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Finland's economic growth is slowing down in 2022 – private consumption is not enough to save growth

Aktia

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Finland's economy will grow by 3.3% this year, but the growth will slow down to 2.3% in 2022. Investments and consumption provide the economy with a shot in the arm. The slowdown in the economic growth in the world economy and in the main export countries of Finland in the near future will inevitably also be reflected here in Finland. Alarming news has already been heard from around the world. At the same time, we do not expect the increased demand for consumption to save the growth. The dismantling of restrictive measures will alleviate economic distress, but the challenges concerning vaccine coverage and the uncertainties created by the risks of virus variants will curb a full return of confidence.

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Accelerated exports

The export sector is still enjoying the benefits from the strong economic situation in the export countries.

More than half of Finland's exports are directed to the European Union, while 15% are directed to the United States and 15% to Asia. The positive economic outlook for these regions benefits Finnish export companies. This sentiment has been evident in the new industrial orders that have been restored at an exceptionally rapid pace. At the same time, the order book has increased so much that it has not been perceived as strong since the period preceding the financial crisis ten years ago.

Exports will clearly grow increasingly towards the end of 2021 and we expect the volume of exports throughout the year to increase by 3.9% compared to one year ago. In 2022, growth will accelerate to 6.6%, followed by a marked slowdown. Exports of services will pick up more quickly than exports of goods, thus returning to the trend before corona.

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Imports are developing parallel with exports.

In Finland, imports are developing parallel with exports. A growth in imports is due to the increase in household consumption, exports and the recovery of travel. We expect the growth of imports to be slower both this year and next year. Thereafter, in 2023, imports will grow quicker than exports.

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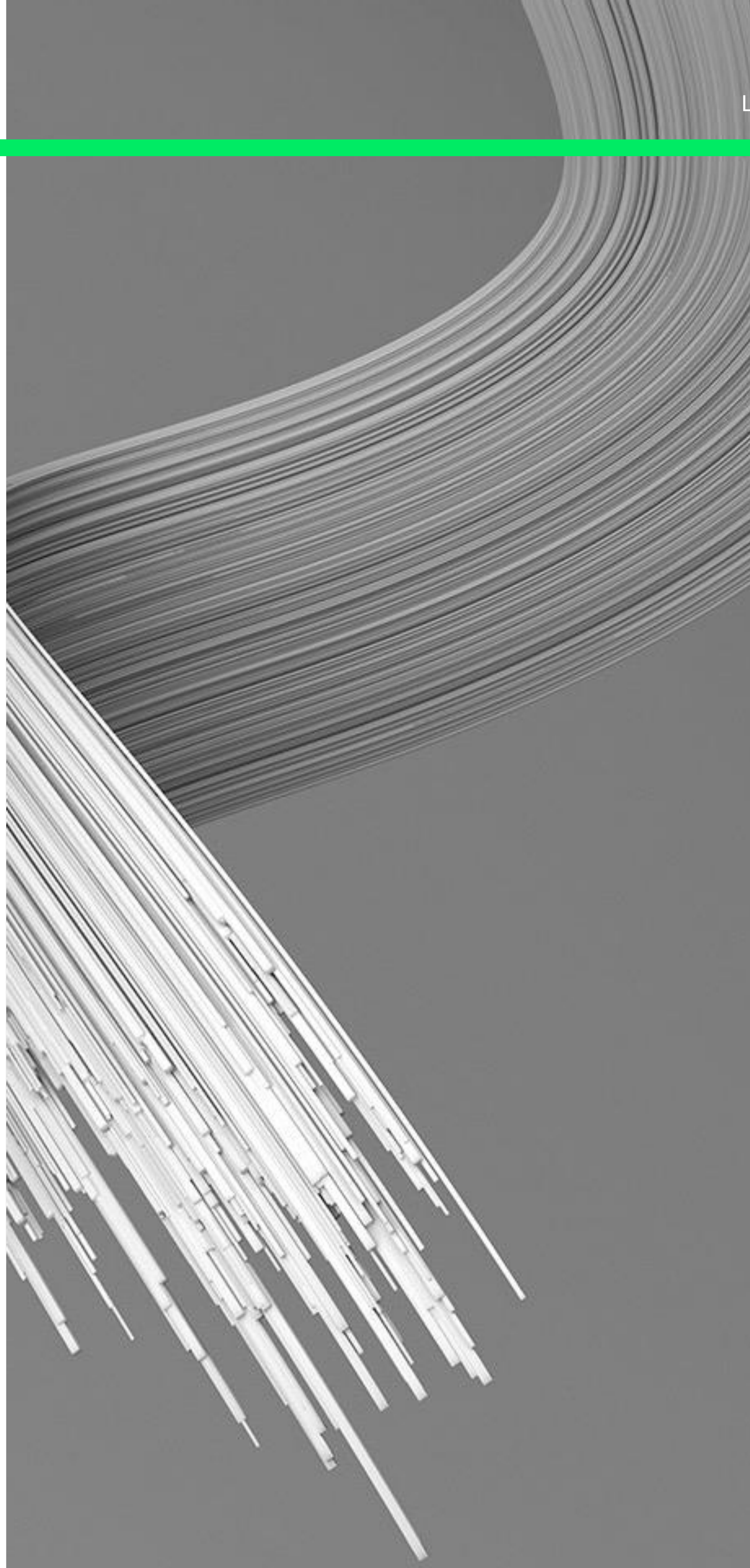
Risks in the recovery of private consumption

We do not expect the dismantling of restrictions to bring significant additional positive support to the demand for goods; rather, the positive change has already been largely realised.

