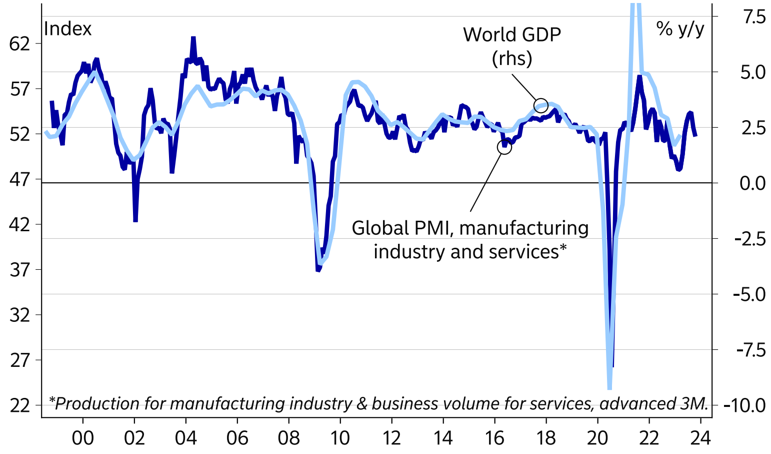
A quiet summer

A summary of economic events in Sweden and the rest of the world

Nordea Macroeconomic Research
7 August 2023

Summary: A quiet summer

- Financial markets have recorded **small net movements** compared to the start of July, despite ample FX volatility. The risk appetite has eased in August due to rising US yields.
- Economic data has come in **better than expected in the US**, with the combination of a downside surprise in inflation and stronger Q2 GDP growth raising the probability of a "**soft landing**". The euro area is stagnating while **Swedish GDP contracted** by 1.5% in Q2. **China**'s economy is underperforming.
- Economic indicators suggest that the global manufacturing industry is in a recession. Most manufacturing PMIs are stuck in contractionary territory, with **especially worrying signals from Germany**. Services PMIs bounced back.
- The **Fed and ECB** raised their policy rates by 25bp each to 5.50% and 3.75%, respectively in July. We expect one more rate hike from the Fed while we think that the ECB is done hiking rates, though risks are tilted towards one further hike in the autumn.



Source: Macrobond, Nordea, World Bank & Markit

- The **Riksbank** raised the policy rate to 3.75% in June and signalled a high probability of **one more rate hike** to 4.00% in September. We expect the bank to hike in September but stay on hold for the remainder of the year, before cutting the rate to 3.00% in 2024.
- **Swedish inflation** came out higher than the Riksbank's forecast in June, and high services inflation is a headache for the bank. We expect an unchanged CPIF at 6.4% in July.

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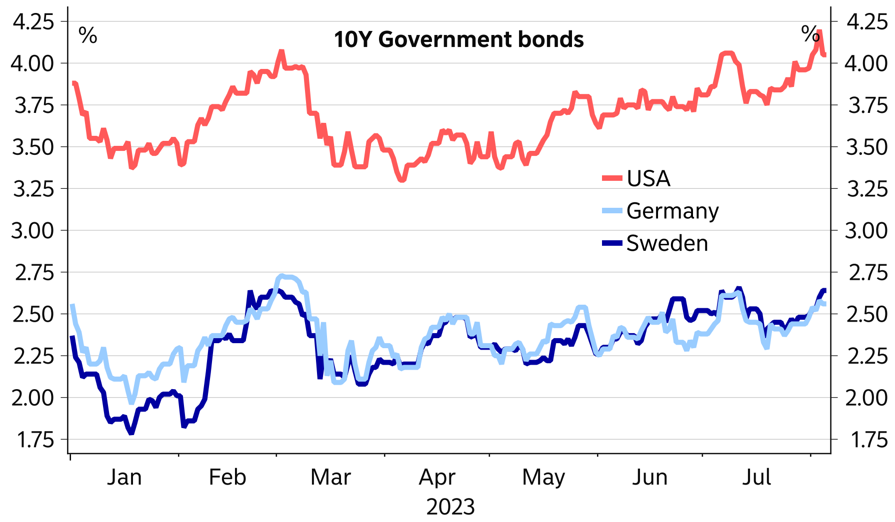
- Macro & Markets: Welcome back

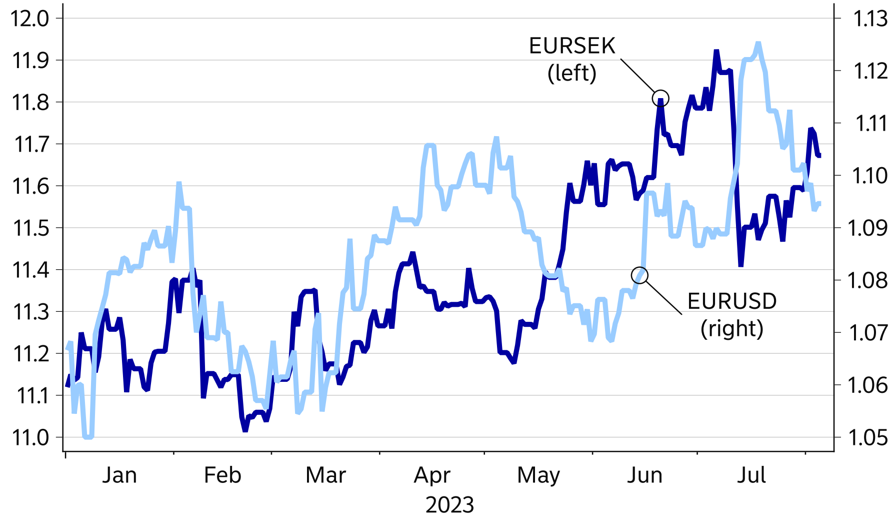
Financial Markets

Small net movements, but higher US rates

- Financial markets started off July on a **bad mood** with rising market rates, a record-weak SEK and falling stock markets.
- The lower-than-expected US inflation print on July 12th **reversed the trend**, providing fuel for a stronger SEK, lower market rates and rising equity markets.
- Since then, 10 year **government bond rates** have risen sharply in the US while they are trending sideways in Europe.
- On the **FX market**, EURUSD has been volatile but is currently close to unchanged compared to the beginning of July. The **SEK rallied** in the middle of July, but has started August on a weaker footing.
- Many **equity markets** are trading close to their all-time highs but have declined in the beginning of August. Since the start of July, the S&P500 is up 0.6% while DAX and OMXS30 have lost 3.0% and 4.3%, respectively.



