



Economic outlook for Finland

Economic Research

OP Financial Group

Q4/2024

The Finland's economy recovering in line with earlier expectations

- The economic recovery that began at the start of the year continues through the remainder of the year. The economy has largely developed as expected, and the conditions for recovery have improved. On the domestic market, the economic activity is even better than anticipated. The main risks are associated with the development of export markets.
- This year, the economy has been primarily supported by consumer demand. Investments have sharply decreased, and exports have slightly declined. Next year, all demand components will turn to growth.
- Private consumption, after a sluggish spring and early summer, has picked up, according to OP's payment card data. The conditions for consumption growth have otherwise strengthened. Inflation will remain at 1.6% next year, and real wages will continue to grow. The decline in interest rates supports a decrease in the savings rate, and private consumption will grow slightly faster than disposable real income next year.
- Exports have developed relatively steadily in recent years, considering the development of export demand and the halt in trade with Russia. Next year, exports will improve significantly from the current year as the industrial sector picks up and service exports recover.
- Investments have plummeted sharply, especially in the wake of the construction sector. Construction has hit the bottom, and construction investments will grow clearly next year. However, the level of construction will still be lower than the average of recent decades.
- The balance of the economy is expected to improve in the coming years. Inflation will remain below two percent in all forecast years, supporting wage agreements that protect cost competitiveness and could improve the export share.
- Unemployment will gradually decline, and the employment rate will rise. However, according to our forecast, neither will reach the previous cyclical peak by 2026. The public deficit will narrow to around the structural level of about two percent of GDP in the coming years.
- The anticipate that after the recovery phase, the economy will return to its long-term average growth rate. This will not reduce structural unemployment or balance the public deficit, even though the longer-term growth outlook is faster than the average of the past ten years.

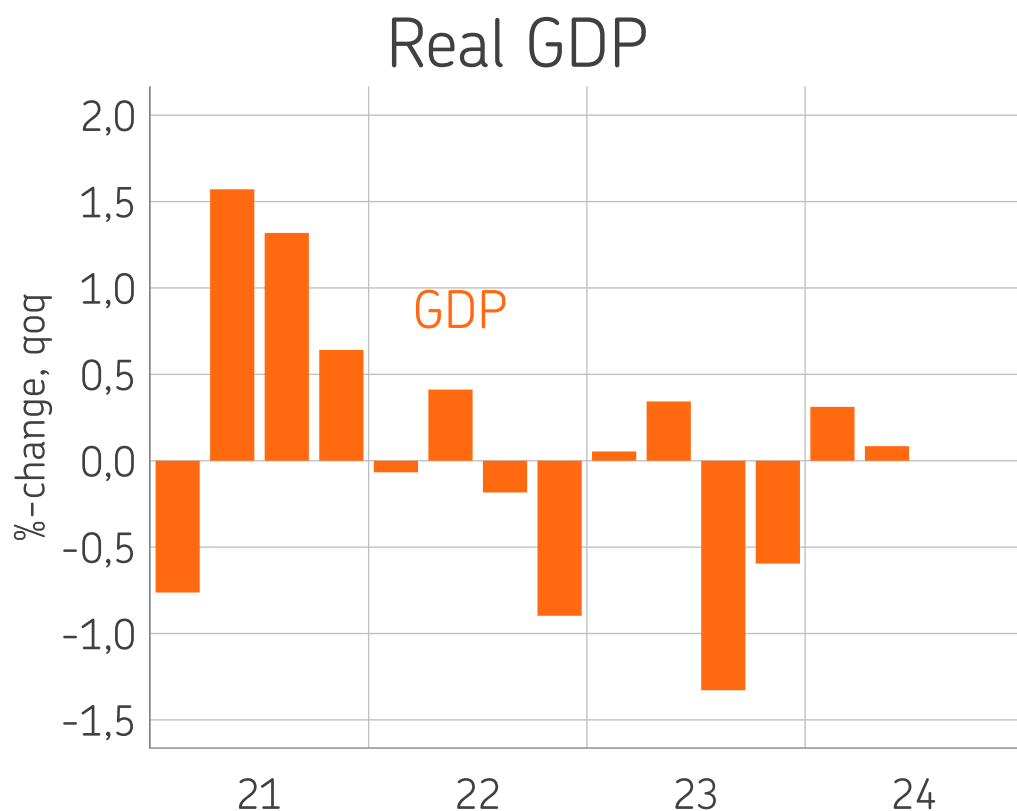
Forecasts for the Finnish economy

Published on October, 2024

	EUR bn				
Volume, % change on previous year	2023	2023	2024f	2025f	2026f
GDP	273,3	-1,2	-0,5	2,0	1,3
Imports	116,2	-6,6	-1,0	4,5	4,8
Exports	117,0	0,2	-1,5	4,2	3,5
Consumption	211,8	1,3	1,0	1,2	1,3
- Private	141,3	0,3	0,7	1,5	1,7
- Public	70,4	3,4	1,5	0,5	0,5
Fixed investment	63,3	-9,0	-5,1	5,3	3,7
Other key indicators		2023	2024f	2025f	2026f
Consumer price index, % change y/y		6,3	1,7	1,6	1,8
Change in wage and salary earnings, %		4,2	3,0	3,2	3,0
Unemployment rate, %		7,2	8,2	7,9	7,6
Current account balance, % of GDP		-0,4	-0,4	-0,3	-0,5
General government net lending, % of GDP		-3,0	-3,7	-3,0	-2,0
General government debt, % of GDP		77,1	81,2	83,3	84,5

