Swedbank

Swedbank Economic Outlook

August 2017

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Welcome to Swedbank Economic Outlook!

Swedbank Economic Outlook presents the latest economic forecasts for Sweden, the Baltics and the major global economies. In a series of in-depths, current issues that have a bearing on the economic developments are analysed.

Swedbank Economic Outlook is a product made by Swedbank Macro Research.

Swedbank Research

Olof Manner
olof.manner@swedbank.se
Head of Research
+46 8 700 91 34

Macro Research

Sweden

Anna Breman
anna.breman@swedbank.se
Group Chief Economist
+46 8 700 91 42

Oscar Andersson
oscar.andersson@swedbank.se
Junior Economist
+46 8 7009285

Martin Bolander
martin.bolander@swedbank.se
Senior Economist
+46 8 700 92 99

Cathrine Danin
cathrine.danin@swedbank.se
Economist
+46 8 700 92 97

Jana Eklund
jana.eklund@swedbank.se
Senior Econometrician
+46 8 58594604

Josefin Fransson
josefin.fransson@swedbank.se
Assistant
+46 8 58590305

Åke Gustafsson
ake.gustafsson@swedbank.se
Senior Economist
+46 8 700 91 45

Knut Hallberg
knut.hallberg@swedbank.se
Senior Economist
+46 8 700 93 17

Alexandra Igel
alexandra.igel@swedbank.se
Summer Intern
+46 7 39994215

Maija Kaartinen
maija.kaartinen@swedbank.se
Research Assistant
+358 50 4688 759

Jörgen Kennemar
jorgen.kennemar@swedbank.se
Senior Economist
+46 8 700 98 04

Lija Strasuna
lija.strasuna@swedbank.se
Senior Economist
+46 7 03437024

Ingrid Wallin Johansson
ingrid.wallin-johansson@swedbank.se
Economist
+46 8 700 92 95

Estonia

Tõnu Mertsina
tonu.mertsina@swedbank.ee
Chief Economist Estonia
+372 888 75 89

Liis Elmik
liis.elmik@swedbank.ee
Senior Economist
+372 888 72 06

Siim Isküll
siim.iskull@swedbank.se
Economist
+372 888 79 25

Latvia

Mārtiņš Kazāks
martins.kazaks@swedbank.lv
Deputy Group Chief Economist/Chief Economist Latvia
+371 6744 58 59

Agnese Buceniece
agnese.buceniece@swedbank.lv
Economist
+371 6744 58 75

Linda Vildava
linda.vildava@swedbank.lv
Junior Economist
+371 6744 42 13

Lithuania

Nerijus Mačiulis
nerijus.maciulis@swedbank.lt
Chief Economist Lithuania
+370 5258 22 37

Laura Galdikienė
laura.galdikiene@swedbank.lt
Senior Economist
+370 5258 2275

Vaiva Šečkutė
vaiva.seckute@swedbank.lt
Senior Economist
+370 5258 21 56

Norway

Øystein Børsum
ob@swedbank.no
Chief Economist Norway
+47 99 50 03 92

Ingvild Almestad Aasen
ingvild.aasen@swedbank.no
Economist
+47 481 263 30

FX Advisory Sales

Anders Eklöf
anders.eklof@swedbank.se
Chief FX strategist G10
+46 8 700 91 38

Hans Gustafson
hans.gustafson@swedbank.se
Chief FX strategist Emerging Markets
+46 8 700 91 47

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Swedbank Economic Outlook August 2017

In August 2007, financial markets suddenly seized up, the first rumblings of the global financial crisis. In many countries, the recession that followed was the worst since the 1930s. The recovery has been painfully slow but is currently gaining speed. Will the growth momentum keep up, or are we nearing the top of the business cycle? How will central banks conduct monetary policy when growth is strong, but inflation remains subdued? Can political risks and geopolitical tensions put a stop to the economic recovery?

Global growth strengthening, led by Europe

Cyclical upswing to continue

The debt overhang from the financial crisis is finally fading, boosting consumer spending and reducing pressure on government finances. Investments are slowly picking up, contributing to increased trade and exports. In the US, the business cycle is maturing as the economy is getting closer to full capacity. The euro area, however, is likely to see several more years of decent economic growth. In the Nordic-Baltic region, the combination of stable domestic demand and stronger external demand from Europe implies high growth numbers in the coming years.

Central banks to follow slow and gradual path in normalising policy

Despite an upswing in growth and lower unemployment, inflation remains subdued in both the US and the euro area. Weak inflation is partly a function of structural trends such as aging, digitisation, and globalisation. Subdued inflation will not halt central banks from normalising monetary policy, but it will necessitate a slow and gradual approach. We expect the Federal Reserve to start scaling down its balance sheet in the autumn and continue with rate hikes. The ECB is lagging several years behind. It is continuing asset purchases through 2018, although at reduced volumes. This will facilitate a first rate hike from the Riksbank in 2018. Noticeably, in Sweden, inflation is picking up and is currently above target.

Political risks remain elevated

Growth has been resilient to political turmoil, so far. Yet, political risks remain high. The US political situation implies that the risk of policy mistakes is elevated. Geopolitical tensions, escalating to open military conflict, would have severe global repercussions--as would protectionist measures, causing trade wars. A mature credit cycle in China and weak Italian banks are also to be monitored closely as risks to the global outlook. At the same time, there are positive signs suggesting that growth may pick up further than we forecast. As investments rise, slow productivity growth may be reversed. The retreat of populism in Europe in the past months opens up possibilities for growth-enhancing reforms

Ten years after the financial crisis, there are reasons to be cautiously hopeful that the worst is behind us.

ANNA BREMAN
Group Chief Economist, Swedbank

Summary

Economic prospects are bright in advanced economies: the euro area is growing rapidly while the US economy shows signs of maturing. Emerging markets have good conditions for a continued recovery. Political risks in Europe have subsided, but populism, geopolitics, and the US political situation still create uncertainty.

Bright growth prospects in advanced economies

We expect the US economy to continue growing at a moderate pace, with a slowdown towards the end of the forecast period. The Federal Reserve has essentially reached its employment goal, and inflation should start rising soon. The monetary policy normalisation will, therefore, continue. In the euro area, both foreign and domestic demand support fast growth. The upswing is broad based across sectors and countries and will moderate only mildly in 2019. The ECB remains cautious, due to subdued inflation, but will start hiking policy rates in 2019.

Upturn in the Nordic countries continues

An upturn continues in the Nordic countries, with the Norwegian economy back on track after the oil sector downturn and the Danish economy supported by household demand and a tighter labour market. In Finland, the economy is expanding and growth is picking up strongly from low levels.

Growth momentum in Sweden and Baltics will not ease until 2019

The Swedish economy is maturing but will continue to grow at a very solid pace, supported by economic strength in Europe, but capacity and labour shortages will start to limit growth. Inflation will stabilise at around 2% and the Riksbank will start its normalisation. The Baltic economies will continue to grow at a high pace, though this will moderate somewhat in 2019.

Swedbank's global GDP forecast (annual percentage change) [1/]

	2015	2016	2017F		2018F		2019F
USA	2.9	1.5	2.1	(2.3)	2.0	(2.0)	1.7
EMU countries	1.9	1.7	2.1	(1.7)	2.0	(1.7)	1.8
Germany	1.5	1.8	2.1	(1.7)	2.0	(1.8)	1.7
France	1.0	1.1	1.8	(1.4)	1.9	(1.5)	1.6
Italy	0.7	1.0	1.3	(0.8)	1.1	(0.9)	1.1
Spain	3.2	3.2	3.1	(2.5)	2.7	(2.2)	2.4
Finland	0.0	1.9	2.6	(1.4)	2.0	(1.2)	1.5
UK	2.2	1.8	1.6	(1.7)	1.5	(1.3)	1.6
Denmark	1.6	1.7	2.4	(1.8)	2.0	(1.6)	2.0
Norway	1.0	0.8	1.8	(1.6)	2.1	(2.1)	2.1
Japan	1.1	1.0	1.9	(1.1)	1.4	(0.9)	0.9
China	7.5	6.7	6.6	(6.5)	6.4	(6.2)	6.3
India	7.5	7.9	7.0	(6.8)	7.6	(7.7)	7.9
Brazil	– 3.8	– 3.6	0.8	(0.3)	2.3	(2.2)	2.4
Russia	– 2.8	– 0.2	2.0	(1.5)	2.3	(2.0)	2.0
Global GDP in PPP [2/]	**3.5**	**3.2**	**3.6**	**(3.4)**	**3.7**	**(3.6)**	**3.6**

[1/] Calendar adjusted, except Russia. April 2017 forecast in parentheses
[2/] IMF weights (revised 2015). Source: IMF and Swedbank

US – Approaching maturity, but has more to give

Hard data show that the US economic development was fairly weak at the start of the year. Transitory factors were largely to blame, and during the second quarter the economy grew at a faster pace. We expect the US economy to grow at a solid pace in coming years, although slowing somewhat. The labour market remains tight at the same time that inflation has slowed. The Federal Reserve continues to normalise its monetary policy.

Weak first quarter an exception

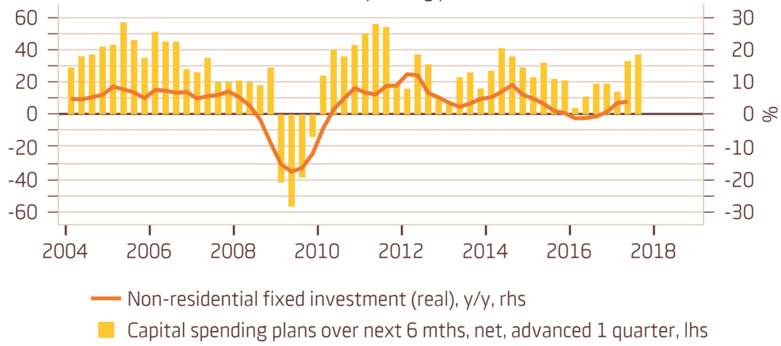
In the first quarter the US economy grew a modest 0.4% compared with the previous quarter. A number of temporary factors adversely affected GDP, however. Second-quarter growth was clearly higher at a robust 0.6% on a quarterly basis. For 2017 as a whole we estimate that the economy will grow around 2%.

