



Nordea

Mostly Cloudy

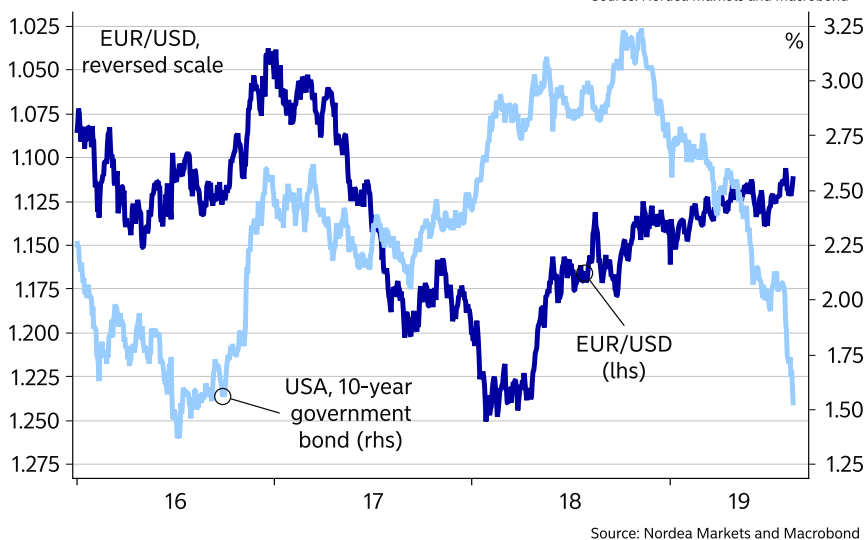
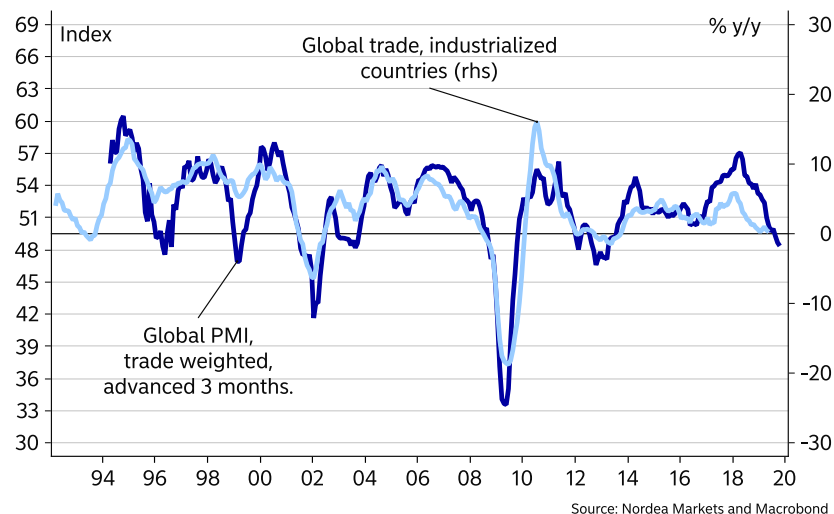
A review of the summer's economic events in Sweden

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Signs of a slowdown and rate cuts from the Fed

