



Economic outlook for Finland

Economic Research

OP Financial Group

Q2/2023

Forecasts for the Finnish economy

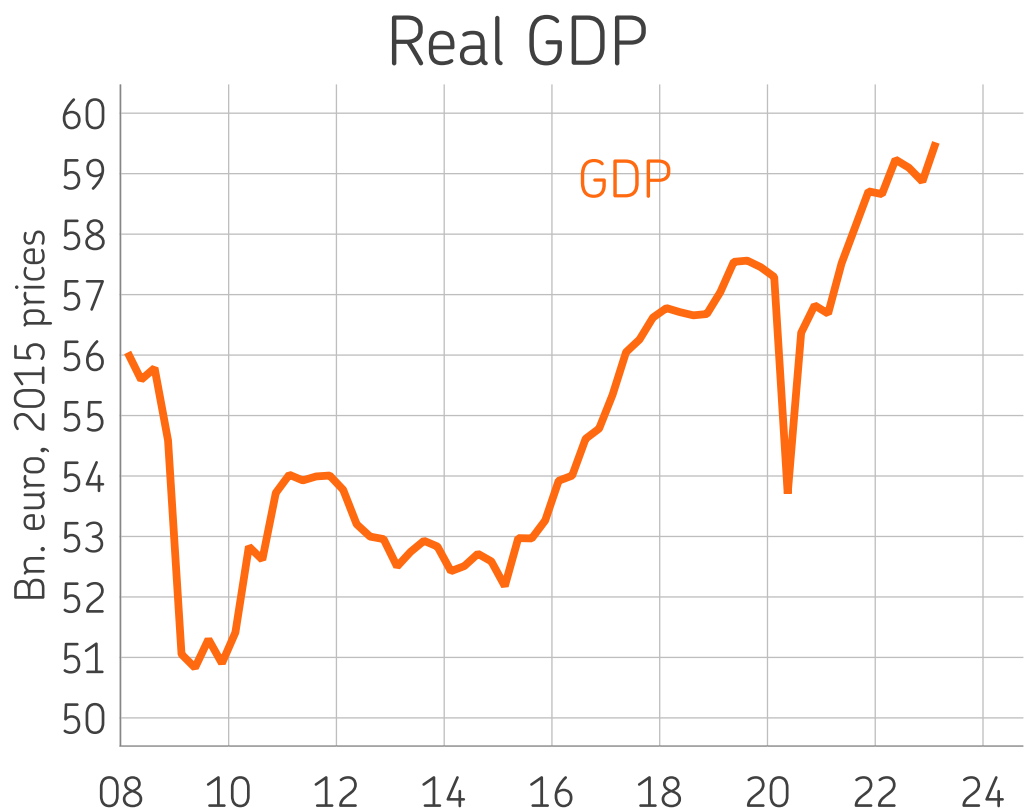
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Forecasts for the Finnish economy, May 2023

	EUR bn				
Volume, % change on previous year	2021	2021	2022	2023f	2024f
GDP	251,5	3,0	2,1	-0,8	0,3
Imports	98,5	6,0	7,5	-3,8	0,6
Exports	98,5	6,0	1,7	-2,7	1,0
Consumption	189,7	3,7	2,3	-0,1	0,2
- Private	128,2	3,6	2,1	-1,0	0,0
- Public	61,6	3,9	2,9	2,0	0,5
Fixed investment	59,5	0,9	5,0	-3,4	-1,0
Other key indicators		2021	2022	2023e	2024e
Consumer price index, % change y/y		2,2	7,1	5,9	2,3
Change in wage and salary earnings, %		2,4	2,6	4,0	3,5
Unemployment rate, %		7,7	6,8	7,0	7,2
Current account balance, % of GDP		0,5	-3,9	-2,9	-2,4
General government net lending, % of GDP		-2,7	-0,9	-2,4	-2,0
General government debt, % of GDP		72,6	73,0	74,8	77,0

