Economic outlook for Finland

Economic Research
OP Financial Group
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Forecasts for the Finnish economy Published on January, 2023

Forecasts for the Finnish economy, January 2023

Volume, % change on previous year	EUR bn 2021	2021	2022e	2023e	2024e
GDP	251,5	3,0	2,0	-0,5	0,5
Imports	98,5	6,0	8,0	-2,8	0,6
Exports	98,5	5,4	3,0	-2,0	1,0
Consumption	189,7	3,4	2,5	0,0	0,3
- Private	128,2	3,5	2,5	-1,0	0,0
- Public	61,6	3,2	2,5	2,5	1,0
Fixed investment	59,5	1,6	5,0	-1,5	0,0

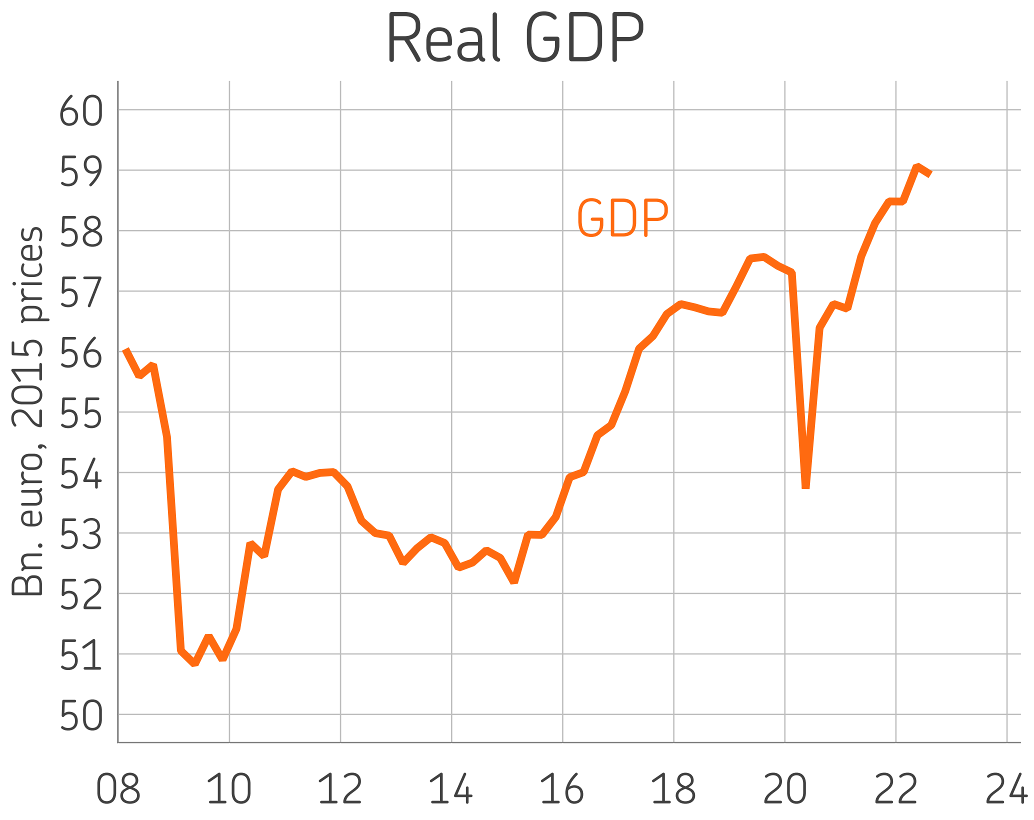
Other key indicators	2021	2022e	2023e	2024e
Consumer price index, % change y/y	2,2	7,1	5,1	2,5
Change in wage and salary earnings, %	2,4	2,6	4,0	3,5
Unemployment rate, %	7,7	6,8	7,2	7,4
Current account balance, % of GDP	0,4	-3,3	-2,7	-2,5
General government net lending, % of GDP	-2,7	-1,5	-3,0	-3,0
General government debt, % of GDP	72,5	72,3	73,3	75,3

Sources: Statistics Finland and OP Financial Group

Economic growth in a soft decline for now

- Finland's economic growth clearly slowed down in the second half of last year, but based on preliminary data, a technical recession was avoided. The downturn will turn into a slight recession during this year. However, there is no clear-cut recession and rapid recovery in sight. The development of the years 2023-24 will be weak and tinged with uncertainty.
- Inflation has peaked in the winter. The rise in consumer prices will slow down slowly, especially the fall in the service price inflation will be sluggish as wage pressures increase.
- Employment still improved at the end of last year, but the slowing economic growth is gradually beginning to be reflected in the labor market. The unemployment rate will rise from last year's reading and the employment rate will decrease slightly.
- The risks of the forecast are balanced. Development may turn out to be weaker if export demand develops worse than estimated or the delayed effects of rising interest rates and rapid inflation are greater than predicted.
- Based on economic indicators, the growth of the world economy is still slowing down. However, the phase of the economic cycle is not uniform. In developed countries, the economy is in a downturn, and partly on the brink of recession. In developing countries, the growth prospects are even improving in some cases.
- In the Eurozone, economic indicators have fallen to numbers that predict a recession. The indicators have, however, been better than the market's expectations. The energy crisis in the winter is being avoided, but the economic development is still weakening to the extent of a mild recession.

