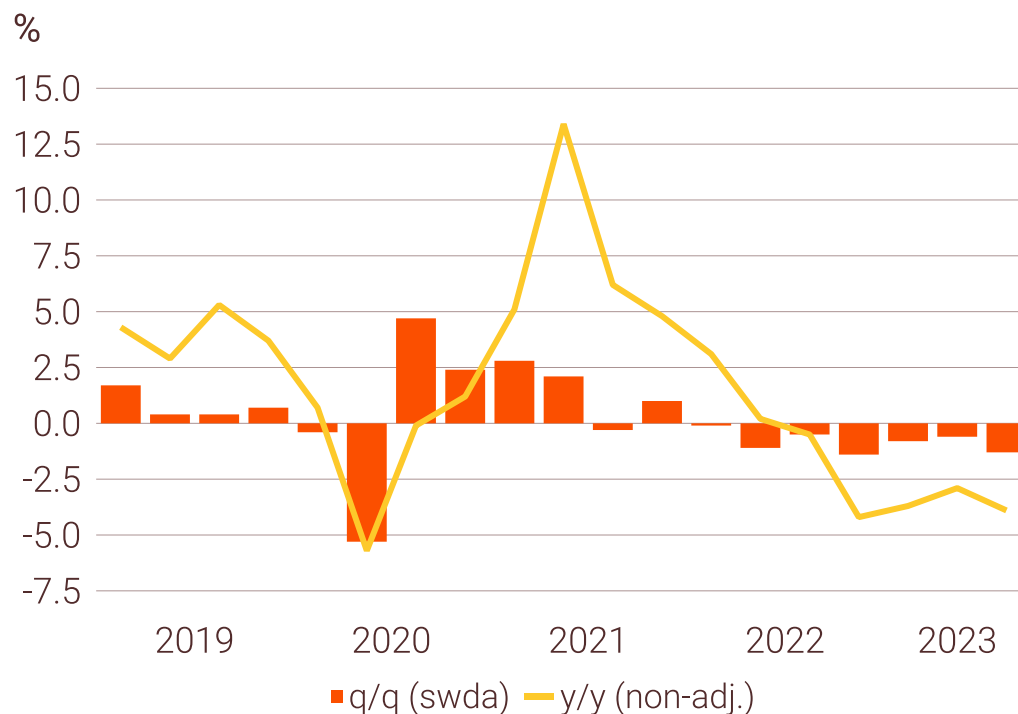


Estonia's updated 3Q GDP indicates a worse-than-expected outlook

- In Q3 2023, GDP dropped 3.9% y/y (non-adjusted) and 1.3% q/q (swda) in real terms, according to Statistics Estonia.
- In nominal terms, GDP growth slowed to only 1.2% y/y, while total wages expanded 9.9%.

Estonia: real GDP



Sources: Swedbank Research & Macrobond

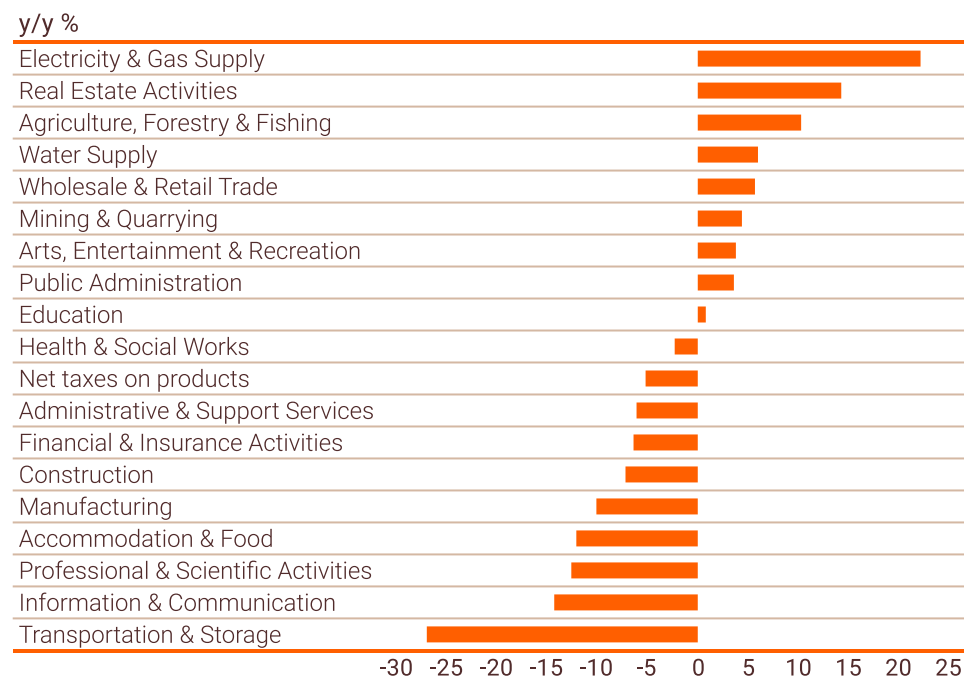
- Estonian GDP has contracted seven quarters in a row in quarter-on-quarter (swda) and five quarters in year-on year (non-adjusted) comparison.
- GDP has declined 5.7% from the pre-recession peak (in 4Q 2021) and the first three quarters of 2023 have dropped 3.5% y/y in real terms.
- Statistics Estonia has substantially revised down (by 1.5 pp) its 3Q GDP flash estimate of -2.5% y/y, that was published a month ago.
- The updated GDP calculation indicates considerably worse outlook for the Estonia's GDP, at least in the short term, compared to the forecast that was based on the recent GDP flash estimate.
- Estonia's economic sentiment is still worsening, while the deterioration has occurred in all economic sectors.
- We forecast sluggish improvement of foreign demand in 2024, while real wages, which are already picking up, will start to increase private consumption with a certain delay. In addition, falling interest rates will gradually contribute to the improvement of households' purchasing power.
- Our recent GDP forecasts of 2023 and 2024 were -2.5% and +0.7%, respectively, but we will revise them down.

