



EUROJÄRJESTELMÄ  
EUROSYSTEMET

## Euro & talous 1/2011

Monetary policy and the global economy  
Finland's economic outlook

Governor  
Erkki Liikanen

24 March 2011

# Topics

- ◆ ***Topical issues***
- ◆ ***Global economic forecast***
- ◆ ***Finland's economic outlook 2011–2013***

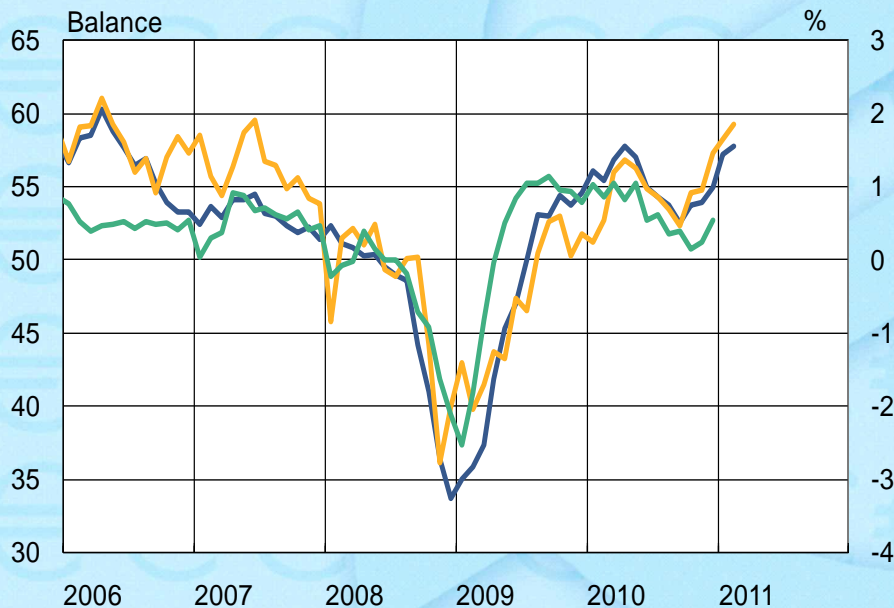


*Topical issues*

# Global economy picked up at turn of the year

## Output

- Global purchasing managers' index: manufacturing
- Global purchasing managers' index: services
- Global manufacturing output

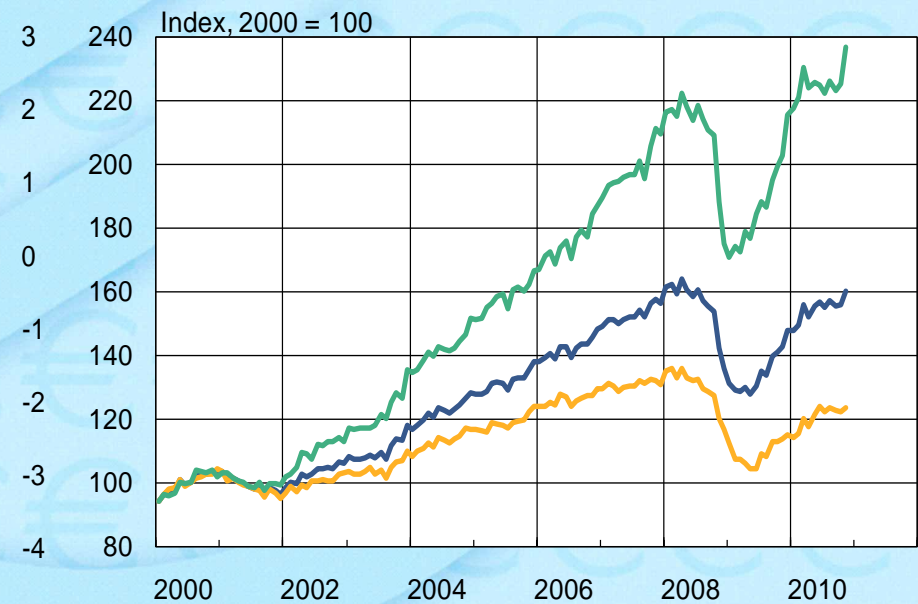


Sources: Bloomberg and Bank of Finland's own calculations.

24104@global\_pmi2 (en)

## Trade

- Imports globally
- Imports in advanced economies
- Imports in emerging economies



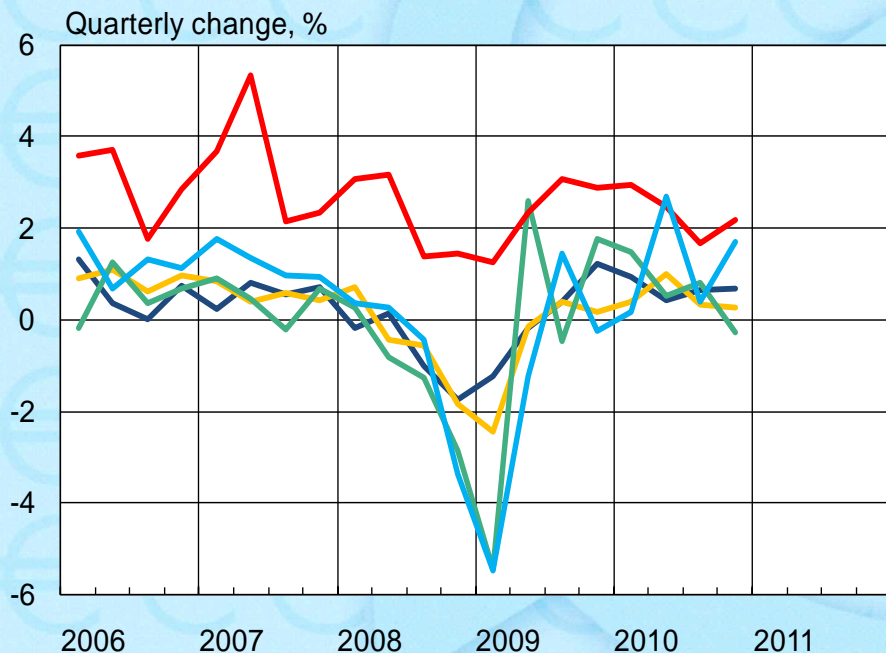
Source: CPB Netherlands.

24104@cpb (en)

# Major differences between countries in growth...

## GDP

—USA —Euro area —Japan —China —Finland

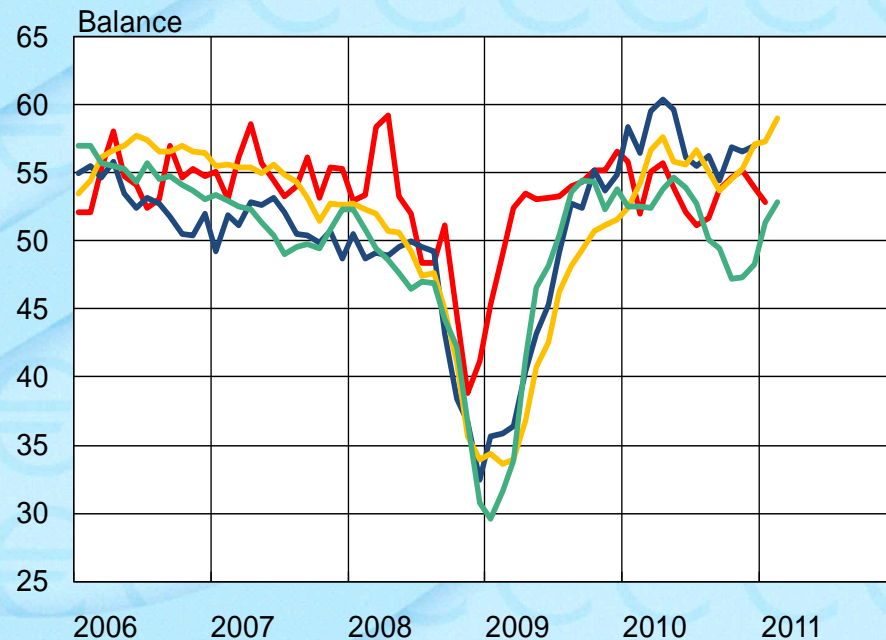


Sources: Bloomberg, CEIC and calculations by BOFIT.

23621@Chart1(2FI) (en)

## Industrial confidence

—China —USA —Euro area —Japan

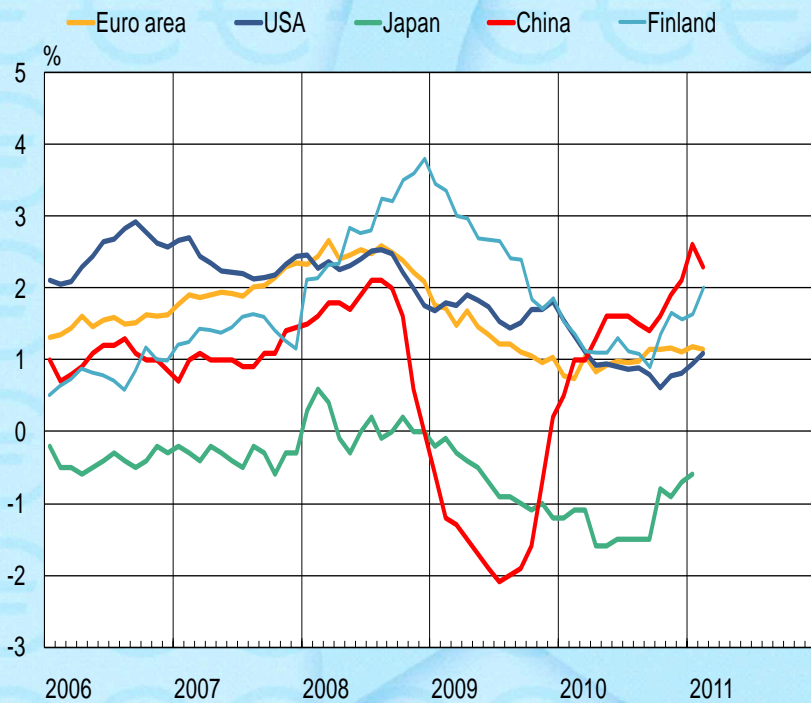


Source: Bloomberg.