Sources: Statistics Finland and OP Financial Group

Economy heading towards moderate recession

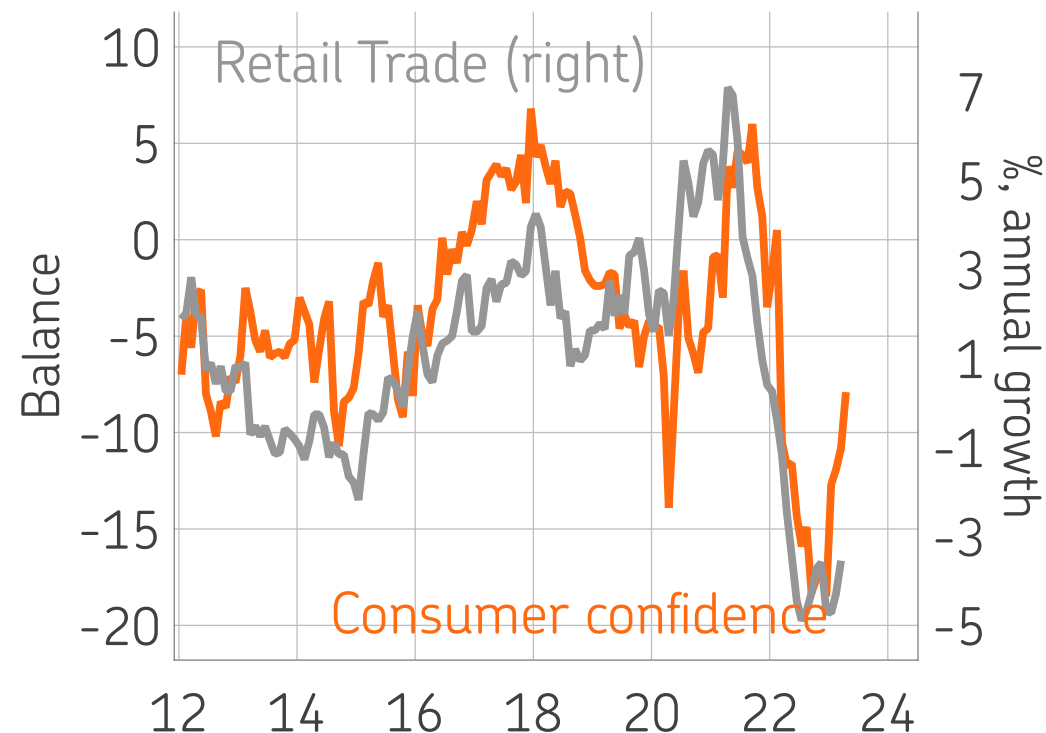


Source: Macrobond, StatFin, OP

- The Finnish economy showed stronger performance in the first quarter than expected. Despite this positive surprise, we anticipate that Finland will experience a mild recession this year.
- However, the expected downturn is still projected to be moderate. The number of downside risks has slightly increased during the early months of the year.
- Economic growth is expected to weaken broadly, with both exports and domestic demand contracting. The construction sector, particularly residential construction, is expected to weigh down the economy this year.
- We expect Finland's GDP to contract by 0.8% this year and grow by 0.3% next year.

