

Economic prospects: Out of the woods yet?

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Swedbank Chief economist in Latvia

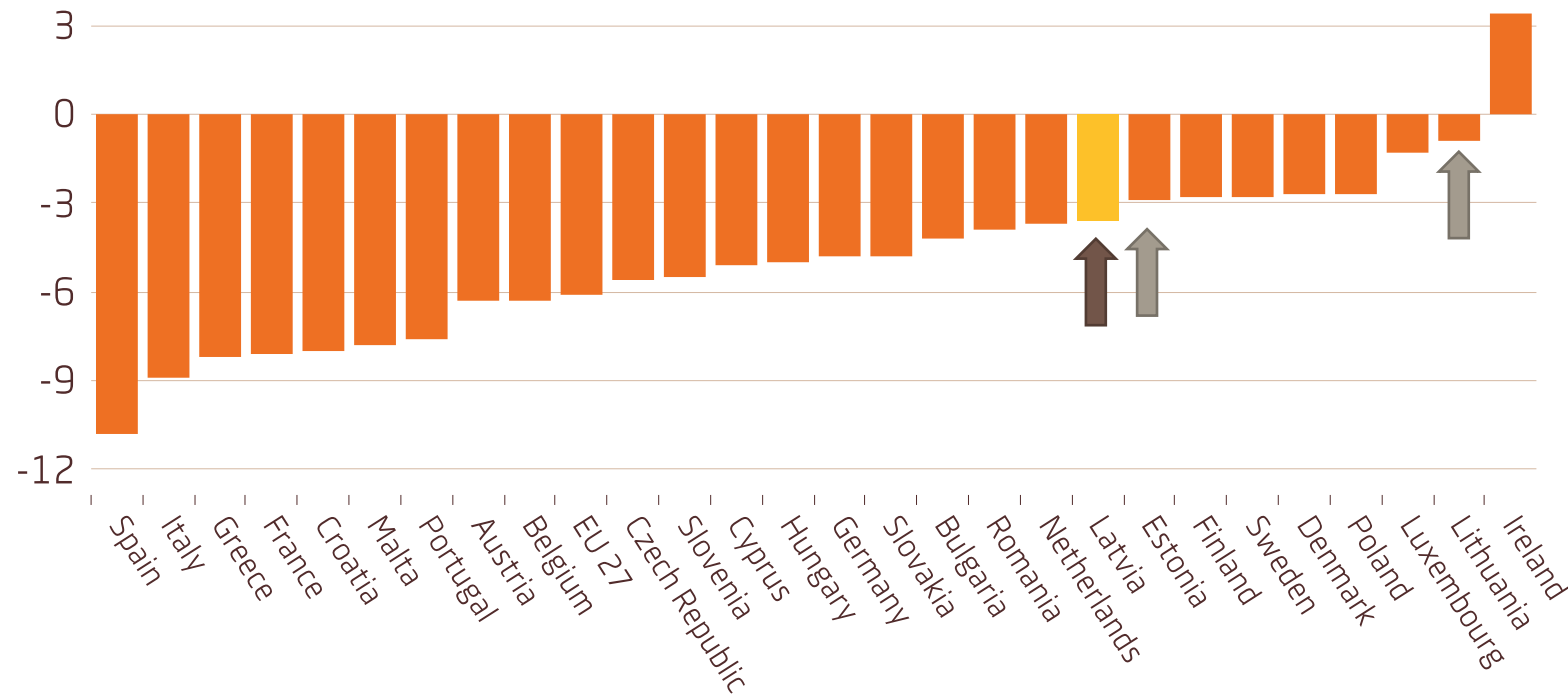
June 8, 2021. AmCham

Latvia's economy did well during 2020, but worse than the rest of Baltics

Balanced economy pre-crisis + strong public finances

Real GDP growth in 2020

y/y %



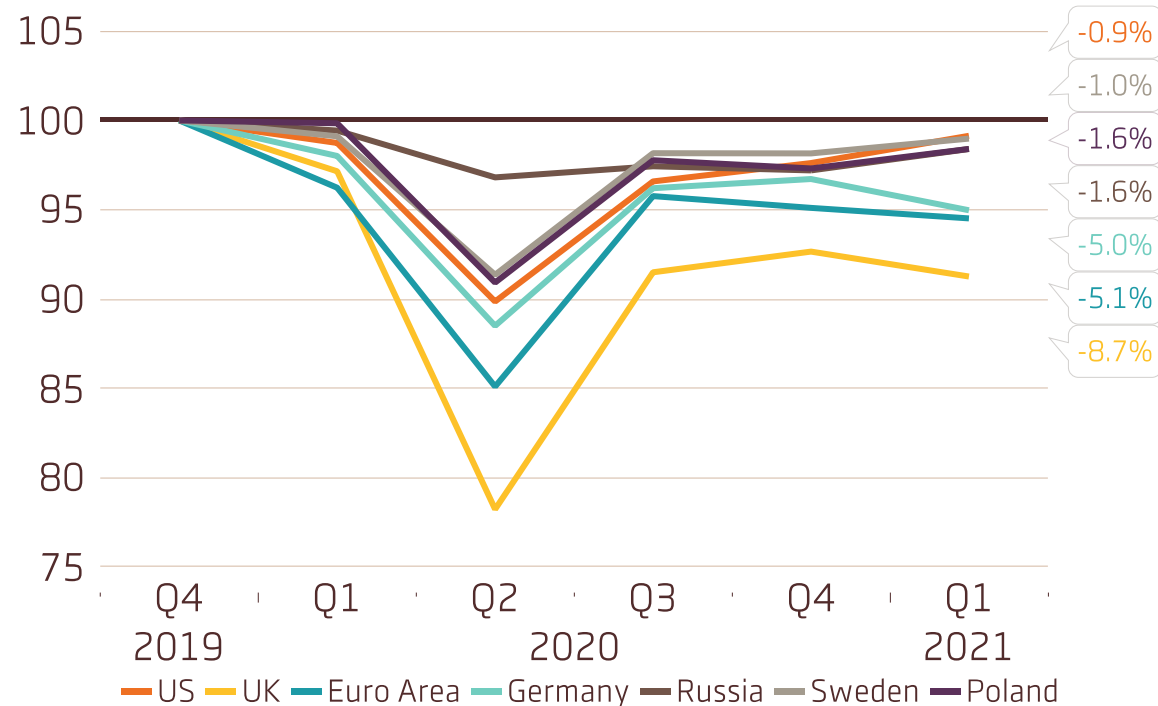
Sources: Swedbank and Macrobond

A roller coaster ride, with many economies now close to pre-crisis levels

Latvian GDP declined during 2nd wave. Estonia and Lithuania grew and are above pre-crisis levels already