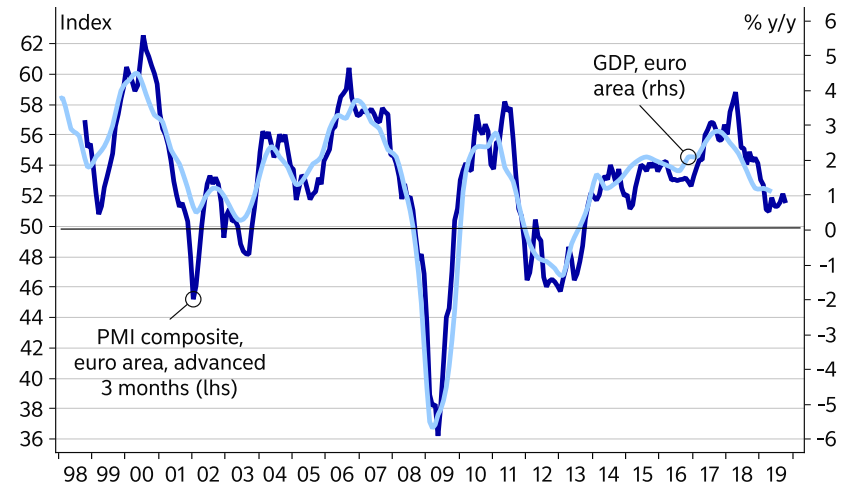
- In **the US** the Fed cut rates for the first time in a decade in July. The reasons are slower growth, global risks and too low inflation.
- The **US 10-year yield** has plunged and is now below the 2-year yield. The yield curve is thus warning about a recession.
- **CPI** rose to 1.8% and core CPI to 2.2% y/y in July (1.6% and 2.1% in June).
- **GDP** rose by an unexpected 2.1% y/y in Q2. Household consumption increased significantly.
- **The trade war escalated** after a month's truce. Tariffs of 10% on the remaining USD 300bn of Chinese imports are imposed from September. China allowed its currency to weaken beyond the important level of 7 against the USD.





Dark clouds in Europe

- As expected, growth in the **Euro area** weakened to 0.2% q/q during Q2.
- Much suggests that the **ECB** will introduce easing measures in September including a rate cut of 10bp. The next head of the ECB Christine Lagarde is expected to continue a dovish line.
- The situation in **Germany** is especially worrying as sentiment indicators are pointing sharply downwards.
- The **Bank of England** is on hold, but had a more dovish tone in July. During Q2 GDP fell by 0.2% q/q.
- **Norway** is still seeing strong performance; especially the industry is recording strong growth. The numbers for the summer support a rate hike in September.



Source: Nordea Markets and Macrobond

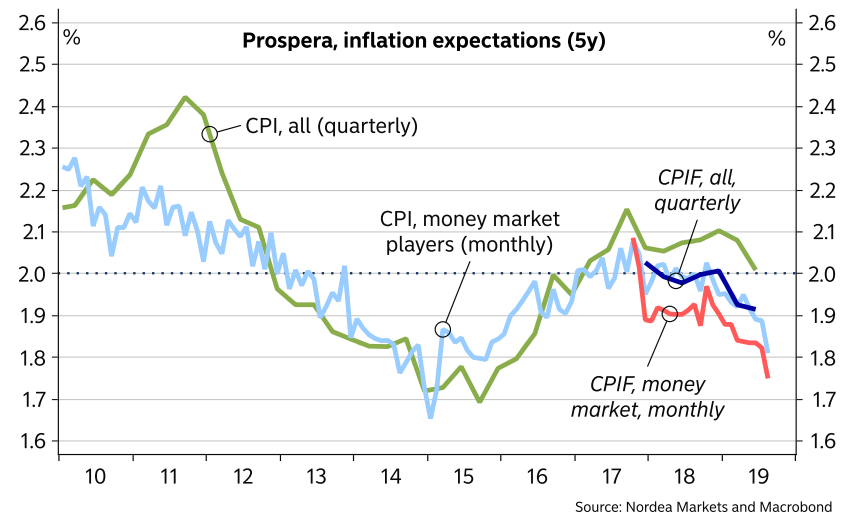
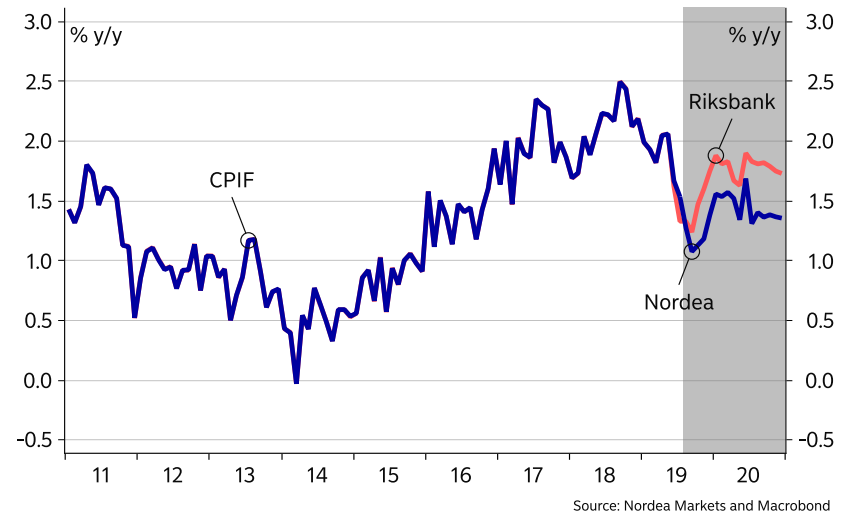


