

## Press release

Stockholm, January 26, 2022

### **Handelsbanken: Job growth to overcome COVID-19**

**We expect new restrictions and stubborn bottleneck problems to result in weaker economic growth in Sweden in the near future, but under the surface, both the economy and job growth are showing positive trends.**

**“Companies are preparing for demand to stay at a high level and are bolstering both their investments and their workforces,” says Handelsbanken’s Chief Economist, Christina Nyman.**

Households’ purses are looking a touch barren at the moment, mainly as a result of high energy prices, which have driven inflation up to its highest level since the early 1990s. However, in contrast to the situation in the US, this trend is not reflected in the prices of other goods and services, which have remained more stable.

Handelsbanken’s economists are therefore of the opinion that it is too early for the Riksbank to implement any policy rate hike.

“Raising the policy rate due to high electricity prices would only undermine purchasing power even more, and would risk putting a stop to the positive development of the labour market”, says Christina Nyman.

This would put next year’s collective bargaining agreements in danger of ending up low, relative to the inflation target. Consequently, the likely scenario is that the Riksbank will be patient and wait until late 2023, once the ink is dry on the aforementioned agreements, before implementing a hike.

#### **Central banks fear sustained high inflation**

We expect high levels of demand to contribute to bottlenecks and other supply chain disruptions remaining a challenge during 2022, even if they are expected to ease gradually. The supply chain issues have contributed to the repeated inflation surprises and continue to cloud the outlook. We forecast inflation to fade during 2022. Given the unusually high inflation, however, not all central banks see it as an option to rely on forecasts anymore, and are reducing stimulus. Not least the Federal Reserve, which will tighten policy much faster to manage the risk of high inflation becoming entrenched. Overall, according to our estimates, the global economic growth calculated for 2022 comes to 4.4 percent, a marked decline compared to 2021. For the years 2023-2024, Handelsbanken’s economists expect global GDP growth of 3.7 and 3.3 percent, respectively.

#### **Climate transition the main reason for volatile energy prices**

When the sun shines and the wind blows, renewable energy sources can be cheaper than fossil-fuel based energy sources. However, the transition to volatile renewable energy also results in volatile prices. If energy prices were to remain at current levels until the end of February, household energy bills would total around SEK 20–25 billion higher than usual for the period July 2021 to February 2022. This

corresponds to an average of approximately SEK 2,000 per person, and SEK 8,000 for a four-person household.

"The green transition must be combined with an energy policy that guarantees a stable energy supply, independent of weather conditions, and with households being compensated for high, volatile energy prices. Otherwise, there will be major setbacks in the transition. The government's announcement that it has earmarked SEK 7bn for a scheme to help households with high energy prices should be viewed in that light," says Christina Nyman.

### **Geopolitical concerns underline energy sector vulnerability**

The vulnerability of the energy sector is also underscored by the geopolitical concerns surrounding Russia and NATO over Ukraine, which could, among other things, lead to even higher energy prices if the conflict escalates further.

"This in turn would lead to eroded purchasing power, but also the risk of energy shortages, with consequences for industry and society as a whole," says Christina Nyman.

### **Sky-high electricity prices – but not sky-high inflation in Sweden**

Record-breaking energy prices pushed inflation up to 4.1 percent in December.

Excluding energy prices, inflation is more in line with the Riksbank's target. We expect energy prices to gradually stop pushing up inflation, which should then drop back down below the Riksbank's target. However, the combination of a more robust labour market and higher wages in the 2023 round of collective bargaining suggests that we can expect an increase in underlying inflation in 2023 in 2024. At the end of the forecast period, we expect inflation to be hovering around the inflation target of 2 percent.

### **Job growth to overcome COVID-19**

There are clear signs that the economy is heading into a calmer growth phase, with households in particular having become less optimistic. Handelsbanken's economists believe that the record-breaking electricity prices and the new restrictions will subdue both household consumption and the export of services for the foreseeable future.

"With that said, we do not expect the restrictions introduced because of Omicron to result in economic growth shuddering to a halt – we foresee only a temporary pause. Both households and companies have learned to live with the pandemic," says Christina Nyman.

Household economies are generally robust. In combination with a high saving rate and pent-up demand for consumption – for entertainment and clothing, for example – this suggests that household consumption will gain new momentum, as infection rates start to decline and restrictions are phased out.

