A troubled world continues to hope

The slowdown is continuing but looks different in different countries. The United States will see a soft landing after showing surprising resilience. The euro area economy is still fragile, while the outlook for China has stabilised. Due to weak demand and high interest rates, growth will remain anaemic. Geopolitical turmoil poses downside risks, but lower inflation, high employment and rising real wages provide hope. Key interest rates have peaked, and the Fed will begin its rate cutting cycle by mid-2024.

The Middle East war is adding to an already uncertain geopolitical situation, with further human suffering from a growing number of conflicts. The Hamas-Israel war is unfolding close to oil-producing countries, contributing to economic volatility. It also risks decreasing the world's financial and military support for Ukraine. However, our main scenario is that the economic consequences will be limited. Inflation trends remain perhaps the most decisive factor for economic activity, interest rates, the stock market and asset prices. Tighter financial conditions during the third quarter, including higher long-term bond yields, will reinforce the impact of already high key rates and help central banks cool their economies and ease inflationary pressures. But they are also leading to greater uncertainty about how much tightening these economies – and the financial system – can handle.

Minor revisions in a divergent world

The latest statistics indicate that the main scenario in our August update remains valid: a deep economic slump can be avoided. China's growth outlook has improved somewhat, and emerging market economies are generally holding up relatively well. There is a clear slowdown in the 38 mainly affluent OECD countries, but with major differences between countries and sectors; the US is slowing, and the euro area continues to stagnate. High interest rates and prices are weighing on consumption and housing construction. According to indicators, businesses have a gloomy view of the future and production growth is weak. Questions about peak interest rates and the pace of inflation deceleration are beginning to be answered. Our forecast revisions are relatively small.

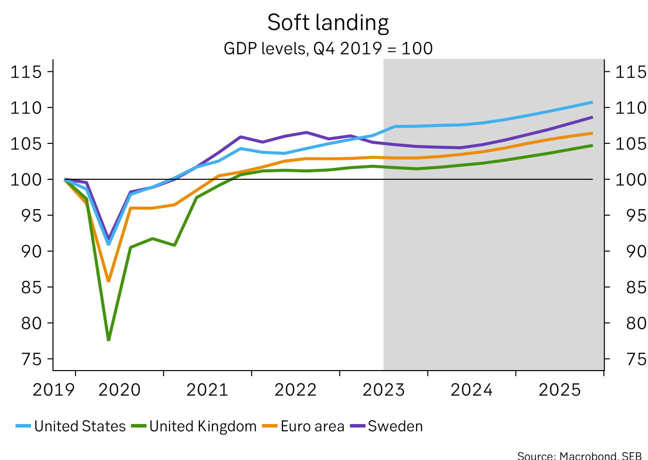
Global GDP growth

Year-on-year percentage change

	2022	2023	2024	2025
United States	1.9	2.3	1.1	1.8
Japan	1.0	1.8	1.2	0.9
Germany	1.8	-0.2	0.5	2.0
China	3.0	5.2	4.6	4.5
United Kingdom	4.3	0.4	0.5	1.7
Euro area	3.4	0.5	0.7	2.0
Nordic countries	2.7	0.2	0.5	2.3
Sweden	2.6	-1.0	-0.4	2.5
Baltic countries	2.0	-0.7	1.5	2.9
OECD	2.9	1.6	1.2	2.0
Emerging markets	3.7	4.1	4.0	4.1
World, PPP*	**3.3**	**3.0**	**2.8**	**3.2**

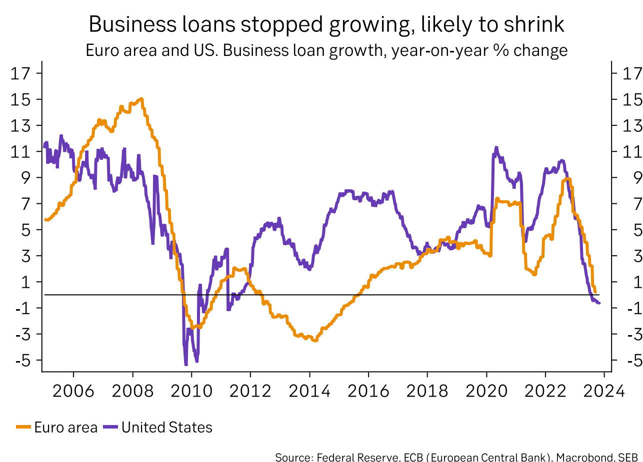
Source: OECD, IMF, SEB. *PPP = Purchasing power parities

Global growth of 3 per cent for 3 years. US growth has again surprised on the upside, but a deceleration will occur around the turn of the year. The euro area, where growth rates are already around zero, will grow by about 0.5 per cent annually in 2023-2024. The next few quarters will be anaemic, but the US and the euro area will avoid a recession. Global GDP will increase by about 3 per cent annually in 2023-2025, which is relatively weak in a historical perspective. Although growth will be moderate for a while longer, the impact of rapid rate hikes and the inflation shock has so far been surprisingly limited. It remains unclear whether we have underestimated the headwinds and the lag with which monetary policy operates.



Monetary tightening in the third quarter

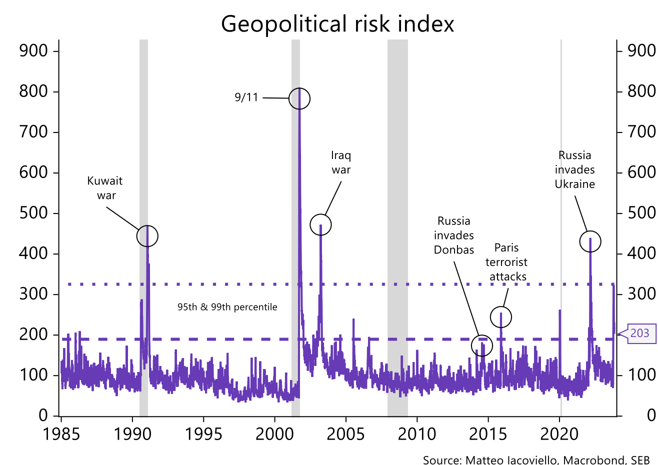
There was an unexpectedly sharp tightening of financial conditions during Q3 2023. For example, households, businesses and governments face significantly higher real interest rates, while asset values have been squeezed and the US dollar's strength has persisted. Federal Reserve calculations show that real yield on US 10-year Treasury notes rose by 0.7 percentage points in Q3 and kept rising in October to 2.1 per cent, the highest since autumn 2007.



Business lending by banks has stalled in both the US and the euro area – mainly reflecting lower demand, rather than any inability or unwillingness to lend. This is a natural element of the monetary policy transmission mechanism during a rate hiking cycle. Both Fed and ECB loan surveys indicate that the demand for credit will continue to decline going forward. Nor are credit spread changes any cause for concern, despite the significant challenges facing commercial real estate operators.

The phenomenon of powerful monetary tightening via financial conditions – and not only through changes in key rates – has occurred late in the central bank tightening cycle: GDP growth has already slowed, and inflationary pressures are easing. A strong labour market, large savings buffers from the pandemic and, in the US, less interest rate sensitivity due to long-term fixed interest mortgages, may explain household resilience. For businesses, well-filled order books from the pandemic years have contributed to a gentler slowdown. But the labour market now appears to be weakening, and US household savings are at low levels, since buffers are now being depleted. There is thus reason to fear that the impact on the real economy and the financial system may be greater now than at the start of the tightening cycle. This suggests that central banks will refrain from new rate hikes, even though underlying inflation remains a bit above target, and instead increase their preparedness for monetary easing in 2024.

Most central banks find themselves in a complicated verbal balancing act. For example, Fed Chair Jerome Powell caused strong market reactions – falling bond yields, a weaker dollar and rising stock markets – when he commented on the November 1 policy decision. Central banks are well aware that confirming a peak in key interest rates feeds expectations of future cuts, while painful memories of inflation forecasting errors earlier in the cycle call for caution. If near-term financial conditions ease too much, we can expect more hawkish central bank communication. Meanwhile most central banks also appear somewhat confident that the rate hikes they have already implemented have not yet had a full tightening effect, which is currently decreasing the need for new rate hikes.