Sources: Statistics Finland and OP Financial Group

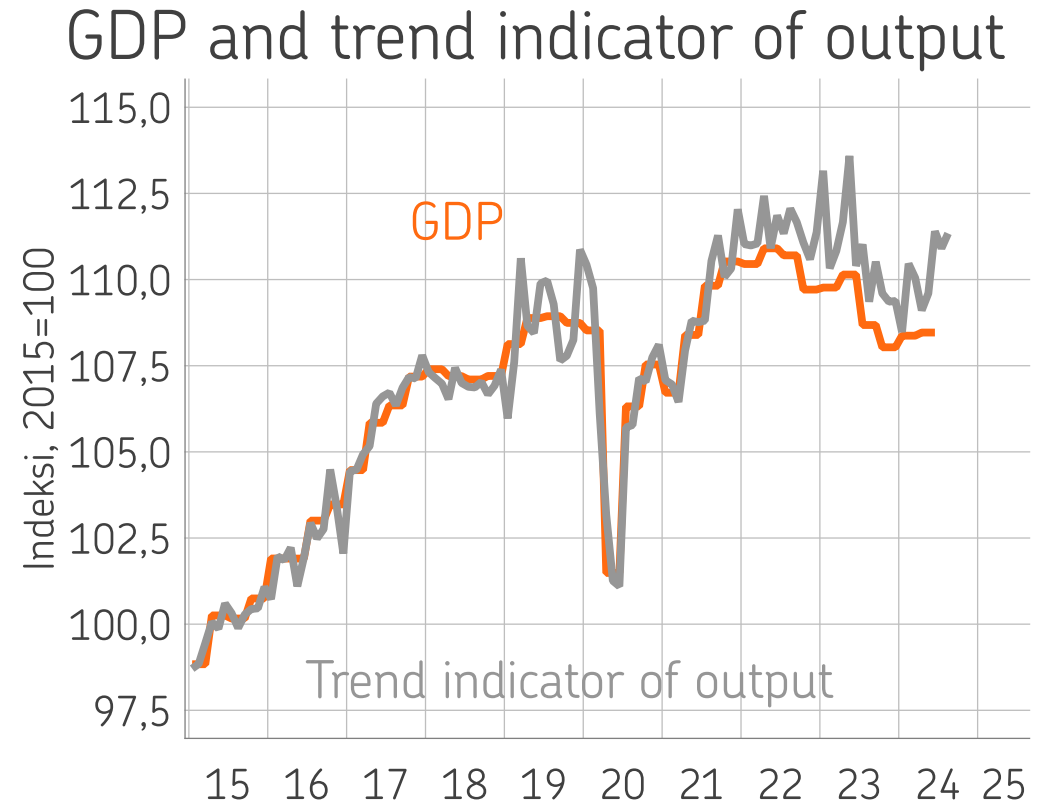
The pace of the Finnish economy accelerates in 2025



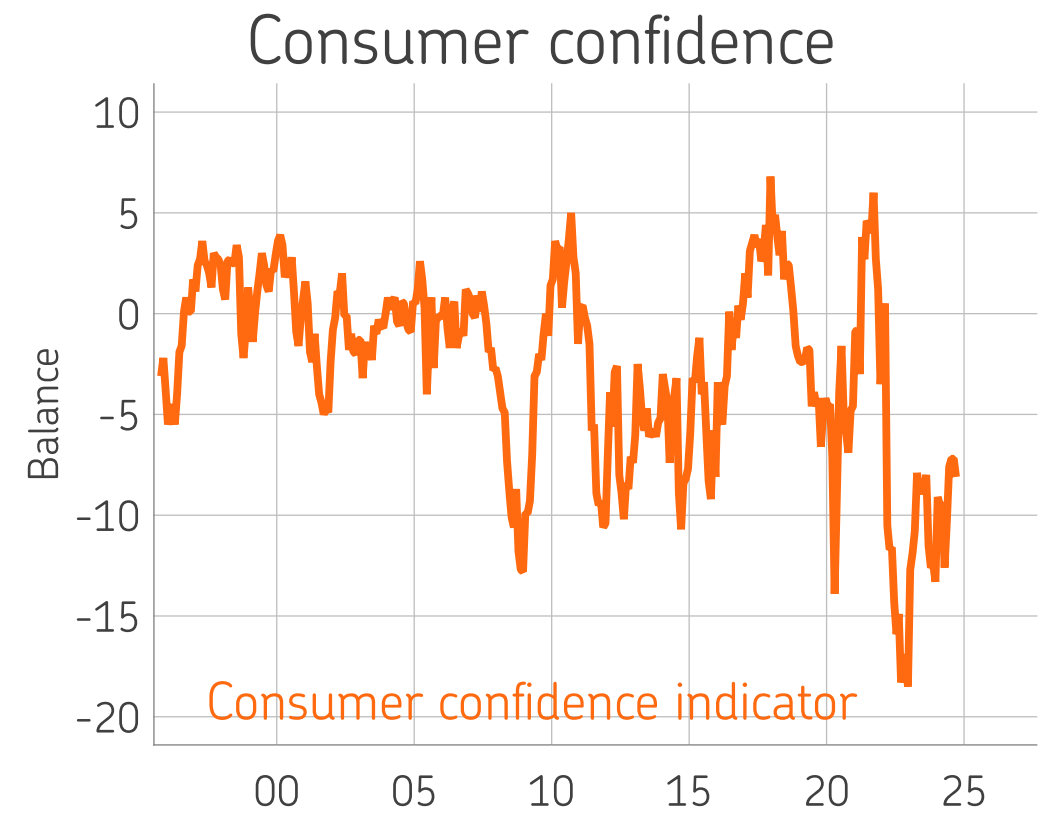
Source: Macrobond, StatFin, OP

- The economic recovery that began earlier this year in Finland will continue throughout the rest of the year. The economy has developed largely as expected, and the conditions for recovery have improved.
- On the domestic market, economic activity is even better than anticipated. The main risks are related primarily to the development of export markets.
- GDP is forecasted to decline 0.5 % this year. The risks in the forecast are balanced.
- In 2025 the economy is forecast to expand by 2 % and 1.3% in 2026

