. But we reckon 2023 could be a turning point for the currency. Persistently higher inflation and, not least, commodity prices will support the NOK in the medium term, and according to our models it is now underpriced for the first time for many years. We do not expect Norges Bank's rate hikes to be a key consideration in the direction of the NOK.

The biggest risk factor is the global investment climate. Whether the world economy performs better (worse) and inflationary pressures ease more quickly (slowly) than expected could be pivotal for the need for tighter global monetary policy. Less pressure from central banks would improve risk appetite and bring a gradual strengthening of the NOK.

Exchange rate at the mercy of financial markets



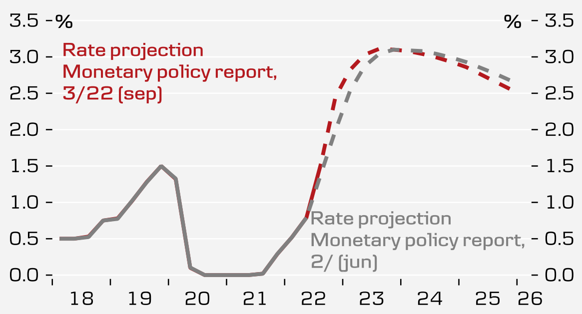
Source: Macrobond, Danske Bank

Norges Bank raises rate and signals slower pace of hikes

As expected, Norges Bank raised its policy rate by 50bp to 2.25% at its September meeting and signalled that it will probably go up further in November. In its assessment, the bank wrote: "The policy rate has been raised from a very low level over the past year, and monetary policy is starting to have a tightening effect on the Norwegian economy. This may suggest a more gradual approach to policy rate setting ahead." This is a clear signal that the bank is now most likely to return to "normal" rises of 25bp.

The bank's projections in the accompanying monetary policy report showed the policy rate probably being raised by another 50bp in the fourth quarter (25bp in November and 25bp in December) to end the year at 2.75%, and a further 25bp in the first quarter next year to peak at 3.0%. No rate cuts are forecast until the second half of 2024. The policy rate path would have been even lower during the forecast period had the bank not used its judgement to revise it up slightly, which can perhaps be seen as risk management. Either way, its projections are well below current market expectations.

Policy rate approaching peak



Source: Macrobond, Norges Bank, Danske Bank

The bank's risk assessment seems fairly balanced: "If there are prospects that inflation will remain high for longer than currently projected, there may be a need for a higher policy rate. On the other hand, there is a risk of a more pronounced slowdown in both global and domestic activity. If inflation and capacity utilisation decrease faster than projected, the policy rate may be raised less far."

The bank's economic forecasts are largely in line with our own. Its prediction for growth next year is actually lower than ours, but the bank is still forecasting a slightly larger output gap than we are, and so slightly lower unemployment. The big difference is when it comes to the bank's expectations for wage growth in 2023 (4.6%), 2024 (4.5%) and 2025 (4.2%). We expect the economic slowdown to bring higher unemployment and, not least, pressure on profitability in the business sector, so we consider those levels of wage growth to be way beyond what firms could bear.

At a glance

			Forecast	
National account	**2021**	**2021**	**2022**	**2023**
	NOK bn (current prices)	% y/y		
Private consumption	1529.8	4.9	4.6	0.9
Public consumption	968.3	3.8	0.9	1.3
Gross fixed investment	960.5	-0.9	1.0	4.0
Petroleum activities	177.7	-2.7	-6.0	7.0
Mainland Norway	779.5	0.0	4.0	3.0
Dwellings	48.4	0.6	-0.5	1.5
Enterprises	49.1	2.2	5.0	5.0
General government	219.5	-4.0	1.0	0.5
Exports	1721.9	4.7	3.0	3.0
Traditional goods	492.9	6.7	-3.0	2.0
Imports	1214.2	2.3	8.0	3.5
Traditional goods	831.3	5.4	3.0	2.8
GDP	4141.9	3.9	2.8	1.4
GDP Mainland Norway	3267.4	4.1	2.8	0.9

Economic indicators	**2021**	**2022**	**2023**
Employment, % y/y	1.2	3.6	0.3
Unemployment (NAV), %	3.1	1.8	2.4
Annual wages, % y/y	3.5	4.1	4.2
Consumer prices, % y/y	3.5	5.5	3.4
Core inflation	1.7	3.7	3.3
Housing prices, % y/y	9.0	5.3	-2.1

Financial figures	**03/10/2022**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	2.25	2.50	2.50	2.50

