Nordea

ØKONOMISK OVERSIKT

MARS 2013

Langsom vending

Gradvis global vekstoppgang

■ Sakte men sikkert bedres vekstutsiktene internasjonalt. USA og Kina synes å stå foran en periode med solid økonomisk vekst. Selv i Japan er vekstutsiktene på kort sikt bedret. Eurosonen er klart det svakeste leddet i kjeden.

Norge med noe lavere vekst

■ Den foreløpige veksttoppen ble trolig nådd i fjor. Privat forbruk øker fortsatt overraskende moderat.

Oversiktstabeller

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Nordic economies

Major economies

Emerging Markets

Commodities

Langsom vending

Internasjonalt er det nå utsikter til gradvis høyere økonomisk vekst. For de to gigantene USA og Kina ventes veksten å bli solid, mens Europa fortsatt henger etter. Som vanlig er Norge i motfase. Veksttoppen ble trolig nådd i fjor og vi venter lavere vekst i år og neste år. Det tilsier svakere sysselsettingsvekst, men med lavere arbeidsinnvandring vil ikke arbeidsledigheten øke vesentlig. Oljeinvesteringene ser ut til å vokse i et langsommere tempo enn tidligere antatt og forbrukerne er forsiktigere med pengebruken enn ventet, tross sterk vekst i disponibel realinntekt. Når strengere regulatoriske krav overfor bankene gjør at rentemarginen på utlån øker, ligger det an til ny utsettelse av første rentehevning fra Norges Bank. Etter vår vurdering vil det ikke være aktuelt med noen rentehevning fra Norges Bank før i mars 2014.

Langsom vending mot sterkere BNP-vekst

	2010	2011	2012	2013E	2014E
Verden (PPP)	***4,7***	***3,9***	***3,0***	***3,3***	***4,0***
- USA	2,4	1,8	2,2	1,9	2,8
- Eurosonen	2,0	1,5	-0,5	-0,4	1,4
- Kina	10,4	9,3	7,8	8,1	8,5
- Japan	4,7	-0,5	2,0	1,4	1,1
- Nordiske land	***3,7***	***2,7***	***1,0***	***1,3***	***2,3***
- Danmark	1,5	1,1	-0,6	0,5	1,5
- Finland	3,3	2,8	-0,2	0,5	2,2
- Fastlands-Norge	1,7	2,5	3,5	2,6	2,5
- Sverige	6,6	3,7	0,8	1,3	2,6

Den økonomiske veksten i Fastlands-Norge ble i fjor omtrent som vi hadde ventet, drøyt 3 ½ prosent. Men igjen opplevde vi at privat forbruk vokste langsommere enn husholdningenes kjøpekraft. Husholdningenes sparerate, det vil si den del av inntekten som ikke brukes til forbruk, målt i prosent av disponibel inntekt, er etter dette kommet opp på et rekordhøyt nivå. Spareraten var noe høyere i 2003 og 2005, men det hadde sammenheng med store uttak av aksjeutbytter som ble investert igjen, i forkant av innføringen av skatt på utbytte. Mye av sparingen blir nå investert i boliger, men nasjonalregnskapet viser at husholdningene i fjor netto også foretok finansinvesteringer.

Samlet sett venter vi et noe lavere trykk i norsk økonomi i år og neste år enn i 2012. Veksten i Fastlands-Norge ventes å falle til ca 2 ½ prosent begge år, fra 3 ½ prosent i fjor. Lønnsveksten ventes fortsatt å holde seg på ca 4 prosent, men noe lavere innen varehandel, hotell og restaurant mv, lønnsområder som er viktig for inflasjonen. Underliggende inflasjon anslås like lav i år som i fjor, men den kan komme noe opp i 2014. Effekten av kronestyrkingen vil da ha dødd ut.

Hva er egentlig veksten i privat forbruk?

Nasjonalregnskapet gir inntrykk av at husholdningene bedrer sin finansielle stilling, mens tall over husholdningenes gjelds- og fordringsposisjon viser at husholdningene de siste årene har forverret sin finansielle stilling. Det vil si at gjelden deres har økt mer enn deres finansielle plasseringer. Sprikende tall fra to forskjellige statistiske kilder gjør det vanskelig å vurdere hva som egentlig er husholdningenes adferd. Vi har mistanke om at forbruksveksten egentlig er sterkere enn det nasjonalregnskapet har vist så langt, og at husholdningenes sparing derfor overdrives. Kraftig vekst i reisetrafikk til utlandet og i handel fra utenlandske internettbutikker gjør det vanskeligere å fange opp den reelle veksten i privat forbruk. Men inntil tallene eventuelt blir revidert må vi forholde oss til de Statistisk sentralbyrå har publisert. Vi har nedjustert våre anslag for vekst i privat forbruk og venter 3 prosent vekst i år og neste år, det samme som i 2012. Det tilsier at nasjonalregnskapet vil vise ytterligere oppgang i husholdningenes sparerate.

Omstillinger er positivt, men.....

Norsk økonomi blir mer og mer preget av oljesektoren. Store inntekter strømmer inn i oljefondet og stadig høyere beløp benyttes over statsbudsjettet. Lønnsutviklingen i norsk økonomi preges av knapphet på noen typer kompetanse kombinert med at oljeselskapene har høy betalingsevne. Lønnsomheten deres er høy og skattesystemet gjør at oljeselskapene selv bare betaler 22 prosent av økte utgifter. Norsk industri har endret karakter, verkstedsindustrien vokser sterkt mens andre industribransjer opplever stagnasjon eller produksjonsnedgang. Høy lønnsvekst i oljerelaterte bransjer fører til krav om høy lønnsvekst også i andre sektorer, inklusive i offentlig sektor.

Omstillinger til mer lønnsomme bransjer og næringer er i utgangspunktet positivt. Men det representerer også en risiko fordi etterspørselen etter olje i verden vokser mindre mens potensialet for økt oljeproduksjon øker. Det som har reddet oljeprisen fra å falle det siste året er uventede produksjonsavbrudd i blant annet Libya, Irak, Nigeria, Yemen og Sudan/Sør-Sudan. I tillegg kommer sanksjonene mot Iran. Hadde ikke dette skjedd, kunne den økte oljeproduksjonen i spesielt Nord-Amerika drevet oljeprisen ned. Vi venter ingen vesentlig endring i situasjonen på oljemarkedet i 2013. Neste år vil derimot sterkere økonomisk vekst i både USA og Eurosonen kunne bidra til at oljeprisen kommer noe opp. Men usikkerheten er stor på grunn av fortsatt stor uro i viktige oljeproduserende regioner.

Boligprisene avhenger av bankreguleringene

Boligprisene og boligbyggingen fortsatte opp i fjor. Det høye prisnivået kombinert med strengere reguleringer av bankene, tilsier at prisveksten gjennom 2013 blir lavere enn gjennom 2012. Gjennomsnittlig prisvekst på boliger fra 2012 til 2013 anslås til 6-8 prosent, og 4-6 prosent i 2014. Det forutsetter at de nye reguleringene av bankene innføres gradvis, og at første renteøkning fra Norges Bank først kommer i mars neste år. En raskere gjennomføring av de nye bankreguleringene vil kunne gi betydelig innstramninger i bankenes kredittpraksis og høyere utlånsrenter, noe som i sum kan gi et fall i boligprisene allerede neste år.

Solid vekst i USA….

Den ultralette pengepolitikken i USA har hittil ikke gitt den veksten den amerikanske sentralbanken og president Obama hadde håpet på. Husholdninger løper ikke til for å låne mer penger selv om renten er lav når de nettopp har erfart at høy gjeld endte i økonomisk ruin. Husholdningene har imidlertid nå redusert sin gjeldsgrad vesentlig. Til tross for skatteøkninger, kutt i føderale utgifter i 2013 og vedvarende mangel på samarbeidsklima mellom politikerne i den amerikanske kongressen, viser derfor amerikansk økonomi nå bra styrke. Nullvekst i fjorårets siste kvartal er ikke representativt for den underliggende utviklingen i økonomien. Etter noe lavere forbruksvekst i første del av inneværende år på grunn av skatteøkningene, venter vi at forbruksveksten tiltar utover året og i 2014. Boligmarkedet er i gradvis bedring, store deler av næringslivet har god inntjening og er optimistiske. Og sysselsettingen vokser med 150-200-tusen personer i måneden. Vi venter en økonomisk vekst på snaut 3 prosent i 2014, men blir ikke veldig overrasket om den skulle bli enda høyere. Mye tilsier at Federal Reserve vil stanse de kvantitative lettelsene i løpet av inneværende år. Sentralbanken synes innstilt på å tillate at inflasjonen kommer klart over 2 prosent før renten begynner å heves. Første renteøkning ventes i 1. kvartal 2015. På det tidspunkt venter vi at arbeidsledigheten er kommet under 6 ½ prosent.

…svakt i Eurosonen

Situasjonen i eurolandene er vesentlig annerledes. Den europeiske sentralbankens villighet til under visse betingelser å foreta støttekjøp av statsobligasjoner fra periferilandene har hatt en dramatisk beroligende effekt på finansmarkedene. Det bør gi regjeringene i kriselandene arbeidsro til å rette opp sine budsjetter og gjennomføre vekstfremmende reformer. Men det er også risiko for at regjeringene gir etter for misnøyen og trettheten i befolkningen når presset fra finansmarkedene har avtatt. Politikken i kriselandene viser tegn til å virke. Konkurranseevnen er bedret, eksporten har vokst og kapital har begynt å komme tilbake til kriselandene i sør. Men det vil ta mange år før arbeidsledigheten kommer ned på anstendige nivåer igjen. Det finnes ingen snarvei, å rette oppe en økonomi som er i fundamental ubalanse er tidkrevende og smertefullt. Dessverre viser regjeringen i et viktig land som Frankrike liten vilje til å gå løs på behovet for å bedre økonomiens virkemåte. Store budsjettunderskudd, svekket konkurranseevne og fall i byggevirksomheten gjør at fransk økonomi er i et dødvann. Vedvarende vekst i Tyskland vil være viktig for å bedre eksportmulighetene for landene i Sør-Europa.

For Eurosonen samlet venter vi et videre fall i BNP i første halvår i år, deretter gradvis vending til vekst. Situasjonen i Eurosonen er imidlertid fortsatt skjør og det er risiko for at veksten kan bli lavere enn de ca 1 ½ prosent vi anslår for 2014. Den europeiske sentralbanken ventes å sette opp styringsrenten første gang i 4. kvartal 2014.

Nytt lederskap i Kina – behov for reformer

Prosessen med bytte av lederskap i Kina er avsluttet, og president Xi Jinping og statsminister Li Keqiang overtar styringen på et tidspunkt hvor veksten i økonomien er kommet opp etter alarmerende svakhetstegn i fjor sommer. Igjen er det infrastrukturinvesteringer som trekker veksten opp. Men fremover ventes privat forbruk å overta som vekstmotor, drevet av en stadig større middelklasse.

Nå som Kinas økonomi blir moden øker behovet for reformer slik at beslutningene i de store statsforetakene baseres på bedriftsøkonomiske prinsipper, slik at styringen av regionenes økonomiske disposisjoner bedres og reformer som sikrer et mer åpent finansmarked underlagt et handlekraftig tilsyn. Dette er vanskelige tilpasninger, hvor andre fremvoksende økonomier tidligere har trådt feil. De neste par årene venter vi imidlertid en vekst i Kina på rundt 8 prosent.

Usikkerheten om Kinas internasjonale ambisjoner har ikke avtatt. Konflikten med Japan over de ubebodde øyene Senkaku er ikke nærmere noen løsning etter at Shinzo Abe overtok som statsminister i Japan. Abes retorikk er mer nasjonalistisk, noe som kan sees i sammenheng med den alvorlige økonomiske situasjonen Japan er i. År med deflasjon og resesjon for tredje gang på fire år forsøkes bekjempet med uhemmet pengetrykking og ekspansjon over offentlige budsjetter. Det vil nok løfte veksten og inflasjonen på kort sikt, men løser ingenting på mellomlang sikt. Det er behov for store strukturelle reformer i Japan. Statsgjelden er enorm og øker enda raskere med de tiltak Abe nå setter i verk. Dette utgjør en stor risiko på 5-10 års sikt fordi eldingen av befolkningen gjør at spareoverskuddet i privat sektor forsvinner, og blir til et spareunderskudd. Den japanske staten blir da avhengig av å låne i utlandet, noe som trolig vil gi en betydelig oppgang i renten på statsobligasjoner. Det kan påføre finanssektoren i Japan store tap. Japan har lenge også slitt med den laveste produktivitetsveksten i OECD-området, og laveste yrkesdeltagelsen blant kvinner. Reformer for å gjøre noe med dette ville gitt varige bedringer i Japans vekstevne.

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BNP reel vekst, %

	2010	2011	2012	2013E	2014E
Verden1)	4.7	3.9	3.0	3.3	4.0
USA	2.4	1.8	2.2	1.9	2.8
Euroområdet	2.0	1.5	-0.5	-0.4	1.4
Kina	10.4	9.3	7.8	8.1	8.5
Japan	4.7	-0.5	2.0	1.4	1.1
Danmark	1.6	1.1	-0.6	0.5	1.5
Norge	1.7	2.5	3.5	2.6	2.5
Sverige	6.6	3.7	0.8	1.3	2.6
UK	1.8	0.9	0.2	0.6	1.5
Sveits	3.0	1.9	0.8	1.4	1.8
Tyskland	4.0	3.1	0.9	0.7	2.1
Frankrike	1.6	1.7	0.0	0.0	1.2
Italia	1.7	0.5	-2.4	-1.2	0.8
Spania	-0.3	0.4	-1.4	-1.5	0.9
Finland	3.3	2.8	-0.2	0.5	2.2
Estland	3.3	8.3	3.2	3.2	3.8
Polen	3.9	4.3	2.0	1.8	2.8
Russland	4.5	4.3	3.4	3.5	3.6
Latvia	-0.9	5.5	5.6	3.7	4.4
Litauen	1.5	5.9	3.6	4.0	4.2
India	9.8	7.3	5.1	5.9	6.6
Brasil	7.6	2.7	1.5	3.5	4.2

Inflasjon, %

	2010	2011	2012	2013E	2014E
Verden1)	2.9	4.2	3.0	2.9	2.9
USA	1.6	3.1	2.1	1.6	2.4
Euroområdet	1.6	2.7	2.5	1.6	1.6
Kina	3.3	5.4	2.6	4.0	4.2
Japan	-0.7	-0.3	0.0	0.4	0.8
Danmark	2.3	2.8	2.4	1.4	1.7
Norge	2.5	1.2	0.8	1.6	1.7
Sverige	1.2	3.0	0.9	0.2	1.5
UK	3.3	4.5	2.8	2.2	2.0
Sveits	0.7	0.2	-0.5	0.5	1.0
Tyskland	1.2	2.5	2.1	1.5	1.7
Frankrike	1.7	2.3	2.2	1.6	1.7
Italia	1.6	2.9	3.3	2.0	1.7
Spania	2.0	3.1	2.4	1.8	1.2
Finland	1.2	3.4	2.8	2.0	2.5
Estland	3.0	5.0	3.9	3.5	3.3
Polen	2.6	4.3	3.7	1.6	2.5
Russland	8.8	6.1	6.6	6.4	5.9
Latvia	-1.1	4.4	2.3	1.6	2.7
Litauen	3.8	3.4	2.8	3.0	3.4
India	9.6	9.5	7.5	6.8	6.7
Brasil	5.0	6.6	5.2	5.6	5.8

Offentlig budsjettbalanse, % av BNP

	2010	2011	2012	2013E	2014E
USA	-9.0	-8.7	-7.0	-5.1	-3.6
Euroområdet	-6.2	-4.1	-3.6	-2.8	-2.7
Kina	-1.7	-1.1	-1.6	-2.3	-1.9
Japan	-9.5	-10.0	-10.2	-9.8	-9.3
Danmark	-2.7	-2.0	-3.9	-1.6	-1.6
Norge	11.1	13.4	13.6	13.3	13.0
Sverige	-0.1	0.1	-0.7	-1.2	-1.5
UK	-10.2	-7.8	-6.5	-6.5	-5.0
Sveits	0.2	0.4	0.5	0.5	0.8
Tyskland	-4.1	-0.8	0.2	-0.5	0.2
Frankrike	-7.1	-5.2	-4.6	-3.8	-4.1
Italia	-4.3	-3.8	-2.8	-2.0	-1.9
Spania	-9.7	-9.4	-10.2	-6.7	-7.2
Finland	-2.5	-0.8	-1.9	-1.9	-1.5
Estland	0.2	1.1	-0.2	-0.3	-0.1
Polen	-7.8	-5.0	-3.5	-3.8	-3.2
Russland	-3.9	0.8	-0.2	0.3	0.2
Latvia	-8.2	-3.5	-1.5	-1.2	-1.0
Litauen	-7.2	-5.5	-3.0	-2.8	-3.0
India	-4.0	-7.2	-5.8	-5.3	-5.5
Brasil	-2.7	-2.6	-2.1	-2.1	-2.0

Driftsbalanse, % av BNP

	2010	2011	2012	2013E	2014E
USA	-3.0	-3.1	-3.0	-3.2	-3.5
Euroområdet	0.3	0.2	1.5	2.2	2.3
Kina	4.0	2.8	2.3	2.2	1.5
Japan	3.7	2.0	1.6	2.0	2.1
Danmark	5.9	5.6	5.3	4.6	4.2
Norge	11.9	12.8	14.2	13.8	13.5
Sverige	6.8	7.0	6.2	6.4	6.7
UK	-2.5	-1.3	-3.7	-3.0	-1.8
Sveits	14.4	14.2	10.1	10.0	9.8
Tyskland	6.1	5.6	6.3	6.0	5.6
Frankrike	-2.0	-2.6	-1.9	-1.6	-1.8
Italia	-3.5	-3.3	-0.7	0.6	0.8
Spania	-4.4	-3.7	-1.9	1.0	2.5
Finland	1.6	-1.3	-1.6	-1.2	-1.0
Estland	3.2	2.1	-1.5	-2.1	-2.2
Polen	-5.1	-4.9	-3.5	-2.5	-3.1
Russland	5.0	5.4	4.3	3.0	2.5
Latvia	3.0	-2.2	-1.7	-2.3	-3.0
Litauen	0.1	-3.7	-0.9	-2.5	-3.0
India	-3.2	-3.4	-4.0	-4.5	-5.0
Brasil	-2.2	-2.1	-2.6	-2.7	-2.6

1) Veid gjennomsnitt av landene i denne tabellen. Dekker 72.7%av verdens BNP. Vektene er beregnet ut fra kjøpekraftskorrigerte BNP-nivåer for 2011 i henhold til IMF's World Economic Outlook datab

Pengepolitiske styringsrenter

	18.3.13	3M	31.12.13	30.6.14	31.12.14
USA	0,25	0,25	0,25	0,25	0,25
Japan	0,10	0,10	0,10	0,10	0,10
Euroområdet	0,75	0,75	0,75	0,75	1,00
Danmark	0,30	0,30	0,50	0,60	1,00
Sverige	1,00	1,00	1,00	1,25	1,50
Norge	1,50	1,50	1,50	1,75	2,00
UK	0,50	0,50	0,50	0,50	0,50
Sveits	0,00	0,00	0,00	0,00	0,00
Polen	3,25	3,25	3,25	3,25	4,50
Russland	8,25	8,25	8,00	8,00	8,00
Kina	6,00	6,00	6,25	6,50	6,50
India	7,75	7,75	8,00	8,00	8,00
Brasil	7,25	7,50	8,00	8,25	10,50