Economic sentiment is already improving



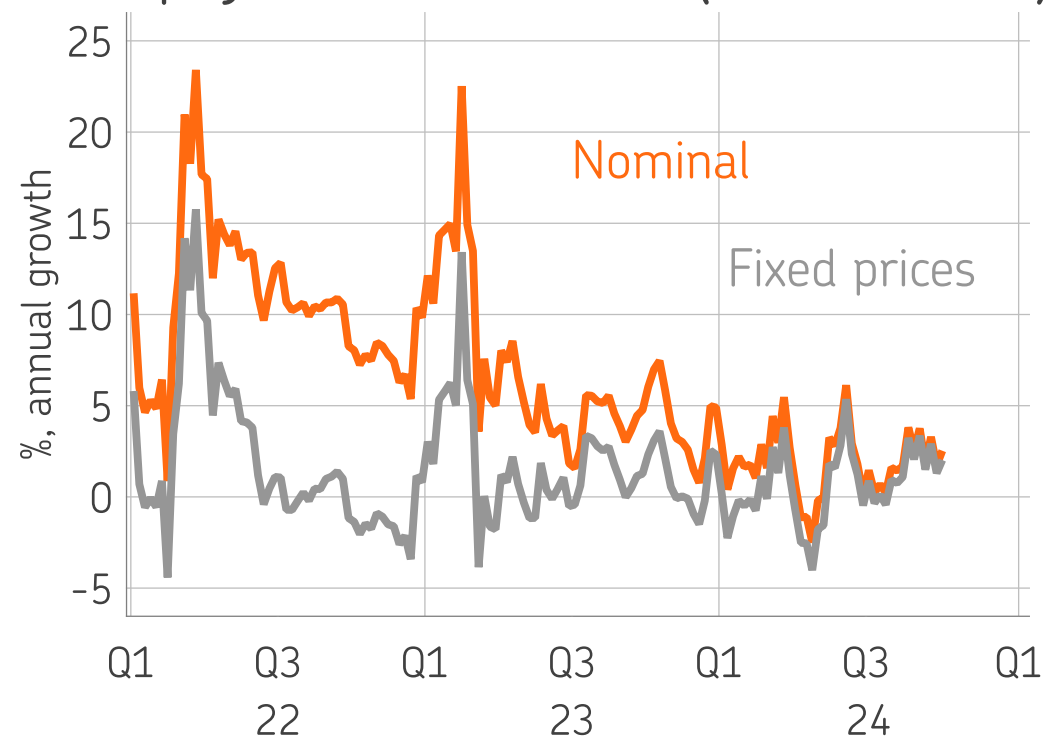
Source: Macrobond, StatFin, OP



Lähde: Macrobond, StatFin, OP

A strong quarter in OP's card payments

OP's payment card data (3 week ma.)

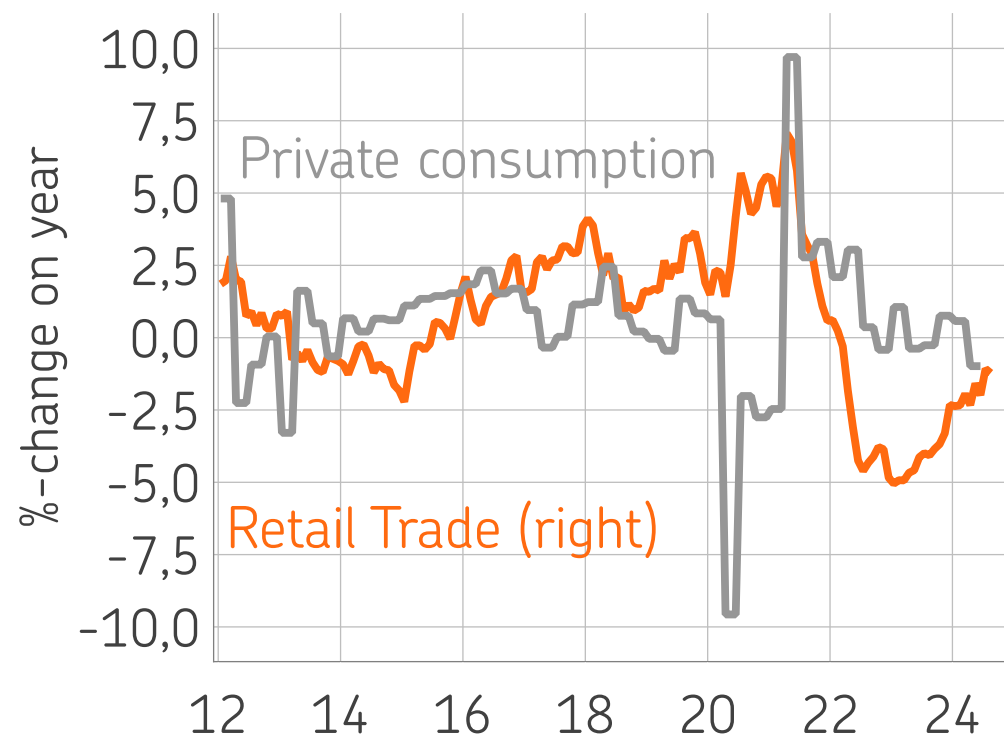


Source: Macrobond, OP

- In September, OP's card payments increased by 1.6% in nominal terms and by 2.0% in fixed terms. Payments continued the current trend, where the average growth is higher than last year.
- Looking at the entire quarter, the development of card payments suggests that the recovery in consumption started relatively quickly.
- The growth of card payments has been wide-ranging, as payments for both services and goods have been higher than last year in fixed price. In particular, the purchase of goods has grown strongly since the summer.