GDP: Selected trade partners

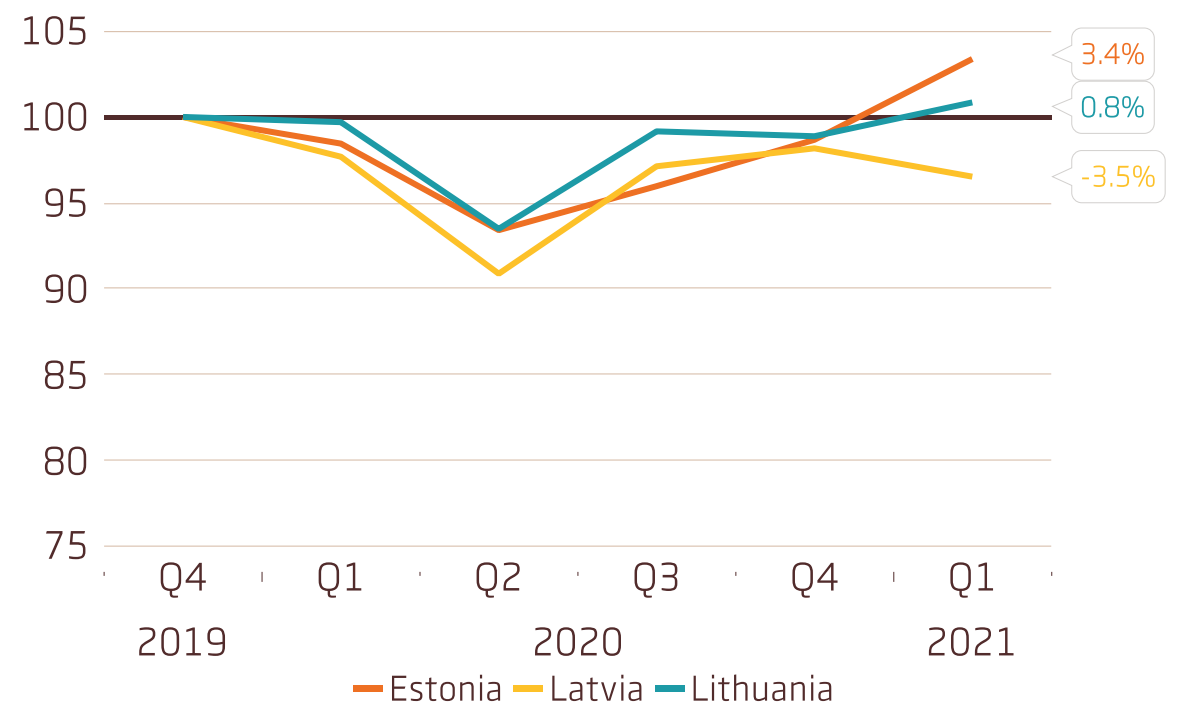
2019 Q4 = 100



Sources: Swedbank and Macrobond

GDP: Baltic states

2019 Q4 = 100

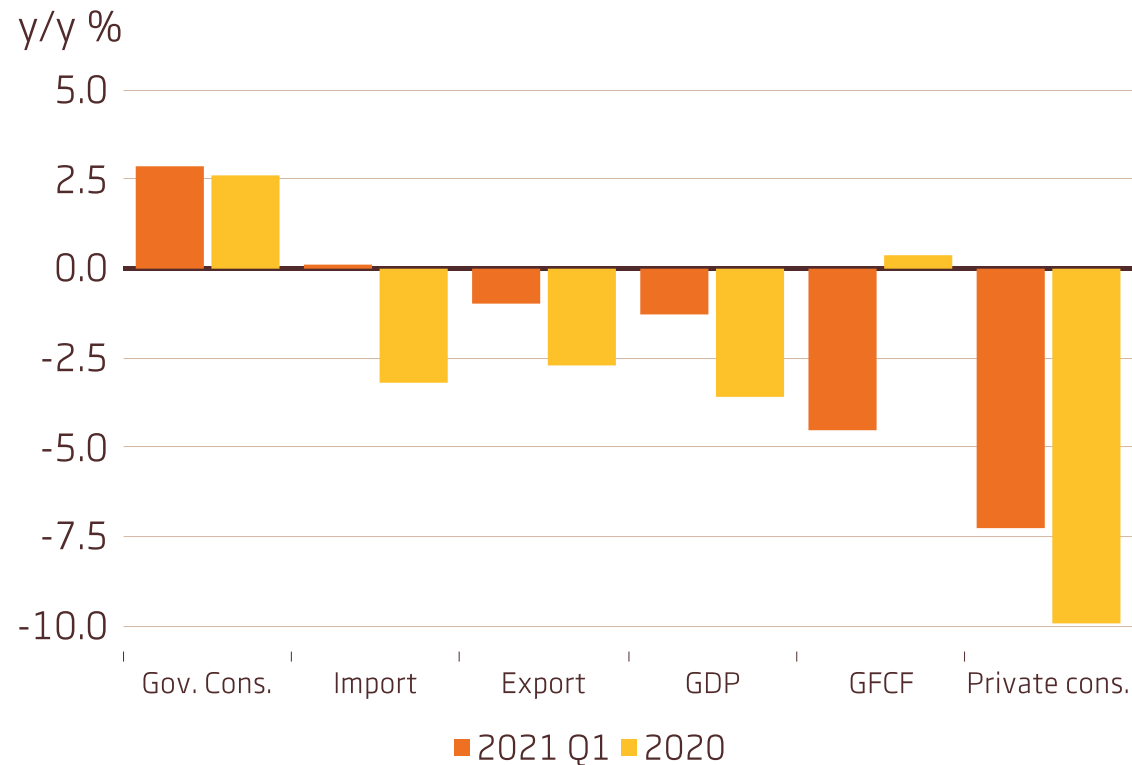


Sources: Swedbank and Macrobond

Household consumption suffered most from the pandemic disruption

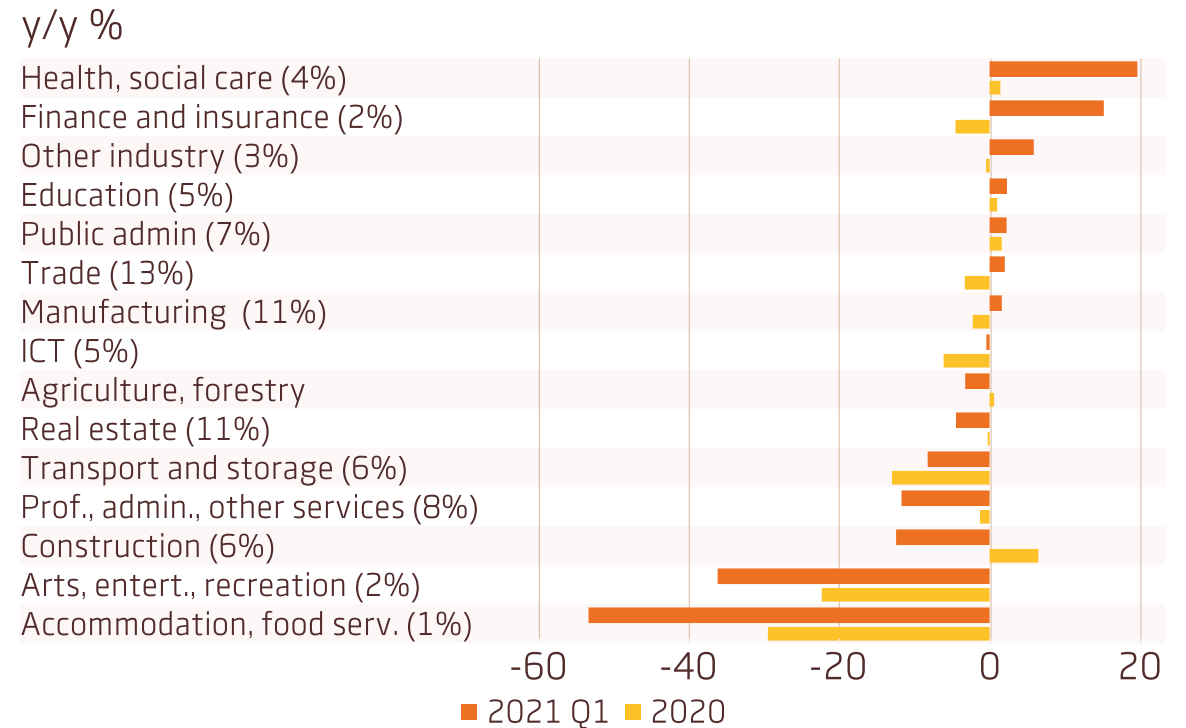
Direct contact services have seen the biggest drop, while the producing part of economy is faring better

Real GDP by expenditure side components



Sources: Swedbank and Macrobond

Sector value added



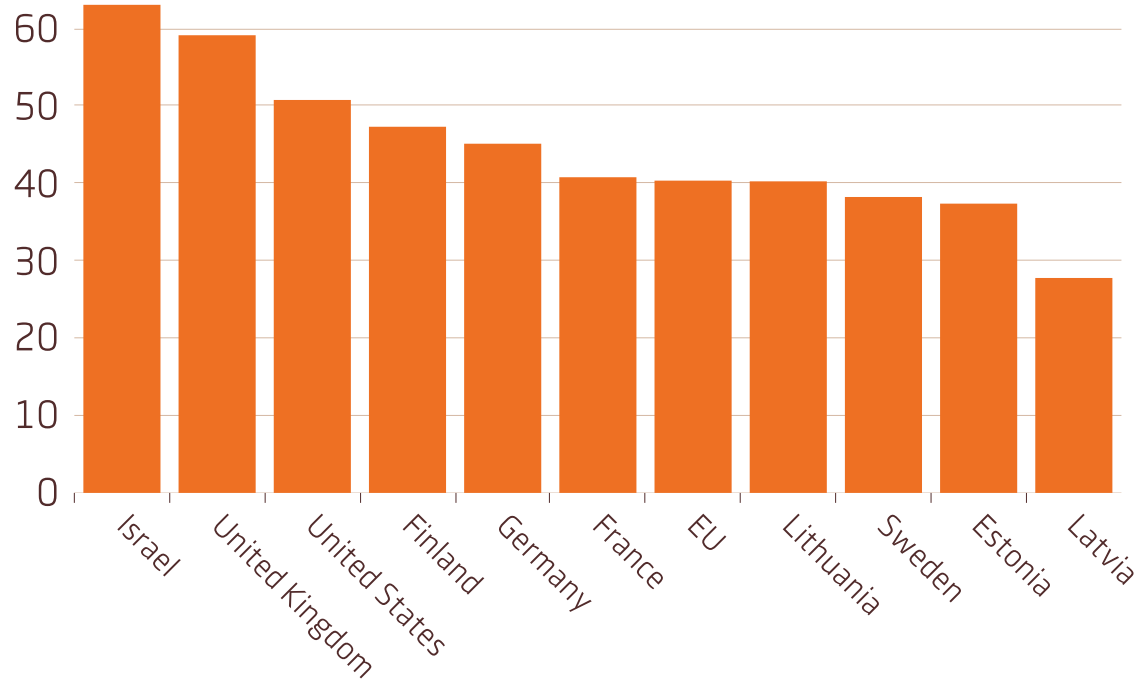
Sources: Swedbank and Macrobond
(Share of GDP based on 2020 data)

Vaccination pace lagging other countries

The share of vaccinated is worryingly small among the elderly; vaccine hesitancy is high – risks for autumn

Share of vaccinated population

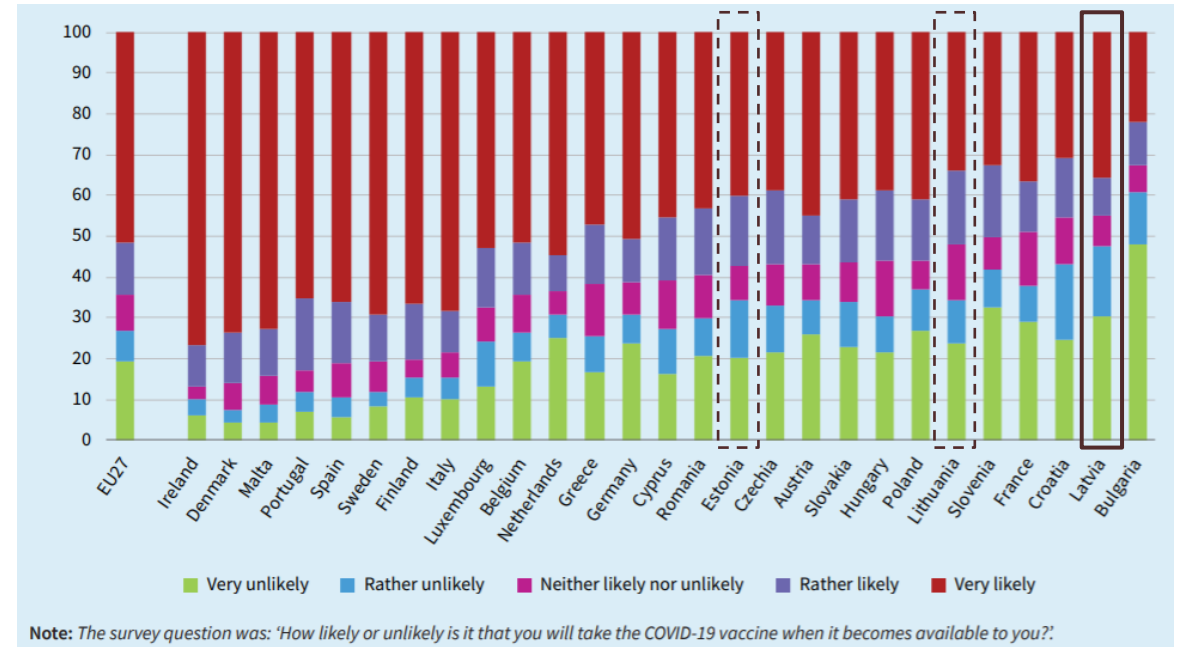
% , with at least one dose of COVID-19 vaccine



Sources: Our world in data, Swedbank Research & Macrobond

Stated intention to take vaccine by country

EU27 (%)



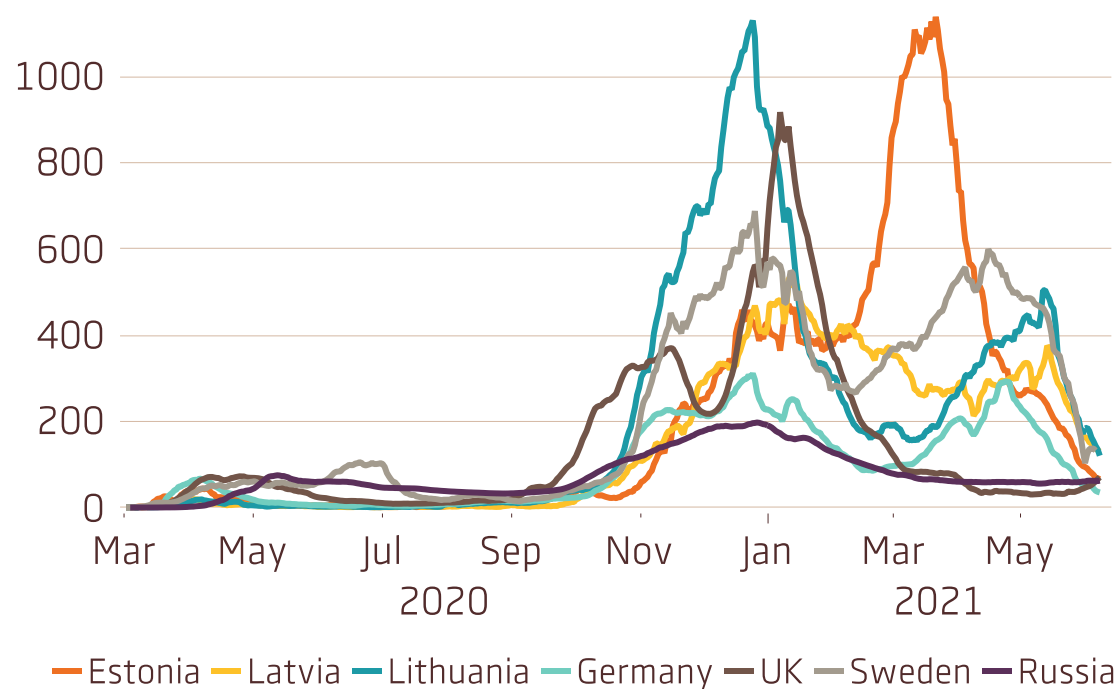
Source: Eurofound www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef21064en.pdf

Case-count is on a decline and mobility is back

Latvia avoided a massive case count upswing, but «paid» for it with a larger impact on economy

COVID-19 in Baltics and partner-countries

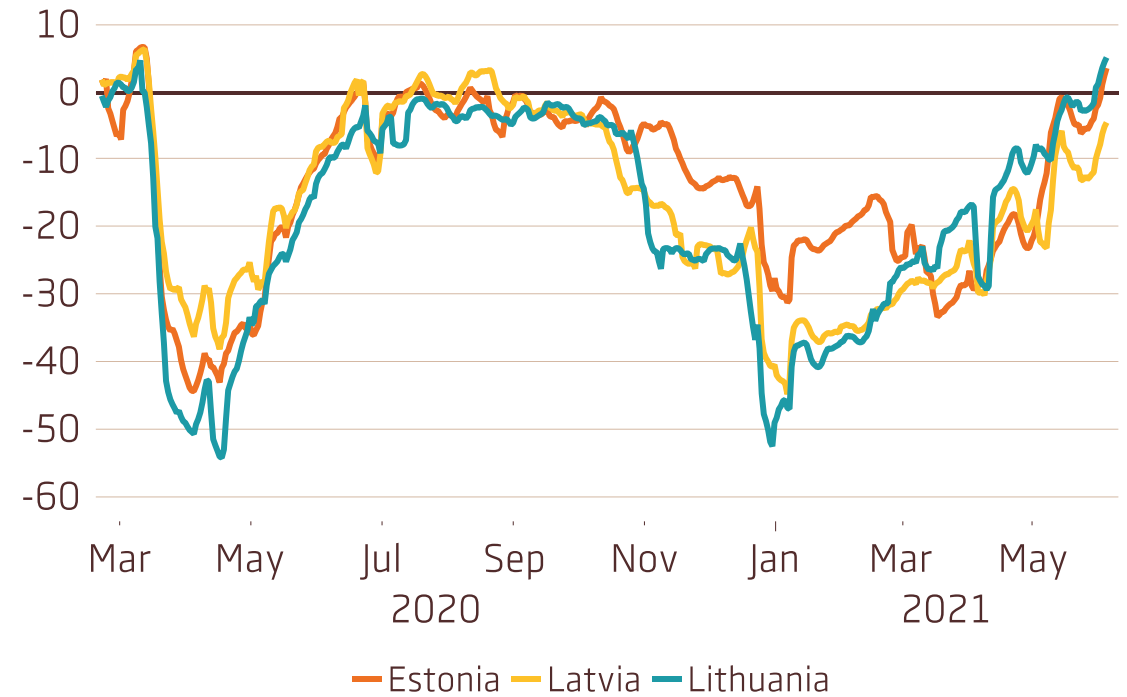
Number of new cases per million people, 7dma