Consumption is contracting as savings diminish

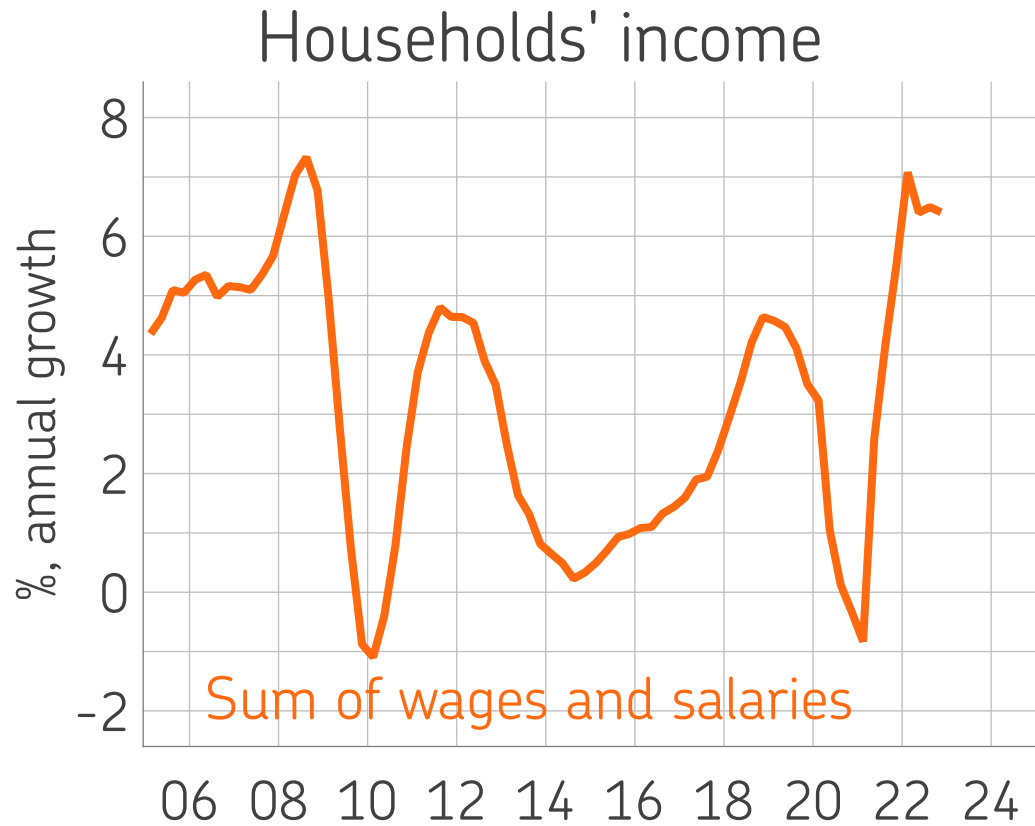
Consumer confidence and retail trade



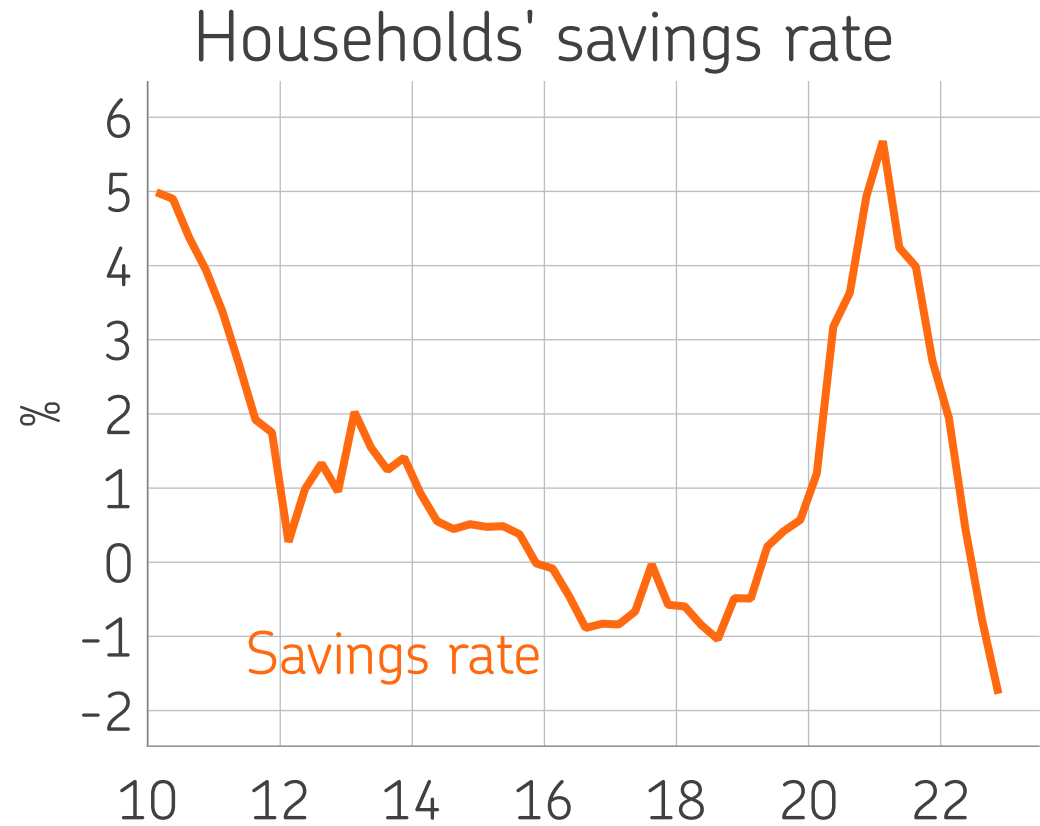
Lähde: Macrobond, OP

- Retail turnover increased by only 0.2% in March compared to the previous year. When adjusted for price fluctuations, the volume of sales decreased by 3.4% compared to March of the previous year. The volume of sales only increased in the automotive sector, while other trade sectors experienced a decline.
- At the beginning of this year, consumption increased, especially compared to the beginning of last year when COVID-19 restrictions affected the use of services. However, the second quarter has started on a weaker note. According to payment card data, consumption has started to decline.
- Saving no longer supports consumption. On the contrary, the savings rate is increasing as uncertainty grows, interest rates have risen, and the buffers brought by the pandemic have been utilized.

