

Swedbank



Global and local economic outlook: lower rates, faster growth?

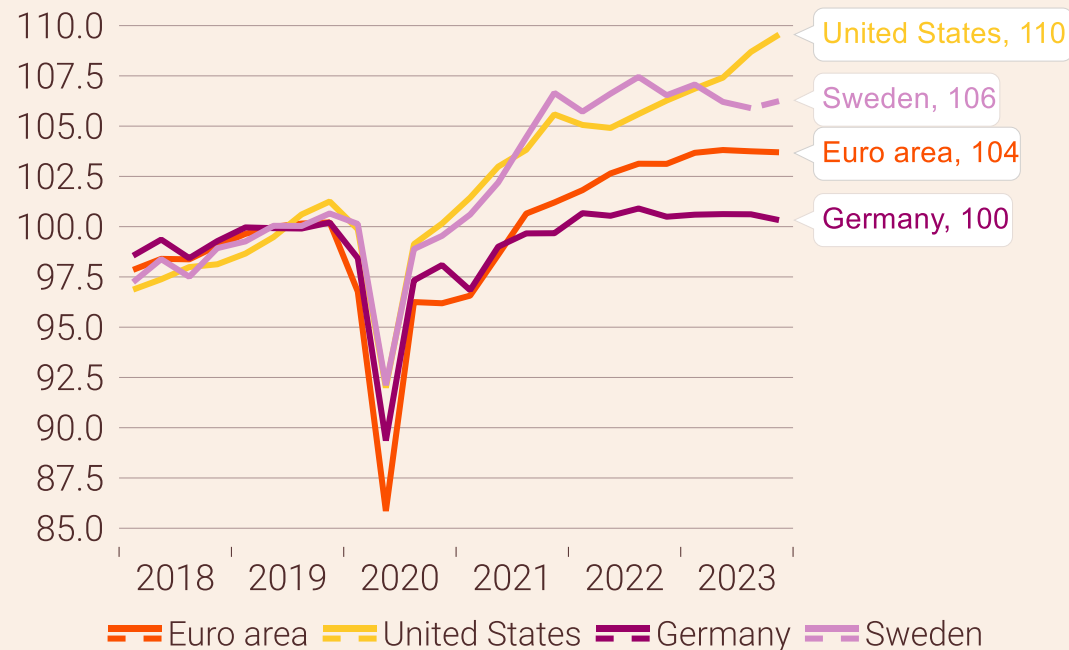
Nerijus Maciulis
Swedbank Group deputy chief economist
2024-03-27

Large divergences across the world and the EU

Probability of hard landing is lower, but Euro Area is likely to continue to stagnate

GDP

Index (2019=100), constant prices, sa ca



Sources: Swedbank Research & Macrobond

EA is likely to stagnate or shrink somewhat in the H1 2024

Q/Q change (%)

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Germany	-0.3	0.0	0.0	0.1	-0.4	0.4	-0.1	1.0
France	0.1	0.0	0.6	0.0	0.0	0.6	0.3	-0.1
Italy	0.2	0.2	-0.2	0.5	0.0	0.3	1.4	0.1
Spain	0.6	0.4	0.5	0.5	0.5	0.5	2.5	0.3
Netherlands	0.3	-0.3	-0.4	-0.5	0.6	0.2	1.7	0.5
Poland	0.0	1.1	-0.1	0.7	-1.5	0.4	-1.0	3.2
Belgium	0.3	0.4	0.3	0.4	0.2	0.3	0.7	0.1
Sweden	-0.1	-0.1	-0.7	0.7	-1.0	0.7	1.0	-1.0
Ireland	-3.4	-2.5	-0.1	-3.4	0.2	3.0	2.8	4.8
Austria	0.0	-0.3	-1.3	0.1	-0.2	-0.1	2.0	0.6
Denmark	2.0	0.4	-0.6	1.2	-0.3	0.5	1.3	-1.1
Romania	-0.5	1.0	1.4	-0.8	1.9	0.3	-0.4	2.6
Czech Republic	0.2	-0.8	0.2	0.1	-0.4	-0.2	0.2	0.6
Finland	-0.8	-1.1	0.5	-0.2	-0.6	-0.2	0.5	-0.3
Portugal	0.8	-0.2	0.1	1.5	0.5	0.5	0.1	2.3
Greece	0.2	-0.1	1.1	0.0	1.1	0.5	0.4	2.3
Hungary	0.0	0.8	0.0	-0.3	-0.7	-1.1	1.0	1.4
Slovakia	0.3	0.2	0.4	0.2	0.2	0.3	0.1	0.3
Bulgaria	0.5	0.4	0.4	0.4	0.6	0.6	0.8	0.7
Luxembourg	0.0	-1.4	0.2	0.6	-1.5	0.3	-0.7	0.0
Croatia	1.3	0.5	1.5	1.0	0.1	-0.3	0.8	2.7
Lithuania	-0.1	0.0	2.4	-1.9	-0.3	0.7	-0.6	0.4
Slovenia	1.1	0.0	1.1	0.3	0.4	-0.1	0.5	0.0
Cyprus	0.6	1.3	-0.4	0.8	0.7	1.1	0.6	0.6
Estonia	-0.7	-0.8	-0.3	-0.7	-1.3	-0.6	-1.2	-0.1
Latvia	0.8	0.1	-0.3	-0.2	0.6	-0.7	0.1	1.2
Malta	-4.1	6.4	3.5	-1.3	-1.6	4.3	4.9	-0.6

Source: National sources
Sources: Swedbank Research & Macrobond

Positive economic surprises at the start of the year

Citi, Economic Surprise Index



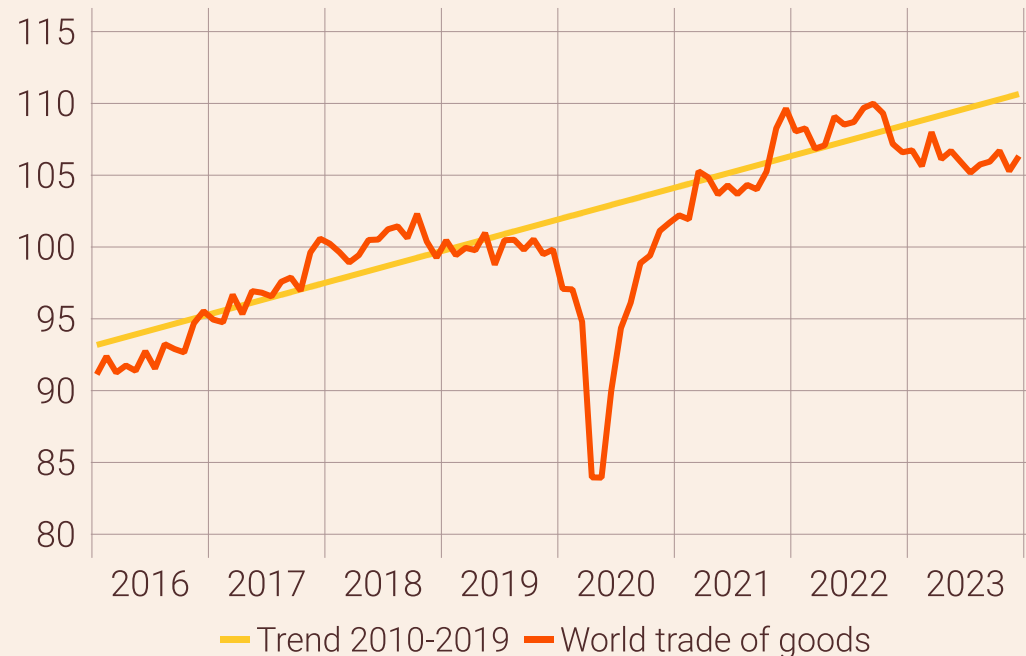
Sources: Swedbank Research & Macrobond

Global trade in goods fell last year

Semiconductor exports suggest that demand for goods may be returning

World trade of goods

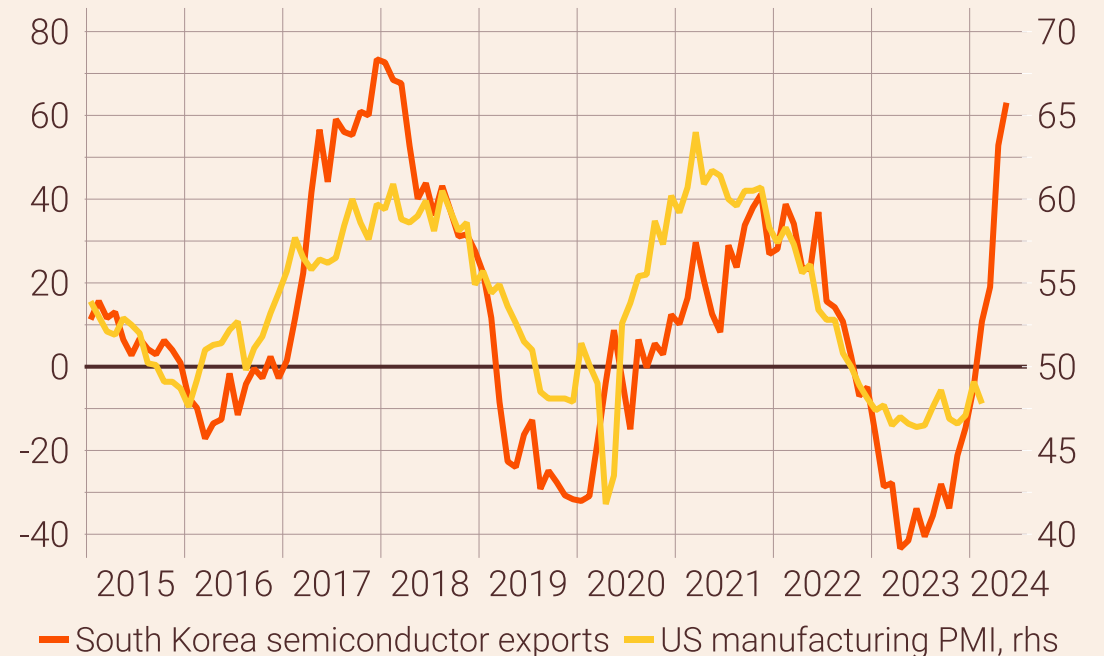
Index (2019=100)