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

Finland

From thaw to frost

- **The Finnish economy was stable during the first half of 2022, but headwinds have grown stronger and the economy is falling into a recession. We raise our GDP growth forecast to 2.0% in 2022 (was 1.5%) on the back of the H1 strength, but we lower the 2023 GDP forecast to -0.2% (was 1.6%). Risks are on the downside in 2023, especially if the energy crisis does not ease during the year.**
- **Persistently high inflation, rising interest rates and a weaker global outlook take the wind out of consumption, investment and exports. A relatively strong labour markets shields the economy from a bigger impact. Services consumption grows.**
- **Trade with Russia has fallen massively due to sanctions and voluntary boycotts at companies, which seek new export markets and sources for imports. The Olkiluoto 3 nuclear reactor is expected to start regular electricity production in December, which would replace earlier electricity imports from Russia.**
- **We expect housing markets to calm down with fewer transactions. Housing prices are likely to fall slightly, but there is no major pressure for larger price movements.**
- **The economic slowdown together with the energy crisis aid, investment into energy infrastructure and national defence put pressure on public finances. The debt-to-GDP ratio remains relatively flat thanks to a large increase in nominal GDP, but the net borrowing need grows.**

At a glance

Finland				
	Current forecast		Previous forecast	
% y/y	2022	2023	2022	2023
GDP	2.0	-0.2	1.5	1.6
Private consumption	2.0	0.1	1.6	2.5
Public consumption	3.0	1.0	1.5	1.0
Gross fixed investment	3.5	0.5	4.0	2.5
Exports	0.5	-0.5	1.0	2.0
Imports	4.0	0.5	2.5	3.5
Unemployment rate	6.8	7.3	6.4	6.3
Inflation	6.6	3.7	6.0	2.5
Government balance, % of GDP	-3.1	-2.6	-2.8	-2.3
Current account, % of GDP	-2.6	-1.4	-0.6	-0.2

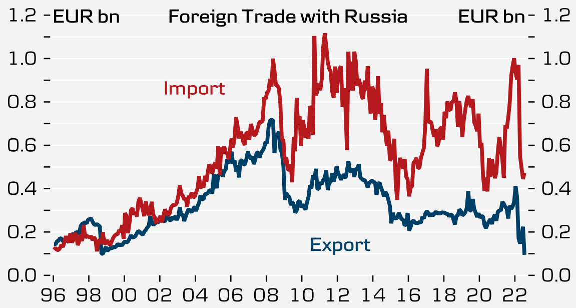
Source: Danske Bank

Recessionary forces getting stronger

The Finnish economy made a broad based recovery from the Covid-19 induced economic slump. GDP exceeded its pre-covid-19 level in already in Q3 2021, but it had not reached the full potential output in early 2022. The economy also grew during the first half of the 2022 despite the shock stemming from the war in Ukraine. Manufacturing output continued to grow on the back of old orders and the services sector expanded as the Covid lockdown measures were lifted. Currently the Finnish economy faces several headwinds, which bring growth into a negative territory. A recession looks likely in the near future. The main headwinds are a collapsed trade with Russia, persistently high inflation, rising interest rates and general uncertainty.

Trade with Russia has fallen massively due to sanctions and voluntary boycotts at companies, which seek new export markets and sources for imports. Exports to Russia have fallen to a very low level, existing orders are still being delivered. Imports have fallen as well, natural gas and electricity imports have ended. The remaining imports include items like crude oil based on old agreements and nickel used in production of stainless steel. Trade relations with Russia are unlikely to improve in the near future. Finland and Estonia lease a floating LNG terminal as a way to replace Russian gas. This is expected to be operational this winter. The Olkiluoto 3 nuclear reactor is expected to start regular electricity production in December, which would fill the gap following cutting imports from Russia and help to keep the domestic electricity price at more affordable levels.

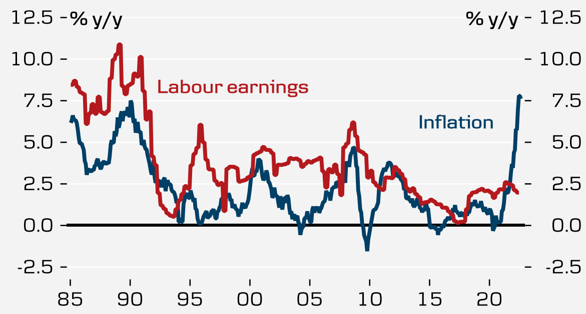
Trade with Russia falls to a very low level



Source: Macrobond Financial data, Finnish Customs, Danske Bank
Remark: Seasonally adjusted

