Macro Research

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Monthly Macro Update

No smooth sailing in sight

US: In for a boom/bust episode

Eurozone: A tall order for the ECB

Nordics: Growing confidence

Handelsbanken Capital Markets

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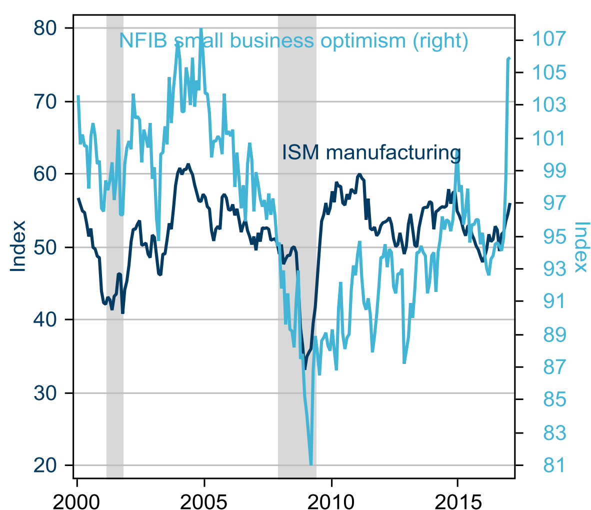
Global economy

Outlook broadly unchanged, despite volatile politics

Political developments have been the main driver of markets recently. The Trump administration has run into several roadblocks. While some of the controversies have a limited bearing on the economy, they may be indicative of things to come once the White House turns its attention to fiscal issues. For both economic and political reasons, we continue to believe that the economic impact of Trump's plans is limited. As the continent readies itself for several potentially decisive elections, politics is also a focus in Europe. Despite all of the political uncertainties, we see little reason to revise our views on the global economy.

In the US, GDP growth currently seems to be slightly above its potential rate. We believe job gains will remain solid and that the unemployment rate will remain near its recent lows. Household spending is likely to continue to rise moderately, while fixed investment should remain soft. Investment in structures has dropped sharply in recent months, but it is now expected to stabilise. Similarly, the strong dollar is weighing on net exports. Inflation is likely to remain subdued in the near term, but it will gradually rise toward the Fed's goal over the medium term.

US business surveys



Source: Macrobond

Not smooth sailing for Trump

Large debt-financed infrastructure investments, steep tax cuts and an easing of business regulations are central elements of Trump's economic strategy. However, to what extent the various proposals can be realised is still very much an open question. Judging by the trouble the President has had so far in appointing a cabinet and implementing executive orders, smooth sailing in Congress cannot be taken for granted. Sentiment measures have improved lately, but political uncertainty makes it more important than ever to distinguish between sentiment and real economic data.

US in for a boom/bust episode

Our view is that the Trump administration will deliver considerable economic stimulus, though less than that promised during the election campaign. However, we are unsure about the economic impact of those measures. Businesses have had access to cheap Fed-generated financing for almost a decade. So far, generous financial conditions have tended to buoy asset prices, but the benefits to the overall economy are less clear.

We believe growth will remain moderate until Trump's fiscal policy stimulus triggers a short-lived economic expansion in the second half of 2017. We expect a slowdown thereafter, as prevailing economic conditions make a sustainable increase in growth unlikely, in our view. In particular, high labour cost growth, spurred on by a tight labour market, will eventually dampen growth through eroding profit margins.

Fed in a wait-and-see mode

We have not changed our views about monetary policy. The Fed is likely to stay in a wait-and-see pattern until uncertainty surrounding the magnitude, composition and timing of Trump's anticipated stimulus fades and the economic impact of the policy becomes clearer. At its meeting ending on February 1, the central bank saw "near-term risks to the economic outlook as roughly balanced." We expect the Fed to stick to its prevailing cautious strategy and avoid tightening in ways that could jeopardise growth.

European politics is heating up

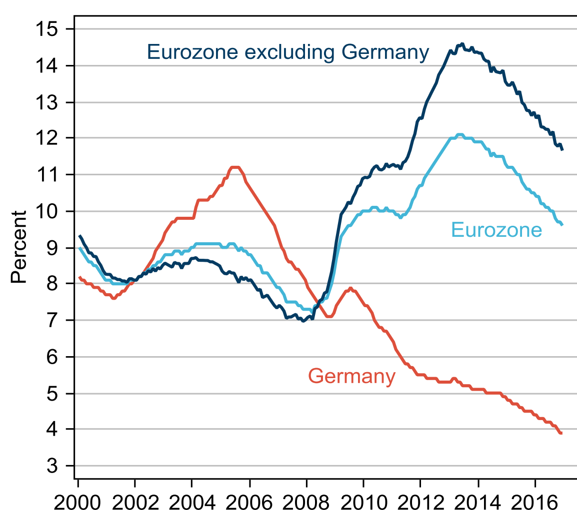
Politics also occupies centre stage in Europe. Several elections on the continent during 2017 are sure to keep analysts and markets busy. Dutch voters will elect a new parliament in March. The nationalistic, right-wing Party For Freedom is expected to almost double its number of seats to become the largest party in the new parliament. However, it will likely be kept out of government. Many predict a similar outcome in the presidential election in France in spring. The leader of the National Front, Marine Le Pen,

may well prevail in the first round before succumbing in the second as the traditional parties join forces. The same story could be repeated when Germany holds its parliamentary election in the autumn.

