Swedbank

Swedbank Economic Outlook

August 2022

Completed: August 24, 2022, 06:00
Distributed: August 24, 2022, 07:00

Swedbank Research

Mattias Persson
Global Head of Research and Group Chief Economist
mattias.a.persson@swedbank.se
+46 8 5859 59 74

Axel Zetherström
Assistant
axel.zetherstrom@swedbank.se
+46 8 5859 57 75

Sweden

Andreas Wallström
Head of Forecasting
Head of Macro Research Sweden
andreas.wallstrom@swedbank.se
+46 8 700 93 07

Fanny af Petersens
Junior Economist
fanny.af.petersens@swedbank.se

Jana Eklund
Senior Econometrician
jana.eklund@swedbank.se
+46 8 5859 46 04

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

Sigrid Hafskjold Holmgren
Junior Economist
sigrid.holmgren@swedbank.se

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

Pernilla Johansson
Senior Economist
pernilla.johansson@swedbank.se
+46 40 24 23 31

Pär Magnusson
Chief FI Strategist
par.magnusson@swedbank.se
+46 8 700 92 68

Glenn Nielsen
Junior Economist
glenn.nielsen@swedbank.se
+46 8 5859 31 93

Carl Nilsson
Economist
carl.nilsson@swedbank.se
+46 8 5859 03 99

Emma Paulsson
Junior Economist
emma.paulsson@swedbank.se
+46 8 700 90 35

Maria Wallin Fredholm
Economist
maria.wallin-fredholm@swedbank.se
+46 8 700 92 87

Norway

Kjetil Martinsen
Chief Economist Norway
Chief Credit Strategist
kjetil.martinsen@swedbank.no
+47 92 44 72 09

Jon Espen Riiser
Economist
jon.riiser@swedbank.no
+47 90 98 17 49

Marlene Skjellet Granerud
Economist
marlene.granerud@swedbank.no
+47 94 30 53 32

Estonia

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

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

Marianna Rõbinskaja
Economist
marianna.robinskaja@swedbank.ee
+372 888 79 25

Latvia

Agnese Buceniece
Acting Chief Economist Latvia
agnese.buceniece@swedbank.lv
+371 28 796 654

Laimdota Komare
Economist
laimdota.komare@swedbank.lv
+371 67 444 213

Laura Orleāne
Economist
laura.orleane@swedbank.lv
+371 67 445 875

Lithuania

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

Greta Ilekytė
Economist
greta.ilekyte@swedbank.lt
+370 5258 22 75

Vytenis Šimkus
Senior Economist
vytenis.simkus@swedbank.lt
+370 5258 51 63

Contents

Hot prices chill the economic outlook ____ 4

A chilly global outlook ____ 8

- The overview
- There are plenty of risks out there
- Euro area – a harsh winter is coming
- United States – not yet in a recession
- China – domestic challenges are dampening the economy
- United Kingdom – high inflation pushes the country into a recession

Monetary tightening and recession fears are priced in, hitting financial markets ____ 18

- The US treasury curve inverts as inflation remains high and recession fears loom
- Wide corporate credit spreads are generating difficult funding conditions
- The boom in commodity prices has ended
- The dollar has outperformed due to safe-haven status and the energy situation

Nordics – bound for a mild recession ____ 20

Sweden – inflation a drain on the economy ____ 21

- High and protracted inflation a drain on the economy
- Clear deceleration in the wake of weakened purchasing power
- Households bear the burden of the rise in inflation and hold tight to their wallets
- Resilient labour market – but it will be dampened next year
- Riksbank tightens its policy; key interest rate to reach more than 2% next year

Norway – a series of rate hikes in store ____ 28

Denmark – overheated economy cools down ____ 30

Finland – will get by without Russia ____ 32

Baltics – mild recession will choke inflation ____ 34

Estonia – another crisis, severe challenges ____ 35

Latvia – a mild and short-lived recession ____ 37

Lithuania – a cool cooldown ____ 39

Appendix ____ 41

Recording date of price data: 2022-08-22.

Swedbank Economic Outlook is a product made by Swedbank Macro Research and is available at www.swedbank.com/seo.

Layout: Jana Eklund, Macro Research, Swedbank. **Images**: Getty Images. Front page: Gothenburg.

Hot prices chill the economic outlook

Inflation has so far proved to be both higher and more persistent than previously expected, and central banks were late in taking away the punch bowl. However, many central banks are now fighting inflation aggressively with historic rate hikes. So far, most economies seem to have weathered the cost shock and the monetary tightening, but the economic outlook has darkened.

Households around the globe will hold back on consumption as the cost-of-living shock fully hits and as higher interest rates make debt more costly. Corporates are feeling the mounting price pressure, and the ability to push costs to consumers will diminish over time. Investments will take a hit.

In Europe, the war in Ukraine and the energy crisis are an extra drag on economic activity. The energy crisis is also expected to worsen during the winter, which will cast a shadow on the economic outlook for Europe. China is struggling to restart growth, and the real estate market continues to have a negative impact on economic growth. Many economies will see growth stagnate already later this year and next year.

Central banks are expected to continue front-loading rate hikes during the autumn and to be on hold during 2023. A soft landing is likely, but the risk of a hard landing is still present. Since central banks were behind the curve, they may need to raise policy rates above neutral levels to get inflation under control. However, in a situation with high inflation, resilient labour markets, and questions about central banks' credibility, there is a heightened risk that central banks will raise rates too much and will push economies into a deeper and longer economic recession.

Mattias Persson
Group Chief Economist

3.75%
Fed funds rate at the end of 2022
upper bound

-0.5%
German GDP contracts in 2023

2.25%
Riksbank policy rate peak in February 2023

>21%
Current inflation rate in the Baltics

1.6%
Norwegian unemployment rate in July 2022

0.95
EURUSD at the end of 2022

2023 Outlook

Nordics	GDP	Unemployment*	Inflation
Sweden	0.2%	7.7%	6.6%
Norway	1.0%	2.2%	3.1%
Denmark	-0.9%	5.1%	4.0%
Finland	0.5%	6.7%	3.0%

Baltics	GDP	Unemployment*	Inflation
Estonia	0.5%	6.8%	7.1%
Latvia	0.4%	7.1%	7.5%
Lithuania	0.0%	6.6%	6.0%

* Unemployment refers to LFS except for Norway where it is the registered unemployment rate (NAV)

Global Outlook

- Global growth has been revised down markedly for 2022 and 2023. High inflation and higher interest rates will weigh on household consumption and firms' investments.
- The US and euro area are facing stagnant economies ahead. They will suffer in their own ways. While the monetary policy will be tighter in the US, the energy crisis will weigh much more heavily on Europe.
- China has its own issues. The economy will suffer from a continued aggressive COVID-19 policy and a property sector downturn.
- We make no explicit assumptions on developments relating to the war in Ukraine but assume that Russia will restrict its exports of natural gas to Europe. This will weigh on economic activity. The global macroeconomic impact of the war, however, will fade during the forecast period.
- The forecasts are surrounded by uncertainty, not least related to inflation and its consequences. Our overall assessment is that risks are tilted slightly downwards.

Financial Markets

- Both the Fed and the ECB are expected to raise their policy rates further during the second half of 2022, while leaving monetary policy unchanged in 2023. The Fed will cut rates in 2024.
- Government bond yields are expected to rise in the near term, but then gradually decline as from 2023. At the end of the forecast horizon, bond yields will be lower than current levels.
- A hawkish Fed, safe-haven status and a relatively favourable energy situation will support the USD also in the near term. The SEK and NOK are expected to stay relatively weak in 2022 but appreciate gradually as from next year.

Nordics

- The Nordic economies are currently firing on all cylinders, but we expect a turning point in the coming quarters and growth to slow markedly due to weakening consumption and investment growth.
- The labour market is expected to be resilient, and we do not project substantial increases in the unemployment rate.
- Inflation has risen dramatically from already high levels. We have revised the outlook and now expect inflation to peak at the end of this year and remain above 3% for the majority of next year.
- Further rate hikes are in store, and we expect the Riksbank to increase rates to 2.25% and Norges Bank to hike up to 2.75%.

Baltics

- Inflation has accelerated to above 21% in all three Baltic countries, but the peak is near. We expect average annual inflation to moderate to 6-7% in 2023, before falling to healthier levels in 2024.
- Household confidence plunged in the face of the war in Ukraine and inflation rates not seen for a quarter-century. Wages continued to increase rapidly, but purchasing power is falling and is now starting to be reflected in shrinking household consumption.
- Although exports have remained resilient, further expansion is likely to be much weaker due to waning global demand and eroding cost competitiveness.
- We expect a few negative quarters of GDP growth and a mild technical recession before growth recovers towards the middle of 2023.

A chilly global outlook

Stubbornly high inflation, which is still on the rise in many countries together with central banks' efforts to fight it, is darkening the outlook for the global economy. The US and the euro area are facing stagnant economies starting in the autumn.

The overview

Mounting cost pressures are weighing on economic activity globally. Meanwhile, central banks' measures to get inflation under control by raising policy rates are increasing the burden on indebted households and firms. On top of this, the energy crisis in Europe is expected to worsen during the winter, causing further damage to households' purchasing power and occasional interruptions in production for firms running short of natural gas. Falling asset prices will also further dent household consumption.

Against this background, we're revising down our forecast for global growth markedly. The outlook for all major economies is being revised down. Global GDP growth is expected to drop to 2% next year, with the US and euro-area economies largely stagnant. China's aggressive COVID policy, together with its deleveraging of the real estate sector, will clearly weigh down growth this year.

Although many commodity prices have eased in recent months on recession worries, underlying inflation pressure will in most countries remain uncomfortably high also during the second half of this year and start to ease only gradually in 2023. To curb inflation, most central banks, including the Federal Reserve (Fed) and the European Central Bank (ECB), will tighten monetary policy further this autumn.

Swedbank's global GDP forecast

Annual % change	2021	2022F		2023F		2024F
US	5.7	1.5	(3.2)	0.6	(2.1)	1.6
Euro area (calendar-adjusted)	5.3	2.8	(2.6)	0.5	(2.7)	1.9
Germany	2.6	1.1	(2.0)	-0.5	(2.7)	1.9
France	6.8	2.5	(3.2)	0.5	(2.3)	1.8
Italy	6.6	3.3	(2.7)	0.6	(2.4)	1.8
Spain	5.1	4.6	(4.7)	1.9	(3.4)	2.2
Finland	3.0	1.8	(1.8)	0.5	(1.3)	1.5
United Kingdom	7.5	3.5	(3.6)	-1.2	(1.4)	0.2
Sweden	5.1	2.2	(2.8)	0.2	(2.1)	1.5
Denmark	4.9	3.2	(2.4)	-0.9	(2.0)	0.7
Norway (mainland)	4.2	3.2	(3.2)	1.0	(1.6)	1.4
China	8.1	4.0	(5.0)	4.5	(5.0)	5.0
Russia	4.4	-6.0	(-14.0)	-4.0	(-4.0)	1.5
Global GDP (IMF PPP weights)	**6.1**	**2.8**	**(2.7)**	**2.0**	**(3.3)**	**3.4**

Previous forecast in parentheses.

Sources: IMF & Swedbank Research

In 2023, as inflation declines and growth drops, monetary policy is expected to stay on hold. We do not, however, forecast lower policy rates, as is currently discounted by markets in the US and the euro area. The reason for this is that labour markets are expected to hold up relatively well and, more importantly, inflation will still be running somewhat above target levels. In 2024, when inflation will have moderated markedly and growth will remain sluggish, some central banks, such as the Fed and the Riksbank, are expected to loosen monetary policy by reducing their policy rates somewhat.

Forecast assumptions

Our forecasts are based on the following general assumptions:

1. COVID-19 is not expected to have any major economic or societal impact during the forecast horizon, either in Europe or in the US. This means that, even if the spread of the virus picks up during the autumn and winter, we assume a limited number of hospitalisations and cases of severe illness; this will prevent governments from enforcing lockdowns. China, however, is a different story (see below).

2. We make no explicit assumptions on the development of the war in Ukraine, but assume that Western sanctions and boycotts on Russia will remain in place throughout the forecast horizon. Moreover, we assume that Russia will limit, and temporarily halt, the exports of natural gas to Europe, which will severely weigh on economic activity in gas-dependent countries. Overall, however, the global macroeconomic impact of the war will fade during the forecast period as resilience builds, although local markets and commodities may still be affected.

There are plenty of risks out there

The forecasts are surrounded by uncertainty, not least related to inflation and its consequences. We've not experienced such high inflation in decades, and it is surely challenging to estimate (1) how persistent it will be, (2) how central banks will respond, and (3) what the implications for the real economy will be.

Our overall assessment is that risks are tilted slightly downwards, i.e., we see a somewhat higher risk for lower growth than we see chances for higher growth. We are not ruling out the possibility that inflation will prove stickier, which could force central banks to tighten policy even more aggressively than in our forecast. Also, in these unprecedented times, the perils of policy mistakes are greater. In the short to medium term, i.e., during the forecast horizon, there's a risk that, monetary policy tightening will have a major negative impact on the real economy, while not bringing down inflation (as this is still largely supply-driven so far). If this proves to be the case, while central banks remain committed to bringing down inflation, we could end up with sharply falling asset prices and a global recession.

There are also some country-specific downside risks. In China, recent economic data has turned out very weak and policymakers are struggling with their COVID management, as well as with the real estate sector. A more marked downturn than we have indicated in our forecast, which is still well below the regime's target for this year, cannot be ruled out. For some euro-area countries, notably Germany, the energy crisis poses a major risk. We assume EU economies will take a hit during the winter as the crisis escalates, but a more severe scenario with a broader downturn cannot be ruled out.

However, there are also upside risks to the forecast. Having underestimated inflation for some time, presumably we can now err on the other side by overestimating inflation during the forecast horizon. After all, many commodity prices, including oil and metals, have dropped in recent months. Indicators of global supply bottlenecks have also eased, which could further ease inflationary pressures. If inflation turns out lower, central banks would soon be done with tightening, which could spur sentiment among households, firms, and investors.

Euro area – a harsh winter is coming

The euro area is yet again at the epicentre of economic troubles. Energy and external demand dependencies leave Europe particularly vulnerable amid global monetary policy tightening and the energy crisis. The year started on a strong footing, but the economy is slowing rapidly, and we expect stagnation across Europe.

The euro-area economy enjoyed rapid growth in the first half of the year as countries left the pandemic behind. A surge in services activity generated a growth rate as high as 3.9% in the second quarter. Growth was particularly strong in the more services-oriented southern European economies, and we expect Spain and Italy to grow by 4.6% and 3.3% this year, outpacing the euro area as a whole. However, the surge in growth is likely to be short-lived, as collapsing consumer confidence and erosion of purchasing power will weigh on the economies.

The real trouble for the euro area, however, arises from the brewing energy crisis and slowing global demand (read more about the energy crisis in the box on page 12). Europe is preparing itself for a winter without Russian gas, and countries are scrambling to fill storage and are drafting plans to curb energy consumption. As a result of supply shortages, energy prices have skyrocketed, pushing up both consumer prices and business costs. If that were not enough, heatwaves have dried out crucial European waterways and hampered nuclear electricity production. Germany is among the most exposed countries, and its growth has already stalled. In June, retail sales volumes were down nearly 9% over a year ago. It is very likely that the largest economy in Europe will fall into a recession later this year. Overall, the euro area is expected to grow by 2.8% this year, thanks to strong developments during the first half of the year. Looking ahead, the economy will, however, slow markedly, and for 2023 GDP growth of only 0.5% is expected.

The labour market has so far beaten all expectations, and unemployment has dropped across euro area countries. On average, unemployment dropped to 6.6% in April, the lowest it has ever been. Strong job

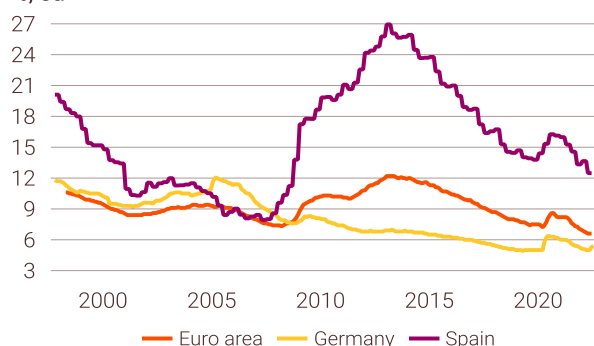
Consumer confidence is at all-time low

Net balance, sa

Sources: Swedbank Research & Macrobond

Unemployment is record-low in euro area

%, sa



Sources: Swedbank Research & Macrobond

growth will support domestic demand in the near term, but, as growth halts, a slight uptick in unemployment is expected. Even though unemployment is very low, labour markets do not seem overheated, as broader measures of labour-market slack are still fairly high. Wage growth has risen somewhat but remains moderate; notably so in comparison to the US, the labour cost contribution to inflation in Europe is negligible.

