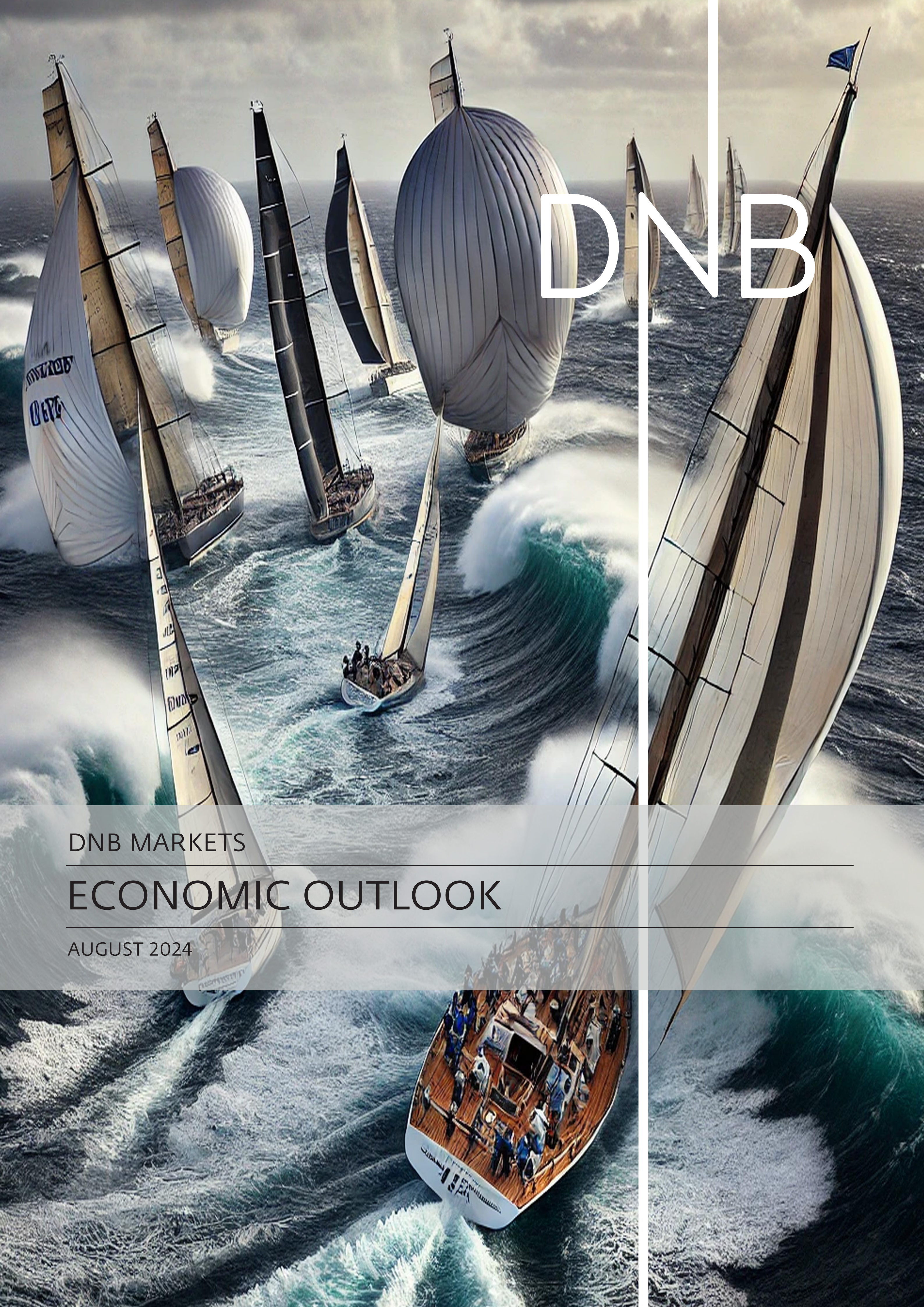

DNB MARKETS

ECONOMIC OUTLOOK

AUGUST 2024

International macroeconomic forecasts

GDP. Percent change from preceding year

Country/region	Weight PPP	2022	2023	2024	2025	2026	2027
World		3.4	3.2	3.1	3.0	3.0	3.2
USA	15.9	1.9	2.5	2.5	1.4	1.8	2.3
Canada	1.4	3.4	1.1	1.0	1.5	1.8	2.0
Brazil	2.3	3.0	2.9	2.0	2.0	2.5	2.5
Eurozone	11.3	3.5	0.5	0.8	1.2	1.3	1.3
UK	2.3	4.1	0.1	1.1	1.6	1.7	2.0
Sweden	0.4	1.6	0.1	0.9	2.2	2.2	2.0
Denmark	0.3	2.8	1.8	2.0	2.0	1.8	1.8
Mainland Norway	0.3	3.7	0.7	0.8	1.6	1.8	1.7
Switzerland	0.5	2.7	0.8	1.3	1.6	1.6	1.6
Russia	3.1	-1.2	3.6	3.0	2.0	1.5	2.0
China	18.4	3.0	5.2	5.0	4.5	4.0	4.0
India	7.0	7.2	8.2	7.0	6.5	6.5	6.5
Japan	3.8	1.1	1.9	0.0	1.0	1.0	1.0
South Korea	1.7	2.6	1.4	2.5	2.0	2.0	2.0
Others	27.1	4.4	3.0	3.2	3.6	3.6	3.8
Advanced economies	42.1	2.6	1.6	1.6	1.4	1.6	1.8
Emerging economies	57.9	4.0	4.4	4.2	4.2	4.0	4.1
Norway's trade partners		2.9	0.7	1.0	1.5	1.6	1.6

Source: LSEG Datastream, DNB Markets

Inflation. Percent change

Country/region	2022	2023	2024	2025	2026	2027
USA	8.0	4.1	3.3	3.1	3.2	2.8
Canada	6.8	3.9	2.5	2.0	2.5	2.5
Brazil	9.3	4.6	4.0	3.5	3.5	3.0
Eurozone	8.4	5.5	2.5	2.5	2.6	2.7
UK	9.1	7.4	2.7	2.5	2.7	2.9
Sweden	7.7	6.0	2.1	1.9	2.3	2.6
Norway	5.8	5.5	3.4	2.9	3.0	2.5
Denmark	7.7	3.4	1.7	2.0	2.5	2.7
Switzerland	2.8	2.2	1.4	1.2	1.0	1.5
Russia	13.8	6.0	7.5	5.0	4.5	4.0
Japan	2.5	3.3	2.3	2.0	2.0	2.2
South Korea	5.1	3.6	2.5	2.0	2.0	2.5
China	1.9	0.2	0.6	1.5	2.0	2.0
India	6.7	4.8	4.5	4.3	4.0	4.0
Industrialized economies	6.6	4.1	2.5	2.4	2.5	2.4

Source: LSEG Datastream, DNB Markets

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This report encompasses data up to 20 August 2024, with the editorial process concluding on the same date.

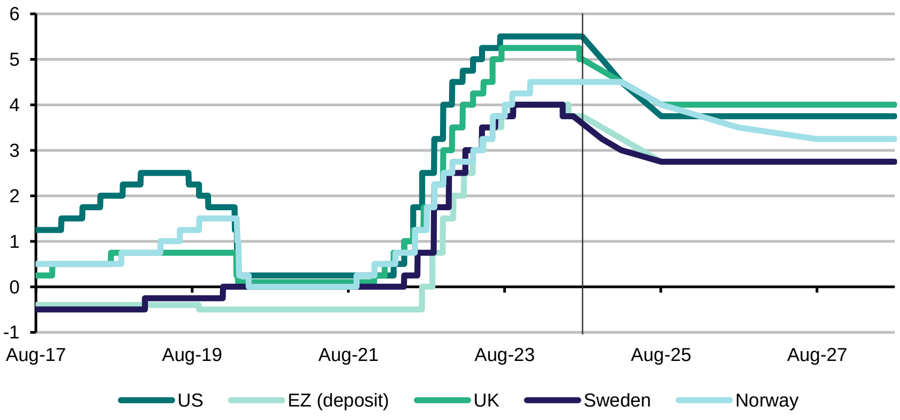
20 August 2024

MARKETS

SUMMARY: BACK TO A NEW NORMAL

- Amid vast geopolitical uncertainty, including the outcome of the US presidential election, the art of forecasting remains challenging. If former President Trump prevails (our baseline), we expect an intensified trade war to trigger a renewed inflation spike that would end the Fed's easing cycle next summer. If Vice President Harris prevails, we expect the fed funds rate to end up 0.5%-points lower, as inflation would appear more contained.
- We believe recent recession concerns are overdone, but the US economy is likely decelerating after sizeable growth in recent years. We project sub-par growth in the year to come, with unemployment gradually rising towards 5%. China's economic growth will also slow, in our opinion, with headwinds from the trade war, the busted housing bubble, and looming overcapacity. European economies, however, are accelerating again, helped by a solid rebound in households' purchasing power.
- The Swedish and Norwegian economies diverge when it comes to economic trends and inflation dynamics. While the Swedish economy has cooled markedly, with rather modest wage settlements, unemployment has remained low in Norway, and wage cost growth has reached a 15-year high. Inflation pressure thus appears much more contained in Sweden than in Norway, which explains why the Riksbank has been among the first movers in the cut cycle, while Norges Bank probably will remain on hold until March 2025.
- The peak of inflation jitters is behind us, but in our view, central banks will fail to stabilise inflation at 2%. We project inflation closer to 3% in the medium term, as underlying cost pressure is on the rise, due to ongoing structural trends.
- With higher inflation and large investment needs due to a more challenging and unpredictable environment, we believe the new normal for interest rates is higher than before. The policy rate cuts during the next 12 months is thus likely to be fewer and less frequent than suggested by the current market pricing. That implies an uptick in long-term interest rates as well.
- We also project the NOK and SEK to settle around the current, historically weak levels, as the turbulent environment continues to favour larger currencies.

Key policy rates – actual and DNB Markets' forecasts (%)



Source: LSEG Datastream, DNB Markets

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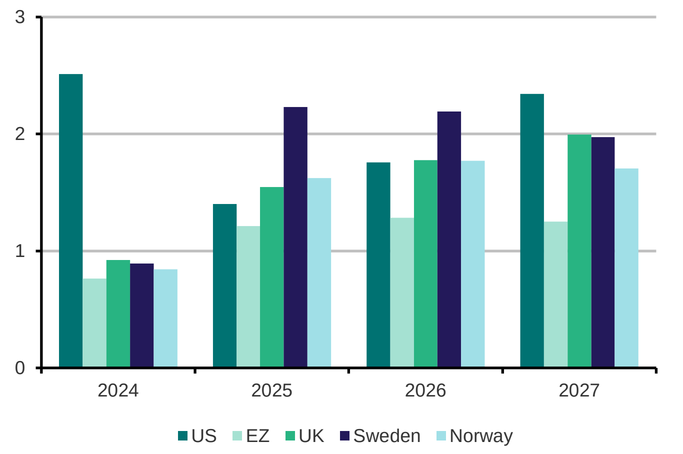
Economic outlook: global overview

We expect a US slowdown, rather than a recession. Election outcome crucial for rates

Market participants are on their toes going into autumn 2024, as illustrated by the plunging stock markets and rates at the beginning of August. After a period dominated by inflation jitters accompanied by solid activity data, softer inflation and labour market statistics have shifted the focus to the risk of an imminent US recession. In this report, we suggest that these concerns seem overdone. We do, however, expect sub-par economic growth over the next 1.5 years, due to reduced consumption growth driven by slower income growth and increased savings. We expect the unemployment rate, which was 4.3% in July, to gradually increase to 5% over the next two years. Although we consider this level slightly higher than normal, we would characterise this as a 'soft landing'.

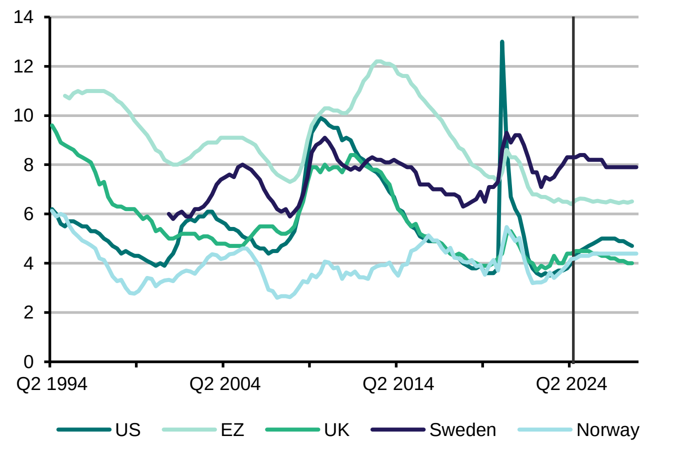
The upcoming US presidential election represents an event with a highly uncertain outcome and a high potential effect on inflation and interest rates. We have based our forecast on the assumption that Trump prevails and that he raises tariffs significantly, particularly towards China, but also towards trading partners such as Europe. This is set to raise inflation in 2025 and 2026, first and foremost in the US, ending the Fed's easing cycle in June 2025. Harris has caught up with her opponent in polls lately. If she wins, we expect the status quo in US trade policies, and thus more modest inflation and somewhat lower interest rates.

GDP growth – projections (% YOY)



Source: LSEG Datastream, DNB Markets

Unemployment – actual and projections (%)



Source: LSEG Datastream, DNB Markets

China faces headwinds from multiple sources and Europe is stuck in the middle

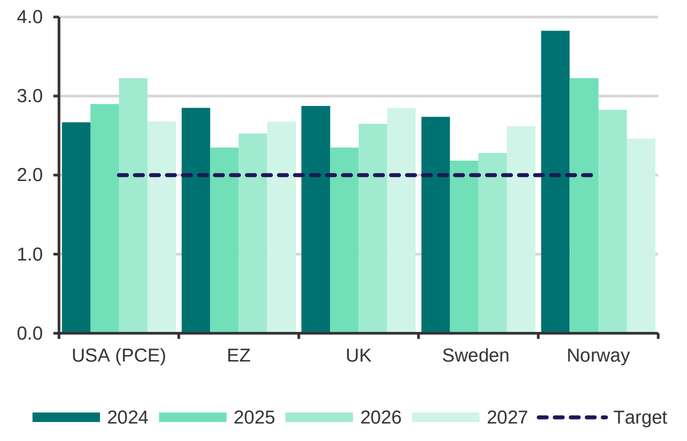
Chinese authorities have let the housing bubble deflate for the past two years, and we do not expect housing to be a significant source of growth for the foreseeable future. At the same time, the authorities have doubled down on efforts to transform the economy by boosting advanced manufacturing and technological innovation, supporting economic growth. The flip side of the coin is the increasing overcapacity likely to be exacerbated by reduced external demand due to rising global protectionism and geopolitical tensions. Thus, we maintain our view that economic growth will slow in the years to come.

A renewed trade war by Trump would constitute an additional curb on growth for Europe, a region in which foreign trade is important. It would intensify a situation where Europe is already stuck in the middle, with pressure from the US to weaken its important trade-ties to China. Despite external headwinds, we expect normal GDP growth, due to domestic drivers. Household demand is on the rise, as real wages are rebounding solidly and borrowing costs have started falling. Investments in structures and production facilities should be supported by efforts to cut carbon emissions, and the need for rearmament of Europe raises defence spending. With decent economic growth combined with low productivity growth and a shrinking working-age population, we expect the labour market to remain rather tight. Along with our expectations of higher cost pressure in the West, robust wage growth will likely help push inflation up from next year, with inflation landing closer to 3% than 2%.

Norway and Sweden: Rate outlook diverges as economic trends diverge

With a weakening economy and more modest wage settlements than most other European economies, the Riksbank became one of the early movers in the 2024 cut cycle. Norges Bank, on the contrary, has held steady, and will likely be last in the queue of cutters, as trends differ from its Swedish peers. A combination of a continued tight Norwegian labour market and a weak NOK (raising exporters' profitability) has increased wage cost growth to the highest level in 15 years. In addition to its effect on wage settlements, and the direct effect on import prices, the NOK depreciation raises the NOK value of the public oil fund (entirely invested abroad), giving politicians ample room for spending. Fiscal policy has provided stimulus to the economy in 2023 and 2024, giving Norges Bank more room to keep monetary policy tight. While the Riksbank is set to continue to cut rates during the autumn and winter, we expect the Norwegian key policy rate to be left unchanged until March 2025.

Core inflation – projections (% YOY)



Source: LSEG Datastream, DNB Markets

Wages – projections (% YOY)

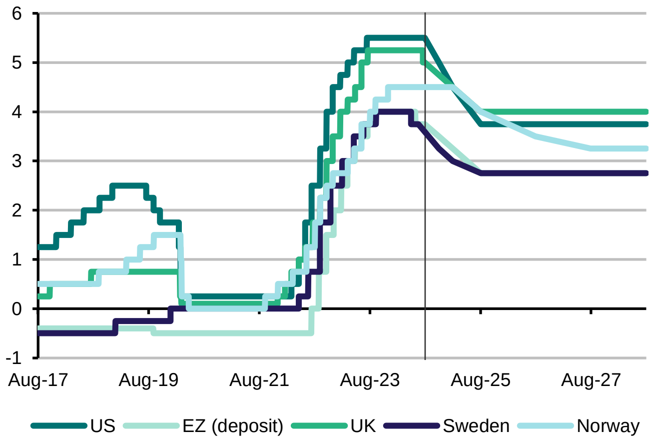
Source: LSEG Datastream, DNB Markets

Back to a new normal: Stubbornly high inflation, higher interest rates, weak Scandies

The peak of inflation jitters is behind us, but in our view, the Western central banks have one thing in common: they are likely to fail to stabilise inflation at 2%. We project inflation closer to 3% in the medium term, as underlying cost pressure is on the rise, due to ongoing structural trends. Western businesses and supply chains are increasingly being relocated to less-risky, but costlier sites in the West, often supported by government incentives, sanctions, and/or trade barriers. The energy and climate transition entails rising costs of emissions and upward pressure on critical input prices due to large investments. An ageing population, particularly in Europe, contributes to a scarcity of labour, supporting wage growth. This should also raise cost pressures, as the prospects of a boost in the lacklustre productivity growth seem dismal, with the AI-leader US an exception.

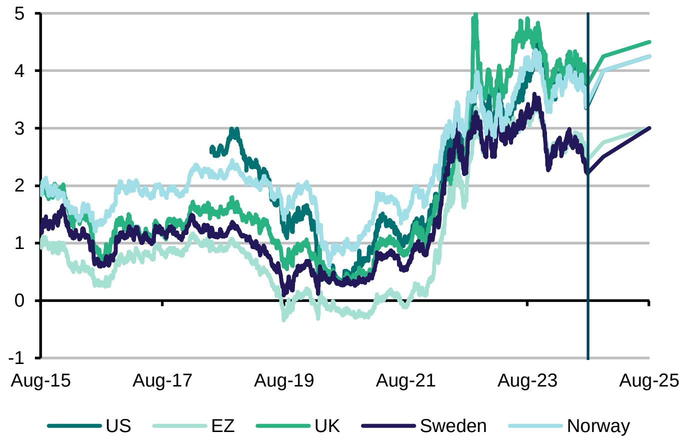
With higher inflation and large investment needs due to a more challenging and unpredictable environment, we believe the new normal for interest rates is higher than before. The policy rate cuts during the next 12 months will thus likely be fewer and less frequent than suggested by the current market pricing. That implies an uptick in long-term interest rates as well. We also project that the NOK and the SEK will settle at the current historically weak levels, as the turbulent environment continues to favour the larger currencies.

Key policy rates – actual and projections (%)



Source: LSEG Datastream, DNB Markets

10-year swap rates – actual and projections (%)



Source: LSEG Datastream, DNB Markets

Some important risk factors

Forecasts are highly uncertain, and apart from the political risks connected to the US presidential election, these are some of the factors we would like to emphasise:

- We may have misjudged the current momentum in economies. For instance, we cannot exclude the possibility that the US is about to fall into a recession, with a much steeper and stronger rise in unemployment than we have projected. There is also a risk that recent weak eurozone surveys give accurate signals about fading economic momentum. In these cases, inflation and interest rates would fall more than we project.
- We may have misjudged how strongly and quickly structural trends, such as the green transition and deglobalisation, raise Western cost pressures and inflation. We believe this risk is balanced. We may have exaggerated the effect, but there is also a possibility that we may have underestimated it.
- In our forecasts, we estimate the oil prices to hover around current levels in the year to come. Upside risks are related to supply-side disruptions, such as further escalation of the Middle East conflict, which would raise consumer inflation, weighing on consumers' purchasing power. There is also a significant risk that the oil price could fall back substantially, due to a change in OPEC's strategy. In that case, inflation would fall more than in our forecasts, providing extra support for consumption growth in the West.
- The biggest known potential risks stem from geopolitical tensions. Although low, the risk of a wider war in the Middle East has increased in 2024. NATO involvement in the ongoing Ukraine war remains uncertain under President Trump. The US foreign policy 'Pivot to Asia' could prove challenging for Europe's security situation, regardless of the US election result. Moreover, the looming risk of a confrontation in the Taiwan strait remains. If the risk is materialised, it is likely to trigger vast sanctions against China from the West. With China's continued dominant role in world trade, disruptions would be substantial, and likely lead to the highly undesirable combination of recessions and rising inflation. Such a rise in fundamental uncertainty has the potential to curb economic growth, as businesses and households will likely become more cautious.

DNB MARKETS

US

Slowdown, but no recession

We expect the US economy to slow in H2 and that GDP growth will stay low in 2025. A rising unemployment rate will likely dampen consumer demand and raise the savings rate. We believe inflation will most likely abate further towards the inflation target. Lower inflationary pressures should allow the Fed to cut rates more and sooner than we previously expected. Hence, we expect six rate cuts at the upcoming rate meetings.

A slowdown in the second half of this year

GDP growth was unusually high at 4.1% YOY in H2 2023, boosted by a rapid pick-up in private consumption and government demand. H1 2024 marked a slowing of GDP growth to 2.1%, still driven by solid growth in domestic demand. In Q2, there were no signs of a further slowdown. Consumer demand rose 2.3% QOQ annualised, while business investments grew by more than 5%. The New York Fed's weekly indicator did not show any signs of weakness in July or in early August. In our April update, we did not expect a further slowdown before 2025.

Higher unemployment signals weakness

The unemployment rate has increased for four consecutive months and has risen by slightly more than 0.5%-points from the trough during the past year. Hence, the so-called Sahm rule now points to a recession. This rule has tended to be a very reliable, coincident recession indicator that historically has rarely given false signals. Still, we believe one should be cautious in interpreting this indicator too negatively. This time, unemployment has risen primarily due to a higher labour supply. Even if the inverted yield curve also points to a coming recession, there are no real economic indicators confirming that the economy has already entered a recession.

Soft landing, due to weaker consumer demand

The recent labour market weakness, i.e. higher unemployment and slower growth in employment, has led us to expect an earlier economic slowdown; we forecast lower growth from Q3, caused primarily by slower growth in private consumption.

US forecasts (% YOY)

	2023	2024	2025	2026	2027
Private consumption	2.2	2.1	1.1	1.3	1.9
Public consumption	4.1	3.2	1.8	1.5	1.5
Residential investments	-10.6	4.7	1.3	3.8	4.9
Business investments	4.1	3.9	2.7	3.8	4.9
Exports	2.6	2.1	0.4	-1.5	1.9
Imports	-1.7	3.7	1.3	-0.7	2.3
GDP	2.5	2.5	1.4	1.8	2.3
Unemployment (level, %)	3.6	4.2	4.8	5.0	4.8
Headline (CPI) inflation	3.7	2.4	2.2	3.0	2.7
Core (PCE) inflation	4.1	2.7	2.3	3.1	2.7
Wages	4.5	3.9	3.6	4.0	4.2

Source: LSEG Datastream, DNB Markets

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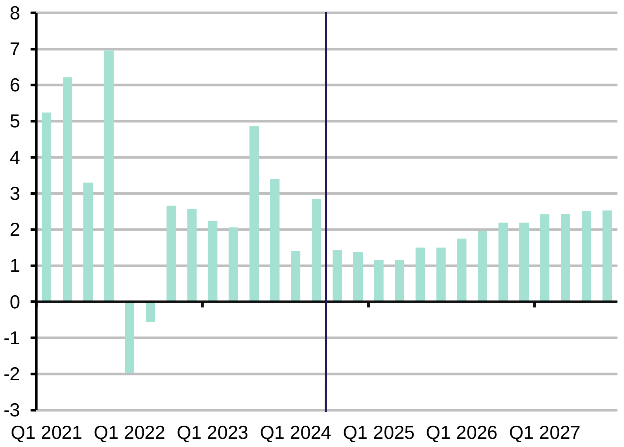
Consumption growth held up well in H1 despite a sharp reduction in income growth from 2023, driven by higher tax payments. Hence, savings have fallen, and the savings ratio is now well below the pre-pandemic level. A further weakening of the labour market is therefore likely to lead to slower growth in personal spending for two reasons. First, slower job growth implies a further weakening of income growth. Second, higher unemployment normally boosts savings. We therefore expect slower spending growth, continuing through 2025. Softness in public demand growth may add to the slowdown, while a lowering of interest rates would ease financial conditions and hence dampen the negative effect somewhat.

Business investments have been boosted significantly by tax credits and grants in the IRA and the Chips Act. Structures investments rose 13.2% YOY in 2023 and this was driven primarily by manufacturing industries. These investments have slowed markedly so far this year. An annualized increase of 3.4% QOQ in Q1 was followed by a similar decline in Q2. According to an investigation by the Financial Times, many projects have likely been postponed due to lower prices, higher costs and uncertainty due to the upcoming election. Trump has said that he will reverse the IRA. We are not sure that he will succeed in doing so if he is elected, but we do not forecast an upward turnaround for these investments next year.