A tall order for the ECB

While it is difficult to fully discount the possibility of one of the new European movements securing a surprise win, the emergence of large, openly anti-eurozone parliamentary factions will pose challenges for policymaking in Europe. As a result, the ECB will have to continue shouldering the burden for keeping the economy on an even keel. Although the central bank is likely to be keen on that, its job is becoming complicated by developments in the economy.

Eurozone unemployment rate



Source: Macrobond

Despite modest growth, recent signs suggest that eurozone labour markets are becoming tighter. Unemployment rates have fallen steadily since the peak a few years ago. While the overall unemployment rate in the eurozone is still above estimates for the structural unemployment rate, as measured by the non-accelerating inflation rate of unemployment (NAIRU), the gap is gradually diminishing.

So far, the underlying inflation rate (CPI excluding energy and unprocessed food) remains subdued. However, headline inflation has been increasing and is now not far from the official target rate. We expect higher core inflation ahead, thereby strengthening the case for less expansionary monetary policy. The ECB may take other arguments into account, such as buoyant PMI readings and a rebound in private credit growth. While we do not think that the central bank is likely to change gear in the near future, we cannot exclude the possibility that it will start signalling it is prepared to do so further down the road.

A controlled slowdown in China is still likely

The overall outlook for emerging economies has not changed that much so far this year. As we have argued before, China may look forward to a controlled slowdown. To achieve that, the authorities need to strike a fine balance between stimulating the economy and ensuring that financial imbalances do not get out of hand. The Lunar New Year currently blurs the picture somewhat, but the plunge in the Markit manufacturing PMI reading in January seems to indicate that growth is slowing to some extent.

The rest of Asia is obviously directly in the firing line should President Trump prevail and make US trade policy more restrictive. Smaller export-oriented economies are particularly at risk. They may also face growing foreign competition as China tries to move up the value chain. The larger economies are more protected. India remains a fairly closed economy and should continue to do well. The Indian export sector is also well positioned in some high-tech segments. To sustain its high growth rate, further reforms are needed and we are confident they will be forthcoming.

Unimpressive growth in Brazil and Russia

The other two BRIC members, Brazil and Russia, are commodity-based economies that have faced considerable headwinds in recent years. Both countries are recovering now that commodity prices are bouncing back. While the medium-term outlook is not that impressive and both countries are probably stuck with low growth, their commodity focus limits the downside risks from an "America first" trade policy. Oil and iron ore are unlikely candidates for US trade restrictions. Tighter US financial conditions could pose challenges for the Brazilian government in particular, which is running a large budget deficit, but that is not new.

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United Kingdom

Tough divorce talks around the corner

Article 50 will soon be triggered. We believe the negotiations will be a sobering experience for many hopeful Brexiters, as politics will probably defeat economics in the UK's divorce with the EU. The UK economy has been remarkably resilient so far, but growth should weaken and unemployment increase this year. However, we expect growth to hold up enough for the Bank of England not to cut the bank rate further. We also expect inflation to remain low enough for the bank rate not to be raised this year or the next.

Article 50 to be triggered shortly

We believe the upcoming divorce talks between the EU and the UK will be a sobering experience for the UK government. The Article 50 bill was rushed through the House of Commons without a single amendment. It looks as though Article 50 will be triggered by the end of March, as Prime Minister May had promised. May gave a hopeful speech in January that outlined her wishes for the UK after leaving the EU, but signals from the remaining 27 EU countries suggest that the UK will not be allowed to have its cake and eat it too.

Hopeful Brexiters will probably be disappointed, as politics are likely to defeat economics in the divorce. The silver-lined deal that May desires for the UK does not look politically feasible. To ease opposition, the UK government has promised that MPs will vote on the final Brexit deal. However, it will be a "take it or leave it" option at that point and MPs will be unable to force May to try to strike a better deal.

Looking beyond the EU, the UK government is keen to secure a US/UK trade agreement, but Trump's "America first" agenda means the UK will have to endure tough negotiations with the US as well. Regardless, negotiations between the UK and other parties cannot occur until the UK has formally left the EU, which is expected in early 2019. We expect the road ahead to be turbulent.

Weaker momentum ahead

The resilience of the UK economy following the Brexit vote has been remarkable. Last year, GDP growth in the UK was the highest of all G7 economies. However, while the economy has so far held up very well, economic sentiment has retreated somewhat lately. Export orders have not been as strong as could have been expected, as price increases are eating into the competitive advantage. In addition, consumer confidence has weakened considerably through 2016 and retail sales have been much weaker than expected in December and January. Nevertheless, GDP growth in Q4 last year was better than we had expected, which leaves more of a positive overhang into 2017.

According to survey data, economic growth should hold up rather well in Q1. We expect GDP growth to decelerate to a quarterly pace of 0.3 percent in H2 this year and take longer than the Bank of England (BoE) expects to pick up again. Due to the surprising resilience of the real economy and the labour market, we lower our expectation for unemployment somewhat. Our inflation forecast for this year is trimmed due to lower-than-expected inflation in January. Our forecast for EUR/GBP is changed to 0.86 for Q1 and Q2, but it remains unchanged at 0.88 from Q3 2017.

