

# Scandi Economics Update

## Danish Junior Party Leaves Government

- **Denmark — Junior party leaves government.** The Socialist People's Party, a junior member of the Danish government, has left the ruling coalition, party leader Annette Vilhelmsen said yesterday, citing party divisions over plans to sell a stake in the state-owned energy group Dong to a US investment bank (the sale was approved in Parliament yesterday). At the same time, Ms Vilhelmsen announced that she was stepping down as party leader. The Social Peoples Party, however, will continue to support government, meaning the government will not fall. Prime Minister, Helle Thorning-Schmidt, meanwhile, will have to appoint six new ministers to her cabinet. According to an opinion poll this morning, a majority of Danes say Prime Minister Helle Thorning-Schmidt's position has weakened after the Social Peoples Party's exit yesterday; 54% say position weakened, 25% say unchanged, 12% say strengthened.
- **Sweden — NIER survey suggests unemployment soon to fall** (see p. 2).
- **Sweden — Poll: Government alliance trails opposition** (see p. 2).
- **Sweden — Riksbank speeches.** Today at 8.00 UK time, Governor Ingves will give a speech on *"Finishing the job – next steps for the Basel Committee"*. In the speech *"Why does the Riksbank care about household indebtedness,"* Deputy Governor af Jochnick (out at 7.00 UK time) argues that *"International confidence in the Swedish mortgage market is a necessary condition for confidence in the financial system in Sweden, as the Swedish banks to a large degree fund their mortgages on the financial markets"*. Furthermore, *financial developments are linked to developments in the real economy, and household indebtedness can thus affect the Riksbank's ability to carry out its tasks. There is thus every reason for the Riksbank to care about household indebtedness.* Comment: However, the main responsibility for macroprudential policy is in the hands of the FSA. In other words, the Riksbank "only" has its key policy rate – a very blunt tool – to address the problems with a high and rising household debt burden.
- **Norway — PM: "Insecurity" is gripping the housing market.** In an interview earlier this week, Prime Minister, Erna Solberg, warned of "insecurity" gripping Norway's housing market as deflating prices coincide with a rising unemployment rate. *"What we are seeing now is insecurity in the housing areas. We have to look into what the reasons are for this. We know that the activity in construction is a little bit lower than anticipated earlier,"* she said. She continued by stressing that *"There has been a tendency for an increase in the unemployment figures in Norway since August. We need to see what the reasons are for the unemployment figures before we can answer if we need any"* change in fiscal policy. Comment: The government is due to publish its spring budget in May.
- **Norway — Moderate gain in Dec retail sales expected** (see p. 2)
- **Norway — Stable credit growth at 6.0% Y/Y expected in Dec** (see p. 2)
- **Norway — Higher registered unemployment expected in Dec** (see p. 3)
- **Norway — Nil FX purchases expected in Feb** (see p. 3)

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**See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.**

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- **Sweden — NIER survey suggests unemployment soon to fall.** The indicators for the manufacturing industry, retail trade and private service sector all increased — the retail indicator by almost 4 points — while those for construction and consumer confidence fell slightly. Despite the minor decline for consumer confidence in January, rising home prices and an improving labour market suggest that confidence should improve further ahead. Current levels of consumer confidence suggest that private consumption will accelerate this year. All of the confidence indicators are well above their historical averages, except that for construction, which is now basically in line with the historical average. Hence, with positive contributions from most business sectors in January, the Economic Tendency Indicator gained 1.5 points to 107.8 — the highest level since Jun-11. The indicator has now gained more than 20 points since bottoming out in November 2012. Being 7.8 points above the historic average, the indicator now suggests that growth in the Swedish economy is above a normal level. On the outlook for the labour market, we note that employment plans in the business sector took another large step higher indicating that employment growth will accelerate and unemployment will decline in the first quarter this year.
- **Sweden — Poll: Government alliance trails opposition.** According to the latest poll, by DN/Ipsos, the four-party government alliance would receive 37.9% of the votes if a general election was held today (Moderates: 25.0%, Liberal Party: 6.4%, Christian Democrats: 3.4%, Center Party: 3.1% — i.e. below the 4% needed to get seats in Parliament). This compares with 53.1% for the three opposition parties (Social Democrats: 34.0%, Green Party: 9.9%, Left Party: 9.1%). The 2010 election also saw the nationalist Sweden Democrats entering parliament for the first time, as the sixth-largest and only non-aligned of the eight parties elected to the parliament, by receiving 5.7% of the votes (an increase by 2.8pp). In today's poll, the Sweden Democrats would have received 7.32% of polled votes. Comment: Today's poll supports the message from the majority of opinion polls out of late — i.e. showing stable/increasing support for the opposition, while the governing parties are bleeding as their poll numbers continue to tumble. It is apparent that the weak domestic economic outlook plus high unemployment are not improving the government's chances of getting re-elected at the September 2014 election.
- **Norway — Moderate gain in Dec retail sales expected.** Today at 9.00 UK time, Statistics Norway publishes retail sales for December (Citi: 0.3% M/M, prior: 0.5% M/M). Norwegian retail sales and domestic spending on goods recovered slightly in November, but the data still suggest that goods consumption probably stayed weak in the final quarter of 2013. In Oct-Nov, the level of retail sales is 0.2% below the 3Q average, and it will require a strong growth gain in December to lift the quarterly growth rate above nil in 4Q. As in recent quarters, we expect that service consumption and consumption abroad likely will offset some of the weakness in retail sales in 4Q, but overall private spending is likely to remain weak in the final quarter of 2013. In other words, we see downside risks to Norges Bank's 0.4% Q/Q 4Q forecast.
- **Norway — Stable credit growth at 6.0% Y/Y expected in Dec.** Today at 9.00 UK time, Statistics Norway publishes credit growth for December. The 4Q lending survey showed that household credit demand slipped in the fourth quarter, mirroring developments in the monthly credit growth indicator for households, which fell 0.1pp to 7.1% Y/Y in 4Q (Oct-Nov average). With moderating gains in the housing market, household credit demands are likely to slow further in 4Q. Meanwhile, the latest lending survey showed about stable credit demand from non-financial enterprises, and this is unlikely to change in the first quarter of 2014. The monthly development in corporate credit growth has been moderating since mid-2012, from 7.5% Y/Y in June 2012 to 3.8% Y/Y in November 2013, likely reflecting stricter lending conditions from banks and high activity on the bond market. In December, we

expect credit to households and non-financial enterprises to remain in the area of 7.0% y/y and 3.8% y/y, respectively. Meanwhile, credit to municipalities should fall slightly further (7.4% y/y in Nov).

- **Norway — Higher registered unemployment expected in December.** Today at 9.00 UK time, registered unemployment for December is out. Registered unemployment increased by slightly above 500 persons in December, marginally less than in previous years (675 persons in Dec 2011 and Dec 2012). Norges Bank forecasts an increase in unemployment from 2013 to 2014 (from 2.75% to 3.0%). In line with the seasonal pattern, we expect the registered jobless rate to climb in January (Citi: 2.9%, prior: 2.6%).
- **Norway — Nil FX purchases expected in February.** Today at 9.00 UK time, Norges Bank announces its daily FX purchases for the Government Pension Fund – Global for the month of February. The daily FX purchases have gradually declined last year, and in November Norges Bank slowed the pace further from NOK 100 million to nil. We do not expect Norges Bank to make any purchases in February either.

## Appendix A-1

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