Analysis

Most recent statistical data point to faster-than-expected moderation of economic growth

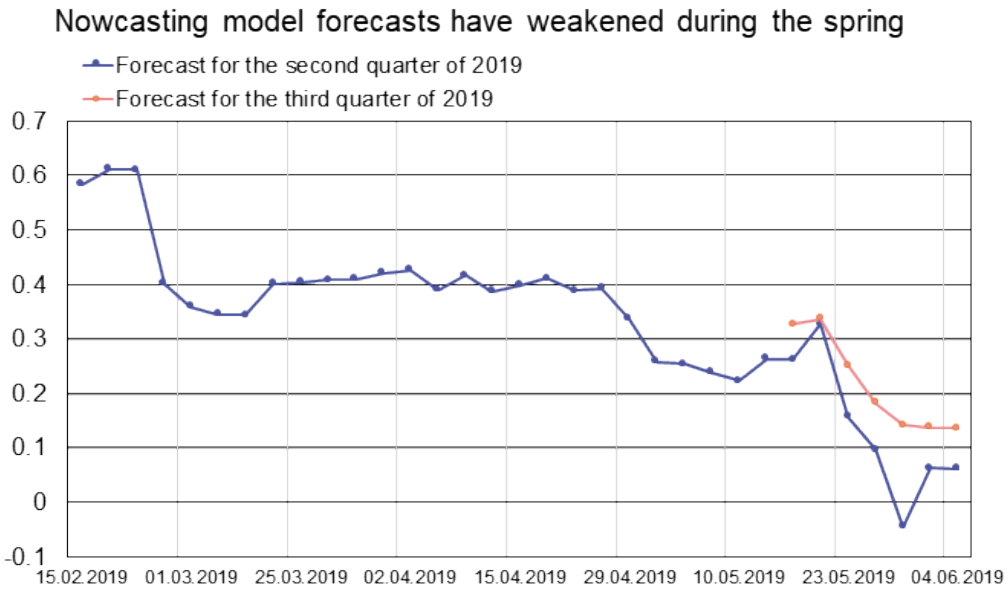
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According to the most recent quarterly national accounts, GDP in the first quarter of 2019 grew 0.2% quarter-on-quarter and 1.2% year-on-year. Growth was notably weaker than suggested by preliminary data. In addition, revisions to historical data pushed down the growth estimate for the end of 2018. Economic growth appears to be slowing more rapidly than previously anticipated.



According to the most recent quarterly national accounts, GDP in the first quarter of 2019 grew 0.2% quarter-on-quarter, which was notably less than suggested by the GDP flash estimate (0.6%). The quarterly national accounts data was published on 29 May 2019 and is not taken into account in the Bank of Finland's summer 2019 forecast. The year-on-year growth rate for the first quarter of 2019 slowed to 1.2% from the 2.2% suggested by the flash estimate (Chart 1). Due to this moderation, Finnish GDP growth fell below the euro area average, which for the first quarter of the year was 0.4%.

Chart 1.



Sources: Statistics Finland and calculations by the Bank of Finland.

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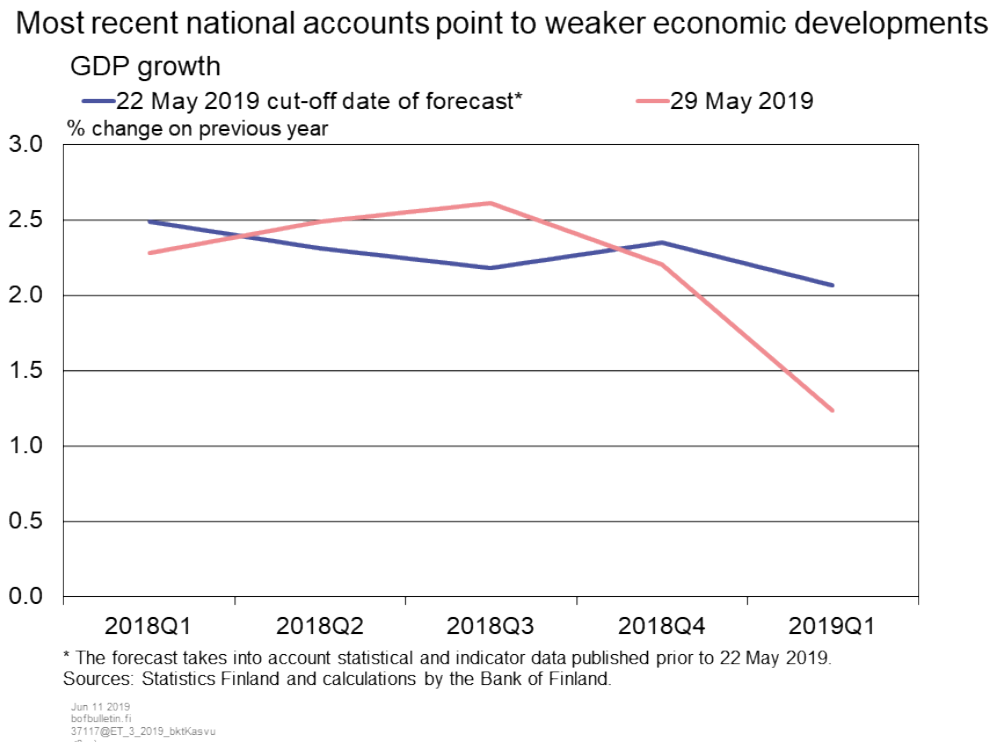
The national accounts data presently signal weaker economic growth for the turn of the year than the data used for the Bank of Finland forecast. If the data revisions for 2018 and the new quarterly national accounts for the first quarter of 2019 were taken into account, GDP growth for 2019 would be in the range of 1.0–1.5% instead of the currently forecast 1.6%.