Spending slows somewhat, but investment is turning higher

Consumer spending, which represents about two thirds of US GDP, has been the most important growth engine in recent years. It declined in the first quarter but recovered in the second quarter. We expect the tight labour market to lead to higher wage growth, which would support further consumption growth. At the same time household interest expenses are rising as US interest rates climb. A rising inflation rate also erodes household purchasing power. In addition, we are seeing signs of saturation in durable goods, especially motor vehicles, where growth rates have been high for many years. Investment, on the other hand, has taken off in US, rising significantly in the first half of the year compared with 2016. Business surveys show strong capital expenditure plans among the US corporate sector at the same time that there is a major need for new housing. We expect investment to remain an important engine of economic growth over the forecast period.

Investment cycle expected to pick up in 2017

Non-residential investment; CEO outlook spending plans



Source: Swedbank Research & Macrobond

Fiscal policy will not provide much support to the economy

Earlier this year many forecasters significantly raised their US growth expectations in anticipation of a major fiscal stimulus, including tax cuts and increased public investment. Political developments, including an increasingly fractured Republican Party, have led us to scale down our assumptions of the likelihood of such a stimulus. We are not convinced that the Republicans can pass a major fiscal policy bill. Besides, just over 60% of total government spending and investment is at the state and local level. Overall, the sector is in a weak financial position and therefore cannot provide a major fiscal stimulus. Healthcare reform, which continues to be debated, should also be carefully followed, since the proposed reforms will have a significant impact on consumer finances and spending.

Tight labour market means rising wages and an increase from temporarily low inflation

The US unemployment rate is very low and job growth remains robust despite mounting signs of labour shortages and hiring problems. We expect nominal wage growth to turn higher as companies are forced to pay up to retain and recruit talent. Recently, US consumer price inflation has dropped somewhat. We agree with the Federal Reserve that this is largely transitory, as a number of individual components significantly dragged down the rate last spring and early summer. We expect inflation to soon trend higher again. The consumption basket, which produces the weights for the Federal Reserve's preferred inflation measure, so-called PCE inflation, is overweighted in service consumption. Housing and healthcare together account for about half of service consumption and both should structurally contribute to a rising inflation rate over the forecast horizon. More generally service prices should rise faster due to increasing labour cost pressure.

The US labour market is tight, and becoming even tighter

Labour market data (%, SA)

Source: Swedbank Research & Macrobond

The Federal Reserve remains cautious, but is clearly normalising monetary policy

The Federal Reserve has full employment and 2% inflation as its dual objective. The labour market goal has essentially already been met, and the Fed seems to share our view that a large part of the recent dip in inflation is probably temporary. Since last December the central bank has raised its policy rate by 75bp. We think the Fed will continue along the current path with a cautious tightening. We are projecting that it will raise rates again in December for a total of three hikes this year. We also expect the Fed to announce in September that it will begin to reduce its balance sheet, in line with the schedule presented earlier this year. In 2018 we are predicting two rate hikes, since growth will then be slowing somewhat at the same time that the higher interest rates will have had a bigger impact on the economy. In 2019 we expect one hike in the middle of the year.

Euro area rises from ashes, UK hauls its ashes

The cyclical upswing in the euro area has been broad based and stronger than previously expected. Both foreign and domestic demand will further support rapid growth, which will not subside until 2019. We expect the ECB to continue its asset purchases until the end of 2018, and the main refinancing rate will rise twice in 2019. The UK economy is expected to be sluggish, on the back of weak real income growth and Brexit uncertainties.

Euro area

Fastest GDP growth in six years; broad-based across sectors and countries

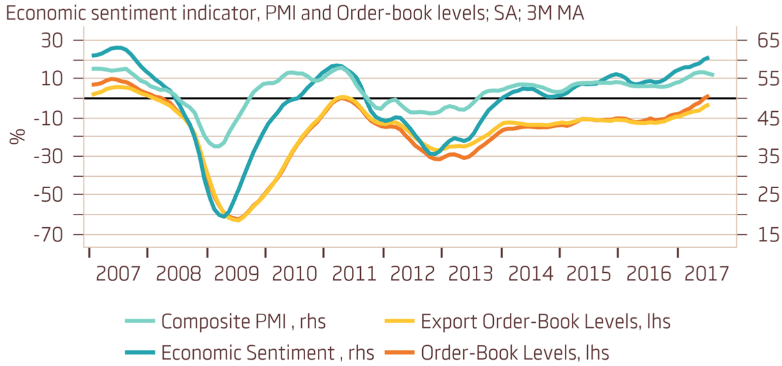
The economic recovery in the euro area (EA) is gaining momentum. Annual GDP growth accelerated to 2.2% in the second quarter – the fastest pace in more than six years. Growth has become more broad based, both across sectors and countries, picking up across the four largest EA economies despite the diverging maturity of business cycles. The economic sentiment indicator increased to its 10-year highs in July, and the PMI remains well above 50 – pointing towards continued near-term robust economic growth.

Despite positive sentiment, there is little room for further acceleration of growth

Recovering foreign demand and a relatively cheap euro helped to boost growth in production and exports across most EA countries. However, further expansion at the current elevated rates may be limited due to the appreciation of the euro, already-high levels of capacity utilisation, and, in some cases, labour shortages.

Economic sentiment and PMI point to continued strong growth in EA

Economic sentiment indicator, PMI and Order-book levels; SA; 3M MA



Source: Swedbank Research & Macrobond

There are plenty of reasons, conditions, and resources for companies to invest more

Growth in investment weakened at the start of this year; however, we expect it to pick up. The conditions for companies to invest more are particularly favourable – business confidence is elevated, there are high expectations of business-friendly reforms (e.g., in France), political risks have receded (although Italy is still a threat), and borrowing costs are still low. Also, improved banks' profitability and liquidity have increased the availability of credit in such countries as Spain.

Companies need to expand production capacity and invest in automation, in order to fulfil rising orders and to stay competitive in the ongoing industrial revolution. Investments may be also supported by firms moving their operations from the UK to the EA in preparing for Brexit. German companies are likely to prop up their investment plans in order to counteract the negative effects of rapidly increasing labour supply shortages.

Consumers are confident, employment is rising, but wage growth and inflation remain muted

Consumer confidence has been trending upwards recently to one of the highest levels in 16 years in the EA. Unemployment will continue to trend downwards, driven by rising employment. Increased optimism, combined with further-improving labour market conditions and more favourable credit conditions, will support household consumption.

Asset purchases are likely to continue throughout 2018; first interest rate hike only in 2019

Despite stronger and more broad-based economic growth in the EA, we expect asset purchases to continue until the end of 2018. The euro has strengthened and is expected to continue appreciating, while we no longer expect oil prices to increase significantly from current levels. All this implies that headline inflation is likely to stay below 1.5% throughout 2018. Despite political pressure in some slightly overheating EA countries, the ECB will probably be reluctant to withdraw the stimulus too soon, in order to avoid a too-rapid euro appreciation and a rise in government bond yields. We expect the ECB to raise its main refinancing rate twice in 2019 –at the beginning and end of the year.

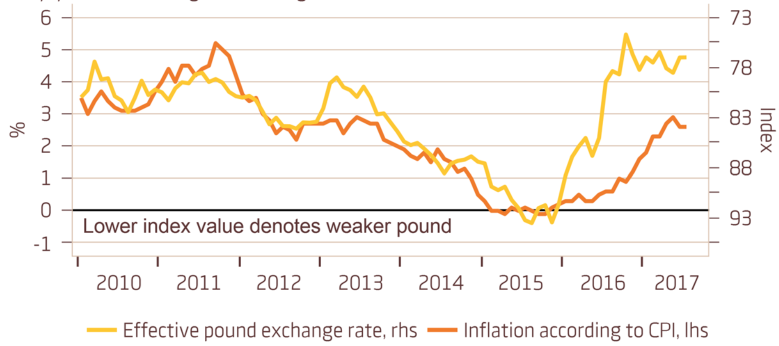
United Kingdom

UK central bank accedes to the hawks after overshooting inflation

Growth eased early 2017 but preliminary second-quarter numbers indicate a slight uptick. A breakdown shows that consumption and business investment are at near standstill. Inflation registered 2.6% annually in July-- the sixth consecutive month above target. In the near term, inflation will increase before receding towards 2%. Given that activity and jobs are believed to hold up, the BoE will hike the rate twice by the end of 2019. Tighter credit conditions and rising prices will continue to dampen household spending. Subdued consumption growth may be balanced by a pickup in trade on the back of stronger global demand and a weak sterling. An assumed transitional period after Brexit aims to minimise disruptions, but business investments will likely be volatile ahead.

Overshooting inflation in the UK due to higher import prices

CPI y/y and trade-weighed exchange rate index



Source: Swedbank Research & Macrobond

Sweden – At risk of overheating

The Swedish economy is strong. Growth is expected to be above 2.5% for a fourth consecutive year. Domestic factors continue to drive growth, while foreign trade is picking up. Inflation is currently above the Riksbank target, and will stay close to 2% in 2018 and 2019. The Riksbank will gradually raise the repo rate, starting with a first rate hike in the spring of 2018.

Investment tops out but exports turn higher

Currently high investment will start declining soon

Gross investment will contribute significantly to GDP growth in 2017 before declining considerably in 2018-2019, when housing investment, after topping out this year, slows down due to shortages of labour and buildable land. High housing starts and long lead times to completion mean that investment will remain at high levels. Higher capacity utilisation and stronger export demand are driving industrial investment.

