



# Economic outlook for Finland

Economic Research  
OP Financial Group  
Q4/2022

# Forecasts for the Finnish economy

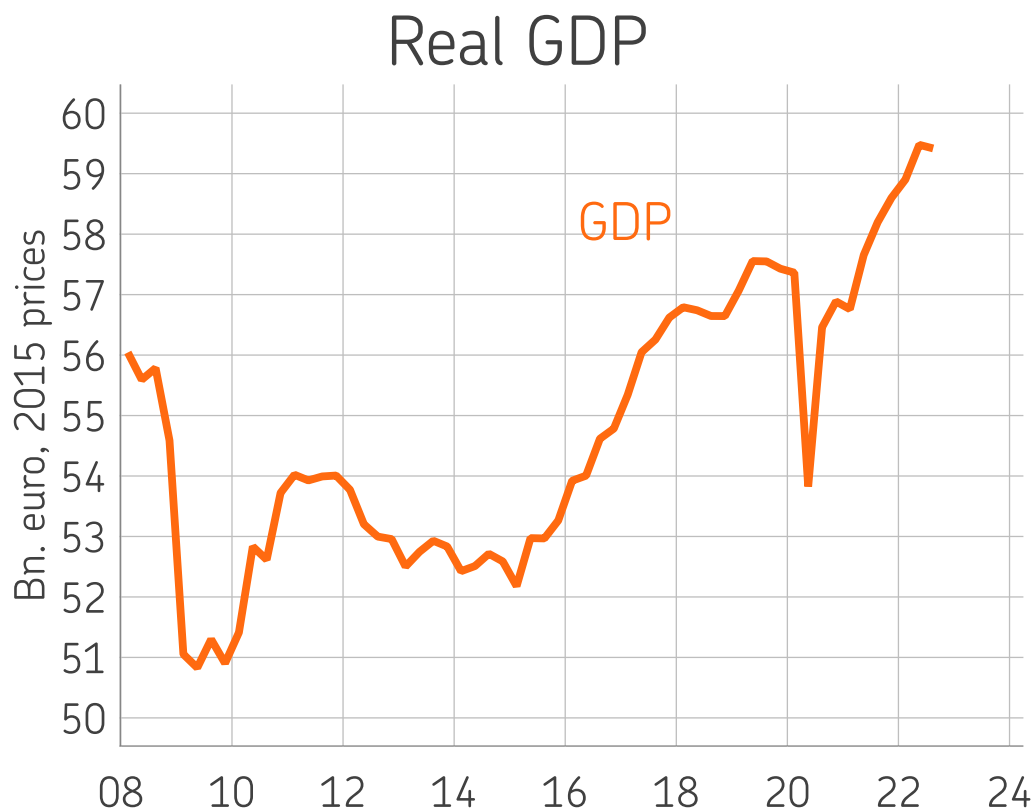
## Published on November, 2022

Forecasts for the Finnish economy, November 2022

	EUR bn				
Volume, % change on previous year	2021	2021	2022e	2023e	2024e
GDP	251,4	3,0	2,0	-0,5	0,5
Imports	98,5	6,0	5,8	-1,2	0,9
Exports	99,1	5,4	2,2	-2,2	1,0
Consumption	189,5	3,4	2,4	0,0	0,5
- Private	128,2	3,7	2,5	-0,5	0,5
- Public	61,4	2,9	2,0	1,0	0,5
Fixed investment	59,5	1,5	3,7	-1,0	0,2
Other key indicators		2021	2022e	2023e	2024e
Consumer price index, % change y/y		2,2	6,9	5,1	2,7
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		0,6	-3,3	-2,9	-2,9
General government net lending, % of GDP		-2,7	-1,5	-2,4	-2,3
General government debt, % of GDP		72,4	71,2	71,9	73,4