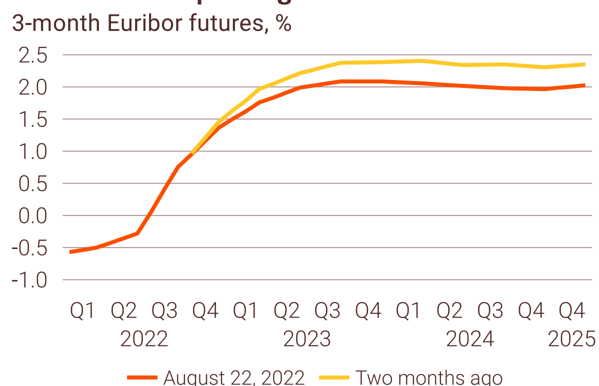
Skyrocketing energy prices have caused record-high inflation, with the rate reaching 8.9% in July. Although inflation is still primarily driven by energy and food, it has broadened somewhat due to second-round effects and a weaker euro. Wage growth remains muted, and there is very limited price pressure from the labour market. Average annual inflation is likely to be close to 8% this year, but is expected to start moderating more sharply in the first half of next year. However, due to the acute situation in the energy markets, it is possible that inflation might still surprise on the upside. Ultimately, however, such acute price shocks could prove to be disinflationary in the medium term, as either enough demand is destroyed, supply adjusts upward, or both.

We forecast that the ECB will hike the deposit facility rate by 50 basis points (bps) and the main refinancing operations rate by 25 bps in September. This will be followed by two additional 25 bps hikes in October and December, leaving the deposit facility rate at 1% at the end of the year. We do not expect any further interest-rate changes in 2023 and 2024. Although inflation will remain high at the end of this year, it will be on a downward path, and the clear signs of economic weakness will warrant the ECB halting its hiking cycle. Admittedly, the market still expects continued hikes next year and the ECB is likely to be unwilling to diverge significantly from the other central banks, as this would further weaken the euro and create additional inflationary pressures. The ECB's reaction function has become murkier, as illustrated by the decision to scrap all forward guidance.

The ECB has successfully used flexible pandemic emergency purchase programme (PEPP) reinvestments to tighten sovereign bond spreads by decreasing its holdings of German bonds while increasing bond holdings from Italy and Spain. Meanwhile, the introduction of a transmission protection instrument (TPI) has alleviated some of the worries about further fragmentation. In Italy, however, the risk of wider spreads remains a factor due to the tense political situation, together with a large public debt. While the ECB does not plan to shrink its sovereign holdings, a significant part of the ECB's balance sheet is targeted longer-term refinancing operations (TLTRO) loans to banks. If banks choose to repay these loans, this could be a potential source of significant liquidity-tightening in the euro area, putting further pressure on bond yields.

Markets are expecting ECB to halt in 2023

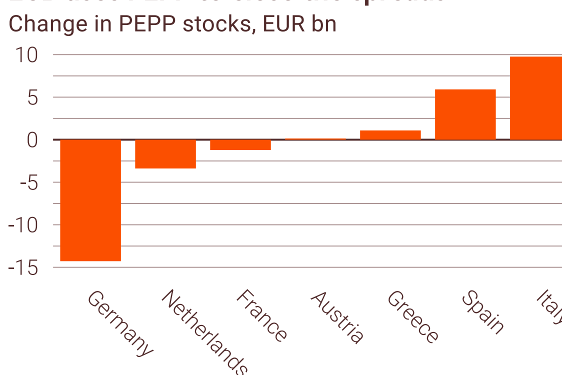
3-month Euribor futures, %



Sources: Swedbank Research & Macrobond

ECB uses PEPP to close the spreads

Change in PEPP stocks, EUR bn



Sources: Swedbank Research & Macrobond

Energy crisis pushes European economies towards stagnation

The ongoing war in Ukraine is being accompanied by an economic conflict between Russia and the Western allies. As sanctions increasingly wreak havoc in the Russian economy, the Kremlin has decided to use its economic weapon – natural gas. Many European countries rely heavily on gas for heating in the winter months and for electricity production. In addition, gas is an important industrial input for many chemical industries. While gas constitutes only about 20% of the total energy consumption in Europe, the seasonality of gas consumption and the fragmented energy markets mean that a tough winter is ahead of us.

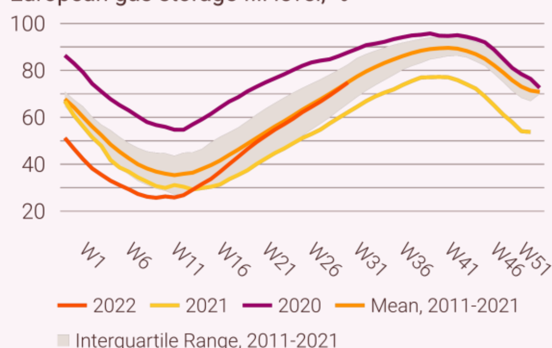
Although many EU countries either stopped importing or were cut off from Russian gas earlier this year, a major escalation happened in the summer when the flows in the Nord Stream 1 (NS1) pipeline started to drop. While Russia has cited technical problems, it is more likely that Russia is using gas supply as a tactic to relieve the pressure of sanctions, or at least stave off new ones. Europe typically gets 40% of its gas from Russia, and, without those flows, it will be difficult to fill up the storage tanks and satisfy the winter demand. In response, EU countries are activating emergency savings plans and have agreed upon a voluntary 15% reduction in gas consumption. However, because of fragmented energy markets, there are no easy ways to share the limited supplies – some countries will have to reduce energy demand a lot more than others. Estimates suggest that, in case of a total cutoff from Russian gas, Germany would need to lower its gas consumption by 30%.

So far, the preparations for winter are going well. The EU is on track to reach 80% storage-fill level by autumn, and many countries have already scaled back consumption by more than agreed. Despite this, the winter will be tense. Typically, Germany needs both full storage and the NS1 operating fully to get through the cold months. The shortages in the energy markets are reflected in the extreme gas pricing for the winter. In addition, because gas is often used to fill the gaps in electricity production, it has an outsized effect on the final electricity price, further fuelling inflation.

It is feared that the gas cutoff will result in a 2009-style recession in Europe, but the extreme scenarios most likely won't materialise. Countries are working on infrastructure and on sourcing energy from new providers. While in many industries gas substitution is impossible to achieve so quickly, many firms and households are finding alternatives, especially at current prices. As more and more liquefied natural gas (LNG) infrastructure comes online, the importance of the Russian supply will wane. A difficult winter is ahead of Europe, but, as with the pandemic, we often underestimate our capability to adapt.

Gas reserves are rising according to plan

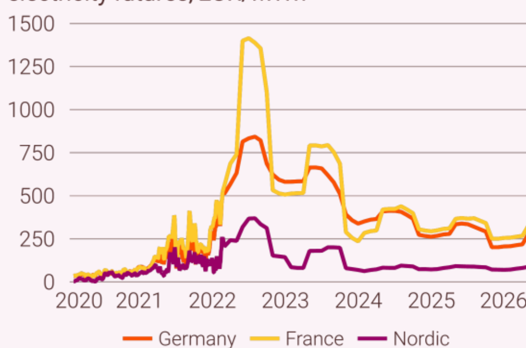
European gas storage fill level, %



Sources: Swedbank Research & Macrobond

Record-high prices expected in the winter

electricity futures, EUR/MWh



Sources: Swedbank Research & Macrobond

United States – not yet in a recession

Growth is expected to slow markedly and to stay below trend during the entire forecast period. A strong labour market and persistently high inflation will, nevertheless, mean that the Fed will continue to tighten monetary policy this year, before pausing next year and cutting interest rates in 2024.

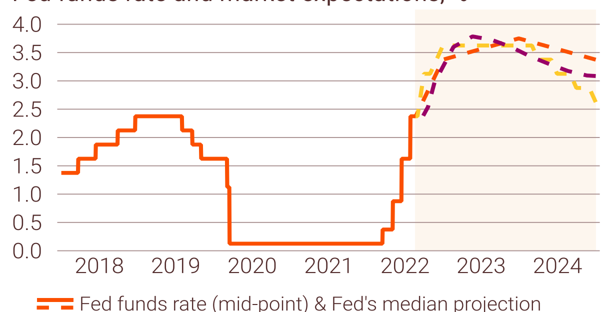
With two quarters of negative GDP growth, the US economy is currently in what is often called a “technical recession”. However, the officials in charge of dating business cycles in the US, the National Bureau of Economic Research (NBER), define a recession as “a significant decline in economic activity that is spread across the economy and lasts more than a few months”. As things are now, it is unlikely that the US is currently in an actual recession, simply because of the strength of the labour market. The second-quarter decline in GDP was driven by a large unwind in inventories, as well as by weak investments and government spending; meanwhile, net trade and private consumption contributed positively.

So far this year, employers have added on average around 470,000 new jobs every month – a robust pace – and total nonfarm payrolls are now back to their pre-pandemic level. Moreover, the unemployment rate has declined to a low 3.5%. Not all is rosy, though. The labour force participation rate remains depressed, particularly among those over 55, and has trended down since the spring. The combination of low supply and still-high demand for labour implies that wage growth pressure is persisting. As overall economic activity worsens, however, we expect that the unemployment rate will soon start to rise.

Inflation stood at 8.5% in July, down from the more than 40-year high of 9.1% reached in June, bringing hopes that the headline inflation rate has peaked. This will, however, not stop the Federal Reserve (Fed) from tightening monetary policy further, especially as the decline in inflation will most likely be annoyingly slow. After having raised rates by a total of 225 bps so far this year, we expect that the Fed will hike the federal funds rate by another 75 bps in September, before lowering the pace to 25 bps in November and December, as the interest rate goes deep into restrictive territory. This would leave the terminal rate at 3.50–3.75% by the end of this year, which is significantly higher than we foresaw in our April forecast. We then expect the Fed to be on hold during next year, trying to manage a fine balance between curbing inflation and not harming the real economy too much. In 2024, when growth remains lacklustre and inflation has cooled down, we expect four rate cuts by the Fed, bringing the interest rate closer to neutral levels by the end of that year – to 2.50–2.75%.

The Federal Reserve will cut rates in 2024

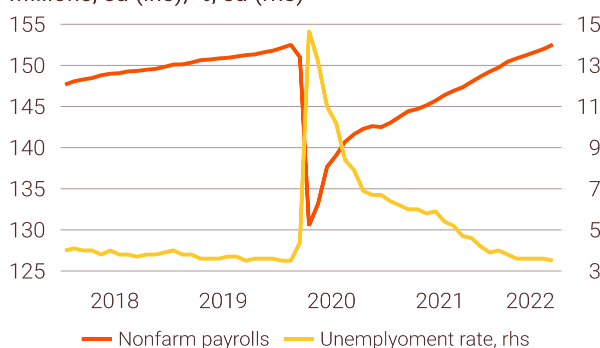
Fed funds rate and market expectations, %



Sources: Swedbank Research & Macrobond

Very tight labour market

Millions, sa (lhs); %, sa (rhs)



Sources: Swedbank Research & Macrobond

Consumer spending has remained resilient thus far at the cost of a lower savings rate, and incomes are being supported by the strong labour market. Increasing interest rates, high inflation, and weakening consumer confidence will, however, mean that consumption will slow going forward. The housing market is also under pressure, with a drop in home-buying activity and deteriorating home-builder sentiment amidst rising mortgage rates, and house prices are likely to fall.

The massive fiscal policy support enacted during the pandemic has also been withdrawn, which will weigh heavily on growth. President Joseph Biden has signed the Inflation Reduction Act into law – a major climate, health, and tax package, but a scaled-back version of the Build Back Better plan. Total costs will amount to more than USD 400 billion and are expected to bring in more than USD 700 billion in revenue and to reduce deficits by more than USD 300 billion. However, given that the plan will run for 10 years, the effect of spending and revenue on GDP growth will likely not be immediate and will only be modest during the forecast period. Still, this is a big step towards combatting climate change and will cut the US's net greenhouse-gas emissions.

Although the economy is not currently in a recession, the Fed's aggressive tightening, in conjunction with persistently high inflation, might well tip it into one. Regardless, the US economy is clearly slowing, and we have made a sizeable downward revision to our growth forecast, though we still expect a somewhat soft landing. We forecast that real GDP growth will amount to 1.5% this year before slowing to just 0.6% next year, and then picking up to a still-below-trend growth rate of 1.6% in 2024.

China – domestic challenges are dampening the economy

China's zero-COVID policy continues to weigh on the economy amidst constant outbreaks. The property sector downturn has been exacerbated by recent mortgage boycotts. It will be impossible to reach this year's GDP growth target.

China's economic activity was severely disrupted during the first half of the year, as economically important cities like Shanghai and Beijing saw strict pandemic response measures enacted following the country's largest outbreak of coronavirus since early 2020. GDP contracted by 2.6% in the second quarter compared with the first – the weakest outcome since the first quarter of 2020. Economic activity saw an uptick in June, with increases in retail sales and industrial production after the Shanghai lockdown was eased, but lost pace in July as virus flare-ups once again put millions under lockdowns, denting the economic recovery. Exports have, however, been strong, which combined with imports being muted due to weak domestic demand, lifted the trade surplus to a record high in July.

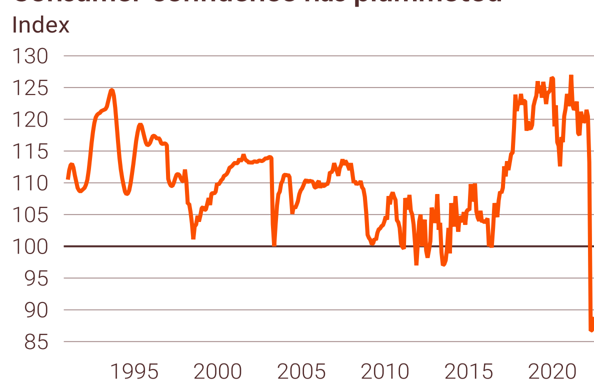
China has a large population and a relatively low COVID-19 infection rate in the general population. Widespread outbreaks could, therefore, risk millions of hospitalisations and deaths, making it difficult to relax the zero-COVID policy. Also, this year is politically important for President Xi Jinping because of the 20th Party Congress this autumn, when he could secure his third term of leadership. Maintaining the zero-COVID policy and ensuring stability ahead of this event is a top political priority. We expect that the zero-COVID policy will be in place for the remainder of this year and well into the next – if anything, some marginal easing might take place after the Party Congress, but we do not expect significant easing before next year. Maintaining this policy will come at the cost of sluggish growth, affecting consumption and consumer confidence, as well as production and business sentiment, and limiting stimulus efficacy.

At the same time, the property downturn continues, as the sector grapples with a debt crisis among property developers and deteriorating homebuyer sentiment. Real estate investment has been weak,

new home prices are declining, and property sales are much lower than last year. Moreover, in China it is common to buy a property several months or even years before it is completed. But, given that many indebted developers are in financial distress, there are a lot of stalled housing projects, which has caused thousands of would-be homeowners to refuse to pay mortgages on the unfinished homes that they have bought. This mortgage boycott could threaten the health of the financial system in China and create social issues within the country. It also risks a cycle where mortgage boycotts lead to even more financial distress for developers, thereby prolonging the property sector slump. Policymakers have, however, urged local governments to ensure that housing projects are finished. In all, we expect that the property sector downturn will remain a drag on growth also next year.

Consumer confidence has plummeted

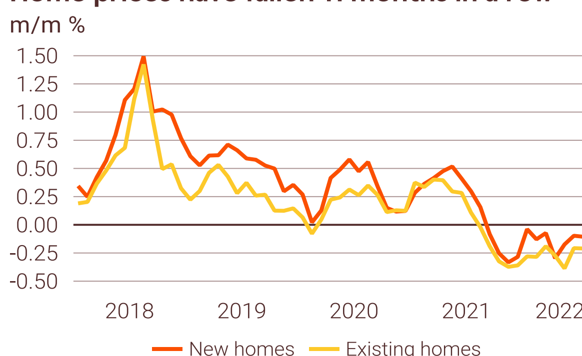
Index



Sources: Swedbank Research & Macrobond

Home prices have fallen 11 months in a row

m/m %



Note: Average prices in 70 cities
Sources: Swedbank Research & Macrobond

Earlier this year, China set an official growth target of “around 5.5%” for 2022. Despite an expansionary fiscal policy, mainly through heavy infrastructure spending, and an accommodative monetary policy, it is unlikely that this target will be met, given the pandemic and the property sector headwinds. Global geopolitical risks are also heightened, and relations with the US are deteriorating amidst rising tensions over Taiwan, where further escalations would have potentially large economic ramifications. However, during the Politburo meeting in July, which set out the most important priorities for the second half of the year, there was no mention of the growth target; instead, it was stated that China should strive for the “best possible outcome” for economic growth this year. This, together with no new stimulus being announced, could suggest some acceptance of missing the growth target. Our forecast is that GDP will grow by 4% this year, before rebounding to 4.5% next year and 5% in 2024.

United Kingdom – high inflation pushes the country into a recession

Surging energy prices and high inflation weigh on households and will be a drag on growth going forward. Monetary policy continues to be tightened, but for fiscal policy the direction is uncertain. The conservative party will choose a new leader in September who will also become Prime Minister.