Sources: Swedbank Research & Macrobond

S Korea semiconductor exports and US PMI

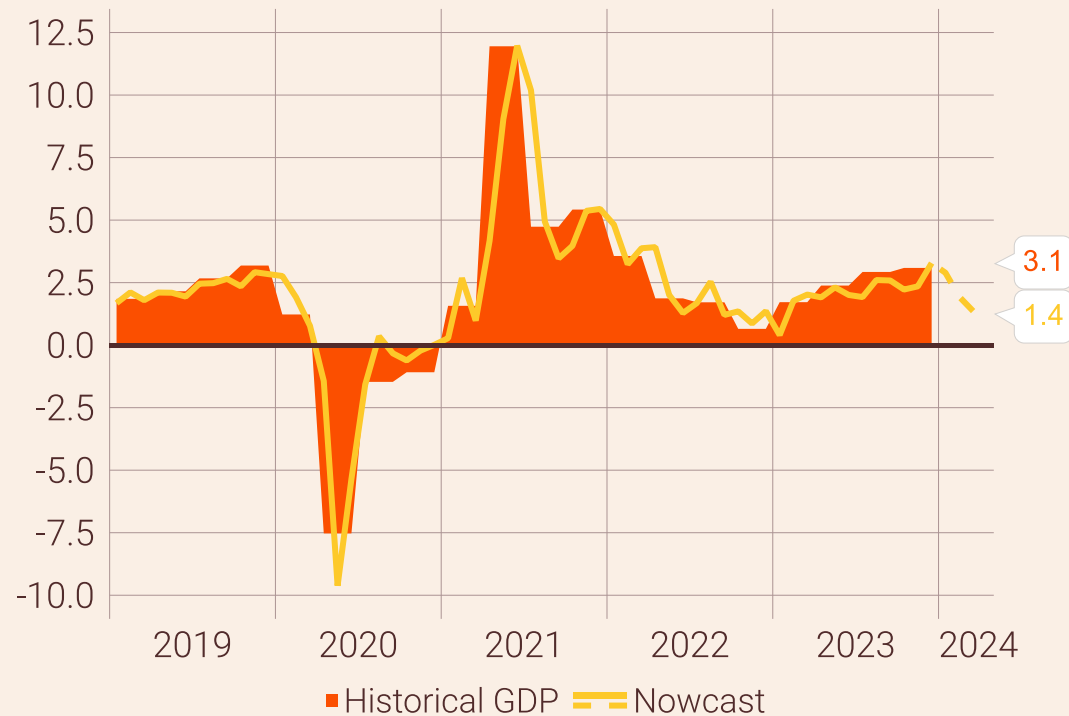
USD y/y, %; index



Sources: Swedbank Research & Macrobond

US: growth momentum is not weakening

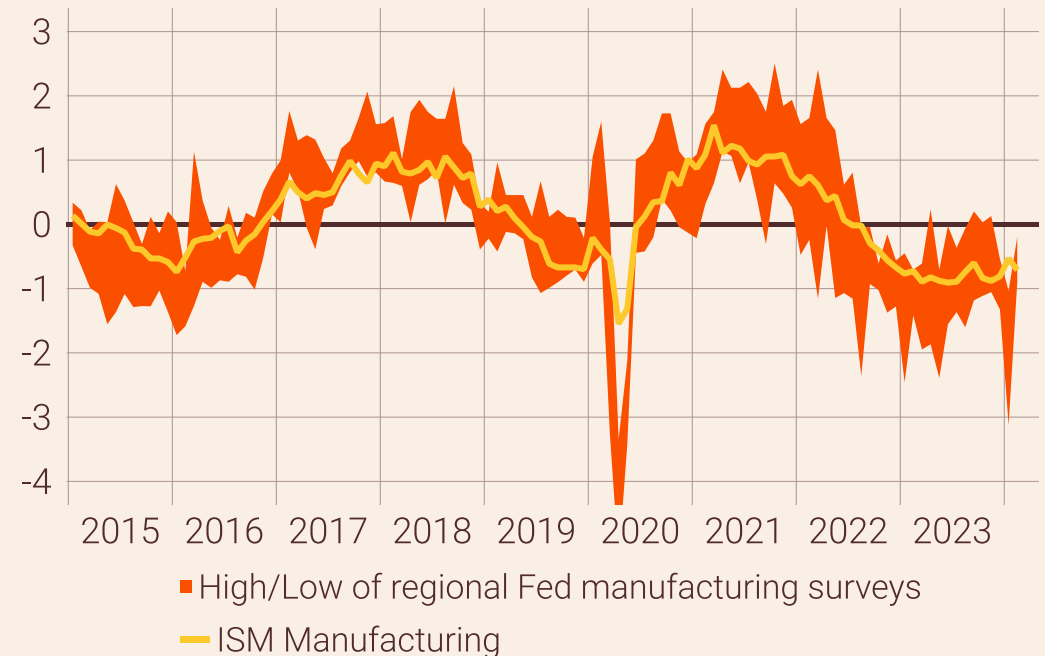
United States: GDP nowcast



Sources: Swedbank Research & Macrobond

Manufacturing sentiment

Standard deviations from mean

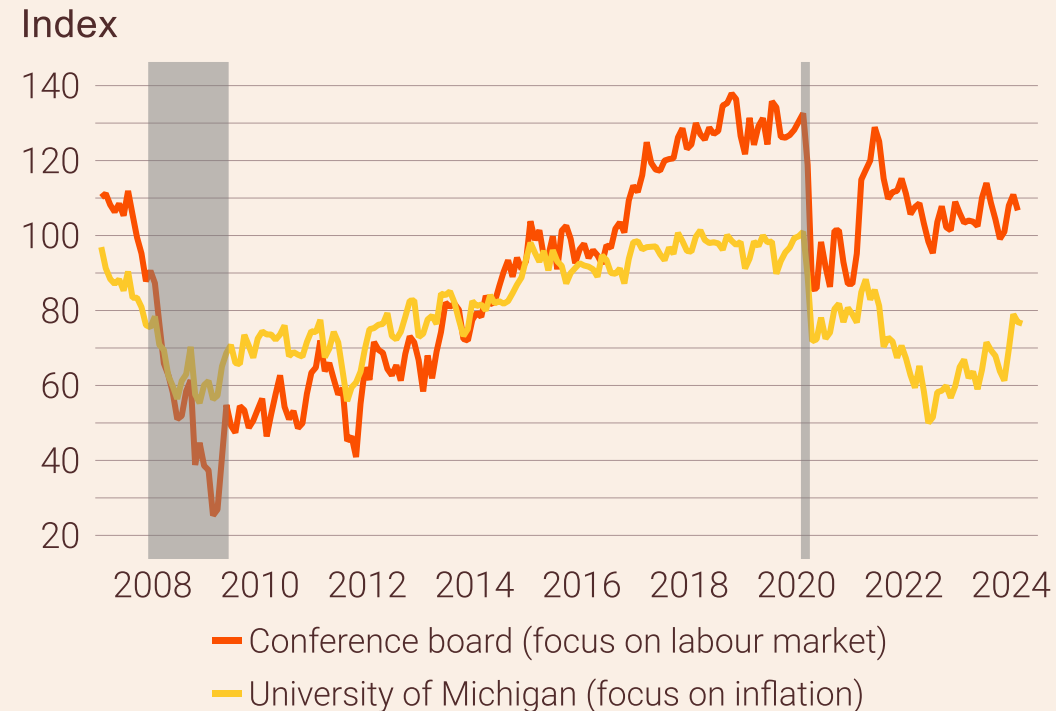


Sources: Swedbank Research & Macrobond

US: consumer confidence is recovering

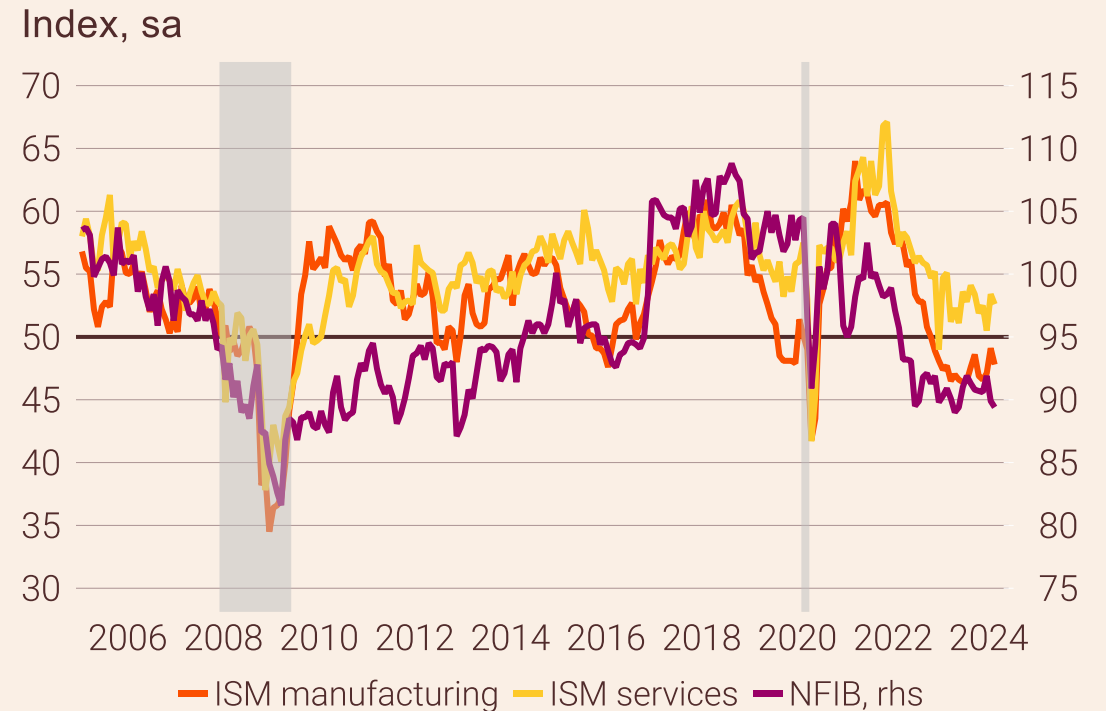
But business sentiment remains weak

US Consumer surveys



Sources: Swedbank Research & Macrobond

Business sentiment



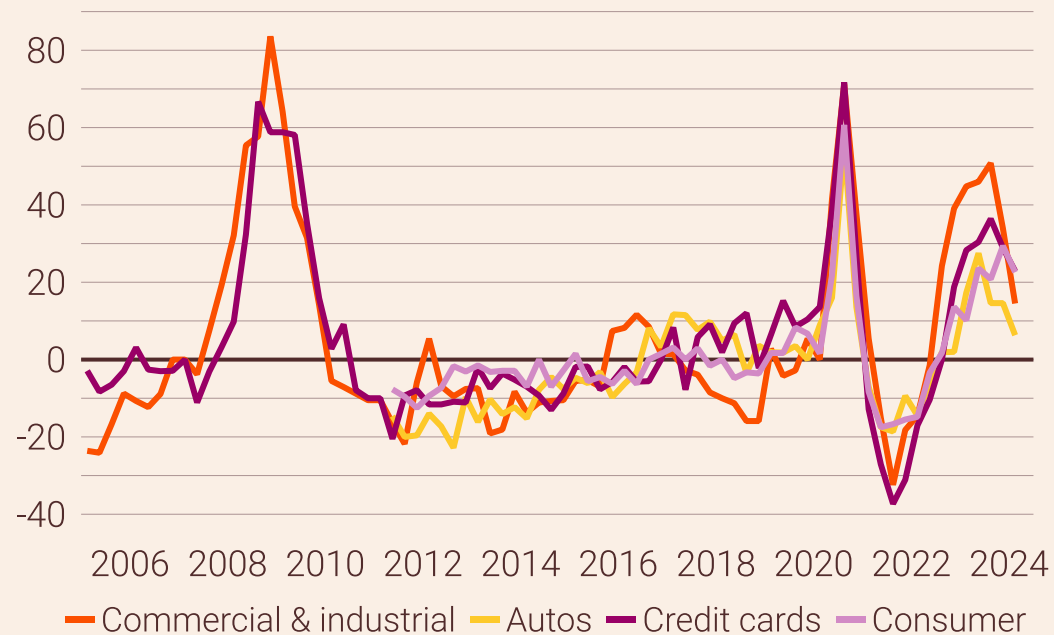
Sources: Swedbank Research & Macrobond

Credit channel is still likely to dampen growth

Long monetary policy lags; some sectors are more vulnerable than others

Lending standards

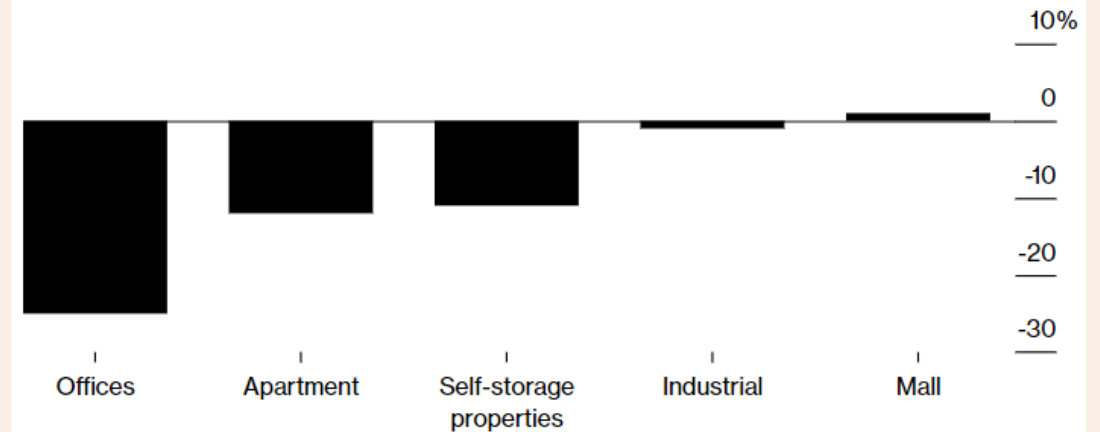
Net percentage of banks tightening standards