Source: Nordea and Macrobond



The Riksbank remains optimistic - but faces a new challenge

- The repo rate, the interest rate path and the QE programme were left **on hold in July**. There were some expectations (eg Nordea) that the interest rate path would be lowered.
- The Riksbank expressed **optimism about the economic situation and inflation**. The Riksbank seemed sceptical about the drop in interest rates globally. Interest rates have continued to fall since then.
- The relative optimism was also reflected in the **minutes of the meeting**, although downside risks were emphasised.
- In our view, lower global interest rates, increased risks abroad, weaker domestic economy and uncertainty about inflation suggest that the **Riksbank will lower its interest rate path in the September report**. Moreover, inflation expectations have declined.





The Riksbank: Af Jochnick resigns

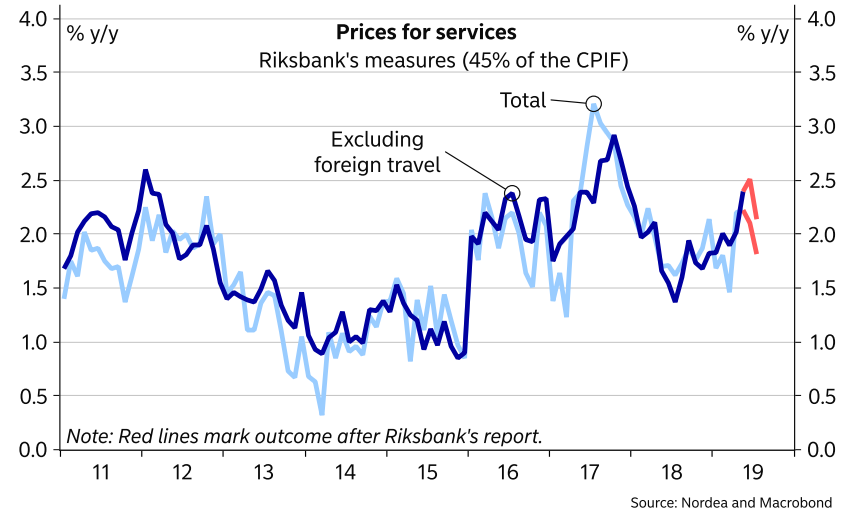
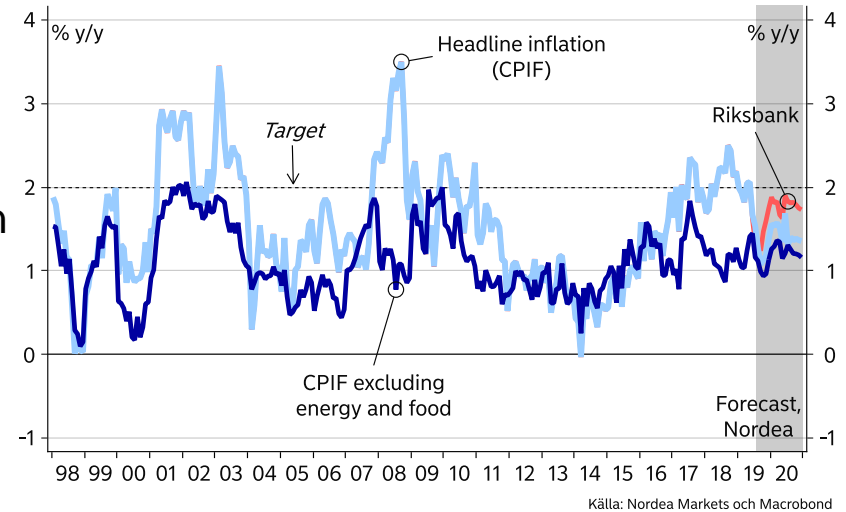
- First Deputy Governor of the Riksbank Kerstin af Jochnick has been appointed **ECB representative to the Supervisory Board of ECB Banking Supervision.**
- **She therefore resigns** as first deputy governor of the Riksbank.
- **The date** for her resignation has not been announced. It is therefore unclear whether she will participate in the monetary policy meeting in September.
- **The General Council of the Riksbank**, which appoints board members, will convene on 30 August.
- Af Jochnick is considered to have been one of the more **”dovish”** members of the Executive Board. She has had reservations once: In July 2014 the repo rate was cut by 50bp while af Jochnick called for a 25bp cut.