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# ... inflationary pressures ...

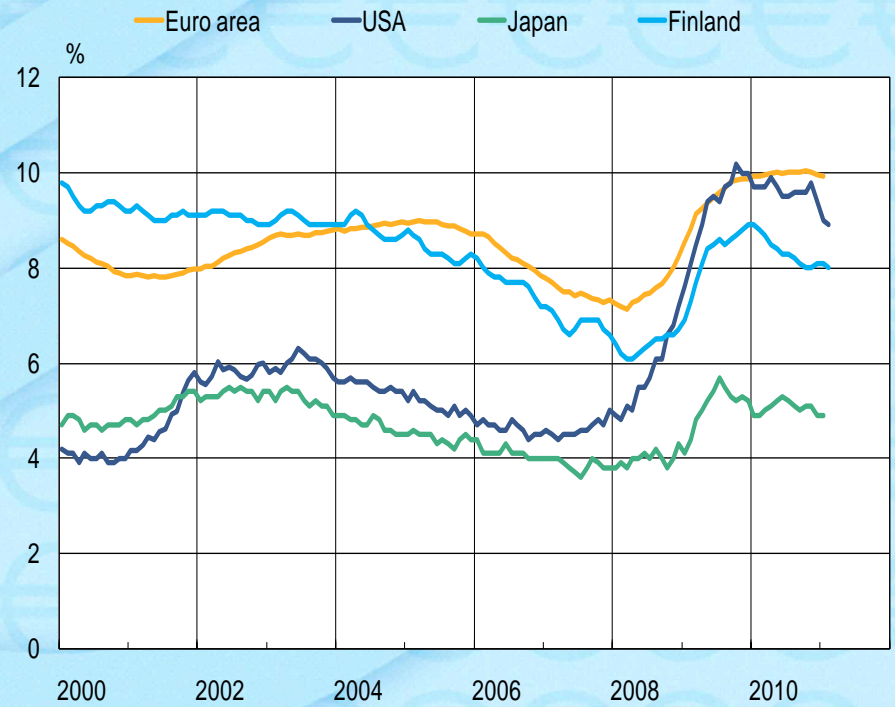
## Underlying inflation



Sources: Eurostat, BLS and Bloomberg.

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## Unemployment



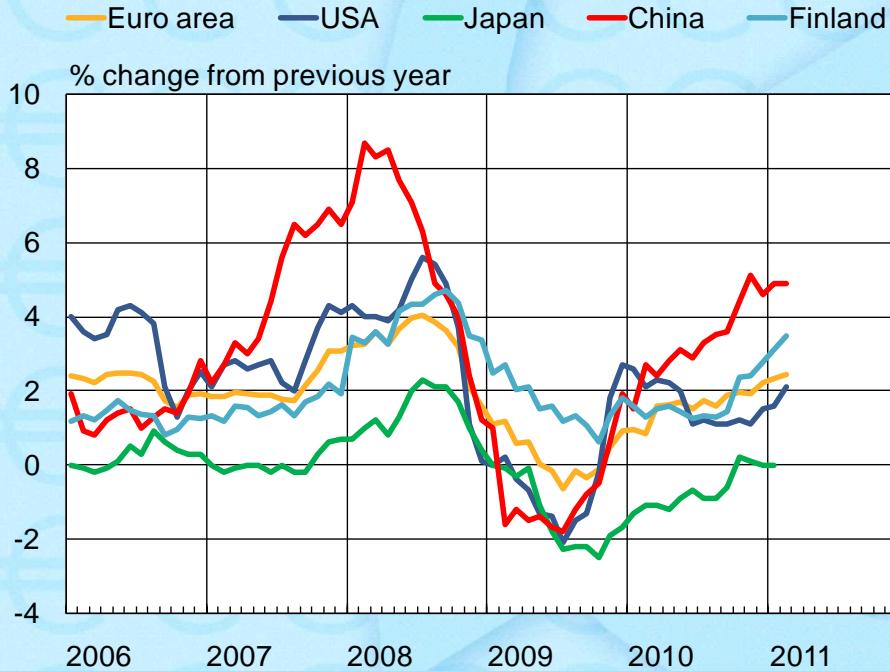
Sources: BLS, Eurostat, Bloomberg and Statistics Finland.

23162@Työttömyys% (EN)

# ... and inflation expectations

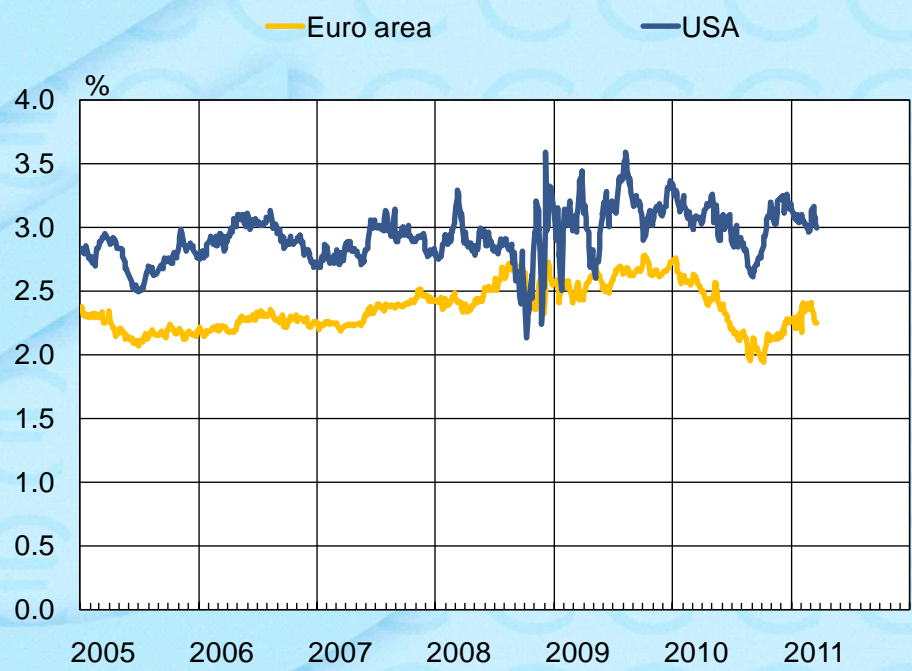
## Consumer price inflation

## Inflation expectations



Sources: Eurostat, BLS and Bloomberg.

23162@Inflaatio (EN)



Source: Bloomberg.

Derived from inflation swaps. 3-day moving averages.

22926@eur\_us\_5\_5 (en)

# Recent weeks have moderated market optimism...

## Share prices and real interest rates

- USA - real interest on approx. 20-yr bond
- Euro area - real interest on approx. 20-yr bond
- USA - S&P500 (right-hand scale)
- Euro area - DJ euro broad (right-hand scale)

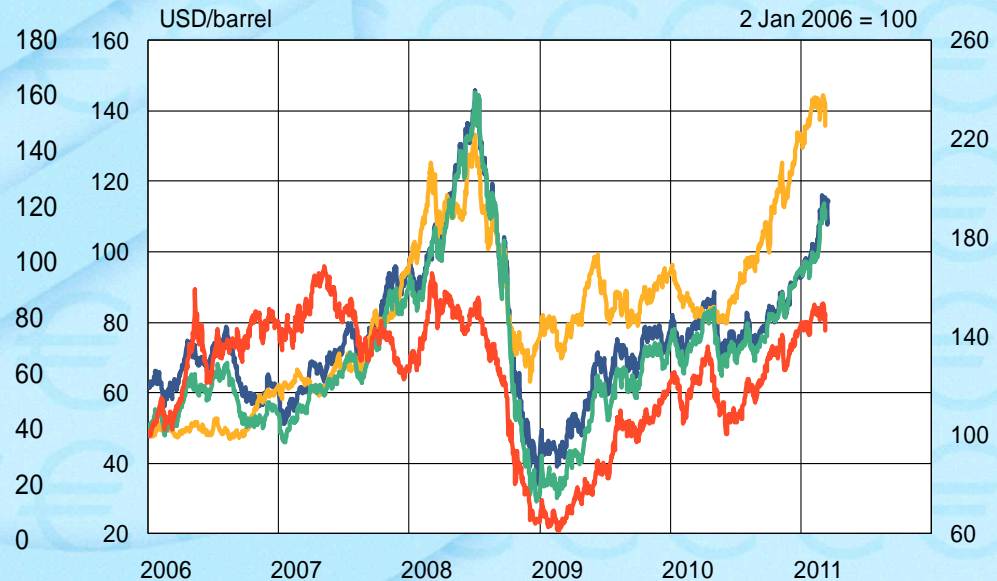


Source: Bloomberg.