Inflation to hurt purchasing power

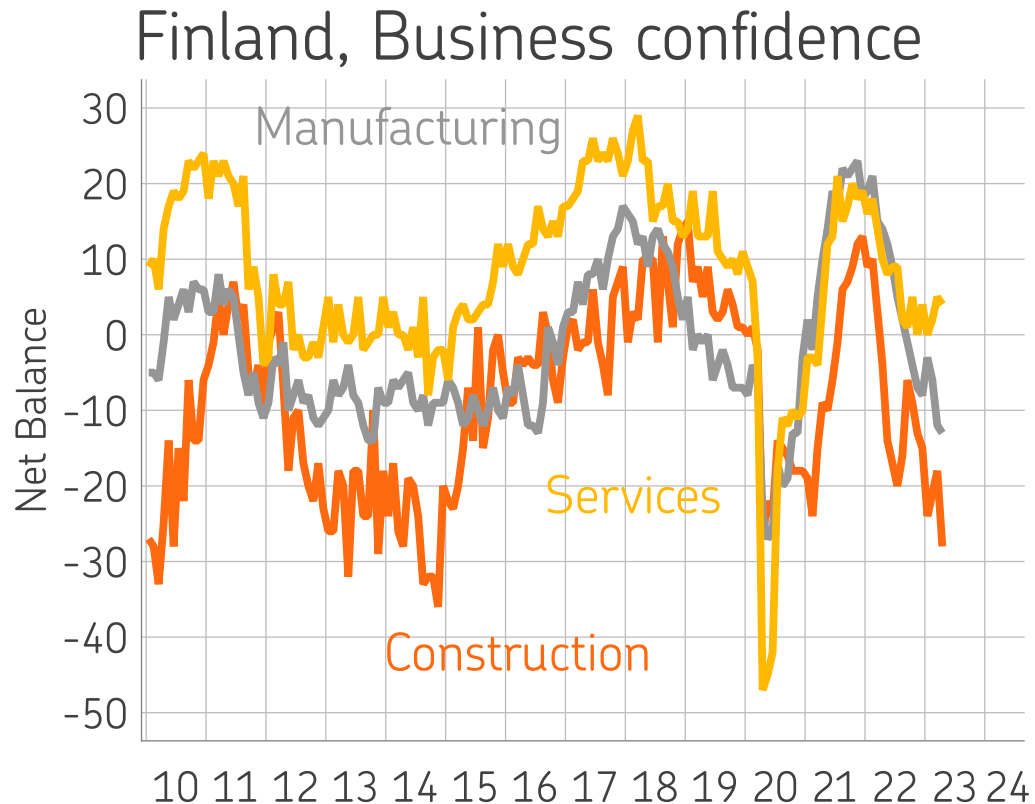


Source: Macrobond, StatFin, OP



Source: Macrobond, StatFin, OP

Industrial confidence is weak

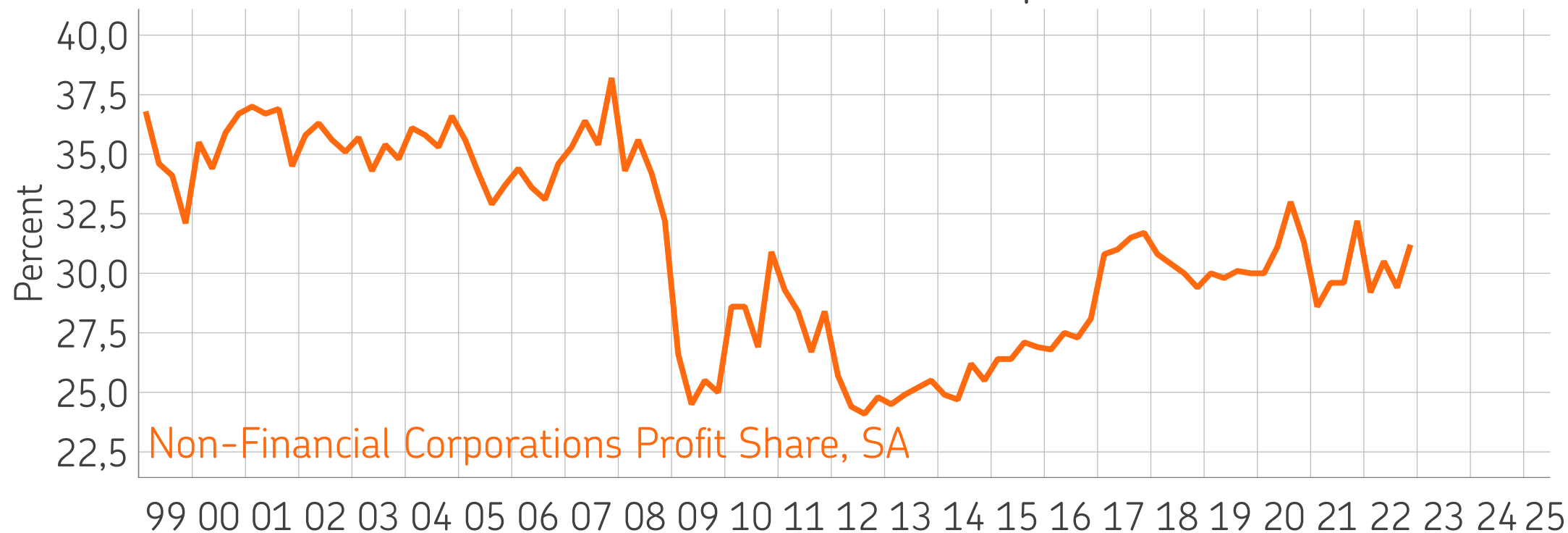


Lähde: Macrobond, EK, OP

- Business confidence has remained weak, with little overall change observed in recent months.
- In the manufacturing sector, confidence remained nearly unchanged and stayed below the average level.
- Confidence in other sectors has also clearly remained below its long-term average.
- The financial situation of companies has remained good this year

Corporate profitability relatively intact

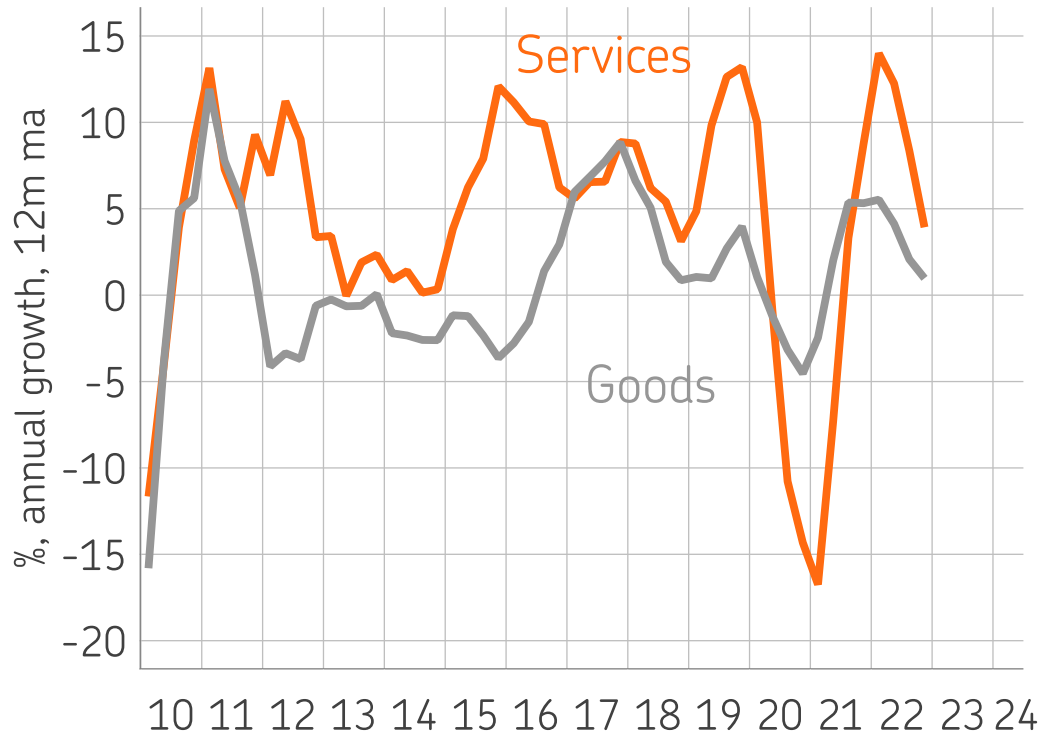
Profit share of non-financial corporations