Sources: Swedbank Research & Macrobond

Offices Lead Slump in US Commercial Real Estate Values

Prices have tumbled for most property types



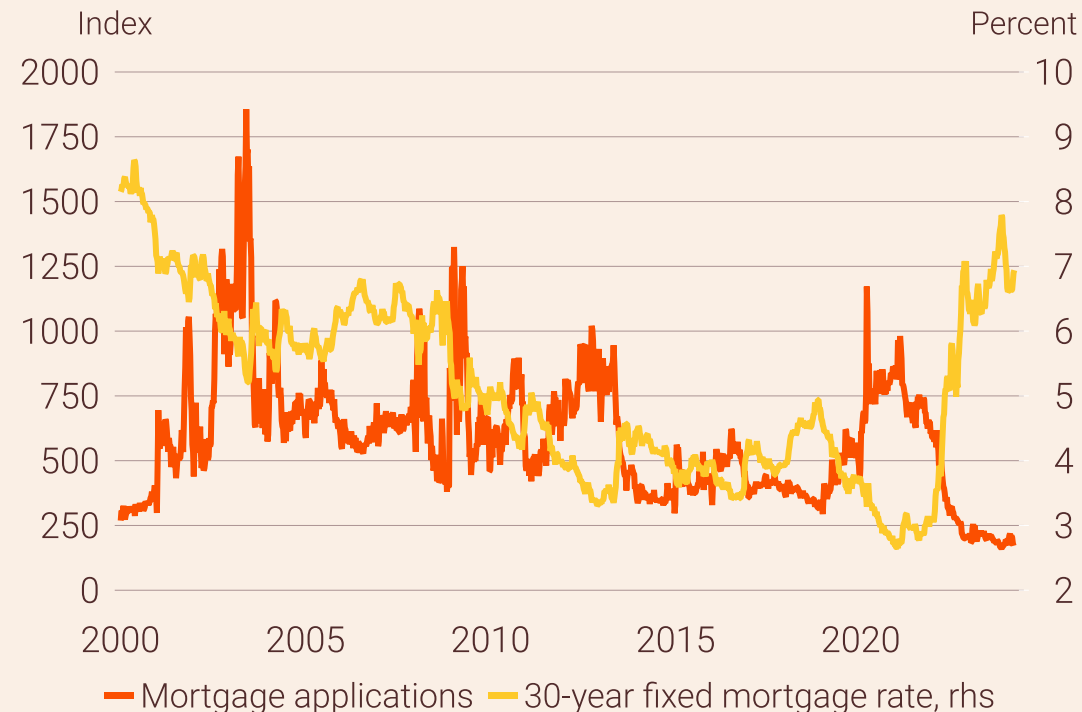
Source: Green Street

*Data show change in commercial property values in the 12 months through December

US housing market is still frozen

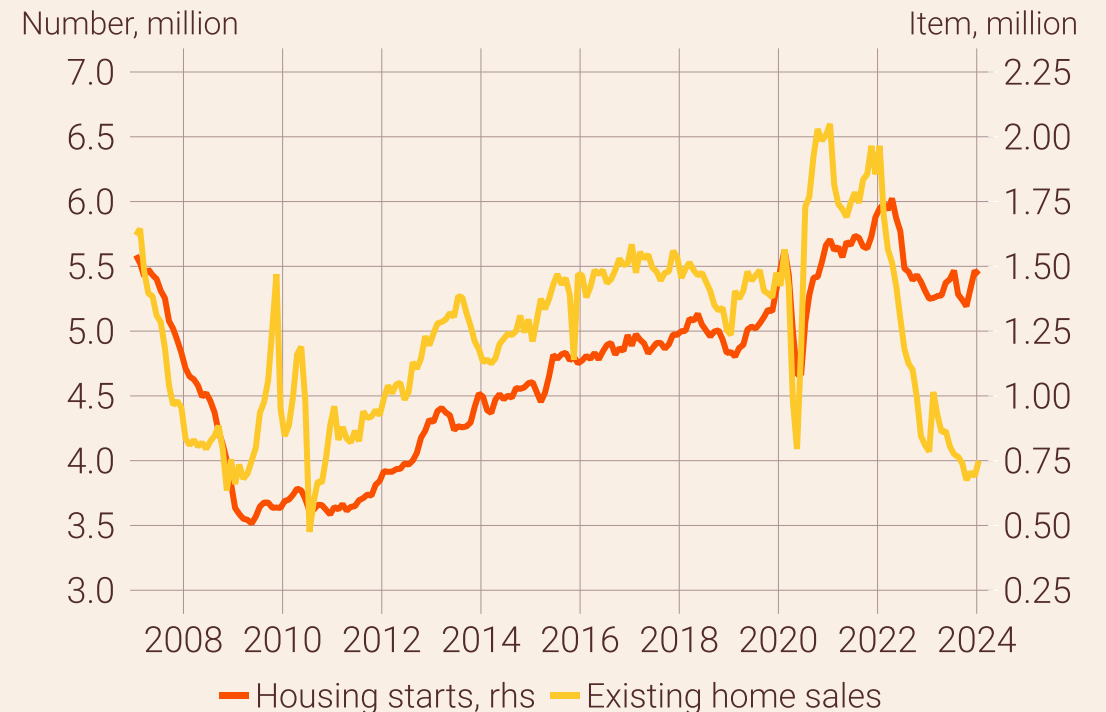
But supply is insufficient, and housing starts are increasing

US mortgage rates and demand for loans



Sources: Swedbank Research & Macrobond

US: existing home sales and housing starts



Sources: Swedbank Research & Macrobond

China: ongoing real estate crisis

New construction dropped by almost 50% last year

China: Consumer confidence

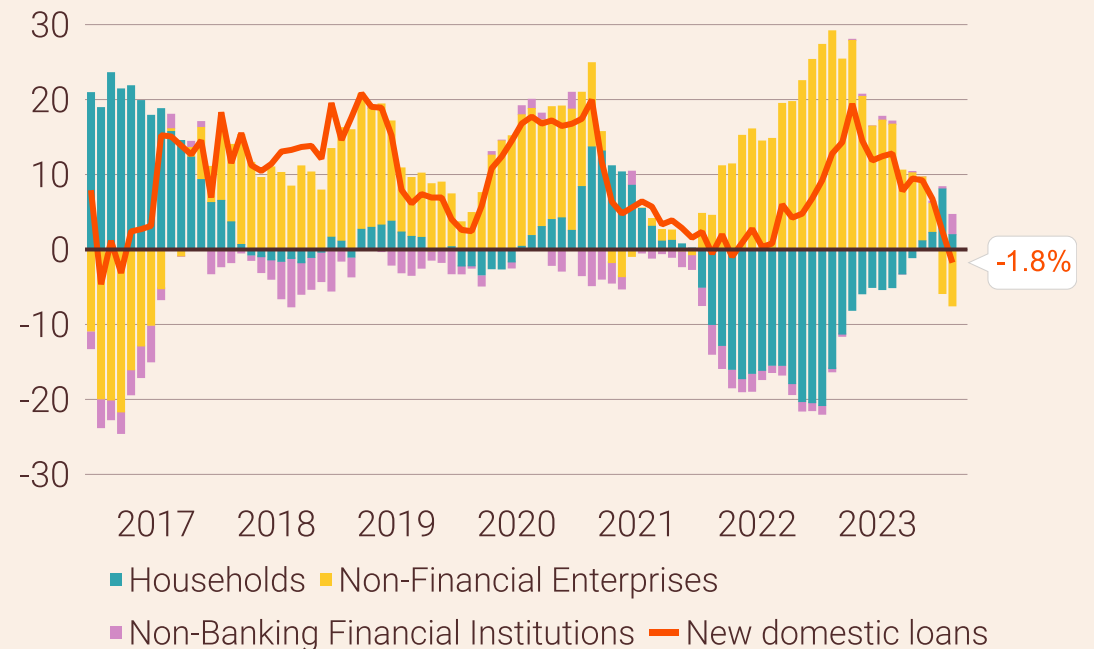
Index



Sources: Swedbank Research & Macrobond

China bank loans

y/y%; 12m / 12m % change contributions



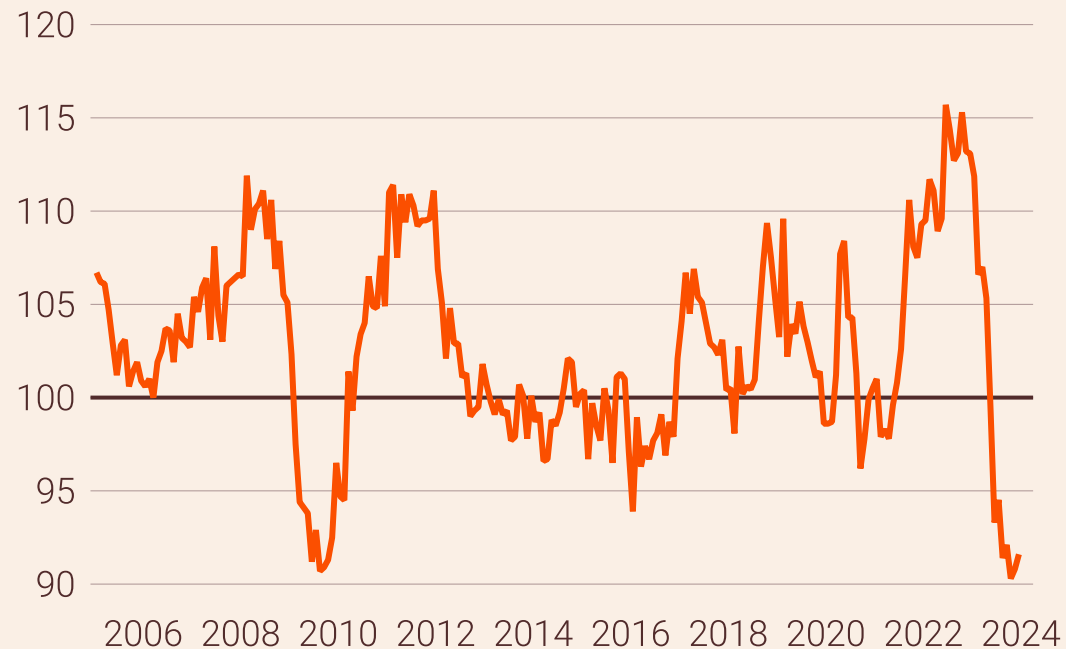
Sources: PBoC, Swedbank Research & Macrobond