Sources: Swedbank and Macrobond

Google mobility, excl. parks and residential

Total visitors, compared to the baseline, %



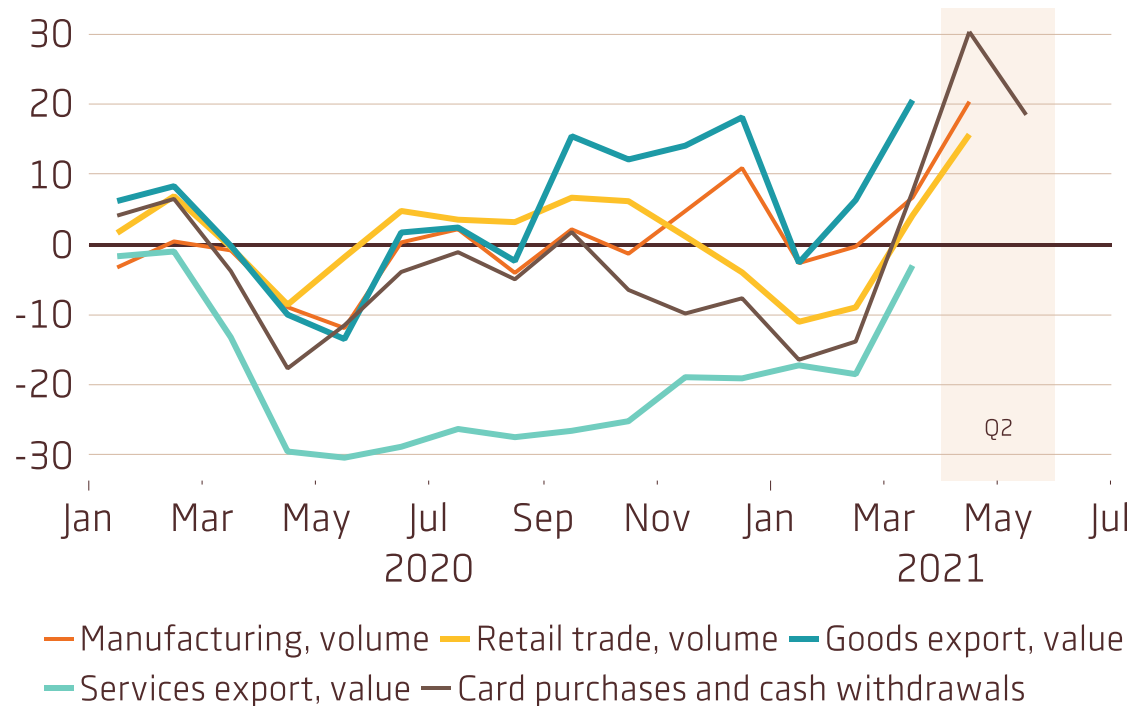
Sources: Swedbank and Macrobond

Economy bouncing back in Q2

Manufacturing, goods exports, consumption seeing strong growth; base effect helps even services exports

Selected indicators

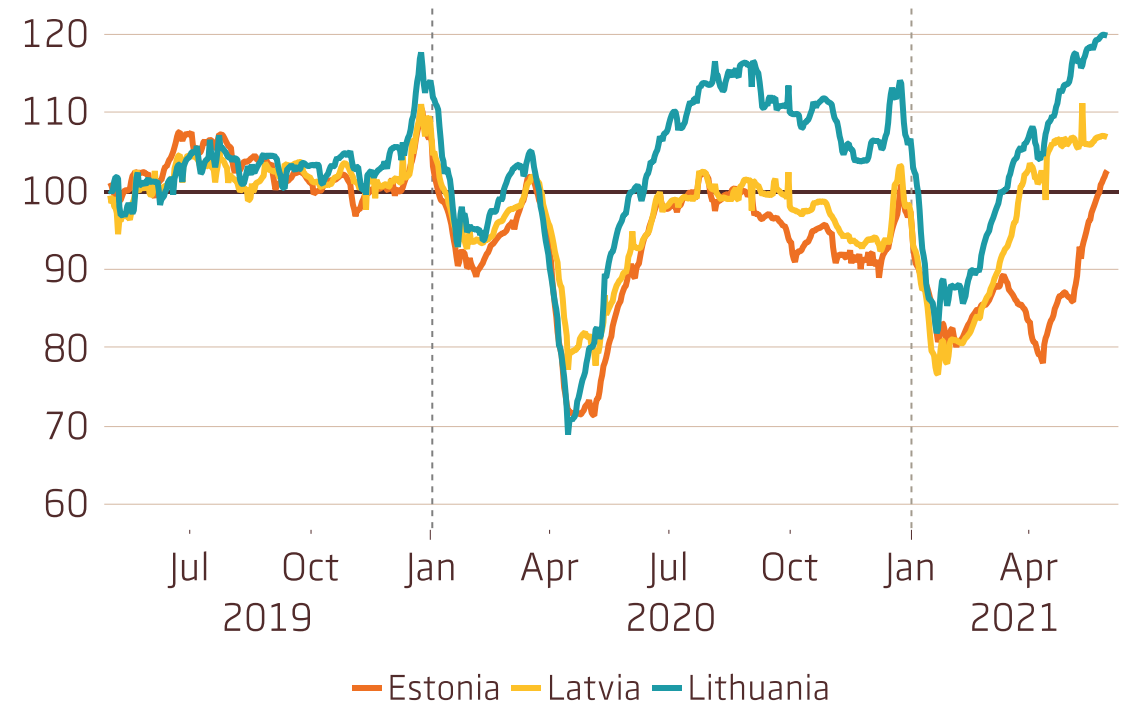
y/y %, nsa



Sources: Swedbank and Macrobond

Daily card spending and cash withdrawal

Index, 2019 average = 100, 4 week MA



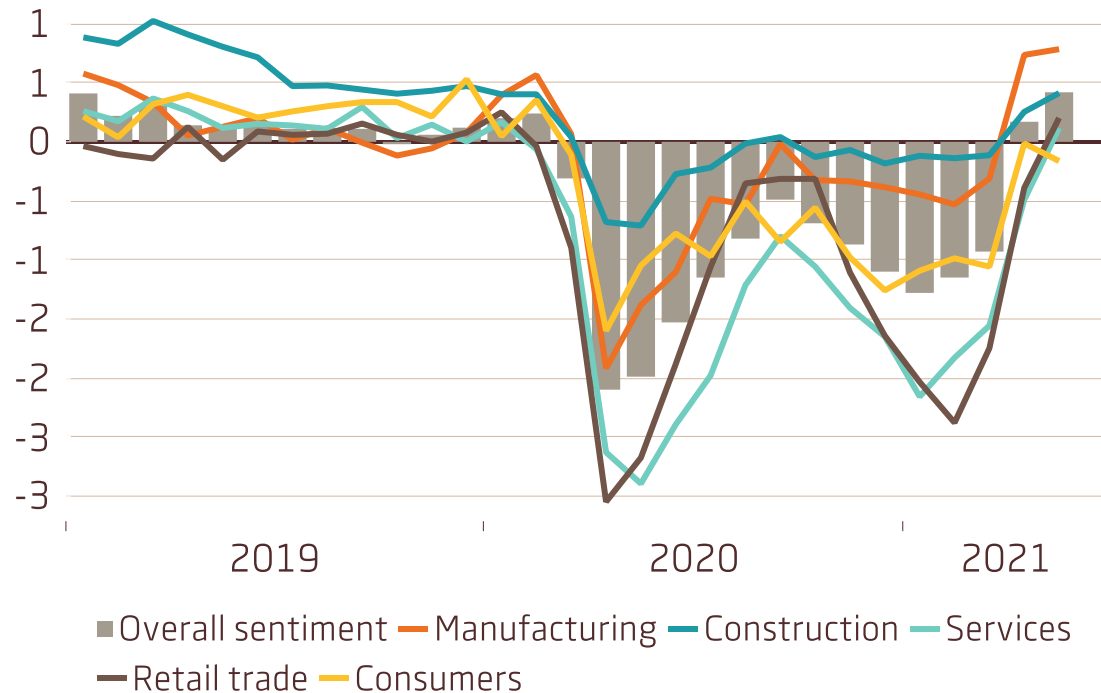
Sources: Swedbank and Macrobond

Improving sentiment: even retail above long-term average

Forward looking indicators paint an optimistic picture

Sentiment indices by sector

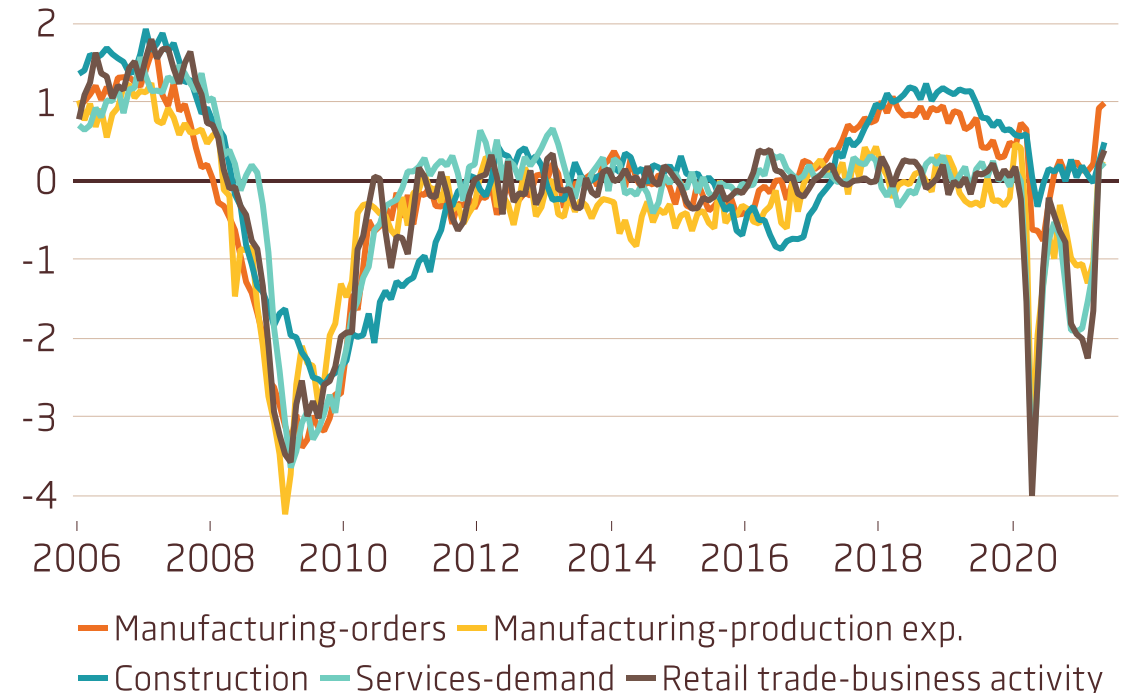
Standardized index, 0 corresponds to long term average



Sources: Swedbank and Macrobond

Demand expectations in private sector

Standardized index, 0 corresponds to long term average

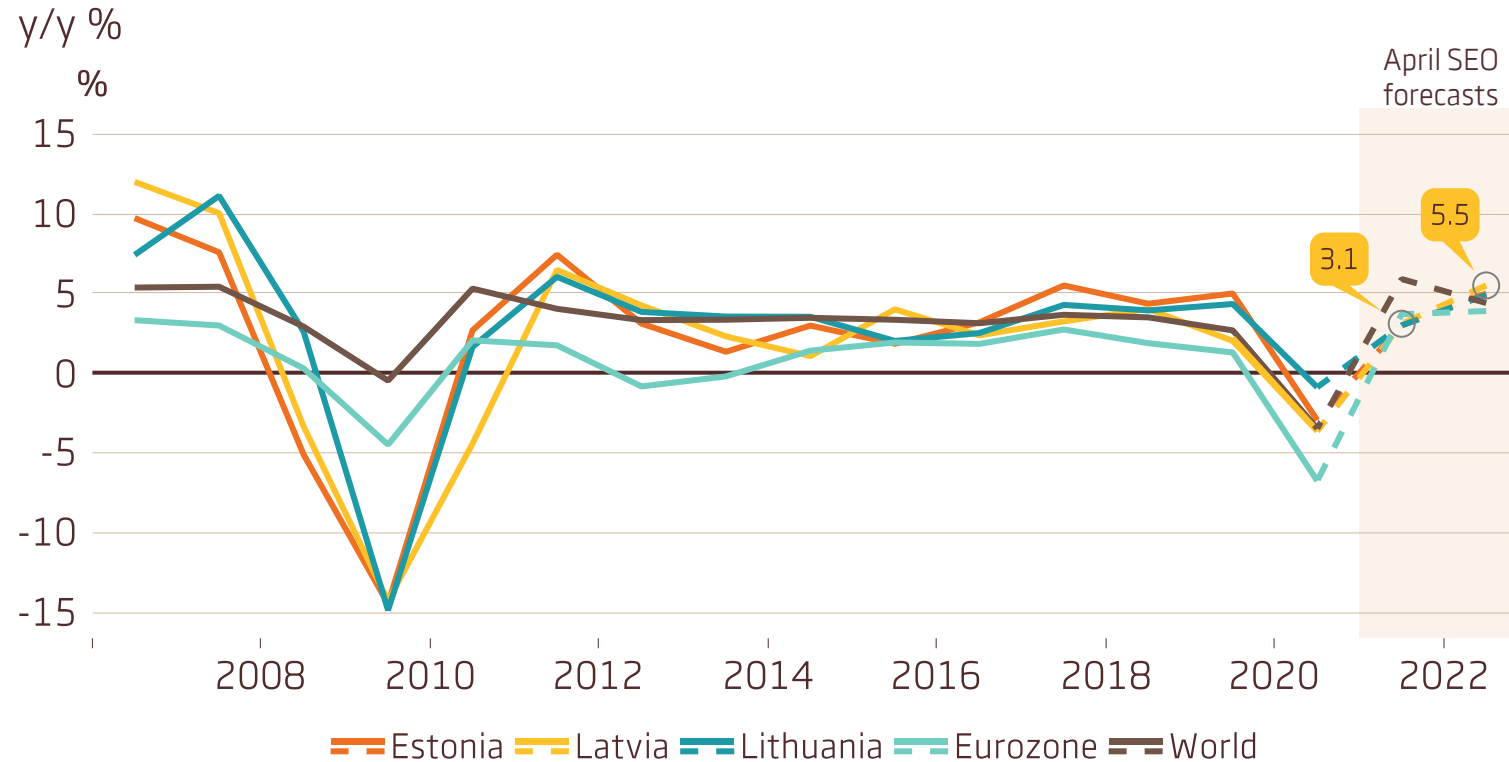


Sources: Swedbank and Macrobond

Swedbank April forecasts revised up

Economic recovery to pick up pace starting from second half of 2020

Real GDP growth and forecast



Sources: Swedbank and Macrobond

Assumptions

- Europe: seasonal effects + vaccinations over the summer lead to a decline in cases;
- Pronounced economic upturn starting from the third quarter;
- High rate of immunization will be reached by the fall, earlier in the US