Economy heading towards moderate recession

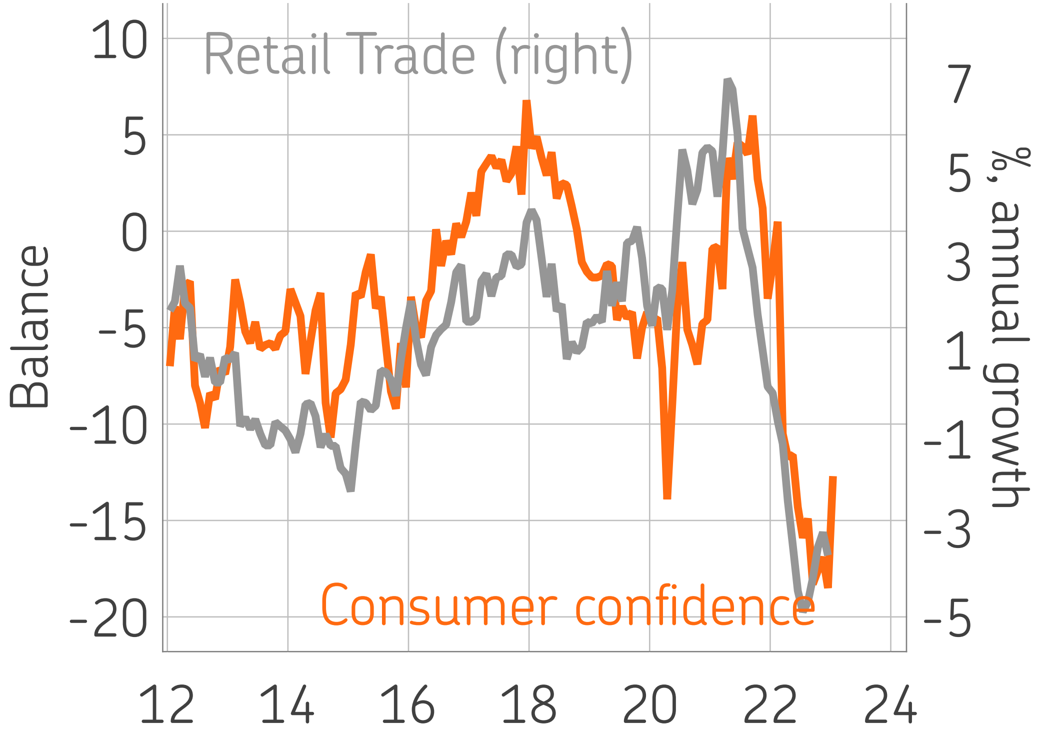


Source: Macrobond, StatFin, OP

- The pace of the Finnish economy slowed in the second half of last year, but according to preliminary data, a technical recession was narrowly avoided.
- The pent-up demand and the recovery of services from the corona pandemic still supported the economy last year, but already at the end of the year the effect started to diminish.
- This year the economy will fall into recession, as GDP shrinks, and unemployment rises. The recession will probably be moderate, but the outlook will remain sluggish.
- We expect Finland's GDP to contract by 0.5% this year and to grow by 0.5% next year