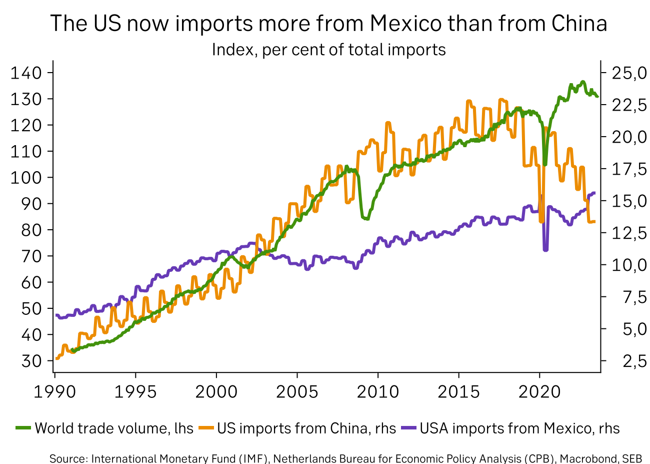


Increased geopolitical tensions

Global tensions have intensified, and security policy crises have become more frequent. This introduces complicated and economically hard-to-interpret – often binary – issues into the analysis, which requires humility in making both short- and long-term assessments. While human suffering from war is indisputable and widespread, the economic consequences are difficult to analyse and are necessarily based on uncertain assumptions. We continue to assume that the war in Ukraine will be prolonged but will not escalate in a way that have new major impacts on commodity prices. We have also concluded that the Middle East conflict will not

spread further, with major consequences for energy and other commodity prices.

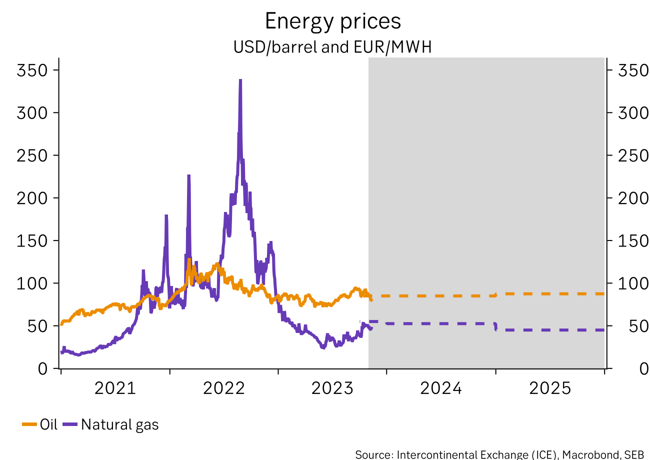
A more divided world. Uncertainties about global cooperation, tariffs, trade barriers and climate issues affect the behaviour and plans of countries and businesses. This is in addition to other changes in the international environment, such as the need for inventory buffers and improved risk management following the pandemic. But the impact of such changes is hard to measure, and we rarely see rapid fluctuations in trade flows. Although the new geopolitical climate and greater demands on production reliability affect trade flows, the number of goods that are *de facto* restricted by the US and Europe is still relatively small. But one sign of changing trade flows is that US imports from Mexico have now overtaken those from China for the first time in 20 years (except for one quarter during the pandemic).



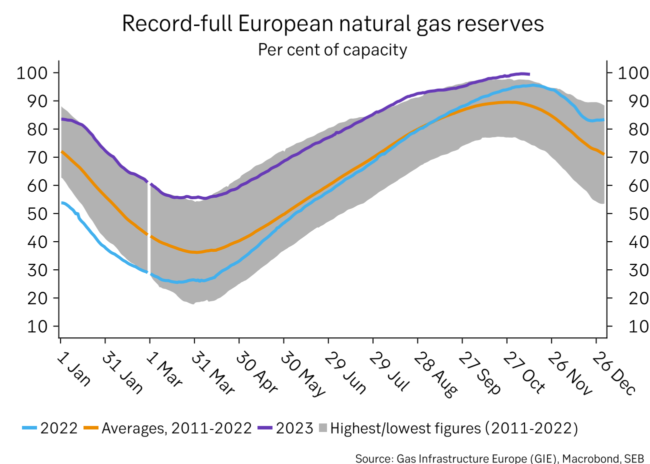
No Middle East escalation, according to oil prices

The price of oil, which rose from about USD 75 to over USD 95 per barrel in Q3, has now fallen to about USD 80/barrel, the same as at the beginning of 2023. This is despite the Middle East crisis. The price has been kept up due to production caps by Saudi Arabia, among others, and also because of strong demand for distilled products, causing refineries to operate at full capacity. Markets remain concerned that the Middle East conflict will spread, but after an initial price surge the oil market does not seem too nervous – reassured by Saudi reserve capacity and because other producers such as Venezuela are expected to boost output in the next few years.

Small energy price changes due to anaemic growth in 2024. The oil market expects weaker economic growth and oil demand, as well as a decline in the need for oil from the OPEC+ cartel as other producers ramp up production. Overall, this suggests lower oil prices, but we believe Saudi Arabia and Russia will continue to limit production in an effort to balance the market. Self-imposed restrictions such as current Saudi production of 9 million barrels/day will remain in place.



Record-breaking European gas inventories. The liquefied natural gas market is important to Europe, since pipeline imports from Russia have fallen sharply. The price of gas is still twice as high as before Russia's attack on Ukraine. With lower gas use and increased imports, European reserves have reached record levels. Winter weather is always uncertain, and energy price-related problems are possible over the next few months. But the most likely scenario is that the region will manage the coming winter nicely. Our forecast for natural gas prices already includes a certain risk premium for the winter.

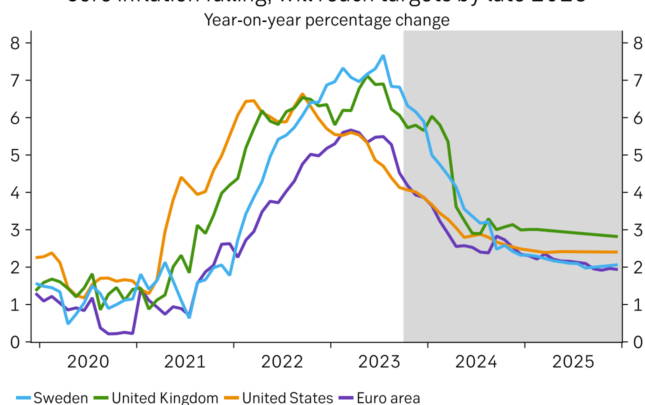


Falling prices, but varying dynamics

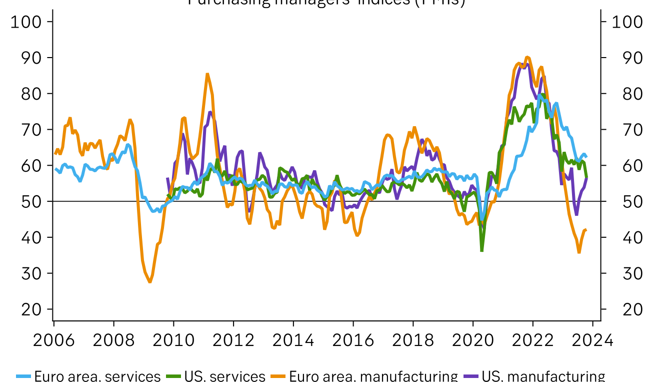
It is crucial to our forecast and outlook that inflation will continue falling towards 2 per cent. We are now approaching an inflation rate of just below 3 per cent in both the US and the euro area. However, core inflation – the most important metric for central banks – is about 1 percentage point higher than consumer price index (CPI) inflation. There will be a delayed impact from earlier rapid price and interest rate increases, for example affecting rents and wage demands. This has been singled out by central banks as the key to how large the remaining inflation problems will be. While base

effects have a major impact on annual inflation, month-on-month or quarter-on-quarter inflation dynamics provide a better picture of underlying trends and are thus important in determining when key interest rates will be cut.

