

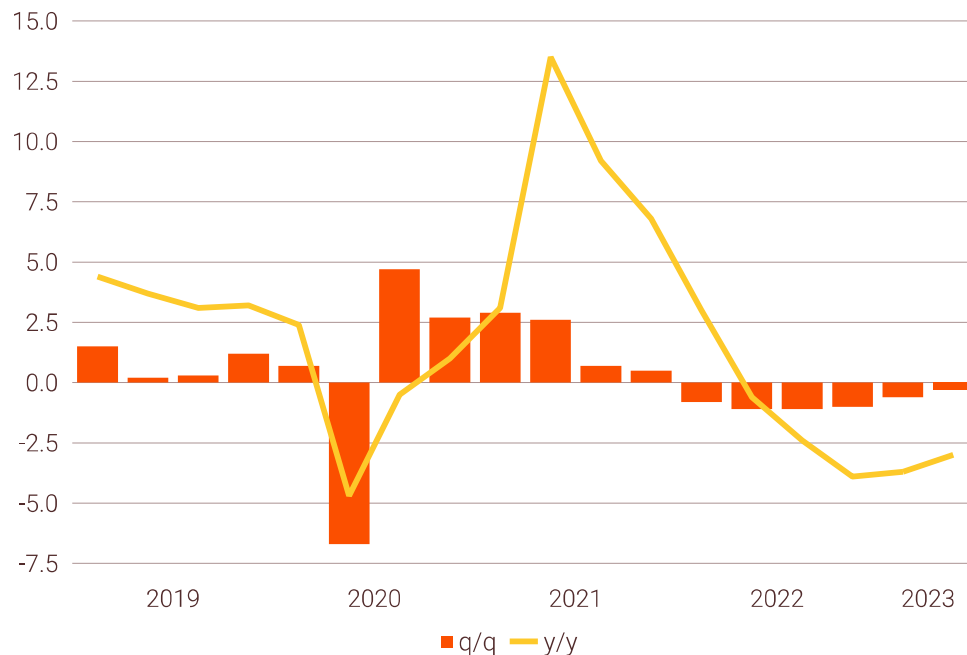
Estonia: the long-lasting recession continued in the second quarter

Estonian GDP has contracted six quarters in a row in real terms

- In Q2 2023, GDP dropped 3% y/y and 0.3% q/q (both swda) in real terms, according to the flash estimate of Statistics Estonia.
- GDP contraction is receding gradually

Estonia: real GDP

%, swda



Sources: Swedbank Research & Macrobond

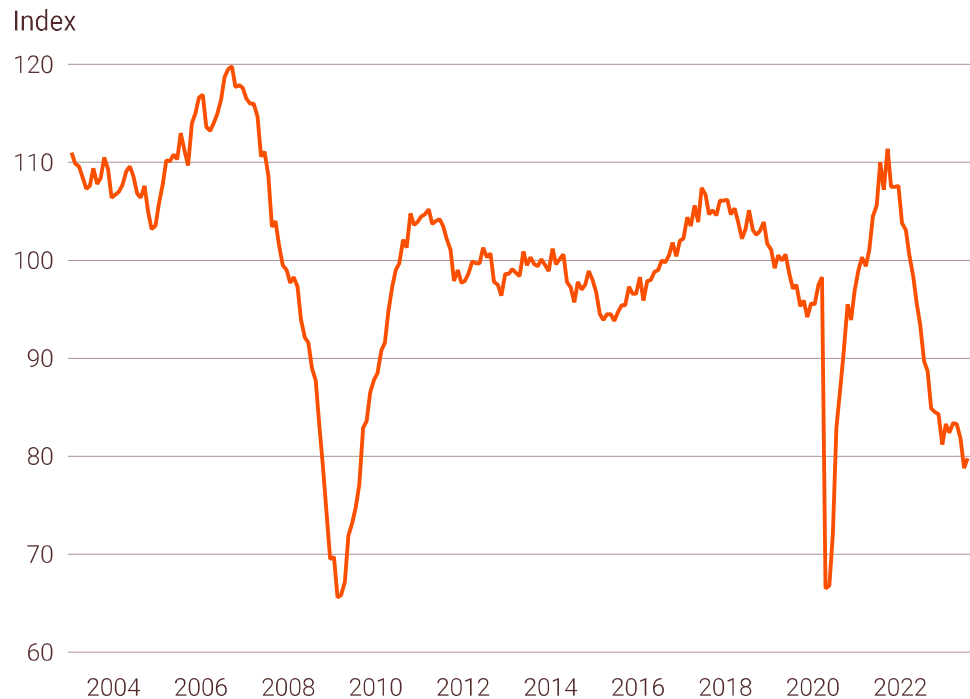
- Estonian economy has contracted six quarters in a row in quarter-on-quarter and five quarters in year-on-year comparison. At the same time, labour market is strong and wage growth is robust.
- GDP contraction in Q2 was below our expectations. In April, we expected that GDP drops 0.8% this year. Based on the current data we are considering revising the 2023 GDP contraction down in the next Swedbank Economic Outlook that we will release later in August. However, Statistics Estonia will publish revised GDP at the end of August, and this can influence our economic forecast.
- The fall of manufacturing output and retail trade volumes have intensified. Deflated export of goods is still far below the level we saw in the same period in 2022. The growth of the number of accommodated tourists slowed in the first two months of Q2 compared to what we saw in Q1.
- Economic sentiment continued to deteriorate in Q2.
- Real wages are rising again, and we expect that households will start to increase their consumption volumes with a certain time lag. The receding contraction of VAT and excise tax receipts refers to the gradual improvement of economic activity.