Source: Macrobond and Nordea

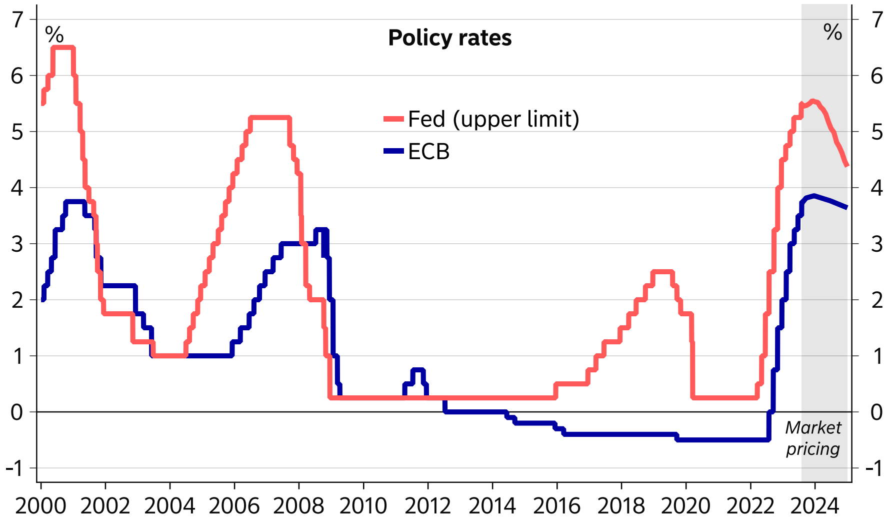


Source: Macrobond and Nordea

Read more:
- FOMC Review: Data dependent
- ECB Watch: The peak is here or at least near

Global central banks
Highest policy rates since 2001, BoJ surprise

- The **Fed** hiked the Fed funds target range by 25bp to 5.25-5.50% in July. Further rate hikes will be data dependent and could come as soon as September.
- The **ECB** hiked the deposit rate by 25bp to 3.75% in July. They left open the possibility of not raising rates further. We think that this was the last rate hike in this cycle.
- **Markets** are pricing in a 67% chance that the Fed has finished its rate hike cycle, while they see a 2/3 probability of one final move from the ECB before the end of the year.
- The **Bank of Japan** effectively widened its tolerance interval for the 10-year yield to +-1% (previously 0.5%). The move is regarded by many as the beginning of the end of Japan's ultra-accommodative monetary policy.
- **Bank of England** raised the Bank Rate by 25bp to 5.25% in August. The **Reserve Bank of Australia** left the policy rate unchanged for a second straight meeting.



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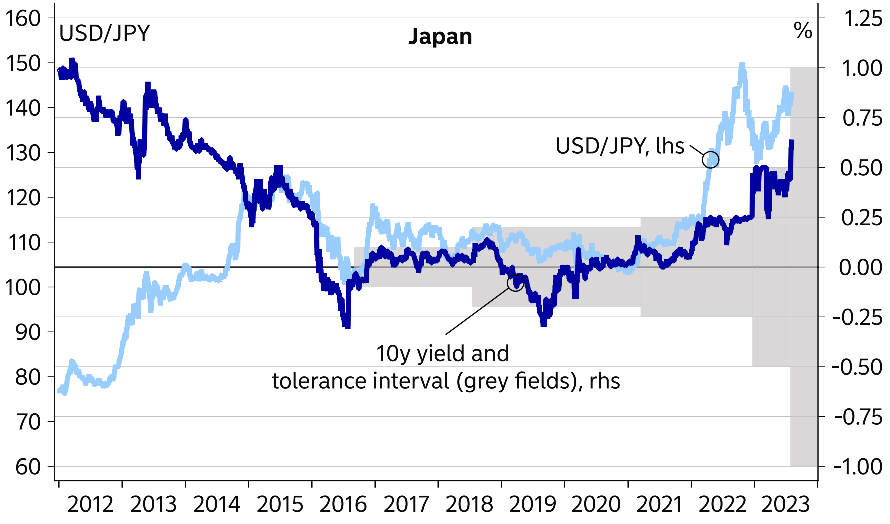
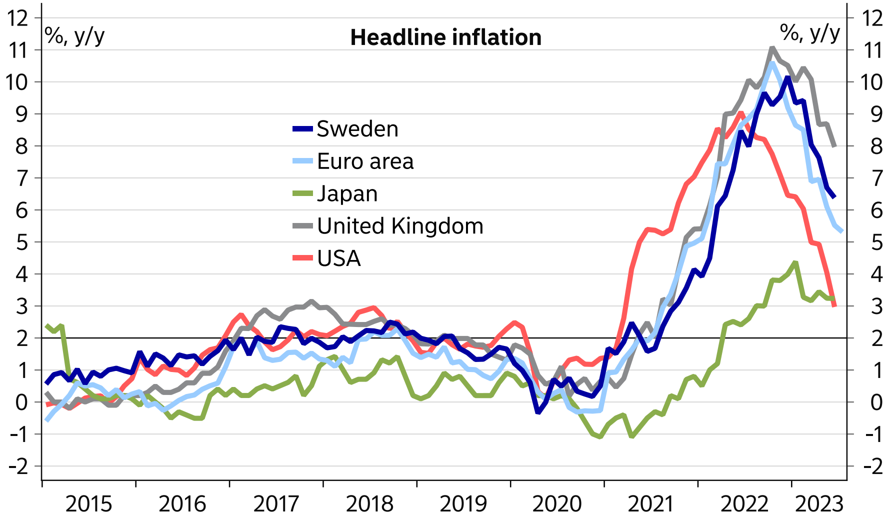


Source: Macrobond and Nordea

Read more:
- Euro-area flash inflation: Higher service inflation

Global key figures
Lukewarm

- **Euro area GDP** bounced back to 0.3% q/q in Q2, compared to -0.1% in Q1. The outcome was a tad stronger than expected.
- In the **US, GDP** surprised on the upside, posting 2.4% annualized growth in Q2. The labour market remains tight, as employment increased by 187k in July (200k expected).
- **US inflation** came in lower than expectations at 3.0% y/y (exp: 3.1%) in June. Core inflation fell to 4.8% (exp: 5.0%).
- In the **Euro area**, **HICP inflation** fell in line with expectations to 5.3% y/y while core inflation was sideways at 5.5% y/y. Service inflation increased to 5.6% y/y in July from 5.4% y/y in June.
- **Manufacturing PMI** fell sharply in Germany and the Euro area to levels suggesting a rapid downturn in activity. The ISM index edged higher in the USA but remains in contractionary territory.
- **China** is slowing down, see next page.