China continues to export deflation

Natural gas and oil prices to remain low

China, Export prices

Index, CPPY=100



Sources: Swedbank Research & Macrobond

TTF gas: Spot and futures curve



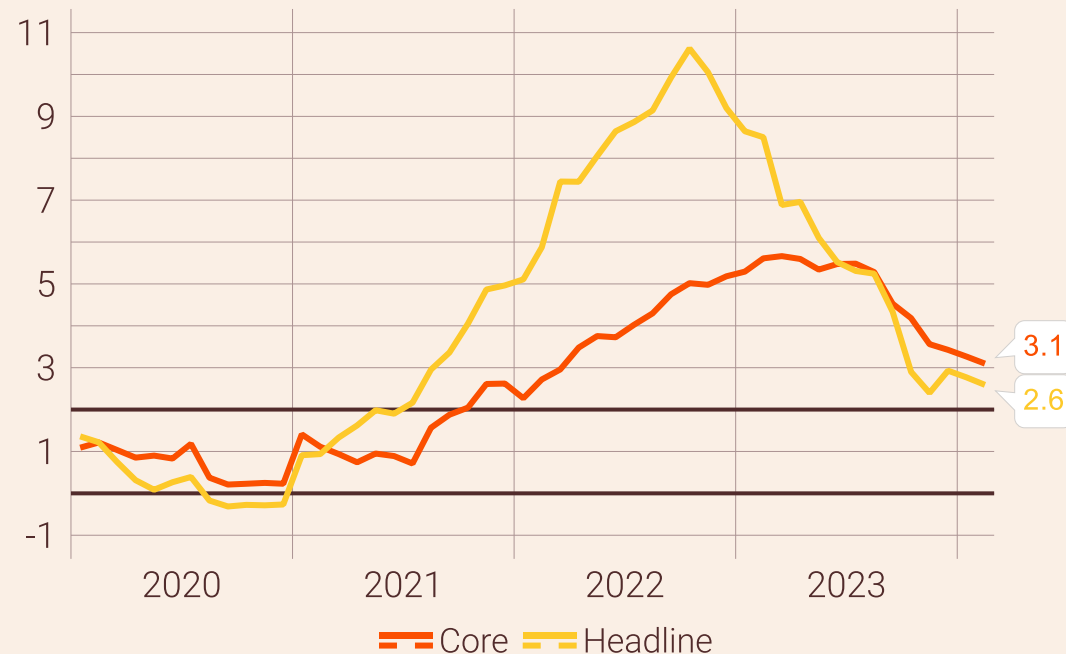
Sources: Swedbank Research & Macrobond

Euro area: inflation is unlikely to stay elevated

Cheaper commodities still support disinflation of goods

Euro area headline and core inflation

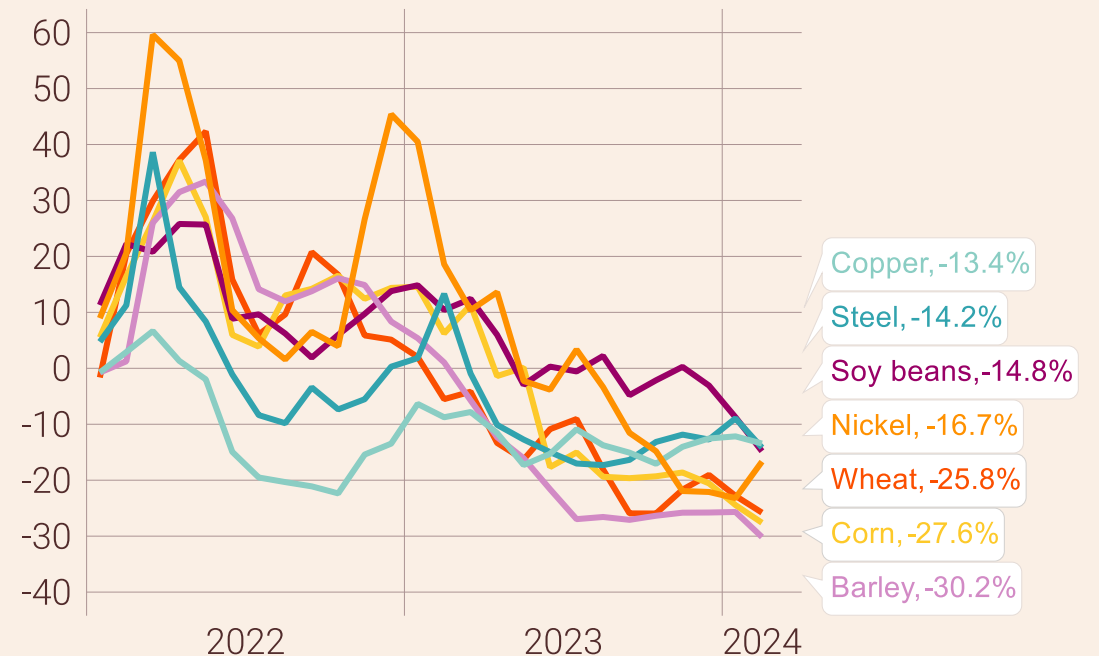
y/y %



Sources: Swedbank Research & Macrobond

Commodity price changes in 2 years

Change since January 2022



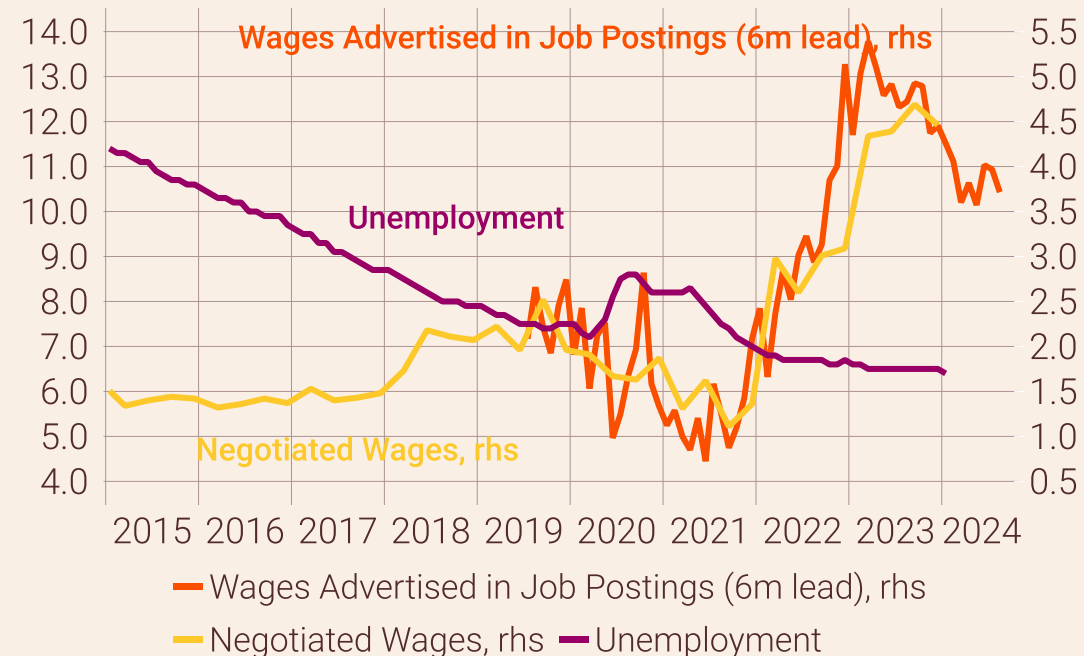
Sources: Swedbank Research & Macrobond

ECB is still worried about “excessive wage growth”

(Just don't tell that to most Europeans)

Euro area: unemployment and wage growth

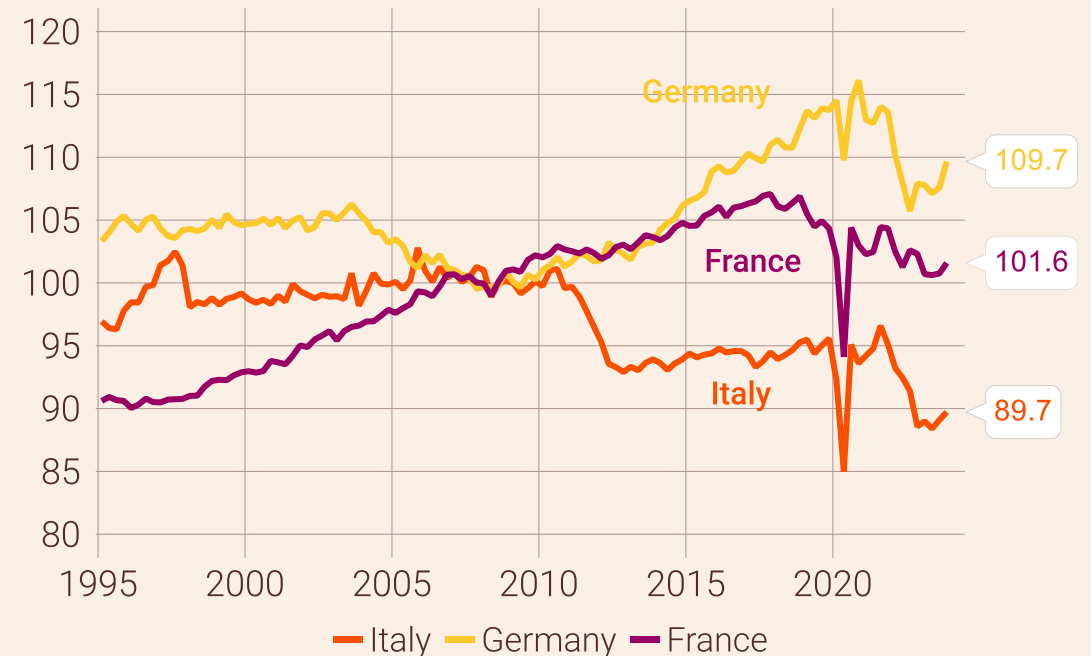
%; y/y % (rhs)



Sources: Swedbank Research & Macrobond

Real wages in euro area

Index, 2008=100

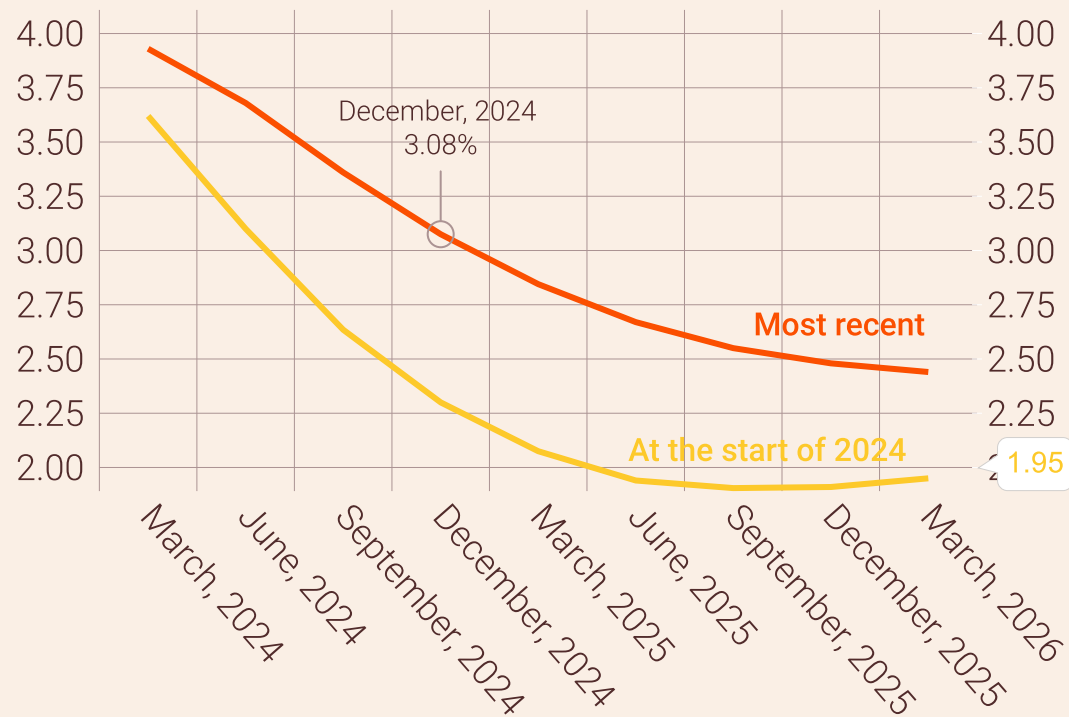


Sources: Swedbank Research & Macrobond

Expectations of ECB rate cuts are pushed forward

We forecast first ECB rate cut in June and still expect rates to fall below 2% in a medium term (closer to neutral rate of interest)