Lower inflation and reduced inflationary pressures

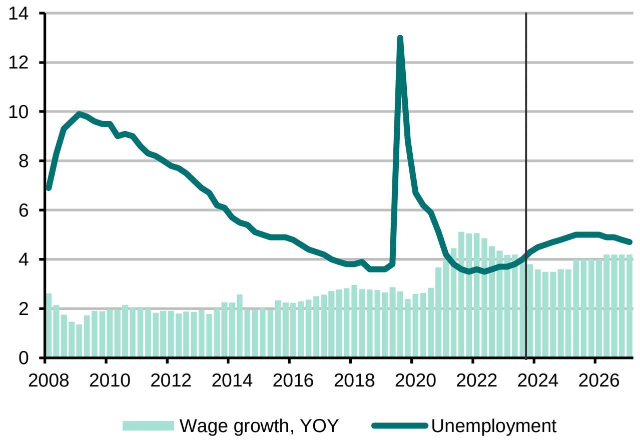
Actual inflation surprised on the downside in May and June and rose moderately in July, after upward surprises earlier this year. Lower actual inflation is mainly caused by goods inflation, which fell markedly in H2 2022 and has fallen somewhat further since then. Overall goods inflation is now around zero, while core goods inflation is well below zero (-1.7% YOY in May-July). Recently price increases for services excluding rents and for shelter have also decreased. Despite slow monthly increases, services inflation remains elevated at around 5% YOY.

US: GDP, % QOQ, annualized



Source: LSEG Datastream, BEA, DNB Markets

US: Unemployment and wage growth, %



Source: LSEG Datastream, BLS, DNB Markets

Recent data have also pointed to lower inflationary pressures. Labour costs seem to be slowing, with actual wage growth down to 3.6% YOY in July. Furthermore, the declining trend for the quit rate (i.e. those who voluntarily quit their positions as a percentage of employment) suggests even lower wage growth ahead. Finally, productivity growth has risen markedly after the pandemic and has been 2.7% YOY on average over the past year. Higher productivity is dampening the growth in unit labour costs. Lower labour cost growth will likely reduce services inflation further, from the still-high level.

Inflation also remains elevated due to the high growth in rents, which has a particularly large weight (around one-third) in the CPI. Rent inflation has remained high for longer than expected but remains on a slightly falling trend. The sharp drop in the rent index for new tenants (published by the BLS) indicates that the rent indicator in the CPI will also fall further in coming months. This may add significantly to the declining inflation trend.

Election outcome is highly uncertain

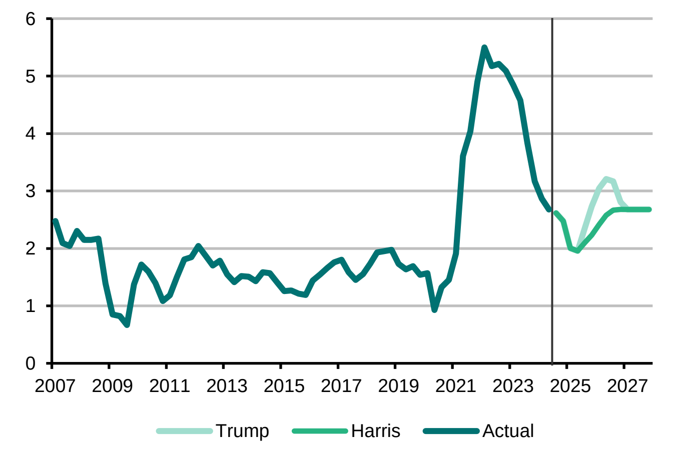
While former President Trump had a clear lead against President Biden, Vice President Harris has gained support, and the outcome of the presidential election now seems very close. While Harris is leading in the national polls, Trump still leads in some of the vital battleground states such as, Nevada, Georgia, and North Carolina, according to an average of recent polls. Hence, we still believe a Trump win is slightly more likely than a Harris victory, even if her support has been rising recently in swing states such as Michigan, Wisconsin and Pennsylvania. A weakening of the economy in comings months, with higher unemployment, could make it more difficult for Harris to win the election. In our forecast, we assume Trump will take over as president from 2025 and that he will immediately implement his economic policy.

Higher inflation and lower growth with Trump than Harris

We believe inflation would be higher with Trump than with Harris as president for two reasons. First, Trump will most likely boost tariffs considerably. He has proposed to raise tariffs by 10%-points on imported goods generally and by 60%-points (or even more) on Chinese goods. This is likely to increase prices on imported consumer goods, even if we do not expect a full one-to-one effect. We also forecast that this move will be retaliated, which would also raise inflation globally. Second, Trump will likely restrict immigration to a larger degree than Harris. This would reduce the inflow of labour significantly, putting an upward pressure on wages. Trump have also argued in favour or a weakening the USD. If successful, such a policy would also add to higher inflation through the effects on imported goods, but this is not our forecast.

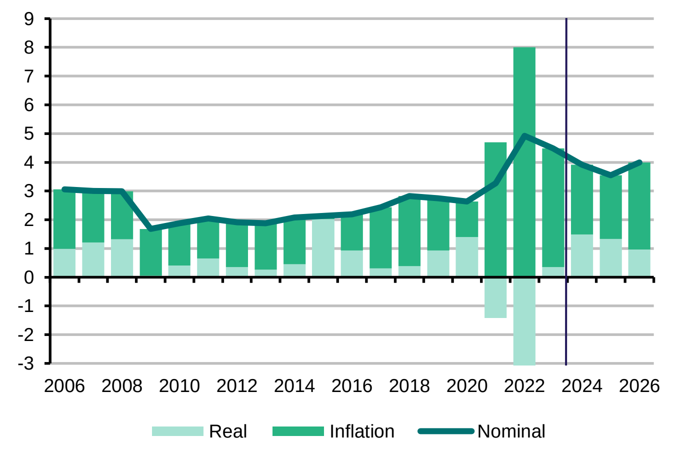
Our estimates point to inflation around 0.5%-points higher in 2025 and 2026 with Trump as president rather than Harris. (These estimates are the same as in our April update, when Biden was set to become the Democratic candidate). We also expect somewhat lower GDP growth rates with Trump: 0.2%-points for 2025 and 0.5%-points for 2026. In our view, these effects are likely to remain the same even though Harris has replaced Biden as the Democratic candidate.

US: Core inflation (PCE), % YOY



Source: LSEG Datastream, BLS, DNB Markets

US: Wage growth, %



Source: LSEG Datastream, BLS, DNB Markets

Fed to act sooner and by more than we expected in April

As we now forecast a somewhat accelerated slowdown of the economy, starting in Q3, and as inflationary pressures have abated, we believe the Fed can reduce the restrictive monetary policy stance somewhat more and faster than we expected in April. We believe the first of a series of six 25bp cuts will start at the September meeting. Hence, we expect the federal funds rate to be reduced from 5.25–5.50% currently to 3.75–4.00% by May 2025. Our previous forecast was four similar cuts at every other meeting from September 2024 to June 2025. We do not believe the Fed will be in a hurry to lower rates. In our forecast, inflation would remain above the target in coming quarters, and the unemployment rate would only rise gradually. Hence, we do not expect a 50bp cut in September or later in this cycle.

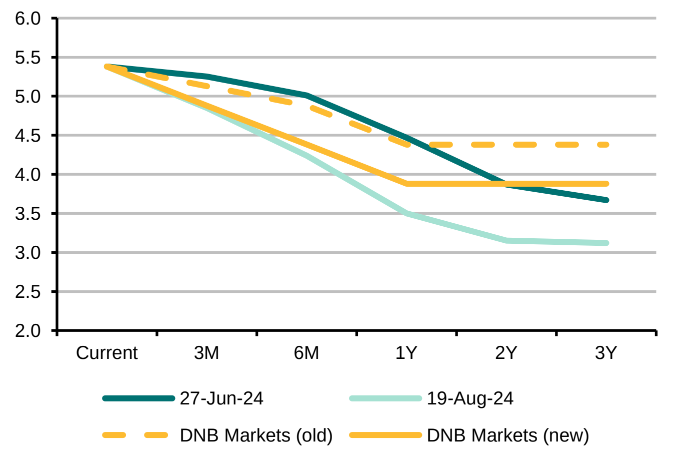
The expected rate reduction will likely make monetary policy less restrictive. According to the FOMC, the neutral rate is now around 2.75%, after a moderate upward recent revision. An actual rate close to 4% would therefore be significantly above the neutral level and should have a negative effect on economic activity. We believe the FOMC will be reluctant to reduce all the restrictiveness as inflation remains well above the target, also because we believe it is likely that the estimated neutral rate could be raised further. A period with higher inflation, caused primarily by higher tariffs would, in our view, lead the FOMC to fully halt the easing process. However, if Harris is elected president instead of Trump, we believe the Fed will reduce the federal funds rate by 0.5%-points more, i.e. down to 3.25–3.50%.

Long rates to rise further as markets reprice number of expected cuts

US long swap rates are largely determined by the expected federal funds rate two to three years forward. In late 2023, when the markets projected six to seven rate cuts by the Fed, the 10-year swap yield was as low as (and even a bit below) 3.5%. As we expected a much lower number of cuts at the time, our forecasts pointed (correctly) to a marked rise in long-term rates in H1 2024. The yield peaked at 4.25% in May and June this year, before levelling off. In early August, market unrest caused the yield to fall further, and it reached a trough of around 3.35% before picking up again.

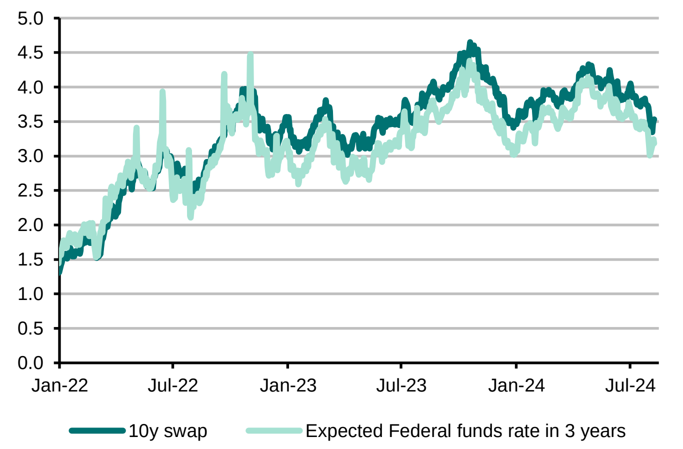
The situation seems somewhat similar now to that in late 2023. Markets are again pricing in significantly more cuts over the coming three-year period than what we expect. Pricing is more aggressive short-term (with a possibly large September cut), but also more aggressive long-term. Hence, we believe the 10-year yield will likely rise. We forecast that the yield may rise to around 4.0% in three months, due to a further repricing of prospected rate cuts. The outcome of the US election 5 November could also affect the outcome for the swap yield.

US: Federal funds rate, %



Source: LSEG Datastream, Bloomberg, DNB Markets

US: 10y swap yield and Fed expectations, %



Source: LSEG Datastream, Bloomberg, DNB Markets

We believe the swap yield could rise further to 4.25% over the coming year. Even if actual rate cuts that materialise in this period could possibly lower the long-term yields somewhat, we expect this effect to be limited. However, we believe the yield will likely increase further as we see the outcome from Trump's potential economic policy choices. As we stated earlier, we believe his policies will lead to higher inflation. Hence, in our view, when markets see such effects, it seems likely that the swap yield would rise further. If Harris wins the election, we believe the long bond yield will not rise further due to a lower inflation outcome and a somewhat lower federal funds rate.

DNB MARKETS

EUROZONE

Decent growth, persistent inflation

We expect continued decent economic growth in the eurozone, driven by household demand. Geopolitical tensions and the energy transition increase investment needs and underlying cost pressure. Following a further modest decline, we expect underlying inflation to rise again from mid-2025, stabilising closer to 3% than 2%. We expect the ECB to cut slower and less than implied by the current market pricing, with the deposit rate settling at 2.75% next summer.

Consumer-led recovery has only just begun, investment upturn to follow

After a lacklustre 2023, eurozone economic growth picked up in H1, in line with our expectations, to 0.3% QOQ in Q1 and Q2. However, divergences between member states remain. Spain is still in the lead, posting growth of 0.8% QOQ in Q1 and Q2, while Germany continues to lag behind, all but stagnating in H1.

Eurozone unemployment remains close to a record low, at 6.5% in June. In Germany, however, unemployment has trended upwards, even though the share of German businesses in the ESI survey experiencing labour constraints remains well above historical levels, particularly in the service sector. Thus, wage growth continues to hover near the highest point in the history of the currency union, with German wage growth in the lead.

We expect economic growth to remain around H1 levels, which we consider to be close to normal, given a downward trend in the working-age population and continued low productivity growth. We project the unemployment rate to remain at the current low levels in our forecast period. Economic growth will likely continue to be led by rising consumption growth. Household disposable incomes are rising solidly, due to the benign combination of high wage growth, significantly lower inflation, and continued employment growth.

Consumption growth would have been higher if it was not for a renewed increase in the savings rate. In Q1, it rose to 15.4%, 3%-points higher than the average in 2009–2019. Recent surveys reveal that households' intentions to save are on a rising trend, possibly

Eurozone forecasts (% YOY)

	2023	2024	2025	2026	2027
Private consumption	0.7	1.0	1.6	1.4	1.2
Public consumption	1.0	1.2	1.1	1.0	0.8
Investments	1.2	-0.6	1.4	2.4	2.7
Exports	-0.4	1.1	1.0	1.2	1.2
Imports	-1.1	-0.3	1.5	1.6	1.6
GDP	0.5	0.8	1.2	1.3	1.3
Unemployment (level, %)	6.5	6.5	6.5	6.6	6.6
Headline inflation	5.5	2.5	2.5	2.6	2.7
Core inflation	5.0	2.8	2.4	2.5	2.7
Wages	5.3	4.7	3.7	3.7	3.7

Source: LSEG Datastream, DNB Markets

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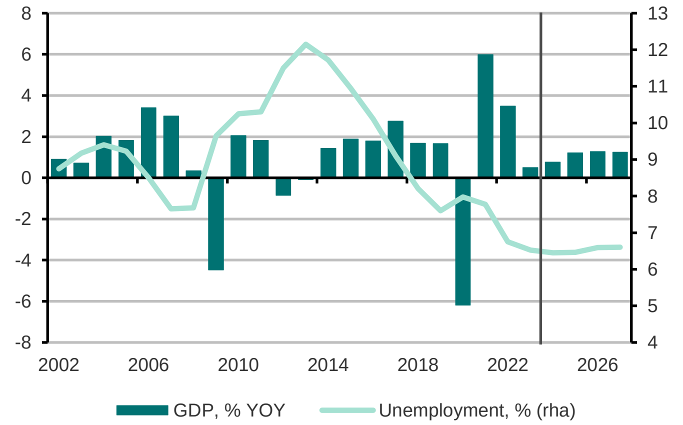
spurred by increased rates, which makes it more lucrative to set aside money, and incentives to pay down loans to reduce the interest rate burden. Granted, interest rates are on the decline, but we expect them to remain much higher than in the decade preceding the pandemic. Thus, we do not expect a sharp reversal in the savings rate, but rather a stabilisation around the current level.

Business investments fell sharply in 2023, with a particularly strong drag from energy-intensive manufacturing, but they now seem to be rebounding cautiously. We expect investments to become a more robust growth driver from 2025.

Lowered interest rates will likely stimulate housing investments. High geopolitical tensions should influence private businesses to direct investments in e.g. facilities closer to home, due to heightened risks of trade disruptions. Moreover, the ongoing climate and energy transition necessitates large investments to make buildings more energy efficient, build cleaner production facilities, and build out the grids and renewable energy facilities and solutions.

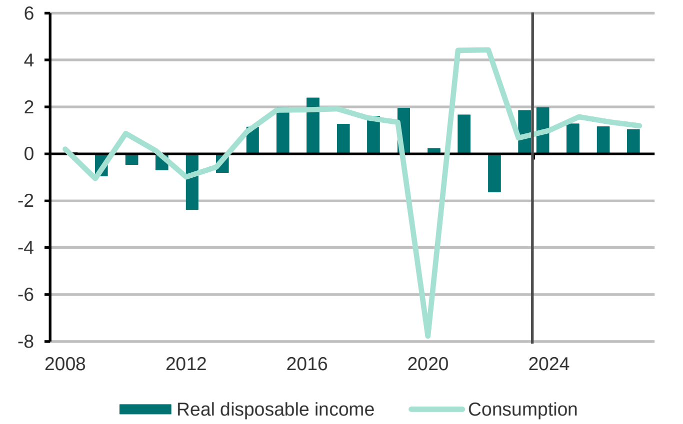
With the expected continued rise in trade barriers and sub-par economic growth in China and the US, we do not expect net trade to add much to eurozone GDP growth in our forecast period. Fiscal policies will not likely contribute significantly either, given the underlying need to curb deficits and public debt levels. However, we do not expect strong headwinds from fiscal tightening. In the current political climate, with rising support for political wings with a limited focus on fiscal discipline, it could prove particularly costly, election-wise, to implement unpopular policies. Moreover, there is an urgent need for high defence investments and monetary incentives, and direct contributions to the ongoing energy transition.

Eurozone: GDP and unemployment – actual and estimates



Source: LSEG Datastream, DNB Markets

Eurozone: Households – actual and estimates (% YOY)



Source: LSEG Datastream, DNB Markets

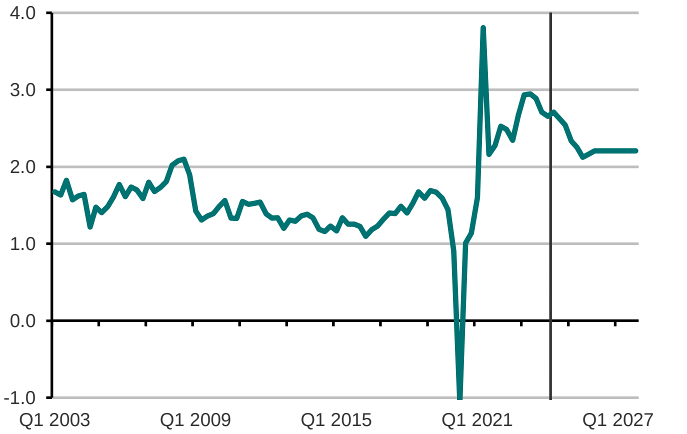
Inflation set to stabilise closer to 3% than 2%

Inflation has fallen steeply in the past year, to 2.6% YOY in July. Core inflation, which excludes food and energy goods, was slightly higher at 2.9% YOY. The decline has primarily been driven by the normalisation of price growth for goods. For instance, food inflation was 2.3% YOY in July, down from 10.8% one year earlier. Non-energy industrial goods inflation was 0.8% YOY in July, down from 5% one year earlier.

We see limited potential for a further drop in goods inflation. Rather, we expect the impetus from rising trade barriers, global relocation of production to less cost-effective locations, and measures to implement the energy and climate transition to gradually raise the underlying cost growth for goods.

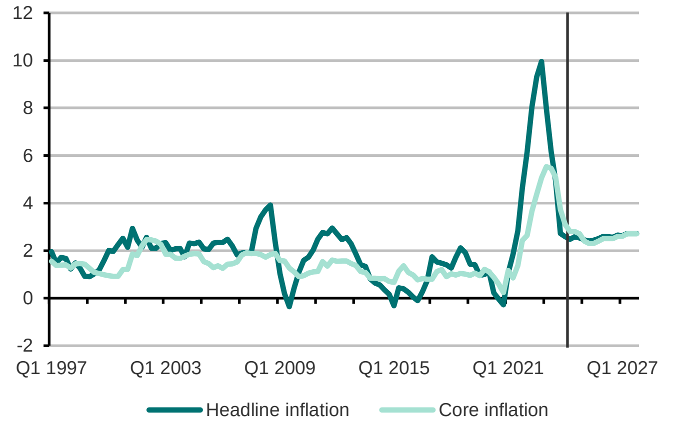
The decline in services inflation has followed a much less benign path, stalling since November 2023 at c4.0% YOY, merely 1.6%-points below one year earlier. Continued high growth in wage costs, due to the combination of strong wage increases and low productivity growth, is a main driver. We struggle to see good reasons why productivity growth should pick up in the next three years. Wage growth is set to moderate from this year's elevated level, but with continued low unemployment and inflation above the 2% target, we believe it will remain higher than in the past decade. Thus, we expect a gradual, modest decline for services inflation in the coming year. Core inflation is set to abate slightly more in the coming year, but after that, we expect it to gradually rise again, settling closer to 3% than 2%.

Eurozone: Wage growth* – actual and estimates (% YOY)



Source: LSEG Datastream, DNB Markets
Note: *Labour compensation per employee

Eurozone: Consumer prices – actual and estimates (% YOY)



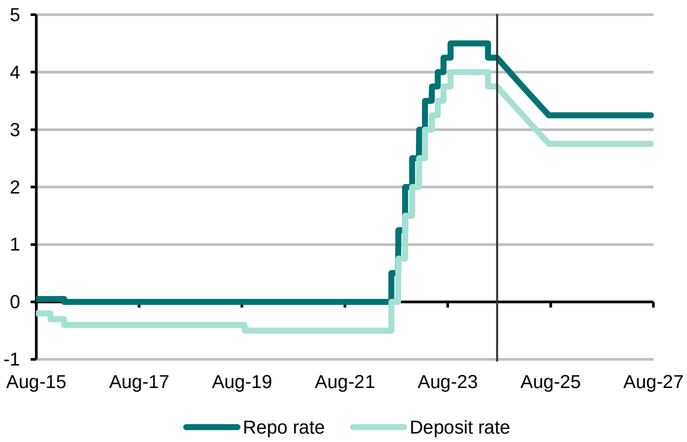
Source: LSEG Datastream, DNB Markets

ECB to cut further, but slower and less than implied by the current market pricing

The ECB started to cut its key policy rates in June, with Chief Economist Lane describing a motivation to "remove the top level of restriction". With Germany's rather lacklustre economic performance, we believe powerful components of the Governing Council remain motivated to remove more of the restrictions to support an economic rebound. Thus, we expect the ECB to cut further at the September and December 2024 meetings and the March and June 2025 meetings.

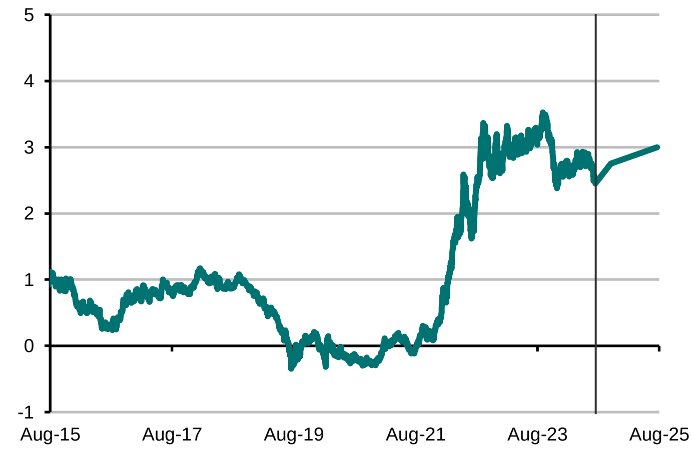
After that, we forecast persistently high inflation and rather normal economic growth to put a stop to further monetary easing. We expect the deposit rate to stabilise at 2.75% from the summer of 2025, about 50bp above the level implied by the current market pricing. In that case, the eurozone 10-year swap rate is likely to pull up again during H1 2025, towards 3%.

Eurozone: ECB key policy rates – actual and estimates (%)



Source: LSEG Datastream, DNB Markets

Eurozone: 10-year swap rate – actual and estimates (%)



Source: LSEG Datastream, DNB Markets

DNB MARKETS

UK

Higher activity, lower inflation

The British economy has escaped recession and activity has surprised to the upside this year. We expect economic growth to continue to rise gradually in 2025 and 2026. Headline inflation is back at the target, while services inflation remains elevated. Wage growth is still too high, but we expect it to decline into next year. The BoE has started the rate cut cycle but is in no hurry to reduce rates, in our view.

Gradually higher activity

GDP growth has surprised to the upside so far this year. Hence, we have raised our 2024 forecast to 1.1% YOY. For the coming years, our forecasts are almost unchanged at 1.6% YOY for 2025 and 1.7% YOY for 2026. The main driver behind the upswing is consumer demand, which we believe will be raised by higher real income growth. Headline inflation has fallen much faster than wage growth, boosting real disposable income. Furthermore, savings are relatively high, while consumer confidence has risen markedly. Hence, households are well positioned to increase spending. We also believe the housing market has some upside potential from lower interest rates, while business investments could be raised somewhat due to higher growth expectations.

Trend GDP growth has slowed after Brexit and potential growth is now likely close to 1% YOY according to the OECD. The recession last year was mild, but still increased the degree of slack in the economy somewhat. With actual GDP-growth close to the trend this year, in line with our forecast, we do not expect a major change in the output gap. However, from next year onwards our GDP-forecasts are higher than trend, pointing to a gradual decline in the output gap.