Sources: Statistics Finland and OP Financial Group

# Economy heading towards moderate recession



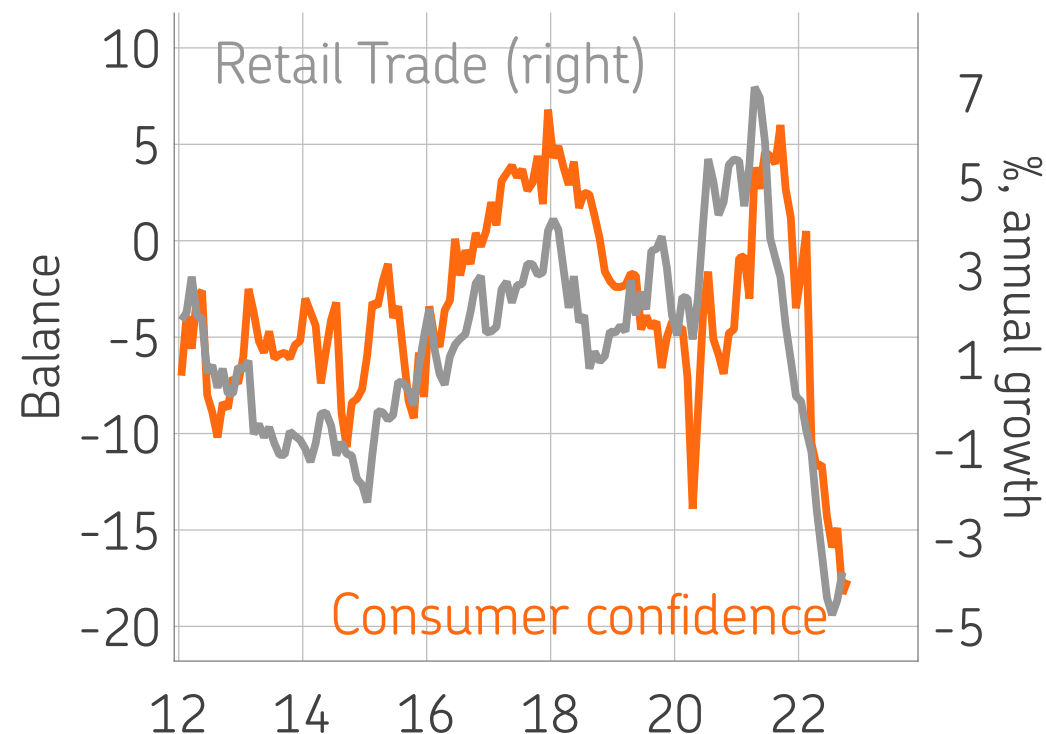
Source: Macrobond, StatFin, OP

- The Finnish economy was in good shape at the first half of the year. In the third quarter, however, the pace of the economy began to slow down.
- The pent-up demand and the recovery in service sector have supported the economy at the beginning of the year, but in the fall the positive effect has diminished.
- Inflation weakens the purchasing power, and rising interest rates affect negatively on investments
- We forecast that the GDP growth in Finland will be 2.0% in 2022. The growth will fall to -0.5 % in 2023. In 2024, the economy will recover slightly but the GDP will grow only 0.7%.



