Handelsbanken

Press release
Stockholm, May 18, 2022

Handelsbanken: Double trouble for households

The economic climate in Sweden seems stable at the moment, with employment on the rise and order books full. However, storm clouds are gathering. Households are starting to feel the pinch of higher prices and rising interest rates as the Swedish central bank (Riksbank) focuses on fighting inflation. Unemployment looks set to rise in the not too distant future. Sweden has the policy muscle to step in if households come under too much pressure, but striking the right balance is no easy feat. Fiscal policy that proves too expansionary would further fuel inflation, counteracting the Riksbank's attempts to extinguish the flames, according to Handelsbanken's latest Global Macro Forecast.
"An acceleration of the rate-hiking programme could cause a house price crash and a more serious recession", says Handelsbanken's Chief Economist, Christina Nyman.

Russia's invasion of Ukraine has contributed to a slowdown in global growth and is pushing already high inflation up even further. China's struggles with COVID-19 continue, and renewed lockdowns are stalling economic activity while further disrupting global supply chains. At the same time, the pent-up, post-pandemic demand is supporting growth. This may mean that a global recession can be avoided, according to Handelsbanken's latest Global Macro Forecast.

Finding the right balance is challenging
Central banks around the globe have shifted their attention towards fighting inflation, and will continue to hike key rates until inflation slows. Doing so is a difficult balancing act, however.
"We find that economies are more sensitive to interest rate changes now than before, and neither we nor the central banks know the level at which interest rates will start to pinch too much, or how many hikes are necessary to reduce inflationary pressure", says Christina Nyman.
In all probability, the central banks' rapid rate hikes will continue, even though this will result in a clear slowdown in growth next year. Less economic activity means that inflationary pressure will gradually decline.
"We thus believe that both the Federal Reserve and the ECB will have completed their rate-hiking cycles as early as the first half of 2023", says Christina Nyman.

In one of our theme articles in our latest macro forecast, we discuss how monetary policy is affected by ESG, with the green transition threatening to push inflation higher in the near future, as well as how social factors and public governance play a major role in terms of the impact of monetary policy on the economy.

Higher interest rates worrying households
There is a historically large discrepancy between Swedish companies' and households' view of the economy. Households are just as pessimistic as they were early on in the pandemic and during the financial crisis, while companies are considerably more optimistic than usual. This is down to the high prices for energy, fuel and food, which is undermining households' purchasing power. Companies still have full order books and can offset their higher costs by charging higher prices.
"Uncertainty about the future seems to be a huge factor on people's minds at the moment, as inflation has reared its ugly head again and we have to get used to the fact it costs to borrow money", says Christina Nyman.

Inflation decisive
Energy prices are currently fluctuating sharply, which makes it hard to estimate when the overall CPIF inflation rate will reach its peak. Not counting energy prices, Handelsbanken's economists expect an upturn lasting throughout 2022 to around 6 percent, after which point inflation should slowly retreat over the next few years.
"We believe wage earners will see some compensation next year for the current decline in real salaries, but pay rises will likely not be large enough to prevent the Riksbank from reaching its 2 percent goal in the longer term," says Christina Nyman.
Given the continued high inflation, Handelsbanken's economists expect the Riksbank to hike the interest rate by half a percent in June. The Riksbank will subsequently continue with its rate-hiking cycle, up to 1.75 percent, until inflation starts to decrease. "The rapid rise in interest rates will be felt by households and companies alike, and we expect GDP to be increasingly affected by negative factors until 2023", says Christina Nyman.

Risk of a house price crash
Weaker global growth is curbing the demand for Swedish exports. At the same time, companies are struggling to reduce costs. Demand is also being subdued by the rising interest rates, resulting in both weak consumption and poor investment growth.
"For a household with loans of SEK 3m, this equates to additional costs of SEK 3,300 per month, which we believe is putting the lid on other consumption", says Christina Nyman.
Consequently, demand for house purchases is waning. Handelsbanken expects a gradual decline in house prices from the second half of the year, forecasting that prices will fall by around 10 percent during the period 2022-23. Moreover, housing investments are expected to drop off massively, owing to higher production costs and shaky demand. This demand will be further undermined as the weaker economy slows down job growth and causes rising unemployment, which will feed back into weaker GDP growth. Given the weaker growth prospects, Handelsbanken is now making a substantial downward forecast revision compared with the March forecast.