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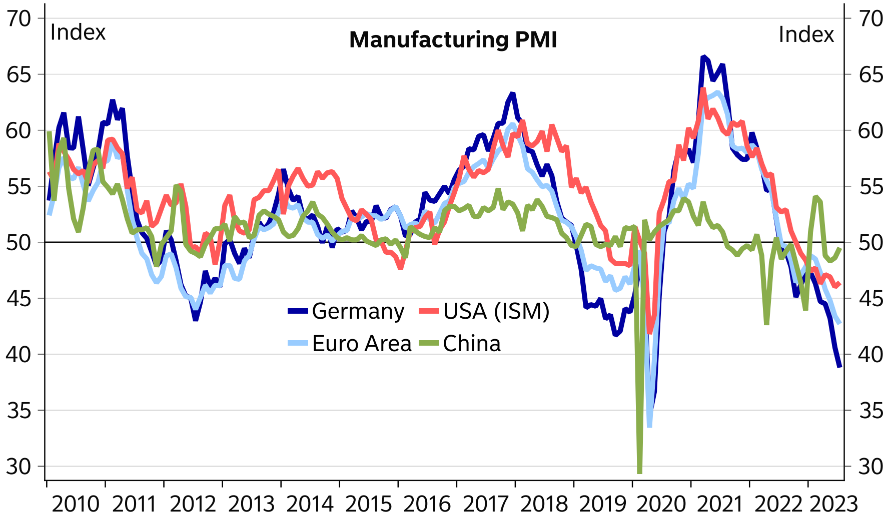

Source: Macrobond and Nordea

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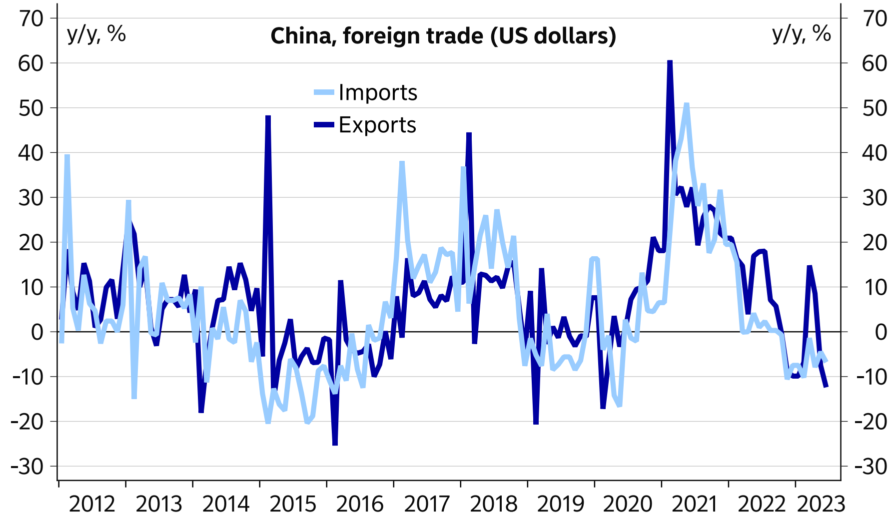
- China: Challenges ahead!

China
Losing momentum

- **China**'s post-COVID rebound is losing steam. GDP grew by 0.8% q/q in Q2, compared to 2.2% q/q in Q1.
- **Weak external demand** is weighing on economic activity. In dollar terms, exports declined by 12% y/y in May.
- **Domestic demand** is faltering as well. Consumer confidence is on the decline again and retail sales are slowing down. Youth unemployment has surged to 21.3%.
- The **real estate market** remains under pressure. New home sales have fallen to a decade-low. Residential construction is down 50% from 2019 levels.
- **PMIs** suggest that the economic slowdown continued in July, with the services index declining to 51.5 from 53.2 while manufacturing activity remained gloomy at 49.3.
- The **Peoples' Bank of China** left its policy rates on hold in July after the cut in June but opened for further easing.
- Pan Gongsheng has been appointed new PBoC governor.

Source: Macrobond and Nordea



Source: Macrobond and Nordea

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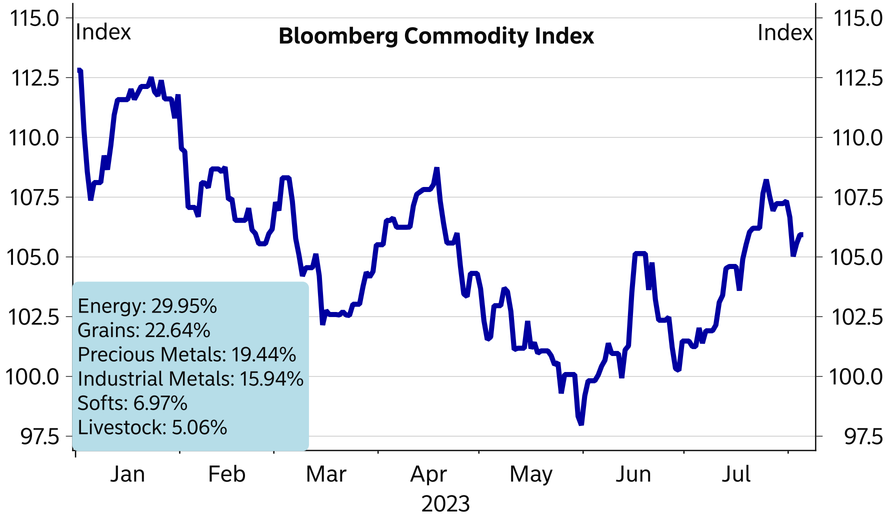
Commodities

Oil surge

- The Bloomberg commodity index rose 6% in July.
- **Oil prices** have risen some 10 USD/barrel since the end of June, mainly driven by OPEC+ output cuts. **Metal prices** rose in July.
- Swedish **electricity prices** fell to the lowest level since May 2021, trading at an average of SEK 0.38/kWh in July.
- European **natural gas** storages are well-filled and electricity futures indicate relatively low prices in the coming year.
- The onset of **El Niño** was officially confirmed in July, marking increased risks of drought and extreme weather across the globe in 2023-24.
- Russia halted the **grains export deal** with Ukraine on July 17th , exacerbating risks to global food supply with possible price increases as a consequence. Food price movements have nonetheless been contained so far.