The growth of private consumption is picking up

Consumer confidence and retail trade



Lähde: Macrobond, OP

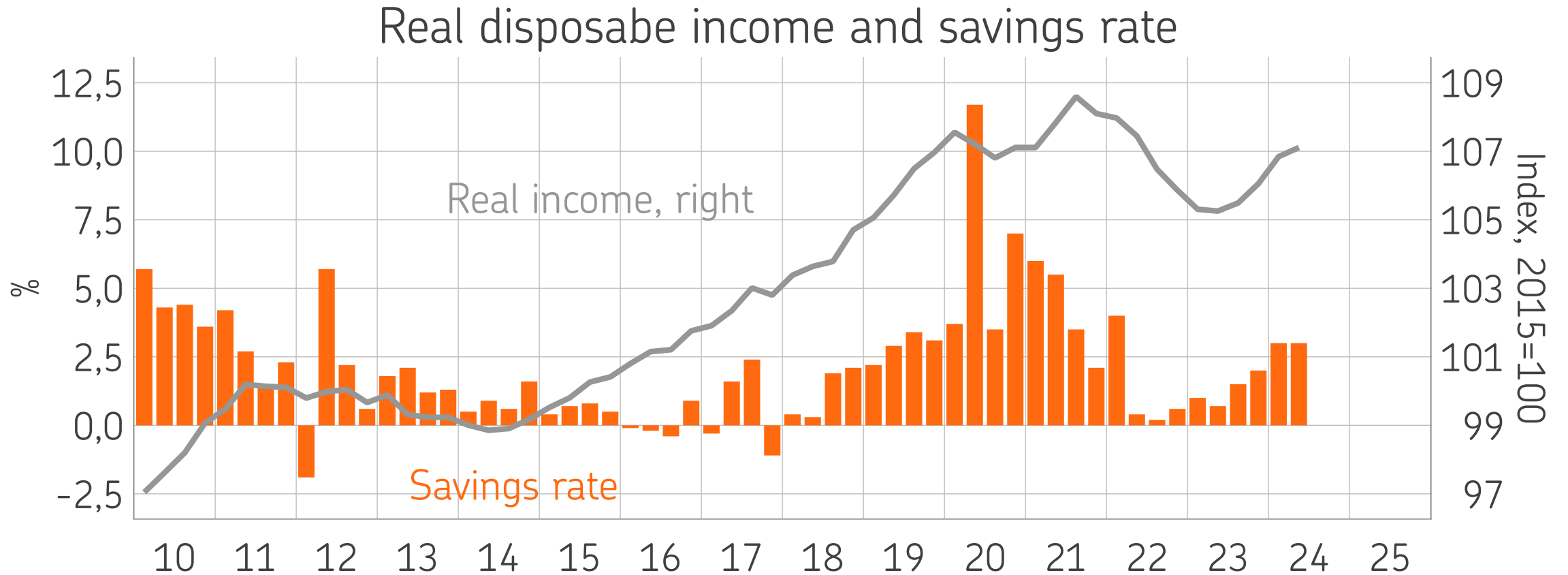
- Private consumption has remained on the rise, despite the inflation spike and recession. Consumption faltered slightly in the spring, but recent indicators suggest that the trend has strengthened in the fall.
- The growth has been driven by services while consumption of goods has been weaker. Retail trade is expected to continue to strengthen gradually.
- This year real incomes are expected to increase 2.2 %, but saving rate is set to rise due to higher interest rates. Next year saving rate is foreseen to fall slightly supporting consumption growth.

Consumption and income, % change

	2023	2024f	2025f	2026f
Wage and salary index	4,2	3,0	3,2	3,0
Private consumption	0,3	0,7	1,5	1,7
Disposable income	0,4	2,2	1,4	1,5
Saving rate	1,3	3,1	2,7	2,5