Consumption turns to decline

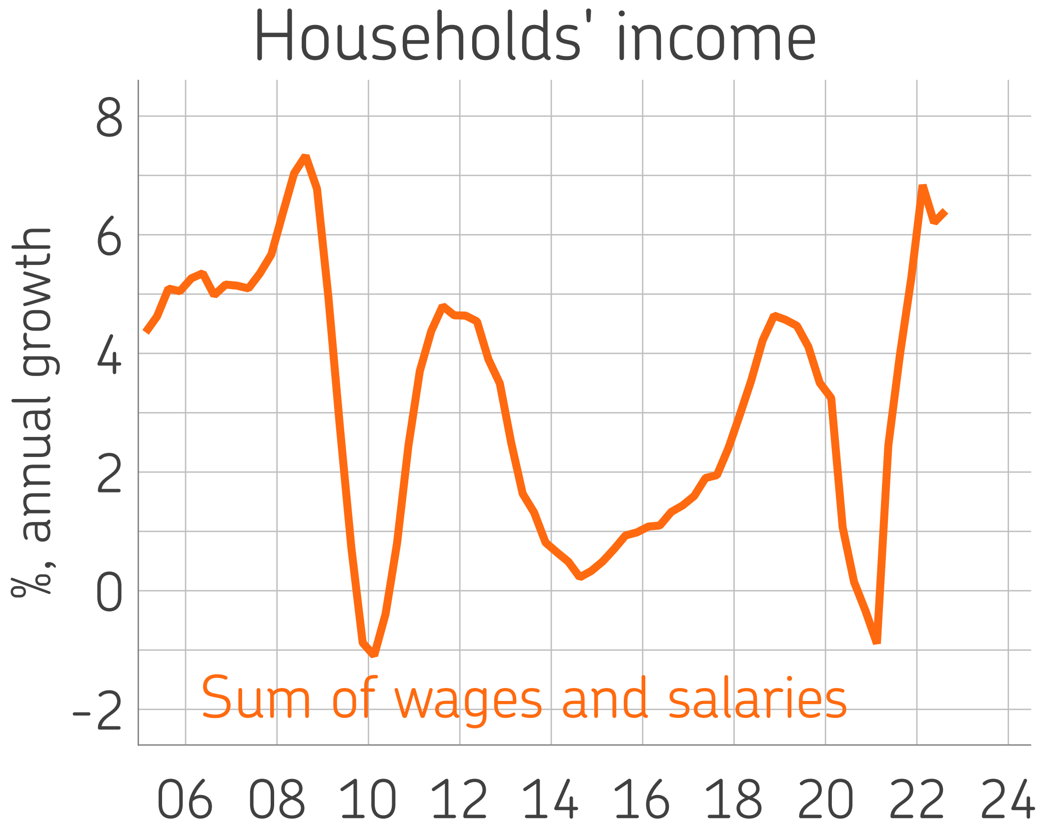
Consumer confidence and retail trade



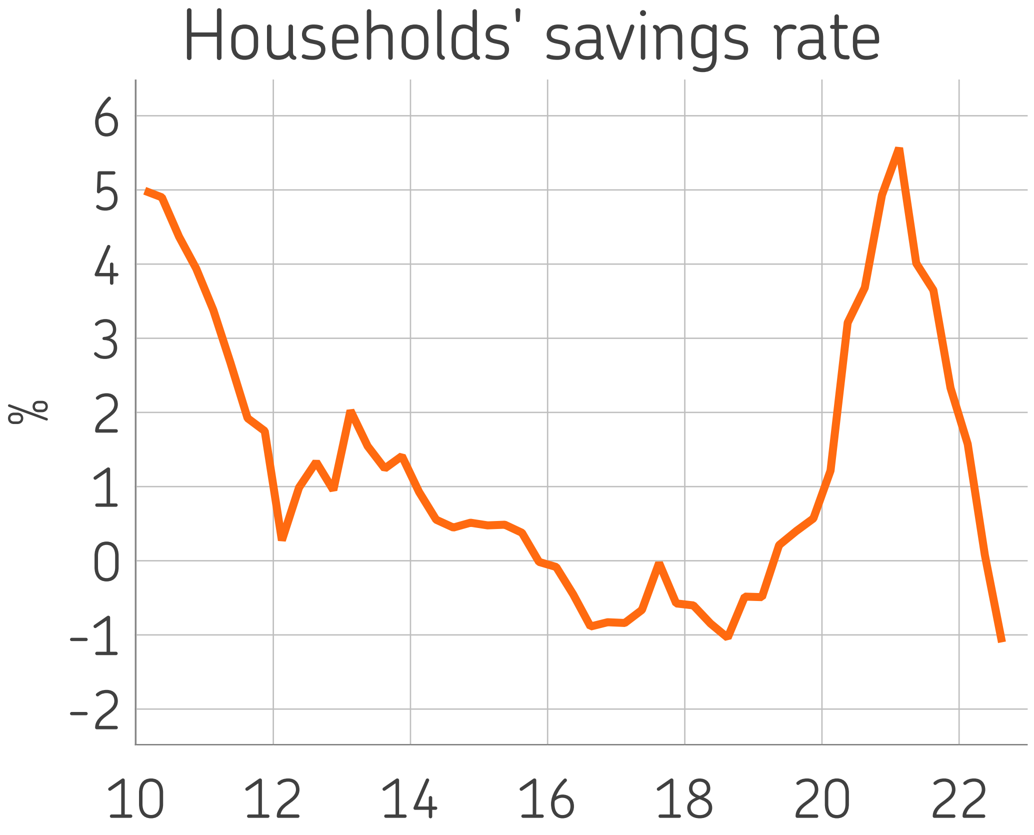
Lähde: Macrobond, OP

- Consumer confidence fell immediately after the start of the Russian war of aggression and has remained low ever since. In January, however, confidence improved slightly.
- Until summer, the recovery of services supported consumption, but the positive effect has already diminished. At the same time, the consumption of goods has suffered from the passing of the Covid boom, inflation and delivery difficulties.
- Despite the weak confidence figures, household consumption was reasonably strong in 2022, as households leaned on their savings, which had increased during the Covid restrictions. Going forward saving rate is expected to rise while real incomes stagnate.
- Private consumption will fall 1% this year and stagnate in 2024. Public spending will grow 2.5% this year and next year.

Households relied on their savings last year – savings rate set to rise this year