Not too hot or too cold for the BoE

We believe economic growth will decelerate ahead but hold up enough for the BoE not to ease monetary policy further. Also, we do not expect inflation to become high enough for inflation expectations to become unanchored. Wage growth disappointed in January and we expect it to stay muted ahead. We therefore expect an unchanged monetary policy stance from the BoE in 2017-18.

Key variables	2015	2016f	2017f	2018f
GDP	2.2	2.1	1.8	1.2
Unemployment	5.4	4.9	5.0	5.2
Inflation	0.0	0.7	2.5	2.5
Policy rate	0.50	0.25	0.25	0.25
EUR/GBP (end of year)	0.78	0.86	0.88	0.88

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Netherlands

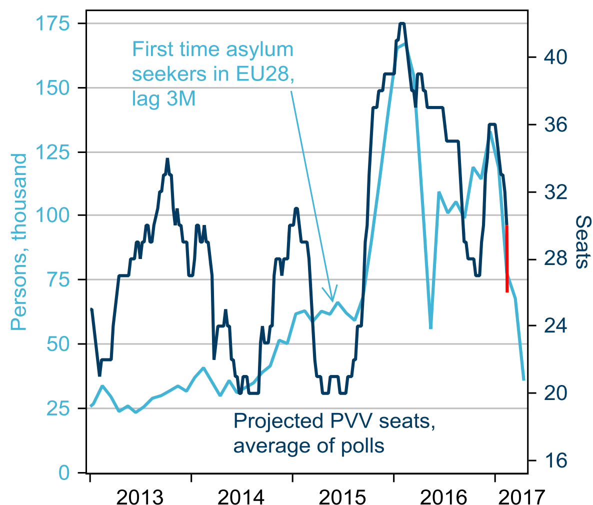
Political uncertainty, but no Nexit

Despite a recent loss of momentum, the eurosceptic PVV is likely to become the largest party at the upcoming general election. However, it will most likely not be able to form a government and we still consider the risk of a 'Nexit' to be negligible. Also, we do not expect the election to have any material impact on economic growth. If the PVV does comes to power, it could lead to a larger slowdown in growth than we anticipate.

General election drawing closer

According to an average of polls, the eurosceptic Party for Freedom (PVV) will likely become the largest in the House of Representatives in the upcoming general election on March 15. Even though an average of the latest polls shows a decline in the PVV's popularity, it is projected to capture close to 30 of the 150 seats in the lower house. If this were to happen it would become the largest party. It is difficult to say how much faith we can place in opinion polls, especially as this election has a record 28 parties registered. This leaves votes more dispersed than they have been in decades. Also, 40% of voters were still undecided with less than a month to the election. The Dutch economy is still faring well and the migration crisis has somewhat abated. This suggests less support for the PVV. In recent years there has been a close correlation between the popularity of the PVV and the severity of the migration crisis (see the figure below).

Migration crisis was a boon for PVV



Source: Macrobond

The most recent poll confirms this and suggests that the PVV might struggle to become the largest party, with projected seats dropping to 26. On the other hand, the ratification of the EU-Ukraine agreement, which will most likely take place before the election, despite the fact that the Dutch voters rejected the agreement, could enhance lingering resentment toward the EU institution and add support to the PVV.

Small risk of Nexit

Whether the PVV becomes the largest party, we still believe the PVV will not be able to form a government with an anti-EU/euro stance. Furthermore, Dutch support for the euro remains high and only 20% of Dutch voters believe the country would fare better outside the EU. Adding the favourable fundamentals of the Dutch economy, it is understandable that investors have shown little fear of a Nexit. Dutch yield spreads have widened only slightly when compared with Germany's, and even though we could see some further risk premium being added, as the election date draws nearer, we see this as a temporary phenomenon. However, despite the result, it is clear the political landscape will be uncertain and fragmented. Ten parties are struggling over the pro-EU middle ground and any government will probably consist of a grand coalition between four or five parties across the middle. Such a coalition will take time to negotiate; in 2010 it took four months. Also, there will likely be an increase in eurosceptic parties in parliament, which could make it more difficult to find support for bailouts or debt relief for countries such as Greece.

Recovery on track

Quarterly GDP growth slowed from 0.8% in Q3 to 0.5% in Q4 last year. This was mainly caused by a temporary postponement in vehicle investments due to lower taxation of lease cars in 2017. IT and building investments, however, also slowed slightly but private consumption continued as an important driver of growth. With employment on the rise and confidence indicators showing little impact from the general election, the economy is heading into 2017 in a healthy state. However, we still expect slower growth among the Netherland's main trading partners, less pent-up demand for housing investments and higher inflation to slightly dampen the recovery later in the year. In the unlikely event that the PVV should come into power and other parties air support for an EU referendum, there could be a more marked impact on economic growth.