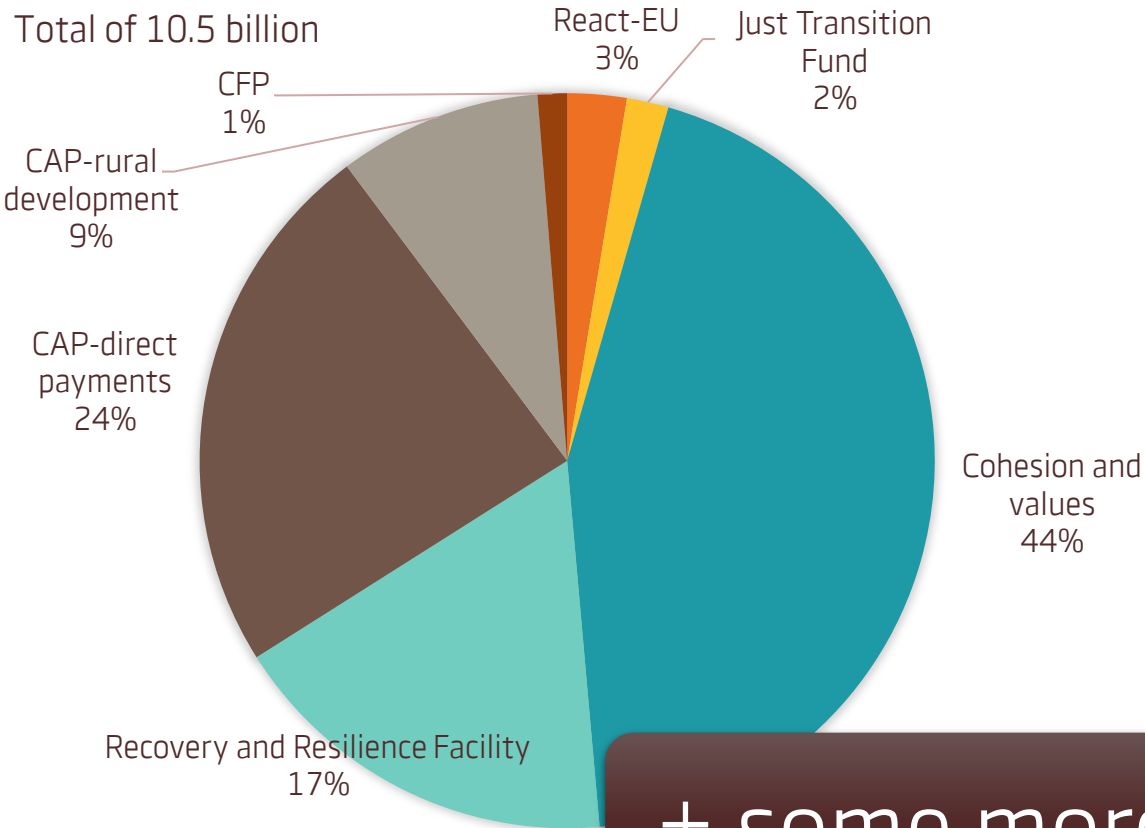
Risks

- Vaccine hesitancy; delays in vaccine deliveries; vaccine suspensions due to side effects; lower effectiveness against new virus strains;
- Higher inflation
- Baltics – overheating risks due to poor planning of EU funds investments

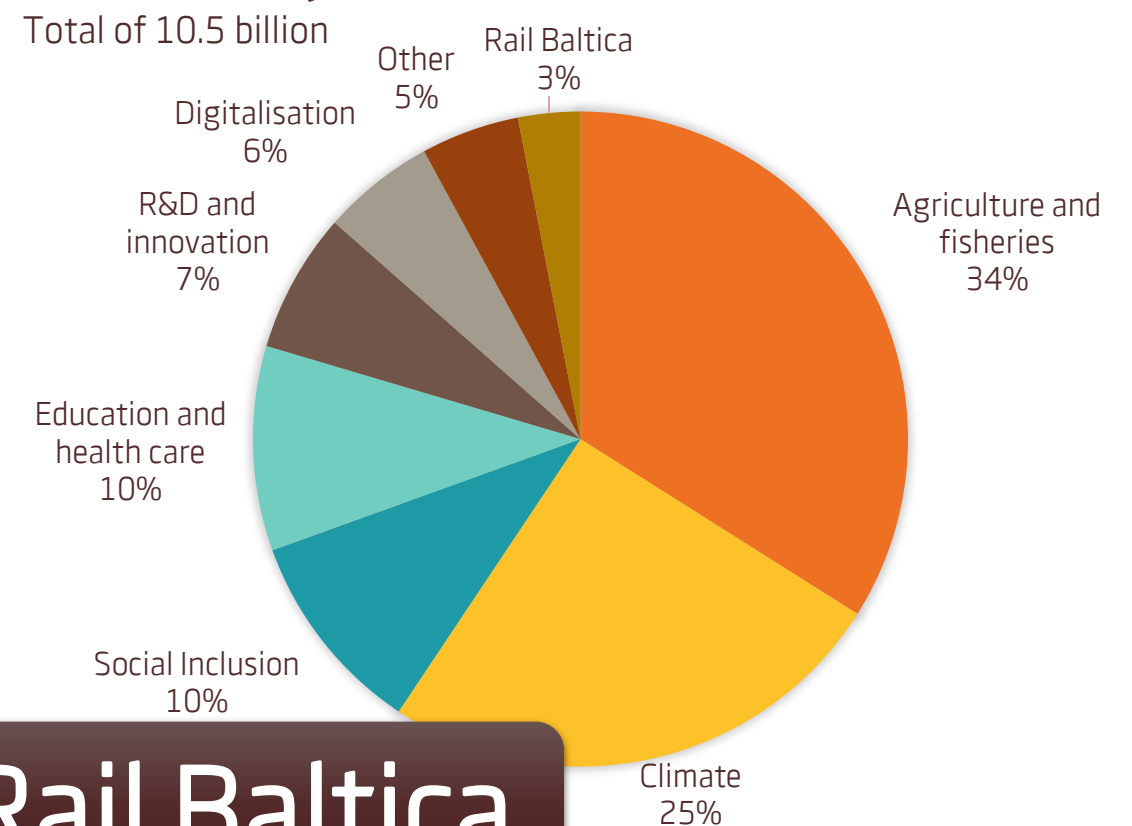
More than 10bn EUR of EU funds 2021-2027 (~5% of GDP per year)

Indicative plans suggest a third to be spent on agriculture, 25% on climate

EU funds by programs



EU funds by areas of investment



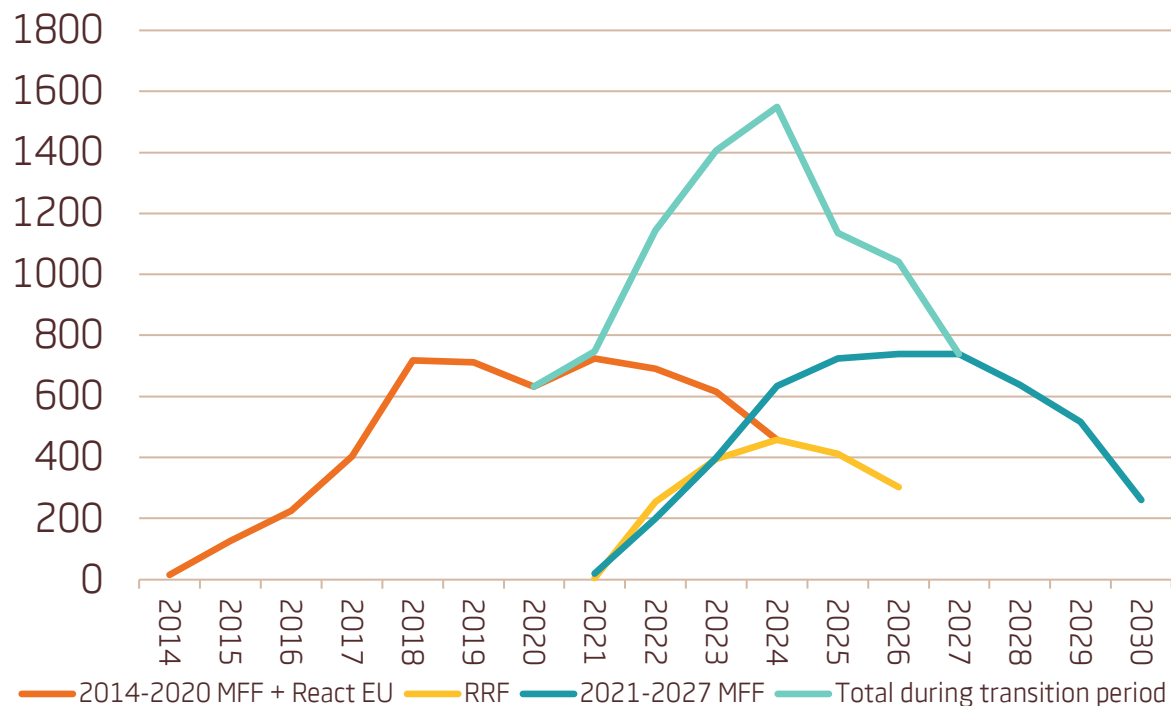
+ some more Rail Baltica

The risk of overheating in construction sector is very real

Frontloading, poor planning and sub-par quality projects can result in wasteful and unproductive spending

RRF and EU budget funds

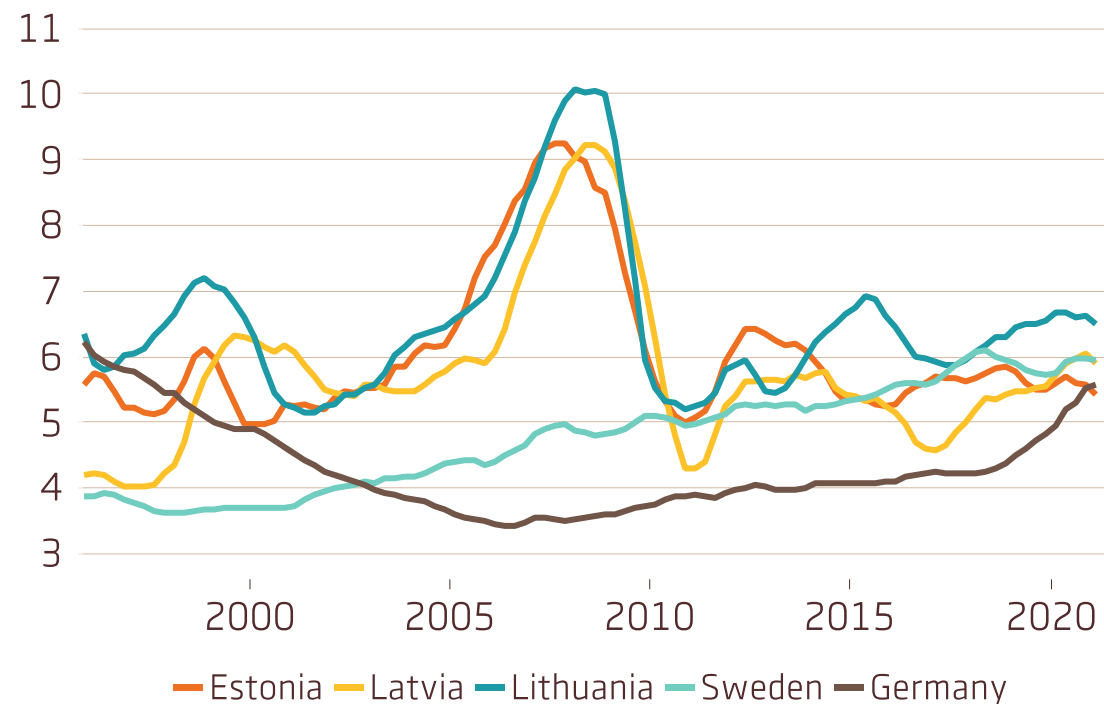
Forecast (millions)