Inflation higher than the Riksbank's forecast

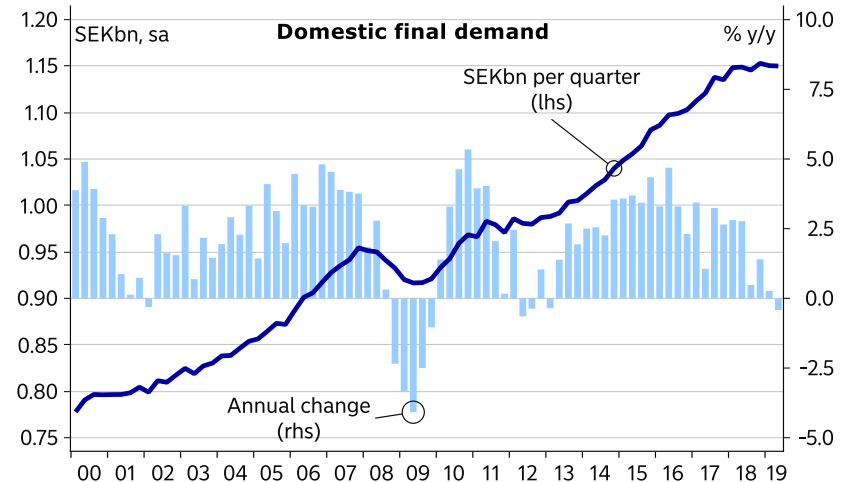
- In July **CPIF inflation was 1.5%** incl energy and 1.7 excl energy.
- This was 0.2 and 0.1% point **above the Riksbank's forecast**, respectively. Inflation was also above our call for July.
- Inflation was higher than the bank's forecast also in **June** (0.1% point).
- The main upside surprise in July was **food prices**, adding as much as 0.3% point to CPIF m/m.
- **Services inflation declined**, though.
- **Energy prices** rose in July and were on average SEK 0.38/kwh, SEK 0.10 higher compared to June. However, **oil prices** have dropped below USD 60/barrel.





GDP contracted in Q2

- During Q2 GDP fell by 0.1% **q/q** and rose only 1.4% on an annual basis.
- It was **worse than expected**, including the Riksbank's view.
- **Investments** fell across the board and were significantly weaker than expected.
- **Domestic demand** has been unchanged since Q1 2018.
- Net **foreign trade** increased significantly.
- In a forecast overview **the Swedish National Institute of Economic Research revised down GDP** for 2019 to 1.5% (Riksbank 1.8%).