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Sweden

High GDP growth, yet high unemployment

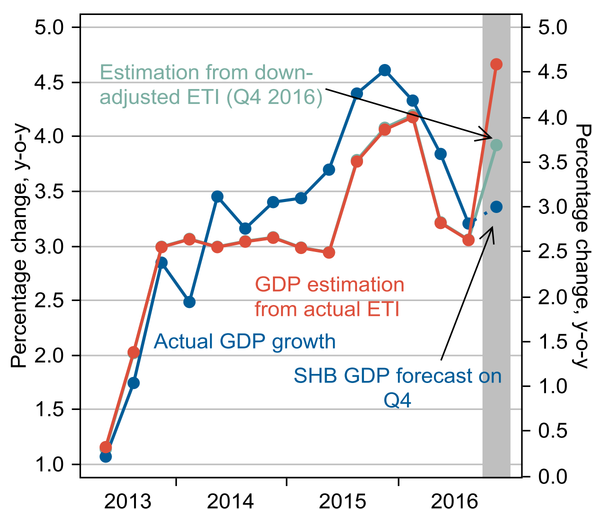
GDP growth seems set to slow as we are approaching the peak of this business cycle, which in our forecast occurs next year. Due to strong employment growth in recent years, the labour market is rather stretched. The unemployment rate hides this fact, due to the structural impact of a rapid increase in the foreign-born population, which has a much higher unemployment rate. This background convinces us that the aggregate unemployment is not likely to fall much lower than the current rate.

After three years above the historical trend, GDP growth still remains high. We estimate annual GDP growth in 2016 to be 3.4 percent (calendar-adjusted) with y-o-y growth in Q4 at 3 percent. We expect this growth rate to persist in Q1 2017 with domestic demand as the main driver. Growth in investments and consumption are set to be robust. However, due to strained resource utilisation and constraints in the labour market, we expect growth to slow.

Exaggerated short-term upside to growth?

Recently, reported economic confidence in Sweden has seen a strong upsurge. The larger share of this brightening outlook is related to manufacturing. The manufacturing PMI has certainly improved of late, more so than most PMIs for peer markets, but not in any extreme fashion. What stands out, though, is the NIER manufacturing barometer, where the Manufacturing Confidence Indicator (MCI) in December and January reached record levels (around 120). This has also boosted the ‘overall indicator’ from the NIER, the Economic Tendency Indicator (ETI), which actually implies Q4 GDP growth of 4.7 percent y-o-y, if interpreted according to historical correlations (see graph). As the domestic momentum mostly seems to indicate decelerating rather than accelerating growth, looking at foreign conditions to see why the MCI is strengthening seems reasonable. However, while foreign hard macro data and surveys have, in general, shot above expectations recently, we cannot find any turnaround in the export market supportive enough for an upsurge as suggested by the MCI. Therefore, we remain sceptical about the strong MCI readings. Nevertheless, even without the boost from the strong MCI, the ETI is indicating growth above our forecast. Given that the MCI in Q4 last year trended surprisingly at its post-2010 average (103.3 instead of actual readings around 120), we estimate that the ETI would drop to around 106, still implying GDP growth of about 3.9 percent in Q4. All in all, we regard this indication as overblown, but incoming data might prove us wrong.

ETI suggestions for the GDP outlook



Source: Macrobond

Limited room for drop in unemployment rate

In practice, the entire increase in the working age population, now and in the coming years, is due to the increased numbers of those born abroad. As this population, on aggregate, has a persistently much lower employment rate, a rise in the ‘natural unemployment rate’ seems inevitable in the years ahead. This structural shift already seems to be making its mark in current trends, despite the strong domestic economy. There is a matching problem in the labour market, as recruitment is taking longer while at the same time the vacancy rate and unemployment are both high. We therefore do not expect the unemployment rate to fall significantly below current levels. Thus, employment might climb, but solely on the back of the underlying population increase. Given that the trend rise in participation is not forecast to regress, we are convinced that the unemployment rate will not reach 6.0 percent this time. We do not forecast it to ever reach 6.5 percent either, at least not for any sustained period of time. Our outlook is for the unemployment rate to be rather flat during 2017-18. We do forecast a slow trend increase, starting before the end of this year, but this rise is gradual, reminiscent of the trend decrease seen in 2016. Our forecast for the unemployment rate in 2017 and 2018 now stands at 6.8 and 7.0 percent, higher than consensus figures of around 6.7 and 6.6 percent.

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Norway

Core inflation falls further below Norges Bank's estimate

Norges Bank has continued to be knocked off guard by the decline in the CPI-ATE. While the central bank may explain some of the forecasting error as a timing issue and not a miscalculation of underlying price pressures, it is a difficult argument to make convincingly given that downside inflation surprises are broadening. In our view, the risk of another rate cut has increased since Norges Bank's December meeting.

CPI-ATE further below Norges Bank's estimate

The CPI-ATE peaked at 3.7 percent y-o-y in July 2016. Since then, the annual rate has dropped sharply: it was 2.1 percent in January, following 2.5 percent in December. After a disappointment on the downside this past autumn, Norges Bank lowered its inflation forecasts in December. However, the downturn has continued to occur faster than Norges Bank had expected. In January, the CPI-ATE was 0.8 percentage point below Norges Bank's estimate.