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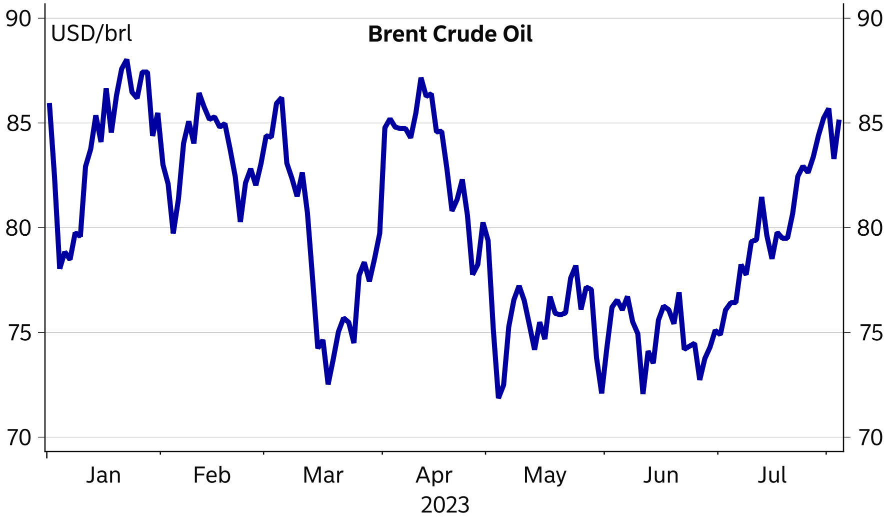

Source: Macrobond and Nordea

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Other world events

- China announced that it will impose **export controls** on the two minerals gallium and germanium, which are crucial for the production of e.g. semiconductors and electric cars. The move is seen as **retaliation** for several western countries curbing exports of semiconductors to China.
- Fitch **downgraded its US credit rating** from ‘AAA’ to ‘AA+’, referring to an “*erosion of governance*” which has “*manifested in repeated debt limit standoffs and last-minute resolutions*”.
- The centre-right Popular Party won the most seats in the **Spanish general election**, but fell short of securing a majority. They are not expected to shore up enough support to form a government and the most likely outcome seems to be another election.
- July was the hottest month ever recorded globally and likely also the **hottest in 120,000 years**, according to Reuters.
- The Organisation of Islamic Cooperation, consisting of 57 states, **condemned Sweden and Denmark** after new Quran burnings over the summer.

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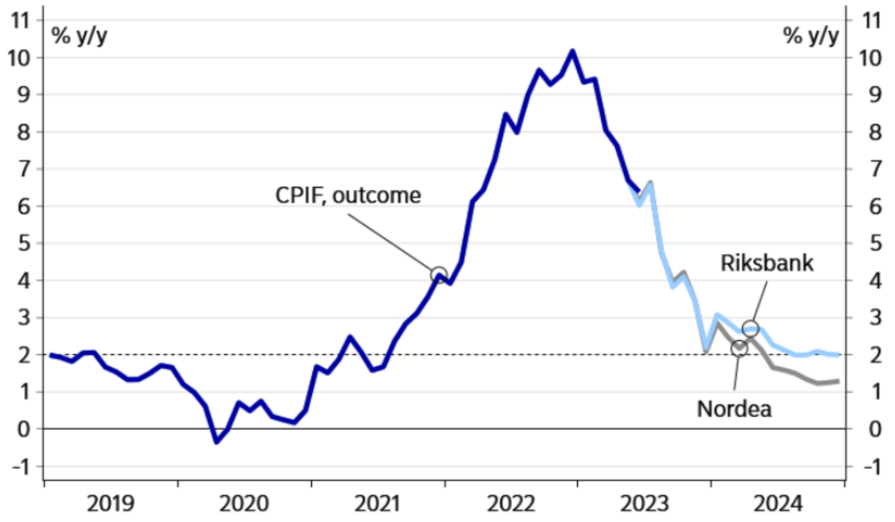
- Swedish June inflation review: High services inflation

Inflation
Stubborn services inflation

- **CPIF** was 6.4% y/y in June, 0.4% point above the Riksbank's forecast.
- **CPIF ex energy** stood at 8.1% in June, 0.3% point higher than the bank's view.
- **Services inflation** was the main surprise on the upside, which is a concern for the Riksbank.
- **Food** prices were higher than expected too, while prices for **other goods** came out lower than forecast.
- Inflation **indicators** have softened. For example, companies' inflation expectations dropped in Q2.
- Inflation figures for **July** are due out Tuesday 15 August. Nordea expects CPIF at 6.4% y/y and CPIF ex energy at 7.9% y/y, roughly in line with the Riksbank's view (6.6% and 7.9%, respectively).