Source: Macrobond, OP

Export performance is weak

Finland's exports of goods & services

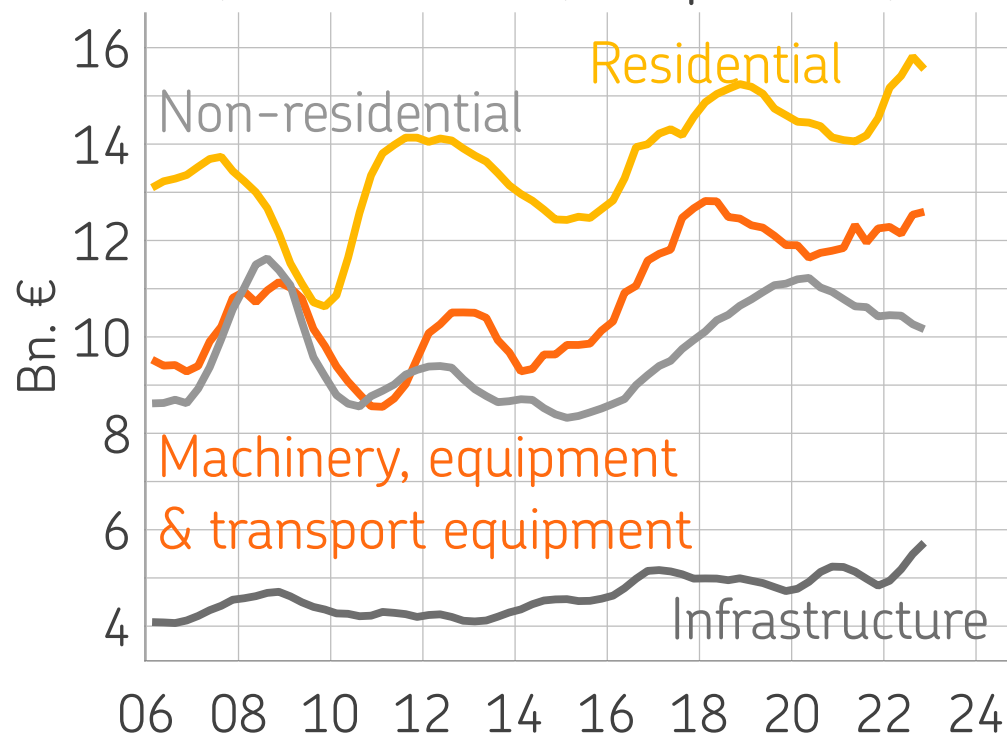


Sources: Macrobond, StatFin, OP

- The value of exports grew significantly last year, but the growth was mainly driven by an increase in export prices. The development of export volume, on the other hand, remained weak, and the first months of this year have not improved the situation. As export prices have started to decline, the growth in the value of exports has also begun to slow down.
- Global trade is expected to contract this year, which weakens Finland's export prospects. Additionally, the opening of China has not yet significantly reflected as a stimulating factor in Finland's exports.
- The growth of service exports continues to support overall exports this year. However, the momentum of merchandise exports continues to weaken as the year progresses. Overall, exports are projected to contract by 2.7% this year and grow by 1% next year.