Deflationary outlook for import prices

The weakening of the NOK during 2013-15 caused price growth for imported consumer goods to accelerate, reaching a peak of 4.6 percent y-o-y in July last year. Import prices (levels) continued to rise throughout August-October. However, because the upward adjustment in prices was even faster during the same period of the previous year, the annual inflation rate started to fall. The downward momentum in the y-o-y rate has gained speed over the past couple of months. This must be viewed in light of the appreciation of the NOK throughout 2016. As we foresee some further appreciation of the NOK, the process should continue throughout 2017. Deflation in import prices (y-o-y) will probably occur by the summer.

Increased probability of another rate cut

Norges Bank may overlook some of the downside in the medium-term inflation outlook and argue that the decline in imported price inflation has happened faster than expected. However, it will have greater difficulty explaining the downturn in price inflation for domestically-produced goods and services. Domestic inflation is currently about 0.4-0.5 percentage point below the central bank's estimates.

Some of the decline in consumer goods prices may be related to significant import content (price inflation being pulled down alongside the decline in imported price inflation). However, that is probably not the only explanation and we generally warn against mistaking correlation for causality. In our view, the downturn in domestic goods inflation must be viewed in the context of the negative output gap and the accompanying low-cost environment. First, a negative output gap, will in isolation have a dampening effect on goods inflation through suppressed margins. Second, a low wage-cost environment, which follows from the negative output gap, will limit the need for price rises in general.

To sum up, our outlook for inflation has long been below that of Norges Bank's, but even we have been surprised by the quick downturn in the past few months. We therefore make adjustments to our near-term inflation forecasts. We continue to expect the CPI-ATE to decline toward 1 percent and then to remain around that level for the foreseeable future, but we now believe that level will probably be reached sooner than we previously anticipated.

Despite housing prices and debt growth moving in line with Norges Bank's estimates, financial stability concerns are probably as severe as they were at the December meeting. Our understanding of Norges Bank's strategy dictates that those concerns will continue to pull the interest rate path upward. But there are limits to the strategy, often labelled as "leaning against the wind," as the Bank is at risk of drifting too far from its medium-term output and inflation targets.

While we continue to expect Norges Bank to keep its policy rate on hold, at 0.50 percent, the outlook for low inflation implies a greater possibility of Norges Bank lowering its interest rate projection at its upcoming March meeting, thereby signalling that the probability of another rate cut has increased since December.

Key variables	2015	2016f	2017f	2018f
Mainland GDP	1.1	0.8	1.5	1.9
Unemployment (LFS)	4.4	4.8	4.8	4.8
CPI-ATE	2.7	3.1	1.3	1.2
Policy rate	0.50	0.50	0.50	0.50
EUR/NOK (end of year)	9.60	9.09	8.75	8.75

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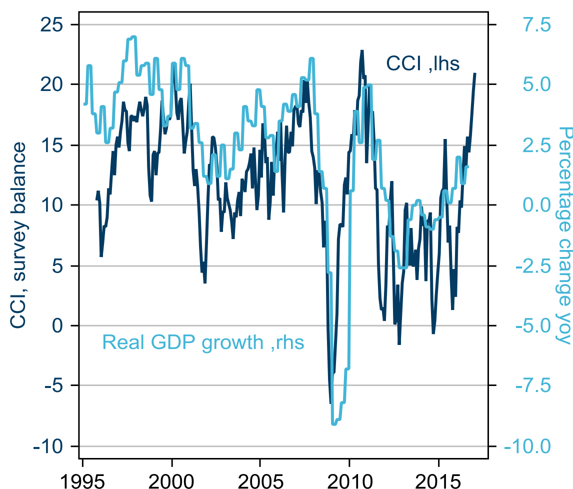
Finland

Domestic demand: still the key contributor to growth

Finnish consumers have exceptional confidence about the state of the economy. Optimism is stemming largely from the recovery seen in the labour market, which in turn has fuelled household spending. We anticipate that consumer enthusiasm will continue this year and note that the outlook for business investments has continued to improve. Exports are still lagging other sectors of the economy, but we finally expect a recovery in Finland's export performance this year.

Consumers continue to fuel the economy

If we were to look only at the consumer sentiment indicator, the message would be that the Finnish economy is booming. In January, the consumer confidence indicator (CCI) jumped to its highest point since autumn 2010. January's reading of 21.0 is well above the long-term average of 11.8. On the surface, it appears contradictory that consumers are exceptionally optimistic about the state of the economy while GDP growth is so moderate. Historically, these levels of confidence have been consistent with GDP growth of at least 5 percent. In our view, this reflects the lower GDP growth potential of the economy.



Consumer optimism stems largely from the recovery seen in the labour market, and we argue that further improvements in the labour market are crucial for consumption ahead. Employment has been growing continuously since Q2 2016; the unemployment rate has trended down by almost 1 percentage point since summer 2015, reaching 8.6 percent in December.

Employment has shown the largest increases within construction and transportation, which was spurred by soaring housing investments. We expect the unemployment rate to trend down further this year and in 2018. The Finnish government will intensify actions to reach its targeted employment rate of 72 percent by 2019. Given that the current employment rate (SA) is 69.0 percent, we believe that this target will prove quite challenging without major reforms to the supply and demand sides of the labour market.