By 2019 the expanded production capacity will dampen business investment. A growing population and much-needed upgrades to municipal services are driving municipal investment. This is in addition to a number of large-scale infrastructure projects such as the Stockholm bypass. The strengthening of the global economy, particularly in the euro area, is boosting Swedish exports. A stronger Swedish krona and rising unit labour costs will on the other hand slow down exports, mainly in the latter part of the forecast period. Higher import demand limits the contribution of net exports to GDP growth, and we only expect a positive contribution from net exports in 2019, when domestic demand gradually declines.

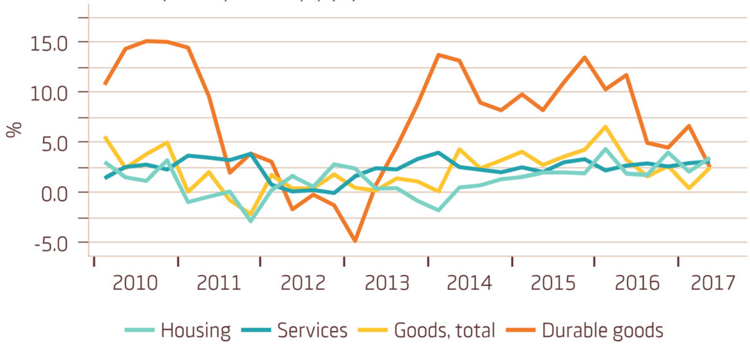
Cautious households continue to spend

Growth in consumption continues

Household consumption has increased since late 2009. Regardless of this, we observe relatively good consumption growth. We expect gradually accelerating wage growth to contribute to higher real disposable income, even if inflation increases. In addition, interest rates should remain low and fiscal policy is expected to benefit mainly lower-income households, who tend to have a high marginal propensity to spend.

The drivers for household consumption are shifting. A period of solid consumption growth suggests we are nearing a saturation point, especially for capital goods. The large number of new housing units, on the other hand, suggests that spending on home furnishings and appliances will remain high. At the same time a wave of young workers will bolster spending on consumer staples. We expect that services consumption will continue to rise at a slightly faster rate than goods consumption. Housing is the consumption component we expect to increase the most in the forecast period, mainly due to rising interest rates, but also because rents are climbing at a faster rate.

Shift in consumption
Household consumption by sector, y/y (%)



Source: Swedbank Research & Macrobond

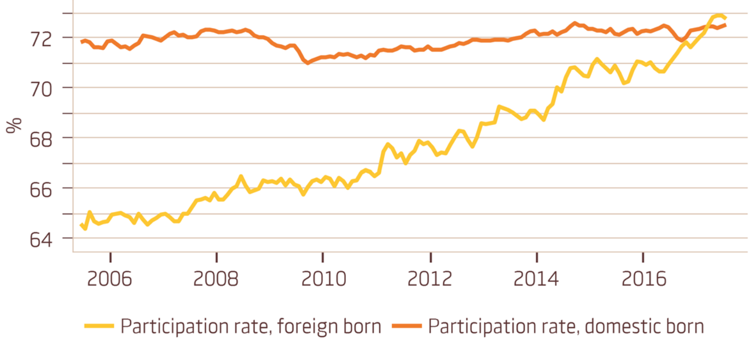
We expect households to remain cautious and savings to increase in the forecast period, with the higher savings rate partly driven by the stricter amortisation requirement. The focus on the housing market contributes to a higher voluntary amortisation rate and precautionary savings. The relatively large share of older workers also contributes to a high savings ratio, not least pension savings, both voluntary and contractual.

Strong labour market but shortages are a concern

Labour shortages a growing concern

The labour market has started the year strongly with growing employment, not least among foreign-born workers. Even though rapid population growth may distort the numbers, it does not detract from the fact that the job market is performing strongly. Forward-looking indicators are positive and suggest continued job growth in the near term. On the other hand, there is a big labour shortage in the private sector, which is likely to slow down job growth going forward. We expect it to stop at just over 1% next year before dropping further in 2019. Experience shows that it takes time for new arrivals to gain a foothold in the labour market. That, along with a wave of retirees, will cause employment rates to level off. In the wake of tighter immigration policy, growth in the working age population is expected to slow down. At the end of the forecast period unemployment is expected to turn slightly upwards.

The discrepancy in participation rates has levelled off
Labour force participation rate, domestic and foreign born 15-74 years, 3m MA



Source: Swedbank Research & Macrobond

Despite the strong labour market, wages have risen at a relatively slow pace. Comparatively low collective bargaining agreements, we feel, will help keep wage increases low in 2017-2018. While wage drift will be slightly higher next year, total wage increases will reach only about 3%. This will keep cost pressure in check, which in turn means that domestic inflation will rise slowly.

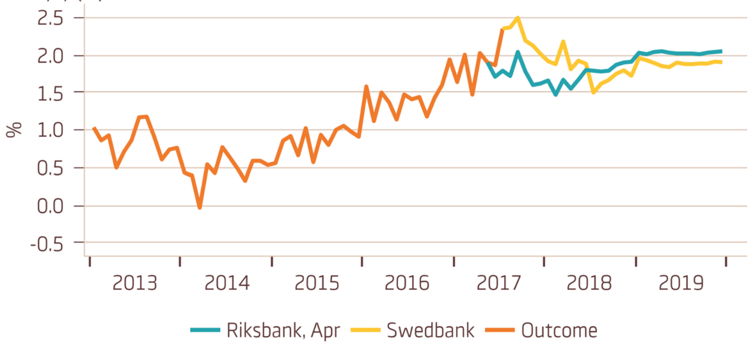
Inflation isn't convincing the Riksbank

Cautious Riksbank starts to raise the repo rate in the spring of 2018

Low wage increases and domestic cost pressure are making it harder for the Riksbank to reach its inflation target. While prices have risen more than expected of late, partly due to temporary factors, the Riksbank is far from convinced it can sound the all clear. We estimate that CPIF inflation will fall to below 2% in 2018 before gradually rising again in autumn 2018 and 2019 through higher resource utilisation and rising housing costs. The Riksbank will continue to anxiously follow the ECB and the krona exchange rate. A negative benchmark rate, bond buying and commitments to continue to stimulate the economy as long as needed are the instruments the Riksbank has used to keep inflation on the positive side. The flipside of this policy is growing imbalances.

Inflation stabilises at around 2 percent

CPIF y/y (%)

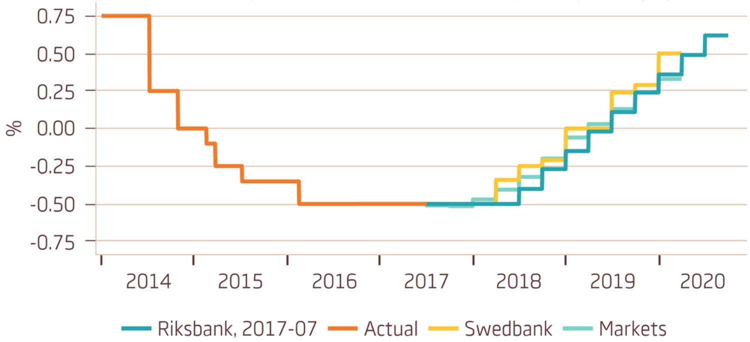


Source: Swedbank Research & Macrobond

In spite of this, we do not expect the Riksbank to change its policy in the near future. The reason is that they want inflation to reach 2%, and other considerations will have to take a backseat or get pushed onto other authorities. Because of this, the first rate hike will come in the spring of 2018. In 2019 we expect two hikes to 0.50%. The bond buying program is likely to stop at the end of the year, but the Riksbank is still ready to do more, so we expect reinvestments of coupons and maturing bonds to continue a while longer.

The first rate hike approaches, thanks to higher inflation

Riksbank repo rate forecasts (%, Riksbanken and Swedbank quarterly averages)



Source: Swedbank Research & Macrobond

Strong public finances tempt the government into spending

Strong finances give the government room to spend

A high growth rate that generates lots of tax revenue and a much lower number of refugees will boost the government's coffers, giving it flexibility to institute reforms. This comes at a good time leading into an election, and there are certainly needs in many areas. Welfare is one, especially, healthcare. Internal and external security is also an area where the needs are huge. Increased spending on crime prevention, including investments in at-risk areas, transfers to households and environmental measures are all in the pipeline. Less migration means government spending will slow at the national level, while spending by municipalities will increase for some time to come as the older population grows.

The political situation after the 2018 election could be complicated. A government policy influenced by favourable economic conditions and compromises on economic policy could lead to expansionary fiscal policy, particularly if growth slows down and unemployment begins to rise. Financial savings are expected on average to exceed 1% in 2017-2019 with Maastricht debt falling to the new debt anchor of 35% of GDP. With its new fiscal policy framework as of 2019, the government will want to avoid deviating too much on the up- or downside from the debt anchor in the medium term, since this would have to be explained to the parliament.

Nordic countries – Recovery continues

The economies of the Nordic countries continue to improve. The downturn in the oil sector is over and no longer keeps the Norwegian economy down, while household demand and a tighter labour market bolster the Danish economy. All the Nordic economies are gaining from the upswing in the euro area, and positive developments are spilling over from one country to its neighbors.

Norway

Growth has picked up substantially as the downturn in oil ends...

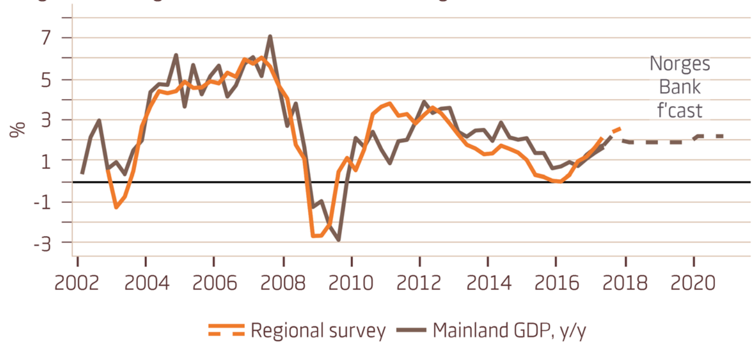
Growth in the Norwegian economy has picked up significantly through the year as the downturn in the oil sector has ended. Oil investments and related manufacturing production have stabilised, while other sectors, including construction and tourism, are booming. Unemployment is falling and household demand has gained in strength. As banks have improved their capitalisation in recent years, they are now able to lend, and there are signs that business investments may be about to pick up.