# Consumption set to contract slightly

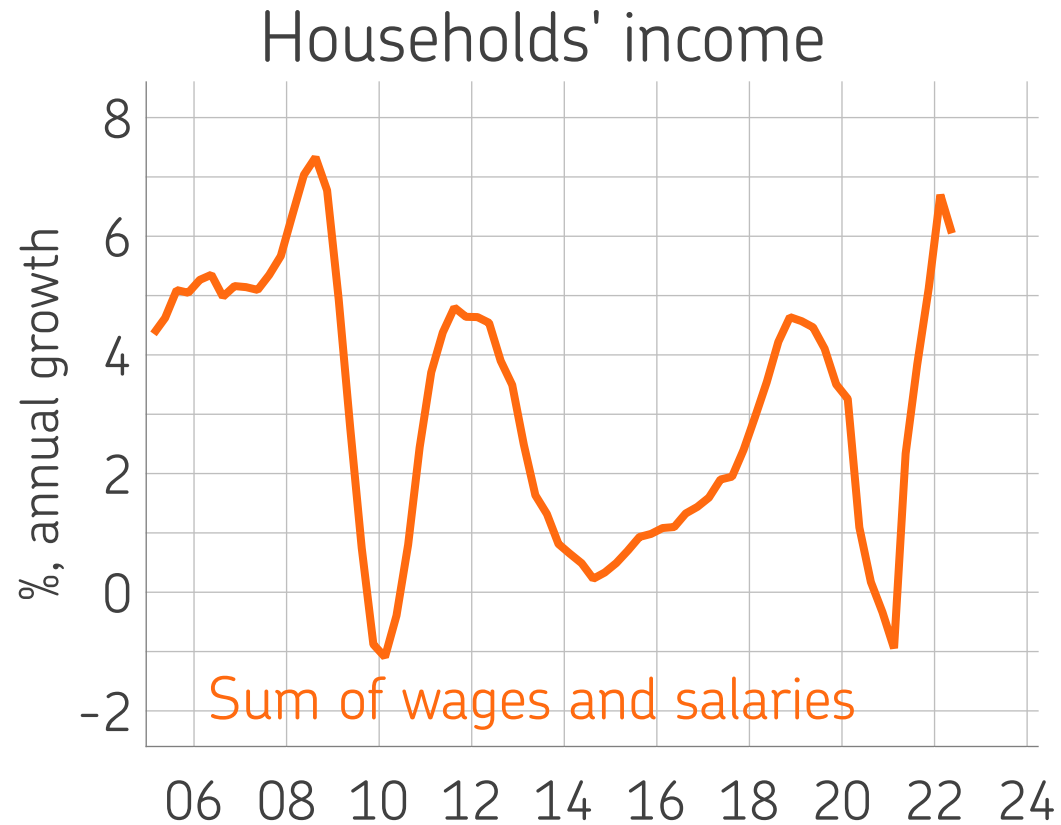
## Consumer confidence and retail trade



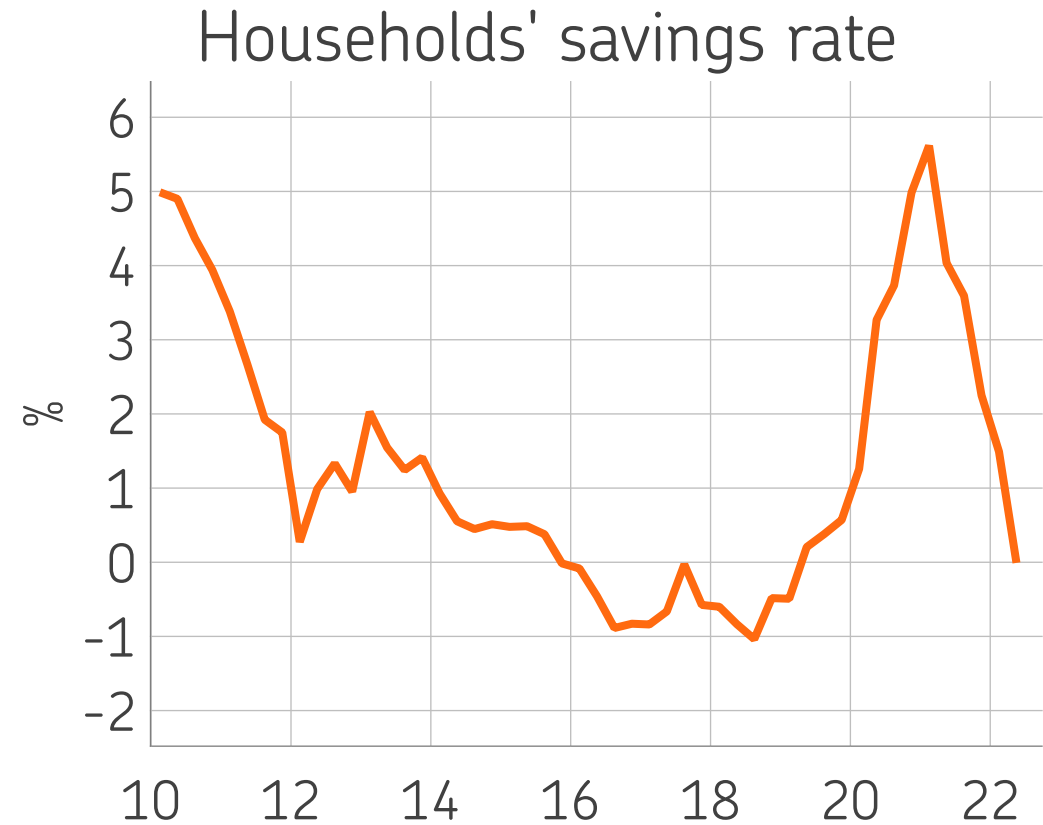
Lähde: Macrobond, OP

- Consumer confidence fell significantly immediately after the start of the Russian war and has not improved since then. Nevertheless, household consumption was strong in the second quarter as well.
- Until summer, the recovery of services supported consumption, but the positive effect has started to diminish in the fall. At the same time, the consumption of goods has suffered from the passing of the Covid boom, inflation and delivery difficulties.
- Private consumption will grow 2,5% this year and contract 0.5 % in 2023. Public spending will grow 2.0 % this year and 1.0 % in 2023. In 2024, private consumption will grow 0.5%.