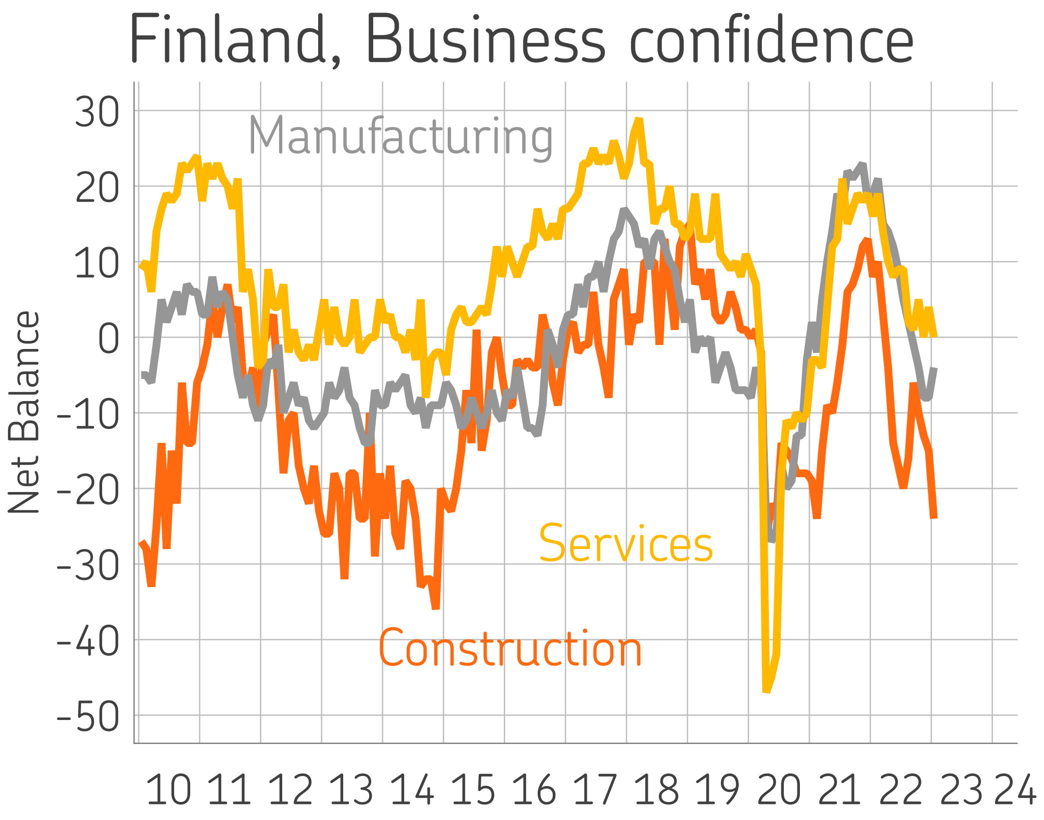


Source: Macrobond, StatFin, OP



Source: Macrobond, StatFin, OP

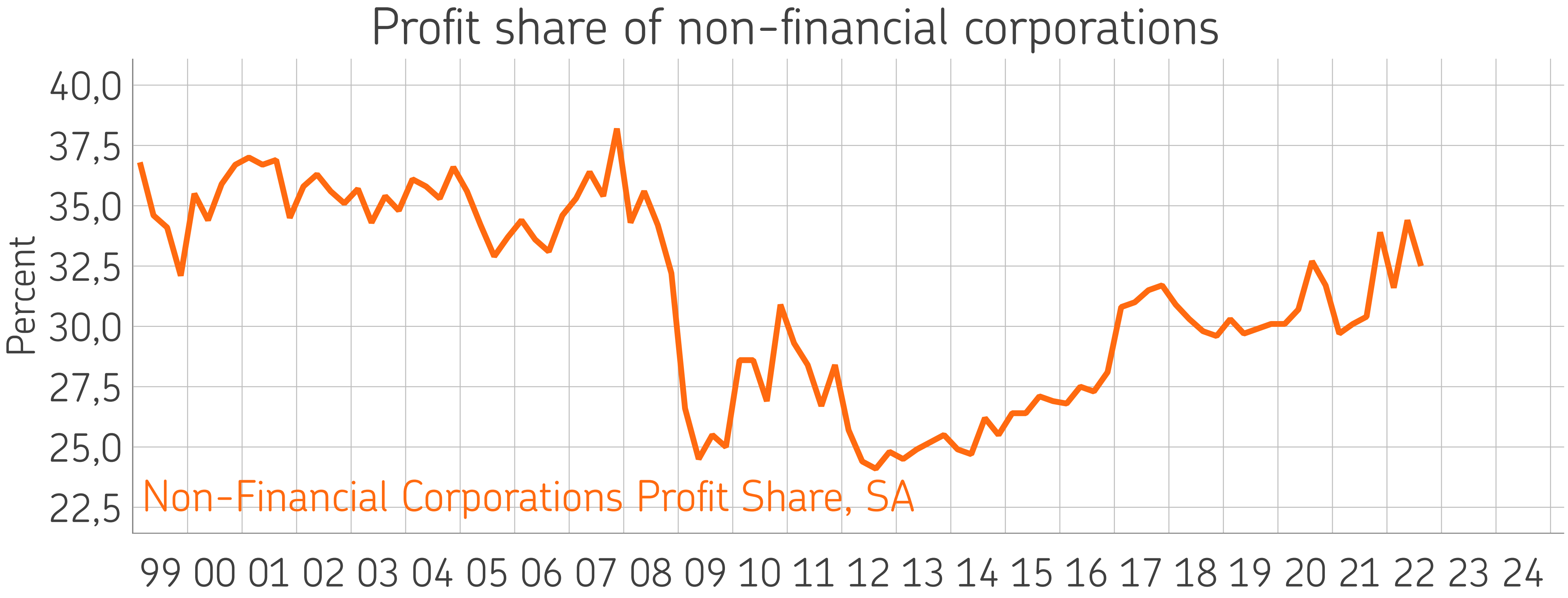
Business confidence unchanged at the beginning of the year – except in construction



Lähde: Macrobond, EK, OP

- Business confidence has weakened after the summer. However, compared to consumer confidence, the business confidence has been much more stable. The level of business confidence is below its long-term average, but the confidence has not collapsed.
- Business confidence remained roughly unchanged in January, except for construction.
- The financial situation of companies has remained goo.