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Economic activity is still deteriorating, but we expect it to improve in 2H

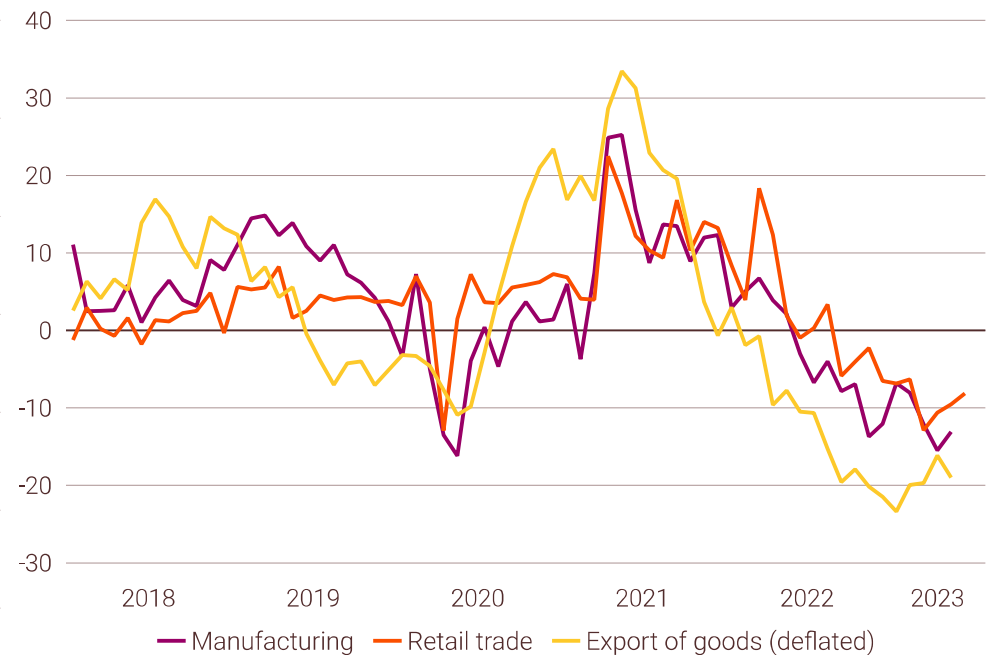
Economic sentiment



Economic sentiment deteriorated further in Q2, mainly driven by the worsening confidence in industrial and construction sectors. The share of industrial sector enterprises who have responded that weak demand is limiting their production has surged to 74%. Industrial sector enterprises' competitiveness position has dropped to the lowest level of more than 20 years. The improvement of consumer confidence as of autumn last year has stabilised this year and it shows even slight worsening again. Services' and retail sectors' confidence is trending downwards.

Industrial output, exports, and retail trade

y/y %, real; export of goods 3 mma



Manufacturing output volume is contracting already since last June and retail volumes since last September. Excluding corona crisis in 2020, manufacturing output volume has dropped to the level of autumn 2018. Estonia has got especially strong blow from the weakening demand of construction and RE sectors in the Nordics. Consumer price (HICP) inflation slowed to 6.3% in July and real wages are growing again. We expect that this will start to expand consumption volume in a certain time lag, ie. later this year. Tax hikes as of 2024 are expected to have some minor boost to consumption and inflation at the end of this year, as well.

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