Inflation will be higher for longer also in Finland, which takes goods consumption volumes down. Finland is less reliant on natural gas than many other countries in Europe, but the energy crisis is a major worry in Finland. Electricity prices have risen, and a cold winter coupled with shortcomings in production could lead to further increases. The government has announced measures like a temporary electricity VAT reduction, higher social benefits for lower income people and a tax deduction for large electricity bills in 2023. These measures will not fully save the purchasing power, but will help to avoid some problems for people especially reliant on electricity as the main source of heating. Pensions, which are linked through an index to both inflation (70%) and earnings (30%) will rise more than 6% in 2023. Shrinking purchasing power has already hit retail trade, where sales value has grown, but sales volume has fallen. The durable goods sector is going to see less demand, because consumers need to use more on daily necessities and delay home improvements. Services consumption still grows, because it benefits from pent-up demand, increasing post-lockdown possibilities and relatively has seen less inflation. Tight budgets may, however, cut consumer travel plans.

Real earnings are falling fast

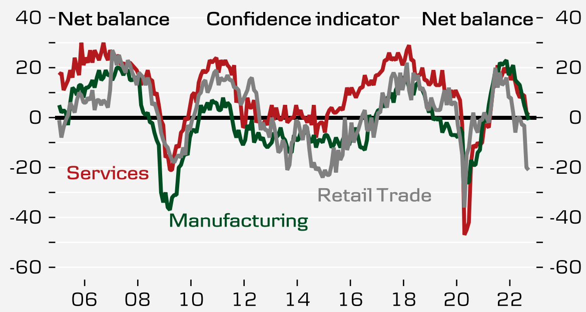


Source: Macrobond Financial data, Statistics Finland

Interest rates have risen fast and we expect that the peak is ahead. Rising rates feed into corporate and household finances with a lag. Finnish housing loans are typically linked to variable euribor rates. The 12 month rate is the most common. Less than half of the mortgages have been hedged. The housing market has started to cool down already. We expect less construction and corporate investment as financing costs rise.

General uncertainty has increased, which can be observed from leading indicators like weak consumer confidence, falling business confidence and volatile stock market. Geopolitical uncertainty has increased in 2022, which Finland aims to mitigate by joining the NATO. We expect this uncertainty to delay private investment decisions and to increase the household savings rate.

Business confidence keeps getting weaker



Source: Macrobond Financial data, Statistics Finland

Several weak quarters ahead

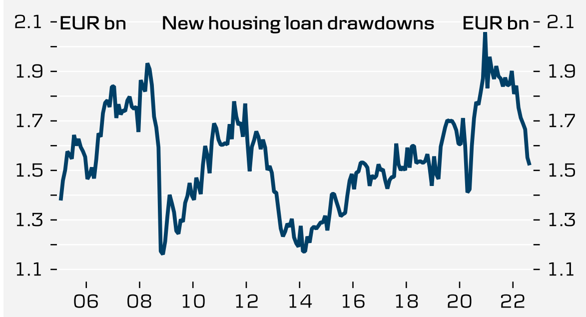
The backlog of old orders kept Finnish exports stable in Q2. The value of new orders has moved sideways in H1 2022, but the underlying volume shrank. Large ship deliveries continue and affect exports positively; Carnival Celebration is delivered this autumn and Icon of the Seas is in 2023.

Service exports continue to recover from the Covid-19 induces slump, but goods exports face softer demand. Exports to Russia remains small and several other important export markets, like Germany and the US, are weak. As a whole, we expect exports to fall 0.5% in 2023. Taking imports into account, net exports has a negative contribution to GDP. Risks are on the downside, and many companies will need to downsize their production.

Private consumption grew in Q2 on the back of the service sector being freed from Covid-19 restrictions. The household savings rate fell into negative territory as consumers used their savings and consumer credit. Going forward, rising electricity prices and higher interest rates strain consumer finances. Uncertainty will push the savings rate higher. According to a recent Danske Bank survey, one quarter of consumers do not have financial buffers. Many consumers need to adapt to a lower level of consumption over the winter. The consumer confidence survey shows a large fall in intentions to buy durable goods. The consumer outlook could improve in 2023, when inflation should moderate, earnings rise a bit faster and pensions rise over 6%. Services consumption have space for growth and we expect 2023 to book growth compared to 2022. Given the strong headwinds on goods consumption, we expect nearly no growth in private consumption in 2023. Government consumption grows as the state budget looks expansive and parts of defence spending, such as bullets and cannon shells, is booked as consumption.

