

ADDITIONAL
INFORMATION

Sakari Lähdemäki
Head of Forecasting
+358 40 940 2830
sakari.lahdemaki@labore.fi

Essi Lindberg
Communications Manager
+358 40 940 2835
essi.lindberg@labore.fi

ECONOMIC FORECAST 2022–2024

Towards a small recession – in exceptional times

Summary of Labore's 2022 Autumn
Economic Forecast for 2022–2024



INSTITUTE FOR ECONOMIC RESEARCH
Labore
EST 1971

ECONOMIC FORECAST 2022–2024

Towards a small recession – in exceptional times

Summary of Labore's 2022 Autumn Economic Forecast for 2022–2024

Finland's GDP is expected to grow 1.8 this year, 0.7 in 2023, and 2.1 in 2024. The forecast for 2023 is 0.8 percentage points less than in our last forecast round in spring 2022. This revision was mainly because of the deepening of the energy crisis in Europe. We expect that Finland's trade with Russia will collapse this year and not revive in 2023-2024. Also, Western countries' overall slower growth prospects, global inflationary pressure, and tightening monetary policy weaken Finland's economic outlook.

The continuation of the Russian invasion of Ukraine has led most international institutions to revise downward



Photo: Pixabay

the growth prospects of all major economies, including the US, the Euro Area, and China. The current energy crisis constitutes a large burden on Euro Area growth prospects, although small positive GDP growth is expected for 2023 and moderate growth for 2024. Regarding inflation,

DEMAND AND SUPPLY

	Percentage change in volume (%)			
	2021	2022f	2023f	2024f
Gross Domestic Product	3.0	1.8	0.7	2.1
Imports	5.6	5.0	1.3	2.4
Exports	5.6	2.6	3.7	4.1
Consumption	3.3	2.0	1.1	1.3
private	3.6	1.5	0.4	1.5
public	2.7	3.0	2.7	0.8
Investment	1.1	3.1	1.0	2.6
private	4.6	2.9	1.2	3.6
public	-12.7	4.1	0.0	-2.3

Source: Statistics Finland, Labour Institute for Economic Research LABORE

there are some initial signals of inflation pressures easing for the US economy, while peak inflation has not been reached in Europe, due to the higher reliance on energy resources from Russia. There is still no clear consensus whether the US economy is headed toward a recession, while economy watchers are more pessimistic regarding the Euro Area. However, the possible recession is expected to be short-lived and moderate in size.

Exports growth will be modest during the current year, and imports will grow essentially faster. Exports to Russia have collapsed, and subsequent exports growth will depend on the extent to which other markets can be found for the products that were intended for the Russian market. Despite the bleak outlook in the short run, for example, the value of the order books of the technology industries remains high, and we expect exports to return to higher growth already next year. The prices have gone up rapidly in foreign trade, but import prices have grown only slightly more than export prices. Despite the rapid price change, we expect the changes in the terms of trade to remain modest also in the future.

The labour market situation has been revised since the spring. The rise in consumer prices and the increase

in working hours have been stronger, and the development of employers' profitability has been more positive than anticipated in the spring. Pressures for wage increases have increased as a result of these three factors. In such a situation, however, the growth of earnings can be significantly higher than before without turning positive employment development into a significant decrease. The risks are related to a situation where high and long wage contracts have been made, and economic development is markedly weaker than predicted.

Inflation will accelerate to 6.8 percent in 2022. In early 2022, inflation was especially driven by rising energy and food prices but has since spread also to other components. According to our forecast, the inflation rate will fall to 3.6 percent in 2023 as the surge in energy prices ends. In 2024, the inflation rate will be 2 percent.



LABOR MARKETS

	2021	2022f	2023f	2024f
Unemployment rate (%)	7.7	6.7	6.9	6.6
Employment rate (%)	72.3	73.1	72.7	73.6
Index of wage and salary earnings, 2015=100 (%)	2.4	4.0	5.0	5.0
Labor productivity (%)	-0.2	1.0	0.8	0.8

Source: Statistics Finland, Labour Institute for Economic Research LABORE

PUBLIC FINANCE

	2021	2022f	2023f	2024f
Public sector surplus (Bill.)	-6.8	-5.9	-4.4	-3.7
EDP-debt divided by nominal GDP	65.8	65.6	66.3	66.1

Source: Statistics Finland, Labour Institute for Economic Research LABORE

Private consumption is expected to increase by 1.5 percent in 2022, 0.4 percent in 2023, and 1.5 percent in 2024. In 2022 and early 2023, private consumption will be curbed by high inflation and negative real wage growth. However, the sizable savings accumulated during the pandemic in 2020 and 2021 will support private consumption.

Investments are forecasted to grow around 3 percent in 2022. Investment shall grow clearly slower in 2023 but again somewhat faster in 2024. The expected slowdown in growth is largely due to a decrease in construction investments. The war in Europe has raised general uncertainty, which slows down the growth of investments. At the same time, new pressure to invest, for example, in defense, and the energy sector, strengthen growth in 2022–2024.

Public finances will be in deficit in 2022–2024, and the debt remains high owing to the recent macroeconomic crises following the Russian invasion of Ukraine and the recovery from the pandemic. Considering the next year, the government is not inclined to impose tax increases, sizeable spending cuts, or other structural measures to increase the efficiency of the public sector. Public consumption is expected to grow each year from 2022 to 2024 while growth in 2024 is expected to be slower. Finland's demographic structure creates a long-term structural imbalance between public expenditure and revenue. A plan for managing the chronic deficit needs to be prepared for the post-crisis era. ■

ADDITIONAL INFORMATION

SAKARI LÄHDEMÄKI

Head of Forecasting

+358 40 940 2830

sakari.lahdemaki@labore.fi

www.labore.fi