Residential construction is weighing down investment

Finland, Investment, 4-qrt sum, EUR

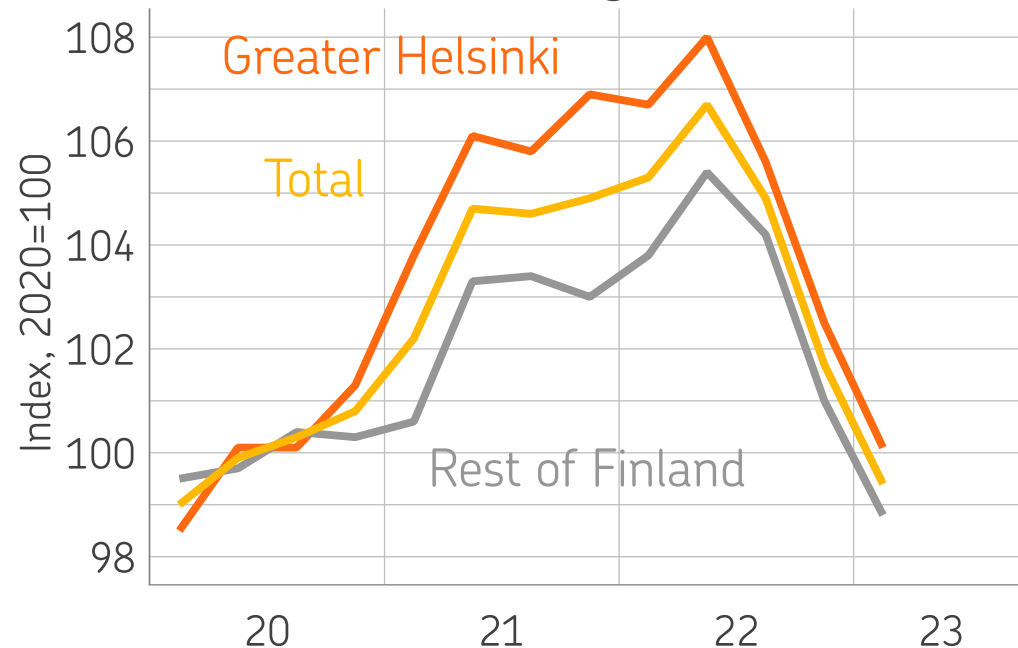


Source: Macrobond, OP

- Investments declined by 2.1% in the final quarter of last year compared to the previous year. Throughout the entire year, investments grew by 5%.
- The momentum in the construction sector has already turned, and this year residential construction investments are expected to decrease significantly, weighing down private investments. The situation in residential construction is further worsened by practically stagnant new construction sales.
- Machinery and equipment investments are expected to grow slightly this year, thus providing some support to overall investments. Additionally, the growth in research and development investments continues this year and next.
- Overall, investments are projected to contract by 3.4% this year and by 1% next year. Residential construction is expected to decline by 12% this year and by 2% next year.

The situation in the housing market has not improved

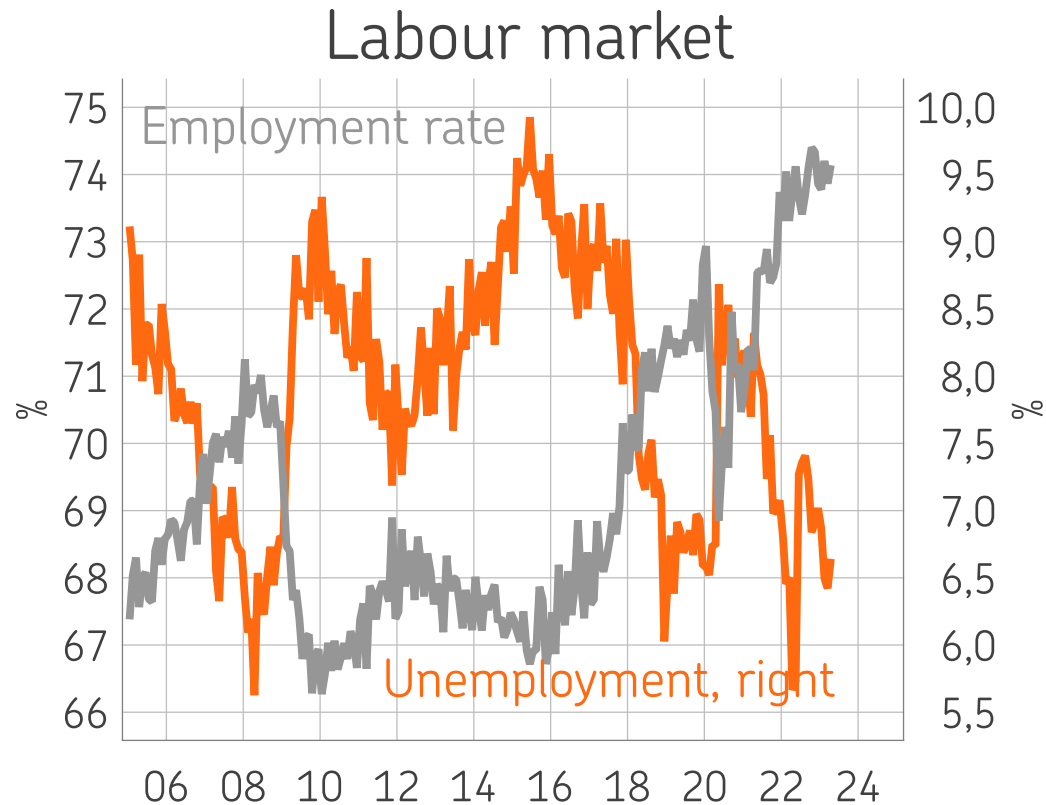
Finland, Real estate prices, Old dwellings



Lähde: Macrobond, StatFin, OP

- The sharp rise in interest rates has had the clearest impact on the housing market. As interest rates have increased significantly, both sales volumes and housing prices have declined.
- It is likely that the bottom has been reached in terms of sales volumes, but a return to typical transaction levels will require an improvement in the overall economy.
- In terms of prices, we expect the decline to continue this year, with prices experiencing a moderate decrease next year. Overall, for this year, we anticipate a 5-7% decrease in prices of owner-occupied homes.