...even if house prices are falling in Oslo.

Over the last three years, house prices in Oslo have risen almost 50% and construction has risen to record levels. New mortgage credit regulation effective January has, however, contributed to a marked shift, and house prices are now falling. Although we judge the longer-term fundamental factors as sound and supported by improving macroeconomic developme-nts, in the short term we expect prices to decline further as many new units will be completed next year. Housing is likely to constrain economic growth somewhat, but, on the back of stronger developments in other sectors, we uphold our forecasts for GDP growth at 1.8% this year and 2.1% next year.

Growth recovers, surveys say more to come

Norges Bank's Regional Network vs. Mainland GDP growth



Source: Swedbank Research & Macrobond

Denmark

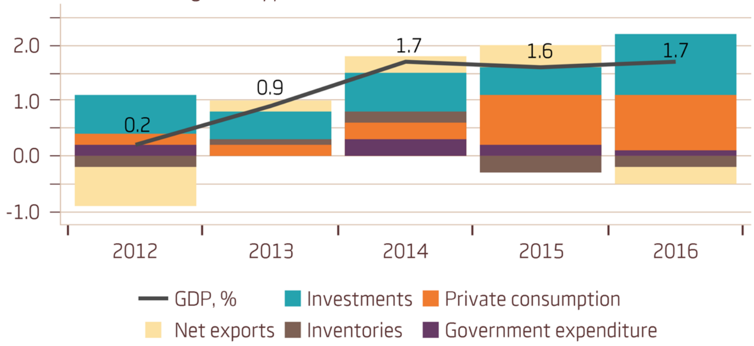
Growth is gaining speed...

The Danish economy has been growing well for several years, driven by expanding household consumption and private investments. Recent infor-mation suggests that growth is gaining speed. Optimism is rising among households and businesses in most sectors. Even exports have picked up in recent quarters, but stronger imports are reducing the net growth contri-bution from foreign trade. We revise up our growth estimates and now expect 2.4% growth in GDP this year and 2.0% growth in 2018 and 2019.

...but labour supply continues to be a concern for medium-term outlook

Continued growth implies increased capacity utilisation in the Danish economy, and the unemployment rate has already fallen markedly. Recent reforms are expected to increase labor supply, but a tighter labor market is a key risk for the medium-term growth outlook. Another risk is related to rising house prices, but household indebtedness is significantly lower now than a decade ago and not rising.

Growth in Denmark relies on domestic demand
Contributions to GDP growth, pp



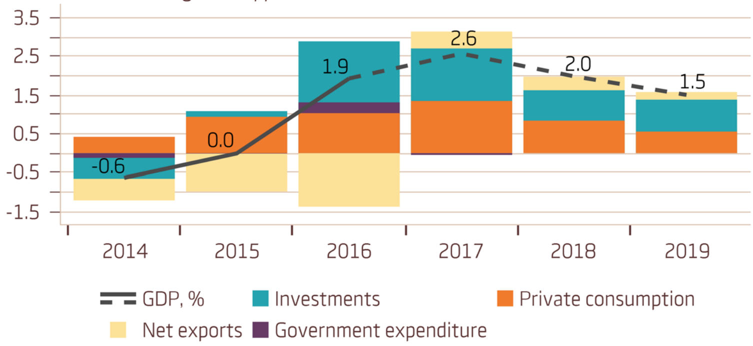
Source: Swedbank Research & Macrobond

Finland

Economic growth accelerates this year but is expected to slow in 2018-2019

Economic growth in Finland accelerates this year with the contribution of stronger domestic demand and exports. However, we forecast that the economy will not be able to keep its growth momentum in the next two years. Although, the labour market situation is expected to improve, the Competitiveness Pact will limit wage growth. Robust investments have come primarily from the construction sector, where growth is maturing. Stronger import demand from Finland's major trade partners has contributed to the accelerated export growth. However, foreign demand is expected to weaken a bit in 2018-2019, whereas improved price competitiveness and several supply-side factors will strengthen exports. The government sector will continue its reforms and austerity policy, and the contribution of its expenditures and investments to GDP growth is expected to be very modest or even negative.

It's not easy for Finland to keep its growth momentum
Contribution to GDP growth, pp



Source: Swedbank Research & Macrobond

Baltic Countries – Galloping ahead

Economic growth has exceeded expectations in all three Baltic countries this year. Stronger external demand lifts exports and investments. GDP is expected to grow above its potential also in 2018. In 2019, growth is expected to recede as cyclical upswing fades. Tight labour markets push up wages. Inflation will accelerate in 2017-2018 due to higher commodities' prices, excise taxes and growing labour costs. Approaching local elections in Estonia and a general election in Latvia will keep fiscal policy expansionary in these two countries.

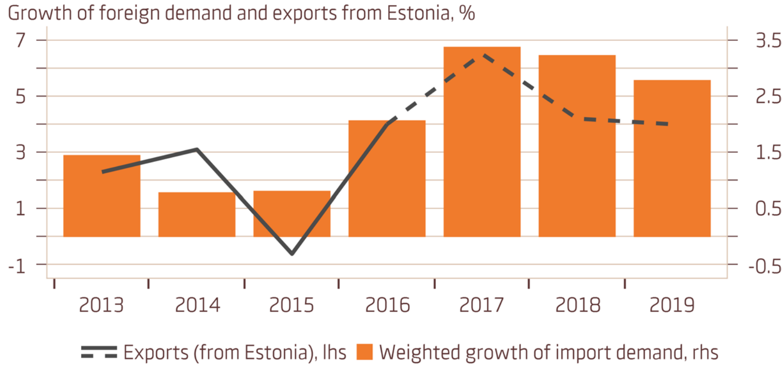
Estonia

Improved foreign demand accelerates export and investment growth

Improved foreign demand is accelerating export growth in 2017, and after four years of decline both business and public sector investment growth is picking up. We expect that this year GDP expands by 3.5% in real terms. Foreign demand is expected to remain robust in the next two years. In addition to the positive impact on exports, this increases the need for business sector investments, as capacity utilisation in industry has already risen above its long-term average. After a slowdown this year, growth of private consumption is expected to accelerate again in 2018. We forecast that next year the Estonian economy will grow by 3.2%, and 2.7% in 2019. At this stage of the growth cycle, Estonia does not need stronger fiscal stimulation.

Stronger foreign demand has improved outlook for exports

Growth of foreign demand and exports from Estonia, %



Source: Swedbank Research & Macrobond

Wage growth remains relatively high due to the increased shortage of suitable labour

Consumer price growth is expected to accelerate above 3% in 2017 due to higher commodity prices and a surge in excise tax rates. Strong wage growth will lift the prices of services. Growth of the average wage in real terms is expected to slow substantially this year, as nominal growth of wages will be somewhat slower and prices will rise. The substantially slower growth of wage-earners' purchasing power will be smoothed by an increase in social transfers. In 2018, wage-earners' labour income will jump up again, due to a substantial increase in their nontaxable income. This change in taxes could also lower their wage expectations for next year. Wage growth will remain relatively high due to the shortage of suitable labour. The higher economic activity is lifting employment in 2017. In 2018, employment is expected to remain at around this year's high level, as the labour supply will be limited despite the growing demand for labour. The reorganisation of the social benefits system of the disabled (forcing them to find a job) will raise the number of the unemployed.

The gap between the nominal wage and productivity growth rates narrows

Labour productivity growth is expected to improve in 2017-2019. The gap between the nominal wage and productivity growth rates is narrowing or even disappearing, which is making business sector more competitive in export markets.

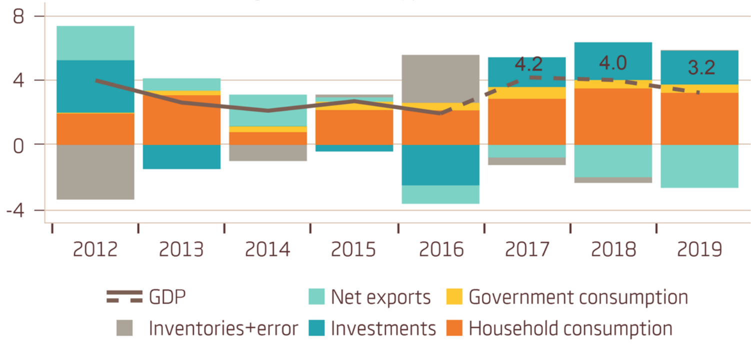
Latvia

Growth is fast but not furious

GDP growth accelerated to impressive 4.1% year on year in the first half of 2017. Exports benefitted from strong external demand, investments finally recovered from a very low base, and a rebound in consumer confidence lifted household consumption. Credit demand remains lacklustre, but increasing confidence, strong balance sheets, weak past investment, and a tightening labour market will power bank lending and domestic demand, going forward. We forecast the economy to expand by a hefty 4-4.2% in 2017-2018 and moderating to 3.2% in 2019 – closer to the current potential of about 3% – as the business cycle upswing fades.

Sharp cyclical pick up in growth to moderate in 2019

Contributions to annual GDP growth in Latvia, pp



Source: Swedbank Research & Macrobond

Investments to recover from low past levels

Exports of both goods and services surged by 10% in value terms in the first half of 2017, covering a wide range of countries and product/service groups. Exports will continue supporting economic growth but at a slower pace. Investments are still lagging, at below 20% of GDP, but rising external demand, the already-high capacity utilisation, a surge in EU funds inflows, and rising labour costs will drive investment growth in 2017-2019.

Labour market keeps tightening; tax reform is to boost household consumption

The labour market continues tightening on the back of growth-driven demand and negative demographic trends, inducing rapid wage growth. On top of that, labour tax cuts will boost net wages in 2018, temporarily reducing the pressure on gross wages. Inflation will peak at close to 3% in 2017-2018, driven by external factors, rising excise taxes, and wage growth, but will ease to 2.2% in 2019. Real income will keep growing, supporting household consumption and further lifting consumer confidence, which will increase credit demand.