Boosted by positive labour market developments, the consumer confidence has already returned to levels preceding the pandemic. At the same time, household savings have increased strongly allowing room for growth in consumption. Thus, households have had the opportunity to dismantle the pent-up demand for goods. In addition, the risks of growth in consumption are elevated as economic uncertainty increases.

The demand for services will most likely pick up when the last restrictions are dismantled, but services lost during the pandemic will not be fully replaced by increasing the consumption of services. For example, lost restaurant dinners and trips abroad are not fully replaced with new trips but a large part of this is lost demand. It is also appropriate to ask whether the tourism industry will return to the level preceding corona, as climate issues call the ecological sustainability of tourism into question.



Despite effective vaccines, there is no definitive solution to the coronavirus. We believe that this leaves consumers with a slight sense of uncertainty and thus restricts full recovery.

Public consumption will during the next few years be increased by paying off the care debt and shortening the waiting lists accumulated during corona. The annual growth in public consumption slowed significantly last year, and we expect this development to lead to a recoil that is reflected in the growth in consumption. In addition, the long-term growth in public sector consumption will continue as a result of an ageing population.

Lasse Corin — Chief Economist, Aktia Bank Ltd

Residential construction investments are picking up surprisingly rapidly

The positive economic sentiment is reflected in investments that are expected to grow by 2.4% this year and to 3.5% next year.

Production investments in machinery and equipment as well as the positive sentiment created by a strong order book, support economic growth. At the same time, surveys show that companies' investment plans indicate clear growth. However, productive investments will grow the most during this year. A slower global economy will weaken companies' willingness to invest in the near future. We predict that investment in machinery and equipment will increase by 6.5% this year and that the growth will slow down to 3.5% next year.

Construction investments will clearly pick up. New building permits are being granted to an increasing extent, especially for residential buildings. The development will be reflected in construction investments. We expect construction investments to grow by 2.0 % this year and growth to accelerate by 4.1% next year. In 2023, the growth of construction investments will slow down to 1%. However, the volume of investments clearly exceeds the previous investment peak in 2018.

Lasse Corin — The Chief Economist, Aktia Bank Ltd

Unemployment

On the labour market, the development has been surprisingly lively. In the previous forecast, we expected the unemployment rate to be 8.1% for 2021 and 7.4% for 2022.

The recovery of the employment situation has been a positive surprise, and, in our forecast, the unemployment rate will improve this year to 7.6% and further to 7.2% in the following year. The decrease in unemployment has been widespread, but the latest uncertainties related to the delta variant and the delay in opening up the economies have put strain particularly on the employment on the service and tourism sectors.

The rapid recovery of the labour market has been conducive in supporting economic growth. The combined salary of all employees has already exceeded the pre-pandemic level at monthly level, reflecting the rapid recovery of the labour market.