The labour market recovery has already fuelled household spending, which has been buoyed even further by the low interest rates and build-up of leverage. The general view among Finnish households is that the economy has turned the corner and we expect this to keep consumer sentiment robust. That said, households are not on extravagant spending sprees: the volume of retail sales excluding motor vehicles merely grew by around 1 percent in 2016. Nonetheless, there appears to be pent-up demand for big-ticket items, as new car registrations posted 12.1 percent growth y-o-y in January. Given the optimistic mood among consumers and the increase in employment that we expect to continue, we see a fairly good chance of 2017 repeating the roughly 2 percent consumption growth seen in 2016 despite the commodity-related increase in inflation that erodes consumers' real purchasing power.

A brighter outlook for business investments

Finland's key manufacturing sectors are reporting a rebound in activity and business surveys provide support for the positive momentum. According to the Confederation of Finnish Industries, surveyed industrial companies expect a further recovery and the value of their gross fixed investments to increase by around 4 percent this year. It is the small- and medium-sized companies that plan to invest the most, but in total, 49 percent of the surveyed industrial companies cite capacity constraints as the reason for investment. This is a high number and reflects a change in tone about how Finnish industry sees the future demand outlook in relation to its capacity. Ultimately, we argue this points to increased industrial confidence. Taken together, we believe the brighter industrial investment outlook and the broad-based turnaround in industrial output signal that export performance should finally recover in 2017.

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Denmark

Recovery on track – for now

Denmark's economic recovery continued in the final quarter of 2016, with the preliminary GDP indicator expanding 0.4% compared to the previous quarter. For full-year 2016 economic growth slowed to 1.1%, but this was mainly due to a weak starting point in the wake of the economic recession in the second half of 2015. We expect the recovery to continue at a moderate pace, and have raised our GDP forecast for 2017, but an uncertain global economic and political landscape poses downside risks. We expect interest rates to stay low for long.

The recovery continues…

The Danish economy ended 2016 on relatively solid footing. According to the recently released preliminary GDP indicator, the economy grew stronger than expected, at 0.4 percent in Q4 2016 compared to the preceding quarter. We have to stress, however, that this new indicator is still on a trial basis and it is only the second such reading that has been published. The indicator is solely based on the production side of the economy, and the uncertainty regarding this preliminary reading is higher than in the 'normally' published national accounts data. In Q3, the first published preliminary GDP indicator showed quarterly GDP growth of 0.2% which was subsequently revised up to 0.4%.

However, taking the GDP indicator at face value, it sends a positive signal for the trend in the Danish economy. For 2016 as a whole, GDP growth ended at a subdued 1.1%, which is low compared to the two previous years, but this was due primarily to the weak performance in the second half of 2015, which gave a weak starting point for 2016. Throughout 2016 we have thus seen continued economic expansion, with quarterly GDP growth averaging 0.475 percent. This translates to annualised GDP growth of 1.9%, which is relatively solid and on a par with the GDP trend in both the US and the eurozone. Furthermore, the solid ending to 2016 means that 2017 will not have the same negative overhang for growth as in 2016.

…but at a moderate pace

The stronger-than-expected finish to 2016 means that we have lifted our forecast for GDP growth in 2017. We previously expected the economy to expand by 0.75%, but given the new GDP figures (barring any significant revisions) we now see GDP growth closer to 1.25% for this year. This, however, also underpins that we do not expect a soaring recovery in the year ahead, where we continue to see dampening factors from the global economy hampering the outlook for Denmark. We are also hesitant in expecting a stronger recovery in private consumption, despite a recent improvement in consumer confidence from low levels, as we still believe consumers are more focused on reducing debt than going on a lending spree to increase consumption. Employment growth should also begin to slow as capacity constraints kick in, and higher inflation will also sap consumer purchasing power. A crucial element for the outlook is whether we will see an increase in business investments. There is a possibility that pent-up investment demand could be released if uncertainty regarding the economic outlook – domestic as well as global – eases. This would contribute positively not only to the short-term business cycle but also lift the longer-term structural growth outlook. For now, however, we continue to believe that global political and economic uncertainties will keep investment activity subdued.

Interest rates to stay low for long

We do not expect any interest rate changes from Nationalbanken in 2017. Even though the Danish krone is trading versus the EUR at values that earlier prompted the Danish central bank to lower interest rates, the lack of intervention in recent months indicates no significant appreciating pressure on the krone. There is of course a risk that political turmoil in Europe could trigger pressure for a stronger krone, as has been the case on earlier occasions, but we expect that such pressure would be met by increased intervention rather than a lowering of rates. Risks are now probably tilted toward less accommodation from the ECB, but we still see this as a story for 2018. We will not rule out that Denmark's central bank could raise interest rates earlier than the ECB, as the Danish deposit rate is lower than the ECB's, but for now we expect interest rates to stay at current low levels throughout 2017, thus continuing to support the economic recovery. If interest rates and yields were to rise significantly due to global developments, this would on the other hand pose a serious downside threat to the Danish economy, which is highly sensitive to interest rates.

