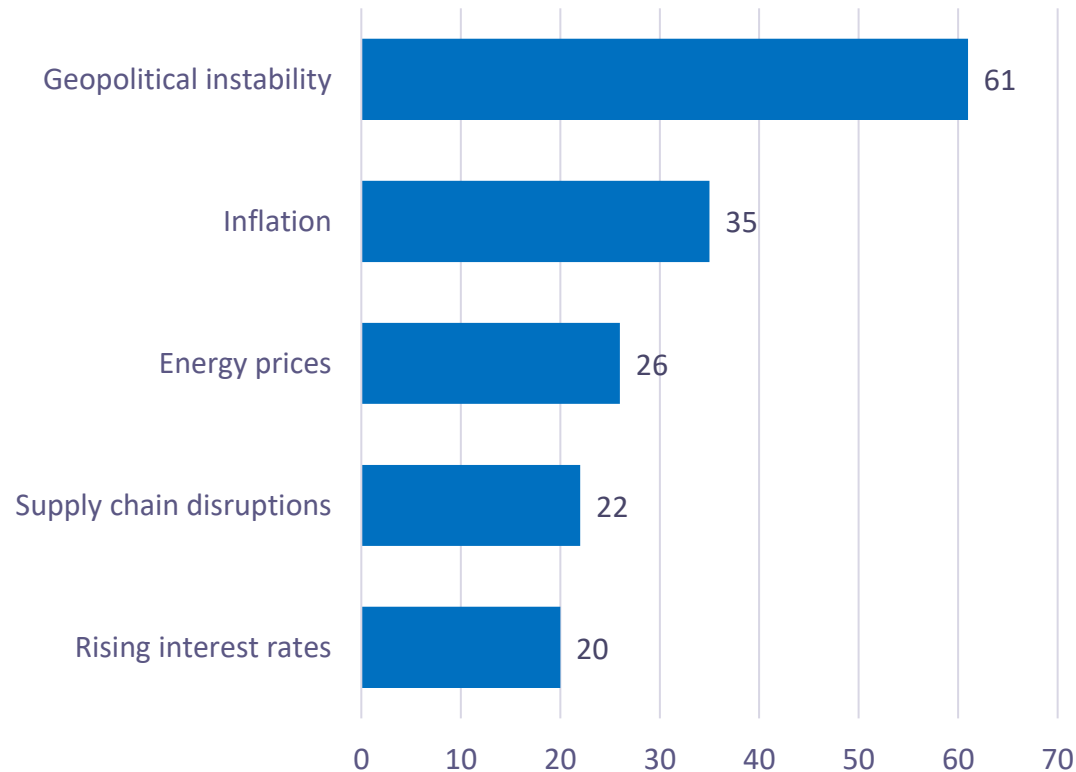


“You must always be prepared for the unexpected, including sudden, sharp downward swings in markets and the economy. Whatever adverse scenario you can contemplate, reality can be far worse.”

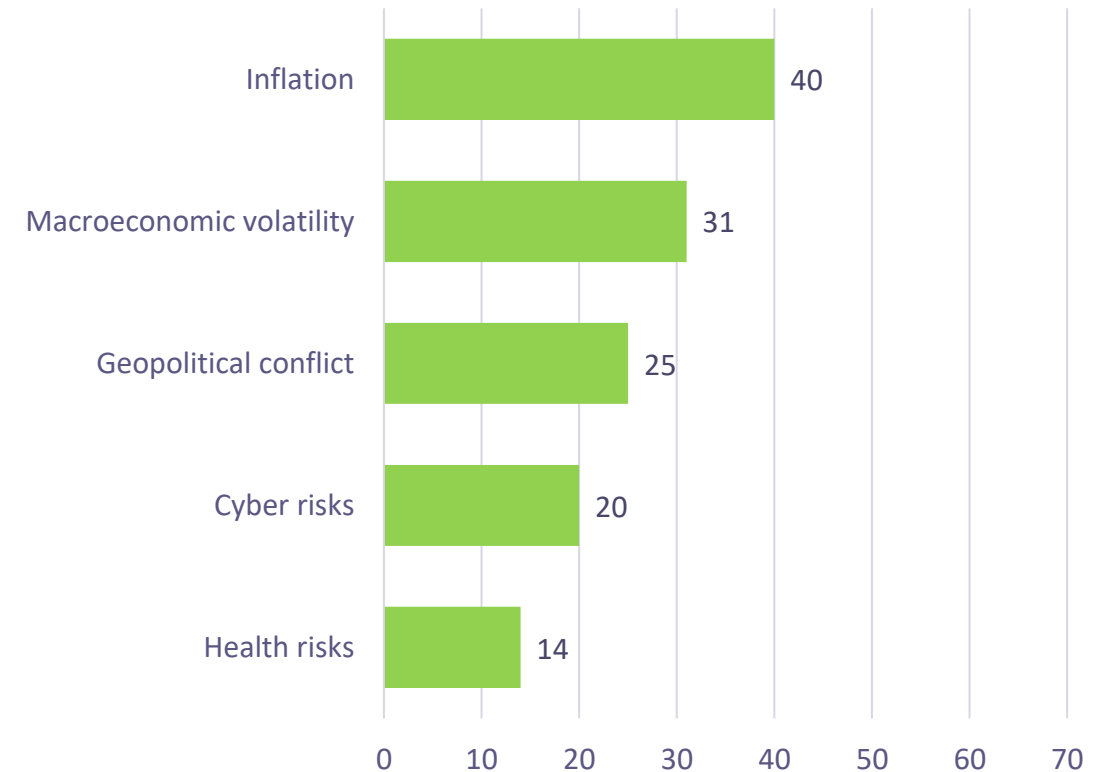
Seth Klarman

Dainis Gašpuitis  
SEB banka's economist

## McKinsey survey: Potential risks to economic growth (% of respondents)



## PwC survey: Key threats in the next 12 months (% of respondents)



# Indicators of economic activity: Glimpse of hope?

PMI index (green - expansion; red - contraction)

(S&P Global, Composite)

	January 2022	February	March	April	May	June	July	August	Septemeber	October	November	December	January 2023
Euro zone	52.3	55.5	54.9	55.8	54.8	52	49.9	48.9	48.1	47.3	47.8	49.3	50.2
US	51.1	55.9	57.7	56	53.6	52.3	47.7	44.6	49.5	48.2	46.4	45	46.6
Japan	49.9	45.8	50.3	51.1	52.3	53	50.2	49.4	51	51.8	48.9	49.7	50.8
UK	54.2	59.9	60.9	58.2	53.1	53.7	52.1	49.6	49.1	48.2	48.2	49	47.8
Australia	46.7	56.6	55.1	55.9	52.9	52.6	51.1	50.2	50.9	49.8	48	47.5	48.2
China	50.1	50.1	43.9	37.2	42.2	55.3	54	53	48.5	48.3	47	48.3	X
India	53	53.5	54.3	57.6	58.3	58.2	56.6	58.2	55.1	55.5	56.7	59.4	X