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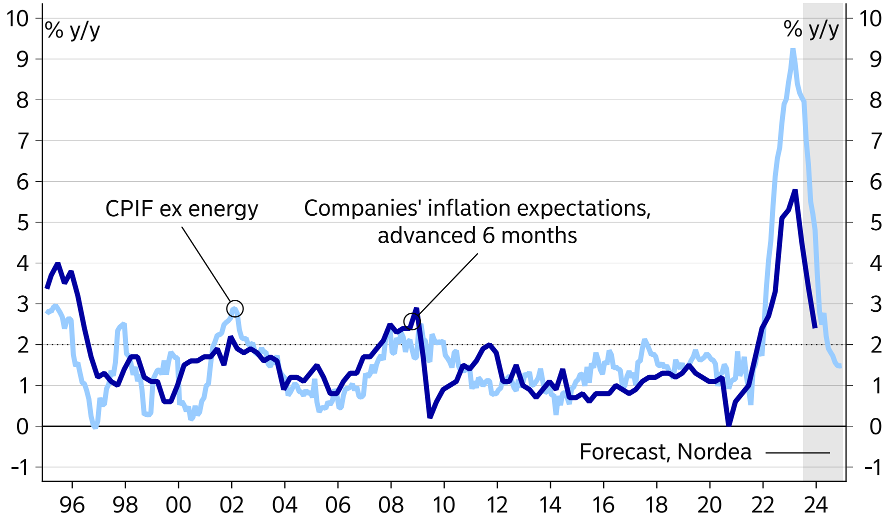
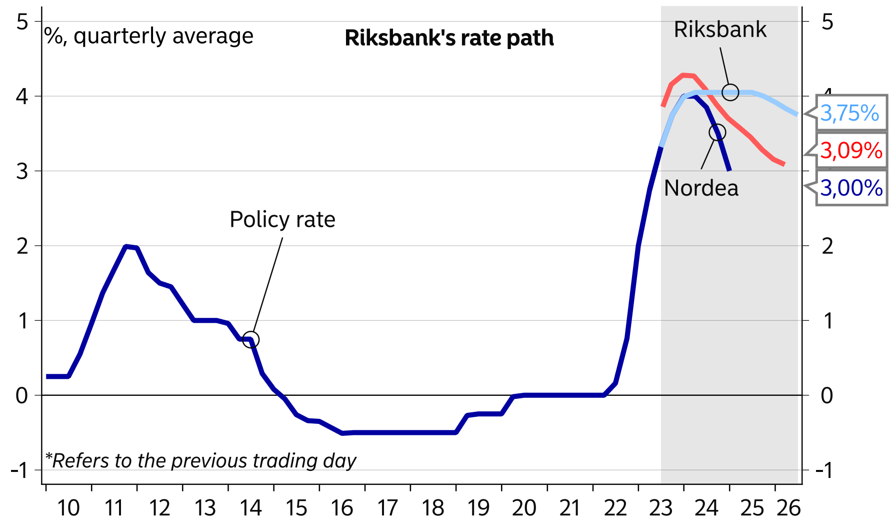


Source: Nordea Markets, SCB, NIER and Macrobond

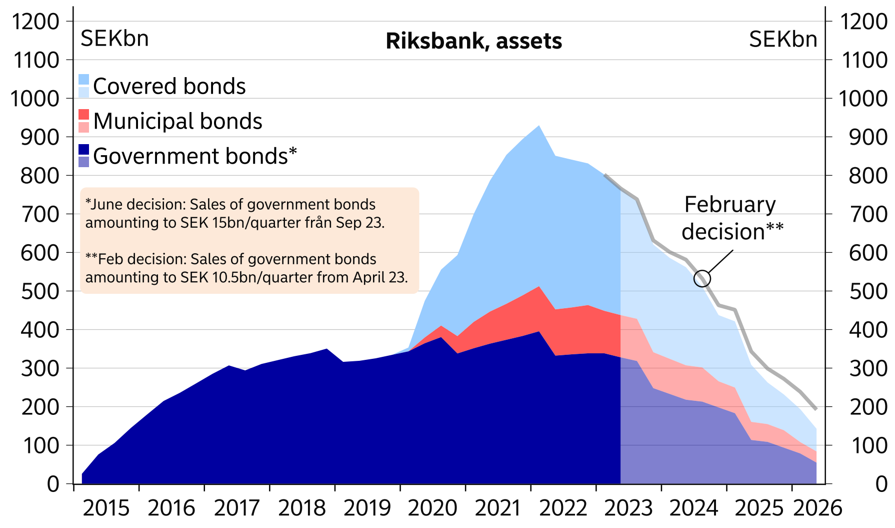
Read more:
- Riksbank review: More to come
- Riksbank minutes: Pressured by core inflation

The Riksbank
Not done yet

- **The Riksbank raised its policy rate** as expected by 25bp to 3.75%, at its monetary policy meeting on June 29.
- The **rate path** was revised upwards to peak at 4.05% in Q1 2024 (prior 3.65% in Q4 2023). The path indicates a strong probability of a rate hike by 25bp in September. They left the door open for one more hike in November.
- The Riksbank will also **increase the pace of the reduction of its balance sheet**. The bank will sell nominal and real government bonds to a total nominal value of SEK 5 (prior 3.5) billion per month, starting in September.
- **The minutes** of the meeting was more hawkish than the message from the policy rate announcement. The **weak SEK** and **high services inflation** is a concern for the bank. All members of the Board said that the policy rate could be hiked by more than indicated in the rate path.



Source: Nordea Markets och Macrobond

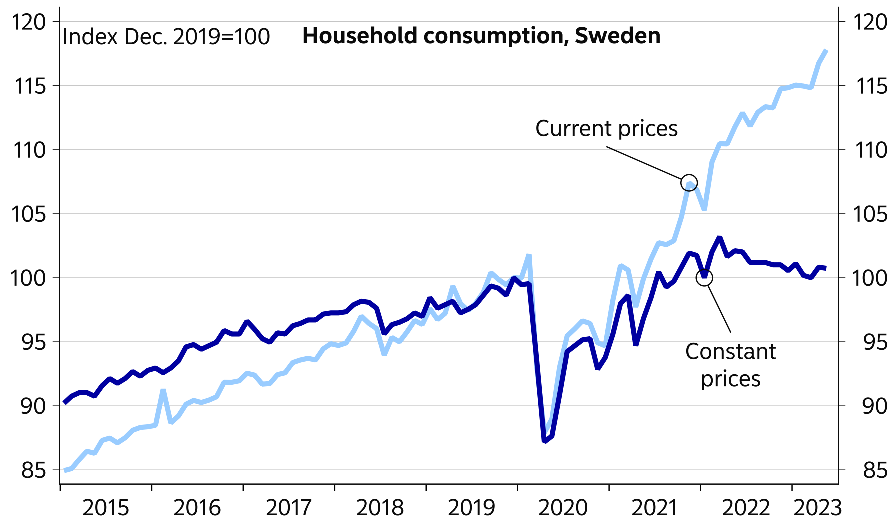


Source: Macrobond and Nordea

Households

Sprawling resilience

- **Household consumption** was close to unchanged on the month in May, in constant prices. In nominal terms, consumption saw a remarkable upsurge.
- **Retail sales** fell by 0.3% on the month in June (constant prices).
- The average **mortgage rate** for new agreements rose to 4.34% in June – the highest level since 2008.