Differanse styringsrenter mot Euro-området

	18.3.13	3M	31.12.13	30.6.14	31.12.14
USA	-0,50	-0,50	-0,50	-0,50	-0,75
Japan[1)]	-0,15	-0,15	-0,15	-0,15	-0,15
Euroområdet	-	-	-	-	-
Danmark	-0,45	-0,45	-0,25	-0,15	0,00
Sverige	0,25	0,25	0,25	0,50	0,50
Norge	0,75	0,75	0,75	1,00	1,00
UK	-0,25	-0,25	-0,25	-0,25	-0,50
Sveits	-0,75	-0,75	-0,75	-0,75	-1,00
Polen	2,50	2,50	2,50	2,50	3,50
Russland	7,50	7,50	7,25	7,25	7,00
Kina	5,25	5,25	5,50	5,75	5,50
India	7,00	7,00	7,25	7,25	7,00
Brasil	6,50	6,75	7,25	7,50	9,50

1) Mot USA

3 mdr. renter

	18.3.13	3M	31.12.13	30.6.14	31.12.14
USA	0,28	0,30	0,35	0,35	0,60
Euroområdet	0,20	0,20	0,30	0,40	0,75
Danmark	0,28	0,30	0,50	0,65	1,00
Sverige	1,25	1,25	1,25	1,75	1,85
Norge	1,84	1,80	1,78	2,03	2,27
UK	0,51	0,60	0,60	0,60	0,65
Polen	3,46	3,50	3,50	3,50	4,70
Russland	7,14	7,20	7,00	7,00	7,00
Latvia	0,47	0,45	0,30	0,40	0,75
Litauen	0,47	0,50	0,50	0,50	0,75

Differanse 3 mnd. renter mot Euro-området

	18.3.13	3M	31.12.13	30.6.14	31.12.14
USA	0,08	0,10	0,05	-0,05	-0,15
Euroområdet	-	-	-	-	-
Danmark	0,08	0,10	0,20	0,25	0,25
Sverige	1,05	1,05	0,95	1,35	1,10
Norge	1,64	1,60	1,48	1,63	1,52
UK	0,31	0,40	0,30	0,20	-0,10
Polen	3,26	3,30	3,20	3,10	3,95
Russland	6,94	7,00	6,70	6,60	6,25
Latvia	0,27	0,25	0,00	0,00	0,00
Litauen	0,27	0,30	0,20	0,10	0,00

10-års benchmark statsobligasjonsrenter

	18.3.13	3M	31.12.13	30.6.14	31.12.14
USA	2,03	2,20	2,65	2,80	3,25
Euroområdet	1,49	1,55	2,00	2,25	2,60
Danmark	1,66	1,90	2,10	2,35	2,70
Sverige	1,96	2,05	2,50	2,85	3,25
Norge	2,31	2,32	2,85	3,25	3,42
UK	1,98	2,05	2,40	2,55	2,85
Polen	3,92	3,90	4,00	4,00	4,50

Differanse 10-års renter mot Euro-området

	18.3.13	3M	31.12.13	30.6.14	31.12.14
USA	0,54	0,65	0,65	0,55	0,65
Euroområdet	-	-	-	-	-
Danmark	0,17	0,35	0,10	0,10	0,10
Sverige	0,47	0,50	0,50	0,60	0,65
Norge	0,82	0,77	0,85	1,00	0,82
UK	0,49	0,50	0,40	0,30	0,25
Polen	2,43	2,35	2,00	1,75	1,90

Valutakurser mot NOK

	18.3.13	3M	31.12.13	30.6.14	31.12.14
EUR/NOK	7,50	7,55	7,50	7,50	7,70
USD/NOK	5,79	5,51	6,00	6,25	6,42
JPY/NOK[1]	6,01	5,80	6,00	5,95	5,83
DKK/NOK	1,01	1,01	1,01	1,01	1,03
SEK/NOK	0,90	0,90	0,90	0,93	0,95
GBP/NOK	8,65	8,48	8,62	9,04	9,6
CHF/NOK	6,07	5,99	6,00	6,00	5,92
PLN/NOK	1,81	1,86	1,90	1,92	2,00
RUB/NOK	0,19	0,18	0,20	0,21	0,22
LVL/NOK	10,7	10,8	10,7	10,7	11,0
LTL/NOK	2,17	2,19	2,17	2,17	2,23
CNY/NOK	0,93	0,88	0,99	1,06	1,13

1) Pr. 100 enheder

Valutakurser mot EUR og USD

	18.3.13	3M	31.12.13	30.6.14	31.12.14
EUR/USD	1,29	1,37	1,25	1,20	1,20
EUR/JPY[1)]	125	130	125	126	132
EUR/GBP	0,87	0,89	0,87	0,83	0,80
EUR/CHF	1,24	1,26	1,25	1,25	1,30
EUR/SEK	8,35	8,35	8,35	8,10	8,10
EUR/NOK	7,50	7,55	7,50	7,50	7,70
EUR/PLN	4,14	4,05	3,95	3,90	3,85
USD/JPY	96,4	95,0	100,0	105,0	110,0
USD/GBP	1,49	1,54	1,44	1,45	1,50
USD/CHF	0,95	0,92	1,00	1,04	1,08
USD/SEK	6,45	6,09	6,68	6,75	6,75
USD/NOK	5,79	5,51	6,00	6,25	6,42
USD/PLN	3,20	2,96	3,16	3,25	3,21
USD/CNY	6,22	6,25	6,05	5,90	5,70
USD/INR	54,2	54,0	53,5	52,0	50,0
USD/BRL	1,97	1,92	1,87	1,85	1,75

Bare en vekstpause

- Fortsatt god vekst, tross noen svakhetstegn
- Lav inflasjon og lave renter internasjonalt bidrar til fortsatt lave norske renter
- Gradvis renteøkning 2014

Veksten i norsk fastlands-BNP var i 2012 god, og i tråd med våre anslag fra desember. Fjerde kvartal var imidlertid svakt. Overraskende lav vekst i forbruket bidro til at produksjonen i varehandelen falt. Skal vi tro SSBs arbeidskraftundersøkelse (AKU) har veksten i sysselsettingen stanset, mens arbeidstilbudet fortsatt vokser. Dermed viser AKU en økning arbeidsledigheten. Trolig er det mye støy i disse tallene, da det ikke er tegn til økningen i de som melder seg arbeidsledige på arbeidskontorene.

Vi holder fast på at utsiktene for norsk økonomi de kommende to årene i det store og hele er gode. Forbruksveksten vil ta seg opp igjen, bolig- og oljeinvesteringene vil fortsette å øke og offentlig etterspørsel vil vokse moderat. Eksporten av tradisjonelle varer vil derimot bli svak, noe som vil bidra til svak vekst i investeringene i blant annet industrien.

Norges Bank vil holde styringsrenten lav, men det er mer usikkert hva som skjer med bankenes utlånsrenter og utlånsvilje på grunn av innføring av strengere egenkapitalkrav. Vi har lagt til grunn at opptrappingen av kapitalkravene kommer gradvis slik at effekten på utlånsrenter og bankenes utlånsvilje blir begrenset. Bankene har allerede strammet inn på utlånspraksis og utlånsmarginene har økte mye siden i fjor sommer. Det betyr at effekten på veksten i økonomien av de nye reguleringene antas å bli liten. Blir kravene strengere og gjennomført raskere enn antatt vil utviklingen i norsk økonomi bli svakere, blant annet fordi det vil kunne utløse et fall i boligprisene. Skulle det skje vil imidlertid Norges Bank kunne senke styringsrenten ytterligere og holde den lav lenger enn vi anslår.

Forbruket kommer tilbake

Gjennom høsten i fjor var veksten i vareforbruket overraskende svak. Forbruket av tjenester økte sterkt i 3. kvartal og noe mer moderat i 4. kvartal. Nordmenns forbruk i utlandet viste derimot ingen svakhetstegn og økte med nær 10 % i 2012, etter en vekst på over 12 % i både 2010 og 2011. Det er ingen tvil om at veksten i kjøpekraften de siste årene har gitt økt reisevirksomhet og forbruk i utlandet. Sterk norsk krone har nok også bidratt til det.

Reallønnsveksten venter vi blir høy også i inneværende år. Det skyldes fortsatt god lønnsvekst og lav inflasjon. Antall sysselsatte personer er ventet å øke videre, men veksten blir litt lavere enn i 2012. Dette betyr at 2013 blir nok et år med solid vekst husholdningenes kjøpekraft. Det tilsier god vekst i forbruket. Anslaget for forbruksveksten er imidlertid justert noe ned sammenlignet med vår prognose fra desember. Spareraten anslås å øke videre fra et allerede rekordhøyt nivå.

Svak eksport, men bra for oljeleverandørindustrien

Svak utvikling i deler av våre eksportmarkeder og et høyt norsk kostnadsnivå betyr at deler av vår eksportindustri sliter. Det vil de også gjøre de neste par årene, og særlig i år. For industrien som helhet oppveies det i stor grad av at utsiktene for oljeleverandørindustrien fortsatt er lyse. Veksten i oljeinvesteringene blir riktignok klart mer moderat i år og neste år enn i fjor. Men det ligger an til fortsatt vekst fra et svært høyt investeringsnivå.

Norge: Makroøkonomiske indikatorer (% årlig vekst hvis ikke annet oppgitt)

	2009(bn)	2010	2011	2012	2013E	2014E
Konsum i husholdninger og ideelle org.	1,028	3.8	2.5	2.9	3.0	3.0
Konsum i offentlig forvaltning	531	1.3	1.8	2.1	2.0	2.0
Bruttoinvesteringer i fast kap. i alt	516	-8.0	7.6	8.1	6.0	3.0
- Bruttoinvesteringer, Fastlands-Norge	349	-4.5	8.5	3.9	5.3	2.6
- Bruttoinvesteringer, olje	144	-14.8	9.8	19.1	8.0	4.0
Lagerinvesteringer*	14	3.5	0.1	-0.1	0.0	0.0
Eksport	929	0.4	-1.8	2.2	0.4	1.2
- olje og gass	416	-6.9	-6.2	0.9	0.0	0.0
- andre varer	277	3.4	0.0	2.6	0.0	2.5
Import	660	9.0	3.8	3.3	3.8	3.0
BNP	2,357	0.5	1.2	3.2	2.0	2.0
BNP, Fastlands-Norge	1,876	1.7	2.5	3.5	2.6	2.5
Arbeidsledighet (AKU), %		3.6	3.3	3.2	3.3	3.3
Konsumpriser, % årsvekst		2.5	1.2	0.8	1.6	1.7
Underliggende inflasjon, % årsvekst		1.4	0.9	1.2	1.3	1.7
Arslønn inkl. pensjonskostnader, % årsvekst		3.6	4.2	4.0	4.1	4.2
Driftsbalanse (mrd. NOK)		303.2	351.0	414.0	427.7	437.8
- i % av BNP		11.9	12.8	14.2	13.8	13.5
Handelsbalanse i % av BNP		11.9	13.3	13.2	13.0	12.6
Overskudd offentlige budsjetter		282.5	368.3	397.0	410.0	420.0
- i % av BNP		11.1	13.4	13.6	13.3	13.0

*Bidrag til vekst I BNP (%poeng)

I fastlands-Norge regner vi med at veksten i investeringene blir moderat for mange næringer, mens boliginvesteringene anslås fortsatt å vokse sterk. Med moderat vekst i offentlig etterspørsel vil dette i sum gi god vekst i innenlandsk etterspørsel. Det vil være mer enn nok til å veie opp for effektene av svak utvikling i den tradisjonelle eksporten.

Den samlede produksjonsveksten i fastlandsøkonomien blir moderat, men likevel sterk nok til at sysselsettingen fortsetter å øke. Men sysselsettingsveksten blir noe lavere enn i 2012. Arbeidsinnvandringen antas å tilpasse seg slik at ledigheten ikke øker. I arbeidsmarkedet vil det fortsatt være mangel på visse typer kompetanse, noe som bidrar til at lønnsveksten ventes å holde seg på om lag 4%. Inflasjonen kan likevel ta seg noe opp fordi husleiene kan øke mer og fordi veksten i importert inflasjon tiltar ettersom effekten av de siste årenes kronestyrking dør ut.

Relativt moderat vekst i norsk økonomi, lav inflasjon og få tegn til overoppheting betyr at vi ikke tror på noen renteøkning i år. At et signal om en renteøkning vil føre til en signifikant kronestyrking tilsier også at det ikke blir noen renteøkning i år. Neste år venter vi imidlertid at Norges Bank begynner en svært forsiktig heving i rentene. Inflasjonen antas da å ha tatt seg noe opp og vekstutsiktene vil fortsatt være gode. At renteforventningene internasjonalt ventes å stige neste år tilsier at det blir mulig å sette opp de norske rentene uten en sterk kronestyrking.

NOK er sterk, selv om den har svekket seg noe siden starten på året. Vi venter at NOK vil holde seg om lag på nåværende nivå i 2013 fordi oljeprisen vil holde seg høy og den økonomiske veksten i Norge vil være høy sammenlignet med i andre land. Neste år vil renteforventningene ute stige og gi et rom for et par renteøkninger. Hvis vi får rett i at de første renteøkningene fra Den europeiske sentralbanken, Federal Reserve i USA og Sveriges Riksbank er gjennomført eller nært forestående når vi kommer til slutten av prognoseperioden, kan vi da til og med se en noe svakere NOK.

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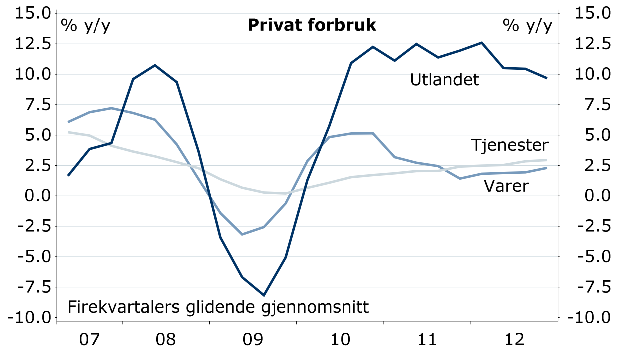
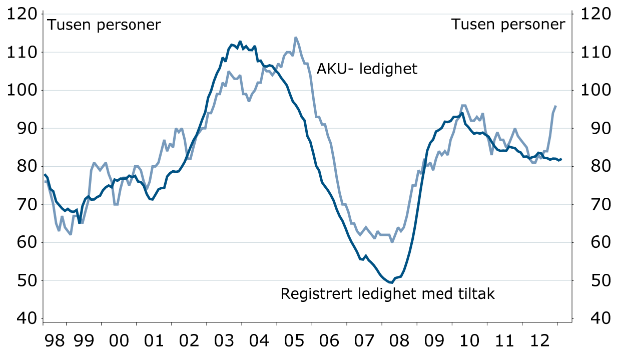
Endringer i forbruksmønsteret



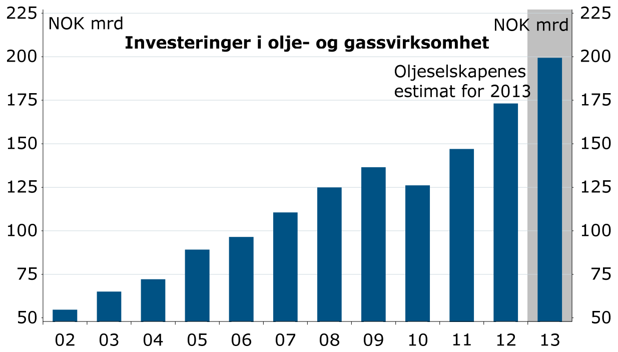
Source: Nordea Markets and Reuters Ecowin

Hva skjer i arbeidsmarkedet?



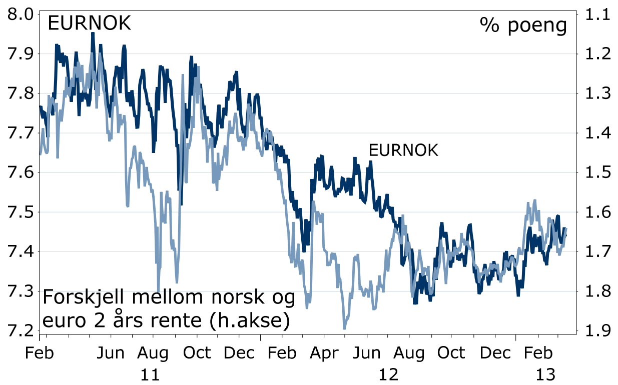
Source: Nordea Markets and Reuters Ecowin

Fortsatt vekst i oljeinvesteringene



Source: Nordea Markets and Reuters Ecowin

Fortsatt sterk krone



Households sensing the dawn of better times

- Gradually stronger GDP growth
- Dual economy with households as main driver
- Riksbank done cutting, rate hikes next year
- SEK stronger vs EUR but weaker vs USD

Brighter outlook

Growth in the Swedish economy slowed in 2012 and stagnated completely at the end of the year. The dampening made an impact on the labour market; unemployment rose above 8% at end-2012. Meanwhile, inflation was well below the 2% target.

The outlook has brightened both in Sweden and globally. First and foremost, the risks associated with the debt crisis in the Euro area seem to have diminished, although the political situation in Italy is inconclusive. The recovery in the US has gained a firmer footing and growth in China will improve going forward, which will also benefit Swedish exporters. Swedish households are doing well and consumption is expected to be the main growth engine in future. However, investment activity will likely decline this year and only increase modestly in 2014. The labour market will deteriorate further near term and inflation will remain low. The Riksbank argues that its monetary policy line is already expansionary and the bank focuses on the emerging signs of improvement in the economy. Further rate cuts are therefore not likely. Next year the repo rate will be hiked, as improvements in the domestic economy will make the Riksbank want to take its foot off the accelerator.

Subdued global economy

Despite glimpses of improvement, growth in the global economy is still muted. This is reflected in the weak trend in Swedish exports up to and including the start of 2013. Also indicators for the export industry paint a generally gloomy picture. They have admittedly improved somewhat recently, but still only suggest a stabilisation of new orders after the protracted downturn. Sweden's key trading partners will only record moderate growth also this year. Exports will thus only increase gradually in 2013 and full-year growth will be low. More substantial export growth will not be seen until 2014.

Households powering ahead; investment declines

Rising wages and low inflation have boosted households' purchasing power. Over the past two years real incomes have risen by a total of 6%. Purchasing power will also improve in the years ahead, albeit at a somewhat slower pace as wage growth decelerates. Moreover, household wealth has improved on the back of stock market gains and rising house prices. Household savings are high, suggesting scope for further consumption. At the end of last year, households' financial savings were at a 16-year high. The high unemployment curbs their propensity to spend, but against the background of less uncertainty about the economy and generally favourable conditions, households are likely to increase consumption at a healthy clip going forward.

Households' growing confidence is also evident in residential construction, which has flattened out after the past year's downturn. However, due to few housing starts

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

	2009 (SEKbn)	2010	2011	2012	2013E	2014E
Private consumption	1,533	4.0	2.1	1.5	2.2	2.4
Government consumption	860	2.1	1.1	0.8	1.1	1.5
Fixed investment	559	7.2	6.4	3.4	-2.0	3.0
- industry	74	2.7	11.4	7.5	-4.1	3.0
- residential investment	92	15.7	14.7	-9.1	-5.3	5.1
Stockbuilding*	-46	2.2	0.5	-1.1	0.0	0.1
Exports	1,489	11.4	7.1	0.7	0.9	4.7
Imports	1,288	12.0	6.3	-0.1	0.4	4.5
GDP		6.6	3.7	0.8	1.3	2.6
GDP, calendar adjusted		6.6	3.7	1.2	1.3	2.7
Nominal GDP (SEKbn)	3,106	3,338	3,500	3,555	3,665	3,816
Unemployment rate, %		8.6	7.8	8.0	8.3	8.2
Employment grow th		0.5	2.3	0.6	0.3	0.6
Consumer prices, % y/y		1.2	3.0	0.9	0.2	1.5
Underlying inflation (CPIF), % y/y		2.0	1.4	1.0	1.0	1.4
Hourly earnings, % y/y		1.1	2.7	3.3	2.8	2.8
Current account (SEKbn)		225	243	219	235	255
- % of GDP		6.8	7.0	6.2	6.4	6.7
Trade balance, % of GDP		2.6	2.7	2.5	2.7	2.8
General govt budget balance (SEKbn)		-2	5	-25	-44	-57
- % of GDP		-0.1	0.1	-0.7	-1.2	-1.5
Gross public debt, % of GDP		39.3	38.3	38.4	42.3	42.3

* Contribution to GDP growth (% points)

at end-2012, residential investment will decline this year. In the manufacturing industry the need to invest is low as capacity utilisation declined last year. Moreover, last year investment activity was underpinned by major projects in the mining industry, which will not be repeated this year. Investment activity in the service sector is expected to go down this year, although a comparatively strong domestic demand will mitigate the downturn. So we look for a decline in total investment this year, with a recovery in 2014 that will gradually gain momentum.