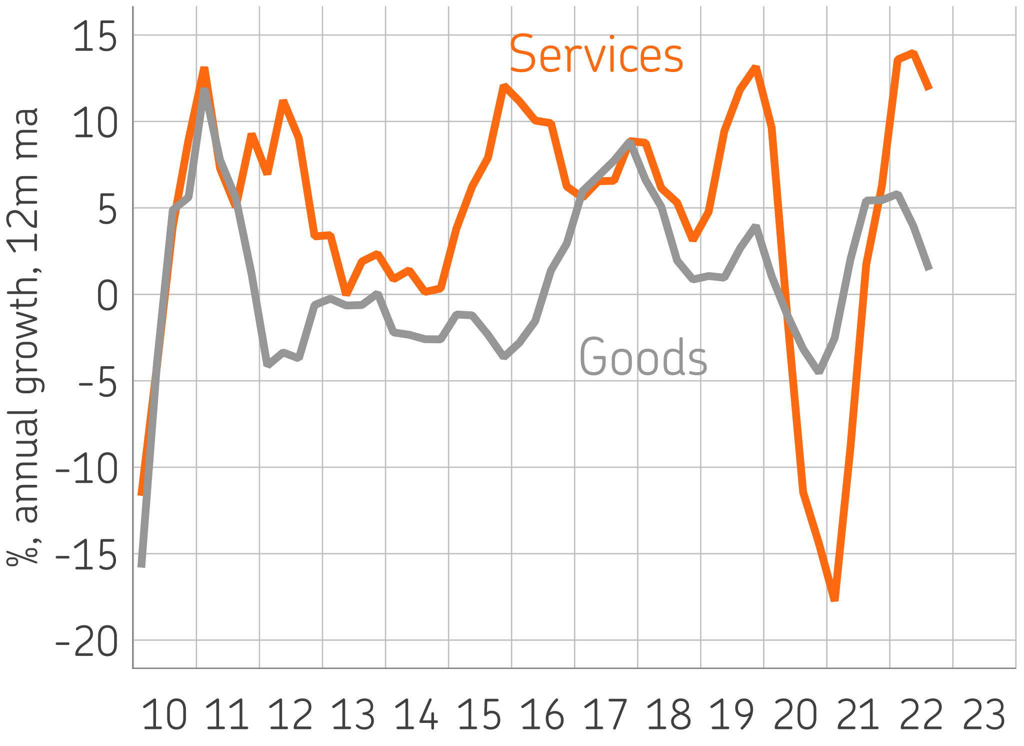
Corporate profitability relatively intact



Source: Macrobond, OP

Strong growth in the value of exports – the growth in volume is weaker

Finland's exports of goods & services

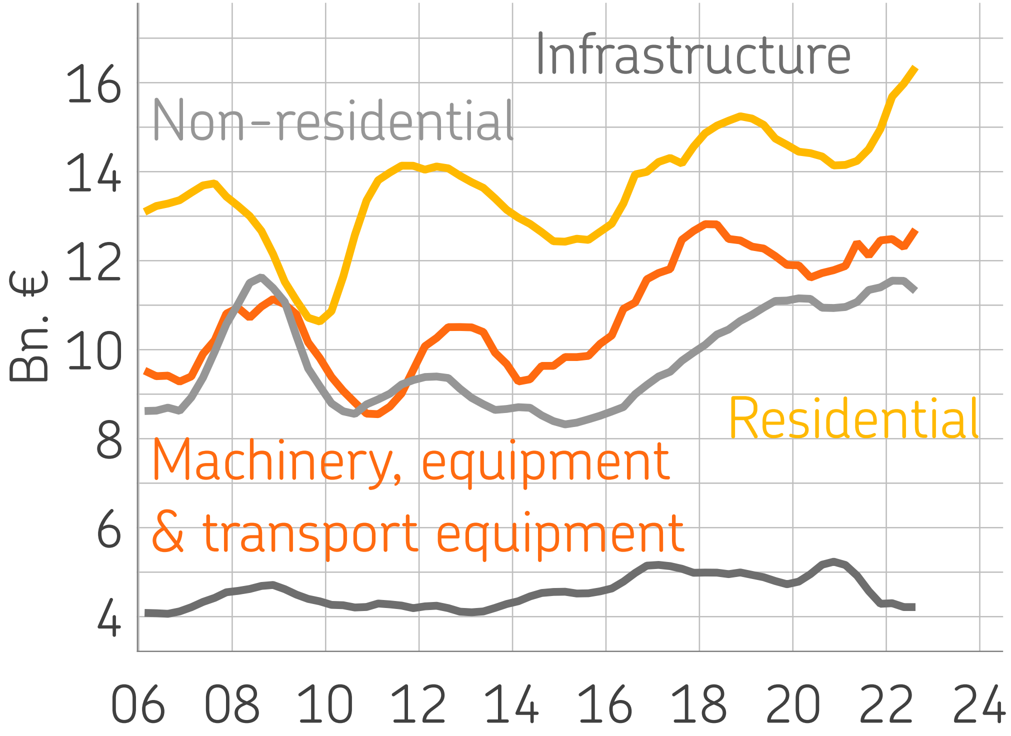


Sources: Macrobond, StatFin, OP

- Growth of the value of exports has been record strong despite the decline in exports to Russia. This has been mostly due to prices and volume growth has been moderate.
- In 2023 exports will shrink slightly, as demand weakens, the recovery of service exports fades, and the cessation of exports to Russia weighs on the growth figures. Export prices will decrease during the year.
- We forecast exports to fall by 2% this year. Next year exports will grow 1%.