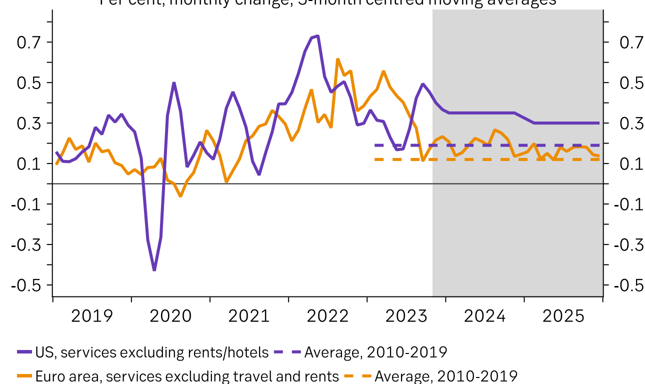
Inflation drivers are clearly slowing. Inflationary forces are now weakening, although various risks remain. Prices of internationally traded goods have fallen sharply. This applies primarily to commodities, but producer price index (PPI) statistics for input goods also show a clear decline. For consumer goods, PPI prices are just starting to fall in Europe. The energy situation looks relatively good compared to last year, but European electricity prices are still significantly higher than they were two or three years ago.



Diverging price expectations. There are persistent differences in business price expectations between economic sectors. The manufacturing sector believes that prices will fall, while service businesses expect them to rise, though to a lesser extent than before. A continued upturn in service prices, great uncertainty about employee demands for restoration of earlier real wages – and perhaps high rent increases – are the biggest risks from an inflation perspective. One example of lingering wage risks was recently seen in the US, where an auto workers' strike ended with a 25 per cent pay increase over a 4+ year period.



Differences between the US and Europe. In recent months, we believe that the inflation picture has begun to diverge a bit more. We have been seeing new trends for some time now. The US economy remains resilient. In the UK, wages are rising rapidly. In both cases, this may fuel inflation. In the euro area, data show that price pressures have eased significantly over the past six months, and this autumn we have seen broad-based downside surprises for service prices. But In the US, the slowdown is primarily among goods prices, while service prices are still rising faster than normally. Price increases in the euro area are still high compared to recent decades, but the slowdown has been much faster than we expected and contrasts a bit with the elevated price expectations in sentiment surveys.



Sweden stands out to some extent. In the short term, Swedish inflation statistics have stood out as somewhat on the high side. Among other things, the impact of exchange rates appears to be stronger than we previously estimated. On the margin, this puts greater pressure on the Riksbank, although recent inflation developments in the euro area should eventually lead to positive surprises in Sweden as well.

Despite differences: similar slowdown ahead. Although economies and regions are showing somewhat more divergent inflation drivers, we are maintaining our forecast that the economic slowdown will look quite similar. Growth in the OECD economies will decelerate, and once labour markets cool, wage pressures will subside. Well-functioning supply chains will also help ease overall price pressures. But viewed over our forecast period, we still believe that the cost situation will be higher than in the decades before the pandemic, which is why core inflation will not fall below 2 per cent.

Can inflation dynamics change the order of central bank rate cuts? A fall in demand should presumably ease price pressures. Due to uncertainty about the impact of commodity prices on consumer prices, the role of expectations and – above all – next spring's wage

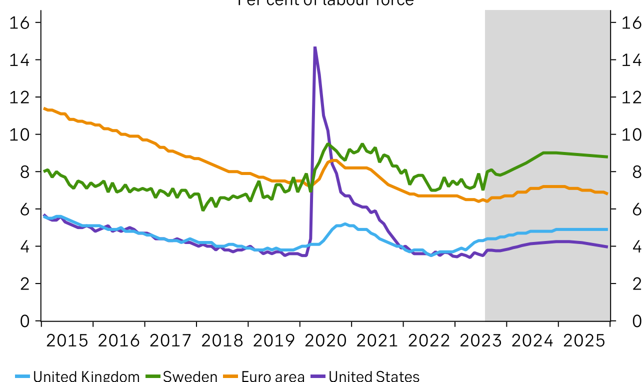
negotiations, we do not wish to lower our euro area inflation forecast too much. In the current situation, the costs to the European Central Bank and its peers of declaring victory over inflation too early would still weigh heavily compared with waiting further. Because a second wave of strong inflation cannot be completely ruled out, the ECB is delaying such a declaration. But although the battle has not been won, our inflation forecast for the euro area includes some downside risks. If they materialise at the same time as US growth continues to surprise on the upside, we may see a situation in which the ECB cuts its key rate earlier than the Fed. Market pricing has shifted in that direction over the past few weeks, indicating that the ECB will begin its cuts first.

A few quarters of weak growth ahead

The economic slowdown due to higher interest rates and elevated prices is occurring at different rates and different times. The factors that have pulled down euro area growth so far – consumption and housing construction – will remain sluggish for a few more quarters, and American household consumption will also slow as the labour market cools. Household pandemic buffers and well-filled company order books will still provide some support for growth, but momentum is gradually diminishing. Because of high prices, households need to pay more for smaller volume. This has been reflected in historically large differences between consumption in nominal and real terms. Now that real wages have begun to rise again, consumption will enjoy increased support, but the scope for a more substantial acceleration is limited because the savings ratio has already fallen. We are also seeing subdued business sentiment indicators and declining industrial production. However, high interest rates have mainly hurt residential investments, while other capital spending is getting a boost from parts of the economy that are doing better, such as the green transition and energy and defence investments. Public investment programmes launched during the pandemic also provide some continued support.

Unemployment will climb, but only moderately

Per cent of labour force

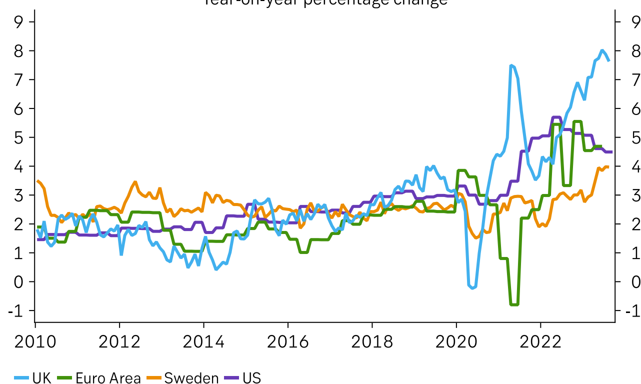


Source: Macrobond, SEB

Strong labour markets are weakening. Job growth has continued to surprise on the upside and labour markets have shown resilience, with unemployment remaining low in many places. But there are signs in both the US and Europe that the tide is turning. Among other things, the number of job vacancies is falling, layoffs are increasing and job growth is slowing. Past labour shortages may have contributed to hoarding behaviour by employers. In a weaker labour market, this behaviour may be replaced by its opposite as staff turnover slows again. The continued resilience of service sectors is an important explanation for the strength we have seen so far, but also for the fact that we now expect a slowdown in the labour market as households are forced to cut spending. In some places, including such European countries as Germany and Sweden, unemployment is now rising, but the increase will still be moderate. In the US, too, a cautious upturn has begun from very low levels, but because of a positive trend in the labour supply, this can take place without a reduction in employment. Wage growth is also moving in different directions, depending on how wage formation works in each country.