# Mild recession ahead

Global growth is faced by elevated inflation, higher interest rates, reduced investment, and disruptions caused by Russia's war

Inflation has now fallen and Europe's energy supply situation has improved markedly

China's earlier-than expected reopening is positive for global growth

Downside risks are linked to underestimation of interest rate sensitivity

A clearer decline in inflation may create room for positive growth surprises

Any new adverse development could push the global economy into recession. This would mark the first time in more than 80 years that two global recessions have occurred within the same decade

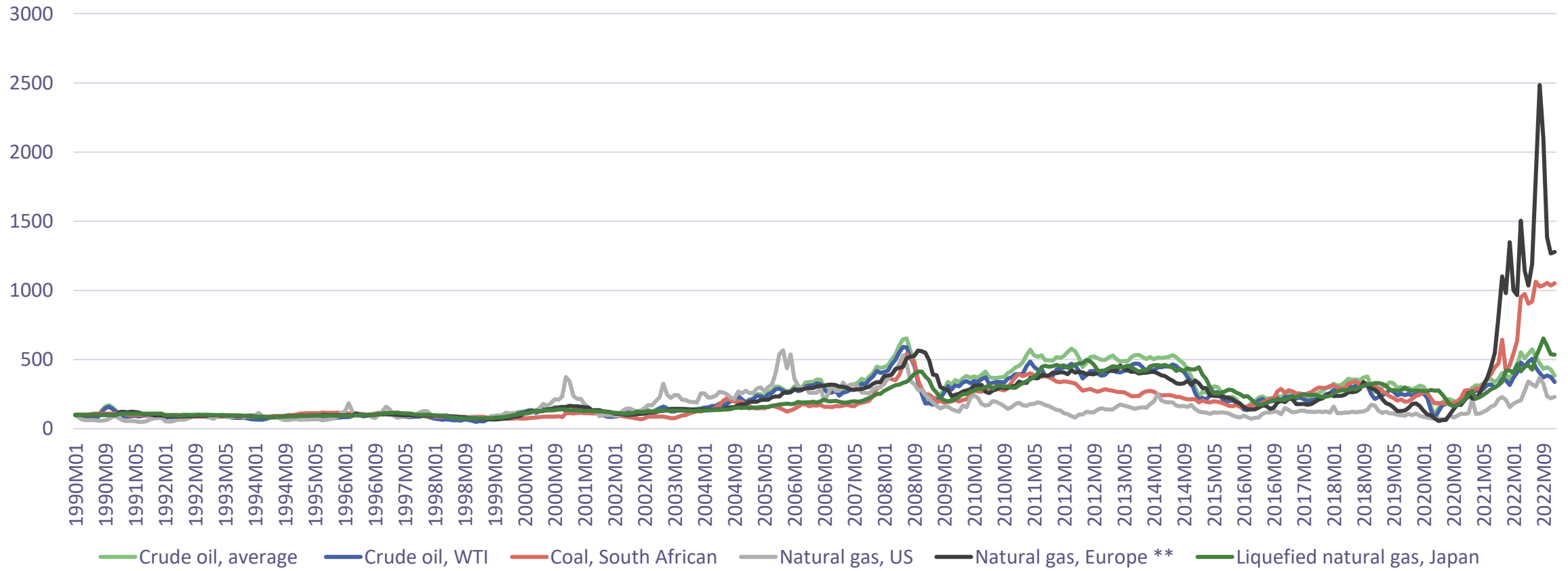
## GDP forecasts % (SEB)

GDP	2022	2023
World	3.3	2.5
US	2.0	0.5
China	3.0	5.5
Germany	1.8	-0.3
UK	4.0	-1.2
Euro zone	3.4	0.0
EM sphere	3.7	3.9