Sources: Statistics Finland and OP

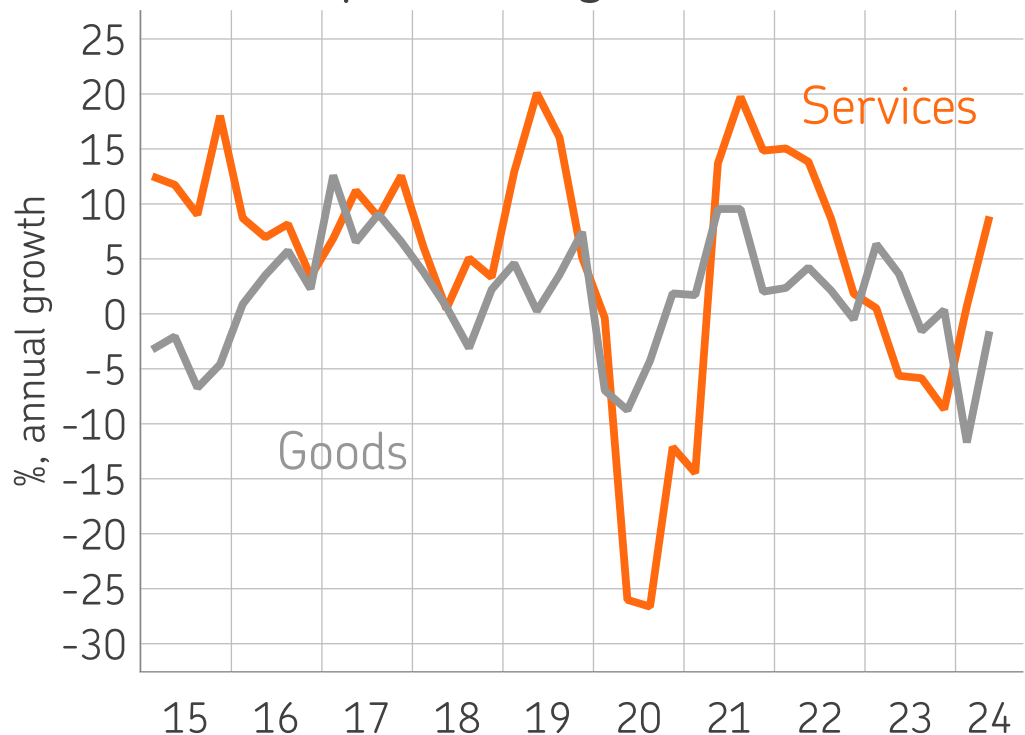
Purchasing power is improving



Source: Macrobond, StatFin, OP

Exports are stronger than expected

Finland's exports of goods & services

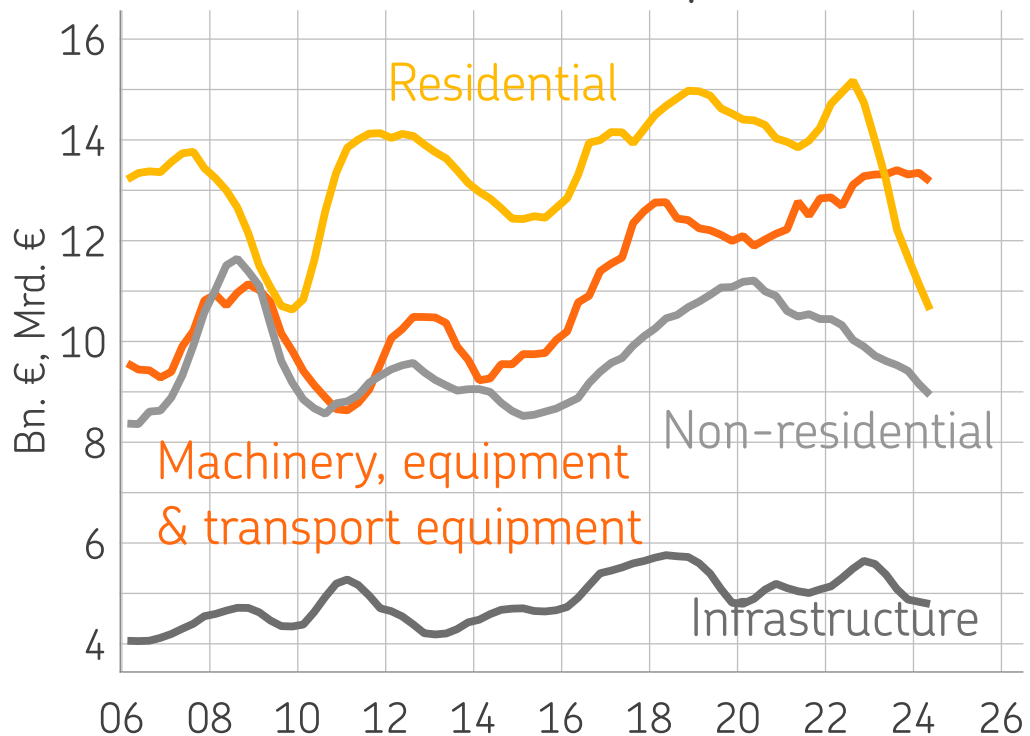


Sources: Macrobond, StatFin, OP

- In the first half of the year, exports declined by more than 3% compared to the previous year. In the second quarter, growth reached 1.3%, mainly due to the strong growth in service exports. Overall, the development of goods exports has been somewhat surprisingly positive.
- Export demand is gradually recovering, and the growth of global trade is picking up slightly, which will support Finland's exports going forward.
- Overall, exports will decline by 1.5% this year, but will already turn to 4.2% growth next year

Investments weigh on the economy – recovery expected to start in 2025

Finland, Investment, 4-qrt sum, EUR



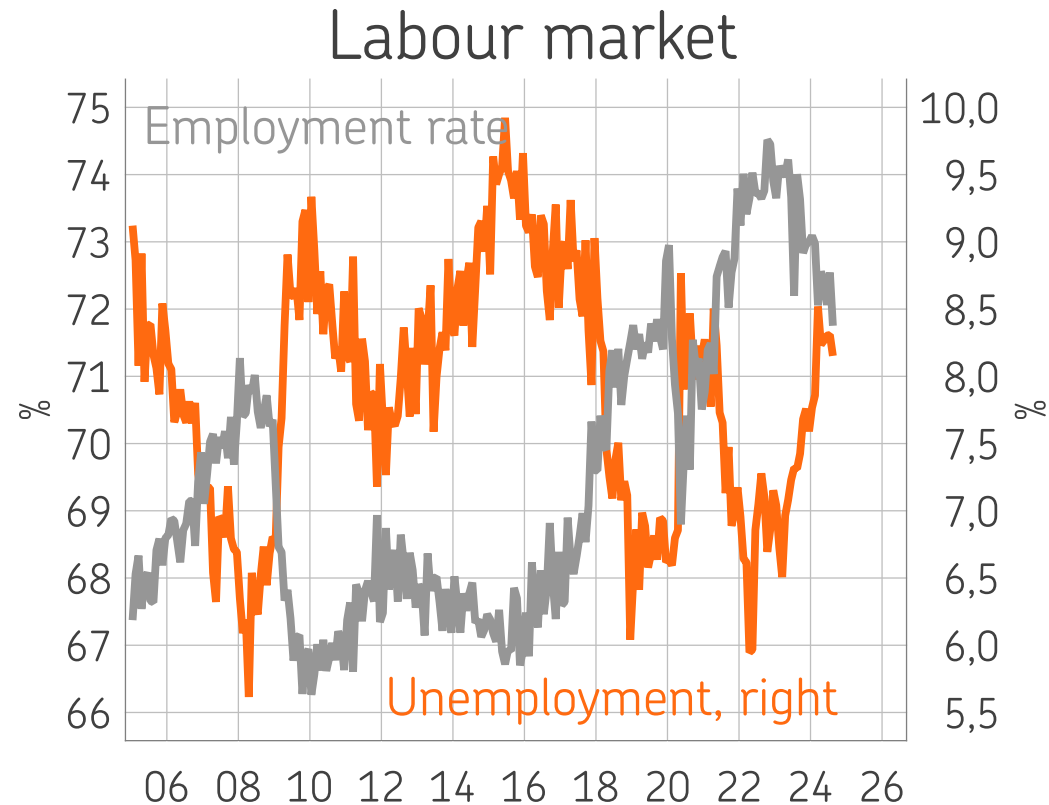
Lähde: Macrobond, StatFin, OP

- The weak development of investments has continued this year. In the second quarter, investments fell short of expectations and contracted by 4.9 percent.
- The weakest link in investments, and at the same time in the entire economy, is still residential construction, which contracted in the second quarter by 15.9 percent from a year ago.
- The development of machinery and equipment investments as well as R&D investments have been slightly better this year.
- Additionally, next year, the fighter jet acquisitions will impact the growth of public investments.

Investments, % change

	2023	2024f	2025f	2026f
Construction of buildings	-14,3	-10,0	6,2	4,0
<i>Residential</i>	-20,8	-12,0	7,0	4,0
<i>Non-residential buildings</i>	-4,9	-6,0	5,0	4,0
Machinery and equipment	1,6	-3,0	6,0	3,0
R&D	-3,9	3,0	4,0	4,0
Investments total	-9,0	-5,1	5,3	3,7

In the labour market, a turn for the better is approaching



Lähde: Macrobond, StatFin, TEM, OP

- According to Statistics Finland's labour force survey, employment began to weaken during 2023, and the development was still weak during the first quarter of 2024. Since then, there have been signs of stabilisation in employment.
- The unemployment rate clearly increased until March but has decreased slightly since then. In the bigger picture, the unemployment rate is stabilising and turning to decline again next year.