Worried Riksbank

Although GDP growth will pick up in future, it will be a while before unemployment falls significantly. At the same time, inflation is still low. Wage growth will be lower than in recent years and the SEK strength will contribute to a sustained drop in import prices. In addition, energy prices will decline near term and price increases of food will be curbed thanks to lower prices in the global markets. With few inflation impulses, underlying inflation (CPIF), which has averaged 1.2% over the past two years, will decline a bit further this year. Next year it will likely rise to 1.5% at the most when the effects of the SEK appreciation abate and energy prices increase somewhat again.

The Riksbank is weighing low capacity utilisation and persistent low inflation against a domestic economy that shows favourable trends in important areas. In addition to a good development in consumption, house prices and credit growth should accelerate somewhat in future. This could worry the Riksbank, which is keeping an eye on household indebtedness. The Riksbank is likely to place most emphasis on trends in the domestic economy and is therefore not likely to lower the repo rate further from the current 1.0%. At the beginning of next year, the bank will hike interest rates as early signs of rising capacity utilisation will start to emerge.

Strong economy means strong SEK

The SEK is currently at its strongest in 20 years in trade-weighted terms. The appreciation is a result of the relatively strong economy with positive growth and stable public finances. At the same time, dark clouds are starting to gather over the Euro area again. This had led to a wider yield spread versus the rest of Europe and a stronger exchange rate notably versus the EUR. A continued comparatively good development of the Swedish economy speaks in favour of the SEK gaining somewhat against the EUR, while the SEK is expected to weaken somewhat versus the USD in step with the recovery of the US economy.

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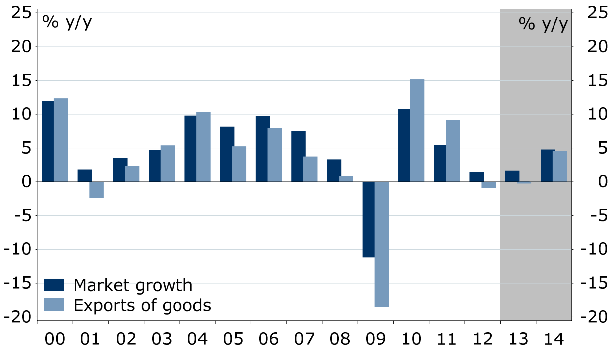
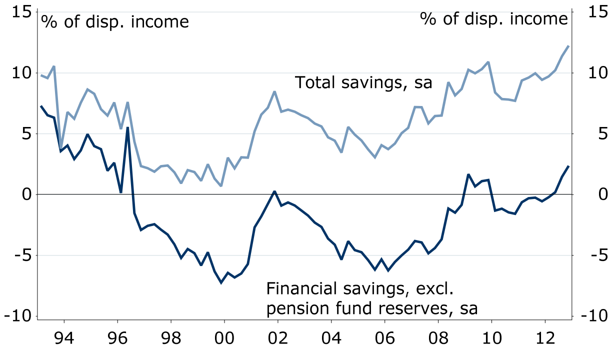
Low growth in Sweden's export markets this year



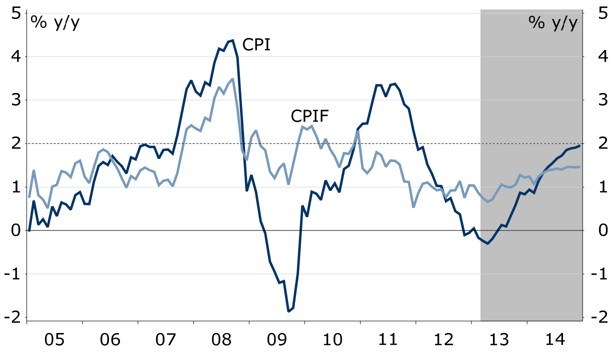
Source: Nordea Markets and Reuters Ecowin

Record-high household savings



Source: Nordea Markets and Reuters Ecowin

Inflation low



Source: Nordea Markets and Reuters Ecowin

SEK gaining ground

Source: Nordea Markets and Reuters Ecowin

Waiting for growth

- Gradually rising growth over the forecast horizon
- Reforms strengthen economic foundation
- Labour market in a critical phase
- Cracks in exports

The Danish economy is still showing very few signs of growth. By all accounts 2012 was the weakest year since the major crisis in 2009. Moreover, given the significant setback in the last three months of 2012, the Danish economy entered this year at a much lower level than previously assumed. Coupled with weaker-than-expected demand in key export markets and continued stagnation in domestic spending, we have had to revise down our expectations for 2013. We now expect that the Danish economy will show only modest growth of 0.5% in 2013, rising to 1.5% next year. However, over the forecast period the activity level should gradually rise driven by both higher domestic demand and higher exports.

Economic foundation strengthened by reforms

In recent years a string of major economic reforms have been implemented for multiple purposes. On the one hand, the reforms have aimed at stimulating and underpinning the economy here and now by increasing public investment and cutting income taxes. On the other hand, the purpose has been to strengthen the long-term supply side of the Danish economy, partly through labour market reforms, changing unemployment and social security benefit systems, and partly by lowering companies' cost levels via indirect tax cuts and most recently a proposal to gradually cut corporate taxes.

While the success of the short-term measures has been hampered by reluctant consumers and low private investment activity, we believe that the reforms have managed to bolster the fundamental structures of the Danish economy – thus making it better positioned to benefit from the economic upswing once the cycle improves again. In addition, economic fundamentals are underpinned by the fact that the structural reforms are fully financed and therefore do not put further pressure on public finances.

Renewed upturn in households' purchasing power

Consumer spending is still subdued – under pressure from weak real wage growth, a very uncertain economic outlook, tighter credit standards and a still fragile housing market. But going forward there is reason to believe that household consumption will break out of the current deadlock. The increased optimism is first and foremost due to the prospect of stronger purchasing power driven by tax cuts and a gradual recovery of real wage growth. Whether or not the boost to households' purchasing power will actually manifest itself in rising consumption hinges on the absence of a corresponding increase in the savings ratio, though.

Labour market in critical phase

The Danish labour market is in the midst of a critical phase. Over the past quarters unemployment trends have been much better than feared; the number of vacancies is currently at a 4-year high. But employment has continued to decline, and the number of people in work is now lower than at any other time since 2006. This differentiated trend is due to a sharp labour force contraction, as for example reflected in the labour market survey, which shows an increase of 100,000 in the number of working-

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

	2009 (DKKbn)	2010	2011	2012	2013E	2014E
Private consumption	822	1.7	-0.5	0.5	0.4	1.8
Government consumption	496	0.4	-1.5	0.5	1.0	0.6
Fixed investment	304	-2.4	2.8	1.2	2.3	2.6
- government investment	32	8.9	4.2	10.6	-0.3	-2.0
- residential investment	71	-0.6	14.6	-9.8	-0.5	6.5
- business fixed investment	201	-4.9	-1.6	3.8	3.9	2.2
Stockbuilding*	-22	1.0	0.5	-0.5	0.0	0.0
Exports	793	3.0	6.5	1.1	1.0	3.3
Imports	728	3.2	5.6	2.7	1.5	3.6
GDP		1.6	1.1	-0.6	0.5	1.5
Nominal GDP (DKKbn)	1,665	1,761	1,792	1,817	1,851	1,914
Unemployment rate, %		6.2	6.1	6.2	6.2	6.1
Gross unemployment level, '000 persons		162.9	159.8	162.0	162.0	159.5
Consumer prices, % y/y		2.3	2.8	2.4	1.4	1.7
Hourly earnings, % y/y		2.3	1.8	1.6	1.5	1.9
Nominal house prices, one-family, % y/y		2.8	-2.8	-3.4	0.9	1.9
Current account (DKKbn)		103.6	101.2	95.5	85.0	80.0
- % of GDP		5.9	5.6	5.3	4.6	4.2
General govt. budget balance (DKKbn)		-47.4	-34.9	-71.0	-30.0	-31.0
- % of GDP		-2.7	-2.0	-3.9	-1.6	-1.6
Gross public debt, % of GDP		42.9	46.6	45.5	44.5	43.0

* Contribution to GDP growth (% points)

age people outside the labour market over the past four years. At the same time, the combination of a shrinking labour force and a large share of the in-work population changing occupational areas has led to signs of growing mismatch problems –ultimately lifting the structural unemployment level and possibly afflicting more lasting damage to the Danish economy.

Fragile housing market shows signs of stabilising

The Danish housing market is still in a consolidation phase following the severe downturn five years ago. The stabilisation is mainly taking place via prices, which have been largely unchanged over the past year after the downward trend in 2011. But the number of home sales is still very low. Consequently, the estimated selling period – the number of months it will take to sell the number of houses on the market based on the current turnover rate – is still more than three times as high as before the crisis. And as private residential construction is still at a very low level, the housing market has not yet reached a stage where it can contribute to growth in the Danish economy.

We expect prices to remain at the current level in the years to come. But tensions lurk beneath the apparently calm surface. Firstly, we expect further geographical polarisation, with the housing market improving in the largest cities both in terms of turnover and price trends, while other areas will remain stuck. At the same time, the housing market will during the forecast period be challenged by gradually increasing interest rates, which we expect will push financing costs higher, for example as a consequence of the Danish central bank hiking its policy rate as part of a gradual monetary policy normalisation.

Exports starting to crack

In H2 2012 Danish exports suffered the largest setback on record since mid-2009. The slowdown is mainly due to a sharp drop in goods exports to the Euro area. The Danish economy will now really feel the impact of the significant growth slowdown that hit the Euro area throughout 2012. Near term we expect Danish exports to remain under pressure due to weak demand in key export markets. However, later this year these markets should see gradually accelerating growth that will ensure a renewed pick-up in exports. Slightly longer out we expect exports to be further lifted by improved competitiveness on the back of low wage growth, relatively strong productivity gains, improved overall conditions and a weakening of the trade-weighted DKK.

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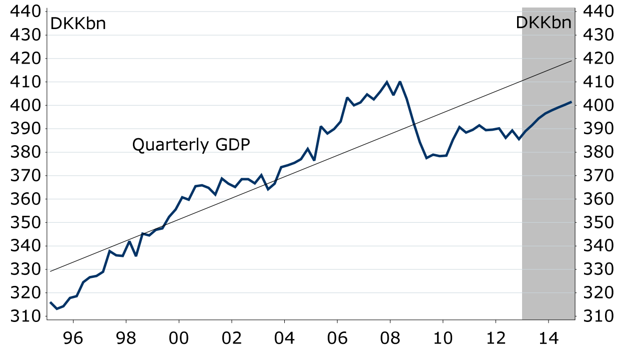
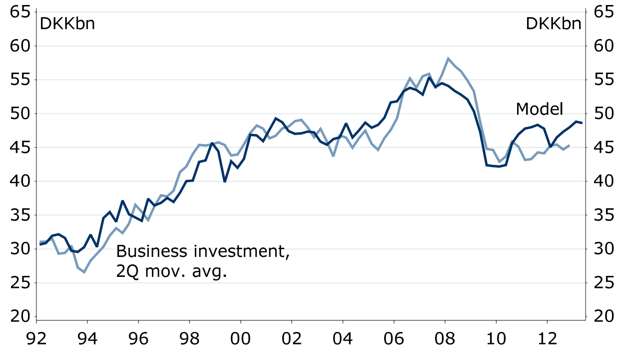
Stagnation in the Danish economy



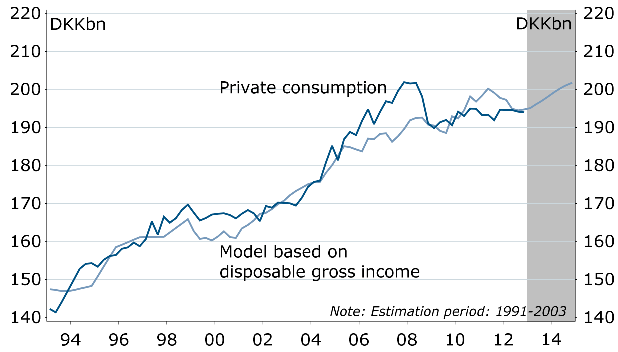
Source: Nordea Markets and Reuters Ecowin

Lagging private business investment



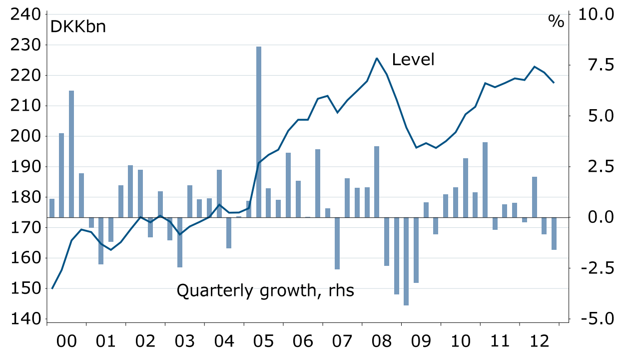
Source: Nordea Markets and Reuters Ecowin

Increased scope for spending for households



Source: Nordea Markets and Reuters Ecowin

Temporary dent in exports



Source: Nordea Markets and Reuters Ecowin

A pick-up in growth still hanging on exports

- Exports to recover modestly in 2013
- Few domestic growth drivers
- Investment to decline, employment to weaken
- Slow growth in private consumption

No support measures means slow growth

The short-term outlook of the Finnish economy is subdued despite the budding pick-up in the global economy. The conditions are weaker than expected this year, as total production decreased clearly in late 2012. Accordingly, we have decreased our growth forecast to 0.5% for 2013 (from 1.0%) and to 2.2% for 2014 (from 2.7%). Due to modest economic growth, unemployment is expected to rise to 8.2% on average in 2013.

The downside risks of the economic trend are still more likely to realise than the upside risks. The danger is that growth will remain slow without measures supporting the economic activity. This means that this is not the time to tighten policies and thereby dampen growth. In addition to the support measures, there is also a need for structural reforms. Along the years, these have been proposed by many work groups in their reports. Now it has become a time to get finished with the work groups and reports and to finally put the money where the mouth is and actually start to execute the proposals.

Few domestic growth drivers

Right now, there are no obvious growth drivers in the Finnish economy. In our view, total demand, which is the sum of exports, consumption and investment – and thus a key indicator of economic activity – will hardly increase at all in volume terms this year.

We expect growth to pick up this year driven by exports. Imports will only increase moderately, which is above all a sign of weak domestic demand. Machinery, equipment and construction investment will decrease this year for the second year in a row. Private consumption will grow modestly, as weaker employment and tighter taxation will limit the improvement of household purchasing power.

Exports to recover modestly in 2013

Finnish goods exports contracted almost 10% in Q4 2012 from the previous quarter. The plunge indicates weak demand, but part of it is also related to the fact that there were fewer workdays in December than normal due to mid-week holidays. It is likely that export volumes will recover only partly in Q1 2013. However, we expect a continued modest recovery of exports in Q2 and in H2 in particular, as international demand gets stronger. Nevertheless, export volumes will only increase a little in 2013 compared to last year. Faster export growth cannot be expected before 2014.

2012 saw again a trade surplus after one year of trade deficit for the first time in two decades. The surplus will increase in the forecast period, as goods exports will grow faster than goods imports. The current account will, however, remain in deficit, weakened by deficits in service trade, income transfers and factor returns.

Less investment this year

The investment outlook is subdued, and the proportion of investment of the total production value will decrease. Machinery and equipment investment typically tracks exports and new manufacturing orders with a lag, and we estimate that they will not start to recover until late this year, if not later.

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

	2009 (EURbn)	2010	2011	2012	2013E	2014E
Private consumption	94	3.3	2.3	1.6	1.2	1.4
Government consumption	43	-0.3	0.4	0.8	0.5	0.5
Fixed investment	34	1.9	7.1	-2.9	-2.3	4.2
Stockbuilding*	-2	0.8	1.3	-1.7	0.3	0.0
Exports	64	7.5	2.9	-1.4	0.4	5.6
Imports	62	6.9	6.1	-3.7	-0.3	5.2
GDP		3.3	2.8	-0.2	0.5	2.2
Nominal GDP (EURbn)	172.3	178.8	189.5	194.5	199.5	207.2
Unemployment rate, %		8.4	7.8	7.7	8.2	8.0
Industrial production, % y/y		8.3	1.0	-1.8	1.5	3.5
Consumer prices, % y/y		1.2	3.4	2.8	2.0	2.5
Hourly w ages, % y/y		2.6	2.7	3.5	2.8	2.0
Current account (EURbn)		2.9	-2.4	-3.0	-2.5	-2.2
- % of GDP		1.6	-1.3	-1.6	-1.2	-1.0
Trade balance (EURbn)		2.6	-1.2	0.3	1.0	1.4
- % of GDP		1.4	-0.6	0.1	0.5	0.7
General govt budget balance (EURbn)		-4.5	-1.5	-3.7	-3.8	-3.0
- % of GDP		-2.5	-0.8	-1.9	-1.9	-1.5
Gross public debt (EURbn)		87.0	92.8	103.1	109.3	114.9
- % of GDP		48.6	49.0	53.0	54.8	55.4

* Contribution to GDP growth (% points)

Construction investment will also bottom out this year but will not start to grow until 2014.

Growth in private consumption to slow down

Private consumption grew less than usual in 2012 and the growth rate will keep decreasing this year. The improvement of household purchasing power is limited by weaker employment, tightened income taxes and VAT and a more moderate rise in the income level than last year. Another factor restricting consumption is the household savings rate, which declined slightly below zero already last year. This is why households may also consider making larger acquisitions, such as a new car or home, more carefully.

Weaker employment

The labour market has continued to hold up astonishingly well. Due to slow economic growth, we expect the labour market to weaken moderately during the spring and the summer. We estimate that the unemployment rate, excluding seasonal effects, will increase from 8% in January to 8.4% by the end of the year before the economic pick-up we are anticipating starts to raise the demand for labour.

Decreased inflation

The rise in consumer prices slowed down more than expected in January. The VAT hike that entered into force at the beginning of the year is not necessarily yet reflected in the prices in full. It may be that companies have not been able to transfer the tax hike to prices due to weak demand. On the other hand, the price rise will no doubt be calmed down by the economic recession, weaker employment as well as levelled producer and wholesale price rise. As the government may decide to increase certain commodity taxes in connection with its mid-term check-up, we have decreased our consumer price rise forecast for 2013 only moderately to 2%.

Continued increase in public debt

The public sector fiscal deficit grew to 1.9% of total production last year, while the deficit of central government finances increased to 3.4%. Due to subdued economic growth, the public sector deficit will decrease very slowly, despite tax hikes. The deficit is estimated to remain at its current level of GDP in 2013 and to decrease to 1.5% of GDP in 2014. The government's borrowing need will continue to be significant and raise the public debt to 55% of GDP at the end of the forecast period.