The UK saw historically high inflation in the first half of 2022, rising to a 40-year high of 10.1% in July, and the rate is expected to continue rising until the end of the year. Energy prices explain most of the high inflation, and there is a growing cost-of-living crisis. The magnitude of the crisis is underlined by a movement called Don’t Pay, encouraging Britons to stop paying their electricity bills. A recent study shows that two thirds of UK families risk being in fuel poverty (when energy costs exceed 10% of a household’s net income) by January.

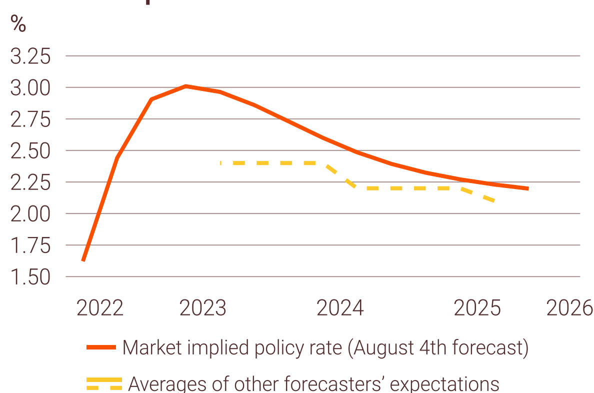
Economic activity has recently managed to recover to just below pre-pandemic levels. The labour market is tight, largely due to strong labour demand and a labour supply shortage following the pandemic. The unemployment rate is back at the pre-pandemic level of 3.8%. However, forward-looking indicators suggest the UK is heading towards a recession later this year. The Bank of England (BoE) estimated in its August forecast that the labour market will be resilient until mid-2023, when the unemployment rate will gradually start rising, given the weak demand growth. The recession will linger until the beginning of 2024.

Like other central banks, the BoE is struggling to find the right balance, as the growth outlook is gloomy but inflation keeps rising. The BoE raised interest rates in August by 50 bps to 1.75%. We think the BoE will continue hiking during this year and then pause at 2.75%, before starting to decrease rates again in the second half of 2023, to reach a level of around 2% over time.

We broadly share the BoE's growth forecast. The big squeeze on household spending is explained by the fact that sensitivity to rising gas prices is greater among UK households than other European households. Monetary policy will be very contractionary, whereas fiscal policy is not as expansionary as during the pandemic. With Brexit, potential GDP decreased, and, even before the war in Ukraine, the UK was experiencing waning GDP projections. We therefore expect the economy to decrease by 1.2% next year and then to be largely stagnant in 2024.

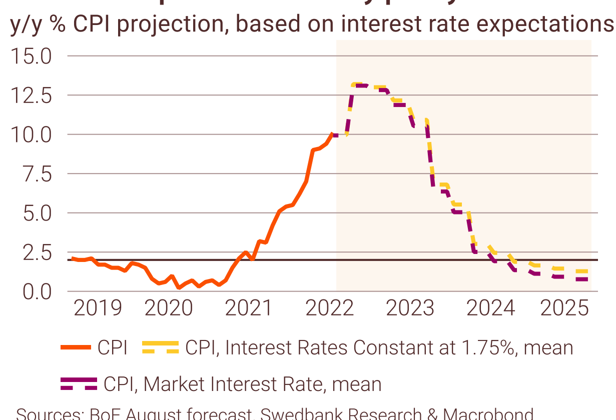
Fiscal policy has an important role to play in supporting households going forward, but the uncertainty over what policy will be pursued is great. After some political turmoil, Boris Johnson has resigned as party leader of the Conservative Party (Tories) and thus also as Prime Minister. Party members will now have to choose between two candidates: Foreign Secretary Liz Truss and ex-Chancellor of the Exchequer Rishi Sunak. Truss leads the polls, but the election may be decided on the purse strings and immigration policy. The new party leader and, thereby, Prime Minister will be announced on 5 September.

Markets expect the rate to be hiked to 3%



Sources: BoE August forecast, Swedbank Research & Macrobond

The not-so-potent monetary policy



Sources: BoE August forecast, Swedbank Research & Macrobond

The energy crisis creates incentives for transition, but may also create obstacles

The EU and the world are in the midst of a transition to reduce greenhouse gas emissions and slow global warming. The ongoing energy crisis in Europe and the war in Ukraine are putting pressure on the situation. In the short term, emissions appear to be increasing. Already in the restart after the pandemic, the use of coal and fossil fuels increased, which meant that the global emission reduction during the pandemic was erased. The increase in fossil fuels was due to, among other things, the rapid rise in demand for energy, but also because Russia had begun to tighten energy exports to Europe; this has caused the price of natural gas and oil to rise and prompted consumers to look for other alternatives with smaller price increases, such as coal.

Following Russia's invasion of Ukraine, the European Commission has developed the RePowerEU plan, aiming to shift away from Russian energy and increase the production of renewables. The transition will be financed by, among other things, selling more allowances, which would increase emissions in the short and medium term. In the short term, countries must turn to the energy sources available, such as existing coal sources. With the price of oil and natural gas surging, it has also become more profitable to produce coal. Additionally, the energy crisis has pushed inflation up to record-high levels, which has led politicians to reduce taxes on gasoline and fuel; in Sweden, the greenhouse gas reduction mandate has been paused, leading to increased emissions.

In the longer term, the effect is more uncertain. On the one hand, the war creates strong incentives for a faster transition by the countries wanting to reduce their dependence on Russian energy and in the long run become more self-sufficient in fossil-free energy. In addition, for most countries it is possible to produce renewable energy such as solar and wind power, which is positive from a security perspective; in contrast, coal and oil are not available to all countries. As the price of oil and gas rises, the competitiveness of solar and wind power increases. It may be easier to justify investments from both private and public sources to support these countries' energy security. On the other hand, several EU countries have decided on greater investments in defence, which could displace investments in the green transition. High inflation could also complicate political decisions such as on climate taxes, due to increased costs.

At the global level, the signals are mixed. In the US, a climate reform package has been adopted, with major investments in renewable energy and emission reduction measures. The Inflation Reduction Act will facilitate long-term investments in renewable energy and storage and is estimated to reduce US emissions by about 10% more than previous policies, by 2030. Given the package’s 10-year horizon, it will be easier for producers and investors to plan, and the design of the tax reduction is considered an improvement. However, there are also signs of delayed coal-plant closures in, e.g., India and the auctioning of new ground for oil drilling in Congo-Kinshasa, both posing a risk of increasing emissions. If larger new investments are made in the near term, it is likely that more fossil fuels will be extracted in the medium term as well.

The way in which the energy crisis affects the transition in Europe in the longer term may be determined by how tough the winter turns out to be. Incentives to invest in green and renewable energy should be stronger than ever, to secure the supply of energy. At the same time, there is a risk that short-term solutions will be cemented and that investments will also be made in fossil fuels, which will slow down the transition in the longer term. If the recession is prolonged and inflation is above target, there is a risk that political room for manoeuvre will shrink.

Monetary tightening and recession fears are priced in, hitting financial markets

The story in financial markets so far this year has been one of poor performance, followed by a minor recovery during the summer. However, risks are still elevated, and markets are wary of any signs of increasing inflation or a weakening real economy. We expect financial conditions to remain poor until the monetary-tightening cycle ends and more clarity about recession risks emerges.

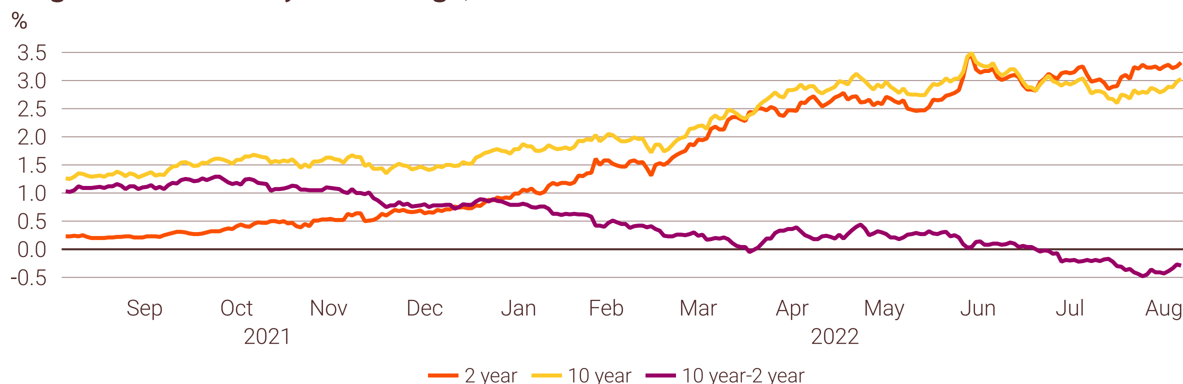
The US treasury curve inverts as inflation remains high and recession fears loom

High inflation is forcing central banks to hike rates at a speed not seen for more than a generation. This is pushing up shorter-duration government bond yields, while the prospect of a weaker economy is starting to temper longer-duration yields.

The important yield on US government bonds kept increasing in the spring and early summer, until the latest peak in mid-July. Both the 10-year and 2-year yields were then around 3.5%, which marked the highest level since 2011 and the financial crisis, respectively. Since then, concerns of tougher times ahead have brought the longer yield down to well below 3%, while stubborn inflation has kept short yields higher. Thus, the yield curve is now inverted. Developments in Germany and Sweden have been broadly similar, with yields increasing quickly from the start of the year until early summer before seeing a significant moderation in longer rates.

Rates will be lifted further in the near term, but our view is that the hiking cycle will be ending in the next six months. This is in line with market pricing. The real economy is weakening, and consumption and house prices will likely fall as higher rates reverberate through the economy. This will allow central banks to pause as the pressure in the economy eases and the outlook for inflation comes down. On the other hand, inflation has become a political issue, and central banks are now concerned about their credibility after presiding over the highest inflation levels in 40 years. They will be wary of stopping the hikes too soon. Likewise, when central banks do decide to pause their hikes, it could be difficult for them to cut rates again if inflation remains well above target and declines only slowly.

US government bond yields are high, and the curve is inverted



Sources: US Department of Treasury, Swedbank Research & Macrobond

Wide corporate credit spreads are generating difficult funding conditions

Corporate credit spreads are currently elevated. Firms must pay a large premium to borrow in the bond market, as investors see the risk of defaults as high. Spreads were at historically tight levels for most of 2021 but rose substantially during the first half of 2022. Credit markets were hit by the double whammy of high inflation and an aggressive tightening in monetary policy. The latest peak in spreads came in mid-July, and they have declined slightly since then. Apart from during the initial outbreak of COVID, spreads have not been wider during the last five years, and corporates, especially those of lower credit quality, are struggling to access the bond market for funding.

Going forward, we expect credit spreads to remain elevated. Especially so in Europe, which is vulnerable to disruptions in the energy market this winter. As spreads are currently very wide compared with recent history, there is some room for spreads to tighten, but we do not expect a return to “normal” levels until the current monetary policy-tightening cycle is over and there is more clarity about the recession risks. There is also a risk of a high-profile default due to the current energy crisis, which could then further widen spreads.

The boom in commodity prices has ended

Commodity prices crashed during the initial COVID outbreak but then rose continually until recently. The already-high prices shot up after the Russian invasion of Ukraine. In recent months, however, prices have started to decline as the poor economic outlook is weakening demand. Indeed, the index of prices for industrial metals is now lower than it was one year ago. Energy prices are high, but are lower than the latest peak at the start of June. The situation in energy commodity markets is volatile and unpredictable due to geopolitical forces, but we expect the prices of other commodities to be muted as the economy slows.

The dollar has outperformed due to safe-haven status and the energy situation

The US dollar has strengthened this year due to a relatively more hawkish Fed, its safe-haven status, and the relatively favourable energy situation. As a major energy producer, the US is less vulnerable to energy market disruption than Europe or Japan. Japan has been the standout in keeping monetary policy extremely loose this year, which has weighed down the yen. Japan is also a big importer of energy, which has also caused the yen to depreciate amid high prices.

In European currencies, the euro, British pound sterling, and Swedish krona have all weakened gradually this year. Again, the energy crisis and fears of a deeper recession are weighing on these currencies. On the other hand, the interest rate differential to the US has been more supportive at times this year. The Norwegian krone has been volatile, torn between the opposing forces of risk-off sentiment and high energy prices. The krone weakened at times due to the poor general market sentiment. On the other hand, high energy prices are supportive, as Norway is an exporter of petroleum. The sum of these opposing forces has been a strong but volatile currency.

Nordics – bound for a mild recession

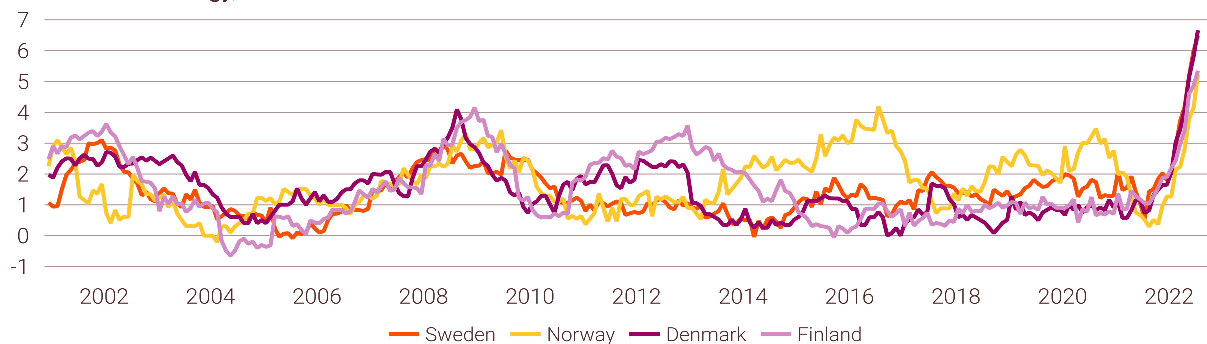
We expect a turning point in the coming quarters and growth to slow markedly. The labour market is expected to be resilient, but a hard landing cannot be ruled out if monetary policy becomes tighter than we foresee.

The Nordic economies are currently firing on all cylinders, and there are few signs of a slowdown. Job growth remains robust, and GDP surprised on the upside during the first half of the year, even in Finland, despite a sharp drop in trade with Russia. Signs of overheated economies are piling up with labour shortages at historically high levels, inflation continuing to surprise on the upside, and wage growth picking up. On the other hand, consumer sentiment has collapsed, and we expect to see a turning point in the overall economy during the coming quarters. We forecast the sharpest slowdown in Denmark, where signs of an overheated economy are pronounced and residential investments are approaching levels not seen since 2006. Despite the slowdown, we do not project substantial increases in the unemployment rate across the Nordics.

Inflation has risen dramatically from already-high levels, as the war in Ukraine and the global imbalance between demand and supply and the war in Ukraine are putting pressure on prices. A temporary decline in energy prices dragged inflation down in Sweden in July, but inflation excluding energy continues to increase across the Nordics as businesses pass on high input prices to consumers. We have revised the outlook and now expect inflation to peak at the end of this year and remain above 3% for the majority of next year.

Inflation continues to surprise on the upside

Inflation excl. energy, %



Sources: Swedbank Research & Macrobond

Like several other central banks, the Riksbank and Norges Bank have increased the speed of rate hikes on the back of the higher inflation outlook and tight labour markets. We foresee a much faster tightening than in our forecast in April. The Riksbank is expected to increase rates to 2.25% until the beginning of next year, and Norges Bank to 2.75% at the end of this year. High inflation and increasing rates are weighing on household purchasing power, and we expect private consumption to slow markedly in the coming year, especially in Sweden, where the share of variable-rate mortgages is large.

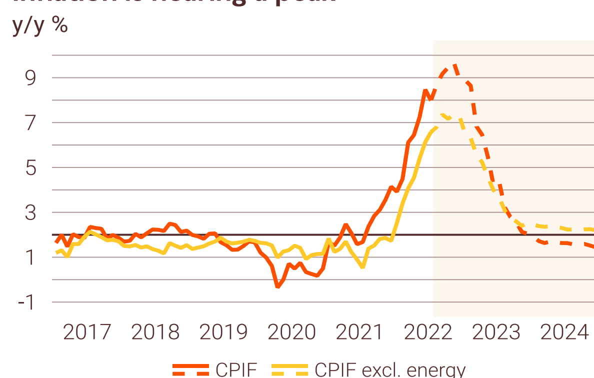
Sweden – inflation a drain on the economy

Inflation has skyrocketed and the Riksbank continues to tighten rates. Growth is slowing, affected by high inflation while a deep recession is being avoided. Businesses and households are acting cautiously, dampening consumption, investment and the housing market. The slowdown in the labour market is still expected to be mild. Fiscal policy is expected to be cautious. A strong government able to meet the societal challenges will be called for after the upcoming election.