Sources: Ministry of Finance

Construction

% of GDP, 4 quarters moving average



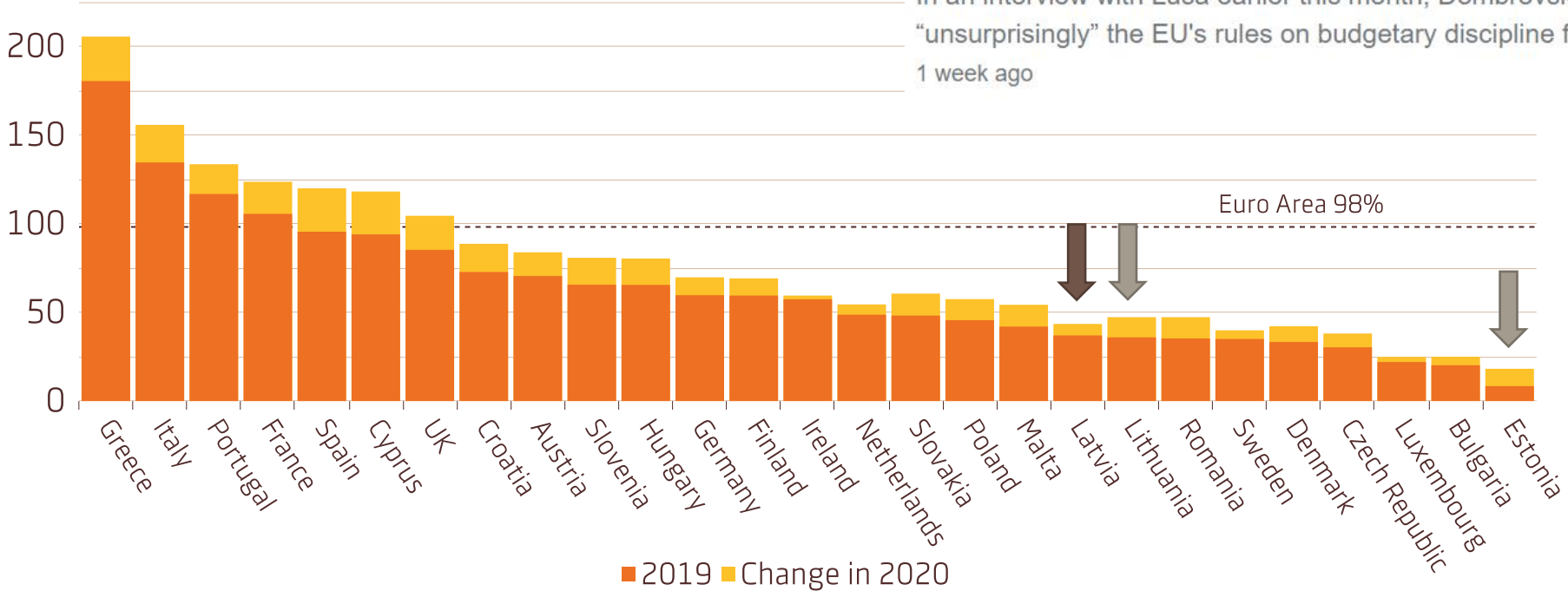
Sources: Swedbank and Macrobond

Government debt increased last year, but less than elsewhere

European Commission suspended the budget rules, but they are coming back

Government debt

% of GDP



EURACTIV.com

Budget rules to apply from 2023 to avoid 'fiscal risks ...

In an interview with Lusa earlier this month, Dombrovskis announced that "unsurprisingly" the EU's rules on budgetary discipline for countries ...

1 week ago



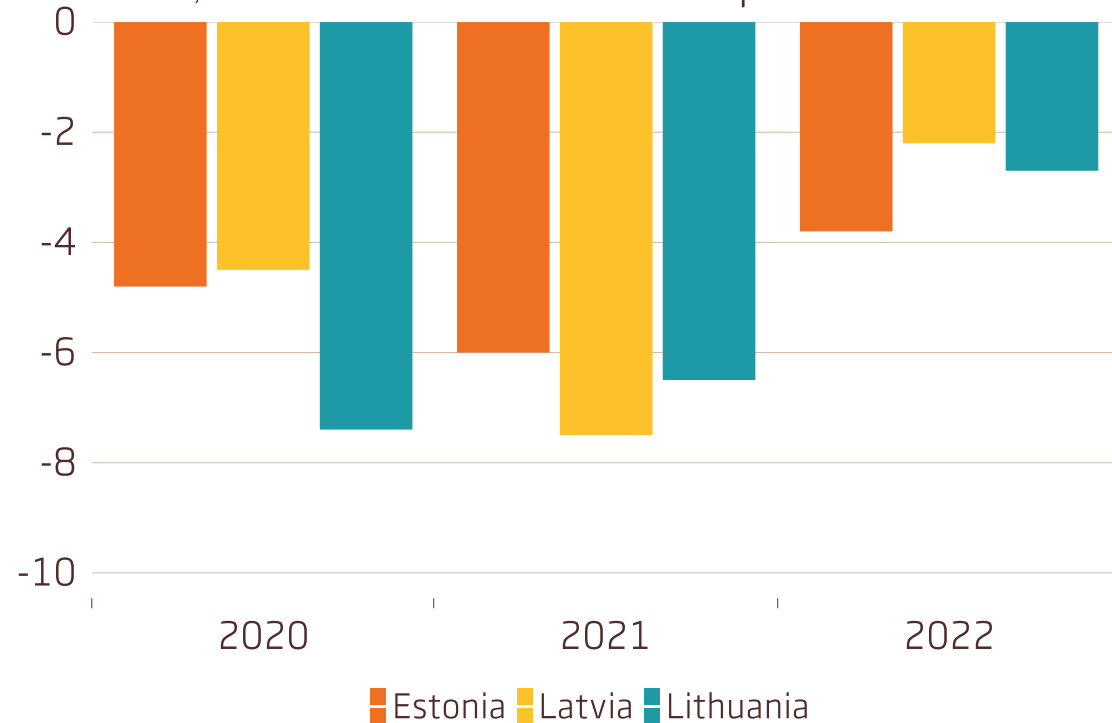
Sources: Swedbank and Macrobond

Government deficit further up, debt to increase to 49% of GDP in 2021

Public debt still to remain among the lowest in the EU

General government budget balance

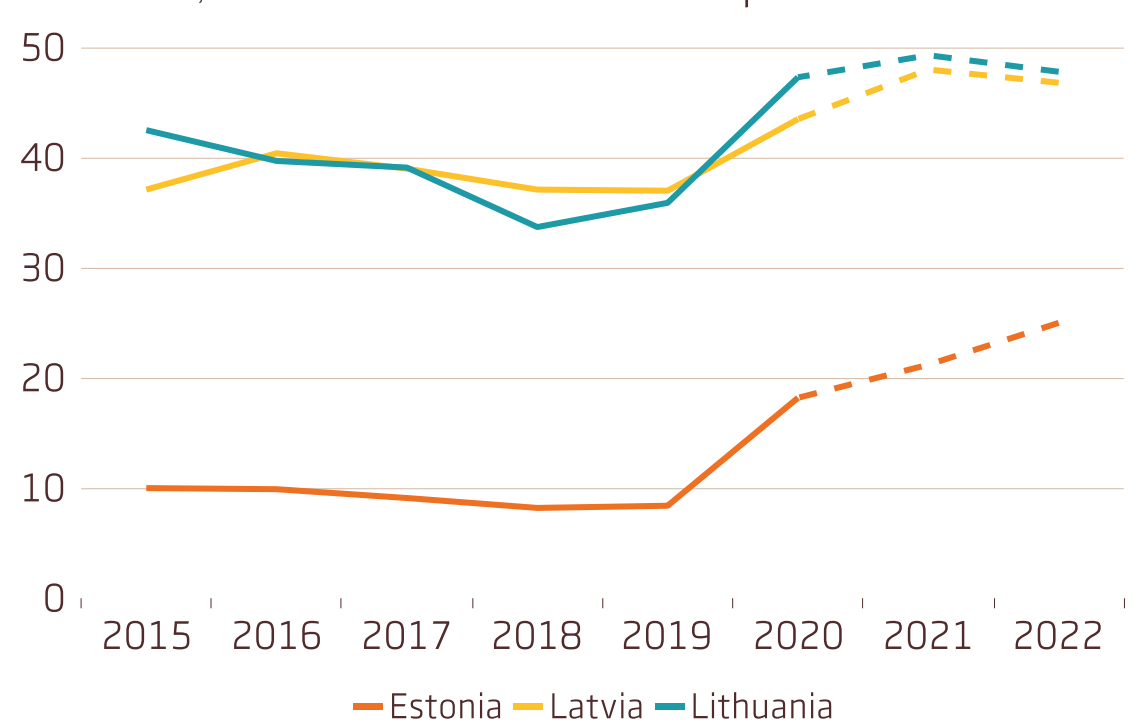
% of GDP, actual data and Swedbank April forecast



Sources: Swedbank and Macrobond

General government debt

% of GDP, actual data and Swedbank April forecast



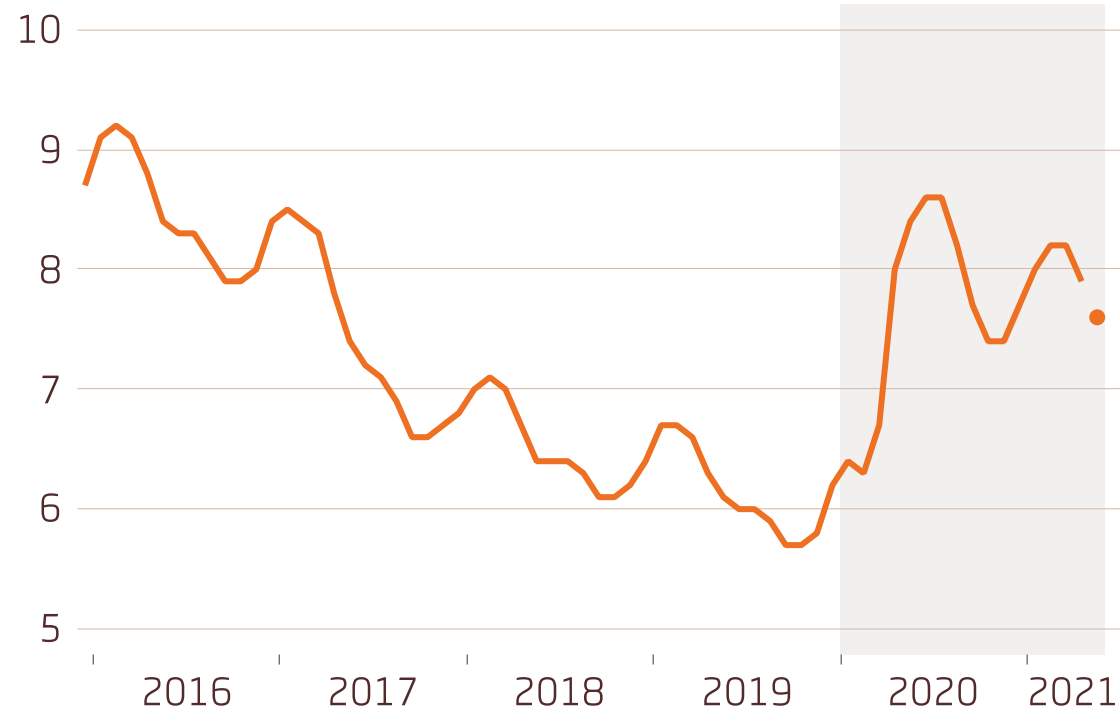
Sources: Swedbank and Macrobond

Labour market shrugging off the second wave

Unemployment declining, while wage growth stronger than pre-Covid-crisis – though some caveats