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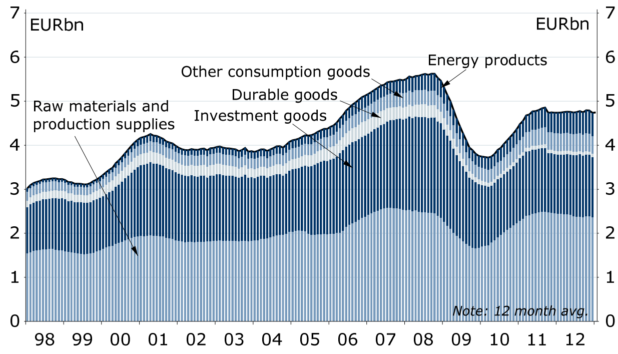
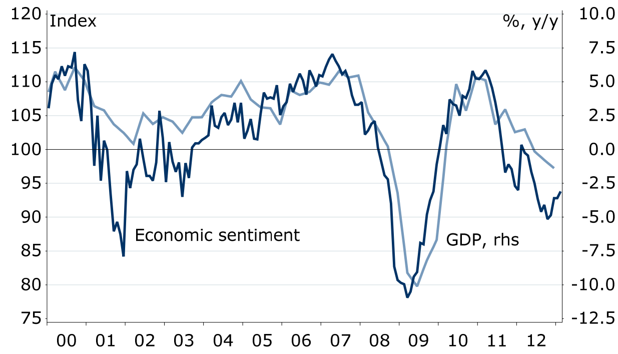
Only modest increase in goods exports this year



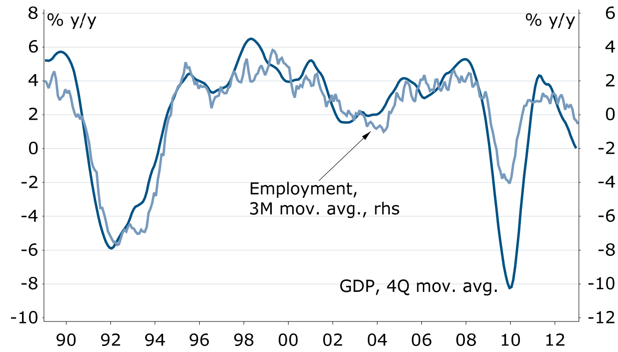
Source: Nordea Markets and Reuters Ecowin

The fall in GDP bottoms out with higher confidence



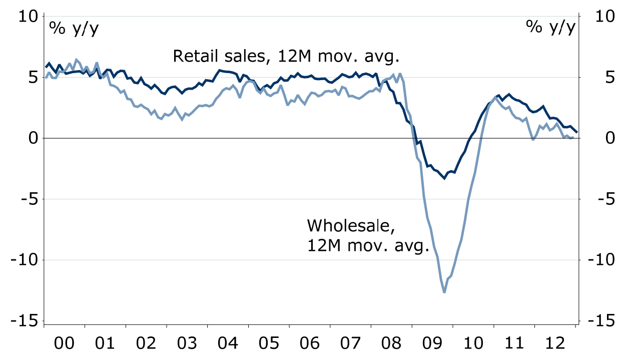
Source: Nordea Markets and Reuters Ecowin

Employment set to deteriorate more



Source: Nordea Markets and Reuters Ecowin

Sales volumes expand very moderately



Source: Nordea Markets and Reuters Ecowin

Ready for lift-off

- Brighter prospects despite fiscal austerity …
- … thanks to improved private sector fundamentals
- Higher inflation pressures in 2014
- First Fed rate hike in early 2015

Beneath the recent data's temporary ups and downs, the US economy continues to grow roughly in line with our forecast. Thus, real GDP is on track to grow around 2% in 2013, its average pace since the end of the Great Recession in 2008-2009. That's actually quite positive considering that measures to address the federal budget deficit are significantly cutting into growth. We estimate that fiscal tightening will cut GDP growth by close to 2% points this year. This implies that absent the fiscal drag, we would be forecasting 3½-4% growth in 2013.

In 2014 fiscal policy consolidation will continue to act as a drag on growth, and only slightly less so than in 2013. Nevertheless, thanks to much improved economic fundamentals in the private sector we expect the recovery to gain more traction next year with GDP growth strengthening to close to 3%.

Compared to our November forecast the new 2013 GDP growth estimate is slightly lower (1.9% versus 2.1%). However, the downward revision solely reflects weaker-than-expected Q4 2012 GDP data and hence a less favourable carry-over effect for this year. Rather than reflecting a stalling-out of the recovery the pause in real GDP last quarter seems due to weather-related disruptions caused by the Midwest drought and Hurricane Sandy as well as transitory declines in defence spending. Available information suggests that economic growth has picked up again this year.

For 2014, however, our outlook is now somewhat more optimistic. The upward revision of the growth forecast to 2.8% from 2.4% in November reflects our belief that the first increase from the Fed will come in early 2015 rather than already by mid-2014 as earlier assumed. With recent signals that the Fed is now more willing to accept higher inflation, we have also revised lower the projected path for the Fed funds rate following the first rate hike. As a result, US monetary conditions for 2014 will be somewhat easier than earlier assumed.

Bumpy road to recovery

Overall, we believe the stage is set for a stronger recovery, but not without bumps along the road. The lows and highs are expected to be higher, though. As it stands now, GDP growth is seen slowing from a 2¾% pace in the current quarter to around 1% in Q2. The expected temporary slowdown is due to the impact of the end of the payroll tax cuts, recent increases in gasoline prices and the significant across-the-board federal spending cuts, which began on 1 March. However, as the effect of these shocks starts to fade the economy is likely to gain more momentum in H2 2013 and through 2014.

The forecast is based on the assumption that Congress will agree to extend the current law funding government operations otherwise set to expire on 27 March. As the threat of a government default seems off the table as a political weapon for the Republicans to achieve deeper spending cuts, we are now much more confident that Congress will reach a permanent agreement to raise the debt ceiling (final deadline: late July or early August).

Much improved economic fundamentals

The stronger momentum is expected to be rather broad-based as both household and business sector fundamentals are much improved.

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

	2009 (USDbn)	2010	2011	2012	2013E	2014E
Private consumption	9,846	1.8	2.5	1.9	1.9	2.7
Government consumption and investment	2,967	0.6	-3.1	-1.7	-2.3	-1.1
Private fixed investment	1,703	-0.2	6.6	8.5	7.2	8.7
- residential investment	354	-3.7	-1.4	12.1	14.7	13.3
- equipment and software	898	8.9	11.0	6.9	5.7	7.7
- non-residential structures	451	-15.6	2.8	10.1	4.4	6.1
Stockbuilding*	-154	1.5	-0.2	0.1	0.0	0.0
Exports	1,587	11.1	6.7	3.3	2.7	5.0
Imports	1,976	12.5	4.8	2.4	1.8	4.9
GDP		2.4	1.8	2.2	1.9	2.8
Nominal GDP (USDbn)	13,974	14,499	15,076	15,715	16,248	16,951
Unemployment rate, %		9.6	8.9	8.1	7.6	6.8
Industrial production, % y/y		5.4	4.1	3.8	3.7	5.4
Consumer prices, % y/y		1.6	3.1	2.1	1.6	2.4
Consumer prices ex. energy and food, % y/y		1.0	1.7	2.1	2.0	2.4
Hourly earnings, % y/y		1.8	2.0	1.9	2.3	2.8
Current account (USDbn)		-442.0	-465.9	-471.4	-519.9	-593.3
- % of GDP		-3.0	-3.1	-3.0	-3.2	-3.5
Federal budget balance (USDbn)		-1,293.5	-1,295.6	-1,089.4	-820.5	-610.2
- % of GDP		-9.0	-8.7	-7.0	-5.1	-3.6
Gross public debt, % of GDP		95.2	99.5	106.5	111.6	115.2

* Contribution to GDP growth (% points)

Thus, private sector deleveraging seems almost over and even households might be done reducing debt. Initially, however, the acceleration in aggregate demand is expected mainly to be driven by stronger business investment and continued strength in residential investment.

The sharp slowdown in business investment in H2 2012 seems largely due to policy uncertainty related to the fiscal cliff and the debt ceiling debate. But with US fiscal uncertainty now significantly diminished, a very high level of corporate profit margins, improved competitiveness and continued gradual easing of credit conditions, the prospects for capital spending are quite bright.

The fundamentals for housing activity point to further large gains in the next couple of years. Due to massive underbuilding during the slump years, the excess supply of housing has largely been eliminated. As a result, housing starts have seen a sharp increase over the past 1½ year to currently around 900k units (annualised). But even at this level starts are unsustainably low. Given household formation – the rate at which new households are created, the key driver of housing demand – and typical replacement building, a "normal" rate is around 1.3-1.4m units, or 50% higher than current construction activity.

National home price increases are expected to exceed 5% in both 2013 and 2014, continuing the upward trend which began a year ago. With rising home and stock prices, household balance sheets continue to improve. Gains in net wealth, coupled with low interest rates, an improving labour market and continued easing of lending conditions, should contribute to a pick-up also in private consumption growth going forward.

Improving job market and higher inflation pressures

Most encouragingly, the job market is clearly improving, with only the government sector now shedding jobs. We expect employment growth to average 200k per month this year, in line with last year's trend, and 225k per month in 2014 (as measured by the household survey of the jobs report). With an assumed steady labour force participation rate, unemployment is forecast to reach 7¼% by end-2013 and 6½% by end-2014.

Given the Fed's new numerical threshold rate guidance, the first rate hike is therefore expected in Q1 2015.

With the business cycle adjustment seen more or less completed in late 2014, signs of stronger underlying inflation pressures – and potentially new asset bubbles – are projected to emerge in the latter part of the forecast horizon.

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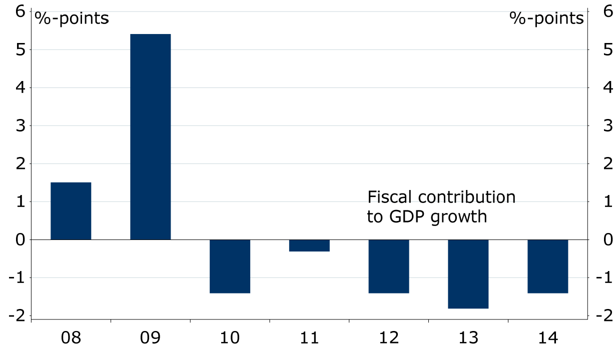
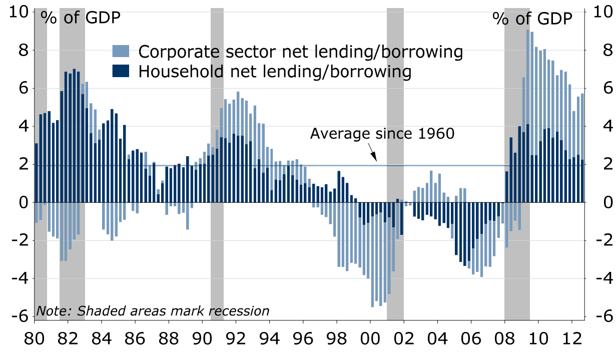
Major fiscal drag in 2013 but slightly less in 2014



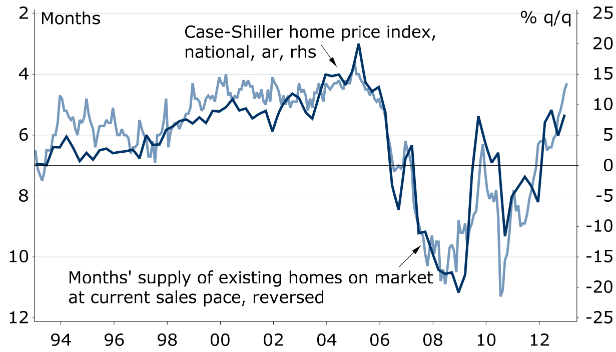
Source: Nordea Markets, CBO and Reuters Ecowin

Major improvement of private sector fundamentals



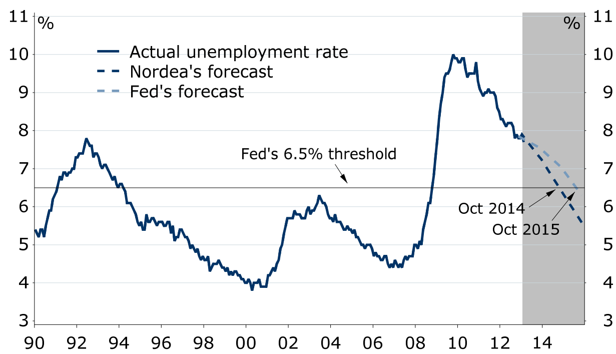
Source: Nordea Markets and Reuters Ecowin

Housing recovery looks promising



Source: Nordea Markets and Reuters Ecowin

Job market improvement likely to continue



Source: Nordea Markets and Reuters Ecowin

Slow recovery, and we stress both words

- Recession should end in H1 2013
- Progress on fundamentals, but increased political risk
- Inflation a non-issue in 2013/14
- ECB on hold, but ready to act in case of emergency

We revise the GDP forecast for 2013 quite substantially from +0.4% to -0.4%. Around half of that is due to a weaker than expected Q4 2012. The other half reflects a slightly more sceptical view on how strongly and quickly growth forces will gain the upper hand. We also take down 2014 a bit but still expect growth to return.

The Euro area is still struggling. GDP declined from Q4 2011 through to Q4 2012, while unemployment rose by more than a percentage point to 11.7%. During recent months, however, sentiment indicators have picked up from low levels, indicating at least less contraction in Q1. To us, Mario Draghi's "whatever it takes" speech last July that calmed financial markets is the most important driver for that. The ECB bought time for governments to reform the economies and to re-invent growth models. And there is indeed progress on structural issues: budget deficits are declining and current account positions of the crisis countries are improving.

Italian elections – a game changer?

Overcoming the aftermaths of a financial crisis is hard and growth difficult to achieve in a post-bubble world, all the more so when new financial sector regulation acts as a drag. Political stability and a consistent economic policy are key ingredients for progress. With the inconclusive outcome of the elections in Italy, political risk has increased again, causing volatility in financial markets. The Italian bond market is the third-largest in the world, so there is no room for complacency. A new debate about how much austerity is needed has already started. As a result of the Italian vote, we consider it as quite likely that economic policy not only in Italy will be geared towards slightly less short-term austerity. Given the backstop provided by the ECB and Italy's fundamentals that are much stronger than those of Greece and Cyprus, we do not expect a full-blown return of the euro crisis. However, sentiment can be negatively affected if the formation of a new government drags on and if political turmoil (eg between Germany on the one hand and France/Italy on the other) flares up again.

Diversity here to stay for a while

Large differences between countries are still very much a feature of the macro picture in the Euro area and this will not change for a while. Confidence returned quickly in Ireland but not in Greece and Spain. Unemployment is at a record high there and recently reached a 15-year high in France, whereas in Germany employment is at an all-time high. These differences can be explained by the stance of fiscal policy, by how easily low policy rates feed through to the real economy and by differing degrees of competiveness. We continue to expect that the recovery will be very much two-speed or even multi-speed, with Germany and a few smaller economies like Ireland leading, the southern periphery countries lagging and France somewhere in between.

Why we expect the economy to grow in 2014

The risk of digging deep into Euro area issues is discovering more and more weak spots and getting carried away by scepticism. However, despite many obstacles and the drag imposed by new regulation, we would consider writing off the recovery as a mistake, and here is why: 1) We expect monetary policy to remain extremely loose and the transmission mechanism to work better over time as imbalances decline and confidence strengthens bit by bit. 2) Fiscal policy is highly restrictive this year but probably much less so next year. 3) A weaker euro and healthy growth in the US and many Emerging Markets should provide tailwind to exports. 4) Structural reforms and efforts to regain competitiveness will pay off – although we have to admit that we don't know exactly when.

Underlying inflationary pressure still very low

If you are looking for something you don't have to worry about in 2013/14, it is inflation. The year-over-year rate was 1.8% in February, on a downward trend. Stripping

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

	2009 (EURbn)	2010	2011	2012	2013E	2014E
Private consumption	5134	0.9	0.1	-1.2	-0.5	0.8
Government consumption	1988	0.7	-0.1	-0.1	0.0	0.5
Fixed investments	1731	-0.3	1.6	-3.9	-1.0	5.7
Exports	3285	11.0	6.5	2.9	2.5	7.3
Imports	3167	9.5	4.3	-0.9	2.0	8.0
Net exports*	118	0.7	0.9	1.6	0.2	-0.1
GDP		2.0	1.5	-0.5	-0.4	1.4
Nominal GDP, EUR bn	8920	9176	9421	9483	9578	9770
Unemployment rate, %		10.1	10.2	11.4	11.7	11.4
Consumer prices, % y/y		1.6	2.7	2.5	1.6	1.6
Current account, % of GDP		0.3	0.2	1.5	2.2	2.3
General government budget balance, % of GDP		-6.2	-4.1	-3.6	-2.8	-2.7
General government gross debt, % of GDP		85.6	88.1	93.1	95.1	95.2

* Contribution to GDP growth (% points)

out energy and unprocessed food, the latest reading is 1.5%, of which around ¼% point is due to increases in indirect taxes. In Spain, Greece and Portugal deflationary forces pushed the inflation rate calculated at constant tax rates close to zero. Estimates of the output gap (which measures the degree of slack in the economy) vary of lot, but it is probably fair to assume at least 2% for the Euro area. Therefore, although inflation might be a long-term threat if the economy picks up strongly and the ECB puts its foot on the brake pedal too late, it is certainly not a big issue in the next few quarters when compared to the growth and structural challenges the Euro area is facing.

ECB rates on hold until late 2014

We expect the ECB to keep its policy rates on hold until late 2014. There is still a risk that the ECB could decide to cut its refi rate in the coming months if key figures remain weak. In our view, however, the ECB is likely to consider the benefits of additional rate cuts to be too small given that market rates are very low already. Rising market rates, and consequently a stronger EUR, could therefore be the trigger point for one or two more refi rate cuts, if key figures remain weak at the same time.

Risks to the timing of the first rate *hike* are obviously significant given the dire straits of the Euro area economy. The most likely scenario, in our view, is one where the ECB will be fairly eager to hike policy rates once the growth momentum is strong enough for inflation (expectations) to start rising. We still see the first rate hike at the end of 2014 and believe this is a fairly balanced view.

But the most likely scenario is also one where the ECB will continue to offer unlimited amounts of liquidity throughout our forecast horizon and let banks decide how much they need. Since we now expect the recovery to be more protracted it will take longer for banks to get off ECB's liquidity support and hence excess liquidity will remain in the banking system even longer than previously thought, and, as a consequence, market rates will also remain very low.