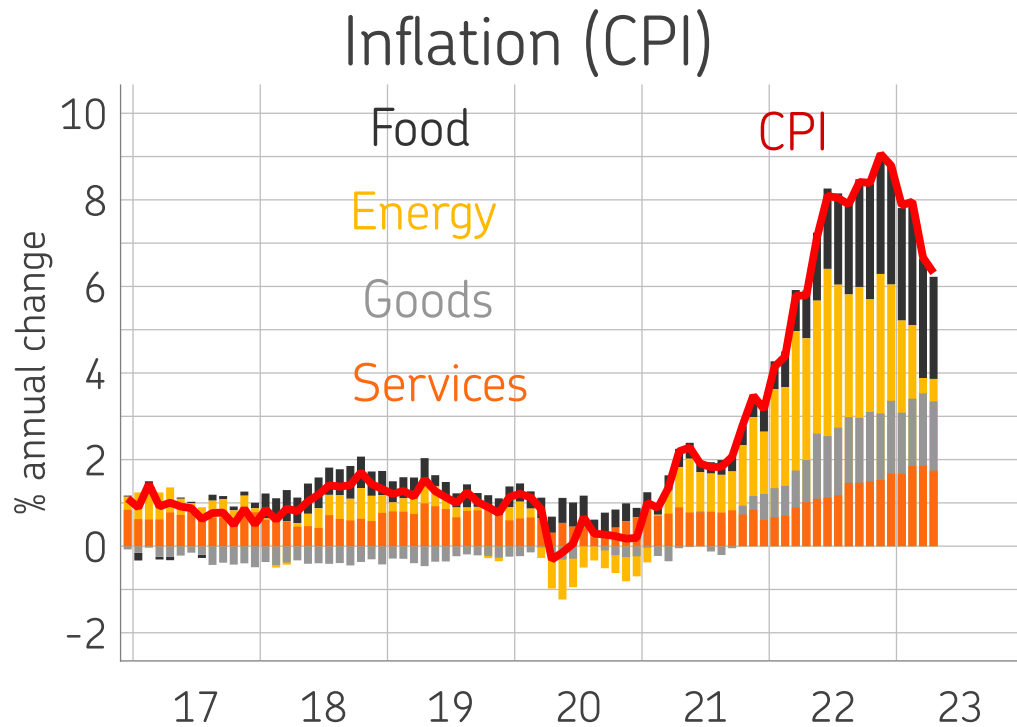
Unemployment is rising slightly



Lähde: Macrobond, StatFin, TEM, OP

- The labor market remained strong in the first quarter. However, there are signs of a weakening trend, including an increase in temporary layoffs. Despite this, there is still a significant shortage of labor and open job positions, so the unemployment rate is expected to rise only slightly this year.
- However, the growth in employment has primarily relied on an increase in part-time employment in recent years. Actual working hours have grown modestly and even decreased according to seasonally adjusted figures for the January-March period.
- We expect that the unemployment rate will be 7% this year. In 2024 unemployment is set to increase to 7.2%.

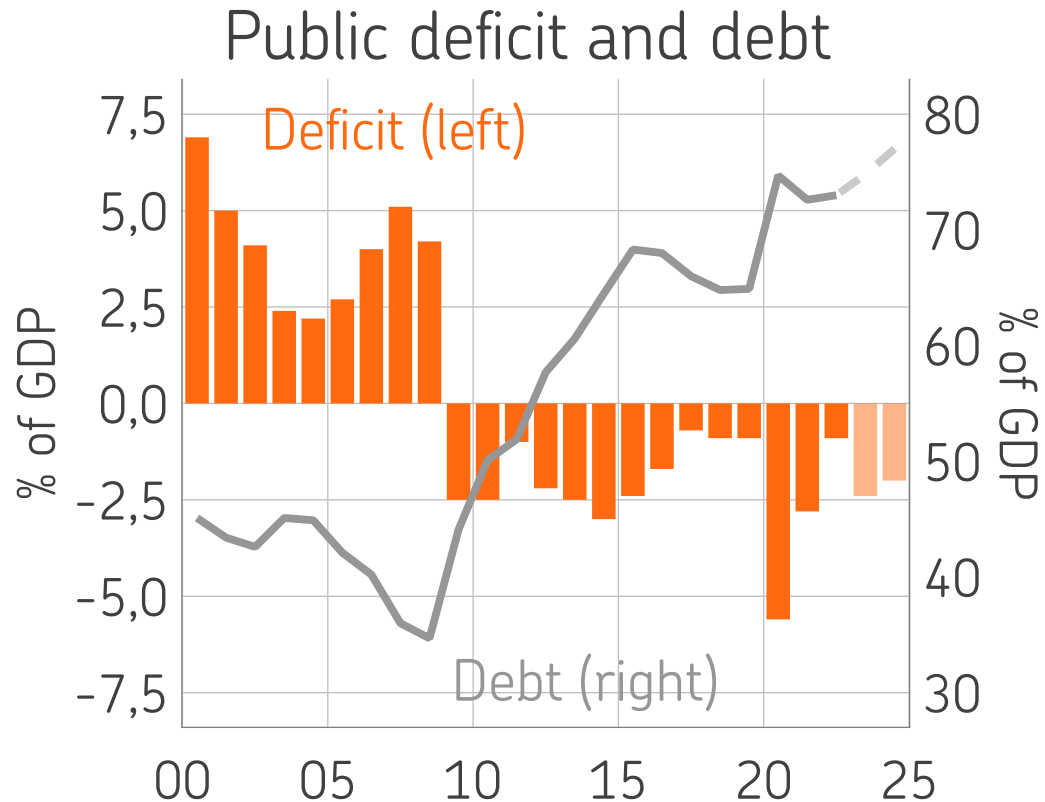
Inflation is slowing down gradually



Source: Macrobond, ECB, OP

- Inflation was 7.9% in April. However, inflation in Finland is slower than indicated by the consumer price index. The harmonized index of consumer prices, which excludes the impact of mortgage interest rate increases, showed a price increase of only 6.4% in April.
- The slowdown in inflation is largely due to the decline in energy prices. Additionally, inflation is no longer accelerating in categories such as food, goods, and services when mortgage interest rates are not considered. Inflation appears to have peaked in many categories.
- We expect the inflation to decelerate from exceptionally high levels while remaining above the target. Our forecast for the inflation is 5.9% this year. In 2024, consumer prices will grow 2.3%.