Investment activity is slowing down. Housing construction shrinks, because cost increases and higher interest rates hurt profitability. Higher costs cannot be pushed to buyers at a time of a recession. Consumer home purchase intentions have also fallen. Workers have made a partial return to the workplace, which reduces demand for extra space at home. Rising interest rates, general uncertainty and higher existing supply of rental housing reduce incentives for buy-to-let purchases. We expect housing market to stay calm with fewer transactions in 2023. Housing prices are likely to fall slightly, but there is no major pressure for larger price movement. Manufacturing investment will be held back by weak growth expectations and higher financing costs. On the positive side, a push towards higher productivity and labour shortage should lead to increased digitalisation and automation. The Next Generation EU package helps to fund digital investments. The energy crisis leads to additional investment into domestic energy production and a faster green transition. As a whole, fixed investment grows 0.5% in 2023.

Housing loan drawdowns falling



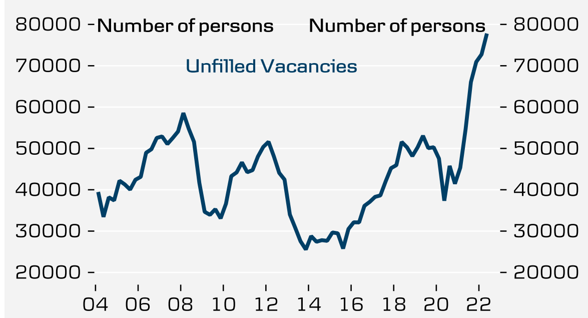
Source: Macrobond Financial data, Statistics Finland, Danske Bank

We expect the GDP to fall for three quarters and resume modest growth in Q2 2023, when inflation should moderate and give space for consumer purchasing power to recover. The recession could be longer and the recovery is likely to be slow. As a whole, we forecast that the GDP falls 0.2% in 2023.

Some softness in the labour market

The Finnish labour market became tight during the recovery phase. The seasonally adjusted trend of the employment rate was 73.8 per cent and the trend of the unemployment rate was 6.2 per cent in April 2022. The labour market has become softer since May, and the unemployment rate rose to 7.1% in August. The peak in employment rate before the Covid-19 crisis was 72.6 per cent in February 2020, and the rate has been higher only in the early 1990s. Open vacancies are at a record level and many companies continue to report lack of skilled labour as a barrier to growth. Loss of trade with Russia and weaker economic growth will lead to some layoffs, but we expect the strong labour market to absorb the shock without significant rise in unemployment. The consumer confidence survey showed record weak expectations in September, but wear of personal unemployment eased and was at roughly average level.

New job opportunities are plentiful

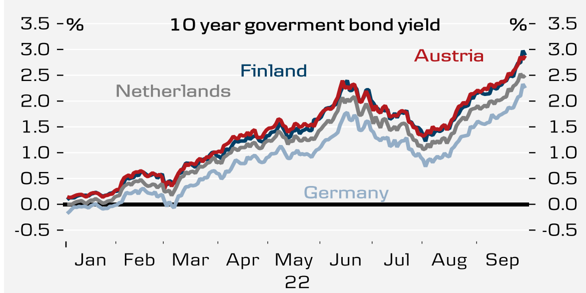


Source: Macrobond Financial data, Statistics Finland, Danske Bank

More public debt with a higher rate

Finnish public debt was revised significantly higher in June 2022. The debt ratio calculated according to the new method is 5.9 percentage points higher than according to the old method in 2021. The methodological change included government ARA loans (interest subsidy loans granted to rental dwellings and right of occupancy houses) as part of public debt.

FGB yield moves higher largely in line with peers



Source: Macrobond Financial

The economic slowdown together with the energy crisis aid measures as well as public investment into energy infrastructure and national defence put pressure on public finances. According to the latest third supplementary budget, the central government net borrowing need is EUR 18.9bn in 2022. EUR 10 bn comes from a temporary facility for energy companies facing a cash crunch, which may not be fully tapped. The government has decided to cut electricity VAT, increase some social benefits and make excessive electricity bills partly tax deductible to help consumers. Most of the actions have an impact in Q1 2023. The central government budget proposal for 2023 includes EUR 8 bn net lending and EUR 37 bn gross issuance. We forecast that the debt-to-GDP ratio falls modestly in 2022, because nominal GDP grows fast, but in 2023 the debt ratio rises as nominal GDP growth slows. Finnish government bond yields move largely in line with the European peers. An ageing population implies a significant increase in age-related costs in the coming years. Rating agencies, however, expect structural reforms to boost economic growth and keep ageing related costs down. In our view the pace of reforms is slow, but enough to satisfy rating agencies.