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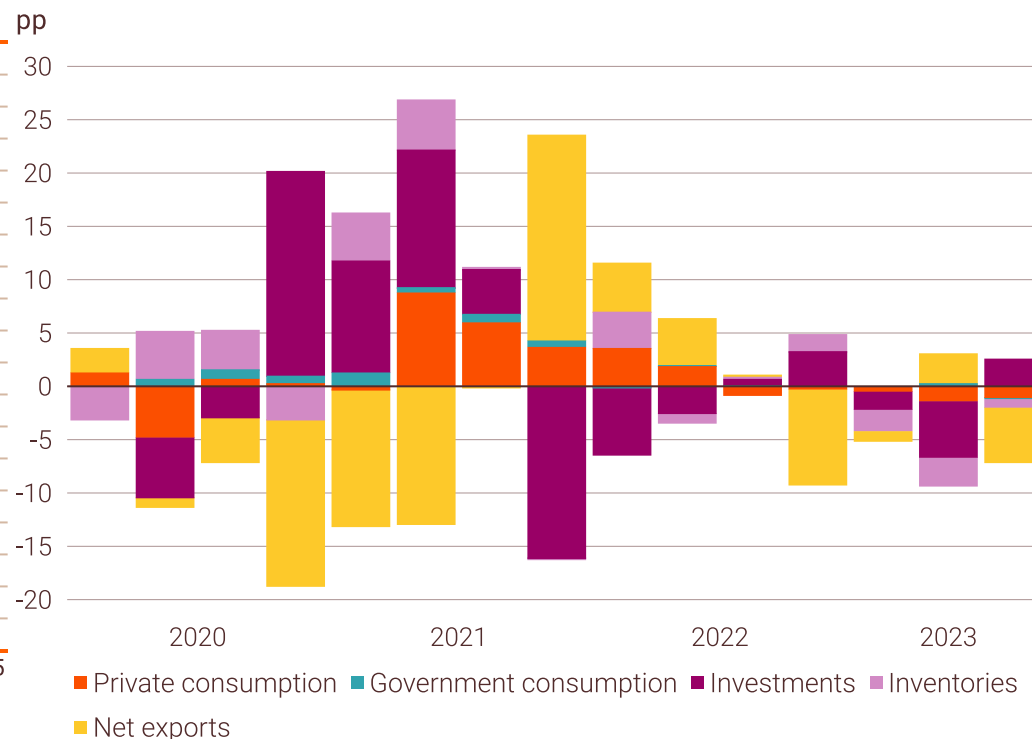
Roughly 3/4 of the 3Q GDP decline came from manufacturing and transportation

Real value added, 2023 Q3



Sources: Swedbank Research & Macrobond

Contributions to the GDP real growth



Sources: Swedbank Research & Macrobond

Roughly 3/4 of the GDP contraction in 3Q came from two economic activities – manufacturing and transportation, while ICT and professional services had stronger negative contribution, as well. Excluding these four economic activities (1/3 of gross value added), GDP would have increased slightly in Q3, in real terms. In Q3, stronger positive contribution to the GDP growth came from the robust increase in value added of real estate activities and wholesale and retail trade. The calculation of 3Q 2023 GDP raises questions in some economic activities (eg. manufacturing, energy production, real estate activity and trade), where the change in volume indices is not consistent with the change in value added.

Private consumption has contracted already since 3Q2022 and it decreased by 2.4% y/y in Q3 this year, in real terms. Investments dropped substantially in 1H this year, while increased again in Q3, in real terms, contributed primarily by the pick-up of non-financial corporations’ investments in buildings and structures. Public investments expanded, as well. Net exports gave strongly negative impact on the 3Q GDP, as the volume of export of goods and services contracted, by far more, than imports. The decline of export of goods has intensified, which explains the decrease in manufacturing value added. Export of services declined, as well, in Q3. Industrial enterprises estimate that their competitiveness on the foreign and domestic market has deteriorated substantially, especially this year.

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