High and protracted inflation a drain on the economy

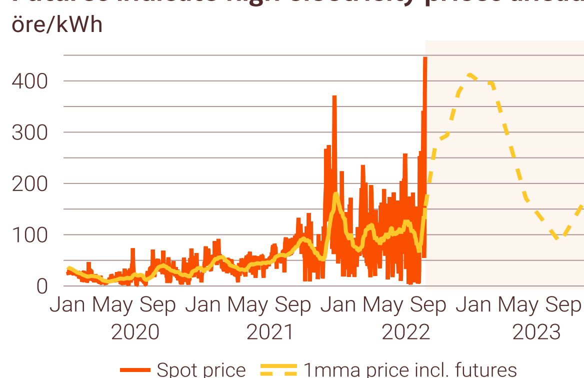
The highest inflation rate in more than 30 years has put a wet blanket on the Swedish economy. In July, inflation took a step back, with an annual rate in consumer price index with fixed interest rate (CPIF) of 8.0%, but new increases are apparently on the cards. Inflation is still being affected by the pandemic and the war in Ukraine. Companies' high transport and input costs are having an impact, as are higher import prices from the weak krona. Inflationary pressures have broadened beyond energy and food, and both goods and services prices have been raised at a rapid pace. We expect inflation to peak in the fourth quarter of this year, but volatile energy prices mean that the forecast is surrounded by greater-than-normal uncertainty.

Inflation is nearing a peak



Sources: Swedbank Research & Macrobond

Futures indicate high electricity prices ahead



Sources: Swedbank Research & Macrobond

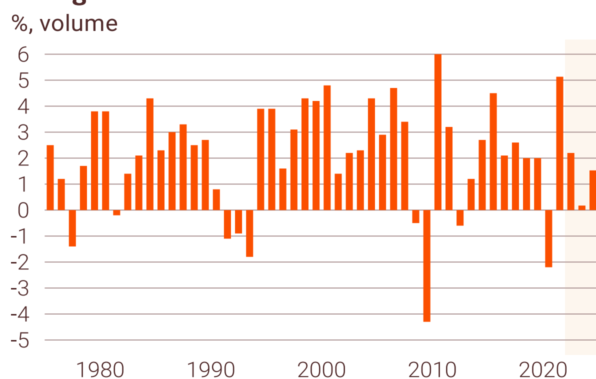
However, there are bright spots on the horizon. Shipping costs and global commodity prices for oil, wood, food and metals, among others, have been curbed. Price increases and the subsequent tightening of monetary policy certainly erode household purchasing power, but also limit the scope for more price increases. There are reasons to believe that the coming year may be characterised by slightly more sales and decoy prices for, among other things, durable goods. A stronger krona going forward is also expected to dampen prices. The ongoing downturn in economic activity should dampen inflationary pressures; at the same time, however, this should be weighed against companies' need for more cost-shifting. A brighter energy market is a long way off, and even if a European gas supply were to be secured, it would be at a high price, a situation that would probably also continue in the coming years. In addition, higher wage increases from 2023 onwards will support inflation. Wages are a major expense in sectors such as the employment-heavy services sector, which is suffering from meagre profit margins. The effects of extreme weather and the transition to a greener society are also making an impression through rising prices. Overall, we expect a falling inflation rate in 2023 and 2024, but with a protracted trajectory.

Clear deceleration in the wake of weakened purchasing power

Even though clouds of concern have been gathering since the beginning of the year, growth has been a positive surprise. Overall, GDP rose more than expected in the first half of this year, but during the summer some signs of weakness have been discernible. Sentiment indicators continue to point to growth but have weakened significantly in recent months, while card transaction data from Swedbank Pay point to a decline in household consumption during the summer. We expect economic activity to decelerate significantly in the coming year in the wake of high inflation and rising interest rates. The recovery will begin only in the course of 2024, when inflation falls back down and household purchasing power improves again. We expect GDP to grow by 0.4% in 2023 and 1.5% in 2024. The main dampening of growth comprises weak consumption growth and a significant slowdown in construction, but export growth and business investment are also weakening.

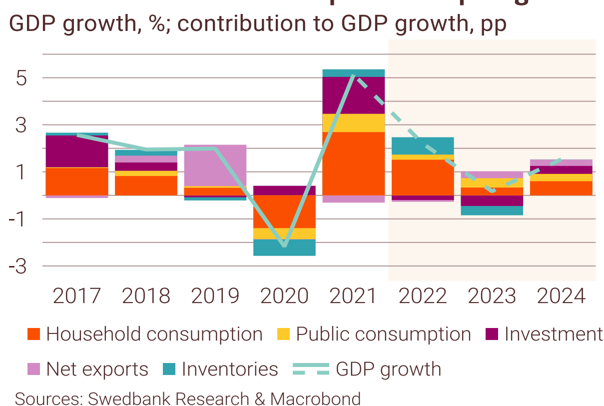
High input costs and rising interest rates are holding back business investment going forward, but the need for investment is great; we expect a moderate decline compared with the global financial crisis. However, housing investment is falling sharply in the wake of a declining rate of construction. We expect the number of housing starts to almost halve by 2024 and to weigh on investments in new construction, and redevelopment investments are also taking a step back from the high levels during the pandemic.

GDP growth slows down



Sources: Swedbank Research & Macrobond

Investments and consumption dampen growth



Sources: Swedbank Research & Macrobond

The energy crisis in Europe and weak development in Germany, among other factors, are expected to contribute to a significant slowdown in Swedish export growth over the next year. Imports are also falling in the wake of weaker demand in both Sweden and the rest of the world. Global bottleneck problems will ease in the future as demand slows. Public consumption is expected to contribute positively to GDP growth during the forecast period, due to the expansion of the armed forces, an increased number of older people, and more students in school.

Households bear the burden of the rise in inflation and hold tight to their wallets

High inflation and rising interest rates are eroding household purchasing power this year and will continue to do so next year. A resilient labour market—in which more people get jobs while hourly wages are expected to increase at a higher rate than before—will counteract the trend to some extent. Rapidly rising interest rates mean that household interest expenditure will rise sharply in the coming years, as many households have short fixed-interest terms on their mortgages. This reduces the scope for other consumption, especially as energy prices are also expected to be high this winter. Regardless of whether the recently announced proposal to protect consumers against high costs is approved in its entirety, we believe that households will receive support because of the high electricity prices. This will help to ease the burden somewhat, but high inflation means that households' real disposable income will fall this year and next.

The housing market is put under pressure

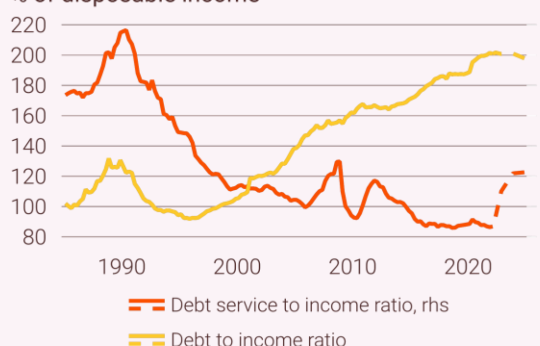
Following the initial rise in interest rates last winter, the situation in the housing market has quickly cooled down. Uncertainty about how much the mortgage rate will rise has made homebuyers more hesitant, while the housing supply has increased. Compared with the situation last year, when homes were sold quickly, a sale now takes significantly longer, as buyers and sellers are finding it difficult to agree. Indicators from Booli and Hemnet show that the bid premium has fallen significantly from before the Riksbank's April meeting. Following the peak in February, housing prices have fallen by 6% in the country as a whole, but in greater Stockholm, Gothenburg and Malmö, the decline has been larger. Households have high indebtedness and, in addition, short fixed-interest rates, which makes them sensitive to interest rate increases. The fact that housing prices are falling more in the big cities is understandable, given the higher prices and debt.

In addition to higher interest rates, households face increased expenditure for renovation, electricity, and heating. While overheads are increasing by about the same amount throughout the country, there are large regional differences when it comes to spending on electricity and heating, where prices have risen significantly more in southern Sweden. Also, in the case of a newly produced apartment, a household can expect that the monthly fee will be increased as the tenant-owner association's interest rates rise; this is because new associations generally have higher debts than older associations.

We expect housing prices to fall further in the coming year. The price trend is then expected to level off, as uncertainty about rising mortgage rates will have subsided and inflation fallen back down. In total, we expect that housing prices will have fallen about 15% from the peak in March 2022, reaching their lowest level in the first half of 2023. We expect large regional differences, where the more interest-sensitive households in the big cities could cause prices in those cities to fall more than elsewhere. Another factor that may drive the regional differences is the large disparities in electricity prices across the country. It is, therefore, reasonable to assume that prices may be more negatively affected in southern Sweden.

Household debt and interest expenditures

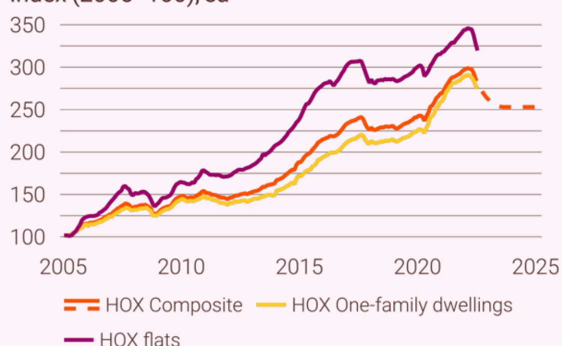
% of disposable income



Sources: Swedbank Research & Macrobond

Housing prices

Index (2005=100), sa



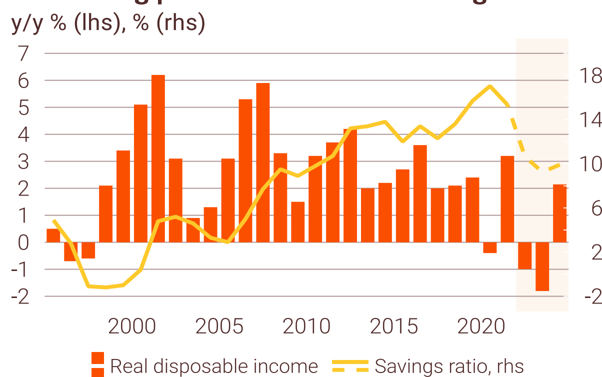
Sources: Swedbank Research & Macrobond

Another factor contributing to the price pressure is the uptick in completion of homes during the forecast period, although the number of construction starts is falling. Stricter property taxation and lower interest deductions would dampen price growth even more, but the deadlocked political situation speaks against broad agreements on housing taxation.

Household confidence has fallen and is, according to the National Institute of Economic Research (NIER) barometer, at record lows. Above all, it is the view of one's own financial situation that is weighing on consumer confidence. In addition to high inflation and rising interest rates, this year's stock-market downturn and falling house prices are likely to contribute to depressed confidence among households. Although the barometer also shows that households consider the risk of becoming unemployed to be low, we expect households to become increasingly cautious in the future.

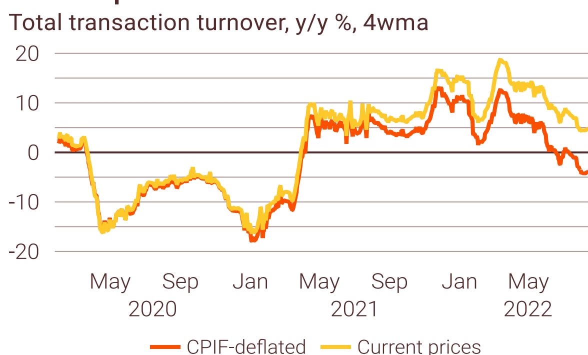
Household consumption will decelerate significantly in the second half of this year and will rise slightly in 2023 and pick up a little more momentum in 2024 as purchasing power improves. This assumes that additional support benefits households; otherwise, households are expected to tighten their belts even more. Despite increased caution among households, savings will fall significantly this year and next, as consumption at current prices continues to increase. The high inflation has so far mainly left its mark on weaker retail sales, while services consumption, in line with our expectations, has developed strongly. This is because households have taken the opportunity to use various services, such as entertainment, travel, and hotel and restaurant visits, following the lifting of virtually all pandemic restrictions. However, we expect households to also reduce their leisure consumption.

Purchasing power worsens and savings decline



Sources: Swedbank Research & Macrobond

Consumption declines in volume terms



Note: Deflated using the CPIF index; August data deflated by Swedbank fcst
Sources: Swedbank Pay and Swedbank Research

Resilient labour market – but it will be dampened next year

The labour market continued to improve in the first half of this year. The latest Labour Force Survey (LFS) showed that labour supply, hours worked, and employment all continued to increase in the second quarter, which, however, caused unemployment to rise marginally. Since June 2021, the unemployment rate has fallen from 9.2% to 7.7%. Demand for labour remains high. Both the number of newly registered vacancies at the Swedish Public Employment Service and the companies' employment plans are at historically high levels, while a large proportion of companies are reporting labour shortages. However, the approaching recession is expected to gradually leave its mark on the labour market.

The deterioration is expected to be mild, and we continue to expect a relatively resilient labour market. A poorer household financial situation will have a negative impact on services consumption, e.g., restaurant and hotel visits are likely to decrease. At the same time, the services sector has had difficulty re-employing staff lost during the pandemic, which suggests that the risk of redundancy is limited. In the welfare sector, as well as in the armed forces, employment needs are great. As the labour shortage is broad, employers are expected to retain their personnel, unless the recession becomes too deep.

Tough wage round ahead with record-high inflation

Negotiations will soon begin on what collective agreements will look like for the majority of wage and salary earners. At the beginning of April 2023, the new agreements will be in place, and the major stumbling block will be wage increases. In the previous wage round, employees had to "stand back" and accept relatively small wage increases, which was justified by the uncertainty caused by the covid pandemic.

This time, the conditions are trickier than usual. Inflation is very high, interest rates are rising, and the growth outlook is uncertain. High inflation is putting pressure on both workers and employers. Households' real wages have decreased by an average of 4.5% in 2022 (data for May). Despite this, companies' profitability has been good and the labour market is tight, with a high demand for labour. Employers will argue that the outlook is highly uncertain, with weak productivity growth, and that the scope for higher-wage contracts is therefore limited.

This speaks in favour of tough negotiations. The industry's parties usually set the wage standard, or what is known as the mark, while LO (the blue-collar trade union) usually strives for coordination. There is a relatively high risk that the collaborations will strain at the seams, and a Notice of Conflict cannot be ruled out. We foresee higher wage increases in the new agreements than in previous years, likely including a front-heavy construction that compensates workers early on without raising levels too much going forward, when the outlook is still uncertain.

We expect wage growth of 2.8% for the full-year 2022 and 3.6% for 2023. Given that the new agreements will not take effect until the second quarter of 2023, we expect a certain overhang to 2024, at which time wages will rise by 3.7%. We expect three-year agreements.

In addition, we have seen higher wage increases internationally, e.g., in the Netherlands. Wage growth has accelerated in Germany, where the new agreement for the steel industry yielded over 4% per year, but also in Denmark and Norway. The social partners negotiate based on the conditions in a Swedish context, but international competitiveness is an important parameter.

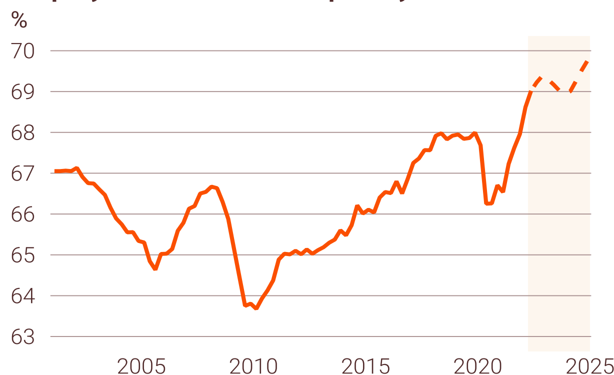
What speaks against even higher wage increases is the impending recession. The labour market also has a clear twofold division, where some groups continue to have difficulty finding jobs. At the same time, we expect the Riksbank to continue raising interest rates, which will cool down the economy and activity in the labour market. For the unions, confidence in the inflation target is important; as long as this is the case, it should be possible to limit the compensation requirements, but our overall assessment is that the upcoming agreements will generate higher outcomes than we have seen in a long time.

Wage growth is increasing

Sources: Swedbank Research & Macrobond

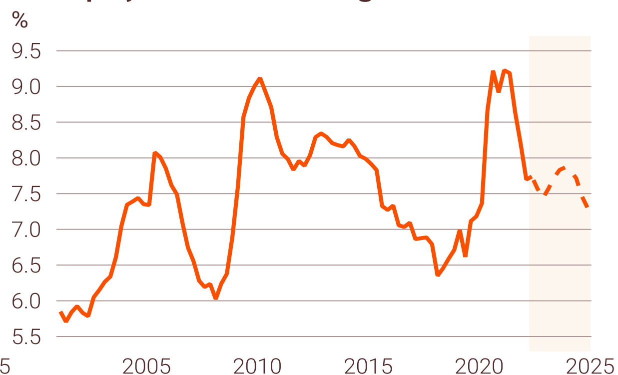
Next year, a marginal rise in unemployment is forecasted, in line with the subdued employment growth. On the other hand, there is a risk that the recession will exacerbate structural problems, including long-term unemployment, as well as high unemployment for foreign-born people. A more active education and labour market policy is urgently needed in the coming years.

