

Handelsbanken

Press release

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Handelsbanken: Hope returns

Successful vaccination programmes and economic stimulus packages are critical to hopes of a recovery, according to Handelsbanken's new Global Macro Forecast.

“Households have been unwillingly saving during the pandemic; when restrictions are lifted, there will be a rush to return to restaurants, go clothes shopping and resume travelling,” says Handelsbanken's Chief Economist, Christina Nyman.

The second wave of the coronavirus has caused even more suffering than was feared. Conversely, economic prospects in Sweden and internationally have improved since spring. The manufacturing industry and the Chinese economy have managed to ward off the effects of the second wave relatively well, even though the service sector has been hit by decreased consumption. Handelsbanken's economists expect subdued GDP growth for the fourth quarter of last year and the first quarter of this year, both globally and in Sweden.

Biden and vaccines boosting the recovery

While Handelsbanken's Global Macro Forecast foresees a relatively strong recovery over this year and next, it will take time for the global economy to regain lost territory fully. At the end of our forecast period, unemployment is still expected to be higher than before the pandemic.

“Thanks to effective vaccines, we can now see light at the end of the tunnel. Growth prospects are also benefitting from a Brexit agreement finally being in place and a more expansionary fiscal policy set to be introduced under Joe Biden's administration,” says Christina Nyman.

A wafer-thin majority means that the Democrats are up against it in Congress.

“The chances of a new support package of around USD 0.5-1 billion are nonetheless reasonable; it may gain support from some Republicans. It could include direct support to households, increased unemployment assistance and support for the hardest-hit states,” says Christina Nyman.

There may also be sufficient support for parts of Biden's USD 2 billion infrastructure project.

Pent-up consumption

The economic recovery is dependent on the success of vaccination programmes, which are the key to countries lifting their restrictions.

“Our assessment is that vaccinations, combined with a lower infection rate in the spring, may provide the foundations for a correction in economic activity from the second or third quarter of 2021,” says Christina Nyman.

Household savings have hit a record high during the pandemic. Once restrictions are lifted, consumption is expected to shoot upwards.

“We expect part of the savings to be used to satisfy the pent-up demand for restaurant visits, travel, experiences, clothing and shoes, for example,” says Christina Nyman.

The normalisation will also gradually lead to companies investing in new machinery and real estate, which will require new employment, thereby supporting the labour market. However, no definitive reverse in unemployment will be seen until later this year.

Stimulus packages are crucial

Several of the government’s crisis packages, such as its programmes for furloughing and adjustment support, have helped temper the rise in unemployment and bankruptcies.

“It is important that stimulus measures in economic policy are not phased out too early. We expect fiscal policy measures to generate one percent higher GDP in 2021 than would otherwise be the case,” says Christina Nyman.

The Riksbank’s crisis response measures restricted the economic effects of the pandemic and mitigated the risk of a financial crisis. The Riksbank is now switching to a more expansionary monetary policy, which will support the recovery in 2021-22. Inflation will climb temporarily in spring, but underlying inflation will be suppressed by the recession.

“The Riksbank seems hesitant, but we believe it will not cut rates to negative,” says Christina Nyman.

Financial markets are looking beyond the current economic slowdown. The stock market continues to tick along. Support through fiscal and monetary policy has drastically reduced the risk of bankruptcies, especially for larger listed companies.

“Our assessment is that central banks will continue on a path of expansionary policies. With the exception of Norway, we do not expect rate rises,” says Christina Nyman.

Threat of setbacks

Should the rollout of vaccination programmes be protracted, the recovery could well be delayed. Combined with inadequate support measures, risks include a rise in company bankruptcies.

“But the recovery could also proceed more quickly than we predict if restrictions and the fog of uncertainty lift promptly and act as an impetus for, not least, corporate investment,” says Christina Nyman.

Overstated concerns about zombie companies

The debate surrounding zombie companies – weak companies that are only able to survive because of expansionary policies – is focused on the risk that they cannibalise healthy investments and, by extension, threaten financial stability. However, killing zombie companies through raised interest rates risks causing increased unemployment and jeopardising future growth.

“When there is a recovery in demand, many of the companies that have been merely surviving will again start to flourish,” says Christina Nyman.

For further information, please contact:

Christina Nyman, Chief Economist, +46 8 701 51 58, +46 70 778 77 65

Joel Holm, Press Officer, +46 73 058 30 21

For more information about Handelsbanken, see: www.handelsbanken.se

For the full report in Swedish, see [Konjunkturprognos](#); in English, see [Global Macro Forecast](#)

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Real GDP forecast

	Annual average			
	2019	2020p	2021p	2022p
Sweden, actual	1.3	-2.9 (-3.2)	2.8 (4.1)	4.1 (2.7)
Denmark	2.8	-3.8 (-4.4)	1.3 (2.2)	4.0 (2.8)
Finland	1.1	-3.1 (-3.5)	2.5 (2.5)	2.3 (1.7)
Norway, mainland economy	2.3	-3.4 (-3.5)	3.7 (3.6)	2.8 (2.0)
Eurozone	1.3	-7.2 (-8.4)	4.0 (4.4)	4.3 (2.4)
Netherlands	1.6	-4.2 (-4.5)	3.0 (4.0)	3.6 (2.1)
United Kingdom	1.4	-10.1 (-8.6)	5.8 (3.9)	4.4 (1.7)
United States*	2.2	-3.6 (-4.0)	4.1 (3.8)	3.6 (2.9)
China	6.1	2.4 (2.8)	8.2 (8.0)	5.3 (5.0)

*Calendar adjusted

Interest rate forecast

Policy rates	End of year			
	2019	2020	2021p	2022p
United States	1.625	0.125 (0.125)	0.125 (0.125)	0.125 (0.125)
Eurozone	-0.50	-0.50 (-0.50)	-0.50 (-0.50)	-0.50 (-0.50)
Sweden	0.00	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Denmark	-0.75	-0.60 (-0.60)	-0.60 (-0.60)	-0.60 (-0.60)
United Kingdom	0.75	0.10 (0.10)	0.10 (0.10)	0.10 (0.10)
Norway	1.50	0.00 (0.00)	0.00 (0.00)	0.50 (0.25)

Exchange rate forecast

	End of year			
	2019	2020	2021p	2022p
EUR/SEK	10.43	10.04 (10.35)	9.95 (10.20)	9.80 (10.00)
USD/SEK	9.29	8.20 (8.92)	8.43 (8.95)	8.31 (8.77)
GBP/SEK	12.31	11.15 (11.13)	11.57 (11.33)	11.40 (11.63)
NOK/SEK	1.06	0.96 (0.94)	0.97 (0.94)	0.96 (0.95)
DKK/SEK	1.40	1.35 (1.39)	1.34 (1.37)	1.31 (1.34)
CHF/SEK	9.61	9.29 (9.58)	9.39 (9.62)	9.25 (9.43)
JPY/SEK	8.55	7.95 (8.50)	7.81 (8.36)	7.62 (8.12)
CNY/SEK	1.33	1.26 (1.30)	1.26 (1.30)	1.24 (1.27)
EUR/USD	1.12	1.22 (1.16)	1.18 (1.14)	1.18 (1.14)
EUR/GBP	0.848	0.900 (0.930)	0.860 (0.900)	0.860 (0.860)
USD/CNY	6.96	6.53 (6.85)	6.70 (6.90)	6.70 (6.90)

Source: Handelsbanken

In brackets: Handelsbanken Global Macro Forecast October 7, 2020