24114@Chart1 (2) (en)

## Commodities

- Crude oil (Brent, left-hand scale)
- Total index
- Foodstuffs
- Base metals



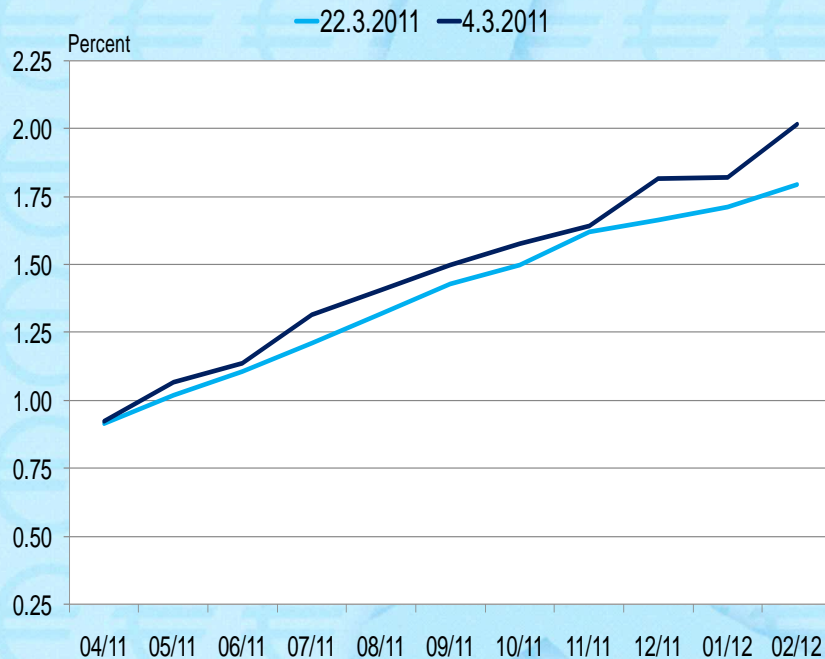
Sources: Bloomberg and HWWI. All data measured in dollars.

18498@Chart50 (en)



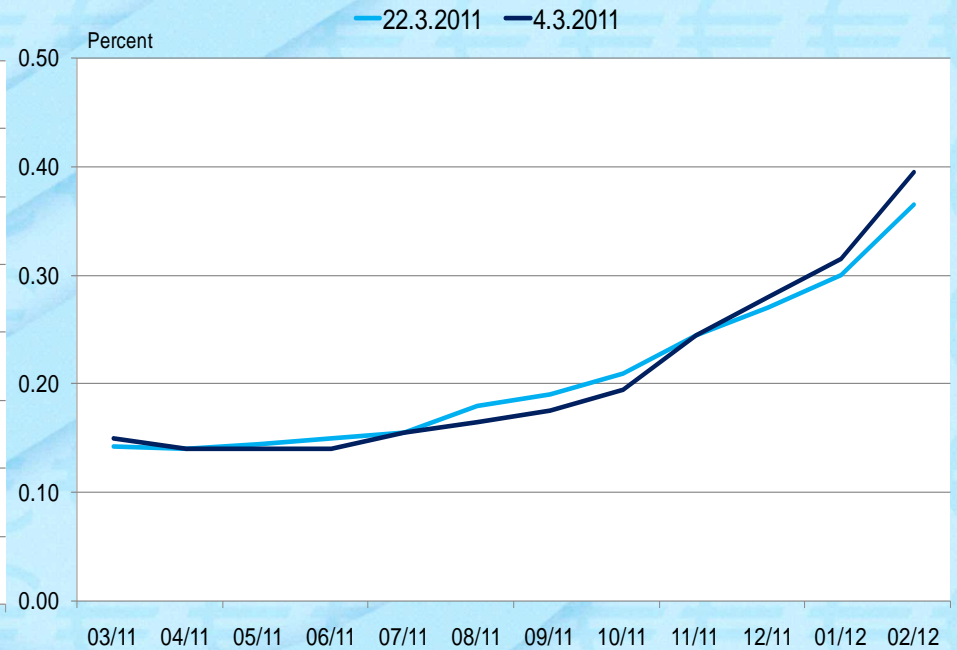
... but interest rate expectations close to early march levels

## Euro area




Source: Bloomberg.  
Based on Eonia futures quotations

## United States



Source: Bloomberg.  
Based on Fed funds futures quotations.



# Bank of Finland's global economic forecast

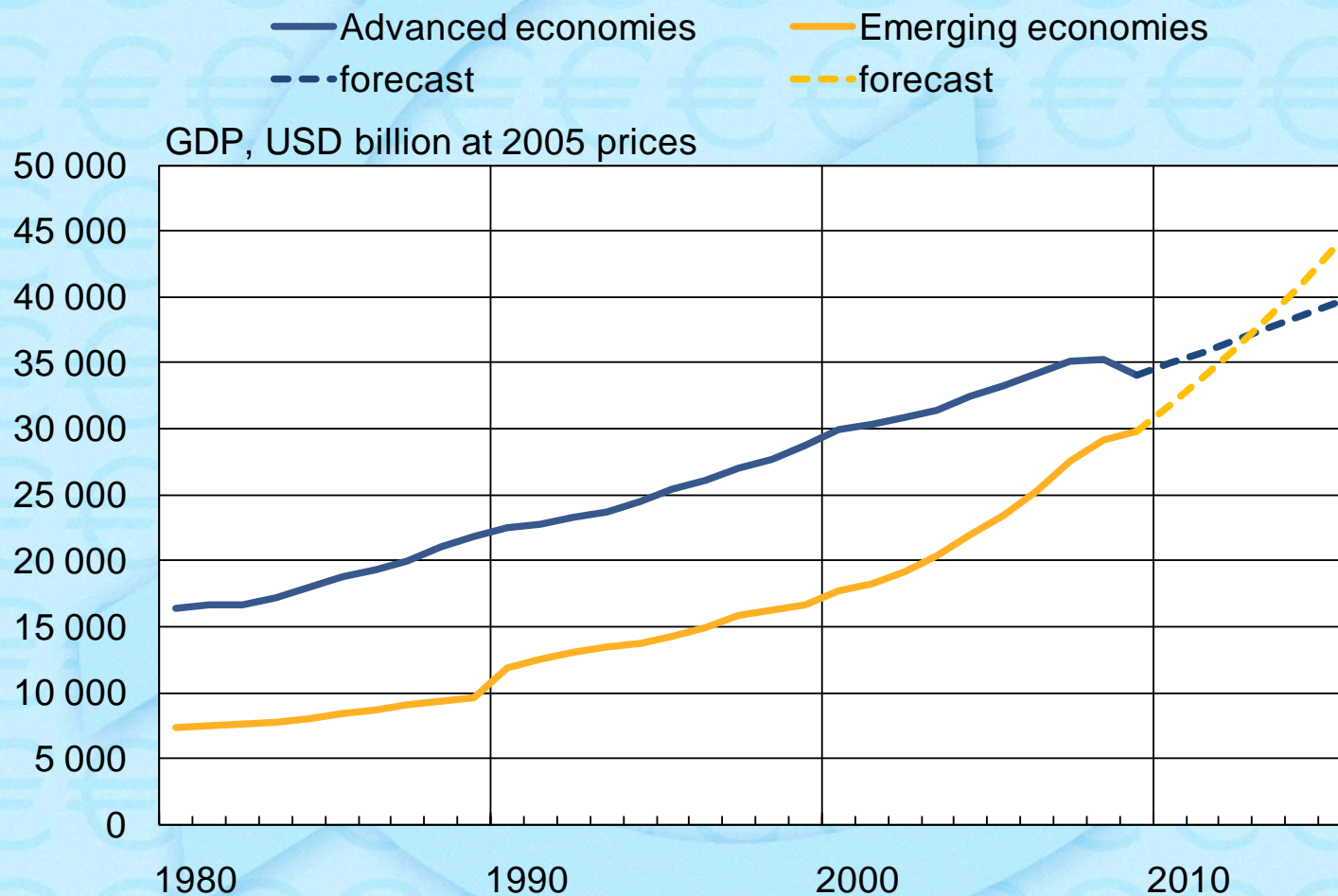
# What has changed since last autumn?

- ◆ **Major trends unchanged**
  - **Role of emerging economies continues to grow**
  - **Progress slow in unravelling debt**
  - **Overheated sectors recovering slowly**
- ◆ **But some changes**
  - **Commodity price rises stronger than expected**
  - **Economic impact of catastrophe in Japan**

# Economic impact of catastrophe in Japan

- ◆ ***Situation constantly changing***
  - ***Uncertainty too great for a final answer***
- ◆ ***Milder alternative***
  - ***Japan enters recession, but not a prolonged depression***
  - ***Impact of catastrophe is primarily local***
  - ***Means of assessment: direct damage and lost output***
- ◆ ***Gloomier alternative***
  - ***A serious nuclear accident***
  - ***Current information insufficient to make an assessment***