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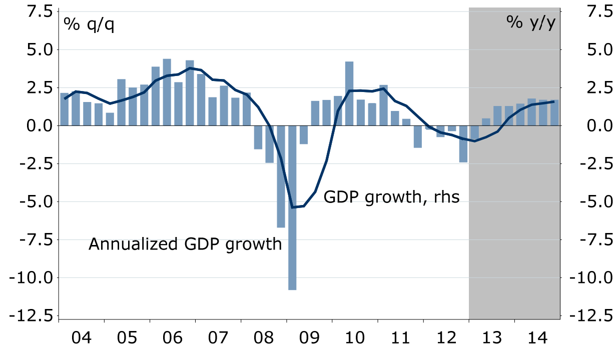
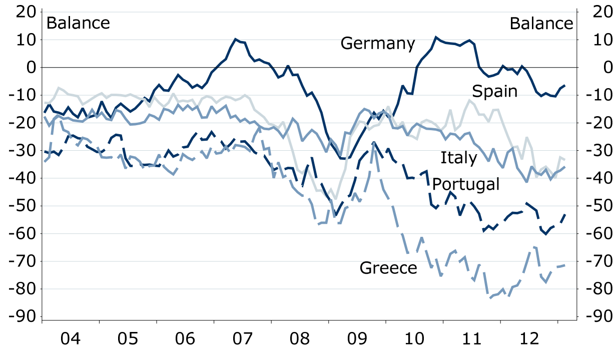
Gradual recovery



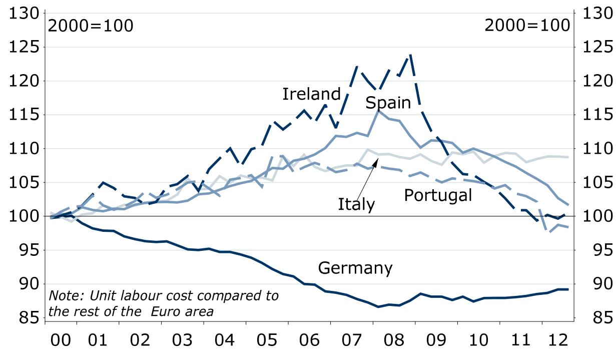
Source: Nordea Markets and Reuters Ecowin

Consumer confidence – Large divergencies



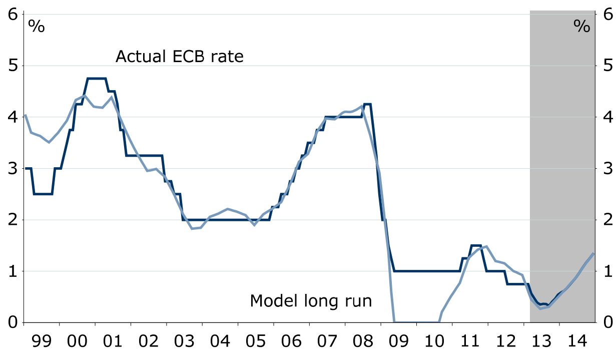
Source: Nordea Markets and Reuters Ecowin

Some progress on convergence



Source: Nordea Markets and Reuters Ecowin

Monetary policy still extremely lenient



Source: Nordea Markets and Reuters Ecowin

Great expectations

A lot of hope and expectations are currently placed on the German economy. Germany is well known as a powerful exporter, but imports of goods and services also account for 46% of its nominal GDP. Therefore, an accelerating German economy would provide some welcome support to partner countries.

For several reasons, we expect Germany to outperform the other large European economies in terms of growth in 2013/14. First, financial conditions are easy. Second, the impact of fiscal policy on the economy is expected to be neutral and not highly restrictive as in Italy and Spain. The labour market has proved resilient in recent months. That should be a healthy basis for a further expansion of private consumption this year. Lastly, the German industry with its large share of investment goods still looks well placed to benefit from sustained growth in many Emerging Markets. We expect real GDP to grow by 0.7% this year (1.7% y/y in Q4 2013). Based on the assumptions that 1) at least some of the Euro-periphery countries return to growth and that 2) the recovery in the US goes on, we expect the German economy to expand by 2.1% in 2014.

However, there are also risks to our forecasts. The German economy is highly dependent on exports, both in good times and bad. And although the share of goods exports to other EMU countries has decreased in recent years, it still amounts to 40%. A deepening of the crisis in Southern Europe and/or France falling into a severe recession would dampen growth markedly. An appreciation of the euro, however, would pose fewer problems to German manufacturers than to some of their competitors. This is because the level of product sophistication of German goods exports is high and the price elasticity quite low. A factor to watch will be the general election on 22 September. We will get back to that in the next issue of *Economic Outlook.*

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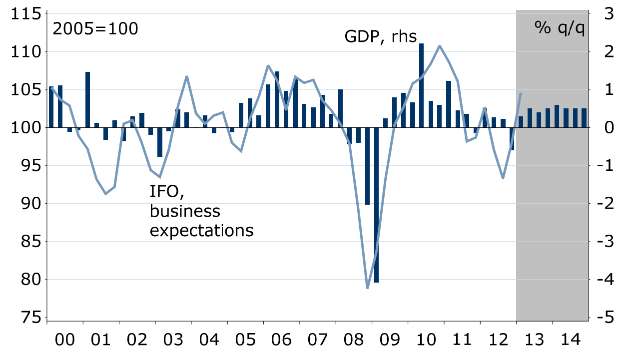
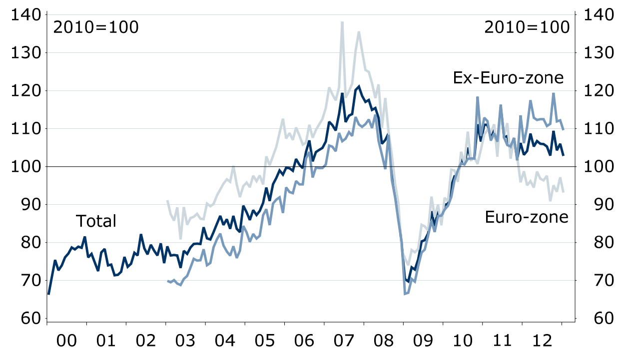
Back to growth



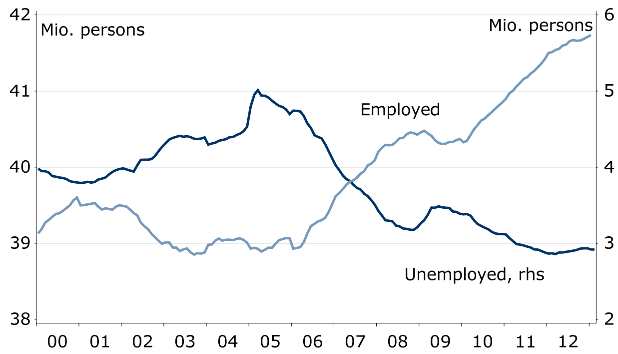
Source: Nordea Markets and Reuters Ecowin

Foreign orders from outside the EZ going strong



Source: Nordea Markets and Reuters Ecowin

Stable labour market supports private consumption



Source: Nordea Markets and Reuters Ecowin

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

	2009 (EURbn)	2010	2011	2012	2013E	2014E
Private consumption	1,392	0.8	1.7	0.6	0.5	1.0
Government consumption and investment	475	1.7	1.0	1.4	1.3	1.0
Fixed investment	409	5.6	6.4	-1.9	3.2	6.7
Exports	1,007	13.4	7.9	4.3	2.4	6.0
Imports	890	10.9	7.5	2.2	3.6	6.7
Net exports*	117	1.6	0.6	1.2	-0.4	0.2
GDP		4.0	3.1	0.9	0.7	2.1
Nominal GDP (EURbn)	2,375	2,496	2,593	2,644	2,697	2,764
Unemployment rate, %		7.7	7.1	6.8	6.8	6.5
Consumer prices, % y/y		1.2	2.5	2.1	1.5	1.7
Current account, % of GDP		6.1	5.6	6.3	6.0	5.6
General government budget balance, % of GDP		-4.1	-0.8	0.2	-0.5	0.2
Gross public debt, % of GDP		82.5	80.5	81.6	80.7	78.3

* Contribution to GDP growth (% points)

No easy way out of the gloom

Recent news on the French economy was bad: GDP declined in three out of the last four quarters; unemployment hit a 15-year high in January (although part of the latest increase was due to changes in counting methodology); French politicians had to admit that the 3% public deficit target for 2013 is out of reach as it was based on an overly optimistic growth forecast of 0.8%.

Growth is held back by both cyclical and structural factors. Fiscal policy is slightly restrictive. Exports to important but recession-plagued trading partners Italy and Spain are shrinking. If these countries return to at least slow growth from H2 2013, that will help France as well. But there are more reasons why France is lagging behind. Manufacturing makes up only 10% of gross value added. France lacks export-orientated medium-sized companies like those in Germany and Italy. Moreover, exports are only to a small degree orientated towards the fast growing Asian economies.

France also seems to be falling behind in terms of business conditions. Regulation, labour costs and taxes probably play a role. And whereas other countries are trying to improve conditions for investment and job creation, reform efforts in France are often half-hearted. Many politicians cling to the view that there is an "exception française", a French way around what other countries accept as the – sometimes rude – rules of competition.

We would not be surprised to see French GDP decline again in the current quarter. The most likely stimulus for an improvement in the course of the year comes from abroad: a further decrease in uncertainty related to the euro crisis and an ongoing recovery of the world economy. In terms of fiscal policy, we expect that Brussels will allow a higher deficit if there is some additional consolidation effort from the French government. We expect no GDP growth for 2013 as a whole with a moderate pick-up during the year and a slightly better 2014.

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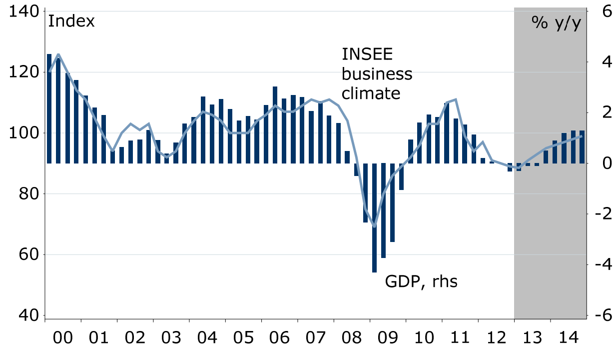
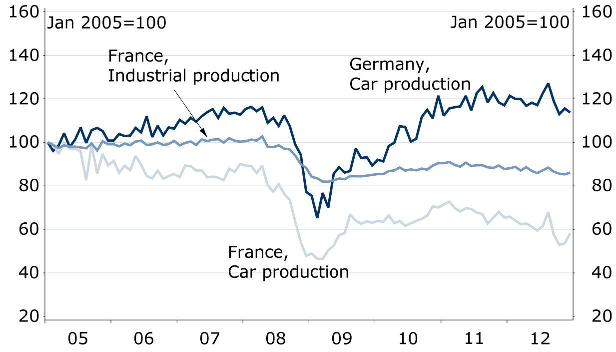
Growth: moderate expectations



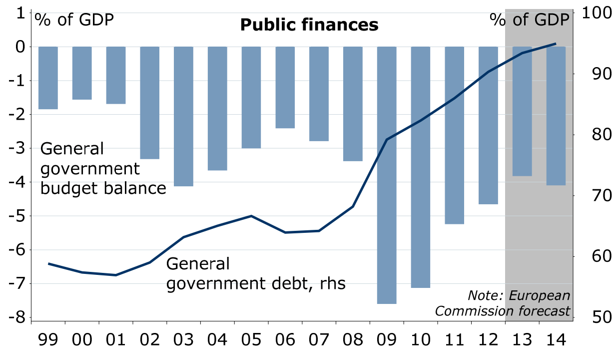
Source: Nordea Markets and Reuters Ecowin

Industrial production: mind the gap!



Source: Nordea Markets and Reuters Ecowin

Public finances in poor shape



Source: Nordea Markets and Reuters Ecowin

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

	2009 (EURbn)	2010	2011	2012	2013E	2014E
Private consumption	1,392	1.5	0.3	0.0	0.0	0.8
Government consumption and investment	475	1.7	0.2	1.4	1.0	0.5
Fixed investment	409	1.0	3.5	0.0	-0.7	2.4
Exports	1,007	9.2	5.5	2.3	1.0	4.3
Imports	890	8.4	5.2	-0.3	0.5	4.0
Net exports*	117	0.0	0.0	0.7	0.2	0.1
GDP		1.6	1.7	0.0	0.0	1.2
Nominal GDP (EURbn)	1,886	1,936	1,995	2,028	2,048	2,089
Unemployment rate, %		9.7	9.6	10.3	10.7	10.3
Consumer prices, % y/y		1.7	2.3	2.2	1.6	1.7
Current account, % of GDP		-2.0	-2.6	-1.9	-1.6	-1.8
General government budget balance, % of GDP		-7.1	-5.2	-4.6	-3.8	-4.1
Gross public debt, % of GDP		82.3	86.0	90.3	93.4	95.0

* Contribution to GDP growth (% points)

Uncertainties

According to the National Institute, the UK is experiencing its slowest post-recession recovery in 100 years with trend growth, and growth in 2012, just around zero. The underlying growth momentum is hard to assess given the additional bank holiday in Q2, the Olympics in Q3 and a temporary closure of the biggest oil field in Q4, but we believe it improved a bit towards the end of last year. We expect slow but positive growth over the forecast horizon, with the second half of 2013 looking brighter than the first half, and 2014 looking brighter than 2013.

The labour market is holding up well so far. Employment is at an all-time high and the unemployment rate fell below 8% at the end of 2012. Still, wages are growing slower than inflation and it will probably take a combination of lower inflation and a stronger recovery for consumer spending growth to remain positive going forward.

There are good reasons to expect a slow and protracted recovery. Export markets are mixed with weakness in the Euro area likely to persist but with improvements elsewhere. And companies seem to hold back investments because of numerous uncertainties, which include the Euro area crisis, fiscal consolidation plans after Moody's downgrade, the future EU relationship after Mr Cameron's speech and the Bank of England's monetary policy and inflation regime when Mr Carney becomes governor.

The Bank of England's new governor from 1 July has made it fairly clear that he thinks additional monetary easing is warranted. He has even spoken openly about nominal GDP targeting or introducing other targets such as the unemployment rate, like the Fed has. We still find it fairly unlikely that it will come to that, but more monetary easing looks more likely. Thus, the GBP may continue to weaken in the near term and especially until the outlook for monetary policy becomes clear. In the medium term, we expect a stronger GBP against the EUR and a weaker GBP against the USD.

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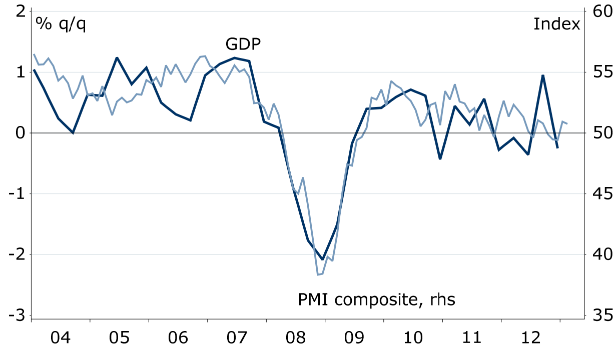
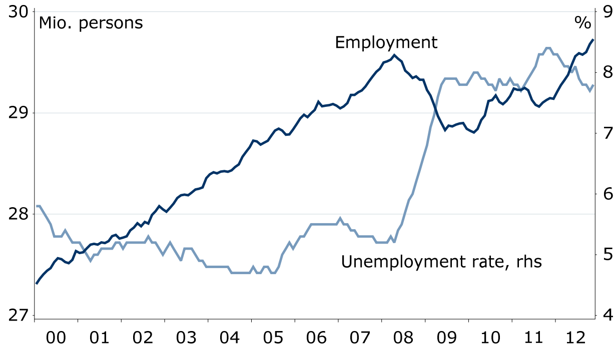
Weak growth momentum



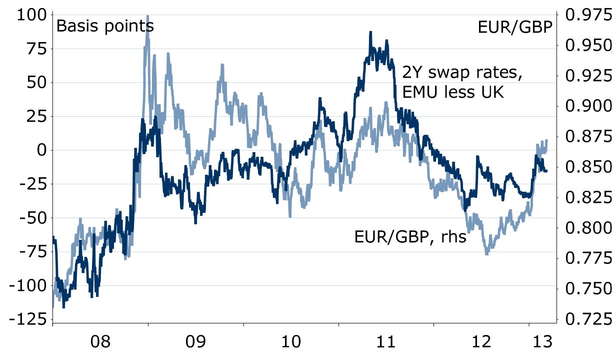
Source: Nordea Markets and Reuters Ecowin

Employment at all-time high



Source: Nordea Markets and Reuters Ecowin

Weaker GBP near term



Source: Nordea Markets and Reuters Ecowin

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

	2009 (GBPbn)	2010	2011	2012	2013E	2014E
Private consumption	896	1.3	-1.0	1.0	1.0	2.0
Government consumption	328	0.4	-0.1	2.6	-0.4	-1.5
Fixed investment	209	3.5	-2.9	1.4	0.7	3.8
Stockbuilding*	-11	0.9	0.4	-0.2	-0.2	-0.2
Exports	404	6.4	4.6	-0.3	2.1	4.4
Imports	425	8.0	0.5	2.0	1.2	3.5
GDP		1.8	0.9	0.2	0.6	1.5
Nominal GDP (GBPbn)	1,402	1,467	1,516	1,539	1,572	1,622
Unemployment rate, %		7.8	8.0	7.9	7.8	7.7
Consumer prices, % y/y		3.3	4.5	2.8	2.2	2.0
Current account, % of GDP		-2.5	-1.3	-3.7	-3.0	-1.8
General govt budget balance, % of GDP		-10.2	-7.8	-6.5	-6.5	-5.0
Gross public debt, % of GDP		79.4	82.0	90.0	94.0	97.0

* Contribution to GDP growth (% points)

Sayonara deflation, konnichiwa growth

In 2012 Japan fell into recession for the third time in four years. The new premier, Shinzo Abe, is determined to end the decade-long deflation, which he believes is the root of all evil. He recently nominated Haruhiko Kuroda, a long-standing dove, to head Bank of Japan. Kuroda has pledged to do "anything and everything" to reach the 2% inflation target committed by BoJ in January. The prospect of aggressive monetary easing has caused the yen to weaken 20% against the dollar and equities to rally. Inflation expectations, measured by breakeven inflation, have soared to historical highs as we speak.

Abe is confident that his recent efforts will bring up real growth to 2% in the fiscal year ending March 2014. While we do not share his optimism to the same degree, we recognise that current expansionary monetary and fiscal policies are positive for the economy in several ways. 1) The weaker yen improves Japanese competitiveness and boosts net exports; 2) public infrastructure work is positive for job creation; 3) Abe is considering tax breaks for companies that raise pay or expand hiring. This will lift household income and spending; 4) higher inflation may push down real interest rates and promotes borrowing that may feed into higher household consumption and private investment; 5) an end of many years wage deflation will give more optimism to the households and lead to a higher marginal propensity to consume. As a result of the above-mentioned factors we revise up our 2013 and 2014 GDP forecasts.

On a longer horizon we remain cautious on Japan. The country of the rising sun faces a number of structural challenges, which cannot be solved by rising inflation and currency depreciation. The politicians should focus on stabilising the fiscal balance by cutting social security spending or further raising consumption tax. In addition, both labour productivity and female labour participation are below OECD averages and need to improve. Unfortunately, no concrete long-term reform plan is signalled.

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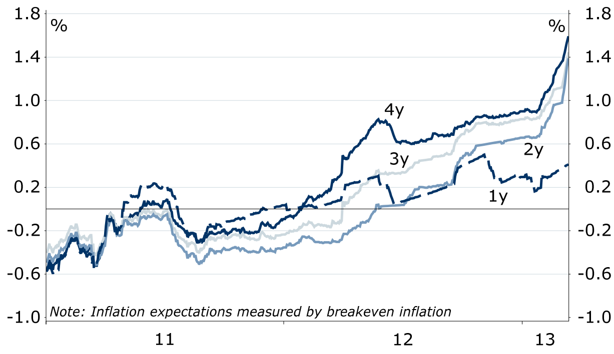
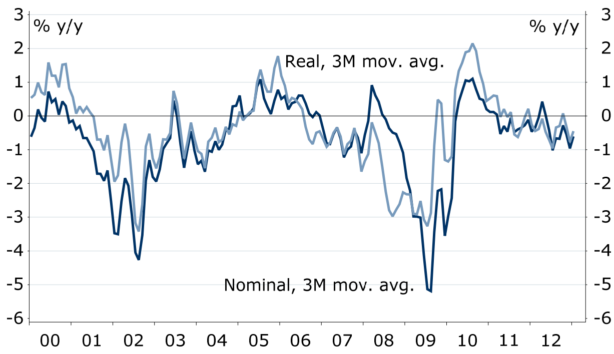
Inflation expectations have surged



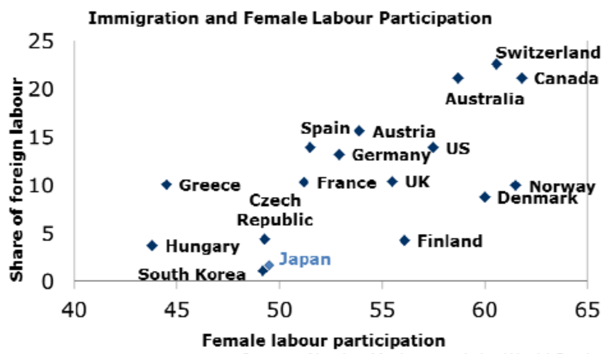
Source: Nordea Markets and Reuters Ecowin

Negative wage growth in many years



Source: Nordea Markets and Reuters Ecowin

Labour force can (easily) be boosted



Source: Nordea Markets and the World Bank

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

	2009 (JPY bn)	2010	2011	2012	2013E	2014E
Private consumption	277,199	2.8	0.5	2.4	1.7	1.7
Government consumption	93,872	1.9	1.4	2.7	1.3	0.7
Gross fixed capital formation	97,906	-0.2	1.2	4.4	1.8	0.6
Stockbuilding*	-5,299	0.9	-0.5	0.0	-0.2	-0.1
Exports	59,777	24.5	-0.4	-0.2	3.0	3.6
Imports	58,110	11.1	5.9	5.3	4.0	4.8
GDP		4.7	-0.5	2.0	1.4	1.1
Nominal GDP (JPY bn)	471,073	482,427	470,802	475,745	485,260	495,935
Unemployment rate, %		5.1	4.6	4.4	3.6	3.2
Consumer prices, % y/y		-0.7	-0.3	0.0	0.4	0.8
Current account, % of GDP		3.7	2.0	1.6	2.0	2.1
General government budget balance, % of GDP		-9.5	-10.0	-10.2	-9.8	-9.3

* Contribution to GDP growth (% points)

The worst is over

- Economy nearing the bottom
- Fiscal consolidation put on hold
- Monetary policy easing done
- Euro adoption not a near-term priority

On the verge of recession...