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Key ratios

Real GDP forecasts

	2015	2016f	(Previous forecast 2016)	2017f	(Previous forecast 2017)	2018f	(Previous forecast 2018)
Sweden	3.8	3.4	3.2	2.6	2.5	2.0	2.0
Norway	1.6	0.7	0.5	0.5	0.5	1.0	1.0
Norway Mainland	1.1	0.7	0.7	1.5	1.5	1.9	1.9
Finland	0.2	1.3	1.3	1.0	1.0	0.8	0.8
Denmark	1.6	1.1	1.0	1.2	0.7	1.0	0.7
EMU	1.9	1.6	1.6	1.3	1.3	1.2	1.2
USA	2.6	1.6	1.6	2.3	2.4	1.8	1.8
UK	2.2	2.1	2.1	1.8	1.4	1.2	1.1
The Netherlands	2.0	2.1	2.0	1.8	1.6	1.6	1.5
Japan	1.2	1.0	0.6	1.2	0.7	0.8	0.6
Brazil	-3.8	-3.5	-3.5	0.6	0.6	2.3	2.3
Russia	-3.7	-0.6	-0.6	1.1	1.1	1.5	1.5
India	7.2	7.5	7.5	7.2	7.6	7.5	7.6
China	6.9	6.7	6.7	6.4	6.4	6.0	6.0
Poland	3.6	2.7	2.7	3.0	3.0	3.3	3.3

Source: Handelsbanken Capital Markets

Inflation forecasts

	2015	2016f	(Previous forecast 2016)	2017f	(Previous forecast 2017)	2018f	(Previous forecast 2018)
Sweden	-0.1	1.0	1.0	1.5	1.4	2.3	2.2
Norway	2.1	3.6	3.6	2.1	2.1	1.2	1.2
Finland	-0.2	0.4	0.4	0.9	0.9	1.2	1.2
Denmark	0.5	0.3	0.3	1.1	1.0	1.3	1.3
EMU	0.0	0.2	0.2	1.3	1.3	1.3	1.3
USA (core)	1.4	1.7	1.7	2.0	2.0	2.1	2.1
UK	0.0	0.7	0.7	2.5	2.6	2.5	2.5
The Netherlands	0.2	0.1	0.1	1.1	1.0	1.2	1.0

Source: Handelsbanken Capital Markets

Unemployment forecasts

	2015	2016f	(Previous forecast 2016)	2017f	(Previous forecast 2017)	2018f	(Previous forecast 2018)
Sweden	7.4	6.9	6.9	6.8	6.8	7.0	7.1
Norway	4.4	4.8	4.8	4.8	4.8	4.8	4.8
Finland	9.4	8.8	8.8	8.5	8.5	8.4	8.4
Denmark	6.2	6.2	6.2	6.1	6.3	6.3	6.5
EMU	10.9	10.1	10.1	9.8	9.8	9.8	9.8
USA	5.3	4.9	4.9	4.4	4.4	4.6	4.6
UK	5.4	4.9	4.9	5.0	5.3	5.2	5.5
The Netherlands	6.9	6.0	6.1	5.2	5.6	5.2	5.5

Source: Handelsbanken Capital Markets

Currency forecasts

	Feb 20	Q1 2017	Q2 2017	Q3 2017	End 2017	End 2018
EUR/SEK	9.48	9.55	9.40	9.30	9.20	9.00
USD/SEK	8.93	9.27	8.95	8.86	8.76	8.18
GBP/SEK	11.14	11.10	10.93	10.57	10.45	10.23
NOK/SEK	1.07	1.06	1.06	1.04	1.05	1.03
DKK/SEK	1.28	1.28	1.26	1.25	1.23	1.21
CHF/SEK	8.91	9.01	8.87	8.69	8.60	8.26
JPY/SEK	7.89	8.43	8.14	8.05	7.97	7.79
CNY/SEK	1.30	1.32	1.26	1.23	1.20	1.06
EUR/USD	1.06	1.03	1.05	1.05	1.05	1.10
USD/JPY	113.12	110.00	110.00	110.00	110.00	105.00
EUR/GBP	0.852	0.860	0.860	0.880	0.880	0.880
GBP/USD	1.25	1.20	1.22	1.19	1.19	1.25
EUR/CHF	1.06	1.06	1.06	1.07	1.07	1.09
EUR/DKK	7.43	7.44	7.44	7.44	7.45	7.46
SEK/DKK	0.78	0.78	0.79	0.80	0.81	0.83
USD/DKK	7.00	7.22	7.09	7.09	7.10	6.78
GBP/DKK	8.73	8.65	8.65	8.45	8.47	8.48
CHF/DKK	6.98	7.02	7.02	6.95	6.96	6.84
JPY/DKK	6.19	6.57	6.44	6.44	6.45	6.46
EUR/NOK	8.85	9.00	8.90	8.90	8.75	8.75
SEK/NOK	0.93	0.94	0.95	0.96	0.95	0.97
USD/NOK	8.33	8.74	8.48	8.48	8.33	7.95
GBP/NOK	10.39	10.47	10.35	10.11	9.94	9.94
CHF/NOK	8.31	8.49	8.40	8.32	8.18	8.03
JPY/NOK	7.36	7.94	7.71	7.71	7.58	7.58
USD/BRL	3.09	3.10	3.00	2.90	2.80	2.60
USD/RUB	58.05	56.00	55.00	54.50	54.50	53.00
USD/INR	66.90	67.50	68.00	68.50	69.00	70.00
USD/CNY	6.88	7.00	7.10	7.20	7.30	7.70
EUR/PLN	4.31	4.30	4.30	4.25	4.15	4.00
EUR/RUB	61.65	57.70	57.80	57.20	57.20	58.30