Varying wage and salary growth

Year-on-year percentage change

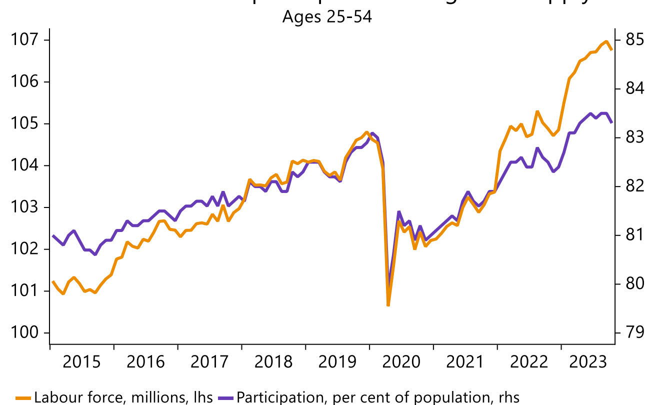


Source: U.S. Bureau of Labor Statistics (BLS), Eurostat, U.K. Office for National Statistics (ONS), Macrobond, SEB

The US is finally slowing down. Growth remained surprisingly strong through the third quarter of this year, but there are many indications of a slowdown ahead. Weaker real income growth will dampen consumption, while the labour market will weaken moderately. Aside from higher interest rates, which are hurting residential and other investments, businesses are decreasingly willing to make investments. The labour market is moving towards a better balance. The rate of pay increases is slowing despite an increase in employment. This positive structural indicator is contributing to our belief that both wage pressures and inflation can be normalised without the US economy entering a recession.

Euro area mixed as manufacturing faces the most headwinds. Euro area growth has averaged around zero for four straight quarters, and GDP fell by 0.1 per cent in Q3 2023. Germany, which has been hard hit by the energy crisis

and is more exposed to a cyclical downturn in global manufacturing, is the weakest; GDP has fallen in three of the past four quarters. The outlook is generally weak, but falling inflation and more stable (though relatively high) energy prices are providing some light at the end of the tunnel.



Mild downturn, moderate recovery in 2024-2025. Our soft- landing scenario, which implies that the US and the euro area will avoid a deep recession, looks set to materialise. Yet it is now being challenged by historical links between inverted yield curves and rising US unemployment, two factors that both usually lead to a recession. But although history suggests there will be no soft landing, the world is far from normal – in light of the events of recent years: the COVID-19 pandemic, an interest rate reversal, volatile energy prices and global tensions. In addition, because the supply side in the US seems to respond well to high demand for labour, with a rising employment rate, the increase in unemployment is mainly due to more people looking for work, rather than a drop in employment. US productivity has also improved recently. Although we foresee an acceleration towards the end of our forecast horizon, growth must be described as moderate and weaker than in a normal recovery cycle. The supply side is constrained, household incomes are weak, and fiscal policy lacks muscle due to already high debt. Monetary policy will be more cautious once rate cuts get under way, and because of an already high level of employment, the amount of idle resources is limited. On the positive side are the above-mentioned supply factors; the labour supply is improving in many countries and productivity seems to be picking up.

Chinese growth hits bottom; challenges remain

China's economy is not on completely solid ground after last spring's growth worries and the problems of the real estate sector. Third quarter growth was an upside surprise, which offers some hope, but meanwhile many other statistics this autumn have surprised on the downside. Although growth has stabilised and new fiscal stimulus measures have been unveiled, the outlook is characterised by several weaknesses. Households are holding back on spending, and investment is weak as real estate sector troubles reduce residential investment. Weak local and regional government finances are also holding back infrastructure investments. As economic growth slows in affluent countries, China's exports – a part of the economy that has been a driving force since the pandemic – are also facing headwinds. In addition, structural factors will push down growth in the long term. China lacks a strong welfare state, and fiscal policymakers provide more supply-side than demand-related stimulus, which contributes to caution among households. Investments are also being hampered by the uncertain institutional and geopolitical environment. Regional authorities with high debt burdens are facing tough refinancing challenges and difficulties in scaling up investments. Overall, this points to slower growth ahead and thus a smaller Chinese contribution to global GDP growth.

GDP growth, BRIC countries and EM sphere
Year-on-year percentage change

	2022	2023	2024	2025
China	3.0	5.2	4.6	4.5
India	7.2	6.5	6.3	6.2
Brazil	2.9	2.9	1.8	2.0
Russia	-2.1	2.0	1.5	1.3
EM economies, total	**3.7**	**4.1**	**4.0**	**4.1**

Source: IMF, SEB

Varying prospects for emerging market (EM) economies. As we noted in our latest *Emerging Markets Explorer*, it looks as if the growth downturn has bottomed out in many EM economies, except for India, which has continued to perform strongly. There, but also in Brazil, consumer confidence has shifted into higher gear. However, the picture remains divided. India is supported by both domestic and external factors that make our growth forecast look a little brighter than for many other countries. India's favourable geopolitical position has led to an improved climate for foreign direct investment. High inflation remains a challenge, although it has fallen by 10-20 percentage points since the peak after Russia's invasion of Ukraine. Despite above-target inflation, the interest rate cutting cycle has started in several countries, such as Brazil, Poland and Hungary. In some cases, this is being driven by a combination of lower inflation expectations and, as inflation has fallen, higher real interest rates. But financial conditions in EM countries may become more fragile than the current situation indicates. Central banks are cutting key rates at a time of uncertainty. Rapid financial fluctuations – driven by geopolitical turmoil and volatile inflation outcomes, especially in the US and the euro area – could put pressure on EM financial assets. Our base scenario is thus that inflation forecasts will allow central

banks to cut rates at a moderate pace, but we believe that lower rates will leave EM economies more vulnerable to external shocks.

Global tensions increase downside risks

In the August issue of *Nordic Outlook*, our risk picture was neutral. Meanwhile we predicted that the divergence from our main scenario would be greater in a negative scenario than in a positive one. The main reason is that we foresee limited upside potential, given a low level of unemployment to begin with. This is true even though we have seen a positive trend in the US and elsewhere, with rising labour force participation. Due to further intensification of global tensions and increased uncertainty about how economies will cope with this autumn's tighter financial conditions, we once again foresee somewhat larger downside risks to our forecast than upside risks.

Various scenarios for the OECD countries

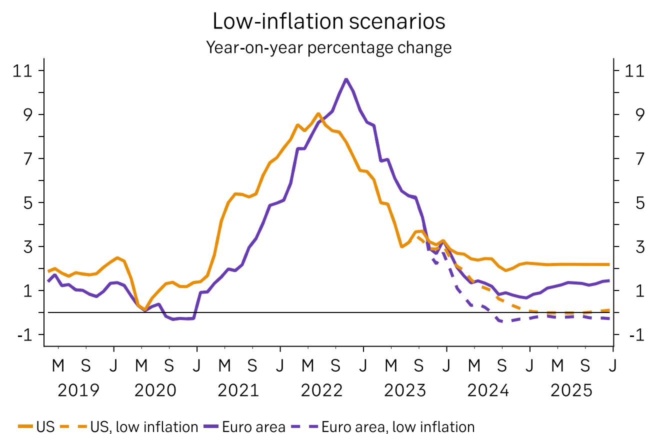
GDP growth, per cent

	2023	2024	2025
Main scenario	1.6	1.2	2.0
Negative scenario	1.5	-0.6	1.3
Positive scenario	1.6	2.5	2.4

Source: SEB

Geopolitics will lead to downside risks. When we interpret economic data from the past few months, developments have been largely in line with our expectations, which suggests a symmetric risk picture. But just as there was uncertainty due to financial stress last spring, when several regional US banks failed, we are now seeing increased uncertainty because of geopolitical developments and the risk that the fighting between Israel and Hamas will spread. Russia's invasion of Ukraine has reminded us of the extent of the economic consequences when energy supply is disrupted. It is also still difficult to assess when and how large the full impact of earlier interest rate hikes will be, how much savings buffers households actually have left and how severe the impact today's extra late-cyclical tightening due to rising long-term bond yields will be. Yields are increasing at the same time as inflation is on its way down, which has an extra tightening effect, since real interest rates will increase more than if we only look at nominal interest rates.