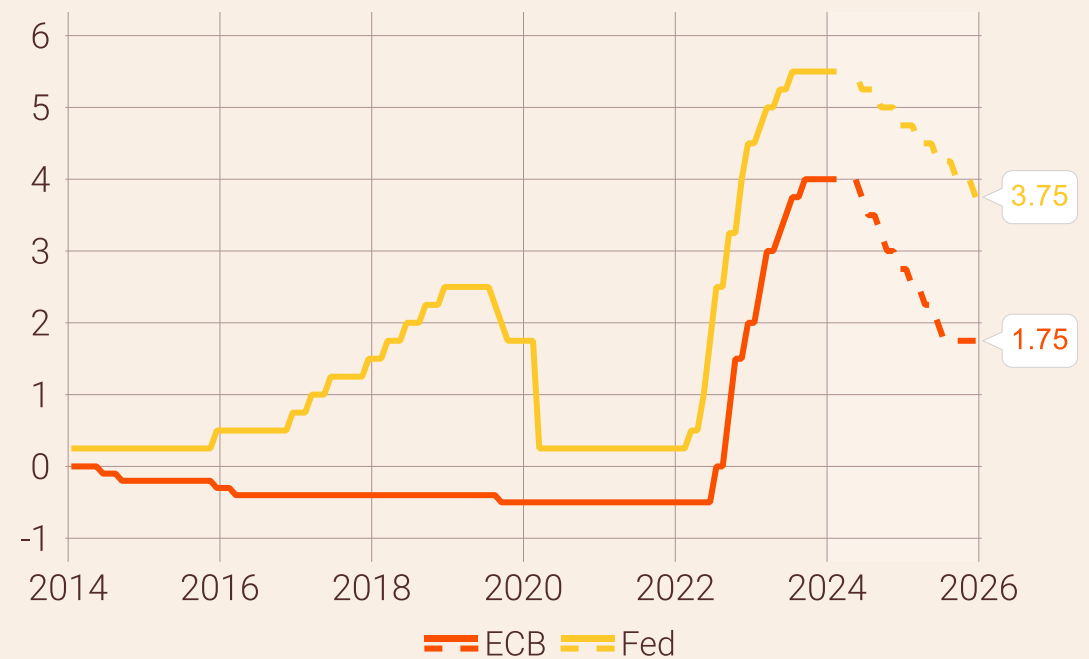
3 month Euribor futures



Sources: Swedbank Research & Macrobond

Central bank interest rates

Outcome and Swedbank forecast, %

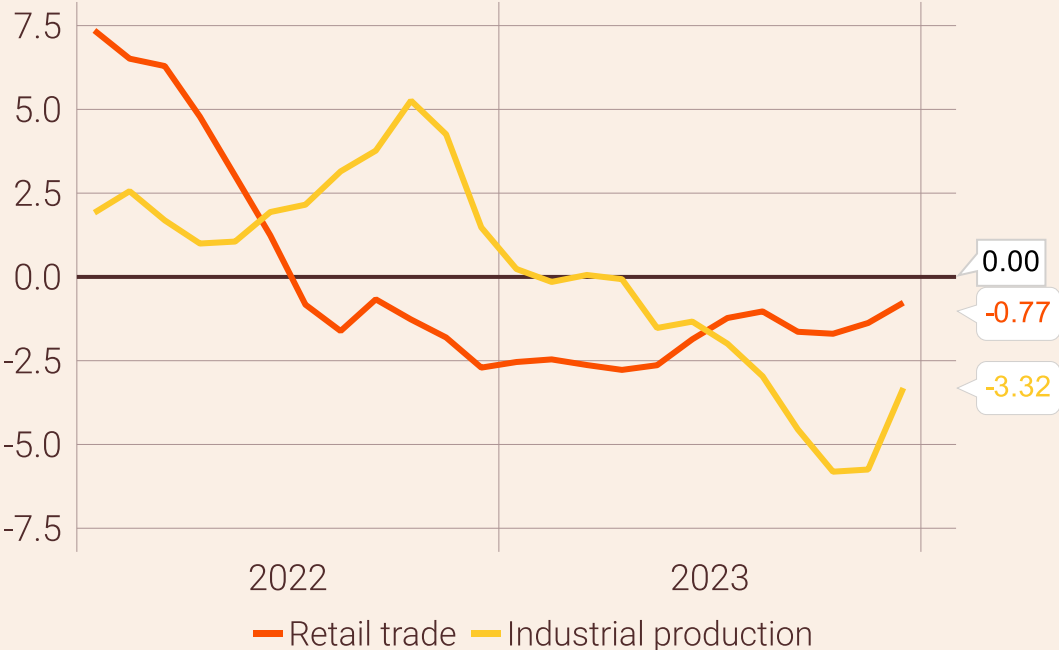


Sources: Swedbank Research & Macrobond

Euro area: struggling manufacturing and construction, some signs of recovery in consumption and services

Euro area industry and retail trade

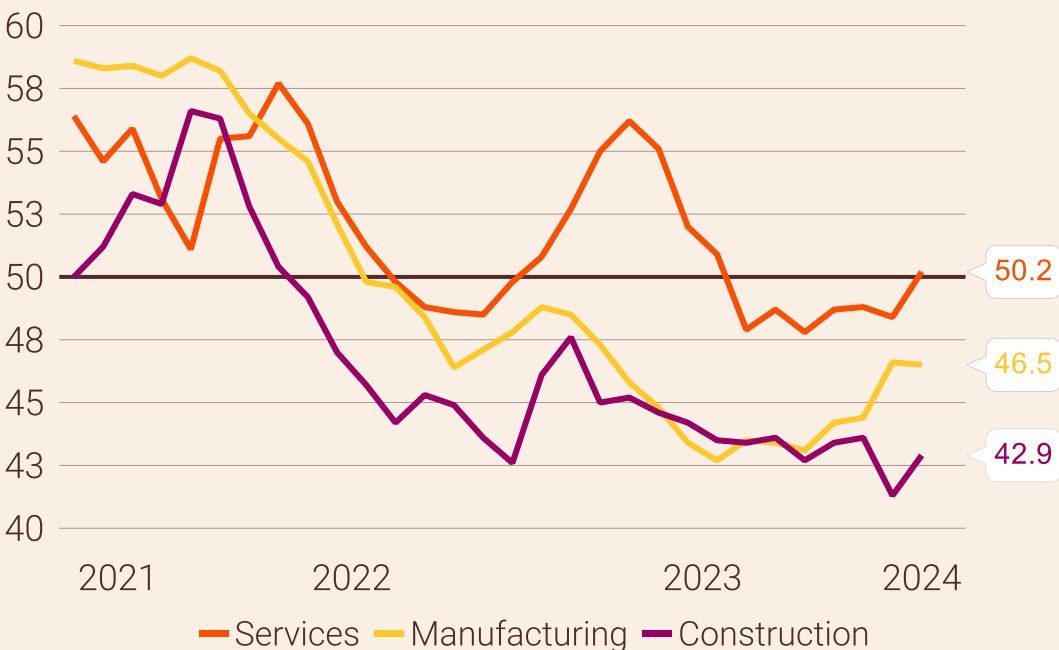
y/y %, 3 month moving average



Sources: Swedbank Research & Macrobond

Divergence in euro area PMIs

Index

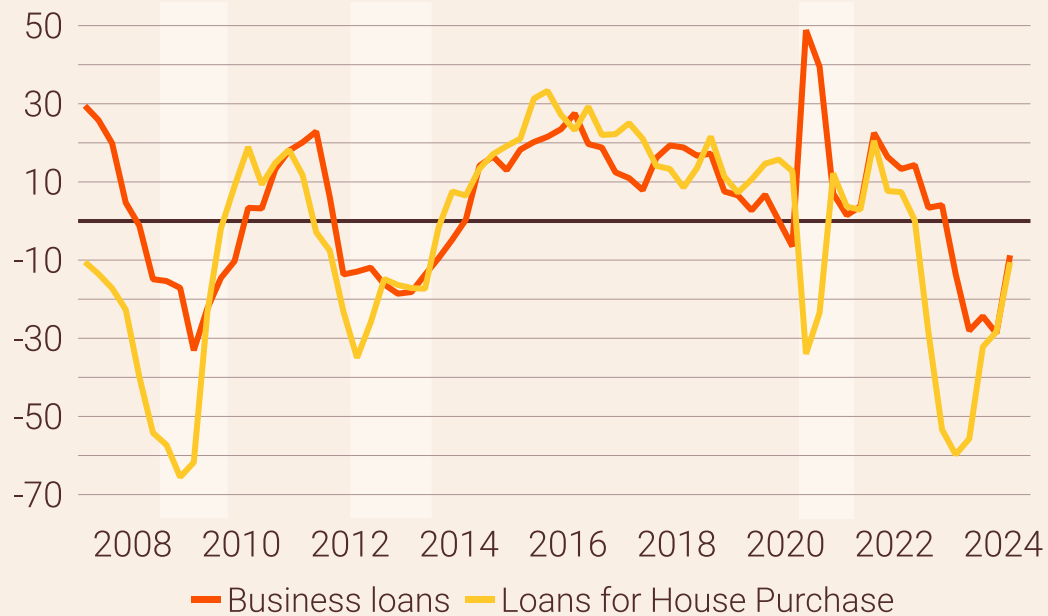


Sources: Swedbank Research & Macrobond

Still falling demand for loans, negative credit impulse

Demand for loans in euro area

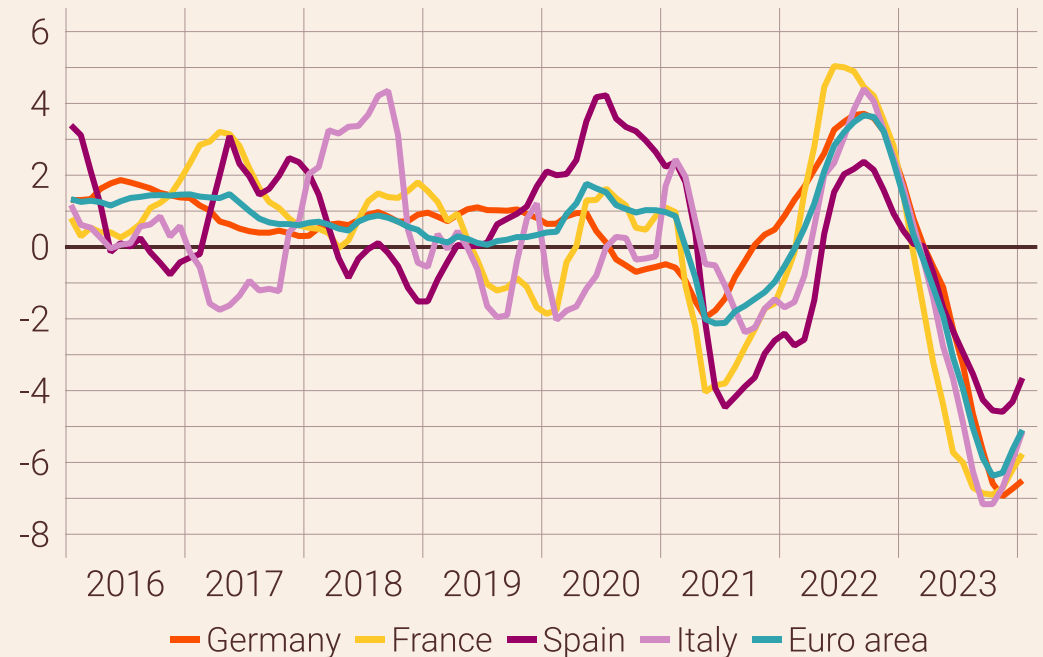
Net percentage*; shaded area- recessions



*improving (+) vs worsening (-), average of backward and forward looking responses
Sources: Swedbank Research & Macrobond

Credit impulse in euro area

Annual change in loan portfolio growth, pp



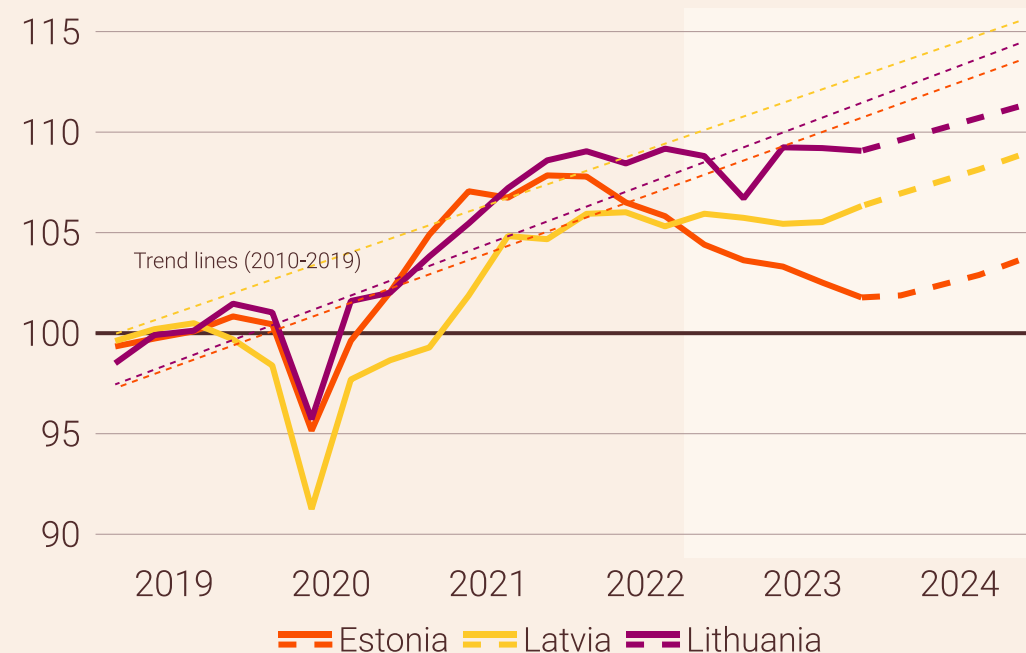
Sources: Swedbank Research & Macrobond

Baltic GDP most likely has bottomed out

More tangible recovery is likely in 2024 H2, biggest uncertainty – export markets

