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PRESS RELEASE

THE SWEDISH ECONOMY, OCTOBER 2018:

Swedish economy will peak this year but remain buoyed by external demand next year

The Swedish economy will peak this year, and GDP growth will slow next year. Capacity utilisation in manufacturing is at historically high levels, and housing investment is high as a share of GDP. A strong labour market is also good for the households, who can expect wage growth to pick up somewhat. Next year, the economy will slow slightly as growth in both manufacturing and housing investment falls sharply, but external demand will limit the slowdown. Such are the results of the latest forecast from the National Institute of Economic Research (NIER), published today.

Although Swedish exports performed poorly in the first half of this year, firms' responses to the Economic Tendency Survey suggest optimism in the export industry. Along with monthly data, this leads us to expect exports to grow more quickly in the second half of the year. As in Sweden, confidence indicators in the euro area as a whole are much higher than normal. Factors contributing to this optimism include the ECB's continued low interest rate policy and slightly expansionary fiscal policy. Also good news for Sweden's export industry is the strong investment climate in both the US and the euro area.

Employment growth fell slightly in the second quarter this year, and continued lower employment growth means that unemployment will bottom out just above 6 per cent next year. This indicates considerable matching problems in the labour market. Despite the strong economy, unemployment is still very high in the foreign-born population. High resource utilisation in the labour market and continued major shortages of labour with the desired skills mean that wage growth will continue to accelerate, leading to a slight increase in cost pressures on firms. To prevent CPI inflation from rising too far, the Riksbank is expected to commence a series of policy rate hikes in February next year. The repo rate will then continue to be raised very gradually, and the inflation-adjusted repo rate will remain negative right through to the latter part of 2022. Our forecast is based on an assumption that fiscal policy next year will be largely neutral. Fiscal space for the coming four-year parliamentary term is estimated at around SEK 120 billion.

There are also risks to our forecast, including an escalating spiral of new barriers and retaliation in global trade policy, which would have adverse effects on the Swedish economy. In Europe, there is concern about Italy's public finances. Another risk is a Brexit where the UK – one of Sweden's key trading partners – leaves the customs union and internal market completely without a new deal. This would have significant effects on the Swedish economy, potentially exacerbated by knock-on effects from turbulence in financial markets. **Turn page, Selected Indicators**

Table: Selected indicators

Percentage change, unless otherwise indicated

	Outcome	Forecast			Scenario	
	2017	2018	2019	2020	2021	2022
GDP, Market Prices	2.1	2.4	1.9	1.9	1.9	1.8
GDP per Capita	0.7	1.3	0.9	1.0	0.9	0.9
GDP, Calendar-Adjusted	2.4	2.5	1.9	1.7	1.8	1.8
GDP, World	3.8	3.8	3.7	3.6	3.5	3.5
Current Account Balance ¹	3.6	3.3	3.8	3.8	3.8	3.9
Hours Worked ²	2.1	1.8	0.9	0.4	0.3	0.3
Employment	2.3	1.7	0.9	0.5	0.4	0.4
Unemployment Rate ³	6.7	6.3	6.2	6.2	6.4	6.7
Labour Market Gap ⁴	0.4	1.1	1.1	0.8	0.5	0.1
Output Gap ⁵	0.9	1.5	1.3	0.9	0.5	0.1
Hourly Earnings ⁶	2.3	2.6	2.9	3.3	3.6	3.6
Hourly Labour Costs ^{2,7}	2.5	3.6	2.6	3.3	3.6	3.6
Productivity ²	0.3	0.8	1.1	1.3	1.4	1.5
CPI	1.8	2.0	2.5	2.5	2.7	2.7
CPIF	2.0	2.1	2.2	2.0	2.0	2.0
Repo Rate ^{8,9}	-0.50	-0.50	0.00	0.50	1.25	2.00
10-year Government Bond Yield ⁸	0.7	0.7	1.0	1.6	2.2	2.7
Effective Krona Exchange Rate Index (KIX) ¹⁰	112.9	117.8	117.3	114.9	112.5	110.0
Government Net Lending ¹	1.6	0.7	0.7	0.8	0.6	0.5
Structural Net Lending ¹¹	0.7	0.2	0.1	0.5	0.5	0.5
Maastricht Debt ¹	40.8	37.2	35.1	34.4	33.3	32.5

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 Refers to the hours of employees. ⁸ Per cent. ⁹ At year-end. ¹⁰ Index 18 November 1992=100. ¹¹ Per cent of potential GDP.

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

Read the report here: www.konj.se

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