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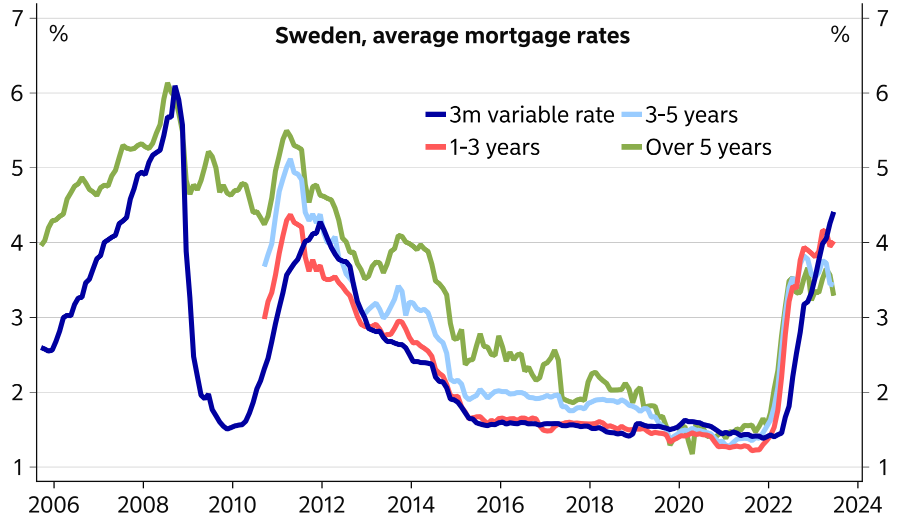

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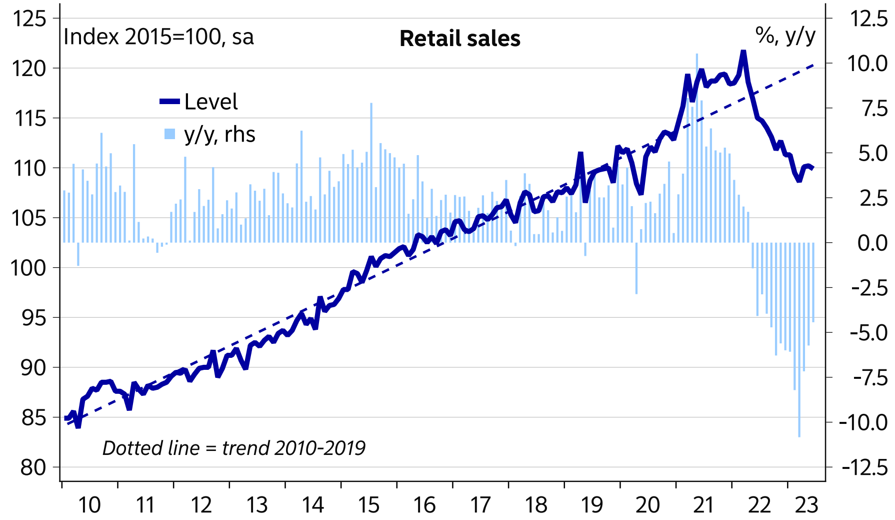
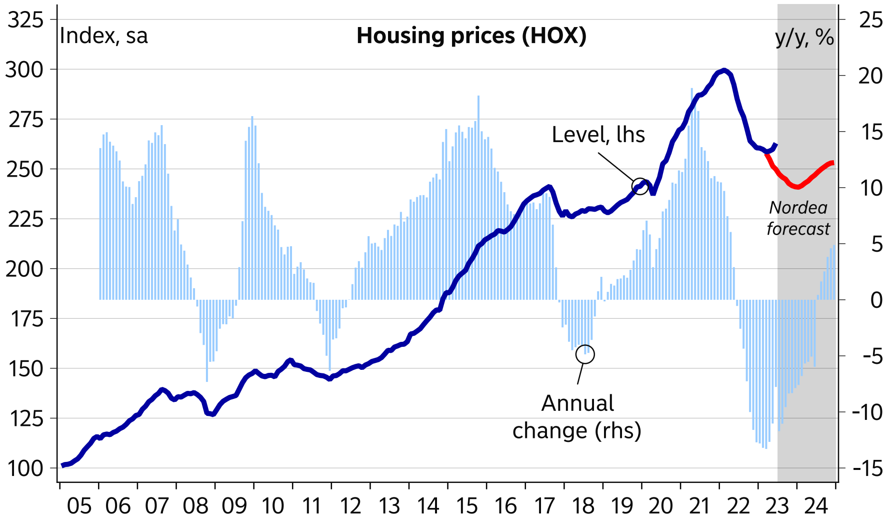


Source: Macrobond and Nordea

Housing market

Uptick

- Housing prices have fared much better than expected this year. In July, **prices rose** 1.2% m/m*, according to HOX Valueguard. Compared to one year ago, prices are down 12.3%.
- Despite the rebound, the housing market is **not out of the woods yet**. Supply of both apartments and houses are close to record-highs while transactions have fallen to 2014 levels.
- We expect housing demand to remain low as living expenses continue to increase this year. Coupled with a large latent housing supply, we expect further **downward pressure** for home prices looking forward.