Less-tight labour market

The upswing in activity this year seems to have improved the labour market. Employment, which fell around the start of the year, rose in April and May. The LFS unemployment rate rose from December to March, reaching 4.4%. In April, the rate fell to 4.2%, although the claimant count unemployment rate rose to 4.7%. Hence, we believe it could be too early to conclude that the peak has been reached for the LFS unemployment. We forecast that the LFS rate will rise to 4.5% later this year, before

UK forecasts (% YOY)

	2023	2024	2025	2026	2027
Private consumption	0.3	0.4	1.4	1.7	2.0
Public consumption	0.5	2.5	1.9	1.6	1.6
Investments	2.2	1.2	1.9	2.3	2.4
Exports	-0.5	-0.8	2.0	2.0	2.0
Imports	-1.5	2.6	3.7	2.0	2.0
GDP	0.1	1.1	1.6	1.7	2.0
Unemployment (level, %)	4.1	4.5	4.5	4.3	4.1
Inflation	7.4	2.7	2.5	2.7	2.9
Wages	7.1	5.3	4.1	3.5	3.8

Source: LSEG Datastream, ONS, DNB Markets

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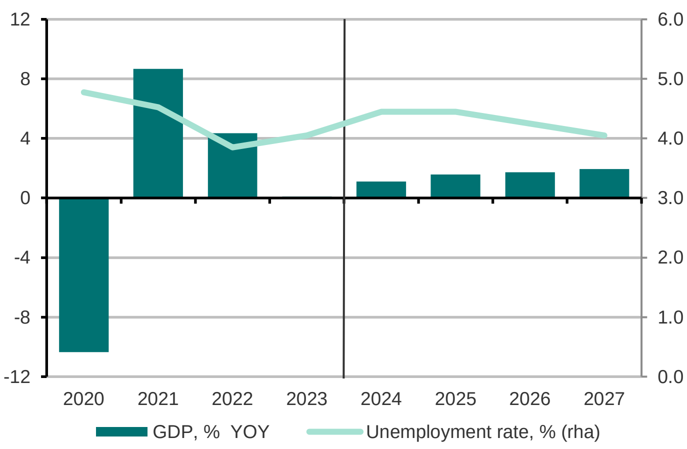
gradually declining again during the remaining part of the forecast period. The number of vacancies has been on a downward trend for a couple of years, suggesting an easing of wage pressures. However, the number remains above the pre-pandemic level.

High services inflation and wage growth will likely level off somewhat

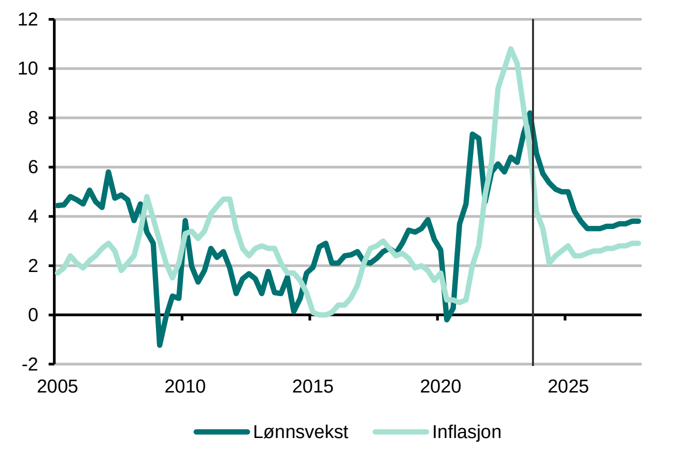
Even if headline inflation has fallen to the 2% target, some inflation challenges remain. First, headline inflation will most likely rebound shortly due to strong base effects. Hence, we believe inflation could approach 2.5% on average in H2. Second, core inflation is still much higher than the target. In July, core inflation was 3.3% YOY, affected considerably by services inflation at 5.2% YOY. Services inflation is strongly correlated with wage growth, which has been elevated for an extended period. However, wage growth fell markedly from 5.7% YOY (3m average) in May to 4.5% YOY in June. Even if this decline seems driven by a sharp drop in the government wages, private sector pay growth also fell noticeably in June. Hence, we believe wage growth will fall somewhat more. Lower headline inflation will probably reduce wage requirements, while higher unemployment and fewer vacancies are likely to weaken the bargaining position for unions and employees.

UK: GDP and unemployment



Source: LSEG Datastream, ONS, DNB Markets

UK: Wage growth and inflation, % YOY



Source: LSEG Datastream, ONS, DNB Markets

New government to maintain the fiscal stance

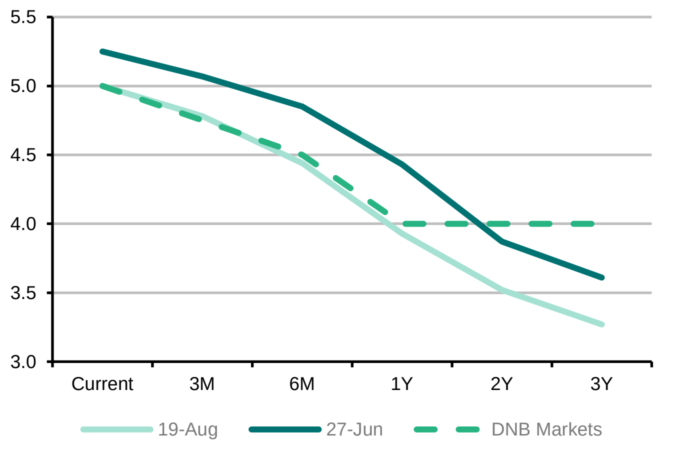
Sir Keir Starmer from the Labour Party took over as Prime Minister in early July. Despite a large majority in the Parliament, we do not foresee a major change in fiscal policy. The Labour party has indicated a need to increase public spending but that this should be financed by higher taxation. Even if the government was tempted to increase the budget deficit (6% of GDP in 2023), we believe the experience from the Truss government will dissuade the government from taking that path. Hence, we forecast that growth in public spending will stay moderate (at around 1.5% YOY) over the forecast period.

BoE in no hurry to lower interest rates

Having kept the bank rate at 5.25% for one year, the Bank of England (BoE) reduced the rate by 25bp in August, primarily due to the decline in actual headline inflation and the improved inflation outlook. However, a large minority (four out of nine Monetary Policy Committee members) voted against the cut, wanting to keep the rate unchanged. The guidance did not point to the need for a series of cuts, and we maintain our call for cuts at every other meeting, down to 4%.

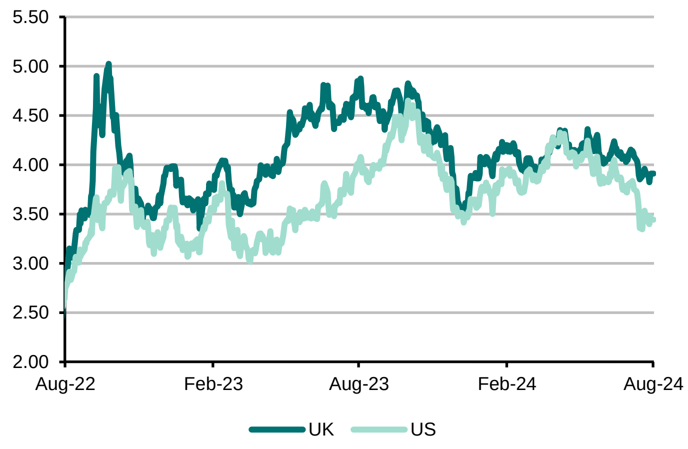
Even if headline inflation is back to the target now, and the BoE forecasts inflation to stay low in the medium term, there are some upside risks to inflation. Most notably, there is a risk that services inflation (and wage growth) remains too high. With higher economic activity, the labour market should gradually start to improve. This may exert an upward pressure on wages and services inflation, even if lower inflation expectations point to lower wage growth. Furthermore, labour productivity growth has remained low after the pandemic. Hence, we believe the BoE will be reluctant to lower the bank rate quickly and to below 4%.

UK: Bank Rate, market expectations and forecasts, %



Source: LSEG Datastream, Bloomberg, DNB Markets

UK and US: 10y swap yield, %



Source: LSEG Datastream, DNB Markets

Long rates to rise further due to higher US rates

The 10-year swap yield has been trading at 4.00-4.25% for most of this year. Recently, the yield fell below 4% due to increased market volatility and concerns of a potential US recession. We do not expect a recession to materialise and, accordingly, we foresee somewhat higher long-term rates in the US and the UK. Our forecast points to a rise in the yield to 4.25% in three months and further to 4.50% in 12 months. In the short term, our forecast for the bank rate is well in line with market expectations. However, we expect the US yield to rise by around 50bp. Further out, we expect the bank rate to drop much less than what the markets expect. Hence, we believe long rates may rise somewhat further.

DNB MARKETS

SWEDEN

The worst is behind us – new challenges lie ahead

We expect Sweden's economy to slowly recover after a challenging period of a recession and weakening labour market. As inflation is moving towards the target, we believe the Riksbank will speed up easing to boost economic activity and reach 2.75% by early next year. However, significant challenges in the global economy continue to make the way forward uncertain.

Mixed picture of the Swedish economy

Sweden entered a recession in 2023, which ended up with a GDP growth of only 0.1% YOY. While private consumption and investments (especially in housing) deteriorated, the situation was mitigated by strong net exports. The economy is currently running below capacity with a negative GDP output-gap close to 2%. Several indicators suggest that the worst is over, and that the economy should slowly begin to recover by the end of 2024. However, as data is uncertain and volatile, it might take some time before we are able to conclude that the recovery has started. GDP grew by 0.7% QOQ in Q1, primarily driven by changes in stock building. According to the GDP indicator for Q2, the economy then contracted by 0.8% QOQ. Preliminary figures for June looked stronger, with growth of 0.9% MOM. We expect growth to pick up in H2 and forecast GDP growth of 0.9% in 2024 and 2.2% in 2025.

The awaited pick-up in activity is primarily because Swedish inflation has been lower than expected, which should encourage the Riksbank to act somewhat faster with rate cuts. We believe it will make two more rate cuts in 2024 and one in Q1 2025, finally reaching a policy rate of 2.75%. This will boost the overall economy and especially private consumption and investments. However, the regained momentum will likely increase gradually in 2024 and reach full speed in 2025 when lower rates have taken full effect in the economy. After strong years in 2025e and 2026e, we forecast growth around trend for 2027, at 2.0%. Improved activity yields slightly lower unemployment rate than currently, at 7.9%, while nominal wage growth would remain stable. Due to our expectation that inflation will start to rise towards the end of the period, real wages will as a result deteriorate.

Sweden forecasts (% YOY)

	2023	2024	2025	2026	2027
Private consumption	-2.2	0.1	2.3	2.3	2.0
Public consumption	1.3	1.0	1.4	1.6	1.6
Investments	-1.0	-0.5	4.0	3.2	2.9
Exports	3.6	1.6	2.6	2.5	2.4
Imports	-0.7	0.0	3.1	2.8	2.8
GDP	0.1	0.9	2.2	2.2	2.0
Unemployment (level, %)	7.7	8.4	8.2	7.9	7.9
CPIF	6.0	2.1	1.9	2.3	2.6
CPIF-XE	7.5	2.7	2.2	2.3	2.6
Wages	3.8	4.1	3.5	3.5	3.6

Source: LSEG Datastream, DNB Markets

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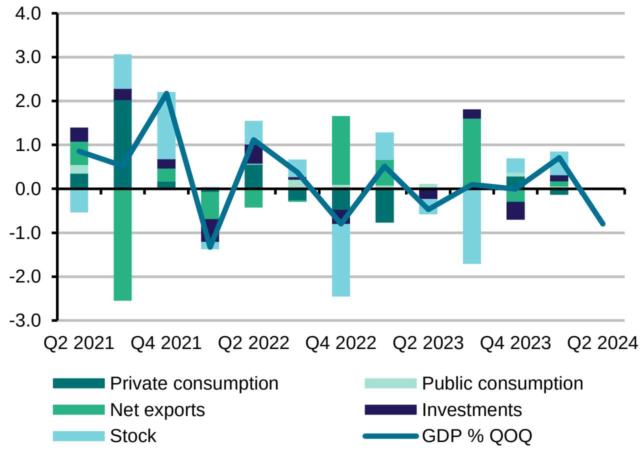
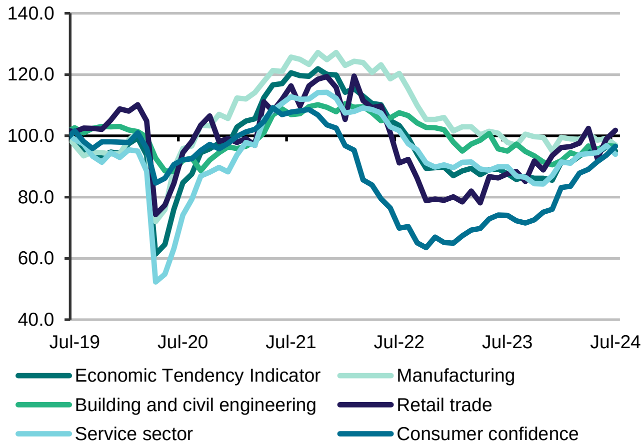
Sweden: Contribution to GDP-growth, %-points



Source: LSEG Datastream, DNB Markets

Sweden: NIER Economic Tendency Survey, July 2024



Source: DNB Markets, NIER

Private consumption to be gradually supported by lower rates

Accounting for 45% of GDP, private consumption is a crucial contributor to growth. While it has been hampering economic activity for two years, it is now supposed to spark the recovery. The question is how much and how fast.

The current wage agreement for the industry, which serves as a benchmark for wage formation in general, stipulates a 3.7% average increase in 2023-2024, which entails that real wages will again be positive. We expect the upcoming wage negotiations to result in moderate deals of 3.5% for 2025-2027, as inflation expectations are in line with the 2% target. Since we expect inflation to pick up from 2026, real wage growth should peak in 2025 at 1.7% and fall back to 1.3% in 2026 and 1.1% in 2027. Thus, households' purchasing power is set to increase significantly compared to previous years.

Real disposable income will increase, but growth fall due to higher inflation in 2026e-2027e.

Our policy rate forecast suggests households will receive gradual support through interest rates. However, it is uncertain whether households will prefer to consume or save the increased real disposable income. We assume there is some pent-up demand after two years of significantly reduced economic space, making us lean more towards a stronger pick-up in consumption at the beginning. Thereafter, savings are likely to increase again. For the full year, we forecast private consumption to grow by 0.1%. In 2025 and 2026 we forecast 2.3%, before it falls back to 2.0% in 2027, in line with the trend in real wages.

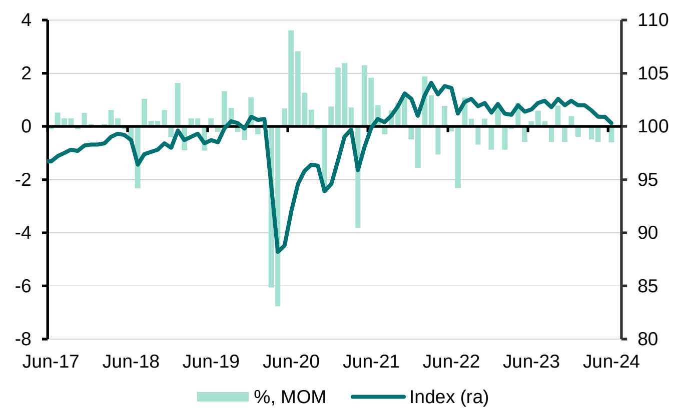
Increased private consumption due to improved real disposable income.

Solid growth in investments across many sectors

Higher rates have dragged down the investment activity in Sweden significantly. Total investments declined by 1.0% in 2023. Housing investments, which account for 15% of total investments, have been severely hit in this recession and declined for an eighth consecutive quarter in Q1. Since the peak in 2022, the decline of 38% is the largest since the crisis in the 1990s. This is an important explanation for the weak trend in the Swedish economy. We believe the investment activity in Sweden will be subdued in 2024 before picking up in 2025 together with lower rates and higher economic activity. One positive signal comes from the construction industry in the NIER Economic Tendency Survey in July, where the housebuilders reported a record-high outlook one year forward.

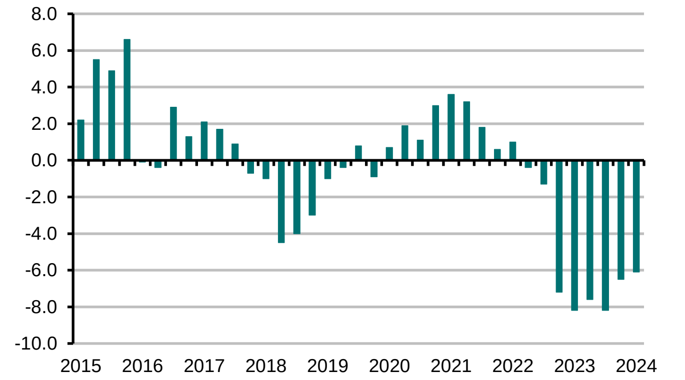
Housing investments set to make a significant comeback in 2025

Sweden: Real household consumption



Source: LSEG Datastream, DNB Markets

Sweden: Housing investments, % QOQ SA



Source: LSEG Datastream, DNB Markets

We also expect to see more public investments, which account for 20% of total investments, in defence-related areas, infrastructure, and energy. One recent example is the government's plan for nuclear energy investments of at least SEK400bn. Although such investments are expected to grow in the years to come, most of them will likely be allocated over many years and therefore contribute less to GDP growth in individual years. It is also difficult to predict when and how such projects would materialise and show up in the numbers.

The contribution of investments to growth in the Swedish economy has been increasing for a long time and we expect this trend to continue across many sectors. In the short term, however, it is volatile and unpredictable. For total investments, we forecast negative growth of 0.5% in 2024, followed by a significant pick-up to 4.0% in 2025, primarily driven by housing investments. Thereafter, for 2026-2027, we forecast growth around 3.0% in total investments.

Continued fiscal discipline in the upcoming budget bill

The budget bill for 2025 will be presented in September. There are different views on whether the government should provide more fiscal stimulus to boost the subdued economic activity in Sweden. We do not expect the government to end the fiscal discipline. Elisabeth Svantesson, the Minister of Finance, has consistently been referring to the importance of the fiscal policy framework for Sweden's economy, including the surplus target. Svantesson states that this is especially important after some years with deficits, e.g. caused by higher pension costs in local governments and automatic stabilisers, activated by reduced economic activity. We expect the focus will rather be on medium- and long-term reform initiatives as well as fiscal prioritisations.

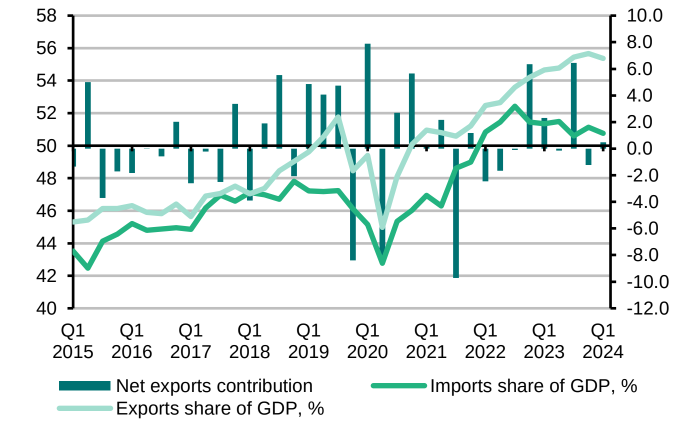
The fiscal policy framework consists of several elements, e.g. four budget targets: surplus target, debt anchor, expenditure ceiling, and balanced local government budgets.

There have been extensive discussions as to whether the surplus target is relevant or outdated, especially during recessionary times, and there are different opinions even within the government. The Minister of Finance and Moderaterna have so far not given any indication of imminent changes of the target. It is currently being assessed and the conclusions are set to be presented in November. Regardless of what the conclusions are, the surplus target is not necessarily a restriction for the government, should it want to engage in large and costly projects, for example related to infrastructure or energy. There are, however, other restrictions to consider, such as the debt anchor stipulating that public debt should not exceed 35% of GDP. In 2023, it was 32% and we expect it to grow somewhat in the years to come.

The surplus target stipulates that financial net lending should be 1/3% of GDP on average over a business cycle. The structural net lending serves as a benchmark.

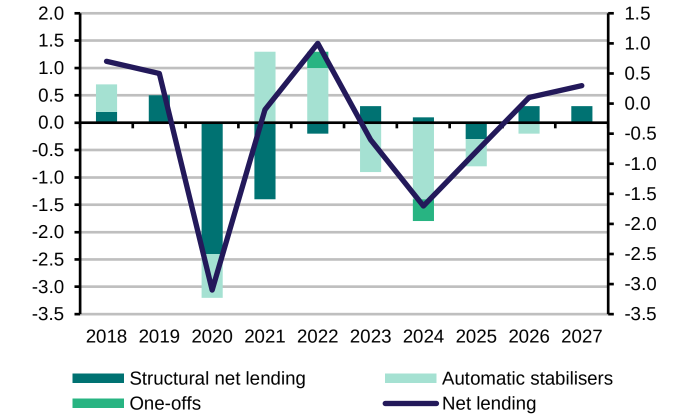
We do not forecast any fiscal surprises in the upcoming budget bill for 2025. These are more likely to happen in the 2026 budget bill, as the next general election occurs in September 2026. According to the budget bill for 2024, the government estimates the fiscal space to SEK127bn for the period 2024-2026. We believe these additional funds would be roughly equally distributed over the years with a bias towards 2026. Altogether, we forecast public consumption to grow by 1.0% in 2024 and by 1.4%–1.6% in 2025–2027.

Sweden: Net exports contribution to GDP growth, %



Source: LSEG Datastream, DNB Markets

Sweden: Public net lending, % of GDP (NIER)



Source: NIER, DNB Markets

Will Germany be a showstopper for Swedish exports?

Foreign trade has grown dramatically over the past 30 years and is very important for the Swedish economy in many respects. Exports as a percentage of GDP are about 55% of GDP and imports about 50%. As these shares can fluctuate, net exports' contribution to GDP growth is difficult to forecast. In 2023, net exports increased and were an important contributor to growth. One explanation may have been the depreciated Swedish krona.

With almost 75% of all exports (goods represents two-thirds) going to Europe, with Germany at the top, the near-future may be hampered by the low activity in the European economy, and especially by the significant industrial challenges in the German economy. World trade is also becoming increasingly restrained by trade barriers due to geopolitical tensions and rising protectionism. Although exports are expected to grow, an increase in domestic demand would also generate stronger import growth, leading to a weaker growth contribution from net exports. In 2024 and 2025, we forecast exports to grow by 1.6% and 2.6% respectively, and imports to expand by 0% and 3.1%, respectively. Thereafter, we expect exports and imports to grow around 2.5% and 2.8% respectively.

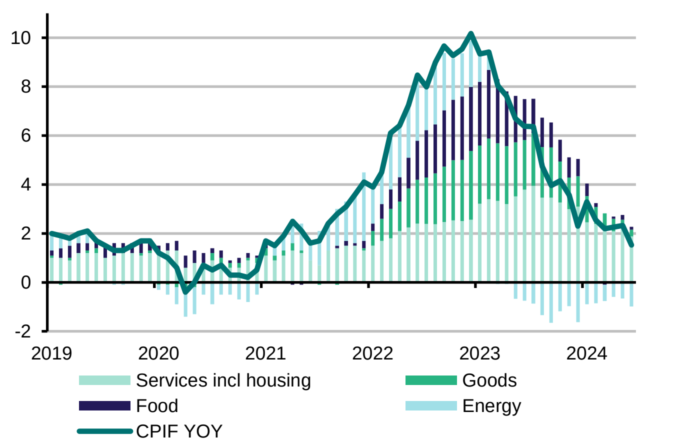
Inflation to reach 2% percent target…before it starts to rise again

Inflation in Sweden reached record-high numbers around 10% in December 2023. Since then, it has fallen surprisingly quickly. The CPIF was 2.3% YOY in H1, while the corresponding figure for CPIF-XE was 3.2% YOY. In addition to significantly lower energy prices, which have contributed to the CPIF deterioration, the price trends for goods and food have also normalised. We believe this pattern will also characterise H2, yet with setbacks in individual months. For the full year, we expect the CPIF to be 2.1% YOY and the CPIF-XE to be 2.7% YOY. In 2025, we forecast that CPIF inflation will stay close to the 2% target and that the gap to the CPIF-XE will almost disappear, based on the presumption that energy prices will remain relatively stable.

Thereafter, we see an impending risk that inflation will start to rise again, which is based on our global scenario. Even if Swedish inflation in isolation stabilised around 2%, there are other countries, such as the US, the UK, Norway, and parts of the eurozone, where the trend is more concerning. In addition to the challenges many of these economies already have with wage growth and service inflation, the world economy is also facing major structural changes, which we believe will raise inflation. We expect these combined forces to start reaching the Swedish economy in 2026. Hence, we forecast the CPIF and the CPIF-XE to be 2.3% YOY in 2026 and 2.6% YOY in 2027.

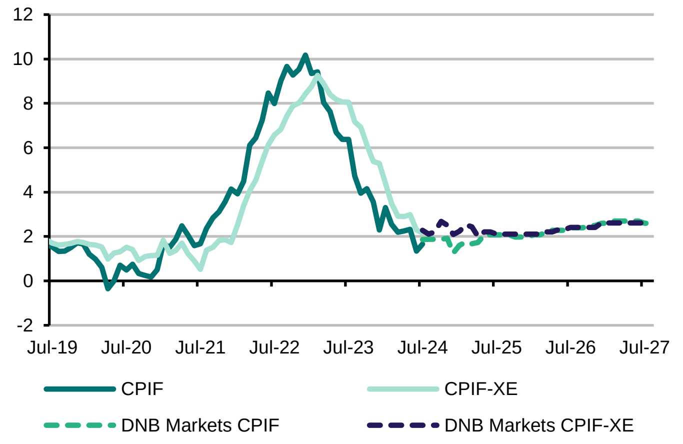
Swedish inflation should start to rise again because of international factors.