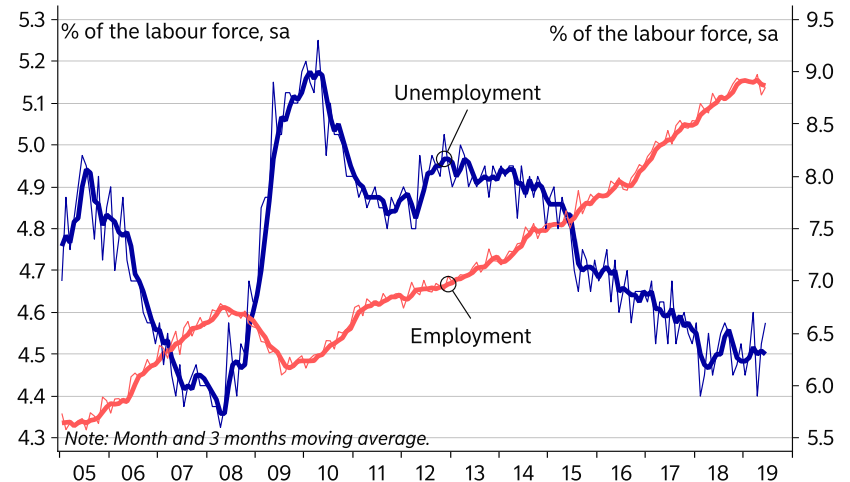
Source: Nordea Markets and Macrobond

	Outcome	Forecasts for Q2 2019	
Change, % y/y, if not otherwise stated.	2019 Q2	Nordea	Riksbank
Household consumption	0.2	0.2	
General gov. consumption	-0.6	0.0	
Fixed investment	-1.3	0.0	
Inventories, contribution to GDP growth y/y	-0.6	-0.5	
Exports	3.3	3.0	
Imports	-0.9	-0.9	
GDP	0.9	1.4	
GDP, calendar adj.	1.4	1.9	1.8
GDP, seasonal adj. q/q	-0.1	0.2	0.1
<i>Contribution to GDP growth y/y, %-points</i>			
Domestic total demand	-1.0	-0.4	
Domestic final demand	-0.4	0.1	
Foreign trade	1.9	1.8	
Hours worked, cal. adj.	2.2	2.2	

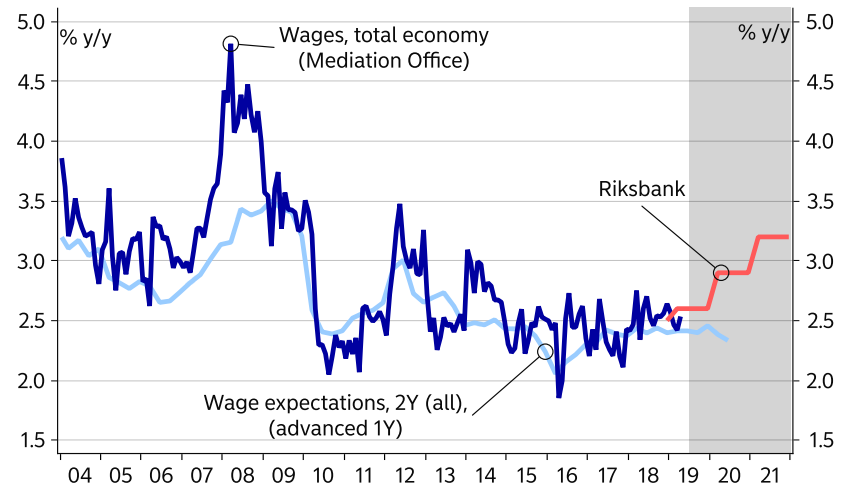


Weaker labour market and no wage acceleration

- **Employment** increased somewhat on a seasonally adjusted basis in June. The number of people employed has nevertheless fallen by 0.3% year to date.
- **Unemployment** rose and reached 6.6% in June.
- **Labour shortages** and **new vacancies** are falling.
- **Wage acceleration** was still at 2.5% for the first four months of the year, which is the same level as in 2018.
- **Wage expectations** have stabilised around 2.5% both short term and long term, indicating that cost pressure on the economy remains low.