Employment takes a temporary downturn



Sources: Swedbank Research & Macrobond

Unemployment rises when growth deteriorates

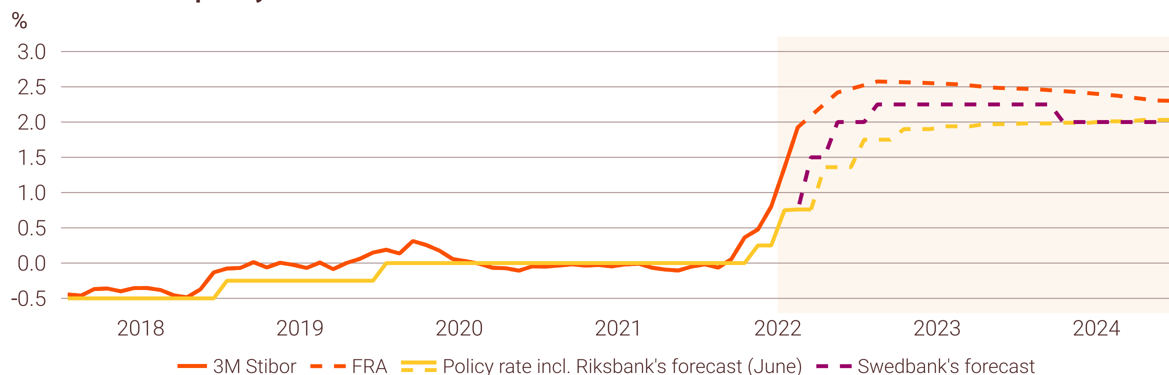


Sources: Swedbank Research & Macrobond

Riksbank tightens its policy; key interest rate to reach more than 2% next year

The sharp and broad rise in inflation will force the Riksbank to tighten monetary policy significantly in the near future. We expect the Riksbank to raise its key interest rate by 75 bps to 1.5% at its upcoming monetary policy meeting in September. After this, we expect a calmer rate of elevation. Growth will slow and inflation will fall back down over the next year. Households are under pressure, and a further decline in house prices is on the cards. We expect the key interest rate to be raised by a further 50 bps in November and a final hike of 25 bps to 2.25% in February (when a new Riksbank Governor, Erik Thedéen, will be presiding). The key interest rate will be cut by 25 bps to 2% in the spring of 2024 as inflation slows. There is uncertainty about the level of the policy rate consistent with the economy being in balance. Riksbank Governor Stefan Ingves has talked about a 2-2.5% level. The Riksbank's securities holdings, which increased sharply during the pandemic, will decline at a rapid pace over the next few years, which to some extent will contribute to monetary policy tightening.

The Riksbank's policy rate and STIBOR 3M



Sources: Swedbank Research & Macrobond

Fiscal policy in dilemma – stable government base is called for after election

Opinion polls ahead of the parliamentary elections on 11 September point to a close result, and there is a risk that the formation of the government will once again be difficult. The last few years have been marked by a difficult parliamentary situation which has made it hard to implement important reforms. During the coming term of office, a government able to get support for its budget in the parliament, and broad majorities around important decisions, will be needed. Sweden faces major challenges in both the short and long term. The recession has tightened its grip, and households are plagued by high inflation and rising interest rates; meanwhile, house prices are falling. Fiscal policy needs to strike the right balance between supporting the most vulnerable households, on the one hand, and limiting stimulus measures on the other to avoid fueling inflation. However, this may be easier said than done. In addition, Sweden has a number of long-term challenges that require large and urgent investments. Military defence needs to be upgraded. The necessity for energy investments and other green transitions is significant, including in infrastructure and electricity supply, to counteract and create adaptations to climate change. Needs are also apparent in the welfare sector. The population is getting older, requiring more extensive care. At the same time, the healthcare debt is already high after the pandemic. The lack of integration should be addressed so that more people get into work and more preventive measures need to be taken around schools, social services, and the labour market.

Sweden has strong public finances, but the new government will need to deal with the effect of high inflation. Even if the tax base increases this year, when consumption at current prices rises, the situation will be tougher in the future. The NIER estimates that an increase of just over SEK 70 billion will be required in 2023–2024 to maintain staffing density in welfare services; this means about SEK 10 billion in financing is needed to achieve the surplus target. The scope for unfunded reforms is, thus, limited, and priorities are needed. We expect unfunded measures of SEK 45 billion in 2023 and SEK 15 billion in 2024. This means a general government deficit in 2024 and a slight rise in the Maastricht debt to 31.4% of GDP.

From an economic perspective, the reforms should focus on targeted measures and investments that increase the growth potential of the economy—e.g., a tax reform that stimulates labour participation and the green transition. However,, a change in the fiscal framework is also required in order to allow increased investments in the long term. In the short term, it is desirable to address high inflation with targeted and temporary support for the most vulnerable households, rather than measures that lower prices, as these further exacerbate the imbalance between supply and demand. Price reductions weaken incentives to reduce usage. For example, the higher gasoline tax in Europe has contributed to higher purchases of fuel-efficient cars in Europe than equivalent vehicles in the United States (IEA 2021). However, election promises of reduced electricity prices are coming thick and fast at the same time as the government is promising a return of Svenska kraftnät's capacity revenues to households and companies. There is an obvious risk that fiscal policy will hinder rather than support development going forward.

There is a real risk of another term of office with a difficult parliamentary situation. Our assessment is that it would not have a significant impact on economic development during the forecast period, but it would have significant effects on growth potential in the future if important reforms and cross-bloc agreements are lacking during another term of office.

Norway – a series of rate hikes in store

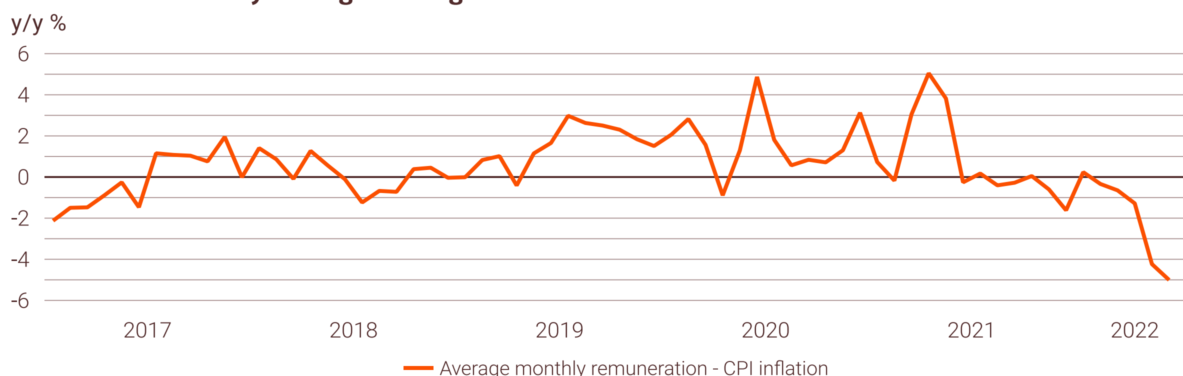
The economy is currently firing on all cylinders, but a turning point is likely in the coming quarters. The high temperature is prompting Norges Bank to raise its policy rate faster. The effort of fighting inflation and preventing overheating will flip the economy into a situation of increasing unemployment and lower demand growth starting around year's end.

Inflation is nowhere near target and has repeatedly beat expectations in the last few months. Core CPI, excluding energy and taxes, came in at a record-high 4.5% in July. Alternative measures of core inflation post even higher figures than this. Imported price growth is being affected by the elevated global inflation, but a stronger krone could cushion the effects. Domestic price pressures will remain high amidst a very tight labour market. Wage growth is likely to come in at around 4% this year. We see core inflation staying closer to 4% for the remainder of this year, and it will probably remain above 3% for the majority of next year.

Norges Bank has joined other central banks in combatting price pressures with full force. Taming inflation, while shielding households from the adverse effects of higher rates, has already proven a nut too tough to crack. The gradual approach was left behind in June, as Norges Bank started deviating from its conventional 25 bps hike and delivered a double hike, a move not seen since 2002. In August, Norges Bank raised the rate by 50 bps for a second time, thereby moving away from an expansionary monetary policy, with 1.7% being regarded by the central bank to be around a neutral policy rate. We believe Norges Bank is likely to continue hiking until it sees a sustained slowdown of inflation towards the target, or, alternatively, a profound decline in household consumption together with rising unemployment. We now expect a 50 bps rate hike in September, followed by 25 bps rate hikes in November and December.

The labour market has tightened further on the back of strong demand, but the scope for further improvement is rather limited. The registered unemployment rate has fallen to 1.6%, matching the lowest level ever recorded, last seen in 2008. We do not think there should be much downside from here, and foresee the unemployment rate bottoming out over the next few months before starting to increase towards the end of the year. The strong demand for labour is highlighted by the number of new vacancies, which continues to fluctuate around a record-high level, although it is not showing signs of increasing. Employment is still rising, but at a slowing pace.

Inflation is currently hitting real wages hard



Sources: SSB, Swedbank Research & Macrobond

Household consumption has recovered well so far this year but is expected to sour towards the end of 2022 and into 2023. The strong labour market should continue to support solid growth in consumption for a few more months. Electricity support was introduced in December last year and will run at least through March 2023, providing some relief to households. However, consumer confidence is now seen plummeting. Although nominal wage growth is likely to be high this year, we are foreseeing a decline in real wages on the back of rising inflation. A forceful policy rate-hiking campaign is adding to households' worries. Precautionary savings cannot be ruled out in light of heightened uncertainty going forward. All things considered, we forecast roughly unchanged household consumption for 2023.

The recovery in business investments has been quite strong in the wake of the pandemic. A few large manufacturing projects are pulling overall investments up, as is a services sector eager to expand. Petroleum investments, being soft this year, are anticipated to pick up markedly in 2023. Several rate hikes and lower household demand will, however, dampen business investment growth in 2023.

Housing price growth is slowing, but prices are not declining in the same manner as we are seeing across comparable countries. Nor do we expect such sharp falls on the Norwegian housing market, as long as the credit channel is not affected. The expectations of several rate hikes, along with somewhat slower household credit growth and high inflation, speak in favour of a reinforced slowdown in prices. Nevertheless, a still-low number of unsold homes indicates that growth momentum is holding up. Construction completions at a 10-year low, as well as increasing immigration, should also pull prices upwards. All told, we see downside risks to house prices ahead, potentially triggered by a rotation of market dynamics in which households are more inclined to sell their homes before buying new ones.

Denmark – overheated economy cools down

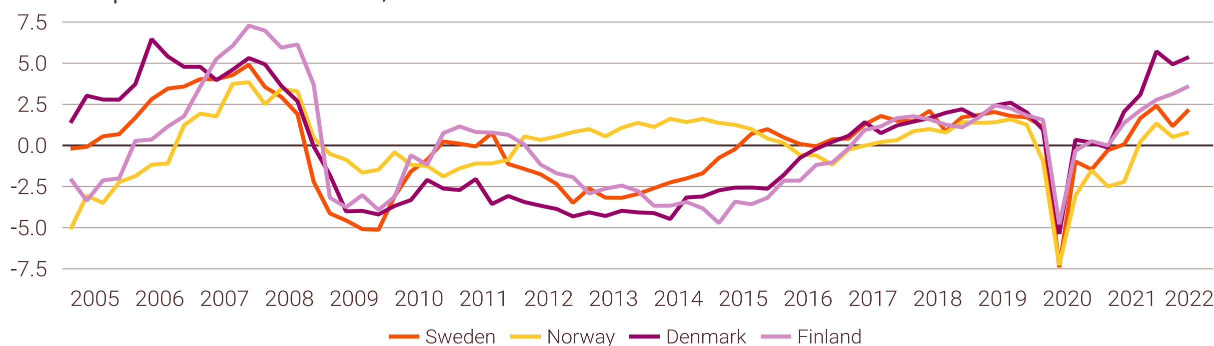
The economy is running at full tilt, but we expect it to cool down in the coming year because of households' weaker purchasing power and a slowing housing market. The downturn will, however, be milder than during the global financial crisis, with expectations of a more resilient labour market.

The Danish economy is a textbook example of an overheated economy: GDP is well above trend, the labour market is tight, and inflation is high and continues to surprise on the upside, while wage growth has started to pick up. Several of these factors are shared with many countries, but, compared with its Nordic peers, economic activity is well above trend in Denmark. In fact, in recent quarters GDP has been about 5% above trend, corresponding to the level last seen just before the housing market crash in Denmark and the global financial crisis about 15 years ago.

We expect economic activity to slow markedly in the coming year as the overheated economy cools down. Compared with our forecast in April, household consumption and investments, primarily residential investments, have been revised downwards, and we now expect GDP to decrease by almost 1% next year. Despite an acceleration in nominal wage growth, high inflation is weakening real wages this year, with merely a weak recovery projected in 2023. This, together with rising interest rates, will dampen private consumption. The slowdown in consumption will, however, be somewhat milder than in, e.g., Sweden, where a substantially larger share of households has floating-rate mortgages.

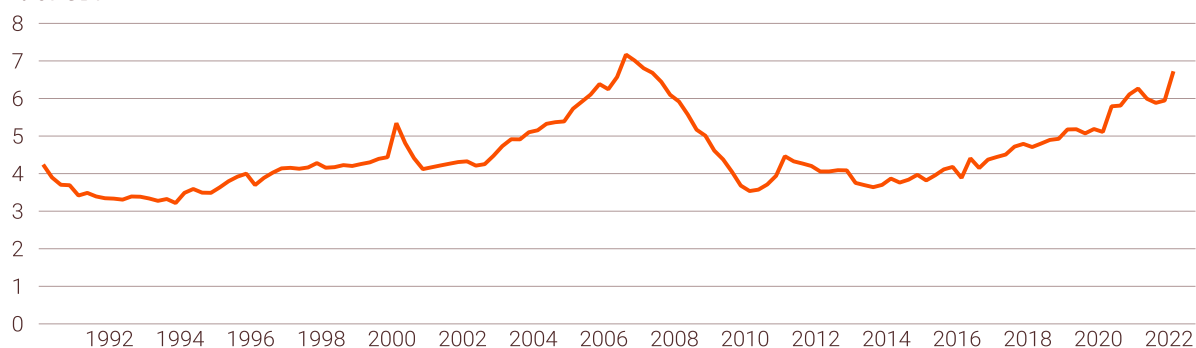
Overheated Danish economy

GDP compared to trend from 2005, %



Sources: Swedbank Research & Macrobond

The construction sector has thrived during the pandemic, and residential investments have increased to their largest share of GDP since 2006. The sector is, however, experiencing a slight downward trend in near-term expectations, and we expect this tendency to gather momentum in the coming months on the back of rising interest rates and costs, as well as lower demand. Housing starts and residential investments are expected to deteriorate over the coming years, although not to the extent following the downturn after 2006. Although lower supply supports prices, we expect housing prices to decline going forward, as borrowing costs are rising sharply. Prices will remain above pre-pandemic levels despite the downturn; however, the outlook for the housing market is highly uncertain at the moment.



Sources: Swedbank Research & Macrobond

The labour market has tightened further, and employment is above pre-pandemic levels across all sectors, as is labour force participation. Meanwhile, unemployment has fallen to 4.3%, according to the latest labour force survey. High vacancy rates and labour shortages suggest that demand, as well as hiring difficulties, remains heightened. The slowdown in the economy is worsening the outlook, but we expect considerable labour hoarding, in view of the shortages; therefore, the increase in unemployment will be rather limited. Inflation is also expected to remain higher than normal next year, but will gradually decrease as the economy slows.

Public finances recovered rapidly from the impact of the pandemic, and fiscal policy is now all about getting the right balance between avoiding stimulating an overheated economy and supporting vulnerable households. For this reason, the scheme to compensate for high energy prices that has been agreed this summer is fully financed. However, the financing comes from lower public investment and risks dampening growth potential going forward, depending on what types of investments are cancelled.

Finland – will get by without Russia

The war in Ukraine, the lost trade with Russia, and weakening demand have caused Finland's economic outlook to deteriorate. However, a large share of companies expects to find new markets relatively quickly. Therefore, improving cost competitiveness is very important.