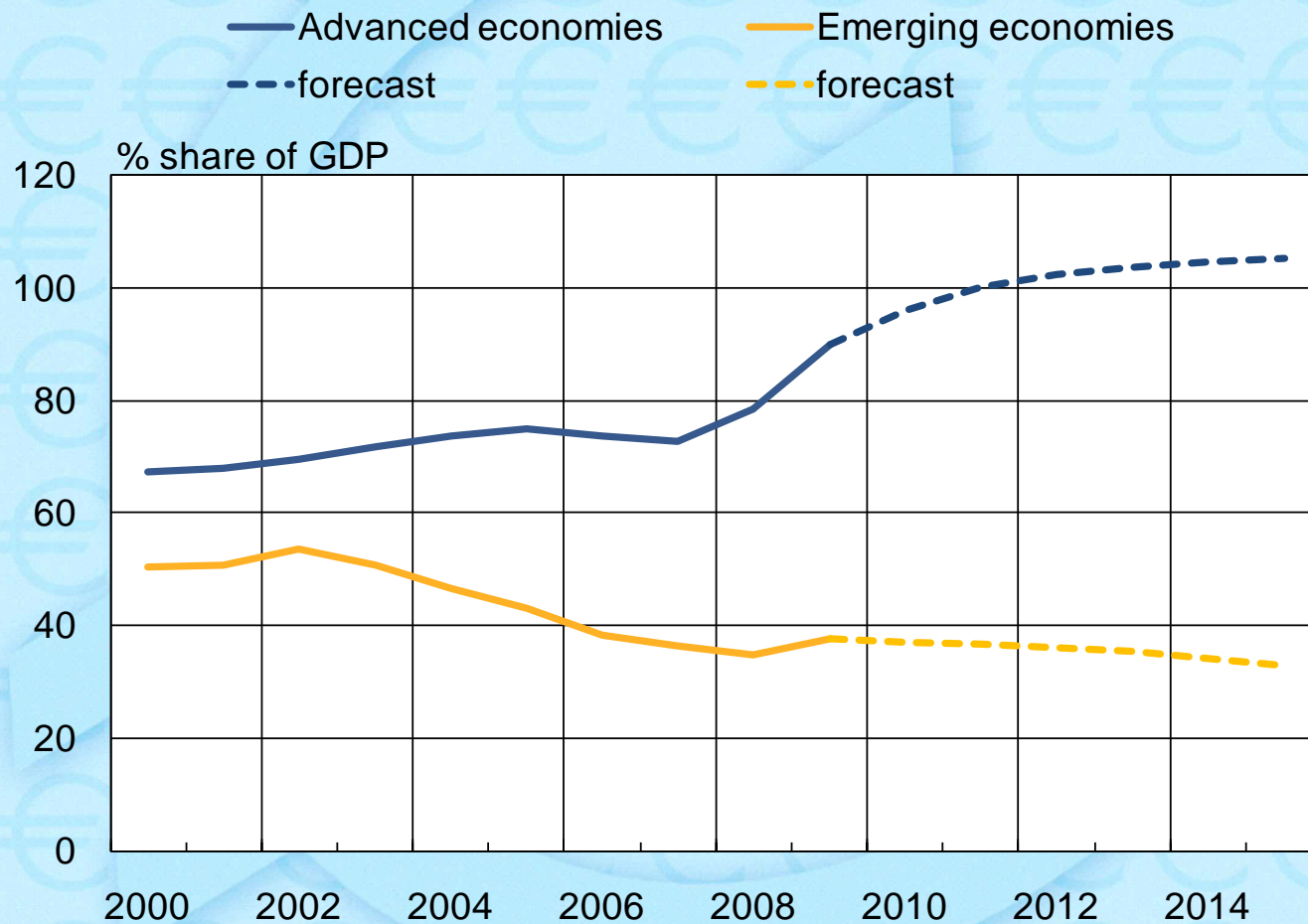
# Share of emerging economies continues to grow



Sources: IMF and Bank of Finland forecast.

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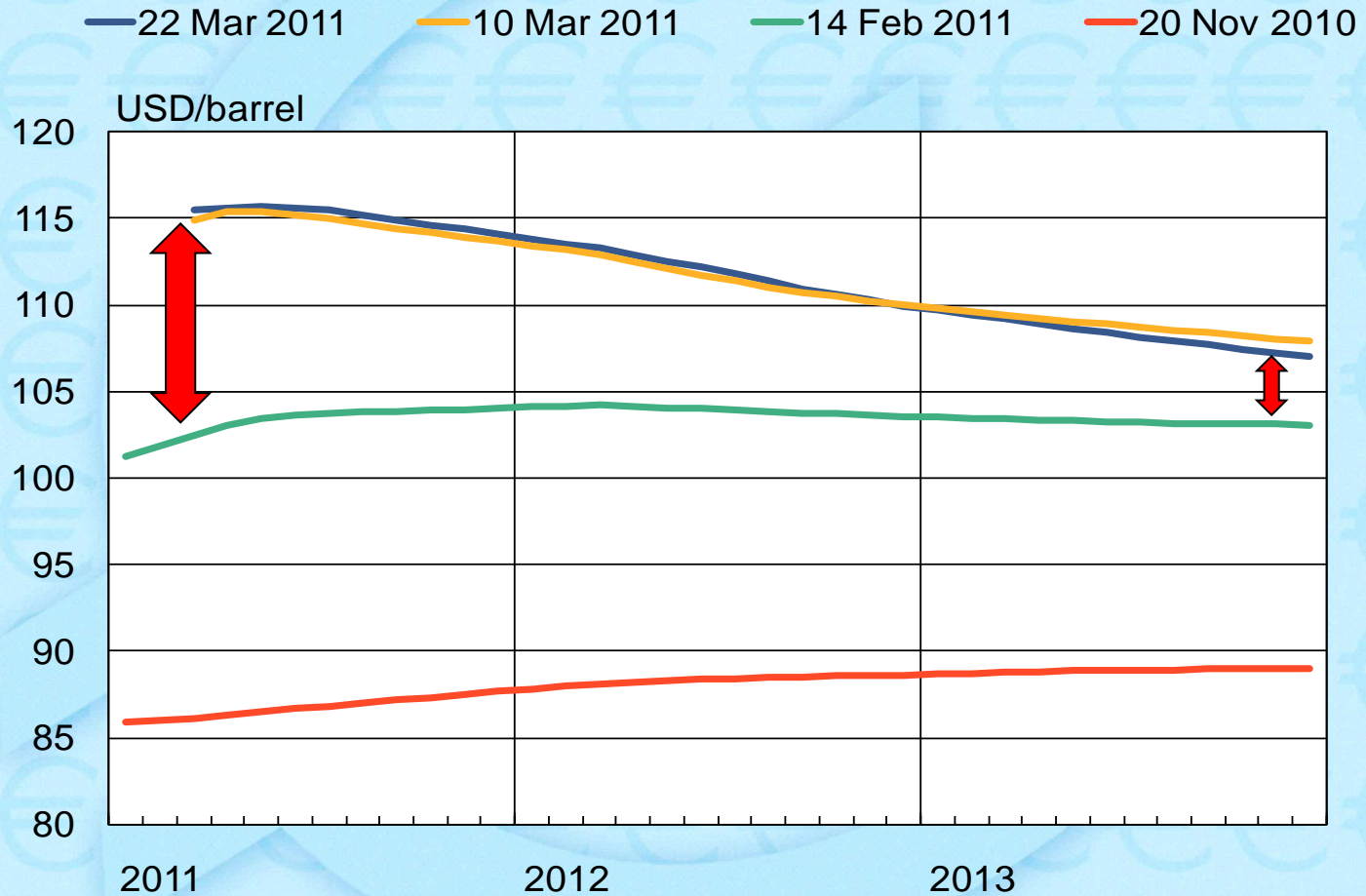
# Growth differences also reflected in government debt



Source: IMF WEO, October 2010.

24450@Chart20 (en)

# Oil price: role of supply and demand factors



Brent oil futures prices

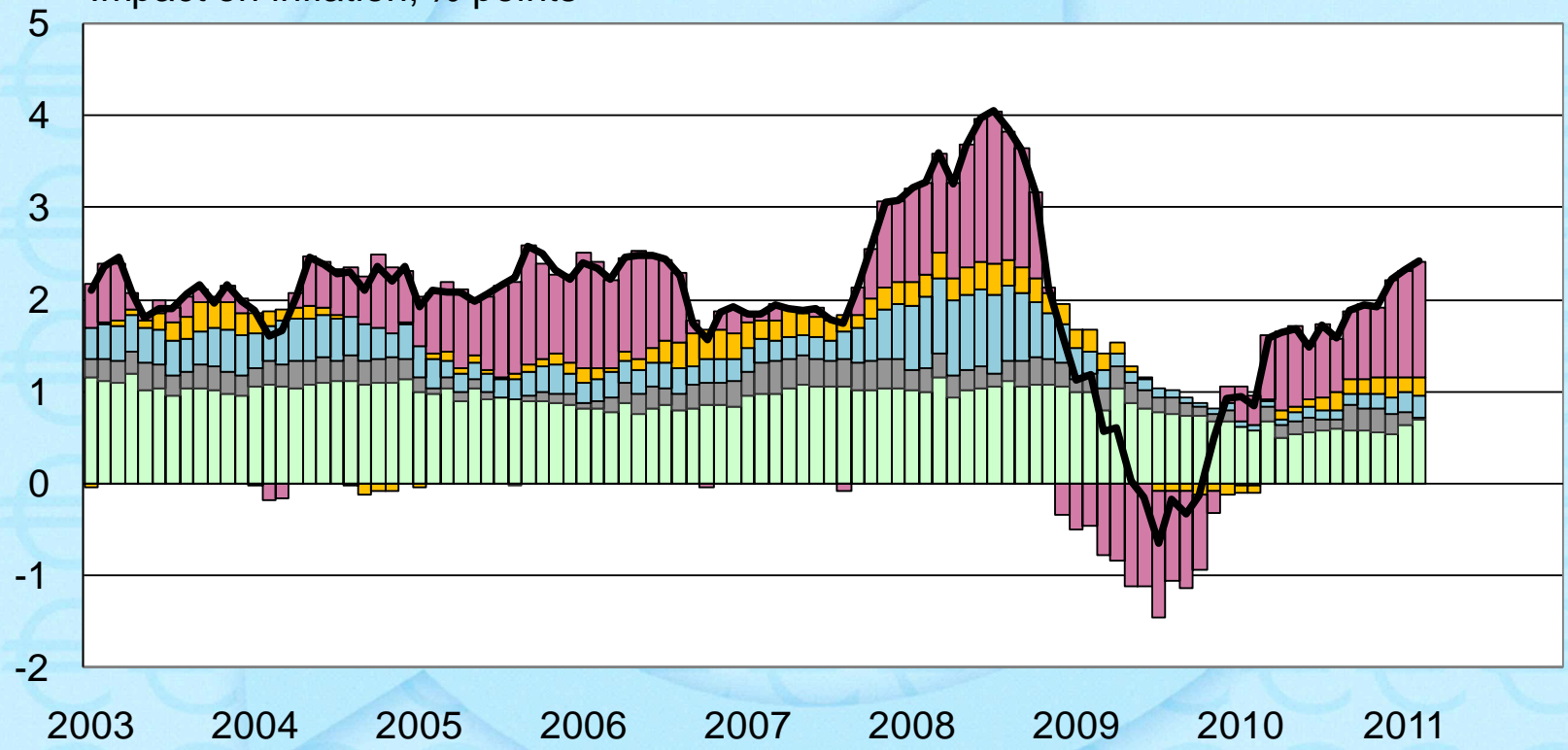
Source: Bloomberg.

