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Record inflation and a free-falling krona eroding Swedish purchasing power

Count on tightening the purse strings even further in 2023. The falling krona is pushing inflation to record highs and eroding Swedish purchasing power. "High inflation this year will represent a loss of around SEK 35,000 in purchasing power for the average household", says Handelsbanken's Chief Economist, Christina Nyman.
According to Handelsbanken's macroeconomic forecasts, the Riksbank will continue raising the policy rate, and Swedish purchasing power will start to rise again in 2024 at the earliest when inflation starts to slow down.
"Unfortunately, there is no pain-free solution, and in the short term, the purchasing power of many households will be eroded even more by higher interest rates", says Christina Nyman.

Swedish krona undervalued
The weak krona has contributed to a higher level of inflation in Sweden than in many other countries. The result will be a clear deterioration in households' purchasing power in 2023, although export companies will benefit from a weaker krona. According to the Handelsbanken's macroeconomists, the krona is undervalued and should appreciate in the future when economic uncertainty subsides and interest rates return to more normal levels.
"There is no point in the government and the Riksbank trying to talk up the krona. Improving the SEK rate will require a long-term focus on growth and stability", says Christina Nyman.

Inflation to peak, but the target remains distant – higher interest rates for an extended period
Inflation has started to taper off, but the road to reaching the Riksbank's target of 2 percent will be a long one. Despite extensive rate hikes in 2022, it will take until 2024 before the Riksbank has completely extinguished the inflationary fire.
"We do not expect interest rates to return to the low levels we have seen in the past 15 years. As far as Sweden is concerned, we expect the policy rate to hover around 2–2.5 percent a few years from now", says Christina Nyman.

Global slowdown putting pressure on companies and households
A global downturn is now taking shape, as the tightening monetary policy begins to affect both households and companies. Despite this, the economy has thus far proven to be resilient, with growth and labour markets stronger than normal. For lower inflation to take hold, central banks will need to keep their policy rates higher than normal right up to 2025, according to our macroeconomic forecasts, and we do not expect a recovery to materialise until 2025.
"A global recession is forcing the profit expectations of listed companies downwards and setting the scene for a difficult spring in the financial markets", says Christina Nyman.

No increase in Swedish purchasing power until next year at the earliest
A high level of indebtedness and short interest-fixing periods will increase the vulnerability of Swedish households to the effects of rising interest rates. Also, inflation in Sweden is higher than in many other countries, and so far, wage increases have been relatively low. There will therefore be a clear reduction in household consumption and housing construction this year. However, the economic downturn should be tempered by a labour market that remains relatively robust.

“The purchasing power of households will improve throughout 2024 and 2025 as inflation slows down, fiscal policy becomes more expansionary and the Riksbank gradually lowers the policy rate”, says Christina Nyman.

Interest rates putting pressure on building calculations and falling property prices

Rising funding costs have been putting pressure on the prices of both residential and commercial properties. House prices have fallen by around 14 percent so far, compared with the peaks noted just under a year ago, while the decline for commercial property prices has so far been significantly lower.
“Our forecast is that prices will fall by around 20 percent for residential properties and by 15 percent for commercial properties, compared to the peak levels noted last year”, says Christina Nyman.
Increases in construction costs, rising funding costs and falling real estate values will put pressure on the property sector. The pace of construction will also become more subdued to reflect slow population growth in the future.
“However, the slowdown in construction could be exacerbated if there is a substantial tightening of financial conditions”, says Christina Nyman.

Cooling labour market

Many companies say they are still experiencing difficulties attracting new labour. However, as the economy slows, labour shortages are expected to become less pronounced.
“We expect unemployment to rise this year, even though many companies will try to retain their staff”, says Christina Nyman.
This year’s round of wage negotiations will take place in a particularly challenging environment, characterised by a strong labour market and high inflation.
“We expect to see a one-year wage agreement with an increase of around 3.5 percent. We do not believe that such a level would be in conflict with the inflation target, but we are concerned at the prospect of a short-term agreement, as this would mean that there would still be uncertainty surrounding future wage formation”, says Christina Nyman.

High energy prices are here to stay

The green transition will drive inflation in many countries over the coming decade and contribute to a slight tightening of monetary policy.
“We expect high energy prices to become a part of everyday life, and climate-related investments and growth in the demand for green minerals could push inflation up even further. However, there are several factors that could subdue these inflationary impulses, and in the longer term, it is possible that the use of fossil-free energy could actually reduce the price pressure slightly, as the new technology becomes available on a larger scale”, says Christina Nyman.

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For the full report in Swedish, see Global konjunkturprognos and in English, Global Macro Forecast
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GDP

	Annual average			
	2022	2023p	2024p	2025p
Sweden	2.8 (3.0)	-1.0 (-0.3)	1.0 (1.6)	2,4
Finland	1.9 (2.3)	-0.2 (-0.2)	1.0 (1.0)	1.4
Norway, mainland econom	3.7 (2.9)	-0.1 (0.7)	0.3 (1.3)	1.5
Eurozone	3.3 (3.1)	-0.3 (-0.5)	1.3 (1.5)	1.8
United Kingdom	4.4 (3.7)	-1.8 (0.4)	0.8 (1.3)	3.4
United States*	2.1 (1.8)	0.7 (0.2)	0.3 (1.3)	2.1
China	3.0 (3.7)	6.0 (5.2)	5.0 (5.1)	5.0

*Calendar adjusted

Interest rate forecast

	End of year			
Policy rates	**2022**	**2023p**	**2024p**	**2025p**
United States	4.375 (3.875)	4.875 (4.125)	3.625 (3.375)	2.625
Eurozone	2.00 (2.00)	3.00 (2.00)	2.50 (1.50)	2.00
Sweden	2.50 (2.25)	3.25 (2.75)	2.75 (2.25)	2.50
United Kingdom	3.50 (3.00)	4.00 (3.00)	3.75 (2.75)	3.00
Norway	2.75 (2.75)	3.00 (3.25)	2.50 (3.00)	2.25

Exchange rate forecast

	End of year			
	2022	2023p	2024p	2025p
EUR/SEK	11.13 (10.85)	10.75 (10.50)	10.40 (10.30)	10.20
USD/SEK	10.43 (11.07)	9.95 (10.50)	9.04 (10.00)	8.72
GBP/SEK	12.79 (12.62)	11.68 (12.35)	11.30 (12.12)	11.09
NOK/SEK	1.06 (1.07)	1.04 (1.06)	1.04 (1.05)	1.02
CHF/SEK	11.41 (11.19)	10.97 (10.82)	10.40 (10.62)	10.20
JPY/SEK	7.22 (7.91)	8.03 (7.72)	7.54 (7.35)	7.26
CNY/SEK	1.51 (1.60)	1.42 (1.57)	1.34 (1.52)	1.30
EUR/USD	1.07 (0.98)	1.08 (1.00)	1.15 (1.03)	1.17
EUR/GBP	0.870 (0.860)	0.920 (0.850)	0.920 (0.850)	0.920
USD/CNY	6.90 (6.90)	7.00 (6.70)	6.75 (6.60)	6.70

Source: Handelsbanken

In brackets: Handelsbanken Global Macro Forecast September 21, 2022.