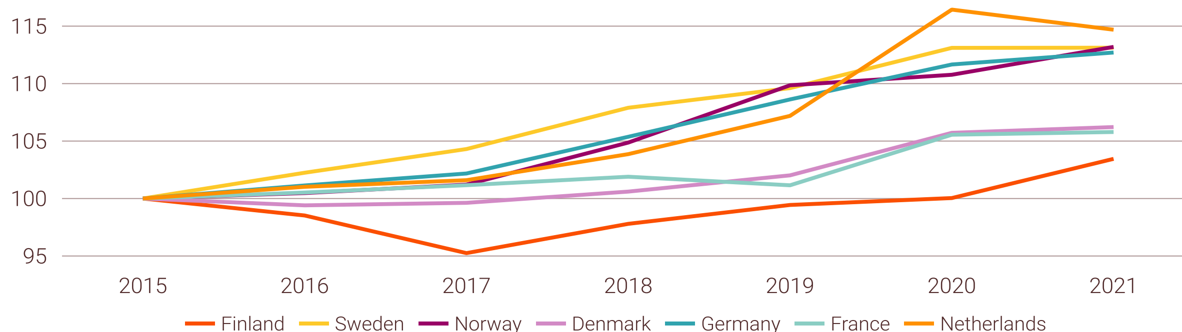
In the first half of the year, the economy held up relatively well to the negative impact coming from the sharp drop in trade with Russia, supply bottlenecks, and the exceptionally high inflation. The outlook for the second half of the year and for next year has, however, deteriorated. Despite the expected slowdown in economic growth, the Finnish labour market remains tight. We do not project a substantial increase in the unemployment rate; meanwhile, inflation and the labour shortage are exerting pressure on wage growth. Although nominal wage growth is picking up, high inflation is weakening households' purchasing power, and this will gradually weaken private consumption. We expect household consumption growth to slow to 0.5% in 2023. Consumer confidence has dropped to its lowest level in the measurement history of this indicator – i.e., the lowest in at least 27 years.

Business sector confidence has rapidly declined, as well, due to weaker demand. However, nonfinancial corporations are optimistic about their opportunities to replace lost exports to Russia with other markets. A survey conducted by Finnish Industry Investment this spring showed that 60% of companies that export to Russia estimate that they can completely replace their lost exports. One of the important prerequisites for finding new export markets is strong cost-competitiveness. Finland introduced policy measures in the middle of the 2010s, especially the Competitiveness Act in 2017, that have slowed the growth of unit labour costs compared with its trading partners. In addition, Finland is estimated to have a favourable structure of exports and imports, which should contribute to cost competitiveness. Even though unit labour costs have picked up recently, Finnish exporting enterprises are expected to improve their cost competitiveness this year and maintain it relative to the euro area in the next two years. However, the precondition for this is that productivity growth picks up and that labour costs do not increase more than in the trading-partner countries.

A worsened confidence in the business sector will affect fixed-capital investments with a certain time lag. Construction projects started in 2021 or in the beginning of this year will be continued, whereas higher construction costs and challenges relating to supplies of materials and equipment will limit the

Cost competitiveness is improving

Nominal unit labour cost, index (2015=100)



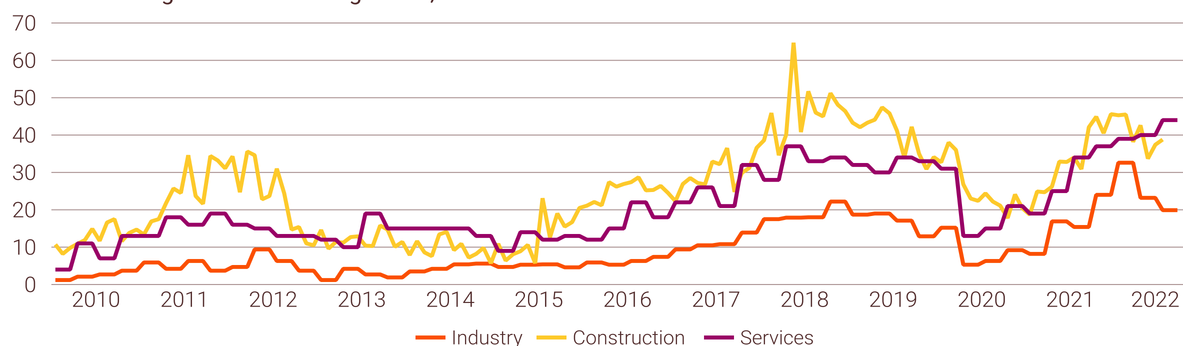
Sources: Swedbank Research & Macrobond

initiation of new projects. Therefore, we forecast strong investment growth this year, but a slowdown next year, when investment growth is estimated at only 1.5%.

Finland has not recovered from the negative impact of the coronavirus pandemic on public finances; meanwhile, the government is facing additional spending on defence, energy self-sufficiency, and the green transition. Although the ratio of debt to GDP is dropping somewhat this year due to improved tax receipts and the fast growth of GDP in nominal terms, the debt rate will increase slightly during the forecast period, as fiscal policy remains expansionary. At the same time, the Finnish government is having difficulties balancing the budget – we expect that the general government budget will be in deficit during the forecast period.

The labour market is tight

Labour shortage as main limiting factor, %



Sources: Swedbank Research & Macrobond

Baltics – mild recession will choke inflation

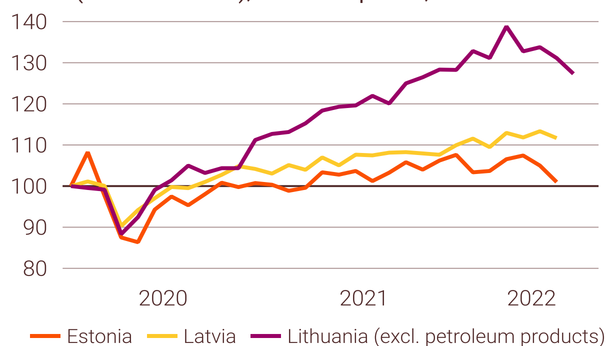
Despite the geopolitical shocks, energy crisis, and inflation hovering at quarter-century highs, the Baltic economies have remained relatively resilient and grew faster than expected in the first half of this year. We are revising this year's GDP forecast upwards, but foresee a few negative quarterly changes. The good news is that weaker local and global demand should be sufficient to bring inflation down to normal levels by the second half of 2023.

A strong growth momentum at the beginning of this year continued after the start of the war in Ukraine and the imposition of sanctions on Russia – in the second quarter, GDP shrank, but so far, the negative economic impact has been very limited and barely noticeable. Part of the resilience is related to the fact that sanctions have been imposed on Russia and business ties severed only gradually – these effects will be felt more strongly in the second half of this year. Furthermore, a strong labour market – increasing employment and wages – has been sufficient to support domestic consumption. However, annual inflation has exceeded 21% in all three Baltic countries, household confidence has dropped sharply, and retail trade has already started stagnating or shrinking during the summer months. Governments have introduced several measures to compensate energy costs, but real wages are now shrinking by more than 5%, which means that many households will have to cut their expenditures, especially on non-essentials. Although uncertainty regarding energy prices remains high, we estimate that the inflation peak is near. We expect average annual inflation to be around 17-18% this year before falling sharply in 2023 and, especially, 2024. Many commodity prices have retreated from their peaks, and global supply bottlenecks are easing, lowering the external pressures on prices. Furthermore, shrinking household purchasing power and demand will make it difficult for companies to continue raising prices at the eye-watering paces that we have witnessed this year.

Medium- and longer-term growth prospects will depend on external competitiveness. So far, manufacturing resilience and broad-based export growth has surprised on the upside (especially in Lithuania), and export market shares have been stable or increasing, while export orders remain above the long-term average. However, waning global demand, rapidly rising unit labour costs, geopolitical crosswinds, and continued energy shocks will be yet another test of the resilience and competitiveness of the Baltic economies.

Manufacturing is not in a recession (yet)

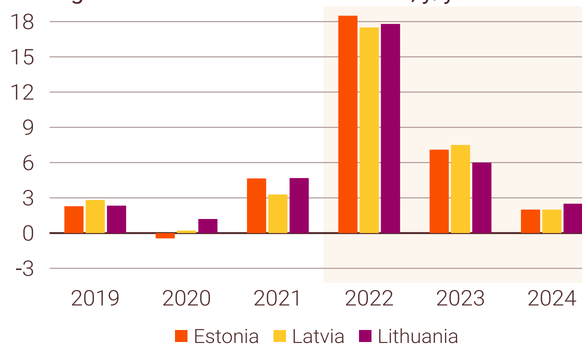
Index (Jan 2020=100), constant prices, sca



Sources: Swedbank Research & Macrobond

Don't look up

Average annual inflation and forecast, y/y %



Sources: Swedbank Research & Macrobond

Estonia – another crisis, severe challenges

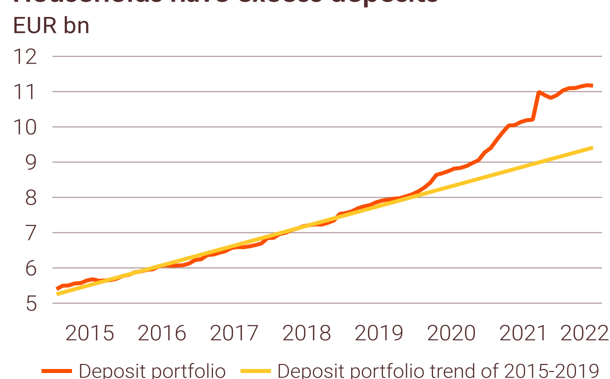
The Estonian economic outlook has worsened. We project a short-term and mild year-on-year contraction of GDP at the end of this year and the beginning of 2023, but the economy will expand overall for the year. Inflation is expected to peak in the third quarter of this year. Households' purchasing power will contract massively in 2022, and during the forecast period it will not recover to last year's level.

The current year started with moderate economic growth in Estonia, but the situation and the outlook have deteriorated. General economic sentiment has weakened sharply, and in July it fell to a level last seen in the beginning of 2010. Manufacturing output and retail volumes decreased in June, and preliminary calculations show that the volume of exports of goods declined in the second quarter as well. The Estonian economy is expected to drop year-on-year at the end of this year and the beginning of 2023, but we do not project a contraction on a yearly basis. We revised the growth forecast up slightly for this year, while reducing it considerably for 2023.

Estonia has cut much of its trade with Russia. However, the drop of exports to Russia is not a major issue for Estonia, as the exposure to that market has been rather modest. The general weakening of foreign demand worsens the export outlook much more. In addition, the share of exported goods from Estonia to the euro area has declined this year, which is related to the possible deterioration of Estonian exporters' competitiveness on that market. Estonia has been dependent on Russian energy imports. Even though Estonia does not import electricity from Russia directly, the share of mineral fuels imported from Russia amounted to one-third in the second quarter of this year. The share of imported natural gas was 55% in June; nevertheless, the Estonian government has decided to cut natural gas imports from Russia this year. Three major natural gas suppliers in Estonia, with a total market share of 95%, have claimed that they can ensure gas supplies to their clients during the coming winter and next spring. A liquefied natural gas (LNG) terminal in Paldiski (northwest Estonia), currently under construction, should solve most of the regional natural gas supply issues. The terminal is planned to be ready for use at the end of November this year. In a worst-case scenario, i.e., in an emergency when natural gas supplies are not fully available, Estonia can increase energy production from its own shale oil. The sectors most vulnerable to the natural gas shortage are the heating, food, wood, and paper industries; printing; production of construction materials (5-6% of GDP); and several business services.

Households have excess deposits

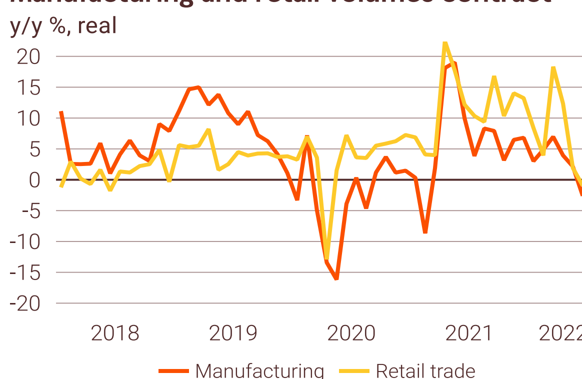
EUR bn



Sources: Swedbank Research & Macrobond

Manufacturing and retail volumes contract

y/y %, real



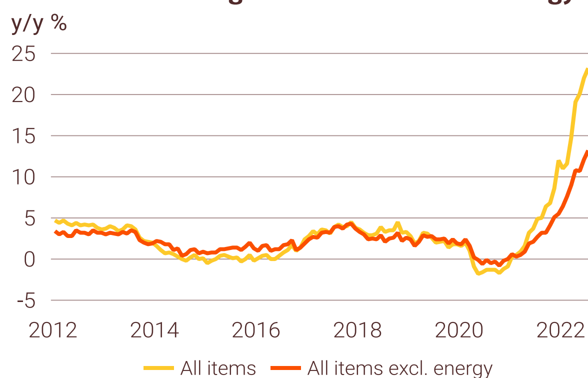
Sources: Swedbank Research & Macrobond

Consumer price inflation has picked up to its highest level in the last 26 years. Energy prices contributed the largest share (43%) to total CPI growth in the first half of this year. This share is roughly 10 percentage points higher than in the other Baltic states and slightly higher than the EU average. We expect that inflation will peak in the third quarter, but the slowdown will be sluggish. Therefore, the growth of consumer prices will decelerate in 2023 and further in 2024. The slowdown of economic growth will weaken demand, which, in turn, will limit core inflation. The growth of energy prices, which has picked up to very high levels, is expected to slow as well.

Despite the slowdown in economic growth in real terms, the deterioration of the short-term outlook, and the worsening of business sector confidence, we do not expect major layoffs, and the unemployment rate will increase only moderately. Ukrainian refugees have added 3.2% to Estonian employment and 3.8% to the total population, but the shortage of labour is still severe. This is expected to maintain pressure on wage growth. In addition, households' high inflation expectations and the very fast output growth in nominal terms are contributing to the acceleration of wage growth. However, inflation substantially exceeds nominal wage growth this year. Net wages in real terms will contract massively this year and will improve only modestly in 2023. During the forecast period, Estonian households' net wages in real terms will not recover to the average level of 2021, according to our projections.

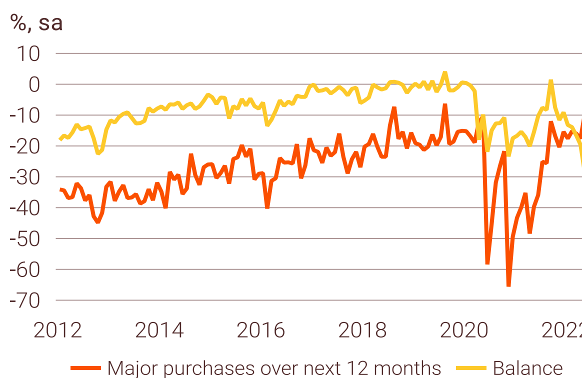
Although the volume growth of private consumption is expected to slow, it will accelerate considerably at current prices, reaching the highest rate since 1998. This robust spending demonstrates the high demand in nominal terms. Excess savings and money withdrawn from the funded pension scheme are contributing to the spending. The government has planned to partly compensate households for high energy prices in the coming heating period, to raise the level of exemption from the income tax, and to increase subsidies for families with children. Household deposit portfolio growth slowed to 10% year-on-year in June, which was still above the average growth in 2015-2019. Excess deposits over the pre-pandemic trend remained large in the middle of this year. Excess deposits, together with the money that households have withdrawn from their funded pension scheme in 2022, are close to 6% of forecast nominal GDP in 2022 and 11% of private consumption. Although consumer confidence has dropped to a level last seen in the beginning of 1990, the confidence to make major purchases is still strong. In addition to the excess deposits and pension money, households with larger deposits likely have made major purchases, including investments in real estate, in fear of inflation.

Over 40% of CPI growth comes from energy



Sources: Swedbank Research & Macrobond

Consumer confidence



Sources: Swedbank Research & Macrobond

Latvia – a mild and short-lived recession

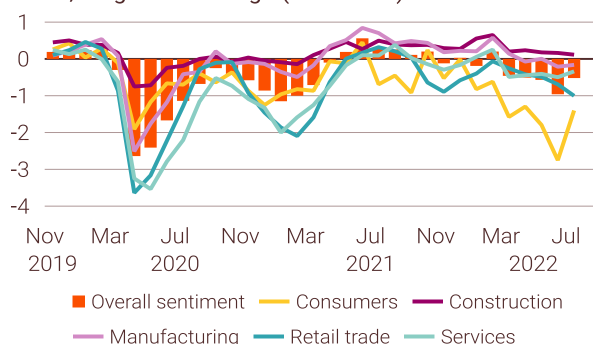
We have revised the real GDP growth forecast up to 2.4% for this year on the back of an exceptionally strong first quarter. Nevertheless, a downturn is still on the cards, given the ramifications of Russia's invasion of Ukraine. Following the decline in economic growth in the second quarter, Latvia is likely to see a few more weak quarters and enter a mild recession. As inflationary pressures retreat during 2023, demand will start to recover. GDP growth will pick up from a bleak 0.4% next year to 3.5% in 2024.

The rebound in economic activity at the beginning of the year was driven by a notable easing of pandemic restrictions and a release of pent-up demand for services; this rebound continued to support growth over the summer. Moreover, sanctions on the warring countries were not in full effect yet, allowing, e.g., the transit sector to deliver a decent performance. Even though the sanctions have made settling payments with Russia and Belarus more difficult, e.g., exports of pharmaceuticals to these countries – the most significant of local-origin exports – continued to grow strongly. Nevertheless, the economy contracted by 1.4% during the quarter as price pressures weighed on demand.