The boom in construction has turned

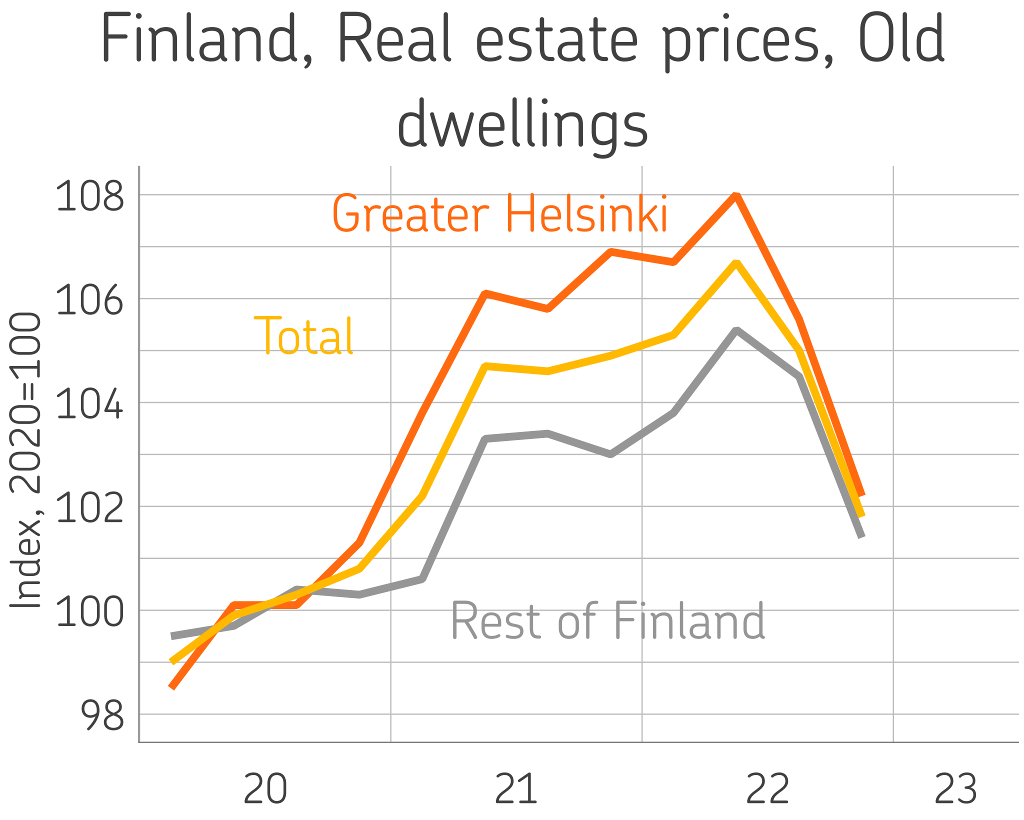
Finland, Investment, 4-qrt sum, EUR



Source: Macrobond, OP

- By many measures, last year was a peak year for residential construction. A lot of new apartments were completed, and residential construction investments supported the growth of investments.
- Investments in machinery and equipment also grew rapidly in the second half of the year, supported by the companies' good profitability. Overall, private investment grew well.
- This year, the pace of investments will fade with the weakening of economic activity. The most significant impact on the decrease in investments is the sharp decline in construction. The heaviest drag on housing construction has already passed and there is no sign of a pick-up soon.
- Overall, the investments will decrease by 1.5% this year and stagnate in 2024.