At a glance

			Forecast	
National account	**2021**	**2021**	**2022**	**2023**
	EUR bn (current prices)	% y/y		
GDP	251.4	3.0	2.0	-0.2
Imports	98.5	6.0	4.0	0.5
Exports	99.1	5.4	0.5	-0.5
Consumption	189.5	3.9	2.3	0.4
- Private	128.2	3.7	2.0	0.1
- Public	61.4	2.9	3.0	1.0
Investments	59.5	1.5	3.5	0.5

Economic indicators	**2021**	**2022**	**2023**
Unemployment rate, %	7.7	6.8	7.3
Earnings, % y/y	2.3	2.6	3.5
Inflation, % y/y	2.2	6.6	3.7
Housing prices, % y/y	3.7	1.5	-1.0
Current account, EUR bn	2.3	-7.0	-4.0
- % of GDP	0.9	-2.6	-1.4
Public deficit, % of GDP	-2.6	-3.1	-2.6
Public debt/GDP, % of GDP	72.3	70.6	71.3

Financial figures	**03/10/2022**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	0.75	1.50	2.50	2.50

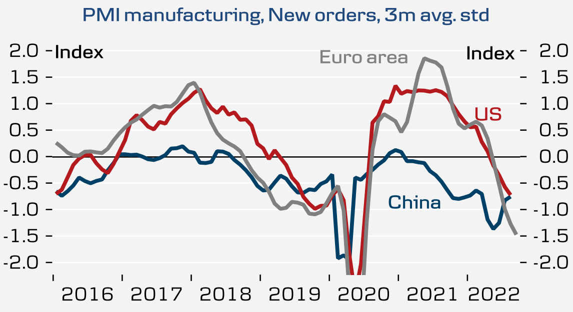
Source: Statistics Finland, Macrobond Financial, Danske Bank

Global Overview

Chilling prospects for the global economy

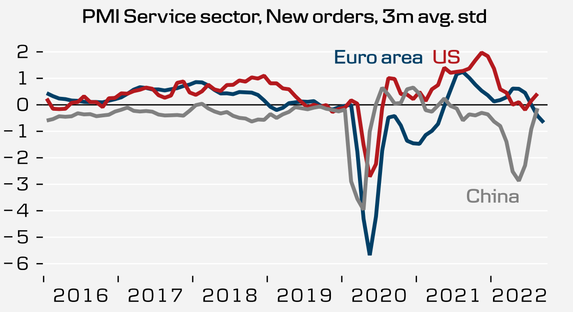
- **Global economic momentum is weakening with the tightening of monetary policy and the escalating energy crisis in Europe. Strong labour markets provide a cushion.**
- **The German economy is highly likely to fall into a recession already this year, while the euro area is also at risk.**
- **The US economy will see a near-term recovery, but tight financial conditions will increasingly weigh on the economy, leading to a mild recession in H1 2023.**
- **Thanks to policy stimulus and waning COVID-19 lockdowns, the Chinese economy will grow about slightly above 5% in 2023. The Japanese economy will likewise benefit from pent-up demand and loose monetary policy**

Sharp slowdown in the global manufacturing sector...



Source: Macrobond Financials

..while the service sectors holding up slightly better



Source: Macrobond Financials

Slowing global economic momentum

The energy situation in Europe has taken a turn for the worse with Russia cutting off gas supplies, which has led to spiralling electricity and gas prices. **At the same time, central banks have doubled down on fighting inflation**, hiking policy rates at the fastest pace for decades as inflation has proved to be higher and more persistent than anticipated. **Amid these headwinds, the global economy is showing signs of weakness**. Most notably this is seen in the global manufacturing sector, where demand is hit by shift in consumer demand toward services, fading impact of the fiscal stimulus (in the US) and the surge in inflation. While activity in the service sectors has held up better, notably in the US, the activity in the euro area is waning amid a large slump in real purchasing power and falling confidence amid surging energy and electricity prices. While the US economy witnessed negative GDP growth in H1 22, the labour market and private consumption indicators does not suggest that the US has fallen into a recession yet. Labour markets in both the US and Europe remain a bright spot with very low unemployment rates, providing a cushion to the economic headwinds. While the Chinese economy faced significant headwinds during the spring, it recovered swiftly over the summer following the lifting of the lockdowns, but the economic momentum has started to weaken again amid headwinds from the property crisis, continuing COVID breakouts and waning external demand.

Energy shock, high inflation and monetary tightening increase recession risks

We continue to expect a significant slowdown in global economic activity driven by swift policy tightening and declining purchasing power from high **inflation.** The risk of an economic backlash is most acute in the euro area, and notably Germany, following the sharp rise in gas and electricity prices, which has hurt consumer and corporate confidence and raising the risk of rationing of energy. As a result, we are now expecting the German economy to fall into a recession in H2 2022 and possible continuing into 2023. Given the energy shock is so intense across the euro area, there is also a significant risk of a recession for the euro area as a whole, although our base case is an economic stagnation.