# Inflation to hurt purchasing power, but financial situation of households is currently solid

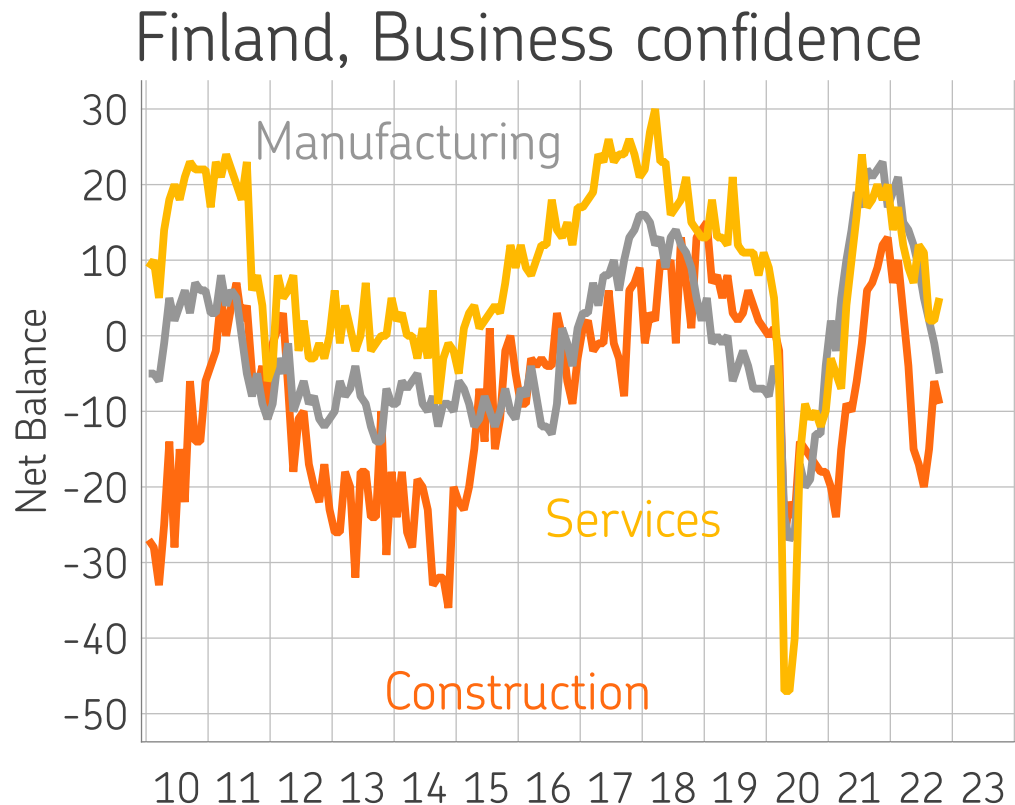


Source: Macrobond, StatFin, OP



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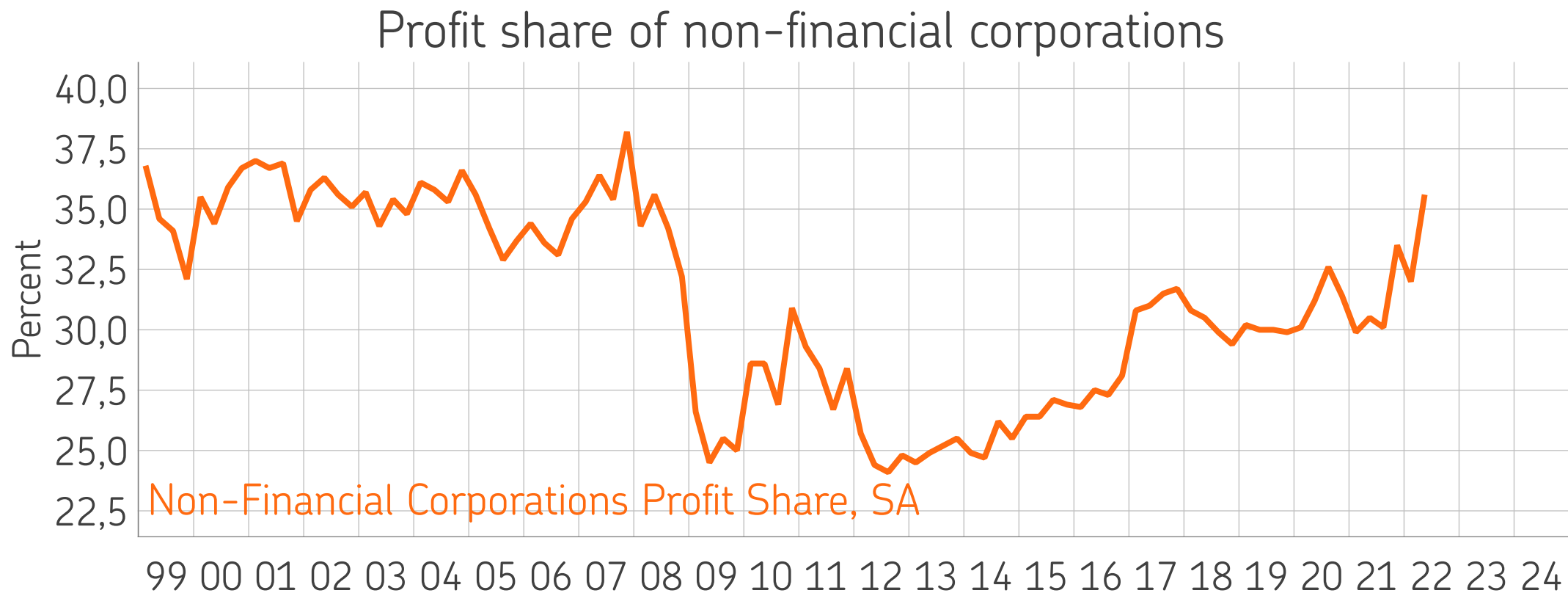
# Business confidence weakened, but not collapsed



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.
- In October, the level of confidence was below the long-term average in all main industries.
- The financial situation of companies has remained good this year

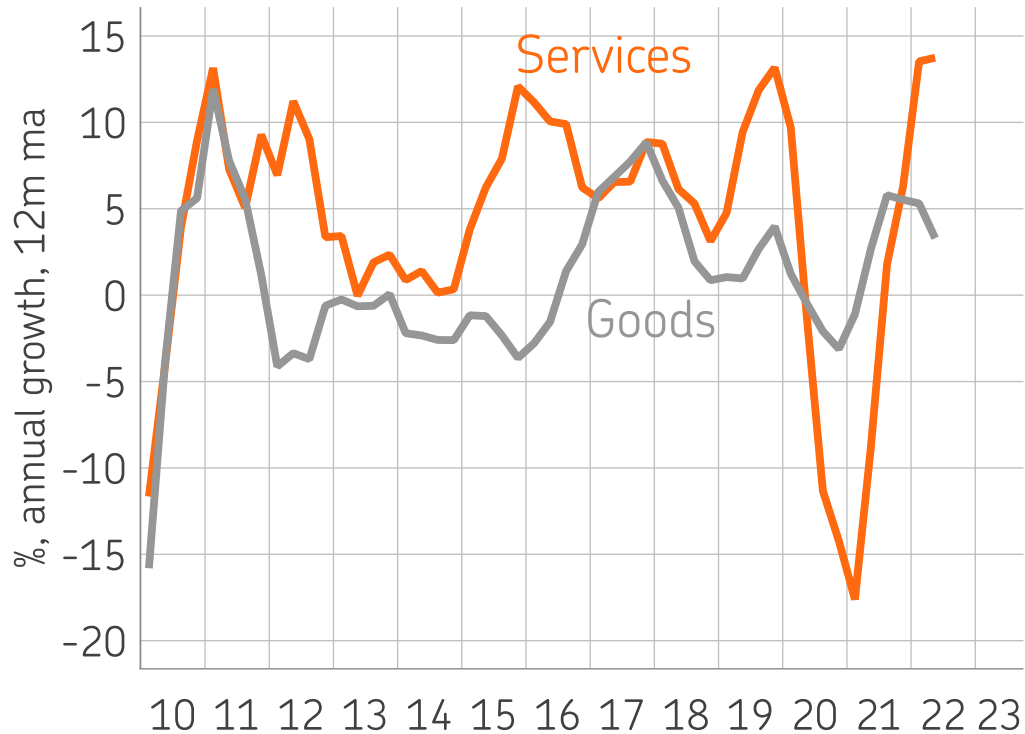
# Corporate profitability relatively intact