Main negative risks are external

The approaching general election in October 2018 will keep fiscal policy expansionary, but with no major shifts in economic policy. The main risks to growth are external – geopolitical uncertainty, external demand weakness, and Russia's transit flows. As to domestic risks, labour market pressures and excessive wage growth will put competitiveness at risk and require a structural solution. Bank regulation may act as a drag on credit growth.

Lithuania

Faster-than-expected growth, thanks to rebound in exports and investments

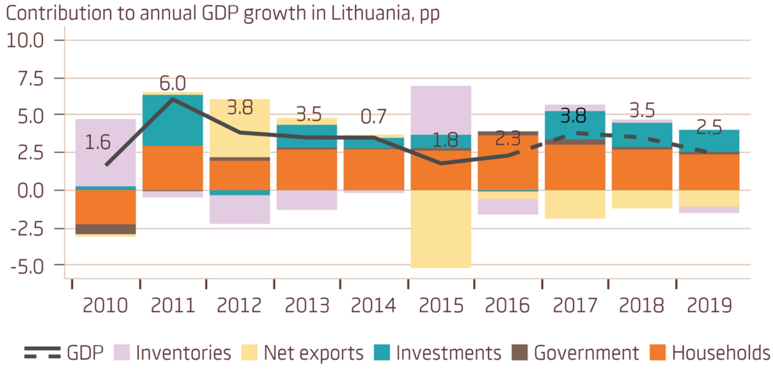
Similarly as in other Baltic and EU countries, 2017 for Lithuania is shaping up to be much better than expected – GDP growth is likely to remain close to 4%. This is mainly a cyclical upswing – exports jumped on the back of stronger global trade and a recovering Europe, while long-lagging investments are also rebounding. We estimate that both gross fixed capital formation and exports will grow by 10% this year in real terms.

Positive momentum will carry over into 2018 – the euro area and other major export markets are expected to continue growing and will support exports. Investments are likely to continue growing at an accelerated pace, thanks to faster acquisition of EU structural funds, record-high capacity utilisation, and favourable financial conditions. Household consumption will remain healthy, but, due to shrinking population and employment, will contribute less to overall growth.

Net wage growth has accelerated and is going to be close to 9% this year (close to 10% in the private sector), but higher inflation is eating into households' purchasing power growth. The unemployed or those living on social benefits may even suffer shrinking real income, as average annual inflation accelerates to 3.5% in 2017. Productivity growth has accelerated and is likely to reach around 4 % this year and the next, yet it remains well below wage growth and is slowly eating into competitiveness.

Strong and broad-based GDP growth

Contribution to annual GDP growth in Lithuania, pp



Source: Swedbank Research & Macrobond

Eroding external competitiveness is likely to dampen exports and return GDP growth closer to its potential

For this reason, we expect the cyclical upswing to ebb and GDP growth to return closer to its potential in 2019. Potential growth is very much limited by the labour force, which is shrinking by around 1% per year. There are some structural reforms in the government's pipeline, but we don't expect miracles or a major impact in the two coming years. Nevertheless, the Lithuanian economy remains balanced and well prepared for any external shocks –the trade deficit remains small, corporate and household financial leverage is meagre, both have ample financial reserves, and public finances are stable.

Asia and emerging markets – Cyclical recovery

The economic recovery has continued at a faster than expected pace in 2017 in Russia and Eastern Europe. At the same time inflation has fallen quickly in several emerging markets, serving as a stimulus for purchasing power. Commodity prices have again turned higher, which is positive for commodity-producing economies. Growth in China is stable, a top political priority heading into this autumn's party congress. Continued low interest rates globally and a weaker USD are making it easier for highly indebted countries to find funding sources. Political risks have declined slightly since the beginning of the year. Taken together, the potential for a further recovery is good. On the other hand, growth is limited by structural problems in larger emerging markets.

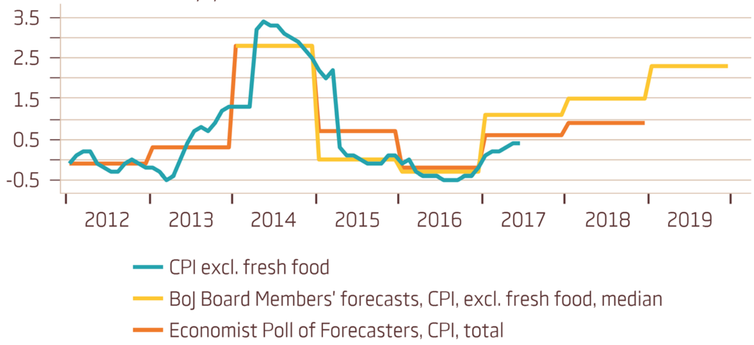
Japan

Encouraging signs but a long way to go

Japan is benefitting from a healthy global demand, weaker yen, ultra-loose monetary policy, and higher fiscal spending. Once real wages start to grow, consumption's contribution to growth should increase. We expect growth to remain above potential in 2018. In 2019, growth will be weaker due to a cyclical downturn and an expected VAT hike. We expect inflation to gradually inch higher, although the 2% target is still far away. The Bank of Japan, which currently owns 45% of outstanding sovereign debt, has gradually reduced the amount of government bonds it buys, making the current monetary framework more sustainable.

2% target not met before 2019-2020

Inflation forecasts, %, y/y



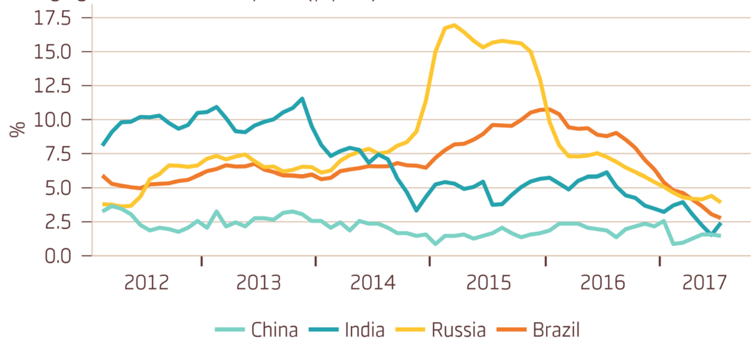
Source: Swedbank Research & Macrobond

China

Private investment stabilises

Economic stability is the watchword ahead of this autumn's party congress. The downward trend in the renminbi has stopped. China has less need for a weaker currency since exports have turned higher. Political measures to reduce overcapacity in heavy industry are now beginning to produce results. It has gone so far that certain sectors are reporting supply shortages, which has stabilised prices at the producer level. The economy is now mainly driven by investment from the private sector. This type of investment is much less dependent on credit than traditional sectors such as real estate and heavy industry. We therefore expect the Chinese economic development to remain stable with less investment in infrastructure and real estate, partly offset by private investment.

Lower inflation strengthens purchasing power
Emerging markets consumer prices (y/y CPI)



Source: Swedbank Research & Macrobond

India

Disappointing growth and continued problems in the banking sector

Growth has been a disappointment in 2017. The weakness is partly due to temporary effects from the demonetisation at the beginning of the year and the introduction of a uniform goods and service tax this summer. The fundamental problem in India is the large share of bad loans in the banking sector, which is limiting lending capacity and causing very high real interest rates. This is a major issue that will take time to resolve and is an obstacle to infrastructure investment. On the positive side, inflation has fallen to the lowest level in over ten years. Cyclical factors are partly to blame, but prices are also affected by structural factors. Lower food prices are a result of better logistics and digitisation with fewer middlemen and higher efficiency in agriculture. This increases the likelihood of rate cuts by the central bank going forward.

Brazil

Cyclical recovery limited by dubious reform process

Brazil's political crisis continues to spiral downward. At this point it seems that President Michel Temer will stay in power after surviving a parliamentary corruption vote in August, after the opposition failed to obtain a majority to pursue his case. Next on the agenda is a decision on a pension reform, which is important if the government's finances are to eventually stabilise. The risk, however, is that it will be watered down, since the president's political strength has been sapped after all the accusations in the last year. The economic recovery, on the other hand, has continued. Exports have strengthened and inflation is the lowest since 1999. We have revised our growth projection upwards for 2017, but see limited potential thereafter given the slow pace of reform.

Russia

Recovery broadens, but sanctions will stay

The subdued recovery continues and broadens with industry-led growth spreading into consumption and investments. Peak oil will ease the rouble appreciation pressure, boosting export growth, and real wage growth will support household consumption. GDP will grow 2-2.3% annually over 2017-2019, close to the current long-term potential. Geopolitical risks will remain elevated as presidential elections approach and international sanctions are kept in place. Sanctions are unlikely to toughen and thereby derail recovery, but they will discourage FDI and credit flows. The hostility between the US and Russia persists. Low inflation will keep the central bank on a gradual easing cycle.

Exchange and Interest Rates

Supported by an increasingly stable economic recovery and reduced euro area political risk, a normalisation of central banks' policies draws nearer where it has not yet begun. The process will be cautious and drawn-out as central banks are careful not to jeopardise the frail return of inflationary pressures. Despite subdued inflation expectations limiting the rise of long yields, yield curves are likely to steepen before short yields catch up to longer ones. The stronger euro is here to stay; it will receive further support when the ECB increases policy rates. The krona also will appreciate, though the Riksbank remains vigilant.