Inflation will fall faster and growth will accelerate. A faster downturn in inflation, combined with a slowdown in the rate of pay increases that is reassuring to central banks, may persuade these banks to cut key rates sooner than we expect. It does not require especially large changes in our forecast assumptions for the inflation rate to fall towards 0-1 instead of 2 per cent. Perhaps we are too cautious about factoring in the favourable inflation signals we have recently seen in the euro area. Or prices in general may be pushed down more in the future. If, for example, we assume that one third of the upturn in goods and food prices during the past few years and rents in the US are reversed, our inflation forecast points clearly lower, with increased real purchasing power and lower interest rates as a consequence.



Sweden the weakest in the Nordic region

Denmark and Norway have shown more resilience than Sweden, where GDP has been on a downward trend since the end of last year. The driving forces are similar, in line with the global pattern, but with different intensities. Swedish GDP will decline in 2023 and 2024 as household consumption falls and residential investments collapse. Norwegian growth will be sustained by strong capital spending in the oil sector, while households will only gradually increase their consumption in 2024-2025. Underlying inflation will fall slowly amid persistently high wage pressures. In both Sweden and Norway, weak currencies will continue to generate inflationary impulses. Danish GDP will be resilient, since household confidence has returned and inflation has fallen below 1 per cent, which will give an extra boost to real incomes. Residential investments are falling, and there is a risk that home prices will fall again as sales volume has declined, due to tax changes that have postponed transactions until early 2024. The government's change in fiscal policy will also provide a bit more support than we had previously expected.

GDP growth, Nordic countries

Year-on-year percentage change

	2022	2023	2024	2025
Sweden	2.6	-1.0	-0.4	2.5
Norway	3.3	1.6	0.8	1.5
Denmark	2.7	1.1	1.5	3.0
Finland	1.6	-0.1	0.5	1.8
Nordic countries	2.7	0.2	0.5	2.3

Source: IMF, SEB

Real wages and lower interest rates will provide support. In all of the Nordic countries, growth will be supported by improved real wages and lower interest rates in 2024, and even more so in 2025. Sweden's Riksbank is hesitant about changing its policy rate, but by a narrow margin we believe that it will choose to leave the rate unchanged at 4.00 per cent in November, cut it by 50 basis points in 2024 and by a further 100 bps in 2025. Norges Bank will probably hike its key rate by 25 bps to 4.50 per cent in December, but this is far from certain. Partly due to uncertainty about next spring's national wage negotiations, Norges Bank will delay its first rate cut until mid-2024.

Falling exports are hurting the Baltics. The export-dependent Baltic economies have been hit hard by weak growth in the Nordic countries and Germany, although some service exports – especially in information and communications technology (ICT) – have been resilient. Overall, the outlook looks somewhat worse than in August's *Nordic Outlook*. Inflation, which reached close to 20 per cent year-on-year in 2022, is on its way down towards 2 per cent; in Estonia, however, inflation will be higher in 2024 due to a value added tax (VAT) increase. The rate of pay increases in the Baltics is decelerating but is high compared to other countries in the euro area. This means that depressed real incomes will rise a little faster, which in turn will boost consumption. Residential prices and investments are falling, but other capital spending is receiving support from EU funds and other sources.

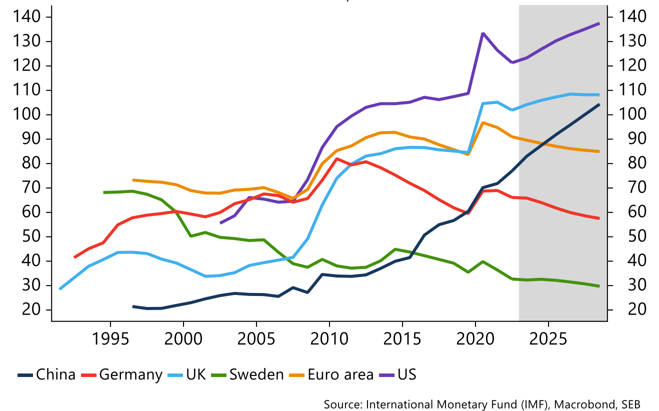
GDP growth, Baltic countries

Year-on-year percentage change

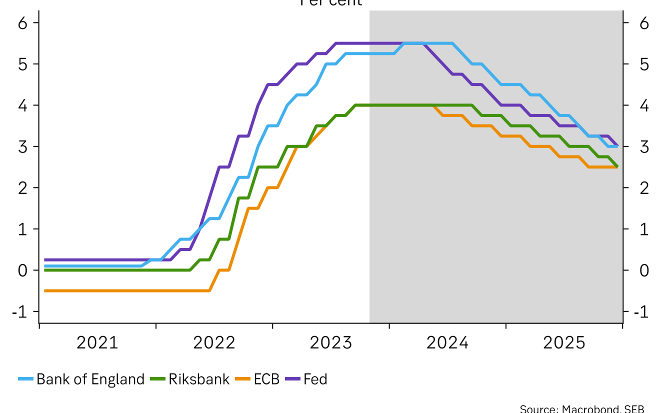
	2022	2023	2024	2025
Lithuania	2.4	-0.2	1.5	2.8
Latvia	3.4	-0.2	2.2	2.7
Estonia	-0.5	-2.5	0.4	3.5
Baltic countries	2.0	-0.7	1.5	2.9

Fiscal policy both hampering and helping

We expect largely neutral fiscal policies over the next couple of years, despite the slowdown in economic growth. The main reasons are large government deficits and debts as well as increased market nervousness about future debt issue volumes. This is on top of the problem of inflation; politicians want to be careful not to create more inflation-drivers and thus need to hike key rates further. The focus of market attention has recently been on the US. In addition to large deficits and high debt, it is hard to see how politicians can agree on a plan for how to manage them. In the EU, a review of the fiscal policy framework is currently underway. The rules of the EU's Stability and Growth Pact were paused during the pandemic until the end of 2023. Hopefully, EU member states will be able to agree on a new legislative proposal before the end of the year, otherwise the old rules will enter into force. Whether they reach agreement or not, the EU countries will need more budgetary discipline in the next few years.



Some could do more. We believe that the inflation risk from a more supportive fiscal policy is somewhat exaggerated – at least in countries with low debt and with growth - problems, such as Sweden and Germany. These countries are also unlikely to risk anything from a confidence perspective, given a relatively low level of public debt to begin with. In most countries, fiscal policy will be broadly neutral over the next couple of years. They will save their small manoeuvring room to deal with shocks that are not in our main scenario or unavoidable expenditures related to security policy, energy and the environment. A more neutral policy helps central banks in their fight against inflation, but at the same time it hampers growth, which could use a shot in the arm.



Pause in key rate hikes, first Fed cut in May

Following rate hikes at practically every policy meeting since early or mid-2022, the key rate has been left unchanged twice in a row by the Fed and at the most recent meeting of the ECB. It is clear, though to varying degrees, that interest

rate hikes are having an impact on the economy. The inflation rate has more than halved. Central banks have also recently been helped by higher long-term yields and tighter financial conditions. This is one of the reasons why we believe interest rates have peaked for most central banks, including the Fed, the ECB and the Riksbank. Norges Bank and the Bank of England, which face somewhat more persistent inflation problems, will probably raise their rates one more time.

Central bank key interest rates
Percentage at year-end

	Nov 9	2023	2024	2025
Federal Reserve	5.50	5.50	4.00	3.00
ECB (deposit rate)	4.00	4.00	3.25	2.50
Bank of England	5.25	5.25	4.50	3.00
Riksbank (Sweden)	4.00	4.00	3.50	2.50
Norges Bank (Norway)	4.25	4.50	4.25	3.50

Source: Central banks, SEB.

Hawkish to be on the safe side. While awaiting more information on the economy and inflation, central bank rhetoric continues to lean towards the hawkish side for various reasons. With the inflation shock and subsequent monetary policy reversal still fresh in mind, central banks do not want to underestimate inflation again. The tightening of financial conditions is helping them, however.