Sweden: Contribution to CPIF inflation, %



Source: NIER, DNB Markets

Sweden: DNB Markets inflation forecasts, % YOY

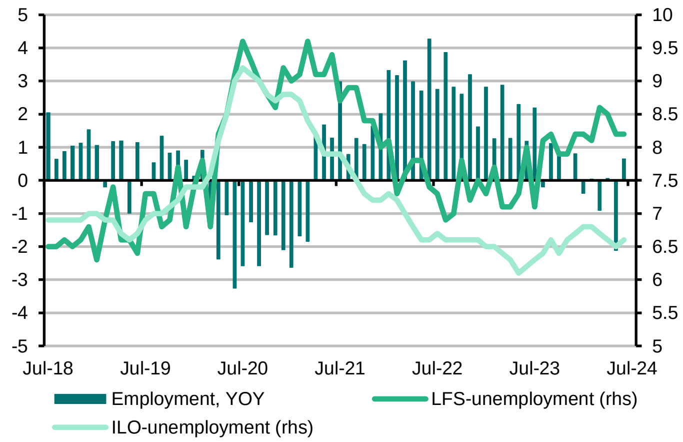


Source: LSEG Datastream, DNB Markets

Weakened labour market to improve slowly next year

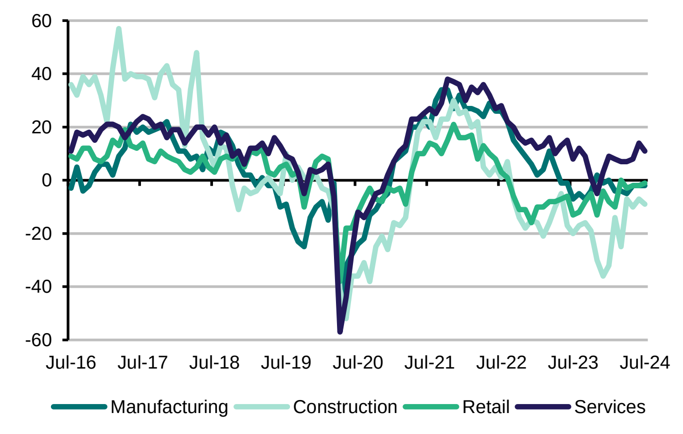
In contrast to the improving inflation trend this year, the Swedish labour market has weakened significantly. LFS employment reached 8.5% in April before falling to 8.3% in May and June. As reference, the unemployment rate was 7.3% in January 2023. The construction sector has been hardest hit. As it constitutes 7% of total employment, its movement has the largest effect of all sectors on the total employment level in Sweden. According to the NIER Economic Tendency Survey in July, the sentiment is slowly improving, albeit from low levels. The labour market in Sweden is also characterised by structural problems, such as a 30% share of long-term unemployed, especially among foreign-born individuals. This is a significant contributor to the high unemployment rates. We forecast unemployment at 8.4% in 2024, improving to 8.2% in 2025 and 7.9% in 2026-2027 due to higher economic activity. We expect employment to remain at current levels around 70%.

Sweden: Labour market trends, %



Source: LSEG Datastream, DNB Markets

Sweden: Employees next three months, NIER net index



Source: LSEG Datastream, DNB Markets

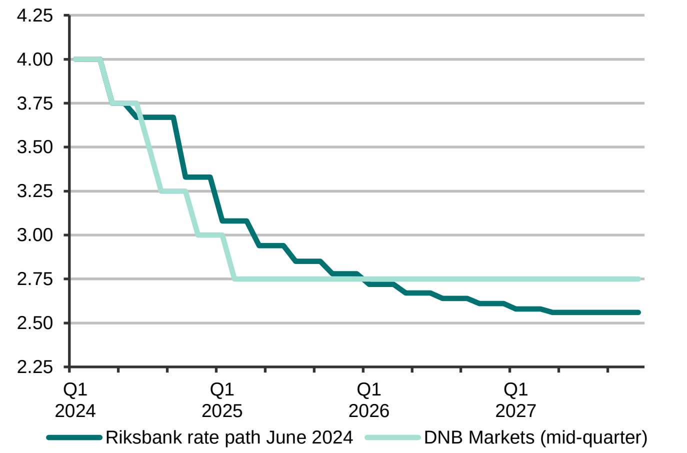
The policy rate set to finally reach 2.75% early next year

Swedish inflation has fallen faster than the Riksbank forecast in 2024. This allows it to support the low activity in the Swedish economy and the weakened labour market through a somewhat faster monetary policy easing. In the Monetary Policy Report of 20 August, the Riksbank states that another two or three more cuts are possible this year. We forecast three more cuts, in September, December, and March, finally reaching a policy rate of 2.75%. The Riksbank's rate path ends at 2.56% in 2027. If the monetary policy were solely based on Swedish economic trends, a policy rate forecast below 2.75% could have been valid. However, as described earlier, we believe inflation in the US and in the eurozone will stabilise closer to 3.0% than 2.0%.

The Riksbank's monetary policy easing will likely be constrained by an impending risk of higher inflation and the ECB's monetary policy.

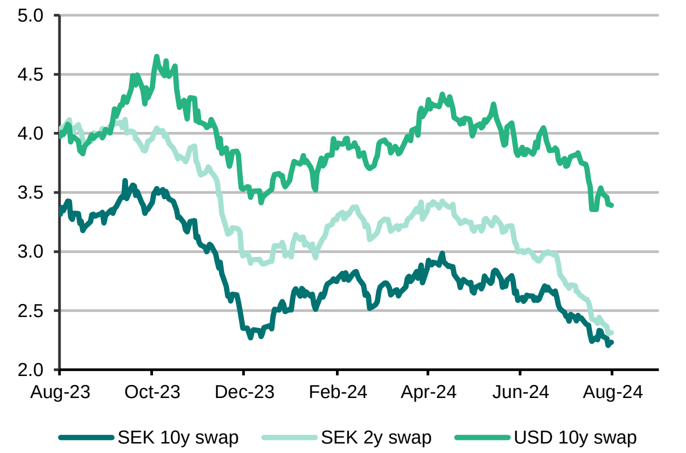
This will likely limit the room for action by the Fed and the ECB. We forecast the ECB to stay at 2.75%, which would work as a constraint for the Riksbank. A Swedish policy rate below the ECB's for a longer period would risk undermining the Swedish krona further. Also, inflation abroad would gradually affect Swedish inflation. We expect the Riksbank to take this risk more into account next year, which will likely make it more cautious. In addition, we expect a solid normalisation of Swedish economic activity in 2025, such that lowering the rate further could risk triggering inflation.

Sweden: Riksbank policy rate, %



Source: LSEG Datastream, DNB Markets

Sweden: Market pricing 2-year and 10-year swap, %



Source: Bloomberg, DNB Markets

Long-term interest rates expected to rebound

Long-term interest rates have fallen significantly during the summer in the US and Europe, and as a direct response, also in Sweden. A 2-year SEK swap is now quoted around 2.30%, compared to 3.40% at the beginning of May (i.e. a decline of 110bp). The 10-year equivalent has also fallen by about 70bp and is now quoted around 2.20%, compared to about 2.90% in early May. Thus, the Swedish yield curve has shifted down considerably and flattened during this period. This is primarily due to a combination of general market concerns and a risk-off sentiment, concerns of a US-recession, increased confidence that inflation will be brought under control, and hence greater expectations that the Fed will move faster to lower interest rates. This trend has also been reflected in how the market prices the Riksbank's future policy rates. According to current market pricing, the Riksbank will lower the policy rate to around 1.75% in two years, which is 100bp below what we consider likely. In all, we assess that the significant market movement we have seen during this period is strongly exaggerated and that it will rebound. In three months, we expect a Swedish 10-year swap to be 2.50%, approximately 30bp higher than today, and that in 12 months, it will be 3.00%, approximately 80bp higher than today. At that point, it would be back to about the same level as at the beginning of May 2024.

The 10-year SEK swap set to rebound 80bp in 12 months and reach 3.00%.

DNB MARKETS

CHINA

Slowing, but steady growth

China is shifting from a housing construction-based economy to advanced manufacturing and technological innovation. We expect manufacturing overcapacity to build during the transition. Overcapacity is the result of Chinese industrial policy but will likely be exacerbated by rising protectionism globally. The resulting margin squeeze would slow wage growth, limiting consumption. While we believe there are few quick fixes to boost domestic consumption to absorb surplus capacity. As fiscal and monetary policy turns more expansionary, we expect growth to slow but remain steady. We estimate real GDP growth will slow to 3.5% YOY by 2027.

Pivot from housing to advanced manufacturing supports overcapacity

Chinese policymakers have supported an accelerating shift in economy composition in recent years. In our view, China has followed up and doubled down on its fairly consistent development goals over the past decade. The aim is to transform China from a real estate and construction-based economy primarily exporting low-value goods into one driven by advanced manufacturing and technological innovation. Industrial policy has been a cornerstone in this process. In recent decades, significant investments have been made in education and robotisation to boost labour productivity. The 'Made-in-China' policy from 2015 outlined China's ambitions to enhance and upgrade manufacturing capacity in ten key industries, including e.g. semiconductors, robotics, power generation equipment, and electric vehicles (EV) and related batteries.

In 2021, following a massive housing boom, the authorities decided to deflate the real estate bubble, forcing developers to deleverage. Although the resulting downturn was more severe than expected, compounded by the 2022 Omicron lockdowns, policymakers have avoided reverting to using housing as a stimulus measure. Instead, they favoured support measures aimed at limiting contagion from the downturn, setting up a so-called "policy-put". Thus, despite the steep downturn in its single most important sector, the Chinese banking system and financial sector remain relatively unaffected.

YTD economic activity – as measured by electricity use in industry and the volume of goods handled at ports – is up 5.4% YOY, with the decline in real estate construction offset by stronger growth elsewhere. New credit that previously likely would have gone to real estate construction was diverted to industry. The decline in new loans to the real estate sector since 2021 is broadly counterbalanced by the increase in loans to industry. Going forwards, additional investments in industrial manufacturing capacity, helped by

China forecasts (% YOY)

	2023	2024	2025	2026	2027
GDP (reported)	5.2	5.0	4.5	4.0	4.0
GDP (estimated)	5.1	4.9	4.4	3.8	3.5

Source: LSEG Datastream, DNB Markets

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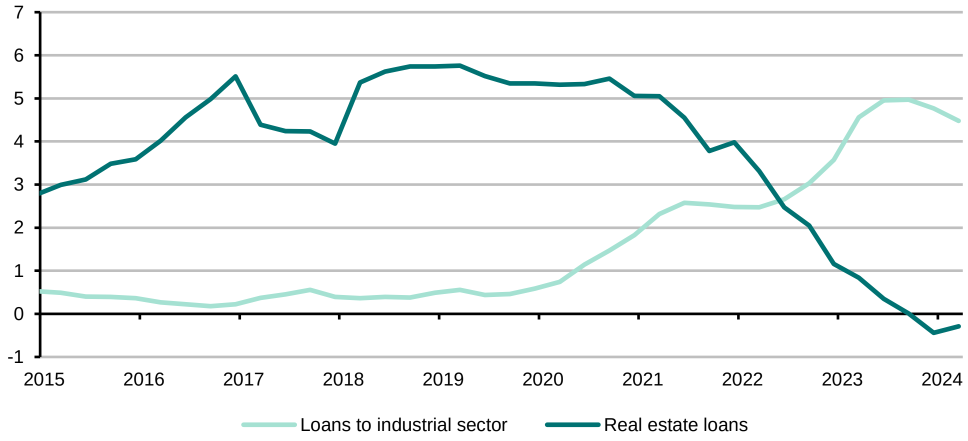
industrial policy, should ease the drag of the continuing construction slowdown on growth.

China: bank loans by sector (YOY in RMBtn)



Source: LSEG Datastream, DNB Markets

New credit that previously likely would have gone to real estate construction was diverted to industry during the housing downturn

Chinese industrial policy – a cycle of profitless growth, followed by consolidation

Chinese industrial policy, driven by subsidised financing, policy-led demand and competition among local governments, has led to manufacturing overcapacity being a persistent issue in its growth model. Generous subsidies on the demand side (policy-led demand) tend to encourage an excessive influx of companies in select industries. For EVs, the government offered VAT exemptions for purchases of EVs over internal combustion engine cars. Charging infrastructure was built on a massive scale to support the transition. Notably, foreign firms such as Tesla were able to benefit from these measures. Local governments provided further support through easy financing and priority land access.

Manufacturing overcapacity is a persistent issue in China's growth model due to the nature of industrial policy…

This type of industrial policy pushes entrepreneurs to take greater risks, but also creates a competitive environment where only the strongest and most innovative firms survive. The result is often a period of profitless growth followed by consolidation, which, although wasteful in terms of resource use, has enabled Chinese firms to become global leaders in industries such as EVs. For EVs, the EU contends that this constitutes unfair trade, arguing that Chinese subsidies allow firms to undercut European competitors. In response, the EU imposed tariffs ranging from 17.4% to 37.6% on Chinese EVs after a year-long investigation in 2024. China disputes the claim and has filed a complaint with the World Trade Organization. However, it is worth noting that despite these additional tariffs leading Chinese EV companies like BYD are expected to maintain very strong profit margins in Europe, indicating their competitive edge remains intact even with additional costs.

...which sets up a period of profitless growth followed by consolidation, which has enabled Chinese firms to become global leaders…

…with their competitive edge remaining intact even with punitive tariffs

Housing likely to be a drag on growth until 2027

As China shifts away from a housing construction-based economy, we expect manufacturing overcapacity to rise. Our main concern is that replacing housing construction would require a very significant build-up of investments in other sectors. Currently, the construction pipeline all but 'locks in' declining housing construction activity until 2027. In our view, turning the housing market around requires the two key feedback loops discussed below to be broken, but this remains highly uncertain.

The construction pipeline all but 'locks in' declining housing construction activity until 2027

First, the loop between developer financing and buyer sentiment are critical. The Evergrande crisis highlighted the risks of buying off-plan from struggling developers, leading to cautious buyers, which perpetuated developer liquidity issues. Government 'whitelists', which guarantee financing to complete specific projects, help but are limited in scope, as Beijing is reluctant to fully bail out developers.

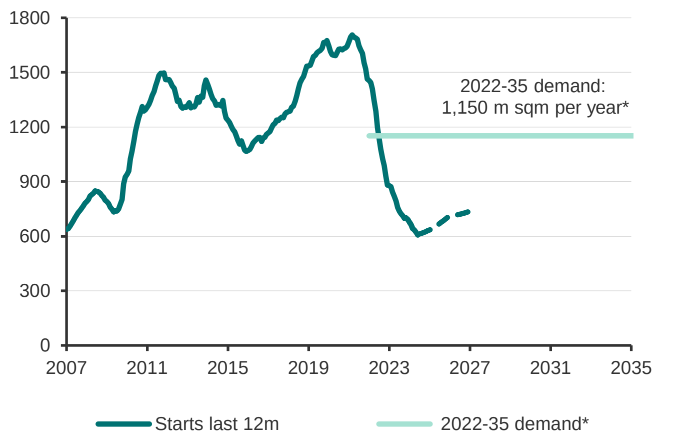
The negative feedback loop between falling home prices and weak buyer sentiment persists as home prices are not set to bottom before mid-2025

Second, the loop between falling home prices and weak buyer sentiment persists. Buyers are holding off as prices have not yet bottomed. While authorities are purchasing unsold housing to convert into affordable units, thereby reducing the overhang and supporting home prices, the progress has been slow due to local negotiation challenges. Based on the current pace of decline, home prices look set to stabilise by mid-2025, potentially boosting sentiment.

Once prices bottom, a sharp rebound in sales looks likely, supported by strong housing demand and households' excess cash savings, estimated at 15% of GDP. However, even if new home starts rose by 12% YOY in 2025 and 4% YOY in 2026 (a scenario in line with the housing rebound seen in 2015), we estimate the ongoing floorspace under construction would likely still decline by around 8–9% YOY over the next two years before picking in 2027.

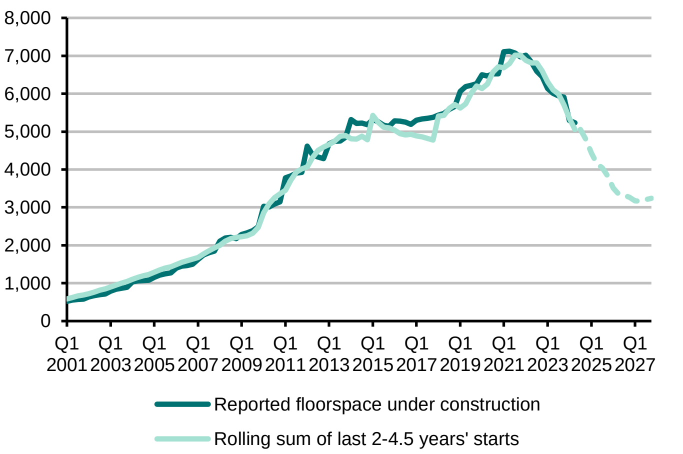
Floorspace under construction would likely still decline by around 8–9% YOY over the next two years

China: new home starts LTM (m sqm)



Source: LSEG Datastream, DNB Markets
Note: *Rogoff et.al. estimates (2022)

China: floorspace under construction LTM (m sqm)



Source: LSEG Datastream, DNB Markets

External headwinds worsen overcapacity issues

External headwinds, e.g. rising global protectionism and geopolitical tensions, are likely to worsen overcapacity by reducing external demand. The question is by how much? China has increasingly pivoted its trade towards the 'Global South', and more integrated regional trade in Asia and the developing world could partially offset the impact of deglobalisation. However, developing economies account for only 40% of global imports. Given the scale and scope of China's manufacturing capacity growth, it remains dependent on demand from Western markets, particularly for the advanced goods it aims to export.

China's remains dependent on demand from Western markets, particularly for the advanced goods it aims to export…

For example, Chinese firms are now leading the way in green tech. These sectors are expected to experience significant growth, driven by increasing global demand and China's expanding production capabilities. As the need to combat climate change becomes more urgent, we could expect more action. However, recent tariffs and trade barriers imposed by Western governments suggest a growing preference to protect their domestic industries from unfair trade practices and reduce reliance on China, even if it means delayed climate action.

…meanwhile Western governments prefer protecting domestic industries and reducing reliance on China – even if it means delayed climate action

A renewed US-China trade war appears imminent, although China's trade landscape has shifted since 2018. Foreign multinational companies (MNC), which are more likely to relocate from China, now play a smaller role in China's export sector, potentially reducing the direct impact of a trade war. The share of foreign-invested firms in Chinese trade has dropped from 43% in 2018 to 28%, with processing trade declining from 25% to 15%. Despite the reduced presence of foreign MNCs, China's global export share and manufacturing value-added have increased since 2018. Local companies have filled the gap left by foreign MNCs – and expanded globally. For example, in 2007, only 3% of the value of Apple's iPhone was added in China (with Foxconn merely assembling imported parts), but this share rose to 25% by 2017, with the iPhone X, on the back of local suppliers. Since then, Chinese mobile brands like Huawei, Xiaomi, Oppo and Vivo have grown their market shares in China and globally.

China's share of global exports and global manufacturing value-added have *increased* since the last trade war…

…as local companies have filled the gap left by foreign MNCs

Furthermore, displacing China from global value chains would likely take a long time due to its competitive advantage. In 2023, it accounted for a third of global manufacturing value-added and 15% of global exports. Even though supply chain reconfiguration is happening, the past six years have highlighted the resilience of Chinese manufacturing. China's dense supplier clusters, proximity to the substantial Chinese market, and large skilled labour pool give it a natural competitive advantage, which is boosted further by consistent government support.

Even though supply chain reconfiguration is happening, the past six years have highlighted the resilience of Chinese manufacturing due to its natural competitive advantages

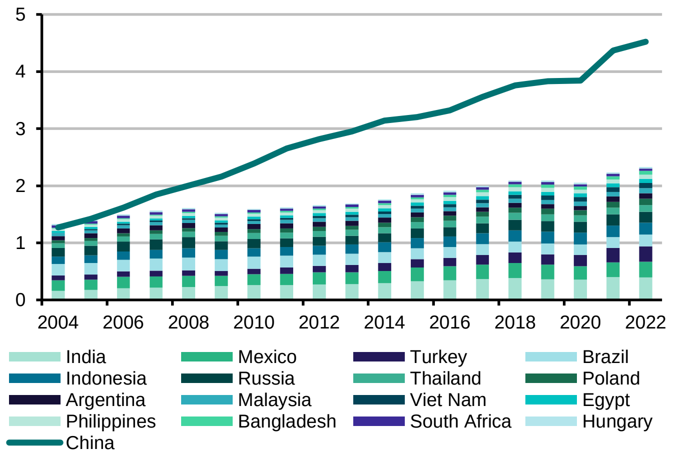
Looking at the 16 most prominent emerging markets manufacturing hubs – with some touted as potential replacements for China – even if they doubled their capacity, they would cover less than half of China's current output. India, the world's most populous nation, lags far behind China in terms of manufacturing value add. Despite Modi's 'Made-in-India' initiative launched in 2014, India's manufacturing capacity is only 35% higher than a decade ago. It thus looks highly unlikely India, or another country, could replace China as the global manufacturing leader anytime soon. For example, estimates suggest it would take Apple up to eight years to move just 10% of its production out of China.

It looks highly unlikely India could replace China as the global manufacturing leader anytime soon

Thus, short-term, we see a relatively muted impact on the Chinese economy from the threat of a renewed trade war under a potential second Trump administration and continued protectionism. It is difficult to estimate when we could see a more negative drag on Chinese exports, but we do not expect any clear effect until mid-2026. In the absence of a renewed trade war, we believe the impact of overcapacity will be delayed until later in our forecast period.

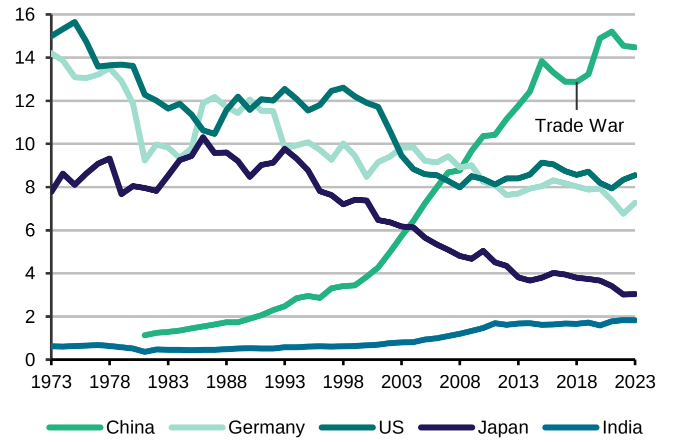
We do not expect a renewed trade war to have any clear effect on Chinese exports until mid-2026

Select economies' manufacturing value-added (2015-USDtn*)



Source: LSEG Datastream, World Bank, DNB Markets *local ccy to USD

Selected economies' share of global export values (%)



Source: LSEG Datastream, DNB Markets

No quick fixes to boost Chinese domestic consumption to absorb surplus capacity

Weak domestic demand is key to the issue of overcapacity. We see very few 'quick fixes' to boost Chinese domestic demand, although subsidised spending should help in the short run. The latest subsidies for durable goods and equipment replacement have yet to materialise in increased sales, but we expect a small boost in H2 2024. Still-solid growth in real wages and disposable incomes supports consumption growth in the near term.

Ultimately structural reforms are needed to reduce the structural increase in the savings rate

Furthermore, we see some tailwinds for consumer demand as the savings rate comes down from pandemic peaks. The pandemic was an unprecedented shock to household incomes. Given the lack of a social security net in China, this triggered a significant jump in the households' precautionary savings rate. On our estimates, excess savings have accumulated significantly, and although households have refrained from drawing on these excess savings so far, they have stopped accumulating savings at an accelerated rate. Given the nature of the pandemic, we believe excess savings accumulated across all income groups, including the lower income groups with higher propensity to spend.

… and we see few signs that reforms will be implemented in the coming years

However, ultimately, we believe structural reforms are needed to reduce the structural increase in the savings rate. Since we see few signs that reforms will be implemented in the coming years, we forecast the savings rate will remain elevated. We expect consumption growth to remain robust at just below 5% YOY for 2024–2025, before declining to 4.5% in 2026.

Growth to slow as overcapacity squeezes margins, lowering incomes and consumption

As overcapacity becomes more apparent, we expect companies' margins to be squeezed and a drag on income growth, ultimately dampening Chinese consumption growth. However, we believe this impact should not be felt until 2026–2027. Despite big sectoral differences, overall wage growth is set to remain relatively robust both this year and next year.

We expect policymakers to implement incremental fiscal and monetary policy support

To counter the negative impact from overcapacity, we expect policymakers to implement incremental fiscal and monetary policy support. Ample policy space means that the Chinese "policy-put" looks likely to maintain growth. As the PBOC turns to cutting rates, we expect the renminbi to devalue gradually. Together, ongoing demand-side reforms, incremental fiscal and monetary support, and a turnaround in the housing market means growth in China looks likely to slow rather than collapse. We see GDP growth slowing from 5% YOY in 2024e to 3.8–3.5% YOY by 2026–2027e.

Growth in China set to slow, rather than collapse, to 3.5% YOY by 2027

We expect Chinese policymakers to refrain from pulling out a stimulus bazooka despite the slowdown in growth. In our view, the ongoing US–China rivalry – with the US as dominant economic and military power and China the rising challenger – is likely to persist regardless of the coming US election's outcome. The rivalry became more pronounced with Obama's 'Pivot to Asia' in 2011, and was cemented in 2017, when the US labelled China a "strategic competitor". Over the past eight years, both the Trump and Biden administrations have maintained this stance, despite differing approaches. The focus on "security" and "self-reliance" over economic efficiency and trade integration has been central to this rivalry. In response, China has opted for cautious, incremental support measures instead of large-scale stimulus, likely to preserve policy flexibility. We expect tensions to rise as the relative balance of power continues to shift in China's favour, indicating a continued need to preserve policy space.

Chinese policymakers' preference for gradual support over stimulus bazooka likely here to stay…

…preserving policy space amid continued US–China rivalry

Adjusted for purchasing power, our estimates imply that GDP growth added in China will remain the largest on a global basis throughout our forecast period. Cumulatively to 2027, our estimated rise in economic activity (measured by GDP) in China is approximately 1.6x and 2.5x the corresponding growth in India and the US, respectively. Thus, despite a material slowdown in YOY growth, we expect it to be steady. Furthermore, we estimate Chinese GDP per capita will still be only just above a quarter the US' by 2027. In our view, this suggests the longer-term potential for catching up remains significant.

The total volume of GDP growth in China will remain the largest globally during the forecast period, despite its slowdown

Our estimates assume that cross-strait tensions, although increasing, will not escalate into a crisis by end-2027. We expect the hung parliament in Taipei to constrain policy to some extent. Furthermore, recent surveys indicate a growing preference among Taiwanese households to maintain the current status quo indefinitely as opposed to working towards independence. We find it rather unlikely that mainland China would initiate a military confrontation over our forecast period, as the likelihood of victory remain questionable and the related costs would be substantial. However, we acknowledge that the perception of risk will likely rise as China's relative military and economic power increases further. Taiwan's status remains a critical issue for the mainland – we view it as the brightest of all red lines for the Chinese people (not just President Xi) – representing the largest downside risk to our outlook.