Registered unemployment rate

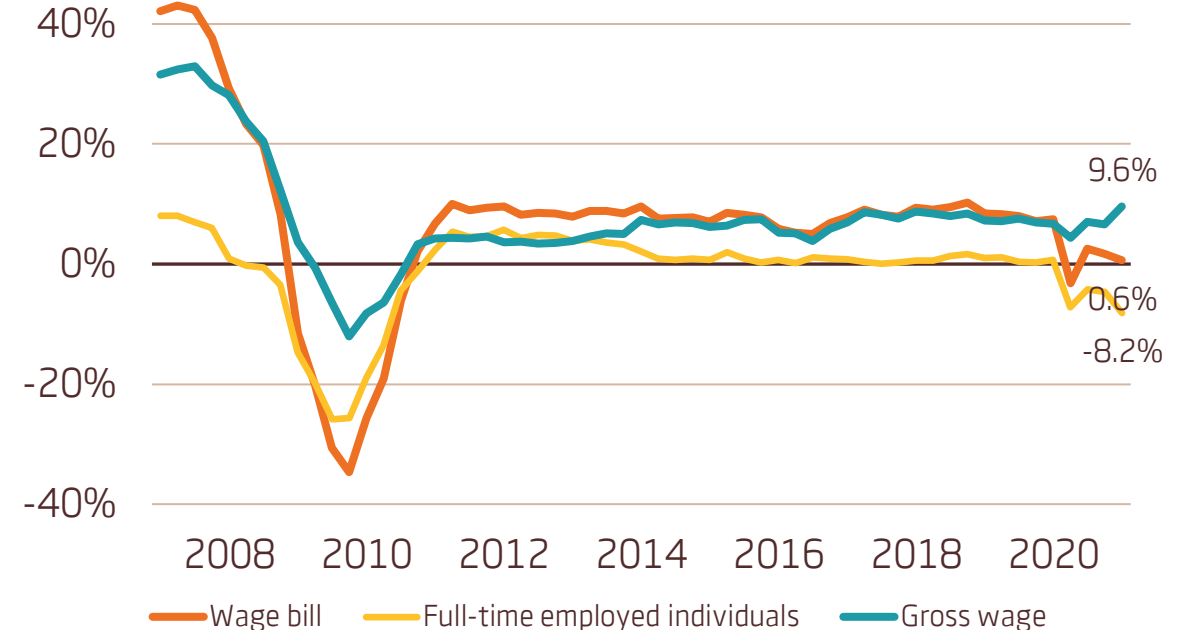
% of economically active population 15-64



Sources: Swedbank and Macrobond

Wage bill and employment

y/y %



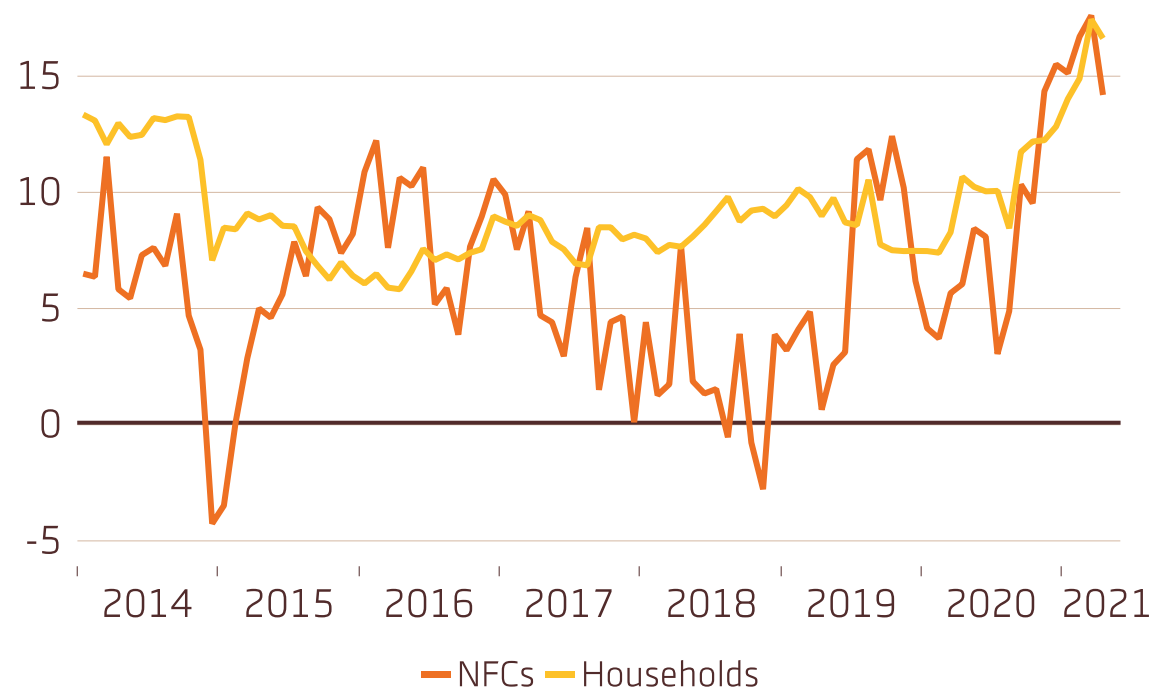
Sources: Central Statistics Bureau and Swedbank

Crisis saw strong deposit growth, while lending has been weak

Limited spending possibilities, government support, cautiousness

Changes in bank deposits

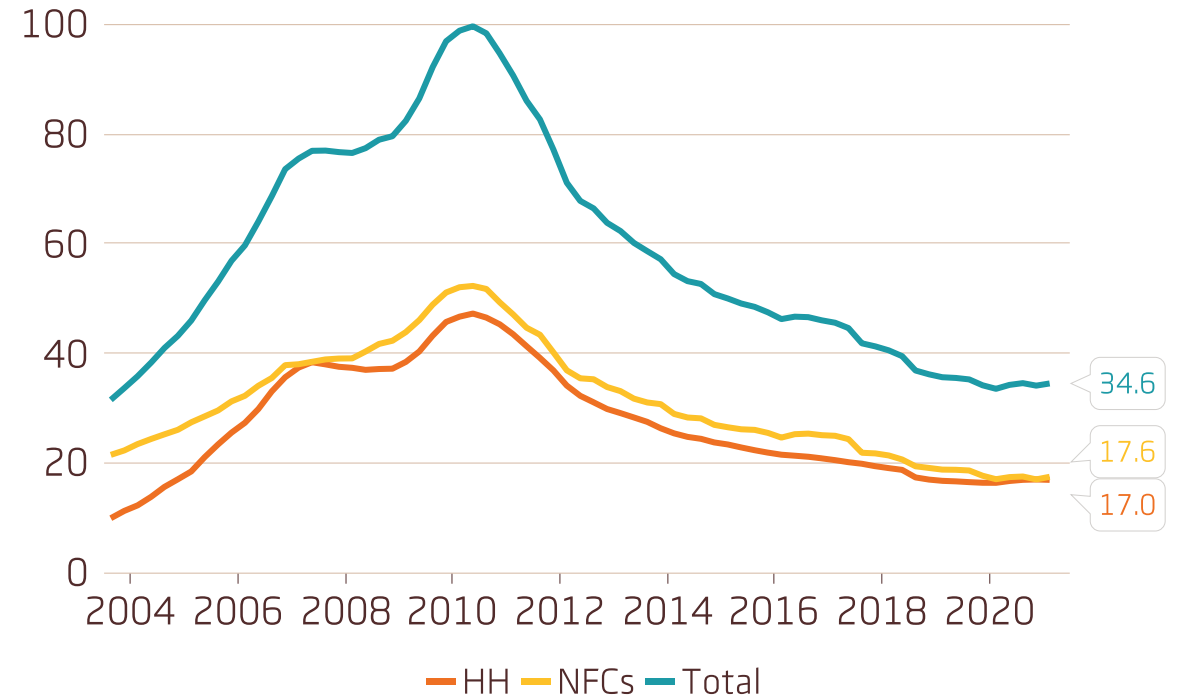
y/y %



Sources: Swedbank and Macrobond

Commercial bank loan stock

% of GDP

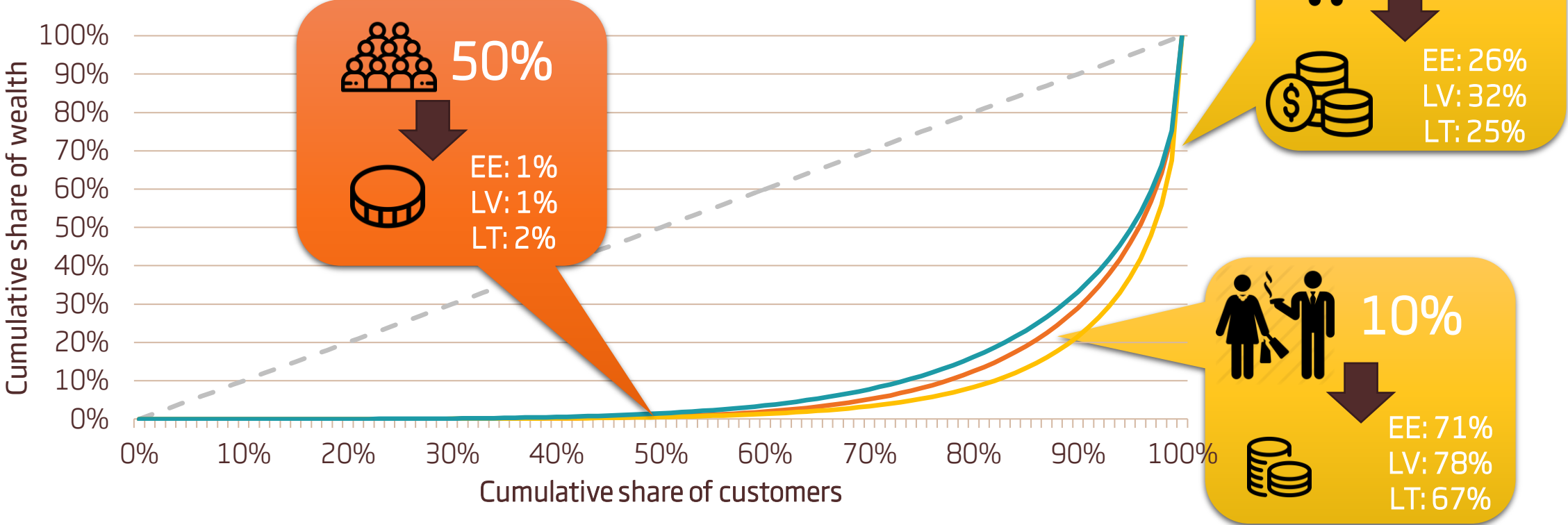


Sources: Swedbank Research & Macrobond

Whats the potential for a consumption boom post – restrictions?

High inequality in terms of deposits suggests that it should not be over-estimated

Customer Lorenz curve - deposits



Sources: Swedbank and Macrobond

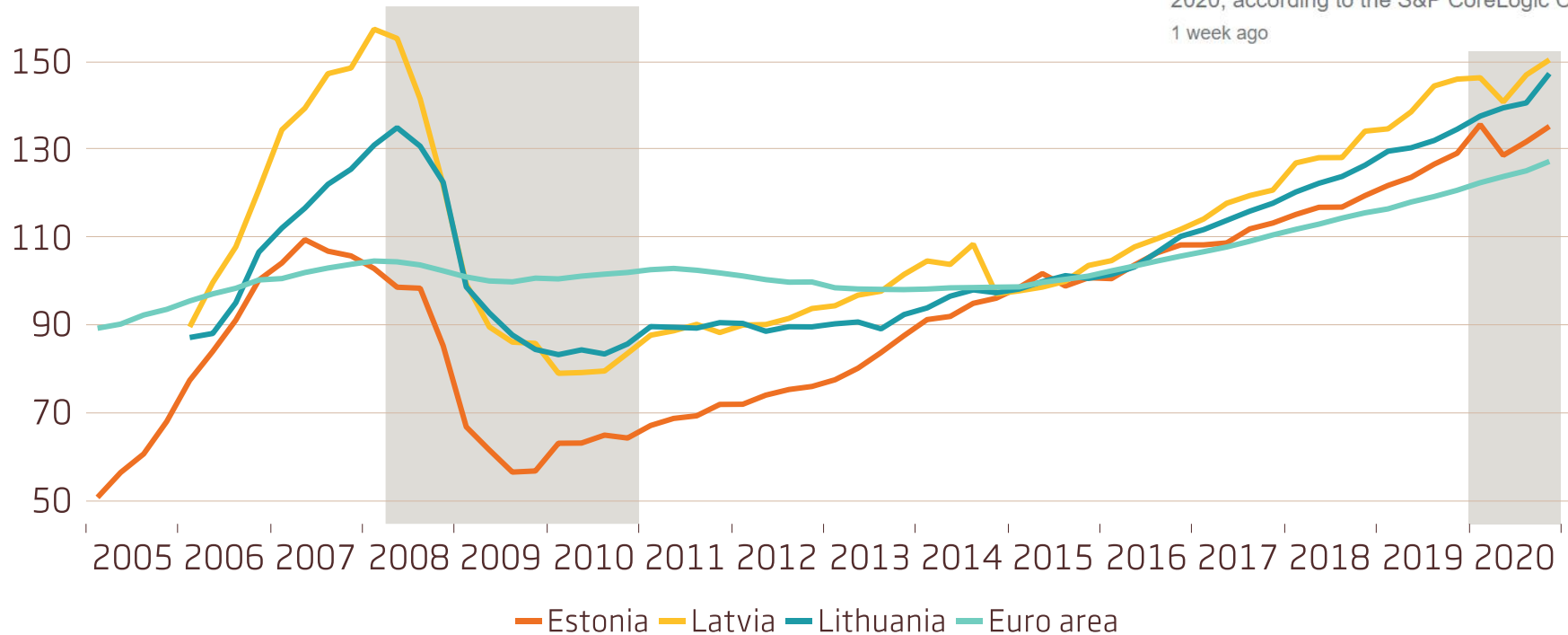
— Estonia — Latvia — Lithuania

Destination of the savings - housing market?