# Fossil fuel prices have calmed down, but risks for Europe remain, with gas prices in focus

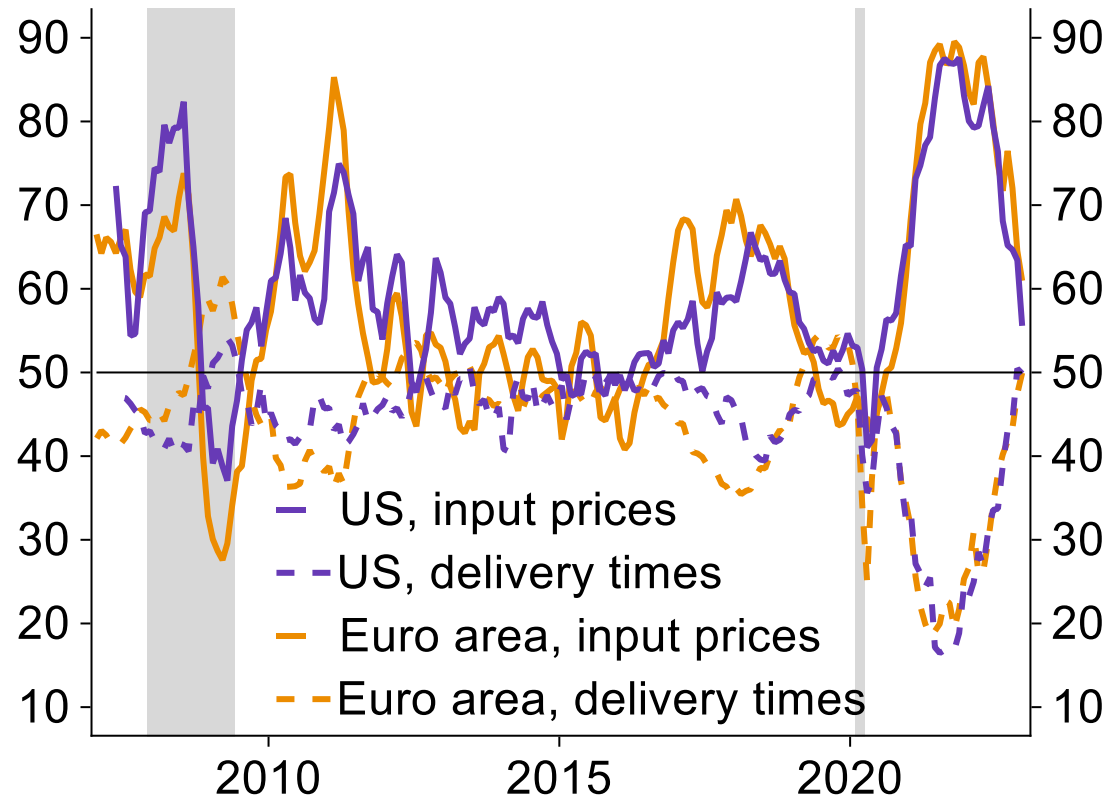
Index 100 = 2019 I



# Delivery times, input and freight prices are normalising

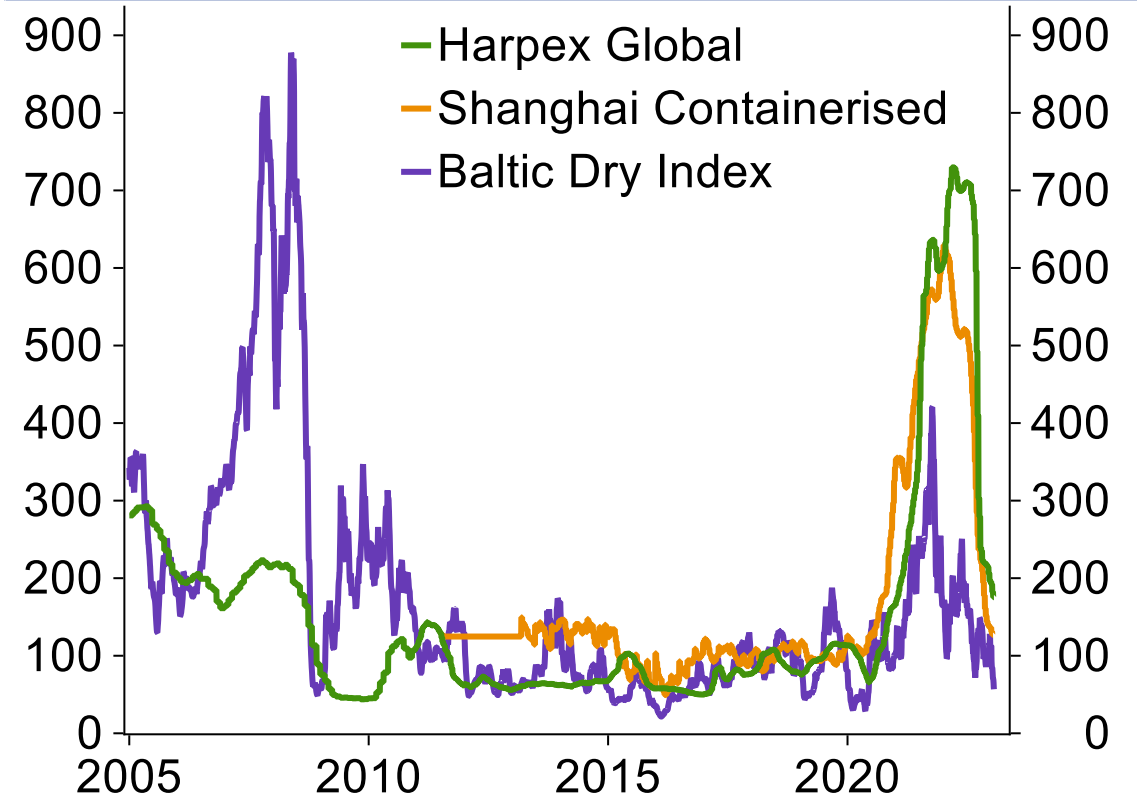
## Supply chains are normalising

Delivery times and input prices



## Freight prices

Index 2019 = 100

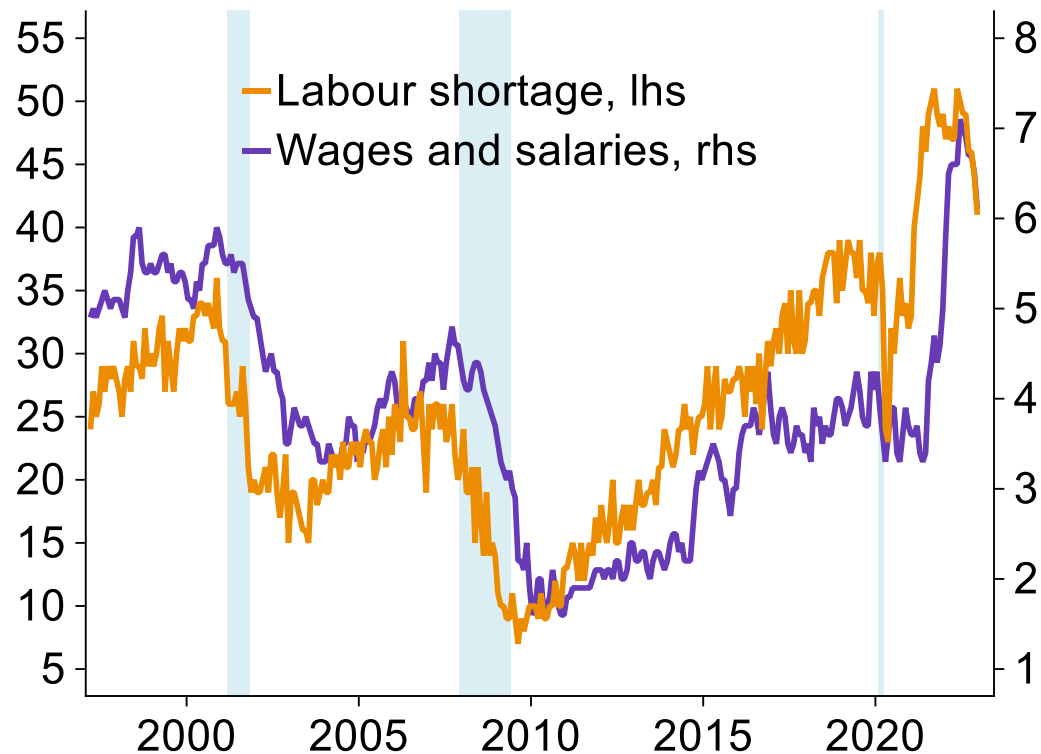


# «The labour shortage forever»

Big labour shortages, but unemployment on its way up