24518@Chart3 (en)

# Energy prices reflected in euro area inflation

- Services
- Processed foods
- Energy
- Non-energy industrial goods
- Unprocessed foods
- HICP inflation

Impact on inflation, % points



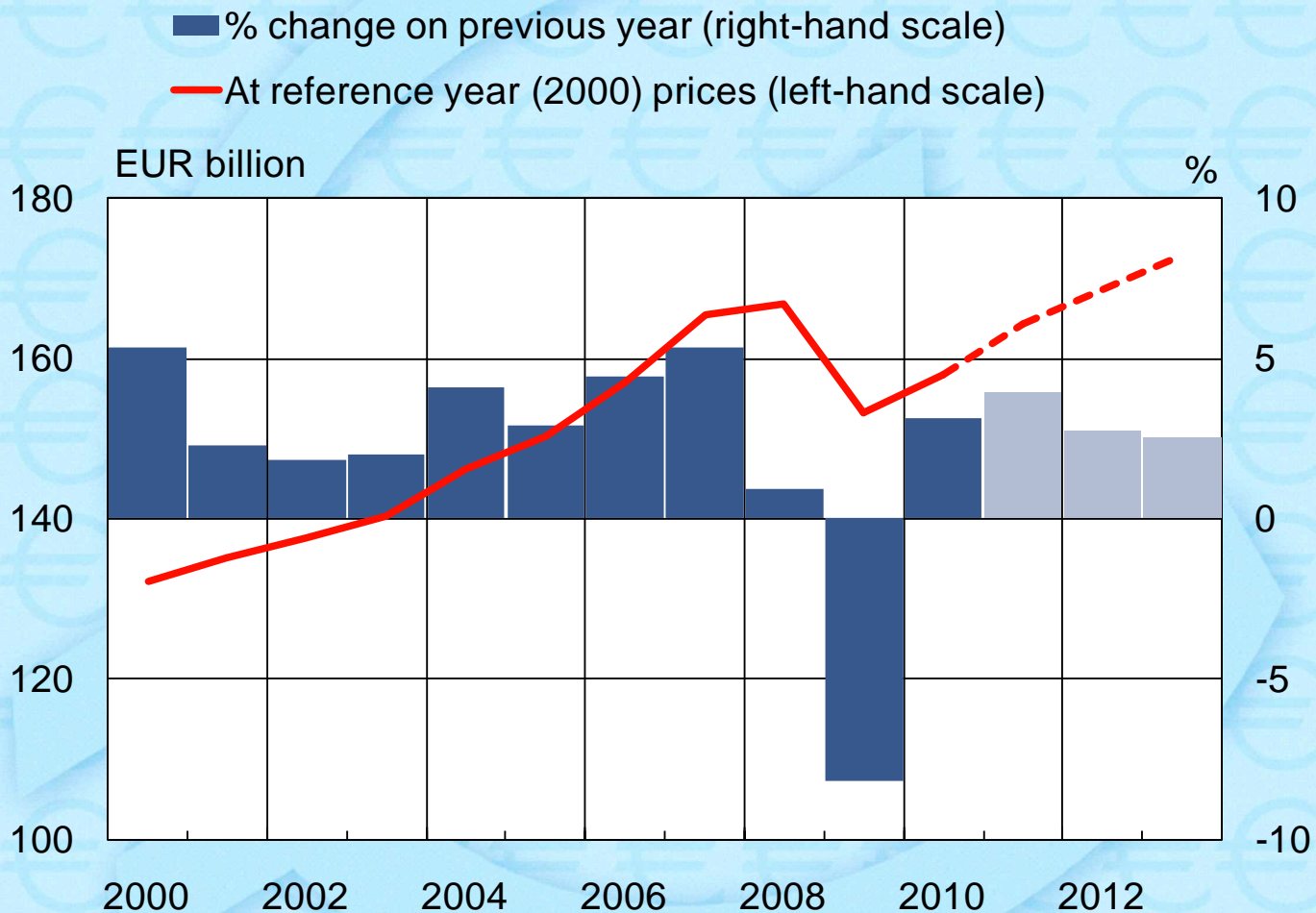
Source: Eurostat.





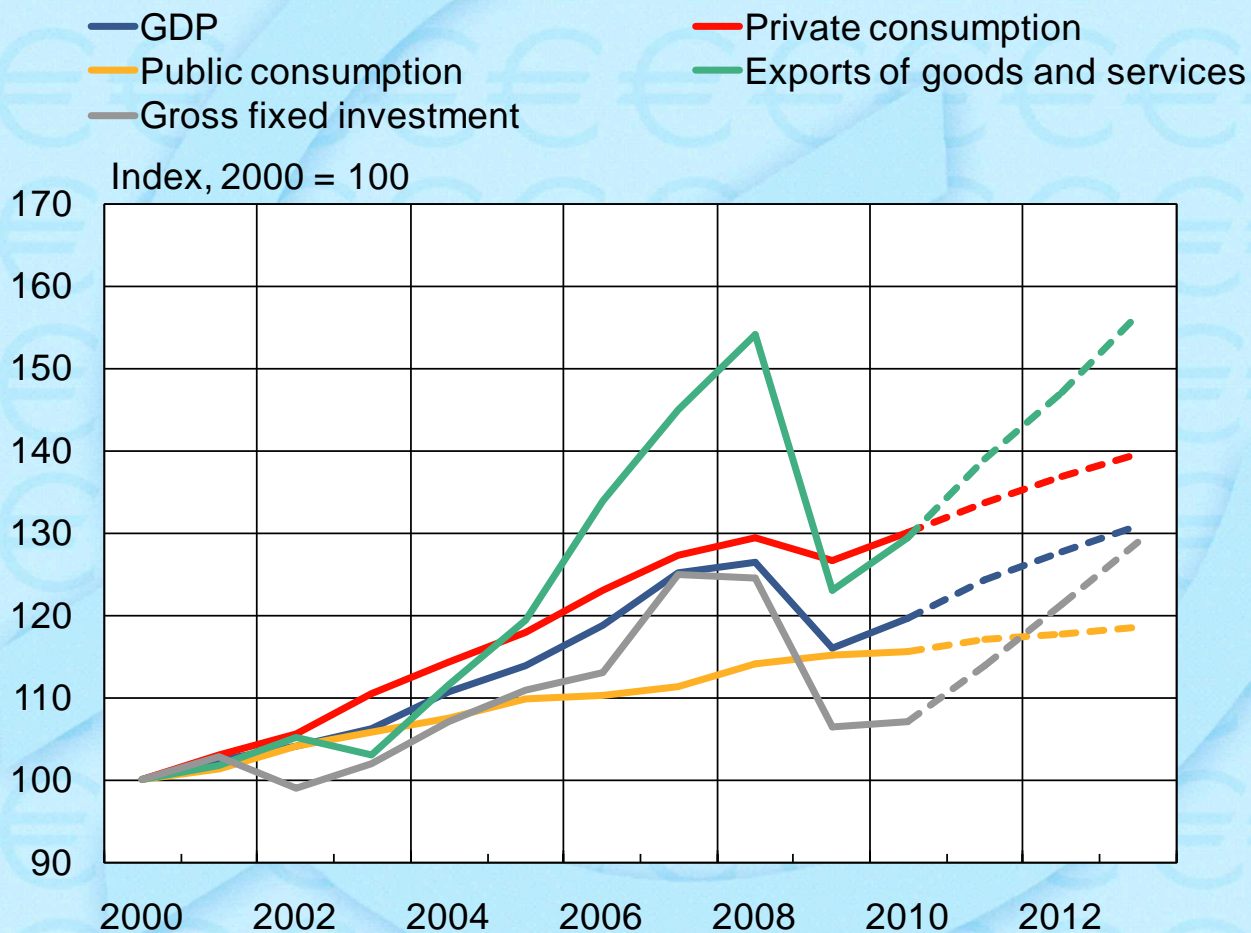
# Finland's economic outlook 2011–2013

# Finnish economy has recovered strongly



Sources: Statistics Finland and Bank of Finland.