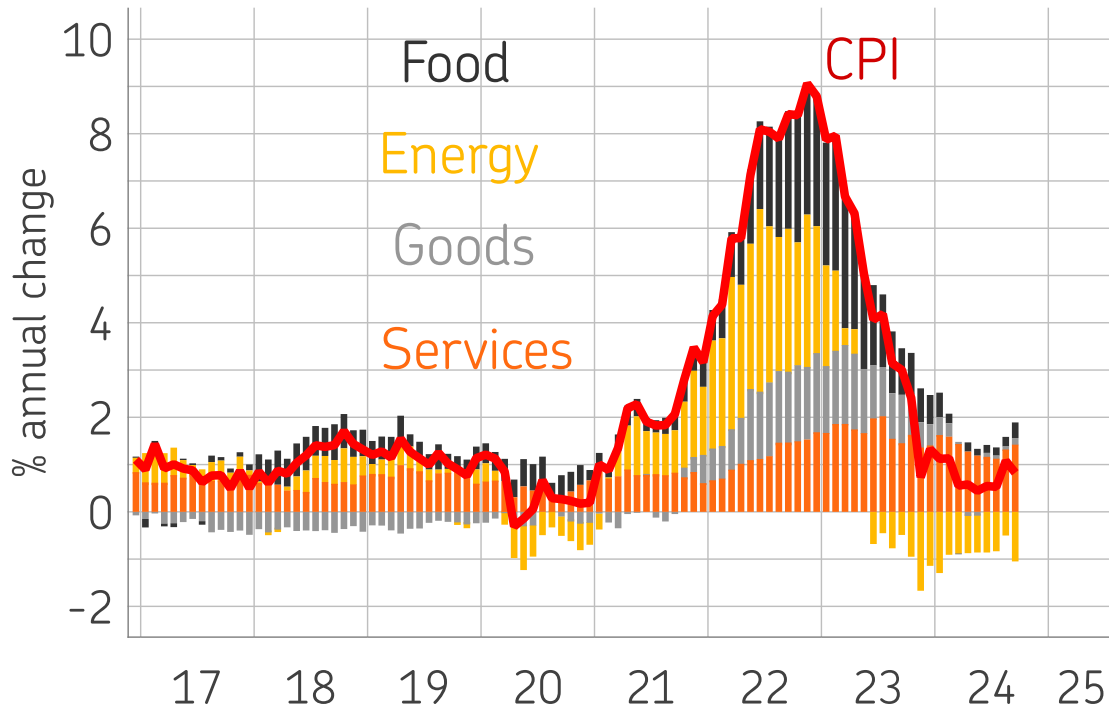
Labour markets

	2023	2024f	2025f	2026f
Unemployment rate, %	7,2	8,2	7,9	7,6
Employment rate, %	73,6	72,5	72,7	73,1
Employment '000	2628	2602	2616	2634
Unemployed '000	204	234	225	216

Sources: Tilastokeskus, OP

Inflation remaining slow

Inflation (CPI)



Source: Macrobond, ECB, OP

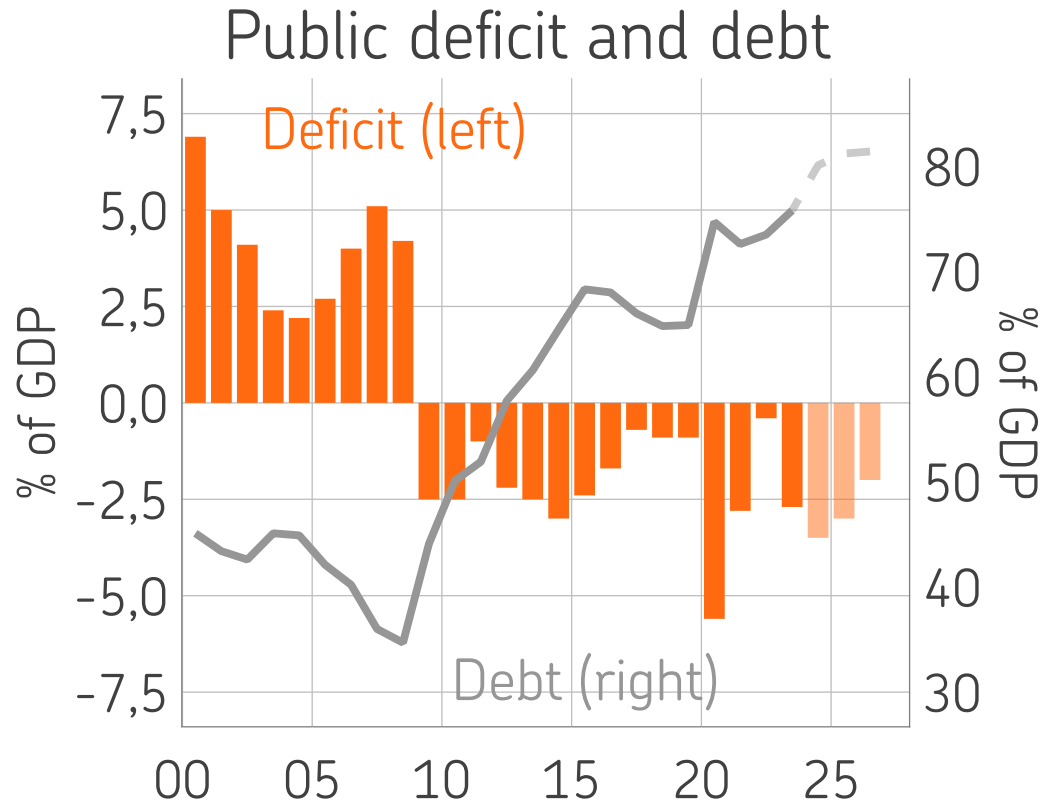
- Inflation has been slow during the current year. In September, the price increase from a year ago was only 0.8%. This is low when you consider that the value added tax was increased in September, which seems to have increased inflation by 0.6% units according to advance estimates.
- Low inflation is partly explained by lower energy prices, but the rise in prices is generally slow. In practice, only the prices of services are increasing rapidly.
- Inflation is predicted to continue at a low level. Realised development has been lower than predicted for some time, which points to moderate inflationary pressures in the economy.

Inflation in Finland, %

	2023	2024f	2025f	2026f
Headline inflation, CPI	6,3	1,7	1,6	1,8
Headline inflation, HICP	4,4	0,9	1,7	1,8
Core inflation, HICP without food and energy	4,1	2,1	2,1	1,8

Sources: Tilastokeskus, OP

The public finances are improving slightly in 2025



Source: Macrobond, StatFin, OP

- In the beginning of the year, the deficit of public institutions was almost five percent in relation to the gross domestic product, and the public debt ratio rose to 80 percent in the second quarter of the year.
- The government's actions significantly improve the balance of the public finances compared to doing nothing. However, the measures are only sufficient to restore income and expenditure to the same level in relation to gross domestic product as they were in 2023.