A small correction in Latvia, but generally - house prices continued growing during the pandemic

House prices in Baltics and Euro Area

Index, SA



Sources: OECD, Swedbank and Macrobond

CNBC

Home prices in March saw highest growth in over 15 years, S&P Case-Shiller says

Home prices in March were 13.2% higher in March, compared with March 2020, according to the S&P CoreLogic Case-Shiller National Home ...
1 week ago



The Guardian

'Race for space' fuels 10.9 % surge in UK house prices

The average price of a house in in Britain has risen to £240,000. The average price of a house ...

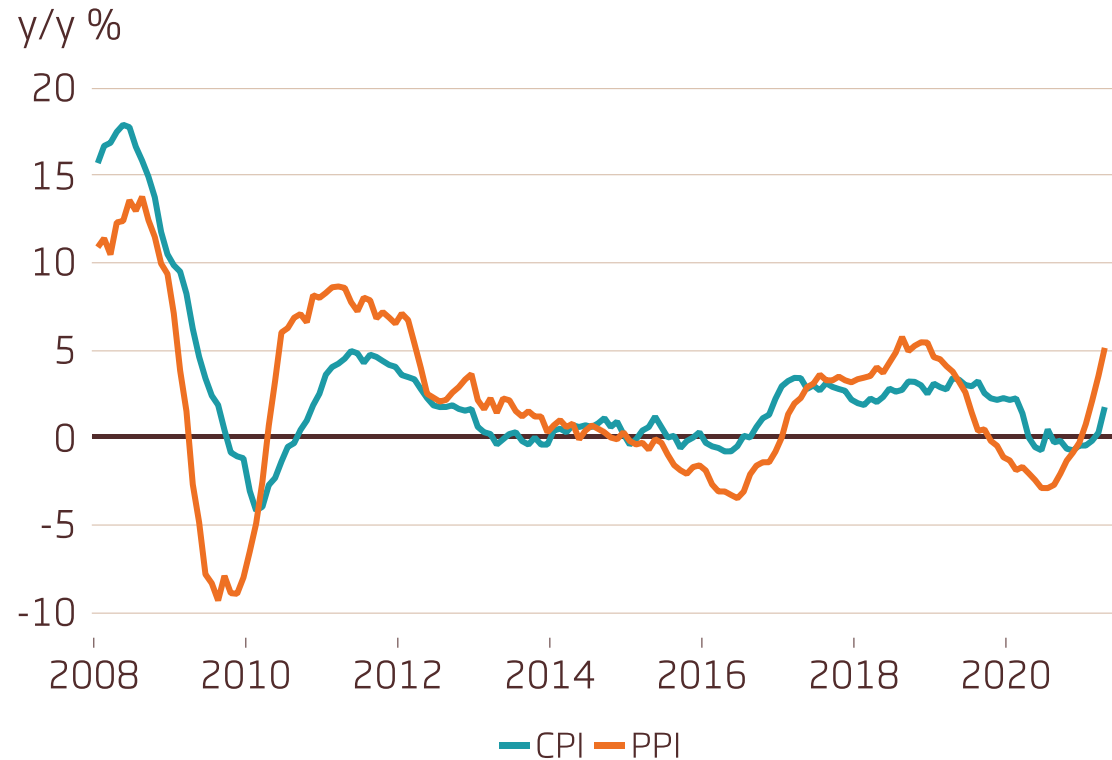
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Inflation going back up in 2021-2022

Price growth supported by rising commodity prices and reopening of economy

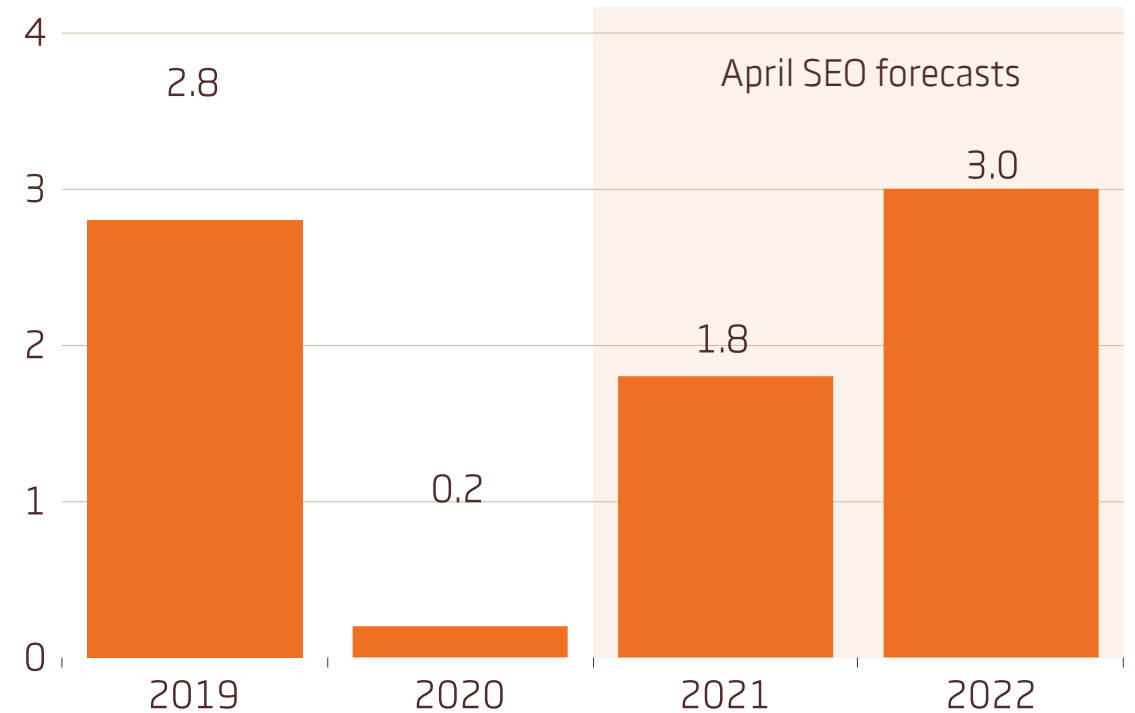
Consumer price and producer price index



Sources: Swedbank and Macrobond

Inflation

y/y %, actual CPI data and Swedbank forecast



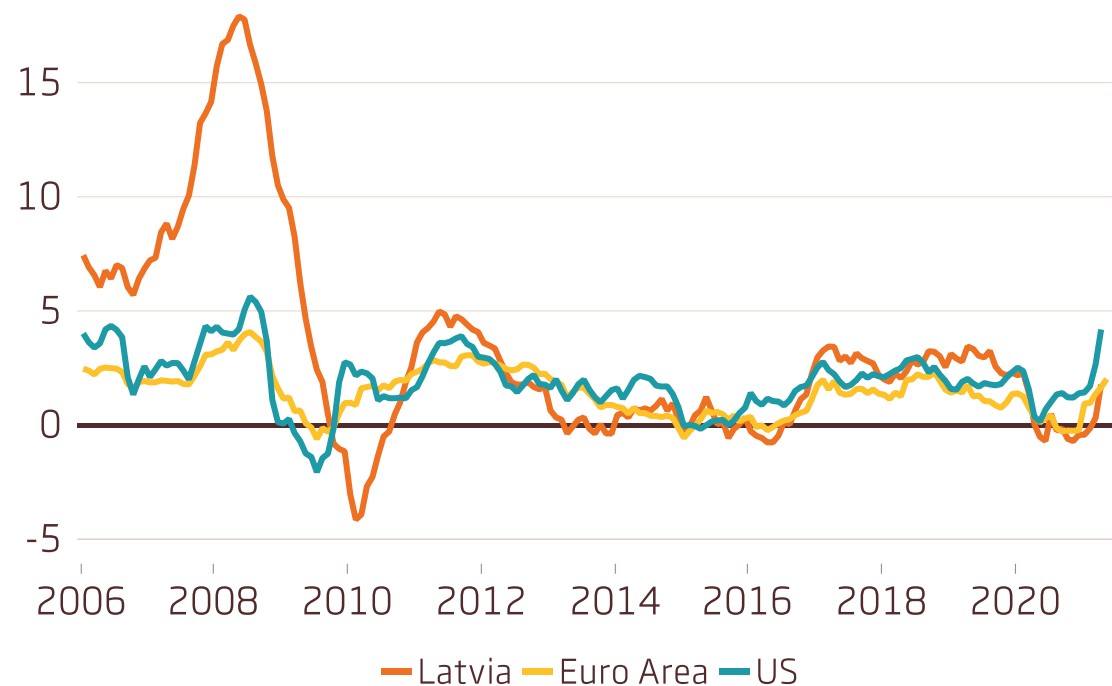
Sources: Swedbank and Macrobond

What are the risks of the world seeing higher inflation

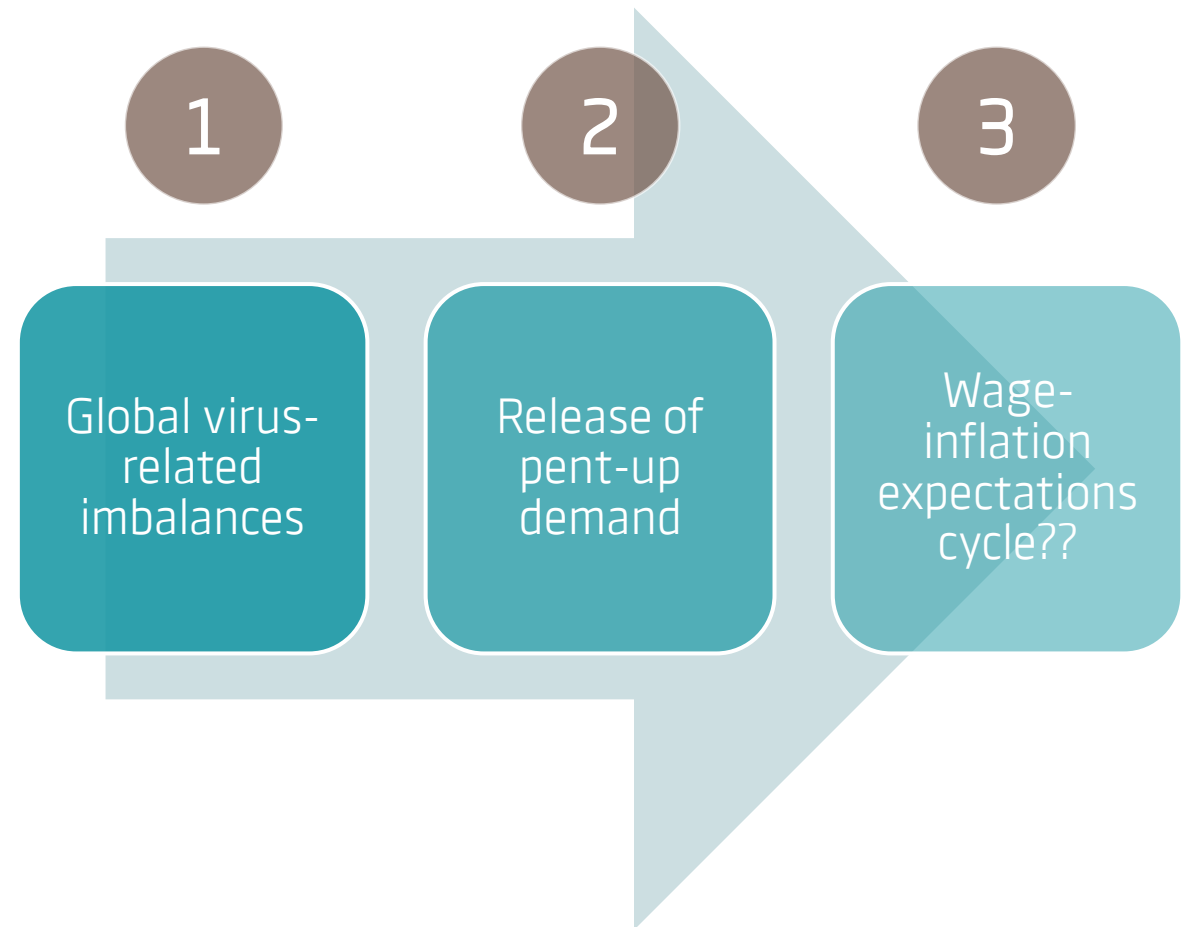
Near term – definitely; medium term – less likely, but risks remain