# Share of consumption has increased

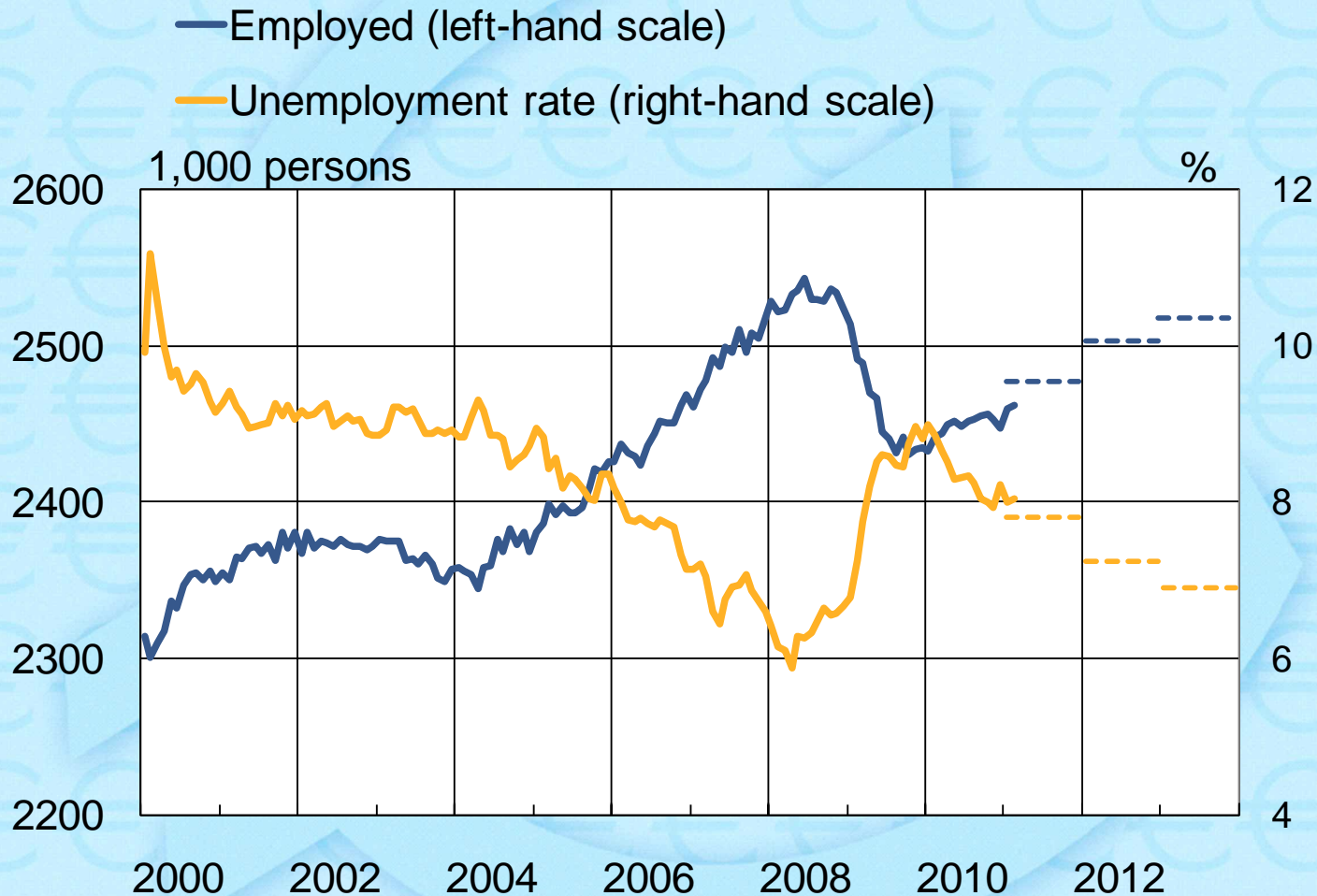


Sources: Statistics Finland and Bank of Finland.

# Supply and demand

	2010	2009	2010	2011f	2012f	2013f
	At current prices EUR billion	Volume, % change on previous year				
<b>Gross domestic product</b>	<b>180.3</b>	<b>-8.2</b>	<b>3.1</b>	<b>3.9</b>	<b>2.7</b>	<b>2.5</b>
Imports	65.2	-17.6	2.6	4.2	6.1	7.0
Exports	70.2	-20.1	5.1	7.4	5.9	6.5
Private consumption	97.3	-2.1	2.6	2.9	2.4	2.0
Public consumption	44.2	1.0	0.4	1.2	0.5	0.8
Private fixed investment	28.5	-17.4	0.9	7.1	7.4	7.3
Public investment	4.9	6.2	0.1	1.0	0.7	-0.2

# Unemployment falling, but slowly



Bank of Finland's seasonally adjusted figures  
Sources: Statistics Finland and Bank of Finland.

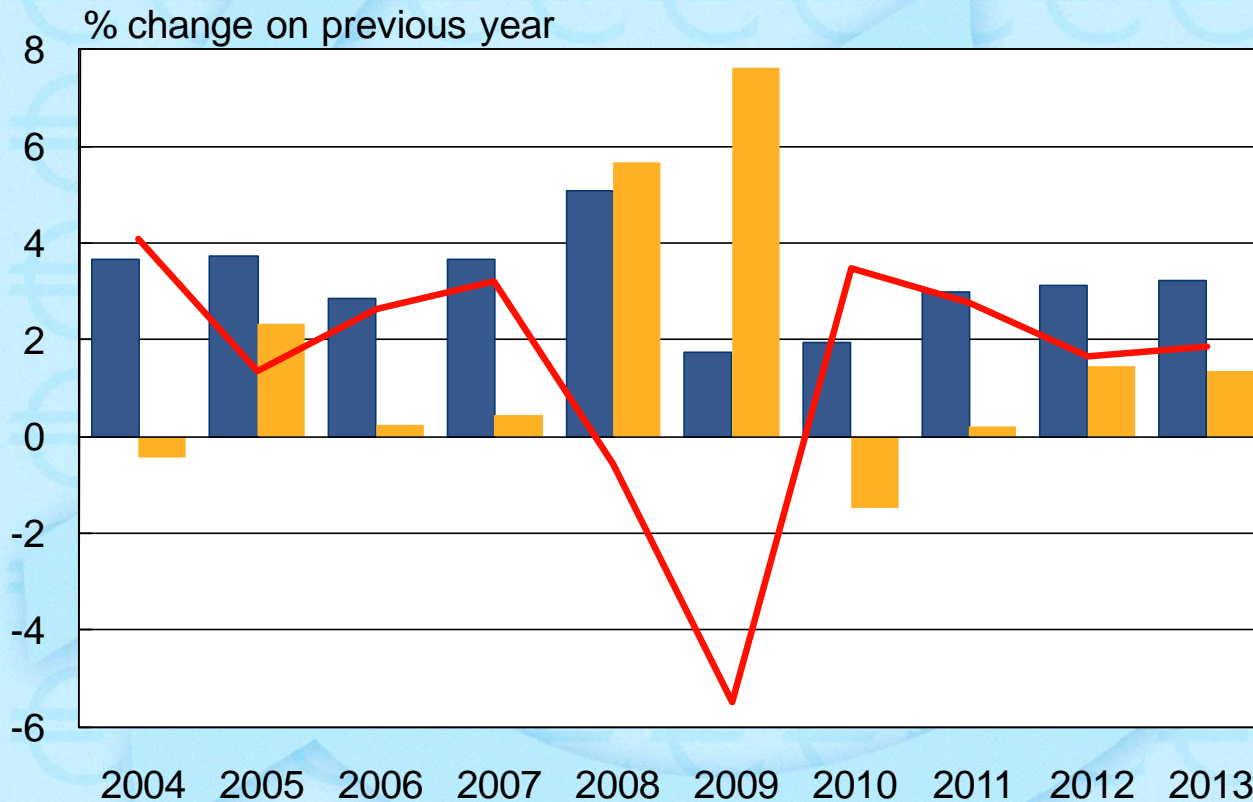
# Productivity growth slower than before



Sources: Statistics Finland and Bank of Finland.

# Labour costs rising faster

- Compensation per employee
- Unit labour costs
- Productivity per person employed

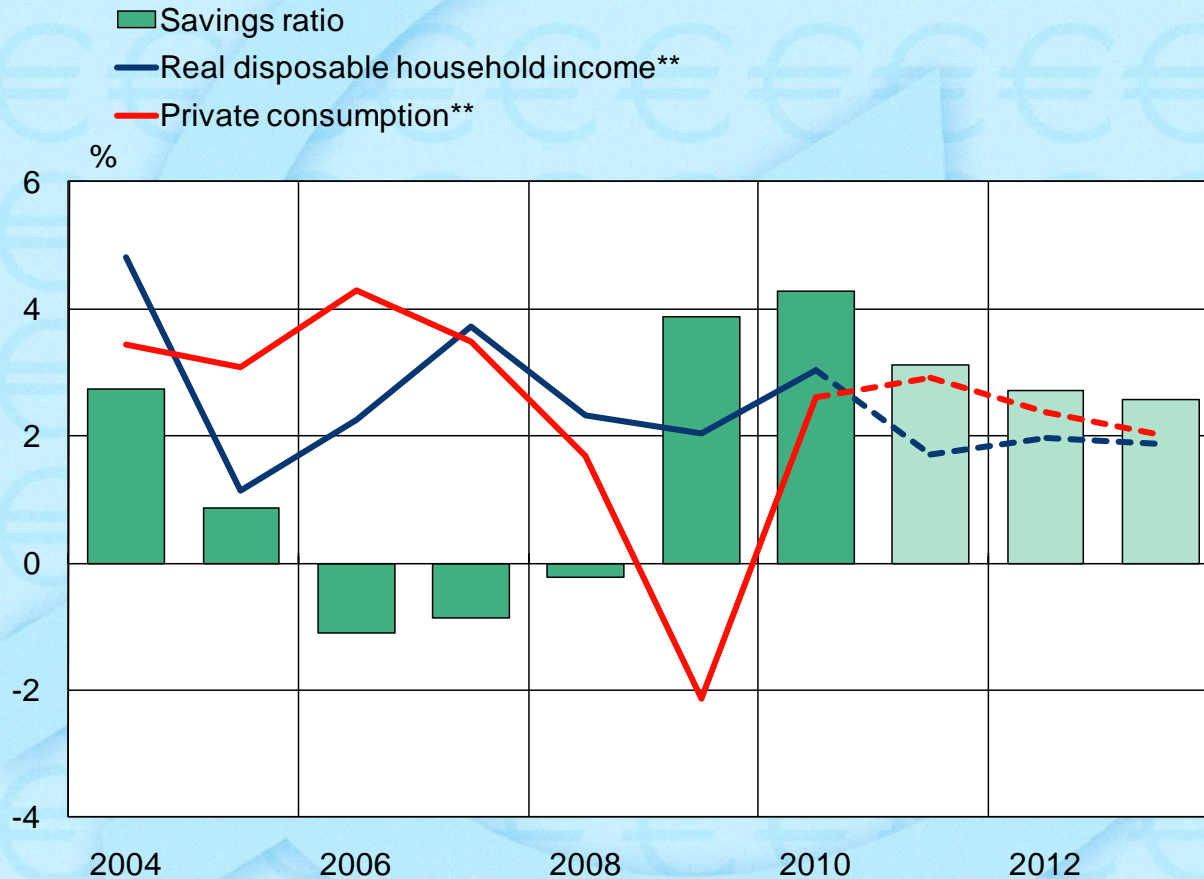


2011–2013 figures are forecasts.