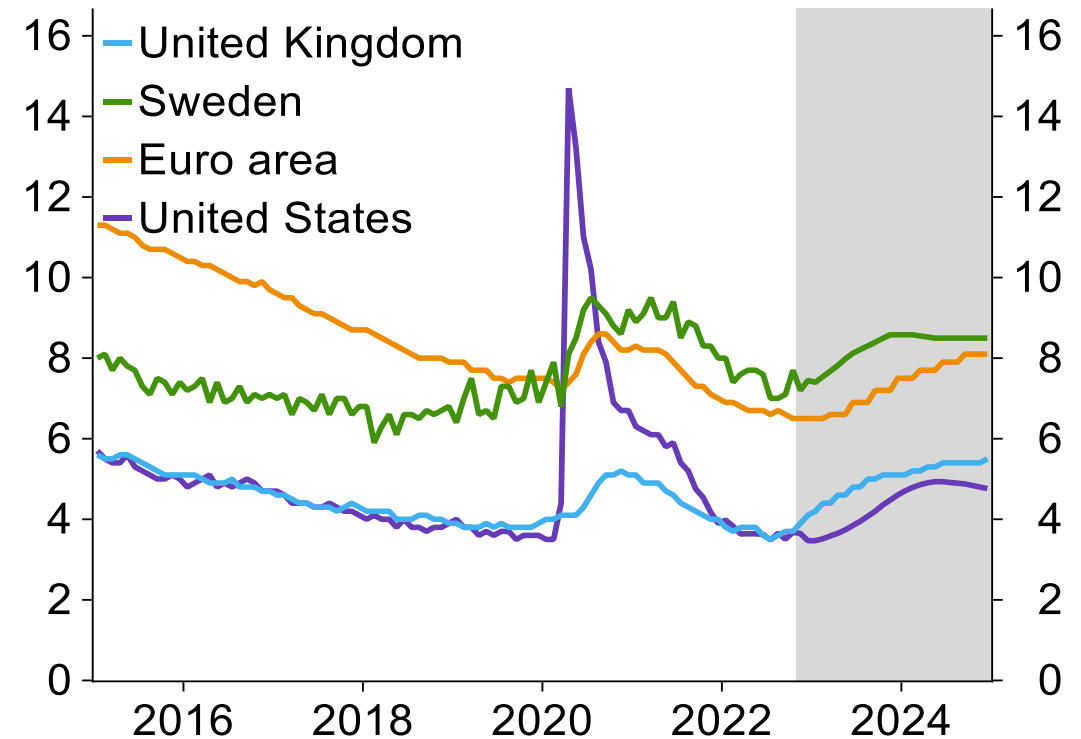
## Shortage figures

US, index Q1 2020=100



## Unemployment

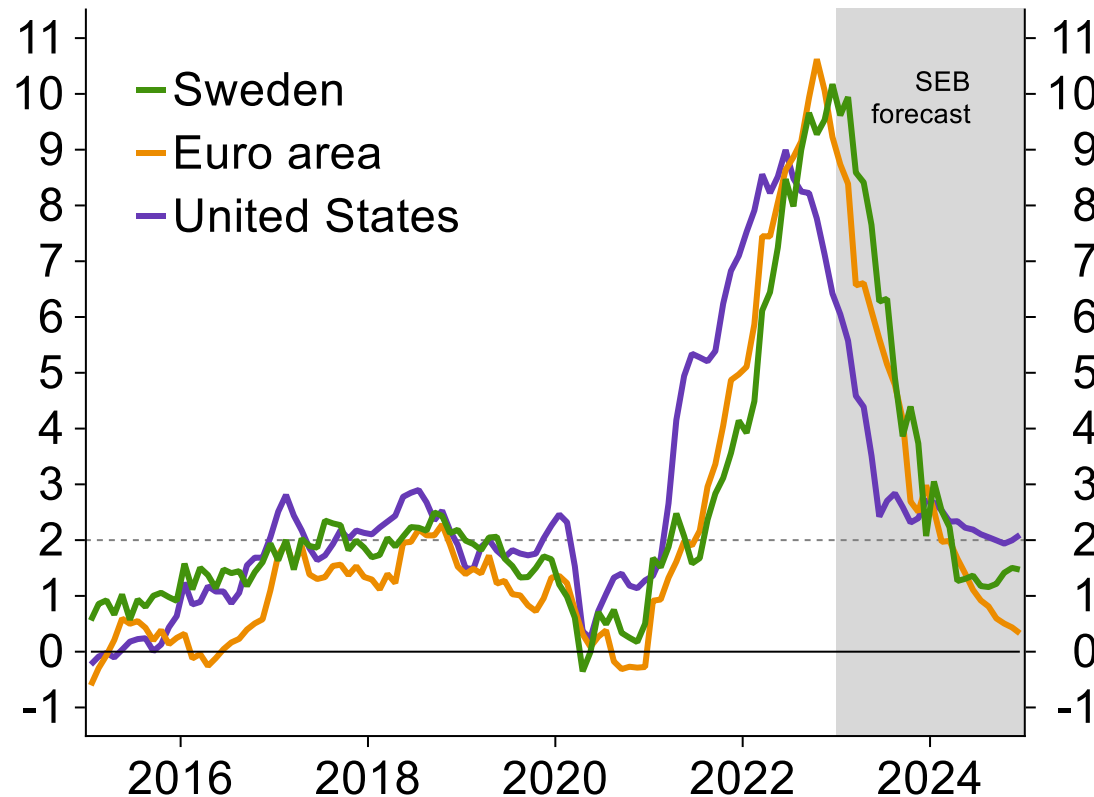
Per cent of labour force



# Inflation: short- and long-term outlook has improved

## Inflation & SEB forecasts

Year-on-year percentage change



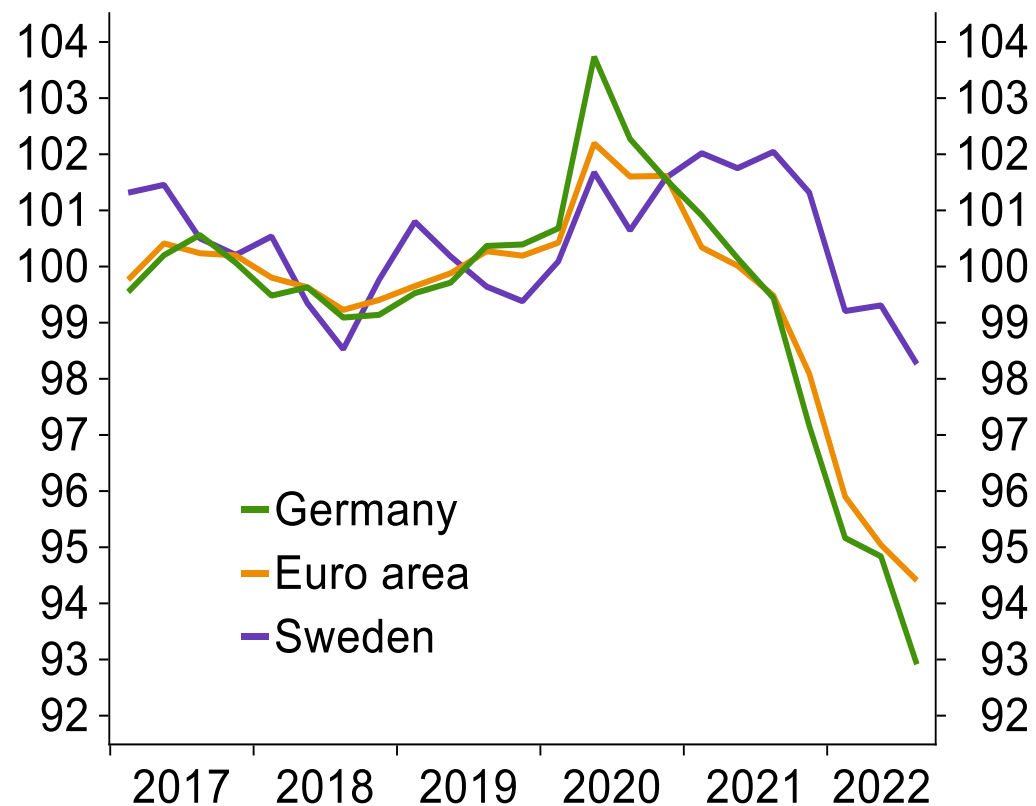
Peak inflation (soon) reached  
Energy – worst is over for EU  
Wage-price spiral unlikely  
Inflation expectations reassuring