Our estimates assume that cross-strait tensions, although increasing, will not escalate into a crisis by the end of 2027

… this represents the largest downside risk to our outlook

Risks of a Trade War 2.0

Assumptions regarding the upcoming US election are critical to our outlook for Chinese growth. With the Harris/Walz ticket currently gaining significant traction, uncertainty has increased. However, our base case remains that Trump will secure a second term, which would make another trade war between the US and China highly likely. The key variable in our outlook is how strictly trade barriers are enforced on Chinese-origin goods.

The key variable is *how strictly* trade barriers are enforced on Chinese-origin goods

Trump's likely trade policy is not yet fully defined (it was rather transactional previously). While some argue that his proposed tariffs are primarily intended to force more concessions from China ahead of a 'Phase-2 Trade Deal', we believe he would likely implement the 60% tariffs on Chinese imports for a significant period. This would be a significant shock to bilateral trade compared to the current tariff levels averaging 21%. In 2018–2019, we did not observe a significant inflationary impact from the trade war. In our view, this was primarily due to the continued availability of 'made-in-China-assembled-in-X' products, which helped mitigate the impact on global prices. Multinationals, including many Chinese companies, are increasingly establishing partial production and assembly operations in third countries to navigate trade barriers. This emergence of such trade 'connector' countries sets the current period of trade fragmentation apart from the Cold War. They enhance the resilience of global trade.

The emergence of trade 'connector' countries sets the current period of trade fragmentation apart from the period during the Cold War

Below, we include three potential scenarios regarding the upcoming US election, with escalating adverse effects for China:

- **Harris wins and expands on Biden-era 'small yard, tall fence' policies.** We do not see a period of re-globalisation under Harris, believing she would likely continue with the Biden administration's focused but protective trade measures, targeting specific strategic sectors, while allowing broader trade to continue. We believe this would primarily choke off China's access to artificial intelligence and semiconductor chips, and supply chain reconfiguration would continue at the current pace.
- **Trump wins and escalates trade war, but with 'leaky' tariff barriers.** In this scenario, varying tariff enforcement creates a patchwork of barriers, allowing some Chinese goods to bypass through transit countries. This would mean a relatively minor inflationary impact in the US, and the subsequent decline in US demand would be limited. It would also accelerate the establishment of assembly facilities in third countries significantly, boosting investments in emerging markets. With only a relatively minor aggregate demand-side shock, this would imply limited second-order impacts on European disinflation. We believe tensions between the US and China would escalate, with matching retaliatory actions from China, and supply chain reconfiguration would pick up speed, but largely focus on assembly. For more critical strategic manufacturing, subsidies would attract more relocations back to the US.
- **Trump wins and enforces strict source-of-origin rules.** In this scenario, we see Trump implementing stringent source-of-origin rules, severely disrupting global supply chains. Companies would be forced to reduce the China content in their output and find more costly alternatives. This would take time to complete, and in the meantime, the American importers would have to absorb the higher costs of 60% tariffs, leading to much more pronounced inflation in the US compared to 201 2019. This means some goods would simply become too expensive for US households, significantly lowering consumer demand. Chinese exporters would likely seek alternative markets in Europe and the Global South, with prices falling more sharply to undercut other suppliers in these markets. Tensions between the US and China could escalate significantly, with matching retaliatory actions from China including increasing export control, leading to significant renminbi depreciation.

In the event of a Trump victory, we believe he would most likely pursue a trade war with 'leaky' barriers rather than enforce strict source-of-origin rules. Strict enforcement would be logistically challenging and costly, likely burdening US consumers – something Trump would likely want to avoid. Even at current tariff levels, there is already a shift in manufacturing away from China, and pushing for a stricter approach could trigger a costly demand shock in the US economy.

DNB MARKETS

EMERGING MARKETS

A few winners from deglobalisation

Emerging markets economies are facing increasingly divergent outlooks. Geopolitical tensions and instability lower investments. Some economies benefit from China-plus-one strategies attracting more foreign investments, including from China. India is the bright spot in our global outlook, though it cannot replace China in manufacturing any time soon.

Diverging economic prospects for emerging economies

Emerging markets are facing increasingly divergent economic prospects, with significant regional disparities shaping the outlook. Once known for their rapid growth, these economies are now witnessing a marked slowdown in potential growth. This deceleration is driven by several structural challenges. Historically, emerging markets benefited from favourable demographics, rising labour force participation, high investment levels, and expanding trade with global partners, all of which fuelled strong productivity. These growth drivers are now weakening.

Deglobalisation would be detrimental to growth across emerging markets, undermining productivity gains that have been crucial to their development. The demographic advantages that once bolstered growth are diminishing in several regions, investment rates (outside of China and India) have markedly declined.

The impact of these trends is being felt unevenly across regions. Emerging European economies are struggling with the economic fallout from the ongoing war in Ukraine. Although Russia continued to deliver stronger-than-expected growth in 2023 at 3.4% YOY we expect this momentum to slow. Additional voluntary oil production cuts and tensions in Gaza keep growth in the Middle East lower. South America is also grappling with muted growth, with Argentina facing significant economic challenges from runaway inflation. Going forwards, the growth slowdown in China will be a drag on exports, particularly from Latin America. Despite Asia's continued importance as a growth engine, it too has seen a slowdown. India is an outlier, maintaining relatively high GDP growth since the pandemic. South Asia, led by robust growth in India, is becoming one of the fastest-growing regions.

GDP forecasts (% YOY)

	PPP weight	2024	2025	2026	2027
Emerging economies	57.9	4.2	4.2	4.0	4.1
China (Actual)	18.4	4.9	4.4	3.8	3.5
India (FY)	7.0	7.0	6.5	6.5	6.5
Russia	3.1	3.0	2.0	1.5	2.0
Brazil	2.3	2.0	2.0	2.5	2.5
MENA and Central Asia	7.5	3.0	3.5	3.5	3.5
Asia ex. China & India	6.9	4.5	5.0	5.0	5.0
Latin America ex. Brazil	5.0	1.5	2.5	2.5	2.5
Emerging Europe ex. Russia	4.6	3.0	2.5	2.5	3.0
Subsaharan Africa	3.1	3.5	4.0	4.0	4.5

Source: LSEG Datastream, DNB Markets
Note: PPP weight = purchasing power parity weighted share of global GDP in 2023 (%), FY = fiscal year

India

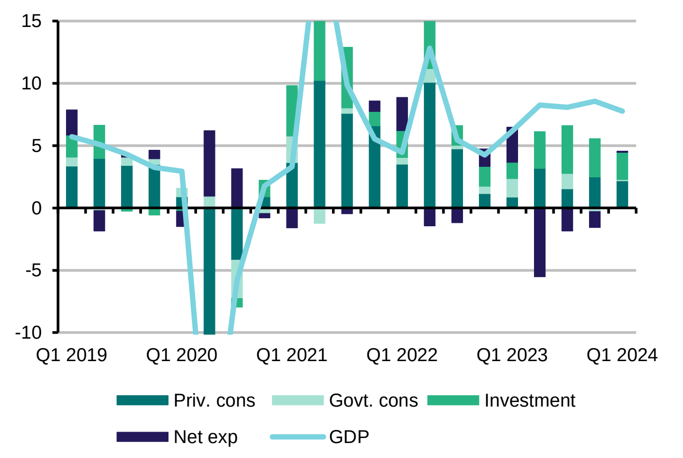
A bright spot with strong consumption growth and a surge in investment

India's economic outlook is one of the brightest globally, driven by strong domestic demand, rising investment, and the potential for structural reforms. The stock build in 2023 pushed growth to 8.2% YOY last fiscal year, a boost unlikely to persist. Instead, continued recovery in consumption and investment growth supports the strong GDP outlook. We project GDP growth to hit 7% YOY for fiscal 2024–2025, maintaining a robust 6.5% YOY through 2027.

Pre-pandemic, household consumption growth averaged 7% YOY, notably higher than the recent average of 3% YOY, which has been dampened by weak rural household spending due to high food inflation and monsoon disruptions. As these pressures subside, consumption growth seems set to rebound. Headlines inflation is easing towards 5%, which is within the Reserve Bank of India's target band of 4±2%, and an accommodative monetary stance, with a signal rate at 6.5%, could provide additional support in 2025.

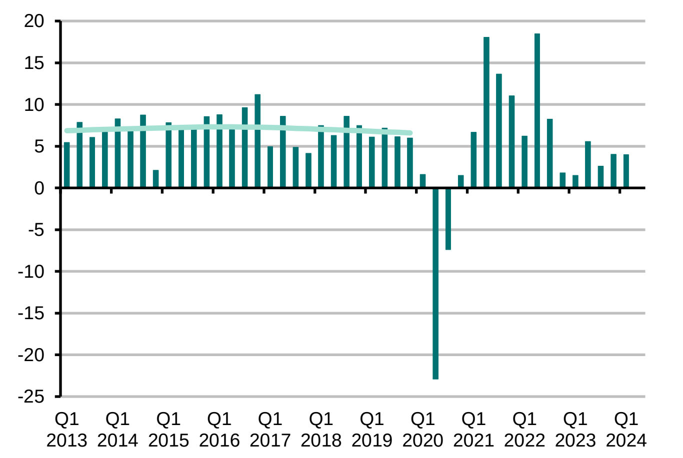
While red tape and bureaucratic inefficiencies continue to hamper private sector growth, the Modi government is showing intent to further improve the business environment. The Production Linked Incentive (PLI) scheme offers financial incentives to companies that boost production in key sectors such as electronics, pharmaceuticals, and auto components. PLIs are a sign of the government's willingness to aid the private sector. These incentives, which provide subsidies to firms meeting specific investment and employment targets, have a relatively modest multiyear cost of 0.72% of GDP and are projected to help create up to 6 million jobs.

India: GDP growth by %-point contribution (% YOY)



Source: LSEG Datastream, DNB Markets (Note axis breaks)

India: Consumption growth with pre-pandemic trend (% YOY)



Source: LSEG Datastream, DNB Markets

India holds significant potential and benefits from the current US-China rivalry

India stands to gain significantly from the ongoing US-China rivalry. Positioned as a key beneficiary of the 'China-plus-one' strategy, India is well-placed to attract substantial foreign direct investment (FDI) as companies seek to diversify their supply chains away from China. As the government loosens scrutiny on FDI, this could boost investments. With a large and youthful working-age population, India has the potential to scale up production significantly. Currently, the country's urbanisation rate is just 36%, similar to China's level in 2000, and agriculture still employs 43% of the workforce. A shift of workers towards more productive sectors, combined with increasing urbanisation, would accelerate India's growth. However, despite its strengths and potential, India is unlikely to replace China as the world's manufacturing hub anytime soon, as it is growing rapidly but from a small base. The 'Make-in-India' policy, launched in 2014, has yet to meet its ambitious targets. Manufacturing value-added remains at just 16% of GDP, falling short of the 25% goal by 2025. Even if successful, this would only raise India's manufacturing value-added from 3% to around 5% of China's level. The current manufacturing base in India remains too small, and in our view, the persistent infrastructure and skill gaps will limit India's capacity to support large-scale manufacturing in the near and medium term.

India's demographics: Significant untapped potential, but also major structural hurdles

India's workforce participation rate hovers at a modest 55%, with female participation stubbornly below 30%, one of the lowest globally. In stark contrast, China's workforce stood at around 780 million in 2023, while India's trailed at around 590 million. This disparity underscores India's vast, untapped potential. Realising this would require deep-rooted structural and societal reforms, changes that are often generational.

Much of the workforce remains low-skilled, with tertiary education enrolment at just 33%, trailing Mexico's 46% and Vietnam's 42%. More than half of all workers are engaged in low-productivity, own-account, or unpaid roles in sectors such as agriculture and trade. Skilled workers gravitate towards the services sector, particularly IT and consulting, which has thrived post-pandemic. India's economic shift bypassed low-skill, job-rich manufacturing, moving directly from agrarian roots to a services-led economy.

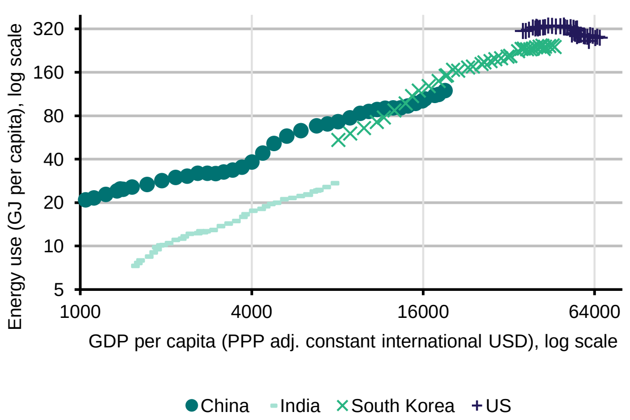
Although 'brain drain' has lessened, it still poses a concern. At the same time, the education system produces underqualified graduates from unqualified educational institutions, leading to underemployment and a youth unemployment rate exceeding 23%. Strict labour regulations have exacerbated labour misallocation, and while loosening these rules might improve efficiency, it could also result in initial job losses. These issues limit India's ability to fully leverage its demographic dividend in the near and medium term.

An infrastructure boom is underway, but with a smaller global footprint than China's

India's infrastructure is steadily improving, but it remains significantly underdeveloped compared to China. The gap highlights vast potential for growth. China has meticulously built extensive networks of roads, railways, and ports, which have been the backbone of its rapid industrialisation and manufacturing prowess. China's infrastructure dwarfs India's, boasting nearly twice as many airports, about 10 times the number of ports, handling 14 times the volume of cargo, and nearly 93 times the length of express highways.

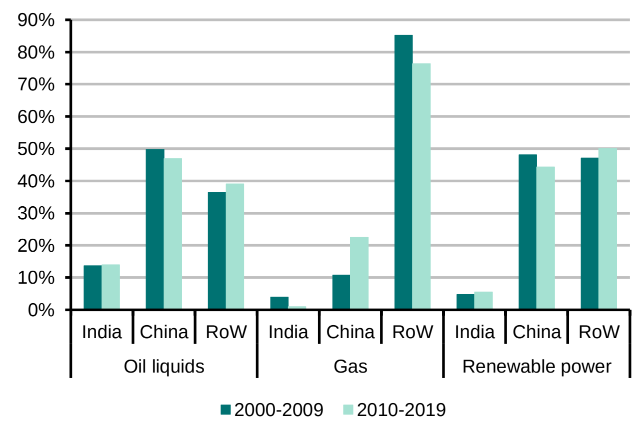
Thus, the Indian government has launched an ambitious infrastructure development agenda to address long-standing deficits. With the National Infrastructure Pipeline (NIP) projecting investments of USD1.4tn by 2025, significant public funds are being funnelled into transportation, energy, and urban development. These strong government incentives are likely to create a crowding-in effect, drawing in sustained private sector investments. Indeed, overall investments rose by close to 10% YOY in the past year. While this growth has moderated in recent quarters, investment is set to remain a key driver of economic activity. However, given its small base, India's infrastructure boom is unlikely to fully offset the headwinds from China's slowing commodity demand growth. The service-heavy nature of India's economy also means that it requires less energy per unit of GDP, even as the economy continues to expand. Consequently, the global demand impulse from India, particularly in commodities, remains modest in comparison to China's vast consumption.

Energy use per capita versus GDP per capita (1985–2023)



Source: Penn World Tables, EI Statistical Review 2024, DNB Markets

Annual growth in energy demand as % of global growth



Source: EI Statistical Review 2024, DNB Markets (RoW = rest of the world)

DNB MARKETS

NORWAY

Growth rebound and high wages delay Norges Bank cut to March

High wage growth and falling inflation improve households' purchasing power, which will help boost economic activity in the coming years. As the economy is expected to hold up well, while inflation decreases only gradually, we anticipate that Norges Bank will wait until March before cutting the policy rate. We expect a gradual decline in the policy rate to 3.25% by 2026.

Growth set to pick up

After declining, activity should pick up

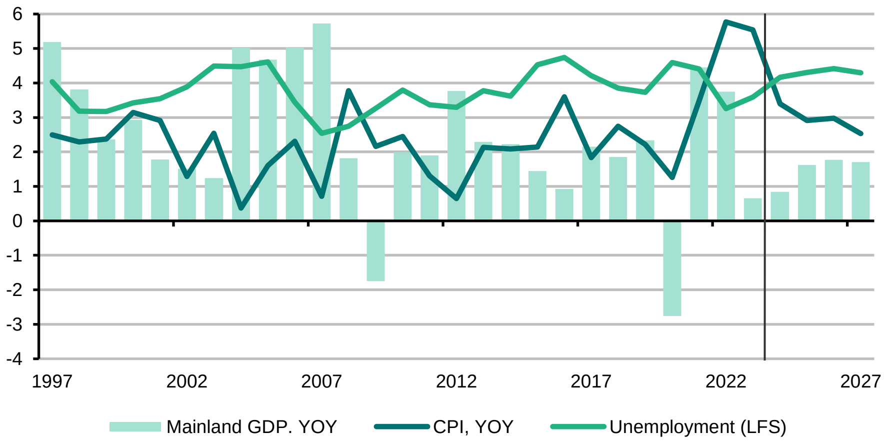
Activity in the mainland economy rose a moderate 0.2% QOQ in the Q1, with negative contributions from private consumption and investments. Although data for Q2 will not be published until 22 August, we expect activity to have improved in Q2. We forecast improved activity for Q2 and an upturn in growth for H2 2024 and 2025 on rising disposable real wages boosting private consumption. We also expect investments to rise after a relatively flat 2024. While net exports from the mainland economy have contributed positively to growth in 2023–2024, we believe the pick-up in consumption and investments should boost imports, leading to weaker impulses from foreign trade in the coming years.

Overall, we have made limited changed to our forecasts since April, still expecting mainland GDP to rise 0.8% in 2024. For 2025, we forecast growth of 1.6%, and for 2026–2027 1.7–1.8%, which we believe is close to potential growth for the Norwegian mainland economy.

Private consumption set to improve with rising real wages

Private consumption fell 0.7% QOQ in Q1, resulting in a flat YOY outcome. The quarterly decline was partly driven by weak car sales, which contributed to goods consumption falling 2.2% QOQ. Data for Q2 suggests that car sales picked up in Q2. Furthermore,

Norway: Macroeconomic forecasts. %



Source: LSEG Datastream, Statistics Norway, DNB Markets

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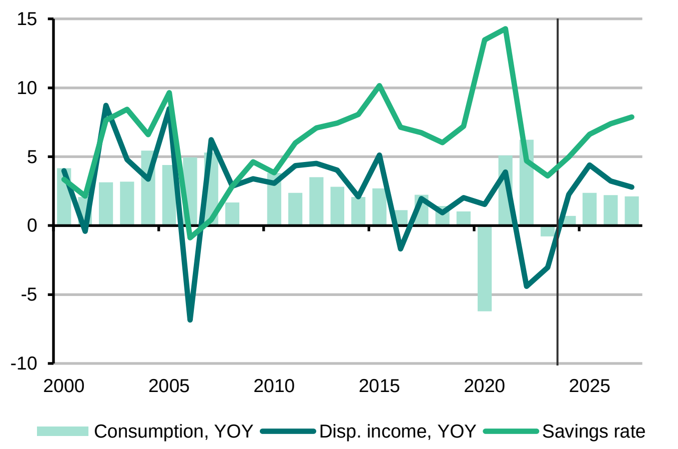
the collective wage agreement ending at 5.2%, combined with falling inflation, should result in an improvement in households' purchasing power from H2 2024 onwards, and in turn a gradual increase in consumption over the coming years.

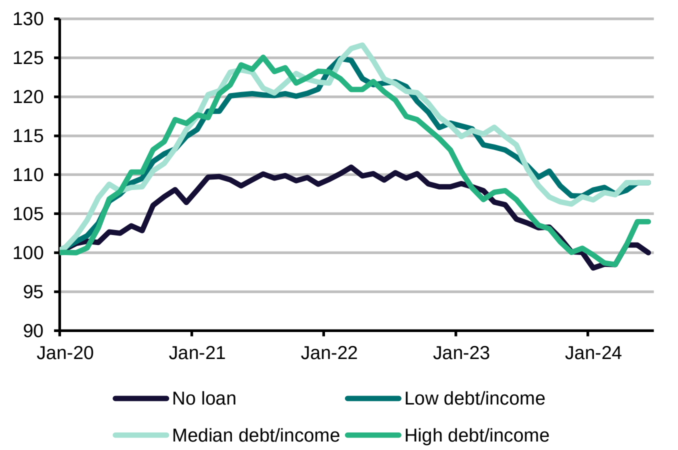
While real wages are expected to increase quickly, we do not expect private consumption to rise quite as rapidly. The saving rate has already started to increase and we expect a further normalisation of this process over the coming years. DNB Innsikt's index of liquid assets held by customers in their accounts compared to their net income shows that the situation has normalised after the excess savings seen during the pandemic. So far in 2024, we see a slightly rising trend. As we also note an increase in unemployment and expect a longer period before rate cuts, we have factored in households being somewhat cautious about increasing their spending rapidly in H2 2024. We forecast 2.5% growth in private consumption in 2025, and 2.2–2.3% in 2026–2027. Combined with our estimates for wages, interest rates and CPI, this yields a savings rate increase from 5.0% in 2024e to 7.9% in 2027e.

Norway: Households. %



Source: LSEG Datastream, Statistics Norway, DNB Markets

Norway: DNB Innsikt liquid assets/income. Index, 2019=100



Source: DNB Bank ASA/DNB Markets

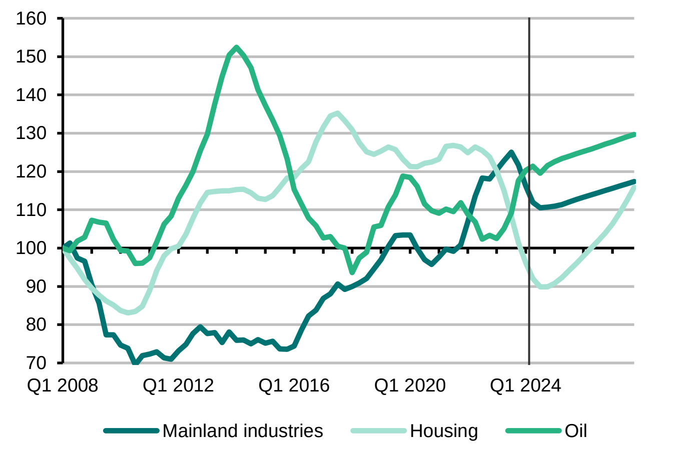
Investments have likely bottomed and should rise gradually

In 2023, mainland investments fell 1.2%. This was followed by a widespread decline of 5.2% QOQ in Q1 2024, with all the largest subsectors affected. However, we expect mainland investments to rise moderately the rest of the year and pick up further in 2025–2026.

Housing investments have been among the subcomponents to have fallen the most over the past two years (-1.4% in 2022 and -15.6% in 2023). However, we believe housing investments bottomed out in Q2 and should start to rise gradually towards the end of the year. This view is backed by new home sales rising throughout H1 2024, while housing starts look to have troughed in Q2 and is set for a gradual increase from H2. Still, due to the sharp decline throughout 2023 and Q1 2024, we estimate an annual growth rate for housing investments of -14.5% for 2024, before an increase to 5.6% in 2025, 8.2% in 2026 and 10.9% in 2027. In general, our investment outlook for services and manufacturing has not changed materially since April, and we still expect a decline in 2024, with a moderate pick-up in 2025.

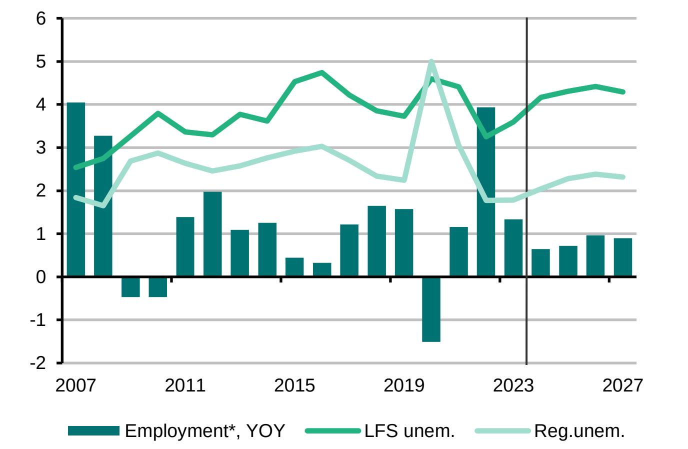
The outlook for petroleum investments based on Statistics Norway's investment survey has been relatively stable for 2024 and increased slightly for 2025. Thus, we maintain our forecast of a 6% rise in 2024, followed by a decline in growth (albeit at a high level). A key driver for the coming years is still projects initiated as a result of the pandemic tax package.

Norway: Investments, 3Q average. Index, Q12008=100



Source: LSEG Datastream, Statistics Norway, DNB Markets

Norway: Labour market. %



Source: LSEG Datastream, Statistics Norway, NLWA, DNB Markets

The labour market is still strong, despite rising unemployment rate

The labour market has performed well over the past year, despite relatively weak growth in economic activity. Vacancies are still at a high level, reflecting relatively strong demand for labour. The registered unemployment rate has risen gradually since September 2022, reaching 2.1% in July, which is still a very low level. According to the Norwegian Labour and Welfare Administration, 48% of the increase in unemployment over the past year can be attributed to Ukrainian immigrants registering as job seekers. This development has two implications for our view on the labour market development. First, without Ukrainian immigrants, the unemployment rate would have been 1.8–1.9%, more in line with our view of a strong labour market. Second, our forecasts are based on a continued inflow of Ukrainian job seekers. Thus, we expect a further increase in unemployment to 2.4% by 2027, with an inflow of job seekers raising the unemployment rate despite the projected rise in economic activity and employment.