Sources: Statistics Finland and Bank of Finland.

# Household savings ratio still high

## Households' \* disposable income, consumption and savings



\* Households and non-profit institutions serving households

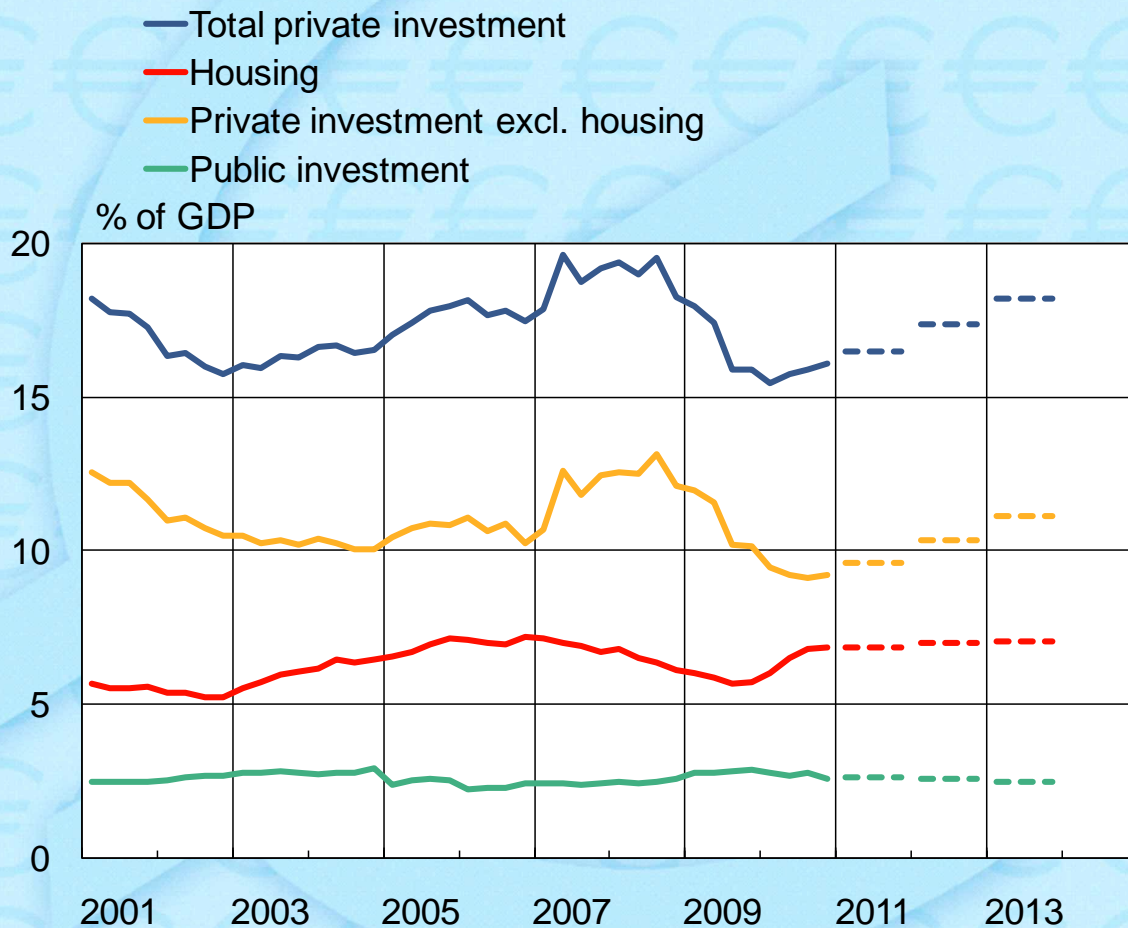
\*\* % change on previous year

Sources: Statistics Finland and Bank of Finland.



# Investment up, but no return to previous heights

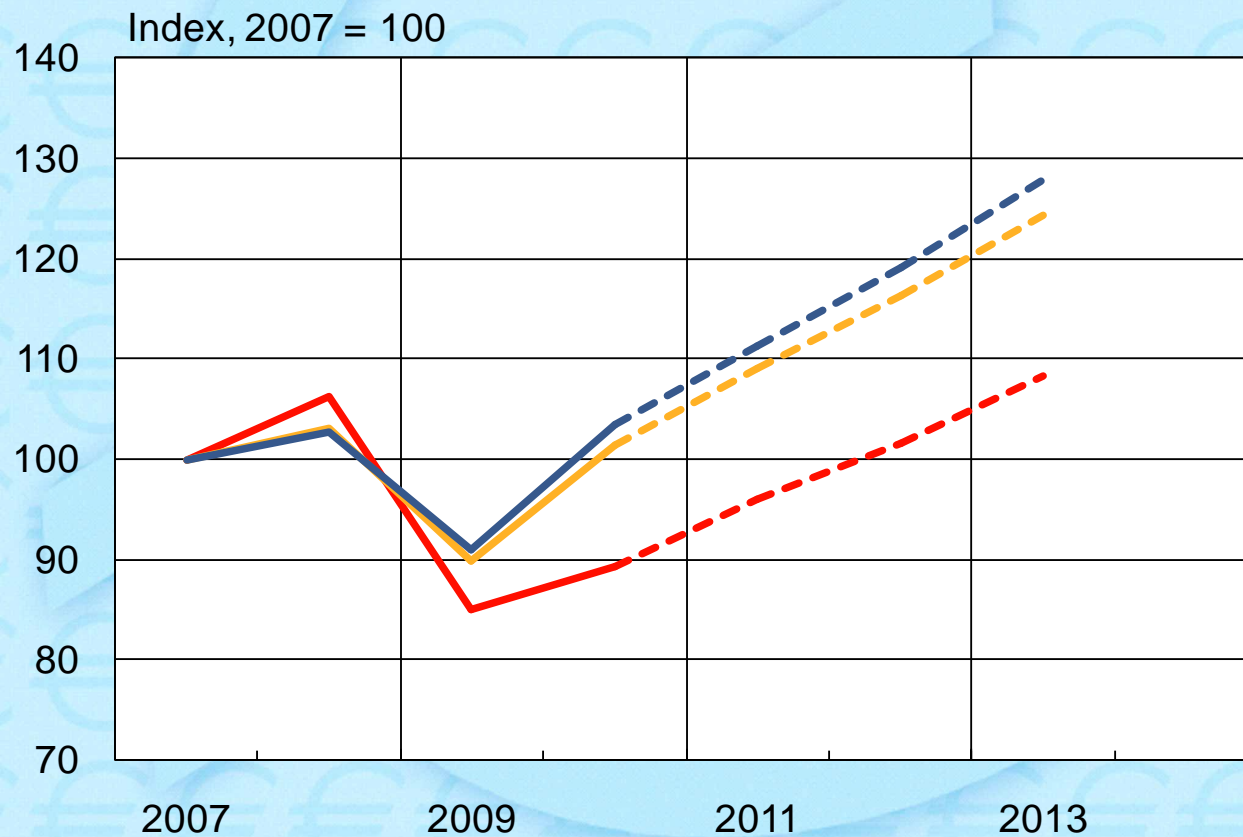
## Investment ratio



Investment ratios have been calculated on the basis of nominal figures.  
Sources: Statistics Finland and Bank of Finland.