Economic sentiment has deteriorated, but it remains well above the level seen at the onset of the pandemic and is considerably more upbeat than during the 2008-2009 crisis. Households are much more pessimistic than businesses, as they worry about their financial situation. However, their plans to make major purchases, and to build or buy homes have not changed much. The announcement of government support for households in late June has brought the mood up slightly. Despite weaker economic activity, the labour market tightened in the second quarter. Employment and labour market participation numbers were up and, together with still-elevated labour shortages, likely resulted in continued rapid wage-bill growth. Nevertheless, household purchasing power has plunged, as inflation pressures continued to soar. Retail sales volumes fell in June as households bought fewer nonfood goods. The growth of spending on services has also started to slow. Household consumption is expected to falter in the second half of this year and will not start to recover until later in 2023. The economic downturn will lead to some easing of labour market conditions over the next few quarters, but we do not expect a significant or prolonged increase in unemployment.

Economic sentiment has deteriorated

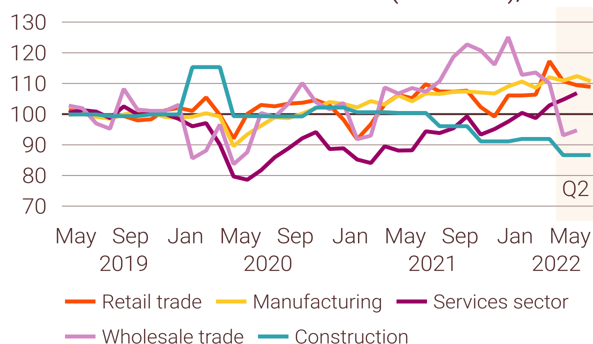
Index, long-term average (2000-now)=0



Sources: Swedbank Research & Macrobond

Goods sectors weakening, services still strong

Volume indices in selected sectors (2019=100), sca



Sources: Swedbank Research & Macrobond

Consumer price growth shot up to 21.5% in July, the highest since the early 1990s. It is still mostly being led by food and energy prices, but second-round effects are also coming through, and core inflation is picking up. There is some risk of a wage-price spiral if workers succeed in bidding up their wages. Yet, it is more likely that, although wage growth will pick up from the first quarter's 6.9%, it will stay notably behind price growth. Inflation is expected to peak in the coming months and will remain elevated through at least the first quarter of 2023, as the utility tariff hikes come through. The global prices of nonenergy commodities and oil have retreated from their peaks, supply-chain bottlenecks are easing, and demand is weakening, all of which should alleviate price pressures going forward.

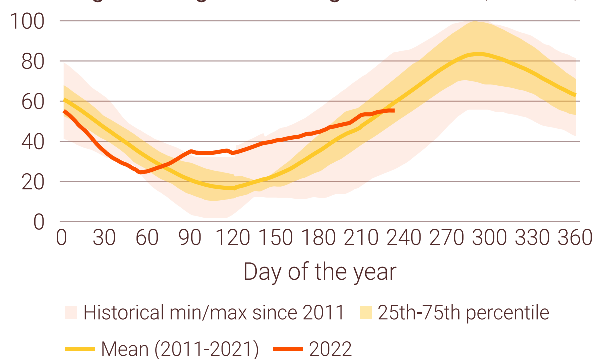
Investment activity likely weakened in the second quarter, as construction output continued to decline. The sector has largely managed to replace the materials previously imported from Russia and Belarus, but shipment delays and high costs have slowed activity and postponed projects. Moreover, it seems that the authorities have not managed to ensure a smooth transition between two EU budget-planning periods, and EU funds inflows are lagging. These inflows are expected to significantly boost investment in the next two years, though.

Wholesale trade has declined, likely reflecting the negative impact on businesses that used to re-export goods to Russia. Manufacturing and agriculture have, so far, weathered the impact of the severing of economic ties with Russia and Belarus rather well. While many companies have switched to new suppliers, often at a higher cost, some companies front-loaded shipments from Russia and Belarus before the sanctions became fully effective in the summer. Others benefitted from increased demand as competition from the warring countries retreated. The output of manufacturing continues to grow, albeit at a slower pace. The output and exports of its largest subsector – wood processing– has started to decline. A rush to fill warehouses following Russia's invasion of Ukraine is now retreating and has, together with weakening construction in Europe, softened demand for wood products. In the second half of the year, the weakness in external demand and manufacturing output is likely to broaden. Despite a faster increase in unit labour costs than in several other countries in the region, Latvia's export market shares have remained resilient. Risks of retreating competitiveness, however, cannot be excluded.

The price and availability of regional energy resources, especially natural gas, present a significant risk and uncertainty for Latvia's economic outlook. Filling up the underground gas storage facility is a challenging task, with limited Russian supplies, but all the storage capacity has already been sold. The availability of natural gas is dependent on the completion of the liquefied natural gas (LNG) terminal in Estonia by the end of the year and sufficient deliveries of global LNG. Households, businesses, and energy producers are investing in reducing their gas dependency, helping to bring down the demand.

Filling up gas storage more challenging

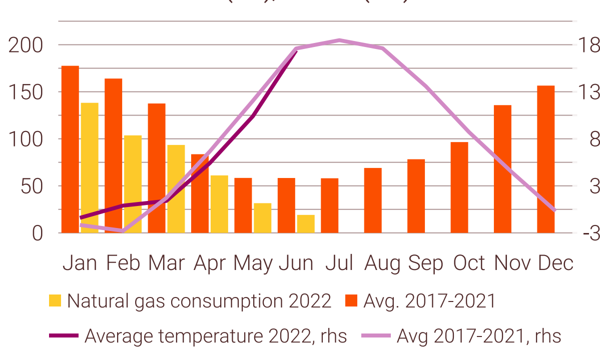
Natural gas underground storage in Inčukalns, fill level, %



Sources: Swedbank Research & Macrobond

Natural gas consumption is falling

Million cubic meters (lhs), celsius (rhs)



Sources: Swedbank Research & Macrobond

Lithuania – a cool cooldown

Not unexpectedly, the boom period for exports, retail trade, employment, wages and the real estate market is ending, and the economy is starting to cool down. GDP shrank a bit in the second quarter, and we expect this mild downturn to continue until next spring. We estimate that annual inflation has already peaked at 21.6% and will ease to 6% in 2023.

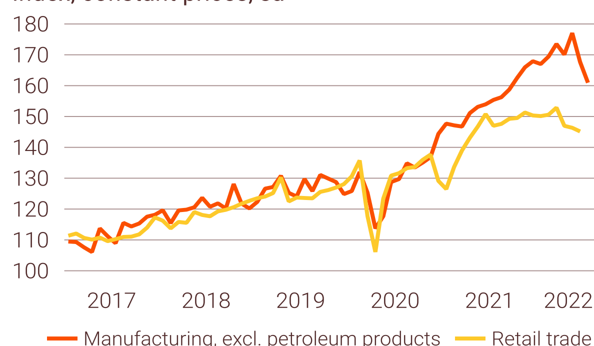
We revised this year's GDP growth forecast upwards to 2.0%, but only due to a stronger-than-expected first half of the year. There are plenty of factors that are likely to cause GDP to fall during the next few quarters. Household purchasing power is shrinking rapidly – despite strong nominal growth, real wages are expected to drop by more than 5% this year. Consumer confidence has been declining steadily, and is now only slightly higher than it was at the start of the pandemic. It is not surprising that retail trade levelled off at the start of the year and started shrinking in the summer. Households are bracing themselves for the upcoming winter, when they will be hit, despite the generous government subsidies, by record-high electricity, natural gas, and heating prices. On top of this, of course, some households will be further constrained by higher interest rates.

Yet, we do not expect a collapse in household demand. Deposits are still at record highs and well above the long-term trend (although, admittedly, very unevenly distributed among households), while the ratio of household debt to income, at only about 30%, remains one of the lowest in the EU. The labour market still provides plenty of opportunities. In the second quarter, employment spiked by 5.6% and unemployment dropped to 5.2% – an influx of Ukrainian refugees has helped to fill job vacancies.

Wage growth has not moderated, and, during the first half of this year, wages were still around 14% higher than a year ago. Plans to increase the minimum monthly wage by 15% next year may be driven by good intentions to help low earners, but there is a risk of very unwelcome side-effects. If global demand cools, as expected, and cracks in cost competitiveness emerge, we might see an increase in unemployment. We forecast that, next year, the unemployment rate will increase by almost 1 percentage point to 6.6%, but there is a risk of negative surprises here. We forecast that wage growth will ease to 7.5% next year before cooling further to 5.7% in 2024.

Turning retail trade and manufacturing

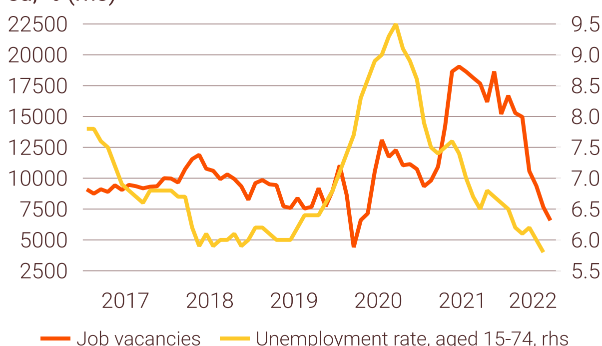
Index, constant prices, sa



Sources: Swedbank Research & Macrobond

Unemployment is likely to increase next year

sa; % (rhs)



Sources: Swedbank Research & Macrobond

Manufacturing and exports have been booming since the start of the pandemic – manufacturing output (excluding petroleum products) has increased by almost 40% since the start of 2020. Manufacturing output fell slightly during the summer, and this may continue as consumers around the world shift their consumption composition back towards more services and fewer goods. Furthermore, the global inflationary spike and subsequent jump in interest rates will dent purchasing power and demand, especially for non-necessities. Thus, we expect manufacturing output and exports to perform worse than during recent years.

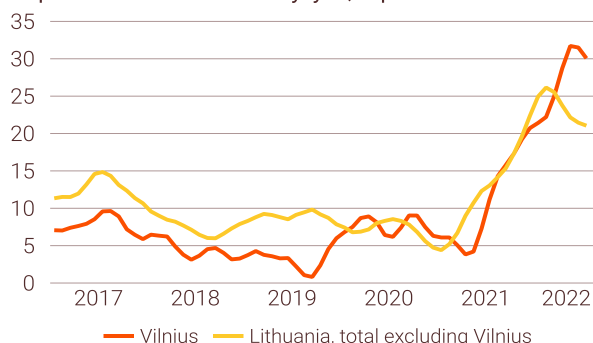
There have been signs of unsustainable developments in the residential real estate market. The repeat sales house-price index shows that prices in Vilnius are 30% higher than they were a year ago. Rapidly increasing wages supported housing affordability, but given the falling purchasing power, collapsing confidence, and rising interest rates, we now expect a welcome cooldown in the housing market. To some extent, the price increases are related to continued housing shortages; thus, prices are unlikely to collapse but will probably stabilise close to current levels. Meanwhile, the number of transactions is likely to fall.

New construction permits remain close to record highs, and we expect construction activity to remain strong. Overall, business investments have been subdued for a large part of the last decade, but, despite all the challenges, there is room for faster growth going forward. Funds from the EU Recovery and Resilience Facility will start flowing faster during the coming years. Private investments in fixed tangible assets have picked up recently; however, some of the business investments may be postponed, due to an unfavourable geopolitical environment and challenging global conditions in general.

However, there is one area where investments are unlikely to take a breather. Sky-high natural gas and electricity prices have encouraged many companies and households to invest in renewable energy generation and measures that increase energy usage efficiency. Lithuania imports natural gas via the liquefied natural gas (LNG) terminal in Klaipeda, which fully meets domestic needs and also leaves plenty of capacity for neighbouring countries. Natural gas consumption has fallen by 32% this year, and, given storage levels and import capacity, shortages are not likely – although prices will continue to bite. Lithuania produces only 25% of its electricity demand but will be fully self-sufficient by the end of this decade, due to already ongoing and planned public and private investments in renewable energy.

Housing market is likely to cool down

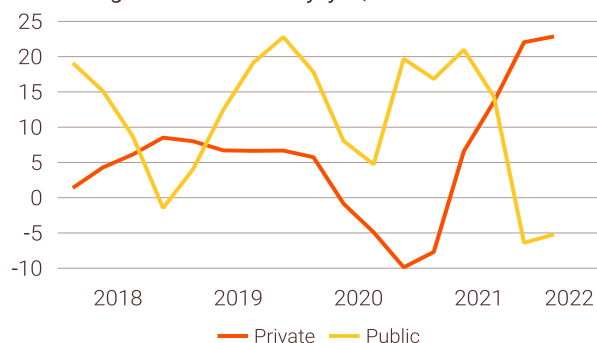
Repeat house sales index y/y %, 1qma



Sources: Swedbank Research & Macrobond

Public investments should rebound

Fixed tangible investments y/y %, nominal



Sources: Swedbank Research & Macrobond

Appendix

Interest and exchange rate forecasts

	Outcome	Forecast				
	2022	2022	2023	2023	2024	2024
	22 Aug	31 Dec	30 Jun	31 Dec	30 Jun	31 Dec
Policy rates (%)						
Federal Reserve, USA (upper bound)	2.50	3.75	3.75	3.75	3.25	2.75
European Central Bank (refi rate)	0.50	1.25	1.25	1.25	1.25	1.25
European Central Bank (deposit rate)	0.00	1.00	1.00	1.00	1.00	1.00
Bank of England	1.75	2.75	2.75	2.25	2.00	2.00
Riksbank	0.75	2.00	2.25	2.25	2.00	2.00
Norges Bank	1.75	2.75	2.75	2.75	2.25	1.75
Government bond rates (%)						
Sweden 2y	1.82	2.40	2.30	2.20	2.10	2.10
Sweden 5y	1.89	2.05	1.95	1.85	1.85	1.85
Sweden 10y	1.61	1.90	1.70	1.60	1.60	1.60
Germany 2y	0.80	1.10	0.80	0.70	0.70	0.70
Germany 5y	1.02	1.20	1.00	0.80	0.80	0.80
Germany 10y	1.23	1.40	1.30	1.10	1.10	1.10
US 2y	3.32	3.50	3.25	2.90	2.60	2.50
US 5y	3.17	3.10	3.00	2.70	2.50	2.50
US 10y	3.03	3.00	2.80	2.60	2.50	2.50
Norway 2y	3.42	3.30	2.70	2.10	1.80	1.80
Norway 5y	3.21	3.20	2.70	2.20	2.00	2.00
Norway 10y	3.17	3.10	2.60	2.30	2.20	2.20
Exchange rates						
EUR/USD	1.00	0.95	1.00	1.05	1.05	1.05
EUR/GBP	0.85	0.83	0.82	0.84	0.86	0.86
EUR/SEK	10.64	10.50	10.30	10.20	10.10	10.10
EUR/NOK	9.77	10.10	9.80	9.70	9.60	9.60
USD/SEK	10.63	11.05	10.30	9.71	9.62	9.62
USD/CNY	6.85	6.80	6.85	6.90	6.90	6.90
USD/JPY	137.2	137.0	130.0	125.0	120.0	120.0
USD/RUB	61.6	62.0	65.0	70.0	70.0	70.0
NOK/SEK	1.08	1.04	1.05	1.05	1.05	1.05
KIX (Trade-weighted SEK)	122.5	122.4	119.0	116.4	115.2	115.2

Sources: Swedbank Research & Macrobond

SWEDEN: Key economic indicators, 2021-2024

Annual % change unless stated otherwise	2021	2022F		2023F		2024F
Real GDP (calendar-adjusted)	5.0	2.2	(2.8)	0.4	(2.3)	1.5
Real GDP	5.1	2.2	(2.8)	0.2	(2.1)	1.5
Household consumption	6.2	3.4	(3.4)	0.7	(1.5)	1.3
Government consumption	2.9	0.8	(2.4)	1.6	(1.7)	1.2
Gross fixed capital formation	6.2	-0.8	(3.1)	-1.8	(2.8)	1.4
Change in inventories, contr. to GDP growth	0.3	0.7	(0.2)	-0.4	(0.0)	0.0
Exports of goods and services	7.9	4.0	(3.3)	-0.5	(3.5)	3.4
Imports of goods and services	9.6	4.6	(4.5)	-1.3	(3.3)	3.1
CPI (average)	2.2	8.2	(5.1)	6.6	(3.5)	2.1
CPI (Dec.-Dec.)	3.9	11.0	(4.3)	2.9	(3.2)	1.7
CPIF (CPI with fixed mortgage rate, average)	2.4	7.6	(5.0)	4.8	(2.5)	1.6
CPIF (CPI with fixed mortgage rate, Dec.-Dec.)	4.1	8.9	(3.6)	2.1	(2.4)	1.4
CPIF ex. energy (average)	1.4	5.7	(4.1)	4.1	(3.2)	2.3
CPIF ex. energy (Dec.-Dec.)	1.7	7.3	(4.6)	2.5	(2.9)	2.2
Riksbank policy rate (Dec.)	0.00	2.00	(1.25)	2.25	(1.75)	2.00
Unemployment (% of labour force, 15-74)	8.8	7.6	(7.3)	7.7	(6.8)	7.6
Labour force (15-74)	1.2	1.4	(0.8)	0.4	(0.8)	0.6
Employment (15-74)	1.0	2.8	(2.4)	0.3	(1.4)	0.8
Number of hours worked (calendar-adjusted)	2.3	2.0	(2.7)	0.7	(2.3)	0.6
Nominal hourly wage (NMO), whole economy	2.6	2.8	(2.7)	3.6	(3.1)	3.7
Household real disposable income	3.2	-1.0	(-0.9)	-1.8	(1.0)	2.1
Household nominal disposable income	5.1	6.2	(4.3)	3.5	(3.8)	3.6
Household savings ratio, % of disposable income	15.4	10.7	(13.2)	9.2	(12.8)	9.9
General government budget balance (% of GDP)	-0.3	0.4	(-0.4)	0.0	(0.0)	-0.5
General government debt (Maastricht), % of GDP	36.2	31.7	(34.2)	31.1	(31.4)	31.4