Gross domestic product

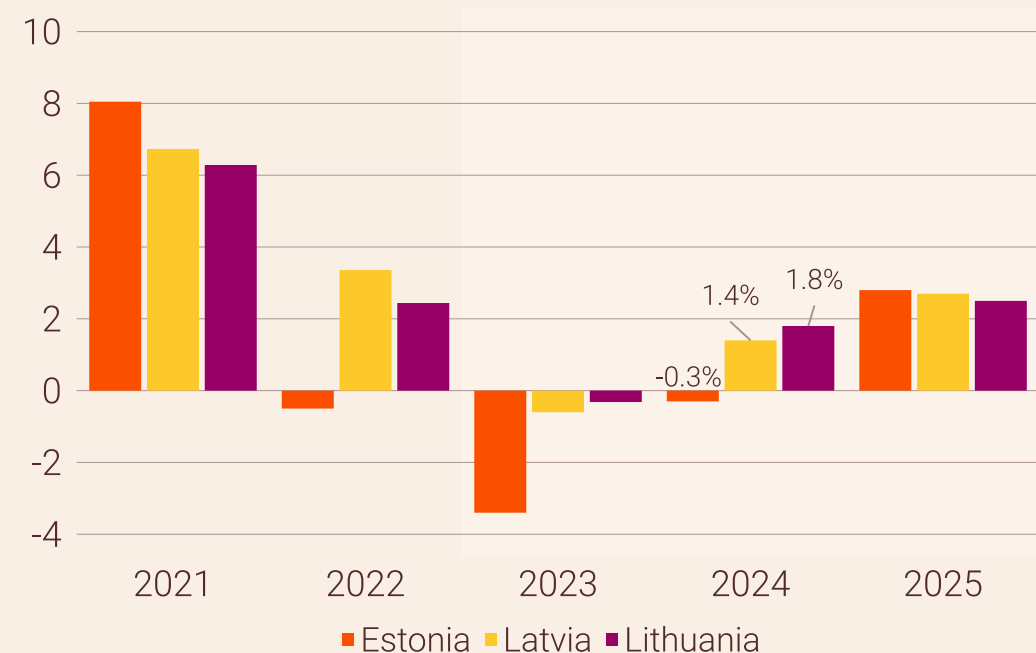
Index (2019=100), sa, constant prices



Sources: Swedbank Research & Macrobond

Real GDP growth: actual and forecast

y/y%

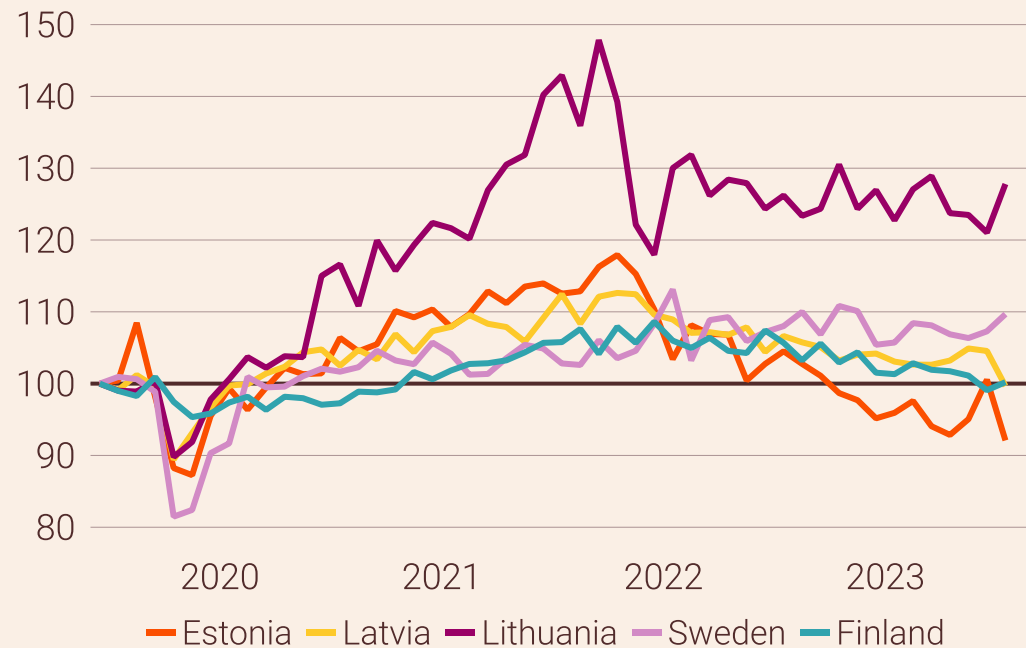


Sources: Swedbank Research & Macrobond

Manufacturing is recovering, divergences remain

Manufacturing output

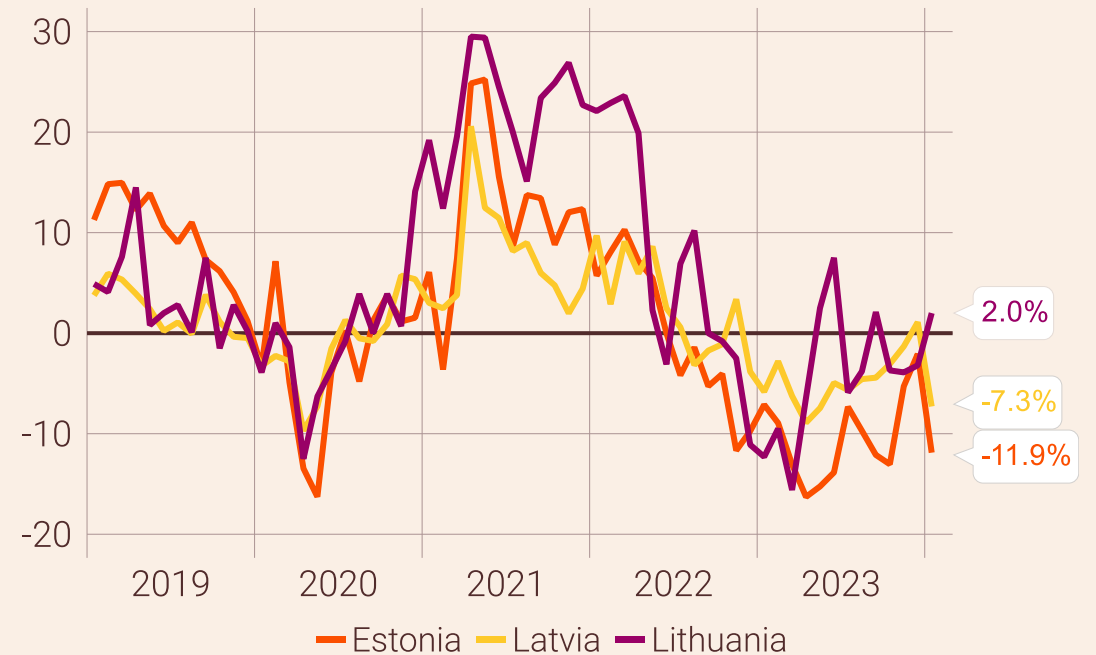
Index (12/2019=100), constant prices, sca



Sources: Swedbank Research & Macrobond

Manufacturing output

y/y %, constant prices, ca



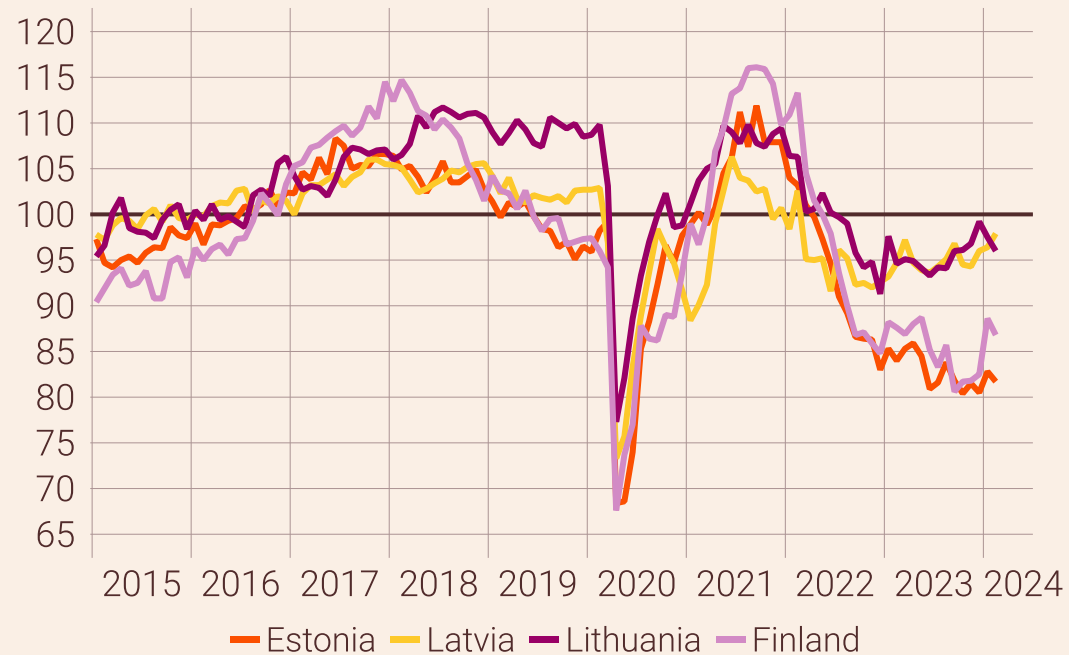
Sources: Swedbank Research & Macrobond

Business confidence has improved somewhat

Expectations of exports recovery (not everywhere)

Economic sentiment indicator

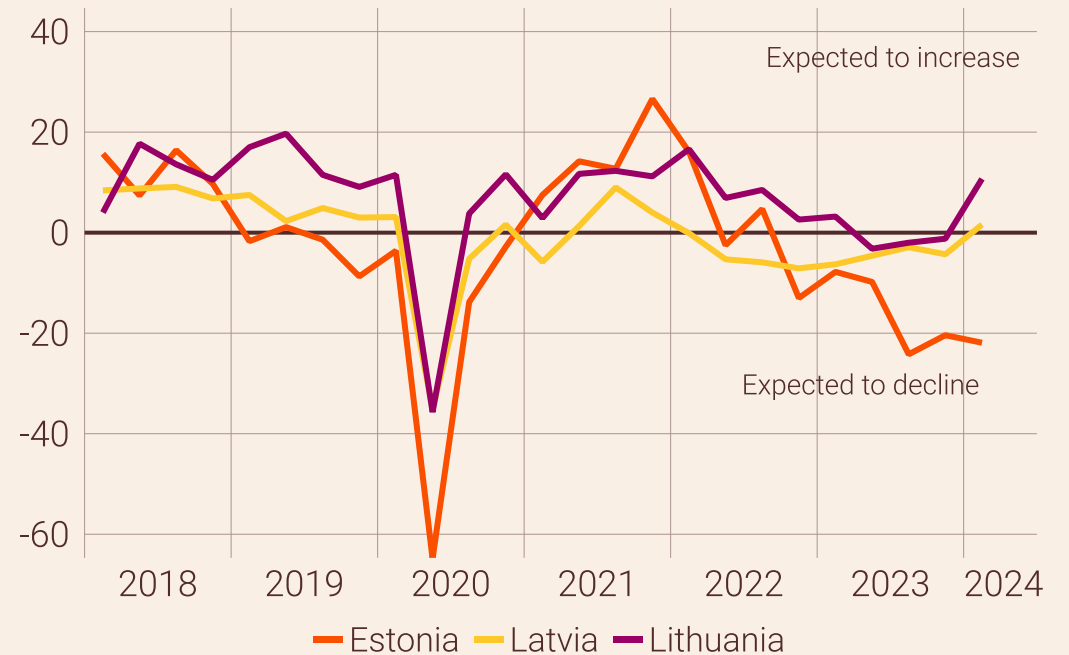
Index, sa, 100 corresponds to long term average