While the energy crisis is much less acute in the US, inflation is still far too high relative to the Federal Reserve's inflation target of 2%. This has already forced the Fed to implement the most rapid and aggressive tightening of policy in decades. We expect the Fed to continue the aggressive tightening pace in the last two meetings in 2023 and then keep financial conditions tight for a prolonged period. **Hence, while we think the US economy will do relatively well near-term, the policy tightening will increasingly weigh on US growth, and ultimately cause a recession.** While the timing and depth of a potential recession are very uncertain, we expect it to strike around Q2 23.

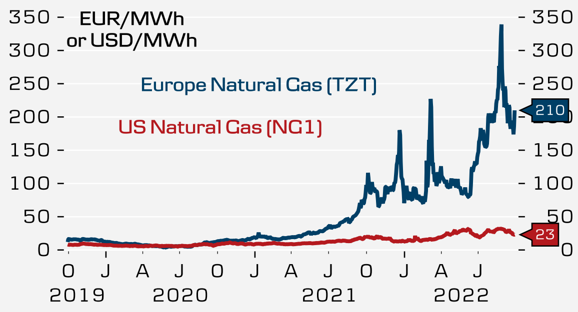
After the brief rebound in the Chinese economy, we expect growth to slow below potential in H2. While the muted inflation pressures enable China to support the economy through expansionary monetary and fiscal policies, China is battling with a property crisis and recurrent lockdowns due to outbreaks of Covid-19. As a result, we expect the challenges to keep growth below trend in H2 and look for the economy to grow only 2.7% GDP in 2022, clearly below our estimate of potential growth at 5-5.5%. In 2023, we expect economic growth pick up more speed, as we expect an easing of the zero COVID policies (releasing pent-up demand) and more policy stimulus outweighing stagnant external demand

Concerns about the new UK government's fiscal plans

On Friday September 23 new Chancellor Kwasi Kwarteng announced a GBP 45bn tax-cutting package (2% of GDP), making it the largest tax cut since 1972. The package includes scrapping the planned rise in corporation tax, abolishing the highest rate of income tax from currently 45% to 40% as well as cutting the basic tax rate from 20% to 19% from April. Besides the tax cuts, the government is also proposing energy price caps for households, a liquidity facility for energy firms and an Energy Bill Relief Scheme for business. **The total package was estimated to exceed 150bn (6% of yearly GDP)** and expenditures are front-loaded within the next 6M, but note that these are all preliminary estimates. The package was set to be deficit funded. On 3 October, the Chancellor dropped the abolishing of the highest income tax rate after significant pressure from financial market participants, the IMF and the lowering of the outlook for the UK S&P AA rating to negative from stable.

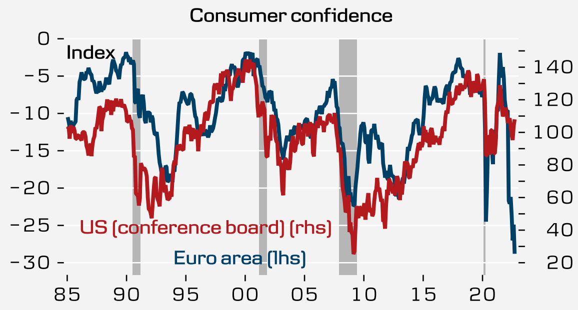
For the UK economy, these measures will, all else equal, underpin domestic demand near-term. However, the problem is that the UK economy is very close to full employment as unemployment is the lowest level since the early 1970s. Hence the expansionary fiscal policy risks creating more inflation which in turn will require the Bank of England to hike policy rates even more. Indeed, financial markets have priced in an 130BP of additional hikes over the hiking cyle putting upward pressure on UK yields. The uncertainty also led to a significant weakening of the Pound. The higher yields will lead to higher mortgage costs, which will likely weigh on private consumption in 2023. Together with the global slowdown and recession risk in the US next year, we hence expect also the UK economy to fall into a recession next year.