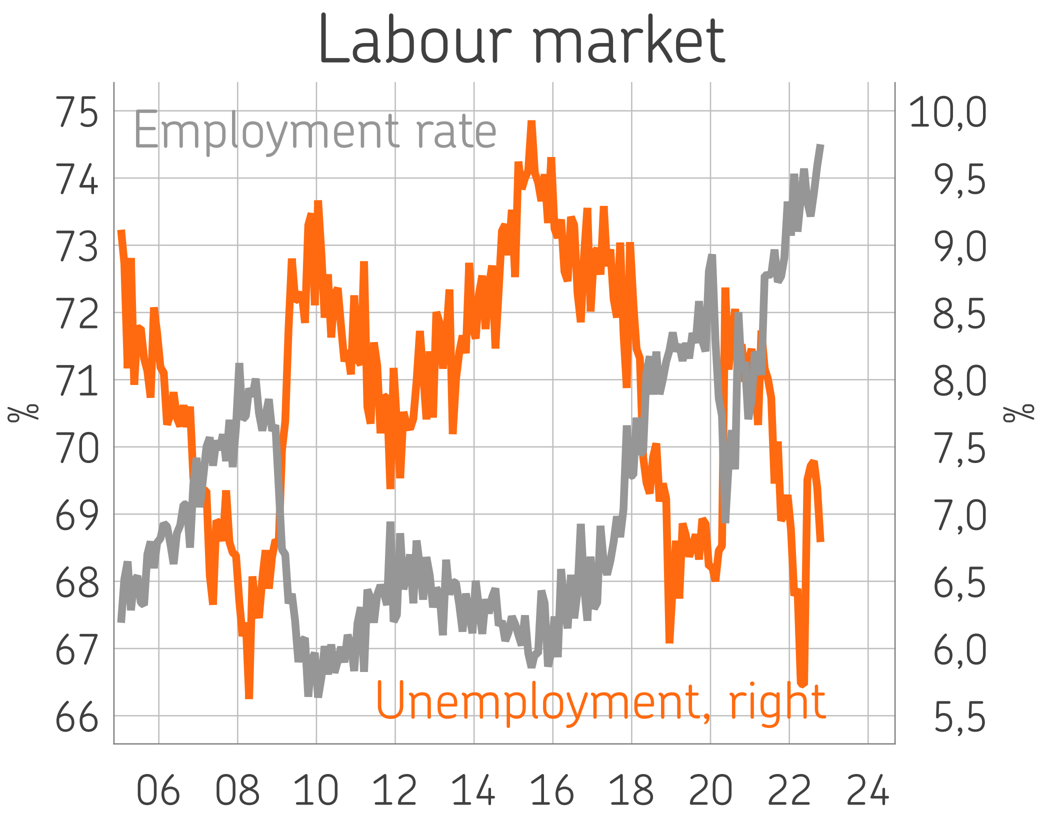
Housing prices set to decline



Lähde: Macrobond, StatFin, OP

- Housing prices were 3% lower in the fourth quarter than at the same time last year and 3.1% lower than in the third quarter. In the six largest cities, prices fell by 3.6 percent from last year on average.
- Prices have fallen from their peaks and the decline is expected to continue this year. Also the transaction volumes of dwellings have declined significantly during last months.
- Housing prices rose by 0.6 percent last year. This year, apartment prices will decrease by an average of 4–6 percent. In 2024, we expect that the situation in housig markets improve, and

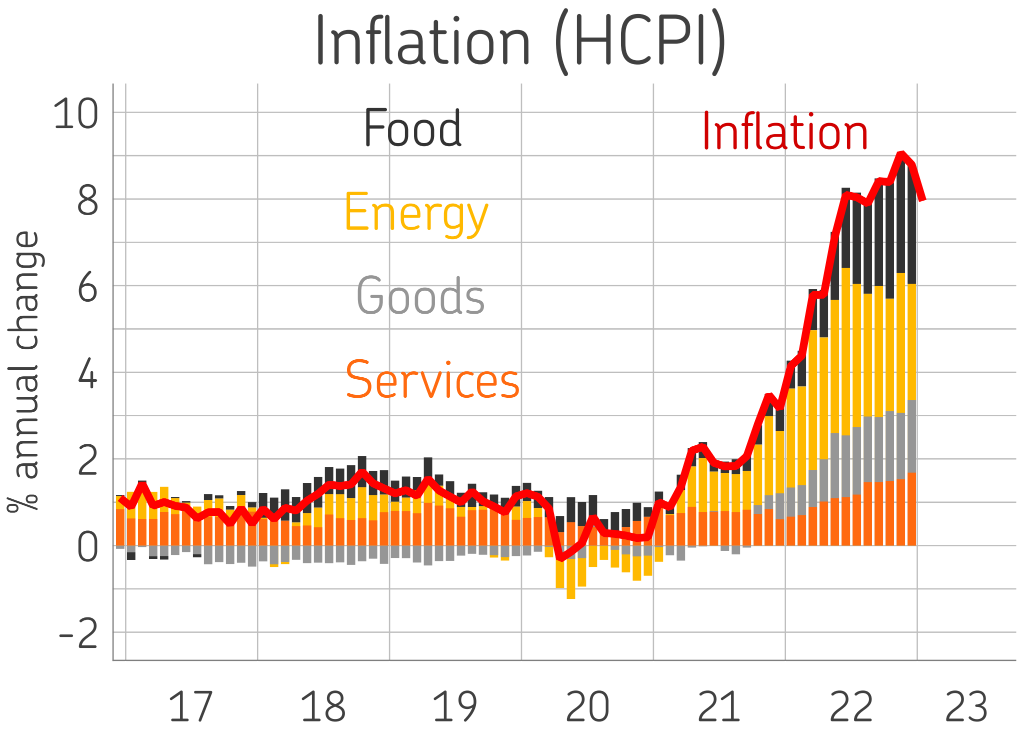
Labor market still strong – slightly weaker development ahead



Lähde: Macrobond, StatFin, TEM, OP

- The number of open jobs has slightly decreased from the peak reading in June, but the labor market situation is still tight.
- The labor market situation will remain relatively tight, and it is possible that employment will weaken less than usually in recession, because labor may partly be transferred to sectors suffering from labor shortages.
- High inflation and a tight labor market situation create wage pressure.
- We expect that the unemployment rate of this will be 7.2%. In 2024 unemployment is set to increase to 7.4%.