Sources: Swedbank Research & Macrobond

Export orders in manufacturing

For next 3 months, balance of answers, %, sa

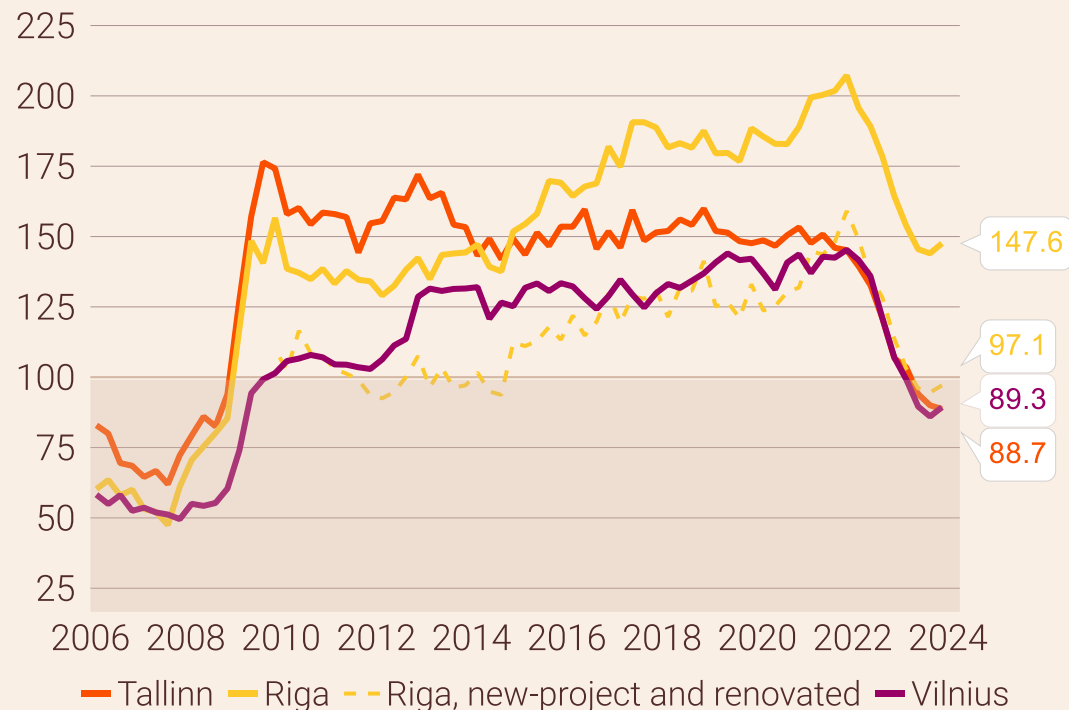


Sources: EC DG ECFIN, Swedbank Research & Macrobond

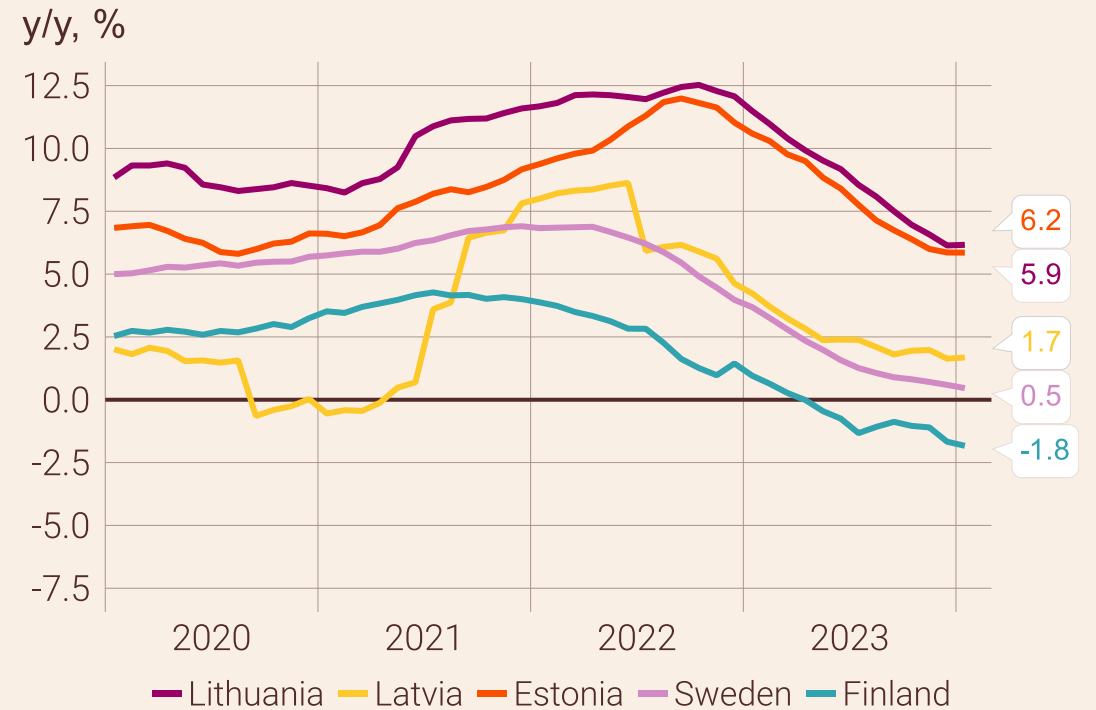
Housing affordability started to improve