Last year was one of the toughest for the Polish economy in modern history. Fallout from the recession in the Euro area and a lethal mix of domestic policies pushed the EU's largest Eastern economy to the brink of recession.

Contrary to developments in 2008/2009, this time around domestic factors also added to headwind for the economy. First, fiscal consolidation proved a substantial drag on economic activity, especially through a slump in investment in the public sector (some of the reasons being the end preparations for UEFA Euro 2012 and the depletion of EU funds from the financial perspective for 2007-2013). Second, a tougher stance of new leadership at the Polish FSA and tightening of financial regulation (including an effective ban of FX loans for households since the start of 2012) worked in a pro-cyclical way, contributing to significant weakening of lending activity. Third, the Monetary Policy Council (MPC) of the National Bank of Poland (NBP) had long been too optimistic on growth prospects and conducted an excessively restrictive monetary policy.

... but recovery in sight

Even despite all the headwind, the Polish economy has once again proved resilient and managed to avoid recession. We expect that the worst is over for the Polish economy and it should bottom out in Q2 2013 at the latest. The key driver of the upcoming recovery will be a rebound in the German economy, especially in exports of the Euro area's largest economy, which contain increasingly large input from Poland. Positive impulses for the export sector will gradually filter through to the rest of the economy, but domestic demand will remain depressed at least until mid-2013.

A continued slump in public investment in the first half of this year will weigh on total investment activity. Only in the second half of 2013 will public investment likely stabilise at lowered level thanks to the government's intention to put fiscal consolidation on hold to give the economy a breather. At the same time, investment in the private sector should start to pick up on the back of improved prospects of external demand. Beyond 2013, investment activity should be additionally supported by the new sovereign investment vehicle and inflow of fresh EU funds (in the EU's financial perspective for 2014-2020 Poland will get EUR 105.8bn, a few per cent more than in the previous financial perspective).

Consumption should also recover gradually from the unprecedented fall in the final quarter of 2012. While labour market conditions will remain difficult well into 2013, the pace of unemployment growth should weaken soon while average wage growth in nominal terms should stabilise after last year's deceleration. At the same time, a sharp inflation drop will boost real income growth. Additional positive factors for private consumption will be high increases in social benefits in 2013 (indexed to high inflation last year). Consumption could also be fuelled by a revival in consumer loans sparked by a planned introduction of easier lending standards (correction of earlier tightening in rules of the Polish FSA). On the other hand, a drag on consumption growth will be a need to further rebuild households' savings after the savings rate dropped to record lows in the first half of 2012.

In the medium-term the Polish economy should be supported by the supply-side improvements, ie substantial upgraded in infrastructure and improved business environment (Poland was top improver in the World Bank's Doing Business report for 2013).

Inflation subdued for long

A continued drop in domestic demand in H1 2013 means that headline inflation rate will go down further to below the target range of 1.5%-3.5% before mid-2013. As economic recovery later on will not be impressive, with the GDP growth rate staying below the potential level until

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

	2009 (PLNbn)	2010	2011	2012	2013E	2014E
Private consumption	810	3.2	2.5	0.5	0.3	1.8
Government consumption	249	4.1	-1.7	0.0	0.0	2.0
Gross fixed capital formation	285	-0.4	9.0	0.6	-2.4	5.0
Exports	530	12.1	7.7	2.4	2.1	5.0
Imports	529	13.9	5.5	-1.9	-2.1	5.5
GDP		3.9	4.3	2.0	1.8	2.8
Nominal GDP (PLNbn)	1,345	1,417	1,523	1,596	1,631	1,692
Unemployment rate, %		12.4	12.5	13.4	13.8	13.4
Consumer prices, % y/y		2.6	4.3	3.7	1.6	2.5
Current account, % of GDP		-5.1	-4.9	-3.5	-2.5	-3.1
General government budget balance, % of GDP		-7.8	-5.0	-3.5	-3.8	-3.2

the end of 2014, we expect inflationary pressures to remain subdued for a long time, with CPI inflation staying within the target range over the forecast horizon.

Monetary policy on hold

Following a reduction in the key policy rate from 4.75% to a record-low of 3.25%, the Polish MPC has shifted into wait-and-see mode. We do not expect further policy easing unless the economy fails to revive until mid-2013. On the other hand, with a very favourable inflation outlook the MPC is not likely to start monetary tightening anytime soon. Economic recovery will not be strong enough to close the output gap until 2015 and thus we do not expect the first pre-emptive rate hike until mid-2014.

Euro adoption is not a near-term priority

The Polish government has recently revived the debate on euro adoption (which reflects Poland's political ambition to be at the core of Europe), but there is wide consensus that any decision on a target date should not be made until support for the necessary constitutional change is secured (this would require a two-thirds majority in the parliament or an ordinary majority in a referendum). This does not seem viable before the parliamentary elections in 2015 and even after it could be difficult given how the Polish voters' political preferences are evolving. Moreover, there is growing awareness among policymakers that successful EMU membership requires more than just meeting the Maastricht criteria for nominal convergence. Thus, Poland's road to euro adoption is not going to be a fast track and we do not expect the country to join the EMU until 2020.

PLN to resume appreciation trend

Following appreciation in 2012, early this year the PLN was hurt by weak domestic macroeconomic indicators and it has not benefited from the rise in global risk appetite. We think the PLN will resume its appreciation trend as the domestic economy starts to recover later this year and the country's fundamentals are still seen as sound. However, a possibility of at least partial reversal of strong inflows of foreign capital into the local debt market constrains the PLN's room for appreciation. While relatively weak external balances (eg relatively high external debt) remain a risk factor for the PLN, there has been some improvement in this area recently (narrowing of C/A gap and drop in short-term debt). Besides, Poland has prolonged the precautionary credit line (FCL) from the IMF and the PLN is supported by positive rating actions (recently Fitch ratings revised up outlook for Poland's rating while the Japanese JCR upgraded the rating).

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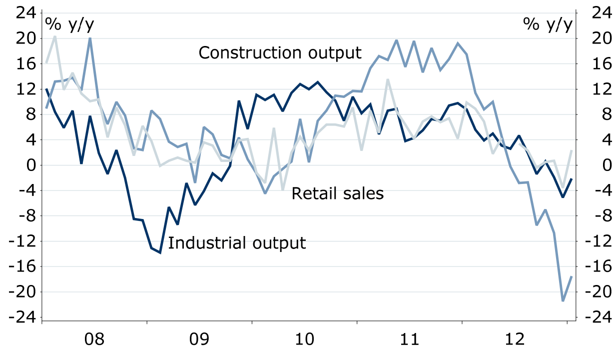
On the brink of recession...

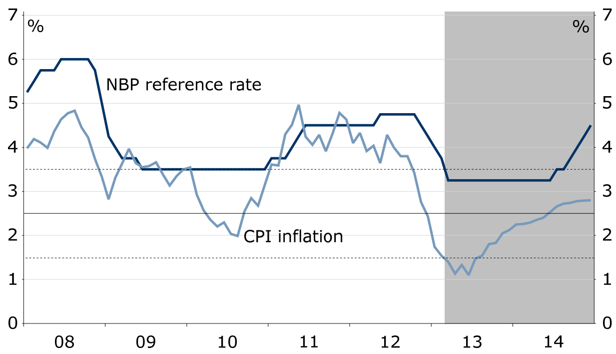


Source: Nordea Markets and Reuters Ecowin

...waiting for positive impulse from outside

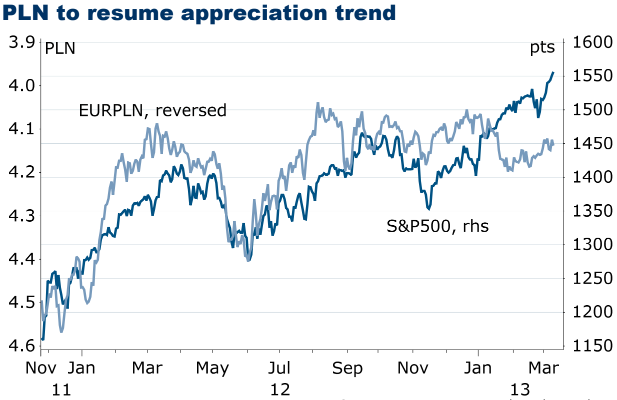
Source: Nordea Markets and Reuters Ecowin

Monetary policy shifted into wait-and-see mode



Source: Nordea Markets and Reuters Ecowin

PLN to resume appreciation trend



Source: Reuters Ecowin and Nordea Markets

Looming dilemma

- Growth concern appears on the horizon
- The CBR faces dilemma
- RUB retains strong long-term perspective …
- … more vulnerable in the near term

Last year Russia's GDP grew by 3.4%, which can be considered as quite optimistic. However, the growth rates were below our forecasts, with fixed capital investment being a major drag. A major driver – as it was anticipated to remain the same – household consumption retained robust momentum on the back of strong growth in real wages and historically low unemployment. Growth rates of household borrowings slowed down slightly at the end of 2012 but still remained high, exceeding 40% y-o-y. Household consumption accounted for more than 50% of GDP.

On the other hand, investment remained a major concern. In 2012 capital investment growth rates slowed down to 6.7% (y-o-y) and it is highly probable that this trend will remain unchanged at the beginning of 2013. A slow-down in capital investment may become a major drag on the economy this year. We have made a downward revision to growth to 3.5% in 2013. This number is realistic but not so easy to achieve. We expect household consumption to remain the driving force of the economy given the weak investment activity, negative net export growth and almost stagnant government consumption.

Elements of growth

The current government retains relatively high endorsement levels and has launched several reforms in order to improve the financial infrastructure and macro environment.

Since the summer of 2012 when Russia formally became a WTO member, Russia has continued to bring its trade laws and practices into compliance with WTO rules, integrating its trading system with the rest of the world. The positive impact will not be immediate, but in the long term WTO membership can add 0.5%-1% to annual GDP growth according to conservative estimates.

Financial market liberalisation reform and Ease of Doing Business reforms could be other elements of growth. Central depositary and new rules allow EU custodies direct access to the Russian sovereign debt market. A new financial market infrastructure makes Russia more attractive for foreign investments, which may exceed 40 bn only in government debt market during 2013.

Russia's ranking in the Ease of Doing Business index has improved from a place at number 118 in early 2012 to 112 at present. The major progress was in the taxation optimisation component (64th position among 185 economies).

An ambitious USD 8.5bn privatisation programme is planned for 2013 with a total amount of assets for privatesation of about USD 100bn until end-2016. This process will continue to improve the investment climate and competitive strength of the economy. Ongoing efforts by the Russian government to curb corruption has led to improvement in the Corruption Perception Index and further progress is on the way.

Inflationary pressure increased again

Inflation continues to pick up from a historical bottom level below 4% in May 2012. A tariff hike at the beginning of 2013 helped drive inflation above 7% in January, reaching an 18-month high in February (7.3%) well outside the CBR's 5-6% 2013 target range. Prices rose fast at the start of the year on transport fares and excise tax indexing, with unfavourable food price effects also adding to the tension.

We expect inflation to decelerate during April-June 2013, with headline inflation decreasing below 7% but staying above 6% y/y. In July postponed second-round utility tariff hikes will lift inflation again. However, if the harvest does not let the market down, we will see deceleration of inflation with a deflationary impact of food prices at the end of the summer. A historically low pace of growth of the M2 aggregate will also help to cap price pressure. Still, it will be an uphill battle to keep inflation within the current CBR target of 5-6% y/y by the end of 2013. Our inflation forecast for 2013 is 6.4%.

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

	2009 (RUBbn)	2010	2011	2012	2013E	2014E
Private consumption	21,203	5.5	6.4	6.6	6.4	6.5
Government consumption	8,067	-1.5	1.2	0.0	0.3	0.5
Fixed investment	8,536	6.0	8.3	6.7	6.5	6.5
Exports	10,842	7.0	0.3	1.8	1.8	1.5
Imports	7,954	25.8	20.3	8.7	8.5	8.2
GDP		4.5	4.3	3.4	3.5	3.6
Nominal GDP (RUBbn)	38,807	46,322	55,799	62,357	70,993	79,432
Unemployment rate, %		7.5	6.6	5.5	5.7	5.7
Consumer prices, % y/y		8.8	6.1	6.6	6.4	5.9
Current account, % of GDP		5.0	5.4	4.3	3.0	2.5
Central govt budget balance, % of GDP		-3.9	0.8	-0.2	0.3	0.2

The Bank of Russia is under pressure

The Bank of Russia (CBR) continues to target inflation. Last September CBR raised all key interest rates in order to cap growing inflation. In December the CBR narrowed the interest rate corridor by raising its deposit interest rate by 25 bp. The CBR's influence on the money market is profound and the regulator remains the major liquidity supplier on the money market.

At the beginning of 2013 the CBR continued to keep liquidity tight, trying to maintain inflation close to its 2013 target of 5-6%. But despite the fact that the CBR continued to pay more attention to accelerating inflation, growth concerns have started to appear again in the bank's statements. A growing risk of slowing economic growth has put some pressure on the CBR, signalling a looming dilemma for policymakers. It should also be noted that Sergey Ignatiev (current CBR chairman) will retire this June. The CBR's current policies may be changed by the new chairman.

In the coming months the CBR will likely keep liquidity tight, and ON rates will stay not far from the upper edge of the interest rate corridor (6.5%). Key interest rates may remain unchanged as the CBR anticipates inflationary pressure to ease. If so, the CBR may consider cutting interest rates in H2 2013.

RUB retains long-term potential

The rouble continues to retain a high correlation with oil price dynamics. However, intensified worries over the pace of economic growth could make the rouble more vulnerable.

At the beginning of 2013 the RUB reached new peaks (since Q2 2012) versus the USD, but then retreated on oil price declines like other oil commodity currencies. Compared to other commodity currencies, the rouble looks relatively attractive – last year volatility and changes in the exchange rate of the rouble were practically identical to those of the New Zealand dollar, Canadian dollar and Australian dollar.

It is highly probable that the CBR will continue to scale down its influence in the domestic currency market. At present the RUB basket (55% USD and 45% EUR) floating corridor band is set at 31.65-38.65. We expect that the CBR will widen the corridor by one rouble in H1 2013 in line with its guidelines to make the RUB freely floating in 2015.

Of course, economic growth concerns and unclear CBR policy perspectives could put some pressure on the rouble near term. However, our oil price forecast of USD 109-113/bbl for 2013 remains rouble supportive, and in the long run we see room for appreciation.

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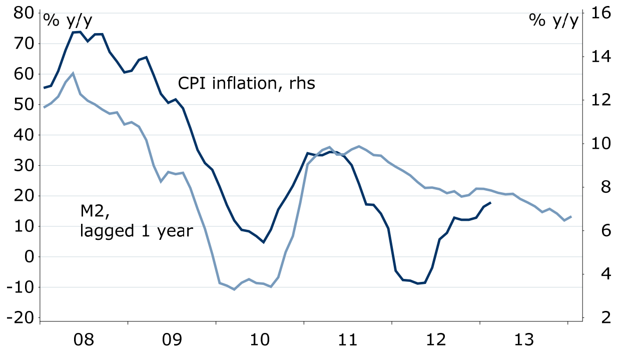
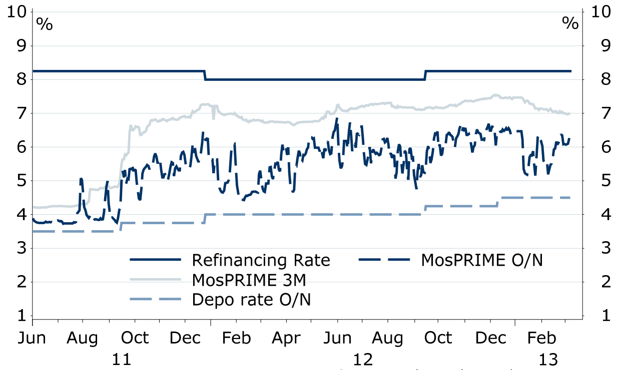
Inflation can decelerate in the coming months



Source: Nordea Markets and Reuters Ecowin

Intrigue over further CBR policy is increasing



Source: Nordea Markets and Reuters Ecowin

CBR currency basket band can be widened

Source: Nordea Markets and Reuters Ecowin

Real wage growth supports consumption

Source: Nordea Markets and Reuters Ecowin

Recovery proceeding, deleveraging completed

The Estonian economy exceeded expectations with 3.2% growth on average last year (Q4: 3.7% y/y). Growth was underpinned by strong investment demand and resilient consumption. Despite headwinds from slowing global trade from mid-last year, exports managed to hold up rather well (goods exports were up 4% y/y in 2012).

Domestic demand continues to drive growth. Consumption is supported by gradually falling unemployment and more so by positive real wage growth, which after falling by 4% in 2011 returned to 2% growth last year. Real wages are expected to continue growing at the current pace, with a possible acceleration towards the end of the forecast period when unemployment is forecast to fall below the 9% mark. Real income growth will furthermore be supported by gradually declining inflation. Price pressures from global energy and food prices are assumed to be limited, but risks are on the upside should risk appetite recover. The key long-term labour market challenges, which could enhance purchasing power, are reducing structural unemployment, supporting a shift towards higher value-added industries and increasing entrepreneurship.

Growth is expected to moderate only temporarily in H1 2013 due to slower (mainly public) investment, base effects and subdued export volumes. Investment demand from private enterprises will continue strong, supported by growing business volumes, profitability, and an ongoing recovery in the real estate sector. Deleveraging has come to an end. After four years of decline, the loans and leasing portfolio (of the real sector) is growing again.

Overall, the economy is expected to re-accelerate into next year as export demand and investment appetite gradually return. With only a gradual recovery in sight for Euro area demand in H2, any pick-up in growth momentum for Estonia will likely remain muted in 2013. There is still considerable uncertainty related to the speed of recovery in the Euro area, which is the destination of 30% of Estonian goods exports. Thus, a return to the potential growth trajectory is not expected until late 2014.