Fiscal policy critical
The worsening security situation following Russia's invasion of Ukraine and Sweden's forthcoming NATO membership have increased the need for a more expansionary fiscal policy in terms of defence expenditure. This can be added to a number of other long-term requirements, particularly climate transition. Unlike many other countries, Sweden has low public debt, giving it leverage. However, an overly expansionary fiscal policy would further fan the flames of inflation, while monetary policy simultaneously does its utmost to put them out. In one of the theme articles in

our latest macro forecast, we delve into the policy challenges facing the eurozone, where the fiscal headroom is significantly less.

For further information, please contact:
Christina Nyman, Chief Economist: +46 70 778 77 65
Joel Holm, Press Officer: +46 73 058 30 21

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			
	2021	**2022p**	**2023p**	**2024p**
Sweden, actual	4.8 (4.9)	2.4 (3.5)	0.8 (2.1)	1.6 (1.9)
Denmark	4.7 (3.8)	3.8 (2.3)	0.5 (1.8)	1.0 (1.5)
Finland	3.5 (3.7)	1.8 (3.0)	1.3 (1.8)	1.5 (1.5)
Norway, mainland economy*	4.1 (4.1)	3.6 (3.7)	1.9 (1.7)	1.0 (1.0)
Eurozone	5.4 (5.1)	2.4 (3.9)	0.9 (2.7)	1.5 (1.6)
United Kingdom	7.4 (6.5)	3.2 (4.1)	1.2 (1.6)	1.8 (1.2)
United States*	5.7 (5.5)	3.0 (3.8)	1.6 (2.3)	1.6 (2.0)
China	8.1 (8.1)	5.1 (5.2)	5.3 (5.1)	5.1 (5.0)

*Calendar adjusted

Interest rate forecast

	End of year			
Policy rates	**2021**	**2022p**	**2023p**	**2024p**
United States	0.125 (0.125)	2.625 (0.875)	2.625 (1.375)	2.375 (1.625)
Eurozone	-0.50 (-0.50)	0.50 (-0.50)	0.75 (-0.50)	0.75 (-0.30)
Sweden	0.00 (0.00)	1.25 (0.00)	1.75 (0.25)	1.75 (0.50)
Denmark	-0.60 (-0.60)	0.50 (-0.60)	0.75 (-0.60)	0.75 (-0.40)
United Kingdom	0.25 (0.25)	1.50 (0.75)	1.50 (1.00)	1.50 (1.25)
Norway	0.50 (0.50)	1.75 (1.50)	2.25 (1.75)	2.25 (1.75)

Exchange rate forecast

	End of year			
	2021	**2022p**	**2023p**	**2024p**
EUR/SEK	10.23 (10.23)	10.10 (10.00)	9.80 (9.70)	9.80 (9.70)
USD/SEK	9.03 (9.03)	9.44 (9.01)	8.83 (8.90)	8.60 (8.66)
GBP/SEK	12.18 (12.17)	11.61 (12.50)	11.67 (12.13)	11.67 (12.13)
NOK/SEK	1.02 (1.02)	1.00 (1.03)	0.98 (1.01)	1.01 (1.01)
DKK/SEK	1.37 (1.37)	1.35 (1.34)	1.31 (1.30)	1.31 (1.30)
CHF/SEK	9.49 (9.49)	9.71 (9.62)	9.33 (9.33)	9.33 (9.33)
JPY/SEK	8.13 (8.13)	7.61 (7.90)	7.12 (7.81)	6.93 (7.60)
CNY/SEK	1.42 (1.42)	1.47 (1.40)	1.38 (1.39)	1.33 (1.35)
EUR/USD	1.13 (1.13)	1.07 (1.11)	1.11 (1.09)	1.14 (1.12)
EUR/GBP	0.840 (0.840)	0.870 (0.800)	0.840 (0.800)	0.840 (0.800)
USD/CNY	6.35 (6.35)	6.40 (6.43)	6.40 (6.40)	6.45 (6.40)

Source: Handelsbanken

In brackets: Handelsbanken Global Macro Forecast January 26, 2022. An interim update was published March 16, 2022

[Global Macro Forecast – Interim update in the wake of Russia’s invasion of Ukraine]