Source: Macrobond and Nordea

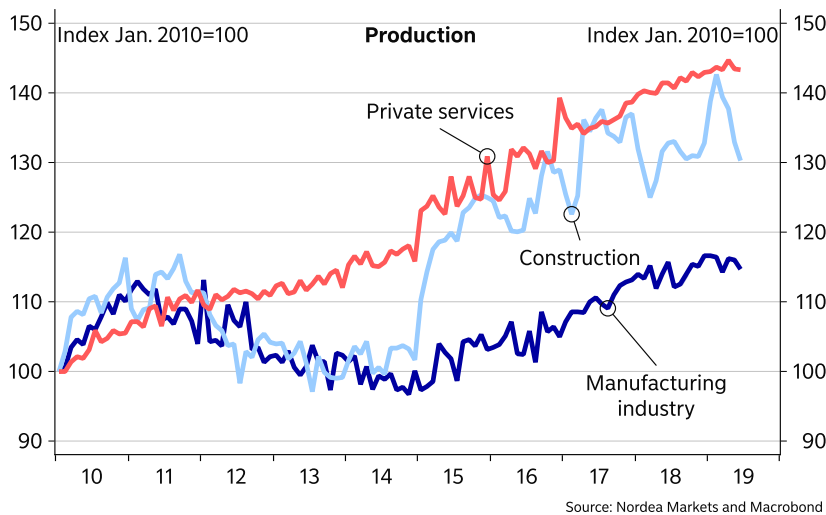
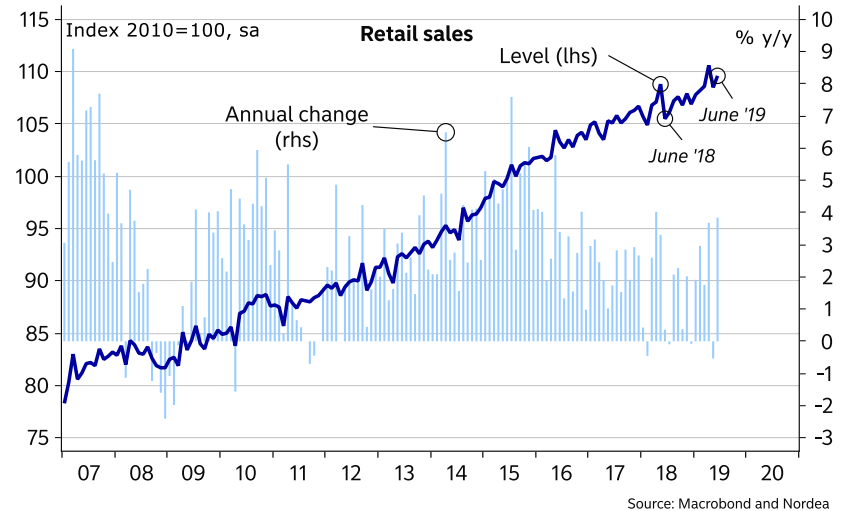