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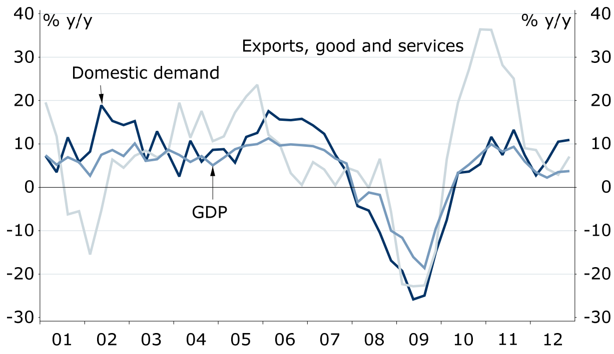
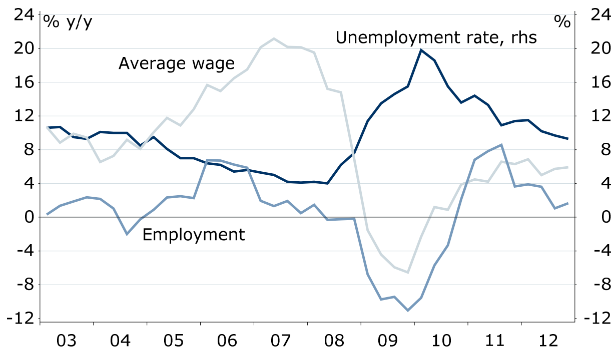
Domestic demand continues to drive growth



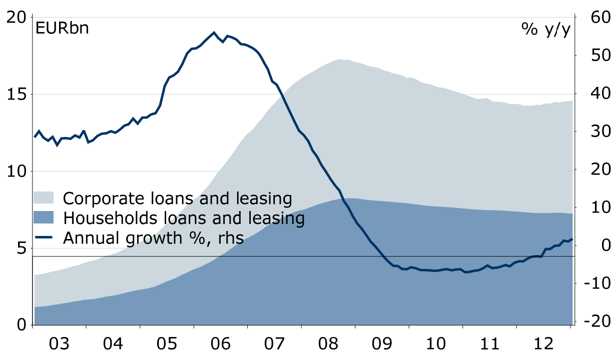
Source: Nordea Markets and Reuters Ecowin

Labour market tightening supports wage growth



Source: Nordea Markets and Reuters Ecowin

Deleveraging completed: loans and leasing growing



Source: Nordea Markets and Reuters Ecowin

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

	2009 (EUR bn)	2010	2011	2012	2013	2014E
Private consumption	7.41	-2.4	3.5	4.4	3.2	3.8
Government consumption	3.05	-0.8	1.4	4.0	1.0	0.8
Fixed investment	2.97	-7.4	25.7	21.0	5.0	6.6
Exports	8.96	22.9	23.4	6.0	5.0	6.5
Imports	8.15	21.0	25.0	9.0	5.5	6.6
GDP		3.3	8.3	3.2	3.2	3.8
Nominal GDP (EURbn)	13.8	14.3	16.0	17.0	18.0	19.2
Unemployment rate, %		16.9	12.5	10.2	9.2	8.5
Consumer prices, % y/y		3.0	5.0	3.9	3.5	3.3
Current account, % of GDP		3.2	2.1	-1.5	-2.1	-2.2
General govt budget balance, % of GDP		0.2	1.1	-0.2	-0.3	-0.1

On track to join the Euro zone in 2014

In 2012 the economy recorded robust growth for the second year in a row. Exports grew significantly less than in 2011, but this was compensated by a strong increase in domestic demand. Increases in employment and moderate real wage growth helped fuel domestic demand last year. In addition, deleveraging in the private sector has now been going on for more than four years, so its drag on demand is gradually decreasing.

Latvia is well on track to become the 18th EMU member in 2014. On 5 March the government of Latvia submitted a request to the European Commission and the European Central Bank to evaluate the eligibility of Latvia to become a member of the Euro area. The convergence reports from the EC and the ECB expected in May are the final hurdle on the country's road to the euro. Given a positive convergence assessment, a "yes" vote by the Ecofin Council appears to be a near-certainty.

According to our assessment, Latvia meets all of the Maastricht convergence criteria. It has been participating in the Exchange Rate Mechanism II since 2005.The public sector deficit in 2012 is estimated at about 1.5% of GDP in ESA'95 terms while the public debt stands at about 42% of GDP, both well below the maximum allowed thresholds. In January 2013 the 12-month average inflation in Latvia was 2.05%, safely below the criterion value of 2.75%. The long-term interest rate criterion should not pose a problem either. Yields on government debt during last year have come down significantly as macroeconomic and financial stability has returned.

We expect economic growth in 2013 to slow down slightly from the high rates achieved during the past two years, mainly due to stagnation in the Euro area further slowing down export growth. In the absence of sizeable negative external shocks, the positive effects from the euro accession should result in growth gaining steam again in 2014.

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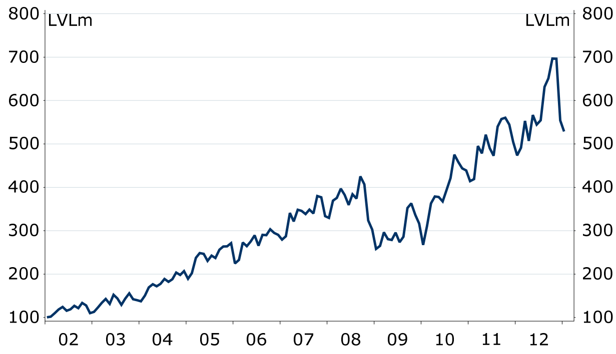
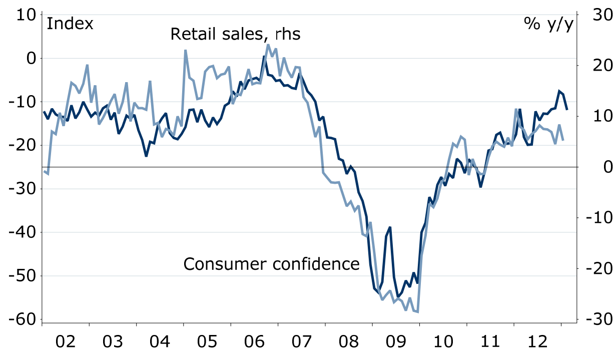
Merchandise exports growth slowing down



Source: Nordea Markets and Reuters Ecowin

Consumer confidence picking up



Source: Nordea Markets and Reuters Ecowin

CDS rates declining since last summer

Source: Nordea Markets and Reuters Ecowin

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

	2009 (LVLmn)	2010	2011	2012	2013E	2014E
Private consumption	8,026	2.4	4.8	5.4	4.2	4.5
Government consumption	2,557	-7.9	1.1	-0.2	0.5	1.5
Fixed investment	2,820	-18.1	27.9	12.3	5.0	7.0
Exports	5,742	11.6	12.7	7.1	3.0	4.5
Imports	5,935	11.4	22.7	3.1	3.4	5.0
GDP		-0.9	5.5	5.6	3.7	4.4
Nominal GDP (LVLmn)	13,070	12,784	14,275	15,520	16,350	17,450
Unemployment rate, %		18.7	16.2	14.9	13.6	12.0
Consumer prices, % y/y		-1.1	4.4	2.3	1.6	2.7
Current account, % of GDP		3.0	-2.2	-1.7	-2.3	-3.0
General govt budget balance, % of GDP		-8.2	-3.5	-1.5	-1.2	-1.0

Time for internal revaluation

Lithuanian economic growth averaged 3.6% in 2012 and was the second-largest in the EU – just behind its northern neighbour Latvia. Growth was driven by both export- and domestically-oriented sectors, indicating that the economy has firmly entered the recovery phase of the business cycle. Taken as a whole, Lithuanian GDP has already increased by 13.4% from the lowest levels in 2009 Q4 and is expected to reach pre-crisis levels at the beginning of 2014.

Contrary to the pre-crisis period, Lithuanian economic growth is noticeably more balanced. The current account deficit is less than 1% of GDP, private credit growth is close to zero with the private debt-to-GDP ratio being the lowest in the EU. Public deficit and public debt stand at 3% and 40% of GDP, respectively, and are in line with the Maastricht criteria. But most importantly is that over the past four years labour productivity growth has outpaced that of wages, improving Lithuania's global competitiveness and making room for more rapid wage increases in future.

Summing up, Lithuania has undertaken successful internal devaluation and is now ready for internal revaluation. Indeed, consumer confidence is at its highest level since end-2007, indicating that private consumption growth will continue. Rising wages and falling unemployment should replace pent-up demand as the key driver of private consumption. Industrial confidence indicators suggest that export growth will remain solid as well. Overall, the Lithuanian economy will continue growing at a robust 4-4.5% over the next two years.

A potential flare-up of the Euro area sovereign debt crisis and the risk of rising commodity prices remain the major external threats to the Lithuanian economy. And lack of corporate investments, qualified labour force and political uncertainty are the major local threats that may undermine future economic growth.

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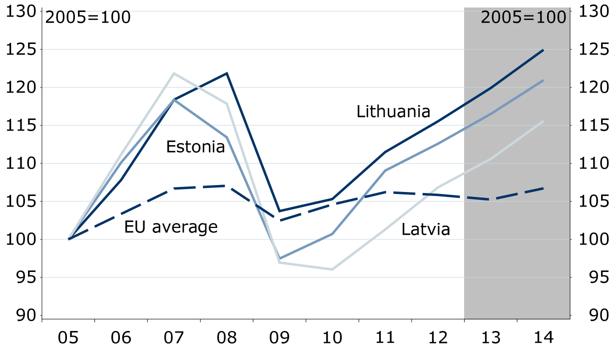
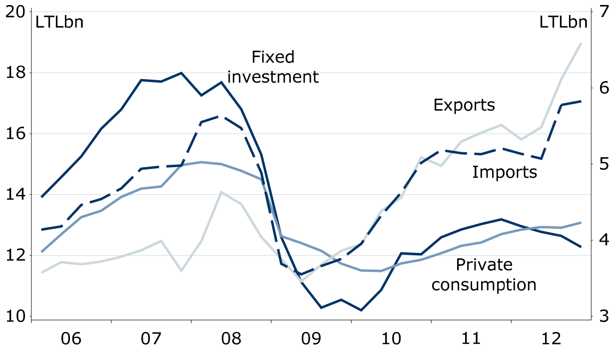
Lithuanian GDP will reach pre-crisis levels in 2014



Source: Nordea Markets and Reuters Ecowin

Lack of corporate investments is the biggest threat



Source: Nordea Markets and Reuters Ecowin

Right time for internal revaluation

Source: Nordea Markets and Reuters Ecowin

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

	2009 (LTLmn)	2010	2011	2012	2013E	2014E
Private consumption	62,807	-4.8	6.3	4.7	3.7	3.8
Government consumption	20,130	-3.4	0.5	0.7	1.6	2.0
Fixed investment	15,807	1.9	18.3	-2.5	6.0	8.2
Exports	49,905	17.4	14.1	11.2	6.5	7.5
Imports	51,519	18.0	13.7	5.6	7.4	7.8
GDP		1.5	5.9	3.6	4.0	4.2
Nominal GDP (LTLmn)	92,032	95,323	106,370	113,189	120,659	130,071
Unemployment rate, %		17.8	15.3	13.2	11.2	9.8
Consumer prices, % y/y		3.8	3.4	2.8	3.0	3.4
Current account, % of GDP		0.1	-3.7	-0.9	-2.5	-3.0
General govt budget balance, % of GDP		-7.2	-5.5	-3.0	-2.8	-3.0

Adapting to a new normal

- Robust but asymmetric recovery this year
- The new growth target is beyond growth
- Corruption is no. 1 obstacle to economic reform
- Offshore RMB markets keep expanding

Little change to our recovery story

As the snake has replaced the dragon as the animal of the year in the Chinese calendar, the world's second-largest economy continues to gain traction and there is little change to our recovery story. We are still positive on overall growth, particularly in H1 this year, thanks to public infrastructure investment and the rebound in property markets. These two forces have successfully lifted the industrial sector out of contraction.

During H2 this year concerns of rising prices and an overheated property market will affect economic policies. As of late February, the National Development and Reform Commission raised refined oil prices and transportation costs, which certainly will add to headline inflation. With manufacturers shifting production to the inland regions and the increasing lack of skilled labour in the country, we surely expect the double-digit wage growth over the last decade to continue in the coming years, contributing to underlying inflation. Thus, the People's Bank of China is very likely to hike rates, possibly in Q4. Moreover the authorities do not want to enlarge the economy's reliance on investment, leading to an exit of fiscal stimulus in H2. This is the main reason why we believe the economy will cool down towards the end of the year, resulting 2013 growth to be around 8% y/y.

In 2014 recovery in the global economy will improve the outlook for Chinese exporters. However, the real game changer will be household consumption, which is likely to increase rapidly on supporting policies and changing culture. Statistics and anecdotal evidence suggest that discretionary spending on recreation and travel has become the new black in China. In mid-February about 250m people decided to spend the week-long Spring Festival holiday on leisure travel, boosting domestic tourism revenue by 15% compared to the same period last year. As the middle class is expanding fast, this only marks the beginning of China's consumption boom, which will continue in the coming decade. At the same time, we are of the conviction that investment will be pulled back only gradually. Therefore, growth in 2014 will likely overshoot its potential and the target of 7.5% and we expect full-year growth to be 8.5% y/y.

The future of China is of course not rosy pink without risks. For the coming two years we still see the housing market bubble and off-balance sheet credit as factors that could trigger a significant slowdown. The key to avoid a collapse is close monitoring and prudent policies. Encouragingly, Beijing has already urged provinces to curb house price rises. We wait for more measures to be taken.

New brooms sweep clean

On the structural side, we consider corruption and income inequality to be serious obstacles for economic reforms to be effective. In a recent online survey by the state-run news agency Xinhua, 71% of the respondents point to corruption as China's largest problem. Since the new team of national leaders, headed by Xi Jinping, came into power in November last year, anti-corruption efforts have been intensified and nearly 30 corrupted officers have been disciplined. Whether it is short-lived because of *xin guan shang ren san ba huo* (an old saying in Chinese and the equivalent of *new brooms sweep clean* in English) is still too early to say. At least for now sentiment has changed. According to anecdotal evidence in the past few months, government officials and corporate executives have reduced the number of lavish banquets, lucrative business trips and high-priced gifts significantly. During the 12th National People's Congress in the first half of March, still on-going at the time of writing, we expect additional anti-corruption measures to be announced, particularly with respect to the so-called naked officials, who are party officials living in China while their wives and children reside abroad. Rumours say that Xi Jinping tries to establish an example by urging his daughter to stop her education at Harvard University and return home to China.

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

	2009 (CNYbn)	2010	2011	2012	2013E	2014E
Private consumption	12,113	8.3	9.4	8.9	9.1	10.0
Government consumption	4,569	11.0	9.7	8.7	8.7	9.0
Fixed investment	15,668	11.6	9.5	8.4	9.2	8.9
Stockbuilding*	778	0.5	0.2	-0.4	-0.1	0.2
Exports	9,106	27.7	8.8	8.0	8.2	8.9
Imports	7,603	20.1	4.8	8.4	9.8	11.0
GDP		10.4	9.3	7.8	8.1	8.5
Nominal GDP (CNYbn)	34,090	40,151	47,288	50,655	56,986	64,394
Unemployment rate, %		4.1	4.1	4.1	4.1	4.1
Consumer prices, % y/y		3.3	5.4	2.6	4.0	4.2
Current account, % of GDP		4.0	2.8	2.3	2.2	1.5
General government budget balance, % of GDP		-1.7	-1.1	-1.6	-2.3	-1.9

* Contribution to GDP growth (% points)

Maths in China: 1 + 1 > 2

One of the most asked questions about the Chinese economy is whether the GDP numbers are trustworthy. The best answer is to quote the premier, Li Keqiang, who once said that the Chinese GDP was “man-made” and “unreliable”. There is a growing trend of conflicting GDP statistics between the central and local governments, causing people in economic circles to treat the figures with scepticism. In 2012 the country’s 31 provinces, municipalities and autonomous regions boasted a total nominal GDP of CNY57.7tn (EUR7.1tn). This was CNY5.8tn (or 11% of GDP) higher than the national figure, released by the National Bureau of Statistics.

Over-reporting of regional GDP was a long-standing problem, because it was the only measure to evaluate local official performance on which the decision for promotion was based. The new growth target announced in November last year, aiming to double national disposable income by 2020, has changed mentality of the provincial bureaucrats. In the past month the 31 regions have each announced their GDP target for 2013. 13 of them have lowered their economic ambition, and for the first time on record no province dared to propose a higher target. By contrast, only 5 provinces cut their target in 2012 and 10 actually raised it. We believe that a new normal has emerged, so GDP is less important in determining the accomplishments of provincial leaders. In future, lifting income equality and reducing pollution will be far more crucial for local officials trying to climb the political career ladder.

Renminbi going global

Since April last year when the wording two-way flexibility was included in the official rhetoric regarding the Chinese currency, moves in the CNY spot rate have been volatile by historical standards and both the upper and the lower 1% trading band has been touched. This is no coincidence. The CNY is still highly dictated by Beijing and the latest fluctuations indicate that words have been followed by actions. The volatility will continue.

Since its birth in 2010 the CNH (offshore) market has expanded rapidly. By December 2012, the number of banks in Hong Kong engaging in renminbi business has more than doubled and yuan-denominated deposits have grown ten times. The Chinese currency has gained popularity not only with its closest neighbour but worldwide. At present 16% of all foreign trade with China is settled in CNY and more central banks begin to add yuan-denominated assets to their reserves. The renminbi internationalisation will undoubtedly continue until 2016, when we expect the CNY to become a floating currency.

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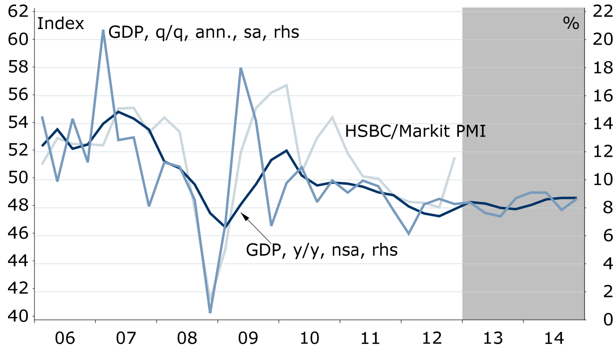
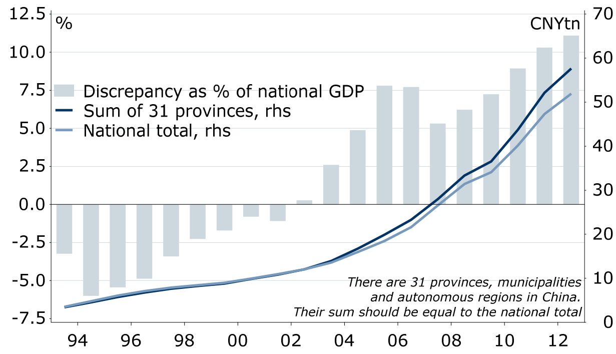
Growth rate around the 8% psychological line



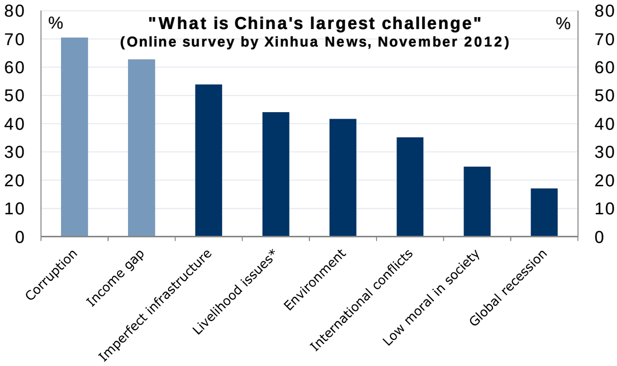
Source: Nordea Markets and Reuters Ecowin

Rising gap between central and local GDPs



Source: Nordea Markets and Reuters Ecowin

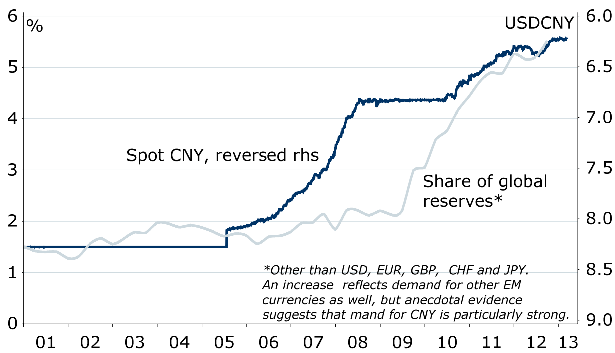
What is concerning the Chinese people?