Policy rates and deficits determine long yields

Long-term bond yields are a focus of market attention, after sizeable increases this autumn to nearly 5 per cent for 10-year US Treasuries followed by a decline to about 4.60 per cent in November, after Fed and ECB interest rate announcements were interpreted as marking the peak of key interest rates. Several driving forces are in motion. One explanation is monetary policy and key rate expectations. This autumn the market paid closer attention to the central bank mantra "higher for longer". But since then, expectations that short-term interest rates will not go any higher have pushed long yields back down. This argument is also connected to economic activity, since we believe that central banks now view their tightening efforts as sufficient to achieve the slowdown required for inflation targets to be within reach.

Supply, maturity premiums and real interest rates. But other driving forces have also had an impact. For some time, the bond market has been worried about high public sector debt and large bond issuance volumes when many borrowers must compete for the available capital. In this context the primary focus has been on the US, where – aside from large federal deficits – the future inability of the political system to manage them is another uncertainty factor. Demand for US Treasuries will also fall as the Fed and the People's Bank of China reduce their holdings, and Japanese investment capital may return home as Japan's long-term government bond yields have now begun to rise towards 1 per cent. In addition, demand for capital may increase more generally due to investment needs in infrastructure, energy and the green transition. Other drivers are the maturity premium, which has been negative during the period of quantitative easing (QE) but is now rising. The inflation risk premium may also have increased as inflation expectations have fallen and are more in line with targets. Before central banks verbally stop signalling that interest rates may be raised another notch – which will take a few months – long-term US and European yields will remain volatile and without a clear direction.

The US: Different forces pulling in different directions. Key interest rate cuts will be the main driver of lower US yields in 2024 and 2025. Weak public sector finances, continued large deficits and high borrowing requirements will work in the opposite direction and cause investors to demand a higher maturity premium. Overall, however, substantial key rate cuts will cause the 10-year US Treasury yield to fall to 3.60 per cent by the end of 2025.

10-year government bond yields
Per cent at year-end

	Nov 9	2023	2024	2025
United States	4.61	4.80	4.30	4.00
Germany	2.70	2.75	2.60	2.50
Sweden	2.85	2.90	2.90	2.80
Norway	3.81	3.85	3.50	3.30

Source: Central banks, SEB.

Limited downside potential in the euro area. One result of the ECB's earlier bond purchases is that government borrowing rates in the larger euro area countries are significantly depressed compared to the key interest rate. The impact of lower key rates during the second half of 2024 and continued bond sales by the will largely cancel each other out, and the downside potential is limited, especially in Germany.

Sweden's yield spread against Germany is normalising. The National Debt Office will increase issuance volumes next year. Weaker central government finances and the recapitalisation of the Riksbank suggest larger bond issues. We also expect the Riksbank to increase the amount of bonds that it sells, thereby increasing quantitative tightening. The 10-year yield spread against Germany has widened, and this trend is expected to continue. Altogether,

these factors mean that the Swedish 10-year yield will be essentially at today's level at the end of 2025.

Conflicting Norwegian forces. The bond supply will increase further in 2024, due to refinancing needs. But the net supply will still be low, especially since Norges Bank is not conducting any quantitative tightening. Because core inflation is falling more slowly than in various other countries, Norges Bank will cut its key interest rate relatively late. This will limit the downturn in long-term yields. The yield spread vs Germany will fall to 80 basis points towards the end of our forecast period.

USD strength will gradually fade by year-end

This autumn has been characterised by a strong dollar, driven by high US interest rates and bond yields as well as falling risk appetite – due to both high rates and the geopolitical situation. We are maintaining our view that the USD strength will fade towards the end of this year. Several factors will come into play: (1) a weak seasonal pattern for the USD, (2) a strong seasonal pattern for risk appetite, (3) Fed signals that it has probably finished hiking the key rate, (4) EUR/USD positioning which now shows that speculative accounts have already bought a lot of USD during the autumn and are quite ready to reduce that position. However, we foresee the greatest potential for a weaker dollar and a higher EUR/USD exchange rate during 2024, when the Fed will be the first major central bank to move towards a cut. This means that our forecasts of US vs European interest rates/bond yields support an appreciation of the euro against the dollar, i.e. a higher EUR/USD rate, in 2024. In addition, the growth gaps in our forecasts for 2024 will narrow. According to the historical pattern, this will lead to less dollar support. As the Fed begins to signal rate cuts more clearly, falling market interest rates will rapidly improve financial conditions, which should lead to increased risk appetite and thus a stronger euro. But as indicated above, there are many uncertainties. For example, a faster decline in euro area inflation could persuade the ECB to cut its key rates before the Fed. In addition, there is still a risk of a hard landing in the US. We thus do not expect an aggressive movement in which the euro will strengthen sharply early in 2024, but we believe that an upward trend will still begin.

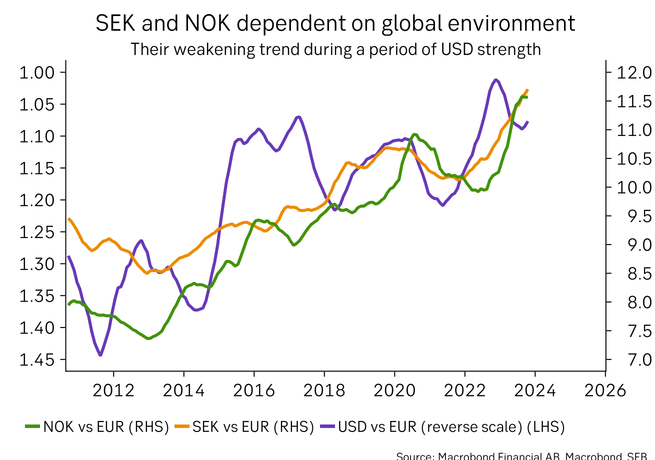
Exchange rates, at year-end

	Nov 9	2023	2024	2025
EUR/USD	1.07	1.08	1.14	1.18
USD/JPY	151	148	135	128
EUR/GBP	0.87	0.89	0.93	0.94
EUR/SEK	11.62	11.60	11.25	10.95
EUR/NOK	11.91	11.85	11.30	10.95

Source: Bloomberg, SEB

Support for the SEK and NOK mainly in 2024. The Nordic currencies have shown continued weaknesses this autumn. Anaemic risk appetite and continued expectations that interest rate hiking cycles will continue, or at least that interest rates will remain elevated for a long period, have not benefited countries and currencies with interest-sensitive households. We continue to believe that the global soft-landing environment and moves towards interest rate cuts by the Fed and the ECB during 2024 should be positive for both the Swedish and Norwegian currencies. The SEK should be able to appreciate as early as the end of 2023 – given its strong December seasonal pattern – while the NOK will probably have to wait until 2024 before it starts to gain ground. Positive drivers for the SEK and the NOK next year will be better global risk appetite and a general shift from rate hikes to rate cuts, which will remove negative pressure on currencies with interest-sensitive households.

Currency hedging may result in a stronger krona. As far as the Swedish krona is concerned, there is also a possibility that the Riksbank's hedging of its foreign exchange reserve, which involves krona purchases mainly during October 2023 to January-March 2024, may receive further support if more Swedish financial market actors choose to do the same (i.e. buy Swedish kronor). The probability of such a trend will increase the more the krona appreciates, and it could thus become self-perpetuating if critical levels for EUR/SEK and USD/SEK exchange rates are reached in early 2024. On the hand, there is a risk of a significantly weaker krona if a hard landing occurs, and this may also be a partial explanation for why the krona has not appreciated so far. Historically, however, the krona weakness has lasted for a relatively short time during hard landings (driven by falling risk appetite) and has then been replaced by krona strength. One example is that when the COVID-19 pandemic broke out, the SEK fell sharply but then appreciated and was the strongest G10 currency during the full year 2020.