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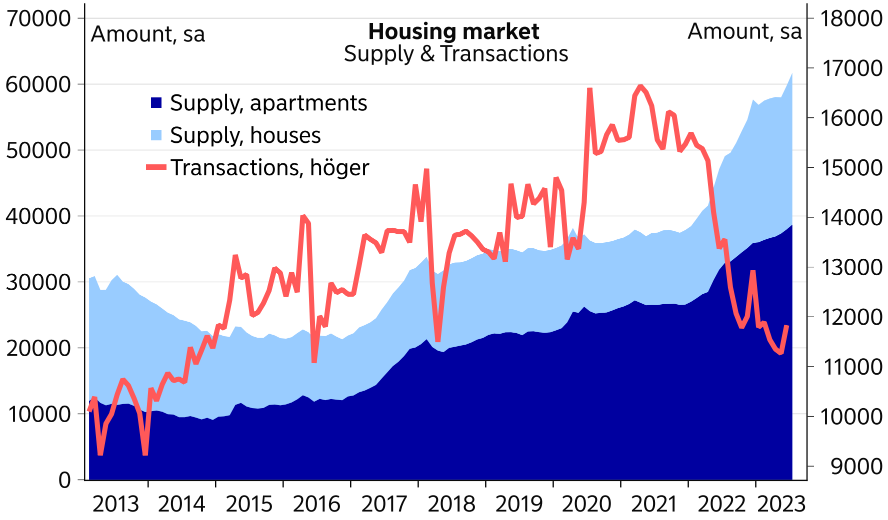

Source: Nordea Markets, Svensk Mäklarstatistik, Booli Pro and Macrobond

** Seasonally adjusted by Nordea*

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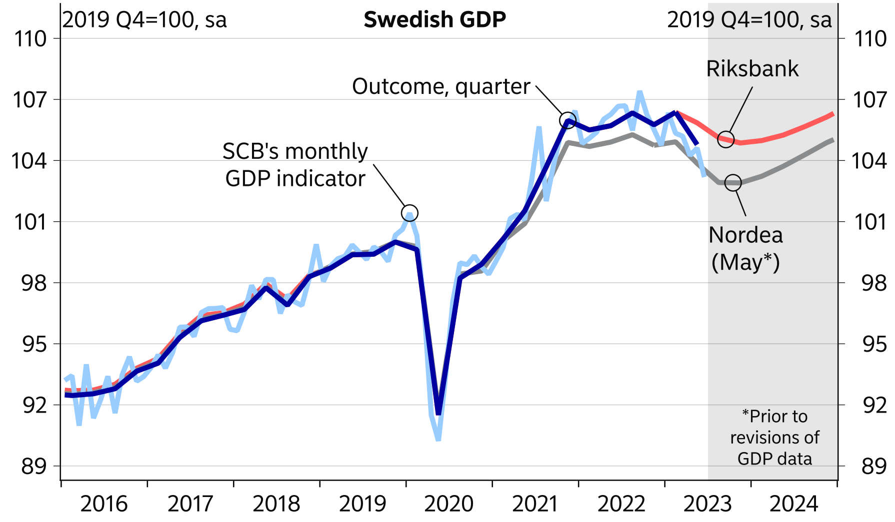
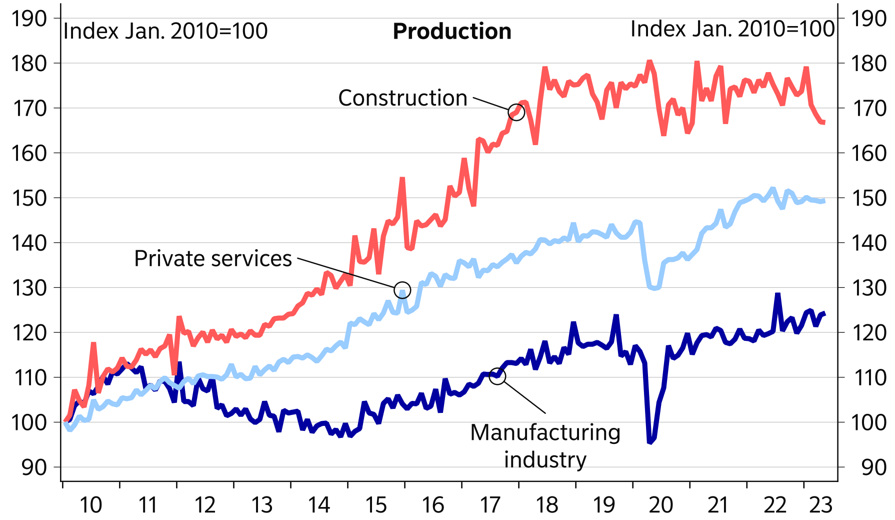
Read more:
- Swedish Q2 flash GDP: Ouch

GDP
Weaker than expected

- The flash for **Q2 GDP** came out at -1.5% q/q and -2.4% y/y. The Riksbank's forecast was -0.5% q/q.
- There are no details with the flash GDP, but Statistics Sweden states in the press release that it was a broad-based downturn in Q2, including falling **exports of goods**.
- The **monthly GDP indicator** for June came out weak at -1.4% m/m and -3.6% y/y.
- Production was largely sideways in **manufacturing industry** and **private services** in May, while there was a downturn in the **construction** sector.



Sources: Macrobond, Nordea, SCB & Riksbank



Source: Nordea Markets and Macrobond

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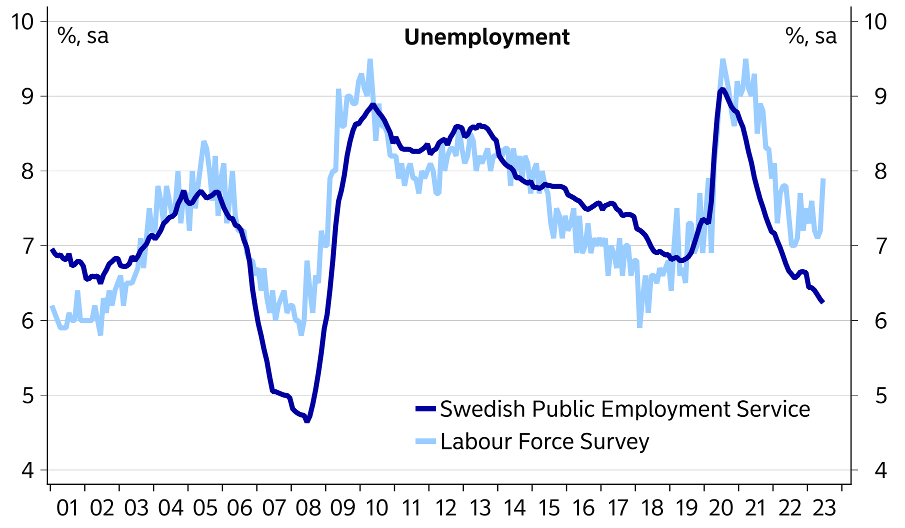
Labour market

Continued resilience, but softer indicators

- Employment **increased by 0.4% q/q** in Q2 and the employment rate reached a new all-time high.
- The **uptick in unemployment** in June according to the Labour Force Survey is due to a jump in the participation rate, particularly among youths. In contrast, the unemployment rate according to the Swedish Public Employment Services declined to 6.2% in June.
- **New vacancies** remain high, but a tad lower than last year. Companies' **employment plans dropped in July**. Other indicators, such as the number of temporary workers and hours worked, have also softened over the summer. **Labour shortages** declined in July, but are still above their historical averages.
- **Wages increased** by 4.0% y/y in May according to preliminary numbers.