Source: Macrobond and Nordea



Mixed bag for hard data

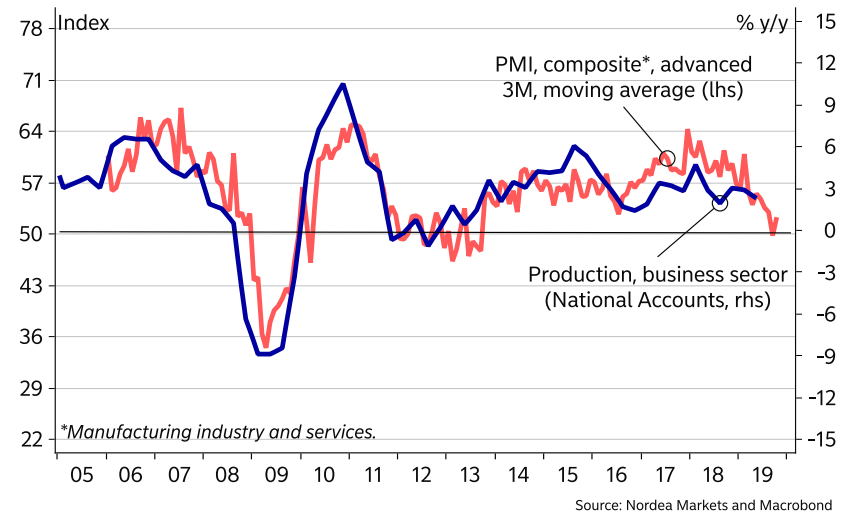
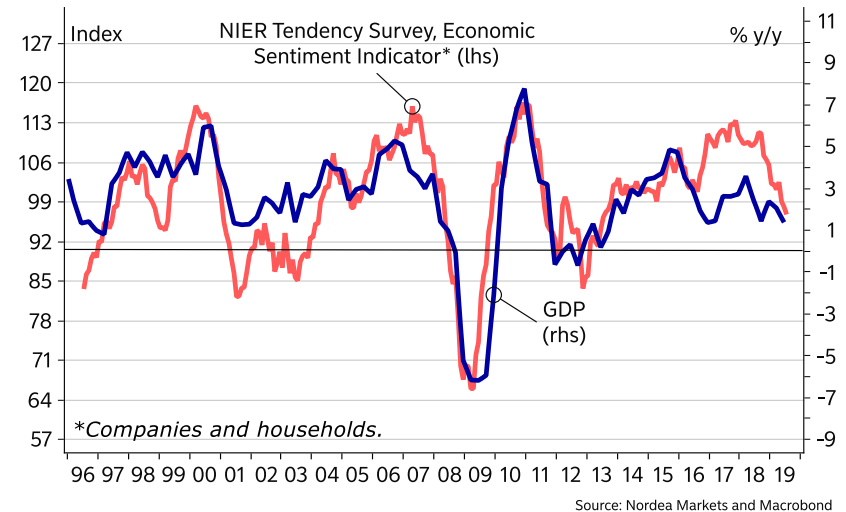
- **Retail sales** increased in June. Base effects lifted the year-on-year rate to as much as 3.8%.
- **Exports of goods** have been surprisingly high this year, but fell in June. **New orders for the manufacturing industry improved** according to Statistics Sweden.
- **Industrial production** stagnated up to and including June. **Growth in the services and manufacturing sectors is sluggish. Production in the construction sector fell sharply** following a strong start to the year.





Soft indicators still subdued

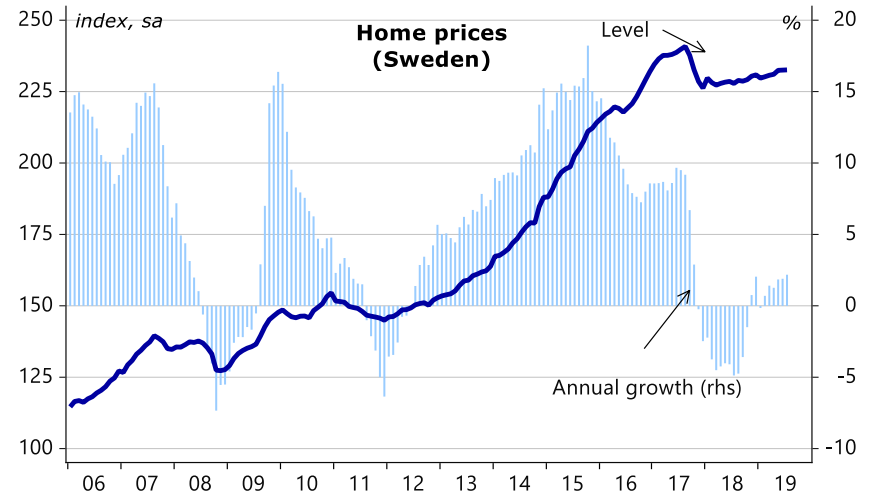
- The NIER's **tendency indicator** continued to fall in July to 98.1. The indicator thus signals worse than usual sentiment in the economy.
- **Consumer confidence** has improved (97.7) but it is still worse than the historical average.
- **Hiring plans** are less optimistic but remains at satisfactory levels.
- **PMI readings** for the manufacturing industry remained unchanged at 52.0 in July, which was better than expected. The index for the service sector rose to 52.3 from below 50 in June.



