Handelsbanken

Press release

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Handelsbanken: Overstated concern about interest rates

The economic recovery is continuing, and there is plenty of optimism. "GDP in Sweden is now higher than it was before the pandemic, and we expect higher than normal growth to continue", says Christina Nyman, Chief Economist at Handelsbanken. Bottlenecks and delivery problems that have arisen in the wake of the pandemic have led to rising prices and expectations of higher interest rates.

"In my view, both the inflation risks and the expectations of higher interest rates are exaggerated", says Christina Nyman, adding: "But we expect energy prices and interest rates to fluctuate more in the future, in light of the climate transition and the phasing-out of central banks' emergency measures."

The global economy in the wake of the pandemic

In most developed economies, restrictions are being lifted, which is easing the pressure on the service sector. The rapidly increasing demand has led to supply chain problems, and it will take some time before there is equilibrium between supply and demand. This is largely linked to how quickly consumption of goods drops back from the elevated levels seen during the pandemic. In addition, the energy crisis is fuelling concerns about inflation and supply problems.
"We forecast a 5.7 percent increase in global GDP this year and 4.6 percent next year, before the figure reverts to more normal growth of 3.7 percent. At present, the after-effects of the pandemic are still evident, but we do not foresee stagflation - that's to say high inflation and low growth", says Christina Nyman.

High energy prices are threatening the green transition – households need a buffer for energy

In recent years, the green transition has had the wind in its sails: there has been popular support for more climate action, the business world is on board, and investors are channelling capital into green energy. However, the energy crisis that is sweeping the world shows how vulnerable the climate transition is. There is a risk that high energy prices and unstable energy supply will lead to reduced support for the climate transition among the general public and businesses. In order to avoid any major setbacks in the transition, the green transition must be combined with an energy policy that guarantees stable energy supply, with households being compensated for high, volatile energy prices. In September, energy prices were some 15 percent higher than normal. If prices fluctuate to that extent, this will mean that expenses for energy will vary by around SEK 700 per month, plus or minus, for a four-person household.
"Households may need to build up a larger savings buffer to take into account increasing variations in energy costs", says Christina Nyman.

Swedish growth set to remain high

Swedish GDP is now higher than it was before the pandemic, and we expect the higher than normal growth to continue. Household consumption is driving the recovery, as people increasingly return to stores, restaurants and entertainment venues. An unusually high proportion of household income is being saved, and we expect to see consumption gradually regaining lost ground, as savings normalise. Money that has

been stuffed under the mattress during the pandemic will support the housing market, with the construction rate now increasing.
“The high rate of construction will lead to a reduction in the housing deficit. Despite this, we expect house prices to continue climbing in 2022 – by almost five percent – before slowing down beyond this,” says Christina Nyman.

Job vacancies rising at a record rate and growth in employment levels
Business sector investments are growing robustly and the situation in the labour market has improved during the year, but we note that companies are reporting greater difficulties in finding the right staff. We believe this is most closely related to the time it takes to complete a recruitment, particularly when many sectors are all trying to increase their workforce at the same time, as quickly as possible. Historically speaking, significant labour shortages have generally been an indicator of a forthcoming positive development in employment, rather than of an economy overheating, with large salary increases.
“By late 2023, we expect unemployment to have largely returned to the levels witnessed prior to the pandemic,” says Christina Nyman.

Energy prices causing inflation to rise now – but underlying pressure is modest
We expect inflation to reach 3.2 percent in November – the highest it has been for over ten years. This development has been predominantly driven by energy prices, rather than more inflationary pressure across the economy. Judging by the market pricing, both electricity prices and oil prices will fall in the coming months, and this should again cause inflation to fall, down to our 1.5 percent forecast at the end of 2022. We do not expect to see any long-lasting increases to inflation until 2023. However, the situation is difficult to assess, and there is a risk that the higher inflation rate will prove to have more staying power.