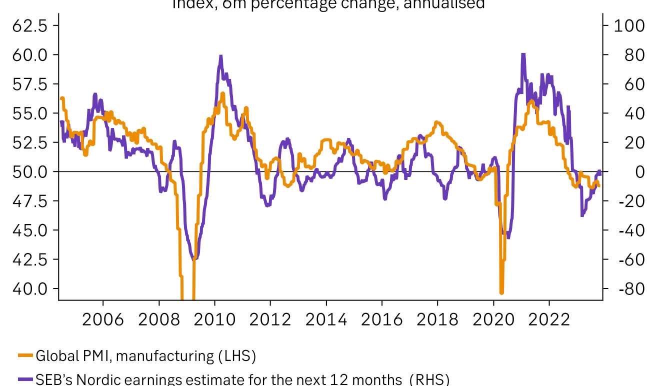


Stock markets will await an economic rebound

Global stock markets have been under downward pressure since this past summer, with the MSCI World index falling more than 10 per cent since its peak at the end of July before rebounding after the Fed's November 1 meeting. It is worth noting that the downturn was mainly driven by rising long-term bond yields, not by lower corporate earnings forecasts. We thus interpret the downturn as more of a correction than a matter of investors exiting the stock market due to fear of poorer earnings.

Lower yields and a soft landing will reduce downside risks. If a deep recession is avoided, and if bond yields also come down a bit, as we have seen in recent weeks, the downside risk for equities should be relatively limited going forward. But valuations are not low in a historical perspective. In the short term, volatile – and especially higher – yields and a changed economic outlook may trigger setbacks. Before the stock market recovers more sustainably, we must receive clear signals that the economy has bottomed out and that the next step for central banks is key rate cuts. Once the economy picks up, Nordic and especially Swedish equities are well placed to lead the upturn, along with small caps and other companies and sectors that have been squeezed by high interest rates.

Hope for the Nordics. Nordic stock markets have continued to underperform this autumn, but there are positive signs. Earnings forecasts in the Nordics have stopped falling, according to our estimates, and corporate reports for the third quarter were decent – especially in Sweden and Norway. Excluding Denmark's Novo Nordisk, which now accounts for 25 per cent of the MSCI Nordic index, valuations look cheap relative to the global stock market. This could lead to an upturn in the stock market when the European economy bottoms out, long-term bond yields fall and the Swedish krona strengthens.



This summary of the state of the world economy is complemented by the in-depth country and regional analyses that we have recently published on our SEB Research website:

United States: Current strength will not last, soft landing is still the main scenario

Euro area: Weak ending to the year

United Kingdom: A battle against stagflation risks

Sweden: Continued headwinds for growth in 2024

Norway: Strong petroleum-related demand preventing a recession

Denmark: Steady as she goes

Finland: Economy will continue to struggle

Estonia: It gets worse before it gets better

Latvia: Temporary standstill

Lithuania: Investments saving the economy from stronger decline

Emerging Market Explorer: Geopolitics permeates economic outlook

Global key indicators

Yearly change in per cent

	2022	2023	2024	2025
GDP OECD	2.9	1.6	1.2	2.0
GDP world (PPP)	3.3	3.0	2.8	3.2
CPI OECD	9.5	6.5	2.5	2.3
Oil price, Brent (USD/fat)	99	81	85	88

US

Yearly change in per cent

	2022 level, USD bn	2022	2023	2024	2025
Gross domestic product	25,744	1.9	2.3	1.1	1.8
Household consumption	17,512	2.5	2.2	0.9	1.4
Public consumption	3,570	-1.0	2.7	1.2	0.8
Gross fixed investment	5,476	1.5	1.9	1.9	3.9
Stock building (changes as % of GDP)	157	0.5	-0.4	-0.1	0.0
Exports	2,995	7.0	2.5	0.8	1.6
Imports	3,966	8.6	-1.8	0.6	1.7
Unemployment (%)		3.6	3.6	4.1	4.1
Consumer prices		8.0	4.1	2.4	2.2
Core CPI		6.2	4.8	2.9	2.4
Public sector financial balance. % av BNP		-3.7	-8.2	-7.5	-7.5
Public sector debt. % av BNP		121.3	123.2	127.3	131.0

Euroområdet

Yearly change in per cent

	2022 level, EUR bn	2022	2023	2024	2025
Gross domestic product	13,492	3.4	0.5	0.7	2.0
Household consumption	7,063	4.2	0.3	1.0	2.0
Public consumption	2,899	1.6	0.1	0.4	1.4
Gross fixed investment	3,020	2.6	1.1	0.0	1.7
Stock building (changes as % of GDP)	0	0.3	-0.3	0.0	0.0
Exports	3,286	7.2	0.5	2.3	3.2
Imports	7,436	7.9	-0.1	2.3	2.9
Unemployment (%)		6.7	6.6	7.0	7.0
Consumer prices		8.4	5.5	1.3	1.2
Core CPI		3.9	5.0	2.7	2.1
Public sector financial balance. % av BNP		-3.6	-3.6	-2.8	-2.4
Public sector debt. % av BNP		90.9	89.6	88.3	87.1

Other major economies

Yearly change in per cent

		2022	2023	2024	2025
United Kingdom	GDP	4.3	0.4	0.5	1.7
	Unemployment	3.7	4.2	4.8	4.9
	Inflation	9.1	7.4	3.2	2.5
Japan	GDP	1.0	1.8	1.2	0.9
	Unemployment	2.6	2.5	2.4	2.4
	Inflation	2.5	3.2	2.1	1.3
Germany	GDP	1.8	-0.2	0.5	2.0
	Unemployment	3.1	3.2	3.8	3.7
	Inflation	8.7	6.3	2.0	1.2
France	GDP	2.5	0.9	0.8	1.8
	Unemployment	7.3	7.3	7.6	7.5
	Inflation	5.9	6.0	1.5	1.1

Emerging markets

Yearly change in per cent

		2022	2023	2024	2025
China	GDP	3.0	5.2	4.6	4.5
	Inflation	1.8	0.7	1.8	2.0
India	GDP	7.2	6.5	6.3	6.2
	Inflation	5.7	5.6	5.6	4.4
Brazil	GDP	2.9	2.9	1.8	2.0
	Inflation	5.8	4.7	4.1	3.8
Russia	GDP	-2.1	2.0	1.5	1.3
	Inflation	11.9	5.8	7.0	5.0
Poland	GDP	5.1	0.5	2.7	3.3
	Inflation	16.7	11.8	6.0	4.0

Financial forecasts

End of period

Officiall interest rates	**9-Nov**	**Dec-23**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
US	5.50	5.50	5.00	4.00	3.50	3.00
Japan	0.10	-0.10	0.00	0.00	0.00	0.00
Euro area, deposit rate	4.00	4.00	3.75	3.25	2.75	2.50
United Kingdom	5.25	5.25	5.50	4.50	3.75	3.00

Bond yields. 10 year	**9-Nov**	**Dec-23**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
US	4.61	4.80	4.50	4.30	4.10	4.00
Japan	0.85	0.90	1.05	1.16	1.17	1.18
Germany	2.70	2.75	2.70	2.60	2.55	2.50
United Kingdom	4.40	4.50	4.35	4.70	4.50	4.30

Exchange rates	**9-Nov**	**Dec-23**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
USD/JPY	151.0	148.0	140.0	135.0	132.0	128.0
EUR/USD	1.07	1.08	1.12	1.14	1.16	1.18
EUR/JPY	161.7	159.8	156.8	153.9	153.1	151.0
EUR/GBP	0.87	0.89	0.91	0.93	0.93	0.94
GBP/USD	1.23	1.21	1.23	1.23	1.25	1.26