Source: Handelsbanken Capital Markets

Interest rate forecasts

Policy rates	Feb 20	Q1 2017	Q2 2017	Q3 2017	End 2017	End 2018
Sweden	-0.50	-0.50	-0.50	-0.50	-0.50	0.00
US (range midpoint)	0.625	0.625	0.625	0.875	0.875	1.125
Eurozone	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30
Norway	0.50	0.50	0.50	0.50	0.50	0.50
Denmark	-0.65	-0.65	-0.65	-0.65	-0.65	-0.45
UK	0.25	0.25	0.25	0.25	0.25	0.25

3m interbank rates	Feb 20	Q1 2017	Q2 2017	Q3 2017	End 2017	End 2018
Sweden	-0.50	-0.45	-0.35	-0.30	-0.25	0.25
US	1.05	1.05	1.05	1.10	1.10	1.25
Eurozone	-0.33	-0.32	-0.30	-0.30	-0.30	-0.10
Norway	1.02	1.00	1.00	1.00	1.00	1.00
Denmark	-0.23	-0.22	-0.20	-0.20	-0.20	0.00
	0.43	0.43	0.43	0.23	0.23	0.13

Source: Handelsbanken Capital Markets

Interest rate forecasts, continued

2y govt. yields	Feb 20	Q1 2017	Q2 2017	Q3 2017	End 2017	End 2018
Sweden	-0.63	-0.55	-0.45	-0.20	0.10	0.25
US	1.20	1.20	1.25	1.30	1.35	1.40
Eurozone (Germany)	-0.86	-0.75	-0.70	-0.70	-0.70	-0.50
Norway	0.64	0.50	0.50	0.50	0.50	0.60
Denmark	-0.66	-0.55	-0.55	-0.55	-0.50	-0.30
Finland	-0.68	-0.60	-0.60	-0.60	-0.55	-0.30
UK	0.06	0.25	0.25	0.30	0.30	0.45

5y govt. yields	Feb 20	Q1 2017	Q2 2017	Q3 2017	End 2017	End 2018
Sweden	0.01	-0.25	0.05	0.10	0.25	0.60
US	1.91	1.90	1.90	1.90	1.90	1.85
Eurozone (Germany)	-0.57	-0.50	-0.50	-0.50	-0.50	-0.30
Norway	1.09	1.00	1.00	1.00	1.00	1.10
Denmark	-0.34	-0.25	-0.25	-0.25	-0.25	0.00
Finland	-0.18	-0.40	-0.40	-0.40	-0.35	-0.05
UK	0.48	0.50	0.50	0.50	0.60	0.70

10y govt. yields	Feb 20	Q1 2017	Q2 2017	Q3 2017	End 2017	End 2018
Sweden	0.66	0.55	0.60	0.65	0.75	0.90
US	2.44	2.30	2.10	2.10	2.10	1.90
Eurozone (Germany)	0.30	0.30	0.25	0.25	0.25	0.50
Norway	1.71	1.60	1.60	1.60	1.60	1.70
Denmark	0.60	0.60	0.55	0.55	0.55	0.80
Finland	0.50	0.50	0.45	0.45	0.50	0.80
UK	1.22	1.20	1.20	1.20	1.20	1.30

2y swaps	Feb 20	Q1 2017	Q2 2017	Q3 2017	End 2017	End 2018
Sweden	-0.31	-0.25	-0.10	0.15	0.50	0.65
US	1.54	1.50	1.55	1.60	1.70	1.80
Eurozone (Germany)	-0.15	-0.10	-0.10	-0.10	-0.10	0.00
Norway	1.27	1.10	1.10	1.10	1.10	1.20
Denmark	0.01	0.05	0.05	0.05	0.10	0.25
UK	0.59	0.55	0.55	0.55	0.55	0.60

5y swaps	Feb 20	Q1 2017	Q2 2017	Q3 2017	End 2017	End 2018
Sweden	0.29	0.15	0.50	0.55	0.70	1.05
US	1.99	1.95	2.00	2.05	2.15	2.25
Eurozone (Germany)	0.13	0.15	0.20	0.10	0.10	0.25
Norway	1.57	1.40	1.40	1.40	1.40	1.50
Denmark	0.35	0.35	0.40	0.30	0.30	0.45
UK	0.85	0.80	0.80	0.80	0.80	0.85

10y swaps	Feb 20	Q1 2017	Q2 2017	Q3 2017	End 2017	End 2018
Sweden	1.14	1.05	1.05	1.10	1.15	1.30
US	2.36	2.25	2.10	2.20	2.30	2.30
Eurozone (Germany)	0.75	0.75	0.70	0.70	0.70	0.90
Norway	1.98	1.80	1.80	1.80	1.90	2.00
Denmark	1.01	1.00	0.95	0.95	0.95	1.15
UK	1.27	1.20	1.20	1.20	1.20	1.30

Source: Handelsbanken Capital Markets

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