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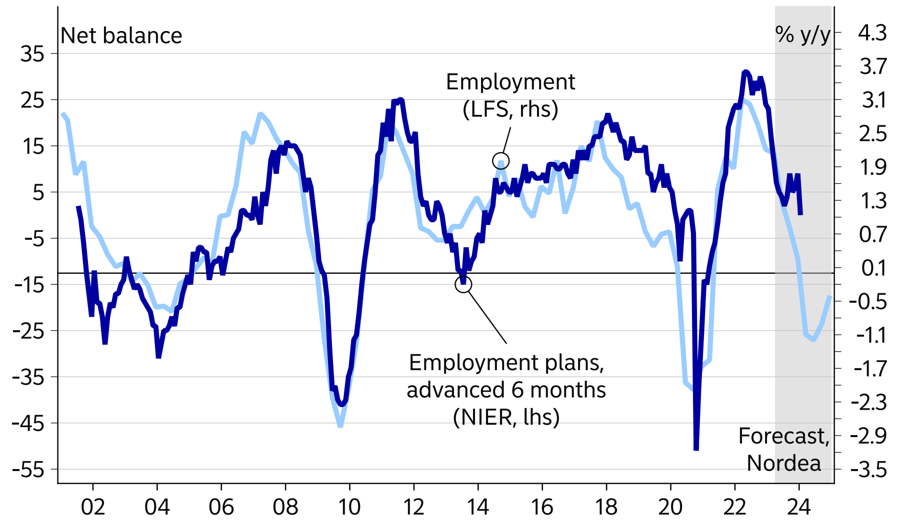

Source: Nordea Markets and Macrobond

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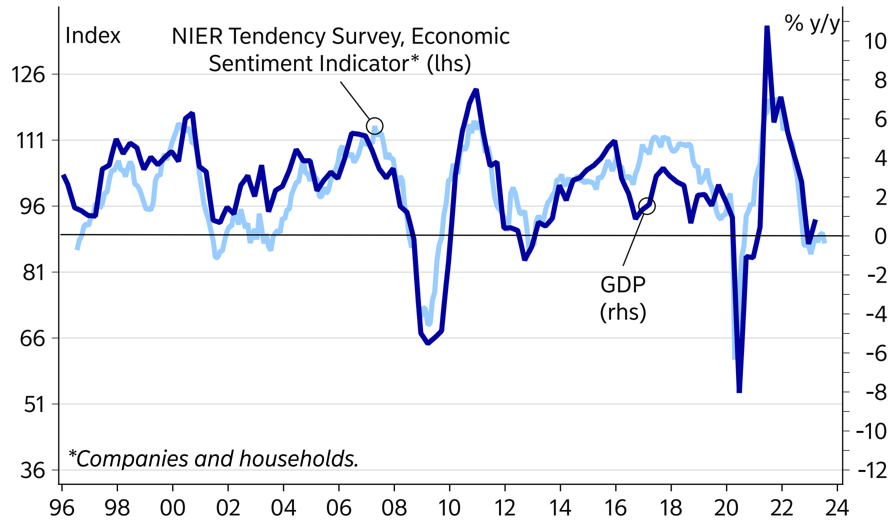
Read more:
- Swedish Tendency Survey
- Swedish July PMI: Stuck in contraction

Economic indicators
Weak confidence across the board

- The **Economic Sentiment Indicator** (ESI) declined to 87.5 in July, indicating sluggish GDP growth.
- Confidence in the **manufacturing industry** dropped sharply. Confidence indicators are below their historical averages in all business sectors.
- **Households** remain gloomy. CCI stood at 72.3 in July.
- The **manufacturing PMI** rose 2.4 points to 47.6 in July. Most sub-indices improved, but all remained below the 50-mark, reflecting weak global demand.
- The **services PMI** stood at bounced by almost 7 index points to 52.7 in July. The report was better than expected but specific outcomes should be taken with a pinch of salt, especially during the summer months.



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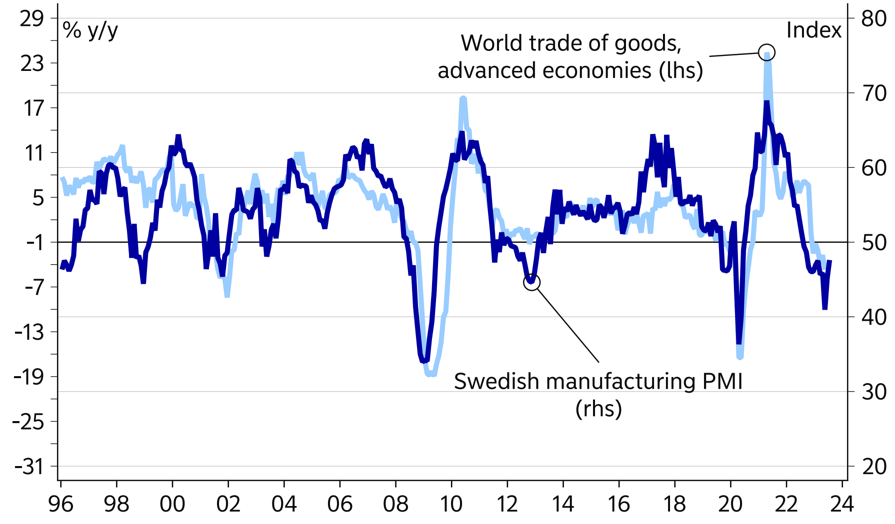

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