The energy/gas shock is much bigger in Europe



Source: Macrobond Financials

Consumer confidence in the euro area plummeting



Source: Macrobond Financials

Our base case scenario for GDP growth

	2022	2023
	y/y, %	
Euro Area	2.8%	0.3%
China	2.8%	5.7%
US	1.6%	-0.2%
Japan	1.3%	1.5%

Source: Danske Bank

Persistent inflation pressures forcing hawkish central bank policies

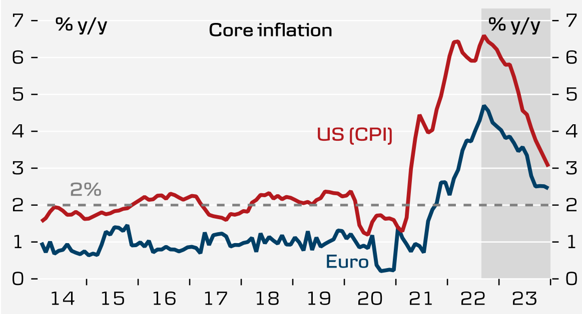
While US may have seen the peak in inflation, inflation pressures continue to grow in Europe amid the escalating energy crisis. We expect US headline inflation to creep lower amid lower commodity prices, while core inflation pressures will persist a bit longer, implying inflation will approach 2% at the end of 2023. In Europe, while core inflation pressures may abate, high gas and elecctricty prices present an upside risk to the inflation outlook.

In view of the persistent inflation pressures, major central banks have upped the pace of monetary policy tightening in response to the surge in inflation. The Fed has led major central banks, hiking by an extraordinary 75 bps at the June, July and September meetings. We now expect two more 75bps hikes in November and December. We then expect the hiking cycle to be done, but anticipate that financial conditions will remain tight for the foreseeable future. While the ECB began their hiking cycle in July, they have generally hiked more than anticipated (50bps hike in July and 75bps in September). Given the surge in inflation and risks of inflation getting entrenched, we have increased our expectations of the ECB hiking cycle, anticipating another 75 bps hike in October, followed by two 50bps hikes in December and February, implying a peak in rates of almost 2.5%, slightly below current market pricing of "peak" interest rate.

Risks are tilted to the downside on persistent high inflation and geopolitical risks

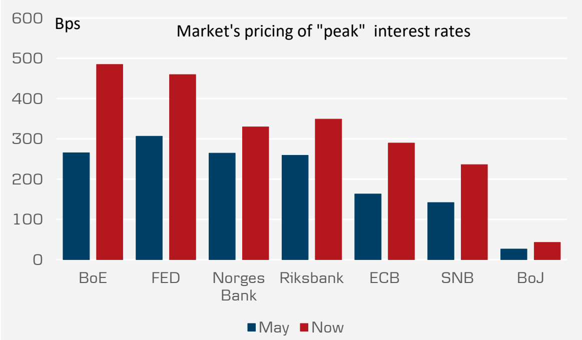
The risks to our growth forecasts are tilted to the downside, especially in Europe. One of the most prominent risks is the persistently high inflation pressure; in part as gas and electricity prices remain high or increase further but also if inflations expectations and wage growth creep higher. This would require central banks to tigthten monetary policy more than expected. Furthermore, there is also a risk of an escalation of tensions with Russia over the war in Ukraine. This could involve hybrid warfare which could be targeted critical infrastructure in the Western European countries. **Among the upside risks**, there is a faster than expected decline in inflation, in part if a peaceful solution is found to the war in Ukraine, leading to lower energy prices in Europe.

Core CPI inflation peaking soon and set to head lower in 2023



Source: Macrobond Financial, Bloomberg

Markets expecting materially higher "peak" interest rates now



Source: Macrobond Financials and Bloomberg

Economic forecast

Macro forecast. Scandinavia

	Year	GDP [1]	Private cons. [1]	Public cons. [1]	Fixed inv. [1]	Ex-ports [1]	Im-ports [1]	Infla-tion [1]	Wage growth [1]	Unem-ploym [3]	Public budget [4]	Public debt [4]	Current acc. [4]
Denmark	2021	4.9	4.3	4.2	6.2	8.0	8.0	1.9	3.0	3.7	3.6	36.6	8.2
	2022	3.0	-1.5	0.4	4.8	5.3	3.7	7.5	3.5	2.7	1.3	31.8	10.0
	2023	-0.6	-1.0	-0.2	-2.1	1.7	1.5	3.4	4.0	3.2	1.0	30.2	9.0
Sweden	2021	4.6	5.9	2.5	6.0	7.6	9.3	2.2	2.7	8.8	-0.1	37.3	5.2
	2022	2.4	3.4	-0.3	4.6	4.9	8.7	8.0	2.5	7.4	0.7	31.0	3.7
	2023	-1.2	-1.3	1.1	-2.2	2.4	1.8	6.1	2.8	8.2	-0.9	31.0	4.1
Norway	2021	4.1	4.9	3.8	-0.9	4.7	2.3	3.5	3.5	3.2	-	-	-
	2022	2.8	4.6	0.9	1.0	3.0	8.0	5.5	4.1	1.8	-	-	-
	2023	0.9	0.9	1.3	4.0	3.0	3.5	3.4	4.2	2.4	-	-	-