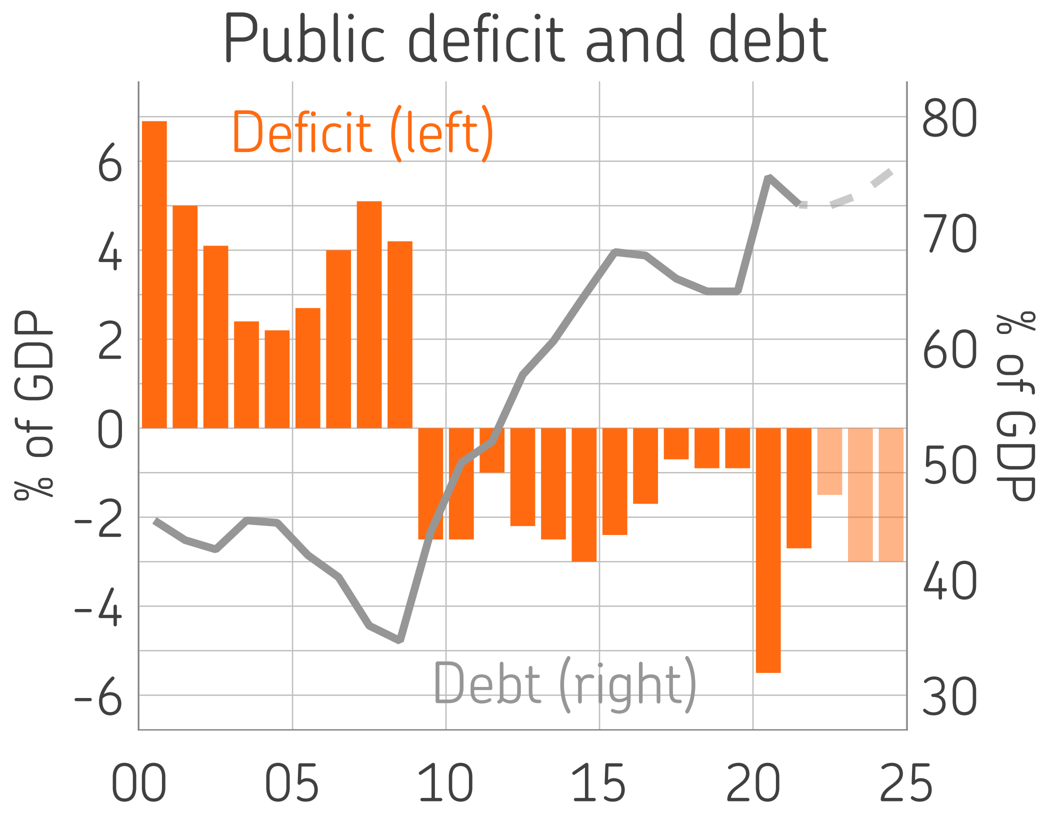
Wide-ranging price pressures continue



Source: Macrobond, ECB, OP

- Inflation was 9.1% in December accelerated as the rise in prices of services and goods continued. The rise in energy and food prices is moderating again.
- Inflation has peaked in the winter and inflation will slow down mainly due to energy prices decline. However, widespread inflation pressures still continue. Especially the fall in the service price inflation will be sluggish as wage pressures increase.
- Core inflation, measured without the price of food and energy, is believed to remain above 4% until 2023. Large wage increases would create the risk that core inflation will continue to be high in 2024.

Public demand will increase markedly

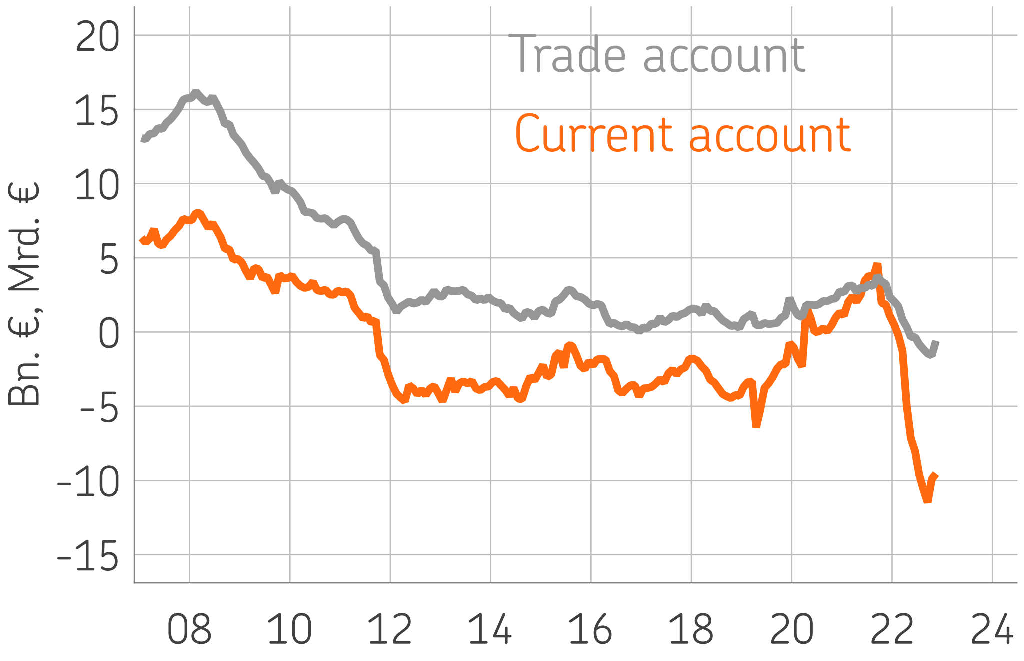


Source: Macrobond, StatFin, OP

- The central government revenues grew rapidly last year due to the favorable economic situation and the rise in prices. In January-November, revenues increased by 10% from the previous year.
- The fiscal deficit will increase as economic growth slows down and spending increases due to both cyclical and decision-based reasons.
- The public debt ratio is predicted to increase only slightly because inflation is set to keep nominal GDP on the rise.

The current account is significantly in deficit

Finland, Current account, 12-month sum, EUR



Lähde: Macrobond, StatFin, OP

- The current account has already fallen into a clear deficit. The weak development last year is mainly explained by the clear increase in the value of energy imports. The recovery of tourism has also had a negative impact on the current account.
- The current account was significantly in deficit last year, and this year will not be significantly better in terms of the current account.
- The current account deficit will be 2.7% this year, 2.5% next year and in 2024.

Thank you!