CPI growth

y/y %



Sources: Swedbank and Macrobond

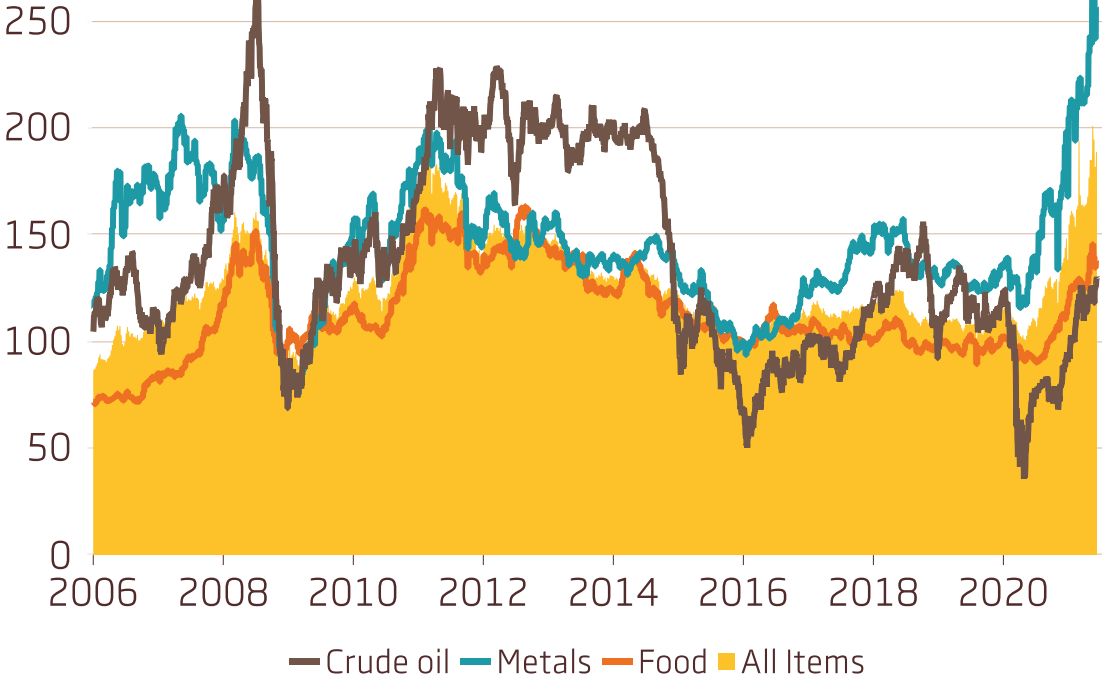


Commodity prices and shipping rates sky-high, shortage of components

Economy was jolted out of equilibrium + steep rebound in demand + optimism regarding the future

Global commodity prices

2005=100



Sources: Swedbank and Macrobond

China container shipping price

Index



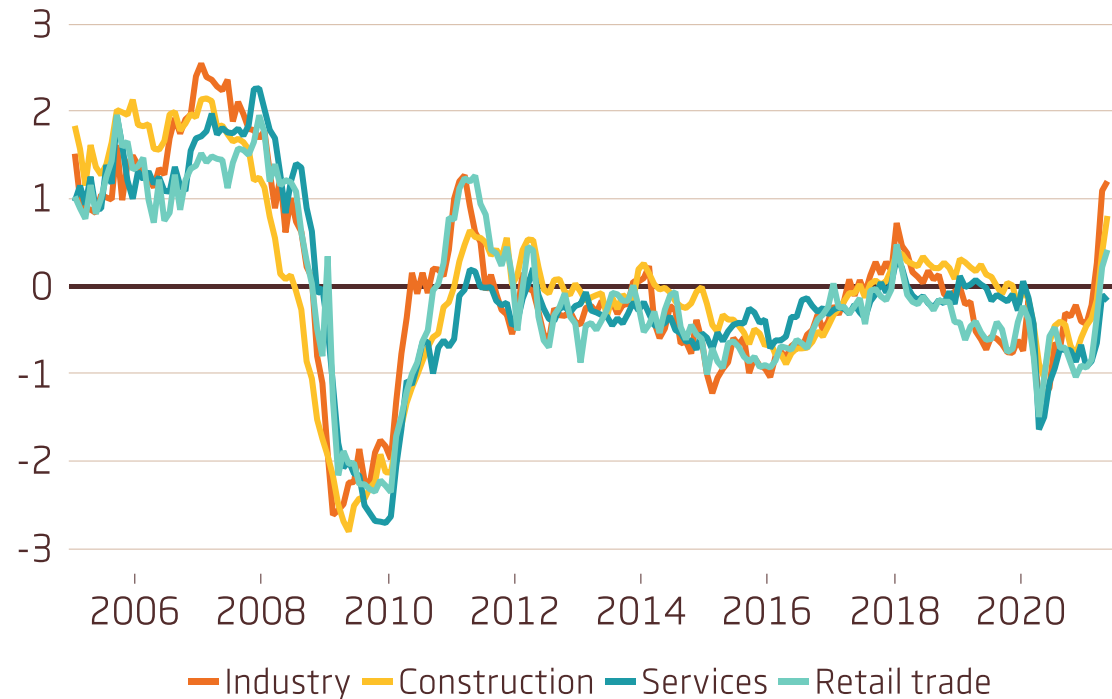
Sources: Swedbank and Macrobond

Selling price expectations of businesses are surging

Consumers are not expecting a price surge yet – but they do tend to be poor forecasters of inflation

Selling price expectations over next 3 months

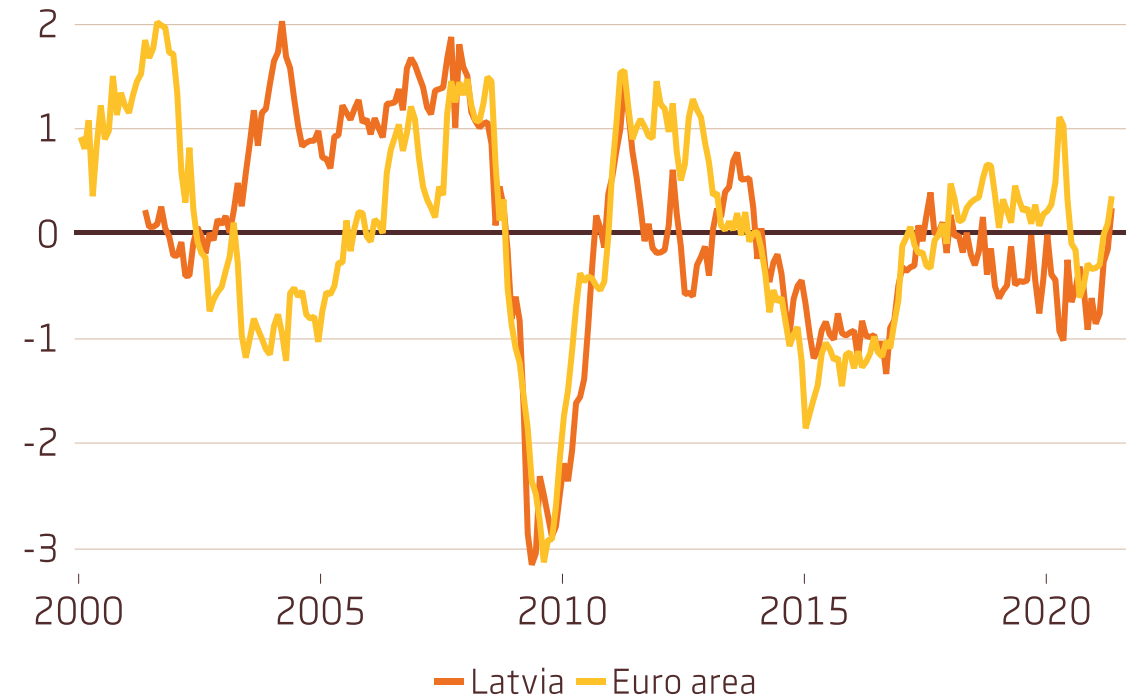
Standardized index, long-term average (2000-now)=0



Sources: Swedbank and Macrobond

Consumer expectations: price changes

Over the next 12 months, standardized (0 = LT average)

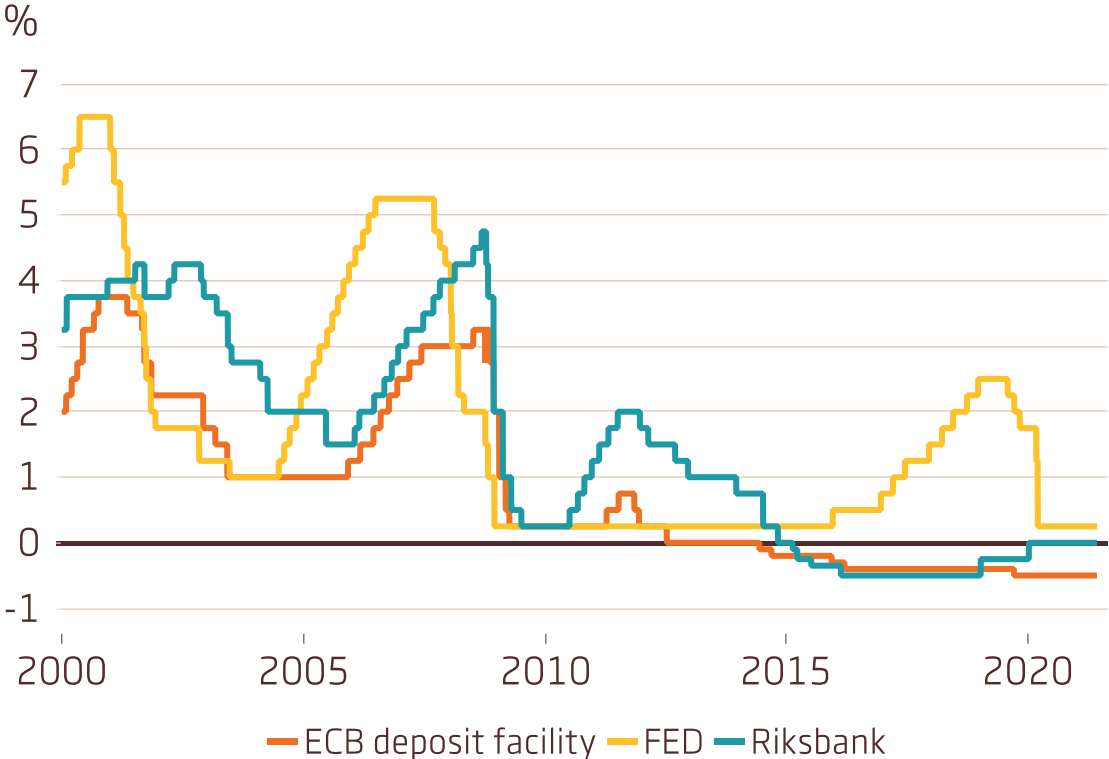


Sources: Swedbank and Macrobond

If inflation pick-up is not just transitory, CBs will need to react. Rates up?

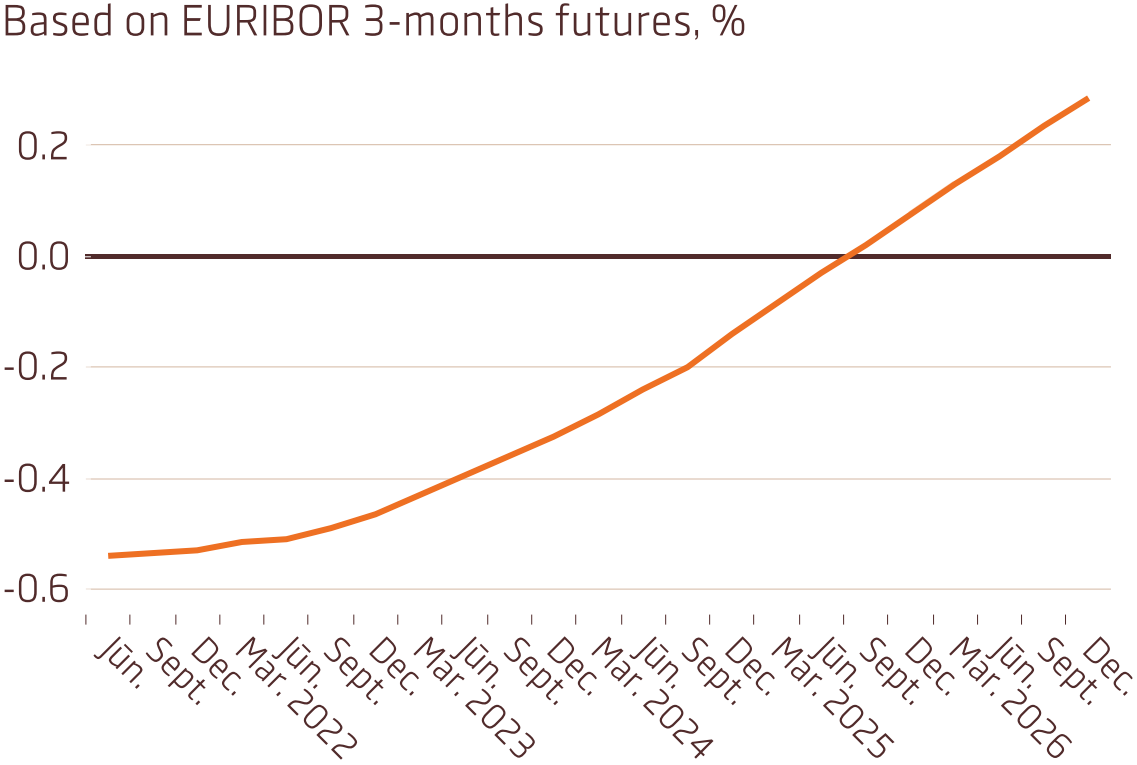
Reminder: the objective of ECB currently is below-but-close-to 2% inflation

Policy rates



Sources: Swedbank un Macrobond

Market expectations: 3 months EURIBOR



Sources: Swedbank and Macrobond