Macro forecast. Euroland

	Year	GDP [1]	Private cons. [1]	Public cons. [1]	Fixed inv. [1]	Ex-ports [1]	Im-ports [1]	Infla-tion [1]	Wage growth [1]	Unem-ploym [3]	Public budget [4]	Public debt [4]	Current acc. [4]
Euro area	2021	5.2	3.7	4.2	4.1	10.3	8.0	2.6	4.1	7.7	-5.1	97.4	3.2
	2022	3.1	3.9	2.2	3.1	6.4	7.7	8.5	4.0	6.8	-3.7	94.7	2.4
	2023	0.3	0.6	2.4	2.3	2.7	4.9	5.0	3.4	6.8	-2.5	92.7	2.9
Germany	2021	2.6	0.4	3.8	1.0	9.5	8.9	3.2	3.4	3.6	-3.7	69.3	7.4
	2022	1.5	4.1	4.6	0.7	2.0	6.7	8.8	3.3	3.0	-2.5	66.4	6.4
	2023	-0.1	0.2	3.2	2.0	2.0	4.8	6.5	3.9	3.0	-1.0	64.5	6.8
Finland	2021	3.0	3.7	2.9	1.5	5.4	6.0	2.2	2.3	7.7	-2.6	72.4	0.9
	2022	2.0	2.0	3.0	3.5	0.5	4.0	6.6	2.6	6.8	-3.1	70.6	-2.6
	2023	-0.2	0.1	1.0	0.5	-0.5	0.5	3.7	3.5	7.3	-2.6	71.3	-1.4

Macro forecast. Global

	Year	GDP [1]	Private cons. [1]	Public cons. [1]	Fixed inv. [1]	Ex-ports [1]	Im-ports [1]	Infla-tion [1]	Wage growth [1]	Unem-ploym [3]	Public budget [4]	Public debt [4]	Current acc. [4]
USA	2021	5.9	8.3	0.6	7.4	6.1	14.1	4.7	4.2	5.4	-12.4	126.9	-3.5
	2022	1.6	2.4	-1.4	1.3	5.7	9.4	7.9	5.2	3.6	-4.2	124.0	-3.5
	2023	-0.2	-0.1	0.9	-2.9	-1.5	-3.4	3.8	4.2	3.9	-3.8	121.0	-3.2
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	2.8	4.8	-	3.0	-	-	2.5	5.0	-	-7.7	77.8	1.1
	2023	5.7	6.5		5.0			2.5	5.5		-7.1	81.8	1.0
UK	2021	7.5	6.2	12.6	5.6	-0.3	2.8	2.6	5.1	4.5	-5.4	95.6	-2.6
	2022	4.0	4.8	1.3	8.1	0.7	14.7	8.4	4.4	3.6	-3.9	95.5	-4.8
	2023	-0.2	-0.3	1.2	-1.9	-2.4	-2.4	5.6	3.3	4.1	-1.9	97.0	-3.7
Japan	2021	1.7	1.1	2.1	-1.3	11.9	5.1	-0.2	-	2.8	-	-	-
	2022	1.7	3.3	1.4	-1.8	3.6	4.1	1.6	-	2.5	-	-	-
	2023	1.8	1.6	0.7	1.7	2.9	1.1	1.1	-	2.5	-	-	-

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

Disclosure

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this report are listed on page 2 of this report.

Analyst certification

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

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

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

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

Financial models and/or methodology used in this research report

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

Risk warning

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

Expected updates

Quarterly.

Date of first publication

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

General disclaimer

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

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

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

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

Disclaimer related to distribution in the United States

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

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

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

Disclaimer related to distribution in the United Kingdom

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

Disclaimer related to distribution in the European Economic Area

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

Report completed: 03 October 2022, 12:00 CEST

Report first disseminated: 04 October 2022, 06:00 CEST

Danske Bank

Danske Bank Research

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

International Macro

Chief Analyst & Head of

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

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

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

Antti Ilvonen
+358 445 180 297
antti.ilvonen@danskebank.com

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

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

Fixed Income Research

Chief Analyst & Head of

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

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

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

FX and Corporate Research

Chief Analyst & Head of

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

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

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

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

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

Credit Research

Chief Analyst & Head of

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

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

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

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

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

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

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

Olli Antero Eloranta
+358 40 771 5769
oleo@danskebank.com

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

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

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

Christian Svanfeldt
chrsv@danskebank.com

Sweden

Chief Analyst & Head of

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

Chief Economist

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

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

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

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

Denmark

Chief Economist & Head of

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

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

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

Norway

Chief Economist & Head of

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

Finland

Chief Economist & Head of

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

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