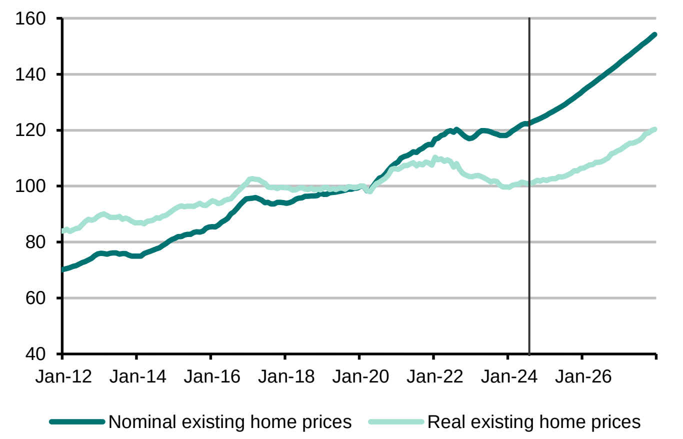
There are large differences between sectors in the labour market. Employment growth has been flat or negative in interest and exchange rate-sensitive sectors like construction and retail, while petroleum-related services, health care, education, and public administration have seen a steady rise in employment over the past 12 months. Going forward, we expect employment growth (as recorded in the National Accounts) of 0.6–0.7% for 2024–2025, before increasing to around 1.0% in 2026–2027.

House prices set for continued rise

The housing market has been relatively strong so far in 2024, and turnover has improved after falling in H2 2023. Currently, the number of units reported for sale and sold are at high levels and we see no immediate imbalance between the two. The price trend has been strong YTD, with average month-on-month increases of 0.5% the first seven months of the year. Although prices fell in H2 2023, they fell less than we forecast, and thus, house price growth over the past year has been stronger than expected. We believe this can be attributed to strong sentiment, supported by an outlook for high nominal wage growth, a low unemployment rate and an expectation of future rate cuts. While policy rate cuts are expected to come later, sentiment is supported by the fact that further rate increases seem unlikely.

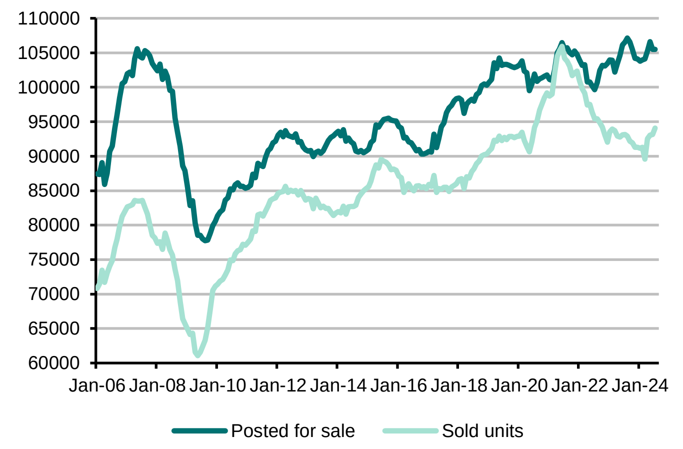
We believe high nominal wage growth and a strong labour market will continue to support house price growth. Nominal wage growth of almost 20% over 2024–2027e supports high nominal house price growth in the coming years. In real terms, price growth has been almost flat since 2016. However, going forward, we also expect prices to increase in real terms, based on the imbalance from a low supply of new homes but high population growth, driven up by immigration. Further supported by interest rate decreases, we believe real house prices will rise strongly in the years ahead. We forecast nominal house price growth of 2.8% in 2024, 5.7% in 2025, and 7.5% in 2026–2027.

Norway: House prices. Index, January 2020=100



Source: LSEG Datastream, Eiendom Norge, DNB Markets

Norway: Homes posted for sale and sold. 12-month sum



Source: LSEG Datastream, Eiendom Norge, DNB Markets

Prices and wages

Lower inflation will increase household purchasing power

In July, core inflation, measured by the Consumer Price Index excluding energy and taxes (CPI-ATE), was 3.3% YOY, reflecting a 2%-point decrease since January. Headline consumer prices rose by 2.8% from July 2023 to July 2024, down from a 4.7% YOY increase in January. We estimate total CPI growth of 3.4% from 2023 to 2024, with core prices rising by 3.8%, compared to 6.2% in 2023.

Prices of core imported goods increased by 1.4% YOY in July, a significant drop from 6.9% a year earlier. This decline reflects a reduction in goods inflation abroad. However, further substantial declines in imported inflation appear limited, as we expect global goods inflation to stabilise. Additionally, rising domestic costs may also contribute to imported inflation.

Domestic core goods prices rose by 5.2% YOY in July, down from 7.4% a year earlier. The price growth for services decreased from 5.7% YOY to 4.0% over the same period. For services where labour costs are the primary cost component, prices increased by 3.3% YOY in July, down slightly from 3.5% a year earlier. In contrast, wages rose by 5.3% YOY in 2023 and we expect them to rise by 5.2% in 2024, with productivity growth remaining very low. A significant factor in the slow growth of service prices is government intervention or reimbursement; for example, kindergarten prices were reduced in August, which should temporarily contribute to lower core inflation.

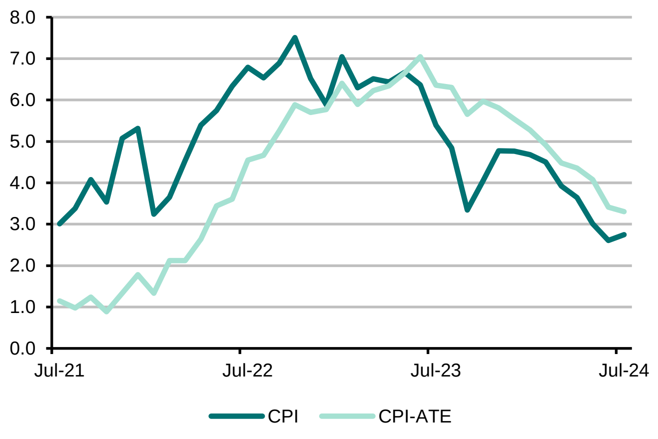
Food and non-alcoholic beverages is an important price category. The growth rate in this category fell from 9.1% YOY in July 2023 to 4.9% July 2024, with the potential for further reductions as first-time trade prices for food and agricultural products have declined. Imported agricultural goods have significantly contributed to the reduction in food price growth.

Norway's core inflation does not adjust for food prices, unlike many other economies. The CPI-ATE, adjusted for food and non-alcoholic beverages, was 3.1% YOY in July, down from 6.1% a year earlier. This adjusted core inflation peaked in July 2023, while core inflation peaked at 7.0% in June 2023. Over the past two years, core inflation adjusted for food, etc. has been slightly lower than the growth in the CPI-ATE and lower than comparable figures abroad.

Inflation Forecasts:

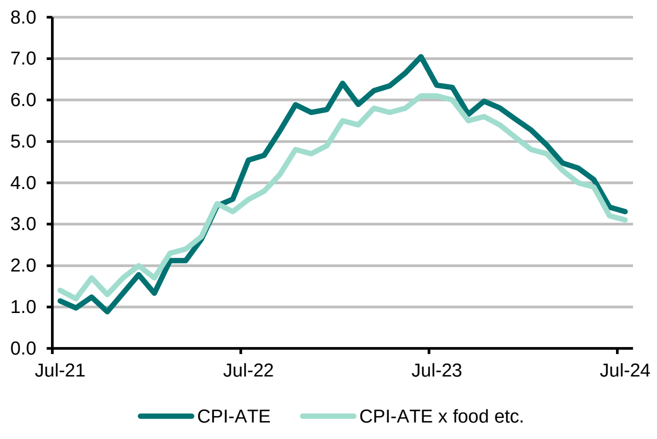
CPI	CPI-ATE
2024: 3.8%	3.4%
2025: 3.2%	2.9%
2026: 2.8%	3.0%
2027: 2.5%	2.5%

Norway: Consumer prices. % YOY



Source: Statistics Norway, DNB Markets

Norway: Consumer prices. % YOY

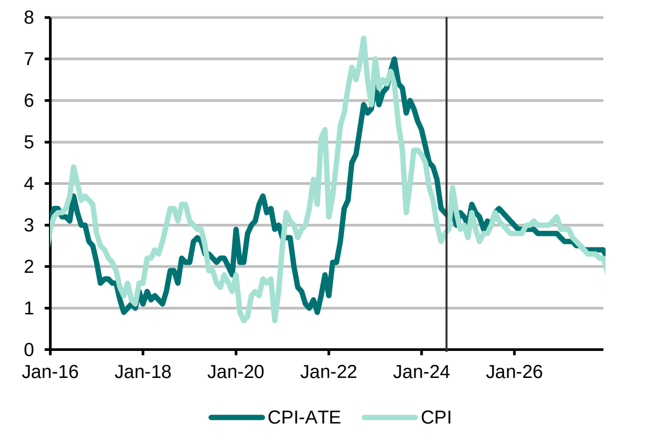


Source: Statistics Norway, DNB Markets

Norway's core inflation trend mirrors that of its key trading partners, influenced by base effects, declines in certain raw materials prices, and reduced transportation costs. However, we expect these factors to diminish over time. The weakening of the NOK is likely to exert upward pressure on imported goods prices, as well as on Norwegian goods competing with foreign products. Higher import prices would increase production costs in Norway, feeding into consumer prices. Additionally, a weaker NOK may enhance profitability in the manufacturing sector. Since the manufacturing sector profitability is an important baseline for the Norwegian wage-setting mechanism, this could lift negotiated wages in 2025. Higher wage growth would, in turn, contribute to consumer price inflation. We forecast core inflation to remain slightly above 3% YOY for the rest of 2024 and into 2025, with some monthly volatility. We expect a gradual decline in inflation, with core inflation reaching 2.4% YOY by the end-2027.

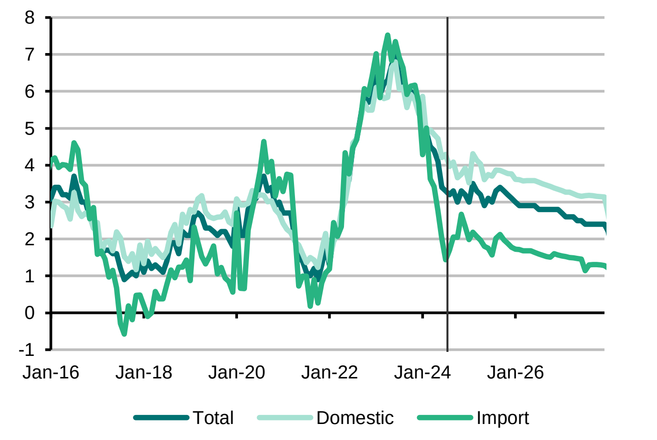
Electricity prices in the CPI peaked in September 2022. While they remained elevated in H1 2023, they fell sharply from June to September. After rising last winter, they have returned to more typical levels this summer. We do not expect a repeat of last year's decline in August and September, leading to a substantial base effect that would push headline CPI growth higher in the coming months. In 2025, we expect a slight decline in electricity prices, followed by an upward trend in 2026 and 2027. We project headline inflation to hover around 3% in 2025 and 2026 before falling to 2.5% in 2027.

Norway: consumer prices. % YOY. Actual and forecasts



Source: Statistics Norway, DNB Markets

Norway: core inflation. % YOY. Actual and forecasts



Source: Statistics Norway, DNB Markets

Significant increase in real wages

Wage growth of 5.2% for 2024 and 4.6% for 2025

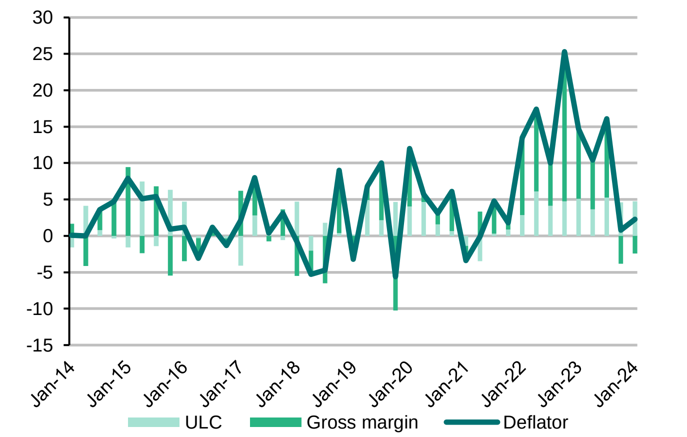
Wage negotiations between The United Federation of Trade Unions and The Federation of Norwegian Industries concluded on 7 April after compulsory mediation, resulting in a general wage increase and additional increments for low-wage employees. Based on the results and on consultations with the Norwegian Confederation of Trade Unions (LO), the Confederation of Norwegian Enterprise (NHO) estimated wage growth of 5.2% for the manufacturing sector in 2024. This estimate has become the benchmark for subsequent settlements in other sectors.

The wage norm for 2024 is unchanged from 2023, where wage growth in major negotiation areas ended at 5.3%, with blue collar workers in manufacturing seeing a 4.8% increase. Wage growth in the public sector exceeded the 2023 norm.

Real wage growth of 1.7% for 2025, after falling real wages the two preceding years

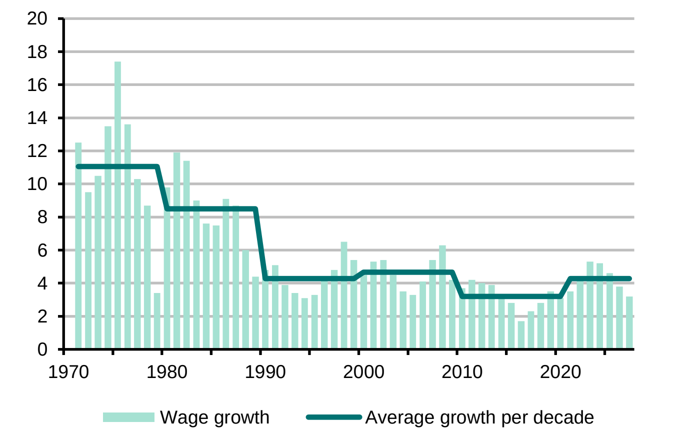
Most central pay settlements aligned with the 5.2% wage norm for 2024, although actual wage growth may vary. Nevertheless, we forecast that the outlook for wage growth will balance around this norm, with an estimated 5.2% increase in 2024, consistent with forecasts from Norges Bank, Statistics Norway, and the Regional Network. We forecast wage growth to taper to 4.6% in 2025 and further to 3.2% in 2027. These projections imply real wage growth of 1.7% in 2024, declining to around 0.6% by 2027. The real wage growth in 2024 follows two years of declining real wages, while the 2027 growth aligns with expected increases in labour productivity.

Norway: Contribution to price growth, manufacturing. % and %-points



Source: Statistics Norway, DNB Markets

Norway: Annual wage growth. % YOY. Actual and forecasts



Source: Statistics Norway, DNB Markets

Fiscal policy

In the National Budget for 2024, presented on 6 October 2023, the government estimated a structural, oil-corrected deficit of NOK409.8bn, equivalent to 2.7% of the Government Pension Fund Global (Oil Fund). This deficit implied a 0.4%-point expansionary impulse, measured by the change in the deficit as a share of mainland GDP. However, ministry calculations indicated that the budget would have a minimal effect on economic activity in 2024 and 2025. The budget agreement with SV increased the expansionary effect by an additional 0.2%-points.

Fiscal budgets boost activity in 2024

In the Revised Budget presented in May, the structural, oil-corrected deficit was estimated at NOK418.7bn, an increase of NOK8.9bn in oil-money usage, although it still represented 2.7% of the Oil Fund. The fiscal policy indicator showed a positive impulse of 0.7%-points. New model calculations suggest that the combined 2023 and 2024 budgets will boost mainland GDP by 0.9–1.3%-points, with the greatest effects stemming from the 2023 budget. Wage growth estimates were revised upwards to 5.2% from 4.9% in the October proposal, while CPI growth was marginally increased to 3.9%. Core inflation was estimated at 4.3% for 2024. Based on our current expectations, the government's inflation estimates appear too high, potentially increasing real tax revenues while also raising price-adjusted expenditures in real terms. The overall effect of the budget remains uncertain, in our view.

The Oil Fund was NOK15,761bn at the start of 2024, rising to NOK18,332bn currently. Based on the 3% fiscal spending rule, this corresponds to an estimated fiscal impulse of 1.5%. A different starting point, such as a 0.4% fiscal impulse, would reduce the oil-money usage as a percentage of the Oil Fund from 2.7% to 2.4%. This would allow the government to increase oil-money usage by approximately NOK16bn in 2025 prices.

Monetary policy was significantly tightened in 2022 and 2023, with the policy rate unchanged in 2024 to curb inflation. One channel through which monetary policy influences activity is its effect on domestic demand. In June, Norges Bank extended the outlook for an unchanged rate, likely for the rest of the year. This extension was partly due to rising domestic demand. In our view, expansionary budgets have contributed to increased domestic demand, adding upward pressure on the policy rate.

2025 is an election year. This increases the likelihood of greater oil-money usage.

In its June monetary policy report, Norges Bank assumed that the structural, oil-corrected deficit as a share of mainland GDP would increase by 0.3%-points from 2024 to 2025, with the deficit falling to 2.5% of the Oil Fund. We believe fiscal policy will likely lean towards expansion. The government has ambitious plans to boost activity but faces limited room for tax increases. As a minority government, it may face challenges in agreeing on a budget with spending cuts, particularly as 2025 is an election year. This increases the likelihood of greater oil-money usage, with a potential 0.5%-point rise in the fiscal policy indicator. Additionally, we expect the 2024 budget to have an expansionary effect in 2025.

Monetary policy

Norges Bank lags behind other central banks

Norges Bank has guided for unchanged rates “some time ahead”. We forecast a rate cut in March 2025.

Norges Bank raised the interest rate by 25bp to 4.50% in December 2023 and has since kept it unchanged. We forecast the policy rate to remain at this level until the March 2025 meeting, followed by gradual reductions to 3.25%.

After the June meeting, Norges Bank guided for an unchanged policy rate “for some time ahead”. It specified that the forecast in the Monetary Policy Report “indicates that the policy rate will continue to lie at 4.5% to the end of the year, before gradually being reduced”. In June, the rate path was revised upward, suggesting a longer period of high rates. Norges Bank stated: “The Committee judges that the policy rate is sufficiently high to bring inflation down to target within a reasonable time horizon, but that there will be a need to maintain a tight monetary policy stance for somewhat longer than previously projected”.

Following the August meeting, Norges Bank reiterated that the policy rate is likely to stay at 4.50% for some time but did not specify the end-of-year timeline. The bank also mentioned that more information on economic trends would be available before the September monetary policy meeting, when new forecasts are set to be presented. These slight changes in the statement suggest that Norges Bank may be considering a rate cut this year or that rates may remain unchanged longer into next year.

The committee was concerned about trends in the NOK and its potential implications for inflation.

In August, the Committee expressed particular concern about trends in the krone exchange rate and its potential implications for inflation. It noted that “If there are prospects that inflation will remain higher for longer than previously projected, the policy rate may be set higher”. This concern about the weak NOK underscores the potential effect on inflation.

In our view, the economy appears to have adjusted well to the higher rate environment. While rate hikes and falling real wages have dampened economic activity, there are now prospects for increased activity driven by rising private consumption. Although inflation has decreased significantly over the past year, we expect it will take some time to bring it well below 3%. A weak NOK and high wage growth will likely keep inflation above target. A weak NOK influences imported prices in the CPI quickly, while higher prices for imported inputs in domestic production may feed into inflation with a lag. Additionally, a weak NOK boosts profitability in export-oriented industries, potentially driving wage growth, which may not be offset by productivity gains in domestic sectors, leading to higher inflation over time.

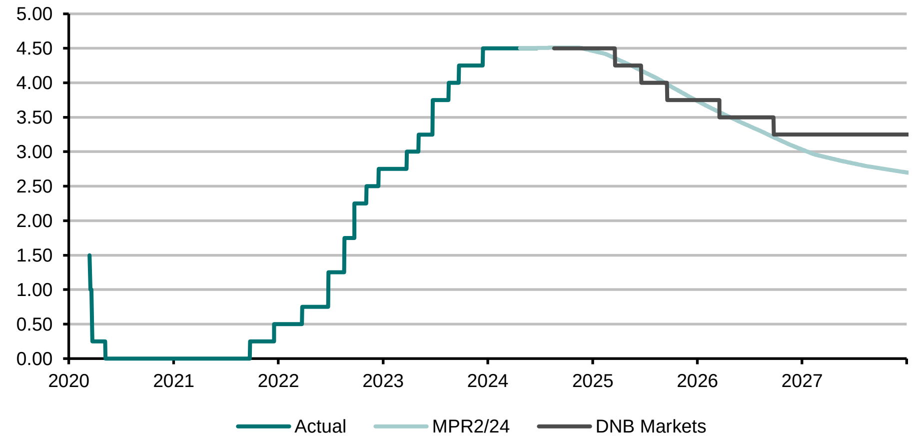
With inflation well above target, the historically low NOK is a more significant concern for Norges Bank than usual. As other central banks consider rate cuts, Norges Bank may maintain its policy rate to increase rate differentials, which could positively affect the NOK. We forecast unchanged rates until March 2025, followed by rate cuts in June and September 2025, and further cuts in March and September 2026, bringing the rate to 3.25%. We expect the rate to be unchanged in 2027, with a real money market rate of around 1% for that year.

The low NOK is currently a significant concern for Norges Bank. As other central banks consider rate cuts, Norges Bank may maintain its policy rate to increase rate differentials, which could positively affect the NOK.

The 3-month Nibor has been unusually stable for several months. This is partly due to the markets' stable expectations for the policy rate over the three-month horizon. Furthermore, ample liquidity has helped to keep money market premiums low and stable, just over 20bp. We expect liquidity to be ample for the rest of the year and into 2025, keeping the premiums low. In 2026 and 2027, we expect the premiums to rise to around 30bp, and partly offset the effects of the lower policy rate for the 3-month Nibor.

The 10-year NOK swap rate has largely moved in tandem with the corresponding USD swap rate. Changes in markets' expectations to Norges Bank's policy rate have usually modest effects on the NOK long-term swaps. In line with expectations of rising swap rates for the USD, we forecast 10-year NOK swap rate (versus 6-month Nibor) to increase to 4.00% in three months and to 4.25% in twelve months.

Norway: Norges Banks policy rate. %. Actual and forecasts



Source: Norges Bank, DNB Markets

FX MARKETS

Structural Scandi headwinds

Growth divergence fails to benefit the EUR as we expect the US to avoid a recession, and the USD remains the high-yielding relative 'safe haven'. For Scandis, short-term factors seem to balance, but structural drivers remain a headwind.

EUR: Positives and negatives balance out

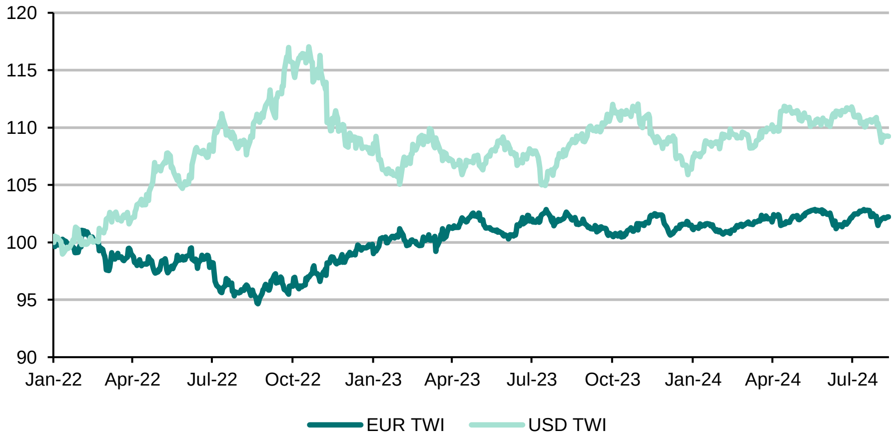
The trade-weighted EUR has been trading in a tight range since the start of 2024, significantly in parallel to EURUSD, which has been trading between 1.05 and 1.10 since the start of 2023. Since January, the EUR has strengthened by almost 1%.

For some time, we have been expecting the EUR to strengthen as we have had an out-of-consensus call for activity in the eurozone to pick up after a lacklustre 2023. While growth has picked up in line with our expectation, the impact on the EUR has been moderate. Going forward, we expect to see growth close to normal, but with differences between countries. However, this is now very much in line with consensus and the ECB view. While this could limit any positive effects on the EUR, we still see the acceleration in European economies in a period where growth in the US is slowing and recession concerns remain as a positive factor for the EUR.

Another factor behind our previous call for a stronger EUR was an expectation for interest rate differentials to move in favour of the EUR, as we expected the ECB to cut rates less than the Fed over the coming years. While we still see interest rate differentials widening, our updated forecasts see this as more marginal. Still, elevated wage growth and weak productivity growth mean we expect inflation to persist at levels above the inflation target. Thus, we expect the ECB to be somewhat reluctant to cut rates, with slower reductions and ending up keeping interest rates higher than what current market pricing implies. This could lend the EUR some support.

There are two factors that we believe can weigh on the EUR. First, we see rising geopolitical tensions as a negative factor for Europe. Not only is Europe dealing with its

EUR and USD: Trade-weighted currency. Indexed



Source: Bloomberg, DNB Markets

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own trade tensions with China, but Europe is also likely to see unfavourable consequences from a renewed US trade war under a Trump presidency, should Former President Trump regain the White House, as is our current base case. And second, improving household finances could refuel the European demand for investment diversification abroad.