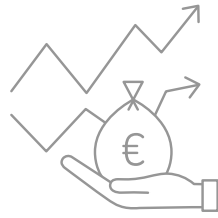
General government finances

	2023f	2024f	2025f	2026f
Surplus, % of GDP	-3,0	-3,7	-3,0	-2,0
Debt, % of GDP	77,1	81,2	83,3	84,5

Sources: Statistics Finland ja OP

Housing prices

Housing prices have stabilized in the first half of the year. We expect house prices to fall by an average of 2% this year. According to our estimate, prices will rise by 2.8% next year.



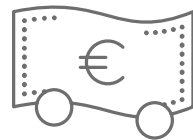
Construction

The difficulties in residential construction continue, although the first signs of stabilisation are visible. However, a rapid housing shortage is not expected.



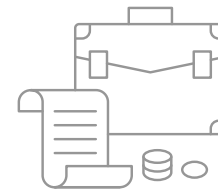
Interest rates

Euribor rates have fallen rapidly. The decline is expected to continue at a more moderate pace. Lower interest rates are gradually supporting the housing market.

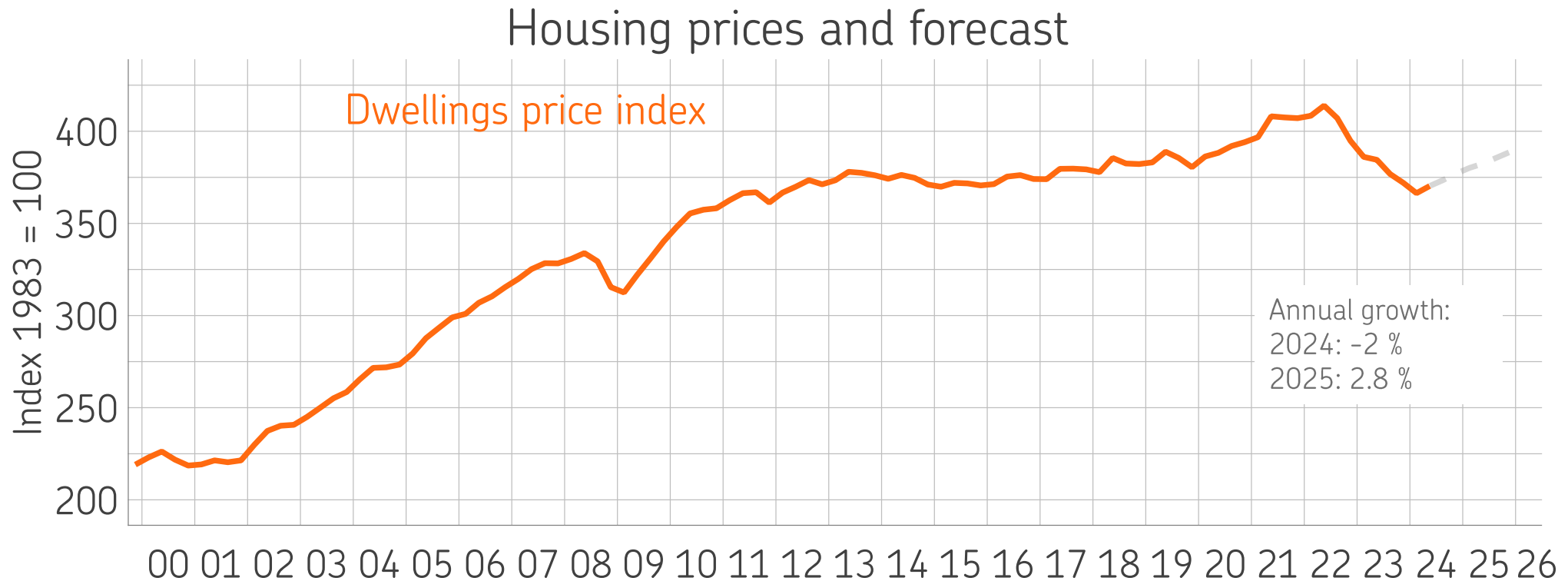


Mortgage market

The demand for housing loans in the early part of the year has been weak. However, the decline in interest rates will support housing sales and thus the demand for housing loans in the future. A quick recovery is not expected.