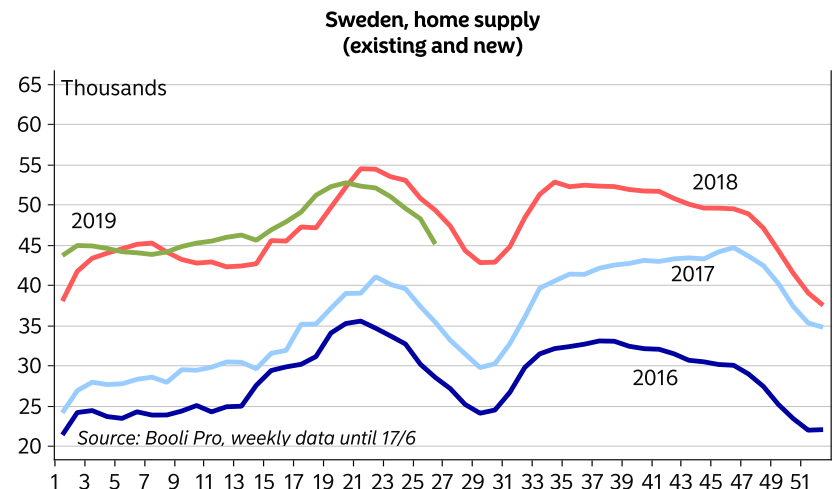


Positive signs on the housing market

- **Home prices** were steady in July (m/m) and rose by 2.1% compared to July in the prior year (HOX/Valueguard). The increase is most obvious in prices of flats.
- **Demand** has peaked and is at a lower level compared to the same period in the year before.
- **The share of discounted homes** is still relatively high, especially within new builds.
- The Fed and other central banks have cut rates during the summer, and the Riksbank is expected to stay on hold. This supports the housing market as lower interest rates reduce the costs of home financing.



Source: Nordea Markets and Macrobond



Source: Booli Pro, weekly data until 17/6

Källa: Nordea Markets och Macrobond



Summary and outlook

- It has been a **dramatic summer on the financial markets**. Since the end of July the US 10-year Treasury yield has dropped by 50bp to around 1.50%. The Swedish equivalent fell below zero in mid-July and is currently traded at -0.43%, thus well below the repo rate of -0.25%. Equities have moved south and oil prices have declined. Investors are fleeing to gold and the price of gold has surged.
- The **global economic situation has deteriorated** and will likely be subdued also in the coming quarters. However, it is not a dramatic deterioration. The drama has instead been centred around central banks, as they have moved from plans of tightening monetary policy to more stimulus measures. The Fed cut interest rates in July and more cuts are on the cards. The ECB has clearly indicated that a stimulus package will be launched in September.
- **The trade war** has escalated, risk of a hard **Brexit** has increased and unrest in Hongkong adds to political tensions, weighing on market sentiment.
- The market has realised that if central banks do not normalise monetary policy more than they have over the past years, **monetary policy will be expansive for a very long time**. The SEK has deteriorated again and will likely remain low in future.
- The **Swedish domestic economy** has been weak for some time. As a consequence, employment has fallen this year and so has resource utilisation. The slowdown has been disguised by an unexpected rise in exports, which has maintained GDP growth. However, indicators suggest that exports will decelerate.
- Inflation has been in line with the Riksbank's forecast in recent months, but the outlook is uncertain. Coupled with a weak domestic economy and lower interest rates abroad, rate hikes are unlikely. We expect the **Riksbank to leave its repo rate unchanged this year and next**. The probability for rate cuts has increased, though.



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- [Swedish inflation July review: Above the Riksbank's view](#)
- [Swedish GDP review: Recession fears](#)
- [Riksbank minutes: Shaken, not deterred, with an af Jochnick twist](#)
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Nordea's Economic Outlook will be published on 4 September!

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