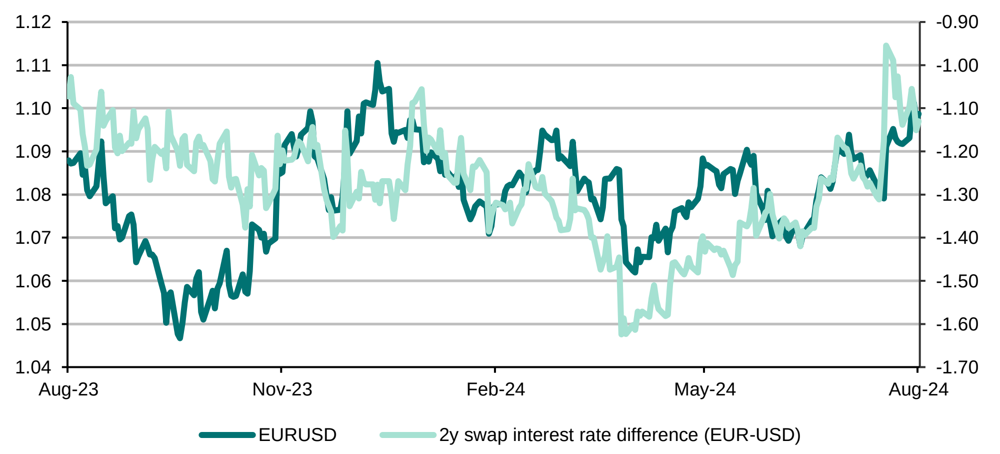
USD: Fading US exceptionalism

As interest rate markets repriced at the start of the year (seeing persistent inflation warranting high interest rates for longer), the USD benefited and reversed much of the weakening that occurred at year-end. So far this year, the trade-weighted USD is best-performing G10 currency, with strengthening of almost 3%.

For a long time, the inflation outlook has been vital to risk sentiment and interest rate trends, and thereby also the movement in FX markets. While the USD has benefited from solid growth, high interest rates and the relative 'safe haven' allure, there are indications that this dynamic is about to change. The past months have seen US recession concerns increase and USD rates reprice lower as data has disappointed. This highlights the growth divergence between the US and Europe, which is shifting in favour of the EUR. Still, we expect activity growth in the US to slow to below trend, but that a recession would be avoided. With markets seeing a non-trivial risk for a recession, as data convinces markets that growth is slowing rather than stopping, this could support the USD. Should data fuel further recession concerns, we see the effect on the USD as a balancing act. To the extent that the slowdown is expected to affect the global economy, the perceived 'safe haven' nature of the USD could actually outweigh the negative effects on the USD from US recession concerns.

While the actual start of an easing cycle historically has been negative for the USD, we see any such effect as short-lived. Rather, the significant easing expectations markets currently price in make room for a tailwind for the USD. While the Fed is gaining more and more confidence that inflation is moving sustainably towards 2%, we see inflationary impulses from a potential Trump presidency. Thus, the Fed is unlikely to follow up on market's easing expectations, and we see upside risks to USD interest rates short- and medium-term. This should be a USD positive.

EURUSD and interest rate differential



Source: Bloomberg, DNB Markets

Back in 2016, when Mr Trump was elected president, the USD strengthened significantly post-election, only to weaken even more during his presidency. While we expect higher US inflation and higher USD interest rates with a potential Trump election victory compared to a potential Harris presidency, we also expect GDP growth to be somewhat lower if Trump is elected. Also, more tariffs and trade tensions should fuel geopolitical concerns if Trump wins. While the relative 'safe haven' allure of the USD means this could be a USD-positive factor, the weakening of the USD during Trump's last presidential period makes us question this.

In all, we see the US growth outlook as the most important factor for EURUSD. While interest rate trends favour the USD, growth divergences balance this out. We therefore expect to see EURUSD trade close to 1.10 in 12 months.

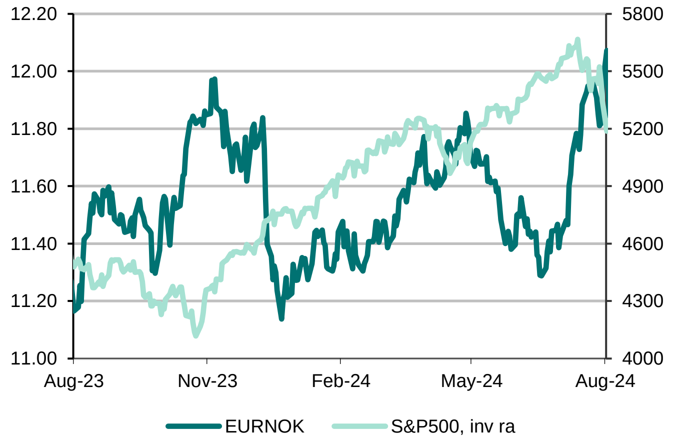
NOK: Short-term support, structural headwinds remain

The Norwegian krone (NOK) has been trading sideways in a wide +/-5% interval since early 2023. After starting the year at the lower end of this range following the surprise hike by Norges Bank and the Fed signalling interest rates had peaked last December, the recent market turmoil has left the NOK as the worst-performing G10 currency so far this year, with the import-weighted NOK (I-44) now close to 4% weaker.

While the NOK used to have the benefit of positive interest rate differentials against many other currencies, this changed once inflation climbed after the pandemic. Interest rate differentials remain an important driver for the NOK, but the correlation between the two has dropped over the past few years. The impact has been more event-driven, in that the NOK moves when we see surprising shifts in domestic interest rates either from a surprise central bank decision or an inflation number deviating from expectations. While we expect Norges Bank to keep interest rates high longer than other central banks, this is also built into the market's expectations. And while we see a later start to Norges Bank's easing cycle than current market pricing implies, we also see the market's expectations for interest rate cuts elsewhere as too aggressive, leaving the effects on interest rate differentials as more muted. However, we still expect the NOK to have some tailwind from the late start to the easing cycle.

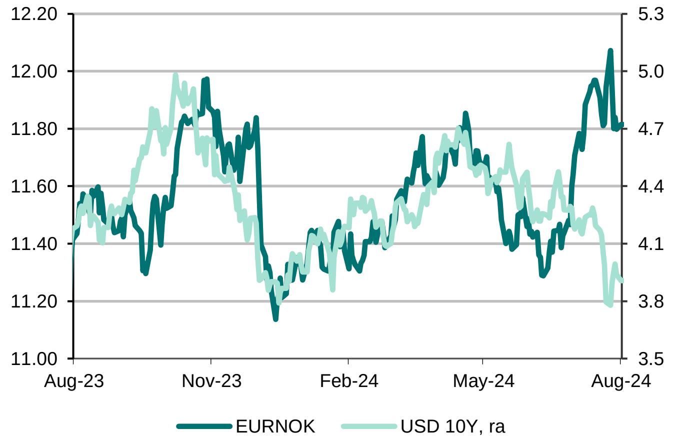
The NOK remains risk sensitive, as evident by the volatility seen this summer. While this was an example of a short-lived tantrum, changes to risk sentiment have played a vital role for the NOK for a long time. However, the correlation between the NOK and S&P 500 (the most common proxy for risk sentiment) has dropped, and several other currencies have followed equity market movements more closely. Nevertheless, we see US equity markets decoupling from risk sentiment, and find other risk proxies better explaining market sentiment. More specifically, with the outlook for US inflation being vital to short- and long-term interest rates, we are not surprised to see the correlation between the USD 10-year swap rate and the NOK being high. However, the recent disconnection between the two is probably the result of growing concern about a US recession. So while we expect the NOK to remain risk sensitive, we are less confident in expecting long-term USD swap rates to continue to be the best risk proxies.

EURNOK and S&P 500



Source: LSEG Datastream, DNB Markets

EURNOK and USD 10y swap rate



Source: LSEG Datastream, DNB Markets

The tight correlation we often see between the NOK and oil prices has been weaker lately, and the NOK failed to gain from the rise in oil prices through Q1. With gas representing close to 50% of Norwegian petroleum exports, the drop in gas prices in Q1 can explain some of this.

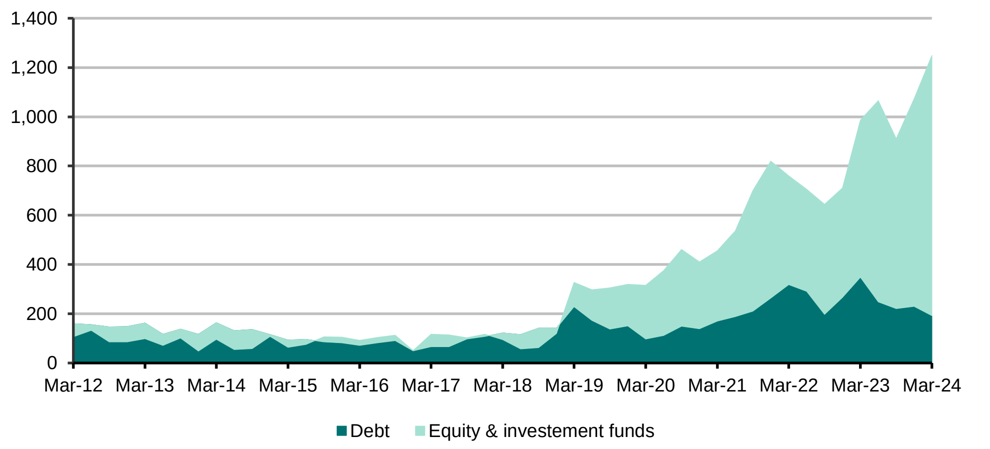
Also, as we warned about earlier this year, the possibility that OPEC+ could change strategy, focusing more on market share rather than prices, has probably limited any benefit to the NOK from rising oil prices. With OPEC+ now looking to increase production gradually, we see downside risk to oil prices going into next year, which would give limited direction to the NOK.

Norwegian petroleum revenues have come down since the European energy crisis and the fiscal budget deficit remains high, leaving petroleum tax revenues lower than the need for NOK to fund fiscal expenditures through the petroleum fund mechanism. However, the suggested correction mechanism for fiscal budget mismatches leaves us expecting Norges Bank to have to continue to buy FX through next year. While the net of petroleum companies' NOK purchases for taxes, dividends and buy-backs, and Norges Bank's NOK sales imply significant net purchases of NOK, we more often than not are surprised by the price effect of the central bank's transactions, leaving us sceptical to see this as a NOK positive factor.

We remain of the opinion that the current level of the NOK is fairly close to what is consistent with internal and external balance, or a long-term fair value. A decade of a steadily weaker NOK has not created any significant imbalances in the economy. Rather, the NOK has been a necessary factor in restoring competitiveness after the oil crisis in 2014–2015, before which wage growth had outpaced trading partners over the previous decade. While the export-sector has seen profitability rise, we see the composition of the Norwegian export sector as the reason why exporters have failed to gain market shares in international markets, while the lack of possible substitutes and solid household finances have left imports inelastic to changes in the NOK.

While the Norwegian economy has seen a steady rise in the international investment position, which to a large extent is explained by the rising market value of the Government Pension Fund Global (GPFG), the basic balance (current account after adjusting for the surplus in GPFG and petroleum companies' currency surplus) has been negative for the most part of the past two decades, indicating a underlying demand for FX from the economy. In addition, the high level of household savings has led to a steady climb in net portfolio investments by households and other financial parties. Some of these funds are likely to be fx-hedged, having a limited effect on the NOK, but data on flow-of-funds points to an increasing share being unhedged. This could go some way in explaining the greater depreciation of the NOK against the USD and the EUR, as these are the largest and preferred investment universes. With real wage growth about to pick up, we expect households' savings ratio to normalise after being below trend for some time. This is likely to continue to create headwinds for the NOK.

NOK: Net portfolio assets, non-financials and other financials (NOKbn)



Source: Statistics Norway, DNB Markets

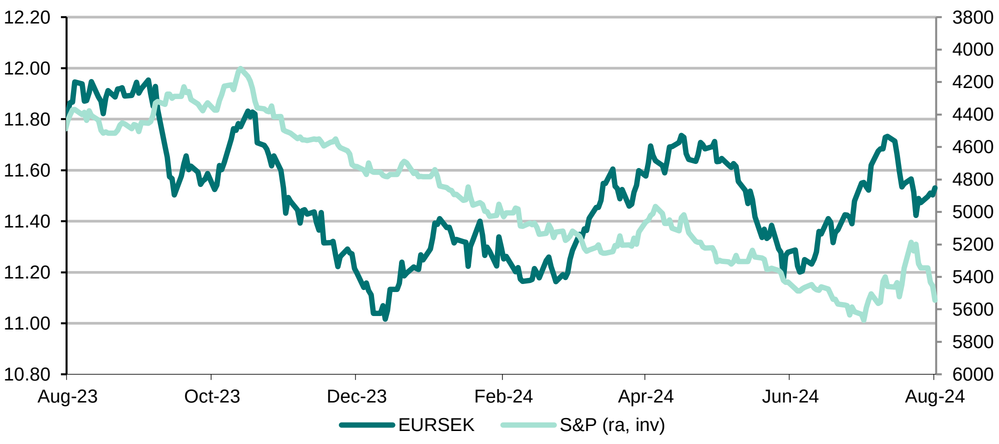
Taken together, we expect the NOK to have some limited tailwinds in the short term as other central banks are starting to scale back on monetary policy tightening. Further out in time, we see structural factors continuing to weigh on the NOK and expect to see EURNOK trade close to 12.00 in 12 months.

SEK: No respite, still on the back foot

After a steady weakening in the years after the pandemic, the trade-weighted SEK has been trading more sideways than last year. Still, the SEK is close to 3% weaker since the start of the year.

Different from other risk-sensitive currencies, the SEK saw more-muted price action during the market tantrum this summer. We believe the build-up of carry positions through the start of the year cushioned the impact on the SEK. Being a low-yielding currency, and with the Riksbank opening up for an early interest rate cut at the first meetings this year, the SEK has been a favoured currency through which to fund carry trades. As these positions were reversed earlier this summer, the SEK fared differently from earlier periods of rising risk aversion. With these positions now being scaled down, we expect to see the correlation between the SEK and risk sentiment to pick up again and the SEK to be vulnerable to fresh bouts of risk aversion.

EURSEK and S&P 500



Kilde: LSEG Datastream, DNB Markets

The early start to interest rate cuts by the Riksbanken has been a headwind for the SEK, and we believe it could continue to be so for a while. Granted, we do not expect the Riksbanken to cut as much as implied by market pricing, but that is in parallel to what we expect from other central banks. However, it should be noted that even if interest rates are lowered, and low compared to others, growth in Sweden is expected to pick up as private consumption is supported by higher real disposable income. This should be an SEK positive. While it has been a while since concerns over the Swedish housing market have been an important factor in FX markets, the elevated default rate in the real estate sector has been raising some concerns.

A structural concern of ours remains. Like Norway, Swedish households have seen a high savings ratio and a tendency for a large part of this to be invested abroad. Also, there is a tendency for more of these investments to leave currency risk unhedged, meaning that net purchases of these portfolio investments have a depreciating effect on the SEK.

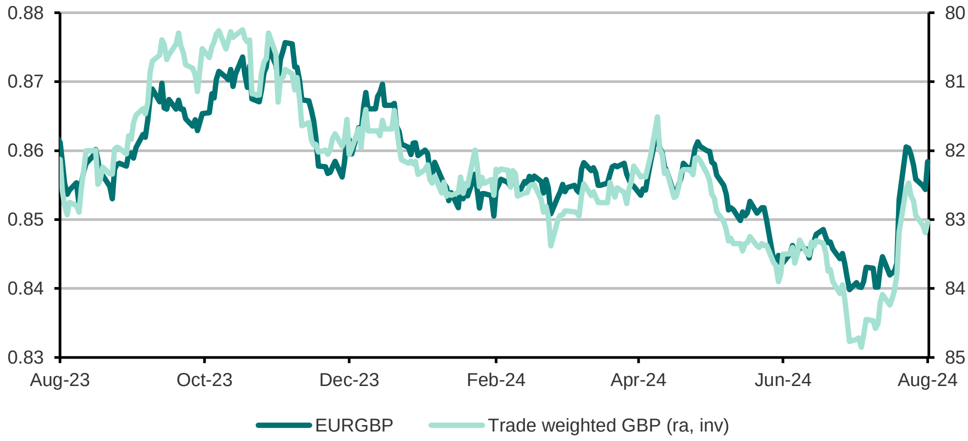
In all, we see correlations normalising for the SEK, with the short-term factor being close to balance, while the long-term factors point to a gradual weakening of the SEK. We therefore expect EURSEK to trade close to 11.80 in 12 months.

GBP: Solid fundamentals, but vulnerabilities prevail

For the first part of this year, the GBP has been trading in a relatively tight interval. In May, however, activity data pointed to growth picking up while inflation proved stickier than expected.

As risk sentiment in general also improved during this period and GBP interest rate differentials improved, the GBP benefited from carry positions building up. As these positions were unwound during the market turmoil this summer, the GBP suffered and reversed most of the gains of earlier that spring. So far this year, the trade-weighted GBP has strengthened by close to 2%.

EURGBP and trade-weighted GBP



Source: LSEG Datastream, DNB Markets

We expect activity growth to continue to improve ahead, with household consumption seeing support from improving real disposable income. Not only has the political uncertainty in the UK subsided after Labour won a large majority in Parliament but given the risk that political uncertainty could weigh on other currencies, this could further benefit the GBP.

While the Bank of England has embarked on what we expect to be a series of interest rate cuts, we expect to see the GBP finding support from interest rates. Granted, there is a risk that we see a further deleveraging for carry-positions in the very short term, but further out, the Bank of England is likely to remain reluctant to cut rates given the persistence of inflation. Even though we expect interest rates to be cut by another 100bp over the next year, GBP interest rates appear set to remain among the highest within the G10.

Still, our structural concern for the GBP remains. The deficit on the current account still exists, as the surplus in trade in services is lower than the deficit in trade with goods. This used to be countered by increasing foreign direct investments and foreigners' holdings of UK bonds, but has changes post-Brexit. Now, more is funded by higher short-term loans and deposits, which makes the GBP more vulnerable for shifts in risk sentiment.

Overall, we expect fundamentals to continue to improve and give the GBP some tailwind. We expect to see EURGBP trade close to 0.84 in 12 months.

DNB MARKETS

NORDIC HIGH YIELD

Still going strong

As we expected, 2024 has been a positive year for the Nordic high yield market. Returns have been elevated, supported by high short-term interest rates and tighter credit spreads. We reiterate our return target from our previous credit market outlook, expecting returns of 8–10% in 2024. Spreads are likely to widen slightly, but could see a more pronounced change in the event of a global recession. Primary markets have been highly active this year, but elevated volatility since early summer could lead to a slowdown in H2. This mostly affects the ability of first-time issuers to raise money, while recurring issuers should be able to refinance, although at somewhat wider spreads than seen in H1.

Another year with elevated returns

As of end-July, YTD returns stood at 7.7%, on a par with what we saw at the same time last year. Assuming spreads are unchanged for the remainder of the year, full-year returns are likely to reach 11% this year. However, as we expect spreads to widen somewhat, we also expect full-year returns somewhat below this, at 8–10%. Although most sectors have seen a positive trend, we have seen some variation between industries. At the top end of spectrum, real estate has seen sharp repricing. Multiple factors have been at play, with expectations of lower interest rates, issuer-specific balance sheet adjustments, and improved refinancing conditions all contributing to lower credit spreads. At the bottom end of the spectrum, financials have underperformed considerably, with YTD returns of -0.6% as of end-July. The negative returns owe to issuer-specific incidences, with Bayport and Intrum having seen their outstanding bonds being repriced considerably. Bayport defaulted in May this year, after the company failed to fulfil interest payments on its outstanding bonds. Outside these two industries, returns have been more predictable, ranging from 5.2% (shipping) to 8.6% (other industries).

Spreads have most likely bottomed out

We see limited potential for spreads to boost returns in the period ahead. At c455bp, Nordic index spreads are at historical lows. Regional spreads show some variation, with Norwegian spreads at levels never seen before, while Swedish spreads remain somewhat above the levels seen before 2022 when higher interest rates and weaker sentiment caused spreads to widen considerably. While spreads in general are mean reverting, we do not expect index spreads in Sweden to return to their pre-2022 levels.

A few factors suggest spreads have bottomed out for now. First, much of the spread tightening in 2023 and early 2024 was due to a considerable gap between supply and demand. Primary markets have become much more active since March, providing investors with ample opportunities to put money to work. Second, we have seen a change in issuer composition in the past 12 months, with more activity from first-time

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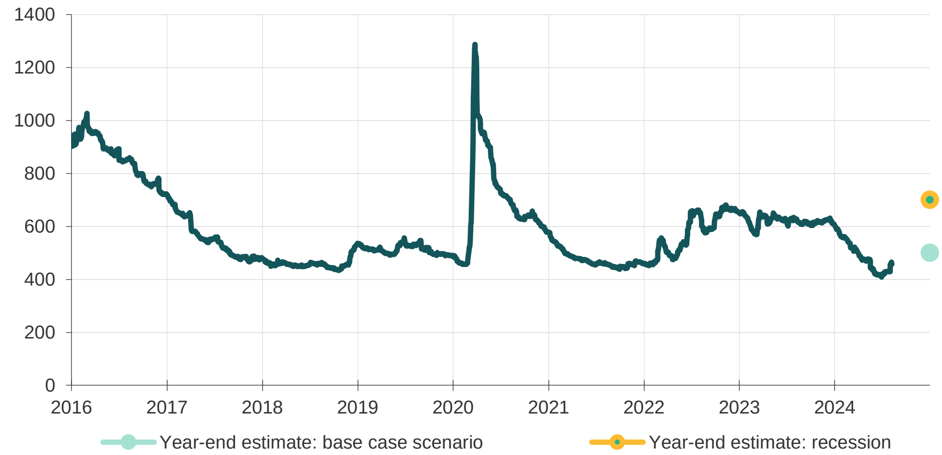
issuers. In general, first-time issuers have to pay a higher spread than recurring issuers when going to the market, as investors have less knowledge about the company and the company could have a more limited track record. Everything else being equal, a higher proportion of first-time issuers would thus also increase new issue spreads, and lift index spreads as the bonds are included in the index. Third, should the global economy weaken, and perhaps head into a recession, it is likely to affect the Nordic high yield market in multiple ways. We have already touched upon one of these channels, which is the portfolio rebalancing effects stemming from lower equity prices. In addition, a weaker economy is likely to affect default probabilities, which should also cause an adjustment of credit spreads.

Nordic high yield: credit spreads (bp)

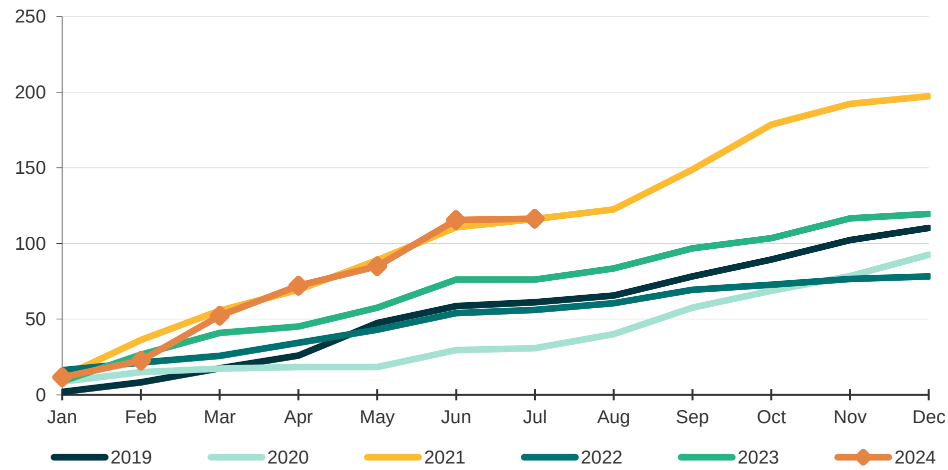


Source: Bloomberg (underlying data), DNB Markets (further calculations)

Reignited primary markets

After a slow start of the year, tight credit spreads and good earnings prospects caused a sharp revival in primary markets in March, particularly in Norway where oil and gas still plays a large role. As of end-July, gross issuance volumes were NOK116bn YTD, on a par with what we saw in 2021 (the previous record).

Nordic high yield: gross issuance volumes by year cumulative, (NOKbn)



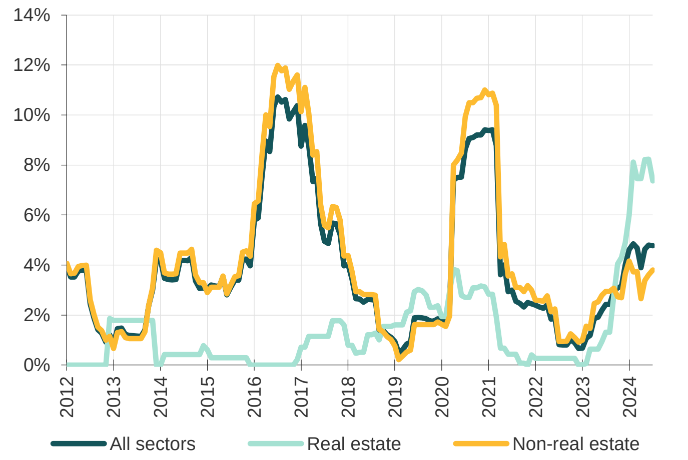
Source: Bloomberg (underlying data), DNB Markets (further calculations)

Looking ahead, bonds worth NOK25bn are set to mature in H2 and another NOK126bn in 2025. A number of these have already been refinanced. While we do not expect the pipeline in H2 to be as busy as it was in H1, we consider it likely that primary markets will remain fairly active once global markets calm down. Overall, we expect gross issuance volumes this year around NOK170bn–180bn, with most coming from the refinancing of bonds set to mature next year.