# Finland's exports growing more slowly than world trade

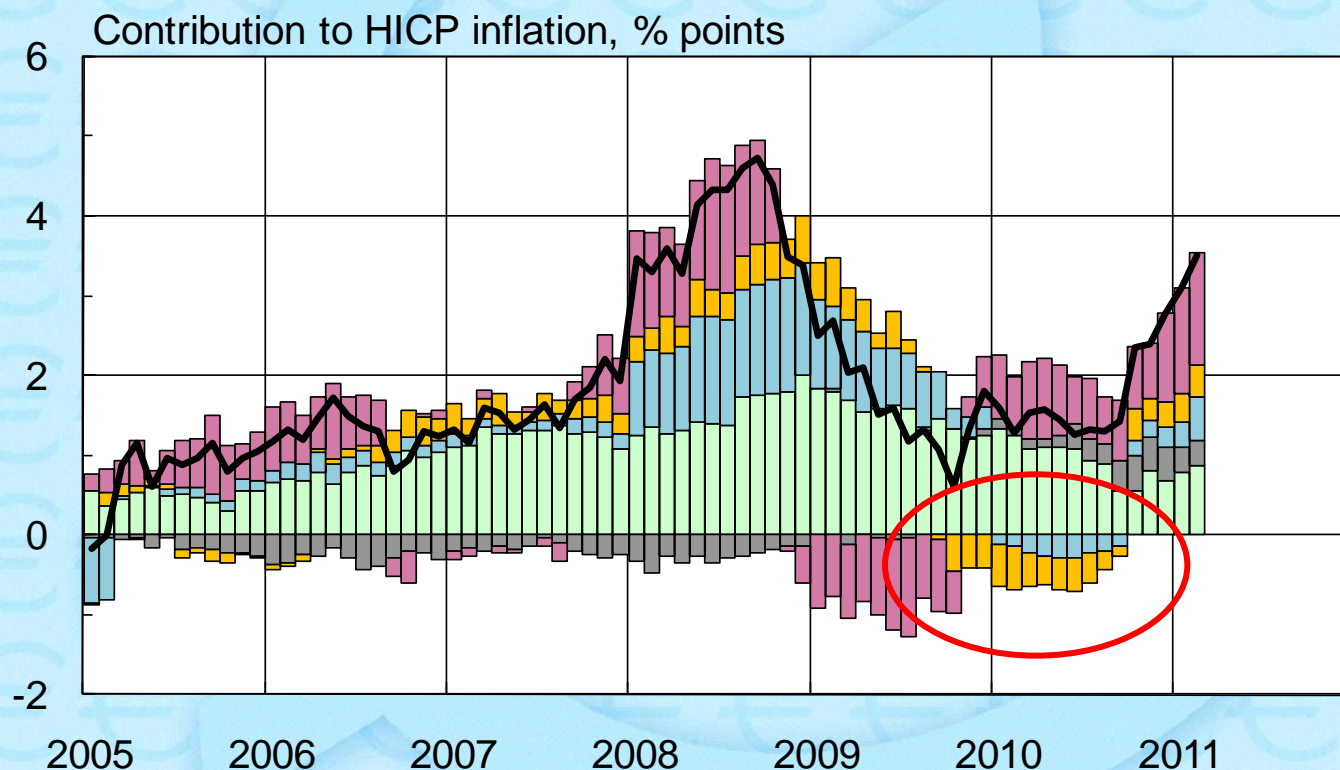
- Finland's exports of goods and services
- Finland's export markets
- World trade



Sources: Statistics Finland and Bank of Finland.

# Energy and food prices driving inflation

- Energy
- Processed foods
- Services
- Unprocessed foods
- Non-energy industrial goods
- Total index



HICP = Harmonised index of consumer prices

Source: Statistic Finland and Bank of Finland.

# Inflation in Finland faster than euro area

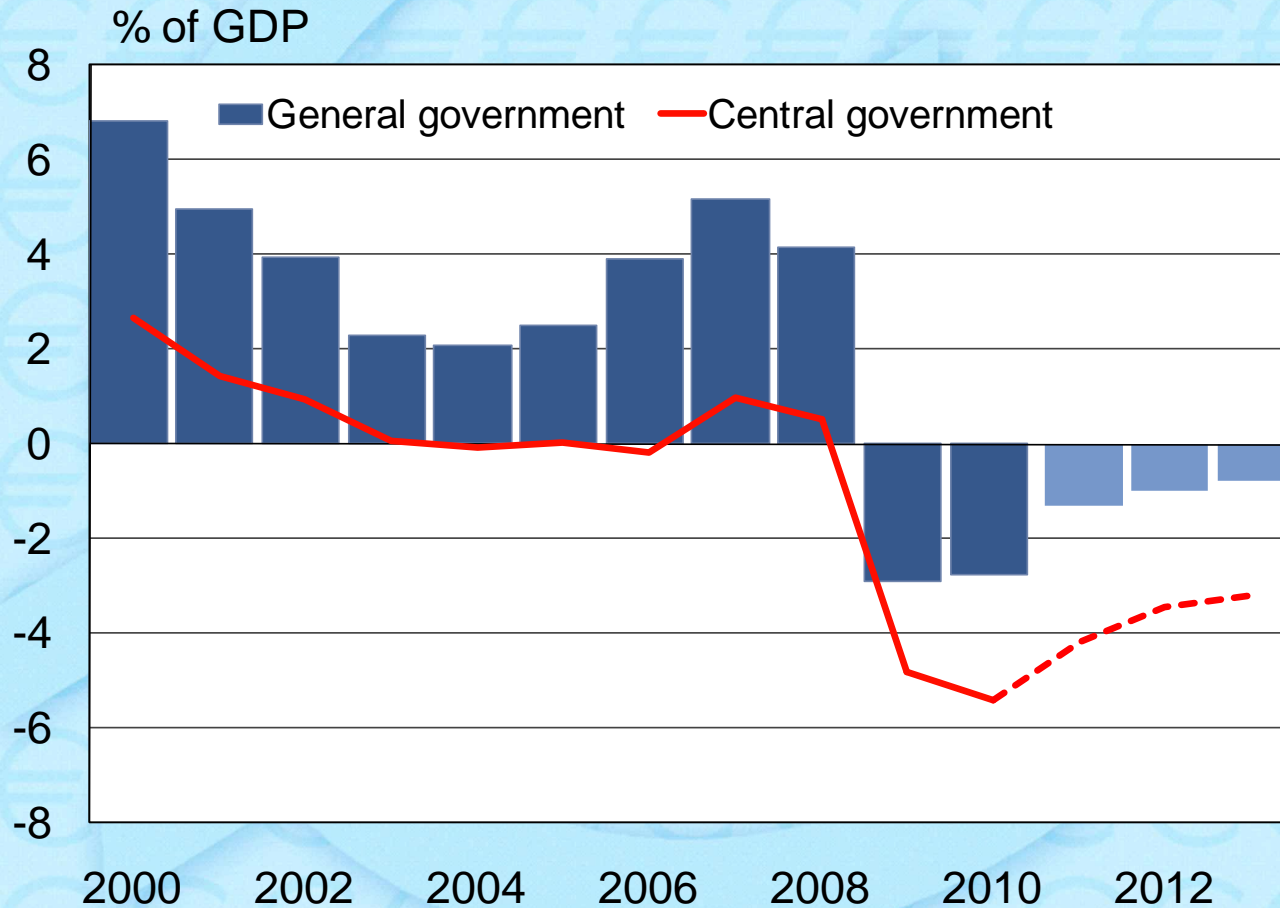
- Harmonised index of consumer prices, Finland
- Harmonised index of consumer prices, euro area



Sources: Statistics Finland, Eurostat and Bank of Finland.

# Public finances remain in deficit

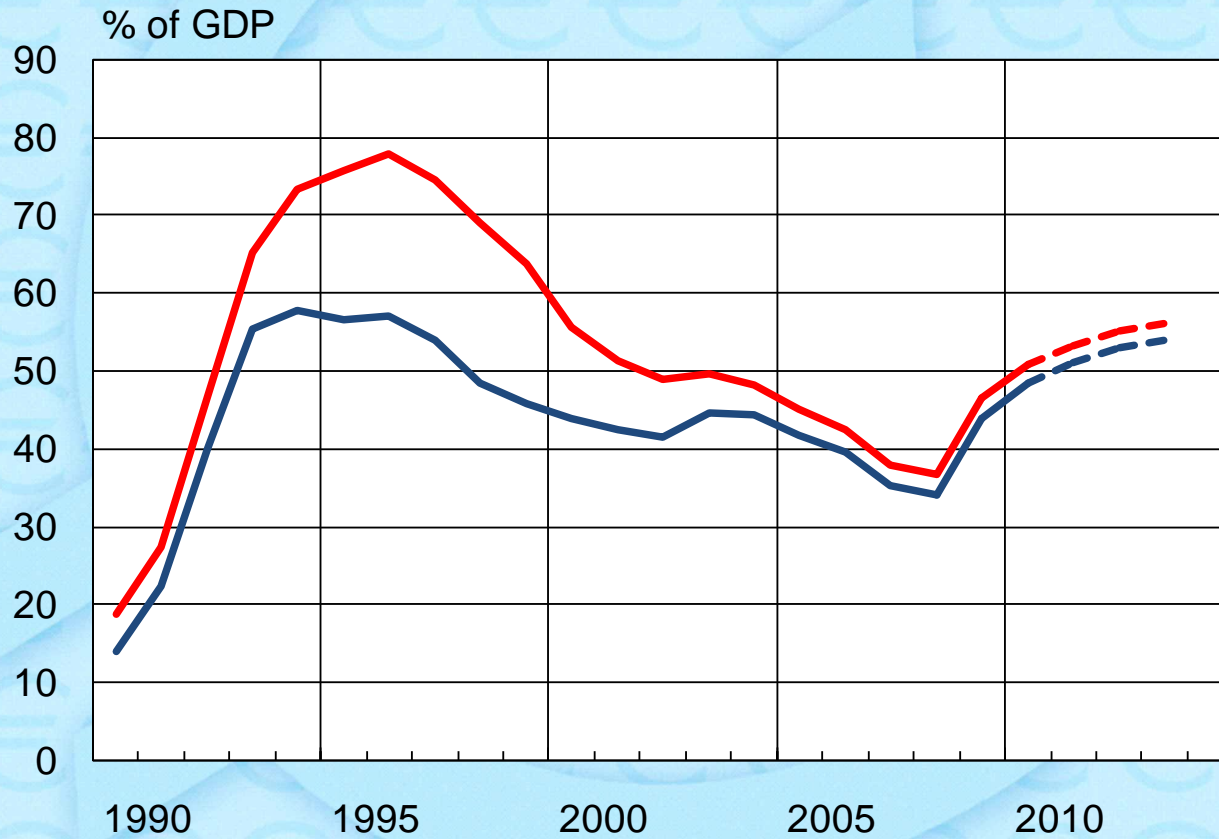
## General government balance



Sources: Statistics Finland and Bank of Finland.

# Public debt still rising

- General government EMU debt
- Central and local government debt



Sources: Statistics Finland and Bank of Finland.