"Although there is now a labour shortage within many sectors, we believe there are people there to be employed. We expect the number of people in employment to increase by 60,000 people this year, while unemployment will continue to decrease," says Christina Nyman.

Growth will dampen next year as resource utilisation normalises and unemployment planes out at just above 7 percent. We expect GDP to grow by 3.6 percent this year, 2.2 percent in 2023 and 1.9 percent in 2024.

### **House prices to increase by close to 5 percent during 2022**

The strong situation in the housing market will boost the construction of residential

units, leading to a reduction in the housing deficit. However, the continued high demand for housing will keep prices up and Handelsbanken's forecast is that house prices will rise by close to 5 per cent during 2022, before later slowing down.

### **Digital investments raising long-term growth potential**

The speed of the downturn and recovery during this crisis has been something quite unique. In addition, productivity growth has been surprisingly strong during the pandemic. Working from home has proven to be a well-functioning alternative and has brought underused capital to light.

In addition, the predominant digitalisation and sustainable investment trends suggest that we could see a reversal of the negative direction of productivity growth over recent decades.

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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](http://www.handelsbanken.com)

**Real GDP forecast**

	Annual average			
	2021p	2022p	2023p	2024p
Sweden, actual	4.9 (4.5)	3.5 (3.8)	2.1 (1.9)	1.9 (na)
Denmark	3.8 (4.2)	2.3 (2.6)	1.8 (1.7)	1.5 (na)
Finland	3.7 (3.5)	3.0 (3.0)	1.8 (1.8)	1.5 (na)
Norway, mainland economy	4.1 (3.9)	3.7 (3.9)	1.7 (1.1)	1.0 (na)
Eurozone	5.1 (5.2)	3.9 (4.4)	2.7 (1.9)	1.6 (na)
Netherlands	4.6 (3.9)	4.1 (3.6)	2.4 (2.1)	1.7 (na)
United Kingdom	6.5 (6.7)	4.1 (5.2)	1.6 (1.3)	1.2 (na)
United States*	5.5 (5.5)	3.8 (4.2)	2.3 (2.6)	2.0 (na)
China	8.1 (7.9)	5.2 (5.0)	5.1 (5.4)	5.0 (na)

\*Calendar adjusted

**Interest rate forecast**

Policy rates	End of year			
	2021	2022p	2023p	2024p
United States	0.125 (0.125)	0.875 (0.125)	1.375 (0.625)	1.625 (na)
Eurozone	-0.50 (-0.50)	-0.50 (-0.50)	-0.50 (-0.50)	-0.30 (na)
Sweden	0.00 (0.00)	0.00 (0.00)	0.25 (0.00)	0.50 (na)
Denmark	-0.60 (-0.60)	-0.60 (-0.60)	-0.60 (-0.60)	-0.40 (na)
United Kingdom	0.25 (0.10)	0.75 (0.50)	1.00 (0.50)	1.25 (na)
Norway	0.50 (0.50)	1.50 (1.25)	1.75 (1.50)	1.75 (na)

**Exchange rate forecast**

	End of year			
	2021	2022p	2023p	2024p
EUR/SEK	10.23 (9.90)	10.00 (9.55)	9.70 (9.60)	9.70 (na)
USD/SEK	9.03 (8.61)	9.01 (8.38)	8.90 (8.29)	8.66 (na)
GBP/SEK	12.17 (11.51)	12.50 (11.37)	12.13 (11.71)	12.13 (na)
NOK/SEK	1.02 (1.01)	1.03 (0.98)	1.01 (1.00)	1.01 (na)
DKK/SEK	1.37 (1.33)	1.34 (1.28)	1.30 (1.29)	1.30 (na)
CHF/SEK	9.49 (9.25)	9.62 (9.01)	9.33 (9.06)	9.33 (na)
JPY/SEK	8.13 (7.65)	7.90 (7.51)	7.81 (7.44)	7.60 (na)
CNY/SEK	1.42 (1.34)	1.40 (1.31)	1.39 (1.30)	1.35 (na)
EUR/USD	1.13 (1.15)	1.11 (1.14)	1.09 (1.16)	1.12 (na)
EUR/GBP	0.840 (0.860)	0.800 (0.840)	0.800 (0.820)	0.800 (na)
USD/CNY	6.35 (6.43)	6.43 (6.40)	6.40 (6.40)	6.40 (na)

Source: Handelsbanken

In brackets: Handelsbanken Global Macro Forecast November 10, 2021