Political risks and policy normalisation in driver's seat

Political risk remains potent factor for euro area spreads but is no longer at top of mind

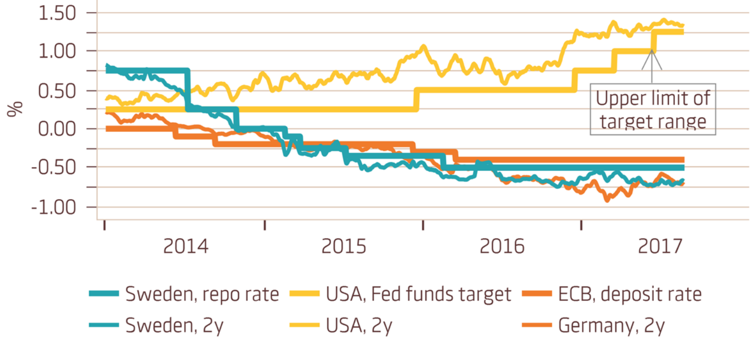
After the European elections in the spring, fixed income markets reacted with relief. Differentials among euro area sovereign yields fell markedly. Perceived political risk remains a potent factor for euro area countries' spread, but we expect such perceptions to be fairly weak in the near term. The Italian parliamentary election in the spring is the main risk event.

Drawn-out, but clear, monetary policy normalisation sets tone for fixed-income markets

We also expect that central banks' gradual but undeniable process of removing policy accommodation will continue, although at a varying pace. At present, market pricing reflects low expectations for rate hikes, especially for the Fed. We anticipate markets to adapt as central banks carry on with normalisation. Hence, yield curves are forecast to initially steepen and then flatten somewhat. The relative timing will differ among countries according to the stage of policy normalisation. How central banks manage their balance sheets and asset purchase programmes will be crucial for the markets, both for signalling the future stance of monetary policy and determining the supply- and-demand balance of sovereign debt. We expect the ECB to continue net asset purchases at scaled-down volumes through 2018, while the Fed will soon reduce its reinvestments. In a historical context, subdued inflation expectations will nonetheless ensure that longer yields stay comparatively low.

Short-dated sovereign yields track policy rates fairly well

Policy rates (%) and sovereign debt yields (%, 5d MA)



Source: Swedbank Research & Macrobond

Stronger euro here to stay

In response to the elections this past spring, the euro has appreciated noticeably. The economic upswing in the euro area and the expectance of gradual monetary policy normalisation from the ECB will continue to support a stronger euro ahead, with episodes of variability in conjunction with heightened political risk, e.g., around important elections. Brexit weighs on the pound, but it will strengthen once there is more clarity on the post-Brexit relationship. The Riksbank remains vigilant not to let the krona appreciate too rapidly. However, gradual increases in the policy rate will strengthen the krona against trading partners.

Commodity markets

Balance in the oil market suggests stable crude prices ahead

The oil market has returned to balance this year as evidenced by declining stock levels. We have, nevertheless, revised down our estimates for the oil price and now expect an average of USD 51 per barrel for 2017-2019. Demand for oil continues to grow with the global economy, and OPEC is restraining its production. But the production of shale oil in the US has rebounded more than previously expected and still seems capable of responding to higher prices with production increases

Interest and exchange rate forecasts, %

	Outcome	Forecast				
	2017 23 AUG	2017 31 DEC	2018 30 JUN	2018 31 DEC	2019 30 JUN	2019 31 DEC
Policy rates						
Federal Reserve, USA	1.25	1.50	1.75	2.00	2.25	2.25
European Central Bank	0.00	0.00	0.00	0.00	0.25	0.50
Bank of England	0.25	0.25	0.25	0.50	0.50	0.75
Riksbank	– 0.50	– 0.50	– 0.25	0.00	0.00	0.50
Norges Bank	0.50	0.50	0.50	0.75	1.00	1.25
Bank of Japan	– 0.10	– 0.10	– 0.10	– 0.10	– 0.10	– 0.10
Government bond rates						
Sweden 2y	– 0.7	– 0.5	– 0.1	0.4	0.7	0.9
Sweden 5y	0.0	0.5	0.9	1.1	1.3	1.5
Sweden 10y	0.8	1.1	1.4	1.7	1.9	2.0
Germany 2y	– 0.7	– 0.6	– 0.4	0.0	0.4	0.6
Germany 5y	– 0.3	0.0	0.3	0.7	1.0	1.2
Germany 10y	0.4	0.7	0.9	1.3	1.6	1.7
US 2y	1.3	1.8	2.1	2.5	2.8	2.6
US 5y	1.7	2.3	2.7	2.9	3.1	2.8
US 10y	2.2	2.9	3.2	3.5	3.5	3.3
Exchange rates						
EUR/USD	1.18	1.17	1.19	1.21	1.22	1.23
EUR/SEK	9.53	9.40	9.25	9.20	9.15	9.15
USD/SEK	8.11	8.03	7.77	7.60	7.50	7.44
KIX (SEK) [1/]	110	109	107	106	105	106
EUR/NOK	9.31	9.25	9.15	9.00	8.80	8.60
NOK/SEK	1.02	1.02	1.01	1.02	1.04	1.06
EUR/GBP	0.92	0.91	0.92	0.93	0.90	0.89
USD/CNY	6.66	6.80	6.85	6.90	6.95	6.99
USD/JPY	110	111	112	112	110	108
USD/RUB	59	59	58	57	57	56

[1/] Total competitiveness weights.
Trade-weighted exchange rate index for SEK.

Sources: Macrobond & Swedbank

European politics: Too early for the all clear

The breeding ground for populistic EU-sceptic parties was to some extent eroded during the spring as economic conditions improved in many parts of Europe. It is still too early to sound the all clear, however, regarding populist currents and the associated political risk. The challenges for established parties in government to deliver on reforms that can bring about sustainable increases in wellbeing for ordinary voters in order to put populism to rest still remain.

Macron election positive for economic developments

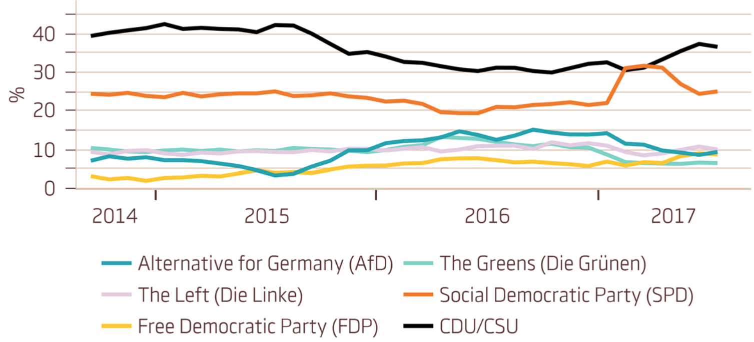
The single most welcome news last spring was Macron's election victory in France, which will likely give a boost to the European project. In the Netherlands the established parties, which are generally willing to work together, had a good election in March with few exceptions. The hasty election in the UK weakened the current government, but offers hope of a softer Brexit. Overall, political risk in Europe declined during the spring, with the exception of the UK and Italy, after populist parties suffered defeats in several countries. There is therefore a greater appetite for risk in the European financial markets. The Brexit overhang remains an uncertainty though, and the political situation in Italy still constitutes a weak link.

European 'super election year' continues...

The super election year of 2017 continues this fall. The Bundestag election in Germany takes place on 24 September and will be followed by legislative elections in Austria on 15 October. Italian President Mattarella has indicated that a parliamentary election is not likely before next spring. In Germany, the traditional parties have solidified their positions, while the populist Alternative for Germany (AfD) and the Left (Die Linke) have retreated in the polls. In Austria the populist right-wing Freedom Party was getting support from 35% of the public last winter, but polls now show the conservative People's Party (ÖVP) instead gaining momentum. There are also signs that populism has faded in Italy since the populist Five Star Movement lost ground in opinion polls and had a weak showing in recent local elections.

Polls for Federal election 2017

INSA/YouGov & Bild



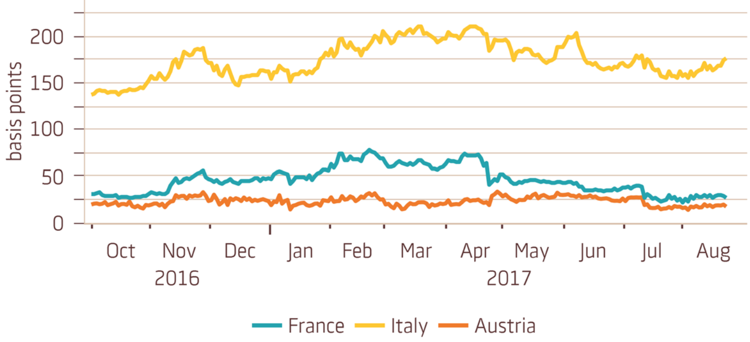
Source: Swedbank Research & Macrobond

... but it's too early to sound the death knell for populism

While the breeding ground for the success of populist parties has eroded as economic conditions have improved in many parts of Europe, we still feel it is too early to breathe a sigh of relief and declare that populism has peaked. Economic development in the wake of the financial and euro crises has probably been a strong contributor to the rise of populism, not least due to increased economic inequality and a perceived unfairness as to how the burdens have been shared. In many countries the labour market and wages have been weaker than voters had expected.

Election results have calmed the markets but Italy still a concern

Interest rate spreads with Germany, 10y government bonds



Source: Swedbank Research & Macrobond

Despite the calm following last spring's elections, populism remains a challenge in European politics. The election in Italy in spring 2018 is the biggest political risk factor. Grillo's popular, EU-critical Five Star Movement, a shaky banking sector, high government debt and weak growth, as well as fairly widespread euro opposition among the public, create uncertainty. In Austria there is still a risk that the populist Freedom Party could influence the process of government coalition-making. In Germany the situation heading into this autumn's election looks much more stable with Angela Merkel's CDU/CSU topping opinion polls. A strong economy and EU-friendly policies can be expected regardless of whether the CDU/CSU or SPD lead the government.

Calm settles over the EU

There now seems to be a unique opportunity for established governing parties to deliver on reforms both in their respective countries and within the EU. We think it is important that these parties be more responsive to public opinion and ensure that future reforms both raise economic growth and benefit the broad masses if they are going to put populism to rest. The EU's cohesion and fight against populism depend in no small part on President Macron's ability to implement such economic reforms in France. If this happens, we can hope that in a few years we will look back on 2016 as the culmination of the populist movement in advanced economies. Taken together, we feel that recent political developments in the EU pave the way for a gradual normalisation of monetary policy by both the ECB and the Riksbank, but it is too early to sound the all clear. Increased political stability in Europe's core countries and an improving economy are good news for the Nordic/Baltic region. However, European integration could accelerate, and it is important that Sweden, as a non-euro country, safeguard its interests or risk seeing its influence decline.