Worries about persistent core CPI  
More inflation in the system?  
High level throughout 2023



## Terms of trade

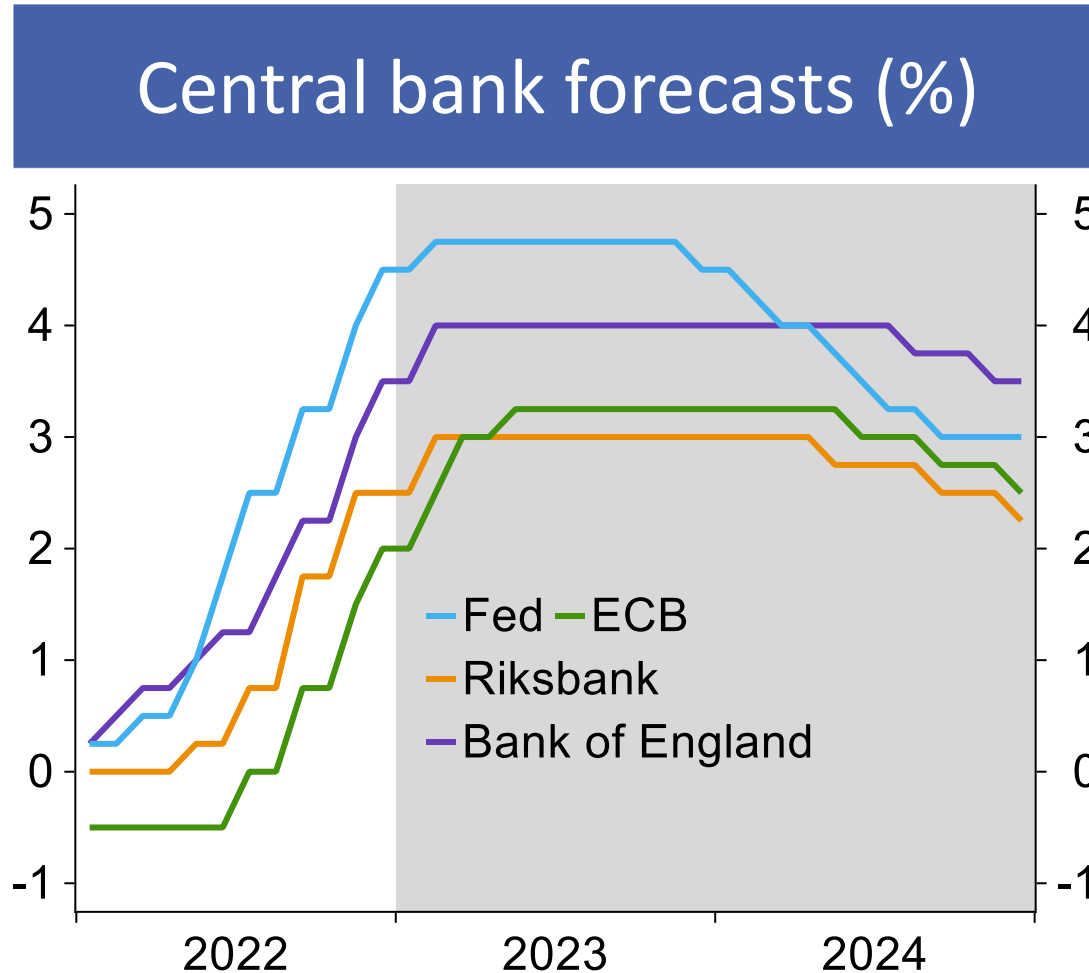
Export prices/import prices, index, 2019 = 100



