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Finland's growth to slow – contributing factors both international and domestic

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Finland's economic growth will slow over the next three years. This is due to both international and domestic factors. But the news from the Finnish economy is not all bad. The foundations of growth remain. Among other factors, the competitiveness of Finland's export industries has improved, while low interest rates are supporting household consumption and corporate investment.



Growth has slowed both in the euro area and in other parts of the world. The uncertainty in the international economy is visible particularly in that companies are not as willing to risk new investments as they have been in better times. Finland exports a great deal of machinery and equipment. Demand for these products will decline as investment fades around the world, and Finnish export growth will slow accordingly.

The increased uncertainty would also seem to have made Finnish households more cautious. People are saving for a rainy day more than before. Growth in household consumption is fading and is no longer outstripping the pace of income growth. Corporate investment is still supporting growth, but investment growth is also slowing. Brisk housing construction has for a long time been

supporting investment, but it, too, is now fading. The turn in the housing market is also reflected in growth in the number of unsold new apartments.

Finland's economic growth will not, however, peter out entirely. Exports took a temporary wobble in 2018, but export growth will continue, as economic growth in the euro area and around the world is expected to pick up slightly after the current year. The competitiveness of goods and services produced in Finland has improved relative to other countries, and recent years' improvements in competitiveness will certainly be of help to Finnish companies in their export efforts.

The European Central Bank is pursuing an accommodative monetary policy, i.e. interest rates will remain low. In Finland, as elsewhere, this will create a good environment for households to consume and businesses to invest. Higher wages and improved employment figures will increase the public's ability to purchase new goods and services. Thus, Finland's economic environment as a whole will offer a good base for growth to continue, even if the global economy is in a weaker state than before.

Employment growth will continue over the next few years much more sluggishly than heretofore, as economic growth will also be slower. The decline in the unemployment rate will flatten out, with the rate standing at slightly over 6% in 2021. The labour market has long suffered from a problem of matching job vacancies with unemployed workers, and this would appear to be set to continue to some degree in the immediate years ahead. This will make it harder to improve the employment picture in Finland. Moreover, the ageing population will further limit opportunities to boost employment, as people of working age will be progressively fewer as a share of the overall population.

The forecast is based on the flash estimate of first-quarter 2019 GDP published by Statistics Finland as well as other data available on 22 May 2019.

Keywords

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