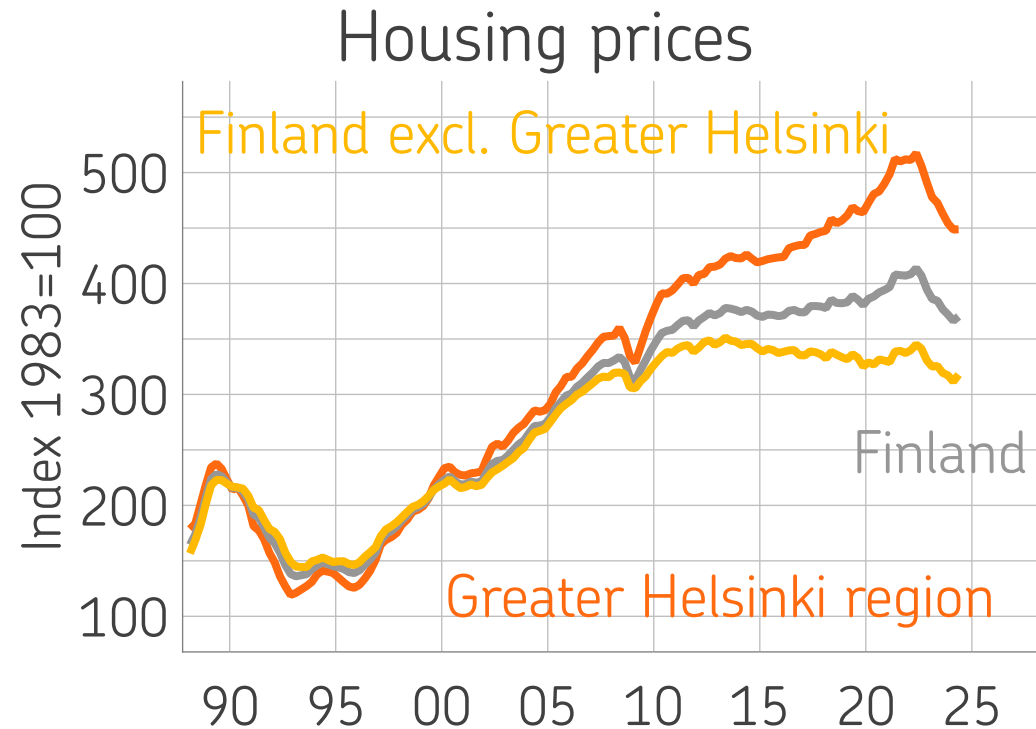


Housing markets starting to recover

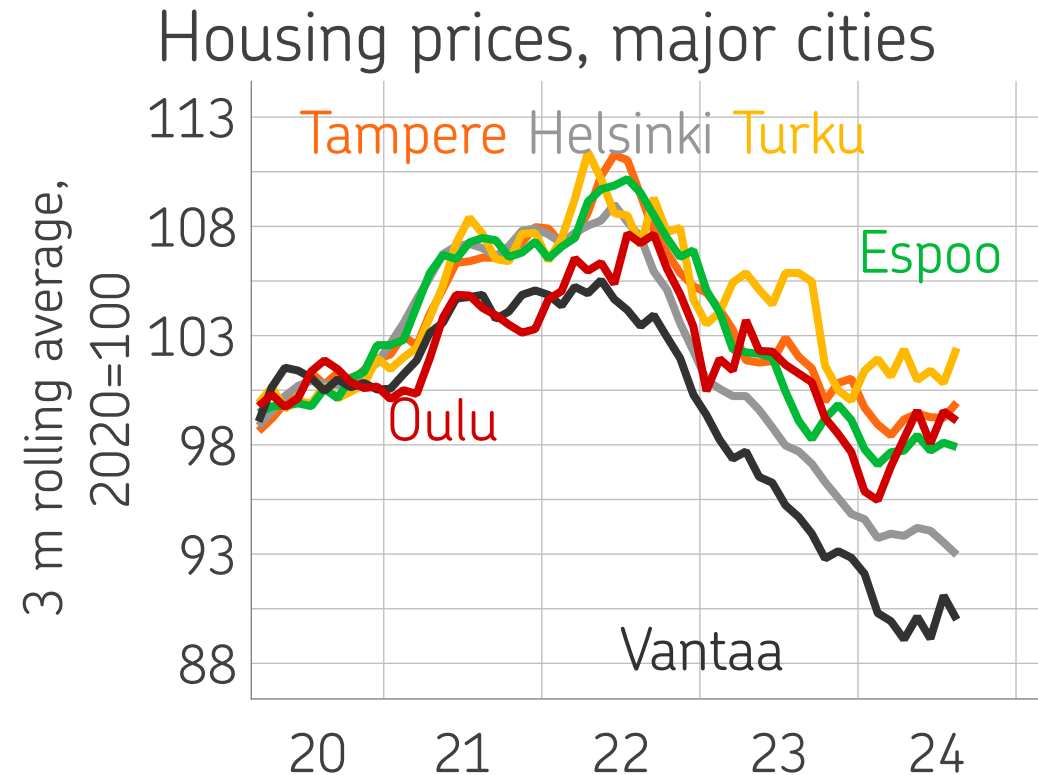


Source: Macrobond, StatFin, OP

Regionally, the development is roughly similar

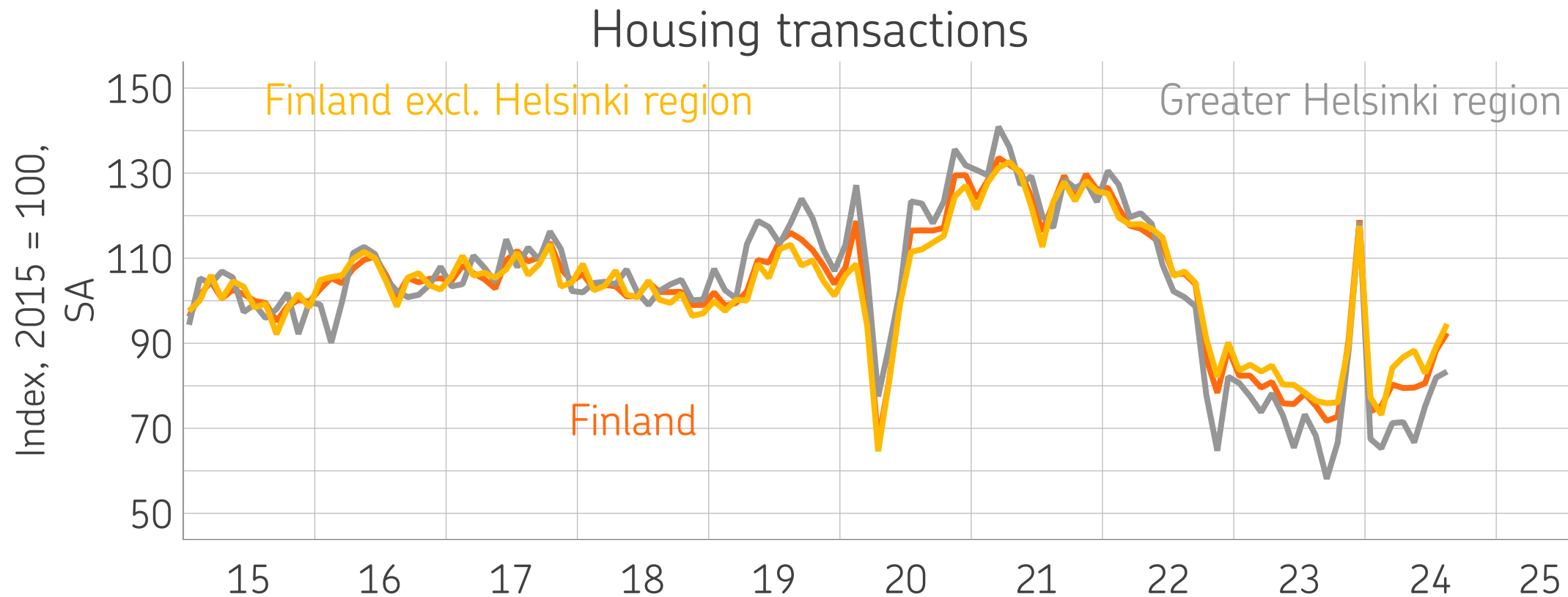


Old dwellings prices
Source: Macrobond, StatFin, OP



Old dwellings prices
Source: Macrobond, StatFin, OP

The housing transaction volume is already improving



Source: Macrobond, Tilastokeskus, OP

Thank you!