Poorer than their parents: the struggles of the young

In some respects, the current young Europeans can be thought of as being lucky: they are highly educated, have experienced no major wars, and can enjoy borderless travels and medical advancements. However, lower lifetime earnings and savings, lack of affordable housing, population ageing, job insecurity, and other threats posed by the technological revolution put them at risk of ending up poorer than their parents. The wasted potential of the young could lead to weaker growth in productivity and thus lower potential output, stagnant wages, poor public finances, and growing support for populism, also among the young.

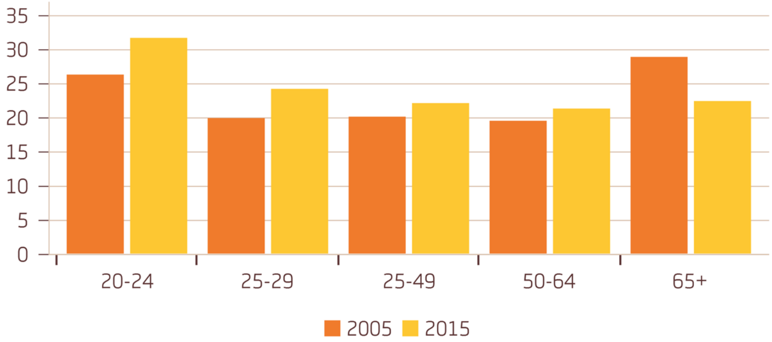
Rising unemployment and falling income hit the young most

Youth should be a cheerful time, but it has been quite miserable for many of Europe's current young. This generation of Europeans has been facing multiple headwinds, both cyclical and structural, and there are more challenges ahead.

First, the young in Europe have been disproportionately affected by rising unemployment and falling real disposable income, resulting from the double-dip recession. Over the past decade, the young Europeans (20-29-year-olds) have experienced the highest increases in poverty rates and have replaced the elderly (65+) as the group at greatest risk of poverty. In some southern European countries, youth unemployment still stands at around 35-45%, and many of those who do get employment end up on temporary contracts.

The young disproportionately affected by the recession

At-risk-of-poverty rate in EU, %



Source: Swedbank Research & Macrobond

The effects of the recession and low interest rates on the young will be long-lasting

Some of the negative effects of the recession are likely to fade as economic growth picks up, but the negative effects on lifetime earnings and occupational attainment of the young are likely to be long-lasting. The young have not only lost an opportunity to accumulate human capital and earn income; their saving has also been complicated by very low real interest rates.

Shutting the young out of the housing market can have serious economic consequences

On the housing front, the young have been hit as well - their chances to acquire their own housing have worsened over the past decade. An increasing share of young people in the EU live with their parents, with trends most pronounced in southern European countries and in countries hit by the steepest increases in housing prices, such as Sweden and the UK. Home ownership rates have also been trending downwards in these countries.

Youngsters' access to affordable housing is limited

Shutting the young out of the housing market may restrict their mobility as they stay put in regions with less economic potential and few good jobs; in turn, this could limit cities' economic development. The young may postpone starting a family and having children, leading to reduced fertility rates. Furthermore, buying pricey housing could place a heavy debt burden on the young, making them highly sensitive to volatility in housing prices, interest rates, and income. These vulnerabilities are pronounced in Sweden and Norway, where over the past two decades the gross debt-to-income ratios of households have almost doubled.

The burden of population ageing will fall on the young

The economic woes of the young are likely to be exacerbated by population ageing. The EC forecasts that by 2060 the proportion of workers supporting pensioners will drop on average from four to two, and that age-related public expenditure will surge. The burden of financing this is likely to fall on the young in the form of higher taxes and lower expenditure directed towards their needs, e.g., education, family support, etc. Higher productivity growth could alleviate some of the burden, but older populations, reduced spending on education, and the opportunity lost by the young to accumulate human capital may weigh on productivity and income growth going forward.

The voice of the young in politics may become more muted

Population ageing also means that the voice of the young in politics may become more muted. Older voters are likely to base their decisions on a shorter horizon and may have different values and views on such topics as the EU, globalisation, immigration, or minorities. The Brexit referendum, where the majority of young adults voted to remain in the EU but were outvoted by their older counterparts, is a recent example of this threat.

Technological disruption and changing labour markets will be a great challenge

The current young generation is about to face another headwind: the technological revolution could lead to high technological unemployment and an increasingly polarised labour market. If middle-skill jobs decline rapidly and public policies do not step in to accommodate these challenges, more of the young may end up in the lower end of the job market, with stagnant incomes. This would risk wasting the talent and potential of the most educated generation in history.

Not taking the woes of the young seriously could lead to another wave of populism

More rapid economic growth could alleviate some of the problems facing the young; thus it is important to stimulate innovation and investment. Eliminating double standards in the labour market, sharing obligations more equitably across generations, and reducing building restrictions could all help the young. In order to combat the future challenges and insecurities posed by technological change, governments need to ramp up their education and social policies. If the young are left to combat these challenges on their own, the once-promising generation could revert to populism--even stronger than that of their wealthier parents.

Swedish households resilient to higher interest rates

A long period of exceptionally low interest rates is likely coming to an end. How hard will it hit the Swedish economy? House prices have increased significantly and private households' indebtedness has increased, on average. We find that a gradual and slow normalisation of monetary policy in Sweden would stabilise house prices and reduce the risk of overheating in the economy. If, however, the Riksbank waits too long, and instead finds itself having to raise rates at a faster pace later on, it could then risk triggering a house price fall.

Two scenarios for higher policy rates

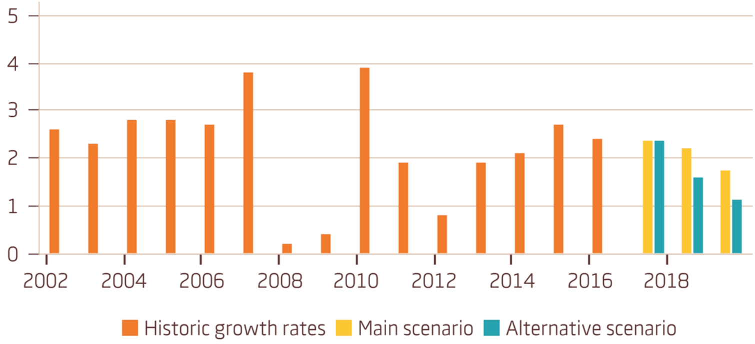
We compare two scenarios for higher policy rates and the effect on households and the Swedish economy. As the baseline, the Riksbank increases the repo rate in line with our forecast. In our alternative scenario, we assume a two further rate hikes per year in both years, in line with the historical pace of policy normalization. For example, in the latest rate hike cycle, the repo rate was raised by 1.75 p.p. over the course of a year. Note that we assume an overall benign economic development in both scenarios.

Swedish households as sensitive to increasing interest rates

In Sweden, about 70% of households are home owners. When interest rates rise, households with high debt-to-income ratios and variable rate mortgages will be the most affected. We use two variables – debt-to-income level and the monthly surplus after living costs, including both interest costs and amortization, and other necessities have been paid – to classify households into three categories; low, medium and high interest rate sensitivity. A highly sensitive household denotes a household which may likely need to adapt its consumption to a high degree despite having illiquid assets. We find that the large majority of households have low sensitivity to increased rates. Metropolitan areas are more affected due to higher debt-to-income ratios. In addition, older households (largely consisting of retirees) are over-represented among the highly sensitive households due to low disposable incomes.

Swedish households largely resilient to higher interest rates

Annual real growth rates for household consumption, %, actual and forecasts



Source: Swedbank Research & Macrobond

Consumption response to higher interest rates vary across households

When households' monthly expenditures on mortgage interest increase, they are expected to vary in how they adapt their consumption patterns in reaction to rising after-tax costs of living. Inspired by research (see e.g., Floden et al 2016), we assume differing consumption elasticities depending how interest sensitive they are. Highly sensitive households decrease consumption by 115% of the cost increase, medium sensitive households by 70% and low sensitive households by 45%. For the Swedish economy, in base scenario this implies a reduction in aggregate household consumption by SEK 23bn compared to if policy rates were unchanged. 23bn is equivalent to about 1.2% of Swedish private consumption. A further SEK 24bn would be lost in the alternative scenario.

Households largely resilient and moderately higher interest rates would be desirable

In the baseline scenario, we do not find any material increases in risks to the Swedish economy. On the contrary, a slowly, but gradually increasing policy rate would help stabilise the Swedish economy, which otherwise risks overheating. The growth in consumption is dampened and overall economy will develop in line with potential. House prices would stabilise, but not fall. The savings rate remains high in both historical and international comparison, not only because of mandated amortisations.

The effect on house prices depend on macroprudential regulations and supply of housing

In the alternative scenario, where policy rates increase at a faster pace, we see a more pronounced slowdown in household consumption growth. That increases the risks to the overall growth and labour market. GDP growth is estimated to be 1.8% instead of 2.1% and consumption growth would fall to 1.1% in 2019. Furthermore, there is an increased risk of falling house prices in this scenario. In particular, if we see faster than expected rate hikes, in combination with further macroprudential regulations and/or reduced interest rate deductions.

We conclude that Swedish households can withstand higher interest rates. Normalisation, however, should occur sooner rather than later and at a slow pace in order to reduce the risk of a perceived interest rate shock to households. If not begun in the near-term, the Riksbank risks having to increase policy rates faster in years ahead, which could lead to such a shock. In that case, there is possibility that house prices may decline and a marked slowdown in economic growth could ensue. We expect metropolitan areas to be disproportionately affected. A policy rate 1 p.p. higher than today at the end of our forecast horizon would however help stabilise house prices and reduce the risk of overheating.