Manufacturing:  
moderate downturn

Energy prices have  
weakened euro area  
competitiveness

# Central banks hawkish, even though peak rates are near



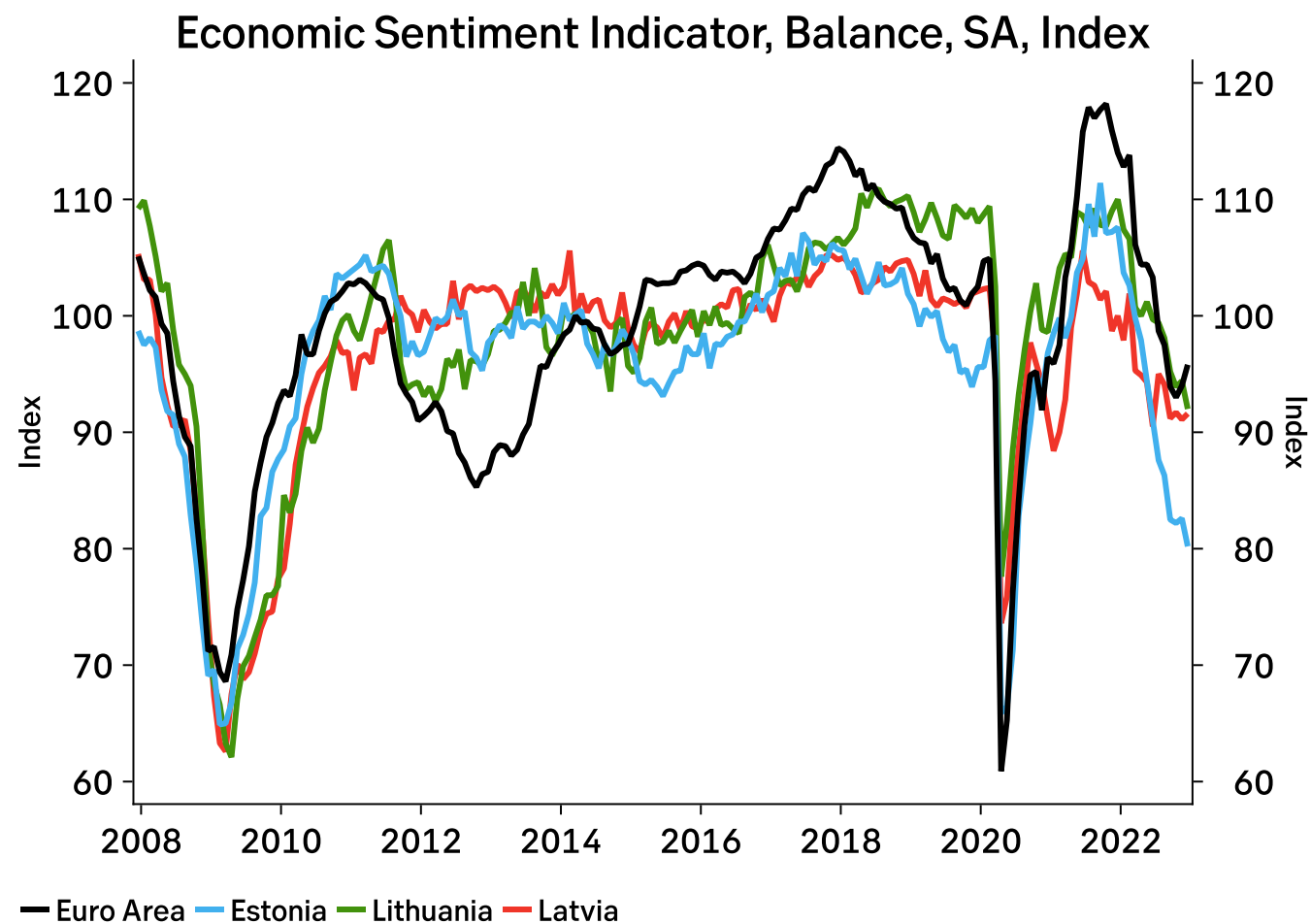
*«It's still the case now in mid-January that we run many scenarios about where interest rates are going to need to go. Under the vast majority of them, interest rates do have to be higher than they are now.*

*... and under a wide range of scenarios, **it's still safe to bring interest rates above where they are now.**»*

*Philip Lane*

*The European Central Bank's chief economist*

# Sentiment should stabilize



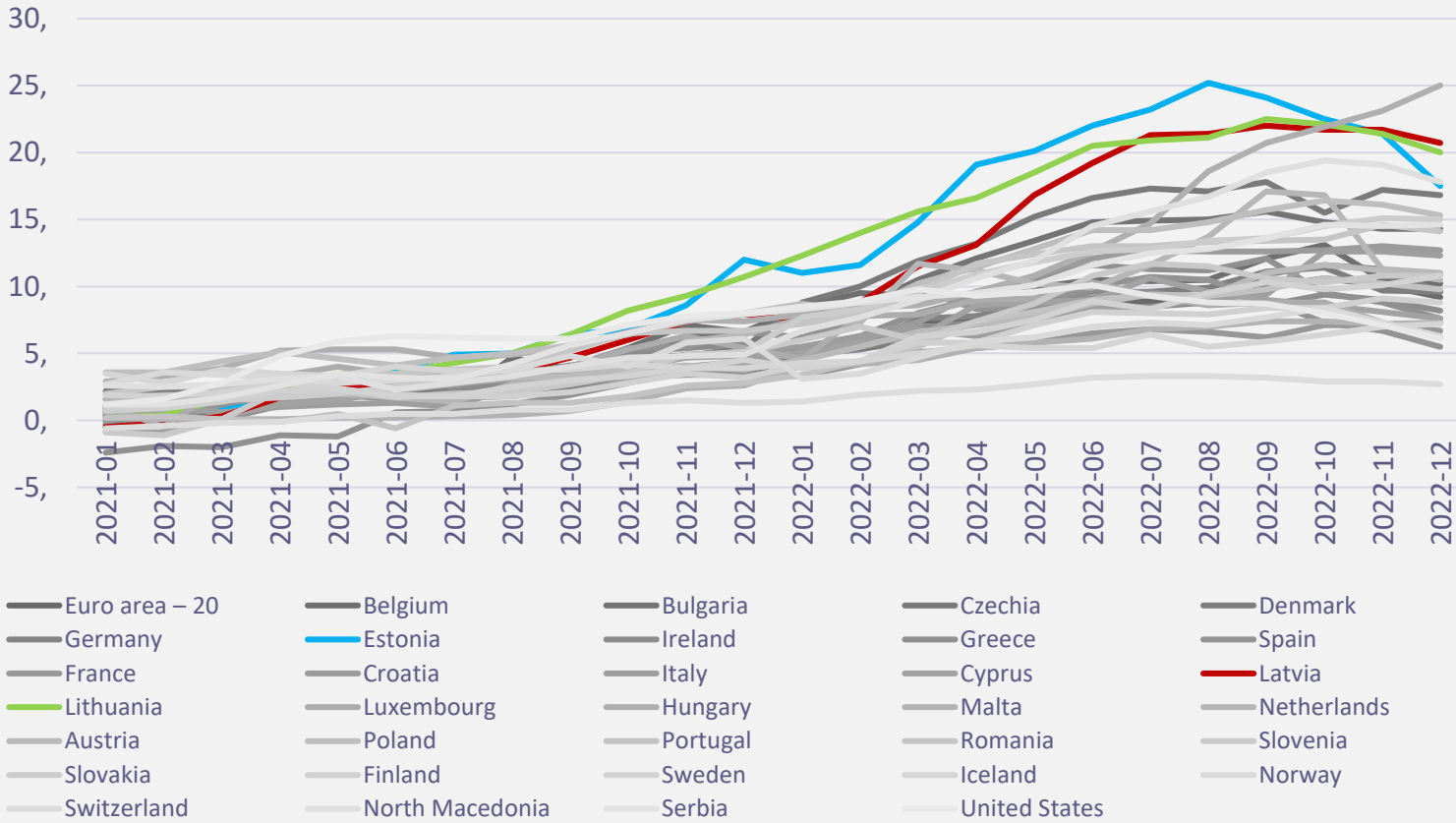
Source: European Commission (DG ECFIN), Macrobond, SEB