Default rate remains elevated

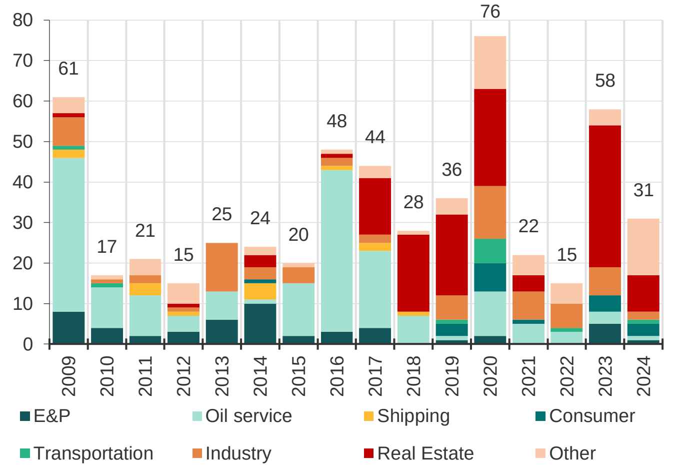
As expected, we have seen a number of default events this year as well. YTD, we have seen 31 default events, most of which have comprised non-payments, with typical characteristics being deferral of interest payments, maturity extensions, and covenant waivers. Real estate issuers are once again highly represented in the default statistics, but somewhat less than in 2023 when they accounted for more than half of default cases. On a LTM basis, the default rate was 4.8% as of July.

Nordic HY: 12m trailing default rate (%)



Source: Stamdata (underlying data), DNB Markets (further calculations)

Nordic HY: number of default events by sector



Source: Stamdata (underlying data), DNB Markets (further calculations)

It is challenging to say anything about recovery rates so early in the default process, but bond prices indicate that recovery rates on most default issues are higher than the historical average. The historical average recovery rate for secured bonds is around 60%, while senior unsecured bonds have an average of around 55%. Variation around these figures is considerable, but they still give an indication of what a bondholder could expect over the long run. The average implied recovery rate on bonds that entered default in 2023 was above this, at 67%, while the figure for 2024 is 80%. This is consistent with what we see in global markets, where high yield bond recovery rates have been elevated in the past couple of years. One explanation is that recovery rates tend to be higher when defaults occur in an environment of high interest rates and solid earnings. This is also what we have seen in the Nordics as of late, with many issuers struggling because of too-high leverage, instead of a collapse in earnings.

EQUITIES

Moderate underweight

Although headwinds from rising rates have eased, we expect negative earnings revisions to continue, keeping equity market returns in the mid-to-high single digit range if the economy can avoid a hard landing. This is below the returns currently available in high yield bonds. Equities would also have more downside risk than bonds in the event of a hard landing, so we maintain a moderate underweight for equities relative to bonds.

Earnings expectations are still in a mean reversion phase

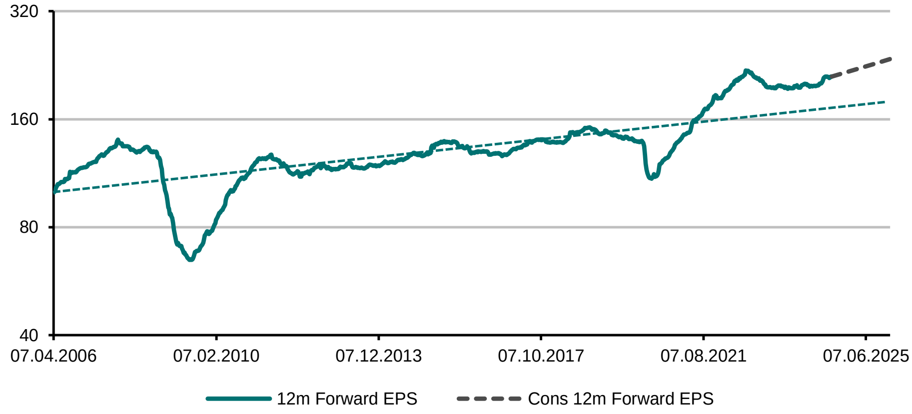
EPS revisions and rates have both been headwinds.

The sharp increase in corporate pricing power, driven initially by pandemic induced supply constraints and subsequently from post-lockdown pent-up demand, drove profit margins to record levels, peaking in 2022. While companies increased prices, costs took longer to adjust upwards. The most important reason for this spike in margins was that wages are typically only re-negotiated annually so it is not until the following year that employee costs increase. CPI adjustments to property rental costs are similar while hedging activity also delayed the impact of higher raw material costs for many.

Pricing power and inflation are essentially two sides of the same coin. While market sentiment has been boosted by declining inflation, this reduction in pricing power combined with the lagged increase in employee costs, rents and raw materials has resulted in profit margins reversing their post-pandemic gains. This started in late Q3 2022 but has not fully played out yet in our view, with consensus EPS estimates still above the long-term trend. While we cannot rule out that some of the improvements to profitability may be permanent (reduced travel costs for example), we believe the balance of risks for consensus estimates is tilted to the downside.

If we assume a soft landing for the global economy, the process of mean reversion should continue in a gradual manner. Estimate cuts of around one percent per quarter should not be enough to trigger a market correction, providing only a moderate

Vinx Nordic Cap index 12-month forward EPS (EUR)



Source: LSEG Datastream, Bloomberg, DNB Markets

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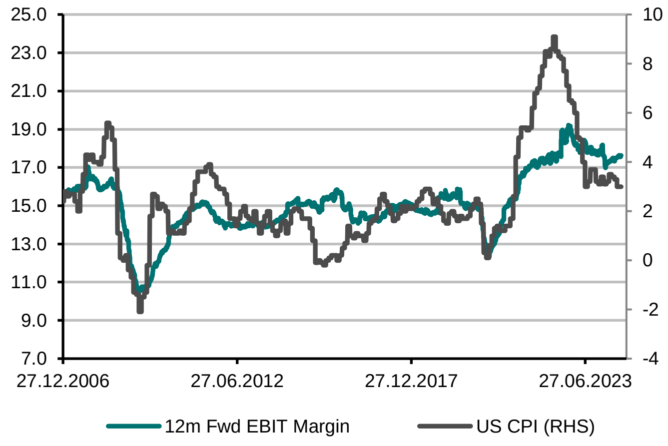
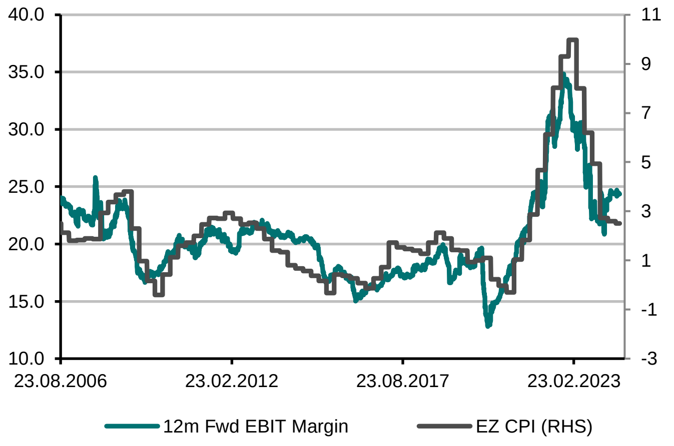
headwind for equities. In the event of a hard landing, the reversion is likely to happen much faster and overshoot to the downside, as was the case during the pandemic and financial crisis.

Vinx Nordic Cap index EBIT margin versus US CPI (%)



Source: LSEG Datastream, Bloomberg, DNB Markets

OBX index EBIT margin versus Eurozone CPI

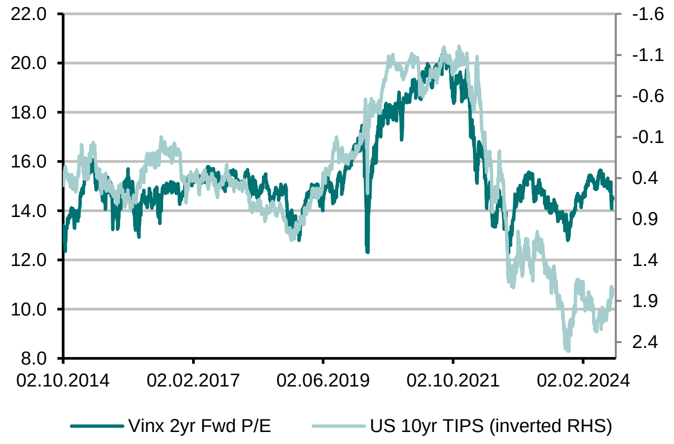


Source: LSEG Datastream, Bloomberg, DNB Markets

Interest rates have also been a headwind for equities

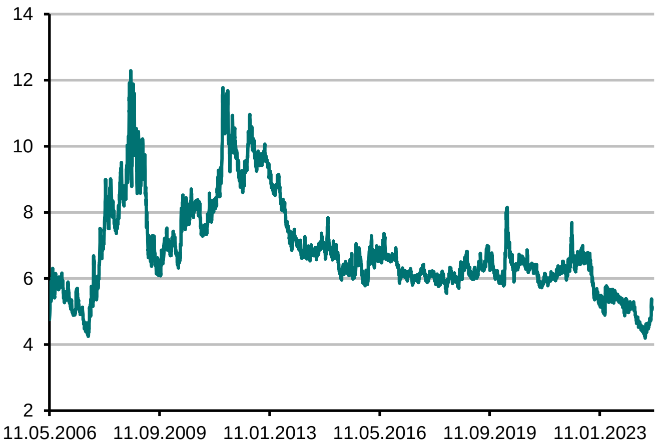
While analysts have been too optimistic about company earnings, macro economists were too cautious about global growth over the same period. The positive economic surprises did not result in higher earnings estimates but they did result in interest rates being repriced higher. This combination of lower earnings and higher interest rates would normally be expected to push equity prices lower, but we have instead seen mid-to-high single digit equity market gains driven by a compression in the implied risk premium (the difference between the earnings yield (EPS/price) and the 10-year real risk-free rate (10-year TIPS)). The implied risk premium touched the same levels as just prior to the financial crisis this summer before increasing again, but is still below (more expensive than) the relatively steady period from 2015-2022.

Vinx Cap Nordic index P/E (x) versus US 10-year real rate (inverted RHS, %)



Source: LSEG Datastream, Bloomberg, DNB Markets

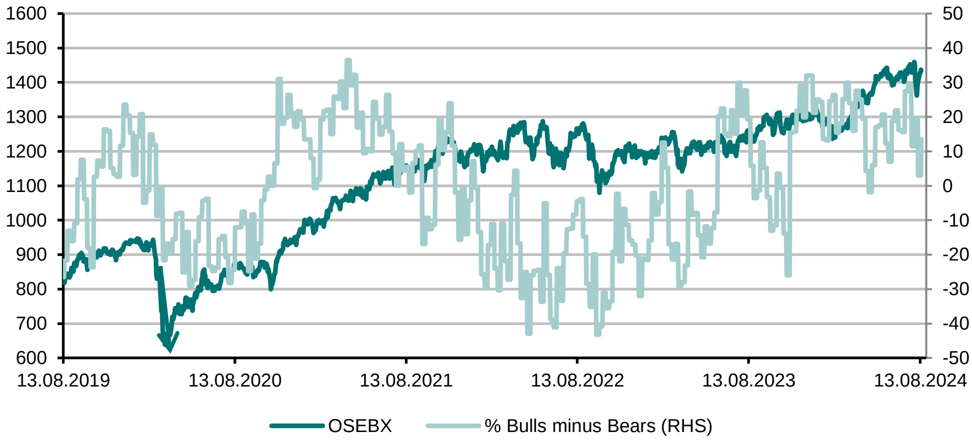
Vinx Cap Nordic implied risk premium (E/P minus 10-year TIPS rate) %



Source: LSEG Datastream, Bloomberg, DNB Markets

One potential explanation for this reduction in risk premium could be improved sentiment. The equity market trough in September 2022 coincided with extreme negative sentiment from the weekly AAII Bull/Bear survey, which subsequently trended higher throughout 2023. Investors that were positioned for a recession in 2023 were forced to increase their equity holdings when the macro data strengthened even though the fundamentals for equities (EPS and TIPS rates) did not improve.

OSEBX versus AAII Sentiment survey percentage of bulls minus bears



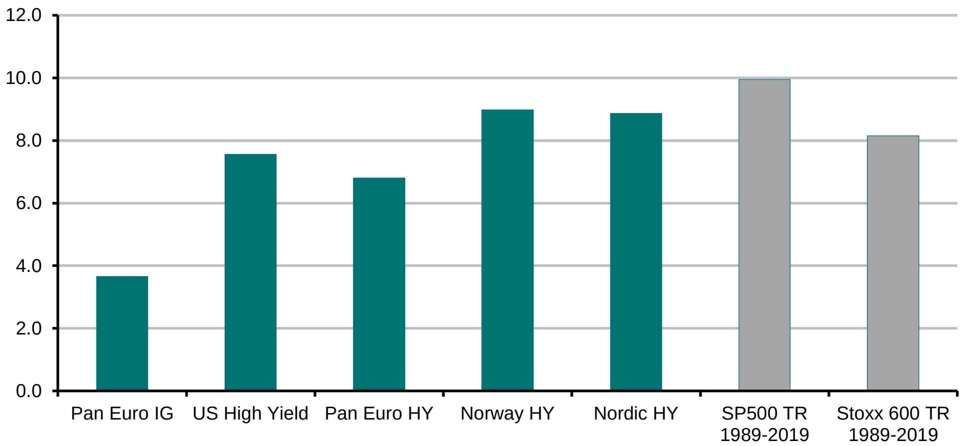
Source: LSEG Datastream, DNB Markets

A further reduction in the risk premium from current levels could be more challenging in our view. Sentiment appears to have peaked now, particularly as uncertainty on the economic outlook has increased. In addition, the market appears to be somewhat complacent in terms of factoring in any risk related to further unrest in the Middle East, a potentially toxic US election or the further escalation of the conflict in Ukraine. Any or all of these factors could potentially weaken investors risk appetite in the second half of this year.

Current high yield market returns are similar to historical average equity returns

Historical average annual equity market returns in the 30 years prior to the pandemic were in the range 8-10%, similar to the current running yield on high yield bonds. However, this was a period with strong tailwinds for equities from declining rates reducing financing costs and declining effective tax rates. In addition, the declining interest rates saw valuation multiples expand. As rates are very unlikely to decline by a similar amount again, and corporation tax rates have stopped falling (and have increased in Norway for some sectors such as seafood) average returns over the next 30 years are likely to be 1-2%-points lower than previously.

Equity market historical average returns versus current bond index yields (%)



Source: LSEG Datastream, Bloomberg, DNB Markets

As equities have a higher risk than bonds, a neutral or overweight weighting in equities relative to bonds would require expected equity returns above the historical average. Given our expectations of lower-than-average earnings growth as estimates converge with the longer-term trend and limited room for multiples expansion, we have a base case of equity returns in the mid-to-high single digit range over the next 12-months. This justifies a moderate underweight allocation for equities relative to bonds in our view.

DNB MARKETS

ENERGY MARKETS

OPEC under sustained pressure, while tight LNG market persists

Oil

OPEC under sustained pressure

The slowdown in global oil demand is starting to materialize as the tailwind from the pandemic recovery is behind us and global economic growth is below the trend. In 2023, roughly 75% of the 2.1 million barrels per day (mb/d) of global oil demand growth came from pent up demand in China after the pandemic, and the anticipation was high when we entered this year about whether the strong growth would continue.

The available data indicates that oil demand growth might be lower than anticipated, which is also reflected in the forecasts among the key reporting agencies. We expect demand growth to be close to 1 mb/d this year, roughly 0.2 mb/d less than the long-run growth rate.

The focus on the supply side has been non-OPEC supply (including biofuels, processing gains), and production from OPEC countries that are exempt from quotas. This bulk of production has surprised the market time after time, and we continue to see strong supply growth. This production growth has pressured OPEC to cut production to support prices, and their market share has declined steadily.

The continued cut has led to very high spare capacity amongst the largest OPEC producers, and in their ministerial meeting on June 2 they communicated an intent to roll back some of their cuts. The rollback schedule includes an unwind of 2.2 mb/d of cuts from October this year to September next year, and an additional 0.3 mb/d of production quotas to the UAE. The wording from the ministers was that they will follow the planned rollback if market conditions allowed, meaning that they keep the door open to push the schedule out in time.

Due to the large increase in non-OPEC supply, we believe that it will not be possible for the market to absorb the announced barrels from OPEC. If they go ahead and execute their plan, they will put significant downward pressure on prices.

The risk on oil prices appears to be on the downside, as there is plenty of spare capacity and willingness to release additional barrels from OPEC. This spare capacity could easily absorb any increase in demand, and counter potential supply disruptions.

There is a lot of focus on the geopolitical situation in the Middle East and the war between Russia and Ukraine. We believe that we must see a significant escalation before there is significant risk to the global oil market balance. A full-scale war that drags OPEC producers into the conflict could be such a scenario, but it appears rather unlikely.

We view the oil market balance as softish moving into 2025 but note that this is not a common consensus among all the key reporting agencies. OPEC views the current

l price forecasts: Brent M1 (USD per bbl)

	Q4 24	2024	2025	2026	2027
DNB Markets	80	82	77	80	80
Futures curve	ting Data...	ting Data...	ting Data...	ting Data...	ting Data...
Bloomberg consensus*	ting Data...	ting Data...	ting Data...	ting Data...	ting Data...

ırce: Bloomberg, DNB Markets *Consensus estimates from 19 Aug 2024

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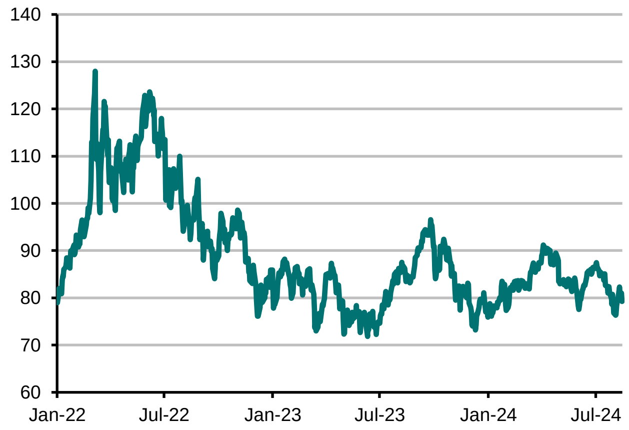
market balance as being in serious undersupply both this year and next, which would indeed allow for their additional barrels. The Energy Information Agency (EIA) sees the market in moderate undersupply both this year and the next, but not nearly enough to absorb additional OPEC volumes. The International Energy Agency (IEA) sees the market as balanced this year and moderately oversupplied next year. The large discrepancies between the agencies shows the challenge of monitoring the global oil market balance.

Oil price: Brent M1 (USD per barrel)



Source: Bloomberg, DNB Markets

European gas price: TTF (EUR per MWh)

Source: Bloomberg, DNB Markets

European gas market

Gas prices supported by a tight LNG market until 2026-2027

The European gas market balance continues to be characterized by significant demand destruction after the skyrocketing gas prices that we experienced in 2022. Despite prices dropping significantly since then, the demand in Europe has averaged 20% below the pre-crisis average of 2017-2021 this year, with little signs of recovery. The record-high buildout in renewable energy is structurally pressuring the gas burn in the power sector, which has averaged 29% below pre-crisis levels. The industry sector gives some ray of hope for the European gas demand, as the monthly industrial consumption has grown YOY since April. However, the industry is still clearly suffering as consumption has averaged 19% below the 2017-2021 average this year.

Liquified natural gas (LNG) replaced some of the lost Russian piped gas, and together with a deep demand destruction, made it possible for Europe to get through the energy crisis. The key to understanding the price dynamics of the European gas market is therefore in the global LNG market. Prior to the energy crisis, the European market was characterized by stable and inflexible pipeline gas flows from Norway and Russia. Now, LNG is the marginal source of imports. Since the LNG market is a global market where the ship sails to the highest bidder, the European market is in a constant tug-of-war with other bidders, mainly in Asia.

This year we have experienced a significant reshuffling of LNG from Europe to Asia due to high temperatures and increased industrial activity, and as the region tries to transition away from coal. The demand in Asia is expected to continue to grow, but has shown that it is highly price sensitive, and Europe has proved its ability and willingness to outbid its Asian competitors. We expect the additional growth in LNG for exports will be meagre into 2026.

Demand for gas is highly seasonal. Consumption of gas in Europe during the winter is usually twice as much gas as during the summer, and as we get closer to the winter the LNG market will tighten further. There is relief coming to the market, as significant volumes are expected to come online in North America and Qatar which could add 50% of the current global export volumes by 2030, with 33% already under construction. The lion’s share of these volumes will come from the US, but the timing of these volumes is proving to be challenging due to pressured value chains and contractors which has been troubled by cost inflation and bankruptcies.

One of the first mega projects that was supposed to come online, Golden Pass LNG, has been delayed to the end of 2025 from the initial timeline of being online in late 2024. Another mega project in Texas, Rio Grande LNG, is facing potential delays because of lawsuits by environmentalists that forced a court in Texas to rescind the authorization for the project. The pressure on developers and continued opposition by environmentalists is an industry problem, and it is therefore reasonable to assume that it will affect other projects as well.

Despite delays, much of the announced volumes are already approved and under construction, and we believe that the volumes will come to the market. Once they do, the global gas market will move from being tight to oversupplied, which will lead to a sharp decline in European gas prices.

The European gas market is enroute to comfortably fill its gas inventories ahead of the winter yet again. However, the LNG imports will need to pick up significantly in the coming winter. Due to the limited additional LNG supply globally, this implies that we must outbid some of the Asian buyers. We can expect prices to remain elevated due to the bidding war, and even increase in times when the temperature in Europe gets very low. However, we do not expect that prices will skyrocket to the levels we had in 2022, because there is now less uncertainty about Europe's ability to adjust demand and the availability of LNG import volumes to balance the market. The announced LNG expansion is underway, and we expect significant volumes to come in 2026-2027. Until then, we have a constructive view on European gas prices, which is also supported by ongoing geopolitical tensions in the Middle East and between Russia and Ukraine.

Macroeconomic forecasts Norway

Main economic development. Forecasts 2024–2027

	2023	2022	2023	2024	2025	2026	2027
Demand & production (const.prices)[1] Bn NOK		Annual changes in per cent					
Private consumption	1923	6.2	-0.8	0.7	2.4	2.2	2.1
Public consumption	1122	1.1	3.4	2.7	1.9	1.8	1.6
Gross fixed capital formation	1197	5.2	0.0	-5.4	3.6	3.3	3.5
- Petroleum activities	216	-7.1	10.6	5.9	3.3	2.0	2.0
- Mainland-Norway	969	7.6	-1.2	-7.1	3.6	3.6	3.9
- Private companies	499	17.1	4.0	-9.8	1.6	2.1	2.0
- Dwelling services	208	-1.4	-15.6	-14.5	5.6	8.2	10.9
- General government	262	1.3	3.0	4.1	5.7	2.8	2.0
Final demand from Mainland-Norway	4014	5.1	0.3	-0.6	2.5	2.4	2.4
Total exports	2420	4.5	1.4	2.6	0.9	0.7	0.7
- Crude oil and natural gas	1194	1.3	-1.1	1.1	0.4	-0.5	-0.8
- Traditional goods	662	-2.5	6.1	5.1	1.1	1.7	2.0
Total imports	1664	12.5	0.7	0.8	2.8	3.1	3.5
- Traditional goods	993	3.4	-3.7	0.7	3.1	3.5	4.0
Gross domestic product (GDP)	5127	3.0	0.5	1.7	1.6	1.3	1.2
- Mainland-Norway, sa.	3855	3.7	0.7	0.8	1.6	1.8	1.7
Labour market							
Employment, 1000 persons	2928	3.9	1.3	0.6	0.7	1.0	0.9
Unemployment ratio, AKU *		3.3	3.6	4.2	4.3	4.4	4.3
Reg. unemployment, per cent *		1.8	1.8	2.0	2.3	2.4	2.3
Prices and wages							
Yearly wages		4.4	5.3	5.2	4.6	3.8	3.2
Consumer price index		5.8	5.5	3.4	2.9	3.0	2.5
Core inflation		3.9	6.2	3.8	3.2	2.8	2.5
Second-hand home prices		4.9	0.2	2.8	5.7	7.5	7.5
Oil Price, ICE Brent, USD/bbl		99	82	83	77	80	80
Memo:							
Households saving ratio		4.7	3.6	5.0	6.6	7.4	7.9

1) Forecasts for seasonally adjusted variables
2) Levels

Source: LSEG Datastream, Statistics Norway, DNB Markets

Interest rate and FX forecasts

Monetary policy interest rates					
Country	20-Aug-24	1 month	Nov-24	Feb-25	Aug-25
USA: Fed Funds	5.50	5.25	5.00	4.50	4.00
EMU: Depo	3.75	3.50	3.50	3.25	2.75
UK: Bank rate	5.00	5.00	4.75	4.50	4.00
Sweden: Repo	3.50	3.50	3.25	3.00	2.75
Norway: Folio	4.50	4.50	4.50	4.50	4.00

3-month money market rates					
Country	20-Aug-24	1 month	Nov-24	Feb-25	Aug-25
USA: Term SOFR	5.13	5.00	4.60	4.10	3.85
EZ: Euribor	3.54	3.50	3.30	3.05	2.75
UK: Term SONIA	4.90	4.90	4.70	4.45	4.00
Sweden: Stibor	3.41	3.35	3.20	2.95	2.85
Norway: Nibor	4.75	4.75	4.75	4.60	4.10

10-year swap rates			
Currency	20-Aug-24	Nov-24	Aug-25
USD	3.44	4.00	4.25
EUR	2.50	2.75	3.00
GBP	3.91	4.25	4.50
SEK	2.23	2.50	3.00
NOK	3.51	4.00	4.25

FX rates			
FX forecast	20-Aug-24	Nov-24	Aug-25
EURUSD	1.11	1.08	1.10
EURGBP	0.85	0.85	0.84
EURSEK	11.39	11.60	11.80
EURNOK	11.70	11.60	12.00
SEKNOK	102.7	100.0	101.7
USDNOK	10.56	10.74	10.91
GBPNOK	13.73	13.65	14.29
NOK index (I-44)	120.34	119.50	122.50

Source: LSEG Datastream, DNB Markets

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