Sweden

Yearly change in per cent

	2022 level, SEK bn	2022	2023	2024	2025
Gross domestic product	5,979	2.6	-1.0	-0.4	2.5
Gross domestic product. working day adjusted		2.7	-0.8	-0.3	2.7
Household consumption	2,613	2.1	-2.6	1.4	2.7
Public consumption	1,491	0.0	2.0	0.4	0.8
Gross fixed investment	1,622	5.2	-3.7	-5.0	4.0
Stock building (changes as % of GDP)	78	1.0	-0.6	0.0	0.1
Exports	3,157	6.6	2.2	-1.0	5.0
Imports	2,982	8.7	-0.2	-1.4	5.5

	2022	2023	2024	2025
Unemployment (%)	7.5	7.6	8.6	8.9
Employment	2.8	1.6	-0.4	0.0
Consumer prices	8.4	8.6	4.2	2.0
CPIF	7.7	6.1	2.7	1.9
CPIF ex. energy	5.9	7.6	3.1	1.9
Hourly wage increase	2.8	3.7	3.7	3.5
Household savings ratio (%)	13.3	11.5	12.0	12.2
Real disposable income	-0.1	-2.9	0.6	3.3
Current account. % of GDP	4.8	5.5	5.8	6.0
Budget balance, SEK bn	164	42	-99	-39
Public sector financial balance. % av BNP	1.1	0.3	-1.2	-0.5
Public sector debt. % av BNP	33	31	33	33

Financial forecasts	**9-Nov**	**Dec-23**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
Policy rate	4.00	4.00	4.00	3.50	3.00	2.50
3-month interest rate. STIBOR	4.09	4.07	4.05	3.50	2.95	2.55
10-year bond yield	2.85	2.90	2.95	2.90	2.85	2.80
10-year spread to Germany. Bps	15	15	25	30	30	30
USD/SEK	10.85	10.74	10.18	9.87	9.53	9.28
EUR/SEK	11.62	11.60	11.40	11.25	11.05	10.95
KIX	128.7	127.9	125.0	123.0	120.4	120.5

Finland

Yearly change in per cent

	2022 level, EUR bn	2022	2023	2024	2025
Gross domestic product	269	1.6	-0.1	0.5	1.8
Household consumption	138	1.7	-0.3	0.8	1.5
Public consumption	65	0.8	2.0	0.5	1.0
Gross fixed investment	71	3.2	-3.8	1.0	3.0
Stock building (changes as % of GDP)		2.1	-1.0	0.4	0.2
Exports	122	3.5	0.5	1.5	3.0
Imports	128	8.3	-4.0	1.0	2.0

	2022	2023	2024	2025
Unemployment (%)	6.8	7.1	7.4	7.0
Consumer prices	7.2	5.2	2.5	2.0
Hourly wage increase	2.4	4.5	3.0	2.5
Current account. % of GDP	-3.6	-1.2	-0.5	0.0
Public sector financial balance. % av BNP	-0.9	-2.2	-2.5	-2.0
Public sector debt. % av BNP	73.0	74.0	75.0	76.0

Norway

Yearly change in per cent

	2022 level, NOK bn	2022	2023	2024	2025
Gross domestic product	5,571	3.3	1.6	0.8	1.5
Gross domestic product	3,571	3.8	1.0	0.7	1.2
Household consumption	1,806	6.9	-0.8	0.2	2.2
Public consumption	1,037	0.1	3.0	1.2	1.5
Gross fixed investment	1,095	4.3	0.5	1.5	2.3
Stock building (changes as % of GDP)	52	0.2	-0.1	0.0	0.0
Exports	3,101	5.9	4.7	2.6	2.7
Imports	992	9.2	1.4	2.7	3.9
Unemployment (%)		3.2	3.6	3.9	3.8
CPI		5.8	5.6	4.6	2.6
CPI-ATE		3.9	6.3	4.6	2.4
Annual wage increases		4.3	5.5	4.9	3.8

Financial forecasts	**9-Nov**	**Dec-23**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
Deposit rate	4.25	4.50	4.50	4.25	3.75	3.50
10-year bond yield	3.81	3.85	3.75	3.50	3.40	3.30
10-year spread to Germany. Bps	111	110	105	90	85	80
USD/NOK	11.12	10.97	10.27	9.91	9.48	9.28
EUR/NOK	11.91	11.85	11.50	11.30	11.00	10.95

Denmark

Yearly change in per cent

	2022 level, DKK bn	2022	2023	2024	2025
Gross domestic product	2,832	2.8	1.1	1.5	3.0
Household consumption	1,225	-1.5	0.6	2.8	3.4
Public consumption	617	-2.8	0.4	0.8	0.8
Gross fixed investment	616	3.3	-3.4	6.3	6.1
Stock building (changes as % of GDP)	61	0.4	-1.4	-0.5	0.0
Exports	1,983	10.9	7.3	3.2	4.1
Imports	1,668	6.5	5.4	6.1	4.9
Unemployment (%)		4.8	5.1	4.7	3.9
Consumer prices		7.7	3.5	1.8	1.6
Hourly wage increase		2.6	3.0	3.3	4.0
Current account. % of GDP		13.3	12.5	10.0	8.0
Public sector financial balance. % av BNP		3.4	3.0	3.5	4.0
Public sector debt. % av BNP		30.1	30.0	28.0	26.0

Financial forecasts	**9-Nov**	**Dec-23**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
Deposite rate	3.60	3.60	3.35	2.85	2.35	2.10
10-year bond yield	2.95	3.00	2.95	2.85	2.80	2.75
10-year spread to Germany. Bps	25	25	25	25	25	25
USD/DKK	6.96	6.90	6.65	6.54	6.42	6.31
EUR/DKK	7.46	7.45	7.45	7.45	7.45	7.45

Lithuania

Yearly change in per cent

	2022 level, EUR bn	2022	2023	2024	2025
Gross domestic product	67	2.4	-0.2	1.5	2.8
Household consumption	39	2.0	-1.2	2.8	3.2
Public consumption	11	0.4	0.4	0.2	0.0
Gross fixed investment	14	3.6	6.5	2.0	5.0
Exports	59	12.2	-4.0	2.2	4.3
Imports	60	12.4	-2.6	3.2	5.0
Unemployment (%)		5.9	6.8	6.9	6.7
Consumer prices		18.9	8.8	2.8	2.6
Wages and salaries		13.3	11.8	8.5	7.0
Public sector financial balance. % av BNP		-0.7	-1.9	-2.9	-1.8
Public sector debt. % av BNP		38.1	38.3	40.1	42.7

Latvia

Yearly change in per cent

	2022 level, EUR bn	2022	2023	2024	2025
Gross domestic product	39	3.4	-0.2	2.2	2.7
Household consumption	23	6.2	-1.5	1.6	2.2
Public consumption	7	2.8	5.2	3.5	2.7
Gross fixed investment	8	0.6	7.6	4.2	3.5
Exports	28	10.3	-2.1	2.4	3.2
Imports	30	11.1	-1.3	1.5	2.0
Unemployment (%)		6.9	6.6	6.6	6.4
Consumer prices		17.2	9.4	2.4	2.0
Wages and salaries		7.5	9.5	7.2	6.5
Public sector financial balance. % av BNP		-4.6	-2.7	-2.5	-2.3
Public sector debt. % av BNP		41.0	39.7	38.3	37.8

Estonia

Yearly change in per cent

	2022 level, EUR bn	2022	2023	2024	2025
Gross domestic product	36	-0.5	-2.5	0.4	3.5
Household consumption	19	2.0	-1.5	0.7	3.5
Public consumption	7	0.1	1.5	1.0	2.0
Bruttoinvesteringar	10	-3.7	-11.4	-1.5	4.5
Exports	31	3.0	-5.5	0.8	5.0
Imports	31	3.2	-6.7	0.0	4.0
Unemployment (%)		5.5	6.7	7.5	6.8
Consumer prices		19.4	9.5	4.5	2.5
Wages and salaries		11.6	11.2	6.5	6.0
Public sector financial balance. % av BNP		-0.9	-1.5	-2.5	-1.5
Public sector debt. % av BNP		18.4	19.0	21.5	23.0

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