Source: Macrobond, OP

# Weak growth in exports volume

## Finland's exports of goods & services



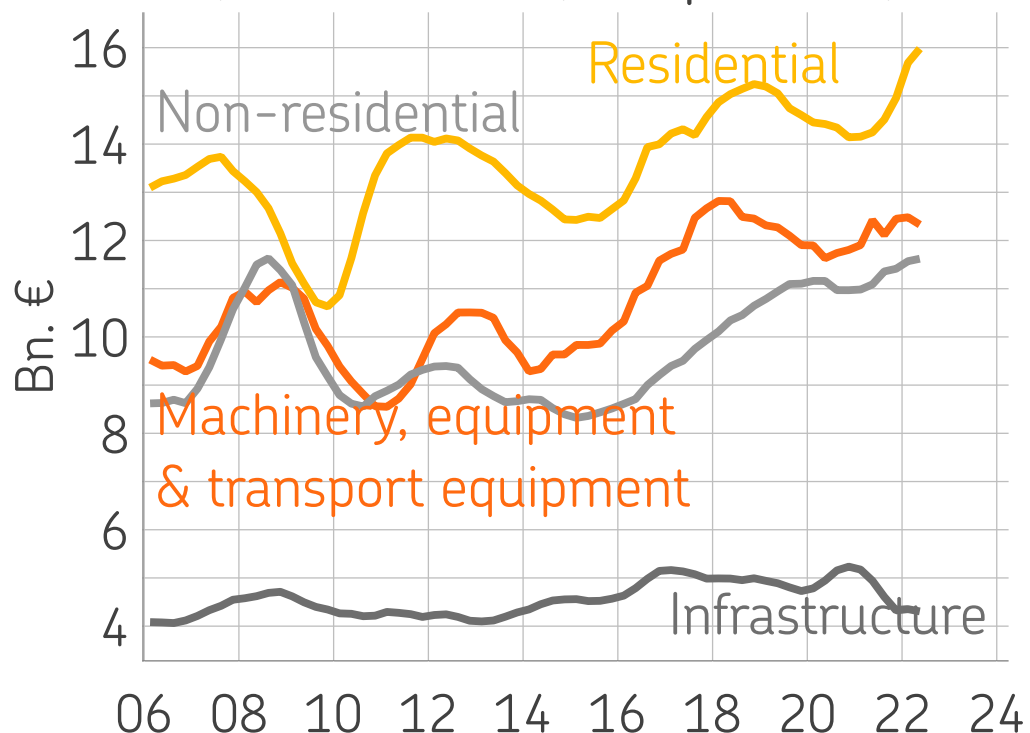
Sources: Macrobond, StatFin, OP

- Exports growth is set slow down due to decline in exports to Russia and slower growth of export markets.
- The value of exports has grown strongly in the three quarters of the year. The growth is mainly due to a growth in exports prices and the volume of Finnish exports has developed weakly.
- This year recovery of service exports will still support increase in exports. However, in 2023 also the recovery in services will fade.
- We forecast exports to grow 2.2% this year. Next year exports will decline 2.2% and in 2024 grow 1%.