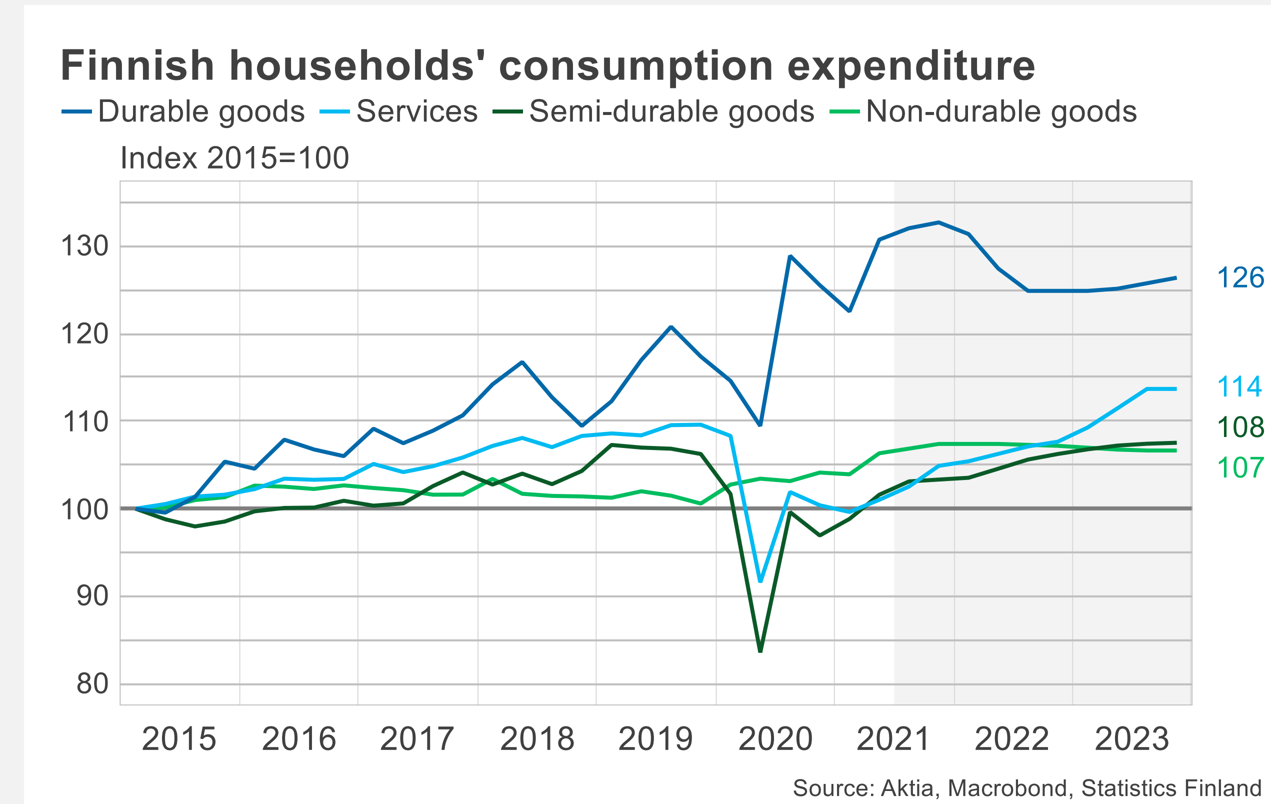
				Forecast		
Annual volume growth, %	2018	2019	2020	2021	2022	2023
GDP	**1,1**	**1,3**	**-2,9**	**3,3**	**2,3**	**1,2**
Exports	**1,5**	**6,8**	**-6,7**	**3,9**	**6,6**	**1,5**
Imports	**5,7**	**2,3**	**-6,4**	**3,9**	**6,5**	**1,9**
Consumption	**1,8**	**1,1**	**-3,1**	**2,7**	**2,1**	**1,5**
Private	*1,7*	*0,7*	*-4,7*	*2,8*	*2,7*	*1,9*
Public	*2,0*	*2,0*	*0,5*	*2,4*	*1,0*	*0,6*
Investment	**3,6**	**-1,6**	**-0,7**	**2,4**	**3,5**	**0,9**
Buildings	*4,7*	*-1,4*	*-0,4*	*2,0*	*4,1*	*1,0*
Machinery and transport equipment	*-1,7*	*-4,9*	*-0,6*	*6,5*	*3,0*	*1,1*
Intellectual property	*7,1*	*1,9*	*-2,0*	*-1,3*	*2,5*	*0,4*
Key figures, %						
Trade balance of GDP	-1,2	0,4	0,3	0,3	0,4	0,2
Unemployment	*7,4*	*6,7*	*7,8*	*7,6*	*7,2*	*6,6*
Inflation	*1,1*	*1,0*	*0,3*	*1,9*	*1,4*	*1,1*

Private consumption recovers from the pandemic

The strong decrease in private consumption is one of the numerous economic effects of the coronavirus pandemic.

In official statistics, consumption is divided into four sub-categories: ser-vices, non-durable consumer goods, semi-durable consumer goods and durable consumer goods. Different sub-categories behave in different ways during a recession. We are expecting a small recoil in our forecast – the trend in which people ceased to use services during corona will turn into an increase in demand for ser-vices and, at the same time, the de-mand for durable consumer goods will decrease as the amount of money spent on home improvements decreases.

The consumption of services experienced the most significant drop. This is natural because the restric-tions made it impossible to buy many of the services, such as restaurant and accommodation services. In addition to the restrictions, the consumption of services is also affected by the fear of infection – although restaurants are open, not all customer dare to eat out due to the fear of getting infected.



The demand for durable consumer goods had a forceful recovery following the easing of the worst pandemic-related fears. The clear increase in the amount of time spent at home increased the sales of household appliances, furniture and various renovation equipment, for example. We expect demand to decrease in this category for two reasons. Firstly, the purchases are long-term and therefore they do not need to be renewed often, and secondly, dismantling restrictions and returning to normal will decrease the need for home renewals and edits.

In the goods sector, consumption of non-durable consumer goods increased during the pandemic. This category includes, for example, food of which the demand increased due restaurant meals being replaced by home cooked meals. In our forecast, we therefore expect the demand for this category to decrease moderately as the economy opens up properly and home cooked meals are replaced by eating out. The consumption of semi-durable consumer goods was lacklustre. This category includes, for example, clothes.

Thank you!

Lasse Corin

THE CHIEF ECONOMIST, AKTIA BANK LTD

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