Note: Calculations based on de-identified data from Swedbank's mortgage portfolio. Classifications of households' interest rate sensitivity refer to the likelihood of adapting consumption in response to rising interest rates.

Further reading:

Flodén, Martin, Kilström, Matilda, Sigurdsson, Jósef. and Vestman, Roine (2016) Household Debt and Monetary Policy: Revealing the Cash-Flow Channel, working paper (version dated 16 November 2016)
Finansinspektionen (2017) "Hushållens räntebindningstid – en ekonomisk sårbarhet?", FI-analys, No 9, 13 March 2017

Appendices: Forecast tables

SWEDEN: Key economic indicators, 2016-2019 [1/]

	2016	2017F		2018F		2019F
GDP growth (calendar adjusted), % [4/]	2.9	3.2	(3.1)	2.6	(2.5)	2.1
GDP growth, % [4/]	3.2	2.9	(2.8)	2.5	(2.4)	2.0
Household consumption	2.4	2.4	(2.5)	2.2	(2.1)	1.7
Government consumption	2.9	0.1	(1.6)	2.4	(2.1)	1.8
Gross fixed capital formation	5.3	7.6	(4.3)	3.7	(3.5)	2.5
Change in inventories, contribution to GDP growth	0.1	0.1	(-0.1)	0.0	(0.0)	0.0
Exports of goods and services	3.5	2.8	(4.3)	5.0	(3.7)	4.2
Imports of goods and services	3.8	3.1	(4.2)	5.6	(4.0)	4.2
Industrial production (calendar adjusted), %	0.5	2.7	(2.5)	3.2	(3.0)	3.5
CPI, % (average)	1.0	1.9	(1.6)	2.1	(2.2)	2.5
CPI, % (end of period)	1.7	2.0	(1.6)	2.3	(2.5)	2.5
CPIF, % (average) [2/]	1.4	2.0	(1.6)	1.8	(1.7)	1.9
CPIF, % (end of period) [2/]	1.9	2.0	(1.4)	1.7	(1.7)	1.9
Riksbank policy rate, % (end of period)	-0.5	-0.5	(-0.5)	0.0	(0.0)	0.5
Unemployment rate (15-74), %	6.9	6.6	(6.8)	6.5	(6.8)	6.4
Change in employment (15-74), %	1.0	1.9	(1.7)	1.1	(1.0)	0.6
Change in labour force (15-74), %	1.5	2.3	(1.8)	1.2	(1.1)	0.7
Nominal hourly wage whole economy (NMO), % (average)	2.4	2.8	(2.8)	3.1	(3.1)	3.4
Household savings ratio, %	16.1	16.3	(16.7)	16.3	(16.8)	16.6
Household real disposable income, %	2.5	2.6	(2.7)	2.2	(2.1)	2.1
Current account balance, % of GDP	5.1	5.3	(4.7)	5.1	(4.9)	5.0
General government budget balance, % of GDP [3/]	0.9	1.4	(0.7)	0.8	(0.4)	1.1
General government debt, % of GDP	41.6	38.6	(38.9)	36.6	(37.1)	34.9

[1/] April 2017 forecast in parenthesis. Annual percentage change if not stated otherwise
[2/] CPI with fixed interest rates
[3/] According to Maastricht definition
[4/] GDP in real terms

Source: Swedbank

ESTONIA: Key economic indicators, 2016-2019 [1/]

	2016	2017F		2018F		2019F
Real GDP growth, %	1.6	3.5	(2.2)	3.2	(2.8)	2.7
Household consumption	4.0	2.0	(3.2)	4.0	(3.8)	2.5
Government consumption	1.0	2.5	(3.0)	2.0	(2.0)	2.0
Gross fixed capital formation	-2.8	11.5	(9.7)	6.0	(1.0)	5.0
Exports of goods and services	3.6	6.5	(3.8)	4.2	(3.9)	4.0
Imports of goods and services	4.9	7.3	(6.5)	5.0	(3.8)	4.3
Consumer price growth, %	0.1	3.3	(3.2)	2.9	(2.6)	2.5
Unemployment rate, % [2/]	6.8	6.9	(7.6)	7.2	(7.9)	7.1
Change in employment, %	0.6	0.7	(-0.2)	0.1	(0.0)	-0.1
Gross monthly wage growth, %	7.6	6.0	(6.0)	5.0	(4.8)	4.7
Nominal GDP, billion euro	20.9	22.4	(22.0)	23.7	(23.1)	25.0
Exports of goods and services (nominal), % growth	3.9	8.1	(5.4)	5.7	(5.5)	5.6
Imports of goods and services (nominal), % growth	4.3	8.9	(8.1)	6.6	(5.4)	5.9
Balance of goods and services, % of GDP	3.9	3.4	(2.2)	2.7	(1.4)	2.5
Current account balance, % of GDP	2.0	2.1	(0.4)	1.1	(-0.3)	0.8
Current and capital account balance, % of GDP	5.1	5.1	(1.8)	3.0	(0.2)	2.4
FDI inflow, % of GDP	3.0	2.9	(3.0)	3.0	(3.0)	2.8
General government budget balance, % of GDP [3/]	0.3	-0.5	(-0.6)	-0.7	(-0.4)	-0.5
General government debt, % of GDP	9.5	9.5	(10.0)	10.0	(10.4)	10.5

[1/] April 2017 forecast in parenthesis
[2/] According to Labour Force Survey
[3/] According to Maastricht definition

Source: Swedbank

LATVIA: Key economic indicators, 2016-2019 [1/]

	2016	2017F		2018F		2019F
Real GDP growth, %	2.0	4.2	(3.0)	4.0	(3.5)	3.2
Household consumption	3.4	4.5	(3.5)	5.5	(5.0)	5.0
Government consumption	2.7	4.3	(4.0)	3.0	(3.0)	3.0
Gross fixed capital formation	-11.7	10.0	(10.0)	12.0	(12.0)	10.0
Exports of goods and services	2.8	6.5	(4.0)	5.0	(4.0)	3.5
Imports of goods and services	4.6	7.5	(6.0)	7.8	(7.2)	7.2
Consumer price growth, %	0.1	2.9	(2.5)	2.8	(2.2)	2.2
Unemployment rate, % [2/]	9.6	8.5	(8.5)	7.5	(7.5)	7.2
Change in employment, %	-0.3	0.1	(0.5)	0.1	(0.6)	-0.5
Gross monthly wage growth, %	5.0	6.5	(6.0)	5.0	(7.2)	7.0
Nominal GDP, billion euro	25.0	26.9	(26.4)	28.7	(28.0)	30.5
Exports of goods and services (nominal), % growth	1.0	10.2	(5.0)	6.6	(5.6)	5.1
Imports of goods and services (nominal), % growth	-1.8	11.8	(7.9)	9.5	(8.8)	8.8
Balance of goods and services, % of GDP	0.5	-0.3	(-1.0)	-1.9	(-2.8)	-4.0
Current account balance, % of GDP	1.5	0.5	(-0.4)	-1.2	(-2.1)	-3.4
Current and capital account balance, % of GDP	2.5	1.6	(1.4)	0.9	(-0.3)	-1.6
FDI inflow, % of GDP	0.6	1.7	(2.3)	1.9	(2.3)	1.8
General government budget balance, % of GDP [3/]	0.0	-0.4	(-1.0)	-1.0	(-1.0)	-0.8
General government debt, % of GDP	40.1	38.3	(37.9)	36.2	(36.3)	34.6

[1/] April 2017 forecast in parenthesis
[2/] According to Labour Force Survey
[3/] According to Maastricht definition

Source: Swedbank

LITHUANIA: Key economic indicators, 2016-2019 [1/]

	2016	2017F		2018F		2019F
Real GDP growth, %	2.3	3.8	(3.0)	3.5	(2.7)	2.5
Household consumption	5.6	4.5	(4.0)	4.0	(3.5)	3.5
Government consumption	1.6	2.0	(2.0)	1.0	(1.0)	1.0
Gross fixed capital formation	-0.5	10.0	(8.0)	8.0	(6.0)	7.0
Exports of goods and services	3.5	8.0	(5.5)	7.0	(5.0)	3.0
Imports of goods and services	3.9	10.0	(6.5)	8.0	(6.0)	4.0
Consumer price growth, %	0.9	3.5	(3.0)	3.0	(2.5)	2.5
Unemployment rate, % [2/]	7.9	7.2	(7.4)	6.8	(6.9)	6.4
Change in employment, %	2.0	-0.4	(-0.2)	-0.4	(-0.2)	-0.4
Gross monthly wage growth, %	7.9	8.0	(6.5)	7.0	(6.0)	5.0
Nominal GDP, billion euro	38.6	41.6	(40.9)	44.3	(43.1)	46.7
Exports of goods and services (nominal), % growth	1.4	12.0	(7.5)	9.0	(6.0)	5.0
Imports of goods and services (nominal), % growth	-0.6	14.0	(10.0)	11.0	(7.5)	6.0
Balance of goods and services, % of GDP	0.8	-0.5	(-0.9)	-2.0	(-2.0)	-2.7
Current account balance, % of GDP	-0.9	-1.4	(-1.9)	-2.2	(-2.4)	-2.7
Current and capital account balance, % of GDP	0.6	0.7	(0.3)	0.1	(-0.1)	-0.6
FDI inflow, % of GDP	0.9	1.0	(1.0)	1.0	(1.0)	1.0
General government budget balance, % of GDP [3/]	0.3	-0.5	(-0.8)	0.0	(-0.5)	-0.5
General government debt, % of GDP	40.2	41.5	(42.9)	37.1	(38.5)	37.7

[1/] April 2017 forecast in parenthesis
[2/] According to Labour Force Survey
[3/] According to Maastricht definition

Source: Swedbank

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Address
Swedbank LC&I, Swedbank AB (publ), SE-105 34 Stockholm.
Visiting address: Malmskillnadsgatan 23, 111 57 Stockholm