The nowcasting model foresees slow growth also for the second and third quarters of the year. At present (4 June 2019), the model forecasts a clear deceleration for the second quarter, and during the spring the forecast has weakened significantly (Chart 2) as new data has become available. At the end of February, the forecast weakened in response to a deterioration of confidence among consumers and the industrial and construction sectors as well as more sluggish world trade and lower confidence among German companies. In April–May, in turn, the growth forecast weakened due to a further decline in confidence figures (both in Finland and in the United States) and a fall in the capacity utilisation rate.

The most recent substantial deterioration in the growth forecast for the second quarter of 2019 produced by the nowcasting model was at the end of May, when the growth forecast fell to around zero on account of the weaker employment figures, capacity utilisation rate and German corporate sector confidence. The aforementioned new quarterly national accounts data notably depressed the growth outlook for the first quarter of the year, which in the nowcasting model, in turn, was reflected positively in the outlook for the second quarter, the data lowering the first

quarter's reference level.

Chart 2.

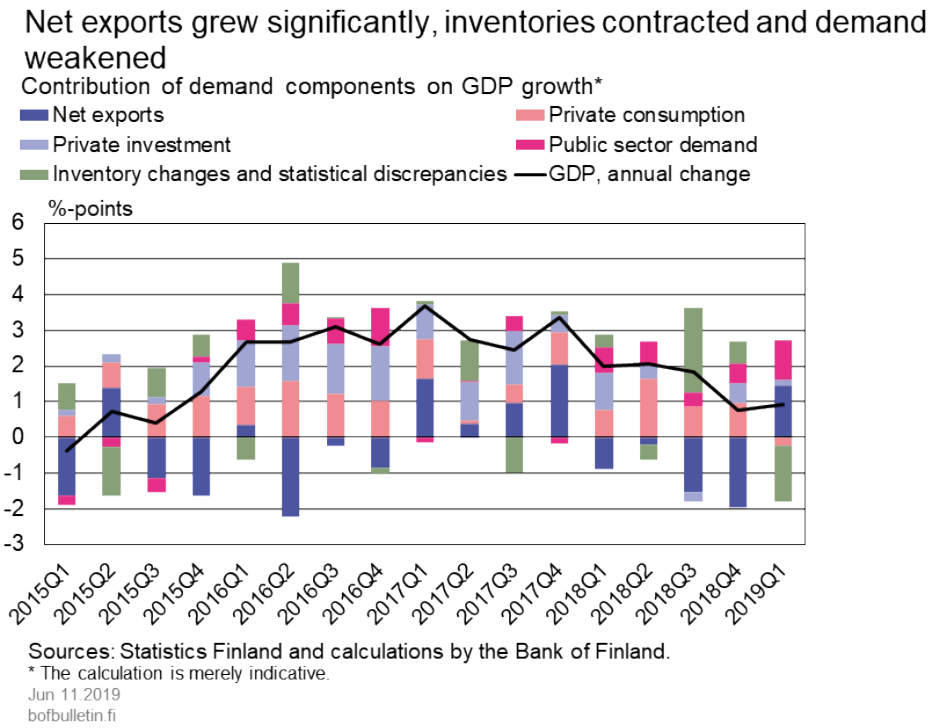


For the third quarter of 2019, the nowcasting model currently (4 June 2019) foresees only slightly stronger growth than for the second quarter of the year. The model's forecast accuracy is, however, weaker for the next quarter than for the current one. The growth forecasts for the second and the third quarters have gained support at the end of May from construction sector figures and better-than-expected confidence data.

Net exports strong, inventories smaller

Exports grew in the first quarter of 2019 by 3.0% quarter-on-quarter. Imports, in turn, contracted steeply, by 5.7% from the previous quarter. Net exports were strong. However, the brisk growth in exports largely reflects cruise ship deliveries. A large contraction in inventories compensated for the contribution of strong exports to GDP growth (Chart 3).

Chart 3.



Private consumption growth was much weaker than expected, with consumption decreasing by 1.2% on the previous quarter. Private investment growth remained modest, too. Housing construction continued to grow slightly, but investment in machinery and equipment decreased. Private investment was 0.7% up quarter-on-quarter and only 0.8% up year-on-year. Public consumption expenditure, in turn, increased strongly, by 2.7% on the previous quarter. On the other hand, public investment decreased steeply both quarter-on-quarter and year-on-year.

Value added grew in several sectors

The volume of value added in the first quarter of 2019 grew 0.5% quarter-on-quarter and 1.5% year-on-year. Manufacturing value added increased 2.3% on the previous quarter. Of the various manufacturing subsectors, only the forest industry saw a decline in value added. Of all the sectors, electrical engineering and electronics grew particularly strongly. In financial and insurance activities, in turn, the volume of value added contracted markedly.

Employment growth is clearly slowing. The number of persons employed remained unchanged on the previous quarter and rose 1.5% year-on-year. Similarly, the number of hours worked remained unchanged quarter-on-quarter and increased 1.2% year-on-year.

Finnish economic growth has slowed more rapidly than previously anticipated. The most recent

statistical data suggest that uncertainty about near-term economic developments in Finland has increased further. The information produced by the nowcasting model has weakened markedly during the spring.

Keywords

national accounts, nowcasting, nowcasting