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PRESS RELEASE

THE SWEDISH ECONOMY, MARCH 2018:

Economy to strengthen further and peak in 2019

The Swedish economy will continue to strengthen, and the global economic upswing will drive up Swedish exports. High capacity utilisation means that business investment will grow rapidly despite housing investment levelling off. Wage growth will accelerate gradually due to large labour shortages, but inflation will not reach 2 per cent until 2020. The Riksbank will not begin to raise the repo rate until the first quarter of 2019. Unchanged personnel density in the provision of public services such as health care and education will require taxes to be raised or benefits cut by just over SEK 20 billion. Such are the results of the latest forecast from the National Institute of Economic Research (NIER), published today.

Growth in industrial production has accelerated across much of the global economy and not least the OECD countries. Strong demand growth indicates that investment will continue to rise quickly in the near term. Swedish exports will therefore grow rapidly in 2018 and 2019, further aided by a weak krona. This positive outlook is confirmed by the NIER's Economic Tendency Survey, which shows continued strong optimism in the business sector, although there has been a slight decline in some industries in recent months.

On the other hand, the Economic Tendency Survey shows that consumer confidence has fallen considerably in recent months. This is probably a result of the recent turbulence in the housing market. Growth in household consumption is therefore expected to slow in the first quarter this year, which means that GDP will rise somewhat more slowly in the first quarter. Significantly lower housing prices could have tangible negative consequences for household consumption and housing investment, and so for economic activity.

According to the Economic Tendency Survey, firms' recruitment plans are still positive. The monthly statistics also suggest that employment has continued to grow strongly in the first quarter. Employment growth will be more subdued during the rest of 2018 and in 2019. Unemployment will nevertheless continue to fall gently throughout the period and average 6.2 per cent of the labour force in 2019.

The NIER assumes that all measures in the government budget for 2019 will be fully funded. This means that structural net lending will rise to 0.1 per cent of potential GDP next year, which is below the surplus target. At the same time, it is assumed that personnel density in the provision of public services is unchanged. This creates a funding requirement that is assumed to be met by households through tax increases or benefit cuts of just over SEK 20 billion.

Table: Selected indicators

Percentage change, unless otherwise indicated

	Outcome	Forecast			Scenario	
	2017	2018	2019	2020	2021	2022
GDP, Market Prices	2.4	2.8	2.1	1.9	1.6	1.5
GDP per Capita	1.0	1.6	1.0	0.8	0.5	0.4
GDP, Calendar-Adjusted	2.7	2.9	2.1	1.6	1.5	1.5
GDP, World	3.8	3.9	3.8	3.6	3.5	3.5
Current Account Balance ¹	4.0	4.1	4.2	4.2	4.1	3.9
Hours Worked ²	1.9	1.9	1.0	0.4	0.1	0.1
Employment	2.3	1.4	0.7	0.4	0.3	0.3
Unemployment Rate ³	6.7	6.3	6.2	6.2	6.3	6.6
Labour Market Gap ⁴	0.5	1.5	1.8	1.6	1.1	0.5
Output Gap ⁵	1.4	2.1	2.2	1.7	1.2	0.5
Hourly Earnings ⁶	2.5	2.8	3.1	3.5	3.9	3.9
Hourly Labour Costs ²	2.8	3.0	3.1	3.5	3.9	3.9
Productivity ²	0.8	1.1	1.2	1.2	1.4	1.4
CPI	1.8	1.7	2.0	2.7	2.7	2.6
CPIF	2.0	1.8	1.8	2.0	2.0	2.0
Repo Rate ^{7,8}	-0.50	-0.50	0.00	0.75	1.50	2.25
10-year Government Bond Yield ⁷	0.7	1.0	1.6	2.1	2.6	3.0
Effective Krona Exchange Rate Index (KIX) ⁹	112.9	114.8	113.4	111.6	109.8	107.9
Government Net Lending ¹	1.1	0.7	1.1	1.2	0.9	0.7
Structural Net Lending ¹⁰	0.2	0.0	0.1	0.5	0.5	0.5
Maastricht Debt ^{1, 8}	40.9	37.0	34.2	33.0	31.6	30.6

¹ Per cent of GDP. ² Calendar-adjusted. ³ Per cent of labour force. ⁴ Difference between actual and potential hours worked in per cent of potential hours worked. ⁵ Difference between actual and potential GDP in per cent of potential GDP. ⁶ According to the short-term earnings statistics. ⁷ Per cent. ⁸ At year-end. ⁹ Index 18 November 1992=100. ¹⁰ Per cent of potential GDP.

Sources: IMF, Statistics Sweden, National Mediation Office, Sveriges Riksbank, Macrobond and NIER.

Read the report here: www.konj.se

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