Central banks starting to adopt different strategies, but aiming to scale down stimulus measures
While Norges Bank has already started to raise their key rate this year, the Federal Reserve will wait, by our reckoning, until 2023. At the same time, we believe that the ECB will maintain its refinancing rate at its current level at least until 2024. In the financial markets, yields have risen due to expectations of a less expansionary monetary policy. Our view is that market interest rate expectations are currently on the high side and that central banks will proceed with caution, but that some significant fluctuations in the financial markets can be expected as the central banks begin to phase out their crisis policies. The Riksbank probably views the uncomfortably high outcomes as a fleeting peak, just as we do in our own inflation forecast.
“Accordingly, we expect a gentle reduction in economic stimuli. We believe the repo rate will be left unchanged at 0 per cent, at least throughout 2022 and 2023. But in November, we expect to see indications of a rate hike in 2024,” says Christina Nyman.

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For the full report in Swedish, see Konjunkturprognos and in English, Global Macro Forecast
For more information about Handelsbanken, visit www.handelsbanken.com

Real GDP forecast

	Annual average			
	2020	**2021p**	**2022p**	**2023p**
Sweden, actual	-2,8 (-2.8)	4,5 (4.4)	3,8 (3.5)	1,9 (2.0)
Denmark	-2.1 (-2.1)	4.2 (3.3)	2.6 (2.8)	1.7 (1.6)
Finland	-2.9 (-2.9)	3.5 (3.5)	3.0 (3.2)	1.8 (1.8)
Norway, mainland economy	-3.1 (-3.1)	3.9 (3.8)	3.9 (3.8)	1.1 (1.1)
Eurozone	-6.5 (-6.5)	5.2 (4.9)	4.4 (4.2)	1.9 (2.0)
Netherlands	-3.8 (-3.8)	3.9 (4.1)	3.6 (3.6)	2.1 (1.8)
United Kingdom	-9.8 (-9.8)	6.7 (7.2)	5.2 (5.6)	1.3 (1.3)
United States*	-3.4 (-3.4)	5.5 (6.3)	4.2 (4.2)	2.6 (2.1)
China	2.3 (2.3)	7.9 (8.1)	5.0 (5.5)	5.4 (5.4)

*Calendar adjusted

Interest rate forecast

	End of year			
Policy rates	**2020**	**2021p**	**2022p**	**2023p**
United States	0.125 (0.125)	0.125 (0.125)	0.125 (0.125)	0.625 (0.625)
Eurozone	-0.50 (-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 (0.00)
Denmark	-0.60 (-0.60)	-0.60 (-0.60)	-0.60 (-0.60)	-0.60 (-0.60)
United Kingdom	0.10 (0.10)	0.10 (0.10)	0.50 (0.25)	0.50 (0.50)
Norway	0.00 (0.00)	0.50 (0.50)	1.25 (1.00)	1.50 (1.50)

Exchange rate forecast

	End of year			
	2020	**2021p**	**2022p**	**2023p**
EUR/SEK	10.04 (10.04)	9.90 (10.15)	9.55 (9.85)	9.60 (9.85)
USD/SEK	8.18 (8.18)	8.61 (8.46)	8.38 (8.49)	8.29 (8.35)
GBP/SEK	11.21 (11.21)	11.51 (11.94)	11.37 (11.87)	11.71 (12.16)
NOK/SEK	0.96 (0.96)	1.01 (0.97)	0.98 (0.97)	1.00 (0.99)
DKK/SEK	1.35 (1.35)	1.33 (1.36)	1.28 (1.32)	1.29 (1.32)
CHF/SEK	9.29 (9.29)	9.25 (9.40)	9.01 (9.12)	9.06 (9.12)
JPY/SEK	7.92 (7.92)	7.65 (7.90)	7.51 (8.09)	7.44 (7.80)
CNY/SEK	1.25 (1.25)	1.34 (1.31)	1.31 (1.33)	1.30 (1.30)
EUR/USD	1.23 (1.23)	1.15 (1.20)	1.14 (1.16)	1.16 (1.18)
EUR/GBP	0.90 (0.90)	0.86 (0.85)	0.84 (0.83)	0.82 (0.81)
USD/CNY	6.53 (6.53)	6.43 (6.47)	6.40 (6.40)	6.40 (6.40)

Source: Handelsbanken

In brackets: Handelsbanken Global Macro Forecast August 25, 2021