# Residential construction set to decline

Finland, Investment, 4-qrt sum, EUR

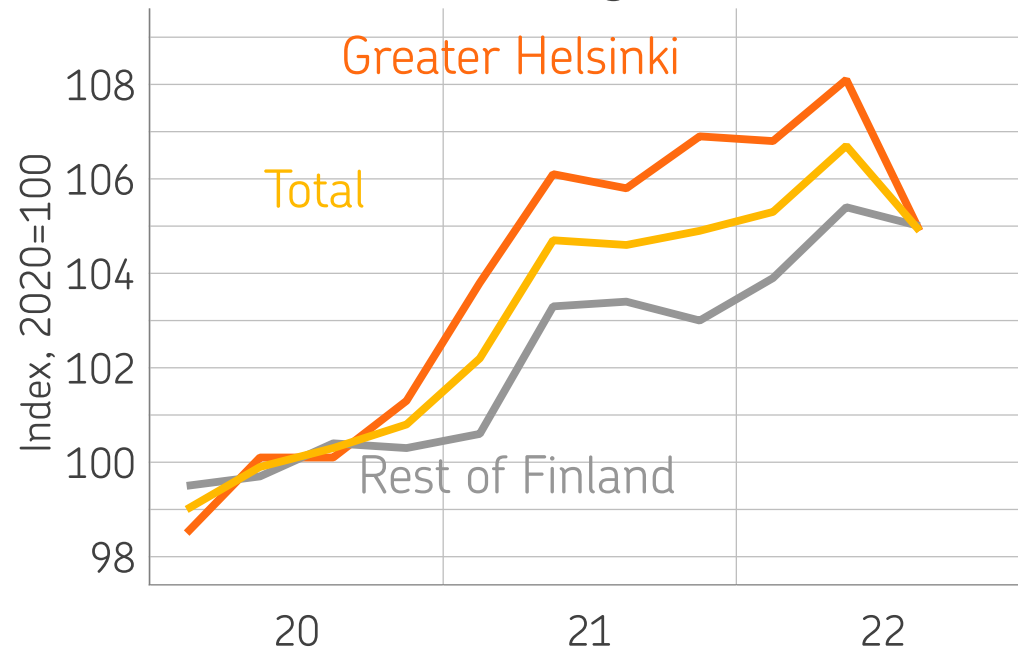


Source: Macrobond, OP

- In the first half of this year, construction, and especially residential construction, has supported the growth of investments. The growth in machinery investments has been relatively weak during this year.
- The construction activity starts to decline already at the end of the year and the decline continues in 2023. However, the financial situation of companies is still good and investments in machinery will increase reasonably next year.
- Public investments will grow at a fast pace this and next year. Especially in 2023, the investments is supported mainly by public investments.
- In total, we forecast fixed investments to grow by 3.7% this and decline 1% next year. In 2024, investments will grow 0.2%.

# Housing prices set to decline

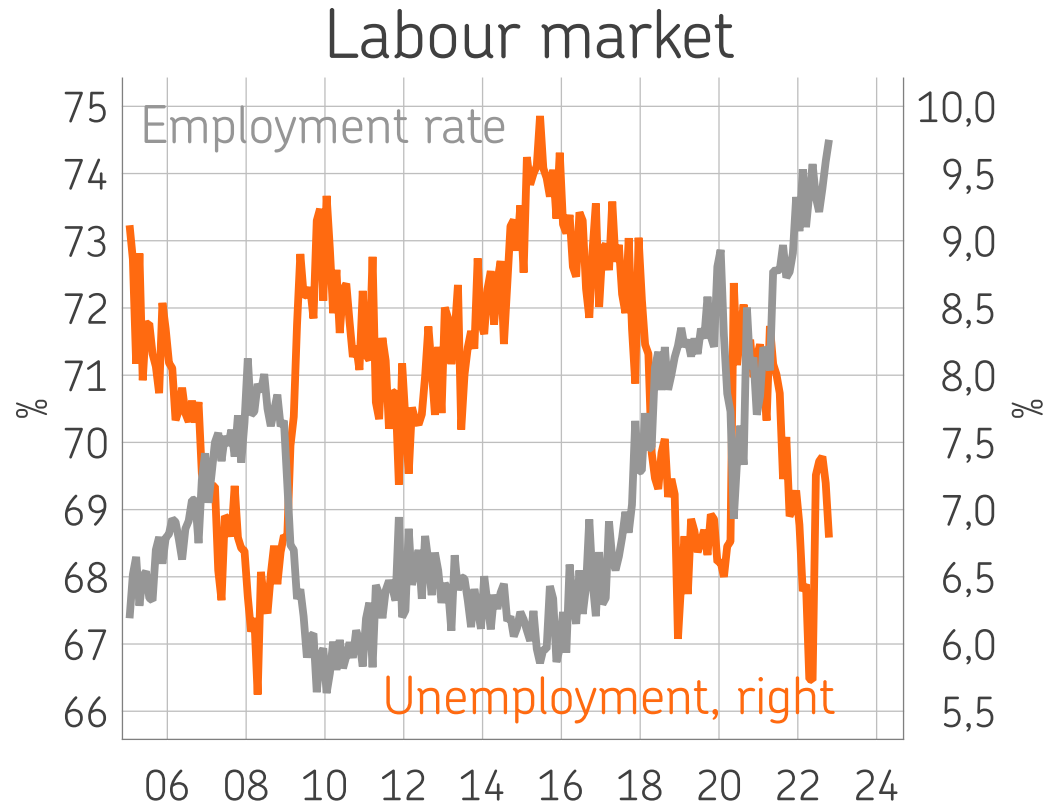
## Finland, Real estate prices, Old dwellings



Lähde: Macrobond, StatFin, OP

- The activity in the housing markets has already slowed down markedly. The activity will remain weak as the economy slows down.
- Housing markets are still supported by strong labour market. However, rapidly rising interest rates have already affected the housing market. Housing prices will continue to decline at the end of the year and still next year.
- Nominal prices of dwellings will still grow slightly this year, but real prices will already decline significantly. The nominal housing prices will decline 4 to 6 percent in 2023. In 2024 prices increase only slightly.