Demand for credit (not supply) weakened in 2023

Baltic Housing Affordability Index



Loans to households for house purchase

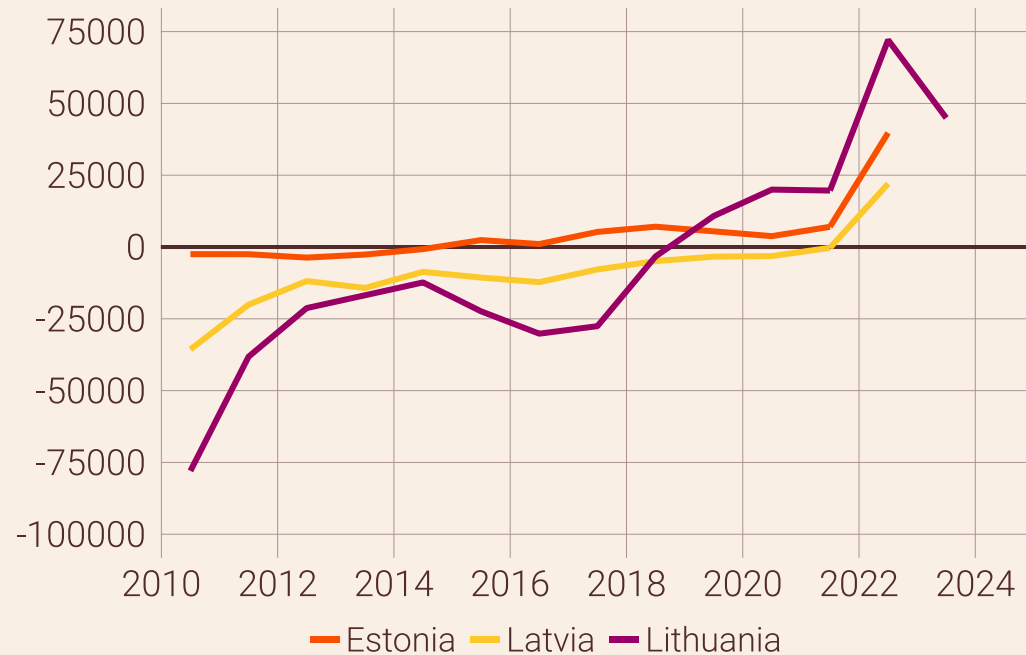


Favourable demographics

Tallinn and Vilnius is growing rapidly

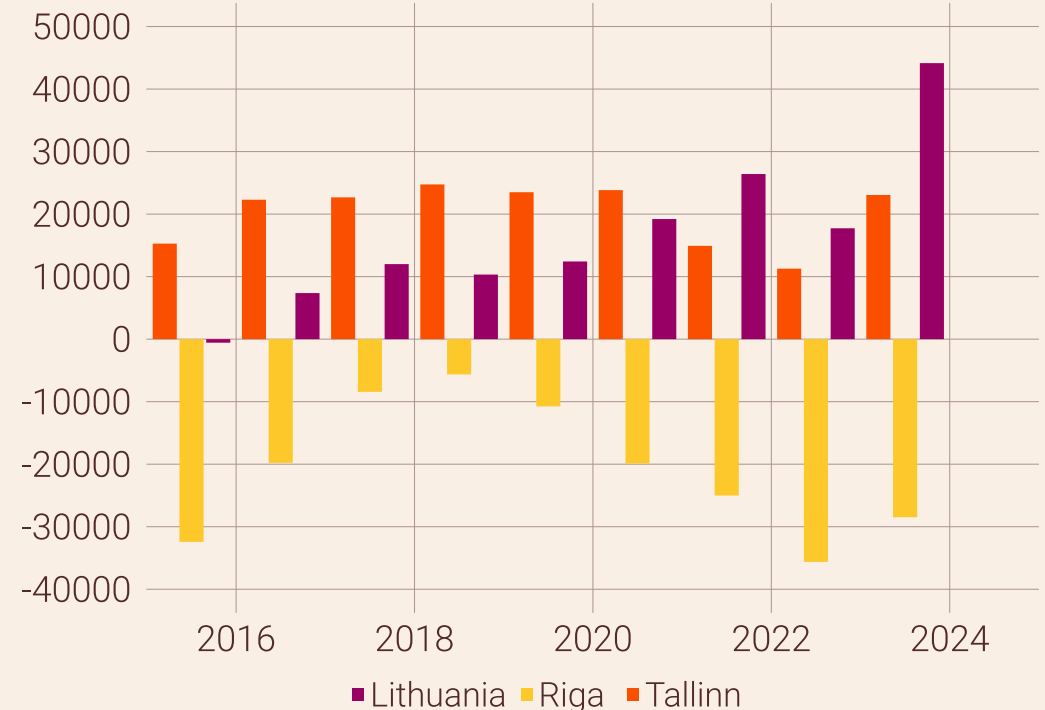
Net migration

Thousands of people



Källor: Swedbank Analys & Macrobond

Population change in Baltic capitals



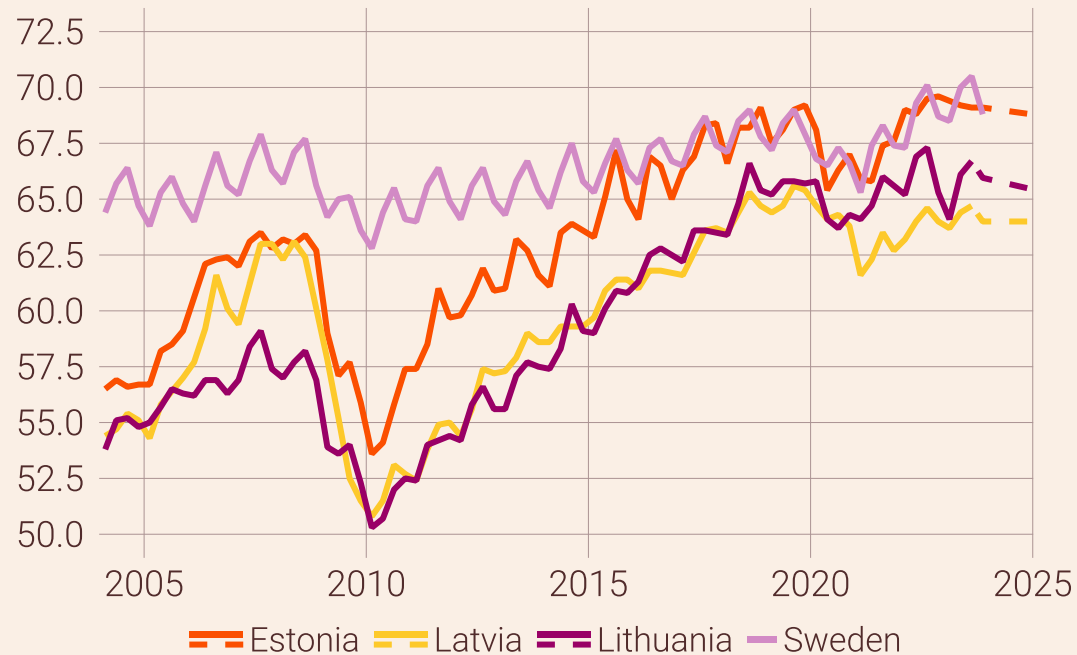
Sources: Swedbank Research & Macrobond

Employment close to record highs

Real wages are growing rapidly again

Employment rate

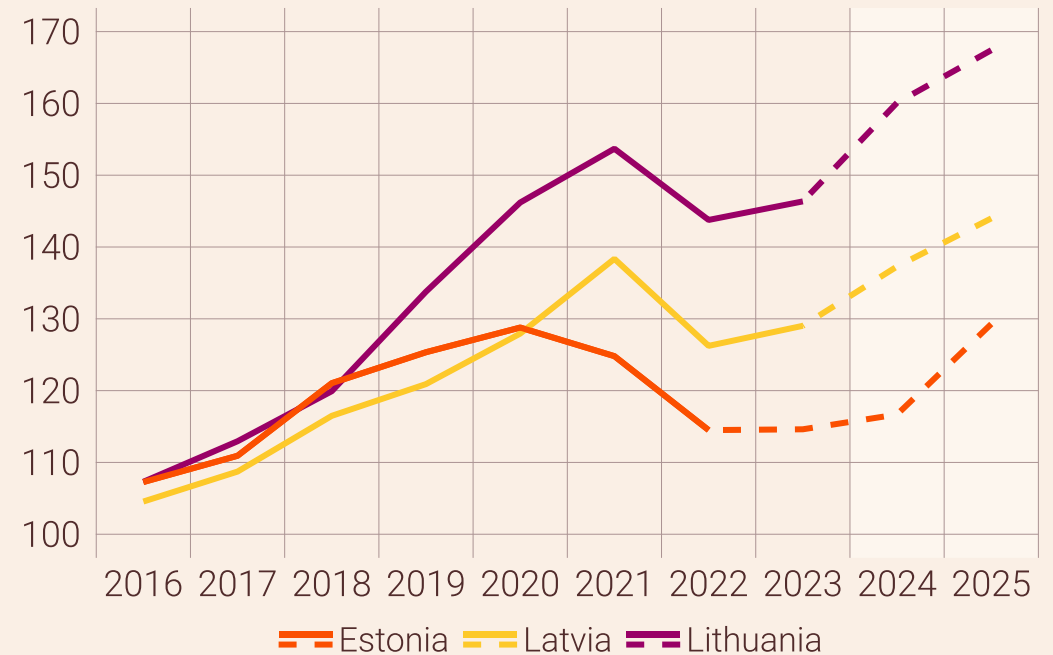
%, 1574 y



Sources: Swedbank Research & Macrobond

Real net wage

Historical data and forecast, 2015=100



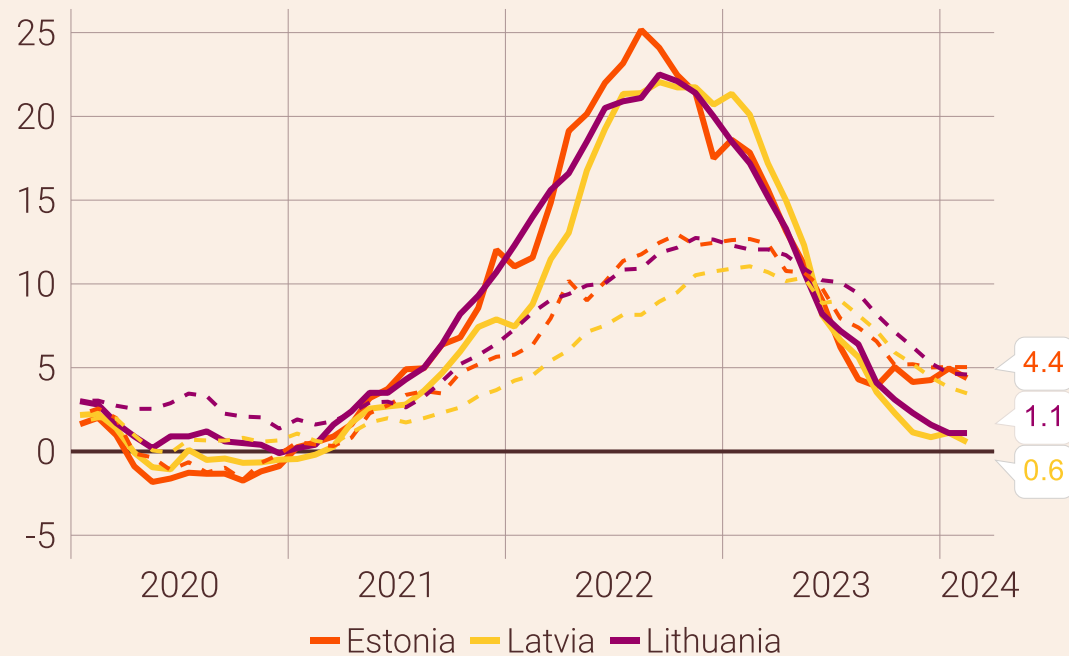
Sources: Swedbank Research & Macrobond

Inflation is retreating rapidly

We forecast it to stay below 2% in Latvia and Lithuania in 2024

Inflation

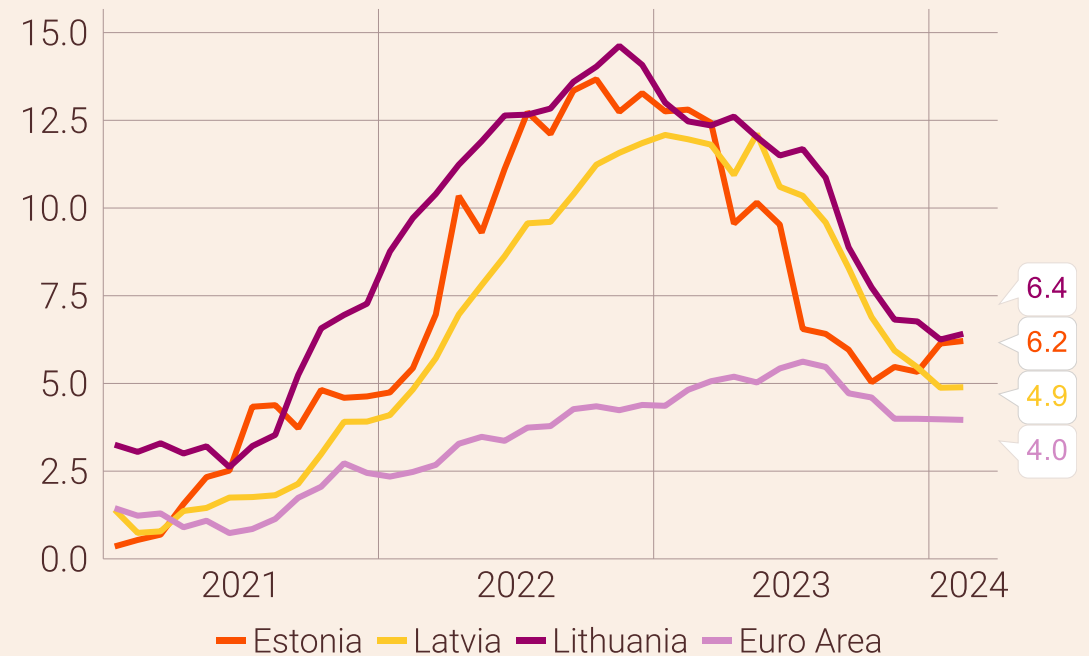
y/y %, headline (solid line) and core (dotted line) HICP



Sources: Eurostat, Swedbank Research & Macrobond

Prices of services

y/y %



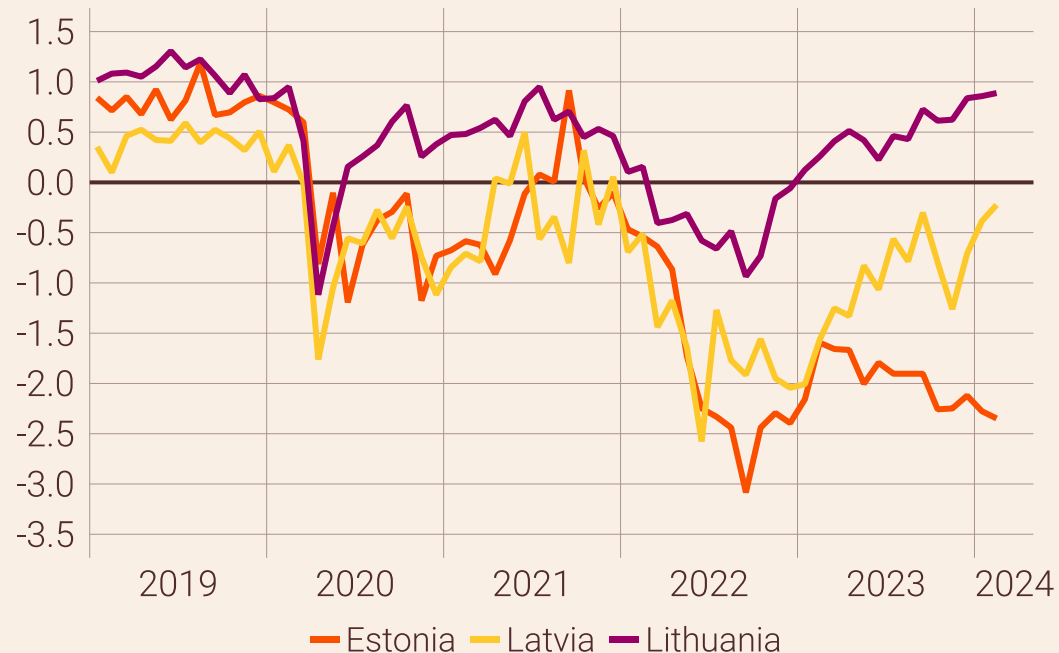
Sources: Swedbank Research & Macrobond

Household consumption is likely to lead the recovery

(But somebody needs to tell that to all the Estonians)

Consumer confidence

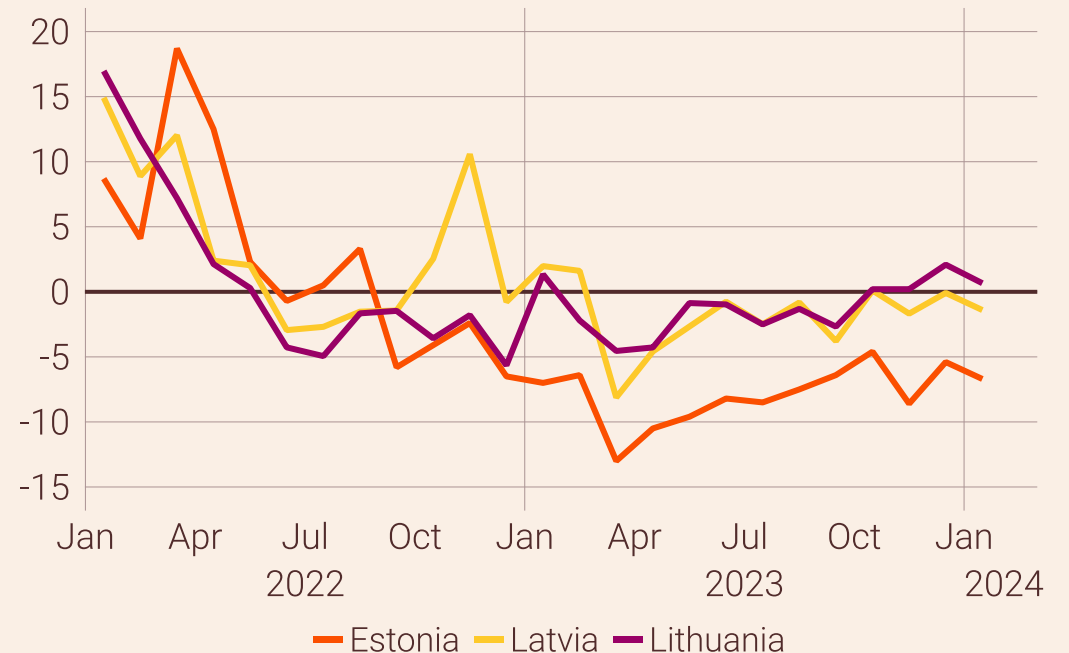
Index, sa, 100=long term average



Sources: Swedbank Research & Macrobond

Retail sales

Volumes, y/y %, nsa



Sources: Swedbank Research & Macrobond