GDP forecasts

	2022F	2023F	2024F
Latvia	1.6	0.4	2.7
Lithuania	2.2	0.1	3.5
Estonia	-0.4	0.2	3.5

# Inflation

HCPI, annual changes, %

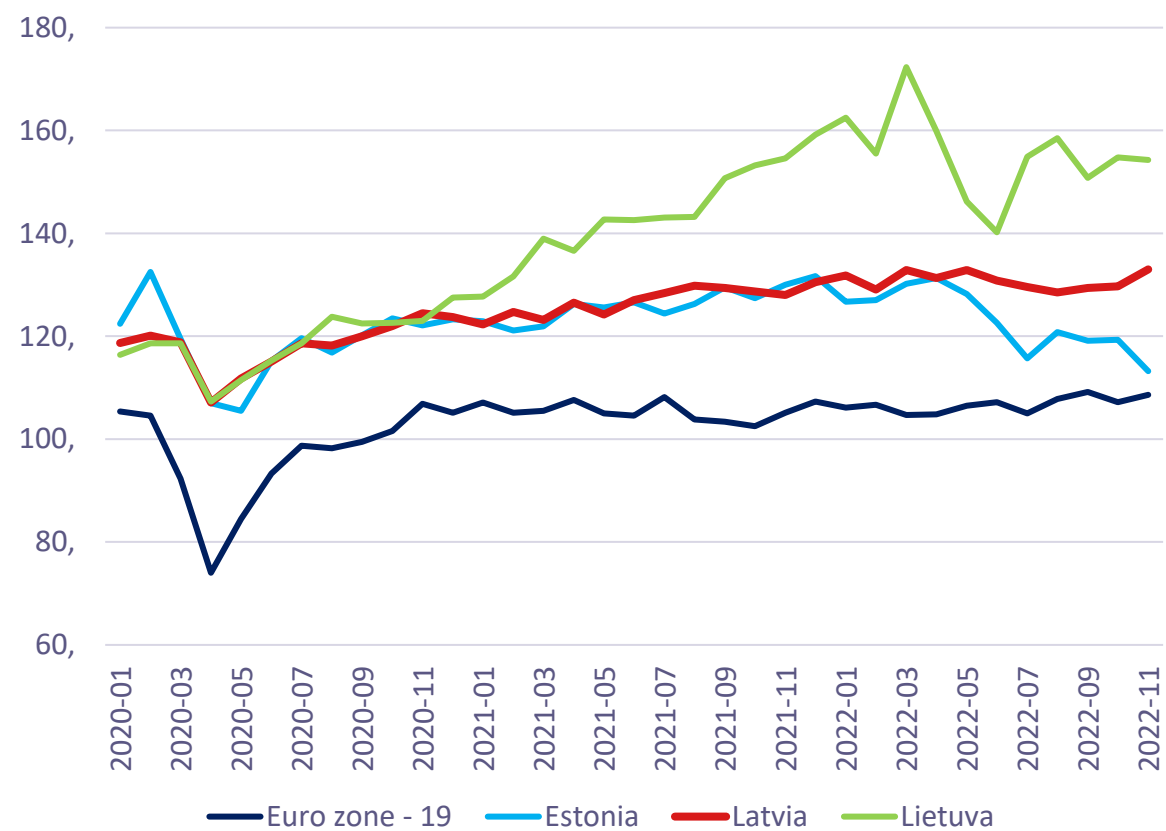


Inflation has peaked  
(for now?)

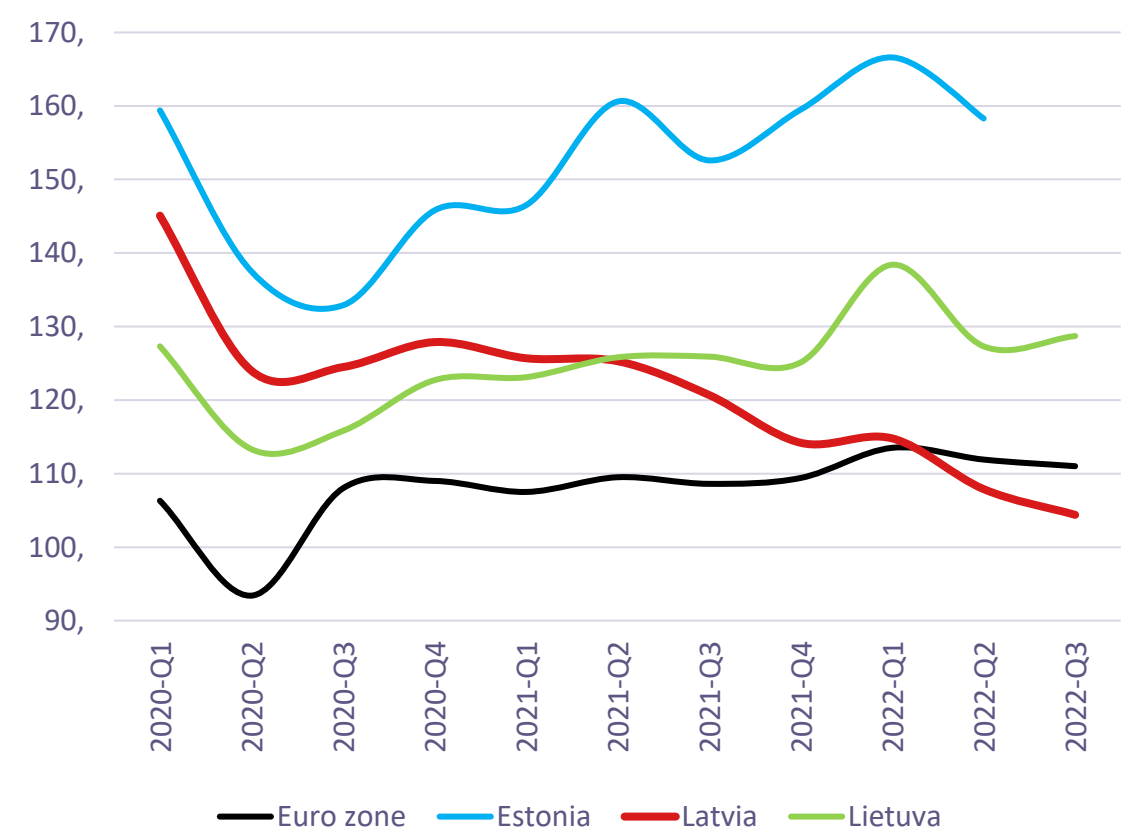
Deflation?