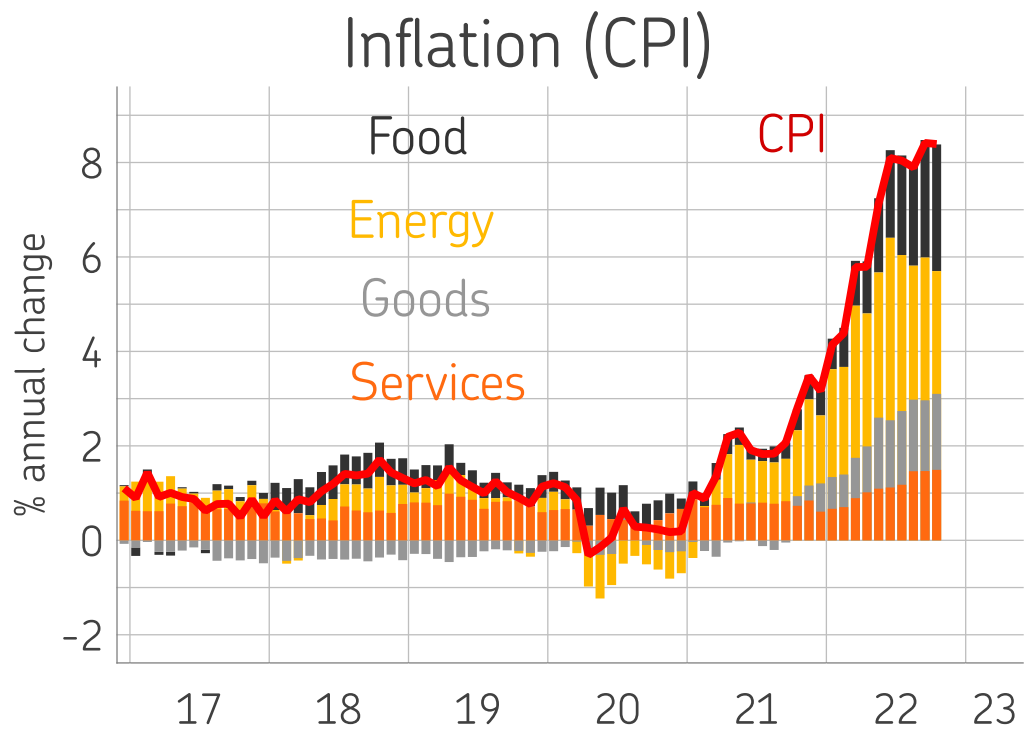
# Employment rate still high



Lähde: Macrobond, StatFin, TEM, OP

- There were nearly 70,000 more people employed in October than a year earlier. There have never been so many employed people in Finland before. The labor force share, i.e. the share of people participating in the labor market in the population, was also at its peak
- However, when economic growth decelerates, the unemployment rate will rise, and the employment rate will fall.
- We expect that the unemployment rate of this will be 6.8%. In 2023 unemployment is set to increase to 7.2% and to 7.4 in 2024.

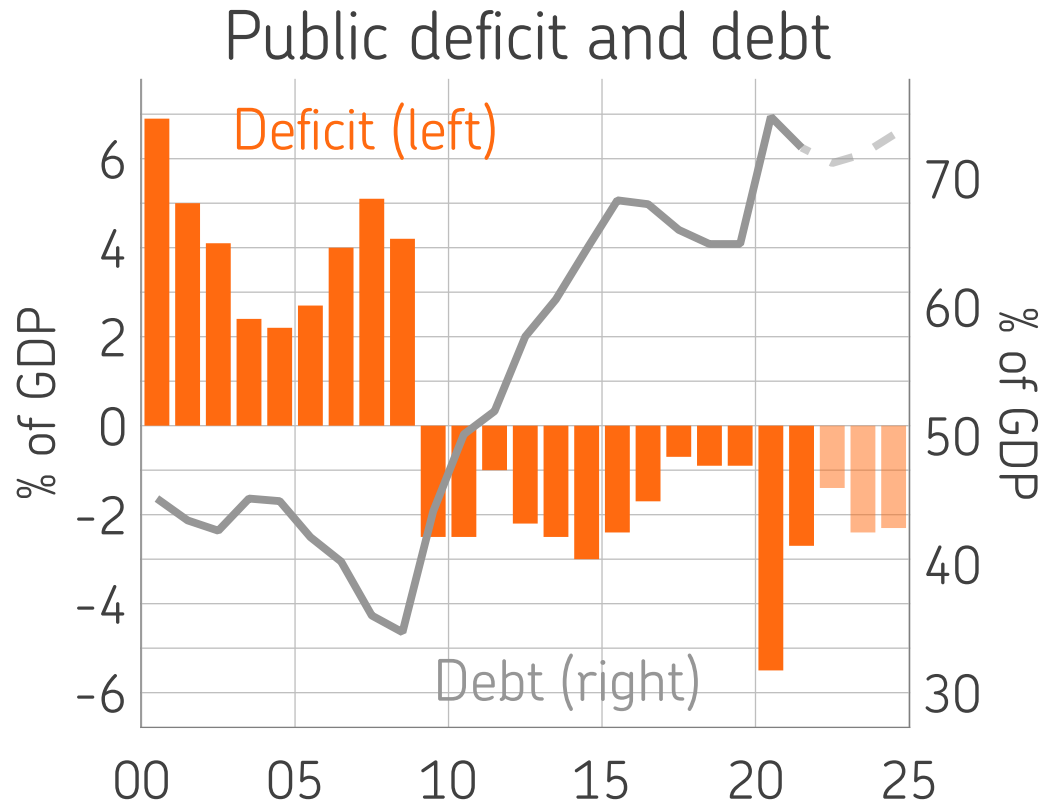
# Inflation is slowly moderating



Source: Macrobond, ECB, OP

- During the autumn, inflation has fluctuated around 8%. The decrease in fuel prices has reduced the importance of energy in inflation, which has, however, been compensated by the acceleration of food price increases. In October, Finland's inflation was 8.3%
- High inflation is no longer just about food or energy. Broad-based inflation has accelerated to a level of around 5%. Typically, this broad-based inflation is also very persistent.
- We expect the inflation to decelerate from exceptionally high levels while remaining above the target. Our forecast for the inflation is 6.9% this year. In 2023, consumer prices will grow 5.1% and in 2024 2.7%.