* Food safety, expansive housing and difficult school admission

Source: Xinhua News and Nordea Markets

Increased global demand will support CNY



Source: Nordea Markets and Reuters Ecowin

The good, the bad and the ugly

Usually, India's economic expansion moves in the same direction as confidence in the world economy. This did not hold in 2012 when the global outlook gradually improved but Indian growth continued its downward path. The gap became wider during the year, largely due to India's domestic challenges with a deteriorating economy, high inflation and mounting twin deficits.

When compared to other low growth economies India has a relatively tight monetary policy and has only cut interest rates twice since 2009, most recently in January this year. This is because that even though the WPI inflation has eased since its double-digit era in 2010-11 and fell below 7% in January 2013, it is still far above the central bank's unofficial target of 5%. Except for in 2008 the RBI has never slashed rates when inflation was this high. For the coming two years, food prices and underlying wage pressure will keep inflation at an elevated level. Thus, the RBI is likely to be on hold. The governor has reiterated that room for further monetary easing remains limited due to concerns about inflation and twin deficits.

The high twin deficits, the budget deficit has averaged 5.5% of GDP (8-9% if the states are included) over the past 15 years and current account deficit peaked at 5% of GDP, pose an even larger challenge for India. In late February the Finance Minister Chidambaram therefore presented a fiscal budget which aims to bring down the fiscal deficit to 4.8% in the fiscal year starting April 2013. We consider the target too optimistic as it is based on raising tax revenues and a growth rate of 6.1-6.7%. Government revenue only accounts for 17% of GDP so there is plenty of room to raise it. However, without introducing tax reforms in a country where tax evasion is very widespread, it is difficult to see how tax collections can be improved. No remarkable reform has been launched to further attract foreign investments.

Lastly, it is positive that more budget funds have been allocated to education. With a median age of 26, 13 million people reach working age every year, so investing in human capital is crucial for India's future growth.

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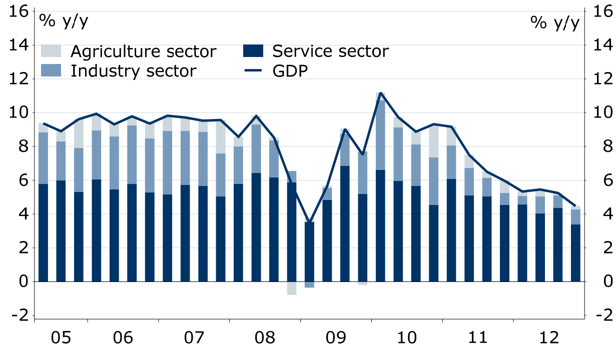
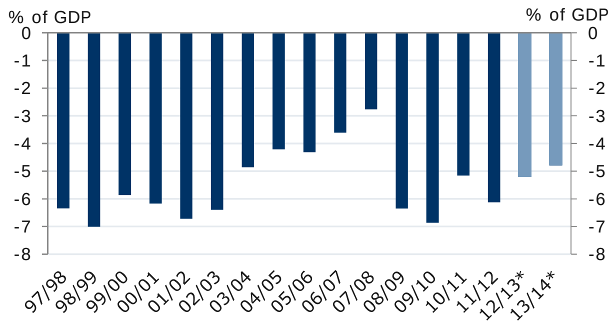
Worst economic performance since 2009



Source: Nordea Markets and Reuters Ecowin

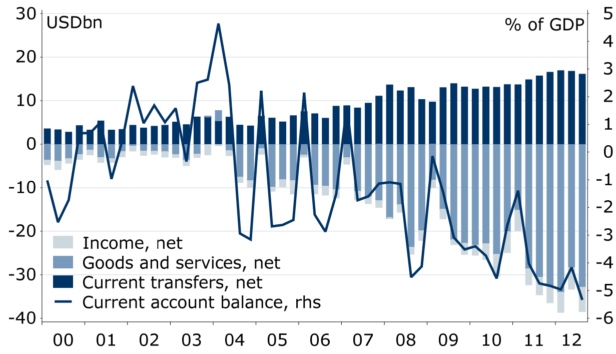
Budget deficit will remain on the wrong side



FY12/13 and 13/14 are projected by the Indian Finance Ministry. Nordea Markets does not make FY forecasts.

Source: Reuters Ecowin and Nordea Markets

Current account deficit at record high



Source: Nordea Markets and Reuters Ecowin

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

	2009 (INRbn)	2010	2011	2012	2013E	2014E
Private consumption	37,081	8.7	8.0	4.1	6.0	7.5
Government consumption	7,712	5.9	8.6	4.1	5.0	4.0
Fixed investment	20,558	14.0	4.4	2.5	9.0	9.8
Exports	13,000	15.9	21.5	5.7	10.0	12.0
Imports	16,469	9.6	9.5	7.5	12.0	14.0
GDP (production approach)		9.8	7.3	5.1	5.9	6.6
Nominal GDP (INRbn)	60,806	74,281	86,726	97,156	109,786	126,254
Wholesale prices, % y/y		9.6	9.5	7.5	6.8	6.7
Current account, % of GDP		-3.2	-3.4	-4.0	-4.5	-5.0
General government budget balance, % of GDP		-4.0	-7.2	-5.8	-5.3	-5.5

Mission: hold inflation

The Brazilian economy has finally troughed in the economic cycle, as the monthly indicators suggest growth closer to 3% y/y now, up from below 1% last year. We expect growth above 3% this year. The aggressive fiscal and monetary easing over the past few years is beginning to spill over, and now even the industrial sector, which was hit hardest, shows signs of improvement. We foresee a further pick-up, as Brazil will benefit not only from domestic demand recovering but also from China's growth: China's share in Brazil's exports has increased to 17%; it is now largest export destination. This development will likely continue given the fact that Brazil is an important resource producer, while China is one of world's largest, and growing, consumers.

The central bank of Brazil cut its monetary policy rate (SELIC) to 7.25% last year and indicated a "prolonged period" of low rates. We expect it will not last and the central bank will raise rates by 25 bp as early as in May, with a total of 100 bp this year. Inflation has come back with a vengeance and will threaten the upper limit of the central bank's inflation target range (6.5%). It will likely cross it in the coming months, which will prompt the central bank to act.

The central bank tried to hold the USD/BRL within the 2.00-2.10 range for most of the past year, intervening on both sides. But this year the bank allowed the BRL to strengthen as even Finance Minister Mantega, an avid supporter of the "currency war", has indicated the new "pain threshold" at lower USD/BRL levels, 1.85. The central bank clearly has a bias toward more currency strength now that inflation is close to the upper tolerance limit. We therefore expect gradual appreciation of the Brazilian real, which is set to outperform most regional currencies this year.

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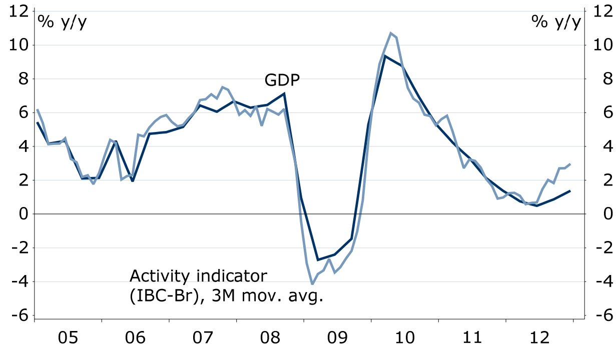
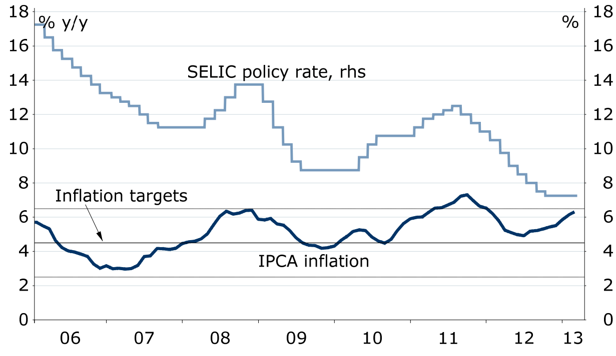
Recovery – at last



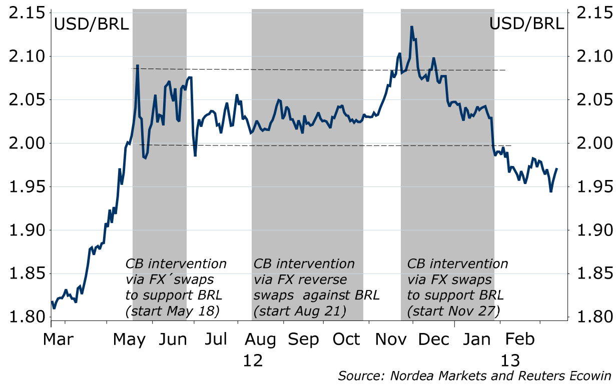
Source: Nordea Markets and Reuters Ecowin

Inflation in the comfort zone – hikes in sight



Source: Nordea Markets and Reuters Ecowin

BRL supported by commodities, but very volatile



Source: Nordea Markets and Reuters Ecowin

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

	2009 (BRLbn)	2010	2011	2012	2013E	2014E
Private consumption	1,980	6.9	4.1	3.2	4.5	5.2
Government consumption	687	4.2	2.0	3.6	3.0	2.5
Gross fixed capital formation	585	21.6	4.8	-1.9	3.5	6.0
Exports	356	11.5	4.5	0.7	9.0	11.0
Imports	361	35.9	10.0	4.0	6.6	8.0
GDP		7.6	2.7	1.5	3.5	4.2
Nominal GDP (BRLbn)	3,239	3,770	4,143	4,457	4,862	5,348
Unemployment rate, %		6.7	6.0	6.0	5.8	5.7
Consumer prices, % y/y		5.0	6.6	5.2	5.6	5.8
Current account, % of GDP		-2.2	-2.1	-2.6	-2.7	-2.6
General government budget balance, % of GDP		-2.7	-2.6	-2.1	-2.1	-2.0

Oil prices creep higher

Oil prices are expected to remain high over the forecast period, as the market will remain tight by historical standards. Supply capacity additions are expected to outpace demand growth this year, but a recovery in global oil demand growth as the global economy accelerates in 2014 will limit the build-up in the world's supply capacity buffer. Oil prices will likely remain volatile around high levels as risks to supply remain plentiful and demand grows steadily in the developing economies.

Income growth, economic activity and population growth are vital drivers of oil demand. Global oil demand is expected to increase at a slightly lower pace in the first half of 2013, until a gradual increase in growth momentum lifts oil demand growth from H2 2013. Oil demand is expected to increase by 0.9m b/d in 2013 and 1.35m b/d in 2014, a slight upward revision from our December forecast following stronger-than-expected demand in 2012 and a more positive outlook for the US and Japan. Non-OECD oil use will surpass the OECD's in 2014 where the consumption decline will at least slow. Asia and the Middle East lead the demand growth driven by structurally higher economic growth, rising incomes and growing populations. Demand for transportation fuels is expected to remain the primary driver of global oil use, accounting for around 52% of total oil demand.

Global oil supply has been tighter than expected at the start of this year, but is expected to ease in the forecast period. A tighter supply side is mainly due to unexpected production losses in Libya, Iraq, Nigeria and the North Sea. These losses come on top of the US/EU sanctions on Iran and disruptions in Yemen, Syria, Sudan/South Sudan. We see no near-term solution to the stringent political situation and we expect only a small resumption of the production in these areas. If the negotiations between Iran and the West over Iran's nuclear program unexpectedly succeed, locked in barrels can hit the market and push the oil price below our forecast. The recent boom in North America is anticipated to last in the forecast period and to remain the centre of gravity of non-OPEC supply growth together with OPEC NGLs. Despite the formidable growth in US tight/shale oil, global oil supply outages have offset the impact on the global capacity buffer and oil prices. OPEC spare capacity was razor-thin last year, but we expect the situation to improve, mainly driven by impressive growth in Iraqi oil and new projects coming on line in Saudi Arabia. Although the oil production capacity situation looks healthier than in recent years, we consider the risk of supply disturbances to have increased markedly, especially in the MENA region.

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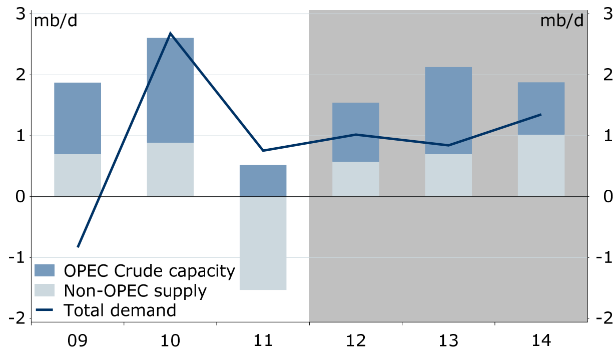
Oil price forecast Brent – baseline (USD/barrel)

	Q1	Q2	Q3	Q4	Year
2012	118	109	109	110	**112**
2013E	113	110	113	113	**112**
2014E	114	113	115	116	**115**

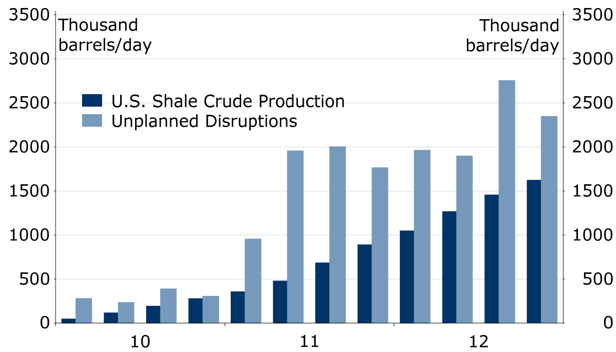
Source: Nordea Markets

Supply grows steadily but demand accelerates



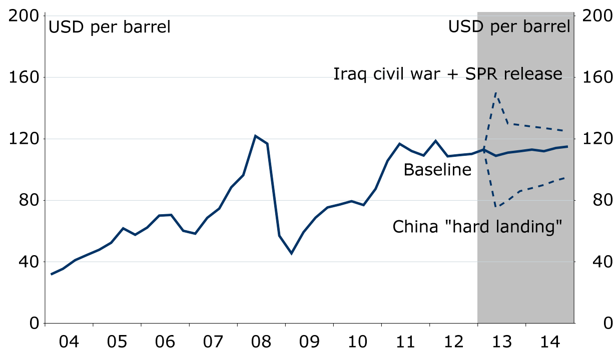
Source: International Energy Agency, Nordea Markets and Reuters Ecowin

Supply disruptions have outpaced US shale growth



Source: PIRA, Nordea Markets and Reuters Ecowin

Oil price baseline, high- and low-risk scenarios



Source: Nordea Markets and Reuters Ecowin

Subdued price recovery as supply catches up with demand

As expected, base metals prices recovered from the recent lows last summer as Chinese growth momentum accelerated in the latter part of 2012 led by infrastructure investments and a recovery in the housing market. Despite recent weakness in leading Chinese growth indicators and focus on cooling the property market, a recovery in Chinese growth and metals demand is expected. A stronger outlook for the US manufacturing and housing sector will also add to metals demand growth. The supply of most base metals is also expected to see solid gains this year, keeping the markets fairly balanced and the price recovery more subdued compared to previous cycles.

Our aluminium price forecast has been lowered as the industry may register its seventh consecutive annual surplus in 2013. Demand growth is expected to recover, but the industry's inability to balance itself through permanent capacity shut-ins leaves sentiment towards aluminium prices poor. LME prices are close to average global cash costs, while reduced physical availability amid inventory financing have contributed to record-high physical premiums helping producer profitability. Key to aluminium prices is the extent of capacity additions in North-West China and power tariff cuts as the project pipeline outside China remains practically dry.

Copper is still expected to see a strong H1 on Chinese construction completions which account for half of Chinese demand and a rebound in underperforming sectors. Supply is improving solidly as the capex boom of recent years finally bears fruit in 2013-15, arresting the impact from ageing mines and declining ore grades. Visible inventories have risen 80% since September 2012, illustrating the return to market balance and possible surplus from H2 2013, which should keep prices capped. Downside risks to copper supply expectations persist and prices are expected to remain firmly above the long-term incentive price of around USD 6,500 per tonne required to balance the market in the long term.

Average nickel output costs have been reduced through a large expansion of Chinese nickel pig iron (NPI) capacity, reducing the need for refined nickel imports. Solid expansion of also traditional nickel output is expected to keep the market in surplus over the forecast horizon. A major wildcard for NPI growth and costs remains the potential restriction or tax raise of nickel ore exports from Indonesia in 2014, representing an upside risk to our cautious forecast. The zinc market will remain in surplus in the first part of the forecast period, but a gradual tightening of the market is expected in 2014 as a number of old mines approach the end of their life. Zinc prices are expected to recover gradually towards USD 2,500/tonne.

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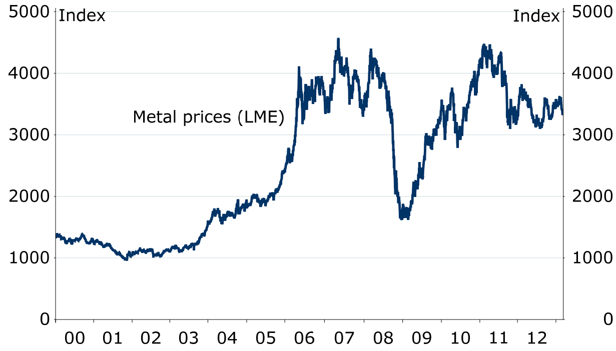
Base metals price forecast (USD/tonne)

	2012	2013E	2014E
Aluminium	2,018	2,088	2,325
Copper	7,950	8,075	7,900
Nickel	17,526	17,850	18,750
Zinc	1,946	2,125	2,300

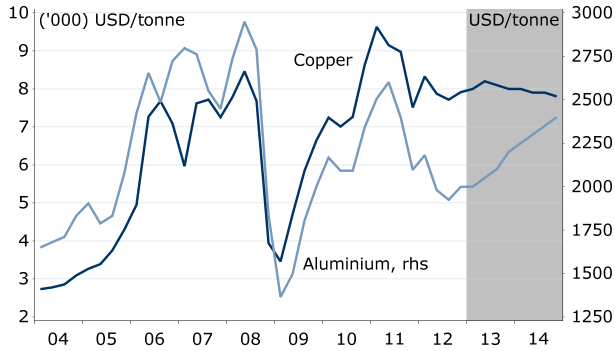
Source: Nordea Markets

Base metals prices



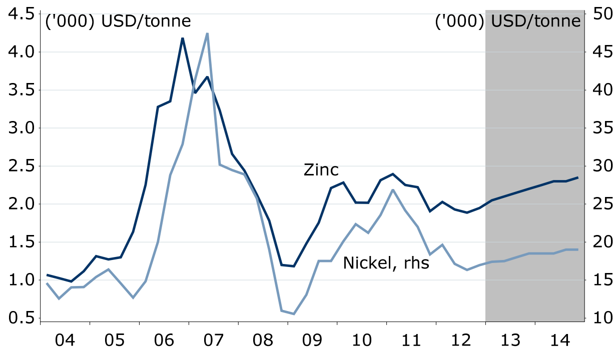
Source: Nordea Markets and Reuters Ecowin

Copper and aluminium forecast



Source: Nordea Markets and Reuters Ecowin

Nickel and zinc forecast



Source: Nordea Markets and Reuters Ecowin

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