# Stronger headwinds but outlook is moderate

Manufacturing(Index 2015=100)



Construction (Index 2015=100)

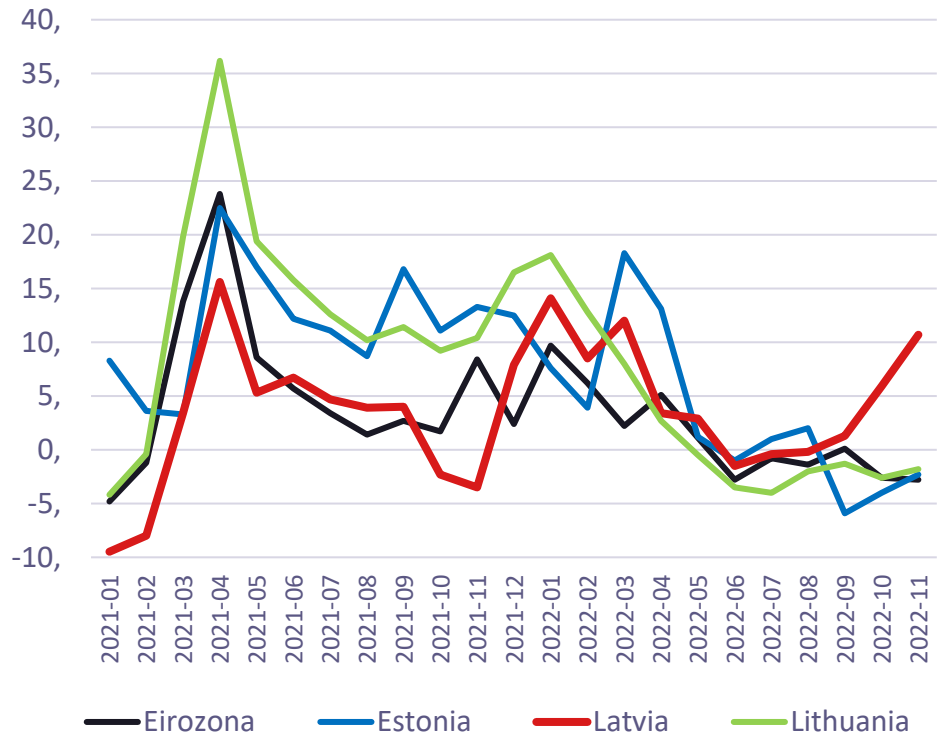


Data: CSB; Eurostat



# Spend more, get less...

Retail (inflation adjusted)  
Annual changes, %



Data Eurostat

Real wages (Latvia)  
Annual changes, %

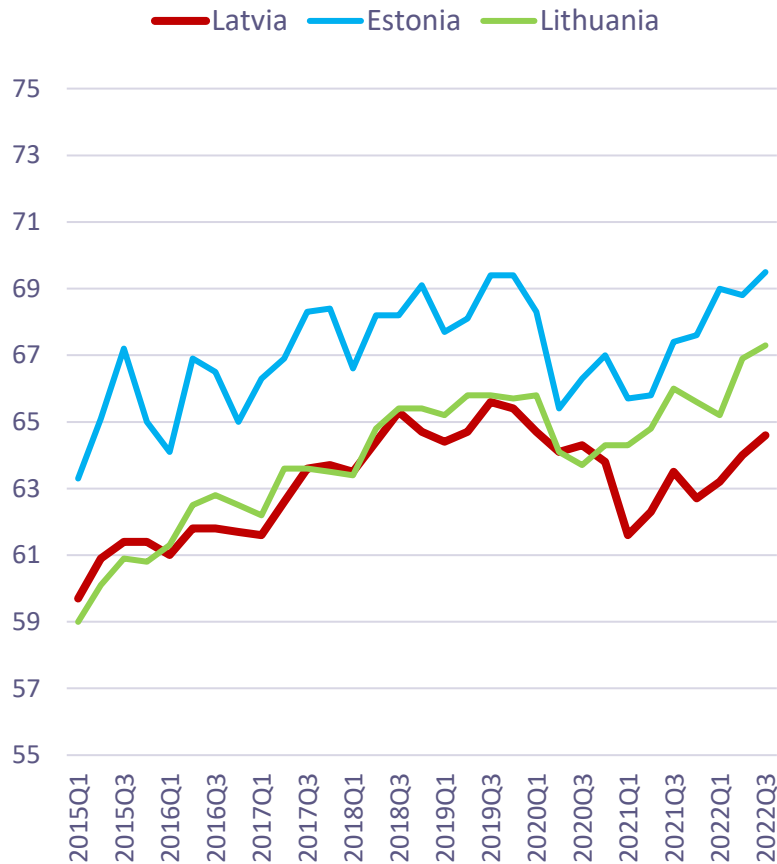


Data: CSB

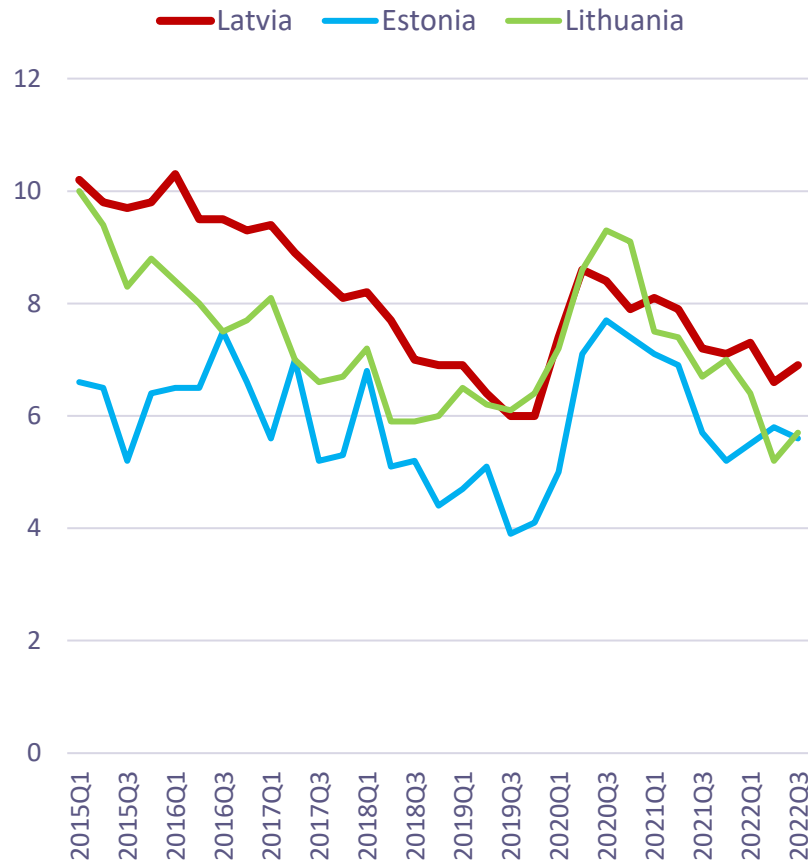
Purchasing power will start to recover in the second half of the year

# The labor market will cool down a bit

Employment; %



Unemployment; %



**The number of vacancies is falling, but still high**

**Unemployment will increase, but moderately**

**Measures to promote employment should be strengthened**

Are you aware of all risks?

