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PRESS RELEASE

THE SWEDISH ECONOMY, DECEMBER 2018:

Booming economy set to slow

Most indications are that the Swedish economy peaked in the first half of 2018 and is heading into a slowdown phase, but the output gap will remain positive for the following two years. Investment, especially in housing, has made a major contribution to demand growth but will decrease slightly in 2019. The labour market remains strong, although employment growth is set to slow. Wages in both the business sector and the economy as a whole are expected to pick up slightly. The Riksbank will begin to raise interest rates from early 2019 but only very gradually. Such are the results of the latest forecast from the National Institute of Economic Research (NIER), published today.

Both the consumer and business confidence indicators in the NIER's Economic Tendency Survey have fallen in recent months, partly due to increased uncertainty about the outlook both at home and abroad. High investment levels, subdued demand growth and an uncertain outlook mean that investment growth is set to slow.

The economy has been driven by strong demand for new housing, which took housing investment to historically high levels at the beginning of 2018. Housing investment has since decreased and will fall further in the coming quarters. All in all, this is expected to result in slower GDP growth in the first quarter of 2019. The central government budget for 2019 entails lower growth in government consumption and higher disposable income for most households. Fiscal policy will be neutral in 2019.

Recent data and indicators suggest that employment continues to grow strongly in the fourth quarter of this year. Employment growth will slow in the beginning of 2019, however, due to the lower growth in output. Unemployment has therefore bottomed out and will fluctuate around 6.5 per cent for the next couple of years.

UNCERTAINTIES THAT COULD AFFECT THE FORECAST

Manufacturers' view of their export order books in the Economic Tendency Survey is very positive, and a continued economic upswing abroad means that demand for Swedish export goods is set to grow steadily. There are, however, looming uncertainties. Political risks to the economy have mounted in 2018. There is a risk of the UK leaving the EU in March 2019 without a deal. The tough tone of global trade policy also means that there is a growing risk of escalation of the trade conflict between the US and much of the rest of the world.

Key figures on following page

Table: Selected indicators

Percentage change, unless otherwise indicated

	2018	2019	2020	2021	2022	2023
GDP, Market Prices	2.2	1.3	1.7	1.8	1.9	2.0
GDP per Capita	1.1	0.3	0.8	0.8	1.0	1.1
GDP, Calendar-Adjusted	2.3	1.3	1.5	1.7	1.9	2.2
GDP, World	3.8	3.6	3.5	3.5	3.5	3.4
Current Account Balance ¹	3.2	4.0	3.9	3.8	3.8	3.8
Hours Worked ²	1.9	0.8	0.4	0.4	0.5	0.6
Employment	1.8	0.9	0.4	0.3	0.5	0.7
Unemployment Rate ³	6.3	6.4	6.5	6.7	6.8	6.8
Labour Market Gap ⁴	1.0	0.9	0.5	0.2	0.0	0.0
Output Gap ⁵	1.5	0.9	0.5	0.2	0.0	0.0
Hourly Earnings ⁶	2.5	2.7	2.9	3.2	3.4	3.5
Hourly Labour Costs ^{2,7}	3.0	2.7	2.9	3.2	3.4	3.5
Productivity ²	0.4	0.6	1.1	1.3	1.4	1.5
CPI	1.9	2.0	2.1	2.5	2.7	2.5
CPIF	2.1	1.9	1.7	1.9	2.0	2.0
Repo Rate ^{8,9}	-0.50	0.00	0.25	1.00	1.50	2.00
10-year Government Bond Yield ⁸	0.7	0.8	1.4	1.9	2.4	2.8
Effective Krona Exchange Rate Index (KIX) ¹⁰	117.7	117.5	116.2	114.2	111.2	108.2
Government Net Lending ¹	0.9	0.4	0.6	0.4	0.2	0.3
Structural Net Lending ¹¹	0.3	0.2	0.3	0.3	0.3	0.3
Maastricht Debt ¹	37.3	34.7	34.1	33.3	32.8	32.3

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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