# Public demand will increase markedly



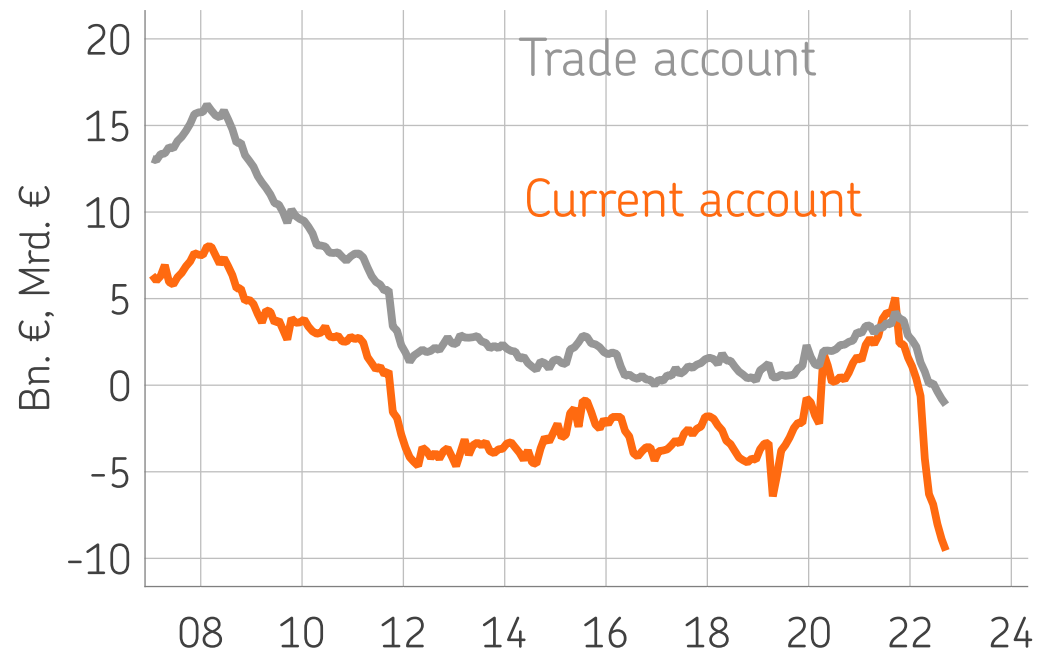
Source: Macrobond, StatFin, OP

- In the beginning of the year, the public debt grew more than could be concluded from the balance of public finances. It's about preparing for future expenses. However, the ratio of public debt to national product has decreased because nominal GDP has grown rapidly.
- Next 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 falls significantly into 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 at the beginning of the 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.
- We expect the current account to fall into a significant deficit this year, and next year will not be better in terms of the current account. The rise in energy import prices also weakens Finland's terms of trade
- The current account deficit will be 3.3% this year, 2.9% next year and in 2024.

# Economic growth in decline across the board

- OP's economists estimate that in 2023, the Finnish economy will sink into a modest downturn, followed by a slow recovery. Gross domestic product (GDP) is expected to decrease by 0.5% in 2023 and grow by 0.5% in 2024. The forecast is lowered from the one released in August, in which GDP was expected to remain unchanged in 2023 and grow by 0.7% in 2024. This year, GDP is expected to grow by 2%, in line with previous forecasts.
- Inflation is expected to reach its peak during the winter. However, the rise in consumer prices has spread to a wider range of components, resulting in a slower cooldown. Next year, prices are expected to continue to rise sharply on average, remaining above the target rate of 2% in 2024.
- High inflation and tight employment market are expected to increase wage pressures. We forecast that discussions will lead to moderate agreements that will not weaken the competitiveness of Finland's export sector.
- Employment in Q3 was at an all-time high, even though the employment rate was below peak levels in the early 1990s. In the next few years, employment will see only a modest increase as economic growth slows down.
- OP's economists estimate that in 2023 to 2024, economic growth in developed countries will be at its weakest since the early 1980s, with the exception of the financial crisis and the pandemic in 2009 and 2020, respectively. The overall development of the global economy is expected to be slightly better as the outlook for emerging market economies is more positive. For example, China's economy has had a poor year in 2022 but is expected to improve once Covid restrictions are lifted.
- Strong economic growth in the euro zone is cooling off, with a downturn on the horizon. Countries in the euro zone differ slightly in their economic outlook. Some are still recovering from the pandemic and are less affected by the rising energy prices caused by Russia's war of aggression. Despite this, tightening monetary policy and reduced purchasing power due to inflation still impact all countries.





Thank you!