Previous forecast in parentheses
Source: Statistics Sweden & Swedbank Research

ESTONIA: Key economic indicators, 2021-2024

Annual % change unless stated otherwise	2021	2022F		2023F		2024F
Real GDP	8.0	1.7	(1.5)	0.5	(2.0)	2.5
Household consumption	6.4	3.0	(2.0)	1.0	(2.0)	2.5
Government consumption	4.0	2.0	(3.0)	1.5	(2.5)	1.5
Gross fixed capital formation	2.8	-15.0	(-11.0)	5.0	(5.0)	8.0
Exports of goods and services	19.9	4.0	(4.5)	0.5	(3.0)	4.0
Imports of goods and services	21.0	0.5	(0.4)	1.0	(4.0)	5.0
CPI (average)	4.6	18.5	(10.0)	7.1	(4.5)	2.0
Unemployment (% of labour force)	6.2	6.0	(5.6)	6.8	(5.4)	5.8
Employment	-0.5	3.2	(0.3)	-1.1	(0.6)	0.3
Gross monthly wage	6.9	10.0	(6.5)	7.5	(6.0)	6.7
Nominal GDP, billion euro	31.4	37.0	(34.1)	39.4	(36.3)	41.4
Exports of goods and services (nominal)	29.4	23.8	(14.9)	6.6	(9.2)	7.1
Imports of goods and services (nominal)	30.2	20.6	(10.4)	8.0	(10.2)	8.2
Balance of goods and services, % of GDP	0.2	2.3	(3.6)	1.2	(2.8)	0.4
Current account balance, % of GDP	-1.6	0.7	(2.2)	-0.3	(1.5)	-1.2
Current and capital account balance, % of GDP	7.3	6.8	(10.7)	5.5	(9.6)	4.5
FDI inflow, % of GDP	19.0	3.3	(3.3)	3.3	(3.3)	3.3
General government budget balance, % of GDP	-2.3	-2.2	(-2.7)	-2.5	(-3.0)	-1.9
General government debt (Maastricht), % of GDP	17.6	19.8	(20.8)	22.3	(23.8)	22.2

Previous forecast in parentheses
Sources: Statistics Estonia & Swedbank Research

LATVIA: Key economic indicators, 2021-2024

Annual % change unless stated otherwise	2021	2022F		2023F		2024F
Real GDP	4.5	2.4	(1.4)	0.4	(2.6)	3.5
Household consumption	4.8	7.0	(2.5)	0.3	(4.0)	5.0
Government consumption	4.4	2.5	(3.0)	2.0	(1.8)	2.3
Gross fixed capital formation	2.9	1.5	(3.0)	6.0	(7.0)	8.0
Exports of goods and services	6.2	6.5	(2.5)	1.0	(3.0)	4.5
Imports of goods and services	13.5	9.3	(1.8)	2.7	(5.0)	6.0
CPI (average)	3.3	17.5	(10.0)	7.5	(3.5)	2.0
Unemployment (% of labour force)	7.6	7.0	(7.5)	7.1	(6.7)	6.3
Employment	-3.2	1.5	(0.7)	0.2	(1.7)	1.1
Gross monthly wage	11.7	8.0	(8.0)	7.5	(8.0)	7.0
Nominal GDP, billion euro	32.9	38.2	(36.5)	41.1	(38.7)	44.3
Exports of goods and services (nominal)	18.3	24.1	(12.8)	5.0	(5.1)	4.5
Imports of goods and services (nominal)	24.5	29.0	(12.0)	5.6	(7.1)	3.9
Balance of goods and services, % of GDP	-2.1	-5.0	(-1.6)	-5.3	(-2.9)	-4.7
Current account balance, % of GDP	-2.9	-5.5	(-1.1)	-5.0	(-2.1)	-4.0
Current and capital account balance, % of GDP	-1.4	-4.3	(0.5)	-3.3	(-0.3)	-2.5
FDI inflow, % of GDP	13.7	2.7	(3.0)	2.7	(3.0)	2.7
General government budget balance, % of GDP	-7.3	-4.9	(-5.0)	-2.4	(-1.7)	-1.6
General government debt (Maastricht), % of GDP	44.8	44.7	(45.3)	43.4	(44.9)	41.4

Previous forecast in parentheses
Sources: Statistics Latvia & Swedbank Research

LITHUANIA: Key economic indicators, 2021-2024

Annual % change unless stated otherwise	2021	2022F		2023F		2024F
Real GDP	5.0	2.0	(1.7)	0.0	(2.5)	2.5
Household consumption	7.4	1.0	(1.0)	1.5	(4.0)	3.8
Government consumption	0.5	1.5	(1.0)	1.0	(1.0)	1.0
Gross fixed capital formation	7.0	7.2	(8.2)	4.5	(8.5)	6.0
Exports of goods and services	15.9	8.0	(2.8)	0.0	(4.0)	4.0
Imports of goods and services	18.7	10.5	(4.0)	1.0	(5.9)	5.3
CPI (average)	4.6	17.8	(10.7)	6.0	(2.9)	2.5
Unemployment (% of labour force)	7.1	5.7	(6.7)	6.6	(6.3)	5.9
Employment	0.3	0.9	(0.7)	0.3	(0.6)	0.7
Gross monthly wage	10.5	10.7	(8.4)	7.5	(6.5)	5.7
Nominal GDP, billion euro	55.4	65.5	(61.6)	69.5	(64.7)	73.0
Exports of goods and services (nominal)	22.3	16.5	(12.5)	2.5	(2.5)	4.5
Imports of goods and services (nominal)	32.7	26.5	(14.5)	3.2	(3.2)	2.0
Balance of goods and services, % of GDP	4.2	-2.3	(2.9)	-2.8	(2.3)	-0.9
Current account balance, % of GDP	1.4	-6.4	(1.8)	-4.2	(1.1)	-2.1
Current and capital account balance, % of GDP	2.9	-5.2	(3.3)	-2.9	(2.7)	-0.7
FDI inflow, % of GDP	2.9	5.0	(3.0)	2.5	(2.5)	2.5
General government budget balance, % of GDP	-1.1	-3.2	(-3.1)	-2.5	(-1.9)	-1.2
General government debt (Maastricht), % of GDP	44.2	40.7	(42.3)	40.8	(42.2)	40.1

Previous forecast in parentheses
Sources: Statistics Lithuania & Swedbank Research

NORWAY (Mainland): Key economic indicators, 2021-2024

Annual % change unless stated otherwise	2021	2022F		2023F		2024F
Real GDP	4.2	3.2	(3.2)	1.0	(1.6)	1.4
Household consumption	4.7	6.1	(5.1)	0.5	(4.2)	1.9
Government consumption	3.8	1.6	(2.1)	1.5	(1.5)	1.0
Gross fixed capital formation	-0.9	1.4	(0.9)	2.5	(3.6)	2.0
Exports of goods and services	5.2	4.0	(3.5)	1.5	(1.4)	1.0
Imports of goods and services	1.9	7.5	(3.3)	1.5	(6.3)	1.0
CPI (average)	3.5	5.1	(3.9)	3.1	(1.8)	1.9
CPI-ATE (average)	1.7	3.8	(2.7)	2.9	(2.3)	2.1
Unemployment (% of labour force, registered)	3.1	1.8	(1.9)	2.2	(2.1)	2.1
Employment (15-74)	1.2	2.7	(2.4)	0.2	(0.6)	0.4
Employment rate (15-74)	69.0	70.5	(70.2)	70.0	(70.5)	70.0
Nominal hourly wage, whole economy	3.5	4.1	(4.1)	3.5	(3.3)	3.0
General government budget balance, % of GDP	-3.0	0.3	(0.3)	1.0	(1.0)	1.0
General government debt (Maastricht), % of GDP	42.0	40.0	(40.0)	40.0	(40.0)	40.0

Previous forecast in parentheses
Source: Statistics Norway & Swedbank Research

DENMARK: Key economic indicators, 2021-2024

Annual % change unless stated otherwise	2021	2022F		2023F		2024F
Real GDP	4.9	3.2	(2.4)	-0.9	(2.0)	0.7
Household consumption	4.1	1.5	(2.3)	0.4	(2.4)	0.8
Government consumption	4.2	-0.2	(0.8)	0.9	(0.8)	1.0
Gross fixed capital formation	6.2	5.6	(0.5)	-7.2	(3.3)	-2.2
Exports of goods and services	8.0	3.5	(5.4)	4.0	(3.1)	2.9
Imports of goods and services	8.0	4.4	(5.3)	4.0	(3.7)	2.3
CPI (average)	1.9	7.2	(4.8)	4.0	(2.0)	2.0
Unemployment (% of labour force, 15-74)	5.2	4.6	(4.9)	5.1	(4.8)	5.1
Employment (15-74)	2.4	2.0	(1.5)	0.0	(0.4)	0.5
Employment rate (15-74)	66.5	67.3	(67.3)	66.8	(67.5)	66.8
Nominal hourly wage, private sector	3.0	3.8	(n/a)	3.8	(n/a)	3.5
General government budget balance, % of GDP	2.6	0.5	(0.5)	0.5	(0.5)	0.5
General government debt (Maastricht), % of GDP	36.6	33.0	(35.3)	32.5	(35.3)	32.5

Previous forecast in parentheses
Source: Statistics Denmark & Swedbank Research

FINLAND: Key economic indicators, 2021-2024

Annual % change unless stated otherwise	2021	2022F		2023F		2024F
Real GDP	3.0	1.8	(1.8)	0.5	(1.3)	1.5
Household consumption	3.6	1.7	(2.9)	0.5	(1.3)	1.2
Government consumption	2.7	1.8	(0.2)	0.0	(0.6)	0.5
Gross fixed capital formation	1.1	3.5	(1.8)	1.5	(2.4)	2.0
Exports of goods and services	5.6	1.5	(4.1)	2.0	(2.5)	3.5
Imports of goods and services	5.6	3.0	(3.1)	1.5	(2.3)	2.0
CPI (average)	2.2	6.7	(4.5)	3.0	(2.2)	2.0
Unemployment (% of labour force, 15-74)	7.7	6.6	(7.2)	6.7	(6.9)	6.5
Employment (15-74)	2.4	2.4	(0.6)	0.2	(0.6)	0.6
Employment rate (15-74)	62.2	63.5	(62.1)	63.6	(62.8)	64.0
Nominal hourly wage, whole economy	2.3	2.8	(2.5)	2.9	(2.3)	2.5
General government budget balance, % of GDP	-2.6	-2.1	(-2.8)	-1.9	(-2.0)	-1.6
General government debt (Maastricht), % of GDP	65.8	65.0	(68.5)	66.0	(67.8)	66.5

Previous forecast in parentheses
Source: Statistics Finland & Swedbank Research

IMPORTANT INFORMATION

This report (the "Report") has been compiled by analyst(s) at Swedbank Macro Research, a unit within Swedbank Research that is part of Large Corporates & Institutions ("Swedbank Macro Research"). Swedbank Macro Research is responsible for preparing reports on economic developments in the global and domestic markets. Swedbank Macro Research consists of research departments in Sweden, Norway, Finland, Estonia, Latvia, and Lithuania.

What our research is based on

Swedbank Macro Research bases its research on a variety of aspects and analysis, for example, a fundamental assessment of the cyclical and structural economic, current or expected market sentiment, expected or actual changes in credit rating, and internal or external circumstances affecting the pricing of selected FX and fixed-income instruments.

Recommendation structure

Recommendations in FX and fixed-income instruments are done both in the cash market and in derivatives. Recommendations can be expressed in absolute terms, for example attractive price, yield, or volatility levels. They can also be expressed in relative terms, for example, long positions versus short positions. Regarding the cash market, our recommendations include an entry level, and our recommendation updates include profit and often, but not necessarily, exit levels. Regarding recommendations in derivative instruments, our recommendations include suggested entry cost, strike level, and maturity. In FX, we will only use options as directional bets and volatility bets with the restriction that we will not sell options on a net basis, i.e., we will only recommend positions that have a fixed maximum loss.

Analyst's certification

The analyst(s) responsible for the content of this report hereby confirm that notwithstanding the existence of any such potential conflicts of interest referred to below, the views expressed in this Report accurately reflect their personal views about the financial instruments and/or capital markets covered. The analyst(s) further confirm not to have been, nor are or will be, receiving direct or indirect compensation in exchange for expressing any of the views or the specific recommendation contained in the report.

Distribution & recipients

This Report is distributed by Swedbank Macro Research within Swedbank AB (publ) ("Swedbank"). Swedbank is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). In no instance is this Report altered by the distributor before distribution.

In Finland this Report is distributed by Swedbank's branch in Helsinki, which is under the supervision of the Finnish Financial Supervisory Authority (Finanssivalvonta).

In Norway this Report is distributed by Swedbank's branch in Oslo, which is under the supervision of the Financial Supervisory Authority of Norway (Finanstilsynet).

In Estonia this Report is distributed by Swedbank AS, which is under the supervision of the Estonian Financial Supervisory Authority (Finantsinspektsioon).

In Lithuania this Report is distributed by "Swedbank" AB, which is under the supervision of the Central Bank of the Republic of Lithuania (Lietuvos bankas).

In Latvia this Report is distributed by Swedbank AS, which is under the supervision of The Financial and Capital Market Commission (Finanšu un kapitala tirgus komisija).

If you are not a client of ours, you are not entitled to this research report.

This Report is not intended for physical or legal persons who are citizens of, or have domicile in, a country in which dissemination is not permitted according to applicable legislation or other decisions.

This Report or any information in it is not for release, publication, or distribution, directly or indirectly, in or into the United States or any other jurisdiction in which such distribution would be unlawful or would require registration or other measures.

In the United Kingdom this Report is addressed to and directed only at, and should only be relied upon by, persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order or are persons to whom it may otherwise be lawful to communicate the Report to (all such persons being referred to as (Relevant Persons"). No other person should act or rely on this Report and persons distributing this Report must satisfy themselves that it is lawful.

Limitation of liability

All information, including statements of fact, contained in this Report has been obtained and compiled in good faith from sources believed to be reliable. However, no representation or warranty, express or implied, is made by Swedbank with respect to the completeness or accuracy of its content, and this Report is not to be relied upon as authoritative and should not be taken in substitution for the exercise of a reasoned, independent judgment by you.

Be aware that investments in capital markets, such as those described in this Report, carry economic risks and that statements regarding future assessments comprise an element of uncertainty. You are responsible for such risks alone and Swedbank recommend that you supplement your decision-making with material which is assessed to be necessary, including (but not limited to) knowledge of the financial instruments in question and the prevailing requirements as regards trading in financial instruments.

Opinions contained in this Report represent the analyst's present opinion only and may be subject to change. In the event that the analyst's opinion should change or a new analyst with a different opinion becomes responsible for Swedbank Macro Research's coverage, Swedbank will endeavour (but does not undertake) to disseminate any such change, within the constraints of any regulations, applicable laws, internal procedures within Swedbank or other circumstances.

If you are in doubt as to the meaning of the recommendation structure used by Swedbank Macro Research in its research, please refer to "Recommendation structure."

Swedbank is not advising or soliciting any action based upon this report. This report is not, and should not be construed as, an offer to sell or as a solicitation of an offer to buy any securities.

To the extent permitted by applicable law, no liability whatsoever is accepted by Swedbank for any direct or consequential loss arising from the use of this report.

Conflicts of interest

In Swedbank Macro Research, internal guidelines are implemented in order to ensure the integrity and independence of the research analysts. For example:

- Research reports are independent and based solely on publicly available information.
- The analysts are not permitted, in general, to have any holdings or any positions (long or short, direct or via derivatives) in such financial instruments that they recommend in their investment analysis.
- The remuneration of staff within the Swedbank Macro Research department may include discretionary awards based on the Swedbank's total earnings, which include investment banking income. However, no such staff shall receive remuneration based upon specific investment banking transactions.

Planned updates

An investment recommendation is normally updated twice a month. This material may not be reproduced without permission from Swedbank Research.

Producer

Produced by Swedbank Macro Research.

Swedbank LC&I, Swedbank AB (publ), SE-105 34 Stockholm.

Visiting address: Malmskillnadsgatan 23, 111 57 Stockholm.

Swedbank