The public deficit will increase in 2023

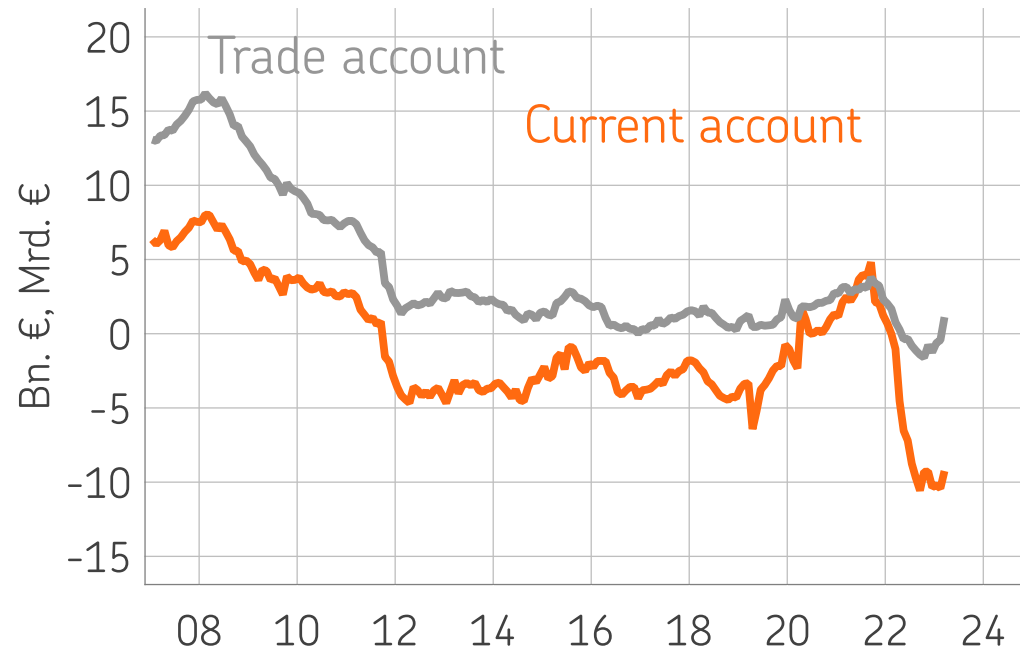


Source: Macrobond, StatFin, OP

- The public sector deficit was 0.9 percent of GDP in 2022. The government's deficit relative to GDP was 1.6 percent, which was the third lowest since the financial crisis. The public finances were primarily improved by positive economic growth and increased tax revenues due to high inflation.
- In 2023, the public deficit will increase despite moderate GDP growth and relatively high inflation.
- The growth of the deficit will occur in an election year, as adjustment measures are likely to be implemented for the next year, which will improve the state of public finances by 1-2 billion euros. However, due to weak economic growth, the deficit will still be larger than last year.

The current account deficit will persist

Finland, Current account, 12-month sum, EUR



Lähde: Macrobond, StatFin, OP

- The current account balance turned negative last year due to the increase in energy imports and the recovery of tourism. Part of the significant deficit last year can be attributed to one-off factors, such as unusually high dividends.
- We expect the current account to remain significantly in deficit both this year and next. The terms of trade will improve slightly as export prices decrease slightly compared to import prices. However, there is significant uncertainty regarding prices, and particularly for export prices, the risks are tilted downwards.
- The current account deficit will be 2.9% this year, 2.4% next year and in 2024.

Slow and steady downturn in the economy

- The energy crisis did not culminate, and according to preliminary data, the Finnish economy grew slightly at the beginning of the year. However, the economy is still not immune to a recession, and the outlook has even slightly deteriorated since January.
- The rapid increase in interest rates has hit residential construction particularly hard, and construction investments are plunging more sharply than previously anticipated. It is predicted that construction investments will decrease by 8.5% this year and 2% next year.
- Private consumption was still growing at the beginning of the year. However, based on credit card payment data, consumption has declined in the spring. Private consumption will decrease this year as savings cannot be relied upon as they were last year, and real disposable incomes are not growing.
- Last year, export revenues grew rapidly due to price increases, even though the volume of exports only grew slightly. Now export prices have already started to decline from their peak, and the development of export volume has been weak in the early months of the year. Over the course of the year, export volume will decrease by 2.7% and export value will contract by 6.6%. The risk, especially in export prices, is downward.
- The labor market situation remained strong in the first quarter. However, there are signs of weakening, such as an increase in layoffs. Despite this, there is still a shortage of labor and open job positions, so the unemployment rate will only rise slightly this year.
- Inflation peaked during winter, but it will take time to return to the vicinity of the two percent inflation target. The price increases are no longer driven by rising energy prices, and the share of food and goods in inflation is also decreasing. On the other hand, service price inflation is slowing down slowly.
- In terms of economic growth, in addition to international developments, the combined impact of many factors that have emerged during various crises, known as crisis fatigue, poses a risk. There are already signs of this, such as an increase in the number of bankruptcies.

Thank you!